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## Boryszew – What's Next After HAK Sale?

Rating: neutral | current price: PLN 3.39

**BRS PW; BRS.WA | Industrials, Poland**

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On September 23rd, 2020, the European Commission is expected to clear the acquisition by Gränges AB of Boryszew's flat rolled aluminum unit, Huta Aluminium Konin (HAK). According to our calculations, the deal can help Boryszew to reduce debts below covenant limits, to a projected 2.4x EBITDA in 2021 from 5.1x expected at the end of 2020 (to finance the acquisition, Gränges has applied for a SEK 2.3bn bridge loan facility, and it intends to undertake a rights issue of approximately SEK 2bn). The Company could also pay off obligations to creditors.

After the divestment, assuming a rebound in demand for automotive parts, on our FY2021 estimates the implied valuation of Boryszew would be 32x 2021E P/E and 6.7x EV/EBITDA. In our assessment, the future profits from the remaining operations, consisting of automotive components, industrial chemicals, and metals processing, will exhibit even greater sensitivity to business cycles. As a result, Boryszew could be forced to close some of its automotive plastics factories.

Following recent sell-off, we upgrade BRS from underweight to neutral.

### 2018-2019 Historical Results of Boryszew and 2020-2022 mBank Projections

<b>P&amp;L</b>					
(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
Net profit (attr.)	71	-88	13	67	72

<b>Cash Flow</b>					
(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

\*After one-time events and treasury stock

Source: Boryszew, P – mBank projections

<b>Balance Sheet</b>					
(PLN m)	2018	2019	2020P	2021P	2022P
Assets	4,237	4,788	4,466	4,495	4,515
Fixed assets	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

<b>Key Ratios</b>					
	2018	2019	2020P	2021P	2022P
P/E	11.4	-9.2	62.8	12.1	11.3
P/E adj.*	12.8	20.0	52.8	10.2	9.6
P/(BV-goodwill)	0.7	0.6	0.6	0.6	0.6
FCF/EV	5.1%	29.6%	11.2%	1.8%	2.7%
EV/EBITDA	6.7	6.3	8.8	6.9	6.7
EV/EBITDA adj.	6.5	6.9	8.3	6.6	6.3
OCF/EBITDA	55%	110%	149%	78%	78%
DYield	0.0%	0.0%	0.0%	0.0%	0.0%
Price (PLN)	3.4	3.4	3.4	3.4	3.4
Million shares outst.	240	240	240	240	240
Treasury stock	32	38	38	38	38
MC (PLN m)	814	814	814	814	814
EV (PLN m)	2,541	2,588	2,430	2,444	2,475

**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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**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 Boryszew in the 12 months prior to this publication:**

**Boryszew**

Rating	underweight	underweight	underweight	neutral	neutral	underweight
Rating date	2020-06-08	2020-04-01	2020-01-30	2019-12-05	2019-10-30	2019-09-20
Target price (PLN)	-	-	-	-	-	-
Price on rating day	3.59	3.74	4.54	4.09	4.29	4.54

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