



**budimex**

Investor Presentation  
**FY'18**



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- 1.1 Market environment – top facts
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- 1.4 Labour market
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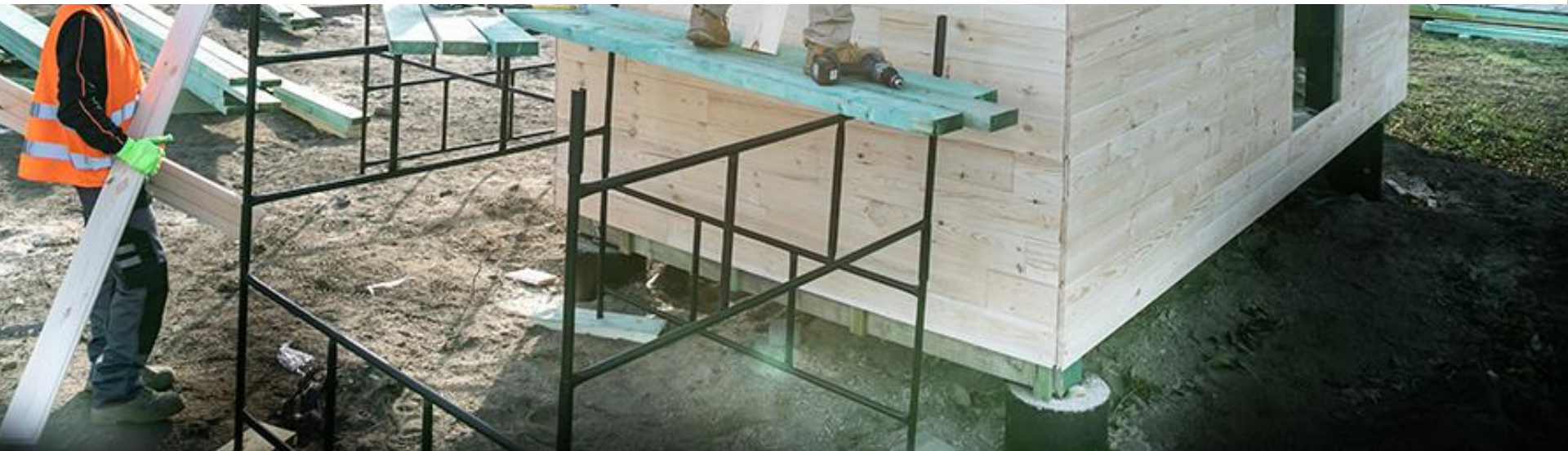






# budimex

## Market snapshot



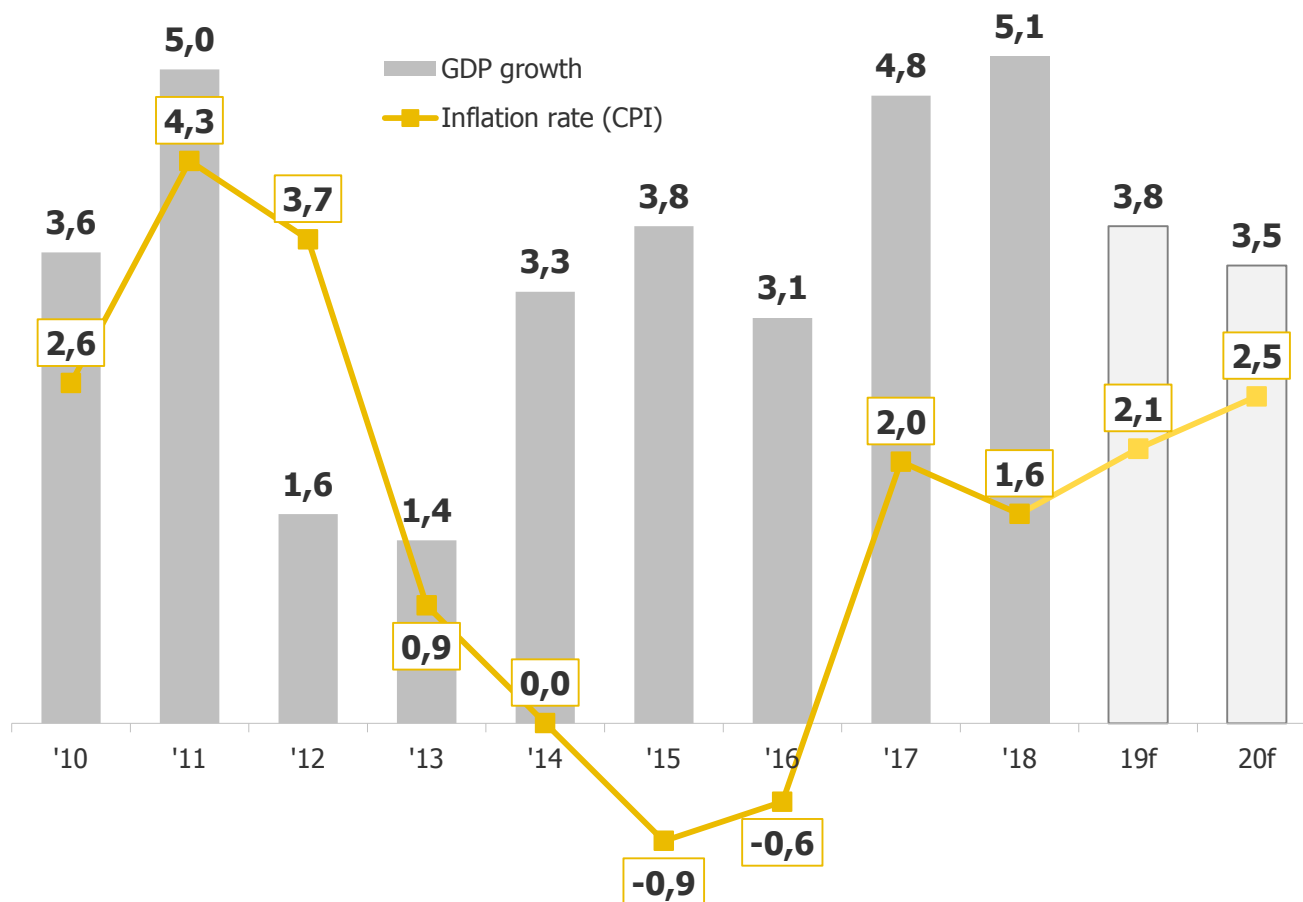
- Strong GDP growth in '18 (preliminary estimate: **5,1%**), slowdown in '19 expected
- Inflation could increase in '19, however it should not be as high as it was expected in NBP's inflation report published in 11'18
- Very low budget deficit achieved in '18 (much lower than planned in budget act) amounting to **10,4 bn PLN** (~0,6% of GDP)
- Further inflation of materials prices and labour costs observed
- Record high y-o-y dynamics of construction production → FY'18: **+21,3%**
- Fall of margins of large and big construction companies observed in '18, possible further pressure on financial results in '19
- No working indexation of already signed contracts, implementation of new indexation mechanism in projects of GDDKiA and PKP PLK, in which offers will be placed in '19

# 1.2 GDP growth and inflation rate

## Comment

- Forecasts assume drop of GDP growth and increase of inflation rate in upcoming year
- Government's intervention on energy market will probably allow to keep inflation rate within Central Bank's fluctuation band

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



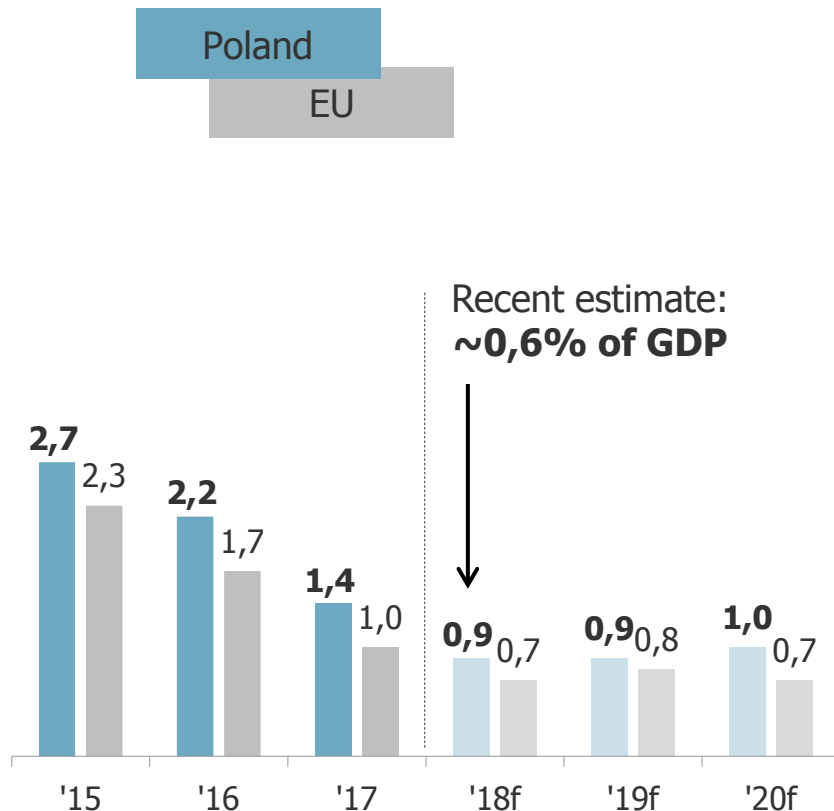
Forecasted decrease of GDP growth mainly due to **insufficient level of investments and external factors**

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

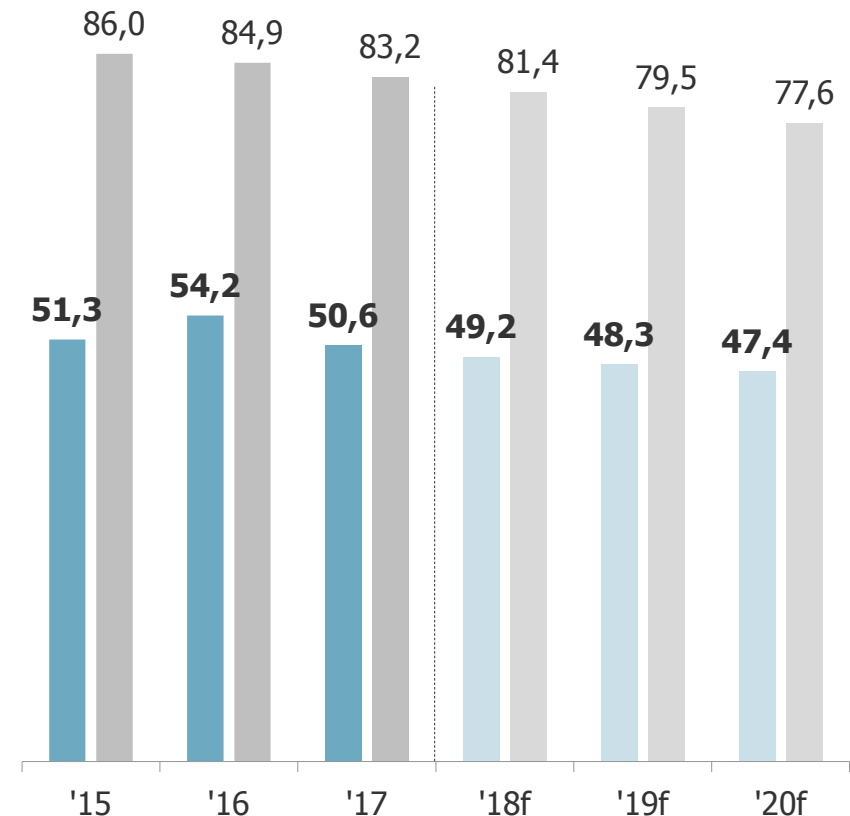
## Comment

- Very low budget deficit achieved in '18 vs. '17 (much lower than planned in Budget Act)

General government deficit (% of GDP)



Public debt (% of GDP)

