

Friday, 29 April 2022 | special comments

Cognor: 2022 Q1 Results

Recommendation: buy | target price: PLN 6.75 | current price: PLN 6.08

COG.PW; COG.P.WA | Metallurgical Industry, Poland

Analyst: Antoni Kania +48 22 438 24 03 | +48 509 595 736

Cognor reported its highest-ever first-quarter results in Q1 2022, and while we did expect profits to reach record heights the final figures came out even better than we had anticipated, with EBITDA showing 6% beat at PLN 192m.

Prices were the main driver behind the strong first-quarter performance, as reflected in Ferrostal billets, the price of which went up to an average of PLN 4,325 a tonne after an upturn triggered by Russia's invasion of Ukraine.

On a less positive note, EBITDA margin came slightly short of our 21% estimate at 20% under pressure from higher costs.

All in all, Cognor delivered a stellar earnings report in Q1 2022, and we expect similarly strong figures in the second quarter.

- Both Ferrostal rebar and HSJ rolled steels enjoyed strong cost-price spreads in the period, with the blended spread on Ferrostal's product mix registering a 3.6% rebound from the previous quarter, of which the billet spread was up 11% q/q.
 - At HSJ, spreads grew 3% q/q for end products and stayed flat for billet. With that said, keep in mind that in Q4 2021 the spreads had surged to all-time highs that formed an oversized comparable base for Q1 2022 levels.
 - On more expensive scrap purchases, spreads widened slightly on the one hand but on the other hand there was a positive **FIFO effect** in the amount of PLN 26.5m.
 - Cognor received an extra PLN 6m in Q1 in state **compensation for high costs of emission allowances**, and it expects to continue to post equivalent quarterly amounts through 2022 to make total annual compensation of PLN 24.1m.
 - Operating cash flow** came in at PLN 194m in Q1 2022 on strong EBITDA that helped to offset working capital outflow.
 - Net debt** was reduced to PLN 143m as of 31 March 2022, with the net debt/EBITDA ratio ending at a very low 0.2x.
- Cognor generated **revenue** of PLN 962m in Q1 2022, an 11% higher figure than we had forecast, marking a 65% rebound from Q1 2021 on 4.5% larger volumes and markedly higher margins.
 - EBITDA** exceeded our estimate by 6% at PLN 192m.

2022 Q1 results of Cognor

(PLN m)	Q1'22	Q1'21	change	Q1'22E	differ.	2022E	YTD*
revenue	962	584	65%	863	11%	3442	28%
EBITDA	192	80.1	140%	181	6%	605	32%
EBITDA margin	20%	13.7%		21%		18%	
EBIT	181	66.8	171%	168	8%	535	34%
net profit	156	43	-	133	17%	422	37%

Source: Cognor, E - mBank estimates *Year-to-date result as a percentage our full-year estimate

Historical quarterly results of Cognor and Q1 2022 actuals

capacity utilization rate (%)	1Q'20	2Q'20	3Q'20	4Q'20	1Q'21	2Q'21	3Q'21	4Q'21	1Q'22	y/y	1Q'22E	differ.
Ferrostal rebar	119%	131%	89%	113%	103%	115%	93%	126%	114%	-	95%	-
HSJ rolled steels	95%	92%	84%	94%	109%	106%	85%	96%	119%	-	90%	-
(PLN m)	1Q'20	2Q'20	3Q'20	4Q'20	1Q'21	2Q'21	3Q'21	4Q'21	1Q'22	y/y	1Q'22E	differ.
revenue	460	456	372	445	584	716	717	794	962	65%	863	11%
EBITDA (adj.)	28	29	12	23	75	116	145	167	194	157%	181	7%
one-time events	2	10	10	0	5	-2	0	-3	16	238%	0	
operating cash flow	40	53	27	86	53	-24	22	69	194	264%	99	96%
net debt	260	226	218	164	126	177	206	230	143	13%	183	-22%

Source: Cognor, E - mBank estimates

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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REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
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mBank S.A.

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

Research Department

Kamil Kliszcz
director
+48 22 438 24 02 | +48 667 770 837
kamil.kliszcz@mbank.pl
energy, power generation

Piotr Poniatowski
+48 22 438 24 09 | +48 509 603 046
piotr.poniatowski@mbank.pl
gaming

Antoni Kania
+48 22 438 24 03 | +48 509 595 736
antoni.kania@mbank.pl
industrials, chemicals, metals

Michał Konarski
+48 22 438 24 05 | +48 515 025 640
michal.konarski@mbank.pl
banks, financials

Mikołaj Lemańczyk
+48 22 438 24 07 | +48 501 663 511
mikolaj.lemanczyk@mbank.pl
banks, financials

Paweł Szpigiel
+48 22 438 24 06 | +48 509 603 258
pawel.szpigiel@mbank.pl
media, IT, telco, e-commerce

Janusz Pięta
+48 22 438 24 08 | +48 506 065 659
janusz.pieta@mbank.pl
retail, e-commerce

Sales and Trading**Traders**

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

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

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

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

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

Sales, Foreign Markets

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