

Dekpol

Range of valuation: PLN 426-555 million

Growing mixture: buckets, apartments and construction services

Dekpol operates in three areas: general contracting services (62% of revenues in 2020), real-estate development (27% of revenues) and production of accessories for construction machines (8% of revenues). Recent years have been a period of a strong growth for the company. In 2020, the total revenues of the Capital Group for the first time in its history exceeded PLN 1 billion with a net margin of 5.0%. We are currently observing good economic conditions in all areas of Dekpol's business operations and we expect the Group's net profit to remain at the level of approximately PLN 50 million annually in 2021-2022 (P/E ~6.7-6.8x). We predict that exceptionally favorable environment in real-estate development segment will allow the Group to increase its profit up to PLN 75 million in 2023 (P/E = 4.5x).

High potential of housing development industry

Dekpol Developer owns a large bank of land (approx. 200,000 m² of PUM (usable floor area) / approx. 4,600 apartments), bought relatively cheap (approx. 600 PLN / PUM). Due to the very favorable market environment (record low interest rates, high demand, rising apartment prices and the growing level of household deposits), this is a segment that should develop very well in upcoming years. We expect stable results in 2021 and 2022. We assume that in 2023 the company should settle the record number of apartments in its financial result, which will allow to generate a high profit.

New clients at Dekpol Steel

Dynamic development of Dekpol Steel's business in recent years (CAGR EBIT 2014-2019: 62%) has been brought to a halt due to pandemic. However, the company effectively used the last year through focusing on activities that will allow to increase production and reduction of costs. In addition, the Company initiated cooperation with the largest manufacturer of construction machines in the world, i.e. with Caterpillar. We expect that in 2025, the segment's EBIT will increase almost fourfold compared to 2020, and its share in group's results will increase from 6% to approximately 25%.

High demand on warehouse objects

We expect that the strong demand from retail, e-commerce and logistics sectors for warehouse facilities will support maintenance of record-high revenues in the construction segment. At the same time, we expect a moderate decline in EBIT profitability (rising costs).

Improvement of debt ratios and dividend potential

Dekpol significantly improved its debt ratios in recent years (net debt / equity in 2020: 36% vs. 75% in '19; net debt / EBITDA in '20: 1.2 vs. 2.2 in '19). In 2020, the company generated PLN 127 million of free cash flow (in '19: PLN 65 million; in '18: PLN -86 million). Due to the low capital needs for the purchase of land properties, we expect that in 2022 the company will be able to return to dividend payments.

Based on the DCF model, we estimate the company's valuation in the horizon of 12 months in the range of PLN 426-555 million.

	2019	2020	2021P	2022P	2023P
Revenues	772,1	1 055,0	1 069,0	1 104,2	1 213,0
Gross profit on sales	83,3	137,4	130,2	133,0	166,6
EBIT	71,0	81,0	71,3	72,9	105,9
Net profit	50,8	52,8	49,8	49,3	75,4
P/E	4,1	4,5	6,8	6,8	4,5
EV/EBITDA	6,8	3,7	5,9	5,7	3,3
FCF	64,6	127,1	-38,2	22,8	118,1

Source: Company, BM PKO BP

Information

Share price (PLN)	40,40
Number of shares (million)	8,4
Capitalization (millions of PLN)	337,8
Free float	15%
Free float (millions of PLN)	49,1
EV 2020 (millions of PLN)	444
Net debt 2020 (millions of PLN)	106,2
Bloomberg	DEK PW Equity
ISIN	PLDEKPL00032

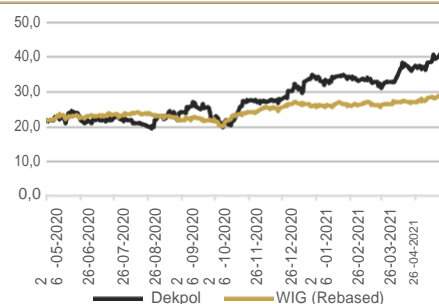
ESG Rank

ESG	5,8
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Shareholding structure

Mariusz Tuchlin	77%
Familiar SA SICAV-SIF	8%
-	-
-	-

Chart



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Summary

Dekpol operates in three areas: **general contracting services** (62% of revenues in 2020), **real-estate development** (27% of revenues) and **production of accessories for construction machines** (8% of revenues). Recent years have been a period of strong growth for the company. In 2020, the total revenues of the capital group for the first time in history exceeded PLN 1 billion with a net margin of 5.0%. We are currently observing favorable economic conditions in all areas of Dekpol's business operations and we expect the Group's net profit to remain at the level of approximately **PLN 50 million** annually in **2021-2022 (P / E ~ 6.5-7.0x)**. We forecast that the exceptionally favorable environment in real-estate development industry will allow the company to increase profit up to **PLN 75m in 2023 (P / E = 4.5x)**.

General contracting services: Dekpol Budownictwo specialized in orders from the logistics and industrial sector. Demand for this type of facilities has remained at a very high level for several years. The main drivers of growth on this market in Poland are the following sectors: commercial, e-commerce and logistics. The above-mentioned industries already reported increased demand for warehouses prior to 2020, and the COVID-19 pandemic additionally accelerated this trend. In upcoming years, we expect record-high revenues to be maintained with a moderate decline in EBIT profitability (rising costs). Dekpol Budownictwo also implements real-estate development projects for Dekpol Deweloper.

Real-estate development activities: Dekpol Deweloper owns a large bank of land (approx. 200,000 m² of PUM / approx. 4,600 apartments), bought relatively cheaply (approx. 600 PLN / PUM), mainly in Gdańsk (60%) and its vicinity. As a part of the bank of land, projects of various standards will be developed (of which 40% are high-margin and premium investments). Thanks to the large diversification, the current bank of land fully protects our segment forecasts for at least the next five years, and the purchasing needs will be limited in upcoming years. Due to the very favorable market environment (record low interest rates, high demand and rising apartment prices, growing level of household deposits), this is a segment that should develop very well in upcoming years. We expect stable results in 2021 and 2022. Record results may be achieved in 2023, when a record number of apartments, including high-margin ones, will be delivered to the market.

Production of accessories for construction machines: Dynamic development of Dekpol Steel's business in recent years (CAGR EBIT 2014-2019: 62%) has been brought to a halt due to pandemic. However, the company effectively used the last year by focusing on development of production capacity and production efficiency, as well as acquiring new customers (initiating cooperation with the largest manufacturer of construction machinery in the world, i.e. with Caterpillar). All these activities will increase production and reduce costs. We expect that in 2025, the segment's EBIT will increase almost fourfold compared to 2020, and its share in group's results will increase from 6% to approximately 25%.

Dekpol has significantly improved debt ratios in recent years (net debt / equity in 2020 was 36%, while in '19 it was 75% and in '18 117%; net debt / EBITDA in 2020 was 1.2; in '19: 2.2, in '18: 3.7). The net debt alone decreased to PLN 106 million (from PLN 182 million at the end of 2019).

In 2020, the company generated PLN 127 million of free cash flow (in '19: PLN 65 million; in '18: - PLN 86 million). Due to the low needs for the purchase of ground properties in residential industry, we expect that in 2022 the company will be able to return to dividend payments.

Based on the DCF model, we estimate the company's **valuation** in the horizon of 12 months in the range of **PLN 426-555 million**.

Dekpol

Description of business activities

Historically, Dekpol was a construction company focused on cubature projects characterized by short implementation period and an above-average margin. Taking advantage of its competences in the basic segment of business activity, in 2007 the company started real-estate development activities, and in 2012 opened a plant producing buckets for construction machines.

As a part of the group's reorganization performed in recent years, individual areas of business activities were gradually transferred to newly created subsidiaries (Dekpol Budownictwo, Dekpol Deweloper, Dekpol Steel), and Dekpol S.A. currently acts as the managing holding company of the Capital Group and provides services to entities from the Group.

Dekpol operates in three areas:

General contracting (projects in the logistics, industrial and warehouse sectors, shopping malls, other cubature buildings, intra-group orders for Dekpol Deweloper).
The activities carried out by the subsidiary Dekpol Budownictwo Sp. z o.o.

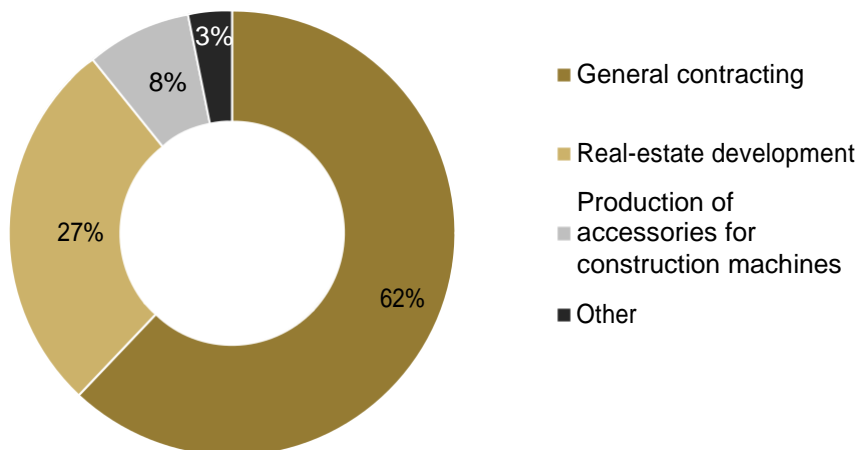
Real-estate development (construction, finishing and sales of housing estates, single-family housing estates, luxury apartment buildings, condo hotels as well as commercial and service areas).
Activities carried out by the subsidiary Dekpol Deweloper Sp. z o.o.

production of accessories for construction machines as well as prefabricated and steel structures (all types of backhoe and loader buckets as well as prefabricated elements)
Activities carried out by subsidiaries: Dekpol Steel Sp. z o.o. (spoons) and Betpref Sp. z o.o. (prefabricated and steel structures)

Share of segments in revenues

General contracting segment has the largest share in group's revenues (62% of the group's revenues in 2020). Real-estate development activity accounted for 27% of revenues, and production of accessories for construction machines for 8%.

Structure of sales revenues of GK Dekpol in 2020

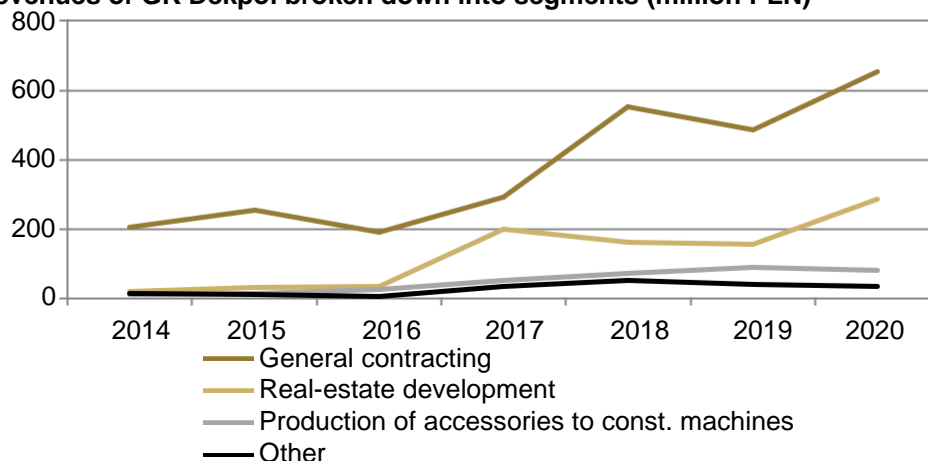


Source: Dekpol

Dekpol

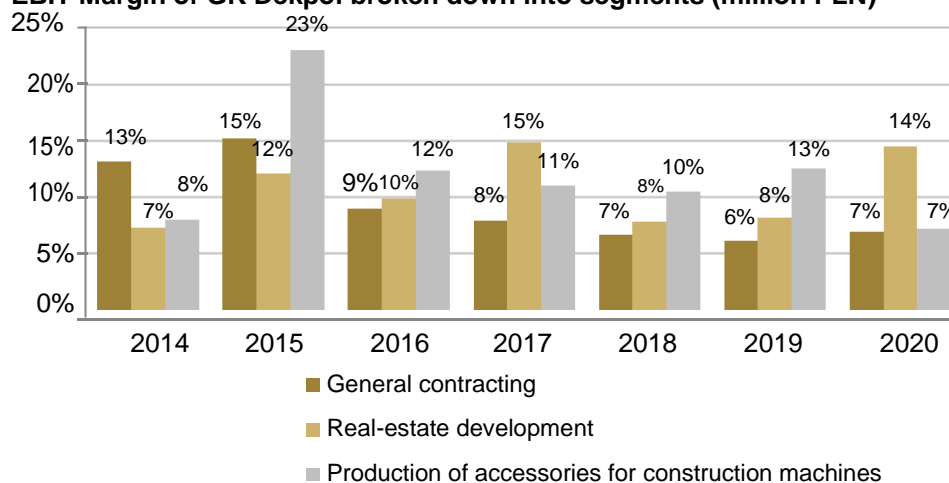
Description of business activities

Revenues of GK Dekpol broken down into segments (million PLN)



Source: Dekpol

EBIT Margin of GK Dekpol broken down into segments (million PLN)



Source: Dekpol

COVID19 pandemic had the strongest impact on results of Dekpol Steel, i.e. production of accessories for construction machine. Despite a strong rebound in revenues in the second half of the year, this company, as the only one from the group, recorded a negative sales dynamic throughout 2020.

