Raport na zlecenie GPW

BOŚ DOM MAKLERSKI

34/2023/GPW (78) September 10, 2023

This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Program 4.0.

Bowim

Analyst:
Michał Zamel

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This is an excerpt from the Polish version of DM BOŚ SA's research report.

Bowim

Sector: Construction materials
Bloomberg code: BOW PW
Price: PLN 7.05
12M EFV: PLN 6,9 (–)

Market Cap: US$ 33.2 m
Av. daily turnover: US$ 0.02 m
12M range: PLN 7.05-11.60
Free float: 23.8%

Investment summary

Bowim belongs to the biggest steel distributors in Poland which offers both, goods and own products which are sold by the Company's own distribution chain. Our 12M EFV assessment at PLN 6.9 per share is close to the Company's market share price. We would like to point out relatively weak financial results of Bowim this year. As the steel market has suffered from the impact of the current economic slowdown, we believe that in a 2-3 quarter horizon the demand for steel products (and distribution margins as well) will stay under pressure, though according to our estimates, P/E or EV/EBITDA multiples imply that these risks mentioned above seem to be priced in. We also see some positives in the Company's situation. First, it seems that the results' dynamics should gradually improve by the year-end. Second, there are chances for positive profit dynamics next year, albeit this will depend on numerous factors such as the economic growth pace or availability of funding for private investments. Besides, we would like to highlight various opportunities in the long term which have not been discounted sufficiently by the market: (i) advancing energetic transformation (including the off-shore energy development) may become a more important catalyst for the steel market, (ii) Poland is still likely to have the EU funds within the framework of the National Recovery and Resilience Plan unfrozen, (iii) the rebound observed on the housing market may support the Company's business.

The Group's operations are concentrated in Poland (97% of revenues) with suppliers both, from Poland and abroad; the clients are end-users from numerous industries as well as smaller distributors. The distribution chain is well-developed including warehouses and commercial branches. The Group also embraces production companies which broadens the Company's offer with own products sold with higher margins (the last acquisition made this year). The production plants are located in Poland.

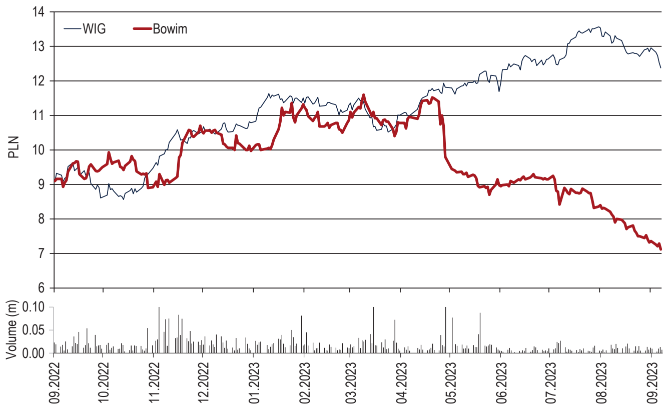
Guide to adjusted profits
No factors necessitating adjustments.

Key data

IFRS consolidated		2022	2023E	2024E	2025E
Sales	*PLN m*	2,752.6	2,047.4	2,302.0	2,370.9
EBITDA	*PLN m*	181.9	43.1	46.3	48.5
EBIT	*PLN m*	174.7	35.8	39.0	41.2
Net income	*PLN m*	109.6	11.3	15.9	18.0
EPS	*PLN*	5.61	0.58	0.81	0.92
Adj EPS yoy chg	*%*	-27	-90	40	14
Net debt (off-balance sheet factoring)	*PLN m*	209.6	127.7	127.7	127.7
Net debt (balance sheet)	*PLN m*	54.8	25.8	16.0	-5.6
Net debt (incl. factoring)	*PLN m*	264.5	153.5	143.7	122.1
P/E	*x*	1.3	12.2	8.7	7.6
P/CE	*x*	1.2	7.4	5.9	5.4
EV/EBITDA	*x*	2.2	6.8	6.1	5.4
EV/EBIT	*x*	2.3	8.1	7.2	6.3
DPS	*zł*	2.52	1.20	0.10	0.14
Gross dividend yield	*%*	35.7	17.0	1.4	2.0
Number of shares (eop)	*m*	19.5	19.5	19.5	19.5

