

Wednesday, May 29, 2019 | periodic publication

Industrials Update for May 2019

Industrials, Poland

Analyst: Jakub Szkopek +48 22 438 24 03

Industrials (sector positioning: neutral)

- Industrial stocks as tracked by MSCI Europe and World were under pressure in May and now they are listed with a slight discount to their average P/E and EV/EBITDA ratios for the last three years.
- Polish industrial companies delivered **slightly better than expected** figures in Q1 2019, **but still poor in relation to previous quarters**. In Q1 2019, so far 53% of companies improved y/y results (expected 32-33%), but it is still the worst number since Q3 2017. Comparing the results with expectations – 40% beat our forecasts & 33% reported worse results than expected. Positive Q1 surprises were: **Forte, Kruszwica, Mangata & Pozbud**, while negative: **Alumetal, Cognor & Pfeleiderer**.
- After the recent sharp discount of the companies after Q1 2019 results publication, **we close our underweight rating of the industrial sector** (currently neutral). **We close underweight rating for Tarczyński Group** (Q4 2018 & Q1 2019 results above expectations, Tarczyński may be the main beneficiary of problems currently faced by ZM Kania; we increase our EBITDA'19 forecast from PLN 59m to PLN 69m), **we close the overweight rating for Ergis** (Q1 2019 results below expectations, no improvement in results despite falling prices of petrochemicals; we are downgrading our EBITDA'19 forecast from PLN 54m to PLN 51m) and **lowering** our positioning to **underweight for Alumetal** (after the dividend in VI'19, investors will face a decline in earnings in Q2&Q3 2019, possibly due to weaker margins, the company will be forced to cut production; we are downgrading our EBITDA estimate from PLN 117m to PLN 103m). **We are updating our forecasts for Pfeleiderer** (decrease of expected EBITDA'19 of EUR 130m to EUR 112m) and **Mangata** (increase of expected EBITDA'19 from PLN 93m to PLN 99m).
- In the ending results season, **Famur** is still expected to report **good Q1 results** (next quarter of improved results which will probably be better than consensus; report on May 30th).
- In our opinion, it is worth paying attention to the **discount leaders in May**, whose valuation currently looks much more attractive – Cognor, Mercator, Pozbud, Stalprodukt.
- KEY RATINGS**
OVERWEIGHT: FMF, KER, POZ, TIM; **UNDERWEIGHT:** AML, IPX

Chemicals (sector positioning: overweight)

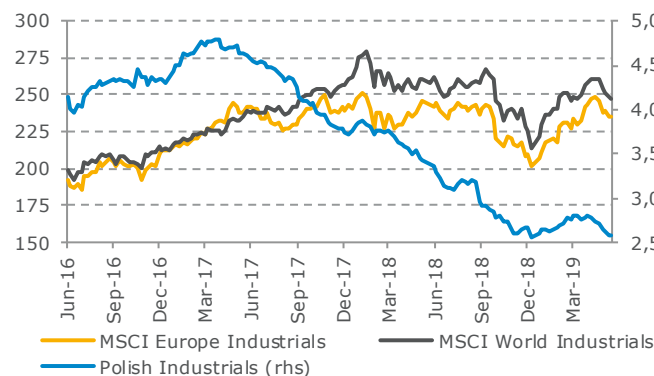
- Industrial stocks of **MSCI Chemicals** decreased in May in fear of the escalation of the trade war. **Polish chemical companies** performed slightly better, **benefiting from declining prices of raw materials** (gas, oil) & possessing **products less exposed to business cycles** (soda, fertilizers).
- In our view, the **Polish chemical sector** is still likely to continue to perform **better vs. the market** due to the expected **increase in results in the subsequent quarters**.
- At present, both **Ciech** (soda prices increases, drop in gas prices, improvement in results in subsequent quarters, consolidation of Proplan, and baking soda results in Germany) and **Azoty Group** (good outlook for Q2 2019, annual consensus is to move to PLN 1.4-1.5bn EBITDA from current PLN 1.3bn, further declines in gas prices with rebounding fertilizer prices in Europe, diversification of participation in the PDH project).

