Equity Research

Equity Outlook

The second quarter should be supportive for equities


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- **The global equity markets had a terrible start to 2016 but have recovered since mid-February**, especially those in the United States. The performance of European equity markets relative to the U.S. ones was the worst since 2002.
- **The PSE's PX index outperformed some of the major markets but lagged behind main regional indices in Q1 16**. The Hungarian BUX was the most successful with a nearly 10% gain in the quarter.
- **The PX index was dragged down above all by financial stocks**. The biggest loser on the PSE was Vienna Insurance Group after a profit warning and an unexpected dividend cut.
- The shares of coal miner NWR delivered a stellar 70% return in the first quarter. However, it is important to realise that by this increase, the shares erased only a very small part of their previous losses.
- **Trading activity on the PSE fell in the first quarter** as the average trading volume in the first three months of the year was 21% below the 2015 level.
- **Société Générale keeps its balanced allocation as it recommends a 50% weight for equities in a global portfolio.** The overall stance for financial markets is preferred to be reasonably bullish on risk in Q2 and balanced by the end of the year.
- **SG expects the major equity markets to grow in Q2 from oversold levels,** followed by low single-digit quarterly declines in the second half of the year. These targets would mean essentially flat S&P 500 by the end of 2016 versus the current levels, with Japan and Europe up by mid-single digits.
- From a sectoral perspective, financials, autos and components, and steel, metals and mining companies are among our preferred industries. On the other hand, we newly see investment banks as an unattractive sector.
- **We expect the Prague stock market to deliver a double-digit return in the rest of the year**. We believe Erste Bank shares are now among the most attractive on the domestic equity market. On the other hand, we still have a negative outlook for shares of coal miner NWR.

SOCIETE
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Prague Stock Exchange statistics

	2011	2012	2013	2014	2015	3/2016
PX Index (eoy)	911	1,039	989	947	956	1,026
Change (CZK)	-25.6	14.0	-4.8	-4.3	1.0	7.3
Change (USD)	-29.3	18.4	-8.9	-16.7	-7.0	7.9
Traded volumes (CZK m)	369,750	250,608	184,571	158,222	169,202	161,240
Traded volumes (USD m)	20,904	12,810	9,461	7,648	6,941	7,195
Market capitalization (CZK m)	1,060,767	1,093,799	1,074,426	1,018,162	1,011,989	1,122,898
Market capitalization (USD m)	53,737	57,540	54,189	44,434	40,696	45,906

Source: PSE, Bloomberg, Economic & Strategy Research, Komerční banka

KB/SG recommendations for the PSE titles

	Price	Target price	Recomm.	From date	Year high	Year low
CEZ	400.5	420.0	Buy	12-Feb-16	683.2	362.1
CME	64.0	65.0	Hold	12-Aug-15	70.5	43.0
Erste Bank	661.3	945.8	Buy	10-Aug-15	802.6	592.1
Fortuna	86.3	In review	In review	10-Mar-16	105.0	56.0
Komercni banka	5,085.0	-	-	-	5,711.0	4,561.0
NWR	0.2	-	Sell	11-Dec-15	0.3	0.1
Pivovary Lobkowicz Group	208.0	-	-	-	218.2	176.5
Pegas Nonwovens	784.9	800.0	Buy	3-Dec-15	966.9	685.1
Philip Morris C.R.	13,173.0	11,890.0	Buy	1-Sep-15	13,449.0	10,300.0
Tatry Mountain Resorts	630.0	-	-	-	695.0	555.0
O2 CR	250.0	260.0	Hold	22-Mar-16	265.9	49.4
Unipetrol	178.4	-	-	23-Apr-15	194.9	127.6
VIG	510.9	-	-	16-Apr-15	1,173.0	494.8

Source: PSE, Bloomberg, Economic & Strategy Research, Komerční banka

Companies overview

	Price	Monthly	year-to-date change		Avg. daily volumes	
	CZK	change	CZK	USD	1-3/2016	1-3/2016
Company	7-Apr-16	(%)	(%)	(%)	(CZK m)	(USD m)
CEZ	400.5	4.1	-9.9	-5.5	217.3	9.2
CME	64.0	4.1	-4.5	0.2	2.1	0.1
Erste Bank	661.3	4.5	-14.8	-10.6	81.7	3.4
Fortuna	86.3	-12.9	7.1	12.4	1.8	0.1
Komerční banka	5,085.0	2.5	2.7	7.7	204.2	8.6
NWR	0.2	33.3	60.0	67.8	0.3	0.0
Pivovary Lobkowicz Group	208.0	0.0	0.3	5.2	1.5	0.1
Pegas	784.9	6.2	7.4	12.6	10.6	0.4
Philip Morris ČR	13,173.0	0.6	9.8	15.1	10.8	0.5
TMR	630.0	-0.3	3.3	8.3	0.0	0.0
O2 CR	250.0	1.3	-0.4	4.5	30.7	1.3
Unipetrol	178.4	4.3	11.5	16.9	9.6	0.4
VIG	510.9	-17.1	-25.8	-22.2	12.2	0.5

Source: PSE, Bloomberg, Economic & Strategy Research, Komerční banka

The Prague Stock Exchange underperformed major regional markets in Q1 16

Global equity market

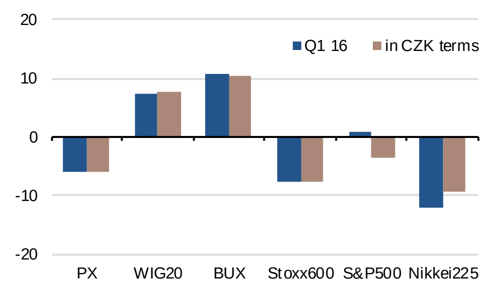
Source: Bloomberg, MSCI World index

The global equity markets had a terrible start to 2016. The first week was the worst ever in history, and for the whole of January the major indices tumbled up to 10 %. The main reasons were most likely global deflation fears caused by the collapse of oil prices and other commodities and fears from the slowdown of the Chinese economy. All this has pushed down in particular banks, miners, energy and automotive companies. The decline continued in the first two weeks in February but later sentiment improved and equity markets recovered. The rebound was most successful in the U.S. and the major American indices closed the first quarter in small profits. On the other hand, the European Stoxx 600 dropped in total 8% in Q1 16, and the Japanese Nikkei 225 even 12%. The performance of European equity markets relative to the U.S. ones was the worst since 2002. One of the reasons was that the European earnings season was rather disappointing.

The Prague bourse's performance lagged behind main regional indices.

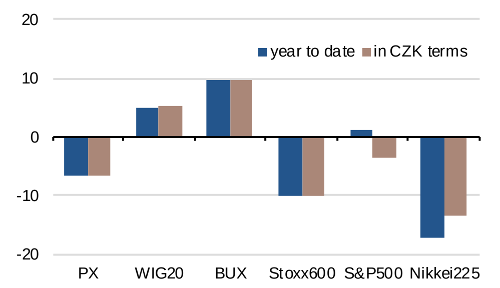
The PSE's PX index outperformed some of the major markets but lagged behind main regional indices in Q1 16. The Hungarian BUX was the most successful with a nearly 10% gain in the quarter, as shown in the left-hand chart below. The year-to-date performance of the selected equity markets is naturally similar (see the chart below on the right). Most equity markets deepened their losses at the beginning of April, above all those in Japan and Western Europe.

PX vs. other stock indices in Q1 16 (%)



Source: Economic & Strategy Research, Komerční banka, Bloomberg

PX vs. other stock indices in 2016 (%)



Source: Economic & Strategy Research, Komerční banka, Bloomberg

The PX index was dragged down above all by financial stocks.

The biggest loser so far on the PSE is Vienna Insurance Group. VIG shares plummeted 27% in the first quarter due to a profit warning and an unexpected dividend cut to EUR 0.60 from EUR 1.40 per share a year ago. Another financial stock, Erste Group, also highly contributed to the PX index's decline as it fell nearly 14% in Q1 16 despite full-year 2015 financial resuts above expectations. However, the sector sentiment outweighed that, as the Stoxx Europe 600 Banks index plunged more than 20% in the quarter.

