

PJP Makrum – initiation of coverage

Report prepared under agreement with Issuer, for remuneration.

Reuters: PJP.WA Bloomberg: PJP PW

CEE Equity Research

Construction/Industry, Poland

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Exposure to growing e-commerce market

DCF and comparative valuation at PLN24.9 and PLN 30.6 per share

PJP Makrum is focused on general construction works and delivery of handling systems. 2022 was an exceptionally good year for the company, with net profit at a record high. 2023E may become challenging, though, due to low demand for construction services, including for the construction of warehouse buildings. Nevertheless, we estimate rising e-commerce market and a potential rebound in an economic activity to potentially enable PJP to participate in the growing investors' spendings on warehouse space or office/residential developments and improve earnings as of 2024E. We valued the company using the DCF and comparative methods (as compared to WSE and foreign companies). We have not assigned any weights to them, but we present the valuation in a range from PLN24.9 to PLN30.6 per share.

Business profile. PJP Makrum is a company offering: 1) construction of industrial and general construction buildings, 2) production and assembly of handling systems, 3) production of parking systems, 4) manufacturing of crushing machines and 5) sale of warehouse equipment. Over 66% sales come from export and 34% from operations in Poland. Poland represents the key construction market for PJP, while handling systems go especially to export. The key export market is Germany.

2022 and 1H2023 results. The company has significantly improved its financial results in 2022. Sales increased by 70% y/y and net profit grew to PLN28.6mn from less than PLN2mn in 2021. 1H2023 results suggest that 2023 results may fall y/y. Net profit in 1Q2023 amounted to PLN1.1mn compared to PLN2.2mn in 1Q2022 r., while preliminary revenue declined 27% y/y in 1H2023.

Growth factors: We forecast a y/y decline in revenues in 2023E, owing to decline in clients' investment activity in the Polish and European construction market, including the suspension of many office or industrial construction developments as well as y/y EUR/PLN exchange rate depreciation. On the other hand, we estimate PJP's earnings to return growth trajectory as of 2024E thanks to the expected cut in interest rates, which might improve the IRRs of investment projects and increase demand for industrial/general construction buildings. In the longer term, the key earnings' drivers could be, in our view: 1) rising e-commerce spending supporting the construction/expansion of logistic space, 2) solid outlook on the demand for warehouse space, 3) nearshoring/reshoring, 4) rebounding economic activity, 5) product synergies, and 6) geographical expansion.

Risk factors: 1) Changes in prices of steel products, 2) appreciation of PLN, 3) increase in energy costs, 4) cyclically low level of investments, 5) slowdown in the housing segment.

Valuation. We valued PJP Makrum using two methods: DCF and comparative, comparing the company to Polish and foreign construction companies. Our valuation ranges between PLN24.9 and PLN 30.6 per share. In the DCF valuation, we accounted for the value of non-operating assets - land - which we believe could be sold for the residential purpose. Our forecasts imply a P/E ratio at around 5x-6x in 2023E -26E, which offers a discount to listed peers. We assume that PJP Makrum would remain a dividend company. We forecast an average 1.7-3.9% DY.

PJP Makrum: Financial summary (year to December)

| PLNmn | 2019 | 2020 | 2021 | 2022 | 2023E | 2024E | 2025E |
|---------------|------|------|------|------|-------|-------|-------|
| Sales | 272 | 342 | 312 | 532 | 497 | 539 | 566 |
| EBITDA | 12 | 27 | 8 | 43 | 26 | 30 | 31 |
| EBIT | 8 | 22 | 2 | 35 | 18 | 22 | 23 |
| Net profit | 6 | 15 | 2 | 29 | 13 | 15 | 17 |
| P/E (x) | 19.4 | 5.9 | 52.6 | 1.9 | 6.1 | 5.0 | 4.5 |
| EV/EBITDA (x) | 10.6 | 4.3 | 16.4 | 1.6 | 3.3 | 2.9 | 2.6 |
| DY | 3.3% | 4.1% | 2.1% | 0.0% | 3.9% | 1.7% | 2.1% |

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

Valuation (DCF, comparative) PLN/share

24.9 – 30.6

| | |
|--------------------------------|------|
| Price (PLN, 11 August 2023) | 12.9 |
| Market cap. (PLNmn) | 77 |
| Free float (%) | 34 |
| Number of shares (mn) | 6.0 |
| Average daily turnover 3M (mn) | 0.1 |

Main shareholders

% votes

| | |
|-------------|------|
| GK Immobile | 65.7 |
|-------------|------|

Source: www.gpw.pl

Description of the Company's activities

PJP Makrum is a company that is a part of the GK Immobile capital group. PJP Makrum primarily provides services in the area of construction, production and installation of handling systems, parking systems, as well as warehouse equipment.

Analyst

Adrian Kyrzcz
Equity analyst

+48 22 586 81 59

Adrian.Kyrzcz@santander.pl

Business profile and business model

PJP Makrum offers services in more than 30 countries, on 3 continents. Initially, PJP Makrum specialised in designing and construction of industrial buildings. In 2016, the company became part of the GK Immobile, and broadened its offer on delivery of parking systems and crushing/grinding machines.

Currently, PJP Makrum's offers services in the following segments:

Loading systems

The loading systems include hydraulic and automated loading and unloading systems, dock shelters, locks, buffers, vehicle guides and industrial doors, ramps and loading platforms. The services include not only the designing, production and installation of docking systems, but also service. Production, distribution and service of the loading and unloading systems is executed in the PROMStahl subsidiary. PJP's products are among the most recognisable brands globally. It's strategy is to further expand business in Europe and globally.

Fig. 1. PJP Makrum: Loading and unloading systems



Source: Company

Production activities are concentrated in the manufacturing plant in Koronowo. The manufacturing equipment is characterized with a high degree of automation and production comprehensiveness. In 2018-2019, modernisation works were carried out to increase the production capacity. We estimate that its current production capacity allows for a further increase in production volumes. The product is mainly targeted at export markets, with the largest market being Germany.

Fig. 2. PJP Makrum: Production facility



Source: Company

Parking systems

The second business segment includes MODULO automatic car parks, demand for which is driven by the global shortage of parking spaces. The key markets for MODULO are currently Poland (low competition) and Germany (cost advantages). The company is involved in production, sales and distribution. It offers dependent and independent parking systems, as well as a wide range of accessories to make parking more convenient, such as sensors, gates, barriers and bumpers. Parking systems are a dedicated product not only for developers or general contractors, but also for private individuals.

PJP has its own production park, which makes it easy to customise the product to clients' needs. It cooperates with well-recognized suppliers, so more than 95% of product components come from Polish manufacturers. This translates into high quality of MODULO parking systems and quick access to spare parts.

Fig. 3. PJP Makrum: Parking systems



Source: Company

Machines

The third area in which PJP specialises is the production of crushing and grinding machines, a traditional product of the MAKRUM brand. The company is a manufacturer of machinery and equipment for the mining, chemical, cement and paper industries. This part of business is based on 150 years of experience of the PJP Makrum brand in machinery manufacturing. The company has so far manufactured more than 30,000 pieces of equipment including traditional machines, various types of feeders, screening machines and other equipment used in the manufacturing process of many production companies.

