PKP Cargo

Santander Biuro Maklerskie

Pilot suport program for analitycal coverage

Bloomberg: PKP PW, Reuters: PKPP.WA

CEE Equity Research

Industrials, Poland

07 Nov 2019, 15:35 CET

Solid unit revenues delivery in 3Q19P; positive one-offs drive 3Q19P EBITDA margin up

Michał Sopiel, *Equity Analyst*

+48 22 586 8233, michal.sopiel@santander.pl

3Q19 preliminary results review

PKP Cargo disclosed 9M19 preliminary financial figures pointing to revenues at PLN1.19bn (-10.4% y/y) and EBITDA at PLN263mn (-5.7%) in 3Q19, we calculate. Based on our estimates, the net profit stood at PLN50.8mn in 3Q19.

At the occasion of 9M19P estimates release, PKP Cargo decreased its FY19E EBITDA guidance to PLN925mn from PLN1,151mn previously (the forecast dated March 2019), down by ca. 20%.

The 3Q19P reported figures came above the market expectations. We point, however, the 3Q19P EBITDA was inflated by a (1) PLN24.4mn one-off attributable to tax provision write up and (2) IFRS16 impact (positive PLN34mn in 3Q19P vs. 3Q18). Taking into account the two aforementioned items, the adjusted 3Q19P EBITDA settled at ca. PLN204mn (-27% y/y). Nevertheless, taking into account approx. 17% y/y contraction of the PKP Cargo's transport turnover in 3Q19 (based on the UTK data), the 10% y/y decrease of the revenues may reflect continuing positive trends of the unit revenues y/y performance in 3Q19. We estimate the y/y dynamic of 3Q19E unit revenues at 7% (+7.5% on average in1H19). The latter, in our view, should be interpreted positively. From the transport mix point of view, we reckon the company might have suffered from lowered fossil fuels, aggregates and metals & ores transportation volumes in 3Q19 (the trends observed already in 2Q19).

The decrease of the FY19E EBTIDA guidance came in line with our expectations. We were, however, a bit hungry for more as our PLN926mn FY19E EBITDA forecast did not include the reported PLN24.4mn one-off.

The full financial statement will be made public on November 21st, 2019.

Fig. 1. PKP Cargo: 3Q19* preliminary results review

PLNmn	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19P	y/y	q/q	SANe	Cons.
Sales	1,278	1,216	1,294	1,329	1,344	1,261	1,164	1,191	-10.4%	2.3%	1,233	1,229
EBITDA	170.4	200.3	222.3	279.0	205.4	258.5	191.6	263.0	-5.7%	37.3%	221.0	230.9
EBITDA margin	*13.3%*	*16.5%*	*17.2%*	*21.0%*	*15.3%*	*20.5%*	*16.5%*	*22.1%*	*1.1*	*5.6*	*17.9%*	*18.8%*
EBIT	52.5	63.3	70.7	141.8	1.9	86.9	15.0	80.9	-42.9%	439.3%	49.0	52.6
EBIT margin	*4.1%*	*5.2%*	*5.5%*	*10.7%*	*0.1%*	*6.9%*	*1.3%*	*6.8%*	*-3.9*	*5.5*	*4.0%*	*4.3%*
Net profit	42.2	35.6	53.9	104.7	-10.3	53.1	-5.2	50.8	-51.5%	n.a.	25.3	32.9
Net margin	*3.3%*	*2.9%*	*4.2%*	*7.9%*	*-0.8%*	*4.2%*	*-0.4%*	*4.3%*	*-3.6*	*n.a.*	*2.1%*	*2.7%*

*Source: Company data, Santander Brokerage Poland, *3Q19P operating margins not adjusted for one-offs*

Fig. 2. PKP Cargo: FY19 guidance adjustment

	PKP Cargo (as of Nov 19)	PKP Cargo (as of Mar19)	% chng.	SANe	% dev.	Consensus	% dev.
Sales	n.a.	n.a.	n.a.	5,019	n.a.	5,244	n.a.
EBITDA	925	1,151	-20%	926	0%	954	-3.1%
EBITDA margin	*n.a.*	*n.a.*	*n.a.*	*18.4%*	*n.a.*	*18.2%*	*n.a.*
Capex	n.a.	n.a.	n.a.	869	n.a.	937	n.a.

