

Izostal

Freeing working capital is not enough

We are initiating coverage of Izostal with a HOLD recommendation and set the company's fair value at PLN 3.00/share (implying 4% upside potential). We are positive on the outlook for gross margin improvement in the coming years supported by "local content" requirements (barriers for foreign entities) in tenders, as well as strong cash generation in 2025E/2026E (equivalent to 93%/40% of market capitalization). However, we believe that the year-on-year decline in results in 2026E and the absence of significant direct distributions to shareholders (we assume the released capital will be mainly used to repay debt) outweigh the positives. We forecast the company's revenues for 2025E/2026E/2027E at PLN 1,102m/678m/827m (decline in 2026E due to the expiration of key contracts) and adj. EBITDA (excluding in 2026E a one-off gain from Proma's acquisition of PLN 14.5m) at PLN 40.8m/31.1m/48.1m (y/y dynamics of +24%/-24%/+55%). Based on our forecasts, Izostal is trading at EV/EBITDA rep. multiples of 5.4x/4.1x/4.0x for 2025E/2026E/2027E, respectively.

Cash generation. We assume that in 2025E/2026E Izostal will release a significant portion of its working capital due to contract execution schedules, with the proceeds primarily used to reduce excessive financial leverage relative to adj. EBITDA (we forecast 3.1x/3.0x at end-2025E/2026E vs. 6.5x in 2024). Unfortunately, we do not expect shareholders to see a sharp increase in dividends, which supports our neutral stance on Izostal. However, the pace of leverage reduction is expected to slow over time, and with the rebound of Gaz-System contracts from 2027E, we see an average cycle of recurring cash generation sufficient to support DPS of PLN 0.25/share and PLN 0.45/share in 2028E and 2029E, respectively (which could enhance the company's attractiveness in the future if major shareholders choose to distribute it).

Market investments. We see a solid pipeline of potential contracts in the future. Gaz-System's investment plans envisage an expansion of the transmission network by 1.7k km by 2035E (an average of 165 km per year, below the 2019–2024 average). Meanwhile, PSG's investment plan anticipates a larger expansion of the new distribution network and more modernization projects compared to the previous plan. We also note that over 40% of the transmission network is more than 40 years old and will require modernization.

Local support. We assume that the broad introduction of the "local content" principle in gas transmission and distribution tenders will effectively exclude third-country companies offering cheaper products. This, in turn, should lead to a higher number of won contracts and an improvement in the company's margins. We forecast adj. EBITDA margins of 3.7%/4.6%/5.8% in 2025E/2026E/2027E. Over 2025E–2034E, the average adj. EBITDA margin is projected to be 121 basis points higher than in 2015–2024, based on our forecasts

Figure 1. Izostal: financial forecasts summary

PLN m	2022	2023	2024	2025E	2026E	2027E
Revenue	1,171.6	751.0	771.6	1,102.1	678.4	827.1
EBITDA	41.7	41.7	32.8	40.8	45.6	48.1
EBIT	32.5	31.1	20.6	28.5	30.0	31.2
Net profit	22.5	11.9	10.1	10.4	16.9	20.2
EPS (PLN)	0.69	0.36	0.31	0.32	0.52	0.62
DPS (PLN)	0.12	0.12	0.09	0.09	0.11	0.18
EV/EBITDA (x)	7.0	5.2	8.9	5.4	4.1	4.0
P/E (x)	3.0	6.8	7.8	9.0	5.6	4.7

Source: Company, IPOPEMA Research

Industrial

Izostal

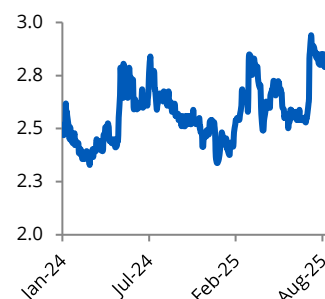
HOLD

FV PLN 3.00

4% upside

Price as of 11 September 2025 PLN 2.89

Coverage initiation



Share data

Number of shares (m)	32.7
Market cap (EUR m)	22.2
12M avg daily volume (k)	19.7
12M avg daily turnover (EUR m)	0.01
12M high/low (PLN)	2.32/3.09
WIG weight (%)	0.01%
Reuters	IZS.WA
Bloomberg	IZS PW

Total performance

1M	+2%
3M	+12%
12M	+11%

Shareholders (% of equity)

Stalprofil S.A.	60.3%
Allianz Polska OFE	6.1%
Others	33.6%

Analysts

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DCF models encapsulate the forecasted cash streams for a company, and are widely used in the investment industry. DCF models relay on multiple discretionary assumptions regarding the company's operations, future profits and its market environment. DCF model usually present only one variant of the future, hence to analyze the different scenarios a sensitivity analysis is needed (for either/both operational items or valuation parameters). The weak points of DCF method include the susceptibility to a change of a specific forecasts assumptions in the model, and the fact that it present only one discretionary future scenario.

