



Dom Maklerski BDM S.A.

RELPOL

ANALYTICAL REPORT - SUMMARY

Relpol had a great start to last year, but the economic situation started to weaken from Q2'23. According to preliminary results, the company recorded an operating loss in Q1'24. The management has taken optimisation measures and is signalling a slight upturn in the form of an increase in new orders. However, the portfolio horizon remains short. The company is now faced with the challenge of securing new markets and customers, following the completion of a key investment project to increase production capacity. The weak results and the slippage of management's expectations for an upturn prompt us to revise our forecasts downwards. Following the model update, we now set our target price at PLN 6.25, which implies staying with our Hold recommendation.

Recent results

In 2023, the company generated revenue of PLN 159.5bn (+6% y/y) and net profit of PLN 8.6m (including PLN 9.2m in 1H'23). In Q4'23 alone, revenue amounted to PLN 27.8m (-26% y/y), and net profit amounted to PLN 1.5m (with the release of a portion of Q3'23 write-off for R&D following a grant settlement responsible for +1.8m at the EBIT level). The company has already reported preliminary Q1'24 standalone results (full report on 22 May, consolidated results not expected to be materially different). Revenues fell 42%, and the net loss was PLN -1.9m (vs. PLN 4.9m profit in Q1'23). The scale of the revenue decline was already signalled by the Management Board in February, and the net loss is larger than we had anticipated in the latest quarterly forecasts.

Segmental positioning

The company is a manufacturer of electromagnetic relays (mainly for industry, power generation, broad construction and high-current applications in RES/EV). A relay is a device that opens and closes an electrical circuit to affect the operation of other devices (applications e.g. for control equipment, time relays, temperature control). Relpol's business is largely based on exports (mainly to German customers). In the medium term, the company is well positioned in the idea of nearshoring and energy transformation.

Competition

The current year has been a challenging one for the company due to a period of lower order books and the continuing economic slowdown. The company also points to rising costs (including wages, linked to the increase in the minimum wage). At the same time, the Management Board points out that since H2'23, the price pressure of the competition has intensified and the company has been negatively affected by the strengthening trend of the PLN. Management has taken a number of cost-cutting measures (e.g. negotiations with suppliers, reduction of inventories, transferring further labour-intensive processes to the factory in Ukraine). The Management Board sees indications that the situation will improve in the coming months. At the same time, the order book horizon remains short. The aim for the company this year is to win new customers in existing and new markets for the built-up production potential. The management points out that it has recently succeeded in securing new projects from the Middle East (Saudi Arabia, UAE). The company is counting on the economic recovery in 2H'24 in Europe and the impact of KPO funds on the Polish market.

We believe that a more sustained improvement in sentiment in European, and especially German, industry 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 Q1'24 was another quarter of declining orders in the German market (-9% y/y). In contrast, global new order inflows were seasonally higher q/q but declined y/y.

Forecasts, ratios

We currently assume that the company will generate PLN 133m in revenue, PLN 8.6m in EBITDA and PLN 0.1m in net profit in 2024. In 2025 and 2026, we expect an improving macro environment and a sharp increase in capacity utilisation (we currently estimate capacity utilisation at about half), which translates to PLN 152/ 15.8/ 6.2m in 2025 and PLN 178/ 20.0/ 9.9m in 2026, respectively. Our forecasts imply EV/EBITDA'24=8.4x, '25=4.5x. Current capitalisation is PLN 60m, which corresponds to the company's CAPEX for the last five years (net debt after Q4'23=PLN 24m - we expect a decline in 2024 due to working capital optimisation and no major capex).

	2021	2022	2023	2024F	2025F	2026F
Sales [PLN m]	133,6	151,0	159,5	133,0	151,6	178,2
Gross profit [PLN m]	27,7	24,2	32,4	21,0	29,0	34,5
SG&A costs [PLN m]	18,2	17,2	19,5	19,2	20,1	21,3
Profit on sales [PLN m]	9,5	6,9	12,9	1,7	8,9	13,2
Other operating activity net [PLN m]	-0,3	-1,0	-1,8	-0,1	0,0	-0,1
EBITDA [PLN m]	15,9	12,7	17,2	8,6	15,8	20,0
EBIT [PLN m]	9,2	6,0	11,1	1,7	8,9	13,1
Profit before tax [PLN m]	8,4	2,8	10,0	0,2	7,8	12,4
Net profit [PLN m]	6,6	1,2	8,6	0,1	6,2	9,9
Net debt [PLN m]	4,8	13,9	23,7	12,7	11,2	13,3
P/BV	0,6	0,6	0,6	0,6	0,5	0,5
P/E	9,1	47,7	6,9	506,6	9,6	6,0
EV/EBITDA	4,0	5,8	4,8	8,4	4,5	3,7
EV/EBIT	7,0	12,3	7,5	43,0	8,0	5,5

