Dom Maklerski BDM S.A.

RELPOL

ANALYTICAL REPORT - SUMMARY

2022 was a challenging year for Relpol. The company has been affected by the war in Ukraine (the industrial relay assembly plant temporarily curtailed operations), demand-side and cost-side turbulence (material price increases already felt in 2021, as well as energy and wages). These factors contributed to recording the lowest EBITDA level since 2013. At the same time, Q4'22 results have already shown some recovery from the weak Q2-3'22 period. The company has managed to stabilise the situation on the production side in recent months, and the pressure on the cost side is becoming less noticeable. On the demand side, the company is managing to compensate for a more difficult environment in the industry/construction sector and the cutback in sales to Russia by a good situation in the area of renewable energy or increased demand from Asia (Middle East). The risk for the company is a possible further strengthening of the PLN vs. the EUR, but at the same time it is well positioned in the idea of nearshoring and energy transition. We believe the market is not discounting the company's possible earnings trajectory in the current valuation. Following the model update, we set our target price at PLN 8.03, implying an upgrade to Buy (from Hold).

The company published its full 2022 results rather late, at the end of April. They were slightly better than our expectations, both in terms of revenue and EBITDA margin (it was also comparable y/y). For FY2022 as a whole, the company generated revenue of PLN 151m (+13% y/y), EBITDA of PLN 12.7m (-20% y/y) and net profit of PLN 1.2m (-81% y/y). At the operating level, we estimate that several million PLN may have been burdened by charges related to Ukrainian operations (the need to launch alternative assembly in Poland, which entailed additional outlays and is much more expensive due to wages; 100% of capacity in Ukraine has now been restored), as well as by an increase in the cost of materials and energy, which was reflected in price lists with a delay. At the gross level, results were also burdened by the write-down of the Russian company.

The company indicated in its annual report that it continues to invest in growth and automation of production capacity (including in the industrial and RES/EV areas, but also for miniature relays, which felt the downturn in 2H'22). The CEO also highlighted sales growth and good prospects for 2023 from the Middle East. At the same time, we note that the risk for the company is a possible further appreciation of the PLN vs. the EUR (exports account for more than two-thirds of revenues, the surplus over currency costs is about EUR 8m, additionally, the weakening of the USD increases the competitiveness of supplies from China).

We currently assume that in 2023 the company will generate PLN 166m in revenue, PLN 17.9m in EBITDA and PLN 7.6m in net profit. The company is continuing its investment programme, the main investment being a line for the production of bistable relays for industry, which should be commissioned by the end of 2023. We assume PLN 15m CAPEX (after grants) in 2023. Our forecasts imply that the company is trading at EV/EBITDA'23=4.2, P/E'23=7.8x.

	2020	2021	2022	2023F	2024F	2025F
Sales [PLN m]	121,0	133,6	151,0	166,0	177,9	191,3
Gross profit [PLN m]	23,8	27,7	24,2	29,5	32,9	35,9
SG&A costs [PLN m]	16,9	18,2	17,2	18,8	20,4	22,0
Profit on sales [PLN m]	6,9	9,5	6,9	10,7	12,4	14,0
Other operating activity net [PLN m]	2,4	-0,3	-1,0	0,0	0,0	0,0
EBITDA [PLN m]	16,2	15,9	12,7	17,9	20,8	22,5
EBIT [PLN m]	9,2	9,2	6,0	10,7	12,4	14,0
Profit before tax [PLN m]	10,1	8,4	2,8	9,6	11,4	13,3
Net profit [PLN m]	7,7	6,6	1,2	7,6	9,0	10,5
Net debt [PLN m]	-0,2	4,8	13,9	16,2	12,8	9,7
P/BV	0,7	0,6	0,6	0,6	0,5	0,5
P/E	7,6	9,0	47,2	7,8	6,6	5,6
EV/EBITDA	3,6	4,0	5,7	4,2	3,5	3,1
EV/EBIT	3,6	4,0	5,7	4,2	3,5	3,1

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

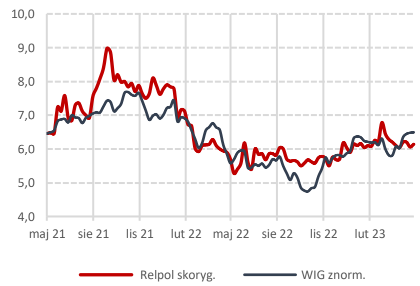
(PREVIOUS: HOLD)

