



Through the recession in one piece

We are maintaining our BUY recommendation and decreasing the TP to PLN 15. In our view, the current valuation (FY22F P/E 5.0x and EV/EBITDA 3.0x) implies a stronger earnings decline than we anticipate. In addition, it does not take into account the long-term prospects of the prefabrication market, which should perform much better than the traditional housing market, especially in developing countries such as Poland. We expect the company to be one of the biggest beneficiaries of this trend. At the same time, we see that the company is relatively well prepared for the slowdown – the balance sheet strengthened in the previous quarter, and the operating segments provide some diversification.

Ready for a slowdown: Since our previous report, Pekabex has published very strong financial results for 2Q22, significantly exceeding our forecasts at the EBIT and net profit levels. Concerns about rising costs proved to be exaggerated, resulting in a significant improvement in margins on a year-on-year basis (gross margin of 16.2% vs. 12.6% in 2Q21). In addition, the company ultimately reported solid cash flow (OCF of PLN 100m in 2Q22) and has therefore reduced net debt (ND/EBITDA of 0.9x vs. 2.6x a quarter ago), which is quite important not only in view of interest rate hikes increasing financing costs, but also in terms of strengthening the balance sheet ahead of the coming recession.

Attractive valuation: We see the current valuation as low, even assuming a significant drop in earnings in 2023 (FY2023F P/E 10.8x and EV/EBITDA 4.6x). In addition, we expect Pekabex to be more resilient to the slowdown than traditional housing, as prefabrication is likely to become a more popular way to build homes, saving on both time and money. After the slowdown, we expect the company to recover quickly (FY2024F P/E 6.9x, EV/EBITDA 4.0x).

Well-diversified business model: We note that the company operates in fairly cyclical segments, but its business model provides some diversification, e.g. in previous quarters, the construction and real estate segments generated material operating income, while in 1H22, when a slowdown in these segments was evident, EBIT growth of 34% was almost entirely generated by the prefabrication segment.

PLN mn	2020	2021	2022F	2023F	2024F
Revenues	952	1,505	1,668	1,516	1,548
EBITDA	89	84	113	68	84
EBIT	69	58	86	41	57
Net profit	58	41	58	27	42
P/E	5.1	14.0	5.0	10.8	6.9
EV/EBITDA	5.6	8.5	3.0	4.6	4.0
EPS	2.33	1.64	2.32	1.07	1.67
DPS	0.16	0.41	0.00	0.00	0.90
FCF	-	-	82	31	7
CAPEX	20	40	21	21	30

F - forecast by PKO BP Securities

Key data	
Market price (PLN)	11.55
Upside	30%
No. of shares (mn)	24.83
Market Cap (PLNmn)	286.74
Free float	52%
Free float (PLNmn)	150
Free float (USDmn)	31
EV (PLNmn)	338.53
Net debt (PLNmn)	51.79

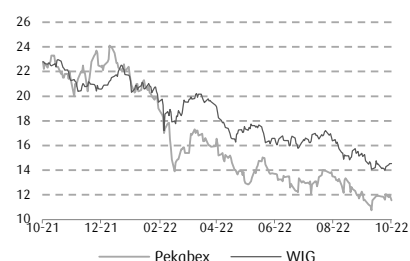
ESG	
ESG	7.2

Dividend	
Div yield	0.0%
Ex-div	-

Major Shareholders	% of shares
STE Sp. z o.o.	39.90
Cantorelle Limited	11.90
Fernik Holdings	8.17
NN OFE	6.89

Previous recomm.	Date & target price	
Buy	19-05-22	16.00
Hold	07-09-21	24.50

Price performance	
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	WIG	Company
1 month	-4.1%	-4.1%
3 months	-10.6%	-11.8%
6 months	-25.1%	-30.2%
12 months	-36.4%	-49.3%
Min 52 weeks PLN		10.75
Max 52 weeks PLN		24.10
Av. turnover/day PLN mn		0.10

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DCF valuation

Our valuation is based on the DCF model. We have additionally presented a comparative valuation taking into consideration construction sector companies. The DCF model consists of two phases. In the first phase (2022F-2027F), we have forecast in detail all the key parameters required for the company valuation, including in particular the value of revenue, capital expenditure, cost level and balance sheet items.

The second phase starts after 2027F. In it, we have assumed a constant free cash flow growth rate at the level of 1.5% per year. The risk-free rate for PLN has been adopted at 5.5%. Beta has been assumed at 1.5x. We have adopted an equity risk premium at 5.5%. We have discounted all free cash flows for the company as at 31 December 2022 and deducted the forecast net debt.

