



Dom Maklerski BDM S.A.

RELPOL

ANALYTICAL REPORT - SUMMARY

Relpol's Q1'23 results were record-breaking and, in our view, were also one of the biggest positive surprises among industrial companies on the WSE. As we indicated in our previous analyst report, after a challenging 2022, Relpol has now entered a period of earnings recovery. The company has managed to stabilise on the production side in recent months and the pressure on the cost side has become less noticeable. The company is benefiting from the good situation in the RES area (mainly Germany) and has managed to close the sales gap after the Russian market. The Q1'23 results are a basis for raising our assumptions (the EBITDA'23 forecast from the previous analyst report after Q1'23 was already half realised). The earnings base for the following quarters is not demanding, but we believe Q1'23 alone will be difficult to repeat due to PLN appreciation vs. the EUR, price competition from Asian suppliers, and weakness in the German industry. At the same time, we emphasise that in the medium term the company is well positioned in the idea of nearshoring and energy transformation. Our forecasts imply that the company is trading at EV/EBITDA'23=4.2x, P/E'23=6.2x. After updating our forecasts in the model, we now set our target price at PLN 10.48, which implies reiterating our Buy recommendation. Relpol's Q1'23 EBITDA doubled y/y (PLN 9.0m vs. PLN 4.7m a year ago). The company showed strong export growth (Germany: +42% y/y) and gross margin returned >20% for the first time since 2021. We can look critically mainly at working capital (operating cash flow: PLN -6.9m), although the receivables turnover ratio was better than after Q1'22.

The company indicated in the quarterly report that the order backlog, for some product groups related to the energy transition, is filled several months ahead, and some customers are already placing orders for 2024. We note that the company has increased its capacity potential in 2022 by commissioning an automated line for the assembly of this product group. Management also points to the stabilisation of raw material and material costs.

The Q1'23 results prompt us to raise our annual assumptions. We now assume the company will generate PLN 180m revenue, PLN 25.5m EBITDA and PLN 13.7m net profit in 2023 (9%/43%/81% higher than previously, respectively). The company is continuing its investment program, the main investment is a line for the production of bistable relays for industry, which should be handed over at the end of 2023. We assume PLN 15m CAPEX (after subsidies) in 2023.

At the same time, we emphasise that the risk for the company is a possible further strengthening of the PLN vs. the EUR (exports account for more than two-thirds of revenues, the surplus over currency costs is about EUR 8m). In addition, the weakening of the USD increases the competitiveness of Chinese supplies. Indicators continue to point to a rather weak economic situation in German industry (the company's main sales direction), which may translate into price pressure from large customers.

	2020	2021	2022	2023F	2024F	2025F
Sales [PLN m]	121,0	133,6	151,0	180,3	189,8	199,1
Gross profit [PLN m]	23,8	27,7	24,2	38,8	38,7	40,6
SG&A costs [PLN m]	16,9	18,2	17,2	20,1	21,4	22,5
Profit on sales [PLN m]	6,9	9,5	6,9	18,6	17,3	18,1
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	25,5	25,7	26,9
EBIT [PLN m]	9,2	9,2	6,0	18,6	17,3	18,1
Profit before tax [PLN m]	10,1	8,4	2,8	17,3	16,0	17,2
Net profit [PLN m]	7,7	6,6	1,2	13,7	12,6	13,6
Net debt [PLN m]	-0,2	4,8	13,9	21,3	18,5	14,0
P/BV	1,0	0,9	0,9	0,8	0,7	0,7
P/E	11,1	13,0	68,5	6,2	6,8	6,3
EV/EBITDA	5,3	5,7	7,8	4,2	4,1	3,7
EV/EBIT	5,3	5,7	7,8	4,2	4,1	3,7

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 10,48 PLN

9th JUNE 2023, 10:50 CEST

DCF valuation [PLN]	9,49
Peer valuation [PLN]	14,42
Target price [PLN]	10,48
Price upside/downside	18%
Cost of capital	12,5%
Price [PLN]	8,90
Market cap [PLNm]	85,5
No. of shares [mn]	9,6
Max. price 6M [PLN]	8,90
Min. price 6m [PLN]	5,60
Rate of return 3M	32,4%
Rate of return 6M	55,1%
Rate of return 9M	56,7%
Shareholders (% of votes):	
Adam Ambroziak	33,0%
Piotr Osiński	10,8%
Pozostali	56,2%

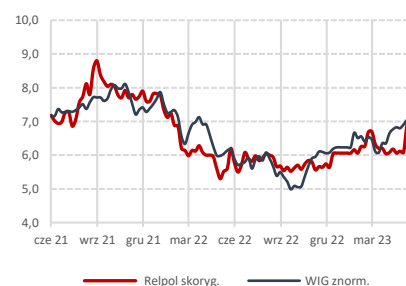
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Valuation summary

	Share	Valuation
DCF valuation	80%	9,49
Peer valuation:	20%	14,42
- Polish companies	70%	11,75
- foreign companies	30%	20,67
Target price [PLN]		10,48

Source: Dom Maklerski BDM S.A.

