



Dom Maklerski BDM S.A.

# ELEKTROTIM

## ANALYTICAL REPORT - SUMMARY

The PLN 270m net contract for the design and construction of an electronic barrier on the Belarusian border has significantly changed the company's earnings outlook for 2022-2023, amid deteriorating margins on contracts won in 2019-2020. Thus, despite a difficult market and many challenges, we have upgraded our outlook for the period, reiterating a BUY rating on the company with a target price of PLN 11.0/share. In the coming years, the Company should benefit from the energy transformation and an increase in DSO expenditure on networks, renewable energy connections, and defense investments.

**Huge border contract.** The contract obtained on 24.03.22 on the Belarusian border is technically similar to the project for the Bieszczady Division of the Border Guard to be implemented in 2020-2021. The barrier price was then PLN 0.56m/km. Currently, it is PLN 1.34m/km (+137%), with an increase in the cost of copper in this period of +81%, and labor +36% y/y. This allows us to expect satisfactory profitability. We took a conservative approach to estimating profitability, taking into account the many risks involved (the margin is ca. 15%). Liquidity during the contract period should be provided by a 15% down payment (PLN 50m), relatively quick invoicing, and nearly PLN 40m in available credit lines.

After announcing the signing of the agreement with POSG, the stock gained over 50% in less than two days. However, it has recently returned to preannouncement levels.

**Q1'22 loss...** Q1'22 loss exceeded our expectations. Sales amounted to PLN 52.4m (0% y/y, -14% vs. expectations). Gross margin amounted to only 1.3% (cum 10.3% vs. 13.7% a year ago) due to the negative valuation of long-term contracts (the effect of higher raw material costs, the Company announced it was negotiating with investors), which was confirmed by the CEO in interviews. As a result, the net loss amounted to PLN 5.4m vs. anticipated loss PLN 1.2m.

**...and Q2'22 is uncertain.** In Q2'22, we assume that the first invoice from the "Border" contract (PLN 13.5m project) will be issued. Thus the Company is expected to generate a profit in Q2 2022. Without Border's invoice, we expect a 31% y/y revenue drop and a net loss, albeit smaller than in Q1 2022. On a standalone basis, we expect ZEUS to recognize a PLN 6m impairment charge.

**It is a beneficiary of the energy transformation and RePowerEU.** In the 2030 time horizon, we expect a significant increase in investments in power grids, which are the bottleneck for renewable energy development in Poland. According to information released by the Energy Regulatory Office (URE) in June'22, this figure is ca. PLN 100bn. The grid segment accounts for 40-50% of Elektrotim's revenue, and Tauron is its strategic customer (ca. 20%). We note that the war in Ukraine has definitely accelerated the energy transition in the EU. [RePowerEU's](#) European plan for independence from Russian resources, published on May 18th 2022, assumes massive and rapid deployment of renewable energy (mainly PV), which requires expansion of the grid.

**Company with exposure to the military segment.** In 2021, sales to the defense sector accounted for 9% of Elektrotim CG's revenue, and historically, 10-20% (ZEUS company). As a reminder, Elektrotim's defense spending is set to increase to 3% of GDP beginning in 2023, which basically doubles the size of the Ministry of Defense's budget compared to 2021.

**Among potential risks...** we point to material and contractor cost increases, a large-scale contract at the border and employee departures (-124 people in 2020-2021, -21%) following, among other things, the resignation of the company's long-time CEO in 2020 as well as potential share supply from former members of the company's governing bodies.

