



Dom Maklerski BDM S.A.

ZUE

ANALYTICAL REPORT - SUMMARY

ZUE is a general contractor operating in the rail and tram infrastructure sector. Recently, the company has become the only WSE-listed company not under the control of state-owned infrastructure entities for which this is a leading business. The current year is significant in two respects: i) completion of the "difficult" contracts of 2017, ii) geographic diversification. The company is in the final stages of completing orders signed in 2017, which are either being officially finalized or should be completed in Q4'23. These have burdened results for the past few years. ZUE has won rail orders in the Romanian market in 2022, which should be more clearly visible in revenues from 2H'23. They account for about 30% of the company's backlog after 2Q'23. Entering Romania involves, among other things, risks specific to the market there, but at the same time, we believe that this may eventually be a successful step for the company to enter foreign markets. ZUE's current enterprise value (EV) is about PLN 150 million. This amount is lower than the sums of fixed assets and net working capital. We currently set the fair value (target price) of ZUE's shares at PLN 7.76, implying a Buy rating. The valuation does not take into account possible claims and valorisation from PKP PLK (lawsuits filed for PLN 93m, about PLN 4.0/share).

ZUE's order backlog amounted to PLN 1.46 billion after Q2'23. The company has a pending contract worth PLN 0.79 billion with PKP PLK (CEF financing). We estimate that the current backlog is more or less evenly split between rail contracts in the Romanian market / rail contracts in Poland / urban contracts (tram), at about 30% each. The remainder is made up of maintenance contracts and trading company orders.

We note that the company's execution portfolio still includes contracts signed in 2017, from a period when competition on tenders was very demanding. These contracts recorded significant delays compared to the original schedules. We estimate that the value of work on these contracts may still amount to about PLN 30-50 million as of 2H'23. On previously completed contracts from a similar period and still from the previous EU perspective, the company has filed lawsuits and valorisation claims for about PLN 93 million. This figure does not include potential claims on contracts currently being completed.

Contracts in the Romanian market were signed by the company in late 2022/23 (tenders were bid in Q3'22, when concerns about cost increases were high and bids were cautious). At the time of signing, they had a total value of about PLN 490 million for ZUE. These contracts are not technically complex (replacement of track infrastructure), and have a built-in valorisation index.

Entering the Romanian market is not ZUE's first approach to foreign markets. A few years ago, the company had already executed a medium-sized contract in Slovakia, earlier it had also had an approach in the German market (which in the next few years may become more open to Polish companies in the field of network electrification due to the lack of local capacity) or for many years it has been observing the Bulgarian direction. In recent months, the first Latvian contract was also secured (the Baltic market may be very absorptive in the coming years due to the construction of Rail Baltica, which will also be accompanied by smaller local investments).

In 1H'23, the company generated PLN 542m in revenue (+45% y/y) and PLN 4.1m in net profit. We expect that in 2H'23 the y/y revenue dynamics may slow down (the backlog is currently marginally lower y/y), while we expect profitability to improve (decline in importance of "difficult" contracts, gradual emergence of revenues from Romania with declared higher-than-average margins). We assume that in 2023 the company will generate PLN 1.1 billion in revenues and PLN 11.8 million in net profit. In 2024, we expect similar revenues and PLN 13.3 million in net profit. We take a conservative view on the backlog for 2024-25 at this point. The launch of EU funds would solve the sack of tender procedures in the tram market on the part of local governments, and would significantly accelerate the settlement of tenders on the part of PKP PLK.

	2020	2021	2022	2023F	2024F	2025F
Sales [PLN m]	901,4	851,5	921,4	1 088,6	1 088,1	1 167,7
EBITDA [PLN m]	23,9	27,1	31,9	30,0	32,3	35,7
EBIT [PLN m]	10,6	14,2	18,1	16,0	17,9	20,8
Profit before tax [PLN m]	10,0	15,4	22,1	15,9	17,5	20,4
Net profit [PLN m]	4,3	11,8	16,4	11,8	13,3	15,6
Net debt (cash) [PLN m]	15,6	-80,2	-14,6	-25,8	-32,4	-48,3
P/BV	0,8	0,8	0,7	0,7	0,6	0,6
P/E	30,4	11,0	7,9	10,9	9,8	8,3
EV/EBITDA	5,4	4,8	4,1	4,3	4,0	3,6
EV/EBIT	12,2	9,1	7,1	8,1	7,2	6,2
DPS [PLN/sh.]	0,00	0,00	0,15	0,07	0,13	0,14

