

Pekabex

Defying the downturn

We expect the company to maintain its robust pace of quarterly earnings growth on a y/y basis on the back of the recently-signed contracts for the remainder of the year. 1Q20 results surprised on the upside mainly due to higher realization of general construction deals and achieved above-average margins. A slew of recently-inked orders combined with the firm's published backlog prompted us to change our revenue forecast for 2020 upwards by 41.2% - now we expect the top line to reach PLN 908m, +17.6% y/y. In particular, the deal for construction of a residential complex for MDR Torun, on behalf of PFR TFI, is worthwhile mentioning as this is a public deal - currently almost non-existent in Pekabex's portfolio on a large scale. We believe that the proper execution of this first job for PFR gives an upside for winning subsequent public tenders as the garnered credentials could tip the scale towards Pekabex versus its competition in the prefabrication market. As we still perceive current macro conditions as challenging, it appears to us that Pekabex has secured most of its order book for the current year (sizable deals with Panattoni, PFR TFI, PBDiM and for Danish Odense Hospital). We have therefore increased our revenue forecasts for 2020 and 2021 by 41.2% and 37.4%, respectively, and have increased our EBITDA forecasts by 111.6% and 87.6%, respectively. EBITDA forecast has increased more than the top line because we believe that Pekabex will still be able to adjust its cost structure somewhat during the recession. We have increased our fair value for the shares by 101.7% from PLN 6.00 to PLN 12.11 and upgraded our recommendation from SELL to BUY.

2020 outlook: As of end-1Q20 the company shows a total backlog of PLN 526m, out of which PLN 445m is to be completed in the current year. Post-1Q20 the company has managed to sign several jobs of significant size, for a total of PLN 301m; however, not the entire amount is to be realized in 2020. This means to us that the company is going to surpass its last year's revenues and our recent forecast. For the moment it is still unclear whether the company will experience cancellation of jobs which we expected to take place upon publishing our last recommendation, or whether the situation in 4Q20 is not going to deteriorate rapidly once the public subsidies to the economy taper out. Our conservative forecast points to PLN 908m, +17.6% y/y in revenues this year and PLN 936m, +3.1%y/y in revenues in 2021.

Leverage growing yet still low enough: Pekabex recorded net debt/EBITDA of 1.1x at the end of 1Q20, which we expect to rise further to 1.2x due to high working capital needs against a backdrop of dynamic sales growth. Only thereafter do we believe the level of net debt will fall, to 0.9x in 2021. For the moment we incorporate the recommendation of the management regarding no dividend payout from 2019 profit, but we think this still might be subject to discussion during the slated EGM for 25 June 2020. Pekabex is trading at 4.7x 2020E EV/EBITDA, which constitutes a 38.2% discount to its international peers. We believe that the discount should be narrower as the company beefed up its portfolio significantly over the recent months despite the pending downturn and pandemic environment.

Figure 1. Pekabex financial data, (PLN m)

	2016	2017	2018	2019	2020E	2021E	2022E
Revenue	505.4	623.3	886.3	772.0	908.2	936.4	971.2
EBIT	40.9	35.0	67.5	39.4	54.1	51.1	54.2
EBITDA	51.9	47.9	81.9	55.5	73.8	74.0	78.2
Net profit	34.3	25.8	51.2	30.5	45.0	39.8	41.6
EPS	1.4	1.1	2.1	1.2	1.8	1.6	1.7
DPS	0.1	0.1	0.2	0.3	0.0	0.5	0.5
P/E (x)	7.3	9.8	4.9	8.4	5.7	6.4	6.1
EV/EBITDA (x)	5.4	6.0	2.9	5.1	4.7	4.4	3.8

