

| Utility | Update | Czech Republic |

# CEZ

After reaching our target price, we downgrade our recommendation to Hold

## Hold

Price 14/09/16	<b>CZK 428</b>
12m target	<b>CZK 448</b>
Upside to TP	<b>4.7%</b>
Dividend	<b>CZK 35</b>
Total return	<b>12.9%</b>

### Sector stance

Underweight

### Investment type

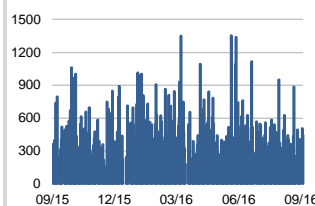
Commodity price exposure	✓
High dividend yield	✓

### 1 year performance



Source: Bloomberg

### Trading volume (in ths of shares)



Source: Bloomberg

**Fact/Impact:** CEZ has problems with prolonged outages at its nuclear power plants. The company has lowered its expected 2016 nuclear generation already twice and it will thus be even lower than in 2015. We now expect CEZ will face longer-than-usual outages in 2017 as well. Nevertheless, the share prices has grown more than 15% since we recommended buying in February, in addition to a CZK 40 per share dividend paid out in the meantime (almost 11% yield). The major reason was the recovery of German electricity prices (+20% from their February low). After reaching our target price, we updated our forecasts.

**Investment case:** We see an increasing risk that 2016 guidance won't be achieved. Even if it is, profits will be rather small in the second half of the year due to several one-off factors. On the other hand, CEZ shares should still offer a very attractive dividend yield, and future dividends could significantly surprise on the upside. However, we don't expect the dividend from this year's profit to be declared earlier than in spring 2017. In the absence of short-term positive catalysts and with the shares slightly overvalued based on the expected EV/EBITDA multiple, **we downgrade our recommendation from Buy to Hold.**

**Target price and recommendation:** We slightly increased our DCF-based target price from CZK 420 to CZK 448 per share. This was caused mostly by lower required rates of return than in our February analysis, which outweighed the short-term deterioration of financial results caused by production problems. Together with the estimated dividend, the total expected return for shareholders is now between 0% and 15%, which for us is consistent with a neutral recommendation.

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

**Upcoming events:** 3Q16 financial results will be announced on 8 November.

### Share data

	RIC CEZsp.PR	Bloom CEZ CP
52-week range		362.1-532
Market cap. (CZKbn)		230.2
Market cap. (EURbn)		8.5
Free float (%)		30
<b>Performance (%)</b>	<b>1m</b>	<b>3m</b>
Share	-2.9	8.6
Rel. PX Index	-3.4	1.1
		-6.7

Source: Bloomberg

### Financial data

	2015	2016e	2017e	2018e
Revenues (CZK bn)	210.2	203.1	204.0	203.7
EBITDA margin (%)	31.1	28.4	27.5	27.4
Rep. net inc. (CZK bn)	20.7	17.2	16.4	15.2
EPS (CZK)	38.8	32.3	30.8	28.5
Dividend/share (CZK)	40.0	35.0	30.0	27.0
Interest cover (x)	10.2	8.7	6.0	5.7
Payout (%)	77.2	104.3	97.8	95.0
Net debt/equity (%)	49.0	48.0	51.0	52.7

### Ratios

	2015	2016e	2017e	2018e
P/E (x)	11.0	13.2	13.9	15.0
Price/free cash flow	14.4	10.3	15.6	14.9
Dividend yield (%)	9.4	8.2	7.0	6.3
Price/book value (x)	0.9	0.9	0.9	0.9
P/revenues (x)	1.1	1.1	1.1	1.1
EV/revenues (x)	2.0	2.1	2.1	2.1
EV/EBITDA (x)	5.5	6.2	6.5	6.6
EV/IC (x)	1.0	1.0	1.0	1.0

### The latest analysis:

<http://trading.kb.cz/CommentsAnalysis/Detail/168-cez-analysis-update-12-2-2016>

SOCIETE  
GENERALE  
GROUP

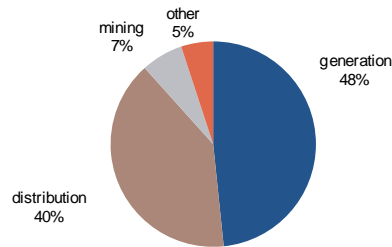
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Please see back page for important disclaimer.

## Company overview

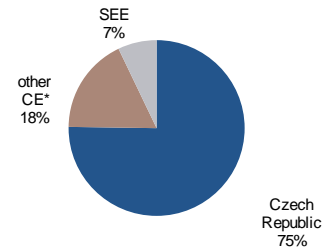
CEZ is a vertically integrated electric utility. Most of its profits come from the Czech Republic.

