

## Newag - Hold

Target Price: PLN 28.93 | Close as of 21/05/2021: PLN 25.50

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### 1Q21 above expectation, solid gross profit margin (POSITIVE)

Newag reported 1Q21 results with the following highlights:

- Revenues PLN 273mn (flat y/y, 61% above consensus, 53% above our forecasts)
- Gross profit PLN 56mn (-20% y/y, 75% above our estimates). Gross profit margin came at 20% (vs. 26% year ago, vs. 18% expected by us).
- SG&A cost amounted to PLN 21mn (flat y/y, in line with our estimates)
- Other income/(expenses) net amounted to PLN 2mn (vs. PLN -3mn year ago, vs. -2mn expected by us)
- **EBITDA PLN 48mn (-15% y/y, vs. PLN 23mn expected by market consensus, vs. PLN 19mn expected by us).**
- Financial cost net amounted to PLN -1mn (vs. -6mn a year ago, vs. PLN -5mn expected by us)
- Effective tax rate came at 20% (vs. 21% year ago, vs. 19% expected by us)
- **Net income PLN 28mn (vs. 13%, vs. PLN 7mn expected by market consensus, vs. PLN 4mn expected by us)**
- Net debt PLN 384mn (vs. PLN 447 year ago, vs. PLN 340 quarter ago). ND/EBITDA 1.5x (vs. 2.2x year ago, vs. 1.2x quarter ago)

#### OPINION: POSITIVE

*Company strongly beat market consensus and our estimates, therefore initially we would expect strong positive market reaction. Part of this outperformance should be linked to kind of one-off items i.e. additional revenues on resale of five leased locomotives and solid result on other operating activity. However, adjusted number are still above our expectation primarily due to strong gross profit margin and sale of additional vehicles, which were not included in our forecasts.*

*The company's top lines significantly beat our estimates, which results from the resale of five leased locomotives for PLN 55 million. If these locomotives were included in our forecast our revenues would amount to PLN 233mn (PLN 40mn below reported numbers). We believe the missing PLN 40mn are linked to the sale of 2 additional vehicles, which were not included in our 1Q21 estimates of 2 EMUs, 2 HMUs and one electric locomotive.*

*Newag realized solid gross profit margin, which came at 20% (vs. 18% expected by us), but margin adjusted for the resale of five electric locomotives (margin 6.8%) came even higher at 24%, which is much above our forecast for 2021e (22%) and bode well for the upcoming quarters.*

*SG&A came in line with our estimates, however other net income/(expenses) came PLN 4mn above our expectation.*

*If we would adjust our EBITDA forecast for the effect of resale of five leased locomotives and other net income (expenses) it would come at PLN 27mn (PLN 20mn below reported numbers). We believe that this difference should be attributable to sale of additional two vehicles and solid gross profit margin.*

*Despite strong 1Q21 result, we would expect the 2021e to be visibly lower than 2020e, due to lower number of units delivered – primarily electric locomotives.*

### Newag 1Q21 results

P&L	1Q20	2Q20	3Q20	4Q20	1Q21	y/y	cons.	vs. Cons	Erste vs. Prelim
Revenues	269	300	234	517	273	2%	170	61%	178 53%
COGS	-199	-222	-148	-379	-217	9%			-146 49%
<b>Gross profit</b>	<b>70</b>	<b>78</b>	<b>87</b>	<b>137</b>	<b>56</b>	<b>-20%</b>			<b>32 75%</b>
SG&A	-20	-22	-21	-29	-21	6%			-20 5%
Other income/(expenses) net	-3	-10	-4	2	2	-158%			-2 n.a.
<b>EBITDA</b>	<b>56</b>	<b>56</b>	<b>72</b>	<b>108</b>	<b>48</b>	<b>-15%</b>	<b>23</b>	<b>108%</b>	<b>19 148%</b>
EBIT	47	47	62	98	37	-23%	13	192%	10 285%
Financial income/(cost) net	-6	-4	-6	-1	-1	-78%			-5 -74%
Profit before tax	41	43	56	97	35	-15%			5 683%
Income tax	-9	-14	-6	9	-7	-19%			-1 724%
<b>Net profit</b>	<b>33</b>	<b>29</b>	<b>51</b>	<b>106</b>	<b>28</b>	<b>-13%</b>	<b>7</b>	<b>328%</b>	<b>4 684%</b>
<b>EPS</b>	<b>2.7</b>	<b>3.1</b>	<b>3.70</b>	<b>4.86</b>	<b>4.76</b>	<b>74%</b>			
<b>Margins</b>									
Gross profit margin	26%	26%	37%	27%	20%				18%
EBITDA margin	21%	19%	31%	21%	17%				11%
EBIT margin	18%	16%	26%	19%	13%				5%
Net profit margin	12%	10%	22%	21%	10%				2%
<b>Main BS&amp;CF items</b>									
OCF	35	-56	-32	312	-5				
CAPEX	-24	-24	-5	-8	-34				
FCF	11	-80	-37	304	-40				
Net Debt	447	557	587	340	384				
ND/EBITDA	2.2	2.4	2.2	1.2	1.5				
Equity	584	614	619	725	753				
BVPS	13	14	14	16	17				

Source: Company, Erste Group Research

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