



50 **budimex**

Investor Presentation

**1H'18**



## 1. Market snapshot

- 1.1 Market environment – top facts
- 1.2 Macroeconomic forecasts for Poland
- 1.3 Overview of construction segment
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- 2.4 Results by segment
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## 3. Budimex S.A. on WSE

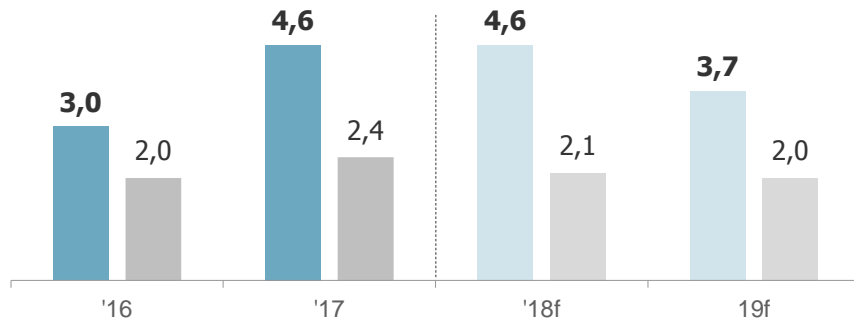


- Strong GDP growth in '18 forecasted for Poland by Eurostat → **4,6%**
- Growth of inflation (HICP) expected → '19f: **2,6%** vs. **1,3%** in '18f
- Improving situation of public finances → budget deficit in '17: **1,7%** of GDP
- European Commission's proposal of EU funds '21-'27 split → Poland: **73 bn EUR**
- Further inflation of materials prices and labour costs
- High y-o-y dynamics of construction production → 1H'18: **+26,3%**
- High pressure on margins of construction companies → 1Q'18: **0,8%** of avg. net profit margin

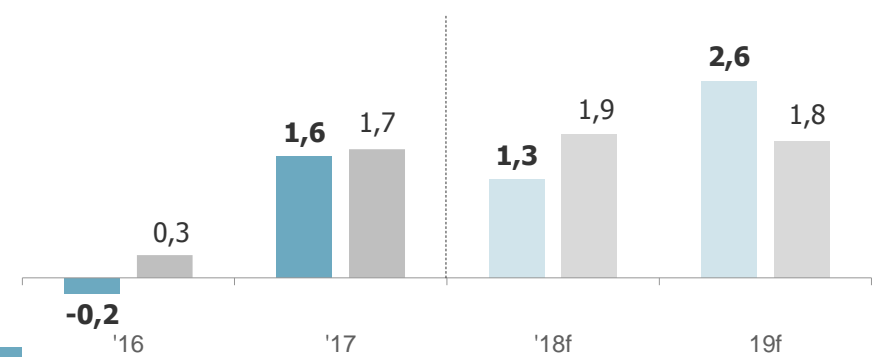
## Comment

- *Rising inflation is accompanied by high GDP growth boosted by investments rebound*
- *Condition of Polish public finances improves*

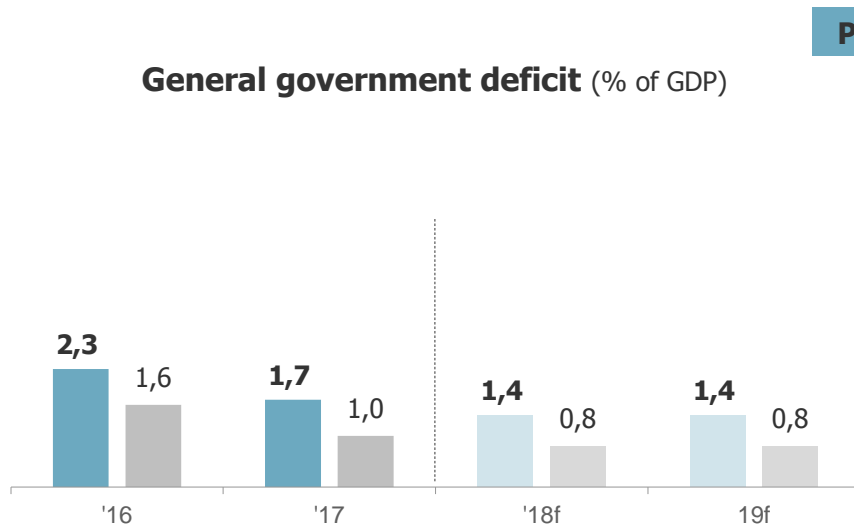
**GDP growth** (% , y-o-y)



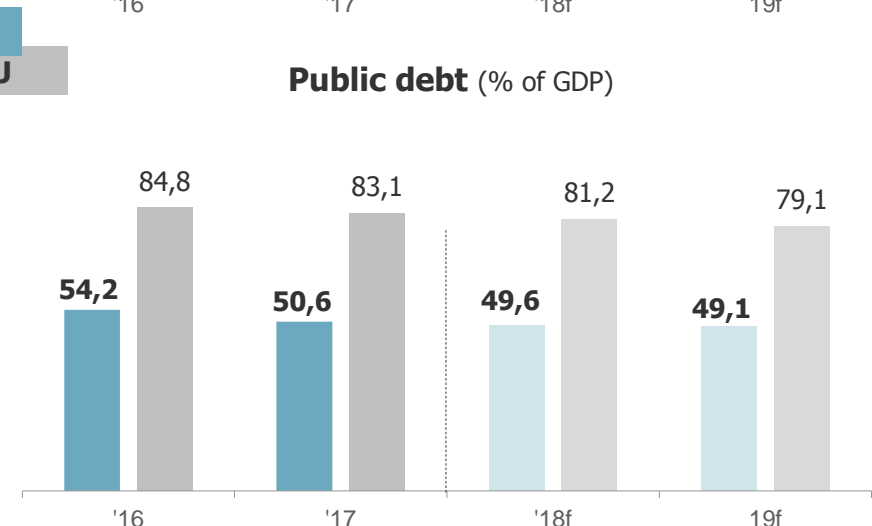
**Inflation rate** (HICP, % , y-o-y)



**General government deficit** (% of GDP)



**Public debt** (% of GDP)





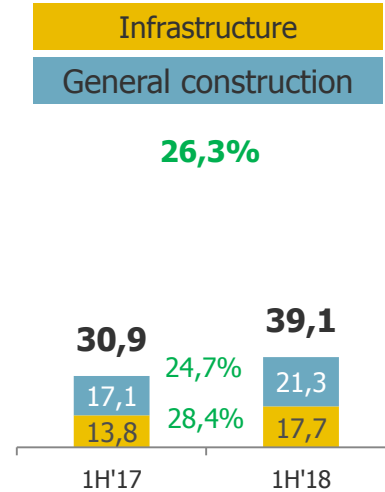
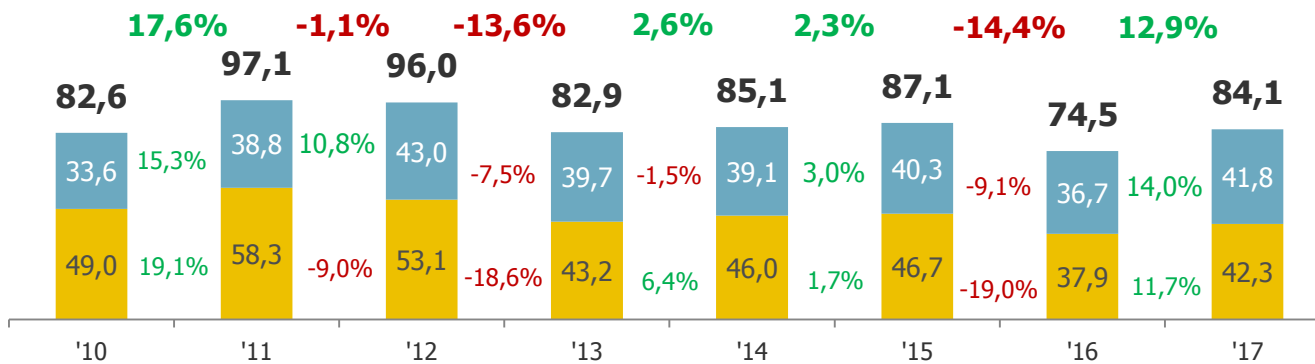
# 1.3 Overview of construction segment

## Comment

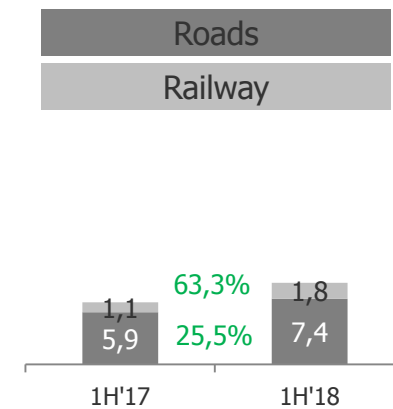
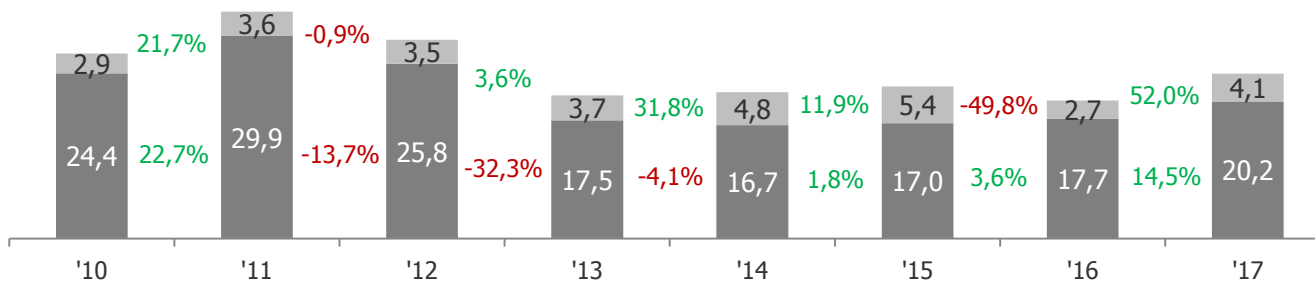
- Construction production noted 26,3% y-o-y increase in 1H'18
- The growth is driven by all segments (residential, non-residential and infrastructure)
- The market is heading to investment peak boosted by big investment programs in road and railway segment

Construction production in Poland (bn PLN)

