

Newcastle University Investment Fund

Royal BAM Group – (XAMS: BAMNB) – (EUR/USD is 1.1512 USD)

Long: Target Price €9.77 - (17.9% Upside)

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Executive Summary

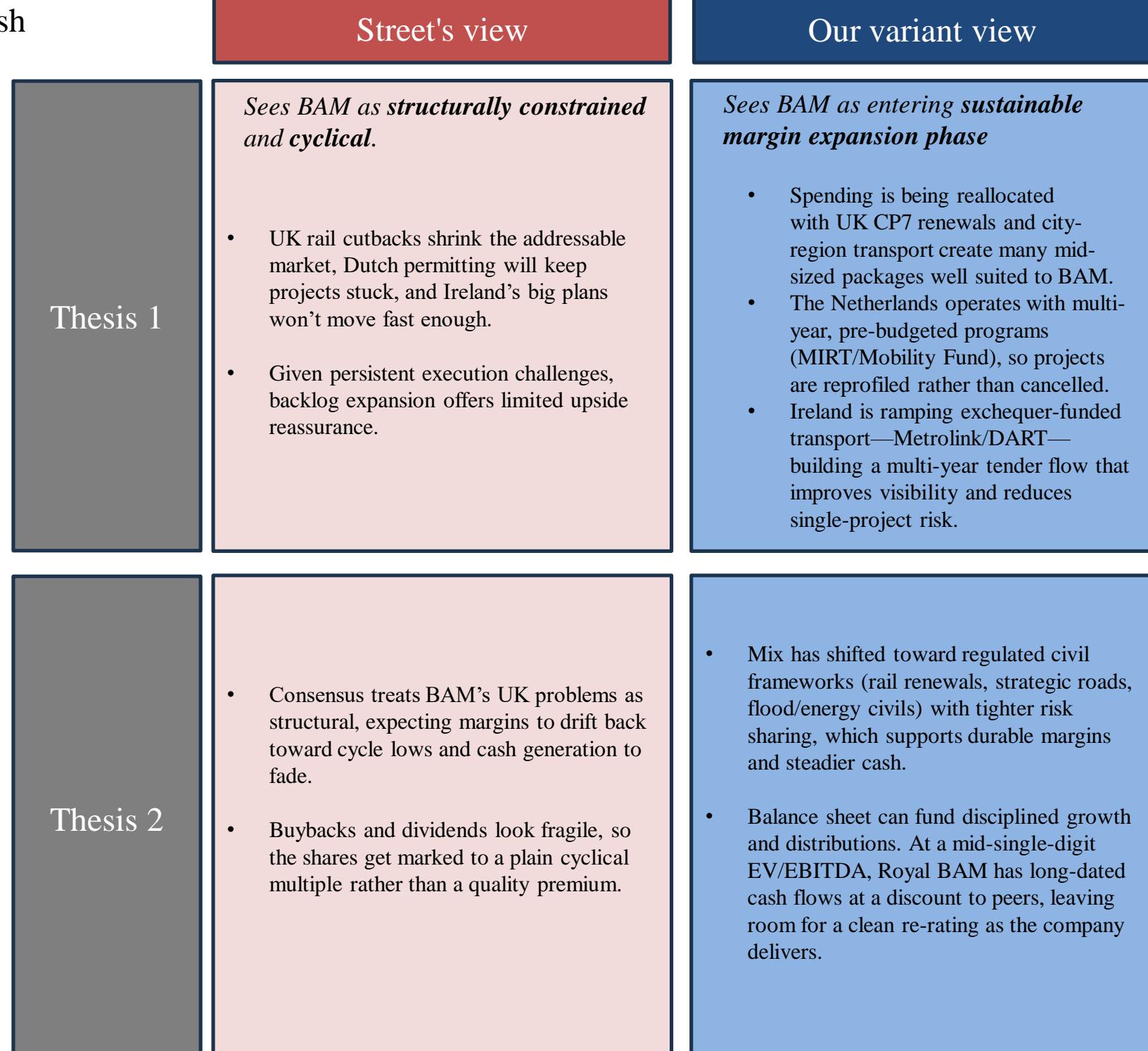
Market is anchored on UK execution noise — missing BAM's multi-year reinvestment and cash generation recovery.

Pitch Narrative

- The market overweight's UK execution headwinds and Dutch permitting delays, overlooking BAM's improving balance sheet, rising quality of backlog, and visibility on multi-year infrastructure programs in the Netherlands, UK, and Ireland.
- Reinvestment discipline and project selectivity are driving higher-margin growth.
- As normalisation continues, BAM's cash yield and valuation gap vs peers (e.g. Balfour Beatty, Skanska) should close.

Valuation Summary

| | Bull | Base | Bear |
|-----------------------------------|------------------------|--------|-------|
| Target Price | €11.72 | € 9.77 | €8.30 |
| Return | 41.1% | 17.9% | 0.1% |
| Probability | 20% | 60% | 20% |
| Probability-Weighted Target Price | €2.35 | €5.86 | €1.66 |
| Weighted Return | €9.87 per share | | |



Company Overview

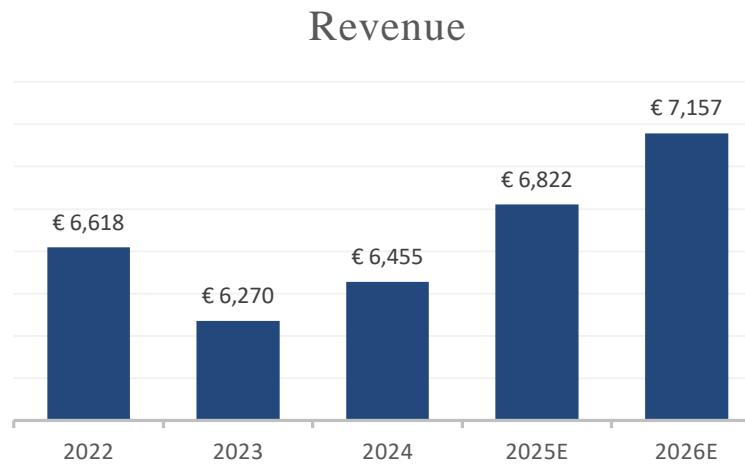
Diversified European construction and civil engineering leader.

