



Wednesday, August 10, 2016 | update

## Budimex: buy (reiterated)

**BDX PW; BDXP.WA | Construction, Poland**

### Positioned For Sustained Profitability

Budimex's stock has traded sideways since the Q2 2016 earnings release even though according to our calculations the annual market consensus at the time of the announcement was underestimated by about 20%. The reason must have been that analysts decided that the stellar quarterly margin achieved by the Construction business was a one-off. We disagree, and we believe that Budimex will continue delivering above-average margins in H2 2016 and through 2017, supported by lower costs of building materials and subcontractor services which decrease in line with an over-20% drop in Polish infrastructure building activity, coupled with a high backlog of high-margin road orders. The positive cost effects will continue to drive profits in 2017, resulting in a net earnings rise to an estimated PLN 366m (the current market consensus is PLN 313m). The longer-term outlook is also bright assuming the Polish government resumes infrastructure expenditures sooner rather than later. We maintain a buy rating for Budimex with the price target at PLN 225.6 per share.

### Inevitable rebound in infrastructure orders

The revival of public infrastructure spending expected to happen some time later this year in the first place will benefit railway builders, with the national railway operator PKP PLK promising to award PLN 18bn-worth of contracts by mid-2017. Next, we anticipate a new wave of road orders under an updated national road framework, with procurement of power engineering services expected to be revived last.

### A record backlog

Budimex's order backlog was worth PLN 9.3bn at 30 June 2016 (+33% y/y, +2% q/q), including a record PLN 6.0bn in road contracts. During Q2 2016, the Company acquired an impressive PLN 2.4bn-worth of building orders, and its industrial construction order book is about to exceed PLN 1.1bn after the addition of the latest PLN 372m assignment in Lithuania.

### Residential real estate

Budimex's residential business, which is responsible for about two-thirds of the annual growth in operating profits, is expected to increase yearly revenue by 60% in 2017.

### Dividend Yield 67% above average

Budimex has accumulated record levels of cash, and so we expect it to continue paying regular annual dividends at a rate of 100% of the prior year's earnings, which in 2017 could make for a dividend yield of 7.0%, only to grow even further in the following years.

(PLN m)	2014	2015	2016E	2017E	2018E
Revenue	4,949.9	5,134.0	5,625.1	6,424.2	6,724.8
EBITDA	270.3	314.6	415.0	461.7	443.3
EBITDA margin	5.5%	6.1%	7.4%	7.2%	6.6%
EBIT	247.3	292.2	391.4	438.6	420.5
Net profit	192.0	235.8	320.3	366.3	349.0
DPS	11.9	6.1	8.1	12.5	14.3
P/E	23.7	19.3	14.2	12.4	13.0
P/CE	21.2	17.6	13.2	11.7	12.3
P/BV	8.8	7.6	6.4	6.0	6.2
EV/EBITDA	10.3	7.0	5.4	4.9	5.5
DYield	6.6%	3.4%	4.6%	7.0%	8.0%

Current Price	PLN 178.40
Target Price	PLN 225.60
MCap	PLN 4.55bn
Free Float	PLN 1.56bn
ADTV (3M)	PLN 6.06

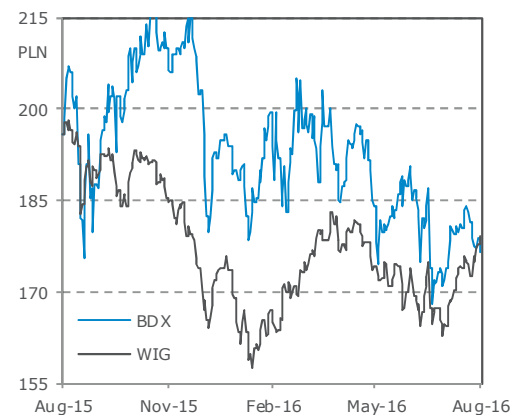
### Ownership

Ferrovial	59.06%
Aviva OFE	6.74%
Others	34.20%

### Business Profile

Budimex is the Polish construction industry leader and a prime general contractor present in road infrastructure as well as building construction. In the future, the Company is aiming to gain significant market share in railway and power generation infrastructure. Further, Budimex develops residential real estate via its subsidiary Budimex Nieruchomości which accounts for 10-20% of the annual operating profits.

### BDX vs. WIG



Company	Target Price		Rating	
	new	old	new	old
Budimex	225.60	225.10	buy	buy

Company	Current Price	Target Price	Upside / Downside
Budimex	178.40	225.60	+26.4%

Forecast change since last update	2016E	2017E	2018E
Revenue	-5.2%	-10.7%	-8.5%
EBITDA	+11.9%	-0.4%	-5.9%
Net profit	+11.2%	+1.4%	-4.6%

