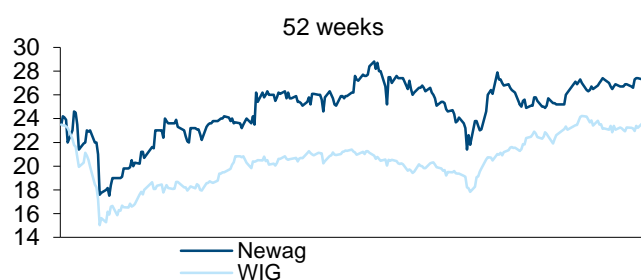


# Newag

from Accumulate to Neutral

PLN mn	2020e	2021e	2022e	2023e
Net sales	1 220.7	1 137.0	1 220.3	986.3
EBITDA	269.6	202.6	228.3	171.4
EBIT	232.5	162.3	189.4	133.7
Net result after min.	169.5	108.2	133.1	89.3
EPS (PLN)	3.77	2.40	2.96	1.98
CEPS (PLN)	4.53	3.30	3.82	2.82
BVPS (PLN)	14.54	15.06	16.82	17.33
Div./share (PLN)	1.00	1.89	1.21	1.49
EV/EBITDA (x)	6.8	8.6	7.5	8.9
P/E (x)	7.2	11.3	9.2	13.7
P/CE (x)	6.0	8.2	7.1	9.6
Dividend Yield	3.7%	7.0%	4.5%	5.5%
Share price (PLN) close as of 16/02/2021				27.1
Number of shares (mn)				45.0
Market capitalization (PLN mn / EUR mn)				1,220 / ,271
Enterprise value (PLN mn / EUR mn)				1,828 / ,405



Performance	12M	6M	3M	1M
in PLN	13.4%	4.6%	-2.9%	2.3%

Reuters	NWGP.WA	Free float	47.8%	
Bloomberg	NWG.PW	Shareholders	jonariuszy Newag (52.2%)	
Div. Ex-date			NN OFE (8.83%)	
<b>Target price</b>	<b>28.9</b>	Homepage:	<a href="https://www.newag.pl/">https://www.newag.pl/</a>	

## Analyst:

Marcin Gornik  
+48 22 538 62 51  
marcin.gornik@erstegroup.com

## Next Generation EU on railway

Poland is, under Next Generation EU funds, entitled to receive EUR 23.1bn in the form of grants and EUR 34.2bn in the form of loans. We believe that these funds will partly be directed towards the replacement of rolling stock. We therefore see no major risk for demand for Newag's multiple units in the period 2023-26e. However, we cautiously assume that these funds will only allow the market to stay at moderate levels.

After a very good 2020e, we expect Newag's results to deteriorate due to the lower share of electric locomotives in the sales mix. Based on already signed contracts and potential tenders, we estimate volumes sold in 2021/22e at 48/49 units and EBITDA of PLN 203/228mn. From 2023e onwards, we assume sales of 41-44 per year and EBITDA of PLN 163-174mn per year.

The very good net income result in 2020e, coupled with lower CAPEX in 2021e, leads us to assume a dividend payout of 50%, which translates into a decent DPS of PLN 1.9, i.e. DY 7.0%.

Fund flows from Next Generation EU funds and a decent DY on the one side, coupled with result deterioration in 2021e (sales mix effect) on the other, prompts us to downgrade our rating from Accumulate to Neutral, and cut our target price from PLN 31.1 per share to PLN 28.9 per share.

