

Friday, March 05, 2021 | update

Cognor: buy (reiterated)

COG PW; COGP.WA | Steel, Poland

More Upside Ahead

After its 2020 Q4 results turned out better than expected, in 2021 Cognor is eyeing growing profits driven by stronger demand for steel for infrastructure projects and automaking, and expanding margins on sales. The Company wants to return to paying dividends this year, and it expects to declare the size of the 2021 payout in April or May (we expect DPS of PLN 0.13). In March the European Parliament could decide on the initial shape of the so-called carbon tax on products imported to the EU that is likely to reduce competitive pressures on local steel makers like Cognor. We have updated our models for Cognor to adjust for lower-than-expected FY2020 ending net debt and assumed interest payments, and to reflect increased earnings expectations. After correcting also for increased valuations of Cognor's peer group, we raise our target price from PLN 2.89 to PLN 3.19 and we maintain a buy recommendation for COG even after the over-170% rally the stock has witnessed since we first turned bullish on it in August 2020.

2020 Q4 Results

Cognor's 2020 Q4 EBITDA exceeded our forecast by 51% with barely any help from one-time profits (PLN 0.4m). After increasing operating cash flow over the previous year, net debt as of 31 December 2020 ended up lower at PLN 164m, equivalent to a low 1.4x 12M EBITDA. The better-than-expected leverage ratio added PLN 0.26 to our per-share valuation of Cognor.

Favorable Outlook for H1 2021

Cognor at three months 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.

Plans to Ramp Up Smelter Capacity

Cognor's investment plans for 2021 include a capacity ramp-up at the Ferrostal steel plant, the most profitable of its smelters, 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.

(PLN m)	2019	2020	2021E	2023E	2023E
Revenue	1,901.6	1,733.2	2,268.5	2,205.0	2,036.0
EBITDA (adj.)	92.9	91.6	158.3	125.1	119.7
EBITDA margin (adj.)	4.9%	5.3%	7.0%	5.7%	5.9%
EBIT (adj.)	46.7	43.9	109.8	77.6	74.2
Net profit (adj.)	11.2	10.1	78.4	52.3	49.6
P/E (adj.)	39.8	44.3	5.7	8.5	9.0
P/CE	6.8	5.6	3.5	4.5	4.7
P/B	1.7	1.6	1.3	1.3	1.2
EV/EBITDA (adj.)	7.4	6.9	3.4	4.1	4.1
DPS	0.21	0.00	0.13	0.27	0.21
Dividend Yield	8.1%	0.0%	5.1%	10.5%	8.2%

*2019-2023E ratios assume full dilution

Current Price	PLN 2.55
Target Price	PLN 3.19
Market Cap	PLN 446m
Free Float	PLN 98m
ADTV (3M)	PLN 1.1m

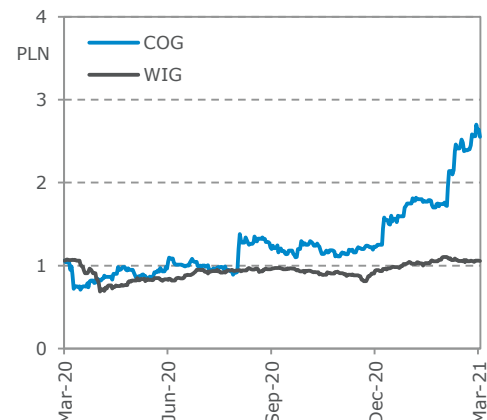
Ownership

PS HoldCo Sp. z o.o	66.73%
The Troesh Family Foundations	11.34%
Others	21.93%

About

Cognor is a Polish steel producer with a share of 6% overall in the domestic market and a 15% share in EAF steelmaking. The company owns two steel mills: 'Ferrostal Łąbędy' focuses on the production of round and square bars in electric arc furnaces, and 'Huta Stali Jakościowych' produces long and flat products from quality steel. Cognor's total production capacity is 636,000 tonnes, set to increase to 850,000t in 2021. Cognor operates its own scrap buying centers which cover about 50% of its steel scrap needs.

