

15.11.2022 08:30

Key data

Target price [PLN]	30
DCF valuation [PLN]	36
Comparative valuation [PLN]	23
Market price [PLN]	35,0
Pot. of growth/decl. [%]	-13,76%
Mkt capitalisation [mn PLN]	82,4
Free float [mn PLN]	32,3
Sector	INDUSTRY CONSTRUCTION
WSE code	PRM
Bloomberg ticker	PRM PW

Analyst:

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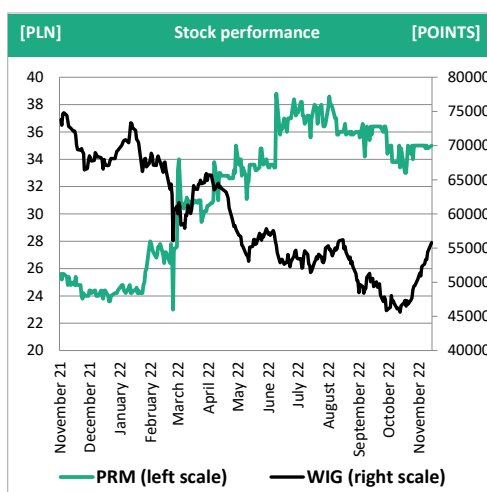
Company profile:

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	42,46
PTE PZU S.A.	12,10
Jean Jaques Alphanbery and APUS SA	6,20
Other	39,24



PROCHEM S.A.

Analysis of the results for the 3Q 2022

Key facts from the published results:

- Prochem in Q3 22 recorded sales revenues at a stable level of PLN 47.9 million, a decrease by 19.3% y/y, an increase by 5.2% q/q.
- On the gross margin level, there was a significant increase compared to the previous quarter (5.2% vs. 0.7% in Q2 22), and it is a value close to the value achieved in the second half of 21, compared to Q3 21 (5.7%), a decrease of 0.5 pp.
- The operating loss in Q3 amounted to PLN -1.2 million vs. PLN -6.4 million in Q2 22 and PLN -71 thousand in Q2 2020 PLN a year ago.
- We positively assess the keeping in check of general and administrative expenses, which in Q3 amounted to PLN 3.7 million (-11.9% compared to Q2 22 and +6.6% y/y).
- At net profit level, the result of PLN 247 thousand PLN achieved in the third quarter should be considered as good, taking into account PLN -1.6 million loss in Q2 22 and PLN -105 thousand PLN loss in Q3 21

The results for Q3 22 indicate that the rich portfolio of contracts, as we expected, translates into a stable level of revenues. In our opinion, the cost pressure on contracts executed by Prochem, visible in Q2 22, is slowly weakening, which transferred into positive results. We expect the profitability to stabilize at the current level, which implies leaving the valuation unchanged at PLN 30.

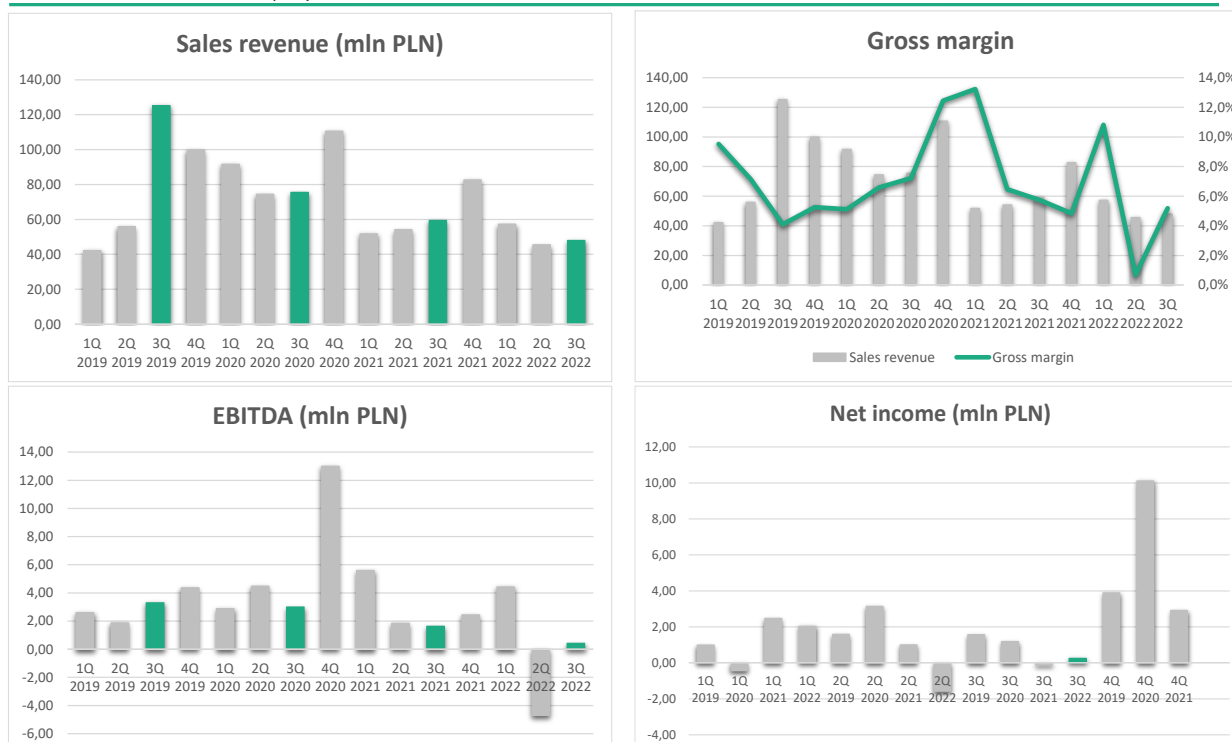
[in million PLN]	2021	2022F	2023F	2024F	2025F	2026F
Income from sales	248	238	245	260	268	276
EBITDA	11,5	3,4	7,8	9,8	10,9	13,6
EBITDA margin	4,6%	1,4%	3,2%	3,8%	4,1%	4,9%
EBIT	4,7	-1,1	2,6	4,2	5,1	7,4
Net profit (loss)	6,3	2,7	3,9	5,6	6,5	8,6
Shareholders' equity	102,8	105,7	110,6	116,6	123,5	132,6
Net debt	13,0	-12,1	-11,4	-19,6	-28,2	-27,1
P/E	13,1	30,8	21,0	14,6	12,7	9,6
P/BV	0,8	0,8	0,7	0,7	0,7	0,6
EV/EBITDA	8,3	20,7	9,1	6,4	5,0	4,1
EPS	2,7	1,1	1,7	2,4	2,8	3,6

