



Dom Maklerski BDM S.A.

ZUE

ANALYTICAL REPORT - SUMMARY

After a revenue-record 2023, H1'24 was also strong for ZUE. At the same time, its portfolio-to-revenue ratio is at its lowest since at least 2015 and its strengthening prospects are shifting. If the announced railway tenders are launched in the autumn, the earliest contracts will be signed in H1'25. On the other hand, the current environment (a decrease in PKP PLK's budget in 2024 y/y) and a reduction in the importance of problematic contracts provide opportunities for ongoing margin improvement. On the other hand, there is a growing risk that new contracts will be won in an unfavourable competitive environment (bids in PKP PLK's small tenders in recent months indicate high price pressure). The situation of contracts in Romania, where, according to the original schedules, the first 'package' of contracts should be nearing completion, is starting to cause concern, but due to delays, the Company has so far recognised only 1/3 of the planned revenues. In the medium term, ZUE is well positioned for an influx of EU funds, but the key to value creation is building a sustainably profitable portfolio. After updating our assumptions, we are now setting our price target for ZUE at PLN 11.0, implying a hold rating (previously: hold, PLN 11.1). The valuation does not take into account possible claims and valorisation from PKP PLK (lawsuits filed for PLN 126m, ca. PLN 5.5/share). Recent period results

Q2'24 results (PLN 301m revenue and PLN 6.2m net profit) were fairly close to our expectations. The Q2'24 gross margin (5.0%) was better q/q and y/y (with a positive impact on the margin from the settlement, which added 0.5 pp to the margin). At the end of Q2'24, net debt (PLN 76m) is materially higher y/y (the company announced working capital improvements in 2H'24). The portfolio declined q/q. It is admittedly comparable y/y, but a year ago the company was facing the prospect of signing a major contract for the Bedzin-Katowice section in the autumn. Revenues in 2Q'24 were already lower q/q. In 2H'24 it may be hard to measure up to last year's high base.

Backlog

ZUE's backlog amounted to PLN 1.47bn after Q2'24 (vs. PLN 1.46bn a year ago and PLN 1.65bn a quarter ago). The company has no major contracts in the pipeline to sign. We estimate that the current backlog is dominated by railway contracts in Poland, followed by railway contracts on the Romanian market (which are experiencing delays) and municipal contracts (tramway). The portfolio still includes single contracts for PKP PLK signed in 2017 in the final stage of implementation. PKP PLK has announced that it will launch tenders in Q3-4'24, but almost a year after the parliamentary elections, the supply of new rail contracts remains very low so far. The gap in the supply of contracts is reminiscent of the 2016 period (then in 2017, contracts were signed on low margins), which may affect the ability to build a profitable portfolio based on the first major wave of new tenders to come to market.

Segmental positioning

The company has exposure primarily to the rail and tram markets (to a small extent also to local roads through its subsidiary Energopol). Both areas are largely financed by EU funds (rail - FENIKS, KPO, CEF, tram lines - FENIKS). An entry into the PSE market was also planned in the past (management does not exclude a return to this market). Entering the Romanian market is not ZUE's only approach to foreign markets. The company is present in Latvia, has also executed a contract in Slovakia and has been observing the Bulgarian market. It is currently trying to obtain certification for the German market.

Performance forecasts, ratios

ZUE has had a record year in terms of revenue in 2023 (net profit was marginally lower than in 2011). At the same time, the portfolio-to-revenue ratio for the last four quarters is at a historically low level, and the prospects for rebuilding the backlog are getting longer. Our forecasts for 2024 currently assume revenue of PLN 1.15bn and net profit of PLN 16.2m (the Management Board indicated at the earnings conference that revenue in H2'24 should be no lower than in 1H'24, but our forecast assumes a slightly lower level at this point). In 2025/26, we assume revenue of PLN 1.04 / 1.17bn and net profit of PLN 16.5 / 19.2m, respectively. The company is trading at EV/EBITDA=5.5x for 2024 and 5.3x for 2025 under our assumptions.