Source: Company, IPOPEMA Research

Construction

Pekabex

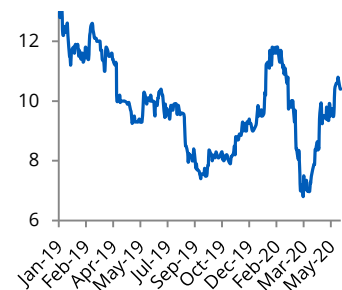
BUY

FV PLN 12.11 from PLN 6.00

16.4% upside

Price as of 3 June 2020 PLN 10.40

Upgraded



Share data

Number of shares (m)	24.6
Market cap (EUR m)	58.0
12M avg daily volume (k)	8.4
12M avg daily turnover (EUR m)	0.02
12M high/low (PLN)	12.00/6.50
WIG weight (%)	0.03
Reuters	PBX.WA
Bloomberg	PBX.PW

Total performance

1M	9.47%
3M	6.12%
12M	15.47%

Shareholders

Opoka II FIZ	39.81%
Cantorelle Limited	11.55%
Fernik Holdings Limited	8.33%
NN OFE	5.56%

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Pekabex

BUY

FV PLN 12.11

Mkt Cap EUR 58.0m

Upside/downside +16.4%

Valuation multiples	2018	2019	2020E	2021E	2022E
P/E (x)	4.9	8.4	5.7	6.4	6.1
EV/EBITDA (x)	2.9	5.1	4.7	4.4	3.8
EV/Sales (x)	0.26	0.37	0.38	0.35	0.31
P/BV (x)	0.89	0.83	0.72	0.67	0.62
FCF yield (%)	26%	14%	15%	15%	14%
DY (%)	2%	3%	0%	5%	5%

Per share	2018	2019	2020E	2021E	2022E
No. of shares (m units)	24.4	24.6	24.6	24.6	24.6
EPS (PLN)	2.10	1.24	1.83	1.62	1.69
BVPS (PLN)	11.71	12.58	14.41	15.48	16.69
FCFPS (PLN)	2.72	1.49	1.52	1.53	1.44
DPS (PLN)	0.16	0.31	0.00	0.55	0.49

Change y/y (%)	2018	2019	2020E	2021E	2022E
Revenues	42.2%	-12.9%	17.6%	3.1%	3.7%
EBITDA	71.0%	-32.3%	33.1%	0.2%	5.7%
EBIT	92.9%	-41.6%	37.4%	-5.6%	6.1%
Pre-tax	98.3%	-40.7%	47.2%	-14.2%	4.4%
Net profit	98.2%	-40.4%	47.5%	-11.5%	4.4%

Leverage and return	2018	2019	2020E	2021E	2022E
Gross margin (%)	18.5%	15.5%	15.1%	15.1%	15.3%
EBITDA margin (%)	9.2%	7.2%	8.1%	7.9%	8.1%
EBIT margin (%)	7.6%	5.1%	6.0%	5.5%	5.6%
Net margin (%)	5.8%	4.0%	5.0%	4.3%	4.3%
Net debt / EBITDA (x)	-0.23	0.52	1.24	0.93	0.57
Net debt / Equity (x)	-0.07	0.09	0.26	0.18	0.11
Leverage Ratio (x)	1.03	0.94	0.88	0.82	0.78
ROE (%)	19.6%	10.3%	13.6%	10.8%	10.5%
ROA (%)	19.0%	10.9%	15.4%	13.2%	13.5%
ROCE (%)	18.3%	8.9%	10.9%	9.8%	9.8%

Assumptions	2018	2019	2020E	2021E	2022E
Production (k m3)	182	143	179	197	203
Average price (PLN k)	3.0	2.8	2.5	2.6	2.6
Price w/o trans.(PLN k)	2.7	2.5	2.5	2.5	2.6
Prefab. Sales (PLN m)	546.9	405.8	470.2	545.1	572.7
General constr. (PLN m)	303.0	312.7	361.3	352.3	358.7
Prod.services (PLN m)	31.6	34.6	34.2	34.9	35.6
Other sales (PLN m)	4.9	3.6	4.1	4.1	4.2
Real estate rev.(PLN m)	0.0	15.4	38.4	0.0	0.0
Poland GDP (%)	5.2%	4.1%	-3.0%	1.0%	2.4%
Poland CPI (%)	2.1%	2.2%	3.0%	2.0%	2.0%
Constr. activity(%)	9.2%	2.6%	-3.2%	0.6%	1.8%
USD PLN (avg)	3.61	3.84	4.20	4.20	4.20
EURPLN (avg)	4.26	4.30	4.30	4.30	4.30