Dekpol

Description of business activities

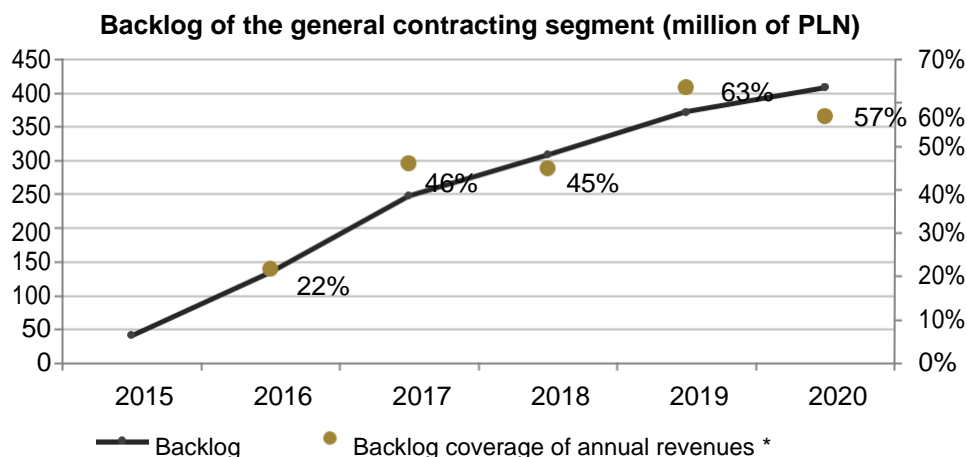
General contracting

In the general contracting segment, the priority is implementation of projects in the logistics, industrial and warehouse sectors, shopping malls and other cubature facilities along with full external infrastructure (roads, squares, parking lots), as well as real-estate development projects implemented for Dekpol Developer. External contracts are carried out mainly on behalf of private investors.

Due to the scale of acquired orders – **majority of projects worth PLN 25-40 million** - implementation period usually does not exceed several months (no deep foundations and use of prefabricated elements). The advantage of orders with a short execution time is reduction of risk associated with increase of costs during execution of investments over time.

The main area of business activities remains the Pomeranian Voivodeship, where about a half of the projects are implemented. Nevertheless, in upcoming years, the company wants to increase its sales through acquisition of new sales markets (in terms of territory and entities). For this purpose, the Company plans to create local structures around the main cities in Poland: Warszawa, Poznań-Wrocław and Kraków-Katowice-Rzeszów.

In recent years, Dekpol's **ordering portfolio** in general contracting segment has grown very dynamically. Net value of agreements at the end of 2020 amounted to PLN 1,034 million (+ 139% y / y), of which remained to be executed approximately **PLN 400 million** (CAGR of backlog in 2015-2020: 58%).

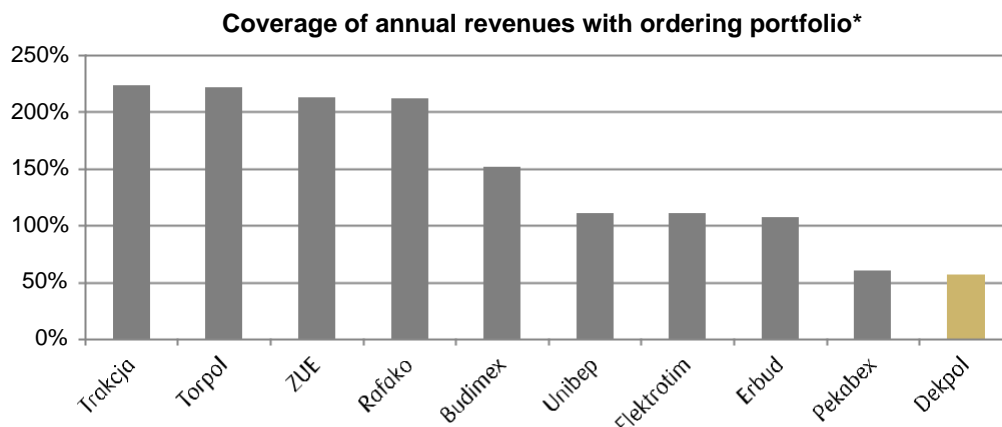


Source: Dekpol, estimates of BM PKO BP, * Revenues of general contracting segment / backlog at the beginning of the year

Rotation of Dekpol's ordering book is much faster than the average for construction industry. At the beginning of 2020, the backlog was the equivalent of 57% of annual revenues only, which was a level similar to Pekabex - the company closest to Dekpol in terms of characteristics of contracts being executed.

Dekpol

Description of business activities



Source: DM PKO BP, *Backlog as at 31.12.2019 / revenues in 2020

The most important contracts acquired by Dekpol Budownictwo from 2019 to V 2021

Conclusion	Description	Place	Ordering entity	Execution (months)	Value (million PLN)
2019-02-08	Production, warehouse and office building	Grudziądz	Panattoni	6,9	28
2019-03-05	Warehouse building	Gdańsk	Panattoni	8,0	29
2019-03-29	Extension of a commercial and service building	Oława	ERGO Elżbieta Jeżewska	15,3	14
2019-03-29	Production, warehouse and office building	Warszawa	7R	8,2	23
2019-04-26	Warehouse and logistics park	Parzniew	Panattoni	5,2	58
2020-02-11	Production, warehouse and office building	Jawczyce	Panattoni	4,7	42
2020-02-18	Production and warehouse building	Skórcz	Iglotex	7,0	85
2020-04-14	Production, warehouse and office building	Rumia	Tricity North Sp. z o.o.	6,6	77
2020-05-20	Implementation of earthworks, traffic circle, parking lots	Kołobrzeg	Karuzela Kołobrzeg	13,0	15
2020-07-03	Warehouse and office building	Wojanowo	Pruszcz Logistics sp z o.o.	2,0	93
2020-10-22	Extension of the warehouse and production building (II phase)**	Grodzisk Maz.	Panattoni	5,3	54
2020-11-16	Warehouse and office building	Swarozyn	Kallisto 14 Sp. z o.o.	-	69
2020-11-16	Warehouse and office building	Swarozyn	Kallisto 14 Sp. z o.o.	8,0	31
2021-01-28	Construction of warehouse and production halls (I phase)**	Gdańsk	PDC Industrial Center 13	2,5	54
2021-01-28	Construction of warehouse and production halls (II phase)*	Gdańsk	PDC Industrial Center 13	-	23
2021-02-16	Production, warehouse and office building (I phase)**	Szczecin	7R	3,5	46
2021-02-16	Production, warehouse and office building (II phase)*	Szczecin	7R	6,0	31
2021-04-12	Warehouse building ***	Ujranów	Panattoni	4,0	39
Average				6,6	45

Source: Dekpol; BM PKOBP; * conditional agreement; **given execution time is the average time of execution of all steps within the phase; *** on the basis of arrangements

In the **last three years**, all the largest contracts acquired by Dekpol concerned **warehouse, production or office buildings**. This year, the company acquired 2 multi-phase orders with a total value of up to PLN 193 million, the implementation time of which does not exceed 6 months (for individual phases).

General contracting segment also provides **services on behalf of Dekpol Developer**. All real-estate development projects are implemented on the basis of own General Contracting services. However, the company does not provide the outside GW (general contracting) services in residential industry.

Dekpol

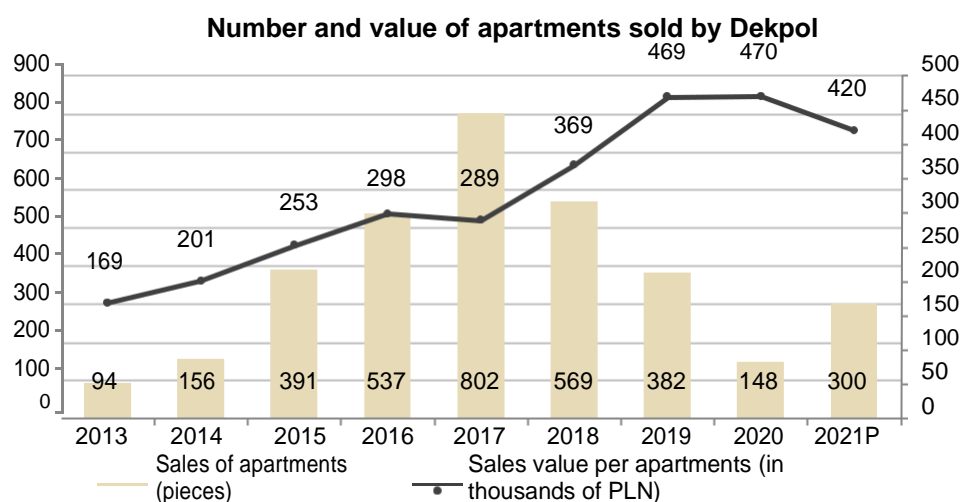
Description of business activities

Real-estate development activities

Historically, Dekpol's real-estate development activity was focused on **budgetary housing** in the Pomeranian Voivodeship. In **2015**, the company entered the **premium** segment, by implementation of Nowa Motława investment in Gdańsk. Premium projects are divided by the company into **apartments and condo-hotels**. Since 2017, the company has been running projects in the model of special purposes vehicles, and since 2019, all real-estate development activities have been separated and transferred to the subsidiary Dekpol Deweloper.

Between **2013-2017**, sales of apartments in Dekpol increased 8 times to about 800 apartments. During this period, the company implemented projects from the lower segment of the market which found buyers extremely quickly. The average price of flats sold by the end of 2018 did not exceed PLN 300,000 of PLN / apartment. Apartments sold in that period brought moderate profitability, which can be seen in segment's lower margins in 2018-2019, amounting to approx. 8% EBIT (settlement of apartments sold in financial result is delayed in relation to the moment of sales and takes place after completion of construction and handover of premises to buyers).

Since **2018**, projects from **premium** segment have a greater participation in Dekpol's sales offer. We estimate that in 2020 the average value of apartments sold approached the value of PLN 500,000. At the same time, in 2020 the **number of apartments sold dropped** rapidly. The above decrease requires a bit more comment. We believe that there are at least three important reasons for this situation. Firstly, the **period of obtaining of administrative decisions** necessary to launch projects on the owned land property turned out to be longer than originally assumed by Management Board. Delays of project due to administrative reasons are a standard problem for the sector, which increased further in the period 2019-2020. In Dekpol, an additional factor delaying investments was the **high debt of the capital group**, especially at the turn of 2018/2019, limiting company's freedom in launching of new projects. The last reason for decrease of sales of apartments volumes was an attempt to **sell of some projects to institutional investors**, which inevitably limited the offer from the point of view of individual clients.



Source: Dekpol, prognosis of DM PKO BP

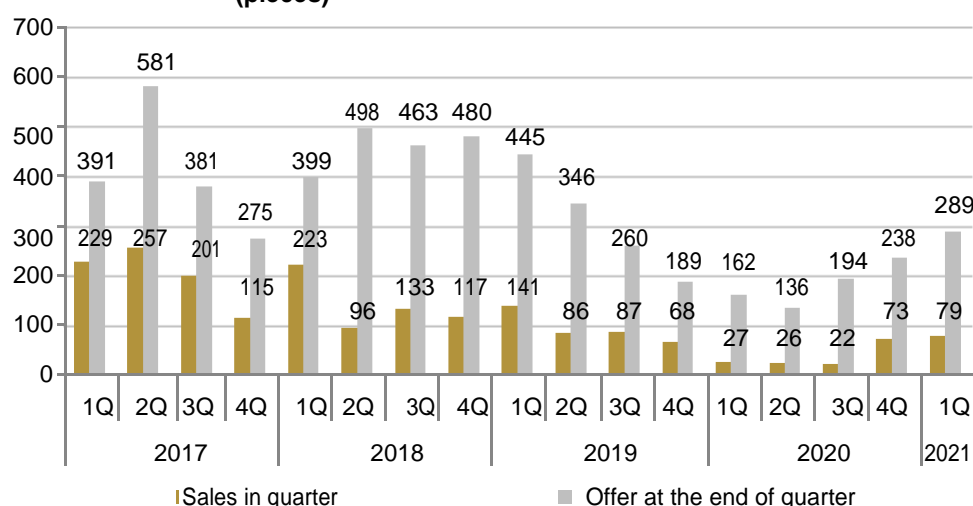
Dekpol

Description of business activities

The last quarters were **crucial** in terms of the **offer and sales**. In Q3 2020, Dekpol launched sales of two high-standard investments on Sobieszewska Island (Lazur Park, Villa Neptun) and Grano Marina Hotel. In the fourth quarter of 2020, the offer was supplemented with an investment from the popular segment in Rokitki near Tczew (Osiedle Kociewskie). These were the first projects in about a year that were included in company's offer.

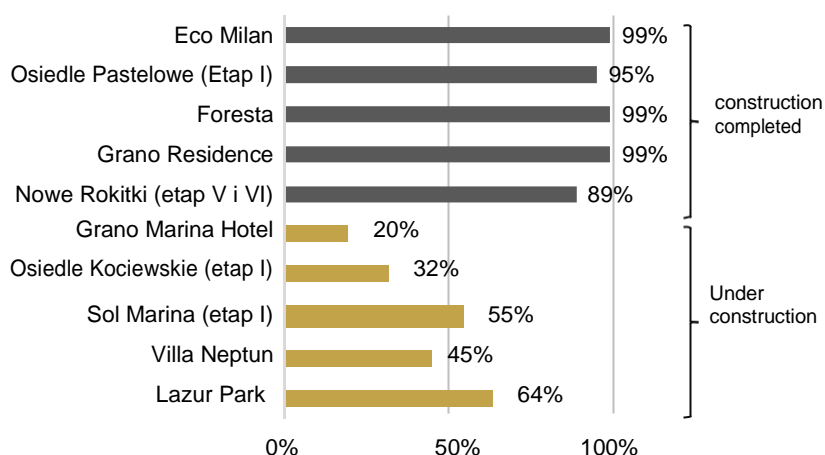
At the end of Q1 2021, there were 289 apartments for sale under ten projects, including five under construction.

Sales and the offer of apartments at Dekpol (pieces)



Source: Dekpol, prognosis of BM PKO BP

Sales of apartments in offer (at the end of Q1 2021)



Source: Dekpol, prognosis of BM PKO BP

Dekpol

Description of business activities

Comparing sales of apartments in 2020, Dekpol is one of the smallest players on the GPW. At the same time, we would like to point out that last year's sales do not reflect the real potential of the company, measured with the owned bank of land. In 2021, Dekpol intends to increase sales to approximately **350 apartments**, which seems to be a realistic goal, taking into account strong increase in sales in Q1 2021 and ambitious plans to increase the offer in the following quarters.

