



Dom Maklerski BDM S.A.

ELEKTROTIM

ANALYTICAL REPORT - SUMMARY

The company's backlog in Q1'24 was rebuilt with the final acquisition of the Bug perimeter contract and several smaller contracts. This should allow it to wait out the current period of lower contract supply. In the medium term, the company should benefit from the unlocking of EU funds (including exposure to infrastructure for the energy transition) and increased defence spending. Indicatively, the company is no longer as 'cheap' as it was a year ago. The EV/Sales ratio is clearly above the median for recent years, but still below the previous record highs of 2015-16. At the same time, the changes that have taken place in recent years, including getting rid of the ballast of subsidiaries or building a reference on unitary larger-scale contracts, may allow for a long-term re-rating. At the current market price div yield is close to 9%, the P/E for the coming years at our forecasts is 8-9x. We are reiterating an accumulate rating and a current target price of PLN 31.0.

Recent results

In 2023, the company generated revenue of PLN 547m (+8% y/y) and net profit of PLN 22.4m (comparable y/y). The 2023 results were burdened by i) maintaining the consolidation of bankrupt Zues (the company was sold in 2024, in 2023 it had a PLN -23.5m book net loss and charged a similar amount to consolidated results), ii) the one-off recognition of PLN 9.5m of warranty provisions on a perimetry contract that was executed from 2022 (from 2024 onwards, the company will recognise provisions over the life of the contracts). In Q4'23 alone, the company generated PLN 138m in revenue (-41% y/y, a year ago the peak of the engagement on the Belarusian border contract) and a net loss of PLN -4.3m (the result was burdened by a large portion of Zeus' annual result and the aforementioned guarantee provision). At the end of Q4'23, the company had net cash of PLN 27m (receivables from traction contracts were still to be received in Q1'24).

Backlog

The Group's backlog amounted to PLN 329m after Q4'23 (significantly lower q/q and y/y). In Q1'24, however, its value decisively recovered (to ca. PLN 600m) after winning a contract on the Bug River and several smaller orders.

Segmental positioning

Elektrotim's business is currently based on two segments: Installations (defence, industry and maintenance) and Networks (distribution and traction). In 2023, the latter area was mainly strong. In 2024, there should be more balance (Bug contract in the Installations segment). We maintain that in the medium/long term, the company should benefit from an increase in expenditures on the power distribution network, derived from the development of RES and the maintenance of increased expenditures on the military area. Also, the maintenance and traction divisions are exposed to an influx of EU funds. In addition, the company is signalling interest in larger contracts for PSE, where the contracting authority's announcements for the coming years are very ambitious.

Forecasts, ratios

We assume the company will generate PLN 575m in revenue and PLN 52.5m in net profit in 2024 (our forecasts at the EBIT level are impacted by an accounting gain of PLN 20.5m from the loss of control of Zeus). We take a more conservative approach to 2025 due to the current (temporary) supply of contracts. In 2026-27, we currently estimate ca. 10% revenue growth. Our forecasts imply adj. EV/EBITDA'24=5.0x, adj. P/E'24=7.7x. 1H'24 results (excluding Q1'24 Zeus accounting impact) according to our assumptions may be weaker y/y, while we expect y/y improvement in 2H'24 (significant contribution from Bug contract).

	2021	2022	2023	2024F	2025F	2026F
Sales [PLN m]	277,2	505,6	546,9	575,0	520,0	578,3
Profit on sales [PLN m]	9,8	39,4	50,8	44,2	37,8	40,7
EBITDA [PLN m]	14,8	38,1	38,7	68,8*	42,4	44,9
EBIT [PLN m]	9,3	33,2	34,2	64,2*	37,8	40,4
Profit before tax [PLN m]	7,6	30,4	32,3	64,9*	39,4	41,7
Net profit [PLN m]	6,6	22,0	22,4	52,6*	31,9	33,7
Net debt (cash) [PLN m]	-10,1	-50,5	-27,1	-45,4	-58,5	-62,6
DPS [PLN/share]	0,00	0,00	1,55	2,50	2,41	2,40
P/BV	3,57	2,80	2,7	2,1	2,0	1,9
P/E	42,2	12,6	12,4	5,3	8,7	8,2
P/E adj.	42,2	12,6	12,4	7,7	8,7	8,2
EV/EBITDA	18,2	6,0	6,5	3,4	5,2	4,8
EV/EBITDA adj.	18,2	6,0	6,5	4,8	5,2	4,8
EV/EBIT	28,9	6,9	7,3	3,6	5,8	5,3

*The 2024 earnings forecasts include a PLN +20.5m operating profit on the deconsolidation of the Zeus subsidiary (we have adjusted the P/E and EV/EBITDA ratios in the table above for this event) the contribution of the Bug contract).

