MFO

Buy

(Previous: BUY; PLN 79,4)

TP: 69,9 PLN

Cur. price: 38,9 PLN

Upside: 80%

Financial results

22.09.2022

#Q2'22 forecasts and outlook for 2022. HDGC prices averaged PLN 5900/t in Q2'22 (+PLN 450 q/q and +PLN 500 y/y), but prices fell from PLN 7150/t to PLN 4575/t between the beginning and end of the quarter. Thus, from mid-May onwards, there was, in our view, a negative FIFO effect, which consumed much of the profit generated in April in an environment of high steel prices. Accordingly, we are lowering our Q2'22 EBITDA expectations from PLN 35m to around PLN 27m. Supporting H2'22 sales amid a slowdown in orders from industry will be a new line for profiles dedicated for PV farms. The drop in steel prices should reduce the company's working capital requirements, which we believe will translate into a high cash flow this year.

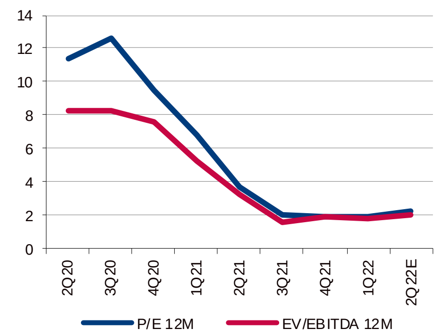
#Rail siding crucial to the supply chain. In a situation of limited availability of road transport (a significant part of the drivers were from Ukraine and Belarus) and dynamically increasing freight rates (>20% YTD), the railway siding purchased last year is today an advantage of MFO over its competitors. Quite a few of MFO's Polish competitors used to supply steel from eastern directions (Severstal, Metinvest), but due to the current situation not everyone will have the opportunity to obtain alternative sources of supply. Steel mills in Western Europe, which have spare capacity due to lower demand from the automotive industry, with a limited supply of drivers are only able to deliver to Poland by rail. Thus, in the case of MFO, we do not see any risk to the availability of material, while the company will be able to take advantage of competitors' problems in this area to take market share and stabilise volumes in the event of a possible slowdown in demand in H2'22. Equally important is the company's strong balance sheet, which allows the company to make prepayments for purchased material, also guaranteeing its availability.

#Revision of forecasts and valuation assumptions. We raise the rfr from 5.5% to 6%, while maintaining the market premium at 6% (entry into the sWIG80 index), given the high volatility of steel prices and the uncertainty of future price developments (currently leaning in plus in the cycle). We take the unleveraged beta at 1.1x. We are lowering the volume assumptions for 2022-2023 from 174k/t and 184k/t to 167k/t and 177k/t. We assume a unit EBITDA margin from 2023 onwards at an average of PLN 350/t. vs. PLN 290/t in 2017-2020 (effect of price inflation and reduction of competitive pressure due to disrupted supply chains and diversion of material purchases). We lower our steel price assumptions in subsequent years to PLN 3500/t from PLN 4000/t previously.

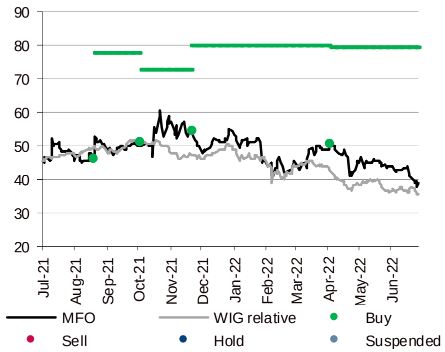
Company data			
Ticker			MFO
Sector			Metal industry
Price (PLN)			38,9
52w min/max (PLN)			29,1 / 52,8
Shares (m)			6,6
MC (PLNm)			257
Free-float			0
Avg. 3M turnover (PLNm)			0,08
Price chng.	**1M**	**3M**	**1Y**
	8,4%	4,7%	-35,1%

Recommendation history	Date	Price
BUY	22.04.2022	79
BUY	09.12.2021	80
BUY	21.10.2021	73
BUY	06.09.2021	78
BUY		
BUY		
BUY		