Total construction production



Construction production in roads and railway

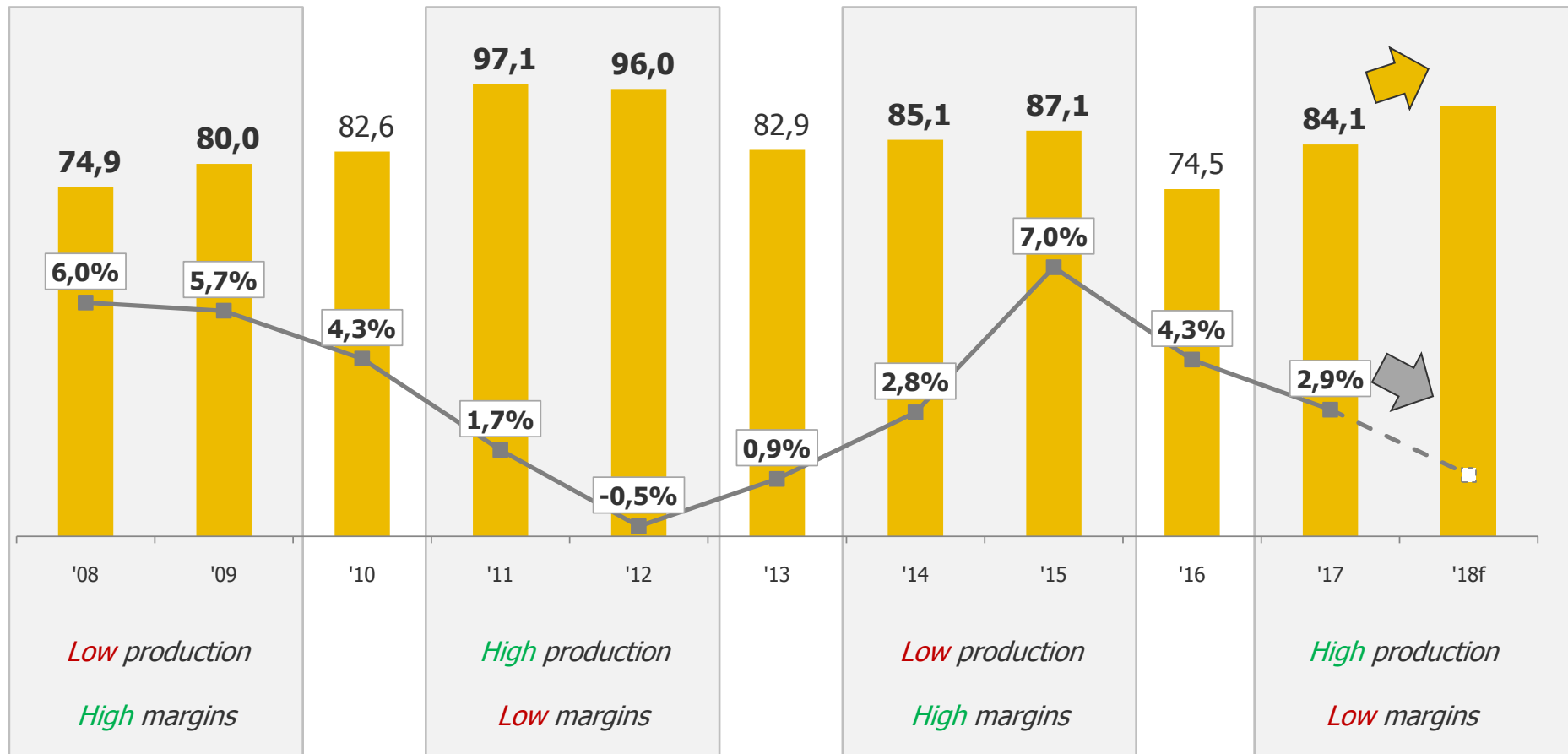


# 1.3 Overview of construction segment

## Comment

- Construction companies entered into high production and low margins phase of the cycle
- Average net profit margin in 1Q'18 amounted to only 0,8%

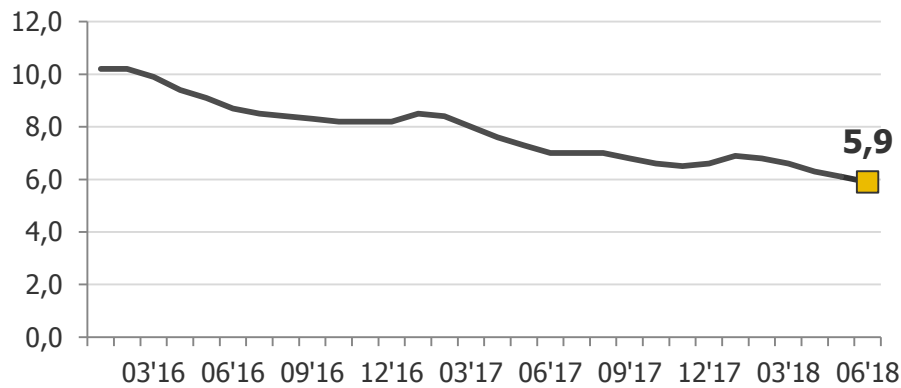
Construction production in Poland vs. net profit margin in construction companies (bn PLN)



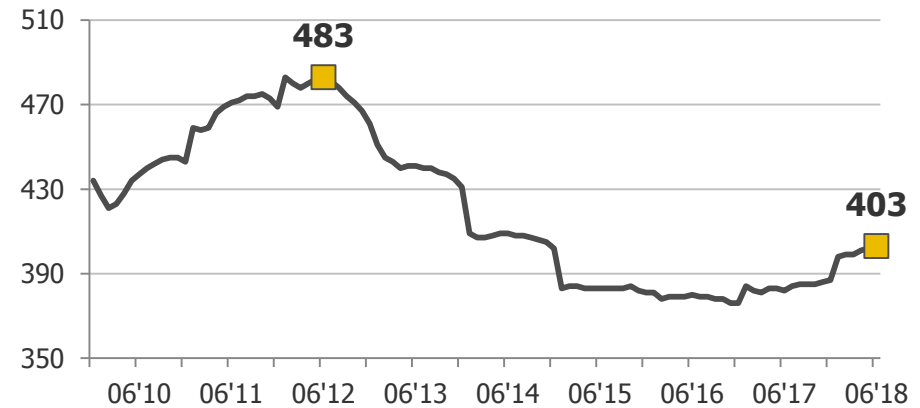
## Comment

- Construction companies have to deal with labour shortage and increase of labour costs

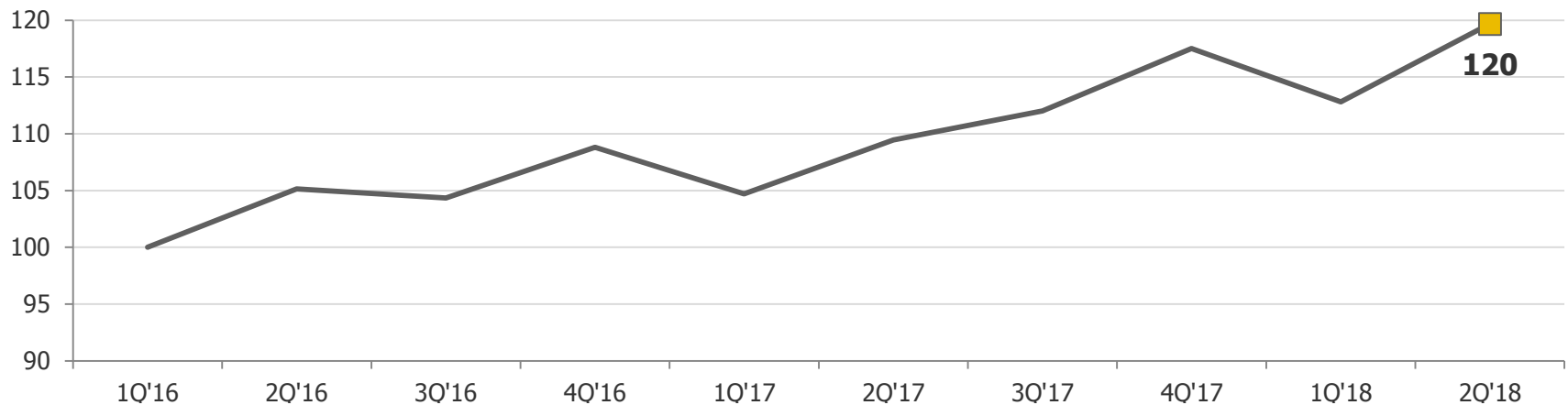
**Unemployment rate (%)**



**Employment in construction (thous. employees)**



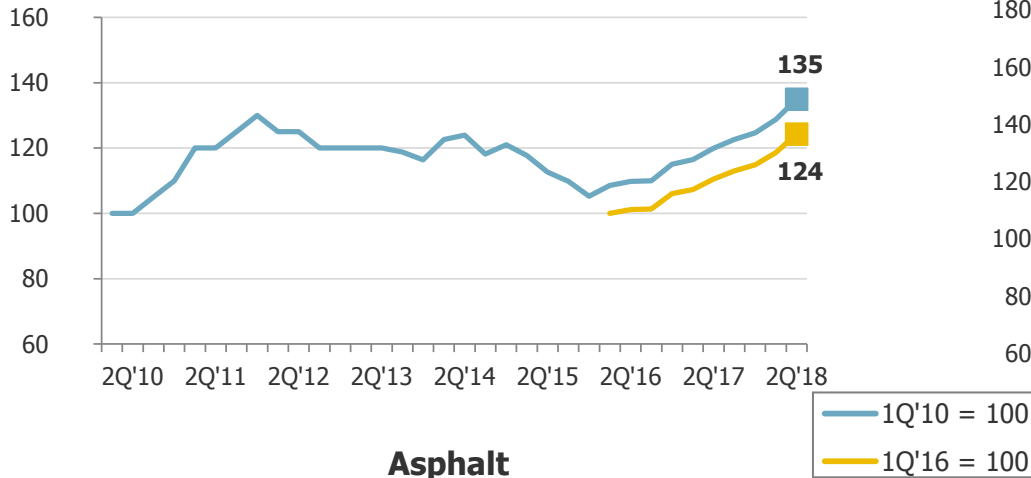
**Average wage in construction (1Q'16 = 100)**



