

Tuesday, December 08, 2020 | Investment Strategy 2021, an excerpt

Cognor buy (reiterated)

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Cognor is expected to enjoy strong demand in 2021 from the manufacturing industry and from auto makers, who are poised for recovery next year with the return of travel following mass covid-19 immunizations. We predict that Cognor will increase sales by 3% in 2021, and at the same time we assume that its average sales price for the year will be 6% higher than in 2020, resulting in a PLN 59m rebound in the annual revenue. Among challenges heading into 2021 are expected increases in costs of electricity (+PLN 14m), and labor (+3% or PLN 3m), not mitigated by state crisis assistance which this year provided one-time relief in the amount of PLN 11.8m. Nevertheless, looking at its low debt (2.1x EBITDA expected as of 31 December 2020) and a lack of major capital plans, it would not be wrong to assume that Cognor might distribute 60% of 2020 net profit as dividends in 2021, offering estimated DPS of PLN 0.09. In the longer term, Cognor could benefit from the EU's planned "carbon border tax," a levy on imports of polluting goods from non-EU countries, which would be a game changer for EU-based steel producers that could propel their earnings at a much faster rate than anyone could currently expect. We maintain a buy rating for Cognor after raising the target price from PLN 2.03 to PLN 2.29 per share.

Current Price	1.25 PLN	Upside
9M Target Price	2.29 PLN	+83.2%

	rating	target price	issued
new	buy	2.29 PLN	2020-12-08
old	buy	2.03 PLN	2020-09-25

Key Metrics		COG PW	vs. WIG
Ticker	COG PW	1M Price Chng	+10.1% -3.4%
ISIN	PLCNTSL00014	YTD Price Chng	+0.8% +4.7%
Outst. Stock (m)	175.0	ADTV 1M	PLN 0.1m
MC (PLN m)	218.7	ADTV 6M	PLN 0.1m
EV (PLN m)	461.8	EV/EBITDA 12M fwd	5.1 +36.9%
Free Float	-	EV/EBITDA 5Y avg	3.7 premium

Earnings Projections

(PLN m)	2018	2019	2020P	2021P	2022P
Revenue	2,082	1,902	1,725	1,875	1,906
EBITDA adj.	200	93	85	112	116
EBITDA margin	9.6%	4.9%	4.9%	6.0%	6.1%
EBIT adj.	156	47	37	65	71
Net income adj.	94	11	5	37	41
P/E adj.	2.3	19.5	45.9	6.0	5.3
P/B	0.8	0.8	0.8	0.7	0.7
EV/EBITDA adj.	2.2	5.0	5.5	3.8	3.4
DPS	0.07	0.21	0.00	0.09	0.15
DYield	5.4%	16.5%	0.0%	7.4%	11.7%

Forecast Update (% change)	2020P	2021P	2022P
Revenue	+1.6%	+0.1%	-3.2%
EBITDA	-	+19.8%	+30.3%
Net income	-	+68.6%	+110.6%
Sales volume	+9.9%	+0.3%	-4.4%
Product prices	-5.9%	-1.0%	-0.5%
Scrap prices	+4.0%	+12.5%	+10.7%

Financial Highlights

(PLN m)	2018	2019	2020P	2021P	2022P
Ferostal volume (k tons)	401	424	434	443	444
HSJ volume (k tons)	237	237	239	252	257
Zlomrex volume (k tons)	173	142	126	132	135
Ferostal spread (PLN/t)	1,191	1,127	976	1,035	1,074
HSJ spread (PLN/t)	1,723	1,508	1,280	1,311	1,345
Operating cash flow	232	142	71	104	108
D&A	44	46	48	47	45
Working capital	44	61	-23	2	3
Investing cash flow	-38	-56	-50	-33	-35
CAPEX	38	56	50	33	35
Financing cash flow	-196	-84	-24	-36	-45
Dividends/Buyback	-12	-36	0	-16	-26
FCF	179	102	26	72	74
FCF/EBITDA	90%	101%	25%	65%	64%
OCF/EBITDA	116%	141%	66%	93%	93%

DCF Analysis

(PLN m)	20P	21P	22P	23P	24P	25P	26P	27P	28P	29P	+
Sales volume	673	695	701	707	714	720	727	724	722	719	719
Product prices	1,925	2,033	2,056	2,058	2,060	2,059	2,059	2,062	2,065	2,066	2,066
Scrap prices	1,082	1,134	1,116	1,098	1,080	1,080	1,080	1,080	1,080	1,080	1,080
Revenue	1,725	1,875	1,906	1,922	1,938	1,953	1,969	1,969	1,970	1,966	1,968
EBITDA	107	112	116	119	119	115	111	102	93	86	77
EBITDA margin	6.2%	6.0%	6.1%	6.2%	6.2%	5.9%	5.6%	5.2%	4.7%	4.4%	3.9%
EBIT	59	65	71	75	77	73	68	58	49	42	33
Tax	7	9	10	11	11	10	9	7	6	4	3
CAPEX	-50	-33	-35	-35	-36	-38	-40	-43	-43	-43	-43
Working capital	-23	2	3	-1	-1	-1	-1	0	0	0	0
FCF	26	72	74	72	72	67	61	52	45	39	31
PV FCF	26	67	64	57	52	45	38	30	23	19	
WACC	7.2%	7.4%	7.6%	7.8%	8.0%	8.1%	8.2%	8.3%	8.3%	8.3%	8.3%
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%

Key Balance Sheet Figures

(PLN m)	2018	2019	2020P	2021P	2022P
Assets	1,001	1,052	997	1,049	1,072
Fixed assets	379	487	481	459	445
Equity	278	259	286	306	322
Minority interests	278	259	286	306	322
Net debt	209	226	225	189	161
Net debt/EBITDA (x)	1.0	2.2	2.1	1.7	1.4
Net debt/Equity (x)	0.8	0.9	0.8	0.6	0.5

Relative Valuation Summary

	P/E			EV/EBITDA		
	20P	21P	22P	20P	21P	22P
Minimum	4.9	7.2	6.1	3.4	0.1	0.4
Maximum	38.4	49.3	93.6	33.9	20.1	11.1
Median	15.1	16.1	11.0	9.1	7.7	6.3
Weight	17%	17%	17%	17%	17%	17%

DCF Summary

(PLN m)	
Beta	1.2
FCF perp. growth rate	2.0%
PV FCF	421
Net debt	262
Other adj.	18
Value per share (PLN)	2.17

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	2.10
DCF Val.	50%	2.17
Implied Price		2.13
Cost of equity (9M)		7.2%
9M Target Price		2.29

List of abbreviations and ratios contained in the report:

EV – net debt + market value (EV – economic value)
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
PBA – Profit on Banking Activity
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

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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mBank issued the following investment recommendations for the Company in the 12 months prior to this publication

Cognor						
Rating	buy	buy	buy	hold	hold	hold
Rating date	2020-12-08	2020-09-25	2020-08-04	2020-04-22	2019-12-06	2019-12-05
Target price (PLN)	2.29	2.03	1.98	0.94	1.25	1.25
Price on rating day	1.25	1.10	0.93	0.95	1.20	1.17

Comparable Companies Used In Relative Valuation Models

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

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