

Friday, 18 June 2021 | update

Cognor: buy (upgraded)

COG.PW; COGP.WA | Steel, Poland

Rebar Margins Reach Record Highs

According to the Polish Union of Steel Distributors, in June prices of steel rebar in the domestic market have spiked to a record level of PLN 4,000/t. Thanks to a much slower rise in the costs of secondary steel inputs, in the last few days the margins for rebar producers have skyrocketed to PLN 2,000/t as compared with a 2020 average of PLN 900/t. This implies record profits for Cognor's subsidiary rebar producer Ferrostal, indicating potential for record earnings in the full FY2021 (at a projected PLN 222m) similar to those achieved in 2007 (PLN 227m). With this, we see Cognor's net debt as decreasing below PLN 40m at the end of 2021, potentially giving rise to expectations of higher 2021 dividends which, in our view, could be raised to PLN 0.44 per share to make dividend yield of over 12%. We have updated our models for Cognor to reflect the rally in rebar prices, the upward shift in prices of scrap, and an uptrend in electricity costs, as well as revising higher our dividend expectations for 2021 and 2022. In the long term, we see continued growth in rebar demand driven by Poland's planned new infrastructure stimulus.

Even on our updated estimates, Cognor stock is trading at a 20% discount to the 2011-2023E P/E and EV/EBITDA ratios of comparable companies. After raising the target price to PLN 4.30 we upgrade COG two notches from hold to buy.

Poland's planned infrastructure overhaul

By 2025, Poland is planning to build over 2,000 kilometers of new expressways and motorways, resurface 50,000 kilometers of existing roads, and construct more than 100 bridges and ring roads, as part of a bigger infrastructure stimulus. The rise in construction sites should keep demand for steel rebar high in the next five years, and with tight supply steelmakers are poised to enjoy high sales prices going forward.

The downside of expensive electricity

Wholesale electricity prices in Poland have been following an upward momentum for months that suggests higher costs for end users as soon as in 2022. We currently assume that, next year, power prices for big commercial consumers will be hiked by 18% to PLN 517/MWh – an increase which would suggest an increase of PLN 34m in the yearly electricity costs of Cognor.

Ferrostal sees margins go through the roof

Cognor's subsidiary rebar producer, Ferrostal, in our view will earn its highest margins ever in history in 2021. For Ferrostal's sister steelmaker, Huta Stali Jakościowych (HSJ), the improvement will probably be less pronounced due to a lag in pass-through of scrap costs onto end users. For HSJ, the bigger margin driver in the coming years will be the recovery observed in the automotive industry.

(PLN m)	2019	2020	2021E	2022E	2023E
revenue	1,902	1,733	2,503	2,336	1,970
EBITDA (adj.)	93	92	222	169	143
EBITDA margin	4.9%	5.3%	8.9%	7.3%	7.3%
EBIT (adj.)	47	44	172	119	95
net profit (adj.)	11	10	129	86	66
P/E (adj.)	55.5	61.8	4.8	7.2	9.4
P/FCFE	5.1	3.3	3.1	4.5	5.6
FCFF/EV	22.9%	32.6%	38.9%	30.2%	25.1%
EV/EBITDA (adj.)	9.3	8.8	3.1	3.9	4.6
DPS	0.21	0.00	0.15	0.44	0.34
DYield	5.8%	0.0%	4.1%	12.4%	9.7%

current price	PLN 3.56
target price	PLN 4.30
mCap	PLN 623m
free float	PLN 135m
ADTV (3m)	PLN 3.0m

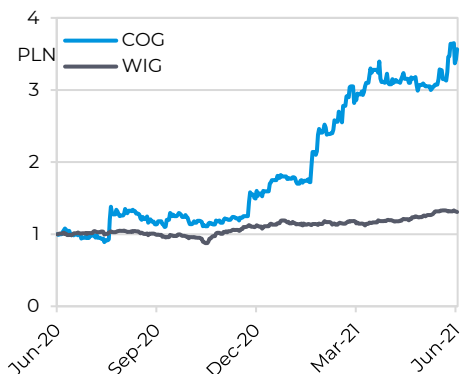
Shareholders

PS HoldCo	68.6%
The Troesh Family Foundations	9.8%
Others	21.6%

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 steel scrap needs.

