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Industrials – May 2020 Production Stats Signal Weak Volumes

Industrials, Poland

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Statistics Poland today released the national production data for May, and the numbers look worse than anticipated by the most optimistic of analysts. The report reveals sharp falls in production of furniture (a negative signal for Forte) and household appliances (negative for Amica). Year-over-year declines in prefabricated aluminum widened to 22% in May from 18% in April, indicating a worsened outlook for Alumetal, Boryszew, and Grupa Kęty. Similarly, the national crude steel output fell faster in May (-21%) than the month prior (-18%), with implications for Cognor, JSW, and PKP Cargo. An acceleration in the rate of decrease in sheet glass and kitchen salt volumes is bad news for Ciech.

Polish furniture production amounted to 3.54 million units in May after a 31% decrease from the year-ago period, representing improvement from April, when the year-over-year slump reached 67%. The continuing contraction in volumes happened despite a boost in furniture store footfall since the easing of lockdown restrictions. Production of particle boards edged 0.6% lower in May after falling 21% the month before, but note that the comparability of May figures is affected by the absence in the 2019 statistics of an Egger plant, opened last August.

The volume of made-in-Poland electrical ovens contracted at a rate of 64% in May, a small improvement of April's 72% fall, and the electric stove output was down 31% on the year versus 63% in April – a foreboding of what we might see in this week's retail sales report.

The volume of aluminum products produced in May extended the falls seen in the month before, accelerating to a negative annual rate of 22% from -18% in April – figures which indicate possible volume losses at Alumetal, Grupa Kęty, and Impexmetal.

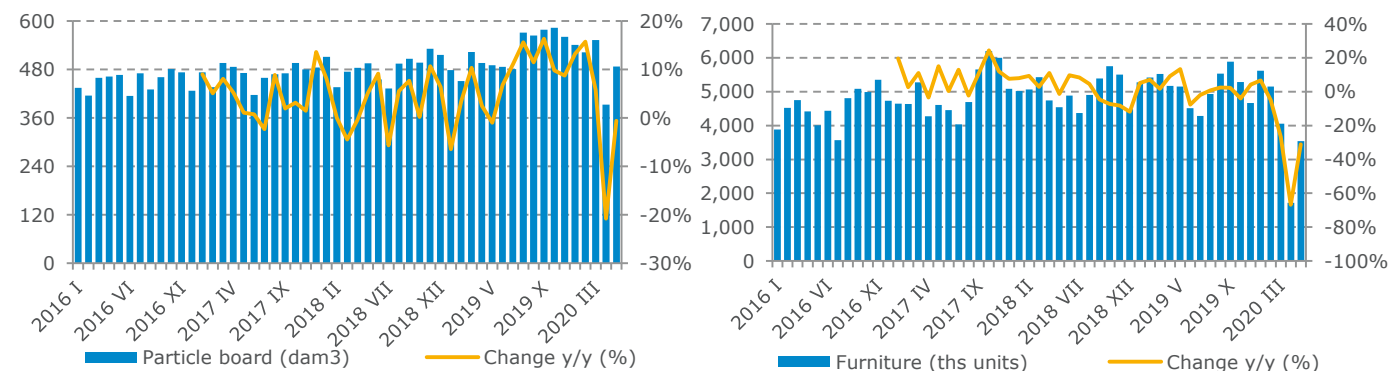
Production of gas meters slowed its upward march in May to 8% after a 19% jump the month before, while water meters registered a faster rate of decline (-20% vs. -18%) and electricity meters posted slower contraction at 43% vs. 61% in April – trends which are consistent with the 2020 outlook of the listed meter maker Apator.

Steel production in May was 21% lower than in the same month a year earlier and 4% lower than the month before, representing a deterioration from April's year-over-year falls at 18% which bodes ill for Cognor, JSW, and PKP Cargo.

