

Torpol

On the eve of record high backlog and the return to dividends?

The unlocking of EU funds announced by President of the European Commission in late Feb'24 should eliminate the key funding risk for the launch of distribution of railroads contracts, as we estimate that 2021-27 EU funds should account for c. 52-60% of the expected infrastructure spending in upcoming years. As a result, the significant supply of railroads tenders should hit the market soon, while Torpol's backlog position might be at record high level even before the tenders start. Torpol has already managed to rebuild the backlog to PLN 3.0bn in 3Q'23, while it also announced scoring the best offer in Katowice Szopienice Płd – Katowice Piotrowice tender, which might add PLN 2.38bn to the backlog, if signed. This would mean that Torpol's backlog would likely go above PLN 5.0bn (vs. previous peak of PLN 3.75bn). Such a backlog position would likely allow Torpol to be very selective in upcoming tenders, which should increase the outlook for above average margins. Moreover, already the existing backlog was signed with c. 5% premium to investor's budget and the pricing of these contracts occurred already at the peak of the inflation of construction raw materials (i.e. inflation has likely been accounted for in these tenders to large extent). This contrasts with the pricing of currently executed roads contracts, that were priced with 17-27% discount to investor's budgets in 2020-21 period (i.e. prior to double digit inflation).

Such an improvement of the backlog outlook leads us to revise our 2025-26e volumes forecasts by 8% and 12%, while net profit forecasts go up by 15% and 21% for 2025e and 2026e, respectively. The improved backlog outlook and the lack of EU funding risk should also translate into increased room for dividend payments, hence our forecast for Torpol's return to dividend payout ratio of above 70%, as it was the case in 2020-22 period. This translates into higher DPS forecasts by 35%, 30% and 50% for 2024e, 2025e, and 2026e, respectively. These reasons prompt us to reiterate our **BUY recommendation, while 12M target price is revised up to PLN 45.0**, from PLN 30.86 previously.

PLN mn	2021	2022	2023e	2024e	2025e	2026e
Revenues	1 121.4	1 084.8	1 002.4	1 052.5	1 420.9	1 847.1
Gross margin	13.0%	23.9%	13.5%	8.0%	7.5%	7.5%
EBITDA	127.3	244.8	114.0	60.0	81.5	113.1
EBIT	105.1	220.6	92.8	38.3	57.9	87.5
Net income	77.1	183.8	88.0	40.0	48.4	70.3
EPS	3.36	8.00	3.83	1.74	2.11	3.06
DPS	1.53	3.00	0.00	2.70	1.30	1.50
DY	11.4%	21.0%	0.0%	8.4%	4.0%	4.6%
P/E	4.0	1.8	8.4	18.6	15.3	10.5
EV/EBITDA	0.1	-0.2	3.4	7.5	6.8	5.2

NB: Historical multiples based on avg. prices

Source: Company, Pekao Equity Research

BUY (reiterated)

Target price **PLN 45.0**
Upside to TP **+39.3%**
 Price on 05 March 2024 **PLN 32.3**
ESG rating **C**
Final ESG score **0.99**

Relative share price performance vs. WIG



UPCOMING EVENTS

4Q23 report release	22 March 2024
1Q24 report release	24 May 2024

STOCK DATA

Reuters/Bloomberg	TOR.WA/TOR.PW
Free float (%)	55.1
Market capitalization (PLNmn)	742
No. of shares in issue (mn)	22.97

Shareholders	CPK 38.0%
	NN OFE 9.87%
	PKO TFI 8.79%
	Mirbud 6.86%

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Tomasz Duda
tomasz.duda2@pekao.com.pl



Valuation

We use DCF and peer valuation methods with 100% and 0% weights, respectively.

Our peers valuation in presented for illustrative purposes as it carries 0% weight.