	2021	2022	2023	2024F	2025F	2026F
Sales [PLN m]	851,5	921,4	1 484,1	1 150,2	1 040,9	1 171,0
EBITDA [PLN m]	27,1	31,9	45,2	39,4	37,4	42,0
EBIT [PLN m]	14,2	18,1	30,4	23,8	20,9	25,2
Profit before tax [PLN m]	15,4	22,1	28,9	20,6	20,5	23,7
Net profit [PLN m]	11,8	16,4	21,0	16,2	16,5	19,2
Net debt (cash) [PLN m]	-80,2	-14,6	-134,2	-36,0	-54,4	-70,5
P/BV	1,5	1,4	1,2	1,2	1,1	1,0
P/E	20,7	14,9	11,6	15,0	14,8	12,7
EV/EBITDA	6,1	7,2	2,4	5,3	5,1	4,1
EV/EBIT	11,6	12,7	3,6	8,7	9,1	6,9
DPS [PLN/sh.]	0,00	0,15	0,07	0,21	0,18	0,36

HOLD

(PREVIOUS: HOLD)

TARGET PRICE 11,0 PLN

22nd AUGUST 2024, 11:55 CEST

DCF valuation [PLN]	11,0
Peer valuation [PLN]	11,2
Target price [PLN]	11,0
Price upside/downside	3,9%
Cost of capital	14,8%
Price [PLN]	10,60
Market cap [PLNm]	244,1
No. of shares [mn]	23,0
Max. price 6M [PLN]	14,30
Min. price 6m [PLN]	9,20
Rate of return 3M	2,4%
Rate of return 6M	15,2%
Rate of return 9M	59,6%
Shareholders	
Nowak Wiesław	62,5%
Bankowy OFE	8,1%
Generali OFE	6,3%
ZUE	1,1%
Others	21,8%

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Valuation summary

	Share	Valuation
DCF valuation	80%	11,0
Peer valuation:	20%	11,2
Target price [PLN]		11,0

Source: Dom Maklerski BDM S.A.

DCF valuation

	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F
Revenues [PLN m]	1 150,2	1 040,9	1 171,0	1 346,6	1 447,6	1 462,1	1 476,7	1 491,5	1 506,4	1 521,5
EBIT [PLN m]	23,8	20,9	25,2	31,1	36,5	38,5	40,5	38,4	39,0	39,6
Tax rate	21,5%	20,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%	19,0%
Tax on EBIT [PLN m]	5,1	4,2	4,8	5,9	6,9	7,3	7,7	7,3	7,4	7,5
NOPLAT [PLN m]	18,7	16,7	20,4	25,2	29,6	31,2	32,8	31,1	31,6	32,1
Amortization [PLN m]	15,6	16,5	16,7	16,7	16,7	16,7	16,7	16,7	16,7	16,8
CAPEX [PLN m]	-38,1	-15,6	-16,5	-16,7	-16,7	-16,7	-16,8	-16,8	-16,8	-16,8
Working capital movement [PLN m]	-83,8	6,3	3,6	2,8	1,6	0,2	0,2	0,2	0,2	0,2
FCF [PLN m]	-87,6	23,9	24,3	27,9	31,2	31,4	33,0	31,3	31,8	32,3
DFCF [PLN m]	-83,5	20,0	17,8	17,9	17,5	15,3	14,1	11,6	10,3	9,1
Total DFCF [PLN m]	50,1									
Terminal value [PLN m]	236,8									
Discounted terminal value [PLN m]	66,8									
Enterprise value [PLN m]	116,9									
Net debt 2023 [PLN m]	-134,2									
Own shares [PLN m]	2,8									
Minority interests [PLN m]	1,4									
Equity value [PLN m]	252,5									
Number of shares [m]	23,0									
Value per share [PLN]	11,0									

Terminal growth rate: +1,0%

WACC calculation

	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F
Risk-free rate	5,30%	5,30%	5,30%	5,30%	5,30%	5,30%	5,30%	5,30%	5,30%	5,30%
Risk premium	9,50%	9,50%	9,50%	9,50%	9,50%	9,50%	9,50%	9,50%	9,50%	9,50%
Beta	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00
Credit premium	1,50%	1,50%	1,50%	1,50%	1,50%	1,50%	1,50%	1,50%	1,50%	1,50%
Cost of equity	14,8%	14,8%	14,8%	14,8%	14,8%	14,8%	14,8%	14,8%	14,8%	14,8%
Contribution of equity	89,9%	90,9%	92,9%	94,8%	96,3%	97,5%	98,8%	99,5%	100,0%	100,0%
Cost of debt after tax	5,3%	5,4%	5,5%	5,5%	5,5%	5,5%	5,5%	5,5%	5,5%	5,5%
Contribution of debt	10,1%	9,1%	7,1%	5,2%	3,7%	2,5%	1,2%	0,5%	0,0%	0,0%
WACC	13,8%	13,9%	14,1%	14,3%	14,5%	14,6%	14,7%	14,8%	14,8%	14,8%

Source: Dom Maklerski BDM S.A.

