

Tuesday, 18 July 2023 | update

Mo-BRUK: buy (resumed)

MBR.PW; MBR.WA | Industrials, Poland

Best ESG Stock with A compelling growth story

We resume coverage of Mo-BRUK with a target price of PLN 372.00 per share suggesting upside potential over 30%. Our target price results from equal weighted multiples and DCF valuation, with conservative assumption of long term profitability margin at 2019 level.

As the leader of the lucrative Polish waste treatment market, over the last three years Mo-BRUK generated free cash flow close to PLN 290m (ca. 30% of current MCap) while consistently delivering superior ROE at an average of over 50% and EBITDA margins in the 45-50% range.

Mo-BRUK's unique positioning in the waste management market make it the No 1. play in Poland as an ESG stock with a core business that directly benefits the society and the natural environment. 2023 and 2024 are transitory years for the Company while it forges ahead with a huge organic expansion program, but its operating cash flow between 2022 and 2026 is expected to grow by a cumulative 40% to PLN 130m. High FCF generation should allow for dividend payments in 2024 and 2025 (ca. 6% DY), and it may almost double in the 2026+ period.

Capacity expansion as next leverage growth

Mo-BRUK has a huge investment program underway aimed at capacity expansion by ca. 28% (or 120kt), which it plans to finish by the end of 2024. The extra capacity is expected to boost net profit by 45% vs. 2022 and increase FCF close to PLN 120m vs. PLN 80m in 2022. Importantly, Mo-BRUK does not require working capital investments to grow (sales CAGR for the last 10 years is 18%), and its maintenance CAPEX is relatively low (PLN 10m p.a.), allowing for superior cash generation.

High entry barriers should secure sweet spot for long time

Mo-BRUK has long-term strategic advantages resulting from 1) having secured legal and environmental permits; 2) a track record that facilitates easy expansion (new land/machinery purchases) without having to engage in negotiations with local communities/authorities/ lobby; and 3) unique waste treatment expertise (cementation/stabilization in particular). Immaterial as they may sound, for any new entrant into the Polish market, these stepping stones will often prove to be insurmountable obstacles. In a growing market, with extra capacity, Mo-BRUK has a strategic safe spot secured for long time.

Growing market driven by consumption and regulations

Mo-BRUK has established a presence in both municipal and industrial waste markets, and it is a major beneficiary of recycling laws (under EU regulations, 55% of all municipal waste will have to be recycled by 2025, rising to 60% by 2030 and 65% by 2035) whereby the volume of treated waste continues to increase. Because of increasing landfill fees (the price has almost tripled since 2011), waste treatment companies are forced to seek alternatives, which means more input for Mo-BRUK's RDF/stabilization/incineration facilities.

High dividend potential

Mo-BRUK's policy is to pay between 50-100% of annual net profit as dividends. Since 2019, dividend payments have totaled PLN 286m (PLN 81 per share, 30% of current stock price). After completion of the capacity upgrades (shareholder distributions are expected to continue in the interim), in 2026 the Company will be able to raise the annual DPS to over PLN 23 (over 8% DY), followed by continued increases in the yearly payouts in the following years.

(PLN m)	2021	2022	2023E	2024E	2025E
revenues	267	243	243	264	302
EBITDA	151	117	111	120	140
margin	56.6%	48.2%	45.5%	45.5%	46.5%
EBIT	146	112	103	109	127
net profit	115	92	85	87	102
P/E	10.4	13.0	14.1	13.8	11.8
P/S	4.5	4.9	4.9	4.5	4.0
P/BV	5.8	6.4	5.3	4.5	3.9
EV/EBITDA adj.	7.2	9.5	10.9	10.2	8.6
DPS	20.2	31.5	13.2	13.2	17.3
DYield	6.0%	8.3%	4.6%	3.9%	5.1%

current price*	PLN 272.00
target price	PLN 372.00
mCap	PLN 975m
free float	PLN 480m
ADTV (3M)	PLN 1.6m

*Price as of July 17, 2023, 5:00 PM

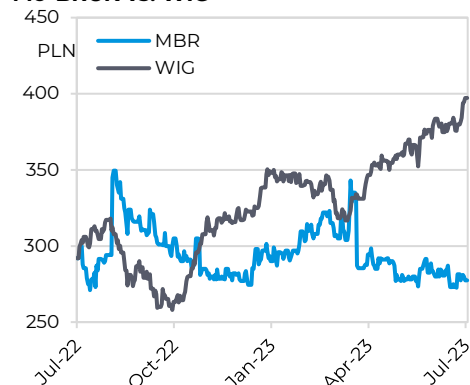
Share Ownership

Ginger Capital Sp. z o.o.	20.0%
Allianz OPF	7.6%
NN OPF	7.0%
PZU OPF	6.0%
Value FIZ	5.1%
Bankowy OPF	5.1%
Others	49.2%

About Mo-BRUK

Mo-BRUK is the leader of industrial waste treatment in Poland with a market share of 15-20%. The Company operates five treatment plants with ca. 500kt of waste processing capacity across three segments: waste incineration, stabilization, and production of refuse-derived fuel. Mo-BRUK has set in motion a PLN 210m capacity building project which in 2025 should increase total capacity by over 100kt. Besides organic growth, Mo-BRUK wants to grow its business via M&As in the domestic waste treatment market.

Mo-BRUK vs. WIG



Company	target price		recommendation	
	new	old	new	old
Mo-BRUK	372.00	-	buy	-

Company	current price	target price	upside
Mo-BRUK	272.00	372.00	+37%

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List of abbreviations and ratios used by mBank:

EV (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases)
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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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.

mBank did not issue any recommendations for Mo-BRUK in the 12 months prior to this publication

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