

Thursday, February 01, 2018 | special comment

## Grupa Kęty – Releases FY2018 Guidance

Rating: hold | target price: PLN 390.72 | current price: PLN 400.00

**KTY PW; KTY.WA | Industrials, Poland**

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**Kęty has just announced its earnings guidance for FY2018, with the projected sales revenue at PLN 2.9bn, the EBITDA target set at PLN 448m, and net profit estimated at PLN 253m. The EBITDA and net profit targets are set 2% to 6.3% lower than our forecasts and the average market consensus, but this was to be expected given Kęty's history with cautious projections designed to keep analysts' expectations low. CAPEX is expected to reach PLN 335m this year (compared to our PLN 200m forecast) after a carry-forward of PLN 43m in expenditure originally scheduled for 2017. Net debt is projected to be PLN 746m at the end of the year (1.7xEBITDA), a higher amount than the PLN 695m anticipated by us.**

**Kęty also announced today that it wanted to distribute 80% of the net earnings for 2017 as dividends this year, implying DPS of PLN 21.30 and a dividend yield of 5.3%. According to our calculations, Kęty has the capacity to offer a payout of PLN 26 per share, in which case the implied dividend yield would exceed 6%**

Kęty used the following assumptions in calculating the FY2017 guidance:

- An average aluminum price of \$2,180/t
- an average USDPLN exchange rate of 3.5
- An average EURPLN exchange rate of 4.20
- An average EURUSD exchange rate of 1.20
- Annual Polish GDP growth of 3.7%

Based on this, the Company offers the following revenue guidance for its core operating segments:

- A 9% increase to PLN 1,235m in Extrusions,
- A 9% increase to PLN 1,235m in Aluminum Systems, and
- A 5% increase to PLN 658m in Packaging.

The PLN 1.9bn consolidated revenue guidance implies year-over-year expansion of 9%, with EBITDA expected to grow at an annual pace of 6%. The net profit guidance factors in a PLN 22m charge stemming from credit costs, and a PLN 11m deferred tax asset provided by Special Economic Zone tax breaks (compared to ca. PLN 5m in 2017). At PLN 253m, the 2018 net profit target is comparable to the figure generated in 2017.

The expected increase to PLN 746m in year-end net debt is to be driven by continuing investment, dividends, and working-capital needs. The guidance does not mention any M&A plans.

Kęty is holding a meeting at 1 p.m. today at the Regent Hotel in Warsaw to discuss the 2017 earnings and the 2018 guidance. A live broadcast of the meeting is available at <http://infostrefa.tv/gkety2018/>

### FY2018 guidance vs. market expectations

(PLN m)	Guidance	Y/Y change	mBank Forecast	differ.	Consensus	differ.
Revenue	2 893.0	9.9%	2 968.5	-2.5%	2 856.6	1.3%
EBITDA	448.0	3.7%	478.3	-6.3%	472.3	-5.1%
EBITDA margin	15.5%		16.1%		16.5%	
EBIT	317.0	1.9%	351.5	-9.8%	303.5	4.4%
Net income	253.0	0.1%	260.4	-2.9%	258.1	-2.0%

Source: Bloomberg, Dom Maklerski mBanku, 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  
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**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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