

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

			2020	2021F	2022F	2023F	
Price [PLN]	6,28	P/E	3,8	6,6	6,6	6,6	Analyst: Krystian Brymora krystian.brymora@bdm.pl tel.: (+48) 501 238 443
MC [mln PLN]	62,5	EV/EBITDA	1,8	3,8	4,2	3,6	
		EV/EBIT	2,2	5,3	6,0	5,2	
		P/BV	0,9	0,8	0,7	0,7	

Last recommendation BDM: BUY with target price 10,2 PLN/share (2021/08/23) [LINK](#)

Q3'21 results below our expectations due to low sales (delays?) and losses of subsidiaries. Better cash. Backlog increase by approx. 20% to a record PLN 373 million - the brightest point of the report – positive

BDM comment: Q3'21 results are -20% below our expectations at the level of revenues, which may be due to a shift between periods. The percentage gross margin turned out to be only slightly lower than our assumptions (12.4% vs. 12.8% mesh). Cumulatively for 12m, the gross margin of 13.5% with a slight downward trend, which is in line with our assumptions in the last analytical report (<12% at the end of 2022). The PDO balance of + PLN 0.8m boosted operating results and related is probably with a partial release of employee reserves and contractual penalties. Reported EBIT amounted to PLN 2.7m vs. PLN 3.6m a year ago (-25% y/y) and PLN 3.4m in our forecasts (-19%). The parent company generated PLN 3.5m EBIT (including the PDO balance + PLN 0.6m) vs. PLN 1.5m a year ago and PLN 2.6m in our forecasts. Thus, the source of disappointment is the subsidiaries (Zeus recapitalized in July and Procom struggling with a low backlog). Cleaned EBIT amounted to PLN 1.9m vs. PLN 4.0m a year ago (-52%) and PLN 3.4m in our forecast (-43%).

Cash flow was much better in Q3'21. OCF amounted to + PLN 8.4 million, mainly through the inflow of receivables (+ PLN 4.6 million). Cash increased by PLN 7.2m q/q to PLN 14.8m. Thus, at the end of Q3'21, net debt was negative (net cash) and amounted to PLN -2.6m (+ PLN 4.6m in Q2'21). We expected cash to deteriorate in Q3'21 by approx. PLN -5m and its inflow only at the turn of Q4'21 / Q1'22.

The highlight of the report is an increase in the backlog by 19% q/q and 24% y/y to a record level in the history of PLN 373.4m. In Q3'21, the Capital Group obtained as much as PLN 117m in orders (the most since the profitable Q3'19). The value of new orders obtained at ET SA did not differ significantly from the previous quarters (PLN 74 million). The subsidiaries (Procom and Zeus) recorded a significant increase, acquiring as much as PLN 43 million in new orders (portfolio of over PLN 102 million - the most since Q4'18). The management board pointed to the low backlog of these entities during the previous presentation of the results. Obtaining significant orders should ensure the profitability of these entities in the coming quarters.

At the last conference after Q2'21 (10/01/21), the Management Board upheld the goal of repeating the adjusted results in 2021 (above PLN 10 million net with our assumptions of about PLN 9 million) despite losses in H1'21 in subsidiaries. The company has little impact on the increase in the cost of materials in 2021, because at the end of 2020 (due to a change in the management board), it was not possible to win many orders. In our forecasts from the last analytical report [Elektrotim Buy PLN 10.2](#), we were more cautious, fearing a weaker 2022, both in terms of sales and margins. Acquiring PLN 117 million of new orders in Q3'21 and the record-breaking backlog provide grounds for raising these assumptions. Defense-related orders after the crisis on the border with Belarus are a chance for the company. The company has references in this area. In the years 2020-2021 (contract of December 19), it implemented the Ukrainian border protection system for the Bieszczady Border Guard Department.

Conference with management tomorrow (Friday 11/19/2021) at 13:00 on MS Teams.

