

Bogdanka SA - Hold

Target Price: PLN 39.00 | Close as of 19/11/2019: PLN 37.00

Analyst:

Tomasz Duda,
+48 22 330 6253
tomasz.duda@erstegroup.com

Final 3Q'19 figures in line with preliminary. Strong FCF

LW Bogdanka reported final 3Q'19 figures with following highlights:

- **EBITDA** of PLN 176.9mn i.e. up 46% y/y and in line with preliminary estimate of PLN 176.9mn
- **EBITDA per tonne** of PLN 77 i.e. down from PLN 88 seen in 2Q'19 and down from 85 seen in 1Q'19
- **Coal price** of PLN 234.4/t i.e. up 16.1% y/y and in line with our expectations following preliminary figures
- **Unit mining cash cost** of PLN 157/t i.e. up 3% y/y and slightly below PLN 160/t expected by us following preliminary figures
- **Significant acceleration of costs growth** with employment costs up 24% y/y, external services up 14% y/y and materials up 8% y/y in 3Q'19. YTD these costs are up 8%, 9% and down 8%, respectively
- **Volume of preparatory works** at 7.5km i.e down 16% y/y
- **Strong operational cash flow** of PLN 181mn (vs. PLN 144mn a year ago), which equals to 102% of reported EBITDA
- **FCF** of PLN 57mn in Q3 and PLN 151mn in 9M'19
- **Capex** of PLN 363mn in 9M'19 i.e. at only 65% of our 2019e forecast
- **Net cash** up to PLN 263mn from PLN 171mn a year ago

OPINION. POSITIVE

LW Bogdanka delivered another set of strong results driven by strong pricing and only single digit growth of unit mining cash costs, which however are in line with preliminary figures. At the same time delivery of capex guidance remains low, which creates more FCF potential and strengthens balance sheet more than expected. Given the expected coal market situation in Poland in 2020-21e we see strong balance sheet as a must.

On the downside the significant acceleration of cost growth of employment and external services (up 8% and 9% y/y YTD, respectively) seems not to bode well for 2020e as we expect cost pressures to persist. Also LW Bogdanka is unlikely to benefit from double digit declines of volume of preparatory works in 2020e.

LW Bogdanka. Key figures, PLN mn

| P&L (PLN m) | 3Q18 | 4Q18 | 1Q19 | 2Q19 | 3Q19 | YoY | QoQ |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|-------------|-------------|
| Revenues | 479.7 | 421.0 | 540.8 | 557.5 | 527.8 | 10% | -5% |
| Gross profit on sales | 50.3 | 5.3 | 145.2 | 147.0 | 123.2 | 145% | -16% |
| SG&A | -35.8 | -38.5 | -34.4 | -33.7 | -43.0 | 20% | 27% |
| Profit from sales | 14.5 | -33.2 | 110.8 | 113.3 | 80.2 | 453% | -29% |
| Other income/ (expense), net | 0.1 | 2.6 | 17.1 | 0.6 | -2.3 | | |
| EBITDA | 120.8 | 69.7 | 222.9 | 211.6 | 176.9 | 46% | -16% |
| EXBITDA excl. one-offs | 120.8 | 69.7 | 200.2 | 211.6 | 176.9 | 46% | -16% |
| Operating profit | 14.6 | -30.6 | 128.0 | 113.8 | 77.9 | 434% | -32% |
| Financial income / (expense) | -1.4 | 2.6 | 3.8 | -2.6 | 1.6 | | |
| Profit before tax | 13.2 | -27.9 | 131.8 | 111.3 | 79.4 | | |
| Income tax expense | -3.6 | 5.7 | -21.8 | -23.3 | -13.4 | | |
| Net profit - recurring | 9.7 | -22.3 | 109.8 | 87.9 | 66.0 | 578% | -25% |
| Operational data | 3Q18 | 4Q18 | 1Q19 | 2Q19 | 3Q19 | YoY | QoQ |
| Coal production, k tonnes | 2 302 | 2 187 | 2 532 | 2 293 | 2 302 | 0% | 0% |
| Coal yield | 61.8% | 61.1% | 64.7% | 65.6% | 64.6% | | |
| Coal sales volume, kt | 2 447 | 2 155 | 2 365 | 2 405 | 2 291 | -6% | -5% |
| Inventories, thousand tonnes | 57.0 | 89.0 | 256.0 | 144.0 | 153.0 | | |
| Coal price PLN/t (1) | 191 | 189.3 | 222.5 | 226.9 | 226.1 | 18% | 0% |
| Coal price PLN/t (2) | 201.9 | 202.6 | 233.3 | 235.8 | 234.4 | 16% | -1% |
| Unit cash cost PLN/t (2) | 152.5 | 171.4 | 146.3 | 148.1 | 157.2 | 3% | 6% |
| EBITDA per tonne (1) | 49.4 | 32.4 | 94.2 | 88.0 | 77.2 | 56% | -12% |
| EBITDA per tonne (2) | 49.4 | 32.4 | 84.7 | 88.0 | 77.2 | 56% | -12% |
| OCF | 144 | 98.6 | 150.3 | 183.3 | 180.9 | | |
| Capex | 98 | 113.4 | 148.0 | 91.7 | 123.5 | | |
| Free cash flow | 47 | -14.8 | 2.2 | 91.6 | 57.4 | | |
| Net debt (cash) | -171 | -124 | -134 | -227 | -263 | | |
| BVPS | 87.1 | 86.4 | 89.7 | 91.5 | 93.4 | | |

