Flash Note

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MIRBUD (MRB PW; UNDER REVIEW) / TORPOL (TOR PW; BUY; TP PLN 85)

The Regional Court in Warsaw has dismissed the appeal filed by the Mirbud x Torpol consortium [MRB: negative / TOR: neutral/positive]

#Ruling
- The Regional Court dismissed the appeal filed by the consortium, which we understand closes the discussion on the contractor that will sign the agreement with PKP PLK for the delivery of the Polish section of Rail Baltica.
- The Track Tec x Intop x Unibep consortium is currently closest to signing the contract, as its bid worth PLN 5.22bn gross has already been selected by PKP PLK.

#Consequences
- As a result of the dismissal of the appeal, Mirbud S.A. is now required to go through the self-cleaning procedure.
- For Torpol, the situation does not carry the above legal and business consequences.

#Background
- As a reminder, the entire case indirectly concerned the bid of the Mirbud x Torpol consortium worth PLN 4.6bn gross in the tender for the construction of the first section of the Polish part of Rail Baltica.
- The National Appeals Chamber (KIO) rejected the consortium's bid due to Mirbud's alleged concealment of a PLN 15k environmental penalty related to the delivery of one of its contracts for GDDKiA.

Comment: *The dismissal of the appeal, i.e. a ruling IN LINE with our expectations, in our view has multi-layered consequences for Mirbud, Torpol and the entire construction sector.*
*For **#TOR**, however, the situation is clear – we did not assume that the Company would deliver Rail Baltica, and given the Group's very conservative bidding, the final dismissal of the appeal validates our model assumptions, in particular the upward trajectory of the gross margin in the coming years.*

*In the context of **#MRB**, we look at the situation along several tracks:*

i) on the one hand, we clearly view negatively the lost opportunity to secure such a large railway contract, which in our view could have lent at least some credibility to the Group's ambitious business plans in this segment. More than 2 years have passed since the SPO, and the proceeds from the issue, which were meant to be used for acquisitions and building scale in the railway segment, have in practice been used to fund current working capital needs. Since then, despite the acquisition of Transkol, the Group has not won a single material railway tender (last year Transkol signed a contract worth PLN 104m, and the company itself had negative equity at the end of June), while in several of them, including Rail Baltica, the consortium's bid was ultimately rejected despite very aggressive pricing. At the same time, the Group – or rather Mirbud S.A. – will be forced to go through the self-cleaning procedure, which, as this year's Budimex example has shown, is relatively problematic under the Polish legal/Public Procurement Law regime and may materially limit the Group's contracting capacity in the coming months. This is all the more negative from a business standpoint given that the selection of the contractor for the CPK Terminal, among others, is coming up shortly. Self-cleaning is not a centralised procedure – each contracting authority assesses the effectiveness of the package of changes separately, which means the Group will be *forced to make changes somewhat "blind", without certainty that the situation has already been adequately addressed. Importantly, however, the offence itself committed by Mirbud was classified by KIO as "recklessness or negligence under Art. 109(1)(10)" rather than, as in Budimex's case, "entering into an agreement restricting competition", which is objectively a considerably "lighter" offence and may translate into faster implementation of a solution acceptable to contracting authorities. We assume that Mirbud should successfully complete self-cleaning by the end of FY26E, which may partly result in the Company's bids being rejected in tenders, but should nevertheless allow the order backlog to exceed PLN 10bn at year-end.*

ii) on the other hand, we do see positive consequences of this ruling. At the last results conference, the Management Board materially cooled our expectations regarding the FCF trajectory in the second half of the year – according to the CFO's comments, operating cash flow should be close to zero in FY26E, which would mean a 4th consecutive year without positive OCF. Bearing in mind that Mirbud still holds over PLN 500m of NET assets from the valuation of construction contracts, that over the next 3 years it will have to pay a further tranche for the land in Poznań (c. PLN 300m), that Marywilska has already received City Council consent to extend the lease as well as a construction permit (we estimate rebuilding costs at PLN 130m), and that investments in new asphalt mix plants will cost the Group nearly PLN 80m in FY26-27E, a contract as large as Rail Baltica (c. PLN 2bn attributable to Mirbud), budgeted at a relatively low margin (5% gross margin, on a bid submitted over a year ago), would entail another strong cash outflow in FY26-27E. In the above calculations we do not even touch on potential acquisitions in the railway / power engineering space, which could also involve PLN 300-500m of outlays. Ultimately, therefore, a situation in which Mirbud does not deliver Rail Baltica – given its growing order backlog and still weak cash generation – may be positive news for the Company from the perspective of deleveraging its balance sheet, particularly as in FY27E we expect strong growth in construction and assembly output and the resulting inflation in materials and commodity prices.

