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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 overweight 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

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

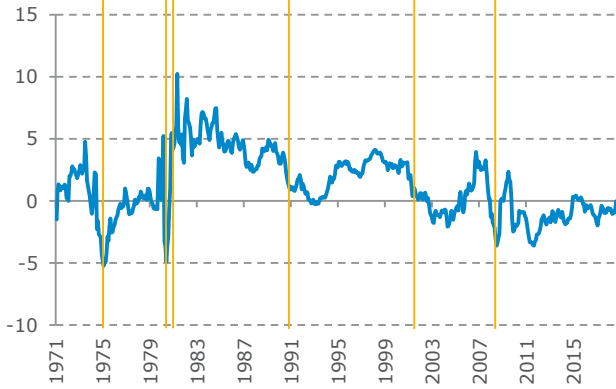
Source: Bloomberg



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



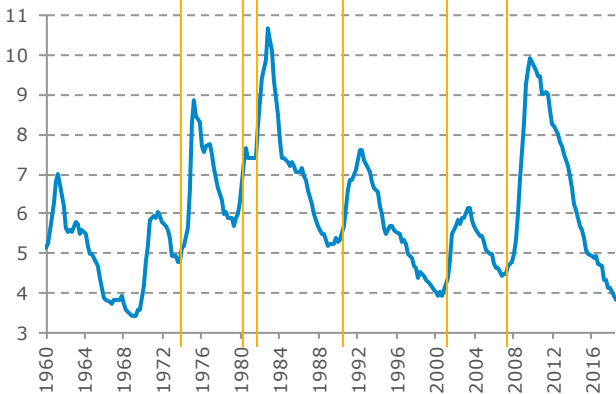
Source: Bloomberg, Dom Maklerski mBanku

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



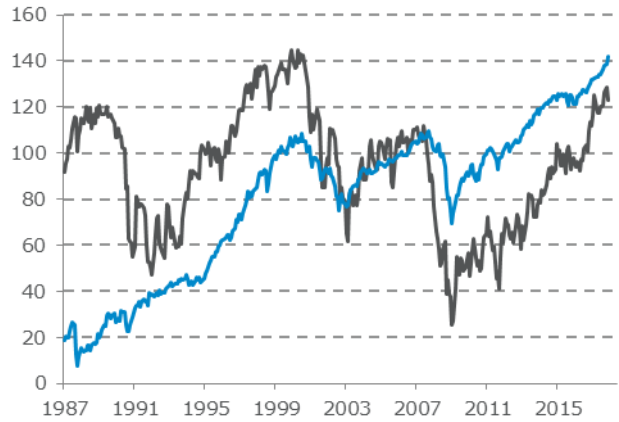
Source: Bloomberg, Dom Maklerski mBanku

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.

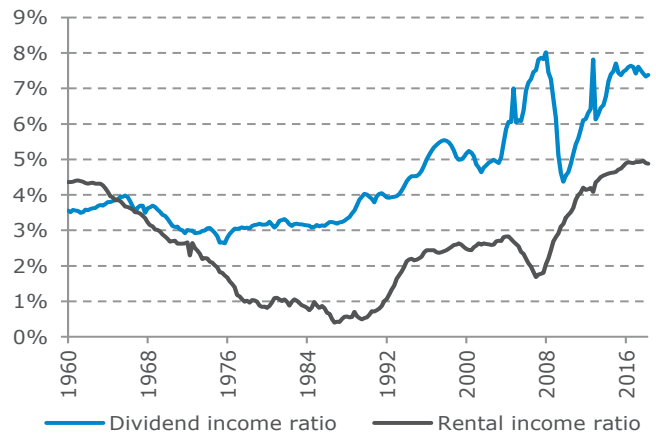
Conference Board Consumer Confidence Index vs. S&P500



