

**budimex**

# Investor Presentation 1H'19



## 1. Market snapshot

- 1.1 Market environment – top facts
- 1.2 Macroeconomic forecasts for Poland
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## 3. Budimex S.A. on WSE



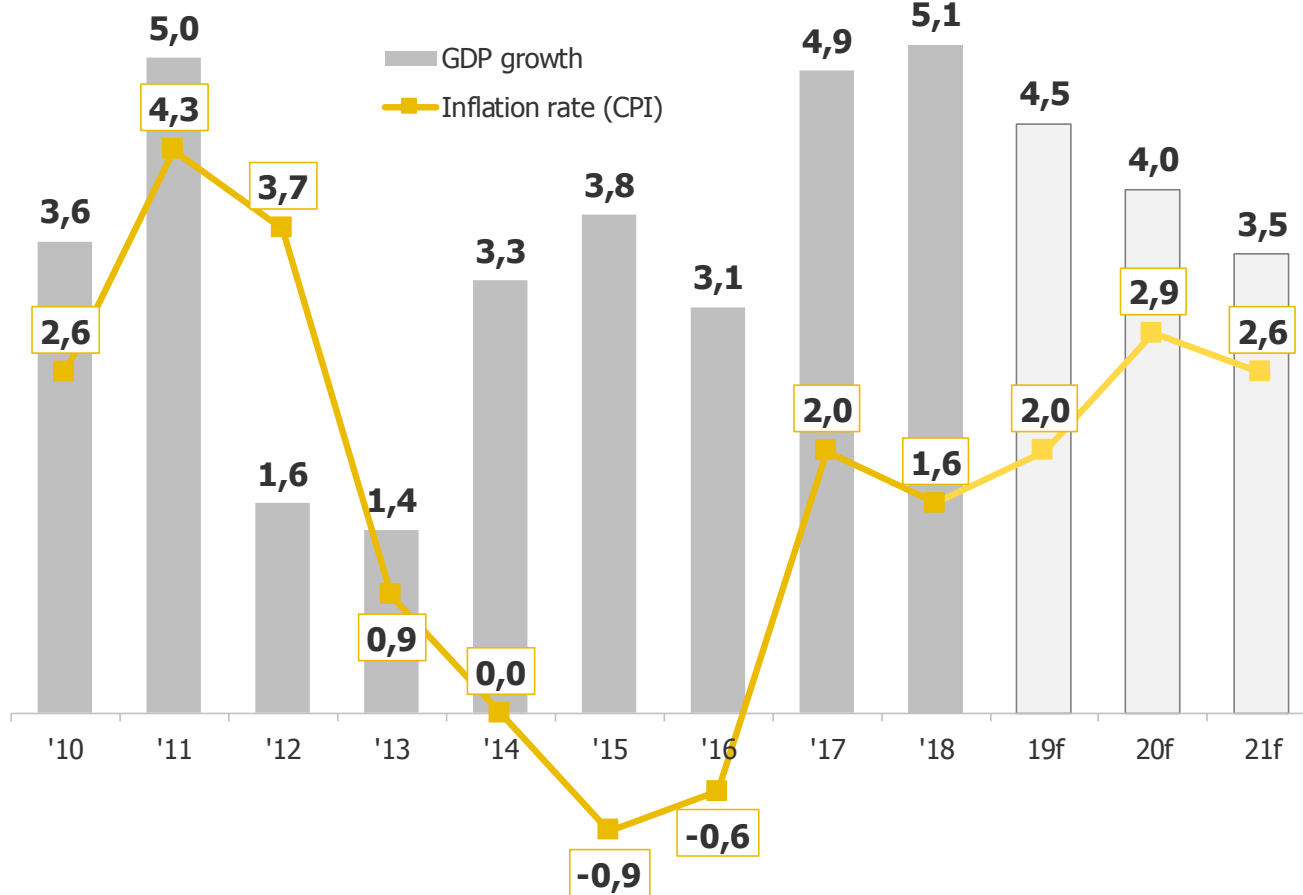
- National Bank of Poland increased forecast of GDP growth → '19f: **4,5%** y-o-y vs. 4,0% published in 03'19
- Average inflation rate should soon close to 3,0% level → '20f: **2,9%** y-o-y
- Increase of budget deficit expected soon, but public debt should remain under control → budget deficit in '19f: **1,6%** of GDP vs. 0,4% in '18
- Main materials prices in the first two quarters of '19 grew slower than in 1H'18 (in some cases prices dropped)
- Smaller y-o-y dynamics of construction production vs. '18 → 1H'19: **+10,5%**
- Profitability remains under pressure, especially in case of infrastructure companies
- Generally, level of flats presale dropped in 1H'19 y-o-y, but dynamics in 2Q'19 was higher than in 1Q'19

# 1.2 GDP growth and inflation rate

## Comment

- Latest forecast of GDP growth in '19-'21, published by National Bank of Poland in 07'19, is more optimistic than the one published in 03'19
- National Bank of Poland increased the forecast of CPI in '19 from 1,7% to 2,0%

GDP growth and inflation rate (% , y-o-y)



Forecasted decrease of GDP growth mainly due to **insufficient level of investments and external factors**

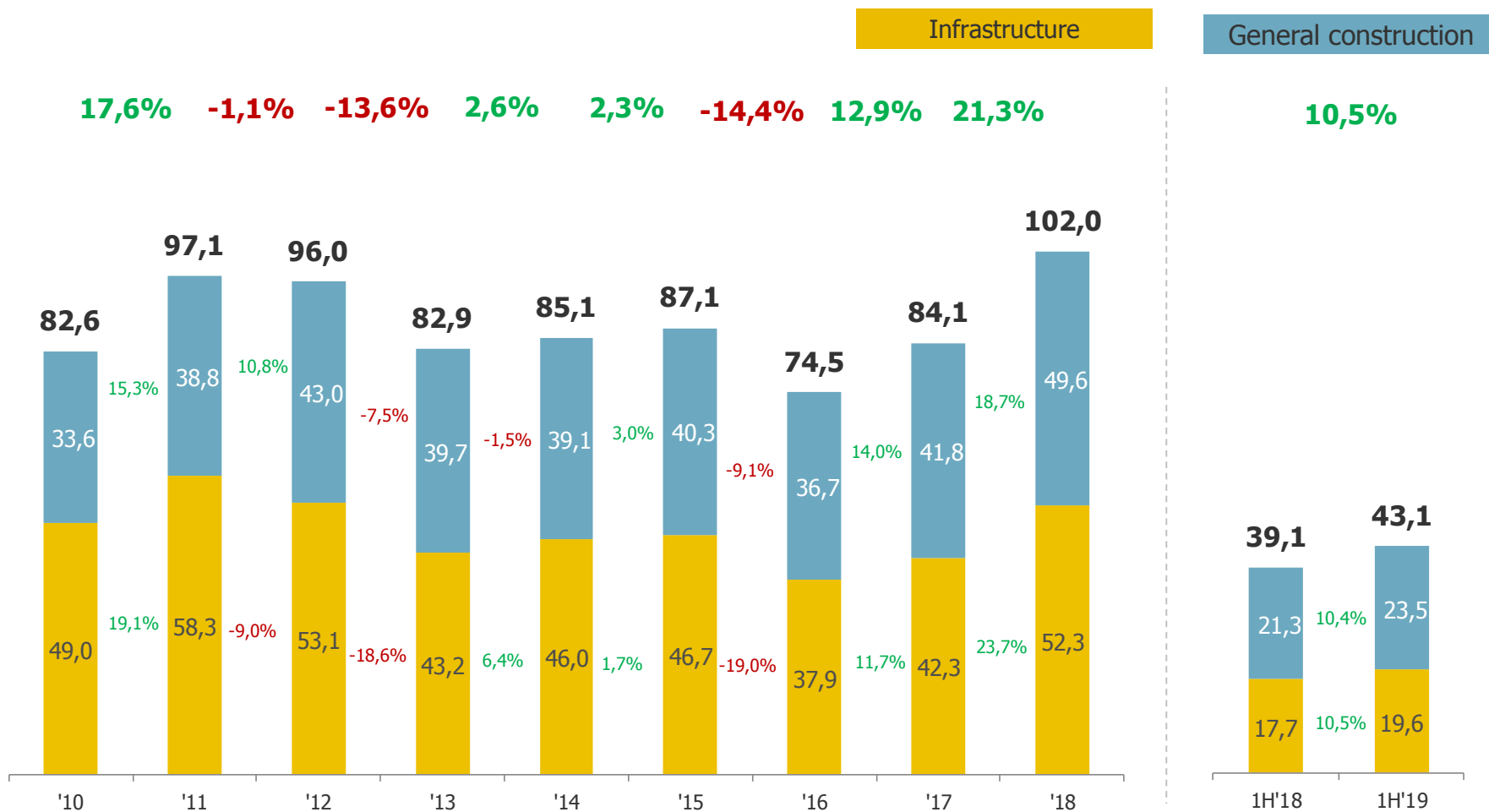
Inflation rate should be kept **within Central Bank's fluctuation band**

# 1.3 Construction production by segment

## Comment

- Construction production in 1H'19 grew by 10,5% y-o-y
- It is expected that construction production in '19 will not grow as fast as in '18

Construction and assembly production '10 – 1H'19 (bn PLN, enterprises with > 9 employees, current prices)



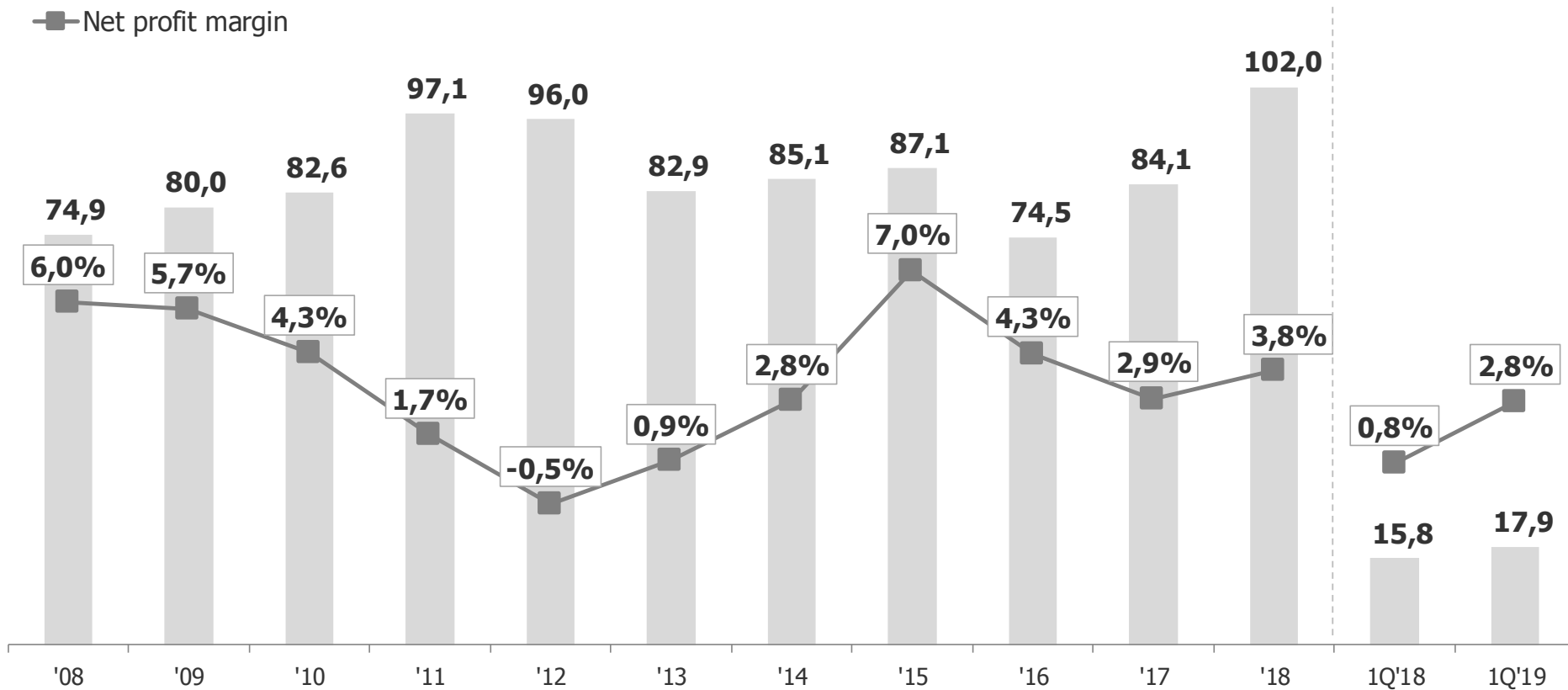
# 1.3 Production vs.net profit margin in construction

