

MFO

#3Q23 Forecast. Sales volumes in 1H23 were c.55 kt of sections (77mn lm), down 37% y/y and implying c.60-65% capacity utilisation. We expect the rate of decline to slow in 2H23 and the full year to close with a volume decline of c.25-30%, but this is mainly the result of a lower 2H22 base. Given the seasonally weaker demand in December and weaker demand over the Christmas period, we expect volumes to be similar to 1H23. HDGC market prices fell from PLN 4080/t in 2Q23 to PLN 3715/t in 3Q23, with the downward trend deepening m/m, suggesting a further decline in the average price in 4Q23. We expect earnings to remain under pressure and lower our 2H23 EBITDA expectations to PLN 5.5 mln from PLN 15 mln. Margins will be negatively impacted by the FIFO effect and low capacity utilisation.

#Outlook. We expect capacity utilisation to increase to 70% in 1H24, with the prospect of rising to >75% in 2H24 with the start of KPO and EU-funded investments (127 kt in '24 vs. 109 kt in '23). Our forecasts are based on HDGC steel prices of PLN 3510/t (HDGC EUR 780/t, EUR/PLN 4.5), assuming a price bottom in 4Q23 (high coking coal and iron ore prices may cause steel mills to shut down blast furnaces again).

#Investments. The company launched a new PV profile production line with an annual capacity of 6.9 kt. The investment in Sochaczew-Boryszew will increase the company's production capacity by 105 kt of profiles and will be implemented in three stages: Stage 1 by 1Q25 - PLN 95 million, Stage 2 by 2Q26 - PLN 25 million, Stage 3 by 1Q27 - PLN 10 million. The total investment will amount to PLN 130 million, of which PLN 40 million will come from tax credits.

#Window market. Data from the Central Statistical Office (GUS) on the volume of window production in Poland show a decline of 14% in July and 7% in August. The average monthly production level is similar to that observed in 2Q23.

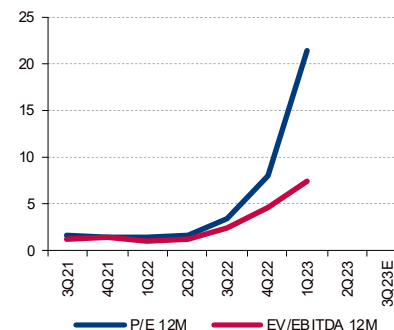
#Valuation. We lower our target price to PLN 42.6/share from PLN 48.9/share previously. The main reason for the valuation downgrade is our forecast of weaker results in 2023-2025, where we have lowered our sales volume expectations by 15%. Upon completion of the Boryszew investment, the company's production capacity will increase to 280 kt of sections per year (in a two-shift system), while our forecasts target sales of 225 kt (average 206 kt in 2026-32).

PLNm	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23E	y/y	q/q
Revenues	324	257	295	295	187	145	152	144	141	-25%	-2%
EBITDA	78,8	24,0	23,4	37,0	-4,9	-14,8	5,7	0,3	2,2	-	649%
EBIT	77,5	22,6	21,8	35,4	-6,6	-16,6	3,6	-1,9	0,0	-	-
Net profit	62,0	17,9	16,8	28,5	-4,0	-16,7	1,4	-8,3	-0,9	-	-
P/E12M trailing	1,6	1,5	1,5	1,6	3,3	8,0	21,3	-	-	-	-
EV/EBITDA 12M trailing	1,3	1,4	1,0	1,2	2,5	4,6	7,4	-	-	-	-
revenues growth y./y.	213%	114%	67%	26%	-42%	-43%	-49%	-51%	-25%	-	-
EBITDA margin	24,3%	9,4%	7,9%	12,5%	-	-	3,8%	0,2%	1,5%	-	-
EBIT margin	23,9%	8,8%	7,4%	12,0%	-	-	2,4%	-	0,0%	-	-
Net profit margin	19,1%	7,0%	5,7%	9,6%	-	-	0,9%	-	-	-	-

