

Friday, June 14, 2019 | update

## Cognor: accumulate (maintained)

COG PW; COGP.WA | Industry, Poland

### Attractive despite declining results

The weaker environment in the steel industry in H1 2019, in our opinion, will result in a clear drop of earnings in 2019 from the record-breaking level delivered a year earlier. In our view, the lower sales volume (2% y/y) combined with the decrease in market spreads will result in about PLN 46m reduction of the result. In addition, electricity costs are expected to be higher (+ PLN 35m) as well as payroll costs (+ PLN 10m). Despite the expected nearly 50% decrease in EBITDA in 2019, Cognor will continue to generate approximately PLN 60m in free cash flows (FCF) over the next three years, which will lead to a large dividend stream for shareholders. The right to dividend PLN 0.30 per share for 2018 will be cut off in September, which with a current number of shares gives Dyield at the level of 19% (the highest on the WSE). We assume that with an average annual EBITDA of approximately PLN 100m, the Group is able to maintain the dividend rate of around 10% in 2020 and 2021. While we still expect poor financial results in Q2, in H2 2019 the Cognor Group will benefit from the closure of the Arcelor Mittal blast furnace in Krakow and from the observed increase in the competitiveness of electric arc furnaces (EAF) over basic oxygen furnaces (BOF). After the share discount, we maintain our positive view for the Cognor Group (now accumulate, previously overweight), and we set the target price @PLN 1.79 per share.

### Less competition in billets in H2 2019

The reduction of the production by Arcelor Mittal in Krakow caused a decrease in production by about 1.3 million tonnes of billets per year (13% of 2018 steel production in Poland). The close down of the furnace should have a positive impact on the market in H2 2019. Lower supply should result in market equilibrium, and electric producers are expected to experience less competition for scrap (Arcelor in Krakow consumed up to 200,000 tonnes of scrap per year). After the decision of Arcelor Mittal, Cognor already notices the greater interest of customers in the supply of semi-finished products (billets) to the rolling mill.

### The competitiveness of EAF over BOF is improving

Persistently high prices of iron ore and coke cause a clear decrease in the competitiveness of basic oxygen furnaces (BOF) over Electric arc furnaces (EAF). 'Electric' producers are currently about \$20/t cheaper than BOF in billet production, and this is the first time since 2017.

### Increased power & lower costs ahead

Cognor has planned a number of modernization works at the Ferostal and HSJ plants & key rolling mills. As a result, in H2 2020, the Group's total production capacity will increase by over 30% and the savings, resulting from the improvement of production processes, according to our estimates will decrease by about PLN 64/t (potential of PLN 60m savings per year for 2018 volumes). In addition, the observed decreases in prices of graphite electrodes, in our opinion, will result in savings of PLN 25/t as early as in 2020 (almost PLN 16 million savings per year for volumes for 2018).

(PLN m)	2017	2018	2019E	2020E	2021E
Revenue	1,789.3	2,081.8	2,004.2	1,900.4	2,086.3
EBITDA adj.	145.7	200.0	108.5	99.9	106.4
EBITDA margin adj.	8.1%	9.6%	5.4%	5.3%	5.1%
EBIT adj.	104.4	156.2	61.7	49.6	57.0
Net profit adj.	31.9	93.7	33.9	27.0	35.0
P/E adj.	9.0	3.1	8.5	10.6	8.2
P/CE	3.2	2.6	3.4	3.7	3.4
P/BV	1.3	1.0	1.0	1.0	1.0
EV/EBITDA adj.	4.6	2.7	5.2	5.4	4.9
DPS	0.00	0.07	0.21	0.13	0.11
DYield	0.0%	6.1%	12.5%	7.7%	6.6%

\*Ration at full dilution scenario

Current Price	PLN 1.64
Target Price	PLN 1.79
Market Cap	PLN 287 m
Free Float	PLN 67 m
ADTV (3M)	PLN 0.4 m

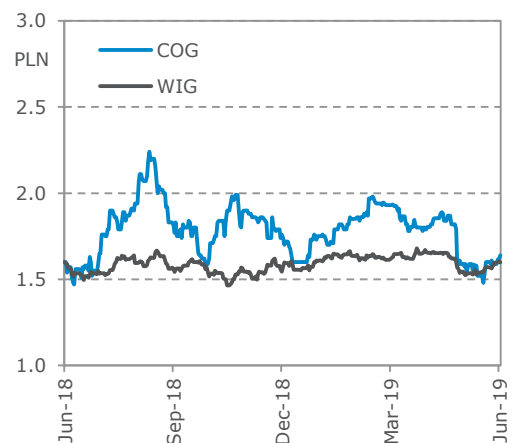
### Ownership

PS HoldCo Sp.z o.o	76.76%
Others	23.24%

### Business profile

The Cognor Group has about 6% share in domestic steel production and about 15% share in the production of steel by means of electric arc (EAF). 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. The total production capacity of the company is 636 thousand tonnes, which in 2020 will rise to the level of 850 thousand tonnes. The Cognor Group has its own scrap buying centres, which can supply about 50% of the steel scrap needed.

