

Friday, March 12, 2021 | update

Kernel: buy (reiterated)

KER PW; KER.WA | Agricultural Producers, Ukraine

On Track for a Bumper Year

After prices surged 155% in a year, for 2021 Ukrainian sunflower growers are reportedly planning to increase the planting area to a record 7 million hectares. This suggests an equally record-breaking harvest that should improve the supply of sunflower seeds to Kernel's crushing plants, most likely resulting in strong crush margins. At the same time, Ukraine is forecasting that its 2021 harvest of major grain crops could be in the ballpark of 75 million tonnes—the same as the record crop of 2019. Cereal prices have been on an upward curve, and Kernel wants to capitalize on this by hedging future sales of its planned crops, with sales profits on 75% of the expected volume set to be locked in by the end of March. Based on this, we believe Kernel can maintain EBITDA from the farming business above \$200m in FY2021/22. Kernel smashed expectations with its financial results for the first half of FY2021, ended 31 December 2020, and to reflect this we are raising our full-year EBITDA estimate from \$550m to \$660m. As it powers towards record earnings, with capital expense set to drop after 2021, we are convinced Kernel will increase shareholder distributions from fiscal FY2022 to \$0.80 per share, and hike DPS even more to \$1.17 in FY2023. We raise our target price for Kernel from PLN 62.93 to PLN 71.84 and we maintain our buy call on the Ukrainian farmer.

Ukraine Growers Bet on Sunflowers for new Planting Season

Ukrainian farmers reduced the area under winter crops for 2021 by 900,000 hectares as they focused on crops that have gained the most in value over the past year. According to the Website landlord.ua, growers could plant more than half of additional hectareage dedicated to spring crops to sunflowers in a bid to capitalize on soaring prices which in hryvnia have skyrocketed 155% in the last year. This suggests that the sunflower area would increase to a record 7 million hectares (we assume 6.8 mln ha, +10% y/y), and production from this area could grow to 15.4 million tonnes, 15% more than in the previous season, for the biggest sunflower crop in history. For Kernel, a bumper sun seed crop indicates that, even with new mill launched in Western Ukraine, its ratio of seed supply to crushing capacity might increase to 78% in FY2021/22 from 71% the year before. With more readily available seed inputs, we see the Company as achieving higher margins on sunflower oil production.

Ukraine to Reap Record Grain Crop in 2021

According to a forecast issued earlier this month, Ukraine expects to harvest about 75 million tonnes of major grain crops in total in 2021, a record crop that would match the all-time bumper harvest of 2019. This would indicate greater grain quantities available for handling via Kernel's export terminals.

(US\$ m)	18/19	19/20	20/21E	21/22E	22/23E
Revenue	3,992.1	4,106.8	5,627.8	5,419.9	5,575.7
EBITDA	345.5	443.0	660.6	537.3	491.4
EBITDA margin	8.7%	10.8%	11.7%	9.9%	8.8%
EBIT	269.2	337.3	553.0	417.7	369.9
Net profit	189.5	117.9	306.9	246.6	204.9
P/E	6.4	10.4	4.0	5.0	6.0
P/CE	4.6	5.5	3.0	3.3	3.8
P/BV	0.9	0.8	0.7	0.6	0.6
EV/EBITDA	5.5	5.1	3.6	4.1	4.3
DPS (US\$)	0.25	0.25	0.42	0.80	1.17
DYield	1.7%	1.7%	2.9%	5.5%	8.0%

Current Price	PLN 54.00
Target Price	PLN 71.84
MCap	PLN 2.8.bn
Free Float	PLN .bn
ADTV (3M)	PLN 13.8m

Ownership

Namsen Ltd	39.16%
Others	60.84%

About

Kernel is a grain trader and sunflower oil producer based in Ukraine. The Company operates a chain of grain silos and owns a grain shipment terminal in the Ilyichevsk Commercial Sea Port in Ukraine. Kernel generates over 90% of revenues in US dollars. It grows crops on approximately 510,000 hectares of leasehold farmland.

