



Dom Maklerski BDM S.A.

ZUE

ANALYTICAL REPORT - SUMMARY

HOLD

(PREVIOUS: HOLD)

TARGET PRICE 11,0 PLN

19th FEBRUARY 2025, 08:48 CEST

In Q3'24, ZUE showed negative y/y revenue growth and this trend will continue for the next few quarters in our view. The portfolio-to-revenue ratio is the lowest in a dozen years. However, the prospects for its strengthening have started to improve in recent months, with the pace of tendering indicating that new contracts may already have only a marginal impact on 2025 revenues. The company has the two lowest bids for PKP PLK for a total of around PLN 0.8bn. For the next few months, PKP PLK's schedule envisages bidding in tenders for > PLN 21bn (list -> p.7). ZUE is also positioning itself well for the expected investment revival in the tram market (significant EU funds reserved). The company is also building exposure to foreign markets (the deadlines for the company's contracts in Romania have been extended to 2026). The key to value creation is first and foremost to build a sustainably profitable rail portfolio (after a final exit from weak contracts in the previous fiscal perspective). Under our current assumptions (return of >PLN 1bn in revenue from 2026 and improving profitability), we set ZUE's target price at PLN 11.0, which implies we are reiterating a Hold rating (previously: Hold, PLN 11.0). We assume that in the coming weeks, the Company's stock price may be sensitive to information from PKP PLK's upcoming tenders (currently, these will be mostly large unit tenders - we expect ZUE to compete in consortiums). The valuation does not take into account possible claims and valorisation from PKP PLK (lawsuits filed of the equivalent of ca. PLN 5.5/share).

Recent period results

In Q1-3'24, the Company posted revenue of PLN 921m (+2% y/y) and net profit of PLN 6.9m (-32% y/y). In Q3'24 alone, ZUE posted revenue of PLN 304m (-15% y/y, the first negative momentum since Q4'21), and a net loss of PLN -0.2m (a low gross margin on sales of 2.3%). At the end of Q3'24, net debt stood at PLN 73m (strong cash flow should come seasonally in Q4'24). In Q4'24, it may be hard to measure up to last year's high earnings base.

Backlog

The portfolio stood at PLN 1.23bn after Q3'24 (vs. PLN 2.05bn a year earlier). The company has the two lowest bids for PKP PLK for a total of about PLN 0.8bn, the bids are close to the investor's budgets. For the next few months, PKP PLK's schedule envisages bids of >PLN 21bn (with bidding deadlines expected to slip, however). Further tenders are expected to be announced later in the year (PLK announces PLN 15bn each in 2025 and 2026). We estimate that the current backlog has the largest share of rail contracts in Poland (mainly the Będzin-Katowice contract), followed by rail contracts on the Romanian market and municipal contracts. The portfolio no longer includes the weak contracts for PKP PLK signed in 2017. A potential risk may possibly still be the final settlement of the Annapol contract (the contract formally ended in X'24, but corrective works were carried out in the following months, the contract was signed several months before the outbreak of war in Ukraine).

Segmental positioning

The company has exposure to the rail market (Poland, Romania + potentially other countries) and tramway market and to a small extent also local roads (Energopol). There have also been plans to enter the PSE market in the past. In recent years, the company has had an approx. 5% share of PKP PLK's annual construction expenditure. Other customers (siding owners, cities, foreign markets - on average PLN 0.4bn/year for the last few years, with high volatility) are also included.

Performance forecasts, ratios

ZUE had a record year in terms of revenue in 2023 (net profit was marginally lower than in 2011). Due to the completion of old contracts, the visibility of Q4'24 results may be limited. We estimate the Company's 2024 revenue at PLN 1.29bn and net profit at PLN 9.7m (a significant y/y drop in Q4'24 results). Currently, the backlog-to-revenue ratio for the last Q4 is at a historically low level. The outlook for backlog recovery has improved in recent months, but new contracts even in an optimistic scenario may already have limited impact in 2025. In 2025/26, we assume revenue of PLN 0.84bn / 1.07bn and net profit of PLN 6.9m / 17.2m, respectively. The company is trading at EV/EBITDA=8.6x for 2025 and 5.1x for 2026 under our assumptions.