MoM* and YTD Price Change

| Industrials | MoM | YTD |
|-------------|--------|------|
| Forte | +12.3% | +38% |
| AC | +11.8% | +32% |
| TIM | +10.5% | +47% |
| Primetech | +7.7% | -18% |
| Odlewnie | +5.6% | +17% |
| Ceramika NG | +4.6% | -1% |
| Feerum | +4.2% | -5% |
| Hydrotor | +3.9% | +5% |
| Impexmet. | +3.6% | +37% |
| Mangata | +3.0% | +20% |
| Relpol | +2.6% | +1% |
| Famur | +2.6% | -8% |
| Vistal | -12.1% | +73% |
| Mercor | -14.0% | -21% |
| TOYA | -14.1% | -22% |
| Boryszew | -16.0% | -17% |
| Fasing | -17.2% | +4% |
| Pfeleiderer | -18.4% | -37% |
| Groclin | -18.7% | -30% |
| Cognor | -19.3% | -6% |
| Pozbud | -22.9% | -13% |
| Bumech | -23.4% | +43% |
| Patentus | -24.4% | +59% |
| Stalprodukt | -34.2% | -29% |
| Chemicals | MoM | YTD |
| Krakchemia | +15.4% | +23% |
| ZA Puławy | +0.0% | +51% |
| Police | -0.7% | +9% |
| Ciech | -2.6% | +4% |
| Azoty | -3.5% | +31% |
| Polwax | -5.7% | -8% |
| PCC Rokita | -6.3% | +7% |
| Mercator | -10.7% | -42% |
| WIGCHEM | -3.2% | +17% |
| WIG | -6.5% | -1% |

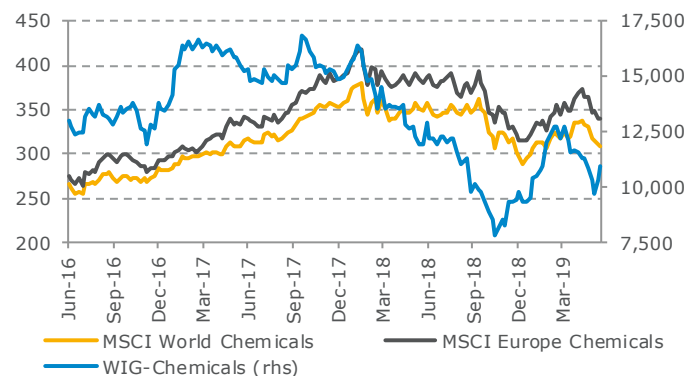
*Apr. 29 - May 28

Polish Industrials vs. MSCI Index



Source: Bloomberg, Dom Maklerski mBanku

WIG-Chemicals vs. MSCI Index



EV – net debt + market value (EV – economic value)

EBIT – Earnings Before Interest and Taxes

EBITDA – EBIT + Depreciation and Amortisation

EBIT/EV – operating profit to economic value

EBITDA/EV – EBIT + Depreciation and Amortisation to economic value

P/E – (Price/Earnings) – price divided by annual net profit per share

P/BV – (Price/Book Value) – price divided by book value per share

Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents

MCap – current market capitalization

Monthly price change (MoM price change) – change in the price of a stock since the date of the previous publication or in the course of the past month

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

Recommendations of Dom Maklerski mBanku :

A recommendation is valid for a period of 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.

mBank S.A. with its registered office in Warsaw at Senatorska 18 renders brokerage services in the form of derived organisational unit—Brokerage Office which uses name Dom Maklerski mBanku.

