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CEE Equity Research

Industrials, Poland

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Covid-19 hit still ahead

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1Q20E results preview

Carriage statistics. We expect PKP Cargo to report ca. 19% y/y contraction of carriage turnover in 1Q20E. This should come visibly below the approx. -11% y/y domestic market fall, corresponding with the general trends observed over recent quarters. Moving to segments' performance, we assume all the key transportation categories could post a negative (or at best flattish) y/y transport turnover in 1Q20E. According to our calculations, metals and timber products could stand out negatively (-55% / -25% y/y change, respectively). We forecast the average distance covered to remain roughly unchanged y/y in the beginning of 2020E.

P&L. Based on our estimates, PKP Cargo's significant y/y volume drop might be followed by flattish y/y unit revenues delivery in 1Q20E (+1.3% y/y vs. ca. +7.5% y/y quarterly dynamic reported in 2019). As a result, the 1Q20E revenues could come close to PLN1.04bn, down 18% y/y. We expect the EBITDA to amount to PLN118mn implying an approx. 50% y/y decrease. EBIT and net profit may come in the red at PLN-72mn / PLN-97mn respectively. We reckon the fixed (in particular labour related) costs should be the key driver of the operational margins y/y contraction.

Capex. Despite recent MB's decision to keep the capex below the quarterly EBITDA, we suppose this spending rule might be breached in 1Q20E as we forecast the 1Q20E capex to come close to PLN135mn (with presumably even stronger negative impact on the cash flow).

Cash balance. Taking into account potentially both uninspiring EBITDA delivery in 1Q20E and relatively high capex (though strongly decreasing y/y and q/q), we await further q/q net debt increase. Combined this with the anticipated solid y/y 1Q20E EBITDA collapse, we see a risk of visible net debt / LTM EBITDA ratio expansion from ca. 2.4x EOP 2019 to even to 2.9x in the end of March 2020.

Fig. 1. PKP Cargo: 1Q20E results preview

PLNmn	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20E	y/y	q/q
Sales	1,216	1,294	1,329	1,344	1,261	1,164	1,191	1,165	1,038	-17.7%	-10.9%
EBITDA	200.3	222.3	279.0	205.4	258.5	191.6	263.0	146.8	118.4	-54.2%	-19.4%
EBITDA margin	16.5%	17.2%	21.0%	15.3%	20.5%	16.5%	22.1%	12.6%	11.4%	-9.1	-1.2
EBIT	63.3	70.7	141.8	1.9	86.9	15.0	80.9	-39.4	-71.6	n.a.	n.a.
EBIT margin	5.2%	5.5%	10.7%	0.1%	6.9%	1.3%	6.8%	-3.4%	-6.9%	n.a.	n.a.
Net profit	35.6	53.9	104.7	-10.3	53.1	-5.2	50.8	-62.7	-97.3	n.a.	n.a.
Net margin	2.9%	4.2%	7.9%	-0.8%	4.2%	-0.4%	4.3%	-5.4%	-9.4%	n.a.	n.a.
Carriage turnover (bn tkm)	7.6	7.8	7.9	8.1	7.2	6.6	6.7	6.5	5.8	-18.7%	-9.7%
Unit revenues	0.161	0.166	0.167	0.166	0.175	0.176	0.179	0.180	0.178	1.3%	-1.3%
y/y dynamic	3.4%	13.2%	11.1%	4.7%	9.1%	5.9%	6.6%	8.6%	1.3%	n.a.	n.a.
Capex	133	170	174	417	250	302	250	230	135	-45.8%	-41.3%

Source: Company data, Santander Brokerage Poland

Comment: Should our negative scenario assuming a mix of (1) the significant y/y decrease of unit revenues and (2) stubbornly falling transportation volumes (the worst is still about to come, we believe) materialise, PKP Cargo may be forced to focus

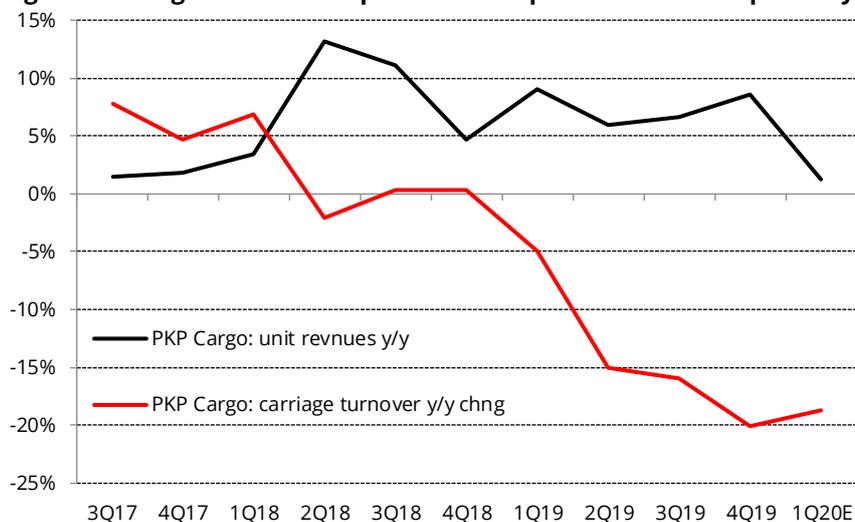
harder on liquidity management. In the effect, taking in account recent move made among others by PGG, we do not exclude the MB to introduce worktime decrease (presumably followed by salaries 'temporary?' reduction) to utilise State anti-crisis liquidity funds. Such actions could prove essential to keep the current business running. Summing up, we continue to perceive the risk/reward profile of the company as unappealing.

Fig. 2. PKP Cargo: 1Q20E operational results preview

	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20E	y/y	q/q
Solid fuels	2.6	2.9	2.7	2.4	2.4	2.5	2.3	-16%	-9%
Solid fuels (hard coal)	2.2	2.4	2.3	1.9	2.1	2.1	2.0	-16%	-8%
Aggregates and building materials	2.0	1.8	1.4	1.4	1.3	1.2	1.2	-15%	0%
Metals and ores	0.9	0.9	0.9	0.8	0.7	0.4	0.4	-55%	-6%
Chemical products	0.6	0.5	0.5	0.5	0.5	0.5	0.5	-10%	-4%
Liquid fuels	0.3	0.3	0.2	0.2	0.3	0.3	0.2	0%	-25%
Timber and agricultural produce	0.3	0.4	0.3	0.3	0.2	0.3	0.2	-25%	-26%
Intermodal transport	1.0	1.1	1.0	0.9	1.1	1.0	0.9	-10%	-14%
Other	0.2	0.2	0.1	0.2	0.2	0.2	0.1	3%	-28%
Total	7.9	8.1	7.2	6.6	6.7	6.5	5.8	-19%	-10%
y/y	0%	0%	-5%	-15%	-16%	-20%	-19%	n.a.	n.a.
q/q	2%	2%	-11%	-8%	1%	-3%	-10%	n.a.	n.a.

Source: Company data, Santander Brokerage Poland

Fig. 3. PKP Cargo: unit service price vs. transport volume on a quarterly basis



Source: UTK, Santander Brokerage Poland

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EBITDA – earnings before interest, taxes, depreciation, and amortization

P/E – price-earnings ratio

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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

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NOPAT – net operational profit after taxation

FCF - free cash flows

BV – book value

ROE – return on equity

P/BV – price-book value

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