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: BUY)

## TARGET PRICE 11,0 PLN

15th JUNE 2022, 07:00 CEST

DCF valuation [PLN]	8,3
Peer valuation [PLN]	13,7
<b>Target price [PLN]</b>	<b>11,0</b>
<b>Price upside/downside</b>	<b>69,5%</b>
Cost of capital	12,50%
Price [PLN]	6,50
Market cap [PLNm]	64,7
No. of shares [mn]	10,0
Max. price 6M [PLN]	8,2
Min. price 6m [PLN]	4,8
Rate of return 3M	14,0%
Rate of return 6M	22,6%
Rate of return 9M	-9,0%
Shareholders (% of votes):	
K. Folta with his wife Ewa	17,3%
K. Wieczorkowski	13,2%
Aviva OFE	9,8%
M. Nowakowski	6,1%
NN OFE	5,9%
Others	47,8%

Krystian Brymora

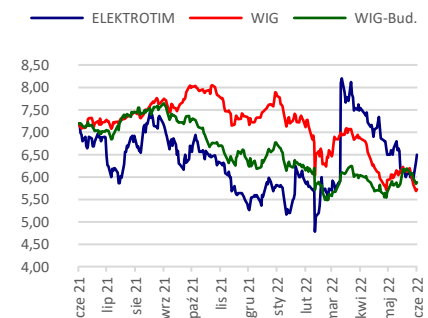
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	2019	2020	2021	2022F	2023F	2024F
Revenues [PLNm]	258,6	276,8	277,2	444,0	406,6	357,8
EBITDA adj. [PLNm]	-8,4	20,3	15,3	25,5	21,2	18,3
EBITDA [PLNm]	-11,3	28,6	14,8	25,9	21,2	18,3
EBIT [PLNm]	-16,1	23,2	9,3	20,4	15,6	13,1
Net income [PLNm]	-14,5	16,6	6,6	13,7	12,5	10,8
P/BV [x]	1,2	0,9	0,8	0,7	0,7	0,7
P/E [x]	---	3,9	9,8	4,7	5,2	6,0
EV/EBITDA [x]	---	1,9	3,7	3,1	2,2	3,1
EV/EBIT [x]	---	2,3	5,9	3,9	3,1	4,4
DPS in the period [PLN]	0,0	0,0	0,0	0,0	1,0	1,0
DY [%]	0,0%	0,0%	0,0%	0,0%	15,4%	15,4%



This report 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. Detailed contents of legal notes is located on the last page of this report. The report has been prepared and made available for distribution by BDM. GPW shall be a copyright holder to this report from the date of its publication. The report can be published and made available without limitation by GPW through any mass communication media as decided by GPW.

**This document is a summary of a full version of the report prepared in Polish. In case of any disputes the Polish version shall prevail.**

**Valuation summary**

	Share	Valuation
DCF valuation	50%	8,3
Peer valuation	50%	13,7
<b>Target price [PLN]</b>		<b>11,0</b>

Source: BDM S.A.

**DCF valuation**

	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Revenues [PLNm]	444,0	406,6	357,8	328,0	325,0	324,7	324,7	324,7	324,7	324,7
EBIT [PLNm]	19,9	15,6	13,1	12,0	11,8	11,8	11,8	11,7	11,7	11,6
Tax rate [%]	27,8%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%
Tax on EBIT [PLNm]	5,5	3,0	2,5	2,3	2,2	2,2	2,2	2,2	2,2	2,2
NOPLAT [PLNm]	14,4	12,7	10,6	9,7	9,6	9,5	9,5	9,5	9,5	9,4
Amortization [PLNm]	5,5	5,6	5,2	5,3	5,3	5,3	5,3	5,3	5,3	5,3
CAPEX [PLNm]	-4,5	-5,6	-5,6	-5,2	-5,3	-5,3	-5,3	-5,3	-5,3	-5,3
Working capital movement [PLNm]	-12,1	7,3	-15,0	2,3	0,2	0,0	0,0	0,0	0,0	0,0
FCF [PLNm]	3,3	19,9	-4,7	12,1	9,8	9,6	9,5	9,5	9,5	9,4
DFCF [PLNm]	3,1	16,7	-3,5	8,0	5,7	5,0	4,4	3,9	3,5	3,1
Total DCF [PLNm]	49,9									
Terminal value [PLNm]	75,4									
Discounted terminal value [PLNm]	24,6									
Enterprise value [PLNm]	74,4									
Net debt [PLNm]	-10,1									
Minorities [PLNm]	1,8									
<b>Equity value [PLNm]</b>	<b>82,8</b>									
Number of shares [m]	10,0									
<b>Value per share [PLN]</b>	<b>8,3</b>									