P&L (PLN m)	2017	2018	2019	2020E	2021E	2022E
Revenues	623.3	886.3	772.0	908.2	936.4	971.2
COGS	-507.6	-722.1	-652.7	-770.8	-795.0	-822.5
Gross profit	115.7	164.2	119.3	137.4	141.4	148.7
EBIT	35.0	67.5	39.4	54.1	51.1	54.2
prefabrication contracts	52.8	96.6	46.8	53.9	49.1	51.5
construction services contracts	4.2	4.3	20.8	6.5	14.1	14.3
production services	2.6	5.6	4.8	4.6	3.8	3.9
Other&real estate	1.7	1.3	1.7	4.7	1.2	1.3
Consolidation corrections	-26.4	-40.3	-34.7	-15.6	-17.1	-16.8
EBITDA	47.9	81.9	55.5	73.8	74.0	78.2
Financial income (cost) net	-2.7	-3.4	-1.4	1.8	-3.1	-4.1
Share in associates	0.0	0.0	0.0	0.0	0.0	1.0
Pre-tax	32.3	64.1	38.0	55.9	48.0	50.1
Tax	-6.5	-12.9	-7.5	-11.0	-8.2	-8.5
Net profit	25.8	51.2	30.5	45.0	39.8	41.6

BALANCE SHEET (PLN m)	2017	2018	2019	2020E	2021E	2022E
Non-current assets	244.2	259.6	338.2	346.2	347.0	348.2
Goodwill and intangible assets	13.5	15.1	14.5	14.1	13.7	13.7
PP&E	224.3	236.7	322.1	330.3	331.4	332.5
Receivables	1.7	2.7	0.6	0.7	0.7	0.7
Current assets	235.5	383.5	415.7	528.5	516.7	564.6
Inventories	44.5	63.6	62.0	84.5	87.1	90.1
Receivables from constr.activity	20.7	21.1	41.7	49.8	51.3	53.2
Cash and equivalents	15.7	95.2	106.6	136.2	112.4	145.7
Other current assets	154.6	203.6	205.4	258.0	265.9	275.6
Total assets	479.7	643.1	753.9	874.7	863.7	912.8
Equity	237.6	285.4	309.3	354.2	380.6	410.2
Minorities	0.0	0.0	0.0	0.0	0.0	1.0
Non-current liabilities	77.8	83.2	135.2	141.0	142.2	143.6
Loans and leasing	50.3	65.4	113.4	115.3	115.7	116.2
Other non-current liabilities	27.4	17.8	21.8	25.7	26.5	27.5
Current liabilities	164.4	274.6	309.4	379.5	340.9	359.0
Trade payables	116.0	168.5	208.1	179.5	185.1	191.5
Loans and leasing	11.9	25.0	21.8	112.3	65.4	74.0
Other current liabilities	36.5	81.1	79.5	87.7	90.4	93.5
Equity & liabilities	479.7	643.1	753.9	874.7	863.7	912.8
Inventories turnover (days)	32.0	32.2	34.7	40.0	40.0	40.0
Receivable turnover (days)	89.0	82.9	93.1	100.0	100.0	100.0
Net debt (PLN m)	35.9	-19.2	28.7	91.4	68.8	44.5

