

Wednesday, July 27, 2016 | update

PGNiG: accumulate (reiterated)

PGN PW; PGN.WA | Gas & Oil, Polska

High FCF Guarantees Sustained Dividends

PGNiG has generated a total return of 13% since our last update in April, outperforming the WIG20 index by 19 points, and at the current level the first-quarter positive earnings surprise is fully priced in. That said, we still see upside potential in the Company even despite a disappointing preliminary second-quarter report, and we maintain an accumulate rating for PGN with the price target raised to PLN 6.06 per share. We have upgraded our FY2017 outlook for the Power Generation business and the E&P business which will more than offset the slowdown in Trade and in Distribution. According to our calculations, PGNiG will end 2016 with a net debt close to zero even after this year's acquisitions, and with the 2017-2018 FCF projected at PLN 1.9bn this leaves a thick cash cushion to sustain dividends. PGNiG is still at risk of becoming involved in furthering the government's energy policy, but at this time there are no specific plans on the table (the potential acquisitions of EDF Poland assets or Petrobaltic should not significantly hurt shareholder value, and the Norway pipeline plans are a remote prospect).

Solid 2016 outlook

Even after a PLN 0.68bn impairment loss incurred in Q2, PGNiG will have achieved 55% of our full-year EBITDA forecast in H1 2016 (59% on an adjusted basis). The strong earnings growth this year is driven mainly by Trade (capitalizing on a high retail tariff through the end of the year) coupled with Distribution (old tariff extension with a higher cost base, higher WACC, and lower volumes). The Generation segment as well has delivered upside surprises thanks to lower costs of coal and higher prices of heat. PGNiG has a strong outlook ahead in H2 2016 in our view as adverse regulatory changes are likely to be offset by rising prices of crude oil and natural gas, benefitting E&P.

2017 EBITDA may top PLN 6bn

PGNiG is set to experience a slowdown in Trade in 2017 due to higher costs of natural gas purchases, especially LNG, and in Distribution its profits will be affected by new tariff rules. On the upside, the E&P segment is poised for an acceleration next year driven by higher sales prices, a lack of impairment, slightly higher volumes, and cost savings, underpinned by favorable base effects (PLN 0.48bn hedging losses in H1 2016) and higher costs of the LNG terminal operation. Further, with 40% of the gas and oil sales now done on an arm's length basis, PGNiG's sales margin is protected against commodity price volatility. Finally, a resolution of the Gazprom dispute next year could add as much as \$0.6 billion to PGNiG's 2017 earnings.

(PLN m)	2014	2015	2016E	2017E	2018E
Revenue	34,304.0	36,464.0	32,667.0	33,300.2	36,697.3
EBITDA	6,345.0	6,080.0	5,669.8	6,172.1	6,873.4
EBITDA margin	18.5%	16.7%	17.4%	18.5%	18.7%
EBIT	3,843.0	3,290.0	3,039.1	3,583.5	4,265.3
Net profit	2,823.0	2,134.0	2,157.0	2,408.6	2,874.9
DPS	0.15	0.20	0.18	0.22	0.25
P/E	11.5	15.2	15.0	13.5	11.3
P/CE	6.1	6.6	6.8	6.5	5.9
P/BV	1.1	1.1	1.0	1.0	0.9
EV/EBITDA	5.6	5.4	5.8	5.3	4.5
DYield	2.7%	3.6%	3.3%	4.1%	4.5%

Current Price	PLN 5.50
Target Price	PLN 6.06
Market Cap	PLN 32.45bn
Free Float	PLN 9.47bn
ADTV (3M)	PLN 65.18m