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

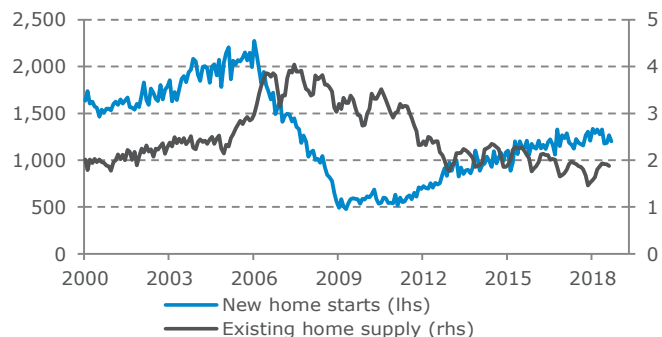
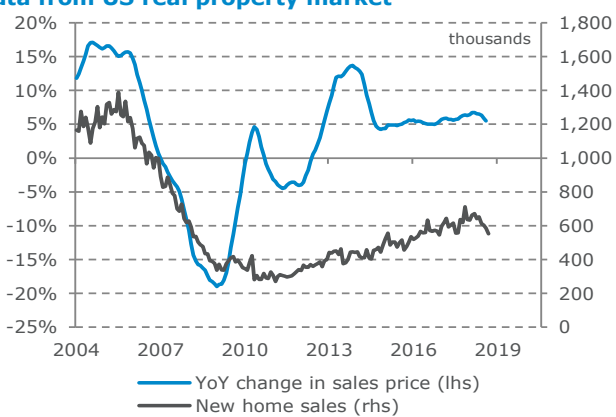


Source: Bureau of Economic Analysis

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

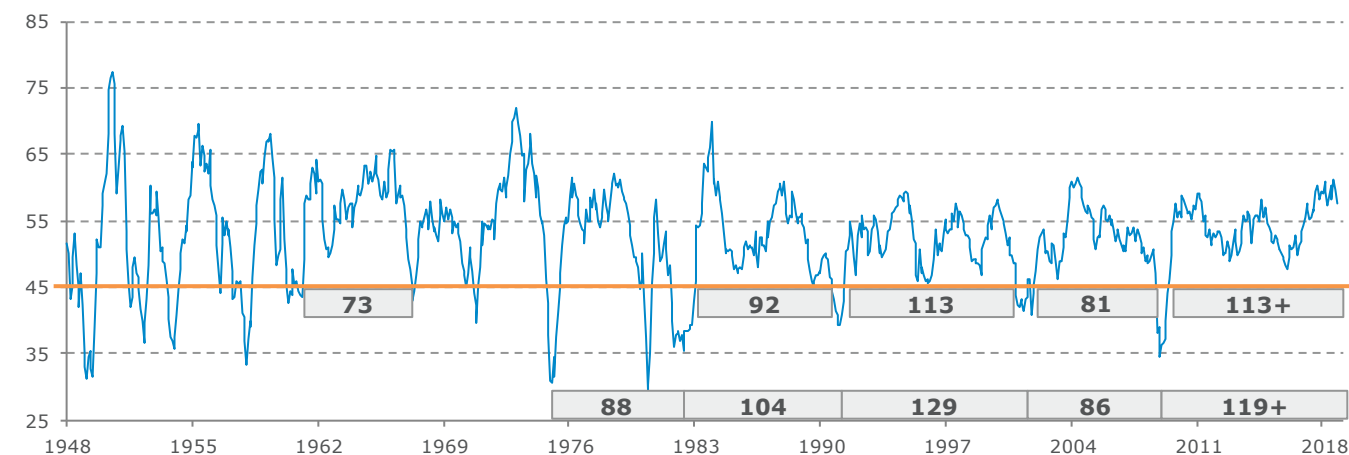
Furthermore, the economic standing of households has improved. Their debts relative to GDP have dropped from 98% at the end of the real property bull market to the current 74%.

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 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.

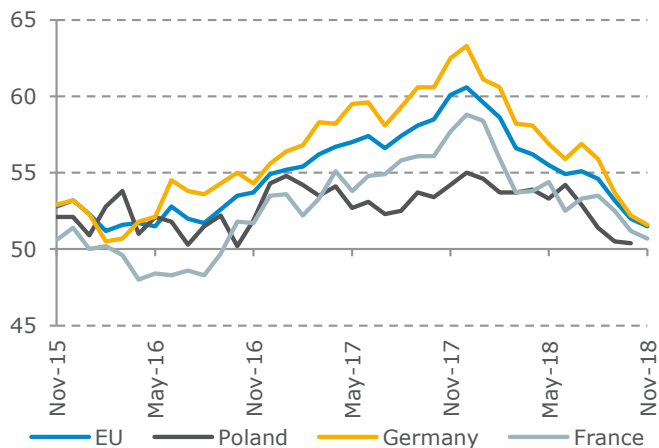
Besides lowering taxes and deregulating the financial sector, one of the main economic postulates of Donald Trump was the infrastructure reconstruction program (USD 1 trillion), somewhat forgotten by the financial markets in the light of the trade war. It can be a significant element in the forecasting 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

