

# APATOR

## Status quo maintained

### RECOMMENDATION

## HOLD (MAINTAINED)

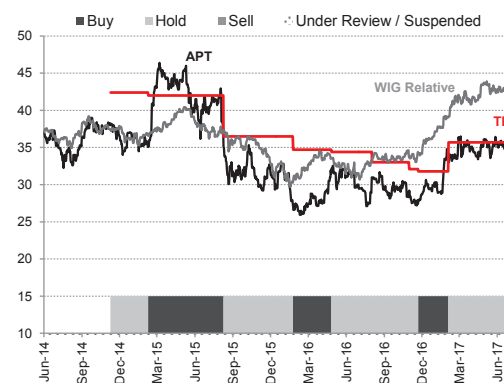
CURRENT PRICE: PLN35.5

TARGET PRICE: PLN36.5 (PREV. PLN35.7)

2Q17 PUBLICATION DATE

**SEPTEMBER 15, 2017**

### STOCK PERFORMANCE



The chart measures performance against the WIG index. On 07/03/2017, the WIG index closed a 61,392.77.

### LAST RECOMMENDATIONS

Rec.	Date	Price	Price performance			
			on issue date	12 month target	absolute	relative (p.p)
Hold	2-6-17	33.03	35.7	7.5%	-2.83	
Buy	11-25-16	27.96	31.8	18.1%	3.57	
Hold	11-3-16	29.2	32.1	-4.2%	-5.67	
Hold	8-5-16	30.95	33	-5.7%	-6.27	

### COMPANY DESCRIPTION

Apator focuses its activity in two segments of the electromechanical industry: metering and switchgear.

Main shareholders	% of votes
Mariusz Lewicki	10.2%
Tadeusz Sosgórnik	8.8%
Danuta Guzowska	7.9%
Zbigniew Jaworski	6.6%
Apator Mining	6.5%
Janusz Marzyglinski	6.2%

Source: www.gpw.pl

### ANALYST

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■ **Equity Story.** We strongly believe that Apator will likely deliver its 2017 predicted revenues of PLN900-950mn and net profit of PLN75-80mn. However, we also reckon that this is already priced in, hence we maintain our Hold recommendation with the new, subtly elevated TP of PLN36.5 reflecting a decrease in WACC. We count on further developments in metering and switchgear, Apator's key segments, as we expect the company's decent dynamic sales (especially in export markets) to be maintained despite the Polish zloty appreciation (the company partially hedges its FX exposure). Its product mix improvement (towards more profitable meters) should be supportive too. The latest USD depreciation should help as well, as a vast part of its componentry is denominated in dollars. In 2Q17 the company should fulfil its delayed delivery of several million EE meters to Ethiopia (a one-off top line boost). We also expect further underperformance from its Elkomtech subsidiary as it suffers from demand weakness related to a prolonged decision impasse in the power sector. Finally, we assume there will be a very modest positive contribution from its Rector subsidiary after years of weak performance.

■ **Triggers/risks.** The company has recently faced weaker Polish utility investment activity and, consequently, weaker demand for its products (EE meters, Elkomtech). USD depreciation is likely to support the company's profitability.

■ **Changes to financial forecasts.** We expect the MB's revenue guidance to be delivered. We increased our 2017E operating results amidst an improvement in the sales mix and weaker USD vs PLN, both impacting the metering segment profitability. We trimmed our earnings estimates for 2018E mainly due to the below-budget performance of Elkomtech.

■ **Valuation & recommendation.** We maintain our Hold recommendation and set the new TP at PLN36.5, a 50/50 blend of DCF (PLN37.0) and comparative valuation (PLN36.0) methods.

### Company Data

PLNm	2016	2017E	2018E	2019E
Sales	870.2	933.0	963.5	1,004.0
EBITDA	110.7	143.0	140.4	146.5
EBIT	75.9	105.2	101.7	107.5
Net income	61.6	76.8	75.4	80.3
P/E (x)	19.1	15.3	15.6	14.6
EV/EBITDA (x)	11.1	8.5	8.5	8.0

Source: Company data, BZ WBK Brokerage Research

Reuters/Bloomberg codes	APTP.WA / APT.PW		
Market capitalisation (PLNm)	1,175.3		
Number of shares (m)	33.1		
Free float (%)	68.4%		
Avg. daily turnover 3M (PLNm)	0.3		
Price performance	1M	3M	YTD
	0.0%	1.4%	18.7%

Fig. 1. Apator: Forecast changes

PLNmnn	2017E			2018E			2019E		
	New	Previous	Change	New	Previous	Change	New	Previous	Change
Sales	933.0	969.6	-3.8%	963.5	981.2	-1.8%	1 004.0	1 004.9	-0.1%
EBITDA	143.0	137.8	3.7%	140.4	142.9	-1.8%	146.5	146.2	0.2%
EBIT	105.2	102.8	2.3%	101.7	107.4	-5.3%	107.5	110.5	-2.7%
Net profit	77.0	74.0	4.0%	75.4	77.9	-3.2%	80.3	81.0	-0.9%

Source: Company data, BZ WBK Brokerage Research

Fig. 2. Apator: Valuation changes

PLN	New	Previous	Change
DCF valuation	37.0	35.0	6%
Comparable valuation (based on 2017-2019E)	36.0	36.4	-1%
<b>Weighted valuation*</b>	<b>36.5</b>	<b>35.7</b>	<b>2%</b>

Source: Company data, BZ WBK Brokerage Research, \* - 50% DCF, 50% comparable valuation

Fig. 3. Apator: Income statement forecast

PLNmnn	2016	2017E	2018E	2019E
Net sales	870	933	963	1 004
COGS	-648	-663	-688	-715
Gross profit	222	270	276	289
SG&A	-144	-165	-174	-181
Other operating income, net	-2	0	0	0
EBITDA	111	143	140	147
Operating profit	76	105	102	107
Net financial income (costs)	-5	-5	-5	-4
Profit before tax	70	99	97	103
Income tax	-7	-19	-18	-20
Net profit	62	77	75	80
Gross margin	26%	29%	29%	29%
EBITDA margin	13%	15%	15%	15%
Operating margin	9%	11%	11%	11%
Net profit margin	7%	8%	8%	8%

Source: Company data, BZ WBK Brokerage Research

Fig. 4. Apator: Balance Sheet forecast

	2016	2017E	2018E	2019E
Current assets	397	426	451	479
Fixed assets	446	451	455	458
Total assets	843	877	906	937
Current liabilities	291	286	283	281
bank debt	138	126	120	114
Long-term liabilities	101	99	93	88
bank debt	57	58	52	47
Equity	445	484	518	553
Total liabilities	843	877	906	937
Net debt	172	158	135	113

Source: Company data, BZ WBK Brokerage Research

Fig. 5. Apator: Cash flow forecast

	2016	2017E	2018E	2019E
CF from operations	63	110	104	106
CF from investment	-42	-58	-48	-47
CF from financing	-42	-41	-44	-48
dividends	-35	-38	-41	-45
Net change in cash	-20	11	12	11

Source: Company data, BZ WBK Brokerage Research