

Monday, 24 January 2022 | special comments

Cognor: Steelmaker Expects to Post FY2021 Beat

Recommendation: hold | target price: PLN 4.10 | current price: PLN 3.95

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After reaching what are likely to be the highest quarterly results of the year in Q4, Cognor expects that its revenue for the full fiscal FY2021 will come in at an unprecedented PLN 2,811 million, along with an all-time high EBITDA figure of PLN 520 million, the Company said in a market filing.

The Q4 2021 quarterly figures are also set to achieve record-high levels at an estimated PLN 794m revenue and PLN 165m EBITDA, indicating year-on-year growth at respective annual rates of 10.7% and 2.7% and respective beats of 16% and 40% relative to our expectations.

When it comes to the likely drivers behind the positive surprise, Cognor most likely registered stronger-than-expected sales volumes in Q4 2021.

The preliminary EBITDA margin at 20.7% represents a lower figure than in the previous quarter after a decline that, however, turned out not to have been as steep as anticipated.

Summing up, Cognor sent a bullish signal with the better-than-expected preliminary Q4 2021 figures.

- Cognor's steel rebar unit, Ferrostal, presumably operated at high capacity levels in Q4 as it aimed to maximize favorable

market conditions. To this end, Ferrostal's periodic 40-day maintenance has been put off until March 2022. There is enough feedstock to keep the rolling mill going however there is expectation for about 18,000 tonnes of lost billet sales.

- On high profits, we estimate that Cognor generated operating cash flow of PLN 70m in Q4 2021, resulting in reduced debt of ca. PLN 165m.
- Our current estimates are predicated on the assumption that Cognor's sales prices did not change in Q4. If prices did go up, we might adjust upwards our expectations for steel prices in 2022. We see headroom for more growth in the coming months fueled by upward-trending energy prices and risk of more pandemic disruptions. Cognor would earn higher margins in such an environment thanks to a policy of energy price hedging to 2023.
- On a less positive note, at the moment persistently high prices of secondary steels continue to put a squeeze on Cognor's profits.
- We are expecting a downward trend in prices of steel products in 2022 led by BOF steel producers as they capitalize on lower feedstock costs amid falling prices of iron ore and coke.

Forecast of 2021 Q4 results of Cognor

(PLN m)	4Q'21P	4Q'21E	4Q'20	y/y	2021P	2021E
revenue	794	685	445	54%	2811	2702
EBITDA	165	117	23.5	397%	520	472
EBITDA margin	21%	17%	5.3%		18%	17%
EBIT	151	105	11.3	833%	468	412
net profit	127	87	7	1142%	366	325

Source: P – preliminary estimate of Cognor, E - mBank estimate

Historical quarterly results of Cognor

capacity utilization rate (%)	3Q'19	4Q'19	1Q'20	2Q'20	3Q'20	4Q'20	1Q'21	2Q'21	3Q'21	4Q'21E
Ferrostal rebar	88%	151%	119%	131%	89%	113%	103%	115%	93%	104%
HSJ rolled steels	76%	82%	95%	92%	84%	94%	109%	106%	85%	96%
(PLN m)	3Q'19	4Q'19	1Q'20	2Q'20	3Q'20	4Q'20	1Q'21	2Q'21	3Q'21	4Q'21E
revenue	400	466	460	456	372	445	584	716	717	685
EBITDA (adj.)	13	19	28	29	12	23	75	116	145	117
one-time events	4	0	2	10	10	0	5	-2	16	0
OCF	29	82	40	53	27	86	53	-24	22	70
net debt	286	226	260	226	218	164	126	177	206	165

Source: Cognor, E - mBank estimate



List of abbreviations and ratios contained in the report:

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

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