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CEZ – 2019 Q3 Results

Rating: accumulate | target price: 597.8 CZK | current price: CZK 522.0 CZK

CEZ PW; CEZ.WA | Utilities, Czech Republic

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- CEZ's 2019 Q3 **EBITDA** showed a miss of 14% relative to market expectations after a non-recurring CZK 1.3bn charge related to a long-standing dispute with the Czech railway infrastructure operator SŽDC. After a change in the accounting approach to hedging contracts for electricity generation, EBITDA for the first half of the year was adjusted upward by CZK 2.7bn. As a result, cumulative EBITDA for the year to 30 September 2019 amounted to CZK 44.7bn vs. CZK 43.4bn estimated by us (+3%).
- **By segment**, EBITDA from **Traditional Generation** missed our CZK 3.8bn estimate at CZK 2.55b, but this is fully explained with the change of hedging policy mentioned above. As expected, the generation volume was 2% lower than in Q3 2018, and this, combined with the accounting changes and negative base effects, resulted in a year-over-year decline in segmental earnings.
- In the segment of **New Energy**, EBITDA came in at CZK 0.9bn vs. CZK 1.1bn forecast by us despite slightly higher production. A CZK 0.1bn provision for unspecified litigation was probably part of the reason for the miss.
- EBITDA from **Distribution** came in at CZK 4.9bn in Q3'19 vs. CZK 4.96bn expected by us and CZK 4.7bn generated in Q3'18.
- EBITDA from **Sales** showed an operating loss of CZK 46m vs. a profit of CZK 26m expected by us after the CZK 1.3bn one-time payment to SŽDC.
- EBITDA from **Mining** exceeded our CZK 1.0bn forecast at CZK 1.26bn on a slightly higher revenue from intercompany coal sales.
- **Financing activity** produced a slightly higher-than-expected loss due to higher one-time charges and write-offs of financial assets (CZK -0.2bn).
- **Operating cash flow** decreased to CZK 12.6bn in Q3'19 from CZK 15.4bn a year ago, and after CAPEX of CZK 7.8bn (ytd CAPEX is equivalent to 64% of our FY forecast) plus dividends net debt as of 30 September grew to CZK 156bn (2.8x EBITDA vs. 2.6x expected by as at the end of the year).
- CEZ revised its **FY2019 EBITDA guidance** to CZK 58bn from a CZK 57-59bn range (we expect CZK 58.6bn and the consensus is CZK 58.2bn). The current net profit guidance is CZK 17-18bn, a narrower range than the initial CZK 17-19bn (vs. expectations of CZK 18.0bn).
- CEZ started the process of **selling assets** in Romania in September, and after evaluating offers from 30 prospective buyers it expects to receive binding bids in Q2 2020, and hopes to finalize the deal in H1 2021. At the same time, CEZ expects to send out requests for offers for its Polish assets in H1 2020, with the sale tentatively set to be finalized in 2021. In Bulgaria, the Company has filed administrative action against the local antitrust authority after the latter banned the sale of local assets to Eurohold.
- **Summing up, we have a neutral view on CEZ's 2019 Q3 results despite the earnings miss due to one-time accounting adjustments; the Company achieved a comfortable 76% of our FY EBITDA forecast in the year to 30 September 2019.**

Overview of quarterly results

(CZK m)	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	y/y	Q3 19E	differ.	2019E	% YTD*
Revenue	46,353	40,897	43,021	54,215	51,849	48,179	48,027	12%	48,172	0%	205,365	72%
EBITDA (adj.)	17,513	9,402	11,815	11,434	21,279	13,603	11,185	-5%	12,637	-11%	58,629	79%
EBITDA	17,513	9,402	11,815	10,934	21,279	13,603	9,885	-16%	11,337	-13%	58,629	76%
Generation	7,946	1,603	3,294	3,757	12,021	4,835	2,552	-23%	3,839	-34%	24,216	80%
Renewables	1,011	1,141	860	235	1,168	1,105	888	3%	1,105	-20%	3,935	80%
Distribution	5,446	4,527	4,725	5,049	5,378	5,020	4,903	4%	4,961	-1%	19,899	77%
Sales	1,259	870	1,276	912	704	1,229	-46	-	26	-277%	4,665	40%
Mining	1,461	568	1,001	721	1,539	986	1,264	26%	1,028	23%	3,931	96%
Other	390	693	659	260	469	428	324	-51%	377	-14%	1,983	-
EBIT	10,399	2,278	4,048	3,034	11,793	5,309	2,246	-45%	3,982	-44%	29,601	65%
Financing activity	-1,496	-1,858	-1,804	-1,084	-1,585	-1,880	-1,894	5%	-1,499	26%	-7,104	75%
Net income	7,121	388	1,485	1,333	9,824	3,536	88	-94%	2,011	-96%	18,036	75%

(CZK m)	Q3 19	Q3 18	y/y	Q3 19 E	differ.	consensus	differ.
Revenue	48,027	43,021	12%	48,172	0%	49,200	-2%
EBITDA (adj.)	11,185	11,815	-5%	12,637	-11%	12,800	-13%
EBITDA	9,885	11,815	-16%	11,337	-13%	11,500	-14%
EBIT	2,246	4,048	-45%	3,982	-44%	4,400	-49%
Financing activity	-1,894	-1,804	-	-1,499	-	-	-
Net income	88	1,485	-	2,011	-96%	2,200	-96%

Source: Cognor, E – estimates by Dom Maklerski mBanku
*YTD results as a pct. of FY2019E

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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SELL – we expect that an investment will bear a loss greater than 15%
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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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