

17.05.2022 08:30

### Key data

Target price [PLN]	37
DCF valuation [PLN]	42
Comparative valuation [PLN]	28
Market price [PLN]	33,6
Pot. of growth/decl. [%]	10,12%
Mkt capitalisation [mn PLN]	98,6
Free float [mn PLN]	36,8
Sector	INDUSTRY CONSTRUCTION
WSE code	PRM
Bloomberg ticker	PRM PW

### Analyst:

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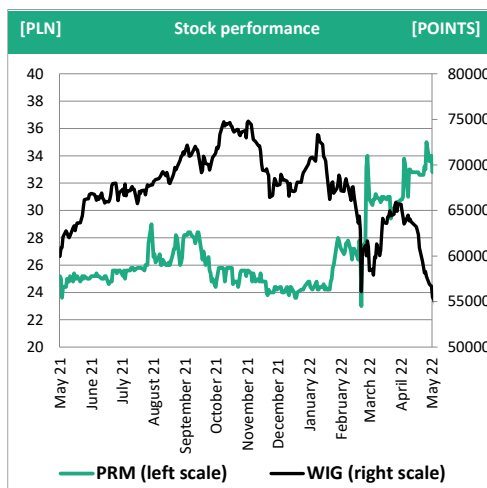
### Company profile:

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](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 1Q 2022

Key facts from the published results:

- Prochem in Q1 22, meet our expectations, recorded sales revenues at a stable level of PLN 57.3 million, an increase by 10.7% y/y, a decrease by 30.6% q/q.
- On the gross margin level, there was a significant increase in relation to the previous quarters (10.8% vs. 4.8% in Q4 21), although compared to the record-breaking in this respect Q1 21 (13.2%), this is a decrease by 2.4 pp.
- The company generated an operating profit of PLN 2.7 million compared to PLN 4.0 million a year ago (a decrease by 31.5% y/y, an increase by 310.3% q/q).
- We positively assess the keeping in check of general and administrative expenses, which in Q1 amounted to PLN 3.5 million (-16.1% compared to Q4 21 and +7.2% y/y).
- On the net profit level, the result of PLN 2.0 million achieved after the first quarter should be considered good, although it is weaker both in terms of y/y (-18% and q/q - 30.3%).

The results for Q1 22 show that the cost pressure on the contracts performed by Prochem in the general contracting segment continues. Good results in other segments translate into the expected final result. In our opinion, the recently concluded contracts for design works should contribute to the stabilization of profitability at the current level. The results are in line with our expectations, so we leave the valuation unchanged at PLN 37.

