

Stalprofil

Rebound in steel market... not yet

We maintain our recommendation of **HOLD**, but we are lowering our 12-month target price to **PLN 9.46 per share (upside potential 10.0%)**. According to our forecasts, Stalprofil is currently traded at avg. P/E ratio of 9.2/6.0x for 2025/26e.

EUROFER has updated its forecast for steel consumption in Europe in 2025, predicting a 0.9% y/y decline. This is a significant downward revision from its previous forecast of a 2.2% y/y increase (an earlier forecast had assumed growth of 3.8% y/y). If the forecast for a decline in steel consumption in the EU materializes, 2025e will be the fourth consecutive year of decline.

In 2024, Stalprofil performed significantly better than the market, selling 33% y/y more steel products. During this period, steel consumption in Poland increased by c. 10% y/y (but the increase was based on a very low comparative base). We assume that in 2025e, STF will sell 2.9% y/y less steel, but in 2026e we expect a rebound of 5.3% vs. 2024. We assume that 2026e will bring some rebound in steel demand, as it will be supported by lower interest rates (ECB has cut rates by 200bps since June '24), which should support larger infrastructure and housing construction projects. In the coming quarters, higher spending on defense and energy, as well as less uncertainty related to tariffs, should also support demand. Since the beginning of 2025 (YTD), European steel has been 1.2-7.2% cheaper than the average price in 2024. In 2025e, we assume a 1.7% y/y decline in the average price per tonne (previously we assumed a 0.1% y/y increase) and a 4.9% y/y increase in 2026e.

Since 2024, there has been a strong rebound in the infrastructure segment. The Group has signed contracts with Gaz-System and PSG, with a total value of c. PLN 1.1bn net (only reported in ESPI), which are set to be implemented mainly in 2025/26. In the infrastructure segment, we forecast revenue growth of 69% and 81% in 2025/26 vs. 2024. However, due to strong competition (including from abroad), we assume that the obtained contracts are at relatively low margins. In addition, we expect the result to be depleted by higher SG&A costs (increase by PLN 14.3mn y/y in 2025e) and higher financial costs (increase by PLN 5.4mn y/y in 2025e), due to higher debt related to an increase in inventories.

Stalprofil, key financial data, PLN mn

PLN mn	2022	2023	2024	2025e	2026e	2027e	2028e
Revenues	2215.6	1533.8	1704.0	2148.0	2382.4	2153.0	1989.7
EBITDA	125.5	54.6	47.0	54.0	63.7	66.6	70.5
Net income	78.7	15.6	14.5	16.4	25.2	29.3	31.1
EPS	4.5	0.9	0.8	0.9	1.4	1.7	1.8
DPS	1.2	0.7	0.3	0.3	0.3	0.4	0.5
DY	13.2%	8.6%	3.5%	3.5%	3.6%	5.0%	5.8%
P/E	2.0	9.6	10.4	9.2	6.0	5.1	5.1
EV/EBITDA	2.5	4.2	6.7	6.6	5.6	4.5	3.4

NB: Historical multiples based on avg. prices Source: Company, Pekao Equity Research

Hold
(prev. Hold)

Target price **PLN 9.46**

Upside to TP **10.0%**
Stock price on 05.06.2025 **PLN 8.60**

ESG rating **B**
Final ESG score **1.03**

Relative share price performance vs. WIG



UPCOMING EVENTS

2Q'25 02 September

STOCK DATA

Bloomberg STF PW
Free float (%) 44.1
Market cap (PLN mn) 150
No. of shares in issue (mn) 17.5

Shareholders
ArcelorMittal Poland 31.5%
MZZ - Dąbrowa Górnicza 16.9%
MOZ NSZZ Solidarność 7.5%

Michał Hanc
michal.hanc@pekao.com.pl

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Investment thesis

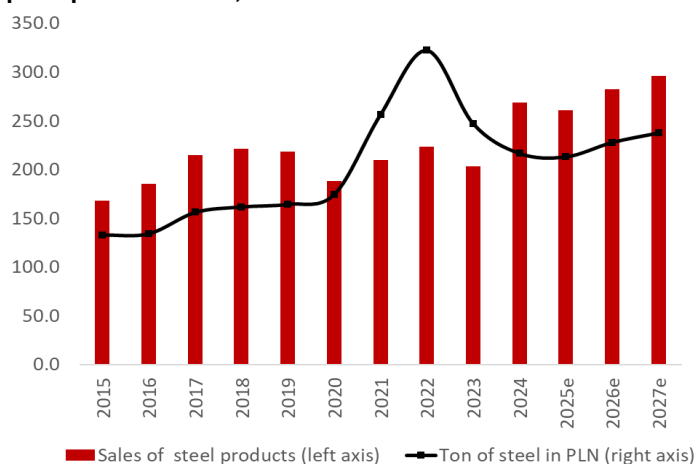
The negative trend in steel consumption in Poland and Europe has persisted since the second half of 2022. It was initially triggered by the outbreak of war in Ukraine, followed by rising raw material prices and higher interest rates, and then by lower infrastructure investment spending. **EUROFER has updated its steel consumption forecast for Europe for 2025e. EUROFER now predicts a year-on-year decline in steel consumption of 0.9%, representing a significant downward revision from its earlier forecast of 2.2% growth, where initially had anticipated growth of 3.8%.** EUROFER attributes the change in its forecasts to the high level of uncertainty caused by the impact of US tariffs and trade disruptions. If the forecast of a decline in steel consumption in the EU materialises, 2025e will be the fourth consecutive year of decline.

