



Dom Maklerski BDM S.A.

ELEKTROTIM

ANALYTICAL REPORT - SUMMARY

The company positively surprised with its results in Q3'22 and Q4'22. The cash position was very good at the end of the year. The company finalised the sale of its subsidiary Procom System in December and Zeus is also up for sale. The strategy presented in April (2023-25) assumes the realisation of min. PLN 350m revenue and PLN 10m net profit per year. In our view, compared to the industry, these are not demanding targets, but the key for the company should be to build repeatable results and return to dividend payments. In recent months, the company has also secured a fairly significant number of medium-sized contracts for 2023 and 2024, which should limit revenue erosion once the Belarus border contract is completed. Management's outlook for 2023 at the earnings conference was upbeat, results should be above minimum targets from the strategy, the company would like to maintain high margins. This prompts us to raise our modelled earnings forecasts. We set our current target price at PLN 13.0, which implies a Buy rating.

In Q3'22, the company managed to break a negative run of reporting disappointing results and Q4'22 was a confirmation of this trend. In the last quarter of 2022, Elektrotim reported revenue of PLN 234m and net profit of PLN 15.6m. For the year as a whole, it was PLN 506 / 22.0m respectively. At the end of the year, net cash stood at PLN 51m (the company stated in its presentation that it did not use loans at the end of April either, which we view positively in light of the increase in working capital commitment on the finalisation of the border contract).

After Q4'22, the Group's backlog amounted to PLN 558m (ca. PLN 90m border contract) and after Q1'23 it increased to >PLN 600m. According to the management, the contracts have an average completion horizon of <18m, which should bring 2023 revenue closer to the 2022 level. Management's goal also seems to be to maintain margins. Seasonally, we note that Q1 is usually the weakest of the year (often with a net loss), with cumulative results coming in Q3/4 - this year, Q1'23 should end on a positive note, with Q2'23 likely to see the border contract settlement (while still 2H'23 should be seasonally better).

Following the finalisation of the sale of Procom in 4Q'22, work is currently underway on the possible divestment of the Zeus subsidiary. On the one hand, it would allow further capital release on the other hand, however, this company has certificates and competences overlapping with Elektrotim, which could potentially create new competition.

We maintain that in the medium/long term, the company can be a beneficiary of increased spending on power grids and the military area (references and certificates held). In its 2023-25 strategy, the management has outlined that the company is targeting a minimum of PLN 350m in revenue and PLN 10m in net profit at the standalone level (50-75% to be allocated to dividends). In light of the 2022 results and 2023 prospects, these targets do not seem demanding. At the same time, the company has struggled to stabilise results in recent years, which translates into a valuation discount. In 2017-21, it posted a net loss three times, with the result ranging from PLN -15m to +17m.

	2020	2021	2022	2023F	2024F	2025F
Sales [PLN m]	276,8	277,2	505,6	498,0	469,0	473,7
EBITDA [PLN m]	28,6	14,8	38,1	29,0	23,1	22,8
EBIT [PLN m]	23,2	9,3	33,2	23,4	17,6	17,2
Profit before tax [PLN m]	21,6	7,6	30,4	26,8	19,6	18,0
Net profit [PLN m]	16,6	6,6	22,0	21,7	15,9	14,6
Net debt (cash) [PLN m]	-10,9	-10,1	-50,5	-25,0	-30,3	-32,3
DPS [PLN/share]	0,00	0,00	0,00	1,16	1,44	1,19
P/BV	1,5	1,36	1,07	1,0	1,0	0,9
P/E	6,4	16,1	4,8	4,9	6,7	7,3
EV/EBITDA	3,3	6,5	1,5	2,8	3,3	3,2
EV/EBIT	4,1	10,3	1,7	3,4	4,3	4,3

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

BUY

(PREVIOUS: ACCUMULATE)

TARGET PRICE 13,0 PLN

10th MAJ 2023, 09:22 CEST

DCF valuation [PLN]	13,5
Peer valuation [PLN]	11,8
Target price [PLN]	13,0
Price upside/downside	23,0%
Cost of capital	13,8%
Price [PLN]	10,6
Market cap [PLNm]	105,8
No. of shares [mn]	10,0
Max. price 6M [PLN]	10,80
Min. price 6m [PLN]	6,82
Rate of return 3M	27,4%
Rate of return 6M	35,2%
Rate of return 9M	32,8%
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%	13,5
Peer valuation:	30%	11,8
Target price [PLN]		13,0

Source: Dom Maklerski BDM S.A.

