



Dom Maklerski BDM S.A.

ELEKTROTIM

ANALYTICAL REPORT - SUMMARY

The Q2'23 period was another quarter of positive earnings surprise from Elektrotim. The earnings conference also highlighted the positive outlook for the next quarters, which implies a seasonal improvement in 2H and an increase in y/y results in 2023. Sentiment towards the company was spoiled by the filing of Zeus' bankruptcy petition. At the same time, we note that the value of this entity was already written down to zero after Q2'23, and Elektrotim's current financial exposure is limited to ca. PLN 3-4m. The peri-election period translates into low decision-making in awarding new public tenders, but the company's portfolio already fills a large portion of its 2024 revenue forecast. On the positive side, we note the BG's announcement in September of tenders for perimetry on border rivers with Belarus. Following the 1H'23 results, we are upgrading our modelled earnings forecasts (our previous EBITDA forecast was 57% executed after 1H'23, and management believes the next quarters should be better due to seasonality). We set our current target price at PLN 17.1, which implies reiterating a Buy rating.

Elektrotim's Q2'23 results sustained the company's year-long positive earnings trend. In Q2'23, Elektrotim posted revenue of PLN 128m and net profit of PLN 11.2m, which is the best Q2 in the company's history. At the same time, at the end of Q2'23, the company recorded (as expected) a marked deterioration in its cash position (a significant increase in demand for working capital; we expect the situation to gradually improve in H2'23).

After Q2'23, the Group's backlog amounted to PLN 626m, about half of which, in our view, is still to be executed in 2023. Management's goal after 1H'23 is to at least maintain margins. Seasonally, we note that 2H is usually stronger than the beginning of the year; management believes there is no indication that the traditional seasonality will not be maintained this year. We currently assume the company will generate PLN 535m in revenue, PLN 50.5m in EBIT and PLN 37.7m in net profit in 2023. We take a more conservative approach to 2024 (the company is mainly pursuing contracts with deadlines <18m, the competitive environment for 2023 tenders is more challenging, and the situation on the cost side may turn around if EU funds are unblocked).

At the same time, we maintain that in the medium/long term, the company may be a beneficiary of the increase in expenditure on power grids and the military area (references and certificates held). In its 2023-25 strategy, the Management Board has outlined that the company is targeting at least PLN 350m in revenue and PLN 10m in net profit at the standalone level (50-75% is to be allocated to dividends). In light of the 2022 results and 2023 prospects, these targets do not seem demanding. At the same time, the company has struggled to stabilise results in recent years, which translates into a discount in valuation.

Following the finalisation of the sale of Procom in Q4'22, work was underway to divest the Zeus subsidiary. The last report showed that the entity's situation was difficult (its value was written down to PLN 0.0m). Ultimately, Zeus' management filed for bankruptcy. Elektrotim's exposure is currently around PLN 3-4m (granted loan, guarantees on contracts and subcontract advance). Of course, Elektrotim will not be able to raise funds from the sale of the company (Zeus used to generate ca. PLN 30m in external revenues, which, assuming EV/Sales valuation=0.2x, would give a potential valuation of ca. PLN 5-7m), but it is cutting down the risk of adding funds to the company in the future (the company has been struggling with profitability for years, and it has been relying heavily on intra-group orders recently). We do not see any loss of major competencies within the group. Elektrotim is independently winning orders directly from the military sector.

	2020	2021	2022	2023F	2024F	2025F
Sales [PLN m]	276,8	277,2	505,6	535,0	501,3	486,2
EBITDA [PLN m]	28,6	14,8	38,1	55,0	44,3	35,3
EBIT [PLN m]	23,2	9,3	33,2	50,5	39,7	30,9
Profit before tax [PLN m]	21,6	7,6	30,4	47,7	41,1	31,6
Net profit [PLN m]	16,6	6,6	22,0	37,7	33,3	25,6
Net debt (cash) [PLN m]	-10,9	-10,1	-50,5	-23,4	-36,9	-39,6
DPS [PLN/share]	0,00	0,00	0,00	1,50	2,49	2,50
P/BV	2,1	1,88	1,48	1,2	1,1	1,1
P/E	8,8	22,3	6,7	3,9	4,4	5,7
EV/EBITDA	4,7	9,3	2,5	2,2	2,5	3,0
EV/EBIT	5,9	14,8	2,9	2,4	2,8	3,5

BUY

(PREVIOUS: BUY)

TARGET PRICE 17,1 PLN

10th OCTOBER 2023, 11:20 CEST

DCF valuation [PLN]	15,8
Peer valuation [PLN]	20,2
Target price [PLN]	17,1
Price upside/downside	16,2%
Cost of capital	15,4%
Price [PLN]	14,7
Market cap [PLNm]	146,8
No. of shares [mn]	10,0
Max. price 6M [PLN]	17,0
Min. price 6m [PLN]	9,0
Rate of return 3M	6,8%
Rate of return 6M	54,1%
Rate of return 9M	114,3%
Shareholders	
Krzysztof and Ewa Folta	17,2%
Krzysztof Wieczorkowski	13,2%
OFE Allianz	9,8%
Miroslaw Nowakowski	6,1%
NN OFE	5,9%
Others	47,8%

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Valuation summary

	Share	Valuation
DCF valuation	70%	15,8
Peer valuation:	30%	20,2
Target price [PLN]		17,1

Source: Dom Maklerski BDM S.A.