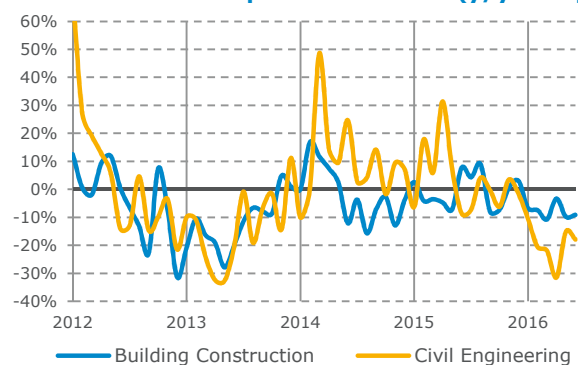
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## Construction Business

**Construction activity in Poland fell 13% in the first six months of 2016** compared to the same period in 2015, led mainly by infrastructure (down ca. 20%) as the deceleration in buildings was milder. The 2016 infrastructure slump follows a 2015 acceleration ahead of the final deadline for EU funding settlements, and it is underpinned by a public spending freeze in the wake of a government change in Poland. Looking at the extent of the resulting delays in public contract awards, **Polish building activity is bound to remain sluggish throughout 2017.**

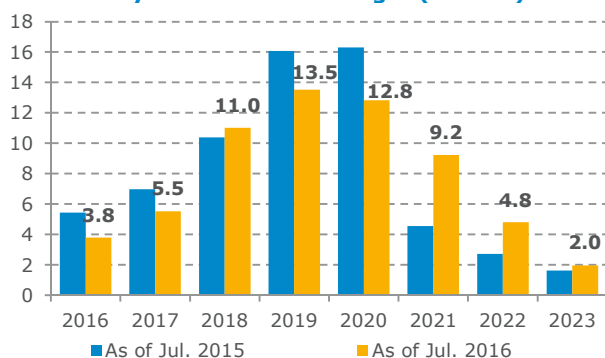
### Polish construction production index (y/y change)



Source: GUS

Once the government sorts out its vision for public infrastructure, the first sector to be rewarded with an influx of new orders are **railway** builders, with the national railway operator PKP PLK recently announcing that it planned to **award PLN 18bn-worth of contracts by July 2017**. Railway construction is a marginal element of Budimex's revenue for now, but going forward the Company plans to more actively pursue orders in this market, which has an estimated annual worth of **PLN 8bn** over the next seven years. The government's new Railway Infrastructure Framework through 2023 assumes an increase in annual expenditures from the PLN 3.8bn planned this year to **PLN 5.5bn in 2017**, i.e. by some 45%, though even at this level the budget still represents only about **70% of the record total spent in 2015**. This leaves builders with spare capacity as according to estimates the total **annual capacity** of the Polish railway construction industry approximates **PLN 10bn**. As a result, the sector does not face upward pressure on the costs of labor and materials in 2017, and beyond that the costs are not likely to increase much unless PKP PLK actually sticks to its current procurement plan. The pressure on costs may become tangible in the final year of the current EU budget framework, i.e. in 2022.

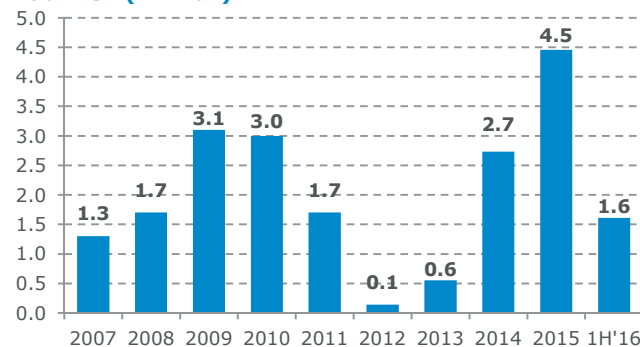
### Polish railway infrastructure budget (PLN bn)



Source: Ministry of Infrastructure

In the **road** sector, the central government spending hold-up is such that the last time a major order was awarded to a contractor was in **January**, and the last time the National Road Infrastructure Framework was updated was in **September 2015**. After months of no activity, the Framework is obsolete at this point. With an update rumored to be coming around October, there is a chance **public road orders may come back on line toward the end of this year.**

### Annual value of public road orders acquired by Budimex (PLN bn)



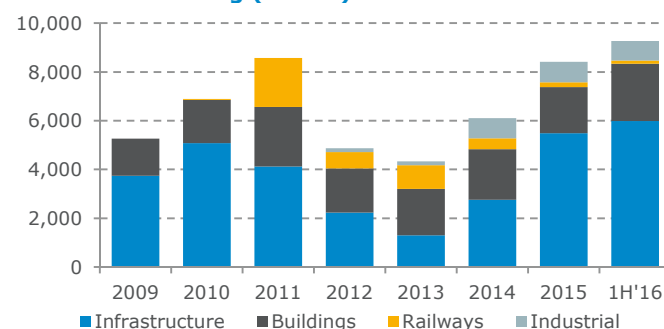
Source: Budimex, Dom Maklerski mBanku

Ironically, the current spending deadlock, provided it is broken some time later this year, can actually work to the advantage of Budimex, which had accumulated a thick order book for 2016-2017. Poland's 2014-2023 **road budget is PLN 107bn gross**, of which **PLN 40bn (38%)** has been allocated so far, and of this **PLN 8.0bn net went to Budimex** (with the hit rate at **24%**).