2015 EBITDA by segment



Source: CEZ

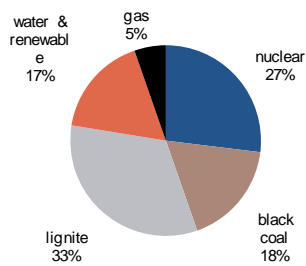
2015 EBITDA by region



\*other profits from Central Europe (including Czech Rep.)

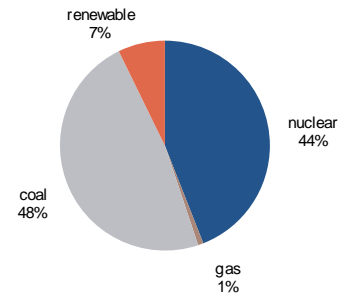
Most of CEZ's electricity generation comes from nuclear and coal power plants.

2015 installed capacity by fuel



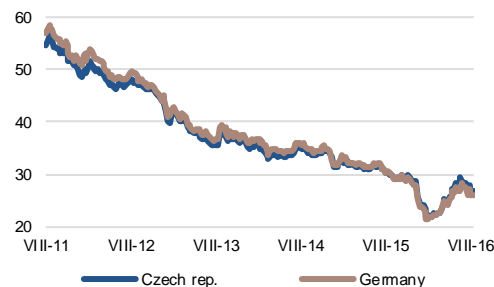
Source: CEZ

2015 electricity generation by fuel



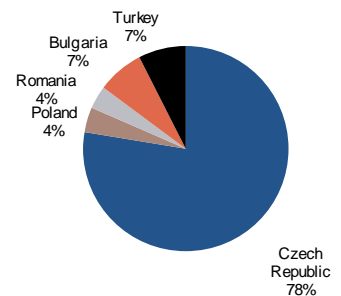
Czech electricity prices copy the development of German electricity prices.

Electricity prices (EUR/MWh)



Source: Bloomberg

2015 generating capacity by countries\*



Source: CEZ. \*Most of Bulgarian capacity is currently offline

## CEZ's 2016 financial results

### 1Q16 results

1Q16 results were surprisingly strong...

**CEZ's 1Q16 results**, published on 10 May, **brought profits virtually above all estimates on the market**. Quarterly revenues were somewhat lower-than-expected but profits exceeded forecasts thanks to lower costs. Operating expenses slightly decreased year on-year but the main reason was a high CZK 1.5bn gain from commodity derivative trading (compared with a nearly CZK 1bn loss a year ago). Among financial items, consolidated profits were supported by a contribution from joint-ventures (in 1Q16, there was a profit of CZK 0.3bn compared with a loss of CZK 1.0bn a year ago). On the other hand, CEZ lowered its targeted 2016 generation in nuclear power plants from 30 TWh to 28.7 TWh. Despite strong quarterly results, CEZ thus didn't change its full-year outlook (EBITDA of CZK 60bn and adjusted net profit of CZK 18bn).

#### CEZ 1Q results

CZKbn	1Q15	1Q16	change	KB estimate	consensus*
Revenues	54.20	51.88	-4.3%	53.22	53.59
EBITDA	19.16	20.04	4.6%	17.58	17.71
EBIT	12.03	12.97	7.8%	10.31	10.28
Net profit	7.56	9.96	31.6%	7.17	7.15
Adjusted net profit	7.56	9.96	31.6%	7.17	7.14

Source: CEZ, Economic & Strategy Research, Komerční banka. \*CEZ poll of nine analysts

### 2Q16 results

...but 2Q16 results lagged behind expectations.

**The 2Q16 results**, announced on 9 August, **were significantly below expectations**. Revenues were considerably lower than we expected, mostly in the sales segment (a decline of more than 10% year-on-year) and operating expenses were lifted by a CZK 0.8bn loss from commodity derivative trading. CEZ also booked asset impairments of almost CZK 1bn, which related mostly to Romanian wind farms. Moreover, the company again lowered its targeted 2016 generation at nuclear power plants to 26.4 TWh, which we saw as strongly negative news indicating that production will be even lower than last year's disappointing 26.8 TWh. Along with the quarterly results, CEZ's management cut its 2016 EBITDA guidance from CZK 60bn to CZK 58bn due to prolonged outages at nuclear power plants.

