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Quarterly Earnings Forecast: Q4 2018

Equity Market

Financials

CEE banks are set to deliver record-high numbers for Q4 2018, in some cases bolstered by one-time gains. We expect to see rising interest margins and fast-growing retail loan books across the board. In a close race, we see Pekao and PKO BP in Poland and Komerční Banka in Czechia emerging as the clear front-runners. Among other financial institutions, PZU insurance and Kruk debt collection will deliver Q4 results in line with expectations.

Chemicals

Chemical producers will probably report shrinking profits for Q4 compared to a high year-ago base, underpinned by increased costs of energy. Of rated firms, Azoty has potential to improve earnings in the first half of the year, but this prospect is already fully priced in. However there is still upside in Ciech, which should continue to outperform.

Oil & Gas

The fourth-quarter upstream profits of oil firms will be weighed down by lower crude prices, mitigated by elevated prices of natural gas. When it comes to the results for the full FY2018, we might see positive surprises from Lotos (reporting record-high margins on diesel and all-time high geographic premiums) and MOL (enjoying strong performance in Downstream).

Power Utilities

Most rated utilities will fulfill our earnings expectations for the full FY2018 after the Q4 reporting season, however Enea might fall short due to lower availability of the Koźlenice power plant and missed production targets by the subsidiary coal miner LWB. At CEZ, Q4 2018 should bring a continuation of the upward momentum started in Q3.

Telecoms, Media, IT

The two rated media firms, Agora and Wirtualna, are expected to deliver growth in recurring Q4 EBITDA at respective annual rates of 11% and 14%, driven by strong cinema ticket sales in case of the former and greatly improved revenues from online advertising and e-commerce in case of the latter. In Telecoms, only Orange Polska will be able to deliver EBITDA growth at an estimated annual rate of 5%. In IT, we anticipate 50% bottom-line expansion at Asseco Poland.

Industrials & Mining

The 2018 Q4 earnings season is expected to be the last one of improving profits for manufacturers. Out of 23 tracked companies, we expect 60% to report improvement with only 20% posting a slowdown vis-a-vis Q4 2017. When it comes to the outlook for 2019, we anticipate a cooling of expectations by the industry which struggles with high costs of electricity and labor, underpinned by weak PMI prints in Germany. The companies most likely to offer positive earnings surprises in Q4 include ACG, AMC, KER, and TIM. On the other hand, JSW and TAR will probably disappoint.

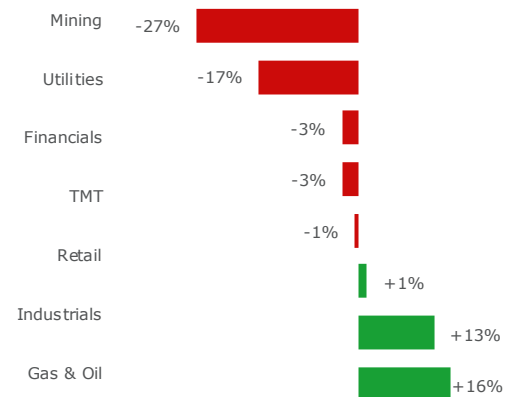
Property Developers

Completions by listed residential developers were down 10% in Q4 2018 relative to the prior-year period, however completions for the full 2018 rebounded 15% after a record number of new dwellings built during the year. Dom Development stood out from the competition with record fourth-quarter completions, up 9% y/y, promising a record net profit. Atal handed over 39% fewer homes in Q4 2018 than in the same period in 2017, but full-year closings were up 17% on the year.

Retail

We expect AmRest to report faster earnings growth in Q4. On the other hand CCC will post weak results after low sales and possible one-time charges, and EUR will trail as well because of weak performance of its Retail business. At Dino, another quarter of slow lfl growth might affect sentiment post earnings. There is likely to be improvement at MON and VRG.

YoY earnings growth by sector: Q4'18E*



*Net earnings for banks, otherwise EBITDA

Earnings Surprise Prediction	
negative	positive
Atende	AC SA
CCC	Agora
Enea	Amica
Eurocash	AmRest
JSW	Asseco Poland
KGHM	Famur
Millenium	Kernel
Tarczyński	Lotos
Tauron	Orange Polska
	Pekao
	PGNiG
	TIM
	Wirtualna Polska

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List of abbreviations and ratios contained in the report.

EV – net debt + market value (EV – economic value)
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
PBA – Profit on Banking Activity
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
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