

# ML System

## In the right place at the right time

We increase our EBITDA forecast for the company for the 2022-2024E period following a batch of new contracts signed by the company. The company inked contracts with PGE (PLN 22m), Tauron (EUR 10.6m), as well as smaller ones with Swietokrzyskie Mines (SKSM) and a Poznan hospital. Though these contracts encompass only the delivery of simple PV panels, we still believe they may bring small double-digit EBITDA margins for ML System. The company managed also to get some international contracts in Romania, the Netherlands and Scandinavia. We also believe the company is likely to show initial revenues stemming from new product lines (2D and Quantum Glass) already in 2Q22 results. We expect the company to report 2Q22 EBITDA at the level of PLN 9.0m, +5.9%y/y and 68.1%q/q. The larger impact of the new contracts signed recently will be visible in 2H22, as for instance the Tauron contract needs to be finalized by the end of the year. PGE's contract runs until 03.07.2023. All in all, we increase our EBITDA forecast for the 2022-2024E period by 9.3%, 10.1% and 7.8%, respectively, to PLN 41.2m (up 69.0%y/y) in 2022E, PLN 68.3m (up 65.9%y/y) in 2023E and PLN 97.6m (up 42.9%y/y) in 2024E, with the upward trajectory stemming from a rising backlog, and production coming from Quantum, 2D and Active Glass product lines all supported by subsidies. We increase our FV by 14.9% to PLN 104.48 and maintain our BUY recommendation.

**Tauron contract:** ML System has concluded a contract with Tauron Serwis for the supply of photovoltaic panels for the construction of a farm with an installed capacity of 37.1 MW in Myslowice-Dzieckowice, currently the largest photovoltaic farm under construction in Poland. The total value of the contract is EUR 10.61m. As Tauron reported, the photovoltaic farm will be built in two stages: in the first one, about 37 MW will be put into operation, the second in turn provides for the construction of an installation with a capacity of about 60 MW (a total of nearly 100 MW). Ultimately, photovoltaic modules with a total area of 16 ha will be installed in Myslowice, which corresponds to as many as 22 football pitches. Tauron estimates that during the year the installation will produce 39,000 MWh of green energy, which corresponds to the annual needs of 16,000 households, while reducing CO2 emissions by almost 30,000 tons.

**PGE contract:** The company signed a PLN 22m contract for the design and construction of the Pasterzowice photovoltaic installation with a capacity of up to 8 MW, implemented for PGE Energia Odnawialna. The contract is to be completed by 3 July 2023.

**2Q22 results preview:** We conservatively assume revenues to reach PLN 55.7m, +20.8% y/y and 1.5% q/q in 2Q22. We expect the company's EBITDA to arrive at PLN 9.0m, +5.9% y/y and 68.1% q/q driven by the first revenues coming from the 2D and Quantum Glass business lines. We expect the bottom line to swing into a small profit of PLN 0.9m, -77%y/y, down from the high base last year.

Figure 1. ML System financial data, (PLN m)

	2019	2020	2021	2022E	2023E	2024E
Revenue	93.4	127.3	188.8	236.1	286.2	444.7
EBIT	5.1	11.5	4.4	13.2	35.6	66.0
EBITDA	14.0	22.1	24.4	41.2	68.3	97.6
Net profit	3.5	10.2	1.7	7.9	27.3	55.1
EPS	0.6	1.7	0.3	1.2	4.2	8.5
DPS	0.0	0.0	0.0	0.0	0.0	0.8
P/E (x)	123.5	44.2	265.3	62.3	18.0	8.9
EV/EBITDA (x)	32.8	22.0	21.8	14.6	9.1	5.9

Source: Company, IPOPEMA Research

Construction

## ML System

BUY

FV PLN 104.48

37.9% upside

Price as of 25 August 2022 PLN 75.75

Recommendation maintained



### Share data

Number of shares (m)	6.5
Market cap (EUR m)	103.4
12M avg daily volume (k)	12.7
12M avg daily turnover (EUR m)	0.2
12M high/low (PLN)	113.0/48.1
WIG weight (%)	0.07
Reuters	MLSP.WA
Bloomberg	MLS PW

