

Friday, 20 May 2022 | update

## Cognor: accumulate (downgraded)

COG.PW; COGP.WA | Steel, Poland

### A Record Year for Cognor

The steel sector is enjoying strong profit momentum, with Polish producers of long steels charging PLN 6,000 a tonne amid a steel deficit that is not likely to be balanced out by a slowing economy, especially considering the rapid rise in costs of furnace feedstock.

Under these circumstances, against all expectations, Cognor continues to report increasing profits additionally reinforced by benefits reaped from an effective energy price hedging strategy that gives the Company an edge over less resourceful EAF steelmakers at a time when electricity prices are expected to keep reaching new all-time highs throughout 2023. Some European metallurgical plants might be forced to cut back production as a consequence, including steelmakers using the EAF route, who account for 50% of Europe's total capacity.

We have updated our FY2022 earnings expectations for Cognor to reflect better-than-expected first-quarter results, with EBITDA revised 2% higher. We also see potential to reduce this year's initial expectations for scrap steel prices.

At the same time, we reduce the forecasts for FY2023 and 2024 after factoring in a likely economic slowdown, possible volume declines in 2023, and higher prices of electricity expected in 2024.

Based on a lower valuation obtained with an updated the relative valuation model, we downgrade COG from buy to accumulate and we cut the 9-month target price from PLN 6.75 to PLN 5.97.

### No Breaks in Production

Cognor has put off scheduled maintenance of its metallurgical capacity in order to maximize the opportunities presented by today's unprecedented market conditions. To illustrate, in Q1 2022 the cost-price spread on a tonne of steel rebar reached PLN 2,080, an increase of 800zł on the same period in 2021. Since then, we estimate that the gap may have widened by as much as 25%. The rebar spreads could go down in the second half of the year, but not much.

### A Limit on Scrap Exports?

Polish development minister Waldemar Buda has recently called on the European Union to put in place measures to monitor member state exports of scrap steel in an effort to curb the rising costs of metallurgical inputs. Cognor would benefit greatly from such curbs considering that scrap represents its biggest cost driver, but we have to wait and see whether minister Buda's idea will gain traction with the European Commission.

### No Gaps in Financing

In March 2022, Cognor broke ground on a new PLN 500m rolling mill, located in the town of Siemianowice, funded with bank financing and PLN 200m bonds. The Company is not affected by the prospect of increasing interest payments as it uses IRS to hedge against interest rate increases.

(PLN m)	2020	2021	2022E	2023E	2024E
revenue	1,733	2,734	3,435	2,550	2,807
EBITDA (adj.)	92	518	619	299	201
EBITDA margin	5.3%	18.9%	18.0%	11.7%	7.2%
EBIT (adj.)	44	468	549	210	112
net profit (adj.)	10	357	434	159	81
P/E (adj.)	93.9	2.7	2.2	5.9	11.7
P/FCFE	5.1	8.2	2.8	2.5	7.2
FCFF/EV	23.3%	17.8%	56.1%	57.8%	18.4%
EV/EBITDA (adj.)	12.3	2.5	1.9	4.0	5.9
DPS	0.00	0.15	0.15	0.63	0.23
DYield	0.0%	2.7%	2.7%	11.5%	4.2%

current price	PLN 5.52
target price	PLN 5.97
mCap	PLN 946m
ADTV (3M)	PLN 7.8m

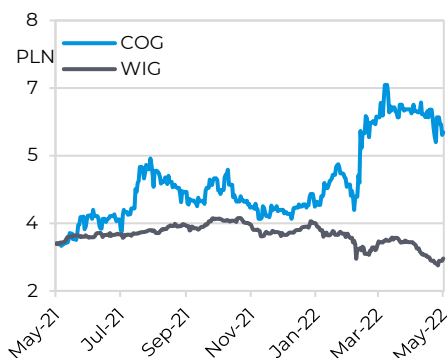
### Shareholders

PS HoldCo	71.42%
Others	28.58%

### About

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 Łąbędy' focuses on the production of round and square bars in electric arc furnaces, and 'Huta Stali Jakościowych' produces long and flat products from quality steel. Cognor's total production capacity is 636,000 tonnes. Cognor also runs its own scrap buying centers which cover about 50% of internal demand.

### COG vs. WIG



company	target price		recommendation	
	new	old	new	old
Cognor	5.97	6.75	accumulate	buy

company	current price	target price	upside
Cognor	5.52	5.97	+8.2%

forecast revision	2022E	2023E	2024E
	revenue	-0.2%	-10.1%
EBITDA	+2.3%	-1.8%	-10.1%
net profit	+2.9%	-2.6%	-18.6%
sales volume	0.0%	-5.7%	+1.5%
sales price	0.0%	-5.6%	-1.9%
price of scrap metal	-2.0%	-12.1%	-5.6%

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## Key Risks

### Economic Recession in China

As the world's biggest producer and consumer of steel, China is a major driving force behind global industry trends. As of May 2022, China is experiencing an economic slowdown, accompanied by a contraction in its manufacturing sector, reflected in two months of PMI prints coming in below 50.

Leading rating agencies have cut their 2022 growth forecasts as Beijing continues to tighten its zero-Covid curbs, causing disruptions along global supply chains that could have implications for the steel industry specifically, and for the world economy at large, including businesses like Cognor's.

### BOF Feedstock Price Reduction

Rallying prices of steel inputs, from coking coal to iron ore and scrap steel, have pushed higher the prices of finished steels. Prices are not likely to ease any time soon as mining companies across the world experience production disruptions, with China again playing a major role in shaping future demand by controlling 70% of the seaborne iron ore market.

