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Cognor: 2020 Q4 Earnings Conference Highlights

Rating: buy | target price: PLN 2.89 | current price: PLN 2.64

COG PW; COGP.WA | Industrials, Poland

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Cognor is expecting to grow earnings in 2021, and in April or May it will announce its dividend declaration. An upside catalyst could be provided in March by the European Parliament if it votes to impose a carbon tax on cheap steel imports to the EU.

- Cognor installations operated at 105% capacity in Q4 2020 vs. 123% in Q4 2019. Not including scrap, quarterly sales of steel products and semi-finished products decreased by 15% compared to the same period a year earlier.
- Cognor's scrap-based EAF process was still more profitable in Q4 2020 than production of steel in BOF mills.
- In the whole of 2020, due to tighter profit margins Cognor's operating profit decreased by PLN 98.6m. Thanks to state coronavirus relief the reduction was offset to the tune of PLN 11.9m, and with carbon subsidies also helping Cognor was able to report a PLN 20m higher profit for FY2020.
- Looking ahead into 2021, Cognor at the moment is observing stronger demand from the construction industry and from the auto industry. While BOF plants grapple with increasing costs of carbon permits, EAF steel makers are working at capacity.
- At the end of 2020 steel made with the EAF process generated higher margins after an increase in scrap prices and end-product prices.
- If prices of iron ore should fall, this would reduce costs of BOF steelmaking.
- Cognor's investment plans for 2021 include a capacity ramp-up at the Ferrostal steel plant from 375 to 550 thousand tonnes. To that end the plant will have to be closed for about four weeks, potentially during the summer period, or, if there are too many orders, the downtime can be postponed to December.
- Cognor sees room to grow earnings in 2021 provided the COVID-19 pandemic is brought under control.
- The Management Board will make their dividend recommendation in April or May 2021.
- In March '21 the European Parliament could decide on the initial shape of the so-called carbon tax on imported products that could be a significant obstacle to the import of cheap products from outside the European Union.

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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ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
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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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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