

Friday, September 25, 2020 | update

Cognor: buy (reiterated)

COG PW; COGP.WA | Steel, Poland

Resilience of Steel

The steel industry has been severely impacted by the coronavirus crisis, nevertheless, like other producers using electric arc furnace (EAF) technology, Cognor has the ability to adjust production more flexibly than BOF steelmakers, and its long steel products, used mostly in construction, remain in demand. Cognor generated better-than-expected results in H1 2020, and it is expected to keep the net debt/EBITDA ratio at 2.2x for the year, a level which would allow it to resume shareholder distributions in 2021, offering dividend yield as high as 10% (adjusted for dilution). Cognor expects to reverse downward earnings trends in Q3 2020, and in Q2 positive surprises included lower-than-expected net debt and solid operating cash flow achieved under tough circumstances. After small upward revisions to our 2020 earnings estimates to reflect the first-half beat, we raise our 9-month target price for COG from PLN 1.98 to PLN 2.03 per share, and we maintain a buy rating for the stock.

2020 Q2 results

Cognor generated EBITDA of PLN 39m in Q2 2020, a higher value than our PLN 30m forecast, representing a decline from PLN 43m EBITDA posted in the same period a year earlier. The Company recognized one-time gains totaling PLN 10m in Q2, including a PLN 8.4m crisis subsidy. The year before, it booked the full state compensation for rising power prices due for the first half of the year in Q2 2019. After adjusting for one-off boost, quarterly EBITDA at PLN 29m was 20% lower than the comparable year-ago figure, but it beat our estimate by 29%. Operating cash flow was PLN 53m in Q2 2020 versus PLN 81m the year before. As a result, Cognor was able to reduce net debt by PLN 34m to PLN 226m as of 30 June relative to March – a lower amount than the PLN 257m forecast by us.

Steel prices shift upwards

The global steel reserves stand much higher today than the average for the last five years, including in China, where the stockpile has been growing consistently since April. Nevertheless prices of the metal have been trending upwards despite the high supply, driven most likely by BOF steelmakers, who are facing against steep costs of iron ore and compounded most recently by rising prices of metallurgical coal.

Competitive advantage of EAF steelmaking

Steel produced by melting scrap in electric arc furnaces retains its price advantage in Q3 2020 over steel from BOF mills, who might have to keep prices elevated going forward if the costs of met coal feedstock continue to trend upward.

Dividend possible in 2021

After demonstrating resilience in the face of the coronavirus crisis, we believe Cognor will gain back the capacity to pay dividends in 2021, potentially offering cash DPS of PLN 0.11 PLN which after adjusting for dilution would imply a dividend yield of 10%.

(PLN m)	2018	2019	2020E	2021E	2022E
Revenue	2,081.8	1,901.6	1,695.5	1,872.9	1,968.6
EBITDA (adj.)	200.0	92.9	106.8	93.2	88.7
EBITDA margin (adj.)	9.6%	4.9%	6.3%	5.0%	4.5%
EBIT (adj.)	156.2	46.7	58.9	46.4	43.8
Net profit (adj.)	93.7	11.2	31.9	21.8	19.7
P/E (adj.)	2.1	17.2	6.0	8.8	9.8
P/CE	1.7	2.9	2.4	2.8	3.0
P/B	0.7	0.7	0.7	0.7	0.6
EV/EBITDA (adj.)	2.1	4.7	4.0	4.4	4.5
DPS	0.07	0.21	0.00	0.11	0.09
Dividend Yield	9.1%	18.7%	0.0%	9.9%	7.9%

*2018-2022E ratios assume full dilution

Current Price	PLN 1.10
Target Price	PLN 2.03
Market Cap	PLN 192m
Free Float	PLN 45m
ADTV (3M)	PLN 0.3m

