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Forte – 2017 Q3 Results

Rating: underweight | current price: PLN 61.43

FTE PW; FTE.WA | Furniture, Poland

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Forte fulfilled its own earnings targets in Q3 2017, which means it missed the expectations of market analysts. The Company generated negative operating cash flow in the period as its Indian joint venture posted another loss, and as net debt rose further in line with continuing capital expenditures. According to our predictions, by the end of the year Forte's net debt/EBITDA ratio may increase as high as to 3.6x.

Revenue in Q3 2017 came in line with expectations at PLN 267.8m. At the same time, EBITDA fell 20% short of expectations at PLN 30.1m, and EBIT missed the consensus by 30% though it fulfilled Forte's own subsequent guidance. The worsened operating profits were caused by a reduced sales margin, depressed by higher costs of wood panels and higher payroll as Forte decided not to downsize and keep an extra headcount during the summer in the face of an increasing shortage of labor observed in Poland. Also impacting operating profits in Q3 was a 22% y/y surge in selling expenses.

The Indian joint venture FORTE Furniture Products India PVT has generated a loss of PLN 4.9m so far this year, with the third-quarter loss of PLN 1.5m affecting Forte's pre-tax profit.

Operating cash flow in Q3 2017 turned negative at PLN -1.1m vs. PLN +1.9m in the same period a year ago. At the same time, net debt during the third quarter increased by PLN 35m to PLN 488.3m (3.3x 12M EBITDA).

Q3 2017 actuals vs. expectations

(PLN m)	3Q'17	3Q'16	y/y	3Q'17E	differ.	consensus	differ.	2016	2017E	y/y
Revenue	267.8	245.0	9%	269.5	-1%	270.8	-1%	1090.3	1139.7	4.5%
EBITDA	30.1	38.3	-21%	38.6	-22%	37.8	-20%	167.1	141.8	-15.1%
EBITDA margin	11.2%	15.6%		14.3%		14.0%		15.3%	12.4%	
EBIT	23.0	32.6	-30%	32.7	-30%	31.9	-28%	144.4	116.5	-19.3%
Net income	11.3	28.3	-60%	22.3	-50%	22.7	-50%	110.4	77.3	-29.9%

Source: Forte. E - estimates by Dom Maklerski mBanku; Consensus estimates provided by PAP

List of abbreviations and ratios contained in the report:
EV – net debt + market value (EV – economic value)
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
PBA – Profit on Banking Activity
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
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Economic profits – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.
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