COG vs. WIG



Company	Target Price		Rating	
	new	old	new	old
Cognor	3.19	2.89	buy	buy

Company	Current Price	Target Price	Upside
Cognor	2.55	3.19	+25.3%

Forecast Revision	2021E	2022E	2023E
Revenue	0.0%	+0.1%	+0.1%
EBITDA	+0.5%	+2.4%	+0.5%
Net profit	+6.2%	+11.7%	+9.3%
Sales volume	-1.3%	-1.3%	-1.2%
Sales price	-0.5%	-0.5%	-0.4%
Costs of scrap inputs	0.0%	0.0%	0.0%

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Key Risks

Cyclicality in the Steel Sector

Steel is a cyclical industry, highly sensitive to economic fluctuations. Steelmakers that use the basic oxygen process do not have option to quickly put furnaces on idle to adjust to demand shocks, and as a result they tend to sell off production at any price they can get during periods of slowdown. This can put a squeeze on global prices and have destructive consequences for the profitability of other producers, including EAF-based steel, as well as negatively impacting distributors.

Environmental Regulations

Increasing restrictions on emissions of greenhouse gases and pollution into the atmosphere have put pressure on European steel producers in recent years, underpinned by competitive pressures coming from China and the former Soviet Republics, where local steel industries enjoy backing and protections from their respective governments. Since 2016, the pressures are being mitigated by higher duties placed on steel imports into the EU.

Cognor purchased approximately 10% of required emission allowances at market prices through to the end of 2019. At a €1 price per tonne of carbon emissions, the cost per tonne of end-product is approximately 1 zloty, subject to fluctuations in line with price movements in the emissions trading market. With this in mind, the CO₂ emissions generated by the scrap-based EAF technology of steelmaking are currently 4 times less than the amount of carbon dioxide released by basic oxygen facilities.

In the future EU producers could benefit from a carbon tax on imports which would be a game changer for local steelmakers from the point of view of competition.

Competitive Pressures

Whenever there is a downward shift in the prices of iron ore and metallurgical coal, which serve as feedstocks for BOF steel production, through reduced costs BOF-made steel products can gain a competitive price advantage over EAF steel.

Undersupply of Feedstocks

During extended periods of high margins on scrap-fed steel production, producers might feel encouraged to eliminate bottlenecks and ramp up their scrap-processing capacities, potentially causing upward pressure on the prices of secondary steels.

Stock Dilution

Bondholders currently hold an estimated €17.3m in Exchangeable Notes of Cognor, which, if a substantial part of them is converted at once, could have a negative effect on the price of the Company's shares. We see resistance at around PLN 1.61 per share, the current conversion price of the equity warrants that would be issued to the bondholders if they decided to convert today.

Excessive Leverage

In the past, Cognor has been known to use sizable debt issues to raise financing for M&A deals as part of ambitious growth plans. A policy of financing growth with debt could lead to excessive leverage if Cognor decides to take advantage of acquisition opportunities in the future.

Increasing Energy Costs

Electricity accounts for about 10% of Cognor's total annual operating expenses, but this proportion could increase in the event of any upward shifts in the energy market.

Over-Reliance On One Customer

In 2013, Cognor's two steel plants, HSJ and Ferrostal, at times generated from 11% to as much as 20% of their revenues from one single customer. The Company has since been able to reduce these proportions, with no one customer accounting for more than 10% of sales at either plant.

The Coronavirus Epidemic

Global lockdown measures introduced to contain the spread of the coronavirus epidemic have included closures of car manufacturing plants, which are the second-largest buyer of steel in the world. The resulting fall-off in orders forced steelmakers to drastically cut back production for a time during 2020.

Valuation

We used discounted cash flow analysis and relative valuation to assess the value of Cognor, and we set our new 9-month price target for the stock at 3.19 per share.

(PLN)	weight	price
Relative Valuation	50%	3.31
DCF Analysis	50%	2.65
		price 2.98
	9M target price	3.19

Relative Valuation

We compared Cognor's trading multiples with the multiples of comparable international steel producers and distributors. The peer group also includes the Polish aluminum producer Alumetal, which also uses recycled metal as its feedstock

material. We applied a 20% discount to Cognor's valuation vs. the peer group to reflect convertible bonds and the volatility of the Company's earnings depending on the performance of steel scrap and metal markets.