P/E 12M vs EV/EBITDA 12M



WIG vs. MFO chart



mPLN	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22E	y/y	q/q
Sales	87	104	120	176	234	324	257	295	323	38%	9%
EBITDA	4,2	7,7	14,7	25,0	44,1	78,8	24,0	23,4	27,3	-38%	17%
EBIT	3,0	6,5	13,4	23,7	42,8	77,5	22,6	21,8	25,7	-40%	18%
Net profit	1,6	5,7	11,3	19,0	34,1	62,0	17,9	16,8	20,1	-41%	19%
P/E12M trailing	11,4	12,7	9,5	6,8	3,7	2,0	1,9	2,0	-		
EV/EBITDA 12M trailing	8,2	8,2	7,6	5,3	3,2	1,6	1,9	1,8	-		
sales growth y/y	-19%	-7%	19%	49%	169%	213%	114%	67%	38%		
EBITDA margin	4,9%	7,5%	12,3%	14,2%	18,9%	24,3%	9,4%	7,9%	8,5%		
EBIT margin	3,4%	6,2%	11,2%	13,5%	18,3%	23,9%	8,8%	7,4%	8,0%		
Net margin	1,9%	5,5%	9,5%	10,8%	14,6%	19,1%	7,0%	5,7%	6,2%		

mPLN	2019	2020	2021	2022E	2023E	2024E
Sales	439	428	990	1 051	844	909
EBITDA	38	36	172	77	62	65
EBIT	34	31	167	70	54	56
Net profit	25	27	133	54	42	46
EPS (PLN)	3,85	4,1	20,1	8,2	6,3	7,0
DPS (PLN)	0,8	0,0	1,0	4,0	2,5	3,2
P/E (x)	10,1	9,5	1,9	4,7	6,1	5,5
EV/EBITDA (x)	7,9	7,6	1,7	2,4	3,5	3,9
P/BV (x)	1,6	1,4	0,8	0,7	0,7	0,7
DY (%)	2,2%	0,0%	2,6%	10,3%	6,4%	8,1%

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Definitions

capitalisation – market price multiplied by the number of a company's shares
free float (%) – a percentage of a company's shares held by shareholders with less than 5% shareholding reduced by treasury shares held by the company
min/max 52 wks – minimum/maximum share price within the last 52 weeks
average turnover – average volume of share trading within the last month

EBIT – operating profit
EBITDA – operating profit increased by depreciation and amortisation
adjusted profit – net profit adjusted for one-off items
CF – cash flow
capex – sum of investment expenditures on fixed assets
OCF – cash generated through the operational activities of the company
FCF – cash generated by the company after taking into account outflows to support operations and retained capital

ROA – rate of return on assets
ROE – rate of return on equity
NWC – net working capital
Cash conversion cycle –period from the moment of expenditure of cash for the purchase of production factors until the moment of receipt of cash revenues from the sale of manufactured goods or services.

Gross profit margin – a ratio of gross profit to net revenue
EBITDA margin – a ratio of sum of operating profit and depreciation/amortisation to net revenue
EBIT margin – a ratio of operating profit to net revenue
net margin – a ratio of net profit to net revenue

EPS – earnings per share
DPS – dividends per share
P/E – a ratio of market price to earnings per share
P/BV – a ratio of market price to book value per share
EV/EBITDA – a company's EV to EBITDA ratio
EV – sum of a company's current capitalisation and net debt
DY – dividend yield, dividend paid to share price ratio

RFR - risk-free rate
WACC - weighted average cost of capital

Recommendations of the Brokerage House

BUY – we expect that the rate of return on an investment will be at least 10%
NEUTRAL – we expect the price of an investment to be relatively stable, optionally it will increase no greater than 10%
SELL – we expect that an investment will make a loss greater than 0%
Recommendation prepared by: Grzegorz Kujawski, Maciej Marcinowski, David Sharma,Dominik Niszcz, Michał Kozak, Kacper Koproń, Katarzyna Kosiorek, Łukasz Rudnik, Piotr Rychlicki, Piotr Chodyra

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