Number of apartments sold by developers listed on GPW

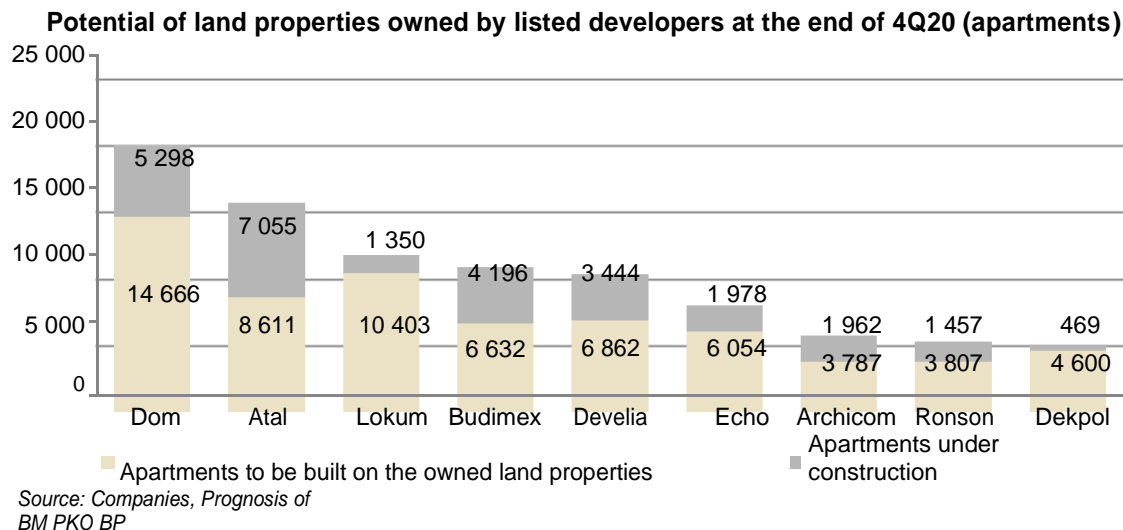
(Apartments)	1Q 21	1Q 20	y/y	4Q 20	q/q	2020	2019	y/y
Dom Dev.	1 084	815	33%	1 130	-4%	3 756	3 661	3%
Atal	848	751	13%	824	3%	2 907	3 180	-9%
Develia	580	311	86%	580	0%	1 361	1 510	-10%
Budimex Nier.	494	541	-9%	473	4%	1 672	1 655	1%
Echo	463	399	16%	464	0%	1 567	1 357	15%
Archicom	377	293	29%	366	3%	1 220	1 462	-17%
Ronson	355	277	28%	257	38%	918	761	21%
JWC	232	210	10%	151	54%	651	1 026	-37%
InPro	219	190	15%	161	36%	635	769	-17%
Lokum	139	47	196%	169	-18%	463	268	73%
Marvipol	83	112	-26%	702	-88%	1 086	942	15%
Dekpol	79	27	193%	73	8%	148	382	-61%
Sum	4 953	3 973	25%	5 350	-7%	16 384	16 973	-3%

Source: Companies, prognosis of BM PKO BP

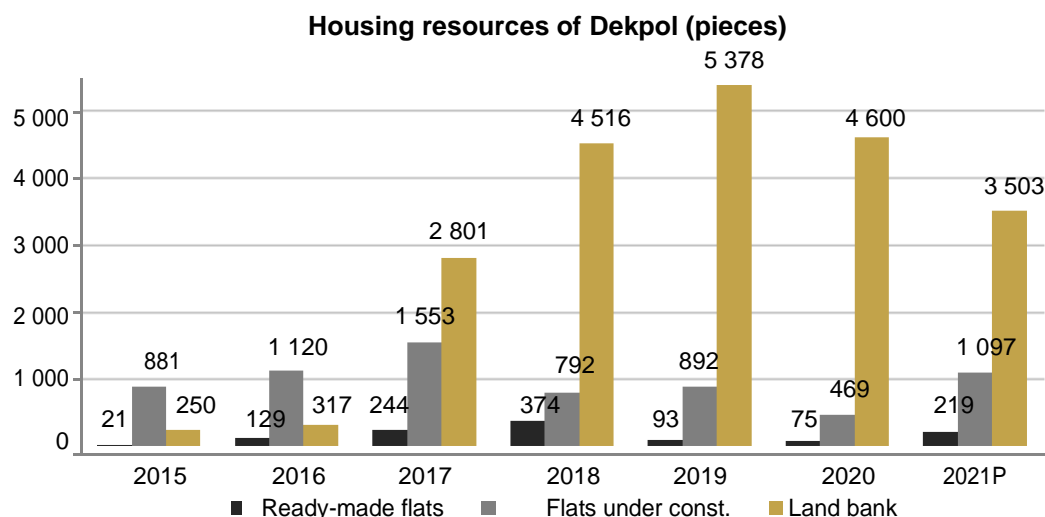
While looking at company's **bank of land**, Dekpol does not stand out so significantly from the listed competitors. The company owns the **bank of land** for approx. **4,6 thousand of apartments** - more than Ronson and Archicom. Last year, Dekpol's problem was the lack of new introductions to the sales offer, but as we wrote earlier, situation in this respect is gradually improving. Treating listed developers as a benchmark, an **efficient developer** should **annually sell** apartments at the level of approx. **20-25% of the owned bank of land** (land bank / annual sales = 4-5x). Achieving the above ratio by Dekpol would mean sales of approx. **900-1100 apartments per year**. Dekpol's moderate geographical diversification justifies a lower rate of sales of bank of land in the future, nevertheless our long-term assumption of long-term sales of around 500 apartments / year seems cautious. We draw attention to the fact that there is **no need to purchase land properties** in upcoming years in order to achieve the above assumption.

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Description of business activities



Dekpol's bank of land has a relatively short history. **Most of ground properties were purchased in 2017 and 2018. The average cost of purchasing land owned by Dekpol amounted approx. PLN 600 / PUM.** Approximately **40%** of apartments which might be built on the owned bank of land are **high-standard investments**, hence in our opinion, the above-mentioned cost of purchase of ground properties was attractive.



Dekpol's real-estate development potential consists of **13 projects** (including several multi-stage projects) with approx. **200,000 m²** of usable area. Six projects are currently in sales. **60%** of premises constitute projects located in **Gdańsk**. Apart from Gdańsk, the largest participation in the bank of land has the multi-stage Osiedle Kociewskie in Rokitki (near Tczew) - approx. 30%.

In terms of the standard, the offer includes projects from the **popular** segment, constituting approx. 60% of the bank of land (Osiedle Kociewskie, Neo Jasień, Osiedle Pastelowe), projects with **increased**

Dekpol

Description of business activities

standard with approx. 20% share in PUM (Lazur Park, Villa Neptun, Baltic Porto, Baltic Line and Fun Park projects located on Sobieszewska, Island as well as the Braniborska project in Wrocław) and **premium** projects - approx. 20% of the owned bank of land (Sol Marina, Grano Resort).

Dekpol Developer investment schedule for upcoming years

City	Investment	Number of stages	2021				2022				2023				2024				2025				2025	
			I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II
Rokitki (near Tczew)	Osiedle Kociewskie	3				121				129						86								
Gdańsk	Neo Jasień	2								104				98										
Gdańsk**	Grano Resort	2											124								320			
Gdańsk**	Grano Marina Hotel	1										131												
Gdańsk	Sol Marina	3			92							127							140					
Gdańsk**	Baltic Porto	1						72																
Gdańsk**	Lazur Park	1				36																		
Gdańsk**	Villa Neptun	1				40																		
Gdańsk**	Soleo Park	1											25											
Gdańsk**	Baltic Fun Park	1														180								
Gdańsk**	Baltic Line	1						60																
Gdańsk	Osiedle Pastelowe	3	180										350											348
Warszawa	Prądyńskiego	1																						
Wrocław	Braniborska*	1																						

 Construction completed
  Under construction
  construction not started

numerical values mean the number of apartments in a given stage

Source: Dekpol * project implemented with an institutional investor ** Sobieszewska Island

The project at **Braniborska** Street in Wrocław has been entirely sold to an institutional investor and will be settled in accordance with the progress of works in years 2021-2023.

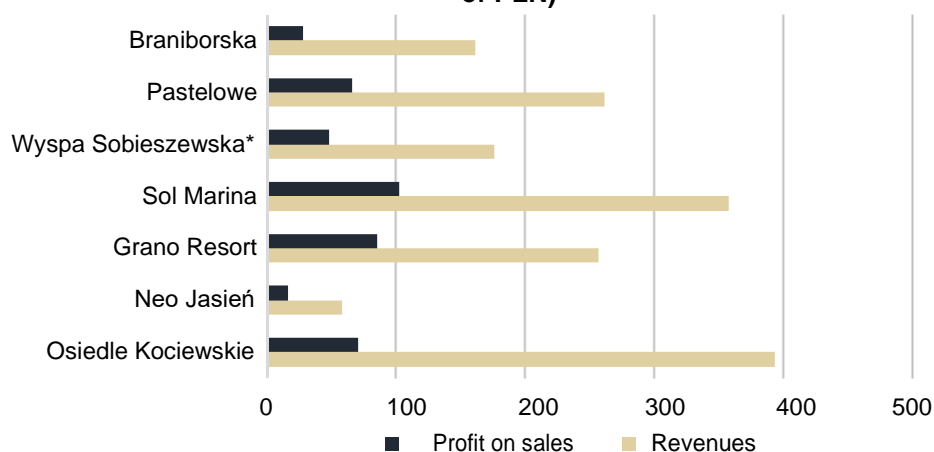
We estimate the **total market value of Dekpol's real-estate development projects at approximately PLN 1.7 billion** (investments under construction and under preparation). With the **1st margin** estimated by us at the level of **25%**, they would bring over **PLN 400 million** of gross profit on sales, mostly to be included in results for years 2021-2026.

The three most important projects of the company, responsible for over 60% of our forecasted profits from real-estate development projects, are: **Grano Resort**, **Sol Marina** and **Osiedle Kociewskie**.

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Description of business activities

Forecasted revenue and profit from Dekpol's projects
(In millions of PLN)



*Projects: Lazur Park, Villa Neptun, Baltic Porto, Baltic Line, Fun Park, Soleo Park
Source: Dekpol, estimates of BM PKO BP

Selected projects

Sol Marina



Investment is being implemented on the **left bank of the Martwa Wisła river**, west of the bridge leading to Sobieszewska Island, on a ground property of approx. 11 ha. The complex will consist of low-rise apartment buildings (apartments ranging in size **from 33 to 132 m²**), one **high-rise building** (10-story condo hotel) and a **marina for small yachts**. Each apartment will have a parking space and its own berth. As a part of the estate the Company will also build a two-storey master's office with a restaurant, banquet and conference room. **Construction of next stages (condohotel, apartment building) will start in this year.**

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Description of business activities

Grano Resort:



A ground property with an area of 5 ha was purchased in a tender at the beginning of 2017 for PLN 7 million (<PLN 300 / PUM) from Agencja Mienia Wojskowego (Military Property Agency). It is located in the western part of **Sobieszewska Island**, surrounded by a forest, about 500 meters from the beach. The company aims to implement on the ground property a condohotel project in four stages with approximately **750 apartments**. **Works are scheduled to start in the third quarter this year.**

Osiedle Kociewskie



Osiedle Kociewskie is a project implemented in **Rokitki, 2 km from Tczew**. As a part of this estate planned for many stages, 3 buildings have already been constructed, with **121 apartments** in total (with apartments with an area ranging from 27 to 55 m²). **Implementation of the next stage will begin in the third quarter this year.**

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Neo Jasień



Investment is being implemented at ul. Potęgowska, between ul. Armii Krajowej and the Tri-City ring road, east of Lake Jasień, approx. **7 km from city center of Gdańsk**. During the first stage, under construction remain **104 apartments** with areas ranging from 34 to 71 m². **Implementation of the first stage began in the second quarter this year.**

Lazur Park



Lazur Park is being implemented on **Sobieszewska Island**, at ul. Kwiatowa. Investment includes **36 apartments** with an area ranging from 27 up to 58 m². **Completion of construction works is scheduled for the fourth quarter this year.**

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Description of business activities

Villa Neptun



This investment consists of two three-story buildings located at ul. Nadwiślańska near the Water Tram Marina at the bank of Martwa Wisła river. **Villa Neptun offers 40 apartments** with an area from 28 up to 58 m². Residents of the estate will have at their disposal, among other things, dry sauna. **Completion of construction works is scheduled for the fourth quarter this year.**

Osiedle Pastelowe:



As a part of multi-stage investment located in Gdańsk - Łostowice, will be constructed four-story buildings with approx. 1300 apartments in total. The first stage of the investment for 180 apartments was put for sales in H1'19. **Construction of the second stage for 350 apartments has started this quarter.**

Dekpol

Description of business activities

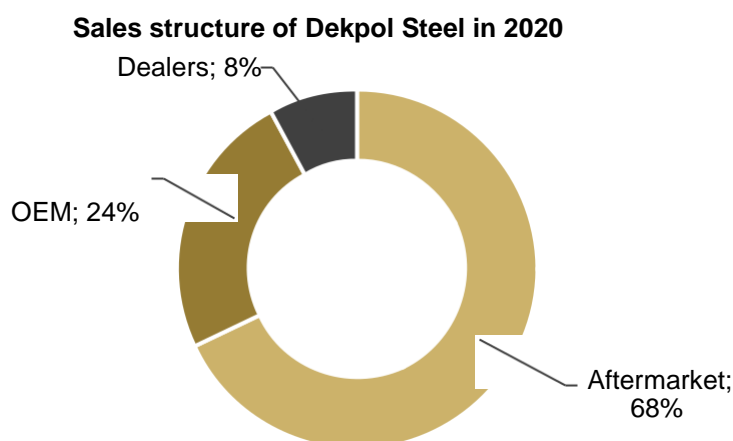
Production activity

Dekpol Steel

Dekpol Steel deals with production of accessories for construction machines. Within less than 9 years of business operations, the company achieved position of the **largest manufacturer of buckets and accessories for construction machines in Central Europe in terms of both – portfolio and revenues.**

Company's offer includes buckets for excavators, loaders and telescopic lifts, used, among other things, by in quarries, gravel pits, earthworks or in agriculture. Nonetheless, the company can adapt to customer requirements and produce any type of bucket.

Buckets are sold to three types of customers: *aftermarket*, *OEM* (manufacturers of original equipment such as CAT, Volvo and Komatsu) and *dealers*. The company supplies its products to recipients from 24 countries.



Source: Dekpol

Until now, almost entire production was intended for export, which in 2020 accounted for 90% of sales. In 2020, Dekpol Steel expanded domestic sales department. Currently, the company wants to build its own sales network, i.e. under the Dekpol Steel brand in France, Germany and in the USA. In particular, in the US market, the company counts on even higher margins.