TARGET PRICE 8,03 PLN

16th MAY 2023, 08:55 CEST

DCF valuation [PLN]	7,35
Peer valuation [PLN]	10,71
Target price [PLN]	**8,03**
Price upside/downside	**31%**
Cost of capital	12,5%
Price [PLN]	6,14
Market cap [PLNm]	59,0
No. of shares [mn]	9,6
Max. price 6M [PLN]	6,78
Min. price 6m [PLN]	5,50
Rate of return 3M	2,0%
Rate of return 6M	5,9%
Rate of return 9M	5,5%
Shareholders (% of votes):	
Adam Ambroziak	33,0%
Piotr Osiński	10,8%
Pozostali	56,2%

Krzysztof Pado
pado@bdm.com.pl
tel. (0-32) 208-14-32
Dom Maklerski BDM S.A.
ul. 3-go Maja 23, 40-096 Katowice



Valuation summary

	Share	Valuation
DCF valuation	**80%**	**7,35**
Peer valuation:	**20%**	**10,71**
- Polish companies	70%	8,24
- foreign companies	30%	16,48
Target price [PLN]	**8,03**	

Source: Dom Maklerski BDM S.A.

DCF valuation

	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Revenues [PLN m]	166,0	177,9	191,3	202,2	211,1	218,1	223,6	227,9	231,3	233,9
EBIT [PLN m]	10,7	12,4	14,0	15,4	15,9	16,4	16,7	17,0	17,2	17,3
Tax rate	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%
Tax on EBIT [PLN m]	2,2	2,6	2,9	3,2	3,3	3,4	3,5	3,6	3,6	3,6
NOPLAT [PLN m]	8,4	9,8	11,0	12,1	12,6	12,9	13,2	13,4	13,6	13,7
Amortization [PLN m]	7,2	8,3	8,5	8,4	8,3	8,4	8,3	8,3	8,3	8,3
CAPEX [PLN m]	-15,0	-7,2	-6,7	-6,8	-7,6	-7,9	-8,4	-8,3	-8,3	-8,3
Working capital movement [PLN m]	-2,3	-4,3	-4,8	-4,0	-3,2	-2,5	-2,0	-1,6	-1,2	-0,9
FCF [PLN m]	-1,7	6,6	8,0	9,8	10,1	10,8	11,1	11,8	12,3	12,7
DFCF [PLN m]	-1,6	5,5	6,0	6,5	6,0	5,8	5,3	5,0	4,6	4,2
Total DFCF [PLN m]	47,4									
Terminal value [PLN m]	111,9			*Terminal growth rate:*		*+1,0%*				
Discounted terminal value [PLN m]	37,2									
Enterprise value [PLN m]	84,6									
Net debt 2022 [PLN m]	13,9									
Equity value [PLN m]	**70,7**									
Number of shares [m]	9,6									
Value per share [PLN]	**7,35**									

WACC calculation

	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Risk-free rate	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%
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	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%
Contribution of equity	86,8%	88,2%	89,6%	91,4%	93,1%	94,9%	96,7%	98,3%	100,0%	100,0%
Cost of debt after tax	5,9%	5,9%	5,9%	5,9%	5,9%	5,9%	5,9%	5,9%	5,9%	5,9%
Contribution of debt	13,2%	11,8%	10,4%	8,6%	6,9%	5,1%	3,3%	1,7%	0,0%	0,0%
WACC	11,6%	11,7%	11,8%	11,9%	12,0%	12,2%	12,3%	12,4%	12,5%	12,5%

Source: Dom Maklerski BDM S.A.

DCF - sensivity analysis

		Terminal growth rate		
		0,00%	**1,00%**	**2,00%**
beta	**0,9**	7,55	7,95	8,44
	1,0	7,01	7,35	7,76
	1,1	6,52	6,81	7,16

		Terminal growth rate		
		0,00%	**1,00%**	**2,00%**
Risk premium	**6,0%**	7,42	7,81	8,27
	6,5%	7,01	7,35	7,76
	7,0%	6,63	6,93	7,30

		Beta		
		0,9	**1,0**	**1,1**
Risk premium	**6,0%**	8,41	7,81	7,26
	6,5%	7,95	7,35	6,81
	7,0%	7,53	6,93	6,41

Source: Dom Maklerski BDM S.A.

