

ELEKTROTIM

ANALYTICAL REPORT - SUMMARY

We are starting our recommendation for Elektrotim with a BUY rating and a target price of PLN 10,2 per share that is 56% above the current market price. The company is one of the largest electrical installation companies in the country with an established position. Unfortunately, approximately PLN 25 million of losses of the subsidiary Mawilux in 2016-2019, along with the difficult situation on the construction market in 2017-2018, strained the group's liquidity situation. Only 2020 turned out to be a breakthrough, and Elektrotim entered the new year with a good cash position, rebuilt guarantee limits and a full portfolio of orders. In the coming years, the company should benefit from the energy transformation and the increase in DSO expenditure on grids, RES connection and investments in industry and the military.

Elektrotim builds electrical and power installations and networks, as well as automation systems for construction, industry and energy. The company carries out approx. 70% of sales in the area of professional energy (> 40%), industry (approx. 20%) and environmental protection (approx. 10%). Significant sales areas are also the military and social infrastructure. The company was founded in 1998. Since 2007, it has been present on the WSE.

Lost years 2016-2019 by Mawilux ... In 2016-2019, the Elektrotim group generated a negative result of PLN -23 million, which was due to the losses of the subsidiary Mawilux (PLN -25 million). The company, present in the Capital Group since 2010, implemented airport systems (eg ILS). Its problems are the aftermath of the stoppage of investments in airports and concentration in areas where it had no competences.

Return "from a long journey" in 2020 ... After the completion of contracts carried out by Mawilux and obtaining attractive orders, especially in the area of distribution in Q3/Q4'19, in 2020 the company generated approx. PLN 16.6 million of net profit and significantly improved liquidity by selling additionally, a property for PLN 13.5 million.

In the perspective of 2Q'21 ... we expect a positive financial result (cumulatively) at every level, which should be well received by the market. We emphasize that the result base for 1H'21 is overestimated by significant one-offs.

Strong results rebound in 2020 ...

... and the next years is marked by energy transformation... According to PEP, the entire energy transformation may cost approx. PLN 1.6 trillion in the years '21 -'40, and its peak will fall in the years '21 -'25 (approx. PLN 450 billion, including approx. PLN 100 billion in the sector energy, of which nearly half in the distribution area). We pay attention to the projected increase in expenditure on energy distribution until 2030 and ambitious OSD budgets. We emphasize that the network segment accounts for 40-50% of the group's revenues, and Tauron is a strategic customer (> 20%). We also see good prospects in industry, the army and traction, where the company is building a new segment.

Among the potential risks we indicate a significant scale of employees leaving (> 90 people, - 15% in 2020) after, among others, resignation of a long-term president of the company, increases in the prices of building materials as well as a potential supply of shares from former members of the company's governing bodies.

	2018	2019	2020	2021F	2022F	2023F
Revenues [PLNm]	310,5	258,6	276,8	276,9	270,9	287,2
EBITDA adj. [PLNm]	3,9	-8,4	20,3	18,6	14,1	16,8
EBITDA [PLNm]	1,8	-11,3	28,6	18,8	14,1	16,8
EBIT [PLNm]	-1,3	-16,1	23,2	13,1	8,4	10,9
Net income [PLNm]	-3,9	-14,5	16,6	9,0	6,0	8,0
P/BV [x]	0,9	1,2	0,9	0,8	0,8	0,8
P/E [x]	---	---	3,9	7,2	10,9	8,1
EV/EBITDA [x]	44,2	---	1,9	3,1	4,1	3,5
EV/EBIT [x]	---	---	2,3	4,5	6,8	5,3
DPS in the period [PLN]	0,0	0,0	0,0	0,0	0,4	0,6
DY [%]	0,0%	0,0%	0,0%	0,0%	6,1%	9,1%

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

(INITIAL REPORT)

TARGET PRICE 10,2 PLN

23th AUGUST 2021, 07:00 CEST

DCF valuation [PLN]	9,7
Peer valuation [PLN]	10,7
Target price [PLN]	10,2
Price upside/downside	55,9%
Cost of capital	8,00%
Price [PLN]	6,54
Market cap [PLNm]	65,1
No. of shares [mn]	10,0
Max. price 6M [PLN]	8,9
Min. price 6m [PLN]	5,9
Rate of return 3M	-5,2%
Rate of return 6M	-13,3%
Rate of return 9M	11,6%
Shareholders (% of votes):	
K. Folta with his wife Ewa	19,9%
K. Wieczorkowski	13,2%
Aviva OFE	9,8%
M. Nowakowski	6,1%
NN OFE	5,9%
Others	45,1%

