

AC

3Q19E Results Review

Opinion: Neutral, revenues in line with preliminary figures, EBITDA above our expectations boosted by higher depreciation and revaluation of non-financial assets.

AC revenues amounted to PLN 55.2m, in line with preliminary figure. Company's EBITDA reached PLN 15.8m (8% up y/y), above our forecast of PLN 13.5m. Ongoing investments and intensification of R&D program resulted in higher depreciation (PLN 2.9m in 3Q19 vs PLN 2.3 in 3Q18).

We perceive AC's 3Q19 results slightly positively in terms of our increasing uncertainty whether the company will be able to deliver solid EBITDA even despite slump in revenues, which in our view was caused by limited sales to Russia due to ongoing changes in the process of new cars with autogas systems registrations. Now the company can be almost certain that it will beat its EBITDA goal from the incentive program. We emphasize also strong operating cash flow, which amounted to PLN 15.8m vs PLN 5.3m in 3Q18.

Revenues. In 3Q19 revenues decreased by 5% y/y and 4% q/q given expected weak sales in Russia. The result was spurred by PLN exchange rate weakening against USD and EUR.

Autogas systems segment revenues amounted to PLN 43.9m (5% down y/y), broadly in line with our expectations. AC signaled the beginning of growth in Africa what we perceive as a positive signal and a chance for improving result in 2020.

Kits for towing hooks segment revenues amounted to PLN 5.1m, 12 down y/y and 33% down q/q. Result was below our expectations and seems to be slightly disappointing as the company mentioned high customers' inventories with some symptoms of market slowdown.

Other products and services - 3Q19E result in other products and services segment came in at PLN 2.1m, slightly below expectations and on y/y basis as a result of termination of cooperation with the recipient of electrical harnesses, which started production in its affiliate.

COGS amounted to PLN 35.1m, 3% down y/y, what seems to be an adjustment to lower revenue dynamics.

SG&A costs came in at PLN 8.7m and were down 11% y/y what we perceive positively.

AC reported **net profit** of PLN 11.1m (17% up y/y and 19% up q/q) due to the gain on financial activity and lower effective tax rate. The bottom line came in 23% above our forecast of PLN 9.0m.

Operating cash flow amounted to PLN 15.8m (vs PLN 5.2m in 3Q18) mostly due to positive changes in inventories and receivables, while net investment cash flow amounted to PLN -7.5m vs PLN -4.4m in 3Q18.

Net debt amounted to PLN 34.5m (vs PLN 42.6m in 2Q19).

Industrials

AC

BUY

FV PLN 53.0

29% upside

Price as of 7 Nov 2019 PLN 41.2

Analyst

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Figure 1. AC 3Q19E Results Review

PLN m	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	QoQ	YoY 3Q19	Prel. 2Q19
Revenues	59.1	67.6	58.0	52.8	63.5	57.5	55.2	-4%	-5%	55.2
Sequential gas injection systems	45.5	54.1	46.2	39.6	51.3	43.3	43.9	1%	-5%	
Vacuum LPG systems	1.4	1.1	0.9	0.9	1.2	1.2	0.8	-35%	-9%	
Kits for towing hooks	5.8	6.1	5.8	6.3	4.5	7.6	5.1	-33%	-12%	
Other products and services	3.0	2.6	2.2	3.2	3.1	2.2	2.1	-7%	-4%	
Trade goods and materials	3.5	3.8	3.1	2.9	3.4	3.2	3.3	3%	7%	
COGS	38.6	42.2	36.0	32.6	39.7	37.1	35.1	-5%	-3%	
Gross profit	20.4	25.4	22.0	20.1	23.7	20.4	20.0	-2%	-9%	
<i>Gross margin</i>	<i>34.6%</i>	<i>37.5%</i>	<i>37.9%</i>	<i>38.2%</i>	<i>37.4%</i>	<i>35.5%</i>	<i>36%</i>			
SG&A	8.2	9.8	9.8	10.6	9.0	9.1	8.7	-4%	-11%	
EBIT	12.7	15.9	12.3	8.7	15.2	11.8	12.9	10%	5%	
Depreciation	2.2	2.2	2.3	2.6	2.8	2.8	2.9	2%	22%	
EBITDA	14.8	18.1	14.6	11.3	17.9	14.6	15.8	8%	8%	
Financial items	-0.1	0.0	-0.5	-0.6	0.0	-0.3	0.5			
Income Before Taxes	12.6	15.9	11.8	8.1	15.2	11.5	13.5	17%	14%	
Income Tax	2.2	3.3	2.3	1.6	2.8	2.1	2.3	10%	1%	
Net Income	10.4	12.6	9.5	6.5	12.4	9.4	11.1	19%	17%	

Source: Company, IPOPEMA Research

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The definitions of terms used in the document include:

NII - Net interest income - interest income minus interest expense.

Net F&C - Net fee and commission income - fee and commission income minus fee and commission expense.

LLP - loan loss provisions - an expense set aside as an allowance for bad loans.

NPL - non-performing loan - loans that are in default or close to be in default.

Cost/Income – operating expenses divided by total banking revenue.

ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity.

ROA – return on assets – net income (or adjusted net income) divided by the average assets.

EBIT – earnings before interests and tax.

EBITDA – earnings before interests, tax, depreciation and amortization.

EPS – earnings per share – the net income (or adjusted net income) divided by the number of shares outstanding.

P/E – price to earnings ratio – price divided by earnings per share.

PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time.

CAGR – compound annual growth rate.

BVPS – book value per share, the book value of the Company's equity divided by the number of shares outstanding.

P/BV – price to book value - price divided by the BVPS.

DPS – dividend per share – dividend of a given year divided by the number of shares outstanding.

DY – dividend yield – dividend of a given year divided by the current price.

DDM – dividend discount model – a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends.

FV – Fair Value, calculated based on valuation methods outlined in the document.

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Rating	Difference between FV and
Buy	
Hold	In between (an
Sell	

IPOPEMA Research - Distribution by rating category (Jul 1 1 – Sep 30, 2019)

	Number
Buy	18
Hold	10
Sell	3
Total	31

Rating History – Ciech

Date	Recommendation	Fair Value	Price at recommendation
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