#### CEZ Q2 results

CZKbn	2Q15	2Q16	change	KB estimate	consensus*
Revenues	50.33	47.02	-7%	49.32	48.83
EBITDA	16.46	13.09	-20%	14.94	14.56
EBIT	9.27	5.03	-46%	7.89	7.17
Net profit	7.86	3.75	-52%	5.53	5.53
Adjusted net profit	7.85	4.80	-39%	5.51	5.51

Source: CEZ, Economic & Strategy Research, Komerční banka\*CEZ poll of 11 analysts including KB

### Full-year 2016 outlook

CEZ might not achieve even the reduced EBITDA guidance.

All in all, the development in the first half of the year showed that **CEZ is still having problems with nuclear production**. Additionally, CEZ reported further delays of outages at the Temelin power plant in 3Q, which could lower production by another 0.7 TWh, in our estimates. **We thus see an increasing risk that the 2016 guidance won't be achieved**. On

the other hand, adjusted net profit will be supported by lower-than-expected depreciation and interest expenses. All in all, we expect the full-year 2016 results to be close to the management's guidance, as seen in the table below.

#### Estimates of CEZ's 2016 results

CZKbn	2H15	2H16e	yoy	2015	2016e	yoy
Revenues	107.3	104.3	-3%	210.2	203.2	-3%
EBITDA	29.6	24.6	-17%	65.3	57.7	-11%
Net profit	5.4	3.6	-33%	20.7	17.3	-17%
Adjusted net profit	12.2	3.2	-74%	27.7	17.9	-35%

Source: Economic & Strategy Research, Komerční banka

It might seem too conservative to expect adjusted net profit to plummet by CZK 9bn (-74% yoy) in 2H16. However, there are several reasons on top of the deteriorated operating performance (mostly due to decreased selling electricity prices). Most importantly, last year's profit was boosted by a high CZK 3.8bn income from a refund of the gift tax paid on emissions allowances in 2011-2012. Additionally, accounting changes after the commissioning of the Prunerov power plant will increase depreciation and interest expenses by CZK 2.2bn compared with the second half of last year.

## Long-term forecasts

### Electricity production and selling prices

Problems with nuclear production could partly continue in 2017.

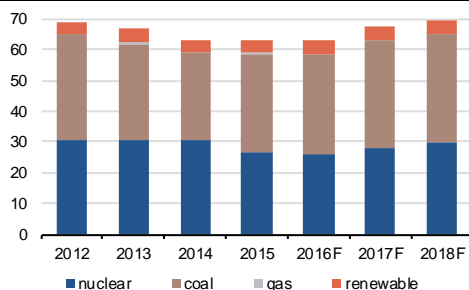
Unfortunately, CEZ's production problems are taking longer time than we had previously expected. The company has lowered its expected 2016 nuclear generation twice, and we now expect CEZ will face longer-than-usual outages in 2017, as well. We should come back to "full" production first in 2018. On the other hand, overall electricity generation should improve next year thanks to the commissioning of the modern Ledvice lignite power plant. Our forecasts are shown in the left-hand chart on the next page.

CEZ's realised selling prices should continue to go down over the next few years.

CEZ hedges its selling prices, and therefore the development of exchange-traded electricity prices transfers into CEZ's financial results with a time lag. The current price of German power is approximately 25 EUR/MWh, but we estimate CEZ has sold this year's produced electricity at around 34 EUR/MWh. For 2017, more than 80% of production has been sold at an average price of 31 EUR/MWh. This illustrates that it will take several years until selling prices adjust to the current market prices of electricity.

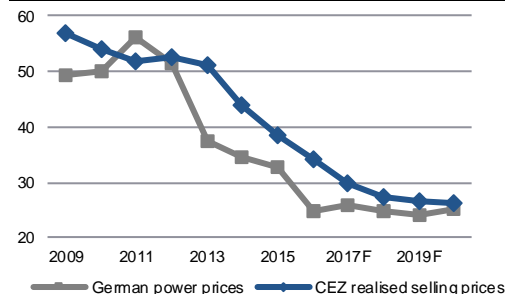
**We now forecast CEZ's realised selling prices to continue to go down over the next few years**, as shown in the right-hand chart above on the following page, and that realised prices will stabilise at 26-27 EUR/MWh in 2019-2020. Note that Société Générale recently stopped covering the coal and electricity markets, so our commodity price assumptions are now based on forward curves as of 1 September.