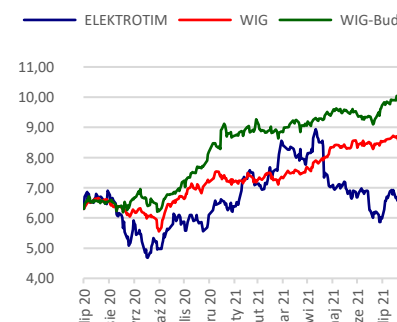
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Valuation summary

	Share	Valuation
DCF valuation	50%	9,7
Peer valuation	50%	10,7
Target price [PLN]		10,2

Source: BDM S.A.

DCF valuation

	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenues [PLNm]	276,9	270,9	287,2	307,6	308,3	307,0	306,9	306,8	306,8	306,8
EBIT [PLNm]	13,0	8,4	10,9	11,2	11,1	10,9	10,7	10,6	10,5	10,3
Tax rate [%]	25,2%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%
Tax on EBIT [PLNm]	3,3	1,6	2,1	2,1	2,1	2,1	2,0	2,0	2,0	2,0
NOPLAT [PLNm]	9,7	6,8	8,8	9,1	9,0	8,8	8,7	8,6	8,5	8,3
Amortization [PLNm]	5,6	5,7	5,9	5,9	5,9	5,9	5,9	5,9	5,9	5,9
CAPEX [PLNm]	-4,3	-5,7	-5,7	-5,9	-5,9	-5,9	-5,9	-5,9	-5,9	-5,9
Working capital movement [PLNm]	-18,4	-1,2	-1,3	-1,6	-0,1	0,1	0,0	0,0	0,0	0,0
FCF [PLNm]	-7,4	5,6	7,8	7,4	8,9	8,9	8,7	8,6	8,5	8,3
DFCF [PLNm]	-7,2	5,1	6,5	5,8	6,5	6,0	5,4	5,0	4,5	4,1
Total DCF [PLNm]	41,7									
Terminal value [PLNm]	91,8									
Discounted terminal value [PLNm]	45,5									
Enterprise value [PLNm]	87,2									
Net debt [PLNm]	-10,9									
Minorities [PLNm]	1,8									
Equity value [PLNm]	96,4									
Number of shares [m]	10,0									
Value per share [PLN]	9,7									

Terminal growth rate: -1,0%

WACC calculation

	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Risk-free rate	3,00%	3,00%	3,00%	3,00%	3,00%	3,00%	3,00%	3,00%	3,00%	3,00%
Risk premium	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%
Beta	1,0	1,0	1,0	1,0	1,0	1,0	1,0	1,0	1,0	1,0
Credit premium	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%
Cost of equity	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%
Contribution of equity	93,3%	93,5%	93,7%	93,9%	93,9%	93,9%	93,9%	95,8%	97,8%	100,0%
Cost of debt after tax	3,4%	3,6%	3,6%	3,6%	3,6%	3,6%	3,6%	3,6%	3,6%	3,6%
Contribution of debt	6,7%	6,5%	6,3%	6,1%	6,1%	6,1%	6,1%	4,2%	2,2%	0,0%
WACC	7,7%	7,7%	7,7%	7,7%	7,7%	7,7%	7,7%	7,8%	7,9%	8,0%

Source: BDM S.A.

Sensitivity analysis

beta	Terminal growth rate			Risk premium	Terminal growth rate			Risk premium	Beta		
	-2,0%	-1,0%	0,0%		-2,0%	-1,0%	0,0%		0,9	1,0	1,1
0,9	9,7	10,3	11,0	4,00%	10,3	10,9	11,8	4,00%	11,5	10,9	10,4
1,0	9,2	9,7	10,3	5,00%	9,2	9,7	10,3	5,00%	10,3	9,7	9,2
1,1	8,7	9,2	9,7	6,00%	8,3	8,7	9,2	6,00%	9,3	8,7	8,2

Source: BDM S.A.

