

# Geotrans S.A.



Price target: PLN 42.10

Initiating Coverage

Rating: BUY

**Geotrans S.A. (GTS) is a provider of environmental services, especially management of municipal waste, recultivation and sale of by-products of incineration. While its main clients are sewage works, heat/power stations and local governments, who are mostly acquired through tenders, the company's current waste management capacity is 350,000 Mg or tonnes. We estimate GTS' current market share in Poland at c. 2%, however so far it has only been active in half of the country. We expect that future growth will stem from capacity expansion (planned investments of c. PLN 30m by the end of 2021E), increased activity in other parts of Poland, growing volume of waste in-line with a rapidly growing Polish GDP and the new EU "Green Deal", which foresees among others an increased focus on resource efficiency and recycling. Based on a weighted average of our DCF model (70%) and peer group analysis (30%), which account for a planned capital raise of 500k shares at PLN 32 per share mainly for expansion of capacity relating to administrative decisions on waste management to 2m Mg, our model derives a 12-months PT of PLN 42.10 per share, which corresponds to a 87.9% upside at present and a BUY rating. Based on our forecasts, GTS' current P/E 2020E is 6.9x vs. exp. EPS growth in 2020E of 131.1%. We believe that for 2020E the company will pay out a DPS of PLN 1.63 (DYield = 7.3%).**

**Geotrans' 9M/20 results showed a very strong growth on both top- and bottom-line and the volume of new contracts reached PLN >36m to date.** In Jan-Sep 2020, Geotrans generated revenues of PLN 35.3m (+78.7% y-o-y). EBIT margin improved from 31.9% in 9M/19 to 44.5% due to much better cost structure y-o-y. Net income advanced from PLN 4.9m in 9M/19 to PLN 12.7m and operating cash flow from PLN 4.1m to PLN 10.1m. At the end of September 2020, Geotrans had net cash of PLN 8.3m.

**The market for municipal waste in Poland is estimated at PLN 7.8bn and is expected to grow at a CAGR of 9.9%. The average volume of municipal waste per capita is still significantly below EU average (332 kg vs. 492 kg).** As the share of stocked municipal waste in Poland is still very high compared to e.g. Germany (42% vs. 1%), we believe that our growth assumptions relating to GTS' sales and EPS (4y CAGR of 23.2% for both) are realistic.

in PLNm	2018	2019	2020E	2021E	2022E	2023E
Net sales	14.60	28.39	46.95	52.77	58.73	65.38
EBITDA	0.91	9.06	20.55	21.58	22.20	22.56
EBIT	0.80	8.90	20.33	21.25	21.77	22.09
Net income	0.21	7.05	16.43	17.18	17.61	17.88
EPS	0.04	1.41	3.26	3.12	3.20	3.25
DPS	0.00	0.80	1.63	1.56	1.60	1.63
Dividend yield	0.00%	3.57%	7.27%	6.97%	7.15%	7.26%
RoE	5.52%	101.10%	70.69%	42.34%	35.80%	30.69%
Net gearing	16.12%	-48.14%	-61.89%	-10.00%	-20.60%	-27.24%
EV/Sales	7.11x	3.65x	2.21x	1.97x	1.77x	1.59x
EV/EBITDA	113.40x	11.45x	5.05x	4.81x	4.67x	4.60x
P/E	528.21x	15.89x	6.88x	7.17x	6.99x	6.89x

## Company profile

Geotrans offers waste management and recultivation. It also sells by-products of incineration.

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Website	www.geotrans.com.pl
Sector	Environmental Services
Country	Poland
ISIN	PLGEOTR00010
Reuters	GTS.WA
Bloomberg	GTS PW

## Share information

Last price	22.40
Number of shares (m)	5.00
Market cap. (PLNm)	112.00
Market cap. (EURm)	25.07
52-weeks range	PLN 39 / PLN 5.63
Average volume	35,771

## Performance

4-weeks	-8.57%
13-weeks	-16.73%
26-weeks	6.32%
52-weeks	183.08%
YTD	160.69%

## Shareholder structure

Eco Ventures Sp. z o.o.*	38.05%
Piotr Nadolski	9.78%
Own shares	1.10%
Free float	51.07%

\* owned by the CEO

## Financial calendar

Q4/20 report (exp.)	February 12, 2021
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## Investment Case

- As a leading provider of environmental services in Poland, Geotrans S.A. helps the producers of waste to fulfill their legal obligations relating to utilization of waste and recultivation of land. Currently, its capacity equals 350,000 Mg (Mg = Megagram = tonne) of administrative decisions relating to waste management. In addition, it recultivates >20 ha of land per year. The company's strategy foresees the geographical expansion in Poland, investments in waste management capacity and diversification of revenues through the co-operation with one of the leading Polish renewable energy companies. The agreement with Columbus Energy S.A., which was signed in H1/20, foresees the construction of photovoltaic installations on recultivated land or closed landfill sites.
- Geotrans has a well-diversified revenue structure with c. 70 clients, with whom it has contracts with a duration ranging from a few months to four years. As its main clients are sewage works and heat/power plants, Geotrans is on the Polish government's list as a subcontractor that is necessary for the functioning of critical infrastructure.
- The think tank Instytut Jagiellonski estimates the value of the Polish waste market at c. PLN 15.3bn and the CAGR 2019-2024E at 6.4%. According to Polish statistical office GUS, the total volume of waste in 2019 reached 114.1m tonnes, thereof 12.8m municipal waste. Despite the fact that the economy in Poland has been growing at a CAGR of >3%, the average volume of waste per capita is still significantly below EU average (332 tonnes vs. 492 tonnes). At the same time, still 42% of municipal waste is stocked vs. only 1% in Germany. As the main growth drivers of the waste market, we regard continuously strong GDP growth in Poland in the future (should reach 3.1% and 5.7% in 2021E and 2022E, according to the central bank NBP) and the new EU "Green Deal", which among others foresees a stronger focus on recycling and resource efficiency.
- In the last three years, Geotrans has grown its sales at a CAGR of 41.3%, while at the same time its EBIT margin went up from 15.9% in 2017 to 31.3%. With revenues of PLN 35.3m (+78.7% y-o-y) and EBIT margin of 44.5% (9M/19: 31.9%), 9M/20 showed a continuation of this positive trend. For full-year 2020E, we expect sales of PLN 47m (+65.4% y-o-y), EBIT of PLN 20.3m (+128.4%) and net income of PLN 16.4m (+133%). While we believe that by 2028E sales will grow at an average rate of 11.5%, we expect that due to intense competition and growing wages in Poland the EBIT margin will decline to <20%.
- We initiate coverage of Geotrans with a 12-months price target (70% DCF, 30% peer group) of PLN 42.10 per share, which implies an upside of 87.9%. In our view, Geotrans operates in a very attractive niche and its future growth should stem from geographical expansion in Poland, investments in new waste processing installations and favorable EU regulations. Based on our EPS estimates (CAGR 19-21E of 48.8%), which account for the issue of 500k new shares in Q4/20E, the stock is currently trading at a P/E 2020E and 2021E of 6.9x and 7.2x respectively. That compares to P/E 2020E of 12.8x, at which based on our estimates GTS' peer MO-BRUK is valued in a current public share offering.

