

Mirbud

A recipe for success

Mirbud continues to sign infrastructure contracts which we believe are going to at least preserve margins recorded in 2020 (above 7% gross margin on infrastructure deals as reported in 9M20). Steel price increases are rife; however, we expect the company have hedged these costs for already acquired deals. On the other hand we expect Mirbud to mitigate this risk going forward and pass on those double-digit hikes to end clients (mainly the National Road Authority or local road authorities). The company's backlog, as of end-3Q20, amounted to PLN 5.5bn and spans to the end of 2024. This comes, however, at the cost of relatively high leverage, which we expect will reach 2.6x 2020E net debt/ EBITDA and decrease to 1.7x in 2021E, and 1.3x in 2022. These funds fuel the working capital expansion required for the multiple infrastructure projects planned for many years ahead. All in all, we increase the EBITDA forecast by 15.5%, 14.9% and 12.2% for the 2020-2022E period to PLN 75.9m (up 18.8% y/y) in 2020E, PLN 89.5m (up 17.9% y/y) in 2021E and PLN 101.9m (up 13.9% y/y) in 2022E, with the upward trajectory stemming from a rising backlog and the ability to increase group's gross margin compared to an already decent 2020E (8.9% gross margin). We increase our Fair Value by 62% to PLN 5.06 and maintain our BUY recommendation.

4Q20 results preview

The company is expected to publish its 4Q20 results on 27 April 2021. We forecast EBITDA at PLN 22.1m, -2.2%y/y and -14.5%q/q. We expect revenue level to arrive at PLN 498.4m, +58.7%y/y and +50.8%q/q. EBIT line is expected to come in at PLN 18.7m, -5.1%y/y and -13.8%q/q. The bottom line is likely to arrive at PLN 12.8m, +16.4%y/y and -19%q/q. We believe that the operating level might be slightly depressed by write-offs on receivables which usually accompany rapid.

Lower discount warranted

Mirbud trades at 2021E EV/EBITDA of 6.3x which constitutes a 9.2% discount to international peers and a 18.2% discount to the most prominent Polish construction company which is Budimex. Budimex is recognized due to its high dividend payout track record; however we still feel the premium to Mirbud should be smaller due to Mirbud's continued inking of new contracts which we believe will allow the company to increase margins going forward.

High leverage

The majority of the debt is expected to be rolled forward in years 2021-2023, but we believe the covenant which allows banks to ultimately decide on the dividend levels is likely to stay in place. Mirbud recorded net debt/EBITDA of 2.2x at the end of 3Q20, which we expect to rise further to 2.6x due to high working capital needs against a backdrop of dynamic sales growth. Only thereafter do we believe the level of net debt will fall, to 1.7x in 2021 and 1.3x in 2022.

Figure 1. Mirbud financial data, (PLN m)

	2017	2018	2019	2020E	2021E	2022E
Revenue	859.9	1,143.1	949.1	1,263.7	1,649.9	1,844.4
EBIT	47.9	51.0	52.2	62.0	70.9	81.6
EBITDA	58.3	62.4	63.9	75.9	89.5	101.9
Net profit	22.8	24.6	28.1	39.2	48.5	54.5
EPS	0.3	0.3	0.3	0.4	0.5	0.6
DPS	0.0	0.0	0.0	0.02	0.04	0.05
P/E (x)	16.0	14.8	13.7	10.4	8.4	7.5
EV/EBITDA (x)	10.6	9.5	8.5	8.0	6.3	5.3

Source: Company, IPOPEMA Research

Construction

Mirbud

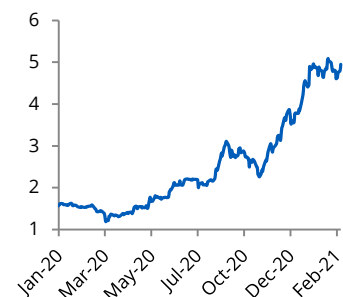
BUY

FV PLN 5.06

14.3% upside

Price as of 3 March 2021 PLN 4.43

Recommendation maintained



Share data

Number of shares (m)	91.7
Market cap (EUR m)	84.9
12M avg daily volume (k)	374.0
12M avg daily turnover (EUR m)	0.2
12M high/low (PLN)	4.63/0.65
WIG weight (%)	0.07
Reuters	MRB.WA
Bloomberg	MRB.PW

Total performance

1M	6.75%
3M	51.19%
12M	375.27%

Shareholders

Jerzy Mirgos	44.98%
NN OFE	11.21%

Analyst

Robert Maj
 robert.maj@ipopema.pl
 + 48 22 236 92 90

MIRBUD**BUY****FV PLN 5.06**

Mkt Cap EUR 84.9m

Upside/downside +14.3%

Valuation multiples	2018	2019	2020E	2021E	2022E
P/E (x)	14.8	13.7	10.4	8.4	7.5
EV/EBITDA (x)	9.5	8.5	8.0	6.3	5.3
EV/Sales (x)	0.52	0.57	0.48	0.34	0.29
P/BV (x)	0.96	0.95	0.92	0.83	0.76
FCF yield (%)	14%	0%	3%	12%	13%
DY (%)	0%	0%	0%	1%	1%

