

Pekabex

Coping with the slowdown

The Polish economy is falling into a recession, sparked by the coronavirus pandemic. According to Pawel Borys, head of the Polish Development Fund (PFR) 2Q20 GDP is likely to show between 5-10% of a decline while the whole year is likely to end up in the red. According to him, the rebound is likely to be U-shaped rather than V-shaped with the upturn starting only closer towards year-end. The construction market is more resilient to the slowdown as those companies tend to rely on long-term public infrastructure contracts, which, for the moment are still being tendered as they are financed by the government and the European Union and therefore less susceptible to dips in wider market activity. On the other hand companies exposed to short-term private contracts are more exposed to the negative effects of a slowdown as private owners are quicker to slash investments. Such short-term deals are Pekabex's bread and butter. In 3Q19 the company reported backlog of PLN 648m; however, only PLN 340m of these were to be executed in 2020. In our view, it will be challenging to fully fill in the order book for 2H20. We have therefore cut our revenue forecasts for 2020 and 2021 by 34.1% and 31.8%, respectively, and have lowered our EBITDA forecasts by 15.3% and 14.3%, respectively. EBITDA forecast has been cut less than the top line as we believe that Pekabex will be able to adjust its cost structure somewhat during the recession. We have cut our fair value for the shares by 35.3% from PLN 9.27 to PLN 6.00 and have downgraded our recommendation from HOLD to SELL.

4Q19 results preview: Pekabex is expected to publish its 4Q19 results on 20 April 2020. We expect net income to come in at PLN 8.3m, down 20.1% y/y. The company has already reported a rise in production volumes of 10.3% y/y to 41,770 cubic metres. We expect the average realized price to stay flat on a q/q basis at close to PLN 2,600/m³. Overall, we expect revenue of PLN 186.9m, down -22.2% y/y but up +4.5% q/q. We expect the cost base to grow by just 6.6% q/q to PLN 159.4m. We expect SG&A costs to stay broadly flat on a q/q basis and to total PLN 17m. Taking the abovementioned factors into consideration, we estimate EBITDA to come in at PLN 14.3m for the quarter, down -20.7% y/y but up +6.3% q/q.

Debt still low; however, no dividends expected in 2020: Pekabex recorded net debt/EBITDA of 0.15x at the end of 3Q19, which we expect to have risen to 0.7x by end-2019 and to rise further to 1.1x and 1.2x by the end of 2020 and 2021, respectively. This level of debt is still relatively low, especially as the company has now completed its investment cycle. Nevertheless, we do not expect any dividends to be paid from the 2019 net profit, in line with the current market trend of holding onto cash. Pekabex is trading at 6.1x 2020E EV/EBITDA, which constitutes a 10.7% premium to its international peers. We believe that this is due to the worsening situation in the Western European construction markets where many companies have already brought construction sites to a halt, i.e. Strabag in Austria. We believe that Pekabex should instead be trading at a slight discount as we expect the macro situation in Poland to deteriorate further.

Figure 1. Pekabex financial data, (PLN m)

	2015	2016	2017	2018	2019E	2020E	2021E
Revenue	350.7	505.4	623.3	886.3	715.7	643.3	681.7
EBIT	29.6	40.9	35.0	67.5	36.4	18.8	18.1
EBITDA	36.4	51.9	47.9	81.9	52.4	34.9	39.4
Net profit	24.3	34.3	25.8	51.2	28.8	15.3	16.3
EPS	1.1	1.4	1.1	2.1	1.2	0.6	0.7
DPS	0.1	0.1	0.1	0.2	0.3	0.0	0.1
P/E (x)	6.5	4.9	6.6	3.3	6.0	11.2	10.6
EV/EBITDA (x)	3.8	3.8	4.3	1.8	4.0	6.1	5.5