## SWOT Analysis

### Strengths

- Geotrans is a leading provider of environmental services in Poland. It takes over all legal obligations to manage waste and recultivate land from waste producers
- In 2017-2019, its revenues increased at a CAGR of 41.3% and the EBIT margin from 15.9% to 31.3%. As it outsources most tasks, the company is able to generate significant operating cash flows
- The company is on the Polish government's list of subcontractors that are necessary for the functioning of critical infrastructure. As its activity requires permits by government authorities, it is characterised by high barriers to entry
- Well-diversified revenue structure with c. 70 clients, who are mostly state-owned
- Geotrans is net cash
- The largest shareholder is the CEO, whose family members also sit on Geotrans' Supervisory Board

### Opportunities

- In the next years, growth of capacity relating to administrative decisions on waste management to 2m Mg (5.7x current level)
- The volume of municipal waste in PL is estimated at 12.8m tonnes per year and its value at c. PLN 7.8bn. Volume-wise the market is growing at c. 5%/year vs. a GDP CAGR 2010-2019 of 3.6%. The average volume of municipal waste per capita is still significantly lower than on average in EU (332 kg vs. 492 kg)
- The EU "Green Deal" and new budget foresee an increased focus on investments in recycling in order to achieve the objective of a "circular economy" and climate neutrality. Currently, only 35%-40% of municipal waste in the EU is recycled
- Expansion to other parts of Poland
- Diversification of revenues through e.g. the construction of photovoltaic installations on recultivated land
- Dividend policy, which foresees the payout of 20%-100% of yearly net profit. Geotrans also plans to continue to buy back own shares
- Change to the Main Market of the Warsaw Stock Exchange, which would make the company interesting for more institutional investors
- Potential takeover by a large player in the future

### Weaknesses

- >75% of Geotrans' revenues stem from tenders and are thus very volatile
- Currently, operations in only half of Polish provinces
- Listing in the alternative NewConnect segment, which is intransparent

### Threats

- Intense competition in Poland with >1,000 players (however mostly small) operating in the waste management sector
- Loss of key employees

We have valued Geotrans by using a weighted average of a DCF model (70%) and peer group (30%). Our model accounts for the planned issue of 500k new shares at PLN 32 per share and the 54.8k shares, which the company bought back this year. Our approach derives a 12-months PT of PLN 42.10, which implies an upside of 87.9% at present and a BUY rating.

Below are the key assumptions of our DCF valuation:

- (1) *Risk-free rate*: Current yield of Polish long-term government bonds with maturity in 2047E is 1.7% (Source: [www.boerse-stuttgart.de](http://www.boerse-stuttgart.de))
- (2) *Beta*: Average unlevered beta for companies from the Environmental & Waste Services sector, which are based in Emerging Markets, is 0.99x (Source: [www.damodaran.com](http://www.damodaran.com))
- (3) *Equity risk premium (Poland)*: 6.48% (Source: [www.damodaran.com](http://www.damodaran.com))
- (4) *Target equity ratio*: 100%
- (5) *WACC = Equity cost*: 8.1%
- (6) *Sales growth in the terminal period*: 2%
- (7) Free cash flows are discounted to 22 November 2020

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## Peer Group Analysis

We have compared Geotrans to three Polish and four international providers of waste management and environmental services. Below is a list:

- (1) *MO-BRUK S.A.*: MO-BRUK, which is based in Korzenna, is a Polish leader in the area of utilisation of industrial waste. In 2019, it generated revenues of PLN 130.6m.
- (2) *Grupa RECYKL S.A.*: Grupa RECYKL, which is headquartered in Srem, mainly operates in the area of utilisation of tires. In 2019, the company's revenues equaled PLN 52m.
- (3) *Krynicki Recykling S.A.*: Krynicki Recykling, which is based in Olsztyn, acquires, processes and resells cullet. Apart from Poland, it is also active in Baltic countries. In 2019, the company generated total sales of PLN 96.3m.
- (4) *Casella Waste Systems Inc.*: Through its core operations in Massachusetts, Maine, New Hampshire, New York, Vermont and Pennsylvania, Casella, which is based in Rutland/US, provides a vast array of waste and recycling services to customers in over 40 US states. In 2019, the company generated revenues of USD 743.3m.
- (5) *GFL Environmental Inc.*: GFL Environmental Inc., which is headquartered in Vaughan/Canada, offers non-hazardous solid waste management, infrastructure and soil remediation, as well as liquid waste management services. It targets municipal, residential, commercial and industrial customers. In 2019, the company had revenues of CAD 3.3bn.
- (6) *Waste Management Inc.*: Waste Management, which is based in Houston/US, provides waste management environmental services to residential, commercial, industrial, and municipal customers in North America. Apart from collection and transport of both non-hazardous and toxic waste, it owns, develops and operates landfill gas-to-energy facilities in the United States, as well as transfer stations. The company also provides e.g. materials processing; commodities recycling and brokerage services; construction and remediation services; services related to the disposal of fly ash and residue generated from the combustion of coal and other fuel stocks. In 2019, Waste Management generated revenues of USD 15.5bn.
- (7) *US Ecology Inc.*: US Ecology, which is headquartered in Boise/US, provides environmental services to commercial and government entities in the United States, Canada, Europe, the Middle East, Africa and Mexico. It operates through two segments: Environmental Services (e.g. recycling, treatment, and disposal of hazardous, non-hazardous, E&P, and radioactive waste) and Field & Industrial Services (e.g. industrial cleaning and maintenance, remediation, waste characterization, transportation and disposal of non-hazardous and hazardous waste). In 2019, US Ecology generated revenues of USD 685.5m.