The present report expresses the knowledge as well as opinions of the authors on day the report was prepared. The opinions and estimates contained herein constitute our best judgment at this date and time, and are subject to change without notice. The present report was prepared with due care and attention, observing principles of methodological correctness and objectivity, on the basis of sources available to the public, which Dom Maklerski mBanku considers reliable, including information published by issuers, shares of which are subject to recommendations. However, Dom Maklerski mBanku, in no case, guarantees the accuracy and completeness of the report, in particular should sources on the basis of which the report was prepared prove to be inaccurate, incomplete or not fully consistent with the facts.

This document does not constitute an offer or invitation to subscribe for or purchase any financial instruments and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document nor any copy hereof is not to be distributed directly or indirectly in the United States, Australia, Canada or Japan.

Recommendations are based on essential data from the entire history of a company being the subject of a recommendation, with particular emphasis on the period since the previous recommendation.

mBank S.A. bears no responsibility for investment decisions taken on the basis of the present report or for any damages incurred as a result of investment decisions taken on the basis of the present report.

Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible.

It is possible that mBank S.A. in its brokerage activity renders, will render or in the past has rendered services for companies and other entities mentioned in the present report.

mBank S.A. does not rule out offering brokerage services to an issuer of securities being the subject of a recommendation. Information about any conflicts of interest that may arise in connection with the issuance of recommendations (should such a conflict exist) is provided below, and it is valid as of the date of the most recent Monthly Report published by Dom Maklerski mBanku or as of the date of the most recent recommendation issued for an Issuer, as applicable.

This present material was not transferred to the issuers prior to its publication.

The production of new recommendations was completed on May 29, 2019, 8:38 AM.

New recommendations were first disseminated on May 29, 2019, 8:38 AM.

mBank S.A. may have received compensation from the following companies in the last 12 months: Alchemia, Alior Bank, Ambra, Amica, Bank Handlowy, Bank Millennium, Bank Pekao, BEST, BGŻ BNP Paribas, Boryszew, Santander Bank Polska, Capital Park, CD Projekt, Echo Investment, Elemental Holding, Elzab, Enea, Energoaparatura, Erbud, Ergis, Erste Bank, Famur, Ferrum, Getin Holding, Getin Noble Bank, Groclin, i2 Development, Impexmetal, INDATA, ING BSK, Kopex, Kruk, LW Bogdanka, Mennica Polska, Mostostal Warszawa, Netia, Neuca, Opono.pl, Orbis, OTP Bank, PA Nova, PGE, PGNiG, PKN Orlen, PKO BP, Polimex-Mostostal, Polnord, Prochem, Projrzem, PZU, Raiffeisen Bank International, Rawlplug, Rubicon Partners NFI, Seco/Warwick, Skarbiec Holding, Solar Company, Stelmet, Sygnity, Tarczyński, TIM, Trakcja, Unibep, Uniwheels, Vistal Gdynia, Work Service, YOLO, Zastal, ZUE, PEKABEX.

In the last 12 months mBank S.A. has acted as dealer-manager for tender or exchange offers for the shares of: Orbis, Polenergia, Prime Car Management.

Asseco Poland provides IT services to mBank S.A.

mBank S.A. has a cash service agreement in place with Pekao and a phone subscription agreement in place with Orange Polska S.A.

mBank S.A., its shareholders and employees may hold long or short positions in the issuers' shares or other financial instruments related to the issuers' shares. mBank, its affiliates and/or clients may conduct or may have conducted transactions for their own account or for account of another with respect to the financial instruments mentioned in this report or related investments before the recipient has received this report.

This document is an extract from a recommendation produced by Dom Maklerski mBanku.

Copying or publishing the present report, in full or in part, or disseminating in any way information contained in the present report requires the prior written agreement of mBank S.A. Recommendations are addressed to all Clients of Dom Maklerski mBanku.

Recommendations are addressed to all Clients of Dom Maklerski mBanku.

All investment recommendations and strategies issued by mBank S.A. over the last 12 months are available at:

http://www.mdm.pl/ui-pub/site/market_and_analysis/analysis_and_recommendations/fundamental_analysis/recommendations?recent_filter_active=true&lang=en

The activity of mBank S.A. is subject to the supervision of the Polish Financial Supervision Commission.

