

Key data

Target price [PLN]	37
DCF valuation [PLN]	42
Comparative valuation [PLN]	28
Market price [PLN]	32,8
Pot. of growth/decl. [%]	11,96%
Mkt capitalisation [mn PLN]	74,5
Free float [mn PLN]	27,8
Sector	INDUSTRY CONSTRUCTION
WSE code	PRM
Bloomberg ticker	PRM PW

Analyst:

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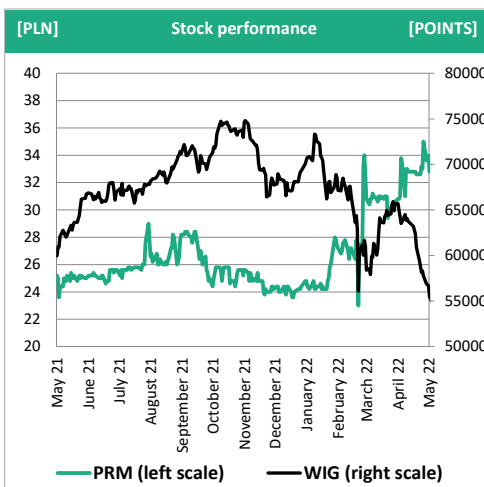
Company profile:

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

Major Stockholders: [%]

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



PROCHEM S.A.

Analytical Report

The future is coming faster than expected

The pandemic has not stopped investments in the chemical industry. According to GUS data, in 2021 the sector's expenditure amounted to almost PLN 16 billion (an increase of approx. 19% y/y). Polish chemical companies continued to increase expenditure on the expansion of installations in order to better use production capacity and adapt technological processes to climate and environmental regulations. We consider Prochem's 2021 results to be good, despite the rising costs of raw materials and building materials, which contributed to a decline in margins in the second half of the year.

This year, in the face of the new reality, which once again turned out to be unpredictable, we see more opportunities for the Company than threats. In our opinion, the war in Ukraine will accelerate many investments that will make the EU economy independent of raw materials imported from the east. We expect the expansion of gas terminals, faster development of renewable energy and hydrogen technologies, in which Prochem, as one of the few engineering companies, has the necessary qualifications and experience. In addition, the good results in 2022 should be influenced by the sale of the Astrum Business Park office complex in Warsaw.

In our opinion, it is the good prospects that make the Prochem share price this year behave much stronger than the market. We also remain optimistic about the Company and raise the target price to PLN 37, which is a 12% premium to the current market price (PLN 32.8).

[in million PLN]	2021	2022F	2023F	2024F	2025F	2026F
Income from sales	248	260	268	276	284	293
EBITDA	11,5	11,7	12,5	13,0	16,2	16,9
EBITDA margin	4,6%	4,5%	4,7%	4,7%	5,7%	5,8%
EBIT	4,7	8,4	7,5	7,7	10,7	11,0
Net profit (loss)	6,3	8,7	7,9	8,5	10,5	10,7
Shareholders' equity	102,8	111,9	120,2	129,2	140,2	140,5
Net debt	13,0	3,1	-2,6	-4,8	-11,8	-6,0
P/E	15,3	11,1	12,3	11,3	9,2	9,0
P/BV	0,9	0,9	0,8	0,7	0,7	0,7
EV/EBITDA	9,5	8,5	7,5	7,0	5,2	5,3
EPS	2,1	2,9	2,7	2,9	3,6	3,6

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

RISK FACTORS

The risk of the economic situation on the investment market.

Some of the companies in the Group provide services on the investment market, characterized by a large scale of fluctuations in demand strongly related to the general macroeconomic situation of the country, which was strongly influenced by the SARS-CoV-2 pandemic and now by war in Ukraine. The methods applied by the Group to mitigate the negative impact of this factor on its financial performance (gathering of financial provisions, diversification of services provided, use of appropriate IT tools and solutions) may not fully neutralise this risk.

Risk of threats at the performance of contracts.

The types of activity conducted in the Group companies, consisting in the preparation and management of technically complex investment projects, carried out on the basis of contracts concluded in conditions of strong price competition, generate the risk of technical and financial problems.

Risk of liquidated damages

The imposition of liquidated damages, usually in the amount of 10% of the contract, may significantly deteriorate the Company's financial standing and the necessity to pay them may result in the loss of liquidity.

Personnel risk.

The risk of dependence on the personnel is particularly high in the parent company. Increasing the quality of services provided, undertaking complex technological projects, using modern IT systems and working for reputable customers requires the highest professional qualifications from employees. It may turn out to be difficult to attract such people, especially in a situation of liberalisation of the European labour market. The company tries to minimize this risk by improving the qualifications of the employed staff and using incentive programmes binding the employees to the company.

