

RELPOL

ANALYTICAL REPORT - SUMMARY

The company ended 2021 in line with our expectations. Unfortunately, the outbreak of war in Ukraine and the need to reorganize production at the plant there forced us to lower this year's assumptions by ca. -20% on the EBITDA level. On the other hand, the company is continuing its strategic investments aimed at increasing capacity and sales to ca. PLN 180m by 2025/2026, and demand for electromagnetic relays should stimulate massive and rapid growth of photovoltaics in Europe in line with the plan to become independent from Russian energy resources. However, given the virtually doubled risk-free rate, we are lowering our price target to PLN 11.1/share and reiterating a BUY rating.

2021 in line with forecasts, but... Our 2021 forecasts as of 30 August 2021 have been achieved. In terms of sales, the Polish market performed better than the German. The slightly higher gross margin was burdened by an increase in SG&A costs and a negative balance on other operating activities (write-downs on the Ukrainian plant). EBITDA came in at PLN 15.9m vs. our estimate of PLN 16.2m, and net profit was PLN 6.6m vs. Cash flows were slightly worse due to the global problem of component availability.

... The war in Ukraine has necessitated a revision of plans... We assume that the war in Ukraine is only a short-term disruption to sales/performance (cost increases). The Ukrainian plant in the Zhytomyr region has not been affected by the hostilities and is currently producing on a limited basis (curfew). In such a scenario, the Company's earnings will be most affected in Q2'22, and we have lowered our full-year forecasts by ca. -20%.

... although in the short term. In the long term, the outlook remains favorable, ... which was reinforced by Russia's economic isolation after the outbreak of war. As management states in the commentary, "(...) high demand for the company's products persists, which Relpol is trying to meet". The company is continuing strategic projects for which it has obtained financing. The key in this area is the acceleration of trends in the transformation of the power industry and the utilization of expanded capacities.

Q1'22 results without significant Ukrainian impact, with record sales. The Company posted record Q1'22 sales (PLN 40.6m revenue). Despite significant pressure on margins, the Company managed to improve last year's EBITDA. However, we expect it to be the best quarter this year due to the outbreak of war in Ukraine, the reorganization of the plant there, and further cost pressures from the loss of the important Russian market.

A beneficiary of the energy transition and RePowerEU. Relpol's competence allows to expect that the company should be a beneficiary of the energy transition in the development of photovoltaics (solar relays account for about 20% of the company's sales), industrial and power automation (about 50% of the company's sales). **RePowerEU's** plan for independence from Russian raw materials, published on 18.05.2022, assumes massive and rapid deployment of renewable energy (mainly PV). As part of the plan, the **strategy** aims to deploy more than 320 GW of PV capacity by 2025 (more than doubling from 2020) and nearly 600 GW by 2030. We emphasize that in 2020 Relpol completed an automated solar relay line and can double sales. In 2022, the company will already benefit from the increased capacity of miniature relays for industry. However, we will see the effects of the entire investment program after 2023.

	2019	2020	2021	2022F	2023F	2024F
Revenues [PLNm]	122,2	121,0	133,6	140,8	151,4	169,7
EBITDA adj. [PLNm]	13,8	14,0	16,2	12,8	17,7	24,3
EBITDA [PLNm]	13,1	16,2	15,9	13,0	17,7	24,3
EBIT [PLNm]	6,7	9,2	9,2	6,0	8,3	14,3
Net income [PLNm]	4,9	7,7	6,6	3,9	5,5	10,4
P/BV [x]	0,6	0,6	0,5	0,5	0,5	0,5
P/E [x]	10,7	6,7	7,9	13,1	9,5	5,0
EV/EBITDA [x]	4,4	3,2	3,6	5,0	3,9	2,7
EV/EBIT [x]	8,7	5,6	6,2	10,8	8,4	4,6
DPS in the period [PLN]	0,42	0,00	0,00	0,00	0,25	0,30
DY [%]	7,8%	0,0%	0,0%	0,0%	4,6%	5,6%

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 11,1 PLN

23th MAY 2021, 20:30 CEST

DCF valuation [PLN]	8,8
Peer valuation [PLN]	13,5
Target price [PLN]	11,1
Price upside/downside	106,2%
Cost of capital	11,50%
Price [PLN]	5,4
Market cap [PLNm]	51,9
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%
Others	59,8%

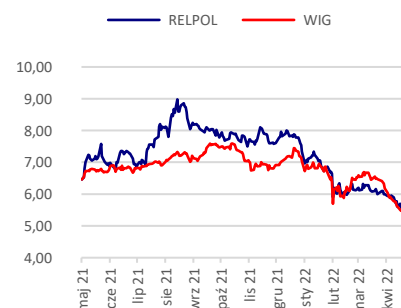
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Valuation summary

	Share	Valuation
DCF valuation	50%	8,8
Peer valuation	50%	13,5
Target price [PLN]		11,1

Source: BDM S.A.

