

Atrem – initiation of coverage

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Reuters: ATR.WA Bloomberg: ATR PW

CEE Equity Research

Construction, Poland

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Record high backlog

DCF and comparative valuation in the range of PLN8.8 and PLN10.4 per share

In this report, we initiate coverage of Atrem (ATR). Atrem is a highly-specialised construction & engineering company. It has a track-record in the niche segments of construction industry: automation and power engineering. Atrem reconsidered its strategy and initiated restructuring initiatives following the controlling stake purchase by GK Immobile in 2019. Since then it has focused on improving business profitability by looking for high value contracts and costs optimisation. As of 2020 Atrem has become a profit-generating company which corresponded with loss-maker in 2017-19. The recent signing of contract with Orlen increased its order book to a record level of around PLN450mn, which could translate into a significant earnings improvement in 2023E-25E, according to our forecasts. Poland's energy transition, could represent Atrem's key earnings driver in future years.

Business profile. Atrem provides construction works related to industrial automation and power engineering. The company is an experienced entity operating in a highly specialised and niche segments of the construction market. It is one of few entities in Poland with track record in the execution of contracts for operators of gas pipelines or power grids. The main clients of ATR's services are Gaz System or Enea.

2022 and 1H2023 results. Atrem generated net loss in 2017-2019, but restructuring initiatives implementation and strategy reorientation (following acquisition of a controlling stake in 2019 by GK Immobile) resulted in improved profitability and net result in a black territory in 2020-22. The company's 1Q2023 margins were under pressure. Moreover, Atrem announced a y/y sales fall in 1H2023. However, we believe in earnings momentum improvement as of 2H2023E thanks to contract worth over PLN250m signed in 1Q2023 with Orlen, which boosted backlog to a record level of around PLN450m. We forecast Atrem's net profit over the forecast horizon at above 2020-22 levels.

Growth factors: In our opinion, long term earnings' drivers include: 1) the need to modernise and expand power network in Poland, 2) an increase in electricity consumption, 3) an acceleration of GDP growth, 4) a slowdown in the growth rate of construction material prices, 5) the energy transformation of the Polish economy (aimed at reducing the dependence of the electricity system on fossil fuels and increasing its efficiency).

Risk factors: 1) Changes in prices of steel products, 2) Increase in energy costs, 3) cyclically low level of investments.

Valuation. We valued Atrem using two methods: DCF and comparative, and we compared the company to Polish and foreign construction companies. In the DCF valuation of PLN10.4 per share, we included the value of a non-operating asset - an office building - which is a source of rental income, at approximately PLN1.44 per share. The comparative valuation implies a valuation of PLN8.8 to PLN9.1 per share. We have not assigned any weights to the methods used, but we present the valuation in the range of PLN8.8 to PLN10.4 per share. Atrem paid PLN0.66 DPS in 2022 and in 2023E the scheduled dividend is PLN0.11. We forecast a dividend payout ratio (as a % of net profit) at the 2023 level, which implies a DY of c. 1.7-4.9% over the forecast horizon.

Atrem: Financial summary (year to December)

PLNmn	2019	2020	2021	2022	2023E	2024E	2025E
Sales	116	86	101	111	146	155	172
EBITDA	-5	3	9	7	11	12	14
EBIT	-7	1	7	5	9	10	12
Zysk netto	-8	2	6	3	7	7	9
P/E (x)	-21.5	71.4	33.8	117.5	9.3	8.2	6.6
EV/EBITDA (x)	-6.6	7.7	2.7	5.3	6.1	5.3	4.3
DY	0.0%	0.0%	0.0%	18.9%	1.7%	4.3%	4.9%

Source: Company data, Santander Brokerage Poland estimates, 2019-22 ratios based on share price avg.

Valuation (DCF, comparative; PLN/share) PLN8.8-PLN10.4

Price (PLN, 11 August 2023)	6.60
Market cap. (PLNmn)	61
Free float (%)	23
Number of shares (mn)	9.2
Average daily turnover 3M (mn)	0.1

Main shareholders % of votes

GK Immobile	71.7
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Source: www.gpw.pl

Company description

Atrem is a construction company providing services in the area of automation and power engineering.

Analyst

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Business profile and business model

Atrem provides services in the area of industry automation and power engineering. It is an experienced entity operating in a highly specialised and niche segments of the construction market. It is one of few entities in Poland which have a track record in the execution of contracts for operators of gas pipelines or power grids. The main clients for Atrem's services are Gaz System or Enea.

The automation segment includes engineering services in the area of industrial automation, control and measurement of industry equipment, reconstruction of gas stations, telemetry, tele-technology, electronics, metrology and services in the area of air conditioning, ventilation and heating installations.

The power engineering segment includes services focused on low-, medium- and high-power services to customers in the power, construction and industrial sectors.

The company also executes contracts in the area of renewable energy. It offers construction of power generation and energy grid connection, as well as the construction and modernisation of low- and medium-power substations ensuring renewable energy power units connection to the power network. Realisations also include energy grid connections for wind turbines.

