

Monday, November 04, 2019 | update

Cognor: hold (downgraded)

COG PW; COGP.WA | Steel, Poland

FY2019 Outlook Hurt By Dismal Third-Quarter Results

Cognor reported much worse-than-expected results for Q3 2019 led by weak sales after longer-than-expected plant closures for maintenance. As a result, we are compelled to cut our F2019 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 the ex-dividend date now behind us, we see no upside potential in COG at this time. Investors who took our advice to accumulate the stock, issued at PLN 1.65 per share, given PLN 0.28 DPS (paid out on 21 October), would have earned a return of 9% on Cognor. Today we downgrade our call to hold with the target price reduce from PLN 2.00 to PLN 1.55 per share.

2019 Q3 earnings miss

Cognor's quarterly revenue missed our forecast by 22% at PLN 400m, down 27% year over year. This on a disappointingly low volume, which at 132,000 tonnes was 19% lower than expected and 23% lower than in Q3 2018. Cognor blames the weak sales on longer maintenance downtime on its production facilities, in particular the rolling mill of the HSJ steel smelter. EBITDA came in at PLN 16.9m in Q3, a miss of 30% relative to our estimate and a figure 70% lower than in the comparable year-ago period. Recurring EBITDA approximated PLN 12.9m vs. PLN 52.6m in Q3'18, showing a dramatic miss relative to Cognor's PLN 25-30m guidance range.

Cost advantage of EAF over BOF steelmaking

Recycled-steel electric arc furnaces (EAF) of the kind used by Cognor currently have a significant cost advantage over basic oxygen furnaces (BOF), owing to falling costs of steel scrap. In a soft steel market, this is reducing the downward pressure on the profit margins for EAF producers.

(PLN m)	2017	2018	2019E	2020E	2021E
Revenue	1,789.3	2,081.8	1,919.8	1,798.0	2,019.4
EBITDA adj.	145.7	200.0	110.4	99.1	95.8
EBITDA margin adj.	8.1%	9.6%	5.8%	5.5%	4.7%
EBIT adj.	104.4	156.2	63.6	48.9	46.4
Net profit adj.	31.9	93.7	35.5	26.4	26.4
P/E adj.	8.3	2.8	7.5	10.1	10.1
P/CE	3.0	2.4	3.1	3.5	3.5
P/BV	1.2	1.0	0.9	0.9	0.9
EV/EBITDA adj.	4.4	2.6	4.8	5.2	5.2
DPS	0.00	0.07	0.21	0.13	0.11
DYield	0.0%	6.6%	13.5%	8.7%	6.9%

*2018-2021E ratios assuming full dilution

Current Price	PLN 1.52
Target Price	PLN 1.55
Market Cap	PLN 266m
Free Float	PLN 62m
ADTV (3M)	PLN 0.3m

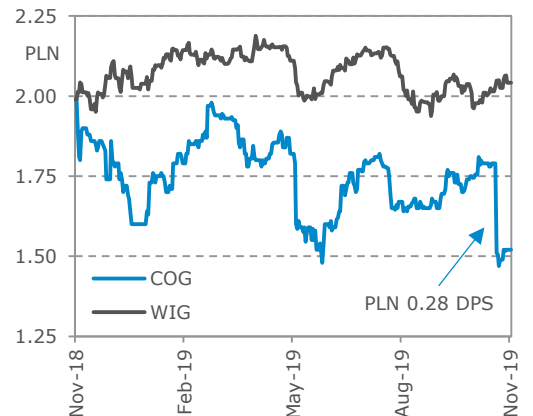
Ownership

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	1.55	2.00	hold	accumulate

Company	Current Price	Target Price	Upside
Cognor	1.52	1.55	+1.9%

Forecast Update	2019E	2020E	2021E
Revenue	-4.2%	-5.4%	-3.2%
EBITDA	-9.8%	-0.7%	-9.9%
Net profit	-21.5%	-2.1%	-24.5%
Sales volume	-5.0%	-5.2%	-3.4%
Sales prices	-0.9%	-1.5%	-0.8%
Costs of scrap	+1.0%	-3.6%	0.0%

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Valuation

We used two valuation methods to determine the value of Cognor: the Discounted Cash Flow method, indicating a per-share valuation of PLN 1.54, and the Relative Valuation method, yielding a value of PLN 1.35 per share.