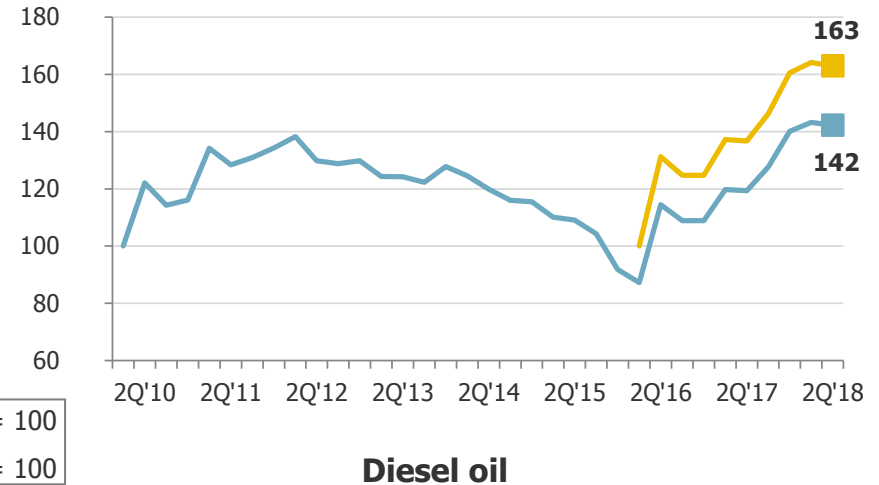
# 1.4 Prices of main materials

**Comment** ■ *The increase of materials prices was still observed in 2Q'18*

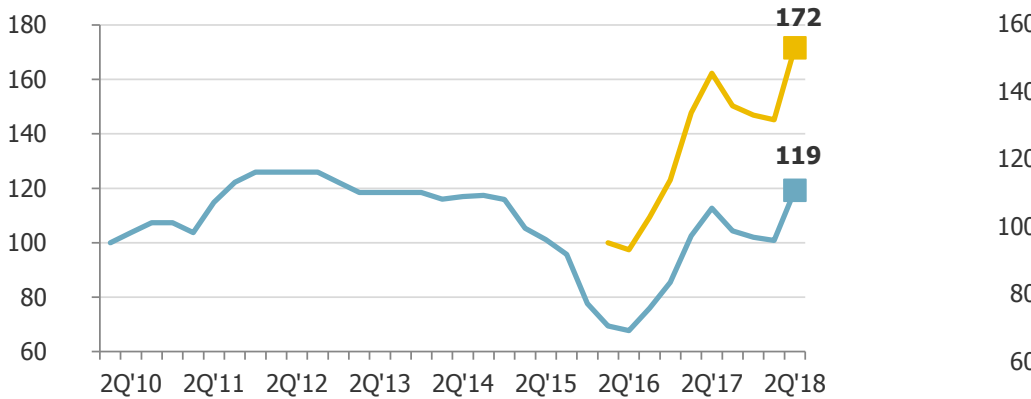
**Concrete**



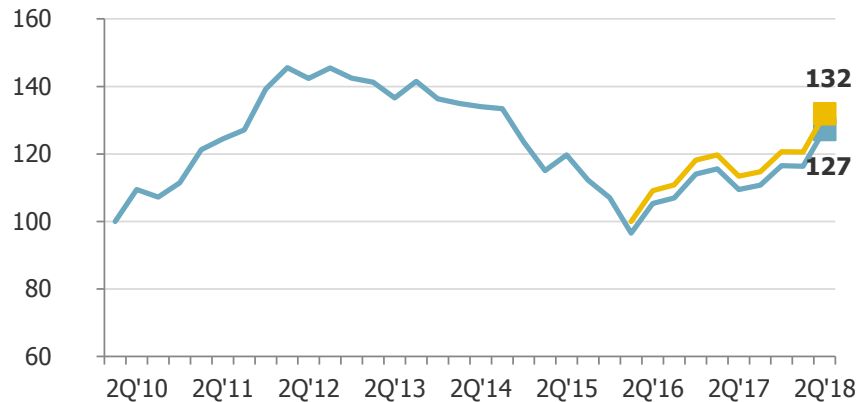
**Reinforcement steel**



**Asphalt**



**Diesel oil**

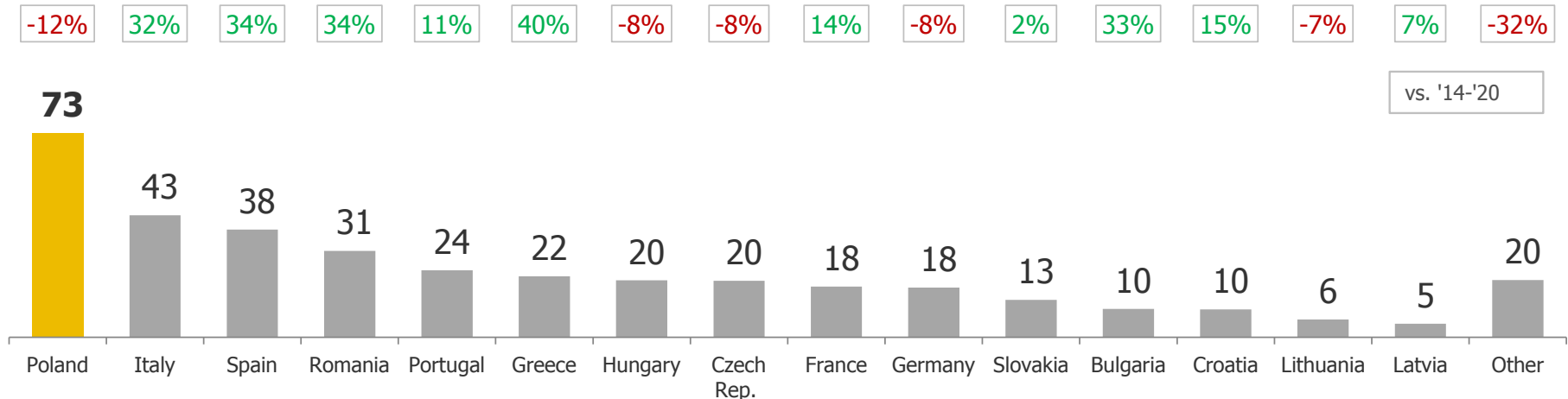




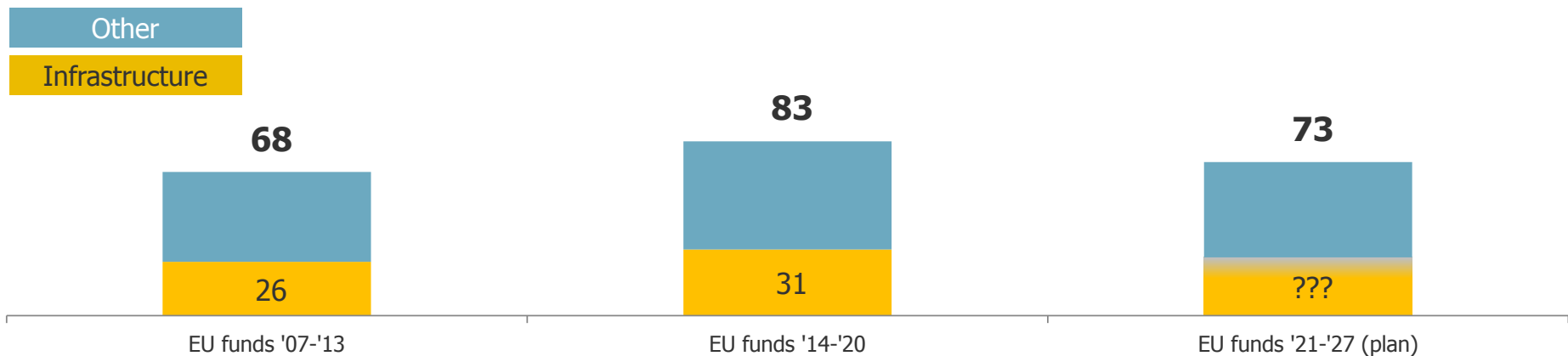
## Comment

- In May'18 European Commission proposed the allocation of EU funds '21-'27
- Poland will maintain the position of top EU funds' beneficiary
- The level of EU support for Poland in '21-'27 could be even higher (in current prices) than in EU '07-'13 financial perspective

Allocation of EU funds in financial perspective 2021 – 2027 (bn EUR, current prices)



Evolution of EU funds allocation to Poland (bn EUR, current prices)



### Threats

- Lack of **subcontractors** and increasing margins
- Increasing prices of **materials** and problems with logistics
- Increasing **wages** in construction
- **Labour** shortage and high employment rotation
- Not working **valorization** of contracts in public tenders
- Inadequate **investor budgets**
- Long-lasting **tender proceedings**
- Short time of **contracts execution**

### Opportunities

- Still high **investment needs** in infrastructure after 2020
- Stable growth of **general construction market**
- Significant outlays expected in **Polish energy sector**
- Increasing demand in the field of **infrastructure maintenance** in Poland (services)
- Prospective **foreign markets**
- **PPP projects** (Polish government support)

- Record level of 1H sales → 1H'18: **3,3 bn PLN** *(+21,3% y-o-y)*
- Increasing share of railway in construction sales → 1H'18: **7,1%** *(+4,2 p.p. y-o-y)*
- Further normalization of operating margin → 1H'18: **5,2%** *(-4,0 p.p. y-o-y)*
- Mid-year drop of net cash → 06'18: **0,7 bn PLN** *(-0,8 bn PLN vs. 03'18)*
- Y-o-y drop of value of offers placed → 1H'18: **17,9 bn PLN** *(-21,5% y-o-y)*
- Still strong backlog → 06'18: **10,8 bn PLN** *(+0,4 bn PLN vs. 03'18)*
- No significant change of market offer → 06'18: **3 223 flats** *(-48 flats vs. 03'18)*
- Continuation of land purchase in developer segment → 1H'18: **60 M PLN**

## Comment

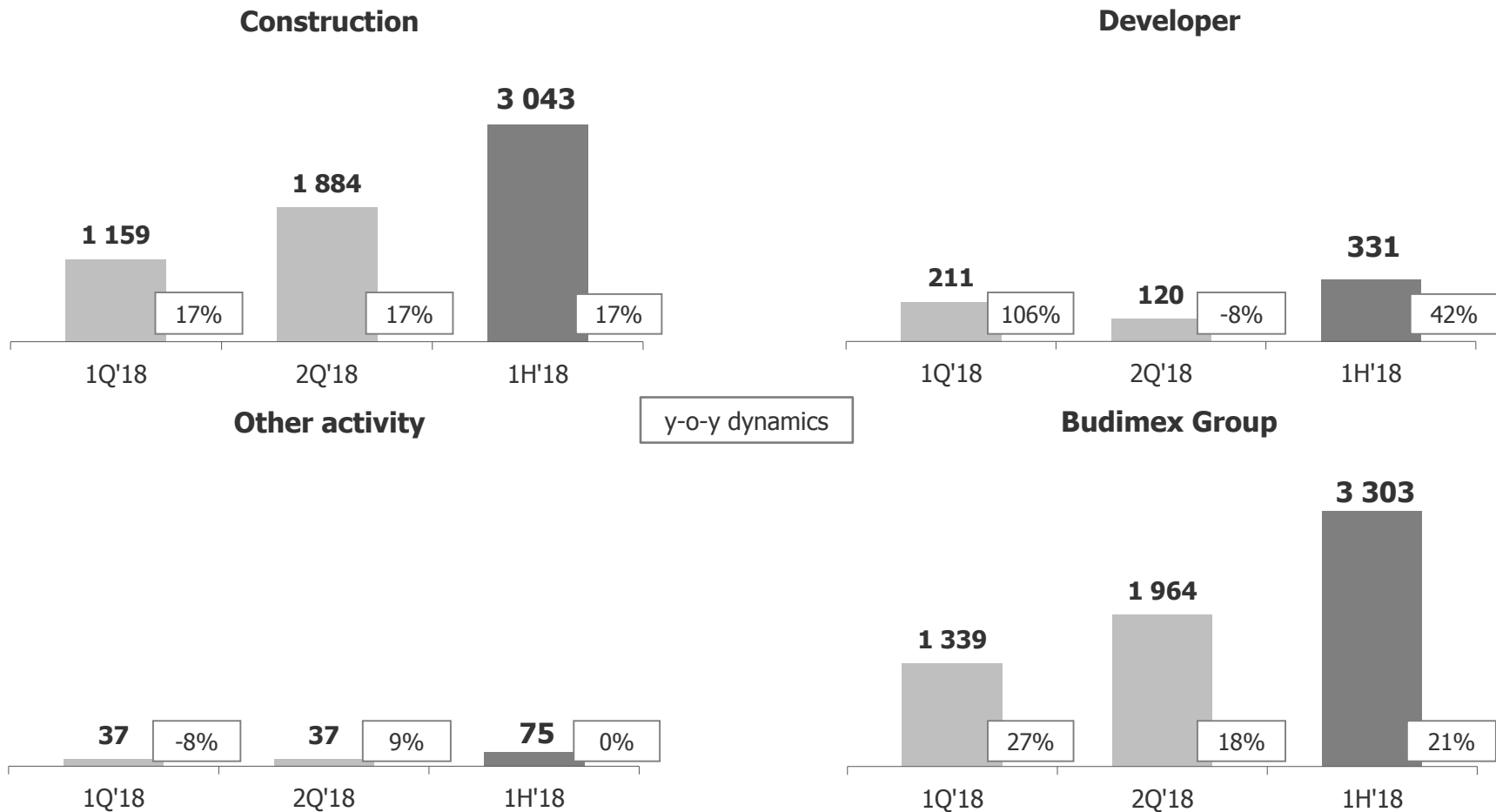
- Top line in 1H'18 was in line with current market trends
- In 1H'18 the company faced normalization of margin vs. years '16-'17

	1H'18	1H'17	Δ		FY'17	FY'16
<b>Sales</b>	<b>3 303</b>	<b>2 722</b>	<b>581</b>	↑	6 369	5 572
<i>y-o-y dynamics</i>	<i>21,3%</i>	<i>12,0%</i>	<i>9,3 pp.</i>	↑	<i>14,3%</i>	<i>8,5%</i>
<b>Gross margin</b>	<b>286</b>	<b>352</b>	<b>-66</b>	↓	810	751
<i>% sales</i>	<i>8,7%</i>	<i>12,9%</i>	<i>-4,3 pp.</i>	↓	<i>12,7%</i>	<i>13,5%</i>
<b>SG&amp;A</b>	<b>-125</b>	<b>-119</b>	<b>-7</b>		-251	-231
<i>% sales</i>	<i>3,8%</i>	<i>4,4%</i>	<i>-0,6 pp.</i>		<i>-3,9%</i>	<i>-4,2%</i>
<b>Other operating</b>	<b>9</b>	<b>16</b>	<b>-7</b>		29	-15
<b>EBIT</b>	<b>170</b>	<b>249</b>	<b>-79</b>	↓	588	505
<i>% sales</i>	<i>5,2%</i>	<i>9,2%</i>	<i>-4,0 pp.</i>	↓	<i>9,2%</i>	<i>9,1%</i>
<b>PBT</b>	<b>163</b>	<b>244</b>	<b>-80</b>	↓	580	511
<i>% sales</i>	<i>4,9%</i>	<i>9,0%</i>	<i>-4,0 pp.</i>	↓	<i>9,1%</i>	<i>9,2%</i>
<b>Net profit</b>	<b>128</b>	<b>195</b>	<b>-67</b>	↓	464	410
<i>% sales</i>	<i>3,9%</i>	<i>7,2%</i>	<i>-3,3 pp.</i>	↓	<i>7,3%</i>	<i>7,4%</i>

