

**34/2024/GPW (87)** October 17, 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 4.79  
**12M EFV:** PLN 5.1 (↓)

**Market Cap:** US\$ 23.7 m  
**Av. daily turnover:** US\$ 0.01 m  
**12M range:** PLN 4.91-7.83  
**Free float:** 23.8%

# Bowim

## Recommended action

The current market conditions are highly challenging as low demand coupled with strong competitive pressure leads to lower steel prices and pressure on the steel distributors' margins. In result, already in 2Q24 the Company generated losses. We believe this situation will prevail on the market which should bring about pressure on the Company's results in the quarters to come. Having said that we still see a chance for Bowim to strengthen its market position as the Company is quite a big distributor. In spite of the downtrend the volumes of steel sold remain stable and in consequence Bowim's market share grows which in our view will pose an opportunity for the Company when the conditions on the steel market improve.

We still expect 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 and renewable energy) is likely to surface next year. In the perspective of the current decade EU funding and likely 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.

Given the current circumstances as described above we lower our 12M EFV to PLN 5.1 per share (from PLN 7.2 per share) mainly due to lowering the FY forecasts for 2024 and years ahead.

## 3Q24 financial results preview

In 3Q24 we expect the negative trends observed in the previous quarter to continue which means further pressure on margins. We assume flat

### Guide to adjusted profits

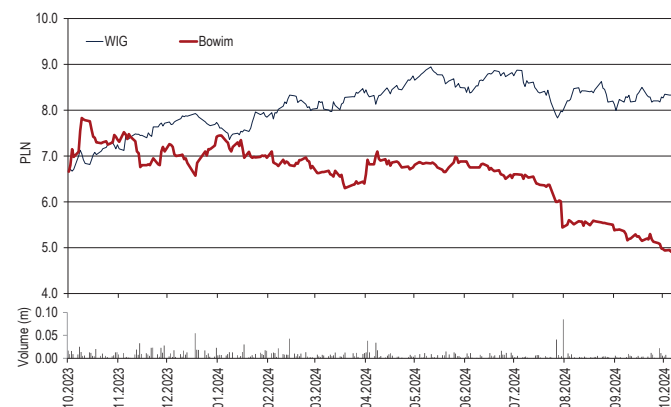
No factors necessitating adjustments.

### Key data

IFRS consolidated		2023	2024E	2025E	2026E
Sales	PLN m	2,036.7	1,725.3	1,811.5	1,865.8
EBITDA	PLN m	44.1	0.2	37.8	39.4
EBIT	PLN m	35.4	-8.9	28.7	30.4
Net income	PLN m	13.2	-21.2	11.3	13.9
EPS	PLN	0.68	-1.09	0.58	0.71
Adj EPS yoy chg	%	-88	n.m.	n.m.	23
Debt (off-balance sheet factoring)	PLN m	115.8	104.2	104.2	104.2
Net debt (balance sheet)	PLN m	-13.1	-6.2	7.2	-1.1
Net debt (incl. factoring)	PLN m	102.7	98.0	111.5	103.1
P/E	x	7.1	neg.	8.3	6.7
P/CE	x	4.3	neg.	4.6	4.1
EV/EBITDA	x	4.4	n.m.	5.4	5.0
EV/EBIT	x	5.5	neg.	7.1	6.5
DPS	PLN	1.20	0.10	0.00	0.09
Gross dividend yield	%	25.1	2.1	0.0	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

1. Release of preliminary unconsolidated 2Q24 financial results: August 9
2. Release of preliminary consolidated 2Q24 financial results: September 4
3. Release of 2Q24 financial results: September 26

### Upcoming events

1. Release of preliminary unconsolidated 3Q24 financial results: October
2. Release of preliminary consolidated 3Q24 financial results: November
3. 3Q24 financial results release: November 21

yoy volumes, both qoq and yoy, and given slight drops of steel prices continued we forecast 3Q24 revenues at PLN 416.8 million (down 6% qoq). The mentioned above pressure on profitability will lead to further operating and net losses, we believe. Thus, we forecast 3Q24 EBITDA/ EBIT/ NI at PLN -3.6/-5.8/-9.7 million.

## Valuation

After the financial forecast update, the RFR change (from 5.5% to 5.4%) and update of the peer-relative valuation our ultimate 12M EFV target – representing an 80%-20% mix of the outcome of the DCF FCFE and peer-relative valuation, drops to PLN 5.1 (from PLN 7.2) per share.

### 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. Mounting competition + current low investment demand → price drop + pressure on margins
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

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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 BOŚ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision	Not rated
Numbers	44	26	8	5	0	5
Percentage	50%	30%	9%	6%	0%	6%

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

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	27	40	11	5	0	5
Percentage	31%	45%	13%	6%	0%	6%

## 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	4	5	0	1	0	2
Percentage	33%	42%	0%	8%	0%	17%

### 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	2	6	1	1	0	2
Percentage	17%	50%	8%	8%	0%	17%

**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	6.90 –
Michał Zamel	-	-	-	12.10.2023	12.10.2023	7.15	6.90 →
Michał Zamel	-	-	-	23.10.2023	24.10.2023	7.76	6.90 →
Michał Zamel	-	-	-	06.11.2023	06.11.2023	7.30	6.90 →
Michał Zamel	-	-	-	07.12.2023	07.12.2023	7.20	7.20 ↑
Michał Zamel	-	-	-	10.12.2023	11.12.2023	7.10	7.20 →
Michał Zamel	-	-	-	09.01.2024	09.01.2024	7.42	7.20 →
Michał Zamel	-	-	-	25.01.2024	25.01.2024	7.18	7.20 →
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 →
Michał Zamel	-	-	-	29.05.2024	29.05.2024	6.65	7.20 →
Michał Zamel	-	-	-	12.07.2024	12.07.2024	6.60	7.20 →
Michał Zamel	-	-	-	07.08.2024	08.08.2024	6.03	7.20 →
Michał Zamel	-	-	-	12.08.2024	12.08.2024	5.50	7.20 →
Michał Zamel	-	-	-	24.09.2024	24.09.2024	5.24	7.20 →
Michał Zamel	-	-	-	11.10.2024	11.10.2024	4.94	7.20 →
Michał Zamel	-	-	-	17.10.2024	17.10.2024	4.79	5.10 ↓

\* 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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