Company	EV/Sales			EV/EBITDA			P/BVPS	EBITDA margin	Net gearing
	2019	2020E	2021E	2019	2020E	2021E	Latest	Last FY	Latest
MO-BRUK S.A. (PLN)	8.59x	n.a	n.a	19.11x	n.a	n.a	8.32x	44.95%	-12.37%
Grupa RECYKL S.A. (PLN)	2.04x	n.a	n.a	10.25x	n.a	n.a	1.70x	19.94%	135.19%
Krynicky Recyling S.A. (PLN)	1.88x	n.a	n.a	7.76x	n.a	n.a	1.21x	24.18%	53.75%
Casella Waste Systems Inc. (USD)	4.98x	4.80x	4.46x	26.76x	21.86x	19.97x	20.90x	18.61%	411.15%
GFL Environmental Inc. (USD)	4.70x	3.77x	2.94x	20.82x	14.63x	10.86x	1.96x	22.57%	81.57%
Waste Management Inc. (USD)	3.92x	4.01x	3.61x	13.95x	13.99x	12.51x	7.11x	28.11%	135.84%
US Ecology Inc. (USD)	2.75x	2.04x	1.92x	13.29x	10.93x	9.67x	1.57x	20.71%	118.69%
<b>Median</b>	<b>3.92x</b>	<b>3.89x</b>	<b>3.27x</b>	<b>13.95x</b>	<b>14.31x</b>	<b>11.68x</b>	<b>1.96x</b>	<b>22.57%</b>	<b>118.69%</b>
Geotrans S.A. (PLN)	3.61x	2.18x	1.94x	11.32x	4.99x	4.75x	5.93x	31.90%	-44.26%
<b>Premium/Discount</b>	<b>-7.9%</b>	<b>-43.9%</b>	<b>-40.7%</b>	<b>-18.8%</b>	<b>-65.1%</b>	<b>-59.3%</b>	<b>202.2%</b>		
<b>Fair value per share Geotrans (PLN)</b>	<b>35.40</b>								

Source: CapitalIQ, East Value Research GmbH

### Price target calculation

Valuation method	Fair value	Weight
DCF model	40.45	70%
Peer-group-based fair value	35.40	30%
<b>Weighted average (present value)</b>	<b>38.94</b>	
<b>In 12-months (PV * (1+WACC))</b>	<b>42.10</b>	

Source: East Value Research GmbH

## 9M/20 results

### Revenues and Profitability

In 9M/20, Geotrans generated total revenues of PLN 35.3m, which grew by 78.7% y-o-y. All stemmed from Poland. While the company does not provide a detailed sales split, we believe that c. 80% of total revenues stemmed from Waste Management and 20% from Sale of by-products of incineration.

Between January and September 2020, Geotrans signed seven new commercial contracts. Thereof, 4 were signed with one waste treatment company and had a total volume of PLN 7.4m. We estimate that its three largest clients accounted for c. 35% of GTS' total revenues.

in PLNm	9M/20	9M/19	change (%)
<b>Net sales</b>	<b>35.32</b>	<b>19.76</b>	78.7%
<b>EBITDA</b>	<b>15.89</b>	<b>6.43</b>	147.1%
<i>EBITDA margin</i>	<i>45.0%</i>	<i>32.5%</i>	
<b>EBIT</b>	<b>15.73</b>	<b>6.31</b>	149.3%
<i>EBIT margin</i>	<i>44.5%</i>	<i>31.9%</i>	
<b>Net income</b>	<b>12.68</b>	<b>4.92</b>	157.9%
<i>Net margin</i>	<i>35.9%</i>	<i>24.9%</i>	

Source: Company information, East Value Research GmbH

In 9M/20, Geotrans' EBIT improved by 149.3% y-o-y to PLN 15.7m and the operating margin from 31.9% last year to 44.5%. The reason was the high operating leverage of Geotrans' business model as the company outsources most of functions. Net income (+157.9% to PLN 12.7m) increased even more due to an improved net financial result (PLN -70k vs. PLN -99k in 9M/19) and lower effective tax rate y-o-y (19% vs. 20.8%).

### Balance sheet and Cash flow

At the end of September 2020, Geotrans had equity of PLN 18.7m, which corresponds to an equity ratio of 83.9%. While fixed assets amounted to PLN 2.5m (comprise e.g. land but not machines; all work which requires the use of machines or heavy equipment is outsourced to sub-contractors), we estimate that working capital was worth PLN 6.5m. As of 30 September 2020, Geotrans had cash of PLN 8.9m and we estimate its interest-bearing debt at c. PLN 600k. There were no intangible assets on its balance sheet.

Between January and September 2020, Geotrans generated an operating cash flow of PLN 10.1m compared to PLN 4.1m in 9M/19. While investments in working capital went up from PLN 947k in 9M/19 to PLN 2.7m, the main reason, why it improved so significantly, was a strong growth of net income y-o-y. Cash flow from investing equaled PLN -1m (9M/19: PLN 44k), while cash flow from financing amounted to PLN -6.2m (PLN -645k) as the company paid out a dividend for 2019 (PLN 4m) and repurchased stock (PLN 1.9m; 54.8k shares at PLN 35). Between January and September 2020, Geotrans' cash position increased by PLN 2.9m.



## Financial forecasts

### Revenues and Profitability

Despite the fact that Geotrans does not provide a detailed segment reporting in its financial statements, we have decided to build our revenue model of the company on two business areas: "Waste Management" (incl. recultivation of land, whose results are however neglectable in our view) and "Sale of by-products of incineration". We would like to emphasize that our forecasts, which are provided below, do not take into account Geotrans' new co-operation with Polish Columbus Energy S.A., which foresees investments in photovoltaic installations on recultivated land.

*Waste Management:* Currently, in its nine installations in Poland Geotrans' capacity relating to administrative decisions on waste management is 350,000 Mg or tonnes, but in the next four years it plans to increase it to 2,000,000 Mg. Starting with a confirmed level of 12.8m tonnes in 2019, we have assumed that the volume of municipal waste in Poland will increase at a CAGR of 5% in the coming years. In terms of Geotrans' market share, we believe that it will grow from 1.5% in 2019 (volume of managed waste of 193,000 tonnes) to 2.6% by 2028E (522,711 tonnes). In our view, the average price per tonne that the company charges for managing waste, will increase by 2028E from PLN 128 in 2020E at a CAGR of 5%. We believe that this is a very conservative assumption given that between 2018 and 2019 the price per tonne grew by c. 30% (EVRe).

In sum, the above results in a revenue forecast of PLN 38m for 2020E and a sales CAGR 2019-2028E of 12.7%, which in our opinion is realistic given that Geotrans plans to expand within Poland and the European Union is putting an increased focus on recycling, resource efficiency and the concept of a „circular economy“. Regarding EBIT margin, we believe that Geotrans will not be able to maintain its current profitability in the future and forecast that the operating margin will go down from 50% in 2020E to <20% in the long run. The reasons are high competition and pressure on wages.

*Sale of by-products of incineration:* In this segment, we sum up Geotrans' sales of by-products of coal incineration e.g. ash, cast and cinder.