Source: company, Erste Group Research

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Contacts

Group Research

Head of Group Research

Friedrich Mostböck, CEFA +43 (0)5 0100 11902

CEE Macro/Fixed Income Research

Head: Juraj Kotian (Macro/FI) +43 (0)5 0100 17357
Zoltan Arokszállasi, CFA (Fixed income) +361 373 2830
Katarzyna Rzentarzewska (Fixed income) +43 (0)5 0100 17356
Malgorzata Krzywicka (Fixed income, Poland) +43 (0)5 0100 17338

Croatia/Serbia

Alen Kovac (Head) +385 72 37 1383
Mate Jelić +385 72 37 1443
Ivana Rogic +385 72 37 2419

Czech Republic

David Navratil (Head) +420 956 765 439
Jiri Polansky +420 956 765 192
Michal Skorepa +420 956 765 172

Hungary

Orsolya Nyeste +361 268 4428

Romania

Eugen Sinca +40 3735 10435
Dorina Ilasco +40 3735 10436

Slovakia

Maria Valachyova (Head) +421 2 4862 4185
Katarina Muchova +421 2 4862 4762

Major Markets & Credit Research

Head: Gudrun Egger, CEFA +43 (0)5 0100 11909
Ralf Burchert, CEFA (Sub-Sovereigns & Agencies) +43 (0)5 0100 16314
Hans Engel (Global Equities) +43 (0)5 0100 19835
Margarita Grushanina (Austria, Quant Analyst) +43 (0)5 0100 11957
Peter Kaufmann, CFA (Corporate Bonds) +43 (0)5 0100 11183
Heiko Langer (Financials & Covered Bonds) +43 (0)5 0100 85509
Stephan Lingnau (Global Equities) +43 (0)5 0100 16574
Carmen Riefler-Kowarsch (Financials & Covered Bonds) +43 (0)5 0100 19632
Rainer Singer (Euro, US) +43 (0)5 0100 17331
Bernadett Povazsai-Römhild, CEFA (Corporate Bonds) +43 (0)5 0100 17203
Elena Statelov, CIIA (Corporate Bonds) +43 (0)5 0100 19641
Gerald Walek, CFA (Euro, CHF) +43 (0)5 0100 16360