KER vs. WIG



Company	Target Price		Rating	
	new	old	new	old
Kernel	71.84	62.93	buy	buy
Company	Current Price	Target Price	Upside	
Kernel	54.00	71.84	+33.0%	
Forecast update	FY20/21	FY21/22	FY22/23	
EBITDA	20.1%	8.7%	2.0%	
Net profit	11.0%	16.6%	2.0%	
Margin, Oilseeds	-30.0%	1.6%	-4.0%	
Margin, Terminals	68.2%	-10.0%	-10.0%	
Margin, Farming	29.2%	63.9%	56.6%	
Oilseed Crush Volumes	-5.7%	2.7%	2.6%	
Grain Production	0.0%	0.0%	0.0%	
Terminal Volumes	-10.2%	-7.6%	-7.6%	

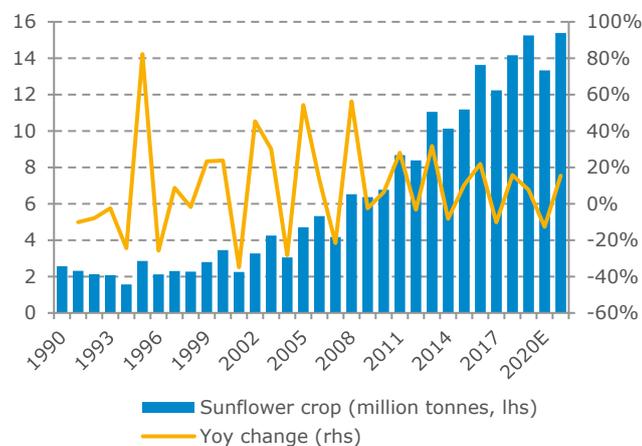
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Growers Hope to Strike Gold with Sunflowers

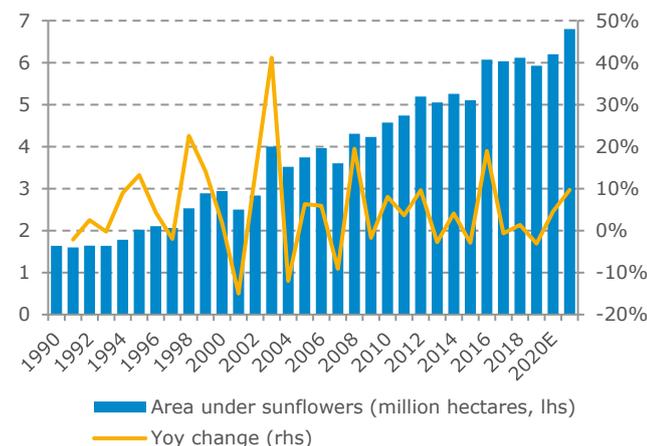
Ukrainian farmers **reduced the area under winter crops for 2021 harvest by 900,000 hectares** as they focused on grains that have gained the most in value over the last twelve months. According to the Website landlord.ua, farmers might **plant more than half of the planned additional acreage of spring crops to sunflowers** to take advantage of high sun seed prices which over the past year skyrocketed 155%. This suggests that the **area under sunflowers could increase close to a record 7 million hectares** (we assume 6.8 mln ha, +10% y/y) and assuming yields per hectare consistent with the average for the last five years the **production** from this area could amount to **15.4 million tonnes, 15% more than in the 2020/21 season**, to make the biggest sunflower crop in history.

Sunflower seed production in Ukraine



Source: State Statistics Service of Ukraine, mBank

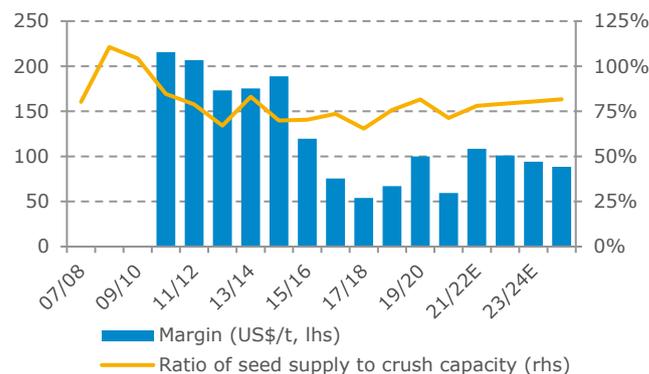
Size of Ukraine's sunflower planting areas



Source: State Statistics Service of Ukraine, mBank

For **Kernel**, a record sunflower harvest would mean that, even with the new seed mill launched in Western Ukraine, the **ratio of seed supply to crushing capacity might increase to 78% in FY2021/22** from 71% the year before. With readily available seed material, we see the Company's crushing plants as achieving higher margins on sunflower oil production.