Key completed contracts in recent years included:

- gas compressor station in Odolanow, and works as a subcontractor for gas pipeline sections of a Baltic Pipe system;
- projects for Enea;
- control and measurement systems for hydrological and tele-technical facilities;
- power grid modernisation (e.g. for PGE Dystrybucja).

Atrem is also a member of a consortium for the implementation of installations for Orlen, of which the value of works attributable to Atrem amounts to PLN253 million, which boosted Atrem's order book in 1Q2023 to a record level of approximately PLN450 million.

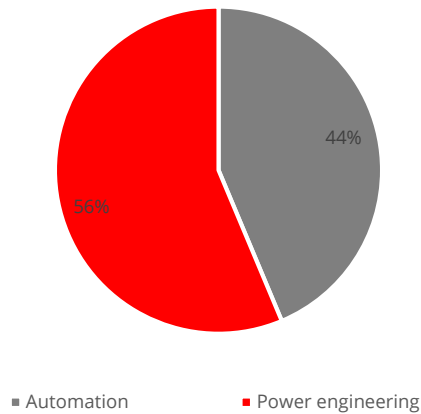
Successful restructuring

In 2019, a controlling stake in Atrem was acquired by GK Immobile. At that time, the restructuring of the company began, focused on profitability improvement. Atrem started to focus on large size contracts and costs management. Thanks to successfully implemented restructuring initiative, the company turned from a loss-maker (in years 2017-2019), to the profit generator (in years 2020-2022). Note also that in 2021 Atrem's profits were helped by the outcome of a settlement with OGP Gaz System, which resulted in additional funds flow and the release of provisions of more than PLN4 million.

Sales

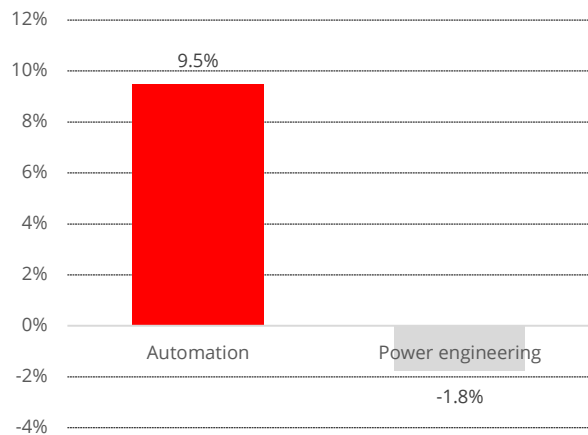
Atrem's sales come from two business segments: automation, which accounted for approximately 44% of sales in 2022, and power engineering, which accounted for approximately 56% of sales. Atrem operates fully in the domestic market.

Fig. 1. Atrem: Sales breakdown



Source: Company, data for 2022

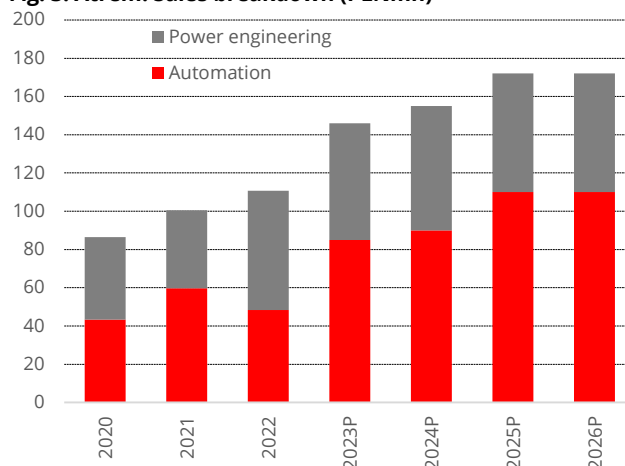
Fig. 2. Atrem: EBIT margin breakdown



Source: Company, data for 2022

In 2021-2022, sales oscillated around PLN100-110 million annually. Atrem signed as a consortium partner in March 2023 a contract worth approximately PLN253m with Orlen, which increased the company's order book to a record level of approximately PLN450m (as at the publication date of the 1Q2023 report). The signed contract should, in our opinion, drive the sales growth in the coming years. Due to the works schedule (contract in a design-to-build formula), we forecast most of the sales from this contract in 2024E and 2025E, but we expect Atrem to recognise some revenue stream also as soon as in 2023E.