## Comment

- Maintaining y-o-y dynamics of sales in construction in 2Q'18 vs. 1Q'18
- Q-o-q drop of sales in developer segment (49% drop in notary sales)
- Flat volumes of sales achieved in first two quarters in other activity

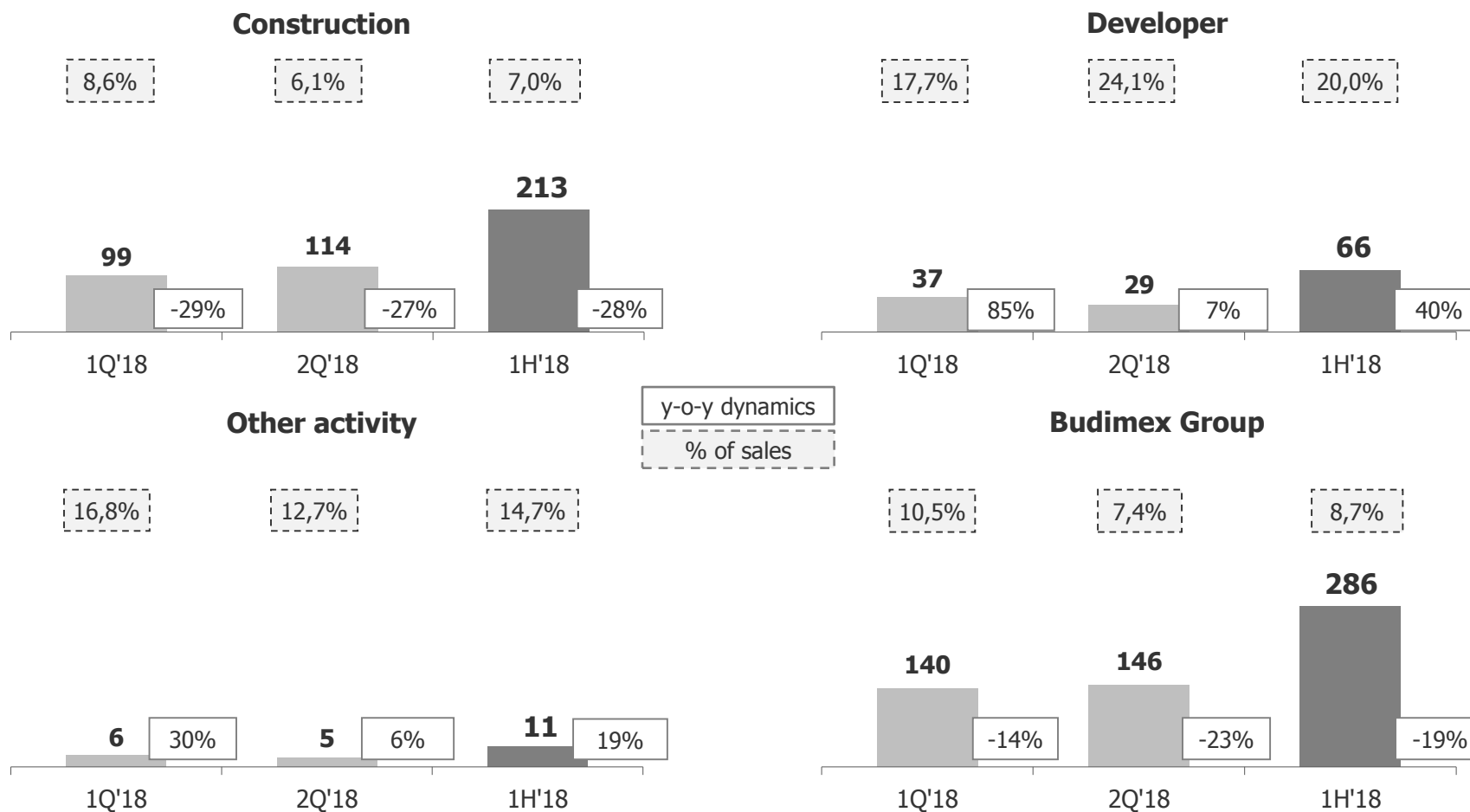
Quarterly sales in Budimex Group (M PLN)



## Comment

- Drop of % gross margin in construction in 2Q'18 vs 1Q'18 due to further materialization of risks connected with i.a. increase of materials prices and salaries in construction and problems with logistics

Quarterly gross margin in Budimex Group (M PLN)

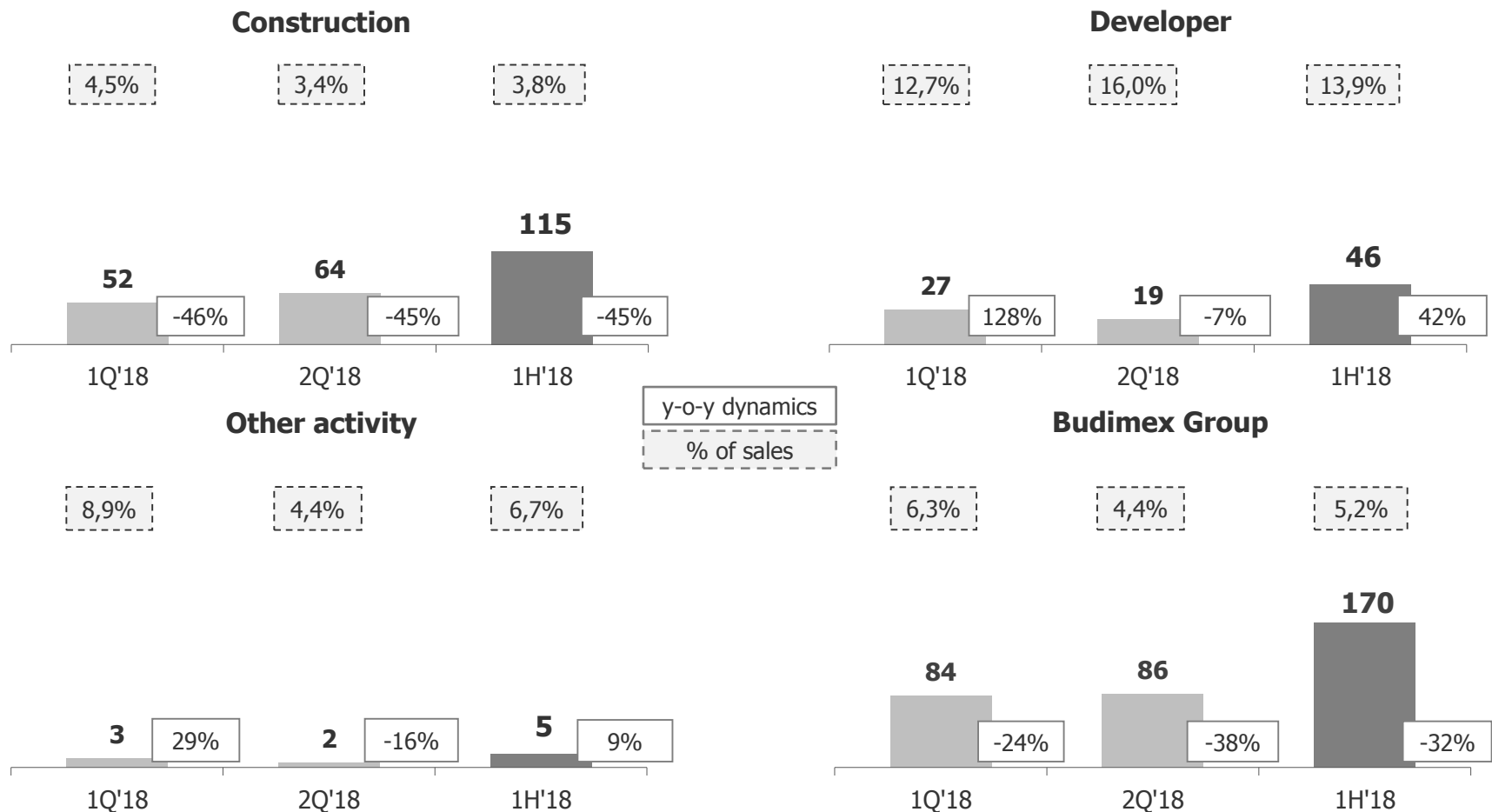




## Comment

- Further normalization of % EBIT in construction vs. above average margin achieved in years '16-'17
- Maintaining good performance in developer segment

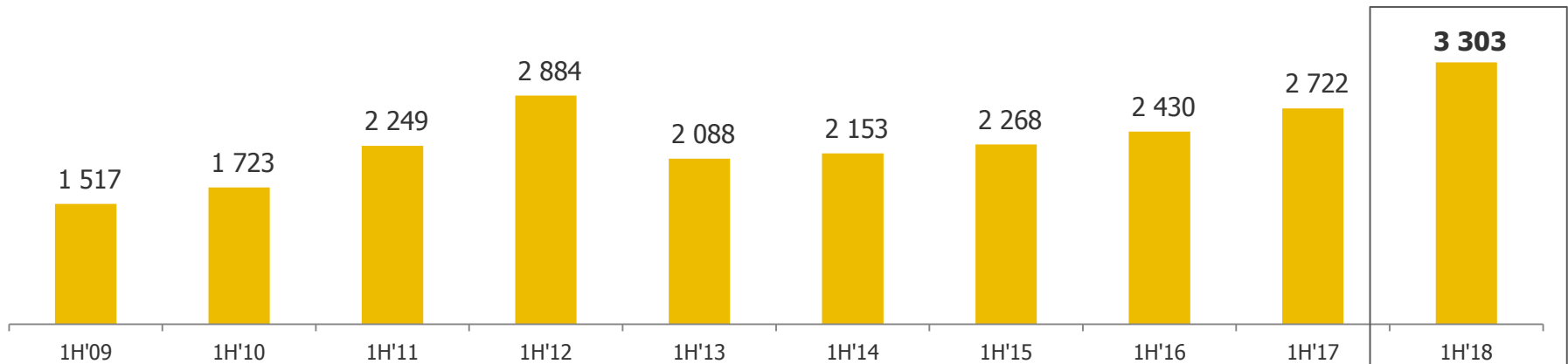
Quarterly EBIT in Budimex Group (M PLN)



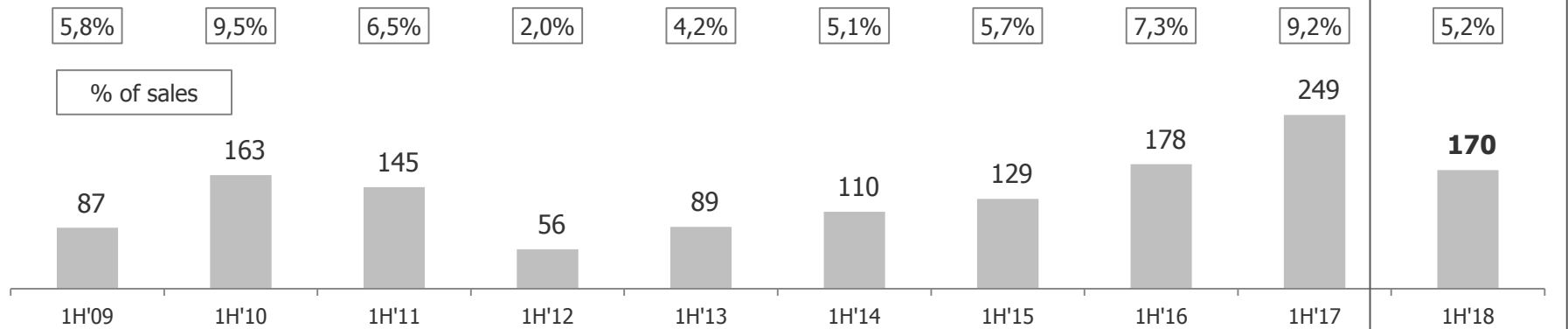
## Comment

- In 1H'18 Bx achieved record sales at the level of 3,3 bn PLN
- EBIT margin returned to the level achieved in years'14-'15