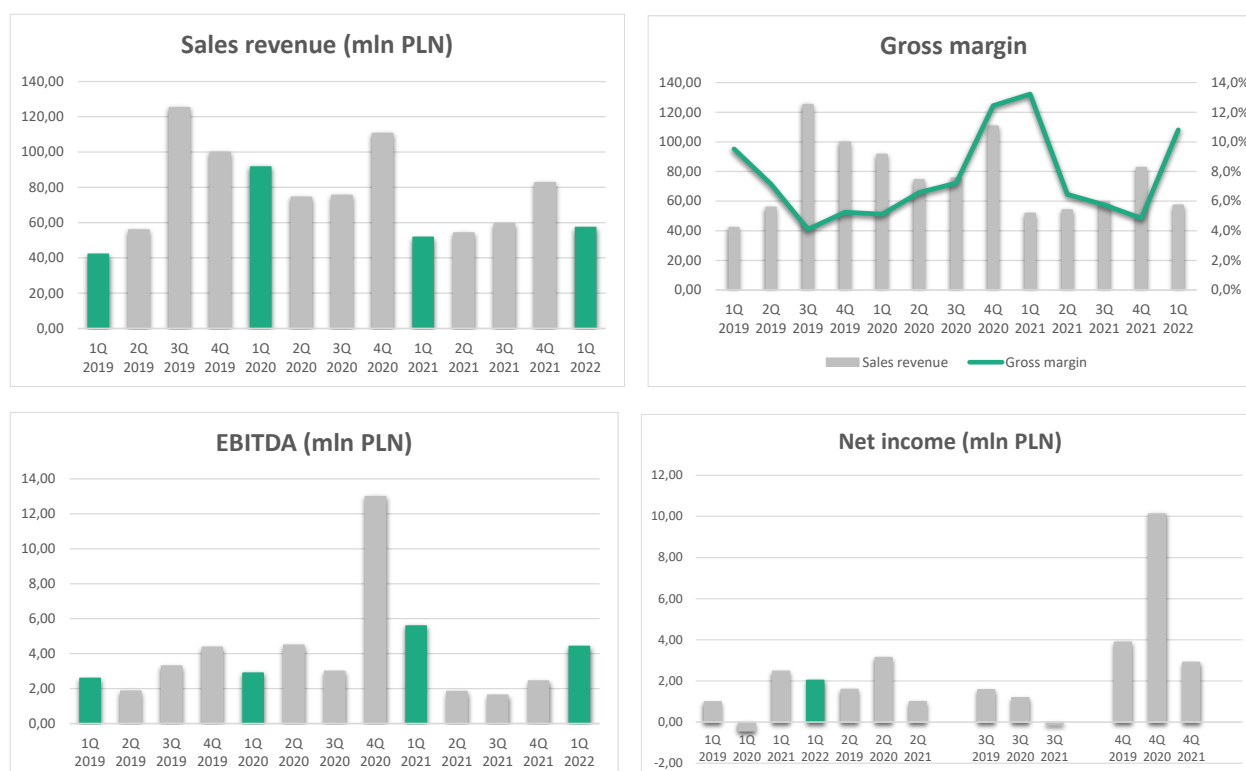
[in million PLN]	2021	2022F	2023F	2024F	2025F	2026F
Income from sales	248	260	268	276	284	293
EBITDA	11,5	11,7	12,8	13,3	16,4	17,1
EBITDA margin	4,6%	4,5%	4,8%	4,8%	5,8%	5,8%
EBIT	4,7	8,4	7,7	8,0	10,9	11,2
Net profit (loss)	6,3	8,7	7,2	7,6	10,0	10,0
Shareholders' equity	102,8	111,9	119,6	127,7	138,2	138,4
Net debt	13,0	2,2	-4,7	-8,5	-16,7	-12,2
P/E	15,7	11,4	13,6	12,9	9,9	9,8
P/BV	1,0	0,9	0,8	0,8	0,7	0,7
EV/EBITDA	9,7	8,6	7,4	6,8	5,0	5,0
EPS	2,1	2,9	2,5	2,6	3,4	3,4

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

## Financial results for 1Q 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>	57 321	65 060	-11,9%	82 616	59 337	-30,6%
Profit on sales	6 199	4 548	36,3%	4 002	3 408	54,9%
Sales margin	10,8%	7,0%	54,7%	4,8%	5,7%	123,3%
<b>EBITDA</b>	4 422	2 916	51,7%	2 441	1 625	81,2%
EBITDA margin	7,7%	4,5%	72,1%	3,0%	2,7%	161,1%
<b>EBIT</b>	2712	8 426	-67,8%	661	-71	310,3%
EBIT margin	4,7%	13,0%	-63,5%	0,8%	-0,1%	491,3%
<b>Gross profit</b>	3 212	2 739	17,3%	3 456	24	-7,1%
Gross profit margin	5,6%	4,2%	33,1%	4,2%	0,0%	34,0%
<b>Net income</b>	2030	2 164	-6,2%	2 911	-105	-30,3%
Net income margin	3,5%	3,3%	6,5%	3,5%	-0,2%	0,5%

Source: DM Banku BPS SA, Company



Source: DM Banku BPS SA, Company

**Expected impact:** We evaluate the results for Q1 22 as good, in particular taking into account the more than twofold increase in the costs of materials and energy and a 17.4% increase in the cost of external services compared to Q1 2021. On the balance sheet side, we positively assess the decline in the balance of trade receivables from 87 to PLN 56 million and the balance of trade liabilities from PLN 77 to 55 million. According to the latest forecasts of the European Commission, Polish gross domestic product is to grow by 3.7% year on year this year, and by 3% next year. The decrease in relation to the February forecast (5.5% and 4.2%) is related to the threat of economic effects of the war in Ukraine. We believe that investments, in particular in the Polish chemical industry, are not endangered, and that the Community energy and climate transformation will continue. The long-awaited release of KPO funds will be a positive factor.

## 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).

**KPO** – National Recovery Plan

**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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The work on this study has been completed on: 17th May 2022, 08:30

Distribution of this study: 17th May 2022, 08:45

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

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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	Tomasz Czarniecki, Łukasz Bryl
PROCHEM	nd	37	32,8	Analytical report	10.05.2022	Artur Wizner
VIVID GAMES	nd	1,25	1,17	Analysis of results	13.05.2022	Łukasz Bryl, Tomasz Czarniecki
PROTEKTOR	nd	3,6	2,8	Analytical report	13.05.2022	Artur Wizner
PROCHEM	nd	37	33,6	Analysis of results	17.05.2022	Artur Wizner