



Dom Maklerski BDM S.A.

## RELPOL

### ANALYTICAL REPORT - SUMMARY

After a great start to 2023, Relpol's outlook weakened with each quarter. The company was clearly affected by the economic slowdown in Europe (especially in German industry). The Q4'23 period, in our opinion, will not bring an earnings breakthrough and may even show a deepening of negative trends. In the company's opinion, an improvement is expected at the turn of Q1/2'24 at the earliest. Relpol's hopes are pinned on, among other things, the unblocking of funds for the green transition or investments in the modernisation of the energy sector. The company also counts on a reduction in customer inventories, which should generate new orders. At the same time, the first half of the year is usually a seasonally important period for the company, so weakness in this period could affect results for the whole of 2024. Given that the results will be dragged down by the high base from 1H'23, the whole of 2024 may bring a deterioration in the underlying operating results on a y/y basis (excluding one-offs). At the same time, we emphasise that in the medium term the company is well positioned in the idea of nearshoring and energy transformation, and will have expanded capacity in the 2024-25 timeframe. Having updated our model (revising downwards our expectations for 2023 as well as 2024), we now set our target price at PLN 7.42, which implies staying with our Hold recommendation. In Q1-3'23, revenue amounted to PLN 132m (+16% y/y), and net profit amounted to PLN 7.1m (+887% y/y), but as much as 81% of the net profit came from Q1'23 alone. In Q4'23, we assume PLN 32.4m revenue (-13% y/y, similar to Q3'23), PLN 2.0m reported EBITDA, and PLN 0m net profit. In Q4'23, the Company had to contend with an unfavorable EUR/PLN exchange rate, and Q4 is seasonally weak due to low real working days in December. At this point, it is not until 2024 that we assume a partial reversal of ca. PLN 1.7m of the Q3'23 R&D charge (NCBiR's verification of grant settlement is delayed).

Due to the high share of exports, the company is negatively affected by the strengthening trend of the PLN. A significant increase in the minimum wage at the beginning of the year simultaneously increases wage pressure (in subsequent periods, this aspect should be neutralised by the increase in automation, following the commissioning of a line for the production of bistable relays for industry in Q1'24).

At the same time the potential for product price increases in the current environment is exhausted, the macro situation may translate into price pressure from large customers (official wholesale price lists from the company's website remain unchanged from the beginning of 2023). Of the positive aspects in the company's environment, we highlight the decrease in pressure on the material cost side and the stopping of the CNY weakening trend (competitiveness of Chinese supplies).

We believe that a more sustained improvement in European, and especially German, industrial sentiment may be necessary to improve sentiment towards the company. The latest PMI readings show some improvement towards mid-2023, but are still below 50 points. Recent results from ABB (one of the company's main customers) showed that Q4'23 was another quarter of declining orders in the German market (-17% y-o-y, with -5% for the European market as a whole). Meanwhile, global new order inflows declined for another consecutive quarter after an excellent Q1'23.

We currently project the company to generate PLN 164m revenue, PLN 15.6m EBITDA and PLN 7.1m net profit in 2023. In 2024, we expect PLN 148/ 17.1/ 6.4m respectively (including a PLN 1.7m positive impact on EBITDA from the final settlement of subsidies). We expect a more significant improvement in earnings in 2025 (chance of overlap between the industry rebound, the company's capacity increase and progressive nearshoring)

	2020	2021	2022	2023F	2024F	2025F
Sales [PLN m]	121,0	133,6	151,0	164,1	148,4	169,0
Gross profit [PLN m]	23,8	27,7	24,2	33,1	27,0	34,6
SG&A costs [PLN m]	16,9	18,2	17,2	19,5	19,3	20,2
Profit on sales [PLN m]	6,9	9,5	6,9	13,6	7,8	14,3
Other operating activity net [PLN m]	2,4	-0,3	-1,0	-4,1	1,7	0,0
EBITDA [PLN m]	16,2	15,9	12,7	15,6	17,1	22,3
EBIT [PLN m]	9,2	9,2	6,0	9,5	9,5	14,3
Profit before tax [PLN m]	10,1	8,4	2,8	8,6	8,0	13,8
Net profit [PLN m]	7,7	6,6	1,2	7,1	6,4	11,0
Net debt [PLN m]	-0,2	4,8	13,9	19,3	7,2	4,7
P/BV	0,8	0,7	0,7	0,7	0,6	0,6
P/E	8,8	10,4	54,6	9,6	10,7	6,2
EV/EBITDA	4,2	4,6	6,5	5,6	4,4	3,3
EV/EBIT	7,4	8,0	13,7	9,2	8,0	5,1

# HOLD

(PREVIOUS: HOLD)

