

Pilot support program for analytical coverage

Bloomberg: PKP PW, Reuters: PKPP.WA

CEE Equity Research

Industrials, Poland

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Awaiting external market stimulus

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4Q20 / 2020 results review

Carriage. PKP Cargo reported flattish y/y transport turnover in 4Q20 (-12% y/y in 2020), accordingly to the expectations. The respective figures for carriage volume amounted to -2.3% / -13.8%. We calculate the average distance covered grew 3% y/y, which was presumably attributable to higher share of intermodal the transport mix in the October – December 2020 period (18.4% vs. 15.9% in 2019). When the key transport segments are concerned, we point out rebounding metals & ores and intermodal volumes with a negative surprise related to ca. 60% y/y decrease of liquid fuels group.

P&L. The reported 4Q20 key P&L figures stood in line with the preliminary data. From the costs mix perspective, there were no major surprises. The expenditures growth q/q corresponded with the development of carriage turnover. Costs of logistic services expanded visibly (+31% q/q) but the category used to be shaky in the past. The reduced headcount should start paying off from 2021 onward as there was a divergence between the average FTEs and nominal y/y change in 2020). We estimate the unit revenues went down approx. 6% y/y in 4Q20 (-3% y/y) which in our view might translate into further pressure on operational margins in 2021 (particularly 1H21E).

Fig. 1. PKP Cargo: capex quarterly

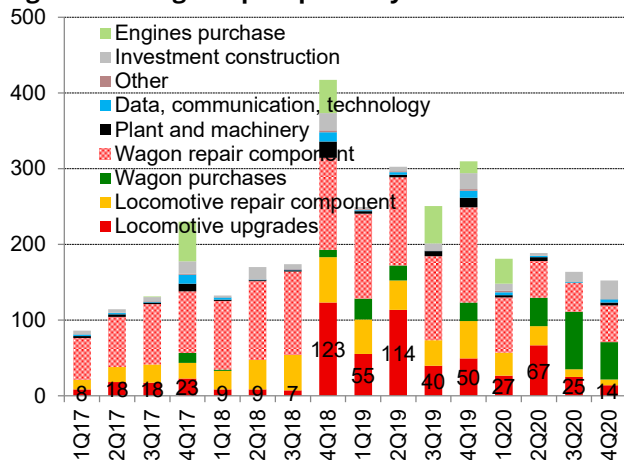
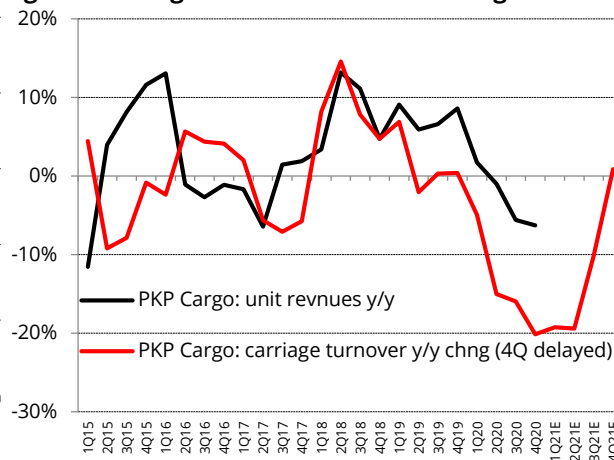