DCF model							
PLN mn	2022	2023	2024F	2025F	2026F	2027F	2027F<
adjusted EBIT	86.0	40.8	57.0	84.6	97.2	111.1	
Tax rate	19%	19%	19%	19%	19%	19%	
NOPLAT	69.7	33.0	46.2	68.6	78.7	90.0	91.3
CAPEX	21.0	21.0	30.0	30.0	30.0	30.0	30.5
Depreciation	27.0	27.0	27.0	27.0	27.0	30.0	30.5
Changes in working capital	-6.6	8.3	36.2	124.1	59.3	27.0	27.4
FCF	82.2	30.7	7.0	-58.5	16.5	63.0	63.9
WACC	12.8%	13.2%	12.8%	11.6%	11.4%	11.7%	
Discount ratio	0.00	0.88	0.78	0.70	0.63	0.56	
DFCF	0.0	27.2	5.5	-41.1	10.4	35.5	
Growth in Phase II	1.5%						
DFCF Sum - Phase I	37.4						
DFCF Sum - Phase II	351.7						
Enterprise Value (EV)	389.1						
Net debt	51.8						
Fair value	337.3						
Diluted number of shares (million)	24.83						
Fair value per share as at 31.12.2021	13.6						
Target price in 12 mths (PLN)	15.0						
Current price	11.6						
Expected rate of return	30.1%						

Source: forecasts of PKO BP Securities



Peer valuation

Construction companies: multiples

Company	Mcap mPLN	P/E			EV/EBITDA			P/BV	
		2021	2022F	2023F	2021	2022F	2023F	2021	2022F
Budimex	6,076	6.3	11.9	11.9	5.3	5.1	5.5	4.6	4.9
Erbud	307	35.0	-	5.4	1.4	9.9	3.3	0.6	0.6
Torpol	378	4.9	2.7	18.8	0.5	0.7	5.3	1.3	1.3
Unibep	250	7.5	6.6	5.9	3.3	5.7	5.1	0.8	0.8
Median for all peers		6.9	6.6	8.9	2.4	5.4	5.2	1.0	1.0

Pekabex	14.5	5.2	11.3	8.4	3.0	4.7	1.4	0.6
premium/discount	110%	-21%	27%	255%	-43%	-9%	38%	-38%
Impied price	11.3	14.9	9.3	3.2	22.5	13.1	17.1	19.0

Depending on the year chosen, Pekabex is trading at a premium or a discount to other construction companies. The premium in 2023F may be related to our rather cautious predictions for the future. Furthermore, the lack of a wide group of suitable peers is a weakness of this method.

Financial Forecasts

Profit and loss account	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F
Sales of products, goods and materials	623	886	772	952	1,505	1,668	1,516	1,548	1,799
Gross profit on sales	116	164	119	167	194	257	208	227	283
EBITDA	48	82	55	89	84	113	68	84	112
Selling costs	-55	-59	-47	-61	-85	-113	-106	-108	-126
General administrative expenses	-26	-33	-32	-38	-53	-58	-61	-62	-72
Other operating income	5	3	7	10	5	5	5	5	5
Other operating costs	-5	-8	-8	-9	-4	-5	-5	-5	-5
Operating profit	35	67	39	69	58	86	41	57	85
Pre-tax profit	32	64	38	71	49	72	33	51	80
Income tax	-6	-13	-8	-14	-9	-14	-6	-10	-15
Net Profit (loss)	26	51	30	58	41	58	27	42	65
Balance Sheet	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F
Fixed assets	244	260	338	420	453	447	441	444	447
Intangible assets	13	15	14	20	28	28	28	28	28
Tangible assets	224	237	318	390	392	386	380	383	386
Investments	4	4	5	8	26	26	26	26	26
Other long-term assets	2	3	1	3	7	7	7	7	7
Current assets	236	383	416	485	768	903	776	734	785
Inventories	45	64	62	122	176	217	197	201	234
Receivables	152	201	197	217	340	384	364	372	450
Cash and cash equivalents	16	95	107	105	115	133	107	66	-26
Other short-term assets	23	23	48	40	137	169	108	95	128
Total Assets	480	643	754	905	1,220	1,350	1,217	1,178	1,232
Equity capital	238	285	309	362	406	462	488	507	541
Non-controlling interests	0	0	0	17	25	25	25	25	25
Liabilities	242	358	445	544	815	887	729	671	691
Long-term liabilities	78	83	135	198	210	182	162	162	162
Loans and borrowings	50	65	113	150	154	126	106	106	106
Employee benefit obligations	1	1	1	1	1	1	1	1	1
Trade liabilities and other	9	13	15	20	28	28	28	28	28
Short-term liabilities	164	275	309	345	605	706	567	509	529
Loans and borrowings	12	25	22	35	81	59	29	9	9
Employee benefit obligations	11	15	17	23	28	40	35	34	37
Other provisions	3	15	3	13	8	8	8	8	8
Prepayments	16	39	41	41	14	73	45	46	54
Trade liabilities and other	116	169	208	211	449	501	424	387	396
Total Equity & Liabilities	480	643	754	905	1,220	1,350	1,217	1,178	1,232
Cash flow statement	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F
Cash flow on operating activity	8	99	94	81	9	90	45	32	-33
Cash flow on investment activity	-7	-33	-92	-71	-40	-21	-21	-30	-30
Cash flow on financial activity	-8	13	9	-19	40	-50	-50	-42	-30
Indicators (%)	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F
ROE	11.5%	19.6%	10.3%	17.3%	10.6%	13.3%	5.6%	8.3%	12.3%
Net Debt	46.5	-4.9	28.7	80.4	120.8	51.8	28.2	48.7	141.4

