

12/2019/GPW (101) September 5, 2019

This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Pilot Program. This is a selected fragment of DM BOŚ SA's research report.

Analyst: Wojciech Romanowski

Sector: Construction
Fundamental rating: Hold (→)
Market relative: Neutral (→)
Price: PLN 1.312
12M EFV: PLN 2.3 (→)

Market Cap: US\$ 42.5 m
Bloomberg code: RFK PW
Av. daily turnover: US\$ 0.08 m
12M range: PLN 1.30-3.08
Free float: 57%

Rafako

Deal signed for modernization of the flue gas desulfurization installation in Bełchatów worth PLN 244.9 million

After yesterday's session Rafako informed that it had signed a deal for modernization of the flue gas desulfurization installation in Bełchatów for PGE GiEK. The contract's value stands at PLN 244.9 million. The works deadline has been set at the 28th month since the deal signature.

Expected impact: *Slightly positive. In July the Company informed about placing the best bid in the tender. The deal acquisition is in line with our forecast.*

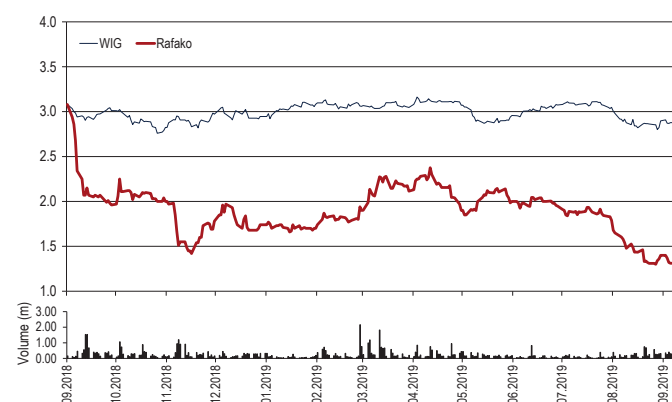
Guide to adjusted profits

Profits adjusted for a release of provisions for the voluntary redundancy program (PLN 5.9 million)

Key data

IFRS consolidated		2018	2019E	2020E	2021E
Sales	PLN m	1,268.8	2,021.4	1,464.2	1,195.3
EBITDA	PLN m	55.4	48.8	33.9	35.7
Adj EBITDA	PLN m	49.5	48.8	33.9	35.7
EBIT	PLN m	40.5	34.3	20.2	22.7
Adj EBIT	PLN m	34.6	34.3	20.2	22.7
Net profit	PLN m	33.6	26.0	13.9	13.7
Adj net profit	PLN m	28.8	26.0	13.9	13.7
Adj EPS	PLN	0.23	0.20	0.11	0.11
EPS yoy chg	%	163	-10	-47	-2
Net debt	PLN m	32.1	-224.1	25.2	17.3
P/E	x	5.8	6.4	12.0	12.2
P/CE	x	3.8	4.1	6.1	6.3
EV/EBITDA	x	4.0	neg.	5.7	5.2
EV/EBIT	x	5.8	neg.	9.5	8.1
DPS	PLN	0.00	0.00	1.50	0.00
Gross dividend yield	%	0.0	0.0	114.3	0.0
No. of shares (eop)	m	127.4	127.4	127.4	127.4

Source: Company, DM BOŚ SA estimates

Stock performance


Source: Bloomberg

Upcoming events

1. Release of consolidated financial results for 1H19: September 30
2. Release of consolidated financial results for 3Q19: November 29