Fig. 4. PJP Makrum: Example of a Makrum machine



Source: Company

Warehouse equipment

The youngest brand of PJP Makrum is Promlift which offers warehouse equipment, including forklift trucks and warehouse racks.

The development of the logistics and warehouse industry has resulted in a high demand for forklifts. Promlift sells forklifts both under its own brand, but also under brands of global manufacturers such as Toyota and Clark. Promlift also provides maintenance services and offers for sale several thousand spare parts.

In the first half of 2023 PJP Makrum acquired a lift-and-slide door manufacturer and a forklift dealer, which should result in product synergies. The newly acquired company is the sole representative of the Rema brand - which offers accessories for electric forklifts.

Fig. 5. PJP Makrum: Warehouse system



Source: Company

Industrial construction

The company has a track record of more than 80 years in providing general construction services and designing works. It specialises in the construction of manufacturing and warehouse buildings. PJP Makrum also constructs office buildings, shopping centres, as well as residential buildings.

Industrial construction was the original activity of PJP Makrum Group in the past. The company's origins date back to 1948, when it operated as a private engineering office. As a result of the privatisation process, the engineering office became a joint stock company, PROJPRZEM S.A., and entered a Stock Exchange.

The development of industrial construction business accelerated after the company joined the GK Immobile. In 2022, this company competed projects in industrial, commercial, office and residential segments mainly in the Wielkopolskie, Kujawsko-Pomorskie, Dolnoslaskie and Mazowieckie Voivodeships.

Fig. 6. PJP Makrum: Examples of constructed buildings



Source: Company

Sales

PJP Makrum's sales revenues are generated primarily in two business segments: manufacturing, which accounted for c. 53% of sales in 2022, and construction, which accounted for around 47% of sales.

Approximately 60% of sales came from export and 40% from operations in Poland. Revenues from construction mainly come from in Poland. Export mainly includes the sale of handling systems.

The main export market is Germany. In order to mitigate currency risk, PJP uses hedging of currency exposure, in the form of natural hedging (some components purchased in EUR) and forward hedging transactions.

Fig. 7. PJP Makrum Product structure of sales

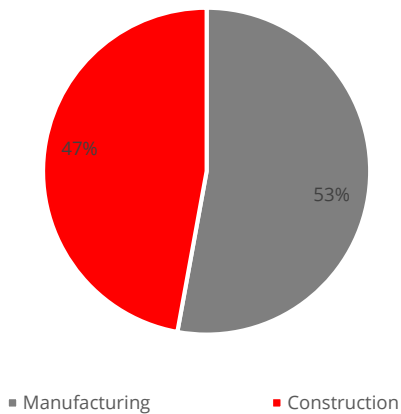
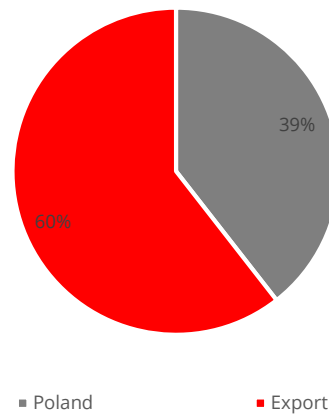


Fig. 8. PJP Makrum: Geographical structure of sales



Source: Company, data for 2022

Source: Company, data for 2022

In 2018-2020, PJP improved its sales with a CAGR of 20%, which was driven by an increase in sales from construction works and a slight decline in sales from manufacturing activity. Please note that by 2018, the company's held just two construction branches in Poznan and Bydgoszcz, and two additional branches in Warsaw and Wroclaw as of 2019 were under operation. The new branches made it possible to provide services throughout the country and, therefore, fully penetrate the market and capitalize on product and cost synergies. Sales from manufacturing activity was in a slight downward trend between 2018 and 2020. In 2020, the decrease in sales was due to the COVID-19 pandemic, and delays in PJP's product/services deliveries.

In 2021, PJP recognized y/y decrease in sales, mainly due to the decrease in sales from the construction activity, which mainly resulted from the cut in clients' investments during the COVID-19 pandemic.

Fig. 9. PJP Makrum: Sales breakdown (PLNmnn)

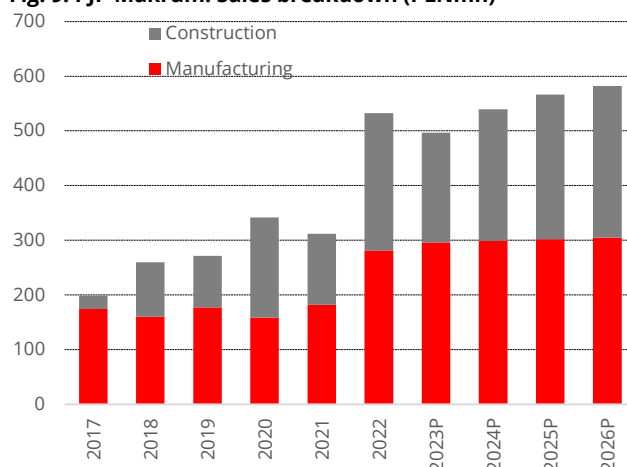
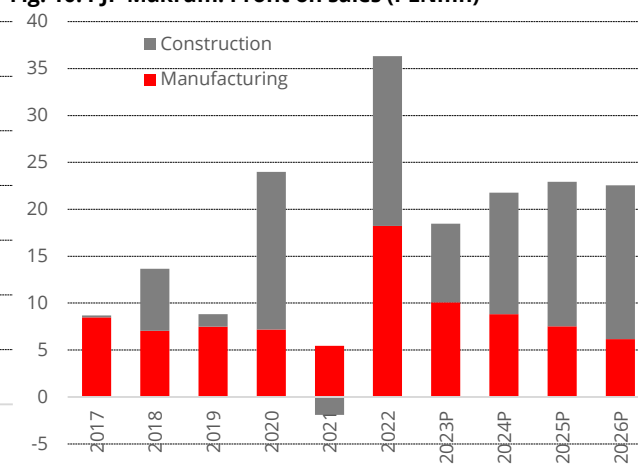


Fig. 10. PJP Makrum: Profit on sales (PLNmnn)



Source: Company data, Santander Brokerage Poland estimates

Source: Company data, Santander Brokerage Poland estimates

The year 2022 was exceptionally successful one for PJP Makrum. The company announced a record high sales of PLN532.4mn, which was c. 70% up y/y, of which the manufacturing activity generated about 53% y/y sales growth while the construction sales grew 93% y/y. We believe that the strong sales was driven by high order backlog in Poland supported by improved market penetration, as well as high export orders mainly for handling systems. The high sales could also come from accumulated demand for the company's products following the lockdown period.

2023 may become a challenging year for PJP, we think. We forecast a y/y decline in sales due to expected decline in clients' investment activity in the Polish and European markets, including the suspension of many office or industrial construction projects, due to relatively high level of interest rates and concerns about the economic slowdown. In addition, we highlight a high base effect of 2022 earnings. Finally, increase in electricity and raw material prices in 2022 is a factor that could impact this year's profitability.