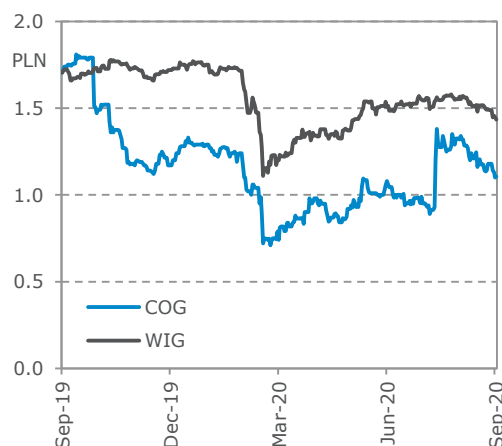
Ownership

PS HoldCo Sp.z o.o	74.90%
Others	25.10%

Business Profile

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 Łabędy' focuses on the production of round and square billets in electric arc furnaces, and 'Huta Stali Jakościowych' produces billets and ingots from quality steel. Cognor's total production capacity is 636,000 tonnes, set to increase to 850,000 in 2020. 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	2.03	1.98	buy	buy

Company	Current Price	Target Price	Upside
Cognor	1.10	2.03	+84.1%

Forecast Update	2020E	2021E	2022E
Revenue	-0.1%	0.0%	0.0%
EBITDA	6.6%	0.0%	0.0%
Net profit	20.0%	0.0%	0.0%
Sales volume	0.0%	0.0%	0.0%
Sales prices	0.0%	0.0%	0.0%
Costs of scrap	-1.3%	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 the option to quickly put furnaces on idle to adjust to unexpected 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 steel mills, 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 over the recent years, underpinned by competitive pressures coming from China and the former Soviet Republics, where local steel industries enjoy the backing and protection of their respective governments. Since 2016 the EU attempts to mitigate these pressures by imposing higher duties on steel imports.

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

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 can gain a competitive price advantage over EAF steel.

Undersupply of Feedstocks

During extended periods of high margins on scrap-fed steel, 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 €17.4m in convertible bonds of Cognor. If a substantial part of the bonds were to be converted at once, this 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 convertible bondholders if they decided to convert.

Excessive Leverage

In the past, Cognor has been known to use sizable debt issues to finance 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 Pandemic

Global lockdown measures introduced earlier this year to contain the spread of the coronavirus epidemic included closures of car manufacturing plants, which are the second-largest buyer of steel in the world. The resulting fall-off in orders has forced steelmakers to drastically cut back production – a prospect which Cognor could come up against in near future.

Valuation

We used two valuation methods to determine the value of Cognor: the Discounted Cash Flow method, indicating a per-share valuation of PLN 2.17, and the Relative Valuation method, yielding a value of PLN 1.61 per share.

(PLN)	weight	price
Relative Valuation	50%	1.61
DCF Analysis	50%	2.17
	Price	1.89
9M Target Price		2.03

