

NAV price: 2.82

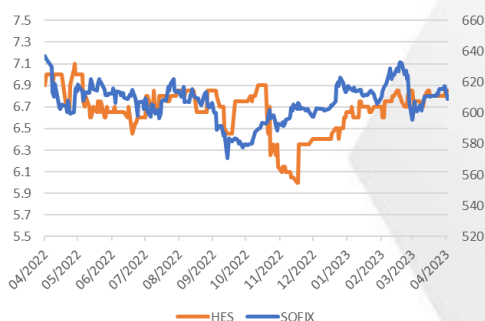
Hydraulic Elements and Systems AD

Share Information

Price (BGN)	6.85
52-week price change	3.03%
52-week price range	6.00 – 7.10
Market Cap (BGN)	124 627 201
Market Cap (EUR)	63 720 876
Shares outstanding	18 193 752
Free Float	22.29%
P/E (ttm)	14.05
P/S (ttm)	1.25
P/BV	2.40

Source: SIS Calculations and Market Data
The BGN is pegged at one euro equals 1.95583 leva.

52 week price chart



* in BGN

Notable events

Cons annual results	30.04.2023
Q1 2023 results	30.04.2023
Cons Q1 2023 results	31.05.2023

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EXPECTATIONS FOR DECLINED REVENUES POSTPONED

Q1 Results

Revenues in for Q1 2023 marked a 10.3% increase YoY reaching BGN 26.6m compared to BGN 24.0m last year. The predictions for the market cooldown happening in Q1 did not materialize and most of their clients experienced record sales in Q1, which lead to higher demand for HES products. However, the expectations for Q2 2023 are strongly diminished, which is likely to adversely affect HES sales in the upcoming months.

Operational expenses increased 15.6% YoY to reach BGN 24.4m in Q1. The increase is higher than the revenues, which affected EBIT (decreasing 28.3% to BGN 2.2m) and EBITDA (decreasing 20.6% to BGN 3.1m). The shift was due to 2 major factors – the appreciation of the cost for materials and other production costs (materials increasing 13.6% to reach BGN 14.4m and salary expense increasing 19% to reach BGN 5m).

The sales in EU continue to take the lion's share with over 87% of all. The Palfinger Group remains as the main trading partner of HES, as they are responsible for 67.92% of the sales in Q1.

The amount of investments in Q1 was BGN 2.53m, which is less than the Q1 2022 figure of BGN 4.42m. The total amount for 2023, however, is expected to increase to over BGN 6.8m, which will be targeting mostly improvement of the infrastructure and the supply chains, as well as equipment, which would improve production environment and would increase safety.

The expectations for the remainder of the year is to have greater stability of the materials prices. The European users of steel (factories) increased their purchases, as well as their Asian and American competitors. The chaos that ensued in the commodities markets after the start of the war in Ukraine lead to overstocking and the price of steel reached all time highs of over USD 700 per tonne for steel scrap from levels of ca. USD 500 per tonne. The excessive quantities lead to overcompensation and in the second half of the year it was at levels of USD 350-400 per tonne. A slight increase ensued in the final months of 2022 and the first half of Q1 2023, but it is again down at the mid year levels. The expectations are that the materials cost accounts won't be marking significant increases in 2023.

Contrary to that, the overall rising price levels would affect the salaries and the purchasing power of the end customers. This is expected to affect HES customers, in turn decreasing HES revenues. Projections for Q2 2023 mark a slight decline of 3.7% from the Q2 2022 levels, reaching BGN 24.3m, but the company does not expect major adverse developments.

