

## Pilot support program for analytical coverage

Bloomberg: PKP PW, Reuters: PKPP.WA

CEE Equity Research

Industrials, Poland

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### No buffer for market turmoil left

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#### 1Q21 results review

**Carriage.** PKP Cargo, similarly to 4Q20, reported roughly flattish y/y transport turnover in 1Q21 (+1.7% y/y), in line with the monthly market data. The respective metric for carriage volume stood at +1.3%. The y/y dynamic of the average distance covered followed the same script in the beginning of 2021 (+0.3% y/y). From the key transport segments perspective, metals & ores and intermodal transport turnover continued to perform exceptionally well showing robust double-digit y/y growth. Liquid fuels and wood-based products stood on the opposite side of the ranking.

**P&L.** The disclosed 1Q21 data were in line with the preliminary figures. From the costs mix perspective, there were no major surprises. Tighter costs management started to pay off as labour expenses lowered y/y, which we associate with the visibly reduced headcount over recent months. Counterintuitively, there was also ca. PLN10mn y/y decrease of transport services category in 1Q21. Unfortunately the unit fares (vs. carriage turnover) remained in a downtrend (-5.4% y/y based on our estimates), translating into pressure on the operating margins. Worth pointing out, however, is the fact the negative y/y momentum has recently stabilised. Taking into account historical correlations, the anticipated rebound for railway cargo services allows for slight optimism and fares increase, presumably at the turn of 2021E/22E.

Fig. 1. PKP Cargo: capex quarterly

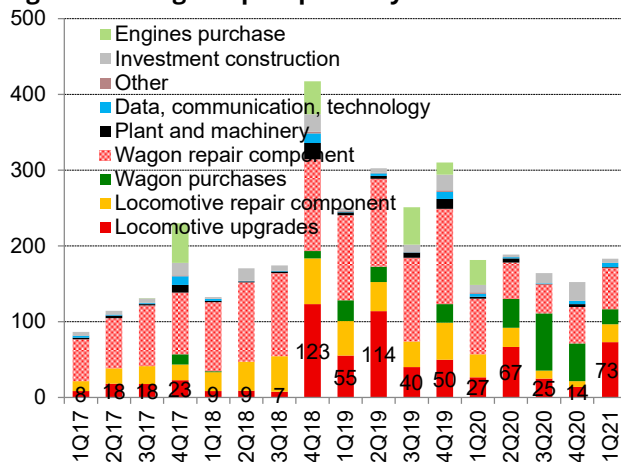
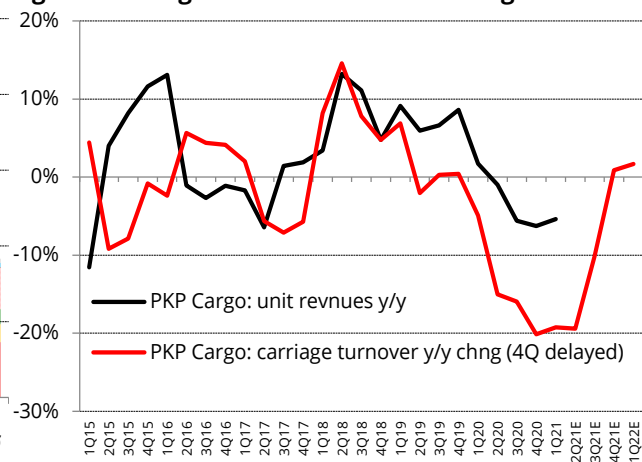


Fig. 2. PKP Cargo: unit revenues vs. carriage turnover



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

**Capex.** Capex (adjusted for IFRS16) amounted to PLN183mn vs. PLN181mn in the respective period last year. Wagons' / locomotives' purchase / modernisation component accounted for the majority of the capital outlays.

**Cash flow statement.** In our view, the OCF posted a negative surprise in the beginning of 2021 showing a significant contraction y/y to PLN58mn (PLN103mn in 1Q20). The aforementioned, combined with the ICF at PLN162mn, resulted in a visible cash balance decrease q/q to PLN125mn (PLN306mn EOP 2020). We calculate PKP Cargo's nominal net debt (not adjusted for IFRS 16) expanded q/q to PLN2.4bn, stretching further the PKP Cargo's balance sheet. We reiterate our comment that the indebtedness remains relatively high, leaving limited buffer in case of a potential market turmoil.

