

APRIL 29, 2016

RECOMMENDATION

APATOR

HOLD (PREV. BUY)

Rector brings uncertainty

CURRENT PRICE: PLN31.0

TARGET PRICE: PLN34.4 (PREV. 34.7)

PUBLICATION DATE
MAY 10, 2016

■ **Equity Story.** After the disappointing 2015 (the MB's 2015 guidance failed to materialise) we expect a little rebound in 2016 and in the following years. We are sceptical about the MB's latest forecasts for 2016 (PLN850mn in sales, PLN80mn in NP, NP margin at 9.4%), particularly since the USDPLN rate, which affects costs of electrical sub-assembly parts used in meter production, remains at a relatively high level. Moreover, the performance of Apator's subsidiary Rector is ever-precarious. Nonetheless, we believe that Rector will not burden the company's results in 2016 as it did in 2015. We see a chance that the company's product portfolio will expand in the following years (ultrasonic water meters, communication technology, smart gas meters) and that its production costs will fall (simpler and cost-efficient meter production). In the long term, we expect the shape of the Polish smart metering market to be the main trigger for Apator's results as the company seems to be well-prepared for large-scale production of smart meters thanks to its carried-through acquisitions and investments. It is, however, too early to include this potential upside in our forecasts.

■ **1-4Q preview.** In 1Q16, we expect a 7% growth of sales vs 1Q15 because of higher backlog for 2016. The EBITDA margin should be stable y/y as we expect the gross margin to fall (due to the persistently strong USD compared with the previous year) and, simultaneously, lower SG&A costs from Rector's gradual restructuring and fall of the M&A costs. We expect the NP margin to be lower y/y due higher financial costs (gross debt growth from high M&A activity in 2015). Looking at the whole 2016 we anticipate sales to grow 7% to PLN821.5, the EBITDA to rise to PLN124.6mn (14.9% y/y) and NP to PLN66.2mn (9.4% y/y). As mentioned earlier, we are cautious about the MB's guidance. **Outcome: NEUTRAL.**

■ **Triggers/Risks.** The future shape of the smart metering market could be the main game changer to Apator, especially in Poland, but also on the company's export markets. In Poland, the providers are still waiting for full technical AMI specifications (Advanced Metering Infrastructure), which are being prepared by the Polish Energy Regulatory Office. Absence of official specifications poses uncertainty for the producers and disrupts R&D priorities. We believe USDPLN to be an important factor since USD's appreciation in 2015 has raised costs of electrical sub-assembly parts bought on the Asian markets. This could have a negative impact on the company's margins also in 2016. However, the company's exposure to USD has been limited since Apator started to hedge against this currency.

■ **Valuation & Recommendation.** We downgrade our recommendation to Hold (prev. Buy) because of recent strong price performance and set the 12-month TP at PLN34.4 (11% upside potential), based on a 50/50 blend of two methodologies – DCF and comparative valuation. We cut our DCF valuation to PLN33.9 from PLN38.1 mainly due to a perception change of smart metering market development in Poland which rise slower than expected earlier.

STOCK PERFORMANCE

The chart measures performance against the WIG index.
On 04/25/2016, the WIG index closed at 48,139.

LAST RECOMMENDATIONS

Rec.	Date	Price		Price performance	
		on issue date	12 month target	absolute	relative (p.p)
Buy	1-27-2016	27.8	34.7	4.4%	-6.9
Hold	8-12-2015	38.5	36.5	-27.8%	-10.1
Buy	2-11-2015	35.8	42.0	7.5%	6.2
Hold	11-12-2014	38.3	42.4	-6.5%	-4.4

COMPANY DESCRIPTION

Apator focuses its activity in two segments of the electromechanical industry: metering and switchgear.

Main shareholders	% of votes
Mariusz Lewicki	10.0%
Tadeusz Sosgórnik	8.8%
Danuta Guzowska	7.9%
Zbigniew Jaworski	6.5%
Apator Mining	6.5%
Janusz Marzyglinski	6.3%

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Company Data

PLNm	2015	2016E	2017E	2018E	Reuters/Bloomberg codes	APTP.WA / APT PW
Sales	769.4	821.5	844.4	856.5	Market capitalisation (PLNm)	1,026
EBITDA	108.4	124.6	138.3	143.1	Number of shares (mn)	33.1
EBIT	78.0	90.8	103.2	106.8	Free float (%)	73.4
Net income	60.5	66.2	75.6	78.9	Avg. daily turnover 3M (PLNm)	0.5
P/E (x)	17.0	15.5	13.6	13.0	Price performance	1M 3M YTD
EV/EBITDA (x)	9.9	8.4	7.4	7.1		+14.2% +2.2% -11.9%