Source: forecasts of PKO BP Securities

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Explanation of the specialist terminology used

min (max) 52 weeks: minimum (maximum) of the market share price during the previous 52 weeks

Capitalisation: product of the share market price and the number of shares

EV: sum of the company's capitalisation and net debt

free float (%): share of the total number of shares decreased by 5% stakes held by one shareholder and own shares held by the company in the total number of shares

Average trading/month: average trading per month calculated as total trading value over previous 12 months divided by 12

ROE: rate of return on equity

ROA: rate of return on assets
 EBIT: operating profit
 EBITDA: operating profit + depreciation and amortization
 EPS: earnings per share
 DPS: dividend per 1 share
 CEPS: sum of net profit and depreciation and amortization per 1 share
 P/E: quotient of share market price and EPS
 P/BV: quotient of share market price and book value of one share
 EV/EBITDA: quotient of capitalisation increased by the company's net debt and EBITDA
 Gross sales margin: relation of gross sales profit to net sales proceeds
 EBITDA margin: relation of the sum of operating profit and depreciation to net sales proceeds
 EBIT margin: relation of operating profit to net sales proceeds
 Net profitability: relation of net profit to net sales proceeds

Valuation methods applied

A PKO BP Securities recommendation is based on at least two out of four valuation methods: DCF (discounted cash flow model), ratio analysis method (comparing the values of basic market ratios with similar ratios of other companies representing a given sector), sum of the parts of assets method (SOTP) and discounted dividends model. A disadvantage of the DCF and the discounted dividends model is their high sensitivity to adopted assumptions, including, in particular, those pertaining to determining the residual value. Furthermore, the discounted dividends model cannot be applied to the valuation of companies without a determined dividend policy. The advantages of both these methods include their independence from current market valuations of peer companies. On the other hand, the advantage of the ratio analysis is the fact that it is based on a measurable market valuation of a given sector. Its disadvantage lies in the risk that at any given time, the market might not value peer companies correctly. The sum of the parts method (SOTP) consists in summing up the values of various assets of the company, calculated using one of the above methods.

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Pekabex	-

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Whenever this Recommendation quotes a price for the financial instrument, it will be understood as the closing price from the last trading day.

The list below sets out all the recommendations drafted by PKO BP Securities in the last 12 months, within the scope of the "Analytic Coverage Support Programme".

Company	Recommendation	Date of reco.	Target price	Relevant Market Price*	Market cap. (PLN mn)	P/E			EV/EBITDA			Analyst
						2021	2022F	2023F	2021	2022F	2023F	
MLP Group	Buy	2021-07-30	95.00	77.80	1462.0	3.4	2.6	4.9	32.4	27.3	24.5	Piotr Zybala
Oponeo	Buy	2021-09-07	69.00	60.40	468.4	12.4	16.8	17.0	7.7	7.2	6.2	Adrian Skłodowski
Pekabex	Hold	2021-09-07	24.50	22.90	297.9	14.0	9.7	9.7	8.5	6.0	5.6	Piotr Łopaciuk
MLP Group	Buy	2022-04-05	97.00	73.80	1462.0	3.4	2.6	4.9	32.4	27.3	24.5	Piotr Zybala
Oponeo	Hold	2022-04-28	50.50	46.20	468.4	12.4	16.8	17.0	7.7	7.2	6.2	Adrian Skłodowski
Pekabex	Buy	2022-05-19	16.00	13.85	297.9	14.0	9.7	9.7	8.5	6.0	5.6	Piotr Łopaciuk
MLP Group	Buy	2022-09-01	98.00	71.20	1462.0	3.4	2.6	4.9	32.4	27.3	24.5	Piotr Zybala
Oponeo	Hold	2022-09-08	37.00	36.50	468.4	12.4	16.8	17.0	7.7	7.2	6.2	Piotr Łopaciuk
Pekabex	Buy	2022-10-20	15.00	11.55	297.9	14.0	9.7	9.7	8.5	6.0	5.6	Jakub Bronicki

*at the time of publication