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## Industrials Update: August 2018

### Industrials, Poland

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#### Industrials

- As predicted, industrial stocks in Poland have reversed their downward trend since the start of the **2018 second-quarter earnings season**, with **71% of rated companies** so far **delivering improvement** over the prior year period as well as reporting figures **ahead of our expectations**. The **biggest positive surprises** to date have come from **Alumetal, Apator, Cognor, Forte, and Grupa Kęty**, and of the releases **still to come** we anticipate the **strongest showings from Amica, Famur, and Kernel**.
- As **costs** of utilities and fuel **continue to rise**, with agreements for 2018 supplies already secured in most cases, manufacturers much more intense cost pressures in 2019.
- On the other hand, a weak zloty continues to have a positive effect on the sector, with more and more companies adjusting their sales prices higher (producer prices in Poland have been rising at the fastest rate since 2016).
- The following are our **top picks** for September:
  - Amica (AMC)** is expected to deliver improvement in Q2 core earnings, but it currently trades at double-digit discounts to other appliance makers as well as being valued at a 40% discount to its own historical P/E and EV/EBITDA ratios (see chart on page 9).
  - Famur (FMF)** is expected to report a strong rebound in Q2 profits, and in future quarters it stands to benefit from rising prices of mining equipment. Famur paid an over - 7% dividend yield in 2018, and in 2019 it should be able to offer as much.
  - Forte (FTE)** is set to deliver improved results for Q2, and its future outlook looks brighter, as reflected in the Ifo expectations index for the furniture industry, which is currently heading upward (see chart on page 7). At the current level FTE is trading at 20-26% discounts to its 3-year P/E and EV/EBITDA ratios (see chart on page 11).
  - Kernel (KER)** is set to embark on a long-term growth trajectory after a likely Q2 rebound.
  - Pozbud (POZ)** remains the top pick among **smaller caps**.
- TOP PICKS:**  
**OVERWEIGHT:** AMC, FMF, FTE, KER, PFL, STL, & POZ; **UNDERWEIGHT:** KSW

#### Chemicals

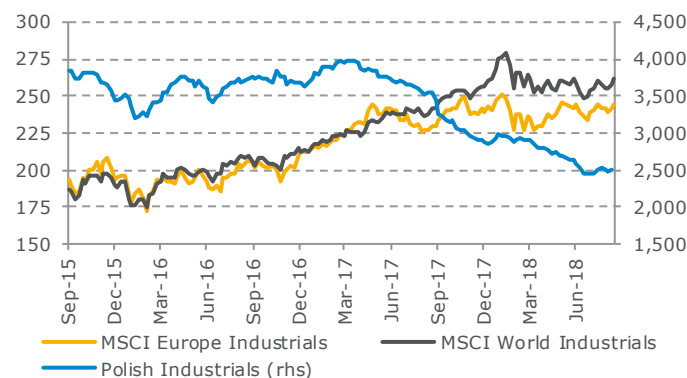
- The recent performance of chemical stocks in Poland and across the world reflects the **mounting cost pressures** as prices of natural gas, coal, and electricity continue to rise.
- Grupa Azoty (ATT)** released weak 2018 Q2 earnings results which might prompt analysts to **cut their 2018 FY EBITDA forecast** from the current PLN 1.1bn down to PLN 950m. This would imply a downward shift in ATT stock toward PLN 30 per share, mitigated by the fact that at the current level the stock already trades at a 10% discount to its average historical EV/EBITDA ratio for the last three years (see chart on p. 15).
- Ciech's** 2018 Q2 results will probably show a slowdown, but the Company remains a **top sector pick**, trading at a **40% discount** to 3-year P/E and EV/EBITDA averages (p. 15 chart), with the **discounts to peers ranging from 20% to 50%**.
- TOP PICKS:**  
**OVERWEIGHT:** CIE