## Comment

- Net margin in construction increased in '18, however the improvement was probably generated by small and medium companies
- Poor FY'18 financial results of some top construction companies show that difficult market conditions deteriorate margin of general contractors

**Construction production** (companies > 9 employees) **vs. net profit margin in construction** (companies > 49 employees)

■ Construction production (bn PLN)  
 ■ Net profit margin

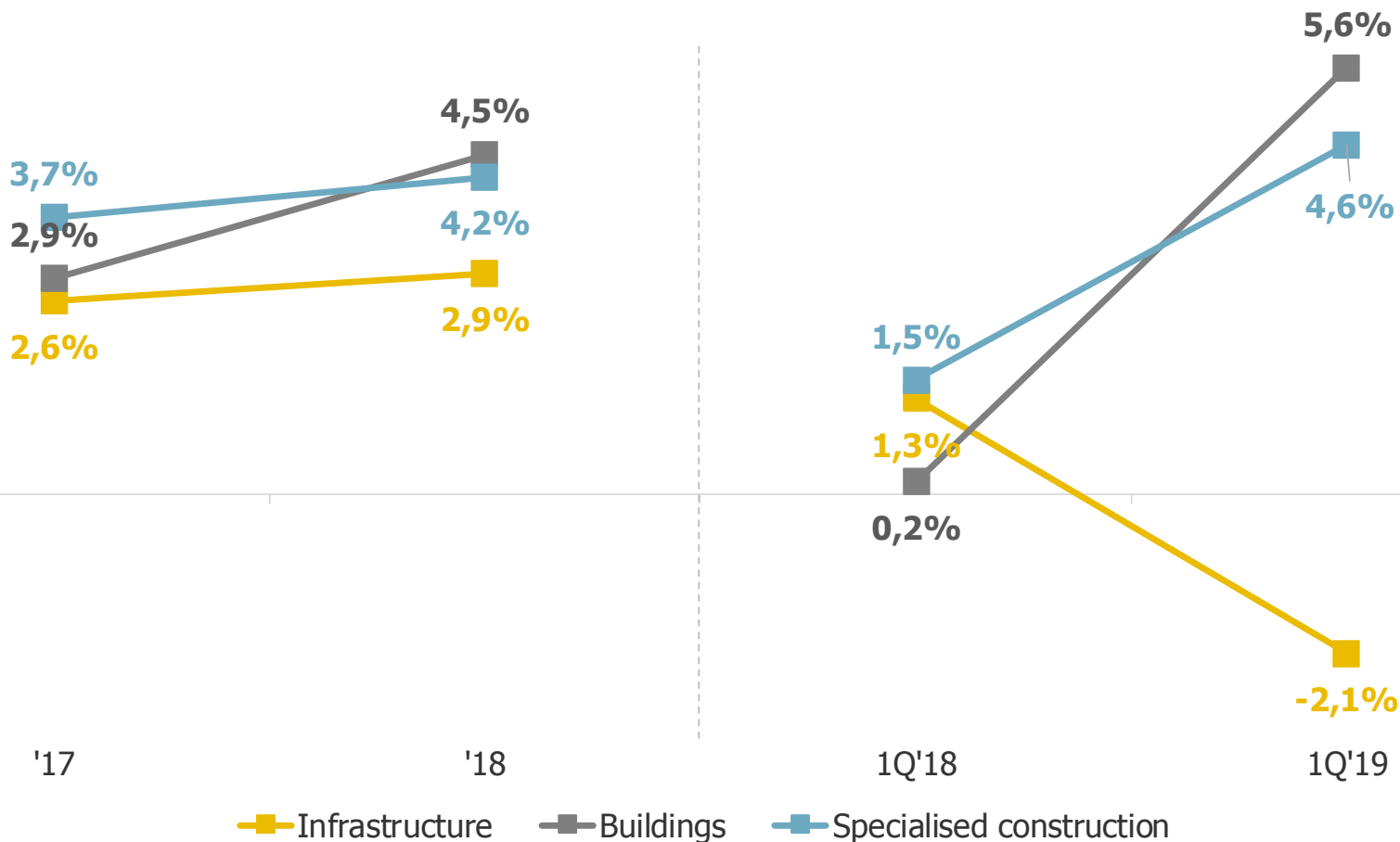


# 1.3 Net profit margin in construction

## Comment

- Net margin in infrastructure companies in 1Q'19 felt below 0
- Companies, which execute big long-term road and railway contracts, are vulnerable to cost inflation, which puts a pressure on their margins

Net profit margin in construction by segment (companies > 49 employees)

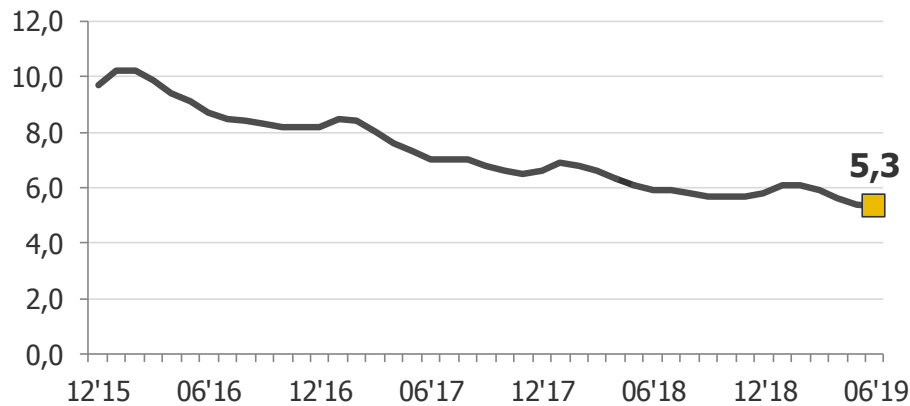


# 1.4 Labour market

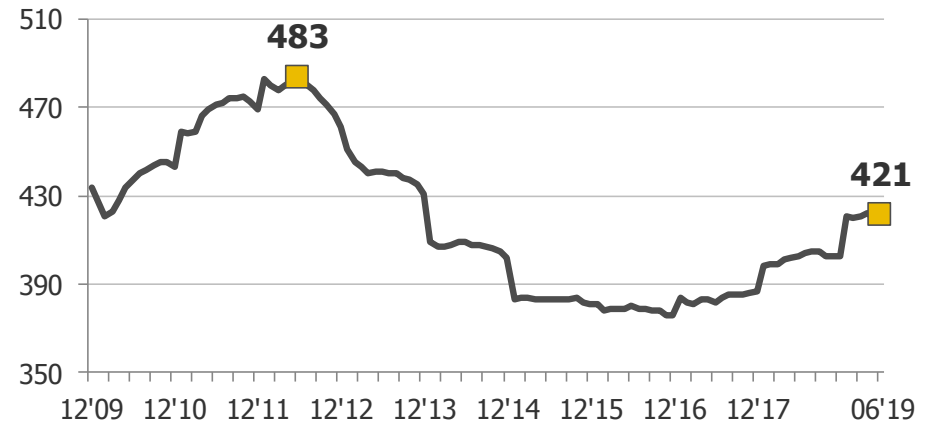
## Comment

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

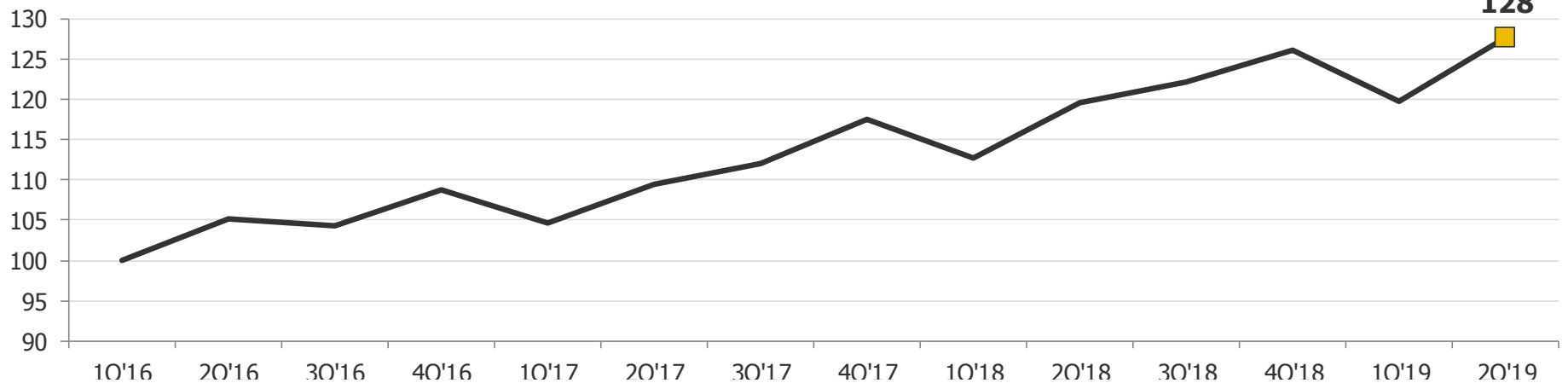
**Unemployment rate (%)**



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



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



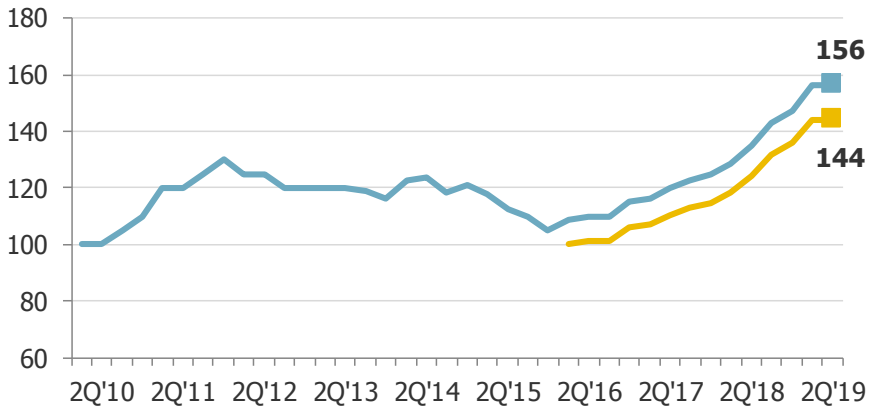


# 1.5 Prices of main materials

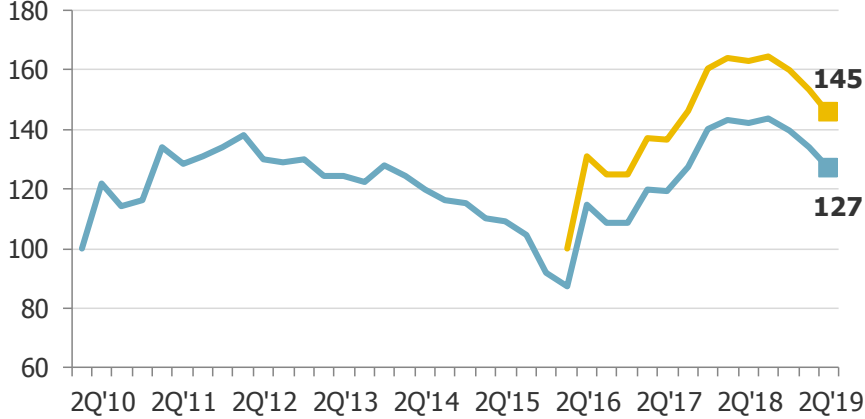
## Comment

- Lower dynamics of construction production may normalize the situation on materials market

