

# RELPOL

## ANALYTICAL REPORT - SUMMARY

The company reported a deepening of margin erosion in Q2'22. At the revenue level, Relpol was still consolidating the Russian company in the period (the asset write-down was only taken into account at the gross profit level). The company is suffering from increasing cost pressure (energy, materials and wages) and we assume no change in this area in H2'22. At the same time, the acceptance of price increases by customers remains a question (we pay close attention to competition from Asia). In the long term, we value the company's exposure to the energy transition area and relationships with large customers. In the shorter term, on the other hand, we are concerned that performance will be dragged down by the aforementioned factors. We are reducing our price target to PLN 6.32 and changing our recommendation to ACCUMULATE.

We note that the y/y revenue growth in Q2'22 was driven by the consolidation of the Russian company (it will no longer be included in Q3'22), rising relay prices, and higher EUR/PLN and USD/PLN exchange rates. Demand for industrial automation products continues, but the weak outlook for the Polish construction industry means that new orders will be under pressure. From the other perspective, the energy transition and the popularity of photovoltaic solutions, as well as orders from strategic customers, should sustain sales in a more challenging market.

The company is struggling to maintain its gross sales margin, it has been falling continuously since Q1'21. The margin in Q2'22 was 17%, while in 2020-21 it was oscillating around 20%. Profitability is negatively impacted by the cost of products. Despite declines in copper prices in USD, the company is not significantly affected due to the weakening of the USD, as well as the application of high surcharges by suppliers of copper-based materials. In addition, from 2H'22 Relpol will experience an increase in energy and labor costs.

Relative to our previous recommendation, we believe that the company will sell fewer products; nevertheless, revenue growth will be positive as a result of higher conductor prices and high foreign exchange rates. As a result of cost pressures, the new gross sales margin forecasts are reduced for '23 and '24.

The company has a tough year ahead of it, at the same time, the market position and natural demand for conductors will make Relpol ready to enter the market with new products (bistable relays) and with increased production capacity (completed investment in a new production hall and a new machine for the production of high-current relays) once the economic situation stabilizes.

[PLNm]	2018	2019	2020	2021	2022E	2023E	2024E
Sales	135,8	122,2	121,0	133,6	150,6	156,7	164,5
EBITDA	17,8	13,1	16,2	15,9	13,8	14,6	16,5
EBIT	11,9	6,7	9,2	9,2	6,8	6,9	7,9
Net income	9,2	4,9	7,8	6,6	1,9	4,3	5,0
OCF	11,7	13,4	12,6	8,3	4,3	13,1	13,5
FCF	4,1	3,3	3,6	-6,0	-6,3	-2,7	4,7
Net Debt	2,8	5,9	-0,2	4,8	10,9	15,0	11,9
/EBITDA	0,2	0,5	0,0	0,3	0,8	1,0	0,7
P/BV	0,7	0,7	0,6	0,6	0,6	0,5	0,5
P/E	5,9	11,1	7,0	8,3	28,2	12,6	11,0
EV/EBITDA	2,9	4,6	3,4	3,7	4,8	4,8	4,0
EV/EBIT	4,4	9,1	5,9	6,5	9,7	10,1	8,4

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.

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

## ACCUMULATE

(PREVIOUS: BUY)

**TARGET PRICE 6,32 PLN**

11<sup>th</sup> OCTOBER 2022, 16:20 CEST

DCF valuation [PLN]	5,66
Peer valuation [PLN]	6,98
<b>Target price [PLN]</b>	<b>6,32</b>
<b>Price upside/downside</b>	<b>11,3%</b>
Cost of capital	12,50%
Price [PLN]	5,68
Market cap [PLNm]	54,6
No. of shares [mn]	9,6
Max. price 6M [PLN]	6,4
Min. price 6m [PLN]	5,2
Rate of return 3M	-4,1%
Rate of return 6M	-9,6%
Rate of return 9M	-27,4%
Shareholders (% of votes):	
Adam Ambroziak	33,0%
Piotr Osiński	7,2%
Others	59,8%