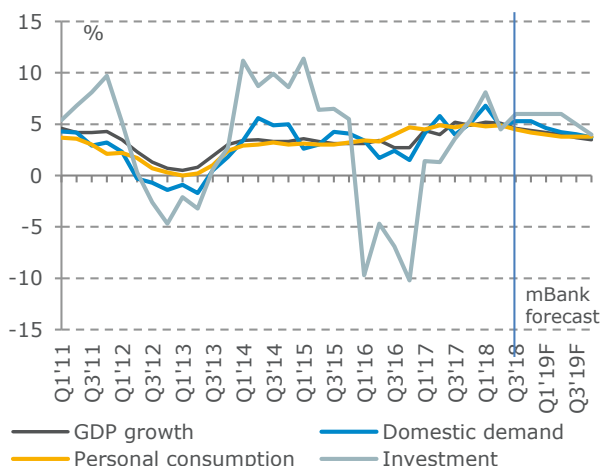


Source: Bloomberg, Dom Maklerski mBanku

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).

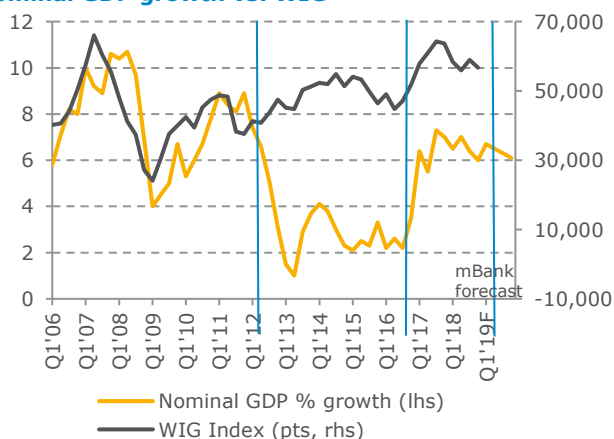
Components of real GDP growth in Poland



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

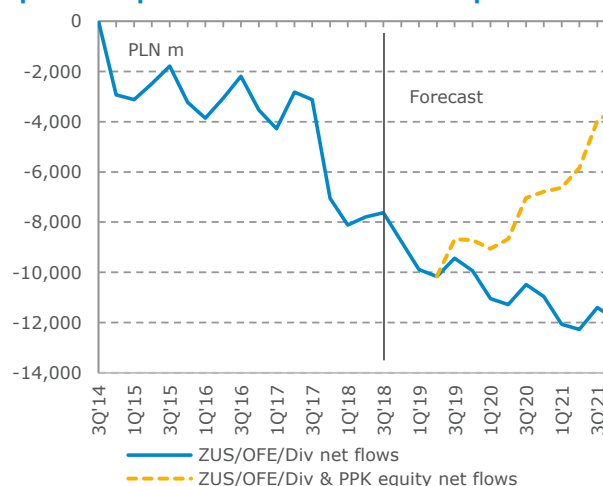
Both the stock exchange and investors like peace and predictability, but since 2014 managers of funds dedicated to EM and monitoring Polish market have learnt that: i) Poles' savings collected in private pension funds may be transferred to ZUS (Social Insurance Institution), ii) another government propagates 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

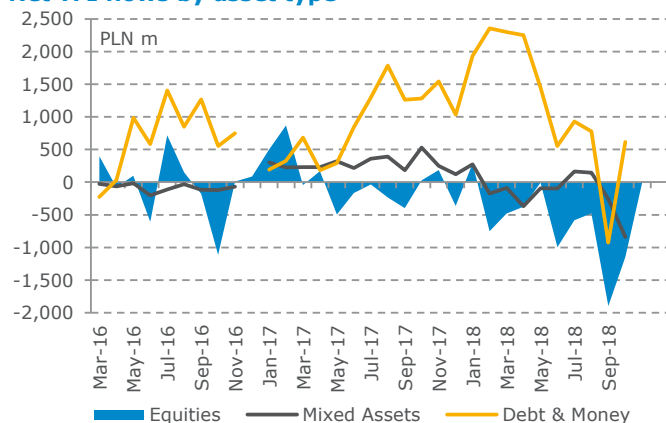


Source: Dom Maklerski mBanku

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).

