

# ML System

## Weak start to 2024 already priced-in

We have lowered our valuation for ML System by 33.0% after cutting our 2024-2025 EBITDA estimates by 31.0% and 11.9% respectively to reflect a larger-than-expected hit from the macroeconomic slowdown. We still expect the production of photovoltaic roof tiles and façade panels to drive the firm's earnings in the years ahead, especially as the EU Council recently adopted its EPBD directive. It seems to us we are currently at the bottom of the macroeconomic cycle which would be still visible in the 1Q24 results of Polish construction companies. We err on the side of caution: we believe MLS is likely to improve its sales profile beyond 1Q24, but we have slashed our EBITDA estimate by 31.0% for FY 2024. We lower our FV to PLN 58.45 (down 33.0% from PLN 87.20 previously). We reiterate our BUY recommendation.

**4Q23 results review:** ML System's 4Q23 results were broadly in line with the preliminary print. EBITDA amounted to PLN 12.1m (down 20.4% y/y, up 89.4% q/q) in 4Q23 while the EBITDA margin improved to 20.4% versus 16% in 3Q23. Higher sales of new quantum-era products boosted the margin in 4Q23. Revenues arrived at PLN 59m (down 47.6% y/y, up 48.6% q/q) in 4Q23. EBITDA arrived at PLN 25.7m (down 29.7% y/y) for FY 2023, triggered by a slowdown in the construction sector. At the analysts' meeting, ML System also announced that its production lines were used by R&D activity for 50% of the time during 2023, as the firm intends to speed up research. (This is against the backdrop of European regulations advancing visibly over the past year, and EPBD regulations drawing near.) Net debt stood close to 5x net debt/EBITDA at the end of 2023: we see this as an intermediary sign during the end of the investment cycle and ahead of new sales kicking in. We expect net debt/EBITDA to fall to 3.1x in 2024E.

**We believe the weak 1Q24 is already priced-in:** We expect ML System's sales to arrive at PLN 45.6m (down 1.1% y/y and 22.8% q/q) in 1Q24. We expect the firm to gradually finalize construction contracts that have been dragging on for some time (although Budimex and Cavatina may only materialize in 2Q24). We expect EBITDA at PLN 9.1m (up 22.6% y/y, down 24% q/q) in 1Q24. Overall, this suggests the start of 2024 was still being tainted by the economic slowdown, which is likely to recede in the quarters ahead.

**EPBD directive imminent:** The Council of the European Union voted in favour of, and formally adopted, the revised Energy Performance of Buildings Directive (EPBD). This includes new rules to reduce the energy consumption and emissions of buildings across the EU. According to the directive, energy consumption in residential buildings will be reduced by 16% by 2030 and 20-22% by 2035. As for other buildings – such as companies, hospitals, schools or offices – 16% of those in the worst condition must be renovated by 2030; and 26% by 2033. Overall, this is likely to support ML System's sales in the years ahead, with rising sales of rooftop PV and PV tiles on building facades.

Figure 1. ML System financials (PLN m)

	2021	2022	2023	2024E	2025E	2026E
Revenue	188.8	281.7	193.3	242.3	358.5	413.0
EBIT	4.4	7.1	3.1	10.5	22.1	38.7
EBITDA	24.4	36.5	25.7	42.5	66.6	82.2
Net profit	1.7	0.2	-4.6	2.8	13.9	31.0
EPS	0.3	0.0	-0.7	0.4	1.9	4.2
DPS	0.0	0.0	0.0	0.0	0.0	0.9
P/E (x)	165.3	1,423.5	-71.0	124.2	25.0	11.2
EV/EBITDA (x)	14.6	10.9	17.8	11.3	6.8	5.2

Source: Company, IPOPEMA Research

Construction

## ML System

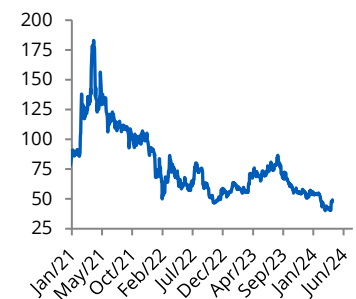
BUY

FV PLN 58.45

23.8% upside

Price as of 23 April 2024 PLN 47.20

Recommendation maintained



### Share data

Number of shares (m)	7.4
Market cap (EUR m)	84.3
12M avg daily volume (k)	7.2
12M avg daily turnover (EUR m)	0.1
12M high/low (PLN)	87.3/40.6
OWIG weight (%)	0.04
Reuters	MLSP.WA
Bloomberg	MLS.PW