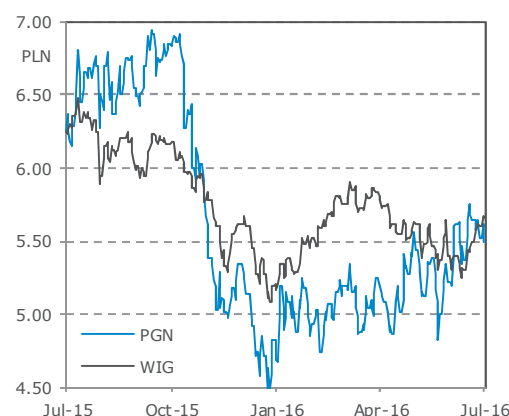
Ownership

State Treasury	70.83%
Others	29.17%

Business Profile

PGNiG is Poland's largest natural gas company with annual sales exceeding 14 billion cubic meters. The Company produces 4.5bcm of gas and 1.2mmt of crude oil per year (including from international deposits, most notably the Skarv project in Norway). A key business for PGNiG is distribution effected through its own transmission infrastructure. As well as natural gas, PGNiG is also a producer of electricity and heat.

PGN vs. WIG



Company	Target Price		Rating	
	new	old	new	old
PGNiG	6.06	5.55	accumulate	accumulate
Company	Current Price	Target Price	Upside / Downside	
	5.50	6.06	+10.1%	
Forecast revision since last update		2016E	2017E	2018E
EBITDA		+6%	+7%	+5%
Net profit		+17%	+12%	+14%

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Valuation

Using DCF analysis and relative valuation, we set our nine-month price target for PGNiG at PLN 6.06 per share.

(PLN)	weight	price
Relative Valuation	50%	5.69
DCF Analysis	50%	5.66
	price	5.68
9M target price		6.06

DCF Valuation

DCF Model Assumptions:

- Cash flows are discounted to their present value as of the end of July 2016. Equity value is calculated based on net debt at year-end 2015 plus dividend and a PLN 0.5bn investment each in SEJ and PGG.
- 2016 earnings estimates are adjusted for PLN 0.68bn impairment.
- Macroeconomic assumptions are as set out below.
- The depreciation and amortization expenses projected for FY2025 are higher than CAPEX, prompting a D&A revision to PLN 3.0bn when calculating terminal value.
- We added PGNiG's investment in EuRoPol Gaz (PLN 0.7bn) to equity value calculations.
- 2020 forecasts factor in a new hydrocarbon tax (the effective tax rate in Poland is expected to increase to a target level of 30%).
- The sales and EBITDA margin used to calculate FCFTV to terminal value are as forecast for FY2025.
- We assume that FCF after FY2024 will grow at an annual rate of 2%. The risk-free rate is 3.5% and beta is 1.1.

Additional assumptions:

	2015	2016P	2017P	2018P	2019P	2020P	2021P	2022P	2023P	2024P
Price of Brent crude (US\$/Bbl)	54	45	65	75	75	75	75	75	75	75
Weighted avg. price of German gas (USD/1000 m3)	243	168	190	200	250	250	250	250	250	250
Weighted avg. price of Russian gas (USD/1000 m3)	306	192	230	270	300	300	300	300	300	300
Weighted avg. wholesale tariff in Poland (PLN/1000 m3)*	1187	993	995	1119	1190	1188	1194	1200	1206	1212
PLN/USD (annual avg.)	3.77	3.95	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70
EUR/PLN (annual avg.)	4.18	4.34	4.15	4.15	4.15	4.15	4.15	4.15	4.15	4.15
PGNiG's gas sales volume (bn m3)	13.6	13.8	13.7	13.6	13.8	13.7	13.8	14.0	14.1	14.2
Gas imports (bn m3)	9.3	9.7	9.6	9.6	9.8	9.7	9.8	10.0	10.1	10.2
Natural gas output – domestic (bn m3)	4.0	4.1	4.1	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Crude oil output (mmt)	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Non-regulated gas sales volume (bn m3)	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Crude oil output – intl. (mmt)	0.62	0.43	0.44	0.53	0.50	0.44	0.41	0.32	0.26	0.21
Natural gas output – intl. (bn m3)	0.62	0.63	0.68	0.89	1.05	1.00	1.01	1.01	1.01	1.01