HOLD

(PREVIOUS: HOLD)

TARGET PRICE 6,25 PLN

20th MAY 2024, 14:00 CEST

DCF valuation [PLN]	5,65
Peer valuation [PLN]	8,62
Target price [PLN]	6,25
Price upside/downside	0,7%
Cost of capital	15,2%
Price [PLN]	6,20
Market cap [PLNm]	59,6
No. of shares [mn]	9,6
Max. price 6M [PLN]	7,42
Min. price 6m [PLN]	6,06
Rate of return 3M	-7,2%
Rate of return 6M	-12,4%
Rate of return 9M	-21,5%
Shareholders (% of votes):	
Adam Ambroziak	33,0%
Piotr Osiński	10,8%
Others	56,2%

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Valuation summary

	Share	Valuation
DCF valuation	80%	5,65
Peer valuation:	20%	8,62
- Polish companies	70%	6,93
- foreign companies	30%	12,57
Target price [PLN]		6,25

Source: Dom Maklerski BDM S.A.

DCF valuation

	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F
Revenues [PLN m]	133,0	151,6	178,2	193,9	202,4	206,9	209,2	211,5	213,8	216,2
EBIT [PLN m]	1,7	8,9	13,1	15,5	17,1	17,9	18,6	18,8	19,0	19,2
Tax rate	33%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Tax on EBIT [PLN m]	0,6	1,8	2,6	3,1	3,4	3,6	3,7	3,8	3,8	3,8
NOPLAT [PLN m]	1,1	7,1	10,5	12,4	13,7	14,3	14,9	15,0	15,2	15,3
Amortization [PLN m]	6,9	6,9	6,8	6,7	6,7	6,7	6,7	6,7	6,7	6,7
CAPEX [PLN m]	-5,0	-6,5	-5,5	-6,1	-6,4	-6,7	-6,7	-6,7	-6,7	-6,7
Working capital movement [PLN m]	9,2	-5,3	-10,4	-6,2	-3,4	-1,8	-0,9	-0,9	-0,9	-0,9
FCF [PLN m]	12,2	2,3	1,3	6,8	10,6	12,6	14,0	14,1	14,3	14,4
DCCF [PLN m]	11,3	1,8	1,0	4,3	5,8	6,0	5,8	5,1	4,5	4,0
Total DCCF [PLN m]	49,7									
Terminal value [PLN m]	102,8									
Discounted terminal value [PLN m]	28,2									
Enterprise value [PLN m]	78,0									
Net debt 2023 [PLN m]	23,7									
Equity value [PLN m]	54,3									
Number of shares [m]	9,6									
Value per share [PLN]	5,65									

Terminal growth rate: +1,0%

WACC calculation

	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F
Risk-free rate	5,65%	5,65%	5,65%	5,65%	5,65%	5,65%	5,65%	5,65%	5,65%	5,65%
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	15,2%	15,2%	15,2%	15,2%	15,2%	15,2%	15,2%	15,2%	15,2%	15,2%
Contribution of equity	83,2%	85,0%	86,8%	88,0%	90,0%	92,0%	94,8%	97,1%	99,4%	100,0%
Cost of debt after tax	4,8%	5,7%	5,7%	5,7%	5,7%	5,7%	5,7%	5,7%	5,7%	5,7%
Contribution of debt	16,8%	15,0%	13,2%	12,0%	10,0%	8,0%	5,2%	2,9%	0,6%	0,0%
WACC	13,4%	13,7%	13,9%	14,0%	14,2%	14,4%	14,7%	14,9%	15,1%	15,2%

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		
beta	0,9	6,03	6,30	6,61	Risk premium	8,5%	6,06	6,33	6,65	Risk premium	8,5%	7,01	6,33	5,75
	1,0	5,43	5,65	5,91		9,5%	5,43	5,65	5,91		9,5%	6,30	5,65	5,09
	1,1	4,91	5,09	5,30		10,5%	4,88	5,06	5,27		10,5%	5,68	5,06	4,53

Source: Dom Maklerski BDM S.A.

Peer valuation - Polish producers of building materials

	P/E			EV/EBITDA		
	2024F	2025F	2026F	2024F	2025F	2026F
Apator	9,7	7,8	8,6	4,9	4,3	4,5
Aplisens	9,0	7,6	7,3	5,0	4,1	3,8
Sonel	9,7	7,8	8,6	5,0	4,3	4,5
Median	9,7	7,8	8,6	5,0	4,3	4,5
Relpol	506,6	9,6	6,0	8,4	4,5	3,7
Premium/discount	5138,5%	23,4%	-30,1%	68,8%	5,0%	-19,0%
Valuation [PLN/share]	0,12	5,03	8,87	3,13	5,85	7,97
Year's contribution	0%	50%	50%	0%	50%	50%
Average valuation [PLN/share]		6,95			6,91	
Multiple's contribution		50%			50%	
Value per share [PLN]		6,93				

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.