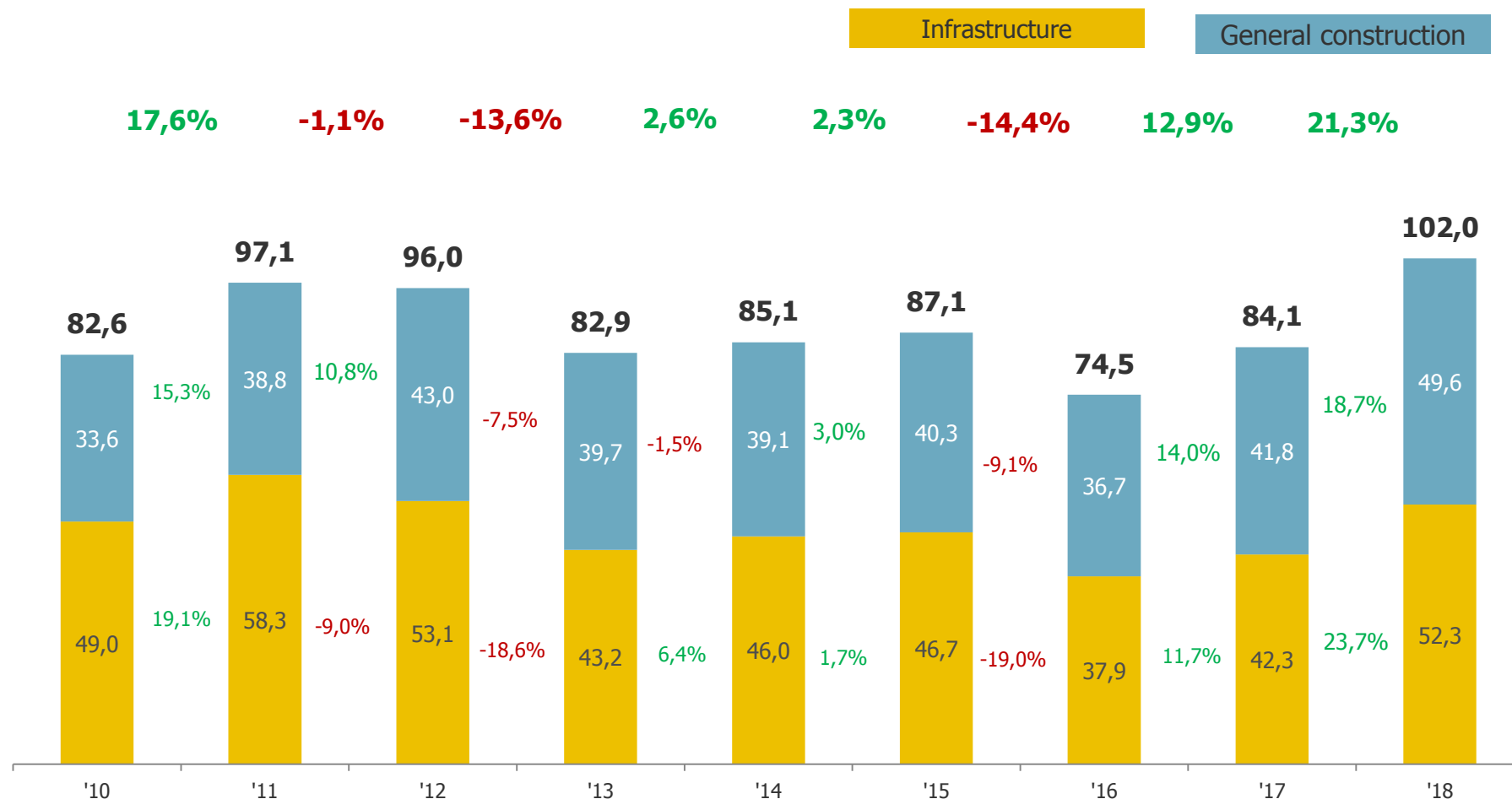


# 1.3 Construction production by segment

## Comment

- Construction production noted 21,3% y-o-y increase in '18
- The growth is driven by both segments
- Production in infrastructure noted high increase due to ongoing execution of investments plans

Construction and assembly production '10 – '18 (bn PLN, enterprises with > 9 employees, current prices)



# 1.3 Production vs.net profit margin in construction

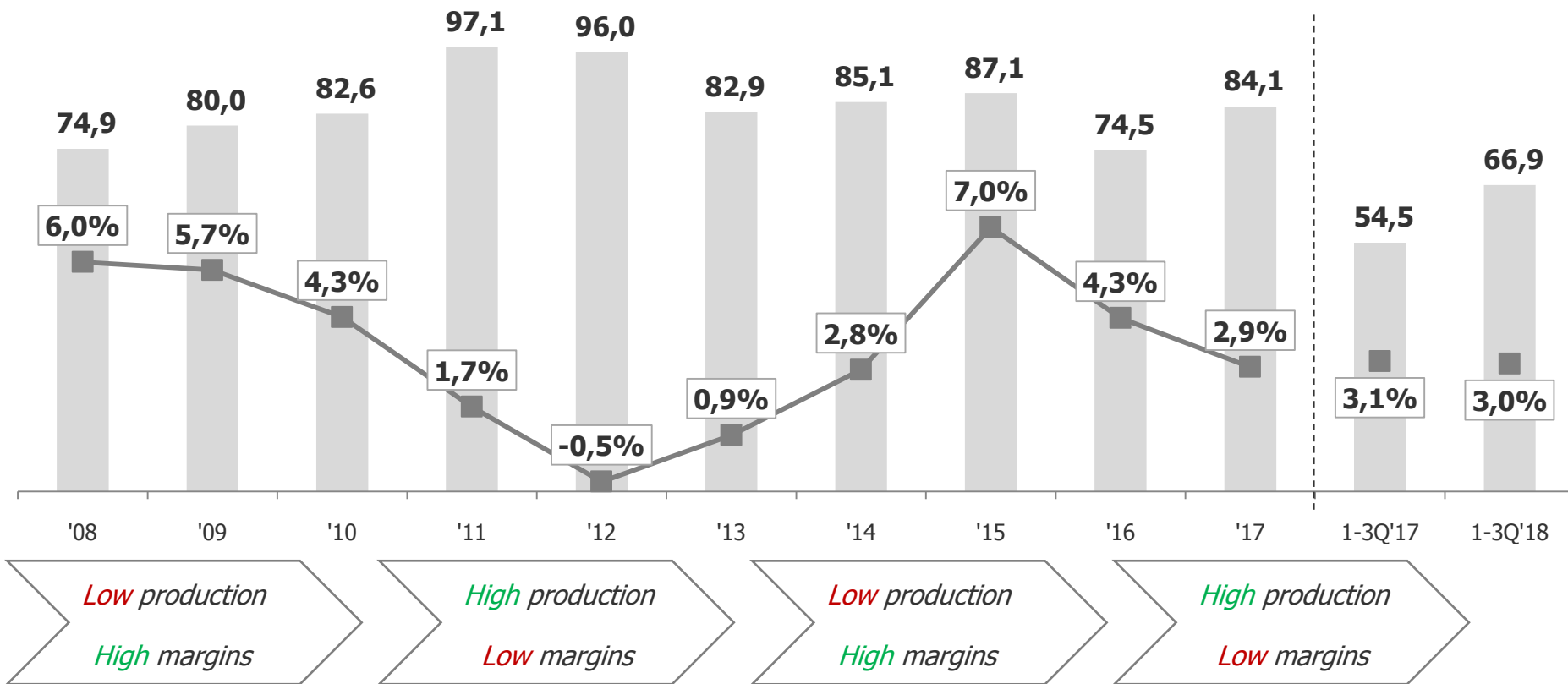
## Comment

- Construction companies entered into high production and low margins phase of the cycle
- Average net profit margin in 1-3Q'18 amounted to 3,0% (vs. 3,1% in 1-3Q'17)

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

■ Construction production (bn PLN)

■ Net profit margin

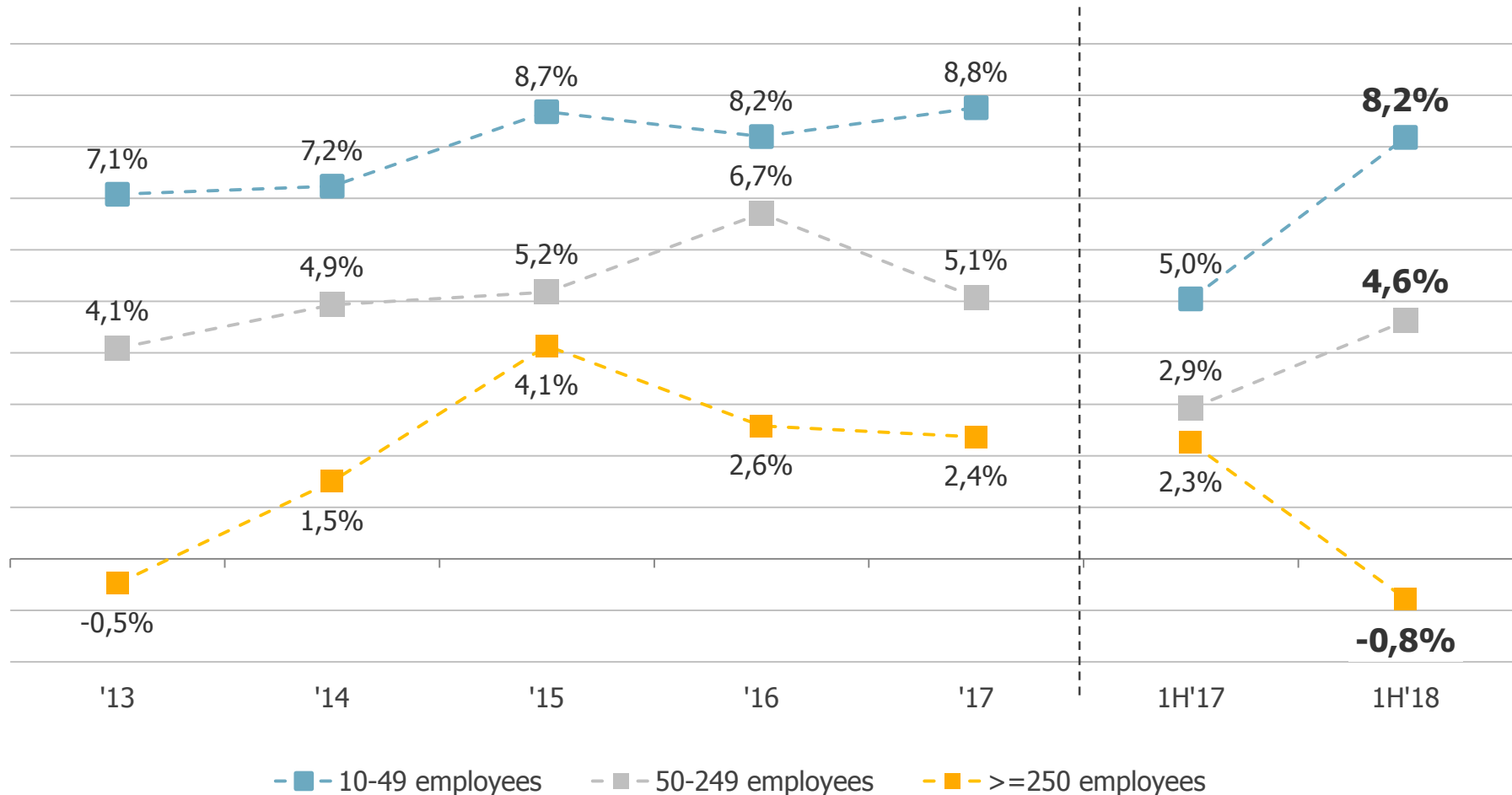




# 1.3 EBIT margin by size of construction company

## Comment

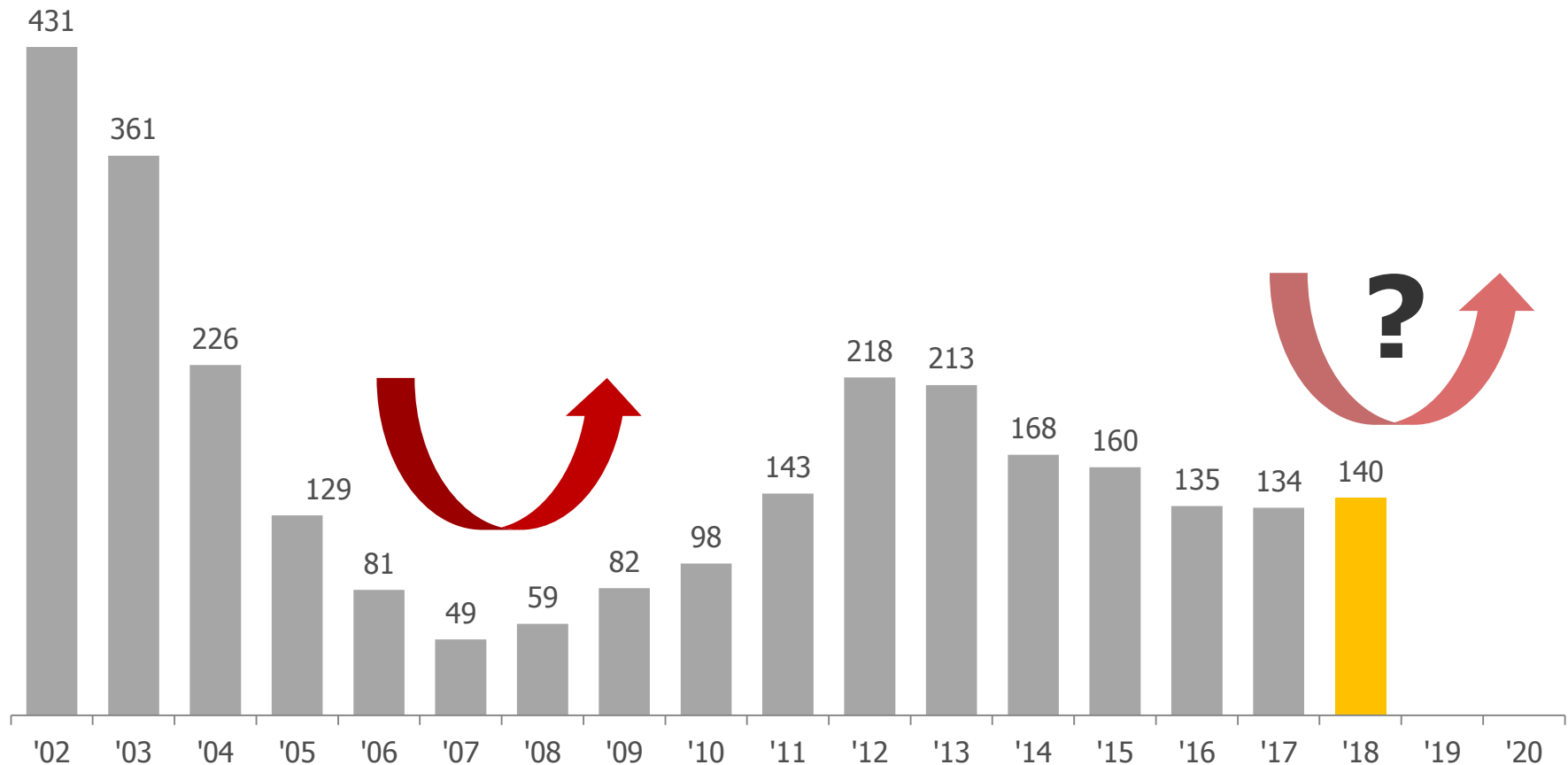
- Small construction companies were able to improve their margin in 1H'18 vs. 1H'17, while big companies generated, on average, negative EBIT