### Total performance

1M	+14.6%
3M	-10.5%
12M	-32.6%

### Shareholders

Dawid Cycoń	27.33%
Edyta Stanek	27.10%
NN OFE	7.15%

### Analysts

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**ML SYSTEM****BUY****FV PLN 58.45**

Mkt Cap EUR 84.3m

Upside/downside +23.8%

Valuation multiples	2021	2022	2023	2024E	2025E
P/E (x)	165.3	1,423.5	-71.0	124.2	25.0
EV/EBITDA (x)	14.6	10.9	17.8	11.3	6.8
EV/Sales (x)	1.89	1.41	2.37	1.98	1.27
P/BV (x)	1.97	2.09	1.66	1.74	1.62
FCF yield (%)	-16%	-12%	2%	-4%	5%
DY (%)	0%	0%	0%	0%	0%

Per share	2021	2022	2023	2024E	2025E
No. of shares (m units)	6.1	6.5	7.0	7.4	7.4
EPS (PLN)	0.29	0.03	-0.67	0.38	1.89
BVPS (PLN)	23.90	22.58	28.36	27.19	29.08
FCFPS (PLN)	-7.38	-5.48	0.90	-1.78	2.45
DPS (PLN)	0.00	0.00	0.00	0.00	0.00

Change y/y (%)	2021	2022	2023	2024E	2025E
Revenues	48.3%	49.2%	-31.4%	25.4%	47.9%
EBITDA	10.1%	49.8%	-29.7%	65.5%	56.7%
EBIT	-61.8%	60.8%	-57%	241%	110%
Pre-tax	-69.1%	-72.0%	-521.1%	-191.2%	352.7%
Net profit	-82.8%	-87.7%	-2260%	-160.4%	396.9%

Leverage and return	2021	2022	2023	2024E	2025E
Gross margin (%)	14.1%	13.1%	16.5%	17.9%	22.9%
EBITDA margin (%)	12.9%	13.0%	13.3%	17.5%	18.6%
EBIT margin (%)	2.3%	2.5%	1.6%	4.3%	6.2%
Net margin (%)	0.9%	0.1%	-2.4%	1.2%	3.9%
Net debt / EBITDA (x)	2.80	2.51	4.99	3.08	1.59
Net debt / Equity (x)	0.47	0.63	0.65	0.65	0.49
Leverage Ratio (x)	0.37	0.43	0.50	0.51	0.46
ROE (%)	1.2%	0.1%	-2.7%	1.4%	6.7%
ROA (%)	3.2%	0.3%	-5.4%	2.8%	14.6%
ROIC (%)	0.8%	0.1%	-1.4%	0.8%	4.4%

Assumptions	2021	2022	2023	2024E	2025E
<b>Sales (PLN m)</b>	<b>188.8</b>	<b>281.7</b>	<b>193.3</b>	<b>242.3</b>	<b>358.5</b>
Quantum tiles/facades	0.0	0.0	0.0	0.0	80.0
PV	183.5	245.6	143.8	165.0	148.5
R&D	0.0	0.0	0.2	0.4	0.4
Unallocated	2.2	0.6	1.9	1.9	2.0
Quantum + 2D Glass	3.2	35.5	47.3	75.0	127.6
Active Glass	0.0	0.0	0.0	0.0	19.9
Poland GDP (%)	6.8%	5.3%	0.2%	2.4%	4.1%
Poland CPI (%)	5.1%	14.3%	11.6%	4.7%	4.6%
Constr. activity(%)	2.8%	1.9%	1.9%	2.9%	2.7%
USD PLN (avg)	3.86	4.46	4.20	3.92	3.76
EURPLN (avg)	4.56	4.68	4.54	4.29	4.22