Model margins of Kernel on production of sunflower oil (US\$/t)



Source: State Statistics Service of Ukraine, Kernel, mBank

Larger Grain Crops Suggest Busy Year for Ukraine's Exporters

Ukraine issued a forecast earlier this month predicting that its total **grain harvest in 2021 could top 75 million tonnes** in a repeat of the record harvest of 2019. This would indicate greater grain quantities available for export, and hence higher profits for the handling terminals operated by Kernel, although in FY2020/2021 we would not expect the the Avere trading unit to bring in more than is already priced.

Ukraine grain production and exports and Kernel's share in export volumes



Source: State Statistics Service of Ukraine, mBank

Locking Profits With Hedging

Kernel said at the February call to discuss earnings for the first half of FY2021, ended 31 December 2020, that it had **1.4 million tonnes of sales of cereals from the 2021 harvest hedged at the high prices observed last year**, representing almost half of our total sales forecast for the year. By the end of March 2021, Kernel wants to have hedged 75% of the planned sales volume, indicating high sales margins for the year ahead. Accordingly, we expect **EBITDA in the Farming segment to hold above \$200m**.

Valuation

Using DCF analysis and relative valuation, We set our nine-month per-share price target for Kernel at PLN 71.84.

(PLN)	weight	price
Relative Valuation	50%	73.88
DCF Analysis	50%	53.94
		price
		63.91
	9M target price	71.84

Relative Valuation

We compared the P/E and EV/EBITDA multiples of Kernel with those of a group of comparable global agricultural producers.

We attached a 40% discount to Kernel's valuation to reflect heightened investment risk associated with companies based in Ukraine.

Relative Valuation

	Country	P/E			EV/EBITDA		
		2021E	2022E	2023E	2021E	2022E	2023E
ANDERSONS INC/THE	USA	20.7	17.0	-	8.3	-	-
ARCHER-DANIELS-MIDLAND CO	USA	15.1	14.8	14.5	10.4	9.9	9.6
ASTARTA HOLDING NV	Ukraine	4.2	4.5	4.9	2.8	2.9	3.0
BUNGE LTD	USA	12.4	12.3	12.0	9.4	9.1	-
FELDA GLOBAL VENTURES	Malaysia	20.6	19.1	21.6	5.8	7.3	6.0
GOLDEN AGRI-RESOURCES LTD	Singapore	9.6	10.2	5.4	5.5	5.4	-
GRAINCORP LTD-A	Australia	12.6	17.5	22.1	6.0	6.4	6.6
INDUSTRIAL MILK CO	Ukraine	10.8	-	-	6.3	-	-
MHP SA -GDR REG S	Ukraine	11.5	5.9	4.3	4.5	3.9	3.4
NISSHIN OILLIO GROUP LTD/THE	Japan	13.5	13.1	12.4	7.8	7.5	7.0
WILMAR INTERNATIONAL LTD	Singapore	15.9	14.9	14.0	13.8	12.9	11.3
Maximum		20.7	19.1	22.1	13.8	12.9	11.3
Minimum		4.2	4.5	4.3	2.8	2.9	3.0
Median		12.6	14.0	12.4	6.3	7.3	6.6
Kernel Holding		4.0	5.0	6.0	3.6	4.1	4.3
Premium / discount		-68.3%	-64.4%	-51.8%	-43.4%	-43.9%	-34.7%
Implied Valuation							
Median		12.6	14.0	12.4	6.3	7.3	6.6
Premium / discount		-40%	-40%	-40%	-40%	-40%	-40%
Multiple weight			50%			50%	
Year weight		20%	40%	40%	20%	40%	40%
Equity value per share (USD)	20.5						
Equity value per share (PLN)	73.9						

DCF Valuation

Assumptions:

- The risk-free rate for Ukraine (representing yields on Ukrainian 10Y Treasury bonds) is 13%, reflecting heightened economic risk.
- FCF growth after 2030 = 2.0%.
- Beta = 1.0. Risk premium used in equity calculations is 5%.
- Net debt is as of year-end 2019/20.
- Future cash flow is discounted as of the end of March 2021.