DCF valuation

	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Revenues [PLN m]	535,0	501,3	486,2	500,8	510,8	521,0	530,4	538,3	545,3	550,8
EBIT [PLN m]	50,5	39,7	30,9	26,9	24,8	22,7	23,2	23,5	23,8	24,0
Tax rate	21,5%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%
Tax on EBIT [PLN m]	10,9	7,5	5,9	5,1	4,7	4,3	4,4	4,5	4,5	4,6
NOPLAT [PLN m]	39,6	32,1	25,1	21,8	20,1	18,4	18,8	19,0	19,3	19,5
Amortization [PLN m]	4,4	4,4	4,4	4,5	4,6	4,6	4,6	4,7	4,7	4,7
CAPEX [PLN m]	-5,0	-4,8	-4,5	-4,5	-4,6	-4,7	-4,7	-4,7	-4,8	-4,8
Working capital movement [PLN m]	-56,2	5,8	2,6	-2,5	-1,7	-1,7	-1,6	-1,4	-1,2	-0,9
FCF [PLN m]	-17,2	37,5	27,5	19,3	18,4	16,6	17,1	17,6	18,0	18,5
DFCF [PLN m]	-16,6	31,5	20,0	12,1	10,0	7,9	7,0	6,2	5,5	4,9
Total DFCF [PLN m]	88,6									
Terminal value [PLN m]	129,2									
Discounted terminal value [PLN m]	34,3									
Enterprise value [PLN m]	122,8									
Net debt 2022 [PLN m]	-50,5									
Dividend 2023 [PLN m]	15,0									
Minority interests [PLN m]	1,1									
Equity value [PLN m]	157,3									
Number of shares [m]	10,0									
Value per share [PLN]	15,8									

Terminal growth rate: +1,0%

WACC calculation

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

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%	17,0		0,00%	1,00%	2,00%	17,0		0,9	1,0	1,1
beta	0,9	16,3	16,6	17,0	8,5%	16,3	16,7	17,0	8,5%	17,5	16,7	15,9	
	1,0	15,5	15,8	16,0	9,5%	15,5	15,8	16,0	9,5%	16,6	15,8	15,0	
	1,1	14,8	15,0	15,2	10,5%	14,8	15,0	15,2	10,5%	15,8	15,0	14,2	

Source: Dom Maklerski BDM S.A.

Peer valuation

	P/E			EV/EBITDA		
	2023F	2024F	2025F	2023F	2024F	2025F
Intról	6,2	6,2	6,1	4,0	3,9	3,7
Mostostal Płock	13,6	8,8	7,5	3,2	2,2	1,7
Mostostal Zabrze	5,0	11,4	11,4	1,7	3,0	2,9
Polimex	10,9	7,4	7,5	3,2	2,5	1,9
Median	8,6	8,1	7,5	3,2	2,8	2,4
Elektrotim	3,9	4,4	5,7	2,2	2,5	3,0
Premium/discount	-54,5%	-45,4%	-23,5%	-30,0%	-11,1%	26,4%
Valuation [PLN/share]	32,34	26,91	19,22	20,00	16,07	12,46
Year's contribution	20%	40%	40%	20%	40%	40%
Average valuation [PLN/share]		24,9			15,4	
Multiple's contribution		50%			50%	
Value per share [PLN]	20,2					

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,
- risk of a significant contract on the Belarusian border worth PLN 279m resulting from the value of the contract (and very 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	2023F	2024F	2025F	2026F
EPS, Adj+	0,66	2,20	3,77	3,33	2,56	2,24
Revenue	277,2	505,6	535,0	501,3	486,2	500,8
Gross Margin %	11,7%	13,3%	15,2%	13,3%	11,8%	10,8%
EBIT	9,3	33,2	50,5	39,7	30,9	26,9
EBITDA	14,8	38,1	55,0	44,3	35,3	31,4
Net Income Adj+	6,6	22,0	37,7	33,3	25,6	22,4
Net Debt	-10,1	-50,5	-23,4	-36,9	-39,6	-40,2
BPS	7,63	9,82	12,10	12,94	13,00	13,32
DPS	0,00	0,00	1,50	2,49	2,50	1,92
Return on Equity %	8,7%	22,4%	31,2%	25,8%	19,7%	16,8%
Return on Assets %	3,6%	8,2%	15,2%	13,4%	10,4%	8,9%
Depreciation	4,8	4,7	4,2	4,2	4,2	4,2
Amortization	0,7	0,2	0,2	0,2	0,2	0,3
Free Cash Flow	1,6	43,0	-12,1	38,3	28,1	20,1
CAPEX	1,1	1,7	5,0	4,8	4,5	4,5

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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	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 4Q'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	1	100%	0	0%
Accumulate	0	0%	0	0%
Hold	0	0%	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.

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*BDM is a party to the “ANALYTICAL REPORT PREPARATION SERVICES AGREEMENT” concluded with the WSE.

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