

27 Jan 2016

**REPORTS RELEASED**

- **OTP BANK** - Out of the woods... but not that far.

**4Q15 RESULTS**

- **BZ WBK** - Reported 4Q15 net income of PLN 277m (-41%; +38%) - core revenues were close to expectations (NIM was slightly above what was expected), one-offs came in line, 9% consensus beat was mostly made on lower than expected minorities (on weak SCB subsidiary results). Solvency ratios should allow BZWBK to pay up to 50% of 2014 and 2015 earnings - NEUTRAL

**4Q15E PREVIEW**

- **PKP CARGO** – 4Q15 net income well above reported 4Q14 figure, though clearly below base period number adjusted for one-offs – 4Q15 results preview, due on March 15

**MARKET**

- **POLISH GDP** - POLISH GDP grew 3.6% in 2015 vs 3.3% in 2014, driven by consumption and investments - GUS stat office informed - NEUTRAL
- **POLISH MARKET** - Poland Working on Renationalization of some companies

**FINANCIALS**

- **PKO** - PKO's decision to hike prices will be discussed during Public Finance Committee (a body of lower house of Parliament) - head of Public Finance Committee informed on Twitter
- **ALIOR BANK** - Alior Bank will acquire SKOK Wyszynskiego (PLN 174.9m of deposits, PLN 49.3m negative equity, 11M15 net loss of PLN 11.9m) - KNF informed - NEUTRAL, it is 0.3% of Alior assets and negative equity will be supplemented by BGF. We expect no material impact on Alior solvency ratios
- **PKO** - PKO does not expect Y/Y growth in F&C line in 2016
- **BANKS / COAL MINING SECTOR** - allegedly financial institutions involved in financing JSW might be forced by State Treasury (controlling parent of coal companies) to write off a portion of JSW bonds they hold or to execute debt to equity swap, otherwise JSW might bankrupt. Allegedly institution financing Kompania Węglowa also received a proposal of debt to equity swap - Parkiet daily informed

**OIL&GAS**

- **PGNIG** - Is the most likely candidate to take over SEJ, a power firm from the JSW miner – Parkiet

**UTILITIES**

- **POLISH UTILITIES SECTOR** – Minister of Energy interview

**METALS & MINING**

- **JSW** – Ultimatum to bondholders likely?

**TMT**

- **POLISH TELECOMS** – Change in SIM market share thanks to T-Mobile's base cleaning

**CONSUMER STAPLES & DISCRETIONARY**

- **LPP** – Interview with CFO on 2016 outlook. NEUTRAL
- **POLISH RETAIL** – 1) Neither Polish nor foreign retailers are satisfied with the proposed shape of the new retail tax 2) Impact of retail tax on WSE retailers

**REAL ESTATE**

- **ROBYG** – Finalized the purchase of 1.8ha land parcel in Gdansk – rather anticipated, thus NEUTRAL
- **PL REAL ESTATE** – The value of transactions in land plots in Poland rose to over PLN 2.5bn (up c. 67% y/y) in 2015, with transactions on residential market accounting for 65% of the total – JLL

**LOGISTICS**

- **LOT** – Poland will likely appoint Rafal Milczarski as new CEO of PLL LOT – PB daily wrote, citing three independent sources
- **POCZTA POLSKA** - The firm's CEO Jerzy Jozwiak and two management board members Janusz Wojtas and Piotr Michalski have been dismissed; at the same time, deputy chair of the SB Marek Chibowski has been appointed acting CEO – GW daily
- **PKP INTERCITY** – The firm will likely post a net loss for 2015 despite an increase in the number of passengers and the highest revenues in five years – DGP daily

| Indexes | Last price | 1D    | 1M    | YTD   |
|---------|------------|-------|-------|-------|
| WIG     | 42,925     | -0.6% | -7.8% | -7.6% |
| WIG20   | 1,713      | -0.9% | -8.9% | -7.8% |
| mWIG40  | 3,295      | -0.1% | -6.9% | -7.6% |
| sWIG80  | 12,301     | -0.2% | -4.0% | -6.9% |
| PX      | 893        | 1.0%  | -5.6% | -6.6% |
| BUX     | 23,522     | 1.2%  | -0.1% | -1.7% |

| Daily Turnover | In PLN m | In EUR m |
|----------------|----------|----------|
| WIG            | 1316.1   | 295.7    |
| WIG20          | 1075.0   | 241.5    |
| mWIG40         | 203.3    | 45.7     |
| sWIG80         | 45.6     | 10.2     |

| WIG20 Top Gainers | Last price | % Chng |
|-------------------|------------|--------|
| EUROCASH          | 49.54      | 3.2%   |
| KGHM              | 56.10      | 1.6%   |
| ENERGA            | 13.35      | 0.9%   |

| WIG20 Top Losers | Last price | % Chng |
|------------------|------------|--------|
| PGNG             | 4.69       | -2.9%  |
| PZU              | 31.43      | -2.7%  |
| TAURON PE        | 2.69       | -2.2%  |

| WIG20 Most Active | Last price | Turnover (in PLN m) |
|-------------------|------------|---------------------|
| PKN ORLEN         | 64.9       | 74.9                |
| KGHM              | 56.1       | 74.4                |
| PZU               | 31.4       | 61.9                |