BASIC DEFINITIONS

A/R turnover (in days) = $365/(\text{sales}/\text{average A/R})$
Inventory turnover (in days) = $365/(\text{COGS}/\text{average inventory})$
A/P turnover (in days) = $365/(\text{COGS}/\text{average A/P})$
Current ratio = $(\text{current assets} - \text{ST deferred assets})/\text{current liabilities}$
Quick ratio = $(\text{current assets} - \text{ST deferred assets} - \text{inventory})/\text{current liabilities}$
Interest coverage = $(\text{pre-tax profit before extraordinary items} + \text{interest payable})/\text{interest payable}$
Gross margin = $\text{gross profit on sales}/\text{sales}$
EBITDA margin = $\text{EBITDA}/\text{sales}$
EBIT margin = EBIT/sales
Pre-tax margin = $\text{pre-tax profit}/\text{sales}$
Net margin = $\text{net profit}/\text{sales}$
ROE = $\text{net profit}/\text{average equity}$
ROA = $(\text{net income} + \text{interest payable})/\text{average assets}$
EV = $\text{market capitalization} + \text{interest bearing debt} - \text{cash and equivalents}$
EPS = $\text{net profit}/\text{no. of shares outstanding}$
CE = $\text{net profit} + \text{depreciation}$
Dividend yield (gross) = $\text{pre-tax DPS}/\text{stock market price}$
Cash sales = $\text{accrual sales corrected for the change in A/R}$
Cash operating expenses = $\text{accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes}$

DM BOŠ S.A. generally values the covered non bank companies via two methods: comparative method and DCF method (discounted cash flows). The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the DCF method is its independence from the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Please note that we also resort to other valuation techniques (e.g. NAV-, DDM- or SOTP-based), should it prove appropriate in a given case.

KEY TO INVESTMENT RANKINGS

This is a guide to expected price performance in absolute terms over the next 12 months:

Buy – fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;
Hold – either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;
Sell – fundamentally overvalued (12M EFV < current share price + 1-year cost of equity) + catalysts which should close the valuation gap identified.

This is a guide to expected relative price performance:

Overweight – expected to perform better than the benchmark (WIG) over the next quarter in relative terms
Neutral – expected to perform in line with the benchmark (WIG) over the next quarter in relative terms
Underweight – expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

The recommendation tracker presents the performance of DM BOŠ S.A.'s recommendations. A recommendation expires on the day it is altered or on the day 12 months after its issuance, whichever comes first.

Relative performance compares the rate of return on a given recommended stock in the period of the recommendation's validity (i.e. from the date of issuance to the date of alteration or – in case of maintained recommendations – from the date of issuance to the current date) in a relation to the rate of return on the benchmark in this time period. The WIG index constitutes the benchmark. For recommendations that expire by an alteration or are maintained, the ending values used to calculate their absolute and relative performance are: the stock closing price on the day the recommendation expires/ is maintained and the closing value of the benchmark on that date. For recommendations that expire via a passage of time, the ending values used to calculate their absolute and relative performance are: the average of the stock closing prices for the day the recommendation elapses and four directly preceding sessions and the average of the benchmark's closing values for the day the recommendation expires and four directly preceding sessions.

Distribution of DM BOŠ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision
Numbers	35	36	10	8	0
Percentage	39%	40%	11%	9%	0%

Banks

Net Interest Margin (NIM) = $\text{net interest income}/\text{average assets}$
Non interest income = $\text{fees\&commissions} + \text{result on financial operations (trading gains)} + \text{FX gains}$
Interest Spread = $(\text{interest income}/\text{average interest earning assets})/(\text{interest cost}/\text{average interest bearing liabilities})$
Cost/Income = $(\text{general costs} + \text{depreciation})/(\text{profit on banking activity} + \text{other net operating income})$
ROE = $\text{net profit}/\text{average equity}$
ROA = $\text{net income}/\text{average assets}$
Non performing loans (NPL) = loans in 'basket 3' category
NPL coverage ratio = $\text{loan loss provisions}/\text{NPL}$
Net provision charge = $\text{provisions created} - \text{provisions released}$

DM BOŠ S.A. generally values the covered banks via two methods: comparative method and fundamental target fair P/E and target fair P/BV multiples method. The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the fundamental target fair P/E and target fair P/BV multiples method is its independence of the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Assumptions used in valuation can change, influencing thereby the level of the valuation. Among the most important assumptions are: GDP growth, forecasted level of inflation, changes in interest rates and currency prices, employment level and change in wages, demand on the analysed company products, raw material prices, competition, standing of the main customers and suppliers, legislation changes, etc. Changes in the environment of the analysed company are monitored by analysts involved in the preparation of the recommendation, estimated, incorporated in valuation and published in the recommendation whenever needed.