In Poland, apparent steel consumption increased by 10.2% y/y in 2024, while the base in 2023 was very low due to the late receipt of funds from KPO. In 2024, Stalprofil sold more steel by 32.6% y/y, demonstrating that the Group is performing well in a challenging market. Nevertheless, we are lowering our sales volume forecast for 2025e by 2.9% y/y, assuming growth of 5.3% in 2026e vs. 2024. In 2024, the average steel price was 12.4% lower year on year, resulting in a 0.7pp. y/y decrease in the gross profit margin for the segment. For 2025e, we anticipate a 1.7% year-on-year decline in the average price (previously, we had anticipated a 0.1% y/y increase), and for 2026e, we project a 4.9% y/y increase in the average steel price. The rebound in steel demand in 2026 should be supported by lower interest rates, increased infrastructure and housing construction, higher defence and energy spending, and reduced investment uncertainty caused by tariffs. Since the start of 2025, the average price of European steel has been 1.2–7.2% lower than in 2024.

For steel distributors, it's the volatility of steel prices that matters more than the prices themselves when it comes to margins. This is clearly illustrated in the chart below, which shows that the gross profit margin on sales is lower when steel prices are higher, but also more volatile, and are trending downwards, than when prices for this raw material are lower but more stable. However, steel prices have stabilised in recent months, with much smaller fluctuations than a few quarters ago, which should positively impact margins. From 2017 to 2019, the steel segment generated an average gross profit margin on sales of 8.0%, which is 2.2pp. higher than in 1Q'25.

The Polish steel market continues to see a significant surplus of imports over exports, with around 80% of the steel in Poland being imported. Steel producers in Europe must compete with countries such as Turkey and India, where steel production costs are lower. Therefore, even if demand for steel increases thanks to the launch of public and private investment projects, there is a risk that demand will be met by steel products from abroad.

Stalprofil - Sales of steel products (thous. tons) and average price per ton in PLN, 2015-27e

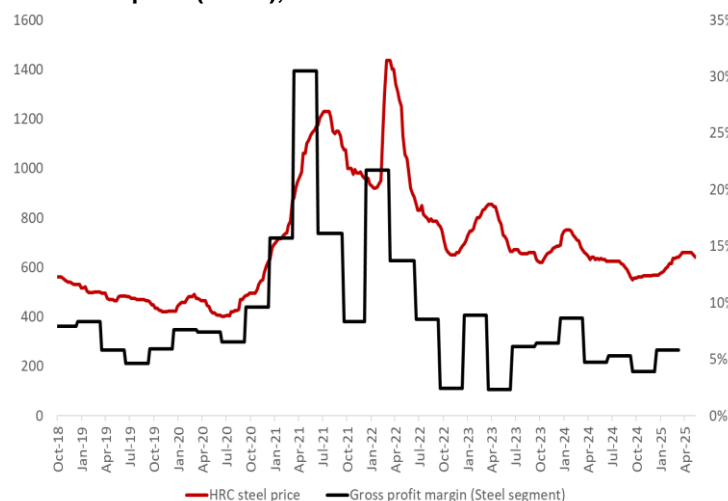


Steel consumption in EU, 2015-25e

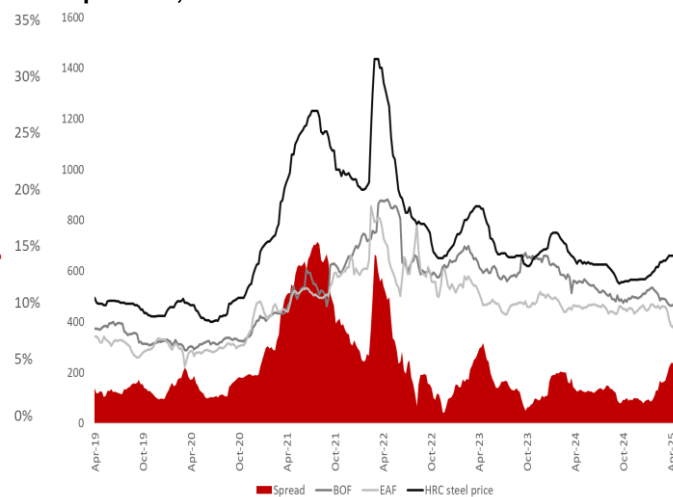


Source: Company, Eurofer, Pekao Equity Research

Quarterly gross profit margin of the steel segment (%) and HRC steel price (EUR/t), 2018-25

