

Wednesday, September 05, 2018 | special comment

## Boryszew – Updated FY2018-2020 Earnings Outlook

Rating: neutral | current price: PLN 6.20

**BRS PW; BRS.WA | Industrials, Poland**

Analyst: Jakub Szkopek +48 22 438 24 03

We have updated our forecasts for Boryszew to reflect weaker-than-expected performance in Q2 2018 of the Automotive segment, on the one hand, and better-than-expected performance of the metals segment, represented by the listed subsidiary Impexmetal, on the other hand. The new FY2018 EBITDA estimate at PLN 434m represent a downward revision of 10% from the previous estimate, and it assumes 7% contraction from the year-ago figure. With net debt currently above PLN 1bn, and plans to increase working capital in H2 2018, we assume Boryszew will end 2018 with a net debt of PLN 925m, an increase of 28% from the original forecast. On our updated estimates (adjusted for one-offs and treasury stock), BRS is currently trading at 11.4x 2018E P/E and 7.0x EV/EBITDA, ratios which look high compared to the respective historical 3-year averages of 11.2x and 7.7x and relative to the respective MSCI OEM Auto Components benchmarks of 10.4x and 5.3x. We maintain a neutral view on BRS.

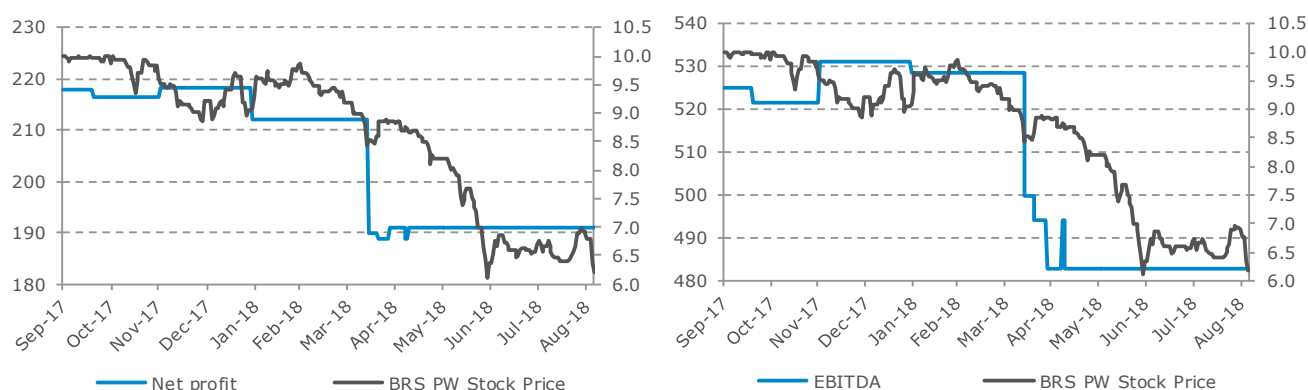
### Takeaways from 2018 Q2 Earnings Conference:

- Boryszew blames the 2018 Q2 slump registered by the Automotive business to the start-up of a new factory in Mexico, and a disproportionately low insurance payout for the 2017 fire damage at the German factory in Prenzlau. With these two events factored out, the segmental EBITDA for Q2 was only a few million zlotys lower than in the same period in 2017.
- Production in the Automotive segment will be lower in Q3 2018, but in Q4 margins are expected to improve.
- Boryszew expects to have to increase working capital in Q3 due to a need stock up on aluminum in case US trade sanctions lead to disruptions in supplies from Russia's Rusal. The potential PLN 50m extra inventory could be liquidated by the end of Q1 2019.
- Boryszew has not yet secured electricity supplies for 2019. If it had to buy at current prices, energy costs according to our estimates could increase by about PLN 30m PLN in 2019 (currently Boryszew uses 320-350 thousand MWh of energy per year).
- Boryszew has cut its 201 CAPEX target from PLN 300m to PLN 200m after having to make adjustments for rising costs of building services, especially in case of projects with short deadlines.

