

Thursday, 17 March 2022 | special comments

## JSW: 2021 Q4 Results

Recommendation: buy | target price: PLN 81.43 | current price: PLN 65.22

JSW PW; JSW.WA | Mining, Poland

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**JSW posted 2021 Q4 adjusted EBITDA 15% ahead of our estimate, and its costs in the period came as a positive surprise as well, with payrolls and the average mining cash cost showing a smaller-than-expected increase that indicates better prospects for 2022 Q1 profits underpinned by even higher sales prices for coking coal.**

**As a reminder, JSW is guiding for increasing production throughout 2022.**

**Summing up, JSW generated better-than-expected results in the whole of 2021 and we are expecting a positive response from investors today to this morning's FY earnings release.**

- **Revenue** in Q4 2021 came close to analysts' expectations but topped our estimate by 6% on stronger-than-anticipated sales of hydrocarbons.
- **Adjusted EBITDA** came in at PLN 1,856m, showing a 15% beat against our forecast. The reported figure was weighed down

by sizable one-time items, most notably adjustments to reflect fixed-asset impairment tests; ultimately, the write-downs and reversals knocked PLN 307m net off the quarterly EBITDA.

- **Costs** in Q4 2021 turned out lower than anticipated thanks mainly to lower payroll expenses in the coal mining (-19%) and coke production (-2%) segments; on the other hand, energy costs in the coke segment exceeded our forecast by 21%.
- **Mining cash cost** averaged PLN 437/t in Q4 vs. PLN 462 expected by us, and the difference in the average **coke conversion cost** was PLN 181 vs. PLN 179/t.
- JSW generated **operating cash flow** of PLN 1,946m in the whole of FY2021, consistent with our PLN 1,920m forecast.
- **Net debt** as of 31 December 2021 stood at PLN 1,054m after a small reduction from PLN 1,080m reported at 30 September. Payable loans decreased in 2021 relative to the previous year, and the net **debt/EBITDA ratio** improved markedly to 0.67x.

### 2021 Q4 results of JSW

(PLN m)	Q4'21	consensus	differ.	Q4'21E	differ.	Q4'20	% y/y	2021E	YTD*
revenue	3873	3759	3%	3663	6%	1806	103%	10417	102%
EBITDA (adj.)	1856	-	-	1608	15%	-138	-	2560	113%
EBITDA	1567	1633	-4%	1608	-3%	-224	-	2431	102%
EBITDA margin	40%	43%	-	44%	-	-12%	-	-	-
EBIT	1249	1342	-7%	1308	-4%	-509	-	1231	103%
net profit	1015	1075	-6%	1039	-2%	-453	-	989	96%

Source: JSW, E - mBank estimates expected \*Actual results as a percentage our full-year estimates

### Breakdown of 2021 Q4 costs of JSW by operating segment (PLN/t)

coal segment	Q4'19	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	change	Q4'21E	differ.
<b>mining cash cost</b>	<b>423</b>	<b>379</b>	<b>500</b>	<b>367</b>	<b>417</b>	<b>433</b>	<b>449</b>	<b>466</b>	<b>437</b>	<b>11%</b>	<b>462</b>	<b>-5%</b>
materials & utilities	304	291	233	270	285	292	312	308	355	13%	321	11%
services	468	396	320	351	450	344	351	313	421	-21%	357	18%
payroll	830	813	700	775	786	789	834	882	746	17%	920	-19%
other	51	42	46	50	52	47	51	54	50	4%	54	-8%
coke segment	Q4'19	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	change	Q4'21E	differ.
<b>coke conversion cost</b>	<b>222</b>	<b>171</b>	<b>201</b>	<b>165</b>	<b>179</b>	<b>162</b>	<b>167</b>	<b>168</b>	<b>181</b>	<b>0%</b>	<b>179</b>	<b>1%</b>
materials & utilities	16	13	11	12	14	15	15	15	21	8%	15	41%
energy	1	10	9	9	10	11	10	10	14	15%	11	26%
services	58	44	47	46	44	46	46	50	55	14%	50	9%
payroll	57	55	59	55	75	55	62	58	64	-13%	65	-2%
other	28	27	27	25	30	26	26	28	28	-6%	28	-1%

Source: 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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