DCF valuation

	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Revenues [PLN m]	180,3	189,8	199,1	206,6	212,6	217,3	220,9	223,8	226,0	227,7
EBIT [PLN m]	18,6	17,3	18,1	18,7	19,2	19,7	20,1	20,4	20,7	20,9
Tax rate	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%
Tax on EBIT [PLN m]	3,8	3,6	3,8	3,9	4,0	4,1	4,2	4,3	4,3	4,4
NOPLAT [PLN m]	14,8	13,6	14,3	14,7	15,2	15,5	15,9	16,1	16,3	16,5
Amortization [PLN m]	6,9	8,4	8,8	8,7	8,5	8,4	8,4	8,4	8,4	8,4
CAPEX [PLN m]	-15,0	-10,0	-8,0	-7,1	-7,8	-8,1	-8,4	-8,4	-8,4	-8,4
Working capital movement [PLN m]	-13,3	-3,7	-3,7	-3,0	-2,3	-1,8	-1,4	-1,1	-0,9	-0,7
FCF [PLN m]	-6,6	8,3	11,4	13,4	13,5	14,1	14,4	15,0	15,5	15,8
DFCF [PLN m]	-6,2	7,0	8,6	9,0	8,1	7,5	6,9	6,4	5,8	5,3
Total DFCF [PLN m]	58,4									
Terminal value [PLN m]	139,1									
Discounted terminal value [PLN m]	46,7									
Enterprise value [PLN m]	105,1									
Net debt 2022 [PLN m]	13,9									
Equity value [PLN m]	91,2									
Number of shares [m]	9,6									
Value per share [PLN]	9,49									

Terminal growth rate: +1,0%

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	86,0%	87,5%	88,9%	90,6%	92,3%	94,1%	96,3%	98,4%	100,0%	100,0%
Cost of debt after tax	6,0%	5,9%	5,9%	5,9%	5,9%	5,9%	5,9%	5,9%	5,9%	5,9%
Contribution of debt	14,0%	12,5%	11,1%	9,4%	7,7%	5,9%	3,7%	1,6%	0,0%	0,0%
WACC	11,6%	11,7%	11,8%	11,9%	12,0%	12,1%	12,3%	12,4%	12,5%	12,5%

Source: Dom Maklerski BDM S.A.

DCF - sensitivity analysis

	Terminal growth rate					Terminal growth rate					Beta			
	0,00%	1,00%	2,00%			0,00%	1,00%	2,00%			0,9	1,0	1,1	
beta	0,9	9,74	10,25	10,86	Risk premium	6,0%	9,58	10,07	10,65	Risk premium	6,0%	10,83	10,07	9,39
	1,0	9,06	9,49	10,01		6,5%	9,06	9,49	10,01		6,5%	10,25	9,49	8,82
	1,1	8,45	8,82	9,26		7,0%	8,59	8,97	9,43		7,0%	9,72	8,97	8,31

Source: Dom Maklerski BDM S.A.

Peer valuation - Polish producers of building materials

	P/E			EV/EBITDA		
	2023F	2024F	2025F	2023F	2024F	2025F
Apator	12,9	8,4	7,0	6,0	4,8	4,2
Aplisens	10,6	8,6	7,5	5,9	4,8	4,1
Sonel	10,6	8,5	7,0	5,9	4,8	4,1
Median	10,6	8,5	7,0	5,9	4,8	4,1
Relpol	6,2	6,8	6,3	4,2	4,1	3,7
Premium/discount	-41,0%	-20,5%	-10,2%	-29,0%	-15,1%	-9,7%
Valuation [PLN/share]	15,09	11,20	9,91	13,44	10,83	10,02
Year's contribution	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]		12,07			11,43	
Multiple's contribution		50%			50%	
Value per share [PLN]		11,75				

Peer valuation - foreign producers of construction chemicals

	P/E			EV/EBITDA		
	2023F	2024F	2025F	2023F	2024F	2025F
Hongfa	18,9	15,3	12,7	9,6	7,7	6,6
Median	18,9	15,3	12,7	9,6	7,7	6,6
Relpol	6,2	6,8	6,3	4,2	4,1	3,7
Premium/discount	-67,1%	-55,7%	-50,2%	-56,3%	-47,6%	-43,9%
Valuation [PLN/share]	27,04	20,10	17,88	23,23	18,74	17,01
Year's contribution	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]		21,67			19,66	
Multiple's contribution		50%			50%	
Value per share [PLN]		20,67				

Source: Dom Maklerski BDM S.A., Bloomberg

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

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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Ratings and price targets history:

rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
Buy	10,48	Buy	8,03	9.06.2023*	10:50 CET	8,90	66 513
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 Sroczynski

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'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	9	60%	0	0%
Accumulate	2	13%	0	0%
Hold	4	27%	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 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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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.

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Each of the above-mentioned persons could carry out transaction relating to the financial instruments concerned prior to this publication. At the same time, however, the instruments concerned are entered in the restrictive list for employees of the Analysis Department immediately at the start of work on the report.

We have not identified significant conflicts of interest between BDM and persons associated with BDM and the financial instrument issuer. If a conflict of interest arises BDM shall manage it by applying the principles defined in the “Policy of management of conflicts of interest at the BDM S.A.”. We point out that as for 9.06.2023:

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