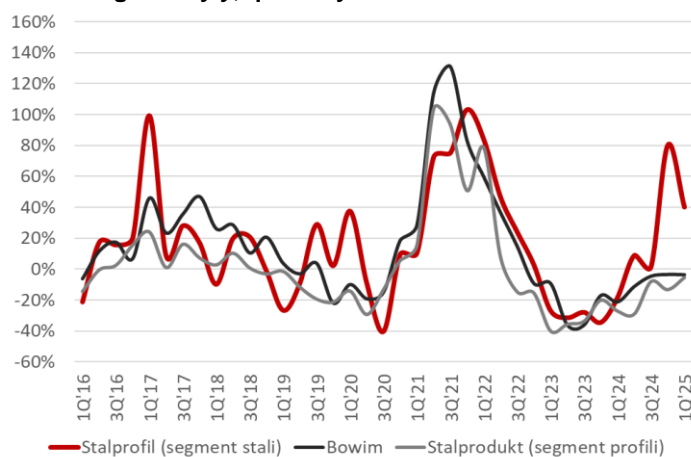


Spread between steel price and average BOF&EAF input cost, 2019-25

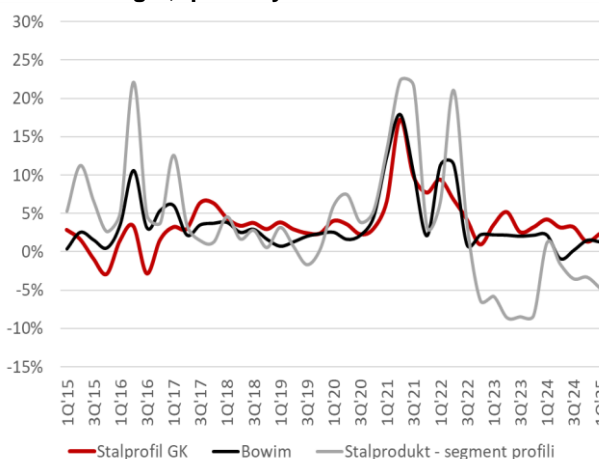


Source: Company, World Steel Association, Bloomberg, Pekao Equity Research

Revenue growth y/y, quarterly interval 2016-25



EBITDA margin, quarterly interval 2015-25



Source: Companies, Pekao Equity Research

The limited number of tenders for pipe supplies and gas pipeline construction in 2022–23 resulted in weaker infrastructure segment results in 2024. Although infrastructure segment revenues were 5.1% higher year on year, but still lower by 27.9% vs. 2022. The development of the gas transmission network market and planned investments, primarily by Gaz-System, have a significant impact on the infrastructure segment's performance. There has been a significant revival in the transmission pipe market since 2024, and the Group has since signed contracts with Gaz-System and PSG worth c. PLN 1.1bn net (reported in ESPI only), to be implemented mainly in 2025/26e. In the infrastructure segment, we are assuming revenue growth of 69% and 81% in 2025/26 vs. 2024. However, due to strong competition (including from abroad), we anticipate that the obtained contracts will have relatively low margins. Additionally, the result will be reduced by higher SG&A costs (we anticipate an increase of 14.3mn y/y in 2025e) and higher financial costs (we anticipate an increase of 5.4mn y/y in 2025e) due to an increase in debt related to the implementation of contracts.