Peer valuation - Polish producers of building materials

	P/E			EV/EBITDA		
	2023F	**2024F**	**2025F**	**2023F**	**2024F**	**2025F**
Apator	12,0	7,9	6,6	5,7	4,5	4,0
Aplisens	10,0	8,2	7,1	5,5	4,5	3,8
Sonel	10,8	8,2	7,1	5,5	4,5	4,0
Median	**10,8**	**8,2**	**7,1**	**5,5**	**4,5**	**4,0**
Relpol	7,8	6,6	5,6	4,2	3,5	3,1
Premium/discount	-28,1%	-20,0%	-21,2%	-24,0%	-23,8%	-23,6%
Valuation [PLN/share]	8,54	7,67	7,79	8,61	8,47	8,35
Year's contribution	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]		**8,00**			**8,48**	
Multiple's contribution		50%			50%	
Value per share [PLN]	**8,24**					

Source: Dom Maklerski BDM S.A. BDM forecasts (based on WSE Exchange's Analytical Coverage Support Programme)

Peer valuation - foreign producers of construction chemicals

	P/E			EV/EBITDA		
	2023F	**2024F**	**2025F**	**2023F**	**2024F**	**2025F**
Hongfa	20,9	16,9	13,9	10,6	8,6	7,3
Median	**20,9**	**16,9**	**13,9**	**10,6**	**8,6**	**7,3**
Relpol	7,8	6,6	5,6	4,2	3,5	3,1
Premium/discount	-62,9%	-61,2%	-59,7%	-60,2%	-59,7%	-58,2%
Valuation [PLN/share]	16,54	15,83	15,23	17,98	17,21	16,11
Year's contribution	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]		**15,87**			**17,10**	
Multiple's contribution		50%			50%	
Value per share [PLN]	**16,48**					

Source: Dom Maklerski BDM S.A., Bloomberg

Main risks:

- Escalation of the war in Ukraine - shutdown of the Relpol Altera plant.
- High prices of strategic raw materials or problems with their availability.
- Decline in the EUR/PLN exchange rate - the company is a net exporter.
- Significant increase in labour, third-party services or energy costs.
- Technology risk - risk of increasing market share in SSR relays.
- Risk of losing major customers - company approx. 30% of sales to two strategic partners.
- Long operating cycle and high working capital requirements.
- Economic downturn.
- Competition from Chinese manufacturers.

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RESEARCH DEPARTMENT:

Maciej Bobrowski
Director
tel. (032) 208 14 12
e-mail: maciej.bobrowski@bdm.pl
strategy, industry, media/entertainment, TMT

Krzysztof Pado
Deputy Director
Investment Adviser
tel. (032) 208 14 35
e-mail: krzysztof.pado@bdm.pl
oil&gas, construction, building materials, real estate

Krzysztof Tkocz
Analyst
tel. (032) 208 14 38
e-mail: krzysztof.tkocz@bdm.pl
gaming

Anna Tobiasz
Junior analyst
Investment Adviser
tel. (032) 208 14 35
e-mail: anna.tobiasz@bdm.pl

INSTITUTIONAL SALES DEPARTMENT:

Leszek Mackiewicz
Director
tel. (022) 62-20-848
e-mail: leszek.mackiewicz@bdm.pl

Tomasz Ilczyszyn
tel. (022) 62-20-854
e-mail: tomasz.ilczyszyn@bdm.pl

Maciej Fink-Finowicki
tel. (022) 62-20-855
e-mail: maciej.fink-finowicki@bdm.pl

Piotr Komorowski
tel. (022) 62-20-851
e-mail: piotr.komorowski@bdm.pl

Ratings and price targets history:

rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
Buy	**8,03**	**Hold**	**5,62**	**16.05.2023***	**08:55 CET**	**6,14**	**63 691**
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	5,4	57 168
Buy	16,5	---	---	30.08.2021*	7:00 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 between 2021 to 05.2022 was Krystian Brymora
-- the author of the reports on Relpol between 10.2022 to 12.2022 was Kajetan Sroczyński

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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

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).

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.

Distribution of BDM's recommendations in 2Q'23*:			, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months	
	numbers	%	numbers	%
Buy	5	63%	0	0%
Accumulate	1	13%	0	0%
Hold	2	25%	0	0%
Reduce	0	0%	0	0%
Sell	0	8%	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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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.
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