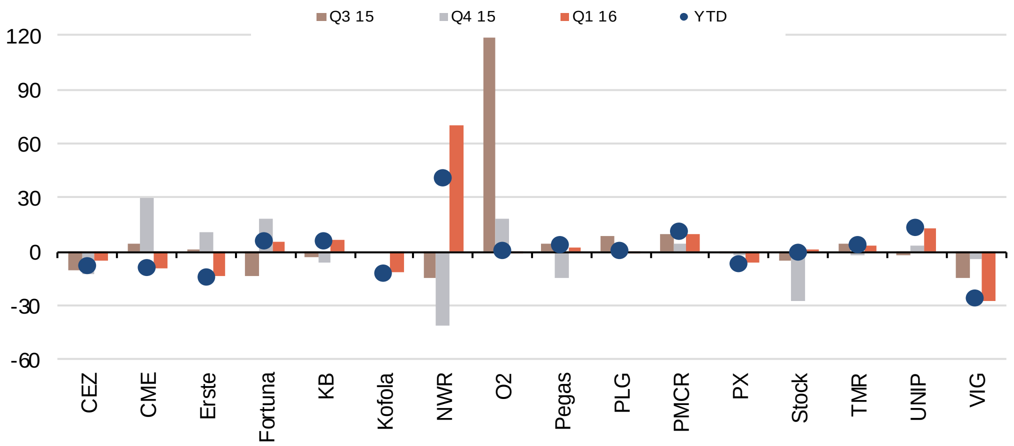
The newcomer to the Prague Stock Exchange, soft drinks producer Kofola, also suffered double-digit losses in Q1 16. The shares keep falling and have already lost 17% since their December IPO. Media company CME (-9.3 %) also underperformed the PX index in the first quarter of the year.

Volatile shares of NWR increased most in the first quarter.

The shares of coal miner NWR delivered a stellar 70% return in the first quarter. The main trigger was probably the exit of the majority shareholder. It is important to realise that by this increase, the shares erased only a very small part of their previous losses. The stock is in a downtrend since 2011 and its March jump got it back only to the levels last seen in November 2015. So far in the April trading, volatile NWR shares have dropped more than 20%.

From other issues, mid-caps Unipetrol and Philip Morris CR achieved solid gains of 13% and 10%, respectively. Komercni banka shares strenghtened 6% despite the negative industry trend in Q1 16. The complete development of major Czech stocks is shown in the chart below.

Development of Czech stocks (performance in %)

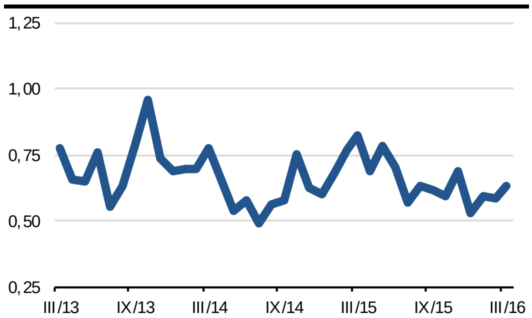


Source: Economic & Strategy Research, Komerční banka, Bloomberg; data at 5 April 2016

Trading activity on the PSE fell in the first quarter.

Trading activity on the PSE fell in the first quarter. The average trading volume in the first three months of the year was 21% below the 2015 level. Note that 2015 was the first year of increased trading activity after seven years of declines. The trading volume structure on the PSE continues to be dominated by a few of the biggest stocks, in particular ČEZ (37% of total turnover) and Komerční banka (35%), followed by Erste Group (14%). Within this breakdown, the proportion of Komerční banka's stocks again increased during the past few months.

Average daily trading volume (CZKbn)



Source: PSE, Bloomberg, Economic & Strategy Research, Komerční banka

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Global economic outlook

United States: Just one rate hike this year

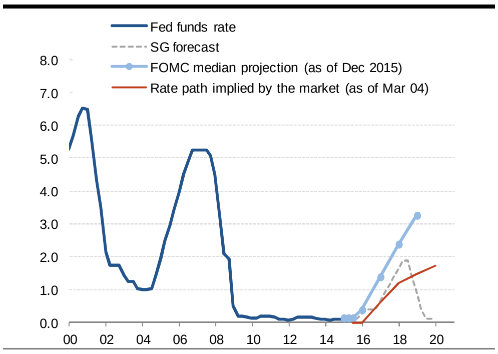
GDP is expected to grow 1.9% this year.

Domestic demand remains the key driver of the U.S. economy. Household consumption is positively affected by the situation on the labour market, which has already reached full employment (NAIRU). This creates pressures on wage growth and raises the purchasing power of households. Unit labour costs are already growing well above 2%. Moreover, lower energy prices improved the balances of households as well, while debt service burden remains the lowest in the past few decades. The situation on the housing market develops positively, as well. Mortgage rates remain at historical lows, while undersupply on the market promises further growth of investments. Factors creating downward pressure on U.S. GDP remained roughly unchanged, namely the strong dollar, lower investments in the energy sector and tighter financial conditions. According to SG economists, the cumulative 22% appreciation of the U.S. dollar, which began in the summer 2014, swallows 0.9 % of 2016 GDP growth. Lower investments in the energy sector are likely to cut an additional 0.4% of GDP. Summed up together, GDP is likely to grow 1.9%, while next year it should slightly accelerate to 2.2%.

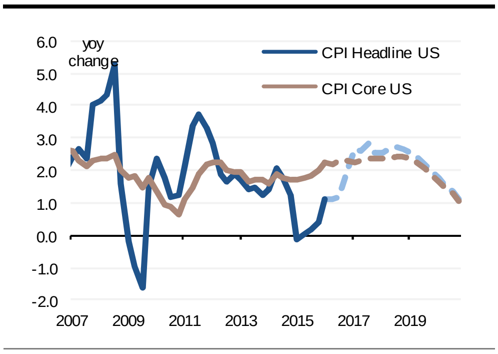
Rate hike expectations have been reduced substantially.

Consumer prices are likely to rise this year. Given the continued tightness on the labour market and in the housing market, core prices have exceeded market expectations in recent months (in February, 2.3% yoy). Headline inflation is likely to return to 2% by the end of the year. Regarding inflation, the American central bank (the Fed) is concerned especially by the development of inflationary expectations. Fears of their further decline, a slowdown of the world economy and tighter financial conditions have led the Fed to remove two hikes from its dot plot. The Fed now counts on just two rate hikes this year, while the previous median implied four rate hikes. SG economists expect just one rate hike in the second half of this year. The market, with a probability of roughly 40%, bets that the Fed will deliver one rate hike this year, while the chance of two rate hikes is just at 12%. Next year, SG economists expect four increases.

U.S.: development of interest rates (%)



U.S.: inflation (%, y/y)



Sources: SG Cross Asset Research/Economics

Euro area: Inflation target still not in sight

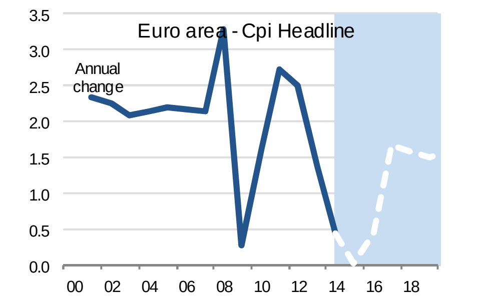
Inflation should reach 0.4% on average this year.

SG economists revised the 2016 GDP forecast down from 1.6% to 1.3%. Lower contribution of net exports and tighter financial conditions were the main reasons for the revision. Inflation in the euro area persist at low levels (-0.1% y/y in February). According to SG economists, inflation is likely to hover around zero by the summer, but in H216 it is likely to accelerate given the basic effects. Nevertheless, inflation is unlikely to exceed 0.4% on average this year. At the beginning of 2017, inflation is likely temporarily rise to the levels close to 2%. Within the years 2016-20, it is likely to average around 1.4%, still substantially below the ECB's inflationary target of 2%.

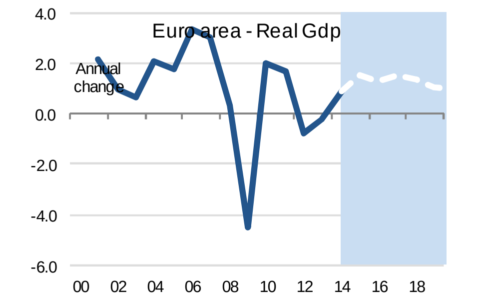
President Draghi sees no space for further rate cuts.

