

## Bogdanka SA - Buy

Target Price: PLN 29.20 | Close as of 24/03/2021: PLN 23.30

### Analyst:

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

### LW Bogdanka - final 4Q'20 net profit 20% above preliminary

LW Bogdanka reported final 4Q'20 figures with following highlights:

- **Net profit of PLN 38.5mn i.e. 20% above preliminary figures announced in January**
- EBIT of PLN 44.5mn i.e. 10% above preliminary figures
- **2021 capex guidance of PLN 597.7mn**, while 2020 capex guidance was delivered in 94%
- **Coal price** of PLN 238.4/t i.e. up 2.4% y/y and in line with our estimates after preliminary figures
- **Unit mining cash cost** of PLN 167.5/t i.e. well below PLN 187/t expected after preliminary figures
- **Strong cost performance** seen in Q4 with external services expenses being down 18% y/y (and down 14% in 2020), while employment expenses were up only 1% y/y (both Q4 and 2020). Similarly the change of materials/energy expenses was lower than 3% on y/y comparison. Average salary within the group increased by a mere 1% y/y (vs. c. 5% growth seen in Polish economy).
- **Volume of preparatory works** of 6km in Q4 i.e. down 18% y/y likely supported strong cost performance.
- Production and sales volumes data confirming preliminary figures with Q4 coal yield of 62.7% i.e. up from 60.2% in 3Q'20.
- **Operating cash flow** of PLN 77.8mn in Q4 equaling 52% of reported EBITDA
- **Negative FCF** of PLN 88mn in Q4 and negative PLN 129mn in 2020
- **Net cash position** down to PLN 230mn from PLN 326mn in Q3, but exactly in line with our forecast for the end of 2020

### OPINION. POSITIVE

*Final Q4 figures are well above preliminary figures (20% higher on net profit and 10% higher on EBIT) as a result of much stronger cost performance (unit cash cost of PLN 167.5/t vs. PLN 187/t expected after preliminary figures). Virtually all cost categories posted solid performance in both Q4 and 2020 with external services expenses being down in double digit looking the most inspiring. This strong cost performance was likely achieved partially thanks to lower volume of preparatory works (km down by 19% in Q4 and down by 12% y/y in 2020) and hence might not be recurring in long term.*

*While we appreciate strong 2020 cost performance, still the equity story of*

*LW Bogdanka remains driven by the changes in demand for thermal coal by power plants that affects the pricing outlook too. We continue to expect 2021 demand for thermal coal from power plants to grow within the range of 7% - 12% allowing for recovery of coal volumes for PL miners and such an outlook should be supportive for the pricing outlook too in short term. However in long term the declines of demand for thermal coal are very probable and because of that the prospects of LW Bogdanka are likely to be driven by its ability to diversify into non-coal businesses (as its recently released 2025-30 strategy hints to).*

### LW Bogdanka, Key figures, PLN mn

P&L (PLN m)	4Q19	1Q20	2Q20	3Q20	4Q20	YoY	QoQ	2019	2020	YoY
<b>Revenues</b>	<b>531.7</b>	<b>464.1</b>	<b>384.9</b>	<b>504.5</b>	<b>468.6</b>	<b>-12%</b>	<b>-7%</b>	<b>2 158</b>	<b>1 822</b>	<b>-16%</b>
Gross profit on sales	96.2	82.3	42.9	38.6	84.9	-12%	120%	512	249	-51%
SG&A	-42.2	-38.3	-37.9	-38.7	-37.0	-12%	-4%	-153	-152	-1%
Profit from sales	54.1	44.0	5.0	-0.1	47.8	-12%	na	358	97	-73%
Other income/ (expense), net	1.5	0.9	0.0	0.9	-3.3			17	-1	
<b>EBITDA</b>	<b>156.2</b>	<b>134.8</b>	<b>86.3</b>	<b>96.5</b>	<b>148.5</b>	<b>-5%</b>	<b>54%</b>	<b>768</b>	<b>466</b>	<b>-39%</b>
<b>EXBITDA excl. one-offs</b>	<b>156.2</b>	<b>134.8</b>	<b>86.3</b>	<b>96.5</b>	<b>148.5</b>	<b>-5%</b>	<b>54%</b>	<b>745</b>	<b>466</b>	<b>-37%</b>
<b>Operating profit</b>	<b>55.5</b>	<b>44.9</b>	<b>5.0</b>	<b>0.8</b>	<b>44.5</b>	<b>-20%</b>	<b>5251%</b>	<b>375</b>	<b>95</b>	<b>-75%</b>
Financial income / (expense)	0.5	-1.3	-1.6	-2.3	3.1			3	-2	
Profit before tax	56.1	43.6	3.4	-1.4	47.6			379	93	-75%
Income tax expense	-11.3	-9.9	-0.4	-0.4	-9.5			-70	-20	
<b>Net profit - recurring</b>	<b>44.8</b>	<b>33.5</b>	<b>3.1</b>	<b>-1.8</b>	<b>38.1</b>	<b>-15%</b>	<b>na</b>	<b>309</b>	<b>73</b>	<b>-76%</b>
<b>Operational data</b>	<b>4Q19</b>	<b>1Q20</b>	<b>2Q20</b>	<b>3Q20</b>	<b>4Q20</b>	<b>YoY</b>	<b>QoQ</b>	<b>2019</b>	<b>2020</b>	<b>YoY</b>
Coal production, k tonnes	2 323	2 066	1 631	1 841	2 074	-11%	13%	9 450	7 612	-19.4%
Coal sales volume, kt	2 298	1 918	1 604	2 178	1 970	-14%	-10%	9 359	7 670	-18.0%
Inventories, thousand tonnes	178.0	326.0	353.0	16.0	120.0	-33%	650%			
Coal price PLN/t (1)	226	234.9	234.2	227	231	2.3%	1.9%			
<b>Coal price PLN/t (2)</b>	<b>232.9</b>	<b>241.6</b>	<b>241.6</b>	<b>234.2</b>	<b>238.4</b>	<b>2.4%</b>	<b>1.8%</b>			
Unit cash cost PLN/t (2)	163.7	171.8	182.4	191.6	167.5	2.3%	-12.6%			
<b>EBITDA per tonne (1)</b>	<b>68.0</b>	<b>70.3</b>	<b>53.8</b>	<b>44</b>	<b>75</b>	<b>11%</b>	<b>70%</b>			
<b>EBITDA per tonne (2)</b>	<b>68.0</b>	<b>70.3</b>	<b>53.8</b>	<b>44.3</b>	<b>75.4</b>	<b>11%</b>	<b>70%</b>			
OCF	207	77.3	142.8	179.0	77.8			721	477	-34%
Capex	114	201.5	135.0	104	166			477	606	27%
<b>Free cash flow</b>	<b>93</b>	<b>-124.1</b>	<b>7.8</b>	<b>75.1</b>	<b>-88.0</b>			<b>244</b>	<b>-129</b>	
Net debt (cash)	-369	-244	-252	-326	-231					
BVPS	94.6	95.6	95.6	95.9	96.7					