### Total performance

1M	+2.25%
3M	+22.15%
12M	-31.94%

### Shareholders

Dawid Cycoń	31.11%
Edyta Stanek	30.84%
Rockbridge TFI	5.17%

### Analysts

Robert Maj  
 robert.maj@ipopema.pl  
 + 48 22 236 92 90

**ML SYSTEM****BUY****FV PLN 104.48**

Mkt Cap EUR 103.4m

Upside/downside +37.9%

Valuation multiples	2019	2020	2021	2022E	2023E
P/E (x)	123.5	44.2	265.3	62.3	18.0
EV/EBITDA (x)	32.8	22.0	21.8	14.6	9.1
EV/Sales (x)	4.94	3.83	2.82	2.55	2.18
P/BV (x)	5.53	3.11	3.17	3.19	2.71
FCF yield (%)	-8%	-1%	13%	16%	22%
DY (%)	0%	0%	0%	0%	0%

Per share	2019	2020	2021	2022E	2023E
No. of shares (m units)	5.7	5.9	6.1	6.5	6.5
EPS (PLN)	0.61	1.72	0.29	1.22	4.21
BVPS (PLN)	13.69	24.33	23.90	23.76	27.98
FCFPS (PLN)	-5.75	-1.13	9.67	12.45	16.63
DPS (PLN)	0.00	0.00	0.00	0.00	0.00

Change y/y (%)	2019	2020	2021	2022E	2023E
Revenues	-24.3%	36.3%	48.3%	25.1%	21.2%
EBITDA	-3.6%	57.7%	10.1%	69.0%	65.9%
EBIT	-29.0%	125.6%	-61.8%	198.1%	170.5%
Pre-tax	-38.2%	191.9%	-69.1%	186.9%	233.3%
Net profit	-38.7%	193.7%	-82.8%	351.7%	246.4%

Leverage and return	2019	2020	2021	2022E	2023E
Gross margin (%)	12.8%	24.1%	14.1%	19.4%	25.3%
EBITDA margin (%)	15.0%	17.4%	12.9%	17.4%	23.9%
EBIT margin (%)	5.5%	9.1%	2.3%	5.6%	12.4%
Net margin (%)	3.7%	8.0%	0.9%	3.3%	9.5%
Net debt / EBITDA (x)	2.36	1.72	2.80	2.69	1.93
Net debt / Equity (x)	0.43	0.26	0.47	0.72	0.73
Leverage Ratio (x)	0.42	0.37	0.37	0.44	0.46
ROE (%)	4.6%	9.2%	1.2%	5.3%	16.3%
ROA (%)	10.7%	24.6%	3.2%	11.8%	35.4%
ROIC (%)	3.1%	5.6%	0.8%	3.0%	8.7%

Assumptions	2019	2020	2021	2022E	2023E
<b>Sales (PLN m)</b>	<b>93.4</b>	<b>127.3</b>	<b>188.8</b>	<b>236.1</b>	<b>286.2</b>
General constr.	19.7	2.0	0.0	1.8	1.9
PV	68.0	123.3	183.4	210.6	224.3
R&D	1.6	0.3	0.0	0.0	0.0
Unallocated	4.1	1.8	5.3	8.3	8.8
Quantum Glass	0.0	0.0	0.0	13.8	22.1
2D Glass	0.0	0.0	0.0	1.6	2.6
Active Glass	0.0	0.0	0.0	0.0	26.5
Poland GDP (%)	4.1%	-2.8%	5.7%	3.8%	3.5%
Poland CPI (%)	2.2%	3.4%	5.1%	9.9%	6.5%
Constr. activity(%)	2.6%	-2.2%	2.8%	1.9%	1.9%
USD PLN (avg)	3.84	3.89	3.86	4.00	4.00
EURPLN (avg)	4.30	4.44	4.56	4.61	4.61

P&L (PLN m)	2019	2020	2021	2022E	2023E	2024E
Revenues	93.4	127.3	188.8	236.1	286.2	444.7
COGS	-81.4	-96.6	-162.2	-190.2	-213.8	-312.5
<b>EBIT</b>	<b>5.1</b>	<b>11.5</b>	<b>4.4</b>	<b>13.2</b>	<b>35.6</b>	<b>66.0</b>
General constr.	1.8	0.7	0.0	0.1	0.3	0.3
PV	6.6	13.1	3.9	-7.0	13.5	14.1
R&D	-1.9	-3.7	-4.3	0.3	0.0	0.0
Unallocated	-3.1	1.5	4.9	15.8	10.5	4.8
Quantum Glass	0.0	0.0	0.0	2.8	4.4	7.7
2D Glass	0.0	0.0	0.0	0.2	0.3	0.5
Active Glass	0.0	0.0	0.0	0.0	6.6	38.7
<b>EBITDA</b>	<b>14.0</b>	<b>22.1</b>	<b>24.4</b>	<b>41.2</b>	<b>68.3</b>	<b>97.6</b>
Financial income (cost) net	-1.6	-1.3	-1.2	-4.0	-5.2	-4.8
Pre-tax	3.5	10.3	3.2	9.1	30.4	61.2
Tax	0.0	-0.1	-1.4	-1.2	-3.0	-6.1
<b>Net profit</b>	<b>3.5</b>	<b>10.2</b>	<b>1.7</b>	<b>7.9</b>	<b>27.3</b>	<b>55.1</b>