Individuals who did not participate in the preparation of recommendations, but had or could have had access to recommendations prior to their publication, are employees of Dom Maklerski mBanku authorised to access the premises in which recommendations are prepared and/or individuals having to access to recommendations based on their corporate roles, other than the analysts mentioned as the authors of the present recommendations.

This publication constitutes investment research within the meaning of Art. 36.1 of Commission Delegated Regulation (EU) 2017/565.

The compensation of the research analysts responsible for preparing investment research is determined independently of and without regard to the compensation of or revenue generated by any other employee of the Bank, including but not limited to any employee whose business interests may reasonably be considered to conflict with the interests of the persons to whom the investment research prepared by the Research Department of Dom Maklerski mBanku is disseminated. With that being said, since one of the factors taken into consideration when determining the compensation of research analysts is the degree of fulfillment of annual financial targets by customer service functions, there is a risk that the adequacy of compensation offered to persons preparing investment research will be questioned by a competent oversight body.

For U.S. persons only: This research report is a product of mBank SA which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by mBank SA only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, mBank SA has entered into an agreement with a U.S. registered broker-dealer, Cabrera Capital Markets. ("Cabrera"). Transactions in securities discussed in this research report should be effected through Cabrera or another U.S. registered broker dealer.

Strong and weak points of valuation methods used in recommendations:

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.

Relative – 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.

mBank issued the following investment recommendations for the companies in the 12 months prior to this publication

AC

| Rating | neutral | overweight |
|---------------------|------------|------------|
| Rating date | 2019-03-22 | 2018-11-30 |
| Target price (PLN) | - | - |
| Price on rating day | 48.50 | 41.50 |

Alumetal

| Rating | underweight | neutral | neutral | neutral |
|---------------------|-------------|------------|------------|------------|
| Rating date | 2019-05-29 | 2019-04-15 | 2019-03-28 | 2018-08-23 |
| Target price (PLN) | - | - | - | - |
| Price on rating day | 51.00 | 51.00 | 51.00 | 51.00 |

Amica

| Rating | neutral | overweight | overweight | overweight |
|---------------------|------------|------------|------------|------------|
| Rating date | 2019-04-29 | 2019-04-02 | 2018-09-13 | 2018-06-06 |
| Target price (PLN) | - | - | - | - |
| Price on rating day | 130.00 | 143.00 | 112.80 | 121.00 |

Aparator

| Rating | neutral | overweight | overweight | neutral | underweight |
|---------------------|------------|------------|------------|------------|-------------|
| Rating date | 2019-04-29 | 2019-03-05 | 2019-02-27 | 2019-01-30 | 2018-12-05 |
| Target price (PLN) | - | - | - | - | - |
| Price on rating day | 25.80 | 26.50 | 25.80 | 25.40 | 24.20 |

Boryszew

| Rating | neutral | neutral |
|---------------------|------------|------------|
| Rating date | 2019-04-29 | 2018-09-05 |
| Target price (PLN) | - | - |
| Price on rating day | 4.65 | 6.25 |

Ciech

| Rating | buy | buy | buy | buy | buy | buy | buy | buy |
|---------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Rating date | 2019-05-09 | 2019-04-02 | 2019-02-04 | 2018-11-05 | 2018-08-02 | 2018-07-04 | 2018-06-06 | 2018-05-09 |
| Target price (PLN) | 68.11 | 68.66 | 75.82 | 77.05 | 82.52 | 81.14 | 88.64 | 89.71 |
| Price on rating day | 44.85 | 54.80 | 52.40 | 42.58 | 56.95 | 53.05 | 60.20 | 55.00 |

Cognor

| Rating | neutral | underweight | neutral |
|---------------------|------------|-------------|------------|
| Rating date | 2019-05-09 | 2019-03-05 | 2018-12-05 |
| Target price (PLN) | - | - | - |
| Price on rating day | 1.59 | 1.94 | 1.80 |