	2021	2022	2023	2024F	2025F	2026F
Sales [PLN m]	921,4	1 484,1	1 286,5	837,6	1 065,7	1 319,0
EBITDA [PLN m]	31,9	45,2	33,3	26,2	40,4	52,8
EBIT [PLN m]	18,1	30,4	17,6	9,7	23,6	36,1
Profit before tax [PLN m]	22,1	28,9	11,5	8,7	21,7	35,1
Net profit [PLN m]	16,4	21,0	9,7	6,9	17,6	28,4
Net debt (cash) [PLN m]	-14,6	-134,2	11,5	-33,7	-50,6	-72,4
P/BV	1,4	1,3	1,3	1,2	1,2	1,1
P/E	15,7	12,3	26,6	37,3	14,7	9,1
EV/EBITDA	7,6	2,7	8,1	8,6	5,1	3,5
EV/EBIT	13,4	4,1	15,3	23,2	8,8	5,1
DPS [PLN/sh.]	0,15	0,07	0,21	0,11	0,15	0,38

DCF valuation [PLN]	10,9
Peer valuation [PLN]	11,7
Target price [PLN]	11,0
Price upside/downside	-1,6%
Cost of capital	15,3%
Price [PLN]	11,20
Market cap [PLNm]	257,9
No. of shares [mn]	23,0
Max. price 6M [PLN]	11,20
Min. price 6m [PLN]	7,02
Rate of return 3M	48,1%
Rate of return 6M	5,4%
Rate of return 9M	14,8%
Shareholders	
Nowak Wiesław	62,5%
Bankowy OFE	8,6%
Generali OFE	6,3%
ZUE	1,1%
Others	21,4%

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Valuation summary

	Share	Valuation
DCF valuation	80%	10,9
Peer valuation:	20%	11,7
Target price [PLN]		11,0

Source: Dom Maklerski BDM S.A.

DCF valuation

	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
Revenues [PLN m]	837,6	1 065,7	1 319,0	1 416,2	1 430,4	1 444,7	1 459,1	1 473,7	1 488,5	1 503,4
EBIT [PLN m]	9,7	23,6	36,1	42,0	44,0	46,1	48,2	49,0	49,7	50,5
Tax rate	20,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%
Tax on EBIT [PLN m]	1,9	4,5	6,9	8,0	8,4	8,8	9,2	9,3	9,4	9,6
NOPLAT [PLN m]	7,7	19,2	29,3	34,0	35,7	37,4	39,1	39,7	40,3	40,9
Amortization [PLN m]	16,5	16,7	16,7	16,7	16,7	16,7	16,7	16,7	16,8	16,8
CAPEX [PLN m]	-15,6	-16,5	-16,7	-16,7	-16,7	-16,8	-16,8	-16,8	-16,8	-16,8
Working capital movement [PLN m]	44,4	0,3	-0,3	0,3	0,0	0,0	0,0	0,0	0,0	0,0
FCF [PLN m]	53,0	19,6	28,9	34,3	35,6	37,3	39,0	39,6	40,3	40,9
DFCF [PLN m]	47,2	15,2	19,6	20,2	18,2	16,6	15,1	13,3	11,7	10,3
Total DFCF [PLN m]	187,4									
Terminal value [PLN m]	289,1									
Discounted terminal value [PLN m]	72,7									
Enterprise value [PLN m]	260,1									
Net debt 2024F [PLN m]	11,5									
Own shares [PLN m]	3,0									
Minority interests [PLN m]	1,4									
Dividend [PLN m]	0,0									
Equity value [PLN m]	250,1									
Number of shares [m]	23,0									
Value per share [PLN]	10,9									

Terminal growth rate: +1,0%

WACC calculation

	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
Risk-free rate	5,80%	5,80%	5,80%	5,80%	5,80%	5,80%	5,80%	5,80%	5,80%	5,80%
Risk premium	9,50%	9,50%	9,50%	9,50%	9,50%	9,50%	9,50%	9,50%	9,50%	9,50%
Beta	1,0	1,0	1,0	1,0	1,0	1,0	1,0	1,0	1,0	1,0
Credit premium	1,50%	1,50%	1,50%	1,50%	1,50%	1,50%	1,50%	1,50%	1,50%	1,50%
Cost of equity	15,3%	15,3%	15,3%	15,3%	15,3%	15,3%	15,3%	15,3%	15,3%	15,3%
Contribution of equity	89,5%	92,4%	94,6%	96,1%	97,4%	98,8%	99,5%	100,0%	100,0%	100,0%
Cost of debt after tax	5,8%	5,9%	5,9%	5,9%	5,9%	5,9%	5,9%	5,9%	5,9%	5,9%
Contribution of debt	10,5%	7,6%	5,4%	3,9%	2,6%	1,2%	0,5%	0,0%	0,0%	0,0%
WACC	14,3%	14,6%	14,8%	14,9%	15,1%	15,2%	15,3%	15,3%	15,3%	15,3%

Source: Dom Maklerski BDM S.A.

