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Quarterly Earnings Forecast: Q3 2018

Equity Market

Financials

We anticipate a 2% rebound in the aggregate net income of Polish banks in Q3 2018 relative to the previous quarter, driven by net interest income growth coupled with decreasing risk reserves. There will be substantial disparities in growth rates bank to bank, with PKO BP and Pekao leading and Santander, Alior, and Getin trailing. Outside of Poland, rated CEE banks are set for another stellar quarter, likely to prompt upward revisions to consensus forecasts. Among other financials, we anticipate strong results from PZU and we expect solid showings from Kruk and Skarbiec.

Chemicals

The Q3 results of both Grupa Azoty and Ciech were dampened by soaring energy costs, in particular natural gas. CIE shares might underperform until the Q3 release, and shift higher based on the Management's 2019 soda price outlook.

Oil & Gas

An ongoing rally in energy commodities bodes well for the Q3 results of PGNiG and MOL with their extensive E&P assets. On the other hand, more downstream-reliant firms will report declines vis-à-vis the year-ago period, potentially mitigated by stronger profits from retail sales.

Utilities

Rated power utilities are expected to achieve 73% of our 2018 FY aggregate EBITDA forecast in the year to September. We would watch out for positive surprises from Tauron and Energa, while Enea will most likely disappoint. The current consensus for PGE is probably 5% too high, but its 2019 generation prospects are promising. CEZ is expected to post a rebound from the year-ago base for the first time in many quarters.

Telecoms, Media, IT

IT companies, in particular Comarch and Asseco Poland, are set to deliver a solid earnings season. The online media group Wirtualna Polska continues to benefit from rising Polish advertising spend, and Agora registered improved attendance at its cinemas in Q3. Orange Polska is the only rated telecom expected to deliver stable Q3 figures, though quarter-on-quarter improvement is anticipated at Play.

Industrials & Mining

The pickup started in Q2 carried over to the next quarter, with 65% of rated industrial companies expected to report improvement from the year-ago period. We see the most potential for positive surprises in Alumetal, Cognor, Famur, Forte, and Pozbud. The financials of KGHM copper will have worsened vis-à-vis Q3'17 versus a solid quarter anticipated at JSW coal.

Construction

On rising revenues, the construction sector saw further contraction in profits in Q3, accompanied by deteriorating balance-sheet positions.

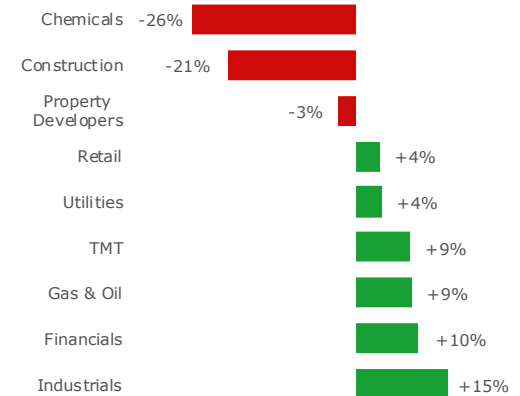
Property Developers

New home sales in Poland were down 26% in Q3, but rated developers are well on track to achieving or exceeding our FY estimates. Our top sector picks are DOM, 1AT, and LCC.

Retail

2018 Q3 earnings of fashion retailers will be weak due to low sales in August. Consequently, we expect y/y deterioration at Bytom, CCC, and Monnari against improvement anticipated at Vistula. Elsewhere in the sector, watch out for solid reports by Eurocash and Dino.

YoY earnings growth by sector: Q3'18E*



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

Earnings Surprise Prediction	
negative	positive
AmRest	Agora
Bytom	Amica
CCC	AmRest
Ciech	Asseco SEE
Enea	Cognor
Getin Noble Bank	Comarch
Grupa Azoty	Dom Development
Monnari	Erbud
PKN Orlen	Eurocash
Santander Bank Polska	Famur
Tauron	Forte
	MOL
	Orange Polska
	OTP Bank
	PGNiG
	PKO BP
	Wirtualna Polska

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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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