Tuesday, 7 June 2022 | update

Compremum: buy (reiterated)

CPR PW; CPR.WA | Industrials, Poland

Growth Through Diversification

We maintain a bullish view on Compremum as it continues to expand its business into new sectors as well as geographically diversifying revenues in existing markets.

By venturing into rolling stock maintenance, Compremum stands to benefit from EU-funded Covid-19 recovery programs of the Polish Railways, and it will recognize its first revenues in 2022 from a PLN 70.5m contract to overhaul fourteen rail cars. As part of the new business of solar photovoltaic solutions, the Company expects to sell its first 4MW power plant by the end of this year. Within the infrastructure business, the Company has been able to renegotiate rates on the GSM-R contract to bring them to an equivalent to 2021 averages.

In terms of earnings prospects, in FY2022, we are expecting a similar profit as generated in 2021, followed by a return to growth from 2023. The results for Q1 2022 exceeded our expectations with better margins, moreover, Compremum completed a remodel of its door frame production facilities in the period that boosts future sales potential in the segment.

We have revised downwards our 2022 and 2023 revenue forecasts for Compremum because part of the projected revenues will be recorded later than initially assumed. We have also lowered our near-term margin expectations to account for high price inflation but long term we continue to expect strong margins.

On our updated estimates, after losing 50% from its peak, CPR stock is currently trading at less than 5x P/E, showing a 40% discount to the peer group median that we consider undeserved and a perfect buy opportunity. We maintain a buy call for CPR with a target price of PLN 4.01.

Tapping Into NRP Funds

EU has allocated funds to Poland's National Recovery Plan (the "NRP") that include an allocation of €2.84bn towards modernizing our railway infrastructure. Polish Railways will be able to do more with a bigger budget, with PLN 24.5bn earmarked for rolling stock upgrades in the years 2021-2030.

Pursuing New Opportunities in Infrastructure

As it continues to deliver milestones under the GSM-R contract, which ends in 2023, Compremum keeps pursuing new opportunities in the infrastructure engineering segment. In May 2022 alone, the Company submitted bids on three potential contracts with a combined value of an estimated PLN 3bn.

Venturing Into Energy Storage

Compremum's biggest undertaking at the moment is a PLN 250m joint venture with Singapore's Durapower to build a lithium-ion battery in the Łódź Special Economic Zone. With a SEZ project, the investors can recover up to 35% of the eligible costs in tax breaks. The future profit from the factory for Compremum shareholders is projected at PLN 25m.

(PLN m)	2020	2021	2022E	2023E	2024E
revenue	194	202	238	331	424
EBITDA (adj.)	51	44	42	47	57
EBITDA margin	26.1%	21.8%	17.7%	14.3%	13.4%
EBIT (adj.)	42	36	35	40	47
net profit (adj.)	28	26	24	27	31
P/E (adj.)	4.8	5.1	5.5	4.9	4.3
P/FCFE	4.0	-8.4	5.2	7.4	9.8
FCFF/EV	17.7%	-6.6%	12.2%	23.0%	18.2%
EV/EBITDA (adj.)	4.0	5.1	5.2	5.4	5.3
DPS	0.00	0.00	0.00	0.00	0.00
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

current price	PLN 2.94
target price	PLN 4.01
mCap	PLN 132m
free float	PLN 41.58m
ADTV (3M)	PLN 0.2m

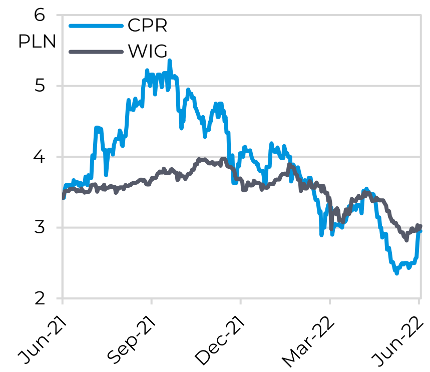
Shareholders

Łukasz Fojt	26.62%
Andrzej Raubo	25.26%
NN OFE	16.56%
Others	31.55%

About

Compremum is a holding company based in Poznań whose business activity includes production of wooden windows, building and infrastructure, housing development, rolling stock services, and development of solar photovoltaic power plants. At the moment, Compremum is involved in a PLN 720m multi-year GSM-R assignment.