The European Central Bank delivered another package of the measurement in March to push inflation closer to the inflation target. It had lowered all interest rates with a deposit rate cut by another 10bb to -0.4%. At the same time, ECB President Draghi stated that he doesn't see scope for further rate cuts. The amount of purchased assets will be raised from April by EUR 20bn to 80bn. Corporate bonds with an investment grade were newly incorporated into the programme, as well. From June, a new TLTRO programme will start. The interest rate for this programme will move within a range of -0.4% to 0%, according to the amount of lending provided by individual banks. As inflation is likely to rise given the base effects, we cannot expect too many actions from the ECB this year. The main question is what ECB will do in 2017 and beyond if inflation persists below the central bank's target. Currently, the ECB's appetite to buy bank bonds or equities is low. According to SG economists, the most likely scenario is an extension of the asset purchase programme through the end of 2017, extending the TLTRO and possibly including mortgage loans.

Euro area: Inflation (%, y/y)



Euro area: GDP (%)



Source: SG Cross Asset Research/Economics

Asia: China – further rate cuts on the horizon. Japan – 30% chance that QQE will be implemented

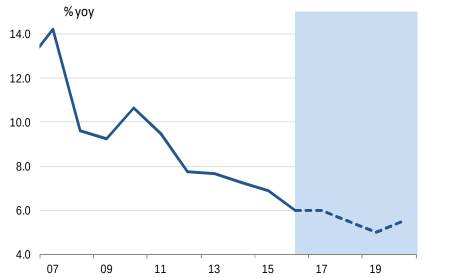
The growth target will not be achieved without some slowdown of the reform process.

The Chinese government set up the growth target for 2016-20 at 6.5% per annum. It is slightly less in comparison with "around" 7% for 2015, but it is still a relatively ambitious plan. According to SG economists the aim of the Chinese government to sustain GDP growth will not do without some slowdown of the reform process. Nevertheless, according to SG, there is still a greater than 50% chance that the most important reforms will be pushed through by 2020. Regarding the sources of GDP growth, SG economists assume household consumption should remain solid. Housing investments are likely to gradually be revised as well despite still-high inventories and weak demand in lower-tier cities. Investments in the industry sector are likely to be negatively affected by the upcoming capacity consolidation. Since the change of the currency regime in August 2015, the Chinese renminbi has come under strong depreciation pressure while capital outflows have substantially increased. These are at the same time two factors currently driving the monetary policy of the PBoC. The main SG scenario counts with the 70% probability that the USD/CNY will be traded at 6.8 at the end of 2016. According to SG's view, the PBoC will aim to keep the CFETS index (composed of 13 currencies) in a relatively narrow range around the 100 level. In such a case, SG economists assume the PBoC would lower the RRR by 150bp to 16.5% and the repo rate 50bb to 1.9%.

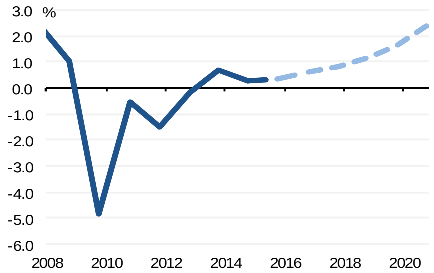
The term of the inflationary target's achievement might be postponed once again.

The growth outlook for the Japanese economy was substantially revised downward. The reason is the uncertainty connected with the world economy's outlook, yen appreciation and warmer winter than usual. The growth rate should, however, remain above the potential, which is expected around 0.5%. Inflation is likely to hover around zero in the short term. On the midterm horizon, it is likely to stabilise around 1%. Inflation is likely to be pushed higher mostly by wage growth and depreciation of the yen in the recent period. Still, the BoJ might have difficulty achieving the inflation target by H117, so there is a risk that the timing could be postponed again. According to SG economists, the 2% price stability target will be achieved in 2019. The BoJ has implemented negative interest rates on current accounts held by financial institutions (-0.1%). Through this measure, the BoJ tries to motivate financial institutions to lend more or invest more, which would support the economy further. The probability of adopting additional easing measures has increased from 10% to 30%, according to SG economists. The BoJ would probably cut interest rates deeper into the negative and/or would raise the annual monetary base by another JPY5trn.

China: GDP growth



Japan: output gap



Source: Ekonomický a strategický výzkum, Komerční banka

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Outlook for equity markets

SG keeps 50% weight for equities in its global portfolio.

Our outlook for equity markets is based on Société Générale's *Multi Asset Portfolio – US softer for longer: beware of the doom merchants* (published on 21 March). **Société Générale keeps its balanced allocation as it recommends a 50% weight for equities in a global portfolio.** The overall stance for financial markets is preferred to be reasonably bullish on risk in Q2 and balanced by the end of the year. From other asset classes in the context of the anticipated development, SG underweighted government bonds and, on the contrary, overweighted high-yield corporate bonds. It also reduced cash to a minimum (5% in its portfolio).

Five reasons to be reasonably bull risk in Q2.

There are several factors supporting risky asset recovery: (1) The Fed will not execute heavy policy tightening; (2) China is implementing a wider set of policy tools, reducing fears of a sharp fall in its currency; (3) central bankers have started to realise that going too far into negative rates will mainly penalise the banking sector, and therefore switching back to asset purchases and traditional fiscal easing should alleviate fears of a credit crunch; (4) European geopolitical risks are receding; and (5) Brexit fears will persist until the referendum, but the United Kingdom is likely to stay in the end.

SG prefers European and some Asian equity markets to US equities.

The table below shows forecasts for global equity indices. **SG expects the major equity markets to grow in Q2 from oversold levels** followed by low single-digit quarterly declines in the second half of the year. These targets would mean essentially flat S&P 500 by end-2016 versus the current levels, with Japan and Europe up by mid-single digits.

SG/KB outlook for equity indices

Index	Last price *1-Apr*	VI.16 *est.*	IX.16 *est.*	XII.16 *est.*	III.17 *est.*	change *end 16'(%)*
S&P 500 (USA)	**2 060**	**2 100**	**2 050**	**2 000**	**2 050**	**-3**
DJ Stoxx 600 (Europe)	**333**	**370**	**360**	**360**	**370**	**8**
FTSE 100 (UK)	6 115	6 600	6 550	6 500	6 700	6
CAC 40 (France)	4 321	4 900	4 850	4 800	5 000	11
DAX 30 (Germany)	9 834	10 500	10 400	10 300	10 500	5
FTSE MIB (Italy)	17 989	20 500	20 300	20 200	20 800	12
IBEX 35 (Spain)	8 634	9 700	9 600	9 500	9 500	10
Nikkei 225 (Japan)	**16 164**	**18 250**	**18 000**	**18 000**	**18 000**	**11**
HSCEI (China)	8 843	9 000	8 500	8 300	8 500	-6
ASX 200 (Australia)	4 999	5 300	5 250	5 200	5 200	4
KOSPI (South Korea)	1 974	2 100	2 075	2 050	2 050	4
SENSEX (India)	25 174	26 000	26 000	27 000	27 000	7
PX (KB/SG, market prices)	**899**	**910**	**940**	**970**	**980**	**8**
PX (KB/SG, consensus)	**899**	**940**	**980**	**1 020**	**1 010**	**13**

Source: SG Cross Asset Research (Multi Asset Portfolio from 24 March 2016); Economic & Strategy Research, Komerční banka

In the United States, we see a limited upside for continuing growth as we expect no acceleration of GDP growth. U.S. equities are rather expensive from a long-term perspective, while **eurozone equities** should be supported by relaxed monetary policy, the weak euro, economic recovery and the implementation of reforms in some countries (France, Italy). We expect the British FTSE 100 to do well in the run-up to the referendum, mainly driven by weakening GBP. However, the focus should be only on large cap companies with high exposure to foreign markets; we discourage investors from long positioning on small caps.