Multiples Comparison

	Country	P/E			EV/EBITDA		
		2021E	2022E	2023E	2021E	2022E	2023E
ALUMETAL SA	Poland	15.0	13.3	-	9.0	8.1	8.1
ARCELORMITTAL	Luxembourg	7.1	8.5	8.7	4.1	4.4	4.2
BAOSHAN IRON & STEEL CO-A	China	12.5	11.3	-	5.1	4.6	-
COMMERCIAL METALS CO	USA	15.3	13.9	14.6	7.2	6.7	6.4
HITACHI METALS LTD	Japan	-	39.0	21.4	34.8	9.8	7.8
HYUNDAI STEEL CO	South Korea	24.0	15.5	12.8	8.0	7.2	4.3
JFE HOLDINGS INC	Japan	-	8.9	7.6	12.6	7.5	7.1
JSW STEEL LTD	India	14.7	10.7	10.6	8.7	7.1	6.3
KLOECKNER & CO SE	Germany	20.9	16.8	10.8	5.5	4.9	-
METALURGICA GERDAU SA-PREF	Brazil	9.1	10.1	-	4.0	3.7	-
NIPPON YAKIN KOGYO CO LTD	Japan	10.9	9.4	-	-	-	-
NUCOR CORP	USA	11.8	18.7	14.2	6.3	8.6	6.8
OLYMPIC STEEL INC	USA	18.3	25.2	-	-	-	-
OUTOKUMPU OYJ	Finland	21.1	11.5	9.9	6.7	5.4	4.7
POSCO	South Korea	10.6	9.5	8.6	4.9	4.4	2.9
SALZGITTER AG	Germany	12.0	8.4	8.2	5.1	4.6	6.0
SSAB AB-A SHARES	Sweden	12.5	11.9	11.2	5.3	4.9	4.7
STEEL AUTHORITY OF INDIA	India	7.2	7.6	8.3	5.6	5.7	5.9
STEEL DYNAMICS INC	USA	10.6	15.5	11.9	6.6	7.9	6.5
TATA STEEL LTD	India	12.5	7.9	8.5	6.9	5.9	5.8
THYSSENKRUPP AG	Germany	-	32.6	19.9	4.5	2.9	3.5
UNITED STATES STEEL CORP	USA	9.2	101.4	34.9	5.5	7.8	6.6
VOESTALPINE AG	Austria	-	17.1	14.4	9.8	6.5	6.1
Maximum		24.0	101.4	34.9	34.8	9.8	8.1
Minimum		7.1	7.6	7.6	4.0	2.9	2.9
Median		12.5	11.9	11.0	6.3	5.9	6.1
Cognor		5.7	8.5	9.0	3.4	4.1	4.1
premium / discount		-54.3%	-28.3%	-18.3%	-46.5%	-30.4%	-32.2%

Implied Valuation

Median	12.5	11.9	11.0	6.3	5.9	6.1
Discount	20%	20%	20%	20%	20%	20%
Multiple weight		50%			50%	
Year weight	33%	33%	33%	33%	33%	33%

Value per share (PLN) 3.31

Additional Assumptions

Historical sales of Ferrostal steel rebar unit and future projections

Sales volumes (1,000t)	2016	2017	2018	2019	2020	2021P	2022P	2023P	2024P
Billet	85.3	119.2	81.8	110.3	83.3	76.6	70.5	64.9	59.7
Plain bars	29.3	30.0	30.3	30.9	29.1	32.5	33.2	33.9	34.5
Flat bars	61.4	48.1	44.1	39.9	45.1	50.5	51.5	52.5	53.6
Squares	7.7	6.5	8.3	8.7	8.9	10.0	10.2	10.4	10.6
Rebar	188.1	202.1	213.7	211.1	231.5	236.1	240.8	245.6	250.5
Angles	24.9	17.5	22.3	22.0	23.0	25.8	26.3	26.8	27.4
Other	6.6	3.1	1.1	1.5	2.7	3.1	3.1	3.2	3.2
Avg. spread (PLN/t)	2016	2017	2018	2019	2020	2021P	2022P	2023P	2024P
Steel billet	718	878	1,046	920	853	806	808	872	889
Plain bars	1,121	1,069	1,365	1,408	1,270	1,320	1,304	1,333	1,332
Flat bars	1,158	1,075	1,386	1,401	1,275	1,326	1,310	1,338	1,338
Squares	1,131	1,048	1,342	1,331	1,184	1,214	1,201	1,238	1,241
Rebar	823	937	1,151	1,101	966	1,078	1,067	1,063	1,068
Angles	1,170	1,050	1,397	1,403	1,256	1,302	1,287	1,317	1,317
Other	1,421	1,117	1,892	1,643	1,587	1,710	1,681	1,683	1,669