DCF valuation

	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Revenues [PLNm]	140,8	151,4	169,7	180,1	184,4	188,9	193,6	198,5	203,6	208,8
EBIT [PLNm]	6,0	8,3	14,3	16,6	16,9	17,3	17,8	18,4	18,9	19,5
Tax rate [%]	22,6%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%
Tax on EBIT [PLNm]	1,4	1,7	3,0	3,5	3,5	3,6	3,7	3,9	4,0	4,1
NOPLAT [PLNm]	4,7	6,5	11,3	13,1	13,3	13,7	14,1	14,5	14,9	15,4
Amortization [PLNm]	7,0	9,5	10,0	9,6	9,3	9,0	8,9	8,8	8,7	8,7
CAPEX [PLNm]	-17,9	-18,5	-7,2	-7,4	-7,6	-7,8	-8,0	-8,2	-8,4	-8,6
Working capital movement [PLNm]	-3,3	1,8	-6,6	-3,8	-1,6	-1,6	-1,7	-1,8	-1,8	-1,9
FCF [PLNm]	-9,6	-0,6	7,4	11,6	13,4	13,3	13,3	13,3	13,4	13,6
DFCF [PLNm]	-9,0	-0,5	5,7	8,0	8,3	7,4	6,7	6,0	5,4	4,9
Total DCF [PLNm]	42,9									
Terminal value [PLNm]	130,1									
Discounted terminal value [PLNm]	47,3									
Enterprise value [PLNm]	90,1									
Net debt [PLNm]	4,8									
Minorities [PLNm]	1,2									
Equity value [PLNm]	84,1									
Number of shares [m]	9,6									
Value per share [PLN]	8,8									

Terminal growth rate: +1,0%

WACC calculation

	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Risk-free rate	6,50%	6,50%	6,50%	6,50%	6,50%	6,50%	6,50%	6,50%	6,50%	6,50%
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	11,5%	11,5%	11,5%	11,5%	11,5%	11,5%	11,5%	11,5%	11,5%	11,5%
Contribution of equity	89,2%	84,6%	86,9%	89,1%	91,6%	93,4%	94,8%	96,2%	97,7%	100,0%
Cost of debt after tax	6,2%	6,3%	6,3%	6,3%	6,3%	6,3%	6,3%	6,3%	6,3%	6,3%
Contribution of debt	10,8%	15,4%	13,1%	10,9%	8,4%	6,6%	5,2%	3,8%	2,3%	0,0%
WACC	10,9%	10,7%	10,8%	10,9%	11,1%	11,2%	11,2%	11,3%	11,4%	11,5%

Source: BDM S.A.

Sensitivity analysis

beta	Terminal growth rate			Risk premium	Terminal growth rate			Risk premium	Beta		
	0,0%	1,0%	2,0%		0,0%	1,0%	2,0%		0,9	1,0	1,1
0,9	8,8	9,3	10,0	4,00%	9,4	10,0	10,7	4,00%	10,6	10,0	9,5
1,0	8,3	8,8	9,3	5,00%	8,3	8,8	9,3	5,00%	9,3	8,8	8,2
1,1	7,8	8,2	8,7	6,00%	7,4	7,7	8,2	6,00%	8,3	7,7	7,2

Source: BDM S.A.

Peer valuation

	P/E			EV/EBITDA			EV/EBIT		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Electrotechnical companies Poland									
Sonel SA	11,8	10,4	-	5,8	5,0	-	8,9	7,3	-
ELEKTROTIM SA*	3,6	13,5	10,8	2,5	4,1	3,7	3,0	6,9	6,0
TIM SA	8,2	7,6	-	5,7	5,2	-	6,8	6,2	-
GRODNO SA	7,3	7,5	7,2	6,3	6,2	5,8	7,3	7,3	6,7
Relay manufacturers									
HONGFA TECHNOLOGY CO LTD-A	27,6	22,0	18,2	14,0	11,3	9,8	17,8	14,1	12,0
TE CONNECTIVITY LTD**	16,9	15,7	14,2	11,4	10,6	10,2	14,5	13,2	12,7
ABB LTD-REG	20,1	17,5	16,0	12,9	10,8	9,7	15,9	13,1	11,7
OMRON CORP	24,5	23,0	21,0	11,9	11,3	10,3	15,1	14,6	13,2
EATON CORP PLC	17,8	16,4	15,1	14,4	12,9	12,2	18,5	15,7	15,1
SCHNEIDER ELECTRIC SE	18,5	16,8	15,2	12,2	10,9	9,8	14,6	12,8	11,4
Median	17,3	16,0	15,2	11,7	10,7	9,8	14,6	13,0	11,8
RELPOL	13,1	9,5	5,0	5,0	3,9	2,7	10,8	8,4	4,6
Premium/discount	-24%	-41%	-67%	-57%	-64%	-72%	-26%	-36%	-61%
Valuation [PLN/share]	7,1	9,2	16,4	14,4	18,0	23,2	7,7	9,4	16,2
Year's contribution	33%	33%	33%	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]	10,9			18,5			11,1		
Multiple's contribution		33%			33%			33%	
Value per share [PLN]	13,5								

Source: BDM S.A., Bloomberg, according to prices from 23/05/2022. * - own forecast. ** - Tyco Electronics prior to name change

Main risks: 1) escalation of the war in Ukraine (the company has returned to assembly in Ukraine on a limited basis. Escalation of the war could force the company to stop production altogether); 2) 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); 3) 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); 4) 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); 5) technological risk: displacement of electromagnetic relays by semiconductors (both have advantages / disadvantages, but are substitutes); 6) high concentration of customers (3 main clients of the company may be responsible for 30-40% of sales); 7) 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); 8) 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); 9) 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	11,1	Buy	16,5	23.05.2022*	20:30 CEST	5,40	57 167,8
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.
 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'22*:			, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months	
	numbers	%	numbers	%
Buy	3	60%	2	100%
Accumulate	0	0%	0	0%
Hold	2	40%	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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For the first time this report has been made available to the public on 23.05.2022 (20:30 CEST). Date of preparing the report is the date of making it accessible. Before the recommendation was made accessible, information included in it had been confidential.

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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