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Boryszew – 2018 Q3 Results

Rating: neutral | current price: PLN 4.83

BRS PW; BRS.WA | Metals, Poland

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Boryszew's 2018 Q3 earnings announcement came as a huge disappointment, with EBITDA and net profit showing misses of 33% and 51%, respectively, relative to our estimates after much worse-than-anticipated falls from the same period in 2017. The Automotive segment was the main driver behind the slump, posting a PLN 70m drop in sales due to issues with new vehicle certification for EURO 6c emission standards. The third-quarter's disappointment forces us to revisit our FY2018 earnings outlook for Boryszew.

At PLN 1,437m, the 2018 Q3 **revenue** matched our forecast after a 5.6% decline from the year-ago period.

Sales in the **Automotive segment** were a bust, showing a drop of PLN 70m from Q3 2017 which Boryszew blames on problems with EURO 6c certification experienced by the auto industry, saying this factor depressed the third-quarter revenue to the tune of PLN 57m.

Revenue in the **Metals** segment topped our forecast by 11%, driven mainly by the listed aluminum unit Impexmetal.

On the other hand, revenue in **Chemicals** fell 15% short of expectations.

EBITDA came in at PLN 80.2m in Q3 2018 (PLN 83.2m after adjustment for one-offs), a figure 33% below our forecast, showing a 42% fall from last year. Boryszew estimates the EBITDA impact of the EURO 6c certification problems at PLN -18m, but even with this factored out the Q3 earnings in **Automotive** are still a **loss** (the reported EBITDA loss in Automotive was PLN 19.5m), exacerbated by high SG&A expenses, which jumped nearly 40% year over year, alongside weaker sales of tools. The new facility in Mexico improved performance in Q3 according to Boryszew. The **Metals** segment again **stood out** among the general earnings slump, with Impexmetal registering 20% y/y EBITDA growth in the period.

Boryszew generated **operating cash flow** of PLN 17m in Q3 2018 vs. PLN 90m in Q3'17, and it increased **net debt** by PLN 37m to PLN 1.1bn (2.8x 12M EBITDA) in the quarter. This after OCF of PLN 36m generated by **Impexmetal**, whose net debt in Q3 decreased by PLN 10m.

Boryszew achieved 74% of our revenue forecast, and 72% each of the EBITDA and net profit targets, in the nine months to September 30th, 2018. We feel compelled to **revisit our FY estimates looking at the weaker-than-anticipated ytd performance**.

2018 Q3 actuals vs. expectations

(PLN m)	Q3'18	Q3'17	change	Q3'18E	differ.	2018E	2017	change	YTD
Revenue	1,437.0	1,521.5	-5.6%	1,437.0	0.0%	6,301.5	6,290.4	0.2%	74.4%
EBITDA	80.2	137.7	-41.7%	119.9	-33.1%	434.3	469.2	-7.4%	71.7%
EBITDA margin	5.6%	9.0%		8.3%	-	7.4%	7.5%		
EBIT	43.4	103.3	-58.0%	81.9	-46.9%	289.9	335.4	-13.6%	69.1%
Net income	23.7	54.2	-56.2%	48.5	-51.1%	136.1	173.0	-21.4%	72.4%

Source: Boryszew, 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
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