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Quarterly Earnings Forecast: Q2 2017

Equity Market

Financial Sector

The second-quarter profits of Polish banks were supported by accelerated retail lending, expect to drive higher the period's net interest margins as well as costs of risk. Elsewhere in the CEE, banks are set to report low cost of risk and increasing loan volumes. The top Q2 earners per our best guess will be OTP Bank, PKO BP (potentially triggering upward revisions to full-year expectations), and Skarbiec Holding (delivering a high success fee for the second quarter in a row).

Chemicals

The 2017 first-half earnings figures of Ciech Soda and Grupa Azoty should confirm both companies are on track to meeting the full-year market expectations. The synthetic rubber producer Synthos is expected to post a sharp drop in Q2 earnings relative to the previous quarter.

Gas & Oil

We expect to have to raise our FY2017 earnings estimates for oil refiners after a strong second quarter, however our future outlook on the downstream market remains bearish. The H1 results of the natgas group PGNiG should legitimize the PLN 7+ billion EBITDA forecasts for the full year.

Power Utilities

The Polish power sector is expected to deliver 53% of the full-year EBITDA expectations in H1 2017 after an acceleration driven by lower costs of renewable energy. The Czech generator CEZ is set to post continued profit contraction in Q2 led by low prices of electricity.

Telecoms, Media, IT

The aggregate Q2 2017 EBITDA of the TMT companies in our coverage is expected to narrow by nearly 5% relative to the same period last year. Asseco Poland will be the big laggard of the earnings season in IT, but this not including its listed subsidiaries, ASEE and ABS, doing much better than the parent. The media group Agora and the telecom Orange Polska are both expected to deliver solid Q2 results.

Industrials & Metals

Of the manufacturing companies tracked by us, we expect 36% to report year-over-year growth in the earnings results for Q2 2017, with only 17% reporting a slowdown and 47% experiencing flat profits. The companies set to increase profits in Q2 include Apator, Boryszew, Grupa Kęty, KGHM, Kernel, Kruszwica, and Pfeleiderer Group. On the other hand, we anticipate profit shrinkage from Alumetal, Stelmet, and Vistal.

Construction

The construction sector will trail full-year earnings expectations after the first half of the year, with railway builders posting H1 losses following a slow second quarter. However, based on growing backlogs, it is reasonable to expect a sector-wide rebound in the second half of the year.

Property Developers

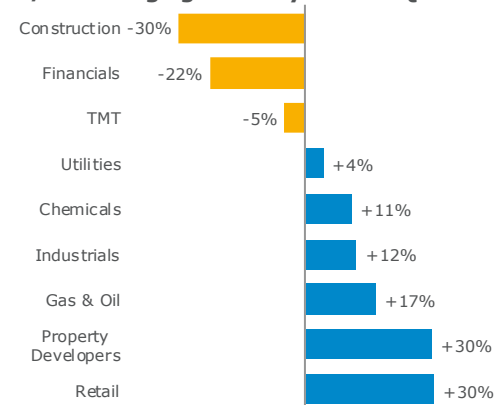
Residential developers are set to post less-than-impressive Q2 2017 profits given a 13% drop in the average number of homes settled in the period. Dom Development and Atal will be the positive outliers. An acceleration is imminent in the second half of the year, however, with peak closings scheduled for the fourth quarter. In commercial real estate, we expect strong showings from both GTC and Echo Investment.

Retail

CCC footwear and LPP fashion will deliver strong Q2 2017 results after three months of rising sales. The profits of AmRest restaurants will be boosted by continuing growth in lfl sales, and at Eurocash there will be a recovery after five quarters of falling profits.

WIG	61,975
Average 2017E P/E.....	13.1
Average 2018E P/E.....	12.1
ADTV (3M)	PLN 891m

Y/Y earnings growth by sector: Q2'17E*



*Net earnings for banks, adj. EBIT for developers, otherwise EBITDA

Earnings Surprise Prediction	
negative	positive
Amica	Agora
Asseco Poland	Atal
Bank Pekao	CCC
Erbud	Ciech
Synthos	Eurocash
	Grupa Azoty
	Kernel
	LPP
	Orange Polska
	OTP Bank
	PKO BP
	Skarbiec Holding

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Table of Contents

1. Banks	3
1.1. Alior Bank	3
1.2. Getin Noble Bank	3
1.3. Handlowy	3
1.4. PKO BP	3
1.5. Erste Bank	3
1.6. Komerčni Banka	3
1.7. OTP Bank	3
2. Financial Services	4
2.1. PZU	4
2.2. Kruk	4
2.3. Prime Car Management	4
2.4. Skarbiec Holding	4
3. Gas & Oil, Chemicals	5
3.1. Ciech	5
3.2. Grupa Azoty	5
3.3. Polwax	5
3.4. Synthos	5
3.5. Lotos	5
3.6. MOL	5
3.7. PGNiG	5
4. Utilities & Resources	6
4.1. CEZ	6
4.2. Enea	6
4.3. Energa	6
4.4. PGE	6
4.5. Tauron	6
4.6. KGHM	6
5. TMT	7
5.1. Netia	7
5.2. Orange Polska	7
5.3. Agora	7
5.4. Cyfrowy Polsat	7
5.5. Wirtualna Polska	7
5.6. Asseco Poland	7
5.7. Comarch	7
5.8. CD Projekt	7
6. Industrials	8
6.1. Alumetal	8
6.2. Amica	8
6.3. Apator	8
6.4. Boryszew	8
6.5. Elementar	8
6.6. Ergis	8
6.7. Famur	8
6.8. Forte	8
6.9. Impexmetal	9
6.10. Kernel	9
6.11. Kęty	9
6.12. Kruszwica	9
6.13. Mangata	9
6.14. Pfeiderer Group	9
6.15. Stelmet	9
6.16. Tarczyński	9
6.17. Vistal	10
7. Construction	10
7.1. Elektrobudowa	10
7.2. Erbud	10
7.3. Unibep	10
8. Property Developers	11
8.1. Atal	11
8.2. Capital Park	11
8.3. Dom Development	11
8.4. Echo Investment	11
8.5. GTC	11
8.6. Robyg	11
9. Retail, Other	12
9.1. AmRest	12
9.2. CCC	12
9.3. Eurocash	12
9.4. LPP	12
9.5. TXM	12
9.6. PBKM	12
10. Current Recommendations by Dom Maklerski mBanku	13
11. Current Calls by Dom Maklerski mBanku	14
12. Ratings Statistics	15

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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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 methods 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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