Macroeconomic Assumptions

	17/18	18/19	19/20	20/21P	21/22P	22/23P	23/24P
UAH/USD	26.61	27.28	28.00	27.50	26.00	25.00	24.00
Y/Y pct. change	1.5%	2.5%	2.6%	-1.8%	-5.5%	-3.8%	-4.0%
Price of sunflower seeds (USD)	414	395	439	785	700	700	700
Price of sunflower seeds (UAH)	11,026	10,776	12,287	21,588	18,200	17,500	16,800
Price of sunflower oil (USD)	846	774	900	1,500	1,370	1,360	1,355
Price of sunflower oil (UAH)	22,499	21,129	25,188	41,250	35,620	34,000	32,520
Price of sunflower meal (USD)	181	211	186	200	200	200	200
Price of sunflower meal (UAH)	4,808	5,747	5,221	5,500	5,200	5,000	4,800
Model margin (USD/t)*	85	82	90	65	80	75	73
Model margin (UAH/t)*	2,265	2,232	2,523	1,783	2,074	1,887	1,760
Price of wheat (USD/t)	189	217	194	230	195	195	195
Price of wheat (UAH/t)	5,035	5,908	5,429	6,325	5,070	4,875	4,680
Price of barley (USD/t)	194	218	191	200	190	190	190
Price of barley (UAH/t)	5,167	5,937	5,352	5,500	4,940	4,750	4,560
Price of corn (USD/t)	180	170	192	230	190	190	190
Price of corn (UAH/t)	4,795	4,638	5,380	6,325	4,940	4,750	4,560
Price of soybeans (USD/t)	439	365	408	730	651	651	651
Price of soybeans (UAH/t)	11,672	9,968	11,424	20,071	16,922	16,271	15,620
Price of rapeseed (USD/t)	446	447	415	743	662	662	662
Price of rapeseed (UAH/t)	11,857	12,186	11,623	20,421	17,216	16,554	15,892
Export terminal throughput (1,000t)	6,065	6,013	6,666	7,666	8,166	8,329	8,496
Silo usage (1,000t)	4,646	10,444	7,902	8,402	9,402	9,590	9,782
Crop harvest (1,000t)	2,510	3,294	3,283	2,709	3,020	2,971	2,938
Grain trading volumes (1,000t)	4,646	10,444	7,902	8,402	9,402	9,590	9,782
Sales of bottled oil (million liters)	119	131	137	139	141	143	145
Sales of bulk oil (1,000t)	1,301	1,496	1,381	1,423	1,494	1,583	1,607
Sunflower seed crush volume (1,000t)	3,136	3,164	3,436	3,300	3,800	4,000	4,050

* model margin = - sunflower price / 1.2 + 0.43 * price of sunflower oil + 0.37 * price of sunflower meal

Source: mBank

Receivable VAT projection

(USD m)	17/18	18/19	19/20	20/21P	21/22P	22/23P	23/24P
VAT reclaimed	265.0	331.7	392.2	507.7	521.4	548.8	555.7
VAT receivable	114.7	117.9	132.7	143.1	153.8	165.0	176.3
VAT credit accumulated in the period	244.5	334.9	407.1	518.1	532.0	560.0	567.0
Reclaimed/Accumulated VAT	108.4%	99.0%	96.3%	98.0%	98.0%	98.0%	98.0%

Source: mBank

DCF Model

(USD m)	20/21P	21/22P	22/23P	23/24P	24/25P	25/26P	26/27P	27/28P	28/29P	29/30P	+
Revenue	5,627.8	5,419.9	5,575.7	5,643.9	5,716.0	5,781.4	5,827.8	5,873.2	5,919.1	5,976.2	5,980.7
change	37.0%	-3.7%	2.9%	1.2%	1.3%	1.1%	0.8%	0.8%	0.8%	1.0%	0.1%
EBITDA	660.6	537.3	491.4	453.4	450.9	431.0	420.7	414.1	405.2	404.4	402.6
EBITDA margin	11.7%	9.9%	8.8%	8.0%	7.9%	7.5%	7.2%	7.1%	6.8%	6.8%	6.7%
D&A expenses	107.6	119.6	121.4	123.4	125.6	127.8	130.5	132.9	135.5	138.0	137.8
EBIT	553.0	417.7	369.9	329.9	325.3	303.1	290.2	281.2	269.8	266.4	264.8
EBIT margin	9.8%	7.7%	6.6%	5.8%	5.7%	5.2%	5.0%	4.8%	4.6%	4.5%	4.4%
Tax on EBIT	31.0	20.4	17.0	14.0	13.7	12.1	11.1	10.4	9.5	9.3	9.2
NOPLAT	522.0	397.3	352.9	315.9	311.6	291.1	279.1	270.8	260.2	257.1	255.6
CAPEX	-322.0	-106.0	-120.0	-122.4	-124.8	-127.3	-129.9	-132.5	-135.1	-137.8	-137.8
Working capital	-114.8	-49.6	-32.0	-24.3	-25.1	-24.4	-22.8	-20.9	-20.9	-21.8	-18.1
FCF	192.8	361.3	322.4	292.7	287.2	267.2	256.9	250.4	239.7	235.4	237.4
WACC	15.1%	15.3%	15.5%	15.5%	15.6%	15.6%	15.6%	15.6%	15.5%	15.5%	15.5%
discount factor	1.11	0.96	0.84	0.72	0.62	0.54	0.47	0.40	0.35	0.30	0.26
PV FCF	214.3	348.6	269.3	211.5	179.5	144.4	120.2	101.4	84.1	71.5	62.4