Leading European construction and civil engineering company headquartered in the Netherlands, operating across the Netherlands, UK, Ireland, Belgium, and Germany

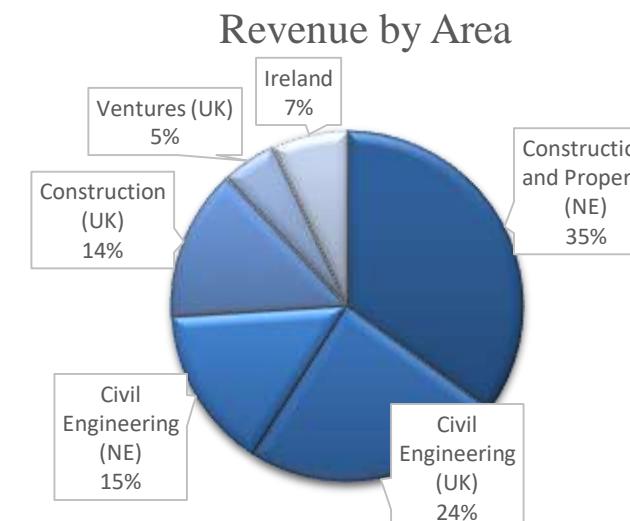
Provides integrated solutions in building, infrastructure, and public-private partnerships, with a strategic focus on **sustainable** and **digital construction**.

• BAM's 2021-2026 strategy emphasises **Focus, Transform, Expand**, aligned with sustainability, digitalisation and predictable profitability

Historical financials:



Revenues are on an upward trend, recent 2025 H1 reports show accurate forecasting for 5% growth YoY. EBITDA margins are 1.2% above industry average (4%). Highlights relative-outperformance.



Revenues are prioritised in construction and civil engineering, with relative growth in UK and Ireland over the last 5 years.

Project Portfolio: Diversified Across Europe

Past Projects

HSL-Zuid high-speed rail line



- **€6.9 billion** for the full PPP project BAM's share via consortium ($\approx 45\%$)
- Construction 2001-2006 then 25-year maintenance/availability concession

Wildparkstadio renewal project



- €100 million as of BAM press release
- 4.5 to 5 years between 2018-2023
- Converting backlog into revenue, in line with sustainability goals

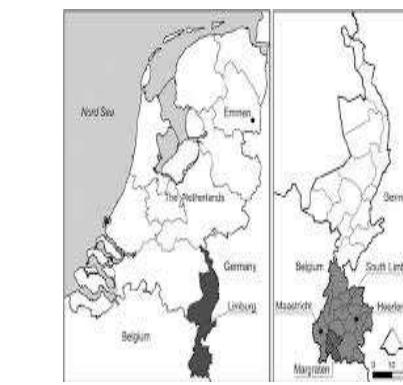
Afsluitdijk Reinforce Project



- Contract value €550 million
- Duration of the full contract (including maintenance) spans 25 years
- Represents longevity in maintenance contracts

Current Projects/ Backlogs

Energy & water supply network



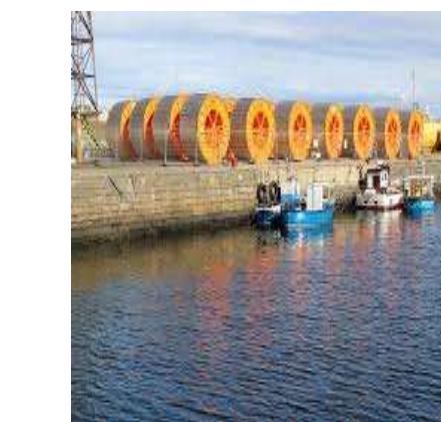
- Contract value approx. **€600 million**
- Future-proof energy & water supply network
- 12-year cooperation agreement; works start end-2025

Eastern Green Link 2



- Up to **£700 million** for BAM
- Target completion ~**2029**
- UK's single largest electricity transmission project ever