Source: Company, IPOPEMA Research

Construction

Pekabex

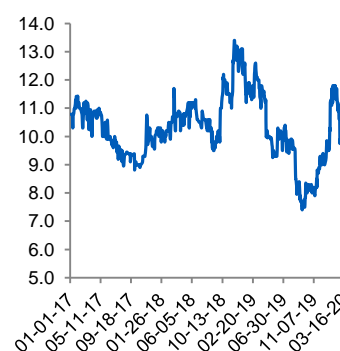
SELL

FV PLN 6.00 from PLN 9.27

14.0% downside

Price as of 3 April 2020 PLN 6.98

Downgraded



Share data

Number of shares (m)	24.6
Market cap (EUR m)	40.2
12M avg daily volume (k)	8.0
12M avg daily turnover (EUR m)	0.02
12M high/low (PLN)	12.00/6.50
WIG weight (%)	0.03
Reuters	PBX.WA
Bloomberg	PBX.PW

Total performance

1M	-30.20%
3M	-26.53%
12M	-37.33%

Shareholders

Opoka II FIZ	39.81%
Cantorelle Limited	11.55%
Fernik Holdings Limited	8.33%
NN OFE	5.56%

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Pekabex

SELL

FV PLN 6.00

Mkt Cap EUR 40.2m

Upside/downside -14.0%

Valuation multiples	2017	2018	2019E	2020E	2021E
P/E (x)	6.6	3.3	6.0	11.2	10.6
EV/EBITDA (x)	4.3	1.8	4.0	6.1	5.5
EV/Sales (x)	0.33	0.17	0.29	0.33	0.32
P/BV (x)	0.72	0.60	0.56	0.53	0.51
FCF yield (%)	1%	39%	-3%	-4%	-3%
DY (%)	2%	2%	4%	0%	2%

Per share	2017	2018	2019E	2020E	2021E
No. of shares (m units)	24.4	24.4	24.6	24.6	24.6
EPS (PLN)	1.1	2.1	1.2	0.6	0.7
BVPS (PLN)	9.74	11.71	12.48	13.11	13.64
FCFPS (PLN)	0.05	2.72	-0.23	-0.29	-0.22
DPS (PLN)	0.11	0.16	0.31	0.00	0.12

Change y/y (%)	2017	2018	2019E	2020E	2021E
Revenues	23.3%	42.2%	-19.3%	-10.1%	6.0%
EBITDA	-7.6%	71.0%	-36.1%	-33.4%	13.1%
EBIT	-14.4%	92.9%	-46.0%	-48.3%	-3.6%
Pre-tax	-18.9%	98.3%	-43.2%	-48.3%	-4.0%
Net profit	-24.7%	98.2%	-43.8%	-46.7%	5.9%

Leverage and return	2017	2018	2019E	2020E	2021E
Gross margin (%)	18.6%	18.5%	16.2%	14.3%	14.2%
EBITDA margin (%)	-7.6%	71.0%	-36.1%	-33.4%	13.1%
EBIT margin (%)	-14.4%	92.9%	-46.0%	-48.3%	-3.6%
Net margin (%)	-24.7%	98.2%	-43.8%	-46.7%	5.9%
Net debt / EBITDA (x)	0.75	-0.23	0.73	1.14	1.17
Net debt / Equity (x)	0.15	-0.07	0.12	0.12	0.14
Leverage Ratio (x)	0.98	1.01	0.97	0.93	0.90
ROE (%)	11.5%	19.6%	9.7%	4.9%	4.9%
ROA (%)	11.8%	19.4%	10.1%	5.2%	5.5%
ROCE (%)	11.1%	18.3%	9.5%	4.7%	4.4%

Assumptions	2017	2018	2019E	2020E	2021E
Production (k m3)	175	182	143	162	178
Average price (kPLN)	2.6	3.0	2.8	2.8	2.9
Price w/o trans.(kPLN)	2.3	2.7	2.5	2.4	2.4
Prefab. Sales (PLN m)	453.6	546.9	394.1	424.2	475.9
General constr. (PLN m)	136.6	303.0	260.1	160.0	160.9
Prod.services (PLN m)	28.3	31.6	36.5	39.1	39.9
Other sales (PLN m)	4.9	4.9	3.8	5.0	5.0
Real estate rev. (PLN m)	0.0	0.0	21.2	15.0	0.0
Poland GDP (%)	4.9%	5.2%	4.1%	-3.0%	1.0%
Poland CPI (%)	2.0%	2.1%	2.2%	3.0%	2.0%
Constr. activity(%)	12.0%	9.2%	2.6%	-3.2%	0.6%
USD PLN (avg)	3.77	3.61	3.84	4.20	4.20
EURPLN (avg)	4.18	4.26	4.30	4.30	4.30