(PLN)	weight	price
Relative Valuation	50%	1.35
DCF Analysis	50%	1.54
	price	1.45
	9M target price	1.55

Relative Valuation

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 Alumetal 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		
		2019E	2020E	2021E	2019E	2020E	2021E
AK STEEL HOLDING CORP	USA	7.8	17.6	9.7	6.7	7.8	6.4
ALUMETAL	Poland	10.8	9.4	8.4	7.6	6.8	6.1
ARCELORMITTAL	Luxembourg	23.6	8.6	5.8	5.2	4.3	3.6
BAOSHAN IRON & STEEL CO-A	China	9.9	9.3	8.5	4.6	4.0	3.7
COMMERCIAL METALS CO	USA	9.8	8.8	9.9	6.4	5.3	5.4
HESTEEL CO LTD-A	China	11.9	11.5	11.5	-	-	-
HITACHI METALS LTD	Japan	15.6	114.4	17.0	7.3	8.7	6.6
HYUNDAI STEEL CO	South Korea	19.8	11.3	9.2	6.6	6.1	5.6
JFE HOLDINGS INC	Japan	4.9	9.3	7.9	6.0	7.2	6.5
JSW STEEL LTD	India	7.8	14.5	11.4	5.6	8.2	7.0
KLOECKNER & CO SE	Germany	-	383.9	35.8	7.0	5.7	4.8
METALURGICA GERDAU SA-PREF	Brazil	9.2	7.4	7.0	-	-	-
NIPPON YAKIN KOGYO CO LTD	Japan	4.7	-	-	-	-	-
NUCOR CORP	USA	12.5	14.0	14.3	7.3	8.0	7.9
OLYMPIC STEEL INC	USA	34.7	15.0	16.4	9.3	7.7	7.9
OUTOKUMPU OYJ	Finland	-	18.5	8.4	9.1	6.3	5.0
POSCO	South Korea	7.8	7.3	6.7	4.1	3.9	3.6
SALZGITTER AG	Germany	9.3	9.0	6.8	3.4	2.7	3.1
SSAB AB-A SHARES	Sweden	12.1	11.1	9.1	4.9	4.6	3.9
STEEL AUTHORITY OF INDIA	India	6.6	9.0	6.0	6.7	7.1	6.4
STEEL DYNAMICS INC	USA	10.4	12.1	12.4	6.1	7.3	7.5
TATA STEEL LTD	India	5.3	8.7	6.9	5.3	6.1	5.6
THYSSENKRUPP AG	Germany	-	19.1	10.8	7.5	5.8	4.8
UNITED STATES STEEL CORP	USA	56.2	-	19.1	6.2	7.7	5.9
VOESTALPINE AG	Austria	9.8	16.1	11.1	5.2	6.5	5.6
Maximum		56.2	383.9	35.8	9.3	8.7	7.9
Minimum		4.7	7.3	5.8	3.4	2.7	3.1
Median		9.9	11.3	9.4	6.3	6.4	5.6
Cognor		7.5	10.1	10.1	4.8	5.2	5.2
premium / discount		-24.2%	-11.0%	6.6%	-23.1%	-19.2%	-7.0%

Implied Valuation

Median	9.9	11.3	9.4	6.3	6.4	5.6
Discount	20%	20%	20%	20%	20%	20%
Multiple weight		50%			50%	
Year weight	33%	33%	33%	33%	33%	33%

Value per share (PLN) 1.35

Additional Assumptions

Historical sales and margins of Huta Ferrostal steelmaking unit and future projections