| Foreign Indexes | Last price | 1D    | 1M     | YTD    |
|-----------------|------------|-------|--------|--------|
| S&P 500         | 1,904      | 1.4%  | -7.8%  | -7.7%  |
| DJIA            | 16,167     | 1.8%  | -8.2%  | -8.2%  |
| NASDAQ          | 4,568      | 1.1%  | -9.5%  | -9.8%  |
| DAX             | 9,823      | 0.9%  | -8.4%  | -8.6%  |
| CAC40           | 4,357      | 1.1%  | -6.8%  | -6.8%  |
| FTSE            | 5,911      | 0.6%  | -5.3%  | -5.8%  |
| RTS             | 918        | 0.0%  | -14.0% | -10.4% |
| ISE 100         | 71,809     | 1.8%  | -3.0%  | -1.9%  |
| NIKKEI          | 16,709     | -2.3% | -91.1% | -12.2% |
| SHANGHAI        | 2,878      | -6.4% | -24.4% | -23.1% |
| HANG SENG       | 18,861     | -2.5% | -14.4% | -13.8% |

| Currencies | Last price | 1D    | 1M    | YTD   |
|------------|------------|-------|-------|-------|
| EUR/PLN    | 4.45       | -0.6% | 4.8%  | 4.5%  |
| USD/PLN    | 4.09       | -0.8% | 5.2%  | 5.1%  |
| CHF/PLN    | 4.03       | -1.2% | 2.5%  | 2.2%  |
| GBP/PLN    | 5.87       | -0.1% | 1.6%  | 1.8%  |
| EUR/USD    | 1.09       | 0.2%  | -0.4% | -0.6% |

| Commodities | Last price | 1D   | 1M     | YTD    |
|-------------|------------|------|--------|--------|
| OIL BRENT   | 30.0       | 4.4% | -17.2% | -14.6% |
| COPPER      | 4,539.0    | 2.8% | -3.8%  | -4.1%  |
| GOLD        | 1,119.9    | 1.1% | 4.6%   | 5.5%   |
| SILVER      | 14.5       | 1.9% | 1.3%   | 4.4%   |

| Bond yields    | 2Y*  | 5Y  | 10Y |
|----------------|------|-----|-----|
| POLAND         | 1.6  | 2.3 | 3.1 |
| CZECH REPUBLIC | -0.2 | 0.0 | 0.6 |
| HUNGARY        | 1.8  | 2.3 | 3.4 |

\* 3Y for Hungary's yields

Haitong Bank, SA. – Warsaw Branch, Spółka Akcyjna, Oddział w Polsce, 59th Złota Street, floor V, 00-120 Warsaw, Poland

## REPORTS RELEASED

**OTP BANK**  
(NEUTRAL FV HUF 5,400)

**Out of the woods... but not that far.**

We upgrade OTP to NEUTRAL with a FV HUF 5,400 (from SELL, FV HUF 3650 before) as we expect mostly positive newsflow for OTP in the short/medium term: i.e. Hungary could be returned to investment grade; improvement in earnings driven by lower cost of risk going forward; gradually increasing dividends; and positive impact of new regulations on retail lending in Hungary. Our Neutral stems from our belief that this is mostly priced in and we are concerned the market underestimates the impact of OTP's exposure to Russia (which is 20% of revenue in 9M15) and is too bullish on dividends.

**RoE targets imply excess equity; earnings unlikely to surprise**

Our expectations for OTP earnings are close to market consensus and management guidance. We differ in that we assume visibly lower dividends (see page 3). We are concerned management's target for 2017E of 15-20% ROE (on capital implying a CT1 of 12.5%) is not feasible as we think M&A is the preferred way for management to deploy excess equity (which is not much today – around HUF 60bn or EUR 190m as of 3Q15). We would start considering buyback or higher dividends only when management decides M&A is not an option (maybe because of a limited supply of targets). We also note that we regard OTP's track record in M&A as mixed.

**Pressure on revenue will stay; earnings recovery to be fueled by lower CoR**

Hungary is OTP's most important geography (61% of 9M15 assets, 32% of revenue) and here we expect a continued revenue contraction driven by pressure on NIM and flattish balance sheet volumes. Russia and the Ukraine (19.5% of revenue) should contribute negatively because of currency depreciation and weak economic activity there. Those two countries generated a combined HUF 57.7bn (EUR 180m) and HUF 45.0bn (EUR 143m) loss in 2014 and 9M15, respectively. Management guides for a zero contribution from both countries in 2016 and a positive contribution in 2017. We are more sceptical because of oil prices being down to around USD 30/bbl and RUB losing 8% to HUF in a month. The true earnings driver for OTP Group should be a lower cost of risk as in most of its markets OTP expects a gradual decrease in NPL formation and a less negative contribution from Russia and Ukraine.

**Risk profile improved but we believe OTP still deserves a discount**

OTP has paid severely for its risk profile in previous quarters but now it has very limited CHF-mortgage exposure (down to HUF 24bn or EUR 75m as of 3Q15 vs HUF 700bn or EUR 2.2bn a year ago), and its combined exposure to Russia and Ukraine is down to 9% of total OTP assets and 19.5% of total revenue for 9M15, from respectively 20% and 33% before, and we may see Hungary's rating upgraded back to investment grade later this year. Nevertheless we believe that with material exposure to Russia OTP should keep trading at a discount to EM peers which are on 1.4x 2015E P/BV (HTG ests).

OTP trades at a 2015E P/BV of 1.3x for a 2016E ROE of 12.6%; 2016E P/E (reported) is 10.2x. 2016E DY is 2.9%, which we regard as reasonable.