Distribution of DM BOŠ's current recommendations for the companies which DM BOŠ has supplied with material investment services within the last 12 months

	Buy	Hold	Sell	Suspended	Under revision
Numbers	2	1	0	0	0
Percentage	67%	33%	0%	0%	0%

Distribution of DM BOŠ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	33	40	8	8	0
Percentage	37%	45%	9%	9%	0%

Distribution of DM BOŠ's current market relative recommended weightings for the companies which DM BOŠ has supplied with material investment services within the last 12 months

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	1	2	0	0	0
Percentage	33%	67%	0%	0%	0%

LT fundamental recommendation tracker

Analyst	Recommendation	Report date	Reiteration date	Distribution date	Expiry date	Performance	Relative performance	Price at issue/reiteration*	EFV (12 months)
Rafako									
Michał Stalmach	Buy	10.12.2015	-	10.12.2015	04.12.2016	-16%	-22%	6.700	10.10 →
Michał Stalmach	-	-	13.12.2015	14.12.2015	-	-	-	6.990	10.10 →
Michał Stalmach	-	-	17.01.2016	18.01.2016	-	-	-	7.150	10.10 →
Michał Stalmach	-	-	15.02.2016	16.02.2016	-	-	-	7.290	10.10 →
Michał Stalmach	-	-	18.02.2016	19.02.2016	-	-	-	7.390	10.10 →
Michał Stalmach	-	-	21.03.2016	22.03.2016	-	-	-	8.100	10.10 →
Michał Stalmach	-	-	13.04.2016	14.04.2016	-	-	-	8.420	10.10 →
Michał Stalmach	-	-	16.05.2016	17.05.2016	-	-	-	7.950	10.10 →
Michał Stalmach	-	-	27.06.2016	28.06.2016	-	-	-	5.890	10.10 →
Michał Stalmach	-	-	24.07.2016	25.07.2016	-	-	-	6.500	10.10 →
Wojciech Romanowski	-	-	11.08.2016	12.08.2016	-	-	-	6.590	9.30 ↓
Wojciech Romanowski	-	-	31.08.2016	01.09.2016	-	-	-	6.780	9.30 →
Wojciech Romanowski	-	-	12.10.2016	13.10.2016	-	-	-	6.360	9.30 →
Wojciech Romanowski	-	-	01.11.2016	02.11.2016	-	-	-	6.020	7.30 ↓
Wojciech Romanowski	-	-	02.11.2016	03.11.2016	-	-	-	6.020	7.30 →
Wojciech Romanowski	-	-	14.11.2016	15.11.2016	-	-	-	5.980	7.30 →
Wojciech Romanowski	Buy	04.12.2016	-	05.12.2016	09.05.2017	36%	6%	5.610	7.30 →
Wojciech Romanowski	-	-	12.01.2017	13.01.2017	-	-	-	6.240	7.30 →
Wojciech Romanowski	-	-	08.02.2017	09.02.2017	-	-	-	7.220	7.30 →
Wojciech Romanowski	-	-	21.02.2017	22.02.2017	-	-	-	7.130	7.30 →
Wojciech Romanowski	-	-	07.03.2017	08.03.2017	-	-	-	8.800	7.30 →
Wojciech Romanowski	-	-	11.04.2017	12.04.2017	-	-	-	8.050	7.30 →
Wojciech Romanowski	Hold	09.05.2017	-	10.05.2017	25.03.2018	-34%	-31%	7.620	7.30 →
Wojciech Romanowski	-	-	30.05.2017	31.05.2017	-	-	-	8.070	7.30 →
Wojciech Romanowski	-	-	12.07.2017	13.07.2017	-	-	-	8.050	7.30 →