At the same time, we estimate that the company will return sales into a growth trajectory as of 2024E, thanks to:

- the expected decline in interest rates, which should improve IRRs of investment projects and increase the demand for general construction/industrial buildings;
- nearshoring, including the reallocation of production facilities to Europe from Asian countries;
- unutilised capacity of the production plant which secures an increase in the production output of handling systems (we estimate the room for an increase in production volume of approximately 30%);
- geographical and product synergies.

We write more about potential growth drivers later in the report.

Profits/margins

PJP Makrum's 2018 - 2021 profits were highly volatile due to fluctuation in the level of sales and margins. In 2020, the company delivered solid net profit of nearly PLN15mn helped by a record high level of revenues. Then, in 2021, sales dropped y/y and

earnings settled below PLN2mn. The average level of net profit between 2017-21 was PLN8.8mn. In that period margins turned slightly down.

In 2022, net profit reached a record level of more than PLN28 million, which was possible thanks to record high sales.

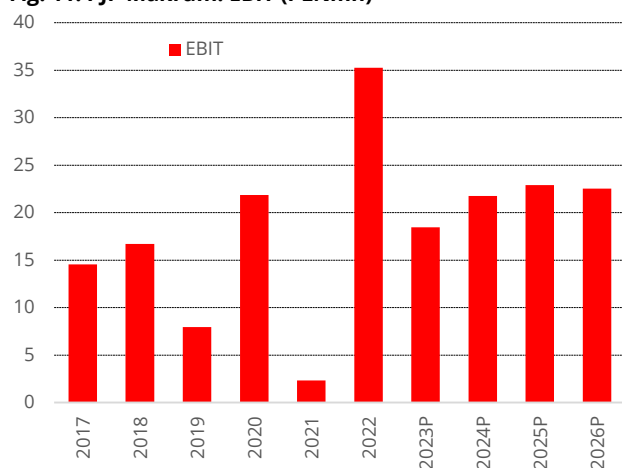
The level of profitability in previous years was affected by losses from the sale of non-operating assets, mainly real estate. In 2019-21, the total loss amounted to PLN6 million, and in 2022 it amounted to PLN0.2 million.

Over the forecast horizon of 2023E-2026E, we assume EBITDA and net margins to settle at the level below the 2018-2022 average in order to reflect the risk of costs growth (e.g. electricity, salaries, construction material prices, steel prices), which the company may not fully pass on to clients due to strong competition in the markets in which it operates. We would like to draw attention to the fact that competitors operating in the construction market in Poland may follow an aggressive pricing policy this year in order to rebuild their order portfolios, which may negatively affect the margin level in the period when the contracts will be executed, i.e. in 2023E and 2024E. PJP Makrum is focused on winning profitable contracts, but the market environment may determine the pressure on the level of prices for construction services (we note the weakening growth dynamics of construction and assembly production prices in recent months according to CSO data).

On the other hand, in the handling systems manufacturing segment, we assume potential risks related to strong competition in foreign markets incl. large international groups that are cost-optimised and benefit from economies of scale. We also believe that the increase in the scale of operations of PJP Makrum may take its toll in lower profitability.

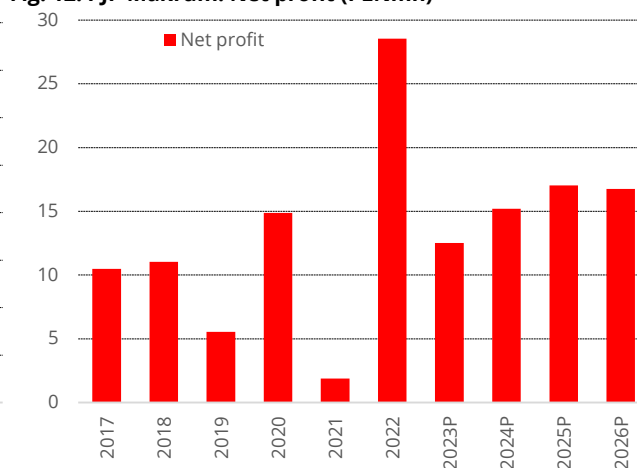
To sum up, we forecast a y/y decrease in net profit in 2023E, and a gradual profit increase in the following years.

Fig. 11. PJP Makrum: EBIT (PLNmn)



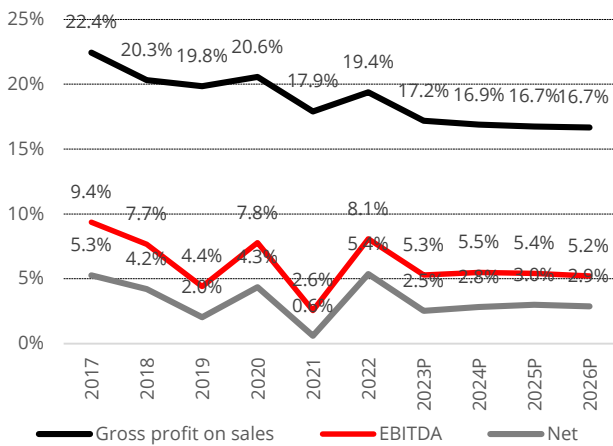
Source: Company data, Santander Biuro Maklerskie estimates

Fig. 12. PJP Makrum: Net profit (PLNmn)



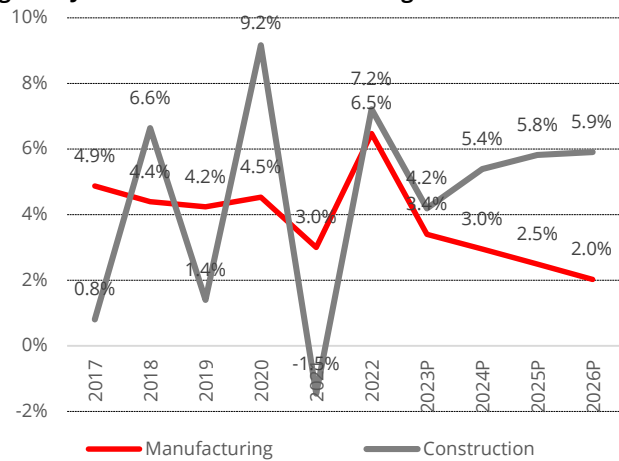
Source: Company data, Santander Biuro Maklerskie estimates

Fig. 13. PJP Makrum: Margins



Source: Company data, Santander Brokerage Poland estimates

Fig. 14. PJP Makrum: Profit on sales margin



Source: Company data, Santander Brokerage Poland estimates

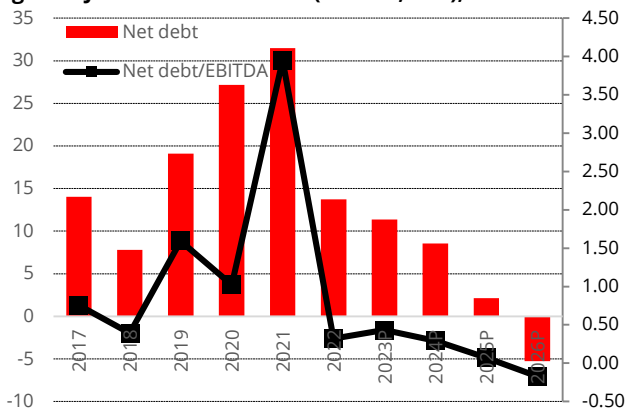
Cash flow/debt

The company has generated positive operating cash flow over the past few years. In 2018-21, operating cash flow exceeded EBITDA in every year, which seems a very good achievement. The cash flow was supported by the sale of non-operating assets - real estate - which can also provide a source of cash in future years. In 2022, operating cash flow remained positive, but significantly below EBITDA.