DCF - sensitivity analysis

	Terminal growth rate			Terminal growth rate			Beta		
	0,00%	1,00%	2,00%	0,00%	1,00%	2,00%	0,9	1,0	1,1
beta	0,9	11,4	11,6	12,0	11,1	11,7	12,0	11,1	11,0
Risk premium	1,0	10,6	10,9	11,1	9,5%	10,6	10,9	11,1	10,2
WACC	1,1	10,0	10,2	10,4	10,5%	9,9	10,1	10,4	9,5

Source: Dom Maklerski BDM S.A.

Peer valuation

	P/E			EV/EBITDA		
	2025F	2026F	2027F	2025F	2026F	2027F
Budimex	20,1	16,7	14,3	10,9	8,8	7,3
Mirbud	11,6	10,5	8,7	5,9	5,6	4,5
Torpol	12,9	9,9	9,4	5,0	3,5	3,1
Trakcja	26,6	18,5	14,2	9,7	7,9	6,5
Median	16,5	13,6	11,8	7,8	6,8	5,5
ZUE	37,3	14,7	9,1	8,6	5,1	3,5
Premium/discount	125%	8%	-23%	10%	-24%	-36%
Valuation [PLN/share]	5,0	10,4	14,6	10,3	14,1	15,8
Year's contribution	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]	10,0			13,4		
Multiple's contribution		50%		50%		
Value per share [PLN]	11,7					

Source: Dom Maklerski BDM S.A. BDM forecasts

Main risks:

- Dependence on main customers (PKP PLK)
- Level of investment in transport infrastructure in the CEE region.
- Risks related to the co-financing of project implementation from EU funds.
- Risks related to entering new markets (currently Romania).
- Risks related to the specific nature of the projects implemented.
- Relatively low barriers to entry, increase in competition
- Seasonality of results and weather factor
- Litigation

	2021	2022	2023	2024F	2025F	2026F
EPS, Adj+	0,51	0,71	0,91	0,42	0,30	0,76
Revenue [PLN m]	851,5	921,4	1 484,1	1 286,5	837,6	1 065,7
Gross Margin %	4,1%	4,6%	3,8%	3,6%	5,0%	5,5%
EBIT [PLN m]	14,2	18,1	30,4	17,6	9,7	23,6
EBITDA [PLN m]	27,1	31,9	45,2	33,3	26,2	40,4
Net Income Adj+ [PLN m]	11,8	16,4	21,0	9,7	6,9	17,6
Net Debt [PLN m]	-80,2	-14,6	-134,2	11,5	-33,7	-50,6
BPS	7,22	7,79	8,63	8,84	9,03	9,65
DPS	0,00	0,15	0,07	0,21	0,11	0,15
Return on Equity %	7,1%	9,1%	10,6%	4,8%	3,3%	7,9%
Return on Assets %	2,0%	2,4%	2,2%	1,2%	1,1%	2,4%
Depreciation [PLN m]	9,0	9,9	10,2	12,1	13,0	13,2
Amortization [PLN m]	0,3	0,6	0,6	0,1	0,1	0,1
Free Cash Flow [PLN m]	105,8	-54,1	142,6	-141,0	47,7	24,6
CAPEX [PLN m]	6,0	4,8	8,2	38,1	15,6	16,5

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Ratings and price targets history:

rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
Hold	11,0	Hold	11,0	19.02.2025*	08:48 CEST	11,20	94 651
Hold	11,0	Hold	11,1	22.08.2024*	11:55 CEST	10,60	84 528
Hold	11,1	Accumulate	8,43	22.04.2024*	14:28 CEST	11,10	84 109
Accumulate	8,43	Buy	7,76	04.01.2024*	09:55 CEST	7,86	77 054
Buy	7,76	relaunch	---	12.09.2023*	13:45 CEST	5,62	66 241
Buy	11,8	---	---	17.02.2017	14:39 CEST	9,94	58 348

* The report was prepared by Dom Maklerski BDM at the request of the WSE as part of the Exchange's Analytical Coverage Support Programme.

