

Pekabex

Precast backlog keeps mushrooming

Precast construction appears to be gaining popularity in a significant portion of the industrial and residential construction segment amidst the general economy downturn. According to Statistics Poland (GUS) data, the construction segment output surprised on the upside by recording positive readings in December 2020 (+3.4%/y/y and +34.4%/m/m). Overall, the whole construction sector output contracted by 2.2%/y/y in 2020. Against such a backdrop, the achievements of Pekabex look particularly impressive. The company reported its record-high backlog of PLN 961m as of the end of 3Q20 and since then, according to our calculations, the backlog was augmented by at least another PLN 160m of contracts to be mostly executed in 2021 (including only the deals that the company reported due to their significance). On top of that, the company has secured its first foreign acquisition in Germany, which, according to our calculations, will add around 20,000 m3 of precast production in 2021 allowing it to grow the top and profit line as well as gain crucial expertise in the German market. We have therefore increased our revenue forecasts for 2020, 2021, 2022 by 7.9%, 29.8% and 27.7%, respectively, and have increased our EBITDA forecasts by 26.2%, 75.3% and 69.9%, respectively. We have increased our fair value for the shares by 122.3% from PLN 12.11 to PLN 26.91 and maintained our BUY recommendation.

4Q20 results preview: Pekabex is expected to publish its 4Q20 results on 22 April 2021. We expect net income to come in at PLN 16.6m, +66.3% y/y and +20.5%q/q. The company has already reported a rise in precast production volumes of 43.1% y/y to 59,770 cubic metres. We expect the average realized price to stay flat on a q/q basis at close to PLN 2,410/m3. Overall, we expect revenue of PLN 295.5m, +21.4% y/y and up +43.2% q/q. We expect the cost base to grow by just 18.0% y/y to PLN 250.6m. We expect SG&A costs to stay broadly flat on a q/q basis and to total PLN 24m. Taking the abovementioned factors into consideration, we estimate EBITDA to come in at PLN 25.9m for the quarter, +49.2% y/y and +16.9% q/q.

Costs of materials have started to pick up: According to Grupa PSB Handel, the price of cement went up by 7%/y/y in 2020. Prices of steel are continuing to grow, reflecting high demand coming from the construction sector and an increase in prices of raw materials (coking coal and coke). We believe, however, that profitability of Pekabex is likely to continue unscathed as the company's backlog is short (6M on average). We feel that the cost of labour is likely to grow again in 2021(4%/y/y); however, we expect Pekabex to be able to pass on these costs to end clients as demand remains high.

Higher multiple warranted: Pekabex trades at 4.9x 2021E EV/EBITDA, which constitutes a 35.0% discount to its international peers. We believe that the discount should be narrower as the company has beefed up its portfolio significantly over the recent months despite the pending downturn and pandemic environment. Precast technology which features a shorter backlog, seems to be prone to eventual raw materials and labour costs increases. Pekabex trades also at a 38.4% discount to Polish peers (Budimex and Mirbud) which we believe is again unjustified.

Figure 1. Pekabex financial data, (PLN m)

	2017	2018	2019	2020E	2021E	2022E	2023E
Revenue	623.3	886.3	772.0	980.2	1,215.6	1,240.6	1,279.8
EBIT	35.0	67.5	39.4	73.2	104.5	106.5	105.5
EBITDA	47.9	81.9	55.5	93.1	129.7	132.9	132.6
Net profit	25.8	51.2	30.5	60.7	80.7	81.2	81.5
DPS	0.1	0.2	0.3	0.0	0.7	1.0	1.0
P/E (x)	18.3	9.2	15.5	7.9	5.9	5.9	5.9
EV/EBITDA (x)	10.6	5.5	9.1	6.8	4.9	4.4	4.0

Source: Company, IPOPEMA Research

Construction

Pekabex

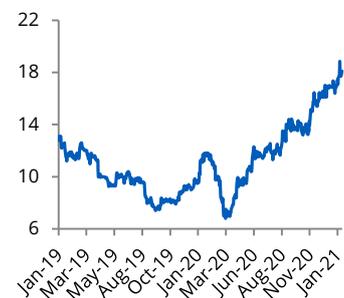
BUY

FV PLN 26.91 from PLN 12.11

38.7% upside

Price as of 4 February 2021 PLN 19.40

Maintained



Share data

Number of shares (m)	24.6
Market cap (EUR m)	105.7
12M avg daily volume (k)	11.6
12M avg daily turnover (EUR m)	0.03
12M high/low (PLN)	19.50/6.50
WIG weight (%)	0.03
Reuters	PBX.WA
Bloomberg	PBX.PW

