



So far so good (SUMMARY)

We are increasing our recommendation from HOLD to BUY, and TP to PLN 20.6 due to 1) higher anticipated margins in the construction sector (we now expect 4% margin vs. 2% previously), 2) solid prefabrication sector profitability (we expect a 11.8% margin in 2023F vs. 14% in 2022) despite lower volumes (-15% in 2023F), and 3) a decent development sector where we expect PLN 35m of revenue and PLN 12m of sector results due to handovers in Casa Fiore (compared to no handovers in 2022). It seems that Pekabex should be quite immune to the ongoing slowdown; however, we note that the company's backlog is very short (more than 90% is <1 year) and thus a stronger recession may quickly translate into worse results.

We note that since our previous recommendation Pekabex reported solid 4Q22 results with strong profitability improvement in the construction sector (9% of operating margin vs. an average of 0% in the previous 4 quarters). At the same time margins in prefabrication remained solid (14.4% in 4Q22); however, we expect that 2023F will not be as strong as 2022 was due to a lower production volume (-16% y/y after 1Q23) and thus operating leverage should depress the sector's profitability.

Pekabex significantly reduced its debt (including leasing) from PLN 121.3m in 3Q22 to PLN 88m in 4Q22. The ND/EBITDA ratio decreased in that period from 1.1x to 0.7x. In our view, from the balance sheet perspective, the company is well prepared for the coming slowdown. We note that net debt will be seasonally higher after 1Q23 because of working capital requirements. However, due to a lower backlog and cheaper raw materials, we do not expect such a sharp increase as in 1Q22, when net debt rose 86% q/q.

The company's **backlog decreased by 7% y/y**, while 1Q23 prefabrication production volumes decreased by 16%, the first signs of slowdown; however, such dynamics look quite good compared to other industrial companies.

Although in 2023F a lower sales volume in prefabrication sector can be seen, we maintain our long-term story for the company as we see much better perspective for prefabrication market compared to housing, which should be particularly visible on emerging markets such as Poland.

| PLN mn | 2021 | 2022 | 2023F | 2024F | 2025F |
|------------|-------|-------|-------|-------|-------|
| Revenues | 1,505 | 1,678 | 1,597 | 1,703 | 1,957 |
| EBITDA | 84 | 128 | 117 | 115 | 122 |
| EBIT | 58 | 100 | 88 | 86 | 93 |
| Net profit | 41 | 69 | 58 | 60 | 68 |
| P/E | 14.0 | 5.3 | 7.6 | 7.4 | 6.5 |
| EV/EBITDA | 8.5 | 3.5 | 4.1 | 4.2 | 4.2 |
| EPS | 1.64 | 2.79 | 2.35 | 2.41 | 2.74 |
| DPS | 0.41 | 0.00 | 0.41 | 0.48 | 0.55 |
| FCF | - | 54 | 80 | 12 | -7 |
| CAPEX | 40 | 0 | 30 | 40 | 40 |

F - forecast by PKO BP Securities

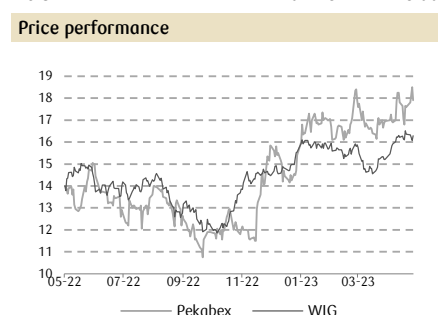
| Key data | |
|--------------------|--------|
| Market price (PLN) | 17.90 |
| Upside | 15% |
| No. of shares (mn) | 24.83 |
| Market Cap (PLNmn) | 444.39 |
| Free float | 52% |
| Free float (PLNmn) | 232 |
| Free float (USDmn) | 56 |
| EV (PLNmn) | 475.95 |
| Net debt (PLNmn) | 31.56 |

| ESG | |
|-----|-----|
| ESG | 6.8 |

| Dividend | |
|-----------|------|
| Div yield | 2.3% |
| Ex-div | - |

| Major Shareholders | % of shares |
|--------------------|-------------|
| STE Sp. z o.o. | 40.88 |
| Cantorelle Limited | 11.90 |
| Fernik Holdings | 8.17 |
| NN OFE | 6.89 |

| Previous recomm. | Date & target price |
|------------------|---------------------|
| Hold | 23-02-23 17.60 |
| Hold | 24-01-23 15.00 |



| | WIG | Company |
|-------------------------|-------|---------|
| 1 month | 7.1% | 6.2% |
| 3 months | 2.0% | 4.7% |
| 6 months | 19.9% | 49.8% |
| 12 months | 15.7% | 19.3% |
| Min 52 weeks PLN | | 10.75 |
| Max 52 weeks PLN | | 18.50 |
| Av. turnover/day PLN mn | | 0.10 |

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We note that the company operates in fairly cyclical sectors, but such a business model provides some diversification - especially when prefabrication and construction sectors profitability dynamics are negatively correlated. Thus, Pekabex should be to some extent immune to the ongoing slowdown.

