Izostal

Freeing working capital is not enough

We are initiating coverage of Izostal with a HOLD recommendation and set the company's fair value at PLN 3.00/share (implying 4% upside potential). We are positive on the outlook for gross margin improvement in the coming years supported by "local content" requirements (barriers for foreign entities) in tenders, as well as strong cash generation in 2025E/2026E (equivalent to 93%/40% of market capitalization). However, we believe that the year-on-year decline in results in 2026E and the absence of significant direct distributions to shareholders (we assume the released capital will be mainly used to repay debt) outweigh the positives. We forecast the company's revenues for 2025E/2026E/2027E at PLN 1,102m/678m/827m (decline in 2026E due to the expiration of key contracts) and adj. EBITDA (excluding in 2026E a one-off gain from Proma's acquisition of PLN 14.5m) at PLN 40.8m/31.1m/48.1m (y/y dynamics of +24%/-24%/+55%). Based on our forecasts, Izostal is trading at EV/EBITDA rep. multiples of 5.4x/4.1x/4.0x for 2025E/2026E/2027E, respectively.

Cash generation. We assume that in 2025E/2026E Izostal will release a significant portion of its working capital due to contract execution schedules, with the proceeds primarily used to reduce excessive financial leverage relative to adj. EBITDA (we forecast 3.1x/3.0x at end-2025E/2026E vs. 6.5x in 2024). Unfortunately, we do not expect shareholders to see a sharp increase in dividends, which supports our neutral stance on Izostal. However, the pace of leverage reduction is expected to slow over time, and with the rebound of Gaz-System contracts from 2027E, we see an average cycle of recurring cash generation sufficient to support DPS of PLN 0.25/share and PLN 0.45/share in 2028E and 2029E, respectively (which could enhance the company's attractiveness in the future if major shareholders choose to distribute it).

Market investments. We see a solid pipeline of potential contracts in the future. Gaz-System's investment plans envisage an expansion of the transmission network by 1.7k km by 2035E (an average of 165 km per year, below the 2019–2024 average). Meanwhile, PSG's investment plan anticipates a larger expansion of the new distribution network and more modernization projects compared to the previous plan. We also note that over 40% of the transmission network is more than 40 years old and will require modernization.

Local support. We assume that the broad introduction of the "local content" principle in gas transmission and distribution tenders will effectively exclude third-country companies offering cheaper products. This, in turn, should lead to a higher number of won contracts and an improvement in the company's margins. We forecast adj. EBITDA margins of 3.7%/4.6%/5.8% in 2025E/2026E/2027E. Over 2025E–2034E, the average adj. EBITDA margin is projected to be 121 basis points higher than in 2015–2024, based on our forecasts

Figure 1. Izostal: financial forecasts summary

PLN m	2022	2023	2024	2025E	2026E	2027E
Revenue	1,171.6	751.0	771.6	1,102.1	678.4	827.1
EBITDA	41.7	41.7	32.8	40.8	45.6	48.1
EBIT	32.5	31.1	20.6	28.5	30.0	31.2
Net profit	22.5	11.9	10.1	10.4	16.9	20.2
EPS (PLN)	0.69	0.36	0.31	0.32	0.52	0.62
DPS (PLN)	0.12	0.12	0.09	0.09	0.11	0.18
EV/EBITDA (x)	7.0	5.2	8.9	5.4	4.1	4.0
P/E (x)	3.0	6.8	7.8	9.0	5.6	4.7

Source: Company, IPOPEMA Research

Industrial

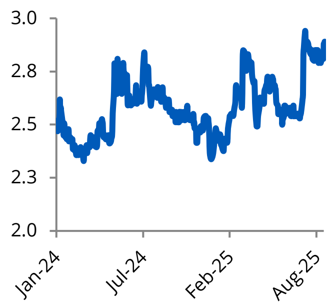
Izostal

HOLD
FV PLN 3.00

4% upside

Price as of 11 September 2025 PLN 2.89

Coverage initiation



Share data

Number of shares (m)	32.7
Market cap (EUR m)	22.2
12M avg daily volume (k)	19.7
12M avg daily turnover (EUR m)	0.01
12M high/low (PLN)	2.32/3.09
WIG weight (%)	0.01%
Reuters	IZS.WA
Bloomberg	IZS PW

Total performance

1M	+2%
3M	+12%
12M	+11%

Shareholders (% of equity)

Stalprofil S.A.	60.3%
Allianz Polska OFE	6.1%
Others	33.6%

Analysts
Krzysztof Otczyk
krzysztof.otczyk@ipopema.pl
+ 48 665 410 767
Marcin Nowak
marcin.nowak@ipopema.pl
+ 48 663 207 103

This document has been prepared by IPOPEMA Securities S.A. with its registered seat in Warsaw, Próżna 9, 00-107 Warsaw, Poland, entered into the Register of Entrepreneurs of the National Court Register maintained by the District Court for the City of Warsaw, XII Commercial Division of the National Court Register under entry number KRS 0000230737, the initial capital and paid capital in the amount of PLN 2.993.783,60, NIP 5272468122, www.ipopema.pl. IPOPEMA Securities S.A. is supervised by the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego), Piękna 20, 00-549 Warsaw, Poland.