Overall fertilizer production for May fell 19% y/y due to an urea plant malfunction. The supply of nitrogen fertilizers was similar to April's, and the combined output of nitrogen and phosphorus fertilizers was down 6% y/y, the same pace as recorded in April – neutral data from the point of view of Grupa Azoty.

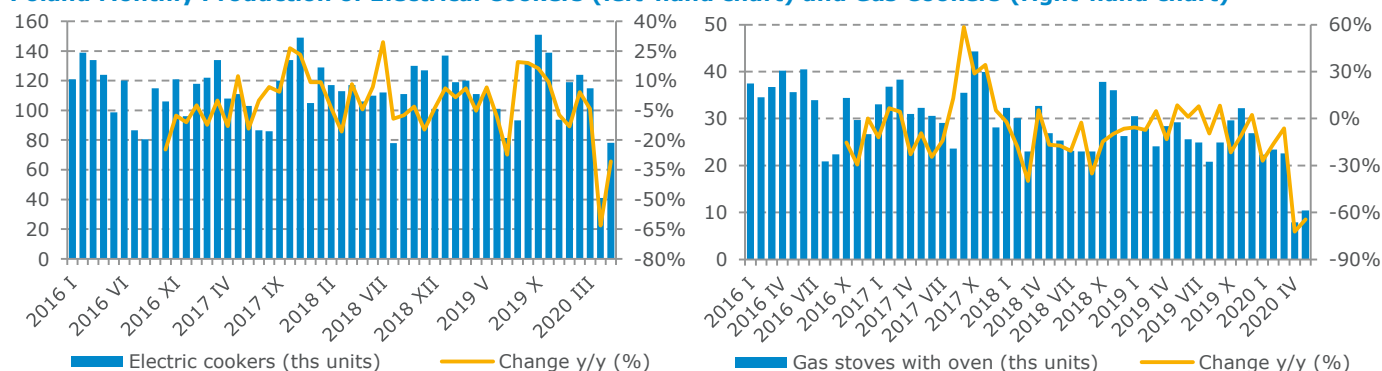
Production of sheet glass slumped 19% in May after a 15% decrease in April, and with the volume of table salt down by 19% compared to April's 13% this suggests weaker volumes at Ciech.

Poland Monthly Production of Particle Board (left-hand chart) and Furniture (right-hand chart)



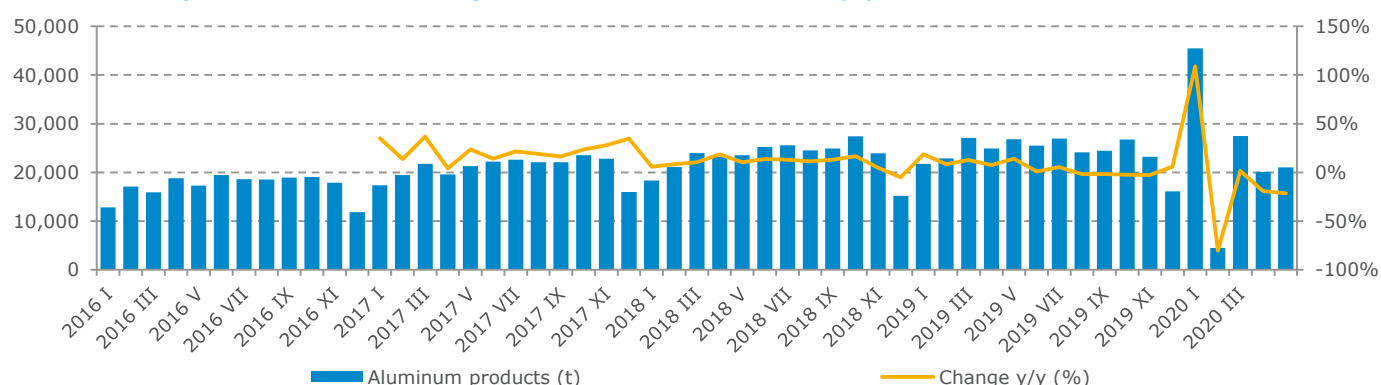
Source: Statistics Poland (GUS), mBank

Poland Monthly Production of Electrical Cookers (left-hand chart) and Gas Cookers (right-hand chart)