* Defined as average unit revenue from sales of natural gas (simplified due to tariff variations depending on type of customer)

**Sales to end users (ex. trade)

DCF Model

(PLN m)	2016P	2017P	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2025+
Revenue	32,667	33,300	36,697	39,126	39,523	39,935	40,267	40,622	40,998	41,275	41,275
change	-10.4%	1.9%	10.2%	6.6%	1.0%	1.0%	0.8%	0.9%	0.9%	0.7%	0.0%
EBITDA	6,350	6,172	6,873	7,229	7,145	7,260	7,232	7,232	7,234	7,154	7,154
EBITDA margin	19.4%	18.5%	18.7%	18.5%	18.1%	18.2%	18.0%	17.8%	17.6%	17.3%	17.3%
D&A	2,631	2,589	2,608	2,750	2,714	2,735	2,752	2,782	2,826	2,827	3,024
EBIT	3,719	3,584	4,265	4,479	4,431	4,525	4,480	4,450	4,408	4,326	4,129
EBIT margin	11.4%	10.8%	11.6%	11.4%	11.2%	11.3%	11.1%	11.0%	10.8%	10.5%	10.0%
Tax on EBIT	857	967	1,245	1,335	1,583	1,597	1,540	1,494	1,455	1,383	1,307
NOPLAT	2,862	2,617	3,021	3,144	2,848	2,928	2,940	2,956	2,952	2,943	2,823
CAPEX	-3,502	-3,755	-3,130	-3,024	-3,031	-3,035	-3,026	-3,024	-3,021	-2,997	-3,024
Working capital	-200	-45	-241	-172	-28	-29	-24	-25	-27	-20	-20
FCF	1,791	1,406	2,258	2,698	2,503	2,599	2,642	2,688	2,730	2,754	2,803
WACC	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	8.5%
Discount factor	96.5%	88.5%	81.2%	74.5%	68.3%	62.7%	57.5%	52.8%	48.4%	44.4%	44.4%
PV FCF	1,728	1,244	1,834	2,010	1,710	1,629	1,519	1,418	1,321	1,223	

WACC	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	8.5%
Cost of debt	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Effective tax rate	23.1%	27.0%	29.2%	29.8%	35.7%	35.3%	34.4%	33.6%	33.0%	32.0%	31.6%
Net debt / EV	0.7%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	10.0%
Cost of equity	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1

FCF after the forecast period	2.0%
Terminal value	43,422
Present value of terminal value	19,277
Present value of FCF in the forecast period	15,636
Enterprise value	34,913
Net debt	2,205
Minority interests	5
Equity value	32,708
Investment in EuRoPolGaz	711
Equity value	33,414
Number of shares (millions)	5,900
Equity value per share (PLN)	5.66
9M cost of equity	6.7%
Target price (PLN)	6.04

EV/EBITDA('16) at target price	6.0
P/E('16) at target price	16.5
TV / EV	55%

Sensitivity Analysis

	FCF growth in perpetuity				
	0.0%	1.0%	2.0%	3.0%	4.0%
WACC +1.0 p.p.	4.94	5.22	5.57	6.04	6.68
WACC +0.5 p.p.	5.07	5.38	5.79	6.33	7.10
WACC	5.22	5.57	6.04	6.68	7.61
WACC -0.5 p.p.	5.38	5.79	6.33	7.10	8.24
WACC -1.0 p.p.	5.57	6.04	6.68	7.61	9.07

Relative Valuation

We compared the forward P/E and EV/EBITDA multiples of PGNiG with the multiples of two peer groups as projected for fiscal 2016 through 2018. The first peer group consists of European utilities under government regulation, and in this case our multiples comparison also includes dividend yields. The second group consists of upstream companies with exposure to natural gas. The valuations of these entities accurately reflect the operational risk and cost of capital entailed in their respective lines of business. The weights assigned to the peer groups are based on segmental contributions to EBITDA. With all this in mind, we estimate PGNiG's relative value at PLN 5.69 per share.