### COG vs. WIG



Company	Target Price		Rating	
	new	old	new	old
Cognor	1.79	-	accumulate	overweight

Company	Current Price	Target Price	Upside/Downside
	Cognor	1.64	1.79

Forecast revision since last update	2019E	2020E	2021E
	Revenues	-2.7%	-1.3%
EBITDA	-5.5%	-3.3%	+0.4%
Net profit	-13.0%	-9.2%	+1.1%
Sales volume	0.0%	-0.5%	+4.6%
Product prices	-2.5%	-2.0%	-2.8%
Scrap prices	-3.3%	0.0%	-1.8%

### Analyst:

Jakub Szkopek  
+48 22 438 24 03  
jakub.szkopek@mbank.pl

## Valuation

The value of Cognor based on DCF valuation is estimated at PLN 2.05, and based on a relative valuation at PLN 1.30.

(PLN)	weight	price
Relative Valuation	50%	1.30
DCF Analysis	50%	2.05
	price	1.67
<b>9M target price</b>		<b>1.79</b>

## Relative Valuation

We compared the earnings multiples of Cognor with those of a group of comparable global producers and distributors of steel. The peer group also includes the Polish secondary aluminum producer Alumetal. We applied a 20% discount to peer group due to the presence of convertible bonds and high variability of results depending on the relation between scrap prices and end products.

## Multiples Comparison

	Country	P/E			EV/EBITDA		
		2019E	2020E	2021E	2019E	2020E	2021E
AK STEEL HOLDING CORP	USA	5.9	6.4	6.4	6.1	6.4	5.9
ALUMETAL SA	Poland	8.6	9.3	9.1	7.1	6.7	6.1
ARCELORMITTAL	Luxembourg	5.8	5.0	4.8	3.7	3.3	3.2
BAOSHAN IRON & STEEL CO-A	China	9.1	8.5	8.5	4.4	4.0	4.1
COMMERCIAL METALS CO	USA	8.0	7.0	6.9	5.8	4.7	4.3
HESTEEL CO LTD-A	China	14.2	14.0	13.2	-	-	-
HITACHI METALS LTD	Japan	14.2	16.2	12.7	6.8	6.2	5.4
HYUNDAI STEEL CO	South Korea	9.4	7.9	7.4	5.9	5.3	4.9
JFE HOLDINGS INC	Japan	5.7	7.3	6.8	6.3	6.6	6.3
JSW STEEL LTD	India	8.5	10.6	9.2	5.9	6.4	6.0
KLOECKNER & CO SE	Germany	20.0	12.0	10.8	5.5	4.5	4.0
METALURGICA GERDAU SA-PREF	Brazil	6.8	5.6	-	11.8	-	3.0
NIPPON YAKIN KOGYO CO LTD	Japan	4.3	-	-	-	-	-
NUCOR CORP	USA	9.3	10.4	10.6	5.8	6.1	5.9
OLYMPIC STEEL INC	USA	13.3	12.3	14.7	7.6	-	-
OUTOKUMPU OYJ	Finland	16.9	6.7	5.6	5.9	4.3	3.9
POSCO	South Korea	7.6	7.1	6.8	4.4	4.1	3.8
SALZGITTER AG	Germany	8.4	7.5	6.7	2.8	2.8	3.3
SSAB AB-A SHARES	Sweden	8.7	9.0	8.7	4.1	3.8	3.5
STEEL AUTHORITY OF INDIA	India	8.2	6.3	6.0	7.1	6.3	5.2
STEEL DYNAMICS INC	USA	7.6	8.1	8.6	4.8	5.2	5.8
TATA STEEL LTD	India	6.4	7.3	7.0	5.7	5.8	5.7
THYSSENKRUPP AG	Germany	15.3	9.4	8.2	6.1	5.2	4.6
UNITED STATES STEEL CORP	USA	8.9	10.4	11.6	4.2	4.8	5.3
VOESTALPINE AG	Austria	10.3	9.8	8.1	5.4	5.3	4.8
Maksimum		20.0	16.2	14.7	11.8	6.7	6.3
Minimum		4.3	5.0	4.8	2.8	2.8	3.0
<b>Median</b>		<b>8.6</b>	<b>8.3</b>	<b>8.2</b>	<b>5.8</b>	<b>5.2</b>	<b>4.9</b>
Cognor		8.3	10.4	8.0	5.1	5.4	4.8
premium (discount)		-4.0%	24.9%	-2.4%	-11.3%	2.8%	-1.2%
<b>Implied Valuation</b>							
Median		8.6	8.3	8.2	5.8	5.2	4.9
Discount		20%	20%	20%	20%	20%	20%
Weight of multiple			50%			50%	
Weight of year		33%	33%	33%	33%	33%	33%
<b>Value per share (PLN)</b>		<b>1.30</b>					

