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Quarterly Earnings Forecast: Q1 2016

Equity Market

Banks

Polish banks are expected to deliver slightly higher pre-tax income in Q1 2016 as weaker total income will be offset by reduced provisioning and operating costs. We anticipate strong earnings releases from BZ WBK and Pekao (via high one-offs) in Poland, and from OTP Bank abroad.

Financial Services

We expect improved Q1 earnings results from PCM and Kruk. On the other hand, at PZU higher insurance claims will weigh, and at Skarbiec there will be a slowdown due to a lack of success fees.

Gas & Oil, Chemicals

Refiners are set to deliver solid Q1 results despite narrower benchmark margins, owing to higher local volumes, a wider Urals/Brent differential, and positive USD/PLN trends. The gas utility PGNiG is likely to deliver an upside surprise as well (strong trade margin, high distribution volume), and Grupa Azoty may post a Q1 beat supported by lower costs of natural gas fuel.

Power Utilities

Falling electricity prices will bear on the Q1 profits of PGE (additionally affected by lower volumes) and CEZ (where, however, the main valuation driver at the moment is the upcoming dividend proposal). We expect the power sector to achieve 30% of the projected annual EBITDA in Q1 2016.

Coal, Metals

The copper miner KGHM and the coal miner LWB will both deliver q/q improvement in core Q1 earnings, though the growth will be suppressed by the general price downturn in commodity markets, underpinned by lower sales volumes.

Telecoms, Media, IT

The TMT sector is expected to register continued downtrend at an annual rate of 4.7% in Q1 2016 EBITDA. At Asseco Poland we anticipate bottom-line shrinkage by as much as 12%. At Wirtualna Polska there will be a noticeable slowdown in organic growth.

Industrials

We expect 39% of the industrial companies in our soft coverage to deliver year-over-year earnings growth in Q1 2016, with 27% posting declines. Our top picks for the Q1 growth leaders are Alumetal, Amica, Impexmetal, Forte, Pfeleiderer Grajewo, Ursus, and Zetkama. The likely laggards reporting y/y profit shrinkage are Alchemia, Famur, Fasing, Feerum, Kruszowica, and PKM Duda.

Construction

Most Polish builders improved their earnings results in Q1 2016 even despite negative base effects. We expect a stellar Q1 showing from Budimex and relatively weak results from Erbud.

Property Developers

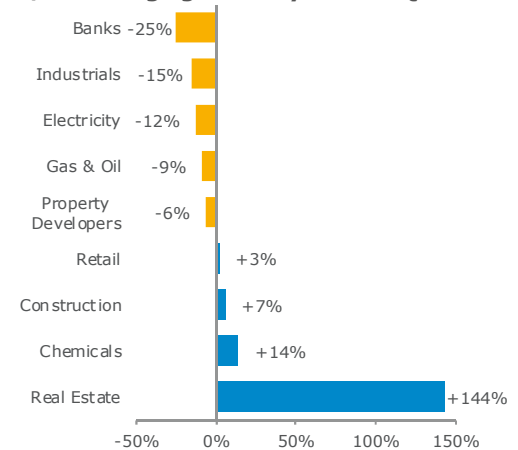
Real-estate developers are set to deliver a strong first quarter, with the profits of commercial developers supported by a strong euro, valuation gains on work in progress, and increasing rental income. In the residential sector, in spite of the y/y improvement the nominal earnings figures will be low.

Retail, Other

The March timing of the Easter Holidays provided a boost to the Q1 earnings of EUR and JMT while weighing on the March sales of CCC and LPP. Food retailers will report improved y/y results in Q1 thanks to decelerating price deflation. On the other hand, fashion retailers will post narrower margins under pressure from intense competition and a strong dollar. Work Service failed to achieve growth in Q1 as German operations and SG&A weighed.

WIG	48,514
Average 2016E P/E.....	12.9
Average 2017E P/E.....	11.2
ADTV (3M)	PLN 705m

Y/Y earnings growth by sector: Q1'16*



*Net earnings for banks and developers, otherwise EBITDA

Earnings Surprise Prediction	
negative	positive
Alchemia	Alumetal
Asseco Poland	Amica
Famur	Budimex
Fasing	Forte
Feerum	Grupa Azoty
Getin Noble Bank	GTC
Kruszowica	Kruk
LPP	Lotos
PGE	OTP Bank
PKM Duda	PGNiG
Synthos	Ursus
	Zetkama

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Definitions 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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HOLD – we expect that the rate of return from an investment will range from -5% to +5%
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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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