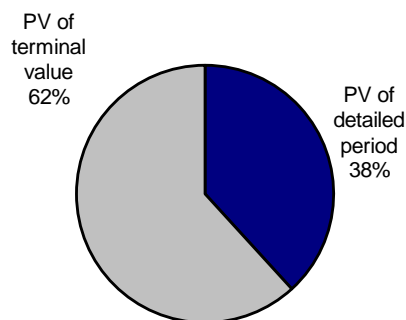
## WACC calculation

	2021e	2022e	2023e	2024e	2025e	Term. value Normalized
Risk free rate	2.1%	2.1%	2.1%	2.1%	2.1%	4.0%
Equity risk premium	6.0%	6.0%	6.0%	6.0%	6.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0
<b>Cost of equity</b>	<b>8.1%</b>	<b>8.1%</b>	<b>8.1%</b>	<b>8.1%</b>	<b>8.1%</b>	<b>9.0%</b>
Cost of debt	3.1%	3.1%	3.1%	3.1%	3.1%	5.0%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
<b>After-tax cost of debt</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>4.1%</b>
Equity weight	52%	54%	55%	57%	58%	58%
<b>WACC</b>	<b>5.4%</b>	<b>5.6%</b>	<b>5.6%</b>	<b>5.7%</b>	<b>5.8%</b>	<b>6.9%</b>

## DCF valuation

(PLN mn)	2021e	2022e	2023e	2024e	2025e	Normalized
<i>Sales growth</i>	-6.9%	7.3%	-19.2%	1.5%	-4.4%	0.0%
EBIT	162.3	189.4	133.7	137.0	126.8	126.8
<i>EBIT margin</i>	14.3%	15.5%	13.6%	13.7%	13.2%	13.2%
<i>Tax rate</i>	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Taxes on EBIT	-30.8	-36.0	-25.4	-26.0	-24.1	-24.1
<b>NOPLAT</b>	<b>131.5</b>	<b>153.4</b>	<b>108.3</b>	<b>111.0</b>	<b>102.7</b>	<b>102.7</b>
+ Depreciation	40.2	38.9	37.8	36.8	35.9	35.9
<i>Capital expenditures / Depreciation</i>	74.6%	77.1%	79.4%	81.6%	83.6%	100.0%
+/- Change in working capital	46.9	-54.5	155.4	-9.5	29.0	0.0
<i>Chg. working capital / chg. Sales</i>	-56.1%	-65.4%	-66.4%	-66.6%	-66.6%	100.0%
- Capital expenditures	-30.0	-30.0	-30.0	-30.0	-30.0	-35.9
<b>Free cash flow to the firm</b>	<b>188.6</b>	<b>107.8</b>	<b>271.4</b>	<b>108.2</b>	<b>137.6</b>	<b>102.7</b>
<i>Terminal value growth</i>						0.0%
Terminal value						1 586.2
Discounted free cash flow - Dec 31 2020	179.0	96.9	231.0	87.2	104.8	1 129.8
<b>Enterprise value - Dec 31 2020</b>	<b>1 828.7</b>					
Minorities	0.7					
Non-operating assets	0.0					
Net debt	608.0					
Other adjustments	0.0					
<b>Equity value - Dec 31 2020</b>	<b>1 220.0</b>					
Number of shares outstanding (mn)	45.0					
Cost of equity	8.1%					
<b>12M target price per share (PLN)</b>	<b>28.9</b>					
Share price (PLN)	27.1					
<i>Up/Downside</i>	6.7%					

## Enterprise value breakdown



source: Erste Group Research  
Erste Group Research – Company Report

## Sensitivity (per share)

		Terminal value EBIT margin				
		12.2%	12.7%	13.2%	13.7%	14.2%
WACC	5.9%	31.1	32.3	33.5	34.6	35.8
	6.4%	28.8	29.9	31.0	32.1	33.2
	6.9%	26.9	27.9	<b>28.9</b>	29.9	31.0
	7.4%	25.2	26.2	27.1	28.1	29.0
	7.9%	23.8	24.7	25.5	26.4	27.3
		Terminal value growth				
		-1.0%	-0.5%	0.0%	0.5%	1.0%
WACC	5.9%	26.2	29.5	33.5	38.1	43.7
	6.4%	24.5	27.5	31.0	35.1	39.9
	6.9%	23.1	25.8	<b>28.9</b>	32.5	36.7
	7.4%	21.9	24.3	27.1	30.3	34.0
	7.9%	20.8	23.0	25.5	28.4	31.7