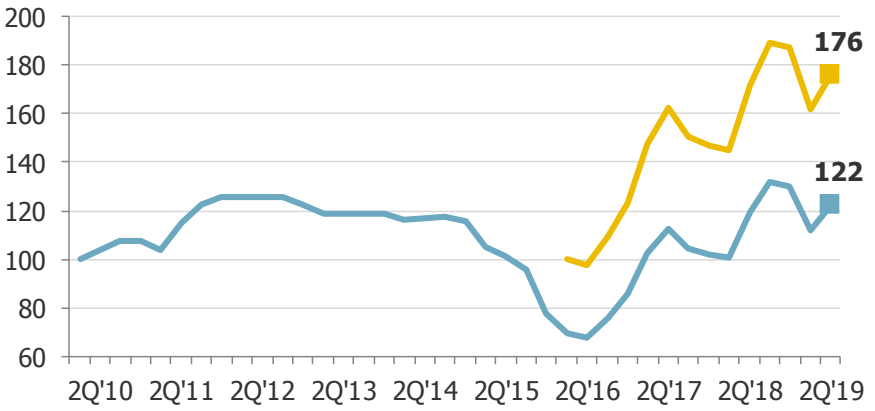
### Concrete



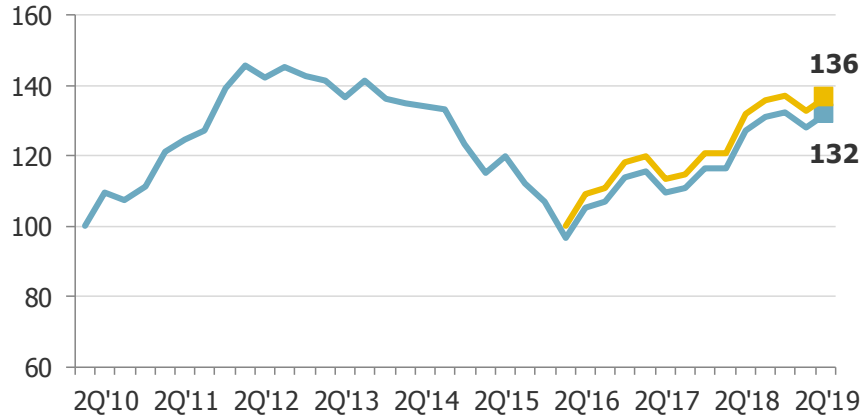
### Reinforcement steel



### Asphalt



### Diesel oil



## 2.1 Budimex Group – top facts in 1H'19

- Slight fall of sales in 1H'19 → 1H'19: **3,2 bn PLN** *(-1,6% y-o-y)*
- Decrease of % EBIT in construction segment → 1H'19: **2,0%** *(-1,8 p.p. y-o-y)*
- Rising share of railway in construction sales → 1H'19: **11,9%** *(+4,8 p.p. y-o-y)*
- Mid-year drop of net cash → 06'19: **0,3 bn PLN** *(-0,9 bn PLN vs. 12'18)*
- Increase in value of contracts signed → 1H'19: **3,8 bn PLN** *(+13,1% y-o-y)*
- Significant increase of backlog → 06'19: **11,1 bn PLN** *(+0,9 bn PLN vs. 12'18)*
- High improvement of market offer → 06'19: **4 011 flats** *(+655 flats vs. 12'18)*
- First developer project in Wroclaw launched
- Purchase of remaining 51% stake in FBSerwis conducted at the begin of 07'19

### Comment

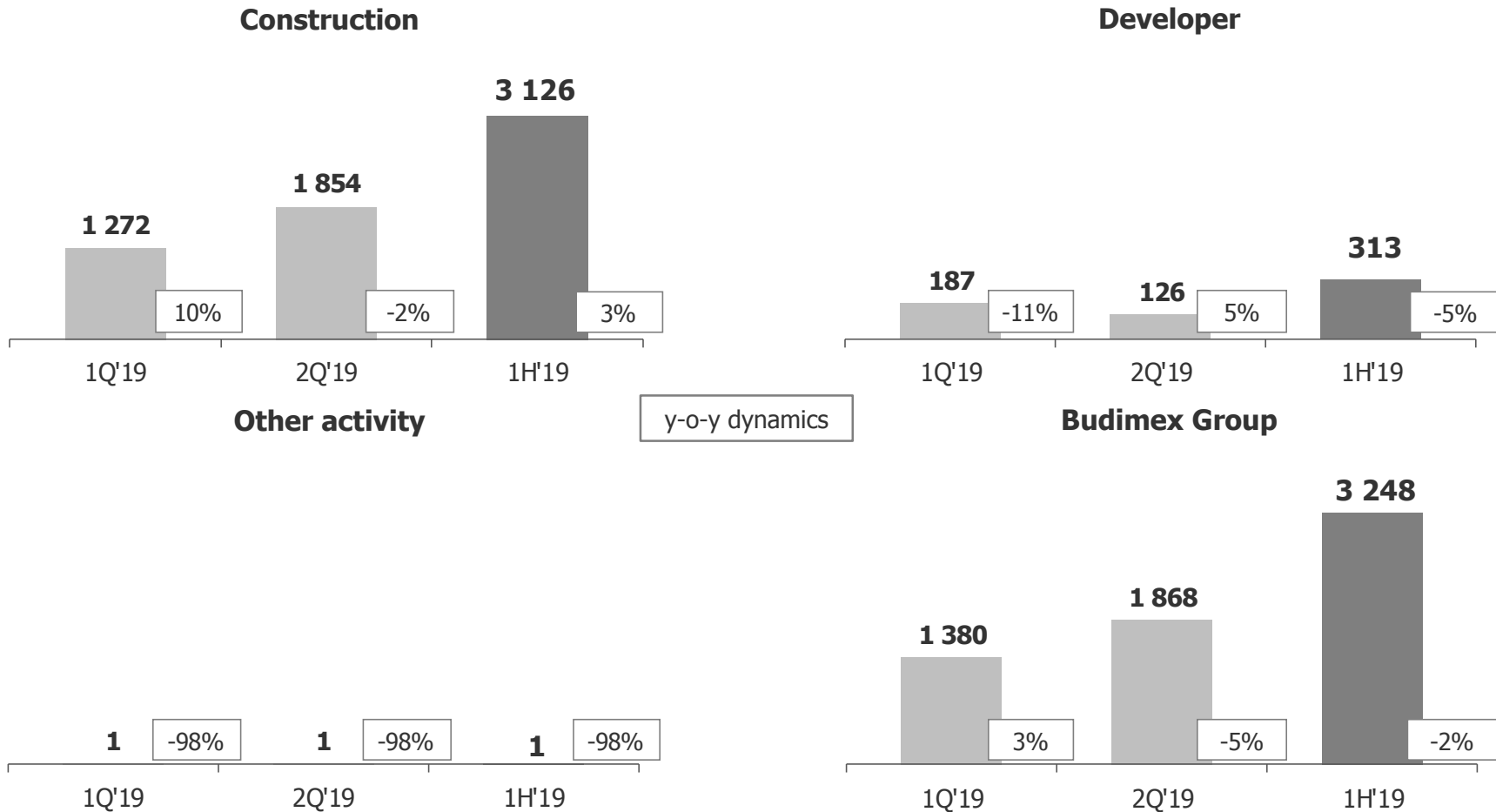
- Slight decrease of sales in 1H'19 vs. 1H'18 (-1,6%)
- Deterioration of Group's margin due to decrease of profitability in construction segment (high cost pressure)

	1H'19	1H'18	Δ		FY'18	FY'17
<b>Sales</b>	<b>3 248</b>	<b>3 303</b>	<b>-54</b>	↓	7 387	6 369
<i>y-o-y dynamics</i>	-1,6%	21,3%	-23,0 pp.	↓	16,0%	14,3%
<b>Gross margin</b>	<b>209</b>	<b>286</b>	<b>-77</b>	↓	629	810
<i>% sales</i>	6,4%	8,7%	-2,2 pp.	↓	8,5%	12,7%
SG&A	-121	-125	4		-260	-251
<i>% sales</i>	3,7%	3,8%	-0,1 pp.		-3,5%	-3,9%
Other operating	23	9	14		48	29
<b>EBIT</b>	<b>111</b>	<b>170</b>	<b>-59</b>	↓	417	588
<i>% sales</i>	3,4%	5,2%	-1,7 pp.	↓	5,6%	9,2%
PBT	108	163	-55	↓	403	580
<i>% sales</i>	3,3%	4,9%	-1,6 pp.	↓	5,5%	9,1%
<b>Net profit</b>	<b>72</b>	<b>128</b>	<b>-56</b>	↓	305	464
<i>% sales</i>	2,2%	3,9%	-1,7 pp.	↓	4,1%	7,3%

## Comment

- Comparable sales in construction generated in 2Q'19 vs. 2Q'18
- Q-o-q drop of sales in developer segment (42% drop in notary sales)