Source: Company, DM BOŚ SA estimates

Stock performance



Source: Bloomberg

Recent events

1. Release of 1Q23 financial results release: May 25
2. Preliminary unconsolidated 1H23 financial results release: August 22
3. Preliminary consolidated 1H23 financial results release: August 29

Upcoming events

1. 1H23 financial results release: September 21
2. Preliminary unconsolidated 3Q23 financial results release: 2nd half of October
3. Preliminary consolidated 3Q23 financial results release: 1st half of November
4. 3Q23 financial results release: November 23

The current economic slowdown has upset the steel market as well. The low demand for steel stems from a lower use by key clients from such industries as construction or mechanical engineering. We assume that negative factors will burden this year's financial results which is corroborated by 1H23 production data, though in 2H23 the deterioration should slow down, however we expect the figures to remain relatively low.

In the LT perspective we see some factors which in our view have not been sufficiently discounted by the market and which may have the positive impact on the Company's financial outlook. These positive factors encompass (i) advancing energetic transformation (including the offshore wind energy projects), (ii) rising infrastructural capex, (iii) growing supply of residential buildings, and (iv) further expansion of sales of own products (which is more profitable than selling goods). The important catalyst for the Company's business development is investments in the economy. The unfreezing of EU funds is still possible, even in the not-so-distant future which is particularly important for the construction sector and utilities (wind energy) as the two big consumers of steel. The EU funds would allow for expansion of the railway projects and, above all, for investments in RES. The RES (including offshore wind projects) will create the new considerable structural demand for steel resulting from a development of new branches of the economy. The railway investments (such as the National Railway Program) which may give some support for the steel market are mostly EU-funded. Some support for Bowim would come also from the expected rebound in the housing market aided by this year's easing of loan requirements, preferential housing loans, real growth of wages due to the inflation growth pace deceleration or expectations of interest rates lowering in the upcoming quarters. Another factor that may positively impact the profitability is selling own products which would enable the Company to generate higher margins than on trading goods.

Our ultimate 12M EFV constituting a mix of the DCF FCFF valuation and peer-relative exercise (70%-30%) stands at PLN 6.9 per share (close to the current market share price level). We would like to inform that our valuation includes the off-balance sheet factoring liabilities at PLN 128 million.

Catalysts

1. Economic recovery in Poland
2. Inflow of EU funds within the framework of the National Recovery and Resilience Plan
3. Rebound on the infrastructural and industrial construction market
4. Investments in the power generation (among others, wind farms)
5. Rebound on the housing market
6. Further expansion of the distribution chain

Risk factors

1. Weak demand for steel
2. Economic slowdown in Poland
3. No funds for Poland's National Recovery and Resilience Plan
4. Strengthening EUR vs PLN
5. Pressure on wages growth
6. Turbulences on the steel market resulting in a low supply of steel

Competitive advantages

1. Expansion of the distribution chain
2. Wide assortment
3. Own production of selected metallurgical goods
4. Diversified pool of clients

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

DM BOŚ 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.

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

DM BOŚ 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.

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

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Distribution of DM BOŚ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision	Not rated
Numbers	38	31	9	9	0	4
Percentage	42%	34%	10%	10%	0%	4

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

	Buy	Hold	Sell	Suspended	Under revision	Not rated
Numbers	5	7	1	1	0	3
Percentage	29%	41%	6%	6%	0%	18%

Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	33	30	15	9	0	4
Percentage	36%	33%	16%	10%	0%	4%

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

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	7	3	3	1	0	3
Percentage	41%	18%	18%	6%	0%	18%

Recommendation tracker

Analyst	Fundamental Recommendation	Relative Recommendation	Report date	Reiteration date	Distribution date	Price at issue/ reiteration*	EFV (12 months)
Bowim							
Michał Zamel	Not rated	Not rated	10.09.2023	-	11.09.2023	7.05	6.9

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

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The report was not shown to the analyzed company before the distribution of the report.

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