



Dom Maklerski BDM S.A.

ELEKTROTIM

ANALYTICAL REPORT - SUMMARY

Elektrotim's Q2'22 results were below our expectations. The company continued to experience significant costs increase regarding the contracts acquired in 2019-21. The contract for the construction of the electronic barrier on the border with Belarus has not contributed significantly to results so far. Management's outlook for H2'22 after the earnings conference call was optimistic. At the same time, we note that the portfolio still includes contracts with low margins and the company's exposure to foreign exchange rates (part of material purchases). The completion of the contract on the border with Belarus will be postponed to Q1'23 (when the contract was signed, it was assumed to be closed at the beginning of Q4'22). Taking these factors into account, we have lowered our earnings assumptions for 2022. The valuation is also negatively impacted by the increase in the risk-free rate and changes in the comparative valuation. We set our current target price at PLN 6.79, which implies an Hold recommendation.

The company's Q2'22 results are another consecutive quarter in which they turned out to be below our assumptions (Q1'22: updated contract margins, Q4'21: write-downs, Q3'21: weak subsidiary results). Management notes the increase in costs and the large decline in revenue at constant prices. Given the scale of the Border Guard contract, H2'22 results will be determined by the progress of the work and its recognized profitability. The company signed the contract in March 2022, and in August 2022 an annex was signed which increases the value of the contract by PLN 9m to PLN 279m and extends the completion date to 120 days after completion of the physical barrier works (previously: 90 days). In Q2'22, the Installations segment, which accounts for the contract, had only a 2% gross margin on standalone sales (although in Q2'22 revenue from the barrier may have already accounted for the majority of its revenue).

The company continued to increase its backlog in Q3'22 (we estimate by at least PLN 100m net). Most of these are contracts which the main scope of work will be in 2023. We maintain that in the medium/long term, the company may benefit from increased spending on power grids and the military area (references and certificates held). Elektrotim's current capitalization is PLN 65 m. Net cash at the end of Q2'22 amounted to PLN 18m (please note that the company has received an advance payment for a contract on the border - 15% of its value - during the period). At the same time, the company has struggled to stabilize its results in recent years. In 2017-21, it had a net loss three times, with the result ranging from PLN -15m to +17m (average for the last five years: PLN 0m, for the last 10 years: PLN 4m). The smooth implementation of the long-term strategy is also not favored by a rather fragmented shareholder structure.

	2019	2020	2021	2022P	2023P	2024P
Sales [PLN m]	258,6	276,8	277,2	456,2	444,5	392,5
EBITDA [PLN m]	-11,3	28,6	14,8	22,7	20,8	15,5
EBIT [PLN m]	-16,1	23,2	9,3	17,3	15,3	9,9
Profit before tax [PLN m]	-18,1	21,6	7,6	17,3	13,7	10,7
Net profit [PLN m]	-14,5	16,6	6,6	13,6	11,1	8,6
Net debt (cash) [PLN m]	21,8	-10,9	-10,1	9,0	-10,2	-18,5
P/BV	1,2	0,9	0,8	0,7	0,7	0,7
P/E	---	3,9	9,8	4,8	5,8	7,5
EV/EBITDA	---	1,9	3,7	3,2	2,6	3,0
EV/EBIT	---	2,3	5,9	4,3	3,6	4,6

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

HOLD

(PREVIOUS: BUY)

TARGET PRICE 6,79 PLN

18th OCTOBER 2022, 12:00 CEST

DCF valuation [PLN]	6,81
Peer valuation [PLN]	6,76
Target price [PLN]	6,79
Price upside/downside	4,8%
Cost of capital	12,0%
Price [PLN]	6,48
Market cap [PLNm]	64,7
No. of shares [mn]	10,0
Max. price 6M [PLN]	7,98
Min. price 6m [PLN]	5,58
Rate of return 3M	-5,5%
Rate of return 6M	-14,1%
Rate of return 9M	-19,4%
Shareholders	
Krzysztof and Ewa Folta	17,2%
Krzysztof Wieczorkowski	13,2%
Aviva OFE	9,8%
Mirosław Nowakowski	6,1%
NN OFE	5,9%
Others	47,8%

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Valuation summary

	Share	Valuation
DCF valuation	70%	6,81
Peer valuation:	30%	6,76
Target price [PLN]		6,79

Source: Dom Maklerski BDM S.A.

DCF valuation

	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P	2030P	2031P
Revenues [PLN m]	456,2	444,5	392,5	402,8	411,8	421,1	430,5	438,7	446,1	452,9
EBIT [PLN m]	17,3	15,3	9,9	10,0	10,2	10,4	10,7	10,8	11,0	11,1
Tax rate	24,3%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%
Tax on EBIT [PLN m]	4,2	2,9	1,9	1,9	1,9	2,0	2,0	2,1	2,1	2,1
NOPLAT [PLN m]	13,1	12,4	8,1	8,1	8,3	8,4	8,6	8,8	8,9	9,0
Amortization [PLN m]	5,4	5,5	5,6	5,6	5,6	5,7	5,7	5,8	5,8	5,8
CAPEX [PLN m]	-2,0	-5,5	-5,6	-5,7	-5,7	-5,8	-5,8	-5,8	-5,9	-5,9
Working capital movement [PLN m]	-37,4	15,1	5,8	-1,6	-1,4	-1,5	-1,5	-1,3	-1,2	-1,1
FCF [PLN m]	-20,9	27,5	13,7	6,4	6,8	6,9	7,1	7,4	7,6	7,9
DFCF [PLN m]	-20,4	23,8	10,5	4,3	4,1	3,7	3,3	3,1	2,8	2,6
Total DFCF [PLN m]	37,8									
Terminal value [PLN m]	66,6									
Discounted terminal value [PLN m]	21,8									
Enterprise value [PLN m]	59,6									
Net debt 2021 [PLN m]	-10,1									
Minority interests [PLN m]	1,8									
Equity value [PLN m]	68,0									
Number of shares [m]	10,0									
Value per share [PLN]	6,81									

