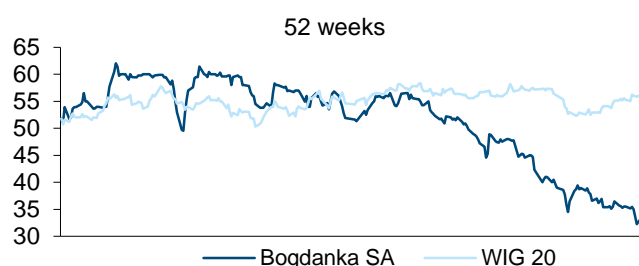


Bogdanka SA

from Accumulate to Hold

PLN mn	2018	2019e	2020e	2021e
Net sales	1,756.7	2,157.0	2,231.7	2,119.1
EBITDA	469.2	766.5	789.5	645.0
EBIT	62.0	341.2	344.7	168.4
Net result after min.	54.0	278.8	281.8	138.0
EPS (PLN)	1.59	8.20	8.28	4.06
CEPS (PLN)	13.56	20.70	21.36	18.07
BVPS (PLN)	86.73	94.18	99.19	99.93
Div./share (PLN)	0.00	0.75	3.28	3.31
EV/EBITDA (x)	3.4	1.4	1.3	1.7
P/E (x)	32.3	4.3	4.3	8.8
P/CE (x)	3.8	1.7	1.7	2.0
Dividend Yield	0.0%	2.1%	9.2%	9.3%
Share price (PLN) close as of 27/06/2019				35.5
Number of shares (mn)				34.0
Market capitalization (PLN mn / EUR mn)				1,207 / 284
Enterprise value (PLN mn / EUR mn)				1,065 / 251



Performance	12M	6M	3M	1M
in PLN	-31.5%	-31.2%	-25.0%	-4.1%
Reuters	LWBP.WA	Free float	34.0%	
Bloomberg	LWB.PW	Shareholders	Enea (66.0%)	
Div. Ex-date	09/07/19			
Target price	39.0			Homepage: www.lw.com.pl

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Upcoming Erste Equity Events:

Investor Conference Vienna,
 October 7- 10

Negative pricing & cost outlook justifies low multiples

The forecasted decline of the share of coal in global power generation from 38% to 30% by 2030 (assuming 2.0% growth of demand for power) or by 2025 (assuming 1.4% growth of power demand) will result in lower demand for coal and in turn put pressure on coal prices.

More than 10GW of coal installed capacities in Poland is scheduled for decommissioning by 2040, which would result in approx. 36% decline of demand for coal from the power sector, according to our estimates. However, the decline in demand for coal might be higher and happen sooner, as if only CAGR of Polish demand for power declines to 1.0%, then demand for coal would decline by approx. 7%, while in the case of decline of CAGR to 0%, then demand for coal would decline by 32% by 2030, according to our estimates.

Also, the short-term coal pricing outlook seems negative to us, which stems from the expected decline of demand for coal by approx. 1.4mn tonnes (higher wind rates, commissioning of new efficient units to replace old units) at a time when thermal coal production is forecast to increase by approx. 1mn tonnes (the effect of doubling CAPEX) in 2019/20. The result of such an outlook is an expected increase of inventories to above 100 days of consumption, which would likely put pressure on prices in 2020/21.

Expected lower coal prices coincide with expected rising cost pressures related to labor shortages in Poland. The expected effect of lower earnings generation capacity leads us to recommend LW Bogdanka as **Hold with a target price of PLN 39.0**.

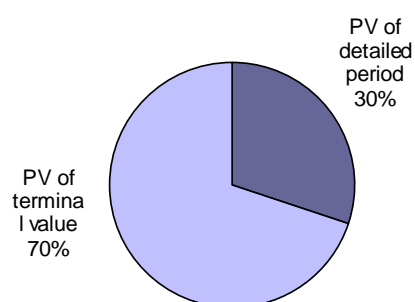
WACC calculation

	2019e	2020e	2021e	2022e	2023e	NY / TV
Risk free rate	2.4%	2.4%	2.4%	2.4%	2.4%	4.0%
Equity risk premium	6.0%	6.0%	6.0%	6.0%	6.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	8.4%	8.4%	8.4%	8.4%	8.4%	9.0%
Cost of debt	4.4%	4.4%	4.4%	4.4%	4.4%	6.0%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
After-tax cost of debt	3.6%	3.6%	3.6%	3.6%	3.6%	4.9%
Equity weight	99%	99%	99%	99%	99%	99%
WACC	8.4%	8.4%	8.4%	8.4%	8.4%	9.0%