DCF - sensitivity analysis

	Terminal growth rate			Risk premium	Terminal growth rate			Risk premium	Beta			
	0,00%	1,00%	2,00%		0,00%	1,00%	2,00%		0,9	1,0	1,1	
beta	0,9	11,4	11,6	12,0	8,5%	11,4	11,7	12,0	8,5%	12,4	11,7	11,1
	1,0	10,7	11,0	11,2	9,5%	10,7	11,0	11,2	9,5%	11,6	11,0	10,4
	1,1	10,2	10,4	10,6	10,5%	10,2	10,4	10,6	10,5%	11,0	10,4	9,8

Source: Dom Maklerski BDM S.A.

Peer valuation

	P/E			EV/EBITDA		
	2024F	2025F	2026F	2024F	2025F	2026F
Budimex	20,3	16,7	17,1	11,3	9,0	8,8
Mirbud	11,7	11,3	9,0	5,2	5,1	3,7
Torpol	13,2	11,0	9,4	5,9	4,0	2,7
Trakcja	18,6	16,0	13,5	7,8	7,0	6,4
Median	15,9	13,7	11,4	6,9	6,0	5,0
ZUE	15,0	14,8	12,7	5,3	5,1	4,1
Premium/discount	-5,5%	8,3%	10,9%	-23,1%	-16,1%	-18,0%
Valuation [PLN/share]	11,2	9,8	9,6	13,3	12,2	12,3
Year's contribution	20%	40%	40%	20%	40%	40%
Average valuation [PLN/share]		10,0			12,4	
Multiple's contribution		50%			50%	
Value per share [PLN]	11,2					

Source: Dom Maklerski BDM S.A. BDM forecasts

Main risks:

- Dependence on main customers (PKP PLK)
- Level of investment in transport infrastructure in the CEE region.
- Risks related to the co-financing of project implementation from EU funds.
- Risks related to entering new markets (currently Romania).
- Risks related to the specific nature of the projects implemented.
- Relatively low barriers to entry, increase in competition
- Seasonality of results and weather factor
- Litigation

	2021	2022	2023	2024F	2025F	2026F
EPS, Adj+	0,51	0,71	0,91	0,71	0,71	0,84
Revenue [PLN m]	851,5	921,4	1 484,1	1 150,2	1 040,9	1 171,0
Gross Margin %	4,1%	4,6%	3,8%	4,7%	5,1%	5,0%
EBIT [PLN m]	14,2	18,1	30,4	23,8	20,9	25,2
EBITDA [PLN m]	27,1	31,9	45,2	39,4	37,4	42,0
Net Income Adj+ [PLN m]	11,8	16,4	21,0	16,2	16,5	19,2
Net Debt [PLN m]	-80,2	-14,6	-134,2	-36,0	-54,4	-70,5
BPS	7,22	7,79	8,63	9,12	9,66	10,14
DPS	0,00	0,15	0,07	0,21	0,18	0,36
Return on Equity %	7,1%	9,1%	10,6%	7,7%	7,4%	8,2%
Return on Assets %	2,0%	2,4%	2,2%	2,1%	2,2%	2,4%
Depreciation [PLN m]	9,0	9,9	10,2	12,1	13,0	13,2
Amortization [PLN m]	0,3	0,6	0,6	0,1	0,1	0,1
Free Cash Flow [PLN m]	105,8	-54,1	142,6	-93,4	22,4	28,7
CAPEX [PLN m]	6,0	4,8	8,2	38,1	15,6	16,5

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Ratings and price targets history:

rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
Hold	11,0	Hold	11,1	22.08.2024*	11:55 CEST	10,60	84 528
Hold	11,1	Accumulate	8,43	22.04.2024*	14:28 CEST	11,10	84 109
Accumulate	8,43	Buy	7,76	04.01.2024*	09:55 CEST	7,86	77 054
Buy	7,76	relaunch	---	12.09.2023*	13:45 CEST	5,62	66 241
Buy	11,8	---	---	17.02.2017	14:39 CEST	9,94	58 348

* The report was prepared by Dom Maklerski BDM at the request of the WSE as part of the Exchange's Analytical Coverage Support Programme.