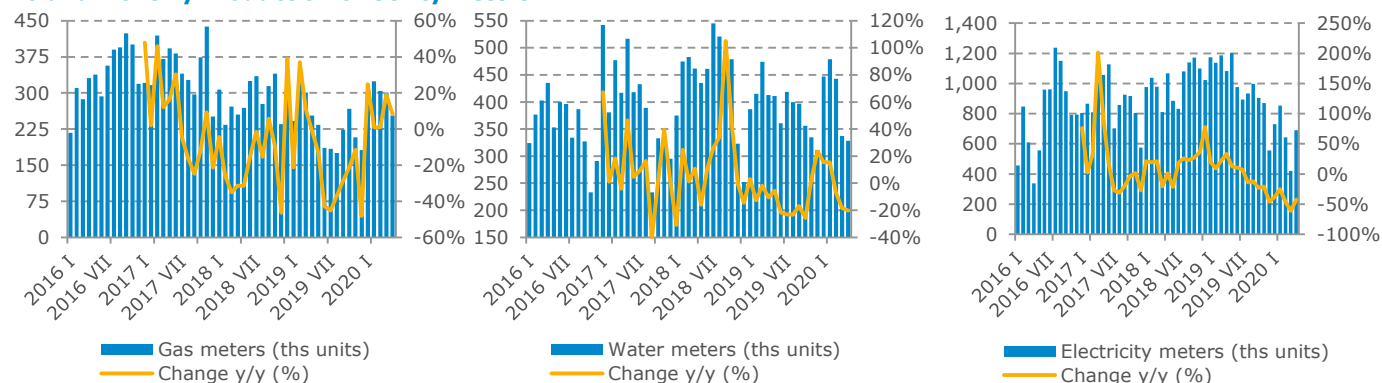
Source: Statistics Poland (GUS), mBank

Poland Monthly Aluminum Production (Sheet & Plate, Rod & Bar, Alloys)