## Comment

- *Number of bankruptcies in construction in '18 was comparable to respective number in '17*
- *Actual problems in the sector may result in increase of bankruptcies in '19*

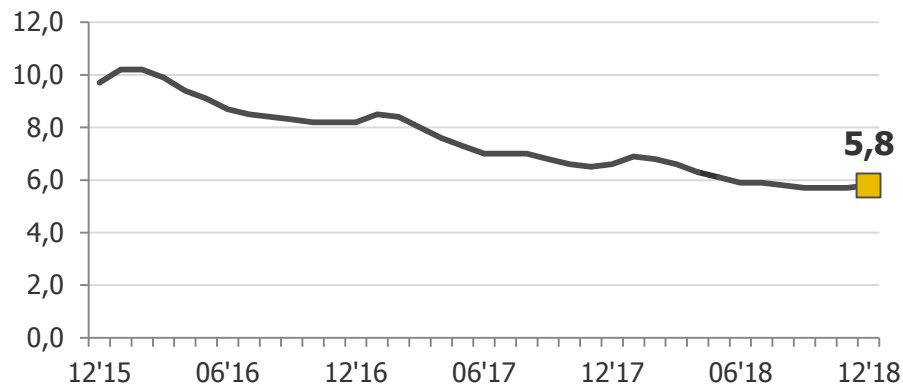
Number of bankruptcies and restructuring processes announced in construction



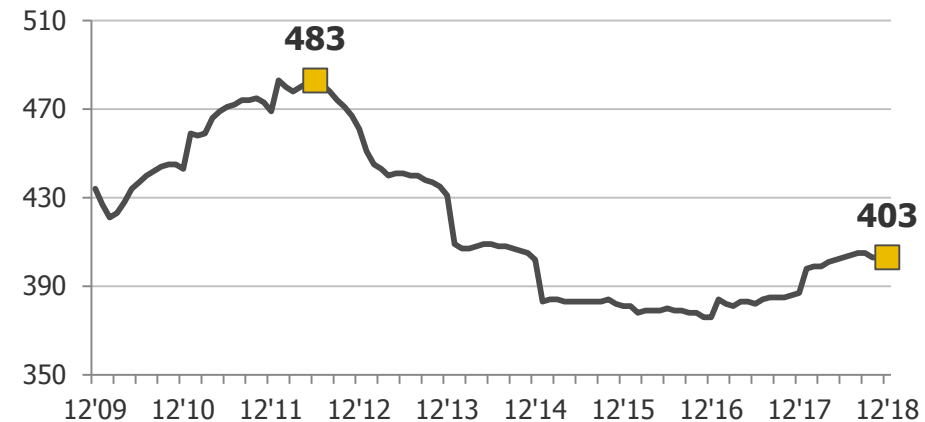
## Comment

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

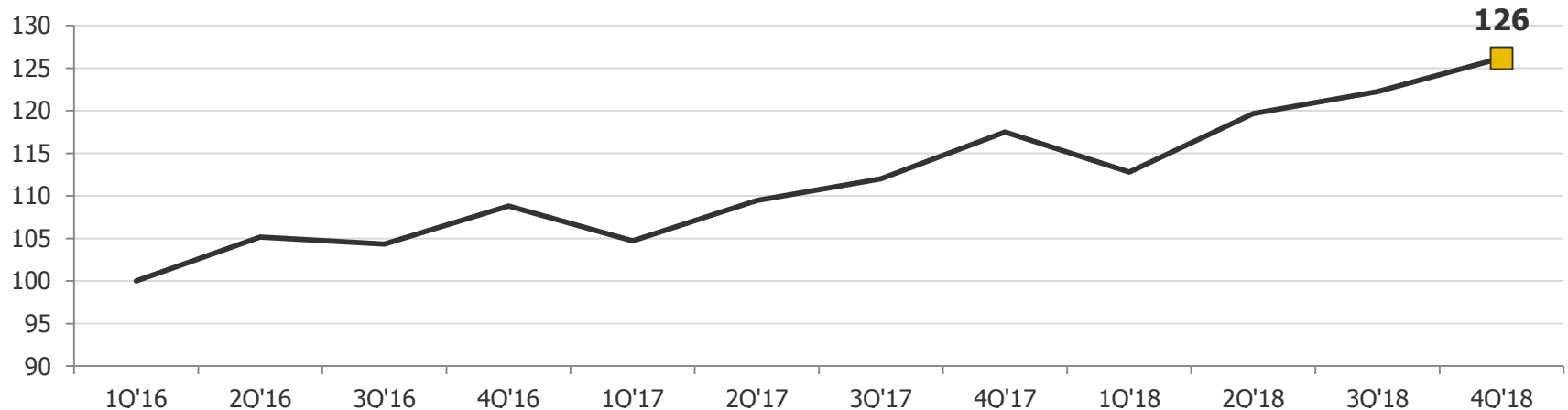
Unemployment rate (%)



Employment in construction (thous. employees)



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

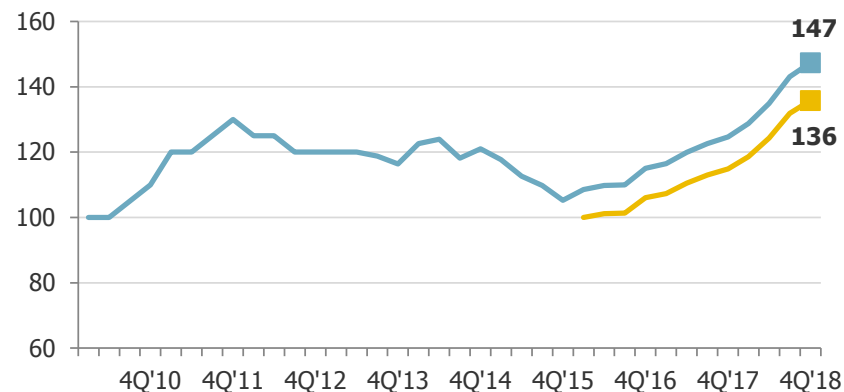


# 1.5 Prices of main materials

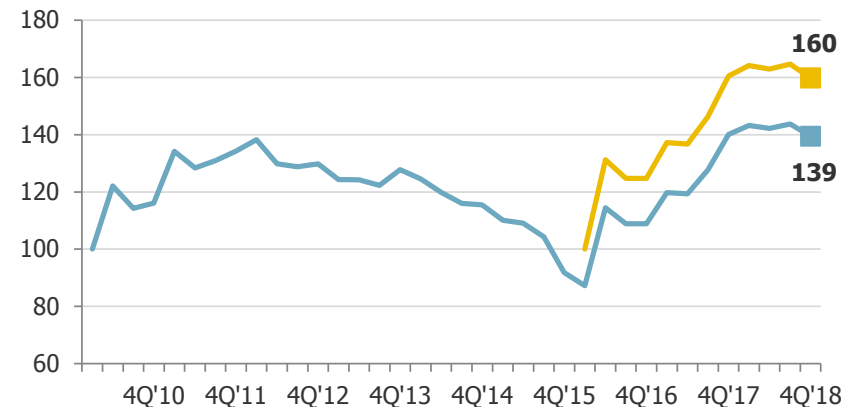
## Comment

- The increase of materials prices was still observed in '18
- In 01'19 GDDKiA and PKP PLK decided to implement new rules of contracts indexation, however new solution does not fully meet sector's expectations

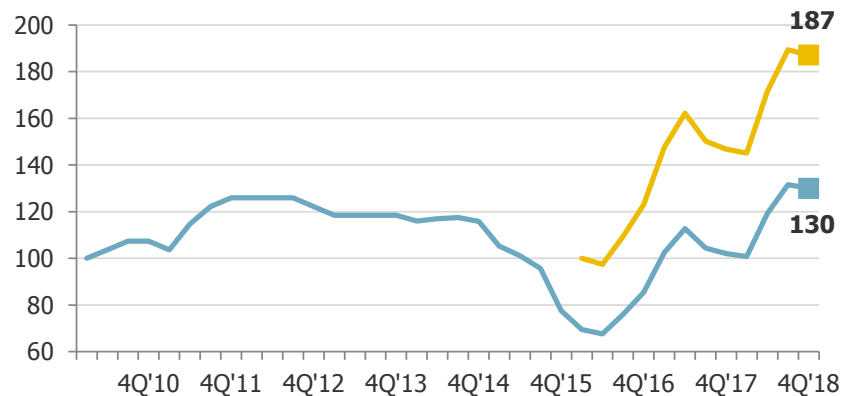
### Concrete



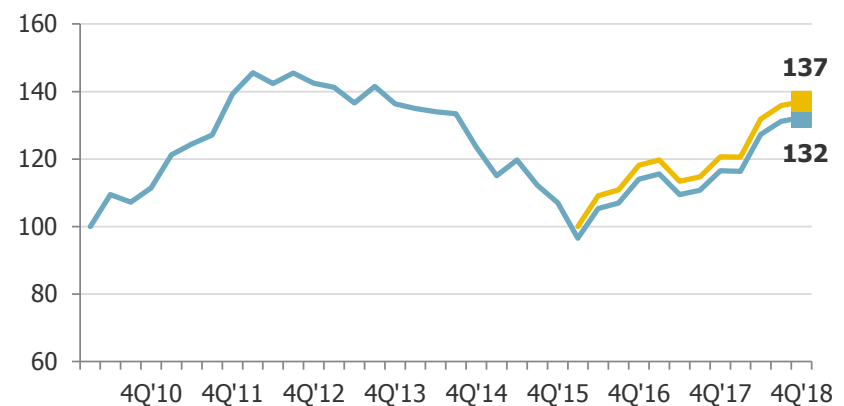
### Reinforcement steel



### Asphalt



### Diesel oil

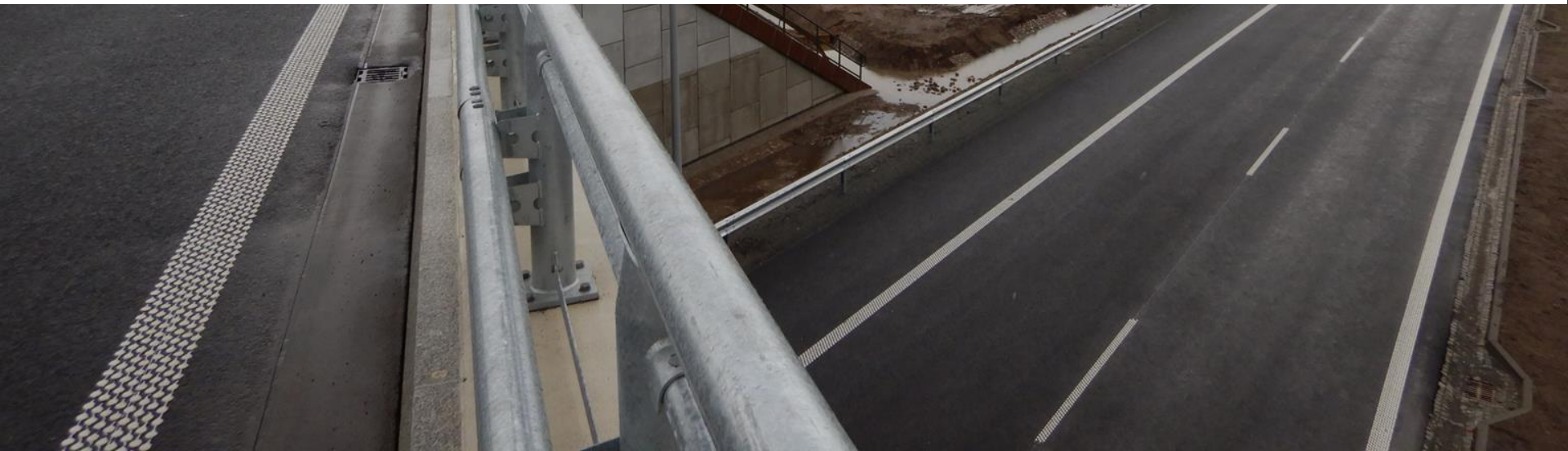






**budimex**

**Budimex Group**  
FY'18 results



- Record level of sales → FY'18: **7,4 bn PLN** *(+16,0% y-o-y)*
- Rising share of railway in construction sales → FY'18: **9,0%** *(+5,1 p.p. y-o-y)*
- Sell of Elektromontaz Poznan and BIG in 3Q'18 with +44 M PLN effect on consolidated EBIT
- 12'18: start of negotiation on purchase of remaining 51% share in FBSerwis
- Drop of net treasury position → 12'18: **1,1 bn PLN** *(-1,1 bn PLN vs. 12'17)*
- Decrease of value of contracts signed → FY'18: **6,6 bn PLN** *(-10,0% y-o-y)*
- Decrease of backlog in 4Q'18 → 12'18: **10,1 bn PLN** *(-0,9 bn PLN vs. 09'18)*
- No significant change in market offer → 12'18: **3 356 flats** *(-97 flats vs. 12'17)*
- Continuation of land purchase in developer segment → FY'18: **over 200 M PLN**