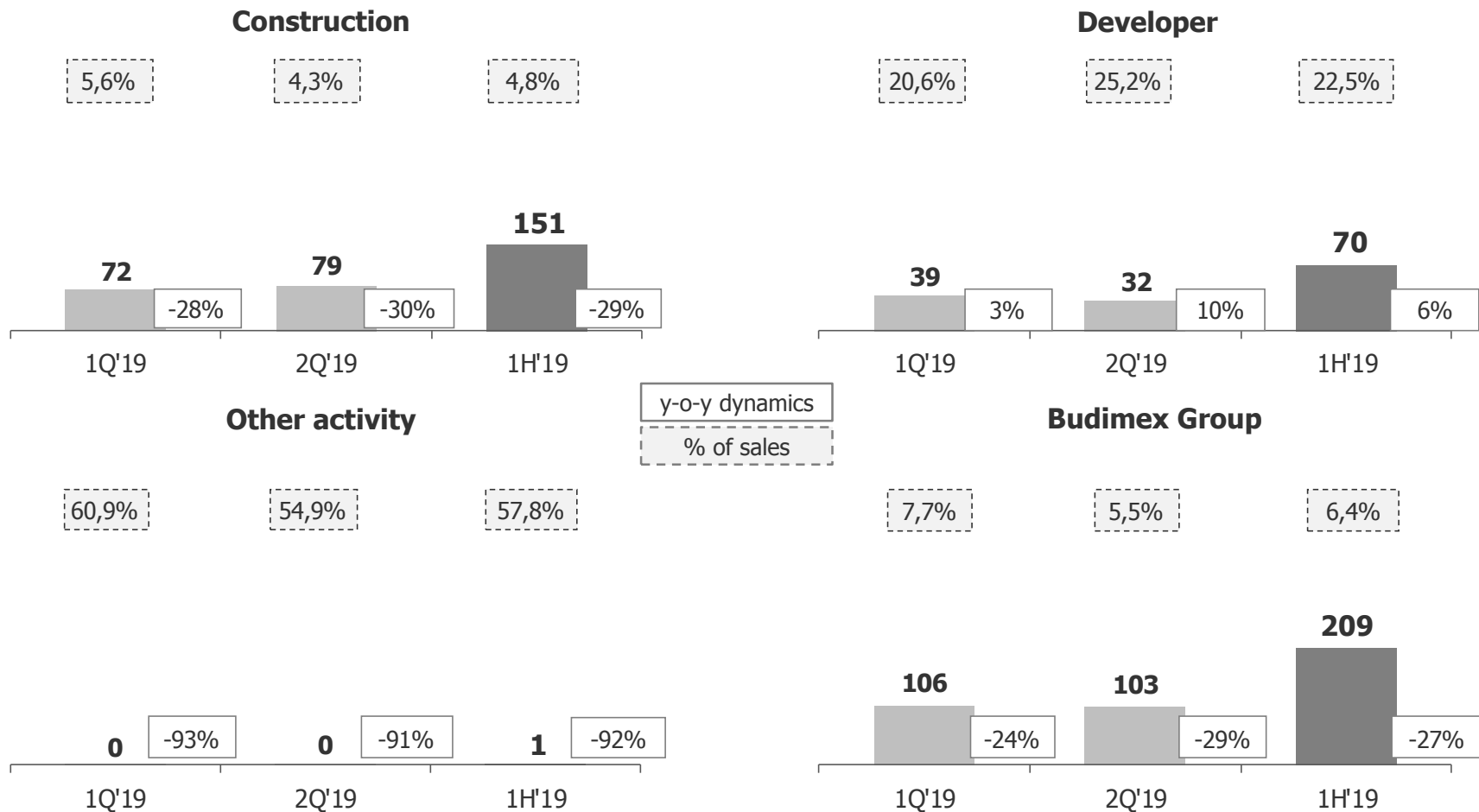
Quarterly sales in Budimex Group (M PLN)



## Comment

- Pressure on gross margin in construction was also visible in 2Q'19

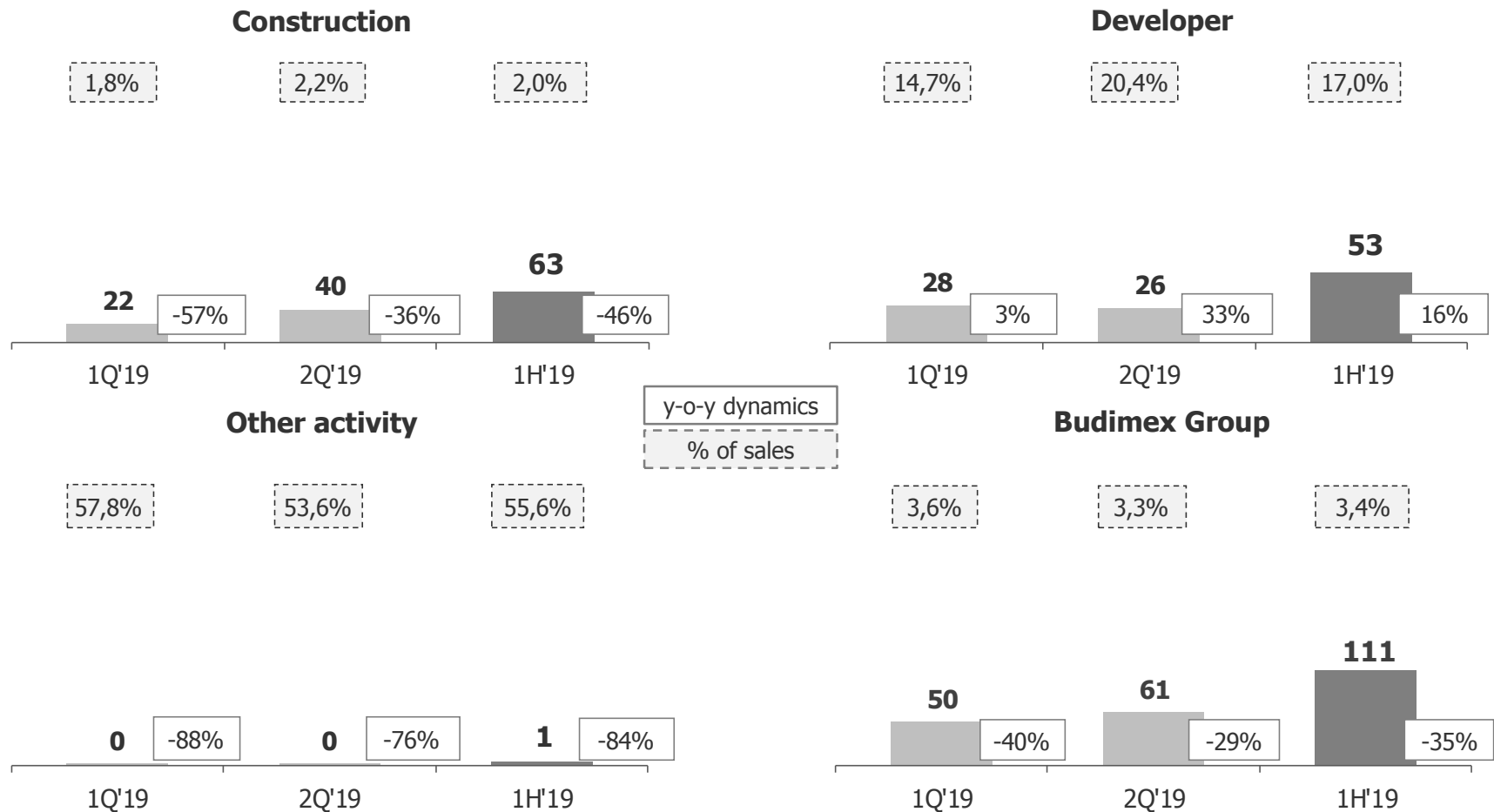
Quarterly gross margin in Budimex Group (M PLN)



## Comment

- Improvement of EBIT margin in construction achieved due to positive effects recognized in other operational activity
- Better performance in developer segment in 2Q'19 in terms of EBIT margin: 20,4% in 2Q'19 vs. 14,7% in 1Q'19

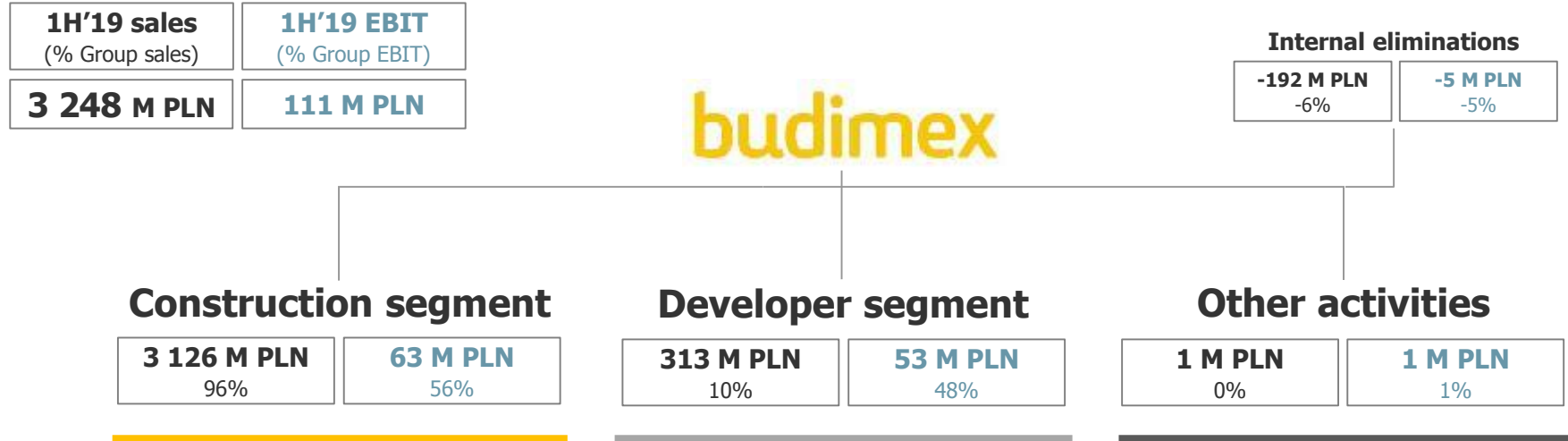
Quarterly EBIT in Budimex Group (M PLN)



## 2.2 P&L - results by segment

### Comment

- Almost half of 1H'19 EBIT was generated in developer segment
- At the begin of 07'19 Budimex finalized transaction and became the only owner of FBSerwis (price for equity = 98,5 M PLN)



**budimex**

**budimex**  
nieruchomości

**fbserwis**

Share as at 06'19: **49%**  
(increased to 100% at the begin of 07'19)