We have assumed that in whole 2020E revenues of this segment will reach PLN 9m (244,904 tonnes for PLN 37 per tonne on average) and the EBIT margin 15%. With a constant average price per tonne, we believe that in the coming years sales will grow at a CAGR of 5%, but that the operating margin will decline to c. 14% due to competitive pressure.

in PLNm	2020E	2021E	2022E	2023E
<b>Waste Management</b>	<b>37.95</b>	<b>43.32</b>	<b>48.81</b>	<b>54.97</b>
(% of sales)	80.8%	82.1%	83.1%	84.1%
EBIT margin	50.0%	45.8%	41.6%	37.4%
Total volume of communal waste (t)	13,440,000	14,112,000	14,817,600	15,558,480
Market share of Geotrans	2.2%	2.3%	2.3%	2.4%
Average price per tonne	128	135	141	148
<b>Sale of by-products of incineration</b>	<b>9.00</b>	<b>9.45</b>	<b>9.92</b>	<b>10.42</b>
(% of sales)	19.2%	17.9%	16.9%	15.9%
EBIT margin	15.0%	14.9%	14.8%	14.7%
Volume sold (t)	244,904	257,149	270,006	283,507
Average price per tonne	37	37	37	37
<b>Total net sales</b>	<b>46.95</b>	<b>52.77</b>	<b>58.73</b>	<b>65.38</b>
(change y-o-y)	65.4%	12.4%	11.3%	11.3%

Source: East Value Research GmbH

in PLNm	2020E	2021E	2022E	2023E
<b>Net sales</b>	<b>46.95</b>	<b>52.77</b>	<b>58.73</b>	<b>65.38</b>
<b>EBITDA</b>	<b>20.55</b>	<b>21.58</b>	<b>22.20</b>	<b>22.56</b>
EBITDA margin	43.8%	40.9%	37.8%	34.5%
<b>EBIT</b>	<b>20.33</b>	<b>21.25</b>	<b>21.77</b>	<b>22.09</b>
EBIT margin	43.3%	40.3%	37.1%	33.8%
<b>Net income</b>	<b>16.43</b>	<b>17.18</b>	<b>17.61</b>	<b>17.88</b>
Net margin	35.0%	32.6%	30.0%	27.3%

Source: East Value Research GmbH

in PLNm	Q1/18	Q2/18	Q3/18	Q4/18	2018	Q1/19	Q2/19	Q3/19	Q4/19	2019
<b>Net sales</b>	<b>3.94</b>	<b>3.28</b>	<b>3.03</b>	<b>4.34</b>	<b>14.60</b>	<b>5.92</b>	<b>6.16</b>	<b>7.68</b>	<b>8.63</b>	<b>28.39</b>
y-o-y change	-12.2%	6.8%	-4.2%	23.9%	2.6%	50.3%	87.9%	153.2%	98.6%	94.5%
<b>EBITDA</b>	<b>0.74</b>	<b>0.64</b>	<b>0.42</b>	<b>-0.89</b>	<b>0.91</b>	<b>1.42</b>	<b>2.03</b>	<b>2.98</b>	<b>2.63</b>	<b>9.06</b>
EBITDA margin	18.8%	19.6%	13.9%	-20.5%	6.3%	23.9%	32.9%	38.8%	30.4%	31.9%
<b>EBIT</b>	<b>0.71</b>	<b>0.62</b>	<b>0.40</b>	<b>-0.93</b>	<b>0.80</b>	<b>1.38</b>	<b>1.99</b>	<b>2.94</b>	<b>2.59</b>	<b>8.90</b>
EBIT margin	18.1%	18.9%	13.1%	-21.4%	5.5%	23.3%	32.3%	38.3%	30.0%	31.3%
<b>Net income</b>	<b>0.53</b>	<b>0.46</b>	<b>0.32</b>	<b>-1.10</b>	<b>0.21</b>	<b>1.07</b>	<b>1.57</b>	<b>2.28</b>	<b>2.13</b>	<b>7.05</b>
Net margin	13.5%	13.9%	10.5%	-25.2%	1.5%	18.1%	25.4%	29.7%	24.7%	24.8%

in PLNm	Q1/20	Q2/20	Q3/20	Q4/20E	2020E
<b>Net sales</b>	<b>10.15</b>	<b>13.63</b>	<b>11.55</b>	<b>11.63</b>	<b>46.95</b>
y-o-y change	71.5%	121.1%	50.3%	34.8%	65.4%
<b>EBITDA</b>	<b>4.39</b>	<b>6.89</b>	<b>4.61</b>	<b>4.66</b>	<b>20.55</b>
EBITDA margin	43.3%	50.6%	39.9%	40.0%	43.8%
<b>EBIT</b>	<b>4.34</b>	<b>6.84</b>	<b>4.55</b>	<b>4.60</b>	<b>20.33</b>
EBIT margin	42.8%	50.2%	39.4%	39.5%	43.3%
<b>Net income</b>	<b>3.48</b>	<b>5.52</b>	<b>3.68</b>	<b>3.74</b>	<b>16.43</b>
Net margin	34.3%	40.5%	31.9%	32.2%	35.0%

Source: Company information, East Value Research GmbH

**CAPEX and Working capital**

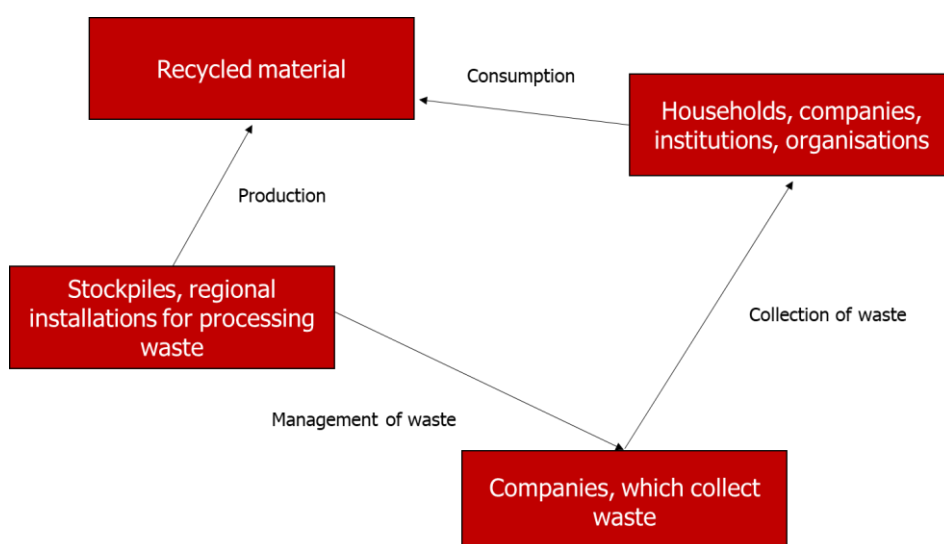
In-line with the company's announcements, we have assumed that Geotrans' gross CAPEX will equal c. PLN 30m in 2021E, which is supposed to be invested in expansion of waste management capacity (we believe that the company is currently preparing 10 new installations for managing waste). In 2022E-2024E, we expect gross CAPEX of PLN >6m and in the long run a gross CAPEX-to-sales ratio of 0.6%.

