

Wednesday, March 04, 2020 Monthly Market Outlook, an excerpt

Cognor hold (no change)

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Cognor faces a continued rise in costs of electricity (+PLN 30.8m) and employment (+PLN 3.5m) in 2020, underpinned by a challenging steel market. Consequently, according to our estimates the Company will see a 29% fall in EBITDA for the year. As a result, the net debt/EBITDA ratio as of 31 December might increase to 2.9x, restricting the capacity for dividends, with 2020E DPS likely to be reduced to PLN 0.11 from PLN 0.28 paid last year. We maintain a hold rating for COG as we wait for the Company to releases its FY2019 results at the end of the month.

| | | |
|------------------------|----------|---------------|
| Current Price | 1.06 PLN | Upside |
| 9M Target Price | 1.25 PLN | +17.9% |

| | rating | target price | issued |
|------------------|-------------|-----------------|-------------------|
| unchanged | hold | 1.25 PLN | 2019-12-06 |

| Key Metrics | | | COG PW | vs. WIG |
|------------------|--------------|-------------------|--------|----------|
| Ticker | COG PW | 1M Price Chng | -13.1% | -5.1% |
| ISIN | PLCNTSL00014 | YTD Price Chng | -14.5% | -4.8% |
| Outst. Stock (m) | 175.0 | ADTV 1M | | PLN 0.1m |
| MC (PLN m) | 185.5 | ADTV 6M | | PLN 0.1m |
| EV (PLN m) | 421.2 | EV/EBITDA 12M fwd | 4.8 | +26.9% |
| Free Float | - | EV/EBITDA 5Y avg | 3.8 | premium |

Earnings Projections

| (PLN m) | 2017 | 2018 | 2019P | 2020P | 2021P |
|-----------------|-------|-------|-------|-------|-------|
| Revenue | 1,789 | 2,082 | 1,860 | 1,802 | 2,009 |
| EBITDA adj. | 146 | 200 | 103 | 74 | 74 |
| EBITDA margin | 8.1% | 9.6% | 5.5% | 4.1% | 3.7% |
| EBIT adj. | 104 | 156 | 56 | 23 | 25 |
| Net income adj. | 32 | 94 | 29 | 6 | 9 |
| P/E adj. | 5.8 | 2.0 | 6.3 | 32.9 | 21.2 |
| P/B | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 |
| EV/EBITDA adj. | 3.6 | 2.1 | 4.1 | 5.7 | 5.5 |
| DPS | 0.00 | 0.07 | 0.21 | 0.07 | 0.03 |
| DYield | 0.0% | 6.4% | 19.4% | 7.0% | 2.4% |

| Forecast Update (% change) | | 2019P | 2020P | 2021P |
|----------------------------|--|-------|-------|-------|
| 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) | 2017 | 2018 | 2019P | 2020P | 2021P |
|----------------------------|------------|-------------|------------|------------|------------|
| Ferostal volume (k tons) | 426 | 401 | 381 | 350 | 424 |
| HSJ volume (k tons) | 231 | 237 | 231 | 255 | 277 |
| Złomrex volume (k tons) | 131 | 173 | 152 | 155 | 158 |
| Ferostal spread (PLN/t) | 953 | 1,191 | 1,175 | 1,090 | 1,128 |
| HSJ spread (PLN/t) | 1,272 | 1,723 | 1,763 | 1,619 | 1,607 |
| Operating cash flow | 145 | 232 | 97 | 85 | 64 |
| D&A | 41 | 44 | 47 | 50 | 49 |
| Working capital | 11 | 44 | 26 | 13 | -7 |
| Investing cash flow | -15 | -38 | -50 | -50 | -35 |
| CAPEX | 16 | 38 | 50 | 50 | 35 |
| Financing cash flow | -53 | -196 | -9 | -79 | -53 |
| Dividends/Buyback | 0 | -12 | -36 | -13 | -5 |
| FCF | 123 | 179 | 72 | 36 | 30 |
| FCF/EBITDA | 87% | 90% | 70% | 48% | 41% |
| OCF/EBITDA | 103% | 116% | 94% | 115% | 87% |

Key Balance Sheet Figures

| (PLN m) | 2017 | 2018 | 2019P | 2020P | 2021P |
|---------------------|------|-------|-------|-------|-------|
| Assets | 951 | 1,001 | 1,003 | 935 | 943 |
| Fixed assets | 398 | 379 | 401 | 393 | 370 |
| Equity | 225 | 278 | 275 | 267 | 272 |
| Minority interests | 225 | 278 | 275 | 267 | 272 |
| Net debt | 325 | 209 | 218 | 213 | 202 |
| Net debt/EBITDA (x) | 2.3 | 1.0 | 2.1 | 2.9 | 2.7 |
| Net debt/Equity (x) | 1.4 | 0.8 | 0.8 | 0.8 | 0.7 |