Relative Valuation Summary

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 Alumental, 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		
		2020E	2021E	2022E	2020E	2021E	2022E
ALUMETAL SA	Poland	20.6	11.5	9.5	7.4	6.2	5.4
ARCELORMITTAL	Luxembourg	-	9.9	6.1	6.9	4.1	3.3
BAOSHAN IRON & STEEL CO-A	China	12.0	10.1	8.9	4.5	3.9	3.5
COMMERCIAL METALS CO	USA	8.3	10.3	11.2	4.8	5.2	5.5
HESTEEL CO LTD-A	China	14.2	12.9	11.2	-	-	-
HITACHI METALS LTD	Japan	-	-	34.9	19.7	15.1	8.6
HYUNDAI STEEL CO	Korea Pld.	-	14.0	10.3	8.4	6.6	6.3
JFE HOLDINGS INC	Japan	-	-	9.4	8.7	15.5	7.7
JSW STEEL LTD	India	20.3	29.5	11.3	9.7	10.2	6.9
KLOECKNER & CO SE	Germany	-	100.4	17.2	64.8	5.2	4.3
METALURGICA GERDAU SA-PREF	Brazil	12.9	11.2	10.1	-	-	-
NIPPON YAKIN KOGYO CO LTD	Japan	4.7	6.9	5.9	-	-	-
NUCOR CORP	USA	20.5	16.5	13.3	8.7	8.0	6.8
OLYMPIC STEEL INC	USA	-	19.0	-	-	-	-
OUTOKUMPU OYJ	Finland	-	12.6	7.7	9.1	5.2	4.3
POSCO	South Korea	14.7	8.4	7.1	5.2	4.2	3.8
SALZGITTER AG	Germany	-	12.9	5.2	8.6	4.0	3.5
SSAB AB-A SHARES	Sweden	-	15.6	9.4	11.8	5.6	4.2
STEEL AUTHORITY OF INDIA	India	-	-	9.2	2.0	2.0	1.1
STEEL DYNAMICS INC	USA	12.5	13.1	9.1	7.3	7.5	5.5
TATA STEEL LTD	India	22.9	-	6.9	8.4	9.4	6.0
THYSSENKRUPP AG	Germany	1.1	-	31.5	-	1.0	1.2
UNITED STATES STEEL CORP	USA	-	-	-	-	10.9	7.4
VOESTALPINE AG	Austria	-	-	14.2	7.6	9.0	5.5
Maximum		22.9	100.4	34.9	64.8	15.5	8.6
Minimum		1.1	6.9	5.2	2.0	1.0	1.1
Median		13.6	12.9	9.5	8.4	5.9	5.5
Cognor		6.0	8.8	9.8	4.0	4.4	4.5
premium / discount		-55.5%	-31.5%	3.0%	-51.8%	-24.8%	-17.5%

Implied Valuation

Median	13.6	12.9	9.5	8.4	5.9	5.5
Discount	20%	20%	20%	20%	20%	20%
Multiple weight		50%			50%	
Year weight	0%	50%	50%	0%	50%	50%

Value per share (PLN) 1.61

Additional Assumptions

Historical sales of Huta Ferrostal steelmaking unit and future projections

Sales volumes (1,000t)	2016	2017	2018	2019	2020P	2021P	2022P	2023P	2024P
Billet	85.3	119.2	81.8	110.3	88.2	136.7	150.4	157.9	164.2
Plain bars	29.3	30.0	30.3	30.9	26.3	29.4	32.4	34.0	35.4
Flat bars	61.4	48.1	44.1	39.9	35.9	40.2	44.3	46.5	48.3
Squares	7.7	6.5	8.3	8.7	7.4	8.3	9.2	9.6	10.0
Rebar	188.1	202.1	213.7	211.1	221.6	232.7	244.3	249.2	254.2
Angles	24.9	17.5	22.3	22.0	18.7	21.0	23.1	24.2	25.2
Other	6.6	3.1	1.1	1.5	1.2	1.4	1.5	1.6	1.7
Avg. spread (PLN/t)	2016	2017	2018	2019	2020P	2021P	2022P	2023P	2024P
Steel billet	718	878	1,046	920	909	935	948	960	971
Plain bars	1,121	1,069	1,365	1,408	1,380	1,407	1,424	1,439	1,453
Flat bars	1,158	1,075	1,386	1,401	1,373	1,401	1,417	1,432	1,446
Squares	1,131	1,048	1,342	1,331	1,305	1,333	1,348	1,363	1,377
Rebar	823	937	1,151	1,101	1,104	1,130	1,145	1,158	1,170
Angles	1,170	1,050	1,397	1,403	1,375	1,402	1,419	1,434	1,448
Other	1,421	1,117	1,892	1,643	1,606	1,635	1,653	1,670	1,685