Orkney-Caithness Subsea Link



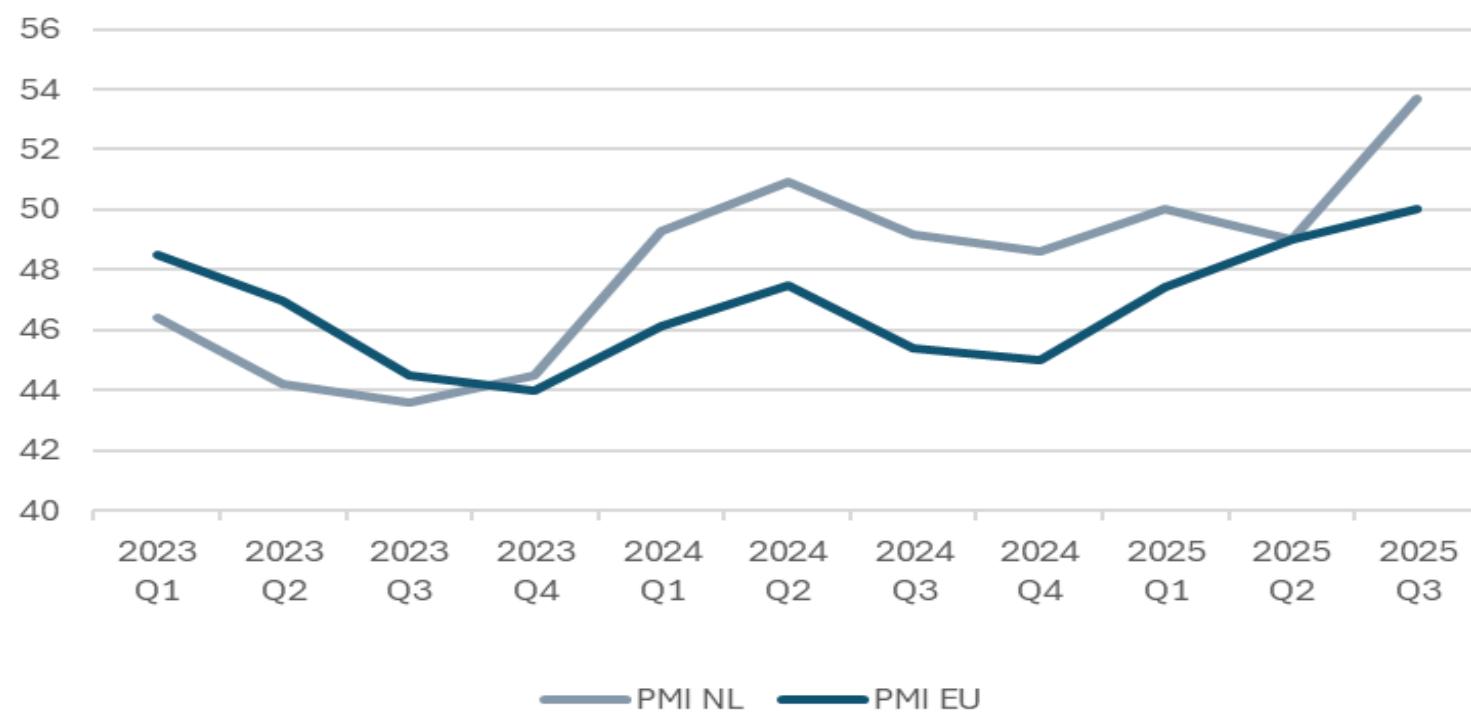
- Estimated **£900 million** investment
- Full energisation expected by **2028**
- 14 km underground cable + 53 km subsea cable