P&L (PLN m)	2016	2017	2018	2019E	2020E	2021E
Revenues	505.4	623.3	886.3	715.7	643.3	681.7
COGS	-423.6	-507.6	-722.1	-599.7	-551.2	-584.6
Gross profit	81.8	115.7	164.2	115.9	92.0	97.1
EBIT	40.9	35.0	67.5	36.4	18.8	18.1
prefabrication contracts	29.1	52.8	96.6	41.3	38.2	42.8
construction services contracts	13.9	4.2	4.3	18.7	-0.2	6.4
production services	1.9	2.6	5.6	5.6	5.5	4.4
Other&real estate	2.4	1.7	1.3	1.8	3.3	1.5
Consolidation corrections	-6.4	-26.4	-40.3	-31.0	-27.9	-37.0
EBITDA	51.9	47.9	81.9	52.4	34.9	39.4
Financial income (cost) net	-1.0	-2.7	-3.4	-0.1	0.0	-0.1
Share in associates	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax	39.8	32.3	64.1	36.4	18.8	18.1
Tax	-5.5	-6.5	-12.9	-7.6	-3.5	-1.8
Net profit	34.3	25.8	51.2	28.8	15.3	16.3

BALANCE SHEET (PLN m)	2016	2017	2018	2019E	2020E	2021E
Non-current assets	246.1	244.2	259.6	318.1	315.8	319.8
Goodwill and intangible assets	13.4	13.5	15.1	16.4	18.3	21.1
PP&E	225.9	224.3	236.7	293.2	289.4	290.4
Receivables	2.1	1.7	2.7	3.6	3.2	3.4
Current assets	196.1	235.5	383.5	323.4	265.5	287.5
Inventories	30.1	44.5	63.6	57.5	57.4	60.9
Receivables from constr.activity	18.3	20.7	21.1	29.4	21.1	22.4
Cash and equivalents	22.4	15.7	95.2	71.6	38.6	34.1
Other current assets	125.3	154.6	203.6	164.9	148.3	170.2
Total assets	442.2	479.7	643.1	641.5	581.3	607.4
Equity	212.2	237.6	285.4	306.8	322.1	335.3
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	79.3	77.8	83.2	78.2	76.1	77.4
Loans and leasing	49.5	50.3	65.4	63.8	63.1	63.6
Other non-current liabilities	29.8	27.4	17.8	14.4	13.0	13.8
Current liabilities	150.7	164.4	274.6	256.5	183.0	194.7
Trade payables	121.1	116.0	168.5	143.0	105.7	112.1
Loans and leasing	11.0	11.9	25.0	45.9	15.3	16.8
Other current liabilities	18.6	36.5	81.1	67.7	62.0	65.8
Equity & liabilities	442.2	479.7	643.1	641.5	581.3	607.4
Inventories turnover (days)	25.9	32.0	32.2	35.0	38.0	38.0
Receivable turnover (days)	89.1	89.0	82.9	83.0	83.0	90.0
Net debt (PLN m)	27.5	35.9	-19.2	38.1	39.8	46.3

CASH FLOW (PLN m)	2016	2017	2018	2019E	2020E	2021E
Operating cash flow	18.3	8.3	98.8	38.1	16.5	21.6
Net income	34.3	25.8	51.2	28.8	15.3	16.3
D&A	11.0	12.9	14.4	15.9	20.0	21.3
Change in WC	-16.2	-33.2	24.9	4.5	-15.0	-18.3
Other	-10.8	2.7	8.4	-23.1	2.8	2.2
Investment cash flow	-57.6	-7.1	-32.6	-74.4	-18.1	-25.1
CAPEX	-11.4	-7.1	-32.3	-74.4	-18.1	-25.1
Investment in subsidiaries	-49.5	0.0	0.0	0.0	0.0	0.0
Other	3.3	0.0	-0.4	0.0	0.0	0.0
Financial cash flow	17.7	-7.9	13.3	12.7	-31.3	-1.1
Change in equity	0.0	0.0	0.2	0.3	0.0	0.0
Change in debt	19.9	1.7	24.5	22.1	-30.3	1.4
Dividend	-2.2	-2.7	-3.9	-7.6	0.0	-3.1
Other	0.0	-6.9	-7.4	-2.1	-1.0	0.6
Change in cash	-21.6	-6.7	79.5	-23.7	-33.0	-4.5
Cash as of eop	22.4	15.7	95.2	71.6	38.6	34.1

