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Cognor: Forecast of 2021 Q1 Results

Rating: hold | target price: PLN 3.19 | current price: PLN 3.10

COG PW; COGP.WA | Industrials, Poland

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We expect to see an 84% rebound in Cognor's 2020 Q1 EBITDA driven by higher sales margins along with positive FIFO effects as large as PLN 15m. With growing earnings and decreasing debt, there is a strong chance that Cognor will declare a dividend payout as high as PLN 0.13 this year. Cognor is slated to release its first-quarter results on April 30, and if the Company gives bullish guidance backed by favorable market conditions we will consider raising our FY2021 forecast.

- Sales volumes in Q1 2020 probably fell by an estimated 2% after a slump in orders registered in February following on the heels of an upturn in prices of steel. Prices have not gone down since, and with peak construction season about to begin the order volume is set to bounce back in Q2 2021.
- On higher prices, the first-quarter revenue of Cognor is estimated to have risen 28% from the same period a year earlier, accompanied by higher sales margins on end steel products, in particular rebar.

- Despite a simultaneous rise in costs of scrap steels, at the rate observed in Q1 Cognor may have earned markup as large as PLN 30m vis-à-vis the year-ago spread.
- The higher market rates on scrap feedstocks likely provided one-time FIFO effects of PLN +15m in Q1 thanks to secondary metal and billet stocked up during 2020.
- After all this, we expect 2021 Q1 EBITDA to post an 84% rebound to a projected PLN 56m, and we believe net profit will increase to 33m from PLN 3m the year before.
- Cognor was probably able to reduce net debt to PLN 140m (1.2x EBITDA'12m) as of 31 March 2021, leading us to expect a high dividend payout this year and a dividend announcement potentially as soon as the first-quarter earnings conference.

2021 Q1 Estimates

(PLN m)	1Q'21E	1Q'20	change	2021E	YTD*
Revenue	587.6	460.1	27.7%	2,268.5	25.9%
EBITDA	56.2	30.5	84.3%	158.3	35.5%
margin	9.6%	6.6%		7.0%	
EBIT	43.7	19.1	129.3%	109.8	39.8%
Net income	33.0	3.0	-	78.4	42.1%

Source: Cognor, E—mBank estimates; *YTD results as a pct. of FY estimate

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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