

Monday, February 03, 2020 | special comment

## PKP Cargo – Rail Freight Update For December 2019

Rating: reduce | target price: PLN 18.13 | current price: PLN 17.74

**PKP PW; PKP.WA | Freight & Logistics, Poland**

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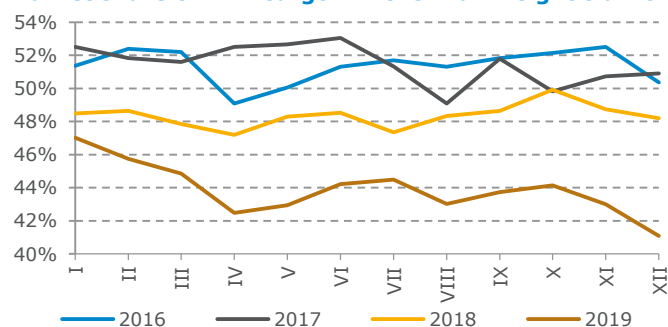
According to an update by Poland's Rail Transport Office (UTK), released last Friday, Polish rail cargo traffic (measured in tonne-kilometers, tkm), amounted to 4,063,000 tkm in December 2019, a decrease of 12.4% year over year, representing the highest monthly decline of the year. At the same time, the freight moved in the period by PKP Cargo registered a 25.3% fall to 1,760k tkm - also the biggest monthly fall of 2019, resulting in a reduction in the Company's market share to 41.1%, the lowest figure for the year.

December's total cargo volumes moved by rail were down 9.7% to 17,480,000 tonnes, including a 20.0% drop to 6,626kt at PKP Cargo which drove its volume market share to the lowest monthly level in history at 38.9%, down from 40% the month before.

The aggregate data for the 12 months ended 31 December point to a 6.3% slump in the rail cargo market in terms of traffic, combined with a 5.5% drop in volumes carried during the year. The respective falls at PKP Cargo (standalone estimates) amounted to 15% and 13%.

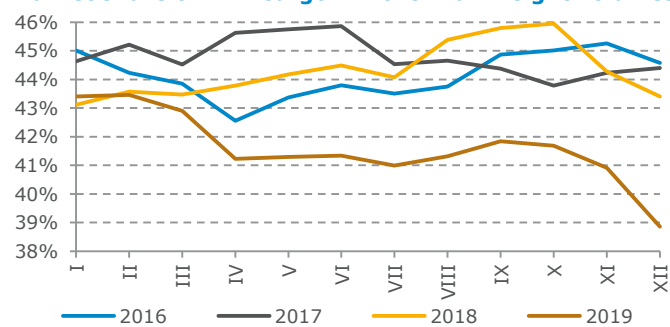
Summing up, December was a slow month for Polish rail carriers across the board both in terms of traffic and volumes, however in case of PKP Cargo we are also seeing accelerating loss of market share to smaller competition PKP stock fell after UTK's report on Friday.

