



Dom Maklerski BDM S.A.

## ELEKTROTIM

### ANALYTICAL REPORT - SUMMARY

## ACCUMULATE

(PREVIOUS: BUY)

**TARGET PRICE 19,1 PLN**

4th JANUARY 2024, 09:55 CEST

Elektrotim has been in a period of high earnings momentum since mid-2022. We estimate that for the full year 2023, the net result should exceed the profit total that the company had planned in the 'minimum' scenario for 2023-25. This was supported by a high order book and a decrease in cost pressures and even the Zeus bankruptcy issue was not that significant. The performance base will now become more challenging. The peri-election period translates into low decision-making in the awarding of new public tenders, but the company's portfolio is pretty much filled for H1'24. Looking ahead to H2'24/2025, the signing of the contract for the Bug River perimeter (PLN 227m) is key. The tender was still awarded by the previous government, but it has EU funding, so we assume that a final executive contract will be signed. In the medium term, the company should be a beneficiary of unlocking EU funds (exposure to energy transition). We set our current target price at PLN 19.1, implying an Accumulate (previously Buy) recommendation.

#### Recent results

In Q1-Q3'23, the company generated revenue of PLN 409m (+50% y/y) and net profit of PLN 26.7m (+320% y/y). In Q3'23 alone, it was PLN 183m and PLN 9.7m (-12% y/y), respectively. Reported EBIT was negatively impacted by the filing of Zeus' bankruptcy petition (the subsidiary had a PLN -7m EBIT in Q3'23; Elektrotim indicates it no longer expects a negative impact). Q3'23 results were clearly better y/y and above our forecasts if we clear them for this event. At the end of Q3'23, the company reported a decline in working capital requirements q/q, allowing net debt to fall to PLN 5m.

#### Backlog

After Q3'23, the group's backlog amounted to PLN 474m. The backlog fell sharply q/q and y/y. The company anticipates that it may be under pressure until Q1'24 due to a slowdown in decision-making at public entities and companies around the election period. Possible winning of new perimeter contracts may help (the company has the most favourable offer for the section on the Bug River, and a smaller tender on the Svisloch River is also announced).

#### Segmental positioning

Elektrotim's business is currently based on two segments: Installations and Networks. Within the former, the key divisions are defence, industry and maintenance. While within the latter: distribution and traction. In 2023, the strength was mainly in the latter segment. Much higher than presented in 2023, on the other hand, is the potential in the area of Installations (last year the impact of the contract at the Belarusian border is much lower than the year before). We maintain that in the medium/long term, the company should benefit from an increase in expenditures on the power distribution network, derived from the development of RES (additional support under the KPO/FEnIKS) and the maintenance of increased expenditures on the military area. Also the maintenance and traction divisions are exposed to the inflow of EU funds.

#### Forecasts, ratios

We assess that management's assumptions from the 2023-25 strategy should be updated, as they do not reflect the company's current position. We assume the company will generate PLN 580m in revenue and PLN 37.0m in net income in 2023 (we note that the final results may be affected by the possible final loss of control of Zeus, which we do not include in the forecast; the subsidiary had a -10m EBIT loss in Q1-Q3'23). We take a more conservative approach to 2024 due to the lower portfolio and the expiry of the positive effect of declining cost pressures. In 2024-25, we currently estimate around PLN 500m revenue and PLN 34 / 27m net profit each. Our forecasts imply EV/EBITDA'24=3.3x, P/E'24=5.2x.

|                           | 2020  | 2021  | 2022  | 2023F | 2024F | 2025F |
|---------------------------|-------|-------|-------|-------|-------|-------|
| Sales [PLN m]             | 276,8 | 277,2 | 505,6 | 580,0 | 501,3 | 516,2 |
| EBITDA [PLN m]            | 28,6  | 14,8  | 38,1  | 54,7  | 44,4  | 37,4  |
| EBIT [PLN m]              | 23,2  | 9,3   | 33,2  | 50,3  | 39,8  | 33,0  |
| Profit before tax [PLN m] | 21,6  | 7,6   | 30,4  | 48,9  | 41,5  | 33,4  |
| Net profit [PLN m]        | 16,6  | 6,6   | 22,0  | 37,0  | 33,6  | 27,0  |
| Net debt (cash) [PLN m]   | -10,9 | -10,1 | -50,5 | -6,5  | -29,1 | -28,0 |
| DPS [PLN/share]           | 0,00  | 0,00  | 0,00  | 1,50  | 2,45  | 2,53  |
| P/BV                      | 2,4   | 2,24  | 1,76  | 1,5   | 1,4   | 1,3   |
| P/E                       | 10,5  | 26,5  | 7,9   | 4,7   | 5,2   | 6,5   |
| EV/EBITDA                 | 5,7   | 11,1  | 3,3   | 3,1   | 3,3   | 3,9   |
| EV/EBIT                   | 7,0   | 17,8  | 3,7   | 3,3   | 3,7   | 4,4   |