### Summary of Forecast Revisions

(PLN m)	New Estimates			Old Estimates			Pct. Change		
	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Revenue	6,301	6,486	6,594	6,501	6,458	6,609	-3.1%	+0.4%	-0.2%
EBITDA	434	462	483	482	485	491	-10.0%	-4.8%	-1.6%
Net profit	136	170	193	191	198	207	-28.6%	-14.1%	-7.1%
DPS	0.00	0.14	0.40	0.00	0.17	0.43	0.0%	-14.1%	-7.1%
Net debt	925	741	589	722	522	407	+28.1%	+42.0%	+45.0%
Revenue: Automotive	2,087	2,151	2,184	2,087	2,151	2,184	0.0%	0.0%	0.0%
Revenue: Metals	3,908	4,023	4,093	4,108	3,995	4,108	-4.9%	+0.7%	-0.4%
Revenue: Chemicals	306	312	317	306	312	317	0.0%	0.0%	0.0%
EBIT: Automotive	56	91	110	125	131	133	-55.6%	-30.0%	-16.8%
EBIT: Metals	229	222	227	208	206	212	+10.2%	+7.8%	+6.9%
EBIT: Chemicals	8	8	8	10	10	11	-23.2%	-23.3%	-23.3%

### Boryszew Stock Price Movements (PLN, rhs) Versus Changes In Earnings Expectations (PLN m, lhs)

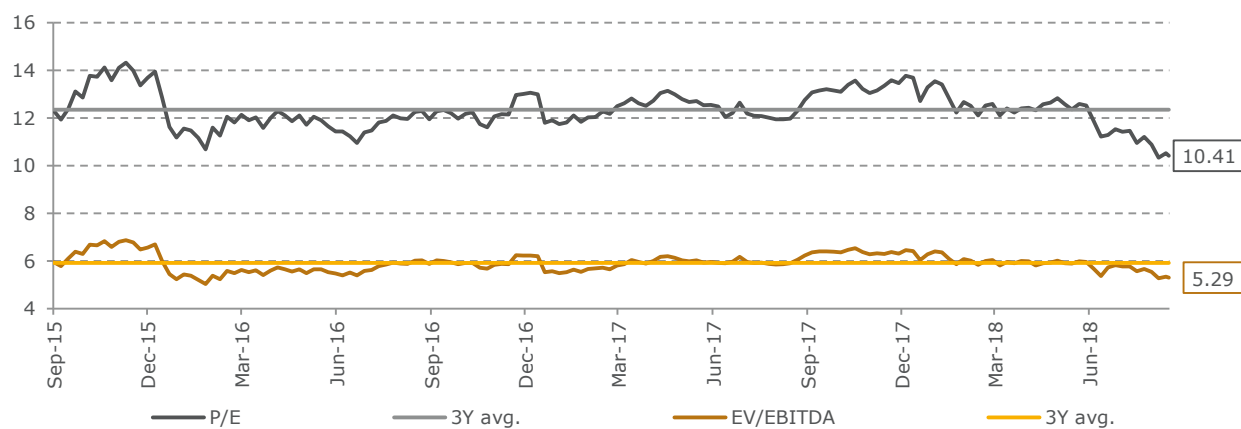


Source: Boryszew, E - estimates by Dom Maklerski mBanku; Consensus estimates provided by Bloomberg