P&L (PLN m)	2021	2022	2023	2024E	2025E	2026E
<b>Revenues</b>	<b>188.8</b>	<b>281.7</b>	<b>193.3</b>	<b>242.3</b>	<b>358.5</b>	<b>413.0</b>
Quantum tiles/facades	0.0	0.0	0.0	0.0	80.0	124.2
PV	183.5	245.6	143.8	165.0	148.5	133.7
R&D	0.0	0.0	0.2	0.4	0.4	0.4
Unallocated	2.2	0.6	1.9	1.9	2.0	2.1
Quantum + 2D Glass	3.2	35.5	47.3	75.0	127.6	152.6
Active Glass	0.0	0.0	0.0	0.0	19.9	41.1
Costs	-162.2	-244.6	-161.4	-199.0	-276.5	-305.3
SG&A	-30.0	-30.6	-35.1	-34.8	-51.5	-59.3
EBIT	4.4	7.1	3.1	10.5	22.1	38.7
<b>EBITDA</b>	<b>24.4</b>	<b>36.5</b>	<b>25.7</b>	<b>42.5</b>	<b>66.6</b>	<b>82.2</b>
Financial income (cost) net	-1.2	-6.2	-6.8	-7.1	-6.6	-4.2
Pre-tax	3.2	0.9	-3.7	3.4	15.5	34.4
Tax	-1.4	-0.7	-0.9	-0.6	-1.5	-3.4
<b>Net profit</b>	<b>1.7</b>	<b>0.2</b>	<b>-4.6</b>	<b>2.8</b>	<b>13.9</b>	<b>31.0</b>

BALANCE SHEET (PLN m)	2021	2022	2023	2024E	2025E	2026E
<b>Non-current assets</b>	<b>247.9</b>	<b>256.4</b>	<b>433.1</b>	<b>381.2</b>	<b>384.2</b>	<b>386.7</b>
Intangible assets	11.8	17.0	25.1	25.2	25.2	25.3
PP&E	213.5	217.5	384.1	331.8	333.8	335.9
Receivables	0.8	0.8	1.0	1.3	1.9	2.2
<b>Current assets</b>	<b>142.3</b>	<b>174.8</b>	<b>145.6</b>	<b>169.9</b>	<b>282.0</b>	<b>267.5</b>
Inventories	57.7	66.5	44.1	54.5	75.8	83.6
Trade receivables	41.7	69.0	71.4	53.1	78.6	90.5
Cash and equivalents	24.7	27.1	20.7	48.5	107.5	70.2
Other current assets	18.2	12.3	9.4	13.8	20.1	23.1
<b>Total assets</b>	<b>390.2</b>	<b>431.2</b>	<b>578.7</b>	<b>551.1</b>	<b>666.2</b>	<b>654.1</b>
<b>Equity</b>	<b>146.2</b>	<b>146.4</b>	<b>197.9</b>	<b>200.7</b>	<b>214.6</b>	<b>238.7</b>
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
<b>Non-current liabilities</b>	<b>146.9</b>	<b>133.8</b>	<b>228.8</b>	<b>182.3</b>	<b>229.1</b>	<b>246.9</b>
Loans and leasing	56.7	46.7	73.5	75.9	80.8	82.6
Other non-current liabilities	90.2	87.1	155.3	106.4	148.4	164.3
<b>Current liabilities</b>	<b>97.1</b>	<b>151.0</b>	<b>151.9</b>	<b>168.1</b>	<b>222.4</b>	<b>168.6</b>
Trade payables	47.3	65.3	70.5	57.3	79.5	87.8
Loans and leasing	36.4	72.0	75.3	103.4	132.3	68.9
Other current liabilities	13.4	13.6	6.2	7.5	10.5	11.9
<b>Equity &amp; liabilities</b>	<b>390.2</b>	<b>431.2</b>	<b>578.7</b>	<b>551.1</b>	<b>666.2</b>	<b>654.1</b>
Inventories turnover (days)	129.8	99.2	99.7	100.0	100.0	100.0
Receivable turnover (days)	80.6	89.4	134.9	80.0	80.0	80.0
<b>Net debt (PLN m)</b>	<b>68.4</b>	<b>91.7</b>	<b>128.1</b>	<b>130.8</b>	<b>105.5</b>	<b>81.3</b>