COG vs. WIG



company	price target		recommendation	
	new	old	new	old
Cognor	4.30	3.19	buy	hold

company	price current	price target	upside
Cognor	3.56	4.30	+20.7%

forecast update	2021E	2022E	2023E
	revenue	+10.4%	+5.9%
EBITDA	+40.4%	+35.5%	+19.8%
net profit	+64.6%	+64.6%	+34.1%
sales volume	-2.1%	-2.1%	-2.1%
sales price	+16.6%	+12.2%	+2.8%
price of scrap metal	+16.4%	+11.9%	-5.7%

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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 the option to quickly put furnaces on idle to adjust 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 steelmakers, as well as negatively impacting distributors.

Environmental Regulations

Increasing restrictions on emissions of greenhouse gases and pollution 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 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 four 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 which would be a game changer from the point of view of competition.

Competitive Pressures

Whenever there is a downward shift in the prices of iron ore and met 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.

Undersupply of Feedstocks

During prolonged 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 affected, among others, car manufacturing plants, which are the second-largest buyer of steel in the world. The resulting fall-off in orders forced steelmakers to drastically cut back production during 2020.

Valuation

Using DCF analysis and relative valuation, we set our new nine-month per-share price target for Cognor at PLN 4.30.

Valuation summary

(PLN)	weight	price
relative valuation	50%	3.71
discounted cash flow	50%	4.31
	valuation	4.01
	9M target price	4.30

Source: mBank

Multiples Comparison

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 Alumetal, which also uses recycled metal as its feedstock

material. We applied a 20% discount to Cognor's valuation vs. the peer group to reflect convertible bonds and the volatility of the Company's earnings depending on the performance of steel scrap and metal markets.

Multiples Comparison

	country	P/E			EV/EBITDA		
		2021E	2022E	2023E	2021E	2022E	2023E
ALUMETAL SA	Poland	8.2	12.1	11.0	6.9	8.7	16.4
ARCELORMITTAL	Luxembourg	4.2	6.7	8.5	2.7	3.7	4.3
BAOSHAN IRON & STEEL CO-A	China	7.5	7.1	6.6	4.0	3.4	3.0
COMMERCIAL METALS CO	USA	11.5	12.0	13.2	6.4	6.5	5.8
HESTEEL CO LTD-A	China	-	-	-	-	-	-
HITACHI METALS LTD	Japan	-	51.4	26.8	29.0	10.7	8.9
HYUNDAI STEEL CO	South Korea	9.5	9.7	8.6	6.5	6.2	5.7
JFE HOLDINGS INC	Japan	-	5.1	5.3	11.8	5.8	5.8
JSW STEEL LTD	India	22.9	9.8	10.2	11.6	6.5	6.8
KLOECKNER & CO SE	Germany	5.3	15.6	14.5	2.9	4.8	4.6
METALURGICA GERDAU SA-PREF	Brazil	4.0	10.2	9.4	-	-	-
NIPPON YAKIN KOGYO CO LTD	Japan	11.8	5.6	5.2	-	-	-
NUCOR CORP	USA	7.0	14.7	18.9	4.4	7.3	8.8
OLYMPIC STEEL INC	USA	6.6	20.2	-	-	-	-
OUTOKUMPU OYJ	Finland	9.3	10.1	9.3	5.1	5.2	4.5
POSCO	South Korea	7.5	7.7	7.3	4.0	3.9	3.4
SALZGITTER AG	Germany	4.8	6.8	7.3	2.6	3.0	2.9
SSAB AB-A SHARES	Sweden	5.9	8.8	11.5	3.2	3.9	4.5
STEEL AUTHORITY OF INDIA	India	12.0	4.6	5.9	7.5	4.3	4.7
STEEL DYNAMICS INC	USA	5.6	10.0	13.2	3.7	5.6	6.1
TATA STEEL LTD	India	17.9	5.3	7.7	8.1	4.0	4.8
THYSSENKRUPP AG	Germany	-	14.6	11.3	2.0	0.9	0.7
maximum		22.9	51.4	26.8	29.0	10.7	16.4
minimum		3.1	4.6	5.2	2.0	0.9	0.7
median		7.5	10.0	9.8	4.7	4.9	4.8
Cognor		4.8	7.2	9.4	3.1	3.9	4.6
premium / discount		-35.3%	-27.6%	-4.3%	-35.4%	-20.1%	-3.7%