Per share	2018	2019	2020E	2021E	2022E
No. of shares (m units)	82.5	87.1	91.7	91.7	91.7
EPS (PLN)	0.30	0.32	0.43	0.53	0.59
BVPS (PLN)	4.64	4.65	4.82	5.31	5.85
FCFPS (PLN)	0.63	0.01	0.12	0.53	0.59
DPS (PLN)	0.00	0.00	0.02	0.04	0.05

Change y/y (%)	2018	2019	2020E	2021E	2022E
Revenues	32.9%	-17.0%	33.2%	30.6%	11.8%
EBITDA	7.0%	2.4%	18.8%	17.9%	13.9%
EBIT	6.6%	2.3%	18.8%	14.3%	15.1%
Pre-tax	6.4%	10.7%	32.2%	22.4%	12.4%
Net profit	8.1%	14.1%	39.5%	23.7%	12.4%

Leverage and return	2018	2019	2020E	2021E	2022E
Gross margin (%)	8.2%	10.6%	8.9%	9.6%	9.3%
EBITDA margin (%)	5.5%	6.7%	6.0%	5.4%	5.5%
EBIT margin (%)	4.5%	5.5%	4.9%	4.3%	4.4%
Net margin (%)	2.2%	3.0%	3.1%	2.9%	3.0%
Net debt / EBITDA (x)	2.77	2.42	2.61	1.71	1.32
Net debt / Equity (x)	0.45	0.38	0.45	0.31	0.25
Leverage Ratio (x)	1.25	1.19	1.13	1.07	1.02
ROE (%)	6.7%	7.1%	9.3%	10.4%	10.6%
ROA (%)	5.4%	6.0%	8.2%	9.7%	10.4%
ROCE (%)	7.8%	6.9%	7.2%	7.3%	7.7%

Assumptions	2018	2019	2020E	2021E	2022E
Sales (PLN m)	1,143.1	949.1	1,263.7	1,649.9	1,844.4
General constr.(PLN m)	1,074.7	908.4	1,425.1	1,624.6	1,819.5
Engineering (PLN m)	493.2	397.5	712.5	812.3	909.8
Trade show (PLN m)	5.9	8.0	4.2	0.0	0.0
Long term lease (PLN m)	45.3	46.6	34.8	41.7	42.5
Consolidation corr(PLN)	-82.7	-108.5	-301.2	-113.7	-127.4
Other sales (PLN m)	2.0	1.8	1.4	1.4	1.4
Real estate rev.(PLN m)	97.8	92.7	99.6	96.0	108.2
Poland GDP (%)	5.2%	4.1%	-4.6%	4.3%	2.4%
Poland CPI (%)	2.1%	2.2%	3.0%	2.0%	2.0%
Constr. activity(%)	9.2%	2.6%	-3.7%	2.4%	1.8%
USD PLN (avg)	3.61	3.84	3.90	3.90	3.90
EURPLN (avg)	4.26	4.30	4.30	4.30	4.30

P&L (PLN m)	2017	2018	2019	2020E	2021E	2022E
Revenues	859.9	1,143.1	949.1	1,263.7	1,649.9	1,844.4
COGS	-775.6	-1,049.9	-848.5	-1,150.9	-1,490.8	-1,673.3
Gross profit	84.2	93.2	100.6	112.9	159.2	171.0
general construction	54.6	52.6	58.6	130.0	146.2	163.8
real estate	16.5	18.8	18.6	25.6	24.7	23.8
long term lease of investment p	16.9	18.5	19.0	4.8	8.3	8.5
trade show activity	0.3	0.0	2.4	2.0	0.0	0.0
other	-0.6	-0.5	-0.7	-0.7	-0.7	-0.7
consolidation corrections	-3.5	3.8	2.7	-48.9	-19.4	-24.3
EBITDA	58.3	62.4	63.9	75.9	89.5	101.9
EBIT	47.9	51.0	52.2	62.0	70.9	81.6
Financial income (cost) net	-16.5	-17.6	-15.2	-13.1	-11.0	-14.3
Pre-tax	31.4	33.4	37.0	48.9	59.9	67.3
Tax	-6.3	-6.4	-8.9	-9.7	-11.4	-12.8
Net profit	22.8	24.6	28.1	39.2	48.5	54.5