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 (2023F-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. Here, 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 6%. 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 net debt without leasing.

| DCF model | | | | | | | |
|---------------------------------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|
| PLN mn | 2022 | 2023F | 2024F | 2025F | 2026F | 2027F | 2027F< |
| EBIT | 98.0 | 88.4 | 86.2 | 93.1 | 122.7 | 113.9 | |
| Tax rate | 19% | 19% | 19% | 19% | 19% | 19% | |
| NOPLAT | 79.4 | 71.6 | 69.8 | 75.4 | 99.4 | 92.3 | 93.7 |
| CAPEX | 16.6 | 18.0 | 24.0 | 24.0 | 24.0 | 24.0 | 24.4 |
| Lease payments | 10.8 | 12.0 | 16.0 | 16.0 | 16.0 | 16.0 | 16.2 |
| Depreciation | 27.7 | 28.5 | 30.0 | 32.0 | 35.0 | 40.0 | 40.6 |
| Changes in working capital | 25.9 | -9.7 | 47.4 | 74.3 | 32.9 | 20.2 | 10.0 |
| FCF | 53.7 | 79.8 | 12.4 | -6.8 | 61.5 | 72.1 | 83.7 |
| WACC | 13.3% | 14.0% | 13.8% | 13.5% | 13.9% | 14.2% | |
| Discount ratio | 0.00 | 0.88 | 0.77 | 0.68 | 0.60 | 0.52 | |
| DFCF | 0.0 | 70.0 | 9.5 | -4.6 | 36.7 | 37.6 | |
| Growth in Phase II | 1.5% | | | | | | |
| DFCF Sum - Phase I | 149.2 | | | | | | |
| DFCF Sum - Phase II | 342.5 | | | | | | |
| Enterprise Value (EV) | 491.7 | | | | | | |
| Net debt | 64.1 | | | | | | |
| Fair value | 427.6 | | | | | | |
| Diluted number of shares (million) | 24.83 | | | | | | |
| Fair value per share as at 31.12.2022 | 17.2 | | | | | | |
| Target price in 12 mths (PLN) | 20.6 | | | | | | |
| Current price | 17.9 | | | | | | |
| Expected rate of return | 15.1% | | | | | | |

Source: forecasts of PKO BP Securities



| WACC | | | | | | | |
|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2022 | 2023F | 2024F | 2025F | 2026F | 2027F | 2027F< |
| Risk-free rate | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% |
| Equity premium | 5.5% | 5.5% | 5.5% | 5.5% | 5.5% | 5.5% | 5.5% |
| Beta | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 |
| Debt risk premium | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% |
| Tax rate | 19.0% | 19.0% | 19.0% | 19.0% | 19.0% | 19.0% | 19.0% |
| Equity cost | 14.3% | 14.3% | 14.3% | 14.3% | 14.3% | 14.3% | 14.3% |
| Debt cost | 7.7% | 7.7% | 7.7% | 7.7% | 7.7% | 7.7% | 7.7% |
| Weight of equity | 85% | 95% | 94% | 88% | 95% | 100% | 100% |
| Weight of debt | 15% | 5% | 6% | 12% | 5% | 0% | 0% |
| WACC | 13.3% | 14.0% | 13.8% | 13.5% | 13.9% | 14.2% | 14.3% |

Source: forecasts of PKO BP Securities

Sensitivity

| | | Growth in Phase II | | | | |
|------|-------|--------------------|------|------|------|------|
| | | 0.5% | 1.0% | 1.5% | 2.0% | 2.5% |
| WACC | 13.3% | 20.6 | 21.3 | 22.0 | 22.8 | 23.7 |
| | 13.8% | 20.0 | 20.6 | 21.3 | 22.0 | 22.8 |
| | 14.3% | 19.4 | 20.0 | 20.6 | 21.3 | 22.0 |
| | 14.8% | 18.9 | 19.4 | 20.0 | 20.6 | 21.3 |
| | 15.3% | 18.4 | 18.9 | 19.4 | 20.0 | 20.6 |