Source: mBank estimates

Historical sales of HSJ rolled steel unit and future projections

Sales volumes (1,000t)	2016	2017	2018	2019	2020	2021P	2022P	2023P	2024P
Billet	40.5	66.2	58.7	74.7	76.0	72.2	73.6	75.1	76.6
Bars	153.7	156.5	175.6	157.6	159.9	171.1	174.6	178.1	181.6
Thick sheet	5.7	7.7	1.6	3.7	1.4	1.4	1.4	1.5	1.5
Thin sheet	0.6	0.5	0.7	0.5	0.5	0.6	0.6	0.6	0.6
Other	0.6	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Avg. spread (PLN/t)	2016	2017	2018	2019	2020	2021P	2022P	2023P	2024P
Billet	979	1,176	1,486	1,145	1,154	940	943	1,022	1,044
Bars	1,553	1,709	2,192	2,115	1,769	1,673	1,651	1,680	1,676
Thick sheet	1,885	1,742	3,446	2,589	2,886	3,004	2,936	2,873	2,823
Thin sheet	10,284	9,897	10,307	9,970	10,746	12,370	11,979	11,270	10,898
Other	20,891	24,078	22,173	19,436	18,961	22,159	21,431	20,047	19,337

Source: mBank estimates

Steel Market Historical Data and 2021-2024 Forecast

	2016	2017	2018	2019	2020	2021P	2022P	2023P	2024P
Price of rolled sheet steel (PLN/t)	1,919	2,417	2,588	2,463	2,425	2,900	2,800	2,600	2,550
Price of HEB sections (PLN/t)	2,240	2,282	2,614	2,593	2,489	3,000	2,900	2,750	2,600
Price of rebar (PLN/t)	2,170	2,139	2,439	2,275	2,150	2,800	2,700	2,450	2,350
Steel production in Poland (mmt)	8.9	10.3	10.3	9.1	7.9	8.3	8.5	8.6	8.8
Cognor's market share	166	169	169	157	139	153	157	159	161
USD/PLN	3.94	3.78	3.61	3.83	3.91	3.60	3.60	3.60	3.60
Coke price (US\$/t)	119	179	193	170	127	155	160	155	155
Iron ore price (US\$/t)	59	72	70	102	106	140	100	85	85
Scrap price (US\$/t)	215	282	343	297	277	445	420	350	320
BOF (US\$/t)	212	282	299	327	303	410	344	303	296
EAF (US\$/t)	239	315	383	331	308	496	468	390	357
BOF-EAF (US\$/t)	-28	-33	-83	-4	-5	-86	-124	-88	-61
BOF (PLN/t)	835	1,066	1,081	1,253	1,186	1,478	1,239	1,089	1,066
EAF (PLN/t)	944	1,190	1,381	1,267	1,206	1,786	1,686	1,405	1,284
Scrap price (PLN/t)	847	1,067	1,238	1,136	1,082	1,602	1,512	1,260	1,152

Source: mBank estimates

DCF Valuation

Assumptions:

- Beta = 1.2; the higher value is related to the high cyclicality of activity conducted by Cognor. In addition,

a higher discount is warranted by the substantial equity overhang if bondholders convert warrants to shares.

- Cash flow is discounted as of the end of February 2021.
- Net debt is as at year-end 2020

