

Bogdanka SA - Sell

Target Price: PLN 18.80 | Close as of 21/05/2020: PLN 18.78

Analyst:

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

1Q20 in line with preliminary

Bogdanka presented final 1Q20 figures with following highlights:

- EBITDA of PLN 135mn i.e. in line with preliminary
- Unit EBITDA of PLN 70/t (vs. PLN 68/t in 4Q19)
- Net income of PLN 34mn in line with preliminary
- Very weak cash flow with FCF of PLN -122mn in 1Q20
- Operating cashflow PLN 77mn (vs. PLN 150mn a year ago)
- High Capex of PLN 200mn (vs. PLN 148mn a year ago)
- As a result net cash position declined to PLN 227mn (vs. PLN 114mn in 4Q19).
- Unit cash cost of PLN 172/t i.e. up 19% y/y.
- Coal inventories were up by 28% and amounted to 330kt.
- Coal price of PLN 242/t (+4% y/y).
- Coal yield of 66% (vs. 63% in 4Q19)

OPINION: **SLIGHTLY NEGATIVE**

We expect slightly negative market reaction as on the one hand results were in line with preliminary figures and on the other company posted weak FCF figures.

We point high level of units cost of PLN 172/t (+19% y/y), which increase in our view primarily due to much lower coal production which amounted to 2.1mt (-18% y/y).

On the negative side we see FCF performance of PLN -122mn (vs. PLN 2.2mn a year ago), which is primarily due to much higher capex of PLN 200mn (vs. PLN 148mn a year ago) and much weaker operating cashflow of PLN 77mn (vs. PLN 150mn a year ago). Weaker operating cashflow is primarily due to much lower gross profit before tax.

As a result of weak FCF performance net cash position decreased to PLN 227mn (vs. PLN 350mn in 4Q19).

In the light of lower demand for coal we expect that company may face problems with the sale of all coal production.

LWB 1Q20

		1Q19	2Q19	3Q19	4Q19	1Q20	y/y	prelim. vs. prelim.
Revenues	PLNm	541	558	528	532	464	-14%	464 0%
Gross profit on sales	PLNm	145	147	123	96	82	-43%	
EBITDA adj.	PLNm	200	212	177	156	135	-33%	
EBITDA	PLNm	223	212	177	156	135	-40%	134.80 0%
EBIT	PLNm	128	114	78	56	45	-65%	44.90 0%
Financial cost net	PLNm	4	-3	2	1	-1	n.a.	
Profit before tax	PLNm	132	111	79	56	44	-67%	
Income Tax	PLNm	-22	-23	-13	-11	-10	n.a.	n.a.
Net Income	PLNm	110	88	66	45	34	-70%	33.70 -1%
Net income att.	PLNm	110	88	66	45	34	-69%	
Operational data								n.a.
Coal Production	mt	2.5	2.3	2.3	2.4	2.1	-18%	
Coal Yield	%	65%	66%	63%	63%	66%	1%	n.a.
Coal Sales	mt	2.4	2.4	2.3	2.3	1.9	-19%	
Inventories	mt	0.26	0.14	0.15	0.18	0.33	28%	
Coal Price (1)	PLN/t	223	227	226	226	235	6%	
Coal Price (2)	PLN/t	233	236	234	233	242	4%	
Unit cash cost	PLN/t	-144	-144	-153	-163	-172	n.a.	
EBITDA/t (1)	PLN/t	85	88	77	68	70	-17%	
EBITDA/t (2)	PLN/t	94	88	77	68	70	-25%	
OCF	PLNm	150	183	181	207	77	-49%	
CAPEX	PLNm	-148	-92	-123	-114	-200	n.a.	
FCF	PLNm	2.22	91.58	57.44	92.60	-122.18	n.a.	
Net Debt (Cash)	PLNm	-137	-247	-283	-350	-227	n.a.	