Implied Valuation of Cavatina

median	7.5	10.0	9.8	4.7	4.9	4.8
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)	3.71					

Source: mBank

DCF Valuation

Assumptions:

- Beta = 1.2; the higher value is related to the high cyclicality of activity conducted by Cognor. In addition, a higher discount
- Cash flow is discounted to the present value as of the end of June 2021.
- Net debt is as at year-end 2020

is warranted by a potential equity overhang if bondholders convert warrants to shares.

DCF model

(PLN m)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	+
revenue	2,503.5	2,335.8	1,969.8	1,913.9	1,931.1	1,949.4	1,951.3	1,953.8	1,951.4	1,954.7	1,958.1
change	44.4%	-6.7%	-15.7%	-2.8%	0.9%	0.9%	0.1%	0.1%	-0.1%	0.2%	0.2%
EBITDA	222.4	169.4	143.3	115.6	119.1	125.3	126.8	128.1	131.3	128.2	125.0
EBITDA margin	8.9%	7.3%	7.3%	6.0%	6.2%	6.4%	6.5%	6.6%	6.7%	6.6%	6.4%
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	172.3	119.3	95.0	68.6	72.7	78.9	79.6	81.0	84.8	79.8	76.5
EBIT margin	6.9%	5.1%	4.8%	3.6%	3.8%	4.0%	4.1%	4.1%	4.3%	4.1%	3.9%
tax on EBIT	30.3	20.2	15.6	10.6	11.3	12.5	12.7	12.9	13.6	12.7	12.1
NOPLAT	142.0	99.1	79.4	58.1	61.4	66.4	67.0	68.1	71.2	67.1	64.4
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	12.4	3.7	-1.7	-0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0
FCF	154.5	102.9	86.6	64.5	66.3	69.7	67.7	68.9	71.5	70.0	66.4
WACC	9.4%	9.5%	9.6%	9.6%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%
discount factor	0.96	0.88	0.80	0.73	0.66	0.61	0.55	0.50	0.46	0.42	0.38
PV FCF	148.8	90.5	69.4	47.1	44.1	42.2	37.4	34.7	32.8	29.3	25.3
WACC	9.4%	9.5%	9.6%	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	5.7%	4.0%	2.2%	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	862.1
present value of terminal value	360.5
present value of FCF in the forecast period	576.2
enterprise value	936.7
net debt	164.0
minority interest	19.3
goodwill	753.5
shares outstanding (millions)	175.0
equity value per share (PLN)	4.31
9M cost of equity	7.2%
target price (PLN)	4.62

EV/EBITDA ('21) at target price	3.9
P/E('21) at target price	6.3
TV / EV	38.5%

Source: mBank

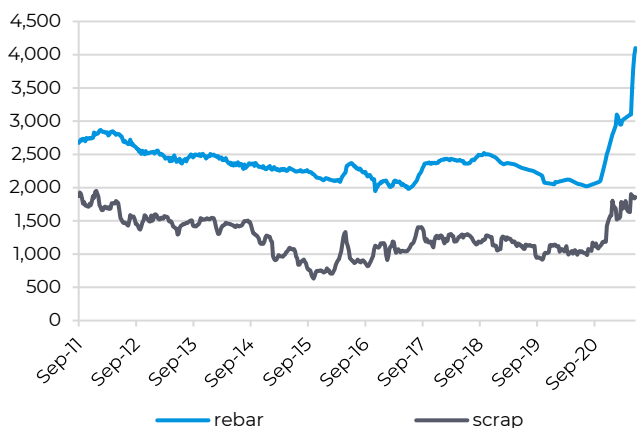
sensitivity analysis

	FCF growth in perpetuity				
	0.0%	1.0%	2.0%	3.0%	5.0%
WACC +1.0 p.p.	3.76	3.91	4.09	4.33	5.04
WACC +0.5 p.p.	3.95	4.12	4.34	4.62	5.49
WACC	4.16	4.36	4.62	4.95	6.03
WACC -0.5 p.p.	4.39	4.63	4.93	5.33	6.69
WACC -1.0 p.p.	4.65	4.93	5.29	5.77	7.53

A steady climb in rebar prices

According to the Polish Union of Steel Distributors, in June 2021 prices of steel rebar in the domestic market spiked to PLN 4,000/t, the **highest level in over a decade**. The upturn comes on the back of a rally in global steel markets, underpinned by local factors provided by construction-friendly weather.