CASH FLOW (PLN m)	2021	2022	2023	2024E	2025E	2026E
<b>Operating cash flow</b>	<b>10.2</b>	<b>10.3</b>	<b>6.2</b>	<b>-23.0</b>	<b>71.9</b>	<b>76.9</b>
Net income	1.7	0.2	-4.6	2.8	13.9	31.0
D&A	20.0	29.4	20.8	32.0	44.5	43.5
Change in WC	-15.0	-24.9	-22.6	-9.7	-30.8	-14.5
Other	3.5	5.6	12.6	-48.0	44.2	16.9
<b>Investment cash flow</b>	<b>-55.4</b>	<b>-45.9</b>	<b>-171.6</b>	<b>-23.1</b>	<b>-45.1</b>	<b>-44.0</b>
CAPEX	-55.4	-45.9	-171.6	-23.1	-45.1	-44.0
Dividends received	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
<b>Financial cash flow</b>	<b>49.4</b>	<b>37.8</b>	<b>159.1</b>	<b>73.8</b>	<b>32.3</b>	<b>-70.2</b>
Change in equity	0.1	0.0	56.2	0.0	0.0	0.0
Change in debt	23.0	27.8	31.8	26.9	26.6	-64.5
Dividend	0.0	0.0	0.0	0.0	0.0	-7.0
Other	26.3	10.0	71.1	46.9	5.7	1.3
<b>Change in cash</b>	<b>4.2</b>	<b>2.3</b>	<b>-6.3</b>	<b>27.7</b>	<b>59.1</b>	<b>-37.3</b>
<b>Cash as of eop</b>	<b>24.7</b>	<b>27.1</b>	<b>20.7</b>	<b>48.5</b>	<b>107.5</b>	<b>70.2</b>

Source: Company data, IPOPEMA Research

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# 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 ML System 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 photovoltaic and construction markets, and 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 80% 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 2%.

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 5.5% equity risk premium each year. The 12-month forward interest rates were derived from the yield curve of the 2024-2033 period. We also consistently use a beta of one (1) so as not to distort the WACC and the comparability of our valuations.

## Changes in forecast

Figure 2. Change in forecasts

	2024			2025			2026		
	OLD	NEW	change	OLD	NEW	change	OLD	NEW	change
Revenues	359.4	242.3	-32.6%	474.6	358.5	-24.5%	655.2	413.0	-37.0%
EBIT	14.8	10.5	-29.1%	19.9	22.1	11.0%	44.3	38.7	-12.6%
EBITDA	61.6	42.5	-31.0%	75.6	66.6	-11.9%	97.6	82.2	-15.7%
Net profit	4.4	2.8	-36.3%	9.4	13.9	48.2%	35.2	31.0	-11.9%

Source: Company, IPOPEMA Research

## 4Q23 results overview and 1Q24 results preview

Figure 3. ML System: 1Q24 results preview (PLN m)

	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24E	YY	Q/Q
Revenues	54.93	50.33	63.69	112.71	46.09	48.42	39.72	59.03	45.58	-1.1%	-22.8%
Gross profit	4.34	7.27	13.36	12.06	4.25	4.08	10.01	13.57	9.32	119.5%	-31.3%
EBITDA	5.32	7.79	8.22	15.17	7.44	-0.21	6.38	12.08	9.12	22.6%	-24.4%
EBIT	-1.70	0.40	0.72	7.68	0.14	-6.44	1.84	7.53	1.12	713.8%	-85.1%
Net profit	-2.75	-1.01	-0.93	4.90	-2.26	-8.39	-0.10	6.11	-0.53	na	na

Source: Company, IPOPEMA Research

Figure 4. DCF Valuation (PLN m)