CPR vs. WIG



name	target price		recommendation	
	new	old	new	old
Compremum	4.01	4.87	buy	buy

name	current price	target price	upside
Compremum	2.94	4.01	+36%

forecast revision	2022E	2023E	2024E
construction	0.0%	+4.7%	+118.0%
RES	-19.0%	-33.8%	0.0%
railway services	-30.0%	+62.5%	+85.7%
EBITDA	-14.1%	-13.6%	+5.0%
net profit	-16.9%	-10.4%	+14.6%
DPS	0.0%	0.0%	0.0%
OCF	-9.7%	+79.6%	-113.1%
Net debt	+75.7%	+31.8%	+54.5%

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Key Risks

Housing Slump

As a producer of frames for windows and doors, Compremum's sales depend closely on the situation in the housing market.

As of June 2022, Poland is experiencing increasing interest rates that could curb demand for housing loans and lead to a slowdown in building activity. To counteract this risk, Compremum has expanded its geographic reach to the U.S. market, which in Q1 2022 accounted for 80% of total sales. In subsequent quarters, the U.S. share in revenues will most likely decrease, however, the share of overall exports is set for continued growth.

Conditional NRP Disbursement

The European Commission has approved Poland's National Recovery Plan, but it has put in place certain conditions that Poland has to meet as a prerequisite for disbursement.

Increasing Costs of Materials and Labor

Compremum spent 27% more on energy and materials in Q1 2022 than in the same period in 2021, and at the same time its labor costs surged 37%, resulting in a 21.2% y/y rise in total costs of goods – a consequence of high global price inflation.

Compremum strives to mitigate the increasing costs by renegotiating contracts. In Q1 2022, the Company managed to achieve significantly improved margins, however, if costs continue to rise, future margins could come under pressure again.

Increase in Labor Costs

Labor costs as of June 2022 are on the rise in line with an increasing inflation rate, and the upward pay pressures are not expected to ease in the foreseeable future.

Loss of Business Due to COVID-19

The Covid-19 pandemic seems to be under control as of June 2022, however, no one can guarantee that it will never resurge again. For example, parts of China went on a two-month lockdown in March amid a Covid outbreak, resulting in dramatic reductions in domestic production volumes and worsening of local economic indicators.

Escalation of Russia's War in Ukraine

The ongoing war in Ukraine has contributed vastly to the upward shift in prices of raw materials and energy through embargoes placed on imports from Russia and Belarus. Costs and overall business conditions could worsen dramatically if the war escalates.

Valuation

Using DCF analysis and relative valuation, we set our nine-month per-share price target for Compremum at PLN 4.01.

(PLN)	weight	price
relative valuation	50%	3.75
DCF analysis	50%	3.71
	valuation	3.73
	9M target price	**4.01**

Source: mBank

Relative Valuation

We compared Compremum's trading multiples with those a group of comparable Polish companies from the industrial sector. The peer group for now excludes rolling stock repairers and RES developers due to the fact that Compremum is in early stages of building a presence in these two sectors.

