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Building materials

Poland

Cersanit

CRSA.WA; CST.PW

Hold

(Reiterated)

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Corrected Q2'10 and FY10 Forecasts

Current price: PLN 14.54; Target price: PLN 13.43

After revising our estimates of the negative effect of the revaluation of Cersanit's loan portfolio in Q2'10 from PLN 88m to PLN 9.1m, we have decided to revise our projections of the Company's second-quarter earnings as well. We have not changed our sales, EBIT and EBITDA forecasts (PLN 388.6m, PLN 50.3m and PLN 79.3m, respectively), but we are now projecting a higher pre-tax profit and a higher bottom line. Seeing that at the end of H1'10 Cersanit had generated a much higher net profit than we had expected, we have also decided to revise our FY10 bottom line projection. We now expect the FY10 negative loan revaluation effect to figure to –PLN 33.2m vs. –PLN 20.0m previously forecasted (i.e. the revaluation of foreign loans increases net profit in both cases). In addition, we expect the Company to sustain its Q1'10 foreign-exchange gains of PLN 17.2m in the following quarters. As a result, we are increasing our net profit forecast from PLN 122.4m to PLN 150.9m. According to our estimates, after H1'10 the Company has generated 36.5% of the EBIT we are forecasting, and 52.4% of the forecasted bottom line. With this new forecast, the Company is trading at P/E = 13.9 and EV/EBITDA = 9.5, which means that its attractiveness as an investment remains limited.

Our estimates have not changed as far as sales (PLN 388.6m), EBIT (PLN 50.5m) and EBITDA are concerned (PLN 79.3m), but the negative effect of the revaluation of the portfolio of foreign-currency loans (booked as a loss on financial operations) is now estimated at a mere PLN 9.1m vs. PLN 88.0m before.

Forecasted earnings for Q2'10

(PLN m)	Q2'10F	Q2'09	Change	H1'10P	H1'09	Change	2010F	2009	Change
Revenue	388.6	369.3	5.2%	688.3	672.5	2.3%	1 506.9	1 415.2	6.5%
EBITDA	79.3	79.0	0.4%	133.4	137.9	-3.3%	323.3	284.7	13.5%
Margin	*20.4%*	*21.4%*	-	*19.4%*	*20.5%*	-	*21.5%*	*20.1%*	-
EBIT	50.3	48.0	4.8%	75.5	78.1	-3.3%	207.1	168.1	23.2%
Pre-tax profit	21.1	1.5	1283.8%	90.3	-49.8	-	178.3	-8.1	-
Net profit	15.7	-1.4	-	78.5	-49.5	-	150.9	-8.1	

Source: BRE Bank Securities

Original and revised earnings forecasts for Q2'10

(PLN m)	Q2'10F (original)	Q2'10F (revised)	Change	H1'10F (original)	H1'10F (revised)	Change	FY10F (original)	FY10F (revised)	Change
Revenue	388.6	388.6	0.0%	688.3	688.3	0.0%	1 506.9	1 506.9	0.0%
EBITDA	79.3	79.3	0.0%	133.4	133.4	0.0%	323.3	323.3	0.0%
Margin	*20.4%*	*20.4%*	*0.0%*	*19.4%*	*19.4%*	*0.0%*	*21.5%*	*21.5%*	*0.0%*
EBIT	50.3	50.3	0.0%	75.5	75.5	0.0%	207.1	207.1	0.0%
Pre-tax profit	-57.9	21.1	-	11.8	90.3	665.1%	146.4	178.3	21.8%
Net profit	-55.7	15.7	-	3.0	78.5	2517.8%	122.4	150.9	23.3%

Source: BRE Bank Securities

The fact that the negative loan revaluation effect has turned out lower than we expected is a consequence of the fact that while the debt of the Ukrainian subsidiary Cersanit Invest Sp. z o.o. (a EUR 69m EBRD loan) has increased by PLN 19.2m following the 7.3% depreciation of the PLN vs. the EUR in the second quarter, in actuality the subsidiary revaluates its debt at the EUR/UAH exchange rates from the beginning and end of the quarter (in Q2'10, the hryvnia appreciated by 9.7% y/y vs. the EUR), and the result of the revaluation is then consolidated at the average exchange rate for the quarter. As a result, Cersanit has consolidated the subsidiary's F/X gains in the amount of PLN 28.5m. In the case of the EUR 102.4m loan taken out by Cersanit LXIV S.a.r.l. in Luxembourg, while the debt did increase in nominal terms by PLN 29m in Q1'10, the subsidiary carries its books in the EUR and therefore no negative revaluation effect is consolidated. As a result, we estimate the aggregate negative impact of loan revaluation in the second quarter at the consolidated level at PLN 9.1m, vs. the earlier erroneous forecast of PLN 88m.

Effect of loan revaluation on the income statement

(PLN m)	Negative revaluation effect in the income statement	Nominal revaluation
EUR-denominated loans of Polish companies	23.4	23.4
Loans by Cersanit Invest Sp. z o.o. in Ukraine (EUR)	-28.5	19.2
EUR-denominated loans in Romania	0.48	0.53
USD-denominated loans of Polish companies	13.8	13.8
Loans of LXIV S.a.r.l. (EUR)	-	29.0
Total	**9.1**	**86.0**

Source: BRE Bank Securities

Foreign-exchange rates at the end of Q1'10 and Q2'10 and average rates for Q1'10 and Q2'10

	2009	1Q10	2Q10	2010F (revised)	2010F (original)
EUR/PLN	4.11	3.86	4.15	4.10	4.00
RON/PLN	0.97	0.94	0.95	0.97	0.97
USD/PLN	2.85	2.87	3.39	3.10	3.10
EUR/RON	4.23	4.10	4.36	4.15	4.15
EUR/UAH	11.45	10.68	9.64	10.00	10.00
UAH/PLN	0.36	0.36	0.43	0.40	0.40
UAH/PLN average	0.39	0.36	0.40	0.39	0.40
RON/PLN average	1.02	0.97	0.96	0.97	0.97

Source: BRE Bank Securities

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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*

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