

Bogdanka SA - Buy

Target Price: PLN 46.10 | Close as of 18/02/2020: PLN 25.35

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CEO: production rate cut by 25% till the end of Feb

Mr. A. Wasil – CEO of LW Bogdanka informed that Company cut its daily production rate by 25% i.e. to 24k tonnes till the end of February due to tough market situation related to warm winter and rising coal inventories. The decision was agreed with key client – Enea.

CEO sees current situation as temporary, though the possibility of extending the end of curtailment was also mentioned.

OPINION: **NEGATIVE**

LW Bogdanka had coal inventories of only 179 thousand tonnes at the end of 2019 i.e. only 1.9% of annual production, while inventories of Upper Silesian mines (PGG, JSW, Tauron) amounted to 10% of their annual production.

Again LW Bogdanka is forced to resuscitate Upper Silesian mines at its own expense, despite being able to sell all the coal on the market.

If the curtailment was to last only for 2 weeks hence the lost production would amount to only 72k tonnes, while if it was to last till the end of March then lost production would amount to 270k tonnes – according to our estimates.

If the curtailment was to last for the whole year then the lost production would amount to 2.35mn tonnes and 2020e production would amount to c. 7.3mn tonnes.

If the curtailment was to last for the whole year then our 2020e net profit forecast would likely need to be cut by c. 45% to PLN 157mn and this estimate assumes 2% y/y growth of coal prices, while coal price declines seem more and more likely in 2H'20. At reduced production rate by 25% the decline of coal price by 8% y/y would result in net profit coming down to zero (or the decline of coal price by 14% y/y at normal production rate of 9.4mn tonnes) – according to our estimates.

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