CEE Equity Research

Head: Henning Eßkuchen +43 (0)5 0100 19634
Daniel Lion, CIIA (Technology, Ind. Goods&Services) +43 (0)5 0100 17420
Michael Marschallinger, CFA +43 (0)5 0100 17906
Nora Nagy (Telecom) +43 (0)5 0100 17416
Christoph Schultes, MBA, CIIA (Real Estate) +43 (0)5 0100 11523
Thomas Unger, CFA (Banks, Insurance) +43 (0)5 0100 17344
Vladimira Urbankova, MBA (Pharma) +43 (0)5 0100 17343
Martina Valenta, MBA +43 (0)5 0100 11913

Croatia/Serbia

Mladen Dodig (Head) +381 11 22 09178
Anto Augustinovic +385 72 37 2833
Magdalena Dolenc +385 72 37 1407
Davor Spoljar, CFA +385 72 37 2825

Czech Republic

Petr Bartek (Head) +420 956 765 227
Marek Dongres +420 956 765 218
Jan Safranek +420 956 765 218

Hungary

József Miró (Head) +361 235 5131
András Nagy +361 235 5132
Tamás Pletser, CFA +361 235 5135

Poland

Tomasz Duda (Head) +48 22 330 6253
Cezary Bernatek +48 22 538 6256
Konrad Grygo +48 22 330 6254
Michal Pilch +48 22 330 6255
Emil Poplawski +48 22 330 6252
Marcin Gornik +48 22 330 6251

Romania

Caius Rapanu +40 3735 10441

Turkey

Gizem Akkan +90 2129120445
Berke Gümüs +90 2129120445

Group Institutional & Retail Sales

Group Institutional Equity Sales

Head: Brigitte Zeitlberger-Schmid +43 (0)5 0100 83123

Cash Equity Sales

Werner Fuerst +43 (0)5 0100 83121
Josef Kerekes +43 (0)5 0100 83125
Cormac Lyden +43 (0)5 0100 83120

Institutional Equity Sales Croatia

Damir Eror (Equity) +385 72 37 28 36

Institutional Sales Czech Republic

Head: Michal Rizek +420 224 995 537
Pavel Krabicka (Equity) +420 224 995 411
Martin Havlan (Equity) +420 224 995 551

Institutional Sales Hungary

Head: Peter Csizmadia +36 1 237 8211
Levente Nándori (Equity) +361 235 5141
Attila Preisz (Equity) +361 235 5140
Balázs Zánkay (Equity) +361 235 5156

Institutional Equity Sales Poland

Jacek Jakub Langer (Head) +4822 330 6265
Wojciech Wysocki (Equity) +4822 538 6219
Przemyslaw Nowosad (Equity) +4822 538 6266
Grzegorz Stepień (Equity) +4822 330 6211

Institutional Equity Sales Romania

Liviu George Avram +40 3735 16569

Group Markets Retail Sales

Head: Christian Reiss +43 (0)5 0100 84012

Markets Retail Sales AT

Head: Markus Kaller +43 (0)5 0100 84239

Group Markets Execution

Head: Kurt Gerhold +43 (0)5 0100 84232

Retail & Sparkassen Sales

Head: Uwe Kolar +43 (0)5 0100 83214

Corporate Treasury Prod. Distribution

Head: Christian Skopek +43 (0)5 0100 84146

Institutional Distribution CEE

Jaromir Malak +43 (0)5 0100 84254
Antun Buric +43 (0)5 0100 11387
Ciprian Mitu +43 (0)5 0100 85612

Institutional Distribution non CEE

Margit Hraschek +43 (0)5 0100 84117
Bernd Thaler +43 (0)5 0100 84119
Thomas Rakosi +43 (0)5 0100 84116

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Group Research
1100 Vienna, Austria, Am Belvedere 1
Head Office: Wien
Commercial Register No: FN 33209m
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Erste Group Homepage: www.erstegroup.com