*Kamil Stolarski, CFA, Equity Analyst, +48 22 347 40 48*

## 4Q15 RESULTS

**BZ WBK**  
(NEUTRAL, FV PLN 270)

**BZ WBK reported 4Q15 net income of PLN 277m (-41%; +38%) - core revenues were close to expectations (NIM was slightly above what was expected), one-offs came in line, 9% consensus beat was mostly made on lower than expected minorities (on weak SCB subsidiary results). Solvency ratios should allow BZWBK to pay up to 50% of 2014 and 2015 earnings - NEUTRAL**

BZ WBK reported 4Q15 net income of PLN 277m (-41%; +38%) driven by:

- NIM improved 5bps QoQ, despite spectacular 7% QoQ growth in deposits and 3% QoQ growth in loans
- F&C line came in line with expectations
- Opex excluding one-offs came in 1% higher than expected on higher amortization mostly.
- One offs came in as expected at PLN 224.6m (vs. PLN 225m expected):
  - The cost base of BZ WBK Group includes a provision of PLN 40.8m raised by BZ WBK and SCB for their obligatory contribution to the support fund for distressed residential borrowers (supervised by Bank Gospodarstwa Krajowego). The fee was imposed on the Polish banks maintaining residential mortgage loan-books, effective from the start of 2016.
  - BZ WBK and SCB were obliged to make a contribution of PLN 170.5m and PLN 13.3m, respectively, from the guaranteed deposit protection fund to reimburse depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa, Wołomin, as a result of the latter's bankruptcy.
- AFS valuation stood at PLN 183.4m

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- Group CAR stood at 14.6%, CT1=14.1%
- Interchange one-off in Other cost line stood at PLN 22.2m

| BZ WBK (PLN m)                            | 3Q14         | 4Q14         | 1Q15         | 2Q15         | 3Q15         | 4Q15E        | QoQ         | YoY         | 4Q15E        | vs. E      | PAP cons.      | vs. cons  | 2014         | 2015E        | YoY        | 2016E        | YoY         |              |
|-------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|-------------|--------------|------------|----------------|-----------|--------------|--------------|------------|--------------|-------------|--------------|
| Net Interest Income (incl. swap points)   | 1,159        | 1,075        | 1,054        | 1,032        | 1,090        | 1,136        | 4%          | 6%          | 1,125        | 1%         | 1,119.4        | 2%        | 4,018        | 4,313        | 7%         | 4,621        | 7%          |              |
| Fees & commissions                        | 483          | 472          | 459          | 502          | 483          | 494          | 2%          | 5%          | 495          | 0%         | 491.8          | 0%        | 1,848        | 1,938        | 5%         | 1,965        | 1%          |              |
| Trading Income                            | 65           | 214          | 226          | 179          | 76           | 84           | 10%         | -61%        | 51           | 64%        |                |           | 396          | 564          | 42%        | 258          | -54%        |              |
| Other Revenues and Expenses (Net)         | 21           | 59           | 52           | 4            | 13           | -19          | -244%       | -132%       | 18           | -205%      |                |           | 241          | 50           | -79%       | 60           | 20%         |              |
| <b>Total Revenue</b>                      | <b>1,727</b> | <b>1,820</b> | <b>1,791</b> | <b>1,717</b> | <b>1,662</b> | <b>1,695</b> | <b>2%</b>   | <b>-7%</b>  | <b>1,688</b> | <b>0%</b>  | <b>1,682.6</b> | <b>1%</b> | <b>6,503</b> | <b>6,865</b> | <b>6%</b>  | <b>6,904</b> | <b>1%</b>   |              |
| Personnel Costs                           | 380          | 401          | 389          | 381          | 379          | 395          | 4%          | -1%         | 386          | 2%         |                |           | 1,450        | 1,544        | 7%         | 1,550        | 0%          |              |
| General Expenses                          | 317          | 349          | 353          | 366          | 358          | 362          | 1%          | 4%          | 370          | -2%        |                |           | 1,270        | 1,440        | 13%        | 1,529        | 6%          |              |
| Depreciation and Amortisation             | 82           | 84           | 67           | 62           | 62           | 66           | 7%          | -22%        | 62           | 7%         |                |           | 308          | 257          | -17%       | 248          | -3%         |              |
| <b>Operating Expenses</b>                 | <b>780</b>   | <b>834</b>   | <b>808</b>   | <b>809</b>   | <b>799</b>   | <b>824</b>   | <b>3%</b>   | <b>-1%</b>  | <b>818</b>   | <b>1%</b>  | <b>816.9</b>   | <b>1%</b> | <b>3,028</b> | <b>3,241</b> | <b>7%</b>  | <b>3,327</b> | <b>3%</b>   |              |
| <b>Operating Income</b>                   | <b>948</b>   | <b>987</b>   | <b>983</b>   | <b>907</b>   | <b>862</b>   | <b>872</b>   | <b>1%</b>   | <b>-12%</b> | <b>870</b>   | <b>0%</b>  | <b>865.7</b>   | <b>1%</b> | <b>3,475</b> | <b>3,625</b> | <b>4%</b>  | <b>3,577</b> | <b>-1%</b>  |              |
| Net Loan Loss Provisions                  | 216          | 285          | 191          | 162          | 201          | 256          | 28%         | -10%        | 250          | 3%         | 254.1          | 1%        | 837          | 811          | -3%        | 772          | -5%         |              |
| Associate income                          | 1            | 0            | 1            | 5            | 8            | 14           |             |             | 0            |            |                |           | 1            | 28           | 0          | 0            | -100%       |              |
| One-offs                                  | 0            | 0            | 561          | 0            | 0            | -225         |             |             | -225         |            | -225.0         |           | 0            | 337          | 0          | 0            |             |              |
| <b>Pre-tax Profit</b>                     | <b>733</b>   | <b>702</b>   | <b>1,354</b> | <b>750</b>   | <b>670</b>   | <b>405</b>   | <b>-40%</b> | <b>-42%</b> | <b>395</b>   | <b>2%</b>  | <b>383.7</b>   | <b>5%</b> | <b>2,640</b> | <b>3,178</b> | <b>20%</b> | <b>2,804</b> | <b>-12%</b> |              |
| Corporate Income Tax                      | 156          | 206          | 264          | 140          | 141          | 100          | -29%        | -52%        | 99           | 1%         |                |           | 593          | 644          | 9%         | 572          | -11%        |              |
| <b>Net Income</b>                         | <b>576</b>   | <b>496</b>   | <b>1,091</b> | <b>610</b>   | <b>529</b>   | <b>305</b>   | <b>-42%</b> | <b>-39%</b> | <b>297</b>   | <b>3%</b>  | <b>255.0</b>   | <b>9%</b> | <b>2,047</b> | <b>2,535</b> | <b>24%</b> | <b>2,232</b> | <b>-12%</b> |              |
| Minority interests                        | 60           | 51           | 55           | 68           | 57           | 28           | -51%        | -45%        | 47           | -41%       |                |           | 133          | 207          | 56%        | 226          | 9%          |              |
| <b>Net Attributable Income (stated)</b>   | <b>516</b>   | <b>445</b>   | <b>1,036</b> | <b>542</b>   | <b>473</b>   | <b>277</b>   | <b>-41%</b> | <b>-38%</b> | <b>250</b>   | <b>11%</b> | <b>255.0</b>   | <b>9%</b> | <b>1,915</b> | <b>2,327</b> | <b>22%</b> | <b>2,006</b> | <b>-14%</b> |              |
| Net Income excl. one-offs and merger cost | 539          | 500          | 591          | 554          | 485          | 474          | -2%         | -5%         | 446          | 6%         |                |           | 2,082        | 1,922        | -8%        | 2,006        |             |              |
| Stated KRB merger cost                    | 29           | 67           | 12           | 15           | 15           | 19           | 23%         | -72%        | 18           |            |                |           | 206          | 62           | -70%       | 0            |             |              |
| <b>Banking tax*</b>                       |              |              |              |              |              |              |             |             |              |            |                |           |              |              |            |              |             | -405         |
| <b>Banking tax* passed on</b>             |              |              |              |              |              |              |             |             |              |            |                |           |              |              |            |              |             | 101          |
| <b>Net Inc. incl. banking tax*</b>        |              |              |              |              |              |              |             |             |              |            |                |           |              |              |            |              |             | <b>1,703</b> |