Source: mBank

Historical sales of HSJ steelmaking unit and future projections

Sales volumes (1,000t)	2016	2017	2018	2019	2020P	2021P	2022P	2023P	2024P
Billet	40.5	66.2	58.7	74.7	67.2	70.5	72.0	73.4	74.9
Bars	153.7	156.5	175.6	157.6	141.8	148.9	151.9	154.9	158.0
Thick sheet	5.7	7.7	1.6	3.7	3.0	3.1	3.2	3.2	3.3
Thin sheet	0.6	0.5	0.7	0.5	0.5	0.5	0.5	0.5	0.5
Other	0.6	0.3	0.5	0.5	0.4	0.4	0.5	0.5	0.5
Avg. spread (PLN/t)	2016	2017	2018	2019	2020P	2021P	2022P	2023P	2024P
Billet	979	1,176	1,486	1,145	1,073	1,146	1,161	1,176	1,189
Bars	1,553	1,709	2,192	2,115	1,998	2,094	2,116	2,137	2,157
Thick sheet	1,885	1,742	3,446	2,589	2,450	2,557	2,583	2,607	2,629
Thin sheet	10,284	9,897	10,307	9,970	9,487	9,771	9,849	9,921	9,989
Other	20,891	24,078	22,173	19,436	18,513	19,024	19,168	19,302	19,427

Source: mBank

Steel Market Assumptions

	2016	2017	2018	2019	2020P	2021P	2022P	2023P	2024P
Price of rolled sheet steel (PLN/t)	1,919	2,417	2,588	2,463	2,100	2,127	2,143	2,157	2,171
Price of HEB sections (PLN/t)	2,240	2,282	2,614	2,593	2,400	2,410	2,426	2,441	2,455
Price of rebar (PLN/t)	2,170	2,139	2,439	2,275	2,050	2,046	2,062	2,077	2,090
Steel production in Poland (mmt)	8.9	10.3	10.3	9.1	8.2	8.6	8.8	8.9	9.1
Cognor's market share	6.8%	6.4%	6.2%	7.3%	7.5%	8.1%	8.4%	8.4%	8.5%
USD/PLN	3.94	3.78	3.61	3.84	3.95	3.60	3.60	3.60	3.60
Coke price (US\$/t)	119	179	193	170	150	155	155	155	155
Iron ore price (US\$/t)	59	72	70	97	80	75	75	75	75
Scrap price (US\$/t)	215	282	343	292	260	280	280	280	280
BOF (US\$/t)	212	282	299	319	273	272	272	272	272
EAF (US\$/t)	239	315	383	326	290	312	312	312	312
BOF-EAF (US\$/t)	-28	-33	-83	-7	-17	-40	-40	-40	-40
BOF (PLN/t)	835	1,066	1,081	1,225	1,077	978	978	978	978
EAF (PLN/t)	944	1,190	1,381	1,251	1,145	1,124	1,124	1,124	1,124
Scrap price (PLN/t)	847	1,067	1,238	1,084	1,027	1,008	1,008	1,008	1,008

Source: mBank

Historical and projected debt of Cognor

(PLN m)	2016	2017	2018	2019	2020P	2021P	2022P	2023P	2024P
Factored accounts receivable (excluded from fin. statements)	110.7	121.9	139.0	157.7	157.7	157.7	157.7	157.7	157.7
Factored accounts receivable	21.7	14.7	21.0	42.2	42.2	42.2	42.2	42.2	42.2
Bonds	384.2	363.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reverse factoring	10.5	4.2	2.7	0.9	0.0	0.0	0.0	0.0	0.0
Pre-financing of scrap	12.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt	87.8	59.8	280.6	304.0	300.0	300.0	300.0	300.0	300.0
Debt resulting from conversion	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest expenses	45.9	47.2	32.0	21.6	19.5	19.5	19.5	19.5	19.5
%	9.3%	11.0%	11.3%	7.1%	6.5%	6.5%	6.5%	6.5%	6.5%
Banking and transaction charges	5.7	4.8	7.1	0.0	0.0	0.0	0.0	0.0	0.0
EUR/PLN (eop)	4.42	4.18	4.30	4.25	4.40	4.30	4.30	4.30	4.30

Source: mBank

DCF Valuation

Assumptions:

- Beta = 1.2 to reflect 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.
- Future cash flow is discounted as of early October 2020.
- Net debt is as at year-end 2019 plus dividends paid in 2020 (PLN 0.28 per share).