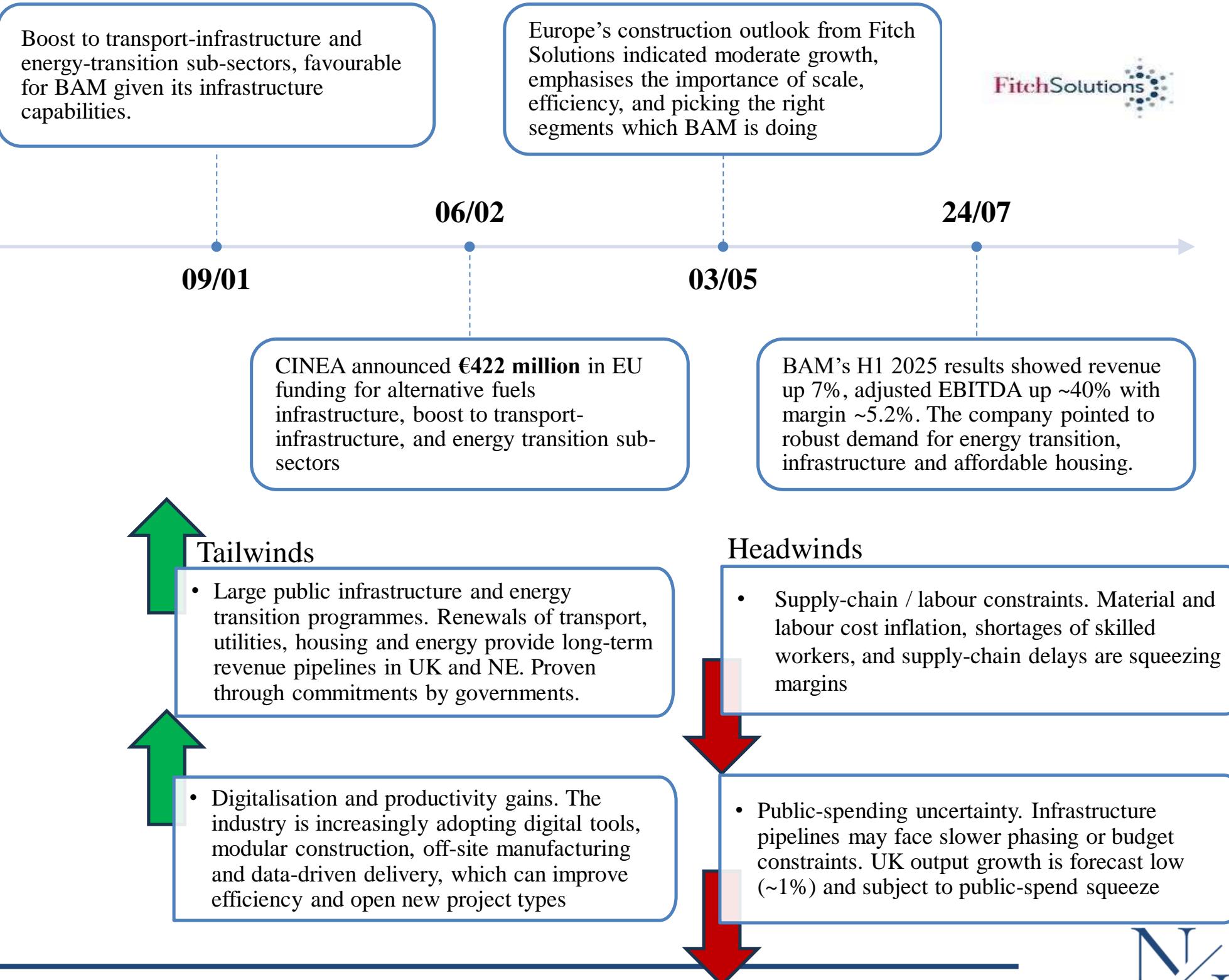
Industry Overview

Resilient public investment, accelerating energy-transition projects, and sustained urban renewal

- Driven by infrastructure investment, energy transition, sustainable building, and infrastructure renewal.
- Sustainability and net-zero targets accelerating demand for low-carbon, circular, and modular construction.
- Digitalisation, industrialised construction, and off-site manufacturing driving productivity improvements.



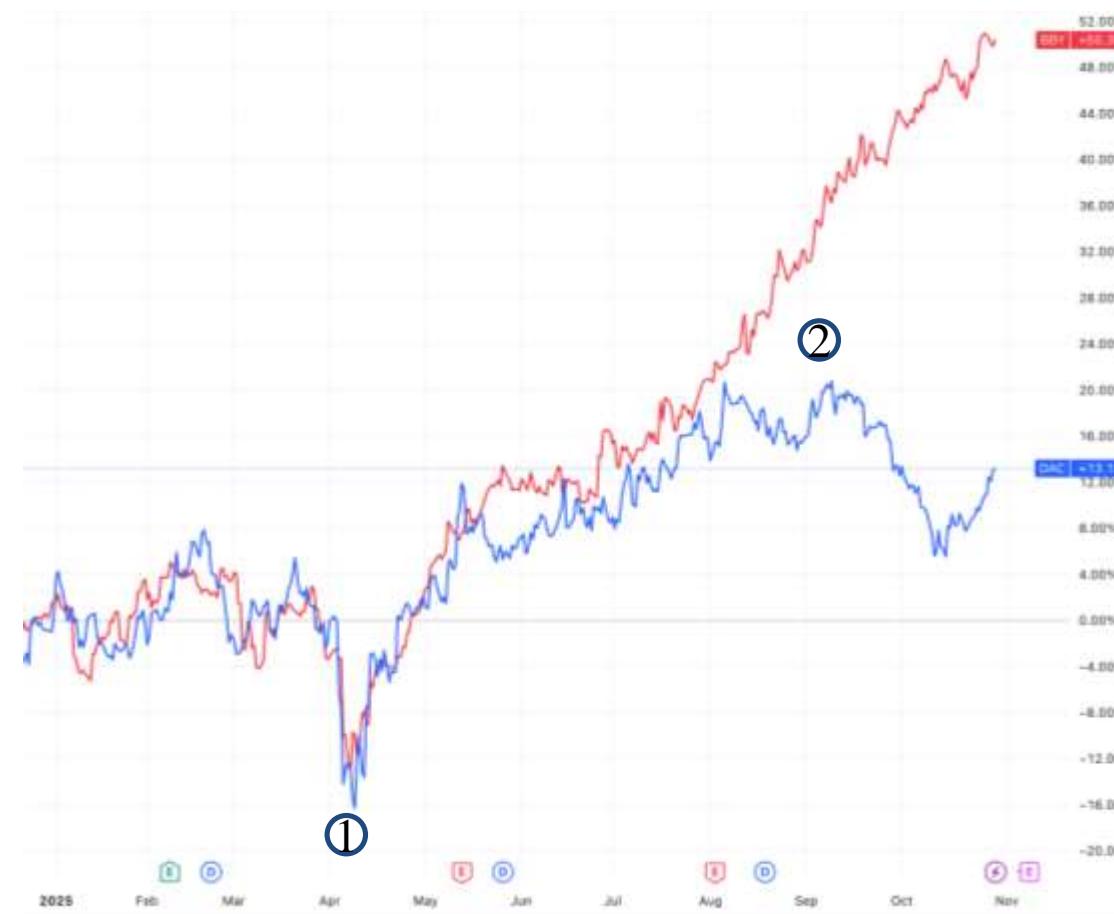
- Dutch PMI sits comfortably above the EU average at 53.7 showing signs of economic momentum.
- This environment supports rising demand and stronger order books
- Industrial activity and infrastructure demand is expanding
- Reflective of improved business sentiment and tendering conditions
- Investors likely to favour Dutch-listed firms such as BAM



Market Expectations

What moves the needle?

Recent Share Price Action



- ① Silvertown Tunnel opening, M28 Cork–Ringaskiddy motorway contract, Hither Green station accessibility upgrade led to a ~34% jump in the next month
- ② Royal BAM Group (BAMNB) dropped ~13% after ABN AMRO analyst (Den Drijver) put BAM on the sell list, flagging fresh risks on projects in Dublin and the Fehmarnbelt Denmark–Germany tunnel

| Company | Year | FCF/EBITDA % (pre-IFRS16) |
|-----------------|-----------------|---------------------------|
| Royal BAM Group | FY2024 / FY2023 | 51.6% / 9.23% |
| Balfour Beatty | FY2024 / FY2023 | 68.9% / 68.4% |
| Kier Group | FY2024 / FY2023 | 97.8% / 86.3% |

- Price implies <60% FCF/EBITDA; framework peers deliver ~70–90%+.