Multiples Comparison

	P/E			EV/EBITDA		
	2022E	2023E	2024E	2022E	2023E	2024E
FABRYKI MEBLI FORTE SA	9.1	8.6	7.7	5.8	5.6	5
GRUPA KETY SA	9.4	9.9	9	8.1	7.7	7
STALPRODUKT SA	3.4	10.6	10.8	1.4	2.3	1.1
ALUMETAL SA	6.7	8.1	8.4	5.2	6.4	6.1
WIELTON SA	18.4	5.5	4.4	5.5	4.2	3.4
MANGATA HOLDING SA	6.3	5.8	5.7	5	4.8	4.3
AMICA SA	15.7	8.8	7.5	5.8	4.3	4.1
FAMUR SA	9.2	8.9	8.5	3.1	2.9	2.2
NEWAG SA	10.6	8.5	9.1	6.7	5.4	5.6
FERRO SA	8.4	6.9	6.4	6.3	5.2	4.8
COGNOR SA	2	6.6	11.2	2.1	4.5	5.6
Minimum	2	5.5	4.4	1.4	2.3	1.1
Maximum	18.4	10.6	11.2	8.1	7.7	7
Median	**8.7**	**8.5**	**8.4**	**5.4**	**5**	**4.8**
Compremum	4.7	4.2	5.5	4.7	5.0	6.7
premium / discount	-46.4%	-50.7%	-34.5%	-11.4%	-0.1%	40.0%

Implied Valuation							
multiple weight			50%			50%	
year weight		33%	33%	33%	33%	33%	33%
equity value per share (PLN)	**3.75**						

Source: mBank, Bloomberg

DCF Valuation

Assumptions:
- Beta = 1.3, reflecting the cyclicality of Compremum's revenues, the reliance of its sales on public contracts, characterized by greater uncertainty, and increased leverage.
- Future cash flow is discounted as of the end of May 2022.
- We assume FCF after the forecast period will grow at a rate of 2%.
- D&A expenses in the terminal period are equal to CAPEX.
- Net debt is as at year-end 2021.

DCF Model

(PLN m)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2031E+
EBIT	**34.6**	**39.7**	**47.1**	**46.5**	**48.5**	**50.1**	**51.5**	**52.8**	**54.3**	**55.9**	**57.7**
EBIT margin	14.52%	11.99%	11.10%	7.58%	7.62%	7.63%	7.64%	7.64%	7.65%	7.66%	7.67%
tax on EBIT	6.2	7.1	8.6	8.5	8.9	9.2	9.6	10.0	10.3	10.7	11.0
effective tax rate	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%
NOPLAT	**28.4**	**32.6**	**38.5**	**38.0**	**39.6**	**40.8**	**41.9**	**42.9**	**43.9**	**45.2**	**46.6**
D&A	7.5	7.6	9.7	11.6	11.6	11.7	11.8	11.9	11.9	12.0	10.0
CAPEX	-10.0	-50.0	-50.0	-8.0	-8.8	-9.7	-10.6	-11.7	-12.9	-14.0	-15.0
working capital & other	-14	-26	-30	-43	-10	-11	-11	-12	-14	-13	-15
FCF	12	-36	-32	-2	32	32	32	31	29	30	29
WACC	8.93%	8.51%	8.16%	7.62%	7.73%	7.86%	8.02%	8.21%	8.44%	8.71%	9.05%
discount factor	89.22%	82.65%	77.00%	72.75%	67.23%	61.93%	56.80%	51.81%	46.95%	42.20%	37.47%
PV FCF	10.4	-29.9	-24.4	-1.3	21.7	20.0	17.9	15.9	13.8	12.6	10.9
WACC	8.93%	8.51%	8.16%	7.62%	7.73%	7.86%	8.02%	8.21%	8.44%	8.71%	9.05%
cost of debt	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
risk-free rate	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
risk premium	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
effective tax rate	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%
net debt / EV	41.38%	49.86%	56.88%	67.65%	65.45%	62.81%	59.64%	55.77%	51.23%	45.83%	39.04%
cost of equity	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%
risk premium	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Beta	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3

FCF growth in the terminal period (g)	2.0%
Terminal value	413.3
Present value of terminal value	192.7
Present value of FCF in the forecast period	56.4
Enterprise value	249.1
net debt (2021 eop)	80.9
Other noncore assets	0.0
Minority interest	1.8
Equity value	168.4
million shares outs.	44.8
equity value per share (PLN)	**3.71**
9M cost of equity	7.4%
target price	**3.99**