Dekpol Steel disposes of production halls with an area of approx. 10,7 thousands of square meters (with monthly processing capacity of approx. 850 tons of steel) and obtained a permit to expand halls by another 10 thousands of square meters, from which this year the Company wants to expand the plant by approx. 4.5 thousands of square meters. The company also has for its own disposal approx. 5.2 thousands of square meters of warehouse space in total.

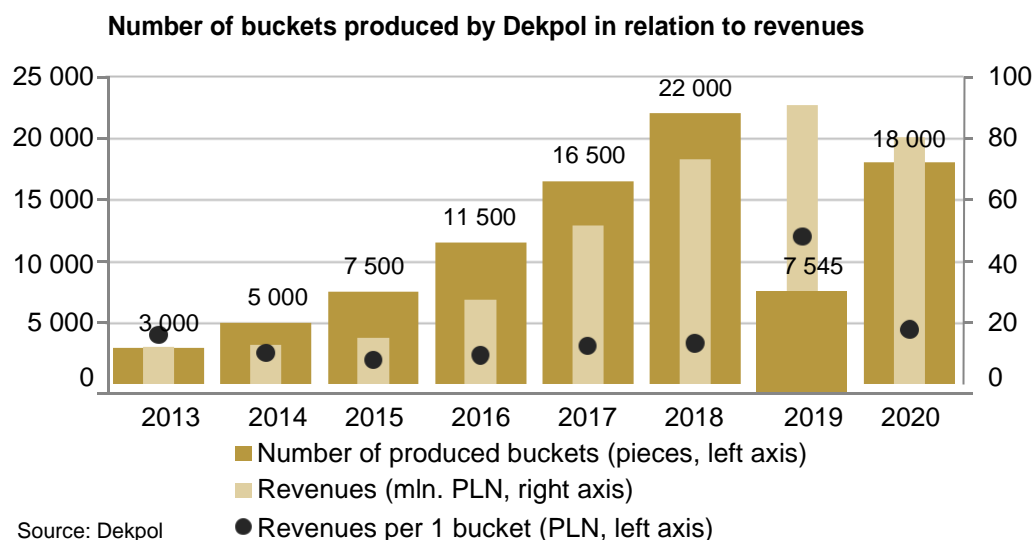
Between 2013-2018, production of buckets grew at an average rate of approx. 50% annually, reaching the level of **22,000 pieces** in 2018. Decrease in the number of buckets produced in 2019 by 66% was due to increased production number of large-size buckets. In 2020, Dekpol Steel has already increased production in terms of quantity and produced approx. 18,000 buckets, including for small and medium excavators.

Dekpol

Description of business activities

It is worth to mention, that the number of buckets produced does not have to correspond directly into revenues.

Production of large-size buckets in 2019, although relatively small in terms of quantity, brought record revenues for the segment, as can be seen in the chart below.



Due to pandemic, in **2020**, the business results of Dekpol Steel suffered - in particular due to reduction in the number of orders from large producers especially in Q2. Nevertheless, the company effectively used the last year by focusing on **development of production capacity and efficiency production**, expansion of the machine park, automatization of some of production processes and recruitment of new employees. All these activities are intended for increase of production, acceleration of production process and reduction of costs.

As a part of diversification of revenue sources, in 2020 the company also managed to acquire many **new customers from the European market**, such as Hitachi (from Q1 this year, Dekpol Steel became an authorized supplier for Hitachi), Steelwrist and SMP.

In August last year, the Company started business talks with the largest manufacturer of construction machines in the world - **Caterpillar**, regarding **transfer of some part of production to Dekpol Steel**. As a part of preparation for implementation of new orders, Dekpol Steel began the process of implementation of all processes and requirements of a new recipient. The company has already started production of two product groups for Caterpillar. The entire **implementation process will be spread over time until 2024**.

Betpref

In 2018, Dekpol bought a property in Toruń for approx. PLN 10 million, on which the company started production of concrete prefabricates. Acquisition was dictated by willingness to ensure continuity of supplies of prefabricates used under performance of contracts in general contracting segment. Ultimately, approximately 50% of products manufactured by the plant are to be sold externally.

Dekpol

Description of business activities

In 2020, Betpref Sp. z o.o. launched a plant in Pinczyn which produces light and heavy steel structures, steel profiles and facade panels, with a monthly throughput of 250 tons.

The products are used mainly for own needs in the implementation of industrial and warehouse contracts.

Dividend policy

Dekpol has not adopted a dividend policy. Recommendation of Management Board concerning a possible dividend payment for a given year takes into account provisions of covenants specified in Terms of Conditions of Bond Issue and loan agreements, according to which the **dividend payment may not exceed 30% of consolidated net profit.**

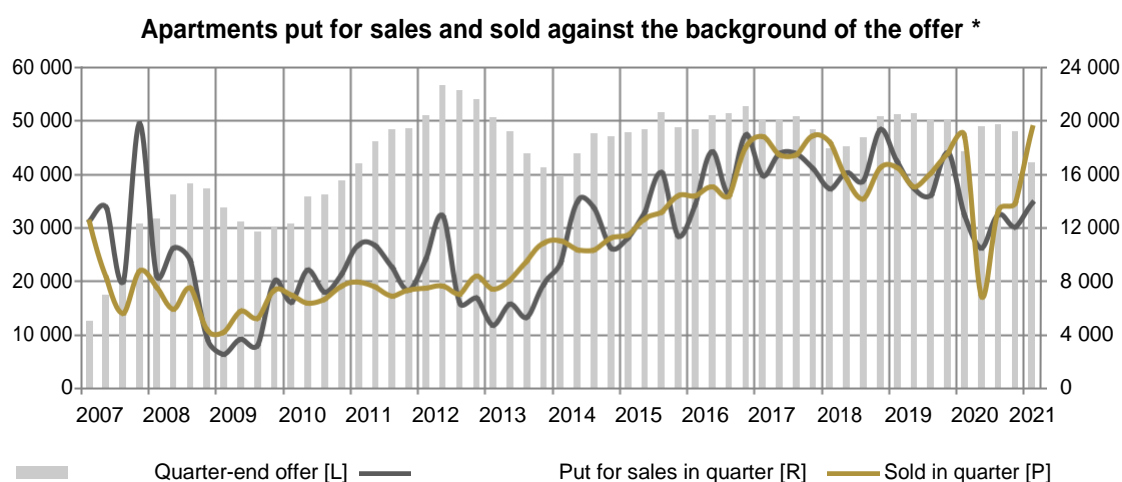
Dekpol

Market environment

Housing market

Data from the housing market in Q1 2021 show that the housing market in Poland rebuilt very quickly after the earlier decline caused by COVID-19 pandemic.

In the six largest markets in Poland, **sales of apartments** during lockdown in 2Q 2020 decreased by 54% y/y. Demand for apartments rebounded strongly in Q3 2020 and Q4 2020, although sales were still almost 20% lower y/y. The record-high sales of apartments in Q1 2021 (+ 3% y/y) is already showing the first symptoms of market overheating, especially due to accompanying decline in the offer of apartments. Entire **offer** in the largest cities in Poland **dropped in 1Q 2021 to the level of the year 2014**.



Source: JLL, *aggregated data for Warszawa, Kraków, Wrocław, Trójmiasto, Poznań and Łódź

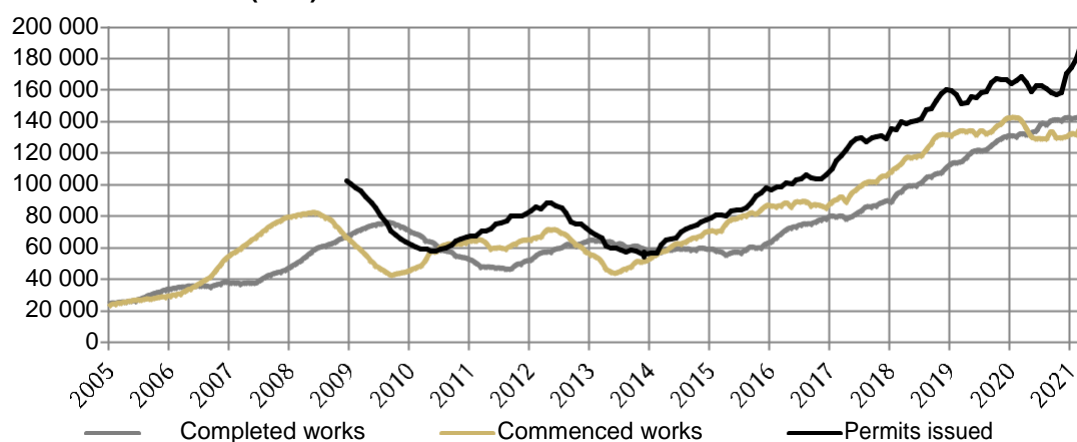
While the low **supply of apartments** in Q2 / Q3 could partially result from deliberate decisions of real-estate developers who, fearing a deep crisis, refrained from commencing to investments, the already low number of new investments in Q4 2020 and Q1 2021 seems to indicate a significant deterioration of effectiveness of public administration, responsible for issuing of decisions on construction permit, and increasing problems in securing of ground properties by real-estate development companies.

In terms of **construction permits**, national data of GUS (chart below) indicate a strong increase in the number of decisions issued at the turn of 2020 and 2021, which, in our opinion, is related to changes in premises of construction law, which resulted in a significant increase in the number of applications for projects, construction of which shall start in the long-term period. In addition, strong increase in permits issued does not apply to large agglomerations. For example, in Warszawa in Q1 2021, the number of construction permits issued fell by 20% y/y.

Dekpol

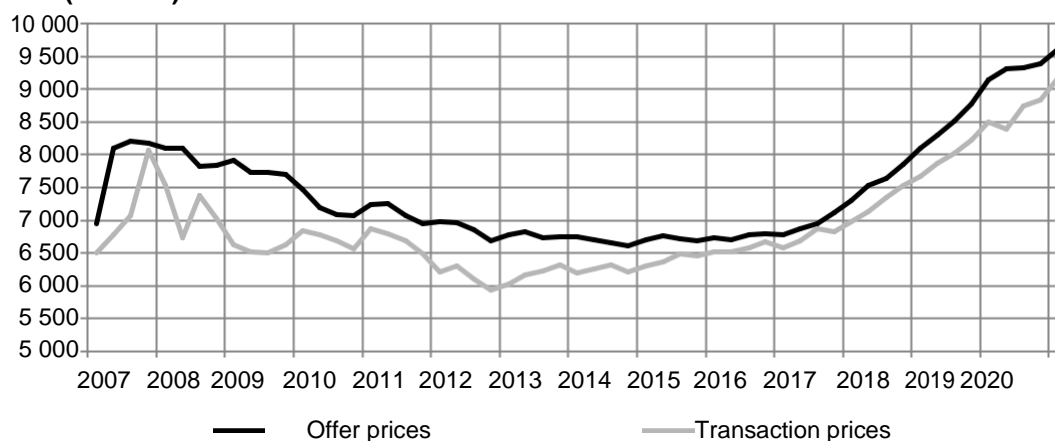
Market environment

Commenced and completed construction works, permits issued in Poland (12M)



In the first months of the crisis (March / April 2020), the majority of listed real-estate developers decided to increase their discounts or to reverse recent increases in the offer prices of apartments. Real-estate developers withdrew relatively quickly from the above-mentioned policy amid the rapid return of demand in Q3 2020. According to the NBP data, offer prices and transaction prices of apartments in **Q1 2021** were **5-7% higher than in the period preceding the outbreak of the crisis**, which only indicates a slowdown in the upward trend in prices.

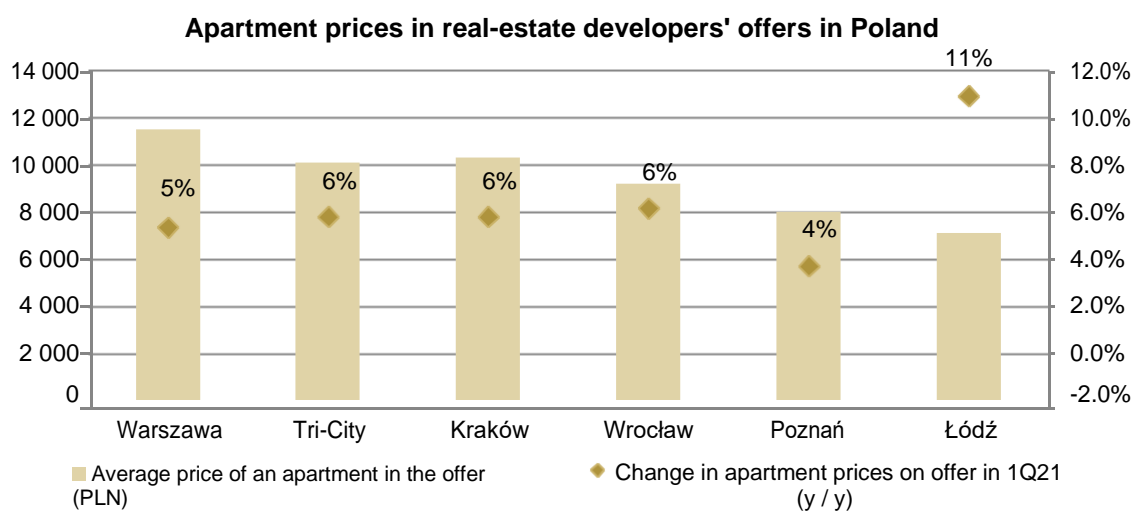
Transaction and offer prices of apartments on the primary market in Poland (PLN/m²)*



Similar conclusions can be reached from JLL's data about the average price of apartments offered by real-estate developers, which in 1Q 2021 increased by about 5% y/y in most large cities in Poland. The average offer price in the **Tri-City**, where Dekpol mainly operates, in 2020 exceeded **PLN 10,000 per m²** and is approx. 12% lower than the average price in Warszawa and close to the average prices in Kraków.