(PLN)	weight	price
Public Utilities	50%	5.93
Upstream Companies	50%	5.45
relative valuation		5.69

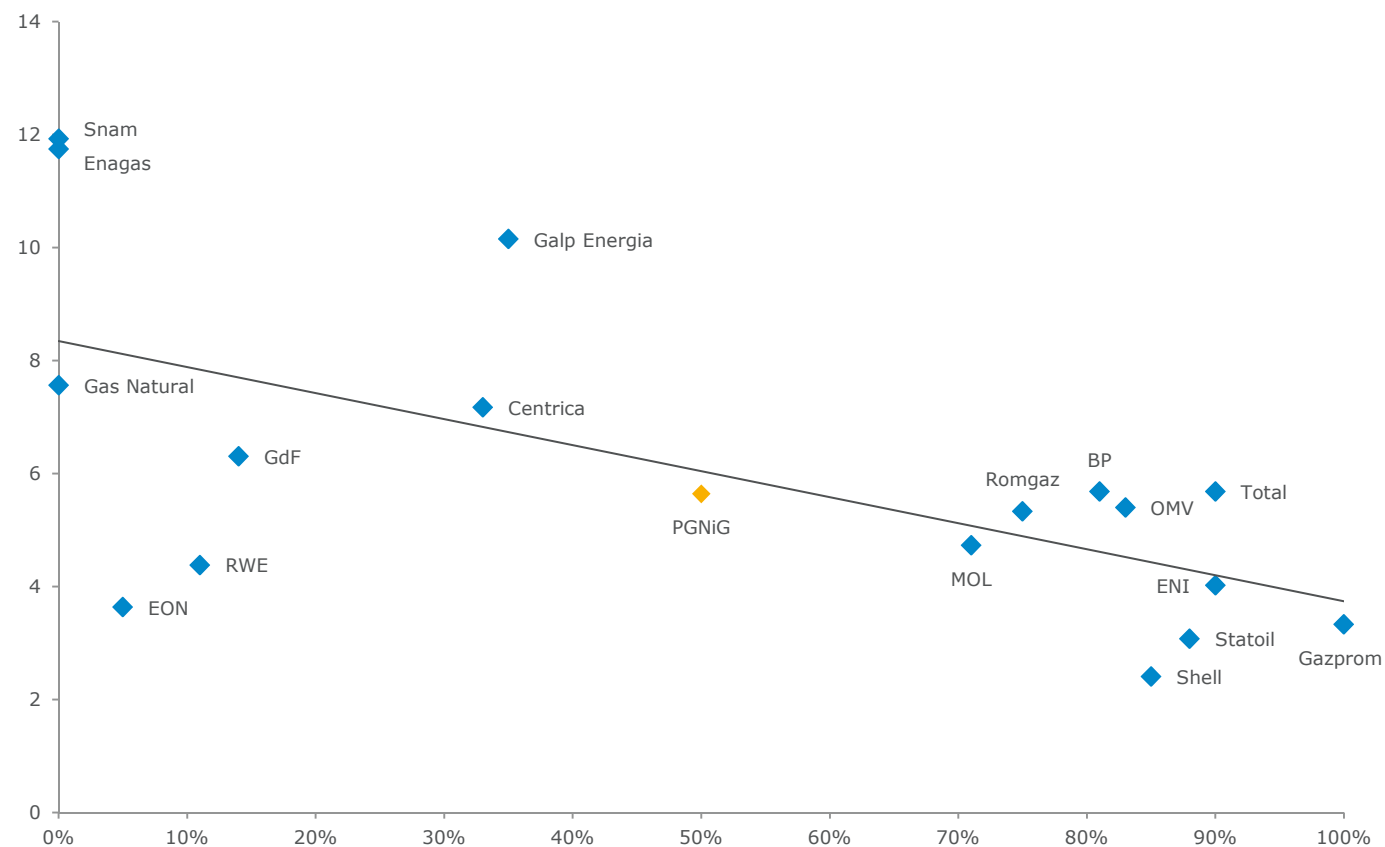
Multiples Comparison: PGNiG vs. Public Utilities

