

Tuesday, 31 August 2021 | update

Cognor: accumulate (downgraded)

COG PW; COGP.WA | Steel, Poland

Rebar Sector Keeps Up Momentum

Made-in-Poland reinforcing bars so far have been spared from the price downturn observed in recent weeks in the domestic steel market, and with rebar trading at PLN 4,200 a tonne while the cost to purchase a tonne of scrap feedstock hovers around PLN 1,800 this brings margins to a record PLN 2,200/t.

After pushing maintenance downtime for its steel billet unit back to January 2022, Cognor is able to capitalize on the high prices of reinforcement steel to deliver another big quarter in Q3 2021 with over PLN 100 million EBITDA. After factoring in a second-quarter beat and the strong third-quarter outlook, we opt to upgrade our FY2021 full-year EBITDA forecast for Cognor from PLN 222m to PLN 354m.

If our estimate is correct, after ending the year with low debt of 0.2x EBITDA, we believe Cognor might choose to distribute as much as 50% of 2021 net earnings as dividends next year to make DPS of PLN 0.70 and over 15% dividend yield. On a related note, Cognor is still due to make a distribution of PLN 0.15 per share (~3% Dyield) this coming October after going ex-dividend on September 28th.

After upward revisions also to our financial forecasts for 2022 and 2023 to reflect expected gains from electricity price hedging below the current market level (i.e. at less than PLN 240/MWh), we once again raise our target price for COG from PLN 4.30 to PLN 5.05 per share, but we downgrade our view to accumulate after the share price rally of recent weeks.

Steel market – a temporary retreat?

Prices in world steel markets have tumbled in recent weeks after a downward shift in prices of iron ore triggered by concerns over demand from China. A resulting surge in sales margins has allowed producers using the ore-based basic oxygen furnace steelmaking process to lower their prices.

In the end, China's planned H2 2021 steel output cuts will most likely lead to a depletion of state inventories that will in turn set off another upturn in prices.

Another way steel producers may be poised to benefit still this year are potential disruptions in supply caused by a resurgence of COVID-19 infections in major iron ore exporting countries; in Australia, which accounts for about 35% of global ore supply, only 25% of the population has been fully vaccinated so far against the virus. In Brazil (~20% of world output) the proportion is approximately 27%.

Another thing worth noting is an upward shift recently in prices of Atlantic coking coal that is likely to drive Chinese import rates from the current \$350 higher to \$450 or even \$500 a tonne.

Cognor reaps the rewards

Cognor has seen its steel rebar margins rise above a record PLN 2,000/t after months of an upward climb that began around June. We are expecting the Company to deliver a very strong third quarter after a decision not to close its billet smelter, Ferrostal, for maintenance at the usual time in August, and move the downtime to January. Despite a lack of positive FIFO effect, we believe Cognor can achieve EBITDA of more than PLN 100m again in Q3 2021.

(PLN m)	2019	2020	2021E	2022E	2023E
revenue	1,902	1,733	2,632	2,372	2,002
EBITDA (adj.)	93	92	354	203	174
EBITDA margin	4.9%	5.3%	13.4%	8.5%	8.7%
EBIT (adj.)	47	44	303	153	125
net profit (adj.)	11	10	236	115	93
P/E (adj.)	70.5	78.5	3.3	6.9	8.5
P/FCFE	6.5	4.2	4.5	3.7	5.2
FCFF/EV	19.2%	27.0%	26.6%	32.6%	25.2%
EV/EBITDA (adj.)	11.1	10.6	2.5	4.1	4.7
DPS	0.21	0.00	0.15	0.70	0.46
Dyield	4.6%	0.0%	3.2%	15.4%	10.1%

current price	PLN 4.52
target price	PLN 5.05
mCap	PLN 791m
free float	PLN 240m
ADTV (3m)	PLN 5.9m

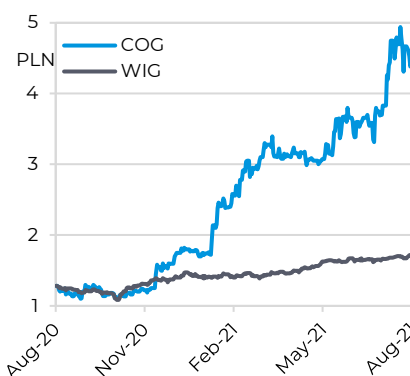
Shareholders

PS HoldCo	69.7%
Others	30.3%

About

Cognor is a Polish steel producer with a share of 6% overall in the domestic market and a 15% share in EAF steelmaking. The Company owns two steel mills: 'Ferrostal Łabędy' focuses on the production of round and square bars in electric arc furnaces, and 'Huta Stali Jakościowych' produces long and flat products from quality steel. Cognor's total production capacity is 636,000 tonnes. Cognor operates its own scrap buying centers which cover about 50% of its secondary steel needs.