Dekpol

Market environment



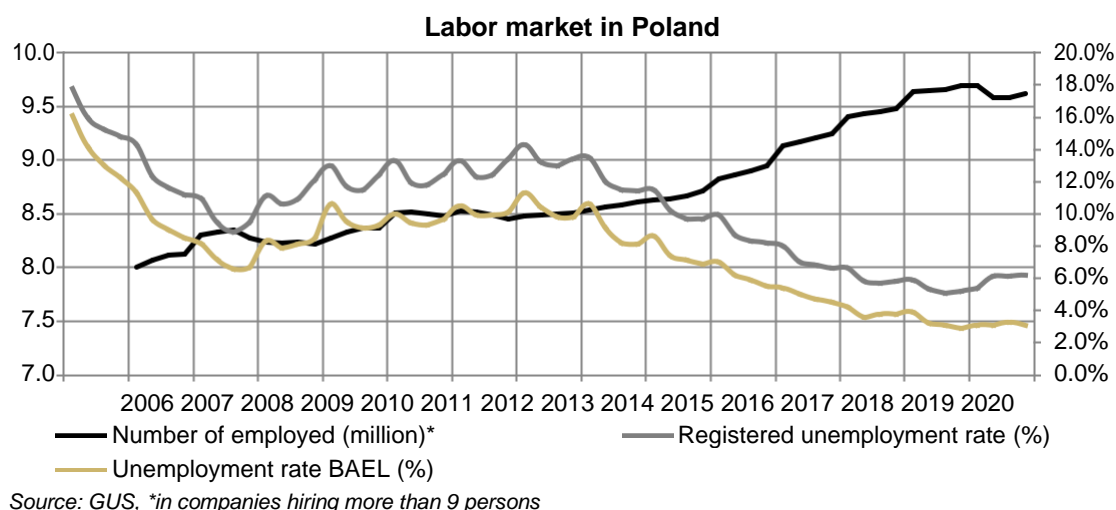
We believe that the "**Polski Ład**" (Polish Deal) programme presented by the Polish government in May this year will have an additional pro-inflationary impact on the housing estate market in Poland. The programme provides for a system of government guarantees up to PLN 100,000, which will enable citizens to obtain a loan for 100% LTV while purchasing an apartment. The details on the programme are not known yet, but it provides for a price cap for an apartment, which in our opinion will increase prices of apartments in the lowest price category. In longer term, the government programme should also increase supply of real-estate development projects in the lower segment. From Dekpol's point of view, we expect an increase in demand for three multi-stage projects: Osiedle Kocięwskie, Neo Jasień and Osiedle Pastelowe, the profitability of which may improve after initiation of the programme, most likely in 2022.

Long-term demand for apartments in Poland was and, in our opinion, will remain high in upcoming years. **The factors that allowed the housing market to flourish** in 2015-2019 and maintain its relative strength during ongoing pandemic are the very good condition of the **labor market** and record low **interest rates**.

The labor market has naturally suffered, but the scale of the problem seems much smaller than it was thought at the beginning of pandemic. **Unemployment rate** in Poland increased by 1 percentage point during the year, up to **6.2%** in 4Q 2020. At the same time, the average monthly salary in the economy increased by **5.0% y/y** up to **PLN 5,458**.

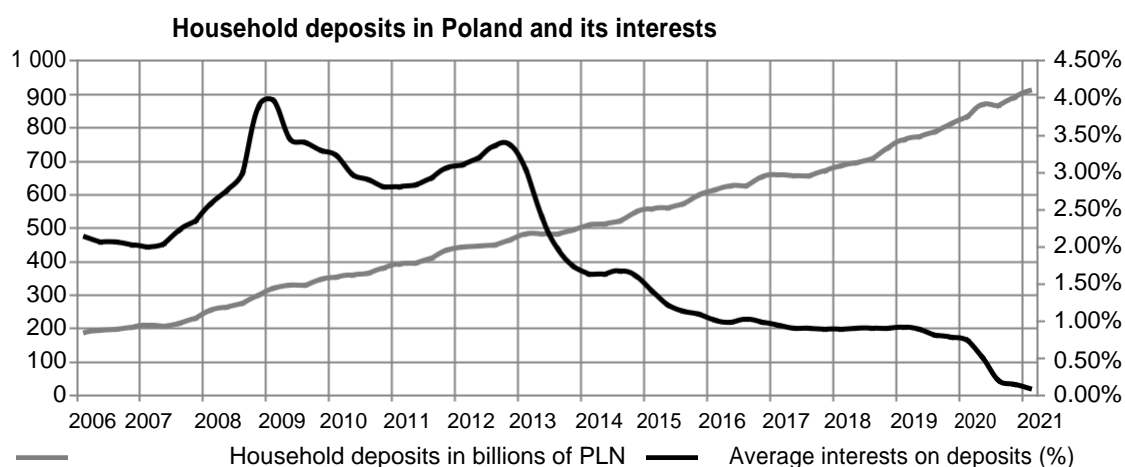
Dekpol

Market environment



In terms of interest rates, last year's RPP decisions on **three cuts of reference rate** by jointly 140 bps. up to **0.1%** constituted huge support for housing demand, for at least two reasons.

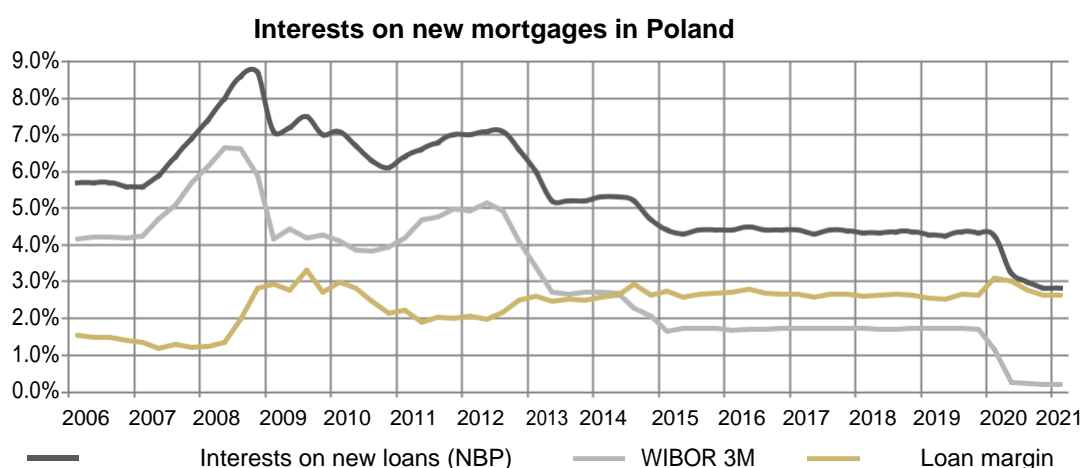
Firstly, record low interest rates contributed to a **strong decline in interest rates on household deposits** to an average of **0.1%** in March this year, **reducing the tendency to spare money on bank deposits**. In the past few years, the average interest rate on deposits was around 1%, which was low enough to direct people with cash towards housing market. We believe that this trend will strengthen in current environment. Excess liquidity in the banking sector means that banks will not compete with each other on interest rates on deposits. Despite the ongoing crisis related to the pandemic, the **value of household deposits** amounted to **PLN 912 billion** at the end of March (+ 9% y / y).



Dekpol

Market environment

Secondly, **interest rate on new mortgages** fell by over 30% y/y to the historically lowest level of **2.8%** in March 2021. We estimate that the average loan margin has not changed significantly over the last year, pointing to strong competition between banks in Poland. Lower interest rates **increase creditworthiness**, increasing potential group of apartment buyers.



Source: NBP, estimates of BM PKO BP

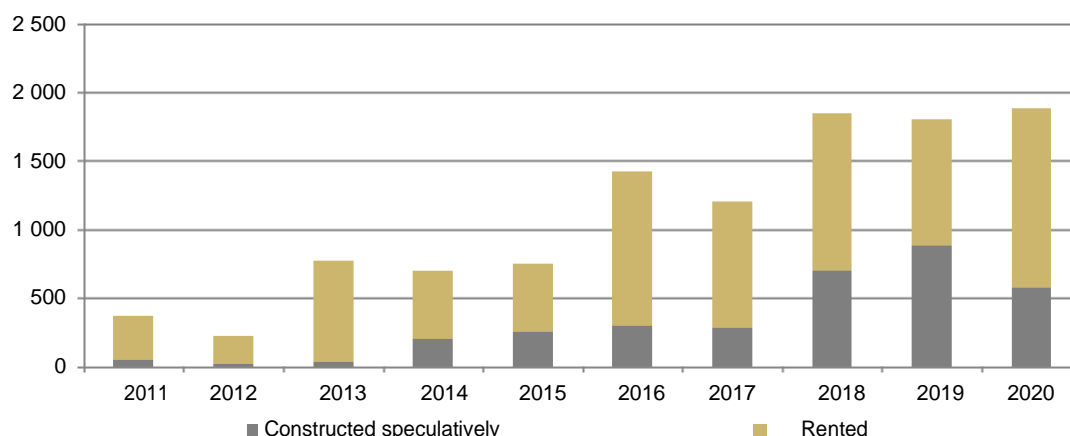
Warehouse market

General contracting segment in Dekpol specializes in orders on an industrial-warehouse market. Activity of warehouse developers increased significantly in 2018 and has remained at a stable, high level since then. During COVID-19 pandemic, developers reduced the number of speculative projects. Due to the strong demand, the share of rented spaces in total production increased to approx. 70% at the end of 2020 from approx. 50% at the end of 2019.

Dekpol

Market environment

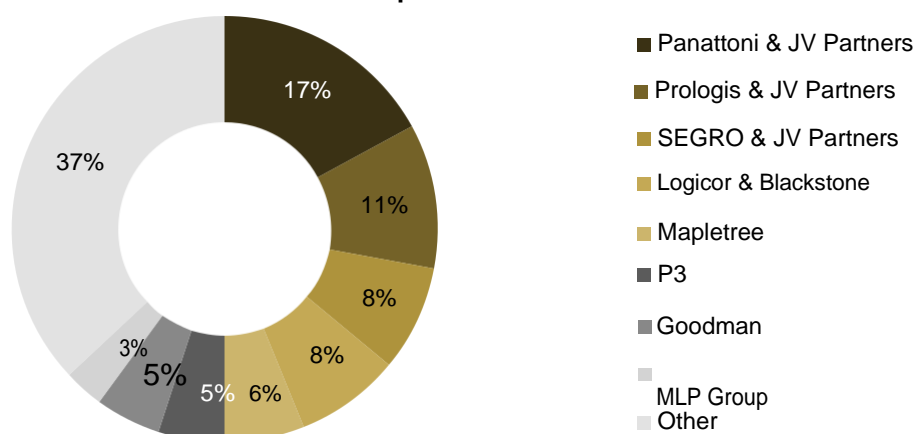
Warehouse space under construction in Poland (at the end of the period, thousands of m²)



Source: JLL

Demand for warehouse spaces remains at a very high level. In 2020, **4.8 million m²** of warehouse space were leased in Poland, which is the third place in Europe after Germany and Great Britain. **Commercial, e-commerce and logistics** sectors have invariably remained the main drivers of market growth in Poland. The above-mentioned industries already reported increased demand for warehouses before 2020, and the crisis caused by COVID-19 pandemic additionally accelerated this trend.

Owners of industrial spaces in Poland



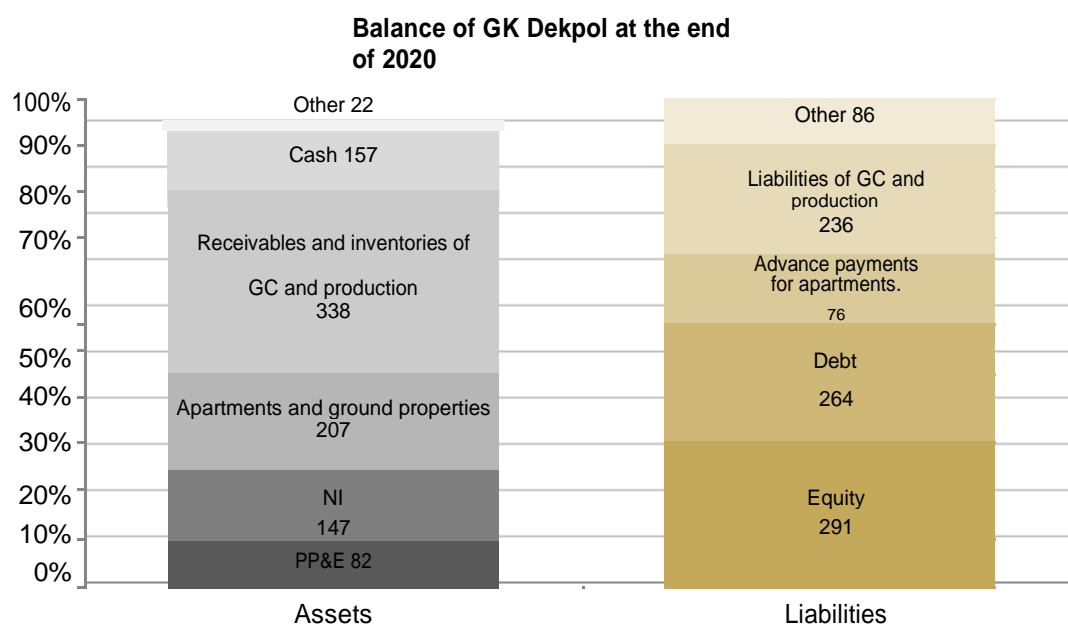
Source: JLL, 08'19

Dekpol

Selected financial data and forecasts

Assets

strong increase in scale of Dekpol's business operations was visible in the **balance sheet total**, which in the period **2014-2020** increased almost 4.5x, to over **PLN 1 billion**, and equity almost 4x to **PLN 290 million**.