DCF Model

(PLN m)	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P	+
Revenue	1,695.5	1,872.9	1,968.6	2,029.6	2,086.6	2,128.7	2,171.8	2,187.2	2,202.8	2,213.2	2,223.7
change	-10.8%	10.5%	5.1%	3.1%	2.8%	2.0%	2.0%	0.7%	0.7%	0.5%	0.5%
EBITDA	106.8	93.2	88.7	102.7	98.9	94.3	93.1	92.0	91.6	88.4	84.9
EBITDA margin	6.3%	5.0%	4.5%	5.1%	4.7%	4.4%	4.3%	4.2%	4.2%	4.0%	3.8%
D&A expenses	47.9	46.9	44.9	43.6	42.7	42.5	42.9	43.8	44.0	44.1	44.1
EBIT	58.9	46.4	43.8	59.2	56.2	51.8	50.2	48.3	47.6	44.3	40.8
EBIT margin	3.5%	2.5%	2.2%	2.9%	2.7%	2.4%	2.3%	2.2%	2.2%	2.0%	1.8%
Tax on EBIT	7.5	5.1	4.6	7.5	7.0	6.1	5.8	5.5	5.3	4.7	4.1
NOPLAT	51.4	41.3	39.2	51.6	49.2	45.7	44.4	42.8	42.3	39.6	36.8
CAPEX	-50.0	-33.0	-34.5	-35.2	-36.3	-37.7	-39.6	-42.9	-42.9	-43.1	-43.2
Working capital	-22.2	0.9	0.1	-2.8	-2.6	-1.9	-1.9	-0.7	-0.7	-0.5	-0.5
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	27.2	56.0	49.7	57.2	53.1	48.6	45.7	43.0	42.7	40.1	37.2
WACC	7.1%	7.2%	7.3%	7.5%	7.5%	7.6%	7.7%	7.7%	7.8%	7.8%	7.8%
discount factor	0.99	0.92	0.86	0.80	0.74	0.69	0.63	0.59	0.54	0.50	0.47
PV FCF	26.8	51.7	42.6	45.6	39.2	33.3	29.0	25.3	23.2	20.2	17.3

WACC	7.1%	7.2%	7.3%	7.5%	7.5%	7.6%	7.7%	7.7%	7.8%	7.8%	7.8%
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	53.2%	51.3%	49.5%	46.2%	44.7%	43.5%	42.3%	41.3%	40.2%	39.5%	39.3%
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	641.7
Present value of terminal value	322.7
Present value of FCF in the forecast period	336.9
Enterprise value	659.6
Net debt	261.9
Minority interests	18.4
Equity value	379.3
Shares outstanding (millions)	175.0
Equity value per share (PLN)	2.17
9M cost of equity	7.2%
9M target price (PLN)	2.32

EV/EBITDA ('20) at target price	6.0
P/E('20) at target price	12.7
TV / EV	48.9%

Sensitivity Analysis

	FCF growth in perpetuity				
	0.0%	1.0%	2.0%	3.0%	5.0%
WACC +1.0 p.p.	1.47	1.62	1.82	2.09	3.04
WACC +0.5 p.p.	1.63	1.81	2.05	2.38	3.64
WACC	1.82	2.03	2.32	2.74	4.44
WACC -0.5 p.p.	2.03	2.29	2.64	3.17	5.59
WACC -1.0 p.p.	2.26	2.58	3.03	3.71	7.37