Total performance

1M	14.79%
3M	43.70%
12M	69.36%

Shareholders

STE Sp. Z o.o. and PWM	40.73%
Cantorelle Limited	11.43%
Fernik Holdings Limited	8.18%
NN OFE	6.89%

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Pekabex

BUY

FV PLN 26.91

Mkt Cap EUR 105.7m

Upside/downside +38.7%

Valuation multiples	2018	2019	2020E	2021E	2022E
P/E (x)	9.2	15.5	7.9	5.9	5.9
EV/EBITDA (x)	5.5	9.1	6.8	4.9	4.4
EV/Sales (x)	0.51	0.65	0.65	0.52	0.47
P/BV (x)	1.66	1.53	1.29	1.10	0.98
FCF yield (%)	14%	16%	15%	14%	14%
DY (%)	1%	2%	0%	4%	5%

Per share	2018	2019	2020E	2021E	2022E
No. of shares (m units)	24.4	24.4	24.6	24.6	24.6
EPS (PLN)	2.10	1.25	2.47	3.28	3.30
BVPS (PLN)	11.71	12.66	15.04	17.58	19.90
FCFPS (PLN)	2.72	3.14	2.98	2.76	2.77
DPS (PLN)	0.16	0.31	0.00	0.74	0.98

Change y/y (%)	2018	2019	2020E	2021E	2022E
Revenues	42.2%	-12.9%	27.0%	24.0%	2.1%
EBITDA	71.0%	-32.3%	68.0%	39.2%	2.5%
EBIT	92.9%	-41.6%	85.8%	42.8%	1.9%
Pre-tax	98.3%	-40.7%	100.9%	28.8%	0.6%
Net profit	98.2%	-40.4%	98.9%	33.0%	0.6%

Leverage and return	2018	2019	2020E	2021E	2022E
Gross margin (%)	18.5%	15.5%	17.0%	19.4%	19.6%
EBITDA margin (%)	9.2%	7.2%	9.5%	10.7%	10.7%
EBIT margin (%)	7.6%	5.1%	7.5%	8.6%	8.6%
Net margin (%)	5.8%	4.0%	6.2%	6.6%	6.5%
Net debt / EBITDA (x)	-0.23	0.52	1.72	1.18	0.79
Net debt / Equity (x)	-0.07	0.09	0.43	0.35	0.22
Leverage Ratio (x)	1.08	0.99	0.86	0.77	0.71
ROE (%)	19.6%	10.3%	17.9%	20.1%	17.6%
ROA (%)	18.1%	10.4%	20.7%	26.1%	24.9%
ROCE (%)	18.3%	8.9%	14.1%	17.7%	16.4%

Assumptions	2018	2019	2020E	2021E	2022E
Production (k m3)	182	143	204	255	262
Average price (PLN k)	3.0	2.8	2.5	2.6	2.6
Price w/o trans.(PLN k)	2.7	2.5	2.2	2.5	2.6
Prefab. Sales (PLN m)	546.9	405.8	508.7	714.4	750.5
General constr. (PLN m)	303.0	312.7	399.9	439.9	447.9
Prod.services (PLN m)	31.6	34.6	34.3	35.0	35.7
Other sales (PLN m)	4.9	3.6	6.3	6.4	6.5
Real estate rev.(PLN m)	0.0	15.4	30.9	20.0	0.0
Poland GDP (%)	5.2%	4.1%	-2.8%	1.0%	2.4%
Poland CPI (%)	2.1%	2.2%	3.4%	2.0%	2.0%
Constr. activity(%)	9.2%	2.6%	-2.2%	0.6%	1.8%
USD PLN (avg)	3.61	3.84	3.89	3.89	3.89
EURPLN (avg)	4.26	4.30	4.44	4.44	4.44

