mBank Dom Maklerski

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Equity Market in 2019: An Investment Strategy

Equity Market, Macroeconomics

We assume a positive scenario for the equity market in 2019. The US constitutes 55% of global market capitalization. As long as the S&P 500 index holds its ground, the world's investors will perceive a bull market, which gives us hope that equity prices in Europe and Asia will eventually shift upward as well. In our opinion, it is more likely that the economies of China and the Euro Area will boost their growth rates than that the US will plunge into recession. Real interest rates remain low. The Fed views the current discount rate as close to neutral, and it has even allowed for delays in tightening its monetary policy. Statistically speaking, in the last six US economic cycles, it took 13 months on average from a yield curve inversion for recession to ensue. Current forecasts indicate that the yield curve will invert around mid-2019, and if history is any guide there is a recession coming in about 20 months. Peaks in S&P500 occurred 11 months on average after the yield curve flattened, pre-dating recessions by 2 months.

The message from the G20 summit, if only temporarily, should spur a period of rising prices for high-risk assets. Unless there is escalation of the trade war in the remainder of the year, manufacturing orders should come back on track, and export-driven economies like Germany will begin to get out of the slowdown. Analysts expect that China will announce cuts in the VAT and corporate income tax rates still in December, and this would provide an upside catalyst for emerging markets. A global risks decrease, this, along with the more dovish approach of Fed, should lead to a weaker dollar, something which in the past has always boosted the valuations of EM assets.

Compared to the robust earnings growth delivered this year by US companies (+25% yoy), every other equity market in the world looks less attractive. 2019 should change that perspective somewhat. The expected slowdown in EPS growth in the US down to 8%, assuming a global macro stabilization scenario, should cause investors to increase allocations to EM equities. The P/E forecast for MSCI EM in 2019 is 10.4x vs. 15.0x S&P 500. Meanwhile funds are underweight EMs, with their share globally in total equity AUMs at 7.0% compared to an average of 9.2% in the last 10 years.

The relatively weak behavior of the WIG index in Poland is - aside from a general EM equity sell-off and local risk factors (political risk, the GetBack scandal, fund withdrawals) - a result of disappointing company earnings. As compared to our original January forecasts, only 28 out of 83 companies covered will deliver better/in-line EBITDA figures this year, with 26 expected to report net profit beats. The sectors that have disappointed the most this year include: chemicals, construction, mining, and clothing companies followed by industrials and grocery retailers. The weaker-than-anticipated results for 2018 have spurred downward revisions to the expectations for 2019, creating more room for positive surprises in a favorable macro. Sectors set to report the strongest, double-digit EBITDA and bottom-line growth in 2019 will include power utilities, retailers, including fashion companies, and chemicals producers. The financial sector and TMT firms might achieve growth slightly over 10%) next year.

Poland has two significant events lined up for 2019: One are the elections to the EU Parliament in May and the general election in October/November, preceded by an extended period of campaigning which is sure to generate various pledges to the voters that could prove beneficial for the stock market. The second turning point from market standpoint is the implementation of the PPK national retirement savings program, expected to start feeding fresh capital into the stock market in the second half of the year. Alongside better returns in a bullish equity scenario, this should at least curb fund withdrawals and reverse the flight of capital from the Warsaw Stock Exchange (with an estimated PLN 10 billion withdrawn from Polish funds during 2018).

Key recommendations

Positive: ACG, AGO, ALR, AMC, ASE, ATD, CCC, CDR, CIE, DNP, EAT, EBS, ENA, ENG, FMF, JMT, KER, KRU, LPP, OPL, PEO, PGE, PGN, PLY, POZ, TIM, TPE, VRG, WPL

Negative: APT, EGS, JSW, KTY, LTS, MON, PKN, TAR

Re-Rating as of December 5th, 2018

Company	Rating	9M TP
Alior Bank	buy ►	92.50 PLN ▼
AmRest	buy ▲	46.00 PLN ▲
Apator	underweight ▼	-
Asseco Poland	hold ▼	49.60 PLN ▲
CCC	buy ►	288.00 PLN ▲
Cognor	neutral ►	-
Comarch	accumulate ►	173.30 PLN ▼
Dino	accumulate ▼	106.30 PLN ▲
Dom Dev.	buy ►	84.10 PLN ▼
Ergis	underweight ▼	-
Erste Bank	buy ►	46.18 EUR ▲
Eurocash	hold ▼	18.20 PLN ▼
Grupa Kęty	reduce ▲	309.30 PLN ►
Handlowy	accumulate ▼	76.00 PLN ▼
Impexmetal	neutral ►	-
ING BSK	accumulate ▼	199.63 PLN ▼
Jeronimo Martins	buy ►	14.50 EUR ▼
JSW	reduce ▲	59.14 PLN ►
KGHM	hold ►	84.56 PLN ▼
Komercni Banka	accumulate ▼	1000.00 CZK ▼
Kruk	buy ►	292.77 PLN ►
LPP	buy ►	9300 PLN ▼
MOL	hold ▼	3280.00 HUF ►
Monnari	underweight ▼	-
OTP Bank	accumulate ▼	13046 HUF ▲
PBKM	accumulate ▼	66.57 PLN ▲
Pekao	buy ►	136.29 PLN ▼
PKO BP	accumulate ▼	45.00 PLN ▼
PZU	accumulate ▼	46.50 PLN ▼
Santander BPL	accumulate ▼	400.00 PLN ►
Skarbiec Holding	buy ►	31.36 PLN ▲
Tarczyński	underweight ▼	-
TIM	overweight ▲	-
Wirtualna Polska	buy ▲	61.50 PLN ▲
VRG	overweight ►	-

Ratings suspended as of December 5th, 2018		
Archicom	Erbud	Polnord
BBI Development	Getin Noble Bank	Ronson
Budimex	Herkules	Torpol
Capital Park	i2 Development	Trakcja
Echo	JWC	Ulma
Elektrobudowa	LC Corp	Unibep
Elektrotim	Lokum Deweloper	Wasko
Elemental	PA Nova	ZUE

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Investing Outlook

When Will Recession Hit At Last?!

Assuming that the recession will not hit over the next 4 months, it can be said that the current phase of the American economy expansion is the longest cycle in postwar history. Naturally, the investors are more and more afraid of future slowdowns and stock market falls. Looking at labor market, forward-looking indicators, and consumption levels, it can be stated that the economy is in the late phase of the cycle, "ready" for recession. JP Morgan estimates the recession probability in 2019 at 31%, and in 2020 at 68%.

Looking at the length of the economy expansion periods, it should be noted that based on the technology development, changing monetary policies and globalization, growth cycles keep getting longer. Between 1850 and 1929, the expansion periods did not exceed three years (2 years on the average) except for the period of the American Civil War and World War I (almost 4 years). The average expansion period after World War II lasted 4.9 years, but the last four cycles (along with the current cycle) lasted at least 6 years (8.4 years on the average). The last three, relatively long expansion phases (1982-1990, 1991-2001, 2001-2007) needed a factor activating the recession (which did not happen just because "it was high time it had"). Such factors included: over-restrictive Fed policies (following the inflation trauma of the 1970s and 1980s), the bursting of the internet bubble, or the breakdown of the real property market. Currently, none of those factors aspires to be the "activator" (please see next chapters of our report). However, a recession may be triggered by the escalation of the trade war, a sudden inflation increase, hard Brexit, or unfavorable course of events with regards to the Italian budget (should it lead to panic in the financial markets).

Trade War and Its Impact On Global Economy

The share of exports in the American GDP is approx. 8%. The largest US export markets are NAFTA countries (34%) and EU (18%). 8% of American exports is directed to China, which means that the remaining countries make up 39% of the export sales. In the case of China, its dependence on exports is larger, constituting approx. 19% of China's GDP. 18% of its exported goods are sent to USA, 19% to EU, and 48% to other Asian countries.

Based on the aforementioned statistics, it can be estimated that the impact of new customs rates on the whole economies of both countries is not that important. Such an approach does not take into account, however, all the economic interdependencies with other countries. The share of exports in the GDP of some emerging markets exceeds 30%. According to the analysts, such markets stand to lose the most from any further conflict escalation. Just a discussion about such escalation have caused fears among entrepreneurs, which resulted in lower order levels, and - consequently - lower trade exchange levels. It is clearly visible if we look at the largest European exporters, and at data regarding the global economy (decrease of the global trade volume by approx. 8% since the beginning of the year).

Pursuant to the agreement reached at the G20 Summit, the tax rates should not rise over the next 90 days. It also relates to the automatic increase as a result of which the customs rates for Chinese products with a value of USD 200 billion were supposed to rise from 10% to 25% from January 2019. The agreement has not solved, however, the trade war issue. But it did provide an opportunity to work out a consensus not just on customs duties, but also on the China's illegal use of advanced technologies. From the financial markets' perspective, the result of the G20 Summit, even if temporary, should mean a period of rising prices of high risk assets (in particular from EM markets).

Depending on the results of negotiations (which will surely be difficult), February may see a higher volatility in the markets. The agreement reached at the summit (China's concession) along with the lower taxes in China would be a strong growth signal for EM (return of export orders, weaker USD). In the negative scenario, President Donald Trump will "defrost" the January increase and may implement duties on Chinese products in the amount of another US 267 billion. The reaction of China will surely be adequate. The most negative scenario (least likely as it would hurt China as well) involves Beijing using American bonds to destabilize financial markets.

Arguments Against a Global Downturn

The US market makes up 55% of global stock exchange capitalization. Share prices in Europe may be falling, but as long as S&P500 does not face a downward trend, the world's investors will perceive a bull market, which gives us hope that share prices in Europe will also be rising. In our opinion, if there is no trade war escalation (keeping the status quo), it is more likely for the economies of China and Euro Zone to boost their growth rates in 2019 than for USA to plunge into recession. We would like to present you with a few arguments making us believe that, barring hard-to-predict shocks, the global bull market may continue.

US valuation ratios at rational levels P/E for S&P500 for the last 12M is 18.3x, while the forecast P/E at the end of 2019 is 15.0x. For Nasdaq100, these are 21.9x and 16.9x respectively. At the height of the 2000 bull market, with the recession caused by the bursting of the valuation bubble in the equity market, P/E amounted to 29.1x. In October 2007, P/E was 17.3x. It should also be remembered that the current, much lower level of interest rates accentuates the relative attractiveness of the equity market.

The US yield curve historical data indicate that there will soon be a recession, but ... not earlier than in a year. Over the last 6 economic cycles in USA, the recession hit after approx. 13 months from the turnover of the yield curve. Based on the analysts' estimates, the yield curve will turn over in the middle of next year. So if the history is to repeat itself, the recession will take place in about 20 months. It should also be noted that the recession happened when the yield curve had begun to be steep again. According to another set of statistical data, S&P500 reached the peak, on the average, after 11 months from the flattening of the curve and 2 months prior to the recession (in 1980, after 8 months, which was the earliest). Historically speaking, S&P would begin to fall after 3 months from the fattening of the curve.

Months from US 2Y-10Y yield curve inversion to S&P500 peaks and recession

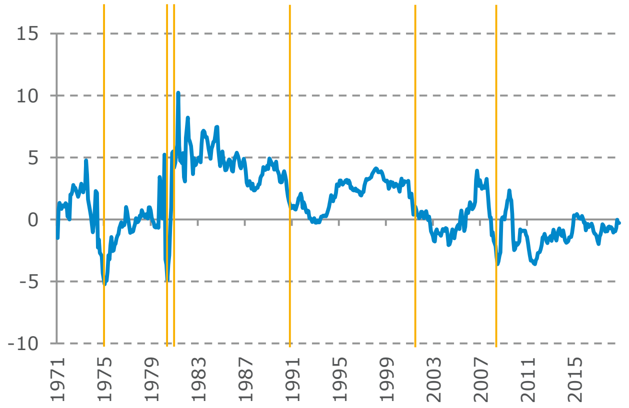
Inversion	Months until S&P500 Index peak	Months until recession
March '73	7	9
November '78	15	14
August '80	3	11
December '88	19	19
March '00	5	12
August '06	14	16
Median	**11**	**13**

Source: Bloomberg

Loose Monetary Policy of Fed Continues

Real interest rate in USA still run at the level of 0%, which historically has not been a factor cooling the economy down, but rather allowing for its expansion. Even if we assume continued rate increase over the next 12 months by another 100bp (four increases) - as Fed has declared so far - the real interest rates should remain relatively low.

Real interest rates vs. beginnings of recessions



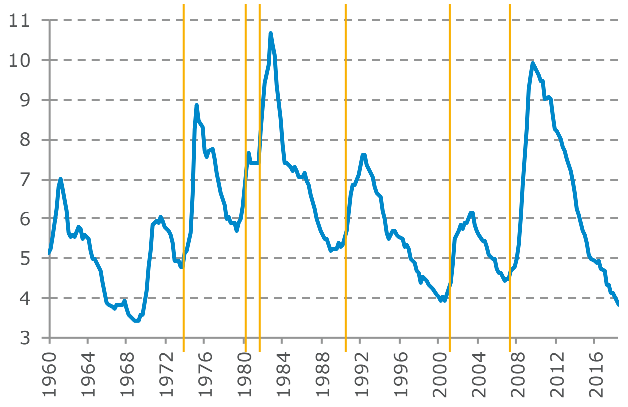
Source: Bloomberg, Dom Maklerski mBanku

Please bear in mind that Powell's speech in November surprised the investors with its deep implications. What we had heard included: Fed considers the current interest rate level as close to neutral (a few months ago it had been pointed out that the rates were "a long way from neutral"), delays in monetary policy tightening are possible, and Fed sees no "disturbances" in the financial markets.

Labor market confirms the beginning of the fall

Historically speaking, S&P500 would start entering a downward trend when unemployment was on the rise (not happening at the moment). It can be said that the labor market is the last indicator to confirm long and deep economic slowdown. As long as the labor market does not enter the downward phase of the cycle, the investors believe they are dealing with a local slowdown of an upward trend.

Unemployment rates vs. beginnings of recessions



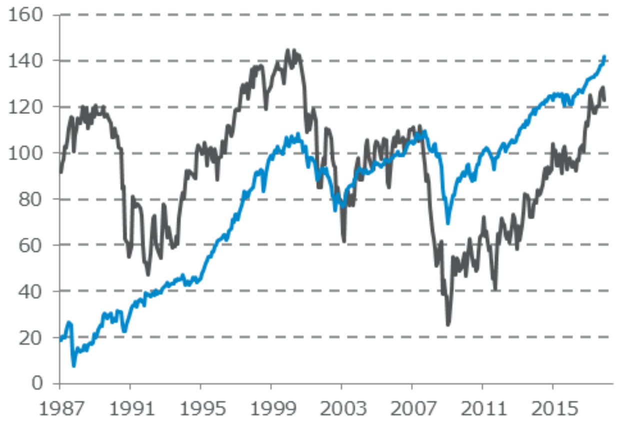
Source: Bloomberg, Dom Maklerski mBanku

Wealth Effect in the US Keeps Stimulating Consumer Demand, But Sensitivity to Stock Market and Housing Is High

American consumers are still doing fine

Apart from a very good situation in the labor market, the US consumers' sentiment and consumption levels are affected by the situation in the stock exchange and real property market. The events of 1987 and 2000 made everybody see that a stock exchange breakdown (with no macro reasons or company results) may largely affect the economic standing. As we have already said, the equity market does not seem overvalued with regards to valuations, but an unexpected event may trigger panic in the market, and - consequently - negative effects for the economy.

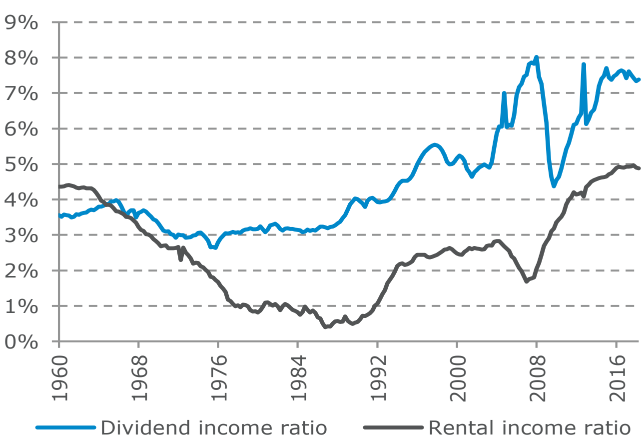
Conference Board Consumer Confidence Index vs. S&P500



Source: Bloomberg, Dom Maklerski mBanku

According to data collected by the Bureau of Economic Analysis, in 2018 7.4% of disposable income of Americans originated from dividends. In the years 1960 - 2018, the average of that factor has been 4.5%, with the last 15 years significantly overstating the average. The chart below presents that relation against a historical background. The data fails to show, however, how this income is split into individual social groups, which - taking into account the growing concentration of wealth in the hands of the chosen few - may distort the real picture and impact on consumption.

US personal dividend income and rental income as a % of disposable household income

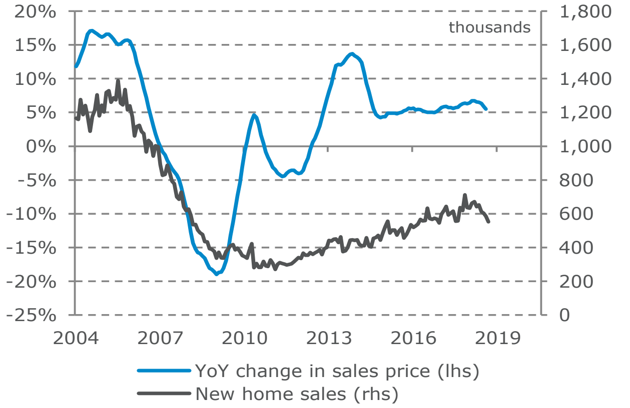


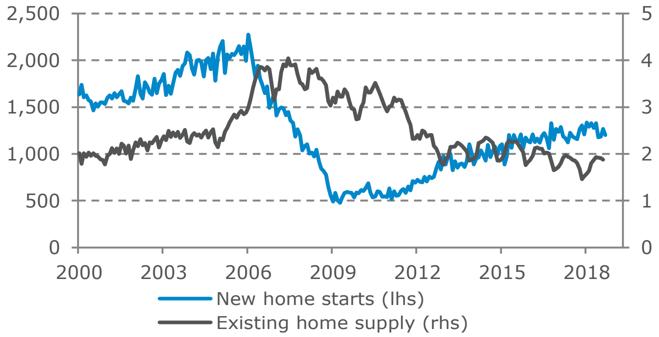
Source: Bureau of Economic Analysis

The Housing Market Has Been Slowing Down, But It Is Still a Far Cry From 2007

The US housing market has been slowing down for 12 months. New home sales are down from 712 to 533 thousand, while the sales of existing houses has decreased from 5.8 million to 5.2 million. The investors are worried that the rising interest rates will stop further growth of the real property market. Is 2007 happening again? So far, it has looked like a local slowdown much different from the period 2006-2007. Since 2014, the real property prices have been on the rise at a fixed level of 5% annually (they fell in 2007, but the decrease had been preceded by 4 years of increases at the level of 10% annually). The biggest difference, however, lies with the demand for houses. In 2007, the number of houses for sale increased to 4 million. Currently, it is two times smaller (1.9 million houses).

Data from US real property market





Source: Bloomberg, Dom Maklerski mBanku

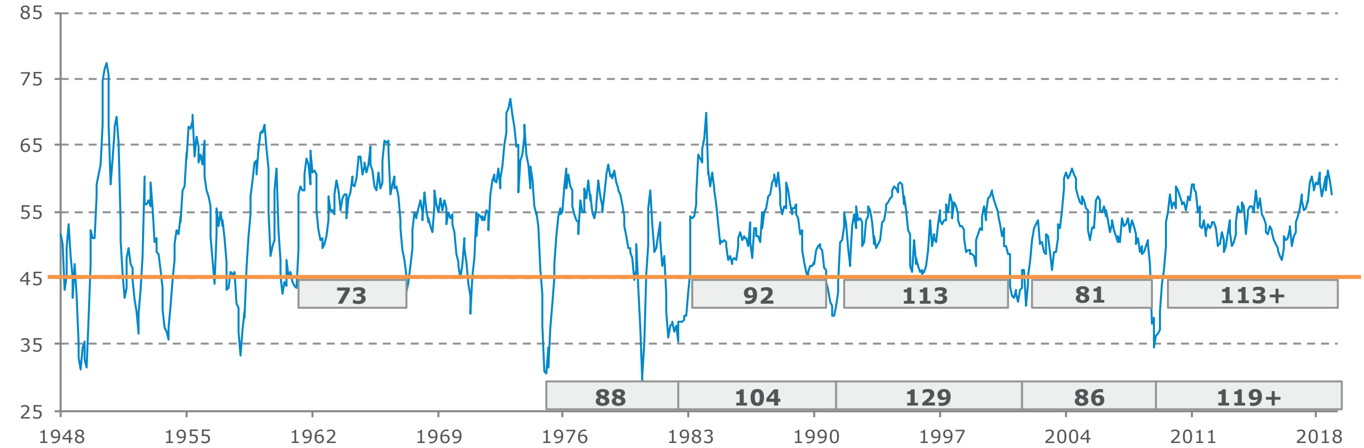
Furthermore, the economic standing of households has improved. Their debts relative to GDP have dropped from 98% at the end of the real property bull market to the current 74%.

ISM In USA to Fall Or PMI In Europe To Rise?

In our 2018 Investment Strategy, we presented a chart showing the length of the cycle in industry, based on the ISM example (please see below), where it could be concluded that the current cycle (the period in which the index falls below 45 points) is the longest one since (at least) World War II. Statistically, the economy can be expected to go into into a period of local slowdown, or - in the negative scenario - to plunge into recession, which in both cases means ISM decrease in the next months. It seems that if the fall happens softly - with Fed keeping up its soft approach - the stock exchange should be stable in the next months. What happens with the fiscal stimulation package may affect ISM.

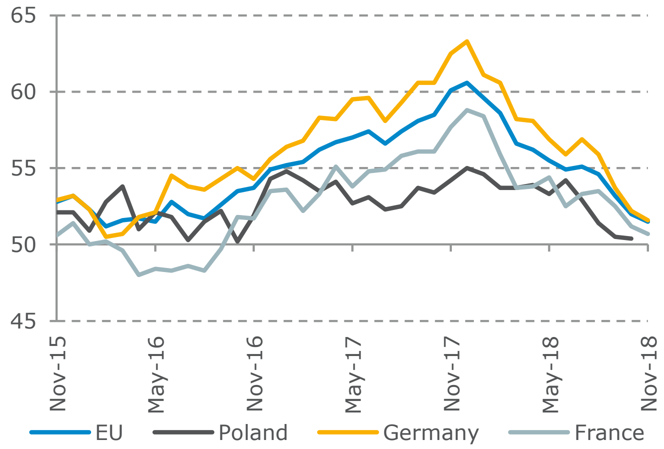
Besides lowering taxes and deregulating the financial sector, one of the main economic postulates of Donald Trump was the infrastructure reconstruction program (USD 1 trillion), somewhat forgotten by the financial markets in the light of the trade war. It can be a significant element in the forecasting of future events regarding ISM. While the lowering of taxes made a large impact on the results of companies in 2018, the fiscal stimulation should contribute to the GDP growth in 2019. Currently, USA spends 2.3% of its GDP on infrastructure with new investments making up 0.9% of GDP (the lowest percentage since the beginning of 1960s) Let us just say that in the EU it is 2.6% of GDP, in Japan 4.7%, and in China 8.5%. The Democrats - agreeing that it is necessary to rebuild infrastructure but not in such scale (USD 200 billion), and using other financing sources - who have won the majority of seats in the American Congress may block that element of Donald Trump's strategy.

ISM Manufacturing (months when index was above 45pts between cycle troughs)



Source: Bloomberg, Dom Maklerski mBanku

EU Manufacturing PMI indicators



Source: Bloomberg, Dom Maklerski mBanku

Factors responsible for falling PMI in Europe: i) in the first phase, demand limitations such as those related to delivery systems, ii) in the current phase, weak demand, particularly from export markets, largely related to concerns about the consequences of the trade war. Moreover, Germany has a problem with its automotive industry related to changed environmental standards. The automotive production in September fell by 25% year on year (the sector is responsible for 20% of the whole processing industry). Our macro-economists have estimated that had it not been for the breakdown in the automotive sector, the GDP increase in Germany for Q3 would have been 0.4% q/q, not approx. 0%. This situation should be deemed exceptional, not a structural change. It remains to be seen how quickly the normal production levels will be brought back. Similar problems (an emergency situation) have been noticed in the chemistry industry where low levels of German rivers make it impossible to carry out product deliveries to factories. In 2019, these one-off factors should disappear, translating positively into PMI readouts. It will be of crucial importance, however, whether the Chinese economy will speed up. Here, on the one hand we have an unknown in the form of the trade war, and on the other we have the Chinese government lowering taxes and giving a clear signal that its top priority continues to be economic growth.

Can Emerging Markets Lure Investors Back?

USD to Help or Destroy EM?

If there is no escalation of the trade war (assuming the current status quo), we think that orders in the export industry will be back on track, while "export" economies such as Germany will begin to get out of the slowdown. A global risk decrease (the previous elements of the trade war have already been valuated) along with the last information from Fed (more cautious approach by Powell) should lead to the weaker USD, which - in the past - translated positively into asset valuations onto EM.

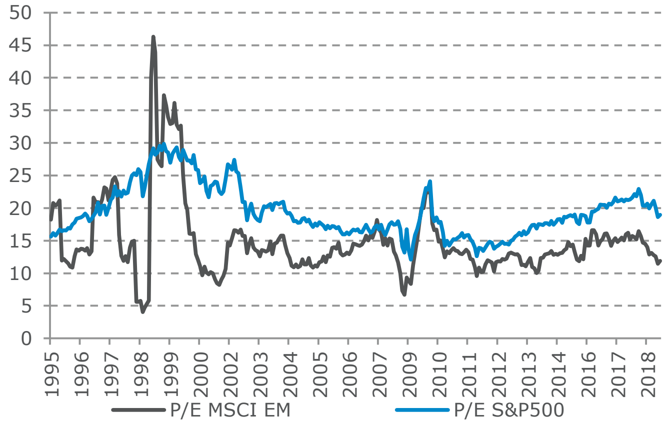
China Lowers Taxes To Keep Momentum Going

China makes up the largest component of the MSCI EM index (plus countries for which China is the key commercial partner). Wishing to escape from the effects of the trade war and boost its economic growth (which has been decreasing systematically over the last years), the Chinese government has decided to lower personal income taxes (from 1 October) and implement new tax reductions (from 1 January 2019). Analysts expect China to make another step and decide in December 2018 (depending on how the Chinese government evaluates the G20 Summit) to lower VAT and corporate tax rates. In the event that the trade war is not escalated (as compared to the current situation), such actions (estimated at approx. 2.5% of GDP) should at least keep up the economic growth. Considering the level of valuations on the Shanghai stock exchange, it would be a positive signal for the emerging markets, conducive to keeping up or boosting capital inflows to ETF, dedicated to EM.

EM Better Than DM?

The expected slowdown of the growth dynamics of US companies (from an incredible 25% - mostly due to lower taxes - to 8%), assuming the global macro stabilization scenario, should cause the investors to boost their allocations in EM companies' shares. There are several arguments backing that option. On the basis of MSCI EM, the expected EPS growth dynamics is 11.2% (Bloomberg data). The forecast P/E for MSCI EM in 2019 is 10.4x vs. 15.0x for S&P500. Historically (last eight years) the EM discount vs. S&P500 was 24% (see chart below). In 2018, with the dynamic rise of profits of American companies, every other equity market in the world seemed less attractive. 2019 should somewhat change that perspective. It is worth adding that in the last 10 years the average share of EM in the total AUM in the equity market amounted to 9.2% as compared to 7.0% at present (lesser underweight expected).

P/E ratios for S&P500 and MSCI EM

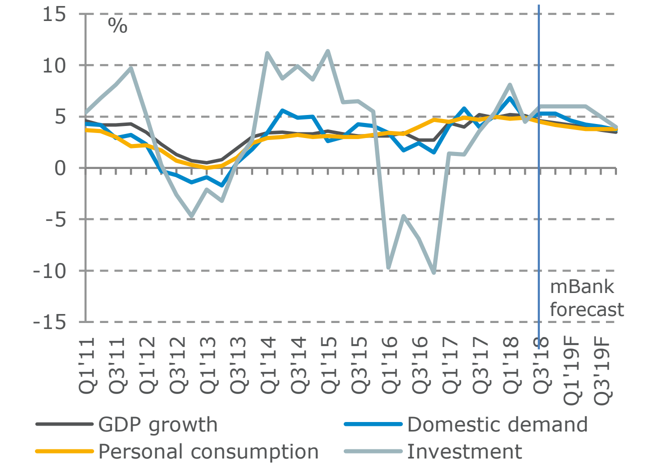


Source: Bloomberg, Dom Maklerski mBanku

A Macro Scenario For Poland

According to forecasts by mBank analysts, the real GDP growth in Poland will be 4.8% (just like in 2017), while in 2019 the expansion rate will slow to 3.9%. Taking into account the expected acceleration in CPI inflation (from 1.6% in 2018 to 2.6% in 2019), the nominal growth will be kept at a similar level. As for the structure of the real GDP growth, consumer spending next year is forecast to slow down to 3.9% (from 4.6% in 2018). At the same time investment should increase by 5.3% as compared to 6.2% in 2018. Based on such assumptions, the Polish Monetary Council keep the interest rate unchanged at the current level (1.5% repo rate).

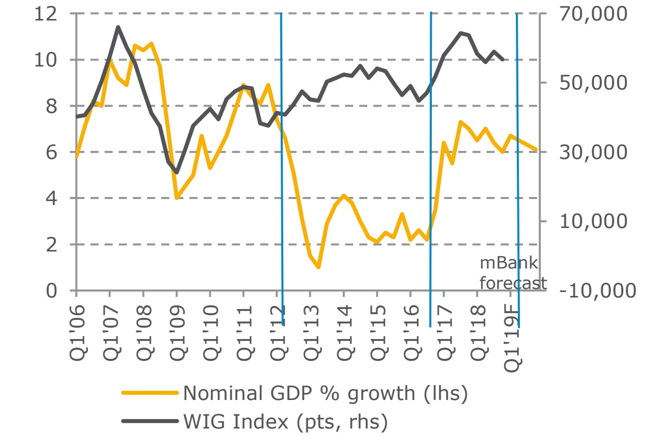
Components of real GDP growth in Poland



Source: Dom Maklerski mBanku

As you can see on the chart below, the behavior of WIG was correlated well with the momentum of the GDP dynamics (GDP growth below nominal level, y/y), whereby in the last three years, the equity market was affected not only by the simple correlation with the economic growth, but also by other factors (discussed in detail later in this report, taking into particular consideration company results) including growing flows of the global capital to ETF (taking into account - to a small degree - GDP of a given country).

Nominal GDP growth vs. WIG



Source: Dom Maklerski mBanku

In our opinion, putting other factors aside, the nominal GDP growth at a level exceeding 6% is sufficient to confirm the positive macro impact on the equity market.

Why Is the Warsaw Stock Exchange Performing So Poorly Amid Strong Economic Growth?

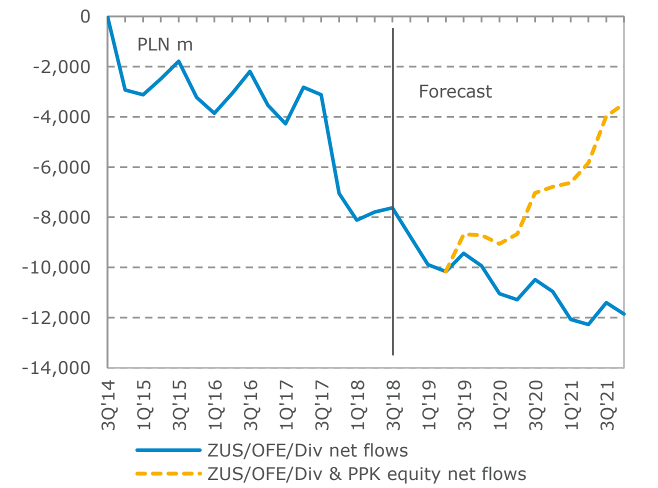
Factors That Shape Sentiment

Both the stock exchange and investors like peace and predictability, but since 2014 managers of funds dedicated to EM and monitoring Polish market have learnt that: i) Poles' savings collected in private pension funds may be transferred to ZUS (Social Insurance Institution), ii) another government propagates slogans related to 'repolonization' of the largest companies, iii) it implements changes in the legal system, resulting in a conflict with the EU, and a procedure of protecting the rule of law, iv) all the time, there is information flowing around, significantly impacting the current share prices of the largest companies, then such information is either denied or replaced with a different concept, v) the biggest IPO in 2017 turns out to be a huge fraud, vi) information flows around suggesting that there are irregularities in the management of assets by some TFI, which causes a reaction of KNF (Polish Financial Supervision Authority) and the prosecutor's office, vii) and last but not least, the KNF head is accused of corruption, which results in him resigning from office. All those negative elements make foreign investors see the Polish equity market as a high risk market in spite of the good economic conditions.

What will change in the future? It seems quite likely that the aforementioned events/situations will manifest themselves again next year. There will be, however, at least two new, significant events. The first will be parliamentary elections in Poland and elections to the European Parliament. Usually, such events translate into a stormy electoral campaign. The date of the elections has not been announced yet (it will be done by the President in mid August 2019, at the latest). The campaign may have two faces (not excluding each other) - i.e. typical political sweeteners in the form of other "500+" programs (also the same declarations from the opposition), and finding dirt with the opponents. In the first case, if the programs are well profiled (taking into account good conditions of the state finance), their impact on the market may be positive (bigger GDP growth dynamics). Results of opinion polls run during the campaign will also be important, particularly if Donald Tusk decides to return to Polish politics (his current tenure as the President of the European Council ends in November 2019). In that scenario, we may be faced with a win-win option - additional stimulus for the economy (even if the effect is short) versus a possible modification of the balance of power towards one preferred by stock exchange investors.

The second important event is the commencement of the PPK program (its impact on the market was discussed in our Monthly Report for September 2018). The chart below is a summary of our estimates). Activation of such a significant program should be accompanied by a campaign in which Polish government promotes Polish equity market. It has already been announced by Paweł Borys, PFR President. We do not think that such an action - as a side effect - should cause an outflow of savings to TFI. In connection with better return rates of the funds (positive scenario for shares), it should at least impede outflows from TFI and start rebuilding trust to the equity market (the process will be long). Assuming the stopping of outflows from TFI, the funds invested by PPK significantly change the Polish balance of flows to the Warsaw Stock Exchange (from negative to neutral, and then to positive).

Expected impact of PPK on flows within pension funds

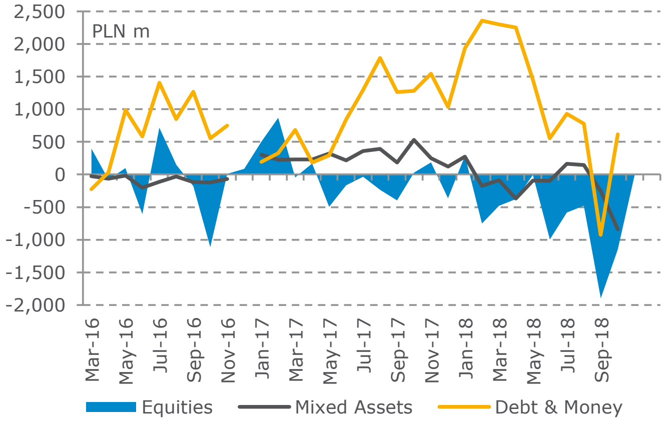


Source: Dom Maklerski mBanku

Outflow of Capital From TFIs

Unstable environment of the stock exchange, negative information from TFI themselves, disappointing company results, and consequently low rates of return have contributed to a strong outflow of capital from the funds, which - taking into account the low market liquidity - deteriorated rates of return, causing the process to be "entangled". From January until October 2018, net flows to/from stock funds and absolute returns totaled PLN -6.4 billion, and to/from pension funds PLN -1.3 billion. The last year during which the first of the aforementioned groups of funds acquired capital was 2015 (PLN +5.4 billion, 2016: PLN -1.4 billion, 2017: PLN +0.1 billion).

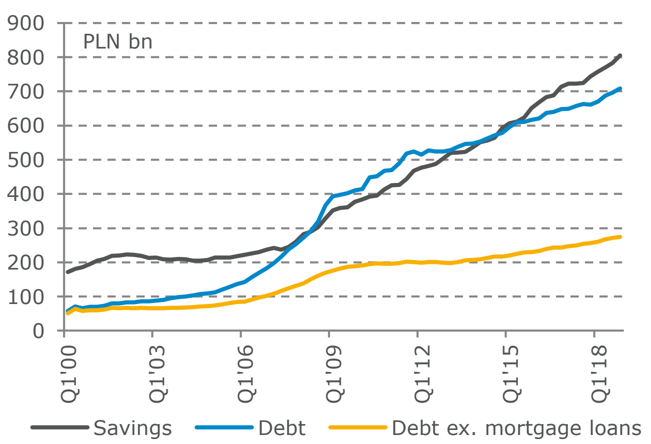
Net TFI flows by asset type



Source: IZFIA

Where does the money from the funds flow to? Mainly to bank deposits and to the real property market. During the first months of the year, the withdrawn funds supplemented monetary funds, but GetBak problems significantly discouraged investors in the second half of the year. We have written extensively about TFI development potential in the context of rising savings. At present, the households have at their disposal deposits at the level exceeding PLN 800 billion - against debts (mostly mortgage debts) totaling PLN 700 billion. An analogous difference could be observed between 2000 and 2006, but there was some real property on the side of the assets. There are numerous reasons, unfortunately, for which this potential has not been fully utilized (in 2018, there were also some new regulations - MIFID2), nor will it be utilized in the near future.

Polish household loans and deposits



Source: NBP, Dom Maklerski mBanku

Please note that analyzing the PPK impact on the equity market, we use the following amounts: PLN 1.5 billion in 2019, PLN 3.7 billion in 2020, and approx. PLN 5 billion in 2021. These constitute respectively: only from 0.2% to 0.6% of the current individual investors' deposit levels. Shares in TFI portfolios as relates to the level of deposits make up at present approx. 4%. In 2004, i.e. three years before the peak of the bull market and apogee of payments to funds, the amount was approx. 14%.

Structural Pullbacks During Global Bull Markets

The Warsaw Stock Exchange became the largest stock exchange in the region thanks to a strong component of local capital, which made it possible for many companies to enter the stock exchange. Obviously, the largest component of that success was the impact on the OFE market (in 2010, ZUS transferred to the funds PLN 22 billion, out of which approx. 1/3 of the funds was finally allocated in the equity market). The subsequent "reforms" of OFE, and the effect of "aging" of the insured have led to the situation in which current ZUS/OFE transfers amount to net PLN -4 billion. We should not forget about the direct activity of individual investors who significantly contributed to the liquidity on small and medium sized companies. Towards the end of the previous bull market (2006/2007) their share in exchange trading amounted to approx. 35%. Now it dropped to 12%.

The superficial statistics of the Warsaw Stock Exchange still looks good. 468 companies listed in the basis and parallel market with their total capitalization of PLN 1.1 trillion. The liquidity analysis based on the total turnover looks much worse however. During 9 months of 2018, the total turnover in the Warsaw Stock Exchange totaled PLN 154 billion out of which WIG20 turnover constituted 78.2%, WIG40 another 15.6%, and WIG80 4.7%. It means that the other 321 companies had a turnover of only PLN 2.3 billion, i.e. 1.5% of the total turnover in the market. On the average, it means PLN 37.6 thousand of turnover per company at one session. Such a scale of turnover makes it impossible for funds to manage their liquidity risks. Even from the perspective of a small investment fund, the closing of a market item on a small company with a value of PLN 1 million, assuming 1/3 of the daily volume, would mean sales through the next 80 stock exchange sessions.

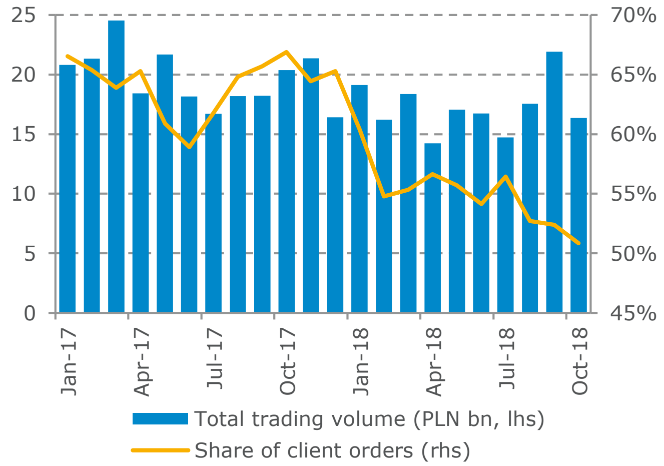
Distribution of Warsaw Stock Exchange trading volumes

	9M'18 Volume (PLN m)	Share in Total	Stocks Traded	Avg. Daily Trading Volume Per Stock (PLN)
WIG20	121,130	78,2%	20	32,215
WIG40	24,214	15,6%	40	3,220
WIG80	7,268	4,7%	80	483
Other	2,271	1,5%	321	38

Source: Warsaw Stock Exchange

Our turnover and liquidity calculations are distorted in that they do not take into account the structure of stock exchange trading split into customers, and animation / own ledger of banks/brokers. According to our estimates based on the Warsaw Stock Exchange data, the share of customer turnover in the total trade dropped to approx. 50% from 64% in 2017.

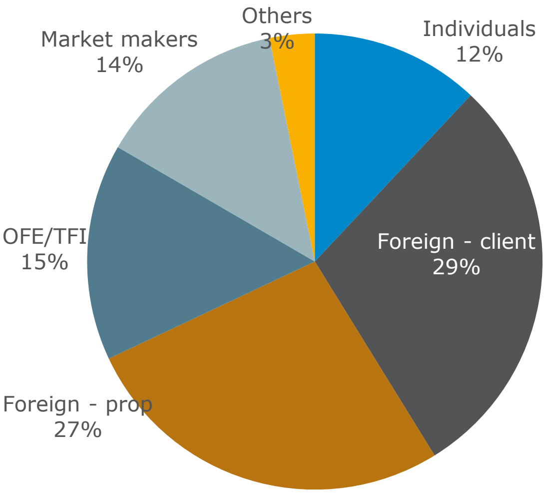
Client trades as a pct. of WSE trading volumes



Source: Warsaw Stock Exchange, Dom Maklerski mBanku

This extremely inefficient (as regards liquidity) market means that the fundamental valuation based on the predicted cash flows is of little use in the short term. It also means that in the context of such little transparency market prices are not the prices for which an industry investor or private equity could buy any significant packets of shares. Finally, a change in the sentiment translates into quick price growth - also against a very small turnover.

WSE trading volume by client group (H1 2018)



Source: Warsaw Stock Exchange, Dom Maklerski mBanku

Polish Company Earnings Fall Short of Expectations In 2018

Even though this year's GDP growth is higher than expected at the beginning of the year by the macro economic analysts, the results of companies for which we prepare our forecasts (83 companies) are quite disappointing. The conclusions from the comparison of our forecasts from the beginning of 2018 and the current estimates (see table overleaf) are as follows:

- Based on the last forecasts, only 28 out of 83 companies in 2018 will have better/consistent results - at the EBITDA level - than we predicted 11 months ago. At the net result level, there will be 26 such companies.
- Higher GDP was reflected in the income higher than we had expected, but only with regards to 2019. In 2018, such income is 1% higher for all the companies, but mainly thanks to the oil & gas sector, and the construction sector (to a lesser extent). The other sectors had lower revenues than expected.
- Quickly rising costs - labor and material costs in particular - have contributed to much worse EBITDA and net results as compared to our expectations at the beginning of the year. For all the companies, these figures amount to -5% for EBITDA2018, and -4% for the net result in 2018. If you take away the aggregate of oil & gas, and a relatively good results of the financial sector, the difference amounts to -11% and -26% respectively.
- The most disappointing sectors (not meeting expectations) include: chemistry, construction, mining, and clothing companies followed by industry and wholesale/retail trade.
- The good result of oil & gas stems not only from the surprisingly positive macro environment in the sector (global margins), but also from the over-valuation of inventories (impact on net income).
- Considering all the factors in the analysis, the 2018 result of the financial sector should be viewed as the biggest positive surprise. It is 3% lower than predicted by the analyst, but we need to take into consideration the lack of interest rate increases assumed in the models (the sector worked out better volumes and reported lower reserves).

The aforementioned conclusions boil down to the assessment of expectations from the beginning of the year and their execution. Consequently, the forecast consensus was lowered in the course of the year, and the investors' sentiment deteriorated. The comparison of real profit dynamics (2018/2017) looks much more promising, much more so than meeting expectations (table above, conclusions based on forecasts from Dec. 2018). The aggregated result of companies has been significantly dragged down by the energy sector, chemistry, and mining (to a lesser extent). The construction sector (affected the most by the rising labor and material costs) suffered from a significant drop of income y/y. The other sectors reported better results y/y, taking into particular consideration trade, TMT, developers, industry, and financial sector. In the first four sectors, the growth was much smaller, however, than expected by the analysts.

Changes In Earnings Forecasts For Covered Sectors Between January and December 2018

Sector	Stock Count	Revenue		EBITDA		Net Profit	
		2018E	2019E	2018E	2019E	2018E	2019E
Industrials	15	-1%	-2%	-5%	-11%	-13%	-20%
Mining & Metals	2	-7%	+1%	-24%	-17%	-30%	-22%
TMT	14	-2%	-1%	-5%	-6%	-23%	-28%
Financials	10	+0%	+0%	-4%	-3%	-3%	-6%
Chemicals	2	-2%	+9%	-28%	-13%	-60%	-37%
Real Estate Developers	14	-7%		-22%		-22%	
Construction	9	+4%		-39%		-56%	
Fashion	5	-4%	-2%	-13%	-7%	-31%	-15%
FMCG Wholesalers & Retailers	3	-6%	-1%	-6%	-3%	-14%	-11%
Power Utilities	4	+1%	+34%	-7%	+8%	-23%	+22%
Oil & Gas	3	+7%	+8%	+11%	+4%	+46%	+14%
Total*		**+1%**	**+7%**	**-5%**	**-2%**	**-4%**	**-4%**
Total ex. Fin/Oil*		-3%	+9%	-11%	-4%	-26%	-10%
Total ex. Fin/Oil/Min*		-2%	+10%	-8%	-1%	-24%	-6%
Total ex. Fin/Oil/Min/Uti*		-3%	-1%	-8%	-7%	-26%	-23%

*Total excludes the sectors of Construction and Real Estate pending 2019 forecasts
Source: Dom Maklerski mBanku

Current Revenue and Profit Growth Expectations For Covered Sectors

	Revenue	EBITDA	Net Profit			EBITDA Margin		Net Profit Margin		Share In 2019E Growth		
	2019E	2019E	2018E	2019E	19/17	2018E	2019E	2018E	2019E	Topline	EBITDA	Net
Industrials	+2%	-1%	+17%	+1%	+19%	10%	10%	4%	4%	5%	3%	3%
Mining & Metals	+7%	-7%	-3%	-16%	-19%	26%	23%	13%	11%	6%	7%	8%
TMT	+3%	+2%	+13%	+11%	+26%	25%	25%	5%	6%	8%	11%	6%
Financials	+7%	+15%	+8%	+12%	+20%	44%	47%	22%	23%	14%	36%	41%
Chemicals	+15%	+24%	-62%	+49%	-43%	11%	11%	2%	3%	3%	2%	1%
Real Estate Developers			+17%									
Construction			-57%									
Fashion	+23%	+30%	+8%	+57%	+69%	12%	13%	6%	8%	3%	2%	3%
FMCG Wholesale & Retail	+13%	+16%	+42%	+22%	+73%	4%	4%	2%	2%	10%	2%	2%
Power Utilities	+34%	+14%	-21%	+34%	+5%	22%	19%	7%	7%	17%	18%	15%
Oil & Gas	+5%	-5%	+1%	-24%	-24%	10%	10%	6%	5%	35%	18%	21%
Total*	**+11%**	**+7%**	**+0%**	**+3%**	**+3%**	**19%**	**18%**	**8%**	**8%**			
Total ex Fin/Oil*	+16%	+7%	-8%	+14%	+6%	17%	16%	6%	6%	51%	45%	39%
Total ex Fin/Oil/Min*	+17%	+10%	-9%	+26%	+15%	16%	15%	5%	5%	46%	38%	31%
Total ex Fin/Oil/Min/Uti*	+9%	+7%	+4%	+20%	+25%	13%	13%	4%	4%	29%	20%	16%

*Total excludes the sectors of Construction and Real Estate pending 2019 forecasts
Source: Dom Maklerski mBanku

What 2019 Has In Store According to Our Analysts

After so many disappointments in 2018, the analysts think that this is what the new year should bring:

- Further revenue growth, especially in broadly-defined retail (owing among others to an assumed lack of weather-related disturbances).
- Dynamic topline growth for power utilities, apart from higher energy prices fueled by the implementation of the requirement to offer 100% of output into the public exchange.
- The sectors identified as having the most robust growth in terms of operating profits and net income include power generation, fashion and grocery retailers, and chemicals producers. We anticipate bottom-line expansion at just above 10% in the financial sector and in TMT.
- Rising labor costs, coupled with an upward shift in energy costs, will curb growth for industrial and mining companies. In the oil & gas sector, we expect lower refinery margins.
- Not counting the oil&gas and mining sectors, which consist of only five companies but between them account for 29% of the total earnings of our coverage universe, Polish companies are set for a much better 2019 in terms of earnings results (see the table above for a comparison of 2018 and 2019 growth expectations).

Michał Marczak
tel. +48 22 438 24 01
michal.marczak@mbank.pl

Sector Strategies

Financials

- **We have a bullish view on the financial sector heading into 2019.** Our coverage universe as a whole based on the current price targets shows potential for upside gains to the tune of 17%, led by CEE banks outside of Poland, with 21% upside, Polish banks, offering 15%, and nonbank financial institutions with 14% average upside. Rated institutions are set to grow their aggregate earnings by a projected 7% next year amid favorable market conditions, yet their current valuations look underestimated with an 18% discount shown to the average 12M forward P/E ratio for the last five years of MSCI EME Financials, alongside a 13% discount to the WIG-Banks benchmark. Once the EU resolves its budget battle with Italy, and as more clarity is gained on the Brexit process, we might see a positive shift in market sentiment for European stocks across the board.
- **Banks are set for further earnings growth next year.** According to our forecasts, CEE banks will deliver a 7% rebound, with Polish banks contributing 15%. Market conditions for banking remain positive, and though we recognize that the economic momentum in Europe has probably peaked, in Poland the economic expansion rate in 2019 is expected to remain strong enough to keep credit risk low. 2019 GDP forecasts for the CEE region put Poland in the lead with 3.9% growth, followed by 3.5% in Romania, 3.3% in Hungary, 3.0% in the Czech Republic, 2.0% in Austria, and 1.5% in Russia. When it comes to provisioning, we anticipate normalization in cost of risk in 2019, especially at CEE banks, after the low charge-offs recognized in 2018. At the same time, operating expenses next year are set to decrease, led by easing pay pressures, and lending (especially to consumers) is poised for further growth. Finally, we anticipate stable-to-slightly -higher net interest margins next year after years of falls.
- **Poland shows an increasing positive correlation with developed markets.** The WIG-Banks index is closely tracking developed market indices like STOXX Europe Banks, which means it can be expected to move in step with any positive shifts in sentiment in the future. The uncertainty spurred by Brexit and the Italian budget dispute is already fully priced into EU bank stocks, as reflected in the discounts the current trading multiples show relative to historical averages. Brexit fears have pushed the 12M forward P/E ratio of ten FTSE UK Banks down from 13.1x in January to 9.4x today, a ratio showing a narrow discount to the 5-year average of 10.8x. The depreciation in case of a broader line-up of European banks, for whom the Brexit risk is compounded by the Turkish currency crisis and the Italian budget clash, was more severe, with the 12M forward P/E ratio of STOXX Europe 600 Banks in the period down from 11.7x to 8.2x, nearly two standard deviations away from the long-time average of 10.7x. Barring hard Brexit and a worst-case Italian scenario, there is substantial room for EU banks to improve their valuations, reinforced by the expected hike in the ECB's reference rates toward the end of next year (analysts give 51% odds to the first hike taking place next October). Potential upside catalysts in the near future include the 11 December vote by the UK House of Commons on PM May's Brexit deal, and the potential launch on or after 19 December of an excessive debt procedure against Italy.
- **Risks are mostly political.** Regulatory and political concerns are the two biggest types of risk facing European banks in 2019. In Poland, the campaign leading up to the autumn general and euro-elections will probably involve a wealth of social spending pledges that often presume co-sponsorship by banks (e.g. by virtue of an additional levy, like the asset tax introduced after the 2015 elections). Other legislative pressures that keep weighing on Polish banks include the possible passing of FX borrower relief legislation, and the takeover of oversight over state companies by the Prime Minister. As for credit risk, we do not see mass-scale default among corporate borrowers hailing from the manufacturing industry, which struggles with increased costs of energy and labor, although loans receivable from the sectors of wooden goods, logistics, wholesale, and construction might be more at risk than others. For Europe as a whole, the Brexit process and the Italian budget at this stage can turn out to be either the biggest upside catalyst, or, less likely, a source of sustained downside risk, depending on how the situation develops.
- **Buy Pekao and Erste.** Our bullish view on financials is best evidenced by the fact that we do not have a single negative recommendation for any of the covered stocks. This is not to say that we are unable to pick out opportunities that can offer more superior returns to investors. In pairs, we have a preference for Pekao over PZU among the large caps, and we prefer Alior Bank over Handlowy among the smaller institutions, plus we would pick Erste Bank over Komercni Banka and OTP among non -Polish banks. Both our top picks in Poland, Pekao and Alior, stand out in terms of solid growth prospects, underpriced valuations, and high liquidity. The concern when it comes to Pekao's controlling shareholder, PZU, is that it will have to shell out about PLN 4bn next year if the bank's other state shareholder, PFR, with a 12.8% stake, decides to exit, with implications for future dividends. In case of Erste, our more bullish stance is rooted in its huge upside potential owed to a close correlation with Western-European indices. Erste is trading at a 29% discount to OTP Bank on 2019E P/B, only partly justified by the Hungarian bank's higher returns.
- **We suspend coverage of Getin Noble Bank with this publication.** Getin delivered solid results for Q3 2018, and it was on track to sustainable profitability until falling victim to the corruption scandal involving its founding shareholder and the financial watchdog KNF, and the resulting media coverage which prompted many customers to withdraw savings from the bank. Because it is impossible to assess the scale of these withdrawals at this point, or their impact on future earnings and capital ratios, we are having to suspend ratings for GNB until there is more clarity.
- **Key Ratings**: PEO (buy), ALR (buy), Erste Bank (buy), KRU (buy)

Chemicals

- Chemical stocks in Europe have traded downward in the second half of 2018 as sentiment turned sour on soaring costs of energy inputs, concerns over the economic momentum in China, compounded by the imposition of US trade tariffs, weaker growth in the European and Chinese auto markets, and disruptions in inland fuel deliveries in Germany. MSCI Chemicals Europe and World are trading slightly below their three-year averages (at 15.1x and 14.6x, respectively, 2018E P/E, and 9.8x and 8.8x EV/EBITDA).
- Energy costs in 2019 are not going to increase at the same rapid pace as seen this year, but they will nevertheless continue to climb, with expensive emission allowances, thermal coal, and electricity potentially mitigated by easing prices of natural gas.

- China has put curbs on chemicals production as a way of reducing pollution, and the resulting pullback in exports has eased supply pressures on chemical producers in Europe, including fertilizer and soda ash companies.
- The world's fertilizer capacity keeps growing, with 4.1mmt expected to be added in 2018, followed by 2.2mmt in 2019 after 6.7mmt already installed in 2017. At the same time, however, demand is on the rise as well, with usage in the years ahead projected to increase at a faster rate than supply, indicating potential for producers to rebuild profit margins.
- There are no equivalent plans for capacity additions in the soda ash market due to a lack of available natural resources, with China's environmentally-driven production restrictions additionally easing the global supply pressures.
- Against this backdrop, the Polish soda ash producer Ciech is poised to benefit from an expected rise in prices next year, with its outlook for earnings reinforced by recent capacity investment and acquisitions. CIE is our top chemicals pick, trading at discounts of 25-45% to the average 2018-2020E P/E and EV/EBITDA ratios of peers.
- The fertilizer producer can make a worthwhile portfolio addition at the current price level looking at its recovering margins and the merger synergies expected next year.
- **Key Ratings**: CIE (buy)

Oil & Gas

- The price of oil has dropped by over $20 a barrel in recent weeks, reflecting weaker sentiment also evidenced by the lowest number in three years of speculative bullish bets on Brent and WTI crudes.
- The bearish turn is driven by a slower-than-expected phase-out of Iranian supplies after the reinstatement of sanctions, and by the diplomatic tensions between the US and Saudi Arabia, amid a lack of faith among investors in renewed production cuts by OPEC at the December meeting that could address the supply concerns. Regardless, the medium-term outlook for oil market fundamentals looks positive in our view, supported by a slow-but-steady decline in Iranian supply, and all-time low spare capacity which boosts the risk premium incorporated in oil prices. Other medium-term upside catalysts include low investment in new capacity and EUR/USD trends.
- As prices of natural gas continue to rise in line with increasing prices of emission allowances and the worldwide shift to clean energy, this creates upside potential for Poland's natgas giant PGNiG, poised for a 2019 rebound in trading profits.
- On the other hand, we see bearish prospects for oil refiners and petrochemical producers, underpinned by fast-increasing global capacity as demand slows, alongside higher supply of fuels and polyethylene from the US, worsened cost-price margins, and high costs of natural gas feedstock. Poland's two listed oil companies, PKN Orlen and Lotos, face extra pressure on profits next year after declaring they would take on the full impact of the new fuel surcharge which enters into force in January (the new levy is set expected to bring in a total of PLN 2bn in additional tax revenue for the government, money earmarked toward measures to reduce the impact of car emissions).
- Lotos and PKN are currently awaiting the EU's approval to merge, and in the mean time the former's stock, which will be swapped for stock in the latter as the acquirer, has gone up in price, taking the price in the potential tender offer to levels which would practically wipe out any future synergies that might emerge from the tie-up. In addition, the market's assessment of the merger continues to ignore the risk of it being blocked by the EU for anti-monopoly reasons. Last but not least, when it comes to the two refiners, their overvalued stocks at the moment are overestimating short-term boosts like the temporary rebound in cracking margins on diesel, and the expected benefits of the IMO's more stringent diesel emission standards set to take effect in 2020.
- **Key Ratings:** LTS (sell), PGN (buy), PKN (sell)

Utilities

- German electricity prices have hit all-time highs this year, currently trading around EUR 50/MWh, driven by a rapid shift in prices of emission allowances (@~EUR 20/t) and coal. At the same time, with no competition from units fueled by equally-expensive natural gas, coal-fired power plants have been able to more than offset the higher costs against sales prices, with positive effects on generation margins.
- In Poland, a short supply of domestic coal has forced utilities to increase reliance on more expensive coal from imports, resulting in an even more rapid upturn in domestic power prices which pushed the ytd cross-border spread over German power for next year's delivery upward to PLN 38/MWh from a 2017 average of PLN 26/MWh. With the benchmarks for the generation margins of Polish coal power plants dramatically improved, utilities are poised for strong 2019-2020 earnings years.
- Adding to the bullish outlook are the higher-than-expected capacity payments allocated at the first-ever auction in November.
- The Polish Energy Ministry has recently put out a draft *Energy Policy Until 2040,* postulating a push toward more renewable energy sources, with about 60% of the planned budget earmarked for clean energy. Atom is also envisioned as a major part of the future energy mix, with nuclear reactors set to eventually edge out onshore wind, but this does not look like a viable strategy to us considering the cost versus the cheap prices at the national energy grid can be fed by wind farms.
- Another major factor supporting the bullish case for utilities is the governmental go-ahead to raise household tariff rates next year to offset higher costs (earlier suggestions of a tariff freeze coming out of the Energy Ministry sent utility stocks tumbling).
- We maintain that the rebound in WIG-Energy stocks observed in recent weeks is not merely a correction, but an upward reversal in trend rooted in vastly-improved operating conditions. Moreover, there is expectation for increasing cash flows in the coming years as CAPEX falls while EBITDA grow and leverage decreases (with net debt/EBITDA set to fall to 1.5x in 2020), hopefully prompting companies to resume dividend payments as soon as next year.
- **Key Ratings:** ENA (buy), ENG (buy), PGE (buy), TPE (buy)

Telecoms, Media, IT

- EU telecoms have underperformed the broad market in the past year, with the MSCI Europe Telco index down 11.0% for the last 12 months against a 7.8% fall in MSCI Europe (the sector has recovered somewhat in recent weeks). The underperformance stems from fiercely-competitive market conditions which force mobile carriers to cut prices in order to challenge convergent operators. Adding to the pressure is regulatory uncertainty and limited room to cut spending. EU telecoms are currently trading at 5.9x blended forward EV/EBITDA vs. a broad market ratio of 8.6x.

