

## Bogdanka SA - Sell

Target Price: PLN 18.80 | Close as of 16/12/2020: PLN 19.00

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### Unrealistic 2030 strategy

LW Bogdanka published 2030 strategy with perspective to 2040 with following highlights:

- Key goal is to maintain the position of the leader of thermal coal supplier to power plants while being competitive to imports via high efficiency and profitability of production due to innovative solutions
- Diversification to semi-soft coking coal grades and finding hard coking coal
- Expansion to non-core business
- Average annual production volume of thermal coal of 9.7mn tonnes in 2021-25 period
- Average annual production volume of total coal of 8.8mn tonnes in 2026-40 period
- Average annual production volume of coking coal of 1.9mn tonnes in 2026-40 period
- Average annual production volume of thermal coal of 6.9mn tonnes in 2026-40 period
- Longwall of the length of 6-7km to allow for reduction of unit cash costs
- Average annual capex of PLN 535mn in 2021-25 period, PLN 405mn in 2026-30, PLN 352mn in 2031-35 and PLN 307mn in 2036-40. Capex on Pole Ostrów of PLN 2.1bn is not included in these figures
- Average annual ROE of 6.6% in 2021-25 period and 6.2% in 2026-30
- Average annual EBITDA of 33% in 2021-25 period and 36% in 2026-30
- Deliveries to Enea group are to amount to 85% until 2025 and 67% since 2030
- Market share in deliveries to power plants to amount to 34% in 2030
- Non-core business to account for 5% of revenues in 2025, 10% in 2030 and 30% in 2040
- Dividend policy of payout of up to 50% of stand alone net profit, which is subject to market situation, generated cash flows, required capex and debt funding opportunities

Opinion. **NEUTRAL**

*LW Bogdanka's 2030 strategy is seen by us as unrealistic due to reasons like:*

- *Return to 9.7mn tonnes of annual production seem high to us given*

- the competition of other energy sources as our forecasts point to demand from power plants of only 21mn tonnes in 2025 (which would imply LWB's market share of 45%) and of 10.6mn tonnes in 2030 (which would imply LWB's market share of 64%)*
- *EBITDA margin of 33% in 2021-25 implies the return to c. 9.5mn tonnes of production and maintenance of coal price of PLN 10-11/GJ, which seems optimistic to us given record high oversupply of Polish thermal coal market (16mn tonnes of stockpiled coal i.e. 185 days of consumption). EBITDA margin over the last 2 quarters amounted to 21% due to weak volumes. Surprisingly average EBITDA margin in 2010-20 period amounted to 33% too.*

*On the positive note LW Bogdanka acknowledged the falling demand for thermal coal (34% market share in 2030 of 6.9mn tonnes implies market of c. 20mn tonnes vs. 35.4mn tonnes in 2019) and stated its will to diversify into non-core businesses. However LW Bogdanka did not provide any details of any direction of this non-core diversification, which is supposed to account for 5% of revenues in 2025 and 10% in 2030 – hence it is impossible to evaluate the probability of success of these plans or any potential return to shareholders. Its aim for diversification into coking coal might seem interesting at first glance, however steelmaking in Europe is expected by us to shift away from BOF production over the next 2 decades.*

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**Commercial Register No: FN 33209m**  
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