Sales volumes (1,000t)	2014	2015	2016	2017	2018	2019P	2020P	2021P	2022P
Billet	169,904	104,113	85,337	119,211	81,775	83,411	76,738	118,943	130,838
Plain bars	35,715	32,331	29,304	29,999	30,268	28,149	25,897	29,005	31,905
Flat bars	64,240	60,155	61,409	48,053	44,051	40,967	37,690	42,213	46,434
Squares	13,710	11,029	7,726	6,534	8,329	7,746	7,126	7,981	8,780
Rebar	41,642	82,461	188,134	202,100	213,681	198,723	182,825	204,765	225,241
Angles	30,107	32,171	24,895	17,484	22,254	20,696	19,041	21,325	23,458
Other	1,159	6,346	6,627	3,073	1,100	1,023	941	1,054	1,160
Avg. spread (PLN/t)	2014	2015	2016	2017	2018	2019P	2020P	2021P	2022P
Billet	869	803	718	878	1,046	985	1,032	1,050	1,064
Plain bars	1,081	1,088	1,121	1,069	1,365	1,287	1,323	1,347	1,363
Flat bars	1,084	1,110	1,158	1,075	1,386	1,307	1,342	1,367	1,382
Squares	1,068	1,083	1,131	1,048	1,342	1,266	1,302	1,326	1,341
Rebar	880	772	823	937	1,151	1,084	1,128	1,148	1,162
Angles	1,122	1,092	1,170	1,050	1,397	1,318	1,352	1,377	1,393
Other	1,732	1,323	1,421	1,117	1,892	1,787	1,804	1,838	1,857

Source: Dom Maklerski mBanku

Historical sales and margins of HSJ steelmaking unit and future projections

Sales volumes (1,000t)	2014	2015	2016	2017	2018	2019P	2020P	2021P	2022P
Billet	18,149	28,148	40,482	66,213	58,675	52,808	63,369	74,142	75,625
Bars	144,605	150,311	153,736	156,519	175,617	158,055	165,958	174,256	177,741
Thick sheet	5,787	16,362	5,696	7,699	1,593	1,434	1,505	1,581	1,612
Thin sheet	865	1,069	638	536	701	666	699	734	749
Other	531	655	638	328	490	466	489	513	523
Avg. spread (PLN/t)	2014	2015	2016	2017	2018	2019P	2020P	2021P	2022P
Billet	1,873	1,341	979	1,176	1,486	1,433	1,470	1,497	1,514
Bars	1,746	1,687	1,553	1,709	2,192	2,103	2,115	2,154	2,175
Thick sheet	1,912	1,530	1,885	1,742	3,446	3,293	3,260	3,322	3,351
Thin sheet	10,049	9,922	10,284	9,897	10,307	9,803	9,526	9,711	9,782
Other	23,149	22,629	20,891	24,078	22,173	21,061	20,364	20,760	20,904

Source: Dom Maklerski mBanku

Steel Market Assumptions

	2014	2015	2016	2017	2018	2019P	2020P	2021P	2022P
Price of rolled sheet steel (PLN/t)	2,142	1,960	1,919	2,417	2,588	2,400	2,362	2,409	2,424
Price of HEB sections (PLN/t)	2,336	2,204	2,240	2,282	2,614	2,550	2,489	2,536	2,552
Price of rebar (PLN/t)	2,328	2,200	2,170	2,139	2,439	2,300	2,128	2,171	2,187
Steel production in Poland (mmt)	8.6	9.1	8.9	10.3	10.3	9.5	9.3	9.8	10.0
Cognor's market share	6.1%	5.8%	6.8%	6.4%	6.2%	6.3%	6.3%	6.9%	7.3%
USD/PLN	3.15	3.74	3.94	3.78	3.61	3.75	3.59	3.60	3.60
Coke price (US\$/t)	126	102	119	179	193	160	155	165	165
Iron ore price (US\$/t)	98	57	59	72	70	90	80	75	75
Scrap price (US\$/t)	333	216	215	282	343	293	270	275	275
BOF (US\$/t)	302	198	212	282	299	302	278	277	277
EAF (US\$/t)	371	241	239	315	383	327	301	307	307
BOF-EAF (US\$/t)	-69	-44	-28	-33	-83	-25	-23	-30	-30
BOF (PLN/t)	951	740	835	1,066	1,081	1,131	997	996	996
EAF (PLN/t)	1,168	903	944	1,190	1,381	1,225	1,081	1,104	1,104
Scrap price (PLN/t)	1,048	810	847	1,067	1,238	1,099	969	990	990

Source: Dom Maklerski mBanku

Historical and projected debt of Cognor

(PLN m)	2014	2015	2016	2017	2018	2019P	2020P	2021P	2022P
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:

- Beta = 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 as of early November 2019.
- Net debt is as at year-end 2018 plus 2019 dividends (PLN 0.28 per share).