DCF Model

(PLN m)	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P	2030P	+
Revenue	2,268.5	2,205.0	2,036.0	1,968.6	1,984.7	2,001.9	2,002.8	2,004.5	2,001.5	2,004.9	2,008.4
change	30.9%	-2.8%	-7.7%	-3.3%	0.8%	0.9%	0.0%	0.1%	-0.2%	0.2%	0.2%
EBITDA	158.3	125.1	119.7	105.4	101.3	102.9	99.9	96.6	95.7	92.8	89.7
EBITDA margin	7.0%	5.7%	5.9%	5.4%	5.1%	5.1%	5.0%	4.8%	4.8%	4.6%	4.5%
D&A expenses	48.6	47.5	45.5	44.0	43.2	43.0	43.4	43.0	42.2	43.8	43.8
EBIT	109.8	77.6	74.2	61.4	58.1	59.9	56.5	53.6	53.5	49.0	45.9
EBIT margin	4.8%	3.5%	3.6%	3.1%	2.9%	3.0%	2.8%	2.7%	2.7%	2.4%	2.3%
Tax on EBIT	18.4	12.3	11.6	9.2	8.6	8.9	8.3	7.7	7.7	6.8	6.2
NOPLAT	91.4	65.3	62.6	52.2	49.6	51.0	48.2	45.9	45.8	42.1	39.6
CAPEX	-30.2	-35.8	-37.3	-37.9	-38.8	-40.2	-43.0	-42.6	-42.1	-41.3	-42.9
Working capital	11.3	4.2	-0.8	-0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
FCF	121.0	81.2	70.0	58.0	54.0	53.9	48.7	46.4	45.9	44.7	41.5
WACC	9.1%	9.2%	9.4%	9.5%	9.6%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%
discount factor	0.93	0.85	0.78	0.71	0.64	0.58	0.53	0.48	0.44	0.40	0.37
PV FCF	112.6	69.0	54.2	40.9	34.6	31.4	25.8	22.5	20.3	18.0	15.2

WACC	9.1%	9.2%	9.4%	9.5%	9.6%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%
Cost of debt	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
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%
Risk premium	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Net debt / EV	13.1%	9.6%	6.0%	4.1%	1.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of equity	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2

FCF growth after the forecast period	2.0%
Terminal value	539.6
Present value of terminal value	217.1
Present value of FCF in the forecast period	429.3
Enterprise value	646.4
Net debt	164.0
Minority interests	19.3
Equity value	463.2
Shares outstanding (millions)	175.0
Equity value per share (PLN)	2.65
9M cost of equity	7.2%
9M target price (PLN)	2.84

EV/EBITDA ('21) at target price	3.7
P/E('21) at target price	6.3
TV / EV	33.6%

Sensitivity Analysis

	FCF growth in perpetuity				
	0.0%	1.0%	2.0%	3.0%	5.0%
WACC +1.0 p.p.	2.30	2.39	2.50	2.64	3.06
WACC +0.5 p.p.	2.42	2.53	2.66	2.82	3.35
WACC	2.56	2.68	2.84	3.04	3.69
WACC -0.5 p.p.	2.72	2.86	3.04	3.28	4.10
WACC -1.0 p.p.	2.89	3.05	3.27	3.57	4.63