List of agreements reported by Stalprofil in ESPI, 2018-25

Type	Date of contract (ESPI)	Subject	Diameter	Implementation date	Net value (mm gas pipeline PLN)	Length of gas pipeline (km)	Avg. gas pipeline price (km/mn PLN)	Concluding the agreement with:
Conclusion of a partial contract	01.02.2018	Gas pipeline Strachocina - Pogórska Wola	DN1000	01.06.2018-31.08.2018	75.2	40	1.9	Gaz-System
Conclusion of a partial contract	01.02.2018	Gas pipeline Tworóg - Tworzeń	DN1000	01.06.2018-28.02.2019	93.8	55	1.7	Gaz-System
Conclusion of a partial contract	28.03.2018	Gas pipeline Pogórska Wola - Tworzeń	DN1000	01.09.2018-31.01.2019	70.9	41	1.7	Gaz-System
Framework agreement	20.02.2018	Framework agreement with PGNiG			80.5			PGNiG
Conclusion of a partial contract	30.07.2018	Gas pipeline Pogórska Wola - Tworzeń	DN1000	01.01.2019-30.07.2019	116.1	65	1.8	Gaz-System
Conclusion of a partial contract	13.02.2019	Gas pipeline Polska - Słowacja	DN1000	01.06.2019-30.09.2019	33.1	19	1.7	Gaz-System
Conclusion of a partial contract	14.03.2019	Gas pipeline Pogórska Wola - Tworzeń	DN1000	01.09.2019-31.01.2020	121.2	64	1.9	Gaz-System
Conclusion of a partial contract	20.03.2019	Gas pipeline Polska - Litwa zam. 2	DN700	01.01.2020-31.07.2020	65.4	72	0.9	Gaz-System
Conclusion of a contract	25.07.2019	Construction of the Poland-Lithuania Gas Interconnector (GIPL) on the territory of Lithuania	DN700	until 31.12.2021	112.5	170	0.7	AB Amber Grid
Framework agreement	16.08.2019	Framework agreement with Gaz-System			2793.2	1707		Gaz-System
Conclusion of a partial contract	30.04.2020	Gas pipeline Baltic Pipe	DN1000	01.11.2020-30.04.2021	97.1	55	1.8	Gaz-System
Conclusion of a partial contract	17.06.2020	Gas pipeline Polska - Litwa nr. 3	DN700	01.10.2020-30.04.2021	45.9	63	0.7	Gaz-System
Conclusion of a contract	14.07.2020	Gas pipeline Boronów - Trzebinia	DN250, DN500 and DN700	until 31.03.2021	24.3			PERN
Conclusion of a partial contract	24.07.2020	Gas pipeline Polska - Litwa nr. 1	DN700	15.10.2020-15.03.2021	35.5	37	1.0	Gaz-System
Conclusion of a partial contract	08.06.2021	Gas pipeline Gutorzyn - Wronów	DN1000	15.10.2021-30.04.2022	169.7	75	2.3	Gaz-System
Conclusion of a contract	30.07.2021	Transmission of EC Czechia - w m. Siechnice	DN500 (5km) and DN300 (7km)	until 18 weeks	13.9	12	1.2	
Appendix	23.11.2021	Gas pipeline Gutorzyn - Wronów oraz Dolna Odra nr.2	DN1000	15.05.2022 - 31.10.2022	218.6	79	2.8	Gaz-System
Conclusion of a contract	23.11.2021	Gas pipeline Gutorzyn - Wronów oraz Dolna Odra nr.2	DN700	01.04.2022-31.08.2022	51.1	37	1.4	Gaz-System
Conclusion of a contract	13.06.2022	Skoczów-Komorowice-Oświęcim-Tworzeń	DN700	01.01.2023-30.06.2023	94.3	40	2.4	Gaz-System
Framework agreement	24.08.2022	Framework agreement with Gaz-System			1778.7	791		Gaz-System
Conclusion of a contract	22.02.2023	Gas pipeline Lubienia - Masłów	DN400	11 months from the start of the contract	31	8.8	3.6	PSG
Conclusion of a contract	25.08.2023	Kruszwica - Inowrocław	DN350	12 months from the date of conclusion of the agreement	33.3	11	3.0	PSG
Conclusion of a contract	05.03.2024	Węzów - Przewóz gas pipeline	DN700 (supply of insulated pipes)	April 2024 to December 2024	31.9	16	2.0	Gaz-System
Conclusion of a contract	05.08.2024	Węzów - Przewóz gas pipeline	DN700 (gas pipeline construction)	18 months from the date of agreement conclusion	163.9	44	3.7	Gaz-System
Conclusion of a contract	17.07.2024	FSRU project procedure 1, for parts: 1, 3 and 5	DN1000-DN1400 (supply of insulated pipes)	01.01.2025-31.08.2025	109.8	36	3.1	Gaz-System
Conclusion of a contract	26.07.2024	FSRU project procedure 2, for parts: 1 and 3	DN1000 (supply of insulated pipes)	01.02.2025-31.08.2025	97.5	34	2.9	Gaz-System
Conclusion of a contract	26.07.2024	FSRU project procedure 3, for part: 1	DN1000 (supply of insulated pipes)	01.02.2025-30.04.2025	41.9	11	3.8	Gaz-System
Conclusion of a contract	26.07.2024	FSRU project procedure 4, for parts: 1 and 3	DN1000 (supply of insulated pipes)	01.02.2025-31.08.2025	90.0	33	2.7	Gaz-System
Conclusion of a contract	08.11.2024	Gustrzyn - Wicko gas pipeline, POM2 section (Gardeja-Kolnik)	DN1000 (gas pipeline construction)	25 months from the date of signing	233.4	88	2.7	Gaz-System
Conclusion of a contract	29.11.2025	Reconstruction of the gas network - bypass in Łódź	DN MOP 500 (reconstruction)	until 05.2029	109.4	26	4.2	PSG
Conclusion of a contract	29.11.2025	Construction of the Kalisz-Sieradz gas pipeline	DN 500 (gas pipeline construction)	25 months from the date of signing	177.4	62.1	2.9	PSG
Conclusion of a contract	14.02.2025	Construction of the Oświęcim-Szopinice-Tworzeń gas pipeline	DN 500 (gas pipeline construction)	24 months from the date of signing	22.1	3	7.4	Gaz-System
Most favourable offer	02.06.2025	Drilling of pipelines under Wisla river		38 weeks from the date of signing	13.9			PERN

Source: Company, Pekao Equity Research

ESG rating

Our ESG rating is based on the assessment of a number of E-S-G related criteria with a respective 50/25/25% weighting in the total assessment. Our methodology implies a final ESG score for Stalprofil of 1.03 and an ESG rating of 'B'. According to our methodology, a 'B' rating translates into a -7.5% discount in the equity risk premium in our cost of equity calculations.

