

Thursday, September 05, 2019 | Monthly Market Outlook, an excerpt

Cognor accumulate (upgraded)

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Cognor's shareholders approved the Management Board's recommendation for a 2019 dividend payout in a total amount of PLN 36m, representing per-share dividends of PLN 0.29 and implying dividend yield close to 17%. The date of record has been pushed back to 23 October, with the payout the now scheduled for 17 January 2020. As the WSE's top high-yield dividend stock, COG looks poised for gains throughout September and October. On top of that, Cognor generated 2019 Q2 results well ahead of our expectations owing to a one-time boost of PLN 14m after receiving state compensation for this year's electricity price increases. As a result, we have raised our F2019 EBITDA estimate for the Company from PLN 109m to PLN 123m, resulting in an upward target price revision from PLN 1.84 to PLN 2.00 per share, and a rating upgrade from hold to accumulate.

Current Price	1.65 PLN	Upside
9M Target Price	2.00 PLN	+21.2%

	rating	target price	issued
new	accumulate	2.00 PLN	2019-09-05
old	hold	1.84 PLN	2019-07-25

Key Metrics			COG PW	vs. WIG
Ticker	COG PW	1M Price Chng	-1.2%	+2.5%
ISIN	PLCNTSL00014	YTD Price Chng	+3.1%	+5.7%
Outst. Stock (m)	175.0	ADTV 1M		PLN 0.1m
MC (PLN m)	288.7	ADTV 6M		PLN 0.2m
EV (PLN m)	519.7	EV/EBITDA 12M fwd	3.9	+15.0%
Free Float	-	EV/EBITDA 5Y avg	3.4	premium

Earnings Projections

(PLN m)	2017	2018	2019P	2020P	2021P
Revenue	1,789	2,082	2,004	1,900	2,086
EBITDA adj.	146	200	122	100	106
EBITDA margin	8.1%	9.6%	6.1%	5.3%	5.1%
EBIT adj.	104	156	76	50	57
Net income adj.	32	94	45	27	35
P/E adj.	9.0	3.1	6.4	10.7	8.2
P/B	0.9	1.4	1.4	1.5	1.7
EV/EBITDA adj.	4.3	2.6	4.2	5.1	4.5
DPS	0.00	0.07	0.21	0.17	0.11
DYield	0.0%	4.1%	12.5%	10.0%	6.5%

Forecast Update (% change)	2019P	2020P	2021P
Revenue	0.0%	0.0%	0.0%
EBITDA	+12.9%	0.0%	0.0%
Net income	+33.4%	0.0%	0.0%
Sales volume	0.0%	0.0%	0.0%
Product prices	0.0%	0.0%	0.0%
Scrap prices	0.0%	0.0%	0.0%

Financial Highlights

(PLN m)	2017	2018	2019P	2020P	2021P
Ferostal volume (k tons)	426	401	393	361	432
HSJ volume (k tons)	231	237	232	253	268
Złomrex volume (k tons)	131	173	176	180	183
Ferostal spread (PLN/t)	953	1,191	1,147	1,159	1,189
HSJ spread (PLN/t)	1,272	1,723	1,680	1,610	1,598
Operating cash flow	145	232	102	110	92
D&A	41	44	47	50	49
Working capital	11	44	15	17	-5
Investing cash flow	-15	-38	-50	-50	-35
CAPEX	16	38	50	50	35
Financing cash flow	-53	-196	-9	-95	-68
Dividends/Buyback	0	-12	-36	-29	-19
FCF	123	179	77	60	58
FCF/EBITDA	87%	90%	63%	60%	55%
OCF/EBITDA	103%	116%	83%	110%	86%

Key Balance Sheet Figures

(PLN m)	2017	2018	2019P	2020P	2021P
Assets	951	1,001	1,046	975	990
Fixed assets	398	379	401	393	370
Equity	225	278	290	288	305
Minority interests	225	278	290	288	305
Net debt	325	209	213	199	174
Net debt/EBITDA (x)	2.3	1.0	1.7	2.0	1.6
Net debt/Equity (x)	1.4	0.8	0.7	0.7	0.6

Relative Valuation Summary

	P/E			EV/EBITDA		
	19P	20P	21P	19P	20P	21P
Minimum	4.2	4.3	3.8	2.5	2.3	2.6
Maximum	239.2	25.7	15.6	7.7	7.0	7.3
Median	9.5	9.0	8.2	5.7	5.5	5.0
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis

(PLN m)	19P	20P	21P	22P	23P	24P	25P	26P	27P	28P	+
Sales volume	625	614	700	749	778	804	820	836	836	836	836
Product prices	2,304.4	2,213.3	2,198.3	2,209.6	2,220.4	2,231.6	2,243.7	2,255.8	2,267.8	2,279.9	2,291.9
Scrap prices	1,088	1,005	990	990	990	990	990	990	990	990	990
Revenue	2,004	1,900	2,086	2,207	2,286	2,358	2,409	2,462	2,478	2,494	2,510
EBITDA	122	100	106	94	90	86	83	81	81	83	85
EBITDA margin	6.1%	5.3%	5.1%	4.3%	3.9%	3.6%	3.5%	3.3%	3.3%	3.3%	3.4%
EBIT	76	50	57	47	43	40	38	35	34	35	37
Tax	10	6	8	6	6	5	5	5	5	5	5
CAPEX	-50	-50	-35	-36	-37	-39	-40	-43	-46	-47	-47
Working capital	15	17	-5	-5	-6	-5	-4	-4	-1	-1	-1
FCF	77	60	58	47	40	36	34	29	29	31	33
PV FCF	76	55	49	37	29	24	21	17	15	15	15
WACC	7.6%	7.7%	7.8%	7.9%	7.9%	8.0%	8.0%	8.0%	8.1%	8.1%	8.1%
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%

DCF Summary

(PLN m)	
Beta	1.2
FCF perp. growth rate	2.0%
PV FCF	338
Net debt	209
Other adj.	18
Value per share (PLN)	2.12

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	1.61
DCF Val.	50%	2.12
Implied Price		1.87
Cost of equity (9M)		7.0%
9M Target Price		2.00

List of abbreviations and ratios contained in the report:

EV – net debt + market value
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
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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mBank issued the following investment recommendations for Company in the 12 months prior to this publication

Cognor

Rating	accumulate	hold	accumulate	accumulate	overweight	neutral	underweight	neutral
Rating date	2019-09-05	2019-07-25	2019-07-03	2019-06-14	2019-06-03	2019-05-09	2019-03-05	2018-12-05
Target price (PLN)	2.00	1.84	1.84	1.79	-	-	-	-
Price on rating day	1.65	1.75	1.77	1.64	1.60	1.59	1.94	1.80

Comparable Companies Used In Relative Valuation Models

Cognor AK Steel, Alumetal, ArcelorMittal, Baoshan Iron & Steel, Commercial Metals, HeSteel, Hitachi Metals, Hyundai Steel, JFE Holdings, JSW Steel, Kloeckner & Co, Metalurgica Gerdau, Nippon Yakin Kogyo, Nucor, Olympic Steel, Outokumpu, POSCO, Salzgitter, SSAB, Steel Authority Of India, Steel Dynamics, Tata Steel, thyssenkrupp, United States Steel Corp, voestalpine

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