Explanations of terminology:

EBIT - earnings before interest and tax
 EBITDA — earnings before interest, taxes, depreciation, and amortization
 Net debt – interest bearing debt minus cash and equivalents
 WACC - weighted average cost of capital
 CAGR - cumulative average annual growth
 EPS - earnings per share
 DPS - dividend per share
 CEPS - net profit plus depreciation per share
 EV – market capitalization plus interest bearing debt minus cash and equivalents
 EV/S – market capitalization / sales
 EV/EBITDA – EV / sales
 P/EBIT – market capitalization / EBIT
 MC/S – market capitalization / sales
 P/E – market capitalization / net profit
 P/BV – market capitalization / book value
 P/CE - market capitalization / net profit plus depreciation
 ROE – net profit / equity
 ROA - net income / assets
 Gross margin - gross profit on sales / sales
 EBITDA margin – EBITDA / sales
 EBIT margin – EBIT / sales
 Net margin – net profit / sales

Explanation of ratings:

Buy – we believe that the security will reach the target price in the recommended period, which significantly exceeds the current market price (at least + 15%);
 Accumulate – we believe that the security will reach the target price in the recommended period, which exceeds the current market price (in the range of +5 to + 14.99%);
 Hold – we believe that a security in the recommended period will fluctuate around the target price, which is close to the current market price (in the range from -4.99% to + 4.99%);
 Reduce – we believe that the security will reach the target price in the recommended period, which is lower than the market price (range of decline from 5% to 14.99%);
 Sell – we believe that a security in the recommended period will reach the target price, which is significantly lower than the market price (suggested erosion of the value exceeds 15%).
 Target price – the theoretical price which, in our opinion, should reach a security in the recommended period; This price is the result of the company's value (eg based on DCF, comparative and other valuations), market conditions and the industry as well as other factors subjectively considered by the analyst.
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DCF – the most popular and the most effective of the valuation methods - it is based on the discounting of future cash flows generated by the company. The disadvantage is the high sensitivity to changes in the basic financial parameters forecast in the model (interest rates, exchange rates, profits, residual value).
 DDM – the method is based on discounting future cash flows from dividends. The advantage of the valuation is the inclusion of future financial results and cash flows from dividends. The main disadvantages are the high sensitivity to changes in the basic financial parameters forecasted in the model (capital cost, profits, residual value) and the risk of changing the dividend payment policy.
 Comparative – the method is based on current and forecasted market multipliers of companies from the industry or related industries, which better than DCF shows the current market situation. The main disadvantages are the difficulty in choosing the right companies for comparison, the risk of ineffective valuation of companies compared at a given moment, as well as high volatility (along with price fluctuations).

Distribution of BDM's recommendations in 3Q'24*:			, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months	
	numbers	%	numbers	%
Buy	7	64%	0	0%
Accumulate	2	18%	0	0%
Hold	1	9%	0	0%
Reduce	0	0%	0	0%
Sell	1	9%	0	0%

* detailed list of all analytical reports (recommendations) published by BDM during the last 12 months is included at <https://www.bdm.pl/analizy-i-informacje/analizy/historia-rekomendacji>

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The report constitutes an investment research within the meaning of art. 36 §1 of Commission Delegated Regulation (EU) 2017/565.

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Detailed list of all analytical reports (recommendations) published by BDM during the last 12 months is included in a cyclical “Monthly Report”.

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- BDM is not a party to an agreement with the issuer relating to the provision of investment banking services pursuant to section A and B od Annex I to the Directive 2014/65/EU of the European Parliament and of the Council (hereinafter the Directive 2014/65/EU),
- BDM is not a party to an agreement with the issuer relating to the production of the recommendation,
- There is other significant financial interest that BDM or its related affiliates have in relation to the issuer of financial instruments*
- There are other significant connections between BDM or its related affiliates and the issuer of financial instruments**
- The person affiliated with BDM who was involved in the preparation of recommendations did not receive or purchase the shares of the issuer, to whom the recommendation relates directly or indirectly, prior to public offering of such shares,
- The person affiliated with BDM who was involved in the preparation of recommendations declares that they respect internal regulations and are subject to organizational and technical solutions and information barriers established by BDM to eliminate any conflicts of interest concerning recommendations and to avoid them,
- The person affiliated with BDM who was involved in the preparation of recommendations was not rewarded in any form by the issuer, to whom the recommendation relates directly or indirectly, or was not directly connected with any possible transactions concerning services defined in art. 69 §2 and 4 of the Act on Trading in Financial Instruments dated 25th July 2005.

*BDM is a party to the “ANALYTICAL REPORT PREPARATION SERVICES AGREEMENT” concluded with the WSE.

**BDM acts as an issue sponsor for ZUE

According to the best knowledge of the party recommending upon the publication of the report there are no other connections between BDM and the company described in this report that the party preparing this report would know of. However, the investor should be aware that the list disclosing conflicts of interest is long and that in the future there may occur situations leading to conflicts of interest which have not been identified or disclosed at the moment of publication of the report concerned. Especially, the investor should assume that BDM may submit an offer for services to a company or other companies mentioned in this report.

BDM is subject to supervision by the Polish Financial Supervision Commission.

This document is a summary of a full version of the report prepared in Polish. In case of any disputes the Polish version shall prevail.