Due to its business model Geotrans does not have any inventory. Its working capital only consists of short-term receivables and payables. We expect that working capital will make up 15-16% of yearly revenues in the long run (2019: 11.7%). In our view, the cash conversion cycle will reach 30 days in the future compared to 11 days in 2019.

## Business description

Geotrans S.A., which is based in Wrocław, is a leading provider of waste management, recultivation and other environmental services in Poland. The company, which is currently active in 8 out of 16 Polish provinces in Western, Southern and Central Poland, has a capacity of 350,000 Mg of administrative decisions relating to waste management and recultivates more than 20 ha of land. It has the DEKRA PN-N-18001:2004 certificate regarding supervision of transport and management of waste and waste products at its facility in Wrocław. Geotrans, which currently has 21 employees (14 full-time equivalents and 7 on civil law contracts), has been listed in the NewConnect segment of the Warsaw Stock Exchange since 2015.

### Geotrans is active in the niche relating to management of municipal waste



Source: East Value Research GmbH

## Company history

2008: Foundation of Geotrans sp. z.o.o by Messrs Rafal Truszkowski and Marcin Wiechec.

2009: Mr Rafal Truszkowski becomes the only shareholder of Geotrans.

Receipt of permission for activity relating to transport of non-hazardous waste in Wrocław (province of Lower Silesia).

Sale of shares in Geotrans by Mr Rafal Truszkowski to Mrs Natalia Maria Czajkowską.

Receipt of permission for collection of waste in a silos from the Sredzki municipality (Lower Silesia).

Receipt of permission for activity relating to recovery of waste in Sroda Slaska (Lower Silesia).

2010: Receipt of permission for activity relating to recovery of waste in Malczyce (Lower Silesia).

2012: Receipt of permission for activity relating to recovery of waste in Bielawa (Lower Silesia).

Approval of Geotrans' program relating to management of waste by the Regional Director of Environmental Protection in the province of Lower Silesia.

2013: Transformation to a joint-stock company.

2014: Mr Tomasz Maslanka becomes Geotrans' CEO.

Receipt of the permission for activity relating to processing of non-toxic waste in Nysa (Lower Silesia).

Mr Przemysław Weremczuk (owner of Geotrans' largest shareholder Eco Ventures Sp. z o.o), Mrs Jolanta Maslanka and Monika Mankiewicz become new Members of the Supervisory Board.

Receipt of the permission for collecting non-hazardous waste on a defined area in Miekinia (Lower Silesia).

2015: Geotrans is active in Western and Southern Polish provinces Dolnoslaskie (Lower Silesia), Opolskie, Slaskie, Malopolskie, Lubuskie and Wielkopolska and is able to manage c. 80,000 tonnes of sewage sediments per year.

Mr Przemyslaw Weremczuk replaces Mr Tomasz Maslanka as CEO and Mr Maslanka becomes Member of the Supervisory Board instead.

Significant contract with a company from the Energy sector for the collection and processing of waste from incineration, which is a new area of activity for Geotrans. With the largest Polish oil & gas company PKN Orlen S.A., Geotrans signs a 3-year contract for transport and management of waste from desulfurization of gas (value: PLN 5m net).

Listing in the NewConnect segment of the Warsaw Stock Exchange, which was accompanied by a private placement of 200k new shares at PLN 6 per share (PLN 1.2m).

Creation of a new business segment relating to processing of industrial waste and resources.

Total volume of new contracts reaches PLN >6.6m and total yearly sales PLN 7.9m.

2016: Extension of the contract with PKN Orlen S.A. worth PLN 5m net.

Value of new contracts reaches PLN >7.8m.

Purchase of 51% in Kompania Elektryczna Sp. z o.o, which focuses on electricity, automation and low-voltage power, for PLN 2.9m (thereof: PLN 2.18m in debt).

Annual sales reach PLN 31.5m.

2017: Sale of Kompania Elektryczna, whose business conditions significantly worsen, for PLN 1.5m.

The volume of new contracts equals PLN 3.1m and yearly sales PLN 14.2m.

2018: The volume of new contracts equals PLN 3.9m and yearly sales PLN 14.6m.

2019: The volume of new contracts equals PLN 11.7m and yearly sales reach PLN 28.4m.

2020: Letter-of-Intent between Geotrans and the listed renewables company Columbus Energy S.A. regarding investments in photovoltaic farms on recultivated waste landfills and waste treatment facilities. In the short term, both companies want to conduct two installations as a pilot.

Geotrans is being included by the Polish government's Security Center as subcontractor for operation of critical infrastructure.

Geotrans publishes a new 4-year strategy, which foresees (1) a significant increase of waste management capacity from currently 350,000 Mg (or tonnes) to 2m Mg, (2) acquisition of installations for waste processing/management and entry into new areas relating to biological waste and recycling parks, and (3) installation of photovoltaic and biomass farms on recultivated landfills.

To date, the number of new contracts in 2020 equals PLN >36m.

While Geotrans does not include segment reporting in its financial statements, its activity can be split into the following areas:

### **Waste Management**

Geotrans specialises in the management of waste e.g. from sewage treatment facilities, heat/power plants and industrial production and helps to re-use it in different business areas. The company acquires most of its clients through tenders (account for >75% of its yearly revenues) and its commercial contracts usually have a duration of several months to four years.

Geotrans' offering comprises support with regard to collection, processing and management of waste. Its team classifies the waste in terms of its characteristics and determines how harmful it is to the environment. The transport of waste from clients' premises to Geotrans' installations is conducted by the company's external co-operation partners, who use their own equipment. For each of its currently nine installations in Poland, the company had to obtain a permission from local authorities.

Currently, Geotrans' total capacity is 350,000 Mg of administrative decisions regarding waste management and in 2019 it managed 193,000 Mg, in our view. By 2024E, the company plans to increase its capacity to 2m Mg.

### **Recultivation**

Geotrans' offering, which is mainly targeted at local governments, but also farmers, consists of the following: (1) Preparation of environmental overviews and plans of preventive actions, applications for water permissions or legal opinions relating to responsibility for ground pollution, (2) Regular measuring and analysis of water, earth and air quality, and (3) in situ or ex situ recultivation dependent on geological and technical factors.

*In-situ:* Consists of removing contaminants (bioremediation) from the ground and groundwater and is followed by bio and soil ventilation, groundwater aeration and chemical oxidation.

*Ex-situ:* Involves the extraction, transport and recovery of soil at a waste disposal plant. Contaminated water is pumped, transported and recovered.

The whole process of recultivation usually takes up to 60 months.

### **Sale of by-products of incineration**

This relates to by-products of coal incineration e.g. ash, cast and cinder in energy, heat and steel plants or other manufacturing facilities. Geotrans sells them e.g. to construction companies, mines or cement producers. We believe that in 2019 the volume sold reached 283,000 tonnes.

In the future, management plan to focus mainly on high margin contracts.