DCF Model

(PLN m)	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P	+
Revenue	1,919.8	1,798.0	2,019.4	2,137.3	2,215.0	2,285.7	2,336.9	2,388.4	2,404.5	2,420.8	2,437.1
change	-7.8%	-6.3%	12.3%	5.8%	3.6%	3.2%	2.2%	2.2%	0.7%	0.7%	0.7%
EBITDA	110.4	99.1	95.8	83.1	79.2	76.1	75.0	72.7	73.4	75.6	77.6
EBITDA margin	5.8%	5.5%	4.7%	3.9%	3.6%	3.3%	3.2%	3.0%	3.1%	3.1%	3.2%
D&A expenses	46.8	50.3	49.3	47.4	46.2	45.6	45.6	46.2	47.4	48.0	48.0
EBIT	63.6	48.9	46.4	35.6	33.0	30.5	29.4	26.5	25.9	27.7	29.6
EBIT margin	3.3%	2.7%	2.3%	1.7%	1.5%	1.3%	1.3%	1.1%	1.1%	1.1%	1.2%
Tax on EBIT	7.8	6.2	6.2	4.2	3.9	3.7	3.8	3.3	3.2	3.6	3.9
NOPLAT	55.9	42.7	40.2	31.5	29.1	26.8	25.7	23.2	22.7	24.1	25.7
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	21.3	18.2	-8.1	-4.6	-6.0	-5.4	-3.9	-3.9	-1.2	-1.2	-1.3
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
FCF	74.0	61.2	46.9	37.9	32.1	28.4	27.1	22.9	22.7	25.3	27.3
WACC	7.5%	7.5%	7.6%	7.6%	7.7%	7.7%	7.8%	7.8%	7.8%	7.8%	7.8%
discount factor	0.99	0.92	0.85	0.79	0.73	0.68	0.63	0.59	0.54	0.50	0.46
PV FCF	73.1	56.2	40.0	30.1	23.6	19.4	17.1	13.4	12.3	12.7	12.7

WACC	7.5%	7.5%	7.6%	7.6%	7.7%	7.7%	7.8%	7.8%	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	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	44.9%	42.4%	40.6%	40.0%	39.1%	38.5%	37.7%	37.4%	36.9%	36.2%	35.7%
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	467.8
Present value of terminal value	234.6
Present value of FCF in the forecast period	297.7
Enterprise value	532.3
Net Debt	245.4
Minority interests	17.7
Equity value	269.2
Shares outstanding (millions)	175.0
Equity value per share (PLN)	1.5
9M cost of equity	7.0%
Target Price (PLN)	1.6

EV/EBITDA ('19) at target price	4.7
EV/EBITDA ('19) at target price	7.5
TV / EV	44.1%

Sensitivity Analysis

	FCF growth in perpetuity				
	0.0%	1.0%	2.0%	3.0%	5.0%
WACC +1.0 p.p.	1.0	1.1	1.3	1.5	2.2
WACC +0.5 p.p.	1.2	1.3	1.5	1.7	2.6
WACC	1.3	1.4	1.6	1.9	3.2
WACC -0.5 p.p.	1.4	1.6	1.9	2.3	4.0
WACC -1.0 p.p.	1.6	1.8	2.1	2.6	5.2

