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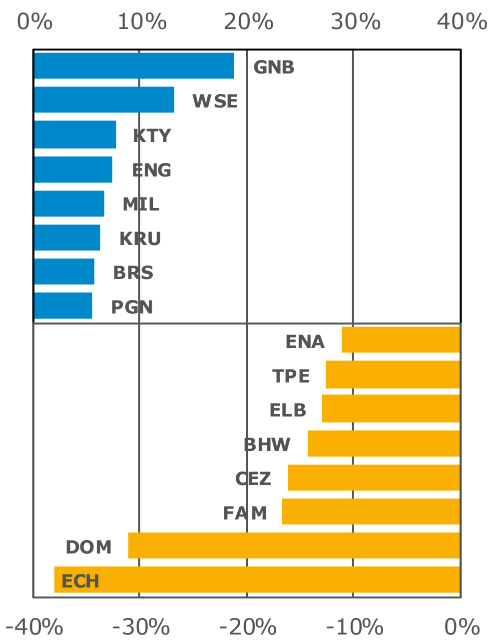
Quarterly Earnings Forecast: Q1 2014

Equity Market

WIG 51,936
Average 2014E P/E 13.7
Average 2015E P/E 10.8
ADTV (3M) .... PLN 943m

EPS growth for selected companies*



*calculated for: Q2'13-Q1'14 / Q1'13-Q4'13

Financial Sector
We expect the Polish bank sector to post average 15% quarter-on-quarter and 2% year-on-year contraction in accumulated first-quarter net profit. The quarterly slowdown in case of PKO BP and BZ WBK will be due to base effects. Total income in the sector will show an 0.8% q/q decline as a 4.8% decrease in fee income will not be offset by a 1.2% rise in interest income. We anticipate improvement in costs as well as loan-loss reserves. For regional banks, we project weaker Q1 earnings results, with OTP Bank posting a quarterly net loss.

Gas & Oil
Refiners recorded lower margins and inventory valuation losses in Q1, which will affect their downstream profits, but this will be partly offset by stronger performance in other segments. For PGNiG, we anticipate year-on-year growth driven by higher volumes and trade profits.

Power Utilities
First-quarter earnings in the power industry were under pressure from falling electricity prices and lower volumes, combined with a high year-ago comparable base in trade in case of Polish companies. Energa may stand out from the sector thanks to its limited exposure to generation.

Telecoms, Media, IT
A weak first-quarter showing will cool down market expectations for the rest of the year in case of Agora. TVN and ABC Data as well are expected to post disappointing results, but they are both poised for marked improvement in H2.

Resources
First-quarter results in the mining industry were hurt by falling commodity prices. We expect KGHM's net profit to be half of the figure posted last year, and we anticipate a large net loss from JSW. On a positive note, LW Bogdanka will post year-on-year growth on higher volumes.

Industrials
We expect to see Q1 year-on-year growth at 24 out of the 45 companies we track, a ratio similar to those observed in Q3 and Q4 2013. Producers of building materials will have benefitted from warm weather during the first quarter.

Construction
A warm winter will have boosted the first-quarter revenues of Polish construction firms, but the topline growth will not necessarily translate to higher profits in all cases.

Property Developers
Robyg and Echo are not likely to report Q1 growth from high year-ago bases. We expect GTC to post its first quarterly net profit in two years. Capital Park's results will be in line with expectations.

Other
Work Service is set to report 61% growth in Q1 net profit thanks to strong organic growth combined with acquisitions.

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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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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.

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