COG vs. WIG



company	target price		recommendation	
	new	old	new	old
Cognor	5.05	4.30	accumulate	buy

company	current price	target price	upside
Cognor	4.52	5.05	+11.8%

forecast update	2021E	2022E	2023E
	revenue	+5.1%	+1.6%
EBITDA	+59.0%	+19.6%	+21.1%
net profit	+83.2%	+33.1%	+39.3%
sales volume	+1.2%	+1.2%	+1.2%
sales price	+5.1%	+0.7%	+0.8%
price of scrap metal	-6.0%	0.0%	0.0%

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Key Risks

Cyclicality in the Steel Sector

Steel is a cyclical industry, highly sensitive to economic fluctuations. Steelmakers that use the basic oxygen process do not have option to quickly put furnaces on idle as an adjustment to demand shocks, and as a result they tend to sell off production at any price they can get during periods of slowdown. This can put a squeeze on global prices and have destructive consequences for the profitability of other producers, including EAF-based steel, as well as negatively impacting distributors.

Environmental Regulations

Increasing restrictions on emissions of greenhouse gases and pollution into the atmosphere have put pressure on European steel producers over the recent years, underpinned by competitive pressures coming from China and the former Soviet Republics, where local steel industries enjoy backing and protections from their respective governments. Since 2016, the pressures are being mitigated by higher duties on steel imports into the EU.

Cognor purchased approximately 10% of required emission allowances at market prices through to the end of 2019. At a EUR 1 price per tonne of carbon emissions, the cost per tonne of end-product is approximately 1 zloty, subject to fluctuations in line with price movements in the emissions trading market. The CO₂ emissions generated by the scrap-based EAF technology of steelmaking are currently 4 times less than the amount of carbon dioxide released by basic oxygen facilities that use ores.

EU producers could benefit from a carbon tax on imports, a likely game changer from the point of view of competition.

Competitive Pressures

Whenever there is a downward shift in the prices of iron ore and coking coal, which serve as feedstocks for BOF steel production, through reduced costs BOF-made steel products can gain a competitive price advantage over EAF steel.

Feedstock Shortage

During extended periods of high margins on scrap-fed steel production, producers might feel encouraged to eliminate bottlenecks and ramp up their scrap-processing capacities, potentially causing upward pressure on the prices of secondary steels.

Stock Dilution

In the past, Cognor had issued approximately €17m of Exchangeable Notes, later converted to equity at PLN 1.61 per share. At a higher price if bondholders sought to exit their investment this would have increased the supply of Cognor equity in the stock market.

Excessive Leverage

In the past, Cognor has been known to use sizable debt issues to finance M&A deals as part of ambitious growth plans. A policy of financing growth with debt could lead to excessive leverage if Cognor decides to take advantage of acquisition opportunities in the future.

Increasing Energy Costs

Electricity accounts for about 10% of Cognor's total annual operating expenses, but this proportion could increase in the event of any upward shifts in the energy market.

Over-Reliance On One Customer

In 2013, Cognor's two steel plants, HSJ and Ferrostal, at times generated from 11% to as much as 20% of their revenues from one single customer. The Company has since been able to reduce these proportions, with no one customer accounting for more than 10% of sales at either plant.

The Coronavirus Epidemic

Global lockdown measures introduced to contain the spread of the coronavirus epidemic have included closures of car manufacturing plants, which are the second-largest buyer of steel in the world. The resulting fall-off in orders has forced steelmakers to drastically cut back production.

Valuation

Using DCF analysis and relative valuation, we set our new nine-month per-share price target for Cognor at PLN 5.05.

Valuation summary

(PLN)	weight	price
relative valuation	50%	4.65
discounted cash flow ³⁴	50%	4.78
	valuation	4.71
	9M target price	5.05

Source: mBank

Relative Valuation

We compared Cognor's trading multiples with the multiples of comparable international steel producers and distributors. The peer group also includes the Polish aluminum producer Alumental, who also uses recycled metal as its feedstock material.