| Balance Sheet Figures                        | 3Q14  | 4Q14  | 1Q15  | 2Q15  | 3Q15  | 4Q15E | QoQ | YoY  | 4Q15E | vs. E | 2014  | 2015E | YoY  | 2016E | YoY  |
|----------------------------------------------|-------|-------|-------|-------|-------|-------|-----|------|-------|-------|-------|-------|------|-------|------|
| Net client lending                           | 85.0  | 85.8  | 88.0  | 90.1  | 91.9  | 94.9  | 3%  | 11%  | 93.3  | 2%    | 85.8  | 94.9  | 11%  | 99.3  | 243% |
| Securities and portfolio of financial assets | 30.0  | 32.5  | 29.8  | 30.8  | 30.4  | 29.0  | -5% | -11% | 33.5  | -14%  | 32.5  | 29.0  | -11% | 33.4  | -67% |
| Customer deposits                            | 93.0  | 95.0  | 92.5  | 93.7  | 95.6  | 101.9 | 7%  | 7%   | 99.4  | 2%    | 95.0  | 101.9 | 7%   | 105.5 | -24% |
| Total assets                                 | 130.4 | 134.5 | 131.4 | 133.1 | 135.1 | 139.7 | 3%  | 4%   | 139.4 | 0%    | 134.5 | 139.7 | 4%   | 145.2 | 649% |
| Equity ex minorities                         | 16.2  | 16.5  | 18.1  | 18.4  | 18.8  | 19.4  | 3%  | 17%  | 19.2  | 1%    | 16.5  | 19.4  | 17%  | 19.0  | -2%  |

| Key Ratios             | 3Q14  | 4Q14  | 1Q15  | 2Q15  | 3Q15  | 4Q15E | QoQ    | YoY     | 4Q15E | vs. E  | 2014  | 2015E | YoY     | 2016E | YoY    |
|------------------------|-------|-------|-------|-------|-------|-------|--------|---------|-------|--------|-------|-------|---------|-------|--------|
| Net Interest Margin    | 3.91% | 3.49% | 3.33% | 3.27% | 3.40% | 3.45% | 5 bps  | -4 bps  | 3.42% | 3 bps  | 3.53% | 3.30% | -23 bps | 3.38% | 8 bps  |
| Cost to Income         | 45%   | 46%   | 45%   | 47%   | 48%   | 49%   | 0 pp   | 3 pp    | 48%   | 0 pp   | 46.6% | 47.2% | 1 pp    | 48.2% | 1 pp   |
| Cost of risk [bps]     | 102   | 133   | 87    | 72    | 88    | 108   | 21 bps | -25 bps | 107   | 1 bps  | 97    | 85    | -12 bps | 80    | -6 bps |
| Loans to deposit ratio | 91%   | 90%   | 95%   | 96%   | 96%   | 93%   | -3 pp  | 3 pp    | 94%   | -1 pp  | 90%   | 93%   | 3 pp    | 94%   | 1 pp   |
| ROE                    | 14.3% | 12.2% | 13.6% | 11.9% | 10.2% | 5.8%  | -4 pp  | -6 pp   | 5.3%  | 0.6 pp | 12.6% | 10.7% | -2 pp   | 8.9%  | -2 pp  |