**TARGET PRICE 7,42 PLN**

5th FEBRUARY 2024, 14:30 CEST

DCF valuation [PLN]	6,83
Peer valuation [PLN]	9,77
Target price [PLN]	<b>7,42</b>
Price upside/downside	<b>4,5%</b>
Cost of capital	14,8%
Price [PLN]	7,10
Market cap [PLNm]	68,2
No. of shares [mn]	9,6
Max. price 6M [PLN]	8,84
Min. price 6m [PLN]	6,84
Rate of return 3M	-5,8%
Rate of return 6M	-12,3%
Rate of return 9M	16,0%
Shareholders (% of votes):	
Adam Ambroziak	33,0%
Piotr Osiński	10,8%
Pozostali	56,2%

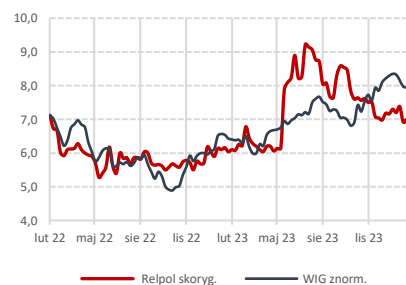
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**Valuation summary**

	Share	Valuation
<b>DCF valuation</b>	<b>80%</b>	<b>6,83</b>
<b>Peer valuation:</b>	<b>20%</b>	<b>9,77</b>
- Polish companies	70%	9,10
- foreign companies	30%	11,34
<b>Target price [PLN]</b>		<b>7,42</b>

Source: Dom Maklerski BDM S.A.

**DCF valuation**

	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F
Revenues [PLN m]	148,4	169,0	186,7	201,5	211,1	217,2	221,0	223,2	224,6	225,7
EBIT [PLN m]	9,5	14,3	15,8	17,0	17,7	18,2	18,5	18,7	18,8	18,9
Tax rate	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Tax on EBIT [PLN m]	1,9	2,9	3,2	3,4	3,5	3,6	3,7	3,7	3,8	3,8
NOPLAT [PLN m]	7,6	11,5	12,6	13,6	14,2	14,6	14,8	14,9	15,0	15,1
Amortization [PLN m]	7,6	8,0	7,8	7,7	7,6	7,6	7,6	7,6	7,6	7,6
CAPEX [PLN m]	-7,0	-6,5	-6,4	-7,0	-7,3	-7,6	-7,6	-7,6	-7,6	-7,6
Working capital movement [PLN m]	5,3	-8,1	-7,0	-5,8	-3,8	-2,4	-1,5	-0,9	-0,5	-0,4
FCF [PLN m]	13,5	4,8	7,0	8,4	10,7	12,2	13,3	14,0	14,5	14,7
DCCF [PLN m]	12,0	3,8	4,9	5,1	5,7	5,7	5,4	5,0	4,5	4,0
Total DCCF [PLN m]	55,9									
Terminal value [PLN m]	107,7									
Discounted terminal value [PLN m]	29,0									
Enterprise value [PLN m]	85,0									
Net debt 2023F [PLN m]	19,3									
<b>Equity value [PLN m]</b>	<b>65,6</b>									
Number of shares [m]	9,6									
<b>Value per share [PLN]</b>	<b>6,83</b>									

Terminal growth rate: +1,0%

**WACC calculation**

	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F
Risk-free rate	5,25%	5,25%	5,25%	5,25%	5,25%	5,25%	5,25%	5,25%	5,25%	5,25%
Risk premium	9,5%	9,5%	9,5%	9,5%	9,5%	9,5%	9,5%	9,5%	9,5%	9,5%
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	14,8%	14,8%	14,8%	14,8%	14,8%	14,8%	14,8%	14,8%	14,8%	14,8%
Contribution of equity	86,3%	88,0%	89,4%	90,5%	92,2%	94,1%	96,3%	98,3%	100,0%	100,0%
Cost of debt after tax	5,4%	5,4%	5,4%	5,4%	5,4%	5,4%	5,4%	5,4%	5,4%	5,4%
Contribution of debt	13,7%	12,0%	10,6%	9,5%	7,8%	5,9%	3,7%	1,7%	0,0%	0,0%
<b>WACC</b>	<b>13,5%</b>	<b>13,6%</b>	<b>13,8%</b>	<b>13,9%</b>	<b>14,0%</b>	<b>14,2%</b>	<b>14,4%</b>	<b>14,6%</b>	<b>14,8%</b>	<b>14,8%</b>

Source: Dom Maklerski BDM S.A.