Fig. 2. PKP Cargo: unit revenues vs. carriage turnover

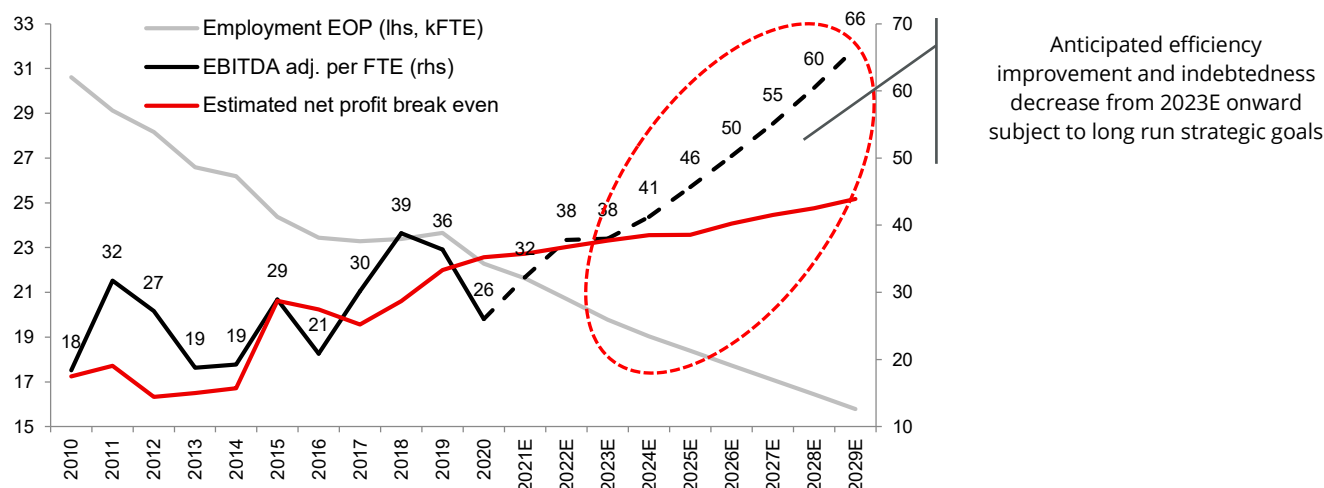


Source: Company data, Santander Brokerage Poland estimates (for both graphs)

Capex. Capex (adjusted for IFRS16) amounted to PLN152mn (PLN686mn in 2020) and was visibly lower y/y. The capital outlays came in, however, above the FY20 EBITDA stretching further the balance sheet.

Cash flow statement. OCF totalled PLN172mn (PLN553mn in 2020) vs. PLN243mn (PLN807mn) in the respective period last year. The ICF at PLN196mn was to some extent (PLN24mn) supported by sale of retired durable assets. We calculate PKP Cargo's net debt at PLN2.3bn (flat q/q but significantly above ca. PLN2.1bn reported as at EOP 2019) implying headline net debt / LTM EBITDA ratio at 3.92x. The figure adjusted for IFRS16 may have settled, however, lower (but still visibly above 3.0x). We reckon the indebtedness as relatively high, with a limited potential for its decrease in the mid run.

Fig. 3. PKP Cargo: labor efficiency (long run perspective based on current valuation model)



Source: PKP Cargo, Santander Brokerage Poland estimates

Fig. 4. PKP Cargo: 4Q20 results review

PLNmn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	y/y	q/q	LTM
Sales	1,261	1,164	1,191	1,165	1,036	929	1,010	1,101	-5.5%	9.1%	4,076
EBITDA	259	192	263	147	90	117	227	147	-0.1%	-35.4%	580
EBITDA margin	20.5%	16.5%	22.1%	12.6%	8.7%	12.6%	22.5%	13.3%	0.7	-9.2	14.2%
EBIT	87	15	81	-39	-106	-76	37	-41	n.a.	n.a.	-186
EBIT margin	6.9%	1.3%	6.8%	-3.4%	-10.2%	-8.2%	3.6%	-3.7%	n.a.	n.a.	-4.6%
Net profit	53	-5	51	-63	-114	-78	16	-48	n.a.	n.a.	-224
Net margin	4.2%	-0.4%	4.3%	-5.4%	-11.0%	-8.3%	1.5%	-4.4%	n.a.	n.a.	-5.5%
Carriage turnover (bn tkm)	7.2	6.6	6.7	6.5	5.8	5.3	6.0	6.5	0.9%	9.0%	24
Unit revenues	0.175	0.176	0.179	0.180	0.178	0.174	0.169	0.169	-6.3%	0.1%	0.172
y/y dynamic	9.1%	5.9%	6.6%	8.6%	1.7%	-1.0%	-5.6%	-6.3%	n.a.	n.a.	-2.9%
Capex	250	302	250	230	181	189	164	152	-33.9%	-7.1%	686

Source: Company data, Santander Brokerage Poland estimates

PKP Cargo held also an investor teleconference on Thursday last week. Following there are the key excerpts:

- Management is determined to continue its efforts to reduce operating expenses and increase operating efficiency;
- CEO does not expect further significant (close to the level observed in 2020) job cuts; nevertheless, the performed carriage will be a determining factor;
- PKP Cargo aims to deliver a positive net result in 2021E; the goal should be reached thanks to the expected market rebound and the maintenance of the tight cost management;
- 2021E capex should not exceed the full year EBITDA;
- Price pressure, apart from intermodal segment, remains present in the market;
- With regard to the being proceed Act on Engine's Drivers Working Time, the company is waiting for the final legislator's guidelines.

