

# RELPOL

## ANALYTICAL REPORT - SUMMARY

Q3'22 for the company was yet another period of declining profitability. The gross margin on sales in Q3'22 was 13.3% (vs an average of 20% over the last eight quarters). Sales volumes also fell. In addition to macro factors and the associated drop in demand, Relpol had a problem with its sales IT system in August. Despite the lower number of relays sold, the company reported higher revenue year-on-year by 4%. This was a result of, among other things, continued product price increases as well as foreign exchange rates. Continued cost pressures and long working capital turnover have a negative impact on valuation. For this reason, we reduce our target price to PLN 5.62 and change our recommendation to HOLD.

**The company still faces high costs** and the effects will also be visible in '23, despite partially offsetting them by raising product prices. This is mainly due to higher electricity prices for next year, material costs and an increase in employee costs (significant minimum wage increase in 2023).

**High working capital requirements and higher debt also affect the company's valuation.** We do not see the potential for a reduction in the net debt/EBITDA ratio by the end of '23 due to ongoing development work, high inventories and high levels of receivables turnover.

**The company's products remain indispensable in many applications,** but 2023 in terms of results is unlikely to surprise us with positive dynamics. We assume y/y revenue will decline and adjusted net income will be lower than in '22. Nonetheless, we believe the company will remain profitable and will be able to take full advantage of the increased production potential in the future.

**Despite the weaker economy,** demand for certain categories of relays is growing. High-current (solar) relays are in high demand both nationally and internationally. This has to do with the acceleration of the energy transition in Europe. Products that find their way in industrial automation continue to sell very well, and the growth dynamics of this market should be maintained. On the other hand, we are seeing a decline in demand for miniature relays, including those used in building automation and by retail customers. We believe that the low demand for these products will continue in '23, but with increased investment among developers in the following years, demand will slowly start to recover.

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

# HOLD

(PREVIOUS: ACCUMULATE)

**TARGET PRICE 5,62 PLN**

16<sup>th</sup> DECEMBER 2022, 11:40 CEST

DCF valuation [PLN]	5,14
Peer valuation [PLN]	6,11
<b>Target price [PLN]</b>	<b>5,62</b>
<b>Price upside/downside</b>	<b>0,4%</b>
Cost of capital	13,00%
Price [PLN]	5,60
Market cap [PLNm]	53,8
No. of shares [mn]	9,6
Max. price 6M [PLN]	6,2
Min. price 6m [PLN]	5,4
Rate of return 3M	1,1%
Rate of return 6M	1,8%
Rate of return 9M	-8,5%
Shareholders (% of votes):	
Adam Ambroziak	33,0%
Piotr Osiński	7,0%
Others	59,8%

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[PLNm]	2018	2019	2020	2021	2022E	2023E	2024E
Sales	135,8	122,2	121,0	133,6	149,6	145,1	159,0
EBITDA	17,8	13,1	16,2	15,9	12,2	12,1	15,6
EBIT	11,9	6,7	9,2	9,2	5,2	4,1	6,5
Net income	9,2	4,9	7,8	6,6	1,1	2,1	3,4
OCF	11,7	13,4	12,6	8,3	-1,7	12,9	12,1
FCF	4,1	3,3	3,6	-6,0	-15,4	-3,5	0,6
Net Debt	2,8	5,9	-0,2	4,8	16,1	21,0	22,5
/EBITDA	0,2	0,5	0,0	0,3	1,3	1,7	1,4
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P/BV	0,7	0,7	0,6	0,6	0,6	0,5	0,5
P/E	5,8	11,0	6,9	8,2	48,1	25,3	15,7
EV/EBITDA	2,9	4,5	3,3	3,7	5,7	6,2	4,9
EV/EBIT	4,3	9,0	5,8	6,4	13,4	18,5	11,8



**Valuation summary**

DCF valuation	50%	5,14
Peer valuation	50%	6,11
Target price [PLN]		5,62

Source: BDM S.A.