This document was prepared by IPOPEMA Securities S.A. for information purposes only. This document is addressed to IPOPEMA Securities S.A. clients entitled to receive it on the basis of contracts for the provision of services. This document, using mass media distribution channels, may also reach other investors. It has been produced independently of the company mentioned in this document and any forecasts, opinions and expectations are entirely those of IPOPEMA Securities S.A. Unless otherwise specified, the estimates and opinions contained in the document constitute an independent assessment of IPOPEMA Securities S.A. analysts preparing the document as of the date of issuing the document.

IPOPEMA Securities S.A. prepared this document with the preservation of all adequate diligence, thoroughness and reliability on the basis of publicly available information which IPOPEMA Securities S.A. believes to be reliable. The sources of data are primarily: Bloomberg, Reuters, EPFR, Polska Agencja Prasowa, WSE, Główny Urząd Statystyczny, Narodowy Bank Polski, financial press, online financial and economic services. While due diligence has been taken by IPOPEMA Securities S.A. to ensure that the facts stated herein are accurate and that any forecasts, opinions and expectations contained herein are fair and reasonable, IPOPEMA Securities S.A. has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. The opinions expressed in the document can change without notice and IPOPEMA Securities S.A. is under no obligation to keep these opinion current. None of the IPOPEMA Securities S.A. or any other person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith provided that IPOPEMA Securities S.A. has been exercised due diligence and integrity during its preparation. This document may be sent to the mass media, however its copying or publishing in whole or in part as well as dissemination of information enclosed to it is allowed only with prior permission of IPOPEMA Securities S.A. This document nor any copy hereof is not to be distributed directly or indirectly in the United States, Australia, Canada, Serbia or Japan, subject to the following section.

Important disclosures for U.S. Persons: Auerbach Grayson & Company Inc. may distribute this document in the U.S. This document is provided for distribution to Major U.S. Institutional Investors in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended and may not be furnished to any other person in the U.S. Each Major U.S. Institutional Investor that receives this document shall not distribute or provide it to any other person. Under no circumstances should any U.S. recipient of this document effect any transaction to buy or sell securities or related financial instruments through IPOPEMA Securities S.A. Any U.S. recipient of this document wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this document should do so only through Auerbach Grayson & Company Inc. 25 West 45th Street, Floor 16, New York, NY 10036 U.S. which is a registered broker dealer in the U.S. IPOPEMA Securities S.A. is not a registered broker-dealer in the U.S. and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. IPOPEMA Securities S.A. and its research analysts are not associated persons of Auerbach Grayson & Company, nor are they affiliated with Auerbach Grayson & Company. The author of this document whose name appears in this document is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"), is not subject to the SEC rules on research analysts and is not subject FINRA's rules on debt research analysts and debt research reports, equity research analysts and equity research reports. U.S. recipients should take into account that information on non-U.S. securities or related financial instruments discussed in this document may be limited. The financial instruments of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the U.S.

This document does not constitute any offer to sell or induce any offer to buy or sell any financial instruments, cannot be relied on in connection with any contract or liability and does not constitute advertising or promotion of a financial instrument or the company. Investment decisions should only be made on the basis of a prospectus or other publicly available information and materials.

The document was prepared without taking into account the needs and situation of the recipients of the document. When preparing the document, IPOPEMA Securities S.A. does not examine the recipient's investment objectives, risk tolerance level, time horizon and financial standing of the investors. The company or the financial instruments discussed in the document may not be suitable for the users of the document, i.e. it may not be suitable for the specific objectives and time horizon or the financial situation. Information included in the document cannot be regarded as a substitute for obtaining investment advice service. The value of financial instruments may fluctuate, including declines. Changes in FX rates may have an adverse effect on the value of investments. The investment in financial instruments is linked to investment risks including loss of entire or part of the invested capital. Past performance is not necessarily indicative of future results. IPOPEMA Securities S.A. points out that the price of financial instruments is affected by many different factors that are or may be independent of the company and the results of its operations. These include, among others changing economic, legal, political and tax conditions. IPOPEMA Securities S.A. may have issued in the past or may issue other documents in the future, presenting other conclusions, not consistent with those presented herein document. Such documents reflect different assumptions, points of view and analytical methods adopted by the analysts preparing them.