Sales in Budimex Group (M PLN)



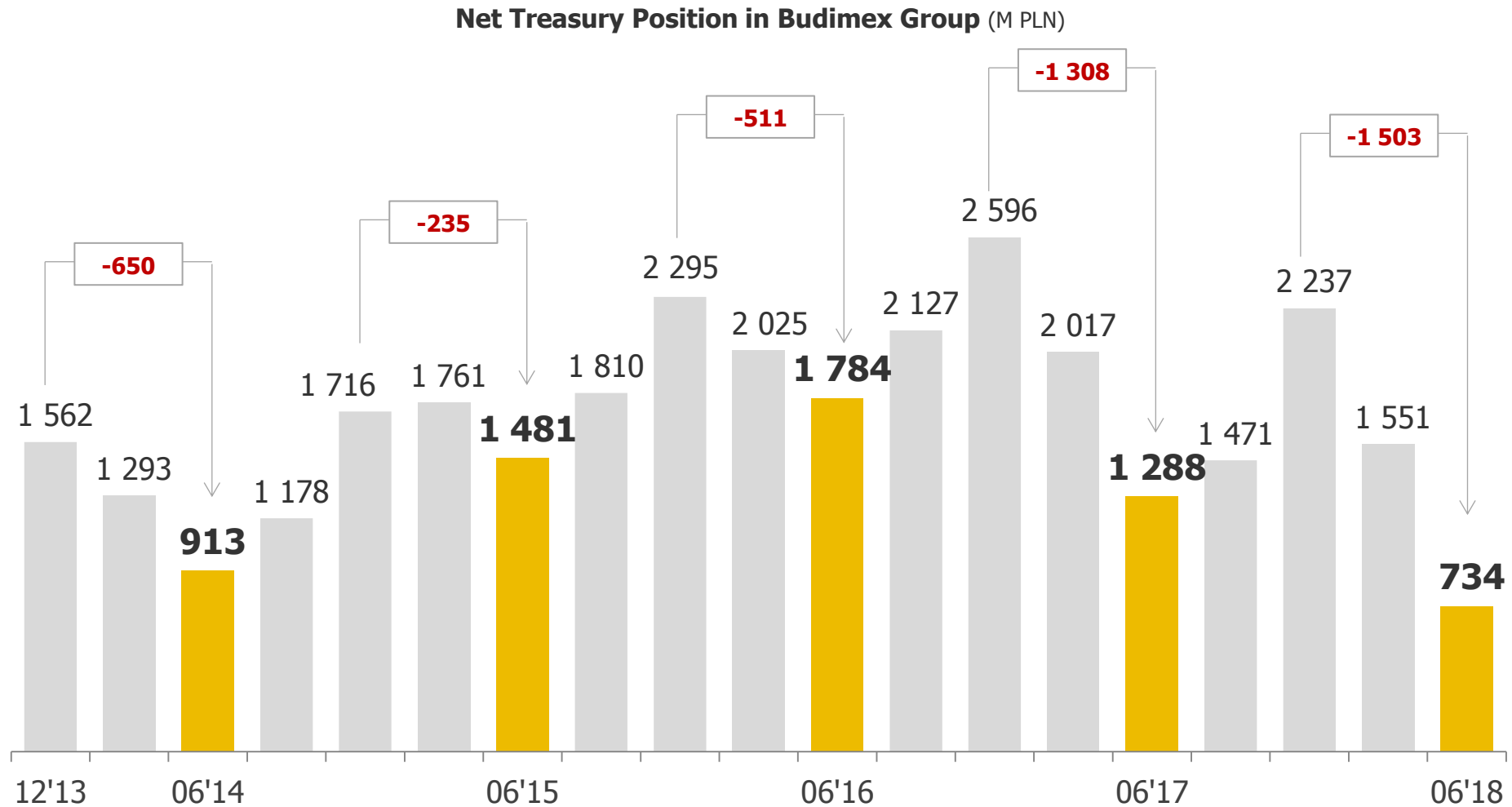
EBIT in Budimex Group (M PLN)



## 2.3 Evolution of Net Treasury Position

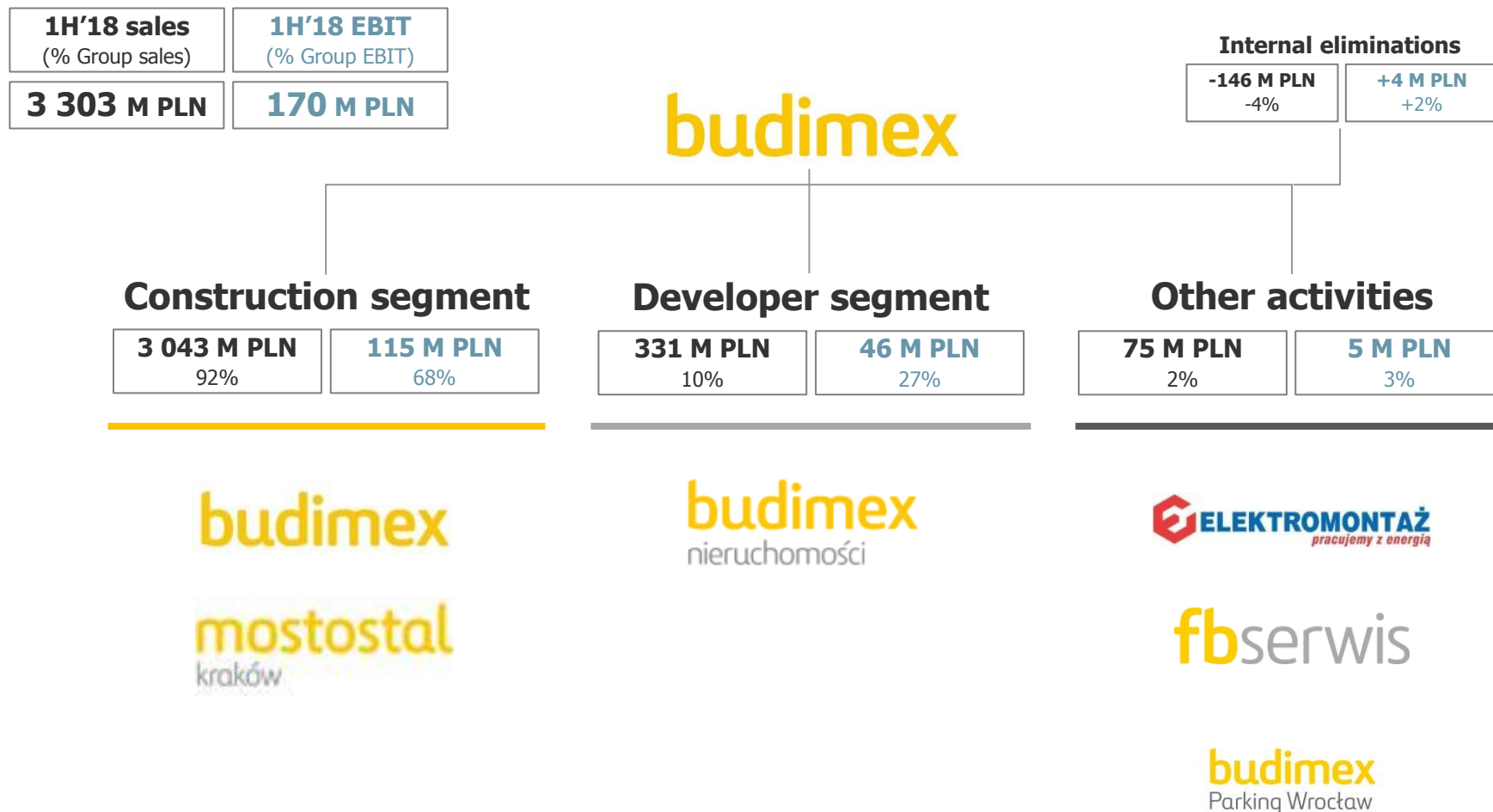
### Comment

- *NTP noted a comparable seasonal drop like in 06'17*
- *Net cash was additionally under pressure due to high dividend paid and decline in advances' balance*



## Comment

- In 1H'18 the share of particular segments in Group's result did not note any unnatural change

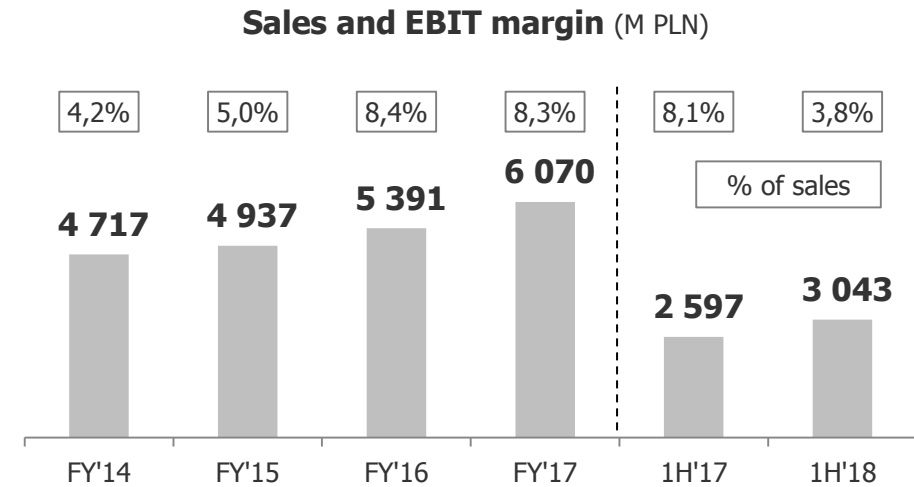


## 2.4.1 Construction segment

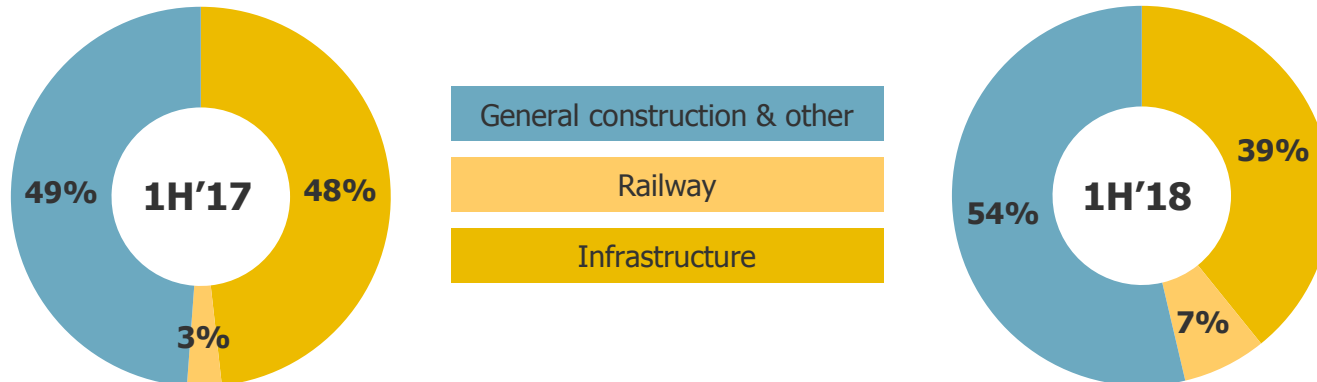
### Comment

- EBIT margin in 1H'18 amounted to 3,8%
- The share of sales generated in infrastructure segment dropped in favor of railway and general construction

	1H'18	y-o-y dynamics
<b>Sales</b>	<b>3 043</b>	<b>17%</b>
<b>Gross margin</b>	<b>213</b>	<b>-28%</b>
% sales	7,0%	-4,4 pp.
<b>Operating profit</b>	<b>115</b>	<b>-45%</b>
% sales	3,8%	-4,3 pp.
<b>Net profit</b>	<b>86</b>	<b>-49%</b>
% sales	2,8%	-3,6 pp.



