

Wednesday, October 16, 2019 | special comment

## Ciech – Forecast of 2019 Q3 Results

Rating: buy | target price: PLN 42.03 | current price: PLN 32.95

**CIE PW; CIEP.WA | Chemicals, Poland**

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- Ciech will report its 2019 Q3 results on 19 November.
- We expect **stable quarterly revenue** relative to the same year-ago period owing to a **6% rebound in the Soda segment** (where flat volume growth was offset by higher sales prices), combined with a **decline in the segment of Organic Chemicals** led by weaker sales of resins and polyurethane foam.
- In the **Soda** business, recurring **EBITDA** for the quarter at an estimated PLN 129m is likely to **grow 13%** from a low year-ago base, driven by higher prices. At the same time, adjusted **EBITDA** in **Organics** might post a y/y **fall** of 42% to PLN 8m on lower sales, and in the segment of **Glass** we anticipate 15% earnings **contraction** to PLN 8.4m led by rising costs.
- Ciech warned the market in September that it would most likely recognize impairment in the amount of PLN 37m in Q3 related to a production stoppage at its Romanian unit.
- The Company also plans to set aside a PLN 5m reserve in the period for management incentives, to be charged on a quarterly basis against adjusted EBITDA.
- Assuming we are correct in predicting the strongest growth in quarterly EBITDA since Q4 2017, Ciech's 2019 Q3 earnings release might provide upside to CIE stock.**

### Summary of 2019 Q3 Estimates

(PLN m)	Q3'19E	Q3'18	Y/Y	2019E	YTD*
Revenue	892.7	882.7	1.1%	3805.4	73%
EBITDA	101.0	131.0	-22.9%	647.9	62%
EBITDA (adj.)	141.0	132.2	6.7%	647.9	74%
EBITDA margin	11.3%	14.8%		17.0%	
EBIT	27.3	60.3	-54.8%	357.0	48%
Net profit	12.9	26.8	-52.0%	231.7	41%

Source: Ciech, E – estimates by Dom Maklerski mBanku  
\*as a % of FY2019E

### Historical Quarterly Results and 2019 Q3 Estimates

(PLN m)	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19E
<b>Revenue</b>	<b>885.7</b>	<b>933.5</b>	<b>882.7</b>	<b>970.8</b>	<b>952.7</b>	<b>944.6</b>	<b>892.7</b>
change	-1.4%	5.7%	5.6%	0.9%	7.6%	1.2%	1.1%
COGS	679.0	725.9	717.0	787.3	759.9	731.4	709.4
Gross profit	206.6	207.6	165.7	183.4	192.8	213.3	183.3
Gross margin	23.3%	22.2%	18.8%	18.9%	20.2%	22.6%	20.5%
Selling expenses	67.6	66.5	70.8	66.9	67.6	68.9	85.2
Administrative expenses	37.1	42.2	34.4	31.3	46.3	57.6	25.9
Other operating activity (net)	0.2	25.3	-0.2	7.3	4.5	-25.6	-45.0
<b>EBIT</b>	<b>102.1</b>	<b>124.2</b>	<b>60.3</b>	<b>92.6</b>	<b>83.4</b>	<b>61.3</b>	<b>27.3</b>
Finance income	5.0	16.3	-7.1	5.0	5.3	1.5	2.0
Finance costs	11.3	13.3	13.7	49.5	-15.7	18.7	13.0
Equity in profits of associates	0.0	0.0	0.2	0.3	0.3	0.4	0.1
<b>Pre-tax income</b>	<b>95.8</b>	<b>127.3</b>	<b>39.7</b>	<b>48.4</b>	<b>73.3</b>	<b>41.5</b>	<b>16.4</b>
Tax	21.7	28.5	12.7	64.6	10.6	22.5	3.3
	22.7%	22.4%	32.1%	133.5%	14.5%	54.2%	20.0%
Minority interests	0.2	0.2	0.1	0.1	0.1	0.3	0.2
<b>Net income</b>	<b>73.9</b>	<b>98.6</b>	<b>26.8</b>	<b>-16.3</b>	<b>62.6</b>	<b>19.4</b>	<b>12.9</b>
D&A expenses	63.3	64.0	70.6	77.2	76.9	76.9	73.7
<b>EBITDA</b>	<b>165.4</b>	<b>188.2</b>	<b>131.0</b>	<b>169.8</b>	<b>160.3</b>	<b>138.2</b>	<b>101.0</b>
Y/Y pct. change	-11.3%	-1.6%	-29.4%	-37.1%	-3.1%	-26.6%	-39.0%
EBITDA margin	18.7%	20.2%	14.8%	17.5%	16.8%	14.6%	11.3%
<b>Net debt</b>	<b>998.7</b>	<b>872.8</b>	<b>1,403.3</b>	<b>1,464.1</b>	<b>1,719.3</b>	<b>1,640.2</b>	<b>1,659.4</b>
Operating Cash Flow	-3.9	211.8	352.8	-106.8	-21.7	128.6	80.8
Net Debt / Adj. EBITDA	1.4	1.2	2.0	2.4	2.8	2.7	3.1
CAPEX	118.5	209.6	468.1	-166.5	100.3	32.9	100.0
<b>EBITDA (adj.)</b>	<b>167.6</b>	<b>172.1</b>	<b>132.2</b>	<b>161.6</b>	<b>159.6</b>	<b>175.7</b>	<b>141.0</b>

Source: Ciech, 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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**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.

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