BALANCE SHEET (PLN m)	2019	2020	2021	2022E	2023E	2024E
<b>Non-current assets</b>	<b>146.1</b>	<b>184.8</b>	<b>247.9</b>	<b>286.2</b>	<b>331.1</b>	<b>333.4</b>
Intangible assets	7.2	11.0	11.8	11.9	11.9	12.0
PP&E	135.2	168.5	213.5	251.4	296.0	297.4
Receivables	0.2	0.5	0.8	0.9	1.1	1.8
<b>Current assets</b>	<b>70.1</b>	<b>118.8</b>	<b>142.3</b>	<b>155.1</b>	<b>193.3</b>	<b>315.0</b>
Inventories	9.6	38.3	57.7	67.8	76.1	111.3
Trade receivables	29.8	40.3	41.7	58.2	70.6	109.6
Cash and equivalents	15.1	20.5	24.7	2.4	14.3	44.5
Other current assets	15.6	19.6	18.2	26.8	32.3	49.6
<b>Total assets</b>	<b>216.2</b>	<b>303.5</b>	<b>390.2</b>	<b>441.3</b>	<b>524.4</b>	<b>648.4</b>
<b>Equity</b>	<b>77.4</b>	<b>144.4</b>	<b>146.2</b>	<b>154.1</b>	<b>181.4</b>	<b>231.0</b>
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
<b>Non-current liabilities</b>	<b>92.7</b>	<b>95.3</b>	<b>146.9</b>	<b>165.1</b>	<b>180.7</b>	<b>244.7</b>
Loans and leasing	32.7	27.7	56.7	59.0	60.9	69.0
Other non-current liabilities	60.0	67.6	90.2	106.1	119.7	175.6
<b>Current liabilities</b>	<b>46.1</b>	<b>63.9</b>	<b>97.1</b>	<b>122.0</b>	<b>162.3</b>	<b>172.7</b>
Trade payables	24.7	25.2	47.3	52.1	58.6	85.6
Loans and leasing	15.6	30.9	36.4	54.0	85.4	59.8
Other current liabilities	5.8	7.8	13.4	16.0	18.4	27.4
<b>Equity &amp; liabilities</b>	<b>216.2</b>	<b>303.5</b>	<b>390.2</b>	<b>441.3</b>	<b>524.4</b>	<b>648.4</b>
Inventories turnover (days)	43.1	144.6	129.8	130.0	130.0	130.0
Receivable turnover (days)	116.3	115.6	80.6	90.0	90.0	90.0
<b>Net debt (PLN m)</b>	<b>33.2</b>	<b>38.0</b>	<b>68.4</b>	<b>110.6</b>	<b>132.0</b>	<b>84.3</b>

CASH FLOW (PLN m)	2019	2020	2021	2022E	2023E	2024E
<b>Operating cash flow</b>	<b>-7.6</b>	<b>-21.9</b>	<b>10.2</b>	<b>23.7</b>	<b>56.0</b>	<b>86.2</b>
Net income	3.5	10.2	1.7	7.9	27.3	55.1
D&A	8.9	10.6	20.0	28.0	32.7	31.6
Change in WC	-2.2	-44.4	-15.0	-30.4	-19.8	-64.5
Other	-17.7	1.7	3.5	18.2	15.7	64.1
<b>Investment cash flow</b>	<b>-38.7</b>	<b>-49.0</b>	<b>-55.4</b>	<b>-63.9</b>	<b>-75.1</b>	<b>-30.6</b>
CAPEX	-38.7	-49.0	-55.4	-63.9	-75.1	-30.6
Dividends received	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
<b>Financial cash flow</b>	<b>46.8</b>	<b>76.3</b>	<b>49.4</b>	<b>17.8</b>	<b>31.1</b>	<b>-25.5</b>
Change in equity	0.0	56.0	0.1	0.0	0.0	0.0
Change in debt	17.5	9.4	23.0	16.2	30.4	-28.8
Dividend	-1.1	0.0	0.0	0.0	0.0	-5.5
Other	30.4	10.9	26.3	1.6	0.7	8.8
<b>Change in cash</b>	<b>0.5</b>	<b>5.4</b>	<b>4.2</b>	<b>-22.4</b>	<b>12.0</b>	<b>30.2</b>
<b>Cash as of eop</b>	<b>15.1</b>	<b>20.5</b>	<b>24.7</b>	<b>2.4</b>	<b>14.3</b>	<b>44.5</b>

