



Dom Maklerski BDM S.A.

ZUE

ANALYTICAL REPORT - SUMMARY

The company has had a revenue strong Q1-Q3'23 (we also expect high throughput in Q4'23). At the same time, margins are still not helped by the "difficult" contracts of 2017 (heading to completion at different rates) or the tram contracts won before the outbreak of war in Ukraine. In recent months, the company's backlog was strengthened by a large contract for PKP PLK (Katowice-Będzin). It should be taken into account, however, that after the company's record-breaking throughput in 2023 (higher than our earlier expectations), the next year in this field may be weaker. On the other hand, we see opportunities for improvement on the profitability side, due to the reduced importance of problematic contracts or potential valorisation and surcharges. In the medium term, ZUE is well positioned for an influx of EU funds (both rail and tram infrastructure). In the last two years, the company has also entered foreign markets more extensively, which should build competence to become independent from the domestic market. We currently set the fair value (target price) of ZUE shares at PLN 8.43, implying an accumulate rating (previously: buy, PLN 7.76). The valuation does not take into account possible claims and valorisation from PKP PLK (lawsuits filed for PLN 93m, ca. PLN 4.0/share).

Recent results

In Q1-Q3'23, the Company generated revenue of PLN 901m (+43% y/y) and net profit of PLN 10.1m. The Q3'23 results (PLN 359m revenue and PLN 5.9m net profit) were much higher than we had anticipated, due in part to higher y/y revenue growth and a one-time profit on the sale of fixed assets (nearly PLN 4m). The company's gross sales margin (3.2%) continued to suffer from the effect of a pool of low-margin contracts, among other factors. Contracts from the Romanian market were already contributing more significantly to revenues, which was associated with an increase in working capital commitment.

Portfolio

ZUE's backlog amounted to PLN 2.05bn after Q3'23. We estimate that railway contracts in Poland account for the largest share (about half) of the current backlog, followed by railway contracts on the Romanian market and municipal contracts (tramway). The remainder is made up of maintenance contracts and trading company orders. The portfolio still includes contracts for PKP PLK signed in 2017 (we estimate that the value of work on these contracts may still amount to a small amount).

Segmental positioning

The company has exposure primarily to the rail and tram markets (to a small extent also to local roads through its subsidiary Energopol). Both of these areas are largely financed by EU funds (rail - FENIKS, KPO, CEF, tram lines - FENIKS), their unblocking will have a positive impact on the supply of contracts. An entry into the PSE market was also planned in the past. On the other hand, entry into the Romanian market is not ZUE's only approach to foreign markets (a contract in Slovakia has already been executed). In 2023, the first Latvian contract was also secured, previously the company had also had a foothold in the German market or has been observing the Bulgarian direction for many years.

Forecasts, ratios

ZUE has had a strong Q1-Q3'23 in terms of revenue, and we also expect a seasonally strong Q4'23. At the same time, higher-than-forecast throughput in 2023 translates into less available backlog for 2024. Part of this gap could potentially be filled by contracts from tenders on which the company has the most favourable bids. Currently, our forecasts for 2023/24/25 assume PLN 1.3 / 1.0 / 1.1bn revenue and PLN 16 / 12 / 17m net profit respectively (2023 includes PLN 5m positive other activities). The company is trading at EV/EBITDA=5.5x for 2023-24 and 3.8x for 2025 on our forecasts. Our forecasts do not take into account potential valorisation and surcharges requested by the company.

	2020	2021	2022	2023F	2024F	2025F
Sales [PLN m]	901,4	851,5	921,4	1 259,6	984,6	1 070,6
EBITDA [PLN m]	23,9	27,1	31,9	34,4	30,7	37,1
EBIT [PLN m]	10,6	14,2	18,1	20,3	16,3	22,3
Profit before tax [PLN m]	10,0	15,4	22,1	20,7	15,9	21,9
Net profit [PLN m]	4,3	11,8	16,4	15,6	12,3	17,1
Net debt (cash) [PLN m]	15,6	-80,2	-14,6	9,7	-11,5	-38,7
P/BV	1,2	1,1	1,0	0,9	0,9	0,8
P/E	42,5	15,4	11,0	11,6	14,7	10,6
EV/EBITDA	8,2	3,7	5,2	5,5	5,5	3,8
EV/EBIT	18,5	7,1	9,2	9,4	10,4	6,4
DPS [PLN/sh.]	0,00	0,00	0,15	0,07	0,17	0,13

ACCUMULATE

(PREVIOUS: BUY)

TARGET PRICE 8,43 PLN

4th JANUARY 2024, 09:55 CEST

DCF valuation [PLN]	8,21
Peer valuation [PLN]	9,28
Target price [PLN]	8,43
Price upside/downside	7,2%
Cost of capital	14,8%
Price [PLN]	7,86
Market cap [PLNm]	181,0
No. of shares [mn]	23,0
Max. price 6M [PLN]	8,22
Min. price 6m [PLN]	5,06
Rate of return 3M	36,5%
Rate of return 6M	51,7%
Rate of return 9M	53,5%
Shareholders	
Nowak Wiesław	62,5%
Bankowy OFE	7,7%
Generali OFE	6,3%
ZUE	1,1%
Others	22,2%

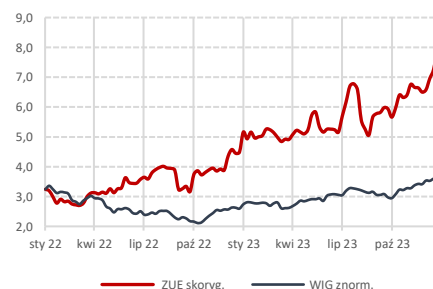
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Valuation summary

	Share	Valuation
DCF valuation	80%	8,21
Peer valuation:	20%	9,28
Target price [PLN]		8,43

Source: Dom Maklerski BDM S.A.