**mostostal**  
kraków

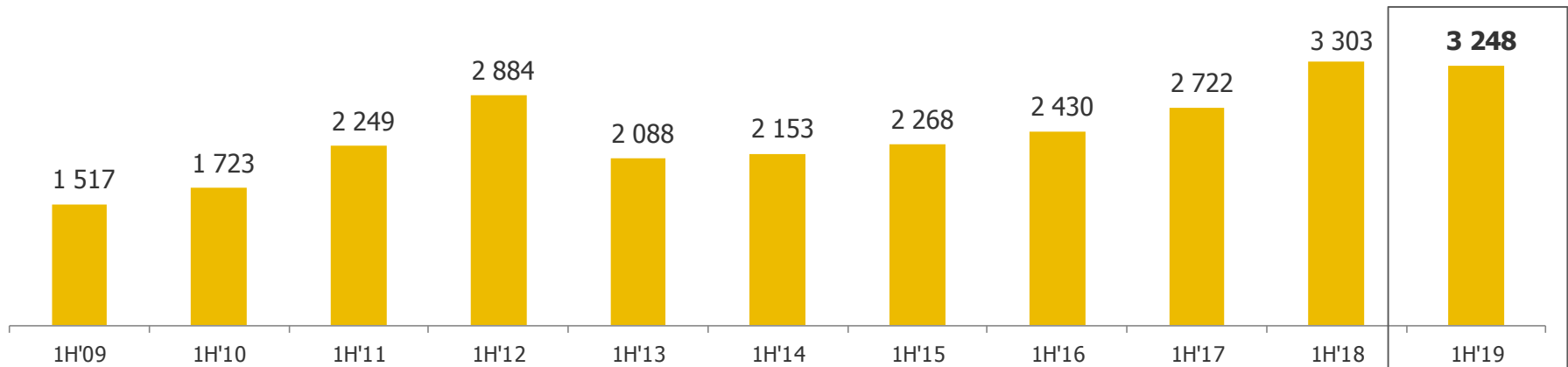
**budimex**  
Parking Wrocław

Share as at 06'19: **51%**

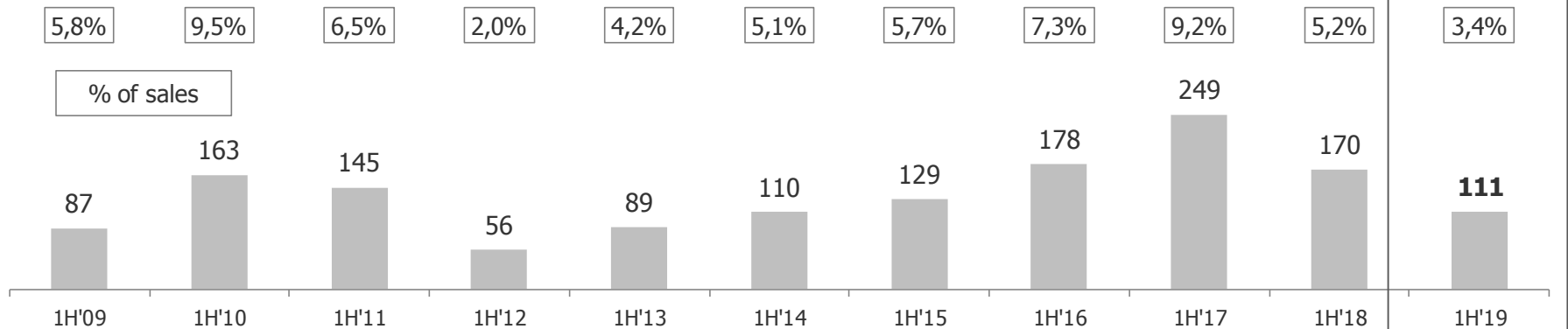
## Comment

- *In 1H'19 Group' sales noted 1,6% decline y-o-y*
- *Due to unfavorable market environment in construction sector, EBIT margin felt in 1H'19 to 3,4%*

Sales in Budimex Group (M PLN)



EBIT in Budimex Group (M PLN)



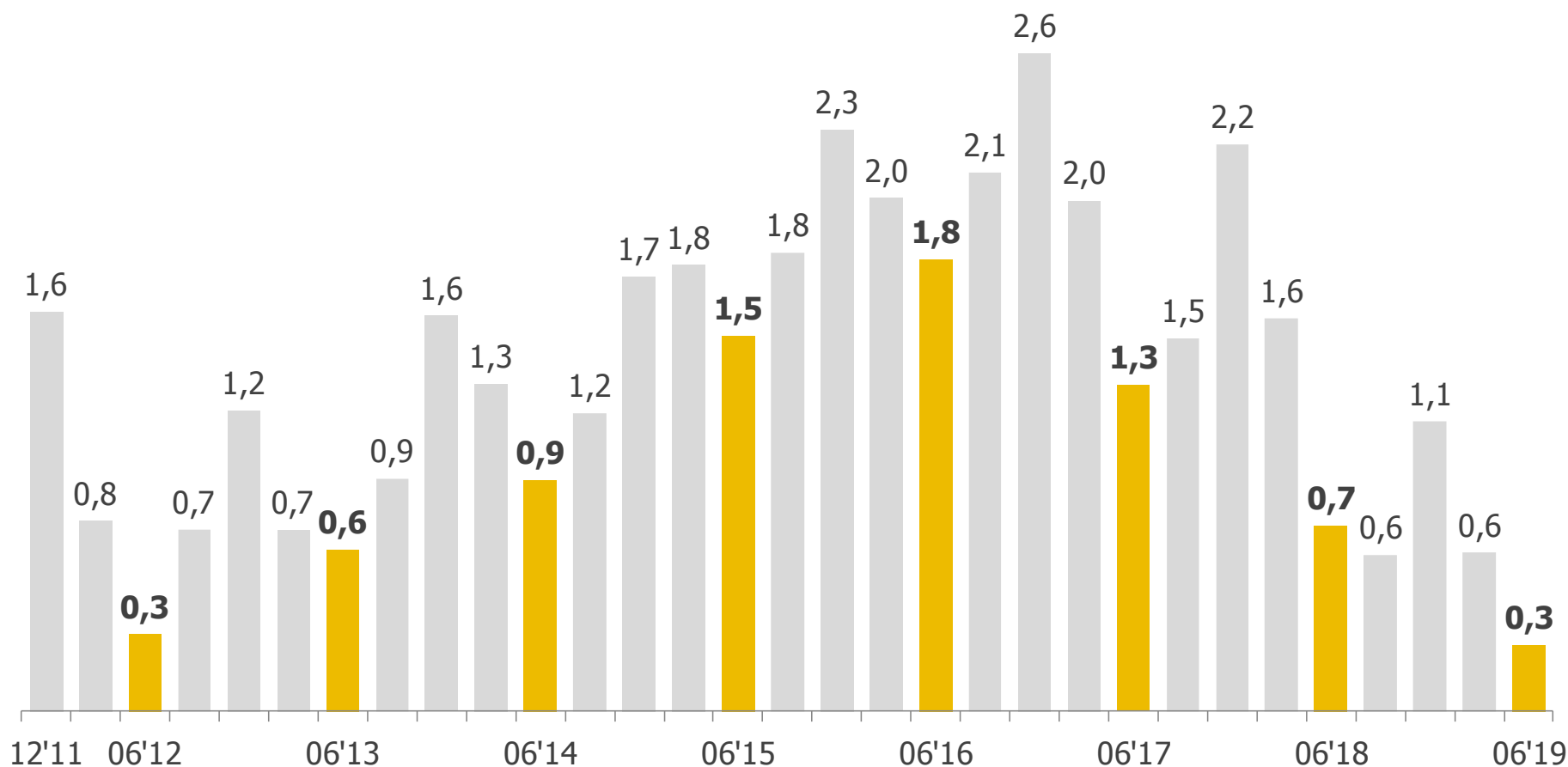


## 2.3 Evolution of Net Treasury Position

### Comment

- *In 2Q the Group faced seasonal drop of net cash*
- *Cash balance was under pressure due to dividend payment and significant investment in working capital*

Net Treasury Position in Budimex Group (bn PLN)

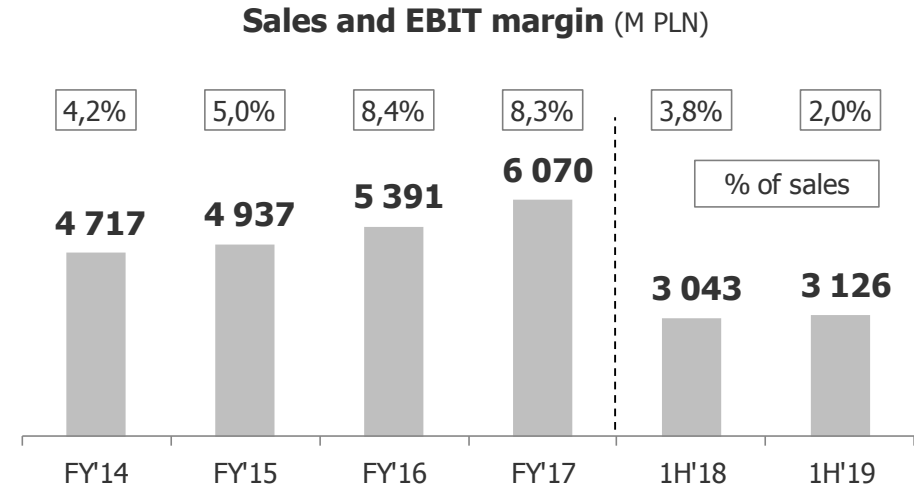


## 2.4.1 Construction segment

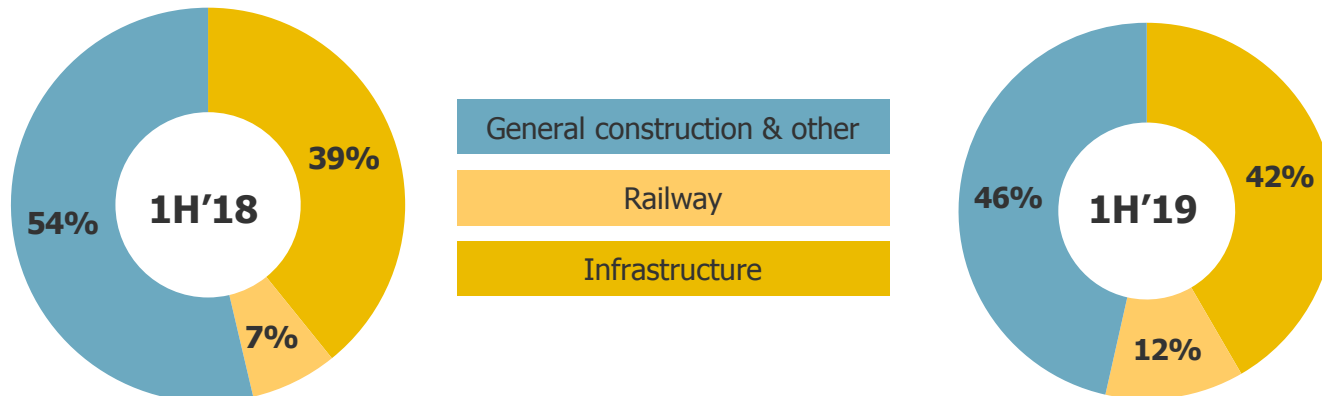
### Comment

- EBIT margin in 1H'19 amounted to 2,0%
- The share of sales generated in railway segment increased due to further execution of record railway backlog

	1H'19	y-o-y dynamics
<b>Sales</b>	<b>3 126</b>	<b>3%</b>
<b>Gross margin</b>	<b>151</b>	<b>-29%</b>
% sales	4,8%	-2,2 pp.
<b>Operating profit</b>	<b>63</b>	<b>-46%</b>
% sales	2,0%	-1,8 pp.
<b>Net profit</b>	<b>27</b>	<b>-69%</b>
% sales	0,9%	-2,0 pp.