BUY

(RELAUNCH OF RECOMMENDATION)

TARGET PRICE 7,76 PLN

12th SEPTEMBER 2023, 13:45 CEST

DCF valuation [PLN]	8,19
Peer valuation [PLN]	6,76
Target price [PLN]	7,76
Price upside/downside	38%
Cost of capital	15,0%
Price [PLN]	5,62
Market cap [PLNm]	129,4
No. of shares [mn]	23,0
Max. price 6M [PLN]	6,82
Min. price 6m [PLN]	4,82
Rate of return 3M	7,3%
Rate of return 6M	11,9%
Rate of return 9M	27,5%
Shareholders	
Nowak Wiesław	62,5%
Bankowy OFE	7,7%
Generali OFE	6,3%
ZUE	1,1%
Others	22,2%

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Valuation summary

	Share	Valuation
DCF valuation	70%	8,19
Peer valuation:	30%	6,76
Target price [PLN]		7,76

Source: Dom Maklerski BDM S.A.

DCF valuation

	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Revenues [PLN m]	1 088,6	1 088,1	1 167,7	1 214,4	1 250,9	1 275,9	1 288,7	1 301,6	1 314,6	1 327,7
EBIT [PLN m]	16,0	17,9	20,8	24,2	28,5	32,4	35,9	36,5	37,0	37,6
Tax rate	21,2%	20,0%	20,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%
Tax on EBIT [PLN m]	3,4	3,6	4,2	4,6	5,4	6,2	6,8	6,9	7,0	7,1
NOPLAT [PLN m]	12,6	14,3	16,7	19,6	23,0	26,2	29,1	29,5	30,0	30,5
Amortization [PLN m]	14,1	14,4	14,9	14,8	14,9	14,9	14,9	14,9	14,9	14,9
CAPEX [PLN m]	-12,9	-20,4	-14,4	-14,9	-14,9	-14,9	-14,9	-14,9	-14,9	-14,9
Working capital movement [PLN m]	-2,6	1,5	1,7	1,3	1,0	0,8	0,2	0,3	0,3	0,3
FCF [PLN m]	11,1	9,8	18,8	20,9	24,1	27,0	29,3	29,8	30,2	30,7
DFCF [PLN m]	10,6	8,2	13,8	13,3	13,4	13,1	12,4	10,9	9,7	8,5
Total DFCF [PLN m]	113,8									
Terminal value [PLN m]	221,8									
Discounted terminal value [PLN m]	61,6									
Enterprise value [PLN m]	175,4									
Net debt 2022 [PLN m]	-14,6									
Dividend 2023 [PLN m]	1,6									
Own shares [PLN m]	1,5									
Minority interests [PLN m]	1,4									
Equity value [PLN m]	188,5									
Number of shares [m]	23,0									
Value per share [PLN]	8,19									

Terminal growth rate: +1,0%

WACC calculation

	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Risk-free rate	5,50%	5,50%	5,50%	5,50%	5,50%	5,50%	5,50%	5,50%	5,50%	5,50%
Risk premium	9,50%	9,50%	9,50%	9,50%	9,50%	9,50%	9,50%	9,50%	9,50%	9,50%
Beta	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00
Credit premium	1,50%	1,50%	1,50%	1,50%	1,50%	1,50%	1,50%	1,50%	1,50%	1,50%
Cost of equity	15,0%	15,0%	15,0%	15,0%	15,0%	15,0%	15,0%	15,0%	15,0%	15,0%
Contribution of equity	94,1%	94,9%	95,8%	96,5%	97,2%	97,8%	98,2%	98,8%	99,4%	100,0%
Cost of debt after tax	5,5%	5,6%	5,6%	5,7%	5,7%	5,7%	5,7%	5,7%	5,7%	5,7%
Contribution of debt	5,9%	5,1%	4,2%	3,5%	2,8%	2,2%	1,8%	1,2%	0,6%	0,0%
WACC	14,4%	14,5%	14,6%	14,7%	14,7%	14,8%	14,8%	14,9%	14,9%	15,0%

Source: Dom Maklerski BDM S.A.

