

25/2024/GPW (67) August 7, 2024

This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Program 4.0.

Bowim

Recommended action	2
2Q24 financial results preview	2
Financial forecasts and valuation	2
Recent events	2
Upcoming events	2
Catalysts	3
Risk factors	3
Disclaimer	4

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Analyst: Michał Zamel

Sector: Construction materials
Bloomberg code: BOW PW
Price: PLN 6.03
12M EFV: PLN 7.2 (→)

Market Cap: US\$ 29.8 m
Av. daily turnover: US\$ 0.01 m
12M range: PLN 6.00-8.40
Free float: 23.8%

Bowim

Recommended action

Our approach to Bowim has not changed. We expect the Company's 2Q24 financial results to be slightly lower qoq given the prevailing challenging market environment. We believe a material improvement is likely to surface next year as the impact of EU funds inflow (from the framework of the National Recovery and Resilience Plan) would be more and more visible in Poland's economy; this, coupled with favorable regulatory changes in the power generation, should bolster the demand for steel.

2Q24 financial results preview

We expect a slight qoq drop of volumes in 2Q24; we also assume some marginal fall of steel prices. Consequently, we expect a further drop (by a few per cent qoq) of the Group's total revenues which we forecast at c. PLN 415.1 million (down 10% qoq and down 17% yoy vs last year's high base). With falling, albeit marginally, metallurgical products prices we don't count on any profitability improvement and forecast the EBITDA margin at 2.2% and EBIT margin at 1.7% in 2Q24. Thus, we project EBITDA and EBIT at PLN 9.1 million and PLN 7.1 million, respectively. According to our estimations, the net financial result should be qoq comparable given a stable level of interest rates and lack of any high debt coupled with small demand. In result, we forecast 2Q24 NI at c. PLN 2.7 million (up 5% yoy).

Financial forecasts and valuation

We keep our forecasts for the Group intact.

Guide to adjusted profits

No factors necessitating adjustments.

Key data

IFRS consolidated		2023	2024E	2025E	2026E
Sales	PLN m	2,036.7	2,029.0	2,130.3	2,194.1
EBITDA	PLN m	44.1	45.6	47.6	48.3
EBIT	PLN m	35.4	36.8	38.7	39.4
Net income	PLN m	13.2	16.6	20.0	21.9
EPS	PLN	0.68	0.85	1.03	1.12
Adj EPS yoy chg	%	-88	26	21	9
Net debt (off-balance sheet factoring)	PLN m	115.8	115.8	115.8	115.8
Net debt (balance sheet)	PLN m	-13.1	-6.1	3.1	-12.2
Net debt (incl. factoring)	PLN m	102.7	109.7	118.9	103.6
P/E	x	8.9	7.1	5.9	5.4
P/CE	x	5.4	4.6	4.1	3.8
EV/EBITDA	x	5.0	5.0	5.0	4.6
EV/EBIT	x	6.2	6.2	6.1	5.6
DPS	PLN	1.20	0.12	0.15	0.18
Gross dividend yield	%	19.9	1.9	2.4	2.9
Number of shares (eop)	m	19.5	19.5	19.5	19.5

Source: Company, DM BOŚ SA estimates

Stock performance



Source: Bloomberg

Recent events

1. 4Q23 financial results release: April 16
2. Release of preliminary unconsolidated 1Q24 financial results: April 25
3. Release of preliminary consolidated 1Q24 financial results: May 10
4. 1Q24 financial results release: May 23

Upcoming events

1. Release of preliminary unconsolidated and consolidated 2Q24 financial results: August
2. 2Q24 financial results release: September 26

Catalysts

1. Economic recovery in Poland
2. Inflow of EU funds within the framework of the National Recovery and Resilience Plan
3. Rebound on the infrastructural and industrial construction market
4. Investments in the power generation (among others, wind farms)
5. Rebound on the housing market
6. EUR depreciation vs PLN
7. Further expansion of the distribution chain

Risk factors

1. Weak demand for steel
2. Economic slowdown in Poland
3. Strengthening EUR vs PLN
4. Pressure on wages growth

BASIC DEFINITIONS

A/R turnover (in days) = $365/(\text{sales}/\text{average A/R})$
Inventory turnover (in days) = $365/(\text{COGS}/\text{average inventory})$
A/P turnover (in days) = $365/(\text{COGS}/\text{average A/P})$
Current ratio = $(\text{current assets} - \text{ST deferred assets})/\text{current liabilities}$
Quick ratio = $(\text{current assets} - \text{ST deferred assets} - \text{inventory})/\text{current liabilities}$
Interest coverage = $(\text{pre-tax profit before extraordinary items} + \text{interest payable})/\text{interest payable}$
Gross margin = $\text{gross profit on sales}/\text{sales}$
EBITDA margin = $\text{EBITDA}/\text{sales}$
EBIT margin = EBIT/sales
Pre-tax margin = $\text{pre-tax profit}/\text{sales}$
Net margin = $\text{net profit}/\text{sales}$
ROE = $\text{net profit}/\text{average equity}$
ROA = $(\text{net income} + \text{interest payable})/\text{average assets}$
EV = $\text{market capitalization} + \text{interest bearing debt} - \text{cash and equivalents}$
EPS = $\text{net profit}/\text{no. of shares outstanding}$
CE = $\text{net profit} + \text{depreciation}$
Dividend yield (gross) = $\text{pre-tax DPS}/\text{stock market price}$
Cash sales = $\text{accrual sales corrected for the change in A/R}$
Cash operating expenses = $\text{accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes}$

DM BOŚ S.A. generally values the covered non bank companies via two methods: comparative method and DCF method (discounted cash flows). The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the DCF method is its independence from the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Please note that we also resort to other valuation techniques (e.g. NAV-, DDM- or SOTP-based), should it prove appropriate in a given case.