## Additional Assumptions

### Historical and projected sales of Złomrex Metal

	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Sales volume (thousand tonnes)	100.1	119.0	95.0	130.9	172.8	176.2	179.7	183.3	187.0
Revenue (PLN m)	94.2	100.1	71.6	136.9	186.0	187.8	177.1	177.9	181.4
Average sales price (PLN/t)	941.3	840.8	753.4	1 046.0	1 076.6	1 065.8	985.1	970.2	970.2
Sales price discount to scrap (%)	-10%	4%	-11%	-2%	-13%	-2%	-2%	-2%	-2%

Source: Dom Maklerski mBanku

### Sales data for Ferrostal

Sales volume (ths. tons)	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
<b>Billets</b>	<b>169.9</b>	<b>104.1</b>	<b>85.3</b>	<b>119.2</b>	<b>81.8</b>	<b>85.9</b>	<b>79.0</b>	<b>118.5</b>	<b>130.3</b>
Plain bars	35.7	32.3	29.3	30.0	30.3	29.1	26.7	29.7	32.6
<b>Flat bars</b>	<b>64.2</b>	<b>60.2</b>	<b>61.4</b>	<b>48.1</b>	<b>44.1</b>	<b>42.3</b>	<b>38.9</b>	<b>43.2</b>	<b>47.5</b>
Squares	13.7	11.0	7.7	6.5	8.3	8.0	7.4	8.2	9.0
<b>Rebars</b>	<b>41.6</b>	<b>82.5</b>	<b>188.1</b>	<b>202.1</b>	<b>213.7</b>	<b>205.1</b>	<b>188.7</b>	<b>209.5</b>	<b>230.4</b>
Angles	30.1	32.2	24.9	17.5	22.3	21.4	19.7	21.8	24.0
Other	1.2	6.3	6.6	3.1	1.1	1.1	1.0	1.1	1.2
Average spreads (PLN/t)	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
<b>Billets</b>	<b>868.9</b>	<b>802.7</b>	<b>718.5</b>	<b>878.0</b>	<b>1,046.0</b>	<b>1,010.6</b>	<b>1,026.8</b>	<b>1,064.5</b>	<b>1,077.7</b>
Plain bars	1,081.0	1,088.0	1,120.6	1,069.0	1,365.0	1,315.5	1,322.5	1,363.7	1,378.9
<b>Flat bars</b>	<b>1,083.8</b>	<b>1,110.4</b>	<b>1,157.8</b>	<b>1,075.0</b>	<b>1,386.0</b>	<b>1,335.6</b>	<b>1,342.0</b>	<b>1,383.4</b>	<b>1,398.7</b>
Squares	1,067.5	1,082.6	1,130.7	1,048.0	1,342.0	1,293.5	1,301.2	1,342.1	1,357.2
<b>Rebars</b>	<b>880.0</b>	<b>772.4</b>	<b>822.9</b>	<b>937.0</b>	<b>1,151.0</b>	<b>1,111.0</b>	<b>1,124.2</b>	<b>1,163.0</b>	<b>1,176.9</b>
Angles	1,121.8	1,091.8	1,170.4	1,050.0	1,397.0	1,346.1	1,352.2	1,393.7	1,409.1
Other	1,732.4	1,322.9	1,421.3	1,117.0	1,892.0	1,819.3	1,811.0	1,857.9	1,876.4

Source: Dom Maklerski mBanku

### Sales data do HSJ

Sales volume (ths. tons)	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
<b>Billets</b>	<b>18.1</b>	<b>28.1</b>	<b>40.5</b>	<b>66.2</b>	<b>58.7</b>	<b>57.5</b>	<b>69.0</b>	<b>79.4</b>	<b>80.9</b>
<b>SQ bars</b>	<b>144.6</b>	<b>150.3</b>	<b>153.7</b>	<b>156.5</b>	<b>175.6</b>	<b>172.1</b>	<b>180.7</b>	<b>186.1</b>	<b>189.9</b>
Thick sheets	5.8	16.4	5.7	7.7	1.6	1.6	1.6	1.7	1.7
Thin sheets	0.9	1.1	0.6	0.5	0.7	0.7	0.7	0.7	0.8
Other	0.5	0.7	0.6	0.3	0.5	0.5	0.5	0.5	0.5
Average spreads (PLN/t)	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
<b>Billets</b>	<b>1,873.3</b>	<b>1,341.3</b>	<b>978.6</b>	<b>1,176.0</b>	<b>1,486.0</b>	<b>1,464.0</b>	<b>1,470.0</b>	<b>1,514.8</b>	<b>1,531.4</b>
<b>SQ bars</b>	<b>1,746.2</b>	<b>1,687.5</b>	<b>1,552.5</b>	<b>1,709.0</b>	<b>2,192.0</b>	<b>2,138.9</b>	<b>2,124.4</b>	<b>2,176.9</b>	<b>2,197.9</b>
Thick sheets	1,912.1	1,529.9	1,885.4	1,742.0	3,446.0	3,337.6	3,286.8	3,352.9	3,381.6
Thin, sheets	10,048.6	9,922.3	10,284.5	9,897.0	10,307.0	9,896.1	9,646.5	9,787.1	9,858.3
Other	23,149.4	22,629.1	20,890.9	24,078.0	22,173.0	21,238.8	20,645.5	20,915.1	21,059.7