Source: Company data, Santander Brokerage Poland

Fig. 3. PKP Cargo: valuation multiples summary

PLNmn	2015	2016	2017	2018	2019E	2020E	2021E
P/E (x)	32.9	n.a.	43.7	13.3	7.1	4.5	5.3
EV/EBITDA (x)	6.8	6.8	5.8	3.9	3.7	3.3	3.2
DY	3.1%	0.0%	0.0%	0.0%	6.3%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland

Financial summary

Fig. 4. PKP Cargo: Income statement forecasts

PLNmn	2015	2016	2017	2018	2019E	2020E	2021E
Operating revenue	**4554**	**4411**	**4739**	**5237**	**5019**	**5385**	**5280**
Operating expenses	**4498**	**4543**	**4584**	**4960**	**4781**	**5036**	**4977**
Depreciation	649	622	547	629	688	711	722
Raw materials & supplies	697	675	706	781	759	859	831
External services	1501	1573	1573	1725	1415	1490	1418
Employee benefits	1485	1442	1509	1651	1746	1785	1817
Other operating expenses	166	231	248	174	172	191	188
EBITDA	**705**	**490**	**702**	**907**	**926**	**1060**	**1025**
EBITDA adjusted*	**637**	**553**	**702**	**907**	**808**	**942**	**907**
Operating profit	**56**	**-132**	**155**	**278**	**238**	**350**	**303**
Operating profit adjusted*	**165**	**-33**	**128**	**250**	**221**	**333**	**286**
Net financials	**-52**	**-22**	**-39**	**-42**	**-74**	**-76**	**-77**
Financial revenue	15	39	20	16	13	12	13
Financial expenses	66	61	60	58	88	88	89
Share in the profit of associates	4	3	1	4	4	4	4
One-off items	2	0	0	4	4	4	4
PBT	**11**	**-151**	**116**	**244**	**172**	**281**	**235**
PBT adjusted*	**120**	**-52**	**89**	**216**	**155**	**264**	**218**
Income tax	-20	-17	35	60	33	54	45
Minority interest	0	0	0	0	0	0	0
Net profit	**30**	**-134**	**82**	**184**	**138**	**227**	**190**
Net profit adjusted*	**107**	**-110**	**59**	**162**	**150**	**239**	**202**

*Source: Company data, Santander Brokerage Poland, * excluding IFRS16 impact (2019 onward) and one-offs (2015-18)*

Fig. 5. PKP Cargo: financials margins / momentum

	2015	2016	2017	2018	2019E	2020E	2021E
EBITDA margin	15.5%	11.1%	14.8%	17.3%	18.5%	19.7%	19.4%
Operating margin	1.2%	-3.0%	3.3%	5.3%	4.7%	6.5%	5.7%
Net profit margin	0.7%	-3.0%	1.7%	3.5%	2.8%	4.2%	3.6%
Sales growth	6.5%	-3.1%	7.4%	10.5%	-4.2%	7.3%	-2.0%
EBITDA growth	39.9%	-30.6%	43.4%	29.2%	2.1%	14.4%	-3.3%
Operating profit growth	-53.8%	-336.2%	-217.4%	79.1%	-14.3%	46.9%	-13.2%
Net profit growth	-61.6%	-544.7%	-161.1%	125.1%	-24.7%	64.1%	-16.5%

