

Newag - Accumulate

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Q1'20 CFO at PLN 35mn; net debt/EBITDA down to 2.17x

Newag showed its final Q1'20 results with following highlights:

- Q1'20 revenues at PLN 269.1mn (up 90% y/y, down 24% q/q & in line with preliminary)
- Q1'20 EBITDA at PLN 55.8mn (up 322% y/y, down 31% q/q & in line with preliminary), adj. EBITDA was even higher at PLN 58.4mn (mostly affected by PLN 2.9mn in contractual penalties probably stemming from late delivery of eight Griffin locomotives)
- Net income attributable to Parent's shareholders at PLN 32.6mn (up from PLN 1.4mn loss in Q1'19, down 40% q/q and in line with preliminary, when taking total profit), income tax at quite standard effective rate of 21.1%
- Q1'20 gross margin of services & products at 25.8% vs. 13.3% year earlier and 21% expected by us
- Q1'20 CFO at PLN 35.4mn vs PLN -1mn year earlier
- Q1'20 net debt/EBITDA at 2.17x vs 2.77x in Q4'19

Quarterly snapshot

IFRS (PLN, mn)	Reported			Expected				Reported				
	Q1'20	Q1'19	Q4'19	y/y	q/q	ERSTE	Cons.	Preliminary	vs. ERSTE	vs. Cons.	vs. Prelim.	
Revenues	269.1	141.5	356.1	90%	-24%		189.4	198.8	269.1	42.1%	35.3%	0.0%
EBITDA	55.8	13.2	80.3	322%	-31%		25.3	32.1	55.8	120.5%	73.8%	0.0%
adj. EBITDA	58.4	9.3	83.5	530%	-30%							
EBIT	47.3	4.3	71.8	1012%	-34%		16.8	23.3		181.5%	103.4%	
Net income	32.6	-1.4	54.1	n.m.	-40%		9.6	15.6	32.7	239.2%	108.8%	-0.4%
EBITDA margin	20.7%	9.3%	22.5%				13.4%	16.1%	20.7%			
EBIT margin	17.6%	3.0%	20.2%				8.9%	11.7%				
Net income margin	12.1%	-1.0%	15.2%				5.1%	7.8%	12.2%			

Source: Company Data, Erste Group Research

OPINION: POSITIVE

P&L figures presented in preliminary Q1'20 results (revenues, EBITDA & net profit) were in line with those in final report. However, we took a glance at other numbers revealed by final financial statement:

POSITIVE:

P&L:

Q1'20 gross margin at 25.8% vs 13.3% year earlier (21% expected by us) confirms positive impact of higher share of electric locomotives in product mix on gross margin and is also higher compared to our 23.8% forecast for 2020

adjusted EBITDA was even higher by PLN 2.7mn (adjusting for other operating income/costs). This is a result of booked PLN 2.9mn in contractual penalties which we believe are stemming from delay in contract for eight Griffin locomotives for PKP IC – those were supposed to be delivered in Q4'19. In 2020 we expect approx. PLN 6mn in contractual penalties, so there is still some room for those during the year

management costs did not grow as much as we thought at PLN 19.6mn vs PLN 22.7 expected by us. In 2020 we estimate those to be at PLN 104.5mn. Some downward adjustment could be in place

effective tax rate at 21.1% vs 25% expected in a quarter and 23% expected in 2020. We would remain cautious here given the volatility in those during a year

Balance sheet:

net debt down to PLN 447mn vs PLN 453.4mn that together with improved EBITDA allowed the company to decrease its net debt/EBITDA ratio to 2.17x from 2.77x in Q4'19.

work-in progress part of inventory amounted to PLN 250.5mn vs PLN 152.4mn in Q1'19 which proves in our view that company is on the right way to significantly improve its Q2 sales y/y and fulfil our 2020 sales forecast

Cash flow:

significant improvement of cash flow from operations at PLN 35.4mn vs PLN -1mn year earlier

NEGATIVE:

P&L:

financing costs at PLN 6.9mn vs PLN 5mn expected by us and forecast of PLN 28.5mn in 2020. We expected higher decrease in debt cost thanks to lower interest rates. Maybe effect of lower interest rates will kick in later

Cash flow:

capex is slightly higher than we expected at PLN 24mn vs PLN 62.3mn expected by us in whole 2020 and might call for some upward revision

