

2021-11-17 17:00

### Key data

|                             |                       |
|-----------------------------|-----------------------|
| Target price [PLN]          | 31                    |
| DCF valuation [PLN]         | 29                    |
| Comparative valuation [PLN] | 33                    |
| Market price [PLN]          | 25,4                  |
| Pot. of growth/decl. [%]    | 22,74%                |
| Mkt capitalisation [mn PLN] | 74,5                  |
| Free float [mn PLN]         | 27,8                  |
| Sector                      | INDUSTRY CONSTRUCTION |
| WSE code                    | PRM                   |
| Bloomberg ticker            | PRM PW                |

### Analyst:

**Artur Wizner**

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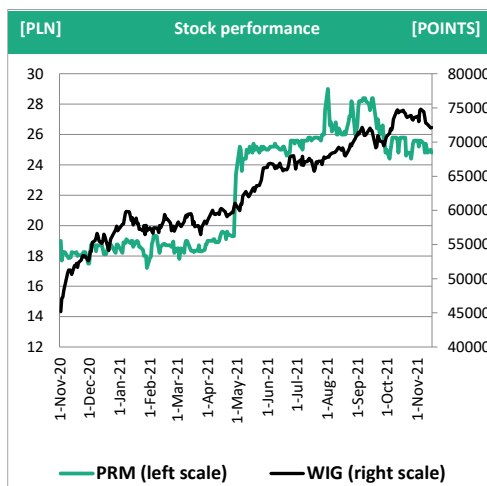
### Company profile:

An engineering company which specializes in providing a full range of design and construction services. It also offers project management and organization services, advisory services, development, project engineer, project supervisor, FIDIC contract engineer or a general contractor. It also offers consulting services related to contracts financed with EU assistance funding.

Source: [www.gpw.pl](http://www.gpw.pl)

### Major Stockholders: [%]

|                |       |
|----------------|-------|
| Steven Trappan | 33,23 |
| Prochem SA     | 19,76 |
| PTE PZU S.A.   | 9,71  |
| Other          | 37,30 |



# PROCHEM S.A.

Analysis of the results for the 3Q 2021

Key facts from the published results:

- Prochem in Q3 21 recorded sales revenues at a stable level of PLN 59.3 million, an increase by 9.6% compared to Q2 21 and by 14.6% compared to Q1 21. In total, by in the first three quarters of 2021, the company generated PLN 165.2 million in revenues compared to PLN 241.6 million in the previous year.
- There was also no significant change at the gross margin level compared to Q2 (5.7% vs. 6.5% in Q2 21), although compared to the record-breaking Q1 21 (13.2% %), the difference is significant.
- During the first three quarters, the Company generated an operating profit of PLN 4.1 million compared to PLN 5.7 million a year ago, which, however, was largely due to the result of Q1 21.
- We positively assess the decline in general and administrative expenses, which in Q3 amounted to PLN 3.5 million (-15.1% compared to Q2 21 and -10.4% y / y)
- On the net profit level, the result of PLN 3.4 million achieved after three quarters was also similar to last year's amount of PLN 3.9 million, although also in this case Q1 21 has the largest share in it.

The results for Q3 21 show that the contracts performed by Prochem in the general contracting segment are under increasing pressure from rising material prices, energy prices and labor costs. The results are slightly below our expectations, but we leave the valuation unchanged at PLN 31.