### A Prompt Return of Ukrainian Steel Mills

Ukraine was a key supplier of steel and iron ore to the CEE region until Russia's invasion in February 2022 damaged or destroyed a significant part of the production capacity, mostly facilities located in the heavily afflicted eastern regions. However, Ukraine is showing great resilience in the face of the ongoing aggression by rebuilding the lost capacity faster than anyone could have expected.

A fast-paced recovery has a potential downside for the neighboring steel markets if Ukraine's steel exports were to resume in 2022, bringing down prices from their current highs.

### Increasing Costs of Production

Scrap steel is the biggest cost driver for Cognor, with its prices trending ever higher in recent months amid short supply paired with strong demand from Turkey.

If prices of finished steels should shift lower, while expenses on inputs stay elevated, this would reduce Cognor's sales margins. As we write this, the finished steel market has moved up more than the scrap market, but the situation is volatile.

### Production Stoppages

It has been a year since Cognor's rebar plant, Ferrostal, was originally scheduled to close for routine maintenance. The downtime has been put off in order to capitalize as much as possible on favorable market conditions, giving rise to the possibility of a malfunction or failure that would cause production to stop.

### End of Embargoes on Russian and Belarusian Steel Imports

The European Union imposed embargoes on Russian and Belarusian steel imports in response to the invasion of Ukraine that, once lifted, will probably drive down European steel prices, and cut into Cognor's sales profits.

### Building Slowdown and Stalled Recovery in the Automotive Sector

The building industry and the auto industry are two of Cognor's biggest customers, meaning that the Company has a vested interest in their health.

At the moment, as interest rates increase, the expectation is that building construction is poised for a slowdown while infrastructure expenses are not likely to be affected.

When it comes to the auto industry, its recovery from a pandemic slump has been stalled by supply chain disruptions, but sales are expected to rebound soon.

Nevertheless, if orders from either of the two crucial sectors were to be cut this would result in a sharper downward shift in steel prices.

### Loss of Business Due to COVID-19

The COVID-19 pandemic has not had a noticeable impact on Cognor to date, but the uncertainty persists as to the virus's future spread and potential long-term consequences. Even outbreaks in remote parts of the world, that nevertheless serve as crucial links in global supply chains, can indirectly cause Cognor to lose business.

### Escalation of Russia's War

Russia's aggression on Ukraine has had a positive effect on the steel industry through increased prices, but its further escalation would be destructive for the economy, most likely causing it to fall into a recession.

## Valuation

Using DCF analysis and relative valuation, we set our nine-month per-share price target for Cognor at PLN 5.97.

(PLN)	weight	price
relative valuation	50%	5.49
DCF analysis	50%	5.66
	valuation	5.57
	<b>9M target price</b>	<b>5.97</b>

Source: mBank

## Multiples Comparison

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 scrap metal as its feedstock material.

### Multiples Comparison

	P/E			EV/EBITDA		
	2022E	2023E	2024E	2022E	2023E	2024E
ALUMETAL SA	6.9	8.4	8.6	6.1	6.5	6.1
TATA STEEL LTD	4.2	6.1	6.8	3.5	4.3	4.3
NIPPON YAKIN KOGYO CO LTD	3.9	5.4	5.5	-	-	-
JSW STEEL LTD	7.7	9.3	8.4	5.9	6.3	5.6
STEEL AUTHORITY OF INDIA	3.0	4.8	4.2	2.9	3.7	2.9
STEEL DYNAMICS INC	4.4	7.9	11.1	2.7	3.8	4.3
UNITED STATES STEEL CORP	2.6	7.3	6.9	1.5	2.6	2.4
OLYMPIC STEEL INC	7.8	12.2	-	-	-	-
COMMERCIAL METALS CO	5.9	8.5	9.1	4.2	5.0	5.0
ARCELORMITTAL	2.4	4.3	4.5	1.7	2.6	2.7
BAOSHAN IRON & STEEL CO-A	5.7	5.5	6.0	3.2	2.9	2.6
POSCO	4.8	5.0	5.3	3.1	2.9	2.7
HYUNDAI STEEL CO	3.8	4.3	4.4	3.9	3.8	3.6
THYSSENKRUPP AG	4.3	5.7	6.0	0.4	0.4	0.3
SALZGITTER AG	2.9	5.5	6.5	1.9	2.6	3.6
KLOECKNER & CO SE	3.8	12.1	11.4	2.8	5.1	4.1
OUTOKUMPU OYJ	3.4	5.8	6.7	1.9	2.6	2.8
SSAB AB-A SHARES	3.2	7.0	10.3	1.5	2.9	3.7
HITACHI METALS LTD	63.3	26.1	29.6	7.9	7.4	10.3
HESTEEL CO LTD-A	7.9	7.5	-	-	-	-
JFE HOLDINGS INC	3.4	5.2	6.1	4.9	6.4	6.1
VOESTALPINE AG	4.1	5.1	6.8	3.1	2.9	3.3
NUCOR CORP	5.8	12.3	13.1	3.9	6.5	6.9
Maximum	63.3	26.1	29.6	7.9	7.4	10.3
Minimum	2.4	4.3	4.2	0.4	0.4	0.3
<b>Median</b>	<b>4.2</b>	<b>6.1</b>	<b>6.8</b>	<b>3.1</b>	<b>3.7</b>	<b>3.7</b>
Cognor	1.7	6.2	7.6	2.2	1.7	4.8
premium / discount	-60%	2%	11%	-30%	-54%	31%

