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JSW: 2021 Q2 Results

Rating: buy | target price: PLN 48.09 | current price: PLN 34.30

JSW PW; JSW.WA | Mining, Poland

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The Q2 2021 financial results net of one-offs exceeded our expectations (adjusted EBITDA is by 38% higher than our estimates). It is worth noting that EBITDA forecasts varied greatly (from PLN 150 million to almost PLN 400 million). Revenue in the coking coal segment and a lower-than-expected Coke Conversion Cost come as a slightly positive surprise in Q2 2021. In the coal extraction segment, costs slightly exceeded our expectations. In our opinion, it is noteworthy that after many quarters JSW started saving money "for a rainy day" again by accumulating it in a fund. The coal prices suggest that Q3 2021 EBITDA may approximate PLN 1 billion. We find the results slightly positive, with a good outlook for Q3 2021.

- **Revenue** in Q2 2021 surpassed our forecasts by 7%, mainly in the coking coal sales segment (+11% vs our estimates; revenue per tonne turned out to be higher than expected).
- **Adjusted EBITDA** amounted to PLN 227 million in Q2 2021 (+38% vs our expectations). The range of market expectations was very broad (from PLN 150 million to nearly

PLN 400 million, with the median at PLN 294 million). It is worth pointing out that the results included provisions for mines (PLN 73 million) as well as losses due to the COVID-19 pandemic (PLN 21 million).

- Overheads matched our expectations in Q2 2021. The costs of materials and energy, remuneration and external services in the coal segment came as a slightly negative surprise. **Mining Cash Cost** totalled PLN 449/t vs our expectations at PLN 427/t. Costs of energy and external services were pleasantly surprising. **Coke Conversion Cost** totalled PLN 167/t vs our expectations at PLN 177/t.
- In Q2 2021, **operating cash flow** stood at PLN 183 million against our expectations at PLN 89 million. **Net debt** in Q2 2021 amounted to PLN 1057 million (+PLN 191 million q/q as a result of the investments made), which is below our expectations (PLN 1208 million).
- Note that after many quarters **JSW started saving money "for a rainy day" again by accumulating it in a closed-end investment fund (FIZ).**

2021 Q2 Results of JSW

(PLN m)	2Q'21	2Q'20	change	2Q'21E	differ.	2021E	2020	change	YTD
revenue	2179	1488	46%	2046	7%	9553	6989	37%	44%
EBITDA adj.	227	-116	-295%	164	38%	2093	-219	-	16%
EBITDA	155	-627	-125%	164	-5%	2093	-638	-	12%
EBITDA margin	7%	-42%	-	12%	-	22%	-9%	-	-
EBIT	-151	-889	-83%	-121	-	935	-1743	-	-37%
net profit	-151	-765	-80%	-111	-	652	-1546	-	-52%

Źródło: JSW, E - mBank estimates

2021 Q2 Detailed Results of Cognor (PLN/t)

coal mining	1Q'19	2Q'19	3Q'19	4Q'19	1Q'20	2Q'20	3Q'20	4Q'20	1Q'21	2Q'21	change	2Q'21E	differ.
mining cash cost	430	465	390	423	379	500	367	417	433	449	-10%	427	5%
materials and energy	281	279	267	304	291	233	270	285	292	312	34%	293	6%
foreign service	390	383	415	468	396	320	351	450	344	351	10%	335	5%
salary	783	924	773	830	813	700	775	786	789	834	19%	795	5%
another	42	54	46	51	42	46	50	52	47	51	12%	52	-1%
coke production	1Q'19	2Q'19	3Q'19	4Q'19	1Q'20	2Q'20	3Q'20	4Q'20	1Q'21	2Q'21	change	2Q'21E	differ.
coke conversion cost	171	175	207	222	171	201	165	179	162	167	-17%	177	-6%
materials and energy	17	16	15	16	13	11	12	14	15	15	32%	15	-1%
energy	12	14	12	1	10	9	9	10	11	10	10%	12	-16%
foreign service	40	45	50	58	44	47	46	44	46	46	0%	56	-17%
salary	49	57	64	57	55	59	55	75	55	62	5%	61	2%
another	30	28	31	28	27	27	25	30	26	26	-2%	28	-7%

Źródło: JSW, E - mBank estimates



List of abbreviations and ratios contained in the report:

EV (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases) - Lease Payments

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