**Erste Group Research – Company Report**  
Newag | Ind. Goods & Services | Poland  
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<b>Income Statement</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>	<b>2023e</b>
(IAS, PLN mn, 31/12)	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023
<b>Net sales</b>	<b>1 021.56</b>	<b>896.09</b>	<b>1 220.70</b>	<b>1 137.03</b>	<b>1 220.26</b>	<b>986.29</b>
Cost of goods sold	-816.92	-689.60	-882.18	-886.77	-942.96	-764.71
<b>Gross profit</b>	<b>204.63</b>	<b>206.48</b>	<b>338.52</b>	<b>250.26</b>	<b>277.30</b>	<b>221.58</b>
SG&A	-74.38	-79.11	-85.92	-85.92	-85.92	-85.92
Other operating revenues	22.91	20.16	2.35	10.00	10.00	10.00
Other operating expenses	-25.21	-17.65	-18.63	-12.00	-12.00	-12.00
<b>EBITDA</b>	<b>164.39</b>	<b>163.86</b>	<b>269.58</b>	<b>202.58</b>	<b>228.29</b>	<b>171.42</b>
Depreciation/amortization	36.44	33.97	36.89	40.23	38.91	37.76
<b>EBIT</b>	<b>127.95</b>	<b>129.89</b>	<b>232.52</b>	<b>162.35</b>	<b>189.38</b>	<b>133.66</b>
Financial result	-12.12	-19.96	-21.10	-28.30	-24.55	-22.99
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
<b>EBT</b>	<b>115.83</b>	<b>109.92</b>	<b>211.42</b>	<b>134.05</b>	<b>164.83</b>	<b>110.67</b>
Income taxes	-22.43	-18.37	-41.58	-25.47	-31.32	-21.03
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	0.05	2.06	0.38	0.38	0.38	0.38
<b>Net result after minorities</b>	<b>93.35</b>	<b>89.49</b>	<b>169.47</b>	<b>108.20</b>	<b>133.14</b>	<b>89.27</b>
<b>Balance Sheet</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>	<b>2023e</b>
(IAS, PLN mn, 31/12)						
Intangible assets	30.94	32.30	30.15	30.15	30.15	30.15
Tangible assets	454.19	518.21	536.24	526.01	517.10	509.34
Financial assets	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total fixed assets</b>	<b>485.13</b>	<b>550.51</b>	<b>566.40</b>	<b>556.17</b>	<b>547.26</b>	<b>539.49</b>
Inventories	223.21	392.86	493.63	482.73	514.72	417.43
Receivables and other current assets	439.01	397.39	503.88	456.11	487.00	403.29
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	63.51	16.58	25.96	106.45	140.01	325.86
<b>Total current assets</b>	<b>725.72</b>	<b>806.83</b>	<b>1 023.47</b>	<b>1 045.29</b>	<b>1 141.73</b>	<b>1 146.57</b>
<b>TOTAL ASSETS</b>	<b>1 210.85</b>	<b>1 357.33</b>	<b>1 589.86</b>	<b>1 601.45</b>	<b>1 688.98</b>	<b>1 686.06</b>
<b>Shareholders'equity</b>	<b>495.43</b>	<b>551.80</b>	<b>654.48</b>	<b>677.85</b>	<b>756.95</b>	<b>779.65</b>
<b>Minorities</b>	<b>0.16</b>	<b>0.34</b>	<b>0.72</b>	<b>1.09</b>	<b>1.47</b>	<b>1.84</b>
<b>Hybrid capital and other reserves</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Pension and other LT personnel accruals</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>LT provisions</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Interest-bearing LT debts	185.98	245.18	214.06	214.06	214.06	214.06
Other LT liabilities	34.14	20.66	19.16	19.16	19.16	19.16
<b>Total long-term liabilities</b>	<b>220.12</b>	<b>265.84</b>	<b>233.22</b>	<b>233.22</b>	<b>233.22</b>	<b>233.22</b>
Interest-bearing ST debts	203.32	224.85	419.94	419.94	419.94	419.94
Other ST liabilities	522.41	581.98	603.53	625.35	721.79	726.63
<b>Total short-term liabilities</b>	<b>725.72</b>	<b>806.83</b>	<b>1 023.47</b>	<b>1 045.29</b>	<b>1 141.73</b>	<b>1 146.57</b>
<b>TOTAL LIAB. , EQUITY</b>	<b>1 210.85</b>	<b>1 357.33</b>	<b>1 589.86</b>	<b>1 601.45</b>	<b>1 688.98</b>	<b>1 686.06</b>
<b>Cash Flow Statement</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>	<b>2023e</b>
(IAS, PLN mn, 31/12)						
Cash flow from operating activities	17.68	29.51	-40.65	195.71	117.96	282.80
Cash flow from investing activities	-12.04	-56.31	-23.74	-30.00	-30.00	-30.00
Cash flow from financing activities	44.28	-19.93	73.70	-85.22	-54.41	-66.95
<b>CHANGE IN CASH , CASH EQU.</b>	<b>49.71</b>	<b>-46.93</b>	<b>9.31</b>	<b>80.49</b>	<b>33.55</b>	<b>185.85</b>
<b>Margins &amp; Ratios</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>	<b>2023e</b>
Sales growth	29.3%	-12.3%	36.2%	-6.9%	7.3%	-19.2%
EBITDA margin	16.1%	18.3%	22.1%	17.8%	18.7%	17.4%
EBIT margin	12.5%	14.5%	19.0%	14.3%	15.5%	13.6%
Net profit margin	9.1%	10.2%	13.9%	9.5%	10.9%	9.1%
ROE	20.8%	17.1%	28.1%	16.2%	18.6%	11.6%
ROCE	11.9%	9.7%	14.7%	8.7%	10.7%	7.5%
Equity ratio	40.9%	40.7%	41.2%	42.3%	44.8%	46.2%
Net debt	325.8	453.4	608.0	527.5	494.0	308.1
Working capital	0.0	0.0	0.0	0.0	0.0	0.0
Capital employed	855.4	1 025.9	1 281.7	1 224.5	1 270.1	1 106.9
Inventory turnover	3.5	2.2	2.0	1.8	1.9	1.6