WACC	15.1%	15.3%	15.5%	15.5%	15.6%	15.6%	15.6%	15.6%	15.5%	15.5%	15.5%
Cost of debt	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
Risk-free rate	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
Risk premium	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Effective tax rate	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Net debt / EV	48.0%	44.4%	42.4%	41.4%	40.7%	40.6%	40.7%	40.8%	41.0%	41.3%	41.1%
Cost of equity	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

FCF growth after the forecast period	2.0%
Terminal value	1,753.0
Present value of terminal value	532.6
Present value of FCF in the forecast period	1,744.8
Enterprise value	2,277.4
Net debt	1,016.8
Other noncore assets	0.0
Minority interests	1.5
Equity value	1,259.1
Shares outstanding (millions)	84.0
Equity value per share (USD)	15.0
9M cost of equity	12.4%
9M Target Price (USD)	16.8
Target price (PLN)	60.6
EV/EBITDA (FY20/21) at target price	3.9
P/E (FY20/21) at target price	4.6
TV / EV	23.4%

Sensitivity Analysis

	FCF growth in perpetuity				
	0.0%	1.0%	2.0%	3.0%	5.0%
WACC +1.0 p.p.	62.8	64.3	66.0	68.0	72.9
WACC +0.5 p.p.	65.1	66.8	68.6	70.8	76.3
WACC	67.5	69.3	60.6	73.8	80.0
WACC -0.5 p.p.	70.1	72.1	74.4	77.1	84.1
WACC -1.0 p.p.	72.8	75.0	77.6	80.6	88.5

Earnings History and Future Projections

(USD m)	17/18	18/19	19/20	20/21P	21/22P	22/23P	23/24P
Revenue	2,403.0	3,992.1	4,106.8	5,627.8	5,419.9	5,575.7	5,643.9
change	10.8%	66.1%	2.9%	37.0%	-3.7%	2.9%	1.2%
Oilseed Processing	1,393.5	1,493.0	1,547.0	2,596.0	2,529.6	2,652.9	2,683.2
Infrastructure & Trade	1,076.8	3,197.0	3,426.0	3,910.1	3,786.5	3,848.4	3,917.4
Farming	470.5	602.0	604.0	944.0	900.5	890.7	880.3
Other	-537.7	-1,300.0	-1,471.0	-1,822.4	-1,796.7	-1,816.4	-1,837.0
COGS	2,107.7	3,337.1	3,281.6	4,518.6	4,409.5	4,600.0	4,696.4
Administrative expenses	80.0	106.5	131.7	158.1	162.8	167.7	172.7
Selling expenses	153.6	307.5	363.2	377.9	409.4	417.5	424.2
Other operating activity (net)	59.1	28.2	7.0	20.3	20.4	20.5	20.6
of which fair value adjustment on biological assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA, Oilseed Processing	76.7	109.0	151.8	92.8	177.3	174.5	165.0
EBITDA, Infrastructure & Trading	100.8	105.0	215.8	375.7	197.0	197.0	196.9
EBITDA, Farming	88.7	182.0	134.2	284.4	207.5	163.1	130.8
EBITDA, Other Ops	-43.7	-50.5	-58.8	-92.4	-44.5	-43.2	-39.3
EBIT	139.6	269.2	337.3	553.0	417.7	369.9	329.9
change	-47.3%	92.9%	25.3%	63.9%	-24.5%	-11.4%	-10.8%
EBIT margin	5.8%	6.7%	8.2%	9.8%	7.7%	6.6%	5.8%
Net financing gains/losses	-90.7	-77.8	-198.8	-140.1	-145.7	-143.0	-142.8
Extraordinary gains/losses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	50.1	190.4	144.8	412.9	272.0	226.9	187.1
Tax	-5.9	11.9	22.1	31.0	20.4	17.0	14.0
Minority interests	-3.8	11.0	-4.9	-75.0	-5.0	-5.0	-5.0
Net profit	52.1	189.5	117.9	306.9	246.6	204.9	168.1
change	-70.4%	263.4%	-37.8%	160.4%	-19.7%	-16.9%	-18.0%
margin	2.2%	4.7%	2.9%	5.5%	4.6%	3.7%	3.0%
D&A expenses	83.0	76.3	105.7	107.6	119.6	121.4	123.4
EBITDA	222.5	345.5	443.0	660.6	537.3	491.4	453.4
change	-30.3%	55.3%	28.2%	49.1%	-18.7%	-8.6%	-7.7%
EBITDA margin	9.3%	8.7%	10.8%	11.7%	9.9%	8.8%	8.0%
Shares outstanding at eop (millions)	82.7	82.9	84.0	84.0	84.0	84.0	84.0
EPS	0.63	2.29	1.40	3.65	2.93	2.44	2.00
CEPS	1.63	3.21	2.66	4.93	4.36	3.88	3.47
ROAE	4.5%	14.0%	7.9%	17.4%	12.7%	10.0%	7.9%
ROAA	2.4%	7.7%	3.7%	8.8%	6.9%	5.6%	4.5%