Source: Company, Erste Group Research

Disclaimer

This investment research (the "Document") has been prepared by Erste Group Bank AG or any of its consolidated subsidiaries (together with consolidated subsidiaries "Erste Group") independently and objectively for the purpose of providing additional economical information about the analyzed company or companies. The Document is based on reasonable knowledge of Erste Group's analyst in charge of producing the Document as of the date thereof and may be amended from time to time without further notice. It only serves for the purpose of providing non-binding information and does not constitute investment advice or investment recommendations. This Document does not constitute or form part of, and should not be construed as, an offer, recommendation or invitation to subscribe for or purchase any securities, and neither this Document nor anything contained herein shall form the basis of or be relied on in connection with or act as an inducement to enter into any contract or inclusion of a security or financial product in a trading strategy. All information, analysis and conclusions provided herein are of general nature. This Document does not purport to provide a comprehensive overview about any investment, the potential risks and results nor does this Document take into account any individual needs of an investor (the "Investor") in relation to proceeds, tax aspects, risk awareness and appropriateness of the security or financial product. Therefore, this Document does not replace any investor- and investment-related evaluation nor any comprehensive risk disclosure; any security or financial product has a different risk level. Performance charts and example calculations do not provide any indication for future performance of the security or the financial product. Information about past performance does not necessarily guarantee a positive development in the future and investments in securities or financial products can be of risk and speculative nature. The weaker the Company's credit-worthiness is, the higher the risk of an investment will be. Not every investment is suitable for every investor. Therefore,

Investors shall consult their advisors (in particular legal and tax advisors) prior to taking any investment decision to ensure that – irrespective of information provided herein – the intended purchase of the security or financial product is appropriate for the Investor's needs and intention, that the Investor has understood all risks and that, after due examination, the Investor has concluded to make the investment and is in a position to bear the economical outcome of such investment. Investors are advised to mind the client information pursuant to the Austrian Securities Supervision Act 2018. Investment research is produced by Erste Group's division for investment research within the framework provided by applicable laws. The opinions featured in the equity and credit research reports may vary. Investors in equities may pursue different interests compared to those of investors on the credit side, related to the same issuer. The analyst has no authority whatsoever to make any representation or warranty on behalf of the analyzed Company, Erste Group, or any other person. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable, Erste Group (including its representatives and employees) neither expressly nor tacitly makes any guarantee as to or assumes any liability for the up-to-dateness, completeness and correctness of the content of this Document. Neither a company of Erste Group nor any of its respective managing directors, supervisory board members, executive board members, directors, officers or other employees shall be in any way liable for any costs, losses or damages (including subsequent damages, indirect damages and loss of profit) howsoever arising from the use of or reliance on this Document. Erste Group, associated companies as well as representatives and employees may, to the extent permitted by law, have a position in the securities of (or options, warrants or rights with respect to, or interest in the financial instruments or other securities of) the Company. Further, Erste Group, associated companies as well as representatives and employees may offer investment services to the Company or may take over management function in the Company. This Document has been produced in line with Austrian law and for the territory of Austria. Forwarding this Document as well as marketing of financial products described herein are restricted or interdicted in certain jurisdictions. This, in particular, applies to the United States, Canada, Switzerland, Australia, Korea and Japan. In particular, neither this Document nor any copy hereof may be taken or transmitted or distributed, directly or indirectly, into the United States or to US Persons (as defined in the U.S. Securities Act of 1933, as amended) unless applicable laws of the United States or certain federal states of the United States provide for applicable exemptions. Any failure to comply with these restrictions may constitute a violation of the laws of any such other jurisdiction. Persons receiving possession of this Document are obliged to inform themselves about any such restrictions and to adhere to them. By accepting this Document, the recipient agrees to be bound by the foregoing limitations and to adhere to applicable regulations. Further information may be provided by Erste Group upon request. This Document and information, analysis, comments and conclusions provided herein are copyrighted material. **Erste Group reserves the right to amend any opinion and information provided herein at any time and without prior notice. Erste Group further reserves the right not to update any information provided herein or to cease updates at all.** All information provided in this Document is non-binding. Misprints and printing errors reserved.

If one of the clauses provided for in this disclaimer is found to be illicit, inapplicable or not enforceable, the clause has to be treated separately from other clauses provided for in this disclaimer to the largest extent possible. In any case, the illicit, inapplicable or not enforceable clause shall not affect the licitness, applicability or enforceability of any other clauses.