### Sales structure

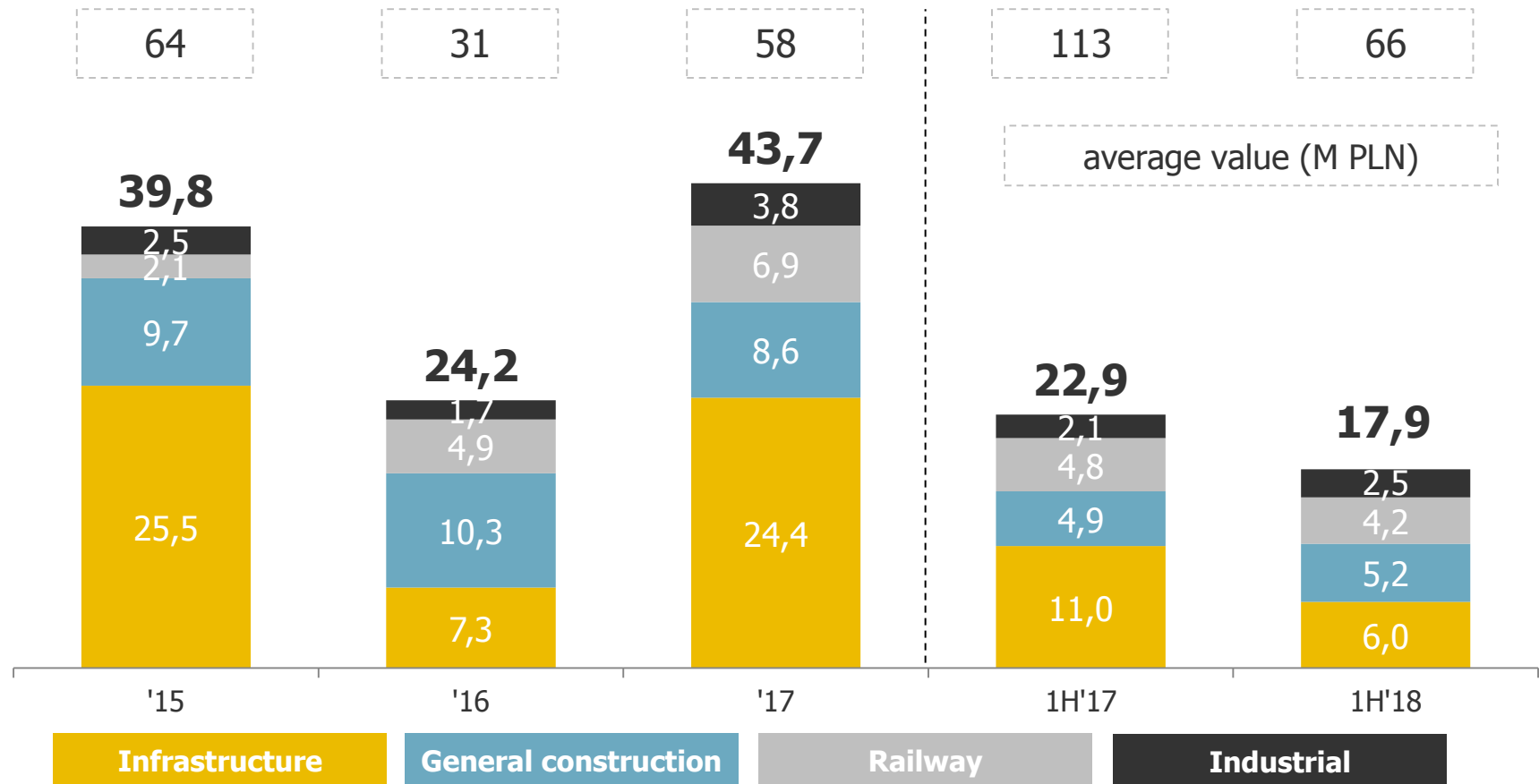


## 2.4.1 Construction segment

### Comment

- Lower tender activity of GDDKiA and Bx's selective bidding (also in railway segment) generated 21,5% y-o-y decrease of value of offers placed in 1H'18

Offers placed in Budimex Group (bn PLN)



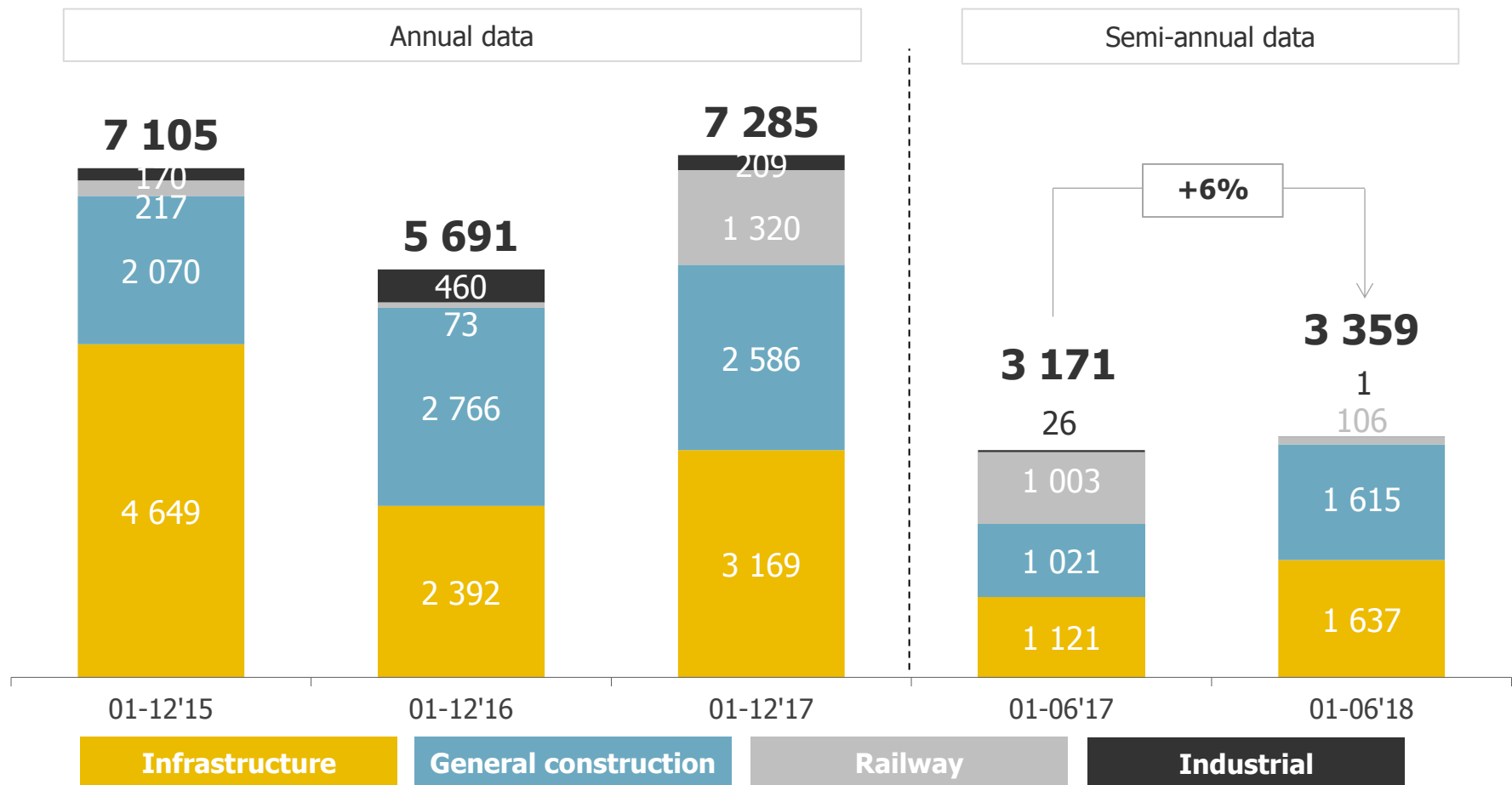


## 2.4.1 Construction segment

### Comment

- *Big contract for KGHM and contract for construction of Museum of Polish History affected significantly the value of contract signed in 1H'18*
- *Much lower value of railway contracts signed in 1H'18 vs. 1H'17*

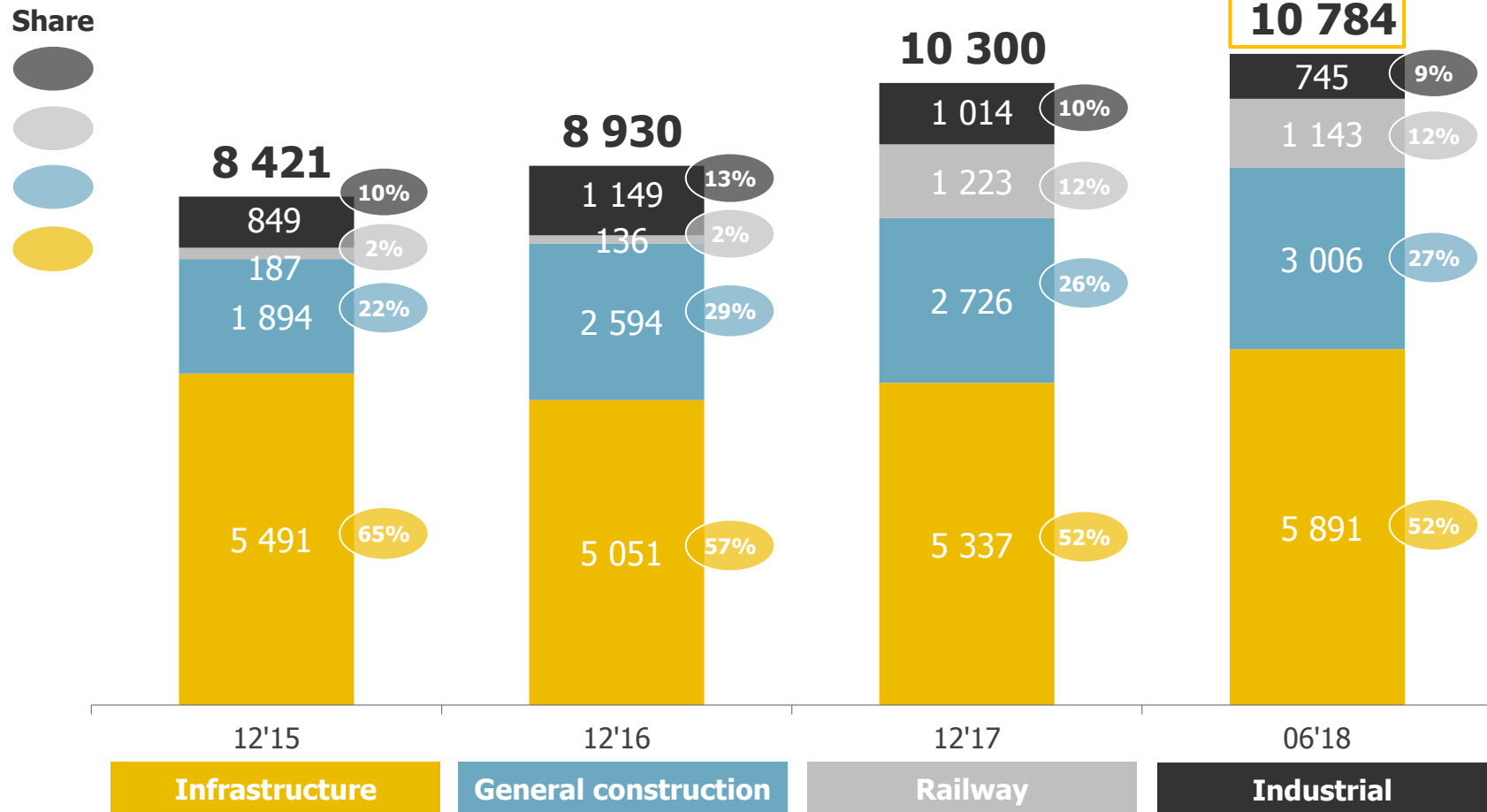
Contracts signed in Budimex Group (M PLN)



## Comment

- At the end of 1H'18 Budimex had a record backlog of 10,8 bn PLN
- Current backlog is well diversified

Backlog in Budimex Group (M PLN)



### Comment

- Current backlog includes many high-value projects at the early stage of execution