Balance Sheet

(USD m)	17/18	18/19	19/20	20/21P	21/22P	22/23P	23/24P
ASSETS	2,210.5	2,463.6	3,164.7	3,481.9	3,598.2	3,664.3	3,734.1
Fixed assets	1,006.2	1,207.2	1,633.7	1,851.3	1,842.0	1,846.0	1,851.7
Intangible assets	104.5	114.9	68.1	90.3	91.9	95.9	101.1
Property, plant and equipment	588.1	764.7	1,331.7	1,527.1	1,516.1	1,516.2	1,516.6
Equity value	103.7	107.7	123.5	123.5	123.5	123.5	123.5
Noncurrent receivables	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Noncurrent investments	186.8	207.0	101.3	101.3	101.3	101.3	101.3
Noncurrent prepayments	23.2	12.8	9.2	9.2	9.2	9.2	9.2
Current assets	1,204.3	1,256.4	1,531.0	1,630.6	1,756.2	1,818.2	1,882.5
Inventory	368.5	357.6	303.4	364.9	404.3	415.9	421.8
Current receivables	205.7	313.0	364.2	502.7	489.2	508.1	519.4
Trade debtors	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current investments	94.0	81.4	109.4	109.4	109.4	109.4	109.4
Cash	132.0	76.8	369.1	205.0	308.2	331.6	370.6
Current prepayments	114.7	118.6	132.7	143.1	153.8	165.0	176.3

(USD m)	17/18	18/19	19/20	20/21P	21/22P	22/23P	23/24P
EQUITY & LIABILITIES	2,210.5	2,463.6	3,164.7	3,481.9	3,598.2	3,664.3	3,734.1
Equity	1,170.7	1,350.9	1,492.7	1,764.3	1,943.7	2,050.0	2,115.6
Share capital	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Supplementary capital	521.8	521.8	540.3	540.3	540.3	540.3	540.3
Retained earnings	1,318.9	1,490.0	1,584.3	1,856.0	2,035.3	2,141.6	2,207.2
Minority interest	6.9	-4.9	1.5	1.5	1.5	1.5	1.5
Non-current liabilities	601.1	668.5	1,258.0	1,258.0	1,258.0	1,258.0	1,258.0
Debt	497.6	559.7	1,231.3	1,231.3	1,231.3	1,231.3	1,231.3
Current liabilities	431.8	449.1	412.6	458.1	395.1	354.9	359.1
Trade payables	178.5	241.0	257.9	353.5	340.4	350.2	354.5
Debt	253.2	208.1	154.7	104.7	54.7	4.7	4.7
Provisions for liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt	750.9	767.8	1,386.0	1,336.0	1,286.0	1,236.0	1,236.0
Net debt	618.8	691.0	1,016.8	1,130.9	977.7	904.3	865.3
Net Debt / Equity	52.9%	51.2%	68.1%	64.1%	50.3%	44.1%	40.9%
Net Debt/ EBITDA	2.8	2.0	2.3	1.7	1.8	1.8	1.9
BVPS	14.2	16.3	17.8	21.0	23.1	24.4	25.2