Source: Company data, IPOPEMA Research

Relative valuation

Compared to the international peers' median of 2020E EV/EBITDA of 5.5x, Pekabex trades at 6.1x, which constitutes a 10.7% premium. In our opinion the average multiple for Pekabex should be lower, as despite the firm operating in a niche precast market it is not immune to the looming slowdown on Poland's construction market.

Figure 2. Pekabex vs International peers

PRICE (LCU)	Ticker	NAME	P/E			EV/EBITDA			Dividend yield		
			2019	2020	2021	2019	2020	2021	2019	2020	2021
14.4	ABGV.VI	PORR	15.8	12.7	7.2	5.2	5.0	4.3	2.8	4.6	6.5
20.1	STRV.VI	STRABAG	6.5	6.6	6.3	1.9	2.0	1.9	6.6	6.5	7.1
15.0	WBSV.VI	WIENERBERGER	7.0	8.4	7.7	4.3	5.5	4.7	4.5	4.8	4.6
13.5	TKFEN.IS	TEKFEN HOLDING	2.9	4.9	5.2	0.8	1.4	1.6	9.7	10.2	7.0
6.0	ENKAI.IS	ENKA INSAAT	7.1	7.0	6.8	6.5	5.6	4.7	6.1	5.8	6.6
6.4	CIMSA.IS	CIMSA CIMENTO	19.5	9.1	5.0	8.0	5.4	4.7	0.0	3.9	10.7
221.8	BALF.L	BALFOUR BEATTY PLC	8.4	9.3	7.8	5.5	5.8	5.0	3.3	3.2	4.1
10.0	B5AG.DE	BAUER AG	NaN	13.0	7.4	5.9	4.7	4.3	1.0	1.3	1.7
7.3	FCC.MC	FOMENTO DE CONSTRUCCIONES Y CONTRATAS SA	9.5	8.9	8.5	7.1	6.7	6.6	4.9	5.1	5.5
60.3	HOTG.DE	HOCHTIEF AG	NaN	7.1	6.0	2.4	2.5	2.3	9.7	7.8	9.2
0.6	OHL.MC	OBRASCON HUARTE LAIN SA	NaN	NaN	8.4	2.9	2.1	1.6	0.0	0.0	0.0
1.4	SCYR.MC	SACYR SA	8.8	6.9	4.9	8.5	9.2	7.7	8.4	8.2	8.9
151.8	SKAb.ST	SKANSKA AB	9.2	9.8	9.5	6.7	7.0	6.8	4.5	4.6	5.0
25.4	BOUY.PA	BOUYGUES SA	8.5	12.0	8.0	4.4	4.8	4.0	7.0	7.4	7.1
1.1	MOTA.LS	MOTA ENGIL SGPS SA	10.8	4.7	3.7	5.0	4.3	4.1	5.0	3.8	9.8
17.2	ACS.MC	ACS ACTIVIDADES DE CONSTRUCCION Y SERVICIOS SA	5.4	7.7	5.9	2.4	2.8	2.5	11.2	9.3	10.8
91.2	ANA.MC	ACCIONA SA	16.5	19.7	16.3	8.4	8.5	7.9	4.1	4.3	4.5
20.8	FER.MC	FERROVIAL SA	43.5	85.9	37.0	113.8	44.3	33.6	3.5	3.6	3.7
62.8	FOUG.PA	EIFFAGE SA	8.2	14.1	8.7	6.2	8.0	6.5	4.5	4.3	5.2
13.5	GBFG.DE	BILFINGER SE	9.8	10.6	5.4	2.9	3.2	2.4	8.0	8.0	9.2
3.9	YIT.HE	YIT OYJ	8.3	9.3	7.6	8.4	8.8	8.4	7.5	7.6	7.8
1.2	SALI.MI	SALINI IMPREGILO SPA	10.7	13.2	9.9	5.9	5.9	5.5	2.3	2.0	2.6
65.1	SGEF.PA	VINCI SA	10.9	15.1	11.0	8.0	10.3	8.0	4.7	4.3	5.1
		MEDIAN	9.0	9.3	7.6	5.9	5.5	4.7	4.7	4.6	6.5
7.0	PBX.WA	PEKABEX	6.0	11.2	10.6	4.0	6.1	5.5	4.4	0.0	1.8
		Premium/discount to median Pekabex	-33.8%	20.6%	39.7%	-31.8%	10.7%	17.3%	-4.7%	na	-72.3%

