

Friday, April 09, 2021 | Monthly Market Outlook, an excerpt

## Cognor hold (downgraded)

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After its 2020 Q4 results turned out better than expected, in FY2021 Cognor is eyeing higher profits driven by strong demand for steel used for infrastructure projects and automaking, accompanied by stronger sales margins on core products. The Company wants to return to regular dividend payments this year, and it expects to declare the size of the 2021 payout in April or May (we are anticipating DPS of PLN 0.13). An upcoming development that represents a potential opportunity for Cognor and other European steel makers is the passing by the European Parliament of a so-called 'carbon tax' on products imported to the EU which could greatly reduce competitive pressures in local steel markets. With all that said, shares in Cognor have overshot our price target after skyrocketing more than 240% since our August 2020 buy recommendation, prompting a downgrade to hold with an unchanged target price.

<b>Current Price</b>	3.16 PLN	<b>Upside</b>
<b>9M Target Price</b>	3.19 PLN	<b>+0.9%</b>

	rating	target price	issued
<b>new</b>	<b>hold</b>	<b>3.19 PLN</b>	<b>2021-04-09</b>
<b>old</b>	buy	3.19 PLN	2021-03-05
<b>Key Metrics</b>		<b>COG PW</b>	<b>vs. WIG</b>
Ticker	COG PW	1M Price Chng	+8.6% +6.7%
ISIN	PLCNTSL00014	YTD Price Chng	+80.6% +76.3%
Outst. Stock (m)	175.0	ADTV 1M	PLN 0.9m
MC (PLN m)	552.9	ADTV 6M	PLN 0.5m
EV (PLN m)	640.9	EV/EBITDA 12M fwd	4.1 +9.9%
Free Float	32.9%	EV/EBITDA 5Y avg	3.8 premium

### Earnings Projections

(PLN m)	2019	2020	2021P	2022P	2023P
Revenue	1,902	1,733	2,268	2,205	2,036
EBITDA adj.	93	92	158	125	120
EBITDA margin	4.9%	5.3%	7.0%	5.7%	5.9%
EBIT adj.	47	44	110	78	74
Net income adj.	11	10	78	52	50
P/E adj.	49.3	54.8	7.1	10.6	11.2
P/B	2.1	1.9	1.6	1.6	1.5
EV/EBITDA adj.	8.6	8.0	4.0	5.0	5.0
DPS	0.21	0.00	0.13	0.27	0.21
DYield	6.5%	0.0%	4.1%	8.5%	6.6%
<b>Forecast Update (% change)</b>			<b>2021P</b>	<b>2022P</b>	<b>2023P</b>
Revenue			0.0%	0.0%	0.0%
EBITDA			0.0%	0.0%	0.0%
Net income			0.0%	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)	2019	2020	2021P	2022P	2023P
Ferostal volume (k tons)	424	424	435	436	437
HSJ volume (k tons)	237	238	246	251	256
Zlomrex volume (k tons)	142	137	144	147	150
Ferostal spread (PLN/t)	1,127	1,022	1,098	1,093	1,113
HSJ spread (PLN/t)	1,508	1,265	1,252	1,234	1,250
<b>Operating cash flow</b>	<b>142</b>	<b>206</b>	<b>161</b>	<b>116</b>	<b>106</b>
D&A	46	48	49	47	45
Working capital	61	98	11	4	-1
<b>Investing cash flow</b>	<b>-56</b>	<b>-57</b>	<b>-30</b>	<b>-36</b>	<b>-37</b>
CAPEX	56	57	30	36	37
<b>Financing cash flow</b>	<b>-84</b>	<b>-127</b>	<b>-100</b>	<b>-60</b>	<b>-50</b>
Dividends/Buyback	-36	0	-23	-47	-37
FCF	102	157	121	81	70
FCF/EBITDA	101%	138%	76%	65%	58%
OCF/EBITDA	141%	180%	102%	93%	89%

### Key Balance Sheet Figures

(PLN m)	2019	2020	2021P	2022P	2023P
Assets	1,052	1,031	1,153	1,143	1,115
Fixed assets	487	515	477	462	455
Equity	259	288	343	349	362
Minority interests	259	288	343	349	362
Net debt	226	164	69	48	29
Net debt/EBITDA (x)	2.2	1.4	0.4	0.4	0.2
Net debt/Equity (x)	0.9	0.6	0.2	0.1	0.1

### Relative Valuation Summary

	P/E			EV/EBITDA		
	21P	22P	23P	21P	22P	23P
Minimum	7.1	7.6	7.6	4.0	2.9	2.9
Maximum	24.0	101.4	34.9	34.8	9.8	8.1
Median	12.5	11.9	11.0	6.3	5.9	6.1
Weight	17%	17%	17%	17%	17%	17%

### DCF Analysis

(PLN m)	21P	22P	23P	24P	25P	26P	27P	28P	29P	30P	+
Sales volume	680	686	693	700	707	713	711	709	706	706	706
Product prices	2,440	2,358	2,174	2,091	2,091	2,091	2,094	2,097	2,098	2,098	2,098
Scrap prices	1,602	1,512	1,260	1,152	1,152	1,152	1,152	1,152	1,152	1,152	1,152
Revenue	2,268	2,205	2,036	1,969	1,985	2,002	2,003	2,005	2,001	2,005	2,008
EBITDA	158	125	120	105	101	103	100	97	96	93	90
EBITDA margin	7.0%	5.7%	5.9%	5.4%	5.1%	5.1%	5.0%	4.8%	4.8%	4.6%	4.5%
EBIT	110	78	74	61	58	60	56	54	54	49	46
Tax	18	12	12	9	9	9	8	8	8	7	6
CAPEX	-30	-36	-37	-38	-39	-40	-43	-43	-42	-41	-43
Working capital	11	4	-1	0	0	0	0	0	0	0	0
FCF	121	81	70	58	54	54	49	46	46	45	42
PV FCF	113	69	54	41	35	31	26	22	20	18	18
WACC	9.1%	9.2%	9.4%	9.5%	9.6%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%
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	429
Net debt	164
Other adj.	19
<b>Value per share (PLN)</b>	<b>2.65</b>

### Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	3.31
DCF Val.	50%	2.65
Implied Price		2.98
Cost of equity (9M)		7.2%
<b>9M Target Price</b>		<b>3.19</b>

**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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**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.

**mBank issued the following investment recommendations for the Company in the 12 months prior to this publication**
**Cognor**

Rating	hold	buy	buy	buy	buy	buy	hold
Rating date	2021-04-09	2021-03-05	2021-02-10	2020-12-08	2020-09-25	2020-08-04	2020-04-22
Target price (PLN)	3.19	3.19	2.89	2.29	2.03	1.98	0.94
Price on rating day	3.16	2.55	2.15	1.25	1.10	0.93	0.95

**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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