### P/E and EV/EBITDA ratios of Boryszew versus historical averages



### P/E and EV/EBITDA ratios of MSCI OEM Automotive Components Manufacturers



Source: Boryszew, Bloomberg

## 2018-2020 FY P&amp;L Forecast

(PLN m)	2016	2017	2018E	2019E	2020E
Revenue	5,582.2	6,290.3	6,301.5	6,486.3	6,594.2
pct. change	-1.7%	12.7%	0.2%	2.9%	1.7%
Chemicals	321.6	283.2	306.5	311.7	317.1
Automotive (Maflow)	1,026.8	1,186.6	1,184.3	1,197.8	1,215.7
Automotive (AKT, Theysohn, Russia)	1,182.3	772.2	778.4	828.1	841.0
Automotive (Ymos)	95.6	94.7	123.9	125.3	127.2
Impexmetal + Skawina	3,162.7	3,743.6	3,908.3	4,023.3	4,093.1
COGS	4,951.9	5,557.7	5,621.2	5,753.7	5,837.4
Administrative expenses	257.1	262.3	261.6	260.3	258.5
Selling expenses	133.3	141.3	150.6	153.3	155.3
Other operating gains/losses	19.0	6.3	21.8	0.0	0.0
EBIT	259.0	335.4	289.9	319.0	343.0
pct. change	87.7%	29.5%	-13.6%	10.0%	7.5%
EBIT margin	4.6%	5.3%	4.6%	4.9%	5.2%
Financing gains / losses	-41.6	-92.6	-39.0	-36.4	-31.4
Pre-tax income	217.4	245.5	250.8	282.5	311.6
Tax	26.7	44.0	47.7	53.7	59.2
Minority interests	55.7	30.9	67.1	58.7	59.7
Real-estate profit after tax	0.0	0.0	0.0	0.0	0.0
Net profit	191.3	203.9	203.2	228.9	252.4
Net profit attr. to shareholders of the parent	135.6	173.0	136.1	170.2	192.7
pct. change	238.5%	27.6%	-21.4%	25.1%	13.2%
margin	2.4%	2.8%	2.2%	2.6%	2.9%
D&A	124.7	133.8	144.4	143.1	139.8
EBITDA	48.2%	22.3%	-7.4%	6.4%	4.5%
pct. change	6.9%	7.5%	6.9%	7.1%	7.3%
EBITDA margin	240.0	240.0	240.0	240.0	240.0
Shares at year-end (millions)	0.6	0.7	0.6	0.7	0.8
EPS	1.1	1.3	1.2	1.3	1.4
CEPS	14.2%	15.3%	10.8%	12.2%	13.0%
ROAE	3.6%	4.2%	3.1%	3.7%	4.1%
ROAA					

Source: Boryszew, E - estimates by Dom Maklerski mBanku

**FY 2018-2020 Balance-Sheet Forecast**

(PLN m)	2016	2017	2018E	2019E	2020E
<b>ASSETS</b>	3,763.0	4,109.6	4,349.2	4,557.1	4,714.7
Fixed assets	1,902.6	2,076.6	2,089.7	2,056.9	2,030.0
Intangible assets	42.6	39.9	40.5	39.7	39.1
PP&E	1,271.0	1,405.1	1,417.5	1,385.5	1,359.3
Goodwill	23.5	23.5	23.5	23.5	23.5
Noncurrent receivables	5.0	5.1	5.1	5.1	5.1
Noncurrent investment	510.1	534.3	534.3	534.3	534.3
Noncurrent prepayments	50.4	68.8	68.8	68.8	68.8
Current assets	1,860.4	2,033.0	2,259.5	2,500.1	2,684.8
Inventory	896.4	978.6	980.3	1,009.1	1,025.8
Current receivables	666.7	729.4	949.5	977.4	993.6
Trade debtors	0.0	0.0	0.0	0.0	0.0
Current investment	148.1	107.7	107.7	107.7	107.7
Cash	147.4	216.1	220.8	404.8	556.3
Current prepayments	1.7	1.2	1.2	1.2	1.3
<b>(PLN m)</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
<b>EQUITY AND LIABILITIES</b>	3,763.0	4,109.6	4,349.2	4,557.1	4,714.7
Equity	953.7	1,131.5	1,261.0	1,391.8	1,483.0
Share capital	248.9	248.9	248.9	248.9	248.9
Supplementary capital	-2.3	5.3	5.3	5.3	5.3
Retained earnings	765.1	985.8	1,121.9	1,258.0	1,354.4
Minority interest	601.7	590.6	657.7	716.4	776.1
Noncurrent liabilities	366.4	537.3	537.3	537.3	537.3
Debt	314.0	464.8	464.8	464.8	464.8
Current liabilities	1,673.7	1,556.5	1,599.3	1,616.1	1,622.0
trade payables	829.4	827.6	870.5	887.3	893.2
Debt	794.3	680.9	680.9	680.9	680.9
Provisions	152.8	240.1	240.1	240.1	240.1
Other	21.7	53.6	53.7	55.3	56.2
Debt	1,108.3	1,145.7	1,145.7	1,145.7	1,145.7
Net debt	961.0	929.6	925.0	741.0	589.4
(Net debt / Equity)	100.8%	82.2%	73.4%	53.2%	39.7%
(Net debt / EBITDA)	2.5	2.0	2.1	1.6	1.2
BVPS	4.0	4.7	5.3	5.8	6.2