### Implied Valuation

multiple weight		50%			50%	
year weight	33%	33%	33%	33%	33%	33%
<b>equity value per share (PLN)</b>	<b>5.49</b>					

Source: mBank, Bloomberg

## DCF Valuation

### Assumptions:

- Beta = 1.2, reflecting the highly cyclical nature of Cognor's business.
- Cash flow is discounted at the end of April 2022.
- We assume FCF after the forecast period will grow at a rate of 2%.
- D&A expenses in the terminal period are equal to CAPEX.
- Net debt is as at year-end 2021

### DCF Model

(PLN m)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2021E	+
<b>EBIT</b>	<b>549.1</b>	<b>210.2</b>	<b>111.5</b>	<b>114.2</b>	<b>157.3</b>	<b>156.7</b>	<b>154.9</b>	<b>150.5</b>	<b>143.8</b>	<b>143.8</b>	<b>147.2</b>
EBIT margin	16.0%	8.2%	4.0%	3.8%	4.9%	4.8%	4.7%	4.6%	4.4%	4.4%	4.4%
tax on EBIT	101.8	37.4	18.9	19.4	27.6	27.5	27.2	26.3	25.0	25.0	25.7
effective tax rate	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%
<b>NOPLAT</b>	<b>447.4</b>	<b>172.9</b>	<b>92.6</b>	<b>94.8</b>	<b>129.7</b>	<b>129.2</b>	<b>127.7</b>	<b>124.2</b>	<b>118.8</b>	<b>118.7</b>	<b>121.5</b>
D&A	69.6	88.5	89.9	92.3	95.8	100.3	104.3	108.3	115.0	115.1	114.9
CAPEX	-300	-305	-75	-80	-87	-96	-99	-103	-107	-114	-115
working capital & other	-165	129	-38	-33	-30	-7	-1	0	0	0	-2
FCF	52	86	70	74	108	127	132	129	126	120	122
WACC	8.92%	8.79%	8.85%	8.98%	9.24%	9.60%	9.70%	9.70%	9.70%	9.70%	9.70%
discount factor	0.97	0.89	0.82	0.75	0.68	0.61	0.56	0.51	0.46	0.42	0.38
PV FCF	50.82	76.58	57.79	55.30	73.72	78.04	73.24	65.39	58.36	50.72	46.83
WACC	8.41%	8.27%	8.57%	8.63%	8.69%	8.80%	9.07%	9.33%	9.60%	9.70%	9.70%
cost of debt	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
risk-free rate	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
risk premium	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%
effective tax rate	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%
net debt / EV	16.12%	18.73%	17.64%	14.94%	9.41%	2.07%	0.0%	0.0%	0.0%	0.0%	0.0%
cost of equity	9.70%	9.70%	9.70%	9.70%	9.70%	9.70%	9.70%	9.70%	9.70%	9.70%	9.70%
risk premium	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
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 in the terminal period (g)	2%
Terminal value	1583.1
Present value of terminal value	608.2
Present value of FCF in the forecast period	640.0
Enterprise value	1248.2
net debt (2021 eop)	230
Other noncore assets	0.0
Minority interest	48.7
Equity value	969.4
million shares outs.	171.4
<b>equity value per share (PLN)</b>	<b>5.66</b>
9M cost of equity	7.2%
<b>target price</b>	<b>6.06</b>

EV/EBITDA ('22) at target price	2.0
P/E('22) at target price	2.4
TV / EV	48.7%

Source: mBank

### Sensitivity Analysis

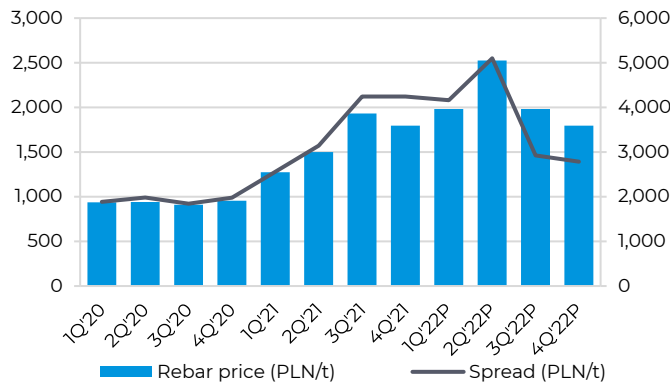
	FCF growth in perpetuity				
	0%	1%	2%	3%	4%
WACC +1.0 p.p.	4.67	4.99	5.38	5.86	6.50
WACC +0.5 p.p.	4.90	5.25	5.69	6.24	6.97
WACC	5.15	5.54	<b>6.06</b>	6.66	7.52
WACC -0.5 p.p.	5.42	5.85	6.41	7.14	8.16
WACC -1.0 p.p.	6.19	6.68	7.32	8.17	9.39

## FY2022 Earnings Prospects

Cognor exceeded all expectations with record-high 2022 first-quarter results, and it looks like the strong forward momentum has carried over to the second quarter, backed by the steel supply curbs that have emerged since Russia's invasion of Ukraine on 24 February 2022.

In Q1, the average pricing margin on a tonne of Ferrostal's finished rebar had edged only about PLN 30 higher from the previous quarter to PLN 2,080, and in Q2 we are expecting much more substantial margin growth to an estimated PLN 2,550/t, accompanied by profit margin expansion across the Company's other core products.

### Steel rebar prices (rhs) and pricing margins (lhs)



Source: Cognor, E - mBank estimates

On soaring margins, Cognor will most likely report another record-breaking quarter in Q2 202, with EBITDA potentially reaching an unprecedented PLN 253m.