We opt to apply a 20% discount to our valuation of Cognor to reflect outstanding convertible bonds and the volatility of quarterly profits depending on shifts in the prices of steel scrap and end products.

Multiples Comparison

	country	P/E			EV/EBITDA		
		2021E	2022E	2023E	2021E	2022E	2023E
ALUMETAL SA	Poland	7.3	11.0	10.4	6.7	8.4	6.7
ARCELORMITTAL	Luxembourg	3.2	4.8	7.8	2.4	3.2	4.3
BAOSHAN IRON & STEEL CO-A	China	8.8	8.4	8.0	4.6	4.2	3.7
COMMERCIAL METALS CO	USA	10.2	10.8	11.8	6.0	5.9	5.3
HESTEEL CO LTD-A	China	9.2	8.2	7.2	-	-	-
HITACHI METALS LTD	Japan	-	58.9	26.5	29.0	12.5	9.7
HYUNDAI STEEL CO	South Korea	5.6	6.0	5.9	5.2	5.1	4.9
JFE HOLDINGS INC	Japan	-	4.6	5.8	12.7	5.4	6.0
JSW STEEL LTD	India	21.8	7.4	8.9	11.2	5.6	6.1
KLOECKNER & CO SE	Germany	3.2	12.2	12.8	2.1	4.5	4.5
METALURGICA GERDAU SA-PREF	Brazil	3.8	9.7	8.9	-	-	-
NIPPON YAKIN KOGYO CO LTD	Japan	13.1	5.5	5.7	-	-	-
NUCOR CORP	USA	6.0	10.1	18.0	4.1	5.6	7.8
OLYMPIC STEEL INC	USA	3.2	12.3	-	-	-	-
OUTOKUMPU OYJ	Finland	6.3	8.2	8.5	4.0	4.3	4.1
POSCO	South Korea	5.3	6.1	6.1	3.3	3.3	3.0
SALZGITTER AG	Germany	4.0	6.8	8.0	2.5	3.7	3.5
SSAB AB-A SHARES	Sweden	4.7	8.0	11.6	2.7	3.7	4.4
STEEL AUTHORITY OF INDIA	India	10.5	3.4	4.9	7.0	3.0	3.4
STEEL DYNAMICS INC	USA	5.1	8.1	12.3	3.4	4.5	5.7
TATA STEEL LTD	India	22.1	4.9	7.7	9.2	3.7	4.8
THYSSENKRUPP AG	Germany	-	11.2	11.4	1.4	1.0	1.0
maximum		22.1	58.9	26.5	29.0	12.5	9.7
minimum		2.2	3.4	4.9	1.4	1.0	1.0
median		5.8	8.1	8.9	4.3	4.4	4.7
Cognor		3.3	6.9	8.5	2.5	4.1	4.7
premium / discount		-42.6%	-14.3%	-4.4%	-42.8%	-6.0%	-0.3%

Implied Valuation of Cognor

median	5.8	8.1	8.9	4.3	4.4	4.7
premium / discount	20%	20%	20%	20%	20%	20%
multiple weight		50%			50%	
year weight	33%	33%	33%	33%	33%	33%
equity value per share (PLN)	4.65					

Source: mBank

DCF Valuation

Assumptions:

- Beta = 1.2, reflecting the highly cyclical nature of Cognor's business. In addition, a higher discount is warranted by a risk of an equity overhang if Cognor bondholders convert their warrants to shares.
- Cash flow is discounted as of late August 2021.
- Net debt is as at year-end 2020