**DCF - sensitivity analysis**

	Terminal growth rate					Terminal growth rate					Beta			
	0,9	0,00%	1,00%	2,00%		0,00%	1,00%	2,00%	0,9		1,0	1,1		
<b>beta</b>	0,9	7,25	7,54	7,87	Risk premium	8,5%	7,29	7,58	7,92	Risk premium	8,5%	8,31	7,58	6,94
	1,0	6,60	6,83	7,10		9,5%	6,60	6,83	7,10		9,5%	7,54	6,83	6,22
	1,1	6,03	6,22	6,44		10,5%	6,00	6,19	6,41		10,5%	6,87	6,19	5,61

Source: Dom Maklerski BDM S.A.

**Peer valuation - Polish producers of building materials**

	P/E			EV/EBITDA		
	2024F	2025F	2026F	2024F	2025F	2026F
Apator	10,7	7,8	7,6	5,5	4,5	4,3
Aplisens	6,8	6,6	6,4	4,3	4,0	3,8
Sonel	10,7	7,8	7,6	5,5	4,5	4,3
<b>Median</b>	<b>10,7</b>	<b>7,8</b>	<b>7,6</b>	<b>5,5</b>	<b>4,5</b>	<b>4,3</b>
Relpol	10,7	6,2	5,6	4,4	3,3	3,0
Premium/discount	-0,3%	-20,3%	-25,5%	-19,3%	-26,9%	-29,1%
<b>Valuation [PLN/share]</b>	<b>7,12</b>	<b>8,90</b>	<b>9,53</b>	<b>8,97</b>	<b>9,89</b>	<b>10,16</b>
Year's contribution	33%	33%	33%	33%	33%	33%
<b>Average valuation [PLN/share]</b>		<b>8,52</b>		<b>9,68</b>		
Multiple's contribution		50%		50%		
<b>Value per share [PLN]</b>		<b>9,10</b>				

**Peer valuation - foreign producers of construction chemicals**

	P/E			EV/EBITDA		
	2024F	2025F	2026F	2024F	2025F	2026F
Hongfa	13,2	11,2	10,1	6,4	5,4	4,7
<b>Median</b>	<b>13,2</b>	<b>11,2</b>	<b>10,1</b>	<b>6,4</b>	<b>5,4</b>	<b>4,7</b>
Relpol	10,7	6,2	5,6	4,4	3,3	3,0
Premium/discount	-18,8%	-44,6%	-44,3%	-30,5%	-39,0%	-35,6%
<b>Valuation [PLN/share]</b>	<b>8,74</b>	<b>12,82</b>	<b>12,75</b>	<b>10,55</b>	<b>11,94</b>	<b>11,24</b>
Year's contribution	33%	33%	33%	33%	33%	33%
<b>Average valuation [PLN/share]</b>		<b>11,44</b>		<b>11,24</b>		
Multiple's contribution		50%		50%		
<b>Value per share [PLN]</b>		<b>11,34</b>				

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.

	2021	2022	2023F	2024F	2025F	2026F
EPS, Adj+	0,68	0,13	0,74	0,66	1,15	1,26
Revenue	133,6	151,0	164,1	148,4	169,0	186,7
Gross Margin %	20,7%	16,0%	20,2%	18,2%	20,4%	20,5%
EBIT	9,2	6,0	9,5	9,5	14,3	15,8
EBITDA	15,9	12,7	15,6	17,1	22,3	23,6
Net Income Adj+	6,6	1,2	7,1	6,4	11,0	12,1
Net Debt	4,8	13,9	19,3	7,2	4,7	3,5
BPS	9,8	10,0	10,8	11,4	12,4	13,1
DPS	0,0	0,0	0,0	0,0	0,2	0,6
Return on Equity %	6,9%	1,3%	6,8%	5,8%	9,3%	9,6%
Return on Assets %	5,2%	0,9%	4,7%	4,2%	6,7%	7,1%
Depreciation	5,6	5,6	5,0	6,4	6,7	6,5
Amortization	1,2	1,1	1,2	1,2	1,3	1,3
Free Cash Flow	-5,8	-14,0	-4,8	12,8	5,2	7,3
CAPEX	14,3	11,9	15,0	7,0	6,5	6,4

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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>Hold</b>	<b>7,42</b>	<b>Hold</b>	<b>8.62</b>	<b>05.02.2024*</b>	<b>15:00 CET</b>	<b>7,10</b>	<b>80 119</b>
Hold	8,62	Buy	10,48	26.09.2023*	12:20 CET	8,52	65 687
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 Reipol between 2021 to 05.2022 was Krystian Brymora

-- the author of the reports on Reipol 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 1Q'24*:			, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months	
	numbers	%	numbers	%
Buy	6	46%	0	0%
Accumulate	3	23%	0	0%
Hold	2	15%	0	0%
Reduce	2	15%	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>

**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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