Thursday, August 09, 2018 | special comment

Lotos – Final 2018 Q2 Figures Confirm Prelims

Rating: sell | target price: PLN 52.51 | current price: PLN 64.48

LTS PW; LTSP.WA | Oil & Gas, Poland

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- Lotos's final 2018 Q2 financials confirmed the better-than-expected estimates released in July, with the LIFO EBITDA at PLN 0.82bn showing a 20% beat over our forecast.
- Reported EBITDA was 27% ahead of target at PLN 1.1bn. The quarterly LIFO effect amounted to PLN 318m vs. PLN 184m expected by us.
- By segment, **LIFO EBITDA from Downstream** exceeded our PLN 41bn forecast at PLN 0.53bn on higher sales volumes, in particular diesel.
- **EBITDA from Retail** was also a beat at PLN 51m vs. PLN 33m expected thanks to higher sales volumes and margins generated by the Lotos service stations.
- **EBITDA from Upstream** fulfilled predictions at PLN 0.24bn, a result achieved thanks to a 25% surge in the sales volume compared to the previous quarter, led by shipments postponed from Q1, alongside a 4% increase in production. The higher volumes offset a surprising q/q drop in revenue per barrel even as prices of crude oil increased, leading to lower unit EBITDA, with the downward pressure compounded by a slight rise in production costs. We are guessing the reason was hedging, with part of the delayed sales volumes hedged at lower prices.
- **Financing activity** in Q2 resulted in FX losses to the tune of PLN 84m, alongside hedging losses of PLN 18m and PLN 48m interest expenses.
- Quarterly **operating cash flow** improved to PLN 0.53bn in Q2, and even though CAPEX was lower at PLN 0.2bn net debt as of 30 June was stable at PLN 2.8bn after losses incurred on FX adjustments to dollar-denominated debt.

Lotos's stock logged a sizable gain the first time the better-than-expected Q2 results were announced in the 25 July preliminary release, which means the upside potential after today's final showing is limited. Lotos achieved 55% of our FY2018 LIFO EBITDA forecast in the first half of the year, and if refining margins in the coming months hold at the high levels seen today we might have to revisit our expectations.

Historical quarterly results and FY2018 estimates

(PLN m)	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Y/Y	Q2'18E	differ.	2018E	YTD /2018E
Revenue	5,447.3	5,454.9	6,262.6	7,020.9	6,324.7	7,531.0	16%	7,464.3	1%	29,156.1	48%
EBITDA	803.1	383.5	958.6	927.5	630.9	1,082.0	-21%	854.1	27%	2,648.0	65%
Upstream	265.5	203.5	168.1	177.5	204.7	236.7	-23%	237.4	0%	924.3	48%
Downstream, of which:	528.2	134.4	722.0	759.4	388.5	792.0	-26%	584.1	36%	1,569.0	75%
LIFO effect	122.8	-137.3	-12.1	197.5	175.0	317.8	-	183.8	73%	280.3	176%
FX differences	6.4	0.6	-15.1	3.3	-5.8	-57.0	-	-9.5	-	0.0	-
Retail	20.0	42.0	61.3	1.4	26.2	51.0	31%	32.6	56%	156.1	49%
Other	-10.6	3.6	7.2	-10.8	11.5	2.3	-	0.0	-	-1.4	-
LIFO-based EBITDA (adj.)	681.9	690.0	924.9	753.0	539.7	820.7	-21%	679.9	21%	2,453.5	55%
D&A	226.6	210.6	202.2	204.9	183.1	184.1	-19%	183.1	1%	855.1	43%
EBIT	576.5	172.9	756.5	722.6	447.8	897.9	-22%	671.0	34%	1,792.9	75%
Financing activity	48.8	95.5	62.5	12.4	51.3	-143.9	-	-153.3	-6%	-401.4	-
Pre-tax income	625.3	268.4	819.0	735.0	499.1	754.0	-20%	517.7	46%	1,391.5	90%
Net income	410.9	157.5	618.8	484.7	320.8	534.9	-22%	346.9	54%	811.7	105%

Source: Lotos, E - estimates by Dom Maklerski mBanku

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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