CEZ electricity generation (TWh)



Source: CEZ, Economic & Strategy Research, Komerční banka

CEZ selling prices (EUR/MWh)



Source: Economic & Strategy Research, Komerční banka SG Cross Asset Research

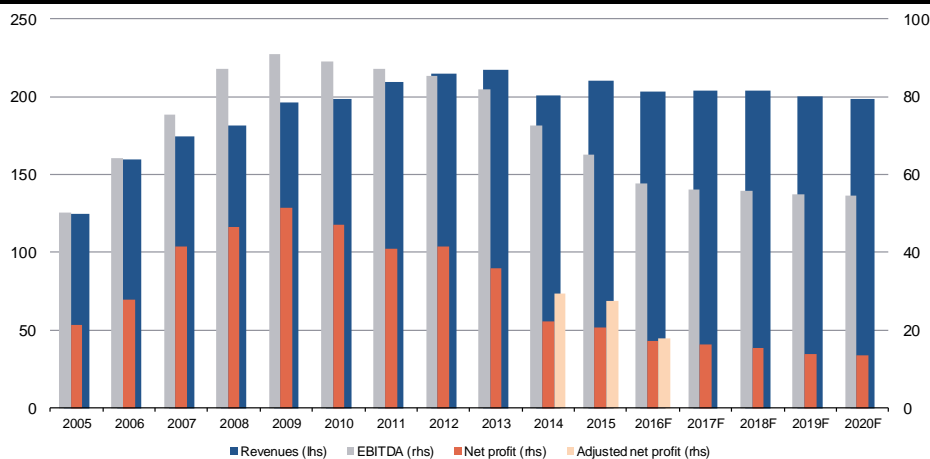
## CEZ's earnings projections

We expect only slightly decreasing profits in the coming years.

We have updated our forecasts and, in line with our expectation for average selling prices, **we expect a further decline of CEZ's profits but not as severe as in previous years.** The changes in our projections were rather small. Most importantly, we mildly lowered our 2016-2017 EBITDA forecasts due to the above-mentioned production problems.

Lower electricity prices are undermining the company's margins, and high investments into fixed assets in the past few years increase depreciation and interest expenses in P&L. Therefore, we expect CEZ's profits to settle at lower levels than in the past decade.

CEZ results forecasts (CZKbn)



Source: CEZ, Economic & Strategy Research, Komerční banka

We estimate CEZ will pay out close to 100% of profits in the coming years, which would still cause a gradual decline in DPS.

## Dividends

**CEZ's future dividend policy is a big question mark.** The management didn't want to comment on potential changes to the current target (60-80% of adjusted net profit). Even if the company chooses an 80% payout ratio, the dividend would drop dramatically in the coming years; we expect approximately to half of the latest CZK 40 per share. Therefore, **we estimate CEZ will pay out close to 100% of profits in the coming years**, which would cause a gradual decline in DPS but still a very attractive 6-8% dividend yield. Under this main scenario, the company's gearing would rise only mildly (the net debt-to-EBITDA ratio would increase to around 2.5x, in our projections).

**We believe that even keeping the current CZK 40 per share level is not impossible over the next few years** (with dividend yield of more than 9 % each year). The majority owner (Czech government) might push this through because dividends from CEZ are an important part of the state budget. However, under this scenario, the net debt-to-EBITDA ratio could rise up to 3.0x and thus reach above-average levels in the sector.

Anyway, we don't expect the dividend from this year's profit to be declared earlier than spring 2017 (this year it was announced on 3 June). At the same time, we think the management should provide guidelines for future dividends, i.e. adjusting the payout ratio from net profit or stating that dividends would be derived from other financial measures, such as operating or free cash flow.

### Dividend projections

CZK per share	2016F	2017F	2018F	2019F	2020F
Earnings per share	33.7	30.7	28.6	25.7	25.4
<b>Dividend (main scenario)</b>	<b>35.0</b>	<b>30.0</b>	<b>27.0</b>	<b>27.0</b>	<b>27.0</b>
Net debt/EBITDA (x)	2.2	2.4	2.5	2.6	2.6
<b>Dividend (80% payout ratio)</b>	<b>26.9</b>	<b>24.6</b>	<b>23.0</b>	<b>20.7</b>	<b>20.5</b>
Net debt/EBITDA (x)	2.2	2.3	2.4	2.4	2.3
<b>Dividend (optimistic)</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>
Net debt/EBITDA (x)	2.2	2.5	2.6	2.8	3.0

Source: Economic & Strategy Research, Komerční banka

## Valuation

### Sector comparison

We believe a sector comparison confirms our new neutral recommendation.

As usual, we have also looked at a sector comparison with leading European and Polish electricity utilities. Most importantly, **CEZ seems to be slightly overvalued based on the EV/EBITDA multiple**. On the other hand, CEZ shares should offer highly above-average dividend yield if our forecasts are fulfilled. We thus don't see the sector comparison to be in conflict with our Hold recommendation.

