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Quarterly Earnings Forecast: Q3 2016

Equity Market

Financial Sector

Not counting banks, the Polish financial sector is expected to deliver a solid third quarter. Of the service providers in our coverage, Skarbiec will report good quarterly results, and PZU and Prime Car Management are set to post improvement relative to the second quarter. As for banks, the aggregate Q3 2016 net income figure will be lower than in Q2, when it was boosted by one-time gains from the sale of VISA shares, however the core total income should show an upward shift. On a case-by-case basis, we expect to see one-off profits at PKO BP, ING BSK, and Komercni Banka.

Gas & Oil, Chemicals

The Q3 2016 downstream profits of the refiners in our coverage are expected to be solid but much lower than in the peak-margin period of Q3 2015. In upstream, Q3 is likely to be the last quarter of falling EBITDA results given the rebound observed in the prices of hydrocarbons, coupled with cost-savings initiatives. In the chemicals sector, the Q3 earnings season will be a mixed bag, with Grupa Azoty reporting another weak quarter (potentially prompting downgrades to the current consensus), Ciech expected to post flat year-over-year results, and Synthos recognizing varying results across the core operating segments.

Utilities & Resources

In a continuation of the trends observed in the first half of the year (lower prices of electricity and green certificates, reduced WACC), power utilities are expected to report average year-on-year shrinkage of 15% in their Q3 2016 profits. However, with the sector achieving 75% of the full-year EBITDA consensus on average in the year through September (led by Enea and Energa), these declines are already priced in.

Telecoms, Media, IT

The aggregate Q3 2016 EBITDA of the TMT companies in our coverage fell by an estimated 6% relative to the same period last year. At Asseco Poland, the drop in net profit could reach 25%. Year-on-year growth at Netia and Agora will also be slower than average.

Industrials

According to our predictions, 75% of the industrial companies in our coverage will report year-over-year improvement in their Q3 2016 results, making for the most successful earnings season since the beginning of 2014. We think positive earnings surprises may be delivered by Boryszew, Elemental, Ergis, Famur, Forte, Mangata, Uniwheels, and Vistal, while Alumetal and Kruszwica are set to disappoint.

Construction

Budimex is set to be the sector's earnings leader, with strong Q3 2016 profits supported by low costs of materials. We expect to see improvement on a year-on-year basis at Unibep, Trakcja (high backlog), and Ulma (positive base effects), and we anticipate contraction at Elektrobudowa, Elektrotim, Erbud, and Herkules due to negative base effects. At Torpol and ZUE the worsened Q3 outlook is underpinned by thin order books.

Property Developers

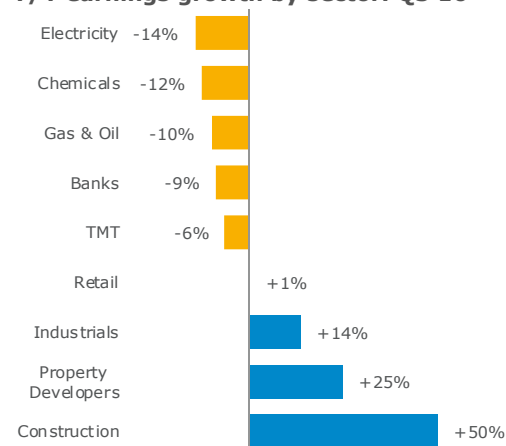
Aggregate closings by residential developers in Q3 2016 were 38% on average higher than in the same period in 2015, suggesting another successful earnings season in a row, with strong growth expected at Atal, JWC, Dom Development, Lokum, Ronson, and Marvipol. The fourth quarter is shaping up to be record-breaking in terms of closings. In commercial, a lower EUR/PLN suggests downward portfolio adjustments affecting Q3 2016 profits. FX volatility will not hurt the quarterly profits of GTC.

Retail

Jeronimo Martins and AmRest experienced continued uptrend in profits in Q3. At LPP, results will be affected by deep price markdowns, and at CCC performance was hurt by low sales of high-margin footwear in September.

| | |
|------------------------|----------|
| WIG | 47,894 |
| Average 2016E P/E..... | 13.8 |
| Average 2017E P/E..... | 12.7 |
| ADTV (3M) | PLN 725m |

Y/Y earnings growth by sector: Q3'16*



*Net earnings for banks, adjusted EBIT for developers, otherwise EBITDA

| Earnings Surprise Prediction | |
|------------------------------|-----------------------------|
| negative | positive |
| Alumetal | Elemental |
| Asseco Poland | Ergis |
| Grupa Azoty | Famur |
| Kruszwica | GTC |
| | Mangata (Zetkama) |
| | Prime Car Management |
| | Skarbiec Holding |
| | Uniwheels |

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List of abbreviations and ratios contained in the publication:

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%
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Strong and weak points of valuation methods used in recommendations:

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.

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.

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