Source: Company data, Santander Brokerage Poland

Fig. 6. PKP Cargo: Balance sheet forecasts

PLNmn	2015	2016	2017	2018	2019E	2020E	2021E
Current assets	**1,089.1**	**1,547.9**	**1,694.2**	**1,619.0**	**1,285.5**	**1,363.5**	**1,426.5**
Cash and equivalents	276.2	755.9	516.8	447.3	205.2	219.1	300.5
Other financial assets	4.0	0.9	263.7	203.7	203.7	203.7	203.7
Other non-financial assets	13.3	27.3	35.6	118.7	31.2	33.5	32.9
Inventories	128.5	121.2	148.5	161.6	154.9	166.2	163.0
Trade and other receivables	664.3	639.9	729.5	684.6	687.5	737.8	723.4
Income tax receivables	2.7	2.8	0.1	3.0	2.9	3.1	3.1
Fixed assets	**4,979.5**	**4,942.9**	**4,947.4**	**5,187.2**	**6,246.6**	**6,536.0**	**6,581.2**
PPE	4,719.7	4,700.6	4,688.0	4,946.8	5,995.8	6,274.9	6,323.1
Intangibles	66.4	55.8	43.9	34.6	55.8	55.8	55.8
Investment in affiliates	39.8	40.8	53.6	47.4	47.4	47.4	47.4
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial assets	9.8	8.6	10.5	7.7	7.7	7.7	7.7
Other non-financial assets	39.0	29.5	17.8	15.1	14.5	15.5	15.2
Long-term deferred charges	104.6	107.6	133.6	135.6	125.5	134.6	132.0
Assets for sale	**44.1**	**0.0**	**0.0**	**0.1**	**0.1**	**0.1**	**0.1**
Total assets	**6,112.7**	**6,490.8**	**6,641.6**	**6,806.3**	**7,532.1**	**7,899.5**	**8,007.8**
Current liabilities	**1,172.7**	**1,171.8**	**1,213.1**	**1,353.7**	**1,277.7**	**1,463.7**	**1,432.6**
Bank debt	253.6	197.8	249.7	248.6	236.2	324.4	308.2
Finance lease	65.4	59.6	48.0	21.9	20.8	69.7	66.3
Accounts payable	729.8	670.0	749.7	910.3	877.4	924.3	913.4
Employee benefits	100.4	99.3	104.0	115.5	115.5	115.5	115.5
Other provisions	17.9	25.0	59.7	56.9	27.3	29.3	28.8
Other current liabilities	2.2	118.9	0.3	0.1	0.1	0.1	0.1
Tax liabilites	3.5	1.4	1.6	0.3	0.3	0.3	0.3
Long-term liabilities	**1,586.1**	**2,076.1**	**2,093.7**	**1,969.0**	**2,699.6**	**2,653.9**	**2,603.7**
Bank debt	460.6	1,273.6	1,312.6	1,083.2	1,029.1	977.6	928.7
Finance lease	193.5	140.9	91.1	73.3	862.1	862.1	862.1
Accounts payable	26.0	1.8	1.6	112.0	108.0	113.7	112.4
Provisions for employee benefits	603.6	525.6	558.5	591.4	591.4	591.4	591.4
Other provisions	302.4	134.1	129.9	109.0	109.0	109.0	109.0
Equity	**3,353.9**	**3,242.9**	**3,334.8**	**3,483.7**	**3,554.9**	**3,781.9**	**3,971.5**
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3
Share premium	619.4	618.7	619.3	628.2	628.2	628.2	628.2
Other	-2.8	11.4	4.9	-44.0	-44.0	-44.0	-44.0
Retained earnings	497.9	373.4	471.3	660.2	731.4	958.4	1,148.0
Minority Interest	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total liabilities and equity	**6,112.7**	**6,490.8**	**6,641.6**	**6,806.3**	**7,532.1**	**7,899.5**	**8,007.8**