FINANCIAL SNAPSHOT

QUARTERLY RESULTS				
Financial Metrics	Q1 2023	Q1 2022	% Change	TTM
Total Revenue	26 558	24 068	10.3%	99 982
Operating expenses	-24 351	-21 062	15.6%	-90 177
EBIT	2 149	2 999	-28.3%	9 805
Operating Margin	8%	12%	-4.4%	10%
EBITDA	3 100	3 902	-20.6%	13 522
Net profit	1 881	2 678	-29.8%	10 139
Net Margin	7%	11%	-4.0%	10%
Total Assets	67 564	61 411	10.0%	-
Net Debt	-806	-1 733	-53.5%	-
Equity/Assets	0.76	0.77	-1.7%	-

FINANCIAL RATIOS				
Per share	Q1 2023	2022	2021	2020
Number of shares	18 193 752	18 193 752	18 193 752	18 193 752
EPS	0.56	0.60	0.48	0.34

Growth & Activity	Q1 2023	2022	2021	2020
Revenue growth	10.1%	33.9%	34.4%	-12.6%
Earnings growth	15.6%	25.9%	25.7%	39.8%
CAPEX growth	N/A	-7.3%	7.3%	104.2%
CAPEX/Revenue	-9.4%	-4.4%	-6.4%	-8.0%
Asset Turnover	39.2%	151.2%	126.5%	110.6%
Working Capital Turnover	145.5%	603.6%	503.4%	393.3%

Return & Profitability	Q1 2023	2022	2021	2020
ROE	19.8%	22.1%	19.6%	15.0%
ROA	15.0%	17.0%	15.2%	12.6%
ROIC	19.8%	22.1%	19.6%	15.0%
EBITDA margin	11.7%	14.7%	16.1%	18.2%
Operating margin	8.1%	10.9%	11.6%	12.4%
Net margin	7.1%	11.2%	12.0%	11.4%

Gearing & Liquidity	Q1 2023	2022	2021	2020
Debt-to-Equity	0.0	0.1	0.0	0.0
Net Debt to EBITDA	-3.8	9.4	-7.2	-1.9
Interest coverage	107.5	169.1	325.4	280.4
Cash ratio	0.1	0.1	0.1	0.8
Current ratio	2.2	2.2	2.2	3.1

COMPANY DESCRIPTION

Hydraulic Element Systems AD is an engineering company specializing in the design and manufacturing of hydraulic cylinders, working exclusively as per client specifications rather than mass serial production. The produce includes piston cylinders, telescopic cylinders, plunger cylinders, rack cylinders and axial piston machines. The company works closely with M+S Hydraulic AD as they are companies within the same holding structure.

ANNUAL FINANCIAL RESULTS				
Income Stmt (BGN th)	Q1 2023	2022	2021	2020
Operating Revenue	100 093	97 603	72 753	54 424
Financial Income	(111)	(60)	104	(195)
Total Revenue	99 982	97 543	72 857	54 229
Operating expenses	(90 177)	(86 888)	(64 396)	(47 499)
EBIT	9 805	10 655	8 461	6 730
EBITDA	13 522	14 324	11 715	9 846
Net profit	10 139	10 936	8 737	6 167

Balance Sheet (BGN th)	Q1 2023	2022	2021	2020
Current assets	33 962	31 584	26 715	20 860
Cash & equiv.	1 216	1 483	1 642	5 337
Non-current assets	33 602	32 923	30 880	28 190
PP&E and Inv. Properties	19 797	19 078	18 412	16 990
Total Assets	67 564	64 507	57 595	49 050
Current Liabilities	15 215	14 050	11 929	6 700
ST Loans	410	3 007	21	21
Non-current liabilities	1 065	1 065	996	1 232
LT Loans	-	-	3	24
Total Liabilities	16 280	15 115	12 925	7 932
Equity	51 284	49 392	44 670	41 118
Net Working Capital	18 747	17 534	14 786	14 160
Total Debt	410	3 007	24	45
Net Debt	(806)	1 524	(1 618)	(5 292)

Cash Flow Stmt (BGN th)	Q1 2023	2022	2021	2020
CF from operations	2 329	757	25	2 494
CF from investments	(1 576)	(3 853)	(3 694)	(4 159)
CAPEX	2 492	4 335	4 676	4 357
CF from financing	1 020	(2 937)	26	24
Paid interest	20	63	26	24
Paid dividends	10	5 530	4 647	3 750

Source: SIS calculations and HES AD financial statements
Where needed, the figures for Q1 2023 use TTM base

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