P & L (PLN m)	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	YoY	QoQ	Q1'19	Q1'20	YoY
Revenues	141.5	239.2	159.2	356.1	269.1	90%	-24%	141.5	269.1	90%
COGS	122.3	194.5	114.0	258.9	199.3	63%	-23%	122.3	199.3	63%
Gross profit on sales	19.3	44.7	45.3	97.3	69.7	262%	-28%	19.3	69.7	262%
Sales cost	0.2	0.2	0.7	0.6	0.2	-4%	-68%	0.2	0.2	-4%
Management costs	18.8	19.0	17.9	21.7	19.6	4%	-10%	18.8	19.6	4%
Other income/ (expense), net	3.9	-3.8	5.6	-3.2	-2.7	-168%	-17%	3.9	-2.7	
Operating profit	4.3	21.6	32.2	71.8	47.3	1012%	-34%	4.3	47.3	1012%
EBITDA	13.2	30.0	40.4	80.3	55.8	322%	-31%	13.2	55.8	322%
adj. EBITDA	9.3	33.8	34.8	83.5	58.4	530%	-30%	9.3	58.4	530%
Financial income / (expense)	-3.7	-3.5	-6.3	-6.4	-5.9	56%	-8%	-3.7	-5.9	
Profit before tax	0.5	18.1	25.9	65.4	41.4	8104%	-37%	0.5	41.4	8104%
Income tax expense	1.8	5.3	2.8	8.4	8.7	377%	3%	1.8	8.7	
Net profit attr. to Parent	-1.4	13.7	23.1	54.1	32.6	-2385%	-40%	-1.4	32.6	-2385%
Profitability ratios	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20			Q1'19	Q1'20	
Gross margin	13.61%	18.68%	28.43%	27.31%	25.91%			13.61%	25.91%	
EBIT margin	3.01%	9.03%	20.25%	20.16%	17.58%			3.0%	17.6%	
EBITDA margin	9.33%	12.53%	25.38%	22.54%	20.73%			9.3%	20.7%	
Net profit margin	-1.01%	5.74%	14.51%	15.18%	12.10%			-1.0%	12.1%	
Segments	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	YoY	QoQ	Q1'19	Q1'20	YoY
Revenues										
Services & products	140.6	238.6	159.0	356.2	267.8	91%	-25%	140.6	267.8	91%
Trade goods & materials	0.96	0.59	0.24	-0.03	1.22	27%	-3597%	1.0	1.2	27%
Gross profit										
Services & products	18.7	44.7	45.2	97.5	69.1	271%	-29%	18.7	69.1	271%
Trade goods & materials	0.61	-0.03	0.08	-0.21	0.58	-5%	-377%	0.6	0.6	-5%
Gross margin										
Services & products	13.3%	18.7%	28.4%	27.4%	25.8%			13.3%	25.8%	
Trade goods & materials	63.7%	-5.1%	31.4%	602.9%	47.7%			63.7%	47.7%	
Balance sheet & cash flow	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	YoY	QoQ	Q1'19	Q1'20	YoY
Operational CF	-1.0	10.9	-39.0	58.6	35.4	-3537%	-40%	-1.0	35.4	-3537%
Capex	26.5	20.6	14.4	10.6	24.3	-8%	129%	26.5	24.3	-8%
Net debt	365.7	393.4	510.4	453.4	447.1	22%	-1%			
Equity	493.8	473.8	496.9	551.8	584.4	18%	6%			
Net debt/EBITDA	2.2	2.4	2.7	2.8	2.2					

Results vs. forecasts

IFRS (PLN, mn)	Reported Q1'20	Q1'19	2020 results (report)		2019 results	
			y/y	Erste Group % done	Reported	% done
Revenues	269.1	141.5	90%	1 249.5 21.5%	896.1	15.8%
EBITDA	55.8	13.2	322%	219.9 25.4%	163.9	8.1%
adj. EBITDA	58.4	9.3	530%			
EBIT	47.3	4.3	1012%	185.7 25.5%	129.9	3.3%
Net income	32.6	-1.4	-2385%	123.7 26.3%	89.5	-1.6%
EBITDA margin	20.7%	9.3%				
EBIT margin	17.6%	3.0%				
Net income margin	12.1%	-1.0%				

Source: Company Data, Erste Group Research

Q1'20 results fulfil our results forecasts for whole 2020 in approx. 25% when it comes to EBITDA, EBIT and net income with 21.5% for revenues. This makes us quite comfortable with our 2020 estimates. Upward revision might be not warranted given that Management guided more even distribution of results between quarters this year (previous years were characterized by seasonality).

Overall, we would expect positive market reaction today.

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