### Sales structure

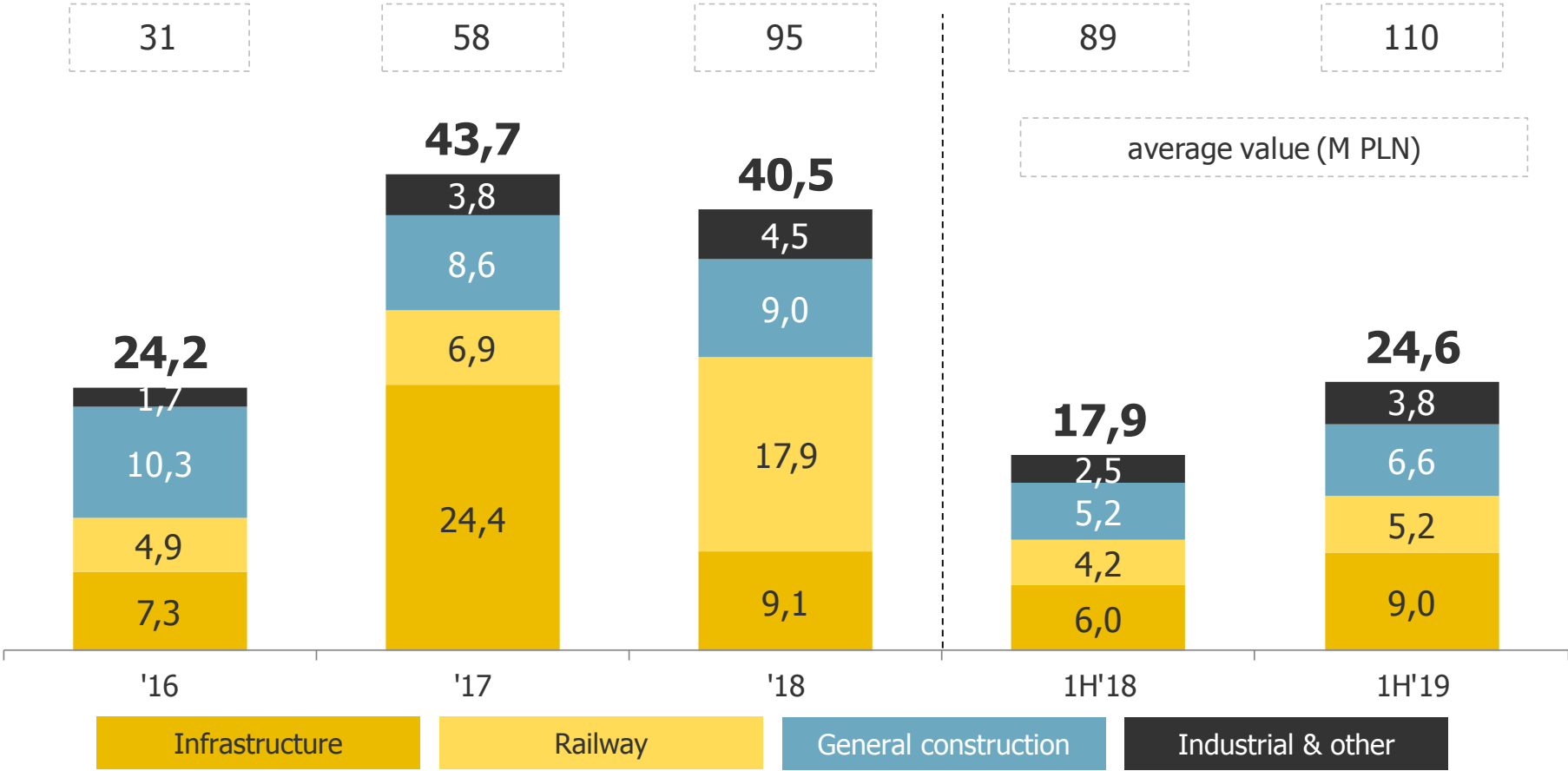


# 2.4.1 Construction segment

## Comment

- +37% increase of value of offers placed in 1H'19 vs. 1H'18 due to increased activity in all segments
- Current offers seem to reflect new cost environment, as a result of which investor budgets are regularly exceeded

**Offers placed in Budimex Group (bn PLN)**

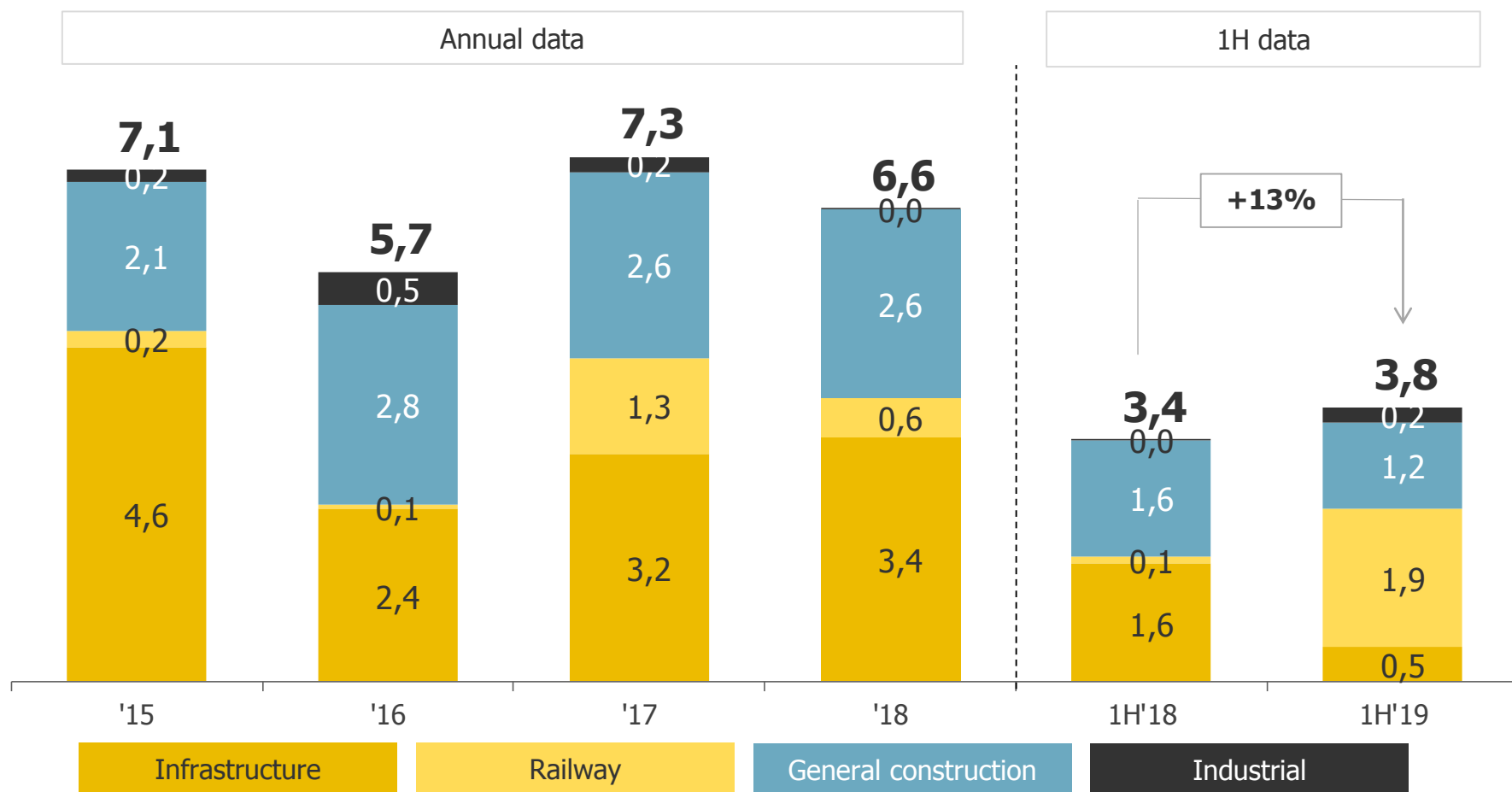


## 2.4.1 Construction segment

### Comment

- Slowdown on GDDKiA market had an impact on contracts signed in infrastructure
- High y-o-y increase of contracts signed in railway due to two big projects acquired (continuation of railway No. 7: Deblin – Naleczow and railway contract in Gdynia seaport)

**Contracts signed in Budimex Group** (bn PLN)

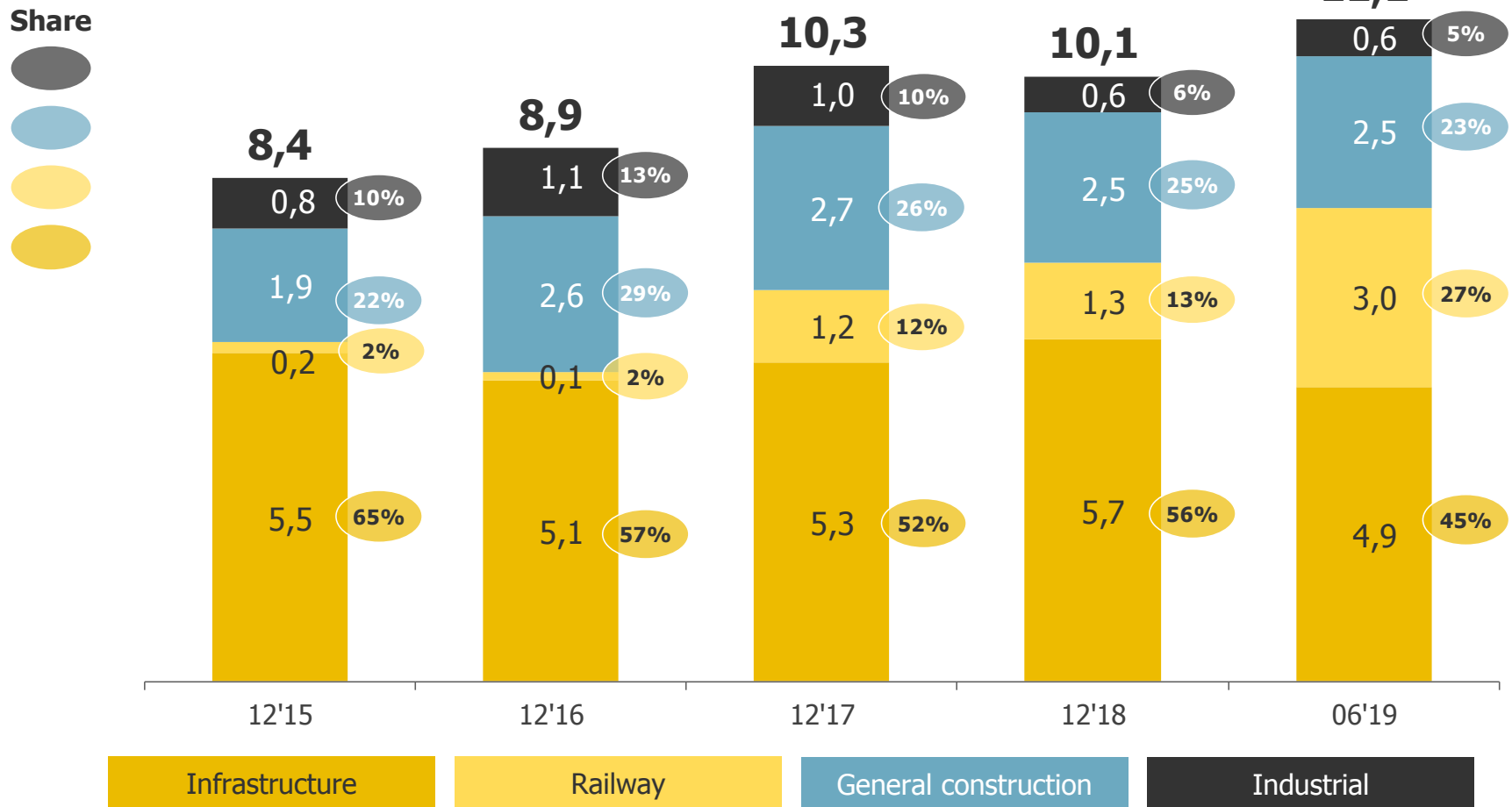


## 2.4.1 Construction segment

### Comment

- At the end of 1H'19 Budimex had a backlog of 11,1 bn PLN
- Share of railway projects in backlog is higher than general construction

