

Friday, February 13, 2015 | periodical publication

Quarterly Earnings Forecast: Q4 2014

Equity Market

Financial Sector

The 2014 fourth-quarter earnings results of Polish banks will be affected by the October interest rate cuts combined with reduced interchange fees. At Erste Bank and OTP Bank, we anticipate continuing quarterly losses stemming from their respective operations in Romania and Ukraine. The insurer PZU is likely to post earnings contraction in Q4 due to lower investment income. We expect a solid fourth-quarter showing from the debt collector Kruk.

Gas & Oil

Polish refiners are expected to report low profits for Q4 2014 due to downward inventory adjustments and FX losses, however the adjusted profits should reflect the favorable market environment observed in the period. For the gas company PGNiG, we project weak results in upstream combined with a low profit on trade depressed by unfavorable USDPLN trends.

Power Producers

The Q4 2014 results of power utilities will be affected by actuarial adjustments for a reduced discount rate, and the recurring profits are expected to show flat growth from the previous quarters.

Telecoms, Media, IT

Asseco Poland is expected to report strong EBITDA growth in Q4 which, however, may be mitigated by increased provisions for late fees. Agora is set to post stable year-on-year results thanks to strong cinema ticket sales.

Resources

Coal Miners are set to report improved financial results in Q4 however the outlook for 2015 is what investors are most interested about. A weak zloty supports mining operations, however KGHM's American mines are affected by falling prices of metals.

Industrials

We expect to see year-on-year growth in the Q4 2014 results of 42% of the industrial companies in our tracking portfolio, marking a steady ratio relative to Q3 (43%), with 27% of the companies reporting declines. The companies most likely to deliver upside surprises are Cognor, Elemental Holding, Impexmetal, Kernel, Synthos, Ursus, and Zetkama.

Construction

We expect that eight out of the ten construction firms tracked by us will report year-on-year earnings growth in the seasonally robust fourth quarter. Torpol and Unibep are the most likely the leaders of the Q4 2014 earnings season.

Property Developers

We expect to see marked y/y profit growth at Robyg, Dom Development, LC Corp, and J.W. Construction, flat results at Polnord, and a weak showing from Ronson, in Q4 2014. The quarterly profits of most commercial developers (except Echo Investment, expected to report y/y growth) will be affected by downward adjustments to investment property values.

Retail

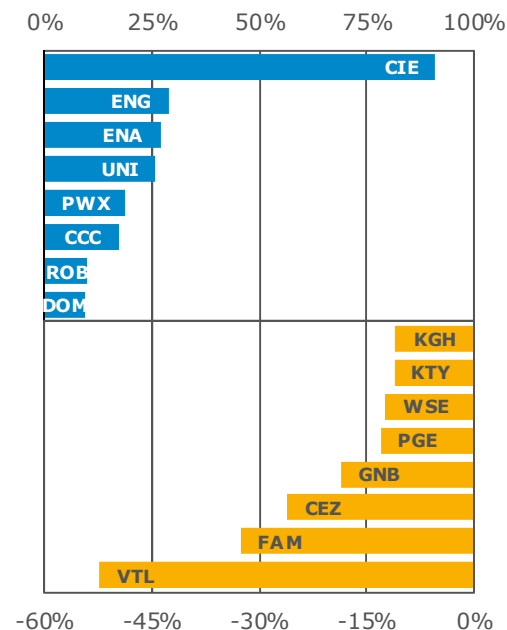
We expect a strong Q4 announcement from CCC showing solid y/y growth in revenues as well as profits. In turn the quarterly results of LPP are likely to reflect the revenue slowdown observed in Russia and Ukraine.

Other

Work Service is set to report 105% y/y growth in Q4 net profit driven by acquisitions.

WIG	52,140
Average 2014E P/E	16.1
Average 2015E P/E	13.6
ADTV (3M)	PLN 806m

EPS growth at selected companies*



*calculated for: Q1'14-Q4'14 / Q4'13-Q3'14

Research Department:

Michał Marczak
+48 22 438 24 01
michal.marczak@mdm.pl

Kamil Kliszcz
+48 22 438 24 02
kamil.klischcz@mdm.pl

Jakub Szkopek
+48 22 438 24 03
jakub.szkopek@mdm.pl

Piotr Zybała
+48 22 438 24 04
piotr.zybała@mdm.pl

Michał Konarski
+48 22 438 24 05
michal.konarski@mdm.pl

Paweł Szpigel
+48 22 438 24 06
pawel.szpigel@mdm.pl

Piotr Bogusz
+48 22 438 24 08
piotr.bogusz@mdm.pl

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List of abbreviations and ratios contained in the report:

EV – net debt + market value
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
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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HOLD – we expect that the rate of return from an investment will range from -5% to +5%
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DCF – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.

Comparative – 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.

Michał Marczak
member of the management board
tel. +48 22 438 24 01
michal.marczak@mdm.pl
strategy, resources, metals

Research Department:

Kamil Kliszc
deputy director
tel. +48 22 438 24 02
kamil.kliszcz@mdm.pl
energy, chemicals, power generation

Michał Konarski
tel. +48 22 438 24 05
michal.konarski@mdm.pl
banks

Jakub Szkopek
tel. +48 22 438 24 03
jakub.szkopek@mdm.pl
industrials

Paweł Szpigiel
tel. +48 22 438 24 06
pawel.szpigiel@mdm.pl
media, IT, telco

Piotr Zybała
tel. +48 22 438 24 04
piotr.zybala@mdm.pl
construction, real-estate development

Piotr Bogusz
tel. +48 22 438 24 08
piotr.bogusz@mdm.pl
retail

Sales and Trading:

Piotr Gawron
director
tel. +48 22 697 48 95
piotr.gawron@mdm.pl

Piotr Dudziński
deputy director
tel. +48 22 697 48 22
piotr.dudzinski@mdm.pl

Marzena Łempicka-Wilim
deputy director
tel. +48 22 697 48 82
marzena.lempicka@mdm.pl

Foreign Institutional Sales:

Łukasz Wójtowicz, CAIA
deputy director, international markets
tel. +48 22 697 48 47
lukasz.wojtowicz@mdm.pl

Dom Maklerski mBanku S.A.
Research Department
ul. Senatorska 18
00-075 Warszawa
www.mDomMaklerski.pl

Traders:

Krzysztof Bodek
tel. +48 22 697 48 89
krzysztof.bodek@mdm.pl

Michał Jakubowski
tel. +48 22 697 47 44
michal.jakubowski@mdm.pl

Tomasz Jakubiec
tel. +48 22 697 47 31
tomasz.jakubiec@mdm.pl

Szymon Kubka, CFA, PRM
tel. +48 22 697 48 16
szymon.kubka@mdm.pl

Anna Łagowska
tel. +48 22 697 48 25
anna.lagowska@mdm.pl

Paweł Majewski
tel. +48 22 697 49 68
pawel.majewski@mdm.pl

Adam Mizera
tel. +48 22 697 48 76
adam.mizera@mdm.pl

Adam Prokop
tel. +48 22 697 47 90
adam.prokop@mdm.pl

Michał Roźmiej
tel. +48 22 697 49 85
michal.rozmiej@mdm.pl

"Private Broker"

Jarosław Banasiak
director, active sales
tel. +48 22 697 48 70
jaroslaw.banasiak@mdm.pl