Wojciech Romanowski	-	-	26.07.2017	27.07.2017	-	-	-	7.700	7.30 →
Wojciech Romanowski	-	-	03.09.2017	04.09.2017	-	-	-	5.900	7.30 →
Wojciech Romanowski	-	-	15.10.2017	16.10.2017	-	-	-	4.750	7.30 →
Wojciech Romanowski	-	-	05.11.2017	06.11.2017	-	-	-	4.490	7.10 ↓
Wojciech Romanowski	-	-	09.11.2017	10.11.2017	-	-	-	4.240	4.70 ↓
Wojciech Romanowski	-	-	15.11.2017	16.11.2017	-	-	-	4.090	4.70 →
Wojciech Romanowski	-	-	10.12.2017	11.12.2017	-	-	-	4.180	4.70 →
Wojciech Romanowski	-	-	10.01.2018	11.01.2018	-	-	-	4.800	4.70 →
Wojciech Romanowski	-	-	13.02.2018	14.02.2018	-	-	-	4.890	4.70 →
Wojciech Romanowski	-	-	12.03.2018	13.03.2018	-	-	-	4.830	4.70 →
Wojciech Romanowski	Under revision	25.03.2018	-	26.03.2018	22.05.2018	-18%	-17%	4.800	Under revision
Wojciech Romanowski	-	-	16.04.2018	17.04.2018	-	-	-	4.200	Under revision
Wojciech Romanowski	Sell	22.05.2018	-	23.05.2018	09.12.2018	-50%	-49%	3.940	2.90 →
Wojciech Romanowski	-	-	29.05.2018	30.05.2018	-	-	-	3.740	2.90 →
Wojciech Romanowski	-	-	16.07.2018	17.07.2018	-	-	-	3.460	2.90 →
Wojciech Romanowski	-	-	02.08.2018	03.08.2018	-	-	-	3.540	2.90 →
Wojciech Romanowski	-	-	30.08.2018	31.08.2018	-	-	-	3.380	2.90 →
Wojciech Romanowski	-	-	11.10.2018	12.10.2018	-	-	-	2.020	2.90 →
Wojciech Romanowski	-	-	23.10.2018	24.10.2018	-	-	-	2.030	2.90 →
Wojciech Romanowski	-	-	14.11.2018	15.11.2018	-	-	-	1.450	2.90 →
Wojciech Romanowski	Hold	09.12.2018	-	10.12.2018	Not later than 09.12.2019	-33%	-31%	1.970	2.80 ↓
Wojciech Romanowski	-	-	10.01.2019	11.01.2019	-	-	-	1.740	2.80 →
Wojciech Romanowski	-	-	04.02.2019	05.02.2019	-	-	-	1.800	2.80 →
Wojciech Romanowski	-	-	26.02.2019	27.02.2019	-	-	-	1.800	2.80 →
Wojciech Romanowski	-	-	26.03.2019	27.03.2019	-	-	-	2.170	2.80 →
Wojciech Romanowski	-	-	22.04.2019	23.04.2019	-	-	-	2.155	2.80 →
Wojciech Romanowski	-	-	24.04.2019	25.04.2019	-	-	-	2.045	2.80 →
Wojciech Romanowski	-	-	30.05.2019	31.05.2019	-	-	-	1.980	2.80 →
Wojciech Romanowski	-	-	17.07.2019	18.07.2019	-	-	-	1.934	2.80 →
Wojciech Romanowski	-	-	23.07.2019	23.07.2019	-	-	-	1.868	2.40 ↓
Wojciech Romanowski	-	-	30.07.2019	31.07.2019	-	-	-	1.830	2.40 →
Wojciech Romanowski	-	-	20.08.2019	21.08.2019	-	-	-	1.330	2.40 →
Wojciech Romanowski	-	-	25.08.2019	26.08.2019	-	-	-	1.310	2.30 ↓
Wojciech Romanowski	-	-	01.09.2019	02.09.2019	-	-	-	1.400	2.30 →
Wojciech Romanowski	-	-	02.09.2019	03.09.2019	-	-	-	1.400	2.30 →
Wojciech Romanowski	-	-	05.09.2019	06.09.2019	-	-	-	1.312	2.30 →