Ergis

| Rating | neutral | overweight | overweight | underweight |
|---------------------|------------|------------|------------|-------------|
| Rating date | 2019-05-29 | 2019-04-29 | 2019-02-27 | 2018-12-05 |
| Target price (PLN) | - | - | - | - |
| Price on rating day | 3.00 | 3.00 | 2.75 | 2.80 |

Famur

| Rating | buy | buy | buy | buy | buy |
|---------------------|------------|------------|------------|------------|------------|
| Rating date | 2019-05-09 | 2019-02-04 | 2018-11-30 | 2018-08-02 | 2018-05-09 |
| Target price (PLN) | 6.90 | 6.61 | 6.41 | 6.56 | 6.95 |
| Price on rating day | 4.82 | 4.98 | 5.58 | 5.20 | 5.94 |

Forte

| Rating | neutral | neutral | overweight |
|---------------------|------------|------------|------------|
| Rating date | 2019-04-29 | 2018-10-31 | 2018-07-27 |
| Target price (PLN) | - | - | - |
| Price on rating day | 40.60 | 40.60 | 40.60 |

Grupa Azoty

| Rating | buy | hold | hold | buy | hold | hold | hold | hold |
|---------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Rating date | 2019-05-09 | 2019-03-05 | 2018-11-23 | 2018-11-05 | 2018-09-03 | 2018-08-02 | 2018-05-25 | 2018-05-09 |
| Target price (PLN) | 45.39 | 43.20 | 33.00 | 31.47 | 41.13 | 42.13 | 44.40 | 60.99 |
| Price on rating day | 35.92 | 43.88 | 32.36 | 24.00 | 38.00 | 42.20 | 42.60 | 51.10 |

Impexmetal

| Rating | underweight | neutral |
|---------------------|-------------|------------|
| Rating date | 2019-04-25 | 2018-12-05 |
| Target price (PLN) | - | - |
| Price on rating day | 4.16 | 3.40 |

Kernel

| Rating | buy | buy | buy | hold |
|---------------------|------------|------------|------------|------------|
| Rating date | 2019-03-05 | 2018-11-05 | 2018-07-23 | 2018-05-09 |
| Target price (PLN) | 62.86 | 60.85 | 59.18 | 53.04 |
| Price on rating day | 49.20 | 52.10 | 50.50 | 50.80 |



mBank issued the following investment recommendations for the companies in the 12 months prior to this publication

Grupa Kęty

| Rating | hold | hold | reduce | sell | hold | hold | hold | hold |
|---------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Rating date | 2019-04-02 | 2019-01-18 | 2018-12-05 | 2018-10-29 | 2018-09-03 | 2018-08-02 | 2018-06-06 | 2018-05-09 |
| Target price (PLN) | 341.33 | 324.30 | 309.30 | 309.30 | 367.45 | 355.61 | 371.08 | 363.01 |
| Price on rating day | 324.00 | 336.50 | 343.00 | 365.50 | 387.50 | 321.50 | 360.50 | 353.00 |

Kruszwica

| Rating | neutral | neutral | underweight |
|---------------------|------------|------------|-------------|
| Rating date | 2019-04-02 | 2018-10-16 | 2018-08-02 |
| Target price (PLN) | - | - | - |
| Price on rating day | 43.90 | 43.90 | 65.40 |

Mangata

| Rating | neutral | neutral | neutral | neutral | underweight | neutral |
|---------------------|------------|------------|------------|------------|-------------|------------|
| Rating date | 2019-05-29 | 2019-05-09 | 2019-04-29 | 2018-10-01 | 2018-09-13 | 2018-06-22 |
| Target price (PLN) | - | - | - | - | - | - |
| Price on rating day | 69.50 | 69.00 | 71.00 | 65.40 | 91.20 | 90.00 |