|                         |       |
|-------------------------|-------|
| DCF valuation [PLN]     | 19,1  |
| Peer valuation [PLN]    | 19,1  |
| Target price [PLN]      | 19,1  |
| Price upside/downside   | 9,3%  |
| Cost of capital         | 13,3% |
| Price [PLN]             | 17,5  |
| Market cap [PLNm]       | 174,5 |
| No. of shares [mn]      | 10,0  |
| Max. price 6M [PLN]     | 18,8  |
| Min. price 6m [PLN]     | 12,1  |
| Rate of return 3M       | 20,4% |
| Rate of return 6M       | 23,9% |
| Rate of return 9M       | 79,8% |
| Shareholders            |       |
| Krzysztof and Ewa Folta | 17,2% |
| Krzysztof Wieczorkowski | 13,2% |
| OFE Allianz             | 9,8%  |
| Miroslaw Nowakowski     | 6,1%  |
| NN OFE                  | 5,9%  |
| Others                  | 47,8% |

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**Valuation summary**

|                           | Share | Valuation   |
|---------------------------|-------|-------------|
| DCF valuation             | 80%   | 19,1        |
| Peer valuation:           | 20%   | 19,1        |
| <b>Target price [PLN]</b> |       | <b>19,1</b> |

Source: Dom Maklerski BDM S.A.

**DCF valuation**

|                                   | 2024F        | 2025F | 2026F | 2027F | 2028F | 2029F | 2030F | 2031F | 2032F | 2033F |
|-----------------------------------|--------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenues [PLN m]                  | 501,3        | 516,2 | 537,9 | 566,5 | 588,4 | 599,0 | 608,0 | 616,0 | 622,1 | 628,4 |
| EBIT [PLN m]                      | 39,8         | 33,0  | 29,6  | 28,4  | 26,6  | 27,1  | 27,5  | 27,9  | 28,2  | 28,5  |
| 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]               | 7,6          | 6,3   | 5,6   | 5,4   | 5,1   | 5,2   | 5,2   | 5,3   | 5,4   | 5,4   |
| NOPLAT [PLN m]                    | 32,2         | 26,8  | 24,0  | 23,0  | 21,6  | 22,0  | 22,3  | 22,6  | 22,8  | 23,1  |
| Amortization [PLN m]              | 4,4          | 4,4   | 4,5   | 4,6   | 4,6   | 4,6   | 4,7   | 4,7   | 4,7   | 4,7   |
| CAPEX [PLN m]                     | -4,8         | -4,5  | -4,5  | -4,6  | -4,7  | -4,7  | -4,7  | -4,8  | -4,8  | -4,8  |
| Working capital movement [PLN m]  | 14,5         | -2,8  | -4,0  | -5,3  | -4,0  | -2,0  | -1,7  | -1,5  | -1,1  | -1,1  |
| FCF [PLN m]                       | 46,4         | 23,9  | 20,0  | 17,7  | 17,5  | 19,9  | 20,6  | 21,0  | 21,6  | 21,8  |
| DFCF [PLN m]                      | 41,0         | 18,7  | 13,8  | 10,8  | 9,4   | 9,5   | 8,6   | 7,8   | 7,1   | 6,3   |
| Total DFCF [PLN m]                | 133,0        |       |       |       |       |       |       |       |       |       |
| Terminal value [PLN m]            | 180,6        |       |       |       |       |       |       |       |       |       |
| Discounted terminal value [PLN m] | 52,2         |       |       |       |       |       |       |       |       |       |
| Enterprise value [PLN m]          | 185,2        |       |       |       |       |       |       |       |       |       |
| Net debt 2023f [PLN m]            | -6,5         |       |       |       |       |       |       |       |       |       |
| Minority interests [PLN m]        | 1,1          |       |       |       |       |       |       |       |       |       |
| <b>Equity value [PLN m]</b>       | <b>190,6</b> |       |       |       |       |       |       |       |       |       |
| Number of shares [m]              | 10,0         |       |       |       |       |       |       |       |       |       |
| <b>Value per share [PLN]</b>      | <b>19,1</b>  |       |       |       |       |       |       |       |       |       |