### Forecast of 2022 Q2 results of Cognor

(PLN m)	2Q'22E	2Q'21	change	2022E	YTD*
revenue	1,123	584	92%	3,442	61%
EBITDA	253	80.1	216%	630	71%
EBITDA margin	23%	13.7%	-	18%	-
EBIT	241	66.8	261%	560	75%
net profit	191	43	344%	443	78%

Source: Cognor, E - mBank estimates

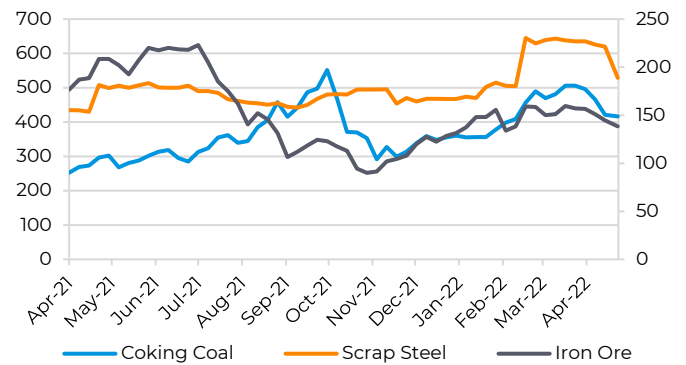
On a less positive note, Q2 2022 in our view will also be the eighth – and last – straight quarter of increasing profits for Cognor; looking ahead, we see an easing in the European steel market amid economic contraction and a slow return of supply from Ukraine.

We are anticipating a gentle pace of price declines considering the persistently high costs of electricity used for making steel in electric-arc furnaces, which represent 50% of the total steelmaking capacity of Europe, coupled with high prices of feedstocks, including imports from outside of Europe, underpinned by a strong dollar.

Prices of steel inputs have retreated somewhat lately from their all-time high levels, but they are still expensive, with coking coal quotes in particular lifted by inclement weather and disruptions experienced by Australian miners.

Cognor at the moment is also benefiting from decreasing prices of scrap steel.

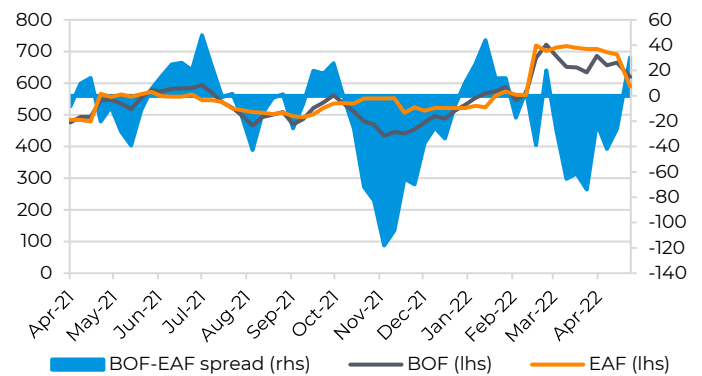
### Prices of steel inputs: iron ore (rhs), coking coal, scrap steel (lhs)



Source: Bloomberg, mBank

EAF steelmaking shows an advantage over the BOF process lately after a downward shift in prices of scrap steel inputs.

### Profit margins of BOF vs. EAF steel producers (US\$/t)



Source: Bloomberg, mBank

For Cognor, the cost advantage is further reinforced by an effective hedging strategy, mitigating the current rise in electricity prices, combined with state subsidies to offset soaring prices of carbon emissions; in 2022, the Company expects to receive PLN 24m in CO<sub>2</sub> assistance

### Cognor revised 2022 and 2023 revenue and EBITDA forecast

(PLN m)	revenue		EBITDA (adj.)	
	2022E	2023E	2022E	2023E
old	3,432	2,835	605	305
new	3,435	2,550	619	299
change	0%	-10%	2.3%	-2.1%

Source: mBank

We have revised our 2022 earnings estimates for Cognor to reflect the better-than-expected first-quarter results. The revenue forecast changed less than the EBITDA forecast for reasons related to lower prices of scrap steel.

We have cut the revenue estimate slightly after observing a shift in the sales mix in favor of semi-finished steels, and we have raised the EBITDA forecast after reducing the expected scrap price average for the year to PLN 2,420/t.

In 2023, we are anticipating a decline in steel markets in line with increasing supply and slower economic growth.

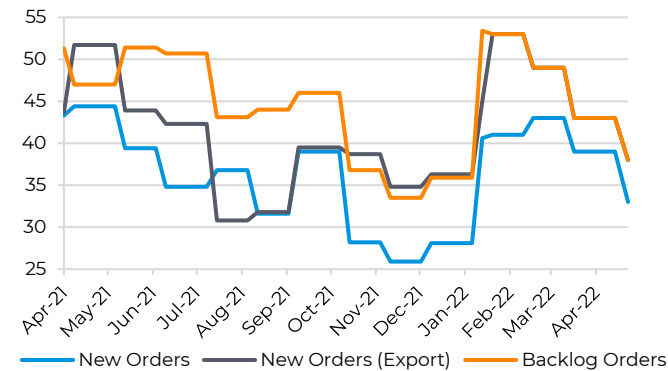


## Global Market Update

The global steel market seems to be slowly losing momentum amid a slowing global economy.

The supply constraints caused by the outbreak of the war in Ukraine have mainly affected Europe as a major buyer of Ukrainian and Russian semi-finished and finished steels and furnace inputs. Adding to the tight supply are the EU's import quotas, designed to protect local producers, that are dragging out price arbitration.

