

Tuesday, August 04, 2020 | Monthly Market Outlook, an excerpt

## Cognor buy (upgraded)

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The steel industry has been hard hit by the coronavirus crisis, however Cognor and other producers using electric arc furnace (EAF) technology have proved that they have the ability to adjust production more flexibly than BOF steelmakers, plus their long steel products, which are used mostly for construction, remain in demand. That is why we are currently expecting Cognor to report smaller-than-expected EBITDA contraction of 15% in Q2 2020 (+9% q/q), potentially forcing us to raise our FY estimate by as much as PLN 30m to PLN 100m. This in turn would imply that, with the net debt/EBITDA ratio maintained at 2.2x for the year, Cognor could go back to paying dividends again in 2021. We have also raised our 2020 sales volume estimate for Cognor by 2%, and revised the expected per-tonne revenue 5% higher to reflect a more favorable sales mix with a higher share of finished products. After all this, we raise our target price for COG from PLN 0.94 to PLN 1.98, and we upgrade the stock from hold to buy.

<b>Current Price</b>	0.93 PLN	<b>Upside</b>
<b>9M Target Price</b>	1.98 PLN	<b>+113.4%</b>

	rating	target price	issued
<b>new</b>	<b>buy</b>	<b>1.98 PLN</b>	<b>2020-08-04</b>
<b>old</b>	hold	0.94 PLN	2020-04-22

  

Key Metrics		COG PW	vs. WIG
Ticker	COG PW	1M Price Chng	-7.2%
ISIN	PLCNTSL00014	YTD Price Chng	-25.2%
Outst. Stock (m)	175.0	ADTV 1M	PLN 0.1m
MC (PLN m)	162.4	ADTV 6M	PLN 0.1m
EV (PLN m)	405.2	EV/EBITDA 12M fwd	3.3
Free Float	-	EV/EBITDA 5Y avg	3.7

### Earnings Projections

(PLN m)	2018	2019	2020P	2021P	2022P
Revenue	2,082	1,902	1,697	1,873	1,969
EBITDA adj.	200	93	100	93	89
EBITDA margin	9.6%	4.9%	5.9%	5.0%	4.5%
EBIT adj.	156	47	52	46	44
Net income adj.	94	11	27	22	20
P/E adj.	1.7	14.5	6.1	7.5	8.2
P/B	0.6	0.6	0.6	0.6	0.5
EV/EBITDA adj.	1.9	4.4	4.0	4.1	4.1
DPS	0.07	0.21	0.00	0.08	0.06
DYield	7.3%	22.2%	0.0%	8.2%	6.7%

  

Forecast Update (% change)	2020P	2021P	2022P
Revenue	+4.1%	+2.4%	+1.3%
EBITDA	+43.1%	+39.1%	+38.3%
Net income	-	-	-
Sales volume	+2.2%	-1.8%	-3.1%
Product prices	+4.5%	+5.9%	+5.6%
Scrap prices	0.0%	0.0%	0.0%

### Financial Highlights

(PLN m)	2018	2019	2020P	2021P	2022P
Ferostal volume (k tons)	401	424	399	470	505
HSJ volume (k tons)	237	237	213	223	228
Zlomrex volume (k tons)	173	142	130	137	140
Ferostal spread (PLN/t)	1,191	1,127	1,110	1,131	1,145
HSJ spread (PLN/t)	1,723	1,508	1,414	1,490	1,506
<b>Operating cash flow</b>	<b>232</b>	<b>142</b>	<b>71</b>	<b>88</b>	<b>83</b>
D&A	44	46	48	47	45
Working capital	44	61	-22	1	0
<b>Investing cash flow</b>	<b>-38</b>	<b>-56</b>	<b>-50</b>	<b>-33</b>	<b>-35</b>
CAPEX	38	56	50	33	35
<b>Financing cash flow</b>	<b>-196</b>	<b>-84</b>	<b>-24</b>	<b>-33</b>	<b>-30</b>
Dividends/Buyback	-12	-36	0	-13	-11
FCF	179	102	22	56	50
FCF/EBITDA	90%	101%	22%	60%	56%
OCF/EBITDA	116%	141%	71%	95%	94%

### Key Balance Sheet Figures

(PLN m)	2018	2019	2020P	2021P	2022P
Assets	1,001	1,052	990	1,036	1,064
Fixed assets	379	487	481	459	445
Equity	278	259	285	294	303
Minority interests	278	259	285	294	303
Net debt	209	226	224	202	184
Net debt/EBITDA (x)	1.0	2.2	2.2	2.2	2.1
Net debt/Equity (x)	0.8	0.9	0.8	0.7	0.6

### Relative Valuation Summary

	P/E			EV/EBITDA		
	20P	21P	22P	20P	21P	22P
Minimum	4.3	5.6	4.5	2.0	2.2	1.2
Maximum	24.3	27.7	28.7	29.6	15.5	9.1
Median	15.3	12.1	9.3	8.1	6.7	4.9
Weight	17%	17%	17%	17%	17%	17%

### DCF Analysis

(PLN m)	20P	21P	22P	23P	24P	25P	26P	27P	28P	29P	+
Sales volume	612	693	733	756	776	790	804	806	808	808	808
Product prices	2,045.0	2,054.3	2,066.7	2,079.8	2,102.7	2,113.2	2,123.3	2,133.4	2,141.3	2,149.1	
Scrap prices	1,040	1,008	1,008	1,008	1,008	1,008	1,008	1,008	1,008	1,008	1,008
Revenue	1,697	1,873	1,969	2,030	2,087	2,129	2,172	2,187	2,203	2,213	2,224
EBITDA	100	93	89	103	99	94	93	92	92	88	85
EBITDA margin	5.9%	5.0%	4.5%	5.1%	4.7%	4.4%	4.3%	4.2%	4.2%	4.0%	3.8%
EBIT	52	46	44	59	56	52	50	48	48	44	41
Tax	6	5	5	8	7	6	6	5	5	5	4
CAPEX	-50	-33	-35	-35	-36	-38	-40	-43	-43	-43	-43
Working capital	-22	1	0	-3	-3	-2	-2	-1	-1	0	0
FCF	22	56	50	57	53	49	46	43	43	40	37
PV FCF	21	51	42	45	39	33	29	25	23	20	
WACC	6.9%	7.0%	7.1%	7.3%	7.4%	7.4%	7.5%	7.5%	7.6%	7.6%	7.6%
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	328
Net debt	262
Other adj.	18
<b>Value per share (PLN)</b>	<b>2.17</b>

### Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	1.52
DCF Val.	50%	2.17
Implied Price		1.84
Cost of equity (9M)		7.2%
<b>9M Target Price</b>		<b>1.98</b>

**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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**BUY** – we expect that the rate of return from an investment will be at least 15%  
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**mBank issued the following investment recommendations for the Company in the 12 months prior to this publication**
**Cognor**

Rating	buy	hold	hold	hold	hold	accumulate
Rating date	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 on rating day	0.93	0.95	1.20	1.17	1.52	1.65

**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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