Earnings History and Future Projections

(PLN m)	2016	2017	2018	2019	2020	2021P	2022P	2023P	2024P
Revenue	1,352.4	1,901.6	2,081.8	1,901.6	1,733.2	2,268.5	2,205.0	2,036.0	1,968.6
change	-0.9%	40.6%	9.5%	-8.7%	-8.9%	30.9%	-2.8%	-7.7%	-3.3%
Ferrostal	678.4	838.8	916.6	872.9	817.0	1,068.8	1,035.8	955.1	923.4
HSJ	400.2	471.8	623.7	532.3	464.9	591.4	582.5	551.7	541.1
Złomrex Metal	95.0	130.9	172.8	141.8	137.4	144.3	147.2	150.1	153.1
Other	202.3	454.1	355.5	364.5	327.9	404.8	390.9	362.8	348.9
D&A expenses	37.9	41.3	43.9	45.6	47.7	47.7	46.6	44.6	43.1
Materials & utilities	747.2	1,129.9	1,364.5	1,229.5	1,098.9	1,523.9	1,485.9	1,326.0	1,268.4
of which scrap metal	527.3	761.9	807.6	725.1	695.7	1,107.6	1,055.3	888.6	821.6
of which electricity	126.0	124.4	137.4	114.9	191.1	184.9	193.4	196.3	201.6
Third-party services	228.4	152.5	170.6	177.0	167.7	185.7	191.2	197.0	203.1
Taxes and fees	9.2	10.8	11.9	10.0	9.6	10.4	10.1	9.9	9.8
Payroll	136.2	161.3	183.6	181.6	174.0	182.0	191.4	196.5	201.8
Other costs	4.3	4.7	6.2	7.1	6.3	6.5	6.6	6.5	6.5
Cost of goods sold	148.8	201.8	227.2	192.9	161.9	202.4	195.4	181.4	174.5
Change in inventories	14.4	13.0	79.5	-10.2	-36.6	0.0	0.0	0.0	0.0
COGS	1,209.7	1,573.0	1,805.5	1,730.6	1,574.3	2,158.7	2,127.4	1,961.8	1,907.2
Selling expenses	50.0	65.8	76.7	75.3	81.8	90.6	93.2	96.0	99.0
Administrative expenses	37.9	50.5	46.0	48.1	46.7	47.6	48.6	49.6	50.5
Other operating gains/losses	1.7	-0.7	2.6	6.9	36.1	0.0	0.0	0.0	0.0
One-time events	3.4	-5.2	0.0	7.9	22.6	0.0	0.0	0.0	0.0
EBIT	56.5	99.2	156.2	54.6	66.5	109.8	77.6	74.2	61.4
change	329.9%	75.5%	57.5%	-65.1%	21.9%	65.0%	-29.3%	-4.4%	-17.2%
EBIT margin	4.2%	5.2%	7.5%	2.9%	3.8%	4.8%	3.5%	3.6%	3.1%
EBIT (adj.)	53.1	104.4	156.2	46.7	43.9	109.8	77.6	74.2	61.4
EBITDA (adj.)	91.2	145.7	200.0	92.9	91.6	158.3	125.1	119.7	105.4
Net financing gains/losses	-63.0	-31.2	-62.8	-30.8	-34.3	-13.0	-13.0	-13.0	-13.0
Interest expenses	45.9	52.0	38.3	20.9	19.1	13.0	13.0	13.0	13.0
Income from bond repurchase	-10.5	20.8	-25.1	0.0	-6.0	0.0	0.0	0.0	0.0
FX gains / losses									
Pre-tax profit	-6.4	68.1	92.8	22.3	32.3	96.8	64.6	61.2	48.4
Tax	7.9	18.1	20.7	2.6	-1.3	18.4	12.3	11.6	9.2
Minority interests	0.1	2.3	3.5	0.7	0.9	0.0	0.0	0.0	0.0
Net profit	1.5	47.6	68.5	19.1	32.7	78.4	52.3	49.6	39.2
change	-	3019.5%	44.0%	-72.1%	71.0%	139.9%	-33.3%	-5.3%	-20.9%
margin	0.1%	2.5%	3.3%	1.0%	1.9%	3.5%	2.4%	2.4%	2.0%
Net profit (adj.)	8.6	31.9	93.7	11.2	10.1	78.4	52.3	49.6	39.2
D&A expenses	38.1	41.3	43.9	46.2	47.7	48.6	47.5	45.5	44.0
EBITDA	94.6	140.5	200.1	100.8	114.2	158.3	125.1	119.7	105.4
change	93.0%	48.6%	42.4%	-49.6%	13.3%	38.6%	-21.0%	-4.3%	-11.9%
EBITDA margin	7.0%	7.4%	9.6%	5.3%	6.6%	7.0%	5.7%	5.9%	5.4%
Shares outstanding at eop (millions)	75.3	175.0	175.0	175.0	175.0	175.0	175.0	175.0	175.0
EPS	0.0	0.3	0.4	0.1	0.2	0.4	0.3	0.3	0.2
CEPS	0.5	0.5	0.6	0.4	0.5	0.7	0.6	0.5	0.5
ROAE	1.1%	21.1%	24.6%	7.4%	11.4%	22.8%	15.0%	13.7%	10.7%
ROAA	0.2%	5.0%	6.8%	1.8%	3.2%	6.8%	4.6%	4.4%	3.6%