PLN m	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	Terminal Year
Revenues	242.3	358.5	413.0	489.2	569.6	654.4	697.1	718.0	739.6	761.8	761.8
<b>EBIT</b>	<b>10.5</b>	<b>22.1</b>	<b>38.7</b>	<b>51.7</b>	<b>85.9</b>	<b>107.9</b>	<b>116.9</b>	<b>119.1</b>	<b>121.2</b>	<b>123.3</b>	<b>123.3</b>
Tax on EBIT	1.9	2.2	3.9	5.2	16.3	20.5	22.2	22.6	23.0	23.4	23.4
NOPLAT	8.6	19.9	34.8	46.6	69.6	87.4	94.7	96.4	98.2	99.9	99.9
Depreciation	32.0	44.5	43.5	44.4	41.9	44.7	47.7	51.0	54.4	58.1	58.1
Capital expenditures	-23.1	-45.1	-44.0	-44.8	-42.1	-44.9	-48.0	-51.2	-54.7	-58.4	-58.4
Change in working capital	-9.7	-30.8	-14.5	-20.3	-21.5	-22.6	-11.4	-5.5	-5.7	-5.9	-5.9
Leasing payments	-1.5	-1.6	-1.7	-1.8	-1.9	-2.0	-2.2	-2.3	-2.3	-2.5	-2.5
<b>Free cash flow</b>	<b>6.3</b>	<b>-13.1</b>	<b>18.1</b>	<b>24.0</b>	<b>46.0</b>	<b>62.6</b>	<b>80.9</b>	<b>88.4</b>	<b>89.9</b>	<b>91.2</b>	<b>91.2</b>
Risk-free rate	5.76%	5.88%	5.97%	6.05%	6.09%	6.06%	6.10%	6.10%	6.10%	6.10%	6.10%
Equity risk premium	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%
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	11.26%	11.38%	11.47%	11.55%	11.59%	11.56%	11.60%	11.60%	11.60%	11.60%	11.60%
Cost of debt (pre-tax)	8.3%	8.4%	8.5%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%
Effective tax rate	45.0%	75.8%	-23.9%	18.0%	10.0%	10.0%	10.0%	19.0%	19.0%	19.0%	19.0%
After-tax cost of debt	4.5%	2.0%	10.5%	7.0%	7.7%	7.7%	7.7%	7.0%	7.0%	7.0%	7.0%
Weight of debt	22.4%	23.4%	24.0%	16.6%	17.1%	16.8%	17.6%	18.4%	21.3%	20.8%	20.8%
Weight of equity	77.6%	76.6%	76.0%	83.4%	82.9%	83.2%	82.4%	81.6%	78.7%	79.2%	79.2%
<b>WACC</b>	<b>9.8%</b>	<b>9.2%</b>	<b>11.2%</b>	<b>10.8%</b>	<b>10.9%</b>	<b>10.9%</b>	<b>10.9%</b>	<b>10.7%</b>	<b>10.6%</b>	<b>10.6%</b>	<b>10.6%</b>
Discount fact	0.91	0.83	0.75	0.68	0.61	0.55	0.50	0.45	0.41	0.37	0.33
PV of FCF	5.7	-10.9	13.6	16.3	28.1	34.4	40.2	39.6	36.4	33.4	30.2
Sum of FCF PV's	236.7										
FCF terminal growth rate	2.0%										
Terminal value	1,077.5										
PV of terminal value	356.5										
Unwind of discount	17.0										
Enterprise value	610.3										
Net debt 2023	128.1										
Employees liabilities	-0.8										
Dividend paid out in 2024 (ytd terms)	0.0										
<b>Per share value (PLN)</b>	<b>64.16</b>										

Source: Company, IPOPEMA Research

Figure 5. DDM Valuation (PLN m)

PLNm	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	Terminal Year
Dividends	0.0	0.0	7.0	15.5	22.0	34.3	63.4	69.0	70.0	71.0	71.0
Discount rate	11.3%	11.4%	11.5%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%
Discount factor	0.90	0.81	0.72	0.65	0.58	0.52	0.47	0.42	0.38	0.34	0.30
Discounted dividend	0.0	0.0	5.0	10.1	12.8	17.9	29.6	28.9	26.3	23.9	21.4
Sum of DD PV's	154.4										
DIV terminal growth rate	2.0%										
Terminal value	753.9										
PV of terminal value	227.1										
Discount unwind	14.1										
Equity value	395.6										
<b>Per share value (PLN)</b>	<b>52.74</b>										

Source: Company, IPOPEMA Research

Figure 6. Valuation Summary (PLN)

PLN	
DCF	64.16
DDM	52.74
<b>Average</b>	<b>58.45</b>

Source: Company, IPOPEMA Research

## Relative valuation

As many of the company's international competitors are private, non-listed companies, and Polish companies operating on the PV market are either incomparable to ML System or there are not enough consensus readings, we decided to show ML System in comparison to international PV utility scale farm operators. This comparison is also imperfect.