* prices at issue/reiteration are the closing prices at the report or reiteration date

Market-relative recommendation tracker

Analyst	Relative Recommendation		Report date	Reiteration date	Distribution date	Expiry date	Price at issue/reiteration*	Relative performance
Rafako								
Michał Stalmach	Overweight	-	10.12.2015	-	10.12.2015	31.08.2016	6.700	-5%
Michał Stalmach	-	→	-	13.12.2015	14.12.2015	-	6.990	-
Michał Stalmach	-	→	-	17.01.2016	18.01.2016	-	7.150	-
Michał Stalmach	-	→	-	15.02.2016	16.02.2016	-	7.290	-
Michał Stalmach	-	→	-	18.02.2016	19.02.2016	-	7.390	-
Michał Stalmach	-	→	-	21.03.2016	22.03.2016	-	8.100	-
Michał Stalmach	-	→	-	13.04.2016	14.04.2016	-	8.420	-
Michał Stalmach	-	→	-	16.05.2016	17.05.2016	-	7.950	-
Michał Stalmach	-	→	-	27.06.2016	28.06.2016	-	5.890	-
Michał Stalmach	-	→	-	24.07.2016	25.07.2016	-	6.500	-
Wojciech Romanowski	-	→	-	11.08.2016	12.08.2016	-	6.590	-
Wojciech Romanowski	Neutral	↓	31.08.2016	-	01.09.2016	14.11.2016	6.780	-11%
Wojciech Romanowski	-	→	-	12.10.2016	13.10.2016	-	6.360	-
Wojciech Romanowski	-	→	-	01.11.2016	02.11.2016	-	6.020	-
Wojciech Romanowski	-	→	-	02.11.2016	03.11.2016	-	6.020	-
Wojciech Romanowski	Overweight	↑	14.11.2016	-	15.11.2016	21.02.2017	5.980	15%
Wojciech Romanowski	-	→	-	04.12.2016	05.12.2016	-	5.610	-
Wojciech Romanowski	-	→	-	12.01.2017	13.01.2017	-	6.240	-
Wojciech Romanowski	-	→	-	08.02.2017	09.02.2017	-	7.220	-
Wojciech Romanowski	Neutral	↓	21.02.2017	-	22.02.2017	09.05.2017	7.130	-15%
Wojciech Romanowski	-	→	-	07.03.2017	08.03.2017	-	8.800	-
Wojciech Romanowski	-	→	-	11.04.2017	12.04.2017	-	8.050	-
Wojciech Romanowski	Overweight	↑	09.05.2017	-	10.05.2017	26.07.2017	7.620	1%
Wojciech Romanowski	-	→	-	30.05.2017	31.05.2017	-	8.070	-
Wojciech Romanowski	-	→	-	12.07.2017	13.07.2017	-	8.050	-
Wojciech Romanowski	Underweight	↓	26.07.2017	-	27.07.2017	09.11.2017	7.700	-44%
Wojciech Romanowski	-	→	-	03.09.2017	04.09.2017	-	5.900	-
Wojciech Romanowski	-	→	-	15.10.2017	16.10.2017	-	4.750	-
Wojciech Romanowski	-	→	-	05.11.2017	06.11.2017	-	4.490	-
Wojciech Romanowski	Neutral	↑	09.11.2017	-	10.11.2017	25.03.2018	4.240	22%
Wojciech Romanowski	-	→	-	15.11.2017	16.11.2017	-	4.090	-
Wojciech Romanowski	-	→	-	10.12.2017	11.12.2017	-	4.180	-
Wojciech Romanowski	-	→	-	10.01.2018	11.01.2018	-	4.800	-
Wojciech Romanowski	-	→	-	13.02.2018	14.02.2018	-	4.890	-
Wojciech Romanowski	-	→	-	12.03.2018	13.03.2018	-	4.830	-
Wojciech Romanowski	Under revision	-	25.03.2018	-	26.03.2018	22.05.2018	4.800	-17%
Wojciech Romanowski	-	→	-	16.04.2018	17.04.2018	-	4.200	-
Wojciech Romanowski	Underweight	-	22.05.2018	-	23.05.2018	09.12.2018	3.940	-49%
