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Cognor: Teleconference after 2021 Q2 results

Recommendation: buy | target price: PLN 4.30 | current price: PLN 4.84

COG PW; COGP.WA | Metallurgical Industry, Poland

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The management board of Cognor expects another strong quarter after the Q2 2021 results. According to its forecasts, the Company's Q3 2021 performance may be slightly worse than the Q2 2021 results but better than the Q1 2021 figures. Scrap prices in Europe are currently dropping modestly. So far in Q3 2021, commodity-product spreads on ribbed rebars have remained at record-high levels.

- In Q2 2021, the **utilisation of production capacity** stood at 117% vs 104% in Q2 2020.
- In Q2 2021, Cognor continued to profit from the **cost advantage offered by EAF** as compared with BOF; the difference in production costs increased insignificantly against Q1 2021. In the coming periods, dynamically growing scrap prices may minimise the difference in production costs, especially given that iron ore prices have lately been under pressure.
- In Q2 2021 Cognor recorded an **increase in the product margin** in the amount of PLN 70.7 million.
- **The management board expects slight declines in the prices** of scrap, billets, and finished goods. Production spreads are expected to remain high. In August, a slight adjustment of scrap prices has been observed on the European market.
- Electrical steel producers are maintaining a **very high rate of utilisation of production capacity**. The industry is supported by a rebound in the automotive industry.
- BOF producers have to face **higher CO_2 prices.**
- In August, Cognor **shut the Huta Stali Jakościowych steelwork** (Stalowa Wola) for three weeks, as it always does at this time of the year. **The downtime at Ferrostal was postponed to January** 2022. It is connected with an investment in the steelwork, which will translate into higher production capacity (from 375,000 thousand tonnes as at today up to 530,000 thousand tonnes; the investment will cost ca PLN 70 million). The downtime at Ferrostal will start at the beginning of January and will take 1.5 months.
- **In Q3 2021**, the management board expects **significantly better results y/y**. With the FIFO effect on inventory valuation close to zero, the management board expects the results to be better than in Q1 2021, but slightly worse than in Q2 2021. It is worth pointing out that in Q3 2021, the Group carries out seasonal modernisation works in steel plants.
- The management board expects the **market conditions to improve in 2022**, however, steel prices will remain at higher levels than in the previous years due to ever-increasing regulatory requirements (CBAM, steel production with the use of hydrogen, rising costs of sea fright).

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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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