	Price	P/E				EV/EBITDA				2016-2017 Dividend yield
		2015	2016E	2017E	2018E	2015	2016E	2017E	2018E	
A2A	1.2	14.0	12.7	14.0	13.3	7.1	7.0	7.1	7.1	3.9%
CENTRICA	241.5	14.3	15.9	15.2	14.0	6.1	7.2	8.2	8.1	5.1%
ENAGAS	27.3	15.8	15.6	15.3	15.2	11.1	11.7	12.2	12.4	5.2%
ENDESA	18.6	17.0	15.9	17.0	17.0	7.8	7.6	7.4	7.6	6.2%
ENEA	11.1	4.9	7.7	7.3	6.8	4.4	4.9	4.8	4.5	5.8%
ENERGA	10.0	4.8	6.1	5.7	6.2	3.7	4.5	4.6	4.8	8.3%
E.ON	9.6	12.0	12.4	14.1	14.1	3.3	3.6	3.7	3.7	3.8%
ENGIE	15.0	14.2	14.4	14.2	13.6	5.9	6.3	6.4	6.2	5.7%
GAS NATURAL	18.3	12.4	13.5	13.2	12.4	7.2	7.6	7.5	7.2	5.4%
HERA	2.4	19.3	19.5	17.9	17.2	7.3	7.3	7.0	6.7	3.9%
RWE	15.9	8.8	16.0	14.4	16.0	3.4	4.4	4.3	4.4	1.9%
SNAM	5.2	15.2	17.2	16.2	15.9	11.2	11.9	11.7	11.4	4.9%
Maximum		19.3	19.5	17.9	17.2	11.2	11.9	12.2	12.4	8.3%
Minimum		4.8	6.1	5.7	6.2	3.3	3.6	3.7	3.7	1.9%
Median		14.1	15.0	14.3	14.0	6.6	7.1	7.0	6.9	5.2%
PGNiG	5.50	15.2	15.0	13.5	11.3	5.4	5.8	5.3	4.5	3.7%
(premium / discount)		7.7%	0.4%	-5.9%	-19.6%	-19.0%	-18.7%	-25.3%	-34.3%	-28.8%
Implied valuation										
Median		14.1	15.0	14.3	14.0	6.6	7.1	7.0	6.9	5.2%
Multiple weight				33.3%				33.3%		33.3%
Year weight		0.0%	33.3%	33.3%	33.3%	0.0%	33.3%	33.3%	33.3%	
Implied valued per share (PLN)	5.81									
Per-share investment EuRoPolGaz	0.12									
Value per share	5.93									