Source: Dekpol., estimates of BM PKO BP

At the end of 2020, **fixed assets** accounted for **26% of the balance sheet total (PLN 253 million)**. Almost 60% of the above amount (PLN 147 million) relates to the **investment properties**, which consist of:

- Hotel Almond in Gdańsk
- Property at ul. Braniborska in Wrocław
- Properties in Gdańsk Sobieszewo (5.6 ha)
- Property Sol Marina in Gdańsk (3.0 ha)

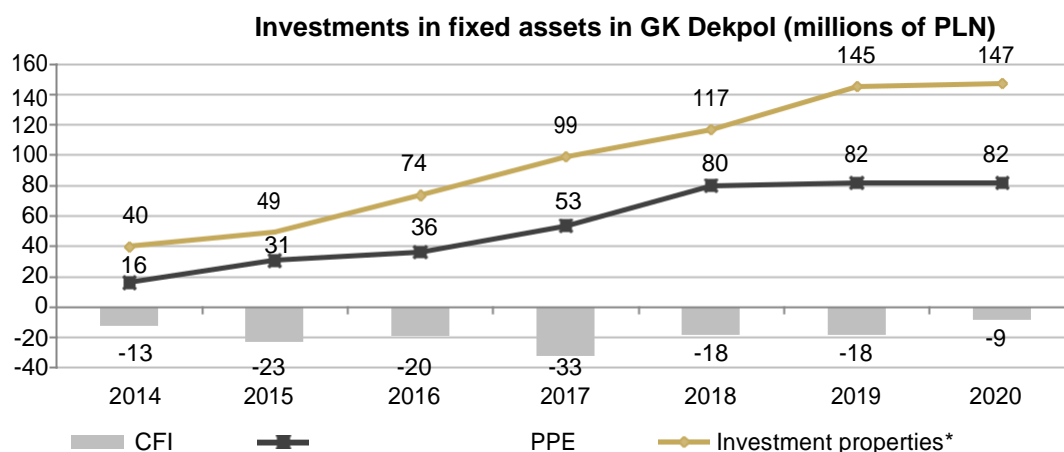
The four-star **Hotel Almond**, located at ul. Toruńska 12 in Gdańsk is the most valuable asset not related to the core business of the company.

On the properties of **Sol Marina** and in **Sobieszewo**, the company intends to implement real-estate development projects in upcoming years. Placing of the above ground properties in investment properties (and not in inventory) results, among other things, from the longer period necessary to prepare the project or the undefined use of the property.

Remaining long-term assets are related to production and construction activities of the group. Until 2019, Dekpol was investing heavily in fixed assets (on average about **PLN 20 million per year**). Increase in the value of **tangible fixed assets** resulted from intensive development of all business segments, in particular in expansion of manufacturing plant of accessories for construction machines in Pinczyn. In **2020**, the company significantly **reduced CAPEX**.

Dekpol

Selected financial data and forecasts

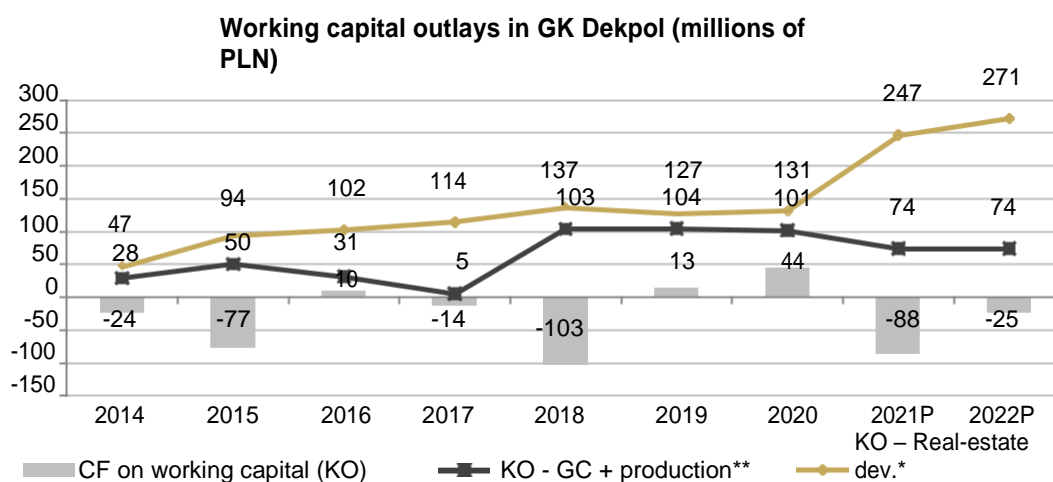


Source: Dekpol, estimates of BM PKO BP, *investment properties in 2014-2015 corrected

Moving on to **current assets**, due to large investments in ground properties and significant increase of the number of projects under construction - an increase in construction expenditure, between **2015-2017**, the main consumer of Company's cash remained the real-estate development activity.

Since **2018**, the real-estate development segment continued to consume cash, and the company experienced a **strong outflow of cash in connection with ongoing construction agreements**. It was a common phenomenon in the construction industry in that period, and in Dekpol it was additionally justified by huge increase of segment's revenues.

The last two years have been a period of stabilization of outlays on working capital in Dekpol. In the period **2021-2022**, we expect a **greater involvement of cash in housing estate segment** due to the planned start of new construction projects.



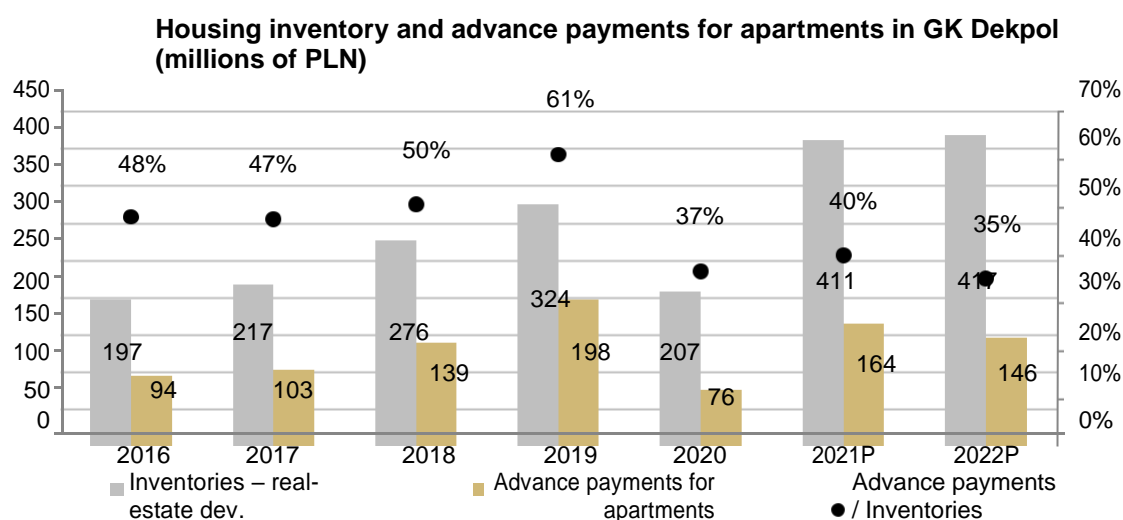
Source: Dekpol, estimates of BM PKO BP, *ground properties + apartments under construction + finished apartments - advance payments for apartments, **inventories + receivables - liabilities + valuation of contracts

Dekpol

Selected financial data and forecasts

Investment cycle in real-estate development segment is clearly visible when comparing housing inventories and advance payments from customers. In **2018-2019**, Dekpol invested over PLN 100 million in residential projects, almost entirely financed with advance payments from clients. During this period, Dekpol sold apartments at an early stage of construction, achieving a sensational ratio of advance payments to inventories at the level of over 60% at the end of 2019. In this way, the company avoided excessive indebtedness in the period of strong demand for cash in the construction segment.

Decline in inventories and advance payments in 2020 is associated with record handovers of apartments (high influence of the Grano project). In years **2021-2022**, number of apartments for sale offered by Dekpol will increase again due to launching of new projects. In our opinion, stronger cash position of the company allows Dekpol to compete more effectively for margin in real-estate development segment in upcoming years without the need to increase the pace of sales. We assume a slower pace of inflow of advance payments comparing to previous years.



Source: Dekpol, estimates of BM PKO BP

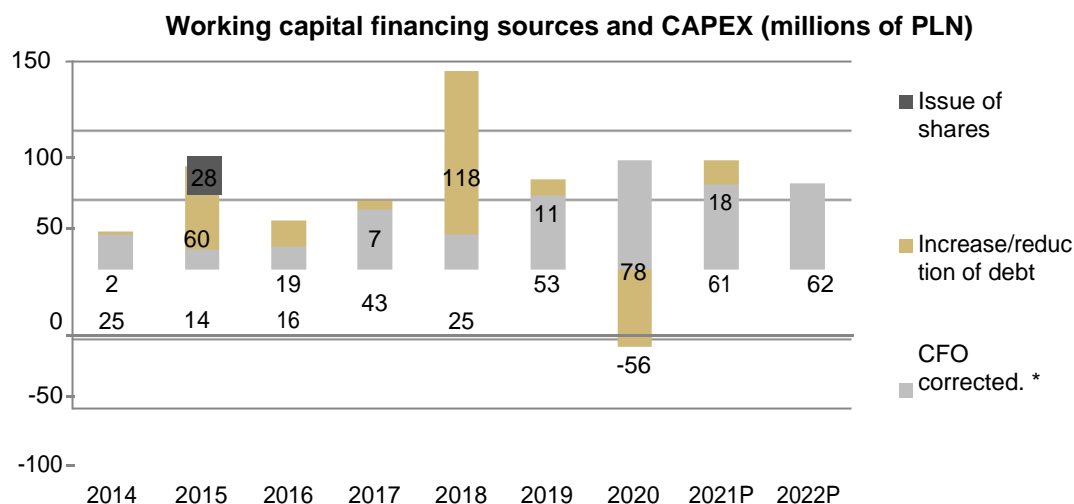
Sources of financing

Until 2018, the main source of financing of company's capital needs was debt (loans and bonds). In recent years, however, Dekpol begun to enjoy the fruits of earlier investments. In 2020, the group generated over **PLN 78 million** in cash **from operating activities** (after interests, excluding changes in working capital).

Generated cash from operating activities allowed Dekpol to repay partially the debt in 2020. At the same time, the company closed the year with the historically highest level of cash in the amount of PLN 157 million.

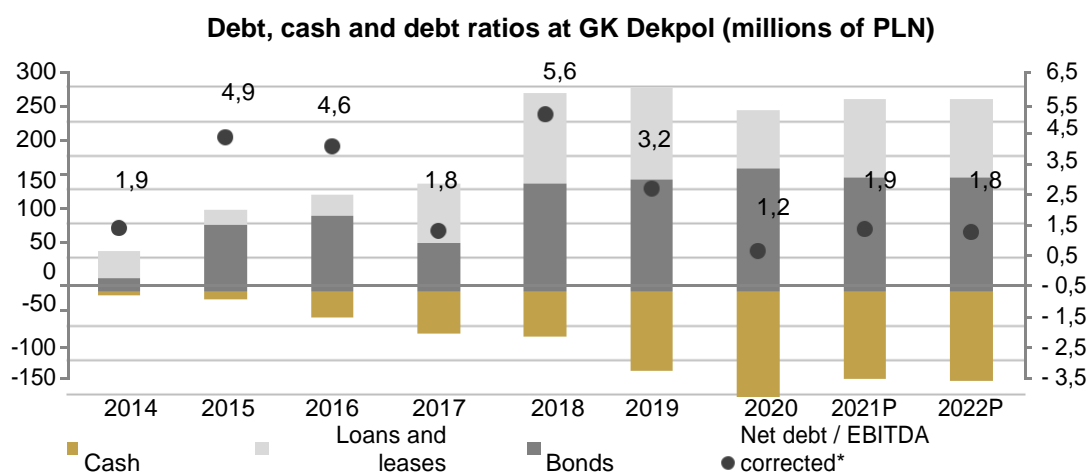
Dekpol

Selected financial data and forecasts



Source: Dekpol, estimates of BM PKO BP, *CFO corrected - cash flows from operating activities after interest cost, unchanged in net working capital

The ratio of **net debt / EBITDA adjusted** peaked in **2018** in the amount of **5.6x**. Decrease in the number of launched real-estate development projects, combined with a strong improvement of financial results, resulted in decrease in the ratio to **1.2x** at the end of **2020**. In the next two years, we expect, that Dekpol's net debt will increase again, but on a much smaller scale than it was in the past. We believe that current liquidity situation of Dekpol gives the company the space for stronger growth or dividend payment.

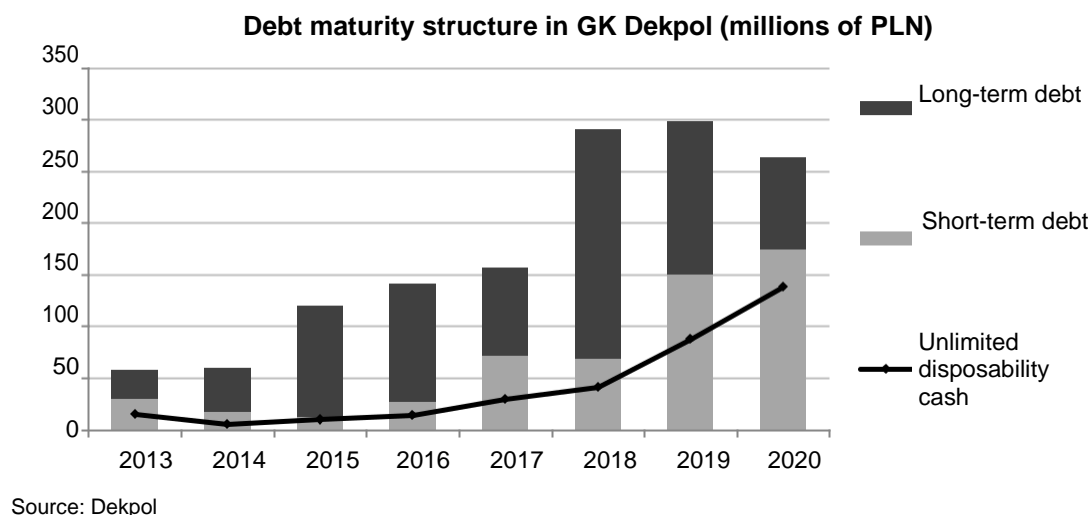


Source: Dekpol, estimates of BM PKO BP, * EBITDA corrected by profit on valuation of investment properties.

At the end of 2020, most of the debt was short-term liabilities, including PLN 97 million of bonds. In the first months of 2021, **Dekpol refinanced all short-term bonds**.

