

The report was prepared by Dom Maklerski BDM at the request of the WSE as part of the Exchange's Analytical Coverage Support Programme

			2020	2021	2022F	
Price [PLN]	6,90	P/E	4,1	10,4	3,8	<b>Analyst:</b> Krystian Brymora krystian.brymora@bdm.pl tel.: (+48) 501 238 443
MC [mln PLN]	68,7	EV/EBITDA	2,0	4,0	3,5	
		EV/EBIT	2,5	6,3	4,3	
		P/BV	1,0	0,9	0,7	

**Last recommendation BDM: BUY with target price 10,2 PLN/share (2021/08/23) [LINK](#)**

**Q4'21 results well below our expectations, burdened by impairment charge on ZEUS (PLN -2.2m in JSF, PLN -0.35m in SSF), much better cash and future. Management is working on a new strategy for the rest of the year - slightly negative**

**BDM's comments:** Q4'21 results came well below our expectations despite comparable sales. Gross margin dropped from 12.4% after Q3'21 to 10.8%, mainly in the network division (8.7%). **Cumulatively for the 12 months, gross margin fell below 12%, which is the level we expect in 2022F. The negative balance of PDO amounted to PLN 0.8m, including a PLN -0.354m impairment charge on ZEUS goodwill (PLN -2.165m in the standalone financial statements).** Also, receivables were written off (net effect of PLN -1.3m). As a result, the consolidated operating profit fell to PLN 3.0m, falling 57% short of our expectations. Adjusted EBIT came in at PLN 3.8m (-46% q/q). Net profit came in at PLN 3.1m (-44% q/q).

**As in the previous quarter, cash flow looked much better in Q4'21.** OCF amounted to PLN 8.2m, mainly due to an increase in liabilities (although it is hard to say due to changes in the presentation of the balance sheet). **Cash increased by PLN 3.9m q/q to PLN 18.7m.** As a result, net debt (net cash) was negative at PLN 10.3m at the end of Q4'21 (vs. PLN 2.6m in Q3'21). We expected cash to deteriorate and net debt to reach PLN 7m.

At PLN 326.7m (vs. PLN 223.9m in Q3'21), the backlog was slightly below our expectations. In Q4'21, GK secured PLN 47.2m in new orders, including PLN 30m from ET SA. After winning a record contract in March, the order backlog should exceed PLN 600m in Q1'22. We have covered the agreement and its significance for Elektrotim in our separate commentary of 24 March 2022 on [Elektrotim \(the agreement on the Belarusian border\)](#), and in this morning's bulletin of 28 March 2022.

In a letter to shareholders, the CEO notes the exponential increase in material prices and labor costs, but the company managed to close the year "in line with plans." Management has begun work on a strategy for the next three years, which should be completed by the end of this year. "It is our ambition that going higher in the revenue and earnings categories will result in an increase in the company's capitalization and dividend payments in the years to come." Management is asking for "patience and confidence."

As for 2022, aside from the record-breaking order on the Belarusian border (we expect the contract to be executed in 2022/2023), we should note that Elektrotim already had a record backlog after Q3'21 (PLN 373m GK Elektrotim including PLN 271m ET SA), having secured over PLN 200m worth of orders in Q2-3'21 at relatively good prices. **As a result, Elektrotim can afford to more than double last year's net income.** Back in January, we were expecting a net income of ca. PLN 9m (due to cost inflation and margin erosion) vs. PLN 6m in our last recommendation.

The Management conference is scheduled for Wednesday, May 4th, 22nd at 11:00 a.m. on MS Teams.