	E	S	G
Score	0.92	1.20	1.08
Sector weight	50%	25%	25%
Final ESG Score	1.03		
ESG Rating	B		

	score from:	to	Rating	WACC risk premium impact (% of RFR)
ESG Score	1.5	2	A	-15.00%
	1	1.5	B	-7.50%
	0.5	1	C	0%
	0	0.5	D	15.00%

Valuation

Our valuation implies a 12M target price of PLN 9.46 per share, representing 10.0% potential upside. The valuation is based on the DCF method only and the peers valuation is presented for illustrative purposes with 0% weight for final valuation.

DCF valuation

We have developed a 6-year DCF valuation for Stalprofil based on our detailed financial model for the company's operating activity until 2030. The key assumptions incorporated in our DCF valuation model are as follows:

- Risk-free rate of 5.4% from 2025 to 2030e and 4.0% in the terminal year.
- Equity risk premium of 5.8% from 2025 to 2030e and 5.0% in the terminal year.
- Beta of 1.0x
- Additional ESG discount to the cost of equity equal to -0.4% from 2025 to 2030e and -0.3% in the terminal year (7.5% risk-free rate) based on the ESG rating.
- Credit margin of 2%.
- Corporate income tax rate of 19% in the terminal year.
- EBIT margin of 2.2% in the terminal year.
- Non-controlling interests in Izostal based on market valuation.
- Growth rate of 1% in the terminal year.

DCF valuation

WACC calculation

	2025e	2026e	2027e	2028e	2029e	2030e	Terminal Year
Risk free rate	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	4.0%
Equity risk premium	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.0%
ESG discount/premium	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.3%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	8.7%
Cost of debt	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	6.0%
After-tax cost of debt	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	4.9%
Equity weight	44%	47%	57%	73%	82%	89%	100%
WACC	8.1%	8.2%	8.7%	9.5%	9.9%	10.2%	8.7%

DCF valuation

(PLN mn)	2025e	2026e	2027e	2028e	2029e	2030e	Terminal Year
Revenues	2,148	2,382	2,153	1,990	1,960	1,998	2,018.4
EBIT	34.5	44.2	47.3	51.4	36.4	36.5	44.4
Taxes on EBIT	-6.6	-8.4	-9.0	-9.8	-6.9	-6.9	-8.4
NOPAT	28.0	35.8	38.3	41.6	29.5	29.6	36.0
Depreciation and assets write-offs	19.5	19.5	19.3	19.1	18.9	18.8	18.8
Change in NWC	-72.5	-17.6	23.2	36.7	4.2	-4.2	-6.7
Capital expenditures	-21.0	-18.0	-15.0	-17.0	-16.0	-17.0	-20.0
FCFF	-46.1	19.6	65.8	80.4	36.6	27.2	28.1
<i>Terminal value growth</i>							1.0%
Terminal value							368.0
Discount factor	0.92	0.85	0.79	0.72	0.65	0.59	0.54
Discounted free cash flow - Dec 31 2024	-42.6	16.8	51.7	57.7	23.9	16.1	215.8
Enterprise value - Dec 31 2024	339.3						
Non-controlling interests in Izostal (market valuation)	33.8						
Net debt	162.4						
Other adjustments	0.0						
Equity value - Dec 31 2024	143.0						
Number of shares (mn)	17.5						
12M target price per share (PLN)	9.46						
Share price as of June 05 (PLN)	8.60						
<i>Upside/Downside vs. current price</i>	<i>10.0%</i>						

Revenues growth	11%	11%	-10%	-8%	-1%	2%	1.0%
EBIT margin	1.6%	1.9%	2.2%	2.6%	1.9%	1.8%	2.2%
Tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Capex/revenues	1.0%	0.8%	0.7%	0.9%	0.8%	0.9%	1.0%
Capex/depreciation	107.9%	92.5%	77.8%	89.0%	84.5%	90.5%	106.4%

Sensitivity of 12M target price per share to Terminal value growth & WACC

Terminal value growth/WACC	-0.5%	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%
7.7%	8.59	9.46	10.45	11.59	12.91	14.46	16.32
8.2%	7.82	8.59	9.46	10.45	11.59	12.91	14.46
8.7%	7.13	7.82	8.59	9.46	10.45	11.59	12.91
9.2%	6.52	7.13	7.82	8.59	9.46	10.45	11.59
9.7%	5.96	6.52	7.13	7.82	8.59	9.46	10.45

Sensitivity of 12M target price per share to key drivers' of company earnings

EBIT margin/capex in Terminal Year	1.45%	1.70%	1.95%	2.20%	2.45%	2.70%	2.95%
-25.0	0.68	2.76	4.84	6.92	8.99	11.07	13.15
-22.5	1.95	4.03	6.11	8.19	10.27	12.34	14.42
-20.0	3.22	5.30	7.38	9.46	11.54	13.61	15.69
-17.5	4.49	6.57	8.65	10.73	12.81	14.89	16.96
-15.0	5.76	7.84	9.92	12.00	14.08	16.16	18.24