CASH FLOW (PLN m)	2017	2018	2019	2020E	2021E	2022E
Operating cash flow	8.3	98.8	93.9	-33.6	59.7	61.4
Net income	25.8	51.2	30.5	45.0	39.8	41.6
D&A	12.9	14.4	16.1	21.3	22.9	24.0
Change in WC	-33.2	24.9	51.4	-109.5	-5.0	-6.5
Other	2.7	8.4	-4.0	-0.1	1.1	1.2
Investment cash flow	-7.1	-32.6	-91.6	-29.2	-23.6	-25.1
CAPEX	-7.1	-32.3	-92.4	-29.2	-23.6	-25.1
Investment in subsidiaries	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	-0.4	0.8	0.0	0.0	0.0
Financial cash flow	-7.9	13.3	9.0	92.4	-60.0	-3.0
Change in equity	0.0	0.2	0.2	0.0	0.0	0.0
Change in debt	1.7	24.5	24.8	91.8	-47.0	8.4
Dividend	-2.7	-3.9	-7.6	0.0	-13.5	-11.9
Other	-6.9	-7.4	-8.4	0.6	0.5	0.6
Change in cash	-6.7	79.5	11.3	29.6	-23.9	33.3
Cash as of eop	15.7	95.2	106.6	136.2	112.4	145.7

Source: Company data, IPOPEMA Research

Changes in estimates

Figure 2.

PLN m	2020E			2021E			2022E		
	OLD	NEW	Diff. %	OLD	NEW	Diff. %	OLD	NEW	Diff. %
Sales	643.3	908.2	41.2%	681.7	936.4	37.4%	719.3	971.2	35.0%
Gross profit	92.0	137.4	49.3%	97.1	141.4	45.6%	106.8	148.7	39.2%
EBIT	18.8	54.1	187.6%	18.1	51.1	181.6%	22.8	54.2	138.1%
Net income	15.3	45.0	193.2%	16.3	39.8	145.0%	19.6	41.6	112.5%
EBITDA	34.86	73.79	111.6%	39.42	73.97	87.6%	45.60	78.19	71.5%

Source: Company, IPOPEMA Research

Financials

Figure 3. Pekabex P&L (PLN m)

INCOME STATEMENT (PLN m)	2016	2017	2018	2019E	2020E	2021E	2022E
Sales	505.4	623.3	886.3	772.0	908.2	936.4	971.2
Cost of goods & products sold	-423.6	-507.6	-722.1	-652.7	-770.8	-795.0	-822.5
Gross profit	81.8	115.7	164.2	119.3	137.4	141.4	148.7
SG&A	-57.1	-81.4	-91.3	-78.8	-88.0	-97.4	-101.8
Other operating activity net	16.1	0.7	-5.4	-1.1	4.7	7.0	7.3
EBIT	40.9	35.0	67.5	39.4	54.1	51.1	54.2
Net financial activity	-1.0	-2.7	-3.4	-1.4	1.8	-3.1	-4.1
Shares in affiliates	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	39.8	32.3	64.1	38.0	55.9	48.0	50.1
Tax	-5.5	-6.5	-12.9	-7.5	-11.0	-8.2	-8.5
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	34.3	25.8	51.2	30.5	45.0	39.8	41.6
EBITDA	51.9	47.9	81.9	55.5	73.8	74.0	78.2

Source: Company, IPOPEMA Research

Figure 4. Pekabex Balance sheet (PLN m)

