

## Newag - Accumulate

Target Price: PLN 29.44 | Close as of 20/11/2020: PLN 26.80

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### 3Q20 in line with preliminary (SLIGHTLY POSITIVE)

Newag posted 3Q20 results with the following highlights:

- **3Q20 revenues, EBITDA & net income in line with preliminary figures**
- 3Q20 EBITDA was negatively affected by PLN 4.1mn reserves and write-offs
- 3Q20 gross margin of services & products at 37.0% vs. 24.0% expected
- 3Q net debt/EBITDA at 2.4x vs 2.4x in previous quarter and 2.7x in 3Q19
- 3Q OCF at PLN -3.2mn vs PLN -55.7mn in previous quarter and PLN -39.0mn in 3Q19
- 3Q FCF at PLN -1.7mn vs. PLN -53.4 a year ago.

#### OPINION: SLIGHTLY POSITIVE

Despite the fact that reported figures came in line with preliminary, we anticipate positive market reaction as figures were not skewed by any significant one-offs and now we see that outperformance over consensus was driven by very solid gross profit margin, which came in at 37.0% (vs. 28.4% a year ago, vs. 24.0% expected by us). According to company strong gross profit margin was linked to favorable mix of products sold.

Moreover we underline that company in 3Q20 improved OCF and FCF, which came much above 2Q20 and 3Q19 levels. As a result company were managed to keep stable levels of ND/EBITDA ratio at 2.4x.

We do not believe that company will be able to keep such high levels of gross profit margins in 4Q20, however in 9M20 company delivered 84% of our EBITDA forecast so we see some space to increase slightly our 2020e forecast.

### Newag 3Q20 final figures

	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20	y/y	prelim. vs. Prelim	Erste	
Revenues	159.2	356.1	269.1	300.2	234.21	47%	234.2	0%	268.8
COGS	114.0	258.9	199.3	222.0	147.6	30%			204.3
<b>Gross profit on sales</b>	<b>45.3</b>	<b>97.3</b>	<b>69.7</b>	<b>78.2</b>	<b>86.6</b>	<b>91%</b>			<b>64.5</b>
Sales cost	0.7	0.6	0.2	0.1	0.2	-76%			
Management costs	17.9	21.7	19.6	21.4	20.4	14%			
Other income/ (expense), net	5.6	-3.2	-2.7	-9.5	-4.1	-173%			
<b>Operating profit</b>	<b>32.2</b>	<b>71.8</b>	<b>47.3</b>	<b>47.1</b>	<b>61.9</b>	<b>92%</b>			<b>43.8</b>
<b>EBITDA</b>	<b>40.4</b>	<b>80.3</b>	<b>55.8</b>	<b>56.1</b>	<b>71.7</b>	<b>77%</b>	<b>71.7</b>	<b>0%</b>	<b>52.8</b>
<b>adj. EBITDA</b>	<b>34.8</b>	<b>83.5</b>	<b>58.4</b>	<b>65.6</b>	<b>75.8</b>	<b>118%</b>			
Financial income / (expense)	-6.3	-6.4	-5.9	-3.8	-5.6	-12%			
Profit before tax	25.9	65.4	41.4	43.3	56.4	117%			
Income tax expense	2.8	8.4	8.7	13.9	5.5	99%			
<b>Net income</b>	<b>23.1</b>	<b>54.1</b>	<b>32.6</b>	<b>29.3</b>	<b>51.0</b>	<b>121%</b>	<b>51.0</b>	<b>0%</b>	<b>33.8</b>
<b>margin</b>	<b>Q3'19</b>	<b>Q4'19</b>	<b>Q1'20</b>	<b>Q2'20</b>	<b>Q3'20</b>				
<b>Gross margin</b>	<b>28.43%</b>	<b>27.31%</b>	<b>25.91%</b>	<b>26.04%</b>	<b>36.98%</b>				<b>24%</b>
EBIT margin	20.25%	20.16%	17.58%	15.68%	26.45%				16%
<b>EBITDA margin</b>	<b>25.38%</b>	<b>22.54%</b>	<b>20.73%</b>	<b>18.68%</b>	<b>30.63%</b>				<b>20%</b>
Net income margin	14.51%	15.18%	12.10%	9.77%	21.78%				13%
<b>Segments</b>	<b>Q3'19</b>	<b>Q4'19</b>	<b>Q1'20</b>	<b>Q2'20</b>	<b>Q3'20</b>	<b>YoY</b>			
<b>Revenues</b>									
Services & products	159.0	356.2	267.8	297.3	220.8	39%			
Trade goods & materials	0.24	-0.03	1.22	2.92	13.42	5515%			
<b>Gross profit</b>									
Services & products	45.2	97.5	69.1	78.1	86.5	91%			
Trade goods & materials	0.08	-0.21	0.58	0.06	0.1	61%			
<b>Gross margin</b>									
Services & products	28.4%	27.4%	25.8%	26.3%	39.2%	38%			
Trade goods & materials	31.4%	602.9%	47.7%	1.9%	0.9%	-97%			
<b>Balance sheet &amp; cash flow</b>	<b>Q3'19</b>	<b>Q4'19</b>	<b>Q1'20</b>	<b>Q2'20</b>	<b>Q3'20</b>	<b>YoY</b>			
Operational CF	-39.0	58.6	35.4	-55.7	3.2	-108%			
Capex	14.4	10.6	24.3	24.1	4.9	-66%			
FCF	-53.4	48.0	11.0	-79.8	-1.7	-97%			
Net debt	510.4	453.4	447.1	556.7	587.4	15%			
Equity	496.9	551.8	584.4	613.7	619.4	25%			
Net debt/EBITDA	2.7	2.8	2.2	2.4	2.4				

Source: Company, Erste Group Research

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