**Fig. 3. PKP Cargo: 1Q21 results review**

PLNmn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	y/y	q/q
Przychody	1,261	1,164	1,191	1,165	1,036	929	1,010	1,101	996	-3.8%	-9.6%
EBITDA	259	192	263	147	90	117	227	147	104	16.0%	-28.8%
EBITDA %	20.5%	16.5%	22.1%	12.6%	8.7%	12.6%	22.5%	13.3%	10.5%	1.8	-2.8
EBIT	87	15	81	-39	-106	-76	37	-41	-71	n.a.	n.a.
EBIT %	6.9%	1.3%	6.8%	-3.4%	-10.2%	-8.2%	3.6%	-3.7%	-7.1%	n.a.	n.a.
Zysk / strata netto	53	-5	51	-63	-114	-78	16	-48	-71	n.a.	n.a.
Zysk / strata netto %	4.2%	-0.4%	4.3%	-5.4%	-11.0%	-8.3%	1.5%	-4.4%	-7.2%	n.a.	n.a.
Praca przewozowa (mld tkm)	7.2	6.6	6.7	6.5	5.8	5.3	6.0	6.5	5.9	1.7%	-9.6%
Przychody jednostkowe	0.175	0.176	0.179	0.180	0.178	0.174	0.169	0.169	0.169	-5.4%	0.0%
Zmiana r/r	9.1%	5.9%	6.6%	8.6%	1.7%	-1.0%	-5.6%	-6.3%	-5.4%	n.a.	n.a.
Nakłady inwestycyjne	250	302	250	230	181	189	164	152	183	0.9%	20.1%
Dług netto*	1,714	1,762	1,950	2,072	2,293	2,290	2,272	2,274	2,406	4.9%	5.8%
Dług netto / EBITDA	1.8	1.9	2.1	2.4	3.3	3.7	3.9	3.9	4.0	n.a.	n.a.
Przepływy operacyjne	163	193	208	243	103	115	163	172	57.8	-43.8%	-66.4%

Source: Company data, Santander Brokerage Poland estimates

PKP Cargo held also an investor teleconference following the release of the full 1Q21 financial statements. Following there are the key excerpts:

- PKP Cargo anticipates rebound of the Group's revenues in the coming quarters thanks to an increase in railway cargo demand;
- CEO expects an increase of the transport of coal, aggregates and building materials; in the medium term, the PKP Cargo may benefit from the funds attributable to the planned domestic fiscal stimulus;
- 2020 and 1Q21 were a year of cost structure / base adjustment to the more demanding business environment;
- The share of intermodal transport is expected to permanently exceed 20% of the Group's transport mix by the end of 2021E; in the long term, the intermodal should compensate for the projected decline in coal transport; in the effect the company invests not only in rolling stock, but also in an IT system for servicing this type of transport;
- Thanks to the growing demand, CEO expects lowered price pressure at the tenders this year;
- PKP Cargo plans to launch more operator trains abroad, including a line to Turkey; company representatives assess the strategy of foreign expansion brings in positive results and should be developed further;
- The entity eyes also higher presence at the terminals – seaports main routes.

**Comment:** In our opinion neither the reported full 1Q21 financial figures nor the investor teleconference shed new light on the company's perspectives / financial standing. For the time being we stick to our base scenario assuming PKP Cargo's volume rebound this year (potentially close to the level of the operational statistic reported in 2019). Average transport fares should remain under pressure following unsupportive contract's rollover in 2020. Thus, the operating margins could remain low, with no opportunity for indebtedness reduction in the short run due to stubbornly inflated capex. Should the demand recover turn steeper, there could

materialise some upside risks to our presented scenario, assuming further tight cost management.

**Fig. 4. PKP Cargo: transport turnover on a quarterly basis**

	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	y/y	q/q
Solid fuels	2.5	2.4	1.7	2.1	2.4	2.4	-1%	-1%
Solid fuels (hard coal)	2.1	2.0	1.4	1.7	2.0	1.9	-2%	-4%
Aggregates and building materials	1.2	0.9	1.1	1.3	1.2	0.8	-4%	-29%
Metals and ores	0.4	0.5	0.5	0.4	0.6	0.5	18%	-6%
Chemical products	0.5	0.5	0.4	0.5	0.6	0.5	15%	-7%
Liquid fuels	0.3	0.3	0.2	0.1	0.1	0.2	-38%	29%
Timber and agricultural produce	0.3	0.3	0.2	0.2	0.3	0.2	-14%	-11%
Intermodal transport	1.0	0.9	1.0	1.2	1.2	1.1	21%	-11%
Other	0.2	0.2	0.1	0.2	0.2	0.1	-26%	-33%
<b>Total</b>	<b>6.5</b>	<b>5.8</b>	<b>5.3</b>	<b>6.0</b>	<b>6.5</b>	<b>5.9</b>	<b>2%</b>	<b>-10%</b>
y/y	-20%	-19%	-19%	-10%	1%	2%	n.a.	n.a.
q/q	-3%	-10%	-8%	12%	9%	-10%	n.a.	n.a.

Source: Company data, Santander Brokerage Poland

**Fig. 5. PKP Cargo: financial summary**

PLNm	2016	2017	2018	2019	2020	2021E	2022E	2023E
Sales	4,411	4,739	5,237	4,866	4,236	4,373	4,601	4,534
EBITDA	490	702	907	860	580	719	900	893
EBIT	-132	155	278	143	-186	-30	171	184
Net income	-134	82	184	36	-224	-53	109	121
P/E (x)	n.a.	43.7	13.3	33.2	n.a.	n.a.	7.1	6.5
EV/EBITDA (x)	6.8	5.8	3.9	5.0	6.1	5.4	4.2	4.0
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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