- There is a clear push toward fixed + mobile convergence among telecoms across the world, one example being the May acquisition by Vodafone of the German and CEE assets of Liberty Global for EUR 18.4bn and 10.9x 2019E EV/EBITDA (8.6x adjusted for year-five cost and CAPEX synergies). In Poland, we are observing a consolidation in the cable industry, reflected in a recent takeover offer on Multimedia made by Vectra.
- Bids in Western European 3.7 GHz and 700 MHz spectrum auctions exceeded EUR 5 billion, and the total price of a 200 MHz band in the 3.7 GHz spectrum is approaching EUR 3bn.
- In Poland, Play is the only major mobile-only telecom standing after all main rivals acquired access to fixed-line infrastructure. The Company says it wants to remain mobile-centric, but it has not explicitly ruled out a move into fixed line. Play's strategy plan through 2022, announced in mid-November, dispelled fears of increased expenditures on fixed line access and efforts to gain back leadership in net customer additions, however the attitude of self-preservation and lack of risk-taking mean Play's vision has little impact on the competitive landscape.
- Bids in the recent 5G auction in Italy reached exorbitant levels, with the four winning operators offering EUR 4.3bn between them for 3.6-3.8 GHz spectrum, giving rise to CAPEX concerns for telecoms in other countries. In our view, a 5G auction in Poland is not likely to happen any time soon with frequencies currently divided between many different telecoms for use until 2025, and international coordination required to repurpose the 700 MHz spectrum. In addition, Polish telecoms are seeing flat revenues coupled with high debt. The state would have nothing to gain by allocating spectrum in the near future, and in addition there is the problem of Poland's stringent norms for radio waves.
- When it comes to Media, Zenith revised its 2018 adspend growth forecast for Poland upward again in September, this time to 6.6%, with the yearly expenditures set to reach PLN 7.53bn. This compares to a global growth forecast of 4.5% to $581bn. As advertisers up their TV budgets, spending on television commercials this year will increase 6.9% according to Zenith. Online adspend growth is estimated at 10%, driven largely by video ads for mobile.
- In Tech, the WIG-Info index gained 1.9% since the beginning of the year, outperforming the broad market by more than 10.0pp and outpacing MSCI IT EU by 4.4pp. With Polish tech companies improving their profits this year, at 13.6x median 12M fwd P/E the stocks are currently trading 10% below their average ratio for the last three years.
- The third quarter of 2018 reinforced the improved earnings prospects of the IT industry, with all rated companies except Ailleron to have reported so far delivering growth over the year-ago period. Hopefully, this will boost sentiment for Polish tech stocks in the months ahead, though with the gains potentially muted after this year's outperformance we would advise selective stock picking. Among smaller IT firms, our top picks are Atende and Asseco SE.
- We suspend coverage of Wasko with this publication.
- **Key Ratings**: AGO (buy), ASE (overweight), ATD (overweight), OPL (buy), PLY (buy)

Industrials

- Increasingly downbeat manufacturing PMI prints for Europe, coupled with weakening momentum in the auto industries in the EU and China, make for a cloudy 2019 outlook in the industrials sector.
- In Poland, companies have had a very good 2018 in terms of production and sales volumes. In 2019, however, their prospects are riddled with more uncertainty due to the unpredictable outcomes of Brexit with the UK ranked as the third-biggest market for Polish manufacturers, and the second-biggest market overall for automotive parts in Europe. In descending order of sensitivity, rated companies with the biggest exposure to the UK are Stelmet (ca. 30%), Amica (10% max), Ergis (4%), Grupa Kęty (4%), and Impexmetal (2%).
- Other than that, the biggest challenge for the industrial sector still in 2019 are high costs, with electricity prices for large commercial consumers expected to jump 32% next year. In case of two rated companies, Alumetal and Pfleiderer, the burden will be eased by anticipatory buying this year under futures contracts. Otherwise, the setbacks against 2019 EBITDA in descending order are expected to be the worst for Cognor (-20.6%), PKP Cargo (-13.4%), Ergis (-12.8%), Pfleiderer (-10.6%), Mangata (-8.6%), Forte (-7.7%), Impexmetal (-6.9%), Tarczyński (-5.8%), and Stelmet (-5.3%).
- Simultaneously, labor costs next year are set to grow by an average of 5% according to our calculations, with the climb potentially worsened by the outflow of migrant workers from Ukraine to Germany after the country opens its borders to non-EU workers. In terms of potential squeeze on 2019 EBITDA, a 5% increase in labor costs would take the biggest toll on Stelmet (-8.6%), PKP Cargo (-8.6%), TIM (-8.3%), Apator (-8.3%), Ergis (-8.0%), Amica (-7.9%), Mangata (-7.0%), Forte (-6.9%), and Tarczyński (-5.3%).
- The surge in production costs in the domestic market is affecting the competitiveness of Polish manufacturers vis-à-vis their Western European counterparts, for whom energy costs have not gone up as much this year, and who might be expected to leverage the newly-found cost advantage by increasing exports to Poland, on top of the already existing supply pressures created by cheap goods imported from Russia, Belarus, and China. Many industrial companies in Poland have had to put off planned capacity upgrades as they strive to juggle the soaring costs and do their best to navigate an uncertain market.
- The underperformance of Polish industrial stocks during 2018 can be attributed to increased withdrawals from equity investment funds which could not be offset by cash tender offers.
- Mid-sized and big manufacturers are not priced at particularly attractive ratios at the moment, with the median 2019E P/E at 10.5x and EV/EBITDA at 6.6x, and low capitalizations which are not likely to increase in the foreseeable future given low fund inflows and the worsened 2019 earnings prospects.
- Liquidity does not seem to be an issue for larger manufacturing companies at the moment. Two firms with dangerously high net debt/EBITDA ratios are Ergis and Forte, and companies like Cognor, Grupa Kęty, Mangata, Pozbud, and TIM, which produce goods for the construction industry, face a squeeze on liquidity if these customers, who are also struggling to meet increasing costs, start to fall behind with payments.

Industrials (cont.)

- Our top picks for 2019 among larger industrial stocks are Amica, Famur, and Kernel, and within the small-cap universe our best bet is Pozbud.
- We would avoid Apator, Grupa Kęty, Ergis, and Tarczyński.
- We suspend coverage of Elemental as of today.
- **Key Ratings**: ACG (overweight), AMC (overweight), APT (underweight), KTY (reduce), EGS (underweight), FMF (buy), KER (buy), POZ (overweight), TAR (underweight), TIM (overweight)

Mining

- Growth in global copper supply is set to slow to an annual rate of 1.2% in 2019 from 1.8% in 2018 according to a forecast by CRU research. With no major capacity additions expected this year or next (not one project with over 100kt capacity was announced in 2017, and the only project expected in 2019 are extensions to the Toquepala mine in Peru), the excess supply according to our base-case calculations might tighten to 0.1mmt next year from 0.4mmt this year, and potentially turn into a deficit to the tune of 0.1mmt by 2020 - not enough to send prices on an upward trend of the same magnitude as in 2013-2014, when the global shortfall increased to 0.4-0.6mmt.
- Many of the world's existing copper mines have been yielding lower-grade ores, but thus far little has been made to fill the gap with new capacity. Only nine noteworthy discoveries of new copper deposits, with combined capacity for 319 billion pounds, were made in the last decade, compared to 106 discoveries for a total of 1.100 billion pounds made in the 1990s. Keep in mind that, between then and now, the costs of exploring greenfield copper reserves (in dollars per pound of copper found) have increased seven-fold.
- Meanwhile demand in the years ahead is expected to be strengthened by China's infrastructure push, including the "One Belt One Road" initiative, itself estimated to consume 1.6mmt of copper, on top of other projects backed by a government-mandated lending boost designed to stimulate a slowing economy. Assuming China keeps up imports at the rate seen to date, the global copper demand next year could grow by 2%. The main downside risk is the trade war with the US and the harmful effect it might have on China's exports, and hence on its whole economy.
- World copper stocks are at their lowest level since mid-2016, and speculative positions in the metal are down to 10-15 thousand. Prices of industrial metals on the whole are under pressure from weakened emerging market currencies.
- When it comes to coal, the PMI sub-index for new orders in China has dropped below 50 points, and the momentum in the steel market has turned negative, with prices on a downward spiral for several weeks now, led by concerns that less stringent production curbs in China will lead to oversupply.
- As their profit margins tighten, steel producers might soon start putting pressure on coal and iron ore suppliers to reduce prices. On top of that, with mines recovering from unexpected disruptions during the second half of 2018, this adds to the downward pressure on prices of coking coal.
- Poland's thermal coal inventory is at an all-time low at 2mmt going into the heating season. This is a consequence of lower output by local mines after an investment freeze in 2015-2017. This has resulted in Poland having to increase coal imports, with prices in the domestic market increasing in the high-single-digit rates.
- The main risk for Polish resource companies heading into 2019 are rapidly-rising production costs. In case of KGHM, we anticipate a surge of PLN 350m each in next year's expenses on electricity and labor (the copper miner's labor contract with workers at the Sierra Gorda mine in Chile is up for renewal early next year). At the same time, JSW faces a boost to costs to the tune of PLN 471m, driven by higher costs of electricity (+PLN 172m), services (+PLN 62m, due to higher rental and freight rates), and labor (+PLN 200m, after a 5%m hike in the average salary and an end-of-year performance bonus).
- **Key Ratings**: KGHM (hold), JSW (reduce)

Property Developers

- We suspend ratings for ECH, LCC, CPG, ARH, BBI, I2D, JWC, LKD, NVA, PND, and RON pending reassignment to a new analyst. We will be releasing our updated views on these companies over the coming months.
- New home sales in Poland stabilized in 2018 after eight consecutive years of growth, and with the volume sold in the first nine months of the year down 10% from the same year-ago period the chances of a new sales record in 2019 are slim. The decrease in ytd sales by listed developers has outpaced the average at 12%, led by tightened supply. The average ratio of sales to inventories has remained stable during the year, however in some cases (Atal, Robyg, Budimex Nieruchomości) it was seen to decrease. Unlike during periods of down market, however, in the current cycle the decreasing supply is accompanied by consistently strong demand, creating room for homebuilders to raise prices. As listing prices increase, so should next year's closing prices, although how much they can go up ultimately depends on the price -sensitivity of homebuyers.
- The lower volume of off-plan flats sold this year means fewer homes completed and closed in 2019, however in the case of the largest developers the resulting decrease in profits should be offset by higher prices.
- Expansion in construction costs continues to put pressure on the profits of real-estate developers, but with the growth reported to have stabilized over the last three months, and with listing prices on the rise, the impact on 2019 profit margins should be limited. Listed developers have achieved ytd profit margins on a level with the margins generated in 2016, representing a decline of less than 3pp from the record values reported in 2017. Market leaders and growth companies (1AT, DOM, LKD) generate higher margins than average, and their 2019 earnings prospects also look better than most. In addition, DOM and 1AT bear less risk related to the liquidation of unsecured open escrow accounts as quality businesses with strong balance sheets and easy access to financing.
- Our two top picks, 1AT and DOM, are trading at respective 2018-2020E average P/E ratios of 6.7x and 7.1x, offering respective 2019-2020E dividend yield of ca. 13.5% and 12.8%. Note that Atal is also currently valued at a 20% discount to the historical two-year P/E median, and DOM trades at a 30% discount to the median P/E for the last four years.
- **Key Ratings**: DOM (buy), 1ATI (buy)

Construction

- We suspend ratings for BDX, ELB, ERB, UNI, ELT, HRS, TOR, TRK, ULM, and ZUE pending reassignment to a new analyst. We will be releasing our updated views on these companies over the coming months.
- The WIG-Construction index has grossly underperformed

the WIG broad market benchmark and the WIG-Real-Estate index, and at 10.2x P/E the sector is currently trading at a value not seen since before the bottom of the previous cycle, reached in mid-2011. The stocks that have taken the largest falls this year are ELB, ELT, UNI, TOR, and TRK. Only ULM remains immune so far to the upward shift in costs of building materials and suppliers which has hurt most construction firms in Poland.

- Poland's construction output for the ten months through October 2018 was 17.9% higher than in the corresponding period in 2017, when in turn it expanded 12.9% year on year. By sector, orders for road infrastructure have dwindled this year, while orders for railway infrastructure did not drop off as much, but ma of them had to be canceled in the end due to budget overruns. Among listed developers, backlogs as of 30 September 2018 were higher than in September 2017 in the case of Budimex (+19%) and Erbud (+16%), and lower in case of Elektrobudowa (-19%) and Torpol (-38%).
- With costs outpacing sales prices, the profit margins of construction firms experienced a severe squeeze this year, as well as forcing firms like ERB and ELB to set aside provisions for possible losses on long-term contracts, and prompting a string of guidance downgrades in the sector. In Q3 2018 costs of basic building materials (asphalt, concrete, reinforced steel, diesel oil) turned out 18% higher on average than in the year-ago period, accompanied by an 8.8% y/y hike in labor costs during 9M 2018, while at the same time prices for final building demand edged only 3.2% higher. The downward pressure on profit margins from construction contracts is exacerbated by long intervals between bid submission and contract signing.
- Under these circumstances, on 24% higher revenue, the aggregate EBITDA of construction companies for the nine months to 30 September 2018 shrunk 40%.
- Other negative trends observed in the sector, especially among railway builders, include reduced cash positions and increased debt and supplier payables.
- The market conditions for infrastructure are not likely to shift in 2019, with high costs of labor and building materials continuing to weigh, keeping market sentiment subdued. Further exacerbating the situation are 'old' contracts that do not price in this year's spike in building costs, and that might not be allowed to be adjusted properly under Poland's current regulatory regime. Companies with slow-moving backlogs face the greatest blows to profits under persistent cost pressures.

Retail

- Next year's extension of the Sunday trading ban to three Sundays a month is not likely to hurt the profits of Polish retailers – over the past year, consumers seem to have become used to doing their shopping on other days of the week. The upside of the ban on physical stores is that is boosts business for online stores, with grocery retailers set to report stronger growth in online traffic next year than fashion retailers, who have seen their e-commerce sales peak this year.
- The dollar appreciated versus the zloty in October, and assuming the exchange rate holds until the end of the year this will increase the costs of 2019 spring-summer collections for Polish apparel and footwear retailers, with negative effects on sales margins in Q2 and Q3 2019. Among rated companies, LPP should be able to mitigate the margin contraction with an improved sales mix and the trade terms. In case of CCC, dollar payments have a low, 30% share in total merchandise costs. For Vistula Retail Group, the potential margin squeeze will be offset, and then some, by merger synergies. On the other hand, companies like Monnari, which pay in dollars for 90% of their merchandise, are bound to suffer much more given a lack of improvement in sales effectiveness.
- Alongside further growth in labor costs, rated fashion retailers face an increase in electricity costs next year, with implications for profits. However, firms with an established standing should be able to counteract this by increasing like-for-like sales. Our top picks for 2019 among fashion retailers are LPP, CCC, and VRG.
- In groceries, all rated companies grew their sales margins in the nine months to 30 September, a sign of improved trading terms and upward price adjustments which might continue during 2019 as cost pressures persist and intensify with increased electricity bills. Based on anticipation of expanding sales margins and like-for-like growth, we are overweight grocery retailers in 2019, with the top picks including Dino Polska (with its fast-paced expansion) and Jeronimo Martins (recovering lfl, curbed EBITDA losses from start-ups). We have downgraded Eurocash to hold after taking into account the cost-intensive integration of recently acquired stores, and the uncertainty as to future profits from retail.
- At AmRest, post-merger integration costs in 2019 should not have as much of a negative impact on EBITDA as in 2018, with the recently acquired Sushi Shop chain expected to make substantial contributions to profits. Looking at its attractive medium-term prospects, with EBITDA growth expected to go into the double digits from Q4 2019, AmRest looks like a worthwhile bet for 2019.
- We suspend coverage of TXM with this publication.
- **Key Ratings**: EAT (buy), CCC (buy), DNP (accumulate), JMT (buy), LPP (buy), VRG (overweight)

Changes in Coverage

After a review, we are discontinuing or suspending coverage of the following companies:

- Archicom
- BBI Development
- Budimex
- Capital Park
- Echo Investment
- Elektrobudowa
- Elektrotim
- Elemental
- Erbud
- Getin Noble Bank
- Herkules
- i2 Development
- JWC
- LC Corp
- Lokum Deweloper
- PA Nova
- Polnord
- Polwax
- Ronson
- Torpol
- Trakcja
- TXM
- Ulma
- Unibep
- Wasko
- ZUE

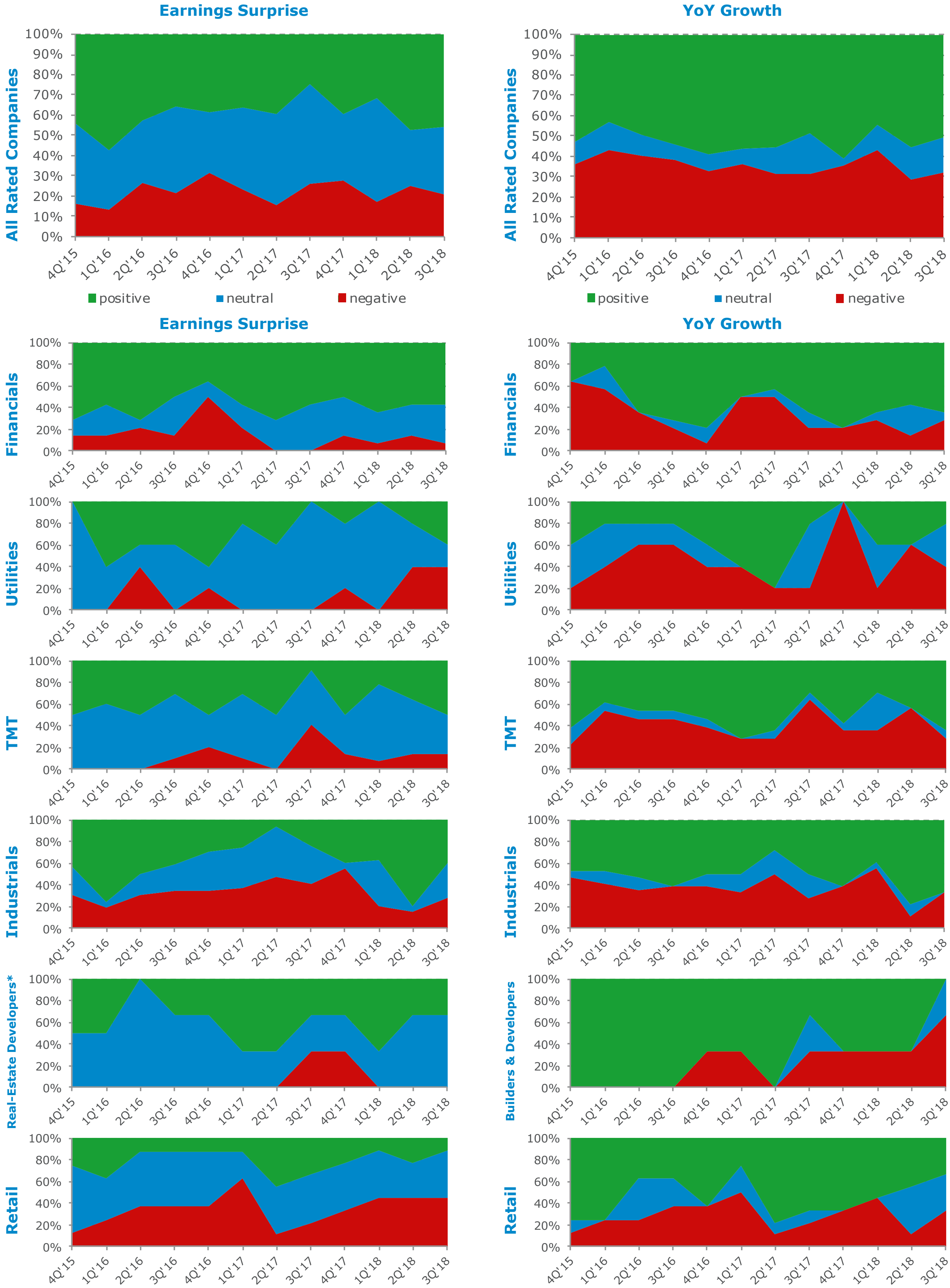
Quarterly Earnings Surprises and YoY Growth Reported By Rated Companies

vs. consensus		2016				2017				2018			+/=
	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	
Financials													
Alior Bank	+	+	+	+	+	-	+	+	+	=	+	=	92%
GNB	-	-	-	-	-	-	+	+	-	-	-	+	25%
Handlowy	+	=	+	-	=	-	+	+	=	+	+	-	75%
ING BSK	+	+	+	+	-	+	=	=	=	=	-	=	83%
Millennium	+	+	+	=	+	+	=	+	=	+	+	=	100%
Pekao	+	+	+	+	+	+	=	=	+	=	=	+	100%
PKO BP	+	+	+	+	-	+	+	+	=	+	=	=	92%
Santander BP	+	+	+	=	+	=	+	=	=	=	+	=	100%
Komercni	-	+	+	+	=	+	+	+	+	+	+	+	92%
Erste Bank	+	+	=	=	-	=	+	=	+	+	+	+	92%
OTP Bank	+	=	+	+	-	+	+	+	+	+	+	+	92%
PZU	=	-	-	=	+	+	=	=	+	+	=	+	83%
Kruk	+	=	-	+	-	+	+	=	-	+	+	+	75%
Skarbiec	=	=	+	=	-	=	+	+	+	+	=	+	92%
Chemicals													
Ciech	-	=	+	=	+	=	=	=	+	=	+	=	92%
Grupa Azoty	+	-	-	=	-	+	-	=	-	=	-	-	42%
Oil & Gas													
Lotos	+	+	=	+	=	+	+	+	=	-	+	=	92%
MOL	=	=	=	=	-	+	+	-	=	=	=	+	83%
PGNiG	=	+	-	-	+	+	-	-	=	-	+	-	50%
PKN Orlen	=	=	-	=	+	=	=	-	=	=	-	=	75%
Utilities													
CEZ	=	+	-	=	+	=	=	=	+	=	-	+	83%
Enea	=	+	+	+	+	=	+	=	=	=	-	=	92%
Energa	=	+	-	=	=	=	=	=	-	=	=	-	75%
PGE	=	=	=	+	-	=	=	=	=	=	=	-	83%
Tauron	=	=	+	=	+	+	+	=	=	=	+	+	100%
TMT													
Netia	+	=	+	=	+	=	=	+	+	=	=	=	100%
Orange PL	=	=	=	=	=	=	+	=	=	=	+	+	100%
Play	na	na	na	na	na	na	na	=	=	=	+	=	100%
Agora	=	+	=	=	+	=	+	=	+	=	+	+	100%
Cyfrowy	+	=	=	+	=	+	=	=	=	+	=	=	100%
Wirtualna	=	+	=	-	-	+	=	=	=	=	=	=	83%
Ailleron	na	na	na	na	na	na	na	-	+	=	=	-	60%
Asseco BS	=	+	+	=	=	=	=	=	+	=	=	+	100%
Asseco PL	+	=	+	+	-	=	=	-	-	+	+	+	75%
Asseco SEE	=	=	=	=	+	=	+	-	=	=	=	+	92%
Atende	na	na	na	na	na	na	na	na	+	=	-	+	75%
Comarch	+	=	+	=	+	-	+	-	-	+	+	+	75%
Wasko	na	na	na	na	na	na	na	na	+	-	-	=	50%
CD Projekt	+	+	+	+	+	+	+	-	+	=	=	-	83%
Industrials													
Alumetal	=	+	+	-	=	-	=	+	=	=	+	=	83%
Amica	+	+	=	=	-	=	=	-	+	-	+	+	75%
Apator	-	-	+	-	=	=	-	=	-	=	+	=	58%
Boryszew	-	+	+	+	-	+	-	+	-	-	=	-	50%
Cognor	na	na	na	na	na	na	na	na	na	+	+	=	100%
Ergis	=	-	-	+	=	+	=	-	-	-	-	-	42%
Famur	=	+	+	=	+	na	-	=	+	+	+	+	91%
Forte	+	+	+	=	=	=	=	-	-	=	+	-	75%
Grupa Kęty	+	+	+	=	=	=	=	=	-	=	+	=	92%
Impexmetal	+	+	+	+	-	-	-	+	-	+	+	+	67%
JSW	-	+	=	-	-	+	+	-	-	=	+	=	58%
Kernel	+	+	-	+	-	-	-	-	+	=	-	+	50%
KGHM	-	+	-	+	+	+	=	=	+	=	+	-	75%
Kruszwica	-	-	-	+	+	-	-	=	-	+	+	+	50%
Mangata	=	+	+	-	+	=	-	-	-	+	+	+	67%
Pfleiderer	+	=	=	+	-	-	-	=	-	+	-	+	58%
Pozbud	na	na	na	na	na	na	na	na	+	=	+	-	75%
Stelmet	na	na	na	-	=	-	=	-	+	-	+		50%
Tarczyński	+	+	-	-	+	=	=	+	+	+	+	=	83%
Real-Estate													
Atal	na	na	na	+	=	+	+	-	-	=	+	=	78%
Dom Dev.	=	+	=	=	=	=	+	+	=	+	=	+	100%
GTC	+	=	=	=	+	+	=	=	+	+	=	=	100%
Retail													
AmRest	=	=	=	=	+	-	+	+	+	-	-	=	75%
Bytom	+	=	=	=	-	+	=	+	-	=	-	-	67%
CCC	+	+	+	+	=	-	+	-	-	-	-	-	50%
Dino	na	na	na	na	na	na	+	=	+	+	=	=	100%
Eurocash	=	-	-	-	-	-	=	-	-	=	=	-	33%
Jeronimo	=	=	=	=	=	=	=	=	=	=	=	=	100%
LPP	-	-	=	=	=	=	=	+	=	-	+	+	75%
Monnari	=	+	-	-	-	-	+	=	=	=	+	-	58%
VRG	=	+	-	-	=	-	-	=	=	-	-	=	50%

vs. r/r		2016				2017				2018			**	+/=
	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	3Q	
Financials														
Alior Bank	-	-	-	=	+	-	+	+	-	+	+	-	-	50%
GNB	-	-	-	-	+	-	+	-	-	+	-	+	+	33%
Handlowy	-	-	+	+	+	-	-	+	+	+	+	-	-	58%
ING BSK	-	=	+	+	+	+	-	+	+	+	=	=	=	83%
Millennium	-	=	+	+	+	+	-	+	+	+	+	+	+	83%
Pekao	-	-	+	-	+	-	-	=	+	+	=	+	+	58%
PKO BP	-	=	+	-	+	-	=	+	+	+	+	+	+	75%
Santander BP	-	-	+	+	+	-	-	+	+	=	=	-	-	58%
Komercni	-	-	+	+	+	+	-	-	+	-	+	+	+	58%
Erste Bank	+	+	+	+	-	-	-	+	+	+	+	+	+	75%
OTP Bank	+	+	+	+	=	+	+	+	+	+	+	+	+	100%
PZU	+	-	-	+	+	+	+	+	+	-	+	+	+	75%
Kruk	+	+	-	+	+	+	+	=	-	-	=	+	-	75%
Skarbiec	+	-	-	+	=	+	+	-	+	-	-	-	-	50%
Chemicals														
Ciech	+	+	+	+	+	+	-	-	+	-	=	-	-	67%
Grupa Azoty	+	+	-	-	-	-	+	+	+	-	-	-	-	42%
Oil & Gas														
Lotos	+	+	-	+	+	+	+	+	-	-	+	=	=	75%
MOL	=	-	-	-	-	+	+	-	+	-	-	+	+	42%
PGNiG	-	-	-	-	+	+	=	=	=	-	+	+	+	58%
PKN Orlen	+	=	-	-	+	+	+	+	-	-	-	-	-	50%
Utilities														
CEZ	-	=	-	-	-	-	-	-	-	-	-	+	+	17%
Enea	+	+	+	+	+	+	+	=	-	=	-	=	=	83%
Energa	=	=	=	=	=	-	+	+	-	+	+	-	=	75%
PGE	+	-	-	-	-	+	+	=	-	+	+	=	=	58%
Tauron	=	-	-	-	+	+	+	=	-	=	-	-	-	50%
TMT														
Netia	-	-	=	-	=	-	-	-	-	=	-	-	-	25%
Orange PL	-	-	-	-	-	-	=	-	+	=	-	+	=	33%
Play	na	na	na	na	na	+	+	+	=	-	-	-	-	57%
Agora	=	=	-	-	-	+	+	=	+	-	-	+	-	58%
Cyfrowy	+	-	-	+	+	+	+	-	-	=	-	=	=	58%
Wirtualna	+	+	+	+	+	+	+	+	+	+	+	+	+	100%
Ailleron	-	+	-	+	+	+	+	-	+	=	+	-	+	67%
Asseco BS	+	+	+	+	+	+	+	+	+	+	+	+	+	100%
Asseco PL	+	-	+	-	-	-	-	-	-	+	+	+	+	42%
Asseco SEE	+	+	+	=	+	+	+	+	+	+	+	+	+	100%
Atende	=	-	+	-	-	+	-	-	+	-	-	+	+	42%
Comarch	+	-	+	+	+	-	-	-	-	=	+	+	+	58%
Wasko	+	-	-	-	-	+	+	-	+	-	-	+	na	42%
CD Projekt	+	+	-	+	+	+	+	-	-	-	-	-	-	50%
Industrials														
Alumetal	+	+	+	-	-	-	-	-	+	+	+	+	+	58%
Amica	+	+	+	+	=	-	=	-	-	-	+	+	+	67%
Apator	-	-	+	-	+	+	-	+	-	-	+	=	=	50%
Boryszew	-	+	+	+	-	+	+	+	+	-	-	-	-	58%
Cognor	-	-	+	+	+	+	=	+	+	+	+	+	+	83%
Ergis	-	-	-	+	+	+	=	=	-	-	=	-	+	50%
Famur	-	=	+	+	+	+	=	+	+	+	+	+	+	92%
Forte	+	+	+	+	+	-	-	-	-	-	+	-	+	50%
Grupa Kęty	+	+	+	+	+	+	+	+	+	+	+	+	+	100%
Impexmetal	+	+	+	+	-	+	+	=	+	+	+	=	-	92%
JSW	-	-	-	-	+	+	+	+	+	-	=	=	=	58%
Kernel	+	-	-	+	-	-	-	-	-	-	+	+	+	33%
KGHM	-	-	-	+	+	+	+	+	-	-	+	-	-	50%
Kruszwica	-	-	=	-	+	=	=	=	+	+	+	+	-	75%
Mangata	+	+	+	+	-	=	-	=	+	+	+	+	+	83%
Pfleiderer	+	+	=	+	=	+	-	+	+	+	-	+	+	83%
Pozbud	-	=	-	-	-	-	-	=	+	-	+	+	+	42%
Stelmet	na	na	na	-	-	-	-	+	+	=	+		-	50%
Tarczyński	=	-	-	-	-	=	+	+	+	+	+	+	+	67%
Real-Estate														
Atal	na	+	+	+	-	+	+	=	+	+	+	=	-	91%
Dom Dev.	+	+	+	+	+	-	+	+	+	+	+	-	-	83%
GTC	+	+	+	+	+	+	+	-	-	-	-	-	-	58%
Retail														
AmRest	+	+	+	+	+	=	+	+	-	+	=	+	+	92%
Bytom	+	+	+	+	+	-	+	=	+	-	+	-	-	75%
CCC	+	-	+	=	+	+	+	+	-	-	-	-	-	58%
Dino	na	na	na	na	na	na	+	+	+	+	+	+	+	100%
Eurocash	+	+	=	-	-	-	=	-	-	+	=	=	+	58%
Jeronimo	+	+	=	+	+	=	+	+	+	+	=	=	=	100%
LPP	=	-	-	-	-	+	+	+	+	-	+	+	+	58%
Monnari	+	+	-	-	-	-	-	-	+	-	+	-	-	33%
VRG	-	+	=	=	+	-	+	+	+	+	=	=	+	83%

'+' = positive surprise, '-' = negative surprise, '=' = in-line results; *The column shows the sum of 'in-line' or 'beat quarters' in the last three years as a percentage of all quarters in the period; ** Our expectations versus the actual year-ago figures; Source: Companies, Bloomberg, PAP, Dom Maklerski mBanku

Quarterly Surprise Charts For Our Coverage Universe (Aggregate and Selected Sector Statistics)



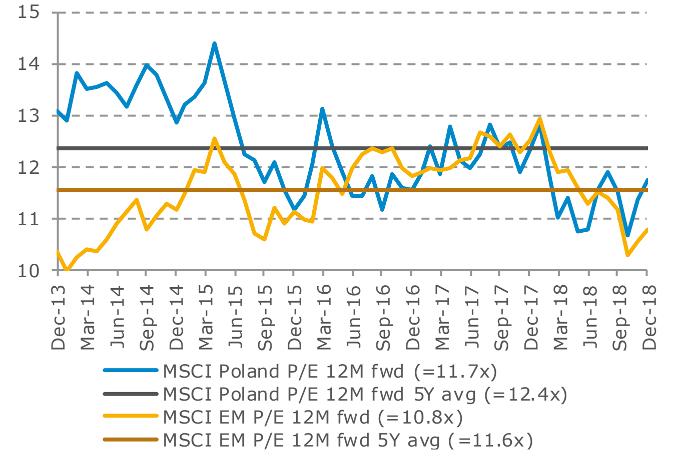
Source: Companies, Bloomberg, PAP, Dom Maklerski mBanku; Q3'18 statistics reflect earnings already reported; *incl. 1AT, DOM, GTC

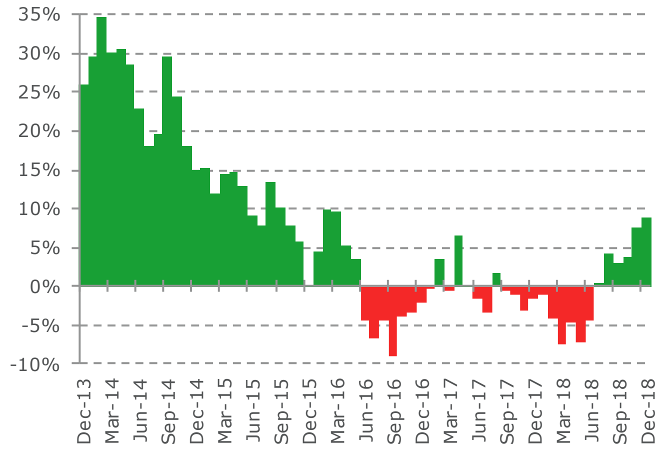
Revisions To FY2018 Earnings Forecasts For WIG30 Companies

Nov-rr=0	WIG30		Financials		Oil & Gas		Utilities		Retail		TMT		Chemicals		Commodities	
	Con.	mDM	Con	mDM	Con	mDM	Con	mDM	Con	mDM	Con	mDM	Con	mDM	Con	mDM
Dec-17	-1%	+2%	+1%	+0%	-0%	+0%	-3%	-0%	-2%	+14%	-0%	+8%	-10%	-8%	-5%	+12%
Jan-18	-1%	+12%	+1%	-1%	+0%	+2%	-4%	-5%	-0%	+5%	-1%	+63%	-19%	-18%	-3%	+182%
Feb-18	+0%	+10%	+0%	-1%	+0%	+4%	-2%	-10%	-2%	-0%	-0%	+63%	-24%	-18%	+9%	+182%
Mar-18	+0%	+7%	+0%	-1%	+2%	+2%	-4%	-6%	-3%	-11%	-1%	+66%	-24%	-18%	+7%	+127%
Apr-18	+0%	+7%	+0%	-1%	-1%	+2%	-4%	-6%	-3%	-11%	-1%	+66%	-25%	-18%	+10%	+128%
May-18	-1%	+8%	-0%	-1%	+1%	+2%	-4%	-4%	-5%	-11%	-3%	+66%	-32%	-42%	+3%	+132%
Jun-18	-1%	+9%	-1%	-1%	+0%	+12%	-5%	-4%	-9%	-10%	-2%	+49%	-32%	-42%	+2%	+128%
Jul-18	-2%	+7%	-1%	-3%	-2%	+12%	-3%	-4%	-11%	-10%	-8%	+49%	-48%	-40%	-1%	+116%
Aug-18	-4%	+11%	-1%	-3%	-1%	+34%	-4%	-9%	-11%	-10%	-12%	+50%	-45%	-56%	-9%	+112%
Sep-18	-3%	+10%	-1%	-3%	+5%	+34%	-5%	-9%	-12%	-12%	-14%	+53%	-48%	-56%	-10%	+112%
Oct-18	-4%	+2%	-2%	-4%	+7%	+30%	-8%	-9%	-15%	-24%	-15%	+51%	-57%	-90%	-13%	+7%
Nov-18	-4%	+5%	-2%	-3%	+10%	+48%	-14%	-27%	-19%	-29%	-16%	+20%	-62%	-93%	-15%	+66%

Source: "Con" - Bloomberg consensus forecasts, "mDM" - estimates by Dom Maklerski mBanku, provided ex. mBank, and PKP Cargo.
The percentages indicate changes between the dates of this Monthly Outlook and the previous Monthly Outlook.
The surge in the estimates vs. consensus gap for Commodities/TMT stems from the inclusion of JSW/Play, initiated in January 2018.

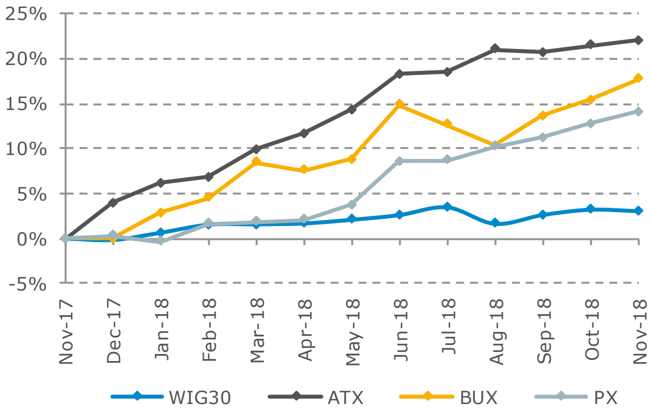
FWD 12M P/E Ratios For MSCI Poland & Emerging Markets (left), PL-EM Premium/Discount (right)





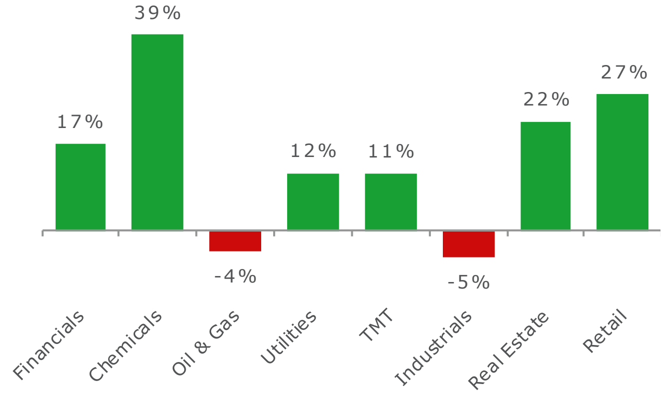
Source: Bloomberg, Dom Maklerski mBanku

FWD 12M EPS Growth (WIG30 vs. ATX, BUX, PX)



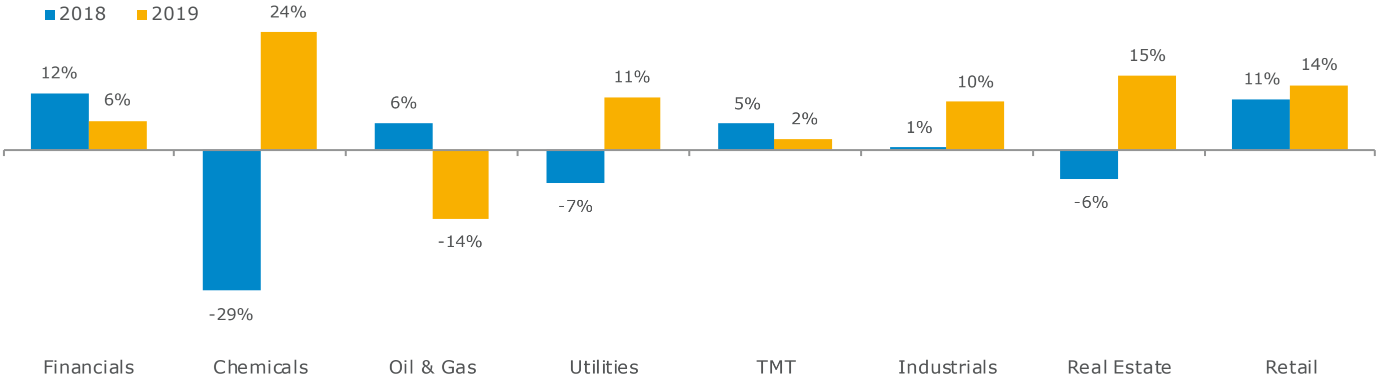
Source: Bloomberg, Dom Maklerski mBanku

Estimated Sector Upside Potential*



Source: Dom Maklerski mBanku; *To mDM price targets

Expected YoY Change in FY2018-2019E Sector Earnings*



Source: Dom Maklerski mBanku; *Net Income for Financials, EBITDA for the remaining sectors

Divergence of Dom Maklerski mBanku Estimates From Consensus Estimates

Sector/Name	mDM Rating	mDM TP[1]	BBG Ratings[2] ▲	►	▼	BBG TP[3]	mDM v. BBG TP	mDM v. BBG Earnings 2018E	2019E	2020E	mDM v. BBG EBITDA 2018E	2019E	2020E	Analyst Count[4]
Financials														
Alior Bank	buy	92.50	14	2	1	83.77	+10.4%	+1%	+10%	+10%				13/-
Handlowy	accumulate	76.00	7	4	1	78.27	-2.9%	+1%	+2%	+5%				10/-
ING BSK	accumulate	199.63	5	5	3	197.03	+1.3%	-3%	-4%	+2%				7/-
Millennium	accumulate	10.10	4	7	3	9.38	+7.6%	-3%	-14%	+4%				10/-
Pekao	buy	136.29	18	1	0	136.58	-0.2%	-0%	+4%	+5%				15/-
PKO BP	accumulate	45.00	5	10	4	42.06	+7.0%	+4%	+2%	+3%				14/-
Santander Bank Polska	accumulate	400.00	11	5	0	394.99	+1.3%	-6%	-3%	+7%				13/-
Komercni Banka	accumulate	1,000.0	9	5	1	1,033.9	-3.3%	+5%	+7%	+11%				10/-
Erste Bank	buy	46.18	19	4	1	42.36	+9.0%	+4%	+4%	+5%				16/-
OTP Bank	accumulate	13,046	10	2	3	12,074	+8.0%	+4%	+4%	-				11/-
PZU	accumulate	46.50	9	2	0	48.27	-3.7%	+4%	-2%	-3%				8/-
Kruk	buy	292.77	6	2	0	246.26	+18.9%	+3%	+6%	+9%				6/-
Chemicals														
Ciech	buy	77.05	8	2	0	61.42	+25.4%	-9%	+20%	+25%	-1%	+11%	+14%	7/9
Grupa Azoty	hold	33.00	2	5	1	32.12	+2.7%	-84%	-53%	-55%	-23%	-12%	-12%	6/6
Oil & Gas														
Lotos	sell	59.84	7	4	3	76.48	-21.8%	+17%	-31%	-41%	+10%	-18%	-18%	10/11
MOL	hold	3,280.0	10	3	0	3,478.6	-5.7%	-2%	-27%	-25%	+5%	-8%	-7%	12/13
PGNiG	buy	7.72	8	3	1	7.04	+9.7%	+1%	+23%	+31%	+4%	+14%	+17%	9/8
PKN Orlen	sell	81.52	3	9	7	102.46	-20.4%	+15%	-39%	-35%	+8%	-27%	-20%	16/15
Utilities														
CEZ	hold	518.72	6	6	5	584.89	-11.3%	+5%	-2%	-7%	+0%	-3%	-2%	9/11
Enea	buy	15.58	9	1	1	10.91	+42.8%	-12%	+27%	+15%	-1%	+15%	+10%	9/9
Energa	buy	13.54	5	5	0	10.56	+28.2%	+3%	-0%	-9%	-3%	-1%	-3%	9/9
PGE	buy	14.82	9	3	1	11.63	+27.5%	-9%	+5%	+8%	-2%	+3%	+4%	8/8
Tauron	buy	3.06	5	8	0	2.27	+34.9%	-9%	+23%	+26%	-1%	+7%	+10%	9/9
TMT														
Netia	hold	4.70	3	3	2	4.81	-2.4%	+53%	+27%	+14%	+1%	-4%	-5%	7/8
Orange Polska	buy	6.40	10	3	3	5.69	+12.5%	-	+43%	+6%	-0%	-2%	-1%	8/9
Play	buy	21.30	8	6	0	24.29	-12.3%	+8%	-7%	-14%	+1%	-2%	-3%	11/11
Agora	buy	16.00	3	2	0	14.10	+13.5%	-	+92%	+288%	+9%	+1%	+3%	1/3
Cyfrowy Polsat	hold	23.20	6	7	0	26.27	-11.7%	-12%	-12%	-2%	-2%	-4%	-4%	10/9
Wirtualna Polska	buy	61.50	7	0	0	59.38	+3.6%	+2%	+8%	+9%	+2%	+7%	+7%	5/4
Asseco Poland	hold	49.60	4	5	0	50.77	-2.3%	-1%	-5%	-6%	-1%	+0%	+2%	5/5
Asseco BS	neutral	-	1	2	0	28.90	-	+9%	+5%	+6%	+5%	+5%	+6%	2/2
Asseco SEE	overweight	-	3	0	0	16.80	-	+8%	+5%	+4%	+4%	+3%	+3%	3/3
CD Projekt	buy	170.40	9	3	1	179.28	-5.0%	-15%	-91%	+20%	-18%	-91%	-3%	8/7
Comarch	accumulate	173.30	3	2	1	171.87	+0.8%	+14%	+12%	+6%	+5%	+5%	+2%	3/3
Industrials														
AC	overweight	-	1	0	1	44.05	-	+8%	+13%	+15%	+7%	+10%	+12%	2/2
Alumetal	neutral	-	2	3	0	56.60	-	+5%	-5%	-13%	+4%	-3%	-14%	4/4
Amica	overweight	-	3	1	0	126.00	-	-2%	+3%	+10%	+2%	-0%	-0%	3/4
Apator	underweight	-	1	2	1	-	-	+11%	-1%	-1%	+6%	-1%	-6%	3/3
Famur	buy	6.41	5	0	0	6.53	-1.8%	+6%	+5%	+10%	+4%	-2%	-0%	5/5
Forte	neutral	-	2	3	2	46.90	-	-31%	-53%	-54%	-12%	-24%	-24%	6/4
Grupa Kęty	reduce	309.30	5	6	1	384.62	-19.6%	+1%	-12%	-11%	-1%	-9%	-9%	7/6
JSW	reduce	59.14	6	4	4	80.39	-26.4%	-1%	-44%	-68%	-3%	-30%	-31%	10/9
Kernel	buy	60.85	5	2	0	68.92	-11.7%	-18%	+8%	+0%	-10%	+13%	-0%	4/3
KGHM	hold	84.56	3	6	9	86.37	-2.1%	-26%	-9%	-11%	-1%	-7%	-1%	11/12
Pfleiderer Group	neutral	-	6	1	1	40.97	-	+15%	-8%	-0%	-2%	-5%	-5%	6/6
Real Estate														
Atal	buy	42.86	4	0	0	42.49	+0.9%	+0%	-2%	+3%	+2%	-2%	+4%	4/4
Dom Development	buy	84.10	5	3	0	87.12	-3.5%	-3%	-3%	+9%	-2%	-3%	+4%	6/4
GTC	hold	9.60	7	3	0	9.90	-3.0%	+16%	+39%	+127%	-6%	+6%	+6%	6/6
Retail														
AmRest	buy	46.00	9	1	1	45.62	+0.8%	+0%	+4%	-5%	-1%	-1%	+3%	8/8
CCC	buy	288.00	10	5	1	268.35	+7.3%	-37%	+14%	+8%	-14%	-3%	-6%	14/13
Dino	accumulate	106.30	10	6	2	98.58	+7.8%	+2%	+2%	+1%	+1%	+0%	-1%	11/10
Eurocash	hold	18.20	11	7	2	24.35	-25.2%	-12%	-39%	-25%	-1%	-13%	-10%	13/14
Jeronimo Martins	buy	14.50	12	11	2	14.12	+2.7%	-3%	-2%	-3%	-1%	+1%	+0%	17/18
LPP	buy	9,300.0	3	5	9	8,435.2	+10.3%	+2%	+16%	+21%	+4%	+5%	+6%	15/14
Monnari	underweight	-	3	1	0	9.50	-	+6%	+6%	+12%	+3%	+2%	+10%	3/3
VRG	overweight	-	4	1	1	4.91	-	+20%	+40%	+32%	+24%	+35%	+31%	4/4

Source: Bloomberg (BBG), Dom Maklerski mBanku (mDM); [1]Target Price issued by Dom Maklerski mBanku; [2]Positive/Neutral/Negative ratings count comprising the Bloomberg Consensus; [3]Average of all analyst target prices; [4]Number of analysts participating in the consensus (of EPS/EBITDA)

Current Recommendations By Dom Maklerski mBanku

Company	Recommendation	Issued On	Price At Reco.	Target Price	Current Price	Upside/ Downside	P/E		EV/EBITDA	
							2018	2019	2018	2019
Financial Sector						**+17.4%**	**11.8**	**11.6**		
Alior Bank	buy	2018-12-05	56.65	92.50	56.65	+63.3%	9.5	7.2		
Handlowy	accumulate	2018-12-05	71.10	76.00	71.10	+6.9%	14.3	13.4		
ING BSK	accumulate	2018-12-05	183.60	199.63	183.60	+8.7%	15.8	14.1		
Millennium	accumulate	2018-11-14	9.49	10.10	9.50	+6.3%	15.7	15.5		
Pekao	buy	2018-12-05	113.25	136.29	113.25	+20.3%	13.5	11.6		
PKO BP	accumulate	2018-12-05	41.96	45.00	41.96	+7.2%	13.8	12.9		
Santander Bank Polska	accumulate	2018-12-05	364.80	400.00	364.80	+9.6%	16.7	14.2		
Komercni Banka	accumulate	2018-12-05	906.50	1,000 CZK	906.50	+10.3%	11.5	11.3		
Erste Bank	buy	2018-12-05	34.41	46.18 EUR	34.41	+34.2%	9.6	9.4		
OTP Bank	accumulate	2018-12-05	11,810	13,046 HUF	11,810	+10.5%	9.8	9.8		
PZU	accumulate	2018-12-05	43.80	46.50	43.80	+6.2%	11.8	11.6		
Kruk	buy	2018-12-05	177.10	292.77	177.10	+65.3%	9.5	8.0		
Skarbiec Holding	buy	2018-12-05	23.50	31.36	23.50	+33.4%	7.3	6.9		
Chemicals						**+39.4%**	**7.9**	**16.2**	**6.0**	**5.8**
Ciech	buy	2018-11-05	42.58	77.05	43.58	+76.8%	7.9	6.6	5.3	4.6
Grupa Azoty	hold	2018-11-23	32.36	33.00	35.48	-7.0%	-	25.8	6.7	7.0
Oil & Gas						**-4.0%**	**8.6**	**13.3**	**4.9**	**6.0**
Lotos	sell	2018-11-15	73.50	59.84	84.72	-29.4%	8.5	15.2	5.2	7.4
MOL	hold	2018-12-05	3,206	3,280 HUF	3,206	+2.3%	8.8	11.3	4.1	4.6
PGNiG	buy	2018-11-05	6.35	7.72	6.76	+14.2%	10.2	8.2	4.7	3.9
PKN Orlen	sell	2018-11-15	97.80	81.52	108.90	-25.1%	8.2	16.6	5.1	8.1
Power Utilities						**+11.4%**	**6.6**	**5.3**	**4.3**	**3.9**
CEZ	hold	2018-11-05	549.00	518.72 CZK	549.00	-5.5%	21.2	18.9	8.4	8.2
Enea	buy	2018-11-29	10.50	15.58	11.11	+40.2%	6.6	3.5	4.3	3.2
Energa	buy	2018-11-29	9.16	13.54	9.67	+40.0%	5.0	5.3	4.0	3.9
PGE	buy	2018-11-29	11.47	14.82	11.98	+23.7%	10.5	8.0	4.9	4.2
Tauron	buy	2018-11-29	2.21	3.06	2.41	+27.0%	4.3	3.3	3.8	3.9
Telecoms, Media, IT						**+11.5%**	**21.2**	**16.6**	**7.0**	**5.9**
Netia	hold	2018-11-26	4.66	4.70	4.73	-0.6%	23.9	31.8	4.9	5.4
Orange Polska	buy	2018-11-26	4.91	6.40	4.80	+33.3%	-	60.2	4.7	4.3
Play	buy	2018-11-26	16.54	21.30	19.00	+12.1%	6.1	6.7	5.3	5.2
Agora	buy	2018-11-27	9,50	16.00	11.50	+39.1%	29.7	38.2	6.1	5.2
Cyfrowy Polsat	hold	2018-11-26	22.50	23.20	22.80	+1.8%	14.8	13.1	7.0	6.4
Wirtualna Polska	buy	2018-12-05	52.20	61.50	52.20	+17.8%	21.2	16.4	10.8	8.8
Asseco Poland	hold	2018-12-05	48.30	49.60	48.30	+2.7%	12.9	14.6	8.6	8.3
CD Projekt	buy	2018-11-23	139.00	170.40	154.10	+10.6%	-	-	97.9	-
Comarch	accumulate	2018-12-05	160.00	173.30	160.00	+8.3%	21.8	16.8	8.0	7.3
Industrials, Mining						**-5.4%**	**13.8**	**12.0**	**6.8**	**6.2**
Famur	buy	2018-11-30	5.58	6.41	5.92	+8.3%	17.0	13.2	7.8	6.7
Grupa Kęty	reduce	2018-12-05	343.00	309.30	343.00	-9.8%	12.5	13.9	8.8	9.3
JSW	reduce	2018-12-05	71.20	59.14	71.20	-16.9%	4.5	10.8	1.9	3.5
Kernel	buy	2018-11-05	52.10	60.85	53.50	+13.7%	22.5	7.2	8.1	5.8
KGHM	hold	2018-12-05	92.60	84.56	92.60	-8.7%	12.3	7.9	4.9	4.1
Stelmet	hold	2018-11-05	7.50	7.72	7.70	+0.3%	15.0	25.9	5.9	6.8
Property Developers						**+22.0%**	**6.9**	**7.2**	**5.9**	**6.4**
Atal	buy	2018-07-04	36.40	42.86	31.50	+36.1%	6.4	6.7	5.9	6.4
Dom Development	buy	2018-12-05	66.00	84.10	66.00	+27.4%	7.4	7.6	6.0	6.4
GTC	hold	2018-04-06	9.39	9.60	8.40	+14.3%	10.1	8.8	14.6	13.7
Retail						**+27.4%**	**28.9**	**21.0**	**14.2**	**10.8**
AmRest	buy	2018-12-05	39.60	46.00	39.60	+16.2%	48.9	34.5	16.2	12.9
CCC	buy	2018-12-05	204.60	288.00	204.60	+40.8%	50.5	17.3	19.5	11.2
Dino	accumulate	2018-12-05	100.40	106.30	100.40	+5.9%	31.7	23.9	19.3	15.0
Eurocash	hold	2018-12-05	18.00	18.20	18.00	+1.1%	26.1	25.7	8.2	7.2
Jeronimo Martins	buy	2018-12-05	10.60	14.50 EUR	10.60	+36.8%	16.7	15.1	7.3	6.7
LPP	buy	2018-12-05	7,730	9,300	7,730	+20.3%	23.8	18.0	12.1	10.3
Other						**+7.4%**	**9.4**	**11.5**	**7.1**	**7.7**
PBKM	accumulate	2018-12-05	62.00	66.57	62.00	+7.4%	9.4	11.5	7.1	7.7

Weighting Recommendations by Dom Maklerski mBanku

Company	Relative Positioning	Rated On	Price At Rating	Current Price	Change	P/E		EV/EBITDA	
						2018	2019	2018	2019
IT						**11.3**	**10.3**	**5.5**	**4.4**
Ailleron	neutral	2018-03-28	16.20	10.50	-35.2%	13.7	11.6	5.9	4.7
Asseco BS	neutral	2018-03-28	28.00	24.40	-12.9%	13.0	12.4	8.9	8.3
Asseco SEE	overweight	2018-04-26	11.70	11.25	-3.8%	9.0	8.9	4.2	3.9
Atende	overweight	2018-03-28	4.25	3.80	-10.6%	9.7	8.1	5.0	4.2
Industrials						**9.7**	**10.5**	**6.4**	**6.5**
AC	overweight	2018-11-30	41.50	42.50	+2.4%	10.8	10.5	7.3	7.1
Alumetal	neutral	2018-08-23	51.00	43.80	-14.1%	7.6	8.5	6.2	6.7
Amica	overweight	2018-09-13	112.80	117.00	+3.7%	8.5	8.1	5.7	5.3
Apator	underweight	2018-12-05	24.20	24.20	+0.0%	13.1	14.5	7.7	8.1
Boryszew	neutral	2018-09-05	6.25	4.72	-24.5%	8.8	7.7	6.9	6.2
Cognor	neutral	2018-12-05	1.80	1.80	+0.0%	3.3	3.2	2.9	3.1
Ergis	underweight	2018-12-05	2.80	2.80	+0.0%	6.6	10.4	5.8	6.3
Forte	neutral	2018-10-31	40.60	22.50	-44.6%	15.2	12.8	9.7	8.9
Impexmetal	neutral	2018-12-05	3.40	3.40	+0.0%	3.3	4.0	4.8	5.0
Kruszwica	neutral	2018-10-16	43.90	42.00	-4.3%	11.6	15.8	6.8	8.2
Mangata	neutral	2018-10-01	65.40	69.80	+6.7%	8.7	10.9	6.4	7.1
Pfleiderer Group	neutral	2018-09-28	36.45	30.95	-15.1%	13.4	15.5	5.8	5.8
Pozbud	overweight	2018-09-04	3.57	2.55	-28.6%	9.7	2.9	7.3	3.0
Tarczyński	underweight	2018-12-05	17.50	17.50	+0.0%	14.3	11.0	5.9	6.5
TIM	overweight	2018-12-05	7.48	7.48	+0.0%	11.6	10.6	7.1	6.9
Retail						**10.6**	**8.3**	**5.6**	**4.3**
Monnari	underweight	2018-12-05	4.75	4.75	+0.0%	7.2	6.7	2.3	2.0
VRG	overweight	2018-12-05	3.83	3.83	+0.0%	14.0	9.9	8.9	6.6

Re-Ratings as of 5 December 2018

Company	Rating	Previous Rating	Target Price		Rating Date
Alior Bank	buy	buy	92.50	PLN	2018-12-05
AmRest	buy	accumulate	46.00	PLN	2018-12-05
Apator	underweight	neutral	-	-	2018-12-05
Archicom	suspended	overweight	-	-	2018-12-05
Asseco Poland	hold	accumulate	49.60	PLN	2018-12-05
BBI Development	suspended	neutral	-	-	2018-12-05
Budimex	suspended	hold	-	-	2018-12-05
Capital Park	suspended	buy	-	-	2018-12-05
CCC	buy	buy	288.00	PLN	2018-12-05
Comarch	accumulate	accumulate	173.30	PLN	2018-12-05
Dino	accumulate	buy	106.30	PLN	2018-12-05
Dom Development	buy	buy	84.10	PLN	2018-12-05
Echo	suspended	buy	-	-	2018-12-05
Elektrobudowa	suspended	buy	-	-	2018-12-05
Elektrotim	suspended	neutral	-	-	2018-12-05
Elemental	suspended	neutral	-	-	2018-12-05
Erbud	suspended	buy	-	-	2018-12-05
Ergis	underweight	neutral	-	-	2018-12-05
Erste Bank	buy	buy	46.18	EUR	2018-12-05
Eurocash	hold	buy	18.20	PLN	2018-12-05
Getin Noble Bank	suspended	hold	-	-	2018-12-05
Grupa Kęty	reduce	sell	309.30	PLN	2018-12-05
Handlowy	accumulate	buy	76.00	PLN	2018-12-05
Herkules	suspended	neutral	-	-	2018-12-05
i2 Development	suspended	neutral	-	-	2018-12-05
ING BSK	accumulate	buy	199.63	PLN	2018-12-05
Jeronimo Martins	buy	buy	14.50	EUR	2018-12-05
JSW	reduce	sell	59.14	PLN	2018-12-05
JWC	suspended	neutral	-	-	2018-12-05
KGHM	hold	hold	84.56	PLN	2018-12-05
Komercni Banka	accumulate	buy	1000.00	CZK	2018-12-05
Kruk	buy	buy	292.77	PLN	2018-12-05
LC Corp	suspended	buy	-	-	2018-12-05
Lokum Deweloper	suspended	overweight	-	-	2018-12-05
LPP	buy	buy	9,300.00	PLN	2018-12-05
MOL	hold	accumulate	3,280.00	HUF	2018-12-05
Monnari	underweight	neutral	-	-	2018-12-05
OTP Bank	accumulate	buy	13,046.00	HUF	2018-12-05
PA Nova	suspended	neutral	-	-	2018-12-05
PBKM	accumulate	buy	66.57	PLN	2018-12-05
Pekao	buy	buy	136.29	PLN	2018-12-05
PKO BP	accumulate	buy	45.00	PLN	2018-12-05
Polnord	suspended	underweight	-	-	2018-12-05
PZU	accumulate	buy	46.50	PLN	2018-12-05
Ronson	suspended	neutral	-	-	2018-12-05
Santander Bank Polska	accumulate	buy	400.00	PLN	2018-12-05
Skarbiec Holding	buy	buy	31.36	PLN	2018-12-05
Tarczyński	underweight	neutral	-	-	2018-12-05
TIM	overweight	-	-	-	2018-12-05
Torpol	suspended	neutral	-	-	2018-12-05
Trakcja	suspended	underweight	-	-	2018-12-05
Ulma	suspended	neutral	-	-	2018-12-05
Unibep	suspended	buy	-	-	2018-12-05
VGR	overweight	overweight	-	-	2018-12-05
Wasko	suspended	neutral	-	-	2018-12-05
Wirtualna Polska	buy	accumulate	61.50	PLN	2018-12-05
ZUE	suspended	neutral	-	-	2018-12-05

Rating issued in last 30 days

Company	Rating	Previous Rating	Target Price		Rating Date
AC	overweight	-	-	-	2018-11-30
Bytom	overweight	overweight	-	-	2018-11-08
CD Projekt	buy	reduce	170.40	PLN	2018-11-23
Cyfrowy Polsat	hold	accumulate	23.20	PLN	2018-11-26
Enea	buy	buy	15.58	PLN	2018-11-29
Energa	buy	buy	13.54	PLN	2018-11-29
Famur	buy	buy	6.41	PLN	2018-11-30
Grupa Azoty	hold	buy	33.00	PLN	2018-11-23
Lotos	sell	sell	59.84	PLN	2018-11-15
Millennium	accumulate	hold	10.10	PLN	2018-11-14
Netia	hold	hold	4.70	PLN	2018-11-26
Orange Polska	buy	buy	6.40	PLN	2018-11-26
PGE	buy	buy	14.82	PLN	2018-11-29
PKN Orlen	sell	reduce	81.52	PLN	2018-11-15
Play	buy	buy	21.30	PLN	2018-11-26
Tauron	buy	buy	3.06	PLN	2018-11-29

Ratings Statistics

Recommendation	All		Ratings for Clients of Dom Maklerski mBanku	
	Count	Pct. of Total	Count	Pct. of Total
sell	2	2.9%	2	5.6%
reduce	2	2.9%	1	2.8%
underweight	3	4.4%	1	2.8%
hold	10	14.7%	5	13.9%
neutral	10	14.7%	4	11.1%
accumulate	10	14.7%	8	22.2%
buy	24	35.3%	14	38.9%
overweight	7	10.3%	1	2.8%

Financial Sector

Alior Bank

buy (reiterated)

Michał Konarski +48 22 438 24 05 michal.konarski@mbank.pl

We maintain a buy rating for Alior Bank, but we slightly lower our price target to PLN 92.50/share after cutting our 2018 forecasts by 5% (write-downs for corporations in Q3 2018) and lowering the 2020 estimate by 1%. Currently, our forecasts are in line with the consensus for 2018, but 10% higher than the 2019-2020 forecasts. Nevertheless, our 2020 ROE forecast at 13% is still below Alior's 14% target. In 2019, we expect that ALR will perform much better than the WIG-Banks benchmark. We believe that the bank will exceed net income of PLN 1bn with a flat interest margin (vs. Q4 2018), cost of risk at 1.7% and a C/I of 43%. The biggest cause for concern at the moment is a one-off rise in CoR in 2018 due to write-offs in corporations. Considering increasing energy costs and stabilizing wage growth, there is not much room in the sector for cost of risk improvement in the corpo segment, and this is reflected in our forecasts for Alior. We expect Q4 2018 results, driven by an acceleration in lending signaled by the bank, to show NIM growth and a quarterly drop of 17% in provisions, spurring a positive shift in sentiment. The stabilization of management ranks after a series of reshuffles is equally important from a sentiment standpoint. Finally, we have a positive opinion of PZU's support, manifested by the presence PZU's CFO at the last conference call with Alior's Management Board. Alior Bank remains Poland's most undervalued bank.