BALANCE SHEET (PLN m)	2017	2018	2019	2020E	2021E	2022E
Non-current assets	538.8	515.4	518.6	537.8	567.9	589.4
Investment properties	210.5	254.1	249.6	242.0	242.0	242.0
PP&E	273.9	207.0	217.5	236.9	254.5	269.9
Receivables	15.9	14.5	12.3	12.6	16.5	18.4
Current assets	465.2	564.1	627.8	802.4	1,037.8	1,217.0
Inventories	172.6	216.9	261.0	353.1	408.4	458.4
Trade receivables	236.9	279.3	256.8	346.2	429.4	480.0
Cash and equivalents	46.5	64.1	108.2	101.1	198.0	276.7
Other current assets	9.2	3.7	1.9	1.9	1.9	1.9
Total assets	1,004.1	1,079.6	1,146.4	1,340.1	1,605.7	1,806.4
Equity	355.9	382.6	405.3	442.6	487.2	536.9
Minorities	54.3	56.7	0.0	0.0	0.0	0.0
Non-current liabilities	311.7	274.6	347.2	413.2	487.0	526.3
Loans and leasing	177.9	170.2	164.3	164.3	164.3	164.3
Other non-current liabilities	133.8	104.4	182.9	248.8	322.7	362.0
Current liabilities	336.5	422.3	394.0	484.3	631.5	743.2
Trade payables	235.2	322.8	263.4	315.3	408.4	458.4
Loans and leasing	67.8	66.9	98.2	134.7	186.5	247.0
Other current liabilities	33.5	32.6	32.4	34.3	36.6	37.7
Equity & liabilities	1,004.1	1,079.6	1,146.4	1,340.1	1,605.7	1,806.4
Inventories turnover (days)	81.2	75.4	112.3	112.0	100.0	100.0
Receivable turnover (days)	100.5	89.2	98.8	100.0	95.0	95.0
Net debt (PLN m)	199.1	172.9	154.4	197.9	152.8	134.7

CASH FLOW (PLN m)	2017	2018	2019	2020E	2021E	2022E
Operating cash flow	68.4	48.9	28.2	-9.2	84.5	58.0
Net income	22.8	24.6	28.1	39.2	48.5	54.5
D&A	10.5	11.4	11.7	13.9	18.6	20.3
Change in WC	11.7	-28.3	-1.8	-129.7	-45.4	-50.6
Other	18.9	-4.9	13.1	67.4	62.8	33.8
Investment cash flow	-29.9	3.0	-19.8	-32.5	-35.5	-35.0
CAPEX	1.5	-0.8	-18.2	-32.5	-35.5	-35.0
Investment properties	-26.7	2.2	3.6	0.0	0.0	0.0
Other	-4.8	1.6	-5.2	0.0	0.0	0.0
Financial cash flow	-42.4	-34.3	35.6	34.7	47.8	55.7
Change in equity	0.0	0.0	0.0	0.0	0.0	0.0
Change in debt	-15.6	-19.9	34.3	36.5	51.8	60.6
Dividend	0.0	-0.3	0.0	-1.8	-3.9	-4.9
Other	-26.9	-14.2	1.3	0.0	0.0	0.0
Change in cash	-3.9	17.6	44.0	-7.1	96.9	78.7
Cash as of eop	46.5	64.1	108.2	101.1	198.0	276.7

Source: Company data, IPOPEMA Research

4Q20 results preview

The company is expected to publish its 4Q20 results on 27 April 2021. We forecast EBITDA at PLN 22.1m, -2.2%/y/y and -14.5%/q/q. We expect revenue level to arrive at PLN 498.4m, +58.7%/y/y and +50.8%/q/q. EBIT line is expected to come in at PLN 18.7m, -5.1%/y/y and -13.8%/q/q. The bottom line is likely to arrive at PLN 12.8m, +16.4%/y/y and -19%/q/q. We believe that the operating level might be slightly depressed by write-offs on receivables which usually accompany rapid.

Figure 2. 4Q20 results preview

Mirbud results preview	4Q19	3Q20A	4Q20E	y/y	q/q
Sales	314.1	330.4	498.4	58.7%	50.8%
Cost of goods & products sold	-276.0	-295.2	-462.7	67.7%	56.8%
Gross profit	38.1	35.3	35.7	-6.5%	1.1%
SG&A	-13.6	-15.0	-15.0	10.5%	-0.1%
EBIT	19.7	21.6	18.7	-5.1%	-13.8%
Net financial activity	-4.0	-3.0	-2.9	-26.6%	-1.7%
Pre-tax profit	15.7	18.7	15.8	0.4%	-15.7%
Tax	-5.2	-2.9	-3.0	-42.0%	1.9%
Net income	11.0	15.8	12.8	16.4%	-19.0%
EBITDA	22.6	25.8	22.1	-2.2%	-14.5%

Source: Company, IPOPEMA Research

Changes in forecast

Figure 3. Changes in forecast

PLN m	2020E			2021E			2022E		
	OLD	NEW	Diff. %	OLD	NEW	Diff. %	OLD	NEW	Diff. %
Sales	1,242.1	1,263.7	1.7%	1,594.1	1,649.9	3.5%	1,765.7	1,844.4	4.5%
Gross profit	111.8	112.9	1.0%	140.9	159.0	12.9%	160.9	170.9	6.2%
EBIT	52.6	62.0	17.9%	59.5	70.8	18.9%	70.8	81.4	15.1%
Net income	29.0	39.2	35.2%	36.5	48.3	32.3%	41.1	54.3	32.2%
EBITDA	65.75	75.92	15.5%	77.85	89.47	14.9%	90.79	101.88	12.2%

Source: Company, IPOPEMA Research

Valuation

Our valuation approach for construction companies uses two methods: the discounted cash flow (DCF) and the dividend discount model (DDM). We calculate our Fair Value for Mirbud by taking the average of the two results. The two methods are aligned, as they are both based on the same financial model. The model assumes cashflow projections over a 10-year period for the firm based on our forecasts for the construction market, GDP in Poland as well as other parameters including volume growth, product mix changes, changes in the financing model, efficiency gains, production cost increases, capital expenditures and working capital needs. Our dividend projections are a derivative of the earnings forecasts in our financial model. Payout levels are determined by corporate policy in the short-term (10%) and then drift towards a target payout ratio of 50% in the long-term. The DDM is also a useful tool for understanding P/E multiples $[P/E = (D/E)/(k-g)]$, with differences explained by a combination of earnings growth and dividend payout. Both our DCF and DDM models have terminal values with a growth rate of 1%.