#### Top projects executed by Budimex Group

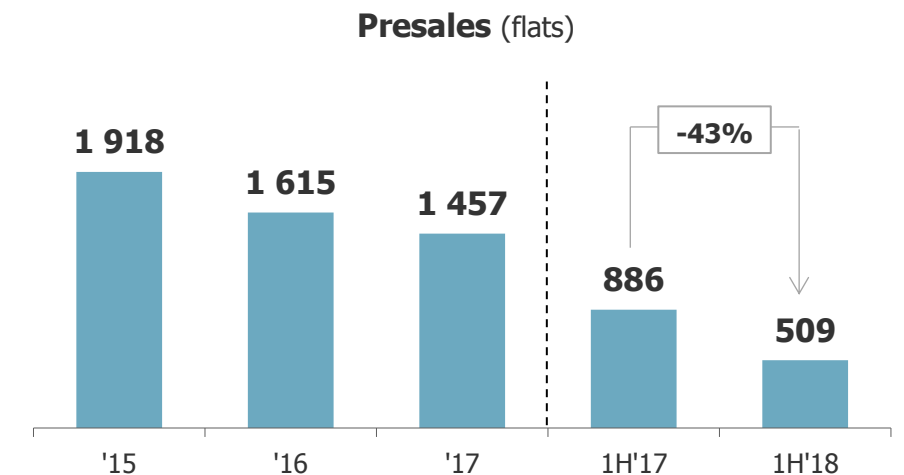
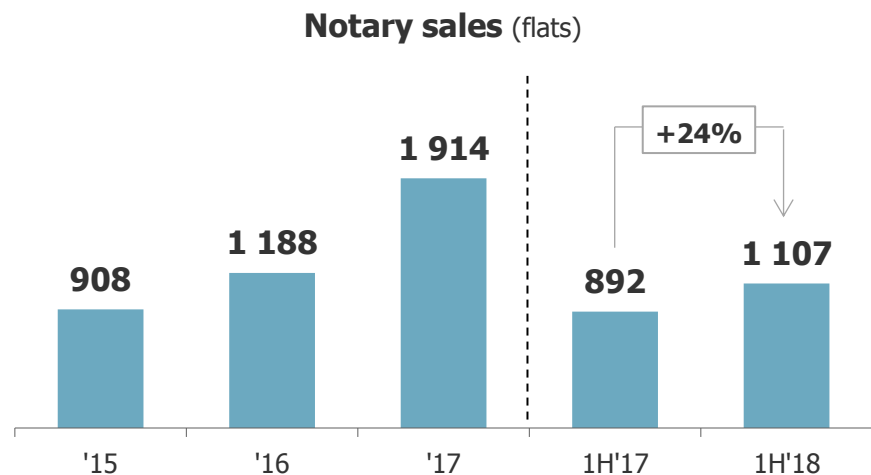
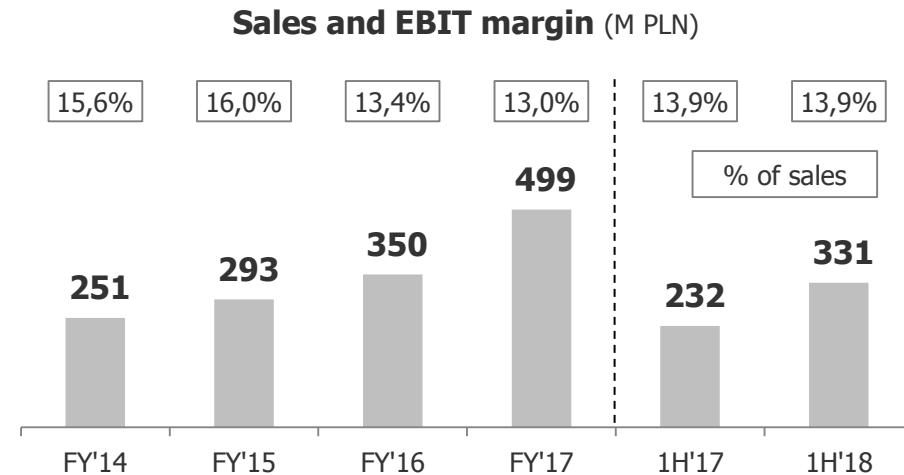
Contract	Signing month	Total value for Bx (bn PLN)	Sales progress
Łagiewnicka route in Kraków	03-2017	0,7	
Completion of reservoir in Racibórz	11-2017	0,7	
Waste treatment facility for KGHM	05-2018	0,6	
Turów power plant	07-2014	0,8	
Museum of Polish History in Warsaw	05-2018	0,5	
"Turn-key" CHP plant in Vilnius	09-2016	0,4	
Railway No. 7 Otwock - Lublin (A)	06-2017	0,4	
S3 Miękowo - Brzozów (I)	12-2017	0,3	
S51 Olsztyn ring road	03-2016	0,7	
Railway No. 7 Warszawa-Lublin (B)	05-2017	0,5	
S6 Luzino - Szemud	06-2018	0,3	
S61 Stawiski - Szczuczyn	10-2017	0,3	
S5 Wronczyn - Kościan	04-2016	0,3	
Residential complex Marina 2	06-2017	0,2	
Railway Trzebinia - Krzeszowice	10-2017	0,3	
S7 Koszwały - Elbląg	10-2015	1,3	

## 2.4.2 Developer segment

### Comment

- Developer segment kept gross margin at the level of 20,0%
- Number of presales dropped due to no significant expansion of market stock

	1H'18	y-o-y dynamics
<b>Sales</b>	<b>331</b>	<b>42%</b>
<b>Gross margin</b>	<b>66</b>	<b>40%</b>
% sales	20,0%	-0,3 pp.
<b>Operating profit</b>	<b>46</b>	<b>42%</b>
% sales	13,9%	0,0 pp.
<b>Net profit</b>	<b>38</b>	<b>40%</b>
% sales	11,6%	-0,2 pp.

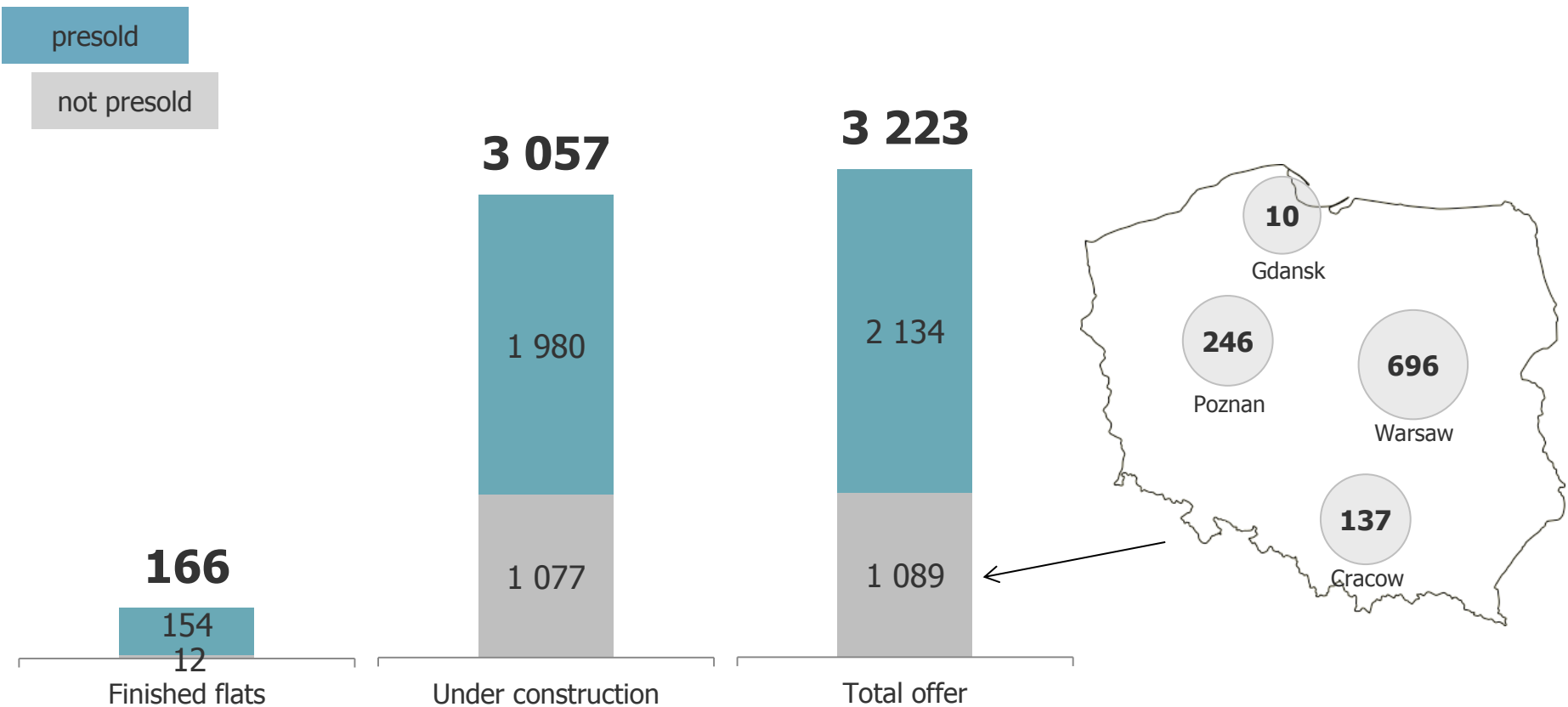


## 2.4.2 Developer segment

### Comment

- *Despite high land bank, market offer was not developed due to long-lasting legal procedures preceding the start of the project*
- *In 06'18 land bank amounted to 8 332 flats*

Market offer as at 06'18 (flats)

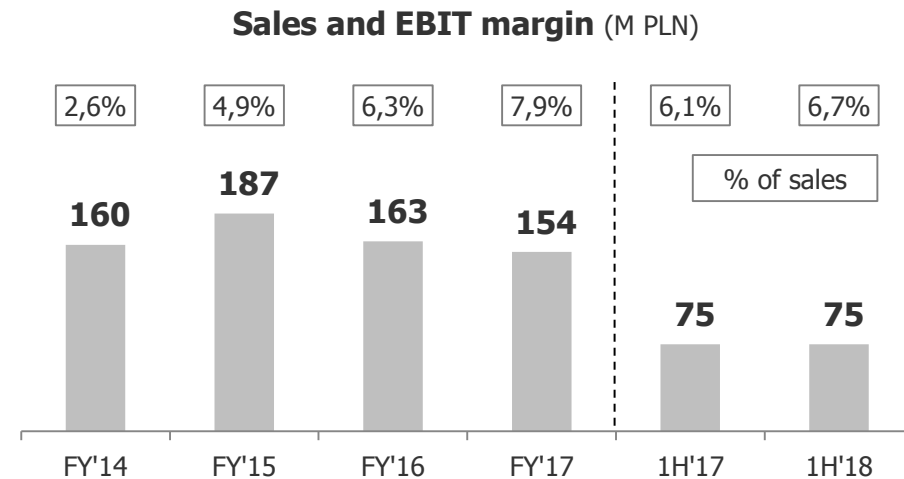


## 2.4.3 Other activities

### Comment

- In 1H'18 the segment achieved comparable results to 1H'17
- Good results in other activities is mainly driven by good performance of Elektromontaż Poznań

	1H'18	y-o-y dynamics
<b>Sales</b>	<b>75</b>	<b>0%</b>
<b>Gross margin</b>	<b>11</b>	<b>19%</b>
% sales	14,7%	2,3 pp.
<b>Operating profit</b>	<b>5</b>	<b>9%</b>
% sales	6,7%	0,6 pp.
<b>Net profit</b>	<b>1</b>	<b>n.a.</b>
% sales	1,6%	1,8 pp.



