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Polish Insolvencies Rise In Q3 2020

Financials, Poland

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According the latest report by the trade credit insurance company Coface, 343 Polish companies were declared insolvent by courts in Q3 2020, an increase of 56% from the previous quarter and a 27% rise compared to the same period in 2019. Part of the reason behind the record cased numbers were temporary changes in insolvency laws, introduced in June, which allow businesses to bypass having to notify courts about the commencement of an insolvency process; as many as 111 companies opted to take the shorter route in Q3 2020. In general, the insolvency statistics point to a rising number of company failures despite government aid.

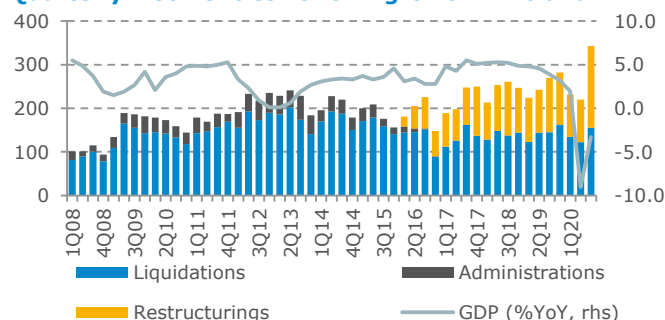
From the point of view of banks, costs of risk in the sector did not increase much in July and August at 81bp, but they probably went up in September, when banks usually review the state of their loan portfolios. Our current FY2020 cost of risk assumption for the banking sector is about 150bp, leaving plenty of breathing room still vis-a-vis the August levels.

By type of proceeding, liquidations in Q3 were up by 7% from a year earlier and surged 27% from the previous quarter, and restructuring cases grew 50% on the year and 92% quarter-on-quarter. By sector, cases in the building industry jumped by a concerning 21 in Q3, alongside 30 cases added in farming and 50 more cases registered in the service sector. Consumer insolvencies accelerated as well in Q3 after a slowdown in the previous quarter.

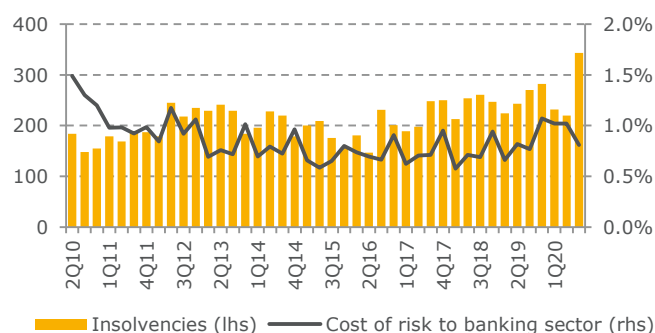
Rising corporate defaults

The legislative and financing measures taken by the Polish government to help companies survive the disruptions brought on by the coronavirus pandemic helped to delay a wave of corporate defaults until the end of the second quarter. However with temporary amendments to insolvency laws, as courts resumed normal business, in Q3 we saw a rapid rise in caseload from businesses and from individuals, and filings can be expected to rise further going forward.

Quarterly insolvencies vs. GDP growth in Poland

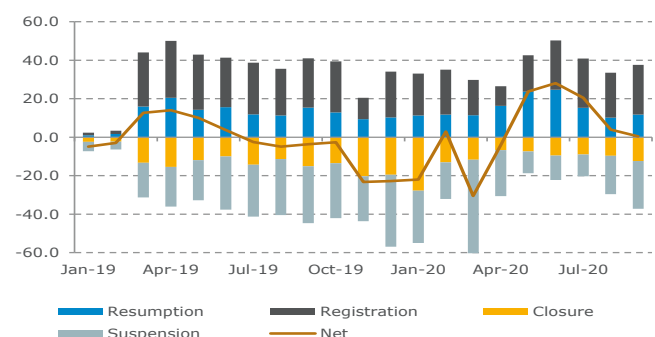


Insolvencies vs. cost of risk to banks



Source: Coface, NBP, mBank

Sole proprietorship registrations and dissolutions in Poland (thousands)