Balance Sheet

(PLN m)	2016	2017	2018	2019	2020	2021P	2022P	2023P	2024P
ASSETS	895.3	950.7	1,001.4	1,051.7	1,031.2	1,153.2	1,143.0	1,114.6	1,102.6
Fixed assets	424.9	398.5	379.3	487.2	514.5	477.3	462.1	454.8	449.7
Intangible assets	11.9	13.0	18.0	22.3	18.1	29.8	33.1	36.6	40.1
Property, plant and equipment	292.8	285.9	284.6	375.6	397.4	357.4	343.3	332.6	323.9
Equity value	15.2	15.2	8.9	8.9	8.9	8.9	8.9	8.9	8.9
Noncurrent receivables	20.1	26.0	23.3	40.9	41.3	41.3	41.3	41.3	41.3
Noncurrent investments	8.1	3.4	2.8	1.3	8.3	8.3	8.3	8.3	8.3
Noncurrent prepayments	92.1	70.2	50.6	47.2	49.4	40.5	36.0	36.0	36.0
Current assets	470.4	552.2	622.1	564.5	516.7	675.9	680.9	659.8	652.9
Inventory	297.7	277.5	377.0	297.0	274.1	358.8	348.7	322.0	311.3
Current receivables	137.0	171.9	168.0	188.3	141.7	185.4	180.2	166.4	160.9
Current investments	8.7	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Cash	25.0	102.0	76.5	79.0	100.6	131.3	151.5	171.0	180.3
Current prepayments	1.9	0.8	0.7	0.0	0.2	0.3	0.3	0.3	0.3

(PLN m)	2016	2017	2018	2019	2020	2021P	2022P	2023P	2024P
EQUITY & LIABILITIES	895.3	950.7	1,001.4	1,051.7	1,031.2	1,153.2	1,143.0	1,114.6	1,102.6
Equity	142.1	225.3	278.2	258.8	287.8	343.4	348.7	361.6	366.2
Share capital	150.5	177.9	180.6	185.9	185.9	185.9	185.9	185.9	185.9
Supplementary capital	184.6	221.0	86.7	87.0	101.4	101.4	101.4	101.4	101.4
Retained earnings	-193.1	-173.6	10.8	-14.2	0.4	56.0	61.3	74.3	78.8
Minority interest	13.8	16.5	17.7	18.4	19.3	19.3	19.3	19.3	19.3
Non-current liabilities	410.7	388.8	258.4	279.3	243.5	235.8	235.8	235.8	235.8
Debt	376.4	358.0	229.2	249.7	207.7	200.0	200.0	200.0	200.0
Current liabilities	319.3	316.6	435.9	481.9	470.3	541.1	526.0	485.7	469.6
Trade payables	223.7	247.4	379.2	426.7	413.4	541.1	526.0	485.7	469.6
Debt	95.6	69.1	56.7	55.2	56.9	0.0	0.0	0.0	0.0
Provisions for liabilities	3.1	3.4	4.4	0.2	0.0	0.0	0.0	0.0	0.0
Other	6.3	0.1	6.8	13.1	10.4	13.6	13.2	12.2	11.8

Debt	472.0	427.1	285.9	304.8	264.5	200.0	200.0	200.0	200.0
Net debt	447.0	325.1	209.4	225.9	164.0	68.7	48.5	29.0	19.7
Net Debt / Equity	314.5%	144.3%	75.3%	87.3%	57.0%	20.0%	13.9%	8.0%	5.4%
Net Debt/ EBITDA	4.7	2.3	1.0	2.2	1.4	0.4	0.4	0.2	0.2
Net debt /EBITDA (adj.)	4.9	2.2	1.0	2.4	1.8	0.4	0.4	0.2	0.2
Factoring	10.5	4.2	2.7	0.9	0.0	0.0	0.0	0.0	0.0
Factored accounts receivable (excluded from fin. statements)	110.7	121.9	139.0	157.7	149.4	149.4	149.4	149.4	149.4
Pre-financing of scrap	12.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net debt / EBITDA (adj.)	6.4	3.1	1.8	4.1	3.4	1.4	1.6	1.5	1.6
BVPS	1.9	1.3	1.6	1.5	1.6	2.0	2.0	2.1	2.1