Fig. 3. Atrem: Sales breakdown (PLNmnn)

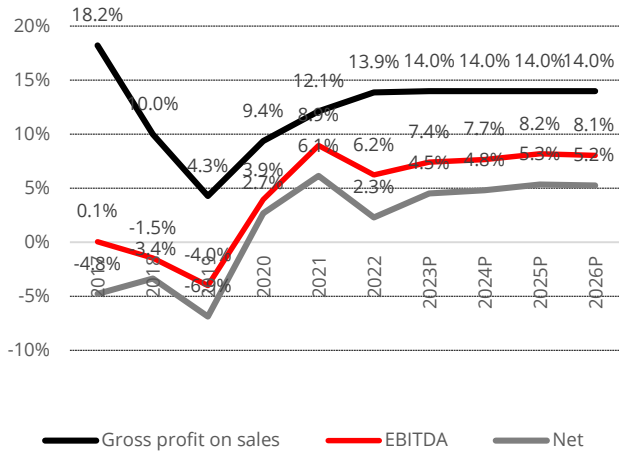


Source: Company data, Santander Brokerage Poland estimates

Profits/margins

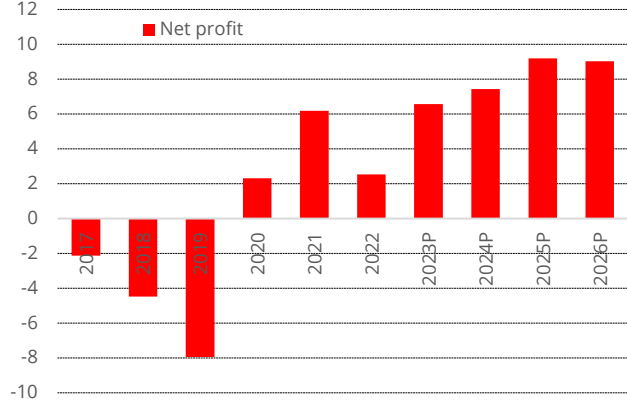
Atrem's profitability in 2017-19 was under pressure due to execution of low-margin contracts which had been signed in previous years. Escalated construction costs, and focus on low-value contracts as well as high fixed-costs resulted in margins way below the company's aspirations. The acquisition of a majority stake in Atrem by GK Immobile in 2019 resulted in changes to the company's strategy, in our view. Focus on high value contracts and costs optimisation improved the company's performance in 2020-22 and, according to our calculations, could bring profitability improvement over the forecast horizon, starting in 2023E, when the execution of a large contract for Orlen is scheduled.

Fig. 4. Atrem: Margins



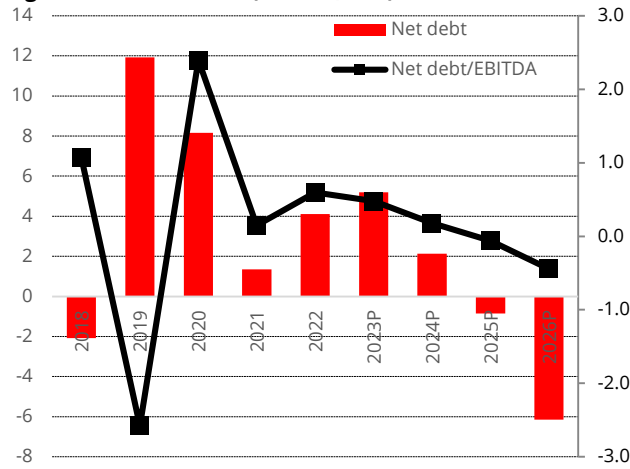
Source: Company data, Santander Brokerage Poland estimates

Fig. 5. Atrem: Net profit (PLNm)

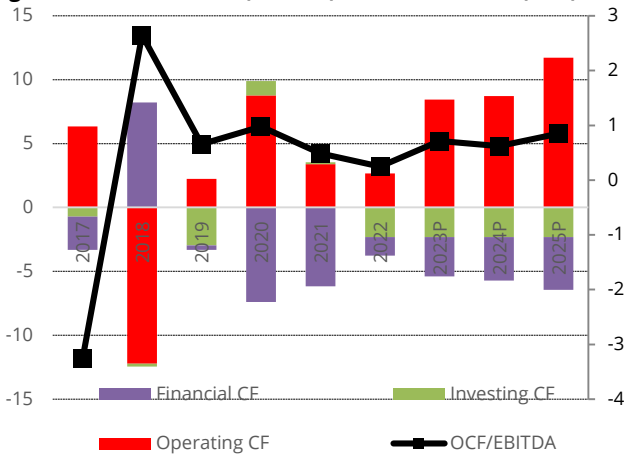


Source: Company data, Santander Brokerage Poland estimates

Fig. 6. Atrem: Net debt (PLNm, LHS) and net debt/EBITDA **Fig. 7. Atrem: Cash flow (PLNm) and OCF/EBITDA (RHS)**