Source: Company data, Santander Brokerage Poland

Fig. 7. PKP Cargo: Cash flow statement forecasts

PLNmn	2015	2016	2017	2018	2019E	2020E	2021E
Cash flow from operations	**387.5**	**305.5**	**547.0**	**1051.9**	**852.3**	**927.1**	**917.5**
Net profit	30.1	-133.8	81.7	183.9	138.4	227.1	189.6
Provisions	-37.1	-240.4	68.2	20.8	-29.6	2.0	-0.6
Depreciation and amortization	649.0	621.6	546.9	629.4	688.4	710.5	722.0
Changes in WC, o/w	5.9	-52.1	-37.5	302.8	-33.1	-9.0	5.5
inventories	-13.2	7.3	-27.3	-13.2	6.8	-11.3	3.2
receivables	-138.2	24.5	-89.7	44.9	-2.9	-50.2	14.4
payables	157.3	-83.9	79.4	271.0	-37.0	52.6	-12.1
Other, net	-260.4	110.1	-112.3	-84.9	88.2	-3.6	1.0
Cash flow from investments	**-515.2**	**-551.7**	**-561.2**	**-874.9**	**-948.4**	**-998.8**	**-767.6**
Additions to PPE and intangibles	-1358.8	-547.7	-522.4	-879.0	-958.6	-989.7	-770.2
Change in long-term investments	-4.6	-1.0	-12.8	6.2	0.0	0.0	0.0
Other, net	848.2	-3.0	-26.0	-2.1	10.2	-9.2	2.6
Cash flow from financing	**-25.3**	**725.9**	**-224.9**	**-246.6**	**-146.0**	**85.7**	**-68.6**
Change in long-term borrowing	251.4	761.7	-12.7	-244.3	-65.3	-51.5	-48.9
Change in short-term borrowing	99.1	-61.6	40.4	-27.2	-13.5	137.2	-19.7
Change in equity and profit distribution	55.5	22.8	10.2	-35.0	0.0	0.0	0.0
Dividends paid	-110.0	0.0	0.0	0.0	-67.2	0.0	0.0
Other, net	-321.3	3.2	-262.8	59.9	0.0	0.0	0.0
Net change in cash and equivalents	**-153.0**	**479.7**	**-239.1**	**-69.5**	**-242.1**	**13.9**	**81.4**
Beginning cash and equivalents	429.2	276.2	755.9	516.8	447.3	205.2	219.1
Ending cash and equivalents	276.2	755.9	516.8	447.3	205.2	219.1	300.5

Source: Santander Brokerage Poland

Santander

Santander Brokerage Poland

Jana Pawla II Avenue 17
00-854 Warszawa
fax. (+48) 22 586 81 09

Equity Research Department

Kamil Stolarski, CFA, *Head of Equity Research* *Strategy, Financials*	tel. (+48) 22 586 81 00	kamil.stolarski@santander.pl
Paweł Puchalski, CFA, *Equity Analyst* *Telecommunications, Metals & Mining, Power*	tel. (+48) 22 586 80 95	pawel.puchalski@santander.pl
Grzegorz Balcerski, *Securities Broker, Investment Advisor* *Equity Analyst, Games, Health Care, Industrials*	tel. (+48) 22 534 16 10	grzegorz.balcerski@santander.pl
Tomasz Krukowski, CFA, *Equity Analyst* *Oil&Gas, CEE Non-Financials*	tel. (+48) 22 586 81 55	tomasz.krukowski@santander.pl
Adrian Kyrcz, *Equity Analyst* *Construction, Real Estate, IT*	tel. (+48) 22 586 81 59	adrian.kyrcz@santander.pl
Tomasz Sokołowski, *Equity Analyst* *Consumer Goods, Retail*	tel. (+48) 22 586 82 36	tomasz.sokolowski@santander.pl
Michał Sopiel, *Equity Analyst* *Industrials, Oil&Gas, Chemicals, Quantitative Analysis*	tel. (+48) 22 586 82 33	michal.sopiel@santander.pl