Source: Company data, IPOPEMA Research

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## Valuation

Our valuation approach for construction companies uses two methods: the discounted cash flow (DCF) and the dividend discount model (DDM). We calculate our Fair Value for ML System by taking the average of the two results. The two methods are aligned, as they are both based on the same financial model. The model assumes cashflow projections over a 10-year period for the firm based on our forecasts for the photovoltaic and construction markets, and GDP in Poland as well as other parameters including volume growth, product mix changes, changes in the financing model, efficiency gains, production cost increases, capital expenditures and working capital needs. Our dividend projections are a derivative of the earnings forecasts in our financial model. Payout levels are determined by corporate policy in the short term (10%) and then drift towards a target payout ratio of 80% in the long-term. The DDM is also a useful tool for understanding P/E multiples [ $P/E = (D/E)/(k-g)$ ], with differences explained by a combination of earnings growth and dividend payout. Both our DCF and DDM models have terminal values with a growth rate of 1%.

Our assumptions for cost of equity were established by using a variable risk-free rate (equal to the 12-month forward interest rate) and adding a 5.5% equity risk premium each year. The 12-month forward interest rates were derived from the yield curve of the 2022-2031 period. We also consistently use a beta of one (1) so as not to distort the WACC and the comparability of our valuations.

## Changes in forecast

Figure 2. Changes in forecast

	2022			2023			2024		
	OLD	NEW	change	OLD	NEW	change	OLD	NEW	change
Revenues	216.3	236.1	9.2%	265.1	286.2	8.0%	422.5	444.7	5.3%
Costs	-167.5	-190.2	13.6%	-193.8	-213.8	10.3%	-294.1	-312.5	6.2%
EBITDA	37.7	41.2	9.3%	62.0	68.3	10.1%	90.6	97.6	7.8%
EBIT	11.3	13.2	16.6%	38.6	35.6	-7.9%	65.5	66.0	0.8%
Net profit	7.9	7.9	-0.1%	29.5	27.3	-7.4%	55.1	55.1	0.0%

Source: Company, IPOPEMA Research

## 2Q22 results preview

Figure 3. ML System: 2Q22 results preview (PLN m)

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	Y/Y	Q/Q
Revenues	19.69	37.70	31.14	38.75	26.28	46.13	49.03	67.37	54.93	55.74	20.8%	1.5%
EBITDA	4.17	9.61	3.85	4.53	2.52	8.45	4.93	8.46	5.32	8.95	5.9%	68.1%
EBIT	1.66	6.97	1.14	1.78	-0.36	4.07	-1.19	1.89	-1.70	1.95	-52.0%	na
Net profit	1.41	6.68	0.91	1.18	-0.46	3.68	-1.83	0.36	-2.75	0.85	-77.0%	na

