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Quarterly Earnings Forecast: Q4 2019

Equity Market

Financials

We foresee a disappointing fourth-quarter reporting season in the Polish banking sector; on top of one-time charges related to CHF loan risk and fee refunds on prepaid consumer loans, in most cases bank profits will most likely fall relative to the a year earlier. Consequently, the FY2019 full-year net income consensus forecast for banks has turned out to be about 19% overshoot. By contrast, we expect strong fourth-quarter results from banks in other CEE countries, most notably Komerční Banka, with its earnings for the quarter boosted by a half-a-billion-crowns-worth of net reversals.

Chemicals

We anticipate stable 2019 Q4 core earnings in the chemical sector relative to the same period a year earlier, however we see a likelihood of a positive surprise from Grupa Azoty.

Oil & Gas

Operating conditions in Q4 2019 were tough for both the downstream sector (tight margins on refined oil products and petrochemicals) and the upstream sector (falling gas prices), and this will be reflected in sharp, double-digit falls in the industry's core quarterly earnings vis-à-vis Q4 2018. MOL is the most likely of rated stocks to deliver a narrow beat in FY2019, potentially prompting upward revisions to analysts' expectations for FY2020. On the other hand, the current year's expectations for Lotos and PKN Orlen are probably due for downgrades.

Power Utilities

Rated utilities are expected to deliver 98% of our FY2019 aggregate EBITDA forecast, with PGE reporting the biggest miss on lower-than-expected heat and power volumes. Actuarial losses might put an additional drag on the end-of-year financials. CEZ and TPE will most likely report solid figures for 2019, but the market is probably more interested in the sector's outlook for 2020.

Telecoms, Media, IT

We see strong fourth-quarter earnings from Wirtualna Polska (+19% y/y on an adjusted basis) and Agora (+13% y/y) in Media, and in IT we expect to see EBITDA growth at Asseco Business Solutions and Asseco South Eastern Europe vis-à-vis 23% bottom-line shrinkage anticipated from their parent company, Asseco Poland. Note that much of the FY2019 EBITDA growth in the TMT sector was owed to the switch to IFRS16 reporting.

Industrials & Mining

We expect 41% of our industrials universe to improve earnings in Q4 2019 relative to the same year-ago period, with 47% of companies reporting declines. There is potential for a positive surprise from Amica, while Kernel and PKP Cargo will most likely disappoint. In mining, expect better performance from KGHM copper than JSW coal.

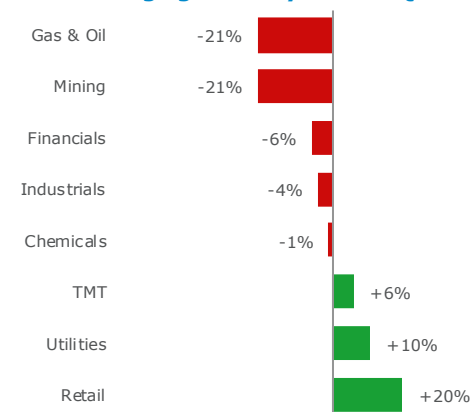
Property Developers

We expect declines in the Q4 profits of Dom Development, Develia, and Archicom, on fewer closings and a weaker euro. On the other hand, Atal will improve on the year-ago figures. At DOM, a repeat of the high 2018 Q4 results is unlikely despite strong performance.

Retail

We expect strong fourth-quarter growth from AmRest restaurants (on a recurring basis supported by one-time gains), and from the chain grocery operators Dino and Jeronimo Martins. At VRG fashion, quarterly EBITDA will expand at a slower annual pace than in previous quarters.

YoY earnings growth by sector: Q4'19E*



*Net earnings for banks, adj. EBIT for developers, otherwise

Earnings Surprise Prediction	
negative	positive
Asseco Poland	Agora
Develia	Amica
JSW	AmRest
Kernel	Asseco BS
Lotos	Asseco SEE
PGE	CD Projekt
PGNiG	Grupa Azoty
PKN Orlen	Komerční Banka
PKP Cargo	Wirtualna Polska
VRG	

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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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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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