Compared to the international peers' median of 2024E EV/EBITDA of 12.0x, ML System trades at 11.3x, which constitutes a 6.0% discount. In our opinion, the average multiple for ML System could be even higher, as the company plans to enter new, profitable business lines.

Figure 7. Relative Valuation

PRICE (LCU)	Ticker	NAME	P/E			EV/EBITDA			EV/SALES		
			2024	2025	2026	2024	2025	2026	2024	2025	2026
67.1	SCATC.NOK.ST	SCATEC ASA	20.0	16.2	17.6	11.0	10.0	8.5	8.5	7.0	5.8
29.2	NEOEN.PA	NEOEN SA	35.5	48.1	31.6	16.1	14.1	10.6	13.9	11.3	8.5
1.2	AZRE.K	AZURE POWER GLOBAL LTD	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN
16.9	ECVG.DE	ENCAVIS AG	31.0	39.4	34.0	13.8	14.2	12.3	9.8	9.3	8.3
7.9	VL TSA.PA	VOLTALIA SA	31.8	85.6	45.5	10.9	10.3	8.9	5.1	4.6	4.1
1.7	SOL.N	RENESOLA LTD	NaN	4.0	2.5	NaN	3.1	2.3	1.0	0.7	0.6
9.9	SLRS.MC	SOLARIA ENERGIA Y MEDIO AMBIENTE SA	11.6	13.7	10.8	11.2	10.9	8.8	10.2	8.9	6.9
3.1	HRPKK.DE	7C SOLARPARKEN AG	NaN	25.6	20.5	NaN	7.5	7.4	6.6	6.4	6.4
26.4	GREG.MC	GREENERGY RENOVABLES SA	14.5	14.8	8.0	12.8	9.6	6.3	5.0	3.3	2.4
		<b>MEDIAN</b>	<b>25.5</b>	<b>20.9</b>	<b>19.0</b>	<b>12.0</b>	<b>10.1</b>	<b>8.6</b>	<b>7.6</b>	<b>6.7</b>	<b>6.1</b>
49.2	MLSP.WA	ML SYSTEM	124.2	25.0	11.2	11.3	6.8	5.2	2.0	1.3	1.0
		Premium/discount to median									
		<b>ML SYSTEM</b>	387.3%	19.4%	-40.9%	-6.0%	-32.8%	-39.5%	-73.9%	-81.1%	-83.0%

Source: Reuters, IPOPEMA Research

# Risks to fair value

## **Demand volatility**

ML System is exposed to the PV market, which in Poland is undergoing rapid growth. The government, however, has already introduced adverse changes to the support scheme to prosumers starting from 2022.

## **Unfavourable trend in prices of materials and services**

Adverse trends such as rising raw material costs and inflation in 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 ML System's business model, which could potentially increase competition in the company's most important segments. ML System has, however, patented its technology which limits the possibilities of entering the most attractive segments of quantum dot PV modules. The regular PV modules are exposed to high competition as the market is fragmented and exposed to heavy imports, especially from China.

## **Workforce shortages**

A shortage of skilled labour in the construction industry could result in ML System 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 ML System 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 ML System's future backlog. Decreasing EU funds are likely to accentuate the problem.