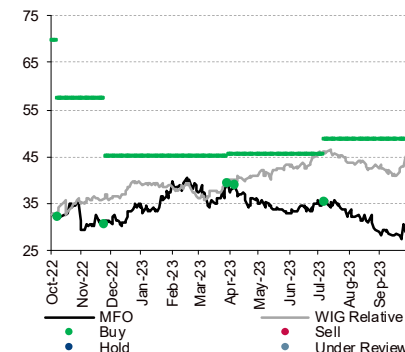
3Q'23 Earnings
23.11.2023

FACT SHEET	RECOMMENDATIONS	Date	Valuation
Ticker	MFO	Buy	24.07.2023 48,9
Sector	Steel processor	Buy	24.04.2023 45,6
Price (PLN)	29,9	Buy	17.04.2023 45,6
52W range (PLN)	31,4 / 64	Buy	12.12.2022 45,2
Shares outstanding (m)	6,6	Buy	24.10.2022 57,4
Market Cap (PLNm)	198	Buy	21.07.2022 69,9
S&P Global ESG Scores	-	Buy	22.04.2022 79,4
3M Avg. Vol. (PLNm)	0,09	Buy	09.12.2021 80,0
Price perf.	1M -11,6% 3M -15,3% 1Y -35,6%		

P/E 12M vs EV/EBITDA 12M



MFO RELATIVE SHARE PRICE VS WIG INDEX



PLNm	2020	2021	2022	2023E	2024E	2025E
Revenues	428	990	923	568	612	697
EBITDA	36	172	41	12	36	43
EBIT	31	167	34	3	25	29
Net profit	27	133	25	-7	17	27
EPS (PLN)	4,08	20,1	3,7	-1,1	2,6	4,1
DPS (PLN)	0,0	1,0	4,0	0,0	0,0	1,1
P/E (x)	7,3	1,5	8,0	-	11,4	7,3
EV/EBITDA (x)	5,8	1,2	3,7	17,0	6,4	5,6
P/BV (x)	1,1	0,6	0,6	0,6	0,6	0,6
DY (%)	0,0%	3,3%	13,4%	0,0%	0,0%	3,5%

Quarterly update 3Q'23

Poland | Equity Research

Valuation	Current		Previous		Change
DCF	42,6	100%	48,9	100%	-13%
Multiples	27,9	0%	33,5	0%	-17%

PLNm	Curr.	2023E	Chg.	Curr.	2024E	Chg.	Curr.	2025E	Chg.
Revenues	568	612	-7%	612	720	-15%	697	810	-14%
EBITDA	12	32	-64%	36	52	-30%	43	60	-28%
EBIT	3	24	-89%	25	42	-40%	29	49	-39%
Net profit	-7	16	-	17	31	-43%	27	42	-36%
P/E (x)	-	12,1	-	11,4	6,4	-	7,3	4,7	-
EV/EBITDA (x)	17,0	6,1	-	6,4	4,5	-	5,6	4,0	-
P/BV (x)	0,6	-	-	0,6	-	-	0,6	-	-
DY (%)	0,0%	-	-	0,0%	-	-	3,7%	-	-

Multiples	2021	2022	2023E	2024E	2025E
P/E (x)	1,5	8,0	-	11,4	7,3
adj. P/E (x)	1,5	8,0	-	11,4	7,3
P/BV (x)	0,6	0,6	0,6	0,6	0,6
EV/EBITDA (x)	1,2	3,7	17,0	6,4	5,6
adj. EV/EBITDA (x)	1,2	3,7	17,0	6,4	5,6
EV/Sales (x)	0,2	0,2	0,3	0,4	0,3

FCF Yield (%)	-1,1%	8,8%	-10,4%	-4,3%	5,0%
DY (%)	3,3%	13,4%	0,0%	0,0%	3,5%

KPIs	2021	2022	2023E	2024E	2025E
EPS (PLN)	20,1	3,7	-1,1	2,6	4,1
adj. EPS (PLN)	20,1	3,7	-1,1	2,6	4,1
DPS (PLN)	1,0	4,0	0,0	0,0	1,1
BVPS (PLN)	47,8	47,6	46,5	49,1	52,1