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 Arokszallasi, 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
Nicole Gawlasova +420 956 765 456

Hungary
Orsolya Nyeste +361 268 4428

Romania
Ciprian Dascalu (Head) +40 3735 10108
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 Povaszai-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

Group Institutional & Retail Sales

Group Institutional Equity Sales
Head: Brigitte Zeitberger-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
Jiri Feres (Equity) +420 224 995 554

Institutional Sales Hungary
Head: Peter Csizmadia +36 1 237 8211
Levente Nándori (Equity) +361 235 5141
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 Stepien (Equity) +4822 330 6211

Institutional Equity Sales Romania
Liviu George Avram +40 3735 16569

Group Markets Retail and Agency Business
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
Bernad Thaler +43 (0)5 0100 84119
Thomas Rakosi +43 (0)5 0100 84116

Important Disclosures

THIS DOCUMENT MAY NOT BE TAKEN, TRANSMITTED OR DISTRIBUTED INTO THE UNITED STATES, CANADA, SWITZERLAND, AUSTRALIA, KOREA OR JAPAN OR TO ANY U.S. PERSON OR TO ANY INDIVIDUAL OUTSIDE CANADA, AUSTRALIA, SWITZERLAND, KOREA OR JAPAN WHO IS A RESIDENT OF THE UNITED STATES, CANADA, SWITZERLAND, AUSTRALIA, KOREA OR JAPAN OR TO THE PRESS IN THESE COUNTRIES.

General disclosures

All recommendations given by Erste Group Research are independent, objective and are based on the latest company, industry and other general information publicly available which Erste Group Research considers being reliable; however, we do not represent or assume any liability for the completeness of accuracy of such information or our recommendation. The best possible care and integrity is used to avoid errors and/or misstatements. No influence on the rating and/or target price is being exerted by either the covered company or other internal departments of Erste Group. Each research drawn up by an analyst is reviewed by a senior research executive or agreed with a senior analyst/deputy (4-eyes-principle). Erste Group has implemented extensive Compliance Rules on personal account dealings of analysts (please see "Conflicts of Interest"). Analysts are not allowed to involve themselves in any paid activities with the covered companies except as disclosed otherwise. No part of their compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or views expressed by them contained in this document. Erste Group may engage in transactions with financial instruments, on a proprietary basis or otherwise, in a manner inconsistent with the view taken in this research report. In addition, others within Erste Group, including strategists and sales staff, may take a view that is inconsistent with that taken in this research report.

Conflicts of Interest

Disclosures of potential conflicts of interest relating to Erste Group Bank AG, its affiliates or branches and its relevant representatives and employees with respect to the issuers, financial instruments and/or securities forming the subject of this document are updated daily.

For an overview of conflicts of interests for all analysed companies by Erste Group in Equity Research please follow following link: <https://produkte.erstegroup.com/Retail/en/ResearchCenter/Overview/Disclaimer/index.phtml>.

Erste Group Bank AG ensures with internal policies that conflicts of interest are managed in a fair manner. The policy „Managing Conflict of Interest in Connection with Investment Research“ are provided under the following link:

<https://produkte.erstegroup.com/Retail/en/ResearchCenter/Overview/Disclaimer/index.phtml>.

Erste Group rating definitions

Buy	> +20% to target price
Accumulate	+10% < target price < +20%
Hold	0% < target price < +10%
Reduce	-10% < target price < 0%
Sell	< -10% to target price

Our target prices are established by determining the fair value of stocks, taking into account additional fundamental factors and news of relevance for the stock price (such as M&A activities, major forthcoming share deals, positive/negative share/sector sentiment, news) and refer to 12 months from now. All recommendations are to be understood relative to our current fundamental valuation of the stock. The recommendation does not indicate any relative performance of the stock vs. a regional or sector benchmark.

A history of all recommendations within the last 12 months is provided under the following link:

<https://produkte.erstegroup.com/Retail/en/ResearchCenter/Overview/Disclaimer/index.phtml>.

Explanation of valuation parameters and risk assessment

Unless otherwise stated in the text of the financial investment research, target prices in the publication are based on a discounted cash flow valuation and/or comparison of valuation ratios with companies seen by the analyst as comparable or a combination of the two methods. The result of this fundamental valuation is adjusted to reflect the analyst's views on the likely course of investor sentiment. Whichever valuation method is used there is a significant risk that the target price will not be achieved within the expected timeframe. Risk factors include unforeseen changes in competitive pressures or in the level of demand for the company's products. Such demand variations may result from changes in technology, in the overall level of economic activity or, in some cases, from changes in social values. Valuations may also be affected by changes in taxation, in exchange rates, in the capital market sentiment and in regulatory provisions. Investment in overseas markets and instruments such as ADRs can result in increased risk from factors such as exchange rates, exchange controls, taxation, political, economic and social conditions.