EV/EBITDA ('22) at target price	6.3
P/E('22) at target price	7.4
TV / EV	77.4%

Sensitivity Analysis

	FCF growth in perpetuity				
	0%	1%	2%	3%	4%
WACC +1.0 p.p.	2.51	2.83	3.24	3.75	5.40
WACC +0.5 p.p.	2.33	2.73	3.24	3.88	5.96
WACC	2.94	3.35	3.99	4.60	7.17
WACC -0.5 p.p.	3.68	4.20	4.87	5.78	9.16
WACC -1.0 p.p.	4.17	4.78	5.59	6.73	11.24

Source: mBank *For the sake of simplicity we include the cash flow of Faradise S.A in revenues of Compremum S.A in proportion to its 50% JV stake from 2025

Investing in the Future

Li-ion Battery Factory

Compremum has teamed up with Singapore's Durapower for a project based in the Łódź Special Economic Zone, managed by a 50-50 joint venture called "Faradise S.A."

The goal is to build a facility producing lithium-ion batteries for use in containerized energy storage systems.

The site of the future factory is located in the rural gmina of Kleszczów.

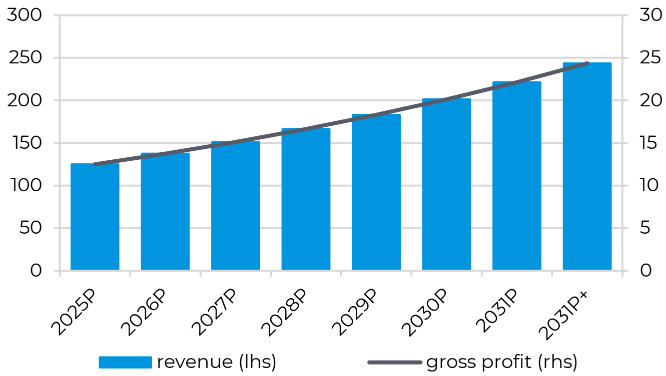
Compremum's partners in the project are involved in the business of clean energy solutions, including Li-ion batteries and energy storage systems.

The investment is estimated at PLN 190-250m, and we put Compremum's capital expenses in the 2022-2024 period at PLN 110m.

By establishing a factory in a special economic zone, Compremum can recover 35% of the eligible costs in tax breaks. Assuming total costs of PLN 200m, the Company could claim PLN 70m over 12 years.

Compremum expects to complete the factory towards the end of 2024, leading us to assume that the facility will begin to generate cash flow the following year.

Revenue and gross profit projection for the li-ion battery factory (PLN m)



Source: mBank

According to our forecasts, Faradise will generate a 10% sales margin on a revenue of PLN 125m in its initial year, and in five years it will reach a target revenue of PLN 250m and gross profit of PLN 25m. Note that our forecasts are calculated for Compremum's 50% share in the Faradise joint venture.

National Recovery Plan for Railways as an Opportunity to Grow Revenues

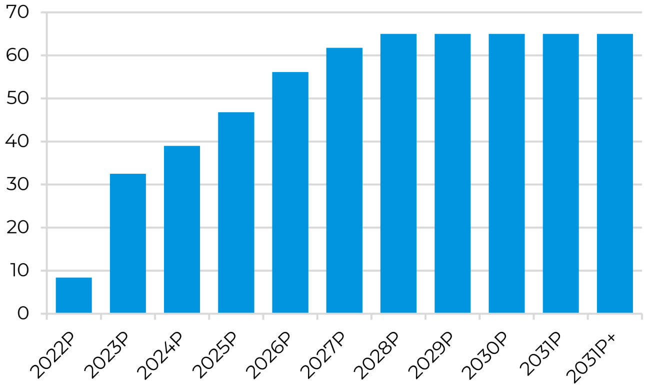
Poland's National Recovery Plan lists as its #2 priority the modernization of domestic railways with a total budget of €2.4bn, of which €437m has been earmarked for rolling stock upgrades.