## Comment

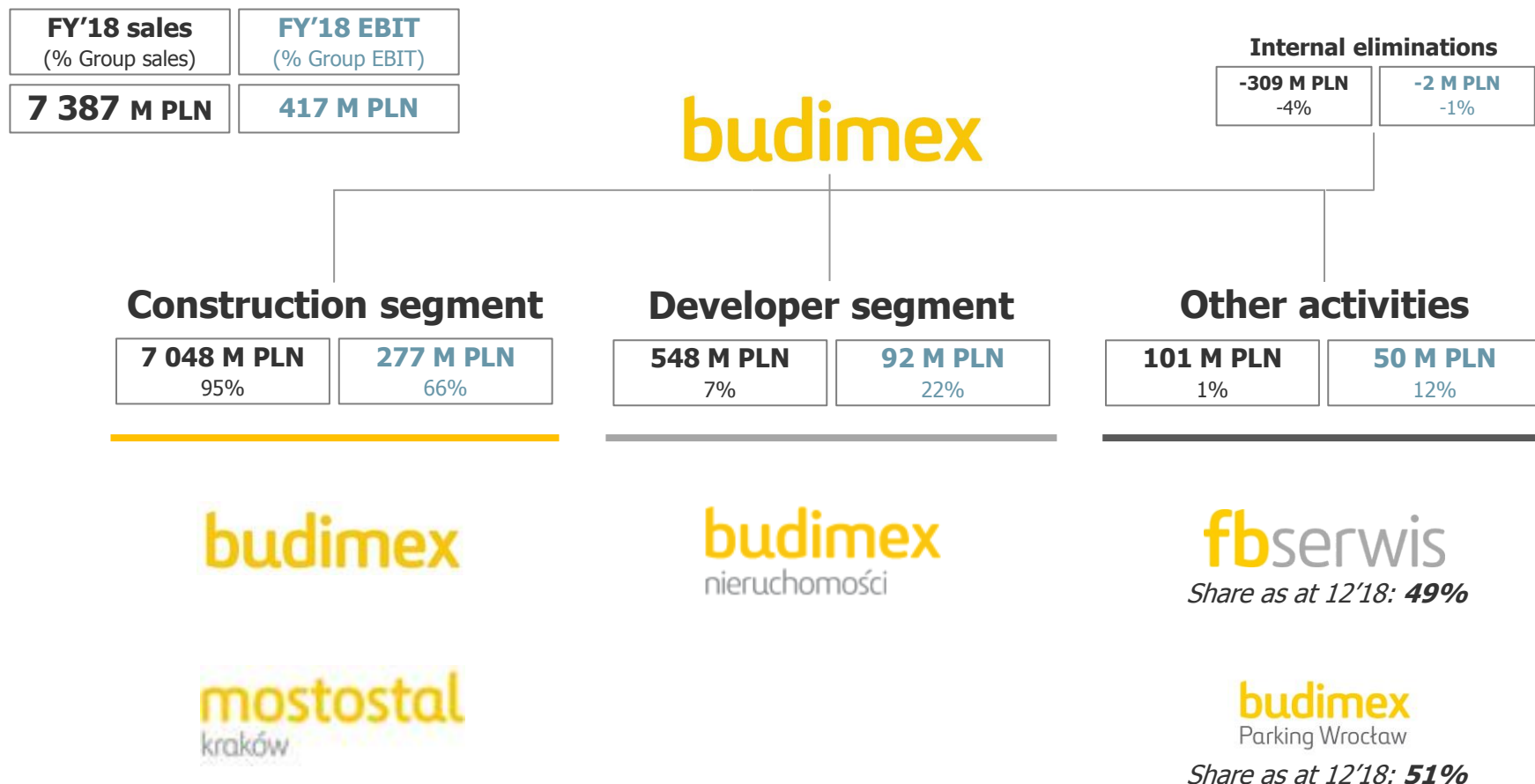
- In '18 Budimex Group achieved similar sales dynamics as in '17
- Despite difficult market conditions, the Group was able to deliver above-market margin

	4Q'18	4Q'17	Δ		FY'18	FY'17
<b>Sales</b>	<b>1 997</b>	<b>1 816</b>	<b>182</b> ↑		7 387	6 369
<i>y-o-y dynamics</i>	<i>10,0%</i>	<i>25,0%</i>	<i>-15,0 pp.</i> ↓		<i>16,0%</i>	<i>14,3%</i>
<b>Gross margin</b>	<b>183</b>	<b>228</b>	<b>-45</b> ↓		629	810
<i>% sales</i>	<i>9,2%</i>	<i>12,6%</i>	<i>-3,4 pp.</i> ↓		<i>8,5%</i>	<i>12,7%</i>
<b>SG&amp;A</b>	<b>-73</b>	<b>-73</b>	<b>-1</b>		-260	-251
<i>% sales</i>	<i>3,7%</i>	<i>4,0%</i>	<i>-0,3 pp.</i>		<i>3,5%</i>	<i>3,9%</i>
<b>Other operating</b>	<b>-5</b>	<b>7</b>	<b>-11</b>		48	29
<b>EBIT</b>	<b>105</b>	<b>162</b>	<b>-57</b> ↓		417	588
<i>% sales</i>	<i>5,3%</i>	<i>8,9%</i>	<i>-3,6 pp.</i> ↓		<i>5,6%</i>	<i>9,2%</i>
<b>PBT</b>	<b>100</b>	<b>160</b>	<b>-60</b> ↓		403	580
<i>% sales</i>	<i>5,0%</i>	<i>8,8%</i>	<i>-3,8 pp.</i> ↓		<i>5,5%</i>	<i>9,1%</i>
<b>Net profit</b>	<b>75</b>	<b>127</b>	<b>-53</b> ↓		305	464
<i>% sales</i>	<i>3,7%</i>	<i>7,0%</i>	<i>-3,3 pp.</i> ↓		<i>4,1%</i>	<i>7,3%</i>

## 2.2 P&L - results by segment

### Comment

- EBIT structure in the Group was temporarily changed due to sell of Elektromontaz Poznan and BIG
- In 12'18 Budimex SA launched negotiations on purchase of 51% stake in FBSerwis (currently the company owns 49% share)

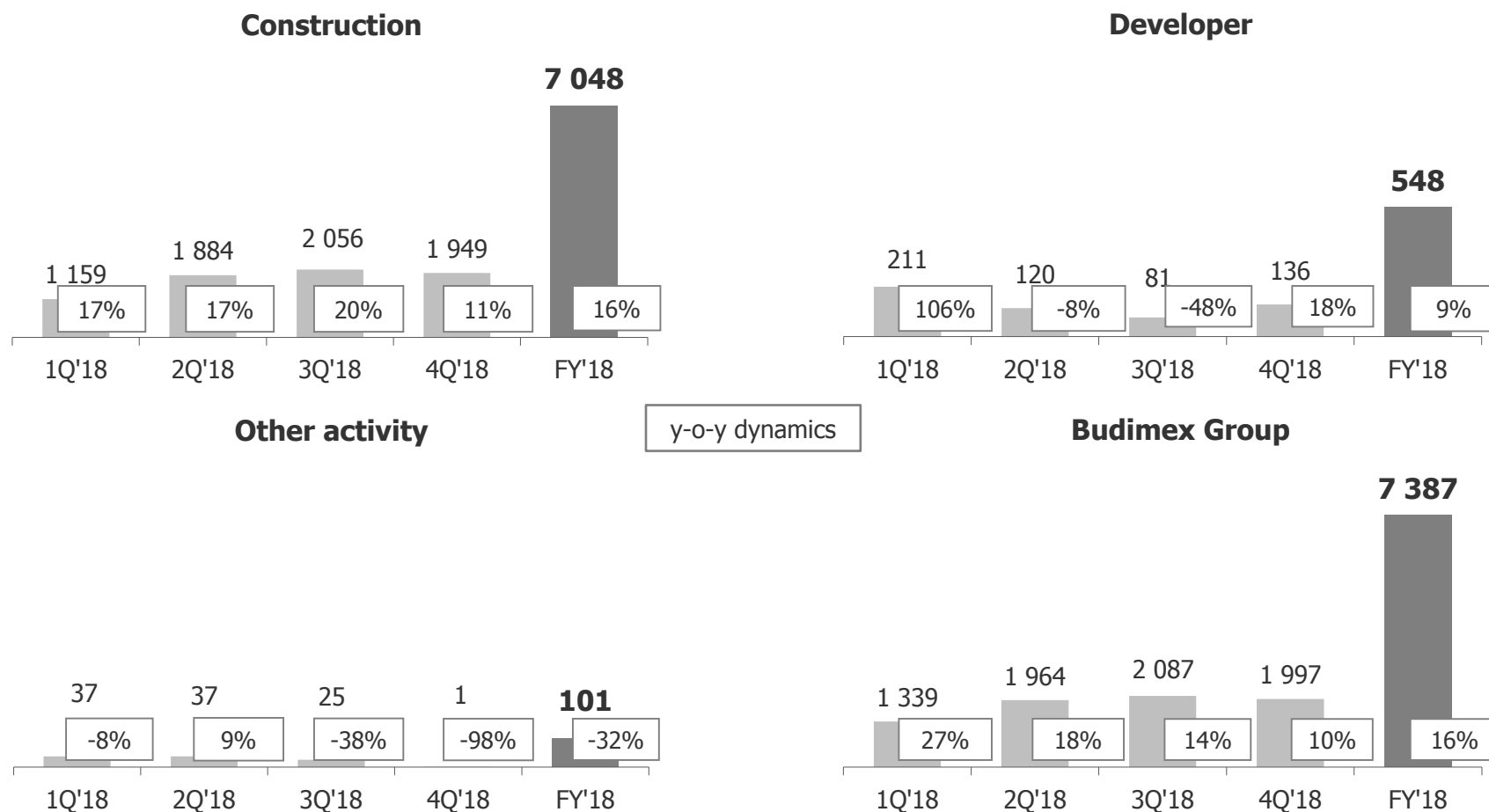




### Comment

- Lower y-o-y dynamics of sales in construction in 4Q'18 vs. 3Q'18
- Despite decrease of notary sales, in 4Q'18 sales in developer segment noted a 19% increase y-o-y (higher contribution of expansive flats sold in Warsaw & Poznan)
- 4Q sales in other activity generated entirely by Budimex Parking Wroclaw

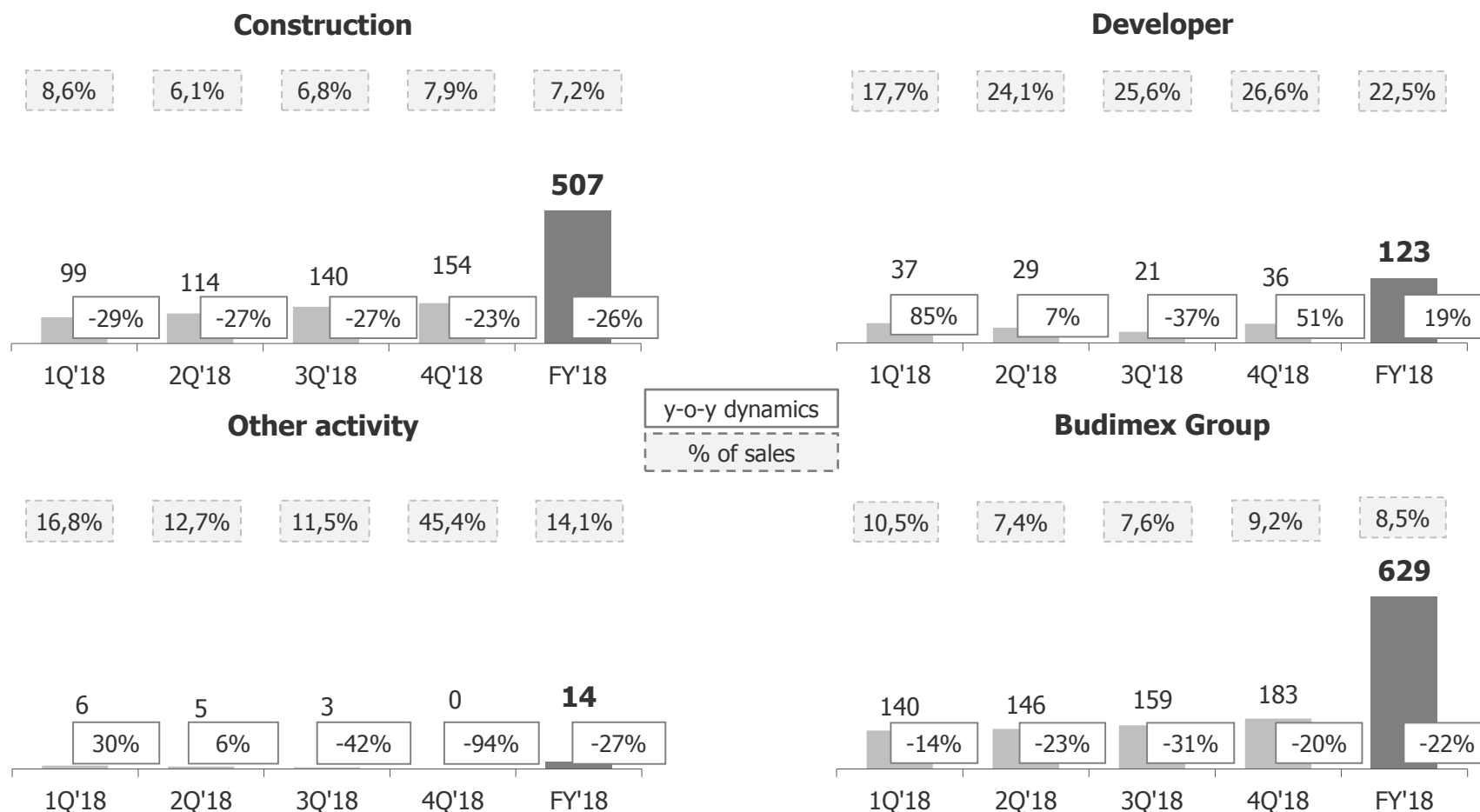
Quarterly sales in Budimex Group (M PLN)