Source: Company data, Santander Brokerage Poland estimates

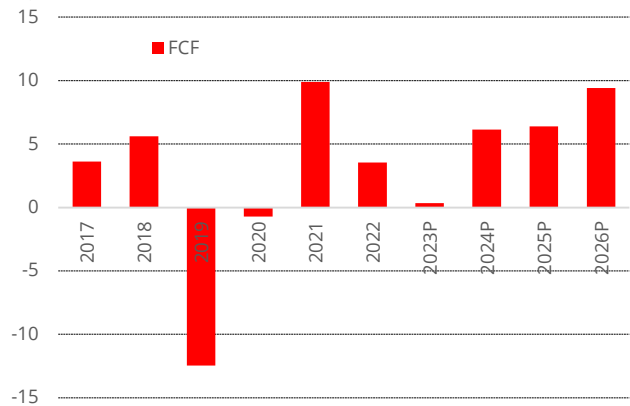


Source: Company data, Santander Brokerage Poland estimates

Dividend

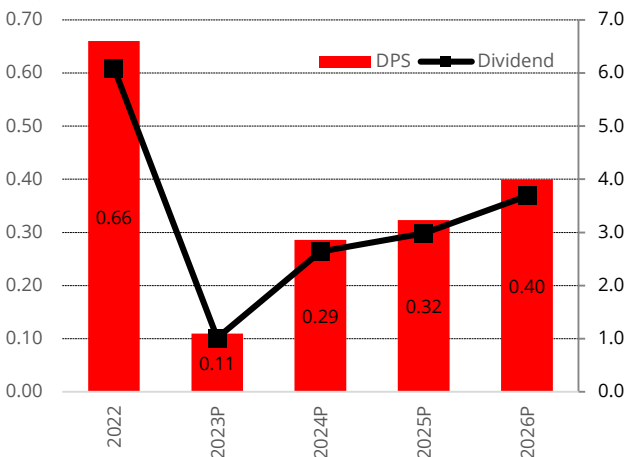
Up to 2022 Atrem was not a dividend payer. In 2022, DPS was set at PLN0.66 and in 2023 at PLN0.11. We forecast the dividend payout ratio (as a % of profit) over the forecast period at the 2023 payout ratio level.

Fig. 8. Atrem: Free cash flow (PLNm)



Source: Company data, Santander Brokerage Poland estimates

Fig. 9. Atrem: Dividend (PLNm) and DPS (PLN, LHS)



Source: Company data, Santander Brokerage Poland estimates

1H2023 results

Atrem recognized weak 1Q2023 results. Note also that recently announced 2Q23 sales declined y/y. Weak 1H2023 results are in line with our expectations, though. We assume a significant earnings momentum improvement as of 2H2023E, thanks to the implementation of the aforementioned contract with Orlen.

Fig. 10. Atrem: Quarterly financial results

PLNmn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23
Sales	16.7	22.0	30.1	31.7	32.5	32.2	23.7	22.4	19.0	29.4
Automation	9.8	14.3	19.1	26.4	16.6	17.5	13.3	0.9	11.2	
Power engineering	7.0	7.7	11.1	5.3	15.9	14.7	10.3	21.4	7.8	
Gross profit on sales	1.4	4.7	2.3	3.9	4.1	3.9	3.7	3.7	1.8	
EBITDA	-0.3	2.3	0.6	6.4	1.8	1.5	1.6	2.0	-1.2	
EBITDA margin	-1.9%	10.6%	2.0%	20.0%	5.6%	4.6%	6.7%	9.0%	-6.5%	
EBIT	-0.9	1.7	0.0	5.7	1.3	0.9	1.0	1.4	-1.9	
EBIT margin	-5.4%	7.8%	-0.1%	18.0%	3.9%	2.8%	4.4%	6.3%	-9.8%	
Net profit	-1.7	0.8	-0.7	7.8	0.2	1.0	0.7	0.7	-1.7	
Net profit margin	-10.0%	3.6%	-2.4%	24.6%	0.6%	3.0%	2.8%	3.1%	-9.0%	
Gross profit on sales margin	8.2%	21.3%	7.6%	12.2%	12.6%	12.1%	15.8%	16.5%	9.2%	

Source: Company data, Santander Brokerage Poland

Growth factors

Poland's construction sector with hopes for rebound

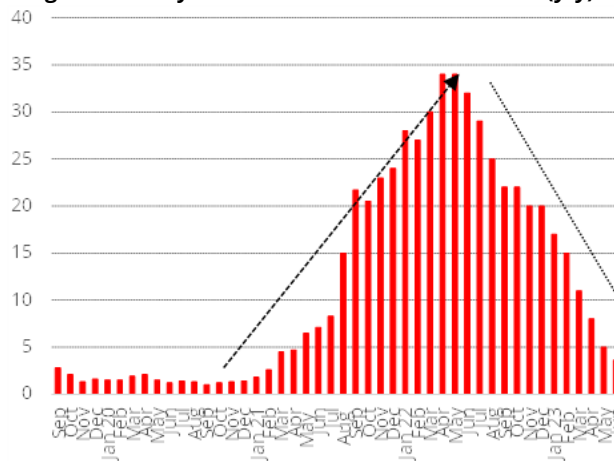
The dynamics of construction production in Poland slowed down significantly in 2022. Investors suspended or delayed investments due to high financing costs (interest rates), rising prices of construction materials and risk of an economic slowdown. However, we are seeing the first signs of an improvement in the construction industry, including a slowdown in the growth rate of construction costs (chart below with data from PSB, a building materials wholesaler).

