

MFO

Q1'23 forecast. We anticipate an increase in EBITDA in Q1'23 to ca. PLN 11m, compared to a loss of PLN 15m in Q4'22. The quarter-on-quarter increase is supported by higher sales volumes relative to Q4'22, a clearing of an expensive warehouse, and a rebound in steel prices. In the quarters ahead, we expect the company's EBITDA to normalize to about PLN 15m per quarter. From Q2'23, the company will also start selling special profiles dedicated to PV farms.

Weaker FCF and lower dividend. Due to this year's high level of capital expenditures related to the start of construction of a production and storage hall in Sochaczew, we assume that the DPS will be significantly lower compared to last year and will amount to ca. PLN 1.5/share (vs. PLN 4 last year). The investment cost of the new capacity expansion will be ca. PLN 97m (2023-2024), of which 40% will be SEZ support. In addition, the company has strongly optimised its working capital at the end of '22, which means that with a better demand outlook and recently higher steel prices, the need to commit additional funds to working capital will increase. In such a situation, despite a strong cash position at the end of the year, a decline in DPS y/y is to be expected.

New production capacity. This year, the company started the construction of a production and warehouse hall in Sochaczew with an area of 26,000 m². We estimate that the investment will ultimately increase the company's output potential by approximately 40%, i.e. 70 thousand tonnes of steel profiles per year.

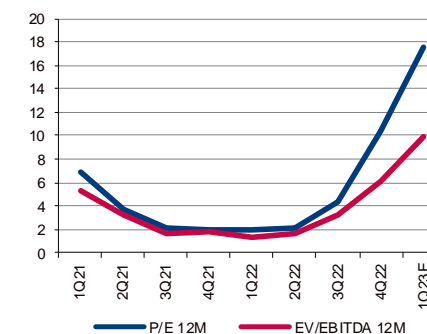
Steel prices. Recent increases in flat steel prices prompt us to raise our expectations for realisable revenues in 2023. Currently, HDGC prices in Europe are around EUR 950/t, up from an average of EUR 820/t in Q4'22. Relative to our December recommendation, we are also raising our assumptions for this year's volumes from 145,000 tonnes to 154,000 tonnes. We assume an average EBITDA/t margin on profiles sold in 2023-2027 of PLN 370/t, compared to PLN 300/t in 2016-2020.

mPLN	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23E	y/y	q/q
Sales	176	234	324	257	295	295	187	145	188	-36%	30%
EBITDA	25,0	44,1	78,8	24,0	23,4	37,0	-4,9	-14,8	11,3	-52%	-
EBIT	23,7	42,8	77,5	22,6	21,8	35,4	-6,6	-16,6	9,6	-56%	-
Net profit	19,0	34,1	62,0	17,9	16,8	28,5	-4,0	-16,7	6,8	-60%	-
P/E12M trailing	6,8	3,7	2,0	1,9	2,0	2,0	4,3	10,4	-	-	-
EV/EBITDA 12M trailing	5,3	3,2	1,6	1,7	1,4	1,6	3,2	6,0	-	-	-
sales growth y/y	49%	169%	213%	114%	67%	26%	-42%	-43%	-36%	-	-
EBITDA margin	14,2%	18,9%	24,3%	9,4%	7,9%	12,5%	-	-	6,0%	-	-
EBIT margin	13,5%	18,3%	23,9%	8,8%	7,4%	12,0%	-	-	5,1%	-	-
Net margin	10,8%	14,6%	19,1%	7,0%	5,7%	9,6%	-	-	3,6%	-	-

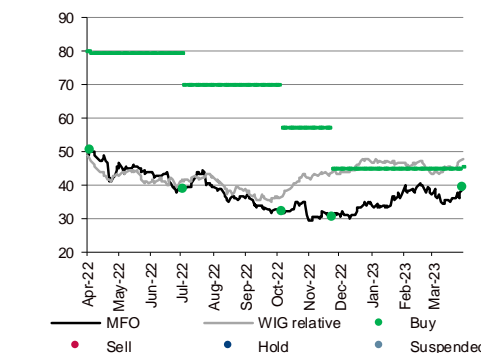
Financial results 25.05.2023

Company data				Recommendation history	Date	Price
Ticker		MFO		BUY	17.04.2023	46
Sector		Metal industry		BUY	12.12.2022	45
Price (PLN)		38,8		BUY	24.10.2022	57
52w min/max (PLN)		29,1 / 52,8		BUY	21.07.2022	70
Shares (m)		6,6		BUY	22.04.2022	79
MC (PLNm)		256		BUY	09.12.2021	80
Free-float		0		BUY	21.10.2021	73
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	2020	2021	2022	2023E	2024E	2025E
Sales	428	990	923	859	936	1 015
EBITDA	36	172	41	55	59	65
EBIT	31	167	34	48	51	54
Net profit	27	133	25	35	44	48
EPS (PLN)	4,08	20,1	3,7	5,2	6,6	7,2
DPS (PLN)	0,0	1,0	4,0	1,5	2,1	2,7
P/E (x)	9,5	1,9	10,4	7,4	5,8	5,4
EV/EBITDA (x)	7,6	1,7	6,0	5,8	6,2	5,6
P/BV (x)	1,4	0,8	0,8	0,8	0,7	0,6
DY (%)	0,0%	2,6%	10,3%	3,9%	5,4%	6,8%

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

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