DCF - sensitivity analysis

	Terminal growth rate			Risk premium	Terminal growth rate			Risk premium	Beta			
	0,00%	1,00%	2,00%		0,00%	1,00%	2,00%		0,9	1,0	1,1	
beta	0,9	8,55	8,80	9,09	8,5%	8,58	8,83	9,12	8,5%	9,46	8,83	8,28
	1,0	7,98	8,19	8,42	9,5%	7,98	8,19	8,42	9,5%	8,80	8,19	7,65
	1,1	7,49	7,65	7,85	10,5%	7,46	7,63	7,82	10,5%	8,22	7,63	7,12

Source: Dom Maklerski BDM S.A.

Peer valuation

	P/E			EV/EBITDA		
	2023F	2024F	2025F	2023F	2024F	2025F
Budimex	16,4	16,8	17,4	8,3	7,3	6,8
Mirbud	6,2	5,5	7,1	3,6	3,0	3,4
Torpol	5,9	13,2	12,9	1,1	2,6	2,4
Median	6,2	13,2	12,9	3,6	3,0	3,4
ZUE	10,9	9,8	8,3	3,5	3,0	2,3
Premium/discount	75,4%	-26,0%	-35,7%	-3,1%	-0,1%	-33,1%
Valuation [PLN/share]	3,2	7,6	8,7	5,8	5,6	7,4
Year's contribution	20%	40%	40%	20%	40%	40%
Average valuation [PLN/share]	7,18			6,35		
Multiple's contribution		50%		50%		
Value per share [PLN]	6,76					

Source: Dom Maklerski BDM S.A. BDM forecasts

Main risks:

- Dependence on main customers (PKP PLK)
- Level of investment in transport infrastructure in the CEE region.
- Risks related to the co-financing of project implementation from EU funds.
- Risks related to entering new markets (currently Romania).
- Risks related to the specific nature of the projects implemented.
- Relatively low barriers to entry, increase in competition
- Seasonality of results and weather factor
- Litigation

	2021	2022	2023F	2024F	2025F	2026F
EPS, Adj+	0,51	0,71	0,51	0,58	0,68	0,84
Revenue [PLN m]	851,5	921,4	1 088,6	1 088,1	1 167,7	1 214,4
Gross Margin %	4,1%	4,6%	3,9%	4,3%	4,4%	4,4%
EBIT [PLN m]	14,2	18,1	16,0	17,9	20,8	24,2
EBITDA [PLN m]	27,1	31,9	30,0	32,3	35,7	39,1
Net Income Adj+ [PLN m]	11,8	16,4	11,8	13,3	15,6	19,4
Net Debt [PLN m]	-80,2	-14,6	-25,8	-32,4	-48,3	-61,7
BPS	7,22	7,79	8,23	8,68	9,22	9,72
DPS	0,00	0,15	0,07	0,13	0,14	0,34
Return on Equity %	7,1%	9,1%	6,2%	6,6%	7,4%	8,7%
Return on Assets %	2,0%	2,4%	1,6%	1,8%	2,0%	2,3%
Depreciation [PLN m]	9,0	9,9	11,1	11,5	11,9	11,9
Amortization [PLN m]	0,3	0,6	0,1	0,1	0,1	0,1
Free Cash Flow [PLN m]	105,8	-54,1	12,7	9,5	19,3	23,3
CAPEX [PLN m]	6,0	4,8	12,9	20,4	14,4	14,9



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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	7,76	relaunch	---	12.09.2023*	13:45 CEST	5,62	66 241
Buy	11,8	---	---	17.02.2017	14:39 CEST	9,94	58 348

* 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 3Q'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	6	60%	0	0%
Accumulate	2	20%	0	0%
Hold	1	10%	0	0%
Reduce	1	10%	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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