The high current backlog implies **record revenue for Budimex in 2017**, accompanied by record profit margins, owed to the order shortage experienced by the competition. In the previous cycle, due to higher costs of materials, the gross margin in the construction segment in 2011-2012 was just about 7%. Today, **prices of materials are down 15%** from the time Budimex **acquired its current backlog**. All in all, Budimex has a thick enough order book for public infrastructure works to continue growing revenues through 2017 and to achieve high margins as costs remain low.

Budimex's greatest strength, aside from infrastructure, is the **construction of buildings**, with the backlog in this segment reaching **PLN 2.4bn** – a level comparable with the record year 2011 – after unprecedented order acquisition to the tune of PLN 1.05bn in Q2 2016. Of the total, about **PLN 0.8bn** were orders for **industrial facilities**, which means that after the addition of a PLN 370m contract in Lithuania the industrial order book could exceed PLN 1bn by the end of 2016.

### 2009-2016 backlog (PLN m)

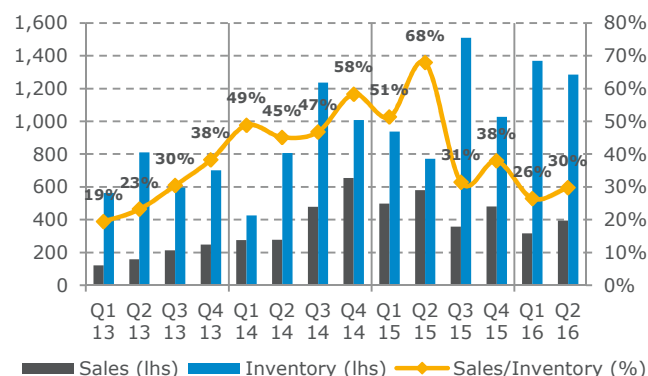


Source: Budimex

## Residential Development

Budimex's residential development unit Budimex Nieruchomości ("BDN") has experienced a slowdown in sales in the last twelve months, with H1 2016 sales at **712 units** showing a year-over-year **shrinkage of 34%** after the finalization of a best-selling residential complex in Krakow, accompanied by a deceleration in new home starts. With that said, nominally the ytd sales of BDN are solid, and at **30%** its **sales effectiveness** in the last four quarters was maintained close to the market average.

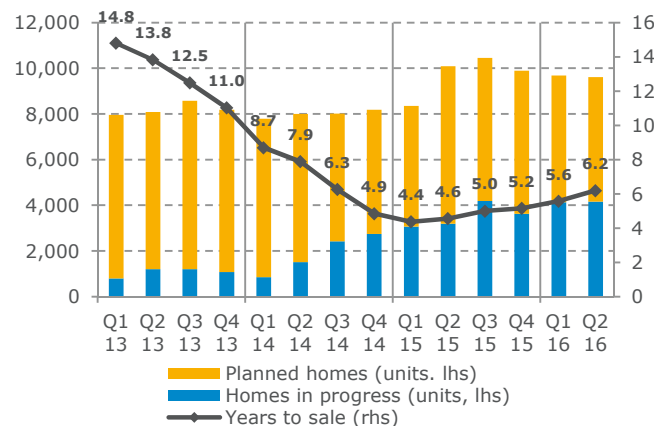
### Budimex Nieruchomości home inventory and sales (units)



Source: Budimex, estimates by Dom Maklerski mBanku, \*quarterly sales as pct. of average inventory in last two quarters

In a recent interview, the CEO of Budimex Nieruchomości set the **2016 sales target at 1,500-1,700 flats**, and looking at the current land bank and the five new projects in three cities scheduled to start in the next three quarters, alongside projects already in progress that, we believe the Company will be able to at least repeat this result in 2017.

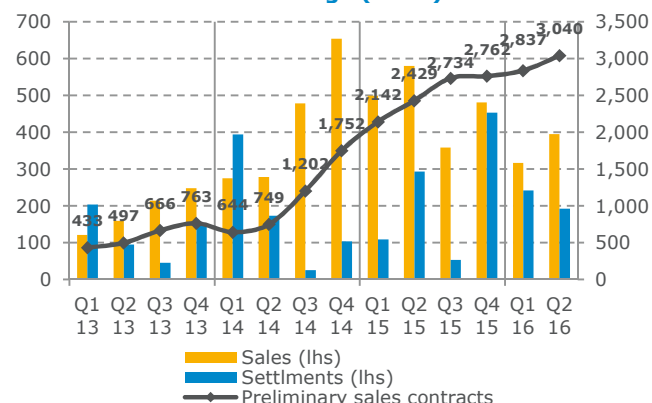
### Land bank vs. home sales



Source: Budimex, Dom Maklerski mBanku

When it comes to settlements, they are poised to peak in 2017-2018. At the end of June 2016, Budimex Nieruchomości had **3,000+ pre-sold homes awaiting settlement** compared to just under 2,700 reported by the H1 2016 sales leader Robyg. The settlements target for 2017 is close to 2,200, of which nearly 90% of the flats are already booked.