#### Sector comparison

company	P/E			div.yield (%)			EV/EBITDA		
	2016e	2017e	2018e	2016e	2017e	2018e	2016e	2017e	2018e
E.ON SE	16.1	12.5	12.0	4.0	4.1	3.9	3.7	3.6	3.6
EDF	7.2	9.8	10.1	8.5	7.0	6.5	3.0	3.1	3.0
ENDESA SA	15.7	16.7	16.5	6.4	6.1	6.2	7.1	7.2	7.2
ENEL SPA	12.5	11.5	10.7	4.6	5.1	5.9	6.8	6.7	6.4
EVN AG	11.1	11.1	10.6	4.0	4.0	4.1	6.3	6.2	6.1
FORTUM OYJ	21.1	20.9	19.3	5.6	5.0	5.2	10.2	10.1	9.4
ENGIE	13.3	13.2	12.9	7.2	5.1	5.0	5.8	5.9	5.8
IBERDROLA SA	14.6	14.2	13.5	5.0	5.1	5.3	8.9	8.6	8.3
RWE AG	14.3	13.0	13.7	1.9	2.0	2.2	4.1	4.0	4.1
VERBUND AG	17.6	21.7	21.9	1.8	1.6	1.6	10.1	11.2	11.3
<b>median Western Europe</b>	<b>14.4</b>	<b>13.1</b>	<b>13.2</b>	<b>4.8</b>	<b>5.0</b>	<b>5.1</b>	<b>6.6</b>	<b>6.4</b>	<b>6.3</b>
PGE SA	8.1	9.1	8.8	4.1	4.6	4.2	3.8	4.0	4.0
ENERGA SA	5.5	5.2	5.3	7.0	7.4	6.5	4.0	3.9	4.0
ENEA SA	5.7	5.6	5.1	4.3	4.8	4.7	4.1	4.0	3.6
TAURON POLSKA ENERGIA SA	4.9	5.0	4.6	3.8	3.6	3.5	3.9	3.9	3.7
<b>CEZ consensus</b>	<b>11.8</b>	<b>15.0</b>	<b>16.0</b>	<b>6.7</b>	<b>5.3</b>	<b>4.3</b>	<b>5.7</b>	<b>6.2</b>	<b>6.5</b>
<b>CEZ KB estimate</b>	<b>13.4</b>	<b>13.1</b>	<b>14.5</b>	<b>8.0</b>	<b>6.8</b>	<b>6.1</b>	<b>6.2</b>	<b>6.4</b>	<b>6.5</b>
<b>sector median*</b>	<b>12.5</b>	<b>12.5</b>	<b>12.0</b>	<b>4.6</b>	<b>5.0</b>	<b>4.7</b>	<b>5.7</b>	<b>5.9</b>	<b>5.8</b>
premium (cons.est. vs sector)	-5%	20%	33%	-32%	-6%	9%	0%	4%	12%
premium (KB est. vs. sector)	7%	5%	21%	-42%	-27%	-24%	9%	7%	13%

Source: Economic & Strategy Research, Komerční banka, Bloomberg. \*sector median from all companies in this table.

### Target price

We set the DCF-based target price at CZK 448 per share.

**We have used the discounted cash flow model through 2020 to estimate the fair value of CEZ shares.** The major parameters and outputs are shown in the table on the following page. Based on our model, we estimate the fair value of CEZ's shares at CZK 472. To achieve the target price, we reflect three parameters that may be assigned values ranging from -10% to +10% each, which means the target price may range from 70% to 130% of the fair value.

- **Sector appeal (-5%):** SG's recommendation for the European utility sector remains *underweight*, and we thus keep this factor at -5%.
- **Company appeal (0%):** CEZ shares offer above-average liquidity on the PSE, but their attractiveness is lowered by several problems such as the adverse actions of regulators in Balkan countries.
- **Speculative appeal (0%):** We see an increasing risk that 2016 guidance won't be met due to weaker nuclear production. On the other hand, there is room for a positive surprise in the area of dividend policy.

Using the above-mentioned parameters, **we set our target price at CZK 448** (fair value minus 5%). The main reason for increasing our target price from the previous CZK 420 was above all lower required rates of return, as the low interest environment will probably remain for longer than we had previously expected.

