

Wednesday, October 14, 2020 | special comment

Ciech – Forecast of 2020 Q3 Results

Rating: hold | target price: PLN 30.10 PLN | current price: PLN 26.00

CIE PW; CIEP.WA | Chemicals, Poland

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- Ciech is set to announce its results on **18 November 2020**.
- In Q3 2020, we expect a 20% y/y drop in the **soda ash segment** (halted production in Govora) and a 11% y/y decrease in adjusted EBITDA. The segment's results will be positively affected by the recognition of the compensation of higher costs of CO2 certificates for 2019 in the amount of PLN 10 million and well as the PLN 5 million provision for the Management Board's incentive programme. The Company may recognise income from white certificates in Q3 2020, which would have a positive impact on the result.
- In the **glass segment**, we expect sales to go up by 2% y/y and EBITDA to decrease by 15%. The **Organika** segment will report a drop in sales by 28% y/y as a consequence of the sale of operations connected with the production of resins. We predict that adjusted EBITDA will go up by 36% y/y in the plant protection products and foams segments due to the y/y improvement in their results.
- In Q3 2020, **financial costs will increase** due to the use of the available credit lines. In our forecasts, we also take

into account the **provision for interest on tax** in the amount of PLN 10 million in connection with the lost court case with the tax chamber in Q3 2020.

- We expect **net debt** to shrink slightly in Q3 2020 to PLN 1.58 billion, i.e. to the level of 2.6xEBITDA 12m.
- In our opinion, Q3 2020 results are significantly better than previous quarter's figures. If the Company decides to recognise the income from white certificates, the **results may exceed market expectations**.

Summary of Q3 2020 estimates

(PLN m)	3Q'20E	3Q'19	YoY	2020E	YTD
Revenue	731.7	848.1	-13.7%	3,076.5	72%
EBITDA	141.1	103.7	36.1%	576.5	73%
EBITDA (adj.)	136.1	142.6	-4.5%	576.5	72%
EBITDA margin	19.3%	12.2%		18.7%	
EBIT	61.4	26.0	136.4%	251.4	71%
Net profit	23.8	0.9	-	90.4	65%

Source: Ciech, E – mBank estimates

Historical results and 2020 Q3 estimates

(PLN m)	1Q'19	2Q'19	3Q'19	4Q'19	1Q'20	2Q'20	3Q'20E
Revenue	952.7	944.6	848.1	803.4	854.4	623.5	731.7
change	7.6%	1.2%	-3.9%	-17.2%	-10.3%	-34.0%	-22.5%
Gross profit	192.8	213.3	170.0	205.7	178.8	153.8	148.1
Gross margin	20.2%	22.6%	20.0%	25.6%	20.9%	24.7%	20.2%
Selling expenses	67.6	68.9	59.3	54.8	43.0	33.9	43.2
General and administrative expenses	46.3	57.6	48.9	49.4	58.6	43.9	48.5
Other operating activity (net)	4.5	-25.6	-35.8	-4.6	-13.9	-22.7	5.0
EBIT	83.4	61.3	26.0	96.9	63.3	53.4	61.4
Finance income	5.3	1.5	9.7	-11.4	29.2	-17.1	1.0
Financing costs	15.7	18.7	20.5	35.3	26.1	24.8	20.0
Pre-tax income	73.3	41.5	15.4	53.3	66.7	11.2	42.5
Tax	10.6	22.5	15.0	19.0	27.3	17.3	18.5
Net income	62.6	19.4	0.9	34.8	39.4	-4.7	23.8
D&A expenses	76.9	76.9	77.7	79.0	81.6	81.8	79.7
EBITDA	160.3	138.2	103.7	175.9	144.9	135.2	141.1
y/y change	-3.1%	-26.6%	-20.8%	3.6%	-9.6%	-2.2%	2.1%
EBITDA margin	16.8%	14.6%	12.2%	21.9%	17.0%	21.7%	19.3%
Net debt	1,719.3	1,640.2	1,627.2	1,489.8	1,673.5	1,585.5	1,572.6
Operating Cash Flow	-21.7	128.6	132.5	292.4	11.0	303.0	112.9
Net Debt / Adj. EBITDA	2.7	2.6	2.5	2.2	2.6	2.6	2.6
CAPEX	100.3	32.9	96.4	118.9	163.4	216.2	100.0
EBITDA (adj.)	159.6	175.7	142.6	185.4	142.1	138.1	136.1

Source: Ciech, E – mBank estimates

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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