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Pfleiderer Grajewo – 2016 Q1 Results

Current price: PLN 33.00

GRJ PW; GRJ.WA | Engineered Wood Products, Poland & Germany

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Pfleiderer Grajewo ("Grajewo") reported 3.9% sales growth in Western Europe in Q1 2016, offset by a 10.3% drop in Eastern Europe, led by increased competition and a weak zloty. The Q1 2016 results are not comparable to the year-ago figures, which did not include the Core West business. Q1 EBITDA adjusted for one-offs exceeded the target at EUR 28m. The annual EBITDA growth is expected to be in the double digits (we anticipate 12.6%).

Revenue amounted to EUR 215.5m in Q1 2016, with all products, especially high-margins panels like HPL and MFC, contributing to the result. By segment, Core West generated 3.9% y/y revenue growth on higher volumes and in spite of downward pressure on prices. In Core east, the Q1 revenue fell to EUR 86.3m from EUR 96.2m a year ago due to a weaker zloty vs. EUR, combined with lower sales volumes of HDF and MDF (resulting in a EUR 5m y/y fall in the wake of excess capacity) and price competition from Belarus and Ukraine. On the upside, by filling up capacity Grajewo was able to more effectively absorb fixed costs in Q1.

The reported Q1 2016 EBITDA was EUR 19.3m, but adjusted for one-offs it amounted to EUR 28m, 12% less than our forecast which, admittedly, was probably too ambitious as it was prepared without access to the full comparable data for Q1 2015. Relative to Grajewo's guidance, the core Q1 EBITDA figure came as a positive surprise.

One-offs affecting operating profits in Q1 2016 included downward asset adjustments to fair value of EUR 7.0m, inventory charge reversals of EUR 2.4m, and backlog charge reversals of EUR 1.7m.

Operating cash flow in Q1 amounted to EUR 13.6m, and net debt during the quarter increased by EUR 23.6m to EUR 267.1m (2.0x 2016E EBITDA).

Grajewo expects to grow its 2016 annual EBITDA at a double-digit rate (we anticipate 12.6%).

Q1 2016 results vs. expectations

(EUR m)	1Q'16	1Q'15	change	1Q'16E	differ.	2016E	2015	change
Revenue	215.5	96.2	124.0%	249.9	-13.8%	1 000.4	984.5	1.6%
EBITDA	19.3	12.5	54.3%	32.0	-39.5%	134.2	119.2	12.6%
EBITDA margin	9.0%	13.0%	-	12.8%	-	13.4%	12.3%	-
EBIT	2.6	8.8	-69.9%	16.1	-83.5%	66.8	75.4	-11.4%
Pre-tax income	5.4	8.5	-36.2%	6.1	-11.2%	27.7	27.7	0.0%
Net income	4.3	7.0	-38.5%	4.9	-12.2%	23.2	24.1	-3.5%

Source: Pfleiderer Grajewo, E - estimates by Dom Maklerski mBanku

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

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