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Impexmetal – Updated FY2019-21 Earnings Outlook

Rating: underweight | current price: PLN 4.16

IPX PW; IPX.WA | Metallurgical Industry, Poland

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In 2019, we expect all segments of the Impexmetal Group to experience a weaker economic momentum in Germany (the Group's main export market). We assume lower y/y sales volumes in all segments as well as weaker y/y margins. In our view, higher electricity costs and payroll pressure will result in a 5% decrease in EBITDA result and a 12% y/y decrease in net result in 2019 (drop of y/y financial results already in Q1 2019). Taking into account the costs of planned investments (PLN 430 million in 4 years) and the purchase of Alchemia shares (about PLN 150

million) according to our estimates, Impexmetal will generate only PLN 50 million of free cash flow in the next 3 years, i.e. approximately 3% of current enterprise value (EV). This implies no dividend payout to shareholders. Our attention is also drawn to the PLN 55 million exchange of overdue Unibax LLC bonds (a company controlled by the main shareholder Roman Karkosik) for the shares of the Alchemia Group. We update our forecasts and reduce our positioning to underweight for the Impexmetal Group.

mBanku brokerage forecasts for Impexmetal

P&L					
(PLN m)	2017	2018	2019E	2020E	2021E
Revenue	3,353	3,300	3,048	3,227	3,238
AI	1,176	1,266	1,175	1,245	1,258
Cu	950	911	891	962	968
Zn i Pb	976	801	679	732	738
Trade	251	319	303	288	274
Admin. expenses	80	79	77	79	79
Selling expenses	78	76	74	75	76
Other	-34	-4	0	0	0
EBIT	136	195	180	179	172
margin	4.0%	5.9%	5.9%	5.6%	5.3%
EBITDA	196	261	248	250	249
margin	5.8%	7.9%	8.1%	7.8%	7.7%
Net profit	63	183	149	149	144
Net profit (dominant)	77	163	144	144	139

Cash Flow					
(PLN m)	2017	2018	2019E	2020E	2021E
Operating cash flow	152	209	277	196	221
D&A	60	66	68	71	77
Working capital	-14	-17	30	-33	-8
Investing cash flow	-112	-211	-240	-160	-191
CAPEX	-90	-87	-90	-160	-191
Financing cash flow	-34	-37	-10	-9	-9
Debt	-12	-12	0	0	0
Dividend	0	0	0	0	0
interest	-16	-15	-20	-20	-20
Change in cash	7	-40	27	26	21
Cash at eop	100	71	98	125	146
DPS (PLN)	0.00	0.00	0.00	0.00	0.00
FCF	53	118	6	24	19

Forecast change			
	2019E	2020E	2021E
Revenue	-8.0%	-7.3%	-7.0%
EBITDA	+0.2%	+2.2%	+2.7%
Net profit	+7.9%	+6.4%	+3.6%
DPS	-	-	-100.0%
Net debt	+1.4%	+44.4%	+68.8%

Source: Impexmetal, Dom Maklerski mBanku

Balance Sheet					
(PLN m)	2017	2018	2019E	2020E	2021E
Assets	2,803	2,898	3,006	3,173	3,312
Fixed asstes	1,671	1,753	1,755	1,844	1,959
Goodwill	49	48	48	48	48
Current assets	1,132	1,145	1,251	1,329	1,353
Inventory	599	594	549	581	583
Current receivables	343	342	316	335	336
Cash	108	71	98	125	146
Equity	1,494	1,600	1,744	1,889	2,028
Minority int.	286	300	305	310	315
Noncurrent liabilities	184	169	169	169	169
Current liabilities	661	644	610	622	617
Debt	464	443	443	443	443
Net debt	356	373	345	319	298
(Net debt / Equity.)	24%	23%	20%	17%	15%
(Net debt / EBITDA)	1.8	1.4	1.4	1.3	1.2

Key Ratios					
	2017	2018	2019E	2020E	2021E
P/E	10.8	5.1	5.5	5.5	5.7
P/CE	6.1	3.6	3.7	3.7	3.7
P/BV	0.6	0.5	0.5	0.4	0.4
P/(BV-goodwill)	0.2	0.3	0.3	0.2	0.2
FCF/EV	4.5%	9.8%	0.5%	2.2%	1.7%
EV/EBITDA	7.5	5.8	5.8	5.7	5.6
EV/S	0.4	0.5	0.5	0.4	0.4
CFO/EBITDA	78%	80%	112%	78%	89%
DYield	0.0%	0.0%	0.0%	0.0%	0.0%
Price (PLN)	4.2	4.2	4.2	4.2	4.2
Million shares outstan	200.0	200.0	190.0	190.0	190.0
MC (PLN m)	832	832	790	790	790
EV (PLN m)	1,474	1,504	1,440	1,419	1,403

Forecast change			
	2019E	2020E	2021E
Volume AI	-1.7%	-1.0%	0.0%
Volume Cu	-6.7%	-5.9%	-5.8%
Volume Zn, Pb	-3.4%	-3.4%	-3.5%
EBITDA AI	+0.9%	+3.7%	+4.8%
EBITDA Cu	+12.6%	+16.8%	+17.4%
EBITDA Zn, Pb	-36.1%	-36.5%	-36.9%

List of abbreviations and ratios contained in the report:

EV – net debt + market value
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
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 Impexmetal in the 12 months prior to this publication

Rating	neutral
Rating date	2018-12-05
Target price (PLN)	-
Price on rating day	3.40

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