Prices of steel rebar and scrap inputs (PLN/t)

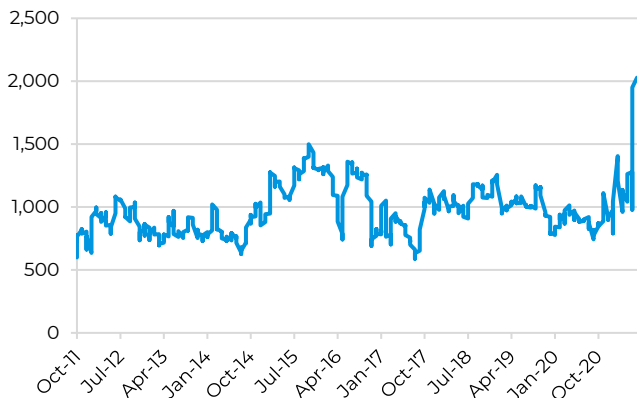


Source: PUDS, mBank

Going forward, prices are likely to remain elevated at least until 2022 thanks to infrastructure stimulus being launched this year across Europe to aid post-Covid economic recovery. In Poland, the planned **stimulus expenditure** through 2025 includes over 2,000 kilometers of new expressways and motorways, resurfacing works on 50,000 kilometers of existing roads, and construction of more than 100 bridges and ring roads. The rise in construction sites should keep demand for steel rebar high in the next five years, and with tight supply **steelmakers are poised to enjoy high sales prices** going forward.

The June rally has also affected secondary steels, but the upward momentum in this case has been much slower, resulting in **substantially higher sales margins** for steelmakers making steel in electric-arc furnaces (EAF). As of this writing, the cost-price spread has reached a new all-time high after crossing the PLN 2,000/t mark.

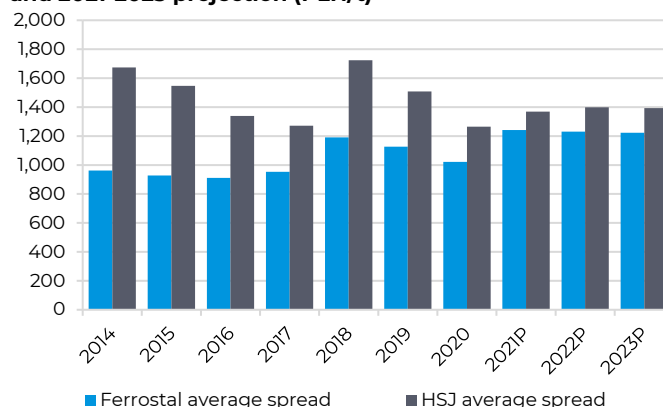
Model margin on EAF steel rebar production (PLN/t)



Source: PUDS, Bloomberg, mBank

Cognor's subsidiary rebar producer, Ferrostal, in our view is poised to register its highest-ever margins in 2021. For the sister steelmaker, Huta Stali Jakościowych (HSJ), the improvement will probably be less pronounced due to a lag in pass-through of scrap costs onto end users.

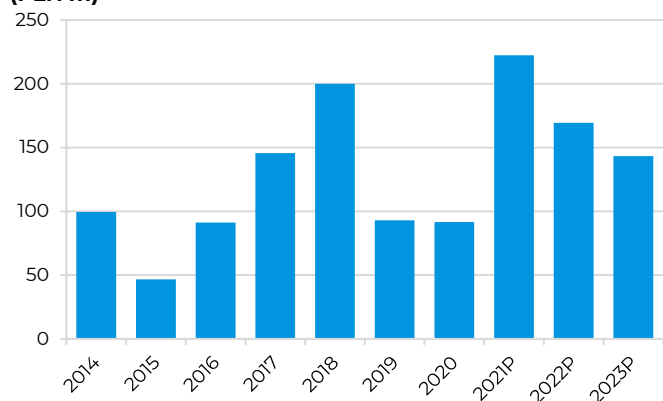
Margins achieved by Ferrostal and HSJ, historical values and 2021-2023 projection (PLN/t)



Source: Cognor, P - mBank projection

Based on expanding steel margins, we currently expect Cognor to generate **EBITDA of PLN 220m in 2021**, the highest level since 2007 when earnings nearly reached PLN 230m.

