Research
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BUDIMEX

Close to fair value for the first time in 12 months

Hold
(Previous: Sell; PLN 580)

Target Price: 525 PLN

Upside: +8%

After a somewhat disappointing 3Q'24 results followed by a sharp sell-off, we've decided to close our short call on Budimex. While our near-term optimism on the company remains fairly muted, we believe the market has already priced in lower year-on-year FY24 earnings, and starting 1Q'25 we expect both top- and bottom-line growth to turn positive. Moreover, in the medium term we see Budimex benefiting from tailwinds stemming from the recovery in the CEE construction market, especially given BDX's ever-growing presence in the Czech Republic, Slovakia and Germany.

With the rate cuts around the corner, we expect construction output in Poland to pick up significantly in '26, following an improvement in sentiment in 2H'25. In addition, we see Budimex as the only blue-chip stock that allows investors to gain direct exposure to the PL construction market, and with EV/EBITDA 2Y FWD just 6% above the 10-year average, we find the current valuation close to fair value for the first time in 12 months.

Based on the above, we upgrade our rating to HOLD and lower our target price by 9% to PLN 525. Our EPS estimates for '25 - '26 come in 10/11% below consensus.

3Q24 Results Review. We view earnings slightly negative (EBITDA adjusted for the valuation of derivatives and other one-offs down 15% yoy). In Construction, revenues and margins were in line with our assumptions. A decline in production-ready contracts in the GC and rail segments led to a yoy decline in top line despite a record order book (PLN 15.8 bn, +31% yoy). At the same time, the current raw material and cost environment continues to allow the Group to achieve record high margins, despite the negative impact of the change in provisions. Net cash fell to its lowest level in 2 years, with BDX's cash generation profile deteriorating due to less favourable payment terms with its subcontractors. For a more detailed description, please refer to the separate note (LINK).

Forecasts revision. Following MB's comments during the last conference call, we've become more aware that the continued delay in the launch of the new tenders is increasing price competition between bidders, which we believe will be reflected in the results of not only BDX but also other companies in the sector in the 26-'28 timeframe. While we feel comfortable with our revenue forecast (we expect Budimex to sign a record PLN10.3bn of new contracts in FY24), we've decided to adjust our model assumptions regarding margins in the medium and long term. Overall, we've lowered our EPS forecasts for FY25-FY27 by 1/7/11%. We expect Budimex to generate positive FCF in 4Q24, although we do not expect DY to return to FY24 levels in the near future.

Valuation. We base our valuation of BDX 100% on the DCF model - we assume an RFR of 5.5% and a market premium of 5.0%. Our assumptions imply a 12-month target price of PLN 525. In addition, we present a scenario analysis - in the bull case scenario we value the Company at PLN 670 per share, while in the bear case scenario we value the Company at PLN 500 per share. The DDM valuation returns PLN 479, while the comparative valuation returns PLN 476. Budimex itself trades at a 17-38% premium on P/E to Polish and foreign construction companies.

Risk factors. Specific risk factors include: 1) the EUR/PLN exchange rate, 2) material prices on the Polish market, 3) foreign competition in the Polish construction industry and 4) delays in the schedules of investments implemented by GDDKiA and PKP PLK. For a more extensive description, see page 13.

PLNm	2021	2022	2023	2024E	2025E	2026E
Revenues	7,911	8,619	9,802	9,381	9,942	11,866
EBITDA	734	715	938	930	993	1,082
EBIT	519	562	781	767	826	909
Net profit	972	534	738	691	732	779
EPS (PLN)	38.1	20.9	28.9	27.1	28.7	30.5
P/E (x)	12.7	23.1	16.8	17.9	16.9	15.9
EV/EBITDA (x)	13.5	13.1	9.3	9.7	9.1	7.9
P/BV (x)	9.1	9.5	7.9	9.2	8.5	7.8
DY (%)	6.6%	5.0%	3.8%	7.4%	5.0%	5.3%

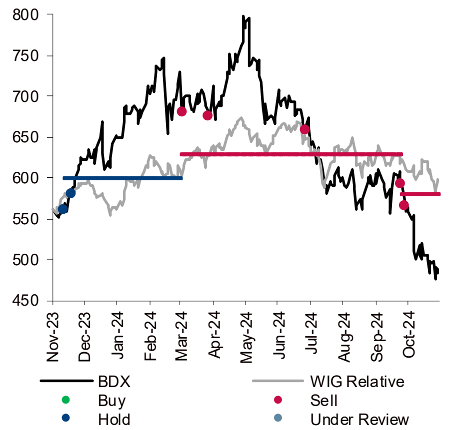
Source: Company, Trigon DM

FACT SHEET

Ticker	**BDX**
Sector	**Construction**
Price (PLN)	**485**
52W range (PLN)	**476.2 / 813**
Shares outstanding (m)	**25.5**
Market Cap (PLNm)	**12,371**
Free-float	**50%**
3M Avg. Vol. (PLNm)	**14.5**