Dekpol

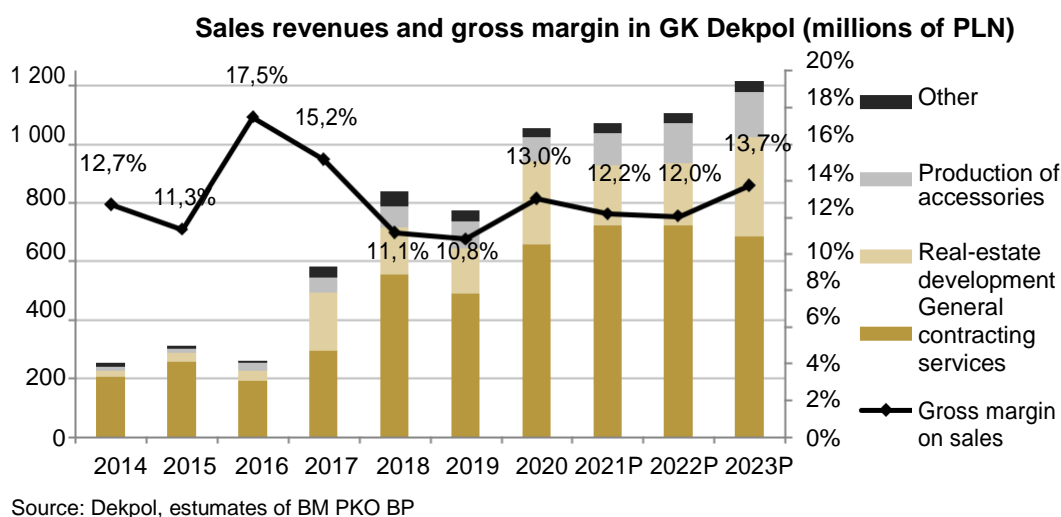
Selected financial data and forecasts



Results in segments

In terms of achieved financial results, **2020** was the best year in Dekpol's history so far. Group's revenues broke through the PLN 1 billion barrier with simultaneous improvement in the operating margin. The company owes such a good result to a strong growth in the real-estate development segment (recognition in revenues of good profitability projects), as well as noticeable improvement in results of general contracting segment.

For the years **2021-2022**, potential for handover of apartments is lower, but thanks to the very good situation in warehouse construction and with rapidly growing segment of production of accessories for construction machines, Dekpol should keep **revenues at the level of approx. PLN 1.1 billion** and a two-digit gross margin on sales. A broad bank of land in the real-estate development segment should be a source of improvement of group's results after 2022.



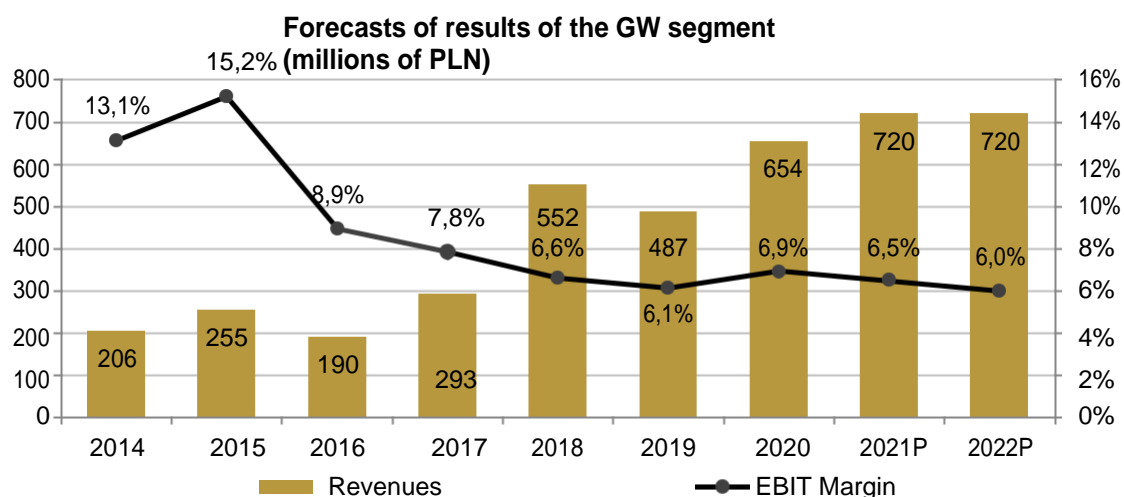
Dekpol

Selected financial data and forecasts

General contracting: In the general contracting segment, we forecast an increase in revenues in 2021 on the level of 10% with simultaneous decrease in **EBIT margin** to **6.5%**, compared to approx. 6.9% one year earlier.

The year 2020 was a record year for construction segment. The company was able to take advantage of the very good situation on the **warehouse market** since 2018. Due to the short investment cycle in warehouse contracts, Dekpol did not experience a temporary breakdown in profitability, which was a common phenomenon in the industry in 2018.

Numerous contracts acquired by Dekpol in recent months and optimistic long-term forecasts on demand for warehouse spaces indicate that the general contracting segment should remain a strong pillar of Dekpol's business operations. In years **2021-2022**, we expect, that **segment's results will stabilize at a high level**.

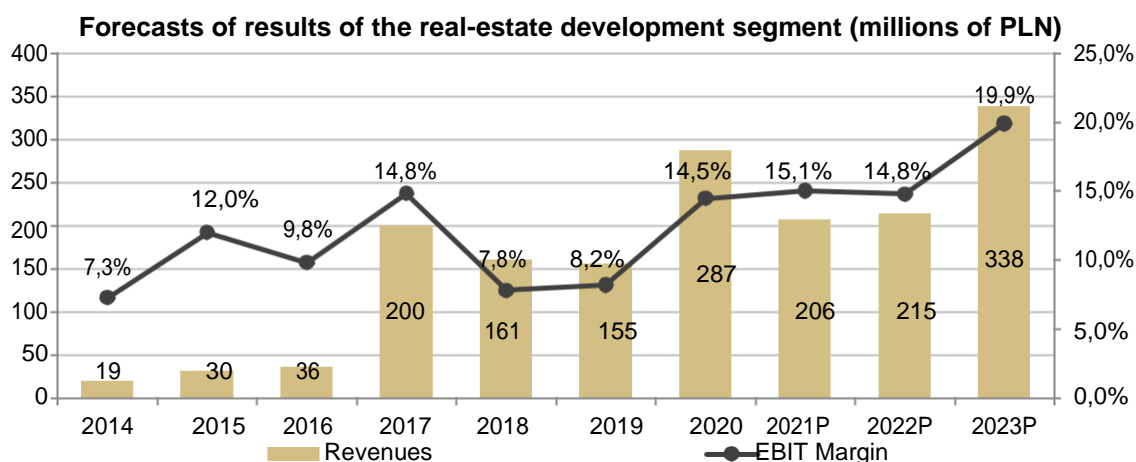


Source: Dekpol, estimates of BM PKO BP

Real-estate development activity: In 2020, in real-estate development segment the company observed **rapid growth of revenues and margins**. We estimate that significant investment slowdown in the second half of 2019 and 2020 will translate into a lower number of transfers and lower financial results in **2021-2022**. However, Dekpol's extensive bank of land offers perspectives for potential further increase in segment's results in 2023.

Dekpol

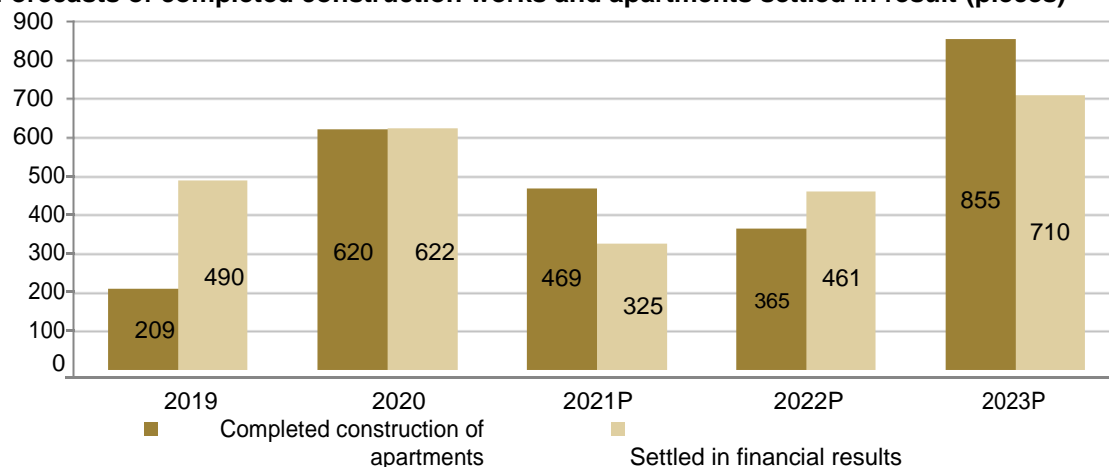
Selected financial data and forecasts



Source: Dekpol, estimates of BM PKO BP

Excellent financial results of Dekpol in **2020** were the result of **completion of construction of over 600 apartments**, most of which were sold at the construction stage and were efficiently handed over to buyers (and settled in financial result). Among investments settled in 2020, about **40%** provided the **Grano** project, located on Granary Island (Wyspa Spichrzów) in Gdańsk.

Forecasts of completed construction works and apartments settled in result (pieces)



Source: Dekpol, estimates of BM PKO BP

Potential of handover of apartments for the year **2021** is significantly lower. Although the company will finalize construction of almost 470 flats, in case of over 200 apartments, expected completion date is scheduled for Q4 2021 (small projects on Sobieszewska Island and the first stage of Osiedle Kociewskie in Rokitki in the popular segment; we assume that revenues from these projects will be mostly included in revenues for 2022).

In Q1 2021, Dekpol completed construction of the first stage of **Osiedle Pastelowe** (popular segment, estimated price PLN 5,000-5500 net/m²), and in Q2 should be finalized the first stage of the flagship **Sol Marina** investment project (luxury segment, estimated price 15,000+ PLN net/m²). Despite the fact, that in 2021 we expect the handover of about 80 apartments from Sol Marina project (for a total of 92 apartments in the initial stage) only, this project will be of key importance for this year's results due to the high price and expected good profitability.

Dekpol

Selected financial data and forecasts

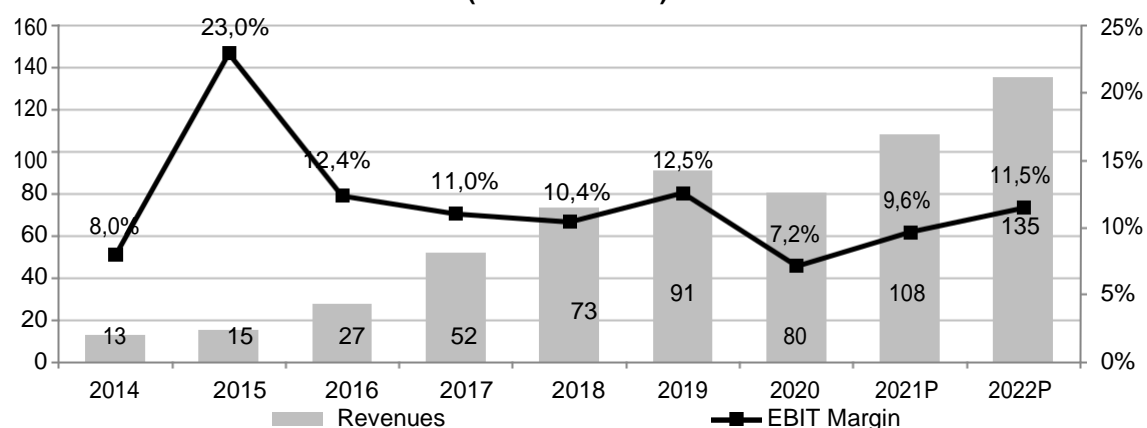
In our forecasts we assume, that in Q3 2022 Dekpol will accomplish two projects from the popular segment (**Neo Jasień** - 104 apartments and the second stage of **Osiedle Kociewskie** - 129 apartments) as well as two higher standard projects on the Sobieszewska Island (**Baltic Porto** - 72 apartments and **Baltic Line** - 60 apartments). With investments completed in 2021, we are counting on joint handover of approximately 460 apartments in 2022.

In addition, for 2022, we assumed the first revenues from **sales of investment at ul. Braniborska to an institutional client**. Selling price was set at the level of approximately **PLN 150-160 million**. We assume that the investment will be **settled in years 2021 and 2023** proportionally to the construction progresses.

Production of accessories for construction machines: Unlike other segments, where the COVID-19 pandemic did not have a negative impact on results (General Contracting) or will affect them in the following quarters (shifting of real-estate development investments), **results of the steel segment of Dekpol suffered significantly in 2020**. Despite the strong rebound in revenues in H2 of the year, Dekpol Steel, as the only one from the group, recorded a negative sales dynamic throughout 2020. Due to reduction in the number of orders, segment's **revenues decreased by 12% y/y in 2020, and operating profit by almost 50% y/y**. Many aftermarket and OEM purchasers have extended their holiday downtime by taking advantage of financial support in their respective countries.

We believe that in the long-term perspective, **segment of production of accessories for construction machines has the best growing perspectives**. Dekpol Steel continues to strengthen its brand on global markets. The company invests in sales network, production optimization and automation as well as new production capacities. We expect, that in 2021 **Dekpol Steel will return to the high dynamics of revenues and will improve profitability in relation to the year 2020**.

Forecasts of results of the segment of production of accessories for construction machines (millions of PLN)



Source: Dekpol, estimates of BM PKO BP



Dekpol

Selected financial data and forecasts

A turning point at Dekpol Steel is establishment of closer cooperation with **Caterpillar** company, which may result in further strong increase in segment's revenues after 2021. Implementation of subsequent product groups for this ordering party will be spread over the next several years. Our assumed **growth in segment's revenues** in **2022-2023** of approximately **20% annually** and an increase in **EBIT margin** to approximately **12%** represent a cautious scenario.

Dekpol

Forecasts for Q1 2021

On Monday (31st of May) Dekpol will publish its financial results for Q1 2021. Below we present our forecasts:

Millions of PLN	Q1 2020	Q1 2021P	y/y
Revenues	205,1	214,3	4%
Gross profit on sales	23,3	26,3	13%
EBIT	11,5	11,1	-4%
Net profit	8,1	6,2	-24%
Gross margin	11,4%	12,3%	
EBIT margin	5,6%	5,2%	
Net profit margin	4,0%	2,9%	

Source: Dekpol, P - prognosis of BM PKO BP

We assume that Dekpol's revenues in Q1 2021 will remain at a similar y/y level, while the company will manage to improve profitability at the gross profit level.

