

Friday, November 15, 2019 | special comment

## Apator - 2019 Q3 Results

Rating: underweight | current price: PLN 21.00

**APT PW; APT.WA | Electrical Devices, Poland**

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**Apator's 2019 Q3 results came out slightly ahead of our estimates, showing beats of 6% EBITDA and 7% net profit. As predicted in our [18 October third-quarter earnings forecast](#), at the beginning of November the Company reduced its earnings guidance for the full FY2019.**

- Third-quarter **revenue** was in line at PLN 220.5m after a 9% y/y increase driven by the segment of Gas Meters (+55% y/y thanks to higher exports to the Netherlands, UK, Belgium, and Germany). On the other hand, sales of water and heat meters posted a 4% decline on lower exports, not offset by higher domestic volumes. By the same token, sales of electricity meters declined 2% y/y.
- **Gross profit** topped our estimate by 2% after 5% contraction from the year-ago period. By operating segment, the third quarter brought improvement in sales margins on gas meters (+2.4pp y/y), accompanied by 10.0pp y/y contraction in water & heat meters, and a less

dramatic, 1.1 pp decline in Electricity Meters. The weaker sales profits were driven by rising costs of electronic components coupled with a shift in the sales mix in favor of lower-margin products.

- **EBITDA** decreased by 8% compared to Q3 2018. Net one-time effects in Q3 2019 the period were negative to the tune of PLN -2.8m.
- Apator generated **operating cash flow of PLN 24m** in Q3 2019 vs. PLN 19.9m in Q3 2018. **Net debt** as of 30 September 2019 stood at PLN 163m (1.2x 12M EBITDA), a decrease of PLN 9.5m relative to 30 June.
- Earlier this month, **Apator cut its FY2019 revenue guidance to PLN 877m**, and reduced the net profit target to PLN 67m. The results generated in the year to 30 September account for 73% and 68%, respectively, of the revised top- and bottom-line targets.

### 2019 Q3 actuals vs. expectations

(PLN m)	Q3'19	Q3'18	change	Q3'19E	differ.	2019E	2018	change	YTD
Revenue	220.5	202.2	9.1%	216.3	1.9%	893.7	828.7	7.8%	72.0%
EBITDA	31.4	34.2	-8.2%	29.7	5.7%	136.0	134.5	1.1%	71.8%
EBITDA margin	14.2%	16.9%		13.7%		15.2%	47.6%		
EBIT	19.0	23.6	-19.4%	17.7	7.6%	88.4	92.7	-4.7%	68.6%
Net profit	14.4	17.0	-15.7%	13.4	7.0%	65.3	69.0	-5.3%	67.8%

Source: Apator, E - estimates by Dom Maklerski mBanku; Consensus estimates provided by PAP

**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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