Source: PKO BP Securities

Multiples

Construction companies: multiples

| Company | Mcap mPLN | P/E | | | EV/EBITDA | | | P/BV | |
|-----------------------------|--------------|-------------|-------------|-------------|-------------|------------|------------|------------|------------|
| | | 2022 | 2023F | 2024F | 2022 | 2023F | 2024F | 2022 | 2023F |
| Budimex | 6,880 | 17.5 | 15.5 | 14.6 | 8.9 | 7.6 | 7.0 | 7.4 | 6.7 |
| Erbud | 438 | 61.1 | 19.8 | 8.6 | 13.8 | 5.7 | 4.1 | 0.9 | 0.9 |
| Torpol | 467 | 2.1 | 10.5 | 16.3 | - | - | 1.0 | 0.9 | 0.9 |
| Onde | 766 | 98.8 | 21.0 | 20.5 | 25.7 | 12.1 | 10.1 | 2.1 | 2.3 |
| Median for all peers | | 39.3 | 17.6 | 15.5 | 13.8 | 7.6 | 5.5 | 1.5 | 1.6 |
| Pekabex | | 5.3 | 7.6 | 7.4 | 3.5 | 4.1 | 4.2 | 0.9 | 0.8 |
| premium/discount | | -87% | -57% | -52% | -75% | -46% | -24% | -40% | -47% |
| Implied price | | 106.5 | 41.4 | 37.2 | 66.3 | 34.4 | 24.0 | 29.9 | 34.0 |

Pekabex is trading at a discount to other construction companies. However, the lack of a wide group of suitable peers reveals a weakness in this method.

Financial Forecasts

| Profit and loss account | 2018 | 2019 | 2020 | 2021 | 2022 | 2023F | 2024F | 2025F | 2026F |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Sales of products, goods and materials | 886 | 772 | 952 | 1,505 | 1,678 | 1,597 | 1,703 | 1,957 | 2,160 |
| Gross profit on sales | 164 | 119 | 167 | 194 | 281 | 273 | 283 | 305 | 350 |
| EBITDA | 82 | 55 | 89 | 84 | 128 | 117 | 115 | 122 | 153 |
| Selling costs | -59 | -47 | -61 | -85 | -112 | -113 | -119 | -127 | -140 |
| General administrative expenses | -33 | -32 | -38 | -53 | -68 | -72 | -77 | -84 | -86 |
| Other operating income | 3 | 7 | 10 | 5 | 5 | 4 | 5 | 5 | 5 |
| Other operating costs | -8 | -8 | -9 | -4 | -7 | -4 | -6 | -6 | -6 |
| Operating profit | 67 | 39 | 69 | 58 | 100 | 88 | 86 | 93 | 123 |
| Pre-tax profit | 64 | 38 | 71 | 49 | 84 | 72 | 74 | 84 | 113 |
| Income tax | -13 | -8 | -14 | -9 | -15 | -14 | -14 | -16 | -22 |
| Net Profit (loss) | 51 | 30 | 58 | 41 | 69 | 58 | 60 | 68 | 92 |
| Balance Sheet | 2018 | 2019 | 2020 | 2021 | 2022 | 2023F | 2024F | 2025F | 2026F |
| Fixed assets | 260 | 338 | 420 | 453 | 461 | 462 | 472 | 480 | 485 |
| Intangible assets | 15 | 14 | 20 | 28 | 31 | 31 | 31 | 31 | 31 |
| Tangible assets | 237 | 318 | 390 | 392 | 392 | 393 | 403 | 411 | 416 |
| Investments | 4 | 5 | 8 | 26 | 25 | 25 | 25 | 25 | 25 |
| Other long-term assets | 3 | 1 | 3 | 7 | 13 | 13 | 13 | 13 | 13 |
| Current assets | 383 | 416 | 485 | 768 | 864 | 816 | 816 | 897 | 1,020 |
| Inventories | 64 | 62 | 122 | 176 | 266 | 208 | 221 | 254 | 281 |
| Receivables | 201 | 197 | 217 | 340 | 354 | 383 | 409 | 470 | 518 |
| Cash and cash equivalents | 95 | 107 | 105 | 115 | 119 | 102 | 73 | 45 | 80 |
| Other short-term assets | 23 | 48 | 40 | 137 | 116 | 114 | 105 | 120 | 132 |
| Total Assets | 643 | 754 | 905 | 1,220 | 1,325 | 1,278 | 1,288 | 1,377 | 1,505 |
| Equity capital | 285 | 309 | 362 | 406 | 482 | 531 | 578 | 633 | 706 |
| Non-controlling interests | 0 | 0 | 17 | 25 | 30 | 30 | 30 | 30 | 30 |
| Liabilities | 358 | 445 | 544 | 815 | 842 | 747 | 709 | 744 | 799 |
| Long-term liabilities | 83 | 135 | 198 | 210 | 201 | 163 | 163 | 163 | 163 |
| Loans and borrowings | 65 | 113 | 150 | 154 | 141 | 103 | 103 | 103 | 103 |
| Employee benefit obligations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Trade liabilities and other | 13 | 15 | 20 | 28 | 35 | 35 | 35 | 35 | 35 |
| Short-term liabilities | 275 | 309 | 345 | 605 | 642 | 584 | 546 | 581 | 636 |
| Loans and borrowings | 25 | 22 | 35 | 81 | 66 | 30 | 10 | 10 | 10 |
| Employee benefit obligations | 15 | 17 | 23 | 28 | 34 | 31 | 31 | 34 | 36 |
| Other provisions | 15 | 3 | 13 | 8 | 9 | 9 | 9 | 9 | 9 |
| Prepayments | 39 | 41 | 41 | 14 | 43 | 48 | 51 | 59 | 65 |
| Trade liabilities and other | 169 | 208 | 211 | 449 | 470 | 447 | 426 | 450 | 497 |
| Total Equity & Liabilities | 643 | 754 | 905 | 1,220 | 1,325 | 1,278 | 1,288 | 1,377 | 1,505 |
| Cash flow statement | 2018 | 2019 | 2020 | 2021 | 2022 | 2023F | 2024F | 2025F | 2026F |
| Cash flow on operating activity | 99 | 94 | 81 | 52 | 81 | 97 | 42 | 26 | 94 |
| Cash flow on investment activity | -33 | -92 | -71 | -45 | -20 | -18 | -24 | -24 | -24 |
| Cash flow on financial activity | 13 | 9 | -19 | 3 | -56 | -96 | -48 | -30 | -34 |
| Indicators (%) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023F | 2024F | 2025F | 2026F |
| ROE | 19.6% | 10.3% | 17.3% | 10.6% | 15.6% | 11.5% | 10.8% | 11.2% | 13.7% |
| Net Debt | -4.9 | 28.7 | 80.4 | 120.8 | 87.9 | 31.6 | 41.2 | 69.1 | 33.5 |

