

**51/2023/GPW (117)** December 7, 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

Key points .....	2
Recent events .....	2
Upcoming events .....	2
Catalysts .....	4
Risk factors .....	4
Disclaimer .....	5

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

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## Key points

- Next year we expect some slight results improvement given the steel prices declines ending and anticipated economic rebound, albeit in the nearest future the chance for a significant advance of results is slim, we believe, due to a relatively low demand coupled with a massive delay in a funds inflow from the EU Recovery and Resilience Plan. In view of the current economy slowdown we are cautious and raise our forecasts for the coming years only to a limited extent. We forecast only a low double-digit growth of the Company's results in 2024 which translates into some upgrade of our 12M EFV. In consequence, FY24E multiples are not particularly attractive (P/E and EV/EBITDA at 8.2x and 6.1x, respectively).

Nonetheless, in 2025 we expect a material improvement on the steel market considering a long-term nature of investment processes and the fact that the possible support (National Recovery Plan, interest rate cuts) is likely to surface in a few months' time at the soonest.

- The market.** Next year we expect the current downtrend to reverse which should translate into a small increase in the steel usage to continue in the years to come. This development should be supported by the economic recovery expected next year which should result in small rises of metallurgical products prices. The cubature and infrastructure (roads, railway) construction should witness the rebound stemming partially from favorable regulations (preferential loans) and expected inflow of funds from the EU Recovery and Resilience Plan.

In the perspective of the current decade EU funding and favorable law changes (liberalization of the wind mill law) may be the catalyst for the Company's results in the area of the investments in the wind farms.

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Analyst: Michał Zamel

Sector: Construction materials

Bloomberg code: BOW PW

Price: PLN 7.20

12M EFV: PLN 7.2 (↑)

Market Cap: US\$ 35 m

Av. daily turnover: US\$ 0.02 m

12M range: PLN 6.30-11.60

Free float: 23.8%

## Guide to adjusted profits

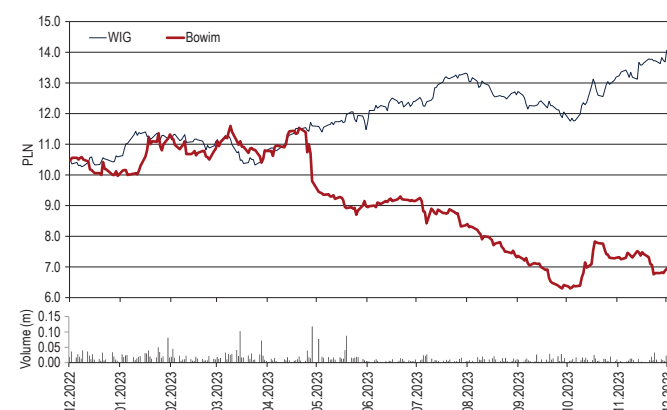
No factors necessitating adjustments.

## Key data

IFRS consolidated		2022	2023E	2024E	2025E
Sales	PLN m	2,752.6	2,047.4	2,197.9	2,307.6
EBITDA	PLN m	181.9	44.5	49.7	52.3
EBIT	PLN m	174.7	35.7	40.9	43.4
Net income	PLN m	109.6	11.4	17.0	20.7
EPS	PLN	5.61	0.58	0.87	1.06
Adj EPS yoy chg	%	-27	-90	49	22
Net debt (off-balance sheet factoring)	PLN m	209.6	134.1	134.1	134.1
Net debt (balance sheet)	PLN m	54.8	26.4	29.0	33.3
Net debt (incl. factoring)	PLN m	264.5	160.5	163.1	167.4
P/E	x	1.3	12.1	8.2	6.7
P/CE	x	1.2	6.9	5.4	4.7
EV/EBITDA	x	2.2	6.7	6.1	5.9
EV/EBIT	x	2.3	8.4	7.4	7.1
DPS	zł	2.52	1.20	0.10	0.15
Gross dividend yield	%	35.5	16.9	1.4	2.1
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