P&L (PLN m)	2018	2019	2020E	2021E	2022E	2023E
Revenues	886.3	772.0	980.2	1,215.6	1,240.6	1,279.8
COGS	-722.1	-652.7	-813.7	-980.1	-997.9	-1,033.3
Gross profit	164.2	119.3	166.5	235.5	242.6	246.5
EBIT	67.5	39.4	73.2	104.5	106.5	105.5
prefabrication contracts	96.6	46.8	63.4	71.4	75.0	78.0
construction services contracts	4.3	20.8	24.3	26.4	26.9	27.4
production services	5.6	4.8	5.0	3.8	3.9	4.0
Other&real estate	1.3	1.7	4.4	6.6	1.6	1.7
Consolidation corrections	-40.3	-34.7	-23.8	-3.7	-0.9	-5.6
EBITDA	81.9	55.5	93.1	129.7	132.9	132.6
Financial income (cost) net	-3.4	-1.4	3.1	-6.2	-7.6	-6.1
Share in associates	0.0	0.0	0.0	0.0	1.0	2.0
Pre-tax	64.1	38.0	76.4	98.4	99.0	99.3
Tax	-12.9	-7.5	-15.7	-17.7	-17.8	-17.9
Net profit	51.2	30.5	60.7	80.7	81.2	81.5

BALANCE SHEET (PLN m)	2018	2019	2020E	2021E	2022E	2023E
Non-current assets	259.6	338.2	396.3	397.5	398.8	400.2
Goodwill and intangible assets	15.1	14.5	14.1	13.7	13.7	13.7
PP&E	236.7	322.1	372.2	373.4	374.7	376.0
Receivables	2.7	0.6	0.7	0.9	0.9	0.9
Current assets	383.5	415.7	579.5	694.9	749.4	777.1
Inventories	63.6	62.0	100.3	134.3	136.7	141.5
Receivables from constr.activity	21.1	41.7	53.7	66.6	68.0	70.1
Cash and equivalents	95.2	106.6	147.0	145.9	186.1	192.0
Other current assets	203.6	205.4	278.5	348.1	358.6	373.4
Total assets	643.1	753.9	975.8	1,092.4	1,148.2	1,177.3
Equity	285.4	309.3	370.2	432.6	489.6	546.7
Minorities	0.0	0.0	0.0	0.0	1.0	2.0
Non-current liabilities	83.2	135.2	148.6	157.7	158.7	160.4
Loans and leasing	65.4	113.4	121.0	123.7	124.0	124.6
Other non-current liabilities	17.8	21.8	27.6	34.0	34.7	35.8
Current liabilities	274.6	309.4	457.0	502.0	500.0	470.2
Trade payables	168.5	208.1	178.3	214.8	218.7	226.5
Loans and leasing	25.0	21.8	186.5	175.5	167.4	126.0
Other current liabilities	81.1	79.5	92.2	111.7	113.8	117.7
Equity & liabilities	643.1	753.9	975.8	1,092.4	1,148.2	1,177.3
Inventories turnover (days)	32.2	34.7	45.0	50.0	50.0	50.0
Receivable turnover (days)	82.9	93.1	101.0	102.0	103.0	104.0
Net debt (PLN m)	-19.2	28.7	160.5	153.3	105.3	58.6

CASH FLOW (PLN m)	2018	2019	2020E	2021E	2022E	2023E
Operating cash flow	98.8	93.9	-60.9	51.3	99.8	99.5
Net income	51.2	30.5	60.7	80.7	81.2	81.5
D&A	14.4	16.1	21.3	25.1	26.3	27.1
Change in WC	24.9	51.4	-150.5	-69.7	-9.3	-11.9
Other	8.4	-4.0	-4.8	6.8	0.7	1.6
Investment cash flow	-32.6	-91.6	-71.1	-26.0	-27.6	-28.4
CAPEX	-32.3	-92.4	-29.2	-26.0	-27.6	-28.4
Investment in subsidiaries	0.0	0.0	-41.9	0.0	0.0	0.0
Other	-0.4	0.8	0.0	0.0	0.0	0.0
Financial cash flow	13.3	9.0	172.3	-26.5	-32.0	-65.2
Change in equity	0.2	0.2	0.2	0.0	0.0	0.0
Change in debt	24.5	24.8	170.6	-12.2	-8.2	-41.6
Dividend	-3.9	-7.6	0.0	-18.2	-24.2	-24.3
Other	-7.4	-8.4	1.4	3.9	0.4	0.8
Change in cash	79.5	11.3	40.4	-1.2	40.2	5.9
Cash as of eop	95.2	106.6	147.0	145.9	186.1	192.0

