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Tarczyński – Q2 2017 Results

Positioning: neutral | current price: PLN 10.70

TAR PW; TAR.WA | Food Producers, Poland

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In Q2 2017, Tarczyński Group presented its EBITDA result, which matched our forecast, and sales revenues, which slightly exceeded it. Depreciation and amortisation turned out to be higher than expected (by PLN 0.6m), which translated into a deviation in the operating and net profit. We should underline that in Q2 2017, the operating cash flow stood at PLN 22.9m against PLN 10.1m in Q2 2016. We are expecting a neutral market reaction to the presented results.

Sales revenues of Tarczyński Group in Q2 2017 totalled PLN 185.9m, thus slightly exceeding our forecast (+3.6% YoY). The increase in turnover was mainly driven by higher sales volumes, which in turn stemmed from the fact that the group commenced its cooperation with the Biedronka store chain. The advertising campaign carried out in Q4 2016 also influenced the positive sales results of Q2 2017 to some extent. In addition, price increases arising from higher meat prices played a part, however a smaller one.

In Q2 2017, EBITDA reached PLN 12.0m, which was virtually in line with our forecast, and 5% higher YoY. Due to dynamic growth of pork prices in Q2 2017, the EBITDA margin fell from 7.4% to 6.5%. We should also stress that sales costs grew at a slower pace than sales revenues (+9.2% YoY and +20.8% YoY, respectively).

Depreciation and amortisation in Q2 2017 turned out to be higher by ca. PLN 0.6m, translating into a lower operating and net profit (decrease by the exact same amount).

In Q2 2017, the operating cash flow stood at PLN 22.9m against PLN 10.1m in Q2 2016. Net debt amounted to PLN 172.1m after H1 2017 (3.7xEBITDA'12M), down by PLN 3.8m compared with the end of Q1 2017 (in Q2 2017, the company continued its investment projects and paid dividends to shareholders at the level of PLN 7.4m). Supplier factoring (liability) amounted to PLN 28.4m in Q2 2017 against PLN 21.5m at the end of Q1 2017.

Q2 2017 actuals vs. expectations

(PLN m)	Q2'17	Q2'16	change	Q2'17E	differ.	2017E	2016	change
Revenue	185.9	153.9	20.8%	179.5	3.6%	733.4	648.2	13.1%
EBITDA	12.0	11.5	4.7%	12.1	-1.2%	49.6	45.5	9.1%
EBITDA margin	6.5%	7.4%	-	6.8%	-	6.8%	9.3%	-
EBIT	4.8	5.0	-3.4%	5.5	-13.3%	22.8	19.7	16.0%
Pre-tax profit	3.0	3.3	-8.4%	3.7	-19.7%	15.8	12.6	25.5%
Net profit	2.3	2.9	-20.9%	3.0	-23.6%	12.7	9.9	29.0%

Source: Grupa Tarczyński, E - estimates by Dom Maklerski mBanku

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
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