Source: Company, IPOPEMA Research

4Q19E results preview

Figure 3. Pekabex 4Q19E results preview

	4Q18	3Q19	4Q19E	y/y	q/q	2018	2019E	y/y
Sales	240.3	178.9	186.9	-22.2%	4.5%	886.3	715.7	-19.3%
Cost of goods & products sold	-208.4	-149.6	-159.4	-23.5%	6.6%	-722.1	-599.7	-17.0%
Gross profit	31.9	29.3	27.5	-13.7%	-6.0%	164.2	115.9	-29.4%
SG&A	-21.3	-17.7	-17.0	-20.1%	-4.0%	-91.3	-74.3	-18.7%
Other operating activity net	3.5	-2.2	-0.3	-108.5%	-86.4%	-5.4	-5.2	n/a
EBIT	14.2	9.4	10.2	-27.8%	9.0%	67.5	36.4	-46.0%
Net financial activity	-1.7	0.9	0.0	-100.0%	-100.0%	-3.4	-0.1	n/a
Pre-tax profit	12.5	10.3	10.2	-17.8%	-0.3%	64.1	36.4	-43.2%
Tax	-2.1	-2.1	-1.9	-6.7%	-5.5%	-12.9	-7.6	-41.0%
Net income	10.4	8.2	8.3	-20.1%	1.1%	51.2	28.8	-43.8%
EBITDA	18.0	13.4	14.3	-20.7%	6.3%	81.9	52.4	-36.1%

Source: Company, IPOPEMA Research

ESG Section**Environment**

Pekabex takes environmental concerns very seriously. The company has implemented several measures to control its dust emissions and to prevent it producing excessive waste; for example, during installation of the prefabricated elements even 100% of used materials can be recycled. The company is enhancing its environmental policy by reducing its use of natural resources; 90% of the steel bought by Pekabex is from recycled material. Furthermore, the company has endeavoured to optimise its use of resources by focusing on recycling, waste control and water circulation. And in its subcontracted logistics services, Pekabex only uses vehicles that comply with Euro 6 emission standards.

Social

Pekabex is highly keen on sharing its knowledge and supports a number of academic institutions in Poland, i.e. the Higher School of Logistics in Poznan as well as the state-owned public construction schools in Gdańsk. In 2017, the group was granted European financing for its innovative project to create a development centre in the PEKABEX BET SA structure.

Governance

Pekabex 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.

Changes in estimates

Figure 4. Changes in estimates

PLN m	2019E			2020E			2021E		
	OLD	NEW	Diff. %	OLD	NEW	Diff. %	OLD	NEW	Diff. %
Sales	827.7	715.7	-13.5%	976.5	643.3	-34.1%	1,000.2	681.7	-31.8%
Gross profit	117.4	115.9	-1.2%	133.1	92.0	-30.9%	139.4	97.1	-30.3%
EBIT	30.0	36.4	21.3%	21.4	18.8	-11.9%	24.5	18.1	-26.0%
Net income	22.9	28.8	25.7%	15.2	15.3	0.7%	17.8	16.3	-8.8%
EBITDA	45.93	52.35	14.0%	41.17	34.86	-15.3%	45.97	39.42	-14.3%

