

Thursday, October 07, 2021 | Monthly Market Outlook, an excerpt

Pozbud hold (no change)

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After significant changes in the shareholding structure in 2020, Pozbud will become a holding company with a diversified revenue structure. The group with a portfolio of 460 MW projects based on renewable energy sources intends to begin its activities in the field of comprehensive preparation and execution with the management of photovoltaic and wind power plants projects, which may result in up to PLN 140m of annual sales from 2024 onwards. Pozbud may soon announce cooperation with a foreign entity, which would allow obtaining appropriate references, technologies, and access to new products.

In consortium with Mag-Train, the Company has submitted the best bids for modernization of the railway fleet for PKP Intercity for PLN 594m, where we expect that the first contract (PLN 70.6m) may be signed in September and the second one in Q4'21 (PLN 3,917m).

For more than 2 years, Pozbud will continue to implement the GSM-R contract (the remaining PLN 420m to be booked), after which it intends to expand its offer of services related to the implementation of railway investments and constructing fiber-optic grids.

In case of the window frames segment, Pozbud hopes to take advantage of strong housing demand to grow revenues to PLN 100m in 2025 (from PLN 28m in 2020).

With all these initiatives, in our view Pozbud has positioned itself to at least double sales volumes over the next 5 years, resulting in substantial growth in profits.

We maintain a hold recommendation for Pozbud.

Financial Highlights

(PLN m)	2019	2020	2021P	2022P	2023P
housing	29	7	5	0	0
construction	110	159	170	190	180
GSMR	96	83	150	170	150
RES	0	0	0	64	90
rail industry	0	0	0	24	72
Operating cash flow	6	33	27	-22	21
D&A	7	8	8	8	8
Working capital	-26	-16	-5	-60	-24
Investing cash flow	-7	-1	-5	-8	-5
CAPEX	-3	-1	-5	-8	-5
Financing cash flow	-20	-8	-24	7	-10
Dividends/Buyback	0	0	0	0	-6
FCF	8	34	32	-14	26
FCF/EBITDA	23%	67%	87%	-33%	48%
OCF/EBITDA	15%	65%	74%	-51%	39%

DCF Analysis

(PLN m)	21P	22P	23P	24P	25P	26P	27P	28P	29P	30P	+
construction	110	159	170	190	180	100	100	100	100	100	100
RES	0	0	0	64	90	138	184	184	184	184	184
rail industry	0	0	0	24	72	89	60	60	60	60	60
Revenue	220	338	417	417	444	446	448	450	452	454	457
EBITDA	37	44	53	48	52	52	52	52	52	52	51
EBITDA margin	16.7%	13.1%	12.8%	11.4%	11.6%	11.6%	11.6%	11.6%	11.6%	11.5%	11.1%
EBIT	28	36	45	39	44	44	44	45	45	45	46
Tax	5	6	8	7	8	8	8	8	8	9	8
CAPEX	-5	-8	-5	-5	-5	-5	-5	-5	-5	-5	-5
Working capital	-5	-60	-24	-34	-34	0	0	0	0	0	0
FCF	22	-30	16	2	4	39	39	39	39	39	37
PV FCF	21	-27	13	1	3	25	22	20	18	16	
WACC	9.1%	8.7%	8.8%	8.7%	8.6%	8.9%	9.2%	9.5%	9.9%	10.0%	10.0%
Risk-free rate	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

Current Price 4.50 PLN **Upside**
9M Target Price 5.24 PLN **+16.4%**

	rating	target price	issued
unchanged	hold	5.24 PLN	2021-09-06

Key Metrics			POZ PW	vs. WIG
Ticker	POZ PW	1M Price Chng	-	-
ISIN	PLPZBDT00013	YTD Price Chng	-	-
Outst. Stock (m)	44.8	ADTV 1M	0.6 mln PLN	
MC (PLN m)	201.8	ADTV 6M	0.4 mln PLN	
EV (PLN m)	251.9	EV/EBITDA 12M fwd	6.5	+60.3%
Free Float	-	EV/EBITDA 5Y avg	4.1	premium

Earnings Projections

(PLN m)	2019	2020	2021P	2022P	2023P
Revenue	197	194	220	338	417
EBITDA adj.	37	51	37	44	53
EBITDA margin	18.8%	26.1%	16.7%	13.1%	12.8%
EBIT adj.	30	42	28	36	45
Net income adj.	16	25	20	23	29
P/E adj.	7.4	8.1	10.0	8.6	6.9
P/B	0.8	0.9	0.8	0.8	0.7
EV/EBITDA adj.	5.0	5.4	6.8	6.5	5.4
DPS	0.00	0.00	0.00	0.00	0.13
DYield	0.0%	0.0%	0.0%	0.0%	2.9%
Forecast Update (% change)			2021P	2022P	2023P
construction			0.0%	0.0%	0.0%
RES			0.0%	0.0%	0.0%
rail industry			0.0%	0.0%	0.0%
EBITDA			0.0%	0.0%	0.0%
net income			0.0%	0.0%	0.0%
DPS			0.0%	0.0%	0.0%

Key Balance Sheet Figures

(PLN m)	2019	2020	2021P	2022P	2023P
Assets	360	524	521	557	584
Fixed assets	168	208	205	204	201
Equity	151	222	242	265	289
Minority interests	0	0	0	3	6
Net debt	65	69	50	84	78
Net debt/EBITDA (x)	174%	137%	136%	190%	146%
Net debt/Equity (x)	43%	31%	21%	32%	27%

Relative Valuation Summary

	P/E			EV/EBITDA		
	21P	22P	23P	21P	22P	23P
Minimum	4.0	7.8	6.1	2.9	3.3	3.1
Maximum	22.4	14.9	13.4	9.3	9.8	9.4
Median	10.6	10.4	10.7	6.7	6.0	5.4
Weight	33%	33%	33%	33%	33%	33%

DCF Summary

(PLN m)	
Beta	1.3
FCF perp. growth rate	2%
PV FCF	301.7
Net debt	69.2
Other adj.	0.0
Value per share (PLN)	5.19

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	4.57
DCF Val.	50%	5.19
Implied Price		4.88
Cost of equity (9M)		7.4%
9M Target Price		5.24

List of abbreviations and ratios contained in the report:

EV (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases) - Lease Payments

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market

NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market

UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%

HOLD – we expect that the rate of return from an investment will range from -5% to +5%

REDUCE – we expect that the rate of return from an investment will range from -5% to -15%

SELL – we expect that an investment will bear a loss greater than 15%

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NAV – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

mBank issued the following investment recommendations for the Company in the 12 months prior to this publication

Pozbud

Rating	hold	suspended
Rating date	2021-09-06	2020-12-08
Target price	5.24	-
Price on rating	5.16	1.91

Comparable Companies Used In Relative Valuation Models

Pozbud Alumetal, Amica, Boryszew, Cognor, Famur, Ferro, Forte, Grupa Kęty, Mangata, Newag, PKP Cargo, Stalprodukt, Wielton

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