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Quarterly Earnings Forecast: Q1 2019

Equity Market

Financials

The results of Q1 2019 in the financial sector will be affected by restructuring fund contributions, which will double in Poland and increase by PLN 1 billion y/y. In particular, the increase of The Bank Guarantee Fund costs will be visible in Pekao and Bank Handlowy, which may result in a negative correction of the consensus. On the other hand, we expect positive results in PKO BP, Millennium, OTP and Erste Group, where both consensus and our forecasts are likely to increase.

Chemicals

We expect good Q1 2019 results in Azoty Group (the effect of a drop in natgas prices). Stable y/y results should be delivered by Ciech, which is rather negative when we expect earnings to increase in 2019.

Oil & Gas

The macro environment was unequivocal in the oil & gas sector, on the one hand the strong dollar helped in the refinery and E&P, but the model margins and hydrocarbons prices were less supportive. We expect a decline of y/y results of PGN due to the high Q1 2018 base, but in this case the results in the trading segment will be crucial.

Power Utilities

The execution of our forecasts after Q1 is at 28% and does not differ from seasonal patterns. In the subsequent periods, we expect higher dynamics after quite weak beginning of the year (+1%) due to less demanding base (in Q2-Q4 2018 high losses on portfolio optimization, worse results on trading).

Telecoms, Media, IT

After a decline in earnings in Q3 and Q4 2018, PLY will return to higher earnings (adj. EBITDA +6% y/y), we expect an improvement in sentiment towards the company. In media sector, high increases will be reported by WPL. In IT, we expect good results to be delivered by CMR and ASE (both > 25% growth on the EBITDA line without the impact of consolidation of acquisitions and IFRS16).

Industrials & Mining

Q1 2019 is going to be the worst quarter in terms of improving results since Q2 2007. In our view, only 32% of companies will improve their y/y profits. We would expect positive surprises in EGS, FMF and TIM, negative in AML, COG, IPX and PFL. We expect a good quarter in KGHM and a weak one in JSW. Both companies will record an increase in mining costs.

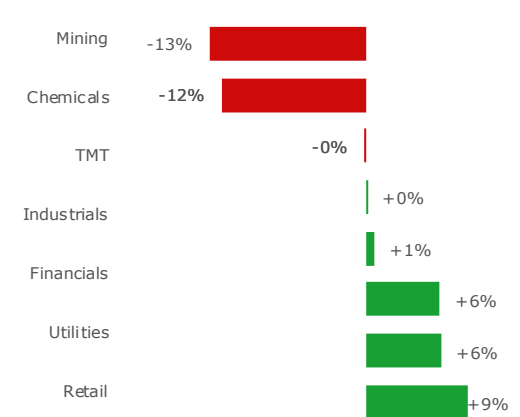
Property Developers

In total, the number of apartments settled in the result among 14 residential developers of the WSE and Catalyst was higher by 29% y/y in Q1 2019, but only 6 of them reported an increase in handovers (e.g. Dom, LC Corp). We expect a very good performance of Dom Development (increase of net profit by 380% y/y, which does not change the outlook on our annual forecasts, with performance after Q1=38%). Atal handed over 27% fewer homes than in the same period of 2018 which will result in a relatively weaker momentum of results in Q1.

Retail

The first quarter has the least significance in building the result of consumer companies. The calendar effect (lack of Easter in Q1 2019) and the extension of the Sunday trading ban should have a negative impact on the results of DNP, EUR and JMT. Good sales results in March should support the profits of CCC and MON. The results of VRG should deteriorate y/y due to the low sales effectiveness of the clothing segment and consolidation of BTM results.

YoY earnings growth by sector: Q1'19E*



*Net earnings for banks, otherwise EBITDA

Earnings Surprise Prediction	
negative	positive
Alumetal	AmRest
Bank Handlowy	Asseco SEE
Cognor	CEZ
Eurocash	Comarch
Impexmetal	Enea
Pekao	Ergis
Pfleiderer Group	Erste Bank
	Famur
	Grupa Azoty
	Millennium
	OTP
	PKO BP
	Play
	TIM

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List of abbreviations and ratios contained in the report.

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

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

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Economic profits – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

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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.

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