Operational ratios	2021	2022	2023E	2024E	2025E
Gross margin (%)	-	-	-	-	-
adj. EBITDA margin (%)	17,4%	4,4%	2,0%	5,9%	6,2%
EBIT margin (%)	16,8%	3,7%	0,5%	4,1%	4,2%
Net profit adj. margin (%)	13,4%	2,7%	-1,3%	2,8%	3,9%

ROE (%)	52,8%	7,8%	-2,4%	5,5%	8,1%
ROA (%)	30,6%	4,8%	-1,6%	3,5%	4,7%
CAPEX/Sales (%)	2,4%	2,1%	6,4%	10,6%	4,3%
CAPEX/D&A (x)	4,5	2,9	4,1	6,1	2,2
Net debt/Equity (x)	0,0	-0,1	0,0	0,1	0,1
Net debt/EBITDA (x)	0,1	-1,2	-0,1	0,9	1,0

Cash conversion cycle (days)	55	69	85	85	87
Inventory turnover (days)	59	67	66	68	70
Receivables turnover (days)	24	31	47	56	58
Payables turnover (days)	28	29	28	40	41

Income Statement (PLNm)	2020	2021	2022	2023E	2024E	2025E
Revenues	428	990	923	568	612	697
PCV profiles	229	573	516	277	284	320
Special/welded profiles	140	291	295	234	251	300
Other profiles	47	116	101	48	67	67
Gross Profit	63	225	86	51	81	91
SG&A costs	33	59	54	50	56	62
Other operating items, net	1	1	2	1	0	0
EBITDA	36	172	41	12	36	43
adj. EBITDA	36	172	41	12	36	43
D&A	5	5	7	9	11	14
EBIT	31	167	34	3	25	29
Net financial costs	2	-3	-4	-9	-4	-4
EBT	33	164	30	-6	21	33
Income tax	6	31	6	1	4	6
Minority interest	0	0	0	1	2	3
Net profit	27	133	25	-7	17	27
adj. net profit	27	133	25	-7	17	27

Balance Sheet (PLNm)	2020	2021	2022	2023E	2024E	2025E
Non-current Assets	160	169	206	231	285	302
Current Assets	151	388	255	222	267	302
Inventories	84	239	102	103	125	142
Receivables	34	94	61	86	104	118
Cash and cash equivalents	33	36	85	26	32	35
Assets	311	557	461	452	552	603
Equity	187	316	314	307	324	345
Minority Interests	0	0	0	0	0	0
Non-current Liabilities	41	44	49	53	79	87
Long-term borrowings	4	1	0	10	26	31
Current Liabilities	83	197	97	91	148	171
Short-term borrowings	40	48	38	15	39	46
Payables	34	119	27	60	73	83
Equity and Liabilities	311	557	461	452	552	603

Cash Flow Statement (PLNm)	2020	2021	2022	2023E	2024E	2025E
Cash flow from operating activities	36	16	105	9	1	19
Changes in working capital	5	-130	78	7	-27	-22
D&A	5	5	7	9	11	14
Cash flow from investing activities	-19	-24	-16	-32	-65	-30
CAPEX	-19	-24	-20	-36	-65	-30
Cash flow from financing activities	-8	11	-40	-36	70	14
Dividend/Buy-back	0	7	26	0	0	7
Net change in cash	9	3	49	-59	6	3
Cash opening balance	24	33	36	86	26	32
Cash closing balance	33	36	86	27	32	35