Sales & Trading Department

Kamil Kalemba, *Head of Institutional Equities*	tel. (+48) 22 586 80 84	kamil.kalemba@santander.pl
Mateusz Choromański, CFA, Head of Sales *Securities Broker, Investment Advisor*	tel. (+48) 22 586 80 82	mateusz.choromanski@santander.pl
Robert Chudala	tel. (+48) 22 586 85 14	robert.chudala@santander.pl
Alex Kamiński	tel. (+48) 22 586 80 63	alex.kaminski@santander.pl
Błażej Leśków, *Securities Broker*	tel. (+48) 22 586 80 83	blazej.leskow@santander.pl
Michał Stępkowski, *Securities Broker*	tel. (+48) 22 586 85 15	michal.stepkowski@santander.pl
Marek Wardzyński, *Securities Broker*	tel. (+48) 22 586 80 87	marek.wardzynski@santander.pl

LIMITATION OF LIABILITY

This material was produced by Santander Brokerage Poland which is a separate organizational unit of Santander Bank Polska S.A. (Santander Bank Polska) with its registered office in Warsaw, al. Jana Pawła II 17, 00-854 Warsaw, registered by the District Court for the Capital City of Warsaw, the 12th Economic Department of the National Court Register under the number 0000008723, NIP (Taxpayer Identification Number) 896 000 56 73, share capital – PLN 1.020.883.050 fully paid up. Santander Brokerage Poland is subject to the supervision of the Financial Supervision Commission with its headquarters in Warsaw, Plac Powstańców Warszawy 1, 00-030 Warszawa, NIP 521-340-29-37. Brokerage activity conducted by Santander Brokerage Poland is subject to the supervision of the Financial Supervision Commission with its headquarters in Warsaw, Plac Powstańców Warszawy 1, 00-030 Warszawa, NIP 521-340-29-37.
Santander Brokerage Poland is subject to the regulations of the Act on Trading in Financial Instruments dated July 29th 2005 (Journal of Laws of 2017, item 1768 - consolidated text, further amended), Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies dated July 29th 2005 (Journal of Laws of 2018 item 512 - consolidated text, further amended), Act on Capital Market Supervision dated July 29th 2005 (Journal of Laws of 2018, item 1417 – consolidated text, further amended). This material is addressed to qualified investors and professional clients as defined under the above indicated regulations and to Clients of Santander Brokerage Poland entitled to gain recommendations based on the brokerage services agreements.
Santander Brokerage Poland is an author of this document. All copyrights belong to Santander Bank Polska.This document may not be reproduced or published, in part or in whole, without a prior written consent of Santander Bank Polska.
Santander Brokerage Poland may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. Santander Brokerage Poland will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for particular investor and it is recommended to consult an independent investment advisor in case of doubts about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to investor's individual circumstances, or otherwise constitutes a personal recommendation to particular investor.
Affiliates of Santander Bank Polska may, from time to time, to the extent permitted by law, participate or invest in financing transactions with Issuer, perform services for or solicit business from such Issuer and/or have a position or effect transactions in the financial instruments issued by the Issuer ("financial instruments"). Santander Brokerage Poland may, to the extent permitted by applicable Polish law, UK law and other applicable law or regulation, effect transactions in the Financial instruments before this material is published to recipients.
This document is valid at the time of its preparation and may change.
Santander Brokerage Poland may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and Santander Brokerage Poland is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. Santander Brokerage Poland informs that success in past recommendations is not a guarantee of success in future ones. Points of view expressed in the reports reflect Analyst personal opinion on the analysed company and its securities. The sources of the data include WSE, PAP, Reuters, Bloomberg, EPFR, GUS /Central Statistical Office/, NBP /National Bank of Poland/, Santander Brokerage Poland, Akcje.net, financial periodicals and business and finance websites.
Information and opinions contained herein have been compiled or gathered, with due care and diligence, by Santander Brokerage Poland from sources believed to be reliable, however Santander Brokerage Poland cannot ensure their accuracy or completeness. Investor shall be responsible for conducting his own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the Financial instruments forming the subject matter of this document. The information and opinions contained herein are subject to change without any notice.
Santander Brokerage Poland is not responsible for any losses incurred by Investors which were result of investment decisions based on recommendations issued by Santander Brokerage Poland, if they were prepared with due care and diligence.
This document does not constitute an offer or invitation to subscribe for or purchase or carry out transactions in any financial instruments and shall not be considered as an offer to sell or to buy any securities. This document is furnished and presented to you solely for your information and shall not be reproduced or redistributed to any other person. This document nor any copy hereof shall not be disseminated, published or distributed directly or indirectly in the United States of America, Canada, Australia or Japan. Disseminating, publishing or distributing of this document directly or indirectly in the above countries or to any citizen or resident of these countries may be considered breach of the law or regulations related to the financial instruments in force in these countries.
Dissemination, publishing or distribution of this document may be restricted by law in other countries. Persons who distribute this document shall make themselves aware of and adhere to any such restrictions. This document may be distributed in the United Kingdom to persons who have professional knowledge about investing in accordance with relevant regulations.
Opinions in this document must not be relied upon as having been authorised or approved by issuer the opinions expressed herein are solely those of Santander Brokerage Poland.
Santander Brokerage Poland informs that investing assets in financial instruments implies the risk of losing part or all the invested assets.
Santander Brokerage Poland indicates that the price of the financial instruments is influenced by lots of different factors, which are or cannot be dependent from issuer and its business results. These are factors such as changing economical, law, political or tax condition. More information on financial instruments and risk connected with them can be found on www.bm.santander.pl, section disclaimers and risk.
The decision to purchase any of the financial instruments should be made only on the basis of the prospectus, offering circular or other documents and materials which are published on general release on the basis of polish law.

