

## Bogdanka SA - Sell

Target Price: PLN 18.80 | Close as of 14/07/2020: PLN 21.90

**Analyst:**

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

### 2Q'20 EBITDA down 59% y/y. 2020 production guidance cut to 8.2mn tonnes - NEGATIVE

LW Bogdanka reported preliminary 2Q'20 figures with following highlights:

- EBITDA of PLN 86.3mn i.e. down 59% y/y driven by lower volumes
- EBITDA per tonne of PLN 53.8 i.e. down 39% y/y
- Net profit of PLN 3.2mn down 96% y/y
- Coal production of 1.63mn tonnes i.e. down 29% y/y
- Coal sales volume of 1.6mn tonnes i.e. down 33% y/y
- Implied coal price of PLN 239/t i.e. up 1.5% y/y - our estimate
- Implied unit cash cost of PLN 180/t i.e. up 23% y/y - our estimate
- 2020 production guidance cut to 8.2mn tonnes from 9.0-9.4mn tonnes previously (and vs. 8.5mn included in our forecasts)
- Management attributes low volumes to warm winter in 1Q'20 and to low power demand due to covid19 pandemic

#### OPINION. NEGATIVE

*We see Q2 figures negatively due to:*

- *the decline of coal sales volume of 33% y/y was much higher than decline of power generation from hard coal in Poland of 21% y/y in 2Q'20, which means that LW Bogdanka lost market share*
- *2020 production guidance implies quarterly production of 2.25mn tonnes in 2H'20, which might prove challenging in our view, given the ongoing depressed demand for power and high coal inventories.*
- *lack of flexibility with pricing in such an environment proves that market reasons are not the only ones behind business model of LW Bogdanka*

*On the other hand the cost implied cost performance is seen favourably by us as despite 23% growth of unit cash cost, still our estimates indicate 19% y/y decline of nominal cash costs, which we see as solid performance.*

**All in all, we see both Q2 figures as well as 2H'20 outlook negatively with still potential for negative surprises seen by us. Our 2020 EBITDA forecast of PLN 663mn seems to be at rising risk of downward revision, unless situation materially improves in 3Q'20.**

**LW Bogdanka, Key figures, PLN mn, 1Q'19 - 2Q'20**

<b>P&amp;L (PLN m)</b>	<b>1Q19</b>	<b>2Q19</b>	<b>3Q19</b>	<b>4Q19</b>	<b>1Q20</b>	<b>2Q20</b>	<b>YoY</b>	<b>QoQ</b>
<b>Revenues</b>	<b>540.8</b>	<b>557.5</b>	<b>527.8</b>	<b>531.7</b>	<b>464.1</b>	<b>384.9</b>	<b>-31%</b>	<b>-17%</b>
<b>EBITDA</b>	<b>222.9</b>	<b>211.6</b>	<b>176.9</b>	<b>156.2</b>	<b>134.8</b>	<b>86.3</b>	<b>-59%</b>	<b>-36%</b>
<b>EXBITDA excl. one-offs</b>	<b>200.2</b>	<b>211.6</b>	<b>176.9</b>	<b>156.2</b>	<b>134.8</b>	<b>86.3</b>	<b>-59%</b>	<b>-36%</b>
<b>Operating profit</b>	<b>128.0</b>	<b>113.8</b>	<b>77.9</b>	<b>55.5</b>	<b>44.9</b>	<b>5.0</b>	<b>-96%</b>	<b>-89%</b>
<b>Net profit - recurring</b>	<b>109.8</b>	<b>87.9</b>	<b>66.0</b>	<b>44.8</b>	<b>33.5</b>	<b>3.2</b>	<b>-96%</b>	<b>-91%</b>
<b>Operational data</b>	<b>1Q19</b>	<b>2Q19</b>	<b>3Q19</b>	<b>4Q19</b>	<b>1Q20</b>	<b>2Q20</b>	<b>YoY</b>	<b>QoQ</b>
Coal production, k tonnes	2 532	2 293	2 302	2 323	2 066	1 631	-29%	-21%
Coal sales volume, kt	2 365	2 405	2 291	2 298	1 918	1 604	-33%	-16%
Inventories, thousand tonnes	256.0	144.0	153.0	178.0	326.0	353.0	145%	8%
Coal price PLN/t (1)	223	227	226.1	226.0	234.9	231.4	2%	-1%
<b>Coal price PLN/t (2)</b>	<b>233.3</b>	<b>235.8</b>	<b>234.4</b>	<b>232.9</b>	<b>241.6</b>	<b>239.4</b>	<b>1%</b>	<b>-1%</b>
Unit cash cost PLN/t (2)	146.3	148.1	157.2	163.7	171.8	180.0	17%	5%
<b>EBITDA per tonne (1)</b>	<b>94.2</b>	<b>88.0</b>	<b>77.2</b>	<b>68.0</b>	<b>70.3</b>	<b>53.8</b>	<b>-25%</b>	<b>3%</b>

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 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 Doleneć +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

Bernd Thaler +43 (0)5 0100 84119

Thomas Rakosi +43 (0)5 0100 84116

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