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Cognor: 2021 Q1 Earnings Call Highlights

Rating: hold | target price: PLN 3.19 | current price: PLN 3.10

COG PW; COGP.WA | Industrials, Poland

Analyst: Jakub Szkopek +48 22 438 24 03

After phenomenal Q1 results, Cognor expects another good quarter in Q2 2021, when margins on products will continue to improve, but, due to expected lower FIFO effects, the quarterly profit might come out lower than in Q1'21. In this context, our full-year forecasts for 2021 are conservative and will need to be raised.

- In Q1'21, the capacity utilization was 106% vs. 109% in Q1'20. Excluding scrap sales, the Group decreased the sales volume of products and semi-finished products by 3% y/y. Scrap sales volume increased by 6% y/y in Q1'21.
- In Q1'21, Cognor still benefited from the cost advantage of EAF over blast furnace (BOF) steelmaking, but the difference in production costs narrowed compared to Q4'20. Dynamically rising scrap prices may in the coming periods shrink the benefits on EAF production costs.
- In Q1'21, Cognor recorded an improvement in its margin on products by PLN 29 million. More or less the improvement in sales results was shared equally between Ferrostal (+ PLN 14.6m) and Huta Stali Jakościowych (+ PLN 14.3m). It is worth noting that the improvement at Ferrostal resulted from an increase in market margins, and at HSJ it was mainly due to higher sales volumes.
- The Management Board expects stabilization in iron ore prices, which, with further expected increases in scrap prices, will translate into less cost advantage for EAF producers over blast furnaces. On the other hand, blast furnace producers are struggling with higher CO_2 prices. According to Cognor, EAF producers are currently working at high capacity utilization.
- In January and February 2021, sales volumes of rebars were rather weak. a revival took place in April. Prices were clearly rising until February, then there was a stabilization, and now, at the beginning of May, prices are rising again.
- There is increased interest in steel products on the market. Demand from the automotive industry is growing.
- In Q2'21, product spreads continued to increase despite rising scrap prices. The pace of price increases is slowing down.
- In Q2'21, the Management Board expects improvement in results y/y, although they will be weaker than in Q1'21 due to the lower positive FIFO effects.

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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ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from -5% to +5%
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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

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

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

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

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

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

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

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

Sales and Trading

Traders

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

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

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

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

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

Bartosz Orzechowski
+48 22 697 48 47
bartosz.orzechowski@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