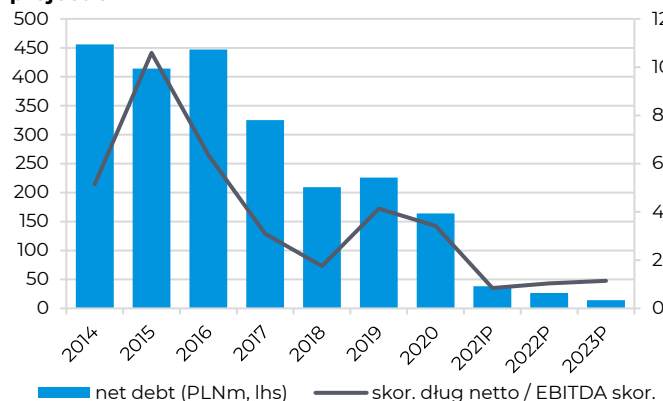
Historical EBITDA* of Cognor and 2021-2023 projection (PLN m)



Source: Cognor, P - mBank projection *adjusted values

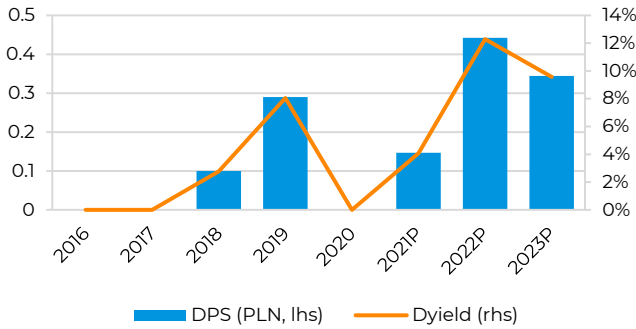
With earnings this strong, we believe Cognor will be able to bring its debt to zero, or close to it, by the end of 2021, giving rise to **increasing dividend expectations** for next year. At a payout ratio of 60% of 2021 net earnings, we believe it is not unreasonable to expect a payout of **PLN 0.44** per share in 2022, which at the current share price level would imply a dividend yield above 12%.