Cash Flow

(USD m)	17/18	18/19	19/20	20/21P	21/22P	22/23P	23/24P
Cash flow from operating activities	82.5	320.2	269.4	330.2	417.1	380.0	351.7
Net profit	52.1	189.5	117.9	306.9	246.6	204.9	168.1
D&A expenses	83.0	76.3	105.7	107.6	119.6	121.4	123.4
Working capital	-63.1	-173.3	-70.6	-114.8	-49.6	-32.0	-24.3
Other	10.5	227.7	116.3	30.5	100.5	85.7	84.5
Cash flow from investing activities	-155.7	-241.4	-202.7	-322.0	-106.0	-120.0	-122.4
CAPEX	-179.0	-233.8	-172.6	-322.0	-106.0	-120.0	-122.4
Equity investments	23.3	-7.6	-30.1	0.0	0.0	0.0	0.0
Cash flow from financing activities	76.1	29.1	224.1	-170.4	-207.9	-236.6	-190.3
Debt	97.6	61.3	273.7	-50.0	-50.0	-50.0	0.0
Dividends/Buyback	-20.5	-20.5	-21.0	-35.3	-67.2	-98.6	-102.5
Interest expenses	0.0	0.0	0.0	-87.9	-93.1	-91.0	-91.2
Other	0.0	-11.1	-1.0	2.9	2.4	3.0	3.3
Change in cash	2.9	107.9	290.8	-162.2	103.2	23.4	39.0
Cash at eop	90.1	197.9	367.2	205.0	308.2	331.6	370.6
DPS (PLN)	0.25	0.25	0.25	0.42	0.80	1.17	1.22
FCF	-13.7	-73.4	177.7	192.8	361.3	322.4	292.7
CAPEX/Sales	-7.4%	-5.9%	-4.2%	-5.7%	-2.0%	-2.2%	-2.2%

Trading Multiples

	17/18	18/19	19/20	20/21P	21/22P	22/23P	23/24P
P/E	23.1	6.4	10.4	4.0	5.0	6.0	7.3
P/CE	8.9	4.6	5.5	3.0	3.3	3.8	4.2
P/B	1.0	0.9	0.8	0.7	0.6	0.6	0.6
P/(BV-goodwill)	1.1	1.0	0.9	0.7	0.7	0.6	0.6
P/S	0.5	0.3	0.3	0.2	0.2	0.2	0.2
FCF/EV	-0.7%	-3.9%	7.9%	8.2%	16.4%	15.1%	14.0%
EV/EBITDA	8.2	5.5	5.1	3.6	4.1	4.3	4.6
EV/EBIT	13.1	7.0	6.7	4.3	5.3	5.8	6.3
EV/S	0.8	0.5	0.5	0.4	0.4	0.4	0.4
OCF/EBITDA	37.1%	92.7%	60.8%	50.0%	77.6%	77.3%	77.6%
Dividend Yield	1.7%	1.7%	1.7%	2.9%	5.5%	8.0%	8.4%
Price (USD)	14.59	14.59	14.59	14.59	14.59	14.59	14.59
Shares at eop (millions)	82.7	82.9	84.0	84.0	84.0	84.0	84.0
MC (USD m)	1,206.4	1,209.7	1,226.4	1,226.4	1,226.4	1,226.4	1,226.4
Minority interest (USD m)	6.9	-4.9	1.5	1.5	1.5	1.5	1.5
EV (USD m)	1,832.1	1,895.8	2,244.7	2,358.8	2,205.6	2,132.2	2,093.2

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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HOLD – we expect that the rate of return from an investment will range from -5% to +5%
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mBank issued the following recommendations for Kernel in the 12 months prior to this publication:

recommendation	buy	buy	buy	buy	hold
date issued	2021-01-27	2020-12-08	2020-11-05	2020-09-23	2020-06-03
target price (PLN)	62.93	57.39	53.66	56.35	44.58
price on rating day	54.50	46.75	39.00	39.90	43.80

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