

# Echo Investment - Reduce

Target Price: PLN 3.80 | Close as of 24/11/2020: PLN 3.90

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## 3Q20 net income close to expectations - rather NEUTRAL reaction anticipated

Echo's **bottom line after minorities** came in at PLN 36.2m for 3Q20 vs PLN 49.1m in 3Q19. This outcome was due primarily to weaker result on the revaluation of the company's property portfolio as well as higher net financial expenses in the period vs the corresponding quarter of last year, and despite healthier clean EBIT. The figure came 1.6% below the PAP consensus estimate and 3.4% below our in-house forecast. The deviation from our estimate could be attributed predominantly to higher than anticipated net financial costs in the period. At the same time, we note that reported EBIT was above our as well as market expectations for 3Q20.

All in all, we would expect a **rather a NEUTRAL market reaction** on the back of Echo's 3Q20 financial results today.

**Total revenues** came in at PLN 342.0m for 3Q20, up 36.3% y/y. This was mainly on the back of higher other revenues and despite lower sales from residential as well as retail activity. Echo's sales from housing activity came in at PLN 159.0m, down 2.6% y/y for 3Q20 (with the decrease linked primarily to lower volume of housing deliveries - at 301 in 3Q20 vs 515 in 3Q19). When it comes to other revenues, they were at PLN 156.8m, up 171.2% y/y in 3Q20, boosted by unexpected sale of one of the R4R schemes to the platform. At the same time, the revenues from commercial activity came at PLN 26.2m, down 12.0% y/y in 3Q20 (mainly due to lower revenues from the company's shopping malls, linked to coronavirus turbulence). As the firm's sales from other segment came far above our forecasts for 3Q20 (no major activity in R4R field expected for the period), the company's total sales came 95.2% above our expectations for the period. At the same time, the figure was 89.9% above the consensus expectations for 3Q20.

**Gross profit** came in at PLN 51.4m for 3Q20, up 6.7% y/y. This was due to higher top line and despite weaker gross profit margin. Echo's gross margin was at 15.0% for 3Q20 vs 19.2% in the base quarter, primarily due to visibly higher share of the revenues from relatively low margin other activity in the firm's top line in the period vs 3Q19. As we underestimated Echo's top line for 3Q20 and despite the aggregated gross margin came 8.9pp below our forecast (linked to far higher than originally expected share of other revenues in the firm's total sales), the company's gross profit was 22.4% above our expectations for the quarter.

**EBIT ex revaluations** came in at PLN 15.2m for 3Q20, as compared to

PLN 0.8m in 3Q19. This was a consequence of lower G&A expenses and lower loss on other operating activity – which came in at PLN 7.3m for 3Q20 vs PLN 12.0m in the base quarter of last year. While we underestimated Echo's gross profit for 3Q20 and in spite of the fact that other operating result came below our expectations (at PLN -1.0m), the firm's clean operating profit was finally above our forecast for the period (at PLN 10.3m).

**Revaluation result** was at PLN 58.5m for 3Q20, driven by visible PLN weakening vs EUR in the period as well as a positive revaluation of the Browary K-G-H office property in the period. This, however, compares to PLN 87.3m in 3Q19, which in the end results Echo's **EBIT including revaluations** came in at PLN 73.8m for 3Q20 vs PLN 88.0m a year ago. As Echo's actual revaluation gain came 7.7% above our in-house forecast and given an underestimate on ex revaluation operating line, reported EBIT was 14.2% above our expectations for 3Q20. At the same time, the figure came 12.8% above the PAP consensus estimate for the quarter.

Echo's **net financial result** was at PLN -40.6m in 3Q20 (affected by positive revaluation of EUR-denominated debt), while it was at PLN -18.9m in 3Q19. At the same time, the share in profits from associates came at PLN 15.9m for 3Q20 (driven mainly by positive revaluation at one of the firm's recently completed R4R projects, only to some extent counterbalanced by further, Covid-19-related, write-downs at the Mlociny and Towarowa schemes) vs PLN 1.6m in 3Q19. This resulted Echo's **pre-tax** came at PLN 49.0m, down 30.7% y/y for 3Q20. While we clearly underestimated net financial costs for 3Q20 and despite higher than anticipated reported EBIT, Echo's pre-tax was 5.7% below our forecast.