Net debt of Cognor, historical values and 2021-2023 projection



Source: Cognor, P - mBank projection

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

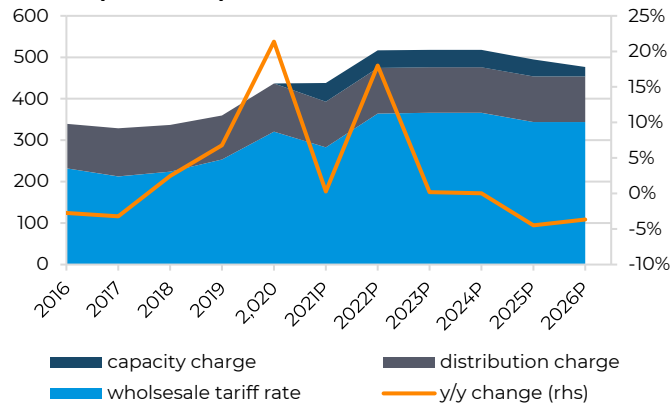


Source: Cognor, P - mBank projection

Rising electricity prices might boost costs in 2022

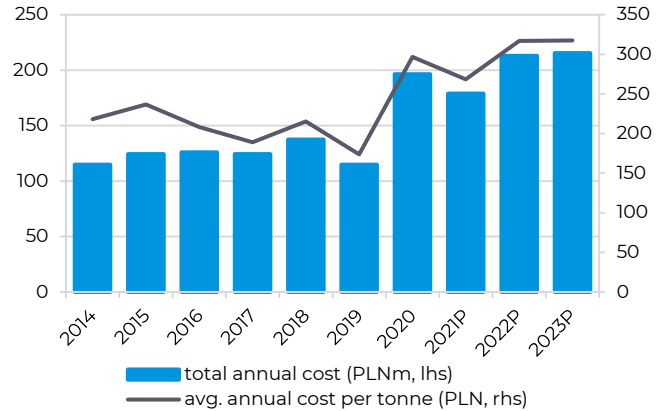
Wholesale electricity prices in Poland have been following an upward momentum which suggests higher costs for end users in 2022. We currently assume that, in 2022, the tariff rates for big commercial consumers will be hiked by 18% to PLN 517/MWh – an increase which would suggest a surge of PLN 34m in the yearly electricity costs of Cognor.

Forecast of energy tariff rates for commercial consumers to 2026 (PLN/MWh)



Source: mBank

Annual electricity costs of Cognor, historical values and 2021-2023 projection



Source: Cognor, P - mBank projection

2019-2020 Historical Results of Cognor and 2021-2023 Estimates

P&L					
(PLN m)	2019	2020	2021E	2022E	2023E
revenue	1,902	1,733	2,503	2,336	1,970
Ferrostal	873	817	1,247	1,142	959
HSJ	532	465	649	636	558
Złomrex Metal	142	137	144	147	150
other	364	328	371	339	296
COGS	1,731	1,574	2,331	2,216	1,875
D&A	46	48	49	49	47
materials & utilities	1,230	1,099	1,717	1,601	1,271
scrap steel	725	696	1,312	1,156	820
electricity	115	196	179	213	215
services	177	168	183	188	194
taxes and fees	10	10	11	11	11
payroll	182	174	179	191	197
other	7	6	7	7	6
goods	193	162	186	169	148
inv. change	-10	-37	0	0	0
D&A	46	48	50	50	48
EBIT	55	67	172	119	95
financing activity	-31	-34	-13	-13	-13
pre-tax profit	22	32	159	106	82
income tax	3	-1	30	20	16
net profit	19	33	129	86	66
EBITDA (adj.)	93	92	222	169	143
(adj.)	11	10	129	86	66

Balance Sheet

(PLN m)	2019	2020	2021E	2022E	2023E
fixed assets	487	515	496	492	484
PP&E	376	397	374	370	358
intangible assets	22	18	32	37	40
goodwill	9	9	9	9	9
current assets	564	517	763	734	659
inventory	297	274	396	369	312
accounts receivable	188	142	205	191	161
cash	79	101	162	173	186
equity	259	288	391	400	406
minority interest	18	19	19	19	19
noncurrent liab.	279	243	236	236	236
loans	250	208	200	200	200
current liabilities	482	470	597	557	470
loans	55	57	0	0	0
trade payables	427	413	597	557	470
net debt	226	164	38	27	14
net debt/EBITDA	2.24	1.44	0.17	0.16	0.10
net debt/EBITDA (adj.)	4.14	3.42	0.84	1.04	1.14

Source: Cognor, E – mBank estimates

Cash Flow

(PLN m)	2019	2020	2021E	2022E	2023E
operating CF	142	206	214	152	125
working capital	61	98	12	4	-2
investing CF	-56	-57	-50	-50	-39
CAPEX	-56	-57	-50	-50	-39
financing CF	-84	-127	-103	-90	-73
dividend	-36	0	-26	-77	-60
CF	2	22	61	12	12
OCF/EBITDA	153.3%	224.9%	96.4%	89.7%	87.3%
FCFF	199	263	264	202	165
FCFF/EV	22.9%	32.6%	38.9%	30.2%	25.1%
FCFE	122	187	201	139	112
FCFE/MCAP	19.5%	30.0%	32.3%	22.3%	18.0%
ROIC	9.8%	14.6%	30.7%	21.7%	17.5%
ROCE	10.3%	12.1%	28.9%	18.8%	14.9%
DPS	0.21	0.00	0.15	0.44	0.34
divid. payout ratio	38.4%	0.0%	254.9%	60.0%	70.0%
dividend yield	5.8%	0.0%	4.1%	12.4%	9.7%