Our assumptions for cost-of-equity were established by using a variable risk-free rate (equal to the 12-month forward interest rate) and adding a 5.0% equity risk premium each year. The 12-month forward interest rates were derived from the yield curve of the 2021-2029 period. Thereafter, we use a flat 4.5% rate, which represents our estimate of a through-the-cycle interest rate for Emerging Europe. We also consistently use a beta of one (1) so as not to distort the WACC and the comparability of our valuations.

Figure 4. DCF Valuation (PLN m)

PLN m	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	Terminal Year
Revenues	1,649.9	1,844.4	2,026.8	2,087.0	2,131.5	2,194.7	2,256.5	2,315.3	2,375.1	2,444.3	2,444.3
EBIT	70.9	81.6	90.0	94.6	95.4	98.9	101.6	105.4	111.2	116.6	116.6
Tax on EBIT	14.1	15.5	17.1	18.0	18.1	18.8	19.3	20.0	21.1	22.1	22.1
NOPLAT	57.4	66.1	72.9	76.6	77.3	80.1	82.3	85.4	90.0	94.4	94.4
Depreciation	18.6	20.3	21.6	23.0	24.8	26.6	28.4	30.2	32.0	33.7	33.7
Capital expenditures	-35.5	-35.0	-36.2	-35.4	-35.9	-36.0	-36.1	-35.8	-33.6	-35.3	-35.3
Change in working capital	-45.4	-50.6	-47.5	-15.7	-11.6	-16.5	-16.1	-15.3	-15.5	-18.0	-18.0
Free cash flow	-4.8	0.8	10.7	48.5	54.6	54.2	58.6	64.5	73.0	74.8	74.8
Risk-free rate	1.53%	1.55%	1.59%	1.65%	1.77%	2.00%	2.17%	2.36%	2.33%	2.32%	4.50%
Equity 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	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Cost of equity	6.53%	6.55%	6.59%	6.65%	6.77%	7.00%	7.17%	7.36%	7.33%	7.32%	9.50%
Cost of debt (pre-tax)	4.0%	4.1%	4.1%	4.2%	4.3%	4.5%	4.7%	4.9%	4.8%	4.8%	4.8%
Effective tax rate	19.8%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
After-tax cost of debt	3.2%	3.3%	3.3%	3.4%	3.5%	3.6%	3.8%	3.9%	3.9%	3.9%	3.9%
Weight of debt	31.3%	33.0%	32.3%	30.4%	30.4%	30.4%	31.4%	31.1%	31.7%	29.6%	29.6%
Weight of equity	68.7%	67.0%	67.7%	69.6%	69.6%	69.6%	68.6%	68.9%	68.3%	70.4%	70.4%
WACC	5.5%	5.5%	5.5%	5.7%	5.8%	6.0%	6.1%	6.3%	6.2%	6.3%	7.8%
Discount fact	0.95	0.90	0.85	0.81	0.76	0.72	0.68	0.64	0.60	0.56	0.52
PV of FCF	-4.6	0.7	9.1	39.1	41.6	39.0	39.7	41.1	43.8	42.2	39.1
Sum of FCF PV's	291.7										
FCF terminal growth rate	1.0%										
Terminal value	1,103.2										
PV of terminal value	577.4										
Unwind of discount	8.1										
Enterprise value	877.2										
Net debt 2020E	197.9										
Employees liabilities	-198.2										
Dividend paid out in 2021 (ytd terms)	0.0										
Equity value	481.1										
Per share value (PLN)	5.24										

Source: IPOPEMA Research

Figure 5. DDM Valuation (PLN m)

PLNm	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	Terminal Year
Dividends	3.9	4.9	16.4	18.2	32.4	33.0	34.4	35.4	36.9	47.9	47.9
Discount rate	6.5%	6.6%	6.6%	6.7%	6.8%	7.0%	7.2%	7.4%	7.3%	7.3%	9.5%
Discount factor	0.94	0.88	0.83	0.77	0.73	0.68	0.63	0.59	0.55	0.51	0.47
Discounted dividend	3.7	4.3	13.5	14.1	23.5	22.4	21.8	20.9	20.3	24.5	22.4
Sum of DD PV's	168.9										
DIV terminal growth rate	1.0%										
Terminal value	569.5										
PV of terminal value	266.2										
Discount unwind	13.1										
Equity value	448.2										
Per share value (PLN)	4.89										

Source: Company, IPOPEMA Research

Figure 6. Valuation summary (PLN)

PLN m	
DCF	5.24
DDM	4.89
Average	5.06

Source: Company, IPOPEMA Research

Relative valuation

Mirbud trades at 2021E EV/EBITDA of 6.3x which constitutes a 9.2% discount to international peers and 18.2% discount to most prominent Polish construction company which is Budimex. The latter one is known and recognized due to its track record of high dividend payout however we still think that the premium to Mirbud should be smaller as at present Mirbud keeps signing up contracts which we believe will allow the company to increase margins going forward.