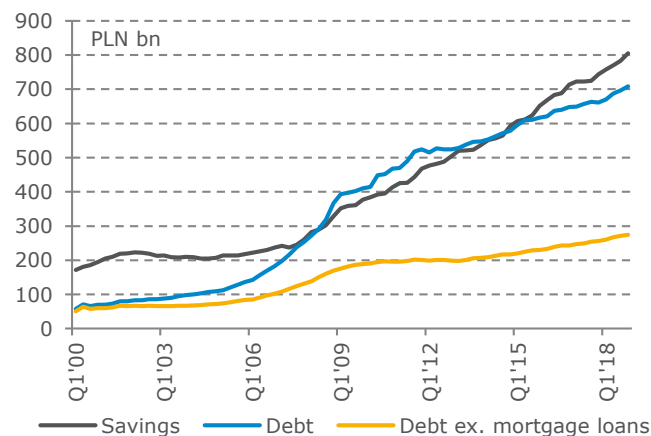
Net TFI flows by asset type



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.

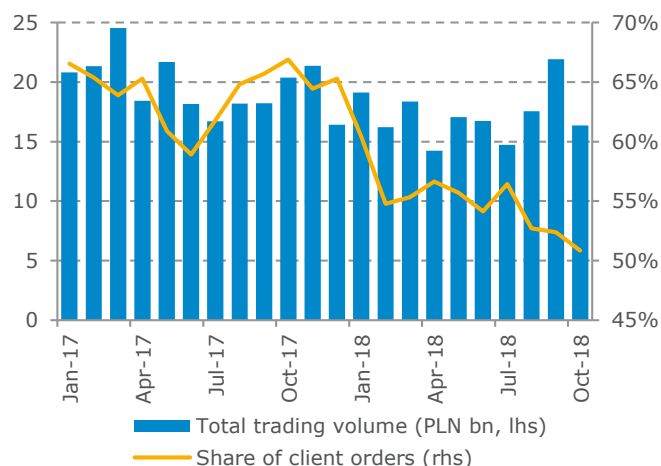
Distribution of Warsaw Stock Exchange trading volumes

	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.

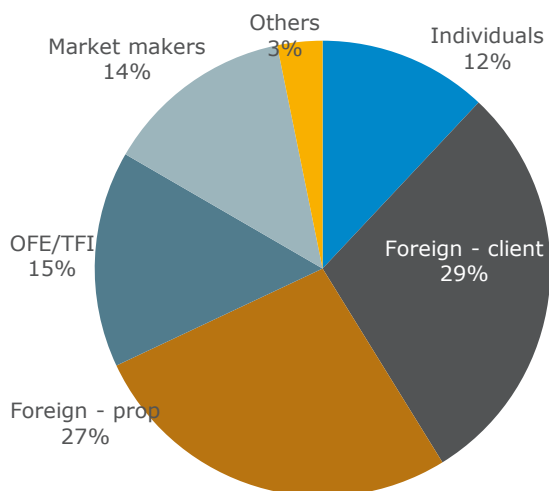
Client trades as a pct. of WSE trading volumes



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).

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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 or 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 Komerční 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 Pfeleiderer, 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%), Pfeleiderer (-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% 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, Robyng, 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 many 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 it 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 Ifl, 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



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
Kemel	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
Aparator	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%

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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A recommendation is valid for a period of 6-9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:

BUY – we expect that the rate of return from an investment will be at least 15%
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%
 Recommendations are updated at least once every nine months.

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In the last 12 months mBank S.A. has been book runner or co-book runners for Cognor Holding, PBKM.

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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, Stroer 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 Shenhui, Yanzhou Coal Mining, Banpu Public, LW Bogdanka, Shaanxi Heima, 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 Oil 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	Affiliated 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	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	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	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



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

Wirtuaina 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

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