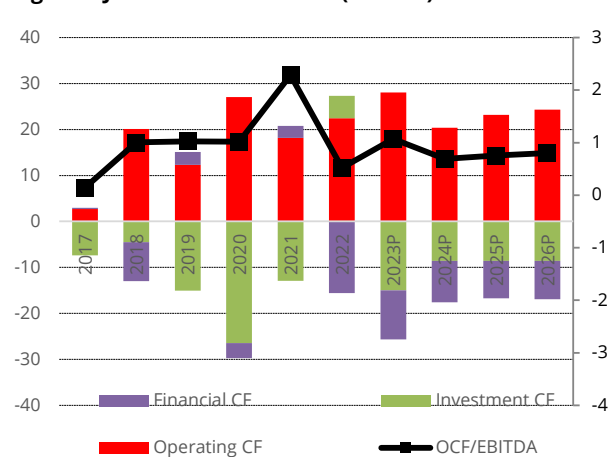
PJP's capital expenditures were highly volatile over the past years. In 2020, capex increased significantly, due to the capacity expansion (handling systems). We estimate that the level of production capacity has doubled from around 6,700 units per year to around 13,000 units. We estimate a capacity utilisation of approximately 70% in 2022, so the current capacity level secures production output expansion.

The company has had a moderate level of net debt in recent years. The net debt to EBITDA ratio oscillated below 1.6x in 2017-20, which we consider to be a safe level. In 2021, the ratio increased to more than 4x, which was primarily related to the company's profitability fall. In 2023E, we forecast cash generation allowing the net debt level to decrease, indicating PJP's potential for possible further investments or acquisitions.

Fig. 15. PJP Makrum: Net debt (PLNm, LHS), net debt/EBITDA **Fig. 16. PJP Makrum: Cash flow (PLNm)**



Source: Company data, Santander Brokerage Poland estimates

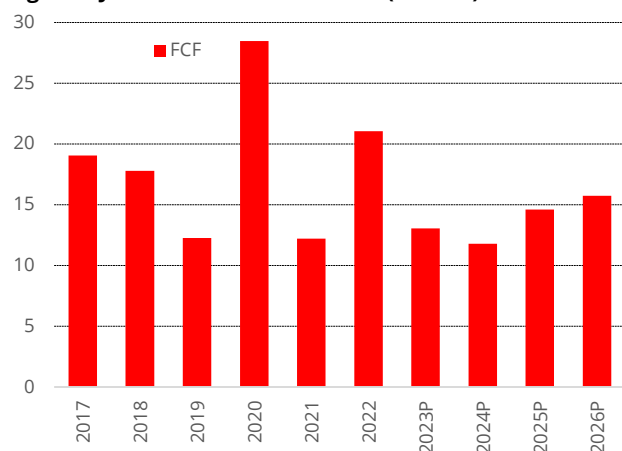


Source: Company data, Santander Brokerage Poland estimates

Dividend

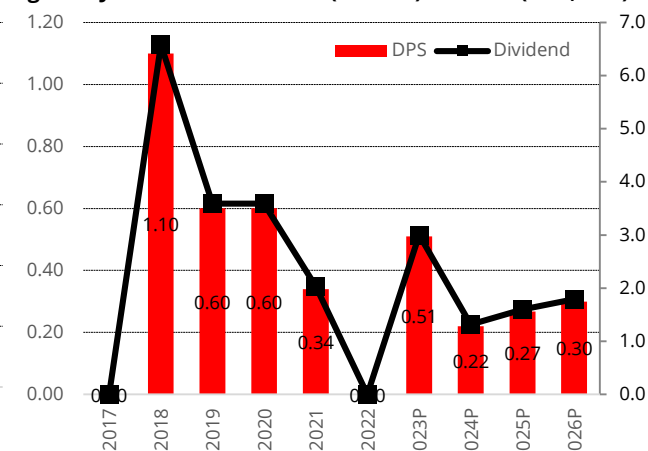
PJP Makrum paid a dividend in 2018-21. In 2021, the DPS was PLN0.34. In 2022, the company did not pay a dividend and in 2023 the DPS of PLN0.51 was scheduled. We assume a flat dividend payout ratio (as a % of net profit) in future years.

Fig. 17. PJP Makrum: Free cash flow (PLNm)



Source: Company data, Santander Brokerage Poland estimates

Fig. 18. PJP Makrum: Dividend (PLNm) and DPS (PLN, LHS)



Source: Company data, Santander Brokerage Poland estimates

1H2023 results

PJP Makrum's 1Q2023 profits declined y/y. Sales levels in 2Q2023 also turned out to be worse y/y. The latter is in line with our expectations and in line with our full-year forecasts.

Fig. 19. PJP Makrum: Quarterly financial results

| PLN mn | 1Q21 | 2Q21 | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | 2Q23 |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Sales | 57.1 | 65.9 | 83.7 | 105.4 | 106.6 | 156.3 | 149.8 | 119.7 | 88.8 | 103.1 |
| Manufacturing | 37.5 | 43.9 | 43.5 | 57.0 | 53.0 | 74.9 | 76.0 | 77.6 | 65.3 | 82.5 |
| Construction | 19.6 | 22.0 | 40.2 | 48.5 | 53.5 | 81.5 | 73.8 | 42.1 | 23.5 | 20.6 |
| Gross profit | 12.3 | 13.3 | 12.6 | 17.8 | 19.4 | 19.8 | 28.5 | 35.5 | 18.9 | |
| Manufacturing | 10.5 | 11.7 | 7.4 | 13.5 | 12.9 | 14.5 | 18.6 | 21.3 | 15.5 | |
| Construction | 1.7 | 1.6 | 5.2 | 4.3 | 6.4 | 5.2 | 9.9 | 14.2 | 3.4 | |
| EBITDA | 0.7 | 0.2 | 1.8 | 5.3 | 4.9 | 5.5 | 13.7 | 18.9 | 3.4 | |
| EBITDA margin | 1.3% | 0.3% | 2.1% | 5.0% | 4.6% | 3.5% | 9.2% | 15.8% | 3.9% | |
| EBIT | -0.5 | -1.1 | 0.4 | 3.5 | 3.0 | 3.7 | 12.1 | 16.5 | 1.4 | |
| EBIT margin | -0.8% | -1.6% | 0.4% | 3.3% | 2.8% | 2.3% | 8.0% | 13.8% | 1.6% | |
| Net profit | -0.5 | -0.9 | -0.7 | 3.9 | 2.2 | 3.4 | 9.2 | 13.7 | 1.1 | |
| Net profit margin | -0.8% | -1.3% | -0.8% | 3.7% | 2.1% | 2.2% | 6.1% | 11.5% | 1.2% | |
| Gross profit margin | 21.5% | 20.1% | 15.0% | 16.9% | 18.2% | 12.6% | 19.1% | 29.6% | 21.3% | |
| Manufacturing | 28.1% | 26.6% | 17.0% | 23.7% | 24.4% | 19.4% | 24.5% | 27.5% | 23.7% | |
| Construction | 8.9% | 7.1% | 12.9% | 8.9% | 12.0% | 6.4% | 13.4% | 33.6% | 14.5% | |

Source: Company data

Growth factors

Below are the potential factors that we believe could drive PJP Makrum's performance in the coming years.