DCF Model

(PLN m)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	+
revenue	2,631.6	2,372.4	2,001.9	1,946.2	1,963.7	1,982.3	1,984.5	1,987.4	1,984.9	1,988.2	1,991.6
change	51.8%	-9.8%	-15.6%	-2.8%	0.9%	0.9%	0.1%	0.1%	-0.1%	0.2%	0.2%
EBITDA	360.5	202.6	173.6	118.2	121.6	127.6	129.0	130.1	133.1	129.6	126.0
EBITDA margin	13.7%	8.5%	8.7%	6.1%	6.2%	6.4%	6.5%	6.5%	6.7%	6.5%	6.3%
D&A	50.1	50.1	48.3	47.0	46.4	46.5	47.2	47.0	46.5	48.5	48.5
EBIT	310.4	152.5	125.3	71.2	75.2	81.2	81.8	83.1	86.6	81.2	77.5
EBIT margin	11.8%	6.4%	6.3%	3.7%	3.8%	4.1%	4.1%	4.2%	4.4%	4.1%	3.9%
tax on EBIT	57.1	26.9	21.7	11.3	12.0	13.1	13.3	13.5	14.2	13.1	12.4
NOPLAT	253.3	125.6	103.6	60.0	63.2	68.0	68.5	69.6	72.4	68.0	65.1
CAPEX	-50.0	-50.0	-39.4	-40.3	-41.5	-43.2	-46.5	-46.3	-46.1	-45.6	-47.6
working capital	-129.4	49.0	13.4	2.0	-0.6	-0.7	-0.1	-0.1	0.1	-0.1	-0.1
FCF	124.1	174.8	125.8	68.7	67.4	70.6	69.1	70.2	72.9	70.8	66.9
WACC	9.3%	9.5%	9.7%	9.6%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%
discount factor	0.97	0.89	0.81	0.74	0.67	0.61	0.56	0.51	0.46	0.42	0.38
PV FCF	120.4	154.8	101.4	50.5	45.1	43.1	38.5	35.6	33.7	29.8	25.7
WACC	9.3%	9.5%	9.7%	9.6%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%
cost of debt	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
risk premium	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
net debt / EV	8.0%	3.6%	0.0%	1.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
cost of equity	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%
risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
beta	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2

FCF growth after the forecast period	2.0%
terminal value	868.5
present value of terminal value	366.0
present value of FCF in the forecast period	653.0
enterprise value	1,019.0
net debt	164.0
minority interest	19.3
goodwill	835.7
shares outstanding (millions)	175.0
equity value per share (PLN)	4.78
9M cost of equity	7.2%
target price (PLN)	5.12

EV/EBITDA ('21) at target price	2.7
P/E('21) at target price	3.7
TV / EV	35.9%

Source: mBank

sensitivity analysis

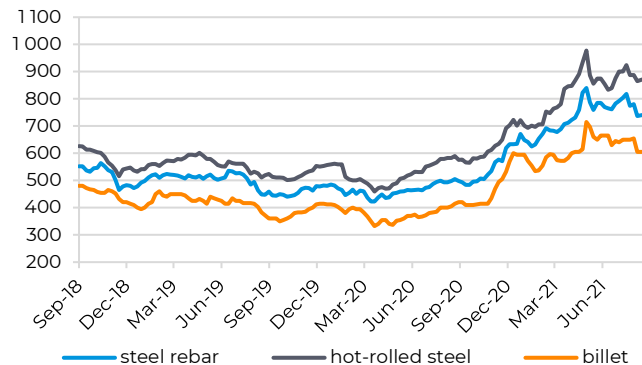
	FCF growth in perpetuity				
	0.0%	1.0%	2.0%	3.0%	5.0%
WACC +1.0 p.p.	4.24	4.40	4.58	4.82	5.54
WACC +0.5 p.p.	4.44	4.62	4.84	5.12	6.00
WACC	4.66	4.86	5.12	5.45	6.55
WACC -0.5 p.p.	4.90	5.14	5.44	5.84	7.23
WACC -1.0 p.p.	5.16	5.44	5.81	6.30	8.08

Global Steel Update

There has been a **downward shift in steel prices in the Chinese market** in recent weeks, triggered by a rapid fall in prices of iron ore, the primary cost driver for BOF steelmaking producers, on news that China would be cutting back its steel output in the latter part of 2021 as part of a wider effort to fight pollution.

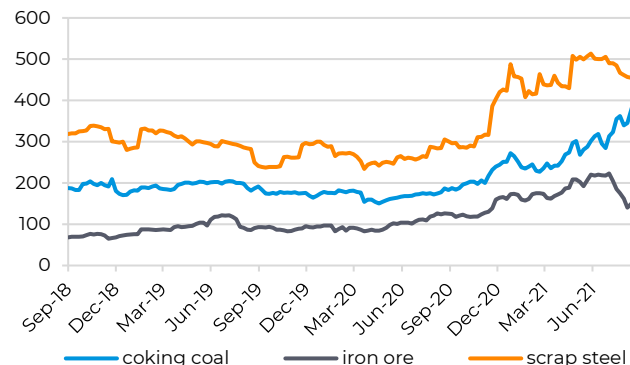
BF/BOF production accounts for nearly 90% of total steel production in China, and the steel industry is the country's second-biggest CO2 emitter.

China steel prices (US\$/t)



Source: Bloomberg, mBank

Price comparison: coking coal vs. iron ore and scrap steel (US\$/t)



Source: Bloomberg, mBank

With their feedstock costs reduced, **BOF steelmakers have enjoyed much higher margins** over the weeks that have allowed them to bring down rates for end customers.