Fig. 11. Construction production dynamics in Poland (y/y)



Source: Central Statistical Office

Fig. 12. Price dynamics of construction materials (y/y)

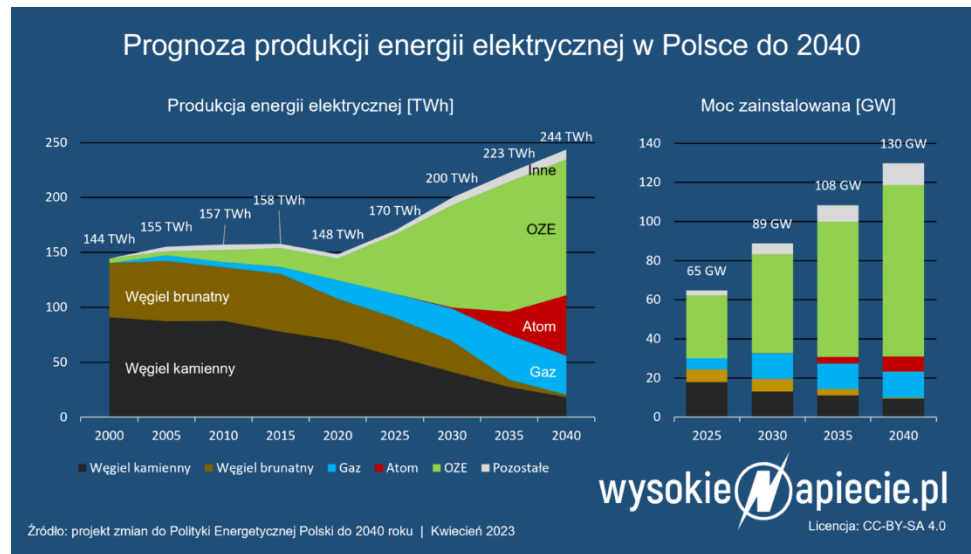


Source: PSB

Transmission network expenditure

The company has a unique expertise in the niche areas of the construction market, which is automation and power engineering. Necessary expenditures in the power sector could reach as much as PLN500 billion by 2040 and include capex on new power grid connections, as well as the expansion and modernisation of the energy distribution network. In recent years, according to wysokienapiecie.pl, PLN 7-8bn was spent annually on investments in the area of energy transmission and distribution, and the amount of PLN500bn would imply as much as PLN35-30bn annually. Actual

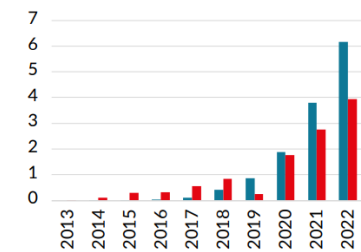
expenditures would be determined not only by needs, but the amount of funds secured for this purpose.



Rising electricity consumption

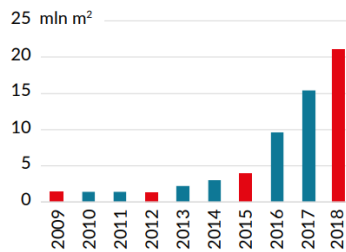
The power consumption in Poland is rising. Between 2013 and 2022, electricity consumption increased by c. 11%. In 2022, the lowest level of power reserves in the electricity system over the past seven years was recorded. We think that the increase in demand for electricity might be driven by: growing number of electrical-heating units, increase in the volume of air conditioners, growing number of heat pumps and electric cars.

LICZBA SAMOCHODÓW ELEKTRYCZNYCH ORAZ PUNKTÓW ŁADOWANIA

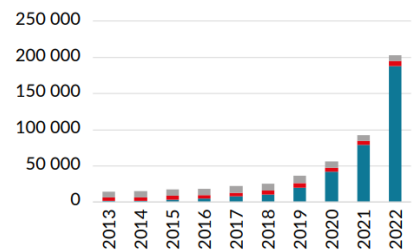


■ SAMOCHODY ELEKTRYCZNE (DZIESIĄTKI TYS.)
■ PUNKTY ŁADOWANIA (TYS.)