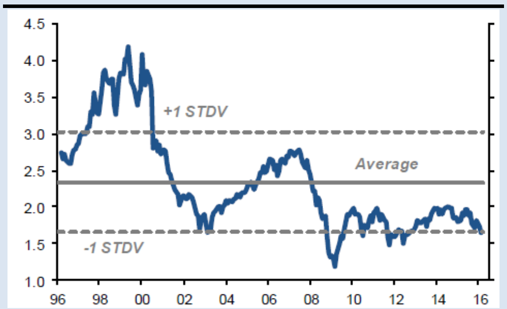
BOX: In the case of Brexit, we would prefer British large caps

Société Générale's strategists have a positive view of UK equities at the moment as they recommend overweighting them in their multi-asset portfolio. The current valuation is very attractive as shown in the left-hand chart below. Among the main developed equity markets, the British FTSE 100 is the most exposed to commodity sectors, which has been recently pushing the index down. However, this factor should have a rather positive impact going forward thanks to our expected recovery in the price of oil and other commodities.

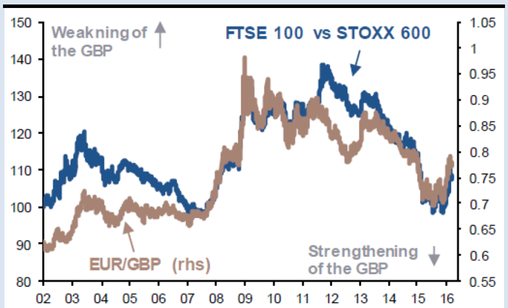
In the case of Brexit, SG would recommend going long FTSE 100 and short FTSE 250. The reason is that UK small caps would be harder hit by slower economy growth, while large caps would benefit from weaker GBP (many companies in the FTSE 100 index report in sterling but have geographically well-diversified revenues). The right-hand chart below shows the performance on FTSE 100 (relative to the European Stoxx 600) is well-correlated with the EUR/GBP exchange rate.

The impact of Brexit on the Czech equity market should be minimal. The shares of spirit maker Stock Spirits and miner NWR are traded on the London bourse as well, but both companies report in euros and a vast majority of their sales comes from Central Europe (and Italy in the case of Stock Spirits). GDP growth in the UK or the exchange rate of the British pound should thus have virtually no impact on both stocks. Moreover, both issues have a combined weight in the PX index of only 3%. In total, Brexit would affect the Prague Stock Exchange only in the case of a strong reaction on global equity markets (e.g. due to a rise or risk aversion), which would likely be copied by the PX index.

Price-to-book value (MSCI UK index)



Relative performance of the FTSE 100 index



Source: SG Cross Asset Research, report The Big Picture (March 2016)

In Asia, we expect the Q2 rebound to be more modest than in Europe, with Japanese equities outperforming other Asian markets. Chinese equities are likely to participate in the global equity bounce, particularly in a less stressed yuan scenario. Over a longer horizon, Japan and India remain the most favoured markets in Asia-Pacific.

Our outlook for the Czech equity market is positive.

We expect the Prague stock market to deliver a double-digit return until the end of the year. We adopt a bottom-up approach because the PX index consists of only 13 issues, with the four largest ones having a combined weight of almost 75%. Of the most traded blue chips, we actively cover eight companies (including SG's coverage of Erste Group shares). For valuing other stocks, we use two approaches, i.e. the actual market price and market consensus. An average of these two estimates shows potential growth of 10.5% over the rest of the year.

SG foresees a recovery of steel, metals and mining stocks.

From a sectoral perspective, SG prefers:

- **Sectors benefiting from economic recovery or resilience of the European economy** such as construction, transportation and autos and components.

- **Value stock segment** (integrated oil companies, financials, basic industries and autos and parts), which is now trading at a historically low level relative to growth stocks in Europe.
- **Stocks supported by diminishing fears of a Chinese hard landing and global deflation.** Sectors benefiting from this scenario could be newly upgraded steel, metals and mining companies.

Other two attractive segments are (1) pharmaceuticals, which are supported by the strong U.S. dollar and the M&A cycle, and (2) tobacco firms, which offer attractive and safe dividend yields; however, both can offer only limited room for further share price increases.

The least preferred sectors now include investment banks.

The least preferred sectors include:

- **Newly downgraded diversified financials and investment banks,** which are struggling with stringent regulations.
- **Utilities,** since the sector suffers from low power prices and negative EPS momentum.
- **Telecommunications companies** as they are highly leveraged.

Erste Group is among the most attractive stocks on the PSE.

We believe Erste Group shares are the most attractive on the Prague Stock Exchange. The bank reported above-consensus Q415 net profit and achieved its 2015 target of 10% ROTE with risk costs below the lower end of the guidance. The bank also intends to restart paying dividends for 2015. Although comments by CEO Andreas Treichl about this year were careful in terms of declining pre-provision operation profit, Erste has loan growth where others do not, and it has strong market shares and benign risk costs. We also keep our Buy recommendation for Pegas Nonwovens shares thanks to expansion into Egypt, full capacity utilisation for this year and progressive dividend policy. We also recommend buying ČEZ and Philip Morris ČR stocks; however, the potential for their further growth is now very limited.

We still recommend selling NWR.

On the other hand, we still have a negative outlook for the shares of miner NWR, which remains under selling pressure due to low global prices of coking coal. Without a further capital increase, which does not seem very likely now, we forecast the company can survive no longer than until 2017. The share price should thus drop further toward zero.

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Expected domestic corporate events in the following months*

Date	Company	Event
7 April	Vienna Insurance Group	Full-year consolidated results
8 April	NWR	Annual General Meeting
15 April	Fortuna	Annual report and final full-year results
19 April	O2 Czech Republic	Shareholders Meeting
21 April	Unipetrol	Q116 earnings announcement
22 April	Komerční banka	Shareholders Meeting
26 April	O2 Czech Republic	Q116 earnings announcement
27 April	CME	Q116 earnings announcement
29 April	Pivovary Lobkowicz	Annual report and final full-year results
4 May	Erste	Q116 earnings announcement
4 May	Komerční banka	Q116 earnings announcement
5 May	Fortuna	Q116 earnings announcement
10 May	ČEZ	Q116 earnings announcement
11 May	Erste	Annual General Meeting
13 May	Vienna Insurance Group	Annual General Meeting
17 May	Stock Spirits	Annual General Meeting
18 May	NWR	Q116 earnings announcement
24 May	Vienna Insurance Group	Q116 earnings announcement
26 May	Pegas Nonwovens	Q116 earnings announcement
15 June	Pegas Nonwovens	Annual General Meeting

Source: Bloomberg, companies. *other dates are not yet confirmed

Foreign markets

S&P 500 (USA)

Zdroj: Bloomberg

Stoxx600 (Europe)

Zdroj: Bloomberg

Nikkei 225 (Japan)

Zdroj: Bloomberg

HSCEI (China)

Zdroj: Bloomberg

WIG 20 (Poland)

Zdroj: Bloomberg

BUX (Hungary)

Zdroj: Bloomberg

| Utility |

ČEZ

Q4 15: Major items mildly above expectations, but 2016 guidance disappointed

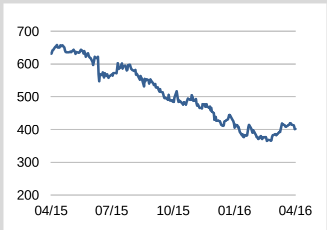
Buy

Price 07/04/16	**CZK 407**
12m target	**CZK 420**
Upside to TP	**3.2%**
Dividend	**CZK 35**
Total return	**11.8%**

Sector stance
Underweight

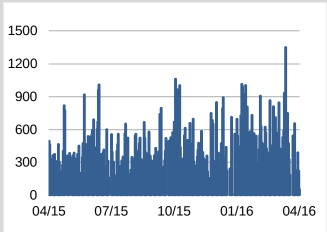
Investment type
Commodity price exposure ✓
High dividend yield ✓

1 year performance



Source: Bloomberg

Trading volume (in ths of shares)



Source: Bloomberg

Share data

RIC CEZsp.PR	**Bloom** CEZ CP		
52-week range			362.1-683.2
Market cap. (CZKbn)			215.5
Market cap. (EURbn)			8.0
Free float (%)			30
Performance (%)	**1m**	**3m**	**12m**
Share	4.1	-1.1	-36.6
Rel. PX Index	4.4	2.3	-24.8

Source: Bloomberg

The latest reports:
http://trading.kb.cz/CommentsAnalysis/Detail/f68_cez_analysis_update_12_2_2016
http://trading.kb.cz/CommentsAnalysis/Detail/a52_cez_q4_15_results

CEZ results

CZKbn	Q4 14	Q4 15	change	KB estimate	consensus*
Revenues	53.6	59.6	11%	53.8	53.1
EBITDA	17.9	16.7	-6%	15.4	15.9
EBIT	8.1	4.3	-47%	3.4	8.5
Net profit	2.8	3.9	39%	4.8	8.5
Adjusted net profit	5.3	9.0	71%	8.5	8.6

Source: CEZ, Economic & Strategy Research, Komerční banka. *CEZ poll among 15 analysts including KB

Quarterly results: CEZ published its Q4 15 results on 15 March with **EBITDA and adjusted net profit mildly above expectations**. On the other hand, most of the market didn't expect a high asset impairment. In line with our forecast, the reported operating profit thus fell steeply year-on-year. For the full-year 2015, CEZ's consolidated revenues increased 4% yoy but EBITDA fell 10% yoy to CZK 65.1bn (slightly above the management's guidance of CZK 64bn) and adjusted net income dropped 6% yoy to CZK 27.7bn (also exceeding the guidance of CZK 27bn). Reported net income fell 8% yoy to CZK 20.5bn.