#### CEZ valuation

Calculation of the required rate of return	H2 16F	2017F	2018F	2019F	2020F
risk-free rate	0.3%	0.6%	0.9%	0.7%	1.2%
beta	0.86	0.86	0.86	0.86	0.86
risk premium	6.7%	6.7%	6.7%	6.7%	6.7%
cost of equity	6.0%	6.4%	6.7%	6.5%	7.0%
weight of debt	36%	37%	38%	38%	38%
cost of debt (after tax)	2.6%	2.7%	2.8%	2.6%	3.0%
<b>WACC</b>	<b>4.83%</b>	<b>5.04%</b>	<b>5.20%</b>	<b>5.01%</b>	<b>5.48%</b>
average WACC					5.17%
The discounted cash flow model (CZKbn)	H2 16F	2017F	2018F	2019F	2020F
Operating earnings	8.3	23.4	23.0	21.6	21.2
- tax	-1.8	-4.9	-4.8	-4.5	-4.5
NOPLAT	6.5	18.5	18.1	17.0	16.8
+ depreciation	15.8	31.1	31.2	31.5	31.6
- CAPEX	-20.9	-32.8	-35.2	-32.4	-30.5
+/- change in working capital	-9.6	-3.9	-0.6	-0.6	-0.6
<b>FCFF</b>	<b>-8.2</b>	<b>12.9</b>	<b>13.6</b>	<b>15.6</b>	<b>17.3</b>
price / free cash flow	-27.8	17.7	16.8	14.7	13.2
Present value of free cash flow	-8.0	12.0	12.0	13.1	13.8
Sum of present values of FCF until 2020	42.9				
Present value of FCF after 2020	333.4				
net debt	-124.4				
Estimated value of equity	251.9				
number of shares (mil.)	534.1				
Fair value (CZK per share)	472				
<b>Target price (CZK per share)</b>	<b>448</b>				

Source: Economic & Strategy Research, Komerční banka

The following table provides a snapshot of the sensitivity of CEZ's target price to changes in WACC, the long-term growth rate and forecasts of electricity prices.

#### Sensitivity analysis

	Long-term growth rate (left) and discount rate (up)					Electricity prices (long-term up, short-term left)				
	5.0%	5.2%	5.5%	5.7%	6.0%	20	23	25	28	30
0.5%	392	356	324	295	269	21	221	309	397	485
1.0%	462	418	379	344	313	23	247	335	422	510
1.5%	553	497	<b>448</b>	405	367	25	273	361	<b>448</b>	534
2.0%	674	600	537	482	434	27	299	386	473	559
2.5%	843	741	655	583	521	29	324	411	497	582

Source: Economic & Strategy Research, Komerční banka



## Major risks

- **CEZ shares are significantly influenced by the development of German electricity prices.** A material deviation of power prices from our forecasts might cause CEZ profits and cash flow to differ substantially from our estimates.
- **CEZ's long-term profit margins may drop more than we now expect.** Our estimated EBITDA margins of 27-28% in the coming years might be too optimistic.
- **CEZ needs to renew its generating portfolio,** which may require higher CAPEX than we expect. At the moment, an expansion of the capacity of Czech nuclear power plants is not included in our forecasts. Such an investment at current power prices without state guarantees could have a highly negative impact on our valuation.
- **The energy sector is regulated.** The fiscal problems in many European countries have led to a higher tax burden on utilities, and a similar development cannot be excluded in the future. Reduced subsidies of renewable energy production are a serious risk (e.g. in Romania).
- **Political risks.** Lower global stability might negatively affect the value of CEZ's investments in Turkey. In the Czech Republic, we now don't expect corporate tax rates to rise (an introduction of a special sector tax was considered before the last parliamentary elections), but it cannot be excluded in the future.
- **FX risks.** We expect the Czech National Bank to end its FX commitment in 4Q17 and the CZK/EUR exchange rate to reach 24.7 in 2019 compared with the current 27.0 CZK/EUR. A stronger-than-expected appreciation of the Czech currency would be negative for CEZ as the effect of lower electricity prices measured in CZK (derived from German power prices in EUR) would outweigh the profits from a decrease of value of CEZ's foreign debt.
- **M&A activity.** Possible acquisitions are not included in our forecasts. Big M&A deals would likely increase CEZ's consolidated profits, but also its debt. The impact on our target price and recommendation might be either positive or negative depending on the parameters of the transaction (especially price).