In the entire group, we expect higher expenses, including on sales, general and administrative (SG&A) (+ 25% y/y) as well as financial (+ 108% y/y).

Dekpol Budownictwo: Due to harsher winter y/y and a high base (EBIT margin in Q1 2020 was at the level of 7.2%), we assume slightly lower y/y result of the company. We assume an increase in revenues to PLN 129 million (+ 10% y/y) and decrease in operating profit to PLN 7 million (-18% y/y).

Dekpol Deweloper, in Q1 2021 sold 148 apartments (32 less y/y), mainly from low-margin projects in the popular segment (project: Osiedle Zielone, Foresta) and from the high-margin Grano project. We assume that in Q1, revenues of real-estate development segment were lower by approx. 9% y/y, to PLN 52 million, and EBIT decreased by 16% to PLN 6 million.

Dekpol Steel: We expect good results from the manufacturing segment. We assume an improvement in revenues by 25% y/y and a return of EBIT margin on the level of above 10%.

Dekpol

Risk factors

Risk of economic situation which may affect construction market and the real-estate development market, in particular demand, real-estate prices, and the availability of financing of investments (applies to clients and contractors / real-estate developers).

Risk of increase of costs in construction contracts - General contracting of cubature objects is currently the main source of group's revenues (approx. 62% in 2020). This type of business activity is characterized by relatively low margin and the risk of an increase in production costs (costs of materials and employees). The company is not able to fully secure the cost side, while remuneration for construction works performed is fixed and determined before commencement to construction works. The risk of an increase in production costs increases with the size of the contract and the time for its completion. Contracts carried out by Dekpol are characterized by relatively short delivery time and relatively low separate value. Some of Dekpol's projects, construction of which is scheduled to begin this year, do not dispose of construction permit yet.

Risks accompanying implementation of real-estate development projects, including, among others: failure to obtain or revoke permits, allowances or other administrative decisions necessary to use the land and implement real-estate development projects in accordance with company's schedules, delay in commencement or completion of construction works, inability to obtain permits enabling the building to be handed over to use or other required permits, and as a consequence, customers withdraw from real-estate development agreements or submission of financial claims due to the lack of transfer of the ownership of apartments on time, as well as changes in regulations governing the use of ground properties.

Risk of increase of interest rates. It would be associated with an increase in financing costs and less availability of financing feasibilities (also for clients) as well as lower demand for investment properties.

Risk of deterioration of liquidity as a result of a decrease in advance payments - Currently, Dekpol finances approx. 40% of housing inventories with advance payments from clients. In our opinion, company's efficiency in obtaining funds from customer advance payments is high and may be difficult to be maintained in the future. In the event of economic slowdown on the real-estate market, Dekpol may be forced to use its debt more in order to finance expenditures on real-estate development projects.

Foreign exchange risk - 90% of customers of the segment of production of accessories for construction machines constitute foreign entities, mainly doing payments in Euro. The exchange rate risk is partially limited by natural hedging - approx. 55-60% of production costs of buckets is steel, which is imported (also in euro).

Risk of impairment of the Almond Hotel - Hotel Almond, is the only asset of Dekpol significant in terms of value, not related to the core business of the company. The hotel was handed over for use in 2016. COVID-19 pandemic most likely had a negative impact on its results, which may translate into decrease of the property's value. We admit, that after completion of construction, the object was revalued to the fair value (+ 20% comparing to construction costs).

Dekpol

DCF Model

Our valuation is based on the DCF model. The DCF model consists of two phases. In the first phase (2021P-2026P), we forecast in details all key parameters needed for company's valuation.

The second phase begins after 2026. The risk-free rate for PLN is assumed at the level of 2.0%. Beta amounts 1.5x (significant sensitivity to changes in margins and the number of apartments sold). We assumed, that risk premium on the equity market reached 5.5%. Premium for credit risk in the amount of 4.9%.

We assumed valuation range dependent on the level of growth of free cash flows in the phase II and the level of WACC in the last year of forecasts.

Dekpol's 12-month valuation range is **PLN 426-555 million**.

Model DCF

Millions of PLN	2021F	2022F	2023F	2024F	2025F	2026F	2026F<
EBIT	71,3	72,9	105,9	70,9	70,9	72,0	73,0
Tax rate	20,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%
NOPLAT	57,1	57,6	83,6	56,0	56,0	56,8	57,7
CAPEX	-21,0	-25,0	-15,2	-15,3	-15,4	-15,4	-15,4
Depreciation	11,5	12,8	14,5	14,6	14,7	14,7	14,7
Changes in investment properties	0,0	0,0	33,0	0,0	0,0	0,0	0,0
Changes in working capital	-87,5	-24,8	0,0	-0,1	-2,8	-2,8	-3,0
FCF	-40,0	20,6	115,9	55,3	52,5	53,4	54,0
WACC	8,8%	8,8%	9,5%	9,7%	9,8%	9,8%	
Discount rate	0,96	0,88	0,80	0,73	0,67	0,60	
DFCF	-38,3	18,2	93,2	40,5	35,1	31,9	

Increase in phase II		0,50%	0,75%	1,00%	1,25%	1,50%
	11,8%	383	392	400	410	419
	10,8%	416	426	437	448	460
WACC	9,8%	456	468	481	495	510
	8,8%	506	521	537	555	574
	7,8%	569	589	610	633	658

Valuation range for 12 months (millions of PLN)
426-555

Source: BM PKO BP

Dekpol

Comparative analysis

Comparative analysis

	Exchange rate	Capitalization	P/E			EV/EBITDA			P/BV
Company	(PLN)	(Millions of PLN)	2021P	2022P	2023P	2021P	2022P	2023P	2021P
Construction (median):			10,4	12,4	15,0	5,2	5,3	5,7	1,7
Budime x	313,50	8 004	15,3	15,1	18,2	7,5	7,7	9,0	6,4
Erbud	61,60	764	10,9	9,5	7,9	5,3	5,0	4,0	2,2
Torpol	14,50	333	6,7	15,2	13,2	1,7	5,5	5,1	1,2
Unibep	11,90	417	9,8	9,8	16,8	5,2	5,0	6,4	1,3
Real-estate developers (median):			10,0	8,3	8,8	9,0	8,2	7,1	1,0
Archicom	24,00	618	8,0	7,7	8,8	6,6	6,2	6,7	1,0
Atal	51,20	1 982	10,0	8,3	9,6	10,0	8,2	9,1	1,9
Dom	153,00	3 835	12,1	11,4	11,0	9,6	9,7	9,6	3,2
Echo	4,48	1 849	11,0	9,9	7,6	18,3	14,8	12,2	1,0
Develia	3,06	1 370	12,8	8,7	8,9	9,0	8,2	6,8	1,0
Lokum	22,80	410	6,5	5,2	4,7	5,3	4,5	4,3	0,9
Ronson	1,84	301	7,2	7,5	8,6	6,7	6,4	7,1	0,7
Manufacturers of machines (median):			24,5	18,0	14,2	13,5	9,8	8,4	1,7
Caterpillar	237,71	495 489	24,5	20,0	17,2	14,3	12,3	11,6	8,9
Komatsu	3 185	109 021	31,3	18,0	14,2	13,5	9,8	8,4	1,7
Doosan Bobcat	51 800	16 724	15,2	14,1	13,5	8,1	7,1	6,3	1,2
AVERAGE:			15,0	12,9	12,7	9,2	7,7	7,0	1,5
Dekpol	40,40	338	6,8	6,8	4,5	5,9	5,7	3,3	1,0
Premium/ discount			-55%	-47%	-65%	-36%	-26%	-53%	-33%
Importance			11%	11%	11%	11%	11%	11%	33%
Valuation (millions of PLN)		640							

Source: BM PKO BP, Bloomberg, exchange rates and indicators for the day 26.05.2021

Dekpol

Income statement	2017	2018	2019	2020	2021P	2022P	2023P	2024P
Revenues	579,0	837,0	772,1	1 055,0	1 069,0	1 104,2	1 213,0	1 064,7
Costs of products, goods, and materials sold	-491,3	-743,7	-688,8	-917,6	-938,8	-971,2	-1 046,4	-932,4
Gross profit from sales	87,7	93,3	83,3	137,4	130,2	133,0	166,6	132,2
Selling costs	-26,4	-27,9	-22,8	-34,9	-34,7	-34,8	-34,6	-34,4
General administrative expenses	-10,9	-19,0	-17,2	-21,1	-22,1	-23,2	-23,9	-24,7
Other operating income/expenses	-7,0	-21,1	-10,1	-20,7	-7,0	-7,2	-7,4	-7,6
Operating profit	47,1	52,3	71,0	81,0	71,3	72,9	105,9	70,9
Balance on financial activity	-5,8	-7,0	-8,2	-14,0	-9,1	-10,5	-10,4	-7,9
Profit before tax	41,3	45,2	62,7	67,1	62,2	62,4	95,5	63,0
Income tax	-8,3	-11,3	-11,9	-14,3	-12,4	-13,1	-20,0	-13,2
Profit (loss) of minority	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net profit (loss)	33,0	33,9	50,8	52,8	49,8	49,3	75,4	49,8
Balance	2017	2018	2019	2020	2021P	2022P	2023P	2024P
Fixed assets	162,6	207,8	239,2	252,6	262,1	274,3	242,1	242,8
Intangible assets	0,2	0,3	0,4	0,2	0,2	0,2	0,2	0,2
Property, plant and equipment	53,5	80,0	81,9	81,8	91,3	103,6	104,3	105,0
Investment properties	98,9	116,9	145,3	147,2	147,2	147,2	114,2	114,2
Other long-term assets	10,0	10,6	11,5	23,4	23,4	23,4	23,4	23,4
Current assets	420,0	693,1	715,8	700,9	884,6	893,5	894,7	864,9
Inventories	242,3	340,6	369,7	228,8	434,4	440,9	415,2	419,2
Receivables	114,0	233,5	157,3	275,6	246,8	246,8	234,5	222,8
Other short-term assets	2,2	53,1	72,5	39,0	75,6	75,6	72,0	68,6
Cash and cash equivalents	61,5	66,0	116,3	157,5	127,8	130,2	173,0	154,3
Assets in total	582,7	900,8	955,0	953,5	1 146,7	1 167,8	1 136,8	1 107,7
Equity	167,4	191,5	242,3	291,5	341,2	380,6	441,2	453,3
Long-term liabilities	108,3	258,5	197,1	128,9	146,6	146,6	96,6	66,6
Loans and borrowings	78,8	214,1	145,0	86,1	103,7	103,7	53,7	23,7
Trade and other liabilities	24,6	27,6	27,1	23,1	23,1	23,1	23,1	23,1
Other	4,8	16,8	25,0	19,7	19,7	19,7	19,7	19,7
Short-term liabilities	306,9	450,8	515,6	531,1	656,9	638,7	597,0	585,8
Loans and borrowings	67,1	60,3	142,4	161,8	161,8	161,8	161,8	161,8
Trade and other liabilities	115,2	221,7	142,1	211,3	232,4	232,4	220,8	209,8
Other	124,7	168,8	231,0	157,9	262,7	244,4	214,4	214,2
Liabilities in total	582,7	900,8	955,0	953,5	1 146,7	1 167,8	1 136,8	1 107,7

Dekpol

Cash flows	2017	2018	2019	2020	2021P	2022P	2023P	2024P
Cash flows from operating activities	35,1	-67,6	82,8	135,7	-17,2	47,8	100,3	72,2
Cash flows from investment activities	-32,8	-18,4	-18,3	-8,6	-21,0	-25,0	17,8	-15,3
Cash flows from financial activities	-6,5	90,5	-14,2	-85,9	8,5	-20,4	-75,2	-75,6
Other	2017	2018	2019	2020	2021P	2022P	2023P	2024P
DPS	0,53	1,18	0,00	0,00	0,00	1,19	1,77	4,51
Net debt	95,8	224,6	181,8	106,2	153,6	151,2	58,3	47,0

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Explanation of the professional terminology used

min (max) 52 weeks - minimum (maximum) of market price of shares in the last 52 weeks

capitalization - the product of the market price of a share and the number of shares

EV - the sum of company's capitalization and net debt

free float (%) - share of the total number of shares reduced by 5% packets of shares held by one shareholder and own shares belonging to the company in the total number of shares

Avg turnover / month - average turnover per month calculated as the sum of turnover value for the last 12 months divided by 12

ROA - return on assets

EBIT - earnings before deducting interest and taxes

EBITDA - earnings before interest, taxes, depreciation and amortization

EPS - earnings per 1 share

ESG: Environmental, social and corporate governance, non-financial measure of companies' assessment of their sustainable development. It covers environmental, social and management aspects. The more sustainable business, the higher ranking position in BM PKO BP model (rating scale: 1-10)

DPS – dividend per 1 share

CEPS - Cash Earnings Per 1 Share

P/E - quotient of share market price and EPS

P/BV - quotient of share market price and the book value of one share

EV/EBITDA - quotient of capitalization increased by company's net debt and EBITDA

gross margin on sales - relation of gross profit on sales to net sales revenues

EBITDA margin - relation of the sum of operating profit and depreciation to net sales revenues

EBIT margin - relation of operating profit to net sales revenues

net profitability - relation of net profit to net revenue from sales

Valuation methods used

Valuation of BM PKO BP is based on at least two of four valuation methods: DCF (discounted cash flow model), the ratio method (comparison of the basic market indicators with similar ratios for other companies representing a given sector), the sum of individual assets method (SOTP) and the model of discounted dividends. Disadvantage of the DCF method and the discounted dividend model is the high sensitivity to adopted assumptions, in particular those relating to determination of a residual value. Moreover, discounted dividend model cannot be applied in case of valuation of companies without a defined dividend policy. Advantages of both of these methods are their independence in relation to current market valuations of comparable companies. Advantage of the ratio method is, in turn, that it is based on measurable market valuation of a given sector. Its disadvantage is the risk that at the moment the market may not correctly value comparable companies. The sum of individual assets (SOTP) method is the addition of values of various assets of the company, calculated by use of one of the above methods.

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