Explanations of terminology:

EBIT - earnings before interest and tax
 EBITDA — earnings before interest, taxes, depreciation, and amortization
 Net debt – interest bearing debt minus cash and equivalents
 WACC - weighted average cost of capital
 CAGR - cumulative average annual growth
 EPS - earnings per share
 DPS - dividend per share
 CEPS - net profit plus depreciation per share
 EV – market capitalization plus interest bearing debt minus cash and equivalents
 EV/S – market capitalization / sales
 EV/EBITDA – EV / sales
 P/EBIT – market capitalization / EBIT
 MC/S – market capitalization / sales
 P/E – market capitalization / net profit
 P/BV – market capitalization / book value
 P/CE - market capitalization / net profit plus depreciation
 ROE – net profit / equity
 ROA - net income / assets
 Gross margin - gross profit on sales / sales
 EBITDA margin – EBITDA / sales
 EBIT margin – EBIT / sales
 Net margin – net profit / sales

Explanation of ratings:

Buy – we believe that the security will reach the target price in the recommended period, which significantly exceeds the current market price (at least + 15%);
 Accumulate – we believe that the security will reach the target price in the recommended period, which exceeds the current market price (in the range of +5 to + 14.99%);
 Hold – we believe that a security in the recommended period will fluctuate around the target price, which is close to the current market price (in the range from -4.99% to + 4.99%);
 Reduce – we believe that the security will reach the target price in the recommended period, which is lower than the market price (range of decline from 5% to 14.99%);
 Sell – we believe that a security in the recommended period will reach the target price, which is significantly lower than the market price (suggested erosion of the value exceeds 15%).
 Target price – the theoretical price which, in our opinion, should reach a security in the recommended period; This price is the result of the company's value (eg based on DCF, comparative and other valuations), market conditions and the industry as well as other factors subjectively considered by the analyst.
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DCF – the most popular and the most effective of the valuation methods - it is based on the discounting of future cash flows generated by the company. The disadvantage is the high sensitivity to changes in the basic financial parameters forecast in the model (interest rates, exchange rates, profits, residual value).
 DDM – the method is based on discounting future cash flows from dividends. The advantage of the valuation is the inclusion of future financial results and cash flows from dividends. The main disadvantages are the high sensitivity to changes in the basic financial parameters forecasted in the model (capital cost, profits, residual value) and the risk of changing the dividend payment policy.
 Comparative – the method is based on current and forecasted market multipliers of companies from the industry or related industries, which better than DCF shows the current market situation. The main disadvantages are the difficulty in choosing the right companies for comparison, the risk of ineffective valuation of companies compared at a given moment, as well as high volatility (along with price fluctuations).

Distribution of BDM's recommendations in 1Q'25*:			, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months	
	numbers	%	numbers	%
Buy	4	50%	0	0%
Accumulate	2	25%	0	0%
Hold	2	25%	0	0%
Reduce	0	0%	0	0%
Sell	0	0%	0	0%

* detailed list of all analytical reports (recommendations) published by BDM during the last 12 months is included at <https://www.bdm.pl/analizy-i-informacje/analizy/historia-rekomendacji>

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The report constitutes an investment research within the meaning of art. 36 §1 of Commission Delegated Regulation (EU) 2017/565.

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- BDM is not a party to an agreement with the issuer relating to the provision of investment banking services pursuant to section A and B od Annex I to the Directive 2014/65/EU of the European Parliament and of the Council (hereinafter the Directive 2014/65/EU),
- BDM is not a party to an agreement with the issuer relating to the production of the recommendation,
- There is other significant financial interest that BDM or its related affiliates have in relation to the issuer of financial instruments*
- There are other significant connections between BDM or its related affiliates and the issuer of financial instruments**
- The person affiliated with BDM who was involved in the preparation of recommendations did not receive or purchase the shares of the issuer, to whom the recommendation relates directly or indirectly, prior to public offering of such shares,
- The person affiliated with BDM who was involved in the preparation of recommendations declares that they respect internal regulations and are subject to organizational and technical solutions and information barriers established by BDM to eliminate any conflicts of interest concerning recommendations and to avoid them,
- The person affiliated with BDM who was involved in the preparation of recommendations was not rewarded in any form by the issuer, to whom the recommendation relates directly or indirectly, or was not directly connected with any possible transactions concerning services defined in art. 69 §2 and 4 of the Act on Trading in Financial Instruments dated 25th July 2005.

*BDM is a party to the “ANALYTICAL REPORT PREPARATION SERVICES AGREEMENT” concluded with the WSE.

**BDM acts as an issue sponsor for ZUE

According to the best knowledge of the party recommending upon the publication of the report there are no other connections between BDM and the company described in this report that the party preparing this report would know of. However, the investor should be aware that the list disclosing conflicts of interest is long and that in the future there may occur situations leading to conflicts of interest which have not been identified or disclosed at the moment of publication of the report concerned. Especially, the investor should assume that BDM may submit an offer for services to a company or other companies mentioned in this report.

BDM is subject to supervision by the Polish Financial Supervision Commission.

This document is a summary of a full version of the report prepared in Polish. In case of any disputes the Polish version shall prevail.