### China Steel Industry PMI (points)

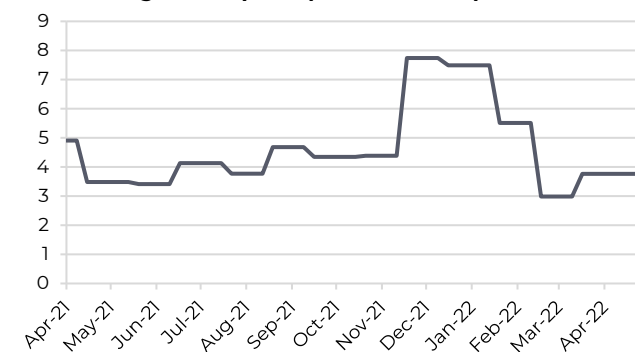


Source: Bloomberg, mBank

China is the single biggest driver of the global steel market. After a short-lived recovery earlier in the year, in recent weeks the Chinese steel industry has experienced a slump, reflected in deteriorating PMI prints, led by stringent Covid-19 protections and an ongoing crisis in the property market.

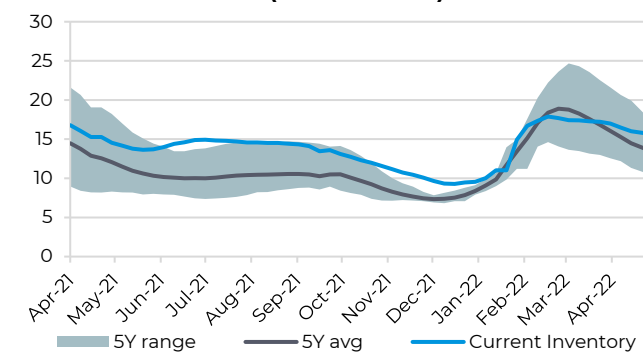
There has been an uptick in China's coking coal purchases in recent weeks, but the motivation behind this was probably a desire to take advantage of cheaper prices of Russian coal more than it was a real revival in local steel production.

### China coking coal imports (million tonnes)



Source: Bloomberg, mBank

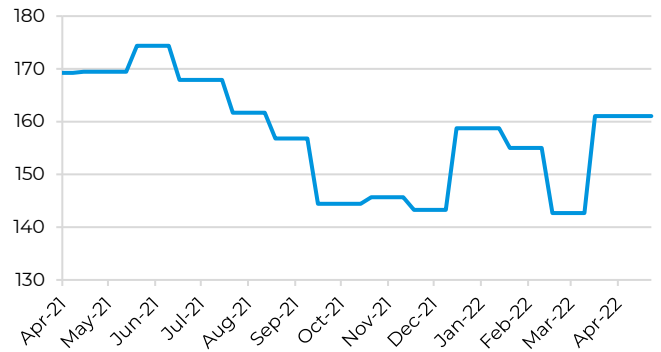
### China steel inventories (million tonnes)



Source: Bloomberg, mBank

The steel reserves of China have been on a decline for the last few weeks, but this is a normal seasonal occurrence with the domestic stockpiles holding firmly above the 5-year average.

### Global steel production (million tonnes)



Source: Bloomberg, mBank

April of 2022 saw a significant rise in the average utilization rate of global steel capacity, however, we see this as a temporary rebound to make up for the output slump registered in March.

## Re-Rating of the Steel Sector

The steel sector has undergone a de-rating in the past month with the Forward P/E and Forward EV/EBITDA ratios marked down by an average of 18%.

### Change in steel sector multiples, April to May 2022

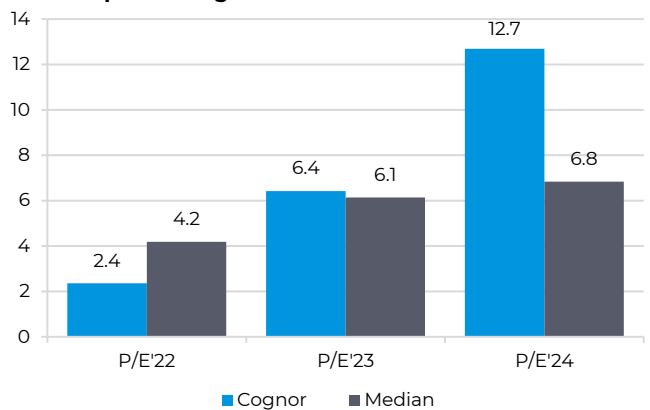
	P/E			EV/EBITDA		
	2022E	2023E	2024E	2022E	2023E	2024E
median (April)	5.2	7.7	7.9	3.6	4.5	4.7
median (May)	4.2	6.1	6.8	3.1	3.7	3.7
% change	-20%	-20%	-13%	-14%	-17%	-21%

Source: Bloomberg, mBank

Stock markets everywhere have experienced losses lately amid monetary tightening, weaker economic data, and concerns about future growth, and the steel sector, which has a close correlation with economic cycles, has been dragged down by the weakness.

Obviously trading multiples have not been immune to the price correction.

### P/E multiples of Cognor vs. median steel sector ratios



Source: Bloomberg, mBank

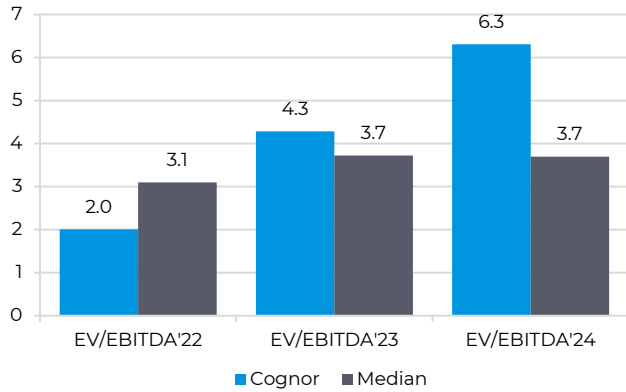


Compared to median sector values, despite the recent declines, Cognor is still trading at significantly lower earnings multiples based on 2022E earnings.