Terminal growth rate: 0,0%

**WACC calculation**

	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Risk-free rate	7,50%	7,50%	7,50%	7,50%	7,50%	7,50%	7,50%	7,50%	7,50%	7,50%
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	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%
Contribution of equity	92,3%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
Cost of debt after tax	6,5%	7,3%	7,3%	7,3%	7,3%	7,3%	7,3%	7,3%	7,3%	7,3%
Contribution of debt	7,7%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
<b>WACC</b>	<b>12,0%</b>	<b>12,5%</b>	<b>12,5%</b>	<b>12,5%</b>	<b>12,5%</b>	<b>12,5%</b>	<b>12,5%</b>	<b>12,5%</b>	<b>12,5%</b>	<b>12,5%</b>

Source: BDM S.A.

**Sensitivity analysis**

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

Source: BDM S.A.

**Peer valuation**

	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
<b>Construction companies Poland</b>									
BUDIMEX	13,8	13,6	13,2	4,3	4,3	4,2	5,5	5,6	5,4
UNIBEP SA	8,3	7,7	6,3	3,2	2,5	-	4,0	3,2	-
MIRBUD SA	3,0	3,3	3,3	2,7	2,8	2,1	3,0	3,2	2,4
PEKABEX	11,2	11,2	7,4	6,6	6,1	5,2	9,8	8,9	7,0
ONDE SA	78,8	5,1	3,0	26,1	5,3	1,7	39,4	5,6	1,7
<b>Construction companies Foreign</b>									
VINCI SA	13,9	11,9	9,9	7,3	6,4	5,9	11,5	9,8	8,7
ACCIONA SA	22,0	19,6	17,8	9,4	9,2	9,0	15,5	15,3	15,1
BOUYGUES SA	12,1	9,9	8,7	3,5	3,7	3,3	7,6	7,4	6,2
SKANSKA AB-B SHS	9,8	9,9	9,6	6,6	5,4	5,3	8,5	7,6	7,2
EIFFAGE	10,3	9,5	8,9	5,5	5,0	4,6	8,7	7,9	7,1
<b>Median construction companies</b>	<b>11,7</b>	<b>9,9</b>	<b>8,8</b>	<b>6,0</b>	<b>5,2</b>	<b>4,4</b>	<b>8,6</b>	<b>7,5</b>	<b>6,6</b>
<b>Electrical installation companies Poland</b>									
Sonel SA	11,5	10,0	8,1	5,9	4,8	4,0	9,5	7,2	5,7
Relpol SA	13,8	9,9	5,2	5,2	4,0	2,8	11,2	8,7	4,7
<b>Electrical installation companies Foreign</b>									
SPIE SA	11,8	10,7	9,8	6,9	6,2	5,3	10,1	9,0	7,8
ABB LTD-REG	18,8	16,3	14,9	12,1	10,1	9,1	14,9	12,2	10,9
SCHNEIDER ELECTRIC SE	17,4	15,8	14,3	11,7	10,4	9,2	14,0	12,3	10,9
<b>Median electrical installation companies</b>	<b>13,8</b>	<b>10,7</b>	<b>9,8</b>	<b>6,9</b>	<b>6,2</b>	<b>5,3</b>	<b>11,2</b>	<b>9,0</b>	<b>7,8</b>
<b>Median all</b>	<b>12,7</b>	<b>10,3</b>	<b>9,3</b>	<b>6,5</b>	<b>5,7</b>	<b>4,8</b>	<b>9,9</b>	<b>8,2</b>	<b>7,2</b>
ELEKTROTIM	4,7	5,2	6,0	3,1	2,2	3,1	3,9	3,1	4,4
Premium/discount	-66%	-52%	-39%	-55%	-64%	-41%	-65%	-66%	-44%
<b>Valuation [PLN/share]</b>	<b>17,5</b>	<b>13,0</b>	<b>10,1</b>	<b>15,3</b>	<b>13,8</b>	<b>9,6</b>	<b>18,8</b>	<b>14,7</b>	<b>10,2</b>
Year's contribution	33%	33%	33%	33%	33%	33%	33%	33%	33%
<b>Average valuation [PLN/share]</b>		<b>13,5</b>			<b>12,9</b>			<b>14,6</b>	
Multiple's contribution		33%			33%			33%	
<b>Value per share [PLN]</b>	<b>13,7</b>								