Source: Company data, Erste Group estimates

**Erste Group Research – Company Report**  
**Newag | Ind. Goods & Services | Poland**  
**18 February 2021**

**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)  
 Zoltan Arokszállasi, CFA (Fixed income)  
 Katarzyna Rzentarzewska (Fixed income)  
 Malgorzata Krzywicka (Fixed income, Poland)

+43 (0)5 0100 17357  
 +361 373 2830  
 +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  
 Nicole Gawlasova

+420 956 765 439  
 +420 956 765 192  
 +420 956 765 172  
 +420 956 765 456

**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  
 Ralf 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 Povazsai-Römhild, CEFA (Corporate Bonds)  
 Elena Stalelov, 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 Elbkuchen  
 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 Dolenec  
 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 Feres

+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 Frieberthshäuser  
 Bernd Bolhof  
 Andreas Goll  
 Mathias Gindele  
 Ulrich Inhofner  
 Sven Kienzle  
 Rene Klasen  
 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**

Sarlotá Šipulová  
 Monika Sméliková

+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 Cech  
 Milan Bartoš  
 Barbara O'Donnell

+420 2 2499 5577  
 +420 2 2499 5562  
 +420 2 2499 5590

**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 Szönyi

+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 84119  
 +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

**Company description**

Newag SA Rolling stock producer

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**Erste Group Homepage: [www.erstegroup.com](http://www.erstegroup.com)**