# Financials

Figure 8. INCOME STATEMENT (PLN m)

	2019	2020	2021	2022	2023	2024E	2025E	2026E
<b>Sales</b>	<b>93.4</b>	<b>127.3</b>	<b>188.8</b>	<b>281.7</b>	<b>193.3</b>	<b>242.3</b>	<b>358.5</b>	<b>413.0</b>
Cost of goods & products sold	-81.4	-96.6	-162.2	-244.6	-161.4	-199.0	-276.5	-305.3
<b>Gross profit</b>	<b>11.9</b>	<b>30.7</b>	<b>26.6</b>	<b>37.0</b>	<b>31.9</b>	<b>43.3</b>	<b>82.0</b>	<b>107.7</b>
SG&A	-15.4	-23.0	-30.0	-30.6	-35.1	-34.8	-51.5	-59.3
Other operating activity	8.5	3.8	7.8	0.7	6.2	2.0	-8.4	-9.7
<b>EBIT</b>	<b>5.1</b>	<b>11.5</b>	<b>4.4</b>	<b>7.1</b>	<b>3.1</b>	<b>10.5</b>	<b>22.1</b>	<b>38.7</b>
Net financial activity	-1.6	-1.3	-1.2	-6.2	-6.8	-7.1	-6.6	-4.2
<b>Pre-tax profit</b>	<b>3.5</b>	<b>10.3</b>	<b>3.2</b>	<b>0.9</b>	<b>-3.7</b>	<b>3.4</b>	<b>15.5</b>	<b>34.4</b>
Tax	0.0	-0.1	-1.4	-0.7	-0.9	-0.6	-1.5	-3.4
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net income</b>	<b>3.5</b>	<b>10.2</b>	<b>1.7</b>	<b>0.2</b>	<b>-4.6</b>	<b>2.8</b>	<b>13.9</b>	<b>31.0</b>
<b>EBITDA</b>	<b>14.0</b>	<b>22.1</b>	<b>24.4</b>	<b>36.5</b>	<b>25.7</b>	<b>42.5</b>	<b>66.6</b>	<b>82.2</b>

Source: Company, IPOPEMA Research

Figure 9. BALANCE SHEET (PLN m)

	2019	2020	2021	2022	2023	2024E	2025E	2026E
<b>Long-term assets</b>	<b>146.1</b>	<b>184.8</b>	<b>247.9</b>	<b>256.4</b>	<b>433.1</b>	<b>381.2</b>	<b>384.2</b>	<b>386.7</b>
Tangible assets	135.2	168.5	213.5	217.5	384.1	331.8	333.8	335.9
Receivables and loans	0.2	0.5	0.8	0.8	1.0	1.3	1.9	2.2
Intangible assets	7.2	11.0	11.8	17.0	25.1	25.2	25.2	25.3
Others	3.5	4.8	21.8	21.2	22.9	23.0	23.2	23.3
<b>Current assets</b>	<b>70.1</b>	<b>118.8</b>	<b>142.3</b>	<b>174.8</b>	<b>145.6</b>	<b>169.9</b>	<b>282.0</b>	<b>267.5</b>
Inventories	9.6	38.3	57.7	66.5	44.1	54.5	75.8	83.6
Receivables from construction activities	15.1	18.9	17.3	11.1	8.9	13.3	19.6	22.6
Trade receivables	29.8	40.3	41.7	69.0	71.4	53.1	78.6	90.5
Other	15.6	21.3	25.6	28.2	21.2	48.9	108.0	70.7
<b>Total assets</b>	<b>216.2</b>	<b>303.5</b>	<b>390.2</b>	<b>431.2</b>	<b>578.7</b>	<b>551.1</b>	<b>666.2</b>	<b>654.1</b>
<b>Equity</b>	<b>77.4</b>	<b>144.4</b>	<b>146.2</b>	<b>146.4</b>	<b>197.9</b>	<b>200.7</b>	<b>214.6</b>	<b>238.7</b>
<b>Long-term liabilities</b>	<b>92.7</b>	<b>95.3</b>	<b>146.9</b>	<b>133.8</b>	<b>228.8</b>	<b>182.3</b>	<b>229.1</b>	<b>246.9</b>
Interest bearing	30.8	25.5	43.4	35.6	63.4	63.4	63.4	63.4
Leasing	1.8	2.2	13.3	11.1	10.2	12.5	17.4	19.2
Deferred liabilities	58.0	61.4	85.9	82.7	149.9	99.5	138.3	152.6
Others	2.0	6.2	4.3	4.4	5.5	6.8	10.1	11.6
<b>Short-term liabilities</b>	<b>46.1</b>	<b>63.9</b>	<b>97.1</b>	<b>151.0</b>	<b>151.9</b>	<b>168.1</b>	<b>222.4</b>	<b>168.6</b>
Interest bearing	15.1	29.8	33.1	68.7	71.6	98.5	125.1	60.6
Trade liabilities	24.7	25.2	47.3	65.3	70.5	57.3	79.5	87.8
Deferred liabilities	4.4	6.4	8.7	10.4	0.0	0.0	0.0	0.0
Leasing	0.5	1.1	3.3	3.3	3.7	4.8	7.2	8.3
Others	1.5	1.4	4.6	3.3	6.2	7.5	10.5	11.9
<b>Total liabilities &amp; equity</b>	<b>216.2</b>	<b>303.5</b>	<b>390.2</b>	<b>431.2</b>	<b>578.7</b>	<b>551.1</b>	<b>666.2</b>	<b>654.1</b>