Earnings History and Future Projections

(PLN m)	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Revenue	1,352.4	1,789.3	2,081.8	1,901.6	1,695.5	1,872.9	1,968.6	2,029.6	2,086.6
change	-0.9%	32.3%	16.4%	-8.7%	-10.8%	10.5%	5.1%	3.1%	2.8%
Ferrostal	678.4	838.8	916.6	872.9	796.7	933.9	1,011.4	1,054.3	1,093.1
HSJ	400.2	471.8	623.7	532.3	455.4	490.2	503.6	517.1	530.7
Złomrex Metal	95.0	130.9	172.8	141.8	130.5	137.0	139.8	142.6	145.4
Other	202.3	323.4	393.0	364.5	325.5	327.2	329.5	331.7	333.8
D&A expenses	37.9	41.3	43.9	45.6	47.1	46.0	44.0	42.7	41.9
Materials & utilities	747.2	1,129.9	1,364.5	1,229.5	1,104.0	1,227.4	1,296.7	1,324.7	1,366.5
of which scrap metal	527.3	761.9	807.6	725.1	637.4	705.0	743.9	766.3	786.8
of which electricity	126.0	130.2	144.5	146.3	166.5	179.5	188.5	181.4	190.7
Third-party services	228.4	152.5	170.6	177.0	165.9	187.0	199.5	208.8	217.9
Taxes and fees	9.2	10.8	11.9	10.0	10.7	10.4	10.1	9.9	9.8
Payroll	136.2	161.3	183.6	181.6	170.1	185.7	203.2	212.2	221.0
Other costs	4.3	4.7	6.2	7.1	6.0	6.4	6.5	6.3	6.4
Cost of goods sold	148.8	201.8	227.2	192.9	162.7	163.6	164.8	165.9	166.9
Change in inventories	14.4	13.0	79.5	-10.2	20.0	0.0	0.0	0.0	0.0
COGS	1,209.7	1,573.0	1,805.5	1,730.6	1,646.7	1,826.5	1,924.7	1,970.4	2,030.4
Selling expenses	50.0	65.8	76.7	75.3	70.6	79.5	84.8	88.8	92.7
Administrative expenses	37.9	50.5	46.0	48.1	49.1	50.1	51.1	52.1	53.2
Other operating gains/losses	1.7	-0.7	2.6	6.9	10.0	0.0	0.0	0.0	0.0
One-time events	3.4	-5.2	0.0	7.9	0.0	0.0	0.0	0.0	0.0
EBIT	56.5	99.2	156.2	54.6	58.9	46.4	43.8	59.2	56.2
change	329.9%	75.5%	57.5%	-65.1%	7.8%	-21.2%	-5.5%	35.1%	-5.0%
EBIT margin	4.2%	5.5%	7.5%	2.9%	3.5%	2.5%	2.2%	2.9%	2.7%
EBIT (adj.)	53.1	104.4	156.2	46.7	58.9	46.4	43.8	59.2	56.2
EBITDA (adj.)	91.2	145.7	200.0	92.9	106.8	93.2	88.7	102.7	98.9
Net financing gains/losses	-63.0	-31.2	-62.8	-30.8	-19.5	-19.5	-19.5	-19.5	-19.5
Interest expenses	45.9	52.0	38.3	20.9	19.5	19.5	19.5	19.5	19.5
Income from bond repurchase	-10.5	20.8	-25.1	0.0	0.0	0.0	0.0	0.0	0.0
FX gains / losses									
Pre-tax profit	-6.4	68.1	92.8	22.3	39.4	26.9	24.3	39.7	36.7
Tax	7.9	18.1	20.7	2.6	7.5	5.1	4.6	7.5	7.0
Minority interests	0.1	2.3	3.5	0.7	0.0	0.0	0.0	0.0	0.0
Net profit	1.5	47.6	68.5	19.1	31.9	21.8	19.7	32.1	29.7
change	-	--	44.0%	-72.1%	66.9%	-31.7%	-9.5%	63.2%	-7.5%
margin	0.1%	2.7%	3.3%	1.0%	1.9%	1.2%	1.0%	1.6%	1.4%
Net profit (adj.)	8.6	31.9	93.7	11.2	31.9	21.8	19.7	32.1	29.7
D&A expenses	38.1	41.3	43.9	46.2	47.9	46.9	44.9	43.6	42.7
EBITDA	94.6	140.5	200.1	100.8	106.8	93.2	88.7	102.7	98.9
change	93.0%	48.6%	42.4%	-49.6%	5.9%	-12.7%	-4.9%	15.9%	-3.7%
EBITDA margin	7.0%	7.9%	9.6%	5.3%	6.3%	5.0%	4.5%	5.1%	4.7%
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	0.1	0.1	0.2	0.2
CEPS	0.5	0.5	0.6	0.4	0.5	0.4	0.4	0.4	0.4
ROAE	1.1%	21.1%	24.6%	7.4%	11.0%	7.4%	6.6%	10.2%	9.2%
ROAA	0.2%	5.0%	6.8%	1.8%	3.2%	2.1%	1.9%	2.9%	2.7%

