

**15/2024/GPW (44)** May 7, 2024

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 6.71  
**12M EFV:** PLN 7.2 (→)

**Market Cap:** US\$ 35.1 m  
**Av. daily turnover:** US\$ 0.02 m  
**12M range:** PLN 6.30-10.70  
**Free float:** 23.8%

# Bowim

## Recommended action

We maintain our approach towards the Company. We can't see any fat chance that the Company's financials improve materially in the nearest future given the relatively low demand and visible delay in the EU funds inflow. After a few months of stabilization (from the autumn last year) steel prices have started to go down slightly under the pressure from the economic slowdown.

Having said that we still expect a visible improvement on the steel market in 2025 taking into consideration a long-term nature of investment processes and the fact that the actual impact of funds from the National Recovery and Resilience Plan on Poland's economy (construction, renewable energy) is likely to surface in 2H24 at the soonest.

In the perspective of the current decade EU funding and potential favorable law changes (liberalization of the wind mill law) may become the catalyst for the Company's results in the area of the investments in the wind farms. Consequently, our 12M EFV at PLN 7.2 per share stays intact.

## 4Q23 financial results summary

4Q23 revenues reaching PLN 459 million were in line with our forecasts, so were the Company's EBITDA at PLN 10 million and EBIT at PLN 7.7 million. 4Q23 net profit at PLN 5.8 million materially exceeded our expectations at PLN 2.7 million. Typically, final quarterly results (revenues, EBIT, net profit) were close to preliminary figures. Operating cash flows in 4Q23 stood at PLN -10.3 million, capex reached PLN 1.3 million.

## Guide to adjusted profits

No factors necessitating adjustments.

## Key data

IFRS consolidated		2023	2024E	2025E	2026E
Sales	PLN m	2,036.7	2,029.0	2,130.3	2,194.1
EBITDA	PLN m	44.1	45.6	47.6	48.3
EBIT	PLN m	35.4	36.8	38.7	39.4
Net income	PLN m	13.2	16.6	20.0	21.9
EPS	PLN	0.68	0.85	1.03	1.12
Adj EPS yoy chg	%	-88	26	21	9
Net debt (off-balance sheet factoring)	PLN m	115.8	115.8	115.8	115.8
Net debt (balance sheet)	PLN m	-13.1	-6.1	3.1	-12.2
Net debt (incl. factoring)	PLN m	102.7	109.7	118.9	103.6
P/E	x	9.9	7.9	6.5	6.0
P/CE	x	6.0	5.2	4.5	4.2
EV/EBITDA	x	5.3	5.3	5.3	4.9
EV/EBIT	x	6.6	6.5	6.5	6.0
DPS	PLN	1.20	0.12	0.15	0.18
Gross dividend yield	%	17.9	1.7	2.2	2.6
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 preliminary unconsolidated 1Q24 financial results: April 25

## Upcoming events

1. Release of preliminary 1Q24 consolidated financial results: 1st half of May
2. 1Q24 financial results release: May 23
3. Release of preliminary 1H24 unconsolidated financial results: August
4. Release of preliminary 1H24 consolidated financial results: August- September
5. 1H24 financial results release: September 26

**1Q24E financial results/ FY financial forecasts**

At the end of 1Q24 – after half a year of stabilization – steel prices started to slightly decline which might have had some small impact on the Company’s 1Q24 figures. At the same time Bowim released preliminary unconsolidated results for 1Q24. Ultimately, we expect consolidated sales to reach PLN 461.3 million and forecast PLN 10.9/8.7/4.5 million of EBITDA/ EBIT/net profit. 1Q24 bottom line might have been supported by both the interest rate cuts (fully reflected in the Company’s results in the discussed quarter) and the lower use of debt.

In light of the current economic slowdown and expected rebound next year we downgrade our top line forecasts for this year to PLN 2,029 million. We assume the Company’s margins will stabilize. Though the impact of mild steel prices plunges started in the 1Q24-end may be negative for the Company’s profitability in the upcoming quarters, this impact is rather minor, we believe, given a small scale of the steel prices fall. Thus, we project FY24 EBITDA and EBIT at PLN 45.6 million and PLN 36.8 million, respectively. This year we assume

lower net financial costs than a year ago given lower interest rates this year (the full effect visible from 1Q24) coupled with the Company’s lowered debt financing needs. We believe the lower debt level will prevail in the remaining quarters on the back of expected lack of a material demand rebound in the nearest future. Consequently, our net profit forecast doesn’t change (PLN 16.6 million), but we cut our debt forecasts. We would like to note that a large part of the Company’s debt is off-balance.

We assume a dividend payout in line with Bowim’s dividend policy recommending a distribution of 5-15% of the Company’s net profit and forecast a DPS at PLN 0.12 this year.

**Valuation**

After the update of (i) financial forecasts, (ii) the risk free rate (from 5.5% to 5.6%) and the market risk premium (from 6.3% to 5.9%) and (iii) the peer-relative valuation our ultimate 12M EFV target – representing a 80%-20% mix of the outcome of the DCF FCFF and peer-relative valuation – at PLN 7.2 per share stays intact.

**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 depreciation vs PLN
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. Delayed inflow of EU funds

## 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	43	26	9	5	0	4
Percentage	49%	30%	10%	6%	0%	5%

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

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	25	40	13	5	0	4
Percentage	29%	46%	15%	6%	0%	5%

## 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 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	8	4	1	1	0	3
Percentage	47%	24%	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	4	7	2	1	0	3
Percentage	24%	41%	12%	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 →
Michał Zamel	-	-	-	06.11.2023	06.11.2023	7.30	6.9 →
Michał Zamel	-	-	-	07.12.2023	07.12.2023	7.20	7.2 ↑
Michał Zamel	-	-	-	25.01.2024	25.01.2024	7.18	7.2 →
Michał Zamel	-	-	-	01.02.2024	01.02.2024	6.98	7.20 →
Michał Zamel	-	-	-	29.02.2024	29.02.2024	6.91	7.20 →
Michał Zamel	-	-	-	04.04.2024	04.04.2024	6.45	7.20 →
Michał Zamel	-	-	-	06.05.2024	06.05.2024	6.77	7.20 →
Michał Zamel	-	-	-	07.05.2024	07.05.2024	6.71	7.20 →

\* 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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