### BDN home sales vs. closings (units)



Source: Budimex

## Financial results in Q2 2016

On a stable revenue, Budimex achieved impressive year-over-year **net profit growth of 36% in Q2 2016**, and it reported **stellar profit margins** on its construction business as well as on residential sales. The order **backlog** showed continued growth for the eighth straight quarter, reaching a record **PLN 9.27bn at 30 June (+33% y/y, +2% q/q)**, and the **cash position at PLN 1.78bn** was 20% higher than at the same time last year.

The highlight of the Q2 2016 report was the **gross margin in Construction** which reached its highest level in five years at **11.1% (10.9% in H1'16)**. Our long-term gross margin forecast for Budimex is **8.5%**.

### 2016 Q2 results

(PLN m)	Q2'16	Q2'15	change
Revenue	1,442.0	1,421.8	1.4%
Gross profit	185.3	133.3	39.0%
EBITDA	121.2	87.8	38.1%
EBIT	115.4	82.1	40.5%
margin	8.0%	5.8%	
Pre-tax profit	116.8	86.8	34.6%
Net profit	94.4	69.3	36.3%

Source: Budimex

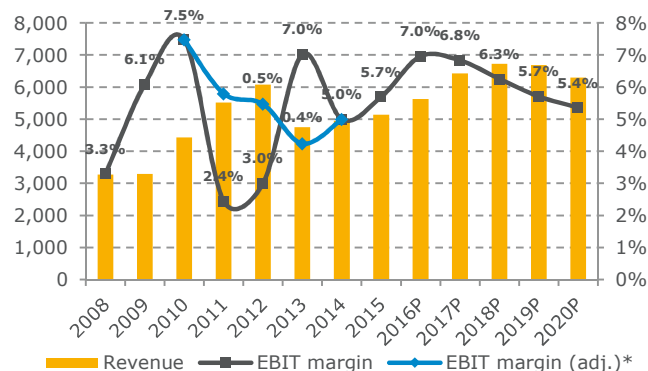
## Earnings Outlook

We have made two key revisions to our financial forecasts for Budimex:

- To reflect the public spending hiatus, which has lasted for nearly a year now, we have **lowered our annual infrastructure revenue forecasts by 6% in 2016 and 11% in 2017**.
- To account for the high backlog and the decreasing costs of building materials and subcontractor services, we have **raised our EBIT margin forecasts by 1.1ppts in 2016 and 0.6ppt in 2017**.
- Consequently, our **net earnings forecasts have gone up by 11% in 2016 and 1% in 2017**.

We predict that Budimex will achieve an **EBIT margin of a record 7% in 2016**, not seen since 2010, based on the fact that in H1 2016 the margin was 7.3%, set to contract in the second half of the year due to a lack of high-margin motorway contracts.

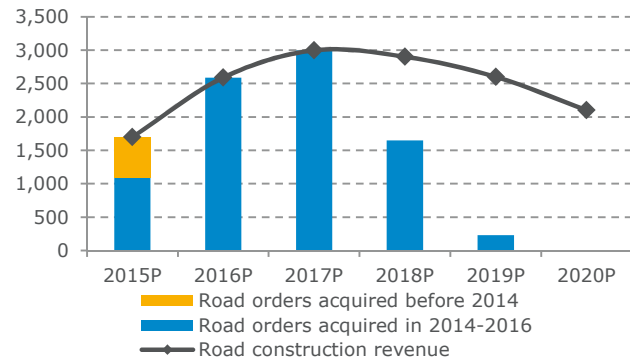
### Revenue (PLN m) and EBIT margin (%) projection



Source: Budimex, projections by Dom Maklerski mBanku, \*adjusted for one-offs

Margins at Budimex are set to stay high in 2017, supported by lower costs of labor and materials, underpinned by higher contributions from the high-margin residential segment (with **Budimex Nieruchomości** expected to generate **60% revenue growth** and an **EBIT margin of ca. 14%**). In **Construction**, we anticipate an **11% increase in revenue** supported by a high backlog, of which 70% provided by **Road Works**, where Budimex is almost at capacity for the whole year, and 30% provided by **Buildings** which are at record demand. For **Railways**, we predict flat 2017 revenue, and for **Industrial construction** we anticipate a deceleration next year, resulting in a lowered yearly revenue estimate.

### Order backlog vs. projected annual road revenue (PLN m)



Source: Dom Maklerski mBanku

### Our forecasts vs. analysts' consensus

(PLN m)	2016F	2016C	differ.	2017F	2017C	differ.
Revenue	5,625	5,916	-5%	6,424	6,691	-4%
EBITDA	415	369	+12%	462	401	+15%
Net profit	320	287	+12%	366	313	+17%

Source: Bloomberg, Dom Maklerski mBanku

Budimex's outlook for **2018** is hard to quantify with any degree of certainty while government spending remains stalled, however the predictions that we can offer include that the Company's road revenues will stabilize while the revenues from railway, industrial, and building construction will increase and the revenues from residential sales will contract. In addition, we anticipate a slight decline in the margins on construction services. Our **2016-2020** revenue forecasts presented in the following table are the **baseline scenario**. They imply that Budimex's **market share** by 2020 will be **less than 5% in railway construction** and **15-20% in the future road orders** based on the current spending plans. The 2016-2019 industrial construction revenue forecast is based wholly on the current backlog.

