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Quarterly Earnings Forecast: Q3 2020

Equity Market

Financials

Banks across the board can be expected to register further declines in net interest income and margins in Q3 2020, driven by slashed rates and a larger allocation to instruments that provide lower yields than loans. Not all lenders are going to make additional provisions for COVID-19-related risks in Q3. Provisioning for franc loan losses will be maintained at a similar level as in Q2, except for PKO BP, where it is expected to triple in size. The majority of rated banks are set to surpass earnings expectations in the year to 30 September 2020, and since this was achieved largely through stronger interest income and higher fees, the outlook for 2021 looks brighter.

Elsewhere in financials, the debt collector Kruk is also expected to exceed expectations with ytd results, and for the stock market operator GPW the third quarter was marked by slower revenue growth and higher expenses.

We see OTP, EBS, PKO, and ING as the likely top earners in Financials.

Chemicals

Our prediction for Ciech is that it will exceed expectations with Q3 2020 results, unlike Grupa Azoty, which remained under pressure.

Mining

JSW had a miserable quarter in Q3 2020 in terms of income as well as debt.

Oil & Gas

The 2020 third-quarter profits of refiners were depressed by low cracking margins. MOL did relatively well in the period with Downstream losses offset by improvement in Upstream, Retail, and Gas Midstream. At PGNiG Gas we are anticipating continued growth in profits.

Power Utilities

Our forecasts indicate that, on aggregate, rated Polish utilities fulfilled about 78% of our full-year adjusted EBITDA forecast in the year to 30 September 2020 – a proportion consistent with the usual seasonal pattern. The top earners so far this year are CEZ, Enea, and Tauron, but with the second wave of infections upon us FY forecast adjustments will have to wait. For PGE, depending on Q3 results the adjustment might about 5% to the downside.

Telecoms, Media, IT

Rated tech companies by and large improved results in Q3 2020, with ACP, ASE, and ALL pegged as the most likely top earners. On the other hand, ABS might disappoint investors with weaker quarterly performance.

Telecoms did not suffer from coronavirus effects in Q3 2020, except for reduced roaming revenues. We see space for gradual price hikes on mobile plans moving forward.

Both our rated media companies, Wirtualna Polska and Agora, are set to report weak results for Q3 2020 despite a pickup in spending by advertisers.

Gaming

We expect to see a less rapid rate of annual earnings growth at 11B, CDR, and PLW, in Q3 2020. On the other hand, TEN most likely enjoyed even stronger forward momentum in the period.

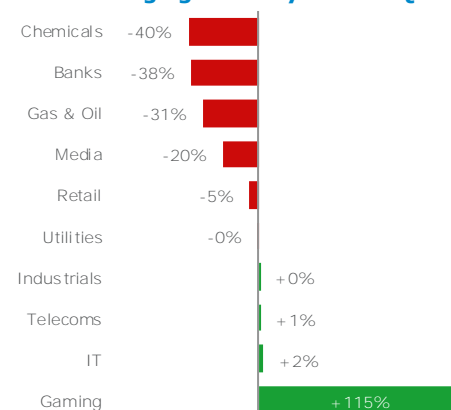
Industrials

50% of rated industrials are expected to report improved results for Q3 2020 relative to the same period a year earlier, a higher proportion than in Q2. We expect positive earnings surprises from Amica, Astarta, Cognor, Famur, Forte, and Stalprodukt.

Retail

We expect to see less rapid revenue falls at EAT and JMT. EUR, DNP, and VRG will most likely improve third-quarter EBIT relative to Q3 2019.

YoY earnings growth by sector: Q3'20E*



*Net earnings for banks, otherwise EBITDA

Earnings Surprise Prediction	
negative	positive
Asseco BS	Ailleron
Grupa Azoty	Amica
JSW	Asseco Poland
PGE	Astarta
PKN Orlen	Ciech
	Energia
	Erste Group
	Eurocash
	ING BSK
	MOL
	OTP Bank
	PGNiG
	PKO BP
	Tauron
	Ten Square Games
	TIM

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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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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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