Source: Company data, IPOPEMA Research

4Q20 results preview

Figure 2. Pekabex 4Q20 results preview

	4Q19	3Q20	4Q20	y/y	q/q
Sales	243.3	206.3	295.4	21.4%	43.2%
Cost of goods & products sold	-212.4	-165.3	-250.6	18.0%	51.6%
Gross profit	30.9	40.9	44.8	45.0%	9.4%
SG&A	-21.5	-23.9	-24.0	11.6%	0.4%
Other operating activity net	3.8	0.0	0.0	na	na
EBIT	13.2	17.1	20.8	57.6%	21.9%
prefabrication contracts	15.4	12.7	15.5	1.2%	22.2%
construction services contract	3.2	9.7	0.0	na	na
production services	0.5	2.0	1.3	166.8%	-36.9%
real estate projects	0.2	0.0	3.3	na	na
other	0.0	0.8	0.1	na	-87.6%
consolidation corrections	-6.1	-8.2	0.6	na	-107.1%
Net financial activity	-1.3	0.8	0.8	na	1.7%
Pre-tax profit	11.9	17.8	21.6	82.0%	21.1%
Tax	-1.9	-4.0	-5.0	166.2%	22.9%
Net income	10.0	13.8	16.6	66.3%	20.5%
EBITDA	17.3	22.1	25.9	49.2%	16.9%

Source: Company, IPOPEMA Research

Changes in estimates

Figure 3. Changes in estimates

PLN m	2020E			2021E			2022E		
	OLD	NEW	Diff. %	OLD	NEW	Diff. %	OLD	NEW	Diff. %
Sales	908.2	980.2	7.9%	936.4	1,215.6	29.8%	971.2	1,240.6	27.7%
Gross profit	137.4	166.5	21.2%	141.4	235.5	66.5%	148.7	242.6	63.2%
EBIT	54.1	73.2	35.3%	51.1	104.5	104.7%	54.2	106.5	96.5%
Net income	45.0	60.7	34.9%	39.8	80.7	102.5%	41.6	81.2	95.1%
EBITDA	73.79	93.13	26.2%	73.97	129.66	75.3%	78.19	132.86	69.9%

Source: Company, IPOPEMA Research

Financials

Figure 4. INCOME STATEMENT (PLN m)

	2017	2018	2019	2020E	2021E	2022E	2023E
Sales	623.3	886.3	772.0	980.2	1,215.6	1,240.6	1,279.8
Cost of goods & products sold	-507.6	-722.1	-652.7	-813.7	-980.1	-997.9	-1,033.3
Gross profit	115.7	164.2	119.3	166.5	235.5	242.6	246.5
SG&A	-81.4	-91.3	-78.8	-95.6	-131.4	-136.5	-141.5
Other operating activity net	0.7	-5.4	-1.1	2.3	0.4	0.4	0.4
EBIT	35.0	67.5	39.4	73.2	104.5	106.5	105.5
Net financial activity	-2.7	-3.4	-1.4	3.1	-6.2	-7.6	-6.1
Shares in affiliates	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	32.3	64.1	38.0	76.4	98.4	99.0	99.3
Tax	-6.5	-12.9	-7.5	-15.7	-17.7	-17.8	-17.9
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	25.8	51.2	30.5	60.7	80.7	81.2	81.5
EBITDA	47.9	81.9	55.5	93.1	129.7	132.9	132.6

Source: Company, IPOPEMA Research

Figure 5. BALANCE SHEET (PLN m)

