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# Quarterly Earnings Forecast: Q4 2016

## Equity Market

WIG ..... 57,858
Average 2017E P/E..... 13.6
Average 2018E P/E..... 12.4
ADTV (3M) ..... PLN 980m

### Financial Sector
In the CEE bank sector, the fourth quarter of 2016 was marked by expanding net interest margins on the one hand, and seasonally higher costs and provisioning on the other hand. At Erste Bank, a one-time Austrian banking tax payoff will lower the quarterly bottom-line figure. PCM vehicle leasing and fleet management will most likely surprise on the upside with its Q4 results, but the full-year earnings will probably miss the targets set in the Management Incentive Plan. A combined ratio below 100% in non-life insurance at PZU should lift investor sentiment.

### Gas & Oil, Chemicals
We anticipate worsened quarterly profits at Grupa Azoty fertilizers, and improved profits at Synthos rubbers, supported by better fundamentals. Ciech chemicals is set to deliver an upside surprise despite rising energy costs. In Gas & Oil, the recovering energy prices after periods of cost streamlining will drive the upstream profits of PGN and MOL.

### Power Utilities
Polish utilities are set to beat market expectations with their Q4 earnings, potentially prompting upward revisions to the forecasts for 2017, with Enea, Energa, and PGE all poised for likely outlook upgrades. Investors are eager to learn the sector's view on electricity and coal price trends in 2018.

### Telecoms, Media, IT
The aggregate Q4 2016 EBITDA of the TMT companies in our coverage narrowed by an estimated 1% relative to the same period last year. We expect a weak fourth-quarter showing from Asseco Poland, due to a continued slowdown experienced in Poland; the Q4 EBITDA of the South Eastern Europe division is set to post year-on-year growth in excess of 18%.

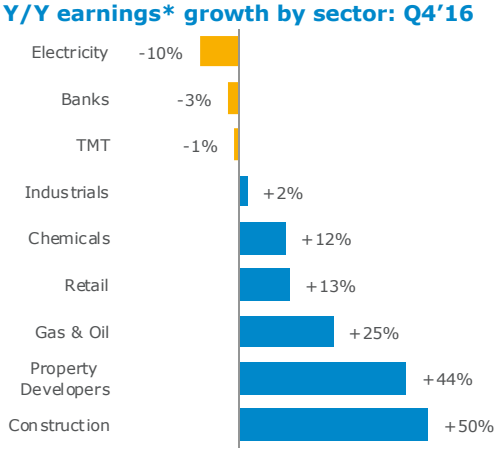
### Industrials & Metals
Of the industrial companies tracked by us, 59% are expected to report year-over-year earnings growth in Q4 2016, with 24% registering a slowdown and 17% delivering flat results - proportions similar to those recorded in the three previous quarters. The companies set to deliver the strongest Q4 financials include Apator, Forte, Elemental, and Uniwheels, while Alumetal, Mangata, and Vistal will probably disappoint. At KGHM copper, the fourth-quarter profits will be weighed down by impairment charges booked by foreign units.

### Construction
We expect strong fourth-quarter earnings from big builders with big backlogs (Budimex, Elektrobudowa, Unibep, Erbud). In railway infrastructure, we anticipate year-over-year growth at Torpol, a slowdown at ZUE, and flat growth at Trakcja. The Q4 profits of Elektrotim and Herkules will be compared against a high year-ago base.

### Property Developers
Residential developers are poised to deliver stellar fourth-quarter results, driven by successful sales. Robyg and Archicom are the most likely growth leaders, with their core profits over 100% higher than in Q4 2015. With projected earnings up nearly 30% on the year, Dom Development and LC Corp will be no laggards, either. The commercial developers GTC and Capital Park are expected to recognize valuation gains on their portfolios in Q4 2016.

### Retail
The Polish retail industry in Q4 2016 benefitted from rising retail sales which in November and December accelerated to respective annual rates of 6.6% and 6.4%, the highest during the year, driven by increasing consumer spending. We anticipate strong financial results from AmRest restaurants and Jeronimo Martins supermarkets. The footwear retailer CCC as well should post solid profits after successful sales of the 2016 autumn/winter collections. In turn, we expect relatively weak results from the fashion retailer LPP and Eurocash wholesale.

### Y/Y earnings* growth by sector: Q4'16




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

| Earnings Surprise Prediction | |
|---|---|
| negative | positive |
| Asseco Poland | AmRest |
| Eurocash | CCC |
| Kruk | Ciech |
| Vistal Gdynia | Echo Investment |
| | PZU |
| | Robyg |
| | Uniwheels |

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mBank Dom Maklerski

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**List of 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

**OVERWEIGHT (OW) –** a rating which indicates that we expect a stock to outperform the broad market
**NEUTRAL (N) –** a rating which indicates that we expect the stock to perform in line with the broad market
**UNDERWEIGHT (UW) –** a rating which indicates that we expect the stock to underperform the broad market

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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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**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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