

RELPOL

ANALYTICAL REPORT - SUMMARY

We are starting our recommendation for Relpol with a BUY rating and a target price of PLN 16,5 per share that is 111% above the current market price. The company with over 60 years of tradition is one of the three largest European manufacturers of electromagnetic relays used mainly in industrial automation, professional energy or renewable energy (relays for solar inverters). The industries account for approx. 70% of the company's sales and have good development prospects on the beginning of a wide-ranging energy transformation. Currently, the company is undergoing a large program aimed at increasing sales by nearly 50% (over PLN 180 million) and efficiency by 2026.

Relpol is a manufacturer of relays for the electrotechnical industry and energy industry with a long tradition, since 1996 listed on the Warsaw Stock Exchange. The company makes over 70% of its sales on export markets to over 50 countries around the world, of which approx. 40% of the total is the German market (until 2012 it was Russia) with ABB's leading customer (15-20% of sales). Thus, the company is favored by the high EUR / PLN exchange rate.

A profitable, cash-generating company with no debt. After the restructuring completed in 2010/2011, Relpol is characterized by stable profitability (over 20% of the gross margin with a deviation of +/- 2 pp) and high generation of free cash flow (on average PLN 4 million annually, i.e. over 5% of the current capitalization). Thus, at the end of 2020, the company had no debt and was prepared for new strategic challenges.

The investment program as a chance for a big jump. The company is in the process of implementing three large investments worth nearly PLN 50 million (including approximately PLN 16 million in NCBIR funding). New investments are key to achieving the strategic goal of PLN 180 million revenues in 2026. The first effects of the program resulting from the approx. 30% increase in the production potential of miniature relays will already be visible in 2022 (the group's revenue growth potential by + 10%). Investments in automation will improve business efficiency.

Relative weakness of the stock price 2019-2020. In December 2017, Altus / Rockbridge TFI funds controlled at least 34% of the company's shares. The subsequent problems of Altus TFI, resulting from the GetBack scandal, resulted in the supply of shares and a clear pressure on the valuation of Relpol, despite the record results in 2018. In May 2021, Rockbridge TFI announced that it had dropped below 5%, and according to SF Relpol did not hold any shares for 1H'21.

Beneficiary of the energy transformation. Relpol's competences allow us to expect that the company should be a beneficiary of the energy transformation in terms of the development of photovoltaics (solar relays account for approx. 20% of the company's sales), industrial and energy automation (approx. 50% of the company's sales), electromobility and fast chargers, or an increase in investment in infrastructure housing (smart home).

Among the potential risks... we can see high prices of strategic raw materials (copper and silver) and limited availability of electronic components, a decline in the EUR / PLN exchange rate lowering the company's competitiveness, an increase in labor costs (labor-intensive production) or a long-term technological risk related to the potential displacement of electromagnetic relays by semiconductors.

	2018	2019	2020	2021F	2022F	2023F
Revenues [PLNm]	135,8	122,2	121,0	132,4	139,7	149,2
EBITDA adj. [PLNm]	18,8	13,8	14,0	16,1	16,7	18,5
EBITDA [PLNm]	17,8	13,1	16,2	16,2	16,7	18,5
EBIT [PLNm]	11,9	6,7	9,2	9,3	8,3	8,6
Net income [PLNm]	9,2	4,9	7,7	6,4	5,0	6,0
P/BV [x]	0,9	0,9	0,9	0,8	0,8	0,8
P/E [x]	8,1	15,4	9,7	11,7	15,0	12,5
EV/EBITDA [x]	4,4	6,2	4,6	4,8	4,8	4,9
EV/EBIT [x]	6,5	12,2	8,1	8,4	9,6	10,4
DPS in the period [PLN]	0,4	0,4	0,0	0,0	0,0	0,4
DY [%]	5,1%	5,4%	0,0%	0,0%	0,0%	5,1%

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

(INITIAL REPORT)

