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Industrials Update for October 2019

Industrials, Poland

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Industrials (underweight)

- The industrial stocks that make up the **MSCI's World and Europe indexes** are currently trading at **small premiums to their respective 3-year averages** after recent gains. This includes automotive manufacturers with their newly-reduced earnings estimates.
- European manufacturers are struggling with weaker demand and increasing competition from outside the EU, but market sentiment is being buoyed by expectations of monetary easing and hopes for a trade deal between the US and China.
- In Poland, as the **third-quarter earnings season** gets underway, we expect roughly **56% of rated industrial companies to report year-over-year earnings declines** compared to 50% in the second quarter. We anticipate the **biggest improvement** from **Amica** and **Famur**, while **Apator**, **Stelmet**, and **Tarczyński** will most likely report the worst falls.
- Among the most liquid rated stocks, we still have the **most faith** in **Famur (FMF)**, with potential to generate increasing profits and strong cash flow while trading at low 2020E earnings multiples. Among smaller stocks, we prefer **Astarta (AST)**, which currently benefits from rising sugar prices in its home market of Ukraine due to undersupply, and we like **Cognor (COG)**, offering double-digit 2020E dividend yield. Last but not least, **TIM** is experiencing robust improvement in profits this year.
- We would **avoid Apator (APT)**, expected to fall short of FY guidance after what is likely to be a dismal third quarter of low profits and high labor costs, and we would steer clear of **Kernel (KER)**, which faces weaker profits in FY2019/20, combined with increasing debt and record capital spend).
- We are **upgrading our call on Boryszew (BRS) to neutral** on expectations of reversed earnings falls in H2 2019, and we are also **neutral on AC (ACG)**, which looks on track to fulfill our FY2019 forecasts after expected some improvement in Q3 comparing to very weak Q2.
- We have **upgraded our FY2019 estimates for Astarta** by raising expected EBITDA by 12% to UAH 2,095m and by switching an initial net loss estimate of UAH 384m to a profit of UAH 238m based on ytd performance. Similarly, we have set the 2019 EBITDA estimate for **Ergis** 6% higher at PLN 48m after a better-than-expected third quarter.
- TOP PICKS:**
OVERWEIGHT: AST, COG, FMF, KSW, TIM; **UNDERWEIGHT** APT, KER

Chemicals (neutral)

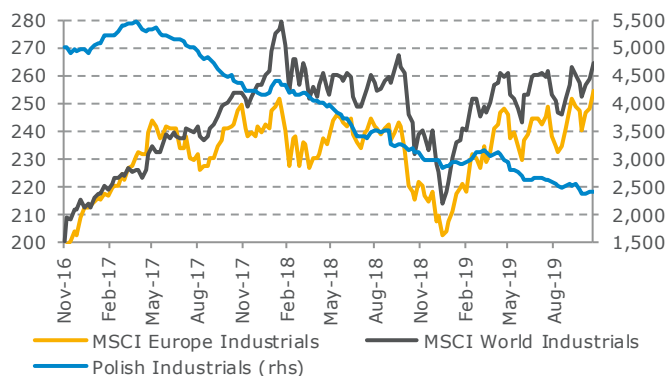
- The 2019 Q3 reporting season is looking good for chemical companies, with **Ciech and Grupa Azoty both set to deliver improvement in core earnings results relative to the year-ago period**.
- When it comes to future outlook, however, **profits from fertilizer production (AN, UAN, CAN, DAP)** are currently seen to **contract** in line with declining prices. This is accompanied by increasing competition in plastics and chemicals. As a result, we expect **weaker profits from Grupa Azoty in 2020**, accompanied by high debt.
- On the other hand, **Ciech** is likely to capitalize on **falling prices of coal** with **2020E savings in excess of PLN 50m**. Looking at recovering prices of soda ash in Asian markets, Ciech's outlook for next year is looking increasingly better.
- TOP PICKS:**
OVERWEIGHT CIE