**OPINION. NEUTRAL, result seem in line we wait for dividend comments from management. BZ WBK trades at 13.8x 2016E P/E, P/BV is at 1.22x for 2016E ROE of 8.9%**

*Kamil Stolarski, CFA, Equity Analyst, +48 22 347 40 48*

## 4Q15E PREVIEW

**PKP CARGO**  
(NEUTRAL, FV PLN 68.3)

**4Q15 net income well above reported 4Q14 figure, though clearly below base period number adjusted for one-offs – 4Q15 results preview, due on March 15**

PKP Cargo is scheduled to report its 4Q15 results on Tuesday 15 March 2015. We expect the company's bottom line after minorities to come at PLN 32.7m for 4Q15, as compared to a loss of PLN 166.8m reported for the base quarter. This outcome should, however, relate primarily to the fact the firm booked material one-off headcount related costs in 4Q14. When 4Q14 figure adjusted for these costs (provisions creation mainly), we forecast PKPC's bottom line to show a 32.9% y/y fall in 4Q15. This outcome is expected to relate predominantly to a fall in the company's EBIT margin (mostly due to AWT consolidation and wage hike for domestic crew) in the period, and despite an anticipated y/y increase in the company's total sales. We also stress, a PLN 12m fine imposed on PKPC by UOKiK has been included in our financial forecasts for 4Q15.

Total revenues are expected to come at PLN 1,176.5m (up 8.1% y/y) in 4Q15. This should be on the back of a forecast 2.8% y/y increase in the company's freight turnover to 7.65bn tkm in 4Q15 (predominantly linked to the fact 4Q15 was another quarter of full AWT consolidation and despite anticipated slight y/y decline in domestic turnover in the period), as well as anticipated 2.7% y/y pick-up (and nearly flat on a q/q basis) in the unit tariff to PLN 0.1465 in 4Q15 (also a consequence of AWT consolidation – generating higher unitary core service price vs PKPC stand-alone – and despite general harsh competition on Polish market, affecting the firm's domestic contracts profitability, especially in coal segment).

We forecast EBIT at PLN 50.6m for 4Q15, compared to a loss of PLN 204.7m reported for 4Q14 and vs PLN 60.6m when 4Q14 figure adjusted for irregular items. A forecast decline vs the adjusted level should be due mainly to a fall in the firm's operating margin in the period and despite higher top line. We expect PKPC's EBIT margin to come at 4.3% for 4Q15, down from 5.6% for the base quarter of 2014 (adjusted), with the decline linked primarily to a forecast increase in unitary costs of 3rd party services and supplies & materials, as well as anticipated increase in amortization (both largely on the back of AWT consolidation) and the fact we have included in our forecasts the abovementioned fine from PL

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antimonopoly watchdog. We also forecast the company's HR expenses to show a clear pick-up on an annual basis in 3Q15, again due to AWT consolidation, but also reflecting agreed wage hike for the majority of the firm's domestic crew (effective from July).

We forecast the net financial result at a PLN 9.4m loss in 4Q15 versus a loss of PLN 7.6m in 4Q14. This should be due to an increase in the firm's leverage (inter alia linked to the recent M&A activity). As a result, we forecast PKPC's pre-tax profit to come in at PLN 41.7m as compared to a loss of PLN 211.4m reported in 4Q14.

| PKP Cargo: 4Q15 results preview           |                |                |                |               |               |
|-------------------------------------------|----------------|----------------|----------------|---------------|---------------|
| In PLN m                                  | 4Q14A          | 3Q15A          | 4Q15F          | y/y           | q/q           |
| <b>Total revenues</b>                     | <b>1,088.2</b> | <b>1,206.9</b> | <b>1,176.5</b> | <b>8.1%</b>   | <b>-2.5%</b>  |
| Revenues from services sold               | 1,061.7        | 1,187.3        | 1,156.5        | 8.9%          | -2.6%         |
| Revenues from goods & materials sold      | 15.3           | 7.8            | 8.4            | -45.0%        | 7.3%          |
| Other operating revenues                  | 11.2           | 11.7           | 11.6           | 3.9%          | -0.3%         |
| <b>Operating expenses</b>                 | <b>1,292.9</b> | <b>1,118.8</b> | <b>1,125.9</b> | <b>-12.9%</b> | <b>0.6%</b>   |
| Depreciation and impairments              | 95.1           | 120.3          | 120.7          | 26.9%         | 0.3%          |
| Consumption of supplies and materials     | 135.5          | 184.2          | 178.3          | 31.6%         | -3.2%         |
| 3rd party services costs                  | 353.0          | 408.6          | 397.1          | 12.5%         | -2.8%         |
| Taxes and fees                            | 10.4           | 10.9           | 10.7           | 2.8%          | -1.2%         |
| Employee benefits                         | 671.8          | 371.1          | 382.7          | -43.0%        | 3.1%          |
| Other                                     | 11.0           | 13.4           | 12.8           | 16.4%         | -4.5%         |
| Value of goods and materials sold         | 11.6           | 6.7            | 7.0            | -39.4%        | 4.6%          |
| Other operating expenses                  | 4.5            | 3.7            | 16.6           | 266.7%        | 354.3%        |
| <b>EBIT</b>                               | <b>-204.7</b>  | <b>88.1</b>    | <b>50.6</b>    | <b>n.a.</b>   | <b>-42.6%</b> |
| <i>EBIT margin</i>                        | <i>-18.8%</i>  | <i>7.3%</i>    | <i>4.3%</i>    |               |               |
| <b>EBITDA</b>                             | <b>-109.5</b>  | <b>208.4</b>   | <b>171.3</b>   | <b>n.a.</b>   | <b>-17.8%</b> |
| <i>EBITDA margin</i>                      | <i>-10.1%</i>  | <i>17.3%</i>   | <i>14.6%</i>   |               |               |
| Net financial result                      | -7.6           | -11.5          | -9.4           | 23.3%         | -18.0%        |
| Share in profit of associates             | 0.9            | 0.1            | 0.4            | -51.5%        | 394.1%        |
| <b>Pre-tax profit</b>                     | <b>-211.4</b>  | <b>76.8</b>    | <b>41.7</b>    | <b>n.a.</b>   | <b>-45.7%</b> |
| Tax                                       | -45.3          | 12.3           | 9.1            | n.a.          | -26.5%        |
| Net income before minorities              | -166.1         | 64.4           | 32.6           | n.a.          | -49.4%        |
| Minority                                  | 0.7            | 0.0            | -0.1           | n.a.          | n.a.          |
| <b>Net income after minorities</b>        | <b>-166.8</b>  | <b>64.4</b>    | <b>32.7</b>    | <b>n.a.</b>   | <b>-49.2%</b> |
| <i>Net profit after minorities margin</i> | <i>-15.3%</i>  | <i>5.3%</i>    | <i>2.8%</i>    |               |               |