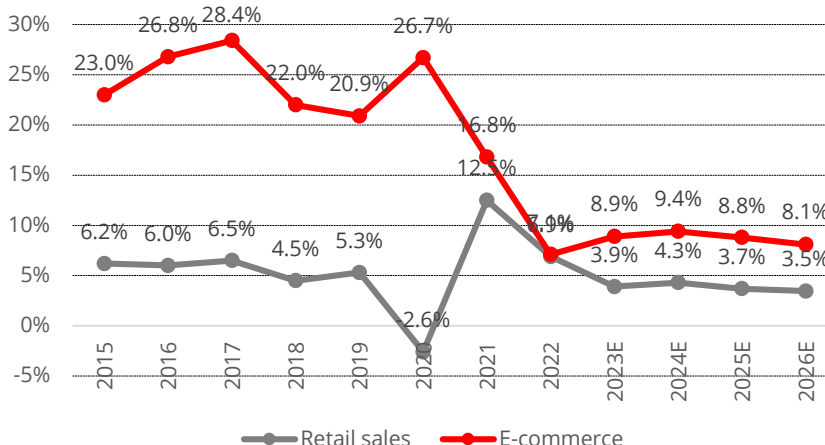
Rising e-commerce spending to drive growth in warehouse space

PJP's comprehensive portfolio of warehouse construction, as well as its exposure to European markets, enable it, in our view, to participate in the expected increase in consumer spending on e-commerce and the expanding warehouse base associated with this trend.

Below is a chart showing global annual retail sales growth and e-commerce retail spending growth. In 2010', the annual growth rate of the e-commerce market exceeded 20%, a level significantly above the growth rate of total retail sales, and in the pandemic year of 2020, e-commerce sales grew by nearly 27% y/y, with negative growth in total retail sales.

In the coming years, according to eMarketer forecasts, it is expected to be a significant slowdown in e-commerce sales growth, but average annual growth of more than 8% should nearly double the growth rate of total retail sales.

Fig. 20. Retail sales and e-commerce globally (y/y)



Source: eMarketer, December 2022

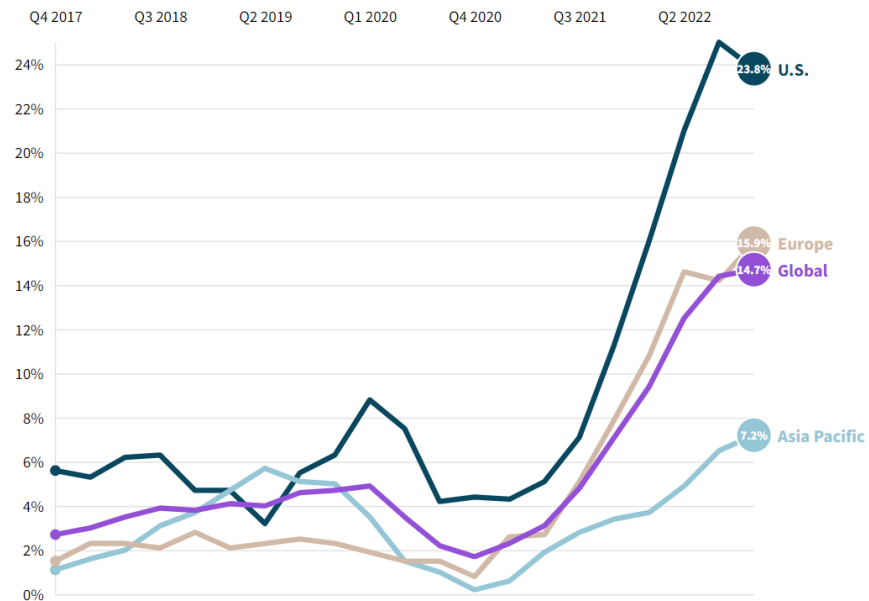
Outlook for a warehouse segment is strong

The warehouse real estate market looks quite solid. In Europe, in 2022, warehouse space supply shortage and demand supported by structural trends resulted in relatively low vacancy rate of 4% and rental fees growth of 15.9% y/y. Demand was supported by a post-pandemic rebound in retail sales including changes in clients shopping habits, as well as nearshoring. Supply, on the other hand, was limited due to high financing costs, shortage of investment land and rising construction costs.

Nevertheless, demand for warehouse space has been slowing since late 2021. JLL forecasts that the slowdown in demand for warehouse space will continue in 2023, however, demand levels should remain at above the 5-year average. In the longer term, JLL forecasts that demand imbalances might remain despite an increasing volume of new warehouse projects in the short term.

Investor’s investment activity also remained high in 2022. In 1H2022, the value of transactions in the warehouse market increased by 16% y/y and 80% above the 5-year average (2017-2021).

Fig. 21. Rental fees change y/y



Source: JLL, February 2023

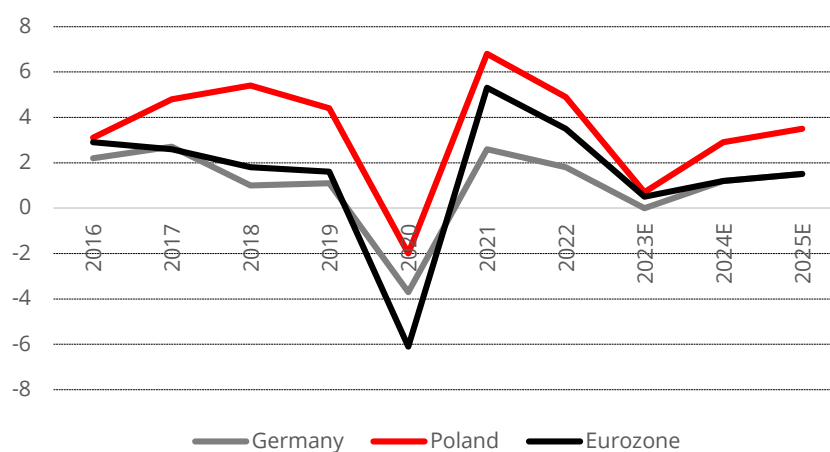
Nearshoring/reshoring – development of the logistics segment

The war in Ukraine and the lockdown caused by the COVID-19 pandemic have kept the nearshoring/reshoring on the agenda of many companies that are taking steps to optimize their supply chains. We believe that the reallocation of manufacturing plants/logistics centers from Asian countries to Europe may support the demand for construction works and the development of the logistics segment.

Rebound in economic activity

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. 22. GDP growth rate (y/y)



Source: Bloomberg

Increased production capacity

We estimate that the level of production capacity (industrial segment, production of handling systems) has doubled from about 6,700 units per year originally to about 13,000 units in 2021, when PJP completed the investment in capacity expansion. We estimate that capacity utilisation in 2022 was about 70%, so, in our opinion, the current capacity of the production facility secured the space for production growth.