Margins of BOF steel producers (US\$/t)

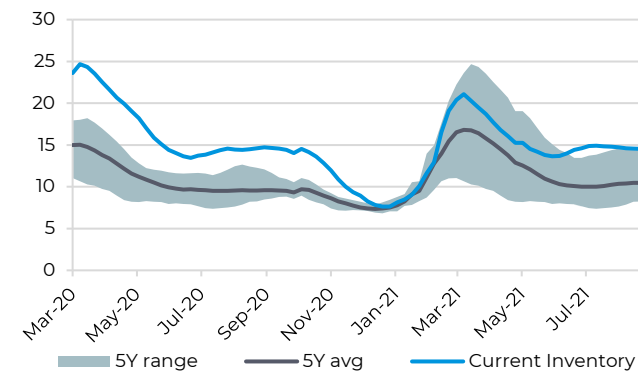


Source: Bloomberg, mBank

China has stockpiled steel reserves equivalent to the upper end of the previous 5-year range, however with the planned production curbs, soon, the inventories will become depleted, potentially giving rise to another **run-up in prices as soon as in Q4 2021**. Keep in mind that China is currently in the final stages of preparation for the 2022 Winter Olympics, and it is not likely to let a steel shortage get in the way of the February 4th opening ceremony.

Another reason why steel prices are not likely to stay low for long are potential supply disruptions in the coming weeks caused by a resurgence of COVID-19 infections in major iron ore exporting countries; in Australia, which accounts for about 35% of global ore supply, only 25% of the population so far has been fully vaccinated against the virus. In Brazil (~20% of global output), the proportion is about 27%. As you may know, the way Australia has chosen to deal with rising COVID-19 infections to date is to put its cities and other parts of the country into snap lockdowns.

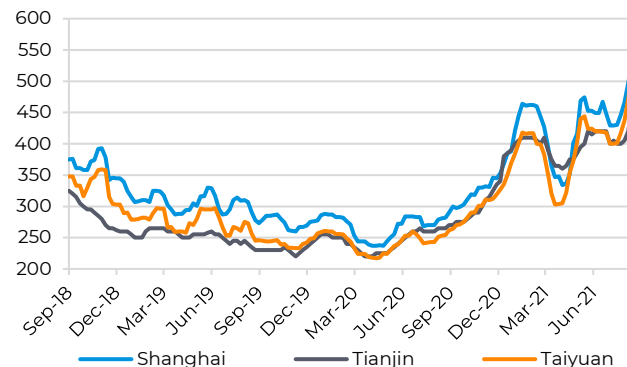
China steel inventories (million tonnes)



Source: Bloomberg, mBank

Another prospect facing the Chinese steel industry is a potential **upward shift in costs of metallurgical coking coal** caused by its reduced availability amid record-low state coke reserves and COVID-19 restrictions on the border with Mongolia after several coal truck drivers tested positive for the virus. As of this writing, met coal in China sells for about \$350/t, but looking at upward-trending prices of Atlantic coal, soon, the import rates can be expected to rise to \$450 or even as high as \$500/t. An upward shift in coal will bring with it a **rapid rise in prices of metallurgical coke**.

China metallurgical coke prices (US\$/t)



Source: Bloomberg, mBank

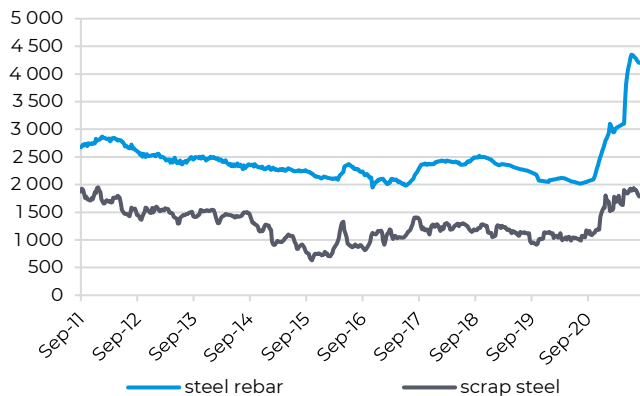


Polish Steel Market Update

In Poland, like in other parts of the world, we are currently dealing with a **downward correction in prices of steel**, in particular hot- and cold-rolled products. This is an effect of competitively-priced steel coil brought into Northern Europe at rates of less than €1,000/t.