Source: PKP Cargo, Haitong

Cezary Bernatek, Equity Analyst, +48 22 347 40 79

## MARKET

### POLISH GDP

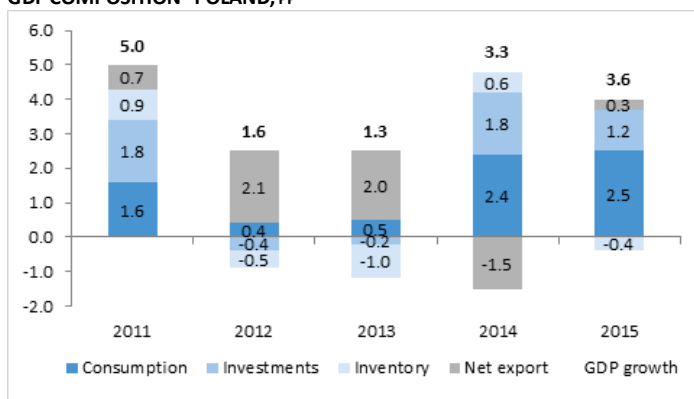
**POLISH GDP grew 3.6% in 2015 vs 3.3% in 2014, driven by consumption and investments - GUS stat office informed - NEUTRAL**

2015 GDP increased by 3.6% driven by:

- The main growth driver remained consumption, which contributed 2.5pp out of 3.6% of growth. Y/Y household consumption increased 3.1% and public consumption increased 3.5%,
- Investments slowed down, but remain second largest contributor. Y/Y investments grew 6.1% vs 9.8% growth in 2014,
- Net export turned to be the positive contributor (this line showed the largest improvement mostly owing to improvement in Germany and despite problems in Ukraine and Russia),
- Change in inventories contributed negatively (and this was the largest disappointment Y/Y, however it might bode well for the future).

GUS has not reported precise 4Q15 data yet, by implied 4Q15 numbers would show 4Q15 growth rate of 3.7% which would mean that Poland has seen increasing Y/Y GDP dynamics through the year

GDP COMPOSITION - POLAND, PP



Source: Haitong, GUS.

**Opinion.** 2015 numbers seem in line with expectations. 2016 should be driven by consumption and net export (because of PLN recent weakness), 2H16 might see the preliminary impact of 500+ program. The line that might be a concern is investments because of bad publicity Poland has been recently receiving.

*Kamil Stolarski, CFA, Equity Analyst, +48 22 347 40 48*

POLISH MARKET

Poland Working on Renationalization of some companies

Bloomberg has reported that Treasury Ministry has set up “special team” looking into renationalization of some Polish companies with process likely starting in June 2016, Polityka weekly reports citing unnamed ministry official. By then, the team at the Treasury will have prepared all materials, scenarios, laws will be changed, the justice minister will have full control over prosecutors and courts,” official says. Poland seeks to renationalize ski lift operator Polskie Koleje Linowe, utility PKP Energetyka, telco TK Telekom (owned by Netia), chemical group Ciech and publisher PW Rzeczpospolita.

*Konrad Księżopolski, Head of CEE Equity Research, +48 22 347 40 74*

FINANCIALS

BANKS/ COAL  
MINING SECTOR

Allegedly financial institutions involved in financing JSW might be forced by State Treasury (controlling parent of coal companies) to write off a portion of JSW bonds they hold or to execute debt to equity swap, otherwise JSW might bankrupt. Allegedly institution financing Kompania Węglowa also received a proposal of debt to equity swap - Parkiet daily informed

According to earlier Parkiet article (October 12, 2015):

- Exposure to JSW of ING, PKO, PZU and BGK is almost equal at around PLN 300m each. We believe it has been partly provisioned.
- Exposure to Kompania Węglowa is PLN 1.2bn of which PLN 500m is held by Węglokoks, PLN 200m by BZ WBK, PLN 200m by BNP Paribas, PLN 100m by BGK, PLN 100m by Alior and less than PLN 100m by PKO

*Kamil Stolarski, CFA, Equity Analyst, +48 22 347 40 48*

UTILITIES

POLISH  
UTILITIES  
SECTOR

Minister of Energy interview

Mr Tchorzewski was interviewed by daily Parkiet. Main highlights are as follows:

- Energy companies would pay out dividends as the minister say this is the companies responsibility towards minority shareholders who participated in past IPOs of these companies counting on dividends
- Minister says no reasons for merging Polish state-owned utilities.