Overweight/Underweight/Neutral – means that, according to the authors of this document, the stock price may perform better/worse/neutrally than the WIG20 index in a given month.
When particular stocks are marked with Overweight/Underweight/Neutral - such information should not be construed as investment recommendation concerning a given financial instrument.
The recommendation system of Santander Brokerage Poland is based on determination of target prices and their relations to current prices of financial instruments. Overweight/Underweight/Neutral information contained herein does not meet the aforementioned requirement. Furthermore, depending on the situation, it can be grounds for taking different (including opposing) investment action in the case of particular investors.
Mid-caps – if a stock is included into a mid-cap portfolio it means that, according to the authors of this document, a particular stock price may outperform the WIG20 index during one month. Stocks are added to or deleted from the list on the basis of the requirement to rotate the stocks included in the list.
Any change in weight of stocks already included in the portfolio should not be construed as investment recommendation. Such changes are aimed exclusively at making the total weight of all stocks equal 100%.
Explanations of special terminology used in the recommendation:
EBIT – earnings before interest and tax
EBITDA – earnings before interest, taxes, depreciation, and amortization
P/E – price-earnings ratio
EV – enterprise value (market capitalisation plus net debt)
PEG - P/E to growth ratio
EPS - earnings per share
CPI – consumer price index
WACC - weighted average cost of capital
CAGR – cumulative average annual growth
P/CE – price to cash earnings (net profit plus depreciation and amortisation) ratio
NOPAT – net operational profit after taxation
FCF - free cash flows
BV – book value
ROE – return on equity
P/BV – price-book value

Recommendation definitions:
Buy – indicates a stock's total return to exceed more than 10% over the next twelve months.
Hold - indicates a stock's total return to be in range of 0%-10% over the next twelve months.

Sell - indicates a stock's total return to be less than 0% over the next twelve months.
It is possible for the analyst to indicate different recommendation (buy, sell, hold) than specified in the definition, with a given total expected rate of return on investment, where it is justified due to additional market factors, industry trends, etc. In such case, relevant clarification of the investment recommendation meaning presented in the recommendation is included in the document.

