

Thursday, July 25, 2019 | special comment

JSW – 9 Reasons To Buy

Recommendation: accumulate | target price: PLN 50.02 | current price: PLN 41.50

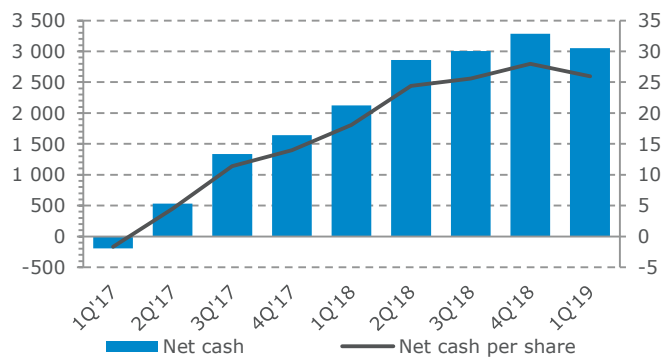
JSW PW; JSW.WA | Mining, Poland

Analyst: Jakub Szkopek +48 22 438 24 03

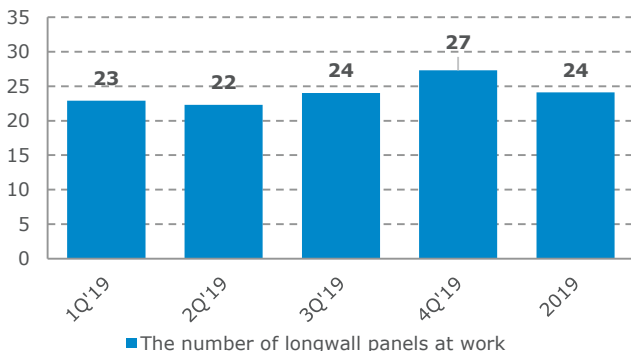
1. Most of the risks signaled in June did not materialize:

- Workers did not go on strike in defense of axed CEO Daniel Ozon.
- Performance bonuses for 2018 in the end came up to PLN 165m, less than the PLN 200m anticipated by us and well below the PLN +300m forecast by some analysts.
- What is more, the top executives in charge of critical business areas, investment and production, have stayed on.
- And the new Management Board has no plans for major changes in the current business strategy.

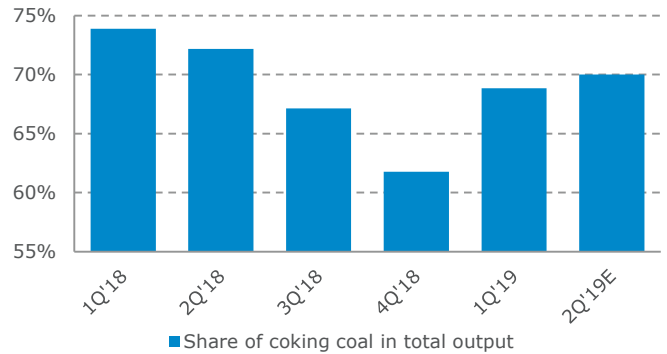
2. JSW had PLN 3,049m of net cash (PLN 26/share) on hand as of 31 March.



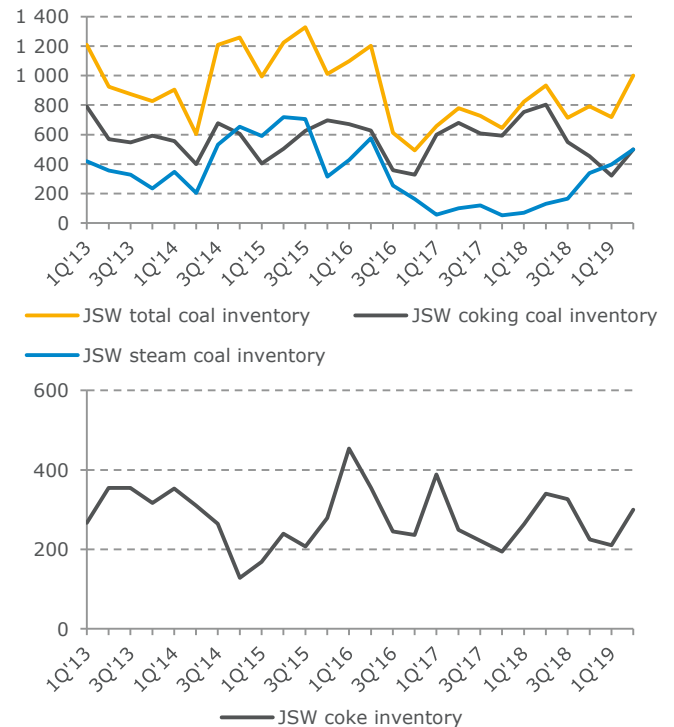
3. The number of mined areas during Q2 was the lowest so far this year. With a new area set to be opened for mining this quarter, the number of longwall panels will increase to 24 in Q3 and 27.3 in Q4. This indicates an increasing coal output, with production possibly rising to 3.6mmt in Q3 (+7% y/y) and 4.1mmt in Q4 (+10% y/y), a major shift after a period of falling volumes.



