

Echo Investment - Reduce

Target Price: PLN 3.80 | Close as of 27/05/2020: PLN 3.90

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1Q20 NI in line with cons. estimate and a bit above our forecast, on lower net financial costs and effective tax rate; clean as well as reported EBIT below the expectations, though – in overall, we look for NEUTRAL mkt reaction

Echo's **bottom line after minorities** came in at PLN 40.6m, up 27.6% y/y for 1Q20. This outcome was due primarily to higher total sales, as well as better result on the revaluation of the company's property portfolio in the period vs the corresponding quarter of last year. The result came 1.8% above the PAP consensus estimate and 12.6% above our in-house forecast. The deviation from our estimate could be attributed predominantly to lower than anticipated net financial costs as well as effective tax rate. At the same time, we note the clean as well as reported EBIT was below our forecast for 1Q20.

All in all, we would expect a **rather a NEUTRAL market reaction** on the back of Echo's 1Q20 financial results today.

Total revenues came in at PLN 156.0m for 1Q20, up 124.7% y/y. This was mainly on the back of visibly higher sales from residential and other activity. Echo's sales from housing activity came in at PLN 74.3m for 1Q20 vs PLN 10.6m in the base quarter (with an increase linked primarily to higher volume of housing deliveries - at 190 in 1Q20 vs 23 in 1Q19). When it comes to other revenues, they were at PLN 48.5m, up 238.2% y/y in 1Q20 (boosted by the sale of R4R scheme to the platform in the period). At the same time, the revenues from commercial activity came at PLN 33.1m, down 25.4% y/y in 1Q20 (due to lower fit-out related revenues in the period, as well as almost a complete lack of the revenues from the Libero shopping mall starting mid-March – given imposed temporary suspension of rental contracts at the retail centres across the country in the period of trade ban linked to coronavirus pandemic). As the firm's sales from residential activity came 4.0% above our forecasts for 1Q20 (due likely to some differences between the actual handovers composition in 1Q20 and our model assumption) and despite an overestimate on other revenues level (our forecast stood at PLN 51.7m), the company's total sales came 3.8% above our expectations for the period. At the same time, the figure was 20.4% above the consensus expectations for the quarter.

Gross profit came in at PLN 24.5m for 1Q20, up 31.7% y/y. This was due to higher top line and despite weaker gross profit margin. Echo's gross margin was at 15.7% for 1Q20 vs 26.8% in the base quarter, primarily due

to far higher share of the revenues from relatively low margin residential and other activity in the firm's total sales in 1Q20 vs 1Q19. While we underestimated Echo's top line for 1Q20, the aggregated gross margin came 4.3pp below our forecast (linked to lower than originally expected gross profitability on office as well as other activity in 1Q20), the company's gross profit was x.x% above our expectations for the quarter.

EBIT ex revaluations came in at PLN -15.9m for 1Q20, as compared to PLN -11.4m in 1Q19. This was a consequence of a 5.2% y/y pick-up to the company's SG&A expenses to PLN 33.6m in 1Q20 as well as visibly weaker result on other operating activity (which was at PLN -6.8m for 1Q20 vs PLN 1.9m in 4Q18; subject to clarification), and in spite of stronger gross profit. As we overestimated Echo's gross profit for 1Q20, while other operating result came below our expectations (at PLN 0.6m), the firm's clean operating loss came clearly above our forecast loss for the period.

Revaluation result was at PLN 118.6m gain for 1Q20, driven predominantly by material PLN weakening vs EUR in the period (accompanied with no vital marking-to-market of the company's undergoing schemes in the period). This compares to PLN 63.5m gain in 1Q19, which resulted Echo's **EBIT including revaluations** came in at PLN 102.8m, up 97.4% y/y for 1Q20. As Echo's actual revaluation gain came 9.1% below our in-house forecast, the company's EBIT including revaluations was finally 18.3% below our expectations for 1Q20. At the same time, the figure was 17.7% below the PAP consensus estimate for the quarter.

Echo's **net financial result** was at PLN -50.9m in 1Q20 (affected by positive revaluation of EUR-denominated debt), while it was at PLN -12.4m in 1Q19. At the same time, the share in profits from associates came at PLN -2.6m for 1Q20 vs PLN -2.4m in 1Q19. This resulted Echo's **pre-tax profit** came at PLN 49.3m, up 32.2% y/y for 1Q20. As we overestimated net financial costs for 1Q20 (mainly FX losses) and despite lower than anticipated reported EBIT, the figure was 2.4% above our expectations. Moreover, due to lower than expected effective tax rate for the period, the deviation on the bottom line was greater.

Echo Investment: 1Q20 results (consolidated, IFRS)									
(PLN m)	1Q19A	4Q20A	1Q20A	y/y	q/q	1Q20F	Diff.	Cons.	Diff. to cons.
Total revenues	69.4	498.5	156.0	124.7%	-68.7%	150.2	3.8%	129.5	20.4%
Revenues from retail segment	21.6	22.8	12.2	-43.5%	-46.5%	11.4	7.0%		
Residential revenues	10.6	350.7	74.3	599.5%	-78.8%	71.4	4.0%		
Revenues from office segment	22.9	26.2	20.9	-8.4%	-20.2%	15.7	33.1%		
Other revenues	14.4	98.8	48.5	238.2%	-50.9%	51.7	-6.1%		
Cost of goods sold	50.8	381.2	131.4	158.8%	-65.5%	120.1	9.4%		
Costs of retail segment	10.9	26.2	6.4	-41.4%	-75.5%	3.4	88.2%		
Residential costs	9.6	239.0	59.1	519.2%	-75.3%	56.8	4.2%		
Costs of office segment	16.2	23.7	17.8	9.6%	-25.1%	11.4	56.1%		
Other costs	14.1	92.2	48.1	241.7%	-47.8%	48.6	-1.0%		
Gross profit	18.6	117.3	24.5	31.7%	-79.1%	30.1	-18.4%		
Gross profit margin	26.8%	23.5%	15.7%			20.0%			
Selling costs	4.4	13.5	8.0	79.9%	-40.8%	6.2	28.5%		
G&A expenses	27.5	36.4	25.7	-6.7%	-29.5%	29.1	-11.8%		
Other operating result	1.9	3.0	-6.8	n.a.	n.a.	0.6	n.a.		
EBIT (ex revaluation)	-11.4	70.5	-15.9	39.2%	n.a.	-4.6	244.2%		
EBIT (excl. revaluation) margin	-16.4%	14.1%	-10.2%			-3.1%			
Revaluation result	63.5	186.9	118.6	86.9%	-36.5%	130.5	-9.1%		
EBIT (incl. revaluation)	52.1	257.3	102.8	97.4%	-60.1%	125.8	-18.3%	124.9	-17.7%
EBIT (incl. revaluation) margin	75.0%	51.6%	65.9%			83.8%		96.4%	
Net financial result	-12.4	-7.3	-50.9	309.4%	595.9%	-83.8	-39.3%		
Share in profits from associates	-2.4	-12.2	-2.6	10.9%	-78.5%	6.0	n.a.		
Pre-tax profit	37.3	237.8	49.3	32.2%	-79.3%	48.1	2.4%		
Tax	5.4	55.3	8.6	58.8%	-84.4%	12.0	-28.1%		
Net income after minorities	31.8	182.5	40.6	27.6%	-77.7%	36.1	12.6%	39.9	1.8%
Net profit margin	45.9%	36.6%	26.0%			24.0%		30.8%	

Source: Echo, Erste Group Research

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