## Management

*Przemysław Weremczuk (CEO):* Mr Przemysław Weremczuk is Geotrans' CEO and through Eco Ventures Sp. z o.o and Weremczuk Holding Sp. z o.o also its largest shareholder. He graduated with a Master's degree in Finance & Banking from Leon Kozminski Academy and in Value-Based Management of Companies from the Warsaw Business School.

*Dominika Smolikowska (Director of Operations):* Mrs Dominika Smolikowska is Director of Operations at Geotrans and has 10 years of experience in environmental engineering. She graduated with a focus on water and utilisation of sediments/waste from the Technical University in Wrocław.

*Tomasz Maslanka (Chairman of the Supervisory Board):* Mr Tomasz Maslanka is Chairman of Geotrans' Supervisory Board and was previously its CEO. He graduated with a Master's degree in Finance & Banking from the Wrocław Business School and previously worked among others at the Polish Central Bank NBP and at a Wrocław-based brokerage house. He is the owner of the investment firms Certus Investment Sp. z o.o and Torro Investment Sp. z o.o.

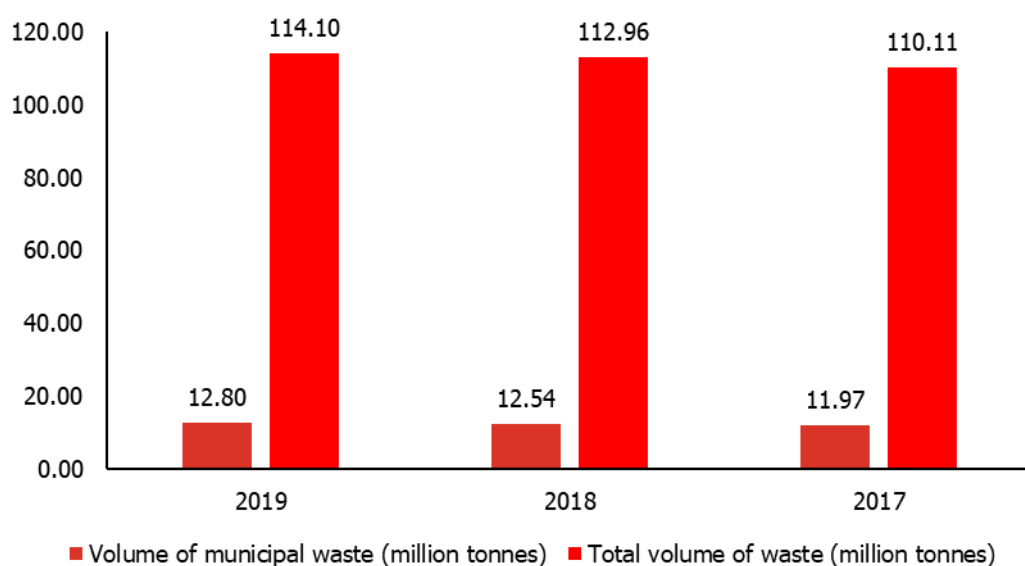


## Market environment

### Volume of waste in Poland compared to other EU countries

According to Polish statistical office GUS, the volume of industrial waste reached 114.1m tonnes in 2019 and was thus 1% higher y-o-y. 63.7m tonnes stemmed from the Mining sector, 27.2m tonnes from Industry and 14m tonnes from Energy & Utilities. The volume of municipal waste equalled 12.8m tonnes, which corresponds to a 2.1% growth y-o-y. In 2017-2019, the total volume of waste in Poland grew at a CAGR of 1.8%.

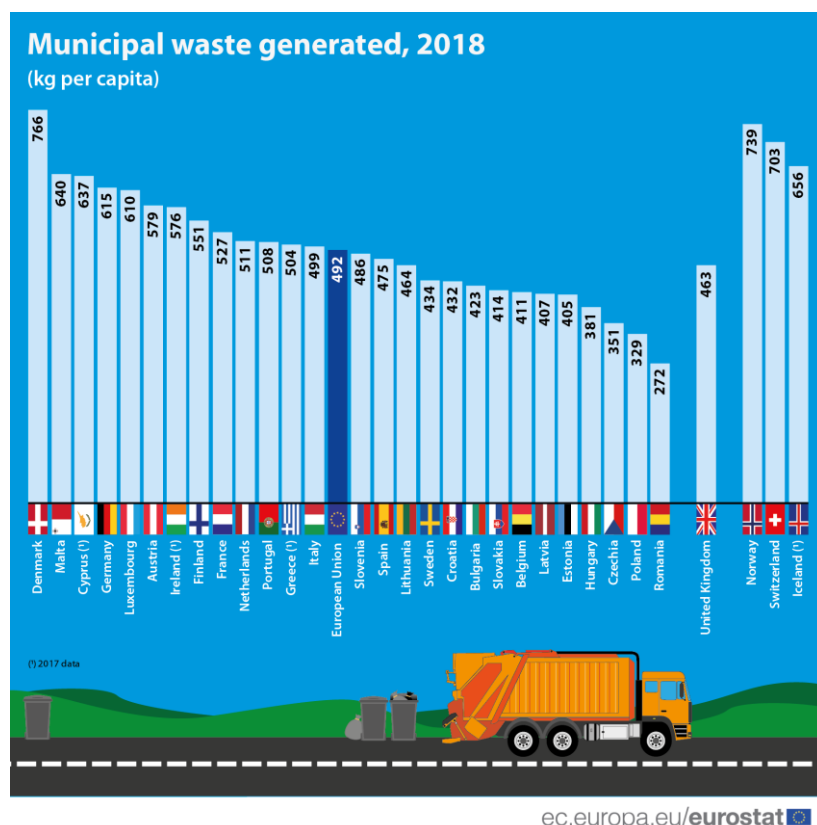
### Volume of waste in Poland 2017-2019 (in million tonnes)



Source: GUS, East Value Research GmbH

In 2019, the volume of municipal waste per capita in Poland reached 332 kg (+3 kg y-o-y), which despite rapid GDP growth in the last years is still significantly less than in other EU countries. Thereof, 84.5% stemmed from private households.

## Municipal waste per capita in EU countries (data from 2018)



Source: Eurostat (most recent data)

At the end of last year, there were 2,190 places in Poland, where municipal waste was stocked, and 1,352 Polish companies provided this service. 55.6% of waste (7,087k tonnes) was recovered (incl. recycling, composting), while 44.4% (5,665k tonnes) was utilised (stockpiling, thermo-transformation without recovery of energy). That compares to an average share of recycled waste of 47% in the EU (data from 2018).