### Comment

- Further normalization of % GM in construction vs. above average margin achieved in years '16-'17

Quarterly gross margin in Budimex Group (M PLN)

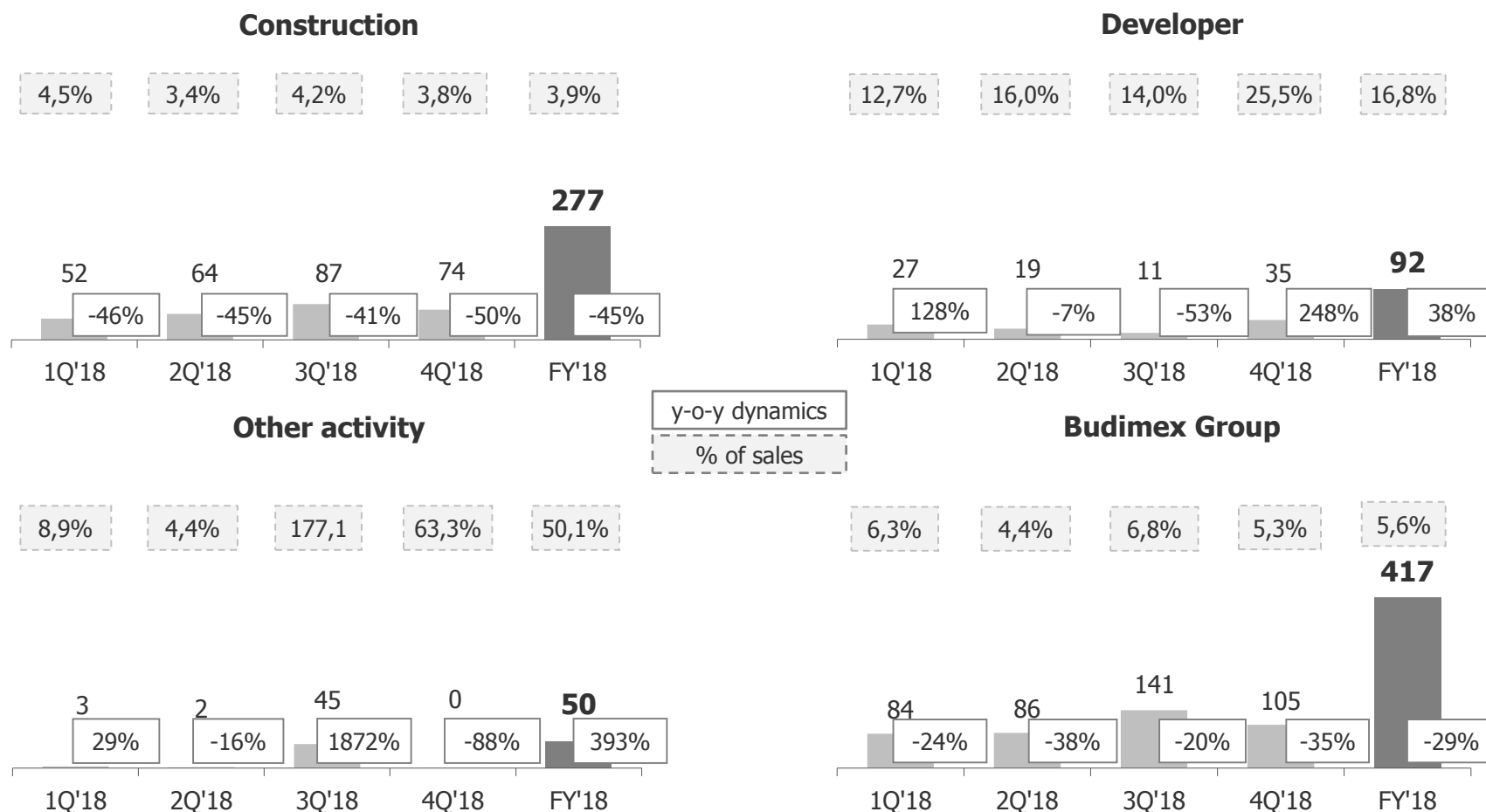


## 2.2 P&L - results by segment

### Comment

- Performance in developer segment in 4Q'18 influenced by reversal of land plots impairment provision
- Sell of Elektromontaz Poznan and BIG in 3Q'18 with +44 M PLN effect in other activity segment

Quarterly EBIT in Budimex Group (M PLN)

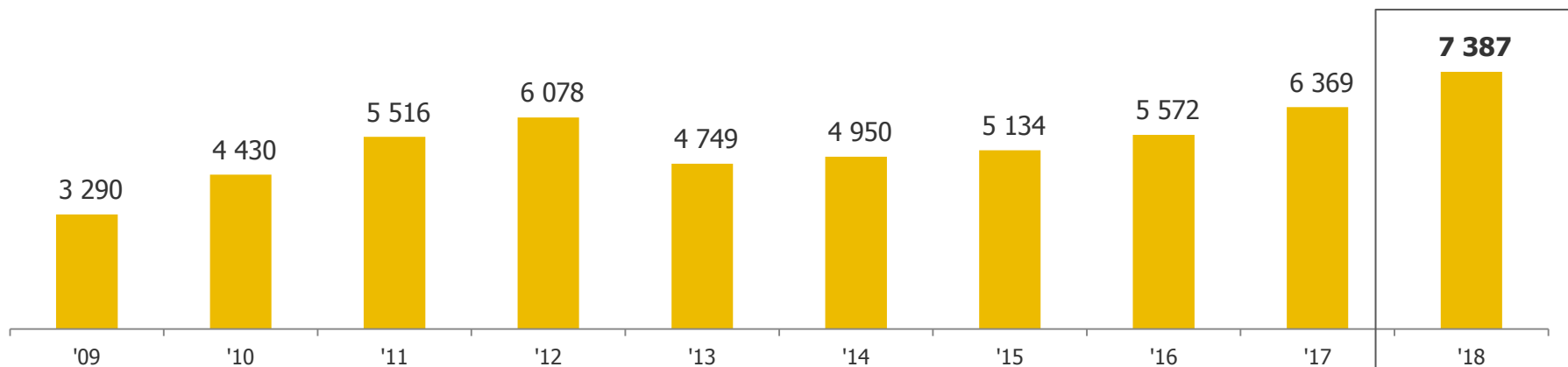


## 2.2 P&L – historical results

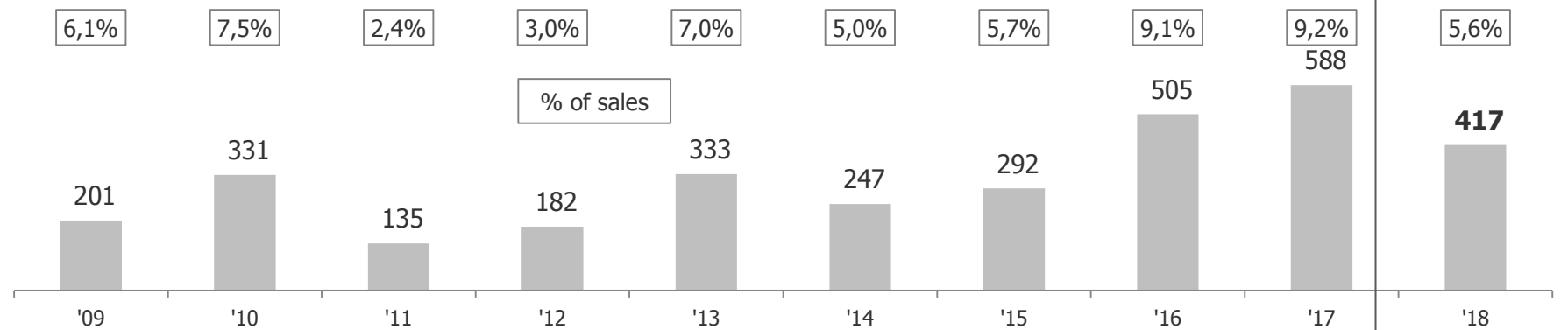
### Comment

- *In FY'18 Bx achieved record sales at the level of 7,4 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)



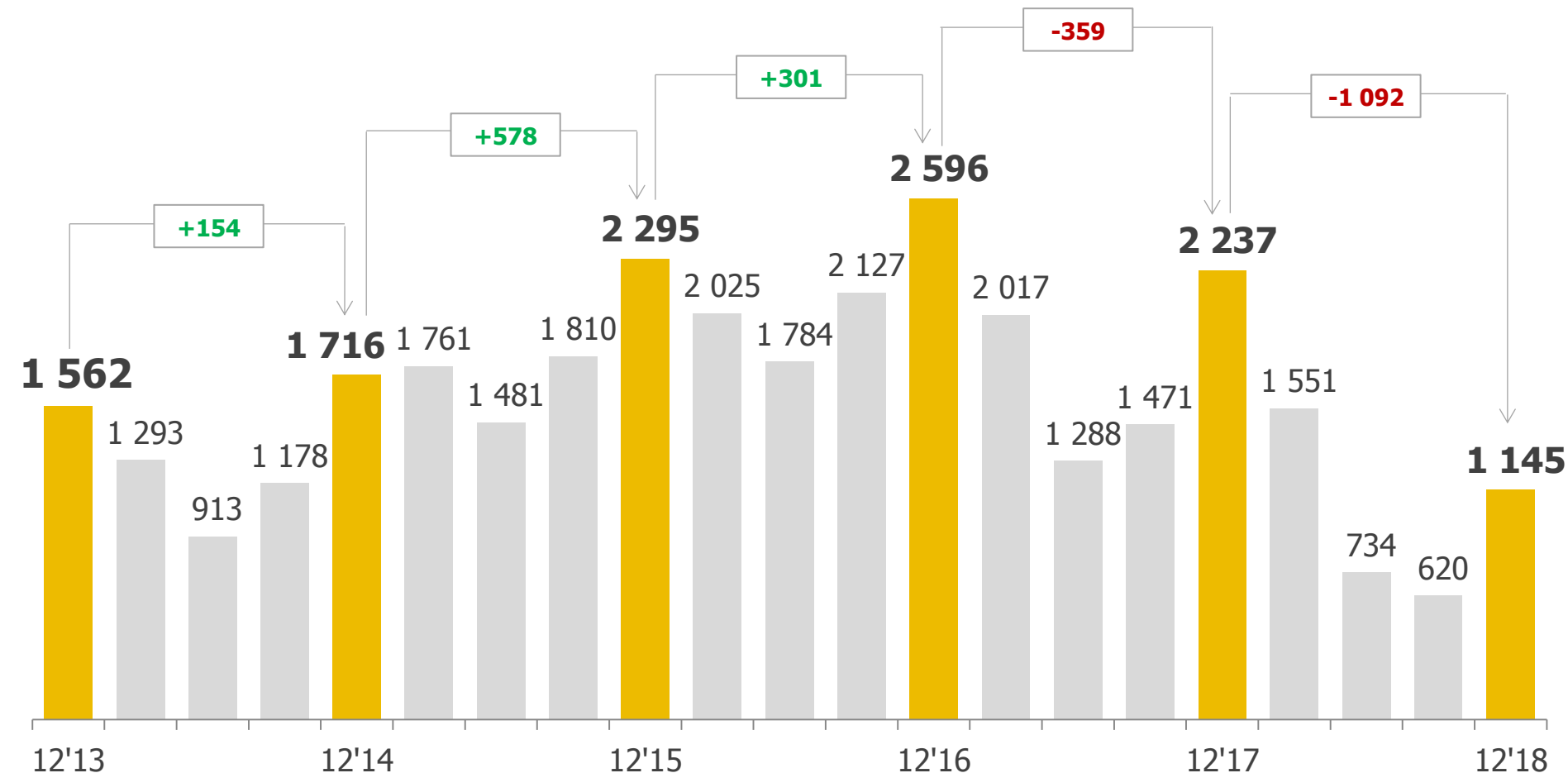


## 2.3 Evolution of Net Treasury Position

### Comment

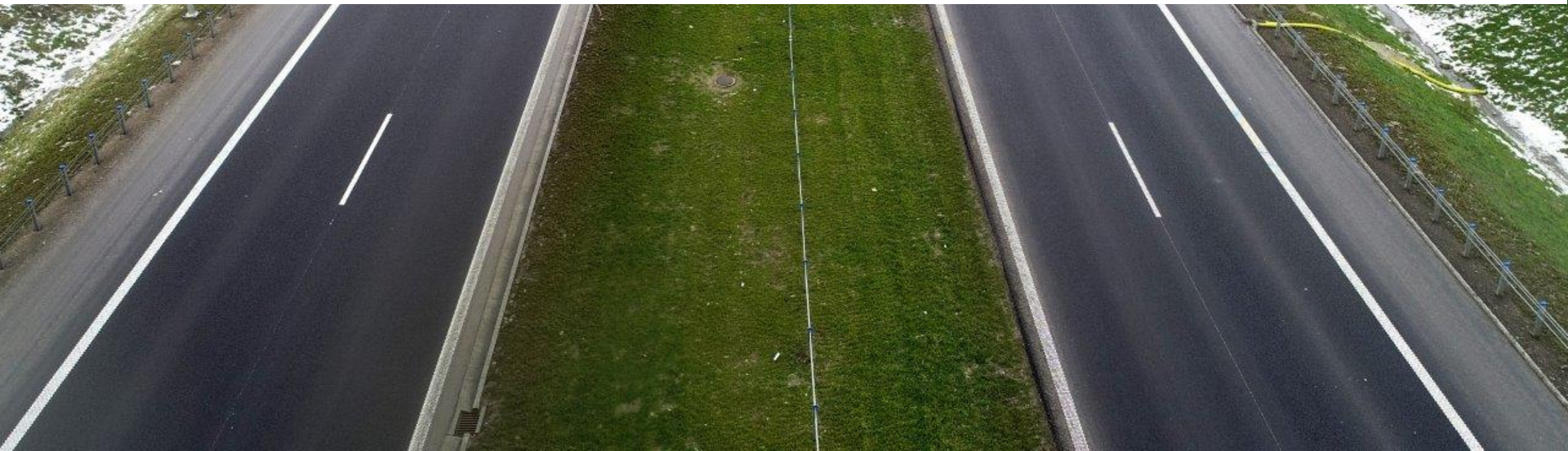
- Drop of net treasury position vs. 12'17 due to i.a. fall of prepayments balance, record dividend payment, high CAPEX (over 100 M PLN), land purchases (over 200 M PLN) and further investment in working capital