Terminal growth rate: +1,0%

WACC calculation

	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P	2030P	2031P
Risk-free rate	64,6%	-2,6%	-11,7%	2,6%	2,2%	2,2%	2,2%	1,9%	1,7%	1,5%
Risk premium	87,1%	-11,8%	-34,9%	0,5%	2,1%	2,1%	2,1%	1,7%	1,4%	1,2%
Beta	---	---	-50,0%	-53,4%	5,8%	2,1%	2,1%	5,1%	3,1%	2,8%
Credit premium	5,0%	4,7%	3,9%	3,9%	3,8%	3,8%	3,8%	3,8%	3,8%	3,7%
Cost of equity	3,8%	3,4%	2,5%	2,5%	2,5%	2,5%	2,5%	2,5%	2,5%	2,5%
Contribution of equity	2,9%	2,8%	2,1%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%
Cost of debt after tax	0,4%	1,2%	1,4%	1,4%	1,4%	1,4%	1,3%	1,3%	1,3%	1,3%
Contribution of debt	36,8%	100,3%	101,3%	101,3%	101,3%	101,3%	101,3%	101,3%	101,3%	101,3%
WACC	8,2%	-3,4%	-1,5%	0,4%	0,3%	0,3%	0,3%	0,3%	0,3%	0,2%

Source: Dom Maklerski BDM S.A.

DCF - sensitivity analysis

beta	Terminal growth rate				Risk premium	Terminal growth rate				Risk premium	Beta		
	0,9	0,00%	1,00%	2,00%		0,00%	1,00%	2,00%	0,9		1,0	1,1	
	6,87	7,08	7,33	7,33	4%	7,13	7,37	7,66	4%	7,63	7,37	7,13	
	6,62	6,81	7,03	7,03	5%	6,62	6,81	7,03	5%	7,08	6,81	6,56	
	6,39	6,56	6,75	6,75	6%	6,18	6,33	6,50	6%	6,61	6,33	6,07	

Source: Dom Maklerski BDM S.A.

Peer valuation

	P/E			EV/EBITDA		
	2022F	2023F	2024F	2022F	2023F	2024F
Intrtol	5,4	4,5	4,8	3,4	3,1	3,1
Mostostal Plock	9,3	13,2	12,5	3,2	3,4	3,1
Mostostal Zabrze	5,6	6,6	7,8	2,0	2,2	2,3
Polimex	5,1	8,7	8,6	0,8	2,1	1,5
Median	5,5	7,6	8,2	2,6	2,6	2,7
Elektrotim	4,8	5,8	8,0	3,2	2,6	3,1
Premium/discount	-13,5%	-23,7%	-2,5%	24,9%	-1,2%	15,0%
Valuation [PLN/share]	7,49	8,49	6,65	5,01	6,55	5,88
Year's contribution	20%	40%	40%	20%	40%	40%
Average valuation [PLN/share]	7,55			5,97		
Multiple's contribution		50%		50%		
Value per share [PLN]	6,76					

Source: Dom Maklerski BDM S.A. BDM forecasts

Main risks:

- risk of a surge in material costs translating into a decrease in margins during project execution,
- risk of a significant contract on the Belarusian border worth PLN 279m resulting from the value of the contract (and very tight deadlines)
- risk of lack of qualified employees (a significant drop in employment in 2020-2021 after the departure of the previous)
- potential supply of shares by previous MB/SB members;
- payment bottlenecks and bankruptcies in the construction industry;
- problems with obtaining financing and bank guarantees;
- risk of not obtaining new orders and high competition;
- risk of problems and bankruptcy of subsidiaries

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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	6,79	Buy	11,0	18.10.2022*	12:00 CEST	6,48	47 309
Buy	11,0	Buy	10,2	15.06.2022*	07:00 CEST	6,50	53 247
Buy	10,2	---	---	23.08.2021*	07:00 CEST	6,54	67 966

* The report was prepared by Dom Maklerski BDM at the request of the WSE as part of the Exchange's Analytical Coverage Support Programme.
 -- the author of the reports on Elektrotim in 2021-06'2022 was Krystian Brymora

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.
 Recommendations made by BDM are binding for 12 months from the issue date or until the target level is reached, unless they are updated during this period of time.

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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 4Q'22*:		, 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%	1	100%
Accumulate	2	25%	0	0%
Hold	1	13%	0	0%
Reduce	0	0%	0	0%
Sell	1	13%	0	0%

* detailed list of all analytical reports (recommendations) published by BDM during the last 12 months and information on the numbers of issuers to which BDM has supplied services of investment firms set out in Sections A and B of Annex I to Directive 2014/65/EU is included in a cyclical "Monthly Report" or at www.bdm.pl

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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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