#### Q4'21 results [PLNm]

	1Q'19	2Q'19	3Q'19	4Q'19	1Q'20	2Q'20	3Q'20	4Q'20	1Q'21	2Q'21	3Q'21	4Q'21	YoY	4Q'21F BDM	difference
Revenues	57,1	65,3	53,3	82,8	52,6	49,9	70,6	103,7	52,2	77,7	56,7	90,5	-13%	93,9	-3,5%
ETSA	39,5	43,5	36,5	54,5	35,7	34,4	51,6	77,9	39,3	64,3	42,1	62,3	-20%	77,6	-19,7%
subsidiaries	17,6	21,8	16,8	28,3	16,9	15,5	19,0	25,8	13,0	13,4	14,6	28,2	9%	16,3	73,7%
EBIT	-4,4	-8,9	-0,5	-2,3	5,5	3,7	3,6	10,4	-0,6	4,1	2,7	3,0	-71%	7,1	-57,4%
ETSA	-3,1	-8,4	0,5	-5,1	5,2	3,3	1,5	8,1	-0,2	5,9	3,5	2,1	-74%	5,9	-64,5%
subsidiaries	-1,4	-0,5	-1,0	2,8	0,3	0,4	2,1	2,3	-0,5	-1,8	-0,7	0,9	-58%	1,2	-23,3%
EBIT adj.	-4,5	-7,6	-2,7	1,6	-0,4	1,3	4,0	10,1	-0,8	4,9	1,9	3,8	-62%	7,1	-46,2%
Net profit	-4,3	-9,1	-1,1	0,0	4,2	2,7	2,0	7,7	-1,5	3,1	1,9	3,1	-60%	5,5	-43,8%
ETSA	-2,9	-8,9	-0,5	-2,0	4,3	2,5	0,6	9,3	-0,7	7,6	2,7	-0,1	-101%	4,7	-101,3%
subsidiaries	-1,4	-0,2	-0,7	2,1	-0,1	0,2	1,4	-1,5	-0,8	-4,5	-0,8	3,2	-306%	0,9	266,5%
EBIT margin	-7,8%	-13,6%	-0,9%	-2,8%	10,5%	7,3%	5,1%	10,0%	-1,2%	5,3%	4,8%	3,3%		7,6%	
ETSA	-7,7%	-19,3%	1,4%	-9,3%	14,6%	9,5%	2,9%	10,4%	-0,4%	9,2%	8,3%	3,3%		7,6%	
subsidiaries	-7,8%	-2,2%	-6,0%	9,9%	2,1%	2,6%	11,2%	8,7%	-3,6%	-13,2%	-5,1%	3,3%		7,6%	
Net margin	-7,6%	-13,9%	-2,1%	0,0%	8,0%	5,4%	2,8%	7,5%	-2,9%	4,0%	3,3%	3,4%		5,9%	
ETSA	-7,3%	-20,4%	-1,3%	-3,8%	11,9%	7,2%	1,1%	11,9%	-1,7%	11,9%	6,3%	-0,1%		6,0%	
subsidiaries	-8,1%	-1,0%	-3,9%	7,3%	-0,3%	1,3%	7,4%	-6,0%	-6,3%	-33,9%	-5,4%	11,2%		5,3%	
Backlog	235,8	224,4	313,9	306,4	294,3	356,2	301,6	291,2	302,6	313,4	373,4	326,7	12%	341,3	-4,3%
RMK net	41,9	36,9	32,9	20,7	0,4	-2,3	11,3	3,7	-3,1	23,0	15,7	7,6	106%	9,4	-18,9%
Net working capital	13,9	19,1	22,4	22,4	34,3	20,8	28,4	31,7	44,1	26,9	30,2	36,4	15%	51,8	-29,7%
Net debt	23,7	35,7	36,8	21,8	10,1	-10,5	5,5	-10,9	-3,9	4,6	-2,6	-10,1		7,0	
P/E										6,1	6,1	10,4			
EV/EBITDA										3,2	3,0	4,0			

Source: BDM S.A., company

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**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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**Ratings and price targets history:**

rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
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

**Distribution of BDM's recommendations in Q2'22\*:**

	number	%	number	%
Buy	2	100%	3	100%
Accumulate	0	0%	0	0%
Hold	0	0%	0	0%
Reduce	0	0%	0	0%
Sell	0	0%	0	0%

**, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months**

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