Figure 7. Relative valuation – international peers

PRICE (LCU)	TICKER	NAME	P/E			EV/EBITDA		
			2020	2021	2022	2020	2021	2022
15.0	ABGV.VI	PORR	NaN	16.2	8.6	5.5	3.0	2.6
30.2	STRV.VI	STRABAG	7.9	9.4	8.7	1.9	2.1	2.1
28.8	WBSV.VI	WIENERBERGER	17.6	13.1	11.3	7.6	6.7	6.1
17.3	TKFEN.IS	TEKFEN HOLDING	18.3	9.0	9.5	7.3	4.6	4.0
7.5	ENKAI.IS	ENKA INSAAT	17.1	20.5	17.1	8.1	7.7	7.2
22.3	CIMSA.IS	CIMSA CIMENTO	15.7	10.7	8.1	8.9	7.1	6.1
280.0	BALF.L	BALFOUR BEATTY PLC	49.4	13.3	10.1	14.5	7.7	6.2
11.9	B5AG.DE	BAUER AG	NaN	27.5	14.0	6.0	5.3	4.7
9.9	FCC.MC	CONSTRUCCIONES Y CONTRATAS SA	15.9	14.9	13.7	7.6	8.0	7.7
74.1	HOTG.DE	HOCHTIEF AG	10.6	10.9	9.8	3.1	4.1	3.9
0.6	OHL.MC	OBRASCON HUARTE LAIN SA	NaN	NaN	NaN	4.9	4.7	4.4
2.1	SCYR.MC	SACYR SA	25.1	7.4	6.2	11.3	10.3	10.2
207.5	SKAb.ST	SKANSKA AB	9.0	15.6	14.5	5.1	8.0	7.1
33.7	BOUY.PA	BOUYGUES SA	19.9	13.1	11.3	6.8	5.6	5.1
1.5	MOTA.LS	MOTA ENGIL SGPS SA	NaN	NaN	NaN	NaN	NaN	NaN
26.5	ACS.MC	ACS ACTIVIDADES DE CONSTRUCCION Y SERVICIOS SA	13.1	12.0	11.7	4.5	5.3	5.2
133.1	ANA.MC	ACCIONA SA	35.3	25.5	19.6	11.3	9.8	8.6
21.0	FER.MC	FERROVIAL SA	NaN	NaN	66.8	55.4	37.2	31.5
86.5	FOUG.PA	EIFFAGE SA	24.5	12.8	10.5	9.0	7.0	6.5
30.3	GBFG.DE	BILFINGER SE	NaN	24.2	12.5	15.2	6.7	5.4
4.7	YIT.HE	YIT OYJ	27.1	13.1	9.3	14.7	9.5	7.8
1.6	WBD.MI	SALINI IMPREGILO SPA	17.2	16.1	12.1	5.1	6.0	5.4
88.0	SGEF.PA	VINCI SA	42.4	19.4	15.2	13.8	9.9	8.7
		MEDIAN	17.6	13.2	11.3	7.6	6.9	6.1
4.4	MRB.WA	MIRBUD	10.4	8.4	7.5	8.0	6.3	5.3
		Premium/discount to median Mirbud	-41.1%	-36.6%	-34.3%	4.3%	-9.2%	-13.3%

Source: Reuters, IPOPEMA Research

Figure 8. Relative valuation – domestic peers

PRICE (LCU)	TICKER	NAME	P/E			EV/EBITDA		
			2020	2021	2022	2020	2021	2022
314.00	BDXP.WA	BUDIMEX	21.1	15.2	15.0	9.7	7.6	7.5
21.60	PBX.WA	PEKABEX	7.9	5.9	5.9	6.8	4.9	4.4
		MEDIAN	14.5	10.6	10.5	8.3	6.3	5.9
4.43	MRB.WA	MIRBUD	10.4	8.4	7.5	8.0	6.3	5.3
		Premium/discount to median Mirbud	-28.6%	-20.8%	-28.7%	-3.7%	0.0%	-10.4%

Source: Reuters, IPOPEMA Research

ESG Section

Environment

Mirbud takes environmental concerns very seriously. The company has implemented several measures to control its dust emissions and to prevent it producing excessive waste. The company is enhancing its environmental policy by reducing its use of natural resources. Furthermore, the company has endeavoured to optimise its use of resources by focusing on recycling, waste control and water circulation.

Governance

Mirbud maintains transparent and continuous communications with its employees and shareholders. Regular meetings are held between employees and managers to provide updates and consolidate the company's strategy. It publishes quarterly and annual reports in a timely manner.

Risks to fair value

Demand volatility

With its asset-heavy business model, Mirbud is fully exposed to local demand for construction services. Weak demand may lead to sharp declines in profitability.