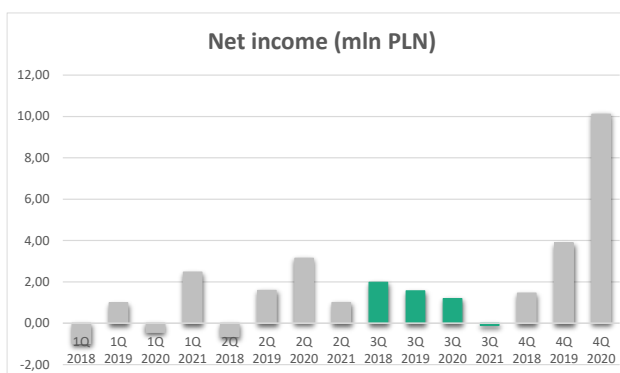
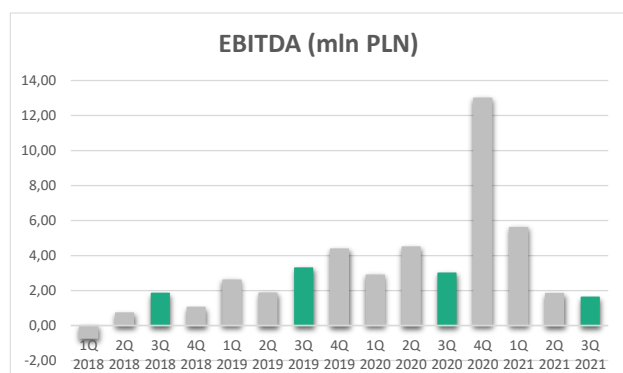
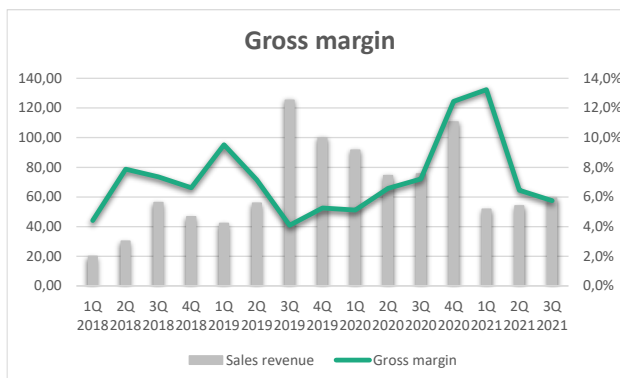
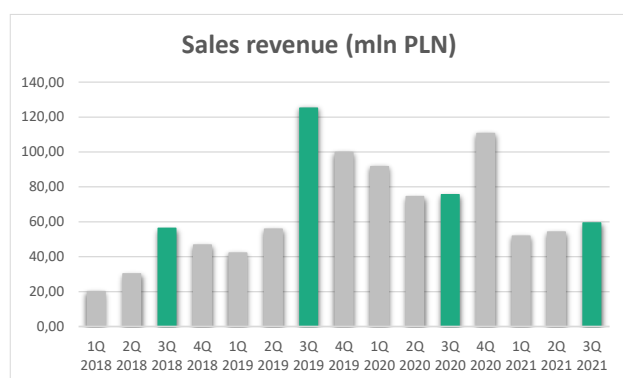
| [in million PLN]     | 2020  | 2021F | 2022F | 2023F | 2024F | 2025F |
|----------------------|-------|-------|-------|-------|-------|-------|
| Income from sales    | 352   | 301   | 295   | 295   | 301   | 310   |
| EBITDA               | 23,4  | 13,7  | 12,7  | 12,2  | 13,3  | 13,6  |
| EBITDA margin        | 6,6%  | 4,6%  | 4,3%  | 4,1%  | 4,4%  | 4,4%  |
| EBIT                 | 17,0  | 10,2  | 9,9   | 9,4   | 9,4   | 9,6   |
| Net profit (loss)    | 14,0  | 10,8  | 8,9   | 8,5   | 8,6   | 8,9   |
| Shareholders' equity | 112,6 | 105,1 | 114,4 | 123,5 | 132,6 | 142,1 |
| Net debt             | -9,5  | 0,0   | -7,9  | -8,0  | -18,0 | -27,1 |
| P/E                  | 5,2   | 6,8   | 8,3   | 8,6   | 8,5   | 8,2   |
| P/BV                 | 0,7   | 0,7   | 0,6   | 0,6   | 0,6   | 0,5   |
| EV/EBITDA            | 2,7   | 5,3   | 5,2   | 5,4   | 4,2   | 3,4   |

Source: DM Banku BPS S.A., E - Estimates

## Financial results for 3Q against the DM Banku BPS forecasts

| PLN thd             | Q publ. | DM BPS forecasts | Comparison to the DM BPS forecasts | Q-1 hist | Q-2 hist | Change q/q |
|---------------------|---------|------------------|------------------------------------|----------|----------|------------|
| <b>Revenue</b>      | 59 337  | 75 284           | -21,2%                             | 54 127   | 51 768   | 4,6%       |
| Profit on sales     | 3 408   | 6 351            | -46,3%                             | 3 494    | 6 849    | -49,0%     |
| Sales margin        | 5,7%    | 8,4%             | -31,9%                             | 6,5%     | 13,2%    | -51,2%     |
| <b>EBITDA</b>       | 1 625   | 3 433            | -52,7%                             | 1 838    | 5 592    | -67,1%     |
| EBITDA margin       | 2,7%    | 4,6%             | -40,0%                             | 3,4%     | 10,8%    | -68,6%     |
| <b>EBIT</b>         | -71     | 2 548            | -102,8%                            | 187      | 3 960    | -95,3%     |
| EBIT margin         | -0,1%   | 3,4%             | -103,5%                            | 0,3%     | 7,6%     | -95,5%     |
| <b>Gross profit</b> | 24      | 3 325            | -99,3%                             | 1 239    | 3 429    | -63,9%     |
| Gross profit margin | 0,0%    | 4,4%             | -99,1%                             | 2,3%     | 6,6%     | -65,4%     |
| <b>Net income</b>   | -105    | 2 694            | -103,9%                            | 998      | 2 476    | -59,7%     |
| Net income margin   | -0,2%   | 3,6%             | -104,9%                            | 1,8%     | 4,8%     | -61,4%     |

