

Monday, October 21, 2019 | periodical publication

Quarterly Earnings Forecast: Q3 2019

Equity Market

Financials

The 2019 third-quarter earnings season in the Polish bank sector will probably be something of a disappointment, with year-to-date profits fulfilling only about 68% of the market's expectations for the year, indicating a high likelihood of downward revisions. Elsewhere in the region, however, we see upside risk forecast risk for Czech banks and Erste Bank, all of which are trading at attractive multiples. Among other financials, PZU insurance looks well on track to achieving our FY forecasts.

Chemicals

Rated chemical companies are expected to report year-over-year improvement in Q3 2019 results, supported by low natural gas prices in case of Grupa Azoty, and by higher prices of end-product soda ash in case of Ciech.

Oil & Gas

Oil refiners enjoyed favorable market conditions in Q3, characterized by high cracking margins and retail pump margins, indicating potential for upward revisions to FY EBITDA forecasts. On the other hand, E&P companies like PGNiG had to contend with lower sales prices in the period (the unfavorable price trends also reflected on the quarterly results of Lotos upstream).

Power Utilities

Polish power generators are expected to achieve 75% of our FY2019 EBITDA forecast in the year through September as earnings momentum this year builds from quarter to quarter. We expect stellar showings from Enea and PGE in particular.

Telecoms, Media, IT

We see Play as the 2019 Q3 earnings leader in Telecoms with an expected 13% EBITDA boost. In Media, we anticipate a steep recovery at Agora at an annual rate of a staggering 40+ percent, led by higher ad revenues and strong performance of the cinema segment. In the IT sector, we would watch out for a strong showing from Asseco SEE.

Industrials & Mining

Most rated industrial companies are set to report falling profits for Q3 2019, with roughly 56% of our sample most likely delivering year-over-year declines compared to 50% a year ago. Amica and Famur will be among the standouts, while Apator, Ergis, Mangata, Stelmet, and Tarczyński will probably disappoint. In mining, we would not expect improvement from either JSW coal or KGHM copper.

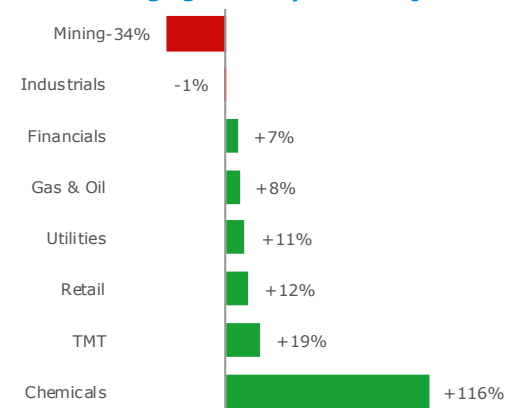
Property Developers

Residential developers completed 31% fewer homes in total in Q3 2019 than in the comparable year-ago period. Only five companies: Echo Investment, Archicom, Dom Development, Polnord, and Budimex, increased deliveries in the period. In terms of profits, we anticipate strong Q3 earnings from Dom Development and Archicom. Develia and Atal registered few completions in Q3, but they both had many more deliveries scheduled for either earlier or later quarters. At Develia, year-over-year contraction in recurring EBIT is likely to be offset by FX gains on investment properties.

Retail

We expect to see the strongest year-over-year growth at AmRest and Dino Polska in Q3. At Eurocash, there will be acceleration relative to previous quarters. At Jeronimo Martins and VRG profits not likely increased at a modest pace in Q3 2019.

YoY earnings growth by sector: Q3'19E*



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

Earnings Surprise Prediction	
negative	positive
Apator	Agora
Atende	Asseco SEE
ING BSK	Ciech
Monnari	Dino
PGNiG	Enea
Tarczyński	Erste Group
	Eurocash
	Famur
	JSW
	Moneta Money Bank
	PGE
	PKN Orlen
	Play

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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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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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