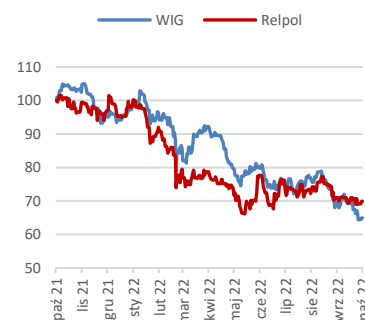
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**Valuation summary**

DCF valuation	50%	5,66
Peer valuation	50%	6,98
Target price [PLN]		6,32

Source: BDM S.A.

**DCF Valuation [PLNm]**

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Sales	150,63	156,67	164,53	168,29	175,67	181,50	185,17	187,16	189,52	191,80
EBIT	6,78	6,87	7,92	9,33	10,07	11,28	13,18	13,21	13,62	13,93
Tax rate	42%	21%	21%	21%	21%	21%	21%	21%	21%	21%
Tax on EBIT	2,83	1,44	1,66	1,96	2,11	2,37	2,77	2,77	2,86	2,92
NOPLAT	3,95	5,43	6,26	7,37	7,95	8,91	10,41	10,44	10,76	11,00
Amortization & depreciation	6,98	7,70	8,58	8,21	9,03	8,77	8,61	8,61	8,61	8,61
CAPEX	-10,63	-15,77	-8,74	-6,21	-7,69	-6,67	-8,61	-8,61	-8,61	-8,61
Working capital movement	-7,78	-0,35	-1,71	-1,19	-1,51	-0,99	-1,39	-0,63	-0,79	-0,75
FCFF	-7,48	-3,00	4,39	8,17	7,79	10,03	9,02	9,81	9,97	10,25
PV FCFF	-7,30	-2,62	3,43	5,69	4,83	5,53	4,42	4,27	3,86	3,53
Total PV FCFF	25,61									
TV	97,59	Terminal growth rate:			1%					
PV TV	33,57									
EV	59,18									
Net debt 2021	4,80									
Equity value	54,38									
Number of shares [mln]	9 609									
Value per share [PLN]	5,66									

**WACC calculation**

	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Risk free rate	7,5%	7,5%	7,5%	7,5%	7,5%	7,5%	7,5%	7,5%	7,5%	7,5%
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	88,7%	86,7%	87,1%	94,6%	96,2%	99,0%	99,7%	100,0%	100,0%	100,0%
Cost of debt after tax	5,2%	7,1%	7,1%	7,1%	7,1%	7,1%	7,1%	7,1%	7,1%	7,1%
Contribution of debt	11,3%	13,3%	12,9%	5,4%	3,8%	1,0%	0,3%	0,0%	0,0%	0,0%
WACC	11,7%	11,8%	11,8%	12,2%	12,3%	12,4%	12,5%	12,5%	12,5%	12,5%

Source: BDM S.A.

**Sensitivity analysis**

beta	Terminal growth rate			Risk premium	Terminal growth rate			Risk premium	Beta		
	0,00%	1,00%	2,00%		0,00%	1,00%	2,00%		0,9	1,0	1,1
0,9	5,70	6,05	6,47	4,00%	6,08	6,48	6,96	4%	6,85	6,48	6,13
1	5,35	5,66	6,03	5,00%	5,35	5,66	6,03	5%	6,05	5,66	5,30
1,1	5,03	5,30	5,63	6,00%	4,73	4,98	5,27	6%	5,37	4,98	4,62

Source: BDM S.A.