Source: Company, IPOPEMA Research

Figure 4. DCF Valuation

PLN m	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	Terminal Year
Revenues	236.1	286.2	444.7	498.8	541.3	585.9	603.5	621.6	640.2	659.4	659.4
<b>EBIT</b>	<b>13.2</b>	<b>35.6</b>	<b>66.0</b>	<b>89.7</b>	<b>108.6</b>	<b>138.7</b>	<b>148.3</b>	<b>164.5</b>	<b>175.0</b>	<b>186.0</b>	<b>186.0</b>
Tax on EBIT	1.8	3.6	6.6	9.0	10.9	13.9	28.2	31.2	33.3	35.3	35.3
NOPLAT	11.4	32.0	59.4	80.7	97.8	124.9	120.1	133.2	141.8	150.6	150.6
Depreciation	28.0	32.7	31.6	31.8	31.6	33.6	35.8	38.1	40.5	43.1	43.1
Capital expenditures	-63.9	-75.1	-30.6	-29.4	-29.0	-30.7	-32.6	-34.5	-36.6	-38.8	-38.8
Change in working capital	-30.4	-19.8	-64.5	-21.1	-16.6	-16.5	-6.7	-6.4	-7.1	-7.3	-7.3
Leasing payments	-2.2	-2.4	-2.6	-2.8	-3.1	-3.4	-3.7	-4.1	-4.5	-4.9	-4.9
<b>Free cash flow</b>	<b>-57.1</b>	<b>-32.5</b>	<b>-6.7</b>	<b>59.1</b>	<b>80.8</b>	<b>107.8</b>	<b>112.9</b>	<b>126.2</b>	<b>134.1</b>	<b>142.7</b>	<b>142.7</b>
Risk-free rate	6.21%	6.21%	6.07%	6.06%	6.06%	6.09%	6.42%	6.42%	6.42%	6.42%	6.42%
Equity risk premium	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%
Beta	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Cost of equity	11.71%	11.71%	11.57%	11.56%	11.56%	11.59%	11.92%	11.92%	11.92%	11.92%	11.92%
Cost of debt (pre-tax)	8.7%	8.7%	8.6%	8.6%	8.6%	8.6%	8.9%	8.9%	8.9%	8.9%	8.9%
Effective tax rate	45.0%	13.4%	10.0%	10.0%	10.0%	10.0%	10.0%	19.0%	19.0%	19.0%	19.0%
After-tax cost of debt	4.8%	7.5%	7.7%	7.7%	7.7%	7.7%	8.0%	7.2%	7.2%	7.2%	7.2%
Weight of debt	12.6%	14.1%	10.8%	12.0%	11.9%	13.4%	12.1%	12.2%	14.0%	11.8%	11.8%
Weight of equity	87.4%	85.9%	89.2%	88.0%	88.1%	86.6%	87.9%	87.8%	86.0%	88.2%	88.2%
<b>WACC</b>	<b>10.8%</b>	<b>11.1%</b>	<b>11.2%</b>	<b>11.1%</b>	<b>11.1%</b>	<b>11.1%</b>	<b>11.5%</b>	<b>11.3%</b>	<b>11.3%</b>	<b>11.4%</b>	<b>11.4%</b>
Discount fact	0.90	0.81	0.73	0.66	0.59	0.53	0.48	0.43	0.39	0.35	0.31
PV of FCF	-51.5	-26.4	-4.9	38.9	47.8	57.4	54.0	54.2	51.7	49.4	44.4
Sum of FCF PV's	270.7										
FCF terminal growth rate	2.0%										
Terminal value	1,554.0										
PV of terminal value	483.5										
Unwind of discount	53.0										
Enterprise value	807.2										
Net debt 2021	68.4										
Employees liabilities	-0.8										
Dividend paid out in 2022 (ytd terms)	0.0										
Equity value	738.0										
<b>Per share value (PLN)</b>	<b>113.82</b>										

Source: Company, IPOPEMA Research

Figure 5. DDM Valuation

PLNm	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	Terminal Year
Dividends	0.0	0.0	5.5	22.0	38.7	47.4	91.7	94.6	105.5	112.2	112.2
Discount rate	11.7%	11.7%	11.6%	11.6%	11.6%	11.6%	11.9%	11.9%	11.9%	11.9%	11.9%
Discount factor	0.90	0.80	0.72	0.64	0.58	0.52	0.46	0.41	0.37	0.33	0.29
Discounted dividend	0.0	0.0	3.9	14.2	22.3	24.5	42.4	39.1	38.9	37.0	33.1
Sum of DD PV's	222.3										
DIV terminal growth rate	2.0%										
Terminal value	1,153.9										
PV of terminal value	339.8										
Discount unwind	54.8										
Equity value	616.9										
<b>Per share value (PLN)</b>	<b>95.14</b>										

Source: Company, IPOPEMA Research

Figure 6. Valuation Summary

PLN	
DCF	113.82
DDM	95.14
<b>Average</b>	<b>104.48</b>

Source: Company, IPOPEMA Research

## Relative valuation

As many of the company's international competitors are private, non-listed companies, and Polish companies operating on the PV market are either incomparable to ML System or there are not enough consensus readings, we decided to show ML System in comparison to international PV utility scale farm operators. This comparison is also imperfect.