On the other hand, the ratios based on 2023E earnings, both P/E and EV/EBITDA, currently exceed the median peer ratios, if only by a very narrow margin.

COG could be considered a neutral trade at 6zł per share.

**EV/EBITDA of Cognor vs. median steel sector ratios**



Source: Bloomberg, mBank

Looking ahead into 2024, assuming the absence of the competitive advantage provided today by electricity price hedging, based on relative valuation and our forecasting model, Cognor looks overvalued relative to the year's earnings prospects, which in our view include an EBITDA reduction to PLN 201m, along with lower net profit of PLN 81m, due primarily to higher expenses on electricity.

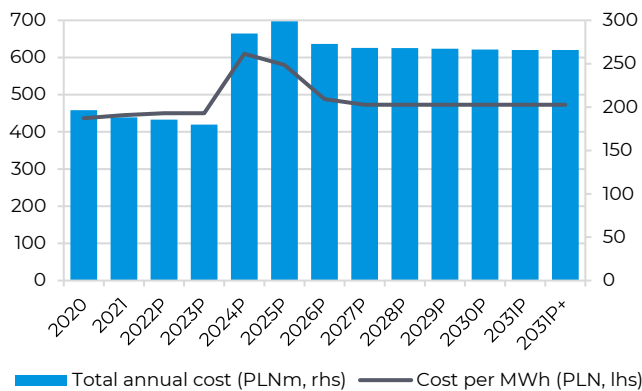
We project that the cost to buy electricity in 2024 will reach PLN 610/MWh after increasing 34% from 2023.

2024 in general is looking to be the worst year for Cognor in our forecast period.

Our long-term valuation levels are lower with the expected P/E averaging 8.8 in the forecast horizon, alongside average EV/EBITDA at 4.2 – values that are less than the respective historical medians of 13.9 and 5.6.

**Upside and Downside Risks**

**Long-term projection of Cognor's electricity costs**



Source: Bloomberg, mBank

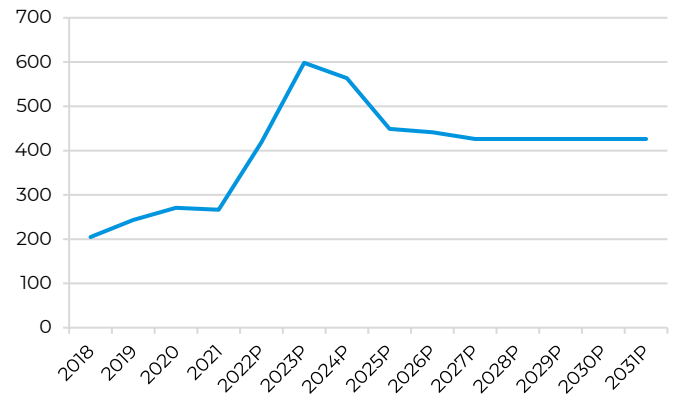
Cognor has its 2022 and 2023 electricity purchases hedged at ca. PLN 310/MWh (before distribution and service charges).

Next year, we expect the Company to incur lower overall power costs due to planned maintenance downtime.

In 2024, the yearly power expense is forecast to be PLN 284m, and in 2025 it is set to go up despite a downward shift in market electricity quotes, driven by higher capacity utilization and the achievement of target capacity by the new rolling mill.

Beyond 2025, electricity prices are expected to stabilize at lower levels.

**Electricity price projection to 2031 (PLN/MWh)**



Source: mBank

There is upside risk to our expectations for record-high electricity prices in 2023 stemming from the fact that, **at the moment, 2023 power futures on the Polish TGE exchange are trading at PLN 1,300/MWh vis-à-vis our 2023 average price forecast of PLN 600/MWh. If the actual prices exceed this target, Cognor would be poised for even bigger gains on its price hedges next year.**

Another way the soaring power costs can help Cognor is if they force the competition to cut back their operating rates. EAF steelmakers represent 50% of the total steelmaking capacity of Europe, and any reduction in supply on their part can cause big disruptions in the European market.

**Steel Demand Keeps Growing**

In order to bring down the costs of energy for citizens and businesses after prices skyrocketed following bans on Russian gas and oil imports, the European Union has to invest heavily in alternative sources of energy. Wind energy plays a major role in the EU's long-term energy strategy, and large quantities of steel are needed to build the wind farms that will help reach the goals.

The defense industry has become another emerging driver of steel demand as more and more countries are prompted by the war in Ukraine to boost their defense spending. Cognor has had a working relationship in the past with the Polish Armaments Group, making armored vehicles for the Polish Army, and by next year the relationship will probably resume with orders flowing in again. At the moment, Cognor is supplying small quantities of steel plates for tactical vests for the Ukrainian military.

**Conclusion**

Looking at the performance of the steel market against the global macroeconomic backdrop, we can see a discernible downward trend that, however, is not likely to catch up with Cognor until 2023, when prices of steel products will most likely drift lower amid an economic slowdown.

Mitigating factors that might help offset the negative trends include the hedging positions that shield the Company from high prices of energy, and give it a cost advantage, combined with increased demand for steel from the energy industry and the defense sector.