Net Treasury Position in Budimex Group (M PLN)





## **Construction segment – FY'18 results**



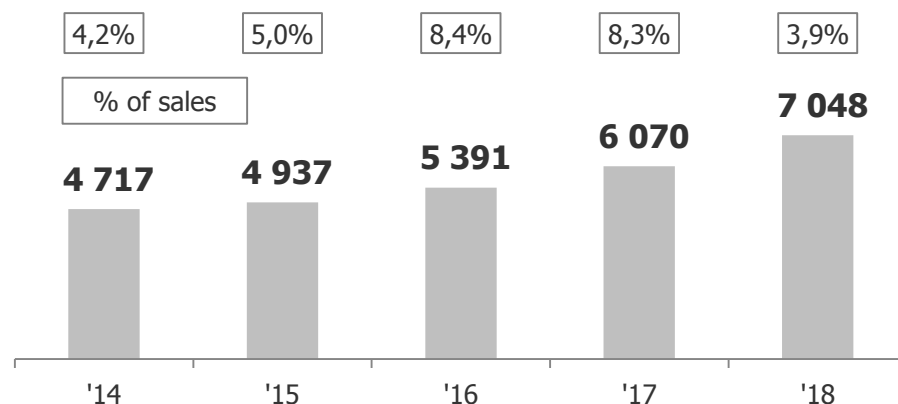
## 2.4.1 Construction segment

### Comment

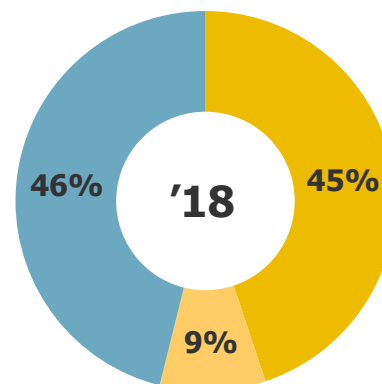
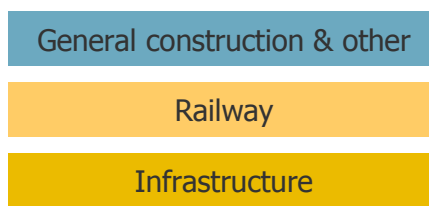
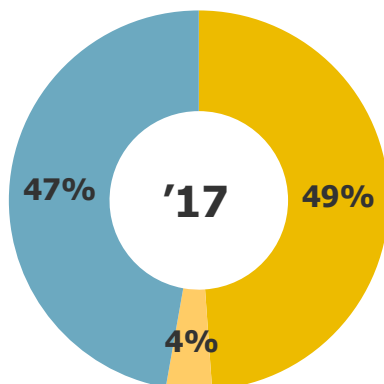
- EBIT margin in FY'18 amounted to 3,9%
- The share of sales generated in railway segment increased due to further execution of record railway backlog

	FY'18	y-o-y dynamics
<b>Sales</b>	<b>7 048</b>	<b>16%</b>
<b>Gross margin</b>	<b>507</b>	<b>-26%</b>
% sales	7,2%	-4,2 pp.
<b>Operating profit</b>	<b>277</b>	<b>-45%</b>
% sales	3,9%	-4,4 pp.
<b>Net profit</b>	<b>196</b>	<b>-51%</b>
% sales	2,8%	-3,8 pp.

Sales and EBIT margin (M PLN)



Sales structure

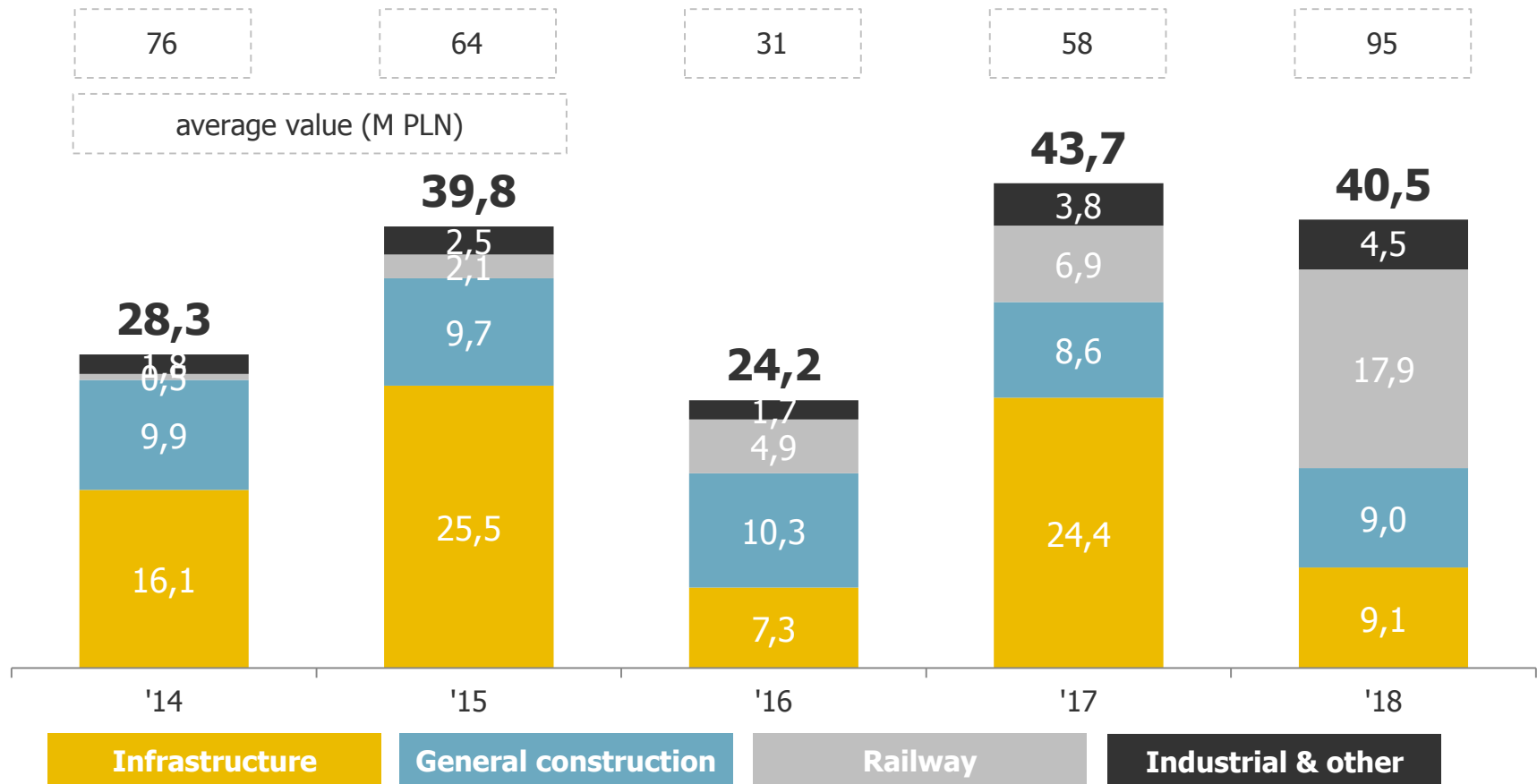


## 2.4.1 Construction segment

### Comment

- *Fall of activity on GDDKiA's market in '18 due to relatively low number of new projects launched by investor in '18*
- *High value of offers placed in railway, however part of tenders were cancelled due to strong disproportion between lowest offer and investor budget*

Offers placed in Budimex Group (bn PLN)



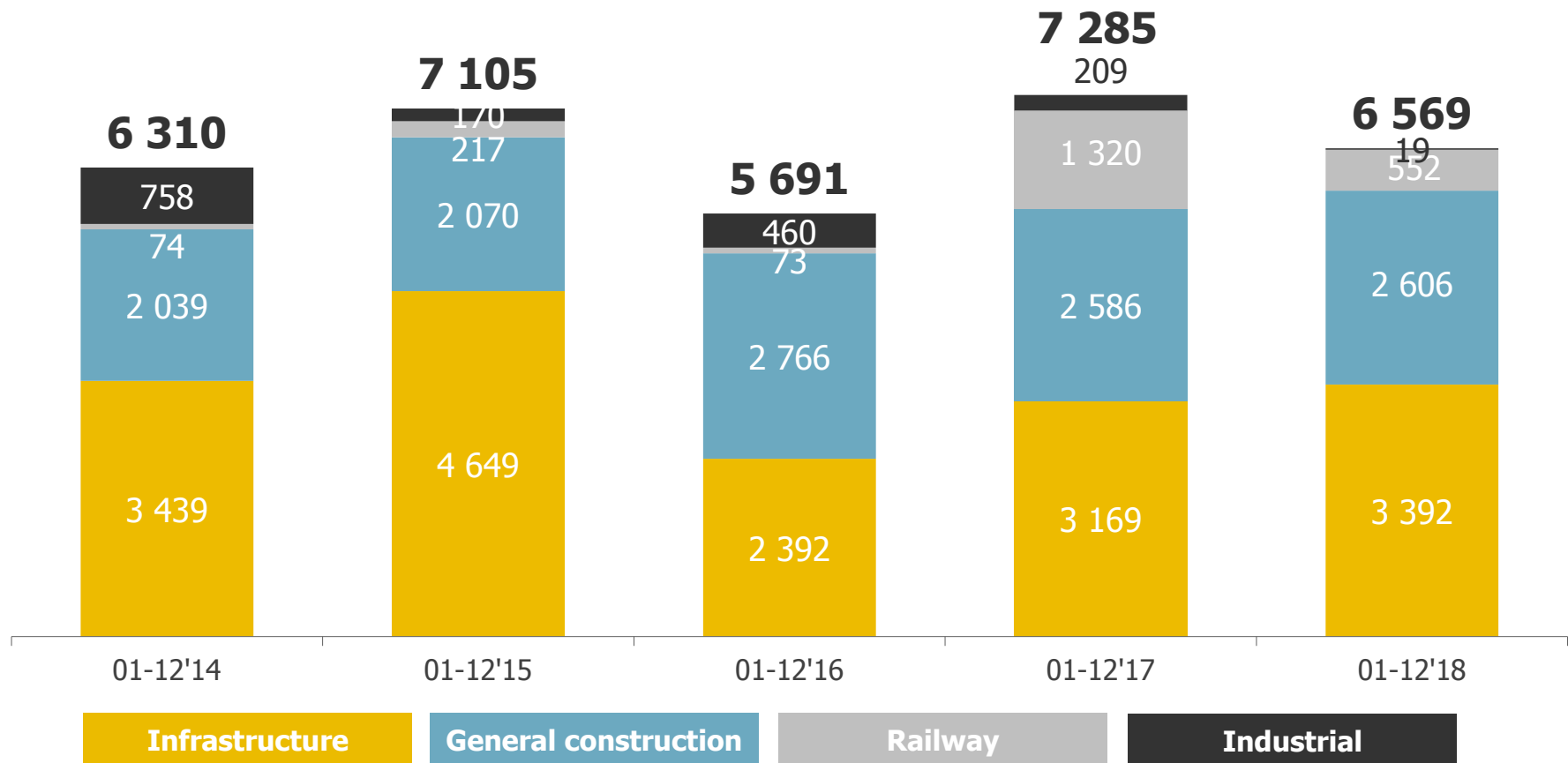


## 2.4.1 Construction segment

### Comment

- Lower value of contracts signed in railway
- Good performance in infrastructure due to several road contracts signed in '18, for which offers were placed in '17
- Stable level of contracts signed in general construction