Wycena

#DCF

DCF VALUATION (PLNm)	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Revenues	923	568	612	697	780	862	940	1018	1077	1087	1087
Y/Y	-7%	-38%	8%	14%	12%	11%	9%	8%	6%	1%	0%
EBITDA	34	12	36	43	52	61	70	79	86	87	86
EBITDA margin	3,7%	2,0%	5,9%	6,2%	6,6%	7,1%	7,4%	7,8%	8,0%	8,0%	7,9%
EBIT	34	3	25	29	37	46	55	65	72	72	72
EBIT margin	3,7%	0,5%	4,1%	4,2%	4,8%	5,4%	5,8%	6,4%	6,7%	6,7%	6,6%
NOPLAT	27	2	21	24	30	38	44	52	58	59	58
Tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
D&A		9	11	14	15	15	15	15	15	15	15
CAPEX		-36	-65	-30	-15	-15	-15	-15	-15	-15	-15
Changes in working capital		7	-27	-22	-21	-21	-20	-20	-15	-3	0
FCF		-18	-61	-14	9	16	25	33	43	56	58
D/(E+D)		7,6%	16,7%	18,2%	18,0%	17,1%	15,8%	14,0%	11,7%	8,6%	5,5%
Beta leverage		1,1	1,2	1,2	1,2	1,2	1,2	1,1	1,1	1,1	1,0
Cost of debt after tax		6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%
Cost of equity		12,4%	13,0%	13,1%	13,1%	13,0%	12,9%	12,8%	12,6%	12,5%	12,5%
WACC		11,9%	11,8%	11,8%	11,8%	11,8%	11,9%	11,9%	11,9%	11,9%	12,1%
Discount ratio		0,89	0,80	0,71	0,64	0,57	0,51	0,46	0,41	0,37	0,33
Cum. DFCF		24									
Residual growth rate		0,0%									
Discounted Residual Value		156									
Enterprise Value		180									
Ned debt (-)		-47									
Dividend (-)		0									
Minority Interests (-)		0									
Equity Value (1.1.2023)		228									
Equity Value (23.10.2023)		250									
Shares outstanding (m)		6,61									
Equity Value per share (23.10.2023)		37,9									
12M Target Price (PLN)		42,6									
Curr. share price		27,8									
Upside / (downside)		53,2%									

Source: Trigon DM

Assumptions for the DCF model:

- market premium 6%
- rfr 6%
- unleveraged beta 6%
- residual growth rate 0%

#Wycena porównawcza

Company	EV/EBITDA			P/E			EV/EBIT		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
MFO	17,0	6,4	5,6	-27,0	11,4	7,3	0,0	0,0	0,0
Polski przemysł	5,6	5,1	4,4	9,8	9,5	7,1	8,8	7,5	7,1
AC Autogaz	6,5	6,0	5,7	9,9	9,6	8,3	8,8	7,9	7,5
Amica	5,6	4,8	4,4	46,7	11,7	8,0	9,2	7,2	6,5
Arctic Paper	2,7	2,5	2,7	3,9	3,8	5,1	3,6	3,1	3,8
Boryszew	5,4	5,1	n/a	8,1	11,2	n/a	9,4	9,3	n/a
Cognor	5,2	5,5	4,4	5,1	10,1	7,0	6,5	7,4	5,9
Grenovia	5,6	6,0	5,0	7,9	9,4	7,2	9,1	10,6	8,3
Forte	10,2	5,8	4,9	24,5	8,0	6,3	24,1	9,0	7,2
Kęty	8,2	8,0	7,7	10,8	11,3	10,5	10,2	10,2	9,7
Mangata	5,8	5,1	4,8	10,1	8,1	7,1	8,8	7,5	7,1
Rawplug	5,5	4,7	4,2	9,7	6,4	5,6	8,1	6,9	6,0
Stalprodukt	2,5	3,2	3,2	12,4	13,6	13,2	5,2	7,5	7,7
Wielton	4,6	4,6	4,2	6,5	5,9	4,9	7,2	7,5	6,6
Partial valuation	65	150	150	-72	165	194	26	157	168
Weight of the year	0%	50%	50%	0%	50%	50%	0%	50%	50%
Partial valuation		150			180			162	
Indicator weight		50%			50%			0%	

Risk factors

- Delay in the implementation of thermomodernisation investments with WE funds in EuropeDeepening of the slowdown in the construction and industrial sectors
- Problems with the availability of employees in a situation of further capacity expansion may exacerbate wage pressures in the company
- Risk of limited availability of galvanised sheet, e.g. due to introduction of safeguards and ban on steel imports from Russia
- Risk of appreciation of the PLN against the EUR, which may adversely affect margins given the increasing share of exports
- Risk of expanding competencies by steel service centres, which in addition to the sheet cutting service may start to provide profiling services for the local market
- Risk of internal production of profiles by customers from the window joinery industry

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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 Niszcz, Michał Kozak, Kacper Kopron, Katarzyna Kosiorek, Lukasz Rudnik, Piotr Rychlicki, Piotr Chodyra

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