Balance Sheet

(PLN m)	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
ASSETS	895.3	950.7	1,001.4	1,051.7	995.1	1,035.0	1,059.6	1,090.7	1,109.9
Fixed assets	424.9	398.5	379.3	487.2	481.3	459.4	445.5	438.1	432.6
Intangible assets	11.9	13.0	18.0	22.3	27.0	30.1	33.3	36.5	39.9
Property, plant and equipment	292.8	285.9	284.6	375.6	373.8	357.7	345.1	334.4	325.6
Goodwill	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	40.9	40.9	40.9	40.9	40.9
Noncurrent investments	8.1	3.4	2.8	1.3	1.3	1.3	1.3	1.3	1.3
Noncurrent prepayments	92.1	70.2	50.6	47.2	38.3	29.4	25.0	25.0	25.0
Current assets	470.4	552.2	622.1	564.5	513.9	575.6	614.1	652.7	677.4
Inventory	297.7	277.5	377.0	297.0	264.8	292.5	307.5	317.0	325.9
Current receivables	137.0	171.9	168.0	188.3	167.9	185.5	195.0	201.0	206.7
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	80.9	97.4	111.5	134.5	144.6
Current prepayments	1.9	0.8	0.7	0.0	0.0	0.0	0.0	0.0	0.0

(PLN m)	2016	2017	2018	2019	2020P	2021P	2022P	2023P	2024P
EQUITY & LIABILITIES	895.3	950.7	1,001.4	1,051.7	995.1	1,035.0	1,059.6	1,090.7	1,109.9
Equity	142.1	225.3	278.2	258.8	290.7	293.3	297.8	316.1	323.4
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	87.0	87.0	87.0	87.0	87.0
Retained earnings	-193.1	-173.6	10.8	-14.2	17.7	20.3	24.8	43.1	50.4
Minority interest	13.8	16.5	17.7	18.4	18.4	18.4	18.4	18.4	18.4
Non-current liabilities	410.7	388.8	258.4	279.3	329.6	329.6	329.6	329.6	329.6
Debt	376.4	358.0	229.2	249.7	300.0	300.0	300.0	300.0	300.0
Current liabilities	319.3	316.6	435.9	481.9	344.5	380.5	399.9	412.3	423.9
Trade payables	223.7	247.4	379.2	426.7	344.5	380.5	399.9	412.3	423.9
Debt	95.6	69.1	56.7	55.2	0.0	0.0	0.0	0.0	0.0
Provisions for liabilities	3.1	3.4	4.4	0.2	0.2	0.2	0.2	0.2	0.2
Other	6.3	0.1	6.8	13.1	11.7	12.9	13.6	14.0	14.4

Debt	472.0	427.1	285.9	304.8	300.0	300.0	300.0	300.0	300.0
Net debt	447.0	325.1	209.4	225.9	219.1	202.6	188.5	165.5	155.4
Net Debt / Equity	314.5%	144.3%	75.3%	87.3%	75.4%	69.1%	63.3%	52.4%	48.0%
Net Debt/ EBITDA	4.7	2.3	1.0	2.2	2.1	2.2	2.1	1.6	1.6
Net debt /EBITDA (adj.)	4.9	2.2	1.0	2.4	2.1	2.2	2.1	1.6	1.6
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	157.7	157.7	157.7	157.7	157.7
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	3.5	3.9	3.9	3.1	3.2
BVPS	1.9	1.3	1.6	1.5	1.7	1.7	1.7	1.8	1.8