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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| Issuer: | Reservation |
|---------|---|
| Pekabex | 1: NO, 2: NO, 3: YES, 4: YES, 5: NO, 6: NO, 7: NO, 8: NO, 9: NO |

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This Recommendation has been drafted subject to due diligence to the best knowledge of the Recommending Entity; there exist no other connections between PKO BP Securities and the analyst drafting this Recommendation on one part and the Issuer on the other.

The time and date stipulated on the front page of the report are the time and date of completing the process of drafting the Recommendation.

The date of the first distribution of the Recommendation is identical with the date stipulated on the front page. The time of the first distribution is 7:40.

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 Pilot Programme".

| Company | Recommendation | Date of reco. | Target price | Relevant Market Price* | Market cap. (PLN mn) | P/E | | | EV/EBITDA | | | Analyst |
|-----------|----------------|---------------|--------------|------------------------|-------------------------|------|-------|-------|-----------|-------|-------|-------------------|
| | | | | | | 2022 | 2023F | 2024F | 2022 | 2023F | 2024F | |
| MLP Group | Buy | 2022-04-05 | 97,00 | 73,80 | 2030,0 | 4,0 | 6,9 | 5,3 | 23,6 | 24,5 | 22,6 | Piotr Zybala |
| Oponeo | Hold | 2022-04-28 | 50,50 | 46,20 | 599,4 | 15,9 | 16,9 | 15,2 | 7,3 | 6,9 | 6,2 | Adrian Skłodowski |
| Pekabex | Buy | 2022-05-19 | 16,00 | 13,85 | 444,4 | 14,0 | 5,3 | 7,6 | 8,5 | 3,5 | 4,1 | Piotr Łopaciuk |
| MLP Group | Buy | 2022-09-01 | 98,00 | 71,20 | 2030,0 | 4,0 | 6,9 | 5,3 | 23,6 | 24,5 | 22,6 | Piotr Zybala |
| Oponeo | Hold | 2022-09-08 | 37,00 | 36,50 | 599,4 | 15,9 | 16,9 | 15,2 | 7,3 | 6,9 | 6,2 | Piotr Łopaciuk |
| Pekabex | Buy | 2022-10-20 | 15,00 | 11,55 | 444,4 | 14,0 | 5,3 | 7,6 | 8,5 | 3,5 | 4,1 | Jakub Bronicki |
| Oponeo | Hold | 2023-02-06 | 42,00 | 39,10 | 599,4 | 15,9 | 16,9 | 15,2 | 7,3 | 6,9 | 6,2 | Piotr Łopaciuk |
| Pekabex | Hold | 2023-02-23 | 17,60 | 16,10 | 444,4 | 14,0 | 5,3 | 7,6 | 8,5 | 3,5 | 4,1 | Jakub Bronicki |
| MLP Group | Buy | 2023-04-28 | 103,00 | 82,00 | 2030,0 | 4,0 | 6,9 | 5,3 | 23,6 | 24,5 | 22,6 | Piotr Zybala |
| Pekabex | Buy | 2023-05-08 | 20,60 | 11,55 | 444,4 | 14,0 | 5,3 | 7,6 | 8,5 | 3,5 | 4,1 | Jakub Bronicki |

*at the time of publication