Peers valuation

Peer comparison

Compay name	Ticker	P/E			EV/EBITDA		
		2024e	2025e	2026e	2024e	2025e	2026e
VINCI SA	dg FP	13.7	12.8	11.9	7.3	7.0	6.7
ACS ACTIVIDADES CONS Y SERV	ACS SM	15.6	14.0	11.7	5.7	5.4	5.0
HOCHTIEF AG	HOT GR	14.0	13.0	11.8	6.0	5.7	5.3
SKANSKA AB-B SHS	SKAB SS	13.0	11.7	10.8	7.5	6.9	6.8
STRABAG SE-BR	STR AV	8.4	8.9	8.3	2.6	2.6	2.5
EIFFAGE	FGR FP	9.3	8.8	8.2	6.0	5.8	5.6
FERROVIAL SE	FER SM	48.3	39.4	31.5	27.2	24.0	22.9
PORR AG	POS AV	6.7	5.9	4.9	2.0	1.9	1.7
MOTA ENGIL SGPS SA	EGL PL	24.2	19.2	15.6	5.0	4.6	4.4
BILFINGER SE	GBF GR	10.8	9.0	8.1	4.8	4.2	3.9
FOMENTO DE CONSTRUCC Y CONTR FCC SM		12.9	12.1	11.2	7.4	7.2	6.7
ACCIONA SA	ANA SM	13.6	12.3	11.3	6.9	6.1	5.8
KONINKLIJKE BAM GROEP NV	bamnb na	5.9	5.2	4.4	neg	neg	neg
VEIDEKKE ASA	vei no	12.8	12.3	11.8	4.9	4.8	4.6
Median total		13.0	12.2	11.2	6.0	5.7	5.3
Budimex		22.8	25.1	30.2	13.7	14.1	16.7
Erbud		neg	24.9	18.5	19.1	7.4	5.9
Torpol		18.6	15.3	10.5	7.5	6.8	5.2
<i>Premium/discount vs. median foreign peers</i>		43%	26%	-6%	25%	19%	-1%
<i>Premium/discount vs. Budimex</i>		-19%	-39%	-65%	-46%	-52%	-69%
<i>Premium/discount vs. Erbud</i>		nm	-39%	-43%	-61%	-8%	-12%
Implied by foreign peers value p.s. PLN		22.6	25.7	34.3	28.3	28.5	32.5
Implied by BDX multiple value p.s. PLN		39.7	52.8	92.5	48.6	58.1	89.0
Implied by ERB multiple value p.s. PLN		nm	52.6	56.6	62.6	34.5	35.9

DCF valuation

WACC calculation

	2024e	2025e	2026e	2027e	2028e	2029e	Terminal Year
Risk free rate	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	4.0%
Equity risk premium	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0
ESG discount/premium	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of equity	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	9.0%
Cost of debt	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	6.5%
After-tax cost of debt	6.2%	6.2%	6.2%	6.2%	6.2%	7.8%	5.1%
Equity weight	99%	99%	99%	99%	99%	99%	99%
WACC	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	9.0%

DCF valuation

(PLN mn)	2024e	2025e	2026e	2027e	2028e	2029e	Terminal Year
Revenues	1 052	1 421	1 847	2 032	2 133	1 920	1 920.1
EBIT	38.3	57.9	87.5	100.3	106.9	89.8	86.4
Taxes on EBIT	-8.0	-12.2	-18.4	-21.1	-22.4	-18.9	-18.1
NOPAT	30.2	45.7	69.1	79.2	84.4	71.0	68.3
Depreciation and assets write-offs	21.7	23.6	25.6	27.7	29.9	32.3	32.3
Change in NWC	-35.6	-125.8	-72.5	49.9	8.1	64.0	0.0
Capital expenditures	-27.3	-28.7	-30.1	-31.6	-33.2	-34.8	-34.8
FCFF	-11.0	-85.1	-7.9	125.2	89.3	132.4	65.7
<i>Terminal value growth</i>							1.0%
Terminal value							833.1
Discount factor	0.90	0.81	0.73	0.65	0.59	0.53	0.48
Discounted free cash flow - Dec 31 2023	-9.9	-68.7	-5.7	81.7	52.4	69.8	434.8
Enterprise value - Dec 31 2023	554.5						
Minorities	-0.9						
Net debt	-355.6						
Other adjustments	0.0						
Equity value - Dec 31 2023	910.9						
Number of shares (mn)	23.0						
12M target price per share (PLN)	45.00						
Share price as of March 5th (PLN)	32.3						
<i>Upside/Downside vs. current price</i>	39.3%						

Revenues growth	5%	35%	30%	10%	5%	-10%	0.0%
EBIT margin	3.6%	4.1%	4.7%	4.9%	5.0%	4.7%	4.5%
Tax rate	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Capex/revenues	2.6%	2.0%	1.6%	1.6%	1.6%	1.8%	1.8%
Capex/depreciation	125.8%	121.4%	117.5%	114.0%	110.9%	108.0%	108.0%

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

Terminal value growth/WACC	7.5%	8.0%	8.5%	9.0%	9.5%	10.0%	10.5%
0.0%	46.4	45.0	43.7	42.6	41.6	40.7	39.9
0.5%	48.1	46.4	45.0	43.7	42.6	41.6	40.7
1.0%	50.0	48.1	46.4	45.0	43.7	42.6	41.6
1.5%	52.2	50.0	48.1	46.4	45.0	43.7	42.6
2.0%	54.8	52.2	50.0	48.1	46.4	45.0	43.7

