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Play — Forecast of 2019 Q2 Results

Rating: hold | target price: PLN 29.00 | current price: PLN 33.86

PLY PW; PLY.WA | Telecommunications, Poland

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Play is scheduled to release 2019 second-quarter financials on August 26th, 2019. At a projected PLN 617m, we expect to see a rebound of more than 12% in quarterly EBITDA versus the year-ago figure, reflecting sustained improvement after a successful first quarter. The continuing growth should instill renewed confidence in investors. Total 2019 first-half EBITDA might approximate PLN 1.193 billion as per our calculations, with cumulative earnings for the last four quarters reaching PLN 2.285 billion. Assuming we are correct, this would mean that Play's own FY2019 guidance is overly conservative at PLN 2.2-2.3 billion, and is due for an upward revision with the 2019 Q2 earnings release.

- Following the same trends in customer acquisition observed in the quarter before, Play is expected to have added 49k new post-paid users, and dropped 29k pre-paid users in Q2. This should be accompanied by improvement

in post-paid ARPU (we anticipate a 1.0% y/y rise to PLN 28.1) thanks to scaled-back marketing expenditures, coupled with price increases.

- Revenues from smartphone sales will have rebounded by an estimated 3.6% over the year-ago period, driven by an increased inventory and intensified marketing; the sales margin on devices will be stable at the 21.5% posted in the first quarter.
- All told, the total 2019 Q2 revenue is set to approximate PLN 1.74bn, an increase of 2.8% on the year.
- Play's domestic roaming costs will have dropped as much as 34% in Q2 2019 vis-à-vis the year-ago figure, down to PLN 45.3m. As a result, the quarterly contribution margin should show a year-over-year rebound of 10% at a projected 48.6%.
- After G&A expenses of estimated at PLN 232m, assuming no material one-offs, we expect Q2 2019 EBITDA to come in at PLN 610m, or PLN 617m on an adjusted basis, representing 12% growth compared to Q2 2018.

Quarterly Earnings of Play

(PLN m)	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19E	YoY change
Revenue	1,688.1	1,706.6	1,807.2	1,685.9	1,735.7	2.8%
Revenue From Services	1,263.5	1,288.6	1,295.0	1,268.1	1,295.9	2.6%
Sales of Goods and Other Revenue (Handsets)	424.6	418.0	512.2	417.8	439.8	3.6%
Interconnect, Roaming & Other Service Costs	-471.4	-497.3	-473.6	-436.8	-443.0	-6.0%
G&A Expenses	-209.7	-201.6	-229.7	-223.1	-232.4	10.8%
Other Operating Income	40.9	14.8	32.1	12.4	10.0	-75.5%
Other Operating Expenses	-33.5	-29.3	-61.4	-34.1	-10.0	-70.1%
EBITDA	563.5	543.9	542.5	573.9	610.3	8.3%
Margin	33.4%	31.9%	30.0%	34.0%	35.2%	-
Adjusted EBITDA	550.1	555.4	535.8	576.6	616.8	12.1%
Margin	32.6%	32.5%	29.6%	34.2%	35.5%	-
D&A Expenses	-197.8	-198.2	-204.8	-216.0	-222.9	-
EBIT	365.7	345.7	337.7	357.9	387.4	5.9%
Finance Income	0.3	4.5	0.1	0.2	2.0	-
Finance Costs	-99.2	-92.8	-90.8	-83.5	-88.0	-
Pre-tax Income	266.8	257.4	247.0	274.6	301.5	13.0%
Tax	-67.1	-67.6	-44.7	-60.9	-72.3	-
Net Income	199.7	189.8	202.3	213.7	229.1	14.7%
Margin	11.8%	11.1%	11.2%	12.7%	13.2%	-

Source: Play, 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
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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HOLD – we expect that the rate of return from an investment will range from -5% to +5%
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