TARGET PRICE 16,5 PLN

30th AUGUST 2021, 07:00 CEST

DCF valuation [PLN]	15,2
Peer valuation [PLN]	17,7
Target price [PLN]	16,5
Price upside/downside	111,3%
Cost of capital	8,00%
Price [PLN]	7,8
Market cap [PLNm]	75,0
No. of shares [mn]	9,6
Max. price 6M [PLN]	8,9
Min. price 6m [PLN]	5,9
Rate of return 3M	1,4%
Rate of return 6M	-7,2%
Rate of return 9M	19,5%
Shareholders (% of votes):	
Adam Ambroziak	33,0%
Piotr Osiński	7,2%
TFI Quercus	5,3%
Others	54,5%

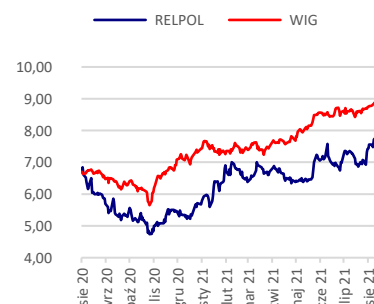
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Valuation summary

	Share	Valuation
DCF valuation	50%	15,2
Peer valuation	50%	17,7
Target price [PLN]		16,5

Source: BDM S.A.

DCF valuation

	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenues [PLNm]	132,4	139,7	149,2	165,3	175,9	180,1	184,5	189,0	193,7	198,6
EBIT [PLNm]	9,3	8,3	8,6	13,3	16,3	16,6	17,2	18,0	18,7	19,5
Tax rate [%]	20,9%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%
Tax on EBIT [PLNm]	1,9	1,7	1,8	2,8	3,4	3,5	3,6	3,8	3,9	4,1
NOPLAT [PLNm]	7,3	6,6	6,8	10,5	12,9	13,1	13,6	14,2	14,8	15,4
Amortization [PLNm]	6,9	8,3	9,8	10,3	9,8	9,5	9,2	9,0	8,8	8,7
CAPEX [PLNm]	-13,7	-17,9	-18,5	-7,2	-7,4	-7,6	-7,8	-8,0	-8,2	-8,4
Working capital movement [PLNm]	-1,4	2,9	-3,4	-5,7	-3,8	-1,5	-1,6	-1,6	-1,7	-1,7
FCF [PLNm]	-0,8	-0,1	-5,2	7,9	11,5	13,4	13,4	13,5	13,7	14,0
DFCF [PLNm]	-0,8	-0,1	-4,4	6,2	8,4	9,1	8,4	7,9	7,4	7,0
Total DFCF [PLNm]	48,9									
Terminal value [PLNm]	197,4									
Discounted terminal value [PLNm]	98,3									
Enterprise value [PLNm]	147,2									
Net debt [PLNm]	-0,2									
Minorities [PLNm]	1,2									
Equity value [PLNm]	146,2									
Number of shares [m]	9,6									
Value per share [PLN]	15,2									

Terminal growth rate: +1,0%

WACC calculation

	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Risk-free rate	3,00%	3,00%	3,00%	3,00%	3,00%	3,00%	3,00%	3,00%	3,00%	3,00%
Risk premium	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%
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	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%
Contribution of equity	95,3%	91,7%	88,6%	90,1%	92,7%	95,1%	96,2%	97,1%	98,1%	100,0%
Cost of debt after tax	3,6%	3,6%	3,6%	3,6%	3,6%	3,6%	3,6%	3,6%	3,6%	3,6%
Contribution of debt	4,7%	8,3%	11,4%	9,9%	7,3%	4,9%	3,8%	2,9%	1,9%	0,0%
WACC	7,8%	7,6%	7,5%	7,6%	7,7%	7,8%	7,8%	7,9%	7,9%	8,0%

Source: BDM S.A.