Source: Company, IPOPEMA Research

Financials

Figure 5. Income Statement (PLN m)

	2015	2016	2017	2018	2019E	2020E	2021E
Sales	350.7	505.4	623.3	886.3	715.7	643.3	681.7
Cost of goods & products sold	-290.6	-423.6	-507.6	-722.1	-599.7	-551.2	-584.6
Gross profit	60.0	81.8	115.7	164.2	115.9	92.0	97.1
SG&A	-37.9	-57.1	-81.4	-91.3	-74.3	-68.0	-73.8
Other operating activity net	7.4	16.1	0.7	-5.4	-5.2	-5.2	-5.1
EBIT	29.6	40.9	35.0	67.5	36.4	18.8	18.1
Net financial activity	-0.7	-1.0	-2.7	-3.4	-0.1	0.0	-0.1
Shares in affiliates	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	28.8	39.8	32.3	64.1	36.4	18.8	18.1
Tax	-4.5	-5.5	-6.5	-12.9	-7.6	-3.5	-1.8
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	24.3	34.3	25.8	51.2	28.8	15.3	16.3
EBITDA	36.4	51.9	47.9	81.9	52.4	34.9	39.4

Source: Company, IPOPEMA Research

Figure 6. Balance Sheet (PLN m)

	2015	2016	2017	2018	2019E	2020E	2021E
Long-term assets	175.0	246.1	244.2	259.6	318.1	315.8	319.8
Tangible assets	155.2	225.9	224.3	236.7	293.2	289.4	290.4
Goodwill	12.3	12.3	12.3	12.3	12.3	12.3	12.3
Investment properties	4.3	4.0	4.0	4.3	4.3	4.3	4.3
Receivables and loans	1.6	2.1	1.7	2.7	3.6	3.2	3.4
Others	1.6	1.8	1.8	3.6	4.8	6.6	9.4
Current assets	138.7	196.1	235.5	383.5	323.4	265.5	287.5
Inventories	17.7	30.1	44.5	63.6	57.5	57.4	60.9
Receivables from construction agreement	5.6	18.3	20.7	21.1	29.4	21.1	22.4
Trade receivables and other	67.6	123.4	151.9	201.3	162.7	146.3	168.1
Cash	44.0	22.4	15.7	95.2	71.6	38.6	34.1
Other	3.9	1.9	2.7	2.2	2.1	2.1	2.1
Total assets	313.7	442.2	479.7	643.1	641.5	581.3	607.4
Equity	179.2	212.2	237.6	285.4	306.8	322.1	335.3
Long-term liabilities	53.4	79.3	77.8	83.2	78.2	76.1	77.4
Interest bearing	19.3	42.7	43.9	55.8	55.8	55.8	55.8
Leasing	4.9	6.8	6.5	9.6	8.0	7.3	7.8
Deferred tax	13.8	14.2	12.0	3.4	2.8	2.6	2.7
Provisions	6.3	5.6	5.5	0.6	0.5	0.5	0.5
Other liabilities	9.1	10.0	9.9	13.8	11.1	10.0	10.6
Short-term liabilities	81.2	150.7	164.4	274.6	256.5	183.0	194.7
Interest bearing	4.0	7.2	7.7	20.2	42.3	12.0	13.4
Liabilities from construction contract	0.0	0.0	15.6	39.1	32.9	30.2	32.0
Liabilities to employees	6.6	10.6	11.3	15.2	12.6	11.6	12.3
tax/financial liabilities	1.1	3.6	3.4	14.7	12.2	11.2	11.9
Leasing	2.9	3.7	4.2	4.7	3.6	3.2	3.4
Provisions	1.2	4.3	6.2	11.4	9.3	8.4	8.9
Other	0.1	0.1	0.1	0.7	0.7	0.7	0.7
Trade liabilities	65.1	121.1	116.0	168.5	143.0	105.7	112.1
Total liabilities & equity	313.7	442.2	479.7	643.1	641.5	581.3	607.4

Source: Company, IPOPEMA Research

Figure 7. Cash flow statement (PLN m)