ACCUMULATE

(PREVIOUS: ACCUMULATE)

TARGET PRICE 31,0 PLN

20th MAY 2024, 08:00 CEST

DCF valuation [PLN]	31,7
Peer valuation [PLN]	28,3
Target price [PLN]	31,0
Price upside/downside	11,3%
Cost of capital	13,7%
Price [PLN]	27,9
Market cap [PLNm]	278,0
No. of shares [mn]	10,0
Max. price 6M [PLN]	27,5
Min. price 6m [PLN]	15,3
Rate of return 3M	46,1%
Rate of return 6M	82,5%
Rate of return 9M	114,2%
Shareholders	
Krzysztof i Ewa Folta	17,2%
Krzysztof Wieczorkowski	13,2%
Mirosław Nowakowski	6,1%
NN OFE	5,9%
OFE Allianz	5,1%
Pozostali	52,5%

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Valuation summary

	Share	Valuation
DCF valuation	80%	31,7
Peer valuation:	20%	28,3
Target price [PLN]		31,0

Source: Dom Maklerski BDM S.A.

DCF valuation

	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F
Revenues [PLN m]	575,0	520,0	578,3	631,4	677,9	717,8	745,7	764,8	777,8	786,5
EBIT [PLN m]	43,7	37,8	40,4	43,3	45,6	48,0	49,5	50,5	51,0	51,2
Tax rate	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%
Tax on EBIT [PLN m]	8,3	7,2	7,7	8,2	8,7	9,1	9,4	9,6	9,7	9,7
NOPLAT [PLN m]	35,4	30,7	32,8	35,1	36,9	38,9	40,1	40,9	41,3	41,5
Amortization [PLN m]	4,6	4,6	4,5	4,5	4,5	4,5	4,5	4,6	4,6	4,6
CAPEX [PLN m]	-4,4	-4,6	-4,6	-4,5	-4,6	-4,6	-4,6	-4,6	-4,7	-4,7
Working capital movement [PLN m]	4,9	5,8	-6,1	-5,6	-4,9	-4,2	-2,9	-2,0	-1,4	-0,9
FCF [PLN m]	40,4	36,4	26,5	29,5	32,0	34,6	37,1	38,8	39,9	40,5
DFCF [PLN m]	37,3	29,7	19,0	18,6	17,8	16,9	16,0	14,7	13,3	11,9
Total DFCF [PLN m]	195,1									
Terminal value [PLN m]	324,1									
Discounted terminal value [PLN m]	95,0									
Enterprise value [PLN m]	290,1									
Net debt 2023 [PLN m]	-27,1									
Minority interests [PLN m]	1,1									
Equity value [PLN m]	316,1									
Number of shares [m]	10,0									
Value per share [PLN]	31,7									

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	8,00%	8,00%	8,00%	8,00%	8,00%	8,00%	8,00%	8,00%	8,00%	8,00%
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	13,7%	13,7%	13,7%	13,7%	13,7%	13,7%	13,7%	13,7%	13,7%	13,7%
Contribution of equity	98,0%	98,4%	98,9%	99,4%	99,8%	100,0%	100,0%	100,0%	100,0%	100,0%
Cost of debt after tax	5,8%	5,8%	5,8%	5,8%	5,8%	5,8%	5,8%	5,8%	5,8%	5,8%
Contribution of debt	2,0%	1,6%	1,1%	0,6%	0,2%	0,0%	0,0%	0,0%	0,0%	0,0%
WACC	13,5%	13,5%	13,6%	13,6%	13,6%	13,7%	13,7%	13,7%	13,7%	13,7%

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	32,7	33,6	34,7	7,0%	33,1	34,1	35,3	7,0%	36,1	34,1	32,4	
	1,0	30,9	31,7	32,6	8,0%	30,9	31,7	32,6	8,0%	33,6	31,7	30,0	
	1,1	29,3	30,0	30,7	9,0%	28,9	29,6	30,3	9,0%	31,4	29,6	27,9	

Source: Dom Maklerski BDM S.A.