Multiples Comparison: PGNiG vs. Upstream Companies

	Price	P/E				EV/EBITDA			
		2015	2016E	2017E	2018E	2015	2016E	2017E	2018E
BP	434.6	16.3	27.2	14.3	10.7	6.2	6.8	5.2	4.5
ENI	14.0	60.8	69.5	19.4	13.1	4.3	5.5	4.0	3.3
GAZPROM	140.7	2.9	3.5	3.4	2.9	3.0	3.6	3.3	2.9
NOVATEK	655.0	17.3	11.7	10.6	9.1	12.6	10.9	9.8	9.4
ROMGAZ	22.7	7.0	6.7	6.7	5.4	2.4	2.5	2.4	2.1
SHELL	2059.0	15.9	23.3	13.5	10.2	8.5	8.0	5.8	5.1
STATOIL	142.8	23.4	33.2	14.9	8.3	3.4	4.1	3.0	2.6
TOTAL	42.4	11.2	15.5	11.2	9.2	6.0	7.2	5.6	4.7
Maximum		60.8	69.5	19.4	13.1	12.6	10.9	9.8	9.4
Minimum		2.9	3.5	3.4	2.9	2.4	2.5	2.4	2.1
Median		16.1	19.4	12.4	9.2	5.2	6.1	4.6	3.9
PGNiG	5.50	15.2	15.0	13.5	11.3	5.4	5.8	5.3	4.5
(premium / discount)		-5.6%	-22.4%	8.9%	22.9%	4.1%	-5.8%	14.4%	17.5%
Implied valuation									
Median		16.1	19.4	12.4	9.2	5.2	6.1	4.6	3.9
Multiple weight				50.0%				50.0%	
Year weight		0.0%	33.3%	33.3%	33.3%	0.0%	33.3%	33.3%	33.3%
Implied valued per share (PLN)		5.33							
Per-share investment EuRoPolGaz		0.12							
Value per share		5.45							

Regression analysis: EV/EBITDA vs. Pct. share of Upstream in EBITDA



Source: Bloomberg, Dom Maklerski mBanku

Income statement

(PLN m)	2013	2014	2015	2016P	2017P	2018P	2019P
Revenue	32,044.0	34,304.0	36,464.0	32,667.0	33,300.2	36,697.3	39,125.8
change	11.5%	7.1%	6.3%	-10.4%	1.9%	10.2%	6.6%
EBITDA, of which	5,612.0	6,345.0	6,080.0	5,669.8	6,172.1	6,873.4	7,228.6
Exploration & Production	3,381.0	3,143.0	2,426.0	1,654.0	2,992.6	3,643.7	4,003.7
Trade & Storage	169.0	764.0	623.0	826.6	252.5	254.6	279.1
Distribution	1,596.0	2,002.0	2,339.0	2,460.0	2,193.2	2,220.9	2,272.9
Generation	503.0	463.0	679.0	714.2	718.8	739.2	657.9
Other, intercompany eliminations	-37.0	-27.0	13.0	15.0	15.0	15.0	15.0
EBIT	3,149.0	3,843.0	3,290.0	3,039.1	3,583.5	4,265.3	4,478.8
change	24.0%	22.0%	-14.4%	-7.6%	17.9%	19.0%	5.0%
EBIT margin	9.8%	11.2%	9.0%	9.3%	10.8%	11.6%	11.4%
Financing gains / losses	-396.0	-346.0	-225.0	-98.8	-150.4	-134.3	-105.3
Extraordinary gains/losses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	-44.0	129.0	-51.0	-100.0	-100.0	-50.0	-50.0
Pre-tax profit	2,709.0	3,626.0	3,014.0	2,840.2	3,333.2	4,081.0	4,323.5
Tax	789.0	804.0	878.0	683.2	924.5	1,206.1	1,302.3
Minority interests	2.0	-1.0	2.0	0.0	0.0	0.0	0.0
Net profit	1,918.0	2,823.0	2,134.0	2,157.0	2,408.6	2,874.9	3,021.2
change	-14.5%	47.2%	-24.4%	3.4%	11.4%	16.9%	5.1%
margin	6.0%	8.2%	5.9%	6.6%	7.2%	7.8%	7.7%
D&A	2,463.0	2,502.0	2,790.0	2,630.7	2,588.5	2,608.1	2,749.8
EBITDA	5,612.0	6,345.0	6,080.0	5,669.8	6,172.1	6,873.4	7,228.6
change	21.8%	13.1%	-4.2%	-6.7%	8.9%	11.4%	5.2%
EBITDA margin	17.5%	18.5%	16.7%	17.4%	18.5%	18.7%	18.5%
Shares at year-end (millions)	5,900.0	5,900.0	5,900.0	5,900.0	5,900.0	5,900.0	5,900.0
EPS	0.3	0.5	0.4	0.4	0.4	0.5	0.5
CEPS	0.7	0.9	0.8	0.8	0.8	0.9	1.0
ROAE	6.9%	9.6%	7.0%	6.9%	7.4%	8.5%	8.6%
ROAA	4.0%	5.8%	4.3%	4.3%	4.7%	5.4%	5.5%

