

Friday, October 21, 2016 | periodical publication

## 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

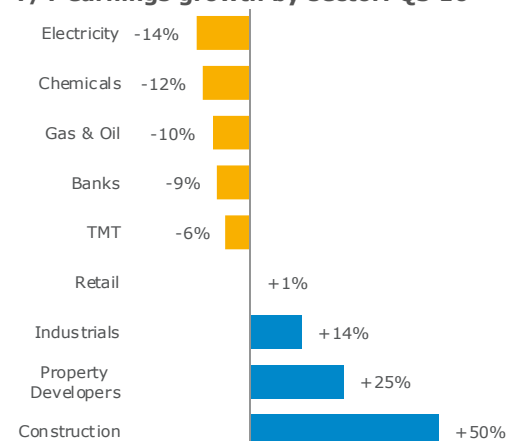
Aggregate closings by residential developers in Q3 2016 were 38% on average higher than in the same period in 2015, suggesting another successful earnings season in a row, with strong growth expected at Atal, JWC, Dom Development, Lokum, Ronson, and Marvipol. The fourth quarter is shaping up to be record-breaking 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

#### Research Department:

Michał Marczak  
+48 22 438 24 01  
[michal.marczak@mbank.pl](mailto:michal.marczak@mbank.pl)

Kamil Kliszcz  
+48 22 438 24 02  
[kamil.kliszcz@mbank.pl](mailto:kamil.kliszcz@mbank.pl)

Jakub Szkopek  
+48 22 438 24 03  
[jakub.szkopek@mbank.pl](mailto:jakub.szkopek@mbank.pl)

Piotr Zybała  
+48 22 438 24 04  
[piotr.zybała@mbank.pl](mailto:piotr.zybała@mbank.pl)

Michał Konarski  
+48 22 438 24 05  
[michal.konarski@mbank.pl](mailto:michal.konarski@mbank.pl)

Paweł Szpigel  
+48 22 438 24 06  
[pawel.szpigel@mbank.pl](mailto:pawel.szpigel@mbank.pl)

Piotr Bogusz  
+48 22 438 24 08  
[piotr.bogusz@mbank.pl](mailto:piotr.bogusz@mbank.pl)

## Table of Contents

<b>1. Banks</b>	<b>3</b>
1.1. Alior Bank	3
1.2. BZ WBK	3
1.3. Getin Noble Bank	3
1.4. Handlowy	3
1.5. ING BSK	3
1.6. Millennium	3
1.7. Pekao	3
1.8. PKO BP	4
1.9. Komercni Banka	4
<b>2. Financial Services</b>	<b>4</b>
2.1. PZU	4
2.2. Kruk	4
2.3. Prime Car Management	4
2.4. Skarbiec Holding	4
<b>3. Gas &amp; Oil, Chemicals</b>	<b>5</b>
3.1. Ciech	5
3.2. Grupa Azoty	5
3.3. Lotos	5
3.4. MOL	5
3.5. PGNiG	5
3.6. Polwax	5
3.7. Synthos	5
<b>4. Electricity, Coal, Metals</b>	<b>6</b>
4.1. CEZ	6
4.2. Enea	6
4.3. Energa	6
4.4. PGE	6
4.5. Tauron	6
4.6. KGHM	6
4.7. LW Bogdanka	6
<b>5. TMT</b>	<b>7</b>
5.1. Netia	7
5.2. Agora	7
5.3. Cyfrowy Polsat	7
5.4. Wirtualna Polska	7
5.5. Asseco Poland	7
5.6. Comarch	7
5.7. CD Projekt	7
<b>6. Industrials</b>	<b>8</b>
6.1. Alumetal	8
6.2. Amica	8
6.3. Apator	8
6.4. Boryszew	8
6.5. Elemental	8
6.6. Ergis	8
6.7. Famur	8
6.8. Forte	8
6.9. Impexmetal	9
6.10. Kruszwica	9
6.11. Mangata (f. Zetkama)	9
6.12. Pfeiderer Group	9
6.13. Tarczyński	9
6.14. Uniwheels	9
6.15. Vistal Gdynia	9
<b>7. Construction</b>	<b>10</b>
7.1. Budimex	10
7.2. Elektrobudowa	10
7.3. Erbud	10
7.4. Unibep	10
<b>8. Property Developers</b>	<b>11</b>
8.1. Capital Park	11
8.2. Dom Development	11
8.3. Echo Investment	11
8.4. GTC	11
8.5. Robyng	11
<b>9. Retail, Other</b>	<b>12</b>
9.1. AmRest	12
9.2. CCC	12
9.3. Eurocash	12
9.4. Jeronimo Martins	12
9.5. LPP	12
9.6. Work Service	12
<b>10. Current Ratings by Dom Maklerski mBanku</b>	<b>13</b>
<b>11. Ratings Statistics</b>	<b>14</b>

#### 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

#### Recommendations of Dom Maklerski mBanku:

A recommendation is valid for a period of 6-9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:

**BUY** – we expect that the rate of return from an investment will be at least 15%  
**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%  
Recommendations are updated at least once every nine months.

mBank S.A. with its registered office in Warsaw at Senatorska 18 renders brokerage services in the form of derived organisational unit – Brokerage Office which uses name Dom Maklerski mBanku.