Source: Pekao Equity Research

Peer valuation

	Ticker	P/E			EV/EBITDA		
		2025e	2026e	2027e	2025e	2026e	2027e
Distribution of steel, pipes and other							
Jacquet Metals	JCQ FP	21.2	8.3	7.2	7.2	5.6	4.7
Klöckner & Co	KCO GY	21.2	9.1	6.3	6.5	5.4	4.6
Tubacex	TUB SM	12.6	8.9	7.8	5.8	5.0	4.7
Tenaris	TEN IM	10.2	10.4	9.9	6.1	6.1	5.9
Stalprodukt	STP PW				1.8	1.5	1.5
Steel production							
ArcelorMittal	MT NA	7.3	5.9	5.5	4.8	4.2	4.0
SSAB	SSABA SS	9.5	8.1	8.3	3.8	3.3	3.3
thyssenkrupp	TKA GY	15.9	9.0	6.8	1.6	1.4	1.3
voestalpine	VOE AV	14.1	10.3	7.6	4.8	4.1	3.7
Salzgitter	SZG GR	29.5	5.5	4.6	3.9	2.7	2.5
Cognor	COG PW		55.4	20.9	15.8	11.5	9.2
Median - Distribution of steel, pipes and other		16.9	9.0	7.5	6.1	5.4	4.7
Applied weight (%)		33%	33%	33%	33%	33%	33%
Median - Steel production		14.1	8.6	7.2	4.4	3.7	3.5
Applied weight (%)		0%	0%	0%	0%	0%	0%
Stalprofil		10.4	9.2	6.0	6.7	6.6	5.6
Premium/discount vs. Median		-38%	2%	-20%	9%	22%	19%
Implied value per share (PLN)		15.8	12.9	12.5	6.9	7.8	9.3
Implied value per share (PLN)		10.9					

Source: Bloomberg, Pekao Equity Research

Update of our forecasts

Please see below on the change in our forecasts compared to our last recommendation:

	2025e			2026e			2027e		
	Prev.	Now	DIFF	Prev.	Now	DIFF	Prev.	Now	DIFF
Revenues	2209.9	2,148.0	-3%	2419.8	2,382.4	-2%	2210.2	2,153.0	-3%
EBITDA	55.4	54.0	-3%	64.1	63.7	-1%	68.6	66.6	-3%
EBIT	36	34.5	-4%	44.6	44.2	-1%	49.3	47.3	-4%
Net income	17.4	16.4	-6%	25.6	25.2	-2%	30.2	29.3	-3%

Source: Pekao Equity Research

Recent developments

- **The most advantageous bid** – Stalprofil announced that its bid had been selected as the most advantageous for “HDD drilling on final product pipelines under the Wisła.” The value of the bid is PLN 13.9 million net, and the organizer is PERN. The contractor should complete the order within 38 weeks from the date of signing the contract.
- **Acquisition of shares by persons with access to confidential information** – on May 28, 2025, the company announced that persons with access to confidential information had acquired shares worth c. PLN 2.5mn.

Person	Function	Volume	Price	Value
Henryk Orczykowski	CEO	150,000	7.6	1,140,000
Sylwia Potocka-Lewicka	CFO	60,000	7.6	456,000
Stefan Dzienniak	Chairman of SB	20,000	7.6	152,000
Zenon Jędrocha	Member of MB	100,000	7.6	760,000

- **1Q'2025 results** – Stalprofil published its final 1Q'25 results on 23 May 2025. Pekao's description of the results was also published on 23 May 2025.
- **Dividend for 2024** – Stalprofil's Ordinary General Meeting decided that the company will allocate PLN 5.25mn for dividends, which gives a dividend per share of PLN 0.3. The dividend record date will be August 20, and the dividend payment date has been set for September 10.

Risk factors

Steel segment

- **Risk associated with a decline in demand of steel.** Demand for steel is heavily dependent on investment, so the state of the economy in Poland and the EU is crucial to the segment's performance. A drop in demand for steel, results in lower sales in volume terms, but this also translates into a drop in the price of steel.
- **Risk of reduction of steel production.** Reduced or halted production by producers adversely affects steel distribution.
- **Risks related to fluctuations in steel prices.** The company's performance is highly susceptible to changes in steel prices. As steel falls, the average price per ton decreases, plus there is a negative FIFO effect that affects profitability.
- **The risk of increased imports of cheaper steel products into the domestic and European markets.** Lack of anti-dumping actions by the EU, may translate into an oversupply of cheaper products from China or Turkey. Such actions, could destabilize the European steel market and translate into lower prices.
- **Risk of changes in the trade policy of steel mills.** Stalprofil is a distributor, and therefore acts as an intermediary between steel mills and end customers - switch, for example, to direct deliveries to end customers by producers, or a change in pricing policy may negatively affect the company's results.
- **Risk of becoming dependent on major manufacturers.** The Group key supplier is ArcelorMittal.
- **Risk of impact of decarbonization on steel production levels.** Decarbonization plans in Europe (moving away from BOF to EAF based on scrap steel, HBI or hydrogen) could affect lower steel availability.