As for net earnings, compared to what we consider an underestimated market consensus, **our updated 2016 estimate is 12% higher, and the 2017 forecast is 17% higher.**

### Revenue projection by operating segment

(PLN m)	2016P	2017P	2018P	2019P	2020P
Buildings*	2,100	2,205	2,315	2,362	2,409
Roads	2,589	2,996	2,900	2,600	2,100
Railways	150	100	300	400	500
Industrial	150	250	350	472	500
Residential	347	564	495	478	406
Other	290	309	365	371	378
<b>Total</b>	<b>5,625</b>	<b>6,424</b>	<b>6,725</b>	<b>6,683</b>	<b>6,293</b>
Y/Y pct. change	9.6%	14.2%	4.7%	-0.6%	-5.8%

Source: Dom Maklerski mBanku, \*external revenue only

**Dividends** are another source of upside potential in case of Budimex. Given its record-high cash position, we expect that the future annual distributions to shareholders will be maintained at **100% of the standalone annual net earnings**. Based on our current forecasts, this implies a **dividend yield of 7% in 2017** followed by even higher rewards in the following years.

## Valuation

Our PLN 225.60 per-share 9-month price target for Budimex, determined using DCF analysis and relative valuation, implies 26% upside potential from the current market price, prompting a buy rating.

(PLN)	weight	price
Relative Valuation	50%	224.4
DCF Analysis	50%	199.9
	price	212.2
	9M target price	225.6

## DCF Valuation

DCF Model Assumptions:

- Cash flows are discounted to their present value as of the end of July 2016.
- We assume 10% **revenue** growth in 2016 followed by 14% in 2017, 5% in 2018, and flat growth in 2019 followed by a 6% decline in 2020 led by lower public infrastructure expenditures.
- We expect an **EBIT margin** of 7.0% in 2016 followed by a gradual decline to 5.3% in 2021.
- **Net working capital** as percentage of revenue is expected to decrease from 48% in 2015 to 29% in 2024. 2015-2023 total working capital is projected at PLN 525m (PLN 21 per share).

- Equity value calculations are based on the **average net cash** level reported in the last four quarters (using 2015 year-end cash, our valuation of Budimex increases by PLN 18 per share).
- **Fixed asset expenditure** is expected to be equivalent to 95-100% of total D&A expenses throughout the forecast period.
- Long-term FCF growth rate (g): 2%.
- Risk-free rate: 3.5%.
- Risk premium: 5.0%
- Beta: 1.0.

### DCF Model

(PLN m)	2016P	2017P	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2025+
Revenue	5,625	6,424	6,725	6,683	6,293	6,421	6,552	6,685	6,822	6,958	
change	9.6%	14.2%	4.7%	-0.6%	-5.8%	2.0%	2.0%	2.0%	2.0%	2.0%	
EBITDA	415	462	443	404	359	364	369	374	379	386	
EBITDA margin	7.4%	7.2%	6.6%	6.0%	5.7%	5.7%	5.6%	5.6%	5.6%	5.5%	
D&A	24	23	23	22	22	22	22	22	22	22	
EBIT	391	439	421	381	337	342	347	352	357	364	
EBIT margin	7.0%	6.8%	6.3%	5.7%	5.4%	5.3%	5.3%	5.3%	5.2%	5.2%	
Tax on EBIT	74	83	80	72	64	65	66	67	68	69	
NOPLAT	317	355	341	309	273	277	281	285	289	295	
CAPEX	-20	-22	-22	-21	-21	-22	-22	-22	-22	-22	
Working capital	-51	-101	-145	-64	-166	0	1	2	0	0	
FCF	269	255	197	246	108	277	282	287	289	295	301
WACC	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	
Discount factor	96.7%	89.1%	82.1%	75.7%	69.7%	64.3%	59.2%	54.6%	50.3%	46.4%	
PV FCF	260	227	162	186	75	178	167	157	146	137	

WACC	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	
Cost of debt	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	
Credit risk premium	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	
Net debt / EV	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	
Cost of equity	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	

FCF after the forecast period	2.0%
Terminal value	4,630
Present value of terminal value	2,148
Present value of FCF in the forecast period	1,695
Enterprise value	3,843
Net debt	-2,349
Dividends	0
Minority interests	4
Adjustment for average annual cash levels	-458
Equity value	5,729
Number of shares (millions)	25.5
Equity value per share (PLN)	224.4
9M cost of equity	6.3%
<b>Target price</b>	<b>238.6</b>
EV/EBITDA ('65) at target price	9.1
P/E ('16) at target price	19.0
TV / EV	56%

### Sensitivity Analysis

	FCF growth in perpetuity				
	1.0%	1.5%	2.0%	2.5%	3.0%
WACC -1.0 p.p.	228.0	234.0	240.9	249.0	258.5
WACC -0.5 p.p.	226.9	232.9	239.7	247.7	257.2
WACC	225.9	231.8	<b>238.6</b>	246.5	255.9
WACC +0.5 p.p.	224.9	230.7	237.5	245.3	254.6
WACC +1.0 p.p.	223.9	229.7	236.4	244.2	253.4

## Relative Valuation

We compared Budimex's **P/E** and **EV/EBITDA** ratios, and **dividend yield**, as estimated based on FY2016-2018 earnings forecasts, with those of a peer group of Polish construction firms that together with Budimex represent 80% of the WIG-Construction index, all characterized by good financial health, and a group of European builders with a presence in Poland.

