

Bogdanka SA - Sell

Target Price: PLN 18.80 | Close as of 25/03/2020: PLN 16.20

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Final 4Q'19 figures in line with preliminary with strong cash flows and high 2020 capex guidance

LW Bogdanka presented final 4Q'19 figures with following highlights:

- EBITDA of PLN 156.2mn i.e. 1% below preliminary
- Unit EBITDA of PLN 68/t vs. PLN 77/t in 3Q19 and the lowest throughout 2019
- Net income of PLN 44.8mn i.e. 1.6% below preliminary figures
- Very strong cash flow with FCF of PLN 92.6mn in 4Q'19 and PLN 244mn in 2019
- Operational cash flow equal to 132% of reported EBITDA in Q4
- Capex of PLN 114mn in Q4 and PLN 477mn in 2019, which means that capex guidance was delivered in 80% (i.e. revised down capex guidance) or in 71% (initial capex guidance from a year ago)
- As a result net cash position jumped to PLN 369mn (vs. our forecast of PLN 240mn)
- Unit cash cost of PLN 163.7/t i.e. down 4.5% y/y and slightly below our forecast of 3.5% decline - lower than expected volume of preparatory works (down 11% y/y was supportive here)
- Coal price of PLN 233/t i.e. just slightly below PLN 234.4/t expected by us
- Coal yield of 61.6% - the lowest throughout 2019
- Capex guidance for 2020 of PLN 654mn, which would imply 60% y/y growth
- Covid19 impact - none so far in terms of production/sales volumes, though the risk of impacting the business in future remains

OPINION. NEUTRAL

LW Bogdanka delivered final Q4 figures virtually in line with preliminary figures with deviations of a mere 1% in case of P&L figures. Also the pricing and unit cost performance was solid and not surprising.

On the positive note, we see much stronger than expected cash flows performance, which stems both from stronger than expected operational cash flows (not sustainable) and from lower than expected capex (even revised down capex guidance delivered in only 80%). This offers LW Bogdanka a much better starting point in 2020.

However, 2020 capex guidance implying 60% y/y growth of capex is well above our expectations and implies much poorer cash flows outlook in 2020. If LW Bogdanka were to deliver capex guidance in only 80% as it did in 2019 then it would be close to our capex forecast of PLN 500mn. However we note that LW Bogdanka has not usually missed capex

guidance by such a wide margins in the past as the delivery of guidance amounted to 93% in 2018 and 97% in 2017. Such a capex puts a pressure on cash flows at the time when coal inventories in Poland approach record high levels (which already resulted in lowering production rate by LWB in February) and which might be further escalated by lockdown of Polish economy due to covid19 pandemic (likely weak power consumption in March/April to reduce demand for coal). Hence the risks remain high for upcoming quarters for LW Bogdanka, in our view, which makes us reiterate our forecasts and recommendation.

LW Bogdanka, Key figures, PLN mn

P&L (PLN m)	4Q18	1Q19	2Q19	3Q19	4Q19	YoY	QoQ
Revenues	421.0	540.8	557.5	527.8	531.7	26%	1%
Gross profit on sales	5.3	145.2	147.0	123.2	96.2	1725%	-22%
SG&A	-38.5	-34.4	-33.7	-43.0	-42.2	10%	-2%
Profit from sales	-33.2	110.8	113.3	80.2	54.1	-263%	-33%
Other income/ (expense), net	2.6	17.1	0.6	-2.3	1.5		
EBITDA	69.7	222.9	211.6	176.9	156.2	124%	-12%
EXBITDA excl. one-offs	69.7	200.2	211.6	176.9	156.2	124%	-12%
Operating profit	-30.6	128.0	113.8	77.9	55.5	na	na
Financial income / (expense)	2.6	3.8	-2.6	1.6	0.5		
Profit before tax	-27.9	131.8	111.3	79.4	56.1		
Income tax expense	5.7	-21.8	-23.3	-13.4	-11.3		
Net profit - recurring	-22.3	109.8	87.9	66.0	44.8	na	na
Operational data	4Q18	1Q19	2Q19	3Q19	4Q19	YoY	QoQ
Coal production, k tonnes	2 187	2 532	2 293	2 302	2 323	6%	1%
Coal sales volume, kt	2 155	2 365	2 405	2 291	2 298	7%	0%
Inventories, thousand tonnes	89.0	256.0	144.0	153.0	178.0		
Coal price PLN/t (1)	189	222.5	226.9	226.1	226.0	19%	0%
Coal price PLN/t (2)	202.6	233.3	235.8	234.4	232.9	15%	-1%
Unit cash cost PLN/t (2)	171.4	146.3	148.1	157.2	163.7	-4%	4%
EBITDA per tonne (1)	32.4	94.2	88.0	77.2	68.0	110%	-12%
EBITDA per tonne (2)	32.4	84.7	88.0	77.2	68.0	110%	-12%
OCF	99	150.3	183.3	180.9	206.5		
Capex	113	148.0	91.7	123.5	113.9		
Free cash flow	-15	2.2	91.6	57.4	92.6		
Net debt (cash)	-124	-134	-227	-263	-369		
BVPS	86.4	89.7	91.5	93.4	94.6		

Source: Company, Erste Group Research

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