

41/2024/GPW (104) November 21, 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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Analyst: Michał Zamel

Sector: Construction materials
Bloomberg code: BOW PW
Price: PLN 4.30
12M EFV: PLN 5.1 (→)

Market Cap: US\$ 21.3 m
Av. daily turnover: US\$ 0.01 m
12M range: PLN 4.29-7.48
Free float: 23.8%

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3Q24 financial results review

The Company's 3Q24 revenues at PLN 468.3 million (down 5% yoy, up 5% qoq) turned out to be higher than we expected by PLN 416.8 million as actual volumes were above our forecasts. Volumes in the discussed quarter reached 139 737 t which implies an above 7% yoy and qoq growth. The sales mix was comparable to previous quarters with sheets holding the biggest share (over 40%) followed by a share of pipes and profiles at c. 20%. The most important clients were from the steel construction industry and construction.

EBITDA and EBIT at PLN 1.0 million and PLN -1.4 million, respectively, were materially above our expectations (we forecasted EBITDA at PLN -3.6 million and EBIT at PLN -5.8 million). 3Q24 net financial result reached PLN -5.3 million vs PLN -7.4 million last year; the improvement stemmed from lower costs of interest and factoring. NI in the discussed period amounted to PLN -7.5 million vs our forecast at PLN -9.7 million. Operating cash flows reached PLN 39.9 million vs PLN 57.6 million in 3Q23.

3Q24 financials were released on Thursday, before the market session and were in line with the preliminary figures published a day earlier.

FY financial forecasts

Our forecasts for 2024 are conservative, we believe.

Valuation

Our 12M EFV stays intact.

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	6.4	neg.	7.4	6.0
P/CE	x	3.8	neg.	4.1	3.7
EV/EBITDA	x	4.2	n.m.	5.2	4.7
EV/EBIT	x	5.3	neg.	6.8	6.2
DPS	PLN	1.20	0.10	0.00	0.09
Gross dividend yield	%	27.9	2.3	0.0	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

- 2Q24 financial results review: September 26
- Release of preliminary unconsolidated 3Q24 financial results: November 19
- Release of preliminary consolidated 3Q24 financial results: November 20
- 3Q24 financial results release: November 21

Upcoming events

- Release of preliminary unconsolidated and consolidated 4Q24 financial results: February – March, 2025
- 4Q24 financial results release: April 2025

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/(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.

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	44	26	8	5	0	4
Percentage	51%	30%	9%	6%	0%	5%

Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	28	39	11	5	0	4
Percentage	32%	45%	13%	6%	0%	5%

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 coverage 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.

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	1
Percentage	36%	45%	0%	9%	0%	9%

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	1
Percentage	18%	55%	9%	9%	0%	9%

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	6.90 –
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 ↓
Michał Zamel	-	-	-	04.11.2024	04.11.2024	4.48	5.10 →
Michał Zamel	-	-	-	21.11.2024	22.11.2024	4.30	5.10 →

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

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