What the Market Misses

- BAM's portfolio is shifting from lump-sum building toward frameworks, renewals and target-cost work. That profile has delivered ~70–90% pre-IFRS 16 FCF/EBITDA at peers.
- We expect BAM's conversion to converge to that range as mix shifts and legacy fixed-price exposure rolls off.

Proof Points

- **Operating cash flow positive in both recent halves:**
- H1-2025 €151m; H2-2024 ~€173m
- **Portfolio tilt to frameworks continues:**

Recent Awards

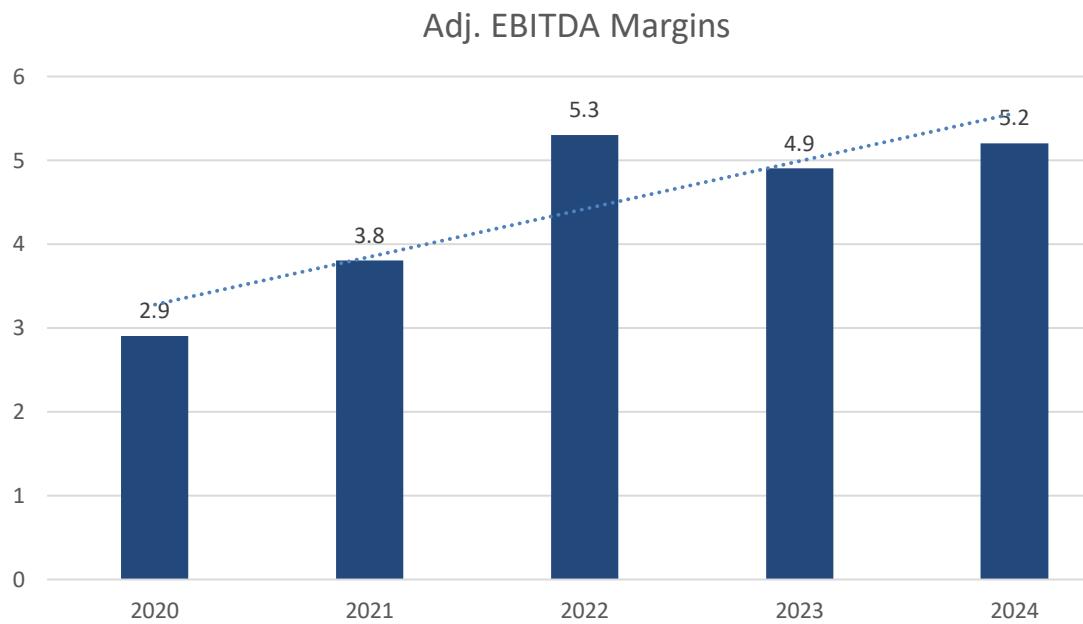
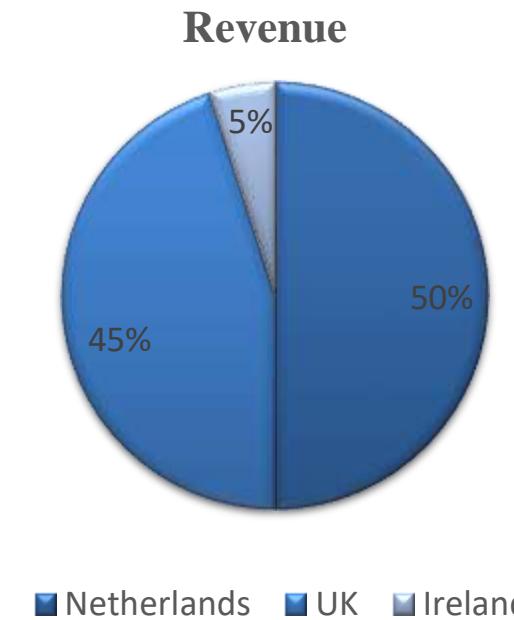
- Northumbrian Water AMP8 “Living Water Enterprise” framework (Jan-2024)
- Southwest Water AMP8 Engineering Capital Delivery Programme (May-2024)
- TRU West Alliance, next phase (£2bn alliance; BAM c.£800m) (Sep-2024)
- TenneT EU367 multi-year framework, Moerdijk–Tilburg 380 kV section (Apr-2025)

Thesis

Disciplined backlog. Rising Margins. Rerate ahead.

Leaner footprint, tighter execution

- Strategic exits from Germany and Belgium 2021-2023
 - Geographical shifts to focus on markets where they have “scale and competitive advantage” i.e. Netherlands, UK, and Ireland
 - Success evinced in a 33% gain in order book, which they’ve maintained going into 2025 H1 while simultaneously increasing revenue by 7%
- Smarter order book
 - “Be selective and strengthen control: focus on predictable product market combinations with two-stage, medium sized projects”
 - Pursuing higher risk/reward opportunities, involving earlier contractor involvement in low-surprise delivery models – managed risk transfer
- Execution upgrade
 - Improvement and deployment of company wide workflows including digital modelling with BIM, VR/AR, robotics allows for easier execution and less reworks



Oddo BHF (equity research), recently cut its expectation of BAM to Underperform, from a previous stance of neutral, arguing the stock was pricing in too much margin optimism.

BAM has already proven it can operate consistently at the 5% margin. Order book steady at €13bn with visible public pipelines.