DCF valuation

	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Revenues [PLN m]	498,0	469,0	473,7	478,4	483,2	488,0	492,9	497,9	502,8	507,9
EBIT [PLN m]	23,4	17,6	17,2	17,1	17,0	16,8	16,6	16,4	16,2	15,9
Tax rate	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%
Tax on EBIT [PLN m]	4,5	3,3	3,3	3,2	3,2	3,2	3,2	3,1	3,1	3,0
NOPLAT [PLN m]	19,0	14,2	13,9	13,8	13,7	13,6	13,4	13,3	13,1	12,9
Amortization [PLN m]	5,5	5,6	5,6	5,6	5,7	5,7	5,8	5,8	5,8	5,9
CAPEX [PLN m]	-5,0	-5,6	-5,7	-5,7	-5,8	-5,8	-5,8	-5,9	-5,9	-6,0
Working capital movement [PLN m]	-36,1	4,1	-0,7	-0,7	-0,7	-0,7	-0,7	-0,7	-0,7	-0,7
FCF [PLN m]	-16,6	18,3	13,2	13,1	13,0	12,9	12,7	12,5	12,3	12,1
DFCF [PLN m]	-15,4	15,1	9,7	8,5	7,5	6,6	5,8	5,1	4,5	3,9
Total DFCF [PLN m]	51,3									
Terminal value [PLN m]	107,1									
Discounted terminal value [PLN m]	34,5									
Enterprise value [PLN m]	85,8									
Net debt 2022 [PLN m]	-50,5									
Minority interests [PLN m]	1,1									
Equity value [PLN m]	135,2									
Number of shares [m]	10,0									
Value per share [PLN]	13,5									

Terminal growth rate: +1,0%

WACC calculation

	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Risk-free rate	6,00%	6,00%	6,00%	6,00%	6,00%	6,00%	6,00%	6,00%	6,00%	6,00%
Risk premium	6,50%	6,50%	6,50%	6,50%	6,50%	6,50%	6,50%	6,50%	6,50%	6,50%
Beta	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00
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	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%
Contribution of equity	98,0%	98,6%	99,1%	99,6%	99,8%	100,0%	100,0%	100,0%	100,0%	100,0%
Cost of debt after tax	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%
Contribution of debt	2,0%	1,4%	0,9%	0,4%	0,2%	0,0%	0,0%	0,0%	0,0%	0,0%
WACC	12,4%	12,4%	12,4%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%

Source: Dom Maklerski BDM S.A.

DCF - sensivity analysis

	Terminal growth rate					Terminal growth rate					Beta			
	0,9	1,0	1,1	1,1		0,00%	1,00%	2,00%	Risk premium		0,9	1,0	1,1	
beta	0,9	13,8	14,1	14,6	Risk premium	6,0%	13,6	14,0	14,4	Risk premium	6,0%	14,6	14,0	13,5
	1,0	13,2	13,5	13,9		6,5%	13,2	13,5	13,9		6,5%	14,1	13,5	13,0
	1,1	12,8	13,0	13,3		7,0%	12,9	13,1	13,5		7,0%	13,7	13,1	12,6

Source: Dom Maklerski BDM S.A.

Peer valuation

	P/E			EV/EBITDA		
	2023F	2024F	2025F	2023F	2024F	2025F
Intral	5,2	5,6	5,5	3,6	3,5	3,3
Mostostal Plock	11,8	11,5	11,4	3,7	3,4	3,1
Mostostal Zabrze	5,5	7,8	9,1	1,9	2,4	2,4
Polimex	8,9	8,5	8,3	2,0	1,7	1,1
Median	7,2	8,2	8,7	2,8	2,9	2,7
Elektrotim	4,9	6,7	7,3	2,8	3,3	3,2
Premium/discount	-32,5%	-18,2%	-16,1%	1,1%	13,4%	17,5%
Valuation [PLN/share]	15,71	12,96	12,64	10,52	9,71	9,50
Year's contribution	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]	13,8			9,9		
Multiple's contribution		50%		50%		
Value per share [PLN]	11,8					

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
Buy	13,0	Accumulate	8,17	10.05.2023*	09:22 CEST	10,60	63 285
Accumulate	8,17	Hold	6,79	09.12.2022*	16:00 CEST	7,16	55 651
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.

The strengths and weaknesses of the valuation methods used in the report:

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 2Q'23*:			, 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	57%	0	0%
Accumulate	1	14%	0	0%
Hold	2	29%	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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