	2015	2016	2017	2018	2019E	2020E	2021E
Net profit	24.3	34.3	25.8	51.2	28.8	15.3	16.3
Depreciation	6.8	11.0	12.9	14.4	15.9	20.0	21.3
Change in net working capital	-10.9	-16.2	-33.2	24.9	4.5	-15.0	-18.3
Other items	-9.8	-10.8	2.7	8.4	-11.2	-3.9	2.4
Operating cash flow	10.4	18.3	8.3	98.8	38.1	16.5	21.6
Purchases of tangibles & intangibles	-18.4	-11.4	-7.1	-32.3	-74.4	-18.1	-25.1
Others	1.3	3.3	0.0	-0.4	0.0	0.0	0.0
Investing cash flow	-17.1	-8.1	-7.1	-32.6	-74.4	-18.1	-25.1
Free cash flow	-6.6	10.2	1.2	66.2	-36.4	-1.7	-3.4
Change in interest-bearing debt	18.0	19.9	1.7	24.5	22.1	-30.3	1.4
Dividends	-1.9	-2.2	-2.7	-3.9	-7.6	0.0	-3.1
Other	-2.6	0.0	-2.8	-2.5	0.7	0.0	0.0
Financing cash flow	13.5	17.7	-3.8	18.1	15.2	-30.3	-1.7
Total cash flow	6.9	27.9	-2.6	84.3	-21.2	-32.0	-5.1
Cash at beginning of period	36.4	44.0	22.4	15.7	95.2	71.6	38.6
Cash at end of period	44.0	22.4	15.7	95.2	71.6	38.6	34.1

Source: Company, IPOPEMA Research

Valuation methodology

Our valuation approach for construction companies uses two methods: discounted cash flow (DCF) and the dividend discount model (DDM). We calculate our Fair Value for Pekabex 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 (20%) and then drifts towards a target payout ratio of 50% in the long-term. However for 2020 we do not assume dividend payout. 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 2019-2025 period. Thereafter, we use a rising rate towards 4.5%, 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 8. DCF valuation (PLN m)

PLN m	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	Terminal Year
Revenues	643.3	681.7	719.3	743.6	775.6	807.9	841.7	876.5	913.5	952.0	952.0
EBIT	18.8	18.1	22.8	25.3	28.1	29.6	32.3	34.1	38.4	39.7	39.7
Tax on EBIT	3.9	2.7	2.3	2.8	5.1	5.9	6.5	6.8	7.7	7.9	7.9
NOPLAT	16.0	16.3	20.3	20.8	22.5	23.7	25.8	27.3	30.7	31.7	31.7
Depreciation	20.0	21.3	22.8	23.7	24.7	26.3	27.9	29.7	31.6	33.7	33.7
Capital expenditures	-18.1	-25.1	-23.9	-24.7	-25.8	-26.5	-28.2	-30.0	-31.8	-33.9	-33.9
Change in working capital	-15.0	-18.3	-26.2	-25.2	-7.1	-7.0	-7.5	-7.6	-8.4	-8.3	-8.3
Free cash flow	2.9	-5.8	-7.0	-5.5	14.2	16.5	18.1	19.4	22.2	23.3	23.3
Risk-free rate	1.73%	1.75%	1.86%	1.89%	1.94%	2.06%	2.50%	3.00%	3.50%	4.00%	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	6.73%	6.75%	6.86%	6.89%	6.94%	7.06%	7.50%	8.00%	8.50%	9.00%	9.50%
Cost of debt (pre-tax)	4.2%	4.3%	4.4%	4.4%	4.4%	4.6%	5.0%	5.5%	6.0%	6.5%	6.5%
Effective tax rate	20.9%	15.0%	10.0%	11.0%	18.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
After-tax cost of debt	3.3%	3.6%	3.9%	3.9%	3.6%	3.6%	4.0%	4.4%	4.8%	5.2%	5.2%
Weight of debt	26.9%	26.0%	23.9%	27.4%	25.6%	23.4%	21.0%	18.4%	20.3%	17.0%	17.0%
Weight of equity	73.1%	74.0%	76.1%	72.6%	74.4%	76.6%	79.0%	81.6%	79.7%	83.0%	83.0%
WACC	5.8%	5.9%	6.2%	6.1%	6.1%	6.3%	6.8%	7.3%	7.7%	8.4%	8.8%
Discount fact	0.95	0.89	0.84	0.79	0.75	0.70	0.66	0.61	0.57	0.53	0.48
PV of FCF	2.7	-5.2	-5.9	-4.3	10.6	11.6	11.9	11.9	12.6	12.2	11.2
Sum of FCF PV's											58.2
FCF terminal growth rate											1.0%
Terminal value											302.8
PV of terminal value											146.2
Unwind of discount											2.9
Enterprise value											207.4
Net debt 2019E											38.1
Employees liabilities											-12.6
Dividend paid out in 2020 (ytd terms)											0.0
Equity value											156.7
Per share value (PLN)											6.4