Echo Investment: 3Q20 results (consolidated, IFRS)										
(PLN m)	3Q19A	2Q20A	3Q20A	y/y	q/q	3Q20F	Diff.	Cons.	Diff. to cons.	
<b>Total revenues</b>	<b>250.8</b>	<b>248.4</b>	<b>342.0</b>	<b>36.3%</b>	<b>37.7%</b>	<b>175.2</b>	<b>95.2%</b>	<b>180.1</b>	<b>89.9%</b>	
Revenues from retail segment	13.3	8.4	9.4	-29.8%	11.0%	9.3	0.9%			
Residential revenues	163.2	138.6	159.0	-2.6%	14.7%	149.3	6.4%			
Revenues from office segment	16.5	32.2	16.8	2.3%	-47.7%	14.5	16.1%			
Other revenues	57.8	69.1	156.8	171.2%	126.9%	2.1	7461.8%			
<b>Cost of goods sold</b>	<b>202.7</b>	<b>213.9</b>	<b>290.6</b>	<b>43.4%</b>	<b>35.8%</b>	<b>133.2</b>	<b>118.1%</b>			
Costs of retail segment	7.9	4.4	5.0	-37.3%	12.1%	4.9	2.0%			
Residential costs	128.2	116.4	120.9	-5.7%	3.9%	116.5	3.8%			
Costs of office segment	10.1	28.4	13.3	31.6%	-53.2%	9.9	33.6%			
Other costs	56.5	64.7	151.4	168.0%	134.1%	1.9	7702.9%			
<b>Gross profit</b>	<b>48.1</b>	<b>34.4</b>	<b>51.4</b>	<b>6.7%</b>	<b>49.1%</b>	<b>41.9</b>	<b>22.4%</b>			
<i>Gross profit margin</i>	19.2%	13.9%	15.0%			23.9%				
Selling costs	6.8	7.3	7.0	2.8%	-3.7%	8.0	-12.5%			
G&A expenses	28.5	22.2	21.8	-23.7%	-1.9%	22.6	-3.8%			
Other operating result	-12.0	-1.4	-7.3	-39.0%	438.4%	-1.0	610.5%			
<b>EBIT (ex revaluation)</b>	<b>0.8</b>	<b>3.6</b>	<b>15.2</b>	<b>1896.6%</b>	<b>323.4%</b>	<b>10.3</b>	<b>48.6%</b>			
<i>EBIT (excl. revaluation) margin</i>	0.3%	1.4%	4.5%			5.9%				
Revaluation result	87.3	41.6	58.5	-32.9%	40.7%	54.3	7.7%			
<b>EBIT (incl. revaluation)</b>	<b>88.0</b>	<b>45.2</b>	<b>73.8</b>	<b>-16.2%</b>	<b>63.2%</b>	<b>64.6</b>	<b>14.2%</b>	<b>65.4</b>	<b>12.8%</b>	
<i>EBIT (incl. revaluation) margin</i>	35.1%	18.2%	21.6%			36.9%		36.3%		
Net financial result	-18.9	1.9	-40.6	115.5%	n.a.	-27.4	48.3%			
Share in profits from associates	1.6	-20.3	15.9	891.2%	n.a.	14.8	7.4%			
<b>Pre-tax profit</b>	<b>70.8</b>	<b>26.8</b>	<b>49.0</b>	<b>-30.7%</b>	<b>82.8%</b>	<b>52.0</b>	<b>-5.7%</b>			
Tax	21.7	16.4	12.8	-40.8%	-21.5%	14.6	-11.9%			
<b>Net income after minorities</b>	<b>49.1</b>	<b>10.5</b>	<b>36.2</b>	<b>-26.3%</b>	<b>245.9%</b>	<b>37.5</b>	<b>-3.4%</b>	<b>36.8</b>	<b>-1.6%</b>	
<i>Net profit margin</i>	19.6%	4.2%	10.6%			21.4%		20.4%		

Source: Echo, Erste Group Research

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