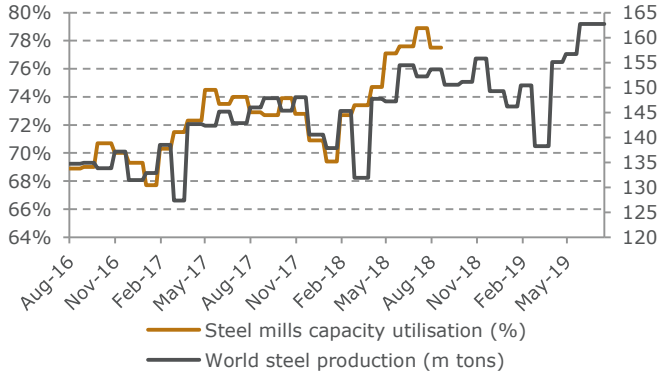
4. The share of coking coal in total output increased for the second quarter straight in Q2, resulting in higher revenues per tonne, continuing into H2, when production will be measured visa-à-vis a low year-ago comparable base.



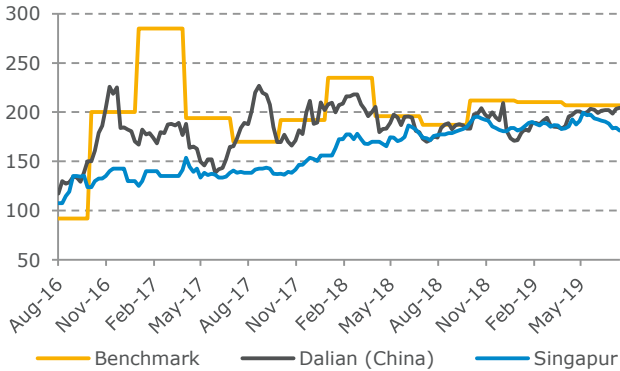
5. Despite weaker demand from the steel industry observed in Q2, JSW's coking coal and coke inventories are holding at moderate levels. On the other hand the thermal coal stockpile increased markedly in the second quarter.



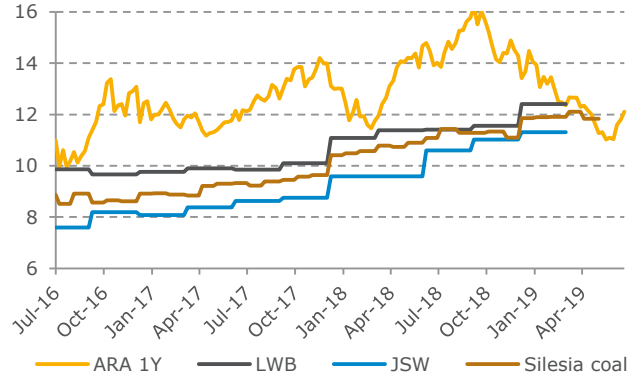
6. Global steel production has slowed, but so far it has increased in each month of 2019. Arcelor Mittal is anticipating a rebound in the European steel industry in 2019. Last week it reported the first price hike for sheet steel in the US.



7. Prices of high-grade coking coal in overseas markets are down to about \$180/t compared to China where they still hold above \$200/t. Due to high costs to local steelmakers, Chinese coke producers have had to cut prices to the lowest levels per tonne since November 2017, resulting in equally tight coking margins. **Prices of coking coal may be poised for a rebound in H2 in line with recovering momentum in steelmaking, supported by an expected drop in costs of iron ore.**



8. Thermal coal prices have been on the rise for several weeks.



9. JSW's old Management Board was pushing for the Company to acquire the Jan Karski and Dembieńsko mines, but the new Board does not seem as keen to spend the money.

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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BUY – we expect that the rate of return from an investment will be at least 15%
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%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
SELL – we expect that an investment will bear a loss greater than 15%
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Dom Maklerski mBanku

Senatorska 18
00-082 Warszawa
<http://www.mbank.pl/>

Research Department

Kamil Kliszcz
director
+48 22 438 24 02
kamil.klischcz@mbank.pl
energy, power generation

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

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

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

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

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

Piotr Bogusz
+48 22 438 24 08
piotr.bogusz@mbank.pl
retail, gaming

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

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

Tomasz Galanciak
+48 22 697 49 68
tomasz.galanciak@mbank.pl

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

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

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

Private Client Sales

Kamil Szymański
director
+48 22 697 47 06
kamil.szymanski@mbank.pl

Jarosław Banasiak
deputy director
+48 22 697 48 70
jaroslaw.banasiak@mbank.pl