

Monday, 16 August 2021 | special comments

Cognor: 2021 Q2 Results

Recommendation: buy | target price: PLN 4.30 | current price: PLN 4.70

COG.PW; COGP.WA | Metallurgical Industry, Poland

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The results hit a historic high in Q2 2021, exceeding our EBITDA and net profit forecasts by 58% and 80%, respectively. Performance exceeding our forecasts after H1 2021 and good prospects for Q3 2021 imply that the annual EBITDA will exceed PLN 300 million, hitting a historic high. Cognor shares are being currently traded at 2.5-3 EV/EBITDA'21, which is still a very attractive level.

- W Consolidated sales revenue amounted to PLN 716 million in Q2 2021, exceeding our forecasts by 12%. Volume of sales of final products and semi-products stood at ca 180,000 tonnes (+7% vs our estimates and -1% YoY). Scrap sales volume stood at ca 42,000 tonnes in Q2 2021 (+20% vs our estimates and +39% YoY).
- Adjusted EBITDA stood at PLN 116 million in Q2 2021 and was 61% higher than we forecast. An increase in production spreads at Ferrostal and HSJ steelworks had a positive impact on results. A significant improvement in spreads at HSJ was a positive surprise in Q2 2021 – we had expected the margin to improve significantly mainly at Ferrostal.
- The impact of the FIFO effect on results amounted to +PLN 9.8 million vs our expectations of +PLN 15 million and -PLN 3.7 million in Q2 2020.
- In Q2 2021, the company posted PLN 3.8 million in revenue from compensation for higher costs of CO2 certificates. The amount stood at +PLN 2.5 million in Q2 2021.
- Operational cash flow stood at -PLN 24 million in Q2 2021 due to an increase in receivables and inventories resulting from higher steel prices. As a consequence of the negative operational cash flow and investments, net debt increased by PLN 50 million QoQ in Q2 2021 to PLN 177 million (0.7xEBITDA'21).
- Thanks to the much better than expected Q2 2021 results, the figures forecast by us for the whole year have almost been achieved after H1 2021 (EBITDA in 87%, net profit in 97%). We think that after the Q2 2021 results the market will expect annual EBITDA of over PLN 300 million. The figure is likely to be achieved, especially given the record-high margins on ribbed rebars that continued into Q3 2021. As a result, Cognor shares are currently being traded at 2.5-3.0 EV/EBITDA'21.

2021 Q2 Results of Cognor

(PLN m)	2Q'21	2Q'20	change	2Q'21E	differ.	2021	2020	change	YTD
revenue	716	456	57%	638	12%	2503	1733	44%	52%
EBITDA	114	39	193%	72	58%	222	114	95%	87%
EBITDA margin	16%	9%		11%		9%	7%		
EBIT	101	27	272%	59	71%	172	67	159%	97%
net profit	82	21	-	45	80%	129	33	295%	97%

Source: Cognor, E - mBank estimates

2021 Q2 Detailed Results of Cognor

(PLN m)	1Q'19	2Q'19	3Q'19	4Q'19	1Q'20	2Q'20	3Q'20	4Q'20	1Q'21	2Q'21	YoY	2Q'21E	differ.
revenue	520	516	400	466	460	456	372	445	584	716	57%	638	12%
EBITDA adj.	25	36	13	19	28	29	12	23	75	116	301%	72	61%
one-offs	2	7	4	0	2	10	10	0	5	-2	-	0	-
OCF	-49	81	29	82	40	53	27	86	53	-24	-146%	40	-161%
net debt	332	286	286	226	260	226	218	164	126	177	-22%	74	139%

Source: Cognor, E - mBank estimates



List of abbreviations and ratios contained in the report:

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

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