BALANCE SHEET (PLN m)	2016	2017	2018	2019E	2020E	2021E	2022E
Long-term assets	246.1	244.2	259.6	338.2	346.2	347.0	348.2
Tangible assets	225.9	224.3	236.7	322.1	330.3	331.4	332.5
Goodwill	12.3	12.3	12.3	12.3	12.3	12.3	12.3
Investment properties	4.0	4.0	4.3	0.0	0.0	0.0	0.0
Receivables and loans	2.1	1.7	2.7	0.6	0.7	0.7	0.7
Others	1.8	1.8	3.6	3.2	3.0	2.7	2.7
Current assets	196.1	235.5	383.5	415.7	528.5	516.7	564.6
Inventories	30.1	44.5	63.6	62.0	84.5	87.1	90.1
Receivables from construction agreement	18.3	20.7	21.1	41.7	49.8	51.3	53.2
Trade receivables and other	123.4	151.9	201.3	196.9	248.8	256.5	266.1
Cash	22.4	15.7	95.2	106.6	136.2	112.4	145.7
Other	1.9	2.7	2.2	8.5	9.2	9.4	9.5
Total assets	442.2	479.7	643.1	753.9	874.7	863.7	912.8
Equity	212.2	237.6	285.4	309.3	354.2	380.6	410.2
Long-term liabilities	79.3	77.8	83.2	135.2	141.0	142.2	143.6
Interest bearing	42.7	43.9	55.8	102.8	102.8	102.8	102.8
Leasing	6.8	6.5	9.6	10.6	12.5	12.9	13.4
Deferred tax	14.2	12.0	3.4	5.0	5.9	6.1	6.3
Provisions	5.6	5.5	0.6	0.7	0.9	0.9	0.9
Other liabilities	10.0	9.9	13.8	16.1	18.9	19.5	20.2
Short-term liabilities	150.7	164.4	274.6	309.4	379.5	340.9	359.0
Interest bearing	7.2	7.7	20.2	16.0	107.8	60.7	69.1
Liabilities from construction contract	0.0	15.6	39.1	40.7	42.2	43.6	45.1
Liabilities to employees	10.6	11.3	15.2	17.2	20.4	21.0	21.7
tax/financial liabilities	3.6	3.4	14.7	1.7	2.0	2.1	2.2
Leasing	3.7	4.2	4.7	5.8	4.5	4.7	4.9
Provisions	4.3	6.2	11.4	18.4	21.7	22.4	23.2
Other	0.1	0.1	0.7	1.4	1.4	1.4	1.4
Trade liabilities	121.1	116.0	168.5	208.1	179.5	185.1	191.5
Total liabilities & equity	442.2	479.7	643.1	753.9	874.7	863.7	912.8

Source: Company, IPOPEMA Research

Figure 5. Pekabex Cash flow statement (PLN m)

CASH FLOW STATEMENT (PLN m)	2016	2017	2018	2019E	2020E	2021E	2022E
Net profit	34.3	25.8	51.2	30.5	45.0	39.8	41.6
Depreciation	11.0	12.9	14.4	16.1	21.3	22.9	24.0
Change in net working capital	-16.2	-33.2	24.9	51.4	-109.5	-5.0	-6.5
Other items	-10.8	2.7	8.4	-4.0	9.6	2.0	2.4
Operating cash flow	18.3	8.3	98.8	93.9	-33.6	59.7	61.4
Purchases of tangibles & intangibles	-11.4	-7.1	-32.3	-92.4	-29.2	-23.6	-25.1
Others	3.3	0.0	-0.4	0.8	0.0	0.0	0.0
Investing cash flow	-8.1	-7.1	-32.6	-91.6	-29.2	-23.6	-25.1
Free cash flow	10.2	1.2	66.2	2.4	-62.8	36.1	36.3
Change in interest-bearing debt	19.9	1.7	24.5	24.8	91.8	-47.0	8.4
Dividends	-2.2	-2.7	-3.9	-7.6	0.0	-13.5	-11.9
Other	0.0	-2.8	-2.5	-3.3	0.0	0.0	0.0
Financing cash flow	17.7	-3.8	18.1	13.8	91.8	-60.5	-3.6
Total cash flow	27.9	-2.6	84.3	16.2	29.0	-24.4	32.7
Cash at beginning of period	44.0	22.4	15.7	95.2	106.6	136.2	112.4
Cash at end of period	22.4	15.7	95.2	106.6	136.2	112.4	145.7

Source: Company, IPOPEMA Research

Valuation methodology

Our valuation approach for construction companies uses two methods: discounted cash flow (DCF) and the dividend discount model (DDM). We calculate our Fair Value for Pekabex 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 construction market, 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 (20%) and then drifts towards a target payout ratio of 50% in the long-term. However for 2020 we do not assume dividend payout. 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 5.0% equity risk premium each year. The 12-month forward interest rates were derived from the yield curve of the 2019-2025 period. Thereafter, we use a rising rate towards 4.5%, which represents our estimate of a through-the-cycle interest rate for Emerging Europe. We also consistently use a beta of one (1) so as not to distort the WACC and the comparability of our valuations.