KLIMATYZOWANA POWIERZCHNIA GOSPODARSTW DOMOWYCH*



LICZBA SPRZEDANYCH POMP CIEPŁA



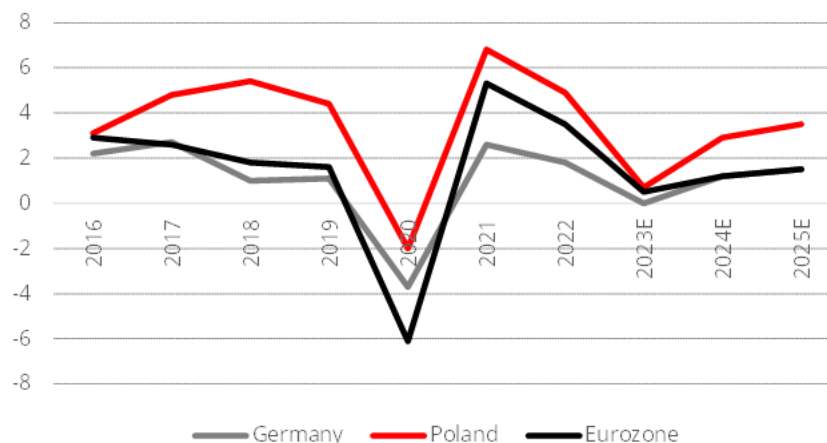
■ POWIETRZE | WODA (C.W.U.)
■ SOLANKA | WODA (C.O. I C.W.U.)
■ POWIETRZE | WODA (C.O. I C.W.U.)

Source: Forum Energii

Economic activity rebounds

Below we present GDP growth rate in Poland, Germany and the Eurozone. According to forecasts (gathered by Bloomberg), 2023 could be the second consecutive year in which GDP growth rate would slow down significantly. Nevertheless, 2024 could bring a rebound in GDP growth rate with an expected acceleration of growth in 2025. Accelerating economy may translate into new investments, growing consumption and increase in demand for construction services.

Fig. 13. GDP growth rate (y/y)



Source: Bloomberg

Key risk factors

The following are the potential risk factors that we believe could determine Atrem's performance in future years.

1. Changes in prices of steel products

Atrem uses steel as a component in the construction contracts. Changes in steel prices may translate into periodic fluctuations in the profitability of its operations, nevertheless, ATR strives to secure the key costs, including the cost of materials, through contracts with suppliers that secure the price level during the execution period.

2. Increase in energy costs

Increases in energy prices may reduce the profitability of the business until they are not fully passed on clients. Moreover, any increase in energy costs may also translate into an increase in the price of construction materials.

Real estate

Atrem holds asset which could be subject to sale transaction, including an office property in Zlotniki, which is approximately 90% for lease. We perceive this property as a non-operating asset, the sale of which could generate an inflow of funds. The book value of the property was approximately PLN13 million as at 1Q2023 and we have also assumed this value in our calculations.

Fig. 14. Atrem: Non-operating assets

Real Estate	Location	Book value (PLNm)	Lease area (th sq.m.)	Rental fee (PLN/sqm/months)	Yield	Vacancy	Implied value (PLNm)
Office property	Zlotniki	13.0	4.0	37	10%	25%	13.3

Source: Company data, Santander Brokerage Poland estimates

Financial forecasts

Fig. 15. Atrem: Financial forecasts

PLN mn	2023E			2024E			2025E		
	New	Previous	Change	New	Previous	Change	New	Previous	Change
Sales	146	-	-	155	-	-	172	-	-
EBITDA	11	-	-	12	-	-	14	-	-
EBIT	9	-	-	10	-	-	12	-	-
Net profit	7	-	-	7	-	-	9	-	-

Source: Company data, Santander Brokerage Poland estimates

Valuation

We valued Atrem using two methods: the DCF and the comparative method.

Main valuation assumptions using the DCF method are:

- Free cash flow growth over the residual period = 1%
- Risk free rate, year 2023E = 7%, after 2023E = 6%
- Deleveraged beta = 1.0x
- Market risk premium = 6%
- Tax rate = 19%
- Value of non-operating assets = PLN13 million

Fig. 16. Atrem: Valuation summary

PLN per share	New	Previous	Change
DCF*	10.4	-	-
Comparative valuation (foreign companies)	9.1	-	-
Comparative valuation (WSE-listed companies)	8.8		
Total valuation within a range		8.8 - 10.4	

Source: Company data, Santander Brokerage Poland estimates * the valuation takes into account a non-operating asset value of PLN 13 million

Fig. 17. Atrem: DCF valuation

PLNmnn	2023E	2024E	2025E	2026E
Sales	146	155	172	172
EBIT	9	10	12	12
Tax	-2	-2	-2	-2
NOPAT	7	8	10	9
Depreciation	2	2	2	2
Changes in working capital	-7	-2	-3	0
CAPEX	-2	-2	-2	-2
Free cash flow	0	6	6	9
WACC	13.2%	11.0%	10.8%	10.8%
Present value of free cash flow in the period 2024E-26E	17			
Residual growth	1.0%			
Residual value	95			
Present value of residual value	70			
EV	87			
Net debt (2023E)	5			
Dividend (2023E)	1			
Minorities	0			
Value of equity as at 2023E (PLN)	83			
Non-operating assets (PLN)	13			
Number of shares (mn)	9.2			
Value of equity with non-operational assets as at 2023E (PLN)	10.4			

Source: Company data, Santander Brokerage Poland estimates

We valued the Atrem company using the comparative method, comparing it to Polish and foreign peers in the construction industry, which seems to us as optimal given the range of products and services offered by Atrem. We note, however, that the foreign companies taken for comparison are large construction groups, many times larger in scale than Atrem.