Investors should be aware that IPOPEMA Securities S.A. or its related entities may have a conflict of interest that could affect this document's objectivity. The investor should assume that IPOPEMA Securities S.A. or its related entities may provide services in favour of the company and obtain remuneration on this account. They may also have another financial interest with respect to the company. IPOPEMA Securities S.A. or its related entities may seek to do business with the company or other entities mentioned in this document. IPOPEMA Securities S.A. has an organizational structure and internal regulations in place to ensure that the client's interests are not compromised in the event of a conflict of interests, in relation to preparing this document. Conflict of interest management policy is available on the website at https://www.ipopemasecurities.pl/analizy-i-rekomendacje,p162. This document was prepared irrespective and independently of the interests of IPOPEMA Securities S.A., the company that is the subject of this document and holder of financial instrument issued by aforementioned company. IPOPEMA Securities S.A., its shareholders, employees and associates may hold long or short positions in the company's financial instruments or other financial instruments related to the company's financial instruments.

Information on the conflict of interest arising in connection with the preparation of the document (if any) is provided below.

On the order of the Warsaw Stock Exchange S.A. ("WSE"), IPOPEMA Securities S.A. creates analytical materials for the following companies: ASBISc Enterprises PLC, Izostal S.A., Medicalgorithmics S.A., P.A. NOVA S.A., Scope Fluidics S.A., VIGO Photonics S.A. The WSE has proprietary copyrights to these materials. For the preparation of IPOPEMA Securities S.A. receives remuneration from the WSE. Information on the program is available on the website https://www.gpw.pl/gpwpa.

IPOPEMA Securities S.A. uses a number of valuation methodologies including discounted cash flows models (DCF), discounted dividends models (DDM), peers relative comparison, risk-adjusted net present value method (rNPV), net asset value (NAV), sum of the parts (SotP) methods, or variations of those methods, or other methods if are deemed as suitable. Within all those methods a specific opinions of the report's author or authors are applied, including financial forecasts for the company/companies. The subjective opinions of the report's author or authors, formed by their knowledge and experience, play a significant role in the valuation. Also included are assumptions on numerous economic variables, particularly interest rates, inflation and exchange rates and varying these assumptions could results in significantly different opinions.
DCF models encapsulate the forecasted cash streams for a company, and are widely used in the investment industry. DCF models relay on multiple discretionary assumptions regarding the company's operations, future profits and its market environment. DCF model usually present only one variant of the future, hence to analyze the different scenarios a sensitivity analysis is needed (for either/both operational items or valuation parameters). The weak points of DCF method include the susceptibility to a change of a specific forecasts assumptions in the model, and the fact that it present only one discretionary future scenario.
DDM models relay on expected shareholders' distribution levels within dividends. They enable to value the effective cash proceeds stream from the perspective of shareholders (only in case of dividends, while it may not fully include buybacks). The weak points of DDM models include: sensitivity of underlying operating and valuation assumptions, not grasping a full shareholders distribution if company proceeds with a buyback on top of a dividend payments, and putting less focus on company's specific financial situation.
Peer relative comparison bases on a comparison of valuation multipliers for companies from a given sector. The leading multiples for compared company based on the future earnings, book values, operating profit or cash flows include an analyst's estimate of those values. The peer comparisons methods are less dependent on the analyst's judgment as to the individual parameters, however the valuation is highly depended on the composition of a peers' group. The weak points of peer relative valuation include: the quality and comparability of peers (with various business models, operating environments, growth phases, etc.), the selection of peers, the quality of available consensuses for peers, and a practice of comparing the multiples to median/average instead of historical premiums/discounts.
rNPV method accounts the probabilities factors assigned to future cash flows, which enables to assess specific risk factors. rNPV is commonly used to value either innovative companies or companies in case of which certain milestones need to be reached before cash flow is generated on regular basis. The weak points include subjective assumptions towards risk factor discount rates on top of the susceptibility to a change of a specific forecasts.
NAV and SotP methods are often used in cases of valuing the separate parts of company's businesses with purpose to arrive at the consolidated valuation. NAV and SotP may include various valuation methods for selected assets, including DCF, DDM models, target multiple valuation, market value valuation , or other various methods, and are often expanded by addition of discretionary discounts (such as holding discount). The weak points of NAV/SotP valuations include all specific weaknesses of used methods, as well as the sensitivity to applied discretionary factors such as holding discount.

This document was not transferred to the company prior to its publication. This document was prepared according to the author's own view, assumptions and knowledge.