27 Jan 2016

- Recognizes that KHW (second biggest Polish coal producer) may stay independent however it is likely it will issue shares directed also to utilities, i.e. Enea
- Poland is going to invest in new coal-fired generation capacities which would be located where the industry is. Minister mentioned that is almost certain that Ostroleka project would go ahead.
- It is not clear whether state-owned companies would buy assets from EDF which is pulling out from Poland.
- Minister seems to supporting renewable energy like biogas plants but also wind farms both onshore and offshore
- It is yet unclear whether nuclear project would continue as it is extremely costly

**OPINION.** We see several points worth highlighting. Dividends will stay but probably payouts would be lower going forward as companies would invest in coal-fired power plants. We recognize the minister would support renewables but so far the new renewable law was postponed till 2H16 and we do not know for sure what kind of support would be directed to wind farms or other sources. The uncertainty may lead Poland to undershooting the renewable generation threshold in 2020 (15% required by EU) and would force State Treasury to pay out hefty penalties. Overall: maintaining dividend policy at PL utilities is positive however strong support towards coal generation without any dedicated support (i.e. capacity markets, contract for difference) and investment in coal mining remain worrying.

*Robert Maj, Equity Analyst, +48 22 347 40 45*

## METALS & MINING

**JSW**  
(NEUTRAL, FV PLN 12.16)

### Ultimatum to bondholders likely?

According to unofficial information published by daily Parkiet quoting unnamed sources in the State Treasury Ministry, the government is going to urge banks to reduce JSW's debt or exchange bonds for JSW shares; otherwise, the firm will go bust. The sources say that due to unfavorable trends on the coal market JSW must prepare for operations in disadvantageous market environment for a long time; without the debt reduction, this may prove impossible. JSW bonds are held by PKO BP, BGK, ING BSK and a fund controlled by PZU.

**OPINION:** We view this news negatively as threatening that JSW may go bust is a weak argument because some of them have already provisioned the JSW exposure in their books. Without viable operating cost reduction programme at JSW bankruptcy may prove to be one of the most preferable options on the table. We expect the Treasury should focus on thorough restructuring of JSW and presenting such plan to bondholders in months ahead.

*Robert Maj, Equity Analyst, +48 22 347 40 45*

## TMT

**POLISH  
TELECOMS**

### Change in SIM market share thanks to T-Mobile's base cleaning

Orange Polska likely increased its share in the SIM card market to 28%, a market leading position, after T-Mobile Polska decided to discontinue unused SIM-cards, possibly 3.2-3.5m of them. T-Mobile will not provide the exact number until its German parent publishes its annual results, but the move resulted in a 2.8m decline in the number of all SIM cards in Poland to 56.2m, stats office GUS data showed. T-Mobile likely reduced its market share (in terms of SIM cards) to some 22%, while the share of P4 and Polkomtel increased to some 25% and 24%.

*Konrad Księżopolski, Head of CEE Equity Research, +48 22 347 40 74*

## CONSUMER STAPLES & DISCRETIONARY

LPP  
(SELL, FV PLN 5823)

### Interview with CFO on 2016 outlook

Key highlights from interview with CFO Przemysław Lutkiewicz:

- 2015 performance - The year 2015 was slightly weaker than LPP expected. LPP hoped for a double-digit sales growth and ended up 2015 with an 8% increase. On the one hand, the situation in Russia and Ukraine was a burden: exchange rates were unfavorable for us despite sales increases in local currencies. On the other hand, demand in Poland was weaker than LPP expected. All in all, 2015 was a difficult year, worse than expected, although 4Q15, the most important for clothing industry, was a good period, CFO said. Margins were some 5% lower YoY primarily due to weaker demand and stronger discount sales at the beginning of the year, as well as due to a strong dollar. 90% of LPP apparel comes from Asia, where LPP pays in USD.
- 2016 outlook - We expect no major changes as far as external conditions for our business are concerned: a strong dollar above PLN 4, a strong euro, a still turbulent situation on global markets, so LPP begins 2016 year with moods similar to those in which we were in 2015.
- 2016 margins goal – LPP's goal is to keep the gross margin at the a level similar to 2015. If, however, USDPLN remains at the level of PLN 4 and higher, there is a risk that margins may be lower. The apparel market changed significantly in recent years: earlier in case of appreciation of the currency in which LPP settles transactions with suppliers it was easier to hike prices. At present it is practically impossible. There is strong competition on the market, so LPP does not plan price increases.
- Retail space & Capex – LPP expects a 13-15% increase in retail floor space in 2016 versus 17% in 2015. Capex will reach up to PLN 400m. In February LPP will open the first store of the new Tallinder brand. In the entire year LPP plans to open 10 stores of this brand.
- 2016 sales goal - LPP hopes that revenues will grow in double digits, slightly faster than retail space growth. LPP is working to achieve positive like-for like (LfL) sales in the entire year. In 2014 and 2015 LPP witnessed LfL sales decline in Poland. LPP hopes that in 2016 this trend will be reversed and that LPP will record LfL sales growth."
- Costs outlook - The strong euro entails higher rental costs for retail locations. On the EU markets it is harder to negotiate rental conditions, while in Russia and Ukraine LPP is constantly trying to reduce these burdens. Apart from rental costs LPP sees at present no possibilities of further cost reduction. Last year cut costs strongly room for maneuvers has been exhausted. LPP rather expects a delicate cost increase this year related to wage growth.
- Dividend – LPP wants to pay out a dividend for 2015, but it is too early to discuss the size.