All market prices within this publication are closing prices of the previous trading day (unless otherwise mentioned within the publication).

Detailed information about the valuation and methodology of investment research by the Erste Group Bank AG is provided under the following link:

<https://produkte.erstegroup.com/Retail/en/ResearchCenter/Overview/Disclaimer/index.phtml>.

Planned frequency of updates for recommendations

Target prices for individual stocks are meant to be 12 month target prices, starting from the date of the publication. Target prices and recommendations are reviewed usually upon release of quarterly reports, or whenever circumstances require.

Periodical publications are identified by their respective product name and indicate update frequency as such (e.g. Quarterly). Recommendations mentioned within these publications are updated in an according frequency, unless otherwise mentioned (e.g. a 12M TP is not updated on a monthly base, even when mentioned in summarizing monthly/quarterly product).

Erste Group Research

Flash note | Industrial Metals & Mining | Poland

22 May 2020

Links

Erste Group may provide hyperlinks to websites of entities mentioned in this document, however the inclusion of a link does not imply that Erste Group endorses, recommends or approves any material on the linked page or accessible from it. Erste Group does not accept responsibility whatsoever for any such material, including in particular the completeness and accuracy, nor for any consequences of its use.

Additional notes to readers in the following countries:

Austria: Erste Group Bank AG is registered in the Commercial Register at Commercial Court Vienna under the number FN 33209m. Erste Group Bank AG is authorized and regulated by the European Central Bank (ECB) (Sonnenmannstraße 20, D-60314 Frankfurt am Main, Germany) and by the Austrian "Finanzmarktaufsichtsbehörde" (FMA) (Otto-Wagner Platz 5, A-1090, Vienna, Austria).

Germany: Erste Group Bank AG is authorised for the conduct of investment business in Germany by the Austrian Financial Market Authority (FMA) and subject to limited regulation by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

United Kingdom: Erste Group Bank AG is regulated for the conduct of investment business in the UK by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). This document is directed exclusively to eligible counterparties and professional clients. It is not directed to retail clients. No persons other than an eligible counterparty or a professional client should read or rely on any information in this document. Erste Group Bank AG does not deal for or advise or otherwise offer any investment services to retail clients.

Czech Republic: Česká spořitelna, a.s. is regulated for the conduct of investment activities in Czech Republic by the "Česká Národní Banka" (CNB).

Croatia: Erste Bank Croatia is regulated for the conduct of investment activities in Croatia by the "Hrvatska Agencija za Nadzor Financijskih Usluga" (HANFA).

Hungary: Erste Bank Hungary ZRT. and Erste Investment Befektetési Zrt. are regulated for the conduct of investment activities in Hungary by the Magyar Nemzeti Bank" (MNB).

Serbia: Erste Group Bank AG is regulated for the conduct of investment activities in Serbia by the Komisija za hartije od vrijednosti Republike Srbije" (SECRS).

Romania: Banca Comerciala Romana is regulated for the conduct of investment activities in Romania by the "Autoritatea de Supraveghere Financiară" (ASF).

Poland: Erste Securities Polska S.A. is regulated for the conduct of investment activities in Poland by the "Komisja Nadzoru Finansowego" (KNF).

Slovakia: Slovenská sporiteľňa, a.s. is regulated for the conduct of investment activities in Slovakia by the "Národná banka Slovenska" (NBS).

Switzerland: This research report does not constitute a prospectus or similar communication in connection with an offering or listing of securities as defined in Articles 652a, 752 and 1156 of the Swiss Code of Obligation and the listing rules of the SIX Swiss Exchange.

Hong Kong: This document may only be received in Hong Kong by 'professional investors' within the meaning of Schedule 1 of the Securities and Futures Ordinance (Cap.571) of Hong Kong and any rules made there under.

© Erste Group Bank AG 2020. All rights reserved.

Published by:

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