

Thursday, October 07, 2021 | Monthly Market Outlook, an excerpt

Cognor buy (upgraded)

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

Steel prices on the Polish market have been following a downward curve for a few weeks now, but the downturn has had less of an impact on rebar prices (~PLN4,000/t). With slightly decreasing prices of scrap (currently ~1700 PLN/t), margins on the production of rebar remain at close to record levels (~2200 PLN/t).

Thanks to the fact that in the current year the Management Board decided to postpone the maintenance downtime of Ferrostal to January, there is another successful quarter ahead for Cognor with EBITDA of more than PLN 100 million.

In our opinion, considering the expected low debt at the end of the year (0.2xEBITDA'21), the Management Board may recommend distribution as dividends of up to 50% of the net result for 2021, which implies DPS at PLN 0.70 and Dyield above 15% in 2022.

It is also worth noting that Cognor positively secured energy prices for the period of 2022-2023 (below PLN 240/MWh).

We upgrade out view on Cognor from accumulate to buy with a reiterated target price of PLN 5.05/share.

Current Price	3.93 PLN	Upside
9M Target Price	5.05 PLN	+28.5%

	rating	target price	issued
new	buy	5.05 PLN	2021-10-07
old	accumulate	5.05 PLN	2021-08-31

Key Metrics		COG PW	vs. WIG
Ticker	COG PW	1M Price Chng	-5.3%
ISIN	PLCNTSL00014	YTD Price Chng	+145.6%
Outst. Stock (m)	175.0	ADTV 1M	1.5 mln PLN
MC (PLN m)	687.6	ADTV 6M	2.2 mln PLN
EV (PLN m)	775.5	EV/EBITDA 12M fwd	3.1
Free Float	21.6%	EV/EBITDA 5Y avg	3.7

Earnings Projections					
(PLN m)	2019	2020	2021P	2022P	2023P
Revenue	1,902	1,733	2,632	2,372	2,002
EBITDA adj.	93	92	354	203	174
EBITDA margin	4.9%	5.3%	13.4%	8.5%	8.7%
EBIT adj.	47	44	303	153	125
Net income adj.	11	10	236	115	93
P/E adj.	61.3	68.2	2.9	6.0	7.4
P/B	2.7	2.4	1.4	1.4	1.3
EV/EBITDA adj.	10.0	9.5	2.2	3.6	4.1
DPS	0.21	0.00	0.15	0.70	0.46
DYield	5.2%	0.0%	3.7%	17.7%	11.7%

Forecast Update (% change)		2021P	2022P	2023P
Revenue		0.0%	0.0%	0.0%
EBITDA		0.0%	0.0%	0.0%
Net income		0.0%	0.0%	0.0%
Sales volume		0.0%	0.0%	0.0%
Product prices		0.0%	0.0%	0.0%
Scrap prices		0.0%	0.0%	0.0%

Financial Highlights

(PLN m)	2019	2020	2021P	2022P	2023P
Ferrostal volume (k tons)	424	424	427	428	429
HSJ volume (k tons)	237	238	247	252	257
Zlomrex volume (k tons)	142	137	144	147	150
Ferrostal spread (PLN/t)	1,127	1,022	1,449	1,231	1,223
HSJ spread (PLN/t)	1,508	1,265	1,646	1,435	1,427
Operating cash flow	142	206	184	224	164
D&A	46	48	50	50	48
Working capital	61	98	-129	49	13
Investing cash flow	-56	-57	-50	-50	-39
CAPEX	56	57	50	50	39
Financing cash flow	-84	-127	-103	-135	-93
Dividends/Buyback	-36	0	-26	-122	-80
FCF	102	157	124	175	126
FCF/EBITDA	101%	138%	34%	86%	72%
OCF/EBITDA	141%	180%	51%	110%	95%

Key Balance Sheet Figures

(PLN m)	2019	2020	2021P	2022P	2023P
Assets	1,052	1,031	1,259	1,232	1,167
Fixed assets	487	515	496	492	484
Equity	259	288	505	498	511
Minority interests	259	288	505	498	511
Net debt	226	164	69	29	-2
Net debt/EBITDA (x)	224%	144%	19%	15%	-1%
Net debt/Equity (x)	87%	57%	14%	6%	0%

Relative Valuation Summary

	P/E			EV/EBITDA		
	21P	22P	23P	21P	22P	23P
Minimum	2.2	3.4	4.9	1.4	1.0	1.0
Maximum	22.1	58.9	26.5	29.0	12.5	9.7
Median	5.8	8.1	8.9	4.3	4.4	4.7
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis

(PLN m)	21P	22P	23P	24P	25P	26P	27P	28P	29P	30P	+
Sales volume	674	680	687	694	700	707	704	703	699	699	699
Product prices	2,989	2,665	2,253	2,172	2,173	2,175	2,180	2,186	2,188	2,188	2,188
Scrap prices	1,753	1,692	1,188	1,116	1,116	1,116	1,116	1,116	1,116	1,116	1,116
Revenue	2,632	2,372	2,002	1,946	1,964	1,982	1,984	1,987	1,985	1,988	1,992
EBITDA	361	203	174	118	122	128	129	130	133	130	126
EBITDA margin	13.7%	8.5%	8.7%	6.1%	6.2%	6.4%	6.5%	6.5%	6.7%	6.5%	6.3%
EBIT	310	153	125	71	75	81	82	83	87	81	78
Tax	57	27	22	11	12	13	13	14	14	13	12
CAPEX	-50	-50	-39	-40	-42	-43	-46	-46	-46	-46	-48
Working capital	-129	49	13	2	-1	-1	0	0	0	0	0
FCF	124	175	126	69	67	71	69	70	73	71	67
PV FCF	120	155	101	51	45	43	38	36	34	30	
WACC	9.3%	9.5%	9.7%	9.6%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%
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%

DCF Summary

(PLN m)	
Beta	1.2
FCF perp. growth rate	2%
PV FCF	652.9
Net debt	164.0
Other adj.	19.3
Value per share (PLN)	4.78

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	4.65
DCF Val.	50%	4.78
Implied Price		4.71
Cost of equity (9M)		7.2%
9M Target Price		5.05

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

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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HOLD – we expect that the rate of return from an investment will range from -5% to +5%

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Cognor

Rating	buy	accumulate	buy	hold	buy	buy	buy
Rating date	2021-10-07	2021-08-31	2021-06-18	2021-04-09	2021-03-05	2021-02-10	2020-12-08
Target price	5.05	5.05	4.30	3.19	3.19	2.89	2.29
Price on rating	3.93	4.52	3.57	3.16	2.55	2.15	1.25

Comparable Companies Used In Relative Valuation Models

Cognor AK Steel, Alumetal, ArcelorMittal, Baoshan Iron & Steel, Commercial Metals, HeSteel, Hitachi Metals, Hyundai Steel, JFE Holdings, JSW Steel, Kloeckner & Co, Metalurgica Cerdau, Nippon Yakin Kogyo, Nucor, Olympic Steel, Outokumpu, POSCO, Saldgitter, SSAB, Steel Authority Of India, Steel Dynamics, Tata Steel, thyssenkrupp, United States Steel Corp, voestalpine

mBank S.A.

Prosta 18
00-850 Warszawa
<http://www.mbank.pl/>

Research Department

Kamil Kliszcz
director
+48 22 438 24 02
kamil.klischcz@mbank.pl
energy, power generation

Jakub Szkopek
+48 22 438 24 03
jakub.szkopek@mbank.pl
industrials, chemicals, metals

Piotr Poniatowski
+48 22 438 24 09
piotr.poniatowski@mbank.pl
industrials, gaming

Antoni Kania
antoni.kania@mbank.pl
industrials

Michał Marczak
+48 22 438 24 01
michal.marczak@mbank.pl
strategy

Paweł Szpigiel
+48 22 438 24 06
pawel.szpigiel@mbank.pl
media, IT, telco

Mikołaj Lemańczyk
+48 22 438 24 07
mikolaj.lemanczyk@mbank.pl
banks, financials

Michał Konarski
+48 22 438 24 05
michal.konarski@mbank.pl
banks, financials

Aleksandra Szklarczyk
+48 22 438 24 04
aleksandra.szklarczyk@mbank.pl
construction, real-estate development

Janusz Pięta
+48 22 438 24 08
janusz.pieta@mbank.pl
retail

Sales and Trading**Traders**

Piotr Gawron
Director
+48 22 697 48 95
piotr.gawron@mbank.pl

Łukasz Płaska
+48 22 697 47 90
lukasz.plaska@mbank.pl

Sales, Foreign Markets

Marzena Łempicka-Wilim
deputy director
+48 22 697 48 82
marzena.lempicka-wilim@mbank.pl

Krzysztof Bodek
+48 22 697 48 89
krzysztof.bodek@mbank.pl

Andrzej Sychowski
+48 22 697 48 46
andrzej.sychowski@mbank.pl

Tomasz Jakubiec
+48 22 697 47 31
tomasz.jakubiec@mbank.pl

Jędrzej Łukomski
+48 22 697 49 85
jedrzej.lukomski@mbank.pl

Piotr Brożyna
+48 22 697 48 47
piotr.brozyna@mbank.pl

Private Client Sales

Kamil Szymański
director
kamil.szymanski@mbank.pl

Jarosław Banasiak
deputy director
jaroslaw.banasiak@mbank.pl