	2017	2018	2019	2020E	2021E	2022E	2023E
Long-term assets	244.2	259.6	338.2	396.3	397.5	398.8	400.2
Tangible assets	224.3	236.7	322.1	372.2	373.4	374.7	376.0
Goodwill	12.3	12.3	12.3	12.3	12.3	12.3	12.3
Investment properties	4.0	4.3	0.0	8.1	8.1	8.1	8.1
Receivables and loans	1.7	2.7	0.6	0.7	0.9	0.9	0.9
Others	1.8	3.6	3.2	3.0	2.9	2.9	2.9
Current assets	235.5	383.5	415.7	579.5	694.9	749.4	777.1
Inventories	44.5	63.6	62.0	100.3	134.3	136.7	141.5
Receivables from construction agreement	20.7	21.1	41.7	53.7	66.6	68.0	70.1
Trade receivables and other	151.9	201.3	196.9	271.2	339.7	350.1	364.7
Cash	15.7	95.2	106.6	147.0	145.9	186.1	192.0
Other	2.7	2.2	8.5	7.3	8.4	8.6	8.8
Total assets	479.7	643.1	753.9	975.8	1,092.4	1,148.2	1,177.3
Equity	237.6	285.4	309.3	370.2	432.6	489.6	546.7
Long-term liabilities	77.8	83.2	135.2	148.6	157.7	158.7	160.4
Interest bearing	43.9	55.8	102.8	107.8	107.8	107.8	107.8
Leasing	6.5	9.6	10.6	13.2	16.0	16.2	16.8
Deferred tax	12.0	3.4	5.0	6.2	7.5	7.6	7.9
Provisions	5.5	0.6	0.7	0.9	1.2	1.2	1.2
Other liabilities	9.9	13.8	16.1	20.4	25.3	25.8	26.7
Short-term liabilities	164.4	274.6	309.4	457.0	502.0	500.0	470.2
Interest bearing	7.7	20.2	16.0	181.6	169.4	161.2	119.6
Liabilities from construction contract	15.6	39.1	40.7	44.6	53.7	54.7	56.6
Liabilities to employees	11.3	15.2	17.2	21.5	25.9	26.4	27.3
tax/financial liabilities	3.4	14.7	1.7	2.1	2.6	2.6	2.7
Leasing	4.2	4.7	5.8	4.9	6.1	6.2	6.4
Provisions	6.2	11.4	18.4	23.4	29.0	29.6	30.6
Other	0.1	0.7	1.4	0.5	0.5	0.5	0.5
Trade liabilities	116.0	168.5	208.1	178.3	214.8	218.7	226.5
Total liabilities& equity	479.7	643.1	753.9	975.8	1,092.4	1,148.2	1,177.3

Source: Company, IPOPEMA Research

Figure 6. CASH FLOW STATEMENT (PLN m)

	2017	2018	2019	2020E	2021E	2022E	2023E
Net profit	25.8	51.2	30.5	60.7	80.7	81.2	81.5
Depreciation	12.9	14.4	16.1	21.3	25.1	26.3	27.1
Change in net working capital	-33.2	24.9	51.4	-150.5	-69.7	-9.3	-11.9
Other items	2.7	8.4	-4.0	7.7	15.3	1.6	2.8
Operating cash flow	8.3	98.8	93.9	-60.9	51.3	99.8	99.5
Purchases of tangibles & intangibles	-7.1	-32.3	-92.4	-29.2	-26.0	-27.6	-28.4
Others	0.0	-0.4	0.8	0.0	0.0	0.0	0.0
Investing cash flow	-7.1	-32.6	-91.6	-29.2	-26.0	-27.6	-28.4
Free cash flow	1.2	66.2	2.4	-90.0	25.4	72.2	71.1
Change in interest-bearing debt	1.7	24.5	24.8	170.6	-12.2	-8.2	-41.6
Dividends	-2.7	-3.9	-7.6	0.0	-18.2	-24.2	-24.3
Other	-2.8	-2.5	-3.3	0.0	0.0	0.0	0.0
Financing cash flow	-3.8	18.1	13.8	170.6	-30.4	-32.4	-66.0
Total cash flow	-2.6	84.3	16.2	80.6	-5.0	39.8	5.1
Cash at beginning of period	22.4	15.7	95.2	106.6	147.0	145.9	186.1
Cash at end of period	15.7	95.2	106.6	147.0	145.9	186.1	192.0

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 75% 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 5.0% equity risk premium each year. The 12-month forward interest rates were derived from the yield curve of the 2021-2029 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 7. DCF Valuation (PLN m)