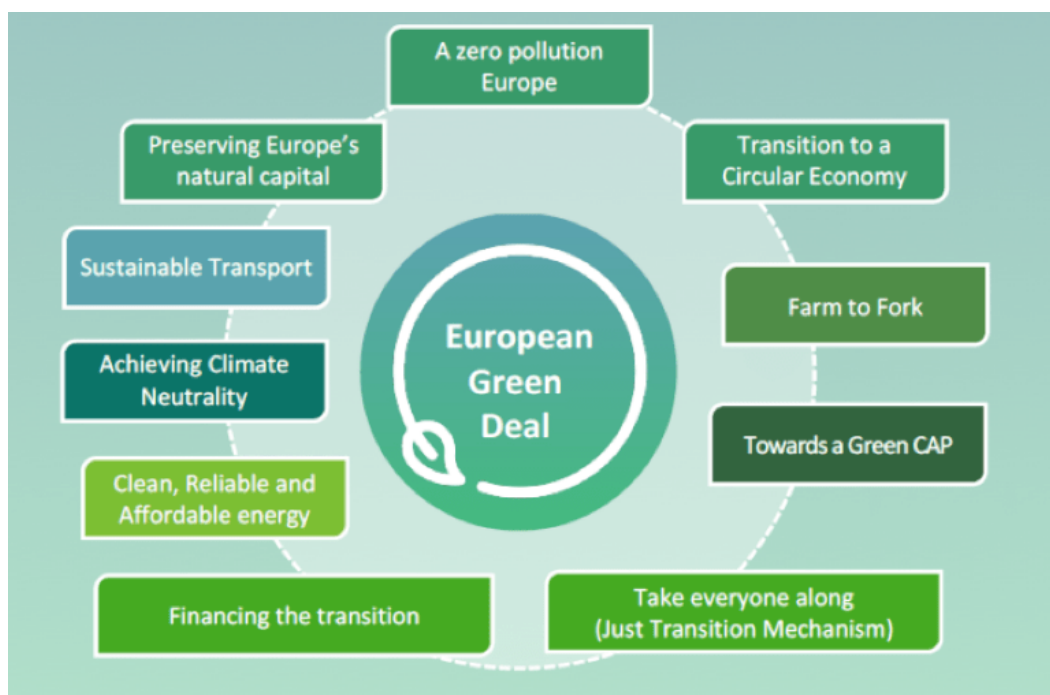
The area of waste stockpiles (excl. municipal waste), which were not recultivated, equalled almost 8,100 ha, thereof 47.2% sediments (52.8% slag heaps).

## Value of the Polish waste sector and its growth drivers

According to the independent think tank Instytut Jagiellonski, in 2019 the Polish waste industry was worth c. PLN 15.3bn. Thereof, the value of the segment of municipal waste was estimated at c. PLN 7.8bn. By 2024E, the total waste sector is supposed to grow to PLN 20.9bn (CAGR 2019-24E of 6.4%) and municipal waste to c. PLN 12.5bn (CAGR of 9.9%). As the main challenge for the sector, the think tank regards the large grey market and the transformation into a "circular economy", which stands for optimal processing, recovery and re-use of waste.

In order to comply with EU-wide regulations, the Polish government must change local laws accordingly. Especially, in the new EU budget there will likely be a stronger focus on the development of recycling, which means that the construction of waste incineration plants will not be financially supported anymore. Part of the new EU "Green Deal", which is the EU's strategy for a sustainable, resource-efficient and modern economy, is the objective to achieve climate neutrality by 2050E. Regarding waste, the EU plans to introduce measures for waste prevention and reduction, increasing recycled content and minimising waste exports outside Europe. The EU estimates that currently only 35%-40% of municipal waste in its member states is recycled, while according to CEWEP (Confederation of European Waste-to-Energy Plants) still 42% of municipal waste in Poland is stocked vs. only 1% in Germany.

### Objectives of the EU "Green Deal"



Source: European Commission

## Profit and loss statement

in PLNm	2018	2019	2020E	2021E	2022E	2023E
<b>Revenues</b>	<b>14.60</b>	<b>28.39</b>	<b>46.95</b>	<b>52.77</b>	<b>58.73</b>	<b>65.38</b>
Cost of goods sold	-11.26	-17.47	-24.42	-27.97	-31.72	-35.96
<b>Gross profit</b>	<b>3.33</b>	<b>10.93</b>	<b>22.54</b>	<b>24.80</b>	<b>27.02</b>	<b>29.42</b>
Other operating income	0.07	0.02	0.13	0.13	0.14	0.14
Personnel costs	-0.76	-1.20	-1.41	-1.74	-2.11	-2.55
Other operating expenses	-1.73	-0.70	-0.71	-1.61	-2.84	-4.45
<b>EBITDA</b>	<b>0.91</b>	<b>9.06</b>	<b>20.55</b>	<b>21.58</b>	<b>22.20</b>	<b>22.56</b>
Depreciation	-0.11	-0.16	-0.22	-0.33	-0.43	-0.47
<b>Operating income</b>	<b>0.80</b>	<b>8.90</b>	<b>20.33</b>	<b>21.25</b>	<b>21.77</b>	<b>22.09</b>
Net financial result	-0.17	-0.13	-0.05	-0.04	-0.03	-0.02
<b>EBT</b>	<b>0.63</b>	<b>8.77</b>	<b>20.28</b>	<b>21.21</b>	<b>21.75</b>	<b>22.07</b>
Income taxes	-0.42	-1.72	-3.85	-4.03	-4.13	-4.19
<b>Net income / loss</b>	<b>0.21</b>	<b>7.05</b>	<b>16.43</b>	<b>17.18</b>	<b>17.61</b>	<b>17.88</b>
EPS	0.04	1.41	3.26	3.12	3.20	3.25
DPS	0.00	0.80	1.63	1.56	1.60	1.63
<b>Share in total sales</b>						
Revenues	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Cost of goods sold	-77.16 %	-61.52 %	-52.00 %	-53.00 %	-54.00 %	-55.00 %
Gross profit	22.84 %	38.48 %	48.00 %	47.00 %	46.00 %	45.00 %
Other operating income	0.49 %	0.08 %	0.28 %	0.25 %	0.23 %	0.21 %
Personnel costs	-5.21 %	-4.21 %	-3.00 %	-3.30 %	-3.60 %	-3.90 %
Other operating expenses	-11.85 %	-2.45 %	-1.52 %	-3.06 %	-4.83 %	-6.81 %
EBITDA	6.27 %	31.90 %	43.76 %	40.89 %	37.80 %	34.50 %
Depreciation	-0.77 %	-0.56 %	-0.47 %	-0.63 %	-0.73 %	-0.72 %
Operating income	5.50 %	31.34 %	43.29 %	40.27 %	37.07 %	33.78 %
Net financial result	-1.18 %	-0.45 %	-0.10 %	-0.07 %	-0.05 %	-0.03 %
EBT	4.32 %	30.89 %	43.19 %	40.19 %	37.02 %	33.76 %
Income taxes	-2.87 %	-6.06 %	-8.21 %	-7.64 %	-7.03 %	-6.41 %
Net income / loss	1.45 %	24.83 %	34.98 %	32.56 %	29.99 %	27.34 %