**Backlog in Budimex Group** (bn PLN)

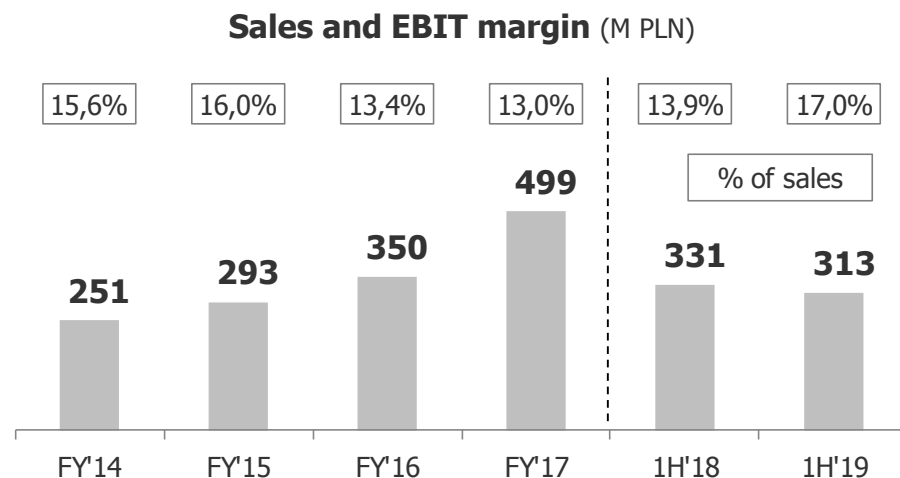


## 2.4.2 Developer segment

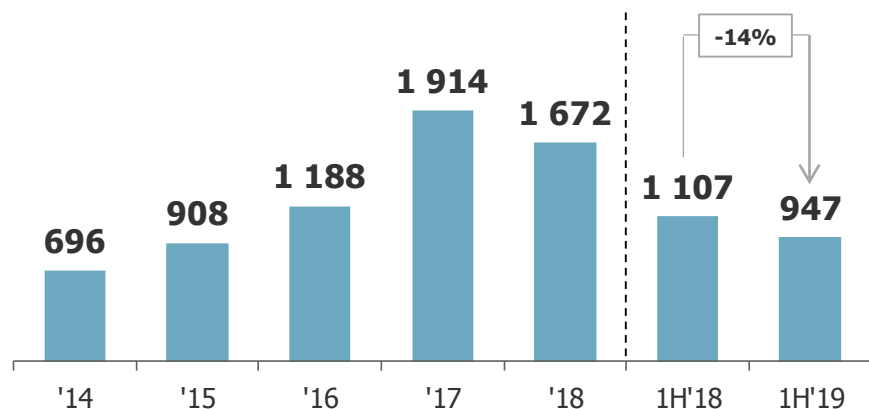
### Comment

- High level of notary sales in 1H'19 (947 flats)
- Much higher presales reached in 1H'19 (731 flats) vs. 1H'18
- Developer segment generated gross margin at 22,5% level

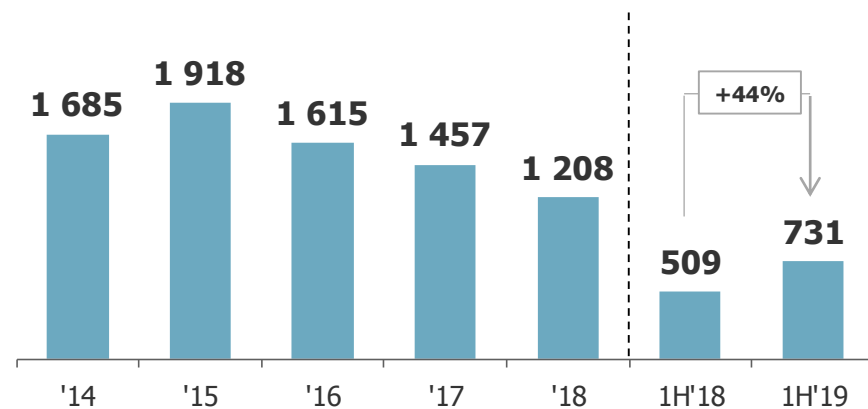
	1H'19	y-o-y dynamics
<b>Sales</b>	<b>313</b>	<b>-5%</b>
<b>Gross margin</b>	<b>70</b>	<b>6%</b>
% sales	22,5%	2,5 pp.
<b>Operating profit</b>	<b>53</b>	<b>16%</b>
% sales	17,0%	3,1 pp.
<b>Net profit</b>	<b>45</b>	<b>16%</b>
% sales	14,2%	2,7 pp.



**Notary sales (flats)**



**Presales (flats)**

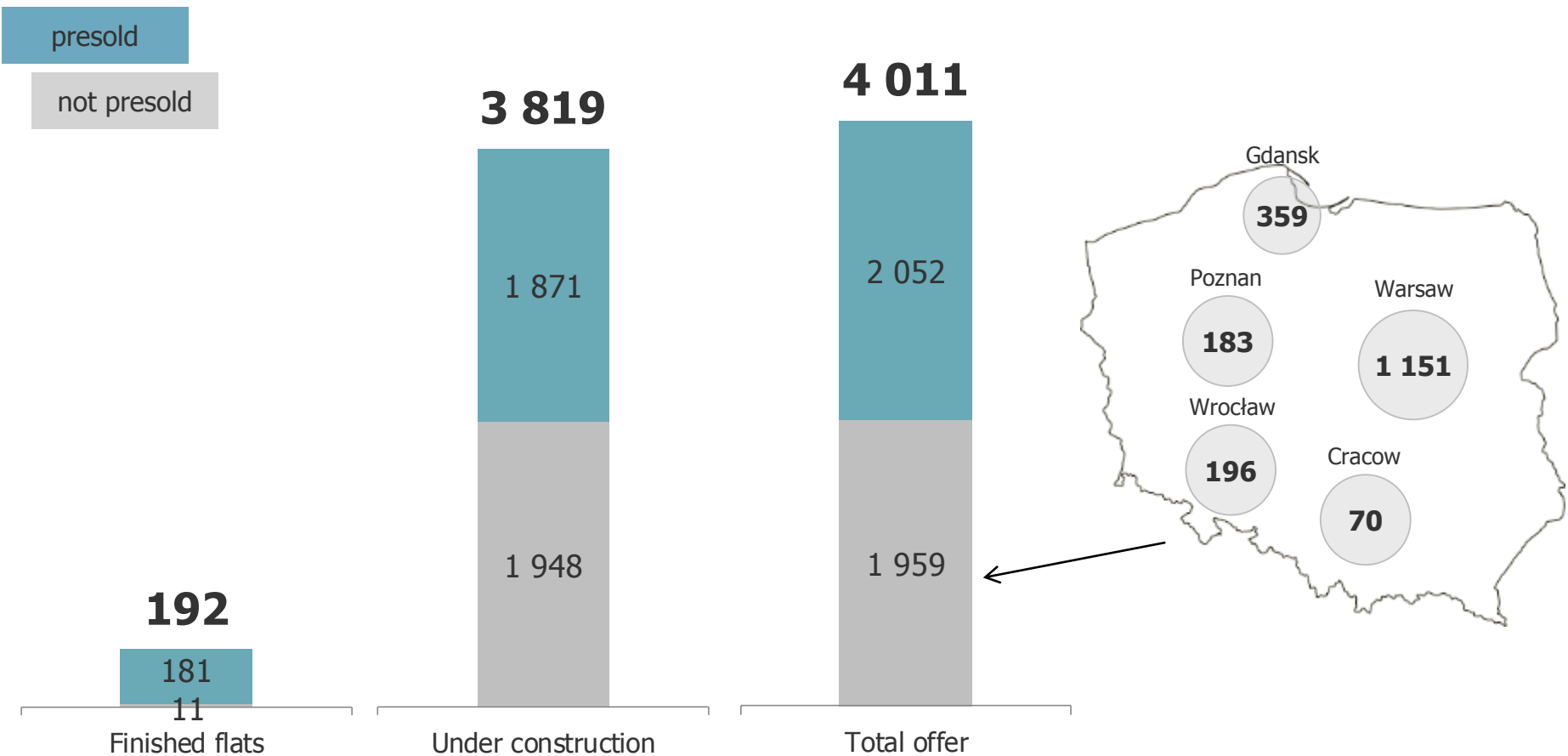


## 2.4.2 Developer segment

### Comment

- Market offer noted serious increase vs. 12'18 due to few projects launched in Warsaw, Tricity, Poznan & Wrocław
- In 06'19 land bank amounted to 9 803 flats

Market offer as at 06'19 (flats)

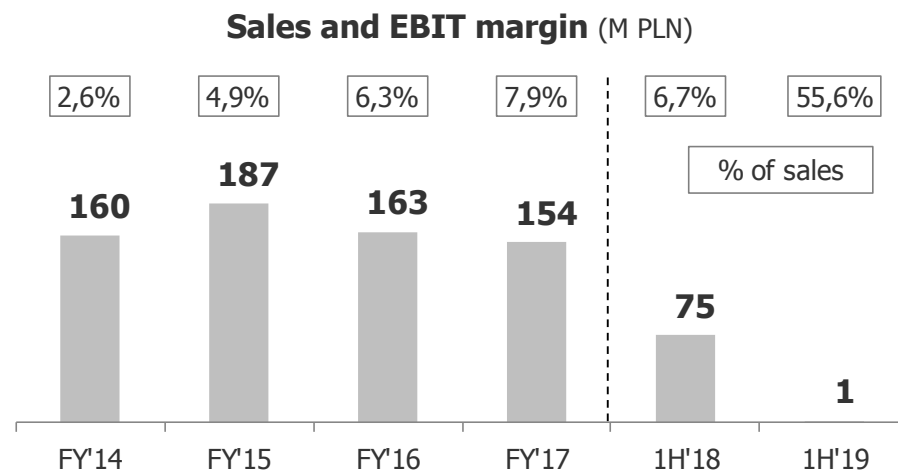


## 2.4.3 Other activities

### Comment

- Other activities results in 1H'18 encompassed Elektromontaz Poznan and BIG that were disposed in 3Q'18
- 1H'19 results were generated by two companies: FBSerwis and Budimex Parking Wroclaw
- Budimex will begin full consolidation of FBSerwis Group's results in 2H'19

	1H'19	y-o-y dynamics
<b>Sales</b>	<b>1</b>	<b>-98%</b>
<b>Gross margin</b>	<b>1</b>	<b>-92%</b>
% sales	57,8%	43,1 pp.
<b>Operating profit</b>	<b>1</b>	<b>-84%</b>
% sales	55,6%	48,9 pp.
<b>Net profit</b>	<b>5</b>	<b>335%</b>
% sales	354,8%	353,2 pp.