**Market share of PKP Cargo in Polish rail freight traffic**



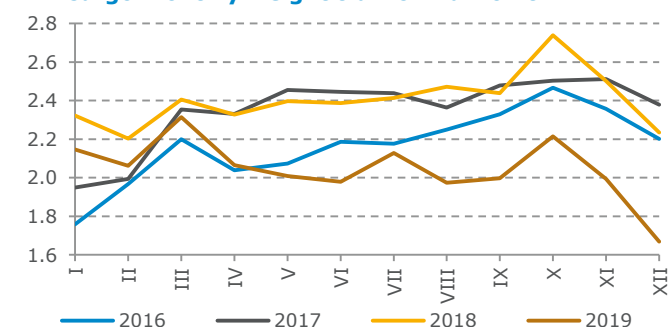
Source: UTK, mBank

**Market share of PKP Cargo in Polish rail freight volumes**



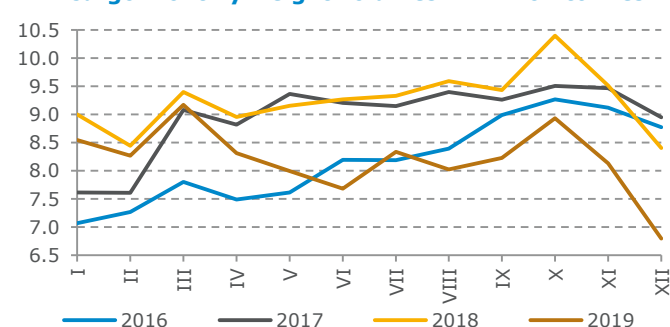
Source: UTK, mBank

**PKP Cargo monthly freight traffic in billion tkm**



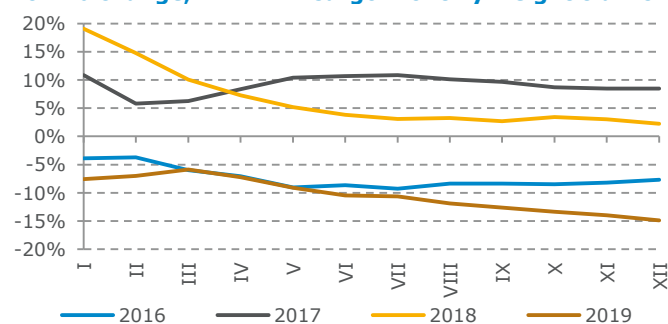
Source: UTK, mBank

**PKP Cargo monthly freight volumes in million tonnes**



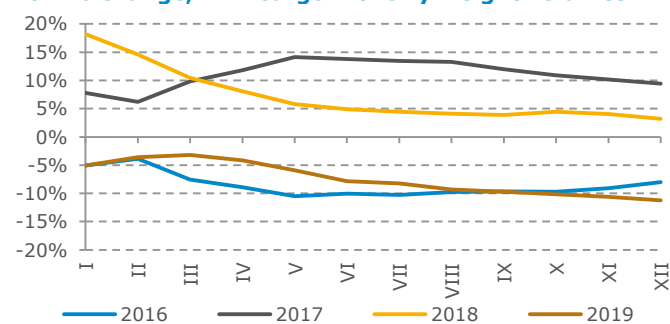
Source: UTK, mBank

**YoY % change, YTD PKP Cargo monthly freight traffic**



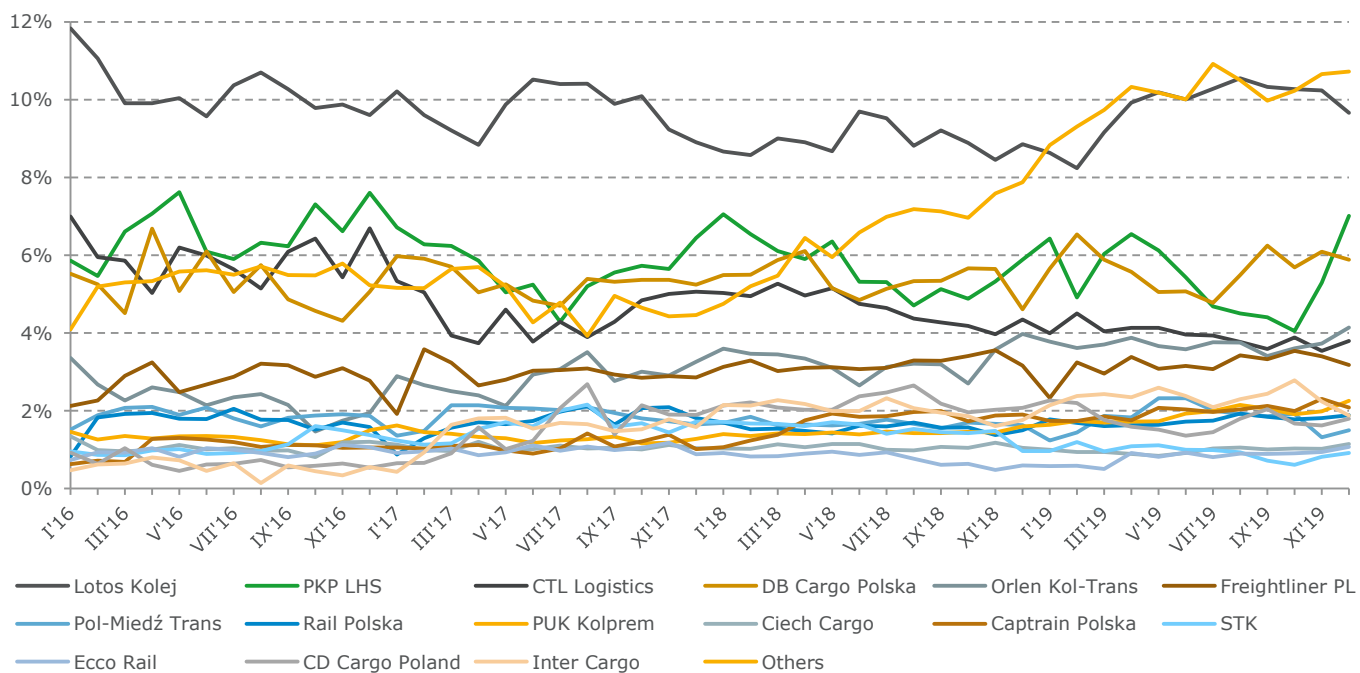
Source: UTK, mBank

**YoY % change, PKP Cargo monthly freight volumes**



Source: UTK, mBank

Market shares of PKP Cargo's smaller competitors in Polish rail freight traffic



Source: UTK, mBank

**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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**Relative** – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

**Economic profits** – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

Discounted Dividends (DDM) – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

**NAV** – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.



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