		Upside
Current Price	56.65 PLN	
9M Target Price	92.50 PLN	+63.3%

	rating	target price	issued
new	**buy**	**92.50 PLN**	**2018-12-05**
old	buy	96.00 PLN	2018-10-04

Key Metrics			ALR	vs. WIG
Ticker	ALR	1M Price Chng	-5.3%	-11.0%
ISIN	PLALIOR00045	YTD Price Chng	-28.7%	-22.2%
Outst. Stock (m)	129.3	ADTV 1M		PLN 32.4m
MC (PLN m)	7,322.5	ADTV 6M		PLN 17.8m
		P/E 12M fwd	8.2	-40.3%
Free Float	74.8%	P/E 5Y avg	13.8	discount

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
NII	1,946	3,601	3,088	3,433	3,752
Total income	3,198	3,797	4,100	4,466	4,834
Costs	-1,619	-1,930	-1,845	-1,898	-1,956
Provisioning	-800	-930	-1,005	-1,026	-1,097
Net income	575	515	768	1,012	1,186
P/E	9.9	14.2	9.5	7.2	6.2
P/B	1.2	1.1	1.0	0.9	0.8
ROE	11.9%	8.0%	10.7%	12.6%	13.0%
DPS	0.00	0.00	0.00	0.00	0.00
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

Projection Update (% change)	2018P	2019P	2020P
Net interest income	-0.7%	-1.7%	-2.3%
Fee income	-3.9%	-4.6%	-4.4%
Total costs	+0.6%	+0.7%	+0.7%
Provisioning	+1.9%	-3.5%	-2.9%
Net income	-4.7%	+1.5%	-1.1%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
Net interest income	1,946	2,841	3,088	3,433	3,752
Fee income	331	453	427	428	461
Trading income	342	376	451	465	474
Other income	578	127	133	140	147
Noninterest income	**1,252**	**956**	**1,012**	**1,033**	**1,082**
Total income	**3,198**	**3,797**	**4,100**	**4,466**	**4,834**
Operating expenses	1,619	1,930	1,845	1,898	1,956
Operating income	**1,579**	**1,867**	**2,255**	**2,568**	**2,877**
Provisioning	800	930	1,005	1,026	1,097
Profits of associates	0	0	0	0	0
Pre-tax income	**779**	**937**	**1,250**	**1,542**	**1,780**
Tax	73	221	271	293	338
Minority interests	0	0	0	0	0
Asset tax	131	201	211	237	257
Net income	**575**	**515**	**768**	**1,012**	**1,186**

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Net loans	**46,247**	**51,267**	**56,245**	**61,188**	**66,105**
Other assets	14,913	18,227	18,705	19,470	20,442
Total assets	**61,160**	**69,494**	**74,950**	**80,659**	**86,547**
Deposits	**51,369**	**57,614**	**60,213**	**64,231**	**68,990**
Other liabilities	3,632	5,117	7,208	7,888	7,833
Minority interests	1	1	0	0	0
Equity	**6,159**	**6,761**	**7,528**	**8,540**	**9,725**

Key Ratios

(%)	2016	2017	2018P	2019P	2020P
NIM	4.1%	4.3%	4.4%	4.5%	4.6%
C/I	50.6%	50.8%	45.0%	42.5%	40.5%
CoR	1.9%	1.8%	1.8%	1.7%	1.6%
NPL Ratio	9.8%	10.8%	10.6%	10.4%	10.2%
Tier 1 Ratio	11.3%	12.1%	12.7%	13.6%	14.9%

Dividend Discount Model (DDM)

(PLN m)	Value	%
Explicit Forecast (2019-20)	0	0%
PV Adjustment	484	3%
Value Driver (2021-35)	10,549	73%
Fade (2036-55)	2,570	18%
Terminal Value	886	6%
Fair Value	**14,488**	**100%**
Outst. Shares (millions)	129	
Cost of equity	8.5%	
Fair Value Per Share (PLN)	**112.09**	
9M Target Price (PLN)	**119.23**	

Economic Profits Model

(PLN m)	Value	%
Opening Tangible NAV	6,987	50%
Explicit Forecast (2018-20)	1,356	10%
PV Adjustment	998	7%
Value Driver (2021-35)	3,824	27%
Fade (2036-55)	749	5%
Fair Value	**13,914**	**100%**
Outst. Shares (millions)	129	
Cost of equity	8.5%	
Fair Value Per Share (PLN)	**107.64**	
9M Target Price (PLN)	**114.51**	

Valuation Summary

(PLN m)	Weight	Value
DDM	50%	14,488
Economic Profits	50%	13,914
Fair Value Avg.		14,201
Fair Value Per Share (PLN)		109.87
Asset tax		-22.91
Fair Value Per Share		86.96
Cost of equity (9M)		6.4%
9M Target Price (PLN)		**92.50**

Handlowy
accumulate (downgraded)

Michał Konarski +48 22 438 24 05 michal.konarski@mbank.pl

Current Price	71.10 PLN	Upside
9M Target Price	76.00 PLN	+6.9%

	rating	target price	issued
new	**accumulate**	**76.00 PLN**	**2018-12-05**
old	buy	90.00 PLN	2018-10-04

Key Metrics			BHW	vs. WIG
Ticker	BHW	1M Price Chng	+0.6%	-5.2%
ISIN	PLBH00000012	YTD Price Chng	-8.6%	-2.0%
Outst. Stock (m)	130.7	ADTV 1M		PLN 2.7m
MC (PLN m)	9,289.9	ADTV 6M		PLN 2.7m
		P/E 12M fwd	13.7	-12.2%
Free Float	25.0%	P/E 5Y avg	15.7	discount

We lower our price target for Bank Handlowy from PLN 90.00 to PLN 76.00, and with upside potential at 7% we downgrade the bank to accumulate. Our forecasts for 2019 remain unchanged but the 2020 forecast has been cut by 5.6% to reflect increasingly more distant interest rate rises. A downward revision in the dividend payout ratio from 100% to 75% in the next two years had the biggest negative impact on valuation. Handlowy announced a shift in 2019 form a dividend to a growth company. Nevertheless, already at the end of Q3 2018 Handlowy did not meet the TCR requirement necessary to pay out 100% of net income. The shortfall could have been filled with subordinated debt, but the Bank has no plans for such an issuance in the near future. A similar transformation process is underway at Pekao, which has suffered much more significant underperformance. Handlowy is not likely to experience a further sell-off going forward looking at its above-average dividends (DY >5%) and less liquid equity. At the same time, we are skeptical of the bank's new strategy, which assumes fast growth in retail lending, especially considering the current pace of growth. Since 2007, Handlowy's market share in mortgage loans increased from 0.1% to 0.4%, and in NML it decreased from 3.5% to 2.0%, and the bank's small branch network is not helping sales. While waiting for the next dividend, we underline the safe profile of Handlowy and we maintain that, in view of lower dividends and low market share, Handlowy or its retail part may be put up for sale by the owner.

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
NII	1,004	1,082	1,115	1,183	1,335
Total income	2,082	2,079	2,212	2,316	2,503
Costs	-1,202	-1,192	-1,214	-1,250	-1,282
Provisioning	-46	-103	-72	-79	-96
Net income	602	536	651	692	794
P/E	15.4	17.3	14.3	13.4	11.7
P/B	1.4	1.3	1.3	1.3	1.2
ROE	8.8%	7.8%	9.3%	9.7%	10.7%
DPS	4.68	4.60	4.10	3.74	3.97
DYield	6.6%	6.5%	5.8%	5.3%	5.6%

Projection Update (% change)	2018P	2019P	2020P
Net interest income	0.6%	0.0%	-5.1%
Fee income	-2.0%	-2.3%	-2.2%
Total costs	-1.0%	-1.8%	-2.2%
Provisioning	-7.7%	-8.8%	-9.2%
Net income	-2.1%	0.2%	-5.6%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
Net interest income	1,004	1,082	1,115	1,183	1,335
Fee income	561	581	555	575	596
Trading income	497	396	500	514	526
Other income	48	21	43	44	46
Noninterest income	**1,107**	**997**	**1,097**	**1,133**	**1,168**
Total income	**2,111**	**2,079**	**2,212**	**2,316**	**2,503**
Operating expenses	1,231	1,192	1,214	1,250	1,282
Operating income	**879**	**888**	**998**	**1,066**	**1,221**
Provisioning	46	103	72	79	96
Profits of associates	0	0	0	0	0
Pre-tax income	**834**	**785**	**926**	**987**	**1,126**
Tax	163	172	193	205	234
Minority interests	0	0	0	0	0
Asset tax	69	78	83	90	97
Net income	**602**	**536**	**651**	**692**	**794**

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Net loans	**17,170**	**17,854**	**19,860**	**21,659**	**23,246**
Other assets	28,040	25,184	25,679	26,275	27,133
Total assets	**45,210**	**43,038**	**45,539**	**47,934**	**50,379**
Deposits	**29,251**	**32,137**	**26,976**	**27,337**	**27,870**
Other liabilities	9,169	3,962	11,510	13,340	14,977
Minority interests	0	0	0	0	0
Equity	**6,790**	**6,939**	**7,053**	**7,257**	**7,532**

Key Ratios

(%)	2016	2017	2018P	2019P	2020P
NIM	2.2%	2.5%	2.7%	2.7%	2.9%
C/I	58.3%	57.9%	54.9%	54.0%	51.2%
CoR	0.3%	0.6%	0.4%	0.4%	0.4%
NPL Ratio	3.6%	3.5%	3.1%	3.1%	4.1%
Tier 1 Ratio	17.4%	17.9%	16.8%	16.8%	16.8%

Dividend Discount Model (DDM)

(PLN m)	Value	%
Explicit Forecast (2019-20)	891	9%
PV Adjustment	334	3%
Value Driver (2021-35)	7,514	73%
Fade (2036-55)	1,148	11%
Terminal Value	436	4%
Fair Value	**10,323**	**100%**
Outst. Shares (millions)	131	
Cost of equity	8.5%	
Fair Value Per Share (PLN)	**79.01**	
9M Target Price (PLN)	**84.05**	

Economic Profits Model

(PLN m)	Value	%
Opening Tangible NAV	8,332	80%
Explicit Forecast (2018-20)	183	2%
PV Adjustment	745	7%
Value Driver (2021-35)	1,062	10%
Fade (2036-55)	132	1%
Fair Value	**10,454**	**100%**
Outst. Shares (millions)	131	
Cost of equity	8.5%	
Fair Value Per Share (PLN)	**80.01**	
9M Target Price (PLN)	**85.11**	

Valuation Summary

(PLN m)	Weight	Value
DDM	50%	10,323
Economic Profits	50%	10,454
Fair Value Avg.		10,389
Fair Value Per Share (PLN)		79.51
Asset tax		-8.06
Fair Value Per Share		71.44
Cost of equity (9M)		6.4%
9M Target Price (PLN)		**76.00**

ING BSK

accumulate (downgraded)

Michał Konarski +48 22 438 24 05 michal.konarski@mbank.pl

We downgrade ING BSK to accumulate after a share price increase, and we lower the price target to PLN 199.63/share. Our forecasts for ING have been upgraded by 1.7% for 2019 and lowered by 1.6% for 2020. We believe that the forecast consensus for next year has been set quite ambitiously for the bank (7% above our expectations) and will not be delivered. The discrepancy between our and the market forecasts may be due to our more conservative estimate as to cost of risk. Nevertheless, this does not mean that ING BSK will present bad results in 2019. We forecast ROE at 12.9%, which is one of the best results not only in Poland, but also in the region. The results in 2019 may be additionally supported by acquisitions. According to the press, ING BSK was interested in acquiring Union Investment TFI, which was eventually bought by Generali, and Nationale Nederlanden TFI. The possible acquisition of NN TFI would complement the bank's product offer and improve commission income. To sum up, we believe that net income in 2019 (+12% y/y) will be driven by continued dynamic growth in loans (+13% y/y), but we have are cautious on the bank's capital position (limited dividend). Our current valuation shows the highest premium to the sector, which is justified by the bank's safe profile (no CHF loans) and dynamic growth combined with dividends.

		Upside
Current Price	183.60 PLN	
9M Target Price	199.63 PLN	+8.7%

	rating	target price	issued
new	**accumulate**	**199.63 PLN**	**2018-12-05**
old	buy	200.00 PLN	2018-11-05

Key Metrics			ING	vs. WIG
Ticker	ING	1M Price Chng	+10.6%	+4.9%
ISIN	PLBSK0000017	YTD Price Chng	-9.3%	-2.7%
Outst. Stock (m)	130.1	ADTV 1M		PLN 1.8m
MC (PLN m)	23,886.4	ADTV 6M		PLN 1.4m
		P/E 12M fwd	14.6	-7.3%
Free Float	25.0%	P/E 5Y avg	15.7	discount

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
NII	2,953	3,453	3,751	4,152	4,654
Total income	4,325	4,756	5,229	5,632	6,172
Costs	-2,099	-2,123	-2,337	-2,435	-2,532
Provisioning	-301	-421	-506	-533	-607
Net income	1,253	1,403	1,516	1,689	1,925
P/E	19.1	17.0	15.8	14.1	12.4
P/B	2.3	2.0	1.9	1.8	1.6
ROE	11.8%	12.6%	12.5%	12.9%	13.5%
DPS	4.30	0.00	3.20	3.50	3.90
DYield	2.3%	0.0%	1.7%	1.9%	2.1%

Projection Update (% change)	2018P	2019P	2020P
Net interest income	+1.1%	+1.6%	-0.3%
Fee income	+2.4%	+1.3%	+0.8%
Total costs	+1.4%	+1.4%	+1.4%
Provisioning	+7.9%	+1.4%	-0.1%
Net income	-0.5%	+1.7%	-1.6%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
Net interest income	2,953	3,453	3,751	4,152	4,654
Fee income	1,065	1,183	1,309	1,327	1,357
Trading income	287	117	152	137	144
Other income	19	3	17	17	17
Noninterest income	**1,371**	**1,303**	**1,478**	**1,481**	**1,518**
Total income	**4,325**	**4,756**	**5,229**	**5,632**	**6,172**
Operating expenses	2,099	2,123	2,337	2,435	2,532
Operating income	**2,225**	**2,633**	**2,893**	**3,197**	**3,640**
Provisioning	301	421	506	533	607
Profits of associates	0	0	0	0	0
Pre-tax income	**1,925**	**2,212**	**2,386**	**2,664**	**3,033**
Tax	391	479	501	559	637
Minority interests	0	0	0	0	0
Asset tax	280	330	369	415	471
Net income	**1,253**	**1,403**	**1,516**	**1,689**	**1,925**

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Net loans	**81,980**	**91,088**	**100,927**	**114,168**	**125,364**
Other assets	35,498	34,926	34,719	37,137	39,763
Total assets	**117,478**	**126,014**	**135,645**	**151,305**	**165,127**
Deposits	**95,825**	**104,503**	**115,295**	**125,406**	**133,178**
Other liabilities	11,175	9,716	7,790	12,283	17,122
Minority interests	2	0	0	0	0
Equity	**10,475**	**11,795**	**12,560**	**13,615**	**14,826**

Key Ratios

(%)	2016	2017	2018P	2019P	2020P
NIM	2.7%	2.9%	2.9%	2.9%	3.0%
C/I	48.5%	44.6%	44.7%	43.2%	41.0%
CoR	0.4%	0.5%	0.5%	0.5%	0.5%
NPL Ratio	2.6%	2.8%	2.7%	2.7%	2.9%
Tier 1 Ratio	13.7%	15.8%	15.1%	15.0%	15.3%

Dividend Discount Model (DDM)

(PLN m)	Value	%
Explicit Forecast (2019-20)	1,358	5%
PV Adjustment	1,278	4%
Value Driver (2021-35)	17,326	59%
Fade (2036-55)	7,284	25%
Terminal Value	2,140	7%
Fair Value	**29,387**	**100%**
Outst. Shares (millions)	130	
Cost of equity	8.5%	
Fair Value Per Share (PLN)	**225.88**	
9M Target Price (PLN)	**240.28**	

Economic Profits Model

(PLN m)	Value	%
Opening Tangible NAV	11,950	40%
Explicit Forecast (2018-20)	2,343	8%
PV Adjustment	2,169	7%
Value Driver (2021-35)	10,313	34%
Fade (2036-55)	3,468	11%
Fair Value	**30,243**	**100%**
Outst. Shares (millions)	130	
Cost of equity	8.5%	
Fair Value Per Share (PLN)	**232.46**	
9M Target Price (PLN)	**247.28**	

Valuation Summary

(PLN m)	Weight	Value
DDM	50%	29,387
Economic Profits	50%	30,243
Fair Value Avg.		29,815
Fair Value Per Share (PLN)		229.17
Asset tax		-41.50
Fair Value Per Share		187.67
Cost of equity (9M)		6.4%
9M Target Price (PLN)		**199.63**

Millennium
accumulate (no change)

Michał Konarski +48 22 438 24 05 michal.konarski@mbank.pl

We maintain an accumulate rating for Millennium, with the 9-month price target reiterated at PLN 10.10 per share. Our valuation and forecasts take into account the results of the merger with Eurobank. Despite a relatively high price, we assess the merger positively and believe that it was the only solution for Millennium in the face of rising surplus capital due to increasingly stringent regulatory requirements. The merger will be financed with own funds, but, in our opinion, it means that the company will not pay out dividends for at least three years. We estimate that the Eurobank acquisition will make it possible to increase the market share in retail loans by 1.6% and in total loans by 0.9%. The merger will also undoubtedly support the bank's profits, although we assess its positive effects more conservatively than the management board. We expect EPS growth in 2020 (full year of merger) at 15% and in 2021 at 21%, compared with the management board's expectations of +23% and +26%, respectively. 2019 will be relatively more difficult for Millennium compared to the banking sector due to integration costs (we estimate PLN 200m) and only half of a year of consolidation. It will mean flat growth in net income compared with average market growth of 15%. We believe that the current re-rating is justified, but still Millennium should continue to be traded at a discount to PKO BP, if only due to its worse dividend potential.

Current Price	9.50 PLN	**Upside**
9M Target Price	10.10 PLN	+6.3%

	rating	target price	issued
unchanged	**accumulate**	**10.10 PLN**	**2018-11-14**

Key Metrics			MIL	vs. WIG
Ticker	MIL	1M Price Chng	+7.3%	+1.6%
ISIN	PLBIG0000016	YTD Price Chng	+6.3%	+12.8%
Outst. Stock (m)	1,213.1	ADTV 1M		PLN 12.8m
MC (PLN m)	11,524.6	ADTV 6M		PLN 7.7m
		P/E 12M fwd	13.8	+7.0%
Free Float	50.0%	P/E 5Y avg	12.9	premium

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
NII	1,506	1,696	1,804	2,321	2,795
Total income	2,628	2,650	2,754	3,360	3,924
Costs	-1,112	-1,156	-1,337	-1,802	-1,893
Provisioning	-231	-255	-229	-308	-400
Net income	701	681	733	742	1,028
P/E	16.4	16.9	15.7	15.5	11.2
P/B	1.7	1.5	1.4	1.3	1.1
ROE	10.5%	9.3%	9.1%	8.5%	10.8%
DPS	0.00	0.00	0.00	0.00	0.00
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

Projection Update (% change)	2018P	2019P	2020P
Net interest income	0.0%	0.0%	0.0%
Fee income	0.0%	0.0%	0.0%
Total costs	0.0%	0.0%	0.0%
Provisioning	0.0%	0.0%	0.0%
Net income	0.0%	0.0%	0.0%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
Net interest income	1,506	1,696	1,804	2,321	2,795
Fee income	581	664	663	717	770
Trading income	491	220	242	276	310
Other income	51	70	45	47	48
Noninterest income	**1,122**	**953**	**950**	**1,039**	**1,129**
Total income	**2,628**	**2,650**	**2,754**	**3,360**	**3,924**
Operating expenses	1,268	1,281	1,337	1,802	1,893
Operating income	**1,360**	**1,369**	**1,417**	**1,558**	**2,031**
Provisioning	231	255	229	308	400
Profits of associates	0	0	0	0	0
Pre-tax income	**1,127**	**1,114**	**1,188**	**1,250**	**1,631**
Tax	252	244	256	269	351
Minority interests	0	0	0	0	0
Asset tax	174	188	199	239	252
Net income	**701**	**681**	**733**	**742**	**1,028**

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Net loans	**47,020**	**47,411**	**52,108**	**67,538**	**71,492**
Other assets	21,773	23,730	24,473	27,626	28,571
Total assets	**68,793**	**71,141**	**76,581**	**95,164**	**100,064**
Deposits	**55,876**	**57,273**	**61,466**	**69,899**	**71,828**
Other liabilities	5,976	6,096	6,796	16,228	18,207
Minority interests	0	0	0	0	0
Equity	**6,941**	**7,773**	**8,319**	**9,037**	**10,029**

Key Ratios

(%)	2016	2017	2018P	2019P	2020P
NIM	2.3%	2.4%	2.5%	2.8%	2.9%
C/I	48.3%	48.3%	48.6%	53.6%	48.2%
CoR	0.5%	0.5%	0.4%	0.5%	0.6%
NPL Ratio	4.5%	4.6%	4.8%	5.4%	5.2%
Tier 1 Ratio	17.3%	20.3%	20.4%	17.6%	18.3%

Dividend Discount Model (DDM)

(PLN m)	Value	%
Explicit Forecast (2019-20)	0	0%
PV Adjustment	570	4%
Value Driver (2021-35)	10,419	70%
Fade (2036-55)	3,033	20%
Terminal Value	846	6%
Fair Value	**14,868**	**100%**
Outst. Shares (millions)	1,213	
Cost of equity	8.5%	
Fair Value Per Share (PLN)	**12.26**	
9M Target Price (PLN)	**13.04**	

Economic Profits Model

(PLN m)	Value	%
Opening Tangible NAV	8,029	57%
Explicit Forecast (2018-20)	801	6%
PV Adjustment	953	7%
Value Driver (2021-35)	3,074	22%
Fade (2036-55)	1,123	8%
Fair Value	**13,980**	**100%**
Outst. Shares (millions)	1,213	
Cost of equity	8.5%	
Fair Value Per Share (PLN)	**11.52**	
9M Target Price (PLN)	**12.26**	

Valuation Summary

(PLN m)	Weight	Value
DDM	50%	14,868
Economic Profits	50%	13,980
Fair Value Avg.		14,424
Fair Value Per Share (PLN)		11.89
Asset tax		-2.40
Fair Value Per Share		9.49
Cost of equity (9M)		6.4%
9M Target Price (PLN)		**10.10**

Pekao

buy (reiterated)

Michał Konarski +48 22 438 24 05 michal.konarski@mbank.pl

We maintain a buy rating for Pekao. We believe that the bank's current market valuation does not accurately reflect the fundamentals. After the ownership change, Pekao attempts to reconcile organic growth, restructuring, and high dividends. In November 2018 Pekao presented a new dividend policy which envisions dividend payout ratios in the range of 90%-100% in 2019, 60-80% in 2020, and 50-75% in 2021. In our most recent forecasts, we assume a payout ratio of 90% in 2019 (vs. 75% previously) and 70% in 2020 (vs. 75% previously). We believe that dividend cuts starting next year will make it possible for Pekao to maintain asset growth at 9% in the coming years. The 2019 dividend adjustment resulted in a drop in the expected DY to just 6.4% from 7.0%. We believe that, except for political risk, investing in Pekao shares is relatively safe. The risk of reductions in market forecasts to reflect a lack of rate hikes is limited by the bank's low sensitivity to monetary policy, and the impact of the CHF bill on results and valuation is negligible. Our current forecasts for Pekao are 3% higher than the consensus for 2019 and 2020, but they are more conservative than the bank's ambitious goals for 2020. In 2020 we expect ROE of 12% (assuming rate hikes by 0.75pp) compared to the bank's own guidance for 13%. This suggests upside risk our forecasts and consensus if the strategy is implemented. Because of still-high dividends, above-average ROE, safe profile, taking into account political risk, we believe PEO should be valued at least on a par with the average ratios for the sector.

		Upside
Current Price	113.25 PLN	
9M Target Price	136.29 PLN	+20.3%

	rating	target price	issued
new	**buy**	**136.29 PLN**	**2018-12-05**
old	buy	138.70 PLN	2018-10-04

Key Metrics			PEO	vs. WIG
Ticker	PEO	1M Price Chng	+6.5%	+0.8%
ISIN	PLPEKAO00016	YTD Price Chng	-6.9%	-0.3%
Outst. Stock (m)	262.5	ADTV 1M		PLN 84.1m
MC (PLN m)	29,724.7	ADTV 6M		PLN 75.8m
		P/E 12M fwd	12.1	-22.2%
Free Float	49.9%	P/E 5Y avg	15.5	discount

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
NII	4,382	4,593	5,004	5,619	6,208
Total income	7,302	7,278	7,774	8,367	9,064
Costs	-3,494	-3,535	-3,738	-3,760	-3,896
Provisioning	-501	-521	-527	-644	-695
Net income	2,279	2,475	2,197	2,573	2,931
P/E	13.0	12.0	13.5	11.6	10.1
P/B	1.3	1.3	1.3	1.2	1.2
ROE	9.8%	10.7%	9.4%	10.8%	11.8%
DPS	8.70	8.68	7.90	7.53	6.86
DYield	7.7%	7.7%	7.0%	6.7%	6.1%

Projection Update (% change)	2018P	2019P	2020P
Net interest income	-1.6%	-3.6%	-5.2%
Fee income	+1.9%	+1.3%	+1.2%
Total costs	-4.3%	-4.8%	-4.8%
Provisioning	+1.5%	-5.9%	-6.6%
Net income	+5.3%	+2.3%	-0.7%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
Net interest income	4,382	4,593	5,004	5,619	6,208
Fee income	2,390	2,353	2,427	2,498	2,586
Trading income	508	255	275	173	184
Other income	21	77	68	77	87
Noninterest income	**2,920**	**2,685**	**2,770**	**2,748**	**2,857**
Total income	**7,302**	**7,278**	**7,774**	**8,367**	**9,064**
Operating expenses	3,494	3,535	3,738	3,760	3,896
Operating income	**3,808**	**3,743**	**4,035**	**4,607**	**5,169**
Provisioning	501	521	527	644	695
Profits of associates	39	453	0	0	0
Pre-tax income	**3,346**	**3,675**	**3,508**	**3,963**	**4,474**
Tax	617	677	735	753	850
Minority interests	0	-1	0	0	0
Asset tax	450	522	576	637	693
Net income	**2,279**	**2,475**	**2,197**	**2,573**	**2,931**

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Net loans	**122,664**	**132,301**	**141,598**	**154,041**	**167,733**
Other assets	51,551	53,165	55,684	58,087	60,612
Total assets	**174,215**	**185,466**	**197,282**	**212,129**	**228,345**
Deposits	**137,816**	**146,186**	**157,831**	**174,345**	**193,484**
Other liabilities	13,487	16,011	15,974	13,703	9,189
Minority interests	15	0	0	0	0
Equity	**22,897**	**23,268**	**23,476**	**24,080**	**25,671**

Key Ratios

(%)	2016	2017	2018P	2019P	2020P
NIM	2.7%	2.6%	2.7%	2.8%	2.9%
C/I	48.4%	48.6%	49.3%	46.1%	44.1%
CoR	0.4%	0.4%	0.4%	0.4%	0.4%
NPL Ratio	6.0%	5.4%	4.8%	4.8%	4.8%
Tier 1 Ratio	17.6%	16.1%	17.0%	16.1%	16.0%

Dividend Discount Model (DDM)

(PLN m)	Value	%
Explicit Forecast (2019-20)	3,353	8%
PV Adjustment	2,015	5%
Value Driver (2021-35)	27,924	65%
Fade (2036-55)	7,750	18%
Terminal Value	2,111	5%
Fair Value	**43,154**	**100%**
Outst. Shares (millions)	262	
Cost of equity	8.5%	
Fair Value Per Share (PLN)	**164.50**	
9M Target Price (PLN)	**174.99**	

Economic Profits Model

(PLN m)	Value	%
Opening Tangible NAV	24,842	58%
Explicit Forecast (2018-20)	2,672	6%
PV Adjustment	250	1%
Value Driver (2021-35)	10,158	24%
Fade (2036-55)	2,155	5%
Fair Value	**40,077**	**93%**
Outst. Shares (millions)	262	
Cost of equity	8.5%	
Fair Value Per Share (PLN)	**152.69**	
9M Target Price (PLN)	**162.42**	

Valuation Summary

(PLN m)	Weight	Value
DDM	50%	43,154
Economic Profits	50%	40,077
Fair Value Avg.		41,615
Fair Value Per Share (PLN)		158.60
Asset tax		-30.47
Fair Value Per Share		128.12
Cost of equity (9M)		6.4%
9M Target Price (PLN)		**136.29**

PKO BP
accumulate (downgraded)

Michał Konarski +48 22 438 24 05 michal.konarski@mbank.pl

Current Price	41.96 PLN	Upside
9M Target Price	45.00 PLN	+7.2%

	rating	target price	issued
new	**accumulate**	**45.00 PLN**	**2018-12-05**
old	buy	47.00 PLN	2018-11-05

After a small cut in the price target to PLN 45.00/share, to reflect the share price increase since our last update, we downgrade PKO from buy to accumulate. 2018 surprised us positively in terms of dividends and retail lending volumes. We believe that in 2019 the bank will pay out an even larger dividend and the net result will exceed PLN 4bn for the first time. The results will be supported by a slight increase in interest margin and a decrease in the C/I ratio. Simultaneously, we conservatively assume cost of risk at 0.71%, which, assuming stable loan quality, may be a source of upside risk to our forecasts. The biggest threat to the valuation of PKO BP in 2019 may be the legislative risk connected with the CHF portfolio, political risk, and the changed management of the financial regulator KNF, which could affect the sector's dividend plans. The excellent results of PKO BP in EBA stress tests should translate into a reduction of the KNF-imposed stress test buffer, a necessary change if the bank is to increase dividend payouts. The KNF has no decision on this so far despite the year coming to an end. As for the CHF borrower relief bill, according to our estimates and base scenarios it should not have a significant impact on PKO's valuation (PLN -0.79/share). To sum up, we believe that increasing dividends and high-quality results should eliminate PKO's discount to the sector despite the upside potential being limited to 8%.

Key Metrics			PKO	vs. WIG
Ticker	PKO	1M Price Chng	+3.9%	-1.9%
ISIN	PLPKO0000016	YTD Price Chng	-4.1%	+2.5%
Outst. Stock (m)	1,250.0	ADTV 1M		PLN 107.9m
MC (PLN m)	52,450.0	ADTV 6M		PLN 91.4m
		P/E 12M fwd	13.2	+0.2%
Free Float	68.6%	P/E 5Y avg	13.2	premium

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
NII	7,755	10,919	9,302	10,076	11,122
Total income	12,121	12,803	13,661	14,540	15,696
Costs	-5,590	-6,024	-6,294	-6,530	-6,744
Provisioning	-1,623	-1,620	-1,399	-1,643	-1,853
Net income	2,874	3,104	3,799	4,053	4,578
P/E	18.2	16.9	13.8	12.9	11.5
P/B	1.6	1.4	1.3	1.3	1.2
ROE	9.1%	9.0%	10.0%	10.0%	10.6%
DPS	0.00	0.00	0.55	1.52	1.62
DYield	0.0%	0.0%	1.3%	3.6%	3.9%

Projection Update (% change)	2018P	2019P	2020P
Net interest income	+0.2%	-0.6%	-5.3%
Fee income	-0.3%	-1.2%	-3.4%
Total costs	+0.9%	-0.2%	-2.6%
Provisioning	-6.1%	-5.3%	-5.4%
Net income	+1.7%	+1.3%	-6.1%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
Net interest income	7,755	8,606	9,302	10,076	11,122
Fee income	2,693	2,969	3,001	3,094	3,177
Trading income	1,024	518	683	681	695
Other income	649	710	675	688	702
Noninterest income	**4,366**	**4,197**	**4,359**	**4,463**	**4,574**
Total income	**12,121**	**12,803**	**13,661**	**14,540**	**15,696**
Operating expenses	5,920	6,024	6,294	6,530	6,744
Operating income	**6,200**	**6,779**	**7,367**	**8,010**	**8,952**
Provisioning	1,623	1,620	1,399	1,643	1,853
Profits of associates	35	22	23	24	25
Pre-tax income	**4,612**	**5,181**	**5,992**	**6,391**	**7,125**
Tax	-907	-1,140	-1,258	-1,342	-1,496
Minority interests	-2	-5	-2	-2	-2
Asset tax	829	932	933	994	1,049
Net income	**2,874**	**3,104**	**3,799**	**4,053**	**4,578**

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Net loans	**200,607**	**205,628**	**216,454**	**230,619**	**244,163**
Other assets	84,966	91,284	95,403	99,613	103,938
Total assets	**285,573**	**296,912**	**311,857**	**330,232**	**348,101**
Deposits	**205,066**	**218,800**	**228,982**	**242,291**	**256,414**
Other liabilities	47,938	41,856	43,505	46,419	46,785
Minority interests	-16	-11	-9	-10	-10
Equity	**32,585**	**36,267**	**39,378**	**41,532**	**44,912**

Key Ratios

(%)	2016	2017	2018P	2019P	2020P
NIM	3.0%	3.0%	3.2%	3.3%	3.4%
C/I	48.8%	47.1%	46.1%	44.9%	43.0%
CoR	0.8%	0.8%	0.6%	0.7%	0.8%
NPL Ratio	5.9%	5.5%	4.9%	4.8%	5.0%
Tier 1 Ratio	14.5%	16.5%	17.1%	17.4%	18.2%

Dividend Discount Model (DDM)

(PLN m)	Value	%
Explicit Forecast (2019-20)	3,472	5%
PV Adjustment	145	0%
Value Driver (2021-35)	44,680	69%
Fade (2036-55)	12,616	19%
Terminal Value	4,056	6%
Fair Value	**64,968**	**100%**
Outst. Shares (millions)	1,250	
Cost of equity	8.5%	
Fair Value Per Share (PLN)	**51.97**	
9M Target Price (PLN)	**55.29**	

Economic Profits Model

(PLN m)	Value	%
Opening Tangible NAV	38,243	60%
Explicit Forecast (2018-20)	3,998	6%
PV Adjustment	3,770	6%
Value Driver (2021-35)	14,060	22%
Fade (2036-55)	4,078	6%
Fair Value	**64,149**	**100%**
Outst. Shares (millions)	1,250	
Cost of equity	8.5%	
Fair Value Per Share (PLN)	**51.32**	
9M Target Price (PLN)	**54.59**	

Valuation Summary

(PLN m)	Weight	Value
DDM	50%	64,968
Economic Profits	50%	64,149
Fair Value Avg.		64,559
Fair Value Per Share (PLN)		51.65
Asset tax		-9.35
Fair Value Per Share		42.30
Cost of equity (9M)		6.4%
9M Target Price (PLN)		**45.00**

Santander Bank Polska

accumulate (downgraded)

Michał Konarski +48 22 438 24 05 michal.konarski@mbank.pl

2019 should be a good year for Santander's shareholders thanks to record-high dividend and the first full year of consolidation with DB Polska, which will be reflected in net income growth by a projected 19%. In 2018 the bank may still surprise positively by recognizing negative goodwill, and in 2019 it might sell more non-performing portfolios than the few unloaded this year. Risks in 2019 are about the same as faced by the whole sector, and concern mainly cost of risk on corporate loans and borrower relief legislation. Sentiment at the moment is dampened by a possible sale by Deutsche Bank of the shares received as stock consideration for DB Polska. The overhang amounts currently to 1.55m shares which must be sold for at least PLN 371.61/share so that DB does not incur further losses on the transaction. But DB might accelerate the sale given its small scale relative to earnings. We expect Sandander to make a record-high dividend payout of PLN 2.6bn (DPS PLN 25.19), consisting in PLN 1.1bn of the net income (50% of the payout) for 2018 and PLN 1.5bn from undistributed profits. According to the bank, the dividend has been tentatively approved by the KNF, but things can still change considering the recent change in KNF's management. Our forecasts are currently 3.5% below the consensus for 2019, but 5.5% above that for 2020. After lowering our 2018 forecast by 4% and raising 2020E by 2% we maintain a PLN 400 target price but we downgrade SPL to accumulate after the recent share price increase. High liquidity should keep interest in SPL high in 2019 even with upside limited to 9%.

		Upside
Current Price	364.80 PLN	
9M Target Price	400.00 PLN	+9.6%

	rating	target price	issued
new	**accumulate**	**400.00 PLN**	**2018-12-05**
old	buy	400.00 PLN	2018-11-05

Key Metrics			**BZW**	**vs. WIG**
Ticker	BZW	1M Price Chng	+3.1%	-2.6%
ISIN	PLBZ00000044	YTD Price Chng	-7.9%	-1.4%
Outst. Stock (m)	99.2	ADTV 1M		PLN 17.1m
MC (PLN m)	36,200.8	ADTV 6M		PLN 20.5m
		P/E 12M fwd	14.0	-4.4%
Free Float	30.0%	P/E 5Y avg	14.7	discount

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
NII	4,770	5,277	5,742	6,393	7,194
Total income	7,606	7,764	8,461	9,442	10,394
Costs	-3,368	-3,372	-3,782	-4,104	-4,165
Provisioning	-785	-690	-975	-981	-1,002
Net income	2,167	2,213	2,193	2,619	3,247
P/E	16.7	16.4	16.7	14.2	11.5
P/B	1.8	1.7	1.5	1.4	1.3
ROE	11.1%	10.6%	9.4%	10.3%	12.0%
DPS	21.33	5.40	6.69	25.19	12.84
DYield	5.8%	1.5%	1.8%	6.9%	3.5%

Projection Update (% change)	2018P	2019P	2020P
Net interest income	+0.0%	+0.8%	+1.4%
Fee income	-0.9%	-1.2%	-1.0%
Total costs	0.0%	0.0%	0.0%
Provisioning	+9.1%	0.0%	0.0%
Net income	-3.5%	+0.7%	+1.8%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
Net interest income	4,770	5,277	5,742	6,393	7,194
Fee income	1,915	2,013	2,153	2,444	2,587
Trading income	780	323	307	341	344
Other income	141	151	259	264	269
Noninterest income	**2,836**	**2,487**	**2,719**	**3,049**	**3,201**
Total income	**7,606**	**7,764**	**8,461**	**9,442**	**10,394**
Operating expenses	3,368	3,372	3,782	4,104	4,165
Operating income	**4,238**	**4,391**	**4,679**	**5,338**	**6,229**
Provisioning	785	690	975	981	1,002
Profits of associates	55	58	54	54	54
Pre-tax income	**3,509**	**3,759**	**3,758**	**4,411**	**5,281**
Tax	738	817	755	887	1,062
Minority interests	-217	-305	-328	-349	-370
Asset tax	-387	-424	-482	-557	-603
Net income	**2,167**	**2,213**	**2,193**	**2,619**	**3,247**

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Net loans	**103,069**	**107,840**	**134,430**	**145,289**	**155,439**
Other assets	47,031	44,835	47,596	50,367	57,430
Total assets	**150,100**	**152,674**	**182,025**	**195,657**	**212,868**
Deposits	**112,522**	**111,481**	**135,956**	**151,119**	**166,390**
Other liabilities	16,559	17,850	19,837	16,557	16,322
Minority interests	1,238	1,436	1,648	1,872	2,111
Equity	**19,781**	**21,907**	**24,585**	**26,108**	**28,045**

Key Ratios

(%)	2016	2017	2018P	2019P	2020P
NIM	3.4%	3.6%	3.6%	3.5%	3.6%
C/I	44.3%	43.4%	44.7%	43.5%	40.1%
CoR	0.8%	0.6%	0.8%	0.7%	0.6%
NPL Ratio	6.6%	5.8%	5.0%	5.0%	5.0%
Tier 1 Ratio	14.6%	15.3%	12.9%	13.7%	13.3%

Dividend Discount Model (DDM)

(PLN m)	Value	%
Explicit Forecast (2019-20)	3,480	8%
PV Adjustment	1,684	4%
Value Driver (2021-35)	29,150	64%
Fade (2036-55)	9,454	21%
Terminal Value	1,918	4%
Fair Value	**45,687**	**100%**
Outst. Shares (millions)	99	
Cost of equity	8.5%	
Fair Value Per Share (PLN)	**460.39**	
9M Target Price (PLN)	**489.74**	

Economic Profits Model

(PLN m)	Value	%
Opening Tangible NAV	20,673	48%
Explicit Forecast (2018-20)	4,379	10%
PV Adjustment	3,071	7%
Value Driver (2021-35)	11,775	27%
Fade (2036-55)	2,922	7%
Fair Value	**42,821**	**100%**
Outst. Shares (millions)	99	
Cost of equity	8.5%	
Fair Value Per Share (PLN)	**431.51**	
9M Target Price (PLN)	**459.02**	

Valuation Summary

(PLN m)	Weight	Value
DDM	50%	45,687
Economic Profits	50%	42,821
Fair Value Avg.		44,254
Fair Value Per Share (PLN)		445.95
Asset tax		-69.92
Fair Value Per Share		376.03
Cost of equity (9M)		6.4%
9M Target Price (PLN)		**400.00**

Komercni Banka
accumulate (downgraded)

Michał Konarski +48 22 438 24 05 michal.konarski@mbank.pl

Current Price	906.50 CZK	Upside
9M Target Price	1,000.00 CZK	+10.3%

	rating	target price	issued
new	**accumulate**	**1,000.00 CZK**	**2018-12-05**
old	buy	1,111.00 CZK	2017-12-01

Key Metrics			KOMB.CP	vs. WIG
Ticker	KOMB.CP	1M Price Chng	+4.2%	-1.6%
ISIN	CZ0008019106	YTD Price Chng	+4.4%	+11.0%
Outst. Stock (m)	188.9	ADTV 1M		CZK 136.8m
MC (CZK bn)	171.2	ADTV 6M		CZK 123.1m
		P/E 12M fwd	12.1	-13.1%
Free Float	39.6%	P/E 5Y avg	13.9	discount

We lower our price target for Komercni to CZK 1,000/share, and we downgrade the stock from buy to accumulate. The revised target price stems from a slower-than-expected materialization of the positive effects of interest rate hikes in profits, combined with a rising risk-free rate. We have raised our 2018 net income estimate, which is the highest in the market by a further 1%, but at the same time we have cut the 2019 forecast by 13%, mainly too reflect worse-than-expected growth in interest income. Nevertheless, our forecasts for 2019-2020 remain 5-7% above the consensus. We believe that in 2019 the interest margin will finally register an increase (+5bps) which will be partially offset by normalization in cost of risk to 13bps (+0.27 p.p. y/y). We believe that the continued high profitability of Komercni Banka (>14% ROE) will make it possible to maintain DYield at a level of around 6% (with payout of 52% of the net income) in the next two years. Even on the reduced 2019 estimates, Komercni will probably once again outpace the Polish banking sector with higher ROE (14% compared to 10%), DYield (6% compared to 3%) and no systemic risk. Therefore, we believe that Komercni Banka should be valued at a 15% premium on P/B and on a level with the Polish sector's P/E ratio.

Earnings Projections

(CZK m)	2016	2017	2018P	2019P	2020P
NII	21,069	20,808	22,225	24,821	26,493
Total income	31,751	31,060	31,808	34,401	36,339
Costs	-14,026	-13,374	-14,495	-14,876	-15,215
Provisioning	-1,817	391	897	-886	-1,758
Net income	13,689	14,930	14,857	15,119	15,728
P/E	12.5	11.5	11.5	11.3	10.9
P/B	1.7	1.8	1.7	1.6	1.5
ROE	13.4%	15.0%	14.9%	14.2%	13.9%
DPS	62.00	40.00	47.00	52.00	52.00
DYield	6.8%	4.4%	5.2%	5.7%	5.7%

Projection Update (% change)	2018P	2019P
Net interest income	-9.6%	-11.2%
Fee income	-7.6%	-7.6%
Total costs	-1.3%	-1.2%
Provisioning	-164.6%	-42.2%
Net income	+0.7%	-12.8%

Financial Highlights

(CZK m)	2016	2017	2018P	2019P	2020P
Net interest income	21,067	20,808	22,225	24,821	26,493
Fee income	6,683	6,465	6,143	6,290	6,452
Trading income	3,837	3,576	3,218	3,057	3,149
Other income	170	211	222	233	244
Total income	**31,757**	**31,060**	**31,808**	**34,401**	**36,339**
Operating expenses	-14,033	-13,374	-14,495	-14,876	-15,215
Operating income	**17,724**	**17,686**	**17,313**	**19,525**	**21,124**
Provisioning	-1,818	391	897	-886	-1,758
Net oper. income	**15,906**	**18,077**	**18,210**	**18,638**	**19,366**
Profits of associates	967	209	324	211	221
Retirement benefits	0	0	0	0	0
Pre-tax income	**16,873**	**18,286**	**18,534**	**18,849**	**19,587**
Tax	-2,799	-3,012	-3,336	-3,393	-3,526
Minority interests	386	344	341	337	334
Net income	**13,688**	**14,930**	**14,857**	**15,119**	**15,728**

Key Balance Sheet Figures

(CZK bn)	2016	2017	2018P	2019P	2020P
Net loans	**580**	**598**	**640**	**672**	**707**
Other assets	343	406	501	521	534
Total assets	**923**	**1,004**	**1,141**	**1,193**	**1,241**
Deposits	**699**	**762**	**843**	**882**	**924**
Other liabilities	118	142	191	197	195
Minority interests	4	4	4	4	4
Equity	**102**	**97**	**103**	**110**	**117**

Key Ratios

(%)	2016	2017	2018P	2019P	2020P
NIM	2.4%	2.2%	2.1%	2.2%	2.2%
C/I	44.2%	43.1%	45.6%	43.2%	41.9%
CoR	0.3%	-0.1%	-0.1%	0.1%	0.2%
NPL Ratio	3.8%	3.1%	3.1%	3.3%	3.5%
Tier 1 Ratio	16.2%	18.0%	17.5%	17.6%	17.7%

Dividend Discount Model (DDM)

(CZK m)	Value	%
Explicit Forecast (2019-20)	17,868	10%
PV Adjustment	7,776	4%
Value Driver (2021-35)	120,343	64%
Fade (2036-55)	30,480	16%
Terminal Value	11,447	6%
Fair Value	**187,914**	**100%**
Outst. Shares (millions)	189	
Cost of equity	7.0%	
Fair Value Per Share (CZK)	**995**	
9M Target Price (CZK)	**1,047**	

Economic Profits Model

(CZK m)	Value	%
Opening Tangible NAV	84,228	49%
Explicit Forecast (2018-20)	24,265	14%
PV Adjustment	10,233	6%
Value Driver (2021-35)	46,287	27%
Fade (2036-55)	5,942	3%
Fair Value	**170,955**	**100%**
Outst. Shares (millions)	189	
Cost of equity	7.0%	
Fair Value Per Share (CZK)	**905**	
9M Target Price (CZK)	**953**	

Valuation Summary

(CZK m)	Weight	Value
DDM	50%	187,914
Economic Profits	50%	170,955
Fair Value Avg.		179,435
Fair Value Per Share (CZK)		950
Cost of equity (9M)		5.3%
9M Target Price (CZK)		**1,000**

mBank Dom Maklerski

Erste Bank

buy (reiterated)

Michał Konarski +48 22 438 24 05 michal.konarski@mbank.pl

Current Price	34.41 EUR	**Upside**
9M Target Price	46.18 EUR	+34.2%

	rating	target price	issued
new	**buy**	**46.18 EUR**	**2018-12-05**
old	buy	43.00 EUR	2018-08-02

Key Metrics			**EBS.AV**	**vs. WIG**
Ticker	EBS.AV	1M Price Chng	-3.6%	-9.4%
ISIN	AT0000652011	YTD Price Chng	-1.4%	+5.2%
Outst. Stock (m)	429.8	ADTV 1M		EUR 23.9m
MC (EUR m)	14,789.4	ADTV 6M		EUR 24.4m
		P/E 12M fwd	9.8	-14.9%
Free Float	69.5%	P/E 5Y avg	11.5	discount

We maintain a buy rating for Erste, but raise the price target to EUR 46.18/share. Erste Bank reported 6% higher results than the consensus in Q1 2018, 12% higher in Q2 2018 and 38% higher in Q3 2018, which resulted in us upgrading our 2018 forecasts by 3% and raising the 2019 and 2020 by 4%. With its exposure to CEE markets, Erste Bank is a direct beneficiary of the economic growth in the region and, as a result, improving quality of assets and increasing interest rates. We estimate that cost of risk in 2018 will amount to -4bps (net reversals) and in 2019-2020 it will be low at just about 8-14bps. Adding stabilization in interest margins to the equation, Erste will probably keep its TROE ratio at 11% in the next two years. We reckon that in 2019 the bank may surprise us with slower cost growth and, thus, report a lower C/I ratio than we currently expect (62%) and achieve a higher interest margin depending on the rate of interest rate rises in the Eurozone. Moreover, we are optimistic about future dividends, with yields in 2019-2020 expected to be greater than 4%. On the downside, there is a likelihood of higher-than-expected cost of risk and interest expenses in 2019 in the wake of interest rate increases in the Czech Republic. We expect Erste to issue another conservative guidance for FY2019, potentially dampening market sentiment as at the beginning of next year. We prefer EBS over OTP Bank at the moment, but thanks only to the former's cheaper multiples.

Earnings Projections

(EUR m)	2016	2017	2018P	2019P	2020P
NII	4,375	4,353	4,540	4,820	5,094
Total income	6,484	6,475	6,690	7,057	7,411
Costs	-4,028	-4,158	-4,266	-4,327	-4,396
Provisioning	-196	-132	62	-135	-233
Net income	1,265	1,316	1,541	1,573	1,690
P/E	11.7	11.2	9.6	9.4	8.8
P/B	1.2	1.1	1.0	1.0	0.9
ROE	10.8%	10.0%	10.8%	10.4%	10.6%
DPS	0.50	1.00	1.20	1.50	1.54
DYield	1.5%	2.9%	3.5%	4.4%	4.5%

Projection Update (% change)	2018P	2019P	2020P
Net interest income	+0.1%	+0.7%	+0.5%
Fee income	-0.4%	-0.6%	-0.5%
Total costs	+11.5%	+11.4%	+11.5%
Provisioning	+3501.3%	-32.0%	-17.8%
Net income	+2.6%	+4.4%	+4.2%

Financial Highlights

(EUR m)	2016	2017	2018P	2019P	2020P
Net interest income	4,375	4,353	4,540	4,820	5,094
Fee income	1,783	1,852	1,934	1,983	2,036
Trading income	326	270	216	254	281
Total income	**6,484**	**6,475**	**6,690**	**7,057**	**7,411**
Other oper. income	79	-1	2	-32	-37
Asset tax	-389	-106	-113	-119	-126
Operating expenses	-4,028	-4,158	-4,266	-4,327	-4,396
Operating income	**2,146**	**2,210**	**2,313**	**2,579**	**2,852**
Provisioning	-196	-132	62	-135	-233
Net operating income	**1,950**	**2,078**	**2,375**	**2,444**	**2,618**
Extraordinary gains	0	0	0	0	0
Pre-tax income	**1,950**	**2,078**	**2,375**	**2,444**	**2,618**
Tax	-414	-410	-447	-480	-517
Minority interests	-272	-352	-386	-391	-412
Net income	**1,265**	**1,316**	**1,541**	**1,573**	**1,690**

Key Balance Sheet Figures

(EUR m)	2016	2017	2018P	2019P	2020P
Net loans	**135,267**	**139,532**	**153,273**	**165,544**	**176,206**
Other assets	72,960	81,127	79,817	83,223	86,866
Total assets	**208,227**	**220,659**	**233,090**	**248,766**	**263,071**
Deposits	**138,013**	**150,969**	**162,075**	**171,776**	**180,501**
Other liabilities	53,612	51,402	51,494	56,320	60,627
Minority interests	4,142	4,416	4,802	5,192	5,604
Equity	**12,460**	**13,872**	**14,719**	**15,477**	**16,340**

Key Ratios

(%)	2016	2017	2018P	2019P	2020P
NIM	2.2%	2.0%	2.1%	2.1%	2.1%
C/I	60.9%	64.2%	63.7%	61.8%	59.8%
CoR	0.1%	0.1%	0.0%	0.1%	0.1%
NPL Ratio	4.9%	4.0%	4.8%	4.8%	4.8%
Tier 1 Ratio	13.4%	14.0%	13.7%	13.4%	13.4%

SOTP Valuation

(EUR m)	Fair	FVPS	Net Income			P/E			BV	P/B
	Value	(EUR)	2018P	2019P	2020P	2018P	2019P	2020P	2018	2018
Austria	**7,225**	**16.81**	**605**	**560**	**591**	**11.9**	**12.9**	**12.2**	**4,283**	**1.7**
Savings Banks	370	0.86	62	61	66	6.0	6.0	5.6	2,763	0.1
Erste Oesterreich	4,185	9.74	289	301	321	14.5	13.9	13.0	1,520	2.8
Other Austria	2,671	6.21	255	198	204	10.5	13.5	13.1	1,873	1.4
CEE	**17,282**	**40.21**	**1,251**	**1,300**	**1,360**	**13.8**	**13.3**	**12.7**	**6,555**	**2.6**
Czech Republic	8,370	19.47	590	585	602	14.2	14.3	13.9	2,489	3.4
Romania	3,196	7.44	220	256	267	14.5	12.5	12.0	1,334	2.4
Slovakia	3,183	7.41	193	219	246	16.5	14.5	12.9	950	3.4
Hungary	1,509	3.51	138	123	128	10.9	12.2	11.8	823	1.8
Croatia	764	1.78	100	103	101	7.6	7.4	7.6	758	1.0
Serbia	261	0.61	9	13	16	29.1	19.6	16.3	202	1.3
Other	**-5,597**	**-13.02**	**-314**	**-287**	**-262**	**17.8**	**19.5**	**21.3**	**1,224**	**-4.6**
Total Erste Group	**18,910**	**44.00**								

Valuation Summary

(EUR m)	Weight	Value
Cost of equity (12M)		6.6%
DDM	50%	21,475
Economic Profits	50%	16,345
Fair Value Avg.		18,910
Fair Value Per Share (EUR)		44.00
Cost of equity (9M)		5.0%
9M Target Price (EUR)		**46.18**

OTP Bank
accumulate (downgraded)

Michał Konarski +48 22 438 24 05 michal.konarski@mbank.pl

Current Price	11,810.00 HUF	**Upside**
9M Target Price	13,046.00 HUF	+10.5%

	rating	target price	issued
new	**accumulate**	**13,046.00 HUF**	**2018-12-05**
old	buy	12,090.00 HUF	2018-06-06

Despite raising our price target to HUF 13,046/share, we downgrade OTP to accumulate due to the significant share price increase of the past month. Better than expected results of the bank for 9M 2018 persuaded us to upgrade our forecasts by 22% for 2018 and 12% for 2019. At the updated level the 2018 estimate at HUF 337bn (ex. one-offs) is around 4% higher than the bank's own target. At the same time, our outlook for 2018- 2020 is 5% higher than the consensus forecasts (incl. one-offs). After the strong growth of 2018, we expect consensus to increase in 2019. Our updated view includes OTP's new acquisitions in Bulgaria and Albania. We reckon that OTP will continue M&A activity in the future, which we assess positively. In our opinion, it will ensure continued earnings growth in 2020+ even as cost of risk normalizes at higher levels. The biggest risk when it coms to the M&A plans is a sudden economic slowdown which may result in much longer restructuring of the acquired businesses. Other risks include OTP's significant exposure to Russia and Ukraine, especially considering the growing geopolitical tensions. In 2019 we expect flat growth in net income. On one hand, the results will be supported by increasing loan volumes (+16% y/y) and stabilization of interest margin; on the other hand, we expect provisioning, which in 2018 was the lowest in at least 12 years, to normalize. All of this will translate into a very high ROE, which we estimate at 16% in 2019, a level that will be unattainable for any other bank analyzed by us.

Key Metrics				**OTP.HB**	**vs. WIG**
Ticker	OTP.HB	1M Price Chng		+14.7%	+8.9%
ISIN	HU0000061726	YTD Price Chng		+12.5%	+19.1%
Outst. Stock (m)	267.0	ADTV 1M			HUF 9.9bn
MC (HUF bn)	3,153.7	ADTV 6M			HUF 5.7bn
		P/E 12M fwd		10.5	+2.3%
Free Float	100.0%	P/E 5Y avg		10.3	premium

Earnings Projections

(HUF bn)	2016	2017	2018P	2019P	2020P
NII	522	547	603	675	700
Total income	738	809	895	992	1,028
Costs	-400	-442	-490	-520	-528
Provisioning	-93	-46	-24	-93	-100
Net income	202	281	322	322	341
P/E	15.6	11.2	9.8	9.8	9.2
P/B	2.2	1.9	1.7	1.4	1.3
ROE	15.3%	18.4%	18.3%	15.7%	15.7%
DPS	173.01	199.22	229.63	276.72	296.56
DYield	1.5%	1.7%	1.9%	2.3%	2.5%

Projection Update (% change)	**2018P**	**2019P**
Net interest income	-0.3%	+7.3%
Fee income	+2.3%	+5.7%
Total costs	+5.8%	+11.6%
Provisioning	-68.6%	+18.6%
Net income	+22.4%	+12.2%

Financial Highlights

(HUF bn)	2016	2017	2018P	2019P	2020P
Net interest income	522	547	603	675	700
Fee income	176	209	225	243	250
Other income	40	53	67	74	77
Total income	**738**	**809**	**895**	**992**	**1,028**
Operating expenses	400	442	490	520	528
Operating income	**338**	**367**	**404**	**472**	**500**
Provisioning	93	46	24	93	100
Pre-tax income	**245**	**321**	**381**	**379**	**400**
Tax	44	37	44	46	47
Net income	**201**	**284**	**337**	**334**	**353**
Asset impairment	12	-6	0	0	0
Asset tax	-14	-15	-15	-17	-17
Other	6	15	0	0	1
Minority interests	-3	0	0	5	4
Net income	**202**	**281**	**322**	**322**	**341**

Key Balance Sheet Figures

(HUF bn)	2016	2017	2018P	2019P	2020P
Net loans	**5,736**	**6,988**	**8,011**	**9,276**	**9,685**
Other assets	5,571	6,203	6,626	7,182	7,273
Total assets	**11,308**	**13,190**	**14,637**	**16,458**	**16,958**
Deposits	**8,541**	**10,219**	**11,172**	**12,757**	**13,330**
Other liabilities	1,346	1,328	1,581	1,459	1,107
Minority interests	3	3	4	4	5
Equity	**1,417**	**1,640**	**1,880**	**2,237**	**2,516**

Key Ratios

(%)	2016	2017	2018P	2019P	2020P
NIM	4.7%	4.5%	4.3%	4.3%	4.2%
C/I	54.2%	54.6%	54.8%	52.4%	51.3%
CoR	1.4%	0.6%	0.3%	1.0%	1.0%
NPL Ratio	15.2%	9.2%	5.8%	6.1%	7.0%
Tier 1 Ratio	13.5%	12.7%	15.9%	16.3%	17.7%

SOTP Valuation

(HUF bn)	Fair Value	FVPS (HUF)	Net Income 2018	Net Income 2019	Net Income 2020	P/E 2018	P/E 2019	P/E 2020	BV 2018	P/B 2018
Hungary + Other	**1,979**	**7,411**	**196.8**	**167.2**	**178.2**	**10.1**	**11.8**	**11.1**	**754**	**2.6**
CEE	**1,431**	**5,350**	**140.2**	**165.7**	**174.1**	**10.2**	**8.6**	**8.2**	**967**	**1.5**
DSK	618	2,314	49.2	70.5	75.8	12.6	8.8	8.2	264	2.3
OBS	25	93	0.6	0.6	0.4	45.0	40.3	68.2	34	0.7
OTP Banka Hrvatska	285	1,067	27.5	26.5	27.0	10.4	10.7	10.5	278	1.0
OTP Banka Romania	127	477	7.0	10.3	10.5	18.3	12.4	12.1	56	2.3
OTP Russia	191	707	27.2	31.4	32.7	7.2	6.2	6.0	163	1.2
CJSC OTP Bank	79	296	24.7	19.7	17.6	3.2	4.0	4.5	63	1.3
OTP Banka Serbia	80	298	1.0	4.2	7.3	87.8	21.0	12.0	84	1.0
CKB	26	97	3.2	2.5	2.9	8.1	10.2	9.0	25	1.0
Total Divisions	**3,410**	**12,761**	**337.1**	**333.0**	**352.3**	**10.1**	**10.2**	**9.7**	**1,722**	**2.0**
Asset tax	-171	-642								
Total OTP Group	**3,239**	**12,119**								

Valuation Summary

(HUF bn)	Weight	Value
Cost of equity (12M)		10.2%
DDM	50%	3,229
Economic Profits	50%	3,617
Fair Value Avg.		3,423
Fair Value Per Share (HUF)		12,761
Asset tax (HUF)		-642
Minority interests (HUF)		-58
Fair Value Per Share (HUF)		12,119
Cost of equity (9M)		7.6%
9M Target Price (HUF)		**13,046**

PZU

accumulate (downgraded)

Michał Konarski +48 22 438 24 05 michal.konarski@mbank.pl

We recommend accumulation of PZU shares with the price target at PLN 46.50/share. We have lowered our earnings forecasts for 2019-2020 by 5%-7%, in line with revised expectations for gross written premiums and claims. We now expect GWP to increase by 2.3% in 2019 and 2.5% in 2020, making for average annual growth of 2%. In our opinion, it will be difficult for PZU to keep CoR as low as this year in 2019 considering increasing automotive claims and the possibility of more catastrophic events taking place next year. Expected 2018 and 2019 earnings translate to a dividend yield of >6.5%, one of the highest in the Polish financial sector. This assuming PZU is not made to take over a 12.8% stake in Bank Pekao. The transaction is becoming more and more probable, especially considering the planned dividend cuts from 2019 at Pekao. The price of the 12.8% block according to our estimates could amount to PLN 4.1bn (PLN 123 for a Pekao share, the same price as the stake bought previously from UCI), possibly reduced by dividends received from the bank. This valuation is justified by the fact that the shares were paid for using debt. On the other hand, PZU's gross written premiums connected with the cooperation with Pekao may generate a positive surprise in 2019. Because of the stronger growth, comparable dividends, and a more attractive valuation, at the current level we prefer Pekao over PZU.