Earnings History and Future Projections

(PLN m)	2014	2015	2016	2017	2018	2019P	2020P	2021P	2022P
Revenue	1,422.5	1,364.8	1,352.4	1,789.3	2,081.8	1,919.8	1,798.0	2,019.4	2,137.3
change	9.9%	-4.1%	-0.9%	32.3%	16.4%	-7.8%	-6.3%	12.3%	5.8%
Ferrostal	695.5	586.2	678.4	838.8	916.6	823.7	729.5	898.7	995.1
HSJ	442.7	455.2	400.2	471.8	623.7	533.5	539.3	577.3	592.8
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	393.0	372.8	358.5	365.5	368.0
D&A expenses	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	1,246.3	1,135.8	1,303.5	1,395.5
of which scrap metal	590.1	510.5	527.3	761.9	807.6	709.8	615.4	728.8	779.1
of which electricity	114.8	124.3	126.0	130.2	144.5	156.1	174.3	203.5	219.1
Third-party services	200.4	203.4	228.4	152.5	170.6	167.8	170.2	193.3	207.2
Taxes and fees	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	185.6	191.6	221.7	245.4
Other costs	4.9	4.8	4.3	4.7	6.2	5.1	5.3	5.5	5.3
Cost of goods sold	158.9	158.1	148.8	201.8	227.2	223.7	215.1	219.3	220.8
Change in inventories	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	1,856.1	1,749.2	1,973.0	2,101.7
Selling expenses	43.0	47.8	50.0	65.8	76.7	75.5	76.5	86.9	93.2
Administrative expenses	38.5	34.6	37.9	50.5	46.0	47.0	47.9	48.9	49.8
Other operating gains/losses	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	63.6	48.9	46.4	35.6
change	132.6%	-79.9%	329.9%	75.5%	57.5%	-59.3%	-23.2%	-4.9%	-23.2%
EBIT margin	4.6%	1.0%	4.2%	5.5%	7.5%	3.3%	2.7%	2.3%	1.7%
EBIT (adj.)	64.4	10.8	53.1	104.4	156.2	63.6	48.9	46.4	35.6
EBITDA (adj.)	99.5	46.6	91.2	145.7	200.0	110.4	99.1	95.8	83.1
Net 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
Income from bond repurchase	-10.6	26.7	-10.5	20.8	-25.1	3.1	0.0	0.0	0.0
FX gains / losses									
Pre-tax profit	3.3	-17.3	-6.4	68.1	92.8	46.9	32.6	32.6	21.8
Tax	-6.4	3.3	7.9	18.1	20.7	8.3	6.2	6.2	4.2
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	38.6	26.4	26.4	17.7
change	-111.7%	-361.8%	-110.3%	3019.5%	44.0%	-43.7%	-31.6%	0.2%	-33.1%
margin	0.4%	-1.1%	0.1%	2.7%	3.3%	2.0%	1.5%	1.3%	0.8%
Net profit (adj.)	15.3	-43.9	8.6	31.9	93.7	35.5	26.4	26.4	17.7
D&A expenses	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	110.4	99.1	95.8	83.1
change	54.1%	-51.2%	93.0%	48.6%	42.4%	-44.8%	-10.2%	-3.4%	-13.3%
EBITDA margin	7.1%	3.6%	7.0%	7.9%	9.6%	5.8%	5.5%	4.7%	3.9%
Shares outstanding at eop (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	0.1
CEPS	0.6	0.3	0.5	0.5	0.6	0.5	0.4	0.4	0.4
ROAE	3.4%	-10.1%	1.1%	21.1%	24.6%	13.7%	9.3%	9.1%	6.1%
ROAA	0.6%	-1.8%	0.2%	5.0%	6.8%	3.8%	2.8%	2.7%	1.8%

