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Cognor: Forecast of 2021 Q2 Results

Recommendation: buy | target price: PLN 4.30 | current price: PLN 3.62

COG.PW; COG.PA | Metallurgical Industry, Poland

Analyst: Jakub Szkopek +48 22 438 24 03

Cognor's subsidiary steel rebar producer, in Q2 2021 Ferrostal, capitalized on upward-trending rebar prices, and as overall steel markets in the period rallied the quarterly profit is likely to receive a boost of an estimated PLN 15m from FIFO inventory management. We currently have a FY2021 full-year EBITDA forecast of PLN 222m for Cognor which looks conservative when set against actual expected 2021 first-half earnings of PLN 150m. Assuming a reduction in net debt, we believe Cognor's dividend-paying capacity will improve after Q2 2021 (in 2022 we are expecting dividend yield of 12%).

- Cognor registered a **sales volume** of an estimated 168,000 tonnes of steel product in Q2 2021 after 8% growth from the same period a year ago, when sales had been higher than in any other quarter of the year. Conversely, thanks to positive base effects, the volume of scrap steel sold in the period is likely to show 16% growth.

- Based on market movements observed in Q2 2021 we assume Cognor's sales **prices** in the period also increased, resulting in a 40% surge in quarterly revenue to an estimated PLN 638m.
- Profits** from rebar sales are expected to post growth of PLN 25m from Q2 2020, and profits from rolled steels will have added PLN 16m.
- Thanks to higher market prices of steel products and scrap, we believe Cognor may have generated a **non-recurring gain** of an estimated PLN 15m in Q2 2021 from FIFO inventory management (vs. PLN 25m in Q1).
- Not including one-offs, we expect second-quarter **EBITDA** to edge slightly lower from PLN 75m posted the quarter before to PLN 72m – a much higher result than the PLN 29m achieved in Q2 2020.
- After all this, we see Q2 2021 operating **cash flow** as approximating PLN 40m, and we believe **net debt** as of 30 June 2021 will be reduced to a low PLN 74m (0.4x 12M EBITDA).

Forecast of 2021 Q2 results of Cognor

(PLN m)	2Q'21E	2Q'20	y/y	2021E	YTD*
revenue	638	456	40%	2503	49%
EBITDA	72	39	85%	222	68%
EBITDA margin	11%	9%		9%	
EBIT	59	27	118%	172	73%
net profit	45	21	118%	129	69%

Source: Cognor, E - mBank estimate

Historical quarterly results of Cognor

capacity utilization rate (%)	1Q'19	2Q'19	3Q'19	4Q'19	1Q'20	2Q'20	3Q'20	4Q'20	1Q'21	2Q'21E
Ferrostal rebar	99%	114%	88%	151%	119%	131%	89%	113%	103%	107%
HSJ rolled steels	105%	99%	76%	82%	95%	92%	84%	94%	109%	105%

(PLN m)	1Q'19	2Q'19	3Q'19	4Q'19	1Q'20	2Q'20	3Q'20	4Q'20	1Q'21	2Q'21E
revenue	520	516	400	466	460	456	372	445	584	638
EBITDA (adj.)	25	36	13	19	28	29	12	23	75	72
one-time events	2	7	4	0	2	10	10	0	5	0
operating cash flow	-49	81	29	82	40	53	27	86	53	40
net debt	332	286	286	226	260	226	218	164	126	74

Source: Cognor, E - mBank estimate

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

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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
kamil.kliszcz@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

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

Sales and Trading**Traders**

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

Adam Prokop
+48 22 697 47 90
adam.prokop@mbank.pl

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

Magdalena Bernacik
+48 22 697 47 35
magdalena.bernacik@mbank.pl

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

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

Sales, Foreign Markets

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

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

Private Client Sales

Kamil Szymański
director
kamil.szymanski@mbank.pl

Jarosław Banasiak
deputy director
jaroslaw.banasiak@mbank.pl