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Quarterly Earnings Forecast: Q2 2019

Equity Market

Financials

We expect growth of 5% in the aggregate 2019 Q2 net income of rated Polish banks relative to the year-ago quarter, with the sector fulfilling 42% of our FY forecast, a ratio which may seem low but is actually a good result given seasonal weakness in the first quarter and the additional charge-offs that selected banks had to book in Q2 on loans made to the troubled meat producer ZM Henryk Kania. Regardless, the single biggest factor shaping sentiment for Polish banks at the moment is anticipation of a ruling by the EU Court of Justice on FX mortgage loans. The top Q2 reports to watch when it comes to Financials include OTP Bank, set to deliver a record profit, alongside its Polish banking peer PKO BP and the asset manager Skarbiec.

Chemicals

A successful second quarter might prompt analysts to make upward revisions to their FY2019 earnings expectations for Grupa Azoty. On the other hand, the view on Ciech will probably turn negative after flat YoY growth in Q2.

Oil & Gas

The 2019 Q2 downstream profits of Lotos and MOL will reflect tightened model margins on refining. At PGNiG, E&P profits took a hit after a downward shift in gas prices which in case of the Hungarian peer MOL should have been mitigated by tariff regulation.

Power Utilities

Rated Generators are expected to fulfill 52% of our aggregate FY2019 adjusted EBITDA estimate in H1, with Energa out-earning others. The two laggards, PGE and Enea, however, are poised to regain momentum in the latter part of the year, owing to higher production.

Telecoms, Media, IT

In Telco, we expect PLY to deliver better 2019 Q2 figures than rivals OPL and CPS, with EBITDA up more than 12% on the year against declines anticipated at the two rivals. In Media, WPL will deliver while AGO will fall short. In IT, we expect to see YoY contraction at CMR and ACP due to negative base effects, but at ASE there might be a 16% rebound in recurring profits.

Industrials & Mining

The proportion of industrial companies reporting year-over-year profit declines at an estimated 56% is set to be the highest since we began tracking these statistics. This means that the ratio of firms delivering growth will be the lowest since Q2 2017 at just 31%. When it comes to earnings surprises, we expect Famur and Pozbud to exceed expectations by a wide margin, while Alumetal and Boryszew will most likely disappoint. The two rated Polish miners, JSW coal and KGHM copper, suffered a pullback in Q2.

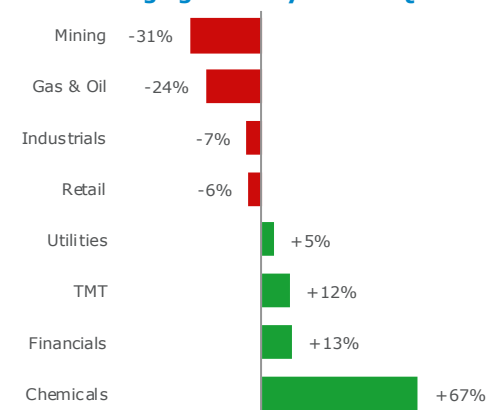
Property Developers

Listed developers handed over 9% more apartments in H1 2019 than in the same period in 2018, however closings in Q2 alone were down 9% on the year, indicating slower growth in profits at DOM, 1AT, and LCC, which, however, is fully accounted for in our FY forecasts (including the YTD/2019E net profit ratios of 47% for DOM & 35% for 1AT, which is poised for peak closings in Q4). On the other hand, ARH stood out in Q2 after hitting a record number of closings.

Retail

Strong 2019 Q2 results at AmRest and Vistula should put investors in a good mood against a letdown anticipated from CCC and Monnari. We expect strong like-for-like sales from Eurocash, Dino, and Jeronimo Martins, supported by positive calendar effects, though profits might be trimmed by high marketing expenses and increased costs.

YoY earnings growth by sector: Q2'19E*



*Net earnings for banks, adj. EBIT for developers, otherwise EBITDA

Earnings Surprise Prediction	
negative	positive
Agora	AmRest
Alior Bank	Asseco SEE
Alumetal	Dom Development
Boryszew	Energa
CCC	Famur
Ciech	Grupa Azoty
Monnari	OTP Bank
Orange Polska	Play
PGNiG	Pozbud
Tauron	Skarbiec Holding
	VRG
	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
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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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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