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
Revenue	47 907	59 484	-19,5%	45 530	57 321	5,2%
Profit on sales	2 483	4 182	-40,6%	308	6 199	706,2%
<i>Sales margin</i>	5,2%	7,0%	-1,8 pp	0,7%	10,8%	4,5 pp
EBITDA	408	850	-52,0%	-4 702	4 422	-
<i>EBITDA margin</i>	0,9%	1,4%	-0,5 pp	-10,3%	7,7%	-
EBIT	-1225	-1 082	13,2%	-6 432	2 712	-
<i>EBIT margin</i>	-2,6%	-1,8%	-0,8 pp	-14,1%	4,7%	-
Gross profit	50	848	-94,1%	-1 876	3 212	-
<i>Gross profit margin</i>	0,1%	1,4%	-1,3 pp	-4,1%	5,6%	-
Net income	247	670	-63,1%	-1 573	2 030	-
<i>Net income margin</i>	0,5%	1,1%	-0,6 pp	-3,5%	3,5%	-

Source: DM Banku BPS SA, Company



Source: DM Banku BPS SA, Company

Expected impact: We consider the results for Q3 22 to be decent, taking into account the increase in the costs of materials, energy and external services observed this year, which strongly affects the profitability of contracts implemented in the general contracting formula. On the balance sheet side, there were no major changes in Q3 22, and the Company's very strong cash position of PLN 46 million is still noteworthy. Apart from the acquisition from PKI Predom sp. z o.o. (a subsidiary of Prochem SA) of a share in the right of perpetual usufruct of a plot of land located in Wrocław, on which Prochem will probably start the construction of a new office building, it also allows for the tender offer, which was announced by the Company on November 7, at the price of PLN 36. Although this value is close to our DCF valuation of PLN 35, we believe that investors may be more optimistic about the Company, taking into account not only the likely disbursement of funds from KPO, but also the opportunities arising from the recently signed cooperation agreement regarding the potential construction of AP1000 reactors as part of the implementation of the Polish Nuclear Energy Program with the American Westinghouse company.

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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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.

The work on this study has been completed on: 15th November 2022, 08:30

Distribution of this study: 15th November 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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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	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 Czamecki
NTT SYSTEM	nd	8,3	5,04	Financial forecast	24.11.2021	Łukasz Bryl, Tomasz Czamecki
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 Czamecki
NTT SYSTEM	nd	8,3	5,16	Analysis of results	03.12.2021	Łukasz Bryl, Tomasz Czamecki
MONNARI TRADE	nd	5,3	2,57	Analysis of results	10.12.2021	Łukasz Bryl, Tomasz Czamecki
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 Czamecki, 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 Czamecki
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
MONNARI TRADE	nd	5,5	3,5	Analytical report	18.05.2022	Łukasz Bryl
VIVID GAMES	nd	1,29	1,26	Analysis of results	26.05.2022	Łukasz Bryl
MONNARI TRADE	nd	6,21	3,87	Analysis of results	31.05.2022	Łukasz Bryl
NTT SYSTEM	nd	7,92	4,28	Analysis of results	31.05.2022	Łukasz Bryl
UNIBEP	nd	11	8,1	Analysis of results	31.05.2022	Artur Wizner
PROTEKTOR	nd	3,6	2,83	Analysis of results	01.06.2022	Artur Wizner
JSW	BUY	74	38,7	Analytical report	12.09.2022	Artur Wizner
UNIBEP	nd	10	7,2	Analytical report	20.09.2022	Artur Wizner
VIVID GAMES	nd	1,07	1,03	Analytical report	29.09.2022	Łukasz Bryl
SNIEZKA	HOLD	67	64,2	Analytical report	29.09.2022	Artur Wizner
NTT SYSTEM	nd	7,03	3,95	Analytical report	04.10.2022	Łukasz Bryl
PROCHEM	nd	30	34,8	Analytical report	05.10.2022	Artur Wizner
PROTEKTOR	nd	2,9	2,6	Analytical report	12.10.2022	Artur Wizner
MONNARI TRADE	nd	6,74	3,87	Analytical report	21.10.2022	Łukasz Bryl
PROCHEM	nd	30	35	Analysis of results	15.11.2022	Artur Wizner