Compared to both peer groups, BDX is valued at average **premiums of 21% on P/E and 2% on EV/EBITDA**, with the premium relative to **Polish** peers at **23%**. The premiums in **2016-2017** are **6-7%**, increasing to **22%** in **2018**.

We believe Budimex deserves premium valuation considering its exceptionally solid capital base and given that it pays dividends regularly every year. Our **dividend yield** projections assume an increase from **4.6% in 2016** to **8.1% in 2018** (6.6% average). The 2015-2017 average dividend yield for the foreign peer group is 4.5% and for Polish peers it is 4.4%. Based on 2016-2018 **DYield**, Budimex's average relative value is **PLN 262 per share**.

## Multiples Comparison

	MCap (EUR m)	Price	P/E			EV/EBITDA			Dyield		
			2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
<b>Polish Peers</b>											
Elektrobudowa	108	99.10	8.5	8.3	8.4	4.8	4.4	4.4	4.0%	7.0%	9.7%
Elektrotim	34	15.01	8.7	8.5	8.7	4.8	4.6	4.5	8.3%	7.3%	8.0%
Erbud	88	30.09	10.8	9.8	10.9	5.3	4.9	5.3	4.0%	4.6%	5.1%
Herkules	32	3.27	10.0	9.1	8.0	5.3	4.9	4.5	4.9%	4.9%	5.2%
Torpol	57	10.87	17.6	15.3	8.4	5.6	5.6	4.0	6.3%	3.7%	4.6%
Trakcja	145	12.30	12.5	11.9	8.4	7.3	6.8	5.2	2.8%	2.4%	3.3%
Ulma	70	58.30	21.0	9.2	7.3	4.0	3.0	2.4	0.0%	1.7%	4.3%
Unibep	93	11.62	12.2	9.8	10.4	7.6	6.3	6.3	1.5%	2.6%	3.4%
ZUE	41	7.83	20.1	16.8	9.0	4.9	4.6	3.4	4.2%	2.5%	4.2%
Median			12.2	9.8	8.4	5.3	4.9	4.5	4.0%	3.7%	4.6%
Weight			50%	50%	50%	50%	50%	50%	50%	50%	50%
<b>Foreign Peers</b>											
Strabag	3 107	28.25	12.3	11.7	11.3	3.4	3.3	3.3	3.4%	3.5%	3.8%
Porr	790	26.70	10.8	9.2	8.4	4.1	3.8	3.6	5.0%	5.6%	6.1%
Hochtief	8 331	120.20	24.4	21.5	20.5	8.3	7.9	7.8	1.9%	2.2%	2.4%
Bouygues	9 184	26.59	18.0	13.4	11.8	5.6	5.0	4.7	6.0%	6.0%	6.0%
Salini	1 262	2.54	13.6	8.9	6.5	4.1	3.5	3.0	1.8%	3.0%	4.8%
Astaldi	349	3.55	4.1	3.4	3.1	6.0	5.9	5.8	5.7%	6.8%	7.0%
Mota Engil	430	1.81	4.2	8.0	7.0	4.9	4.6	4.5	4.4%	5.8%	3.3%
Skanska	8 012	181.80	13.9	14.6	14.6	8.5	8.7	8.4	4.3%	4.5%	4.6%
PEAB	2 154	69.35	13.2	12.5	11.8	8.9	8.6	8.2	4.2%	4.5%	4.8%
NCC	2 387	209.80	16.1	14.4	13.6	9.5	8.6	8.3	3.8%	4.2%	4.4%
Median			13.4	12.1	11.6	5.8	5.5	5.3	4.2%	4.5%	4.7%
Weight			50%	50%	50%	50%	50%	50%	50%	50%	50%
Median			12.8	11.0	10.0	5.5	5.2	4.9	4.1%	4.1%	4.6%
Budimex	1 042	178.40	14.2	12.4	13.0	5.4	4.9	5.5	4.6%	7.0%	8.0%
Premium (discount)			11.1%	13.5%	30.6%	-3.2%	-4.8%	13.3%	10.2%	72.5%	73.2%
<b>Implied valuation</b>											
Value per share (PLN)			160.6	157.2	136.6	181.5	183.1	167.4	196.5	307.7	308.9
Multiple weight			11%	11%	11%	11%	11%	11%	11%	11%	11%
<b>Value per share (PLN)</b>		<b>199.9</b>									