Interestingly, this has had **no impact on rebar** prices, which continue to trade at all-time high levels.

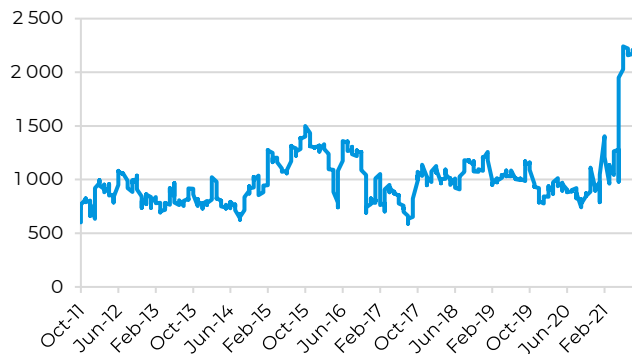
Polish prices of steel rebar and scrap (PLN/t)



Source: PUDS association of Polish steel distributors, mBank

For Cognor, the **margins on rebar production have grown to record levels past PLN 2,000 a tonne** after months of an upward climb that began around June. Based on this, we are expecting the Company to deliver a very strong third quarter after a decision not to close the billet smelter, Ferrostal, for maintenance at the usual time in August, but to move the downtime to January.

Model margin on EAF steel rebar production (PLN/t)

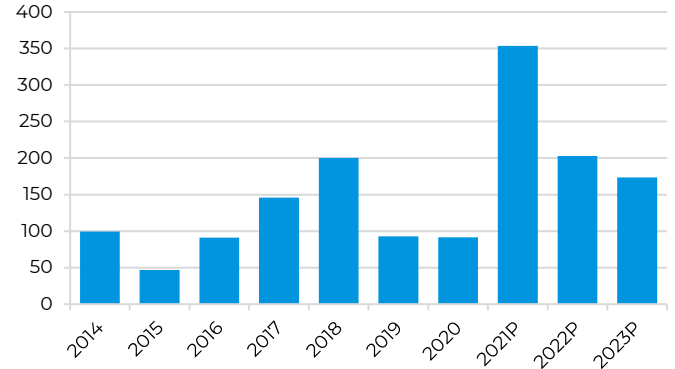


Source: PUDS, Bloomberg, mBank

After factoring better-than-expected results for the second-quarter, and the strong third-quarter outlook, into our models, we opt to **upgrade our FY2021 full-year core EBITDA forecast** for Cognor from PLN 222m to **PLN 354m**.

We also made upward revisions to our financial forecasts for 2022 and 2023 to reflect expected gains on electricity price hedging at lower levels than the prices currently observed on the Polish energy exchange.

Historical EBITDA of Cognor and 2021-2023 projection (PLN m)

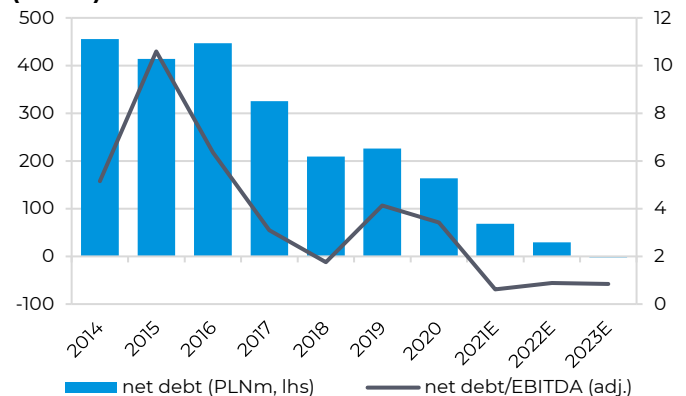


Source: Cognor, P - mBank projection

After what are likely to be record annual earnings, Cognor is expected to end 2021 with lower net debt of an estimated PLN 67m (~PLN 200m after factoring adjustments) that might make its Management inclined to offer **more generous dividends in 2022** by distributing as much as 50% of 2021 net earnings to make **DPS of PLN 0.70 and over 15% dividend yield**.