Long-term projects to build renewable energy sources in particular can serve as a sustained defense against downturns in the steel market during periods of slowdown.

### **Dividends**

Cognor has declared a disappointingly small dividend payout in 2022 of only PLN 0.15 a share, but after expected stellar earnings, considering its healthy balance sheet, in 2023 we are expecting a much more generous distribution of PLN 0.63 a share, suggesting a dividend yield of 10.6% at the current share price level.



<b>P&amp;L</b>						<b>CF statement</b>					
(PLN m)	2020	2021	2022E	2023E	2024E	(PLN m)	2020	2021	2022E	2023E	2024E
<b>revenue</b>	<b>1,733</b>	<b>2,734</b>	<b>3,435</b>	<b>2,550</b>	<b>2,807</b>	<b>operating CF</b>	<b>206</b>	<b>127</b>	<b>351</b>	<b>390</b>	<b>144</b>
Ferrostal rebar	817	1,275	1,610	1,132	1,387	working capital	98	-309	-165	129	-38
HSJ rolled steels	465	745	899	705	718	<b>investing CF</b>	<b>-57</b>	<b>-92</b>	<b>-300</b>	<b>-305</b>	<b>-75</b>
Złomrex Metal scrap	123	213	333	243	241	CAPEX	-57	-99	-300	-305	-75
other	328	501	593	470	460	<b>financing CF</b>	<b>-127</b>	<b>-38</b>	<b>-106</b>	<b>-124</b>	<b>-93</b>
						dividend	0	-26	-25	-108	-40
<b>COGS</b>	<b>1,574</b>	<b>2,222</b>	<b>2,886</b>	<b>2,340</b>	<b>2,695</b>	<b>CF</b>	<b>22</b>	<b>-2</b>	<b>-55</b>	<b>-39</b>	<b>-23</b>
D&A	48	49	69	88	89	OCF/EBITDA	224.9%	24.6%	56.8%	130.5%	71.5%
materials & utilities	1,099	1,510	2,086	1,568	1,858	FCFF	263	227	651	695	218
scrap steel	696	1,213	1,671	1,165	1,311	<b>FCFF/EV</b>	<b>23.3%</b>	<b>17.8%</b>	<b>56.1%</b>	<b>57.8%</b>	<b>18.4%</b>
electricity	196	188	186	180	285	FCFE	187	115	338	376	132
services	168	186	206	206	234	<b>FCFE/MCAP</b>	<b>19.8%</b>	<b>12.1%</b>	<b>35.7%</b>	<b>39.8%</b>	<b>14.0%</b>
taxes and fees	10	11	17	22	22	ROIC	10.7%	42.0%	37.6%	12.9%	6.6%
payroll	174	187	206	215	255	ROCE	10.1%	50.4%	46.5%	15.8%	8.1%
other	6	7	7	6	7	DPS	0.00	0.15	0.15	0.63	0.23
						divid. payout ratio	0.0%	254.9%	7.1%	25.0%	25.0%
goods	162	288	297	235	230	<b>dividend yield</b>	<b>0.0%</b>	<b>2.7%</b>	<b>2.7%</b>	<b>11.5%</b>	<b>4.2%</b>
inv. change	-37	0	0	0	0						
D&A	48	50	70	88	90						
EBIT	67	468	549	210	112						
financing activity	-34	-13	-14	-14	-12						
pre-tax profit	32	453	536	197	100						
tax	-1	89	102	37	19						
net profit	33	364	434	159	81						
<b>EBITDA (adj.)</b>	<b>92</b>	<b>518</b>	<b>619</b>	<b>299</b>	<b>201</b>						
<b>net profit (adj.)</b>	<b>10</b>	<b>357</b>	<b>434</b>	<b>159</b>	<b>81</b>						

<b>Balance sheet</b>						<b>Key Ratios</b>					
(PLN m)	2020	2021	2022E	2023E	2024E		2020	2021	2022E	2023E	2024E
<b>fixed assets</b>	<b>515</b>	<b>564</b>	<b>703</b>	<b>921</b>	<b>907</b>	P/E	29.6	2.6	2.2	5.9	11.7
PP&E	397	493	575	763	741	<b>P/E (adj.)</b>	<b>93.9</b>	<b>2.7</b>	<b>2.2</b>	<b>5.9</b>	<b>11.7</b>
intangible assets	18	0	62	92	99	EV/EBITDA	10.1	2.3	1.9	4.0	5.9
goodwill	9	9	9	9	9	<b>EV/EBITDA (adj.)</b>	<b>12.3</b>	<b>2.5</b>	<b>1.9</b>	<b>4.0</b>	<b>5.9</b>
<b>current assets</b>	<b>517</b>	<b>941</b>	<b>1,102</b>	<b>790</b>	<b>846</b>	P/S	0.6	0.3	0.3	0.4	0.3
inventory	274	425	534	396	436	P/B	3.4	1.5	0.9	0.9	0.8
receivables	142	398	500	371	409	P/CF	4.6	7.4	2.7	2.4	6.6
cash	101	98	43	4	-19	P/FCFE	5.1	8.2	2.8	2.5	7.2
<b>equity</b>	<b>288</b>	<b>635</b>	<b>1,034</b>	<b>1,085</b>	<b>1,126</b>	<b>EBITDA margin</b>	<b>5.3%</b>	<b>18.9%</b>	<b>18.0%</b>	<b>11.7%</b>	<b>7.2%</b>
minority interest	19	19	19	19	19	y/y % EBITDA change	-1.4%	465.1%	19.5%	-51.7%	-32.6%
<b>noncurrent liab.</b>	<b>243</b>	<b>276</b>	<b>276</b>	<b>276</b>	<b>236</b>	net margin	0.6%	13.0%	12.6%	6.2%	2.9%
loans	208	240	240	240	200	<b>y/y % EPS change</b>	<b>11.3%</b>	<b>-97.2%</b>	<b>-17.8%</b>	<b>172.4%</b>	<b>97.5%</b>
<b>current liabilities</b>	<b>470</b>	<b>559</b>	<b>536</b>	<b>398</b>	<b>438</b>	price (PLN)	5.52	5.52	5.52	5.52	5.52
loans	57	65	0	0	0	shares outst. (millions)	171.4	171.4	171.4	171.4	171.4
trade payables	413	494	536	398	438	mCap	946	946	946	946	946
						EV	1,129	1,271	1,162	1,201	1,185
<b>net debt</b>	<b>164</b>	<b>306</b>	<b>197</b>	<b>236</b>	<b>219</b>						
net debt/EBITDA	1.44	0.59	0.32	0.79	1.09						
net debt/EBITDA (adj.)	3.42	0.88	0.56	1.29	1.83						