Construction sector in Poland with hopes for rebound

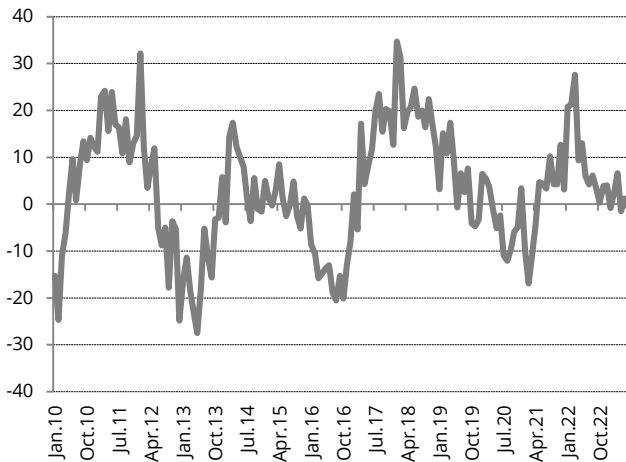
The dynamics of construction production in Poland slowed down significantly in 2022, with investors suspending investments due to high financing costs (interest rates), rising prices for construction materials and concerns about an economic slowdown. The year 2023 may remain challenging, in our view, for construction companies, such as PJP Makrum.

On the other hand, we see first signs of improvement in general construction, including decelerated growth of construction costs (below is a chart with data from PSB, a building materials wholesaler). We also see a rebound in housing sales in Poland's largest cities in 1Q2022, 1Q2023 and 2Q2023, after a very weak sales performance in 9M22, which may indicate a business upturn. We also highlight low-interest housing loan program introduced by the government as of July 1, 2023.

On the other hand, we see low new office space supply due to the suspension of many investment projects. High demand in Poland's largest metropolitan areas may drive developers to successively launch new office projects.

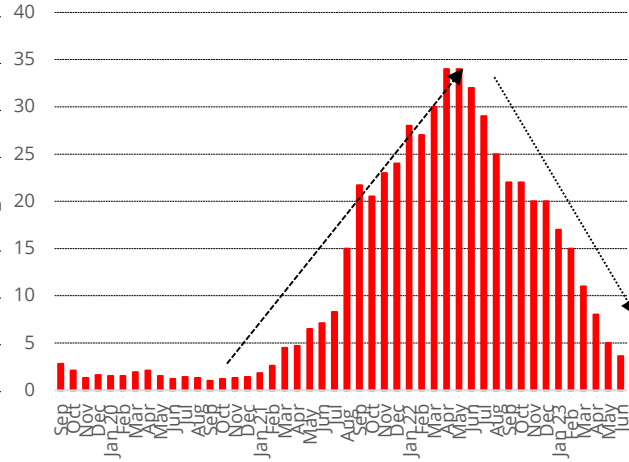
We also believe that any cut in the level of interest rates in Poland (according to the consensus, this could happen in 2024) could improve the IRR of many investment projects, and thus investment activity and demand for construction services.

Fig. 23. Dynamics of construction output in Poland (y/y)



Source: Central Statistical Office

Fig. 24. Price dynamics of construction materials (y/y)



Source: PSB

Geographical synergies in the construction area

After acquiring a controlling stake in 2016, PJP Makrum became part of the GK Immobile. Since then, PJP Makrum has been gradually developing its execution potential. As of 2019, the company has launched 2 new divisions, which enable it to provide construction services throughout the country. We estimate that such geographical expansion could allow the company to participate in the potential rebound in the construction segment in 2024E.

Geographical expansion

We believe PJP Makrum is well prepared for a foreign business expansion. The company has established services/products distribution channels in Poland but also in Germany and the United Kingdom, which secured delivery of handling systems/warehouse equipment to the most of European countries. PJP offers execution of contracts in a turnkey formula, while in the manufacturing segment, it offers comprehensive construction of industrial/warehouse facilities including installation of handling systems, and equipment. We estimate that further geographical expansion may translate into sales and margins growth (economies of scale).

Key risk factors

The following are potential risk factors that we believe may determine PJP Makrum's performance in future years.

1. Changes in prices of steel products

PJP uses steel as a component in the construction of handling systems or construction contracts. Changes in steel prices may translate into periodic fluctuations in the profitability of its operations, nevertheless, PJP 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. FX changes

Export sales imply FX risk. The company uses mechanisms to hedge foreign currency exposure including natural hedging and forward transactions, but the unhedged net exposure may be a risk factor to the company's performance/profitability during periods of appreciation of PLN.

3. Increase in energy costs

Increasing energy prices may reduce the profitability of the business until they are not fully passed on clients. Please note that manufacturing is a high-power consuming part of business. Moreover, any increase in energy costs may also translate into an increase in the price of construction materials.

4. Cyclically low levels of investment

An increase in interest rates in Poland and the Eurozone may reduce investment activity and demand for PJP products/services. Rebound in economic activity may delay if the rates stay high for a longer time which may also delay the return of PJP's results onto a growth trajectory.

5. Residential property market in Bydgoszcz

High interest rates may delay the recovery in the housing market, and PJP's potential to generate cash flow from sale of residential land.

Real estate

PJP Makrum holds asset that could be subject of disposal, including land in Bydgoszcz that can be used within the GKI Immobile as land for residential construction purpose. We think the land in question is a non-operating asset and we expect potential cash inflow from the sale transaction. The book value of the property was PLN20 million as at 1Q2023 and we have also applied the similar value to our calculations.

Fig. 25. PJP Makrum: Non-operating assets

| Location | Value (PLNm) | Value per share (PLN) |
|-------------------------------------|--------------|-----------------------|
| Bydgoszcz, Bydgoskich Olimpijczyków | 19.7 | 3.3 |

Source: Company data, Santander Brokerage Poland estimates

Financial forecasts

Fig. 26. PJP Makrum: Financial forecasts

| PLN mn | 2023E | | | 2024E | | | 2025E | | |
|------------|-------|----------|--------|-------|----------|--------|-------|----------|--------|
| | New | Previous | Change | New | Previous | Change | New | Previous | Change |
| Sales | 497 | - | - | 539 | - | - | 566 | - | - |
| EBITDA | 26 | - | - | 30 | - | - | 31 | - | - |
| EBIT | 18 | - | - | 22 | - | - | 23 | - | - |
| Net profit | 13 | - | - | 15 | - | - | 17 | - | - |

Source: Company data, Santander Brokerage Poland estimates

Valuation

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

Main valuation assumptions using the DCF method are:

- Free cash flow growth in the residual period = 0%
- Risk-free rate, 2023P = 7%, after 2023P = 6%
- Deleveraged beta = 1.0x
- Market risk premium = 6%
- Tax rate = 19%
- Value of non-operational assets = PLN 20 million

Fig. 27. PJP Makrum: Valuation summary

| PLN per share | New | Previous | Change |
|--|------------------|----------|--------|
| DCF* | 24.9 | - | - |
| Comparative valuation (foreign companies) | 30.6 | - | - |
| Comparative valuation (WSE-listed companies) | 29.2 | - | - |
| Total valuation in the range: | 24.9-30.6 | | |