### Group's other activities segment composition



- construction & administration of underground car park in Wroclaw (concession)
- 51% share
- full consolidation



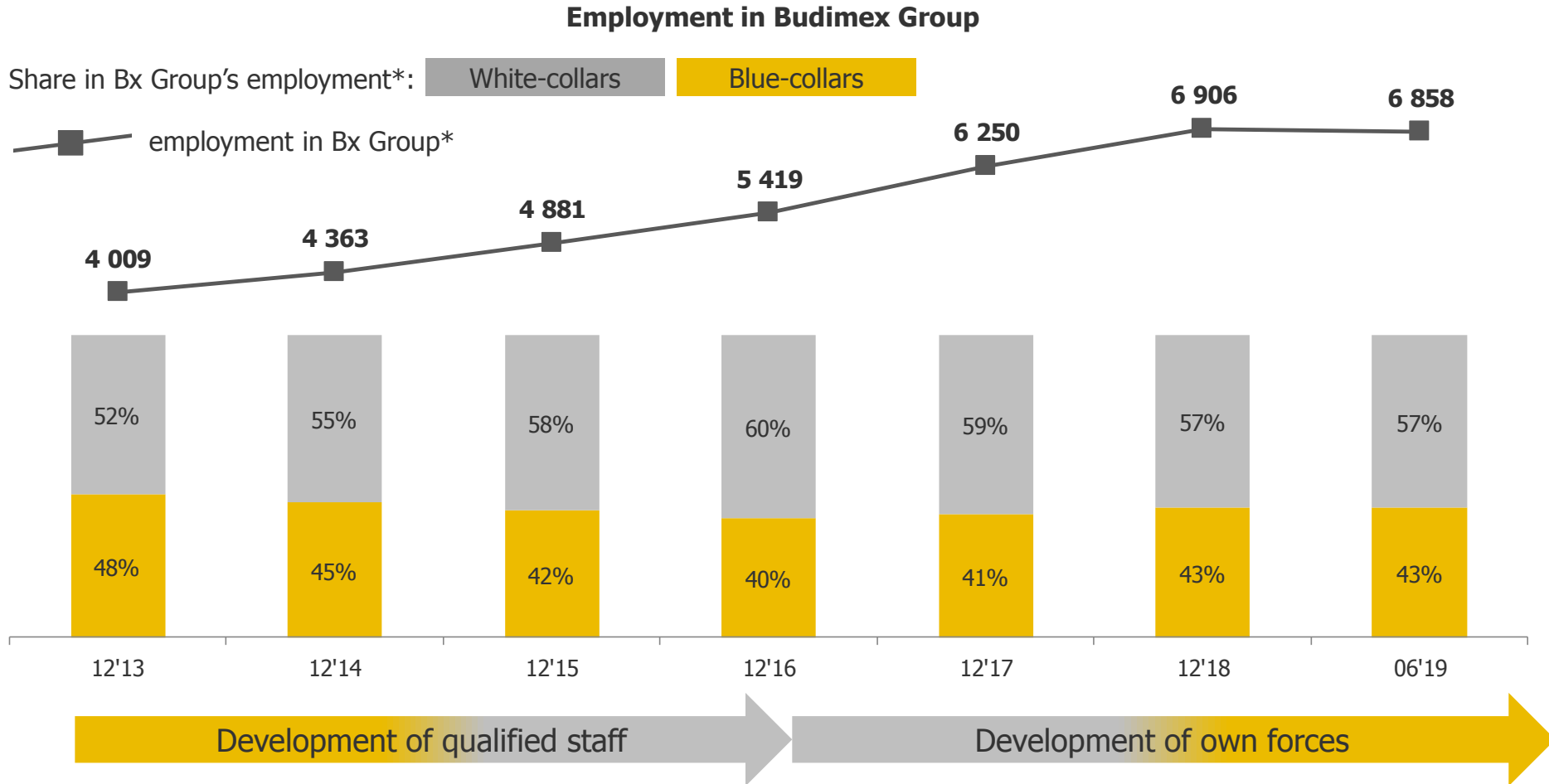
- environmental services, infrastructure maintenance, facility management, energy efficiency services
- 49% share (as at 30.06.2019)
- equity method of consolidation (below EBIT)



# 2.5 Employment

## Comment

- The level of employment did not change significantly vs. 12'18
- Taking control over FB Serwis Group will increase employment of Budimex Group by ca. 1 000 people



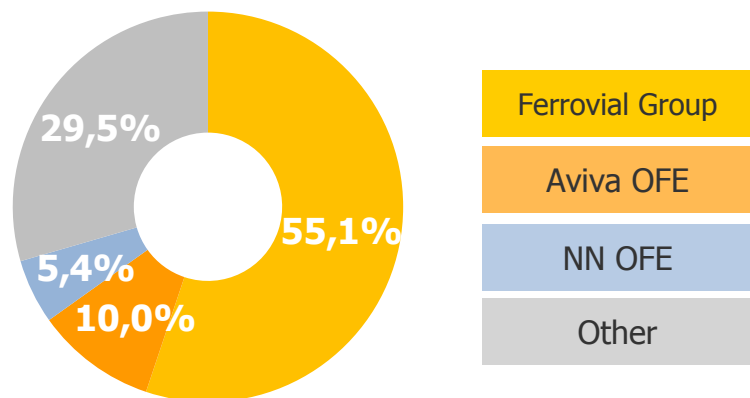
\* w/o Fbserwis and Elektromontaz Poznan

# 3. Budimex S.A. on WSE

## Comment

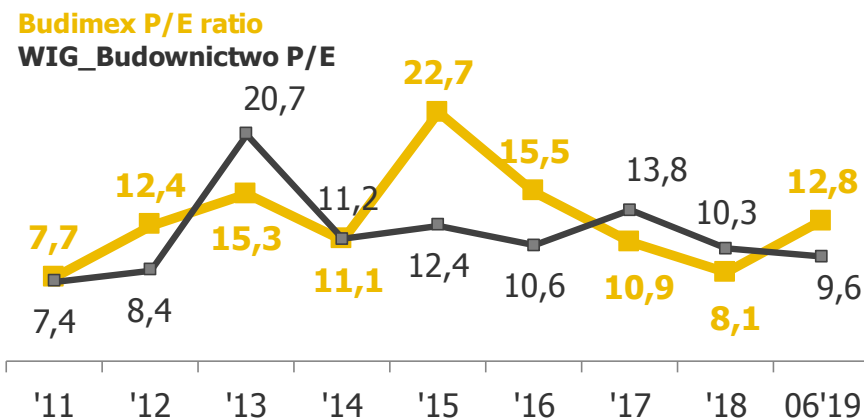
- In 1H'19 Budimex market capitalization faced 20% increase vs year-end
- Total pension funds' share in BDX amounts to 30-35%

Shareholders structure (12'18)

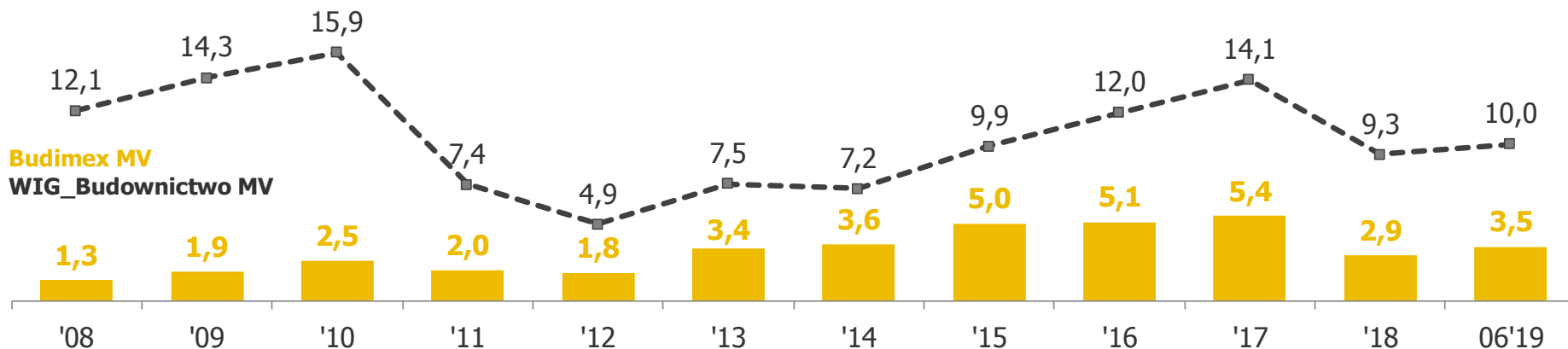


Source: stooq.pl

P/E ratio



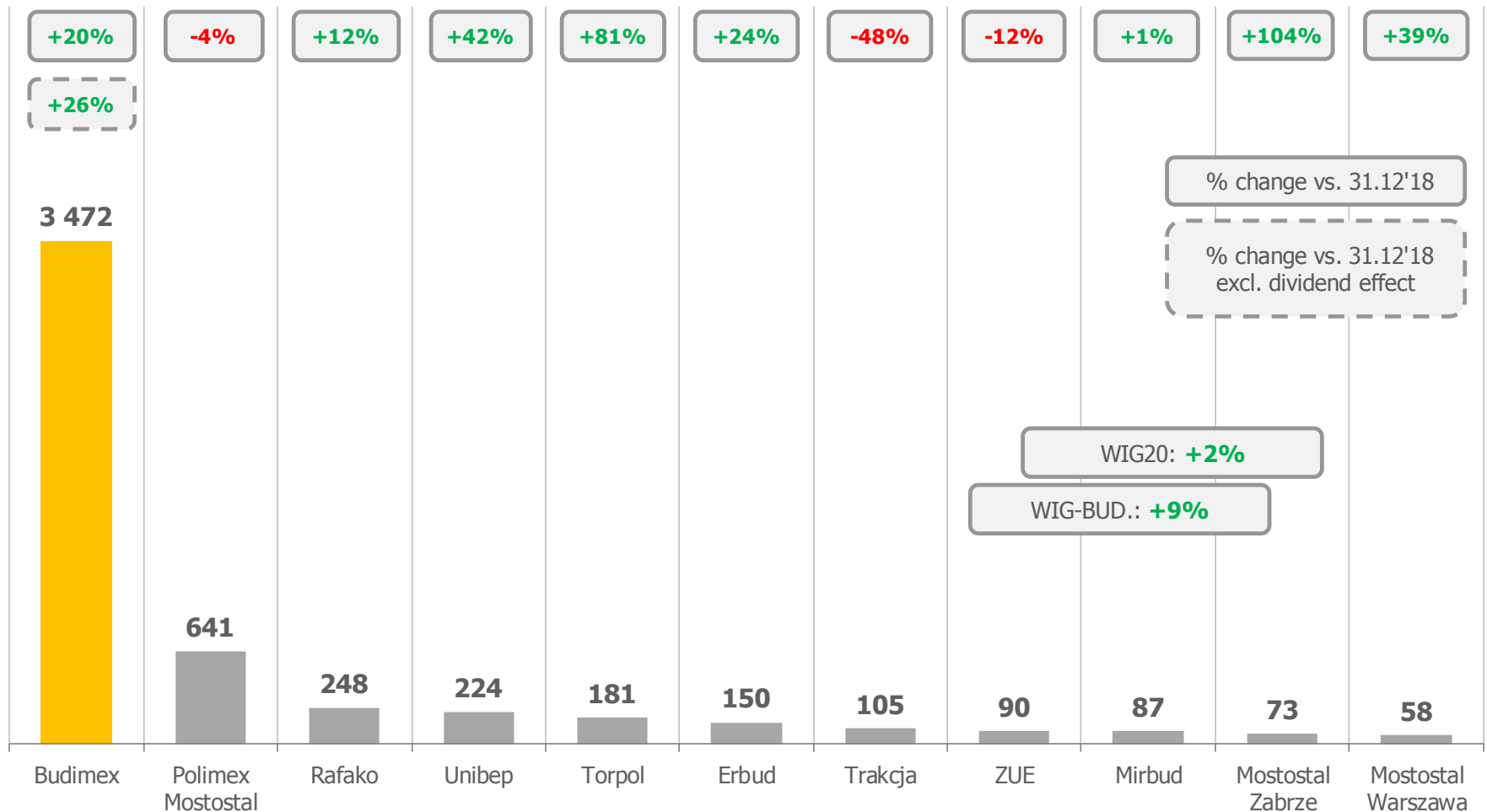
Budimex market value vs. WIG-Budownictwo aggregated market value (bn PLN)



#### Comment

- After declines in share prices from '18, in 1H'19 market value of some construction companies, including Budimex S.A., faced a rebound

Market value as at 06'19 (M PLN)



### 3. Budimex S.A. on WSE

#### Comment

- As a result of decreasing margin in construction sector and planned investment outlays, in 04'19 Management Board recommended a dividend payment of 50% of FY'18 net profit
- In 05'19 shareholders accepted Board's recommendation

Dividends paid (M PLN)