The present report expresses the knowledge as well as opinions of the authors on day the report was prepared. The present report was prepared with due care and attention, observing principles of methodological correctness and objectivity, on the basis of sources available to the public, which Dom Maklerski mBanku considers reliable, including information published by issuers, shares of which are subject to recommendations. However, Dom Maklerski mBanku, in no case, guarantees the accuracy and completeness of the report, in particular should sources on the basis of which the report was prepared prove to be inaccurate, incomplete or not fully consistent with the facts.

This document does not constitute an offer or invitation to subscribe for or purchase any financial instruments and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document nor any copy hereof is not to be distributed directly or indirectly in the United States, Australia, Canada or Japan.

Recommendations are based on essential data from the entire history of a company being the subject of a recommendation, with particular emphasis on the period since the previous recommendation.

Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible.

mBank S.A. bears no responsibility for investment decisions taken on the basis of the present report or for any damages incurred as a result of investment decisions taken on the basis of the present report.

It is possible that mBank S.A. in its brokerage activity renders, will render or in the past has rendered services for companies and other entities mentioned in the present report.

mBank S.A. does not rule out offering brokerage services to an issuer of securities being the subject of a recommendation. Information concerning a conflict of interest arising in connection with issuing a recommendation (should such a conflict exist) is located on the final page of this report.

mBank S.A., its shareholders and employees may hold long or short positions in the issuers' shares or other financial instruments related to the issuers' shares. Dom Maklerski mBanku S.A., its affiliates and/or clients may conduct or may have conducted transactions for their own account or for account of another with respect to the financial instruments mentioned in this report or related investments before the recipient has received this report.

Copying or publishing the present report, in full or in part, or disseminating in any way information contained in the present report requires the prior written agreement of mBank S.A.

Recommendations are addressed to all Clients of Dom Maklerski mBanku.

The activity of mBank S.A. is subject to the supervision of the Polish Financial Supervision Commission.

mBank S.A. serves as underwriter for the following issuers: Asseco Business Solutions, Bakalland, BOŚ, Capital Park, Erbud, Ergis, Es-System, IMS, Kruk, Magellan, Mieszko, Neuca, Oponeo, PBKM, Pemug, Polimex Mostostal, Polna, Solar, Tarczyński, Vistal, ZUE.

mBank S.A. serves as market maker for the following issuers: Asseco Business Solutions, Bakalland, BOŚ, Capital Park, Erbud, Es-System, IMS, KGHM, Kruk, LW Bogdanka, Magellan, Mieszko, Neuca, Oponeo, PBKM, PGE, Pekao, PKN Orlen, PKO BP, Polimex Mostostal, Polna, Polwax, PZU, Solar, Tarczyński, Vistal, ZUE.

mBank S.A. receives remuneration from issuers for services rendered to the following companies: Agora, Alior Bank, Alchemia, Ambra, Bakalland, BNP Paribas, Boryszew, BPH, mBank, BZ WBK, Deutsche Bank, Elemental Holding, Elzab, Enea, Energoaparatúra, Erbud, Erste Bank, Es-System, Farmacol, Ferrum, Getin Holding, Handlowy, Impexmetal, Indata Software, ING BSK, Inter Groclin Auto, Ipopema, Koelner, Kopex, Kruk, LW Bogdanka, Magellan, Mennica, Mercor, Mieszko, Millennium, Mostostal Warszawa, Netia, Neuca, Odratrans, Oponeo, Orbis, OTP Bank, Paged, PA Nova, PBKM, Pekao, Pemug, Pfeiderer Grajewo, PGE, PGNiG, PKO BP, Polimex-Mostostal, Polnord, PRESCO GROUP, Prochem, Projprzem, Prokom, PZU, RBI, Robyg, Rubikon Partners NFI, Seco Warwick, Skarbiec Holding, Sokołów, Solar, Stelmet, Sygnity, Tarczyński, Techmex, TXN, Unibep, Uniwheels, Vistal, Wirtualna Polska Holding S.A., Work Service, ZUE.

In the last 12 months mBank S.A. has been an offering agent of the issuer's shares in a public offering for the following companies: HTL Strefa, PBKM, Stelmet.