Key Financial Ratios

	2019	2020	2021E	2022E	2023E
P/E	32.6	19.1	4.8	7.2	9.4
P/E (adj.)	55.5	61.8	4.8	7.2	9.4
EV/EBITDA	8.6	7.1	3.1	3.9	4.6
EV/EBITDA (adj.)	9.3	8.8	3.1	3.9	4.6
P/S	0.3	0.4	0.2	0.3	0.3
P/B	2.4	2.2	1.6	1.6	1.5
P/CF	4.4	3.0	2.9	4.1	5.0
P/FCFE	5.1	3.3	3.1	4.5	5.6
EBITDA margin	4.9%	5.3%	8.9%	7.3%	7.3%
y/y EBITDA change	-53.5%	-1.4%	142.7%	-23.8%	-15.4%
net margin	0.6%	0.6%	5.2%	3.7%	3.4%
y/y % EPS change	734.6%	11.3%	-92.2%	49.8%	29.6%
price (PLN)	3.56	3.56	3.56	3.56	3.56
outst. stock (mn)	175.0	175.0	175.0	175.0	175.0
mCap	623	623	623	623	623
EV	867	806	680	669	656

Macroeconomic Assumptions

	2019	2020	2021E	2022E	2023E
rolled sheet steel	2,463	2,425	4,000	3,500	2,650
rebar	2,275	2,150	3,250	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%	8.0%	7.9%	7.9%
USD/PLN	3.81	3.90	3.73	3.60	3.60
coke (US\$/t)	170	129	145	155	155
iron ore (US\$/t)	113	117	180	140	110
scrap (US\$/t)	333	313	500	470	330
BOF (US\$)	353	330	480	416	338
EAF (US\$)	371	348	558	524	368
BOF-EAF (US\$)	-18	-18	-78	-108	-30
BOF (PLN)	1,347	1,287	1,790	1,497	1,218
EAF (PLN)	1,416	1,358	2,079	1,887	1,325
scrap price (PLN/t)	1,267	1,218	1,865	1,692	1,188
second. / primary steel	52%	52%	53%	52%	44%
energy price (PLN/MWh)	360	437	438	517	518
energy use	380	450	409	412	416

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	237	219	157
avg. price (PLN/t)	930	898	1,641	1,489	1,045
discount	-27%	-26%	-12%	-12%	-12%

Source: Cognor, E – mBank estimates

Sales & margin forecast for Ferrostal rebar

revenues	2019	2020	2021E	2022E	2023E
billet	204	147	203	163	118
plain bars	72	63	100	90	73
flat bars	93	98	156	140	113
rebar	429	434	668	642	567
volumes (1k t)	2019	2020	2021P	2022P	2023P
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	2019	2020	2021P	2022P	2023P
scrap steel	930	907	1,679	1,438	1,010
billet	1,850	1,760	2,654	2,317	1,823
plain bars	2,338	2,177	3,282	2,889	2,298
flat bars	2,331	2,182	3,290	2,896	2,304
rebar	2,031	1,873	2,831	2,666	2,310
cost-price spread	2019	2020	2021P	2022P	2023P
billet	920	853	975	879	813
plain bars	1,408	1,270	1,604	1,451	1,288
flat bars	1,401	1,275	1,611	1,458	1,294
rebar	1,101	966	1,153	1,228	1,301

Sales & margin forecast for HSJ rolled steels

revenues	2019	2020	2021E	2022E	2023E
billet	166	164	204	200	175
square bar	503	444	621	608	534
volumes (1k t)	2019	2020	2021E	2022E	2023E
billet	75	76	72	74	75
square bar	158	160	165	168	171
prices	2019	2020	2021E	2022E	2023E
scrap steel	1,079	1,006	1,921	1,726	1,212
billet	2,224	2,160	2,825	2,714	2,334
square bar	3,194	2,775	3,768	3,620	3,113
cost-price spread	2019	2020	2021E	2022E	2023E
billet	1,145	1,154	904	988	1,122
square bar	2,115	1,769	1,847	1,894	1,901

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

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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mBank issued the following recommendations for Cognor in the 12 months prior to this publication:

Cognor

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

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