

Wednesday, July 18, 2018 | periodical publication

Quarterly Earnings Forecast: Q2 2018

Equity Market

Financials

Polish banks experienced strong growth in retail loan originations in Q2 2018, coupled with a slight recovery in interest margins, but the positive effects of this will be mitigated by normalized cost of risk and rising operating costs (driven mainly by payroll and IT expenses). We expect PKO BP and Handlowy to stand out with above-average earnings, and outside of Poland we see solid showings from Erste Bank and Komerční Banka.

Chemicals

Under pressure from rising costs of natural gas, the 2018 Q2 profits of both rated chemical producers, Grupa Azoty and Ciech, are set to show strong falls from the comparable year-ago period.

Oil & Gas

Gas and oil companies with substantial E&P portfolios (PGNiG, MOL) saw their Q2 2018 earnings potential buoyed by rising prices of both fuels. On the flip side, refining profits registered a slump which, however, will probably be obscured by positive LIFO effects.

Power Utilities

Rated power generators are expected to achieve 51% of our 2018 FY aggregate earnings forecast in the first half of the year. Profits in Q2 were shaped by further improvement in distribution alongside worsened trading results due to high prices of spot power and renewable energy certificates.

Telecoms, Media, IT

We anticipate flat y/y growth in the Q2 EBITDA of TMT companies, due in part to the negative impact of IFRS 15. IT firms, in particular Comarch, Asseco Poland, and its listed unit Asseco Business Solutions, are set for a solid season. On the other hand, the mobile telecom Play is expected to report a 10% y/y fall in EBITDA, and Agora media might disappoint after a 20% drop in ticket sales experienced by its subsidiary cinema chain.

Industrials & Mining

The 2018 Q2 earnings of industrial firms were reinforced by positive base effects and a weaker zloty. We expect 67% of rated companies to report year-over-year growth for the quarter, with only 33% set to post declines. We see the most potential for positive surprises in Alumetal, Amica, Cognor, Famur, Kernel, and Tarczyński, and we would look out for disappointments from Boryszew, Ergis, Forte, and Impexmetal. In mining, the coal producer JSW is set to report flat growth in recurring Q2 figures, with a one-time setback of PLN 370m weighing on the reported bottom line. At KGHM copper, planned smelter outages might result in 20% EBITDA shrinkage.

Construction

On increasing revenues, Polish construction firms are set to report falling profits in Q2 2018 on top of a seasonal debt ramp-up.

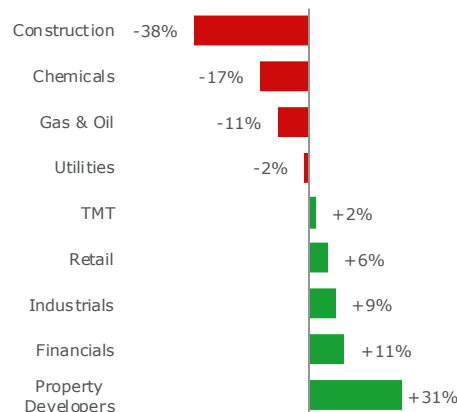
Property Developers

Polish developers are expected to deliver strong 2018 Q2 results, driven by a 50% surge from the year-ago period in the number of homes completed in the period, coupled with the euro's 3.6% appreciation versus the zloty. LC Corp and Atal will probably be the leaders of the Q2 earnings season.

Retail

The March timing of the 2018 Easter Holidays means slower 2018 Q2 like-for-like growth for the grocery retailers Jeronimo Martins, Eurocash, and Dino Polska. AmRest restaurants had its annual growth rate curbed by higher costs generated by new acquisitions. The menswear brand Bytom might deliver a standout Q2 showing.

YoY earnings growth by sector: Q2'18E*



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

Earnings Surprise Prediction	
negative	positive
Agora	Alumetal
AmRest	Amica
Boryszew	Asseco BS
Dino	Asseco Poland
Enea	Bytom
Ergis	Cognor
Forte	Comarch
PKN Orlen	Erste Bank
Play	Kernel
Tauron	LC Corp
	PGNiG
	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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