

Tuesday, January 23, 2018 | special comment

## Ergis – Preliminary 2017 Q4 Results

Rating: overweight | current price: PLN 5.10

**EGS PW; EGSP.WA | Industrials, Poland**

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At PLN 175.9m, the preliminary Q4 2017 revenue of Ergis came in line with our estimate and showed a 6.1% increase from Q4 2016. At the same time, the quarterly EBITDA figure missed our forecast by 36.8% at PLN 7.6m, showing a year-over-year drop of 29.8%, and net profit came in at PLN 0.1m vs. PLN 3.3m expected by us and PLN 1.3m booked in the same period the previous year. Ergis explains the weak profits with a y/y surge in labor costs by an estimated PLN 7m, coupled with higher costs of basic materials, most notably PVC, plasticizers, and PET flakes, and weak sales of hard plastic sheeting and food laminates.

The final Q4 and FY2017 full-year financial statements are scheduled to be released on 20 April 2018.

On our estimates, ERG is currently trading at 9.6x 2017E P/E and 5.8x EV/EBITDA.

Ergis is hosting a Webcast for investors at 12.30 p.m. tomorrow, January 24th, 2018, to discuss earnings. To join, follow this link:

<http://event.webcaster.pl/live/grupa-ergis/>.

**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  
**UNDERWEIGHT (UW)** – a rating which indicates that we expect the stock to underperform the broad market

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**DCF** – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.

**Relative** – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

**Economic profits** – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

**Discounted Dividends (DDM)** – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

**NAV** – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.



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