

## Bogdanka SA - Sell

Target Price: PLN 18.80 | Close as of 14/10/2020: PLN 17.76

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### Preliminary 3Q'20 net loss of PLN 1.8mn

LW Bogdanka published preliminary 3Q'20 figures with following highlights:

- EBITDA of PLN 96.5mn i.e. down 45% y/y (vs. 59% y/y decline in 2Q'20)
- EBITDA per tonne of PLN 44.3 i.e. down 43% y/y (vs. PLN 77 in 3Q'19 and PLN 54 in 2Q'20)
- Net loss of PLN 1.8mn
- Coal production of 1.84mn tonnes i.e. down 20% y/y
- Coal sales volume of 2.17mn tonnes i.e. down 5% y/y
- Implied coal price of PLN 232/t i.e. down 1% y/y – our estimate
- Unit cash cost of PLN 188/t i.e. up 27% y/y
- Revised down 2020 guidance implies Q4 production of 1.86mn tonnes i.e. just 1% up q/q

### OPINION: **NEGATIVE**

2Q'20 figures of LW Bogdanka are seen negatively by us due to:

- Production problems that are guided to persist into 4Q'20
- High growth of unit cash cost as well as high growth of nominal cash costs (in contrast with solid cost performance seen in 1H'20)
- The decline of coal price (as estimated by us), which might be a start of downward trend given the market demand – supply situation

*On the positive note we would see solid sales volume, which was the highest since 4Q'19 and which allowed to sell down virtually all inventories. However, this also means that such an inventory support to P&L will not be possible in 4Q'20 as very low inventories are coupled with announced low production. Because of that we would see rising probability of another net loss in 4Q'20 (due to depressed volumes guidance coupled with limited cost savings potential and no upside in pricing).*

*The key information for shareholders is now likely to be 2021 pricing and volumes outlook, which given the market trends in Polish coal and power sectors is expected by us to offer limited positive surprises potential.*

**LW Bogdanka, Key figures, 2019 - 2020**

| P&L (PLN m)                   | 3Q19  | 4Q19  | 1Q20  | 2Q20  | 3Q20  | YoY  | QoQ  |
|-------------------------------|-------|-------|-------|-------|-------|------|------|
| <b>Revenues</b>               | 527.8 | 531.7 | 464.1 | 384.9 | 504.5 | -4%  | 31%  |
| <b>EBITDA</b>                 | 176.9 | 156.2 | 134.8 | 86.3  | 96.5  | -45% | 12%  |
| <b>EXBITDA excl. one-offs</b> | 176.9 | 156.2 | 134.8 | 86.3  | 96.5  | -45% | 12%  |
| <b>Operating profit</b>       | 77.9  | 55.5  | 44.9  | 5.0   | 0.8   | -99% | -83% |
| <b>Net profit - recurring</b> | 66.0  | 44.8  | 33.5  | 3.2   | -1.8  | na   | na   |
| Operational data              | 3Q19  | 4Q19  | 1Q20  | 2Q20  |       | YoY  | QoQ  |
| Coal production, k tonnes     | 2 302 | 2 323 | 2 066 | 1 631 | 1 841 | -20% | 13%  |
| Coal sales volume, kt         | 2 291 | 2 298 | 1 918 | 1 604 | 2 178 | -5%  | 36%  |
| Inventories, thousand tonnes  | 153.0 | 178.0 | 326.0 | 353.0 | 16.0  | -90% | -95% |

Source: Company, Erste Group Research

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