Source: Company data, Santander Brokerage Poland estimates, * the valuation takes into account a non-operating asset value of PLN20 million

Fig. 28. PJP Makrum: DCF valuation

| PLN mn | 2023E | 2024E | 2025E | 2026E |
|--|--------------|--------------|--------------|--------------|
| Sales | 497 | 539 | 566 | 582 |
| EBIT | 18 | 22 | 23 | 23 |
| Tax | -4 | -4 | -4 | -4 |
| NOPAT | 15 | 18 | 19 | 18 |
| Depreciation | 8 | 8 | 8 | 8 |
| Changes in working capital | 5 | -6 | -4 | 0 |
| CAPEX | -15 | -9 | -9 | -9 |
| Free cash flow | 12 | 11 | 14 | 17 |
| WACC | 13.2% | 11.8% | 11.6% | 11.7% |
| Present value of free cash flow in the period 2024E-26E | 34 | | | |
| Residual growth | 0.0% | | | |
| Residual value | 144 | | | |
| Present value of residual value | 103 | | | |
| EV | 137 | | | |
| Net debt (2023E) | 11 | | | |
| Dividend (2023E) | 3 | | | |
| Minorities | 0 | | | |
| Equity value | 129 | | | |
| Number of shares | 6.0 | | | |
| Value of equity at the end of 2023E (PLN) | 21.5 | | | |
| Non-operating assets (PLN) | 3.3 | | | |
| Value of equity with non-operational assets at the end of 2023E (PLN) | 24.9 | | | |

Source: Company data, Santander Brokerage Poland estimates

We valued PJP Makrum using the comparative method. We compared it to WSE listed and foreign entities of the construction industry, which seems optimal given the range of products and services offered by PJP Makrum. However, we note that the foreign

companies taken for comparison are large construction groups, with a scale much higher than PJP Makrum.

Fig. 29. Comparative valuation: foreign companies

| Company | Capitalisation | P/E | | | EV/EBITDA | | |
|---------------|----------------|-------------|-------------|-------------|------------|------------|------------|
| | (EUR mn) | 2023E | 2024E | 2025E | 2023E | 2024E | 2025E |
| Bilfinger | 1,283.9 | 12.9 | 9.8 | 8.4 | 4.4 | 3.8 | 3.4 |
| Eiffage | 9,192.4 | 9.2 | 8.7 | 8.2 | 5.9 | 5.7 | 5.5 |
| Ferrovial | 21,888.8 | 75.3 | 47.9 | 38.6 | 32.5 | 26.5 | 23.2 |
| Skanska | 5,975.8 | 13.4 | 11.1 | 10.2 | 8.6 | 7.7 | 7.3 |
| Strabag | 3,862.9 | 8.0 | 8.1 | 8.0 | 2.0 | 2.0 | 2.0 |
| Vinci | 64,557.8 | 13.4 | 12.4 | 11.7 | 7.6 | 7.2 | 6.9 |
| Sacyr | 2,072.5 | 11.0 | 12.7 | 11.8 | 7.7 | 7.5 | 7.2 |
| PEAB | 1,157.1 | 6.3 | 8.3 | 7.7 | 8.8 | 9.5 | 9.0 |
| ACS | 8,567.5 | 14.8 | 13.9 | 12.4 | 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 | 11.1 | 10.2 | 7.6 | 7.1 | 6.8 |

Source: Bloomberg, Santander Brokerage Poland estimates

Fig. 30. 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. 31. 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) | 25.2 | 42.4 | 25.8 | 25.8 |
| Average implied value per share (PLN) | 29.2 | | | |

Source: Bloomberg, Santander Brokerage Poland estimates

Fig. 32. Comparative valuation: foreign companies

| | P/E | | | EV/EBITDA | | |
|--|-------------|-------|-------|-----------|-------|-------|
| | 2023E | 2024E | 2025E | 2023E | 2024E | 2025E |
| Foreign companies | 12.9 | 11.1 | 10.2 | 7.6 | 7.1 | 6.8 |
| Implied value per share (PLN) | 26.9 | 28.2 | 29.2 | 32.1 | 35.0 | 36.9 |
| Average implied value per share (PLN) | 30.6 | | | | | |

Source: Bloomberg, Santander Brokerage Poland estimates

Fig. 33. Cost of capital

| | 2023E | 2024E | 2025E | 2026E |
|---------------------------|--------------|--------------|--------------|--------------|
| Risk free rate | 7.0% | 6.0% | 6.0% | 6.0% |
| Market risk premium (%) | 6.0% | 6.0% | 6.0% | 6.0% |
| Beta (x) | 1.00 | 1.00 | 1.00 | 1.00 |
| Debt (PLNm) | 40 | 40 | 40 | 40 |
| Equity (PLNm) | 161 | 176 | 193 | 210 |
| Debt/equity (%) | 25% | 23% | 21% | 19% |
| Tax rate (%) | 19% | 19% | 19% | 19% |
| Debt-adjusted beta (x) | 1.20 | 1.18 | 1.17 | 1.15 |
| Cost of equity (%) | 14.2% | 13.1% | 13.0% | 12.9% |
| Cost of debt | 9.0% | 6.0% | 5.0% | 5.0% |
| % Debt | 20% | 19% | 17% | 16% |
| % Equity | 80% | 81% | 83% | 84% |
| WACC | 13.2% | 11.8% | 11.6% | 11.7% |

Source: Santander Brokerage Poland estimates

Financial results forecasts

Fig. 34. PJP Makrum: Income statement

| PLN mn | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023E | 2024E | 2025E | 2026E |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Sales | 199 | 262 | 272 | 342 | 312 | 532 | 497 | 539 | 566 | 582 |
| Manufacturing | 174 | 161 | 177 | 158 | 182 | 281 | 296 | 299 | 302 | 305 |
| Construction | 25 | 99 | 94 | 183 | 130 | 251 | 200 | 240 | 264 | 278 |
| Gross profit | 45 | 53 | 54 | 70 | 56 | 103 | 85 | 91 | 95 | 97 |
| Manufacturing | 0 | 43 | 46 | 41 | 43 | 67 | 59 | 60 | 60 | 61 |
| Construction | 0 | 11 | 8 | 29 | 13 | 36 | 26 | 31 | 34 | 36 |
| General administrative and selling expenses | -36 | -40 | -45 | -46 | -52 | -67 | -67 | -69 | -72 | -74 |
| Other operating income/costs | 6 | 3 | -1 | -2 | -1 | -1 | 0 | 0 | 0 | 0 |
| EBITDA | 19 | 20 | 12 | 27 | 8 | 43 | 26 | 30 | 31 | 30 |
| Operating profit | 15 | 17 | 8 | 22 | 2 | 35 | 18 | 22 | 23 | 23 |
| Result on financial activity | 0 | -2 | 0 | -2 | 1 | 0 | -3 | -3 | -2 | -2 |
| Profit before tax | 14 | 15 | 8 | 20 | 4 | 36 | 15 | 19 | 21 | 21 |
| Tax | -4 | -4 | -3 | -5 | -2 | -7 | -3 | -4 | -4 | -4 |
| Net profit | 10 | 11 | 6 | 15 | 2 | 29 | 13 | 15 | 17 | 17 |