We believe that BAM’s 5% margin is sustainable and not cyclical. The recent derating overstates legacy risk, and ongoing returns should unlock a rerate



United Kingdom

- UK 10 Year Infrastructure Project provides a strong macroeconomic tailwind, promising over £725bn in public infrastructure over the next decade
- Eastern Green Link 2 green-lit by Ofgem, BAM positioned to deliver both converter stations and positioned for repeat business in the Great Grid Upgrade
- BAM re-appointed in EA’s Collaborative Delivery Framework, ramping toward £5bn of capital



Ireland

- National Development Plan refresh confirms a record €275bn capital envelope to 2035 across transport, health, education, water and energy
- EirGrid – a 2030 roadmap to ~80% renewables target, delivered via Grid Implementation plan 2023-2028, including hundreds of grid projects
- OPW Flood Relief Programme – state committed €1.3bn for flood schemes until 2030



Netherlands

- Delta Programme 2025 is the national plan across flood risk management, freshwater, and climate-resilient spatial planning. Plans across the coming years involve upgrades in which BAM has already been selected for (e.g. Meuse dyke strengthening)
- Afsluitdijk – a giant sea wall protecting Netherlands from flooding, BAM selected to build and now maintain for next 25 years
- TenneT plans around £200bn of investments until 2034 across energy grid infrastructure



Valuation

Valuation techniques indicates 15–20% upside potential

Royal BAM trades at a **discount** on EV/EBITDA while delivering one of the **strongest FCF yields** in its peer group. DCF supports re-rating as margins and cash conversion normalise.

Scenario analysis



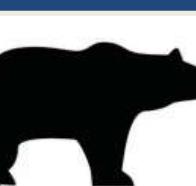
Bull Case – *Upside from Execution*

- EBIT margin +50bps from selective tendering
- CapEx stable at 2.0% of revenue, FCF yield > 10%
- WACC -60bps with improved market perception



Base Case – *Normalised operations*

- EBIT margin ~3%, D&A ratio ~0.9x, CapEx Reinvestment 0.8-0.9x D&A
- Revenue CAGR ~4.2%, stable working capital
- WACC 10.5%, g = 2.0%



Bear case – *Cost pressure risk*

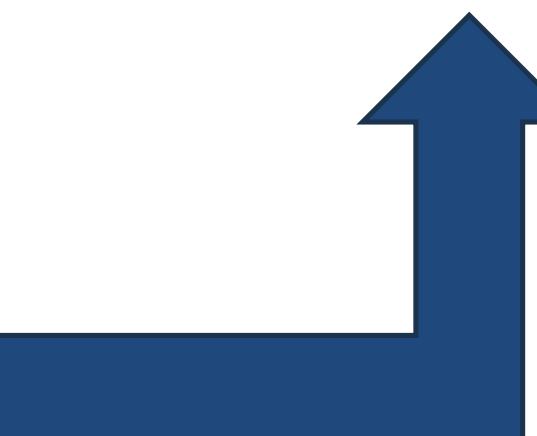
- Margin erosion to 2% from cost inflation
- CapEx rising to 2.5% of revenue
- WACC +60bps on market risk premium



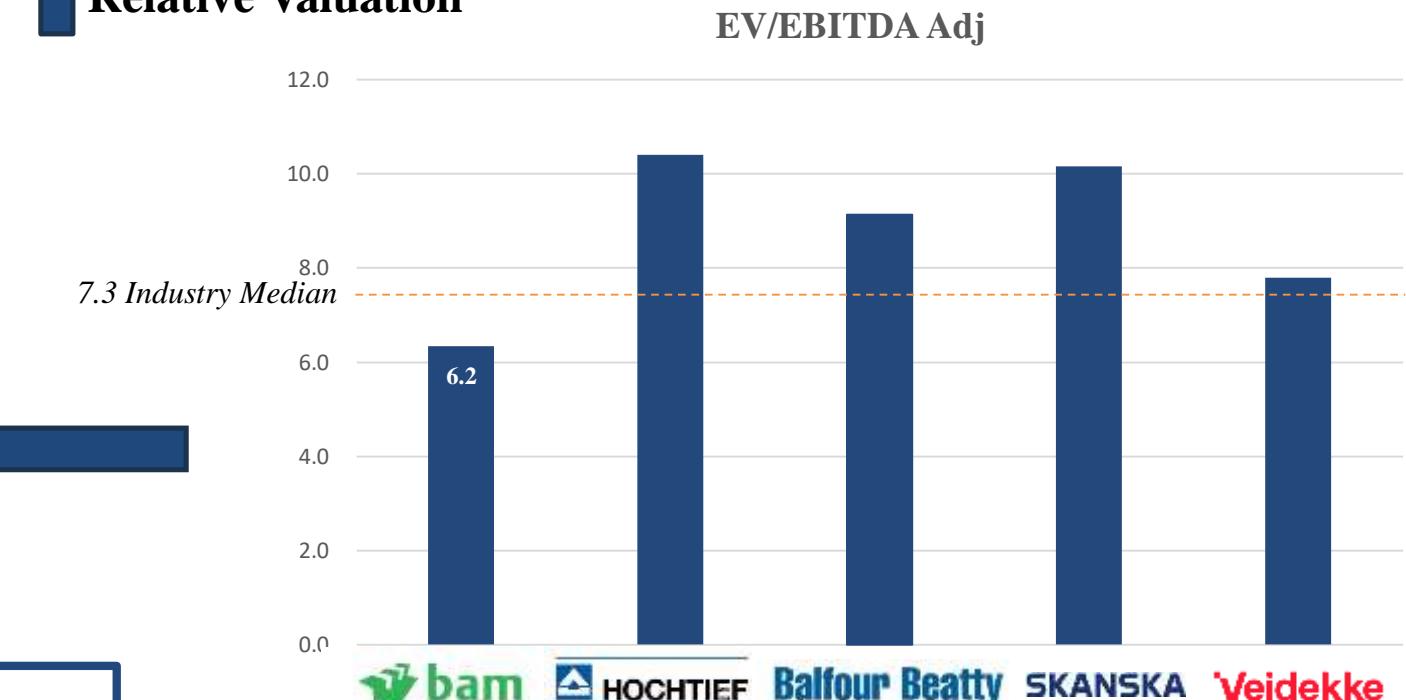
Valuation impact (€/share):