DCF valuation

(PLN mn)	2019e	2020e	2021e	2022e	2023e	NY / TV
<i>Sales growth</i>	22.8%	3.5%	-5.0%	1.0%	1.0%	0.0%
EBIT	341.2	344.7	168.4	146.0	125.7	169.5
<i>EBIT margin</i>	15.8%	15.4%	7.9%	6.8%	5.8%	8.0%
<i>Tax rate</i>	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Taxes on EBIT	-64.8	-65.5	-32.0	-27.7	-23.9	-32.2
NOPLAT	276.4	279.2	136.4	118.3	101.8	137.3
+ Depreciation	425.3	444.8	476.6	495.6	512.4	512.4
<i>Capital expenditures / Depreciation</i>	131.7%	125.9%	117.5%	113.0%	109.3%	91.5%
+/- Change in working capital	108.9	2.2	-3.4	0.6	0.6	0.6
<i>Chg. working capital / chg. Sales</i>						
- Capital expenditures	-560.0	-560.0	-560.0	-560.0	-560.0	-560.0
Free cash flow to the firm	32.8	161.7	56.4	53.2	53.6	89.1
<i>Terminal value growth</i>						0.0%
Terminal value						994.2
Discounted free cash flow - Dec 31 2018	32.8	149.3	48.0	41.8	38.9	721.3
Enterprise value - Dec 31 2018	1 032.0					
Minorities	10.2					
Net debt	-153.7					
Other assets	0.0					
Other adjustments	0.0					
Equity value - Dec 31 2018	1 175.6					
Number of shares outstanding (mn)	34.0					
Cost of equity	8.4%					
12M target price per share (PLN)	39.0					
Current share price (PLN)	35.5					
<i>Up/Downside</i>	9.8%					

Enterprise value breakdown



Source: Erste Group Research

Sensitivity (per share)

		Terminal value EBIT margin				
		4.0%	6.0%	8.0%	10.0%	12.0%
WACC	8.0%	21.2	31.6	42.0	52.4	62.7
	8.5%	20.9	30.6	40.4	50.2	59.9
	9.0%	20.5	29.8	39.0	48.2	57.4
	9.5%	20.3	29.0	37.7	46.4	55.2
	10.0%	20.0	28.3	36.6	44.9	53.2
		Terminal value growth				
		-2.0%	-1.0%	0.0%	1.0%	2.0%
WACC	8.0%	36.6	39.0	42.0	45.9	51.0
	8.5%	35.5	37.7	40.4	43.8	48.2
	9.0%	34.6	36.6	39.0	42.0	45.9
	9.5%	33.8	35.5	37.7	40.4	43.8
	10.0%	33.0	34.6	36.6	39.0	42.0

Peers

Peer group comparison

	P/E			EV/EBITDA		
	2019e	2020e	2021e	2019e	2020e	2021e
GLENCORE PLC	10.4	9.2	8.6	5.4	4.9	4.8
WHITEHAVEN COAL LTD	6.2	8.4	8.7	3.9	5.1	5.4
CNX RESOURCES CORP	na	12.6	9.9	5.1	5.0	4.8
PEABODY ENERGY CORP	10.5	19.0	82.9	3.2	3.5	4.0
ARCH COAL INC - A	5.2	7.2	9.4	3.2	3.9	4.2
CHINA SHENHUA ENERGY CO-A	na	na	na	4.2	4.2	4.2
COAL INDIA LTD	9.3	9.0	7.6	5.1	4.9	4.5
BUMI SERPONG DAMAI PT	15.5	13.6	na	11.0	10.4	na
ADARO ENERGY TBK PT	7.5	7.0	6.5	3.8	3.5	3.6
BANPU PUBLIC CO LTD	9.0	8.4	8.1	8.8	8.8	8.7
YANZHOU COAL MINING CO-H	4.2	4.3	3.9	6.0	6.2	5.7
SHANXI COKING CO LTD-A	7.9	7.5	7.2	10.2	9.6	9.2
Median total	8.5	8.4	8.4	5.1	5.0	4.8
LW Bogdanka	4.3	4.3	8.8	1.4	1.3	1.7
<i>Premium/discount</i>	<i>-49%</i>	<i>-49%</i>	<i>5%</i>	<i>-73%</i>	<i>-74%</i>	<i>-65%</i>
Implied value	69.3	69.7	33.9	110.8	109.8	87.1

Source: Factset, Erste Group Research

Erste Group Research – Company Report

Bogdanka SA | Mining & Metals | Poland

01 July 2019

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