Wielton

Buy

(Previous: Buy; PLN 9,1)

TP: 7,4 PLN

Cur. price: 5,82 PLN

Upside: 27%

Financial report

17.11.2022

 # Q3'22 forecast. We estimate the current production capacity of all plants to be approximately 28,000 units. (7 thousand q/q). In Q3'22, we assume sales of 5300 units of vehicles (-450q/q), implying a capacity utilisation of ~75%. On the occasion of the Q2'22 results, we highlighted the shortening of WLT and WLT Group's backlog to 5800 units respectively. (-2650 units q/q) and 13100 units. (-5000 units q/q). By geography, we expect good sales in the domestic market, where the company is strongly rebuilding market share (Q3'22 registrations: WLT +10% YoY vs. market -18% YoY). Another driving force is the UK, where a contract for Amazon is being executed (in Q2'22 UK sales increased by 30% YoY, with 3,200 units at the end of Q2'22). Sales to the German market will also show positive trends in our opinion (9100 trailers were registered there in Q3'22, i.e. +1300 units YoY). On the other markets, we expect a slowdown, especially on the French market, where Q3 is seasonally the worst period of the year. Declines in steel, aluminium prices already in Q3'22 should be partly visible in the improvement in GM, even despite the reduction in capacity utilisation.

 # Annual forecast. This year, we assume sales volumes of 22.6k. (H1'22: 12k; H2'22 10.6k). Next year, we assume a similar YoY sales volume with a slightly different distribution of sales during the year (decrease in H1'23 and increase in H2'23). Declines in raw material prices may cause a temporary wait for WLT product price reductions. Declines in raw material prices (steel, aluminium) should prove positive for margins. Against the backdrop of smaller competitors, the group's bargaining power should guarantee better prices for access to components such as axles or tyres, which in turn translates into a more favourable cost of production relative to small and medium-sized competitors.

 # Capex and working capital. The company invested around PLN 54m in H1'22 and we assume that this level will also be maintained in H2'22. The company's investments are focused on improving production efficiency, process automation and digitalisation. Next year, additional spending may be related to the expansion of the ABERG brand, the construction of a cold storage facility or further vertical integration of production. More investment in automation is also required in overseas plants, especially the plant in France. Given the capital needs and higher working capital requirements, we do not assume dividend payments in the next 2 years unless the market situation is good enough for the company's capacity utilisation to exceed 90%, which would translate into higher-than-expected margins and EBITDA. In H2'22, we expect positive OCF, which will be driven mainly by lower working capital (we assume an PLN 85m drop in NWC relative to Q2'22). We estimate year-end net debt at PLN 450m vs. PLN 512m at the end of Q2'22 (ND/EBITDA cor. 3.1x).

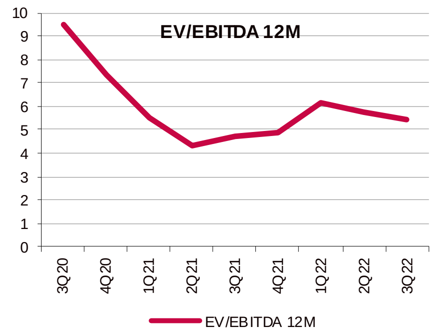
 # Energy. The Group's annual electricity consumption is approximately 82 GWh, with the Polish plants at approximately 57 GWh (2021). The current multi-year contract for the Wieluń plant was concluded at relatively low energy prices of <300 PLN/MWh and is valid until the middle of next year.

 # Changing assumptions. The reduction in our valuation is due to the increase in the RFR from 6% to 6.5%, the direct impact of which on the valuation was PLN -1/share, a 5% reduction in EBITDA results for 2023-2024 and an increase in the level of capital expenditure, the dynamics of which are higher than we assumed.

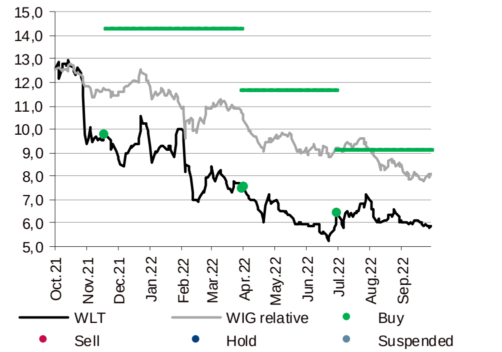
Company data			
Ticker			WLT
Sector			Industry
Price (PLN)			5,8
52w min/max (PLN)			5,22 / 10,52
Shares (m)			60,4
MC (PLNm)			351
Free-float			0
Avg. 3M turnover (PLNm)			0,50
Price chng.	1M	3M	1Y
	7,9%	30,3%	-14,7%

Recommendation history	Date	Price
Buy	21.07.2022	9,1
Buy	22.04.2022	11,7
Buy	20.04.2022	11,7
Buy	09.12.2021	14,3
Buy	21.10.2021	15,9
Buy	27.08.2021	16,0
Suspended	20.07.2021	b.d.
Suspended	21.04.2021	b.d.