Cash Flow*

(PLN m)	2016	2017	2018	2019	2020	2021P	2022P	2023P	2024P
Cash flow from operating activities	91.6	145.4	232.2	142.5	206.1	161.3	116.1	106.4	95.0
Net profit	1.5	47.6	68.5	19.1	32.7	78.4	52.3	49.6	39.2
D&A expenses	38.1	41.3	43.9	46.2	47.7	48.6	47.5	45.5	44.0
Working capital	6.3	10.8	43.6	61.2	98.2	11.3	4.2	-0.8	-0.3
Other	45.7	45.7	76.2	15.9	27.5	23.0	12.1	12.1	12.1
Cash flow from investing activities	-27.1	-15.4	-37.6	-56.2	-57.1	-30.2	-35.8	-37.3	-37.9
CAPEX	-29.0	-15.9	-37.8	-56.2	-57.1	-30.2	-35.8	-37.3	-37.9
Equity investments	1.9	0.5	0.2	0.1	-0.0	0.0	0.0	0.0	0.0
Cash flow from financing activities	-83.8	-52.6	-195.6	-83.8	-127.4	-100.3	-60.0	-49.6	-47.7
Debt	-28.2	-36.0	-113.2	-59.4	-108.1	-64.5	0.0	0.0	0.0
Dividends/Buyback	0.0	0.0	-11.9	-36.0	0.0	-22.7	-47.0	-36.6	-34.7
Share issue	0.0	39.8	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
Interest on convertible bonds	-5.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest expenses	-39.7	-52.0	-68.2	-20.9	-19.3	-13.0	-13.0	-13.0	-13.0
Other	-10.6	-4.4	-1.3	32.4	0.0	0.0	0.0	0.0	0.0
Change in cash	-19.3	77.4	-1.0	2.5	21.6	30.7	20.3	19.4	9.3
Cash at eop	1.8	79.3	76.5	79.0	100.6	131.3	151.5	171.0	180.3
DPS (PLN)	0.00	0.00	0.07	0.21	0.00	0.13	0.27	0.21	0.20
FCF	71.9	122.9	179.5	101.9	157.2	121.0	81.2	70.0	58.0
CAPEX / Sales	-2.1%	-0.8%	-1.8%	-3.0%	-3.3%	-1.3%	-1.6%	-1.8%	-1.9%

*Assuming full dilution

Trading Multiples*

	2016	2017	2018	2019	2020	2021P	2022P	2023P	2024P
P/E	125.8	9.4	6.5	23.3	13.7	5.7	8.5	9.0	11.4
P/E (adj.)	22.3	14.0	4.8	39.8	44.3	5.7	8.5	9.0	11.4
P/CE	4.8	5.0	4.0	6.8	5.6	3.5	4.5	4.7	5.4
P/B	1.4	2.0	1.6	1.7	1.6	1.3	1.3	1.2	1.2
P/S	0.1	0.1	0.2	0.2	0.3	0.2	0.2	0.2	0.2
FCF/EV	11.3%	15.9%	27.4%	15.2%	25.8%	23.5%	16.4%	14.7%	12.4%
EV/EBITDA	6.9	5.6	3.4	6.8	5.5	3.4	4.1	4.1	4.6
EV/EBITDA (adj.)	7.4	5.4	3.4	7.4	6.9	3.4	4.1	4.1	4.6
EV/EBIT	11.5	7.9	4.3	12.6	9.5	4.9	6.6	6.7	7.9
EV/S	0.5	0.3	0.3	0.4	0.4	0.2	0.2	0.2	0.2
OCF/EBITDA	97%	103%	116%	141%	180%	102%	93%	89%	90%
CFO/EBITDA (adj.)	100%	100%	116%	153%	225%	102%	93%	89%	90%
Dividend Yield	0.0%	0.0%	3.9%	8.1%	0.0%	5.1%	10.5%	8.2%	7.8%
Price (PLN)	2.55	2.55	2.55	2.55	2.55	2.55	2.55	2.55	2.55
Shares at eop (millions)	75.3	175.0	175.0	175.0	175.0	175.0	175.0	175.0	175.0
MC (PLN m)	191.9	446.2	446.2	446.2	446.2	446.2	446.2	446.2	446.2
Minority interest (PLN m)	13.8	16.5	17.7	18.4	19.3	19.3	19.3	19.3	19.3
EV (PLN m)	652.7	787.7	673.3	690.4	629.4	534.2	513.9	494.5	485.1

*Assuming full dilution

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 recommendations for Cognor in the 12 months prior to this publication:
Cognor

recommendation	buy	buy	buy	buy	hold
date issued	2021-02-10	2020-12-08	2020-09-25	2020-08-04	2020-04-22
target price (PLN)	2.89	2.29	2.03	1.98	0.94
price on rating day	2.15	1.25	1.10	0.93	0.95

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