Foreign exchange risk

Some contracts (mainly parent company's contracts) for the sale of services are concluded with foreign companies in foreign currencies (EUR, USD). If the national currency strengthens significantly, this may have an adverse effect on the Group's results. This risk is naturally mitigated by the purchase of equipment and services necessary to perform these contracts abroad.

Risk of dependence on significant service buyers

Execution of high-value contracts requires significant expenditures on the purchase of services and equipment, which are then sold to the customer in the form of a finished facility. The lack of proper correlation between the incurred expenses and proceeds from the implementation of the contract with the customer may result in the necessity for the company to use external financing. This risk is, to a large extent, hedged by appropriate provisions in the contract.

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.

DFCF - Discounted FCF (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 .

WSE – Warsaw Stock Exchange.

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.

Information and legal disclaimer

This analytical report was prepared by Dom Maklerski Banku BPS S.A. at the request of the Warsaw Stock Exchange on the basis of an agreement concluded between Dom Maklerski Banku BPS S.A. and WSE under the "Analytical Coverage Support Program 3.0. ". Dom Maklerski Banku BPS S.A. will receive remuneration for the report.

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This report is published on the day of its completion on the publicly available website <https://dmbps.pl/wsparcie-analityczne/program-wsparcia-pokrycia-analitycznego-gpw/prochem-s-a>.

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The report constitutes an investment survey within the meaning of Article 36, section 1 of Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive.

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https://dmbps.pl/informacje/228/Regulamin_zarzadzania_konfliktami_interesow_w_Domu_Maklerskim_Banku_BPS_SA

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List of recommendations issued within the last 12 months:

Company	Recommendation	Target price	Market price	Type of recommendation	Date of Issue	Analyst(s)
PROCHEM	nd	31	24,8	Analytical report	17.05.2021	Tomasz Czarniecki, Artur Wizner
VIVID GAMES	nd	1,59	1,61	Analytical report	19.05.2021	Tomasz Czarniecki, Artur Wizner
ML SYSTEM	HOLD	126	118	Initial report	30.06.2021	Tomasz Czarniecki, Artur Wizner
NTT SYSTEM	nd	8,3	5,98	Initial report	01.09.2021	Łukasz Bryl, Tomasz Czarniecki
UNIBEP	nd	17	12,9	Initial report	07.09.2021	Artur Wizner
MONNARI TRADE	nd	5,3	2,8	Initial report	07.09.2021	Łukasz Bryl, Tomasz Czarniecki
PROTEKTOR	nd	4,6	3,6	Initial report	07.09.2021	Artur Wizner, Tomasz Czarniecki
PROCHEM	nd	31	25	Initial report	06.10.2021	Artur Wizner
NTT SYSTEM	nd	8,3	5,8	Analysis of results	01.10.2021	Łukasz Bryl, Tomasz Czarniecki
MONNARI TRADE	nd	5,3	2,9	Analysis of results	01.10.2021	Łukasz Bryl, Tomasz Czarniecki
PROTEKTOR	nd	4,6	3,4	Analysis of results	08.10.2021	Artur Wizner, Tomasz Czarniecki
VIVID GAMES	nd	1,23	1,39	Analytical report	18.10.2021	Łukasz Bryl, Tomasz Czarniecki
PROCHEM	nd	31	25,4	Analysis of results	17.11.2021	Artur Wizner
VIVID GAMES	nd	1,23	1,37	Financial forecast	24.11.2021	Łukasz Bryl, Tomasz Czarniecki
NTT SYSTEM	nd	8,3	5,04	Financial forecast	24.11.2021	Łukasz Bryl, Tomasz Czarniecki
UNIBEP	nd	14	10,35	Analytical report	24.11.2021	Artur Wizner
VIVID GAMES	nd	1,23	1,34	Analysis of results	02.12.2021	Łukasz Bryl, Tomasz Czarniecki
NTT SYSTEM	nd	8,3	5,16	Analysis of results	03.12.2021	Łukasz Bryl, Tomasz Czarniecki
MONNARI TRADE	nd	5,3	2,57	Analysis of results	10.12.2021	Łukasz Bryl, Tomasz Czarniecki
PROTEKTOR	nd	4,6	3,17	Analytical report	10.12.2021	Artur Wizner
INTERFERIE	SELL	6,73	7,5	Initial report	30.12.2021	Łukasz Bryl
JSW	BUY	45	34,87	Analytical report	30.12.2021	Artur Wizner
JSW	BUY	46,4	35,4	Analytical report	04.01.2022	Artur Wizner
SNIEZKA	HOLD	84	79,8	Analytical report	24.03.2022	Artur Wizner
UNIBEP	nd	11	9	Analytical report	21.04.2022	Artur Wizner
NTT SYSTEM	nd	7,94	5	Analytical report	04.05.2022	Łukasz Bryl, Tomasz Czarniecki
PROCHEM	nd	37	32,8	Analytical report	10.05.2022	Artur Wizner