		Upside
Current Price	43.80 PLN	
9M Target Price	46.50 PLN	+6.2%

	rating	target price	issued
new	**accumulate**	**46.50 PLN**	**2018-12-05**
old	buy	47.50 PLN	2018-11-05

Key Metrics			PZU	vs. WIG
Ticker	PZU	1M Price Chng	+7.9%	+2.1%
ISIN	PLPZU0000011	YTD Price Chng	+10.4%	+17.0%
Outst. Stock (m)	863.5	ADTV 1M		PLN 73.4m
MC (PLN m)	37,822.3	ADTV 6M		PLN 70.5m
		P/E 12M fwd	11.6	-6.5%
Free Float	64.8%	P/E 5Y avg	12.4	discount

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
GWP	20,219	22,847	23,158	23,700	24,282
Claims	-12,732	-14,942	-14,701	-14,998	-15,304
Inv. income	1,300	1,895	1,111	1,450	1,541
Total costs	-4,246	-4,511	-4,670	-4,953	-5,092
Net income	1,954	2,910	3,197	3,247	3,407
P/E	19.5	13.0	11.8	11.6	11.0
P/B	2.9	2.6	2.4	2.3	2.2
ROE	15.1%	21.1%	21.1%	20.2%	20.0%
DPS	2.08	1.40	2.70	2.78	2.84
DYield	4.7%	3.2%	6.2%	6.3%	6.5%

Projection Update (% change)	2018P	2019P	2020P
Gross written premiums	-0.7%	-0.9%	-1.1%
Claims	-1.1%	+0.6%	+1.1%
Investment income	-17.1%	+4.2%	+10.2%
Total costs	-0.4%	+1.1%	+1.2%
Net income	+2.6%	-5.4%	-7.3%

Financial Highlights

(PLN m)	2016	2017P	2018P	2019P	2020P
Gross written prems	20,219	22,847	23,158	23,700	24,282
Net earned premiums	18,625	21,354	22,220	22,601	23,140
Claims & benefits	-12,732	-14,941	-14,701	-14,998	-15,304
Net inv. income	1,300	2,217	1,111	1,450	1,541
Acquisition costs	-2,613	-2,901	-3,081	-3,317	-3,414
Admin expenses	-1,633	-1,624	-1,589	-1,636	-1,677
Other oper. rev/exp	-604	-787	-1,116	-1,285	-1,471
Banking income	648	2,487	3,971	4,631	5,305
Operating income	**2,991**	**5,805**	**6,815**	**7,446**	**8,119**
Financing costs	0	0	0	0	0
Subsidiaries	16	16	16	-3	0
Pre-tax income	**3,007**	**5,821**	**6,831**	**7,443**	**8,119**
Tax	-614	-1,293	-1,631	-1,782	-1,942
Minority interest	439	1,323	2,002	2,414	2,770
Net income	**1,954**	**3,205**	**3,197**	**3,247**	**3,407**

Key Balance Sheet Figures

(PLN m)	2016	2017P	2018P	2019P	2020P
Financial assets	**105,286**	**281,854**	**320,415**	**337,255**	**364,803**
Other assets	20,010	35,551	36,417	37,316	38,250
Total assets	**125,296**	**317,405**	**356,832**	**374,571**	**403,054**
Technical provisions	**42,194**	**44,558**	**50,119**	**51,151**	**52,282**
Other liabilities	66,018	235,246	267,512	283,015	294,982
Minority interests	4,086	22,979	23,542	23,878	38,289
Equity	**12,998**	**14,622**	**15,660**	**16,527**	**17,500**

Key Ratios

(%)	2016	2017P	2018P	2019P	2020P
Loss ratio	68.7	70.0	66.2	66.4	66.1
Total cost ratio	21.1	21.2	21.0	21.9	22.0
Return on inv. portf.	4.6	5.5	1.7	2.1	2.1
Non-Life, COR	95.7	90.5	86.5	87.8	87.8
Life, Oper. Margin	24.05	16.11	23.68	23.47	24.32

Dividend Discount Model (DDM)

(PLN m)	Value	%
Explicit Forecast (2018-20)	5,944	21%
PV Adjustment	1,984	7%
Value Driver (2021-35)	15,581	54%
Fade (2036-55)	4,266	15%
Terminal Value	876	3%
Fair Value	**28,651**	**100%**
Outst. Shares (millions)	864	
Cost of equity	8.5%	
Fair Value Per Share (PLN)	**33.18**	
9M Target Price (PLN)	**35.29**	

Economic Profits Model

(PLN m)	Value	%
Opening Tangible NAV	10,783	43%
Explicit Forecast (2018-20)	3,262	13%
PV Adjustment	1,162	5%
Value Driver (2021-35)	8,031	32%
Fade (2036-55)	1,997	8%
Fair Value	**25,236**	**100%**
Outst. Shares (millions)	864	
Cost of equity	8.5%	
Fair Value Per Share (PLN)	**29.22**	
9M Target Price (PLN)	**31.09**	

Valuation Ex. Banks

(PLN m)	Weight	Value
DDM	50%	28,651
Economic Profits	50%	25,236
Fair Value Avg.		26,944

SOTP Valuation

(PLN m)	Value	/Share
PZU ex banks	26,944	31.20
Bank Pekao	7,524	8.71
Alior Bank	3,284	3.80
Value	**37,751**	**43.72**
9M Target Price (PLN)		**46.50**

Kruk
buy (no change)

Michał Konarski +48 22 438 24 05 michal.konarski@mbank.pl

Current Price	177.10 PLN	Upside
9M Target Price	292.77 PLN	+65.3%

	rating	target price	issued
new	**buy**	**292.77 PLN**	**2018-12-05**
old	buy	292.77 PLN	2018-09-17

Key Metrics			KRU	vs. WIG
Ticker	KRU	1M Price Chng	-4.4%	-10.2%
ISIN	PLKRK0000010	YTD Price Chng	-31.0%	-24.4%
Outst. Stock (m)	18.9	ADTV 1M		PLN 6.1m
MC (PLN m)	3,342.2	ADTV 6M		PLN 11.3m
		P/E 12M fwd	8.8	-36.4%
Free float	87.0%	P/E 5Y avg	13.8	discount

We maintain a buy rating for Kruk. The company's valuation is still at a very attractive level. Currently, investing in Kruk shares is advisable because of i) improved operations in Italy, ii) expected record-high purchases on the Polish market, iii) attractive comparable valuation, iv) low financing risk, v) upcoming positive reviews of the consensus (11%-12% for 2019- 2020), vi) regulatory risk under control. Finally, the analysis of forward P/E and fair forward P/E (based on the price target) shows that analysts see substantial growth potential for comparable companies in Europe. At the same time, we believe that Kruk should have a good year in 2019 in terms of results. We estimate the increase in net profit at 18%, mainly driven by significant purchases of portfolios made by the company in 2018. In the short term, we believe that a budget agreement between the EU and Italy, where Kruk has an increasing presence, may have a positive impact on sentiment. Once sentiment shifts, we expect Kruk to register stronger gains than its Western European competitors looking at the historical premiums and a stronger earnings momentum.

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Purchased debt	783	1,055	1,241	1,429	1,645
Collections	725	972	1,150	1,327	1,533
Total revenue	32	59	65	72	75
Total costs	-117	-148	-168	-186	-214
Net income	249	295	353	418	457
P/E	13.1	11.2	9.5	8.0	7.3
P/B	2.7	2.3	1.9	1.7	1.5
ROE	24.6%	21.9%	22.1%	22.4%	21.6%
DPS	7.66	6.21	5.00	8.43	11.09
DYield	4.3%	3.5%	2.8%	4.8%	6.3%

Projection Update (% change)	2018P	2019P	2020P
Purchased debt portfoliis	0.0%	0.0%	0.0%
Collections	0.0%	0.0%	0.0%
Other	0.0%	0.0%	0.0%
Total costs	0.0%	0.0%	0.0%
Net income	0.0%	0.0%	0.0%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
Rev., Purchased Debt	454	559	690	783	905
Revenue, Collections	9	15	14	17	19
Other revenue	13	15	15	18	21
Gross profit	**477**	**589**	**719**	**818**	**945**
Costs	117	148	168	186	214
One-time events	3	-2	-2	-3	-3
EBITDA	**363**	**439**	**549**	**630**	**728**
D&A	14	19	21	24	26
EBIT	**349**	**421**	**528**	**606**	**701**
Financing activity	-63	-86	-135	-141	-193
Pre-tax income	286	335	393	465	508
Tax	38	40	39	46	51
Net income	**249**	**295**	**353**	**418**	**457**
Portfolio purchases	1,286	976	1,245	1,422	1,518
Collections	-992	-1,369	-1,705	-1,920	-2,176

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Cash	267	173	100	121	144
Purchased debt	**2,676**	**3,169**	**3,811**	**4,640**	**5,516**
Other assets	149	218	192	218	247
Total assets	**3,092**	**3,560**	**4,103**	**4,980**	**5,908**
Loans	**1,646**	**1,897**	**2,156**	**2,749**	**3,412**
Other liabilities	209	202	213	238	254
Equity	**1,237**	**1,460**	**1,734**	**1,993**	**2,242**

Key Ratios

(%)	2016	2017	2018P	2019P	2020P
Net debt / Equity	111.4	118.0	118.5	131.8	145.8
Net debt /EBITDA	380.4	392.3	374.3	417.3	449.1
EBITDA margin	46.3	41.6	44.3	44.0	44.2
EBIT margin	44.6	39.9	42.5	42.4	42.6
EV / Cash EBITDA	7.66	6.21	5.01	4.99	4.92

DDM & EVA Summary

(PLN m)	DDM	EVA
Opening Tangible NAV		1,460
Explicit Forecast (2018-27)	1,602	2,230
Value Driver (2028-47)	2,646	1,208
PV TV	993	
Fair Value as of Jan. 2018	**5,241**	**4,898**
PV Adjustment	79	263
Fair Value	**5,320**	**5,161**
Outst. Shares (millions)	18.9	18.9
Cost of equity	7.6%	7.6%
Fair Value Per Share (PLN)	**281.88**	**273.47**
9M Target Price (PLN)	**302.17**	**293.16**

DCF Summary

	(PLN m)
FCF	82
Terminal Value (TV)	12,101
FCF perp. growth rate	3.0%
Present Value of Terminal Value	6,370
Enterprise Value	6,452
Net Debt	1,724
Minority Interest	0
Equity Value as of Jan. 2017	**4,728**
PV Adjustment	254
Fair Value	**4,982**
Outst. Shares (millions)	18.9
Value Per Share (PLN)	**263.98**

Valuation Summary

(PLN m)	Weight	Value
DDM	33%	5,320
Economic Profits	33%	5,161
DCF	33%	4,982

Per-Share Valuation

(PLN)	Weight	Value
DDM	33%	281.88
Economic Profits	33%	273.47
DCF	33%	263.98
Fair Value Avg.		273.11
Cost of equity (9M)		6.2%
9M Target Price (PLN)		**292.77**

mBank Dom Maklerski

Skarbiec Holding
buy (reiterated)

Michał Konarski +48 22 438 24 05 michal.konarski@mbank.pl

Current Price	23.50 PLN		**Upside**
9M Target Price	31.36 PLN		+33.4%

We maintain a buy rating for SKH, with the price target at PLN 31.36 per share. Our outlook takes into account the newest proposal by the Finance Ministry to gradually lower the fixed fee to 2.0% in 2022 (as compared to 3.0% proposed earlier), and slower market growth in a medium term. Positive information is the continued possibility of charging a variable fee by investment funds, which in the past was not always included in Skarbiec's valuation, and the cooperation with Trigon TFI. We are concerned about the NBP's proposal that the fee should be lowered to 1.5%, but we believe that the comments will be the subject of an in-depth debate with the market. Skarbiec Holding has started strategic cooperation with Trigon TFI under which it will take over the management of 5 portfolios of funds. The transfer of funds will happen at stages, which means that in a short time SKH will receive the fee for managing them. As at the end of September, Trigon TFI owned PLN 1.2bn of AUM of the capital market, but we believe that the part managed by SKH at the first stage will be significantly smaller. Initially, we assess the cooperation positively, especially in the light of falling fees, but we will present the final evaluation of the cooperation after we know the final conditions. Currently, we expect an increase in AUM of Skarbiec at an average annual rate of +10.5% over the next 9 years with market growth of 7.0%, which will translate into a growing market share from 2.6% now to 3.1% in 2026. We expect that during the whole period of our forecast Skarbiec Holding will pay out a generous dividend with DYield of 14-19%.

	rating	target price	issued
new	**buy**	**31.36 PLN**	**2018-12-05**
old	buy	31.02 PLN	2018-11-05

Key Metrics			**SKH**	**vs. WIG**
Ticker	SKH	1M Price Chng	+8.3%	+2.5%
ISIN	PLSKRBH00014	YTD Price Chng	-15.2%	-8.6%
Outst. Stock (m)	6.8	ADTV 1M		PLN 0.1m
MC (PLN m)	160.3	ADTV 6M		PLN 0.4m
		P/E 12M fwd	7.1	-8.3%
Free Float	25.4%	P/E 5Y avg	7.8	discount

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	109.2	99.7	103.7	107.7	112.7
Mgmt fees	69.6	80.0	81.8	87.3	91.8
Success fees	31.4	14.5	16.2	14.3	14.3
Costs	-69.2	-76.5	-77.6	-80.3	-85.6
Net income	32.5	19.5	21.9	23.1	22.8
P/E	4.9	8.2	7.3	6.9	7.0
P/B	1.6	1.8	1.8	1.8	1.8
ROE	34.1%	20.6%	24.4%	25.3%	25.0%
DPS	3.08	4.57	3.00	3.30	3.36
DYield	13.1%	19.5%	12.8%	14.0%	14.3%

Projection Update (% change)	2018P	2019P	2020P
Management fees	0.0%	0.0%	0.0%
Success fees	0.0%	0.0%	0.0%
Revenue	0.0%	0.0%	0.0%
Total costs	0.0%	0.0%	0.0%
Net income	0.0%	0.0%	0.0%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
Management fees	69.6	80.9	81.8	87.3	91.8
Success fees	31.4	15.2	16.2	14.3	14.3
Other	8.3	5.4	5.6	6.1	6.6
Revenue	**109.2**	**101.5**	**103.7**	**107.7**	**112.7**
Distribution costs	-34.4	-41.5	-42.6	-44.5	-48.6
Payroll	-16.3	-19.8	-17.5	-17.5	-17.9
Other operating costs	-18.5	-16.8	-17.5	-18.3	-19.2
Operating expenses	**-69.2**	**-78.1**	**-77.6**	**-80.3**	**-85.6**
Other	0.3	0.9	1.0	1.1	1.1
Pre-tax income	**40.3**	**24.3**	**27.1**	**28.5**	**28.2**
Tax	-7.8	-4.7	-5.1	-5.4	-5.4
Net income	**32.5**	**19.6**	**21.9**	**23.1**	**22.8**
Retail AUM	3,919	4,414	4,845	5,383	6,058
Dedicated AUM	14,623	2,375	2,494	2,618	2,749
Total AUM	18,542	6,789	7,339	8,002	8,807

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Cash	**34.6**	**50.1**	**37.2**	**39.1**	**41.6**
Other assets	82.7	67.4	89.1	93.4	99.5
Total assets	**117.2**	**117.5**	**126.3**	**132.5**	**141.2**
Borrowing	**0.3**	**0.1**	**17.4**	**21.9**	**29.6**
Other liabilities	16.1	15.0	18.1	19.2	20.4
Minority interests	0.0	0.0	0.0	0.0	0.0
Equity	**100.8**	**102.4**	**90.8**	**91.3**	**91.2**

Relative Valuation Summary

	P/E			Market Cap./AUM		
	18P	19P	20P	18P	19P	20P
Minimum	7.2	7.1	6.2	0.0	0.0	0.0
Maximum	17.4	15.9	14.1	0.0	0.0	0.0
Median	11.1	11.4	10.5	0.0	0.0	0.0
Weight	17%	17%	17%	17%	17%	17%

Dividend Discount Model (DDM)

(PLN m)	Value	%
PV of Dividends (Explicit Forecast)	133	61%
PV of Dividends (Value Driver)	81	37%
PV of Terminal Value	4	2%
Fair Value as of Jul. 2017	**219**	**100%**
PV Adjustment	-2	
Fair Value	**217**	
Dilution (stock options)	-8	
Fair Value	**209**	
Outst. Shares (millions)	6.8	
Fair Value Per Share (PLN)	**30.64**	
9M Target Price (PLN)	**33.17**	

Economic Profits Model

(PLN m)	Value	%
Opening Tangible NAV	89	41%
Explicit Forecast (2018-2025)	87	40%
Value Driver - 20 yrs	40	18%
Fair Value as of Jan. 2017	**215**	**100%**
PV Adjustment	8	
Fair Value	**223**	
Dilution (stock options)	-8	
Fair Value	**215**	
Outst. Shares (millions)	6.8	
Fair Value Per Share (PLN)	**31.44**	
9M Target Price (PLN)	**34.04**	

Valuation Summary

(PLN m)	Weight	Value
DDM	33%	209
Economic Profits	33%	214.51
Relative	33%	175.35

Per-Share Valuation

(PLN)	Weight	Value
DDM	33%	30.64
Economic Profits	33%	31.44
Relative	33%	25.70
Cost of equity (9M)		8.3%
9M Target Price (PLN)		**31.36**

Chemicals

Ciech

buy (no change)

Jakub Szkopek +48 22 438 24 03 jakub.szkopek@mbank.pl

Current Price	43.58 PLN	**Upside**
9M Target Price	77.05 PLN	+76.8%

	rating	target price	issued
unchanged	**buy**	**77.05 PLN**	**2018-11-05**

The statements from the last conference of the soda industry in China suggest that there are currently no prospects of new production capacities in the world. Until 2023, the global demand for soda ash is expected to grow at an average annual rate of 1.7%, while the supply is expected to grow at an average annual rate of 1.4%. Additionally, further closures of Chinese soda factories due to the environmental policy have a positive impact on the global soda balance. In 2017, the Chinese export increased by 1.5mmt and was 23% lower y/y (in 2018 -11% YTD). With the increase in energy resources observed this year (which affects both the producers of natural soda and of that produced using the Solvey process), we believe that even a 5% y/y increase in soda prices in 2019 is realistically possible (currently the market is expecting around 2% y/y). The extension of two significant glassworks (Guardian and Euroglas) has a positive impact on demand in Central Europe. Moreover, this year some customers that had contracts for soda deliveries from Turkey did not receive the contracted volumes on time due to the low water levels in rivers. In our opinion, it may encourage a large number of customers to contract more soda from local producers in 2019. We reckon that the higher soda prices and the start of a new baking soda investment in Germany will translate into an increase in EBITDA of the soda segment in 2019 by PLN 70m. While the acquisition of Proplan will increase EBITDA in the organic segment by PLN 25m. We maintain the price target for Ciech (PLN 77.05/ share) and a buy rating.

Key Metrics			CIE PW	vs. WIG
Ticker	CIE PW	1M Price Chng	+2.3%	-3.4%
ISIN	PLCIECH00018	YTD Price Chng	-12.8%	-6.3%
Outst. Stock (m)	52.7	ADTV 1M		PLN 5.4m
MC (PLN m)	2,296.7	ADTV 6M		PLN 5.6m
EV (PLN m)	3,643.8	EV/EBITDA 12M fwd	5.2	-16.6%
Free Float	33.0%	EV/EBITDA 5Y avg	6.2	discount

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	3,455	3,579	3,591	3,836	4,050
EBITDA adj.	874	808	687	779	856
EBITDA margin	25.3%	22.6%	19.1%	20.3%	21.1%
EBIT adj.	650	564	413	489	555
Net income adj.	585	373	289	347	399
P/E adj.	3.9	6.2	7.9	6.6	5.7
P/B	1.3	1.0	1.1	1.0	0.9
EV/EBITDA adj.	3.9	3.9	5.3	4.6	4.1
DPS	2.85	0.00	7.50	3.02	4.28
DYield	6.5%	0.0%	17.2%	6.9%	9.8%

Projection Update (% change)	2018P	2019P	2020P
EBITDA	0.0%	0.0%	0.0%
Net income	0.0%	0.0%	0.0%
Soda price (US $/t)	0.0%	0.0%	0.0%
Soda Ciech (PLN/t)	0.0%	0.0%	0.0%
Soda vol (1,000t)	0.0%	0.0%	0.0%
Thermal Coal price (PLN/t)	0.0%	0.0%	0.0%
Coking Coal price ($/t)	0.0%	0.0%	0.0%
Natural Gas price (PLN/m3)	0.0%	0.0%	0.0%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
EBITDA. Soda Div.	799	704	558	628	692
EBITDA, Organic Div.	78	97	90	116	125
EBITDA, Silicates	35	37	44	40	44
EBITDA, Other	-33	-5	-4	-4	-4
EBITDA/tonne, Soda	348	306	245	262	288
Operating cash flow	**837**	**629**	**605**	**680**	**742**
D&A	223	244	274	291	301
Working capital	97	-66	0	-4	-3
Investing cash flow	**-446**	**-389**	**-650**	**-414**	**-377**
CAPEX	458	402	650	414	377
Financing cash flow	**-180**	**-164**	**-440**	**-206**	**-271**
Dividends/Buyback	-150	0	-395	-159	-225
FCF	387	234	-42	267	366
FCF/EBITDA	44%	28%	-6%	34%	43%
OCF/EBITDA	95%	75%	88%	87%	87%

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Assets	4,502	4,644	4,600	4,846	5,070
Fixed assets	3,210	3,205	3,644	3,768	3,846
Equity	1,767	2,188	2,141	2,329	2,503
Minority interests	-3	-3	-3	-3	-3
Net debt	1,116	865	1,350	1,290	1,196
Net debt/EBITDA (x)	1.3	1.0	2.0	1.7	1.4
Net debt/Equity (x)	0.6	0.4	0.6	0.6	0.5

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	5.8	5.9	4.9	4.4	4.4	3.9
Maximum	26.3	25.8	20.9	15.0	13.4	11.6
Median	11.7	10.2	9.2	7.1	6.0	6.0
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Soda Price ($/t)	265	276	276	276	276	276	276	276	276	276	276
Soda Price (PLN/t)	814.5	843.3	866.8	866.8	866.8	866.8	866.8	866.8	866.8	866.8	866.8
Soda vol (1000t)	2,280	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400
Revenue	3,591	3,836	4,050	4,135	4,226	4,258	4,283	4,300	4,317	4,335	4,353
EBITDA	687	779	856	876	889	891	893	888	883	879	874
EBITDA margin	19.1%	20.3%	21.1%	21.2%	21.1%	20.9%	20.9%	20.7%	20.5%	20.3%	20.1%
EBIT	413	489	555	561	583	594	591	582	573	564	556
Tax	79	95	109	110	116	118	118	116	114	113	111
CAPEX	-650	-414	-377	-315	-287	-294	-300	-305	-309	-313	-318
Working capital	0	-4	-3	-1	-1	0	0	0	0	0	0
FCF	-42	267	366	450	485	479	474	467	460	452	446
PV FCF	-41	243	310	354	355	324	296	269	243	218	
WACC	7.0%	7.1%	7.1%	7.2%	7.4%	7.5%	7.6%	7.7%	7.9%	8.0%	8.2%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	2.0%
PV FCF	2,571
Net debt	1,260
Other adj.	-3
Value per share (PLN)	90.66

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	54.45
DCF Val.	50%	90.66
Implied Price		72.55
Cost of equity (9M)		6.3%
9M Target Price		**77.05**

Grupa Azoty

hold (no change)

Jakub Szkopek +48 22 438 24 03 jakub.szkopek@mbank.pl

According to Yara, in 2019 and 2020, apart from China, new fertilizer factories with a total capacity of 2.2mmt annually will be opened vs. 6.7mmt in 2017 and 4.1mmt in 2018. Additionally, in three subsequent years the increase in production capacity will be lower than the increase in demand, which will help the recovery in margin of the fertilizer industry. In our opinion, in Q4 2018 the recovery in margin on the production of nitrate fertilizers will be observed and the acquisition of Compo Expert will make it possible to improve financial results in 2019 (from EBITDA 0.7bn to 1.0bn in 2019). We reckon that after the acquisition of Compo Expert the net debt to EBITDA at the end of 2019 will increase to around 3.0x. This may have a negative impact on the enthusiasm of financial institutions with regard to co-participation in financing PDH project (CAPEX PLN 5.0bn). We see a chance that Grupa Azoty will have to revise its largest investment project or look for an additional partner to finance it (PFR, BGK, another state-owned company). In our opinion, this could be positively received by the financial market. We maintain a hold rating for ATT with the price target unchanged at PLN 33.00 per share.

Current Price	35.48 PLN	**Downside**
9M Target Price	33.00 PLN	-7.0%

	rating	target price	issued
unchanged	**hold**	**33.00 PLN**	**2018-11-23**

Key Metrics			**ATT PW**	**vs. WIG**
Ticker	ATT PW	1M Price Chng	+47.8%	+42.1%
ISIN	PLZATRM00012	YTD Price Chng	-48.1%	-41.5%
Outst. Stock (m)	99.2	ADTV 1M		PLN 16.5m
MC (PLN m)	3,519.5	ADTV 6M		PLN 5.4m
EV (PLN m)	4,926.7	EV/EBITDA 12M fwd	5.3	-20.0%
Free Float	29.0%	EV/EBITDA 5Y avg	6.6	discount

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	8,956	9,617	9,885	11,612	11,935
EBITDA adj.	1,034	1,262	771	996	1,098
EBITDA margin	11.5%	13.1%	7.8%	8.6%	9.2%
EBIT adj.	523	672	103	244	312
Net income adj.	385	550	60	136	153
P/E adj.	9.1	6.4	58.4	25.8	23.0
P/B	0.5	0.5	0.5	0.5	0.5
EV/EBITDA adj.	4.2	3.5	6.4	7.0	7.4
DPS	0.84	0.79	1.20	0.07	0.28
DYield	2.4%	2.2%	3.4%	0.2%	0.8%

Projection Update (% change)	2018P	2019P	2020P
EBITDA	0.0%	0.0%	0.0%
Net income	0.0%	0.0%	0.0%
Urea price (PLN/t)	0.0%	0.0%	0.0%
Ammonium Nitrate price (PLN/t)	0.0%	0.0%	0.0%
Natural Gas price (PLN/m3)	0.0%	0.0%	0.0%
Melamine (PLN/t)	0.0%	0.0%	0.0%
Polyamide 6 (PLN/t)	0.0%	0.0%	0.0%
Propylene (PLN/t)	0.0%	0.0%	0.0%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
EBITDA, Fertilizers	600	484	80	318	389
EBITDA, Plastics	-33	221	189	179	176
EBITDA, Chemicals	271	348	280	291	263
EBITDA, Energy	0.0	0.0	0.0	135.7	142.3
EBITDA, Other	135	134	190	74	128
Operating cash flow	**1,136**	**1,107**	**735**	**937**	**1,070**
D&A	511	590	667	752	786
Working capital	137	13	-6	-38	-7
Investing cash flow	**-1,303**	**-709**	**-820**	**-2,858**	**-2,017**
CAPEX	1,236	1,063	1,020	2,912	2,017
Financing cash flow	**76**	**39**	**-163**	**1,466**	**710**
Dividends/Buyback	-83	-78	-119	-7	-27
FCF	-214	53	-291	-1,982	-952
FCF/EBITDA	-21%	4%	-39%	-199%	-87%
OCF/EBITDA	114%	93%	99%	94%	97%

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Assets	11,052	11,738	11,704	13,741	14,814
Fixed assets	7,651	8,070	8,432	10,596	11,835
Equity	6,534	6,856	6,771	6,901	7,027
Minority interests	595	588	585	589	591
Net debt	273	367	822	2,890	4,008
Net debt/EBITDA (x)	0.3	0.3	1.1	2.9	3.7
Net debt/Equity (x)	0.0	0.1	0.1	0.4	0.6

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	9.0	8.8	7.6	6.0	5.7	5.3
Maximum	34.5	16.4	13.6	11.1	8.7	7.8
Median	18.6	10.6	8.8	8.9	7.1	6.6
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Urea price (PLN/t)	1,500	1,554	1,561	1,572	1,564	1,568	1,568	1,568	1,568	1,568	1,568
AN price (PLN/t)	1,239	1,285	1,284	1,294	1,287	1,291	1,291	1,291	1,291	1,291	1,291
NGas cost (PLN/m3)	1,115	1,092	1,120	1,120	1,120	1,120	1,120	1,120	1,120	1,120	1,120
Revenue	9,885	11,612	11,935	12,146	13,221	13,871	14,108	14,310	14,463	14,624	14,728
EBITDA	739	996	1,098	1,207	1,470	1,551	1,583	1,564	1,557	1,557	1,548
EBITDA margin	7.5%	8.6%	9.2%	9.9%	11.1%	11.2%	11.2%	10.9%	10.8%	10.6%	10.5%
EBIT	72	244	312	449	472	550	588	582	599	591	583
Tax	4	29	26	48	21	38	49	52	57	57	56
CAPEX	-1,020	-2,912	-2,017	-1,618	-1,173	-599	-651	-697	-883	-958	-966
Working capital	-6	-38	-7	-5	-23	-14	-5	-4	-3	-4	-2
FCF	-291	-1,982	-952	-463	253	900	878	811	613	539	524
PV FCF	-289	-1,850	-839	-386	196	654	596	513	362	297	
WACC	7.7%	6.6%	6.3%	6.1%	6.5%	6.5%	6.6%	6.7%	6.7%	6.8%	6.8%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	2.0%
PV FCF	5,264
Net debt	486
Other adjustments	-588
Value per share (PLN)	42.25

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	19.92
DCF Val.	50%	42.25
Implied Price		31.08
Cost of equity (9M)		6.3%
9M Target Price		**33.00**

Oil & Gas
Lotos
sell (no change)

Kamil Kliszcz +48 22 438 24 02 kamil.kliszcz@mbank.pl

After a weak Q1, Lotos eventually surprised us with positive results in the refinery segment, so we upgraded our LIFO EBITDA 2018 forecast by 15%. However, it does not change our scenario of a decrease in benchmark margins in 2019, which will additionally be reinforced by an overstated reference base for diesel in H2 2018 (the low level of rivers in Europe complicated logistics on key river routes and increased freight costs, which resulted in an increase in cracks and an additional margin of about PLN 300m for the company). In our opinion, the market is to optimistic as regards the potential impact of IMO on the future results. Futures contracts show that the net scale of EBITDA increase might be smaller (greater impact on HSFO); besides, the market should adapt quite quickly (scrubbers, LNG) and the support for margins may be short-term, especially as 2020-2022 is a period of increased capacity additions. Moreover the market has already discounted virtually 100% of potential synergies from the merger with Orlen even though the process is still at an early stage of anti-trust approvals, and the competition has already voiced over-concentration concerns. Risks such as the new environmental tax coming into force in January (Lotos announced that it will cover it, which might cost at least PLN 200m), possible further delays in EFRA (completion of almost 97%, commissioning planned only in more than half a year's time) or in key investments in E&P are also on the horizon. We maintain a sell rating for LTS.

Current Price	84.72 PLN	**Downside**
9M Target Price	59.84 PLN	-29.4%

	rating	target price	issued
unchanged	**sell**	**59.84 PLN**	**2018-11-15**

Key Metrics			LTS PW	vs. WIG
Ticker	LTS PW	1M Price Chng	+20.3%	+14.6%
ISIN	PLLOTOS00025	YTD Price Chng	+49.4%	+56.0%
Outst. Stock (m)	184.9	ADTV 1M		PLN 25.7m
MC (PLN m)	15,662.5	ADTV 6M		PLN 20.0m
EV (PLN m)	18,002.6	EV/EBITDA 12M fwd	5.6	-5.4%
Free Float	46.8%	EV/EBITDA 5Y avg	5.9	discount

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	20,931	24,186	29,724	30,711	31,076
EBITDA	2,923	3,073	3,482	2,579	3,148
EBITDA margin	14.0%	12.7%	11.7%	8.4%	10.1%
EBIT	1,855	2,229	2,773	1,787	2,217
Net income	1,015	1,672	1,835	1,030	1,171
P/E	15.4	9.4	8.5	15.2	13.4
P/B	1.8	1.5	1.3	1.2	1.2
EV/EBITDA	7.0	5.9	5.2	7.4	6.0
DPS	0.00	1.00	1.00	2.98	1.67
DYield	0.0%	1.2%	1.2%	3.5%	2.0%

Projection Update (% change)	2018P	2019P	2020P
LIFO EBITDA	0.0%	0.0%	0.0%
Net income	0.0%	0.0%	0.0%
Price of Brent crude ($/bbl)	0.0%	0.0%	0.0%
Margin+Urals/Brent price differ. ($/b)	0.0%	0.0%	0.0%
USD/PLN	0.0%	0.0%	0.0%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
LIFO EBITDA (adj.)	**2,596**	**3,050**	**3,024**	**2,545**	**3,075**
Upstream (US)	692	863	927	1,019	1,252
Downstream (DS)	1,761	2,058	1,923	1,357	1,648
Retail	140	139	173	169	175
EV/ LIFO EBITDA (adj.)	**7.8**	**5.9**	**5.9**	**7.4**	**6.1**
LIFO effect	-77	171	622	36	75
Other one-offs	404	-148	-164	-2	-2
Financing activity	**-275**	**219**	**-116**	**-100**	**-271**
Crude thrghpt (mmt)	**10.4**	**9.6**	**10.7**	**10.4**	**10.2**
$ LIFO EBITDA/bbl, DS	5.9	7.7	6.8	4.9	6.0
PLN EBITDA/tonne, Retail	129	131	140	135	137
$ EBITDA/boe, US	18.0	26.9	33.7	36.5	37.8
US output (mboepd)	**26.7**	**23.3**	**20.9**	**20.9**	**24.5**
natural gas	15.6	13.4	11.7	10.8	11.2
crude oil	11.1	9.9	9.2	10.1	13.3

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Operating cash flow	**2,654**	**3,127**	**1,788**	**1,169**	**2,338**
OCF/EBITDA LIFO adj.	102%	103%	59%	46%	76%
CAPEX	**1,244**	**1,439**	**1,072**	**1,763**	**1,310**
Working capital	3,867	4,035	4,976	5,730	5,764
Equity	8,611	10,712	12,113	12,674	13,422
Net debt	**4,808**	**2,505**	**2,340**	**3,502**	**3,168**
Net debt/EBITDA (x)	1.6	0.8	0.7	1.4	1.0

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	3.2	3.0	3.0	1.9	1.8	1.7
Maximum	17.3	15.7	14.8	11.0	10.0	9.6
Median	8.8	9.2	8.0	4.3	4.4	3.9
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis (ex. Upstream)

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Brent	73.2	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0
Margin+Urals/Brent	7.0	5.5	5.5	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
USD/PLN	3.60	3.65	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70
Revenue	28,221	29,113	29,147	29,389	29,119	29,119	29,119	29,119	29,119	29,175	29,175
EBITDA	2,573	1,561	1,896	1,955	1,950	1,945	1,940	1,935	1,929	1,916	1,916
EBITDA margin	9.1%	5.4%	6.5%	6.7%	6.7%	6.7%	6.7%	6.6%	6.6%	6.6%	6.6%
EBIT	2,092	1,021	1,263	1,265	1,296	1,255	1,222	1,195	1,168	1,132	1,183
Tax	398	194	240	240	246	238	232	227	222	215	225
CAPEX	-638	-908	-730	-733	-733	-733	-733	-733	-733	-733	-733
Working capital	-1,078	-754	-34	18	-2	31	23	47	11	5	5
FCF	459	-294	892	999	969	1,004	997	1,022	985	973	963
PV FCF	453	-271	762	792	713	684	629	596	532	487	
WACC	7.7%	7.4%	7.6%	7.8%	7.8%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	1.0%
PV FCF	12,251
Net debt	2,690
Petrobaltic	1,767
Value per share (PLN)	61.28

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	51.30
DCF Val.	50%	61.28
Implied Price		56.29
Cost of equity (9M)		6.3%
9M Target Price		**59.84**

MOL

hold (downgraded)

Kamil Kliszcz +48 22 438 24 02 kamil.kliszcz@mbank.pl

Since we gave our accumulate rating in June, the share price of MOL increased by almost 20%, outrunning broad regional indexes and, therefore, we lower the recommended investments to hold. In our opinion, however, it is still worthwhile to overweight the Hungarian group relative to the Polish competition, in relation to which it is valued at a significant discount. We notice the balanced business profile (virtually 50:50 upstream-downstream), which should be particularly appreciated in the cyclical period more difficult for refinery and petrochemical margins. The strong balance (0.5x DN/EBITDA) ensures not only a stable increase in dividends, but also creates chances for interesting acquisitions in the upstream area. FCF forecast at USD 2.0-2.5bn in the period 2019- 2023 will provide not only an increase in DPS from this year's HUF 85 to HUF 130-140, but will also be enough to pay out special dividends (around HUF 270/share to be distributed in the period). The company maintained the intention of annually reviewing possible opportunities for using the 80m of treasury shares. The revision of volume plans in E&P (average upstream target in 2019-2021 increased to 105-110mboepd from 95-105mboepd) and the announced reclassification of provisions (reclassification of prospective resources in 3 Norwegian fields with a capacity of 300mmboe) should have a positive impact on the sentiment. A potential catalyst that would persuade us to increase the valuation of MOL might be the possible sale of INA following the arbitration ruling expected at the turn of the year (we estimate that in a possible scenario, it might generate even 13- 14% of value for shareholders).

		Upside
Current Price	3,206 HUF	
9M Target Price	3,280 HUF	+2.3%

	rating	target price	issued
new	**hold**	**3,280 HUF**	**2018-12-05**
old	accumulate	3,280 HUF	2018-11-15

Key Metrics			**MOL HB**	**vs. WIG**
Ticker	MOL HB	1M Price Chng	+6.7%	+0.9%
ISIN	HU0000153937	YTD Price Chng	+9.8%	+16.4%
Outst. Stock (m)	738.1	ADTV 1M		HUF 2,651.4m
MC (HUF m)	2,366,439.8	ADTV 6M		HUF 2,000.8m
EV (HUF m)	3,070,608.6	EV/EBITDA 12M fwd	4.2	-2.4%
Free Float	53.5%	EV/EBITDA 5Y avg	4.3	discount

Earnings Projections

(HUF bn)	2016	2017	2018P	2019P	2020P
Revenue	3,553	4,130	5,323	5,356	5,386
EBITDA	623	673	745	666	698
EBITDA margin	17.5%	16.3%	14.0%	12.4%	13.0%
EBIT	308	354	391	294	316
Net income	263	307	270	209	235
P/E	9.0	7.7	8.8	11.3	10.1
P/B	1.6	1.4	1.2	1.2	1.1
EV/EBITDA	5.3	4.6	4.1	4.6	4.4
DPS	70.88	78.13	127.50	102.07	107.17
DYield	2.2%	2.4%	4.0%	3.2%	3.3%

Projection Update (% change)	2018P	2019P	2020P
CCS EBITDA	0.0%	0.0%	0.0%
Net income	0.0%	0.0%	0.0%
Margin+Urals/Brent price differ. ($/b)	0.0%	0.0%	0.0%
Petchem margin ($/t)	0.0%	0.0%	0.0%
Price of Brent crude ($/bbl)	0.0%	0.0%	0.0%

Financial Highlights

(HUF bn)	2016	2017	2018P	2019P	2020P
LIFO EBITDA (adj.)	**605**	**673**	**703**	**654**	**698**
Upstream (US)	190	235	341	360	354
Downstream (DS)	178	198	160	120	145
Retail	86	97	114	116	119
Petchem	144	127	95	61	83
Gas Midtsream	54	61	52	57	58
General expenses	-48	-45	-59	-60	-61
EV/LIFO EBITDA (adj.)	**5.4**	**4.6**	**4.4**	**4.7**	**4.3**
LIFO effect	25	7	41	11	0
Other one-offs	-7	-7	0	0	0
Financing activity	**-35**	**11**	**-21**	**-8**	**-8**
$ LIFO EBITDA/bbl, DS	4.5	5.1	4.3	3.2	3.9
EBITDA/boe, US	17.7	23.9	34.8	37.0	36.9
Ref. thrghpt, mmt	**19.2**	**19.3**	**19.3**	**19.3**	**19.3**
Upstr output, mboepd	**112.6**	**107.4**	**109.7**	**109.3**	**107.7**

Key Balance Sheet Figures

(HUF bn)	2016	2017	2018P	2019P	2020P
Operating cash flow	**519**	**560**	**496**	**599**	**636**
OCF/EBITDA LIFO adj.	86%	83%	71%	92%	91%
CAPEX	**289**	**286**	**307**	**505**	**467**
Working capital	156	248	415	418	420
Equity	1,492	1,741	1,907	2,023	2,162
Net debt	**606**	**435**	**371**	**379**	**315**
Net debt/EBITDA (x)	1.0	0.6	0.5	0.6	0.5

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	3.2	3.0	3.0	1.9	1.8	1.7
Maximum	17.3	15.7	14.8	11.0	10.0	9.6
Median	8.9	8.6	8.0	4.7	4.6	4.1
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis (ex. Upstream)

(HUF bn)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	27+
Brent	73	75	75	75	75	75	75	75	75	75	75
Margin+Urals/Brent	6.8	5.5	6.0	6.0	6.5	6.5	6.5	6.5	6.5	6.5	6.5
USD/HUF	265	265	265	265	265	265	265	265	265	265	265
Revenue	4,990	5,014	5,050	5,046	5,057	5,058	5,059	5,060	5,061	5,061	5,061
EBITDA	404	305	344	372	409	412	416	419	423	427	427
EBITDA margin	8.1%	6.1%	6.8%	7.4%	8.1%	8.1%	8.2%	8.3%	8.4%	8.4%	8.4%
EBIT	238	125	153	161	185	185	186	184	182	189	232
Tax	60	33	40	41	48	47	47	46	45	47	44
CAPEX	-216	-384	-347	-260	-221	-195	-195	-195	-195	-195	-195
Working capital	-93	-3	-2	1	0	1	2	2	2	1	1
FCF	35	-114	-45	73	139	171	176	180	185	186	189
PV FCF	35	-104	-38	56	98	110	104	98	92	85	
WACC	8.6%	8.6%	8.8%	9.1%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Risk-free rate	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%

DCF Summary

(HUF bn)	
Beta	1.0
FCF perp. growth rate	1.0%
PV FCF	1,620
Net debt & adjustments	229
Upstream Valuation	755
Value per share (HUF)	3,074

Valuation Summary

(HUF)	Weight	Price
Relative Val.	50%	3,054
DCF Val.	50%	3,074
Implied Price		3,064
Cost of equity (9M)		7.0%
9M Target Price		**3,280**

PGNiG

buy (no change)

Kamil Kliszcz +48 22 438 24 02 kamil.kliszcz@mbank.pl

Current Price	6.76 PLN	Upside
9M Target Price	7.72 PLN	+14.2%

	rating	target price	issued
unchanged	buy	7.72 PLN	2018-11-05

Reduction in crude oil prices, adjustment of gas prices and lower than expected quarterly results put negative pressure on prices of PGNiG in recent weeks. On the other hand, there were also upside catalysts, such as the decision to pay an advance dividend, the acquisition of assets on the Norwegian Continental Shelf or favorable changes in taxation (acceleration of the calculation of service charges, but simultaneous elimination of the tax on hydrocarbons). With regard to weaker trading results in Q3, we treat them as a result of the slower adjustment of price lists for smaller commercial customers in the environment of jumping price increases and they do not impact our forecast for 2019. We also notice that the market incorrectly interprets this year's losses in the trading segment, forgetting about the characteristics of natural hedging, which this year neutralizes the profits of the upstream segment and "covers" the improvement in the customer margin connected with increasing the geographic premium. When crude oil and gas prices stabilize, this phenomenon will no longer occur next year, which is why we expect a significant revision of the market consensus. With regard to the E&P area, we expect the price of Brent crude to recover to the current levels; however, it should be borne in mind that the quotations of gas, which accounts for 76% of the production volume, are still above our medium-term assumptions (+5%). Our EBITDA forecasts for 2019 – 2020 suggest a consensus revision of about 15%. It is still probable that there will be a favorable arbitration ruling against Gazprom, expected next quarter (retrospective payment of USD 0.6-0.7bn). We maintain a buy rating for PGN.

Key Metrics			PGN PW	vs. WIG
Ticker	PGN PW	1M Price Chng	+6.5%	+0.7%
ISIN	PLPGNIG00014	YTD Price Chng	+10.1%	+16.7%
Outst. Stock (m)	5,778.3	ADTV 1M		PLN 25.9m
MC (PLN m)	39,061.4	ADTV 6M		PLN 23.0m
EV (PLN m)	38,383.9	EV/EBITDA 12M fwd	4.7	-8.5%
Free Float	28.1%	EV/EBITDA 5Y avg	5.1	discount

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	33,196	35,857	41,917	46,283	45,665
EBITDA	5,974	6,579	8,101	9,186	9,444
EBITDA margin	18.0%	18.3%	19.3%	19.8%	20.7%
EBIT	3,360	3,910	5,397	6,489	6,701
Net income	2,351	2,923	3,818	4,758	4,958
P/E	16.6	13.4	10.2	8.2	7.9
P/B	1.2	1.2	1.1	1.0	0.9
EV/EBITDA	6.6	6.0	4.7	3.9	3.5
DPS	0.18	0.20	0.07	0.13	0.25
DYield	2.7%	3.0%	1.0%	1.9%	3.7%

Projection Update (% change)	2018P	2019P	2020P
EBITDA	0.0%	0.0%	0.0%
Net income	0.0%	0.0%	0.0%
Price of Brent crude ($/bbl)	0.0%	0.0%	0.0%
Price of EU NatGas (EUR/MWh)	0.0%	0.0%	0.0%
USD/PLN	0.0%	0.0%	0.0%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
EBITDA (adj.)	**6,862**	**7,356**	**8,101**	**9,186**	**9,444**
EBITDA	5,974	6,579	8,101	9,186	9,444
Mining	2,206	3,865	5,558	5,362	5,448
Trade	614	-435	-370	810	869
Distribution	2,559	2,493	2,378	2,291	2,299
Heat & Power	759	843	727	919	1,029
Other	-164	-187	-192	-196	-201
Financing activity	**-150**	**12**	**-63**	**-18**	**47**
Crude output, mmt	**1.35**	**1.27**	**1.34**	**1.23**	**1.22**
domestic	0.75	0.79	0.82	0.78	0.78
international	0.59	0.48	0.52	0.45	0.44
NatGas output, bn m3	**4.5**	**4.5**	**4.5**	**4.6**	**4.6**
domestic	3.9	3.8	3.8	3.8	3.8
international	0.6	0.7	0.7	0.8	0.8
Trade mrgn, PLN/MWh	**0.4**	**-2.4**	**-4.4**	**2.3**	**3.1**

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Operating cash flow	**5,922**	**4,816**	**5,856**	**7,294**	**7,760**
OCF/EBITDA	99%	73%	72%	79%	82%
CAPEX	**2,968**	**3,162**	**4,283**	**3,797**	**3,829**
Working capital	3,619	5,280	6,565	7,249	7,152
Equity	32,013	33,626	37,039	41,056	44,587
Net debt	**523**	**428**	**-679**	**-3,413**	**-5,955**
Net debt/EBITDA (x)	0.1	0.1	-0.1	-0.4	-0.6

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	3.1	3.2	3.2	2.9	3.0	2.8
Maximum	26.2	17.3	16.9	12.8	12.4	11.6
Median	12.5	11.7	11.2	5.7	5.6	5.3
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Brent	73.2	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0
EU NatGas	22.2	23.1	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7
USD/PLN	3.60	3.65	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70
Revenue	41,917	46,283	45,665	46,381	45,866	42,552	42,106	40,582	39,592	40,356	40,356
EBITDA	8,101	9,186	9,444	9,349	8,880	8,687	8,684	8,459	8,365	8,464	8,464
EBITDA margin	19.3%	19.8%	20.7%	20.2%	19.4%	20.4%	20.6%	20.8%	21.1%	21.0%	21.0%
EBIT	5,397	6,489	6,701	6,542	6,037	5,794	5,690	5,436	5,269	5,231	4,386
Tax	1,529	1,717	1,781	1,741	1,588	1,499	1,472	1,348	1,272	1,265	1,086
CAPEX	-4,283	-3,797	-3,829	-3,856	-3,971	-3,993	-4,015	-4,016	-4,034	-4,078	-4,078
Working capital	-1,285	-684	97	-112	81	519	70	239	155	-120	-120
FCF	1,004	2,989	3,931	3,641	3,401	3,714	3,268	3,334	3,215	3,001	3,180
PV FCF	962	2,629	3,174	2,699	2,315	2,320	1,874	1,755	1,554	1,331	
WACC	8.9%	8.9%	8.9%	8.9%	8.9%	8.9%	8.9%	8.9%	8.9%	8.9%	8.5%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.1
FCF perp. growth rate	2.0%
PV FCF	42,469
Net debt	428
Other adjustments	835
Value per share (PLN)	7.42

Valuation Summary

(PLN)	Weight	Price
Relative (Earnings)	33%	9.12
Relative (DYield)	17%	2.91
DCF	50%	7.42
Cost of equity (9M)		6.7%
9M Target Price		**7.72**

mBank Dom Maklerski

PKN Orlen

sell (no change)

Kamil Kliszcz +48 22 438 24 02 kamil.kliszcz@mbank.pl

In our scenario of further reduction in benchmark margins in petrochemical and refinery segments, PKN is valued at EV/LIFO EBITDA 2019 of ~8.0x with a large premium in relation to competitors. The company is the most exposed to increasing negative trends in the downstream area, which is shown by a series of 4 consecutive quarters of declining y/y results (on average -22%). Except for a short-term recovery of refinery (diesel, cheaper crude oil) and petrochemical margins (slump in naphtha and problems with logistics of polyolefin production because of low levels of the Rhine), in our opinion, the coming quarters will be marked by a drop in benchmarks. Assets with lower complexity (Mazeikiai, Unipetrol) may lose volumes in such conditions, especially as until now they have been used in almost 100%. In the next year, retail may be under pressure because of the risk connected with the environmental tax (PLN ~0.7bn on EBITDA if paid by the company). We also have a negative view of the decision to make large acquisitions (Unipetrol, LTS) practically at the peak of the cycle. Additionally, in the case of Lotos, due to the structure of the transaction, Orlen's shareholders "return" most of the synergy in the high purchase price. Theoretical costs of this acquisition (given the target consolidation of 100%) increased in these 9 months by PLN 4.1bn, i.e. is by PLN 9.5/share (the current 6M average would imply an increase in these costs by PLN 1.9bn, i.e. PLN 4.5/Orlen share). With regard to the new strategy to be revealed at the end of the year, we treat it rather as a potential risk due to the low consensus assumptions of CAPEX for the coming years. We maintain a sell rating for PKN.

Current Price	108.90 PLN	**Downside**
9M Target Price	81.52 PLN	-25.1%

	rating	target price	issued
unchanged	**sell**	**81.52 PLN**	**2018-11-15**

Key Metrics				PKN PW	vs. WIG
Ticker	PKN PW	1M Price Chng		+16.5%	+10.7%
ISIN	PLPKN0000018	YTD Price Chng		+5.7%	+12.3%
Outst. Stock (m)	427.7	ADTV 1M			PLN 100.8m
MC (PLN m)	46,577.5	ADTV 6M			PLN 81.9m
EV (PLN m)	50,582.2	EV/EBITDA 12M fwd		5.7	+0.3%
Free Float	67.6%	EV/EBITDA 5Y avg		5.7	premium

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	79,553	95,364	108,235	111,863	114,549
EBITDA	9,642	11,078	9,865	6,282	7,458
EBITDA margin	12.1%	11.6%	9.1%	5.6%	6.5%
EBIT	7,532	8,657	7,210	3,389	4,346
Net income	5,261	6,655	5,708	2,811	3,237
P/E	8.9	7.0	8.2	16.6	14.4
P/B	1.7	1.4	1.3	1.2	1.2
EV/EBITDA	5.4	4.5	5.1	8.1	6.7
DPS	2.13	3.00	3.00	3.00	3.00
DYield	2.0%	2.8%	2.8%	2.8%	2.8%

Projection Update (% change)	2018P	2019P	2020P
LIFO EBITDA	0.0%	0.0%	0.0%
Net income	0.0%	0.0%	0.0%
Margin+Urals/Brent price differ. ($/b)	0.0%	0.0%	0.0%
Petchem margin ($/t)	0.0%	0.0%	0.0%
USD/PLN	0.0%	0.0%	0.0%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
LIFO EBITDA (adj.)	**7,668**	**9,581**	**7,697**	**6,235**	**7,361**
Downstream(DS)	4,549	4,689	3,421	2,054	2,634
Petchem	1,776	3,034	2,140	2,107	2,561
Retail	1,832	2,049	2,398	2,181	2,230
Upstream	255	293	327	374	383
Electricity	0	129	147	291	342
General expenses	-744	-613	-736	-772	-789
EV/LIFO EBITDA (adj.)	**6.8**	**5.3**	**6.6**	**8.2**	**6.8**
LIFO effect	86	788	1,632	47	98
Other one-offs	1,888	709	536	0	0
Financing activity	**-645**	**60**	**-127**	**82**	**-349**
$ LIFO EBITDA/bbl, DS	5.3	4.9	4.0	2.5	3.1
PLN EBITDA/tonne, Retail	224	232	254	227	229
Refinery thrghpt (mmt)	**29.6**	**34.8**	**32.7**	**31.3**	**31.3**
Petchem output (kt)	**3,071**	**3,551**	**3,616**	**3,781**	**3,781**

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Operating cash flow	**9,331**	**8,050**	**6,866**	**5,050**	**6,190**
OCF/EBITDA LIFO adj.	122%	84%	89%	81%	84%
CAPEX	**5,033**	**4,039**	**4,500**	**4,250**	**3,650**
Working capital	6,144	7,489	9,142	9,715	10,223
Equity	26,763	32,197	36,622	38,150	40,104
Net debt	**3,363**	**761**	**4,005**	**4,406**	**3,498**
Net debt/EBITDA (x)	0.3	0.1	0.4	0.7	0.5

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	5.4	5.5	4.8	2.4	2.3	2.4
Maximum	17.4	16.9	16.7	16.8	16.8	17.0
Median	8.2	8.9	7.5	5.0	5.2	4.9
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Margin+Urals/Brent	6.5	5.0	5.5	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Petchem margin	458	347	381	341	341	341	341	341	341	341	341.3
USD/PLN	3.60	3.65	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70
Revenue	108,235	111,863	114,549	115,139	115,596	116,093	116,597	117,108	117,626	118,154	118,154
EBITDA	9,865	6,282	7,458	7,710	7,676	7,750	7,766	7,769	7,774	7,714	7,714
EBITDA margin	9.1%	5.6%	6.5%	6.7%	6.6%	6.7%	6.7%	6.6%	6.6%	6.5%	6.5%
EBIT	7,210	3,389	4,346	4,637	4,538	4,565	4,515	4,428	4,325	4,299	4,264
Tax	1,370	644	826	881	862	867	858	841	822	817	810
CAPEX	-8,700	-4,250	-3,650	-3,450	-3,450	-3,450	-3,450	-3,450	-3,450	-3,450	-3,450
Working capital	-1,653	-573	-508	-149	-73	-79	-80	-81	-82	-84	-84
FCF	-1,858	815	2,474	3,229	3,291	3,354	3,378	3,396	3,420	3,363	3,214
PV FCF	-1,835	747	2,102	2,539	2,390	2,247	2,096	1,951	1,819	1,656	
WACC	7.8%	7.8%	7.9%	8.1%	8.2%	8.4%	8.0%	8.0%	8.0%	8.0%	8.0%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	1.0%
PV FCF	38,271
Net debt	2,044
Other adjustments	0
Value per share (PLN)	84.70

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	68.66
DCF Val.	50%	84.70
Implied Price		76.68
Cost of equity (9M)		6.3%
9M Target Price		**81.52**

Power Utilities

CEZ

hold (no change)

Kamil Kliszcz +48 22 438 24 02 kamil.kliszcz@mbank.pl

Current Price	549.00 CZK	Downside
9M Target Price	518.72 CZK	-5.5%

	rating	target price	issued
unchanged	hold	518.72 CZK	2018-11-05

Due to the structure of its production portfolio (45% nuclear, 41% mostly vertically integrated lignite, 8% RES), CEZ is very well positioned in the context of current macroeconomic trends (strong increase in CO_2, coal and gas prices). Because of the group's hedging policy, this model increase in profitability is only fully reflected after 2020. Due to the operational leverage, EBITDA increase is significant and only in 2021 exceeds CZK 6bn (with the price of EUR 47/MWh). In this scenario, it seems highly probable that DPS will return to over CZK 30, which would imply DYield of ~6%. We also notice the recent rather reassuring declarations by representatives of the Czech government concerning a possible delay in the decision on the construction of new nuclear reactors, along with the extension of the lifetime of the Dukovany power plant. We would like to remind you that every 1 GW of nuclear power without support could reduce the value of the group by 10 – 13% (there is still no 100% certainty that this will not happen given the position of the Czech prime minister). At the same time, we would like to draw attention to the fact that in spite of the promising prospect for the results after 2020, the current valuation ratios may effectively block price increases from current levels. The premium for EV/EBITDA for Stoxx Utilities currently amounts to 10% compared to a 3-year average of 2%, the premium in the offered dividend rate to the risk-free rate is "only" 2.8% compared to ~5% recorded in the period 2015- 18. In this context, we maintain a neutral rating for CEZ.

Key Metrics			CEZ CP	vs. WIG
Ticker	CEZ CP	1M Price Chng	0.0%	-5.7%
ISIN	CZ0005112300	YTD Price Chng	+18.4%	+25.0%
Outst. Stock (m)	538.0	ADTV 1M	CZK 113.6m	
MC (CZK bn)	295.4	ADTV 6M	CZK 153.0m	
EV (CZK bn)	445.6	EV/EBITDA 12M fwd	8.0	+11.6%
Free Float	30.2%	EV/EBITDA 5Y avg	7.1	premium

Earnings Projections

(CZK m)	2016	2017	2018P	2019P	2020P
Revenue	203,744	201,906	205,509	217,301	237,533
EBITDA	62,418	57,712	52,959	54,657	60,284
EBITDA margin	30.6%	28.6%	25.8%	25.2%	25.4%
EBIT	26,114	25,620	23,424	25,967	30,746
Net income	14,281	18,765	13,901	15,615	18,586
P/E	20.7	15.7	21.2	18.9	15.9
P/B	1.2	1.2	1.2	1.2	1.2
EV/EBITDA	7.1	7.6	8.4	8.2	7.4
DPS	40.00	33.00	33.00	25.84	29.03
DYield	7.3%	6.0%	6.0%	4.7%	5.3%

Projection Update (% change)	2018P	2019P	2020P
EBITDA	0.0%	0.0%	0.0%
Net income	0.0%	0.0%	0.0%
Price of electricity (EUR/MWh)	0.0%	0.0%	0.0%
EUR/CZK	0.0%	0.0%	0.0%
CO2 (EUR/t)	0.0%	0.0%	0.0%

Financial Highlights

(CZK m)	2016	2017	2018P	2019P	2020P
EBITDA (adj.)	**58,596**	**52,196**	**52,114**	**55,505**	**60,029**
EBITDA	58,206	55,155	52,114	55,505	60,029
Generation	25,403	24,050	21,134	24,168	27,405
Mining	4,413	4,056	4,112	4,255	4,306
Distribution	20,386	19,067	19,627	20,119	20,534
Trade	5,489	4,613	4,964	4,525	4,911
Other	2,515	3,369	2,276	2,439	2,874
Financing activity	**-6,786**	**-2,867**	**-6,086**	**-6,490**	**-7,563**
Power output, TWh	**61.1**	**62.9**	**67.0**	**67.6**	**67.7**
Renewables	4.5	4.7	4.9	4.9	5.0
Trade volume, TWh	**37.5**	**37.0**	**37.3**	**37.6**	**37.9**
YoY pct. change	-2.4%	-1.2%	0.8%	0.8%	0.8%
Trade mrgn (CZK/MWh)	146.5	124.6	133.0	120.3	129.6
RAV (CZK bn)	**110.5**	**114.0**	**117.2**	**123.0**	**128.9**
RAV return (EBIT)	13.0%	10.4%	10.4%	10.2%	10.1%

Key Balance Sheet Figures

(CZK m)	2016	2017	2018P	2019P	2020P
Operating cash flow	**48,953**	**45,812**	**50,221**	**51,871**	**54,788**
OCF/EBITDA	84%	83%	96%	93%	91%
CAPEX	**35,553**	**30,688**	**34,963**	**34,663**	**34,463**
Working capital	40,832	24,140	24,100	25,483	27,855
Equity	256,812	250,018	246,165	247,880	250,851
Net debt	**140,886**	**139,546**	**145,953**	**146,976**	**147,693**
Net debt/EBITDA (x)	2.4	2.5	2.8	2.6	2.5

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	3.4	2.9	2.2	3.5	3.3	3.3
Maximum	23.0	18.7	17.8	9.1	9.1	9.0
Median	13.0	12.5	9.4	6.3	6.0	5.8
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis

(CZK m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Power (EUR/MWh)	43.7	48.2	47.0	47.3	45.0	45.3	45.7	46.0	46.3	46.7	46.7
EUR/CZK	25.5	25.5	25.5	25.5	25.5	25.5	25.5	25.5	25.5	25.5	25.5
CO2 (EUR/t)	15.3	17.0	17.3	17.7	18.1	18.4	18.8	19.2	19.6	20.0	20.0
Revenue	205,509	217,301	237,533	245,140	252,520	247,632	249,663	251,726	253,822	255,951	255,951
EBITDA	55,793	59,276	63,894	66,979	70,267	67,289	67,970	68,633	69,273	69,888	69,888
EBITDA margin	27.1%	27.3%	26.9%	27.3%	27.8%	27.2%	27.2%	27.3%	27.3%	27.3%	27.3%
EBIT	23,424	25,967	30,746	33,018	36,723	33,157	33,705	34,045	34,198	34,194	37,229
Tax	4,451	4,934	5,842	6,272	6,975	6,297	6,400	6,464	6,492	6,490	7,074
CAPEX	-34,963	-34,663	-34,463	-33,300	-33,262	-33,215	-33,134	-33,016	-32,858	-32,659	-32,659
Working capital	40	-1,383	-2,373	-892	-865	573	-238	-242	-246	-250	-250
FCF	16,419	18,296	21,217	26,514	29,165	28,350	28,198	28,911	29,678	30,490	29,906
PV FCF	15,891	16,743	18,356	21,686	22,544	20,715	19,474	18,870	18,304	17,764	0
WACC	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.9%	6.8%
Risk-free rate	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%

DCF Summary

(CZK m)	
Beta	1.0
FCF perp. growth rate	2.0%
PV FCF	553,335
Net debt	157,300
Other adjustments	-57,471
Value per share (CZK)	629.31

Valuation Summary

(CZK)	Weight	Price
Relative (Earnings)	33%	238.22
Relative (DYield)	17%	583.60
DCF	50%	629.31
Cost of equity (9M)		5.6%
9M Target Price		**518.72**

Enea

buy (no change)

Kamil Kliszcz +48 22 438 24 02 kamil.kliszcz@mbank.pl

Current Price	11.11 PLN	**Upside**
9M Target Price	15.58 PLN	+40.2%

	rating	target price	issued
unchanged	**buy**	**15.58 PLN**	**2018-11-29**

Enea is the best exposure to favorable sector results (increasing CDS, high power auction prices and the scale of long-term contracts, deficit of coal from local mines) and, in our opinion, EBITDA in 2019 – 2020 will exceed market expectations even by ~16%. The sentiment worsened because of this year's weaker than expected results, but we would like to notice the fact that most of the negative catalysts (mining problems in LWB, coal transport costs and expensive import, low availability of generator 11 in Kozienice forcing balancing with record-high spot quotes, confusion concerning exchange obligation and losses on trading) will not repeat next year. Next year the benchmark margin for the "old" coal power plant will increase by PLN 22/MWh, and for new, highly efficient generator by PLN 36/MWh, which in the case of Enea is reinforced by vertical integration of 75% in fuel deliveries. Moreover, November remit data shows stabilization of operations of generator 11, which will increase the effect of the completion of upgrade of generator 500MW. The cash flow statement looks definitely better than the original assumptions (high CFO thanks to on time purchases of CO_2 and lower CAPEX), which, together with net debt of 1.7x EBITDA as at the end of September, is promising for the years to come in terms of dividend capacity (the Government will make the final decision), even after taking into account the expenses on Ostrołęka C project. In the long term, it is worth securing over 3.6 GW of power at a very high price (PLN 0.9bn) in 5 – 15-year power contracts. Currently, the group is listed with EV/EBITDA 2019 – 2020 of ~3.0x, which is 20% below its closest competitors. We maintain a buy rating for ENA.

