

Wednesday, November 06, 2019 | Monthly Market Outlook, an excerpt

## Cognor hold (no change)

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Cognor reported much worse-than-expected results for Q3 2019, led by weak sales hurt by longer-than-scheduled plant closures for maintenance. As a result, we recently had to cut our FY2019 EBITDA estimate for the Company from PLN 123m to PLN 110m, with the net profit forecast lowered from PLN 45m to PLN 36m. Cognor has changed its accounting approach to maintenance expenses this year, and this, combined with negative FIFO accounting effects and persistent falls in scrap and end-product metal prices will probably continue weighing on EBITDA growth in Q4 2019. With flat fourth-quarter earnings, and with the ex-dividend date now behind us, we see no upside potential in COG at this time, and so we maintain a hold rating for the stock with the target price at PLN 1.55 per share.

<b>Current Price</b>	1.36 PLN	<b>Upside</b>
<b>9M Target Price</b>	1.55 PLN	<b>+14.0%</b>

	rating	target price	issued
<b>unchanged</b>	<b>hold</b>	<b>1.55 PLN</b>	<b>2019-11-04</b>

Key Metrics			COG PW	vs. WIG
Ticker	COG PW	1M Price Chng	-7.8%	-14.1%
ISIN	PLCNTSL00014	YTD Price Chng	+3.0%	-0.1%
Outst. Stock (m)	175.0	ADTV 1M		PLN 0.2m
MC (PLN m)	238.0	ADTV 6M		PLN 0.1m
EV (PLN m)	472.2	EV/EBITDA 12M fwd	3.8	+8.7%
Free Float	-	EV/EBITDA 5Y avg	3.5	premium

### Earnings Projections

(PLN m)	2017	2018	2019P	2020P	2021P
Revenue	1,789	2,082	1,920	1,798	2,019
EBITDA adj.	146	200	110	99	96
EBITDA margin	8.1%	9.6%	5.8%	5.5%	4.7%
EBIT adj.	104	156	64	49	46
Net income adj.	32	94	35	26	26
P/E adj.	7.5	2.5	6.7	9.0	9.0
P/B	1.1	0.9	0.8	0.8	0.8
EV/EBITDA adj.	4.0	2.3	4.3	4.6	4.6
DPS	0.00	0.07	0.21	0.13	0.11
DYield	0.0%	5.0%	15.1%	9.7%	7.8%

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	425
HSJ volume (k tons)	231	237	213	232	251
Złomrex volume (k tons)	131	173	176	180	183
Ferostal spread (PLN/t)	953	1,191	1,120	1,162	1,173
HSJ spread (PLN/t)	1,272	1,723	1,656	1,606	1,586
<b>Operating cash flow</b>	<b>145</b>	<b>232</b>	<b>99</b>	<b>110</b>	<b>81</b>
D&A	41	44	47	50	49
Working capital	11	44	21	18	-8
<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>-89</b>	<b>-67</b>
Dividends/Buyback	0	-12	-36	-23	-18
FCF	123	179	74	61	47
FCF/EBITDA	87%	90%	67%	62%	49%
OCF/EBITDA	103%	116%	89%	111%	84%

### Key Balance Sheet Figures

(PLN m)	2017	2018	2019P	2020P	2021P
Assets	951	1,001	1,021	951	965
Fixed assets	398	379	401	393	370
Equity	225	278	281	284	292
Minority interests	225	278	281	284	292
Net debt	325	209	217	196	182
Net debt/EBITDA (x)	2.3	1.0	2.0	2.0	1.9
Net debt/Equity (x)	1.4	0.8	0.8	0.7	0.6

### Relative Valuation Summary

	P/E			EV/EBITDA		
	19P	20P	21P	19P	20P	21P
Minimum	4.7	7.3	5.8	3.4	2.7	3.1
Maximum	56.2	383.9	35.8	9.3	8.7	7.9
Median	9.9	11.3	9.4	6.3	6.4	5.6
Weight	0%	25%	25%	0%	25%	25%

### DCF Analysis

(PLN m)	19P	20P	21P	22P	23P	24P	25P	26P	27P	28P	+
Sales volume	594	582	677	724	753	777	793	809	809	809	809
Product prices	2,284.4	2,179.0	2,181.8	2,193.0	2,205.3	2,217.9	2,231.4	2,244.0	2,256.5	2,269.0	2,281.5
Scrap prices	1,099	969	990	990	990	990	990	990	990	990	990
Revenue	1,920	1,798	2,019	2,137	2,215	2,286	2,337	2,388	2,405	2,421	2,437
EBITDA	110	99	96	83	79	76	75	73	73	76	78
EBITDA margin	5.8%	5.5%	4.7%	3.9%	3.6%	3.3%	3.2%	3.0%	3.1%	3.1%	3.2%
EBIT	64	49	46	36	33	30	29	26	26	28	30
Tax	8	6	6	4	4	4	4	3	3	4	4
CAPEX	-50	-50	-35	-36	-37	-39	-40	-43	-46	-47	-47
Working capital	21	18	-8	-5	-6	-5	-4	-4	-1	-1	-1
FCF	74	61	47	38	32	28	27	23	23	25	27
PV FCF	73	56	40	30	24	19	17	13	12	13	
WACC	7.5%	7.5%	7.6%	7.6%	7.7%	7.7%	7.8%	7.8%	7.8%	7.8%	7.8%
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	298
Net debt	245
Other adj.	18
<b>Value per share (PLN)</b>	<b>1.54</b>

### Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	1.35
DCF Val.	50%	1.54
Implied Price		1.45
Cost of equity (9M)		7.0%
<b>9M Target Price</b>		<b>1.55</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.

## Cognor

Rating	hold	accumulate	hold	accumulate	accumulate	overweight	neutral	underweight	neutral
Rating date	2019-11-04	2019-09-05	2019-07-25	2019-07-03	2019-06-14	2019-06-03	2019-05-09	2019-03-05	2018-12-05
Target price (PLN)	1.55	2.00	1.84	1.84	1.79	-	-	-	-
Price on rating day	1.52	1.65	1.75	1.77	1.64	1.60	1.59	1.94	1.80

## 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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