

04.09.2020 17:06

Target price [PLN]	24
DCF valuation [PLN]	21
Comparative valuation [PLN]	28
Market price [PLN]	21
Pot. of growth/decl. [%]	17,07%
Mkt capitalisation [mn PLN]	60,2
Free float [mn PLN]	22,3
Sector	INDUSTRIAL CONSTRUCTION
WSE code	PRM
Bloomberg ticker	PRM PW

Analyst:

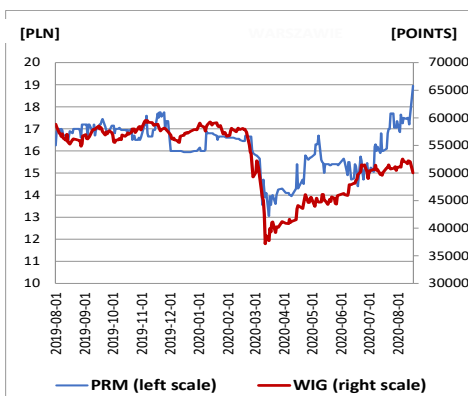
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Company profile:

An engineering company that specializes in comprehensive design and implementation of construction projects. He also participates in the organization and management of the investment project as an advisor, developer, substitute investor, investor supervision inspector, FIDIC contract engineer or general contractor. It also provides consulting services in the implementation of contracts financed with European Union aid funds.

Source: www.gpw.pl

Major Stockholders:	[%]
Steven Trappan	32,88
APUS S.A.	10,62
PTE PZU S.A.	9,71
Andrzej Karczykowski	9,66
Other	37,13



PROCHEM S.A.

Initiating Analytical Report

We have valued PROCHEM with two methods: DCF and a comparative one based on P/E, P/BV and EV/EBITDA ratios for foreign engineering companies, achieving an average valuation by the end of 2020 of PLN 24.00 per share. Our valuation of the PROCHEM shares is above the market price, which at the close of today's session was PLN 20.50 per share.

PROCHEM has had a very successful 2019, in which it recorded a significant increase in revenue and net profit. The company also managed to win several large contracts, so the company entered 2020 with a full portfolio of orders, which in our opinion have a chance to bring better results over the next two years. Additionally, cash revenues after the sale of the Astrum Business Park office building in Warsaw should positively contribute to the financial result.

Searching for new contracts. The main challenge the company is facing now is to win further contracts at a time of uncertainty caused by the SARS-CoV-2 pandemic. The area of the Company's operations will be shaped by the amount of investment outlays of the entities for which PROCHEM provides services. Design for the chemical industry is the main source of PROCHEM 's income. The chemical industry in Poland occupies a high position among the sectors of the Polish economy and currently produces products worth about PLN 275 billion, which accounts for 17% of the value of Polish industrial production sold. In our opinion, increasing expenditures on investments related to environmental protection will fill the Company's portfolio of contracts for the coming years.

[min PLN]	2019	2020P	2021P	2022P	2023P
Income from sales	323	459	306	255	263
EBITDA	12,1	17,2	7,1	5,3	6,6
EBITDA margin	3,8%	3,7%	2,3%	2,1%	2,5%
EBIT	6,5	11,7	4,3	2,2	3,2
Net profit (loss)	8,0	13,7	6,1	3,9	4,7
Shareholders' equity	98,6	108,8	114,0	118,1	123,1
Net debt	-4,8	-2,3	-28,1	-39,9	-37,8
P/E	6,9	4,1	9,2	14,3	11,8
P/BV	0,6	0,5	0,5	0,5	0,5
EV/EBITDA	4,2	3,1	3,9	3,0	2,7

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 is currently strongly influenced by the SARS-CoV-2 pandemic. 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.

This paper is an abstract of the initiating analytical report, the full version of which is available in Polish on the website of the Brokerage House of BPS S.A.: https://dmbps.pl/informacje/238/PROCHEM_SA_raport_analityczny

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

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