Source: Santander Brokerage Poland estimates

Fig. 35. PJP Makrum: Margins

| PLN mn | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023E | 2024E | 2025E | 2026E |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Gross margin | 22.4% | 20.3% | 19.8% | 20.6% | 17.9% | 19.4% | 17.2% | 16.9% | 16.7% | 16.7% |
| Manufacturing | - | 26.6% | 26.2% | 26.0% | 23.7% | 23.9% | 20.0% | 20.0% | 20.0% | 20.0% |
| Construction | - | 10.7% | 8.0% | 15.9% | 9.8% | 14.2% | 13.0% | 13.0% | 13.0% | 13.0% |
| EBITDA margin | 9.4% | 7.7% | 4.4% | 7.8% | 2.6% | 8.1% | 5.3% | 5.5% | 5.4% | 5.2% |
| EBIT margin | 7.3% | 6.4% | 2.9% | 6.4% | 0.7% | 6.6% | 3.7% | 4.0% | 4.0% | 3.9% |
| Net margin | 5.3% | 4.2% | 2.0% | 4.3% | 0.6% | 5.4% | 2.5% | 2.8% | 3.0% | 2.9% |

Source: Company data, Santander Brokerage Poland estimates

Fig. 36. PJP Makrum: Balance sheet

| PLN mn | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023E | 2024E | 2025E | 2026E |
|-------------------------------|------|------|------|------|------|------|-------|-------|-------|-------|
| Short-term assets | 97 | 110 | 134 | 127 | 176 | 232 | 225 | 239 | 252 | 264 |
| Non-current assets | 89 | 77 | 99 | 116 | 139 | 112 | 120 | 120 | 121 | 122 |
| Total assets | 186 | 186 | 233 | 244 | 315 | 345 | 345 | 360 | 374 | 386 |
| Short-term liabilities | 80 | 78 | 109 | 100 | 168 | 169 | 165 | 170 | 173 | 175 |
| Interest-bearing debt | 19 | 20 | 25 | 30 | 42 | 40 | 40 | 40 | 40 | 40 |
| Long-term liabilities | 4 | 5 | 20 | 24 | 27 | 27 | 27 | 27 | 27 | 27 |
| Interest-bearing debt | 0 | 0 | 7 | 7 | 7 | 3 | 3 | 3 | 3 | 3 |
| Equity | 101 | 106 | 108 | 120 | 120 | 148 | 161 | 176 | 193 | 210 |
| Total liabilities | 186 | 186 | 233 | 244 | 315 | 345 | 345 | 360 | 374 | 386 |
| Net debt | 14 | 8 | 19 | 27 | 31 | 14 | 11 | 9 | 2 | -5 |

Source: Company data, Santander Brokerage Poland estimates

Fig. 37. PJP Makrum: Cash flow statement

| PLN mn | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023E | 2024E | 2025E | 2026E |
|--------------------------------------|------|------|------|------|------|------|-------|-------|-------|-------|
| CF from operating activities | 3 | 20 | 12 | 27 | 18 | 22 | 28 | 20 | 23 | 24 |
| CF from investment activities | -7 | -5 | -15 | -26 | -13 | 5 | -15 | -9 | -9 | -9 |
| CF from financing activities | 0 | -8 | 3 | -3 | 3 | -16 | -11 | -9 | -8 | -8 |
| Dividends | 0 | -7 | -4 | -4 | -2 | 0 | -3 | -1 | -2 | -2 |
| Change in cash levels | -4 | 7 | 0 | -3 | 8 | 12 | 2 | 3 | 6 | 7 |

Source: Company data, Santander Brokerage Poland estimates

Santander Brokerage Poland

Jana Pawła II Avenue 17
00-854 Warszawa
fax. (+48) 22 586 81 09

Equity Research

| | | |
|--|-------------------------|--------------------------------|
| Kamil Stolarski, PhD, CFA, <i>Head of Equity Research Banks, Insurers, Strategy</i> | tel. (+48) 22 586 81 00 | kamil.stolarski@santander.pl |
| Paweł Puchalski, CFA, <i>Equity Analyst Telecommunications, Metals & Mining, Power</i> | tel. (+48) 22 586 80 95 | pawel.puchalski@santander.pl |
| Tomasz Krukowski, CFA, <i>Equity Analyst Oil&Gas, Pharma & Biotech, CEE Non-Financials</i> | tel. (+48) 22 586 81 55 | tomasz.krukowski@santander.pl |
| Adrian Kyrzcz, <i>Equity Analyst Construction, Real Estate, IT</i> | tel. (+48) 22 586 81 59 | adrian.kyrzcz@santander.pl |
| Tomasz Sokołowski, <i>Equity Analyst Consumer, E-commerce</i> | tel. (+48) 22 586 82 36 | tomasz.sokolowski@santander.pl |
| Michał Sopieli, <i>Equity Analyst Industrials, Chemicals, Quantitative Analysis</i> | tel. (+48) 22 586 82 33 | michal.sopiel@santander.pl |
| Piotr Zielonka, CFA, <i>Equity Analyst Gaming, Strategy</i> | tel. (+48) 22 534 16 10 | piotr.zielonka@santander.pl |
| Marcin Działek, <i>Analyst Technical Analysis</i> | tel. (+48) 22 782 93 09 | marcin.dzialek@santander.pl |

Sales & Trading

| | | |
|--|-------------------------|----------------------------------|
| Kamil Kalemba, <i>Head of Institutional Equities</i> | tel. (+48) 22 586 80 84 | kamil.kalemba@santander.pl |
| Mateusz Choromański, CFA, <i>Head of Sales Securities Broker, Investment Advisor</i> | tel. (+48) 22 586 80 82 | mateusz.choromanski@santander.pl |
| Alex Kamiński | tel. (+48) 22 586 80 63 | alex.kaminski@santander.pl |
| Błażej Leśków, <i>Securities Broker</i> | tel. (+48) 22 586 80 83 | blazej.leskow@santander.pl |
| Michał Stępkowski, <i>Securities Broker</i> | tel. (+48) 22 586 85 15 | michal.stepkowski@santander.pl |
| Marek Wardzyński, <i>Securities Broker</i> | tel. (+48) 22 586 80 87 | marek.wardzynski@santander.pl |
| Adam Mizera, <i>ACCA, CFA, Securities Broker</i> | tel. (+48) 22 586 85 14 | adam.mizera@santander.pl |

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In preparing this report Santander Brokerage Poland applied at least one of the following valuation methods: discounted cash flows (DCF), comparative, mid-cycle, dividend discount model (DDM), residual income, warranted equity method (WEV), SOTP valuation, liquidation value.

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.

In the opinion of Santander Brokerage Poland, this report has been prepared with all due diligence and excludes any conflict of interests which could influence its content. In Santander Bank Polska there are implemented internal regulations, which are designed to prevent conflicts of interest concerning recommendations. Physical and logic barriers are established, and the principles of documentation adequate to the type of Santander Bank Polska operations are implemented. Additionally, Santander Bank Polska introduced a number of obligations and restrictions relating to the protection of confidential information flow between organizational units.

The date and time on the first page of this report indicates the date of the production of the recommendation, and the dissemination of the recommendation takes place on the same day before the start of the session.

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