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Utilities – Forecast of 2019 Q4 Results

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Our Q4 estimates indicate that, on aggregate, rated utilities fulfilled about 98% of our adj. EBITDA forecast for the full year. This includes a miss of 6%, the highest in our universe, expected of PGE, which generated less electricity and heat in the period. The results of CEZ and

TPE are likely to come out well comparison. Note that Polish generators had to book high charges in Q4 2019, including reserves for possible losses on household power supplies in 2020 under the new regulator-mandated price tariff, and actuarial losses due to lower interest rates.

CEZ Kamil Kliszcz	buy CZK 597.80		Reporting Date 17 March		
(CZK m)	Q4'19E	Q4'18	Y/Y	2019E	YTD*
Revenue	57,697	52,717	9%	205,365	100%
EBITDA adj.	12,520	11,434	9%	58,629	100%
EBITDA	12,520	10,934	15%	58,629	98%
EBIT	5,003	3,034	65%	29,601	92%
Financing activity	-1,730	-1,084	-	-7,104	-
Net profit	2,651	1,333	99%	18,036	89%

Enea Kamil Kliszcz	buy PLN 11.53		Reporting Date -		
(PLN m)	Q4'19E	Q4'18	Y/Y	2019E	YTD*
Revenue	4,260	3,289	30%	16,541	99%
EBITDA adj.	702	490	43%	3,298	98%
EBITDA	632	375	69%	3,298	97%
EBIT	236	117	102%	1,763	94%
Financing activity	-70	-12	-	-296	-
Net profit	108	103	6%	1,052	95%

Energa Kamil Kliszcz	buy PLN 11.67		Reporting Date -		
(PLN m)	Q4'19E	Q4'18	Y/Y	2019E	YTD*
Revenue	2,872	2,736	5%	11,721	102%
EBITDA adj.	460	452	2%	2,228	99%
EBITDA	335	290	15%	2,228	93%
EBIT	75	188	-60%	894	84%
Financing activity	-71	-74	-	-305	96%
Net profit	3	61	-	530	72%

PGE Kamil Kliszcz	buy PLN 12.20		Reporting Date -		
(PLN m)	Q4'19E	Q4'18	Y/Y	2019E	YTD*
Revenue	10,007	6,984	43%	38,245	99%
EBITDA adj.	1,596	1,458	9%	6,972	94%
EBITDA	1,196	1,220	-2%	8,083	90%
EBIT	110	105	5%	4,036	79%
Financing activity	-91	-75	-	-397	-
Net profit	-4	-202	-	2,792	78%

Tauron Kamil Kliszcz	buy PLN 2.45		Reporting Date 1 April		
(PLN m)	Q4'19E	Q4'18	Y/Y	2019E	YTD*
Revenue	5,307	4,443	19%	20,344	101%
EBITDA adj.	595	617	-3%	3,324	99%
EBITDA	409	403	2%	3,614	95%
EBIT	-67	-515	-	1,455	86%
Financing activity	-60	-69	-	-270	101%
Net profit	-103	-648	-	905	83%

*as a percentage of our full-year forecast

Quarterly Earnings Surprises Statistics for Rated Utilities

vs. consensus	4Q	2017				2018				2019				+/-
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q		
Power Utilities														
CEZ	+	=	=	=	+	=	-	+	=	=	+	-		83%
Enea	+	=	+	=	=	=	-	=	=	+	+	+		92%
Energa	=	=	=	=	-	=	=	-	-	-	-	=		58%
PGE	-	=	=	=	=	=	=	-	-	=	=	=		67%
Tauron	+	+	+	=	=	=	+	+	=	+	+	+		100%

Source: mBank

- Anticipating segmental Generation EBITDA of CZK 4.1bn vs. 2.6bn in Q3 and 3.7bn the year prior, with the y/y rebound led by rising prices and 5% higher nuclear plant volumes.
- 20% y/y rebound in Mining EBITDA, flat q/q growth in RES.
- No change in EBITDA from Distribution or Trade as marginally lower volumes offset by tariffs and reduced spot market prices.
- No change in financing activity relative to Q3.

- On lower volumes generated by two coal plants, combined with a planned stoppage on a clean power unit, Q4 EBITDA might post a quarterly fall of PLN 117m to PLN 305m (lower coal production may also affect intercompany sales).
- Little change from year-ago Distribution EBITDA at PLN 244m.
- A PLN 70m loss on Trading due to the household tariff charge.
- Subsidiary coal miner LWB reported 2018 Q4 EBITDA of PLN 158m.

- EBITDA from Generation reduced to PLN 59m from PLN 95m in Q4'18 on lower power and heat volumes. Declining prices of renewables offset by higher production.
- EBITDA from Distribution down only 2% on the year despite much lower volumes, owing to higher balancing costs.
- A PLN 48m EBITDA loss in Trading due to the household power tariff provision at PLN 125m.

- A 15% y/y rebound to PLN 644m in Generation EBITDA as low coal and CHP plant volumes offset by new generator output, a changed CO2 accounting approach, and a PLN 180m reduction in the reclamation reserve thanks to lower interest rates.
- 6% growth in RES EBITDA driven by higher volumes.
- Flat growth on a y/y basis in Distribution.
- A PLN 197m EBITDA loss in Trading due to the household power tariff provision at PLN 220m.

- A PLN 188m EBITDA loss in Mining after a seasonal cost boost driven by employee bonuses (PLN 50-60m), not accompanied by a rebound in production.
- EBITDA from Generation at PLN 130m owing to higher CDS and strong volumes produced by renewable generators (including recently-acquired wind farms). Continued growth in quarterly EBITDA from Distribution at an annual pace of 5%.
- A PLN 118m EBITDA loss in Trading after PPA compensation outweighed by the household power tariff provision.

YoY Growth Generated By Rated Utilities

vs. v/v	4Q	2017				2018				2019				+/-
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	
Power Utilities														
CEZ		-	-	-	-	-	-	+	=	+	+	=	+	42%
Enea		+	+	+	=	=	=	=	=	+	+	+	+	75%
Energa		=	-	+	+	+	+	-	-	-	=	+	=	58%
PGE		-	+	+	=	=	+	+	=	-	-	+	+	58%
Tauron		+	+	+	=	=	-	-	-	+	+	+	=	58%

Source: mBank

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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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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