Main surprises: 1) Quarterly revenues significantly exceeded all estimates on the market which helped to achieve EBITDA above expectations. 2) CEZ booked asset impairments of CZK 5.3bn in Q4 15 while we estimated CZK 4.8bn. For the full-year 2015, impairments reached CZK 7.7bn. 3) CEZ's 2015 cash flow generation was very strong. Despite declining profits, operating cash flow increased 3% yoy to CZK 72.6bn, beating the full-year target of CZK 69bn. CAPEX reached only CZK 31.5bn last year versus the earlier budgeted CZK 38bn. Net debt at the end of the year thus dropped 11% to CZK 131.2bn which means a gearing ratio of 2.0x.

Impact on forecasts: Along with the Q4 15 results, CEZ also published a new guidance for this year. The management expects EBITDA at CZK 60bn and adjusted net profit at CZK 18bn. **The 2016 guidance is disappointing as it is below our relatively pessimistic estimates**. In our last update in February, we forecasted 2016 EBITDA of CZK 61.4bn and adjusted net profit of CZK 18.6bn. The market consensus according to the Reuters poll was considerably more optimistic at CZK 63.3bn and CZK 21.1bn, respectively. We might slightly lower our forecasts in reaction to the newly released guidance.

Potential impact on share price/recommendation: At the moment, we don't plan any significant change to the target price (CZK 420), but we may do so if Société Générale's commodity analysts substantially change their forecast for German electricity prices. **On the one-year horizon, our outlook for CEZ shares remains positive**, above all because they should offer an above-average dividend yield, which should be sufficiently covered by cash flow.

Major risks to our recommendation: Lower-than-expected electricity prices, higher-than-expected CAPEX, less generous dividend policy.

Upcoming events: CEZ should publish the dividend proposal in the second half of April; we expect CZK 35 per share with a record date at the end of June. The Q1 16 financial results will be announced on 10 May.

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| Media |

CME

Q415 results fell behind expectations; debt refinancing successful

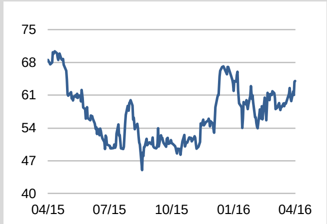
Hold

Price 07/04/16	**USD 2.63** CZK 62.1
12m target	**USD 2.5** CZK 65
Upside to TP	**-4.9%**
Dividend	**USD 0.0** CZK 0
Total return	**-4.9%**

Sector stance
Neutral

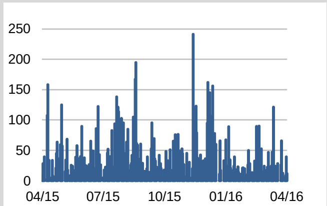
Investment type
Cyclical sector ✓

1 year performance



Source: Bloomberg

Trading volume (in ths of shares)



Source: Bloomberg

Share data

RIC CETVsp.PR	**Bloom** CETV CP		
52-week range			43-70.5
Market cap. (CZKbn)			8.7
Market cap. (EURm)			371
Free float (%)			44
Performance (%)	**1m**	**3m**	**12m**
Share	4.1	3.4	-6.6
Rel. PX Index	4.5	7.0	10.9

Source: Bloomberg

The latest reports (in Czech only):
http://trading.kb.cz/CommentsAnalysis/Detail/REPORT_12769
http://trading.kb.cz/CommentsAnalysis/Detail/dc3_komentar_k_vysledkum_cme_za_q4_15

Q415 results

USDm	Q414	Q415	change	KB estimate	consensus*
Sales	216.2	195.6	-10%	202.9	200.5
OIBDA	55.1	56.2	2%	57.9	58.1
Operating profit	38.3	46.5	21%	47.2	49.7
Net profit	-74.9	-11.4	n/m	7.4	6.8

Source: Economic & Strategy Research, Komerční banka; *estimate in Thomson Reuters poll

Company results: CME recorded worse-than-expected results on all levels. The total amount of net profit (or loss, respectively) came as the biggest disappointment. As expected, a strong USD cut sales, while operating profit was affected by cost savings.

Factors and trends: (1) Sales are still significantly influenced by the strengthening USD. Because of this, total sales decreased 9.5% yoy in Q415, while they would have recorded an increase of 3.0% in the case of stable FX rates. (2) Consolidated OIBDA amounted to USD 56.2m and increased USD 1.1m yoy. The total OIBDA margin went up 3.2pp to 28.7%. (3) A segment breakdown showed improvement of the OIBDA margin in all countries with the exception of Croatia. Against our expectations, it rose more significantly in the Czech Republic; in the case of Bulgaria, it was almost double in comparison with Q414. On the contrary, development in Slovakia fell behind our estimates.

Full-year results: Sales dropped 11% in 2015, while they would have increased 5.9% at stable FX rates. OIBDA improved 28.7% to USD 122.8m; adjusted for changes in FX rates, it jumped 52.9%, which is in line with the management guidance for expected growth within a range of 45% to 55%. Total net loss reduced to USD 102.3m, compared to USD 151.5m in 2014.

Debt refinancing: CME announced its refinancing of roughly half of current debt by a new debt in the amount of EUR 469m due in February 2021 and guaranteed by the biggest shareholder, Time Warner. The new debt will replace the most expensive bonds with a 15% coupon and maturity in 2017. A change will reduce interest costs when the new debt bears interest of 7% to 10.5%, dependent on total profitability and debt ratios. CME and Time Warner agreed to amend and restate the revolving loan credit facility leading to an extension of maturity from November 2017 to February 2021. As a result of these transactions, the nearest debt maturity is now November 2018.

Impact on our estimates: Debt refinancing should improve the company's profitability in the future. This should have a positive impact on our estimates of the following results. However, CME expects an accounting loss in the amount of roughly USD 150m in Q216, resulting from financial transactions connected to the company's debt. Net debt/OIBDA should decline below 8% by the end of this year (8.5x in 2015). A strengthening USD should contribute negatively, although the impact should not be so severe. We will make an update of our analysis in the following weeks. We consider more significant USD strengthening or weak economic growth as the biggest risks to our prediction.

Next events: Q116 results will probably be announced at the end of April.

