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Dom Maklerski Banku BPS

2021-10-06 08:00

PROCHEM S.A.

Analytical Report

Key data

Target price [PLN]	**31**
DCF valuation [PLN]	29
Comparative valuation [PLN]	33
Market price [PLN]	25,0
Pot. of growth/decl. [%]	24,13%
Mkt capitalisation [mn PLN]	73,4
Free float [mn PLN]	37,3
Sector	INDUSTRY CONSTRUCTION
WSE code	PRM
Bloomberg ticker	PRM PW

Analyst:

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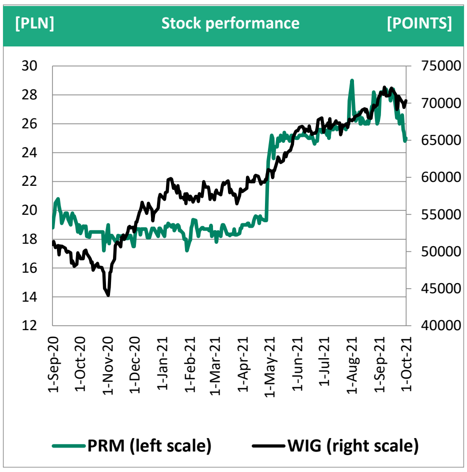
Company profile:

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



Once again, Prochem's results met ours and the investors expectations, and they were additionally rewarded through buyback carried out in the first half of 2021, which we treat as a substitute for dividends. Despite the high uncertainty in the markets related to the COVID-19 pandemic, the Polish chemical industry has not stopped investing. Investment outlays of the Polish chemical industry in 2020 amounted to over PLN 13 billion (increase by 10% y / y), and Prochem achieved close to record levels revenues at the level of PLN 352 million. The largest domestic companies chemical companies implement key development projects and announce the next ones, although they delay them a bit. Although information about new contracts did not come in until Q2, and in our opinion it will not be affected this on the level of revenues in the coming quarters. Especially interesting are looking the recently concluded contracts with PKN look promising Orlen and Anwil as part of the implementation strategy hydrogen as a transport fuel. We believe in implementing this type of contracts Prochem has special competences.

Perspectives for the chemical industry (Reconstruction Fund, European Green Deal) is assessed very positively, which should translate into new ones contracts for Prochem. The biggest threat in ours the assessment will be to maintain a good gross margin (9.8% in the first half of the year) on sales in the face of rising prices of building materials and the growing pressure to increase wages.

Staying optimistic about the Company, and by the way conservative in valuation, we maintain our target price (PLN 31.0) at an unchanged level, which is above the current market price (PLN 25) at 24%.

[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

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.

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 .
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.

This study reflects the knowledge and views of the authors as of the date of its preparation. The authors do not take into account in the study any individual investment objectives, financial standing, or the needs or demands of potential addressees of the study or its principals.

This study does not constitute: (1) a personal recommendation; or (2) investment, legal or other advice; or (3) an offer, incentive to act, invest or dispose of an investment in a particular way; or (4) an assessment or assurance of the profitability of investments in financial instruments covered by it.

This study has been prepared in accordance with legal requirements ensuring independence, in particular in accordance with Commission Delegated Regulation (EU) No 2016/958 of 9 March 2016 supplementing Regulation (EU) No. 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards on technical measures for the objective presentation of investment recommendations or other information recommending or suggesting investment strategy and the disclosure of special interests or indications of conflicts of interest.

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.

This study constitutes an investment survey not carried out as part of investment advisory services or portfolio management within the meaning of the Act of 29 July 2005 on trading in financial instruments.

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The data presented here relate to the past, and past performance does not guarantee future results.

Warsaw, October 6th, 2021.

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During the 12 months preceding the issue of the study, Dom Maklerski Banku BPS S.A. did not offer the Issuer's financial instruments in primary trading or in an initial public offering, nor did it act as an animator for the newly issued financial instruments to which the study relates.

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Detailed information on the valuation or methodology and the assumptions, models and meaning of recommendations is available at the address: https://dmbps.pl/informacje/221/Materialy_Analityczne.

A description of the actual internal organisational and administrative solutions and any information barriers established in order to prevent and avoid conflicts of interest concerning recommendations can be found in the Conflict of Interest Management Regulations of Dom Maklerski Banku BPS S.A. available at the address:

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

A general description of the financial instrument and the risks associated with investing in particular financial instruments is presented at the Website. This information has been prepared with due diligence, in particular in a reliable manner and to the best of DM BPS' knowledge, but it may not be exhaustive and in the specific situation in which the recipient is or will be, other risk factors than those indicated in the above information by DM BPS may exist or appear. The recipient should bear in mind that investments in individual financial instruments may result in the loss of some or all of the funds invested and may even involve additional costs.

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Warsaw, October 6th, 2021.