PLN m	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	Terminal Year
Revenues	1,215.6	1,240.6	1,279.8	1,332.5	1,385.5	1,440.7	1,497.7	1,557.9	1,620.7	1,686.3	1,686.3
EBIT	104.5	106.5	105.5	105.6	105.0	104.4	103.6	101.4	98.7	95.4	95.4
Tax on EBIT	18.8	19.2	19.0	21.1	21.0	20.9	20.7	20.3	19.7	19.1	19.1
NOPLAT	85.7	87.4	86.5	84.5	84.0	83.5	82.9	81.1	78.9	76.3	76.3
Depreciation	25.1	26.3	27.1	28.1	29.7	31.4	33.1	35.0	36.9	39.0	39.0
Capital expenditures	-26.0	-27.6	-28.4	-29.5	-30.0	-31.7	-33.4	-35.1	-37.1	-39.2	-39.2
Change in working capital	-69.7	-9.3	-11.9	-15.2	-15.5	-12.4	-12.7	-13.3	-13.8	-14.3	-14.3
Free cash flow	15.2	76.8	73.3	67.9	68.2	70.8	69.8	67.7	65.0	61.8	61.8
Risk-free rate	1.15%	1.23%	1.29%	1.41%	1.64%	1.84%	1.99%	2.11%	2.32%	2.32%	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	6.15%	6.23%	6.29%	6.41%	6.64%	6.84%	6.99%	7.11%	7.32%	7.32%	9.50%
Cost of debt (pre-tax)	3.6%	3.7%	3.8%	3.9%	4.1%	4.3%	4.5%	4.6%	4.8%	4.8%	4.8%
Effective tax rate	18.0%	18.0%	18.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
After-tax cost of debt	3.0%	3.1%	3.1%	3.1%	3.3%	3.5%	3.6%	3.7%	3.9%	3.9%	3.9%
Weight of debt	25.7%	24.6%	21.1%	19.4%	18.6%	17.6%	17.9%	17.7%	20.2%	19.7%	19.7%
Weight of equity	74.3%	75.4%	78.9%	80.6%	81.4%	82.4%	82.1%	82.3%	79.8%	80.3%	80.3%
WACC	5.3%	5.5%	5.6%	5.8%	6.0%	6.3%	6.4%	6.5%	6.6%	6.6%	8.4%
Discount fact	0.95	0.90	0.85	0.81	0.76	0.72	0.67	0.63	0.59	0.56	0.51
PV of FCF	14.4	69.1	62.5	54.7	51.9	50.7	47.0	42.7	38.5	34.3	31.7
Sum of FCF PV's	465.7										
FCF terminal growth rate	1.0%										
Terminal value	845.2										
PV of terminal value	433.1										
Unwind of discount	4.1										
Enterprise value	902.9										
Net debt 2020E	160.5										
Employees liabilities	-21.5										
Dividend paid out in 2021 (ytd terms)	0.0										
Equity value	720.9										
Per share value (PLN)	29.3										

Source: Company, IPOPEMA Research

Figure 8. DCF sensitivity analysis (PLN per share)

FCF terminal growth	Equity risk premium				
	3.0%	4.0%	5.0%	6.0%	7.0%
0.5%	37.18	32.16	28.25	25.12	22.56
0.8%	38.13	32.84	28.76	25.51	22.86
1.0%	39.16	33.57	29.30	25.91	23.17
2.0%	44.21	37.06	31.80	27.78	24.59
3.0%	51.50	41.81	35.08	30.14	26.35

Source: Company, IPOPEMA Research

Figure 9. DDM Valuation

PLNm	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	Terminal Year
Dividends	18.2	24.2	24.3	40.7	40.3	40.5	40.5	44.5	59.7	58.1	58.1
Discount rate	6.1%	6.2%	6.3%	6.4%	6.6%	6.8%	7.0%	7.1%	7.3%	7.3%	9.5%
Discount factor	0.94	0.89	0.83	0.78	0.74	0.69	0.64	0.60	0.56	0.52	0.48
Discounted dividend	17.1	21.5	20.3	31.9	29.7	27.8	26.1	26.7	33.4	30.3	27.7
Sum of DD PV's	264.8										
DIV terminal growth rate		1.0%									
Terminal value	690.3										
PV of terminal value	328.7										
Discount unwind	9.9										
Equity value	603.4										
Per share value (PLN)	24.5										

Source: Company, IPOPEMA Research

Figure 10. Valuation summary (PLN)

PLN m	
DCF	29.30
DDM	24.52
Average	26.91

Source: Company, IPOPEMA Research

Relative valuation

Pekabex trades at 4.9x 2021E EV/EBITDA, which constitutes a 36.2% 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. Precast technology which features shorter backlog seems to be prone to eventual raw materials and labour costs increases. Pekabex trades also at a 35.9% discount to Polish peers (Budimex and Mirbud) which we think is unjustified.