Recommendations issued by IPOPEMA Securities S.A. they are valid for a period of 12 months from the date of issue, unless they are updated during this period. IPOPEMA Securities S.A. updates the issued recommendations depending on the market situation and subjective analysts' assessment. In the last 12 months IPOPEMA Securities S.A. has not prepared any recommendation concerning the company.

This document is an investment research within the meaning of Art. 36 par. 1 of the Commission Delegated Regulation (EU) 2017/565.

List of all recommendations regarding any financial instrument or issuer that have been disseminated within the last 12 months by IPOPEMA Securities S.A. is available on the website at https://www.ipopemasecurities.pl/analizy-i-rekomendacje,p162.

The definitions of terms used in the document include:
AGM/EGM – annual/extraordinary general meeting of shareholders.
BVPS – book value per share - the book value of the company's shareholders equity divided by the number of shares outstanding without treasury shares at the end of period.
CAGR – compound annual growth rate.
CFO – net cash flow from operations.
Cost/Income – operating expenses divided by total banking revenue.
D&A – depreciation and amortization.
DCF – discounted cash flow model – a valuation method based on the sum of discounted future cashflows with appropriate adjustments (such as net debt, etc., if applicable).
DDM – dividend discount model – a valuation method of based on the sum of discounted future dividends.
DPS – dividend per share – dividend of a given year divided by the number of shares outstanding without treasury shares at the moment of distribution.
DY – dividend yield – total DPS of a given financial year divided by share price.
EBIT – earnings before interests and tax.
EBITDA – earnings before interests, tax, depreciation and amortization.
EPS – earnings per share – the net income (or adjusted net income) divided by the number of shares outstanding without treasury shares at the end of period.
EV – enterprise value – market cap adjusted by treasury shares, plus gross debt, less cash and equivalents, less associates, plus minorities.
EV/EBITDA – EV divided by EBITDA.
EV/S, or EV/revenues – EV divided by revenues (sales).
FCFE – free cash flow to the equity.
FCFF – free cash flow to the firm.
FV – fair value – fair value price of the company calculated based on valuation methods outlined in the document.
LLP – loan loss provisions – an expense set aside as an allowance for bad loans.
ND – net debt – gross debt and leases (depending on accounting standard) less cash and equivalents.
Net F&C – net fee and commission income – fee and commission income minus fee and commission expense.
NII – net interest income – interest income minus interest expense.
NPL – non-performing loan – loans that are in default or close to be in default.
P/BV – price to book value - price divided by the BVPS.
P/E – price to earnings ratio – price divided by earnings per share.
PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time.
ROA – return on assets – net income (or adjusted net income) divided by the average assets.
ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity.
ROIC – return on invested capital – EBIT * (1 – tax rate) divided by average invested capital.
uFCF – underlying free cash flow – IPOPEMA's measure reflecting the amount of potential cash flow generation available for distribution before outflow on discretionary purposes (such as shareholders' distribution, unannounced M&A, financial assets, etc.), calculated as follows: net cash from operations less net CAPEX on PP&E, intangibles and subsidiaries (related to announced deals), less net interest paid on debt, leases and granted loans, less lease payment, less dividends paid to minorities, plus received dividends, plus other items if necessary depending on company's specifics/presentation.
uFCFps – uFCF per share.
WACC – weighted average cost of capital.

The author of this document has no conflict of interest with the company that is the subject of this document. The point of view expressed in the document reflects the personal opinion of the author of the document on the analyzed company and its financial instruments. Investors should be aware that flexible part of the author's compensation may depend on general financial performance of IPOPEMA Securities S.A.

IPOPEMA Securities S.A. shall act with due diligence, honestly, fairly, professionally and in accordance with the provisions of the applicable law.

IPOPEMA Securities S.A. does not guarantee achieving the investor's investment objective, the performance of company or prospective prices referred to herein.

When applying ratings for companies following criteria are used with regards to the difference between IPOPEMA's FV and company's price at the date of recommendation:
BUY – the difference between FV and price at recommendation exceeds 10%.
HOLD – the difference between FV and price at recommendation is between (and including) -10% and 10%.
SELL - the difference between FV and price at recommendation is below -10%.

The price used throughout the recommendation to calculate adequate ratios is the "last" price stated on the front page of this document. The date and the time stated on the front page is the date and the time of the preparation of this document. This document has been distributed on 12 September 2025 at 08:45 CEST.

IPOPEMA Research - Distribution by rating category (1 April – 30 June 2025)	Number	%
Buy	11	73%
Hold	2	13%
Sell	2	13%
Total	15	100%

Rating History - Izostal				
Date	Recommednation	Fair Value	Price at recommendation	Author
12/09/2025	HOLD	PLN 3.00	PLN 2.89	Krzysztof Otczyk Marcin Nowak