

Friday, January 24, 2020 | special comment

PKP Cargo - Forecast of 2019 Q4 Results

Rating: reduce | target price: PLN 18.13 | current price: PLN 19.68

PKP PW; PKP.WA | Freight & Logistics, Poland

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- PKP Cargo reported weak freight figures for October and November 2019, with the aggregate volume carried in the period down 14.4% on the same period a year earlier, accompanied by a 19.7% fall in the amount of activity measured in tonne-kilometers. These negative trends most likely continued through December, driven by lower heating demand in Poland due to warm winter temperatures, combined with orders lost from a closed steel plant in Krakow, and persistent stagnation in haulage of building aggregates. Consequently, we estimate that PKP Cargo's total freight activity in FY2019 suffered a 15% fall from a year earlier.
- Based on this, we expect the quarterly revenue to come in at PLN 1,173.6m after decreasing 14.8% year on year.
- Due to operating leverage and higher average cost per tonne-kilometer of freight (operating costs were on the rise in 2019, in line with increasing prices of electricity, fuel, and salaries), fourth-quarter EBIT will most likely show an operating loss of PLN 36.8m.
- EBITDA under IFRS16 is estimated at PLN 145.2m, but on an adjusted basis EBITDA at a projected PLN 114.5m is expected to be 44.2% lower the year before.
- After all this, we expect PKP Cargo to sustain a quarterly net loss of PLN 45.9m.
- Note that the above estimates represent a downward revision to our initial quarterly forecasts, issued last November, with the expected revenue lowered by 6%, a 28% cut in estimated EBITDA, and the bottom-line estimate changed to expect a net loss of PLN 45.9m vs. an initial net profit of PLN 4.3m.
- Based on 2019 YTD actuals and our fourth-quarter estimates, we now expect PKP Cargo to generate full-year EBITDA of PLN 858.3m for FY2019, implying a 7.2% miss on the Company's November guidance of PLN 925m (revised from an original guidance of PLN 1,152.8m, issued last March).
- Note that our updated 2019 Q4 EBITDA estimate is also 25% lower than the analysts' consensus, indicating possible disappointment to the market.
- PKP Cargo customarily publishes annual financial statements in the third week of March.

2019 Q4 estimates vs. consensus forecasts

(PLN m)	Q4'19E	Q4'18	change	Consensus*	differ.	YTD**
Revenue	1,173.6	1,377.8	-14.8%	1,232.0	-4.7%	98%
EBITDA	145.2	205.3	-29.3%	198.0	-26.7%	94%
EBITDA (ex. IFRS 16)	114.5	205.3	-44.2%	167.3	-31.6%	93%
EBITDA margin	9.8%	14.9%		13.6%		
EBIT	-36.8	1.8	-	15.7	-	79%
Net profit	-45.9	-10.3	-	2.3	-	51%

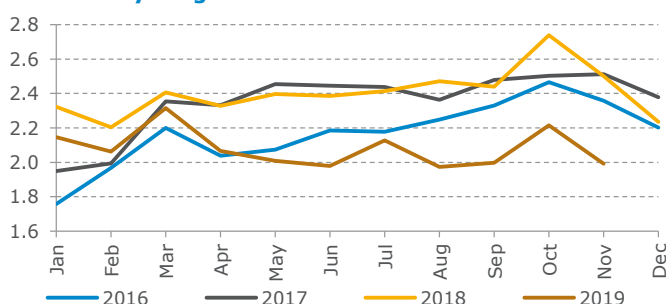
Source: PKP Cargo, E - mBank estimates, *Bloomberg consensus from two analysts; **2019 YTD actuals as a % of mBank's FY forecast of November 2019

Change in mBank's 2019 Q4 and FY forecasts relative to 26 November 2019

(PLN m)	Q4'19E New Forecast	Q4'19E Old Forecast	change	FY2019E New Forecast	FY2019E Old Forecast	change
Revenue	1,173.6	1,247.3	-6%	4,790.2	4,863.9	-2%
EBITDA	145.2	201.6	-28%	858.3	914.7	-6%
EBITDA (ex. IFRS 16)	114.5	170.9	-33%	730.3	786.7	-7%
EBITDA margin	9.8%	13.7%		15.2%	16.2%	
EBIT	-36.8	1.6	-	146.0	184.4	-21%
Net income	-45.9	4.3	-	52.8	103.0	-49%

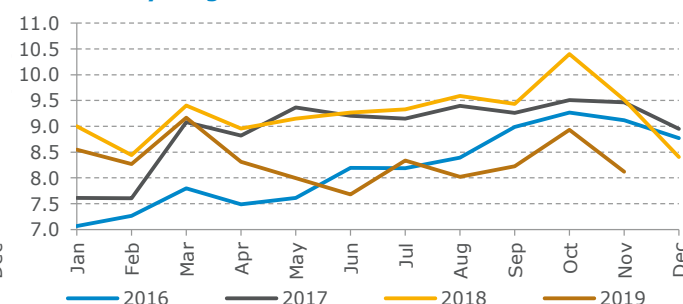
Source: mBank

PKP monthly freight traffic in billion tkm



Source: UTK, mBank

PKP monthly freight volumes in million tonnes



List of abbreviations and ratios contained in the report:

EV – net debt + market value (EV – economic value)
P/E – (Price/Earnings) – price divided by annual net profit per share
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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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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