Figure 11. Pekabex vs international peers

PRICE (LCU)	Ticker	NAME	P/E			EV/EBITDA		
			2020	2021	2022	2020	2021	2022
14.4	ABGV.VI	PORR	NaN	15.6	8.3	5.4	3.0	2.6
28.9	STRV.VI	STRABAG	9.6	8.8	8.8	2.1	2.0	2.0
29.0	WBSV.VI	WIENERBERGER	18.3	13.7	12.0	7.4	6.7	6.3
18.2	TKFEN.IS	TEKFEN HOLDING	18.8	10.8	18.0	8.1	5.4	4.6
7.9	ENKAI.IS	ENKA INSAAT	18.8	22.6	18.8	9.2	8.8	8.2
24.4	CIMSA.IS	CIMSA CIMENTO	17.4	11.1	8.9	11.2	9.0	7.8
270.4	BALF.L	BALFOUR BEATTY PLC	42.5	12.4	9.7	14.4	7.7	6.4
12.1	B5AG.DE	BAUER AG	NaN	28.7	12.0	6.5	5.4	4.7
9.8	FCC.MC	FOMENTO DE CONSTRUCCIONES Y CONTRATAS SA	14.2	15.3	14.8	7.6	7.9	7.5
79.9	HOTG.DE	HOCHTIEF AG	8.5	11.4	10.5	3.4	4.1	4.0
0.6	OHL.MC	OBRASCON HUARTE LAIN SA	NaN	NaN	NaN	11.6	7.7	6.1
1.9	SCYR.MC	SACYR SA	14.6	7.3	5.3	9.0	8.2	7.7
223.3	SKAb.ST	SKANSKA AB	9.7	16.7	15.5	6.2	9.7	8.5
33.4	BOUY.PA	BOUYGUES SA	19.7	13.2	11.3	6.8	5.6	5.2
1.4	MOTA.LS	MOTA ENGIL SGPS SA	NaN	NaN	NaN	NaN	NaN	NaN
26.4	ACS.MC	ACS ACTIVIDADES DE CONSTRUCCION Y SERVICIOS SA	13.2	12.7	11.3	5.2	6.0	5.8
127.6	ANA.MC	ACCIONA SA	26.2	22.6	19.1	11.7	10.0	8.8
20.7	FER.MC	FERROVIAL SA	NaN	149.2	54.1	58.3	35.3	29.5
79.1	FOUG.PA	EIFFAGE SA	24.1	11.9	10.1	9.3	7.3	6.7
29.4	GBFG.DE	BILFINGER SE	NaN	24.1	12.9	11.8	6.7	5.5
4.7	YIT.HE	YIT OYJ	27.1	11.4	9.5	15.7	9.5	8.4
1.3	WBD.MI	SALINI IMPREGILO SPA	13.5	13.1	10.5	7.5	5.7	5.2
80.0	SGEF.PA	VINCI SA	38.6	18.2	14.0	13.7	10.0	8.6
		MEDIAN	18.3	13.2	11.3	8.5	7.5	6.3
19.4	PBX.WA	PEKABEX	7.9	5.9	5.9	6.8	4.9	4.4
		Premium/discount to median						
		Pekabex	-57.0%	-55.1%	-48.1%	-19.8%	-35.0%	-30.5%

Source: Reuters, IPOPEMA Research

Figure 12. Pekabex vs domestic peers (Mirbud on our forecasts, Budimex on Reuters consensus)

PRICE (LCU)	Ticker	NAME	P/E			EV/EBITDA		
			2020	2021	2022	2020	2021	2022
320.00	BDXP.WA	BUDIMEX	21.7	15.6	15.4	10.0	7.9	7.7
4.14	MRB.WA	MIRBUD	12.4	9.9	8.8	8.9	8.0	6.9
		MEDIAN	12.4	9.9	8.8	8.9	7.9	6.9
19.40	PBX.WA	PEKABEX	7.9	5.9	5.9	6.8	4.9	4.4
		Premium/discount to median						
		Pekabex	-36.7%	-40.0%	-33.0%	-23.3%	-38.4%	-36.5%

Source: Reuters, 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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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.

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Total	32	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
05.02.2021	BUY	PLN 26.91	PLN 19.40	Robert Maj