Unfavourable trend in prices of materials and services

Adverse trends such as rising raw material costs or inflation of transport service costs may hamper the company's profitability.

Potential rise in competition

Given the company's superior profitability, arising from complex solutions and a growing scale of operations, several local competitors might attempt to copy Mirbud's business model, which could potentially increase competition in the company's most important segments.

Workforce shortages

A shortage of skilled labour in the construction industry could result in Mirbud having insufficient employees to operate its business. There are no shortages at the moment, which would likely allow the company to lower its cost base and cost of third parties in quarters ahead.

Rise in receivables

The biggest threat to Mirbud would be a rapid increase in receivables stemming from construction contracts, which would cast a shadow over the profitability of the executed contracts.

Economy slowdown

Estimates for the Polish economy point to lower growth rates going forward. As a result, some investments could be suspended, which would raise questions about the level of Mirbud's future backlog. Decreasing EU funds are likely to accentuate the problem.

Financials

Figure 9. INCOME STATEMENT (PLN m)

	2017	2018	2019	2020E	2021E	2022E	2023E
Sales	859.9	1,143.1	949.1	1,263.7	1,649.9	1,844.4	2,026.8
Cost of goods & products sold	-775.6	-1,049.9	-848.5	-1,150.9	-1,490.8	-1,673.3	-1,838.6
Gross profit	84.2	93.2	100.6	112.9	159.2	171.0	188.3
SG&A	-44.7	-51.9	-54.1	-57.3	-122.2	-127.3	-139.9
EBIT	47.9	51.0	52.2	62.0	70.9	81.6	90.0
Net financial activity	-16.5	-17.6	-15.2	-13.1	-11.0	-14.3	-15.1
Shares in affiliates	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	31.4	33.4	37.0	48.9	59.9	67.3	74.9
Tax	-6.3	-6.4	-8.9	-9.7	-11.4	-12.8	-14.2
Minorities	2.3	2.4	0.0	0.0	0.0	0.0	0.0
Net income	22.8	24.6	28.1	39.2	48.5	54.5	60.6
EBITDA	58.3	62.4	63.9	75.9	89.5	101.9	111.5

Source: Company, IPOPEMA Research

Figure 10. BALANCE SHEET (PLN m)

	2017	2018	2019	2020E	2021E	2022E	2023E
Long-term assets	538.8	515.4	518.6	537.8	567.9	589.4	610.3
Tangible assets	273.9	207.0	217.5	236.9	254.5	269.9	285.3
Investment properties	210.5	254.1	249.6	242.0	242.0	242.0	242.0
Receivables and loans	15.9	14.5	12.3	12.6	16.5	18.4	20.3
Deferred assets	19.4	22.3	23.1	30.7	40.1	44.8	49.2
Others	19.1	17.6	16.1	15.5	14.9	14.2	13.5
Current assets	465.2	564.1	627.8	802.4	1,037.8	1,217.0	1,337.2
Inventories	172.6	216.9	261.0	353.1	408.4	458.4	503.7
Trade receivables and other	236.9	279.3	256.8	346.2	429.4	480.0	527.5
Cash	46.5	64.1	108.2	101.1	198.0	276.7	304.0
Other	9.2	3.7	1.9	1.9	1.9	1.9	1.9
Total assets	1,004.1	1,079.6	1,146.4	1,340.1	1,605.7	1,806.4	1,947.5
Equity	355.9	382.6	405.3	442.6	487.2	536.9	581.2
Long-term liabilities	311.7	274.6	347.2	413.2	487.0	526.3	562.1
Interest bearing	177.9	170.2	164.3	164.3	164.3	164.3	164.3
Deferred tax	26.8	30.9	34.2	46.4	60.1	67.4	74.1
Provisions	2.4	2.5	3.2	4.3	5.6	6.3	6.9
Other liabilities	104.5	71.1	145.5	198.2	257.0	288.3	316.8
Short-term liabilities	336.5	422.3	394.0	484.3	631.5	743.2	804.2
Interest bearing	67.8	66.9	98.2	134.7	186.5	247.0	261.7
tax/financial liabilities	0.4	2.7	2.4	3.3	4.2	4.8	5.2
Provisions	3.0	3.3	3.1	4.2	5.5	6.1	6.7
Other ST liabilities	30.2	26.6	26.9	26.9	26.9	26.9	26.9
Trade liabilities	235.2	322.8	263.4	315.3	408.4	458.4	503.7
Total liabilities & equity	1,004.1	1,079.6	1,146.4	1,340.1	1,605.7	1,806.4	1,947.5

Source: Company, IPOPEMA Research

Figure 11. CASH FLOW STATEMENT (PLN m)

