

Friday, October 18, 2019 | special comment

# Apator – Q3'19 Estimates & FY2019 Outlook Downgrade

rating: underweight | current price: PLN 22.00

**APT PW; APT.WA | Electrical Devices, Poland**

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- Apator will report its 2019 Q3 results on 30 October.
- We expect a **7% rebound in revenue** from the comparable year-ago period, driven by higher sales of gas- and water meters.
- At the same time, **sales of electricity meters fell** for the second quarter in a row in Q3, indicating deteriorating performance of the parent business, represented by Apator S.A.
- Consequently, we expect Apator to report the second consecutive quarter of year-over-year profit contraction in Q3 2019. Assuming, as we do, that the Company will deliver no more than 58-60% of its FY2019 guidance in the year to 30 September, this is more than likely to dampen market sentiment after the third-quarter earnings release.
- Based on worse-than-expected YTD performance, we **lower our FY2019 EBITDA estimate** for Apator from PLN 142m to PLN 136m, and we **reduce the expected net profit** from PLN 70.8m to PLN 65.3m.
- **Apator's payroll costs are among the highest in the industrial sector** at over PLN 200m annually and **40% of total**, and as a result the Company's profits are extremely sensitive to pay pressures of the kind currently observed in Poland with its plans to raise the minimum wage every year for the next four years.
- To reflect the heightened earnings risks, we **downgrade APT from neutral to underweight**.

## 2019 Q3 Earnings Estimates

(PLN m)	Q3'19E	Q3'18	Y/Y	2019E	YTD*	APT FY Guidance	YTD*
Revenue	216.3	202.2	7%	893.7	72%	880-920	70-73%
EBITDA	29.7	34.2	-13%	136.0	71%		
EBITDA Margin	13.7%	16.9%		15.2%			
EBIT	17.7	23.6	-25%	88.4	67%		
Net Profit	13.4	17.0	-21%	65.3	66%	72-75	58%-60%

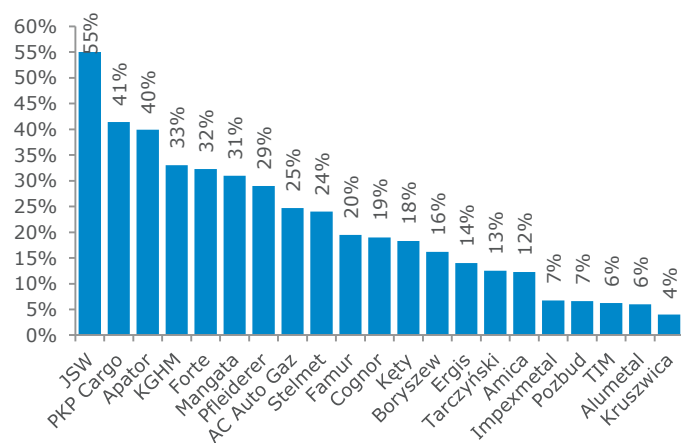
Source: Apator, E – estimates by Dom Maklerski mBanku; \*YTD results as a pct. of FY forecasts

## FY2019-2020 Forecast Update

(PLN m)	Old 2019E	New 2019E	pct. change	Old 2020E	New 2020E	pct. change
Revenue	893.7	893.7	0.0%	920.5	920.5	0.0%
EBITDA	142.2	136.0	-4.4%	139.9	137.8	-1.6%
Net Profit	70.8	65.3	-7.8%	69.0	66.0	-4.4%
DPS (PLN)	1.57	1.57	0.0%	1.61	1.49	-7.8%
Net Debt	152.8	157.1	+2.8%	168.5	170.0	+0.9%

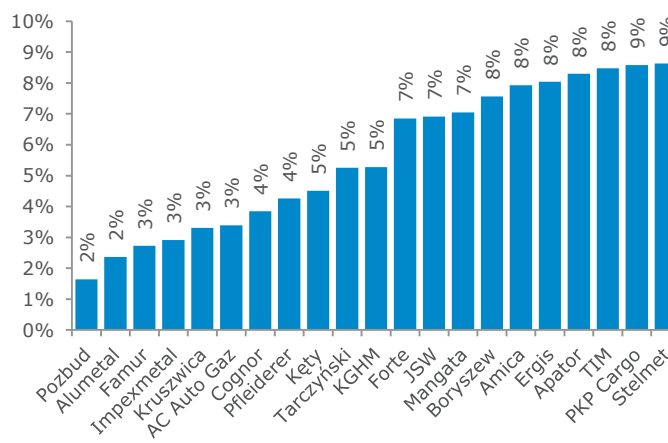
Source: Estimates by Dom Maklerski mBanku \*YTD results as a pct. of FY forecasts

## Labor costs as a pct. of total at industrial companies



Source: Companies, estimates by Dom Maklerski mBanku

## Estimated EBITDA decline after a 5% rise in labor costs in the industrial sector





**Historical Results and FY2019-2021 Forecasts**

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Share Price (PLN)	22.00	22.00	22.00	22.00	22.00	22.00	22.00
P/E (x)	12.8	12.4	18.1	11.2	11.8	11.7	11.7
EV/EBITDA (x)	8.4	9.0	8.8	6.7	6.8	6.8	6.9
Dividend Yield	3.4%	4.3%	4.7%	5.4%	7.1%	6.8%	6.8%
Net debt / EBITDA	1.4	1.6	1.2	1.0	1.2	1.2	1.3
P/B (x)	1.8	1.7	1.7	1.6	1.5	1.5	1.6
P/(BV-goodwill) (x)	2.5	2.4	2.3	2.1	1.9	1.9	2.2
Revenue (PLN m)	769.4	870.2	883.2	828.7	893.7	920.5	938.9
change	6.2%	13.1%	1.5%	-6.2%	7.8%	3.0%	2.0%
Gross profit (PLN m)	209.0	212.0	233.6	261.2	261.6	267.2	271.6
Gross Margin	27.2%	24.4%	26.4%	31.5%	29.3%	29.0%	28.9%
Selling expenses (PLN m)	36.2	38.1	44.8	41.5	43.6	44.9	45.8
Administrative expenses (PLN m)	96.7	103.7	118.6	119.9	126.0	128.6	131.1
EBITDA (PLN m)	110.3	104.9	102.0	134.5	136.0	137.8	139.2
Margin	14.3%	12.1%	11.6%	16.2%	15.2%	15.0%	14.8%
EBIT (PLN m)	79.9	67.8	62.7	92.7	88.4	89.7	90.6
Margin	10.4%	7.8%	7.1%	11.2%	9.9%	9.7%	9.7%
Financing Gains / Losses (PLN m)	-1.3	-4.9	-4.5	0.7	-3.2	-7.1	-7.7
Net Profit (PLN m)	60.5	56.1	42.6	68.7	65.3	66.0	66.3
Net Debt (PLN m)	152.5	172.4	126.4	133.4	157.1	170.0	182.8

Source: Apator, E – estimates by Dom Maklerski mBanku

**List of abbreviations and ratios contained in the report:**

**EV** – net debt + market value  
**EBIT** – Earnings Before Interest and Taxes  
**EBITDA** – EBIT + Depreciation and Amortisation  
**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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**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.

**mBank issued the following investment recommendations for Apator in the 12 months prior to this publication**

Rating	neutral	neutral	overweight	overweight	neutral	underweight
Rating date	2019-09-20	2019-04-29	2019-03-05	2019-02-27	2019-01-30	2018-12-05
Target price (PLN)	-	-	-	-	-	-
Price on rating day	22.60	25.80	26.50	25.80	25.40	24.20

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