#### MoM\* and YTD Price Change

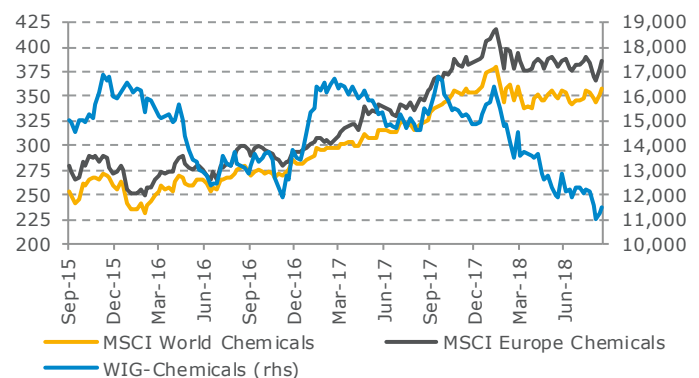
Industrials	MoM	YTD
Kopex	+73.5%	-55%
Ropczyce	+30.0%	+47%
Libet	+29.3%	-18%
PGOdlew.	+27.7%	-6%
Elemental	+26.2%	-29%
Kęty	+21.7%	-3%
Mercor	+12.9%	-7%
Famur	+12.4%	-2%
Relpol	+11.7%	+11%
Stalprofil	+10.7%	-10%
Cognor	+9.3%	+44%
Decora	+8.7%	+16%
Lentex	-7.0%	+0%
Kruszwica	-7.8%	-10%
Ergis	-8.1%	-32%
Vistal	-10.3%	-17%
Sanok	-13.6%	-35%
Oponeo	-14.1%	-24%
Global Cos.	-15.7%	-38%
Stelmet	-15.9%	-26%
Bumeh	-16.7%	-3%
Ursus	-18.9%	-46%
Lena	-19.2%	-39%
Feerum	-19.8%	-42%
Chemicals	MoM	YTD
Police	+4.0%	-10%
Krakchemia	+1.3%	-28%
PCC Rokita	-0.2%	+5%
Polwax	-2.5%	-36%
Ciech	-6.1%	+5%
Mercator	-8.0%	-5%
ZA Puławy	-8.9%	-33%
Azoty	-9.7%	-44%
WIGCHEM	-6.7%	-26%
WIG	+1.5%	-4%

\*Jul. 30 - Aug. 29

#### Polish Industrials vs. MSCI Index



#### WIG-Chemicals vs. MSCI Index



**EV** – net debt + market value (EV – economic value)  
**EBIT** – Earnings Before Interest and Taxes  
**EBITDA** – EBIT + Depreciation and Amortisation  
**EBIT/EV** – operating profit to economic value  
**EBITDA/EV** – EBIT + Depreciation and Amortisation to economic value  
**P/E** – (Price/Earnings) – price divided by annual net profit per share  
**P/BV** – (Price/Book Value) – price divided by book value per share  
**Net debt** – credits + debt papers + interest bearing loans – cash and cash equivalents  
**MCap** – current market capitalization  
**Monthly price change (MoM price change)** – change in the price of a stock since the date of the previous publication or in the course of the past month

**ATX** – Austrian Traded Index of all companies listed in Austria  
**DAX** – German Stock Index of 30 selected blue chip stocks traded on the Frankfurt Stock Exchange  
**EPRA Index** – FTSE EPRA Global Real Estate Index  
**FDA06 Index (EU Equity)** – FTSE Developed Europe Index  
**GDBR10 Index** – German Generic Government Bonds 10 Year Yield

**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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**ACCUMULATE** – we expect that the rate of return from an investment will range from 5% to 15%  
**HOLD** – we expect that the rate of return from an investment will range from -5% to +5%  
**REDUCE** – we expect that the rate of return from an investment will range from -5% to -15%  
**SELL** – we expect that an investment will bear a loss greater than 15%  
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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.

mBank issued the following investment recommendations for the companies in the 12 months prior to this publication

#### Alumetal

<b>Rating</b>	<b>neutral</b>
Rating date	2018-08-23
Target price (PLN)	-
Price on rating day	51.00

#### Amica

<b>Rating</b>	<b>overweight</b>	<b>overweight</b>
Rating date	2018-06-06	2018-01-05
Target price (PLN)	-	-
Price on rating day	121.00	130.00

#### Apator

<b>Rating</b>	<b>neutral</b>
Rating date	2018-02-28
Target price (PLN)	-
Price on rating day	24.00

#### Boryszew

<b>Rating</b>	<b>neutral</b>
Rating date	2017-11-30
Target price (PLN)	-
Price on rating day	9.85

#### Ciech

<b>Rating</b>	<b>buy</b>	<b>buy</b>	<b>buy</b>	<b>buy</b>	<b>buy</b>	<b>buy</b>	<b>buy</b>	<b>buy</b>	<b>buy</b>
Rating date	2018-08-02	2018-07-04	2018-06-06	2018-05-09	2018-04-06	2018-03-05	2018-02-02	2017-10-02	2017-09-01
Target price (PLN)	82.52	81.14	88.64	89.71	85.40	85.87	90.13	79.54	77.07
Price on rating day	56.95	53.05	60.20	55.00	57.00	55.90	61.25	65.16	62.73