Q3'21 results [PLNm]

	3Q'18	4Q'18	1Q'19	2Q'19	3Q'19	4Q'19	1Q'20	2Q'20	3Q'20	4Q'20	1Q'21	2Q'21	3Q'21	YoY	3Q'21F BDM	difference
Revenues	79,7	117,8	57,1	65,3	53,3	82,8	52,6	49,9	70,6	103,7	52,2	77,7	56,7	-20%	70,3	-19,3%
ETSA	49,7	81,9	39,5	43,5	36,5	54,5	35,7	34,4	51,6	77,9	39,3	64,3	42,1	-18%	53,0	-20,6%
subsidiaries	30,1	35,9	17,6	21,8	16,8	28,3	16,9	15,5	19,0	25,8	13,0	13,4	14,6	-23%	17,3	-15,6%
EBIT	1,7	3,1	-4,4	-8,9	-0,5	-2,3	5,5	3,7	3,6	10,4	-0,6	4,1	2,7	-25%	3,4	-19,3%
ETSA	1,3	-1,0	-3,1	-8,4	0,5	-5,1	5,2	3,3	1,5	8,1	-0,2	5,9	3,5	131%	2,6	36,1%
subsidiaries	0,4	4,2	-1,4	-0,5	-1,0	2,8	0,3	0,4	2,1	2,3	-0,5	-1,8	-0,7		0,8	
EBIT adj.	1,6	5,6	-4,5	-7,6	-2,7	1,6	-0,4	1,3	4,0	10,1	-0,8	4,9	1,9	-52%	3,4	-43,1%
Net profit	0,4	2,3	-4,3	-9,1	-1,1	0,0	4,2	2,7	2,0	7,7	-1,5	3,1	1,9	-5%	2,5	-25,7%
ETSA	0,2	-1,3	-2,9	-8,9	-0,5	-2,0	4,3	2,5	0,6	9,3	-0,7	7,6	2,7	360%	1,9	41,6%
subsidiaries	0,2	3,7	-1,4	-0,2	-0,7	2,1	-0,1	0,2	1,4	-1,5	-0,8	-4,5	-0,8		0,6	
EBIT margin	2,1%	2,7%	-7,8%	-13,6%	-0,9%	-2,8%	10,5%	7,3%	5,1%	10,0%	-1,2%	5,3%	4,8%		4,8%	
ETSA	2,6%	-1,3%	-7,7%	-19,3%	1,4%	-9,3%	14,6%	9,5%	2,9%	10,4%	-0,4%	9,2%	8,3%		4,8%	
subsidiaries	1,4%	11,6%	-7,8%	-2,2%	-6,0%	9,9%	2,1%	2,6%	11,2%	8,7%	-3,6%	-13,2%	-5,1%		4,8%	
Net margin	0,5%	2,0%	-7,6%	-13,9%	-2,1%	0,0%	8,0%	5,4%	2,8%	7,5%	-2,9%	4,0%	3,3%		3,6%	
ETSA	0,4%	-1,6%	-7,3%	-20,4%	-1,3%	-3,8%	11,9%	7,2%	1,1%	11,9%	-1,7%	11,9%	6,3%		3,6%	
subsidiaries	0,7%	10,3%	-8,1%	-1,0%	-3,9%	7,3%	-0,3%	1,3%	7,4%	-6,0%	-6,3%	-33,9%	-5,4%		3,7%	
Backlog	304,8	260,4	235,8	224,4	313,9	306,4	294,3	356,2	301,6	291,2	302,6	313,4	373,4	24%	306,6	21,8%
RMK net	42,1	22,9	41,9	36,9	32,9	20,7	0,4	-2,3	11,3	3,7	-3,1	23,0	15,7	39%	10,5	48,7%
Net working capital	23,7	35,8	13,9	19,1	22,4	22,4	34,3	20,8	28,4	31,7	44,1	26,9	30,2	7%	47,0	-35,6%
Net debt	24,1	14,8	23,7	35,7	36,8	21,8	10,1	-10,5	5,5	-10,9	-3,9	4,6	-2,6		9,6	
P/E												5,5	5,6			
EV/EBITDA												2,9	2,7			

Source: BDM S.A., company

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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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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

Distribution of BDM's recommendations in Q4'21*:

, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months

	number	%	number	%
Buy	2	100%	3	100%
Accumulate	0	0%	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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