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| Sports betting |

Fortuna

We put our recommendation under review after the dividend policy disappointed

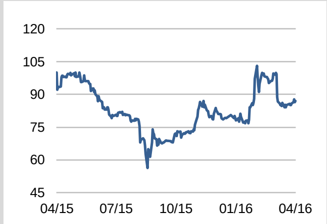
In review

Price 07/04/16	**CZK 87.0**
12m target	**CZK -**
Upside to TP	-
Dividend	**EUR 0.12** CZK 3.2
Total return	-

Sector stance
No rating

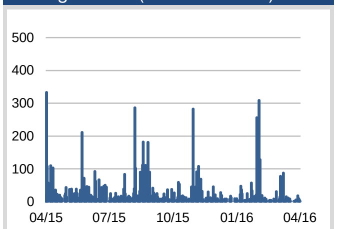
Investment type
Defensive ✓

1 year performance



Source: Bloomberg

Trading volume (in ths of shares)



Source: Bloomberg

Share data

RIC FOREsp.PR	**Bloom** FOREG CP		
52-week range			56-105
Market cap. (CZKbn)			4.5
Market cap. (EURm)			166
Free float (%)			33
Performance (%)	**1m**	**3m**	**12m**
Share	-12.9	10.6	-13.8
Rel. PX Index	-12.6	14.4	2.4

Source: Bloomberg

The latest reports (in Czech only):
http://trading.kb.cz/ibweb/analysisDetail.do?ID=12826
http://trading.kb.cz/CommentsAnalysis/Detail/c10_fortuna_vysledky_nad_odhady_zklamaly_vsak_komentare_k_dividendam__doporuceni_davame_do_revize_

Fortuna results

mil. EUR	2014	2015	change	KB estimate	consensus
Amounts staked	672.4	847.7	26%	846.9	845.2
Gross win	132.6	147.4	11%	147.4	147.5
Revenues	97.0	102.8	6%	103.1	-
EBITDA	27.8	27.2	-2%	26.4	26.5
Operating profit	23.4	22.6	-3%	21.8	-
Net profit	15.9	19.5	23%	15.5	15.9

Source: Economic & Strategy Research, Komerční banka; *estimate in Reuters poll

Latest results: On 10 March, Fortuna announced its 2015 financial results, which **were mildly above expectations on the operating level**. The adjusted EBITDA was more or less flat year-on-year and thus exceeded the management's guidance of a 3-6 % yoy decline. Last year's net profit surprisingly grew 23% yoy, mostly thanks to an one-off gain from deferred tax income in Poland (EUR 3.5m). Adjusted to this item, net profit would be EUR 16.0m, i.e. only slightly above the market consensus. Note that Fortuna reports its complete financial results only semi-annually.

Management's outlook: Fortuna expects continued growth in amounts stakes to approximately EUR 1.01bn this year. However, EBITDA should drop 10-15% yoy, among other things due to increased gambling taxation in the Czech Republic. EBITDA should thus reach EUR 23.1-24.5m; this is somewhat less than what we expected before the results announcement, but at the same time significantly more than what we projected in our latest report from August 2015. Capital expenditures should reach EUR 11-13m in 2016, compared with EUR 8.8m last year.

Dividends: Fortuna used to pay out generous dividends, but the dividend policy has been under review since April 2015. Now **the company stated that there will be no dividends this year nor in 2017, which was very disappointing**. A new dividend policy will be announced after the end of 2017.

Share price and our recommendation: Last year's results surprised positively, and this year's EBITDA outlook isn't bad. Nevertheless, this was outweighed by the prospects of zero dividends, and Fortuna shares have already weakened almost 15% since the announcement. **Immediately after the results announcement, we put our target price and recommendation under review**. We are working on an update. Fortuna shares jumped 63% in total during our Buy recommendation published last August.

Potential impact on our forecasts: The target price might grow compared with our last valuation (CZK 79 per share), because Fortuna's profitability considerably improved in the second half of last year. On the other hand, our new forecasts will reflect also higher than expected CAPEX and the unattractive dividend policy.

Next events: The annual report including details of the 2015 results will be published on 15 April. Q1 16 operating results will be announced on 5 May.

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| Mining |

NWR

Bad Q4 results, an even worse 2016 outlook and the exit of the majority shareholder

Sell

Price 07/04/16	**CZK 0.13**
12m target	**CZK -**
Upside to TP	-
Dividend	**EUR 0**
Total return	-

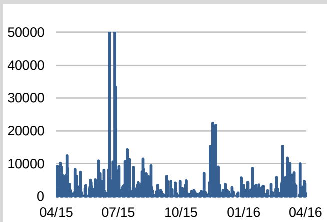
Sector stance
Overweight

Investment type
Cyclical sector ✓

1 year performance

Source: Bloomberg

Trading volume (in ths of shares)



Source: Bloomberg

Share data

RIC NWRsp.PR	**Bloom** NWR CP		
52-week range			0.05-0.3
Market cap. (CZKbn)			0.5
Market cap. (EURm)			17
Free float (%)			36
Performance (%)	**1m**	**3m**	**12m**
Share	33.3	60.0	-51.5
Rel. PX Index	33.7	65.5	-42.4

Source: Bloomberg

The latest reports (in Czech only):
http://trading.kb.cz/CommentsAnalysis/Detail/REPORT_13136
http://trading.kb.cz/CommentsAnalysis/Detail/1df_vlastnik_nwr_hodil_rucnik_do_ringu

Q4 results

EURm	Q4 14	Q4 15	change	KB estimate
Sales	172.3	184.3	7%	183.0
EBITDA	6.6	-0.5	n.m.	-1.2
Operating profit	-197.8	-210.4	n.m.	-123.5
Net profit	106.9	-207.0	n.m.	-147.3

Source: Economic & Strategy Research, Komerční banka

Latest results: On 24 February, NWR announced its Q4 15 results with operating profitability in line with our expectations. As we forecasted, the company booked a huge asset impairment (EUR 199m) as it slashed the accounting value of its mines. It is worth mentioning that NWR's assets are now valued at EUR 319m, while total liabilities amount to EUR 705m. For the full-year 2015, revenues dropped 7 % yoy to EUR 630m and EBITDA loss was EUR 4m (compared with a EUR 11m profit a year ago). The consolidated net loss reached EUR 223m.

Outlook: CEO Gareth Penny stated that coal selling prices might go further down and that NWR could remain cash-flow negative for several years to come. According to the management, the cash balance will breach the minimum liquidity covenant of EUR 40m in Q2 16. Therefore, NWR agreed with the lenders of the super senior credit facility (SSFC) to lower the threshold to EUR 25m on 31 March and EUR 10m on 30 June. Since 31 July, the previous threshold will be in force again. The SSFC in the amount of EUR 35m matures in October. **NWR could thus completely run out of cash this year**. The company could be saved by increasing capital but this would likely cause a massive dilution.

Ownership structure: In February, **the majority shareholder** (CERCL Mining Holdings, 50% owned by Zdenek Bakala) **surprisingly decided to transfer its entire 50.42% stake back to the company**, which should facilitate the restructuring process. Should NWR eventually cancel these shares, the stakes of the remaining shareholders could roughly double. This was probably the reason for March's steep increase of the NWR share price. More than 60% of voting rights is now owned by a group of creditors that formed an entity called Ad Hoc Group (AHG).

Potential impact on share price and our recommendation: The short-term share price development is unpredictable as the majority shareholder exit may continue to attract speculators. In the long-term, we see no value in NWR shares. Without a capital raise, the company will be unable to repay its debt and shareholders could be left with nothing. We think investors would be more interested in the major subsidiary OKD or individual mines, than in injecting new capital into NWR. We have recommended selling NWR shares for several years row, and **we see no reason to change our long-term selling recommendation**. Major risks to our recommendation are a possible sharp rise in global coking coal prices and an unexpectedly large reduction in mining costs.

Next events: The Q1 16 financial results will be announced on 18 May.

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| Telecommunications Services |

O2 Czech Republic

After strong growth, we cut our recommendation from Buy to Hold

Hold

Price 07/04/16	**CZK 250.4**
12m target	**CZK 260**
Upside to TP	**3.8%**
Dividend	**CZK 16**
Total return	**10.2%**

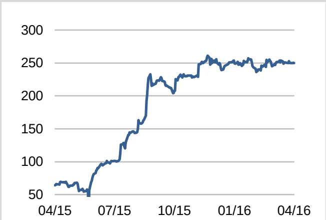
Sector stance

Underweight

Investment type

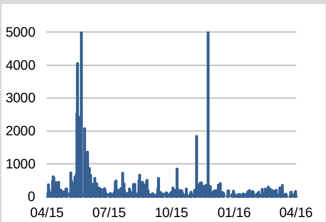
Defensive	✓
High dividend yield	✓

1 year performance



Source: Bloomberg

Trading volume (in ths of shares)



Source: Bloomberg

Share data

RIC SPTTsp.PR	**Bloom** TELEC CP		
52-week range			49.4-265.9
Market cap. (CZKbn)			77.6
Market cap. (EURm)			2870
Free float (%)			28
Performance (%)	**1m**	**3m**	**12m**
Share	1.3	0.3	287.8
Rel. PX Index	1.6	3.8	360.3

Source: Bloomberg

The latest reports (in Czech only):

http://trading.kb.cz/CommentsAnalysis/Detail/420_komentar_k_vysledkum_o2_za_q4_15

http://trading.kb.cz/CommentsAnalysis/Detail/931_snizujeme_doporuceni_pro_o2_na_drzet_s_cilovou_cenou_260_czk

O2 results

CZK bn	Q4 14	Q4 15	change	KB estimate	consensus*
Sales	9.66	9.70	0.5%	9.60	9.62
EBITDA	2.33	2.63	12.5%	2.61	2.55
Operating profit	1.33	1.75	31.9%	1.72	1.66
Net profit	1.01	1.35	33.4%	1.34	1.28

Source: O2 Czech Republic, Economic & Strategy Research, Komerční banka, *O2 poll among 7 analysts including KB

Latest results: On 26 January, O2 Czech Republic announced its Q4 15 results, which **were slightly above expectations**. For the full-year 2015, EBITDA reached CZK 10.14 bn and net profit CZK 5.08 bn, i.e. in line with the management's guidance (EBITDA in the range of CZK 9.9-10.2bn and net profit of CZK 4.85-5.2bn).