**CEZ financials**

	2012	2013	2014	2015	2016e	2017e	2018e
<b>Valuation*</b>							
P/E (x)	5.5	6.4	10.2	11.0	13.2	13.9	15.0
Price/cash flow (x)	3.3	3.6	4.6	4.6	4.8	4.8	4.9
Price/free cash flow (x)	35.7	6.1	13.4	14.4	10.3	15.6	14.9
Price/book value (x)	0.9	0.9	0.9	0.9	0.9	0.9	0.9
EV/revenues (x)	2.0	2.0	2.1	2.0	2.1	2.1	2.1
EV/EBITDA (x)	4.6	4.7	5.2	5.5	6.2	6.5	6.6
Gross yield (%)	9.4	9.4	9.4	9.4	8.2	7.0	6.3
<b>Per share data (CZK)</b>							
EPS (adj.)	77.6	67.2	41.9	38.8	32.3	30.8	28.5
Goodwill amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow	129.2	119.4	93.8	92.4	88.3	88.9	86.9
Book value	468.5	468.5	489.2	501.6	500.4	496.2	494.7
Gross dividend	40.0	40.0	40.0	40.0	35.0	30.0	27.0
<b>Income statement (CZKm)</b>							
Revenues	215,095	216,988	200,657	210,167	203,102	204,022	203,715
EBITDA	85,509	82,061	72,676	65,265	57,711	56,112	55,790
Depreciation and amort. (ex.GW amort.)	-27,578	-27,902	-27,705	-28,619	-29,917	-31,072	-31,198
EBITA	57,931	54,159	44,971	36,646	27,794	25,040	24,592
Goodwill amortisation	0	0	0	0	0	0	0
Net interest income	-2,573	-3,127	-3,042	-2,465	-2,774	-3,732	-3,953
Exceptional & non-operating items	0	-3,719	-7,952	-7,685	-973	0	0
Taxation	-10,804	-9,199	-6,224	-6,348	-4,836	-4,354	-4,037
Minority interests	1,276	679	-29	192	96	48	43
Other	0	0	0	0	0	0	0
Reported net income	41,429	35,886	22,403	20,739	17,242	16,428	15,231
Net income excl. exceptionals & GW	41,429	38,926	29,484	27,657	17,924	16,428	15,231
<b>Cash flow statement (CZKm)</b>							
Cash flow from operating activities	71,785	63,616	51,699	51,736	57,557	45,072	47,354
Net capital expenditures	-60,495	-27,437	-34,958	-23,441	-34,200	-32,800	-35,200
Cash flow from investing activities	-51,410	-27,732	-29,506	-24,265	-36,676	-33,211	-35,620
Cash flow from financing activities	-17,919	-21,365	-30,126	-47,869	-9,314	-16,023	-14,421
Net change in cash resulting from CF	2,456	14,519	-7,933	-20,398	11,567	-4,162	-2,686
<b>Balance sheet (CZKm)</b>							
Total long-term assets	494,147	493,977	495,778	491,424	498,183	500,323	504,744
Of which intangible assets	21,604	21,507	20,611	20,164	20,567	20,979	21,398
Working capital	57,218	57,143	49,663	51,107	49,264	50,472	51,323
Shareholders' equity	250,235	250,235	261,308	267,893	267,285	265,019	264,227
Minority interests	3,984	3,658	4,543	4,262	4,166	4,118	4,075
Provisions	64,243	64,225	67,911	90,797	95,091	96,424	97,778
Net debt (-)/cash (+)	-161,062	-156,467	-147,201	-131,223	-128,252	-135,085	-139,374

Source: Economic &amp; Strategy Research, Komerční banka


**CEZ ratios**

	2012	2013	2014	2015	2016e	2017e	2018e
<b>Profitability</b>							
ROIC (%)	10.7	8.1	6.6	5.3	5.0	4.7	4.5
ROE (%)	17.4	14.3	8.8	7.8	6.4	6.2	5.8
<b>Margins</b>							
Gross income/revenues (%)	59.3	57.2	55.8	50.5	48.4	47.3	47.3
EBITDA margin (%)	39.8	37.8	36.2	31.1	28.4	27.5	27.4
EBITA margin (%)	26.9	25.0	22.4	17.4	13.7	12.3	12.1
<b>Growth rates</b>							
Revenue yoy growth (%)	2.5	0.9	-7.5	4.7	-3.4	0.5	-0.2
EBITDA yoy growth (%)	-2.1	-4.0	-11.4	-10.2	-11.6	-2.8	-0.6
EBITA yoy growth (%)	-5.9	-6.5	-17.0	-18.5	-24.2	-9.9	-1.8
Reported net income yoy growth (%)	1.7	-13.4	-37.6	-7.4	-16.9	-4.7	-7.3
Net income excl. exceptionals & GW yoy growth (%)	1.7	-6.0	-24.3	-6.2	-35.2	-8.3	-7.3
<b>Financing</b>							
Net debt/equity (%)	64.4	62.5	56.3	49.0	48.0	51.0	52.7
Interest cover (x)	13.4	10.0	10.1	10.2	8.7	6.0	5.7
Payout ratio (%)	53.2	54.9	72.5	77.2	104.3	97.8	95.0