Compared to the international peers' median of 2023E P/E of 27.8x, ML System trades at 18.0x, which constitutes a 35.4% discount. In our opinion, the average multiple for ML System should be higher, as the company has already launched commercial production of entirely new PV modules.

Figure 7. Relative Valuation

PRICE (LCU)	Ticker	NAME	P/E			EV/EBITDA			EV/SALES		
			2022	2023	2024	2022	2023	2024	2022	2023	2024
103.5	SCATCNOK.ST	SCATEC ASA	NaN	35.2	31.5	14.5	10.3	7.3	9.2	7.2	4.6
43.4	NEOEN.PA	NEOEN SA	91.3	57.7	52.9	19.3	16.3	14.2	17.0	14.1	11.8
11.1	AZRE.K	AZURE POWER GLOBAL LTD	NaN	11.7	10.7	NaN	NaN	NaN	8.6	7.0	6.1
24.4	ECVG.DE	ENCAVIS AG	43.6	42.3	39.7	17.3	16.5	16.2	13.5	12.7	12.3
22.0	VLTSA.PA	VOLTALIA SA	54.2	36.7	33.1	14.3	10.7	9.3	6.8	5.5	5.4
6.4	SOL.N	RENESOLA LTD	49.2	27.8	NaN	15.8	10.1	NaN	2.7	2.2	NaN
24.3	SLRS.MC	SOLARIA ENERGIA Y MEDIO AMBIENTE SA	35.2	26.1	26.5	21.4	15.9	14.8	19.6	13.2	10.7
26.5	SPK.MC	SOLARPACK CORPORACION TECNOLOGICA SA	NaN	NaN	NaN	NULL	NULL	NULL	NULL	NULL	NULL
5.3	HRPKK.DE	7C SOLARPARKEN AG	26.8	26.2	26.8	10.7	10.4	10.6	9.3	8.9	9.1
39.0	GREG.MC	GREENERGY RENOVABLES SA	36.1	24.3	19.4	19.8	11.6	7.9	7.2	5.3	4.2
75.8	MLSP.WA	ML SYSTEM	62.3	18.0	8.9	14.6	9.1	5.9	2.5	2.2	1.3
		Premium/discount to median									
		<b>ML SYSTEM</b>	42.7%	-35.4%	-69.4%	-11.5%	-18.2%	-44.4%	-72.2%	-69.6%	-82.9%
		<b>Our valuation</b>									
		<b>ML SYSTEM</b>	85.90	24.80	12.30	19.14	11.85	7.80	3.34	2.83	1.71
		Premium/discount to median									
		<b>ML SYSTEM</b>	96.9%	-10.9%	-57.8%	15.9%	6.3%	-26.4%	-63.5%	-60.5%	-77.4%

Source: Reuters, IPOPEMA Research

## Risks to fair value

### **Demand volatility**

ML System is exposed to the PV market, which in Poland is undergoing rapid growth. The government, however, has already introduced adverse changes to the support scheme to prosumers starting from 2022.

### **Unfavourable trend in prices of materials and services**

Adverse trends such as rising raw material costs and inflation in transport service costs may hamper the company's profitability.

### **Potential rise in competition**

Given the company's superior profitability, arising from complex solutions and a growing scale of operations, several local competitors might attempt to copy ML System's business model, which could potentially increase competition in the company's most important segments. ML System has, however, patented its technology which limits the possibilities of entering the most attractive segments of quantum dot PV modules. The regular PV modules are exposed to high competition as the market is fragmented and exposed to heavy imports, especially from China.

### **Workforce shortages**

A shortage of skilled labour in the construction industry could result in ML System having insufficient employees to operate its business. There are no shortages at the moment, which would likely allow the company to lower its cost base and cost of third parties in quarters ahead.

### **Rise in receivables**

The biggest threat to ML System would be a rapid increase in receivables stemming from construction contracts, which would cast a shadow over the profitability of the executed contracts.

### **Economy slowdown**

Estimates for the Polish economy point to lower growth rates going forward. As a result, some investments could be suspended, which would raise questions about the level of ML System's future backlog. Decreasing EU funds are likely to accentuate the problem.

### **Judicial reform in Poland**

Reform of the judicial system in Poland which was executed in a controversial way in many parts against the existing constitution in Poland has drawn the attention of the EU Commission which threatened to withhold payout of EU proceeds coming in the form of cheap loans and subsidies. In case this stalemate between the government and the EU persists, this may negatively influence funds for many construction projects beyond 2023 and hamper the company's ability to grow revenues on the domestic market.