DDM models relay on expected shareholders' distribution levels within dividends. They enable to value the effective cash proceeds stream from the perspective of shareholders (only in case of dividends, while it may not fully include buybacks). The weak points of DDM models include: sensitivity of underlying operating and valuation assumptions, not grasping a full shareholders distribution if company proceeds with a buyback on top of a dividend payments, and putting less focus on company's specific financial situation.

Peer relative comparison bases on a comparison of valuation multipliers for companies from a given sector. The leading multiples for compared company based on the future earnings, book values, operating profit or cash flows include an analyst's estimate of those values. The peer comparisons methods are less dependent on the analyst's judgment as to the individual parameters, however the valuation is highly depended on the composition of a peers' group. The weak points of peer relative valuation include: the quality and comparability of peers (with various business models, operating environments, growth phases, etc.), the selection of peers, the quality of available consensus for peers, and a practice of comparing the multiples to median/average instead of historical premiums/discounts.

rNPV method accounts the probabilities factors assigned to future cash flows, which enables to assess specific risk factors. rNPV is commonly used to value either innovative companies or companies in case of which certain milestones need to be reached before cash flow is generated on regular basis. The weak points include subjective assumptions towards risk factor discount rates on top of the susceptibility to a change of a specific forecasts.

NAV and SotP methods are often used in cases of valuing the separate parts of company's businesses with purpose to arrive at the consolidated valuation. NAV and SotP may include various valuation methods for selected assets, including DCF, DDM models, target multiple valuation, market value valuation, or other various methods, and are often expanded by addition of discretionary discounts (such as holding discount). The weak points of NAV/SotP valuations include all specific weaknesses of used methods, as well as the sensitivity to applied discretionary factors such as holding discount.

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The definitions of terms used in the document include:

AGM/EGM – annual/extraordinary general meeting of shareholders.

BVPS – book value per share - the book value of the company's shareholders equity divided by the number of shares outstanding without treasury shares at the end of period.

CAGR – compound annual growth rate.

CFO – net cash flow from operations.

Cost/Income – operating expenses divided by total banking revenue.

D&A – depreciation and amortization.

DCF – discounted cash flow model – a valuation method based on the sum of discounted future cashflows with appropriate adjustments (such as net debt, etc., if applicable).

DDM – dividend discount model – a valuation method of based on the sum of discounted future dividends.

DPS – dividend per share – dividend of a given year divided by the number of shares outstanding without treasury shares at the moment of distribution.

DY – dividend yield – total DPS of a given financial year divided by share price.

EBIT – earnings before interests and tax.

EBITDA – earnings before interests, tax, depreciation and amortization.

EPS – earnings per share – the net income (or adjusted net income) divided by the number of shares outstanding without treasury shares at the end of period.

EV – enterprise value – market cap adjusted by treasury shares, plus gross debt, less cash and equivalents, less associates, plus minorities.

EV/EBITDA – EV divided by EBITDA.

EV/S, or EV/revenues – EV divided by revenues (sales).

FCFE – free cash flow to the equity.

FCFF – free cash flow to the firm.

FV – fair value – fair value price of the company calculated based on valuation methods outlined in the document.

LLP – loan loss provisions – an expense set aside as an allowance for bad loans.

ND – net debt – gross debt and leases (depending on accounting standard) less cash and equivalents.

Net F&C – net fee and commission income – fee and commission income minus fee and commission expense.

NII – net interest income – interest income minus interest expense.

NPL – non-performing loan – loans that are in default or close to be in default.

P/BV – price to book value - price divided by the BVPS.

P/E – price to earnings ratio – price divided by earnings per share.

PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time.

ROA – return on assets – net income (or adjusted net income) divided by the average assets.

ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity.

ROIC – return on invested capital – EBIT * (1 – tax rate) divided by average invested capital.

uFCF – underlying free cash flow – IPOPEMA's measure reflecting the amount of potential cash flow generation available for distribution before outflow on discretionary purposes (such as shareholders' distribution, unannounced M&A, financial assets, etc.), calculated as follows: net cash from operations less net CAPEX on PP&E, intangibles and subsidiaries (related to announced deals), less net interest paid on debt, leases and granted loans, less lease payment, less dividends paid to minorities, plus received dividends, plus other items if necessary depending on company's specifics/presentation.

uFCFps – uFCF per share.

WACC – weighted average cost of capital.

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BUY – the difference between FV and price at recommendation exceeds 10%.

HOLD – the difference between FV and price at recommendation is between (and including) -10% and 10%.

SELL – the difference between FV and price at recommendation is below -10%.

The price used throughout the recommendation to calculate adequate ratios is the "last" price stated on the front page of this document. The date and the time stated on the front page is the date and the time of the preparation of this document. This document has been distributed on 12 September 2025 at 08:45 CEST.

IPOPEMA Research - Distribution by rating category (1 April – 30 June 2025)		Number	%
Buy		11	73%
Hold		2	13%
Sell		2	13%
Total		15	100%

Rating History - Izostal				
Date	Recommendation	Fair Value	Price at recommendation	Author
12/09/2025	HOLD	PLN 3.00	PLN 2.89	Krzysztof Otczyk Marcin Nowak