Major trends: 1) Quarterly consolidated revenues increased slightly 0.4% yoy thanks to the positive surprise in the fixed-line segment (+4.5% yoy due to a steep increase in ICT revenues). 2) On the cost side, the cost of sales grew 5.2% yoy, but this was again compensated by cost cuts in other operating expenses (-9.5% yoy), especially in the area of network and IT maintenance. 3) The main operational trends continued in the fourth quarter, such as the declining number of fixed voice lines and the active mobile customers in the Czech Republic. Growth in the area of pay TV was impressive; the number of customers increased 10% yoy and revenues soared 67% yoy thanks to higher prices.

Dividends: **O2 proposed a dividend from last year's profit of CZK 16 per share**, which equals 105% of unconsolidated net profit (the dividend policy is to distribute 90-110% of standalone profit) and 98% of consolidated net profit. The dividend proposal was mildly below the estimates, but it implies an attractive 6.4% yield. The management didn't comment on a possible extraordinary dividend (there have been rumours about that for more than half a year).

Share buyback: O2 launched the share buyback programme on 28 January. The company may purchase up to 4% of its own shares during the next two years and up to 10% or shares worth CZK 8bn over a five-year horizon. So far, O2 bought 0.36% of its shares for the average price of CZK 247.3 per share. The buyback volumes used to represent around a quarter of total trading volume, but the company hasn't purchased any shares since mid-March.

Target price and recommendation: O2 shares have soared more than 300% since the spin-off of the infrastructure division last June. On 22 March, **we downgraded our recommendation from Buy to Hold**. Our one-year target price grew mildly from CZK 251 to CZK 260 per share due to a slight improvement of our profit projections.

Main risks: Pressure on prices of telecommunication services, development of profitability in Slovakia and a less generous dividend policy than we now expect.

Next events: The AGM on 19 April will vote, among other things, on the dividend with the same record date. Q1 16 financial results will be announced on 26 April.

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| Textiles |

Pegas Nonwovens

Results met expectations; the higher dividend came as a surprise

Buy

Price 07/04/16	**CZK 774.2**
12m target	**CZK 800**
Upside to TP	**3.3%**
Dividend	**EUR 1.25** CZK 33.8
Total return	**7.7%**

Sector stance

Neutral

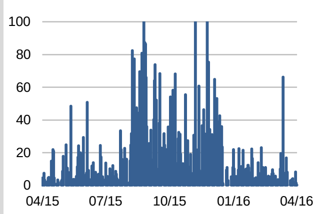
Investment type

High dividend yield ✓
Low market capitalisation ✓

1 year performance

Source: Bloomberg

Trading volume (in ths of shares)



Source: Bloomberg

Share data

RIC PGSN.PR	**Bloom** PEGAS CP		
52-week range			685.1-966.9
Market cap. (CZKbn)			7.2
Market cap. (EURm)			268
Free float (%)			99
Performance (%)	**1m**	**3m**	**12m**
Share	6.2	9.0	12.6
Rel. PX Index	6.5	12.8	33.7

Source: Bloomberg

The latest reports (in Czech only):

http://trading.kb.cz//api/file/135432?hash=42d80e50b83abcc4b9a729e5d87bf5d1

http://trading.kb.cz//api/file/147005?hash=efa33362b9f6cc2386655f5f14df3871

Q415 results

EUR millions	Q414	Q415	yoy	KB estimate	Consensus
Sales	58.76	59.56	1%	65.71	61.15
EBITDA	13.15	14.58	11%	14.39	14.30
Operating profit	9.24	10.47	13%	10.39	10.25
Net profit	7.64	8.15	7%	8.80	8.55

Source: Pegas, Economic & Strategy Research, Komerční banka,

The company's results slightly surpassed the market's and our expectations at the operating level; however, sales and net income fell negligibly behind estimates. EBITDA stood at EUR 14.6m, representing the best quarter result in the company's history. The polymer price pass-through mechanism was the most important factor as these prices have significantly dropped since last August. Higher sales volume and revaluation of the share option plan contributed positively.

Facts and events: (1) Production volume reached 26.1 ths tonnes in Q415, almost equalling the record production in Q414. The contracts entered into with customers indicate full utilisation of production capacities in 2016. **(2)** In 2015, the share of revenues from sales of nonwoven textiles for the hygiene industry amounted to 85.8% of total revenues, compared with 88.0% the year before. Revenues from sales of non-hygiene products (for construction, agricultural and medical applications) amounted to EUR 32.5m, which represented a 14.2% share of total revenues. **(3)** Full-year EBITDA reached EUR 44.3m, standing at the lower border of management guidance (EUR 44-48.5m) and declining 6.1% yoy. The guidance for this year shows EBITDA within a range of EUR 43-49m, corresponding with our prediction (EUR 45.4m). **(4)** Total investments amounted to EUR 4.6m in Q415, of which capital expenditures represented EUR 3.5m, maintenance capex constituted the rest. In 2015, investments reached EUR 9m, and thus the company does not exceed its plan. This year, Pegas plans investments in an amount of EUR 25m when a majority of capex will focus on a new Egyptian plant. It is slated to be put into commercial operation at the beginning of Q217. **(5)** Net debt increased 15% to EUR 163.8m by the end of 2015. Net debt/EBITDA was 3.7x (3.0x by the end of 2014). This increase was related to the decline in trade payables, where the company started to fully utilise the financial discounts for early payment of polymer purchases. Capital expenditures and the share buyback programme also contributed to the increase in net debt.

Estimates and recommendation: Management guidance for 2016 corresponds with our estimates. The announced planned production is also in line with our forecasts. We leave our prediction without changes. The proposal of a dividend in the amount of EUR 1.25 per share came as a surprise and represents an increase of 10 cents in comparison with the previous dividend. Market expectations showed a dividend of EUR 1.20 per share. We perceive full utilisation of production capacities for this year as very positive.

Risk: We consider rising polymer prices and lower new investments in Egypt as the main risks to our valuation.

Next events: Q116 results are to be published on 26 May.

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| Tobacco |

Philip Morris CR

The proposed dividend amounts to CZK 920 per share

Buy

Price 07/04/16	**CZK 13211**
12m target	**CZK 11890**
Upside to TP	**-10.0%**
Dividend	**CZK 920**
Total return	**-3.0%**

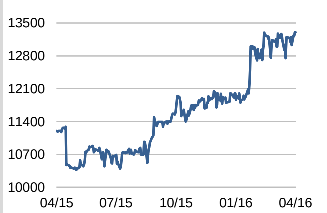
Sector stance

Overweight

Investment type

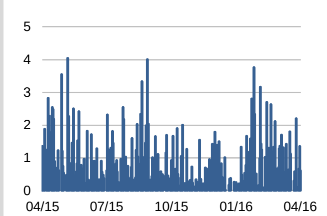
High dividend yield ✓

1 year performance



Source: Bloomberg

Trading volume (in ths of shares)



Source: Bloomberg

Share data

RIC TABKsp.PR	**Bloom** TABAK CP		
52-week range			10300-13449
Market cap. (CZKbn)			36.2
Market cap. (EURm)			1338
Free float (%)			22
Performance (%)	**1m**	**3m**	**12m**
Share	0.6	11.1	17.6
Rel. PX Index	0.9	14.9	39.6

Source: Bloomberg

The latest reports (in Czech only):
http://trading.kb.cz/CommentsAnalysis/Detail/REPORT_12834

2015 results

CZKm	2014	2015	Change	KB estimate	Consensus
Revenues	14,049	10,866	-23%	10,566	10,255
Operating profit	2,824	3,204	13%	3,367	n/a
Gross profit	2,254	2,570	14%	2,738	2,613

Source: Philip Morris Czech Republic; Economic & Strategy Research, Komerční banka

Company results: Revenues, net of excise duty and VAT, dropped 23% to CZK 10.9bn in 2015, which was due to a change in the operating model in production, reflected on all levels of the company's P&L statement. As a result, operating and net profit grew 13%, or 14%, respectively (CZK 3.2bn or CZK 2.6bn, respectively).

