

Tuesday, November 13, 2018 | special comment

## Kernel – Forecast of FY2019 Q1 Results

Rating: buy | target price: PLN 60.85 | current price: PLN 51.90

**KER PW; KER.WA | Agricultural Producers, Ukraine**

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**Kernel is expected to deliver robust growth in the earnings for the first quarter of fiscal 2019, ended 30 September 2018, driven mainly by the crops segment, benefitting from higher yields and prices, coupled with strong volumes and profits from grain exports. The vegetable oil business will show continued underperformance with crushing margins narrowed under supply pressures. The first-quarter report is due on November 29th, 2018.**

On a revenue of US \$1.1bn (+109% y/y), we expect the FY2019 Q1 EBITDA to come in at \$64.8m (+41% y/y), and we anticipate a 9% decline to \$20.7m in net profit.

The revenue growth will be driven by strong sales volumes, with grain sales in the period up a whopping 232% on the year at 2.7mmt, export shipments via owned terminals up 23% at 1.6mmt, and silo storage up 12% at 1.6mmt. At the same time, sales of bulk sunflower oil posted 0.3% y/y contraction to 391,000t and sales of bottled oil were down 4.7% at 31,100t.

As for profits, the farming segment was the main EBITDA driver in Q1 according to our estimates, with the segmental EBITDA expected to post a 140% rebound from a low year-ago comparable base to an estimated \$40m, a figure equivalent to 50% of the FY guidance. For comparison, in FY2017 the first-quarter EBITDA in the farming segment came in at \$77.7m, and FY EBITDA was \$144m.

We also anticipate strong earnings growth in the segments of export terminals (+18% y/y) and grain trading (+300% y/y), fueled by strong sales volumes. On the other hand, we expect to see a 73% y/y fall in EBITDA from bulk sunflower oil and a 47% drop in EBITDA from bottled oil due to a squeezed supply of oil seeds.

Financing activity is set to produce a gain of an estimated \$1.5m in Q1 2019.

### FY 2019 Q1 estimates

(US\$ m)	Q1'19E	Q1'18	y/y	2019E	YTD
Revenue	1,119.6	536.1	109%	3,519.9	31.8%
EBITDA	64.8	46.0	41%	362.3	17.9%
EBITDA margin	5.8%	8.6%		15%	
EBIT	42.3	24.8	71%	268.8	15.7%
Pre-tax income	21.8	17.7	24%	174.0	12.5%
Net income	20.7	22.8	-9%	161.9	12.8%

Source: Kernel, 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

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**NEUTRAL (N)** – a rating which indicates that we expect the stock to perform in line with 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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