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Boryszew – Close to Violating Covenants After a Slow FY2019

Rating: underweight | current price: PLN 3.59

BRS PW; BRS.WA | Industrials, Poland

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Boryszew generated lower-than-expected results in Q4 2019 (50% miss on adj. EBITDA, PLN 150m net loss), prompting downward revisions to our expectations for FY2020, most notably expectations for the Automotive and Metals divisions. After lowering our EBITDA estimate by 13%, we currently expect Boryszew to end the year with a net debt/EBITDA ratio of 5.1x after exceeding the covenant threshold on 30 June. The Company could de-lever by selling its Huta Aluminium Konin ("HAK") aluminum smelter, although

there is a likelihood that the Swedish suitor, Gränges AB, will back out after posting 10% EBITDA contraction in Q1 2020, and raising its own leverage ratio to 2.8x. At this rate, the Swedish aluminum processor after buying HAK would reach a net debt/EBITDA ratio of 4.0x at the end of 2020. If Boryszew does not sell HAK, it might be forced to divest other assets despite unfavorable market conditions, or raise capital through an equity issue. We maintain an underweight view on Boryszew.

2018-2019 Historical Results and 2020-2022 Projections

P&L

(PLN m)	2018	2019	2020P	2021P	2022P
Revenue	6,100	6,260	5,239	5,585	5,699
Chemicals	292	253	244	256	253
Automotive	1,899	1,777	1,584	1,650	1,624
Metals	3,683	4,020	3,410	3,679	3,822
Admin. expenses	270	286	266	272	268
Selling expenses	149	144	128	138	138
Other	4	89	0	0	0
EBIT	230	210	76	142	147
margin	3.8%	3.4%	1.4%	2.6%	2.6%
EBITDA	379	414	276	353	371
margin	6.2%	6.6%	5.3%	6.3%	6.5%
Net profit	-99	21	78	83	127
Minorities	69	-11	8	11	11
Attrib. net profit	71	-88	13	67	72

Cash Flow

(PLN m)	2018	2019	2020P	2021P	2022P
Operating cash flow	208	455	411	274	289
D&A	149	203	200	210	224
Working capital	-84	202	150	-63	-27
Investing cash flow	-287	-539	-170	-232	-264
CAPEX	-137	-676	-170	-232	-264
Financing cash flow	-6	148	-200	-146	-45
Debt	119	173	-150	-100	0
Dividend	0	0	0	0	0
Interest	-43	-61	-52	-48	-47
Change in cash	-86	65	42	-104	-20
Cash at eop	130	195	237	132	112
DPS (PLN)	0.00	0.00	0.00	0.00	0.00
FCF	-86	65	42	-104	-20

FY2020-2022 Forecast Revision

	2020P	2021P	2022P
Revenue	-8.9%	-6.1%	-6.4%
EBITDA	-12.7%	-9.4%	-9.6%
Net profit	-	-2.2%	-9.4%
DPS	-	-	-100.0%
Net debt	-9.5%	-9.0%	-4.4%

*Values are adjusted for one-time events and treasury stock

Balance Sheet

(PLN m)	2018	2019	2020P	2021P	2022P
Assets	4,237	4,788	4,466	4,495	4,515
Fixed asstes	2,115	2,466	2,451	2,474	2,478
Goodwill	23	23	23	23	23
Current assets	2,122	2,323	2,015	2,021	2,037
Inventory	1,040	1,223	1,023	1,091	1,113
Current receivables	664	755	632	674	687
Cash	138	220	237	132	112
Equity	1,216	1,347	1,359	1,427	1,498
Minority int.	579	189	197	207	218
Noncurrent liabilities	580	975	825	725	725
Current liabilities	1,580	1,974	1,804	1,850	1,859
Debt	1,287	1,806	1,656	1,556	1,556
Net debt	1,149	1,586	1,419	1,424	1,444
Net debt / Equity	94%	118%	104%	100%	96%
Net debt / EBITDA	3.0	3.8	5.1	4.0	3.9

Key Ratios

	2018	2019	2020P	2021P	2022P
P/E	12.1	-9.8	66.5	12.8	12.0
P/E adj.*	13.6	21.1	56.0	10.8	10.1
P/(BV-goodwill)	0.7	0.7	0.6	0.6	0.6
FCF/EV	5.0%	29.0%	11.0%	1.7%	2.7%
EV/EBITDA	6.8	6.4	9.0	7.1	6.8
EV/EBITDA adj.*	6.6	7.0	8.5	6.7	6.4
CFO/EBITDA	55%	110%	149%	78%	78%
DYield	0.0%	0.0%	0.0%	0.0%	0.0%
Price (PLN)	3.6	3.6	3.6	3.6	3.6
Million shares outstanc	240	240	240	240	240
Own shares	32	38	38	38	38
MC (PLN m)	862	862	862	862	862
EV (PLN m)	2,589	2,636	2,478	2,492	2,523

Revisions to Segmental FY2020-2022 Forecasts

	2020P	2021P	2022P
Revenue, Autom.	-4.1%	-4.6%	-6.4%
Revenue Metals	-10.4%	-6.3%	-9.6%
Revenue Chem.	-17.0%	-12.2%	-9.4%
EBITDA, Autom.	-59.7%	-43.1%	-38.6%
EBITDA, Metals	-4.6%	-3.1%	-5.3%
EBITDA, Chem.	+38.3%	+93.1%	+83.4%

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

Rating	underweight	neutral	neutral	neutral	underweight	underweight
Rating date	2020-04-01	2020-01-30	2019-12-05	2019-10-30	2019-09-20	2019-07-26
Target price (PLN)	-	-	-	-	-	-
Price on rating day	3.74	4.54	4.09	4.29	4.54	4.49

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