Peer valuation

	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Construction companies Poland									
BUDIMEX	7,7	18,9	20,3	5,5	7,8	8,3	6,4	9,8	10,5
ERBUD SA	17,4	-	-	4,9	-	-	6,0	-	-
MIRBUD SA	5,3	5,3	5,2	5,4	4,9	4,6	6,0	5,7	5,3
PEKABEX	8,1	8,0	8,0	6,2	5,7	5,4	7,7	7,1	6,7
ONDE SA	18,6	10,4	6,9	12,4	6,4	3,7	13,1	6,6	3,8
Construction companies Foreign									
VINCI SA	22,3	15,6	13,7	9,9	8,0	7,1	16,8	12,5	10,8
ACCIONA SA	22,4	18,2	15,7	9,9	9,4	8,8	18,2	16,9	15,3
BOUYGUES SA	12,6	12,0	10,2	4,4	3,9	3,5	10,0	8,5	7,2
SKANSKA AB-B SHS	14,6	15,6	14,9	8,1	9,0	7,4	10,0	11,3	10,1
EIFFAGE	12,7	10,6	9,7	6,2	5,5	5,0	10,4	8,9	8,1
Median construction companies	13,7	12,0	10,2	6,2	6,4	5,4	10,0	8,9	8,1
Electrical installation companies Poland									
Sonel SA	11,8	11,3	11,1	6,9	6,2	5,9	9,9	8,7	8,3
Relpol SA	11,6	14,6	11,7	5,0	4,7	4,1	8,9	10,0	8,6
Electrical installation companies Foreign									
SPIE SA	13,0	11,3	10,6	7,7	6,7	6,2	11,4	9,7	8,7
ABB LTD-REG	24,9	21,8	20,0	15,4	13,5	12,4	19,6	16,6	15,0
SCHNEIDER ELECTRIC SE	27,2	24,7	22,3	16,8	15,2	13,7	20,4	18,6	16,6
Median electrical installation companies	13,0	14,6	11,7	7,7	6,7	6,2	11,4	10,0	8,7
Median all	13,3	13,3	11,0	7,0	6,6	5,8	10,7	9,4	8,4
ELEKTROTIM	7,2	10,9	8,1	3,1	4,1	3,5	4,5	6,8	5,3
Premium/discount	-44%	-25%	-31%	-59%	-39%	-44%	-60%	-31%	-39%
Valuation [PLN/share]	12,0	7,9	8,8	13,7	10,1	10,4	14,7	8,7	9,9
Year's contribution	33%	33%	33%	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]	9,6			11,4			11,1		
Multiple's contribution		33%			33%			33%	
Value per share [PLN]	10,7								

Source: BDM S.A., Bloomberg, according to prices from 20/08/2021.

Main risks: 1) Potential supply of shares from previous owners of the Management Board / Supervisory Board (long-term CEO A. Diakun owned 290,000 shares. 2) The risk of a jump in material costs increase mostly copper in 2020-2021 (+ steel, aluminum); 3) The risk of shortage of employees (a significant decrease in employment in 2020-2021 after the resign of the former CEO - in 2020 in the Capital Group decreased by -91 people, including -51 people in ET SA); 4) Payment gridlocks and bankruptcies in the construction industry (increase in unsold production); 5) Problems with obtaining financing and banking services; 6) The risk of a new company and new competition; 7) Research on margins during project construction (mitigated by a short backlog, approximately 15 months on average); 8) Problems of dependent companies (Procom Systems 90,91%, ZEUS 94,97% and Ostoya 82%).

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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	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

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 3Q'21*:			, 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	80%	0	0%
Accumulate	1	20%	0	0%
Hold	0	0%	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 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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For the first time this report has been made available to the public on 23.08.2021 (07:00 CEST). Date of preparing the report is the date of making it accessible. Before the recommendation was made accessible, information included in it had been confidential.

The prices of the financial instruments listed in the document have been taken from the real-time pricing as provided by Bloomberg. Data concerning financial instrument prices used in the report could be loaded to 24 hours before the moment of completing the report.

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- The issuer does not hold shares exceeding 5 % of the BDM issued share capital,
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