

Tuesday, 29 March 2022 | special comments

Cognor: 2021 Q4 Results

Recommendation: hold | target price: PLN 4.10 | current price: PLN 6.41

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Cognor defied all expectations with a blowout fourth-quarter of 2021 that topped the previous quarter.

Cognor did fulfill its own guidance with the quarterly figures, owing to strong sales volumes and still favorable prices. The billet spreads of the rebar unit, Ferrostal, were seen to shrink 19% in Q4 compared to Q3, but at the same time the spreads of HSJ rolled steels increased.

The 2021 Q4 overall sales volume was comparable to the year-ago volume after a substantial, 29% surge in sales of end products relative to the previous quarter.

Factors that helped drive the successful fourth quarter included a favorable economic environment, smooth production, and tight cost discipline.

We have a positive view on the fourth-quarter results.

- **Sales** in Q4 2021 were up more than 3% on higher volumes of scrap steel and end products. Billet sales went down in the quarter – a sign of a positive shift towards bigger sales of highly processed, higher-margin products.

- At PLN 794m, the 2021 Q4 **revenue** fulfilled Cognor's target.
- **EBITDA** in Q4'21 was also on target at PLN 164m. One-time charges in the period amounted to PLN 3.2m. The impact of **FIFO** accounting was negative for the first time in a year to the tune of -PLN 6.5m, resulting from a decrease in the prices of steel scrap.
- **Operating cash flow** fulfilled our estimate in Q4 2021 at PLN 70m. Despite an increase relative to the end of September, **net debt** as a ratio of EBITDA as of 31 December 2021 had improved to 0.4.
- Cognor posted a full-year net profit of PLN 364m for FY2021 that implies EPS of PLN 2.1. If we take the Company's policy of annual shareholder distributions at 25% of annual earnings, this would imply a 2022 **DPS of PLN 0.53**. However, if we consider last year's record-high results coupled with favorable business conditions still in place to this day it would not be unreasonable to assume that Cognor might want to sweeten the pot.

2021 Q4 results of Cognor

| (PLN m) | 4Q'21 | 4Q'20 | change | 4Q'21E | differ. | 2021 | 2020 | y/y change | YTD |
|---------------|-------|-------|--------|--------|---------|------|------|------------|------|
| revenue | 794 | 445 | 78% | 794.0 | 0% | 2811 | 1733 | 62% | 100% |
| EBITDA | 164 | 23.5 | 597% | 165.0 | -1% | 519 | 114 | 354% | 100% |
| EBITDA margin | 21% | 5.3% | | 21% | | | 7% | | 0% |
| EBIT | 161 | 11.3 | 1324% | 151.0 | 7% | 468 | 67 | 603% | 102% |
| net profit | 126 | 7 | - | 127 | -1% | 364 | 33 | 1012% | 100% |

Source: Cognor, E - mBank estimates

Historical quarterly results of Cognor by operating segment

| Capacity Utilization Rate (%) | 4Q'19 | 1Q'20 | 2Q'20 | 3Q'20 | 4Q'20 | 1Q'21 | 2Q'21 | 3Q'21 | 4Q'21 | y/y | 4Q'21E | differ. |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----|--------|---------|
| Ferrostal rebar | 151% | 119% | 131% | 89% | 113% | 103% | 115% | 106% | | | 104% | |
| HSJ rolled steels | 82% | 95% | 92% | 84% | 94% | 109% | 106% | 83% | | | 96% | |

| (PLN m) | 4Q'19 | 1Q'20 | 2Q'20 | 3Q'20 | 4Q'20 | 1Q'21 | 2Q'21 | 3Q'21 | 4Q'21 | y/y | 4Q'21E | differ. |
|---------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|--------|---------|
| revenue | 466 | 460 | 456 | 372 | 445 | 584 | 716 | 717 | 794 | 78% | 794 | 0% |
| EBITDA (adj.) | 19 | 28 | 29 | 12 | 23 | 75 | 116 | 145 | 167 | 621% | 165 | 1% |
| one-time events | 0 | 2 | 10 | 10 | 0 | 5 | -2 | 0 | -3 | -1040% | 21% | |
| operating cash flow | 82 | 40 | 53 | 27 | 86 | 53 | -24 | 22 | 69 | -20% | 70 | -2% |
| net debt | 226 | 260 | 226 | 218 | 164 | 126 | 177 | 206 | 230 | 40% | 165 | 39% |

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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