

Thursday, February 13, 2020 | update

Ciech: buy (reiterated)

CIE PW; CIE.WA | Chemicals, Poland

Improving Market Conditions Support Profits

Pricing in European soda ash contracts is expected to be 4% higher on average this year, and for Ciech after a 6% sales price rise we anticipate additional 2020 revenue of an estimated PLN 88m. Thanks to a simultaneous decrease of PLN 19m in energy costs (with lower prices of coking coal and natural gas mitigating higher expenses on thermal coal), despite continuing overheads generated by the dormant soda ash plant in Romania, this should result in a boost of about PLN 59m to the recurring annual EBITDA. According to ICIS, there are no plans for major capacity additions in the European soda ash industry in the near future, and the medium-term price outlook is good thanks to expected growth in demand from the glass industry as it increases production of sustainable packaging to replace plastic. After small upward revisions to our 2020 and 2021 earnings estimates to reflect expectations of lower gas costs and higher costs of thermal coal, we maintain a buy rating for Ciech, with the price target raised slightly from PLN 44.41 to PLN 47.46.

EU soda ash prices set to go up

ICIS predicts that soda ash prices in EU markets will most likely continue to firm in 2020 amid stable global demand combined with tighter supply after several producers decided to curb production (Ciech's idled Romanian facility being one example). In addition, higher production costs (a consequence mainly of rising prices of carbon allowances and electricity) can be expected to factor into 2020 pricing negotiations with buyers.

Lower supply from China

According to ICIS, China exported 1.3 million tonnes of soda ash in 2019, down 6% from the previous year (for comparison, the Hong Kong Trade Development Council reports a 6% rise to 1.4mmt). Note that in the last four years Chinese soda ash exports shrunk by 35% as part of the country's drive toward a more sustainable economy. At the same time, imports from Turkey and the US are seen to be rising according to ICIS.

No ramp-up in EU

ICIS sees only a few minor capacity additions in the world soda ash market in the near future, with no projects planned either in China or the EU. The next major boost is a 400,000t-a-year facility in Kazakhstan, which was supposed to come on line in early 2020 but has not launched yet as of this writing. There are plans for more substantial ramp-ups in Asia and the US, but not until 2023-2024. The 2.5mmt of fresh supply added in Turkey in 2018 and 2019 according to ICIS has been fully absorbed by Asia.

Energy costs go down

Based on current market trends, we expect Ciech to pay about PLN 37m more for thermal coal supplies in 2020, but at the same time we anticipate reductions of PLN 10m in the costs of natural gas and PLN 44m in expenses on coking coal.

(PLN m)	2017	2018	2019E	2020E	2021E
Revenue	3,579.4	3,672.7	3,576.9	3,466.0	3,620.1
EBITDA	833.2	654.4	554.4	685.8	699.1
EBITDA margin	23.3%	17.8%	15.5%	19.8%	19.3%
EBIT	588.8	379.2	242.2	359.6	362.9
Net profit	393.4	183.0	130.1	228.0	230.3
P/E	5.3	11.3	16.0	9.1	9.0
P/CE	3.3	4.5	4.7	3.7	3.7
P/BV	0.9	1.1	1.0	0.9	0.9
EV/EBITDA	3.5	5.4	6.7	5.7	5.5
DPS	0.00	7.50	0.00	0.00	2.16
DYield	0.0%	19.0%	0.0%	0.0%	5.5%

Current Price	PLN 39.40
Target Price	PLN 47.46
MCap	PLN 2.1bn
Free Float	PLN 1.0bn
ADTV (3M)	PLN 3.0m

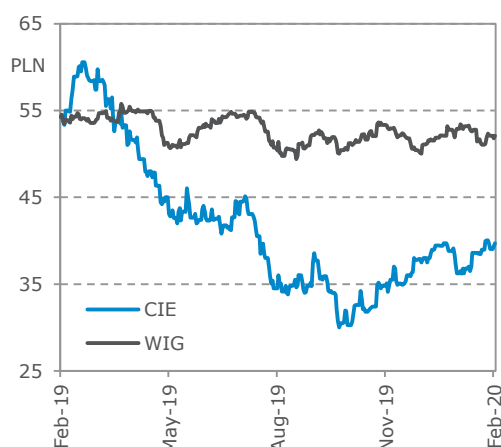
Ownership

KI Chemistry s.à.r.l.	51.14%
OFE NN	5.97%
OFE Aviva	5.17%
Others	37.72%

Business Profile

Ciech is the largest Polish producer of soda ash (in which it ranks #2 in EU) and baking soda. Its portfolio also includes salt, polyester and epoxy resins, pesticides, glass, and other chemicals, with a wide range of applications from food, furniture, and cleaning agents, to farming and construction. Ciech uses the Solvay process to make soda ash. The Company operates production facilities in Poland, Germany, and Romania.

CIE vs. WIG



Name	Target Price		Recommendation	
	new	old	new	old
Ciech	47.46	44.41	buy	buy

Name	Current Price	Target Price	Upside
Ciech	39.40	47.46	+20.5%

Forecast Update	2019E	2020E	2021E
EBITDA (adj.)	-1.5%	0.8%	1.0%
Net profit (adj.)	-4.8%	2.3%	2.7%
Real soda price (PLN/t)	0.0%	0.3%	0.3%
Soda vol (1,000t)	0.0%	0.0%	0.0%
Thermal coal (PLN/t)	0.0%	9.4%	9.4%
Met coal (USD/t)	1.4%	0.0%	-3.2%
Natural gas (PLN/m ³)	0.0%	-21.9%	-11.8%

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

mBank issued the following investment recommendations for Ciech in the 12 months prior to this publication:

Rating	buy	buy	hold	buy	buy	buy	buy
Rating date	2019-12-05	2019-09-05	2019-07-03	2019-06-03	2019-05-09	2019-04-02	2019-02-04
Target price (PLN)	44.41	42.03	41.72	55.00	68.11	68.66	75.82
Price on rating day	36.40	34.00	41.60	42.65	44.85	54.80	52.40

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