Fig. 18. Atrem: Comparative valuation: foreign companies

Company	Capitalization	P/E			EV/EBITDA		
	(EURmn)	2023E	2024E	2025E	2023E	2024E	2025E
Bilfinger	1,283.9	13.0	9.8	8.5	4.4	3.8	3.4
Eiffage	9,192.4	9.0	8.5	8.0	5.9	5.7	5.5
Ferrovial	21,888.8	74.9	47.6	38.4	32.3	26.4	23.2
Skanska	5,975.8	12.9	11.0	10.1	7.8	6.7	6.4
Strabag	3,862.9	8.0	8.0	7.9	2.0	2.0	1.9
Vinci	64,557.8	13.5	12.4	11.7	7.6	7.2	6.9
Sacyr	2,072.5	11.0	12.6	11.7	7.6	7.5	7.2
PEAB	1,157.1	6.0	8.0	7.4	8.6	9.3	8.8
ACS	8,567.5	14.9	14.0	12.5	5.3	5.0	4.7
AF GRUPPEN	1,268.3	18.0	13.0	12.4	9.0	7.1	6.8
Hochtief	6,294.6	11.8	11.0	10.2	6.2	5.9	5.7
Median		12.9	11.0	10.2	7.6	6.7	6.4

Source: Bloomberg, Santander Brokerage Poland estimates

Fig. 19. Atrem: Comparative valuation: companies listed on the WSE

Company	P/E		EV/EBITDA	
	2023E	2024E	2023E	2024E
Unibep	12.1	16.1	5.7	5.5
Erbud	-	17.3	6.6	4.9
Budimex	20.8	22.9	11.4	12.6
Mirbud	5.5	5.7	4.4	3.3
Median	12.1	16.7	6.1	5.2

Source: Bloomberg, Santander Brokerage Poland estimates

Fig. 20. Atrem: Comparative valuation: companies listed on the WSE

	P/E		EV/EBITDA	
	2023E	2024E	2023E	2024E
Companies listed on the WSE	12.1	16.7	6.1	5.2
Implied value per share (PLN)	8.6	11.2	6.6	5.7
Average implied value per share (PLN)	8.8			

Source: Bloomberg, Santander Brokerage Poland estimates

Fig. 21. Atrem: Comparative valuation: foreign companies

	P/E			EV/EBITDA		
	2023E	2024E	2025E	2023E	2024E	2025E
Foreign companies	12.9	11.0	10.2	7.6	6.7	6.4
Implied value per share (PLN)	9.2	7.4	10.2	8.3	8.4	9.8
Average implied value per share (PLN)	9.1					

Source: Bloomberg, Santander Brokerage Poland estimates

Fig. 22. Atrem: Cost of capital

	2023E	2024E	2025E	2026E
Risk free rate	7.0%	5.0%	5.0%	5.0%
Market risk premium (%)	6.0%	6.0%	6.0%	6.0%
Beta (x)	1.00	1.00	1.00	1.00
Debt (PLNmn)	13	13	13	13
Equity (PLNmn)	42	49	58	67
Debt/equity (%)	30%	26%	22%	19%
Tax rate (%)	19%	19%	19%	19%
Debt-adjusted beta (x)	1.25	1.21	1.18	1.15
Cost of equity (%)	14.5%	12.3%	12.1%	11.9%
Cost of debt	9.0%	6.0%	5.0%	5.0%
% Debt	23%	20%	18%	16%
% Equity	77%	80%	82%	84%
WACC	13.2%	11.0%	10.8%	10.8%

Source: Santander Brokerage Poland estimates

Financial results forecast

Fig. 23. Atrem: Income statement

PLNm	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E
Sales	45	133	116	86	101	111	146	155	172	172
Automation	0	0	0	43	60	48	85	90	110	110
Power engineering	0	0	0	43	41	62	61	65	62	62
Gross profit	8	13	5	8	12	15	20	22	24	24
General management and selling costs	-10	-15	-11	-9	-11	-12	-12	-12	-12	-13
Other operating income/costs	0	-2	0	2	5	1	0	0	0	0
EBITDA	0	-2	-5	3	9	7	11	12	14	14
Operating profit	-1	-4	-7	1	7	5	9	10	12	12
Result on financial activity	0	-1	-1	-1	0	-1	0	0	0	0
Profit before tax	-1	-5	-8	0	6	3	8	9	11	11
Tax	-1	0	0	2	0	-1	-2	-2	-2	-2
Net profit	-2	-4	-8	2	6	3	7	7	9	9