Figure 6. DCF (PLN m)

PLN m	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	Terminal Year
Revenues	908.2	936.4	971.2	1,001.6	1,042.4	1,083.5	1,126.3	1,170.4	1,217.1	1,265.7	1,265.7
EBIT	54.1	51.1	54.2	53.6	54.9	53.5	52.0	50.4	48.9	49.4	49.4
Tax on EBIT	10.7	10.0	9.2	9.1	9.9	10.7	10.4	10.1	9.8	9.9	9.9
NOPLAT	43.5	42.4	45.0	43.9	43.9	42.8	41.6	40.3	39.1	39.5	39.5
Depreciation	21.3	22.9	24.0	24.7	25.6	27.1	28.6	30.2	31.9	33.7	33.7
Capital expenditures	-29.2	-23.6	-25.1	-25.9	-26.9	-27.4	-28.9	-30.5	-32.1	-33.9	-33.9
Change in working capital	-109.5	-5.0	-6.5	-5.1	-7.2	-6.8	-7.1	-7.2	-7.7	-8.4	-8.4
Free cash flow	-73.9	36.7	37.3	37.7	35.5	35.8	34.3	32.8	31.2	30.9	30.9
Risk-free rate	1.73%	1.75%	1.86%	1.89%	1.94%	2.06%	2.50%	3.00%	3.50%	4.00%	4.50%
Equity risk premium	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
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	6.73%	6.75%	6.86%	6.89%	6.94%	7.06%	7.50%	8.00%	8.50%	9.00%	9.50%
Cost of debt (pre-tax)	4.2%	4.3%	4.4%	4.4%	4.4%	4.6%	5.0%	5.5%	6.0%	6.5%	6.5%
Effective tax rate	19.7%	19.6%	17.0%	17.0%	18.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
After-tax cost of debt	3.4%	3.4%	3.6%	3.6%	3.6%	3.6%	4.0%	4.4%	4.8%	5.2%	5.2%
Weight of debt	35.4%	29.1%	29.4%	26.2%	24.6%	24.3%	24.2%	25.6%	26.2%	28.0%	28.0%
Weight of equity	64.6%	70.9%	70.6%	73.8%	75.4%	75.7%	75.8%	74.4%	73.8%	72.0%	72.0%
WACC	5.6%	5.8%	5.9%	6.0%	6.1%	6.2%	6.7%	7.1%	7.5%	7.9%	8.3%
Discount fact	0.95	0.90	0.85	0.80	0.75	0.71	0.66	0.62	0.58	0.53	0.49
PV of FCF	-70.0	32.9	31.6	30.0	26.7	25.3	22.8	20.3	18.0	16.5	15.2
Sum of FCF PV's	154.0										
FCF terminal growth rate	1.0%										
Terminal value	428.0										
PV of terminal value	211.0										
Unwind of discount	7.9										
Enterprise value	372.9										
Net debt 2019	28.7										
Employees liabilities	-17.2										
Dividend paid out in 2020 (ytd terms)	0.0										
Equity value	327.0										
Per share value (PLN)	13.3										

Source: Company, IPOPEMA Research

Figure 7. DCF sensitivity valuation

FCF terminal growth	Equity risk premium				
	3.0%	4.0%	5.0%	6.0%	7.0%
0.5%	16.62	14.47	12.78	11.42	10.28
0.8%	17.07	14.81	13.04	11.61	10.44
1.0%	17.56	15.16	13.30	11.82	10.60
2.0%	19.97	16.86	14.55	12.77	11.34
3.0%	23.45	19.18	16.19	13.97	12.25

Source: Company, IPOPEMA Research

Figure 8. DDM valuation (PLN m)

PLNm	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	Terminal Year
Dividends	0.0	13.5	11.9	12.5	20.5	20.9	20.5	20.0	21.4	28.2	28.2
Discount rate	6.7%	6.8%	6.9%	6.9%	6.9%	7.1%	7.5%	8.0%	8.5%	9.0%	9.5%
Discount factor	0.94	0.88	0.82	0.77	0.72	0.67	0.62	0.58	0.53	0.49	0.45
Discounted dividend	0.0	11.8	9.8	9.6	14.8	14.0	12.8	11.6	11.4	13.8	12.6
Sum of DD PV's	109.5										
DIV terminal growth rate	1.0%										
Terminal value	335.3										
PV of terminal value	149.7										
Discount unwind	8.9										
Equity value	268.1										
Per share value (PLN)	10.9										