Asseco Poland provides IT services to mBank S.A.

mBank S.A. has a cash service agreement in place with Pekao and a phone subscription agreement in place with Orange Polska S.A.

Individuals who did not participate in the preparation of recommendations, but had or could have had access to recommendations prior to their publication, are employees of Dom Maklerski mBanku authorised to access the premises in which recommendations are prepared, other than the analysts mentioned as the authors of the present recommendations.

Individuals who did not participate in the preparation of recommendations, but had or could have had access to recommendations prior to their publication, are employees of Dom Maklerski mBanku authorised to access the premises in which recommendations are prepared and/or individuals having to access to recommendations based on their corporate roles, other than the analysts mentioned as the authors of the present recommendations.

#### 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.

## Dom Maklerski mBanku

Senatorska 18  
00-082 Warszawa  
<http://www.mbank.pl/>

## Research Department

**Kamil Kliszcz**  
director  
tel. +48 22 438 24 02  
[kamil.klischcz@mbank.pl](mailto:kamil.klischcz@mbank.pl)  
energy, chemicals, power generation

**Jakub Szkopek**  
tel. +48 22 438 24 03  
[jakub.szkopek@mbank.pl](mailto:jakub.szkopek@mbank.pl)  
industrials, chemicals

**Piotr Bogusz**  
tel. +48 22 438 24 08  
[piotr.bogusz@mbank.pl](mailto:piotr.bogusz@mbank.pl)  
retail

**Michał Marczak**  
tel. +48 22 438 24 01  
[michal.marczak@mbank.pl](mailto:michal.marczak@mbank.pl)  
strategy, resources, metals

**Paweł Szpigił**  
tel. +48 22 438 24 06  
[pawel.szpigił@mbank.pl](mailto:pawel.szpigił@mbank.pl)  
media, IT, telco

**Michał Konarski**  
tel. +48 22 438 24 05  
[michal.konarski@mbank.pl](mailto:michal.konarski@mbank.pl)  
banks, financials

**Piotr Zybala**  
tel. +48 22 438 24 04  
[piotr.zybala@mbank.pl](mailto:piotr.zybala@mbank.pl)  
construction, real-estate development

## Sales and Trading

### Traders

**Piotr Gawron**  
director  
tel. +48 22 697 48 95  
[piotr.gawron@mbank.pl](mailto:piotr.gawron@mbank.pl)

**Tomasz Jakubiec**  
tel. +48 22 697 47 31  
[tomasz.jakubiec@mbank.pl](mailto:tomasz.jakubiec@mbank.pl)

**Szymon Kubka, CFA, PRM**  
tel. +48 22 697 48 16  
[szymon.kubka@mbank.pl](mailto:szymon.kubka@mbank.pl)

**Wojciech Wysocki**  
tel. +48 22 697 48 46  
[wojciech.wysocki@mbank.pl](mailto:wojciech.wysocki@mbank.pl)

**Krzysztof Bodek**  
tel. +48 22 697 48 89  
[krzysztof.bodek@mbank.pl](mailto:krzysztof.bodek@mbank.pl)

**Anna Łagowska**  
tel. +48 22 697 48 25  
[anna.lagowska@mbank.pl](mailto:anna.lagowska@mbank.pl)

**Jędrzej Łukomski**  
tel. +48 22 697 49 85  
[jedrzej.lukomski@mbank.pl](mailto:jedrzej.lukomski@mbank.pl)

**Mateusz Choromański, CFA**  
tel. +48 22 697 47 44  
[mateusz.choromanski@mbank.pl](mailto:mateusz.choromanski@mbank.pl)

**Adam Prokop**  
tel. +48 22 697 47 90  
[adam.prokop@mbank.pl](mailto:adam.prokop@mbank.pl)

**Tomasz Galanciak**  
tel. +48 22 697 49 68  
[tomasz.galanciak@mbank.pl](mailto:tomasz.galanciak@mbank.pl)

### Sales, Foreign Markets

**Marzena Łempicka-Wilim**  
deputy director  
tel. +48 22 697 48 82  
[marzena.lempicka@mbank.pl](mailto:marzena.lempicka@mbank.pl)

**Mariusz Adamski**  
tel. +48 22 697 48 47  
[mariusz.adamski@mbank.pl](mailto:mariusz.adamski@mbank.pl)

## Private Broker

**Kamil Szymański**  
director, active sales  
tel. +48 22 697 47 06  
[kamil.szymanski@mbank.pl](mailto:kamil.szymanski@mbank.pl)

**Jarosław Banasiak**  
deputy director, active sales  
tel. +48 22 697 48 70  
[jaroslaw.banasiak@mbank.pl](mailto:jaroslaw.banasiak@mbank.pl)