In preparing this document Santander Brokerage Poland applied at least one of the following valuation methods: discounted cash flows (DCF), comparative, mid-cycle, dividend discount model (DDM), residual income, warranted equity method (WEV), SOTP valuation, liquidation value.
The discounted cash flows (DCF) valuation method is based on expected future discounted cash flows. One advantage of the DCF valuation method is that it takes into account all cash streams reaching Issuer and the cost of money over time. Some disadvantages of the DCF valuation method are that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
The comparative valuation method is based on the economic rule of "one price". Some advantages of the comparative valuation method are that the analyst need only estimate a small number of parameters; the valuation is based on current market conditions; the relatively large accessibility of indicators for companies being compared; and that there is an extensive knowledge of the comparative method among investors. Some disadvantages of valuation by the comparative method are the considerable sensitivity of the results of the valuation on the choice of companies to the comparative group; the method can lead to a simplification of the picture of the company which in turn can lead to omitting certain important factors (e.g. growth dynamics, extra-operational assets, corporate governance, the repeatability of results, differences in applied accounting standards); and the uncertainty of the effectiveness of a market valuation of companies being compared.
The mid-cycle multiple valuation is based on long-term average valuation multiples of a sector or a peer group. The methodology aims to calculate a fair, through the cycle value of the company. Among its shortfalls is that at peaks and/or troughs of the cycle, the implied fair value may deviate substantially from the market's value of an analysed stock as well as the methods' reliance on the quality of external data (we usually use Bloomberg or Damodaran databases). Simplicity and average through-cycle value allowing to capture over- as well as under-valuation of a given stock are the main advantages of this methodology.
The dividend discount model (DDM) valuation is based on the net present value of the future dividends that are expected to be paid out by the company. Some advantages of the DDM valuation method are that it takes into account real cash flows to equity-owners and that the methodology is used in respect to companies with long dividend payout history. Main disadvantage of the DDM valuation method is that dividend payouts are based on a large number of parameters and assumptions, including dividend payout ratio.
Residual income method is conceptually close to the discounted cash flows method (DCF) for non-financial stocks, the difference being that it is based on expected residual income (returns over COE) rather than expected future cash flows. One advantage of this valuation method is that it captures the excess of profit potentially available to shareholders and the cost of money over time. Main disadvantage of the valuation method is that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
The warranted equity method (WEV) is based on the formula P/BV = (two year forward ROE less sustainable growth rate)/(Cost of equity less sustainable growth rate) which allows estimating a fair value (FV) of a given stock in two years' time. Subsequently the FV is discounted back to today. The main advantage of the WEV method is that it is a transparent one and based on relatively short term forecasts, hence substantially reducing the margin of forecasting error. The main disadvantage in our view is that the model is based on the principle that stock price should converge towards its fair value implied by company's ROE and COE.
SOTP valuation - different assets of a company are being valued according to different valuation methods, and the sum of these valuations represents the final valuation of the company. SOTP valuation advantages / disadvantages are identical to advantages and disadvantages of the specific valuation methods used.
Liquidation value method – liquidation value is the estimated amount of money that an asset or company could be quickly sold for, such as if it were to go out of business. Then, the estimated assets value is adjusted for liabilities and liquidation expenses. One advantage of this valuation method is its simplicity. This method does not account for intangible assets as goodwill, which is the main disadvantage.

Global statistics presenting the rating of the covered companies and the share of companies provided with investment banking in the past 12M are available at: https://bm.santander.pl/global-statistics.html.
A list of all recommendations on any financial instrument or issuer that were disseminated by Santander Brokerage Poland during the preceding 12 month period can be found on: https://www.inwestoronline.pl/r/res/wykaz_tabel/wykaz_rekomendacji_eng.pdf
In the opinion of Santander Brokerage Poland, this document has been prepared with all due diligence and excludes any conflict of interests which could influence its content. Santander Brokerage Poland is not obliged to take any actions which could cause financial instruments that are the subject of the valuation contained in this document to be valued by the market in accordance with the valuation contained in this document.
In Santander Bank Polska there are implemented internal regulations, which are designed to prevent conflicts of interest concerning recommendations. Physical and logic barriers are established, and the principles of documentation adequate to the type of Santander Bank Polska operations are implemented. Additionally, Santander Bank Polska introduced a number of obligations and restrictions relating to the protection of confidential information flow between organizational units.