Source: Company, IPOPEMA Research

Figure 9. Valuation summary

PLN m	
DCF	13.30
DDM	10.91
Average	12.11

Source: Company, IPOPEMA Research

Relative valuation

Compared to the international peers' median of 2020E EV/EBITDA of 7.6x, Pekabex trades at 4.7x, which constitutes a 38.2% discount. In our opinion the average multiple for Pekabex should be now higher, as the company showed it is currently resilient for the downturn and was able to fill in the order books for the following quarters.

Figure 10. Pekabex versus international peers

PRICE (LCU)	Ticker	NAME	P/E			EV/EBITDA			Dividend yield		
			2020	2021	2022	2020	2021	2022	2020	2021	2022
15.1	ABGV.VI	PORR	14.3	8.2	5.1	4.1	3.5	3.0	3.8	5.4	7.5
27.1	STRV.VI	STRABAG	9.3	9.2	7.8	1.9	1.8	1.7	4.0	4.2	4.8
18.8	WBSV.VI	WIENERBERGER	17.7	12.2	10.2	7.2	6.3	6.1	2.9	3.4	3.8
15.2	TKFEN.IS	TEKFEN HOLDING	4.6	4.5	NaN	2.2	2.0	1.8	7.7	6.7	0.0
5.5	ENKAI.IS	ENKA INSAAT	9.3	8.9	NaN	NaN	NaN	NaN	4.4	4.9	0.0
8.9	CIMSA.IS	CIMSA CIMENTO	NaN	36.0	9.4	10.1	7.0	5.7	0.0	0.9	2.5
247.8	BALF.L	BALFOUR BEATTY PLC	19.7	9.7	9.1	10.5	6.3	5.7	2.0	3.2	3.5
11.1	B5AG.DE	BAUER AG	48.1	15.3	7.2	5.7	5.2	4.4	1.0	1.0	1.8
9.3	FCC.MC	FOMENTO DE CONSTRUCCION ES Y CONTRATAS SA	13.5	11.4	10.0	8.0	7.4	7.1	4.3	4.3	4.8
84.5	HOTG.DE	HOCHTIEF AG	12.3	9.0	8.4	3.7	3.2	3.0	5.0	6.6	6.9
0.7	OHL.MC	OBRASCON HUARTE LAIN SA	NaN	NaN	NaN	5.7	4.9	4.3	0.0	0.0	NaN
1.9	SCYR.MC	SACYR SA	9.9	6.0	4.6	9.6	8.2	7.9	5.5	5.9	6.0
191.4	SKAb.ST	SKANSKA AB	12.9	13.7	12.9	8.1	8.4	7.7	2.4	3.4	4.0
28.5	BOUY.PA	BOUYGUES SA	16.5	10.2	9.0	5.6	4.6	4.4	5.6	6.0	6.2
1.2	MOTA.LS	MOTA ENGIL SGPS SA	8.8	3.2	NaN	4.8	4.1	NaN	4.0	6.3	NaN
24.4	ACS.MC	ACS ACTIVIDADES DE CONSTRUCCION Y SERVICIOS SA	12.6	9.4	9.3	4.8	4.0	3.9	5.7	7.1	7.2
93.2	ANA.MC	ACCIONA SA	20.5	16.9	14.0	9.2	8.3	7.5	2.8	3.0	3.5
25.5	FER.MC	FERROVIAL SA	217.0	52.1	42.6	62.0	40.5	35.9	2.5	2.9	3.0
84.9	FOUG.PA	EIFFAGE SA	21.3	11.9	10.5	8.7	7.0	6.6	2.5	3.4	3.7
17.7	GBFG.DE	BILFINGER SE	NaN	18.5	8.5	13.5	5.4	3.7	0.7	3.4	3.8
5.0	YIT.HE	YIT OYJ	13.0	11.4	9.2	10.7	10.3	9.1	5.5	5.6	6.2
1.3	WBD.MI	SALINI IMPREGILO SPA	14.0	10.8	9.1	6.0	5.4	5.3	2.0	1.9	1.3
86.0	SGEF.PA	VINCI SA	25.3	15.7	13.7	12.5	9.7	8.9	2.4	3.5	4.2
10.4	PBX.WA	PEKABEX	5.7	6.4	6.1	4.7	4.4	3.8	0.0	5.3	4.7
		Premium/discount to median									
		Pekabex	-58.7%	-42.1%	-33.5%	-38.2%	-25.1%	-32.3%	na	na	22.2%