- Release of preliminary unconsolidated 3Q23 financial results: October 27
- Release of preliminary consolidated 3Q23 financial results: November 6
- 3Q22 financial results release: November 23

## Upcoming events

- Release of preliminary unconsolidated 4Q23 financial results: February – March, 2024
- Release of preliminary consolidated 4Q23 financial results: February – March, 2024
- 4Q23 financial results release: April 2024

**Fig. 1. Bowim; Changes in DM BOŚ SA financial forecast**

IFRS consolidated (PLN m)	2023E			2024E			2025E		
	current	previous	change	current	previous	change	current	previous	change
Sales	2,047.4	2,047.4	0%	2,197.9	2,302.0	-5%	2,307.6	2,370.9	-3%
EBITDA	44.5	43.1	3%	49.7	46.3	8%	52.3	48.5	8%
EBIT	35.7	35.8	0%	40.9	39.0	5%	43.4	41.2	5%
NP	11.4	11.3	1%	17.0	15.9	7%	20.7	18.0	15%
Net debt	160.5	153.5	5%	163.1	143.7	14%	167.4	122.1	37%

Source: DM BOŚ SA estimates

- **4Q22E.** We expect flat yoy volumes. Generally, steel prices fell in the previous quarter, though in September they started to stabilize and since then they have not budged, which makes us assume that in 4Q23 average prices of metallurgical products will be slightly lower qoq and thus we expect a slide of Bowim's revenues to PLN 469.7 million (down 4%/ 15% qoq/yoy). Given the steel prices flattening, we believe 4Q23 margins should slightly grow qoq. We forecast 4Q23 EBITDA and EBIT to reach PLN 10.3 million and PLN 8.0 million, respectively, which implies the EBITDA/EBIT margin at 2.2% and 1.7%. According to our estimates, the net financial result should be higher qoq due to recent interest rates cuts. We forecast 4Q23 net profit at PLN 4.0 million.
- **FY financial forecasts.** Our FY23 forecasts are slightly modified.
- **2024 outlook.** Next year we assume a low single-digit growth of volumes and prices; the former should be supported by more favorable economic environment and improved investments (due to the expected inflow of EU funds) which should boost steel usage. The economic recovery should result in a slight steel prices increase following an 18-month downtrend and current prices stabilization. Ultimately, we forecast FY24 revenues to reach PLN 2.198 million (up 7% yoy).
- **Risk to financial forecasts.** High given the instability of the Company's results. The main risk pertains to the uncertainty related to the demand for steel dependent mainly on the investment level and overall economic situation. Prevailing low economic growth and lack of EU funds may result in delayed investments which may adversely affect the Company.
- **Valuation.** After the financial forecast changes, valuation horizon forward shift, and update of the peer-relative valuation our ultimate 12M EFV target – representing a 50%- 50% mix of the outcome of the DCF FCFF and peer-relative valuation, rises to PLN 7.2 (from PLN 6.9) per share, by 4%.

**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** = 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** =  $(\text{net income} + \text{interest payable})/\text{average assets}$

**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 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

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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	Not rated
Numbers	40	29	9	9	0	4
Percentage	44%	32%	10%	10%	0%	4%

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

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	34	31	13	9	0	4
Percentage	37%	34%	14%	10%	0%	4%

## 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** =  $(\text{interest income}/\text{average interest earning assets})/(\text{interest cost}/\text{average interest bearing liabilities})$

**Cost/Income** =  $(\text{general costs} + \text{depreciation})/(\text{profit on banking activity} + \text{other net operating income})$

**ROE** = net profit/average equity

**ROA** = net income/average assets

**Non performing loans (NPL)** = loans in 'basket 3' category

**NPL coverage ratio** = loan loss provisions/NPL

**Net provision charge** = provisions created – provisions released

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### 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	Not rated
Numbers	6	6	1	1	0	3
Percentage	35%	35%	6%	6%	0%	18%

### 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	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)
<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 →
Michał Zamel	-	-	-	06.11.2023	06.11.2023	7.30	6.9 →
Michał Zamel	-	-	-	07.12.2023	07.12.2023	7.20	7.2 ↑

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

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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.

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