Source: E – projections by Dom Maklerski mBanku

**Macroeconomic Assumptions (2014–2022E)**

	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Price of rolled sheets (PLN/t)	2,142	1,960	1,919	2,417	2,588	2,365	2,297	2,327	2,343
Price of HEB sections (PLN/t)	2,336	2,204	2,240	2,282	2,614	2,545	2,434	2,460	2,475
Price of rebars (PLN/t)	2,328	2,200	2,170	2,139	2,439	2,394	2,352	2,380	2,395
Steel production in Poland (million tonnes)	8.6	9.1	8.9	10.3	10.3	9.5	9.3	9.8	10.0
Congor share in Poland %	6.1%	5.8%	6.8%	6.4%	6.2%	6.6%	6.6%	7.2%	7.5%
USD/PLN	3.15	3.74	3.94	3.78	3.61	3.75	3.59	3.60	3.60
Coke price (USD/t)	126	102	119	179	193	185	175	165	165
Iron ore price (USD/t)	98	57	59	72	70	90	80	75	75
Scrap price (USD/t)	333	216	215	282	343	290	280	275	275
BOF (USD/t)	302	198	212	282	299	316	292	277	277
EAF (USD/t)	371	241	239	315	383	323	312	307	307
BOF - EAF (USD)	-69	-44	-28	-33	-83	-7	-20	-30	-30
BOF (PLN/t)	951	740	835	1,066	1,081	1,185	1,048	996	996
EAF (PLN/t)	1,168	903	944	1,190	1,381	1,213	1,121	1,104	1,104
Scrap (PLN/t)	1,048	810	847	1,067	1,238	1,088	1,005	990	990

Source: Dom Maklerski mBanku

**Historical and projected debt of Cognor**

(PLN m)	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Factored accounts receivable (excluded from fin. statements)	0.0	55.6	110.7	110.7	110.7	110.7	110.7	110.7	110.7
Factored accounts receivable	33.4	20.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7
Bonds	423.1	382.2	384.2	338.6	215.0	212.5	212.5	212.5	212.5
Reverse factoring	56.3	9.8	10.5	20.0	20.0	20.0	20.0	20.0	20.0
Pre-financing of scrap	0.0	14.3	12.3	15.0	15.0	15.0	15.0	15.0	15.0
Other debt	80.2	69.0	87.8	80.0	160.0	85.0	35.0	0.0	0.0
Debt resulting from conversion	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest expenses	51.3	49.0	45.9	47.2	37.3	19.8	16.3	13.8	13.8
%	9.2%	10.3%	9.3%	10.4%	9.1%	6.0%	5.8%	5.6%	5.6%
Banking and transaction charges	4.4	6.0	5.7	4.8	7.1	0.0	0.0	0.0	0.0
EUR/PLN (eop)	4.26	4.26	4.42	4.18	4.30	4.25	4.25	4.25	4.25

Source: Dom Maklerski mBanku

## DCF Valuation

### Assumptions:

- We use a Beta of 1.2. The higher value is related to the high cyclicality of activity conducted by Cognor. In addition, higher discount is a result of a large overhang of the supply of shares after the conversion of warrants into shares by creditors..

- Future cash flows are discounted to their present value as of early June 2018.
- Net debt is as of year-end 2018.

### DCF Model

(PLN m)	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	+
Revenue	2,004.2	1,900.4	2,086.3	2,207.5	2,286.2	2,357.6	2,409.2	2,461.9	2,478.0	2,494.1	2,510.3
pct. change	-3.7%	-5.2%	9.8%	5.8%	3.6%	3.1%	2.2%	2.2%	0.7%	0.7%	0.6%
EBITDA	108.5	99.9	106.4	94.3	89.6	85.5	83.4	80.8	81.0	82.9	84.5
EBITDA margin	5.4%	5.3%	5.1%	4.3%	3.9%	3.6%	3.5%	3.3%	3.3%	3.3%	3.4%
D&A	46.8	50.3	49.3	47.4	46.2	45.6	45.6	46.2	47.4	48.0	48.0
EBIT	61.7	49.6	57.0	46.9	43.4	39.9	37.8	34.5	33.6	35.0	36.6
EBIT margin	3.1%	2.6%	2.7%	2.1%	1.9%	1.7%	1.6%	1.4%	1.4%	1.4%	1.5%
Tax on EBIT	7.4	6.3	8.2	6.3	5.9	5.4	5.3	4.9	4.7	4.9	5.2
NOPLAT	54.3	43.3	48.8	40.6	37.5	34.5	32.4	29.7	28.9	30.0	31.3
CAPEX	-50.0	-50.0	-34.6	-36.4	-37.3	-38.6	-40.3	-42.5	-46.2	-46.6	-47.1
Working capital	14.8	16.8	-5.4	-4.8	-6.0	-5.5	-4.0	-4.0	-1.2	-1.2	-1.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
FCF	65.9	60.4	58.2	46.8	40.5	36.0	33.8	29.4	28.9	31.2	33.0
WACC	7.5%	7.5%	7.7%	7.7%	7.8%	7.8%	7.9%	7.9%	7.9%	8.0%	8.0%
Discount factor	0.96	0.90	0.83	0.77	0.71	0.66	0.61	0.57	0.52	0.48	0.44
PV FCF	63.6	54.1	48.3	36.1	28.9	23.8	20.7	16.6	15.1	15.0	14.7