Source: Company, IPOPEMA Research

ESG Section

Environment

Pekabex takes environmental concerns very seriously. The company has implemented several measures to control its dust emissions and to prevent it producing excessive waste; for example, during installation of the prefabricated elements even 100% of used materials can be recycled. The company is enhancing its environmental policy by reducing its use of natural resources; 90% of the steel bought by Pekabex is from recycled material. Furthermore, the company has endeavoured to optimise its use of resources by focusing on recycling, waste control and water circulation. And in its subcontracted logistics services, Pekabex only uses vehicles that comply with Euro 6 emission standards.

Social

Pekabex is highly keen on sharing its knowledge and supports a number of academic institutions in Poland, i.e. the Higher School of Logistics in Poznan as well as the state-owned public construction schools in Gdańsk. In 2017, the group was granted European financing for its innovative project to create a development centre in the PEKABEX BET SA structure.

Governance

Pekabex maintains transparent and continuous communications with its employees and shareholders. Regular meetings are held between employees and managers to provide updates and consolidate the company's strategy. It publishes quarterly and annual reports in a timely manner.

Risks to fair value

Demand volatility

With its asset-heavy business model, Pekabex is fully exposed to local demand for prefabricated construction. Weak demand for such products during 2000-2003 forced the company to begin bankruptcy proceedings. Precast elements are extensively used in the construction of industrial buildings and warehouses, for which demand is directly linked to macro perspectives and the incentives present for private investors to invest.

Unfavourable trend in prices of materials and services

Precast elements have gained popularity due to technological advances (i.e. the growing strength and flexibility of precast elements), the partly automatized production process and the cost advantage over steel construction (due to lower workforce use). Adverse trends such as rising raw material costs (concrete costs have risen more than 50% in the last three years) or inflation of transport services 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 Pekabex's business model, which could potentially increase competition in the company's most important segments.

Workforce shortages

A shortage of skilled labour in the construction industry could result in Pekabex having insufficient employees to operate its business. There is currently a shortage of qualified skilled labour in the Polish construction industry which is accentuated by departure of many workers from Ukraine who decided to return home due to coronavirus pandemic. Any worsening of the labour shortage situation would represent a significant risk for Pekabex: an insufficient workforce would have an adverse impact on productivity, costs and the company's ability to maintain or expand production. On the one side, the company has a natural advantage compared to classical construction firms due to the extensive automatization of its production processes.

Rise in receivables

The biggest threat to Pekabex would be a rapid increase in receivables stemming from the construction contract, which would cast a shadow over the profitability of the executed contracts. As of now, Pekabex's backlog is fairly short (around 6M or less on average) hence we do not expect a short squeeze to threaten the company's liquidity.

Economy slowdown

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

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NII – Net interest income – interest income minus interest expense.

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	2	29%
Hold	1	14%
Sell	4	57%
Total	7	100%

Rating History – Pekabex

Date	Recommendation	Fair Value	Price at recommendation	Author
05/08/2019	HOLD	PLN 9.27	PLN 9.90	Robert Maj Mateusz Tront
06.04.2020	SELL	PLN 6.00	PLN 6.98	Robert Maj
04.06.2020	BUY	PLN 12.11	PLN 10.40	Robert Maj