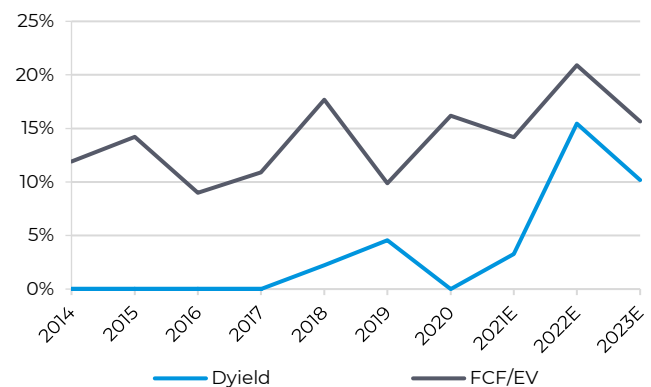
On a related note, Cognor is still due to make a distribution of PLN 0.15 (~3% Dyield) this year in October after a 28 September ex-dividend date.

Historical net debt of Cognor and 2021-2023 estimates (PLN m)



Source: Cognor, E - mBank estimate

Actual dividends paid by Cognor in 2016-2021 and expectations for 2022-2023



Source: Cognor, E - mBank estimate

Cognor Financials: 2019-2020 actuals and 2021-2023 estimates

P&L						Cash Flow					
(PLN m)	2019	2020	2021E	2022E	2023E	(PLN m)	2019	2020	2021E	2022E	2023E
revenues	1,902	1,733	2,632	2,372	2,002	operating CF	142	206	184	224	164
Ferrostal rebar	873	817	1,292	1,142	959	working capital	61	98	-129	49	13
HSJ rolled steels	532	465	723	670	588	investing CF	-56	-57	-50	-50	-39
Złomrex Metal scrap	142	137	144	147	150	CAPEX	-56	-57	-50	-50	-39
other	364	328	393	341	298	financing CF	-84	-127	-103	-135	-93
						dividend	-36	0	-26	-122	-80
COGS	1,731	1,574	2,321	2,220	1,877	CF	2	22	31	39	32
D&A	46	48	49	49	47	OCF/EBITDA	153.3%	224.9%	52.1%	110.5%	94.7%
materials & utilities	1,230	1,099	1,659	1,587	1,256	FCFF	199	263	234	274	204
scrap steel	725	696	1,249	1,172	831	FCFF/EV	19.2%	27.0%	26.6%	32.6%	25.2%
electricity	115	196	181	185	190	FCFE	122	187	174	213	153
services	177	168	185	191	197	FCFE/MCAP	15.4%	23.6%	22.0%	26.9%	19.4%
taxes and fees	10	10	11	11	11	ROIC	9.8%	13.2%	46.8%	22.2%	19.1%
payroll	182	174	184	204	209	ROCE	10.3%	11.3%	46.6%	20.6%	17.0%
other	7	6	7	7	6	DPS	0.21	0.00	0.15	0.70	0.46
goods	193	162	226	170	149	div. payout ratio	38.4%	0.0%	254.9%	51.5%	70.0%
inv. change	-10	-37	0	0	0	dividend yield	4.6%	0.0%	3.2%	15.4%	10.1%
D&A	46	48	50	50	48						
EBIT	55	67	310	153	125	Key Ratios					
financing activity	-31	-34	-10	-11	-11		2019	2020	2021E	2022E	2023E
						P/E	41.4	24.2	3.3	6.9	8.5
pre-tax profit	22	32	300	142	114	P/E (adj.)	70.5	78.5	3.3	6.9	8.5
income tax	3	-1	57	27	22	EV/EBITDA	10.3	8.5	2.4	4.1	4.7
net profit	19	33	243	115	93	EV/EBITDA (adj.)	11.1	10.6	2.5	4.1	4.7
						P/S	0.4	0.5	0.3	0.3	0.4
EBITDA (adj.)	93	92	354	203	174	P/B	3.1	2.7	1.6	1.6	1.5
(adj.)	11	10	236	115	93	P/CF	5.6	3.8	4.3	3.5	4.8
						P/FCFE	6.5	4.2	4.5	3.7	5.2
						EBITDA margin	4.9%	5.3%	13.4%	8.5%	4.9%
Balance Sheet						y/y % EBITDA change	-53.5%	-1.4%	285.8%	-42.7%	-14.3%
(PLN m)	2019	2020	2021E	2022E	2023E	net margin	0.6%	0.6%	9.0%	4.8%	4.6%
fixed assets	487	515	496	492	484	y/y % EPS change	734.6%	11.3%	-95.7%	106.2%	23.8%
PP&E	376	397	374	370	358	price (PLN)	4.52	4.52	4.52	4.52	4.52
intangible assets	22	18	32	37	40	shares outst. (millions)	175.0	175.0	175.0	175.0	175.0
goodwill	9	9	9	9	9	mCap	791	791	791	791	791
current assets	564	517	763	740	683	EV	1,035	974	879	840	808
inventory	297	274	416	375	317						
accounts receivable	188	142	215	194	164						
cash	79	101	131	171	202						
equity	259	288	505	498	511						
minority interest	18	19	19	19	19						
noncur. liabilities	279	243	236	236	236						
loans	250	208	200	200	200						
current liabilities	482	470	485	469	396						
loans	55	57	0	0	0						
trade payables	427	413	485	469	396						
net debt	226	164	69	29	-2						
net debt/EBITDA	2.24	1.44	0.19	0.15	-0.01						
net debt/EBITDA (adj.)	4.14	3.42	0.62	0.88	0.85						