WACC	7.5%	7.5%	7.7%	7.7%	7.8%	7.8%	7.9%	7.9%	7.9%	8.0%	8.0%
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	17.7%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Net debt / EV	44.5%	42.1%	39.0%	38.0%	36.8%	35.9%	34.9%	34.4%	33.6%	32.6%	31.8%
Cost of equity	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
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	547.3
Present value of terminal value	263.7
Present value of FCF in the forecast period	322.2
Enterprise value	585.9
Net debt	209.4
Minority interests	17.7
<b>Equity Value</b>	<b>358.7</b>
Number of shares (millions)	175.0
Equity value per share (PLN)	2.1
9M cost of equity	7.0%
<b>9M target price (PLN)</b>	<b>2.2</b>

EV/EBITDA (19E) at target price	5.8
P/E (19E) at target price	10.4
TV / EV	45.0%

### Sensitivity Analysis

	FCF growth in perpetuity				
	0.0%	1.0%	2.0%	3.0%	5.0%
WACC +1.0pp	1.5	1.6	1.8	2.0	2.7
WACC +0.5pp	1.6	1.8	2.0	2.2	3.2
WACC	1.8	2.0	<b>2.2</b>	2.5	3.8
WACC -0.5pp	2.0	2.2	2.5	2.9	4.6
WACC -1.0pp	2.2	2.4	2.8	3.3	5.9

**Income Statement**

(PLN m)	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Revenue	1,422.5	1,364.8	1,352.4	1,789.3	2,081.8	2,004.2	1,900.4	2,086.3	2,207.5
pct. change	9.9%	-4.1%	-0.9%	32.3%	16.4%	-3.7%	-5.2%	9.8%	5.8%
Ferrostal	695.5	586.2	678.4	838.8	916.6	856.2	763.8	919.5	1 018.2
HSJ	442.7	455.2	400.2	471.8	623.7	584.3	595.0	620.0	636.6
Złomrex Metal	100.1	119.0	95.0	130.9	172.8	176.2	179.7	183.3	187.0
Other	190.2	223.3	202.3	323.4	393.1	375.9	364.6	368.9	371.3
D&A	34.8	35.3	37.9	41.3	43.9	46.0	49.4	48.5	46.6
Materials & Utilities	895.9	799.4	747.2	1,129.9	1,364.5	1,319.0	1,222.2	1,350.0	1,444.0
metal scrap	590.1	510.5	527.3	761.9	807.6	739.8	673.5	755.1	806.5
electricity	114.8	124.3	126.0	130.2	144.5	179.0	183.8	210.6	226.6
Services	200.4	203.4	228.4	152.5	170.6	171.8	173.4	194.6	208.8
Taxes and charges	11.8	15.0	9.2	10.8	11.9	11.7	11.7	11.2	10.9
Payroll	109.0	128.1	136.2	161.3	183.6	193.5	200.0	228.1	252.2
Other costs	4.9	4.8	4.3	4.7	6.2	5.1	5.3	5.5	5.3
COGS	158.9	158.1	148.8	201.8	227.2	225.5	218.8	221.3	222.8
Adjustment	58.4	-7.2	14.4	13.0	79.5	30.0	30.0	30.0	30.0
COGM	1,275.9	1,269.0	1,209.7	1,573.0	1,805.5	1,942.5	1,850.9	2,029.3	2,160.6
Selling expenses	43.0	47.8	50.0	65.8	76.7	77.2	78.0	87.5	93.9
Administrative expenses	38.5	34.6	37.9	50.5	46.0	47.0	47.9	48.9	49.8
Other operating income/loss	0.9	-0.2	1.7	-0.7	2.6	0.0	0.0	0.0	0.0
One-time events	1.0	2.4	3.4	-5.2	0.0	0.0	0.0	0.0	0.0
EBIT	65.4	13.1	56.5	99.2	156.2	61.7	49.6	57.0	46.9
pct. change	132.6%	-79.9%	329.9%	75.5%	57.5%	-60.5%	-19.6%	15.0%	-17.8%
EBIT margin	4.6%	1.0%	4.2%	5.5%	7.5%	3.1%	2.6%	2.7%	2.1%
EBIT (adj.)	64.4	10.8	53.1	104.4	156.2	61.7	49.6	57.0	46.9
EBITDA (adj.)	99.5	46.6	91.2	145.7	200.0	108.5	99.9	106.4	94.3
Financing gains / losses	-67.3	-30.3	-63.0	-31.2	-62.8	-16.7	-16.3	-13.8	-13.8
Interest expenses	55.7	55.0	45.9	52.0	38.3	19.8	16.3	13.8	13.8
Bond repurchase, FX gains	-10.6	26.7	-10.5	20.8	-25.1	3.1	0.0	0.0	0.0
Pre-tax income	3.3	-17.3	-6.4	68.1	92.8	44.9	33.3	43.2	33.1
Tax	-6.4	3.3	7.9	18.1	20.7	8.0	6.3	8.2	6.3
Minority interests	0.0	0.9	0.1	2.3	3.5	0.0	0.0	0.0	0.0
Net income	5.7	-14.8	1.5	47.6	68.5	37.0	27.0	35.0	26.8
pct. change	-111.7%	-361.8%	-110.3%	3019.5%	44.0%	-46.0%	-27.1%	29.8%	-23.4%
margin	0.4%	-1.1%	0.1%	2.7%	3.3%	1.8%	1.4%	1.7%	1.2%
Net profit (adj.)	15.3	-43.9	8.6	31.9	93.7	33.9	27.0	35.0	26.8
D&A	35.1	35.9	38.1	41.3	43.9	46.8	50.3	49.3	47.4
EBITDA	100.5	49.0	94.6	140.5	200.1	108.5	99.9	106.4	94.3
pct. change	54.1%	-51.2%	93.0%	48.6%	42.4%	-45.8%	-8.0%	6.5%	-11.3%
EBITDA margin	7.1%	3.6%	7.0%	7.9%	9.6%	5.4%	5.3%	5.1%	4.3%
Shares at year-end (millions)	66.2	69.9	75.3	175.0	175.0	175.0	175.0	175.0	175.0
EPS	0.1	-0.2	0.0	0.3	0.4	0.2	0.2	0.2	0.2
CEPS	0.6	0.3	0.5	0.5	0.6	0.5	0.4	0.5	0.4
ROAE	3.4%	-10.1%	1.1%	21.1%	24.6%	13.3%	9.5%	11.7%	8.9%
ROAA	0.6%	-1.8%	0.2%	5.0%	6.8%	3.6%	2.8%	3.6%	2.7%