Source: Boryszew, E - estimates by Dom Maklerski mBanku

## FY2018-2020 Cash Flow Forecast

(PLN m)	2016	2017	2018E	2019E	2020E
Cash flow from operating activities	367.7	337.5	207.7	370.2	397.3
Net profit	135.6	173.0	136.1	170.2	192.7
Minority interest	55.7	30.9	67.1	58.7	59.7
Interest expenses	33.9	51.7	39.0	36.4	31.4
D&A	124.7	133.8	144.4	143.1	139.8
Working capital	40.3	-153.4	-178.9	-38.2	-26.3
Other	-22.5	101.5	0.0	0.0	0.0
Cash flow from investing activity	-348.0	-231.5	-180.0	-115.7	-117.9
CAPEX	-258.2	-217.1	-180.0	-115.7	-117.9
of which divestments	3.0	3.0	3.0	3.0	3.0
Equity investment	-89.9	-14.4	0.0	0.0	0.0
Cash flow from financing activity	29.0	-79.0	-39.0	-70.5	-127.8
Debt	90.0	105.5	0.0	0.0	0.0
Interest on debt	-38.2	-57.0	-45.8	-45.8	-45.8
Dividends	0.0	0.0	0.0	-34.0	-96.3
Dividends (minorities)	0.0	0.0	0.0	0.0	0.0
Buyback	0.0	0.0	0.0	0.0	0.0
Share issue	0.0	0.0	0.0	0.0	0.0
Other	-22.8	-127.5	6.8	9.4	14.4
Change in cash	48.7	27.0	-11.3	184.0	151.6
Cash at period-end	147.4	232.1	220.8	404.8	556.3
DPS (PLN)	0.00	0.00	0.00	0.14	0.40
FCF	134.0	43.8	23.6	250.3	275.2
(CAPEX/Sales)	-4.7%	-3.5%	-2.9%	-1.8%	-1.9%

## Trading Multiples

	2016	2017	2018E	2019E	2020E
P/E	11.0	8.6	10.9	8.7	7.7
P/E (adj.)*	12.4	8.5	11.4	7.7	6.8
P/CE	5.7	4.9	5.3	4.7	4.5
P/B	1.6	1.3	1.2	1.1	1.0
P/S	0.3	0.2	0.2	0.2	0.2
FCF/EV	5.5%	1.8%	1.0%	11.2%	13.2%
EV/EBITDA	8.0	6.4	7.1	6.4	5.9
EV/EBITDA (adj.)*	8.2	6.3	7.0	6.0	5.5
EV/EBIT	11.8	9.0	10.6	9.2	8.3
EV/S	0.5	0.5	0.5	0.5	0.4
CFO/EBITDA	95.8%	71.9%	47.8%	80.1%	82.3%
Dividend Yield	0.00%	0.00%	0.00%	2.29%	6.47%
Price (PLN)	6.20	6.20	6.20	6.20	6.20
Shares at eop (millions)	240.0	240.0	240.0	240.0	240.0
MC (PLN m)	1,488.0	1,488.0	1,488.0	1,488.0	1,488.0
Minority interest (PLN m)	601.7	590.6	657.7	716.4	776.1
EV (PLN m)	3,050.7	3,008.2	3,070.7	2,945.4	2,853.5

Source: Boryszew, E - estimates by Dom Maklerski mBanku

\*Ratio adjusted for one-offs and treasury stock

#### 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

#### Recommendations of Dom Maklerski mBanku:

A recommendation is valid for a period of 6-9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:

**BUY** – we expect that the rate of return from an investment will be at least 15%  
**ACCUMULATE** – we expect that the rate of return from an investment will range from 5% to 15%  
**HOLD** – we expect that the rate of return from an investment will range from -5% to +5%  
**REDUCE** – we expect that the rate of return from an investment will range from -5% to -15%  
**SELL** – we expect that an investment will bear a loss greater than 15%  
 Recommendations are updated at least once every nine months.

mBank S.A. with its registered office in Warsaw at Senatorska 18 renders brokerage services in the form of derived organisational unit – Brokerage Office which uses name Dom Maklerski mBanku.