Wojciech Romanowski	-	→	-	29.05.2018	30.05.2018	-	3.740	-
Wojciech Romanowski	-	→	-	16.07.2018	17.07.2018	-	3.460	-
Wojciech Romanowski	-	→	-	02.08.2018	03.08.2018	-	3.540	-
Wojciech Romanowski	-	→	-	30.08.2018	31.08.2018	-	3.380	-
Wojciech Romanowski	-	→	-	11.10.2018	12.10.2018	-	2.020	-
Wojciech Romanowski	-	→	-	23.10.2018	24.10.2018	-	2.030	-
Wojciech Romanowski	-	→	-	14.11.2018	15.11.2018	-	1.450	-
Wojciech Romanowski	Neutral	↑	09.12.2018	-	10.12.2018	Not later than 09.12.2019	1.970	-31%
Wojciech Romanowski	-	→	-	10.01.2019	11.01.2019	-	1.740	-
Wojciech Romanowski	-	→	-	04.02.2019	05.02.2019	-	1.800	-
Wojciech Romanowski	-	→	-	26.02.2019	27.02.2019	-	1.800	-
Wojciech Romanowski	-	→	-	26.03.2019	27.03.2019	-	2.170	-
Wojciech Romanowski	-	→	-	22.04.2019	23.04.2019	-	2.155	-
Wojciech Romanowski	-	→	-	24.04.2019	25.04.2019	-	2.045	-
Wojciech Romanowski	-	→	-	30.05.2019	31.05.2019	-	1.980	-
Wojciech Romanowski	-	→	-	17.07.2019	18.07.2019	-	1.934	-
Wojciech Romanowski	-	→	-	23.07.2019	23.07.2019	-	1.868	-
Wojciech Romanowski	-	→	-	30.07.2019	31.07.2019	-	1.830	-
Wojciech Romanowski	-	→	-	20.08.2019	21.08.2019	-	1.330	-
Wojciech Romanowski	-	→	-	25.08.2019	26.08.2019	-	1.310	-
Wojciech Romanowski	-	→	-	01.09.2019	02.09.2019	-	1.400	-
Wojciech Romanowski	-	→	-	02.09.2019	03.09.2019	-	1.400	-
Wojciech Romanowski	-	→	-	05.09.2019	06.09.2019	-	1.312	-

* prices at issue/reiteration are the closing prices at the report or reiteration date

This report has been prepared by Dom Maklerski Banku Ochrony Środowiska SA registered in Warsaw (hereinafter referred to as DM BOŚ SA) and commissioned by the Warsaw Stock Exchange SA (hereinafter referred to as WSE SA) pursuant to the agreement on the research report preparation between DM BOŚ SA and WSE SA within the framework of the Analytical Coverage Support Pilot Program described on the WSE SA website: <https://www.gpw.pl/gpwpa> (hereinafter referred to as the Agreement). DM BOŚ SA will receive a remuneration for the research report in accordance with the Agreement.

The production of the report was completed on September 6, 2019 at 8.20 a.m.

The report was distributed on September 6, 2019 at 8.30 a.m.

The report is an investment research within the meaning of Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organizational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive. This report constitutes a recommendation within the meaning of Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest. This report is for information purposes only.

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