

**44/2024/GPW (107)** December 1, 2024

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

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# Bowim

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**Analyst:** Michał Zamel

**Sector:** Construction materials  
**Bloomberg code:** BOW PW  
**Price:** PLN 4.15  
**12M EFV:** PLN 5.5 (↑)

**Market Cap:** US\$ 19.9 m  
**Av. daily turnover:** US\$ 0.01 m  
**12M range:** PLN 4.15-7.45  
**Free float:** 23.8%

# Bowim

## Key points

■ **Recommended action.** Our attitude towards Bowim has not changed since our last report issued in October as the market remains challenging and low demand coupled with strong competition pressure leads to lower steel prices and impacts the steel distributors' margins. In result, already in 2Q24 Bowim generated losses on the operating and net level. We believe this market environment and resulting pressure on the Company's results will prevail till the end of this year. At the same time, the Company's 3Q24 results showed higher sale volumes than assumed in our forecasts and in consequence were better than we expected. This year Bowim's sale volumes have been on the rise, especially in 3Q, despite the weak market, and the Company's market share is growing which may constitute some chance once the steel market recovers.

We confirm our expectations of material improvement on the steel market next year given a long-term nature of investment processes coupled with the assumption that real support of the RRF (the Recovery and Resilience Facility) funds for Poland's economy (construction, renewable energy) would materialize next year at the soonest. In the perspective of the current decade EU funding and likely favorable law changes (liberalization of the wind mill law, acceleration of the investment process) may become the catalyst for the Company's results in the area of investments in the wind farms. On the back of the current market environment and outlook for the coming years we slightly raise our 12M EFV for Bowim to PLN 5.5 from PLN 5.1 per share.

■ **4Q24E.** We expect the negative trends observed in the previous quarter to continue which means a further pressure on margins, albeit we still assume a high level of volumes (but lower qoq)

### Guide to adjusted profits

No factors necessitating adjustments.

### Key data

IFRS consolidated		2023	2024E	2025E	2026E
Sales	PLN m	2,036.7	1,814.5	1,887.0	1,943.5
EBITDA	PLN m	44.1	7.3	39.4	41.1
EBIT	PLN m	35.4	-1.8	30.3	32.1
Net income	PLN m	13.2	-17.4	11.6	16.9
EPS	PLN	0.68	-0.89	0.59	0.87
Adj EPS yoy chg	%	-88	n.m.	n.m.	46
Debt (off-balance sheet factoring)	PLN m	115.8	104.2	104.2	104.2
Net debt (balance sheet)	PLN m	-13.1	-1.9	27.2	16.5
Net debt (incl. factoring)	PLN m	102.7	102.3	131.4	120.8
P/E	x	6.3	neg.	7.2	4.9
P/CE	x	3.8	neg.	4.0	3.2
EV/EBITDA	x	4.2	25.6	5.5	5.0
EV/EBIT	x	5.3	neg.	7.1	6.4
DPS	PLN	1.20	0.10	0.00	0.09
Gross dividend yield	%	28.1	2.4	0.0	2.1
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. Release of preliminary unconsolidated 3Q24 financial results: November 19
2. Release of preliminary consolidated 3Q24 financial results: November 20
3. Release of 3Q24 financial results: November 21

### Upcoming events

1. Release of preliminary unconsolidated and consolidated 4Q24 financial results: February – March, 2025
2. 4Q24 financial results release: April 2025

**Fig. 1. Bowim; Changes in DM BOŚ SA financial forecast**

IFRS consolidated (PLN m)	2024E			2025E			2026E		
	current	previous	change	current	previous	change	current	previous	change
Sales	1,814.5	1,725.3	5%	1,887.0	1,811.5	4%	1,943.5	1,865.8	4%
EBITDA	7.3	0.2	3,518%	39.4	37.8	4%	41.1	39.4	4%
EBIT	-1.8	-8.9	n.m.	30.3	28.7	6%	32.1	30.4	6%
NP	-17.4	-21.2	n.m.	11.6	11.3	2%	16.9	13.9	22%
Net debt	102.3	98.0	4%	131.4	111.5	18%	120.8	103.1	17%

Source: DM BOŚ SA estimates

and slightly lower average prices than in 3Q24. We forecast PLN 439.3 million of revenues (down 6% qoq). The mentioned above pressure on profitability should lead to further operating and net losses, we believe. We forecast 4Q24 EBITDA/ EBIT/ NL at PLN 0.1/-2.2/-3.6 million.