Source: BDM S.A., Bloomberg, according to prices from 14/06/2022.

**Main risks:** 1) Risk of a surge in material costs, in particular copper in 2021-2022 (+steel, concrete, fuels) translating into a decrease in margins during project execution (risk mitigated by a relatively short backlog of about 15 months on average). 2) The risk of a significant contract on the Belarusian border worth PLN 270m resulting from the value of the contract (so far, the company has executed single orders for up to PLN 30-40m) and very tight deadlines (only 90 days after the launch of the physical barrier) 3) Risk of lack of qualified employees (a significant drop in employment in 2020-2021 after the departure of the previous CEO - in 2020-2021 the Group's employment decreased by -124 persons, including -75 persons in ET SA) in ET SA); 4) Potential supply of shares by previous Management Board/RN members; 5) Payment bottlenecks and bankruptcies in the construction industry (increase in unsold production); 6) Problems with obtaining financing and bank guarantees; 7) Risk of not obtaining new orders and high competition; 8) Risk of problems and bankruptcy of subsidiaries (Elektrotim Group is composed of the Parent Company and the 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
<b>Buy</b>	<b>11,0</b>	<b>Buy</b>	<b>10,2</b>	<b>15.06.2022*</b>	<b>07:00 CEST</b>	<b>6,50</b>	<b>53 247</b>
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 2Q'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	67%	2	100%
Accumulate	0	0%	0	0%
Hold	2	33%	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](http://www.bdm.pl)

**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.

The report has been prepared by Dom Maklerski BDM S.A. (hereinafter BDM S.A.) within the Exchange Analytical Coverage Support Programme (<https://www.gpw.pl/gpwpa>). BDM S.A. is a party to the „Agreement on the provision of analytical report services” concluded with the Warsaw Stock Exchange Company („GPW”), on the basis of which BDM provides services of analytical coverage of the Issuer for the term of the Agreement. Under the agreement BDM obtains remuneration from GPW. All materials prepared by BDM within the framework of co-operation are available at <https://www.bdm.pl/program-wsparcia-pokrycia-analitycznego-gpw>

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An investor should be aware that each investment decision in the capital market is subject to numerous risks that finally can result in a financial loss suffered by him. The return rate on individual investments can fluctuate depending on various factors beyond the control of the investor. Therefore, a customer who makes a single investment decision should not only check currency and correctness of individual assumptions made by the analyst in the report but also to have an independent assessment and own analysis (also based on scenarios other than the ones presented in the report) taking into consideration the level of acceptable risk. When deciding on activity on the capital market the investor should take into consideration the fact that the investment portfolio structure (diversification of investment through possessing more than one financial instrument) can reduce risk exposure to an individual instrument bringing a negative rate of return in a given period. At the same time, however, it can lead to limitation of a positive rate of return the investor could achieve in the case of a single financial instrument in a given time period. The investor should be aware that the investment portfolio structure and any investment strategy for the stock market do not guarantee the achievement of a positive rate of return and do not protect him against final loss.

For the first time this report has been made available to the public on 15.06.2022 (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.

Detailed list of all analytical reports (recommendations) published by BDM during the last 12 months is included in a cyclical “Monthly Report”.

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