Comment: We perceive the reported data neutrally. The operational results settled in line with the early guidance / public statistics. In our view, there were no major one-offs distorting the perception of PKP Cargo's financial performance in 4Q20. We appreciate MB's efforts aimed at operational costs reduction. Particularly the component of labour expenses should bring in significant savings from 2021 onward.

We reckon similar initiatives are inevitable due to persistent competitive pressure and relatively high indebtedness.

Looking forward, we assess the risk / reward for the company as unappealing in the short run. Based on our expectations, carriage turnover might near 26bn tkm in 2021E (+14% y/y but still below almost 27bn tkm reported in FY19) and be accompanied by ca. 4% y/y fall of average unit revenues (transport performance wise), implying approx. 6.5% contraction vs. 2019. In the effect, we await a y/y EBITDA growth this year but expect the figure to settle close to PLN700mn, resulting in a net loss for a second year in a row. There are naturally some odds for materialisation of a more positive scenario in the event of steeper path of domestic railway cargo market rebound (potentially muting the competitive pressure). Nevertheless, we expect the more significant operational margins expansion to materialise in 2022E at the earliest.

Fig. 5. PKP Cargo: transport turnover on a quarterly basis

	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	y/y	q/q
Solid fuels	2.4	2.5	2.4	1.7	2.1	2.4	-4%	16%
Solid fuels (hard coal)	2.1	2.1	2.0	1.4	1.7	2.0	-7%	16%
Aggregates and building materials	1.3	1.2	0.9	1.1	1.3	1.2	-2%	-10%
Metals and ores	0.7	0.4	0.5	0.5	0.4	0.6	38%	34%
Chemical products	0.5	0.5	0.5	0.4	0.5	0.6	19%	29%
Liquid fuels	0.3	0.3	0.3	0.2	0.1	0.1	-62%	-11%
Timber and agricultural produce	0.2	0.3	0.3	0.2	0.2	0.3	-10%	18%
Intermodal transport	1.1	1.0	0.9	1.0	1.2	1.2	17%	4%
Other	0.2	0.2	0.2	0.1	0.2	0.2	-9%	-8%
Total	6.7	6.5	5.8	5.3	6.0	6.5	1%	9%
y/y	-16%	-20%	-19%	-19%	-10%	1%	n.a.	n.a.
q/q	1%	-3%	-10%	-8%	12%	9%	n.a.	n.a.

Source: Company data, Santander Brokerage Poland estimates

Fig. 6. PKP Cargo: full year key operational items

	2018	2019	2020	y/y
Sales	5,183	4,782	4,076	-14.8%
EBITDA	907.0	859.9	580.2	-32.5%
EBITDA margin	17.5%	18.0%	14.2%	-3.7
EBIT	277.6	143.4	-186.4	n.a.
EBIT margin	5.4%	3.0%	-4.6%	n.a.
Net profit	183.9	36.0	-224.3	n.a.
Net margin	3.5%	0.8%	-5.5%	n.a.
Capex	894	1,032	686	-33.5%
Net debt (EOP)	1,669	2,072	2,274	9.8%
Carriage turnover	31.4	26.9	23.6	-12.2%

Source: Company data, Santander Brokerage Poland estimates

Fig. 7. PKP Cargo: financial summary

PLNm	2016	2017	2018	2019	2020	2021E	2022E	2023E
Sales	4,411	4,739	5,237	4,866	4,076	4,371	4,458	4,309
EBITDA	490	702	907	860	580	698	783	751
EBIT	-132	155	278	143	-186	-11	87	69
Net income	-134	82	184	36	-224	-56	23	9
P/E (x)	n.a.	43.7	13.3	33.2	n.a.	n.a.	23.1	38.3
EV/EBITDA (x)	6.8	5.8	3.9	5.0	6.3	5.3	4.6	4.7
DY	0.0%	0.0%	0.0%	4.2%	0.0%	0.0%	0.0%	0.0%

Source: Bloomberg, Santander Brokerage Poland estimates

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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

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The 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.

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