Source: mBank



Macroeconomic assumptions

	2019	2020	2021E	2022E	2023E
rolled sheet steel	2,463	2,425	4,500	3,500	2,650
Rebar	2,275	2,150	3,300	3,000	2,600
PL steel production	9.1	7.9	8.3	8.5	8.6
EU steel production	157	139	153	157	159
Poland/EU	7.3%	8.4%	8.1%	8.0%	8.0%
USD/PLN	3.81	3.89	3.73	3.60	3.60
coke (US\$/t)	170	133	145	155	155
iron ore (US\$/t)	121	125	180	160	130
scrap (US\$/t)	343	322	470	470	330
BOF (US\$)	368	347	474	448	370
EAF (US\$)	382	359	524	524	368
BOF-EAF (US\$)	-14	-12	-50	-76	2
BOF (PLN)	1,402	1,353	1,767	1,612	1,333
EAF (PLN)	1,456	1,399	1,955	1,887	1,325
scrap price (PLN/t)	1,303	1,255	1,753	1,692	1,188
second. / primary steel	53%	53%	47%	52%	44%
energy price (PLN/MWh)	360	437	438	442	452
energy use	380	450	414	417	421

Sales & margin forecast for Złomrex secondary steels

	2019	2020	2021E	2022E	2023E
volume (1k t)	142	137	144	147	150
revenue (PLN m)	132	123	223	219	157
avg. price (PLN/t)	930	898	1,543	1,489	1,045
discount	-29%	-28%	-12%	-12%	-12%

Sales & margin forecast for Ferrostal rebar

	2019	2020	2021E	2022E	2023E
revenues					
billet	204	147	216	163	118
plain bars	72	63	106	90	73
flat bars	93	98	165	140	113
rebar	429	434	679	642	567
volumes (1k t)					
billet	110	83	77	71	65
plain bars	31	29	31	31	32
flat bars	40	45	47	48	49
rebar	211	231	236	241	246
prices					
scrap steel	930	907	1,578	1,438	1,010
billet	1,850	1,760	2,816	2,317	1,823
plain bars	2,338	2,177	3,483	2,889	2,298
flat bars	2,331	2,182	3,491	2,896	2,304
rebar	2,031	1,873	2,875	2,666	2,310
cost-price spread					
billet	920	853	1,238	879	813
plain bars	1,408	1,270	1,905	1,451	1,288
flat bars	1,401	1,275	1,913	1,458	1,294
rebar	1,101	966	1,297	1,228	1,301

Sales & margin forecast for HSJ rolled steels

	2019	2020	2021E	2022E	2023E
revenues					
billet	166	164	218	202	177
square bar	503	444	695	644	565
volumes (1k t)					
billet	75	76	72	74	75
square bar	158	160	173	176	180
prices					
scrap steel	1,079	1,006	1,806	1,726	1,212
billet	2,224	2,160	3,023	2,746	2,362
square bar	3,194	2,775	4,023	3,654	3,142
cost-price spread					
billet	1,145	1,154	1,218	1,021	1,150
square bar	2,115	1,769	2,217	1,929	1,931

List of abbreviations and ratios used by mBank:

EV (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases) - Lease Payments
EBITDA margin – EBITDA/Sales

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NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
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mBank issued the following recommendations for Cognor in the 12 months prior to this publication:**Cognor**

recommendation	buy	hold	buy	buy	buy	buy	buy
date issued	2021-06-18	2021-04-09	2021-03-05	2021-02-10	2020-12-08	2020-09-25	2020-08-04
target price (PLN)	4.30	3.19	3.19	2.89	2.29	2.03	1.98
price on rating day	3.57	3.16	2.55	2.15	1.25	1.10	0.93



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