### Group's other activities segment composition



- market leader in electrical system services
- manufacturer of switchgears with own design office



- construction & administration of underground car park in Wrocław (concession)



- environmental services
- infrastructure maintenance
- facility management
- energy efficiency services

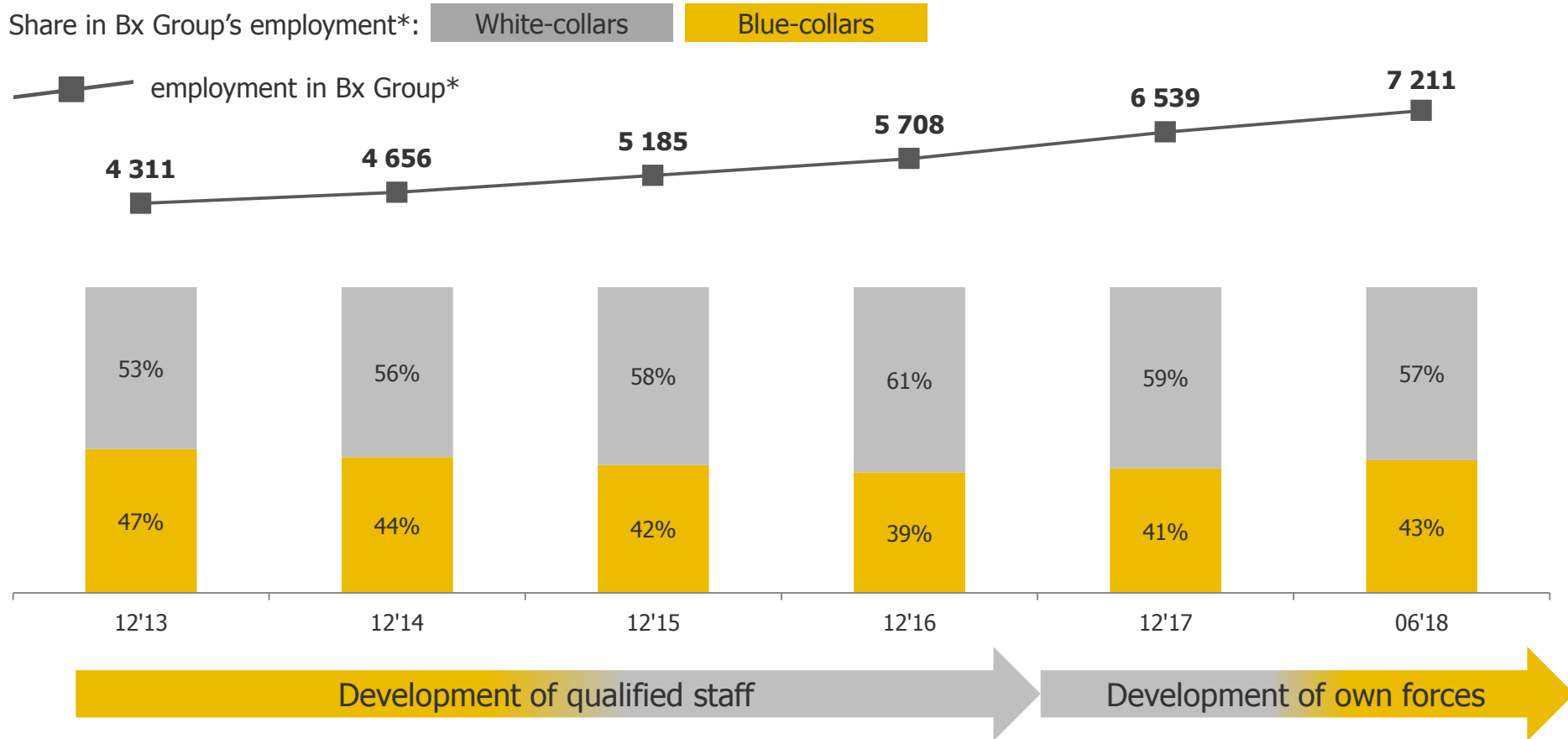


# 2.5 Employment

## Comment

- In 1H'18 Budimex increased employment by 672 people
- In response to current market situation Budimex develops own workforce

Employment in Budimex Group

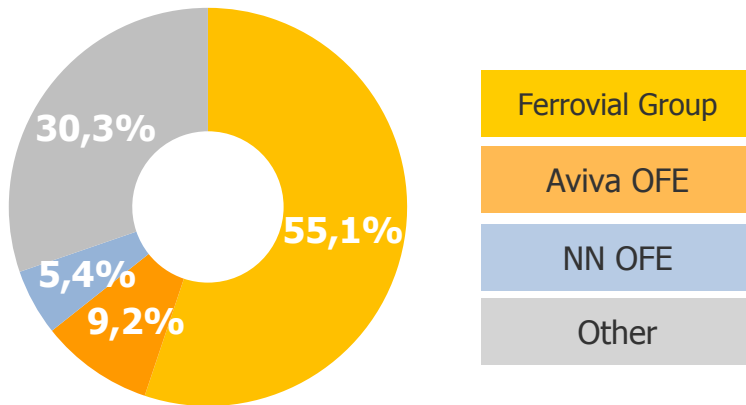


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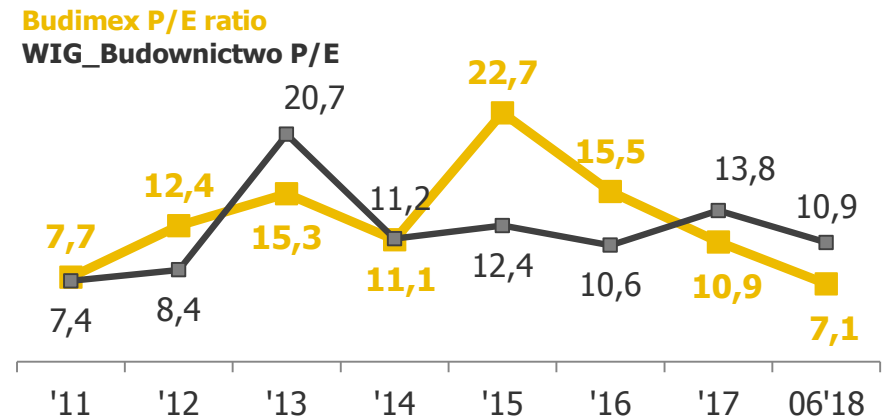
## Comment

- Pressure on margin and bad sentiment to construction segment pushed Budimex's market capitalization to the level achieved in '13-'14

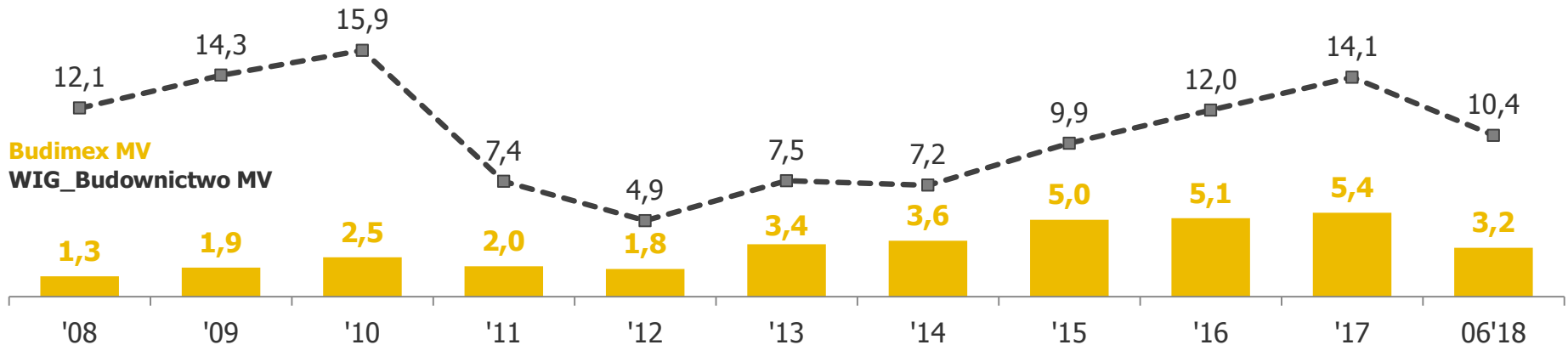
Shareholders structure



P/E ratio



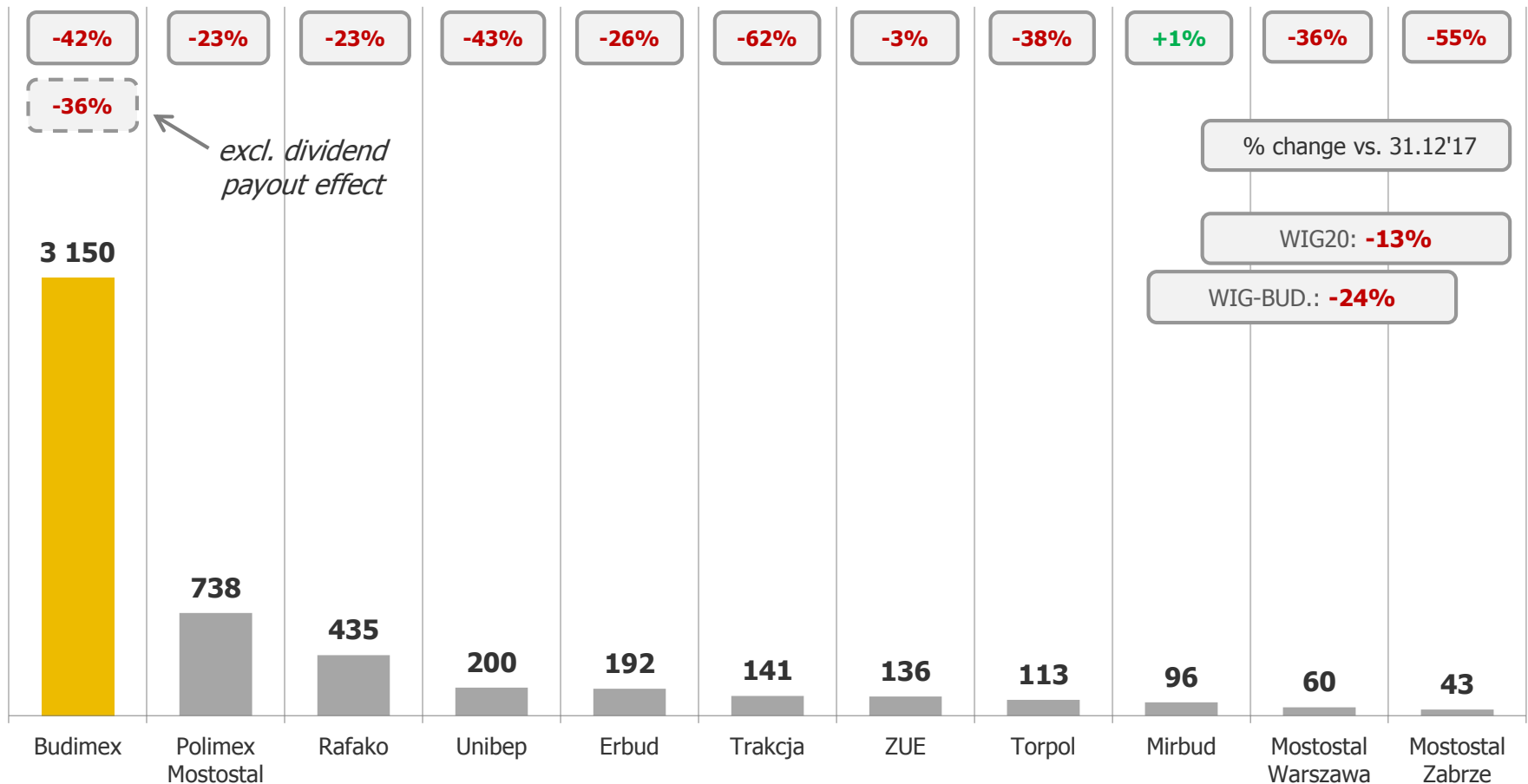
Budimex market value vs. WIG-Budownictwo aggregated market value (bn PLN)



## Comment

- *Budimex's market cap has recently noted significant decline, but it still stands out from other construction companies*

Market value as at 06'18 (M PLN)



## Comment

- For last 10 years company have allocated 100% of net profit to dividend payment

Dividends paid (M PLN)

