

7 May 2015

CEZ – 1Q15 Preview

The Key Focus on Potential Dividend Proposal

Utilities
CZECH REPUBLIC

CURRENT PRICE 636 CZK
TARGET PRICE 625 CZK

HOLD
CURRENT RATING

Bloomberg	CEZ CP
Reuters	CEZP.PR
www.cez.cz	
Market Cap	CZK 342,162m
Shares outst.	538.0m
Free float	30.2%
Next corporate event	
Results 1Q15: 12 May 2015	
Performance	1M 3M 12M
Absolute	+1% +8% +6%

1Q15 Results Preview

CEZ will release its 1Q15 results next Tuesday, 12th of May, B/Mkt.

We expect revenues to be lower y/y due to the lower average achieved baseload electricity price (39.5 EUR/MWh in 2015 vs 44.5 EUR/MWh in 2014). On the other hand, this negative price-effect should be largely mitigated by notably higher planned generation volume of both coal (+18%) and nuclear power plants (+5%).

Moreover, when taking into account further cuts in fixed operating costs, **we expect just 5% y/y decrease in EBITDA** and about -10% in EBIT due to a y/y higher depreciation.

The key focus of the results will be on potential dividend proposal. Although, the proposal is usually announced separately from results, we expect this time it might come within results. Note, CEZ has already said the proposal will be announced within first half of May.

After CEZ decided not to make binding bid for Enel's 66% stake in Slovenske Elektrarne (May-7), **we expect CEZ to increase its pay-out ratio from 50-60% of NI to 50-80% NI and so the dividend of 40 CZK per share (flat y/y) could be proposed (73% pay-out).** If our expectation comes true, **it should be a slightly positive surprise for the market** as we assume consensus might await about 35 CZK/share.

Despite cost cutting and expected decline in financial costs the prospects of net income in 2015-18 continues to be one of the weakest in Europe, therefore, we prefer GDF Suez (FR), E.ON (DE) or Gas Natural (SP) among European power producers.

In CEE region, CEZ might benefit from prevailing "consolidation-risks" in Poland and thus we wouldn't be surprised if CEZ was to outperform Polish peers, especially if 40 CZK dividend to be proposed.

bCZK	1Q15A	1Q15E Patria	1Q15E Cons.*	y/y Patria	y/y Cons.
Revenues	53,2	50,3	51,8	-5%	-3%
EBITDA	21,2	20,1	20,1	-5%	-6%
EBIT	14,4	13,1	12,9	-9%	-10%
Net income	9,9	9,4	8,9	-5%	-10%
adjusted NI	9,9	9,4	8,9	-5%	-10%

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* CEZ Cons (14)
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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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