Balance Sheet

(PLN m)	2014	2015	2016	2017	2018	2019P	2020P	2021P	2022P
ASSETS	940.5	846.3	895.3	950.7	1,001.4	1,020.5	951.2	965.2	986.2
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 investments	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	619.1	558.0	594.8	630.4
Inventory	283.1	263.5	297.7	277.5	377.0	347.6	325.6	365.7	387.0
Current receivables	187.4	127.4	137.0	171.9	168.0	154.9	145.1	162.9	172.5
Current investments	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	115.9	86.8	65.5	70.2
Current prepayments	0.0	0.3	1.9	0.8	0.7	0.6	0.6	0.6	0.7
(PLN m)	2014	2015	2016	2017	2018	2019P	2020P	2021P	2022P
EQUITY & LIABILITIES	940.5	846.3	895.3	950.7	1,001.4	1,020.5	951.2	965.2	986.2
Equity	166.0	147.1	142.1	225.3	278.2	280.7	284.0	291.9	291.1
Share capital	132.4	139.7	150.5	177.9	180.6	180.6	180.6	180.6	180.6
Supplementary capital	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	13.3	16.6	24.6	23.7
Minority interest	21.3	21.6	13.8	16.5	17.7	17.7	17.7	17.7	17.7
Non-current 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	469.6	397.5	402.8	424.3
Trade payables	188.3	169.6	223.7	247.4	379.2	349.6	327.5	367.8	389.3
Debt	94.4	64.7	95.6	69.1	56.7	120.0	70.0	35.0	35.0
Provisions for liabilities	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	6.3	5.9	6.6	7.0
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	216.6	195.7	182.0	177.3
Net debt / Equity	274.6%	281.6%	314.5%	144.3%	75.3%	77.1%	68.9%	62.3%	60.9%
Net debt/ EBITDA	4.5	8.5	4.7	2.3	1.0	2.0	2.0	1.9	2.1
Net debt EBITDA (adj.)	4.6	8.9	4.9	2.2	1.0	2.0	2.0	1.9	2.1
Factoring	56.3	9.8	10.5	20.0	20.0	20.0	20.0	20.0	20.0
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
Pre-financing of scrap	0.0	14.3	12.3	15.0	15.0	15.0	15.0	15.0	15.0
(adj.) Net debt / EV EBITDA	5.2	10.6	6.4	3.2	1.8	3.3	3.4	3.4	3.9
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	2019P	2020P	2021P	2022P
Cash flow from operating activities	51.8	101.3	91.6	145.4	232.2	98.7	110.3	80.6	73.4
Net income	5.7	-14.8	1.5	47.6	68.5	38.6	26.4	26.4	17.7
D&A expenses	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	21.3	18.2	-8.1	-4.6
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 investments	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	-89.4	-67.3	-32.3
Debt	6.2	-64.6	-28.2	-36.0	-113.2	46.6	-50.0	-35.0	0.0
Dividends/Buyback	0.0	0.0	0.0	0.0	-11.9	-36.0	-23.1	-18.5	-18.5
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 expenses	-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	39.5	-29.1	-21.3	4.7
Cash at eop	28.7	21.1	1.8	79.3	76.5	115.9	86.8	65.5	70.2
DPS (PLN)	0.00	0.00	0.00	0.00	0.07	0.21	0.13	0.11	0.11
FCF	92.3	106.5	71.9	122.9	179.5	74.0	61.2	46.9	37.9
CAPEX/Sales	-0.6%	-0.4%	-2.1%	-0.9%	-1.8%	-2.6%	-2.8%	-1.7%	-1.7%

*Assuming full dilution

Trading Multiples*

	2014	2015	2016	2017	2018	2019P	2020P	2021P	2022P
P/E	17.8	-7.2	75.0	5.6	3.9	6.9	10.1	10.1	15.0
P/E (adj.)	6.6	-2.4	13.3	8.3	2.8	7.5	10.1	10.1	15.0
P/CE	2.5	5.0	2.9	3.0	2.4	3.1	3.5	3.5	4.1
P/B	0.6	0.7	0.8	1.2	1.0	0.9	0.9	0.9	0.9
P/S	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
FCF/EV	16.6%	20.5%	12.8%	20.8%	37.8%	15.3%	13.2%	10.5%	8.6%
EV/EBITDA	5.8	11.1	6.1	4.3	2.5	4.5	4.8	4.9	5.5
(adj.) EV/EBITDA		12.1	6.6	4.4	2.6	4.8	5.2	5.2	6.0
EV/EBIT	8.8	41.2	10.2	6.1	3.2	7.9	9.8	10.0	12.9
EV/S	0.4	0.4	0.4	0.3	0.2	0.3	0.3	0.2	0.2
OCF/EBITDA	52%	207%	97%	103%	116%	89%	111%	84%	88%
CFO/EBITDA (adj.)	52%	217%	100%	100%	116%	89%	111%	84%	88%
Dividend yield	0.0%	0.0%	0.0%	0.0%	6.6%	13.5%	8.7%	6.9%	7.0%
Price (PLN)	1.52	1.52	1.52	1.52	1.52	1.52	1.52	1.52	1.52
Shares at eop (millions)	66.2	69.9	75.3	175.0	175.0	175.0	175.0	175.0	175.0
MC (PLN m)	100.7	106.2	114.4	266.0	266.0	266.0	266.0	266.0	266.0
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)	577.8	542.0	575.2	607.5	493.1	500.2	479.4	465.7	461.0

*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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mBank issued the following investment recommendations for Cognor in the 12 months prior to this publication

Rating	accumulate	hold	accumulate	accumulate	overweight	neutral	underweight	neutral
Rating date	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)	2.00	1.84	1.84	1.79	-	-	-	-
Price on rating day	1.65	1.75	1.77	1.64	1.60	1.59	1.94	1.80

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