New operating model: Starting 1 January 2015, PMCR operates as a manufacturing service provider. As a result of this change, the company does not own materials for production and it is remunerated for the service of transforming materials into finished goods in the form of a manufacturing service fee and at the same time does not record export shipments. The revenues generated from manufacturing services are principally lower than those from export shipments reported last year, in line with lower manufacturing costs.

Main trends and facts: (1) Domestic revenues increased 7.9% to CZK 5.6bn in 2015, primarily driven by favourable pricing but partially offset by unfavourable volume/mix. PMCR's market share on the Czech market dropped again, namely 1.5pp to 45.9% (including the RGD brand). (2) The company is still doing well in Slovakia. Revenues went up 7.9% to EUR 100.9m, positively affected by favourable volume/mix as well as pricing. PMCR is still successful in increasing its market share on the Slovak market. It reached 57% by the end of 2015 (1.9pp more than in 2014). (3) In connection with the change of the operating model, PMCR reports sales for manufacturing services instead of export revenues. These amounted to CZK 2.5bn last year.

Dividend: Management proposed a dividend of CZK 920 per share (98.3% of net income for 2015), corresponding to gross dividend yield of about 7%.

Potential impact on estimates: The released results did not differ significantly from our prediction. Although the proposed dividend is slightly lower, it should not lead to a significant reassessment of our estimates for the future.

Potential impact on target price and recommendation: The actual stock price is moving above our target price; therefore, we see room for a continuing increase as limited. A higher dividend compared with last year's, together with the current low interest rate environment, could, however, provide certain support for the company's shares.

Risks: The stricter regulations for smoking and stronger increases in excise duties would be reflected negatively in the results and the company valuation.

Next event: The annual ordinary shareholder meeting will take place on 29 April. Operating results for Q116 will be published on 17 May.

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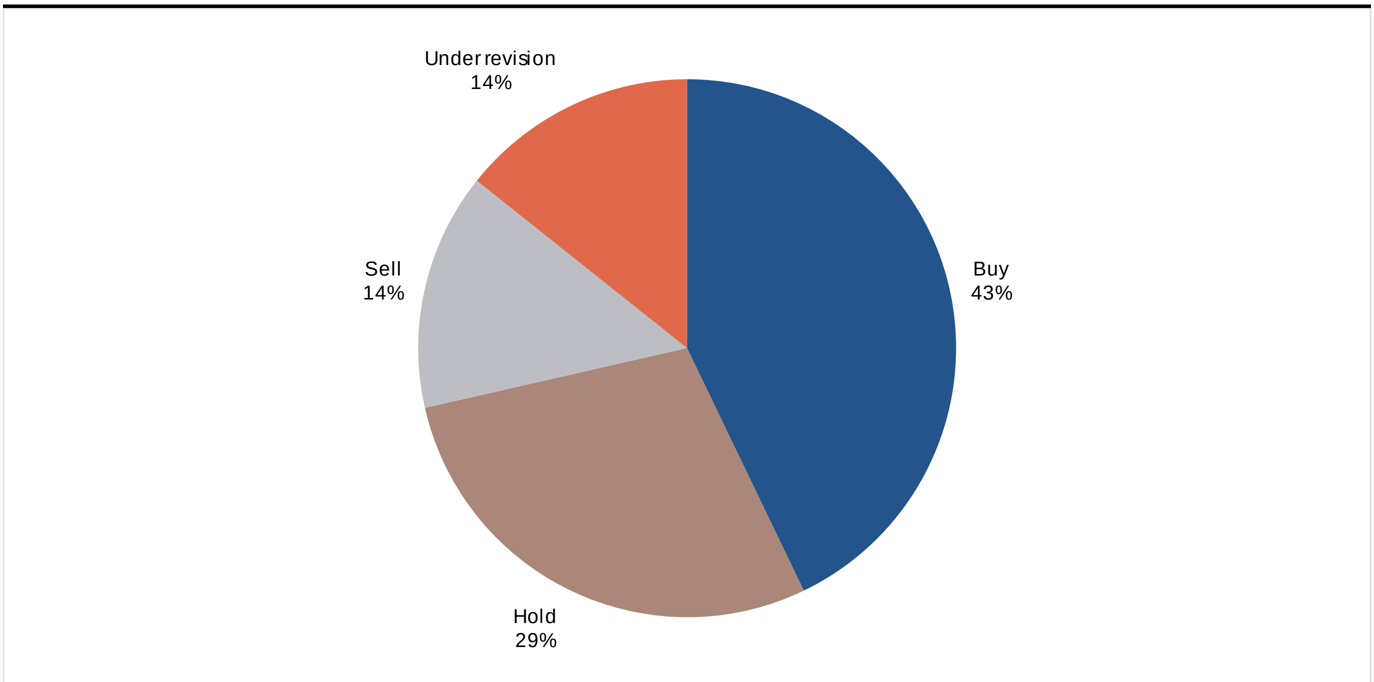
The chart below shows the structure of grades of valid investment recommendations of equity research of KB Economic & Strategy Research (7 recommendations).

Investment recommendations of KB equity research (as of 7 April, 2016)



Source: Economic & Strategy Research, Komerční banka

	CEZ	O2 CR	CME	Philip Morris CR	NWR	Pegas Nonwovens	Unipetrol	Fortuna	VIG
Overview of last investment research and recommendations related to stocks of particular issuers									
Recommendaion	Buy	Hold	Hold	Buy	Sell	Buy	Stop coverage	Under revision	Stop coverage
Target Price	CZK 420	CZK 260	USD 2,5	CZK 11890	-	CZK 800	n/a	Under revision	n/a
Date	12/2/16	22/3/16	12/8/15	2/9/15	11/12/15	3/12/15	23/4/15	10/3/16	16/4/15
Overview of investment researches and recommendations for last 12M (quarterly)									
Recommendation	Buy	Buy			Sell	Sell		Buy	
Target Price	CZK 608	CZK 251			Under revision	CZK 819		CZK 79	
Date	18/9/15	12/11/15			13/5/15	11/9/15		28/8/15	
Recommendation	Buy	Under revision				Under revision		Under revision	
Target Price	CZK 719	Under revision				Under revision		Under revision	
Date	25/3/15	1/6/15				27/8/15		27/8/15	
Recommendation		Sell				Hold		Sell	
Target Price		-				CZK 792		CZK 90	
Date		26/3/15				21/5/15		22/5/15	
Recommendation								Sell	
Target Price								Under revision	
Date								8/4/15	
Direct or indirect share (5% or more) of the issuer of the registered capital of KB	no	no	no	no	no	no	no	no	no
Other significant financial interest of KB and/or its linked persons in the issuer	no	no	no	no	no	no	no	no	no
KB direct or indirect share (5% or more) of the registered capital of the issuer.	no	no	no	no	no	no	no	no	no
Significant financial interest in the issuer of the persons participating in elaboration of investment researches and recommendations.	no	no	no	no	no	no	no	yes	no
Relationships of Komerční banka with particular issuers									
KB Management or co- management of public offerings in the past 12 month	no	no	no	no	no	no	no	no	no
Agreements or contractual relations for providing investment services with the issuer.	KB can have concluded agreements with the issuer for providing investment services. This information is protected by bank secret and could not be disclosed.								
Agreement with the issuer on production and dissemination of the research	no	no	no	no	no	no	no	no	no
KB market making** for common stocks of the issuer?	no	no	no	no	no	no	no	no	no

Source: Economic & Strategy Research, Komerční banka

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