1M* & YTD Performance

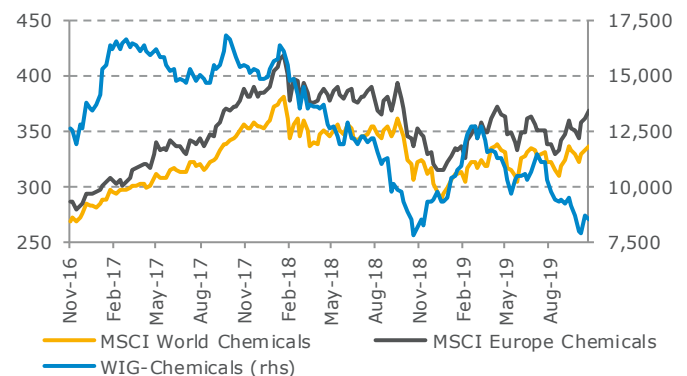
Industrials	1M	YTD
Ergis	+35.6%	+36%
ES-System	+28.1%	+65%
Feerum	+26.8%	+26%
Libet	+17.2%	-43%
Elemental	+14.3%	+17%
Berling	+10.7%	+10%
Mercator	+10.4%	-36%
Odlewnie	+8.2%	+28%
Forte	+8.0%	+10%
Pozbud	+6.8%	-4%
Mangata	+6.1%	+31%
TIM	+5.0%	+49%
Patentus	-7.7%	+50%
Bumech	-8.6%	+56%
Ceramika NG	-9.5%	+34%
Hydrotor	-9.9%	-8%
Groclin	-10.3%	-40%
Famur	-10.9%	-28%
Ropczyce	-11.1%	-37%
Primetech	-16.6%	-15%
Rafamet	-17.9%	-3%
PGOdlew.	-24.3%	-52%
Astarta	-24.8%	-27%
Ursus	-49.6%	-55%
Chemicals		
Mercator	+10.4%	-36%
ZA Puławy	+3.3%	+35%
Krakchemia	-4.3%	-64%
Police	-5.6%	+0%
PCC Rokita	-6.6%	-32%
Ciech	-9.3%	-27%
Polwax	-10.4%	-35%
Azoty	-11.6%	+6%
WIGCHEM	-10.2%	-10%
WIG	+0.6%	+1%

*Sep. 19 - Oct. 29

Polish Industrials vs. MSCI Index



WIG-Chemicals vs. MSCI Index



Source: Bloomberg, Dom Maklerski mBanku

List of abbreviations and ratios contained in the report:

EV – net debt + market value
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
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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DCF – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.

Comparative – 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.

mBank issued the following investment recommendations for the companies in the 12 months prior to this publication

AC

Rating	neutral	underweight	neutral	overweight
Rating date	2019-10-30	2019-08-30	2019-03-22	2018-11-30
Target price (PLN)	-	-	-	-
Price on rating day	41.00	43.60	48.50	41.50

Alumetal

Rating	neutral	underweight	underweight	neutral	neutral
Rating date	2019-10-07	2019-08-30	2019-05-29	2019-04-15	2019-03-28
Target price (PLN)	-	-	-	-	-
Price on rating day	51.00	51.00	51.00	51.00	51.00

Amica

Rating	neutral	neutral	overweight
Rating date	2019-09-20	2019-04-29	2019-04-02
Target price (PLN)	-	-	-
Price on rating day	118.00	130.00	143.00

Aparator

Rating	underweight	neutral	neutral	overweight	overweight	neutral	underweight
Rating date	2019-10-18	2019-09-20	2019-04-29	2019-03-05	2019-02-27	2019-01-30	2018-12-05
Target price (PLN)	-	-	-	-	-	-	-
Price on rating day	22.00	22.60	25.80	26.50	25.80	25.40	24.20

Astarta

Rating	overweight	overweight
Rating date	2019-10-30	2019-09-05
Target price (PLN)	-	-
Price on rating day	16.85	23.00

Boryszew

Rating	neutral	underweight	underweight	neutral
Rating date	2019-10-30	2019-09-20	2019-07-26	2019-04-29
Target price (PLN)	-	-	-	-
Price on rating day	4.29	4.54	4.49	4.65

Ciech

Rating	buy	hold	buy	buy	buy	buy	buy
Rating date	2019-09-05	2019-07-03	2019-06-03	2019-05-09	2019-04-02	2019-02-04	2018-11-05
Target price (PLN)	42.03	41.72	55.00	68.11	68.66	75.82	77.05
Price on rating day	34.00	41.60	42.65	44.85	54.80	52.40	42.58