Bull: ~€11.5–12.0 | Base: €9.8 | Bear: €8.3–8.5

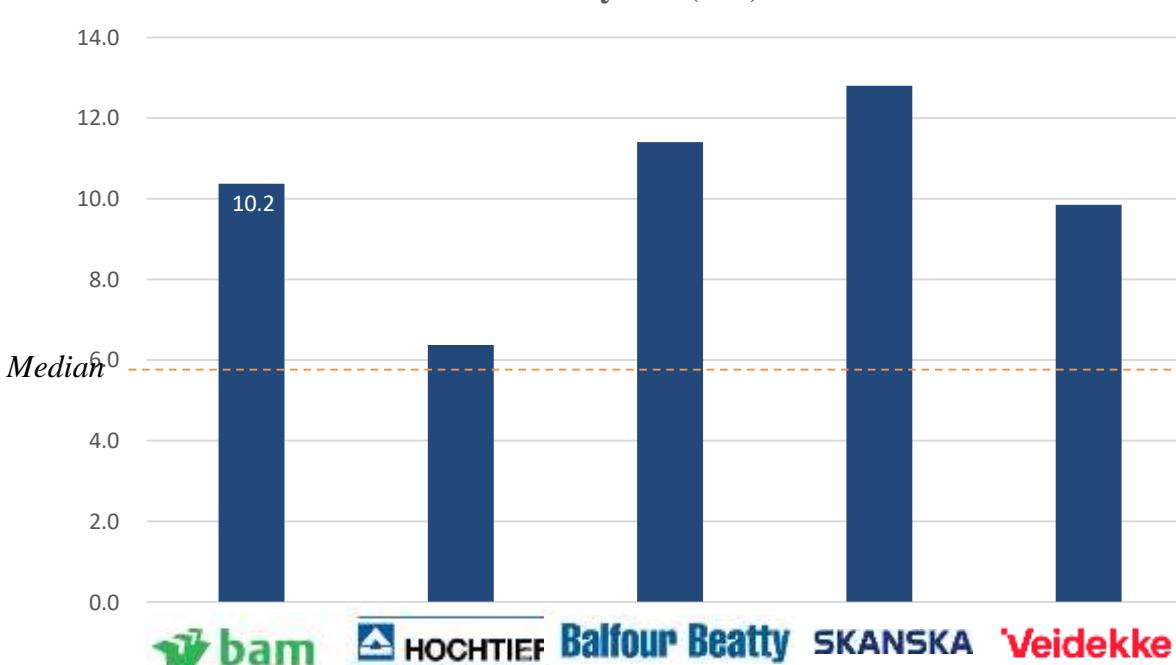
Royal BAM trades below peers on EBITDA while offering one of the highest FCF yields in the sector. Our DCF base case indicates ~18% upside to €9.8 per share, with limited downside and clear re-rating potential as profitability and cash conversion strengthen.



Relative Valuation



FCF yield (EV)

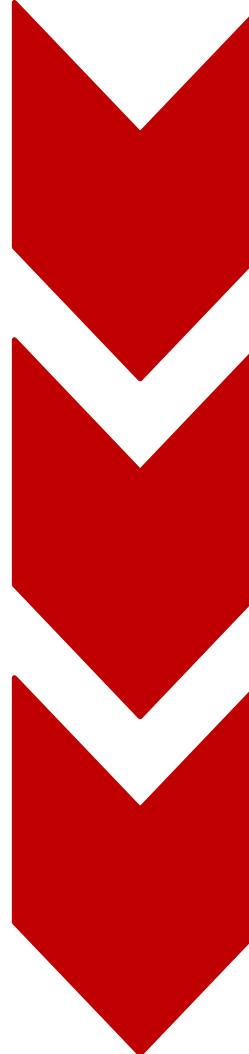


Sensitivity Analysis

Conservatively weighted DCF shows strong upside potential

| Growth rate (g) | | | | | |
|-----------------|-------|-------|-----------|-------|-------|
| WACC | 1.6% | 1.8% | 2% (Base) | 2.2% | 2.4% |
| 9.9% | 24.2% | 27.9% | 31.5% | 36.3% | 41.1% |
| 10.2% | 17.0% | 20.6% | 24.2% | 27.9% | 32.3% |
| 10.5% (Base) | 11.0% | 14.6% | 17.9% | 21.8% | 25.5% |
| 10.8% | 6.2% | 9.8% | 13.4% | 17.0% | 20.6% |
| 11.1% | 0.1% | 3.7% | 8.6% | 12.2% | 15.8% |

Risks and Catalysts



- Fixed price projects can quickly increase in cost (e.g. design changes, ground conditions, inputs)
- Suffer from margin drop late in project, spike in variations/claims

Stricter contract selection moving forward with a focus on target-cost + index linked contracts

- Cash arrives in uneven milestones and clients hold retentions: profit can look fine while cash lags
- Weak cash conversion leads to lower bidding capacity and capital returns via dividends/buybacks

Invoicing and payment cycle terms embedded in contracts, maintains high cash balance and solvency

