

Monday, October 19, 2020 | special comment

## PKP Cargo: Forecast of 2020 Q3 Results

Rating: hold | target price: PLN 12.80 | current price: PLN 10.00

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

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- PKP Cargo is slated to release 2020 third-quarter results on November 20, 2020, preceded by a preview coming earlier in the month.
- September data on monthly domestic railroad freight volumes are due out October 30th, and for PKP Cargo we are anticipating single-digit falls in freight carried for the month to make a 12% decline in third-quarter activity relative to the same period a year earlier. Combined with marked-down freight rates, the resulting **contraction in quarterly revenue is likely to amount to 15% to make PLN 1,013m.**
- We expect to see payroll expenses reduced by about PLN 24m thanks to the introduction of a short-time work scheme. The rate of decrease in energy and fuel costs will probably be slightly higher than the rate of revenue decline, while the costs of infrastructure access were most likely slower to adjust.
- One-time gains in Q3 2020 will include **PLN 86.7m state crisis aid.**
- Including this, PKP Cargo is expected to generate **EBIT of PLN 33m** and EBITDA of PLN 221.6m for the quarter in a reversal of prior negative trend, supported by low capital expenditures as the Company finally scales CAPEX down to the promised 80% of quarterly EBITDA.

- We expect PKP Cargo to discuss the possibility of exceeding the net debt/EBITDA loan covenant at the end of 2020, and to highlight cost-cutting measures, at the third-quarter earnings call.

- A reversal in Q3 2020 of two previous quarters of losses would be a positive development, albeit achieved largely with state aid. On the whole, however, PKP Cargo still has hurdles to overcome including increasing competitive pressure from smaller rail carriers, loss of business after ArcelorMittal decided to close its Polish steel mill, reduced orders due to stalled infrastructure projects, and Poland's planned transition away from coal.**

### 2020 Q3 Estimates

(PLN m)	Q3'20E	Q3'19	Y/Y	2020E	YTD
Revenue	1,012.6	1,191.3	-15.0%	4,014.4	74.2%
EBITDA	221.6	263.0	-15.7%	559.4	76.6%
EBITDA margin	21.9%	22.1%		13.9%	
EBIT	33.0	80.9	-59.2%	-215.7	-
Net profit	10.0	50.8	-80.3%	-248.9	-

Source: PKP Cargo, E - mBank estimates

**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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**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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