

Thursday, November 7, 2019 | special comments

Ergis – 2019 Q3 Results

rating: neutral | current price: PLN 3.25

EGS PW; EGSP.WA | Industrials, Poland

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Ergis's final 2019 Q3 figures are consistent with earlier estimates. A decline in costs of basic materials in the period to an extent offset other impacts. Ergis did not disclose whether it had recognized any power price compensation in Q3. Net debt in the period increased to 3.3x 12M EBITDA. We expect a neutral reaction today to the third-quarter results.

Revenue was consistent with our estimates at PLN 193m.

EBITDA exceeded our PLN 10.8m forecast at PLN 13.5m. One-offs in Q3 were small at less than PLN 0.3m.

Ergis generated good sales margins on soft PVC film and PET tapes in Q3. Despite reduced spreads between recycled and virgin PET, sales margins on hard PET film and laminates also

improved in Q3. However margins on flexible food packaging laminates fell on low sales not offsetting overheads. Margins on stretch film sales turned out worse than hoped due to strong market competition. A decline in costs of basic materials in the period to an extent offset other impacts.

Net profit came in at PLN 5.1m a estimated earlier. The effective tax rate for Q3 was low at 10%.

Operating cash flow in the third quarter was negative at PLN -5m vs PLN -26m in the same period in 2018. Net debt amounted to PLN 154m as of 30 September (3.3x 12M EBITDA) after increasing by PLN 13m during relative to 30 June.

2019 Q3 results of Ergis

(PLN m)	3Q'19	3Q'18	Change	3Q'19E	Differ.	Guidance	Differ.	2019PE	YTD
Revenue	192.9	195.7	-1.4%	190.8	1.1%	192.9	0.0%	774.4	79.1%
EBITDA	13.5	11.6	16.2%	10.8	24.4%	13.5	-0.1%	47.8	88.0%
EBITDA margin	7.0%	5.9%		5.7%		7.0%		6.2%	
EBIT	7.2	5.4	32.0%	4.5	59.8%	7.2	-0.2%	22.9	102.9%
Net income	5.1	3.9	30.5%	2.0	158.9%	5.2	-1.3%	12.5	119.3%

Source: Grupa Ergis, 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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