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## Budimex – Final 2019 Q2 Results

current price: PLN 131,00

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

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**Budimex's final 2019 Q2 bottom-line figure was the same as the preliminary result, showing a drop of 33% from the comparable period in 2018. Revenue fell 6.4% short of market expectations, but the miss on EBIT was not as harsh at 1.7%. Budimex fulfilled 42% of the FY2019 revenue consensus in the first half of the year, with the ratio for net profit at 33% (compared to respective year-ago proportions of 45% and 42%).**

The **construction segment** made a smaller contribution to quarterly earnings than in Q2 2018 on 4% lower revenue and a tighter gross margin (4.1%). The gross margin also showed a 1.5pp decline from the previous quarter, but this was offset by a rise in sales combined with a one-time boost of PLN 15m, resulting in a q/q increase of PLN 11.5m in segmental EBIT and a wider EBIT margin of 2% vs. 1.8% the quarter before.

The construction backlog grew further in Q2, and at PLN 11.08bn it was up 2.7% on the year. Budimex acquired new orders totaling PLN 2.3bn in the second quarter,

a similar amount as booked in Q2 2018.

In the **residential segment**, despite fewer closings (346 vs. 419 in Q1'18), quarterly revenue increased 4.8% y/y thanks to a higher average closing price (PLN 364,000 vs. PLN 287,000 in 2Q'18 and 311,000 in 1Q). As a result, the gross margin increased by 1.1pp to 25.2%. In the segment of "other operations," financials were depressed by final contributions from the recently-divested Elektromontaż Poznań unit.

Budimex reduced SG&A expenses by 4.3% in Q2 2019 vs. Q2 2018. One-time gains from other operating activity in the amount of PLN 19.7m (vs. +4.4m a year ago) mostly boosted the results of the construction segment. Financing activity produced a net gain of PLN 1.2m in Q2 vs. a net loss of PLN 3.7m in the same period in 2018.

Net cash stood at PLN 264m as of 30 June 2019 vs. PLN 734m in June 2018, with part of the decrease attributable to the adoption of IFRS 16.

### 2019 Q2 & YTD Actuals vs. Expectations

(PLN m)	Q2'19	Q2'18	YoY	Consensus	diff.	FY19 Bloomberg Cons	YTD/FY19E
<b>Revenue</b>	<b>1,868.2</b>	<b>1,963.8</b>	<b>-4.9%</b>	<b>1,995.0</b>	<b>-6.4%</b>	<b>7,668.0</b>	<b>42.4%</b>
Construction	1,741.6	1,806.3	-3.6%				
Residential Real Estate	125.8	120.1	4.8%				
Other	0.8	37.4	-98.0%				
<b>Gross profit</b>	<b>103.4</b>	<b>146.3</b>	<b>-29.3%</b>				
Construction	71.3	112.6	-36.7%				
Residential Real Estate	31.7	28.9	9.8%				
Other	0.4	4.7	-91.2%				
<b>Gross margin</b>	<b>5.5%</b>	<b>7.4%</b>					
Construction	4.1%	6.2%					
Residential Real Estate	25.2%	24.1%					
Other	54.9%	12.7%					
SG&A	61.7	64.4	-4.3%				
Other operating activity	19.7	4.4	347.7%				
<b>EBIT</b>	<b>61.4</b>	<b>86.2</b>	<b>-28.8%</b>	<b>62.5</b>	<b>-1.7%</b>	<b>299.3</b>	<b>37.2%</b>
Construction	35.4	65.3	-45.8%				
Residential Real Estate	25.7	19.3	33.4%				
Other	0.4	1.7	-78.1%				
<b>EBIT margin</b>	<b>3.3%</b>	<b>4.4%</b>		<b>3.1%</b>	<b>-0.2p.p.</b>		
Financing activity	1.2	-3.7					
<b>Net income</b>	<b>43.1</b>	<b>64.7</b>	<b>-33.4%</b>	<b>43.9</b>	<b>-1.7%</b>	<b>219.5</b>	<b>32.8%</b>

Source: Budimex, Dom Maklerski mBanku, PAP, Bloomberg

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

**EV** – net debt + market value (EV – economic value)  
**EBIT** – Earnings Before Interest and Taxes  
**EBITDA** – EBIT + Depreciation and Amortisation  
**PBA** – Profit on Banking Activity  
**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

**OVERWEIGHT (OW)** – a rating which indicates that we expect a stock to outperform the broad market  
**NEUTRAL (N)** – a rating which indicates that we expect the stock to perform in line with the broad market  
**UNDERWEIGHT (UW)** – a rating which indicates that we expect the stock to underperform the broad market

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**Economic profits** – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

**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.

**NAV** – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

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