Terminal growth rate: +1,0%

**WACC calculation**

|                        | 2024F        | 2025F        | 2026F        | 2027F        | 2028F        | 2029F        | 2030F        | 2031F        | 2032F        | 2033F        |
|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Risk-free rate         | 5,25%        | 5,25%        | 5,25%        | 5,25%        | 5,25%        | 5,25%        | 5,25%        | 5,25%        | 5,25%        | 5,25%        |
| Risk premium           | 8,00%        | 8,00%        | 8,00%        | 8,00%        | 8,00%        | 8,00%        | 8,00%        | 8,00%        | 8,00%        | 8,00%        |
| 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         | 13,3%        | 13,3%        | 13,3%        | 13,3%        | 13,3%        | 13,3%        | 13,3%        | 13,3%        | 13,3%        | 13,3%        |
| Contribution of equity | 98,5%        | 99,1%        | 99,6%        | 99,8%        | 100,0%       | 100,0%       | 100,0%       | 100,0%       | 100,0%       | 100,0%       |
| Cost of debt after tax | 5,5%         | 5,5%         | 5,5%         | 5,5%         | 5,5%         | 5,5%         | 5,5%         | 5,5%         | 5,5%         | 5,5%         |
| Contribution of debt   | 1,5%         | 0,9%         | 0,4%         | 0,2%         | 0,0%         | 0,0%         | 0,0%         | 0,0%         | 0,0%         | 0,0%         |
| <b>WACC</b>            | <b>13,1%</b> | <b>13,2%</b> | <b>13,2%</b> | <b>13,2%</b> | <b>13,2%</b> | <b>13,3%</b> | <b>13,3%</b> | <b>13,3%</b> | <b>13,3%</b> | <b>13,3%</b> |

Source: Dom Maklerski BDM S.A.

**DCF - sensitivity analysis**

|      | Terminal growth rate |      |      |      | Risk premium | Terminal growth rate |       |       |       | Risk premium | Beta |      |     |
|------|----------------------|------|------|------|--------------|----------------------|-------|-------|-------|--------------|------|------|-----|
|      | 0,9                  | 1,0  | 1,1  | 1,2  |              | 0,00%                | 1,00% | 2,00% | 3,00% |              | 0,9  | 1,0  | 1,1 |
| beta | 0,9                  | 19,7 | 20,2 | 20,9 | 7,0%         | 20,0                 | 20,6  | 21,2  | 7,0%  | 21,7         | 20,6 | 19,5 |     |
|      | 1,0                  | 18,7 | 19,1 | 19,6 | 8,0%         | 18,7                 | 19,1  | 19,6  | 8,0%  | 20,2         | 19,1 | 18,1 |     |
|      | 1,1                  | 17,7 | 18,1 | 18,5 | 9,0%         | 17,5                 | 17,9  | 18,3  | 9,0%  | 19,0         | 17,9 | 16,9 |     |

Source: Dom Maklerski BDM S.A.

