

2021-05-17 17:15

<b>Target price [PLN]</b>	<b>31</b>
DCF valuation [PLN]	26
Comparative valuation [PLN]	34
Market price [PLN]	24,8
Pot. of growth/decl. [%]	24,83%
Mkt capitalisation [mn PLN]	72,8
Free float [mn PLN]	26,8
Sector	INDUSTRY CONSTRUCTION
WSE code	PRM
Bloomberg ticker	PRM PW

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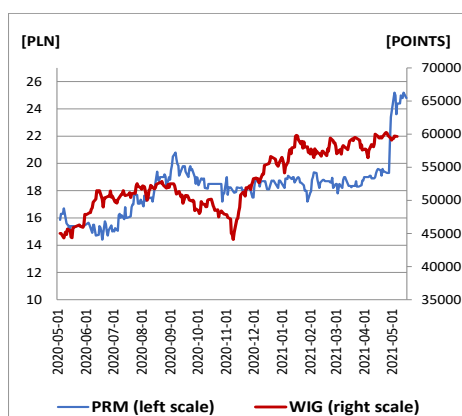
**Company profile:**

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

<b>Major Stockholders:</b>	<b>[%]</b>
Steven Trappan	33,23
APUS S.A.	10,62
PTE PZU S.A.	9,71
Andrzej Karczykowski	9,66
Other	36,78

)\* with related entities



# PROCHEM S.A.

## Analytical Report

**Our positive attitude towards the company, PROCHEM, was fully rewarded. Despite the slower pace of the contracts' implementation in the first three quarters of 2020, the financial results for Q4 2020 clearly exceeded our expectations. Revival in the industry, subsiding pandemic and the prospect of selling Astrum Business Park increase our valuation of PROCHEM shares to PLN 31 per share until the end of 2021.**

In 2021, there was no noticeable impact of the pandemic on the PROCHEM's sales and the supply chain. Despite this observable lack of influence, the company has implemented tools to monitor the meeting of deadlines for contracts' execution and to analyze the financial situation of contractors. The largest domestic chemical companies execute key development projects and announce more of them, but due to the lack of information about new major contracts in the general contractor formula, we are slightly lowering the revenues forecast for the next years, while increasing the assumed margins. This valuation assumption seems to be in line with our analysis of the PROCHEM strategy for the fourth quarter of 2021. We noted that PROCHEM focuses now on implementing larger number of the smaller projects, with higher margins.

Observing the recovery in the Polish industry, including the chemical sector, at the end of the last and in this year, we believe that perspectives for PROCHEM are positive. We stay optimistic about the company's future results.

[in million PLN]	2020	2021F	2022F	2023F	2024F	2025F
Income from sales	352	350	343	343	350	360
EBITDA	23,4	15,0	11,9	11,5	12,6	12,9
EBITDA margin	6,6%	4,3%	3,5%	3,4%	3,6%	3,6%
EBIT	17,0	11,5	9,2	8,7	8,7	8,9
Net profit (loss)	14,0	10,0	8,3	7,9	8,0	8,3
Shareholders' equity	112,6	123,1	131,8	140,1	148,6	157,4
Net debt	-9,5	-27,5	-8,6	-3,2	-9,0	-14,3
P/E	5,3	7,4	9,0	9,3	9,2	8,9
P/BV	0,6	0,6	0,6	0,5	0,5	0,5
EV/EBITDA	2,8	3,1	5,5	6,1	5,2	4,6

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://panel.dmbps.pl/files2/repository/m1\\_MTI3MTA.pdf](https://panel.dmbps.pl/files2/repository/m1_MTI3MTA.pdf)

## 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](https://dmbps.pl/informacje/238/PROCHEM_SA_raport_analityczny)*

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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 DM Bank BPS S.A. and WSE under the "Pilot Analysis Coverage Support Programme". The study is published under the Analytical Coverage Support Programme.

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