

Monday, November 04, 2019 | special comment

Cognor – 2019 Q3 Results

Rating: accumulate | target price: PLN 2.00 | current price: PLN 1.52

COG PW; COGP.WA | Metals, Poland

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Cognor reported disappointing results for the third quarter of 2019, due mainly to longer-than-planned plant maintenance downtime which put the quarterly sales 20% below our forecast. EBITDA missed the mark compared to Cognor's own PLN 25-30m range guidance and our PLN 24m estimate at just about PLN 17m, indicating a need for us to lower the forecast for the full year to PLN 105-115m. COG stock is probably going to suffer today on the weak third-quarter earnings.

- The quarterly **revenue** missed our forecast by 22% at PLN 400m, down 27% year over year. This on a disappointingly **low volume**, which at 132,000 tonnes was 19% lower than expected and 23% lower than in Q3 2018. Cognor blames the weak sales on **longer maintenance downtime** on its production facilities, in particular the rolling mill at the HSJ steel smelter. This was accompanied by a surge in maintenance expenses to PLN 24m in Q3 2019 versus PLN 15m originally budgeted. Most of the maintenance work was performed in August and September.

- EBITDA** came in at **PLN 16.9m** in Q3, a miss of 30% relative to our estimate and a figure 70% lower than in the comparable year-ago period. Recurring EBITDA approximated PLN 12.9m vs. PLN 52.6m in Q3'18, however if we adjust further for the new accounting approach to maintenance expenses adopted this year (this includes cost recognition in the periods they are incurred rather than provisioning throughout the year), FIFO accounting impacts (up to PLN -3.4m in Q3'19 from PLN -3.4m the year before), and power price compensation (PLN -7.9m) the comparable Q3 2019 EBITDA figured to PLN 36m vs. PLN 60.9m in Q3'18.
- Cognor reported a **net loss** of PLN 0.7m in Q3'19 vs. a net profit of PLN 32m generated in the same period last year.
- Operating cash flow** approximated **PLN 30m** in Q3'19 vs. PLN 52m in Q3'18. **Net debt** as of 30 September did not change much relative to June at **PLN 286m** (2.6x 12M EBITDA).

2019 Q3 actuals vs. expectations

(PLN m)	3Q'19	3Q'18	change	3Q'19E	differ.	2019E	2018	change	YTD
Revenue	399.5	550.7	-27.4%	510.3	-21.7%	2 004.1	2 081.8	-3.7%	71.6%
EBITDA	16.9	56.2	-69.9%	24.4	-30.7%	122.5	200.1	-38.8%	70.8%
margin	4.2%	10.2%	-	4.8%		6.1%	9.6%		
EBIT	5.4	45.3	-88.1%	12.9	-58.3%	75.7	156.2	-51.6%	68.8%
Net profit	-0.7	32.3	-102.1%	6.9	-109.9%	45.2	68.5	-34.0%	53.6%

Source: Cognor, Dom Maklerski mBanku

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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NAV – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

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