**Peer valuation**

	P/E			EV/EBITDA		
	2022E	2023E	2024E	2022E	2023E	2024E
<b>Polish electrotechnical companies</b>						
Aparator*	18,3	12,4	10,5	6,3	5,1	4,3
Sonel*	11,6	10,1	8,2	5,9	4,8	4,0
Aplisens*	9,8	9,7	9,3	4,7	4,3	3,5
<b>Polish median</b>	<b>11,6</b>	<b>10,1</b>	<b>9,3</b>	<b>5,9</b>	<b>4,8</b>	<b>4,0</b>
Hongfa Technology	26,7	21,1	16,9	13,0	10,5	8,7
TE Connectivity**	15,0	14,6	13,2	10,3	9,9	8,9
Omron Corp	22,7	21,0	19,2	11,5	10,6	9,7
Eaton Corp	18,0	16,9	15,4	14,6	13,2	12,3
Schneider Electric	16,5	15,8	14,5	11,2	10,3	9,3
<b>Relay manufacturers median</b>	<b>18,0</b>	<b>16,9</b>	<b>15,4</b>	<b>11,5</b>	<b>10,5</b>	<b>9,3</b>
<b>70/30</b>	<b>13,5</b>	<b>12,1</b>	<b>11,1</b>	<b>7,6</b>	<b>6,5</b>	<b>5,6</b>
Relpol	28,2	12,6	11,0	4,8	4,8	4,0
Premium/discount	56,8%	-25,6%	-28,6%	-58,8%	-54,5%	-56,8%
<b>Valuation [PLN/share]</b>	<b>2,7</b>	<b>5,5</b>	<b>5,7</b>	<b>9,8</b>	<b>8,3</b>	<b>8,4</b>
Year's contribution	0%	50%	50%	0%	50%	50%
<b>Average valuation [PLN/share]</b>	<b>5,61</b>			<b>8,36</b>		
Multiple's contribution	50%			50%		
<b>Value per share [PLN]</b>	<b>6,98</b>					

Source: BDM S.A., Bloomberg, according to prices from 11/10/2022. \*- GPWPA forecast. \*\*- Tyco Electronics prior to name change

**Main risks:** 1) escalation of the war in Ukraine (the company has returned to assembly in Ukraine on a limited basis. Escalation of the war could force the company to stop production altogether); 2) high prices of strategic raw materials: copper and silver and problems with the availability of components 3) decline in the EUR / PLN exchange rate (the company exports > 70% of its products.); 4) extraordinary increase in labor costs, the model takes into consideration 8% y/y growth; 5) technological risk: displacement of electromagnetic relays by semiconductors (both have advantages / disadvantages, but are substitutes); 6) high concentration of customers (3 main clients of the company may be responsible for 30-40% of sales); 7) long operating cycle and high demand for working capital); 8) economical slow-down (current views and PMI on European market are showing a slow-down in future periods; 9) the risk of competition (the company is one of the largest producers of relays in Europe, but with a relatively low market share, Chinese competitors might try to get more market share on European market);

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**Ratings and price targets history:**

rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
Accumulate	6,32	Buy	11,1	11.10.2022	16:20 CEST	5,68	46 402,8
Buy	11,1	Buy	16,5	23.05.2022*	20:30 CEST	5,40	57 167,8
Buy	16,5	---	---	30.08.2021*	07:00 CEST	7,8	69 775

\* 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.  
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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 4Q'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	3	50%	1	100%
Accumulate	2	33%	0	0%
Hold	0	0%	0	0%
Reduce	0	0%	0	0%
Sell	1	17%	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)

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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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- The person affiliated with BDM who was involved in the preparation of recommendations declares that they respect internal regulations and are subject to organizational and technical solutions and information barriers established by BDM to eliminate any conflicts of interest concerning recommendations and to avoid them,
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\*BDM is a party to the “ANALYTICAL REPORT PREPARATION SERVICES AGREEMENT” concluded with the WSE.

According to the best knowledge of the party recommending upon the publication of the report there are no other connections between BDM and the company described in this report that the party preparing this report would know of. However, the investor should be aware that the list disclosing conflicts of interest is long and that in the future there may occur situations leading to conflicts of interest which have not been identified or disclosed at the moment of publication of the report concerned. Especially, the investor should assume that BDM may submit an offer for services to a company or other companies mentioned in this report.

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