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)  
Katarzyna Rzentarzewska (Fixed income)  
Malgorzata Krzywicka (Fixed income, Poland)

+43 (0)5 0100 17357  
+43 (0)5 0100 17356  
+43 (0)5 0100 17338

### Croatia/Serbia

Alen Kovac (Head)  
Mate Jelić  
Ivana Rogic

+385 72 37 1383  
+385 72 37 1443  
+385 72 37 2419

### Czech Republic

David Navratil (Head)  
Jiri Polansky  
Michal Skorepa

+420 956 765 439  
+420 956 765 192  
+420 956 765 172

### Hungary

Orsolya Nyeste

+361 268 4428

### Romania

Ciprian Dascalu (Head)  
Eugen Sinca  
Dorina Ilasco  
Iulian George Misu

+40 3735 10108  
+40 3735 10435  
+40 3735 10436  
+40 758484043

### Slovakia

Maria Valachyova (Head)  
Katarina Muchova

+421 2 4862 4185  
+421 2 4862 4762

### Major Markets & Credit Research

Head: Gudrun Egger, CEFA  
Raif Burchert, CEFA (Sub-Sovereigns & Agencies)  
Hans Engel (Global Equities)  
Margarita Grushanina (Austria, Quant Analyst)  
Peter Kaufmann, CFA (Corporate Bonds)  
Heiko Langer (Financials & Covered Bonds)  
Stephan Lingnau (Global Equities)  
Carmen Riefler-Kowarsch (Financials & Covered Bonds)  
Rainer Singer (Euro, US)  
Bernadett Povaszai-Römhild, CEFA (Corporate Bonds)  
Elena Statelov, CIIA (Corporate Bonds)  
Gerald Walek, CFA (Euro, CHF)

+43 (0)5 0100 11909  
+43 (0)5 0100 16314  
+43 (0)5 0100 19835  
+43 (0)5 0100 11957  
+43 (0)5 0100 11183  
+43 (0)5 0100 85509  
+43 (0)5 0100 16574  
+43 (0)5 0100 19632  
+43 (0)5 0100 17331  
+43 (0)5 0100 17203  
+43 (0)5 0100 19641  
+43 (0)5 0100 16360

### CEE Equity Research

Head: Henning Eßkuchen  
Daniel Lion, CIIA (Technology, Ind. Goods&Services)  
Michael Marschallinger, CFA  
Nora Nagy (Telecom)  
Christoph Schultes, MBA, CIIA (Real Estate)  
Thomas Unger, CFA (Banks, Insurance)  
Vladimira Urbankova, MBA (Pharma)  
Martina Valenta, MBA

+43 (0)5 0100 19634  
+43 (0)5 0100 17420  
+43 (0)5 0100 17906  
+43 (0)5 0100 17416  
+43 (0)5 0100 11523  
+43 (0)5 0100 17344  
+43 (0)5 0100 17343  
+43 (0)5 0100 11913