Peer valuation

	P/E			EV/EBITDA		
	2024F	2025F	2026F	2024F	2025F	2026F
Budimex	23,6	20,8	24,3	14,1	12,2	13,6
Intrrol	7,0	6,9	6,9	3,9	3,7	3,4
Mostostal Zabrze	9,5	12,1	12,5	3,1	3,4	3,3
Polimex	11,3	7,4	7,6	4,6	3,2	2,5
Median	10,4	9,7	10,0	4,3	3,5	3,3
Elektrotim	7,7	8,7	8,2	4,8	5,2	4,8
Premium/discount	-25,6%	-10,4%	-17,8%	12,9%	46,3%	43,3%
Valuation [PLN/share]	37,4	31,1	33,9	25,2	20,9	21,3
Year's contribution	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]		34,1			22,5	
Multiple's contribution		50%			50%	
Value per share [PLN]		28,3				

Source: Dom Maklerski BDM S.A. BDM forecasts

Main risks:

- risk of a surge in material costs translating into a decrease in margins during project execution,
- the risk of significant ongoing or potential contracts for the Border Guard resulting from the value of the contracts and tight deadlines
- risk of lack of qualified employees
- potential supply of shares by major shareholders
- payment bottlenecks and bankruptcies in the construction industry;
- problems with obtaining financing and bank guarantees;
- risk of not obtaining new orders and high competition;
- risk of problems and bankruptcy of subsidiaries

	2021	2022	2023	2024F	2025F	2026F
EPS, Adj+	0,66	2,20	2,24	5,27	3,20	3,38
Revenue	277,2	505,6	546,9	575,0	520,0	578,3
Gross Margin %	11,7%	13,3%	13,9%	12,5%	12,6%	12,4%
EBIT	9,3	33,2	34,2	64,2	37,8	40,4
EBITDA	14,8	38,1	38,7	68,8	42,4	44,9
Net Income Adj+	6,6	22,0	22,4	52,6	31,9	33,7
Net Debt	-10,1	-50,5	-27,1	-45,4	-58,5	-62,6
BPS	7,63	9,82	10,55	13,31	14,10	15,08
DPS	0,00	0,00	1,55	2,50	2,41	2,40
Return on Equity %	8,7%	22,4%	21,2%	39,6%	22,7%	22,4%
Return on Assets %	3,6%	8,2%	8,3%	19,1%	11,9%	11,6%
Depreciation	4,8	4,7	4,3	4,5	4,5	4,3
Amortization	0,7	0,2	0,1	0,1	0,1	0,2
Free Cash Flow	1,6	43,0	-1,4	43,2	37,2	28,3
CAPEX	1,1	1,7	1,8	4,4	4,6	4,6

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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	31,0	Accumulate	19,1	20.05.2024*	08:00 CEST	27,85	88 735
Accumulate	19,1	Buy	17,1	04.01.2024*	09:55 CEST	17,48	77 054
Buy	17,1	Buy	15,8	10.10.2023*	11:20 CEST	14,70	66 149
Buy	15,8	Buy	13,0	13.06.2023*	08:30 CEST	13,26	66 298
Buy	13,0	Accumulate	8,17	10.05.2023*	09:22 CEST	10,60	63 285
Accumulate	8,17	Hold	6,79	09.12.2022*	16:00 CEST	7,16	55 651
Hold	6,79	Buy	11,0	18.10.2022*	12:00 CEST	6,48	47 309
Buy	11,0	Buy	10,2	15.06.2022*	07:00 CEST	6,50	53 247
Buy	10,2	---	---	23.08.2021*	07:00 CEST	6,54	67 966

* 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 Elektrotim in 2021-06'2022 was Krystian Brymora

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'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	55%	0	0%
Accumulate	3	27%	0	0%
Hold	2	18%	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 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.

The report has been prepared by Dom Maklerski BDM S.A. (hereinafter BDM S.A.) within the Exchange Analytical Coverage Support Programme (<https://www.gpw.pl/gpwpa>). BDM S.A. is a party to the „Agreement on the provision of analytical report services” concluded with the Warsaw Stock Exchange Company („GPW”), on the basis of which BDM provides services of analytical coverage of the Issuer for the term of the Agreement. Under the agreement BDM obtains remuneration from GPW. All materials prepared by BDM within the framework of co-operation are available at <https://www.bdm.pl/program-wsparcia-pokrycia-analitycznego-gpw>.

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For the first time this report has been made available to the public on 20.05.2024 (08:00 CET). 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.

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- 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,
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- The issuer does not hold shares exceeding 5 % of the BDM issued share capital,
- BDM is 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 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.

**BDM acts as an issue sponsor for Elektrotim

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 would 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.

BDM is subject to supervision by the Polish Financial Supervision Commission.

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.