Key Metrics			**ENA PW**	**vs. WIG**
Ticker	ENA PW	1M Price Chng	+37.3%	+31.6%
ISIN	PLENEA000013	YTD Price Chng	-3.4%	+3.2%
Outst. Stock (m)	441.4	ADTV 1M		PLN 9.1m
MC (PLN m)	4,904.4	ADTV 6M		PLN 5.7m
EV (PLN m)	11,170.8	EV/EBITDA 12M fwd	3.7	-25.9%
Free Float	48.5%	EV/EBITDA 5Y avg	5.0	discount

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	11,256	11,406	12,427	14,587	15,064
EBITDA	2,328	2,684	2,623	3,589	3,659
EBITDA margin	20.7%	23.5%	21.1%	24.6%	24.3%
EBIT	1,119	1,488	1,193	2,082	2,135
Net income	784	1,070	738	1,417	1,449
P/E	6.3	4.6	6.6	3.5	3.4
P/B	0.4	0.4	0.4	0.3	0.3
EV/EBITDA	4.3	4.2	4.3	3.2	3.2
DPS	0.00	0.28	0.00	0.00	0.00
DYield	0.0%	2.5%	0.0%	0.0%	0.0%

Projection Update (% change)	**2018P**	**2019P**	**2020P**
EBITDA	0.0%	0.0%	0.0%
Net income	0.0%	0.0%	0.0%
Price of electricity (PLN/MWh)	0.0%	0.0%	0.0%
Price of coal (PLN/t)	0.0%	0.0%	0.0%
Price of CO2 allowance (EUR/t)	0.0%	0.0%	0.0%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
EBITDA (adj.)	**2,520**	**2,649**	**2,589**	**3,589**	**3,659**
EBITDA	2,328	2,684	2,623	3,589	3,659
Generation	517	735	894	1,584	1,638
Mining	609	709	525	728	671
Distribution	1,111	1,073	1,149	1,175	1,206
Trade	154	178	50	142	186
Other	-67	-13	6	-41	-42
Financing activity	**-51**	**-21**	**-215**	**-194**	**-232**
Power output, TWh	**13.6**	**21.8**	**26.7**	**29.3**	**28.8**
Renewables	0.5	2.3	1.9	2.0	2.0
Trade volume, TWh	**16.7**	**17.9**	**19.9**	**20.3**	**20.7**
YoY pct. change	3.0%	7.3%	11.2%	1.9%	1.9%
Trade mrgn (PLN/MWh)	9.2	9.9	2.5	7.0	9.0
RAV (PLN bn)	**7.3**	**7.5**	**8.0**	**8.3**	**8.6**
RAV return (EBIT)	8.7%	7.7%	7.8%	7.5%	7.5%

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Operating cash flow	**2,424**	**2,580**	**2,776**	**2,388**	**3,248**
OCF/EBITDA	104%	96%	106%	67%	89%
CAPEX	**2,688**	**2,058**	**2,329**	**2,512**	**2,848**
Working capital	1,132	698	649	1,492	1,540
Equity	12,176	13,078	13,807	15,214	16,653
Net debt	**4,379**	**5,523**	**5,300**	**5,629**	**5,470**
Net debt/EBITDA (x)	1.9	2.1	2.0	1.6	1.5

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	4.0	3.1	2.6	3.7	3.8	3.3
Maximum	22.9	19.3	18.4	12.8	11.6	9.4
Median	14.2	13.3	12.2	7.7	7.1	6.6
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Power (PLN/MWh)	167.0	241.1	250.3	233.9	224.9	208.5	209.9	211.4	213.0	214.5	214.5
Coal (PLN/t)	239.1	269.8	262.5	262.5	240.6	240.6	240.6	240.6	240.6	240.6	240.6
CO2 (EUR/t)	15.3	17.0	17.3	17.7	18.1	18.4	18.8	19.2	19.6	20.0	20.0
Revenue	12,427	14,587	15,064	14,458	14,147	13,669	13,991	14,197	14,411	14,633	14,633
EBITDA	2,623	3,589	3,659	4,006	3,781	3,373	3,487	3,516	3,388	3,426	3,426
EBITDA margin	21.1%	24.6%	24.3%	27.7%	26.7%	24.7%	24.9%	24.8%	23.5%	23.4%	23.4%
EBIT	1,193	2,082	2,135	2,450	2,223	1,752	1,794	1,785	1,613	1,606	1,183
Tax	227	396	406	465	422	333	341	339	307	305	225
CAPEX	-2,329	-2,512	-2,848	-2,886	-2,690	-2,233	-2,140	-2,173	-2,208	-2,243	-2,243
Working capital	49	-842	-49	62	32	49	-33	-21	-22	-23	-23
FCF	116	-161	356	716	701	856	974	983	851	855	935
PV FCF	115	-150	309	578	528	601	637	599	483	451	
WACC	6.9%	7.0%	7.2%	7.3%	7.2%	7.2%	7.3%	7.4%	7.5%	7.5%	7.7%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.1
FCF perp. growth rate	2.0%
PV FCF	12,857
Net debt	5,523
Other adjustments	-921
Value per share (PLN)	14.53

Valuation Summary

(PLN)	Weight	Price
Relative (Earnings)	0%	36.83
Relative (DYield)	0%	0.00
DCF	100%	14.53
Cost of equity (9M)		6.7%
9M Target Price		**15.58**

Energa

buy (no change)

Kamil Kliszcz +48 22 438 24 02 kamil.kliszcz@mbank.pl

Energa is, next to Tauron and ZEPAK, the worst representative of YTD. Until recently, this could have been explained by concerns about huge losses on regulated trading (even PLN -0.4bn), but everything indicates that the Energy Regulatory Office will approve tariffs based on justified costs, and the government will finance compensation from CO_2 sales revenues. This means that next year's EBITDA of the segment should improve significantly because of no losses on balancing. In this scenario, the group with a dominant exposure to distribution and RES (90% in EBITDA) and a secure balance profile even when taking into account the expenditure on Ostrołęka C (DN/EBITDA 2.7x when the expenses peaked) should, in our opinion, be valued above its RAV, while the market EV implies a 35% discount. Simultaneously, we notice that, in view the current favorable macroeconomic conditions and positive results of the power auction (Energa surprised also with regard to the contracted volumes), the forecasts for Ostrołęka project are the best since its initiation. Of course, it is difficult to decide on the basis of spot results on the profitability of such an investment, but this should at least reduce the discounts applied on this account in valuation It cannot also be ignored that together with higher prices of green certificates (PLN 150/MWh) and signed settlements (160MW from 530MW) potential claims due to annulment of long-term agreements with wind farms continue to decrease. Currently, they are estimated at around PLN 0.4bn in comparison with the initial amount of PLN 2.1bn. We maintain a buy rating for ENG.

		Upside
Current Price	9.67 PLN	
9M Target Price	13.54 PLN	+40.0%

	rating	target price	issued
unchanged	buy	13.54 PLN	2018-11-29

Key Metrics			ENG PW	vs. WIG
Ticker	ENG PW	1M Price Chng	+23.2%	+17.4%
ISIN	PLENERG00022	YTD Price Chng	-24.0%	-17.5%
Outst. Stock (m)	414.1	ADTV 1M		PLN 6.5m
MC (PLN m)	4,004.0	ADTV 6M		PLN 5.3m
EV (PLN m)	8,220.7	EV/EBITDA 12M fwd	3.9	-18.7%
Free Float	48.5%	EV/EBITDA 5Y avg	4.8	discount

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	10,181	10,534	10,371	12,293	12,718
EBITDA	2,027	2,160	2,068	2,206	2,201
EBITDA margin	19.9%	20.5%	19.9%	17.9%	17.3%
EBIT	487	1,210	1,226	1,184	1,175
Net income	151	773	801	753	700
P/E	26.5	5.2	5.0	5.3	5.7
P/B	0.5	0.4	0.4	0.4	0.3
EV/EBITDA	4.3	3.8	4.0	3.9	4.2
DPS	0.49	0.19	0.00	0.00	0.00
DYield	5.1%	2.0%	0.0%	0.0%	0.0%

Projection Update (% change)	2018P	2019P	2020P
EBITDA	0.0%	0.0%	0.0%
Net income	0.0%	0.0%	0.0%
Price of electricity (PLN/MWh)	0.0%	0.0%	0.0%
Price of coal (PLN/t)	0.0%	0.0%	0.0%
Price of CO2 allowance (EUR/t)	0.0%	0.0%	0.0%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
EBITDA (adj.)	**2,040**	**2,091**	**2,068**	**2,206**	**2,201**
EBITDA	2,027	2,160	2,068	2,206	2,201
Conv. Gener./CHP	195	229	132	155	94
Renewables	119	169	229	280	295
Distribution	1,720	1,723	1,740	1,701	1,740
Trade	40	85	38	141	145
Other	-48	-46	-70	-71	-73
Financing activity	**-282**	**-208**	**-235**	**-252**	**-309**
Power output, TWh	**3.9**	**4.3**	**3.8**	**3.8**	**3.8**
Renewables	0.5	0.7	0.6	0.6	0.6
Trade volume, TWh	**19.6**	**20.4**	**19.8**	**20.1**	**20.4**
YoY pct. change	17.1%	4.0%	-3.0%	1.5%	1.5%
Trade mrgn (PLN/MWh)	4.2	2.0	1.9	7.0	7.1
RAV (PLN bn)	**11.5**	**11.7**	**12.2**	**12.6**	**12.9**
RAV return (EBIT)	8.5%	8.2%	8.1%	7.0%	7.1%

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Operating cash flow	**1,782**	**2,182**	**1,833**	**1,760**	**1,977**
OCF/EBITDA	88%	101%	89%	80%	90%
CAPEX	**1,580**	**1,280**	**1,693**	**1,971**	**2,327**
Working capital	1,608	1,403	1,450	1,718	1,778
Equity	8,777	9,409	10,210	10,963	11,663
Net debt	**4,664**	**4,064**	**4,171**	**4,636**	**5,296**
Net debt/EBITDA (x)	2.3	1.9	2.0	2.1	2.4

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	4.0	3.1	2.6	3.7	3.2	3.1
Maximum	22.9	19.3	18.4	12.8	11.6	9.4
Median	14.2	13.3	12.2	7.7	7.1	6.6
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Power (PLN/MWh)	167.0	241.1	250.3	233.9	224.9	208.5	209.9	211.4	213.0	214.5	214.5
Coal (PLN/t)	239.1	269.8	262.5	262.5	240.6	240.6	240.6	240.6	240.6	240.6	240.6
CO2 (EUR/t)	15.3	17.0	17.3	17.7	18.1	18.4	18.8	19.2	19.6	20.0	20.0
Revenue	10,371	12,293	12,718	12,501	12,409	12,170	12,303	12,439	12,576	12,713	12,713
EBITDA	2,068	2,206	2,201	2,331	2,310	2,453	2,633	2,692	2,716	2,774	2,774
EBITDA margin	19.9%	17.9%	17.3%	18.6%	18.6%	20.2%	21.4%	21.6%	21.6%	21.8%	21.8%
EBIT	1,226	1,184	1,175	1,261	1,278	1,354	1,461	1,483	1,466	1,516	1,516
Tax	233	225	223	240	243	257	278	282	279	288	288
CAPEX	-1,693	-1,971	-2,327	-2,332	-2,157	-1,726	-1,559	-1,568	-1,575	-1,578	-1,578
Working capital	-47	-269	-59	30	13	33	-19	-19	-19	-19	-19
FCF	96	-259	-408	-210	-77	503	778	823	843	888	888
PV FCF	95	-240	-352	-169	-57	351	505	497	472	461	
WACC	7.4%	7.4%	7.3%	7.3%	7.3%	7.3%	7.5%	7.6%	7.7%	8.0%	8.0%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.1
FCF perp. growth rate	2.0%
PV FCF	9,374
Net debt	4,064
Other adjustments	-56
Value per share (PLN)	12.69

Valuation Summary

(PLN)	Weight	Price
Relative (Earnings)	0%	24.83
Relative (DYield)	0%	0.00
DCF	100%	12.69
Cost of equity (9M)		6.7%
9M Target Price		**13.54**

PGE

buy (no change)

Kamil Kliszcz +48 22 438 24 02 kamil.kliszcz@mbank.pl

The share price of PGE started to recover from historical lows, although this recovery came quite slowly, as we pointed out in our special commentary in mid-September. Eventually, since that publication the valuation has increased by over 30% reflecting, at least partially, the record-high CDS margins and a positive surprise in the power auction. We notice that the favorable macroeconomic conditions will be fully reflected in the results only in 2020 (increase in the spread of lignite by PLN 50/MWh and of hard coal by 45%, PLN 60/MWh), but already next year the company should bring a positive surprise, despite the very cautious forecasts of the management board and considering lower volumes from Bełchatów Power Plant and a significant decrease in co-generation support. Apart from much higher CDS, catalysts should be the commissioning of new generators in Opole, normalization of weather conditions, higher profits from RES and valuation of 10mmt of free CO_2 allowances at higher prices. We expect that in the nearest December power auctions PGE will add to its portfolio additional 5-year agreements, which will secure cash flows for the next decade. In our opinion, FCF forecast for the coming years fully justifies the return to dividend policy next year (in 2019 – 2022 average FCF/EV will amount to 12% and the current DN/EBITDA 1.4x). In particular, we are not in favor of the nuclear project developing beyond the planning phase (it was not changed by the last announcement about PGE repurchasing the remaining 30% in the purpose vehicle) and the published project of the country's energy policy excludes bigger investments in new coal strip mines. We maintain a buy rating for PGE.

		Upside
Current Price	11.98 PLN	
9M Target Price	14.82 PLN	+23.7%

	rating	target price	issued
unchanged	**buy**	**14.82 PLN**	**2018-11-29**

Key Metrics			**PGE PW**	**vs. WIG**
Ticker	PGE PW	1M Price Chng	+12.7%	+7.0%
ISIN	PLPGER000010	YTD Price Chng	-0.6%	+6.0%
Outst. Stock (m)	1,869.8	ADTV 1M		PLN 32.1m
MC (PLN m)	22,400.0	ADTV 6M		PLN 20.1m
EV (PLN m)	32,960.2	EV/EBITDA 12M fwd	4.5	-7.5%
Free Float	42.6%	EV/EBITDA 5Y avg	4.9	discount

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	28,092	23,100	25,633	39,399	43,211
EBITDA	7,376	7,650	6,749	7,694	8,599
EBITDA margin	26.3%	33.1%	26.3%	19.5%	19.9%
EBIT	3,512	3,620	3,010	3,934	4,565
Net income	2,568	2,660	2,127	2,811	3,331
P/E	8.7	8.4	10.5	8.0	6.7
P/B	0.5	0.5	0.5	0.4	0.4
EV/EBITDA	3.7	4.1	4.9	4.2	3.6
DPS	0.25	0.00	0.00	0.00	0.38
DYield	2.1%	0.0%	0.0%	0.0%	3.1%

Projection Update (% change)	2018P	2019P	2020P
EBITDA	0.0%	0.0%	0.0%
Net income	0.0%	0.0%	0.0%
Price of electricity (PLN/MWh)	0.0%	0.0%	0.0%
Price of coal (PLN/t)	0.0%	0.0%	0.0%
Price of CO2 allowance (EUR/t)	0.0%	0.0%	0.0%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
EBITDA (adj.)	**6,124**	**6,481**	**6,849**	**7,694**	**8,599**
EBITDA	7,376	7,650	6,749	7,694	8,599
Generation	4,182	4,099	3,088	3,948	4,824
Renewables	365	364	521	623	644
Distribution	2,230	2,333	2,457	2,468	2,475
Trade	500	811	610	611	613
Other	99	43	73	43	43
Financing activity	**-238**	**-330**	**-277**	**-403**	**-391**
Power output, TWh	**53.7**	**56.8**	**66.0**	**66.6**	**79.2**
Renewables	2.4	2.4	2.2	2.3	2.3
Trade volume, TWh	**43.0**	**40.4**	**42.9**	**43.5**	**44.2**
YoY pct. change	10.2%	-5.9%	6.0%	1.5%	1.5%
Trade mrgn (PLN/MWh)	11.6	20.1	14.2	14.1	13.9
RAV (PLN bn)	**15.1**	**15.6**	**16.3**	**16.7**	**17.0**
RAV return (EBIT)	7.3%	7.5%	8.0%	7.8%	7.7%

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Operating cash flow	**6,391**	**7,934**	**4,592**	**7,569**	**7,425**
OCF/EBITDA	87%	104%	68%	98%	86%
CAPEX	**7,935**	**6,071**	**6,103**	**6,354**	**5,153**
Working capital	3,325	3,388	4,486	3,940	4,321
Equity	42,679	45,188	47,242	49,979	52,534
Net debt	**5,045**	**7,487**	**9,348**	**8,609**	**7,504**
Net debt/EBITDA (x)	0.7	1.0	1.4	1.1	0.9

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	4.0	3.1	2.6	3.7	3.2	3.1
Maximum	22.9	19.3	18.4	12.8	11.6	9.4
Median	14.2	13.3	12.2	7.7	7.1	6.6
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Power (PLN/MWh)	167.0	241.1	250.3	233.9	224.9	208.5	209.9	211.4	213.0	214.5	214.5
Coal (PLN/t)	239.1	269.8	262.5	262.5	240.6	240.6	240.6	240.6	240.6	240.6	240.6
CO2 (EUR/t)	15.3	17.0	17.3	17.7	18.1	18.4	18.8	19.2	19.6	20.0	20.0
Revenue	25,633	39,399	43,211	41,428	40,332	38,309	38,629	38,981	39,333	39,705	39,705
EBITDA	6,749	7,694	8,599	10,080	9,371	7,773	7,608	7,547	7,444	7,496	7,496
EBITDA margin	26.3%	19.5%	19.9%	24.3%	23.2%	20.3%	19.7%	19.4%	18.9%	18.9%	18.9%
EBIT	3,010	3,934	4,565	5,959	5,179	3,463	3,153	2,926	2,636	2,684	3,058
Tax	572	747	867	1,132	984	658	599	556	501	510	581
CAPEX	-6,103	-6,354	-5,153	-4,204	-4,301	-4,204	-4,260	-4,318	-4,378	-4,439	-4,439
Working capital	-1,098	546	-381	178	110	202	-32	-35	-35	-37	-37
FCF	-1,024	1,138	2,198	4,922	4,196	3,113	2,716	2,638	2,529	2,510	2,439
PV FCF	-1,017	1,047	1,867	3,849	3,024	2,069	1,664	1,490	1,317	1,205	
WACC	7.9%	8.1%	8.2%	8.6%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.1
FCF perp. growth rate	2.0%
PV FCF	34,635
Net debt	7,487
Other adjustments	-1,165
Value per share (PLN)	13.90

Valuation Summary

(PLN)	Weight	Price
Relative (Earnings)	0%	21.60
Relative (DYield)	0%	3.01
DCF	100%	13.90
Cost of equity (9M)		6.7%
9M Target Price		**14.82**

Tauron

buy (no change)

Kamil Kliszcz +48 22 438 24 02 kamil.kliszcz@mbank.pl

Current Price	2.41 PLN	Upside
9M Target Price	3.06 PLN	+27.0%

	rating	target price	issued
unchanged	buy	3.06 PLN	2018-11-29

In terms of YTD, Tauron shares differ a lot from the industry index, which is largely due to the August drop (10 p.p. deviation from WIG-Energy) related to the announcement of G tariff freezing. The company has one of the largest turnover exposures to household customers and an additional short position in the sales portfolio, which in the worst-case scenario would imply even a PLN -0.8bn decrease in EBITDA. Eventually it turned out that the Government will finance compensation, which should result in closing the said gap between the prices of TPE and of the closest competitors. We also notice a positive surprise in this year's level of CF and the prospect of structural improvement in cash flows in the coming years. We estimate that average FCF in 2020 – 2021 at PLN ~1.1bn, so concerning the balance sheet, the company will recover its dividend capacity already in 2020 (with the current capitalization, to ensure Dyield of 5% "only" PLN 0.2bn is needed, which would increase DN/EBITDA by merely 0.05). Additionally, Tauron is a beneficiary of the current trends in benchmark margins in production and of favorable results of power auctions (in a power auction, Tauron signed contracts for 2.9GW and ensured income of PLN 0.7bn, 85% of which in 5–15-year agreements). We also notice that the lack of submission of a significant part of old units for auction confirms our previous thesis on the planned restructuring of the group's production portfolio (less promising generators will constitute back-ups for market power agreements until their closure). An opportunity for a positive deviation from our forecasts is also a potential increase in production in mines in 2019. We maintain a buy rating for TPE.

Key Metrics			TPE PW	vs. WIG
Ticker	TPE PW	1M Price Chng	+34.6%	+28.9%
ISIN	PLTAURN00011	YTD Price Chng	-21.0%	-14.4%
Outst. Stock (m)	1,752.5	ADTV 1M		PLN 13.3m
MC (PLN m)	4,223.6	ADTV 6M		PLN 9.8m
EV (PLN m)	13,747.6	EV/EBITDA 12M fwd	4.5	-7.1%
Free Float	59.6%	EV/EBITDA 5Y avg	4.8	discount

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	17,646	17,416	18,683	23,567	25,207
EBITDA	3,337	3,545	3,604	3,695	4,203
EBITDA margin	18.9%	20.4%	19.3%	15.7%	16.7%
EBIT	802	1,806	1,513	1,904	2,249
Net income	367	1,381	972	1,265	1,512
P/E	11.5	3.1	4.3	3.3	2.8
P/B	0.3	0.2	0.2	0.2	0.2
EV/EBITDA	3.9	3.7	3.8	3.9	3.4
DPS	0.00	0.00	0.00	0.00	0.00
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

Projection Update (% change)	2018P	2019P	2020P
EBITDA	0.0%	0.0%	0.0%
Net income	0.0%	0.0%	0.0%
Price of electricity (PLN/MWh)	0.0%	0.0%	0.0%
Price of coal (PLN/t)	0.0%	0.0%	0.0%
Price of CO2 allowance (EUR/t)	0.0%	0.0%	0.0%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
EBITDA (adj.)	**3,374**	**3,508**	**3,296**	**3,695**	**4,203**
EBITDA	3,337	3,545	3,604	3,695	4,203
Generation	545	464	743	732	1,069
Mining	-82	-83	-160	-45	68
Distribution	2,395	2,283	2,451	2,534	2,607
Trade	490	841	575	486	475
Other	-9	40	-4	-12	-16
Financing activity	**-293**	**-49**	**-277**	**-296**	**-327**
Power output, TWh	**16.8**	**18.4**	**16.1**	**15.6**	**18.7**
Renewables	1.3	1.3	1.1	1.2	1.3
Trade volume, TWh	**32.0**	**34.9**	**35.5**	**36.0**	**36.5**
YoY pct. change	-10.9%	9.1%	1.5%	1.5%	1.5%
Trade mrgn (PLN/MWh)	17.3	18.3	16.2	13.5	13.0
RAV (PLN bn)	**15.4**	**16.3**	**16.9**	**17.6**	**17.9**
RAV return (EBIT)	8.9%	7.4%	8.0%	7.8%	8.0%

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Operating cash flow	**3,064**	**3,559**	**3,306**	**3,217**	**3,748**
OCF/EBITDA	92%	100%	92%	87%	89%
CAPEX	**3,647**	**3,562**	**3,577**	**3,652**	**3,116**
Working capital	517	489	524	660	705
Equity	16,649	18,036	19,009	20,274	21,786
Net debt	**8,595**	**8,944**	**9,494**	**10,225**	**9,921**
Net debt/EBITDA (x)	2.6	2.5	2.6	2.8	2.4

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	4.7	3.3	3.2	3.9	3.2	3.1
Maximum	22.9	19.3	18.4	12.8	11.6	9.4
Median	14.2	13.3	12.2	7.7	7.1	6.6
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Power (PLN/MWh)	167.0	241.1	250.3	233.9	224.9	208.5	209.9	211.4	213.0	214.5	214.5
Coal (PLN/t)	239.1	269.8	262.5	262.5	240.6	240.6	240.6	240.6	240.6	240.6	240.6
CO2 (EUR/t)	15.3	17.0	17.3	17.7	18.1	18.4	18.8	19.2	19.6	20.0	20.0
Revenue	18,683	23,567	25,207	24,728	24,574	23,987	24,350	24,733	25,128	25,534	25,534
EBITDA	3,374	3,695	4,203	4,550	4,429	4,161	4,233	4,337	4,349	4,461	4,461
EBITDA margin	18.1%	15.7%	16.7%	18.4%	18.0%	17.3%	17.4%	17.5%	17.3%	17.5%	17.5%
EBIT	1,283	1,904	2,249	2,533	2,416	2,089	2,094	2,122	2,049	2,067	1,455
Tax	244	362	427	481	459	397	398	403	389	393	276
CAPEX	-3,577	-3,652	-3,116	-2,542	-2,654	-2,723	-2,793	-2,864	-2,935	-3,005	-3,005
Working capital	-35	-136	-46	13	4	16	-10	-11	-11	-11	-11
FCF	-482	-454	614	1,540	1,320	1,058	1,033	1,060	1,014	1,051	1,167
PV FCF	-479	-425	539	1,264	1,009	751	680	646	571	546	
WACC	6.3%	6.3%	6.6%	7.0%	7.4%	7.6%	7.9%	8.1%	8.3%	8.4%	8.5%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.1
FCF perp. growth rate	2.0%
PV FCF	14,475
Net debt	8,944
Other adjustments	-507
Value per share (PLN)	2.87

Valuation Summary

(PLN)	Weight	Price
Relative (Earnings)	0%	9.33
Relative (DYield)	0%	0.00
DCF	100%	2.87
Cost of equity (9M)		6.7%
9M Target Price		**3.06**

TMT

Company	MCap	EV	Net Debt	D/E*	Revenue 2018	Revenue 2019	Revenue 2020	EBITDA 2018	EBITDA 2019	EBITDA 2020	EBIT 2018	EBIT 2019	EBIT 2020	Net Profit 2018	Net Profit 2019	Net Profit 2020
Ailleron	130	111	5.9	0.3	115	124	132	18.6	21.3	23.5	10.8	12.9	14.6	9.4	11.1	12.2
Asseco BS	815	836	23.5	0.3	258	273	284	93.5	100.9	107.9	74.8	81.2	87.5	62.6	65.9	70.9
Asseco PL	4,009	9,700	359.8	0.4	9,195	9,337	9,580	1,124.8	1,144.5	1,199.0	740.8	768.3	826.5	311.8	274.3	282.4
Asseco SEE	584	506	-71.5	-0.7	637	678	711	120.8	129.5	136.8	75.3	79.8	83.5	65.1	65.7	68.1
Atende	138	136	12.0	0.5	297	330	344	27.3	32.7	34.0	19.5	24.9	26.3	14.3	17.0	17.8
Comarch	1,301	1,339	18.6	0.2	1,343	1,399	1,493	168.0	177.0	189.8	102.8	108.5	119.2	59.6	77.4	88.3

Company	Rating Current	Rating Change	Target Price	Current Price	1M Chng	P/E 2018	P/E 2019	P/E 2020	EV/EBITDA 2018	EV/EBITDA 2019	EV/EBITDA 2020	EV/Sales 2018	EV/Sales 2019	EV/Sales 2020	PEG Ratio 2018	PEG Ratio 2019	PEG Ratio 2020
Ailleron	N	-	-	10.50	-3.7%	13.7	11.6	10.6	5.9	4.7	3.6	1.0	0.8	0.6	1.3	1.1	1.0
Asseco BS	N	-	-	24.40	+1.7%	13.0	12.4	11.5	8.9	8.3	7.7	3.2	3.1	2.9	1.1	1.0	0.9
Asseco PL	N	▼	49.60	48.30	+3.9%	12.9	14.6	14.2	8.6	8.3	7.8	1.1	1.0	1.0	-0.6	-0.7	-0.6
Asseco SEE	OW	-	-	11.25	-0.4%	9.0	8.9	8.6	4.2	3.9	3.6	0.8	0.7	0.7	1.2	1.2	1.1
Atende	OW	-	-	3.80	+16.6%	9.7	8.1	7.7	5.0	4.2	4.1	0.5	0.4	0.4	0.8	0.7	0.7
Comarch	OW	-	173.30	160.00	-5.0%	21.8	16.8	14.7	8.0	7.3	6.9	1.0	0.9	0.9	0.8	0.6	0.5
Median						**12.9**	**12.0**	**11.1**	**7.0**	**6.0**	**5.5**	**1.0**	**0.9**	**0.8**	**0.9**	**0.8**	**0.8**

Source: Dom Maklerski mBanku; OW – overweight, N – neutral, UW – underweight; *Net debt/Equity

Ailleron

Ailleron's virtual banking solution LiveBank is enjoying worldwide recognition (with a deal for a 16-country rollout signed with Citibank). So far, the company has been deploying LiveBank to new clients and seeking to increase the scale of business with existing ones. However, the growth rate is subdued with net profit of PLN 3.1m after 9M'18 vs. PLN 3.6m a year earlier. High costs in the Fintech segment translate into weaker performance. Thus, we cut our 2018 net profit estimate from PLN 10.4m to PLN 9.4m. At 13.7x 2018E P/E, ALL is trading above the Polish sector median. Hence, we maintain a neutral view on Ailleron.

Asseco Business Solutions

ABS stock declined 2% in the past year, outperforming the broad market by nearly 3%. Consolidation of Macrologic contributed to significantly improved earnings in 2018 (+22.5% net profit). In 2019, we anticipatre further growth of 8%. At 12.4x 2019E P/E, ABS is trading at an over-6% premium to the Polish sector median. With that said, ABS is expected to pay relatively high dividend yield of 5.6% in 2019. We currently have a neutral view on the company.

Asseco South Eastern Europe

Asseco SE remains our top pick among small-cap IT stocks. The market seems to ignore the strong rebound of the Company in Q3 2018. Problems arising from the termination of the agreement with Nova Kreditna Banka Maribor in Q1 2018 and causing a slump in the banking segment (-27% y/y in the segment's EBITDA in H1 2018), were offset by an excellent performance in Q3 2018 (+36% y/y). This, coupled with a rebound in other segments, contributed to a 29% y/y surge in EBITDA in Q3 2018. The current price of Asseco SEE stock implies a 2019E EV/EBITDA of 3.9x and P/E of 8.9x, representing discounts of 17% and 24%, respectively, compared to peers. Valuation multipliers for the acquisition of Romanian Provus by Innova Capital to German Wirecard imply the value of the payments segment at PLN 708m-744m, above the current capitalization of the entire business. The Company also has a very good credit standing (net debt/EBITDA at the end of 2018 is estimated at -0.7x), and the acquisition of a 65% stake in Necomplus from Asseco Poland may only reduce the net cash balance to zero. With its low valuation and the volume of cash flow generated, the company is a good acquisition target, especially for Asseco Poland, as it declared its willingness to make further acquisitions. Share buyback is also a possible option, especially as the Management Board has repeatedly emphasized that Asseco SEE is undervalued.

Atende

We remain bullish on Atende. What comes as a surprise in 2018 is the weaker-than-expected performance of subsidiaries. The Group's performance is affected by the year-on-year contraction in earnings posted by its key subsidiary, Atende Software, offering the redGalaxy system. In addition, Atende Medica failed to deliver the expected rebound. We expect both subsidiaries to improve in 2019. Hence, we are adjusting our net profit forecast to PLN 14.0m (from PLN 15.6m) with a relatively small revision for 2019 (to PLN 17.0m from PLN 17.3m). We note that even with a revised forecast for 2018, the company reports growth by more than 13% y/y and is expected to pay high dividend yield of 7.4% in 2019. Atende's reliance on government contracts is mitigated by the fact that it caters primarily to local government agencies and hospitals, and that its order book consists of small and short-term jobs. Hence, its business risk is lower than in the case of companies focusing on a few very large contracts.

Wasko

Following a coverage review, we suspend recommendations and financial forecasts for Wasko.

Netia
hold (no change)

Paweł Szpigiel +48 22 438 24 06 pawel.szpigiel@mbank.pl

Netia improved its earnings performance this year, with cumulative EBITDA for the nine months (9M 2018) edging just 5.0% lower versus the year-ago period, when it fell 10.2%, leading us to assume a narrow, 4.3% contraction for the whole year. Operating cash flow for the last 12 months was relatively strong at PLN 357.3m, however future cash flows are set for a decline as Netia embarks on network upgrades aimed at reaching 2.6 million households with high-speed services by 2020. We predict negative FCFE of PLN -61m in 2019 and PLN -65m in 2020, with no dividend payments during the two year period after a freeze on shareholder distributions approved by the controlling shareholder, Cyfrowy Polsat. In fact, Netia might feel compelled to accelerate the infrastructure upgrades to keep up with the competition (including Orange Polska, with its plans to bring fiber to more than 5 million households by 2020, and T-Mobile which is preparing to launch a convergent fixed + mobile service in Q2 2019), which would entail higher debt and an increase in the net debt/ EBITDA ratio from the 0.6x reported as at September 2018. With this in mind, we do not find Netia a compelling bet at 4.9x/5.4x 20182019E EV/EBITDA, ratios which imply premiums of 5%/25% relative to the fixed incumbent Orange Polska (4.7x/4.3x). An upside catalyst will be provided if Cyfrowy Polsat decides to make a tender offer to increase its stake in Netia. Cyfrowy has not explicitly made its endgame with respect to Netia known thus far, but we would venture a guess it might try to gain more control over the fixed telecom before October 2019 so as to push through with the potential merger and start realizing synergies in time to beat the T-Mobile's convergence launch planned for Q2 2019.

		Downside
Current Price	4.73 PLN	
9M Target Price	4.70 PLN	-0.6%

	rating	target price	issued
unchanged	hold	4.70 PLN	2018-11-26

Key Metrics			NET PW	vs. WIG
Ticker	NET PW	1M Price Chng	+0.9%	-4.9%
ISIN	PLNETIA00014	YTD Price Chng	-12.1%	-5.5%
Outst. Stock (m)	337.0	ADTV 1M		PLN 0.1m
MC (PLN m)	1,594.2	ADTV 6M		PLN 0.4m
EV (PLN m)	1,810.9	EV/EBITDA 12M fwd	5.3	+10.0%
Free Float	33.0%	EV/EBITDA 5Y avg	4.8	premium

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	1,522	1,442	1,374	1,348	1,348
EBITDA	426	383	367	345	356
EBITDA margin	28.0%	26.6%	26.7%	25.6%	26.4%
EBIT	25	72	85	74	90
Net income	33	35	67	50	61
P/E	48.8	44.9	23.9	31.8	26.3
P/B	0.8	0.9	0.9	0.8	0.8
EV/EBITDA	4.2	4.9	4.9	5.4	5.4
DPS	0.39	0.20	0.00	0.00	0.00
DYield	8.3%	4.2%	0.0%	0.0%	0.0%

Projection Update (% change)	2018P	2019P	2020P
Revenue	0.0%	0.0%	0.0%
EBITDA	0.0%	0.0%	0.0%
EBIT	0.0%	0.0%	0.0%
Net income	0.0%	0.0%	0.0%
CAPEX	0.0%	0.0%	0.0%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
Voice subs (1,000)	1,140	1,014	938	880	844
On-Netw. Voice ARPU (PLN)	28.4	26.5	25.2	24.7	24.5
WLR+LLU Voice ARPU (PLN)	39.9	39.0	38.5	38.1	38.1
Broadband subs (1,000)	697	640	605	592	615
Broadband ARPU (PLN)	56.3	56.0	55.0	55.8	57.0
Revenue	**1,522**	**1,442**	**1,374**	**1,348**	**1,348**
Direct Voice	471	405	351	317	295
Data	659	616	581	573	586
Interop & Wholesale	209	234	237	244	249
Other	183	188	205	213	217
Selling expenses	294	275	268	270	274
G&A expenses	149	148	128	129	130
EBIT	**25**	**72**	**85**	**74**	**90**
margin	1.7%	5.0%	6.2%	5.5%	6.7%
Net income	**32.6**	**35.5**	**66.7**	**50.2**	**60.5**

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Operating cash flow	**442**	**346**	**366**	**342**	**341**
OCF/EBITDA	104%	90%	100%	99%	96%
CAPEX	**-209**	**-268**	**-278**	**-390**	**-390**
Assets	2,450	2,401	2,468	2,517	2,657
Equity	1,896	1,778	1,869	1,919	1,980
Net debt	**204**	**285**	**217**	**278**	**342**
Net debt/EBITDA (x)	0.5	0.7	0.6	0.8	1.0

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	36.7	98.2	29.9	11.8	9.5	9.4
Maximum	5.6	5.3	4.4	4.0	3.6	3.3
Median	13.9	12.7	12.1	5.1	5.1	4.8
Weight	25%	45%	30%	25%	45%	30%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Revenue	343	1,348	1,348	1,372	1,400	1,429	1,459	1,489	1,521	1,555	1,555
EBITDA	90	345	356	371	378	385	392	400	408	417	417
EBITDA margin	26.2%	25.6%	26.4%	27.0%	27.0%	26.9%	26.9%	26.9%	26.8%	26.8%	26.8%
D&A	70	271	266	265	265	265	262	252	242	225	225
EBIT	20	74	90	106	113	120	130	148	166	192	192
Tax	4	14	17	20	21	23	25	28	32	37	37
NOPLAT	**16**	**60**	**73**	**86**	**91**	**97**	**105**	**120**	**135**	**156**	**156**
CAPEX	-78	-390	-390	-221	-211	-207	-211	-216	-220	-225	-225
Working capital	0	8	-1	0	0	0	-1	-2	-2	-3	-3
FCF	**9**	**-51**	**-52**	**130**	**145**	**155**	**156**	**154**	**154**	**153**	**153**
PV FCF	9	-47	-45	103	107	107	100	92	86	79	
WACC	7.9%	7.8%	7.6%	7.6%	7.5%	7.5%	7.4%	7.4%	7.3%	7.2%	7.2%
Net debt / EV	12.1%	15.0%	17.9%	18.9%	19.3%	20.7%	21.9%	23.3%	24.5%	25.8%	25.8%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	0.0%
PV FCF	1,688
Net debt	225
Other adjustments	0
Value per share (PLN)	4.34

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	4.49
DCF	50%	4.34
Implied Price		4.42
Cost of equity (9M)		6.4%
9M Target Price		**4.70**

Orange Polska

buy (no change)

Paweł Szpigiel +48 22 438 24 06 pawel.szpigiel@mbank.pl

Current Price	4.80 PLN	**Upside**
9M Target Price	6.40 PLN	+33.3%

	rating	target price	issued
unchanged	**buy**	**6.40 PLN**	**2018-11-26**

Orange Polska will fulfill the earnings stabilization objective set for 2018 by the Management Board. Orange consistently delivers the milestones defined in the strategy announced in September 2017, with direct costs reduced by 5% (including by downsizing the headcount by 1,300 employees, or 8% in a year), margins kept stable, and the fixed + mobile subscriber base on the rise with 233,000 users added in the past year. The Company has stabilized prices of convergent services (ARPO + 0.2% y/y in Q3'18), and it has curbed churn. In addition, sales of services on upgraded infrastructure are on the rise (53% in Q3'18 vs. 42% in Q3'17), including services over FTTx (110k in 9M'18 vs 88k in 9M'17), and more optimization initiatives are planned in 2019. Looking at these achievements, we are convinced Orange can successfully turn its restructuring plans into reality and go back to delivering EBITDA growth from 2019 - a feat unattainable to most Polish telecoms. Despite substantial investment (2019E CAPEX = 18.3% of revenue), Orange generates quite high FCFE (7.7% and 10.4% respectively in 2019/2020E). The FTTx upgrades are set to be finished in 2020, which means Orange can be expected to resume dividend payments in 2021. We believe that the current price level, the lowest among Polish telecoms, i.e. at 4.3x 2019E EV/EBITDA, is low and provides an investment opportunity.

Key Metrics			**OPL PW**	**vs. WIG**
Ticker	OPL PW	1M Price Chng	+9.1%	+3.3%
ISIN	PLTLKPL00017	YTD Price Chng	-17.1%	-10.5%
Outst. Stock (m)	1,312.0	ADTV 1M		PLN 7.1m
MC (PLN m)	6,297.6	ADTV 6M		PLN 8.0m
EV (PLN m)	13,053.6	EV/EBITDA 12M fwd	4.4	-5.5%
Free Float	49.3%	EV/EBITDA 5Y avg	4.6	discount

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	11,538	11,381	10,993	11,096	11,214
EBITDA adj.	3,163	3,011	2,779	2,891	3,062
EBITDA margin	27.4%	26.5%	25.3%	26.1%	27.3%
EBIT	-1,354	229	266	423	632
Net income	-1,746	-75	-108	105	286
P/E	-	-	-	60.2	22.0
P/B	0.6	0.6	0.6	0.6	0.6
EV/EBITDA	4.2	4.5	4.7	4.3	4.0
DPS	0.25	0.00	0.00	0.00	0.25
DYield	5.2%	0.0%	0.0%	0.0%	5.2%

Projection Update (% change)	2018P	2019P	2020P
Revenue	0.0%	0.0%	0.0%
EBITDA	0.0%	0.0%	0.0%
EBIT	0.0%	0.0%	0.0%
Net income	0.0%	0.0%	0.0%
CAPEX	0.0%	0.0%	0.0%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
Broadband lines (1,000)	2,206	2,438	2,585	2,860	3,167
Voice lines (1,000)	3,932	3,684	3,388	3,014	2,602
Revenue	**11,538**	**11,381**	**10,993**	**11,096**	**11,214**
Mobile	6,324	6,141	2,465	2,302	2,175
Fixed Line	4,720	4,571	1,083	925	783
Other	494	669	7,445	7,869	8,256
Costs	**8,445**	**8,655**	**8,329**	**8,300**	**8,226**
Payroll	1,636	1,690	1,561	1,436	1,381
Services	6,432	6,416	6,397	6,508	6,500
Other rev & exp	377	341	185	176	170
Severance benefits	0	208	186	180	175
Asset sales	70	81	115	95	75
EBITDA	**3,163**	**2,807**	**2,779**	**2,891**	**3,062**
margin	27.4%	24.7%	25.3%	26.1%	27.3%
Net income	**-1,746**	**-60**	**-108**	**105**	**286**

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Operating cash flow	**2,549**	**2,064**	**1,896**	**2,672**	**2,858**
OCF/EBITDA	81%	74%	62%	83%	84%
CAPEX	**-5,604**	**-1,643**	**-2,222**	**-2,166**	**-2,052**
Assets	22,588	22,933	22,181	22,667	23,062
Equity	10,007	9,936	10,294	10,838	11,301
Net debt	**6,932**	**6,436**	**6,865**	**6,169**	**5,530**
Net debt/EBITDA (x)	2.2	2.3	2.2	1.9	1.6

Relative Valuation Summary

	EV/EBITDA			DYield - RFR		
	18P	19P	20P	18P	19P	20P
Minimum	11.8	9.5	9.4	9.7%	7.1%	8.1%
Maximum	4.0	3.6	3.3	-16.9%	-10.1%	-8.2%
Median	5.1	5.1	4.8	2.6%	3.0%	3.4%
Weight	33%	33%	33%	0%	0%	100%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Revenue	10,993	11,096	11,214	11,308	11,408	11,517	11,599	11,666	11,708	11,720	11,720
EBITDA	2,779	2,891	3,062	3,126	3,185	3,244	3,279	3,312	3,333	3,337	3,337
EBITDA margin	25.3%	26.1%	27.3%	27.6%	27.9%	28.2%	28.3%	28.4%	28.5%	28.5%	28.5%
D&A	2,515	2,468	2,431	2,403	2,384	2,374	2,373	2,381	1,860	1,882	1,882
EBIT	266	423	632	723	801	869	906	931	1,473	1,455	1,455
Tax	51	80	120	137	152	165	172	177	280	276	276
NOPLAT	**216**	**343**	**512**	**586**	**648**	**704**	**734**	**754**	**1,193**	**1,179**	**1,179**
CAPEX	-1,902	-1,933	-1,850	-1,683	-3,189	-1,759	-1,786	-1,824	-1,860	-1,882	-1,882
Working capital	-823	-156	-213	-153	-116	-115	-89	-91	-96	-101	-101
FCF	**6**	**721**	**879**	**1,153**	**-272**	**1,205**	**1,232**	**1,220**	**1,097**	**1,078**	**1,078**
PV FCF	5	668	766	944	-209	872	837	777	655	603	
WACC	6.1%	6.2%	6.3%	6.4%	6.3%	6.4%	6.6%	6.7%	6.7%	6.7%	6.7%
Net debt / EV	51.2%	49.3%	48.0%	45.2%	48.9%	46.0%	42.5%	40.4%	40.7%	41.1%	41.1%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	0.0%
PV FCF	14,987
Net debt	6,436
Other adjustments	2
Value per share (PLN)	6.52

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	5.50
DCF Val.	50%	6.52
Implied Price		6.01
Cost of equity (9M)		6.6%
9M Target Price		**6.40**

Play
buy (no change)

Paweł Szpigiel +48 22 438 24 06 pawel.szpigiel@mbank.pl

Shares in Play have dropped by a staggering 43% over the past year, underperforming the WIG broad market benchmark by close to 38 points. Negative factors that we expected, i.e. poor results for H1'18, lower dividends, large investments in mobile networks, have already been announced. A series of negative events ended with the announcement of Play's transition from MSCI Global Standard to MSCI Small Cap. Play is currently trading at an attractive 5.3x 2018E EV/EBITDA, showing a narrow discount to peers. The market's current earnings expectations for the Play look reasonable after Bloomberg cut their revenue and EBITDA forecasts for 2019 by 13.1% and 13.4%, respectively, over the past year. In addition, Play's own updated business strategy through 2022 paints an optimistic outlook, even if it does not propose a convincing plan for growing revenues. By keeping a tight rein on expenses, with no plans for major fixed-line investment, Play should deliver high FCFE yield generation (we assume 15.4% in 2018 and 13.6% in 2019) and offer high dividend yields (with 2019 DivYield projected at 6.8%), the only Polish telecom to share its profits with shareholders in this way. It is important to recognize the positive shift in earnings trends reported in Q3 2018. The lack of fiber infrastructure to offer convergence remains a major long-term risk factor, but at this point this risk is probably more than priced, and keep in mind that Play always has the option to lease FTTH network access from Orange Polska. Without duplicating the network, Play will be able to offer convergence on the key market of large and medium-sized cities.

		Upside
Current Price	19.00 PLN	
9M Target Price	21.30 PLN	+12.1%

	rating	target price	issued
unchanged	buy	21.30 PLN	2018-11-26

Key Metrics			PLY PW	vs. WIG
Ticker	PLY PW	1M Price Chng	+16.7%	+11.0%
ISIN	LU1642887738	YTD Price Chng	-39.2%	-32.6%
Outst. Stock (m)	253.7	ADTV 1M		PLN 29.2m
MC (PLN m)	4,820.3	ADTV 6M		PLN 16.2m
EV (PLN m)	11,496.8	EV/EBITDA 12M fwd	5.1	-13.1%
Free Float	49.4%	EV/EBITDA 5Y avg	5.9	discount

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	6,118	6,670	6,778	6,911	7,019
EBITDA	1,924	1,904	2,160	2,161	2,210
EBITDA margin	31.5%	28.5%	31.9%	31.3%	31.5%
EBIT	1,290	1,107	1,379	1,276	1,266
Net income	712	387	790	719	729
P/E	6.8	12.4	6.1	6.7	6.6
P/B	3.6	-	-	15.1	6.7
EV/EBITDA	5.2	6.1	5.3	5.2	5.0
DPS	0.00	0.00	2.56	1.29	1.29
DYield	0.0%	0.0%	13.5%	6.8%	6.8%

Projection Update (% change)	2018P	2019P	2020P
Revenue	0.0%	0.0%	0.0%
EBITDA	0.0%	0.0%	0.0%
EBIT	0.0%	0.0%	0.0%
Net income	0.0%	0.0%	0.0%
CAPEX	0.0%	0.0%	0.0%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
Active subscribers (000s)	12,011	12,394	12,904	13,043	13,142
ARPU (PLN)	31.4	32.0	32.4	32.4	32.7
Revenue	**6,118**	**6,670**	**6,778**	**6,911**	**7,019**
Service revenue	4,493	4,878	5,083	5,225	5,328
Sales of goodsand other	1,625	1,792	1,695	1,686	1,691
Costs	**4,193**	**4,766**	**4,618**	**4,750**	**4,809**
Interconnection	1,496	1,729	1,953	1,985	1,959
Contract costs	399	429	426	447	459
Cost of goods sold	1,366	1,410	1,386	1,416	1,438
Employee benefits	228	526	270	278	286
External services	567	606	484	531	574
Other	138	65	98	93	94
EBITDA (adj.)	**2,035**	**2,298**	**2,174**	**2,191**	**2,240**
margin	33.3%	34.4%	32.1%	31.7%	31.9%
Net income	**712**	**387**	**790**	**719**	**729**

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Operating cash flow	**1,588**	**1,389**	**1,975**	**1,974**	**1,998**
OCF/EBITDA adj.	78%	60%	91%	90%	89%
CAPEX	**-2,316**	**-650**	**-776**	**-887**	**-852**
Assets	8,747	8,831	8,647	8,581	8,629
Equity	1,343	-213	-73	320	722
Net debt	**5,111**	**6,710**	**6,677**	**6,455**	**6,179**
Net debt/EBITDA (x)	2.5	2.9	3.1	2.9	2.8

Relative Valuation Summary

	P/E			DYield - RFR		
	18P	19P	20P	18P	19P	20P
Minimum	25.6	22.8	17.4	442.6%	439.3%	419.2%
Maximum	36.7	98.2	29.9	1181.3%	952.4%	937.6%
Median	13.9	12.7	12.1	514.1%	512.0%	484.3%
Weight	33%	33%	33%	0%	0%	0%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Revenue	6,778	6,911	7,019	7,113	7,184	7,241	7,289	7,330	7,366	7,398	7,398
EBITDA	2,160	2,161	2,210	2,250	2,266	2,285	2,273	2,261	2,247	2,237	2,237
EBITDA margin	32.4%	31.9%	32.0%	32.1%	31.9%	31.8%	31.4%	31.0%	30.7%	30.4%	30.4%
D&A	781	885	944	981	987	1,083	1,094	1,082	1,042	1,019	1,019
EBIT	1,379	1,276	1,266	1,269	1,279	1,202	1,179	1,179	1,205	1,218	1,218
Tax	262	242	241	241	243	228	224	224	229	231	231
NOPLAT	**1,117**	**1,034**	**1,026**	**1,028**	**1,036**	**973**	**955**	**955**	**976**	**986**	**986**
CAPEX	-776	-887	-852	-800	-1,719	-1,190	-1,022	-733	-737	-740	-740
Work. cap. + other	-191	-238	-286	-310	-310	-312	-314	-316	-316	-318	-318
FCF	**931**	**794**	**831**	**899**	**-5**	**555**	**713**	**988**	**966**	**948**	**948**
PV FCF	916	732	718	726	-4	394	474	614	561	513	
WACC	6.7%	6.7%	6.8%	6.9%	6.7%	6.7%	6.8%	6.9%	7.0%	7.2%	7.2%
Net debt / EV	61.4%	60.6%	59.6%	58.3%	60.6%	60.6%	59.8%	57.8%	55.6%	53.1%	53.1%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.3
FCF perp. growth rate	0.0%
PV FCF	12,756
Net debt	7,362
Other adjustments	0
Value per share (PLN)	21.26

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	18.34
DCF Val.	50%	21.26
Implied Price		19.79
Cost of equity (9M)		7.7%
9M Target Price		**21.30**

Agora

buy (no change)

Paweł Szpigiel +48 22 438 24 06 pawel.szpigiel@mbank.pl

Agora stock is trading at 5.9x 2018E EV/EBITDA and 5.2x the 2019E ratio, showing a 33% discount to the sector. This despite a high dividend yield of 4.3% expected to be offered even as the Company moves forward with capital-intensive investment plans. We consider the Company stock to be undervalued. The chain cinema unit Helios registered an 8.7% rebound in revenues in Q3 2018 relative to the same year-ago period after suffering a -14.2% fall in the previous quarter, with further growth anticipated in Q4 with the release of the box-office smash *Kler* (*Clergy*), the controversial Polish production which sold more than 5 million tickets during the seven weeks from release, beating Quo Vadis for the third position on the list of post-1989 top cinema hits. *Kler* single-handedly drove domestic ticket sales from October to mid-November 20% above the year-ago sales, which means admissions for the full Q4 will more than likely beat the high, 16-million year-ago figure. As a result, Helios can be expected to make a record contribution to the consolidated 2018 Q4 profits. Note that our baseline forecasts assume that Agora will downsize its Press headcount by 20% over the next few years as a counter-measure to falling newspaper readership and advertising revenues, which would otherwise push the Press segment into loss-making territory as soon as next year. In our opinion, the Management Board should take more radical cost-cutting measures.

		Upside
Current Price	11.50 PLN	
9M Target Price	16.00 PLN	+39.1%

	rating	target price	issued
unchanged	buy	16.00 PLN	2018-11-27

Key Metrics			AGO PW	vs. WIG
Ticker	AGO PW	1M Price Chng	+21.6%	+15.8%
ISIN	PLAGORA00067	YTD Price Chng	-17.5%	-10.9%
Outst. Stock (m)	46.6	ADTV 1M		PLN 0.2m
MC (PLN m)	535.7	ADTV 6M		PLN 0.2m
EV (PLN m)	530.7	EV/EBITDA 12M fwd	5.5	+1.7%
Free Float	76.9%	EV/EBITDA 5Y avg	5.4	premium

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	1,198	1,165	1,137	1,168	1,213
EBITDA	115	30	87	104	117
EBITDA margin	9.6%	2.6%	7.6%	8.9%	9.7%
EBIT	17	-73	4	24	39
Net income	-17	-84	18	14	26
P/E	-	-	29.7	38.2	20.3
P/B	0.5	0.5	0.6	0.6	0.6
EV/EBITDA	5.0	18.6	6.1	5.2	4.8
DPS	0.75		0.50	0.50	0.50
DYield	6.5%		4.3%	4.3%	4.3%

Projection Update (% change)	2018P	2019P	2020P
Revenue	0.0%	0.0%	0.0%
EBITDA	0.0%	0.0%	0.0%
EBIT	0.0%	0.0%	0.0%
Net income	0.0%	0.0%	0.0%
CAPEX	0.0%	0.0%	0.0%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
Daily circulaton (k copies)	161	124	104	93	87
Movie ticket sales (mn)	10.8	12.2	12.3	13.0	14.0
Avg. ticket price (PLN)	18.1	18.4	18.9	18.9	18.9
Conc. rev./patron (PLN)	6.7	6.8	7.1	7.2	7.4
Revenue	**1,198**	**1,165**	**1,137**	**1,168**	**1,213**
Press	268	236	211	203	200
Movies & Books	364	416	412	434	465
Outdoor	168	163	169	177	186
Internet	168	169	182	191	198
Radio	113	114	116	119	122
Print	156	102	74	70	67
Eliminations	-38	-34	-26	-26	-26
EBITDA	**115**	**30**	**87**	**104**	**117**
margin	9.6%	2.6%	7.6%	8.9%	9.7%
Net income	**-16.6**	**-83.5**	**18.0**	**14.0**	**26.4**

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Operating cash flow	**111**	**77**	**69**	**91**	**101**
OCF/EBITDA	92%	258%	79%	87%	86%
CAPEX	**-90**	**-70**	**-85**	**-77**	**-95**
Assets	1,610	1,406	1,382	1,389	1,410
Equity	1,153	996	962	953	956
Net debt	**93**	**4**	**-24**	**-14**	**3**
Net debt/EBITDA (x)	0.8	0.1	-0.3	-0.1	0.0

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	24.5	21.7	19.0	14.9	12.3	11.2
Maximum	11.7	8.0	9.2	5.7	4.6	4.3
Median	15.5	14.3	12.3	7.8	7.4	7.1
Weight	0%	0%	0%	33%	33%	33%

DCF Analysis

(PLN m)	2H'18	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Revenue	601	1,168	1,213	1,272	1,329	1,368	1,389	1,411	1,433	1,457	1,486
EBITDA	53	104	117	135	151	161	163	165	166	166	169
EBITDA margin	8.8%	8.9%	9.7%	10.6%	11.4%	11.8%	11.8%	11.7%	11.5%	11.4%	11.6%
D&A	42	80	78	77	75	73	71	75	79	80	82
EBIT	11	24	39	58	77	88	92	90	87	86	88
Tax	2	4	7	11	15	17	18	17	16	16	17
NOPLAT	**9**	**19**	**31**	**47**	**62**	**71**	**75**	**73**	**70**	**70**	**71**
CAPEX	-39	-77	-95	-96	-98	-68	-73	-76	-78	-80	-82
Working capital	-5	-8	-8	-7	-6	-4	-3	-2	-1	-1	-1
FCF	**7**	**15**	**7**	**22**	**33**	**72**	**71**	**70**	**70**	**69**	**70**
PV FCF	7	14	6	17	24	47	43	39	36	33	
WACC	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Net debt / EV	0.0%	0.0%	0.8%	1.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	2.0%
PV FCF	773
Net debt	10
Other adjustments	19
Value per share (PLN)	15.96

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	14.11
DCF Val.	50%	15.96
Implied Price		15.03
Cost of equity (9M)		6.4%
9M Target Price		**16.00**

Cyfrowy Polsat
hold (no change)

Paweł Szpigiel +48 22 438 24 06 pawel.szpigiel@mbank.pl

Current Price	22.80 PLN		**Upside**
9M Target Price	23.20 PLN		+1.8%

	rating	target price	issued
unchanged	**hold**	**23.20 PLN**	**2018-11-26**

At 6.2x 2019E EV/EBITDA, Cyfrowy Polsat is trading at a 7% premium to peers with the highest valuation in the sector, meanwhile according to our forecasts Cyfrowy is set to experience small contraction in 2019 EBITDA against expected growth at annual rate of 0.8% at PLY, and +4.0% at OPL. Cyfrowy does offer high FCFE Yield, but it is not high enough compared to the yields offered by peers (2019/2020E FCFE = 10.6%/11.6% vs. OPL 7.7%/10.4% and PLY 13.6%/13.7%) to justify a 42% premium to OPL and a 20% premium to PLY. Moreover, investors should not forget that, contrary to its own dividend policy, Cyfrowy has not paid dividends this year even though in our view it could have paid PLN 200m (0.06x EBITDA) without straining the balance sheet. We would not expect dividend yields in 2019 or 2020 to exceed 2.0%, especially if Cyfrowy decided to take over the remaining 34% stake in Netia from minority shareholders (the cost assuming the deal is closed by October 2019 is going to come close to PLN 660m). On a positive note, CPS decided to upgrade its network to better handle the fast-growing mobile data usage (by more than 50% y/y), and it launched a "fixed + mobile" service already in mid-June 2018. Instead of monopolizing the broadcast rights to UEFA Champions League, Cyfrowy opted for a slower monetization route by licensing content to its main rival, the digital TV platform nC+.

Key Metrics			**CPS PW**	**vs. WIG**
Ticker	CPS PW	1M Price Chng	+4.9%	-0.9%
ISIN	PLCFRPT00013	YTD Price Chng	-8.3%	-1.7%
Outst. Stock (m)	639.5	ADTV 1M		PLN 10.8m
MC (PLN m)	14,581.6	ADTV 6M		PLN 12.2m
EV (PLN m)	25,562.2	EV/EBITDA 12M fwd	6.0	-13.6%
Free Float	33.5%	EV/EBITDA 5Y avg	7.0	discount

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	9,730	9,829	10,750	11,458	11,623
EBITDA	3,641	3,617	3,674	3,810	3,912
EBITDA margin	37.4%	36.8%	34.2%	33.3%	33.7%
EBIT	1,669	1,834	1,695	1,825	2,018
Net income	1,041	981	987	1,111	1,337
P/E	14.0	14.9	14.8	13.1	10.9
P/B	1.3	1.2	1.1	1.0	0.9
EV/EBITDA	7.1	7.0	7.0	6.4	5.8
DPS	0.00	0.32	0.00	0.32	0.43
DYield	0.0%	1.4%	0.0%	1.4%	1.9%

Projection Update (% change)	**2018P**	**2019P**	**2020P**
Revenue	0.0%	0.0%	0.0%
EBITDA	0.0%	0.0%	0.0%
EBIT	0.0%	0.0%	0.0%
Net income	0.0%	0.0%	0.0%
CAPEX	0.0%	0.0%	0.0%

Financial Highlights*

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	**9,730**	**9,829**	**9,904**	**10,110**	**10,275**
Retail	6,325	6,068	5,916	6,002	6,087
Wholesale	2,466	2,539	2,856	2,932	2,988
Devices	851	1,055	961	999	1,019
Other	88	167	171	176	181
Costs	**7,868**	**8,016**	**8,277**	**8,369**	**8,382**
Content costs	1,066	1,154	1,295	1,456	1,490
Distrib. & marketing	803	894	873	891	906
D&A	1,699	1,783	1,805	1,714	1,629
Interop. billing	2,141	2,014	2,134	2,088	2,104
Payroll	550	553	603	646	668
Devices	1,333	1,324	1,155	1,169	1,173
Collections & charges	63	67	74	75	76
Other costs	214	227	339	331	336
Net income	**1,041**	**981**	**923**	**1,078**	**1,297**

Key Balance Sheet Figures**

(PLN m)	2016	2017	2018P	2019P	2020P
Operating cash flow	**2,885**	**3,126**	**2,919**	**3,008**	**3,131**
OCF/EBITDA	78%	86%	85%	87%	88%
CAPEX	**-590**	**-739**	**-1,175**	**-1,030**	**-1,045**
Assets	27,729	27,756	27,843	27,175	26,638
Equity	11,230	12,074	13,040	13,913	14,932
Net debt	**11,140**	**10,508**	**8,494**	**7,089**	**5,607**
Net debt/EBITDA (x)	2.9	2.9	2.5	2.0	1.6

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	5.6	5.3	4.4	4.0	3.6	3.3
Maximum	36.7	139.9	30.5	15.7	14.6	13.2
Median	6.0	5.7	5.5	13.9	13.0	12.3
Weight	33%	33%	33%	0%	0%	0%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Revenue	11,278	11,458	11,623	11,796	11,965	12,130	12,291	12,452	12,616	12,787	12,787
EBITDA	3,815	3,810	3,912	3,978	4,017	4,048	4,073	4,095	4,117	4,139	4,139
EBITDA margin	33.8%	33.3%	33.7%	33.7%	33.6%	33.4%	33.1%	32.9%	32.6%	32.4%	32.4%
D&A	2,086	1,985	1,894	1,791	1,695	1,623	1,580	1,543	1,507	1,440	1,440
EBIT	1,728	1,825	2,018	2,188	2,322	2,425	2,493	2,552	2,610	2,699	2,699
Tax	328	347	383	416	441	461	474	485	496	513	513
NOPLAT	**1,400**	**1,478**	**1,635**	**1,772**	**1,881**	**1,964**	**2,019**	**2,067**	**2,114**	**2,186**	**2,186**
CAPEX	-1,453	-1,420	-1,435	-1,331	-2,335	-2,998	-1,360	-1,797	-1,915	-1,440	-1,440
Working capital	-207	-145	-122	-93	-83	-83	-83	-83	-93	-105	-105
FCF	**1,826**	**1,899**	**1,972**	**2,139**	**1,158**	**506**	**2,156**	**1,730**	**1,613**	**2,082**	**2,082**
PV FCF	1,798	1,753	1,703	1,725	872	356	1,418	1,061	923	1,110	
WACC	6.9%	6.7%	6.9%	7.1%	7.1%	7.0%	7.1%	7.2%	7.2%	7.3%	7.3%
Net debt / EV	41.5%	38.1%	34.1%	29.6%	29.5%	31.9%	29.0%	27.4%	26.3%	25.2%	25.2%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	0.0%
PV FCF	27,937
Net debt	11,604
Other adjustments	797
Value per share (PLN)	24.29

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	19.37
DCF Val.	50%	24.29
Implied Price		21.81
Cost of equity (9M)		6.4%
9M Target Price		**23.20**

*Cyfrowy Polsat only (without Netia); **Pro-forma figures assuming acquisition of a controlling stake in Netia at the end of 2017

Wirtualna Polska

buy (upgraded)

Paweł Szpigiel +48 22 438 24 06 pawel.szpigiel@mbank.pl

Current Price	52.20 PLN	**Upside**
9M Target Price	61.50 PLN	+17.8%

	rating	target price	issued
new	**buy**	**61.50 PLN**	**2018-12-05**
old	accumulate	60.00 PLN	2018-09-03

Key Metrics			**WPL PW**	**vs. WIG**
Ticker	WPL PW	1M Price Chng	-1.5%	-7.3%
ISIN	PLWRTPL00027	YTD Price Chng	+9.8%	+16.4%
Outst. Stock (m)	29.8	ADTV 1M		PLN 0.4m
MC (PLN m)	1,554.3	ADTV 6M		PLN 0.6m
EV (PLN m)	1,787.4	EV/EBITDA 12M fwd	9.5	-9.3%
Free Float	53.0%	EV/EBITDA 5Y avg	10.4	discount

Growing at the annual rate of 6-8%, Poland's advertising market is in good shape, with the biggest growth recorded in online adspend (currently estimated at 9-12%, recently increased from 7-10%). This translates into very good performance of Wirtualna Polska which, additionally, generates more than half of its turnover from the e-commerce business, growing at a rate of over 20% Adjusted for barter and TV business, sales revenue increased by nearly 29% in Q3 2018 (and by more than 22% during 9 months of 2018). It is worth noting that despite the rapid growth (e-commerce provides lower returns), Wirtualna Polska maintains a stable EBITDA margin (34.7% vs. 35.0%, adjusted for one-off events, barter and TV business). Therefore, we have revised upward our forecasts by more than 5% (adjusted EBITDA for 2018). Using our updated financial model, we set the new price target at PLN 61.50, which means that the stock offers upside potential of 18%. We are upgrading Wirtualna Polska from accumulate to buy. The WP Group expects the e-commerce segment to reach the target of ca. 75% of total revenue from the current 58%, which should translate into higher valuation multipliers. The Management Board also claims that the loss-making TV segment is set to record positive EBITDA margin in Q4 2018.

