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Quarterly Earnings Forecast: Q3 2017

Equity Market

Financial Sector

We anticipate solid third-quarter earnings from PKO BP, Alior Bank, and Millennium in Poland, and OTP Bank and Erste Bank elsewhere in the CEE. In Poland, profits in Q3 were supported by increasing lending volumes, while regional banks benefitted from very low cost of risk. In financial services, we expect PZU to be the Q3 earnings leader thanks to high investment income.

Chemicals

Grupa Azoty is set to report the sector's fastest earnings growth in Q3 2017. The quarterly profits of Synthos will be supported by positive base effects, and at Ciech EBITDA will likely tighten at a more measured pace.

Oil & Gas

Refiners are set to post record earnings in Q3 2017, already fully factored into our full-year estimates. Past performance has little bearing on the value of PGNiG as deregulation of natgas prices for commercial consumers starts to take effect.

Power Utilities

The utilities in our coverage universe are expected to fulfill 76% of our FY EBITDA forecast after Q3, with ENA and ENG forging ahead and PGE trailing. Margins on electricity trading came under pressure in Q3 after rising all through the first half of the year.

Telecoms, Media, IT

The Q3 2017 EBITDA of Cyfrowy Polsat will show a 10% drop on the back of higher customer maintenance costs and abolished EU roaming fees. Orange Polska and Netia fared relatively better with EBITDA down only about 5% each. In IT, Asseco is set to post a 20% fall in net profit, while Comarch will report growth from the comparable year-ago base. Due to lower cinema attendance, there will be flat growth in the Q3 EBITDA of Agora.

Industrials & Metals

The Q3 2017 profits of Polish manufacturers will reflect mounting pressures from rising costs of labor and basic materials. Against this backdrop, we may see a positive surprise from KGHM, while Apator and Boryszew will probably fall short of targets.

Construction

Polish construction firms are set to report weak profits for Q3 2017 on the back of high revenues as cost pressures weighed. Railway builders in particular are expected to deliver dismal quarterly results. Most listed builders are at risk of missing the full-year market expectations this year.

Property Developers

Residential developers generated better-than-expected sales in Q3 2017, indicating potential for upward revisions to 2018 earnings expectations. At the same time, looking at upward-trending new home prices, there are likely to be positive surprises in the profit margins for Q3 and the whole 2017. The residential developers expected to deliver the highest nominal earnings figures in Q3 are LC Corp and Atal, and in commercial we anticipate a strong showing from GTC.

Retail

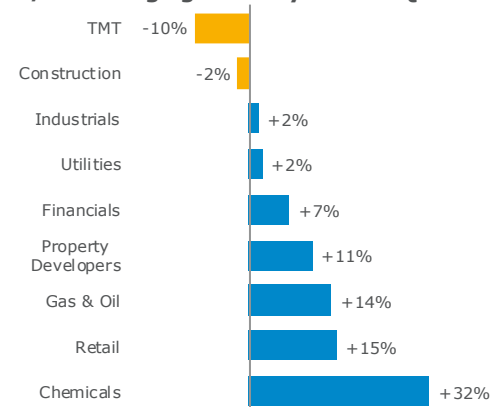
Polish retailers generated high sales in Q3 thanks to increasing consumer spending. At the same time, they experienced downward pressure on profits stemming from intense competition and higher costs of labor. The retailers most likely to deliver positive surprises include EAT, CCC, LPP, VST, and MON.

Other

PBKM is set to deliver record quarterly earnings in Q3, with EBIT soaring 30% year over year.

WIG	63,715
Average 2017E P/E.....	13.5x
Average 2018E P/E.....	12.2x
ADTV (3M)	PLN 865m

Y/Y earnings growth by sector: Q3'17*



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

Earnings Surprise Prediction	
negative	positive
Apator	Alior Bank
Boryszew	Atal
BZ WBK	KGHM
PCM	LC Corp
	Lotos
	MOL
	OTP Bank
	PKO BP

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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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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%
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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.

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.

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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