Balance Sheet

(PLN m)	2013	2014	2015	2016P	2017P	2018P	2019P
ASSETS	48,384.0	48,926.0	49,825.0	50,677.6	51,919.2	53,675.2	55,240.5
Fixed assets	37,479.0	37,692.0	36,959.0	38,039.1	38,900.1	38,928.5	38,644.6
Property, plant and equipment	33,033.0	33,528.0	32,967.0	34,135.0	35,278.0	35,771.1	36,019.7
Intangible assets	1,164.0	1,113.0	1,138.0	1,161.2	1,184.7	1,213.5	1,238.8
Equity investment	727.0	856.0	840.0	840.0	840.0	840.0	840.0
Other fixed assets	2,555.0	2,195.0	2,014.0	1,902.9	1,597.4	1,103.9	546.0
Current assets	10,905.0	11,234.0	12,866.0	12,638.5	13,019.1	14,746.7	16,595.9
Inventory	3,378.0	3,189.0	2,229.0	2,191.8	2,230.4	2,437.7	2,585.8
Current receivables	4,086.0	4,236.0	3,372.0	3,266.7	3,330.0	3,669.7	3,912.6
Other current assets	614.0	851.0	1,026.0	1,026.0	1,026.0	1,026.0	1,026.0
Cash and cash equivalents	2,827.0	2,958.0	6,239.0	6,154.0	6,432.6	7,613.3	9,071.5
(PLN m)	2013	2014	2015	2016P	2017P	2018P	2019P
EQUITY AND LIABILITIES	48,384.0	48,926.0	49,825.0	50,677.6	51,919.2	53,675.2	55,240.5
Equity	28,447.0	30,164.0	30,736.0	31,931.0	33,115.4	34,565.2	35,911.4
Share capital	5,900.0	5,900.0	5,900.0	5,900.0	5,900.0	5,900.0	5,900.0
Other equity	22,547.0	24,264.0	24,836.0	26,031.0	27,215.4	28,665.2	30,011.4
Minority interests	6.0	5.0	5.0	5.0	5.0	5.0	5.0
Long-term liabilities	12,093.0	12,384.0	12,795.0	12,795.0	12,795.0	12,795.0	12,795.0
Loans	5,385.0	5,069.0	5,799.0	5,799.0	5,799.0	5,799.0	5,799.0
Other	6,708.0	7,315.0	6,996.0	6,996.0	6,996.0	6,996.0	6,996.0
Current liabilities	7,838.0	6,373.0	6,289.0	5,946.6	6,003.7	6,310.0	6,529.0
Loans	2,276.0	769.0	583.0	583.0	583.0	583.0	583.0
Trade creditors	4,033.0	3,589.0	3,288.0	2,945.6	3,002.7	3,309.0	3,528.0
Other	1,529.0	2,015.0	2,418.0	2,418.0	2,418.0	2,418.0	2,418.0
Debt	7,661.0	5,838.0	6,382.0	6,382.0	6,382.0	6,382.0	6,382.0
Net debt	4,834.0	2,880.0	143.0	228.0	-50.6	-1,231.3	-2,689.5
(Net debt / Equity)	17.0%	9.5%	0.5%	0.7%	-0.2%	-3.6%	-7.5%
(Net debt / EBITDA)	0.9	0.5	0.0	0.0	0.0	-0.2	-0.4
BVPS	4.8	5.1	5.2	5.4	5.6	5.9	6.1