KEY TO INVESTMENT RANKINGS

This is a guide to expected price performance in absolute terms over the next 12 months:

Buy – fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;
Hold – either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;
Sell – fundamentally overvalued (12M EFV < current share price + 1-year cost of equity) + catalysts which should close the valuation gap identified.

This is a guide to expected relative price performance:

Overweight – expected to perform better than the benchmark (WIG) over the next quarter in relative terms
Neutral – expected to perform in line with the benchmark (WIG) over the next quarter in relative terms
Underweight – expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

The recommendation tracker presents the performance of DM BOŚ S.A.'s recommendations. A recommendation expires on the day it is altered or on the day 12 months after its issuance, whichever comes first.

Relative performance compares the rate of return on a given recommended stock in the period of the recommendation's validity (i.e. from the date of issuance to the date of alteration or – in case of maintained recommendations – from the date of issuance to the current date) in a relation to the rate of return on the benchmark in this time period. The WIG index constitutes the benchmark. For recommendations that expire by an alteration or are maintained, the ending values used to calculate their absolute and relative performance are: the stock closing price on the day the recommendation expires/ is maintained and the closing value of the benchmark on that date. For recommendations that expire via a passage of time, the ending values used to calculate their absolute and relative performance are: the average of the stock closing prices for the day the recommendation elapses and four directly preceding sessions and the average of the benchmark's closing values for the day the recommendation expires and four directly preceding sessions.

Distribution of DM BOŚ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision	Not rated
Numbers	41	26	9	5	0	4
Percentage	48%	31%	11%	6%	0%	5%

Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	27	36	13	5	0	4
Percentage	32%	42%	15%	6%	0%	5%

Banks

Net Interest Margin (NIM) = $\text{net interest income}/\text{average assets}$
Non interest income = $\text{fees\&commissions} + \text{result on financial operations (trading gains)} + \text{FX gains}$
Interest Spread = $(\text{interest income}/\text{average interest earning assets})/(\text{interest cost}/\text{average interest bearing liabilities})$
Cost/Income = $(\text{general costs} + \text{depreciation})/(\text{profit on banking activity} + \text{other net operating income})$
ROE = $\text{net profit}/\text{average equity}$
ROA = $\text{net income}/\text{average assets}$
Non performing loans (NPL) = loans in 'basket 3' category
NPL coverage ratio = $\text{loan loss provisions}/\text{NPL}$
Net provision charge = $\text{provisions created} - \text{provisions released}$

DM BOŚ S.A. generally values the covered banks via two methods: comparative method and fundamental target fair P/E and target fair P/BV multiples method. The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the fundamental target fair P/E and target fair P/BV multiples method is its independence of the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Assumptions used in valuation can change, influencing thereby the level of the valuation. Among the most important assumptions are: GDP growth, forecasted level of inflation, changes in interest rates and currency prices, employment level and change in wages, demand on the analysed company products, raw material prices, competition, standing of the main customers and suppliers, legislation changes, etc. Changes in the environment of the analysed company are monitored by analysts involved in the preparation of the recommendation, estimated, incorporated in valuation and published in the recommendation whenever needed.

Distribution of DM BOŚ's current recommendations for the companies which DM BOŚ has supplied with material investment services within the last 12 months

	Buy	Hold	Sell	Suspended	Under revision	Not rated
Numbers	9	4	0	1	0	3
Percentage	53%	24%	0%	6%	0%	18%

Distribution of DM BOŚ's current market relative recommended weightings for the companies which DM BOŚ has supplied with material investment services within the last 12 months

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	4	8	1	1	0	3
Percentage	24%	47%	6%	6%	0%	18%

Recommendation tracker

Analyst	Fundamental Recommendation	Relative Recommendation	Report date	Reiteration date	Distribution date	Price at issue/ reiteration*	EFV (12 months)
Bowim							
Michał Zamel	Not rated	Not rated	10.09.2023	-	11.09.2023	7.05	6.90 –
Michał Zamel	-	-	-	12.10.2023	12.10.2023	7.15	6.90 →
Michał Zamel	-	-	-	23.10.2023	24.10.2023	7.76	6.90 →
Michał Zamel	-	-	-	06.11.2023	06.11.2023	7.30	6.90 →
Michał Zamel	-	-	-	07.12.2023	07.12.2023	7.20	7.20 ↑
Michał Zamel	-	-	-	10.12.2023	11.12.2023	7.10	7.20 →
Michał Zamel	-	-	-	09.01.2024	09.01.2024	7.42	7.20 →
Michał Zamel	-	-	-	25.01.2024	25.01.2024	7.18	7.20 →
Michał Zamel	-	-	-	01.02.2024	01.02.2024	6.98	7.20 →
Michał Zamel	-	-	-	29.02.2024	29.02.2024	6.91	7.20 →
Michał Zamel	-	-	-	04.04.2024	04.04.2024	6.45	7.20 →
Michał Zamel	-	-	-	06.05.2024	06.05.2024	6.77	7.20 →
Michał Zamel	-	-	-	07.05.2024	07.05.2024	6.71	7.20 →
Michał Zamel	-	-	-	29.05.2024	29.05.2024	6.65	7.20 →
Michał Zamel	-	-	-	12.07.2024	12.07.2024	6.60	7.20 →
Michał Zamel	-	-	-	07.08.2024	08.08.2024	6.03	7.20 →

* prices at issue/reiteration are the closing prices at the report or reiteration date

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