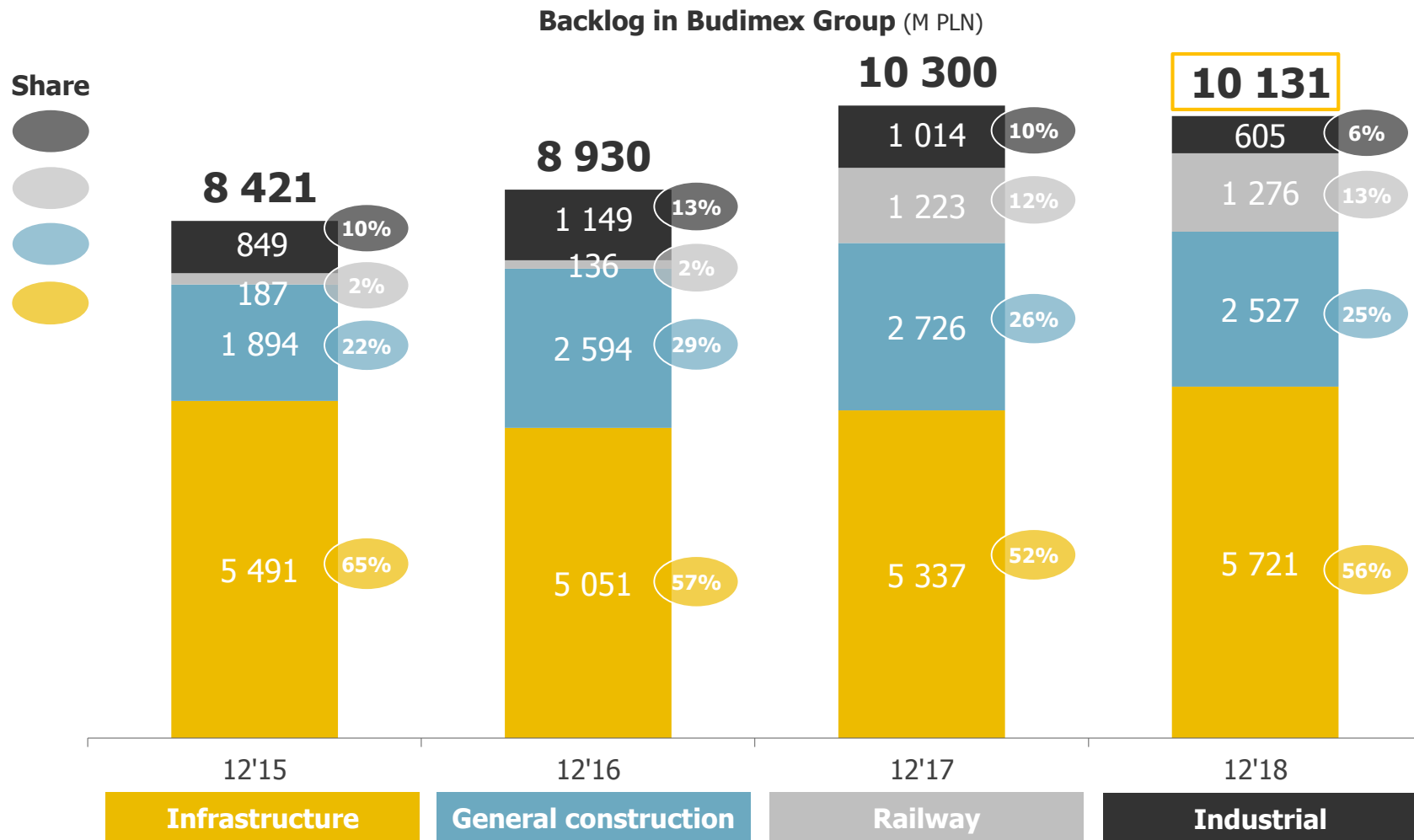
Contracts signed in Budimex Group (M PLN)



## 2.4.1 Construction segment

### Comment

- As a result of relatively low value of contracts signed in 4Q'18, the backlog noted a decline vs. 09'18 and 12'17 as well
- Generally, backlog's structure has not changed in '18





## **Developer segment – FY'18 results**



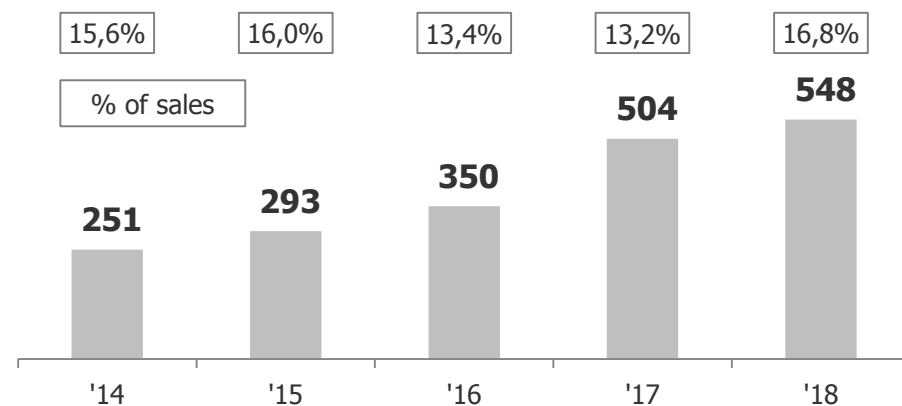
## 2.4.2 Developer segment

### Comment

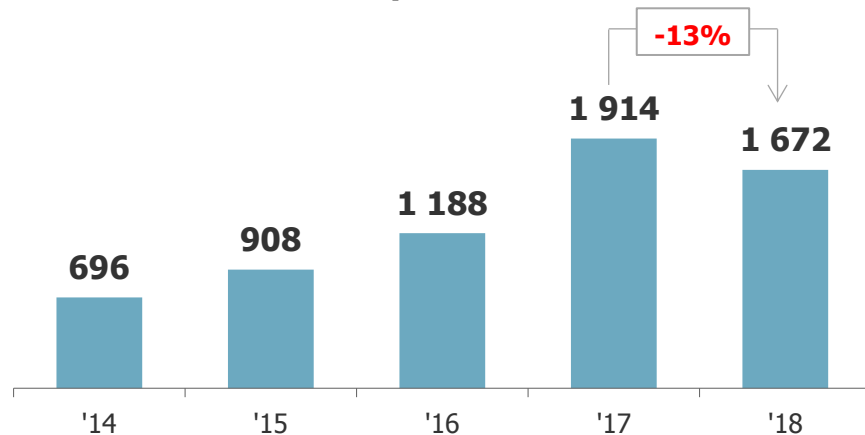
- Developer segment kept gross margin at above 20,0% level
- Drop of presales in '18 caused by prolonging administrative procedures, which resulted in projects rescheduling

	FY'18	y-o-y dynamics
<b>Sales</b>	<b>548</b>	<b>9%</b>
<b>Gross margin</b>	<b>123</b>	<b>19%</b>
% sales	22,5%	1,8 pp.
<b>Operating profit</b>	<b>92</b>	<b>38%</b>
% sales	16,8%	3,6 pp.
<b>Net profit</b>	<b>76</b>	<b>35%</b>
% sales	13,9%	2,7 pp.

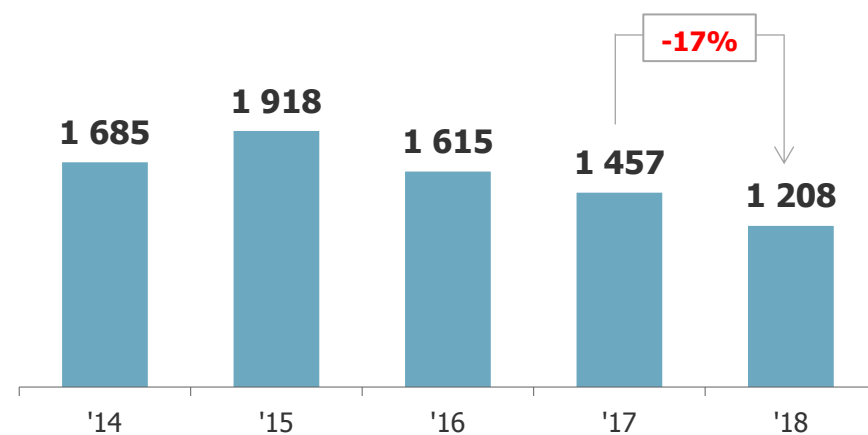
Sales and EBIT margin (M PLN)



Notary sales (flats)



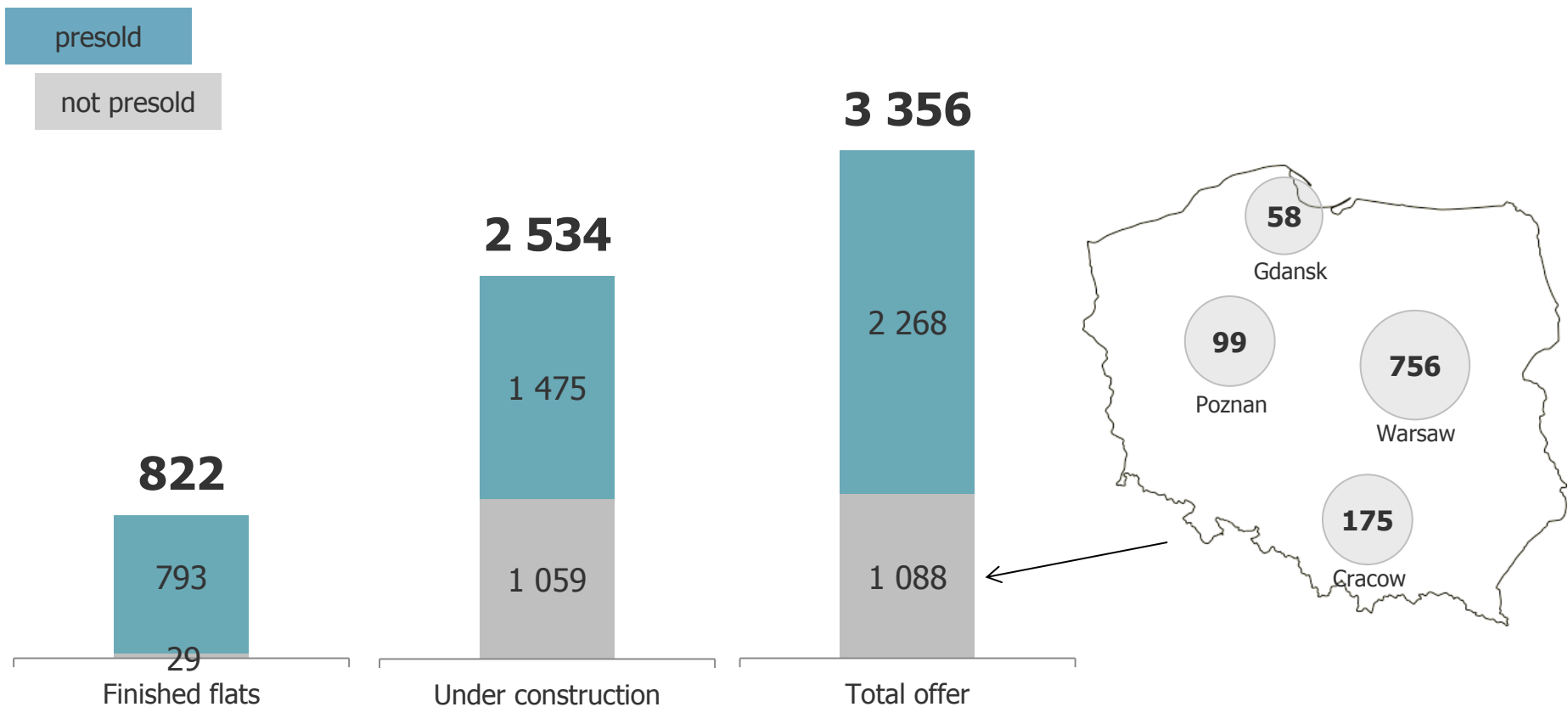
Presales (flats)



### Comment

- Market offer in 12'18 was comparable to 09'18 offer
- In 12'18 land bank amounted to 9 903 flats

Market offer as at 12'18 (flats)







## **Other activity – FY'18 results**

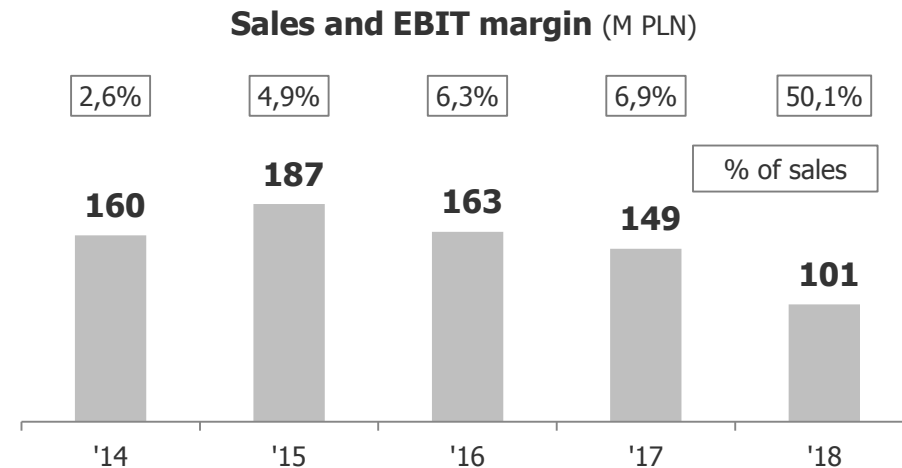




### Comment

- *FY'18 results in other activities were improved by one-off (sell of Elektromontaz Poznan and BIG): **+44 M PLN** on operating profit level*
- *Elektromontaz Poznan was responsible for over 95% of sales generated in '14-'17*
- *In 12'18 Budimex started negotiations on purchase of 51% share in FBSerwis*

	FY'18	y-o-y dynamics
<b>Sales</b>	<b>101</b>	<b>-32%</b>
<b>Gross margin</b>	<b>14</b>	<b>-27%</b>
% sales	14,1%	1,1 pp.
<b>Operating profit</b>	<b>50</b>	<b>393%</b>
% sales	50,1%	43,2 pp.
<b>Net profit</b>	<b>35</b>	<b>611%</b>
% sales	35,1%	31,8 pp.