#### Elemental

<b>Rating</b>	<b>neutral</b>	<b>neutral</b>
Rating date	2018-04-27	2017-08-31
Target price (PLN)	-	-
Price on rating day	1.09	2.55

#### Ergis

<b>Rating</b>	<b>neutral</b>	<b>neutral</b>
Rating date	2018-04-27	2018-01-29
Target price (PLN)	-	-
Price on rating day	4.06	4.77

#### Famur

<b>Rating</b>	<b>buy</b>	<b>buy</b>	<b>buy</b>	<b>buy</b>	<b>buy</b>	<b>buy</b>	<b>buy</b>
Rating date	2018-08-02	2018-05-09	2018-04-06	2018-03-05	2018-02-02	2018-01-05	2017-09-01
Target price (PLN)	6.56	6.95	7.06	7.28	7.29	7.24	6.84
Price on rating day	5.20	5.94	6.04	6.10	6.20	6.18	5.81

#### Forte

<b>Rating</b>	<b>overweight</b>	<b>neutral</b>	<b>neutral</b>	<b>neutral</b>	<b>underweight</b>
Rating date	2018-07-27	2018-04-27	2018-02-02	2018-01-29	2017-08-31
Target price (PLN)	-	-	-	-	-
Price on rating day	40.60	50.70	43.00	49.10	74.02

#### Grupa Azoty

<b>Rating</b>	<b>hold</b>	<b>hold</b>	<b>hold</b>	<b>hold</b>	<b>hold</b>	<b>hold</b>	<b>hold</b>	<b>hold</b>	<b>hold</b>	<b>hold</b>
Rating date	2018-08-02	2018-05-25	2018-05-09	2018-03-05	2018-02-02	2018-01-05	2017-12-01	2017-10-02	2017-09-01	2017-08-02
Target price (PLN)	42.13	44.40	60.99	67.13	73.42	73.64	78.52	80.77	69.60	74.30
Price on rating day	42.20	42.60	51.10	56.55	72.00	74.40	71.30	79.80	68.90	72.08

#### Kernel

<b>Rating</b>	<b>buy</b>	<b>hold</b>	<b>hold</b>	<b>hold</b>	<b>accumulate</b>	<b>accumulate</b>	<b>accumulate</b>
Rating date	2018-07-23	2018-05-09	2018-03-05	2018-02-02	2017-12-01	2017-11-03	2017-09-01
Target price (PLN)	59.18	53.04	53.46	53.47	57.20	58.70	71.74
Price on rating day	50.50	50.80	48.80	50.90	47.51	48.25	60.70

#### Grupa Kęty

<b>Rating</b>	<b>hold</b>	<b>hold</b>	<b>hold</b>	<b>hold</b>	<b>hold</b>	<b>hold</b>	<b>hold</b>	<b>hold</b>
Rating date	2018-08-02	2018-06-06	2018-05-09	2018-04-06	2018-03-05	2018-02-02	2018-01-05	2017-09-01
Target price (PLN)	355.61	371.08	363.01	357.21	379.66	391.41	390.72	414.09
Price on rating day	321.50	360.50	353.00	346.00	352.50	385.00	408.00	402.10

#### Kruszwica

<b>Rating</b>	<b>underweight</b>
Rating date	2018-08-02
Target price (PLN)	-
Price on rating day	65.40

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#### **Mangata**

Rating	neutral	underweight
Rating date	2018-06-22	2018-03-29
Target price (PLN)	-	-
Price on rating day	90.00	95.60

#### **Pfleiderer Group**

Rating	overweight	overweight	overweight
Rating date	2018-08-08	2018-04-27	2017-11-08
Target price (PLN)	-	-	-
Price on rating day	37.30	37.30	36.65

#### **Pozbud**

Rating	overweight
Rating date	2017-11-13
Target price (PLN)	-
Price on rating day	2.98

#### **Stelmet**

Rating	buy	buy	buy	buy	buy
Rating date	2018-07-04	2018-05-09	2018-03-05	2018-02-02	2017-09-01
Target price (PLN)	20.24	26.48	27.72	28.37	28.94
Price on rating day	10.70	14.75	17.15	19.20	22.20

#### **Tarczyński**

Rating	neutral	neutral	overweight
Rating date	2018-05-30	2018-01-29	2017-11-20
Target price (PLN)	-	-	-
Price on rating day	14.50	13.05	11.00

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