Source: Economic &amp; Strategy Research, Komerční banka

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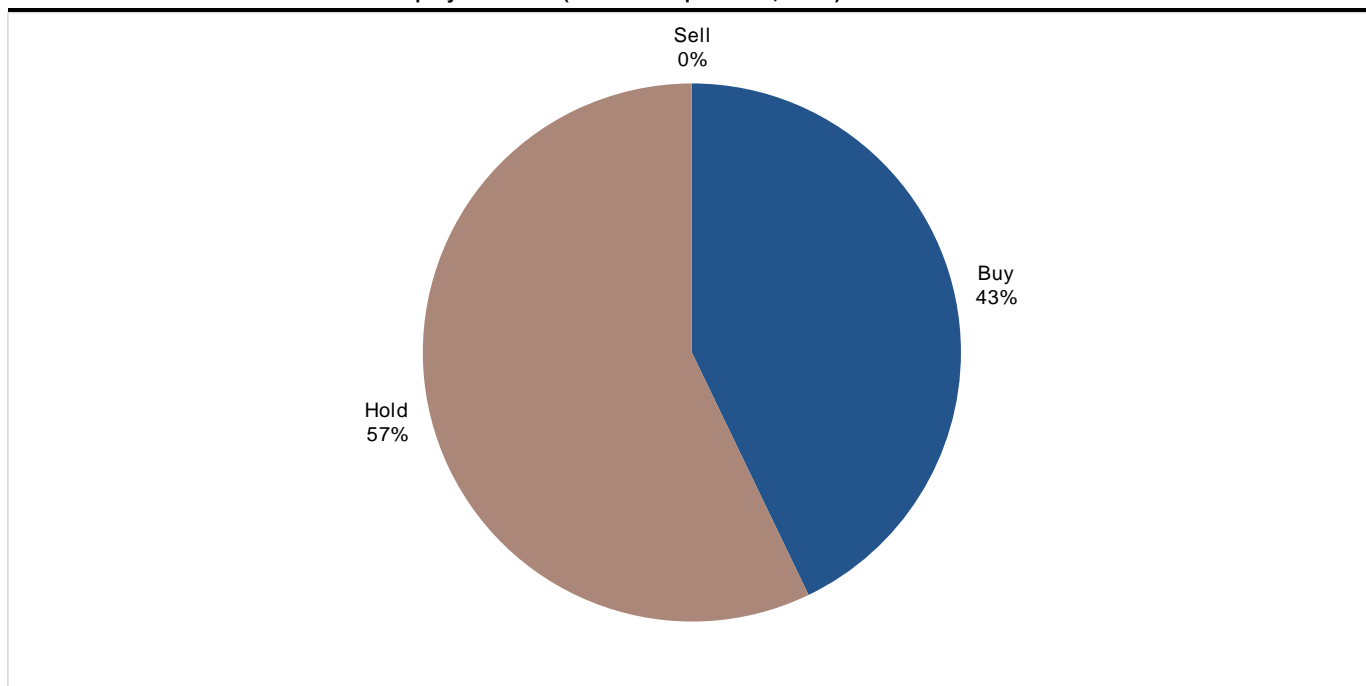
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The chart below shows the structure of grades of valid investment recommendations of equity research of KB Economic & Strategy Research (7 recommendations).

Investment recommendations of KB equity research (as of 14 September, 2016)



Source: Economic & Strategy Research, Komerční banka

	CEZ	O2 CR	CME	Philip Morris CR	NWR	Pegas Nonwovens	Unipetrol	Fortuna	MONETA Money Bank
<b>Overview of last investment research and recommendations related to stocks of particular issuers</b>									
Recommendation	Hold	Hold	Hold	Buy	Stop coverage n/a	Buy	Stop coverage n/a	Hold	Buy
Target Price	CZK 448	CZK 260	USD 2,5	CZK 13500		CZK 863		CZK 96	CZK 90
Date	14/9/16	22/3/16	12/8/15	13/6/16	20/6/16	20/5/16	23/4/15	20/5/16	6/9/16
<b>Overview of investment researches and recommendations for last 12M (quarterly)</b>									
Recommendation	Buy	Buy		Buy	Sell	Buy		Under revision	
Target Price	CZK 420	CZK 251		CZK 11890	-	CZK 800		Under revision	
Date	12/2/16	12/11/15		2/9/15	11/12/15	3/12/15		10/3/16	
Recommendation	Buy					Sell		Buy	
Target Price	CZK 608					CZK 819		CZK 79	
Date	18/9/15					11/9/15		28/8/15	
Recommendation						Under revision		Under revision	
Target Price						Under revision		Under revision	
Date						27/8/15		27/8/15	
Recommendation									
Target Price									
Date									
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
<b>Relationships of Komerční banka with particular issuers</b>									
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 &amp; Strategy Research, Komerční banka

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