Sensitivity analysis

beta	Terminal growth rate			Risk premium	Terminal growth rate			Risk premium	Beta		
	-2,0%	-1,0%	0,0%		-2,0%	-1,0%	0,0%		0,9	1,0	1,1
0,9	15,0	16,6	18,8	4,00%	16,3	18,3	21,0	4,00%	19,8	18,3	16,9
1,0	13,8	15,2	17,0	5,00%	13,8	15,2	17,0	5,00%	16,6	15,2	14,0
1,1	12,8	14,0	15,5	6,00%	12,0	12,9	14,2	6,00%	14,2	12,9	11,8

Source: BDM S.A.

Peer valuation

	P/E			EV/EBITDA			EV/EBIT		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Electrotechnical companies Poland									
Sonel SA	11,7	11,1	10,9	6,8	6,1	5,9	9,8	8,6	8,1
ELEKTROTIM SA*	8,0	12,0	8,9	3,5	4,5	3,8	5,0	7,6	5,9
TIM SA*	14,2	17,2	-	8,1	8,8	-	10,4	11,7	-
Relay manufacturers									
HONGFA TECHNOLOGY CO LTD-A	44,6	36,4	30,2	22,4	17,7	14,7	28,4	22,3	18,1
TE CONNECTIVITY LTD**	23,1	21,5	19,4	15,1	14,0	12,9	19,5	17,8	15,7
ABB LTD-REG	24,6	21,5	19,6	15,1	13,2	12,1	19,0	16,2	14,5
OMRON CORP	47,4	33,9	30,5	22,1	16,6	15,0	28,6	21,2	18,4
EATON CORP PLC	25,3	23,5	21,8	20,3	17,8	16,6	26,2	22,7	20,5
SCHNEIDER ELECTRIC SE	27,1	24,6	22,3	16,7	15,2	13,7	20,3	18,6	16,5
Median	24,6	21,5	20,7	15,1	14,0	13,3	19,5	17,8	16,1
RELPOL									
Premium/discount	11,7	15,0	12,5	4,8	4,8	4,9	8,4	9,6	10,4
	-53%	-30%	-39%	-68%	-66%	-63%	-57%	-46%	-36%
Valuation [PLN/share]	16,4	11,2	12,9	25,1	23,7	24,0	18,5	14,9	12,9
Year's contribution	33%	33%	33%	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]		13,5			24,3			15,5	
Multiple's contribution		33%			33%			33%	
Value per share [PLN]									17,7

Source: BDM S.A., Bloomberg, according to prices from 27/08/2021. * - own forecast. ** - Tyco Electronics prior to name change

Main risks: 1) high prices of strategic raw materials: copper and silver and problems with the availability of components (in the periods of high dynamics of raw materials growth in 2010 or in 2017, the gross margin of the company decreased by approx. 2-3% pp); 2) decline in the EUR / PLN exchange rate (the company exports > 70% of its products. We estimate that the loss of competitiveness may occur at an exchange rate of <4.0 EUR / PLN); 3) increase in labor costs (labor costs account for 27% of the company's total costs, and the company is characterized by a relatively lower level of wages in industry); 4) technological risk: displacement of electromagnetic relays by semiconductors (both have advantages / disadvantages, but are substitutes); 5) high concentration of customers (3 main clients of the company may be responsible for 30-40% of sales); 6) high investment program in 2021-2023 (in 2021-2023 the company plans to spend approx. PLN 40 million on its strategic investments, which may not give the expected return); 7) long operating cycle (130-150 days) and high demand for working capital (the company manages the main ABB customer's warehouse, relatively long operating cycle of inventories and receivables exceeding 3 months); 8) the risk of competition (the company is one of the largest producers of relays in Europe, but with a relatively low market share);

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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	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

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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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 3Q'21*:			, 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	83%	0	0%
Accumulate	1	17%	0	0%
Hold	0	0%	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 and information on the numbers of issuers to which BDM has supplied services of investment firms set out in Sections A and B of Annex I to Directive 2014/65/EU is included in a cyclical "Monthly Report" or at www.bdm.pl

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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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