Pfleiderer Group

| Rating | neutral | neutral | neutral | underweight | neutral | overweight |
|---------------------|------------|------------|------------|-------------|------------|------------|
| Rating date | 2019-05-29 | 2019-04-16 | 2019-02-27 | 2019-01-30 | 2018-09-28 | 2018-08-08 |
| Target price (PLN) | - | - | - | - | - | - |
| Price on rating day | 20.40 | 25.50 | 28.40 | 32.60 | 36.45 | 37.30 |

Pozbud

| Rating | overweight | overweight |
|---------------------|------------|------------|
| Rating date | 2019-04-29 | 2018-09-04 |
| Target price (PLN) | - | - |
| Price on rating day | 2.37 | 3.57 |

Stelmet

| Rating | hold | hold | hold | buy | buy | buy |
|---------------------|------------|------------|------------|------------|------------|------------|
| Rating date | 2019-03-05 | 2019-02-04 | 2018-11-05 | 2018-09-03 | 2018-07-04 | 2018-05-09 |
| Target price (PLN) | 8.36 | 8.39 | 7.72 | 20.45 | 20.24 | 26.48 |
| Price on rating day | 10.25 | 8.88 | 7.50 | 11.35 | 10.70 | 14.75 |

Tarczyński

| Rating | neutral | underweight | underweight | neutral |
|---------------------|------------|-------------|-------------|------------|
| Rating date | 2019-05-29 | 2019-04-29 | 2018-12-05 | 2018-05-30 |
| Target price (PLN) | - | - | - | - |
| Price on rating day | 15.40 | 15.60 | 17.50 | 14.50 |

TIM

| Rating | overweight | overweight |
|---------------------|------------|------------|
| Rating date | 2019-04-29 | 2018-12-05 |
| Target price (PLN) | - | - |
| Price on rating day | 7.90 | 7.48 |

Dom Maklerski mBanku

Senatorska 18
00-082 Warszawa
<http://www.mbank.pl/>

Research Department

Kamil Kliszcz
director
+48 22 438 24 02
kamil.klischcz@mbank.pl
energy, power generation

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

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

Jakub Szkopek
+48 22 438 24 03
jakub.szkopek@mbank.pl
industrials, chemicals, metals

Paweł Szpigiel
+48 22 438 24 06
pawel.szpigiel@mbank.pl
media, IT, telco

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

Aleksandra Szklarczyk
+48 22 438 24 04
aleksandra.szklarczyk@mbank.pl
construction, real-estate development

Piotr Poniatowski
+48 22 438 24 09
piotr.poniatowski@mbank.pl
industrials

Mikołaj Lemańczyk
+48 22 438 24 07
mikolaj.lemanczyk@mbank.pl
financials

Sales and Trading**Traders**

Piotr Gawron
director
+48 22 697 48 95
piotr.gawron@mbank.pl

Krzysztof Bodek
+48 22 697 48 89
krzysztof.bodek@mbank.pl

Tomasz Jakubiec
+48 22 697 47 31
tomasz.jakubiec@mbank.pl

Jędrzej Łukomski
+48 22 697 49 85
jedrzej.lukomski@mbank.pl

Adam Prokop
+48 22 697 47 90
adam.prokop@mbank.pl

Andrzej Sychowski
+48 22 697 48 46
andrzej.sychowski@mbank.pl

Tomasz Galanciak
+48 22 697 49 68
tomasz.galanciak@mbank.pl

Magdalena Bernacik
+48 22 697 47 35
magdalena.bernacik@mbank.pl

Sales, Foreign Markets

Marzena Łempicka-Wilim
deputy director
+48 22 697 48 82
marzena.lempicka@mbank.pl

Bartosz Orzechowski
+48 22 697 48 47
bartosz.orzechowski@mbank.pl

Private Client Sales

Kamil Szymański
director
+48 22 697 47 06
kamil.szymanski@mbank.pl

Jarosław Banasiak
deputy director
+48 22 697 48 70
jaroslaw.banasiak@mbank.pl