DCF valuation

	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F
Revenues [PLN m]	984,6	1 070,6	1 177,7	1 236,6	1 261,3	1 273,9	1 286,7	1 299,5	1 312,5	1 325,7
EBIT [PLN m]	16,3	22,3	28,9	32,5	34,7	33,8	34,3	34,9	35,4	36,0
Tax rate	20,0%	20,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%
Tax on EBIT [PLN m]	3,3	4,5	5,5	6,2	6,6	6,4	6,5	6,6	6,7	6,8
NOPLAT [PLN m]	13,1	17,8	23,4	26,3	28,1	27,4	27,8	28,2	28,7	29,1
Amortization [PLN m]	14,4	14,9	14,8	14,9	14,9	14,9	14,9	14,9	14,9	14,9
CAPEX [PLN m]	-20,4	-14,4	-14,9	-14,9	-14,9	-14,9	-14,9	-14,9	-14,9	-15,0
Working capital movement [PLN m]	21,1	11,5	1,2	0,9	0,5	0,1	0,2	0,2	0,2	0,2
FCF [PLN m]	28,2	29,7	24,6	27,2	28,6	27,5	27,9	28,4	28,8	29,3
DFCF [PLN m]	24,7	22,8	16,5	15,9	14,6	12,2	10,9	9,6	8,5	7,5
Total DFCF [PLN m]	143,1									
Terminal value [PLN m]	215,5									
Discounted terminal value [PLN m]	55,5									
Enterprise value [PLN m]	198,6									
Net debt 2023F [PLN m]	9,7									
Own shares [PLN m]	2,1									
Minority interests [PLN m]	1,8									
Equity value [PLN m]	189,2									
Number of shares [m]	23,0									
Value per share [PLN]	8,21									

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	9,50%	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	14,8%	14,8%	14,8%	14,8%	14,8%	14,8%	14,8%	14,8%	14,8%	14,8%
Contribution of equity	94,6%	95,6%	96,5%	97,3%	97,8%	98,2%	98,8%	99,4%	100,0%	100,0%
Cost of debt after tax	5,4%	5,4%	5,5%	5,5%	5,5%	5,5%	5,5%	5,5%	5,5%	5,5%
Contribution of debt	5,4%	4,4%	3,5%	2,7%	2,2%	1,8%	1,2%	0,6%	0,0%	0,0%
WACC	14,2%	14,3%	14,4%	14,5%	14,5%	14,6%	14,6%	14,7%	14,8%	14,8%

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	8,61	8,84	9,11	8,5%	8,64	8,88	9,15	8,5%	8,84	8,88	8,31	
	1,0	8,03	8,21	8,43	9,5%	8,03	8,21	8,43	9,5%	8,84	8,21	7,67	
	1,1	7,52	7,67	7,84	10,5%	7,49	7,64	7,81	10,5%	8,25	7,64	7,12	

Source: Dom Maklerski BDM S.A.

Peer valuation

	P/E			EV/EBITDA		
	2024F	2025F	2026F	2024F	2025F	2026F
Budimex	18,1	16,0	17,1	10,0	8,4	8,6
Mirbud	5,8	6,9	6,8	3,5	3,9	3,6
Torpol	13,4	10,0	9,1	3,4	2,4	2,2
Trakcja	18,0	14,0	12,3	6,6	5,8	5,4
Median	15,7	12,0	10,7	5,0	4,9	4,5
ZUE	14,7	10,6	7,9	5,5	3,8	2,9
Premium/discount	-6,3%	-11,6%	-26,6%	10,0%	-21,0%	-36,6%
Valuation [PLN/share]	8,4	8,9	10,7	7,2	9,5	11,0
Year's contribution	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]		9,23			9,33	
Multiple's contribution		50%			50%	
Value per share [PLN]		9,28				

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	0,68	0,53	0,74	1,00
Revenue [PLN m]	851,5	921,4	1 259,6	984,6	1 070,6	1 177,7
Gross Margin %	4,1%	4,6%	3,6%	4,6%	4,9%	4,9%
EBIT [PLN m]	14,2	18,1	20,3	16,3	22,3	28,9
EBITDA [PLN m]	27,1	31,9	34,4	30,7	37,1	43,7
Net Income Adj+ [PLN m]	11,8	16,4	15,6	12,3	17,1	23,0
Net Debt [PLN m]	-80,2	-14,6	9,7	-11,5	-38,7	-55,4
BPS	7,22	7,79	8,40	8,76	9,37	10,00
DPS	0,00	0,15	0,07	0,17	0,13	0,37
Return on Equity %	7,1%	9,1%	8,1%	6,1%	7,9%	10,0%
Return on Assets %	2,0%	2,4%	1,9%	1,7%	2,2%	2,8%
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	-22,8	25,1	30,3	27,4
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
Accumulate	8,43	Buy	7,76	04.01.2024*	09:55 CEST	7,86	77 054
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.
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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 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	4	40%	0	0%
Accumulate	3	30%	0	0%
Hold	1	10%	0	0%
Reduce	2	20%	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 a party to the “ANALYTICAL REPORT PREPARATION SERVICES AGREEMENT” concluded with the WSE.

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