Tuesday, August 13, 2019 | special comment

CEZ – 2019 Q2 Results

Rating: accumulate | target price: CZK 597.80 | current price: CZK 521.00

CEZ PW; CEZ.WA | Power Utilities, Czechia

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- **The reported EBITDA** turned out to be 9% higher than the market consensus and 11% higher than we expected; the Company does not inform about any significant one-off events in this quarter. EBIT was lower due to CZK 0.3 billion write-downs for Bulgarian assets classified as held for sale.
- **Generation:** EBITDA of CZK 4.09 billion versus the assumed CZK 4.02 billion. The production volume was higher y/y by 2%, which is consistent with our forecast. Improved results y/y are a consequence of higher realised prices and an underestimated reference base (last year, part of the result on collaterals was transferred to H2).
- **Renewables:** EBITDA of CZK 1.1 billion versus the forecast CZK 1.2 billion. The y/y increase results from prices and allocation of green certificates in Romania.
- **Distribution:** EBITDA of CZK 5.0 billion versus the forecast CZK 4.6 billion and CZK 4.5 billion last year. Following a weaker Q1, the Company recorded a higher distribution margin in Czech Republic (CZK +0.3 billion y/y) and in Bulgaria.
- **Sales:** EBITDA of CZK 1.2 billion versus the expected CZK 0.8 billion, mainly due to an increased result on ESCO sales (CZK +0.3 billion y/y) and lower energy purchase costs in Bulgaria.
- **Mining:** EBITDA of CZK 1.0 billion versus the forecast CZK 0.7 billion due to slightly higher income on coal sales to the Group's power generation plants.
- **Other:** CZK 0.4 billion versus the forecast CZK 0.3 billion. The variation y/y results from a modification of the segment accounting principles (transfer of part of the support services to segments).
- **Financing activities balance** is slightly below expectations due to a higher negative result in the 'other' category.
- **Operation flows** amounted to CZK 8.2 billion as compared to CZK 3.9 billion one year ago (with the neutral impact of changes in working capital), which, with investment outlays in the amount of CZK 6.8 billion, entailed a decline in net indebtedness by CZK 3.8 billion to CZK 144 billion (2.69 x EBITDA).
- **Management Board forecast for 2019** remained in the EBITDA range at the level of CZK 57-59 billion (our forecast was CZK 58.6 billion, and the consensus was CZK 58.5 billion), and CZK 17-19 billion of net profit (our forecast was CZK 18.0 billion and the consensus was CZK 18.1 billion).
- **In conclusion, the results for Q2'19 come as a positive surprise, especially in segments that were somehow disappointing in Q1, which allows for a more optimistic outlook in the context of annual results. Our forecast after the first half of the year was implemented at a slightly higher level than in previous years. We expect a positive reaction of the market, especially in the context of the exchange rate stagnation in the last several months.**

2019 Q2 results by operating segment

(CZK m)	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	yoy	Q2'19E	differ.	2019E	% YTD
Revenue	46,353	40,897	43,021	54,215	51,849	48,179	18%	43,503	11%	205,365	49%
EBITDA (adj.)	17,513	9,402	11,815	11,434	19,271	12,821	36%	11,561	11%	58,629	55%
EBITDA	17,513	9,402	11,815	10,934	19,271	12,821	36%	11,561	11%	58,629	55%
Generation	7,946	1,603	3,294	3,757	10,013	4,093	155%	4,018	2%	24,216	58%
Renewables	1,011	1,141	860	235	1,168	1,105	-3%	1,168	-5%	3,935	58%
Distribution	5,446	4,527	4,725	5,049	5,378	5,020	11%	4,618	9%	19,899	52%
Sales	1,259	870	1,276	912	704	1,229	41%	783	57%	4,665	41%
Mining	1,461	568	1,001	721	1,539	986	74%	686	44%	3,931	64%
Other	390	693	659	260	469	388	-44%	288	35%	1,983	-
EBIT	10,399	2,278	4,048	3,034	11,793	5,309	133%	4,488	18%	29,601	58%
Financing activity	-1,496	-1,858	-1,804	-1,084	-1,585	-1,880	1%	-1,519	24%	-7,104	49%
Net income	7,121	388	1,485	1,333	8,198	2,935	-	2,405	22%	18,036	62%

Source: CEZ, E - estimates by Dom Maklerski mBanku;

2019 Q2 actuals vs. expectations

(CZK m)	Q2'19	Q2'18	yoy	Q2'19E	differ.	consensus	differ.
Revenue	48,179	40,897	18%	43,503	11%	46,700	3%
EBITDA (adj.)	12,821	9,402	36%	11,561	11%	11,800	9%
EBITDA	12,821	9,402	36%	11,561	11%	11,800	9%
EBIT	5,309	2,278	133%	4,488	18%	4,800	11%
Financing activity	-1,880	-1,858	-	-1,519	-	-	-
Net income	2,935	388	-	2,405	22%	2,700	9%

Source: CEZ, 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
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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