- **FY financial forecasts.** We introduce small changes to our forecast for this year. Given higher than we expected 3Q24 figures we raise FY forecasts, albeit 4Q24 results should be still relatively weak and reflect the difficult market reality. In result, we expect 4Q24 revenues/ EBITDA/ EBIT/ NL to reach PLN 1,814.5/7.3/-1.8/-17.4 million.
- **2025 outlook.** We assume material improvement of the Company's results next year with rising revenues and, in consequence, profits on the back of the improving economy and the Company's stronger market position thanks to an expansion of a market share in 2024. We forecast the Company's revenues at PLN 1,887 million (up 4% yoy). We assume a gradual improvement during 2025 on the back of the expected pick-up in investments and return to positive margins on the level of EBITDA, EBIT and NI. We forecast FY25 EBITDA/ EBIT/ NI at PLN 39.4/30.3/11.6 million. The net financial result should be similar yoy given likely interest rate cuts and expected growth of net debt due to a sales increase. We would like to note that a large part of the Company's debt is off-balance.
- **Risk to financial forecasts.** High, given the increased volatility of the Company's results, related mainly to the investment level and resulting demand for steel.
- **Valuation.** On the back of the financial forecast update, the RFR change, valuation horizon forward shift and update of the peer-relative valuation our ultimate 12M EFV target – representing a 90%-10% mix of the outcome of the DCF FCFE and peer-relative valuation – goes up to PLN 5.5 (from PLN 5.1) per share.

### 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. Mounting competition + current low investment demand → price drop + pressure on margins
2. Economic slowdown in Poland
3. Strengthening EUR vs PLN
4. Pressure on a wage growth
5. Delayed inflow of EU funds

## 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** =  $\text{EBIT}/\text{sales}$   
**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

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### Distribution of DM BOŚ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision	Not rated
Numbers	44	28	5	5	0	5
Percentage	51%	32%	6%	6%	0%	6%

### Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	27	41	9	5	0	5
Percentage	31%	47%	10%	6%	0%	6%

## 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	4	5	0	1	0	2
Percentage	33%	42%	0%	8%	0%	17%

### 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	3	5	1	1	0	2
Percentage	25%	42%	8%	8%	0%	17%

**Recommendation tracker**

Analyst	Fundamental Recommendation	Relative Recommendation	Report date	Reiteration date	Distribution date	Price at issue/reiteration*	EFV (12 months)
<b>Bowim</b>							
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 →
Michał Zamel	-	-	-	12.08.2024	12.08.2024	5.50	7.20 →
Michał Zamel	-	-	-	24.09.2024	24.09.2024	5.24	7.20 →
Michał Zamel	-	-	-	11.10.2024	11.10.2024	4.94	7.20 →
Michał Zamel	-	-	-	17.10.2024	17.10.2024	4.79	5.10 ↓
Michał Zamel	-	-	-	04.11.2024	04.11.2024	4.48	5.10 →
Michał Zamel	-	-	-	21.11.2024	22.11.2024	4.30	5.10 →
Michał Zamel	-	-	-	01.12.2024	02.12.2024	4.15	5.50 ↑

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

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#### Stockbrokers

**Piotr Kalbarczyk**  
tel.: +48 (22) 504 32 43  
[p.kalbarczyk@bossa.pl](mailto:p.kalbarczyk@bossa.pl)

#### Research

**Sobiesław Pająk, CFA**  
(Equity strategy, TMT)

**Sylvia Jaśkiewicz, CFA**  
(Construction materials,  
Consumer discretionary,  
Health care & biotechnology)

**Tomasz Rodak, CFA**  
(Consumer discretionary, Video games)

**Łukasz Prokopiuk, CFA**  
(Commodities (Chemicals, Energy, Mining))

**Michał Sobolewski, CFA, FRM**  
(Financials)

**Jakub Viscardi**  
(Telco, Consumer staples & discretionary,  
IT – hardware distribution)

**Maciej Wewiórski**  
(Residential construction,  
Construction, Real estate)

**Mikołaj Stępień**  
Junior Analyst

**Michał Zamel**  
Junior Analyst

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**Dom Maklerski Banku Ochrony  
Środowiska Spółka Akcyjna**  
ul. Marszałkowska 78/80  
00-517 Warszawa  
[www.bossa.pl](http://www.bossa.pl)  
Information: (+48) 0 801 104 104