

Friday, September 14, 2018 | special comment

Forte – 2018 Q2 Earnings Conference Highlights

Rating: overweight | current price: PLN 42.00

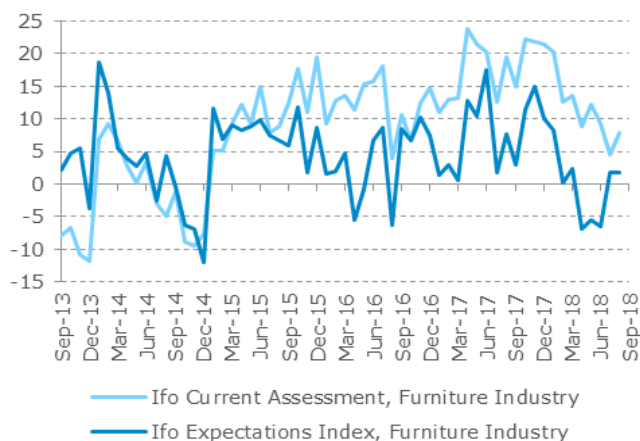
FTE PW; FTE.WA | Furniture, Poland

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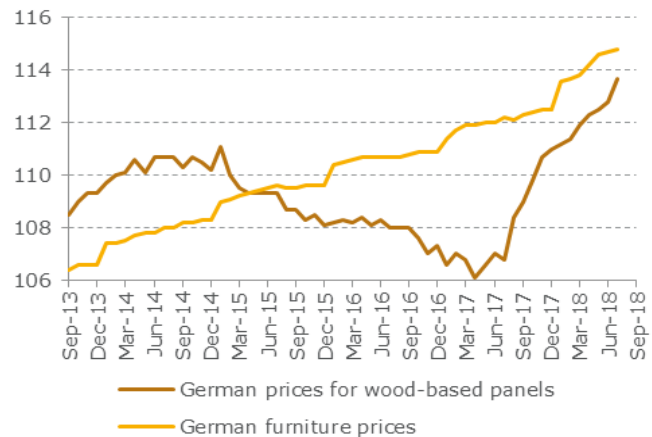
Key Takeaways:

- Forte is not happy with volumes this year after what it considers the worst period in years for furniture sales from April to August, with a bottom hit in June. Reasons may have included warm weather and the Steinhoff case. On the whole, sales in Western Europe might have fallen as much as 15% in H1 2018, with Forte registering much slower year-on-year contraction at 2-3%, helping to reinforce its competitive standing.
- September brought signs of recovery, with rising store and Website traffic.
- The main focus in periods ahead is on margins. In-house production of wood panels launched this year in Suwałki is mitigating rising board costs. The factory currently makes about 30,000 cubic meters of panel per month, set to increase to 40mcm next year. It satisfies 100% of Forte's panel demand. Forte is about to invest in 40 robots to reduce the needs for human resources (one robot can replace four to six people).
- Forte is currently operating at 100% of capacity.
- In the next two years, sales will grow at a slower-than-historical pace. Forte is keeping abreast of developments in the market before making a decision some time by mid-2019 on the launch of a new furniture plant project. First, the Company will work to reduce the net debt/EBITDA ratio below 3x.
- Wood prices will rise in the low single digits in 2019.
- Forte pays about PLN 30m a year in electricity bills, representing 7.3% of total production costs. Given the current rally in Polish power prices, we predict that next year energy costs may go up by as much as PLN 9m.
- The Indian JV should achieve net profit break even in 2019. Its losses decrease from quarter to quarter (PLN 3m in Q2'18).
- The EBITDA margin in H2 2018 should approximate 15.4% (we assume 15.0%).
- Forte finalized a deal with banks to raise debt covenants to 5.5x EBITDA after 30 June 2018, and consequently it will reverse the long-term to short-term debt conversion performed in Q2 in the following quarter. The deal with lenders is not expected to drive up financing costs in future periods, but Forte is set to pay a waiver fee which we predict will come up to ca. PLN 100,000.
- Forte has no plans to issue shares, nor is it forced to raise capital.
- Note that the Ifo Business Climate Index for the German furniture industry is seen to improve on Q3.

Ifo Business Climate Index and prices of wood-based panels in Germany



Source: Bloomberg



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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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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