

**40/2023/GPW (95)** October 23, 2023

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

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# Bowim

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**Analyst:** Michał Zamel

**Sector:** Construction materials  
**Bloomberg code:** BOW PW  
**Price:** PLN 7.76  
**12M EFV:** PLN 6,9 (→)

**Market Cap:** US\$ 36.1 m  
**Av. daily turnover:** US\$ 0.02 m  
**12M range:** PLN 6.30-11.60  
**Free float:** 23.8%

# Bowim

## Recommended action

Our approach to Bowim does not change. Given low demand we expect 3Q23 financial results to be lower qoq. Over the next year and beyond the catalyst for the Company's financials may be the inflow of EU funds within the framework of the National Recovery and Resilience Plan as this seems more likely now, we believe.

## 3Q23 financial results preview

In 3Q23 we expect a slight increase in volumes, albeit given a qoq decline of metallurgical products prices in the discussed period the Company's total revenues should fall slightly as well.

We forecast 3Q23 revenues to reach PLN 473.4 million (down 6% qoq and due to the high base down 38% yoy). Given falling steel prices we assume the pressure on margins continued in 3Q23. We forecast 3Q23 EBITDA and EBIT to reach PLN 9.7 million and PLN 7.6 million, respectively, which implies the EBITDA/EBIT margin at 2.1%/1.6%. The financial net income should be flat qoq. From 4Q23 on, the Company's financial results should include the impact of recent interest rate cuts. We forecast 3Q23 net profit at PLN 1.3 million.

## Financial forecasts and valuation

We keep our financial forecasts and 12M EFV intact. Our current 3Q23 forecasts are in line with the assumptions laid in our previous report.

## Guide to adjusted profits

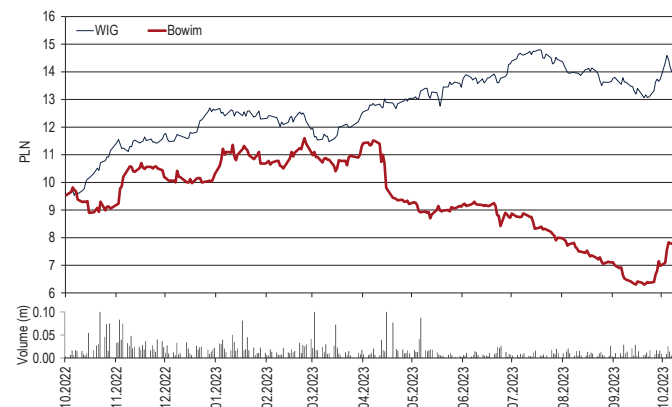
No factors necessitating adjustments.

## 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	1.4	13.4	9.5	8.4
P/CE	x	1.3	8.1	6.5	6.0
EV/EBITDA	x	2.3	7.1	6.4	5.6
EV/EBIT	x	2.4	8.5	7.6	6.6
DPS	zł	2.52	1.20	0.10	0.14
Gross dividend yield	%	32.5	15.5	1.3	1.8
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

- 1Q23 financial results release: May 25
- Release of 2Q23 preliminary unconsolidated financial results: August 22
- Release of 2Q23 preliminary consolidated financial results: August 29
- 2Q23 financial results release: September 23

## Upcoming events

1. Release of preliminary unconsolidated 3Q23 financial results: 2nd half of October
2. Release of preliminary consolidated 3Q23 financial results: 1st half of November
3. 3Q22 financial results release: November 23

**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. EUR/PLN depreciation
7. Further expansion of the distribution chain

**Risk factors**

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

## 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** =  $\text{EBIT}/\text{sales}$   
**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 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.

## 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 BOŚ 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 BOŚ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision	Not rated
Numbers	37	33	9	9	0	4
Percentage	40%	36%	10%	10%	0%	4%

### Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	31	34	14	9	0	4
Percentage	34%	37%	15%	10%	0%	4%

## Banks

**Net Interest Margin (NIM)** =  $\text{net interest income}/\text{average assets}$   
**Non interest income** =  $\text{fees}\&\text{commissions} + \text{result on financial operations (trading gains)} + \text{FX gains}$   
**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 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.

### 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 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**

<b>Analyst</b>	<b>Fundamental Recommendation</b>	<b>Relative Recommendation</b>	<b>Report date</b>	<b>Reiteration date</b>	<b>Distribution date</b>	<b>Price at issue/ reiteration*</b>	<b>EFV (12 months)</b>
<b>Bowim</b>							
Michał Zamel	Not rated	Not rated	10.09.2023	-	11.09.2023	7,05	6,9 –
Michał Zamel	-	-	-	12.10.2023	12.10.2023	7,15	6,9 –
Michał Zamel	-	-	-	23.10.2023	24.10.2023	7,76	6,9 –

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

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

#### Stockbrokers

**Piotr Kalbarczyk**  
tel.: +48 (22) 504 32 43  
[p.kalbarczyk@bossa.pl](mailto:p.kalbarczyk@bossa.pl)

#### Research

**Sobiesław Pająk, CFA**  
(Equity strategy, TMT)

**Sylwia Jaśkiewicz, CFA**  
(Construction materials,  
Consumer discretionary,  
Health care & biotechnology)

**Tomasz Rodak, CFA**  
(Consumer discretionary, Video games)

**Łukasz Prokopiuk, CFA**  
(Chemicals, Mining, Oil & gas)

**Michał Sobolewski, CFA, FRM**  
(Financials)

**Jakub Viscardi**  
(Telco, Consumer staples & discretionary,  
IT – hardware distribution, Utilities)

**Maciej Wewiórski**  
(Residential construction,  
Construction, Real estate)

**Mikołaj Stępień**  
Junior Analyst

**Michał Zamel**  
Associate

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**Dom Maklerski Banku Ochrony  
Środowiska Spółka Akcyjna**  
ul. Marszałkowska 78/80  
00-517 Warszawa  
[www.bossa.pl](http://www.bossa.pl)  
Information: (+48) 0 801 104 104