In summary**, as things currently stand we are inclined to "zero out" the railway segment in our model. The open question is how problematic navigating the self-cleaning procedure will prove for the Company, although from the perspective of the FCF trajectory (we assume FCF close to zero in FY26E) the absence of Rail Baltica in the backlog may support short-term EBITDA/OCF conversion. Another question is how the ruling will affect the behaviour of Mirbud's competitors in tenders – the largest tenders currently involve very aggressive legal / appeal battles between contractors, and the question is whether the Regional Court's ruling will not give Mirbud's competitors further arguments in this area. At the same time, we note that from Torpol's perspective the ruling is neutral/slightly positive – we did not include the contract in our forecasts, and the budgeted 5% gross margin (although, given the different scope of works in Torpol's case, it could have been somewhat higher) is noticeably lower than the level assumed in our FY26-28E forecasts. **(David Sharma)

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#MRB: FY26-28E estimates

PLNm	2023	2024	2025	2026E	2027E	2028E
Revenues	3,322	3,252	2,951	-	-	-
adj. EBITDA	249	211	130	-	-	-
EBIT	224	182	168	-	-	-
adj. Net profit	140	126	58	-	-	-
EPS (PLN)	1.5	1.1	0.5	-	-	-
P/E (x)	8.3	11.1	24.2	-	-	-
EV/EBITDA (x)	4.7	6.5	12.2	-	-	-
FCFF Yield (%)	-1.8%	-11.6%	-9.8%	-	-	-
DY (%)	2.2%	1.4%	0.8%	0.9%	-	-

Source: Company, Trigon

#TOR: FY26-28E estimates

PLNm	2023	2024	2025	2026E	2027E	2028E
Revenues	1,092	1,458	1,978	2,110	2,597	3,256
EBITDA	139	100	121	136	190	270
EBIT	114	75	94	107	159	238
Net profit	102	68	78	94	139	211
EPS (PLN)	4.4	3.0	3.4	4.1	6.0	9.2
P/E (x)	15.6	23.5	20.4	17.0	11.5	7.5
EV/EBITDA (x)	8.2	14.3	8.3	8.7	5.0	2.8
FCFF Yield (%)	0.5%	-17.8%	45.9%	-7.7%	30.1%	36.3%
DY (%)	0.0%	3.0%	1.9%	4.9%	2.9%	4.4%

Source: Company, Trigon

TRIGON DOM MAKLERSKI S.A.

Plac Unii, Puławska 2 st.,
Building B,
02-566 Warszawa

+48 22 330 11 11

recepcja@trigon.pl

LinkedIn

www.trigon.pl

CEE EQUITY RESEARCH

Grzegorz Kujawski Consumer, E-commerce, Financials	*Head of Research*	**Dominik Niszcz, CFA** TMT, E-commerce	*Senior Analyst*
Maciej Marcinowski Strategy, Banks, Financials	*Deputy Head of Research*	**Łukasz Rudnik** Strategy, Foreign Markets, Industrials	*Senior Analyst*
Grzegorz Balcerski, CFA Gaming, TMT	*Senior Analyst*	**David Sharma, CFA** Construction, Real Estate, Building Materials	*Senior Analyst*
Katarzyna Kosiorek, PhD Biotechnology	*Analyst*	**Piotr Chodyra** Aerospace & Defence, Deep tech, Consumer	*Analyst*
Michał Kozak Oil & Gas, Chemicals, Utilities, Mining	*Senior Analyst*	**Kacper Mazur**	*Assistant Analyst*

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