**Balance Sheet**

<b>(PLN m)</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
<b>ASSETS</b>	940.5	846.3	895.3	950.7	1,001.4	1,034.6	970.1	985.7	1,010.5
Fixed assets	422.7	408.5	424.9	398.5	379.3	401.4	393.1	370.4	355.9
Intangible assets	11.3	10.8	11.9	13.0	18.0	22.7	27.4	30.6	34.0
Property, plant and equipment	289.6	278.0	292.8	285.9	284.6	310.9	306.8	289.8	276.3
Goodwill	15.3	15.2	15.2	15.2	8.9	8.9	8.9	8.9	8.9
Noncurrent receivables	22.8	20.9	20.1	26.0	23.3	23.3	23.3	23.3	23.3
Noncurrent investment	17.0	16.7	8.1	3.4	2.8	2.8	2.8	2.8	2.8
Noncurrent prepayments	81.9	82.0	92.1	70.2	50.6	41.7	32.8	23.9	19.5
Current assets	517.9	437.8	470.4	552.2	622.1	633.2	577.0	615.3	654.6
Inventory	283.1	263.5	297.7	277.5	377.0	362.9	344.1	377.8	399.7
Current receivables	187.4	127.4	137.0	171.9	168.0	161.7	153.3	168.3	178.1
Current investment	11.7	9.7	8.7	0.0	0.0	0.0	0.0	0.0	0.0
Cash	35.6	36.9	25.0	102.0	76.5	107.9	78.9	68.5	76.1
Current prepayments	0.0	0.3	1.9	0.8	0.7	0.6	0.6	0.7	0.7
<b>(PLN m)</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
<b>EQUITY AND LIABILITIES</b>	940.5	846.3	895.3	950.7	1,001.4	1,034.6	970.1	985.7	1,010.5
Equity	166.0	147.1	142.1	225.3	278.2	279.2	283.9	300.1	302.4
Share capital	132.4	139.7	150.5	177.9	180.6	180.6	180.6	180.6	180.6
Reserves	202.2	194.9	184.6	221.0	86.7	86.7	86.7	86.7	86.7
Retained earnings	-168.1	-187.5	-193.1	-173.6	10.8	11.8	16.6	32.7	35.0
Minority interests	21.3	21.6	13.8	16.5	17.7	17.7	17.7	17.7	17.7
Noncurrent liabilities	452.8	433.0	410.7	388.8	258.4	241.7	241.7	241.7	241.7
Debt	408.9	386.4	376.4	358.0	229.2	212.5	212.5	212.5	212.5
Current liabilities	282.7	234.4	319.3	316.6	435.9	485.0	416.1	415.0	437.1
Trade creditors	188.3	169.6	223.7	247.4	379.2	365.0	346.1	380.0	402.1
Debt	94.4	64.7	95.6	69.1	56.7	120.0	70.0	35.0	35.0
Provisions for accounts payable	6.5	3.7	3.1	3.4	4.4	4.4	4.4	4.4	4.4
Other	11.2	6.5	6.3	0.1	6.8	6.6	6.2	6.8	7.2
Debt	503.3	451.2	472.0	427.1	285.9	332.5	282.5	247.5	247.5
Net debt	455.9	414.2	447.0	325.1	209.4	224.6	203.6	179.0	171.4
(Net debt / Equity)	274.6%	281.6%	314.5%	144.3%	75.3%	80.5%	71.7%	59.6%	56.7%
(Net debt / EBITDA)	4.5	8.5	4.7	2.3	1.0	2.1	2.0	1.7	1.8
(Net debt / adj. EBITDA)	4.6	8.9	4.9	2.2	1.0	2.1	2.0	1.7	1.8
Factoring	56.3	9.8	10.5	20.0	20.0	20.0	20.0	20.0	20.0
Factored receivables not carried in FS	0.0	55.6	110.7	110.7	110.7	110.7	110.7	110.7	110.7
Pre-financing, scrap metal	0.0	14.3	12.3	15.0	15.0	15.0	15.0	15.0	15.0
(Adj. Net debt / adj. EBITDA)	5.2	10.6	6.4	3.2	1.8	3.4	3.5	3.1	3.4
BVPS	2.5	2.1	1.9	1.3	1.6	1.6	1.6	1.7	1.7

