

Bogdanka SA - Buy

Target Price: PLN 46.10 | Close as of 20/01/2020: PLN 34.00

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4Q'19 preliminary EBITDA below our estimates, but justified by deteriorating market fundamentals

LW Bogdanka reported preliminary 4Q'19 figures with following highlights:

- EBITDA of PLN 158.1mn i.e. down 11% q/q and 29% below our estimates based on our 2019 forecasts
- EBITDA per tonne of PLN 68.8 i.e. down 11% q/q and the lowest figure of 2019
- Net income of PLN 45.5mn i.e. down 31% q/q and 37% below our 2019 implied forecasts
- Coal production of 2.32mn tonnes i.e. up 6% y/y and up 1% q/q
- Coal sales volume of 2.3mn tonnes i.e. up 7% y/y and flat q/q
- Implied coal price of PLN 234.4/t i.e. up 15.7% y/y and flat q/q - our estimate
- Implied unit cash cost of PLN 165/t i.e. down 3.5% y/y with higher y/y sales volumes allowing to offset growth of nominal costs
- Coal inventories up to 179k tonnes from 89k tonnes a year ago

OPINION. NEUTRAL

LW Bogdanka's preliminary figures are well below our estimates implied by 2019 forecasts from our November report. However significant deterioration of market fundamentals seen in Nov-Dec period makes us see the reported performance as neutral - given the collapsing market demand.

Power generation from hard coal was down by 3.1% in 10'19, but Nov-Dec data showed the declines by 14% y/y in each of these months resulting in 4Q'19 power generation from hard coal being down by 10.5% y/y (and down 5.1% y/y in 2019). Despite these severe headwinds of double digit declines of demand, LW Bogdanka managed to increase sales volumes by nearly 7% y/y, which we see as a strong performance.

At the same time LW Bogdanka continued to benefit from high coal prices and managed to keep the lid on unit mining cash cost, which indicate awareness of Management of potential risks of current market situation. Coal inventories at mines sites amounted to 4.8mn tonnes at the end of November, while coal inventories at power plants amounted to 7.55mn tonnes (end of 3Q'19) - the highest since 4Q'15. We expect challenging market situation to become even more challenging in 2020e, which makes us see solid cost performance seen in 4Q'19 as a must.

LW Bogdanka, Key figures, PLN mn

P&L (PLN m)	4Q18	1Q19	2Q19	3Q19	4Q19	YoY	QoQ	2018	2019	Y/Y
Revenues	421.0	540.8	557.5	527.8	531.7	26%	1%	1 757	2 158	23%
EBITDA	69.7	222.9	211.6	176.9	158.1	127%	-11%	469	769	64%
EBITDA excl. one-offs	69.7	200.2	211.6	176.9	158.1	127%	-11%	439	747	70%
Operating profit	-30.6	128.0	113.8	77.9	56.1	na	na	62	376	506%
Net profit - recurring	-22.3	109.8	87.9	66.0	45.5	na	na	54	309	477%
Operational data	4Q18	1Q19	2Q19	3Q19	4Q19	YoY	QoQ	2018	2019	YoY
Coal production, k tonnes	2 187	2 532	2 293	2 302	2 324	6%	1%	9 008	9 451	4.9%
Coal sales volume, kt	2 155	2 365	2 405	2 291	2 298	7%	0%	8 943	9 359	4.7%
Inventories, thousand tonnes	89.0	256.0	144.0	153.0	179.0					
Coal price PLN/t (1)	189	222.5	226.9	226.1	193.1	2%	-15%			
Coal price PLN/t (2)	202.6	233.3	235.8	234.4	234.4	16%	0%			
Unit cash cost PLN/t (2)	171.4	146.3	148.1	157.2	165.5	-3%	5%			
EBITDA per tonne (1)	32.4	94.2	88.0	77.2	68.8	113%	-11%			

Source: Company, Erste Group Research

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