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	415	466	558	625	675
EBITDA	123	130	166	196	216
EBITDA margin	29.6%	27.8%	29.8%	31.5%	31.9%
EBIT	81	79	110	136	152
Net income	57	45	73	95	111
P/E	27.4	34.4	21.2	16.4	14.0
P/B	3.8	3.7	3.3	3.0	2.7
EV/EBITDA	14.1	13.4	10.8	8.8	7.8
DPS	0.00	1.10	0.96	1.29	1.66
DYield	0.0%	2.1%	1.8%	2.5%	3.2%

Projection Update (% change)	2018P	2019P	2020P
Revenue	+7.5%	+9.4%	+9.8%
EBITDA	+3.7%	+5.1%	+6.2%
EBIT	+4.7%	+7.1%	+7.5%
Net income	+10.9%	+7.3%	+8.9%
CAPEX	+8.4%	+10.2%	+10.5%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	**415**	**466**	**558**	**625**	**675**
Cash	377	425	518	574	620
Barter	37.8	33.0	23.4	24.7	25.7
Costs	**334**	**387**	**448**	**489**	**524**
D&A	42.1	51.0	56.0	60.5	64.1
Materials & Utilities	5.6	5.9	6.0	6.3	6.5
Payroll	124	134	162	171	177
Other	162	196	223	251	276
EBITDA	**123**	**130**	**166**	**196**	**216**
margin	29.6%	27.8%	29.8%	31.5%	31.9%
EBITDA (adj.)	**136**	**151**	**179**	**197**	**213**
margin	322.9%	295.2%	32.1%	31.5%	31.5%
EBIT	**81**	**79**	**110**	**136**	**152**
margin	19.5%	16.9%	19.7%	21.8%	22.4%
Net income	**53.8**	**35.3**	**73.4**	**94.9**	**111.3**

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Operating cash flow	**114**	**114**	**51**	**159**	**176**
OCF/EBITDA	92%	88%	31%	81%	81%
CAPEX	**-38**	**-42**	**-51**	**-53**	**-57**
Assets	852	894	862	924	955
Equity	409	420	466	522	584
Net debt	**169**	**170**	**217**	**163**	**102**
Net debt/EBITDA (x)	1.4	1.3	1.3	0.8	0.5

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	20.7	15.7	18.4	16.4	12.1	9.5
Maximum	11.4	9.9	12.7	4.5	5.2	3.8
Median	17.7	14.6	16.0	11.0	9.8	8.4
Weight	33%	33%	33%	33%	33%	33%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Revenue	558	625	675	718	756	791	824	855	883	910	933
EBITDA	166	196	216	230	244	254	263	270	275	280	287
EBITDA margin	29.8%	31.5%	31.9%	32.1%	32.2%	32.2%	32.0%	31.6%	31.1%	30.7%	31.5%
D&A	56	60	64	67	70	72	74	76	78	80	82
EBIT	110	136	152	163	174	182	189	194	197	200	205
Tax	21	26	29	31	33	35	36	37	37	38	39
NOPLAT	**89**	**110**	**123**	**132**	**141**	**148**	**153**	**157**	**160**	**162**	**166**
CAPEX	-51	-53	-57	-62	-66	-70	-74	-78	-82	-85	-87
Working capital	-97	-10	-8	-8	-8	-8	-8	-8	-7	-7	-8
FCF	**-3**	**108**	**121**	**130**	**137**	**142**	**145**	**148**	**149**	**149**	**153**
PV FCF	-3	99	103	102	99	95	90	84	78	72	
WACC	7.8%	8.0%	8.1%	8.3%	8.4%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Net debt / EV	14.6%	11.9%	8.6%	4.7%	2.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	2.0%
PV FCF	1,938
Net debt	206
Other adjustments	19
Value per share (PLN)	59.42

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	56.18
DCF Val.	50%	59.42
Implied Price		57.80
Cost of equity (9M)		6.4%
9M Target Price		**61.50**

Asseco Poland
hold (downgraded)

Paweł Szpigiel +48 22 438 24 06 pawel.szpigiel@mbank.pl

Asseco Poland reports a solid increase in earnings in 2018, with more than 40% surge in net profit (non-IFRS) after 9 months of 2018. The main reason for this is the improved standing of Asseco's parent, following a very weak 2017. Hence, an over-20% increase in price over the last year (outperforming the WIG benchmark by more than 25 points) is justified. We revise our forecasts upwards, particularly in the case of the parent (2019 EBITDA forecast +12%). We set the new price target at PLN 49.60,, which means that the stock offers upside potential of 2.7%. After the recent share price gains, we downgrade the stock from positive to neutral. Asseco Poland shares are currently trading at 12.9x 2018E P/E, showing a discount of more than 22% to peers. However, due to a contraction in net profit (we project a decline by 12% vs. a 7% increase in the peer group), 2019E P/E stands at 14.6x, in line with the peers. In our opinion, a contraction in Asseco's earnings is unavoidable due to a loss of a contract with ZUS for the KSI system (from Q2'19) and the departure of an important banking client (Deutsche Bank after the merger with Santander). We also maintain our position on the reduction of dividend in 2019 (to PLN 2.00 vs. PLN 3.01 in 2018). We believe that this decision will be driven by the projected drop in earnings and the intention to make further acquisitions.

		Upside
Current Price	48.30 PLN	
9M Target Price	49.60 PLN	+2.7%

	rating	target price	issued
new	**hold**	**49.60 PLN**	**2018-12-05**
old	accumulate	49.00 PLN	2018-09-03

Key Metrics			ACP PW	vs. WIG
Ticker	ACP PW	1M Price Chng	-1.4%	-7.2%
ISIN	PLSOFTB00016	YTD Price Chng	+17.9%	+24.5%
Outst. Stock (m)	83.0	ADTV 1M		PLN 4.3m
MC (PLN m)	4,008.9	ADTV 6M		PLN 8.4m
		P/E 12M fwd	13.4	+9.2%
Free Float	68.0%	P/E 5Y avg	12.3	premium

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	7,932	7,724	9,195	9,337	9,580
EBITDA	1,070	933	1,125	1,144	1,199
EBITDA margin	13.5%	12.1%	12.2%	12.3%	12.5%
EBIT	769	644	741	768	826
Net income	301	596	312	274	282
P/E	13.3	6.7	12.9	14.6	14.2
P/B	0.7	0.8	0.7	0.7	0.7
P/S	0.51	0.52	0.44	0.43	0.42
DPS	3.01	3.01	3.01	2.00	2.00
DYield	6.2%	6.2%	6.2%	4.1%	4.1%

Projection Update (% change)	2018P	2019P	2020P
Revenue	+3.2%	+3.0%	+3.0%
EBITDA	-1.2%	-2.2%	-0.5%
EBIT	-3.4%	-4.4%	-2.0%
Net income	+10.6%	+6.7%	+9.5%
CAPEX	+3.4%	+2.3%	+6.4%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	**7,932**	**7,724**	**9,195**	**9,337**	**9,580**
change	0.0%	-2.6%	17.4%	1.5%	2.6%
Poland	1,599	1,514	1,707	1,671	1,720
South-Eastern Europe	571	590	637	678	711
Western Europe	579	608	712	726	741
Central Europe	754	785	854	858	875
Israel	4,247	4,218	5,266	5,383	5,513
Eastern Europe	58	10	20	20	20
EBIT	**769**	**644**	**741**	**768**	**826**
D&A	300	289	384	376	373
EBITDA	**1,070**	**933**	**1,125**	**1,144**	**1,199**
margin	13.5%	12.1%	12.2%	12.3%	12.5%
Associates	-242	169	-216	-278	-317
Tax	-166	-163	-167	-170	-179
Net income	**301**	**596**	**312**	**274**	**282**

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P*	2019P*	2020P*
Operating cash flow	**883**	**793**	**679**	**942**	**963**
OCF/EBITDA	83%	77%	60%	82%	80%
CAPEX	**-211**	**-233**	**-253**	**-261**	**-271**
Assets	12,791	13,044	15,714	15,984	16,329
Equity	5,505	5,520	5,664	5,772	5,888
Net debt	**358**	**235**	**344**	**5**	**-364**
Net debt/EBITDA (x)	0.3	0.2	0.3	0.0	-0.3

*Assuming no divestment of a 20% stake in Formula Systems

Relative Valuation Summary

	P/E		
	18P	19P	20P
Minimum	25.1	20.0	0.0
Maximum	9.1	7.3	0.0
Median	16.4	13.7	0.0
Weight	33%	33%	0%

DCF Summary

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Asseco Poland (Standalone Figures)											
Revenue	901	834	855	874	891	909	927	946	965	984	984
EBITDA	227	158	154	157	160	163	165	167	168	169	169
NOPLAT	144	98	100	102	104	106	107	108	108	108	108
FCF	**102**	**114**	**80**	**90**	**101**	**96**	**97**	**97**	**98**	**97**	**97**
WACC	8.8%	8.8%	8.7%	8.6%	8.6%	8.5%	8.5%	8.5%	8.5%	8.6%	0.0%
Asseco Business Solutions											
Revenue	254	264	273	279	285	291	297	304	310	317	323
EBITDA	89	96	102	104	106	109	111	114	117	120	122
NOPLAT	58	63	67	69	70	72	74	75	77	79	81
FCF	**49**	**60**	**64**	**66**	**68**	**70**	**72**	**74**	**75**	**77**	**79**
WACC	8.5%	8.5%	8.5%	8.5%	8.4%	8.4%	8.4%	8.4%	8.4%	0.0%	0.0%
Asseco South Eastern Europe											
Revenue	638	660	681	699	714	726	736	745	751	756	772
EBITDA	111	115	118	121	124	126	128	130	132	134	137
NOPLAT	57	59	61	62	63	64	65	65	65	66	67
FCF	**39**	**53**	**54**	**56**	**59**	**61**	**63**	**65**	**67**	**63**	**65**
WACC	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	0.0%

SOTP Summary

(PLN m)	Method	%	Value
Asseco PL (stndln)	DCF	100%	1,379
Asseco CE	10x PE	93%	527
Asseco BS	DCF	46%	1,050
Asseco SEE	DCF	51%	859
Western Europe	10x PE	100%	340
Formula Systems	market	26%	1,920
R-Style Softlab	6x PE	100%	0
Other	10x PE	0%	276
Value			**3,915**
Value Per Share (PLN)			47.17

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	46.09
SOTP Val.	50%	47.17
Implied Price		46.63
Cost of equity (9M)		6.4%
9M Target Price		**49.60**

CD Projekt

buy (no change)

Piotr Bogusz +48 22 438 24 08 piotr.bogusz@mbank.pl

Current Price	154.10 PLN	**Upside**
9M Target Price	170.40 PLN	+10.6%

	rating	target price	issued
unchanged	**buy**	**170.40 PLN**	**2018-11-23**

Since the 2018 peak, the CDR stock dropped by 31%, which was in line with the general trend among global video game companies. In 2018, the sector saw the continuation of positive trends supporting game sales, such as (1) an increasing share of the digital distribution channel and (2) a growing console base. In 2018, the company released a new trailer and a fragment of the Cyberpunk 2077 (C2077) gameplay, the popularity of which proved the interest in the next CDR release among players all over the world. In 2019, we expect to see much more material from C2077 and a more intensive promotional campaign, which should support the performance of CDR stock. The first single-player campaign for the Gwent game was released in 2018, with sales in the initial period (when the game was available only at GOG.com) below the management board's expectations. According to the company's comments, changes made to the Gwent game have also failed to deliver improved monetization. The management board announced the launch of additional measures to improve sales of the title. In our estimates, we have cut the 2018-2020 sales assumptions for Gwent by 50%. Very good sales of the most expected games, including C2077, encourage us to increase the assumed sales of the title in the first year from 14.6 million to 17.9 million copies, which should allow the company to generate PLN 1.5bn of EBITDA in 2020.

Key Metrics			**CDR PW**	**vs. WIG**
Ticker	CDR PW	1M Price Chng	-6.2%	-12.0%
ISIN	PLOPTTC00011	YTD Price Chng	+58.9%	+65.4%
Outst. Stock (m)	95.2	ADTV 1M		PLN 62.0m
MC (PLN m)	14,672.3	ADTV 6M		PLN 59.4m
EV (PLN m)	14,057.4	EV/EBITDA 12M fwd	22.6	+3.0%
Free Float	64.9%	EV/EBITDA 5Y avg	22.0	premium

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	584	463	388	329	2,318
EBITDA	308	246	144	58	1,596
EBITDA margin	52.7%	53.1%	37.0%	17.5%	68.8%
EBIT	304	241	139	52	1,590
Net income	251	200	115	42	1,297
P/E	58.6	73.3	-	-	11.3
P/B	18.9	16.6	14.6	13.9	6.3
EV/EBITDA	45.7	57.0	97.9	245.4	8.0
DPS	0.00	1.06	0.00	0.00	0.00
DYield	0.0%	0.7%	0.0%	0.0%	0.0%

Projection Update (% change)	**2018P**	**2019P**	**2020P**
EBITDA	-32.9%	-68.9%	+71.5%
Net income	-35.8%	-74.5%	+57.7%
Sales of The Witcher 3	-5.9%	-	-
Sales of Gwent: The Card Game	-47.0%	-62.9%	-41.2%
Sales of Cyberpunk 2077	-	-	+71.7%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
Sales, Video Games	476	330	259	191	2,173
EBIT, VG	324	223	139	51	1,586
EBIT margin, VG	68.2%	67.4%	53.6%	26.8%	73.0%
Sales, GOG.com	133.5	169.6	134.9	137.9	144.8
EBIT, GOG.com	6.4	18.4	-0.3	1.1	3.3
EBIT margin, GOG	4.8%	10.8%	-0.2%	0.8%	2.3%
Operating cash flow	**259**	**232**	**102**	**68**	**1,484**
D&A	4	5	5	5	6
Working capital	-11	34	-9	2	-83
Investing cash flow	**-440**	**-291**	**-117**	**-146**	**-160**
CAPEX	-12	-13	-20	-9	-10
Development exp.	**56**	**77**	**111**	**137**	**150**
FCF	228	221	88	41	1,200
FCF/EBITDA	61%	71%	75%	81%	84%
OCF/EBITDA	71%	119%	93%	84%	86%

Key Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Sales, The Witcher 3	472	288	184	112	104
Sales, Gwent	3	43	70	73	77
Sales, Cyberpunk	0	0	0	0	1,928
	0	0	0	0	0
Development exp.	62	142	240	357	169
Cash	217	67	62	-11	1,381
Net debt	-597	-647	-615	-542	-1,934
Net debt/EBITDA (x)	-1.9	-2.6	-4.3	-9.4	-1.2

Relative Valuation Summary

	P/E 12M fwd 4Y avg	EV/EBIT 12M fwd 4Y avg
Minimum	15.0	4.6
Maximum	19.4	11.3
Median	19.0	8.4
Weight	50%	50%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
W3 (k copies)	2,230	1,862	1,618	1,395	1,380	1,165	0	0	0	0	0
C2077 (k copies)		0	17,884	6,215	4,527	3,377	2,300	2,227	1,077	0	0
Next AAA game (k copies)		0	0	0	6,000	5,000	4,000	3,000	2,500	1,500	0
Revenue	388	329	2,318	2,129	1,225	2,853	1,597	2,806	1,304	997	-
EBITDA	144	58	1,596	1,627	801	2,227	1,074	2,109	728	528	-
EBITDA margin	37.0%	17.5%	68.8%	76.4%	65.4%	78.1%	67.2%	75.2%	55.8%	53.0%	-
EBIT	139	52	1,590	1,621	795	2,221	1,067	2,103	721	522	-
Tax	26	10	302	308	151	422	203	400	137	99	-
CAPEX	-20	-9	-10	-11	-12	-13	-15	-6	-7	-7	-
Working capital	-9	2	-83	8	38	-68	53	-51	63	13	-
FCF	88	41	1,200	1,316	676	1,724	909	1,653	647	435	869
PV FCF	87	38	1,013	1,024	485	1,139	554	928	335	208	-
WACC	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	-
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	-

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	4.0%
PV FCF	10,842
Net debt	-647
Other adjustments	0
Value per share (PLN)	176.00

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	144.80
DCF Val.	50%	176.00
Implied Price		160.40
Cost of equity (9M)		6.4%
9M Target Price		**170.40**

Comarch
accumulate (reiterated)

Paweł Szpigiel +48 22 438 24 06 pawel.szpigiel@mbank.pl

Comarch reported Q3 2018 EBITDA figures in line with our forecasts and market consensus, but the guidance for 2019 is quite optimistic. The Company's backlog for 2019 is over 10% higher than a year ago, reflecting a demand for ERP systems (note the recently signed largest ERP contact in the Company's history, concerning more than 5,000 devices for the French La Halle network), increase in orders from telecoms and revival in public spending. To reflect this, we have revised our 2018 and 2019 EBITDA forecasts upward by 3.1% and 2.9%, respectively. We have also raised our CAPEX projections (the Company is investing in the infrastructure and licenses for projects performed under the outsourcing model). After updating our forecasts, we set the new price target at PLN 173.30, and maintain our positive outlook for the stock. At 7.9x 2018E EV/EBITDA and 7.2x 2019E EV/EBITDA, the Company is trading at a respective discounts of 19% and 23% to the peer group which we find undeserved given a similar increase in EBITDA reported by other companies in the sector (5.3% in Comarch vs 5.7% on average in the peer group). Comarch announced that since October 2018 it has been providing four services, and their delivery has been going smoothly. According to the approved schedule, Comarch also stated its readiness to provide further services and act as an integrator. In the baseline scenario, we assume the absence of any material problems with taking over the ZUS contract.

		Upside
Current Price	160.00 PLN	
9M Target Price	173.30 PLN	+8.3%

	rating	target price	issued
new	**accumulate**	**173.30 PLN**	**2018-12-05**
old	accumulate	180.50 PLN	2018-10-01

Key Metrics			**CMR PW**	**vs. WIG**
Ticker	CMR PW	1M Price Chng	-5.6%	-11.4%
ISIN	PLCOMAR00012	YTD Price Chng	-15.1%	-8.5%
Outst. Stock (m)	8.1	ADTV 1M		PLN 0.7m
MC (PLN m)	1,301.3	ADTV 6M		PLN 0.5m
EV (PLN m)	1,338.7	EV/EBITDA 12M fwd	7.4	+0.3%
Free Float	59.2%	EV/EBITDA 5Y avg	7.4	premium

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	1,109	1,102	1,343	1,399	1,493
EBITDA	176	99	168	177	190
EBITDA margin	15.8%	9.0%	12.5%	12.7%	12.7%
EBIT	113	34	103	109	119
Net income	70	43	60	77	88
P/E	18.6	30.2	21.8	16.8	14.7
P/B	1.5	1.5	1.4	1.3	1.3
EV/EBITDA	7.2	13.5	8.0	7.3	6.9
DPS	0.00	1.50	1.50	1.50	10.00
DYield	0.0%	0.9%	0.9%	0.9%	6.3%

Projection Update (% change)	2018P	2019P	2020P
Revenue	+2.7%	+2.9%	+2.9%
EBITDA	+3.1%	+2.9%	+2.6%
EBIT	+15.5%	+10.7%	+7.4%
Net income	+10.4%	+6.1%	+3.9%
CAPEX	+31.4%	+11.6%	+7.9%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	**1,109**	**1,102**	**1,343**	**1,399**	**1,493**
TMT	276	258	319	344	362
Finance & Banking	164	186	195	208	217
Retail Solutions	183	174	195	219	252
Manufacturing	146	142	148	159	167
Public Sector	73	63	189	158	170
SME	228	236	254	267	280
Other	39	43	42	44	46
Gross profit	343	268	363	373	396
margin	30.9%	24.3%	27.0%	26.7%	26.5%
Selling expenses	131	134	139	145	152
G&A expenses	101	98	111	120	124
EBIT	**113**	**34**	**103**	**109**	**119**
margin	10.2%	3.1%	7.7%	7.8%	8.0%
Net income	**70**	**43**	**60**	**77**	**88**

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Operating cash flow	**88**	**61**	**95**	**126**	**146**
OCF/EBITDA	50%	62%	57%	71%	77%
CAPEX	**-121**	**-110**	**-83**	**-71**	**-72**
Assets	1,439	1,503	1,610	1,694	1,730
Equity	861	880	928	993	1,000
Net debt	**-49**	**19**	**21**	**-21**	**-14**
Net debt/EBITDA (x)	-0.3	0.2	0.1	-0.1	-0.1

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	24.5	21.8	19.5	16.0	15.1	14.2
Maximum	8.8	7.5	7.1	4.9	4.1	3.9
Median	15.4	14.3	13.4	9.7	9.4	8.8
Weight	33%	33%	33%	33%	33%	33%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Revenue	1,343	1,399	1,493	1,575	1,645	1,716	1,789	1,858	1,920	1,980	2,020
EBITDA	168	177	190	200	206	215	223	230	236	240	245
EBITDA margin	12.5%	12.7%	12.7%	12.7%	12.5%	12.5%	12.5%	12.4%	12.3%	12.1%	12.4%
D&A	65	69	71	73	75	77	79	81	83	84	86
EBIT	103	109	119	127	131	137	144	149	153	156	160
Tax	30	30	31	33	35	36	38	39	40	41	42
NOPLAT	**72**	**79**	**88**	**93**	**97**	**101**	**106**	**110**	**113**	**115**	**118**
CAPEX	-83	-71	-72	-76	-78	-80	-82	-84	-85	-87	-89
Working capital	-32	-20	-12	-10	-7	-8	-8	-7	-5	-5	-5
FCF	**22**	**56**	**74**	**80**	**86**	**91**	**95**	**100**	**105**	**108**	**110**
PV FCF	22	51	62	62	62	60	58	56	54	51	
WACC	8.4%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Net debt / EV	1.4%	1.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	2.0%
PV FCF	1,337
Net debt	19
Other adjustments	16
Value per share (PLN)	160.08

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	165.76
DCF Val.	50%	160.08
Implied Price		162.92
Cost of equity (9M)		6.4%
9M Target Price		**173.30**

Industrials & Mining

(PLN m)	Revenue 2018	Revenue 2019	Revenue 2020	EBITDA 2018	EBITDA 2019	EBITDA 2020	Net Profit 2018	Net Profit 2019	Net Profit 2020
AC	229.8	241.6	253.2	57.4	60.4	63.0	38.4	40.0	40.8
Alumetal	1,704.9	1,728.4	1,734.6	126.6	120.2	116.6	88.2	78.4	74.4
Amica	2,885.2	2,972.6	3,031.5	195.6	207.1	206.0	107.5	113.0	113.1
Apator	790.0	809.7	821.8	126.6	120.2	121.6	64.7	58.7	59.6
Boryszew	6,030.0	6,317.4	6,424.1	409.9	437.9	457.7	129.2	146.6	168.7
Cognor	2,057.0	2,037.2	2,012.1	218.1	170.5	152.3	96.7	98.3	86.5
Ergis	779.6	818.5	843.1	49.7	46.6	47.9	16.8	10.6	11.0
Famur	2,293.2	2,121.7	2,177.4	467.7	491.3	485.8	199.6	257.2	277.5
Forte	1,107.9	1,143.7	1,166.5	120.4	128.1	138.6	35.1	41.9	51.8
Impexmetal	3,329.1	3,512.9	3,559.8	274.9	239.0	237.1	206.9	171.9	174.2
Kernel	2,403.0	3,519.9	4,564.1	222.5	362.3	420.0	52.1	161.9	213.0
Kęty	2,977.6	3,079.0	3,200.4	460.2	447.7	476.4	261.3	235.6	247.9
Kruszwica	2,598.2	2,448.8	2,476.3	128.6	105.9	112.3	83.0	61.2	66.7
Mangata (Zetkama)	725.6	749.8	757.4	99.3	90.3	90.4	53.3	42.8	43.1
Pfleiderer Group	1,092.5	1,137.6	1,179.8	140.7	140.5	147.1	39.5	34.1	41.5
Pozbud	140.1	327.9	358.5	18.7	34.8	32.0	7.1	23.1	21.4
Stelmet	552.5	575.4	597.4	66.6	54.5	56.7	15.1	8.7	10.6
Tarczyński	671.2	544.0	568.7	60.9	54.6	54.1	13.9	18.1	18.0
TIM	821.7	884.0	936.5	30.0	31.0	33.9	14.3	15.6	16.4

Company	Weight current	Weight change	Current price	MoM change	P/E 2018	P/E 2019	P/E 2020	EV/EBITDA 2018	EV/EBITDA 2019	EV/EBITDA 2020	DYield 2018	DYield 2019	DYield 2020	P/(BV-goodwill) 2018	P/(BV-goodwill) 2019	P/(BV-goodwill) 2020	'18E ND /EBITDA
AC	OW	-	42.50	+3.7%	10.8	10.5	10.4	7.4	7.1	6.7	5.9%	6.6%	7.1%	3.7	3.4	3.2	0.0
Alumetal	N	▶	43.80	-1.2%	7.6	8.5	9.0	6.2	6.7	6.9	6.7%	9.3%	8.2%	1.2	1.2	1.1	0.9
Amica	OW	▶	117.00	+6.6%	8.5	8.1	8.0	5.7	5.3	5.1	2.6%	3.5%	4.3%	1.1	1.0	0.9	1.0
Apator	UW	▼	24.20	+1.3%	13.1	14.5	14.3	7.7	8.1	8.0	4.9%	5.3%	5.2%	2.3	2.2	2.1	1.0
Boryszew	N	▶	4.72	-6.5%	8.8	7.7	6.7	6.9	6.2	5.7	0.0%	0.0%	0.0%	0.9	0.8	0.8	2.5
Cognor	N	-	1.80	+0.0%	3.3	3.2	3.6	2.9	3.1	3.1	3.8%	9.2%	15.6%	1.1	0.9	0.8	1.4
Ergis	UW	▼	2.80	-24.7%	6.6	10.4	10.0	5.8	6.3	6.0	7.0%	4.5%	4.2%	0.6	0.5	0.5	3.6
Famur	OW	-	5.92	+5.7%	17.0	13.2	12.3	7.8	6.7	6.5	7.4%	7.8%	5.3%	2.7	2.7	2.5	0.4
Forte	N	▶	22.50	-47.7%	15.2	12.8	10.3	9.7	8.9	7.9	0.0%	0.0%	0.0%	0.8	0.8	0.8	5.3
Impexmetal	N	-	3.40	-9.6%	3.3	4.0	3.9	4.8	5.0	4.5	0.0%	0.0%	0.0%	0.5	0.4	0.4	1.3
Kernel	OW	-	53.50	+7.0%	24.0	7.6	5.6	8.1	5.8	4.9	1.6%	1.7%	5.4%	1.2	1.1	0.9	2.8
Kęty	UW	-	343.00	-10.8%	12.5	13.9	13.2	8.8	9.3	8.8	7.0%	5.6%	5.0%	2.4	2.3	2.2	1.7
Kruszwica	N	▶	42.00	-1.9%	11.6	15.8	14.5	6.8	8.2	7.6	3.2%	4.3%	4.4%	1.4	1.4	1.3	-0.7
Mangata (Zetkama	N	▶	69.80	+6.7%	8.7	10.9	10.8	6.4	7.1	7.1	12.9%	6.9%	6.4%	1.2	1.2	1.2	1.5
Pfleiderer Group	N	-	30.95	-10.5%	12.2	14.1	11.6	5.8	5.8	5.4	3.5%	5.7%	5.0%	7.0	6.4	5.2	2.5
Pozbud	OW	▶	2.55	-0.8%	9.7	2.9	3.2	7.3	3.0	1.8	0.0%	5.2%	16.9%	0.4	0.3	0.3	3.3
Stelmet	N	-	7.70	-8.1%	15.0	25.9	21.4	5.9	6.8	6.1	0.0%	3.3%	2.3%	0.5	0.5	0.5	2.5
Tarczyński	UW	▼	17.50	+16.7%	14.3	11.0	11.0	5.9	6.5	6.4	0.0%	4.0%	4.6%	1.1	1.1	1.1	2.6
TIM	OW	-	7.48	+8.1%	11.6	10.6	10.1	7.1	6.9	6.5	13.4%	10.0%	10.0%	1.1	1.1	1.1	1.5
Median					**10.3**	**10.4**	**10.2**	**6.9**	**6.5**	**6.2**	**3.6%**	**5.3%**	**5.1%**	**1.2**	**1.1**	**1.0**	**1.4**

Source: Dom Maklerski mBanku; OW – overweight, N – neutral, UW – underweight

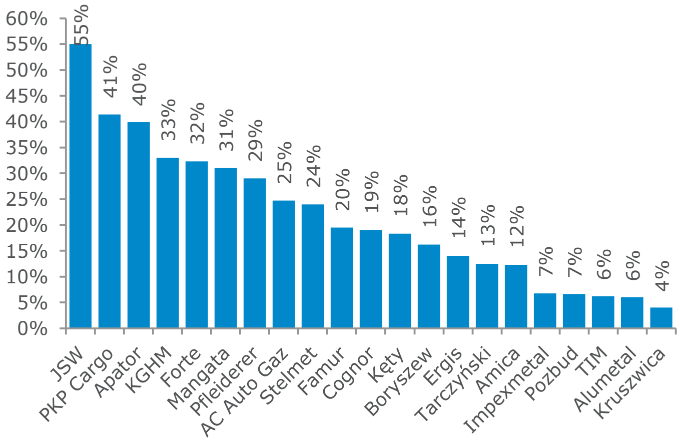
AC (overweight)

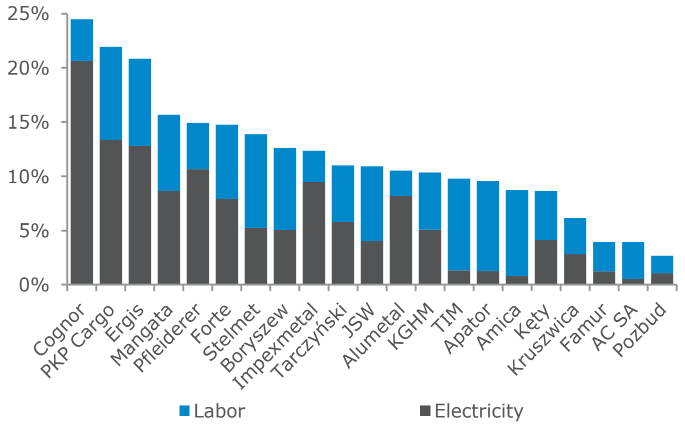
At the end of the current year, the company will record an approx. 20% surge in revenue, attributable to a growing demand on foreign markets. We expect the growth rate to slow down to around 5% in 2019-20, but our conservative assumption factors in the potential of the absorptive markets of China, Brazil, Mexico, India and new African markets (e.g. Algeria). The Company is characterized by a cost-competitive position and effective trade policy. AC incurs relatively low electricity costs – assuming the scenario of a 32% increase in energy costs in tariff B and a 5% increase in salaries, EBITDA in 2019 would fall only by 3.9%. The conflict between Russia and Ukraine poses a potential threat to the company (both countries have a relatively large share in exports), but the escalation in 2014 did not significantly affect the situation on these markets. An unquestionable advantage of AC is the high level of conversion of EBITDA into cash flows and the long-standing dividend policy. We assume that the dividend per share will amount to at least PLN 2.80 in 2019 and PLN 3.00 in 2020 (DYield of 6.7-7.2%). The company is currently trading at an 8% premium to peers on P/E and EV/EBITDA, but the high DYield (~6.7% vs. ~2,6% for peers) would justify much higher valuation multipliers. AC uses virtually no external financing. In our opinion, the healthy balance sheet and good outlook for the coming quarters would allow the company to increase debt up to 2x EBITDA, enabling a one-time DYield of as much as 30%. We maintain an overweight position on AC stock.

Amica (overweight)

In H1 2018, Amica Group definitely returned to dynamic organic growth that, in our opinion, will continue at least until the end of Q1 2019. Sales growth is accompanied by high cost discipline (decrease in external service costs thanks to the construction of an own high-bay warehouse; remuneration increase of only 2% y/y in Q1 – Q3 2018 thanks to more effective payroll programs; better tailored advertising campaign). In 2019 the group plans further

Power & payroll costs as a pct. of the total costs of rated industrial companies (left), Estimated impact on 2019 EBITDA of a 32% power tariff hike and a 5% hike in payroll costs (right)





Source: Dom Maklerski mBanku

actions compensating the cost-push inflation such as intensified use of prisoners for production in Wronki, increase in sales of own products with prejudice to the distribution of products. On the cost side, it is worth noting that assuming our scenario of a 32% increase in electricity costs in tariff B and a 5% increase in wages, EBITDA in 2019 would fall by less than 9% y/y (the first quartile of the impact of rising costs on EBITDA of the industrial companies under analysis). An increase in acquisition movements in Europe may be an opportunity for Amica Group in 2019 (acquisition of Gorenje, Candy in 2018). There are fewer and fewer independent entities on the European market, and in the past such entities as Bosch or Samsung showed interest in Amica Group (purchase of washing machine and refrigerator factories). Additionally, Amica generates more than 50% of sales from trade in goods, which a new owner could quickly use to complete their own production. We maintain our overweight rating for Amica Group.

Alumetal (neutral)

In 2019, Alumetal Group will probably exceed the level of 200kt of production (we expect 199kt in 2018). On the other hand, margins on basic products in 2018 were at high levels, significantly above the multi-year average. They were supported by a good momentum in the automotive industry in Q1 – Q3 2018 and decreases in prices of aluminum scrap in H2 2018 (maybe an impact of Turkey's lower purchases – a significant scrap importer). In our opinion, a weaker period in the European automotive industry may result at the turn of 2018/2019 in a decrease in benchmark margins for the main products of Alumetal. That would cause pressure on results in the first quarters of 2019. In the case of Alumetal, the impact of rising labor and energy resources costs (energy; gas) is limited, in particular since the company has secured most of electricity purchases in H1 2018 at favorable prices. We estimate that the combined impact of higher electricity and labor costs will be below 10% of EBITDA for 2018. The high expected dividend payout is a factor reinforcing the company's attractiveness (with distribution of 70% of profit to shareholders about 9% Dyield in 2019). We maintain our neutral rating for shares of Alumetal.

Apator (underweight)

In our opinion, the biggest challenge for Aptor Group continues to be the expected inflation of labor costs, which represent 39% of total costs (second biggest item in our rating!) We reckon that the third consecutive year of dynamic wage growth may have a negative impact on the group's competitiveness on foreign markets (double-digit y/y decline in export growth in Q1 – Q3 2018). We expect stable sales revenues in two next years with increasing pressure on operating margins. Assuming our scenario of a 32% increase in energy costs in tariff B and a 5% increase in wages, EBITDA in 2019 would fall by almost 10% y/y. We expect a 5% y/y decrease in EBITDA in 2019 and "flat" results in 2020. In our opinion, the company will have significant problems with regard to the announced strategy for 2019 – 2023. We also downgrade our rating of Aptor Group from neutral to underweight.

Boryszew (neutral)

In 2019, the automotive segment is to record an increase in revenues in connection with the probable solution of the homologation problems in new car models. On the other hand, the high capacity utilization and record-high margins in the metal segment with falling leading indexes are unlikely to allow for the very good results of 2018 to be repeated. In 2019, Boryszew will have to face wage inflation (negative impact of around PLN 31m) and increasing electricity prices (PLN 21m). Assuming the scenario of a 32% increase in energy costs in tariff B and a 5% increase in wages, EBITDA in 2019 would fall by almost 13% y/y. We take a cautious approach to the review of strategic options announced by the management board. In our opinion, the experiences of the main shareholder show that the Group will have difficulties in finding a buyer for selected assets of the Group. On the other hand, cancellation of the existing strategy means lower investment expenditure in 2019 and a probable decrease in debt (possible dividend). We lower our expectations regarding EBITDA in 2019 by 5% and the net result by 14%. We maintain our neutral rating for Boryszew Group.

Cognor (neutral)

Cognor Group ends 2018 with the highest EBITDA result (over PLN 200m) since 2007. The main risk in 2019 are the expected increases in energy prices (negative impact of 24% on EBITDA 2018 result) and higher wages (impact of around 4% on EBITDA 2018 result). In accordance with the statement of the management board, to a large extent, higher energy costs will be compensated by a decrease in prices of purchased graphite electrodes. In our opinion, it may be possible to repeat the high prices of steel products observed in the current year. Market participants expect China to reduce its steel production to a lesser extent in the current heating season, as decisions have been shifted from the central to the local level. Additionally, the current weaker momentum of the European industry (falling PMI) and automotive segment may make it impossible to negotiate an increase in processing margins in 2019. In our opinion, in 2019 it is unlikely that the fall in steel scrap prices of Q3 2018 as a result of the slowdown in Turkish merchants' activity be repeated (the fall of the lira stopped scrap purchases by Turks). We expect EBITDA result of Cognor Group to decrease by around 20% in 2019. In our opinion, the company may pay dividends of up to PLN 0.17 per share from its 2018 profit, which would give Dyield 2019 of nearly 9%. We adjust our previous expectations for Cognor Group slightly upwards. We start to award a neutral rating to Cognor Group.

Ergis (underweight)

The main threats to Ergis Group for 2019 are expectations of further increase in labor (11% of total costs) and electricity costs (3% of total costs). Assuming the scenario of a 32% increase in energy costs in tariff B and a 5% increase in wages, EBITDA in 2019 would fall by almost 21% y/y. Taking into account the fact that in 2018 the group had significant difficulties in passing labor costs onto customers, in our opinion, results in 2019 will continue to be under significant pressure. Besides labor costs, there will also be the result of higher energy costs (impact of even 13% on EBITDA 2018). The expected adjustment of petrochemical raw materials prices could be a rescue for the group, but in our opinion, it would only have a short-term impact on the improvement of financial results. In our opinion, at the end of 2019 the net debt to EBITDA will be nearly 4.0x, which we believe may result in a decrease in the dividend rate (in the worst-case scenario, abandonment of the dividend policy) and slow down the completion of key investments. We lower our expectations for 2019 (by 17% of EBITDA and 42% of the net result) and downgrade the rating of Ergis Group from neutral to underweight.

Forte (neutral)

Forte ends 2018 with a large debt and modest prospects for the coming months. Ownership changes in distribution chains in Western Europe following the sale of assets by Steinhoff Group have a negative impact on suppliers. On the other hand, the new wood-based panel factory in which Forte had invested in the last two years contributes to the Group's results to a much lower extent than assumed by the management board and expected by analysts. Currently, the company is working using 100% of its production capacity, experiencing high cost-push inflation which it struggles to pass onto customers (large recipient chains). Assuming our scenario of a 32% increase in energy costs in tariff B and a 5% increase in wages, EBITDA in 2019 would fall by almost 15% y/y (energy 8% and wages 7%). Further issues that the company will have to face in 2019 is the commissioning of Egger panel production plant in Biskupiec (10% of the domestic panel capacity; increased wood competition) and the expected urea and melamine price increases. On the other hand, Forte is struggling with a large debt (expected 5.3x EBITDA 2018), which, according to our forecasts will remain at a level above 4.0x until the end of 2020. In Q3 2019 the group must repay a loan of PLN 70m that was taken out towards a purchase of own shares. We lower our expectations regarding EBITDA result in 2019 by 23% and the net result by 43%. We maintain our neutral rating for Forte Group.

Impexmetal (neutral)

In 2019 the main challenge for Impexmetal are the growing electricity prices (a negative impact of around PLN 26m) and wage costs (a negative impact of around PLN 8m). Both factors have a possibly negative impact of over 12% on EBITDA in the coming year. On the other hand, in 2018 Impexmetal will register record-high historical sales volume and record-high product margins. The currently observed slowdown in the European industry (falling PMI) and the worse momentum in the automotive industry create a risk that, in terms of both sales and negotiated margins, the next year may be worse. We take a cautious approach to the review of strategic options announced by the management board. In our opinion, the experiences of the main shareholder show that the group will have difficulties in finding a buyer for selected assets of the group. On the other hand, cancellation of the strategy means lower investment expenditure in 2019 and a probable decrease in debt (unless the cash is used by the parent company Boryszew). We do not assume that Impexmetal will pay out dividends in the next two years. We start to award a neutral rating to Impexmetal Group.

Kruszwica (neutral)

Despite this year's very poor rapeseed harvest in Poland (-18% y/y; 2.2mmt), the management board of ZT Kruszwica sees an opportunity for contracting good processing margins for subsequent quarters. The company has secured a significant amount of seed from intermediaries; therefore, it will not experience such a drastic decrease in sales volume as it could result from market conditions. The challenge for the next season is the information on low rapeseed sowings for 2019 (a decrease by another 10% – the lowest since 2012), which means that even if the average yields per hectare increase to the 5-year average, in 2019 the rapeseed harvest will fall by another 4% to 2.1mmt. In 2019 a challenge for the company will be the increasing costs of energy and CO_2 certificates – the total additional cost of PLN 7.9m (6.1% of this year's forecast EBITDA). Kruszwica stands out positively in comparison to industrial companies due to its low sensitivity of growing energy costs and wage costs to results. Assuming our scenario of a 32% increase in energy costs in tariff B and a 5% increase in wages, EBITDA in 2019 would fall by merely 6% y/y (the first quartile). Taking into account the net cash in the balance, in our opinion, the Group is capable of paying out around 5% of Dyield to shareholders in 2019 and 2020. We maintain our neutral rating for Kruszwica Group.

Mangata (neutral)

In 2018, the production capacity utilization of Mangata Group was practically at its maximum level. Additionally, the group is quite significantly optimized, which means that in a short term it is not able to substantially increase its production capacity. The currently observed decrease in indexes exceeding PMI (risk of a decrease in demand in 2019 in Mangata's key industries – automotive, construction and heavy industry) pose a risk to 2019 results. Additionally, the company will probably be affected by labor (26% of total costs) and electricity cost (5% of total costs) inflation in 2019 (high sensitivity to the impact of increased wages and energy on results – the last quartile in industrial companies). Assuming our scenario of a 32% increase in energy costs in tariff B and a 5% increase in wages, EBITDA in 2019 would fall by almost 16% y/y. We expect a decrease of around 10% in the Group's financial results in 2019 (at the level of EBITDA). In our opinion, the expected dividend rate of over 6% in 2019 and 2020 may be a factor mitigating investors' reaction. We maintain our neutral rating for Mangata Group.

Pfleiderer (neutral)

Because of the increasing energy costs in Poland (even EUR 15m of additional costs in 2019), probable higher costs of wood (a 5% increase in wood prices cause by a 7.5% y/y decrease in the sales of the raw material by the State Forests may translate into a cost increase of even EUR 10m) as well as possibly higher urea and melamine prices, in the environment of commissioning new production capacity, it will be difficult for Pfleiderer Group to improve its results in

2019. In H1 2019 a new wood-based panel factory will start operating in Biskupiec, with a capacity of around 10% of the production capacity installed in Poland. The new line will undoubtedly have an impact on panel prices and wood purchase prices, as the new factory operates in a region where two factories of Pfleiderer (Grajewo) are located. If the market approves the new volume, there is a chance of returning to growth, but we believe that it will only happen in 2020. It would be a positive surprise for us, should Pfleiderer Group manage to improve its results in H1 2019. Pfleiderer Group is distinguished by a high share of personnel costs (23%) and electricity costs (6%) in total costs compared to industrial companies (the last quartile). We maintain our neutral rating for Pfleiderer Group.

Pozbud (overweight)

In 2018, for the second consecutive year in a row, the results of Pozbud will improve at the operational level. Before, we had hoped that the improvement in 2018 would be even greater, but everything indicates that the handover of the development project in Poznań will only take place in Q1 2019. On the other hand, it should accelerate even more the improvement in financial results in 2019. We expect further development in the construction contract for PLK GSM in 2019. Pozbud is characterized by relatively highest resistance to increases in energy and wage costs compared with peer industrial companies. Assuming our scenario of a 32% increase in energy costs in tariff B and a 5% increase in wages, EBITDA in 2019 would fall by less than 3% y/y. Currently Pozbud's indexes P/E and EV/EBITDA are below 3.0x. We maintain our overweight rating for Pozbud Group.

Tarczyński (underweight)

After the sale of the production plant in Sława, Tarczyński Group will register in 2019 a decrease of around 30% in sales volume (according to our estimates, Sława was responsible for 30–35% of the Group's sales volume). Despite the sale of part of the business, we believe that the Group's profitability will increase due to the fact that the sold production capacity had produced products with lower value added. The main threat to Tarczyński Group in 2019 are the expected increases in energy costs (a negative impact of nearly 6% on EBITDA 2018) and growing wage costs (a negative impact of nearly 5% on EBITDA 2018) It is also worth noting that in 2018 prices of pork were exceptionally stable and it is rather unlikely that such a situation could repeat itself in 2019. A risk factor for the coming years is also the opening of the German market to Ukrainian employees. Currently, according to our estimations, around 55% of the staff employed at the production plant in Ujeździec (near Wrocław) are Ukrainian citizens (risk of losing employees). In our opinion, there is a chance that in 2019 the owners of the company could again return with an offer to buy back shares from the market. We would then treat such a proposal as an opportunity to exit the investment. We lower our expectations for 2019 by 16% of EBITDA and 23% of the net result; and we downgrade the rating of Tarczyński Group from neutral to underweight.

TIM (overweight)

TIM increased sales by approximately 15% in 2018, owing mainly to online sales which account for 70% of the total annual sales generated by the electrical wholesaler, accompanied by rising revenues from 3LP services for e-commerce launched in 2016. The 3LP business is expected to double EBITDA this year from PLN 2.6m in 2017, with an additional boost of PLN 6m provided by one-time events. In 2019, assuming a 32% hike in electricity rates for large commercial consumers, and a 5% increase in payroll costs, per our calculations the consolidated EBITDA is not likely to decrease more than 9.8% (placing the company is the second quartile in the industrials sector in terms of sensitivity to labor and energy costs).TIM intends to pay an interim dividend of PLN 1 per share in 2018, with dividend yield at ca. 15%, and with PLN 36m remaining in the dividend fund this would suggest a total dividend for 2018 of PLN 1.63 per share, with DYield at ca. 24%. With increasing profits, TIM can be expected to offer equally generous distributions in 2019-2020. We initiate coverage of TIM with an overweight rating.

Famur

buy (no change)

Jakub Szkopek +48 22 438 24 03 jakub.szkopek@mbank.pl

Current Price	5.92 PLN	**Upside**
9M Target Price	6.41 PLN	+8.3%

	rating	target price	issued
unchanged	**buy**	**6.41 PLN**	**2018-11-30**

The global market steam and coking coal prices above the monetary cost of extracting them make mines willing to allocate capital surpluses for investments. In accordance with the forecasts of the SNL, World Bank and IMF, investments in the global mining industry will increase in 2018 to USD 147bn – the highest level since 2015. They are to grow rapidly in the next two years to USD 176bn in 2020, when they will probably reach the local peak. Additionally, the persistently low stocks of raw materials with increasing imports from external markets are a problem on the domestic market. In Poland, in connection with the execution of the tasks of the Mining Program until 2030, the Ministry of Energy expects that expenditures in state-owned mining companies will increase to PLN 2.4bn in 2018 (minimum PLN 1.6bn in 2016) and will remain at a level above PLN 2.0bn in subsequent years. Investments in all domestic mining companies in 2018 will increase to PLN 4.5bn (+50% y/y) and will remain at this level in the next two years. In our opinion, the main driver of sales growth of Famur Group in 2019 will be the underground segment (+6% y/y), which results mainly from the increase in turnover in the roadheader segment (+14% y/y – result of new roadheader lease agreements signed with Kompania Węglowa and JSW in 2018). In our opinion, after the sale of PBSZ Famur can afford to pay out a dividend of PLN 265m in 2019, which translates into Dyield of over 8%. We do not change our valuation of Famur (PLN 6.41/share) and maintain our buy rating.

Key Metrics			FMF PW	vs. WIG
Ticker	FMF PW	1M Price Chng	+5.0%	-0.8%
ISIN	PLFAMUR00012	YTD Price Chng	+2.8%	+9.3%
Outst. Stock (m)	574.8	ADTV 1M		PLN 1.9m
MC (PLN m)	3,402.6	ADTV 6M		PLN 1.3m
EV (PLN m)	3,630.1	EV/EBITDA 12M fwd	6.6	+10.5%
Free Float	35.3%	EV/EBITDA 5Y avg	5.9	premium

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	1,030	1,460	2,293	2,122	2,177
EBITDA	239	308	468	491	486
EBITDA margin	23.2%	21.1%	20.4%	23.2%	22.3%
EBIT	114	133	278	323	341
Net income	94	49	200	257	278
P/E	30.7	68.2	17.0	13.2	12.3
P/B	2.9	2.3	2.3	2.3	2.2
EV/EBITDA	11.5	11.4	7.8	6.7	6.5
DPS	0.00	0.00	0.44	0.46	0.31
DYield	0.0%	0.0%	7.4%	7.8%	5.3%
Projection Update (% change)			**0**	**0**	**0**
Revenue			0.0%	0.0%	0.0%
EBITDA			0.0%	0.0%	0.0%
Net income			0.0%	0.0%	0.0%
Revenue, Underground			0.0%	0.0%	0.0%
Revenue, Surface			0.0%	0.0%	0.0%
Sales margin, UG			0.0%	0.0%	0.0%
Sales margin, Surface			0.0%	0.0%	0.0%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue, Underground	741	1,019	1,543	1,638	1,684
Revenue, Surface	289	292	363	381	388
Sales margin, UG	25.8%	25.0%	26.6%	26.4%	26.8%
Sales margin, Surface	18.0%	8.3%	5.8%	9.9%	10.4%
Operating cash flow	**315**	**192**	**244**	**497**	**407**
D&A	125	175	190	168	145
Working capital	95	-16	-174	62	-20
Investing cash flow	**-85**	**-231**	**-93**	**122**	**-83**
CAPEX	83	132	93	-122	83
Financing cash flow	**185**	**287**	**-416**	**-374**	**-185**
Change in debt	196	-88	-150	-100	0
Dividends/Buyback	0	0	-253	-265	-180
FCF	240	-91	154	616	319
FCF/EBITDA	101%	-30%	33%	125%	66%
OCF/EBITDA	132%	44%	52%	101%	84%

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Assets	1,775	3,138	3,185	3,011	3,130
Fixed assets	670	1,099	1,002	712	650
Goodwill	220	222	222	222	222
Equity	993	1,437	1,482	1,475	1,572
Minority interests	0	115	32	32	32
Net debt	-135	80	196	-149	-288
Net debt/EBITDA (x)	-0.6	0.3	0.4	-0.3	-0.6

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	10.7	9.7	8.9	7.3	6.8	6.2
Maximum	16.0	13.9	12.8	10.4	8.9	8.1
Median	13.6	11.4	10.6	9.1	7.1	6.6
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Revenue	2,293	2,122	2,177	2,221	2,266	2,312	2,359	2,407	2,455	2,505	2,556
YoY % change	42.5%	-7.5%	2.6%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
EBITDA	468	491	486	477	475	485	493	501	515	528	536
EBITDA margin	20.4%	23.2%	22.3%	21.5%	21.0%	21.0%	20.9%	20.8%	21.0%	21.1%	21.0%
D&A	190	168	145	126	116	117	118	119	125	131	141
EBIT	278	323	341	351	359	367	375	382	390	397	395
Tax	46	59	63	66	68	69	71	73	74	76	76
NOPAT	232	264	277	285	291	298	304	310	315	322	319
CAPEX	-93	122	-83	-122	-125	-127	-130	-132	-135	-138	-141
Working capital	-174	62	-20	-16	-16	-17	-17	-17	-18	-18	-18
FCF	154	616	319	273	267	271	275	279	288	296	302
PV FCF	153	564	269	212	191	179	167	157	149	141	
WACC	8.3%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	2.0%
PV FCF	2,182
Net debt	333
Other adjustments	-11
Value per share (PLN)	6.98

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	5.07
DCF Val.	50%	6.98
Implied Price		6.03
Cost of equity (9M)		6.3%
9M Target Price		**6.41**

Grupa Kęty
reduce (upgraded)

Jakub Szkopek +48 22 438 24 03 jakub.szkopek@mbank.pl

In 2019 Grupa Kęty will clearly feel the cost pressure resulting from higher energy costs (gas and energy PLN +17m) and labor costs (PLN +20m). On the other hand, the biggest competitor of Grupa Kęty on the Polish market with regard to aluminum systems is expanding its production plant in Płock, which, in our opinion, will increase the production capacity in Poland by around 10%. We reckon that, due to a lot of competition, the segments of aluminum systems and flexible packagings will have significant difficulties in passing costs onto customers, which will lead to further margin reduction. Additionally, it is worth nothing that processing margins in the segment of extruded products are currently at record levels, higher than in 2007 (+25% vs. multi-annual average). In our opinion, in 2019 the company will experience increasing problems in the construction industry (exposure of 60% to construction) due to an increase in receivables in relation to revenues, similar to that in 2009 and 2012-2013. According to our estimations, net debt in relation to EBITDA at the end of 2019 will increase to 2.0x, i.e. the condition of the current dividend policy (60%-100% of profit on dividend). We assume that the value of dividend per share will decrease both in 2019 and 2020. We maintain our price target at PLN 309.30 and we upgrade our rating from sell to reduce (due to the fall in share price).

Current Price	343.00 PLN	**Downside**
9M Target Price	309.30 PLN	-9.8%

	rating	target price	issued
new	**reduce**	**309.30 PLN**	**2018-12-05**
old	sell	309.30 PLN	2018-10-29

Key Metrics			KTY PW	vs. WIG
Ticker	KTY PW	1M Price Chng	-2.0%	-7.7%
ISIN	PLKETY000011	YTD Price Chng	-14.8%	-8.3%
Outst. Stock (m)	9.5	ADTV 1M		PLN 0.3m
MC (PLN m)	3,274.1	ADTV 6M		PLN 1.6m
EV (PLN m)	4,051.4	EV/EBITDA 12M fwd	8.3	-11.0%
Free Float	42.0%	EV/EBITDA 5Y avg	9.3	discount

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	2,267	2,643	2,978	3,079	3,200
EBITDA	394	421	460	448	476
EBITDA margin	17.4%	15.9%	15.5%	14.5%	14.9%
EBIT	282	301	334	316	333
Net income	278	236	261	236	248
P/E	11.7	13.8	12.5	13.9	13.2
P/B	2.3	2.4	2.3	2.3	2.1
EV/EBITDA	9.3	9.1	8.8	9.3	8.8
DPS	17.95	30.00	23.94	19.16	17.28
DYield	5.2%	8.7%	7.0%	5.6%	5.0%
Net income			0.0%	0.0%	0.0%
Aluminum price (US$/t)			0.0%	0.0%	0.0%
Producer premium (US$/t)			0.0%	0.0%	0.0%
EBITDA, Packaging			0.0%	0.0%	0.0%
EBITDA, Extrusions			0.0%	0.0%	0.0%
EBITDA, Al Systems			0.0%	0.0%	0.0%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
EBITDA, Packaging	104	113	120	112	130
EBITDA, Extrusions	139	150	176	180	185
EBITDA, Al Systems	160	172	180	172	178
EBITDA, Other	-10	-13	-16	-16	-17
EBITDA/t of Al	5	5	5	4	4
Operating cash flow	**315**	**276**	**293**	**277**	**339**
D&A	112	120	126	132	143
Working capital	-51	-91	-89	-111	-73
Investing cash flow	**-270**	**-187**	**-230**	**-200**	**-150**
CAPEX	270	187	230	200	150
Financing cash flow	**-43**	**-85**	**-139**	**-78**	**-182**
Dividends/Buyback	-170	-285	-229	-183	-165
FCF	84	86	89	81	195
FCF/EBITDA	21%	20%	19%	18%	41%
OCF/EBITDA	80%	66%	64%	62%	71%

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Assets	2,323	2,499	2,673	2,864	2,971
Fixed assets	1,396	1,439	1,561	1,633	1,645
Equity	1,405	1,363	1,396	1,448	1,531
Minority interests	0	1	1	1	1
Net debt	397	591	777	907	910
Net debt/EBITDA (x)	1.0	1.4	1.7	2.0	1.9
Net debt/Equity (x)	0.3	0.4	0.6	0.6	0.6

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	2.3	2.2	2.2	2.9	2.9	2.6
Maximum	26.6	23.2	17.1	10.7	9.9	8.5
Median	11.2	9.9	8.9	7.5	6.5	5.8
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Al price (US$/t)	2,138	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100
Al premium (US$/t)	170	150	150	150	150	150	150	150	150	150	150
Al usage (1,000 t)	93	100	106	110	113	115	117	117	118	118	118
Revenue	2,978	3,079	3,200	3,298	3,369	3,409	3,457	3,468	3,477	3,477	3,477
EBITDA	460	448	476	482	486	488	494	493	491	488	487
EBITDA margin	15.5%	14.5%	14.9%	14.6%	14.4%	14.3%	14.3%	14.2%	14.1%	14.0%	14.0%
EBIT	334	316	333	344	350	358	365	361	358	355	355
Tax	52	55	58	60	62	63	65	65	64	64	64
CAPEX	-230	-200	-150	-120	-122	-125	-127	-130	-132	-132	-132
Working capital	-89	-111	-73	1	12	23	-15	-9	-7	-4	-4
FCF	89	81	195	303	315	323	286	290	287	288	287
PV FCF	88	75	166	240	231	219	180	168	155	143	
WACC	7.7%	7.6%	7.6%	7.7%	7.7%	7.8%	7.8%	7.9%	7.9%	7.9%	7.9%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	2.0%
PV FCF	1,665
Net debt	819
Other adjustments	0
Value per share (PLN)	340.38

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	244.37
DCF Val.	50%	340.38
Implied Price		292.38
Cost of equity (9M)		6.3%
9M Target Price		**309.30**

mBank Dom Maklerski

JSW

reduce (upgraded)

Jakub Szkopek +48 22 438 24 03 jakub.szkopek@mbank.pl

In 2019 JSW will have to face several factors that, according to our estimations, will increase the Group's cost base by around PLN 471m. Among the biggest ones will be electricity (PLN +172m; higher market energy prices), costs of external services (PLN +62m; increase in costs of lease, transport) and labor costs (PLN +200m; we expect wage inflation of 5% and the maintenance of the prize of PLN 200m after a successful year). On the other hand, the momentum in the steel market is clearly weakening due to the falling steel prices and margins realized by blast furnace producers. In winter, China's steel stocks will recover seasonally, and this year market participants expect fewer environmental constraints than in 2018. In our opinion, blast furnace producers will soon start to look for savings and exercise pressure on suppliers of coking coal and iron ore. After the unexpected supply shocks in H1 2018, we see more risk points when volumes return to normal when coking coal prices will be adjusted, which will have a negative impact on quotations of mining companies. Taking into account the expected downward results in the following year and the current investment program, JSW will stop generating free cash flows (FCF) as early as in 2019. We maintain our price target of PLN 59.14/share, and we upgrade JSW from sell to reduce after the fall in share price.

Current Price	71.20 PLN	**Downside**
9M Target Price	59.14 PLN	-16.9%

	rating	target price	issued
new	**reduce**	**59.14 PLN**	**2018-12-05**
old	sell	59.14 PLN	2018-11-26

Key Metrics			**JSW PW**	**vs. WIG**
Ticker	JSW PW	1M Price Chng	-6.3%	-12.1%
ISIN	PLJSW0000015	YTD Price Chng	-26.0%	-19.5%
Outst. Stock (m)	117.4	ADTV 1M		PLN 17.0m
MC (PLN m)	8,359.7	ADTV 6M		PLN 15.2m
EV (PLN m)	5,781.0	EV/EBITDA 12M fwd	2.3	-35.7%
Free Float	44.8%	EV/EBITDA 5Y avg	3.6	discount

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	6,731	8,877	9,579	8,992	8,636
EBITDA adj.	1,055	3,509	3,293	1,830	1,428
EBITDA margin	15.7%	39.5%	34.4%	20.4%	16.5%
EBIT adj.	216	2,684	2,547	958	392
Net income adj.	-2	2,189	2,056	775	313
P/E adj.	-	3.8	4.1	10.8	26.7
P/B	2.1	1.3	1.0	1.0	1.0
EV/EBITDA adj.	8.5	2.0	1.8	3.5	4.9
DPS	0.00	0.00	0.00	4.74	2.64
DYield	0.0%	0.0%	0.0%	6.7%	3.7%

Projection Update (% change)	2018P	2019P	2020P
EBITDA (adj.)	0.0%	0.0%	0.0%
Net income (adj.)	0.0%	0.0%	0.0%
Coking Coal price ($/t)	0.0%	0.0%	0.0%
Thermal Coal price (PLN/t)	0.0%	0.0%	0.0%
Coke price ($/t)	0.0%	0.0%	0.0%
Total coal output (kt)	0.0%	0.0%	0.0%
Coking coal (kt)	0.0%	0.0%	0.0%
Coke (kt)	0.0%	0.0%	0.0%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
Total coal output (kt)	16,835	14,768	14,853	15,500	15,750
Coking coal (kt)	11,580	10,675	10,435	10,580	11,223
Coking coal (% of total)	69%	72%	70%	68%	71%
Thermal coal (kt)	5,255	4,093	4,418	4,920	4,527
Coke (kt)	4,145	3,458	3,536	3,500	3,400
Operating cash flow	**897**	**2,871**	**2,523**	**1,493**	**1,238**
D&A	839	825	746	872	1,036
Working capital	-349	-76	-76	-131	-67
Investing cash flow	**-354**	**-2,170**	**-1,350**	**-1,500**	**-1,550**
CAPEX	372	737	1,350	1,500	1,550
Financing cash flow	**278**	**-701**	**-153**	**-552**	**-310**
Dividends/Buyback	0	0	0	-557	-310
FCF	289	2,129	1,430	16	-264
FCF/EBITDA (adj.)	27%	61%	43%	1%	-18%
OCF/EBITDA (adj.)	85%	82%	77%	82%	87%

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Assets	11,520	12,090	13,977	14,045	13,957
Fixed assets	9,097	8,118	8,729	9,376	9,934
Equity	4,003	6,389	8,246	8,465	8,468
Minority interests	67	232	232	232	232
Net debt	513	-1,641	-2,811	-2,252	-1,630
Net debt/EBITDA (adj.)	0.5	-0.5	-0.9	-1.2	-1.1
Net debt/Equity (x)	0.1	-0.3	-0.3	-0.3	-0.2

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	2.9	2.4	3.3	2.6	1.6	1.5
Maximum	26.1	14.9	20.0	8.0	8.0	8.4
Median	8.2	7.5	8.3	5.1	4.7	3.9
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Coking coal ($/t)	188	180	165	165	165	165	165	165	165	165	165
Thrml coal (PLN/t)	245	265	245	245	245	245	245	245	245	245	245
Coke ($/t)	1,108	968	883	883	883	883	883	883	883	883	883
Revenue	9,579	8,992	8,636	8,883	9,068	9,242	9,335	9,434	9,514	9,594	9,644
EBITDA	3,047	1,830	1,428	1,642	1,775	1,810	1,814	1,788	1,749	1,702	1,645
EBITDA margin	31.8%	20.4%	16.5%	18.5%	19.6%	19.6%	19.4%	19.0%	18.4%	17.7%	17.1%
EBIT	2,301	958	392	444	419	432	446	384	340	284	223
Tax	437	183	75	83	78	81	83	71	62	51	39
CAPEX	-1,350	-1,500	-1,550	-1,470	-1,420	-1,420	-1,420	-1,420	-1,420	-1,420	-1,422
Working capital	-76	-131	-67	28	15	25	18	5	5	4	0
FCF	1,430	16	-264	116	292	335	329	302	271	235	184
PV FCF	1,421	15	-222	90	209	221	200	170	140	112	
WACC	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Risk-free rate	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	0.0%
PV FCF	2,355
Net debt	-1,641
Other adjustments	232
Value per share (PLN)	40.86

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	70.41
DCF Val.	50%	40.86
Implied Price		55.63
Cost of equity (9M)		6.3%
9M Target Price		**59.14**

Kernel

buy (no change)

Jakub Szkopek +48 22 438 24 03 jakub.szkopek@mbank.pl

High cereal yields in Ukraine indicate a significant improvement in financial results in the agricultural production segment. In our opinion, it is even more probable since the company has managed to secure high cereal selling prices for the whole season 2018/2019. On the other hand, the practically record-breaking harvest of sunflower seeds in Ukraine translates into a higher coverage of available crushing plant capacity (76% – the most since 2013/2014). We assume that the recovery of market margins on sunflower crushing may have a positive impact on EBITDA in the oil segments (result: USD +40m EBITDA on oil). According to our estimates, in season 2018/2019 Kernel Group will improve EBITDA by USD 140m, which will also increase investors' confidence in the strategic goal of the management board – EBITDA of USD 495m in 2020/2021. In our opinion, the breaking of the downward trend (of six quarters) in Q4 2018 (Q2 2018) will continue in the following quarters, which will have a positive impact on the restoration of a positive sentiment towards the company. The only risk that we see is the possible political destabilization in Ukraine (presidential elections in H1 2019) or escalation of the military conflict with Russia. We maintain our price target for Kernel Group (PLN 60.85/share) and a buy rating.