Cash Flow

(PLN m)	2013	2014	2015	2016P	2017P	2018P	2019P
Cash flow from operating activities	7,813.0	6,979.0	7,258.0	5,724.1	5,606.6	6,034.8	6,455.7
Net profit	1,918.0	2,823.0	2,134.0	2,207.0	2,458.6	2,874.9	3,021.2
D&A	2,463.0	2,502.0	2,790.0	2,630.7	2,588.5	2,608.1	2,749.8
Working capital	1,383.0	-416.0	1,528.0	-199.9	-44.8	-240.6	-172.0
Other	2049.0	2070.0	806.0	1086.3	604.3	792.3	856.7
Cash flow from investing activities	-3,060.0	-3,680.0	-3,147.0	-4,501.9	-3,755.0	-3,130.0	-3,023.7
CAPEX	-3,290.0	-3,781.0	-3,154.0	-3,501.9	-3,755.0	-3,130.0	-3,023.7
Equity investment	0.0	0.0	0.0	0.0	1.0	2.0	3.0
Other	230.0	101.0	7.0	-1000.0	-1.0	-2.0	-3.0
Cash flow from financing activities	-3,874.0	-3,169.0	-829.0	-1,307.2	-1,573.0	-1,724.0	-1,973.8
Share issue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt	-2,731.0	-1,996.0	621.0	0.0	0.0	0.0	0.0
Dividend (buy-back)	-767.0	-885.0	-1,180.0	-1,062.0	-1,324.2	-1,475.2	-1,725.0
Other	-376.0	-288.0	-270.0	-245.2	-248.8	-248.8	-248.8
Change in cash	879.0	131.0	3,281.0	-85.0	278.6	1,180.7	1,458.2
Cash at period-end	2,827.0	2,958.0	6,239.0	6,154.0	6,432.6	7,613.3	9,071.5
DPS (PLN)	0.13	0.15	0.20	0.18	0.22	0.25	0.29
FCF	2,916.0	2,544.0	3,576.0	1,284.7	1,448.7	2,298.7	2,733.5
(CAPEX/Sales)	10.3%	11.0%	8.6%	10.7%	11.3%	8.5%	7.7%

Trading Multiples

	2013	2014	2015	2016P	2017P	2018P	2019P
P/E	16.9	11.5	15.2	15.0	13.5	11.3	10.7
P/CE	7.4	6.1	6.6	6.8	6.5	5.9	5.6
P/BV	1.1	1.1	1.1	1.0	1.0	0.9	0.9
P/S	1.0	0.9	0.9	1.0	1.0	0.9	0.8
FCF/EV	7.8%	7.2%	11.0%	3.9%	4.5%	7.4%	9.2%
EV/EBITDA	6.6	5.6	5.4	5.8	5.3	4.5	4.1
EV/EBIT	11.8	9.2	9.9	10.8	9.0	7.3	6.6
EV/S	1.2	1.0	0.9	1.0	1.0	0.9	0.8
DYield	2.4%	2.7%	3.6%	3.3%	4.1%	4.5%	5.3%
Price (PLN)	5.50						
Shares at year-end (millions)	5,900	5,900	5,900	5,900	5,900	5,900	5,900
MC (PLN m)	32,450	32,450	32,450	32,450	32,450	32,450	32,450
Minority interests (PLN m)	6	5	5	5	5	5	5
EV (PLN m)	37,290	35,335	32,598	32,683	32,404	31,224	29,765

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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ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from -5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
SELL – we expect that an investment will bear a loss greater than 15%
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Economic profits – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

Discounted Dividends (DDM) – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

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.

Previous ratings issued for PGNiG

Rating	Hold	Hold	Accumulate	Buy	Accumulate
Rating date	2015-12-03	2016-02-02	2016-04-19	2016-05-06	2016-06-02
Price on rating day	5.24	5.04	5.10	4.92	5.13
WIG on rating day	47002.61	44294.89	48195.06	46430.16	44700.67

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