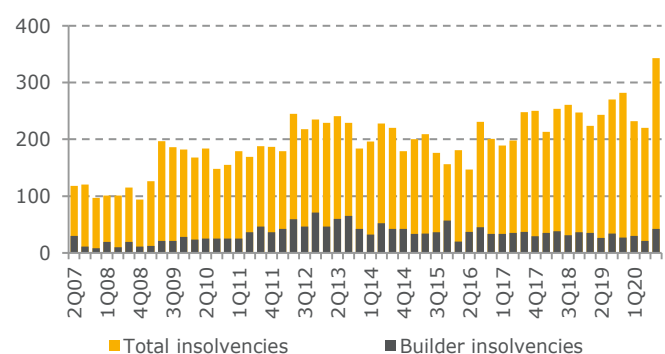


Source: CEIDG (Central Registration and Information on Business service of the Polish Ministry of Economic Development), mBank

Builders endure, hospitality sector struggles

Insolvencies in the building industry increased to their highest number since Q3 2016 in Q3 2020, but in spite of this confidence in the sector remains fairly upbeat according to Coface, buoyed by expectations of new EU funding. To our surprise, cases in the transportation sector held steady in Q3 relative to the previous quarter, but in building management and hospitality more and more companies are struggling to stay above water.

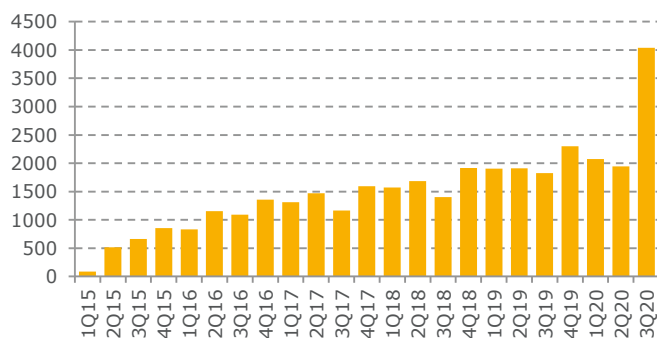
Insolvencies in the construction sector vs. total company insolvencies in Poland



Soaring personal bankruptcies

Consumer insolvencies increased rapidly in Q3 2020, with 4,041 filings registered by COIG, representing 108% more cases than in Q2 and 122% cases more than in Q3 2019. We attribute the high numbers to the normalized activity of courts after lockdown, as well as to the deteriorating financial situation of Polish households. Perhaps more importantly, however, under temporarily changed laws, courts are currently accepting practically all bankruptcy filings by individuals whereas before March they tended to dismiss about a half of all cases.

Quarterly personal bankruptcies in Poland



Source: COIG mBank

Company insolvencies in Poland by sector

	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	Q/Q	Y/Y
Industrials	40	95	56	61	72	73	68	55	71	16	-1
Manufacturing	39	78	51	53	65	66	63	51	66	15	1
Metals & Metal Products	14	12	6	10	14	18	13	13	11	-2	-3
Food & Beverages	6	12	8	5	13	15	11	11	12	1	-1
Machinery & Equipment	2	8	3	4	7	4	7	4	9	5	2
Rubber & Plastics	0	8	7	7	5	4	4	2	2	0	-3
Printing	1	3	2	2	0	1	4	0	5	5	5
Chemicals	-2	0	0	5	1	0	0	2	0	-2	-1
Paper	0	1	0	4	3	3	0	3	3	0	0
Clothing & Textiles	2	3	5	2	2	2	1	0	4	4	2
Furniture	1	7	4	3	7	5	3	4	4	0	-3
Wood ex. Furniture	8	4	5	6	4	3	3	8	4	-4	0
Other Nonmetallic Mineral Products (incl. Building Materials)	2	6	0	2	4	2	0	0	7	7	3
Other	5	14	13	1	5	9	17	4	5	1	0
Trade, of which:	59	59	67	68	56	61	43	56	63	7	7
Wholesale	40	32	38	47	31	37	22	32	32	0	1
Retail	13	23	24	17	18	18	16	23	24	1	6
Construction	31	36	35	26	34	27	30	21	42	21	8
Transport	14	21	11	25	15	22	11	23	22	-1	7
Agriculture	25	0	0	0	33	26	32	10	40	30	7
Other	117	36	55	32	60	73	48	55	105	50	45
Total	261	247	224	243	270	282	232	220	343	123	73

Source: Coface, 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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ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from -5% to +5%
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SELL – we expect that an investment will bear a loss greater than 15%
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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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