## Balance Sheet

in PLNm	2018	2019	2020E	2021E	2022E	2023E
Cash and equivalents	0.58	5.55	23.02	4.82	11.32	17.25
Short-term financial assets	0.06	0.10	0.11	0.11	0.11	0.11
Inventories	0.00	0.00	0.00	0.00	0.01	0.01
Trade accounts and notes receivables	2.93	4.88	10.61	8.99	9.96	11.03
Other current assets	1.08	1.22	3.50	2.27	2.53	2.81
<b>Current assets, total</b>	<b>4.64</b>	<b>11.76</b>	<b>37.24</b>	<b>16.20</b>	<b>23.92</b>	<b>31.22</b>
Property, plant and equipment	1.66	1.69	1.69	31.69	33.69	35.69
Other intangible assets	0.00	0.00	0.00	0.00	0.00	0.00
Goodwill	0.00	0.00	0.00	0.00	0.00	0.00
Other long-term assets	0.01	0.00	0.00	0.00	0.00	0.00
Deferred tax assets	0.02	0.08	0.04	0.00	0.00	0.00
<b>Non-current assets, total</b>	<b>1.69</b>	<b>1.77</b>	<b>1.73</b>	<b>31.69</b>	<b>33.69</b>	<b>35.69</b>
<b>Total assets</b>	<b>6.33</b>	<b>13.53</b>	<b>38.98</b>	<b>47.89</b>	<b>57.62</b>	<b>66.91</b>
Trade payables	1.06	2.48	1.52	2.25	2.98	3.23
Other short-term liabilities	0.10	0.31	0.51	0.57	0.64	0.71
Short-term financial debt	0.63	0.25	0.00	0.00	0.00	0.00
Pension provision	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	0.01	0.01	0.02	0.02	0.02	0.03
<b>Current liabilities, total</b>	<b>1.80</b>	<b>3.05</b>	<b>2.06</b>	<b>2.85</b>	<b>3.65</b>	<b>3.97</b>
Long-term financial debt	0.58	0.49	0.45	0.35	0.25	0.15
Pension provision	0.00	0.00	0.00	0.00	0.00	0.00
Other long-term liabilities	0.00	0.00	0.00	0.00	0.00	0.00
Deferred tax liabilities	0.00	0.00	0.00	0.00	0.00	0.00
<b>Long-term liabilities, total</b>	<b>0.58</b>	<b>0.49</b>	<b>0.45</b>	<b>0.35</b>	<b>0.25</b>	<b>0.15</b>
<b>Total liabilities</b>	<b>2.38</b>	<b>3.53</b>	<b>2.51</b>	<b>3.20</b>	<b>3.90</b>	<b>4.12</b>
<b>Shareholders equity, total</b>	<b>3.95</b>	<b>10.00</b>	<b>36.47</b>	<b>44.69</b>	<b>53.72</b>	<b>62.79</b>
Minority interests	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total equity and debt</b>	<b>6.33</b>	<b>13.53</b>	<b>38.98</b>	<b>47.89</b>	<b>57.62</b>	<b>66.91</b>

## Cash Flow Statement

in PLNm	2018	2019	2020E	2021E	2022E	2023E
Net income / loss	0.21	7.05	16.43	17.18	17.61	17.88
Depreciation	0.11	0.16	0.22	0.33	0.43	0.47
Change of working capital	1.37	-0.53	-8.76	3.64	-0.42	-1.04
Others	0.09	0.04	-0.05	-0.04	0.00	0.00
<b>Net operating cash flow</b>	<b>1.78</b>	<b>6.72</b>	<b>7.84</b>	<b>21.11</b>	<b>17.62</b>	<b>17.31</b>
<b>Cash flow from investing</b>	<b>0.03</b>	<b>-0.05</b>	<b>-0.22</b>	<b>-30.33</b>	<b>-2.43</b>	<b>-2.47</b>
Free cash flow	1.81	6.68	7.62	-9.22	15.19	14.84
<b>Cash flow from financing</b>	<b>-1.47</b>	<b>-1.71</b>	<b>9.86</b>	<b>-8.98</b>	<b>-8.69</b>	<b>-8.90</b>
Change of cash	0.34	4.97	17.47	-18.20	6.50	5.93
Cash at the beginning of the period	0.24	0.58	5.55	23.02	4.82	11.32
Cash at the end of the period	0.58	5.55	23.02	4.82	11.32	17.25

## Financial ratios

	2018	2019	2020E	2021E	2022E	2023E
<b>Profitability and balance sheet quality</b>						
Gross margin	22.84%	38.48%	48.00%	47.00%	46.00%	45.00%
EBITDA margin	6.27%	31.90%	43.76%	40.89%	37.80%	34.50%
EBIT margin	5.50%	31.34%	43.29%	40.27%	37.07%	33.78%
Net margin	1.45%	24.83%	34.98%	32.56%	29.99%	27.34%
Return on equity (ROE)	5.52%	101.10%	70.69%	42.34%	35.80%	30.69%
Return on assets (ROA)	6.07%	53.04%	42.26%	35.96%	30.62%	26.74%
Return on capital employed (ROCE)	5.96%	68.21%	44.59%	38.21%	32.68%	28.43%
Economic Value Added (in PLNm)	-0.10	6.30	13.47	13.56	13.25	12.78
Net debt (in PLNm)	0.64	-4.81	-22.57	-4.47	-11.07	-17.10
Net gearing	16.12%	-48.14%	-61.89%	-10.00%	-20.60%	-27.24%
Equity ratio	62.37%	73.88%	93.57%	93.33%	93.23%	93.84%
Current ratio	2.58	3.86	18.12	5.69	6.56	7.86
Quick ratio	1.98	3.46	16.42	4.89	5.86	7.15
Net interest cover	-4.67	-70.04	-423.92	-559.97	-779.07	-1230.72
Net debt/EBITDA	0.70	-0.53	-1.10	-0.21	-0.50	-0.76
Tangible BVPS	0.79	2.00	7.23	8.13	9.77	11.42
Capex/Sales	1.86%	0.66%	0.47%	57.47%	4.14%	3.78%
Working capital/Sales	19.55%	11.70%	25.73%	16.00%	15.10%	15.15%
Cash Conversion Cycle (in days)	39	11	33	15	17	19
<b>Trading multiples</b>						
EV/Sales	7.11	3.65	2.21	1.97	1.77	1.59
EV/EBITDA	113.40	11.45	5.05	4.81	4.67	4.60
EV/EBIT	129.29	11.66	5.10	4.88	4.76	4.70
P/Tangible BVPS	28.37	11.20	3.10	2.76	2.29	1.96
P/E	528.21	15.89	6.88	7.17	6.99	6.89
P/FCF	61.86	16.77	14.70	-12.15	7.37	7.55

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The respective supervisory authority is:

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