The date and time on the first page of this report indicates the date of the production of the recommendation, and the dissemination of the recommendation takes place on the same day before the start of the session.
All the prices of financial instruments which have been mentioned in the report correspond to the rates at which the last transactions on these financial instruments were realized during a given day unless otherwise indicated.
The Stock performance charts in this report include line graphs of the securities' daily closing prices for one year period. Information relating to a longer period (max 3 years) is available upon request.
ANY PERSON WHO ACCEPTS THIS DOCUMENT AGREES TO BE BOUND BY THE FOREGOING DISCLAIMER AND LIMITATIONS.

DISCLOSURES
This report contains recommendations referring to company/companies: **PKP Cargo S.A.** („Issuer").
In the case where recommendation refers to several companies, the name "Issuer" will apply to all of them.
Santander Brokerage Poland emphasizes that this document is going to be updated at least once a year.
This document has not been disclosed to Issuer.
Members of the Issuer's authorities or their relatives may be members of the management board or supervisory board of Santander Bank Polska or its main shareholder - Banco Santander S.A.
Person/ Persons engaged in preparing the report or their relatives may be the members of the Issuer's authorities and may hold management position in this entity or may be party to any agreement with the Issuer, which would be concluded on different basis than agreements between Issuer and consumers.
Santander Bank Polska Group, its affiliates, representatives or employees may occasionally undertake transactions or may be interested in acquiring securities of companies directly or indirectly related to those being analysed.
Santander Brokerage Poland acts as a market maker, on principles specified in the Regulations of the Warsaw Stock Exchange, for the shares of Issuer and holds financial instruments issued by the Issuer.
Santander Brokerage Poland is not a party to the agreement with the Issuer related to issuing recommendations.
Santander Brokerage Poland is a party to the agreement with Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange), which subject is issuing recommendations related to the Issuer under the "Pilot Support Program for Analytical Coverage" organized by the Warsaw Stock Exchange. In this respect, Giełda Papierów Wartościowych w Warszawie S.A. has the proprietary rights to this report.
Based on the provisions of the agreement with Giełda Papierów Wartościowych w Warszawie S.A., which Santander Brokerage is a party, within the next 12 months Santander Brokerage Poland will receive remuneration for the preparation of recommendations regarding the Issuer, as part of the "Pilot Support Program for Analytical Coverage".
The Issuer may hold shares of Santander Bank Polska.
Santander Bank Polska or its affiliates may, from time to time, to the extent permitted by law, participate or invest in financing transactions with Issuer, perform services for or solicit business from such Issuer and/or have a position or effect transactions in the financial instruments issued by the Issuer (especially in relation to the services provided by PTE AVIVA Santander SA), ad as a result Santander Bank Polska may be indirectly connected with the Issuer.
Santander Bank Polska does not rule out that in the period of preparing this document any Affiliate of Santander Bank Polska might purchase shares of the Issuer or any financial instruments being the subject of this document which may cause reaching at least 0,5% of the share capital.
Subject to the above, the Issuer is not bound by any contractual relationship with Santander Bank Polska, which might influence the objectivity of the recommendations contained in this document.

However, it cannot be ruled out that, in the period of the next twelve months or the period in which this document is in force, Santander Bank Polska will submit an offer to provide services for the Issuer or will purchase or dispose of financial instruments issued by the Issuer or whose value depends on the value of financial instruments issued by the Issuer. Except for broker agreements with clients under which Santander Brokerage Poland sells and buys the shares of the Issuer at the order of its clients, Santander Brokerage Poland is not party to any agreement which would depend on the valuation of the financial instruments discussed in this document.
With the exception of remuneration from the Santander Brokerage Poland Analysts do not receive any other form of compensation for recommendations made. Remuneration received by the persons who prepare this document may be dependent, in an indirect way, from financial results gained from investment banking transactions, related to financial instruments issued by the Issuer, made by Santander Brokerage Poland or its Affiliates.