This document has been created and published by Dom Maklerski mBanku. The present report expresses the knowledge as well as opinions of the authors on day the report was prepared. The opinions and estimates contained herein constitute our best judgment at this date and time, and are subject to change without notice. The present report was prepared with due care and attention, observing principles of methodological correctness and objectivity, on the basis of sources available to the public, which Dom Maklerski mBanku S.A. considers reliable, including information published by issuers, shares of which are subject to recommendations. However, Dom Maklerski mBanku S.A., in no case, guarantees the accuracy and completeness of the report, in particular should sources on the basis of which the report was prepared prove to be inaccurate, incomplete or not fully consistent with the facts. mBank S.A. bears no responsibility for investment decisions taken on the basis of the present report or for any damages incurred as a result of investment decisions taken on the basis of the present report.

This document does not constitute an offer or invitation to subscribe for or purchase any financial instruments and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document nor any copy hereof is not to be distributed directly or indirectly in the United States, Australia, Canada or Japan.

Recommendations are based on essential data from the entire history of a company being the subject of a recommendation, with particular emphasis on the period since the previous recommendation. Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible.

It is possible that mBank S.A. in its brokerage activity renders, will render or in the past has rendered services for companies and other entities mentioned in the present report.

mBank S.A. does not rule out offering brokerage services to an issuer of securities being the subject of a recommendation. Information concerning a conflict of interest arising in connection with issuing a recommendation (should such a conflict exist) is located below.

The present report was not transferred to the issuer prior to its publication.

mBank S.A. had a brokerage agreement in place with the Issuer in the last 12 months.  
 mBank S.A. received compensation for services provided to the Issuer in the last 12 months.

The production of this recommendation was completed on September 5, 2018, 08:52 AM.  
 This recommendation was first disseminated on September 5, 2018, 08:52 AM.

mBank S.A., its shareholders and employees may hold long or short positions in the issuer's shares or other financial instruments related to the issuer's shares.

Copying or publishing the present report, in full or in part, or disseminating in any way information contained in the present report requires the prior written consent of mBank S.A.

Recommendations are addressed to all Clients of Dom Maklerski mBanku.

The activity of mBank S.A. is subject to the supervision of the Polish Financial Supervision Commission.

Individuals who did not participate in the preparation of recommendations, but had or could have had access to recommendations prior to their publication, are employees of Dom Maklerski mBanku authorised to access the premises in which recommendations are prepared and/or individuals having to access to recommendations based on their corporate roles, other than the analysts mentioned as the authors of the present recommendations.

This publication constitutes investment research within the meaning of Art. 36.1 of Commission Delegated Regulation (EU) 2017/565.

The compensation of the research analysts responsible for preparing investment research is determined independently of and without regard to the compensation of or revenue generated by any other employee of the Bank, including but not limited to any employee whose business interests may reasonably be considered to conflict with the interests of the persons to whom the investment research prepared by the Research Department of Dom Maklerski mBanku is disseminated. With that being said, since one of the factors taken into consideration when determining the compensation of research analysts is the degree of fulfillment of annual financial targets by customer service functions, there is a risk that the adequacy of compensation offered to persons preparing investment research will be questioned by a competent oversight body.

**For U.S. persons only:** This research report is a product of mBank SA which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by mBank SA only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, mBank SA has entered into an agreement with a U.S. registered broker-dealer, Cabrera Capital Markets. ("Cabrera"). Transactions in securities discussed in this research report should be effected through Cabrera or another U.S. registered broker dealer.

#### 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	neutral	neutral
Rating date	2018-09-05	2017-11-30
Target price (PLN)	-	-
Price on rating day	6.25	9.85

## Dom Maklerski mBanku

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

## Research Department

**Kamil Kliszc**

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

**Jakub Szkopek**

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

**Piotr Bogusz**

+48 22 438 24 08  
[piotr.bogusz@mbank.pl](mailto:piotr.bogusz@mbank.pl)  
retail

**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

**Michał Konarski**

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

**Piotr Zybala**

+48 22 438 24 04  
[piotr.zybala@mbank.pl](mailto:piotr.zybala@mbank.pl)  
construction, real-estate development

## 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)

**Andrzej Sychowski**

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

**Tomasz Galanciak**

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

**Tomasz Jakubiec**

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

**Szymon Kubka, CFA, PRM**

+48 22 697 48 54  
[szymon.kubka@mbank.pl](mailto:szymon.kubka@mbank.pl)

**Magdalena Bernacik**

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