**Peer valuation**

|                                      | P/E         |            |            | EV/EBITDA   |            |            |
|--------------------------------------|-------------|------------|------------|-------------|------------|------------|
|                                      | 2024F       | 2025F      | 2026F      | 2024F       | 2025F      | 2026F      |
| Introl                               | 7,0         | 6,9        | 6,9        | 4,3         | 4,1        | 3,9        |
| Mostostal Zabrze                     | 10,1        | 10,4       | 11,7       | 3,3         | 3,0        | 3,0        |
| Polimex                              | 8,2         | 8,3        | 8,1        | 3,3         | 2,7        | 2,0        |
| <b>Median</b>                        | <b>8,2</b>  | <b>8,3</b> | <b>8,1</b> | <b>3,3</b>  | <b>3,0</b> | <b>3,0</b> |
| Elektrotim                           | 5,2         | 6,5        | 7,2        | 3,3         | 3,9        | 4,3        |
| Premium/discount                     | -36,6%      | -22,4%     | -11,0%     | -1,3%       | 28,4%      | 42,2%      |
| <b>Valuation [PLN/share]</b>         | 27,6        | 22,5       | 19,6       | 17,7        | 14,2       | 13,1       |
| Year's contribution                  | 33%         | 33%        | 33%        | 33%         | 33%        | 33%        |
| <b>Average valuation [PLN/share]</b> | <b>23,2</b> |            |            | <b>15,0</b> |            |            |
| Multiple's contribution              |             | 50%        |            |             | 50%        |            |
| <b>Value per share [PLN]</b>         | <b>19,1</b> |            |            |             |            |            |

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,
- the risk of significant ongoing or potential contracts for the Border Guard resulting from the value of the contracts and tight deadlines
- risk of lack of qualified employees
- potential supply of shares by major shareholders
- 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

|                    | 2021  | 2022  | 2023F | 2024F | 2025F | 2026F |
|--------------------|-------|-------|-------|-------|-------|-------|
| EPS, Adj+          | 0,66  | 2,20  | 3,70  | 3,37  | 2,71  | 2,43  |
| Revenue            | 277,2 | 505,6 | 580,0 | 501,3 | 516,2 | 537,9 |
| Gross Margin %     | 11,7% | 13,3% | 14,8% | 13,3% | 12,0% | 11,2% |
| EBIT               | 9,3   | 33,2  | 50,3  | 39,8  | 33,0  | 29,6  |
| EBITDA             | 14,8  | 38,1  | 54,7  | 44,4  | 37,4  | 34,1  |
| Net Income Adj+    | 6,6   | 22,0  | 37,0  | 33,6  | 27,0  | 24,3  |
| Net Debt           | -10,1 | -50,5 | -6,5  | -29,1 | -28,0 | -28,0 |
| BPS                | 7,63  | 9,82  | 12,03 | 12,95 | 13,13 | 13,53 |
| DPS                | 0,00  | 0,00  | 1,50  | 2,45  | 2,53  | 2,03  |
| Return on Equity % | 8,7%  | 22,4% | 30,8% | 26,0% | 20,6% | 18,0% |
| Return on Assets % | 3,6%  | 8,2%  | 14,5% | 13,6% | 10,8% | 9,4%  |
| Depreciation       | 4,8   | 4,7   | 4,2   | 4,2   | 4,2   | 4,2   |
| Amortization       | 0,7   | 0,2   | 0,2   | 0,2   | 0,2   | 0,3   |
| Free Cash Flow     | 1,6   | 43,0  | -29,0 | 47,0  | 24,5  | 20,6  |
| CAPEX              | 1,1   | 1,7   | 5,0   | 4,8   | 4,5   | 4,5   |

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**Ratings and price targets history:**

| rating            | price target | previous rating | previous target price | report date        | report date (hour) | price        | WIG           |
|-------------------|--------------|-----------------|-----------------------|--------------------|--------------------|--------------|---------------|
| <b>Accumulate</b> | <b>19,1</b>  | <b>Buy</b>      | <b>17,1</b>           | <b>04.01.2024*</b> | <b>09:55 CEST</b>  | <b>17,48</b> | <b>77 054</b> |
| Buy               | 17,1         | Buy             | 15,8                  | 10.10.2023*        | 11:20 CEST         | 14,70        | 66 149        |
| Buy               | 15,8         | Buy             | 13,0                  | 13.06.2023*        | 08:30 CEST         | 13,26        | 66 298        |
| 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 1Q'24*: |     | , 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  | 40% | 0   | 0% |
| Accumulate | 3  | 30% | 0   | 0% |
| Hold       | 1  | 10% | 0   | 0% |
| Reduce     | 2  | 20% | 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>

**A Legal note:**

This report (hereinafter also referred to as an analysis, a document) has been prepared in compliance with Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 (on market abuse), Commission Delegated Regulation (EU) 2016/958 and Commission Delegated Regulation (EU) 2017/565.

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

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