Polish Railways plan to spend a combined PLN 24bn on rolling stock modernization in the years 2021-2030.

In 2021, Compremum, jointly with partner Mag-Train, won a contract to overhaul fourteen railcars by March 2025 for PLN 70m. We expect PLN 8.5m of this revenue to be recognized in 2022, at a gross margin of 10%. Compremum has a 70% share in the contract.

We expect the Company to continue growing its railway services business in the coming years.

Revenue projection for Railway Services (PLN m)



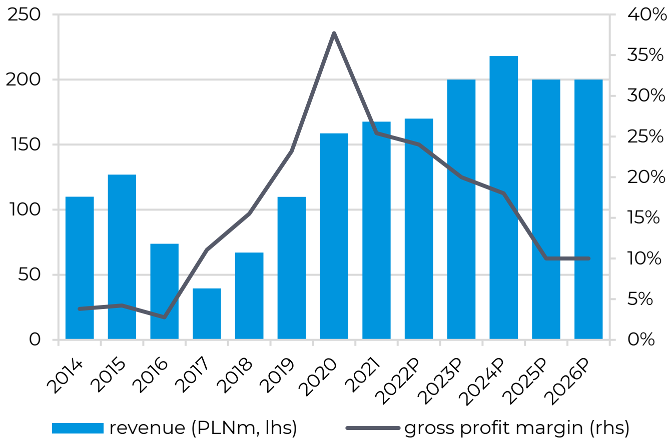
Source: mBank

We see potential for revenue from railway services to triple in 2023 relative to 2022, fueled by Compremum and Mag-Train's successful partnership, which in our view has the ability to bring in PLN 100m in revenue a year, with Compremum taking a 65% stake – a conservative assumption considering that, in the first four months of 2022, the consortium submitted bids for contracts worth a combined PLN 800m in Poland, and at the same time in April it answered to a call for proposals from the Swiss Federal Railways with an offer of rolling stock corrosion management in the amount of €60+ million.

Beyond GSM-R in Infrastructure Engineering

Compremum recognizes revenues from the GSM-R contract in the segment of infrastructure engineering which in 2021 accounted for 78% of total sales. This year, the proportion could be slightly lower, but the GSM-R job will still make up the majority of the annual revenue.

Revenue and gross margin projection for the segment of Infrastructure Engineering



Source: mBank

We expect Compremum to generate revenue of PLN 170m from infrastructure engineering in 2022, followed by PLN 200m in 2023 and the following years, when, however, the sales margins are likely to be lower after contraction following the completion of the GSM-R contract.

Compremum has secured new contracts for infrastructure services in a total amount of PLN 59m, and it continues to apply for new assignments as opportunities arise, having submitted bids on PLN 3bn-worth of contracts in May 2022 alone.

P&L

(PLN m)	2020	2021	2022E	2023E	2024E
revenue	**194**	**202**	**238**	**331**	**424**
windows	28	32	42	54	70
real estate development	7	3	2	0	5
infrastr. engineering	159	168	170	200	218
GSM-R	83	139	130	130	118
floors	0	0	0	0	0
RES	0	0	17	45	92
railway services	0	0	8	33	39
pre-tax profit	**56**	**47**	**50**	**56**	**64**
windows	-6	4	6	8	11
real estate development	2	1	0	0	2
infrastr. engineering	60	43	41	40	39
floors	0	0	0	0	0
RES	0	0	2	5	9
railway services	0	0	1	3	4
EBIT	47	36	35	40	47
financing activity	-5	-4	-4	-4	-4
pre-tax profit	40	32	31	36	43
tax	11	6	6	7	9
minority interest	0	0	1	2	4
net profit	29	26	24	27	31
(adj.) EBITDA	**51**	**44**	**42**	**47**	**57**
(adj.) net profit	**28**	**26**	**24**	**27**	**31**