### Cash Flow

(PLN m)	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Cash flow from operating activities	51.8	101.3	91.6	145.4	232.2	90.7	109.5	91.9	82.3
Net income	5.7	-14.8	1.5	47.6	68.5	37.0	27.0	35.0	26.8
D&A	35.1	35.9	38.1	41.3	43.9	46.8	50.3	49.3	47.4
Working capital	-0.3	63.1	6.3	10.8	43.6	14.8	16.8	-5.4	-4.8
Other	11.3	17.1	45.7	45.7	76.2	-8.0	15.4	12.9	12.9
Cash flow from investing activities	0.6	-3.1	-27.1	-15.4	-37.6	-50.0	-50.0	-34.6	-36.4
CAPEX	-7.8	-5.6	-29.0	-15.9	-37.8	-50.0	-50.0	-34.6	-36.4
Equity investment	8.5	2.5	1.9	0.5	0.2	0.0	0.0	0.0	0.0
Cash flow from financing activities	-38.5	-105.8	-83.8	-52.6	-195.6	-9.2	-88.5	-67.7	-38.3
Debt	6.2	-64.6	-28.2	-36.0	-113.2	46.6	-50.0	-35.0	0.0
Dividend/buyback	0.0	0.0	0.0	0.0	-11.9	-36.0	-22.2	-18.9	-24.5
Share issue	0.0	0.0	0.0	39.8	-1.1	0.0	0.0	0.0	0.0
Interest on convertible bonds	-2.6	-5.3	-5.3	0.0	0.0	0.0	0.0	0.0	0.0
Interest	-41.7	-35.5	-39.7	-52.0	-68.2	-19.8	-16.3	-13.8	-13.8
Other	-0.5	-0.4	-10.6	-4.4	-1.3	0.0	-0.0	0.0	0.0
Change in cash	13.9	-7.6	-19.3	77.4	-1.0	31.4	-29.0	-10.4	7.6
Cash at period-end	28.7	21.1	1.8	79.3	76.5	107.9	78.9	68.5	76.1
DPS (PLN)	0.00	0.00	0.00	0.00	0.07	0.21	0.13	0.11	0.14
FCF	92.3	106.5	71.9	122.9	179.5	65.9	60.4	58.2	46.8
(CAPEX/Sales)	-0.6%	-0.4%	-2.1%	-0.9%	-1.8%	-2.5%	-2.6%	-1.7%	-1.6%

### Trading Multiples\*

	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
P/E	19.2	-7.7	80.9	6.0	4.2	7.8	10.6	8.2	10.7
P/E (adj.)	7.1	-2.6	14.3	9.0	3.1	8.5	10.6	8.2	10.7
P/CE	2.7	5.4	3.1	3.2	2.6	3.4	3.7	3.4	3.9
P/BV	0.7	0.8	0.9	1.3	1.0	1.0	1.0	1.0	0.9
P/S	0.1	0.1	0.1	0.2	0.1	0.1	0.2	0.1	0.1
FCF/EV	16.4%	20.1%	12.6%	20.1%	36.2%	12.9%	12.3%	12.5%	10.2%
EV/EBITDA	5.8	11.2	6.2	4.5	2.6	4.9	5.1	4.5	5.0
EV/EBITDA (adj.)		12.3	6.7	4.6	2.7	5.2	5.4	4.9	5.4
EV/EBIT	9.0	41.9	10.3	6.3	3.3	8.6	10.2	8.5	10.2
EV/S	0.4	0.4	0.4	0.4	0.2	0.3	0.3	0.2	0.2
CFO/EBITDA	52%	207%	97%	103%	116%	84%	110%	86%	87%
CFO/ EBITDA (adj.)	52%	217%	100%	100%	116%	84%	110%	86%	87%
DYield	0.0%	0.0%	0.0%	0.0%	6.1%	12.5%	7.7%	6.6%	8.5%
Price (PLN)	1.64	1.64	1.64	1.64	1.64	1.64	1.64	1.64	1.64
Shares at year-end (millions)	66.2	69.9	75.3	175.0	175.0	175.0	175.0	175.0	175.0
MCap (PLN m)	108.6	114.6	123.4	287.0	287.0	287.0	287.0	287.0	287.0
Minority interest (PLN m)	21.3	21.6	13.8	16.5	17.7	17.7	17.7	17.7	17.7
EV (PLN m)	585.8	550.4	584.2	628.5	514.1	529.3	508.2	483.7	476.1