Source: DM Banku BPS SA, Company



Source: DM Banku BPS SA, Company

**Expected impact:** We assess the results for Q3 21 as weak, but not weak enough to make us revise our forecasts. The settlement of contracts in the general contracting segment should contribute to the increase in revenues in Q4 21. Contracts in this segment are under a lot of pressure from the costs of construction materials, as indicated by the last two quarters, so we do not expect Prochem to match last year's results at the net profit level. In the longer term, we remain optimistic about the Company, both due to the recently concluded contracts with Orlen related to the hydrogen hub project in Włocławek (Anwil Włocławek), and the solid prospects for the chemical industry resulting from the presented programs (Reconstruction Fund, Green Deal).

## Basic definitions

**CAPEX** (capital expenditures) - investment expenditures on product development, system implementation (including intangible assets) or tangibles assets in the part in which the capital is intended to maintain the company's current ability to generate income.

**DCF** (discounted cash flows) - discounted cash flows; all future cash flows are estimated and discounted in order to determine their present value. The value of the discount rate used corresponds to the cost of capital and includes an assessment of the risk related to future cash flows.

**DFCFF** - Discounted FCFF (Free Cash Flows to Firm).

**EBIT** (earnings before interest and taxes) - operating income i.e. the income before deduction of taxes and interest.

**EBITDA** (earnings before interest, taxes, depreciation and amortization) - the company's operating profit before deducting interest on interest-bearing liabilities (loans, bonds), taxes, amortization and depreciation of tangible and intangible assets; here EBITDA = operating income + amortization of tangible fixed assets + depreciation of intangible assets.

**EV** (Enterprise Value) - total enterprise value; here EV = current stock market capitalization + net debt.

**EV / EBITDA** - the ratio is calculated by dividing the present value of the enterprise (EV) by the value of EBITDA.

**FCFF** (Free Cash Flow to Firm) - free cash flows for owners of equity capital and creditors, which can be defined as flows resulting from the company's operating and investment activities, after all financial expectations of capital donors, i.e. all parties financing the company, have been settled.

**FIDIC** Fédération Internationale Des Ingénieurs-Conseils - is the International Federation of Consulting Engineers, which has achieved international authority and position mainly due to the development of publications of fundamental importance for the implementation of engineering and construction investments. The FIDIC templates for tender procedures and the conclusion of construction contracts and contracts comply with the requirements of the World Bank, EBRD and PHARE (European aid funds - grants)

**NOPLAT** - net operating result less adjusted taxes; here NOPLAT = EBIT \* (1 - tax rate).

**P / BV** (price / book value) - the ratio is calculated by dividing the current capitalization of a listed company by the book value of its equity, which is provided in the company's balance sheet.

**P / E** (price earnings ratio) - stock exchange ratio. It is calculated by dividing the market price of one share by the net profit per share.

**PV TV** - Present Value, ie the residual value (TV) discounted at the present moment.

**CR** - current report.

**SB** - Supervisory Board.

**TV** (Terminal Value) - residual value; enterprise value after the forecast period; here estimated with the help of the Gordon model.

**WACC** - weighted average cost of capital; financial indicator informing about the average relative cost of capital engaged in financing the enterprise.

**WSE** - Warsaw Stock Exchange.

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Distribution of this study: 17th November 2021, 17:15

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| Company       | Recommendation | Target price | Market price | Type of recommendation | Date of Issue | Analyst(s)                      |
|---------------|----------------|--------------|--------------|------------------------|---------------|---------------------------------|
| NIT SYSTEM    | N/A            | 8,30         | 5,98         | Initial report         | 2021-09-01    | Łukasz Bryl, Tomasz Czarniecki  |
| UNIBEP        | N/A            | 17,00        | 12,90        | Initial report         | 2021-09-07    | Artur Wizner                    |
| MONNARI TRADE | N/A            | 5,30         | 2,80         | Initial report         | 2021-09-07    | Łukasz Bryl, Tomasz Czarniecki  |
| PROTEKTOR     | N/A            | 4,60         | 3,62         | Initial report         | 2021-09-07    | Artur Wizner, Tomasz Czarniecki |