Cash Flow*

(PLN m)	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Cash flow from operating activities	91.6	145.4	232.2	142.5	76.3	88.1	83.3	91.5	88.4
Net profit	1.5	47.6	68.5	19.1	31.9	21.8	19.7	32.1	29.7
D&A expenses	38.1	41.3	43.9	46.2	47.9	46.9	44.9	43.6	42.7
Working capital	6.3	10.8	43.6	61.2	-22.2	0.9	0.1	-2.8	-2.6
Other	45.7	45.7	76.2	15.9	18.7	18.6	18.6	18.6	18.5
Cash flow from investing activities	-27.1	-15.4	-37.6	-56.2	-50.0	-33.0	-34.5	-35.2	-36.3
CAPEX	-29.0	-15.9	-37.8	-56.2	-50.0	-33.0	-34.5	-35.2	-36.3
Equity investment	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	-24.3	-38.6	-34.7	-33.3	-42.0
Debt	-28.2	-36.0	-113.2	-59.4	-4.8	0.0	0.0	0.0	0.0
Dividends/Buyback	0.0	0.0	-11.9	-36.0	0.0	-19.1	-15.2	-13.8	-22.5
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	-19.5	-19.5	-19.5	-19.5	-19.5
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	2.0	16.5	14.0	23.0	10.1
Cash at eop	1.8	79.3	76.5	79.0	80.9	97.4	111.5	134.5	144.6
DPS (PLN)	0.00	0.00	0.07	0.21	0.00	0.11	0.09	0.08	0.13
FCF	71.9	122.9	179.5	101.9	27.2	56.0	49.7	57.2	53.1
CAPEX/Sales	-2.1%	-0.8%	-1.8%	-3.0%	-2.9%	-1.8%	-1.8%	-1.7%	-1.7%

*Assuming full dilution

Trading Multiples*

	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
P/E	54.3	4.0	2.8	10.1	6.0	8.8	9.8	6.0	6.5
P/E (adj.)	9.6	6.0	2.1	17.2	6.0	8.8	9.8	6.0	6.5
P/CE	2.1	2.2	1.7	2.9	2.4	2.8	3.0	2.5	2.7
P/B	0.6	0.9	0.7	0.7	0.7	0.7	0.6	0.6	0.6
P/S	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
FCF/EV	13.6%	23.7%	44.7%	24.4%	6.6%	14.2%	13.0%	16.0%	15.3%
EV/EBITDA	5.7	3.8	2.1	4.3	4.0	4.4	4.5	3.7	3.7
EV/EBITDA (adj.)	6.2	3.7	2.1	4.7	4.0	4.4	4.5	3.7	3.7
EV/EBIT	9.6	5.4	2.7	8.0	7.3	8.9	9.1	6.4	6.5
EV/S	0.4	0.3	0.2	0.2	0.3	0.2	0.2	0.2	0.2
OCF/EBITDA	97%	103%	116%	141%	71%	95%	94%	89%	89%
CFO/EBITDA (adj.)	100%	100%	116%	153%	71%	95%	94%	89%	89%
Dividend Yield	0.0%	0.0%	9.1%	18.7%	0.0%	9.9%	7.9%	7.2%	11.7%
Price (PLN)	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10
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)	82.8	192.5	192.5	192.5	192.5	192.5	192.5	192.5	192.5
Minority interest (PLN m)	13.8	16.5	17.7	18.4	18.4	18.4	18.4	18.4	18.4
EV (PLN m)	543.6	534.0	419.6	436.7	429.9	413.4	399.4	376.4	366.2

*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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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 Cognor in the 12 months prior to this publication
Cognor

recommendation	buy	hold	hold	hold	hold	accumulate
issued on	2020-08-04	2020-04-22	2019-12-06	2019-12-05	2019-11-04	2019-09-05
target price (PLN)	1.98	0.94	1.25	1.25	1.55	2.00
price at date issued	0.93	0.95	1.20	1.17	1.52	1.65

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