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Quarterly Earnings Forecast: Q1 2020

Equity Market

Financials

The 2020 first-quarter profits of Polish banks will most likely be depressed by a series of one-time charges including yearly fees paid into the deposit insurance and resolution funds, downward investment value adjustments, banking taxes, goodwill impairment, and coronavirus loss provisions. Alior Bank has already reported its quarterly results, delivering strong net interest income built on solid foundations. Rated Czech banks, and Erste Group in Austria, have given surprisingly optimistic cost-of-risk guidance for FY2020, well below the levels recorded during the 2008/09 crisis.

Chemicals

The coronavirus outbreak did not disrupt chemical production in Poland in Q1 2020, with producers actually benefitting from lower gas and coal feedstock costs. Ciech did well under these circumstances, with its profits most likely increased relative to first quarter of 2019, while Grupa Azoty probably did not manage to improve on the year-ago results.

Mining

JSW coal and KGHM copper were both hurt by falling commodity prices and higher cash mining costs in Q1 2020, and both are expected to report weak results for the period.

Oil & Gas

Downstream companies capitalized on cheap oil and gas prices in Q1 2020, but any beats in the quarterly profits should not be viewed as a signal to raise FY forecasts given a worsened outlook for Q2. Upstream suffered in Q1 amid crashing prices, and there are no signs of improvement down the road. There is a noticeable upward trend in the quarterly trading profits generated by PGNiG gas.

Power Utilities

Our 2020 first-quarter estimates indicate that, on aggregate, rated utilities in the period fulfilled about 29% of our adjusted EBITDA forecast for the full year – a proportion consistent with the usual seasonal pattern. The second quarter brings tougher times due the lockdown measures, and we might see analysts adjust their expectations slightly downward during the year. Under these circumstances, we see CEZ as the safest bet for the moment.

Telecoms, Media, IT

The coronavirus outbreak had a minimal impact on the first-quarter earnings of telecoms and IT companies (in tech the full effects will start to be felt in subsequent periods). We expect good first-quarter results from Play mobile. The picture is very different in the Media sector, where first-quarter profits will be weighed down by reduced advertising spend reported in January and February, compounded by the coronavirus lockdown in March. We expect a Q1 earnings miss from Wirtualna Polska which will validate our contrarian negative view on the stock.

Gaming

The coronavirus epidemic is having no palpable effect on the video game industry, with all rated companies expected to deliver growth in 2020 Q1 results relative to the same period a year earlier. TEN and CDR will be the earnings leaders of our coverage universe.

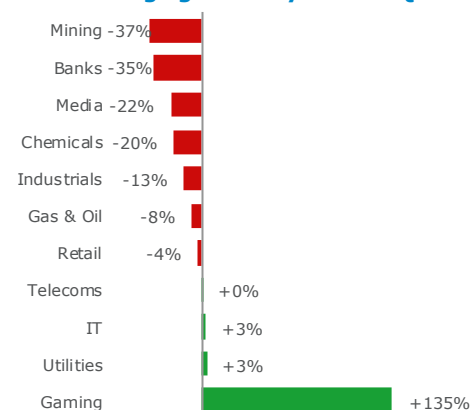
Industrials

53% of rated industrial companies are expected to report declines in 2020 Q1 profits relative to the comparable year-ago period, with only 29% experiencing improvement. We anticipate weak results from Amica, Astarta, Boryszew, Famur, and Pozbud, and we see Kernel as the only rated stock with potential for a positive surprise. A stronger euro will most likely boost the industry's FX-denominated debt levels.

Retail

AmRest restaurants and VRG fashion had to close locations in March under lockdown orders, with severe negative effects for sales and profits. Grocery retailers stayed opened during that time, and Dino stores most likely capitalized on that through a sales boost. Looking ahead, however, in Q2 2020 grocery sales might slump due to scaled-back shopping activity this Easter season.

YoY earnings growth by sector: Q1'20E*



*Net earnings for banks, otherwise EBITDA

Earnings Surprise Prediction	
negative	positive
AmRest	CD Projekt
Boryszew	CEZ
Energa	Ciech
Handlowy	Enea
JSW	GPW
KGHM	PGNiG
Kruk	
Wirtualna Polska	

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

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HOLD – we expect that the rate of return from an investment will range from -5% to +5%
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