	2017	2018	2019	2020E	2021E	2022E	2023E
Net profit	22.8	24.6	28.1	39.2	48.5	54.5	60.6
Depreciation	10.5	11.4	11.7	13.9	18.6	20.3	21.6
Change in net working capital	11.7	-28.3	-1.8	-129.7	-45.4	-50.6	-47.5
Other items	23.4	41.2	-9.7	67.4	62.8	33.8	30.5
Operating cash flow	68.4	48.9	28.2	-9.2	84.5	58.0	65.2
Purchases of tangibles & intangibles	1.5	-0.8	-18.2	-32.5	-35.5	-35.0	-36.2
Others	-4.8	1.6	-5.2	0.0	0.0	0.0	0.0
Investing cash flow	-3.2	0.8	-23.4	-32.5	-35.5	-35.0	-36.2
Change in interest-bearing debt	-15.6	-19.9	34.3	36.5	51.8	60.6	14.7
Dividends	0.0	-0.3	0.0	-1.8	-3.9	-4.9	-16.4
Other	-16.5	-5.3	11.3	0.0	0.0	0.0	0.0
Financing cash flow	-32.0	-25.4	45.6	34.7	47.8	55.7	-1.6
Total cash flow	33.2	24.3	50.4	-7.1	96.9	78.7	27.4
Cash at beginning of period	44.5	46.5	64.1	108.2	101.1	198.0	276.7
Cash at end of period	46.5	64.1	108.2	101.1	198.0	276.7	304.0

Source: Company, IPOPEMA Research

This document has been prepared by IPOPEMA Securities S.A. with its registered seat in Warsaw, Próżna 9, 00-107 Warsaw, Poland, entered into the Register of Entrepreneurs of the National Court Register maintained by the District Court for the City of Warsaw, XII Commercial Division of the National Court Register under entry number KRS 0000230737, the initial capital and paid capital in the amount of PLN 2.993.783,60, NIP 5272468122, www.ipopema.pl. IPOPEMA Securities S.A. is supervised by the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego), Piękna 20, 00-549 Warsaw, Poland.

This document has been prepared by IPOPEMA Securities S.A. as a part of the Warsaw Stock Exchange Research Coverage Support Program ("Program") and was commissioned by the Warsaw Stock Exchange SA ("WSE"). Information about the Program is available at <https://www.gpw.pl/gpwpa>. The copyright to the document is vested in the WSE. For preparation of the document, IPOPEMA Securities S.A. will be remunerated by the WSE on the terms specified in the agreement concluded between IPOPEMA Securities S.A. and the WSE.

This document was prepared by IPOPEMA Securities S.A. for information purposes only. This document is addressed to IPOPEMA Securities S.A. clients entitled to receive it on the basis of contracts for the provision of services. This document, using media distribution channels, may also reach other investors. It has been produced independently of the company mentioned in this document and any forecasts, opinions and expectations are entirely those of IPOPEMA Securities S.A. Unless otherwise specified, the estimates and opinions contained in the document constitute an independent assessment of IPOPEMA Securities S.A. analysts preparing the document as of the date of issuing the document.

IPOPEMA Securities S.A. prepared this document with the preservation of all due diligence, thoroughness and reliability on the basis of publicly available information which IPOPEMA Securities S.A. believes to be reliable. The sources of data are primarily: Bloomberg, Reuters, EPFR, Polska Agencja Prasowa, WSE, Główny Urząd Statystyczny, Narodowy Bank Polski, financial press, online financial and economic services. While due diligence has been taken by IPOPEMA Securities S.A. to ensure that the facts stated herein are accurate and that any forecasts, opinions and expectations contained herein are fair and reasonable, IPOPEMA Securities S.A. has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. The opinions expressed in the document can change without notice and IPOPEMA Securities S.A. is under no obligation to keep these opinion current. None of the IPOPEMA Securities S.A. or any other person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith. This document nor any copy hereof is not to be distributed directly or indirectly in the United States, Australia, Canada or Japan.

This document does not constitute any offer to sell or induce any offer to buy or sell any financial instruments, can not be relied on in connection with any contract or liability and does not constitute advertising or promotion of a financial instrument or the company. Investment decisions should only be made on the basis of a prospectus or other publicly available information and materials.

The document was prepared without taking into account the needs and situation of the recipients of the document. When preparing the document, IPOPEMA Securities S.A. does not examine the recipient's investment objectives, risk tolerance level, time horizon and financial standing of the investors. The company or the financial instruments discussed in the document may not be suitable for the users of the document, i.e. it may not be suitable for the specific objectives and time horizon or the financial situation. Information included in the document can not be regarded as a substitute for obtaining investment advice service. The value of financial instruments may fluctuate, including declines. Changes in FX rates may have an adverse effect on the value of investments. The investment in financial instruments is linked to investment risks including loss of entire or part of the invested capital. Past performance is not necessarily indicative of future results. IPOPEMA Securities S.A. points out that the price of financial instruments is affected by many different factors that are or may be independent of the company and the results of its operations. These include, among others changing economic, legal, political and tax conditions. IPOPEMA Securities S.A. may have issued in the past or may issue other documents in the future, presenting other conclusions, not consistent with those presented herein document. Such documents reflect different assumptions, points of view and analytical methods adopted by the analysts preparing them.