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

EBIT margin/capex in Terminal Year	-20	-25	-30	-35	-45	-55	-65
2.5%	40.0	38.4	36.7	35.1	31.8	28.5	25.3
3.5%	44.9	43.3	41.7	40.0	36.8	33.5	30.2
4.5%	49.9	48.3	46.6	45.0	41.7	38.5	35.2
5.0%	52.4	50.8	49.1	47.5	44.2	40.9	37.7
5.5%	54.9	53.2	51.6	50.0	46.7	43.4	40.2

Source: Pekao Equity Research

Key financial data

P&L (PLN mn)	2021	2022	2023e	2024e	2025e	2026e
Revenues	1 121	1 085	1 002	1 052	1 421	1 847
Gross Profit	145	259	135	84	107	139
Other Operating Income/Cost	-2	0	-1	-1	-1	-1
SG&A	39	38	42	45	48	51
EBITDA	127	245	114	60	82	113
EBIT	105	221	93	38	58	87
Financial Income/(Cost)	-4	11	18	12	3	1
Pretax Profit	101	232	111	50	61	88
Income Tax	24	48	23	10	12	18
Net Income	77	184	88	40	48	70
EPS (PLN)	3.36	8.00	3.83	1.74	2.11	3.06

Balance Sheet (PLN mn)	2021	2022	2023e	2024e	2025e	2026e
Total Current Assets	703	808	820	764	881	1 071
Cash and Equivalents	432	493	500	450	350	350
Other Current Assets	271	315	320	314	531	721
Total Fixed Assets	256	221	225	231	236	240
Tangible Assets	165	171	176	182	187	191
Other Fixed Assets	91	49	49	49	49	49
Total Assets	959	1 028	1 045	995	1 116	1 311
Stockholders' Equity	292	408	495	473	492	528
Long Term Liabilities	112	119	105	105	105	105
Long -Term Debt	45	39	51	51	51	51
Other Long - Term liabilities	68	81	54	54	54	54
Short Term Liabilities	555	502	445	416	520	679
Short -Term Debt	15	6	22	35	42	77
Other Current Liabilities	539	495	422	381	478	602
Total Equity & Liabilities	959	1 028	1 045	995	1 116	1 311
Net debt	-294	-377	-356	-293	-186	-151

Cash Flow (PLN m)	2021	2022	2023e	2024e	2025e	2026e
Net Profit	77	184	88	40	48	70
Depreciation and Amortisation	22	24	21	22	24	26
Other (incl. WC)	35	-36	-104	-35	-120	-66
Operating Cash Flows	134	172	5	27	-48	30
Capital Expenditures	-8	-15	-26	-27	-29	-30
Other	-1	13	0	0	0	0
Cash Flows from Investing Activities	-8	-3	-26	-27	-29	-30
Dividends paid	-35	-69	0	-62	-30	-34
Other	-64	-39	28	13	7	35
Cash Flows from Financing Activities	-99	-108	28	-50	-23	0
Change in Cash	27	61	7	-50	-100	0
Cash at the end of period	432	493	500	450	350	350
DPS (PLN)	1.53	3.00	0.00	2.70	1.30	1.50

Y/Y growth ratios	2021	2022	2023e	2024e	2025e	2026e
Revenues	-19%	-3%	-8%	5%	35%	30%
EBITDA	47%	92%	-53%	-47%	36%	39%
EBIT	65%	110%	-58%	-59%	51%	51%
Net profit	59%	139%	-52%	-55%	21%	45%
EPS	59%	139%	-52%	-55%	21%	45%

Margins	2021	2022	2023e	2024e	2025e	2026e
Gross margin	13.0%	23.9%	13.5%	8.0%	7.5%	7.5%
EBIT Margin	9.4%	20.3%	9.3%	3.6%	4.1%	4.7%
Net Margin	6.9%	16.9%	8.8%	3.8%	3.4%	3.8%
ROE	30.7%	62.9%	21.6%	8.1%	10.2%	14.3%

Balance Sheet Ratios	2021	2022	2023e	2024e	2025e	2026e
BVPS (PLN)	12.7	17.7	21.6	20.6	21.4	23.0
Net debt/EBITDA	-2.3	-1.5	-3.1	-4.9	-2.3	-1.3
Bank Debt/Equity	47.1%	28.5%	29.2%	33.2%	33.3%	37.6%

Source: Pekao Equity Research



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Analyst	Financial instrument	Number of instruments	Exposure (long/short)	Transaction price	Transaction date
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Tomasz Duda	Torpol	0	None	Not applicable	Not applicable
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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.

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Coverage in transition: Due to changes in the research team, the disclosure of a stock's rating and/or target price and/or financial information are temporarily suspended. The stock remains in the research universe and disclosures of relevant information will be resumed in due course.

Under review: A rating and/or financial forecasts and/or target price is at the moment under revision of an analyst and the previous rating and/or financial forecasts and/or target price should not be relied on.

Not rated: We do not issue company-specific recommendations and we do not plan to issue them in the foreseeable future.