

Wednesday, May 15, 2019 | special comment

Ergis – 2019 Q1 Results

Rating: overweight | current price: PLN 2.95

EGS PW; EGSP.WA | Industry, Poland

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The Ergis Group's Q1 2019 results adjusted for one-off events are similar y/y & close to the consensus. Unfortunately, despite the clear drop in prices of petrochemical products, the Company did not deliver a significant improvement in profitability, which resulted from the persistently high prices of recycled PET flakes and problems with the start-up of new lines in Berlin. The results do not impress comparing peers' figures - a significant improvement in margin was recorded in the packaging segment of Kęty Group in Q1 2019.

In Q1 2019, revenues from sales amounted to PLN 202m and were about 3-4% higher vs. the forecasts & vs. market expectations (consensus).

Despite the downward trend in petrochemicals at the turn of the year, the Group did not manage to improve its gross profit margin in Q1. This is partly due to the high prices of

PET flakes as well as troubles with achieving the full production capacity of the new production line of PET film sheets & laminates in Berlin.

Q1 2019 EBITDA amounted to PLN 12.9m, but it was encumbered with write-offs at the level of other operating activities. Adjusted EBITDA was closer to PLN 14m and was 4% above the consensus & 14% below our forecasts. Our expectations were practically the highest in the consensus.

The adjusted for one-off events net profit amounted to approximately PLN 5m, which is slightly better than the consensus & similar y/y.

The cash flow from operating activities amounted to PLN 3.8m in Q1 and was close y/y. Net debt increased over the quarter by PLN 14m to PLN 162m (3.6xEBITDA'12m).

2019 Q1 actuals vs. expectations

(PLN m)	Q1'19	Q1'18	change	Q1'19E	differ.	consensus	differ.	2019E	2018	change	YTD
Revenue	201.9	191.2	5.6%	195.0	3.5%	196.0	3.0%	809.4	776.3	4.3%	24.9%
EBITDA	12.9	13.5	-4.3%	16.4	-21.1%	13.6	-4.9%	54.4	46.0	18.2%	23.8%
EBITDA margin	6.4%	7.1%	-	8.4%	-	6.9%	-	6.7%	3.1%		
EBIT	6.7	7.6	-11.5%	10.3	-34.6%	7.6	-11.6%	29.6	22.0	34.8%	22.7%
Net profit	3.9	5.2	-25.6%	6.5	-40.4%	4.6	-15.9%	17.0	11.6	45.8%	22.8%

Source: Grupa Ergis, E - estimates by Dom Maklerski mBanku

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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