Source: Company data, Santander Brokerage Poland estimates

Fig. 24. Atrem: Margins

PLNm	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E
Gross margin	18.2%	10.0%	4.3%	9.4%	12.1%	13.9%	14.0%	14.0%	14.0%	14.0%
EBITDA margin	0.1%	-1.5%	-4.0%	3.9%	8.9%	6.2%	7.4%	7.7%	8.2%	8.1%
EBIT margin	-2.6%	-3.0%	-5.9%	1.2%	6.5%	4.2%	5.9%	6.2%	6.8%	6.7%
Net margin	-4.8%	-3.4%	-6.9%	2.7%	6.1%	2.3%	4.5%	4.8%	5.3%	5.2%

Source: Company data, Santander Brokerage Poland

Fig. 25. Atrem: Balance sheet

PLNm	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E
Short-term assets	18	48	49	52	70	58	69	75	84	90
Non-current assets	47	28	29	29	31	29	29	29	29	29
Total assets	65	76	78	81	101	86	98	104	113	119
Short-term liabilities	16	38	46	46	57	47	53	54	57	57
Interest-bearing debt	5	3	12	13	8	9	9	9	9	9
Long-term liabilities	2	1	3	2	5	4	4	4	4	4
Interest-bearing debt	0	1	2	1	4	4	4	4	4	4
Equity	47	38	30	32	39	35	42	49	58	67
Total liabilities	65	76	78	81	101	86	98	104	113	119
Net debt	5	-2	12	8	1	4	5	2	-1	-6

Source: Company data, Santander Brokerage Poland estimates

Fig. 26. Atrem: Cash-flow statement

PLNm	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E
CF from operating activities	4	6	-12	2	9	3	3	8	9	12
CF from investment activities	0	-1	0	-3	1	0	-2	-2	-2	-2
CF from financing activities	-4	-3	8	0	-7	-6	-1	-3	-3	-4
Dividends	0	0	0	0	0	-6	-1	-3	-3	-4
Change in cash levels	0	3	-4	-1	2	-3	-1	3	3	5

Source: Company data, Santander Brokerage Poland estimates

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The discounted cash flows (DCF) valuation method is based on expected future discounted cash flows. One advantage of the DCF valuation method is that it takes into account all cash streams reaching Issuer and the cost of money over time. Some disadvantages of the DCF valuation method are that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.

The comparative valuation method is based on the economic rule of "one price". Some advantages of the comparative valuation method are that the analyst need only estimate a small number of parameters; the valuation is based on current market conditions; the relatively large accessibility of indicators for companies being compared; and that there is an extensive knowledge of the comparative method among investors. Some disadvantages of valuation by the comparative method are the considerable sensitivity of the results of the valuation on the choice of companies to the comparative group; the method can lead to a simplification of the picture of the company which in turn can lead to omitting certain important factors (e.g. growth dynamics, extra-operational assets, corporate governance, the repeatability of results, differences in applied accounting standards); and the uncertainty of the effectiveness of a market valuation of companies being compared.

The mid-cycle multiple valuation is based on long-term average valuation multiples of a sector or a peer group. The methodology aims to calculate a fair, through the cycle value of the company. Among its shortfalls is that at peaks and/or troughs of the cycle, the implied fair value may deviate substantially from the market's value of an analysed stock as well as the methods' reliance on the quality of external data (we usually use Bloomberg or Damodaran databases).

Simplicity and average through-cycle value allowing to capture over- as well as under-valuation of a given stock are the main advantages of this methodology.

The dividend discount model (DDM) valuation is based on the net present value of the future dividends that are expected to be paid out by the company. Some advantages of the DDM valuation method are that it takes into account real cash flows to equity-owners and that the methodology is used in respect to companies with long dividend payout history. Main disadvantage of the DDM valuation method is that dividend payouts are based on a large number of parameters and assumptions, including dividend payout ratio.

Residual income method is conceptually close to the discounted cash flows method (DCF) for non-financial stocks, the difference being that it is based on expected residual income (returns over COE) rather than expected future cash flows. One advantage of this valuation method is that it captures the excess of profit potentially available to shareholders and the cost of money over time. Main disadvantage of the valuation method is that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.

The warranted equity method (WEV) is based on the formula $P/BV = (\text{two year forward ROE less sustainable growth rate}) / (\text{Cost of equity less sustainable growth rate})$ which allows estimating a fair value (FV) of a given stock in two years' time. Subsequently the FV is discounted back to today. The main advantage of the WEV method is that it is a transparent one and based on relatively short term forecasts, hence substantially reducing the margin of forecasting error. The main disadvantage in our view is that the model is based on the principle that stock price should converge towards its fair value implied by company's ROE and COE.

SOTP valuation - different assets of a company are being valued according to different valuation methods, and the sum of these valuations represents the final valuation of the company. SOTP valuation advantages / disadvantages are identical to advantages and disadvantages of the specific valuation methods used.

Liquidation value method - liquidation value is the estimated amount of money that an asset or company could be quickly sold for, such as if it were to go out of business. Then, the estimated assets value is adjusted for liabilities and liquidation expenses. One advantage of this valuation method is its simplicity. This method does not account for intangible assets as goodwill, which is the main disadvantage.

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