

## MFO

**# Q3'22 outlook and outlook for subsequent quarters.** HDGC prices averaged PLN 4150/t in Q3'22 ( PLN -1700 q/q and PLN -1720 y/y), but prices fell from PLN 4650/t to PLN 4100/t between the beginning and end of the quarter. We estimate that the drop in steel prices that began as early as May had a negative impact on earnings (more expensive inventory, with falling spot prices for finished goods, caused a negative FIFO effect, in our view). The slowdown in industry and construction will, in our opinion, leave its mark on sales volumes. Given the time lag between profile production, window production, window distribution and purchase by the end customer, we expect that sales in this range will not yet feel the slowdown by the end of the year. The production of profiles for PV farms may prove to be a mitigating factor, but this will depend on gaining sales competence in Western European markets due to problems in obtaining new connections in the domestic market. Falling steel prices translate into lower demand for working capital, which in turn heralds strong OCF in H2'22 (net working capital after H1'22 was PLN 182m). We expect higher capex next year due to the planned construction of a new plant on land purchased from Boryszew.

**# Steel market.** In recent months, there have been a number of steel production shutdowns or announcements of shutdowns at blast furnace mills in Europe, which in turn affects higher transport costs due to the need to import goods from blast furnace mills located further away from Poland. The main supplier of steel to MFO is ArcelorMittal, which has announced production shutdowns at its plants in Dabrowa Górnicza, Eissenhutenstadt, Bremen and Dunkirk, among others. With such a large scale of production cutbacks on the steel mills' side, the company's advantage becomes access to the railway siding, which was purchased last year (lower transport costs and greater, more flexible availability). It is also worth noting that a large part of MFO's Polish competitors used to supply steel from eastern directions (Severstal, Metinvest), but due to the duties introduced, these entities will be losing their market share. Despite this, the decline in demand is affecting an increasingly wide range of steel profile customers in Europe, which leads us to lower our expectations for realised volumes in the coming quarters.

**# Revision of forecasts and valuation assumptions.** We raise the rfr from 6% to 6.5%, while maintaining the market premium at 6% (sWIG80 index), given the high volatility of steel prices and the uncertainty of future price developments (currently leaning in plus in the cycle) we assume an unleveraged beta of 1.1x. We lower our volume assumptions for 2022-2023 from 167,000 tonnes and 177,000 tonnes to 156 and 169,000 tonnes. We assume unit EBITDA margin from 2023 onwards at an average of >PLN350/t. vs. PLN 290/t in 2017-2020 (effect of price inflation and reduced competitive pressures due to disrupted supply chains and diversion of material purchases). We maintain steel price assumptions at PLN 3,500/t in subsequent years.

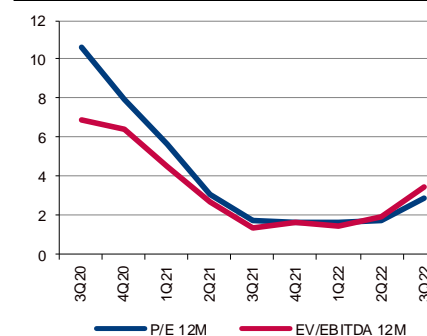
mPLN	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	y/y	q/q
Sales	104	120	176	234	324	257	295	295	241	-26%	-18%
EBITDA	7,7	14,7	25,0	44,1	78,8	24,0	23,4	37,0	17,7	-78%	-52%
EBIT	6,5	13,4	23,7	42,8	77,5	22,6	21,8	35,4	16,0	-79%	-55%
Net profit	5,7	11,3	19,0	34,1	62,0	17,9	16,8	28,5	11,9	-81%	-58%
P/E12M trailing	10,6	8,0	5,7	3,1	1,7	1,6	1,6	1,7	-		
EV/EBITDA 12M trailing	6,9	6,4	4,5	2,7	1,4	1,7	1,5	1,9	-		
sales growth y/y	-7%	19%	49%	169%	213%	114%	67%	26%	-26%		
EBITDA margin	7,5%	12,3%	14,2%	18,9%	24,3%	9,4%	7,9%	12,5%	7,3%		
EBIT margin	6,2%	11,2%	13,5%	18,3%	23,9%	8,8%	7,4%	12,0%	6,7%		
Net margin	5,5%	9,5%	10,8%	14,6%	19,1%	7,0%	5,7%	9,6%	4,9%		

### Financial results

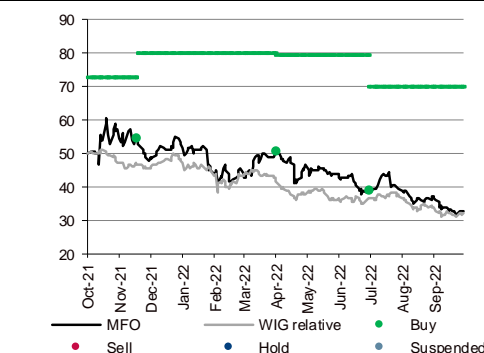
24.11.2022

Company data				Recommendation history	Date	Price
Ticker		MFO		BUY	21.07.2022	70
Sector		Metal industry		BUY	22.04.2022	79
Price (PLN)		32,5		BUY	09.12.2021	80
52w min/max (PLN)		29,1 / 52,8		BUY	21.10.2021	73
Shares (m)		6,6		BUY	06.09.2021	78
MC (PLNm)		215				
Free-float		0				
Avg. 3M turnover (PLNm)		0,08				
Price chng.		1M	3M	1Y		
		8.4%	4.7%	-35.1%		

### P/E 12M vs EV/EBITDA 12M



### WIG vs. MFO chart



mPLN	2019	2020	2021	2022E	2023E	2024E
Sales	439	428	990	1 047	806	871
EBITDA	38	36	172	95	60	64
EBIT	34	31	167	88	53	55
Net profit	25	27	133	69	41	46
EPS (PLN)	3,85	4,1	20,1	10,4	6,2	6,9
DPS (PLN)	0,8	0,0	1,0	4,0	3,1	3,1
P/E (x)	8,5	8,0	1,6	3,1	5,3	4,7
EV/EBITDA (x)	6,8	6,4	1,5	2,1	3,7	4,1
P/BV (x)	1,3	1,1	0,7	0,6	0,6	0,6
DY (%)	2,6%	0,0%	3,1%	12,4%	9,6%	9,5%

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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

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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 Marciniowski, David Sharma, Dominik Niszczyński, Michał Kozak, Kacper Koproń, Katarzyna Kosiorek, Łukasz Rudnik, Piotr Rychlicki, Piotr Chodyra

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