### Croatia/Serbia

Mladen Dodig (Head)  
Anto Augustinovic  
Magdalena Dolenc  
Davor Spoljar, CFA

+381 11 22 09178  
+385 72 37 2833  
+385 72 37 1407  
+385 72 37 2825

### Czech Republic

Petr Bartek (Head)  
Marek Dongres  
Jan Safranek

+420 956 765 227  
+420 956 765 218  
+420 956 765 218

### Hungary

József Miró (Head)  
András Nagy  
Tamás Pletser, CFA

+361 235 5131  
+361 235 5132  
+361 235 5135

### Poland

Tomasz Duda (Head)  
Cezary Bernatek  
Konrad Grygo  
Emil Poplawski  
Marcin Gornik

+48 22 330 6253  
+48 22 538 6256  
+48 22 330 6254  
+48 22 330 6252  
+48 22 330 6251

### Romania

Caius Rapanu

+40 3735 10441

### Group Institutional & Retail Sales

#### Group Institutional Equity Sales

Head: Brigitte Zeitlberger-Schmid

+43 (0)5 0100 83123

#### Cash Equity Sales

Werner Fuerst  
Josef Kerekes  
Cormac Lyden

+43 (0)5 0100 83121  
+43 (0)5 0100 83125  
+43 (0)5 0100 83120

#### Institutional Equity Sales Croatia

Damir Eror

+385 72 37 28 36

### Institutional Equity Sales Czech Republic

Head: Michal Rizek  
Pavel Krabicka  
Martin Havlan  
Jiri Ferus

+420 224 995 537  
+420 224 995 411  
+420 224 995 551  
+420 224 995 554

### Institutional Equity Sales Hungary

Levente Nándori  
Balázs Zánkay  
Krisztián Kandik

+361 235 5141  
+361 235 5156  
+361 235 5140

### Institutional Equity Sales Poland

Jacek Jakub Langer (Head)  
Tomasz Galanciak  
Wojciech Wysocki  
Przemyslaw Nowosad  
Grzegorz Stepien

+4822 330 6265  
+48 22 538 62 12  
+4822 538 6219  
+4822 538 6266  
+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

### Group Securities Markets

Head: Thomas Einramhof

+43 (0)50100 84432

### Institutional Distribution Core

Head: Jürgen Niemeier

+49 (0)30 8105800 5503

### Institutional Distribution DACH+

Head: Marc Friebertshäuser  
Bernd Bollhof  
Andreas Goll  
Mathias Gindele  
Ulrich Inhofner  
Sven Kienzle  
Rene Klases  
Christopher Lampe-Traupe  
Karin Rattay  
Michael Schmotz  
Klaus Vosseler

+49 (0)711 810400 5540  
+49 (0)30 8105800 5525  
+49 (0)711 810400 5561  
+49 (0)711 810400 5562  
+43 (0)5 0100 85544  
+49 (0)711 810400 5541  
+49 (0)30 8105800 5521  
+49 (0)30 8105800 5523  
+43 (0)5 0100 84118  
+43 (0)5 0100 85542  
+49 (0)711 810400 5560

### Slovakia

Šarlota Šipulová  
Monika Směliková

+421 2 4862 5619  
+421 2 4862 5629

### Institutional Distribution CEE & Insti AM CZ

Head: Antun Burić  
Jaromir Malak

+385 (0)7237 2439  
+43 (0)5 0100 84254

### Czech Republic

Head: Ondrej Čech  
Milan Bartoš

+420 2 2499 5577  
+420 2 2499 5562

### Croatia

Head: Antun Burić  
Zvonimir Tukač  
Natalija Zujic

+385 (0)7237 2439  
+385 (0)7237 1787  
+385 (0)7237 1638

### Hungary

Head: Peter Csizmadia  
Gábor Bálint  
Ádám Szőnyi

+36 1 237 8211  
+36 1 237 8205  
+36 1 237 8213

### Romania and Bulgaria

Head: Ruxandra Lungu

+40 373516562

### Institutional Asset Management Czech Republic

Head: Petr Holeček  
Petra Maděrová  
Martin Peřina  
David Petráček  
Blanca Weinerová  
Petr Valenta

+420 956 765 453  
+420 956 765 178  
+420 956 765 106  
+420 956 765 809  
+420 956 765 317  
+420 956 765 140

### Group Fixed Income Securities Markets

Head: Goran Hobljaj

+43 (0)50100 84403

### FISM Flow

Head: Aleksandar Doric  
Margit Hraschek  
Bernd Thaler  
Ciprian Mitu  
Christian Kienesberger  
Zsuzsanna Toth

+43 (0)5 0100 87487  
+43 (0)5 0100 84117  
+43 (0)5 0100 84519  
+43 (0)5 0100 85612  
+43 (0)5 0100 84323  
+36-1-237 8209

### Poland:

Pawel Kielek  
Michal Jarmakowicz

+48 22 538 6223  
+43 50100 85611

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**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](http://www.erstegroup.com)**