P/E 12M vs EV/EBITDA 12M



WIG vs. WLT chart



mPLN	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	y/y	q/q
Sales	488	515	633	675	621	767	814	822	743	20%	-10%
EBITDA	34	40	44	48	29	24	37	61	30	6%	-50%
EBIT	19	23	28	31	12	8	18	44	13	7%	-70%
Net profit	11	19	19	21	5	2	9	75	3	-41%	-96%
P/E12M trailing	20,1	11,3	6,2	5,0	5,5	7,4	9,4	3,9	4,0		
EV/EBITDA 12M trailing	9,5	7,3	5,5	4,3	4,7	4,9	6,1	5,7	5,4		
sales growth y/y	-5%	2%	34%	97%	27%	49%	29%	22%	20%		
EBITDA margin	7,0%	7,8%	6,9%	7,1%	4,6%	3,2%	4,5%	7,4%	4,1%		
EBIT margin	3,9%	4,4%	4,4%	4,6%	1,9%	1,0%	2,3%	5,3%	1,7%		
Net margin	2,3%	3,6%	3,0%	3,2%	0,9%	0,2%	1,1%	9,1%	0,4%		

mPLN	2019	2020	2021	2022E	2023E	2024E
Sales	2 343	1 817	2 696	3 128	3 129	3 366
EBITDA	142	98	144	164	169	209
EBIT	90	37	79	93	94	129
Net profit adj.	39	9	47	73	50	81
EPS (PLN)	0,95	0,5	0,8	1,6	0,8	1,3
DPS (PLN)	0,3	0,0	0,3	0,0	0,0	0,0
P/E adj. (x)	6,1	11,3	7,4	3,7	7,1	4,3
EV/EBITDA (x)	5,3	7,3	4,9	4,8	4,8	3,7
P/BV (x)	0,9	0,9	0,8	0,7	0,6	0,5
DY (%)	5,7%	0,0%	5,7%	0,0%	0,0%	0,0%

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Definitions

capitalisation – market price multiplied by the number of a company's shares
free float (%) – a percentage of a company's shares held by shareholders with less than 5% shareholding reduced by treasury shares held by the company
min/max 52 wks – minimum/maximum share price within the last 52 weeks
average turnover – average volume of share trading within the last month

EBIT – operating profit
EBITDA – operating profit increased by depreciation and amortisation
adjusted profit – net profit adjusted for one-off items
CF – cash flow
capex – sum of investment expenditures on fixed assets
OCF – cash generated through the operational activities of the company
FCF – cash generated by the company after taking into account outflows to support operations and retained capital

ROA – rate of return on assets
ROE – rate of return on equity
NWC – net working capital
Cash conversion cycle –period from the moment of expenditure of cash for the purchase of production factors until the moment of receipt of cash revenues from the sale of manufactured goods or services.

Gross profit margin – a ratio of gross profit to net revenue
EBITDA margin – a ratio of sum of operating profit and depreciation/amortisation to net revenue
EBIT margin – a ratio of operating profit to net revenue
net margin – a ratio of net profit to net revenue

EPS – earnings per share
DPS – dividends per share
P/E – a ratio of market price to earnings per share
P/BV – a ratio of market price to book value per share
EV/EBITDA – a company's EV to EBITDA ratio
EV – sum of a company's current capitalisation and net debt
DY – dividend yield, dividend paid to share price ratio

RFR - risk-free rate
WACC - weighted average cost of capital

Recommendations of the Brokerage House

BUY – we expect that the rate of return on an investment will be at least 10%
NEUTRAL – we expect the price of an investment to be relatively stable, optionally it will increase no greater than 10%
SELL – we expect that an investment will make a loss greater than 0%
Recommendation prepared by: Grzegorz Kujawski, Maciej Marcinowski, David Sharma,Dominik Niszcz, Michał Kozak, Kacper Koproń, Katarzyna Kosiorek, Łukasz Rudnik, Piotr Rychlicki, Piotr Chodyra

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