Source: mBank



### Macroeconomic Assumptions

	2020	2021	2022E	2023E	2024E
rolled sheet steel (PLN/t)	2,425	4,500	4,600	3,600	3,450
rebar price (PLN/t)	2,150	3,300	4,300	3,180	3,150
PL steel production	7.9	8.3	8.5	8.6	8.8
EU steel production	139	153	157	159	161
Poland/EU	8.4%	8.1%	7.9%	7.6%	8.7%
USD/PLN	3.92	3.95	4.15	3.83	3.60
coke price (US\$/t)	189	145	600	230	230
iron ore price (US\$/t)	117	180	130	100	100
scrap price (US\$/t)	319	470	550	500	500
BOF margin (US\$)	368	474	684	403	403
EAF margin (US\$)	356	524	613	558	558
BOF-EAF (US\$)	12	-50	70	-155	-155
BOF margin (PLN)	1,442	1,870	2,837	1,543	1,451
EAF margin (PLN)	1,396	2,068	2,545	2,135	2,007
scrap price (PLN/t)	1,252	1,700	2,440	1,750	1,700
second. / primary steel	53%	45%	55%	53%	52%
energy price (PLN/MWh)	437	455	450	450	610
energy use (MWh)	450	414	412	400	467

### Sales & margin forecast for Złomrex secondary steels

	2020	2021	2022E	2023E	2024E
volume (1k t)	137	152	155	158	161
revenue (PLN m)	123	213	333	243	241
avg. price (PLN/t)	898	1,496	2,147	1,540	1,496
discount	-28%	-12%	-12%	-12%	-12%

Source: mBank

### Sales & margin forecast for Ferrostal rebar

revenues (PLN m)	2020	2021	2022E	2023E	2024E
billet	147	216	215	146	129
plain bars	63	106	123	91	107
flat bars	98	165	192	141	167
<b>rebar</b>	<b>434</b>	<b>679</b>	<b>933</b>	<b>638</b>	<b>848</b>
volumes (1k t)	2020	2021	2022E	2023E	2024E
billet	83	77	67	63	60
plain bars	29	31	31	31	39
flat bars	45	47	48	49	61
<b>rebar</b>	<b>231</b>	<b>236</b>	<b>236</b>	<b>218</b>	<b>293</b>
prices (PLN/t)	2020	2021	2022E	2023E	2024E
scrap steel	907	1,534	2,074	1,488	1,445
billet	1,760	2,816	3,189	2,306	2,158
plain bars	2,177	3,483	3,968	2,894	2,733
flat bars	2,182	3,491	3,977	2,901	2,740
<b>rebar</b>	<b>1,873</b>	<b>2,875</b>	<b>3,950</b>	<b>2,921</b>	<b>2,894</b>
cost-price spread (PLN/t)	2020	2021	2022E	2023E	2024E
billet	853	1,282	1,115	819	713
plain bars	1,270	1,949	1,894	1,407	1,288
flat bars	1,275	1,957	1,903	1,414	1,295
<b>rebar</b>	<b>966</b>	<b>1,341</b>	<b>1,876</b>	<b>1,434</b>	<b>1,449</b>

### Sales & margin forecast for HSJ rolled steels

revenues (PLN m)	2020	2021	2022E	2023E	2024E
billet	164	218	271	213	229
square bar	444	695	863	677	690
volumes (1k t)	2020	2021	2022E	2023E	2024E
billet	76	72	74	74	80
square bar	160	173	176	176	180
prices (PLN/t)	2020	2021	2022E	2023E	2024E
scrap steel	1,006	1,751	2,489	1,785	1,734
billet	2,160	3,023	3,683	2,889	2,886
square bar	2,775	4,023	4,901	3,845	3,841
cost-price spread (PLN/t)	2020	2021	2022E	2023E	2024E
billet	1,154	1,272	1,194	1,104	1,152
square bar	1,769	2,272	2,412	2,060	2,107

**List of abbreviations and ratios used by mBank:**

**EV** (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases) - Lease Payments  
**EBITDA margin** - EBITDA/Sales

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**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 recommendations for the Companies covered in this Research Report in the 12 months prior to publication:****Cognor (Antoni Chęciński)**

recommendation	buy	hold	buy	accumulate	buy
date issued	2022-04-07	2022-01-17	2021-10-07	2021-08-31	2021-06-18
target price (PLN)	6.75	4.10	5.05	5.05	4.30
price on rating day	5.85	4.15	3.93	4.52	3.57



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