Cognor

Rating	accumulate	hold	accumulate	accumulate	overweight	neutral	underweight	neutral
Rating date	2019-09-05	2019-07-25	2019-07-03	2019-06-14	2019-06-03	2019-05-09	2019-03-05	2018-12-05
Target price (PLN)	2.00	1.84	1.84	1.79	-	-	-	-
Price on rating day	1.65	1.75	1.77	1.64	1.60	1.59	1.94	1.80

Ergis

Rating	neutral	neutral	neutral	overweight	overweight	underweight
Rating date	2019-10-30	2019-08-30	2019-05-29	2019-04-29	2019-02-27	2018-12-05
Target price (PLN)	-	-	-	-	-	-
Price on rating day	3.20	2.48	3.00	3.00	2.75	2.80

Famur

Rating	buy	buy	buy	buy	buy	buy	buy
Rating date	2019-08-07	2019-08-02	2019-07-03	2019-06-03	2019-05-09	2019-02-04	2018-11-30
Target price (PLN)	5.33	6.71	6.96	6.67	6.90	6.61	6.41
Price on rating day	4.42	4.47	5.24	4.85	4.82	4.98	5.58

Forte

Rating	neutral	neutral	neutral
Rating date	2019-09-20	2019-04-29	2018-10-31
Target price (PLN)	-	-	-
Price on rating day	40.60	40.60	40.60

Grupa Azoty

Rating	hold	hold	hold	accumulate	accumulate	buy	hold	hold	buy
Rating date	2019-10-07	2019-09-05	2019-08-02	2019-07-03	2019-06-03	2019-05-09	2019-03-05	2018-11-23	2018-11-05
Target price (PLN)	34.09	39.77	45.93	45.93	44.42	45.39	43.20	33.00	31.47
Price on rating day	31.18	39.98	42.30	42.10	39.86	35.92	43.88	32.36	24.00

Kernel

Rating	reduce	reduce	buy	buy	buy
Rating date	2019-10-07	2019-08-19	2019-06-03	2019-03-05	2018-11-05
Target price (PLN)	40.76	42.70	58.63	62.86	60.85
Price on rating day	42.90	48.60	46.50	49.20	52.10

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Grupa Kęty

Rating	hold	hold	hold	reduce	hold	hold	reduce	sell
Rating date	2019-10-07	2019-09-05	2019-07-03	2019-06-03	2019-04-02	2019-01-18	2018-12-05	2018-10-29
Target price (PLN)	298.64	327.11	345.32	326.37	341.33	324.30	309.30	309.30
Price on rating day	283.00	310.00	337.00	347.50	324.00	336.50	343.00	365.50

Kruszwica

Rating	overweight	overweight	neutral	neutral
Rating date	2019-10-07	2019-09-20	2019-04-02	2018-10-16
Target price (PLN)	-	-	-	-
Price on rating day	44.40	43.00	43.90	43.90

Mangata

Rating	neutral	neutral	neutral	neutral
Rating date	2019-09-20	2019-05-29	2019-05-09	2019-04-29
Target price (PLN)	-	-	-	-
Price on rating day	66.00	69.50	69.00	71.00

Pfleiderer Group

Rating	suspended	underweight	underweight	neutral	neutral	neutral	underweight
Rating date	2019-09-20	2019-07-29	2019-07-26	2019-05-29	2019-04-16	2019-02-27	2019-01-30
Target price (PLN)	-	-	-	-	-	-	-
Price on rating day	26.20	28.00	28.00	20.40	25.50	28.40	32.60

Pozbud

Rating	neutral	overweight
Rating date	2019-09-05	2019-04-29
Target price (PLN)	-	-
Price on rating day	2.14	2.37

Stelmet

Rating	hold	hold	hold	hold	hold	hold
Rating date	2019-10-07	2019-09-05	2019-07-03	2019-03-05	2019-02-04	2018-11-05
Target price (PLN)	8.10	6.50	7.95	8.36	8.39	7.72
Price on rating day	7.90	6.70	7.00	10.25	8.88	7.50

Tarczyński

Rating	neutral	neutral	neutral	underweight	underweight
Rating date	2019-10-07	2019-09-20	2019-05-29	2019-04-29	2018-12-05
Target price (PLN)	-	-	-	-	-
Price on rating day	16.30	15.90	15.40	15.60	17.50

TIM

Rating	overweight	overweight
Rating date	2019-04-29	2018-12-05
Target price (PLN)	-	-
Price on rating day	7.90	7.48

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