Source: Company, IPOPEMA Research

Figure 9. DCF sensitivity

	Equity risk premium				
FCF terminal growth	3.0%	4.0%	5.0%	6.0%	7.0%
0.5%	8.79	7.22	6.03	5.09	4.34
0.8%	9.11	7.45	6.20	5.22	4.44
1.0%	9.45	7.69	6.37	5.35	4.55
2.0%	11.13	8.84	7.20	5.96	5.01
3.0%	13.55	10.41	8.28	6.74	5.58

Source: Company, IPOPEMA Research

Figure 10. DDM Valuation (PLN m)

PLNm	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	Terminal Year
Dividends	0.0	3.1	4.1	4.9	10.0	10.8	11.5	12.6	14.8	15.2	15.2
Discount rate	6.7%	6.8%	6.9%	6.9%	6.9%	7.1%	7.5%	8.0%	8.5%	9.0%	9.5%
Discount factor	0.94	0.88	0.82	0.77	0.72	0.67	0.62	0.58	0.53	0.49	0.45
Discounted dividend	0.0	2.7	3.3	3.8	7.2	7.3	7.2	7.3	7.9	7.4	6.8
Sum of DD PV's											54.0
DIV terminal growth rate											1.0%
Terminal value											180.7
PV of terminal value											80.7
Discount unwind											3.7
Equity value											138.4
Per share value (PLN)											5.6

Source: Company, IPOPEMA Research

Figure 11. Valuation summary (PLN)

PLN m	
DCF	6.37
DDM	5.63
Average	6.00

Source: Company, IPOPEMA Research

Risks to fair value

Demand volatility

With its asset-heavy business model, Pekabex is fully exposed to local demand for prefabricated construction. Weak demand for such products during 2000-2003 forced the company to begin bankruptcy proceedings. Precast elements are extensively used in the construction of industrial buildings and warehouses, for which demand is directly linked to macro perspectives and the incentives present for private investors to invest.

Unfavourable trend in prices of materials and services

Precast elements have gained popularity due to technological advances (i.e. the growing strength and flexibility of precast elements), the partly automatized production process and the cost advantage over steel construction (due to lower workforce use). Adverse trends such as rising raw material costs (concrete costs have risen more than 50% in the last three years) or inflation of transport services 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 Pekabex'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 Pekabex having insufficient employees to operate its business. There is currently a shortage of qualified skilled labour in the Polish construction industry which is accentuated by departure of many workers from Ukraine who decided to return home due to coronavirus pandemic. Any worsening of the labour shortage situation would represent a significant risk for Pekabex: an insufficient workforce would have an adverse impact on productivity, costs and the company's ability to maintain or expand production. On the one side, the company has a natural advantage compared to classical construction firms due to the extensive automatization of its production processes. The new production facility in Gdansk (to be opened by the end of 2019) needs only 15 workers to operate. But a further decline in the unemployment rate in Poland could raise concerns in the general contractor segment and squeeze margins even further.

Rise in receivables

The biggest threat to Pekabex would be a rapid increase in receivables stemming from the construction contract, which would cast a shadow over the profitability of the executed contracts. As of now, Pekabex's backlog is fairly short (around 6M or less on average) hence we do not expect a short squeeze to threaten the company's liquidity.

Economy slowdown

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

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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.

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