Investors should be aware that IPOPEMA Securities S.A. or its related entities may have a conflict of interest that could affect this document's objectivity. The investor should assume that IPOPEMA Securities S.A. or its related entities may provide services in favour of the company and obtain remuneration on this account. They may also have another financial interest with respect to the company. IPOPEMA Securities S.A. or its related entities may seek to do business with the company or other entities mentioned in this document. IPOPEMA Securities S.A. has an organizational structure and internal regulations in place to ensure that the client's interests are not compromised in the event of a conflict of interests, in relation to preparing this document. IPOPEMA Securities S.A. conflicts of interest management policy is available on the website www.ipopemasecurities.pl. This document was prepared irrespective and independently of the interests of IPOPEMA Securities S.A., the company that is the subject of this document and holder of financial instrument issued by aforementioned company. IPOPEMA Securities S.A., its shareholders, employees and associates may hold long or short positions in the company's financial instruments or other financial instruments related to the company's financial instruments.

IPOPEMA Securities S.A. has received remuneration for providing services of investment firms to Mirbud S.A. over the past twelve months. Aforementioned investment services included providing consulting services for enterprises regarding capital structure, enterprise strategy or other issues related to such a structure or strategy as well as offering of financial instruments.

On the order of the WSE, IPOPEMA Securities S.A. creates analytical materials for the following companies: AC S.A., Capital Park S.A., Mirbud S.A., PKB Pekabex S.A., Vigo System S.A. The WSE has proprietary copyrights to these materials. For the preparation of them IPOPEMA Securities S.A. receives remuneration from the WSE. Information on the program is available on the website <https://www.gpw.pl/gpwpa>.

IPOPEMA Securities S.A. uses a number of valuation methodologies including discounted cash flows models (such as discounted operating earnings or dividend discount model), and earnings and cash-flow based models, which are often related to comparisons with selected peer companies. Cash flow models encapsulate the cash streams forecast to flow to a company, and are widely used in the investment industry. Peer comparisons factor in amongst other factors, differential growth rates, and indicate how expensive one company might appear relative to a chosen comparator. The subjective opinions of the document's author or authors, formed by their knowledge and experience, play a significant role in the valuation. Also included are assumptions on numerous economic variables, particularly interest rates, inflation and exchange rates and varying these assumptions could result in significantly different opinions. The strength of the earnings and cash flow based models is the closer attention to a company on a standalone basis, and tying the valuation to its fundamental value. The weakness of such method is the number of assumptions, which need to be adopted and resulting sensitivity to those assumptions. The peer comparisons methods are less dependent on the analyst's judgment as to the individual parameters, however the problem with this method appears when the peer comparator is over- or undervalued. Moreover, leading multiples (based on the future earnings, book values, operating profit or cash flows) include an analyst's estimate of those values.

This document was not transferred to the company prior to its publication. This document was prepared according to the author's own view, assumptions and knowledge.

It is intended that the analytical report concerning the company will be updated at least twice a year starting from the date of publication of the initiating report, and in the event of key operations and/or changes in the assumptions underlying the report.

Recommendations issued by IPOPEMA Securities S.A. they are valid for a period of 12 months from the date of issue, unless they are updated during this period. IPOPEMA Securities S.A. updates the issued recommendations depending on the market situation and subjective analysts' assessment. In the last 12 months IPOPEMA Securities S.A. has not prepared recommendations concerning the company.

List of all recommendations regarding any financial instrument or issuer that have been disseminated within the last 12 months by IPOPEMA Securities S.A. is available on the website at www.ipopemasecurities.pl.

This document is an investment research within the meaning of Art. 36 par. 1 of the Commission Delegated Regulation (EU) 2017/565.

The date and the time stated on the front page is the date of the preparation of this document. The price used throughout the recommendation to calculate adequate ratios is the "last" price stated on the front page of this document.

The definitions of terms used in the document include:

NII – Net interest income – interest income minus interest expense.

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

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

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

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

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

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

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.

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.

CAGR – compound annual growth rate.

BVPS – book value per share, the book value of the Company's equity divided by the number of shares outstanding.

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

DPS – dividend per share – dividend of a given year divided by the number of shares outstanding.

DY – dividend yield – dividend of a given year divided by the current price.

DDM – dividend discount model – a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends.

FV – Fair Value, calculated based on valuation methods outlined in the document.

The author of this document has no conflict of interest with the company that is the subject of this document. The point of view expressed in the document reflects the personal opinion of the author of the document on the analyzed company and its financial instruments.

Investors should be aware that flexible part of the author's compensation may depend on general financial performance of IPOPEMA Securities S.A.

IPOPEMA Securities S.A. shall act with due diligence, honestly, fairly, professionally and in accordance with the provisions of the applicable law.

IPOPEMA Securities S.A. does not guarantee achieving the investor's investment objective, the performance of company or prospective prices referred to herein.

When applying ratings for companies following criteria are used with regards to the difference between IPOPEMA's FV and company's price at the date of recommendation:

Rating	Difference between FV and price at recommendation
Buy	Above 10%
Hold	In between (and including) -10% and 10%
Sell	Below -10%

IPOPEMA Research - Distribution by rating category (October 1 – December 31, 2020)

	Number	%
Buy	17	53%
Hold	10	31%
Sell	5	16%
Total	32	100%

Rating History – Mirbud

Date	Recommendation	Fair Value	Price at recommendation	Author
03/09/2020	BUY	PLN 3.14	PLN 2.26	Robert Maj
04/03/2021	BUY	PLN 5.06	PLN 4.43	Robert Maj