# Financials

Figure 8. INCOME STATEMENT (PLN m)

	2018	2019	2020	2021	2022E	2023E	2024E
<b>Sales</b>	<b>123.3</b>	<b>93.4</b>	<b>127.3</b>	<b>188.8</b>	<b>236.1</b>	<b>286.2</b>	<b>444.7</b>
Cost of goods & products sold	-107.3	-81.4	-96.6	-162.2	-190.2	-213.8	-312.5
<b>Gross profit</b>	<b>15.9</b>	<b>11.9</b>	<b>30.7</b>	<b>26.6</b>	<b>45.9</b>	<b>72.5</b>	<b>132.2</b>
SG&A	-10.8	-15.4	-23.0	-30.0	-33.6	-45.4	-70.6
Other operating activity	2.1	8.5	3.8	7.8	0.9	8.6	4.4
<b>EBIT</b>	<b>7.2</b>	<b>5.1</b>	<b>11.5</b>	<b>4.4</b>	<b>13.2</b>	<b>35.6</b>	<b>66.0</b>
Net financial activity	-1.5	-1.6	-1.3	-1.2	-4.0	-5.2	-4.8
<b>Pre-tax profit</b>	<b>5.7</b>	<b>3.5</b>	<b>10.3</b>	<b>3.2</b>	<b>9.1</b>	<b>30.4</b>	<b>61.2</b>
Tax	0.0	0.0	-0.1	-1.4	-1.2	-3.0	-6.1
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net income</b>	<b>5.7</b>	<b>3.5</b>	<b>10.2</b>	<b>1.7</b>	<b>7.9</b>	<b>27.3</b>	<b>55.1</b>
<b>EBITDA</b>	<b>14.6</b>	<b>14.0</b>	<b>22.1</b>	<b>24.4</b>	<b>41.2</b>	<b>68.3</b>	<b>97.6</b>

Source: Company, IPOPEMA Research

Figure 9. BALANCE SHEET (PLN m)

	2018	2019	2020	2021	2022E	2023E	2024E
<b>Long-term assets</b>	<b>111.8</b>	<b>146.1</b>	<b>184.8</b>	<b>247.9</b>	<b>286.2</b>	<b>331.1</b>	<b>333.4</b>
Tangible assets	104.8	135.2	168.5	213.5	251.4	296.0	297.4
Receivables and loans	0.2	0.2	0.5	0.8	0.9	1.1	1.8
Intangible assets	6.6	7.2	11.0	11.8	11.9	11.9	12.0
Others	0.2	3.5	4.8	21.8	21.9	22.1	22.2
<b>Current assets</b>	<b>67.5</b>	<b>70.1</b>	<b>118.8</b>	<b>142.3</b>	<b>155.1</b>	<b>193.3</b>	<b>315.0</b>
Inventories	7.3	9.6	38.3	57.7	67.8	76.1	111.3
Receivables from construction activities	32.4	15.1	18.9	17.3	25.9	31.4	48.7
Trade receivables	12.7	29.8	40.3	41.7	58.2	70.6	109.6
Other	15.1	15.6	21.3	25.6	3.2	15.2	45.4
<b>Total assets</b>	<b>179.3</b>	<b>216.2</b>	<b>303.5</b>	<b>390.2</b>	<b>441.3</b>	<b>524.4</b>	<b>648.4</b>
<b>Equity</b>	<b>74.8</b>	<b>77.4</b>	<b>144.4</b>	<b>146.2</b>	<b>154.1</b>	<b>181.4</b>	<b>231.0</b>
<b>Long-term liabilities</b>	<b>59.9</b>	<b>92.7</b>	<b>95.3</b>	<b>146.9</b>	<b>165.1</b>	<b>180.7</b>	<b>244.7</b>
Interest bearing	10.9	30.8	25.5	43.4	43.4	43.4	43.4
Leasing	1.1	1.8	2.2	13.3	15.6	17.5	25.6
Deferred liabilities	46.4	58.0	61.4	85.9	100.7	113.2	165.5
Others	1.5	2.0	6.2	4.3	5.4	6.5	10.1
<b>Short-term liabilities</b>	<b>44.7</b>	<b>46.1</b>	<b>63.9</b>	<b>97.1</b>	<b>122.0</b>	<b>162.3</b>	<b>172.7</b>
Interest bearing	15.8	15.1	29.8	33.1	49.2	79.7	50.9
Trade liabilities	23.9	24.7	25.2	47.3	52.1	58.6	85.6
Deferred liabilities	4.1	4.4	6.4	8.7	10.2	11.5	16.8
Leasing	0.6	0.5	1.1	3.3	4.7	5.7	8.9
Others	0.3	1.5	1.4	4.6	5.7	6.8	10.5
<b>Total liabilities &amp; equity</b>	<b>179.3</b>	<b>216.2</b>	<b>303.5</b>	<b>390.2</b>	<b>441.3</b>	<b>524.4</b>	<b>648.4</b>