Balance sheet

(PLN m)	2020	2021	2022E	2023E	2024E
fixed assets	**208**	**204**	**195**	**233**	**268**
PP&E	154	136	138	176	211
intangible assets	0	0	0	0	0
goodwill	15	15	15	15	15
current assets	**315**	**325**	**342**	**334**	**333**
inventory	15	18	21	29	37
receivables	89	79	90	109	139
cash	47	16	18	-18	-57
equity	**222**	**249**	**272**	**299**	**329**
minority interest	0	0	1	2	6
noncurrent liab.	**94**	**927**	**46**	**46**	**46**
loans	45	44	44	44	44
current liabilities	**191**	**208**	**202**	**202**	**202**
loans	71	66	60	60	60
trade payables	120	142	142	142	142
net debt	**69**	**94**	**81**	**121**	**161**
net debt/EBITDA	1.25	2.14	2.05	2.56	2.83
net debt/EBITDA (adj.)	1.37	2.14	1.92	2.56	2.83

Source: mBank

CF statement

(PLN m)	2020	2021	2022E	2023E	2024E
operating CF	**33**	**-19**	**22**	**14**	**9**
working capital	-16	-61	-14	-26	-30
investing CF	**-1**	**-1**	**-10**	**-45**	**-45**
CAPEX	-3	-4	-5	-45	-45
financing CF	**-8**	**-12**	**-10**	**-4**	**-4**
dividend	0	0	0	0	0
CF	**24**	**-32**	**2**	**-35**	**-40**
CFO/EBITDA	65%	-43%	52%	29%	17%
FCFF	36	-15	27	59	54
FCFF/EV	**18%**	**-7%**	**12%**	**23%**	**18%**
FCFE	33	-16	25	18	14
FCFE/MCAP	**25%**	**-12%**	**19%**	**14%**	**10%**
ROIC	12.0%	8.9%	7.4%	7.5%	7.3%
ROCE	8.4%	5.9%	5.6%	11.5%	12.6%
DPS	0.00	0.00	0.00	0.00	0.00
dividend payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
dividend yield	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**

Key Ratios

	2020	2021	2022E	2023E	2024E
P/E	4.6	5.1	5.5	4.9	4.3
P/E (adj.)	**4.8**	**5.1**	**5.5**	**4.9**	**4.3**
EV/EBITDA	3.6	5.1	5.2	5.4	5.3
EV/EBITDA (adj.)	**4.0**	**5.1**	**5.2**	**5.4**	**5.3**
P/S	0.7	0.7	0.6	0.4	0.3
P/B	0.6	0.5	0.5	0.4	0.4
P/CF	4.0	-7.0	6.1	9.5	13.9
P/FCFE	4.0	-8.4	5.2	7.4	9.8
EBITDA margin	**26.1%**	**21.8%**	**17.7%**	**14.3%**	**13.4%**
y/y % EBITDA change	75%	-20%	-4%	13%	20%
net margin	14.3%	12.8%	10.1%	8.1%	7.3%
y/y % EPS change	**45%**	**-10%**	**-7%**	**11%**	**15%**
price (PLN)	2.94	2.94	2.94	2.94	2.94
shares outst. (millions)	44.8	44.8	44.8	44.8	44.8
mCap	132	132	132	132	132
EV	201	226	219	256	299

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List of abbreviations and ratios used by mBank:
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
EBITDA margin – EBITDA/Sales

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

Recommendations of Biuro maklerskie mBanku:
A recommendation is valid for a period of 9 months, unless a subsequent recommendation is issued in this period. Expected returns from individual recommendations are as follows:
BUY – we expect that the rate of return from an investment will be at least 15%
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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Compremum (Antoni Chęciński)

recommendation	buy	buy	hold
date issued	2022-04-07	2022-01-17	2021-09-06
target price (PLN)	4.87	5.32	5.24
price on rating day	3.20	3.98	5.16

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