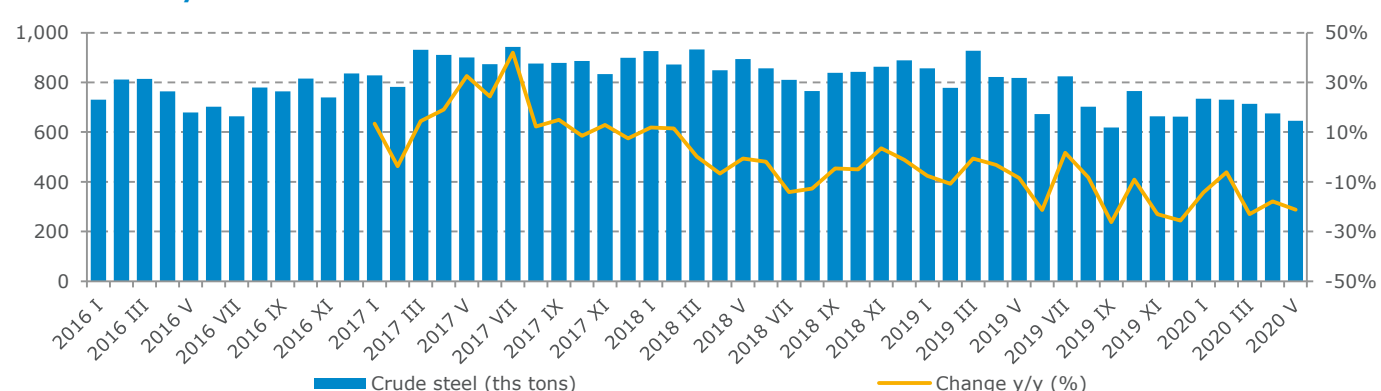
Source: Statistics Poland (GUS), mBank

Poland Monthly Production of Utility Meters



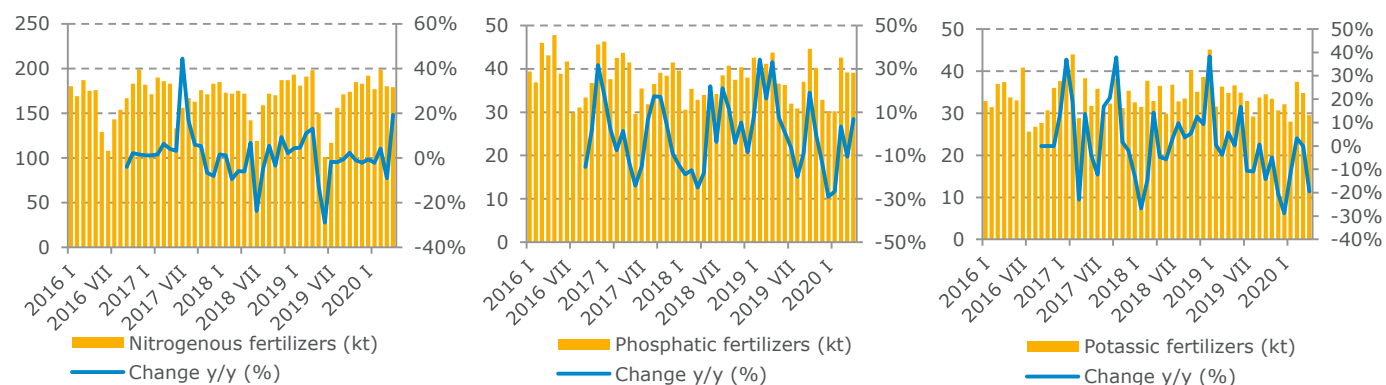
Source: Statistics Poland (GUS), mBank

Poland Monthly Crude Steel Production

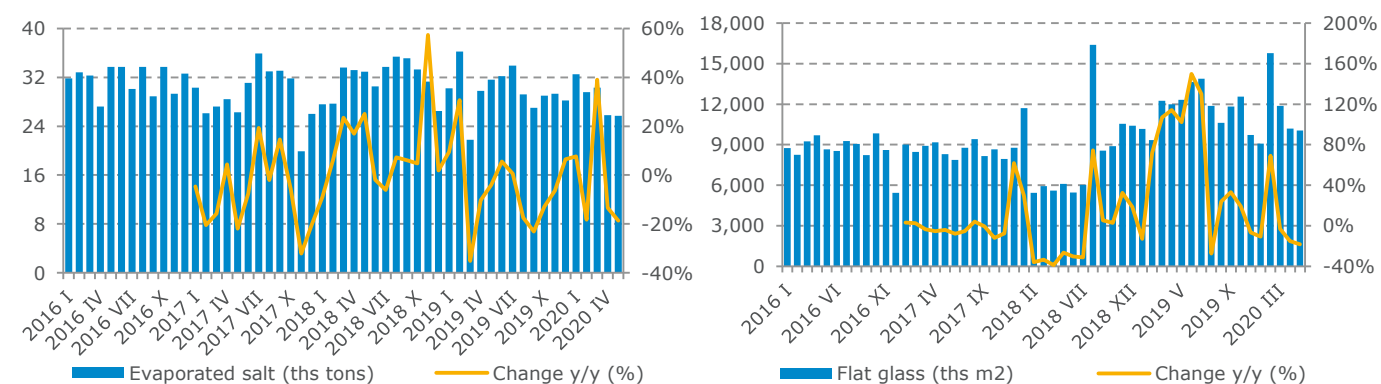


Source: Statistics Poland (GUS), mBank

Poland Monthly Fertilizer Production



Poland Monthly Production of Salt (left-hand chart) and Sheet Glass (right-hand chart)



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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