

Wednesday, February 05, 2020 Monthly Market Outlook, an excerpt

## Cognor hold (no change)

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Cognor faces continued growth in costs of electricity (+PLN 30.8m) and employment (+PLN 3.5m) in 2020. At the same time the conditions in the steel market remain challenging, causing us to anticipate a 29% fall this year in recurring EBITDA. Consequently, we see the net debt/EBITDA ratio rising to 2.9x by the end of 2020, putting a strain on Cognor's dividend-paying potential with 2020E DPS likely to be reduced to PLN 0.11 from PLN 0.28 paid last year. We have a hold rating for COG.

<b>Current Price</b>	1.24 PLN	<b>Upside</b>
<b>9M Target Price</b>	1.25 PLN	<b>+0.8%</b>

	rating	target price	issued
<b>unchanged</b>	<b>hold</b>	<b>1.25 PLN</b>	<b>2019-12-06</b>

Key Metrics			COG PW	vs. WIG
Ticker	COG PW	1M Price Chng	-3.1%	-1.4%
ISIN	PLCNTSL00014	YTD Price Chng	0.0%	+0.4%
Outst. Stock (m)	175.0	ADTV 1M		PLN 0.0m
MC (PLN m)	217.0	ADTV 6M		PLN 0.1m
EV (PLN m)	452.7	EV/EBITDA 12M fwd	5.1	+36.4%
Free Float	-	EV/EBITDA 5Y avg	3.7	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.	6.8	2.3	7.4	38.5	24.8
P/B	1.0	0.8	0.8	0.8	0.8
EV/EBITDA adj.	3.8	2.2	4.4	6.1	5.9
DPS	0.00	0.07	0.21	0.07	0.03
DYield	0.0%	5.5%	16.6%	6.0%	2.1%
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
Ferrostal 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
Ferrostal 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
<b>Operating cash flow</b>	<b>145</b>	<b>232</b>	<b>97</b>	<b>85</b>	<b>64</b>
D&A	41	44	47	50	49
Working capital	11	44	26	13	-7
<b>Investing cash flow</b>	<b>-15</b>	<b>-38</b>	<b>-50</b>	<b>-50</b>	<b>-35</b>
CAPEX	16	38	50	50	35
<b>Financing cash flow</b>	<b>-53</b>	<b>-196</b>	<b>-9</b>	<b>-79</b>	<b>-53</b>
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
<b>Value per share (PLN)</b>	<b>1.71</b>

### 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%
<b>9M Target Price</b>		<b>1.25</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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**DCF** – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.

**Relative** – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

**Economic profits** – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

**Discounted Dividends (DDM)** – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

**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	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, Alumental, 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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