Infrastructure segment

- **Risk that the gas sector may limit orders for pipe supply and pipeline construction.** The key influence on the company's performance is the development of the gas transmission network market and planned investments, mainly financed by Gaz-System.
- **Risk of dependence on customers.** Due to the structural characteristics of the Polish market, there is indirect dependence on the scope of investments made by Gaz-System.
- **Risks associated with ensuring the quality of the products offered.** Failure to meet quality requirements carries the risk of incurring penalties.
- **Risk of changes in input prices.** The profitability of corrosion protection depends on the price of chemical components, mainly polyethylene and polypropylene. The company's performance is also affected by the price of steel pipes. In the short term, the company hedges prices, while in the long term the company is favored by high pipe prices.

Key financial data

P&L (PLN mn)	2022	2023	2024	2025e	2026e	2027e	2028e
Revenues	2,216	1,534	1,704	2,148	2,382	2,153	1,990
Gross Profit	218	132	132	153	180	170	175
EBITDA	126	55	47	54	64	67	70
EBIT	109	37	28	35	44	47	51
Pretax Profit	109	26	24	25	38	45	48
Income Tax	21	5	5	5	7	9	9
Net Income	79	16	14	16	25	29	31
EPS (PLN)	4.50	0.89	0.83	0.94	1.44	1.67	1.78
Balance Sheet (PLN mn)	2022	2023	2024	2025e	2026e	2027e	2028e
Total Current Assets	793	664	939	848	909	859	841
Cash and Equivalents	29	57	45	38	47	50	95
Other Current Assets	764	607	894	809	862	809	746
Total Fixed Assets	330	353	359	360	359	355	353
Tangible Assets	281	304	314	315	314	310	308
Other Fixed Assets	49	49	45	45	45	45	45
Total Assets	1,123	1,018	1,297	1,208	1,267	1,213	1,194
Stockholders' Equity	587	593	606	620	646	675	705
Long Term Liabilities	60	56	49	77	77	70	67
Long -Term Debt	7	6	2	12	13	10	10
Other Long - Term liabilities	52	50	47	65	63	60	57
Short Term Liabilities	476	368	643	510	545	468	421
Short -Term Debt	172	130	205	234	242	191	168
Other Current Liabilities	304	238	438	276	303	277	253
Total Equity & Liabilities	1,123	1,018	1,297	1,208	1,267	1,213	1,194
Net debt	150	79	162	208	209	152	83
Cash Flow (PLN mn)	2022	2023	2024	2025e	2026e	2027e	2028e
Gross profit	109	26	24	25	38	45	48
Depreciation and Amortisation	16	17	19	19	19	19	19
Other (incl. WC)	-99	120	-133	-64	-35	15	28
Operating Cash Flows	26	163	-90	-19	23	79	95
Capital Expenditures	-26	-38	-28	-21	-18	-15	-17
Other	2	-21	54	0	0	0	0
Cash Flows from Investing Activities	-24	-59	26	-21	-18	-15	-17
Dividends paid	-23	-15	-6	-5	-5	-8	-9
Other	-2	-60	57	39	9	-54	-23
Cash Flows from Financing Activities	-24	-75	50	34	4	-61	-32
Change in Cash	-22	29	-13	-7	9	3	46
Cash at the end of period	29	57	45	38	47	50	95
DPS (PLN)	1.20	0.74	0.30	0.30	0.31	0.43	0.50
Y/Y growth ratios							
Revenues	34%	-31%	11%	26%	11%	-10%	-8%
EBITDA	-23%	-57%	-14%	15%	18%	5%	6%
EBIT	-26%	-66%	-25%	24%	28%	7%	9%
Net profit	-32%	-80%	-7%	13%	54%	16%	6%
EPS	-32%	-80%	-7%	13%	54%	16%	6%
Margins							
EBITDA	5.7%	3.6%	2.8%	2.5%	2.7%	3.1%	3.5%
EBIT Margin	4.9%	2.4%	1.6%	1.6%	1.9%	2.2%	2.6%
Net Margin	3.6%	1.0%	0.8%	0.8%	1.1%	1.4%	1.6%
ROE	13.4%	2.6%	2.4%	2.6%	3.9%	4.3%	4.4%
Balance Sheet Ratios							
BVPS (PLN)	33.6	33.9	34.6	35.5	36.9	38.6	40.3
Net debt/EBITDA	1.2	1.4	3.5	3.9	3.3	2.3	1.2
Bank Debt/Equity	30.5%	23.0%	34.2%	39.7%	39.5%	29.9%	25.3%

NB: Historical multiples based on avg. prices Source: Company, Pekao Equity Research

