

Thursday, November 08, 2018 | special comment

CEZ – 2018 Q3 Results

Rating: hold | target price: CZK 518.72 | current price: CZK 546.50

CEZ PW; CEZ.WA | Power Utilities, Czech Republic

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- CEZ's 2018 Q3 **reported EBITDA** showed a small, 5-6% beat vis-à-vis our estimate and the consensus forecast. At **EBIT** level the positive surprise disappears after expenses and impairment totaling CZK 0.7bn (mainly in Distribution).
- The **Generation** segment achieved quarterly EBITDA of CZK 3.3bn (vs. CZK 3.5bn expected by us), owed in part to hedging gains carried over from H1.
- EBITDA from **Renewables** came in at CZK 0.9bn, representing a small miss relative to our CZK 1.06bn forecast due to a lower volume.
- EBITDA from **Distribution** surprised on the upside at CZK 4.73bn vs. CZK 4.36bn expected by us and CZK 4.5bn posted in Q3 2017, thanks mainly to higher regulated revenue generated by the Czech units.
- In the **Sales** segment EBITDA topped our CZK 0.75bn estimate at CZK 1.3bn after a CZK 0.3bn boost from a new ESCO contributing to the consolidated figures, coupled with improved quarterly margins.
- EBITDA from **Mining** came in line at CZK 1.0bn vs. 1.1bn forecast.
- EBITDA from **Other Operations** was CZK 0.64bn vs. CZK 0.49bn expected by us.
- Financing activity** produced a slightly higher-than-expected loss due to higher losses incurred by Turkish units.
- CEZ generated **operating cash flow** of CZK 15.4bn in Q3 versus CZK 12.6bn posted in the same period last year. After dividends and capital expenditures of CZK 5.95bn, this resulted in higher **net debt** of CZK 137.8bn (2.67x EBITDA) as of 30 September 2018.
- CEZ's earnings announcement today is accompanied by a downward **revision to the 2018 FY target EBITDA** range from CZK 51-53bn to CZK 50-51bn, and an upward adjustment at the bottom end of the net profit guidance from CZK 12-14bn to CZK 13-14bn. The reasons behind the revised EBITDA guidance include further postponement of an expected CZK 1.3bn award in the ongoing court case against the Czech railway operator, lower power generation from coal sources, and delayed closing dates of new acquisitions.
- Summing up, the small Q3 EBITDA beat is offset by the revised FY EBITDA guidance range, currently set below our CZK 52bn forecast and a CZK 53bn consensus forecast. On the upside, the net profit guidance, and hence next year's dividend expectations, remain intact.**

2018 Q3 results by operating segment

(CZK m)	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	y/y	Q3'18E	differ.	2018E	YTD*
Revenue	52,822	48,061	45,849	55,174	45,402	40,897	43,021	-6%	43,143	0%	205,509	63%
EBITDA (adj.)	18,452	11,882	9,752	12,110	17,528	9,402	11,800	21%	11,288	5%	52,114	74%
EBITDA	19,152	13,341	9,752	12,910	17,528	9,402	11,800	21%	11,288	5%	52,114	74%
Generation	9,536	3,197	1,610	4,719	7,972	1,577	3,294	105%	3,504	-6%	16,775	77%
Renewables	1,148	1,176	1,062	1,602	1,097	1,055	860	-19%	1,055	-18%	4,359	69%
Distribution	5,133	4,913	4,513	4,479	5,360	4,613	4,725	5%	4,363	8%	19,627	75%
Sales	1,239	1,493	762	1,117	1,257	872	1,276	67%	747	71%	4,964	69%
Mining	1,339	756	1,192	769	1,250	779	1,001	-16%	1,134	-12%	4,112	74%
Other	757	1,806	613	224	592	506	644	5%	486	33%	2,276	-
EBIT	11,655	5,586	2,189	6,190	10,399	2,278	4,048	85%	4,173	-3%	23,424	71%
Financing activity	-994	3,185	-2,147	-2,911	-1,496	-1,858	-1,804	-16%	-1,541	17%	-6,086	85%
Net income	8,569	7,745	-206	2,657	7,121	388	1,485	-821%	2,132	-30%	13,901	65%

Source: CEZ, E - estimates by Dom Maklerski mBanku; *YTD actuals as a pct. of FY estimates

2018 Q3 actuals vs. expectations

(CZK m)	Q3'18	Q3'17	y/y	Q3'18E	differ.	consensus (median)	differ.
Revenue	43,021	45,849	-6%	43,143	0%	42,940	0%
EBITDA (adj.)	11,800	9,752	21%	11,288	5%	11,080	6%
EBITDA	11,800	9,752	21%	11,288	5%	11,080	6%
EBIT	4,048	2,189	85%	4,173	-3%	3,940	3%
Financing activity	-1,804	-2,147	-	-1,541	-	-	-
Net income	1,485	-206	-	2,132	-30%	1,680	-12%

Source: CEZ, 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
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