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Cognor – 2020 Q2 Results

Rating: buy | target price: PLN 1.98 | current price: PLN 1.28

COG PW; COGP.WA | Metals, Poland

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The performance for Q2 2020 is a positive surprise in terms of the volume of sales and the profitability of production. The operating cash flow above expectations and the net debt below forecast figure also positively surprise. The company underlines the ongoing discussion about the introduction of a carbon tax on steel imports in the EU which can positively affect results of the steel industry. Since we generated high results after H1 2020, we do not expect any problems with achieving estimated annual results. Our performance was surprisingly good and we expect a positive market reaction.

- In Q2 2020, the **volume of sales** of semi-finished steel products and finished steel products totalled 161,000 tonnes, down by 6% yoy and 9% higher than expected. The sales volume of steel scraps in Q2 2020 was 15% lower yoy, but 8% higher than expected. As a result, sales revenue in Q2 2020 was 13% above estimated figure and down by 12% yoy - mainly as a result of lower prices.
- EBITDA reported** in Q2 2020 totalled PLN 39 million vs. estimated EBITDA at PLN 30 million and PLN 43 million in Q2 2019. Cognor results in Q2 2020 were supported

mainly by one-off events totalling PLN 10 million, PLN 8.4 million of which was financing granted under the anti-crisis shield. Please note that in Q2 2019, the company recognised profits for the entire H1 2019 on account of compensation for higher energy costs under the "energy act". **EBITDA net of one-offs** stood at PLN 29 million in Q2 2019 and was 20% lower yoy, but 29% higher than we had forecast. The drop in figures was driven mainly by lower spreads generated on products and lower sales volumes.

- The FIFO effect** in Q2 2020 totalled -3.7 vs. -9.5 in Q2 2020 (due to the drop in prices). As in Q1 2020, Cognor decided to recognise a PLN 2.5 million of profit on account of compensation for higher costs of carbon emission allowances for energy-intensive industries. In 2021 the company will probably receive a PLN 10 million compensation.
- In Q2 2020, **operating cash flow** stood at +PLN 53 million against +PLN 81 million a year before. **Net debt at the end of H1 2020** totalled PLN 226 million, down by PLN 34 million QoQ. Net debt to EBITDA totalled 2.2x at the end of H1 2020. Our forecasts predict net debt at PLN 257 million at the end of H1 2020.

Summary of 2020 Q2 results

(PLN m)	2Q'20	2Q'19	change	2Q'20E	differ.	2020E	2019	change	YTD
Revenue	456.0	516.3	-11.7%	402.1	13.4%	1,697.0	1,901.6	-10.8%	54.0%
EBITDA	39.0	42.9	-9.3%	30.4	28.0%	100.2	100.8	-0.6%	69.3%
Margin	8.5%	8.3%	-	7.6%		6.1%	5.3%		
EBIT	27.1	31.6	-14.0%	18.9	43.2%	52.3	54.6	-4.2%	88.4%
Net profit	20.9	16.1	29.2%	12.3	70.2%	26.6	19.1	39.0%	89.6%

Source: Cognor, E— mBank estimates

List of abbreviations and ratios contained in the report:

EV – net debt + market value (EV – economic value)
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
PBA – Profit on Banking Activity
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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HOLD – we expect that the rate of return from an investment will range from -5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
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