Summary of key financial data

PLN mn	2022	2023	2024	2025e	2026e	2027e	2028e	2029e	2030e
EPS, GAAP	4.50	0.89	0.83	0.94	1.44	1.67	1.78	1.32	1.33
Revenues	2,216	1,534	1,704	2,148	2,382	2,153	1,990	1,960	1,998
Gross Margin %	9.8%	8.6%	7.7%	7.1%	7.6%	7.9%	8.8%	8.1%	8.0%
EBIT	109	37	28	35	44	47	51	36	37
EBITDA	126	55	47	54	64	67	70	55	55
Net income, GAAP	79	16	14	16	25	29	31	23	23
Net Debt	150	79	162	208	209	152	83	57	36
BPS	33.57	33.91	34.61	35.45	36.92	38.58	40.30	41.42	42.74
DPS	1.20	0.74	0.37	0.30	0.31	0.43	0.50	0.53	0.40
Return on Equity %	13.4%	2.6%	2.4%	2.6%	3.9%	4.3%	4.4%	3.2%	3.1%
Return on Assets %	7.0%	1.5%	1.1%	1.4%	2.0%	2.4%	2.6%	1.9%	2.0%
Depreciation	15.9	15.8	18.1	18.5	18.5	18.3	18.1	18.0	17.9
Amortization	0.2	1.6	1.0	1.0	1.0	1.0	1.0	0.9	0.9
Free Cash Flow	0	125	-117	-40	5	64	78	36	28
CAPEX	26	38	28	21	18	15	17	16	17

Source: Pekao Equity Research

THIS REPORT WAS COMPLETED ON 06 JUNE 2025 AT 07:30 CET.
THIS REPORT WAS FIRST DISTRIBUTED ON 06 JUNE 2025 AT 07:50 CET.
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Michał Hanc	Analyst	Stalprofil	n.a.	n.a.	n.a.	n.a.

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Our company valuations are based on two valuation methods selected from among the following: discount model, multiples-based model or asset-based valuation method.

Discount models are characterized by simultaneous and comprehensive consideration of key determinants of intrinsic value, e.g. operating cash flow, capex, cost of capital (WACC). They are theoretically appealing and provide a direct computation of intrinsic value. However, discount model valuations are highly sensitive to changes in assumptions, particularly the risk free rate and terminal growth rate. Moreover, projections cannot be stated with certainty; unforeseen future events can cause income or earnings projections to be invalid.

Multiples-based models are based on the analysis of the valuation multipliers of a given company in relation to other similar companies in the industry. Among strengths of multiplier models we can highlight their simplicity, as they are easy to compute as well as to understand. Moreover, only the key statistics for investors are chosen for valuation. On the other hand, multiples are based on historic data or near-term forecasts. Valuations based on multiples will therefore fail to capture differences in projected performance over the longer term. Finally, it may be problematic to select a suitable peer group.

Asset-based models can be used even if a company has a brief record of earnings or its future existence is uncertain. However, it may be challenging to determine market value of some assets, particularly intangibles. Additionally, asset-based models do not take into account future changes in financial results, nor do they include non-balance sheet items, such as know-how.

Valuation models are dependent on macroeconomic factors, such as interest rates, exchange rates, raw materials, and on assumptions about the economy. Furthermore, market sentiment affects the valuation of companies. The valuation is also based on expectations that might change rapidly and without notice, depending on developments specific to individual industries. Our recommendations and target prices derived from the models might therefore change accordingly.

The investment ratings generally relate to a 12-month horizon. They are, however, also subject to market conditions and can only represent a snapshot. The ratings may in fact be achieved more quickly or slowly than expected, or need to be revised upward or downward. In the tables and charts throughout this report, we designate the years with an "E" to denote that the figures presented are forecasts and estimates.

Definition of ratings used in our publications:

We currently use a three-tier recommendation system for the stocks in our formal coverage: Buy, Hold, or Sell (see definitions below):

A **Buy** is applied when the expected total return over the next twelve months is higher than 15%.

A **Hold** is applied when the expected total return over the next twelve months is within the range of 0% to 15%.

A **Sell** is applied when the stock's expected total return over the next twelve months is negative.

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P/E – „Price/Earnings” is the ratio of the financial instrument price to the net financial result for the issuer of the financial instrument.

P/B – „Price/Book Value” is the ratio of the price of the financial instrument to the issuer's equity capital.

EPS – „Earnings per Share”, i.e. net profit per share.

BVPS – „Book Value per Share”.

FWD – „Forward” - stands for the ratio (eg. P/E) calculated on the basis of the expected results.

DPS – „Dividend per Share”.

DY – „Dividend Yield”, a ratio calculated as dividends per share divided by the current share price.

EBIT – „Earnings Before Interest and Taxes”.

EBITDA - „Enterprise Value / Earnings Before Interest, Taxes, Depreciation and Amortization”.

EV/EBITDA – „Enterprise Value / Earnings Before Interest, Taxes, Depreciation and Amortization” is the company's market capitalization (price x number of shares) increased by the value of net financial debt and the value of minority shareholders divided by the operating result increased by the value of the company's asset depreciation.

AGM – Annual General Meeting