## Income statement

(PLN m)	2013	2014	2015	2016P	2017P	2018P	2019P
Revenue	4,749.5	4,949.9	5,134.0	5,625.1	6,424.2	6,724.8	6,682.9
change	-21.9%	4.2%	3.7%	9.6%	14.2%	4.7%	-0.6%
COGS	4,354.0	4,517.3	4,641.3	4,996.1	5,755.7	6,068.0	6,056.6
Gross profit	395.4	432.7	492.7	629.1	668.5	656.9	626.3
gross profit margin	8.3%	8.7%	9.6%	11.2%	10.4%	9.8%	9.4%
Selling expenses	-28.4	-27.7	-29.7	-30.3	-30.9	-31.6	-32.2
General expenses	-162.9	-177.7	-190.1	-198.1	-203.9	-209.9	-218.1
Other net operating gains/losses	130.3	20.0	19.3	-9.2	5.0	5.2	5.3
Gains (losses) on derivative financial instruments	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	333.3	247.3	292.2	391.4	438.6	420.5	381.4
change	82.7%	-25.8%	18.2%	34.0%	12.1%	-4.1%	-9.3%
EBIT margin	7.0%	5.0%	5.7%	7.0%	6.8%	6.3%	5.7%
Financing gains / losses	2.6	1.2	8.0	8.4	11.1	7.4	5.3
Gains (losses) on derivative financial instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity in profits of associates	-4.7	-5.9	-3.4	1.3	3.0	3.6	4.0
Pre-tax profit	331.3	242.6	296.8	401.1	452.8	431.5	390.6
Tax	30.0	48.7	60.3	80.1	86.0	82.0	74.2
Minority interests	0.8	2.0	0.7	0.7	0.5	0.5	0.5
Net profit	300.5	192.0	235.8	320.3	366.3	349.0	315.9
change	61.6%	-36.1%	22.9%	35.8%	14.3%	-4.7%	-9.5%
margin	6.33%	3.88%	4.59%	5.69%	5.70%	5.19%	4.73%
D&A	28.9	23.0	22.3	23.5	23.1	22.7	22.4
EBITDA	362.2	270.3	314.6	415.0	461.7	443.3	403.8
change	55.4%	-25.4%	16.4%	31.9%	11.3%	-4.0%	-8.9%
EBITDA margin	7.6%	5.5%	6.1%	7.4%	7.2%	6.6%	6.0%
Shares at year-end (millions)	25.5	25.5	25.5	25.5	25.5	25.5	25.5
EPS	11.8	7.5	9.2	12.5	14.3	13.7	12.4
CEPS	12.9	8.4	10.1	13.5	15.2	14.6	13.3
ROAE	56.7%	33.5%	42.2%	48.9%	49.9%	46.6%	43.7%
ROAA	8.4%	5.1%	5.5%	6.7%	7.6%	7.4%	6.9%



## Balance Sheet

(PLN m)	2013	2014	2015	2016P	2017P	2018P	2019P
ASSETS	3,686.8	3,858.2	4,713.4	4,825.6	4,783.9	4,636.7	4,463.5
Fixed assets	621.5	677.5	821.2	827.4	826.3	825.1	824.0
Property, plant and equipment	83.8	79.5	83.2	82.4	81.2	80.1	79.0
Equity value	76.8	80.8	119.0	117.8	117.8	117.8	117.8
Deferred tax assets	351.3	376.3	440.9	440.7	440.7	440.7	440.7
Other	109.7	140.9	178.0	186.5	186.5	186.5	186.5
Current assets	3,065.2	3,180.7	3,892.2	3,998.2	3,957.7	3,811.6	3,639.5
Inventory	697.0	648.7	867.6	915.6	859.7	848.4	776.0
Receivables	705.1	678.2	608.6	675.8	744.6	770.5	766.9
Cash and cash equivalents	1,658.8	1,831.7	2,413.1	2,395.6	2,342.1	2,181.4	2,085.4
Other	4.3	22.2	2.9	11.3	11.3	11.3	11.3
(PLN m)	2013	2014	2015	2016P	2017P	2018P	2019P
EQUITY AND LIABILITIES	3,686.8	3,858.2	4,713.4	4,825.6	4,783.9	4,636.7	4,463.5
Equity	626.3	519.3	599.2	711.4	757.4	740.2	707.0
Minority interests	18.9	3.2	3.9	4.6	5.1	5.6	6.1
Long-term liabilities	347.8	407.7	441.2	453.6	498.7	515.6	513.3
Loans	34.4	46.3	44.6	46.3	46.3	46.3	46.3
Reserves	147.7	179.2	181.7	186.4	231.5	248.4	246.1
Contract deposits	161.3	176.1	207.2	213.3	213.3	213.3	213.3
Other	4.4	6.1	7.7	7.7	7.7	7.7	7.7
Current liabilities	2,693.8	2,928.0	3,669.1	3,655.9	3,522.8	3,375.4	3,237.2
Loans	19.7	21.4	19.8	18.6	18.6	18.6	18.6
Accruals	1,846.1	1,839.7	2,200.4	2,168.8	2,003.8	1,830.6	1,696.0
Amounts payable to subcontractors	689.9	920.7	1,239.9	1,329.2	1,361.0	1,386.7	1,383.1
Other	138.1	146.2	209.0	139.4	139.4	139.4	139.4
Debt	54.1	67.7	64.3	64.8	64.8	64.8	64.8
Net debt	-1,604.7	-1,764.0	-2,348.8	-2,330.7	-2,277.2	-2,116.6	-2,020.6
(Net debt / Equity)	-256.2%	-339.7%	-392.0%	-327.6%	-300.7%	-286.0%	-285.8%
(Net debt / EBITDA)	-4.4	-6.5	-7.5	-5.6	-4.9	-4.8	-5.0
BVPS	24.5	20.3	23.5	27.9	29.7	29.0	27.7

