

March 11, 2015

CEZ – 4Q15 Preview

CEZ Might Deliver (Relatively) Strong Guidance

UTILITIES
CZECH REPUBLIC

CURRENT PRICE 385 CZK
TARGET PRICE (6M) 555 CZK

ACCUMULATE
CURRENT RATING

Bloomberg	CEZ CP
Reuters	CEZP.PR
www.cez.cz	
Market Cap	CZK 207,772m
Shares outst.	538.0m
Free float	30.2%
Next corporate event	
Results 1Q16: 10 May 2016	
Performance	1M 3M 12M
Absolute	+4% -10% -37%
Relative (PX)	-2% -7% -29%

CEZ will release its 4Q15 results next Tuesday, 15th of March, B/Mkt.

Revenues in 2015 should be generally lower vs. 2014 due to the lower average achieved baseload electricity price (39.5 EUR/MWh in 2015 vs 44.5 EUR/MWh in 2014). Moreover, extended outages at Dukovany nuclear power plant weighted on both EBITDA and EBITDA margin during 4Q15.

Nevertheless, CEZ has already lowered its FY EBITDA guidance to 64bn CZK from 68bn CZK (within 3Q15 results) as postponed completion of upgrades to coal-fired plants in the Czech Rep. and operation of existing coal-fired plant weights on operating results in conjunction with nuclear plants outages. Therefore, **we expect the company should slightly exceed the guidance and reach 4Q15 EBITDA of CZK 15.7mn (FY15 CZK 64.2mn)**. We assume higher revenues (+7 % y/y) but lower EBITDA margin (29% vs. 33% in 4Q14) leading to 10% decrease in EBITDA vs. 4Q14. We expect NI CZK of 5.2mn (ex-tax refund). Consensus estimate is somewhat confusing for us as it is not clear whether it exclude tax-refund.

Thanks to the decision of the Appellate Tax Directorate to refund CZK 3.8bn to CEZ (Oct-10), **adjusted NI should reach CZK 9.0bn**. (However, the refund is rather one-off in our view. CEZ said it will include it into adjusted NI). Consequently, the dividend might be preserved at 40 CZK in our view (Note, we expect the dividend proposal later during the year before AGM). Regarding running results within European utilities sector, potential impairment of generation assets is a risk (not included in our estimate). On the other hand, there is no direct link to dividend, as CEZ use adjusted net income ex-impairments as a basis for the dividend (impairment is non-cash).

EBITDA / adj.NI guidance for 2016 should be in the spotlight of results and a progress in Vattenfall's assets bidding in Germany might be interesting for investors. **CEZ might introduce relatively strong EBITDA guidance at CZK 65bn+** (BBG consensus CZK 63.3bn) according to us as increase in production volumes (expected by us) should partly offset another decrease in achieved power prices (35.0 EUR/MWh in 2016 vs 39.5 EUR/MWh in 2015).

bCZK	4Q14A	4Q15E Patria	4Q15E Cons.*	y/y Patria	y/y Cons.
Revenues	51,8	55,3	53,1	+7%	3%
EBITDA	17,6	15,7	15,9	-10%	-10%
EBIT	8,9	8,4	8,5	-5%	-4%
Net income	5,9	5,2	8,5	-13%	43%
adjusted NI	7,9	9,0	8,6	+13%	+9%

* consensus data as collected by IR dept. of CEZ (15)

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The company disclosures can be consulted on our website <http://www.patria.cz/stocks/research/recommendation.html>

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Company	Conflicts of Interest
CEZ	2

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