Source: Company, IPOPEMA Research

Figure 10. CASH FLOW STATEMENT (PLN m)

	2019	2020	2021	2022	2023	2024E	2025E	2026E
Net profit	3.5	10.2	1.7	0.2	-4.6	2.8	13.9	31.0
Depreciation	8.9	10.6	20.0	29.4	20.8	32.0	44.5	43.5
Change in net working capital	-2.2	-44.4	-15.0	-24.9	-22.6	-9.7	-30.8	-14.5
Other items	-17.7	1.7	3.5	5.6	12.6	-48.0	44.2	16.9
<b>Operating cash flow</b>	<b>-7.6</b>	<b>-21.9</b>	<b>10.2</b>	<b>10.3</b>	<b>6.2</b>	<b>-23.0</b>	<b>71.9</b>	<b>76.9</b>
Purchases of tangibles & intangibles	-40.2	-53.2	-55.4	-45.9	-171.6	-23.1	-45.1	-44.0
Others	1.4	4.2	0.0	0.0	0.0	0.0	0.0	0.0
<b>Investing cash flow</b>	<b>-38.7</b>	<b>-49.0</b>	<b>-55.4</b>	<b>-45.9</b>	<b>-171.6</b>	<b>-23.1</b>	<b>-45.1</b>	<b>-44.0</b>
Change in interest-bearing debt	17.5	9.4	23.0	27.8	31.8	26.9	26.6	-64.5
Dividends	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	-7.0
Other	30.4	66.9	26.4	10.0	127.3	46.9	5.7	1.3
<b>Financing cash flow</b>	<b>46.8</b>	<b>76.3</b>	<b>49.4</b>	<b>37.8</b>	<b>159.1</b>	<b>73.8</b>	<b>32.3</b>	<b>-70.2</b>
<b>Total cash flow</b>	<b>0.5</b>	<b>5.4</b>	<b>4.2</b>	<b>2.3</b>	<b>-6.3</b>	<b>27.7</b>	<b>59.1</b>	<b>-37.3</b>
Cash at beginning of period	14.7	15.1	20.5	24.7	27.1	20.7	48.5	107.5
<b>Cash at end of period</b>	<b>15.1</b>	<b>20.5</b>	<b>24.7</b>	<b>27.1</b>	<b>20.7</b>	<b>48.5</b>	<b>107.5</b>	<b>70.2</b>

Source: Company, IPOPEMA Research



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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.

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	Number	%
Buy	12	75%
Hold	3	19%
Sell	1	6%
Total	16	100%

#### Rating History – ML System

Date	Recommendation	Fair Value	Price at recommendation	Author
09/09/2021	BUY	PLN 127.00	PLN 108.40	Robert Maj
06/05/2022	BUY	PLN 90.94	PLN 73.50	Robert Maj
26/08/2022	BUY	PLN 104.48	PLN 75.75	Robert Maj
21/11/2022	BUY	PLN 83.18	PLN 50.60	Robert Maj
05/04/2023	BUY	PLN 92.22	PLN 62.50	Robert Maj
02/10/2023	BUY	PLN 87.29	PLN 65.30	Robert Maj
24/04/2024	BUY	PLN 58.45	PLN 47.20	Robert Maj