Current Price	53.50 PLN	**Upside**
9M Target Price	60.85 PLN	+13.7%

	rating	target price	issued
unchanged	**buy**	**60.85 PLN**	**2018-11-05**

Key Metrics			KER PW	vs. WIG
Ticker	KER PW	1M Price Chng	+2.7%	-3.1%
ISIN	LU0327357389	YTD Price Chng	+13.2%	+19.7%
Outst. Stock (m)	82.7	ADTV 1M		PLN 4.1m
MC (PLN m)	4,422.4	ADTV 6M		PLN 4.0m
EV (PLN m)	6,784.2	EV/EBITDA 12M fwd	5.4	+34.5%
Free Float	60.5%	EV/EBITDA 5Y avg	4.0	premium

Earnings Projections

(US$ m)	15/16	16/17	17/18	18/19P	19/20P
Revenue	1,989	2,169	2,403	3,520	4,564
EBITDA	347	319	223	362	420
EBITDA margin	17.5%	14.7%	9.3%	10.3%	9.2%
EBIT	287	265	140	269	324
Net income	225	176	52	162	213
P/E	5.1	6.7	22.5	7.2	5.5
P/B	1.2	1.0	1.0	0.9	0.8
EV/EBITDA	4.1	5.3	8.1	5.8	4.9
DPS	0.25	0.24	0.25	0.25	0.78
DYield	1.8%	1.7%	1.7%	1.8%	5.5%

Projection Update (% change)	18/19P	19/20P	20/21P
EBITDA	0.0%	0.0%	0.0%
Net income	0.0%	0.0%	0.0%
Margin, Sunflower Oil ($/t)	0.0%	0.0%	0.0%
Margin, Wheat ($/t)	0.0%	0.0%	0.0%
Margin, Corn ($/t)	0.0%	0.0%	0.0%
Bulk sunflower oil sales (kt)	0.0%	0.0%	0.0%
Grain production (kt)	0.0%	0.0%	0.0%
Grain sales (kt)	0.0%	0.0%	0.0%

Financial Highlights

(US$ m)	15/16	16/17	17/18	18/19P	19/20P
EBITDA, Bottled Oil	16	17	13	18	20
EBITDA, Bulk Oil	113	83	63	100	126
EBITDA, Terminals	37	48	39	43	61
EBITDA, Farming	146	144	89	164	160
EBITDA, Grain Trade	46	23	17	26	42
Operating cash flow	**134**	**77**	**82**	**195**	**289**
D&A	60	54	83	93	96
Working capital	-127	-212	-63	-154	-113
Investing cash flow	**-61**	**-223**	**-156**	**-329**	**-108**
CAPEX	61	182	179	329	108
Financing cash flow	**-137**	**173**	**76**	**53**	**-182**
Dividends/Buyback	-20	-20	-20	-21	-65
FCF	155	-93	-14	-132	182
FCF/EBITDA	45%	-29%	-6%	-37%	43%
OCF/EBITDA	39%	24%	37%	54%	69%

Key Balance Sheet Figures

(US$ m)	15/16	16/17	17/18	18/19P	19/20P
Assets	1,509	2,009	2,211	2,562	2,767
Fixed assets	789	888	1,006	1,245	1,262
Equity	995	1,153	1,171	1,268	1,414
Minority interests	2	5	7	7	7
Net debt	276	508	619	911	892
Net debt/EBITDA (x)	0.8	1.6	2.8	2.5	2.1
Net debt/Equity (x)	0.3	0.4	0.5	0.7	0.6

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	5.3	4.6	4.0	3.6	4.5	3.7
Maximum	83.8	36.6	23.9	12.9	11.6	11.2
Median	13.4	13.7	12.1	7.8	7.6	7.2
Weight	0%	25%	25%	0%	25%	25%

DCF Analysis

(US$ m)	19P	20P	21P	22P	23P	24P	25P	26P	27P	28P	+
Margin, Veg Oil ($/t)	76	90	102	111	108	104	100	96	92	91	92
Margin, Wheat ($/t)	170	190	195	195	195	195	195	195	195	195	195
Margin, Corn ($/t)	175	185	194	194	194	194	194	195	196	197	197
Revenue	3,520	4,564	5,085	5,344	5,412	5,501	5,584	5,667	5,756	5,852	5,942
EBITDA	362	420	480	521	501	493	484	480	478	483	490
EBITDA margin	10.3%	9.2%	9.4%	9.8%	9.3%	9.0%	8.7%	8.5%	8.3%	8.3%	8.2%
EBIT	269	324	376	416	397	390	381	371	366	358	362
Tax	12	16	20	23	22	21	21	21	47	45	46
CAPEX	-329	-108	-83	-90	-97	-104	-113	-123	-126	-127	-127
Working capital	-154	-113	-67	-39	-24	-26	-26	-26	-27	-28	-27
FCF	-132	182	310	370	359	341	324	310	279	283	289
PV FCF	-120	144	211	216	180	147	120	98	78	68	
WACC	15.4%	15.5%	15.6%	15.8%	15.9%	16.0%	16.1%	16.1%	15.8%	15.8%	16.0%
Risk-free rate	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%

DCF Summary

(US$ m)	
Beta	1.0
FCF perp. growth rate	2.0%
PV FCF	1,143
Net debt	619
Other adjustments	7
Value per share (PLN)	43.04

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	64.88
DCF Val.	50%	43.04
Implied Price		53.96
Cost of equity (9M)		12.4%
9M Target Price		**60.85**

KGHM
hold (reiterated)

Jakub Szkopek +48 22 438 24 03 jakub.szkopek@mbank.pl

Current Price	92.60 PLN	Downside
9M Target Price	84.56 PLN	-8.7%

	rating	target price	issued
new	**#N/D!**	**84.56 PLN**	**2018-12-05**
old	#N/D!	87.99 PLN	2018-10-15

Key Metrics			KGH PW	vs. WIG
Ticker	KGH PW	1M Price Chng	+2.6%	-3.2%
ISIN	PLKGHM000017	YTD Price Chng	-16.7%	-10.2%
Outst. Stock (m)	200.0	ADTV 1M		PLN 54.8m
MC (PLN m)	18,520.0	ADTV 6M		PLN 53.0m
EV (PLN m)	24,494.5	EV/EBITDA 12M fwd	4.2	-15.3%
Free Float	63.2%	EV/EBITDA 5Y avg	5.0	discount

In our opinion, in 2019 KGHM will increase its copper production volume by 6.5% y/y, mainly because of higher executed production volumes in Poland (+6% y/y; result of the lack of painful standstills in steelworks as in 2018), KGHM International (+5% y/y; recovery of production in Robinson) and Sierra Gorda (+13% y/y; result of improved efficiency and transition to richer copper deposits). We expect also higher production volumes of silver (+6%; mainly at KGHM Polska Miedź) and gold (+1% y/y; mainly at Robinson mine). While the production volume of molybdenum will continue to fall for a third year in a row (-17% y/y; result of depletion of the rich deposit at Sierra Gorda). In 2019 a threat to KGHM are the expected higher electricity costs (PLN +350m) and an increase in wage costs (PLN +350m). Additionally, in Q1 2019 a new agreement with trade unions will have to be signed at Sierra Gorda. In our forecasts, in 2019 we expect copper prices to amount to USD 7,000/t, silver – USD 14.4/lb and molybdenum – USD 22.4k/t. The risk for our metal price scenario is the economic downturn in China. Despite the assumed higher copper prices than the current market ones, in 2019 the potential for recovery of the share price is limited (current price close to our price target). Changes in the formula of the extraction tax in Poland would be an opportunity for the company. Unfortunately, all the options proposed so far do not result in an increase in cash generation in the company. In our opinion, the consensus of forecasts for KGHM will have to be reduced significantly in 2019. We lower our price target to PLN 84.56/share (before: PLN 87.99/share) and maintain our hold rating for KGH.

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	19,156	20,358	20,331	22,483	23,032
EBITDA adj.	4,666	5,753	5,014	5,302	5,306
EBITDA margin	24.4%	28.3%	24.7%	23.6%	23.0%
EBIT adj.	2,968	4,144	3,142	3,393	3,253
Net income adj.	1,555	1,875	1,508	2,339	2,216
P/E adj.	11.9	9.9	12.3	7.9	8.4
P/B	1.2	1.0	1.0	0.9	0.8
EV/EBITDA adj.	5.6	4.4	4.9	4.1	3.9
DPS	1.50	1.00	0.00	1.00	2.34
DYield	1.6%	1.1%	0.0%	1.1%	2.5%

Projection Update (% change)	2018P	2019P	2020P
EBITDA adj.	+1.1%	-1.4%	-0.8%
Net income adj.	-36.3%	-8.3%	-8.7%
Copper price ($/t)	-1.1%	0.0%	0.0%
Silver price ($/oz)	-0.8%	-3.3%	-3.3%
Molybdenum price ($/t)	0.0%	+4.2%	+7.7%
Copper output (kt)	-1.1%	-0.4%	-0.4%
Silver output (t)	+9.1%	+0.1%	+0.1%
Molybdenum output (mmb)	-6.6%	-6.6%	-6.6%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
Cu Output, PL (kt)	376	359	378	406	406
Cu Output, Int (kt)	90	81	80	85	95
Sierra Gorda (kt)	52	53	53	60	66
Ag output (tonnes)	1,207	1,234	1,155	1,222	1,218
Au output (ozt k)	229	219	177	178	185
Operating cash flow	**4,212**	**3,054**	**3,489**	**5,564**	**4,355**
D&A	1,698	1,609	1,872	1,909	2,053
Working capital	386	-1,270	2	1,223	-7
Investing cash flow	**-3,948**	**-3,340**	**-2,695**	**-2,776**	**-2,741**
CAPEX	3,922	3,257	2,695	2,776	2,741
Financing cash flow	**135**	**12**	**-107**	**-293**	**-561**
Dividends/Buyback	-300	-200	0	-200	-468
FCF	186	776	991	2,745	1,571
FCF/EBITDA	5%	25%	20%	52%	30%
OCF/EBITDA	2%	1%	0%	1%	3%

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Assets	33,442	34,122	35,623	38,296	40,180
Fixed assets	27,202	26,515	27,338	28,205	28,893
Equity	15,772	17,694	19,202	21,341	23,088
Minority interests	139	91	91	91	91
Net debt	7,238	6,570	5,884	3,389	2,336
Net debt/EBITDA (x)	2.1	2.2	1.2	0.6	0.4
Net debt/Equity (x)	0.5	0.4	0.3	0.2	0.1

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	7.2	8.0	5.5	3.9	3.9	2.5
Maximum	16.9	15.9	13.3	8.5	7.5	6.8
Median	11.4	11.1	9.5	5.2	5.4	4.5
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Copper price ($/t)	6,560	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000
Silver ($/oz)	15.9	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5
Molybdenum ($/t)	22,706	22,400	21,000	21,000	21,000	21,000	21,000	21,000	21,000	21,000	21,000
Revenue	20,331	22,483	23,032	22,875	22,787	23,305	23,088	22,606	20,926	21,039	21,104
EBITDA	5,014	5,302	5,306	4,764	4,513	5,009	4,751	4,440	3,989	4,038	4,046
EBITDA margin	15.5%	15.1%	14.1%	11.5%	10.5%	12.4%	11.5%	10.4%	9.2%	9.5%	9.7%
EBIT	3,142	3,393	3,253	2,634	2,393	2,879	2,661	2,360	1,916	1,995	2,053
Tax	1,330	1,004	988	852	804	895	851	791	707	722	733
CAPEX	-2,695	-2,776	-2,741	-2,220	-1,676	-1,710	-1,744	-1,779	-1,814	-1,814	-1,814
Working capital	2	1,223	-7	2	1	-7	3	6	21	-1	-1
FCF	991	2,745	1,571	1,694	2,034	2,398	2,159	1,876	1,489	1,500	1,498
PV FCF	991	2,548	1,349	1,343	1,483	1,595	1,323	1,060	775	720	
WACC	7.1%	7.7%	7.9%	8.0%	8.2%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	0.0%
PV FCF	13,188
Net debt	6,570
Other adjustments	328
Value per share (PLN)	77.01

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	82.06
DCF Val.	50%	77.01
Implied Price		79.54
Cost of equity (9M)		6.3%
9M Target Price		**84.56**

Stelmet
hold (no change)

Jakub Szkopek +48 22 438 24 03 jakub.szkopek@mbank.pl

In season 2018/2019 Stelmet will experience a significant increase in production costs regarding the purchase of electricity (+32% y/y; PLN +6.8m), costs of purchase of wood raw material (+5% y/y; PLN +14.5m) and labor costs (+5% y/y; PLN +5.9m). In our opinion, the company will not manage to pass all costs onto end-customers, which will cause a decrease in results in season 2018/2019 (EBITDA -18% y/y). In addition to the cost pressure, the very weak management of the group in export markets is a cause for concern. While presenting the results for Q2 2018, the management board announced that in the previous season, due to inefficient logistics, it was not possible to deliver products to UK customers on time. As a result, the management of the local entity there was changed, and the restructuring of the company was initiated, which will have negative impact on next year's financial results. A risk factor for the company is also the possible Brexit, since around 30% of Stelmet's sales is on the British market. We maintain our hold rating for Stelmet Group and a price target of PLN 7.72/share.

Current Price	7.70 PLN	**Upside**
9M Target Price	7.72 PLN	+0.3%

	rating	target price	issued
unchanged	**hold**	**7.72 PLN**	**2018-11-05**

Key Metrics			STL PW	vs. WIG
Ticker	STL PW	1M Price Chng	+2.7%	-3.1%
ISIN	PLSTLMT00010	YTD Price Chng	-46.5%	-40.0%
Outst. Stock (m)	29.4	ADTV 1M		PLN 0.1m
MC (PLN m)	226.1	ADTV 6M		PLN 0.1m
EV (PLN m)	392.8	EV/EBITDA 12M fwd	-	-
Free Float	15.0%	EV/EBITDA 5Y avg	-	-

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	567	538	553	575	597
EBITDA	82	58	67	54	57
EBITDA margin	14.5%	10.7%	12.1%	9.5%	9.5%
EBIT	62	21	25	13	15
Net income	68	19	15	9	11
P/E	3.1	11.6	15.0	25.9	21.4
P/B	0.6	0.5	0.5	0.5	0.5
EV/EBITDA	5.2	7.1	5.9	6.8	6.1
DPS	0.29	0.00	0.00	0.26	0.18
DYield	3.8%	0.0%	0.0%	3.3%	2.3%

Projection Update (% change)	2018P	2019P	2020P
EBITDA	0.0%	0.0%	0.0%
Net income	0.0%	0.0%	0.0%
Sales price (PLN/m3)	0.0%	0.0%	0.0%
Sales volume (1,000 m3)	0.0%	0.0%	0.0%
Timber price (PLN/m3)	0.0%	0.0%	0.0%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue, Core, PL	18	19	22	24	25
Revenue, Core, UK	210	158	135	138	142
Revenue, Core, FR	118	120	112	117	122
Revenue, Core, DE	94	101	117	123	129
Revenue, Wood Pellets	57	68	88	96	99
Operating cash flow	**114**	**39**	**58**	**49**	**51**
D&A	21	37	42	41	41
Working capital	40	-2	-2	-4	-4
Investing cash flow	**-186**	**-62**	**-39**	**-16**	**-18**
CAPEX	185	62	39	16	18
Financing cash flow	**62**	**76**	**-4**	**-11**	**-9**
Dividends/Buyback	-8	0	0	-8	-5
FCF	-66	-11	21	33	34
FCF/EBITDA	-80%	-18%	31%	61%	60%
OCF/EBITDA	138%	68%	87%	91%	91%

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Assets	751	821	839	844	853
Fixed assets	534	554	552	527	504
Equity	390	454	469	470	475
Minority interests	0	0	0	0	0
Net debt	214	182	167	145	120
Net debt/EBITDA (x)	2.6	3.2	2.5	2.7	2.1
Net debt/Equity (x)	0.5	0.4	0.4	0.3	0.3

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	5.0	6.5	5.4	2.5	3.0	1.8
Maximum	44.2	40.7	39.1	16.6	16.3	15.6
Median	12.0	12.3	10.4	6.3	6.0	5.6
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Sales px (PLN/m3)	1,805	1,814	1,842	1,871	1,903	1,936	1,969	2,002	2,036	2,071	2,104
Volume (1,000 m3)	240	250	256	261	266	271	276	281	286	291	291
Timber px (PLN/m3)	255	267	273	278	284	290	295	301	307	313	320
Revenue	553	575	597	618	638	660	681	704	727	750	761
EBITDA	67	54	57	59	61	64	67	69	72	74	72
EBITDA margin	12.1%	9.5%	9.5%	9.5%	9.6%	9.7%	9.8%	9.9%	9.9%	9.9%	9.5%
EBIT	25	13	15	16	19	21	22	24	26	28	26
Tax	4.0	0.9	1.2	1.2	1.5	1.3	1.2	1.5	2.0	2.3	1.9
CAPEX	-39	-16	-18	-27	-30	-32	-35	-38	-41	-46	-46
Working capital	-2.4	-4.1	-3.9	-3.6	-3.7	-3.8	-3.9	-4.0	-4.1	-4.2	-2.0
FCF	21	33	34	27	26	27	27	26	25	23	24
PV FCF	21	33	32	24	21	20	19	17	15	13	
WACC	6.6%	6.9%	7.1%	7.2%	7.3%	7.5%	7.6%	7.7%	7.8%	7.8%	7.8%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	2.0%
PV FCF	214
Net debt	182
Other adjustments	0
Value per share (PLN)	8.79

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	5.73
DCF Val.	50%	8.79
Implied Price		7.26
Cost of equity (9M)		6.3%
9M Target Price		**7.72**

Property Developers

Atal

buy (no change)

Aleksandra Szklarczyk +48 22 438 24 04 aleksandra.szklarczyk@mbank.pl

Atal continued to buy up land for future development during 2018, and with a budget of PLN 185m the sites bought this year can be assessed to have potential for 4,100 new flats. Added to listed units and the existing land bank, this would make for a total development potential for 16,000 units, equivalent to over 5 years of sales, distributed across a well-diversified land bank. Atal has cut its 2018 sales guidance from a range of 2,700-3,000 to 2,500 units, implying a drop of 10% from 2017. Aside from a general slowdown in new home building activity observed in the residential sector, we attribute the curbed sales to smaller projects being developed in the key markets of Warsaw and Krakow. As new projects are started in these and other cities, sales in 2019 should increase, resulting in a larger number of closings in 2020. With little debt (net debt/equity @25-30%) and a large land bank, Atal has the capacity to deliver on the promise to raise the future dividend payout ratio to 100% of annual earnings from 76% in 2018. At 6.6x 2019E P/E and 1.7x P/B, with 2019E dividend yield at 15.2%, at the current price level 1AT stock shows 38% upside potential to our target.

		Upside
Current Price	31.50 PLN	
9M Target Price	42.86 PLN	+36.1%

	rating	target price	issued
unchanged	buy	42.86 PLN	2018-07-04

Key Metrics			1AT PW	vs. WIG
Ticker	1AT PW	1M Price Chng	+4.3%	-1.4%
ISIN	PLATAL000046	YTD Price Chng	-23.0%	-16.5%
Outst. Stock (m)	38.7	ADTV 1M		PLN 0.2m
MC (PLN m)	1,219.5	ADTV 6M		PLN 0.2m
EV (PLN m)	1,446.6	EV/EBITDA 12M fwd	6.4	-19.7%
Free Float	16.2%	EV/EBITDA 5Y avg	7.9	discount

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	506.8	865.8	943.9	917.2	1,020.0
Gross profit	136.9	247.6	275.3	264.5	275.4
Gross margin	27.0%	28.6%	29.2%	28.8%	27.0%
EBIT	114.8	222.0	244.7	231.6	240.9
Net income	89.4	171.2	189.6	180.7	187.1
P/E	13.6	7.1	6.4	6.7	6.5
P/B	1.8	1.5	1.4	1.4	1.4
EV/EBITDA	13.2	6.4	5.9	6.4	6.5
DPS	0.61	1.73	3.54	4.74	4.73
DYield	1.9%	5.5%	11.2%	15.0%	15.0%

Projection Update (% change)	2018P	2019P	2020P
Revenue	0.0%	0.0%	0.0%
Gross profit margin	0.0 p.p.	0.0 p.p.	0.0 p.p.
EBIT	0.0%	0.0%	0.0%
Net income	0.0%	0.0%	0.0%
Residential closings	0.0%	0.0%	0.0%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
Closings (units)	1,404	2,308	2,549	2,631	3,000
Revenue/unit (PLN k)	353	375	370	349	340
SG&A	24	28	30	32	33
SG&A/Sales	**4.8%**	**3.3%**	**3.2%**	**3.5%**	**3.3%**
EBIT margin	22.6%	25.6%	25.9%	25.3%	23.6%
Net profit margin	17.6%	19.8%	20.1%	19.7%	18.3%
Cash	187	266	241	208	108
Net debt	324	214	232	266	366
Net debt/Equity	**47%**	**27%**	**27%**	**31%**	**43%**
Inventory	1,132	1,342	1,274	1,303	1,404
Inventory/Sales	**223%**	**155%**	**135%**	**142%**	**138%**
Earnest money deposits	231	365	276	283	280
Deposits/Inventory	**20%**	**27%**	**22%**	**22%**	**20%**
Equity	688	795	847	845	849
ROE	**14.4%**	**24.9%**	**23.9%**	**21.3%**	**22.2%**

Cash Flow Summary

(PLN m)	2016	2017	2018P	2019P	2020P
Operating cash flow	**-78**	**198**	**158**	**161**	**96**
D&A	1	1	1	1	1
Working capital	-187	-13	-34	-31	-104
Investing cash flow	**0**	**1**	**-23**	**3**	**2**
CAPEX	-1	-1	-1	-1	-1
Financing cash flow	**135**	**-121**	**-160**	**-198**	**-198**
Dividends	-24	-67	-137	-183	-183

Relative Valuation Summary

	P/BV			P/E		
	18P	19P	20P	18P	19P	20P
Minimum	0.42	0.39	0.36	4.7	3.8	3.5
Maximum	2.03	2.04	1.99	270.0	9.4	17.6
Median	0.65	0.62	0.58	8.0	5.3	5.1
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Revenue	944	917	1,020	867	884	902	920	938	957	976	996
EBITDA	246	233	242	186	185	188	192	195	193	197	201
EBITDA margin	26.1%	25.4%	23.8%	21.5%	20.9%	20.9%	20.8%	20.8%	20.2%	20.2%	20.1%
D&A	1	1	1	1	1	1	1	1	1	1	1
EBIT	245	232	241	185	183	187	190	194	191	195	199
Tax	47	44	46	35	35	35	36	37	36	37	38
NOPLAT	**198**	**188**	**195**	**150**	**148**	**151**	**154**	**157**	**155**	**158**	**161**
CAPEX	-27	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1
Working capital	-34	-31	-104	-13	44	-21	-21	-22	-5	-5	-5
Other	0	0	0	0	0	0	0	0	0	0	0
FCF	**139**	**156**	**91**	**137**	**192**	**130**	**133**	**135**	**150**	**153**	**156**
PV FCF	133	138	75	104	136	86	81	76	79	74	
WACC	8.0%	7.9%	7.7%	7.7%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	2.0%
Enterprise value	2,287
Net debt	214
Other adjustments	-6
Value per share (PLN)	53.70

Valuation Summary

(PLN)	Weight	Price
Relative (Earnings)	33%	21.40
Relative (DYield)	17%	57.50
DCF	50%	53.70
Cost of equity (9M)		6.3%
9M Target Price*		**42.86**

Dom Development
buy (reiterated)

Aleksandra Szklarczyk +48 22 438 24 04 aleksandra.szklarczyk@mbank.pl

Current Price	66.00 PLN	**Upside**
9M Target Price	84.10 PLN	+27.4%

Dom Development has recently cut its 2018 closings guidance from around 3,800 to around 3,600 units, and it has reduced the home starts target by a cumulative 14% since the beginning of the year, with certain projects postponed to 2019. The delays do not change our bullish view on DOM, which is on track to closing a record number of homes this year, resulting in an all-time high net profit. Next year's closings will be fewer after a 9% y/y drop in off-plan sales in 9M 2018, but DOM's strategy for weathering the increasing building costs is to give up some sales volume to keep margins solid. Supported by strong demand, we believe the Company will be able to hike prices next year to offset the decline in closings. The outlook for 2020 is even better given a diverse pipeline of new residential developments, many of them in high-margin locations. We have updated our earnings outlook for DOM to reflect the lower sales volumes and the expected rise in prices, with net profits in 2018-2019 expected to approximate PLN 220m followed by an increase to PLN 255m in 2020. Note that the revised 2018-19 estimates are 3% lower than the respective consensus estimates, and the forecast for 2020 is 9% higher than average. DOM continues to be traded at a premium to the competition which we consider justified by lower investment risk entailed in a stable business with a strong balance sheet. An additional risk-mitigating factor under a changing regulatory regime for residential real estate is DOM's low debt compared to most peers. In the near term, a record number of closings expected in Q4 2018 despite the postponement of two completions to Q1 2019 promises a strong earnings momentum. DOM stock has fallen 15% in the year to date, and we maintain a buy rating for the stock with the target price reduced to PLN 84.10.

	rating	target price	issued
new	**buy**	**84.10 PLN**	**2018-12-05**
old	buy	87.80 PLN	2018-08-02

Key Metrics			**DOM PW**	**vs. WIG**
Ticker	DOM PW	1M Price Chng	-0.9%	-6.6%
ISIN	PLDMDVL00012	YTD Price Chng	-15.3%	-8.7%
Outst. Stock (m)	25.0	ADTV 1M		PLN 0.1m
MC (PLN m)	1,647.9	ADTV 6M		PLN 0.3m
EV (PLN m)	1,720.5	EV/EBITDA 12M fwd	6.1	-40.7%
Free Float	27.1%	EV/EBITDA 5Y avg	10.3	discount

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	1,153.0	1,404.7	1,692.8	1,652.4	1,922.5
Gross profit	271.1	385.7	446.1	440.8	498.8
Gross margin	23.5%	27.5%	26.4%	26.7%	25.9%
EBIT	156.6	235.4	277.3	268.1	317.9
Net income	125.7	190.7	222.8	216.5	254.8
P/E	13.0	8.6	7.4	7.6	6.5
P/B	1.8	1.6	1.6	1.6	1.5
EV/EBITDA	9.7	7.0	6.0	6.4	5.8
DPS	3.25	5.05	7.60	8.92	8.67
DYield	4.9%	7.7%	11.5%	13.5%	13.1%

Projection Update (% change)	2018P	2019P	2020P
Revenue	-3.2%	-3.5%	+2.1%
Gross profit margin	-0.0 p.p.	+0.3 p.p.	-0.3 p.p.
EBIT	-7.4%	-6.0%	-1.6%
Net income	-7.2%	-5.3%	-1.2%
Closings	-4.0%	-2.3%	-5.1%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
Closings (units)	2,482	2,929	3,650	3,520	3,723
Revenue/unit (PLN k)	465	480	464	469	516
SG&A	107	138	164	168	175
SG&A/Sales	**9.3%**	**9.9%**	**9.7%**	**10.1%**	**9.1%**
EBIT margin	13.6%	16.8%	16.4%	16.2%	16.5%
Net profit margin	10.9%	13.6%	13.2%	13.1%	13.3%
Cash	437	331	272	315	184
Net debt	-57	64	73	120	251
Net debt/Equity	**-6%**	**6%**	**7%**	**12%**	**23%**
Inventory	1,508	1,989	2,100	2,104	2,198
Inventory/Sales	**131%**	**142%**	**124%**	**127%**	**114%**
Earnest money deposits	349	568	672	631	549
Deposits/Inventory	**23%**	**29%**	**32%**	**30%**	**25%**
Equity	930	1,002	1,042	1,036	1,074
ROE	**14.2%**	**20.5%**	**22.2%**	**20.8%**	**24.6%**

Cash Flow Summary

(PLN m)	2016	2017	2018P	2019P	2020P
Operating cash flow	**265**	**198**	**158**	**187**	**100**
D&A	5	7	9	10	10
Working capital	106	-9	-49	-40	-168
Investing cash flow	**-6**	**-213**	**-29**	**19**	**9**
CAPEX	-6	-8	-11	-11	-11
Financing cash flow	**-67**	**-120**	**-237**	**-134**	**-220**
Dividends	-81	-126	-190	-223	-217

Relative Valuation Summary

		P/BV			P/E	
	18P	19P	20P	18P	19P	20P
Minimum	0.65	0.60	0.58	5.6	4.4	4.4
Maximum	1.46	1.47	1.48	7.0	7.1	11.7
Median	0.92	0.85	0.76	6.3	5.9	6.3
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Revenue	1,693	1,652	1,923	1,670	1,695	1,721	1,746	1,773	1,799	1,826	1,854
EBITDA	287	278	328	237	236	234	237	241	244	248	251
EBITDA margin	16.9%	16.8%	17.1%	14.2%	13.9%	13.6%	13.6%	13.6%	13.6%	13.6%	13.6%
D&A	9	10	10	10	10	10	10	10	10	10	10
EBIT	277	268	318	227	226	224	227	230	234	237	241
Tax	55	51	60	43	43	42	43	44	44	45	46
NOPLAT	**223**	**217**	**257**	**184**	**183**	**181**	**184**	**187**	**189**	**192**	**195**
CAPEX	-11	-11	-11	-11	-11	-11	-11	-11	-11	-11	-11
Working capital	-49	-40	-168	-62	-117	-10	-7	-7	-7	-7	-7
Other	0	0	0	0	0	0	0	0	0	0	0
FCF	**173**	**176**	**89**	**120**	**65**	**170**	**176**	**179**	**182**	**185**	**188**
PV FCF	171	161	75	95	48	116	112	106	100	94	
WACC	8.3%	8.2%	8.0%	7.7%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	2.0%
Enterprise value	2,814
Net debt*	254
Other adjustments	0
Value per share (PLN)	103

Valuation Summary

(PLN)	Weight	Price
Relative (Earnings)	33%	46.40
Relative (DYield)	17%	72.70
DCF	50%	103.00
Cost of equity (9M)		6.3%
9M Target Price*		**84.10**

GTC
hold (no change)

Current Price	8.40 PLN	Upside
9M Target Price	9.60 PLN	+14.3%

Aleksandra Szklarczyk +48 22 438 24 04 aleksandra.szklarczyk@mbank.pl

The Galeria Północna mall in Warsaw, opened in September 2017, brought GTC's FFO for the nine months to 30 September 2018 35% higher than in the same year-ago period, as well as driving revenues up by 31%. At the same time, against good fundamentals, shares in GTC are down 11% for the year to date, led probably by the general weakness of the Polish stock market, compounded by a downward shift in EU real-estate stocks, currently trading at 0.8x median P/B. Major developments at GTC in 2018 in terms of new business included the acquisition the Mall of Sofia and the completion of the White House office building in Budapest. Together with the completion of the Ada Mall and the Green Heart office complex in Belgrade, scheduled for the first half of 2019, these properties will drive further FFO growth in 2019. GTC's building plans for the growing CEE market through 2021 imply average annual FFO growth of 17%. Potential upside catalysts in the shorter term might come with the sale of a 61% stake in GTC, which is currently in the process of reviewing its strategic options, by the current owner, Lone Star, and/or with a go-ahead for the "Galeria Wilanów" shopping mall in Warsaw assuming the Company overcomes zoning obstacles. GTC stock is currently trading about 7% below 2018E NAV, and it shows a 13% premium to the average 2018E FFOYield of its peers, shrining to 1% when measured for 2019E FFOYield. The Company might deliver a narrow beat over our estimate with 2018 earnings thanks to the Mall of Sofia (set to add EUR 3.7m to 2018 NOI and ca. EUR 7.55m in subsequent years). We are working on an updated earnings outlook for GTC.

	rating	target price	issued
unchanged	hold	9.60 PLN	2018-04-06

Key Metrics			GTC PW	vs. WIG
Ticker	GTC PW	1M Price Chng	+1.7%	-4.1%
ISIN	PLGTC0000037	YTD Price Chng	-11.3%	-4.7%
Outst. Stock (m)	470.3	ADTV 1M		PLN 0.2m
MC (PLN m)	3,950.5	ADTV 6M		PLN 0.5m
EV (PLN m)	8,333.2	EV/EBITDA 12M fwd	15.2	+5.3%
Free Float	21.9%	EV/EBITDA 5Y avg	14.4	premium

Earnings Projections

(EUR m)	2016	2017	2018P	2019P	2020P
Revenue	120.3	128.7	151.7	166.2	184.9
Gross profit	87.3	92.1	112.0	125.1	139.2
Gross margin	72.6%	71.6%	73.8%	75.3%	75.3%
EBIT ex FV adj.	70.2	73.5	92.7	105.3	119.1
FX adj.	84.6	148.6	40.7	45.7	53.7
Net income	158.5	156.3	91.1	105.1	121.2
P/E	5.7	5.9	10.1	8.8	7.6
P/B	1.1	1.0	0.9	0.9	0.8
EV/EBITDA	10.6	8.1	14.6	13.7	12.4
DPS	0.00	0.07	0.08	0.08	0.10
DYield	0.0%	3.3%	4.1%	4.3%	4.9%

Projection Update (% change)	2018P	2019P	2020P
Revenue	0.0%	0.0%	0.0%
NOI	0.0%	0.0%	0.0%
FFO	0.0%	0.0%	0.0%
Net income	0.0%	0.0%	0.0%
BVPS	0.0%	0.0%	0.0%

Financial Highlights

(EUR m)	2016	2017	2018P	2019P	2020P
NOI	**86**	**91**	**111**	**125**	**139**
YoY pct. change	10.1%	4.7%	22.2%	13.1%	11.2%
EBIT ex. FX adj.	**71**	**77**	**93**	**105**	**119**
Financing costs	-28	-29	-29	-31	-35
FFO	**42**	**47**	**56**	**65**	**74**
YoY pct. change	10.5%	11.9%	18.5%	17.1%	13.8%
FV adjustment	85	149	41	46	54
Cash	178	202	115	120	103
Net debt	715	833	980	1,104	1,172
Net debt/Equity	**91%**	**89%**	**99%**	**104%**	**104%**
Investment properties IP	1,605	1,937	2,148	2,342	2,493
LTV	**44%**	**43%**	**45%**	**47%**	**47%**
FV adj./IP	**6.6%**	**9.3%**	**2.1%**	**2.1%**	**2.3%**
Equity	787	937	991	1,056	1,132
ROE	**24.7%**	**19.8%**	**9.7%**	**10.6%**	**11.5%**

Cash Flow Summary

(EUR m)	2016	2017	2018P	2019P	2020P
Operating cash flow	**73**	**81**	**85**	**97**	**109**
D&A	0	1	0	0	0
Working capital	6	7	0	0	0
Investing cash flow	**-232**	**-178**	**-164**	**-148**	**-96**
CAPEX	-261	-234	-170	-149	-98
Financing cash flow	**141**	**95**	**6**	**51**	**-36**
Dividends	0	-8	-37	-40	-45

Relative Valuation Summary

	P/BV			P/E		
	18P	19P	20P	18P	19P	20P
Minimum	0.32	0.31	0.31	7.1	6.6	8.1
Maximum	1.28	1.20	1.18	32.5	27.5	17.2
Median	0.76	0.74	0.71	12.2	11.7	11.3
Weight	17%	17%	17%	17%	17%	17%

NAV Valuation

(EUR m)	15	16	17	18P	19P	20P	21P
Investment properties	1,289	1,605	1,937	2,148	2,342	2,493	2,566
Residential land & dev.	30	19	16	13	13	13	13
Financial assets (JV)	23	4	1	0	0	0	0
Accounts receivable	6	5	4	4	4	4	4
Cash	196	178	202	115	120	103	109
Other assets	16	29	22	22	22	22	22
Total assets	**1,560**	**1,839**	**2,183**	**2,302**	**2,503**	**2,636**	**2,715**
Minority interests	-21	3	4	5	5	5	5
Debt	739	893	1,034	1,095	1,224	1,275	1,255
Deferred tax liability	133	98	126	131	136	143	149
Other liabilities	66	58	81	81	81	81	81
Total liabilities & minority int.	**917**	**1,052**	**1,246**	**1,312**	**1,446**	**1,504**	**1,491**
NAV	**643**	**787**	**937**	**991**	**1,056**	**1,132**	**1,224**
PV of NAV	643	787	937	967	982	1,002	1,024

NAV Summary

(EUR m)	
Risk-free rate	3.5%
Risk premium	5.0%
Beta	1.0
Cost of equity	8.5%
EUR/PLN '21E	4.15
2021E NAVPS (EUR)	9.00

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	8.90
NAV	50%	9.00
Implied Price		9.00
Cost of equity (9M)		6.4%
9M Target Price		**9.60**

Retail

Company	MCap	EV	Net Debt	D/E*	Revenue 2018	Revenue 2019	Revenue 2020	EBITDA 2018	EBITDA 2019	EBITDA 2020	EBIT 2018	EBIT 2019	EBIT 2020	Net Profit 2018	Net Profit 2019	Net Profit 2020
LPP	14,319	14,098	-221	-0.3	8,293	9,479	10,791	1,149	1,309	1,496	814	948	1,084	602	795	914
CCC	8,415	9,247	833	1.6	5,057	6,117	7,129	464	802	945	329	635	771	167	485	585
VGR	870	996	126	1.6	985	1,126	1,216	108	139	159	85	116	134	62	88	103
Monnari	145	102	-44	-1.7	248	265	284	29	30	33	24	26	29	20	22	24

Company	Rating Current	Rating Change	Target Price	Current Price	1M Chng	P/E 2018	P/E 2019	P/E 2020	EV/EBITDA 2018	EV/EBITDA 2019	EV/EBITDA 2020	EV/Sales 2018	EV/Sales 2019	EV/Sales 2020	PEG Ratio 2018	PEG Ratio 2019	PEG Ratio 2020
LPP	OW	►	9300.00	7730.00	-12.2%	23.8	18.0	15.7	12.1	10.3	8.7	4.8	3.9	3.2	0.9	0.7	0.6
CCC	OW	►	288.00	204.60	-13.6%	50.5	17.3	14.4	19.2	11.0	9.0	8.0	5.8	4.3	1.8	0.6	0.5
VGR	OW	►	-	3.83	-3.0%	14.0	9.9	8.4	8.9	6.6	5.3	1.3	1.1	1.0	0.6	0.4	0.4
Monnari	N	▼	-	4.75	-20.8%	7.2	6.7	6.1	2.3	2.0	1.2	0.7	0.6	0.5	2.4	2.3	2.1
Median						**18.9**	**13.6**	**11.4**	**10.5**	**8.5**	**7.0**	**3.1**	**2.5**	**2.1**	**1.3**	**0.6**	**0.5**

Source: Dom Maklerski mBanku; OW – overweight, N – neutral, UW – underweight; *Net debt/Equity

Vistula Retail Group (overweight)

A year and a half since the disclosure of the first information on the ongoing merger negotiations between Vistula and Bytom, the process was finalized at the end of November. Both companies will produce their first consolidated financial statements in December 2018. The merger of both companies should generate revenue and margin synergies to the tune of PLN 10m in 2019, owing to the aligning of their pricing policies. With its market capitalization increased to roughly PLN 865m at PLN 3.81/share, Vistula Retail Group (VRG) will gain more appeal in the eyes of investors, potentially making its way to the mWIG40 index in the medium term. Given our estimates and potential synergies, we predict VRG is poised to see a 34% increase in annual EBITDA in 2019 (to PLN 139m), alongside a 41% boost to net profit (to PLN 88m), compared to the pro-forma figures. Given the above, VRG is currently trading at 9.9x 2019E P/E (a ratio 30% lower than the average 12M BF forward ratio of Vistula for the last five years) and 6.6x EV/EBITDA.

Monnari (underweight)

After 9 months of 2018, the company's EBITDA decreased by 11% y/y, due to a 5% y/y decline in sales and pressure from payroll costs. In our opinion, the downward trend will continue in the following quarters, when the contraction in sales effectiveness and rising per-sqm SG&A should not be offset by an increase in gross margin (the margin for 9 months of 2018 was supported by reduced merchandise costs). Given the above, we expect earnings to erode further in 2019. The potential commissioning of a new warehouse may reduce the cost pressure in 2019 (the commissioning date has been postponed many times). Our estimates do not include potential gains from property revaluation. Considering the potential deterioration of the company's performance in 2019, we have downgraded the company from neutral to underweight.

Current Price	39.60 PLN	Upside
9M Target Price	46.00 PLN	+16.2%

AmRest

buy (upgraded)

Piotr Bogusz +48 22 438 24 08 piotr.bogusz@mbank.pl

AmRest was very active in M&A throughout 2018, with Sushi Shop as the largest company acquired (the price for 100% stake will amount to EUR 164m). AmRest's EBITDA improved by 13% y/y during nine months of 2018, and was lower than the growth in sales which improved by 26% y/y. The profitability was adversely affected by the consolidation of the restaurants acquired. In line with the revised plans of the management board, 280 locations will be added to the restaurant chain in 2018 (vs 300 initially planned), and 420 locations in 2019. In the following quarters, the company will focus on integrating the acquired restaurants and capitalizing the use of Master Franchise Agreements. In 2019, the company's performance should be driven by (1) continued organic growth, (2) gradual improvement in the profitability of the acquired restaurants, (3) consolidation of Sushi Shop's figures (EBITDA margin of 15% vs. 12% in EAT) and (4) expansion of the digital channel. In our opinion, the restaurant chains acquired in Western Europe and the MFAs concluded should guarantee a double-digit increase in the company's earnings in subsequent years (the management board assumes an average annual EBITDA growth of 20% y/y in the medium term). Given the attractive outlook for the company, we are upgrading our call from accumulate to buy.

	rating	target price	issued
new	**buy**	**46.00 PLN**	**2018-12-05**
old	accumulate	41.20 PLN	2018-11-05

Key Metrics			EAT PW	vs. WIG
Ticker	EAT PW	1M Price Chng	-1.0%	-6.7%
ISIN	NL0000474351	YTD Price Chng	-3.4%	+3.2%
Outst. Stock (m)	219.6	ADTV 1M		PLN 4.5m
MC (PLN m)	8,694.3	ADTV 6M		PLN 4.6m
EV (PLN m)	11,056.2	EV/EBITDA 12M fwd	12.1	+17.3%
Free Float	31.1%	EV/EBITDA 5Y avg	10.3	premium

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	4,207	5,266	6,608	7,515	8,875
EBITDA	539	597	682	864	1,080
EBITDA margin	12.8%	11.3%	10.3%	11.5%	12.2%
EBIT	268	267	298	381	510
Net income	191	182	178	252	350
P/E	44.1	46.1	48.9	34.5	24.8
P/B	6.4	6.4	4.9	4.3	3.7
EV/EBITDA	17.5	16.5	16.2	12.9	10.2
DPS	0.00	0.00	0.00	0.00	0.00
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

Projection Update (% change)	2018P	2019P	2020P
EBITDA	-6.7%	-6.0%	-1.1%
Net income	-11.7%	-1.8%	+5.1%
Revenue per restaurant	+1.9%	-3.5%	-4.2%
EBITDA margin	-0,8p.p.	-0,4p.p.	-0,2p.p.
Restaurant count	-1.9%	+2.4%	+6.5%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
EBITDA (PL)	185	199	221	227	261
EBITDA (WE)	193	201	233	355	443
EBITDA (ES)	180	209	225	238	276
EBITDA (RU)	50.6	71.5	89.6	91.0	111.4
EBITDA (CZ)	93	116	150	166	201
Operating cash flow	**457**	**635**	**589**	**799**	**1,019**
D&A	271	330	384	483	570
Working capital	43	74	1	65	99
Investing cash flow	**-539**	**-980**	**-1,767**	**-929**	**-918**
CAPEX	-386	-527	-777	-929	-918
Financing cash flow	**66**	**588**	**674**	**40**	**60**
Dividends/Buyback	198	764	438	40	60
FCF	-17	-414	-1,087	-91	138
FCF/EBITDA	-3%	-69%	-159%	-11%	13%
OCF/EBITDA	85%	106%	86%	93%	94%

Key Ratios

(%)	2016	2017	2018P	2019P	2020P
EBITDA margin (PL)	13.1%	12.5%	12.6%	12.6%	12.6%
EBITDA margin (WE)	15.8%	9.9%	13.5%	13.5%	14.1%
EBITDA margin (ES)	21.5%	22.4%	22.2%	22.2%	22.0%
EBITDA margin (RU)	10.9%	10.6%	10.2%	10.2%	10.2%
EBITDA margin (CZ)	19.1%	20.5%	20.0%	20.0%	20.0%
Net debt (PLN m)	971	1,422	2,376	2,506	2,406
Net debt/EBITDA (x)	1.8	2.4	3.5	2.9	2.2

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	8.3	7.9	7.6	7.0	6.4	5.9
Maximum	55.9	39.7	31.0	24.3	19.1	17.6
Median	24.8	24.2	22.0	15.2	13.8	12.5
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Sales/rest., (PLN k)	933	893	886	883	883	881	880	880	879	879	879
EBITDA margin	10.3%	11.5%	12.2%	13.0%	13.5%	13.7%	13.7%	13.7%	13.7%	13.7%	13.7%
Rest. count	1,903	2,307	2,701	3,034	3,317	3,558	3,763	3,957	4,142	4,318	4,318
Revenue	6,608	7,515	8,875	10,124	11,216	12,119	12,892	13,582	14,239	14,865	14,865
EBITDA	682	864	1,080	1,313	1,509	1,656	1,765	1,862	1,955	2,044	2,044
EBITDA margin	10.3%	11.5%	12.2%	13.0%	13.5%	13.7%	13.7%	13.7%	13.7%	13.7%	13.7%
EBIT	298	381	510	681	851	994	1,117	1,219	1,312	1,401	1,401
Tax	76	91	122	164	204	239	268	293	315	336	336
CAPEX	-1,659	-929	-918	-798	-699	-615	-543	-643	-643	-643	-643
Working capital	-34	65	99	89	74	57	45	38	34	30	30
FCF	-1,087	-91	138	441	681	860	999	964	1,031	1,094	1,116
PV FCF	-1,081	-84	118	349	498	582	624	556	549	537	
WACC	7.9%	7.8%	7.9%	8.0%	8.1%	8.2%	8.3%	8.3%	8.4%	8.4%	0.0%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.1
FCF perp. growth rate	2.0%
PV FCF	10,655
Net debt	1,422
Other adjustments	35
Value per share (PLN)	43.36

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	42.79
DCF Val.	50%	43.36
Implied Price		43.08
Cost of equity (9M)		6.4%
9M Target Price		**46.00**

CCC

buy (reiterated)

Piotr Bogusz +48 22 438 24 08 piotr.bogusz@mbank.pl

2018 was not a successful year for CCC. The company's share price fell by 28% y/y following a significant slowdown in earnings on a year-on-year basis, reflecting adverse weather conditions and negative base effects. CCC was active in the M&A area, announcing two transactions (1) acquisition of a 70% stake in Voegele and (2) sale of CCC Germany to HR Group and the acquisition of a 30.55% stake in the HR Group (HRG). We expect the improved terms of purchase of merchandise from Voegele to boost the company's EBITDA to PLN 3m in 2019 (from the projected loss of PLN 4m in 2018). The transaction with HRG should be completed in Q1 2019, resulting in CCC deconsolidating the loss of German business (EBITDA loss of ca. PLN 80m) and recognizing 30.55% of HRG's result (we assume a negative effect). We are conservative in our forecasts of HRG's earnings in the following years (EBITDA of 20m in 2019 and 41m in 2020) with no significant rebound in subsequent years. We assume that CCC will exercise the call option after 24 months, and take into account the consolidation of HRG figures as of Q2 2021. In our opinion, the differences between the formats of CCC vs. Reno stores pose a risk to the restructuring of the German CCC business (average floor space of 723 sqm vs. 501 sqm in Reno; more expensive locations). In 2019, we expect a significant year-on-year rebound in EBITDA (+75% y/y to PLN 805m) as a result of: (1) continued growth of eobuwie.pl (+45% y/y in revenue), (2) improved lfl in the brick-and-mortar chain, supported by base effects (3) improved operating efficiency owing to the implementation of IT, (4) positive contribution from Voegele and (5) deconsolidation of CCC Germany's figures.

Current Price	204.60 PLN	**Upside**
9M Target Price	288.00 PLN	+40.8%

	rating	target price	issued
new	**buy**	**288.00 PLN**	**2018-12-05**
old	buy	272.00 PLN	2018-11-05

Key Metrics			CCC PW	vs. WIG
Ticker	CCC PW	1M Price Chng	+17.9%	+12.1%
ISIN	PLCCC0000016	YTD Price Chng	-27.6%	-21.1%
Outst. Stock (m)	41.1	ADTV 1M		PLN 32.3m
MC (PLN m)	8,414.6	ADTV 6M		PLN 26.7m
EV (PLN m)	9,022.9	EV/EBITDA 12M fwd	11.8	-24.8%
Free Float	59.4%	EV/EBITDA 5Y avg	15.7	discount

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	3,185	4,194	5,057	6,117	7,129
EBITDA	443	499	464	802	945
EBITDA margin	13.9%	11.9%	9.2%	13.1%	13.3%
EBIT	374	406	329	635	771
Net income	306	280	167	485	585
P/E	26.1	30.0	50.5	17.3	14.4
P/B	8.7	7.6	8.0	5.8	4.3
EV/EBITDA	19.7	17.8	19.5	11.2	9.1
DPS	2.19	2.47	2.30	1.87	1.87
DYield	1.1%	1.2%	1.1%	0.9%	0.9%

Projection Update (% change)	2018P	2019P	2020P
EBITDA	-1.0%	+7.4%	+7.2%
Net income	-45.5%	+10.7%	+9.0%
Gross profit margin	+0.0 p.p.	+1.0 p.p.	+1.4 p.p.
B&M sales/sqm	-	-	-
SG&A/sqm	-	-	-

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue, B&M sales	2,902	3,588	4,088	4,711	5,231
EBITDA, B&M	397	422	356	650	731
Revenue, e-commerce	287	606	969	1,405	1,897
EBITDA, e-commerce	47.2	83.4	111.1	151.6	214.2
Gross profit margin	52.7%	51.2%	50.9%	51.6%	51.9%
Operating cash flow	**175**	**78**	**1,376**	**541**	**653**
D&A	70	93	475	166	175
Working capital	-273	-588	398	-152	-159
Investing cash flow	**-362**	**-222**	**-294**	**-470**	**-211**
CAPEX	-382	-245	-480	-340	-211
Financing cash flow	**-10**	**515**	**-474**	**-12**	**75**
Dividends/Buyback	86	101	95	77	77
FCF	-264	-181	85	-7	354
FCF/EBITDA	-59%	-36%	18%	-1%	37%
OCF/EBITDA	39%	15%	295%	67%	69%

Key Ratios

(PLN)	2016	2017	2018P	2019P	2020P
Sales/sqm, PL	700	744	652	714	721
Sales/sqm, CEE	514	538	519	562	572
Sales/sqm, WE	393	396	481	0	0
e-comm as % of sales	9.0%	14.4%	19.2%	23.0%	26.6%
Cash (PLN m)	143	512	658	826	1,364
Net debt (PLN m)	652	406	481	419	81
Net debt/EBITDA (x)	1.5	0.8	0.6	0.5	0.1

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	13.7	12.4	11.5	11.5	6.1	5.5
Maximum	85.8	33.6	27.1	27.1	23.0	20.0
Median	21.1	19.6	15.6	15.6	11.1	10.3
Weight	10%	20%	20%	10%	20%	20%

DCF Analysis*

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Sales/sqm (PLN)	473	549	557	592	603	599	595	590	649	711	0
SG&A/sqm (PLN)	271	239	249	245	238	241	240	239	253	284	0
Sales area (k sqm)	720	716	783	847	917	992	1,072	1,156	1,104	1,062	0
Revenue	4,088	4,711	5,231	7,305	7,947	8,440	8,946	9,470	10,022	10,614	10,614
EBITDA	356	650	731	926	1,031	1,086	1,162	1,203	1,242	1,288	1,220
EBITDA margin	8.7%	13.8%	14.0%	12.7%	13.0%	12.9%	13.0%	12.7%	12.4%	12.1%	11.5%
EBIT	225	487	560	619	701	715	773	831	891	955	955
Tax	43	92	106	118	133	136	147	158	169	182	0
CAPEX	477	337	208	413	216	814	248	118	128	135	135
Working capital	-249	227	63	366	541	180	256	161	117	121	121
FCF	85	-7	354	29	141	-45	511	766	827	851	876
PV FCF	85	-6	297	23	99	-29	304	418	414	391	
WACC	8.6%	8.7%	8.9%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

*Brick-and-mortar business only

DCF Summary

(PLN m)	
Beta	1.1
FCF perp. growth rate	3.0%
PV FCF	8,703
Net debt	521
Other adjustments	4,344
Value per share (PLN)	304.58

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	236.12
DCF Val.	50%	304.58
Implied Price		270.35
Cost of equity (9M)		6.5%
9M Target Price		**288.00**

Dino

accumulate (downgraded)

Piotr Bogusz +48 22 438 24 08 piotr.bogusz@mbank.pl

The share price of Dino has increased 27% since the beginning of the year, while mWIG40 has dropped by 18.7%. The company consistently pursues its retail chain development strategy (we estimate a space increase by 25.6% y/y), improving EBITDA margin and the cash conversion cycle. In 9M 2018, there is visible improvement in the gross margin on sales y/y, which results from obtaining better purchase conditions from suppliers and basket inflation. We reckon that further price increase in 2019 and improvement in trade conditions should result in an increase in gross margin on sales. In Q2 – Q3 2018, the mark-up of wage costs on sales increased significantly, which was related to earlier contracting of staff in the distribution center and employees in shops under construction. We expect the pressure from wage costs to persist and we expect moderate pressure from energy costs (the company has secured prices for most of 2019). Considering the above, we estimate that the company will maintain EBITDA at 9.1% in 2019 (unchanged y/y). In the short term, we notice a slowdown in like-for-like sales growth from two digits to one digit, which may last until Q1 2019 (high base +18.8%/+20.3% in Q4 2018/Q1 2019, respectively). Like-for-like sales growth should accelerate until Q2 2019. Considering the positive impact of inflation, the effect of maturing of new shops and favorable macroeconomic environment, we expect like-for-like sales growth to improve at a high one-digit rate in 2019 (+2.8% revenue per square meter), with an estimated y/y growth of 24% in 2019. In view of our assumptions of profit growth, the company is valued at EV/EBITDA 2019 growth 0.5x vs. the peer group median of 0.8x.

Current Price	100.40 PLN	**Upside**
9M Target Price	106.30 PLN	+5.9%

	rating	target price	issued
new	**accumulate**	**106.30 PLN**	**2018-12-05**
old	buy	103.50 PLN	2018-11-05

Key Metrics			**DNP PW**	**vs. WIG**
Ticker	DNP PW	1M Price Chng	+18.5%	+12.8%
ISIN	PLDINPL00011	YTD Price Chng	+27.4%	+34.0%
Outst. Stock (m)	98.0	ADTV 1M		PLN 22.9m
MC (PLN m)	9,843.2	ADTV 6M		PLN 20.4m
EV (PLN m)	10,378.8	EV/EBITDA 12M fwd	15.4	-2.7%
Free Float	48.9%	EV/EBITDA 5Y avg	15.8	discount

Earnings Projections

(PLN m)	**2016**	**2017**	**2018P**	**2019P**	**2020P**
Revenue	3,370	4,516	5,918	7,591	9,289
EBITDA	281	389	538	688	840
EBITDA margin	8.3%	8.6%	9.1%	9.1%	9.0%
EBIT	216	303	426	545	666
Net income	151	214	311	412	517
P/E	65.1	46.1	31.7	23.9	19.1
P/B	14.4	10.9	8.1	6.0	4.6
EV/EBITDA	36.8	26.5	19.3	15.0	12.0
DPS	0.00	0.00	0.00	0.00	0.00
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

Projection Update (% change)	**2018P**	**2019P**	**2020P**
EBITDA	-0.8%	-1.5%	-1.8%
Net profit	-2.6%	-3.6%	-3.0%
Store count	+1.2%	+2.9%	+5.6%
Sales/sqm	-1.4%	-2.7%	-5.2%
EBITDA margin	-0.0 p.p.	-0.2 p.p.	-0.2 p.p.