Peer valuation - foreign producers of construction chemicals

	P/E			EV/EBITDA		
	2024F	2025F	2026F	2024F	2025F	2026F
Hongfa	19,4	16,7	14,6	8,9	7,7	6,9
Median	19,4	16,7	14,6	8,9	7,7	6,9
Relpol	506,6	9,6	6,0	8,4	4,5	3,7
Premium/discount	2512,4%	-42,5%	-58,8%	-4,8%	-42,2%	-46,8%
Valuation [PLN/share]	0,24	10,79	15,07	6,58	11,57	12,86
Year's contribution	0%	50%	50%	0%	50%	50%
Average valuation [PLN/share]		12,93			12,22	
Multiple's contribution		50%			50%	
Value per share [PLN]		12,57				

Source: Dom Maklerski BDM S.A., Bloomberg

	2021	2022	2023	2024F	2025F	2026F
EPS, Adj+	0,68	0,13	0,89	0,01	0,65	1,03
Revenue	133,6	151,0	159,5	133,0	151,6	178,2
Gross Margin %	20,7%	16,0%	20,3%	15,8%	19,2%	19,4%
EBIT	9,2	6,0	11,1	1,7	8,9	13,1
EBITDA	15,9	12,7	17,2	8,6	15,8	20,0
Net Income Adj+	6,6	1,2	8,6	0,1	6,2	9,9
Net Debt	4,8	13,9	23,7	12,7	11,2	13,3
BPS	9,8	10,0	10,9	10,9	11,5	12,2
DPS	0,0	0,0	0,0	0,0	0,0	0,3
Return on Equity %	6,9%	1,3%	8,2%	0,1%	5,6%	8,4%
Return on Assets %	5,2%	0,9%	5,9%	0,1%	4,1%	6,3%
Depreciation	5,6	5,6	5,5	5,8	5,8	5,7
Amortization	1,2	1,1	0,6	1,1	1,1	1,1
Free Cash Flow	-5,8	-14,0	-14,0	11,7	2,2	1,7
CAPEX	14,3	11,9	15,5	5,0	6,5	5,5

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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	6,25	Hold	7,42	20.05.2024*	14:00 CEST	6,20	89 376
Hold	7,42	Hold	8,62	05.02.2024*	14:30 CET	7,10	80 119
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 RePol between 2021 to 05.2022 was Krystian Brymora

-- the author of the reports on RePol 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.
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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 2Q'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	43%	0	0%
Accumulate	3	21%	0	0%
Hold	3	21%	0	0%
Reduce	2	14%	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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BDM is not obliged to take any actions which could cause financial instruments that are the subject of the valuation contained in this document to be valued by the market in accordance with the valuation contained in this document.

The investor should assume that BDM employees or proxies or shareholders may hold long or short positions in the issuer’s shares or other financial instruments related to the issuer’s shares; this particularly concerns the situation of holding not more than 5% of the capital, and they may also carry out transactions on them as proxies.

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 20.05.2024:

- BDM states and assures that BDM is involved financially in financial instruments of the Issuer.
- BDM is not a holder of net long or short positions exceeding the threshold of 0,5 % of the total issued share capital of the issuer,
- The person that participated in preparing recommendation is not a holder of net long or short positions exceeding the threshold of 0,5 % of the total issued share capital of the issuer,
- The issuer does not hold shares exceeding 5 % of the BDM issued share capital,
- BDM is not a market maker or liquidity provider in the financial instruments of the issuer,
- BDM has not been lead manager or co-lead manager over the previous 12 months of any publicly disclosed offer of financial instruments of the issuer;
- BDM is not a party to an agreement with the issuer relating to the provision of investment banking services pursuant to art. 69 §2 and 4 of the Act on Trading in Financial Instruments dated 25th July 2005,
- BDM is not a party to an agreement with the issuer relating to the provision of investment banking services pursuant to section A and B od Annex I to the Directive 2014/65/EU of the European Parliament and of the Council (hereinafter the Directive 2014/65/EU),
- BDM is not a party to an agreement with the issuer relating to the production of the recommendation,
- There is other significant financial interest that BDM or its related affiliates have in relation to the issuer of financial instruments*
- There are no significant connections between BDM or its related affiliates and the issuer of financial instruments,
- The person affiliated with BDM who was involved in the preparation of recommendations did not receive or purchase the shares of the issuer, to whom the recommendation relates directly or indirectly, prior to public offering of such shares,
- 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,
- The person affiliated with BDM who was involved in the preparation of recommendations was not rewarded in any form by the issuer, to whom the recommendation relates directly or indirectly, or was not directly connected with any possible transactions concerning services defined in art. 69 §2 and 4 of the Act on Trading in Financial Instruments dated 25th July 2005.

*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 should 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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This document is a summary of a full version of the report prepared in Polish. In case of any disputes the Polish version shall prevail.