### Group's other activities segment composition

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Parking Wrocław

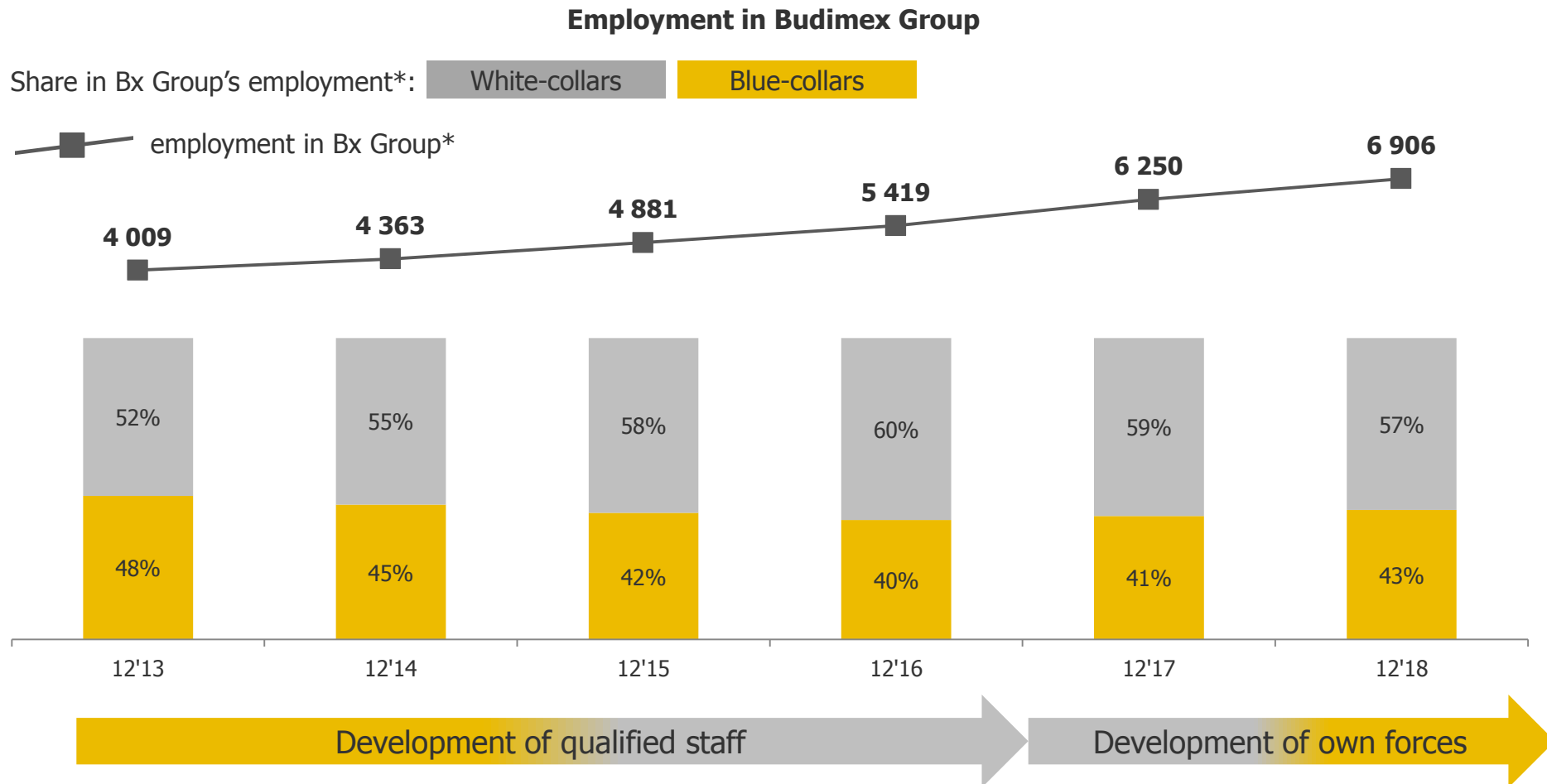
- construction & administration of underground car park in Wrocław (concession)
- 51% share
- full consolidation

**fbserwis**

- environmental services, infrastructure maintenance, facility management, energy efficiency services
- 49% share
- equity method of consolidation

## Comment

- In '18 Budimex increased employment by 656 people
- Budimex continues development of own workforce



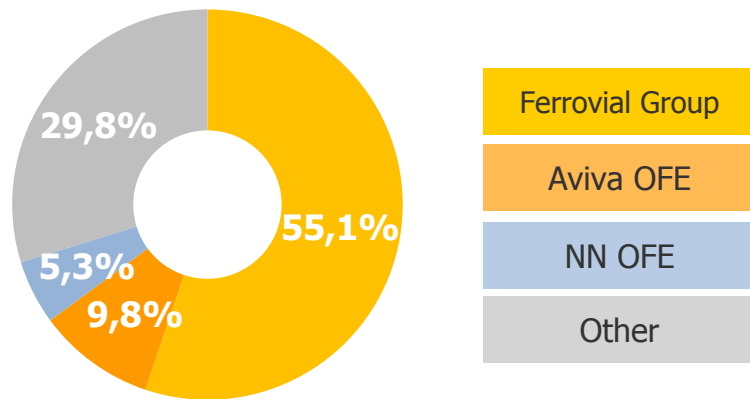
\* w/o Fbserwis and Elektromontaz Poznan

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

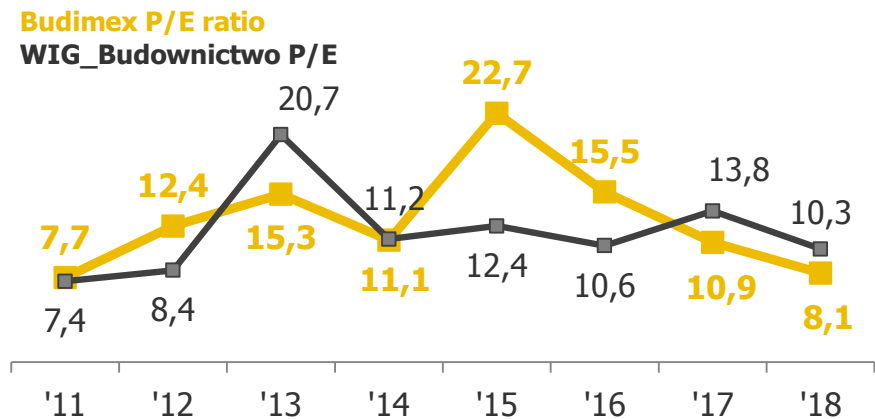
#### Comment

- Pressure on margin and bad sentiment to construction segment pushed Budimex's market capitalization to the level achieved in '13-'14
- Total pension funds' share in BDX amounts to 30-35%

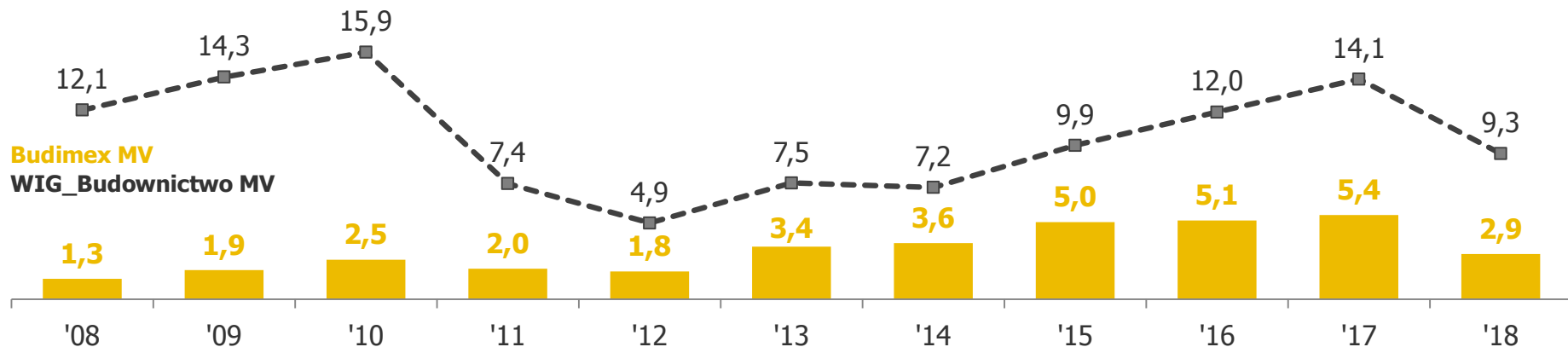
Shareholders structure



P/E ratio



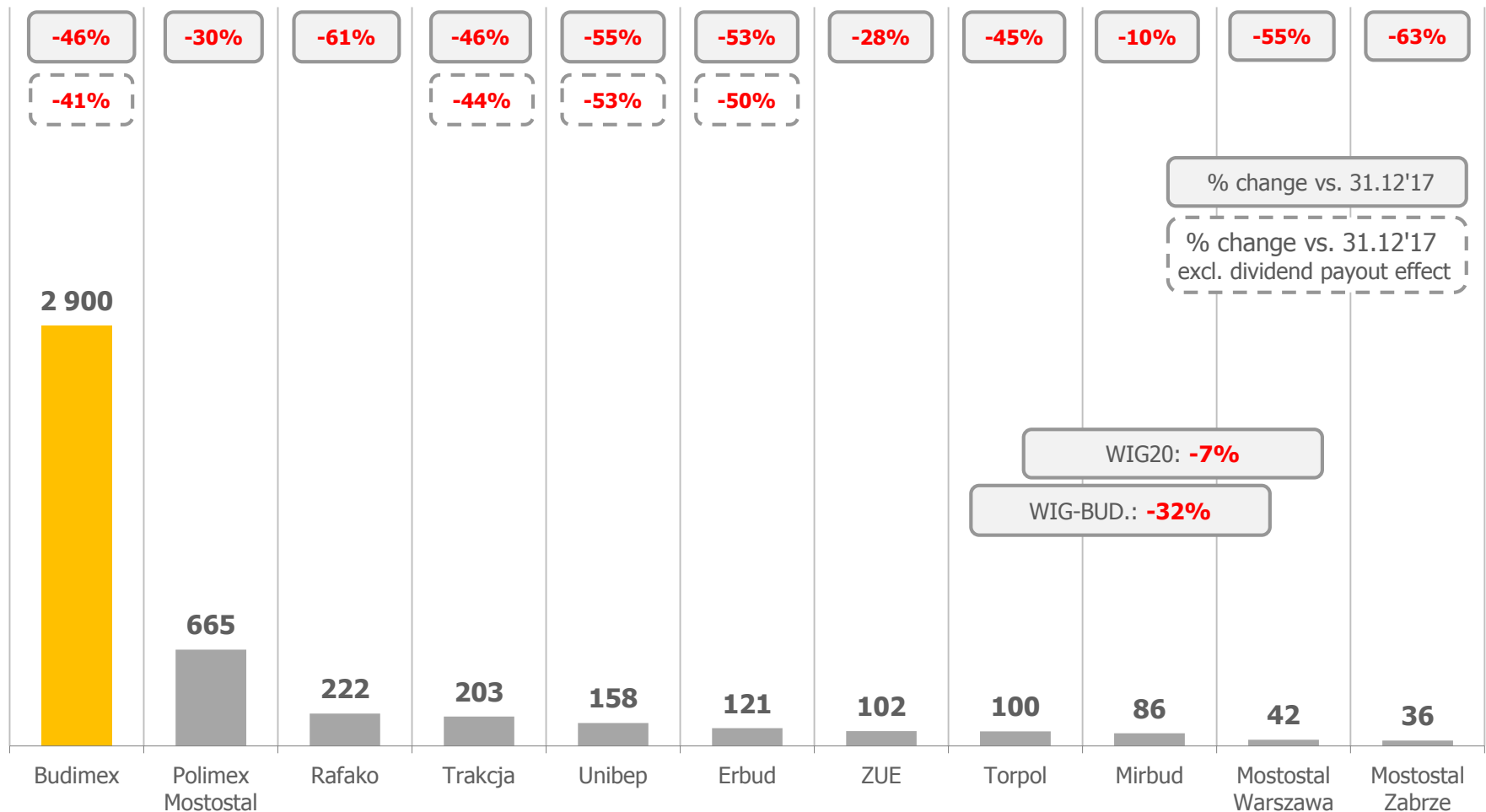
Budimex market value vs. WIG-Budownictwo aggregated market value (bn PLN)



## Comment

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

Market value as at 12'18 (M PLN)

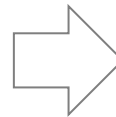


#### Comment

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

**Dividends paid (M PLN)**

**$\Sigma = 2\,445$**   
M PLN



**95,8**  
PLN per share