## Cash Flow

(PLN m)	2013	2014	2015	2016P	2017P	2018P	2019P
Cash flow from operating activities	314.7	486.1	699.3	304.9	277.6	219.8	269.1
Pre-tax profit	331.3	242.6	296.8	401.1	452.8	431.5	390.6
D&A	28.9	23.0	22.3	23.5	23.1	22.7	22.4
Working capital	215.1	308.6	602.4	-51.2	-101.1	-145.1	-64.5
Taxes paid	-59.1	-63.2	-82.9	-153.6	-86.0	-82.0	-74.2
Derivatives	5.4	6.9	-2.1	-1.4	0.0	0.0	0.0
Other	-206.9	-31.9	-137.2	86.4	-11.1	-7.4	-5.3
Cash flow from investing activities	158.5	-49.0	-70.5	-25.6	-21.9	-21.6	-21.3
CAPEX	-10.2	-13.3	-47.2	-20.2	-21.9	-21.6	-21.3
Equity investment	-5.7	-24.3	-42.6	0.0	0.0	0.0	0.0
Derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term lending	-3.1	-15.9	19.0	-6.9	0.0	0.0	0.0
Other	177.4	4.4	0.4	1.5	0.0	0.0	0.0
Cash flow from financing activities	-154.1	-300.2	-171.5	-207.9	-309.2	-358.9	-343.8
Share issue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt	-30.9	14.7	-0.6	-0.2	0.0	0.0	0.0
Dividends	-112.1	-302.5	-156.0	-207.8	-320.3	-366.3	-349.0
Other	-11.2	-12.4	-15.0	0.2	11.1	7.4	5.3
Change in cash	319.0	136.8	457.3	71.5	-53.5	-160.7	-96.0
Cash at period-end	1,625.7	1,726.7	2,184.1	2,395.6	2,342.1	2,181.4	2,085.4
DPS (PLN)	4.4	11.9	6.1	8.1	12.5	14.3	13.7
FCF	503.8	518.7	814.2	269.2	255.4	196.7	245.5
(CAPEX/Sales)	0.2%	0.3%	0.9%	0.4%	0.3%	0.3%	0.3%

## Trading Multiples

	2013	2014	2015	2016P	2017P	2018P	2019P
P/E	15.2	23.7	19.3	14.2	12.4	13.0	14.4
P/CE	13.8	21.2	17.6	13.2	11.7	12.3	13.5
P/BV	7.3	8.8	7.6	6.4	6.0	6.2	6.4
P/S	1.0	0.9	0.9	0.8	0.7	0.7	0.7
FCF/EV	17.0%	18.6%	36.8%	12.1%	11.2%	8.0%	9.7%
EV/EBITDA	8.2	10.3	7.0	5.4	4.9	5.5	6.3
EV/EBIT	8.9	11.3	7.6	5.7	5.2	5.8	6.7
EV/S	0.6	0.6	0.4	0.4	0.4	0.4	0.4
DYield	2.5%	6.6%	3.4%	4.6%	7.0%	8.0%	7.7%
Price (PLN)	178.4						
Shares at year-end (millions)	25.5	25.5	25.5	25.5	25.5	25.5	25.5
MC (PLN m)	4554.6	4554.6	4554.6	4554.6	4554.6	4554.6	4554.6
Minority interests (PLN m)	18.9	3.2	3.9	4.6	5.1	5.6	6.1
EV (PLN m)	2,968.7	2,793.9	2,209.7	2,228.4	2,282.4	2,443.6	2,540.1

**List of abbreviations and ratios contained in the report:**

**EV** – net debt + market value  
**EBIT** – Earnings Before Interest and Taxes  
**EBITDA** – EBIT + Depreciation and Amortisation  
**P/CE** – price to earnings with amortisation  
**MC/S** – market capitalisation to sales  
**EBIT/EV** – operating profit to economic value  
**P/E** – (Price/Earnings) – price divided by annual net profit per share  
**ROE** – (Return on Equity) – annual net profit divided by average equity  
**P/BV** – (Price/Book Value) – price divided by book value per share  
**Net debt** – credits + debt papers + interest bearing loans – cash and cash equivalents  
**EBITDA margin** – EBITDA/Sales

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**HOLD** – we expect that the rate of return from an investment will range from -5% to +5%  
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**Discounted Dividends (DDM)** – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

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**Previous ratings issued for Budimex**

Rating	Buy
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