Source: Company, IPOPEMA Research

Figure 10. CASH FLOW STATEMENT (PLN m)

	2018	2019	2020	2021	2022E	2023E	2024E
Net profit	5.7	3.5	10.2	1.7	7.9	27.3	55.1
Depreciation	7.4	8.9	10.6	20.0	28.0	32.7	31.6
Change in net working capital	-9.8	-2.2	-44.4	-15.0	-30.4	-19.8	-64.5
Other items	-7.4	-17.7	1.7	3.5	18.2	15.7	64.1
<b>Operating cash flow</b>	<b>-4.2</b>	<b>-7.6</b>	<b>-21.9</b>	<b>10.2</b>	<b>23.7</b>	<b>56.0</b>	<b>86.2</b>
Purchases of tangibles & intangibles	-25.6	-40.2	-53.2	-55.4	-63.9	-75.1	-30.6
Others	0.1	1.4	4.2	0.0	0.0	0.0	0.0
<b>Investing cash flow</b>	<b>-25.5</b>	<b>-38.7</b>	<b>-49.0</b>	<b>-55.4</b>	<b>-63.9</b>	<b>-75.1</b>	<b>-30.6</b>
Change in interest-bearing debt	-8.0	17.5	9.4	23.0	16.2	30.4	-28.8
Dividends	0.0	-1.1	0.0	0.0	0.0	0.0	-5.5
Other	50.0	30.4	66.9	26.4	1.6	0.7	8.8
<b>Financing cash flow</b>	<b>42.0</b>	<b>46.8</b>	<b>76.3</b>	<b>49.4</b>	<b>17.8</b>	<b>31.1</b>	<b>-25.5</b>
<b>Total cash flow</b>	<b>12.3</b>	<b>0.5</b>	<b>5.4</b>	<b>4.2</b>	<b>-22.4</b>	<b>12.0</b>	<b>30.2</b>
Cash at beginning of period	2.4	14.7	15.1	20.5	24.7	2.4	14.3
<b>Cash at end of period</b>	<b>14.7</b>	<b>15.1</b>	<b>20.5</b>	<b>24.7</b>	<b>2.4</b>	<b>14.3</b>	<b>44.5</b>

Source: Company, IPOPEMA Research



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Net F&C – Net fee and commission income – fee and commission income minus fee and commission expense.

LLP – loan loss provisions – an expense set aside as an allowance for bad loans.

NPL – non-performing loan – loans that are in default or close to be in default.

Cost/Income – operating expenses divided by total banking revenue.

ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity.

ROA – return on assets – net income (or adjusted net income) divided by the average assets.

EBIT – earnings before interests and tax.

EBITDA – earnings before interests, tax, depreciation and amortization.

EPS – earnings per share – the net income (or adjusted net income) divided by the number of shares outstanding.

P/E – price to earnings ratio – price divided by earnings per share.

PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time.

CAGR – compound annual growth rate.

BVPS – book value per share, the book value of the Company's equity divided by the number of shares outstanding.

P/BV – price to book value - price divided by the BVPS.

DPS – dividend per share – dividend of a given year divided by the number of shares outstanding.

DY – dividend yield – dividend of a given year divided by the current price.

DDM – dividend discount model – a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends.

FV – Fair Value, calculated based on valuation methods outlined in the document.

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	Number	%
Buy	17	71%
Hold	5	21%
Sell	2	8%
Total	24	100%

#### Rating History – ML System

Date	Recommendation	Fair Value	Price at recommendation	Author
09/09/2021	BUY	PLN 127.00	PLN 108.40	Robert Maj
06/05/2022	BUY	PLN 90.94	PLN 73.50	Robert Maj
26/08/2022	BUY	PLN 104.48	PLN 75.75	Robert Maj