- Cyclical exposure via slowdown in public capex could lead to less bids and smaller margins

Long term contracts (e.g. 12 years Enexis grid upgrades), breadth across countries and sectors



- Major contract wins in Netherlands and UK&I (Cardiff Central Station, M40/42 Interchange, electricity grid Limburg)
- Margin confirmation / beat FY25 results (>5% adjusted EBITDA target)

- Dividend increase or buyback announcement as net-cash remains positive
- Continued strength in FCF (€218m LTM, highest since 2021), rerating from Oddo BHF

- ECB/BoE lowering interest rates lowers financing costs and stimulates public/private investment
- Strong policy tailwinds with EU Green Deal, Dutch housing and flood programmes, UK 10-Year Infrastructure plan

BAM's key risks involve fixed-price execution, cash conversion, and public-capex cyclicity. A strategic pivot toward longer-term, early-involvement frameworks, focusing on and tighter billing discipline mitigates these exposures. Near-term catalysts are a sustained ≥5% adj. EBITDA margin, unlocking a rerate from Oddo BHF, and consistent bid wins. Strong macroeconomic tailwinds allow for sustained revenue and order book growth over the coming decade.

Appendix

| | Hist. | Proj. | Proj. | Proj. | Proj. | Proj. |
|---|----------|----------|----------|----------|----------|----------|
| | Period 0 | Period 1 | Period 2 | Period 3 | Period 4 | Period 5 |
| <i>All figures in millions unless otherwise stated</i> | | | | | | |
| Discounted Cash Flow | | | | | | |
| Tax rate | | | | | | |
| 18.0% | | | | | | |
| Long term growth rate | | | | | | |
| 2.0% | | | | | | |
| WACC | | | | | | |
| 10.5% | | | | | | |
| Share price | | | | | | |
| 8.29 | | | | | | |
| Shares outstanding | | | | | | |
| 272.0 | | | | | | |
| Year count | | | | | | |
| 1.0 | | | | | | |
| EBIT | | | | | | |
| 227.8 | | | | | | |
| Tax on EBIT | | | | | | |
| (41.0) | | | | | | |
| + Depreciation and amortization | | | | | | |
| 145.3 | | | | | | |
| - Capital expenditure | | | | | | |
| (101.7) | | | | | | |
| Change in operating working capital | | | | | | |
| (16.0) | | | | | | |
| Free cash flow | | | | | | |
| 214.4 | | | | | | |
| Terminal value | | | | | | |
| 2,473.3 | | | | | | |
| Discount factor | | | | | | |
| 90.5% | | | | | | |
| 81.9% | | | | | | |
| 74.1% | | | | | | |
| 67.1% | | | | | | |
| 60.7% | | | | | | |
| Present value of free cash flows | | | | | | |
| 194.0 | | | | | | |
| Sum of present value of free cash flows | | | | | | |
| 835.3 | | | | | | |
| Present value of terminal value | | | | | | |
| 1,501.3 | | | | | | |
| Enterprise value | | | | | | |
| 2,336.6 | | | | | | |
| + Cash | | | | | | |
| 763.0 | | | | | | |
| - Debt | | | | | | |
| (440.0) | | | | | | |
| Implied equity value (intrinsic value) | | | | | | |
| 2,659.6 | | | | | | |
| Market capitalization | | | | | | |
| 2,254.9 | | | | | | |
| Intrinsic value premium to market capitalization | | | | | | |
| 404.7 | | | | | | |
| Rf = 2.77% (Dutch 10-year government bond) | | | | | | |
| Rp= 8.96% | | | | | | |
| Beta = 1.05 - slightly higher cyclicity than the market | | | | | | |

| (€ millions) | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---------------------------------------|---------|---------|---------|---------|---------|---------|---------|----------|
| Division Netherlands | | | | | | | | |
| Revenue | 2,917.0 | 3,007.0 | 3,231.0 | 3,412.0 | 3,583.0 | 3,744.0 | 3,894.0 | 4,030.0 |
| YoY Growth % | 3.29% | 3.09% | 7.45% | 5.60% | 5.01% | 4.49% | 4.01% | 3.49% |
| Division UK + Ireland | | | | | | | | |
| Revenue | 3,134.0 | 3,139.0 | 3,111.0 | 3,305.9 | 3,496.3 | 3,680.0 | 3,854.8 | 4,018.6 |
| YoY Growth % | 10.30% | 0.16% | -0.89% | 6.26% | 5.76% | 5.25% | 4.75% | 4.25% |
| Division Germany, Belgium, Etc | | | | | | | | |
| Revenue | 569.0 | 125.3 | 112.6 | 103.6 | 77.7 | 51.6 | 26.0 | 0.0 |
| YoY Growth % | 4.17% | -77.98% | -10.17% | -7.97% | -24.99% | -33.59% | -49.61% | -100.00% |
| Company | | | | | | | | |
| Revenue | 6,620.0 | 6,271.3 | 6,454.6 | 6,821.5 | 7,157.0 | 7,475.6 | 7,774.8 | 8,048.6 |
| YoY Growth % | -9.53% | -5.27% | 2.92% | 5.68% | 4.92% | 4.45% | 4.00% | 3.52% |
| EBITDA Margin | 4.17% | 4.44% | 3.90% | 4.85% | - | - | - | - |
| EBIT Margin % | 2.41% | 2.45% | 1.85% | 3.34% | 3.50% | 3.35% | 3.20% | 3.00% |
| EBIT (calc.) | 159.5 | 153.6 | 119.4 | 227.8 | 250.5 | 250.4 | 248.8 | 241.5 |

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