**DCF Valuation [PLNm]**

	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Sales	149,6	145,1	159,0	164,2	170,9	178,6	184,9	186,8	188,7	190,6
EBIT	5,2	4,1	6,5	9,8	10,3	11,1	12,0	12,8	13,0	13,1
Tax rate	44%	21%	21%	21%	21%	21%	21%	21%	21%	21%
Tax on EBIT	2,3	0,9	1,4	2,1	2,2	2,3	2,5	2,7	2,7	2,8
NOPLAT	2,9	3,2	5,1	7,8	8,1	8,8	9,4	10,1	10,3	10,4
Amortization & depreciation	7,0	8,1	9,1	9,0	8,8	8,7	8,5	8,4	8,4	8,4
CAPEX	-13,7	-16,4	-11,4	-7,7	-7,6	-7,5	-7,5	-8,4	-8,4	-8,4
Working capital movement	-8,3	1,3	-2,6	1,4	0,7	-0,7	-0,5	1,9	2,0	2,0
FCFF	-12,1	-3,8	0,2	10,4	10,1	9,2	10,1	11,9	12,3	12,4
PV FCFF	-12,1	-3,4	0,1	7,4	6,4	5,2	5,1	5,3	4,9	4,4
Total PV FCFF	23,3									
TV	88,1	Terminal growth rate:			1%					
PV TV	30,9									
EV	54,2									
Net debt 2021	4,8									
Equity value	49,4									
Number of shares [mln]	9,6									
Value per share [PLN]	5,14									

**WACC calculation**

	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Risk free rate	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%
Risk premium	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%
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	13,0%	13,0%	13,0%	13,0%	13,0%	13,0%	13,0%	13,0%	13,0%	13,0%
Contribution of equity	88,0%	85,3%	82,0%	84,1%	86,2%	88,0%	89,9%	93,1%	96,2%	100,0%
Cost of debt after tax	4,4%	6,3%	6,3%	6,3%	6,3%	6,3%	6,3%	6,3%	6,3%	6,3%
Contribution of debt	12,0%	14,7%	18,0%	15,9%	13,8%	12,0%	10,1%	6,9%	3,8%	0,0%
WACC	12,0%	12,0%	11,8%	11,9%	12,1%	12,2%	12,3%	12,5%	12,7%	13,0%

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	5,28	5,60	5,98	6,00%	5,18	5,49	5,86	6,00%	5,95	5,49	5,07
1	4,86	5,14	5,46	6,50%	4,86	5,14	5,46	6,50%	5,60	5,14	4,72
1,1	4,48	4,72	5,00	7,00%	4,57	4,81	5,10	7,00%	5,27	4,81	4,40

Source: BDM S.A.

**Peer valuation**

	P/E			EV/EBITDA		
	2023E	2024E	2025E	2023E	2024E	2025E
<b>Polish electrotechnical companies</b>						
Aparator*	14,7	10,4	8,0	5,6	4,7	4,3
Sonel*	9,8	8,9	7,8	4,7	3,9	4,1
Aplisens*	8,7	8,5	6,9	4,3	3,8	3,5
<b>Polish median</b>	<b>9,8</b>	<b>8,9</b>	<b>7,8</b>	<b>4,7</b>	<b>3,9</b>	<b>4,1</b>
Hongfa Technology	22,0	17,6	17,6	13,4	8,8	8,8
TE Connectivity**	15,4	14,0	13,2	11,2	9,7	9,5
Omron Corp	208,4	19,5	17,8	11,1	9,6	8,3
Eaton Corp	21,9	17,9	16,5	16,3	13,7	12,6
Schneider Electric	9,4	16,5	15,4	12,5	10,6	9,6
<b>Relay manufacturers median</b>	<b>21,9</b>	<b>17,6</b>	<b>16,5</b>	<b>12,5</b>	<b>9,7</b>	<b>9,5</b>
<b>70/30</b>	<b>13,4</b>	<b>11,5</b>	<b>10,4</b>	<b>7,0</b>	<b>5,6</b>	<b>5,7</b>
Relpol	25,3	15,7	8,6	6,2	4,9	3,6
Premium/discount	88,6%	35,7%	-17,4%	-12,3%	-12,9%	-36,9%
<b>Valuation [PLN/share]</b>	3,0	4,1	6,8	6,7	6,8	9,7
Year's contribution	33%	33%	33%	33%	33%	33%
<b>Average valuation [PLN/share]</b>	<b>4,58</b>			<b>7,65</b>		
Multiple's contribution	50%			50%		
<b>Value per share [PLN]</b>	<b>6,11</b>					

Source: BDM S.A., Bloomberg, according to prices from 16/12/2022. \*- 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
Hold	5,62	Accumulate	6,32	16.12.2022	11:40 CET	5,60	55 850,6
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.  
 -the author of the reports on Relpol on 23-05-2023 and before 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 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	9	56%	0	0%
Accumulate	3	19%	0	0%
Hold	3	19%	0	0%
Reduce	0	0%	0	0%
Sell	1	6%	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>

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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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