Relative Valuation Summary

| | P/E | | | EV/EBITDA | | |
|---------|-------|-------|------|-----------|------|-----|
| | 19P | 20P | 21P | 19P | 20P | 21P |
| Minimum | 4.6 | 5.9 | 4.8 | 3.9 | 2.9 | 3.3 |
| Maximum | 125.5 | 276.4 | 53.6 | 10.8 | 10.6 | 7.6 |
| Median | 11.1 | 12.6 | 10.5 | 6.5 | 6.8 | 5.8 |
| Weight | 0% | 25% | 25% | 0% | 25% | 25% |

DCF Analysis

| (PLN m) | 19P | 20P | 21P | 22P | 23P | 24P | 25P | 26P | 27P | 28P | + |
|-----------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Sales volume | 612 | 605 | 701 | 749 | 778 | 803 | 817 | 832 | 834 | 836 | 836 |
| Product prices | 2,285.9 | 2,154.9 | 2,145.9 | 2,180.8 | 2,192.8 | 2,204.2 | 2,213.7 | 2,223.1 | 2,238.4 | 2,253.7 | 2,261.3 |
| Scrap prices | 1,084 | 1,003 | 990 | 1,008 | 1,008 | 1,008 | 1,008 | 1,008 | 1,008 | 1,008 | 1,008 |
| Revenue | 1,860 | 1,802 | 2,009 | 2,151 | 2,228 | 2,298 | 2,343 | 2,388 | 2,411 | 2,433 | 2,444 |
| EBITDA | 103 | 74 | 74 | 71 | 77 | 76 | 75 | 73 | 79 | 85 | 83 |
| EBITDA margin | 5.5% | 4.1% | 3.7% | 3.3% | 3.5% | 3.3% | 3.2% | 3.1% | 3.3% | 3.5% | 3.4% |
| EBIT | 56 | 23 | 25 | 24 | 31 | 30 | 29 | 27 | 31 | 37 | 35 |
| Tax | 6 | 1 | 2 | 2 | 3 | 4 | 3 | 3 | 4 | 5 | 5 |
| CAPEX | -50 | -50 | -35 | -36 | -37 | -39 | -40 | -43 | -46 | -47 | -47 |
| Working capital | 26 | 13 | -7 | -6 | -6 | -5 | -3 | -3 | -2 | -2 | -1 |
| FCF | 72 | 36 | 30 | 27 | 30 | 28 | 28 | 24 | 27 | 33 | 32 |
| PV FCF | 72 | 33 | 26 | 21 | 23 | 20 | 18 | 15 | 15 | 17 | |
| WACC | 7.2% | 7.2% | 7.2% | 7.3% | 7.3% | 7.4% | 7.4% | 7.4% | 7.5% | 7.5% | 7.5% |
| 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 | 259 |
| Net debt | 245 |
| Other adj. | 18 |
| Value per share (PLN) | 1.71 |

Valuation Summary

| (PLN) | Weight | Price |
|------------------------|--------|-------------|
| Relative Val. | 50% | 0.63 |
| DCF Val. | 50% | 1.71 |
| Implied Price | | 1.17 |
| Cost of equity (9M) | | 7.0% |
| 9M Target Price | | 1.25 |

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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ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from -5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
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mBank issued the following investment recommendations for the Company in the 12 months prior to this publication

Cognor

| Rating | hold | hold | hold | accumulate | hold | accumulate | accumulate | overweight | neutral | underweight |
|---------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|
| Rating date | 2019-12-06 | 2019-12-05 | 2019-11-04 | 2019-09-05 | 2019-07-25 | 2019-07-03 | 2019-06-14 | 2019-06-03 | 2019-05-09 | 2019-03-05 |
| Target price (PLN) | 1.25 | 1.25 | 1.55 | 2.00 | 1.84 | 1.84 | 1.79 | - | - | - |
| Price on rating day | 1.20 | 1.17 | 1.52 | 1.65 | 1.75 | 1.77 | 1.64 | 1.60 | 1.59 | 1.94 |

Comparable Companies Used In Relative Valuation Models

Cognor

AK Steel, Alumatel, 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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