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Famur – Final 2019 Q3 Results

Rating: buy | target price: PLN 5.33 | current price: PLN 3.46

FMF PW; FMF.WA | Machinery, Poland

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Famur's final 2019 Q3 earnings release confirmed the preliminary figures, which means it contained no positive surprises. The PLN 44m one-time charges recognized in the Surface segment were equivalent to 28% of the segment's cumulative gross profit since its formation in 2015. Operating cash flow in Q3 was negative, and it was accompanied by increasing debt. Our final take on Famur's third-quarter performance is neutral with a negative tilt.

- **Revenue** fulfilled our estimate at PLN 631m.
- By **segment**, Electrical Equipment posted a topline beat of 19%, and Mining Services were 6% ahead, while Underground was in line and Surface booked a 19% miss after an adjustment for PLN 20m in unbilled revenues from ongoing contracts.
- It is worth noting the **strong gross profit** in the **Underground** segment, the second-highest in history at PLN 153m, and the **high margins** generated by **Electrical Equipment** (54% vs. 33% expected by us). On the other hand, gross profit in Surface turned negative at PLN -14m after the adjustments referred to above.

- All told, Famur incurred **total extraordinary losses of PLN 46m in Q3** (vs. PLN 15m expected).
- After stripping these, **EBITDA** for the quarter came in at PLN 170m, showing a small beat relative to our PLN 168m estimate.
- **Operating cash flow** was PLN -88m in Q3 vs. PLN +90m in the same period in 2018, worsening after a PLN 193m increase in working capital (led mainly by receivables, up by PLN 239m) necessitated by multiple underground contracts being performed at a time.
- **Net debt** stood at PLN 336m as of 30 Sep. 2019 after soaring by PLN 465m during the third quarter due to a PLN 305m dividend payout combined with negative OCF (-PLN 88m).
- **Hedged FX positions** increased by PLN 34m to PLN 372m in Q3, a record-high level which points to a high share of export orders in the backlog.

Summary of 2019 Q3 results

(PLN m)	Q3'19	Q3'18	change	Q3'19E	differ.	Guidance	differ.	2019E	2018	change	YTD
Revenue	631.0	650.8	-3.0%	635.0	-0.6%	631.0	0.0%	2 124.7	2 229.1	-4.7%	76.5%
EBITDA	123.9	140.3	-11.7%	153.5	-19.2%	124.0	0.0%	552.8	491.4	12.5%	75.3%
EBITDA margin	19.6%	21.6%		24.2%		19.7%		26.0%	22.0%		
EBIT	72.8	95.0	-23.3%	112.5	-35.2%	73.0	-0.2%	390.4	300.2	30.0%	68.7%
Net profit	50.5	64.7	-22.0%	85.6	-41.0%	51.0	-1.0%	452.3	207.9	117.6%	73.8%

Source: Famur, 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%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
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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