Thursday, May 10, 2018 | special comment

CEZ – 2018 Q1 Results

Rating: hold | target price: CZK 449.51 | current price: CZK 554.00

CEZ PW; CEZ.WA | Utilities, Czech Republic

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- CEZ reported a 2018 Q1 **EBITDA** figure consistent with expectations, with no major one-time charges or boosts.
- EBITDA in **Traditional Generation** missed our CZK 9bn estimate at CZK 7.97bn after a 12% y/y drop in coal-fired generation volumes.
- EBITDA from **Renewables** matched our forecast at CZK 1.1bn.
- **Distribution** EBITDA was CZK 0.4bn higher than forecast at CZK 5.4bn after rising from the year-ago figure of CZK 5.1bn thanks to higher allowed revenues in the Czech Republic and Romania.
- In the **Sales** segment, EBITDA showed a 10% beat at CZK 1.26bn, owed mainly to Romania.
- **Mining** EBITDA came in at CZK 1.25bn vs. CZK 1.3bn forecast.
- EBITDA from **other operations** was CZK 0.6bn vs. CZK 0.7bn expected.
- The shortfall in Q1 **revenue** relative to expectations stems from the application of IFRS 15 accounting.
- **Financing activity** did not produce any surprises.
- **Operating cash flow** increased to CZK 17.2bn in Q1 2018 from CZK 12.7bn in Q1 2017, and after CAPEX of CZK 4.7bn net debt as of 31 March decreased to CZK 126bn (2.36x EBITDA).
- CEZ reiterated its **FY2018 guidance** at EBITDA of CZK 51-53bn (depending on the effects of Bulgarian asset divestment, planned acquisitions, and likely one-time gains), and net profit of CZK 12-14bn.

After an in-line first quarter, CEZ seems to be on track so far to achieving the FY earnings expectations.

Quarterly results by operating segment

(CZK m)	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	y/y	Q1'18E	differ.	2018E	YTD/2018E
Revenue	52,822	48,061	45,849	55,174	45,402	-14%	54,619	-17%	204,375	22%
EBITDA (adj.)	18,452	11,882	9,752	12,110	17,528	-5%	18,258	-4%	53,708	33%
EBITDA	19,152	13,341	9,752	12,910	17,528	-8%	18,258	-4%	53,708	33%
Generation	9,536	3,197	1,610	4,719	7,972	-16%	9,045	-12%	18,293	44%
Renewables	1,148	1,176	1,062	1,602	1,097	-4%	1,062	3%	4,359	25%
Distribution	5,133	4,913	4,513	4,479	5,360	4%	4,983	8%	19,816	27%
Trade	1,239	1,493	762	1,117	1,257	1%	1,139	10%	4,964	25%
Mining	1,339	756	1,192	769	1,250	-7%	1,322	-5%	4,015	31%
Other	757	1,806	613	224	592	-22%	707	-16%	2,260	26%
EBIT	11,655	5,586	2,189	6,190	10,399	-11%	10,616	-2%	22,752	46%
Financing activity	-994	3,185	-2,147	-2,911	-1,496	51%	-1,453	3%	-4,762	31%
Net income	8,569	7,745	-206	2,657	7,121	-17%	7,422	-4%	14,423	49%

Source: CEZ, E - estimates by Dom Maklerski mBanku; Consensus estimates provided by PAP

2018 Q1 actuals vs. expectations

(CZK m)	Q1'18	Q1'17	y/y	Q1'18E	differ.	consensus (median)	differ.
Revenue	45,402	52,822	-14%	54,619	-17%	53,000	-14%
EBITDA (adj.)	17,528	18,452	-5%	18,258	-4%	-	-
EBITDA	17,528	19,152	-8%	18,258	-4%	17,800	-2%
EBIT	10,399	11,655	-11%	10,616	-2%	10,500	-1%
Financing activity	-1,496	-994	-	-1,453	-	-	-
Net income	7,121	8,569	-	7,422	-4%	7,000	2%

Source: CEZ, 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
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