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Quarterly Earnings Forecast: Q1 2017

Equity Market

Financial Sector

The 2017 first-quarter earnings of banks across the EU will be weighed down by contributions into resolution funds for failing credit institutions. When it comes to core business, Polish banks are expected to report flat growth in net interest income, and recognize seasonal reductions in risk reserves. The institutions most likely to stand out this earnings season include Komerční Banka (where one-time gains will boost future dividends), PZU (improving premiums and investment income), and Skarbiec Holding (set to report a high quarterly success fee).

Gas & Oil, Chemicals

Refiners will deliver year-over-year improvement in Q1 earnings thanks to higher crack spreads and volumes, reinforced by the petrochemicals business where margins on aromatic compounds reached record levels during the quarter. MOL and PGNiG are expected to report reduced costs in Q1. At PGNiG, Q1 earnings may be followed by upward forecast revisions led by strong performance in Trade. Synthos chemicals will report solid first-quarter earnings, but it is experiencing worsening market conditions in the second quarter. There will be year-over-year contraction in the Q1 earnings of Grupa Azoty and Ciech.

Power Utilities

Utilities are expected to deliver an average 31% of our full-year EBITDA forecasts in Q1, with CEZ and Tauron likely to deliver the biggest positive surprises relative to market expectations. Energa's Q1 performance may prompt downward revisions to the full-year outlook for Distribution.

Telecoms, Media, IT

The aggregate Q1 2017 EBITDA of the TMT companies in our coverage is expected to narrow by more than 3% relative to the same period last year. We anticipate the weakest showing from Asseco Poland, but Asseco South Eastern Europe and Asseco Business Solutions should deliver strong quarterly results. The Q1 profits of Wirtualna Polska will probably be affected by expenses on the TV project.

Industrials & Metals

We expect 52% of the companies in our coverage to report year-over-year growth in Q1 2017, with only 24% reporting a slowdown. We peg Apator, Boryszew, Elemental Holding, Impexmetal, Orzeł Biały, Pfeleiderer Group, and Uniwheels as the top earners. In turn, Amica, Forte, Kernel, and Vistal may disappoint. KGHM copper will benefit from an upturn in commodity prices.

Construction

We expect to see year-over-year improvement in the Q1 earnings of Elektrobudowa, Elektrotim, Herkules, and Ulma, thanks to positive base effects. The profits of railway builders may have reached bottom in Q1 before a rebound in the latter part of the year. Growth at Unibep and Erbud will be limited by negative base effects.

Property Developers

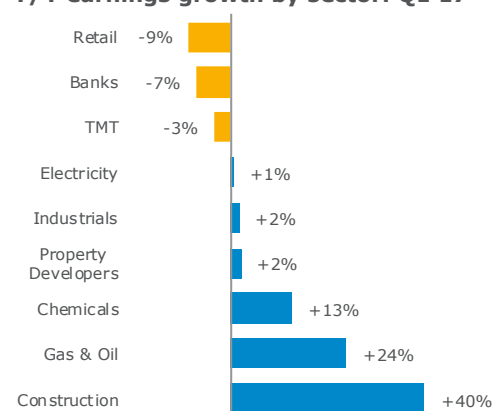
Nearly all listed developers are expected to deliver low Q1 2017 earnings figures due to few closings completed in the period, with Dom, Robyng, Lokum, JWC, and Polnord likely to be the laggards. Ronson, Atal, LC Corp, and Vantage will report high profits in Q1 net of the significant losses they may incur on FX adjustments.

Retail

The first quarter has a seasonally small share in the annual earnings of retailers. CCC footwear may post small year-over-year improvement thanks to reduced competition. At AmRest, recently acquired restaurants should drive profits relative to Q1 2016. Eurocash, LPP, and TXM will all report shrinking profits in Q1.

WIG	61,183
Average 2017E P/E.....	14.2
Average 2018E P/E.....	12.8
ADTV (3M)	PLN 1,027m

Y/Y earnings growth by sector: Q1'17*



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

Earnings Surprise Prediction	
negative	positive
Amica	Apator
AmRest	Atal
Asseco Poland	Komerční Banka
Ciech	Orzeł Biały
Getin Noble Bank	PGNiG
LPP	PZU
Wirtualna Polska	Skarbiec Holding

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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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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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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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