Source: Company data, DM BZ WBK estimates

Fig. 1. Apator: 1-4Q16 results' preview

PLNmnn	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16E	y/y	q/q	2Q16E	3Q16E	4Q16E
Sales	153.9	181.9	181.7	208.0	180.9	183.6	191.6	213.3	194.2	7.4%	-8.9%	198.6	201.6	227.1
EBITDA	27.7	31.7	30.5	37.2	27.1	22.8	31.7	26.8	29.0	7.1%	8.3%	29.6	30.9	35.1
EBITDA margin	18.0%	17.4%	16.8%	17.9%	15.0%	12.4%	16.5%	12.6%	14.9%	0.0	2.4	14.9%	15.3%	15.4%
EBIT	22.5	25.4	25.5	29.3	20.1	15.2	23.8	18.9	20.7	3.1%	9.7%	21.2	22.4	26.5
EBIT margin	14.6%	13.9%	14.0%	14.1%	11.1%	8.3%	12.4%	8.9%	10.7%	-0.4	1.8	10.7%	11.1%	11.7%
Net profit	16.8	21.3	22.0	23.9	16.4	12.4	18.8	12.9	15.0	-8.5%	16.0%	15.4	16.3	19.4
Net margin	10.9%	11.7%	12.1%	11.5%	9.1%	6.7%	9.8%	6.1%	7.7%	-1.3	1.7	7.8%	8.1%	8.6%

Source: Company data, DM BZ WBK estimates

Fig. 2 Apator: Forecast changes

PLNmnn	2016E			2017E			2018E		
	New	Previous	Change	New	Previous	Change	New	Previous	Change
Sales	821.5	813.8	0.9%	844.4	832.2	1.5%	856.5	848.8	0.9%
EBITDA	124.6	131.1	-5.0%	138.3	137.7	0.4%	143.1	141.1	1.4%
EBIT	90.8	93.7	-3.1%	103.2	99.2	4.0%	106.8	101.5	5.2%
Net profit	66.2	71.6	-7.6%	75.6	76.3	-0.9%	78.9	78.8	0.1%

Source: Company data, DM BZ WBK estimates

Fig. 3. Apator: Valuation changes

PLN	New	Previous	Change
DCF valuation	33.9	38.1	-11%
Comparable valuation (based on 2016-2018E)	34.9	31.2	12%

Source: Company data, DM BZ WBK estimates

Fig. 4. Apator: Income statement forecast

PLNmnn	2013	2014	2015	2016E	2017E	2018E
Net sales	683	726	769	822	844	856
COGS	482	505	560	599	606	613
Gross profit	201	221	209	222	238	244
SG&A	113	119	133	132	135	137
Other operating income, net	-4	1	2	0	0	0
EBITDA	105	127	108	125	138	143
Operating profit	84	103	78	91	103	107
Net financial income (costs)	-3	-1	-1	-5	-5	-4
Profit before tax	81	102	77	86	98	103
Income tax	-14	-21	-15	-16	-19	-19
Net profit	67	84	60	66	76	79

Gross margin	29.4%	30.5%	27.2%	27.1%	28.2%	28.5%
EBITDA margin	15.4%	17.5%	14.1%	15.2%	16.4%	16.7%
Operating margin	12.3%	14.1%	10.1%	11.1%	12.2%	12.5%
Net profit margin	9.9%	11.6%	7.9%	8.1%	9.0%	9.2%

Source: Company data, DM BZ WBK estimates

Fig. 5. Apator: Balance Sheet forecast

	2013	2014	2015	2016E	2017E	2018E
Current assets	260	338	362	385	408	424
Fixed assets	263	357	435	445	455	465
Total assets	522	695	797	830	863	889
Current liabilities	168	204	237	239	234	229
bank debt	49	94	113	107	101	95
Long-term liabilities	29	103	134	129	124	118
bank debt	9	72	82	77	72	67
Equity	324	386	422	454	493	526
Total liabilities	197	308	371	368	357	347
Net debt	39	104	152	129	102	79

Source: Company data, DM BZ WBK estimates

Fig. 6. Apator: Cash flow forecast

	2013	2014	2015	2016E	2017E	2018E
CF from operations	41	94	91	97	105	112
CF from investment	-22	-132	-118	-49	-50	-52
CF from financing	-45	82	4	-36	-38	-48
dividends	-42	-19	-24	-34	-36	-47
Net change in cash	-25	44	-23	12	16	12

Source: Company data, DM BZ WBK estimates