Financial Highlights

(EUR m)	**2016**	**2017**	**2018P**	**2019P**	**2020P**
Store count	628	775	965	1,187	1,412
Total store area (ksqm)	238	295	371	460	552
Avg. store area (sqm)	380	381	384	388	391
Sales margin	22.9%	23.0%	23.6%	23.7%	23.7%
Stores per distr, center	209	258	241	297	282
Operating cash flow	**324**	**497**	**670**	**831**	**996**
D&A	65	86	111	142	174
Working capital	47	131	182	240	277
Investing cash flow	**-310**	**-402**	**-671**	**-711**	**-729**
CAPEX	-312	-411	-672	-711	-729
Financing cash flow	**18**	**41**	**19**	**-137**	**-229**
Dividends/Buyback	92	31	95	-100	-200
FCF	-24	50	-34	114	261
FCF/EBITDA	-9%	13%	-6%	17%	31%
OCF/EBITDA	116%	128%	125%	121%	118%

Key Ratios

	2016	**2017**	**2018P**	**2019P**	**2020P**
Days inventory	38.8	38.7	37.6	36.2	34.8
Days receivables	3.6	3.1	2.0	2.0	2.0
Days payables	80.7	85.2	88.4	91.6	94.8
CCC (days)	-38.2	-43.5	-48.9	-53.4	-58.0
SG&A/Sales	16.5%	16.4%	16.4%	16.5%	16.5%
Net debt (PLN m)	496	485	536	452	214
Net debt/EBITDA (x)	1.8	1.2	1.0	0.7	0.3

Relative Valuation Summary

	PEG			**P/E**			**EV/EBITDA**		
	18P	**19P**	**20P**	**18P**	**19P**	**20P**	**18P**	**19P**	**20P**
Minimum	-2.3	-2.2	-2.2	11.6	11.7	10.2	5.6	5.3	4.7
Maximum	1.8	1.7	1.6	22.4	15.1	13.4	8.0	6.9	6.5
Median	0.8	0.7	0.6	16.3	14.0	11.8	6.9	6.2	5.7
Weight	11%	11%	11%	11%	11%	11%	11%	11%	11%

DCF Analysis

(EUR m)	**18P**	**19P**	**20P**	**21P**	**22P**	**23P**	**24P**	**25P**	**26P**	**27P**	**+**
Store count	965	1,187	1,412	1,572	1,732	1,892	1,992	2,092	2,192	2,292	2,292
Sales/sqm	1,481	1,523	1,530	1,569	1,566	1,549	1,526	1,526	1,525	1,525	1,525
SG&A/Sales	16.4%	16.5%	16.5%	16.6%	16.7%	16.8%	16.8%	16.9%	16.9%	16.9%	16.9%
Revenue	5,918	7,591	9,289	11,030	12,302	13,459	14,334	15,197	16,075	16,966	16,966
EBITDA	538	688	840	989	1,087	1,169	1,240	1,291	1,354	1,417	1,417
EBITDA margin	9.1%	9.1%	9.0%	9.0%	8.8%	8.7%	8.7%	8.5%	8.4%	8.4%	8.4%
EBIT	426	545	666	778	855	922	980	1,024	1,083	1,143	1,143
Tax	81	104	127	148	162	175	186	195	206	217	0
CAPEX	-672	-711	-729	-597	-493	-500	-396	-337	-327	-318	-318
Working capital	182	240	277	315	283	161	122	120	122	124	124
FCF	-34	114	261	559	714	655	780	880	943	1,006	1,031
PV FCF	-33	103	219	432	509	432	474	494	489	482	
WACC	8.1%	8.2%	8.3%	8.4%	8.4%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(EUR m)	
Beta	1.0
FCF perp. growth rate	2.5%
PV FCF	8,571
Net debt	485
Other adjustments	0
Value per share (EUR)	119.20

Valuation Summary

(EUR)	**Weight**	**Price**
Relative Val.	50%	80.70
DCF Val.	50%	119.20
Implied Price		99.95
Cost of equity (9M)		6.4%
9M Target Price		**106.30**

Eurocash
hold (downgraded)

Current Price	18.00 PLN	Upside
9M Target Price	18.20 PLN	+1.1%

Piotr Bogusz +48 22 438 24 08 piotr.bogusz@mbank.pl

The debt restructuring proceedings conducted in C&C in 2017 and the growing demand of customers from active distribution had a positive impact on EUR wholesale result in 9M 2018. Additionally, the supporting factors were the football World Cup and the long period of favorable weather conditions. Taking into account the structural changes on the market, the operations of C&C are to experience pressure on results in the comping years. The company's problems are still the high costs of retail shops, where the result has deteriorated significantly y/y in 9M 2018 due to transformation of EKO chain (temporary closure of shops and promotions after their opening) as well as costs connected with the integration of acquired businesses. Despite an increase in EBITDA of the wholesale segment y/y in 9M 2019, uncertain forecasts of the retail segment (no uncertainty regarding the improvement in revenue per square meter in the coming years) together with the expected negative impact of integration/modernization of acquired shops resulted in EUR exchange price decrease by 33% YTD vs. WIG20 decrease by 7%. In Q3 2018 additional provisions created for bonuses for employees resulted in worse than expected EBITDA growth y/y. Considering the possible additional provisions, increased integration costs and y/y wage increases together with the uncertainty regarding the efficiency improvement in the retail segment and a moderate sales increase in wholesale, we lower our expectations of EBITDA to PLN 390/408m in 2019/2020, respectively. We also downgrade our rating from buy to hold.

	rating	target price	issued
new	**hold**	**18.20 PLN**	**2018-12-05**
old	buy	26.40 PLN	2018-10-01

Key Metrics				EUR PW	vs. WIG
Ticker	EUR PW	1M Price Chng		-13.3%	-19.0%
ISIN	PLEURCH00011	YTD Price Chng		-30.1%	-23.5%
Outst. Stock (m)	139.2	ADTV 1M			PLN 8.1m
MC (PLN m)	2,504.9	ADTV 6M			PLN 6.8m
EV (PLN m)	3,214.0	EV/EBITDA 12M fwd		6.4	-40.6%
Free Float	53.0%	EV/EBITDA 5Y avg		10.8	discount

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	21,206	22,111	23,718	26,954	27,544
EBITDA	440	246	390	415	458
EBITDA margin	2.1%	1.1%	1.6%	1.5%	1.7%
EBIT	274	63	191	206	244
Net income	179	-33	96	97	140
P/E	14.0	-	26.1	25.7	17.9
P/B	2.2	2.4	2.5	2.3	2.2
EV/EBITDA	6.6	11.9	8.2	7.2	6.1
DPS	1.05	0.80	0.75	0.35	0.35
DYield	5.9%	4.4%	4.2%	1.9%	1.9%

Projection Update (% change)	2018P	2019P	2020P
EBITDA	-3.0%	-9.1%	-12.9%
Net income	-6.6%	-33.4%	-39.3%
Independent Wholesale (EBITDA)	-	-	-
Integrated Wholesale (EBITDA)	-	-	-
Retail (EBITDA)	-	-	-

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
Independent Wholesale (S)	13,886	14,460	14,749	14,454	14,021
Integrated Wholesale (S)	7,766	8,065	8,468	8,638	8,811
Retail (S)	976	2,273	2,500	3,240	3,402
New Projects (S)	80.6	557.3	803.1	883.4	927.6
New Projects (EBITDA)	-41	-49	-38	-23	-24
Operating cash flow	**325**	**494**	**334**	**528**	**455**
D&A	166	183	198	208	213
Working capital	-99	247	1	148	39
Investing cash flow	**-270**	**-336**	**-462**	**-163**	**-164**
CAPEX	-219	-307	-457	-163	-164
Financing cash flow	**22**	**-117**	**36**	**-222**	**-311**
Dividends/Buyback	-146	-111	-105	-48	-49
FCF	98	361	-138	330	262
FCF/EBITDA	22%	146%	-35%	79%	57%
OCF/EBITDA	74%	200%	86%	127%	99%

Key Ratios

	2016	2017P	2018P	2019P	2020P
Days inventory	21.1	24.7	24.9	24.9	24.9
Days receivables	30.1	27.8	27.6	27.4	27.2
Days payables	66.9	73.7	73.3	73.3	73.3
CCC (days)	-15.8	-21.3	-20.9	-21.1	-21.3
SG&A/Sales	9%	10%	12%	11%	11%
Net debt (PLN m)	324	370	651	409	230
Net debt/EBITDA (x)	0.7	1.5	1.7	1.0	0.5

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	11.6	11.7	10.2	6.0	5.3	4.7
Maximum	22.4	15.1	13.4	8.0	6.9	6.5
Median	16.0	13.8	11.8	6.9	6.4	5.8
Weight	10%	20%	20%	10%	20%	20%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Ind. Whlsl. (EBITDA)	211	208	202	189	184	178	173	168	163	158	158
Int. Whlsl. (EBITDA)	303	318	324	334	344	354	365	376	387	399	399
Retail (EBITDA)	41	49	69	90	95	96	98	100	102	104	104
Revenue	23,718	26,954	27,544	28,129	28,778	29,472	30,215	31,012	31,480	32,404	32,404
EBITDA	390	415	458	491	498	496	494	493	491	490	490
EBITDA margin	1.64%	1.54%	1.66%	1.75%	1.73%	1.68%	1.64%	1.59%	1.56%	1.51%	1.51%
EBIT	174	188	226	255	257	249	242	234	227	239	239
Tax	426	49	52	53	51	49	48	45	44	47	47
CAPEX	-162	-163	-164	-166	-168	-169	-171	-173	-245	-251	-251
Working capital	-78	-145	-39	-39	-43	-45	-48	-51	-38	-58	-58
FCF	-138	330	262	293	303	304	305	307	221	251	251
PV FCF	-137	304	224	232	222	207	192	179	120	126	
WACC	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	1.5%
PV FCF	3,511
Net debt	370
Other adjustments	64
Value per share (PLN)	22.12

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	12.30
DCF Val.	50%	22.12
Implied Price		17.21
Cost of equity (9M)		6.0%
9M Target Price		**18.20**

Jeronimo Martins
buy (reiterated)

Piotr Bogusz +48 22 438 24 08 piotr.bogusz@mbank.pl

A slowdown in the like-for-like sales growth of Biedronka in 2018 (+3.4% in 9M 2018) met with a negative reaction of investors and the price of one JMT share registered a YTD decrease of 32%. The lower growth in comparable sales resulted mainly from (1) the high base effect, (2) the introduction of the Sunday trade ban and (3) the high ratio of revenue per square meter in Biedronka chain. Despite higher marketing expenses related to Sunday trade restrictions, pay rises for employees and a slowdown in comparable sales, Biedronka maintained a flat EBITDA margin of 7.2% in 9M 2018. Negative factors affecting profitability of EBITDA were offset by an improvement in gross margin on sales (+0.45 p.p. to 21.63% in 9M 2018 at JMT), which was positively affected by (1) improved purchasing conditions and (2) selective price increases. In our opinion, in 2019, in view of a one-digit improvement in comparable sales, Biedronka will focus on further improving the gross margin on sales to maintain profitability of EBITDA. Ara chain in Colombia is growing, which will improve the sales conditions and dilute fixed costs in subsequent periods. We expect that the losses of Ara and Hebe will decrease from the estimated EUR -80m in 2018 to EUR -44m in 2019, which should have a positive impact on the Group's EBITDA growth y/y. With regard to Biedronka, we expect an increase in revenue per square meter by 1.5% y/y in 2019 and stable EBITDA margin to be maintained. We expect an acceleration in the like-for-like sales growth of Biedronka as of Q2 2018 due to the base effect. Considering the company's relatively low valuation in terms of EV/EBITDA, we consider it as one of the sector's most interesting investment options.

Current Price	10.60 EUR	**Upside**
9M Target Price	14.50 EUR	+36.8%

	rating	target price	issued
new	**buy**	**14.50 EUR**	**2018-12-05**
old	buy	15.20 EUR	2018-08-02

Key Metrics			**JMT PL**	**vs. WIG**
Ticker	JMT PL	1M Price Chng	-2.1%	-7.8%
ISIN	PTJMT0AE0001	YTD Price Chng	-32.0%	-25.4%
Outst. Stock (m)	629.3	ADTV 1M		EUR 7.8m
MC (EUR m)	6,670.5	ADTV 6M		EUR 11.7m
EV (EUR m)	7,046.7	EV/EBITDA 12M fwd	6.7	-30.1%
Free Float	-	EV/EBITDA 5Y avg	9.6	discount

Earnings Projections

(EUR m)	2016	2017	2018P	2019P	2020P
Revenue	14,622	16,276	17,350	18,374	19,519
EBITDA	862	922	961	1,048	1,123
EBITDA margin	5.9%	5.7%	5.5%	5.7%	5.8%
EBIT	536	577	592	653	702
Net income	593	386	399	441	479
P/E	11.2	17.3	16.7	15.1	13.9
P/B	3.8	3.7	3.8	3.4	3.0
EV/EBITDA	7.7	7.3	7.3	6.7	6.0
DPS	0.28	0.69	0.64	0.35	0.38
DYield	2.7%	6.5%	6.0%	3.3%	3.6%

Projection Update (% change)	2018P	2019P	2020P
EBITDA	+1.0%	-4.2%	-4.2%
Net income	+0.1%	-7.9%	-6.3%
Y/Y sales/sqm, Biedronka	-0.8 p.p.	-1.8 p.p.	-1.5 p.p.
Y/Y sales/sqm, Pingo Doce	+1.9 p.p.	-0.3 p.p.	-0.1 p.p.
Y/Y sales/sqm, Recheio	+3.0 p.p.	-0.4 p.p.	+1.9 p.p.

Financial Highlights

(EUR m)	2016	2017P	2018P	2019P	2020P
EBITDA Biedronka, PL	704	808	853	901	946
EBITDA Pingo Doce, PT	192	187	181	182	183
EBITDA Recheio, PT	47	50	45	47	47
EBITDA Other	-79	-85	-80	-44	-15
CCC (days)	-70	-71	-67	-67	-67
Operating cash flow	**843**	**909**	**843**	**1,007**	**1,093**
D&A	326	345	369	395	421
Working capital	180	292	-15	135	158
Investing cash flow	**-126**	**-658**	**-730**	**-742**	**-537**
CAPEX	-433	-662	-732	-742	-537
Financing cash flow	**-504**	**-229**	**-328**	**-257**	**-275**
Dividends/Buyback	177	435	401	221	239
FCF	515	397	68	281	572
FCF/EBITDA	60%	43%	7%	27%	51%
OCF/EBITDA	98%	99%	88%	96%	97%

Key Ratios

(%)	2016	2017P	2018P	2019P	2020P
Gross profit margin	21.3%	21.2%	21.7%	21.9%	21.9%
SG&A/Sales	17.4%	17.6%	18.2%	18.3%	18.3%
Y/Y sales/sqm, Biedr.	2.7%	9.0%	1.4%	1.5%	0.4%
Y/Y sales/sqm, P. Doce	1.0%	0.5%	3.3%	-0.2%	0.3%
Y/Y sales/sqm, Recheio	5.0%	5.7%	3.7%	3.2%	2.1%
Net debt (EUR m)	-304	-144	160	152	-129
Net debt/EBITDA (x)	-0.4	-0.2	0.2	0.1	-0.1

Relative Valuation Summary

	P/E			EV/EBITDA		
	18P	19P	20P	18P	19P	20P
Minimum	-0.1	-2.9	0.6	11.6	11.7	10.2
Maximum	2.5	0.7	0.8	21.0	15.1	12.8
Median	0.0	0.5	0.7	16.5	13.8	11.8
Weight	10%	20%	20%	10%	20%	20%

DCF Analysis

(EUR m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Biedronka stores	2,874	2,970	3,066	3,106	3,146	3,186	3,226	3,266	3,306	3,346	3,346
Pingo Doce stores	430	430	430	430	430	430	430	430	430	430	430
Ara stores	525	765	1,025	1,185	1,345	1,505	1,625	1,705	1,745	1,785	1,785
Revenue	17,350	18,374	19,519	20,405	21,100	21,751	22,369	22,930	23,433	23,920	23,920
EBITDA	961	1,048	1,123	1,192	1,244	1,275	1,306	1,336	1,366	1,396	1,396
EBITDA margin	5.5%	5.7%	5.8%	5.8%	5.9%	5.9%	5.8%	5.8%	5.8%	5.8%	5.8%
EBIT	592	653	702	763	812	842	873	906	938	968	968
Tax	146	159	171	186	198	205	213	221	229	236	236
CAPEX	-732	-742	-537	-460	-456	-452	-416	-381	-428	-428	-428
Working capital	-15	135	158	123	96	90	86	78	70	67	67
FCF	68	281	572	668	686	708	763	812	779	799	813
PV FCF	68	257	485	523	496	472	470	462	409	388	
WACC	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(EUR m)	
Beta	1.0
FCF perp. growth rate	1.8%
PV FCF	10,032
Net debt	-144
Other adjustments	225
Value per share (EUR)	15.81

Valuation Summary

(EUR)	Weight	Price
Relative Val.	50%	11.51
DCF Val.	50%	15.81
Implied Price		13.66
Cost of equity (9M)		6.2%
9M Target Price		**14.50**

LPP
buy (reiterated)

Piotr Bogusz +48 22 438 24 08 piotr.bogusz@mbank.pl

LPP share price fell by 13% YTD and the decrease rate has been accelerating since the end of August due to the strengthening of USD to PLN. The company's investments in improving collection quality bring another year of improved sales comparable to most brands and has a positive impact on the gross margin on sales (higher sales of products at first prices). After 9M 2018 LPP improved EBITDA by 38% y/y, including relatively weak Q3 2018 (despite unfavorable weather, EBITDA increased by 24% y/y to PLN 217m – the sector's best result in Q3 2018). According to the announcements of the management board, LPP is to maintain a flat gross margin on sales when purchases are calculated at around 3.8 USD to PLN (we expect a drop in gross margin on sales by 0.6 p.p. y/y in 2019). The negative impact on profitability of the USD/PLN exchange rate appreciation should be compensated by (1) improved purchase conditions, (2) an increase in the share of sales of goods at the first price (better stocking of shops) and (3) adding more expensive models to the offer. LPP invests heavily in implementing IT solutions to streamline business processes, which aims at supporting sales efficiency and allows for cost savings. In 2019, we expect the company to improve brick and mortar shop sales per square meter by 0.1% and increase online sales by 60% y/y to PLN 1,152m. Considering the above, we expect EBITDA increase of 14% y/y to PLN 1,309m in 2019. After the introduction of the financing program for suppliers, LPP significantly strengthened its balance sheet and the objective of matching stock levels with liabilities was achieved in Q3 2018. We slightly adjust our forecasts and maintain a buy rating for the company.

Current Price	7,730.00 PLN	**Upside**
9M Target Price	9,300.00 PLN	+20.3%

	rating	target price	issued
new	**buy**	**9,300.00 PLN**	**2018-12-05**
old	buy	10,200.00 PLN	2018-10-01

Key Metrics			**LPP PW**	**vs. WIG**
Ticker	LPP PW	1M Price Chng	-4.0%	-9.8%
ISIN	PLLPP0000011	YTD Price Chng	-12.9%	-6.3%
Outst. Stock (m)	1.9	ADTV 1M		PLN 15.8m
MC (PLN m)	14,319.2	ADTV 6M		PLN 22.5m
EV (PLN m)	13,938.8	EV/EBITDA 12M fwd	10.7	-26.1%
Free Float	69.5%	EV/EBITDA 5Y avg	14.4	discount

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	6,019	7,029	8,293	9,479	10,791
EBITDA	494	872	1,149	1,309	1,496
EBITDA margin	8.2%	12.4%	13.9%	13.8%	13.9%
EBIT	226	578	814	948	1,084
Net income	175	441	602	795	914
P/E	81.2	32.5	23.8	18.0	15.7
P/B	6.6	5.9	4.8	3.9	3.2
EV/EBITDA	29.0	16.1	12.1	10.3	8.7
DPS	32.66	35.71	39.96	49.20	64.94
DYield	0.4%	0.5%	0.5%	0.6%	0.8%

Projection Update (% change)	2018P	2019P	2020P
EBITDA	-0.5%	-3.7%	-5.4%
Net income	-8.6%	-1.0%	-3.7%
Sales per sqm	+0.0%	-1.3%	-1.7%
SG&A/sqm	-0.2%	-1.7%	-1.6%
Sales area	0.2%	0.2%	0.9%

Financial Highlights

(PLN m)	2016	2017P	2018P	2019P	2020P
Revenue/sqm, PL (PLN)	585	595	607	648	661
Revenue/sqm, RU (PLN)	534	591	594	583	581
Revenue/sqm, CZ (PLN)	545	666	779	755	770
Revenue/sqm, DE (PLN)	485	502	507	518	518
Gross profit margin	48.7%	52.8%	54.3%	53.7%	53.3%
Operating cash flow	**718**	**893**	**1,009**	**1,073**	**1,234**
D&A	267	293	335	361	412
Working capital	256	101	-36	-83	-91
Investing cash flow	**-181**	**-384**	**-871**	**-582**	**-631**
CAPEX	-272	-442	-749	-582	-631
Financing cash flow	**-394**	**-360**	**33**	**-328**	**-143**
Dividends/Buyback	60	66	73	90	119
FCF	444	358	149	450	553
FCF/EBITDA	90%	41%	13%	34%	37%
OCF/EBITDA	145%	102%	88%	82%	83%

Key Ratios

(k sqm)	2016	2017P	2018P	2019P	2020P
Salea area, PL	497	514	535	551	567
Salea area, RU	170	194	219	254	287
Sales area, CZ	43	44	48	52	56
Sales area, DE	38	45	46	46	47
Cash (PLN m)	366	515	685	849	1,310
Net debt (PLN m)	144	-316	-380	-782	-1,266
Net debt/EBITDA (x)	0.3	-0.4	-0.3	-0.6	-0.8

Relative Valuation Summary

	P/E			EV/EBITDA		
	17P	18P	19P	17P	18P	19P
Minimum	20.6	19.6	16.0	10.6	10.0	9.4
Maximum	31.9	23.8	22.0	21.8	14.4	12.9
Median	25.1	20.1	18.4	14.7	13.9	11.8
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Sales/sqm (PLN)	658	685	711	728	740	745	739	733	726	802	802
SG&A/sqm (PLN)	292	301	310	316	320	321	317	313	310	345	345
Sales area (k sqm)	1,100	1,208	1,323	1,436	1,556	1,689	1,845	2,030	2,251	1,990	1,990
Revenue	8,293	9,479	10,791	12,054	13,286	14,504	15,671	17,034	18,636	20,404	20,404
EBITDA	1,149	1,309	1,496	1,672	1,846	1,983	2,153	2,350	2,553	2,736	2,736
EBITDA margin	13.9%	13.8%	13.9%	13.9%	13.9%	13.7%	13.7%	13.8%	13.7%	13.4%	13.4%
EBIT	814	948	1,084	1,227	1,381	1,506	1,654	1,821	1,980	2,106	2,106
Tax	197	159	182	206	231	252	277	305	332	353	353
CAPEX	-749	-582	-631	-617	-557	-604	-686	-788	-913	-1,064	-1,064
Working capital	55	118	131	106	103	102	98	115	135	150	150
FCF	149	450	553	743	954	1,024	1,091	1,142	1,173	1,169	1,198
PV FCF	149	415	470	582	689	682	669	646	611	561	
WACC	8.4%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	2.5%
PV FCF	15,592
Net debt	-316
Other adjustments	0
Value per share (PLN)	8,600

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	9,300
DCF Val.	50%	8,600
Implied Price		8,740
Cost of equity (9M)		6.4%
9M Target Price		**9,300**

mBank Dom Maklerski

Other

PBKM

accumulate (downgraded)

Paweł Szpigiel +48 22 438 24 06 pawel.szpigiel@mbank.pl

PBKM continues the consolidation of the stem cell bank market. After the purchase of Portuguese Stemlab, the company controls around 30% of the European market, but it wants to further strengthen its position. To this end it plans to issue new shares equivalent to 20% of current shares outstanding, at a price of no less than PLN 60 per share. Currently, PBKM sees several possible targets with a total value of around EUR 25m. PBKM perceives, in particular, Portugal, Hungary, Romania, Slovakia, Greece, Spain, Serbia and Switzerland as attractive markets. It is possible for PBKM to buy entities from markets, on which it is already present. PBKM wants to complete the acquisitions within 12 – 15 months. We evaluate the plans positively, but adopting many goals brings a risk connected with the integration of new assets and generation of synergies. The management board wants to acquire targets with a ratio (EV/cash EBITDA) similar to that at which PBKM is currently valued. In our opinion, after the last drop in share prices of PBKM, obtaining attractive EV/cash EBITDA ratio in acquisition transactions might be difficult (we currently estimate EV/EBITDA 2019 of PBKM at around 8.5x). In addition, the scope for dividend payment within a few years is limited. After updating forecasts (mainly for 2018), the new price target amounts to PLN 66.57, indicating upside potential of 7%.

		Upside
Current Price	62.00 PLN	
9M Target Price	66.57 PLN	+7.4%

	rating	target price	issued
new	**accumulate**	**66.57 PLN**	**2018-12-05**
old	buy	66.40 PLN	2018-10-01

Key Metrics			**BKM PW**	**vs. WIG**
Ticker	BKM PW	1M Price Chng	+14.8%	+9.1%
ISIN	PLPBKM000012	YTD Price Chng	-10.3%	-3.7%
Outst. Stock (m)	5.0	ADTV 1M		PLN 0.5m
MC (PLN m)	308.2	ADTV 6M		PLN 0.5m
EV (PLN m)	366.6	EV/EBITDA 12M fwd	6.7	+9.6%
Free Float	48.8%	EV/EBITDA 5Y avg	6.1	premium

Earnings Projections

(PLN m)	2016	2017	2018P	2019P	2020P
Revenue	128.3	147.1	153.0	190.4	201.6
EBITDA	34.1	46.0	51.9	46.8	50.5
EBITDA margin	26.6%	31.3%	33.9%	24.6%	25.0%
EBIT	29.9	41.2	46.3	40.8	44.3
Net income	22.3	30.7	32.8	26.8	29.3
P/E	13.9	10.0	9.4	11.5	10.5
P/B	5.5	4.0	2.9	2.2	1.8
EV/EBITDA	9.1	6.6	7.1	7.7	6.9
DPS	1.41	1.72	0.86	0.86	0.86
DYield	2.3%	2.8%	1.4%	1.4%	1.4%

Projection Update (% change)	2018P	2019P	2020P
Revenue	0.0%	0.0%	0.0%
EBITDA	+21.0%	0.0%	0.0%
EBIT	+28.6%	0.0%	0.0%
Net income	0.0%	0.0%	0.0%

Financial Highlights

(PLN m)	2016	2017	2018P	2019P	2020P
New CBU acquisitions (k)	18.9	20.1	21.1	21.9	22.5
Revenue per new CBU	5.13	5.32	5.48	5.62	5.77
Total CBUs (k)	127.7	146.8	166.7	187.3	208.3
Revenue	**128.3**	**147.1**	**153.0**	**190.4**	**201.6**
COGS	50.2	56.2	60.9	91.6	95.7
Gross profit	**78.1**	**90.9**	**92.0**	**98.8**	**105.9**
margin	60.9%	61.8%	60.2%	51.9%	52.5%
Selling expenses	28.0	31.4	33.8	35.6	37.1
G&A expenses	20.5	20.5	21.3	22.4	24.5
Other oper. activity	0.4	2.2	9.4	0.0	0.0
EBIT	**29.9**	**41.2**	**46.3**	**40.8**	**44.3**
D&A	4.1	4.8	5.6	6.0	6.2
EBITDA	**34.1**	**46.0**	**51.9**	**46.8**	**50.5**
margin	26.6%	31.3%	33.9%	24.6%	25.0%
Net income	**22.3**	**30.7**	**32.8**	**26.8**	**29.3**

Key Balance Sheet Figures

(PLN m)	2016	2017	2018P	2019P	2020P
Operating cash flow	**13.9**	**19.7**	**30.4**	**27.0**	**32.0**
OCF/EBITDA	41%	43%	59%	58%	63%
CAPEX	**-9.4**	**-6.5**	**-85.5**	**-10.6**	**-11.1**
Assets	163.6	189.9	313.1	356.8	402.4
Equity	55.7	77.9	107.1	138.6	173.2
Net debt	**-0.4**	**-4.3**	**57.4**	**49.3**	**36.6**
Net debt/EBITDA (x)	0.0	-0.1	1.1	1.2	0.9

Relative Valuation Summary

	EV/EBITDA			FCF/EV		
	18P	19P	20P	18P	19P	20P
Minimum	9.1	8.8	7.8	1.7%	2.8%	2.9%
Maximum	17.4	14.7	13.0	11.5%	8.1%	8.7%
Median	10.3	9.6	9.2	4.7%	4.8%	5.5%
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis

(PLN m)	18P	19P	20P	21P	22P	23P	24P	25P	26P	27P	+
Cash EBIT	**23.0**	**29.4**	**33.9**	**34.7**	**35.4**	**36.2**	**37.0**	**37.9**	**38.7**	**39.6**	**40.6**
EBIT tax	2.7	2.8	3.5	3.6	3.7	3.8	3.8	3.9	4.0	4.1	4.2
NOPLAT	20.3	26.6	30.4	31.1	31.8	32.5	33.2	33.9	34.7	35.5	36.4
D&A	5.6	6.0	6.2	6.7	6.8	7.0	7.1	7.3	7.4	7.6	7.8
CAPEX	-85.5	-10.6	-11.1	-9.9	-9.6	-9.4	-9.2	-8.9	-8.7	-7.6	-7.8
Working capital	-4.5	-5.6	-4.6	-4.7	-4.8	-4.9	-5.1	-5.2	-5.3	-5.4	-5.5
FCF	**-64.2**	**16.3**	**20.9**	**23.1**	**24.1**	**25.1**	**26.1**	**27.1**	**28.1**	**30.1**	**30.8**
PV FCF	-62.6	14.8	17.4	17.9	17.2	16.5	15.8	15.1	14.4	14.2	
WACC	7.9%	7.9%	8.1%	8.2%	8.4%	8.5%	8.6%	8.6%	8.6%	8.6%	8.6%
Cost of debt	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Cost of equity	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

Dividend Discount Model (DDM)

(PLN m)	17P	18P	19P	20P	21P	22P	23P	24P	25P	26P	+
Dividends	4.3	4.3	4.3	6.4	9.6	14.4	17.3	20.8	22.8	24.8	25.4
PV of dividends	4.2	3.8	3.5	4.9	6.8	9.3	10.3	11.4	11.6	189.7	
Cost of equity	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	2.5%
PV FCF	314.8
Net debt & other adj.	-10.3
Value per share (PLN)	65.39

DDM Summary

(PLN)	
Beta	1.0
DIV growth rate in perp.	2.5%
Value Per Share (PLN)	52.07

Valuation Summary

(PLN)	Weight	Price
Relative Val.	33%	66.09
DDM	33%	52.06
DCF	33%	69.55
Implied Price		62.57
Cost of equity (9M)		6.4%
9M Target Price		**66.57**

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%
SELL – we expect that an investment will bear a loss greater than 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.
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 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.

Comparable Companies Used In Relative Valuation Models

Agora	Axel Springer, Cinemark Holdings, Cineworld, Daily Mail&General, IMAX Corp, JC Decaux, Lagardere, Sanoma, Schibsted, Stroeer Media,
AmRest	Alsea, Autogrill, Chipotle Mexican, Collins Foods, Jack In The Box, McDonalds, Mitchells & Butlers, Panera Bread, Starbucks, Texas Roadhouse, Wendy's, Yum! Brands
Asseco Poland	Atos, CAP Gemini, Comarch, Computacenter, Fiserv, Indra Sistemas, Oracle, Sage Group, SAP, Software AG
Atal	Archicom, Dom Development, i2 Development, JWC, LC Corp, Lokum Deweloper, Polnord, Ronson
GTC	BBI Development, Capital Park, Echo Investment, P.A. Nova, PHN, Alstria Office, Atrium European RE, CA Immobilien, Deutsche Euroshop, DIC Asset, Immofinanz, Klepierre, Unibail-Rodamco, S Immo
CCC	Adidas, Asos, Boohoo.com, Caleries, Crocs, Foot Locker, Geox, Nike, Steven Madden, Tod's, Voox Net-a-Porter, Zalando
CD Projekt	Activision, Blizzard, CAPCOM, Take Two Interactive, Ubisoft Entertainment, Electronic Arts
CEZ, Enea, Energa, PGE, Tauron	CEZ, EDF, EDP, Endesa, Enea, Enel, Energa, EON, Innogy, PGE, RWE, Tauron
Ciech	Akzo Nobel, BASF, Bayer, Ciner Resources, Dow Chemical, Huntsman, Soda Samayii, Solvay, Synthos, Tata Chemicals, Tessenderlo Chemie, Tronox, Wacker Chemie
Comarch	Asseco Poland, Atos, CAP Gemini, Computacenter, Fiserv INC, Indra Sistemas, Oracle Corp, Sage Group, SAP, Software AG, Tieto
Cyfrowy Polsat	BT Group, Comcast, Deutsche Telekom, Hellenic Telecom, Iliad, Koninklijke KPN, Magyar Telekom, Netia, O2 Czech, Orange, Orange Polska, Shaw Communications, Talktalk Telecom, Tele2, Telecom Italia, Telefonica, Telekom Austria, Telenor, Turk Telekomunikasyon, Turkcell Iletisim Hizmet, Vodafone Group
Dino	Carrefour, Dixy Group, Eurocash, Jeronimo Martins, Magnit, Metro, O'Key Group, Tesco, X5
Dom Development	Archicom, Atal, LC Corp, Lokum Deweloper, Echo
Eurocash	Carrefour, Dixy Group, Jeronimo Martins, Magnit, Metro, O'Key Group, Tesco, X5
Famur	Epiroc, Caterpillar, Duro Felguera, Komatsu, Sandvik, Shanghai Chuangli, Tian Di
Grupa Azoty	Acron, Agrium, CF Industries, Israel Chemicals, K+S, Mosaic, Phosagro, Potash, Yara
Jeronimo Martins	Carrefour, Eurocash, Magnit, Tesco, X5
JSW	Alliance Resource Partners, Peabody Energy, Arch Coal, Semirara Mining and Power, Bukin Asam, Henan Shenhou, Yanzhou Coal Mining, Banpu Public, LW Bogdanka, Shaanxi Heimao, China Coal, Shougang Fushan Resources, Cokal, Teck Resources
Kernel	Astarta, Andersnons, ADM, Avangard, Bunge, China Agri Industries, Felda Global, Golden Agri Resources, GrainCorp, IMC, MHP, Milkiland, Nisshin Oillio Group, Ovostar, Wilmar
Kęty	Alcoa, Amag, Amcor, Bemis, Century Aluminium, China Hongoiao, Constelium, Impexmetal, Kaiser Aluminium, Mercor, Midas Holdings, Nippon Light Metal, Norsk Hydro, UACJ, United CO Rusal
KGHM	Anglo American, Antofagasta, BHP Billiton, Boliden, First Quantum Minerals, Freeport-Mcmoran, Grupo Mexico, Hudbay, Lundin, MMC Norilsk Nickel, OZ Minerals, Rio Tinto, Sandfire Resources, Southern Copper, Vedanta Resources
Lotos, MOL	Aker BP, Bashneft, BP, ENI, Galp, Gazpromneft, Hellenic, Lotos, Lukoil, MOL, Motor Oil, Neste, OMV, OMV Petrom, PKN, Repsol, Rosneft, Saras, Shell, Statoil, Total, Tullow Oil, Tupras, Unipetrol
LPP	CCC, Gerry Weber, H&M, Hugo Boss, IC Companys, Inditex, Kappahl, Marks & Spencer, Next, Tom Tailor
Netia	BT Group, Cyfrowy Polsat, Deutsche Telekom, Hellenic Telecom, Koninklijke KPN, Magyar Telekom, Mobile Telesystems, O2 Czech, Orange, Orange Polska, Rostelecom, Telecom Italia, Telefonica, Telekom Austria, Telenor, Turk Telekomunikasyon, Turkcell Iletisim Hizmet, Vodafone Group
Orange Polska	BT Group, Cyfrowy Polsat, Deutsche Telekom, Hellenic Telecom, Koninklijke KPN, Magyar Telekom, Mobile Telesystems, Netia, O2 Czech, Orange, Rostelecom, Telecom Italia, Telefonica, Telekom Austria, Telenor, Turk Telekomunikasyon, Turkcell Iletisim Hizmet, Vodafone Group
PGNiG	A2A, BP, Centrica, Enagas, Endesa, Enea, Energa, Engie, ENI, EON, Galp Energia, Gas Natural, Gazprom, Hera, MOL, Novatek, OMV, Red Electrica, Romgaz, RWE, Shell, Snam, SSE, Statoil, Total
PKN Orlen	Braskem, Dow Chemical, Eastman, Galp, Hellenic, Huntsman, Indorama, Lotos, Lotte, Lyondellbasell, Mitsubishi, Mitsui, MOL, Motor Oil, Neste, OMV, OMV Petrom, Petronas, Saras, Tupras, Unipetrol, Westlake
Play	BT Group, Cyfrowy Polsat, Deutsche Telekom, Hellenic Telecom, Koninklijke KPN, Magyar Telekom, Netia, O2 Czech, Orange, Orange Belgium, Orange Polska, Telecom Italia, TalkTalk, Tele2, Telefonica, Telekom Austria, Telenor, Turk Telekomunikasyon, Turkcell Iletisim Hizmet, Vimpel, Vodafone Group
Skarbiec Holding	Affilated Managers, AllianceBernstein, Ashmore Group, Blackrock, Brewin Dolphin, Eaton Vance Mgmt, Franklin Resources, GAM Holding, Invesco, Investec, Janus Henderson, Jupiter AM, Legg Mason, Liontrust AM, Och-Ziff Capital Mgmt., Schroders, Standard Life, T Rowe Price
Stelmet	AFG Arbonia, Canfor, Century Plyboards, Deceuninck, Duratex, Forte, Greenply Industries, Interfor, Inwido, Louisiana Pacific, Nobia, Pflaiderer, Rayonier, Uzin UTZ, Vanachai Group, Vilmorin, West Fraser
Wirtualna Polska	eBay, Facebook, Google, Mail.ru, Sina, Yahoo Japan, Yandex

Recommendations Issued In the 12 Months Prior To This Publication

AC

Rating	overweight
Rating date	2018-11-30
Target price (PLN)	-
Price on rating day	41.50

Agora

Rating	buy	buy	buy	buy
Rating date	2018-11-27	2018-09-14	2018-04-06	2018-01-26
Target price (PLN)	16.00	15.40	18.40	18.90
Price on rating day	9,50	8.48	14.50	13.15

Ailleron

Rating	neutral	neutral
Rating date	2018-03-28	2018-01-30
Target price (PLN)	-	-
Price on rating day	16.20	17.60

Alior Bank

Rating	buy	buy	buy	accumulate
Rating date	2018-12-05	2018-10-04	2018-02-01	2018-01-05
Target price (PLN)	92.50	96.00	109.00	90.00
Price on rating day	56.65	62.90	85.50	78.10

Alumetal

Rating	neutral
Rating date	2018-08-23
Target price (PLN)	-
Price on rating day	51.00

Amica

Rating	overweight	overweight	overweight
Rating date	2018-09-13	2018-06-06	2018-01-05
Target price (PLN)	-	-	-
Price on rating day	112.80	121.00	130.00

AmRest

Rating	buy	accumulate	hold	reduce	hold	hold
Rating date	2018-12-05	2018-11-05	2018-09-03	2018-04-06	2018-02-02	2018-01-05
Target price (PLN)	46.00	41.20	42.60	426.00	407.00	422.00
Price on rating day	39.60	40.00	40.60	449.50	425.00	403.00

Apator

Rating	underweight	neutral
Rating date	2018-12-05	2018-02-28
Target price (PLN)	-	-
Price on rating day	24.20	24.00

Archicom

Rating	suspended	overweight	overweight	overweight
Rating date	2018-12-05	2018-06-22	2018-04-26	2018-01-25
Target price (PLN)	-	-	-	-
Price on rating day	11.90	15.00	15.30	15.75

Asseco BS

Rating	neutral	neutral
Rating date	2018-03-28	2018-01-30
Target price (PLN)	-	-
Price on rating day	28.00	28.90

Asseco Poland

Rating	hold	accumulate	hold	reduce	reduce
Rating date	2018-12-05	2018-09-03	2018-06-06	2018-03-27	2018-02-02
Target price (PLN)	49.60	49.00	41.20	41.20	44.00
Price on rating day	48.30	45.90	44.00	45.20	45.62

Asseco SEE

Rating	overweight	overweight	overweight
Rating date	2018-04-26	2018-03-28	2018-01-30
Target price (PLN)	-	-	-
Price on rating day	11.70	12.95	13.25

Atal

Rating	buy	accumulate	accumulate	accumulate
Rating date	2018-07-04	2018-06-22	2018-04-06	2018-02-02
Target price (PLN)	42.86	42.86	47.00	49.20
Price on rating day	36.40	37.30	43.40	42.40

Atende

Rating	overweight	overweight
Rating date	2018-03-28	2018-01-30
Target price (PLN)	-	-
Price on rating day	4.25	4.85

BBI Development

Rating	suspended	neutral	neutral
Rating date	2018-12-05	2018-04-26	2018-02-02
Target price (PLN)	-	-	-
Price on rating day	0.63	0.66	0.70

Boryszew

Rating	neutral
Rating date	2018-09-05
Target price (PLN)	-
Price on rating day	6.25

Budimex

Rating	suspended	hold	hold	accumulate	buy
Rating date	2018-12-05	2018-08-02	2018-06-06	2018-04-06	2018-02-02
Target price (PLN)	-	125.00	163.00	216.39	246.00
Price on rating day	119.40	122.60	153.00	215.00	197.80

Capital Park

Rating	suspended	buy	buy
Rating date	2018-12-05	2018-04-06	2018-02-02
Target price (PLN)	-	8.35	8.42
Price on rating day	4.60	5.95	5.95

CCC

Rating	buy	buy	buy	accumulate	buy	buy	hold	hold
Rating date	2018-12-05	2018-11-05	2018-06-06	2018-05-09	2018-04-06	2018-03-05	2018-02-02	2018-01-05
Target price (PLN)	288.00	272.00	295.00	295.00	295.00	286.00	295.00	292.00
Price on rating day	204.60	173.60	242.80	255.60	257.40	243.00	281.00	293.00

CD Projekt

Rating	buy	reduce	sell	sell
Rating date	2018-11-23	2018-10-16	2018-04-06	2018-02-02
Target price (PLN)	170.40	136.60	90.80	90.00
Price on rating day	139.00	158.60	114.90	115.00

CEZ

Rating	hold	sell	sell	sell	reduce	hold	hold
Rating date	2018-11-05	2018-07-04	2018-05-29	2018-05-09	2018-04-06	2018-03-05	2018-02-02
Target price (CZK)	518.72	440.96	458.38	449.51	449.51	506.40	532.50
Price on rating day	549.00	550.00	551.00	567.00	519.50	495.00	530.00

Ciech

Rating	buy	buy	buy	buy	buy	buy	buy	buy
Rating date	2018-11-05	2018-08-02	2018-07-04	2018-06-06	2018-05-09	2018-04-06	2018-03-05	2018-02-02
Target price (PLN)	77.05	82.52	81.14	88.64	89.71	85.40	85.87	90.13
Price on rating day	42.58	56.95	53.05	60.20	55.00	57.00	55.90	61.25

Cognor

Rating	neutral
Rating date	2018-12-05
Target price (PLN)	-
Price on rating day	1.80

Comarch

Rating	accumulate	accumulate	accumulate	buy	hold	hold
Rating date	2018-12-05	2018-10-01	2018-05-09	2018-04-06	2018-03-05	2018-02-02
Target price (PLN)	173.30	180.50	166.50	166.50	166.50	180.00
Price on rating day	160.00	167.00	145.00	131.50	155.00	177.00

Cyfrowy Polsat

Rating	hold	accumulate	hold	accumulate	hold
Rating date	2018-11-26	2018-06-15	2018-04-06	2018-03-05	2018-01-31
Target price (PLN)	23.20	24.90	25.30	24.90	25.70
Price on rating day	22.50	22.76	24.84	22.80	24.70

Dino

Rating	accumulate	buy	hold	accumulate	buy	buy	buy
Rating date	2018-12-05	2018-11-05	2018-06-06	2018-05-09	2018-04-04	2018-02-02	2018-01-18
Target price (PLN)	106.30	103.50	103.50	103.50	103.50	95.40	95.40
Price on rating day	100.40	84.70	107.40	96.65	85.10	85.00	80.00

Dom Development

Rating	buy	buy	accumulate	buy	buy
Rating date	2018-12-05	2018-08-02	2018-06-22	2018-03-20	2018-02-02
Target price (PLN)	84.10	87.80	87.80	103.10	103.00
Price on rating day	66.00	72.80	85.80	85.80	82.00

Echo

Rating	suspended	buy	buy
Rating date	2018-12-05	2018-04-06	2018-02-02
Target price (PLN)	-	5.63	6.31
Price on rating day	3.94	5.23	5.05

Elektrobudowa

Rating	suspended	buy	hold	buy	buy
Rating date	2018-12-05	2018-09-26	2018-06-06	2018-04-06	2018-02-02
Target price (PLN)	-	45.00	71.00	116.00	113.00
Price on rating day	32.00	32.80	69.00	96.40	81.20

Elektrotim

Rating	suspended	neutral	neutral
Rating date	2018-12-05	2018-09-27	2018-05-28
Target price (PLN)	-	-	-
Price on rating day	3.80	4.20	5.80

Elemental

Rating	suspended	neutral
Rating date	2018-12-05	2018-04-27
Target price (PLN)	-	-
Price on rating day	1.17	1.09

Enea

Rating	buy	buy	buy	buy	accumulate	accumulate
Rating date	2018-11-29	2018-05-29	2018-04-06	2018-03-05	2018-02-02	2018-01-05
Target price (PLN)	15.58	12.62	11.78	12.11	12.98	12.82
Price on rating day	10.50	9.57	9.10	10.36	11.07	12.19

Energa

Rating	**buy**	**buy**	**buy**	**buy**	**buy**	**buy**	**buy**
Rating date	2018-11-29	2018-09-03	2018-05-29	2018-04-06	2018-03-05	2018-02-02	2018-01-05
Target price (PLN)	13.54	15.27	15.58	14.91	14.71	15.20	14.97
Price on rating day	9.16	8.40	9.00	9.96	10.11	12.21	12.60

Erbud

Rating	**suspended**	**buy**	**buy**	**accumulate**	**buy**	**buy**	**buy**
Rating date	2018-12-05	2018-09-03	2018-06-06	2018-05-09	2018-04-06	2018-03-05	2017-12-15
Target price (PLN)	-	14.40	22.00	23.10	29.60	29.40	28.70
Price on rating day	9.64	9.60	14.90	19.40	21.60	21.30	20.60

Ergis

Rating	**underweight**	**neutral**	**neutral**
Rating date	2018-12-05	2018-04-27	2018-01-29
Target price (PLN)	-	-	-
Price on rating day	2.80	4.06	4.77

Erste Bank

Rating	**buy**	**buy**	**accumulate**	**hold**
Rating date	2018-12-05	2018-08-02	2018-06-06	2018-02-02
Target price (EUR)	46.18	43.00	40.00	40.00
Price on rating day	34.41	37.14	34.78	40.64

Eurocash

Rating	**hold**	**buy**	**buy**	**buy**	**buy**
Rating date	2018-12-05	2018-10-01	2018-04-06	2018-03-05	2018-02-02
Target price (PLN)	18.20	26.40	30.70	31.10	32.30
Price on rating day	18.00	18.08	24.41	21.99	26.04

Famur

Rating	**buy**	**buy**	**buy**	**buy**	**buy**	**buy**	**buy**
Rating date	2018-11-30	2018-08-02	2018-05-09	2018-04-06	2018-03-05	2018-02-02	2018-01-05
Target price (PLN)	6.41	6.56	6.95	7.06	7.28	7.29	7.24
Price on rating day	5.58	5.20	5.94	6.04	6.10	6.20	6.18

Forte

Rating	**neutral**	**overweight**	**neutral**	**neutral**	**neutral**
Rating date	2018-10-31	2018-07-27	2018-04-27	2018-02-02	2018-01-29
Target price (PLN)	-	-	-	-	-
Price on rating day	40.60	40.60	50.70	43.00	49.10

GetBack

Rating	**suspended**
Rating date	2018-04-16
Target price (PLN)	-
Price on rating day	4.52

Getin Noble Bank

Rating	**suspended**	**hold**	**hold**	**hold**	**sell**
Rating date	2018-12-05	2018-10-04	2018-05-09	2018-03-05	2018-02-01
Target price (PLN)	-	1.00	1.40	1.50	1.50
Price on rating day	0.33	0.53	1.17	1.45	1.83

Gino Rossi

Rating	**suspended**
Rating date	2018-05-23
Target price (PLN)	-
Price on rating day	0.63

Grupa Azoty

Rating	**hold**	**buy**	**hold**	**hold**	**hold**	**hold**	**hold**	**hold**	**hold**
Rating date	2018-11-23	2018-11-05	2018-09-03	2018-08-02	2018-05-25	2018-05-09	2018-03-05	2018-02-02	2018-01-05
Target price (PLN)	33.00	31.47	41.13	42.13	44.40	60.99	67.13	73.42	73.64
Price on rating day	32.36	24.00	38.00	42.20	42.60	51.10	56.55	72.00	74.40

GTC

Rating	**hold**	**accumulate**	**hold**	**hold**
Rating date	2018-04-06	2018-03-05	2018-02-02	2018-01-05
Target price (PLN)	9.60	9.70	9.70	10.00
Price on rating day	9.39	8.64	9.67	9.90

Handlowy

Rating	**accumulate**	**buy**	**buy**	**accumulate**	**hold**
Rating date	2018-12-05	2018-10-04	2018-04-06	2018-02-01	2018-01-05
Target price (PLN)	76.00	90.00	94.00	94.00	85.00
Price on rating day	71.10	76.90	77.50	84.70	83.70

Herkules

Rating	**suspended**	**neutral**
Rating date	2018-12-05	2018-01-25
Target price (PLN)	-	-
Price on rating day	3.10	3.67

i2 Development

Rating	**suspended**	**neutral**	**neutral**	**overweight**
Rating date	2018-12-05	2018-06-22	2018-05-28	2018-01-12
Target price (PLN)	-	-	-	-
Price on rating day	11.30	15.40	17.30	14.90

Impexmetal

Rating	**neutral**
Rating date	2018-12-05
Target price (PLN)	-
Price on rating day	3.40

ING BSK

Rating	**accumulate**	**buy**	**accumulate**	**accumulate**	**buy**	**accumulate**	**hold**
Rating date	2018-12-05	2018-11-05	2018-10-04	2018-08-02	2018-07-04	2018-03-05	2018-02-01
Target price (PLN)	199.63	200.00	200.00	212.00	212.00	212.00	212.00
Price on rating day	183.60	166.00	181.00	190.00	178.40	198.00	220.00

Jeronimo Martins

Rating	**buy**	**buy**	**buy**	**accumulate**	**accumulate**	**hold**
Rating date	2018-12-05	2018-08-02	2018-06-06	2018-04-06	2018-03-05	2018-02-02
Target price (EUR)	14.50	15.20	16.40	16.40	16.90	16.90
Price on rating day	10.60	12.65	13.52	14.90	15.17	17.12

JSW

Rating	**reduce**	**sell**	**buy**	**buy**	**buy**	**buy**	**buy**	**buy**	**buy**	**buy**
Rating date	2018-12-05	2018-11-26	2018-09-03	2018-08-02	2018-07-04	2018-06-06	2018-05-09	2018-04-06	2018-03-05	2018-01-30
Target price (PLN)	59.14	59.14	98.00	108.69	107.00	115.23	109.12	108.14	120.71	122.30
Price on rating day	71.20	72.56	77.00	79.50	77.50	86.66	79.32	86.78	92.80	101.00

JWC

Rating	**suspended**	**neutral**	**underweight**	**neutral**
Rating date	2018-12-05	2018-06-22	2018-03-29	2018-01-25
Target price (PLN)	-	-	-	-
Price on rating day	2.58	3.48	4.16	4.41

Kernel

Rating	**buy**	**buy**	**hold**	**hold**	**hold**
Rating date	2018-11-05	2018-07-23	2018-05-09	2018-03-05	2018-02-02
Target price (PLN)	60.85	59.18	53.04	53.46	53.47
Price on rating day	52.10	50.50	50.80	48.80	50.90

Grupa Kęty

Rating	**reduce**	**sell**	**hold**	**hold**	**hold**	**hold**	**hold**	**hold**	**hold**	**hold**
Rating date	2018-12-05	2018-10-29	2018-09-03	2018-08-02	2018-06-06	2018-05-09	2018-04-06	2018-03-05	2018-02-02	2018-01-05
Target price (PLN)	309.30	309.30	367.45	355.61	371.08	363.01	357.21	379.66	391.41	390.72
Price on rating day	343.00	365.50	387.50	321.50	360.50	353.00	346.00	352.50	385.00	408.00

KGHM

Rating	**hold**	**hold**	**buy**	**buy**	**buy**	**buy**	**buy**	**accumulate**	**accumulate**	**hold**	**hold**
Rating date	2018-12-05	2018-10-15	2018-09-03	2018-08-02	2018-06-06	2018-05-09	2018-04-04	2018-03-05	2018-02-02	2018-01-05	2017-12-08
Target price (PLN)	84.56	87.99	104.21	111.08	112.92	118.98	115.43	122.81	128.62	114.71	103.08
Price on rating day	92.60	85.40	90.80	96.00	96.52	92.50	88.00	102.50	111.50	113.10	100.00

Komercni Banka

Rating	**accumulate**
Rating date	2018-12-05
Target price (CZK)	1000.00
Price on rating day	906.50

Kruk

Rating	**buy**	**buy**	**buy**
Rating date	2018-12-05	2018-09-17	2018-02-02
Target price (PLN)	292.77	292.77	300.94
Price on rating day	177.10	187.80	222.20

Kruszwica

Rating	**neutral**	**underweight**
Rating date	2018-10-16	2018-08-02
Target price (PLN)	-	-
Price on rating day	43.90	65.40

LC Corp

Rating	**suspended**	**buy**	**buy**	**buy**
Rating date	2018-12-05	2018-06-22	2018-04-06	2018-02-02
Target price (PLN)	-	3.58	3.50	3.74
Price on rating day	2.55	2.39	2.70	3.10

Lokum Deweloper

Rating	**suspended**	**overweight**	**overweight**	**overweight**
Rating date	2018-12-05	2018-06-22	2018-03-29	2018-01-25
Target price (PLN)	-	-	-	-
Price on rating day	17.40	18.80	17.80	18.00

Lotos

Rating	**sell**	**sell**	**sell**	**hold**	**hold**	**hold**	**reduce**	**reduce**	**reduce**
Rating date	2018-11-15	2018-09-03	2018-08-02	2018-06-29	2018-05-09	2018-04-06	2018-03-05	2018-02-02	2018-01-05
Target price (PLN)	59.84	57.21	52.51	52.51	52.81	51.73	51.08	52.67	51.53
Price on rating day	73.50	69.90	65.86	54.50	55.62	54.60	56.30	57.78	58.48

LPP

Rating	**buy**	**buy**	**accumulate**	**hold**	**accumulate**	**accumulate**	**hold**	**hold**
Rating date	2018-12-05	2018-10-01	2018-06-18	2018-05-09	2018-04-06	2018-03-05	2018-02-02	2018-01-05
Target price (PLN)	9300.00	10200.00	10200.00	9500.00	9500.00	9500.00	9400.00	9900.00
Price on rating day	7,730.00	8,625.00	9,025.00	9,260.00	8,900.00	8,620.00	9,790.00	9,990.00

Mangata

Rating	**neutral**	**underweight**	**neutral**	**underweight**
Rating date	2018-10-01	2018-09-13	2018-06-22	2018-03-29
Target price (PLN)	-	-	-	-
Price on rating day	65.40	91.20	90.00	95.60

Millennium

Rating	**accumulate**	**hold**	**reduce**	**sell**	**reduce**	**sell**
Rating date	2018-11-14	2018-11-05	2018-10-04	2018-08-02	2018-04-06	2018-02-01
Target price (PLN)	10.10	8.40	8.40	7.00	7.00	7.00
Price on rating day	9.49	8.85	9.27	9.12	8.35	9.59

MOL

Rating	hold	accumulate	accumulate	buy	accumulate	hold	hold	hold	hold
Rating date	2018-12-05	2018-11-15	2018-11-05	2018-09-03	2018-06-29	2018-05-09	2018-04-06	2018-03-05	2018-02-02
Target price (HUF)	3280.00	3280.00	3296.00	3296.00	2995.00	2954.00	2898.00	3027.00	3152.00
Price on rating day	3,206.00	3,088.00	3,006.00	2,870.00	2,654.00	2,790.00	2,864.00	2,718.00	3,080.00

Monnari

Rating	underweight	neutral	overweight
Rating date	2018-12-05	2018-07-13	2018-05-23
Target price (PLN)	-	-	-
Price on rating day	4.75	6.60	7.19

Netia

Rating	hold	hold	reduce	sell	reduce
Rating date	2018-11-26	2018-10-01	2018-06-06	2018-04-06	2018-02-02
Target price (PLN)	4.70	4.30	4.30	4.30	4.60
Price on rating day	4.66	4.50	5.00	5.27	5.30

Orange Polska

Rating	buy	buy	buy
Rating date	2018-11-26	2018-04-06	2017-12-12
Target price (PLN)	6.40	7.60	7.30
Price on rating day	4.91	5.83	5.39

OTP Bank

Rating	accumulate	buy	accumulate	hold
Rating date	2018-12-05	2018-06-06	2018-02-02	2018-01-05
Target price (HUF)	13046.00	12090.00	12090.00	10901.00
Price on rating day	11,810.00	10,210.00	11,560.00	10,960.00

PA Nova

Rating	suspended	neutral	neutral
Rating date	2018-12-05	2018-03-29	2018-02-28
Target price (PLN)	-	-	-
Price on rating day	17.25	22.30	23.30

PBKM

Rating	accumulate	buy	hold	hold	hold	hold
Rating date	2018-12-05	2018-10-01	2018-06-06	2018-04-06	2018-02-02	2018-01-05
Target price (PLN)	66.57	66.40	76.26	76.83	76.00	71.00
Price on rating day	62.00	57.80	73.00	77.00	73.00	69.60

Prime Car Management

Rating	suspended	buy	buy	buy
Rating date	2018-08-23	2018-06-06	2018-04-06	2018-02-02
Target price (PLN)	-	15.54	33.00	35.30
Price on rating day	7.96	12.70	23.60	28.80

Pekao

Rating	buy	buy	buy
Rating date	2018-12-05	2018-10-04	2018-02-01
Target price (PLN)	136.29	138.70	157.00
Price on rating day	113.25	107.20	135.90

Pfleiderer Group

Rating	neutral	overweight	overweight
Rating date	2018-09-28	2018-08-08	2018-04-27
Target price (PLN)	-	-	-
Price on rating day	36.45	37.30	37.30

PGE

Rating	buy	buy	buy	buy	accumulate
Rating date	2018-11-29	2018-05-29	2018-04-06	2018-03-05	2018-02-02
Target price (PLN)	14.82	13.60	12.89	12.61	13.30
Price on rating day	11.47	9.28	9.81	10.28	11.87

PGNiG

Rating	buy	buy	buy	buy	buy	buy	buy
Rating date	2018-11-05	2018-09-03	2018-06-29	2018-05-09	2018-04-06	2018-03-05	2018-02-02
Target price (PLN)	7.72	7.86	8.28	8.17	7.96	7.51	7.65
Price on rating day	6.35	5.82	5.53	6.20	5.71	5.98	6.58

PKN Orlen

Rating	sell	reduce	sell	sell	reduce	reduce	reduce	sell	sell
Rating date	2018-11-15	2018-11-05	2018-09-03	2018-08-02	2018-06-29	2018-05-09	2018-04-06	2018-03-05	2018-02-02
Target price (PLN)	81.52	81.38	81.38	76.84	76.84	76.73	76.89	80.55	82.84
Price on rating day	97.80	93.50	98.24	93.06	82.50	82.30	89.52	95.20	107.90

PKO BP

Rating	accumulate	buy	accumulate	hold	reduce	sell
Rating date	2018-12-05	2018-11-05	2018-10-04	2018-04-06	2018-03-05	2018-02-01
Target price (PLN)	45.00	47.00	47.00	38.00	38.00	38.00
Price on rating day	41.96	40.39	42.55	39.74	42.20	45.66

Play

Rating	buy	buy	hold	reduce	hold	hold
Rating date	2018-11-26	2018-10-17	2018-08-30	2018-07-03	2018-04-06	2018-01-25
Target price (PLN)	21.30	21.50	22.60	23.50	30.93	34.70
Price on rating day	16.54	17.14	21.90	24.88	32.70	33.20

Polnord

Rating	suspended	underweight	neutral	neutral
Rating date	2018-12-05	2018-06-22	2018-02-02	2017-12-27
Target price (PLN)	-	-	-	-
Price on rating day	9.77	9.04	10.50	8.70

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Polwax

Rating	suspended	buy	buy	buy
Rating date	2018-09-14	2018-05-09	2018-02-02	2018-01-05
Target price (PLN)	-	16.69	18.80	20.56
Price on rating day	7.70	7.80	11.05	11.95

Pozbud

Rating	overweight
Rating date	2018-09-04
Target price (PLN)	-
Price on rating day	3.57

PZU

Rating	accumulate	buy	accumulate	buy	accumulate	buy
Rating date	2018-12-05	2018-11-05	2018-08-02	2018-03-05	2018-02-02	2018-01-05
Target price (PLN)	46.50	47.50	47.50	50.58	50.58	51.83
Price on rating day	43.80	40.60	42.00	41.55	44.17	45.00

Ronson

Rating	suspended	neutral	neutral	underweight	underweight
Rating date	2018-12-05	2018-06-22	2018-04-03	2018-03-29	2018-02-02
Target price (PLN)	-	-	-	-	-
Price on rating day	0.84	1.09	1.32	1.32	1.45

Santander Bank Polska

Rating	accumulate	buy	accumulate	accumulate	buy	hold
Rating date	2018-12-05	2018-11-05	2018-10-04	2018-09-03	2018-03-05	2018-02-01
Target price (PLN)	400.00	400.00	400.00	430.00	430.00	430.00
Price on rating day	364.80	353.80	367.00	376.00	357.80	420.00

Skarbiec Holding

Rating	buy	buy	buy	buy
Rating date	2018-12-05	2018-11-05	2018-08-31	2018-02-02
Target price (PLN)	31.36	31.02	36.86	56.30
Price on rating day	23.50	21.70	25.30	30.60

Stelmet

Rating	hold	buy	buy	buy	buy	buy
Rating date	2018-11-05	2018-09-03	2018-07-04	2018-05-09	2018-03-05	2018-02-02
Target price (PLN)	7.72	20.45	20.24	26.48	27.72	28.37
Price on rating day	7.50	11.35	10.70	14.75	17.15	19.20

Tarczyński

Rating	underweight	neutral	neutral
Rating date	2018-12-05	2018-05-30	2018-01-29
Target price (PLN)	-	-	-
Price on rating day	17.50	14.50	13.05

Tauron

Rating	buy	buy	buy	hold	hold	hold
Rating date	2018-11-29	2018-09-03	2018-05-29	2018-04-06	2018-03-05	2018-02-02
Target price (PLN)	3.06	2.77	2.76	2.73	2.98	3.38
Price on rating day	2.21	2.00	2.01	2.38	2.69	3.08

TIM

Rating	overweight
Rating date	2018-12-05
Target price (PLN)	-
Price on rating day	7.48

Torpol

Rating	suspended	neutral	neutral	neutral	neutral	neutral
Rating date	2018-12-05	2018-09-27	2018-05-28	2018-03-29	2018-02-02	2018-01-25
Target price (PLN)	-	-	-	-	-	-
Price on rating day	4.60	5.18	6.40	7.50	7.98	8.16

Trakcja

Rating	suspended	underweight	underweight	neutral	neutral	neutral
Rating date	2018-12-05	2018-09-27	2018-05-18	2018-03-29	2018-02-02	2018-01-25
Target price (PLN)	-	-	-	-	-	-
Price on rating day	3.75	3.47	3.65	6.75	7.24	7.56

TXM

Rating	suspended	buy	buy	buy
Rating date	2018-10-16	2018-07-04	2018-05-09	2018-02-02
Target price (PLN)	-	3.48	5.44	5.41
Price on rating day	0.59	1.28	2.10	2.36

Ulma

Rating	suspended	neutral	neutral
Rating date	2018-12-05	2018-05-28	2018-03-29
Target price (PLN)	-	-	-
Price on rating day	72.00	73.00	66.50

Unibep

Rating	suspended	buy	buy	accumulate
Rating date	2018-12-05	2018-04-06	2018-02-02	2018-01-05
Target price (PLN)	-	10.10	10.80	10.80
Price on rating day	4.81	7.50	8.60	9.76

VRG

Rating	overweight	overweight	overweight	neutral	overweight	neutral
Rating date	2018-12-05	2018-11-08	2018-05-23	2018-02-02	2018-01-19	2017-12-13
Target price (PLN)	-	-	-	-	-	-
Price on rating day	3.83	4.06	4.79	5.16	4.34	4.36

Wasko

Rating	suspended	neutral	overweight	overweight
Rating date	2018-12-05	2018-05-30	2018-03-28	2018-01-30
Target price (PLN)	-	-	-	-
Price on rating day	1.27	1.68	2.25	2.24

Wirtualna Polska

Rating	buy	accumulate	buy	accumulate	accumulate	accumulate	accumulate
Rating date	2018-12-05	2018-09-03	2018-08-02	2018-04-24	2018-04-06	2018-02-02	2018-01-05
Target price (PLN)	61.50	60.00	60.00	60.00	56.40	56.10	53.00
Price on rating day	52.20	57.00	49.00	54.00	52.20	51.80	48.20

ZUE

Rating	suspended	neutral	neutral	neutral	neutral	neutral
Rating date	2018-12-05	2018-09-27	2018-05-28	2018-03-29	2018-02-02	2018-01-25
Target price (PLN)	-	-	-	-	-	-
Price on rating day	4.64	5.56	5.86	6.12	6.18	6.44

Dom Maklerski mBanku
Senatorska 18
00-082 Warszawa
http://www.mbank.pl/

Research Department

Kamil Kliszcz
director
+48 22 438 24 02
kamil.kliszcz@mbank.pl
energy, power generation

Michał Marczak
+48 22 438 24 01
michal.marczak@mbank.pl
strategy

Michał Konarski
+48 22 438 24 05
michal.konarski@mbank.pl
banks, financials

Jakub Szkopek
+48 22 438 24 03
jakub.szkopek@mbank.pl
industrials, chemicals, metals

Paweł Szpigiel
+48 22 438 24 06
pawel.szpigiel@mbank.pl
media, IT, telco

Piotr Bogusz
+48 22 438 24 08
piotr.bogusz@mbank.pl
retail

Aleksandra Szklarczyk
+48 22 438 24 04
aleksandra.szklarczyk@mbank.pl
construction, real-estate development

Piotr Poniatowski
+48 22 438 24 09
piotr.poniatowski@mbank.pl
industrials

Mikołaj Lemańczyk
+48 22 438 24 07
mikolaj.lemanczyk@mbank.pl
financials

Sales and Trading

Traders

Piotr Gawron
director
+48 22 697 48 95
piotr.gawron@mbank.pl

Krzysztof Bodek
+48 22 697 48 89
krzysztof.bodek@mbank.pl

Tomasz Jakubiec
+48 22 697 47 31
tomasz.jakubiec@mbank.pl

Jędrzej Łukomski
+48 22 697 49 85
jedrzej.lukomski@mbank.pl

Adam Prokop
+48 22 697 47 90
adam.prokop@mbank.pl

Szymon Kubka, CFA, PRM
+48 22 697 48 54
szymon.kubka@mbank.pl

Andrzej Sychowski
+48 22 697 48 46
andrzej.sychowski@mbank.pl

Tomasz Galanciak
+48 22 697 49 68
tomasz.galanciak@mbank.pl

Magdalena Bernacik
+48 22 697 47 35
magdalena.bernacik@mbank.pl

Sales, Foreign Markets

Marzena Łempicka-Wilim
deputy director
+48 22 697 48 82
marzena.lempicka@mbank.pl

Bartosz Orzechowski
+48 22 697 48 47
bartosz.orzechowski@mbank.pl

Private Client Sales

Kamil Szymański
director
+48 22 697 47 06
kamil.szymanski@mbank.pl

Jarosław Banasiak
deputy director
+48 22 697 48 70
jaroslaw.banasiak@mbank.pl