\*Ratios at 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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**Strong and weak points of valuation methods used in recommendations:**

**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 Company in the 12 months prior to this publication**

Rating	overweight	neutral	underweight	neutral
Rating date	2019-06-03	2019-05-09	2019-03-05	2018-12-05
Target price (PLN)	-	-	-	-
Price on rating day	1,60	1,59	1,94	1,80

## Dom Maklerski mBanku

Senatorska 18  
00-082 Warszawa  
<http://www.mbank.pl/>

### Research Department

**Kamil Kliszc**  
director  
+48 22 438 24 02  
[kamil.kluszcz@mbank.pl](mailto:kamil.kluszcz@mbank.pl)  
energy, power generation

**Jakub Szkopek**  
+48 22 438 24 03  
[jakub.szkopek@mbank.pl](mailto:jakub.szkopek@mbank.pl)  
industrials, chemicals, metals

**Aleksandra Szklarczyk**  
+48 22 438 24 04  
[aleksandra.szklarczyk@mbank.pl](mailto:aleksandra.szklarczyk@mbank.pl)  
construction, real-estate development

**Michał Marczak**  
+48 22 438 24 01  
[michal.marczak@mbank.pl](mailto:michal.marczak@mbank.pl)  
strategy

**Paweł Szpigel**  
+48 22 438 24 06  
[pawel.szpigel@mbank.pl](mailto:pawel.szpigel@mbank.pl)  
media, IT, telco

**Piotr Poniąkowski**  
+48 22 438 24 09  
[piotr.poniatowski@mbank.pl](mailto:piotr.poniatowski@mbank.pl)  
industrials

**Michał Konarski**  
+48 22 438 24 05  
[michal.konarski@mbank.pl](mailto:michal.konarski@mbank.pl)  
banks, financials

**Piotr Bogusz**  
+48 22 438 24 08  
[piotr.bogusz@mbank.pl](mailto:piotr.bogusz@mbank.pl)  
retail, gaming

**Mikołaj Lemańczyk**  
+48 22 438 24 07  
[mikolaj.lemanczyk@mbank.pl](mailto:mikolaj.lemanczyk@mbank.pl)  
financials

### Sales and Trading

#### Traders

**Piotr Gawron**  
director  
+48 22 697 48 95  
[piotr.gawron@mbank.pl](mailto:piotr.gawron@mbank.pl)

**Jędrzej Łukomski**  
+48 22 697 49 85  
[jedrzej.lukomski@mbank.pl](mailto:jedrzej.lukomski@mbank.pl)

**Tomasz Galanciak**  
+48 22 697 49 68  
[tomasz.galanciak@mbank.pl](mailto:tomasz.galanciak@mbank.pl)

**Krzysztof Bodek**  
+48 22 697 48 89  
[krzysztof.bodek@mbank.pl](mailto:krzysztof.bodek@mbank.pl)

**Adam Prokop**  
+48 22 697 47 90  
[adam.prokop@mbank.pl](mailto:adam.prokop@mbank.pl)

**Magdalena Bernacik**  
+48 22 697 47 35  
[magdalena.bernacik@mbank.pl](mailto:magdalena.bernacik@mbank.pl)

**Tomasz Jakubiec**  
+48 22 697 47 31  
[tomasz.jakubiec@mbank.pl](mailto:tomasz.jakubiec@mbank.pl)

**Andrzej Sychowski**  
+48 22 697 48 46  
[andrzej.sychowski@mbank.pl](mailto:andrzej.sychowski@mbank.pl)

### Sales, Foreign Markets

**Marzena Łempicka-Wilim**  
deputy director  
+48 22 697 48 82  
[marzena.lempicka@mbank.pl](mailto:marzena.lempicka@mbank.pl)

**Bartosz Orzechowski**  
+48 22 697 48 47  
[bartosz.orzechowski@mbank.pl](mailto:bartosz.orzechowski@mbank.pl)

### Private Client Sales

**Kamil Szymański**  
director  
+48 22 697 47 06  
[kamil.szymanski@mbank.pl](mailto:kamil.szymanski@mbank.pl)

**Jarosław Banasiak**  
deputy director  
+48 22 697 48 70  
[jaroslaw.banasiak@mbank.pl](mailto:jaroslaw.banasiak@mbank.pl)