**OPINION: NEUTRAL.** In our view, nothing new has not been said in this interview. We share the view that if USDPLN remains at 4-4.1, there could be hard to defend 2015 gross margin. While SG&A will anyway be under pressure from headcount costs due to minimum wage hike. On the slightly positive side, proposed retail tax at 0.7% of revs up to PLN 300m/month, and 1.9% for revs in weekend&holidays will bring much milder burden of ca. PLN 40m versus first retail tax draft (presented in Autumn 2015) which assumed ca. PLN 70m yearly burden.

*Konrad Księżopolski, Head of CEE Equity Research, +48 22 347 40 74*

### POLISH RETAIL

#### Neither Polish nor foreign retailers are satisfied with the proposed shape of the new retail tax

Neither Polish nor foreign retailers are satisfied with the proposed shape of the new retail tax, the dailies Gazeta Wyborcza and Dziennik Gazeta Prawna report. According to domestic businesses, foreign discount chains will be less hit by the new levy because their profitability is several times higher, Waldemar Nowakowski of the Polish Chamber of Commerce complains for Gazeta Wyborcza. Mid-sized Polish retailers will suffer the biggest blow, according to Ryszard Jaskowski of the coop chain Społem. Plans to impose a higher tax rate on weekend trade have been called "crazy" and "out of this world" by both small and large retailers. The draft bill has been sent to the Council of Ministers' Chancellery and may be published on Wednesday.

*Konrad Księżopolski, Head of CEE Equity Research, +48 22 347 40 74*

**POLISH RETAIL      Impact of retail tax on WSE retailers**

WSE-listed smaller retailers may be harder hit by Poland's to-be-implemented retailers tax than their bigger peers. EBITDA declines may reach 40% at Alma Market supermarket operator, 30% at Komputronik IT hardware distributor and 24% at Emperia supermarkets. EBITDA declines will also be material at Redan fashion retailer (19%), Intersport sport equipment (17%) and Wojas footwear producer (13%). Larger firms will record smaller declines, estimated at 3% for Lotos fuels, 4% for peer Orlen and some 5.5% EBITDA decline at LPP and CCC retailers. The share price performance reflected these estimates, Puls Biznesu daily noted. Biggest share price declines were suffered by Alma retailer (9%) as well as Emperia trader (1.5%), while bigger retailers performed better during the Tuesday session.

*Konrad Księżopolski, Head of CEE Equity Research, +48 22 347 40 74*

**REAL ESTATE**

**PL REAL ESTATE      The value of transactions in land plots in Poland rose to over PLN 2.5bn (up c. 67% y/y) in 2015, with transactions on residential market accounting for 65% of the total – JLL**

According to PAP, real estate intermediary JLL representatives told a news conference, the value of transactions in land plots in Poland rose to over PLN 2.5bn in 2015 from some PLN 1.5bn in 2014, with transactions on housing market accounting for 65% of the total.

**OPINION: Significant increase in demand for land plots in Polish housing sector in 2015 pushed its prices visibly up in the period as compared to 2014. When it comes to the current year, in our base case scenario, we assume land prices stabilization at around the levels registered in 2015.**

*Cezary Bernatek, Equity Analyst, +48 22 347 40 79*





## Contact Details

### CEE EQUITIES

**Szymon Ozóg, CFA** +48 22 347 4040  
Head of CEE Equities  
sozog@haitongib.pl

### CEE EQUITY RESEARCH

**Konrad Książopolski** +48 22 347 4074  
Head of CEE Equity Research  
kksiezopolski@haitongib.pl

#### Banks

**Kamil Stolarski, CFA** +48 22 347 4048  
kstolarski@haitongib.pl

#### Consumer

**Konrad Książopolski** +48 22 347 4074  
kksiezopolski@haitongib.pl

#### TMT

**Konrad Książopolski** +48 22 347 4074  
kksiezopolski@haitongib.pl

#### Financial Services

**Łukasz Janczak, CFA** +48 22 347 4062  
ljanczak@haitongib.pl

#### Konrad Biniewicz

+48 22 347 4047  
kbiniewicz@haitongib.pl

#### Oil & Gas / Chemicals

**Łukasz Janczak, CFA** +48 22 347 4062  
ljanczak@haitongib.pl

#### Utilities / Mining

**Robert Maj** +48 22 347 4045  
rmaj@haitongib.pl

#### Real Estate / Logistics / Automotive

**Cezary Bernatek** +48 22 347 4079  
cbernatek@haitongib.pl

#### Construction / Industrials

**Konrad Strzeszewski** +48 22 347 4042  
kstrzeszewski@haitongib.pl

### CEE EQUITY SALES AND TRADING

**Miguel Passos** +48 22 347 4017  
Head of Equity Sales and Trading  
mpassos@haitongib.pl

**Piotr Pasiorowski** +48 22 347 4011  
Equity Sales Poland  
ppasiorowski@haitongib.pl

**Tomasz Gatek** +44 20 3429 2015  
GEMs Equity Sales  
tomasz.gatek@haitongib.co.uk

**Paweł Tofil** +48 22 347 4014  
Sales Trader  
ptofil@haitongib.pl

**Grzegorz Kołodziejczyk** +48 22 347 4013  
Sales Trader  
gkolodziejczyk@haitongib.pl

**Maciek Senderek** +48 22 347 4016  
Sales Trader  
msenderek@haitongib.pl

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