	1M	3M	1Y
Price performance	**-19.5%**	**-21.1%**	**-11.1%**

RELATIVE SHARE PRICE VS WIG INDEX



RECOMMENDATIONS

	DATE	TP
Sell	22.10.2024	580
Sell	18.10.2024	580
Sell	19.07.2024	630
Sell	19.04.2024	630
Sell	25.03.2024	630
Hold	11.12.2023	600
Hold	05.12.2023	600

SHAREHOLDERS

	Share %
Ferrovial International	50.1%
OFE Allianz Polska	9.6%
OFE Nationale-Nederlanden	8.9%

INVESTOR CALENDAR

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Glossary of professional terms:
capitalisation – market price multiplied by the number of a company's shares
free float (%) – percentage of a company's shares held by shareholders with less than 5% of total voting rights attached to the shares, reduced by treasury shares held by the company
min/max 52 wks – lowest/highest share price over the previous 52 weeks
average turnover – average volume of share trading over the previous month

EBIT – operating profit
EBITDA – operating profit before depreciation and amortisation
adjusted profit – net profit adjusted for one-off items
CF – cash flow
CAPEX – sum of investment expenditures on fixed assets
OCF – cash generated through a company's operating activities
FCF – cash generated by a company after accounting for cash outflows to support its operations and maintain capital assets
ROA – rate of return on assets
ROE – rate of return on equity
ROIC – rate of return on invested capital
NWC – net working capital
cash conversion cycle – length of time it takes for a company to convert its cash investments in production inputs into cash revenue from sale of its products or services
gross profit margin – ratio of gross profit to net revenue
EBITDA margin – ratio of the sum of operating profit and depreciation/amortisation to net revenue
EBIT margin – ratio of operating profit to net revenue
net margin – ratio of net profit to net revenue
EPS – earnings per share
DPS – dividend per share
P/E – ratio of market price to earnings per share
P/BV – ratio of market price to book value per share
EV/EBITDA – ratio of a company's EV to EBITDA
EV – sum of a company's current capitalisation and net debt
DY – dividend yield, ratio of dividends paid to share price
RFR – risk free rate
WACC – weighted average cost of capital

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Issuer – BUDIMEX S.A.
BUY – we expect the total return on an investment to reach at least 15%
HOLD – we expect the price of an investment to be largely stable, with potential upside of up to 15%
SELL – we expect negative total return on an investment of more than -0%

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Document prepared by: Davis Sharma

Valuation methods used

The Discounted Cash Flow (DCF) method values a company by estimating its future cash flows and discounting them back to their present value.
- Advantages: future-oriented, flexible when it comes to assumptions, based on the intrinsic value of a company, widely accepted.
- Disadvantages: sensitivity to assumptions, complexity, subjectivity, doesn't consider market sentiment or short-term fluctuations.
The comparable valuation method values a company by comparing it to similar publicly traded companies.
- Advantages: simplicity, transparency, benchmarking, reflects current market valuations and investor sentiment.
- Disadvantages: lack of specificity, limited comparables, sensitive to market fluctuations, ignoring fundamental differences.
SOTP – sum-of-the-parts method, which consists in valuing a company by valuing its individual business lines separately and then summing them up.
Advantages: different valuation methods can be applied to diverse business lines; the approach is useful for assessing the value of a company e.g. in the case of planned acquisition or restructuring.
Disadvantages: the peer group for individual business lines is usually limited, the method does not adequately account for synergies between business segments.

Risk-adjusted net present value method (rNPV)
Advantages: accounting for probabilities assigned to future cash flows, providing a more realistic assessment of the present value of future cash flows and reflecting business-specific factors, especially in the case of innovative companies.
Disadvantages: subjectivity involved in the adoption of a discount rate, significant reliance on a number of assumptions, high level of complexity in the calculations and exclusion of qualitative factors from the valuation.
Discounted residual income method (DRI)
Advantages: valuation based on the excess of income over risk-adjusted opportunity cost to owners of capital, the method can be applied to companies that do not pay dividends or generate positive FCF.
Disadvantages: significant reliance on subjective judgements and assumptions, as well as sensitivity of the valuation to any changes in those variables.
Discounted dividend model (DDM)
Advantages: accounting for real cash flows to equity owners, the model works best for companies with a long history of dividend distribution.
Disadvantages: the method can be applied to dividend-paying companies only, it is not suitable for companies with a short history of dividend distribution.
Net asset value method (NAV)
Advantages: the approach is particularly relevant to holding companies with significant property, plant and equipment assets, the calculation of NAV is relatively straightforward.
Disadvantages: the method neglects future revenue or earnings potential and may not properly reflect the value of intangible assets.
Target multiple method
Advantages: the method can be applied to any company.
Disadvantages: it involves a high degree of subjectivity.
Replacement value method – it assesses the value of a company based on the costs of replacing its assets.
Advantages: the method is particularly relevant to companies with significant property, plant and equipment assets.
Disadvantages: it may be hard to capture the value of a company's intangible assets, reputation and market potential.
Liquidation value method – the sum of prices that the business would receive upon selling its individual assets on the open market.
Advantages: the method can capture the lowest threshold of a company's value.
Disadvantages: it may be hard to capture the value of a company's intangibles.

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Date and time when the production of the recommendation was completed: 25.11.2024, 6:59.

Date and time when it was first disseminated: 25.11.2024, 7:00.