

| Utility | Quarterly Results | Czech Republic |

CEZ

Results above estimates; full-year guidance increased

Buy

Price 11.08.20 **CZK 476**
 12m target **CZK 621**
 Upside to TP **30.5%**
 Dividend **CZK 34**
 Total return **37.6%**

Sector stance

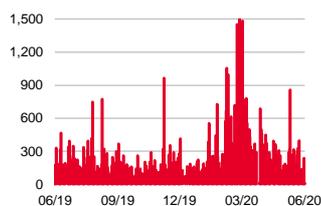
Overweight

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		347.4	535
Market cap. (CZKbn)		256.1	
Market cap. (EURbn)		9.8	
Free float (%)		30	
Performance (%)	1m	3m	12m
Share	-0.8	1.7	-8.6
Rel. to PX Index	0.3	-3.2	0.3

Source: Bloomberg

The latest analysis and report:
https://bit.ly/CEZ_upd2007_ENG
https://bit.ly/CEZAGM_ENG
CEZ results for 2Q20

CZKbn	2Q19	2Q20	yoy	KB est.	Consensus
Revenues	48.2	49.2	2.1%	46.4	49.1
EBITDA	13.6	12.8	-5.5%	11.2	12.4
margin	28.2%	26.1%	2.1pp	24.2%	25.3%
EBIT	6.0	3.2	-48%	4.1	5.0
Net profit (adjusted)	3.8	2.5	-35%	1.9	2.7

Source: CEZ, Economic & Strategy Research, Komerční banka; the consensus is compiled by CEZ, based on estimates of 13 analysts

This morning, CEZ reported results for the second quarter of this year, which are better in terms of EBITDA compared with the consensus. EBITDA is CZK12.8bn (-5.5% yoy, consensus CZK12.4bn) with revenues of CZK49.2bn. Adjusted net profit then reached CZK2.5bn. The results are lower year-on-year due to weaker demand resulting from restrictive measures related to COVID-19. Unfortunately, this was not offset by higher power prices. CEZ boosts its full-year targets, which is clearly positive and indicates a high dividend. Overall, the reported results are a positive surprise for us.

Key trends in the main segments: (1) In the *Traditional Energy* segment, CEZ produced 12.7 TWh, which is below last year's production (14.2 TWh). Behind this decline is mainly the lower production in coal-fired power plants due to longer outages. Lower production in coal sources is also related to the growth of the price of emissions allowances, which affected the composition of the production mix. Production at nuclear power plants also fell slightly (longer shutdowns). On the contrary, production at the CCGT plant and in pumped storage power plants increased, but this could not compensate for the above-mentioned decrease.

Due to the reasons stated above, CEZ again reduced the target for full-year production in traditional energy to 59.3 TWh from 61.8. (2) In the new energy segment, CEZ should produce 2.4 TWh for the whole year, which is slightly higher than the previous estimate of 2.3 TWh. (3) EBITDA reached CZK12.8bn (-5.5% yoy) in the second quarter. This slightly exceeded the market consensus (CZK12.4bn). The situation associated with the pandemic did not have a surprisingly large impact on distribution. However, it significantly affected the mining segment when low demand led to a decline in mining. (4) Net profit reached CZK0.5bn (-85% yoy). The year-on-year decrease is due to higher depreciation and provisions for assets in Romania, Bulgaria and Poland (approximately CZK2bn). Adjusted net profit, which serves as the basis for calculating the dividend, then amounted to CZK2.5bn (-35% yoy).

Debt: Net debt reached CZK153.7bn. This represents a decrease from CZK167.9bn that CEZ had at the end of the first quarter of 2020. The leverage measured by the net debt / EBITDA ratio decreased to 2.4x from 2.6x.

Management outlook: The company's management has increased its full-year guidance. EBITDA should be in the range of CZK62-64bn (previous CZK61-64bn). Adjusted net profit should now increase to CZK21-23bn from the previous CZK19-22bn. The difference is the one-off positive effect due to interest on arrears related to gift taxes on emissions allowances. This adjusted net profit will serve as the basis for calculating the dividend. This promises a

gross dividend yield of almost 9% (at 100% payout) and the dividend in absolute terms should exceed CZK40 per share (CZK34 paid out this year).

Potential impact on our estimates and our recommendation: The reported numbers are better than our expectations, which were among the lowest on the market. But the difference is not big. From our point of view, the risks associated with the completion of a nuclear power plant are minimal. The government should negotiate agreements in Brussels which, in the event of a project, give CEZ the option of a put option (sale of the state) and, in addition, guarantee the purchase prices of electricity produced at the new unit. Investments associated with the construction of a new nuclear power plant will be negligible in the approx. next 10 years (CZK2.5-4.0bn). We now leave our target price and recommendation unchanged at CZK621 with the Buy recommendation.

Main risks: Unplanned shutdowns of conventional power plants and falling electricity prices.

Expected events: A conference call will be held in the afternoon on the reported results. The results for the third quarter should be announced on 10 November 2020.

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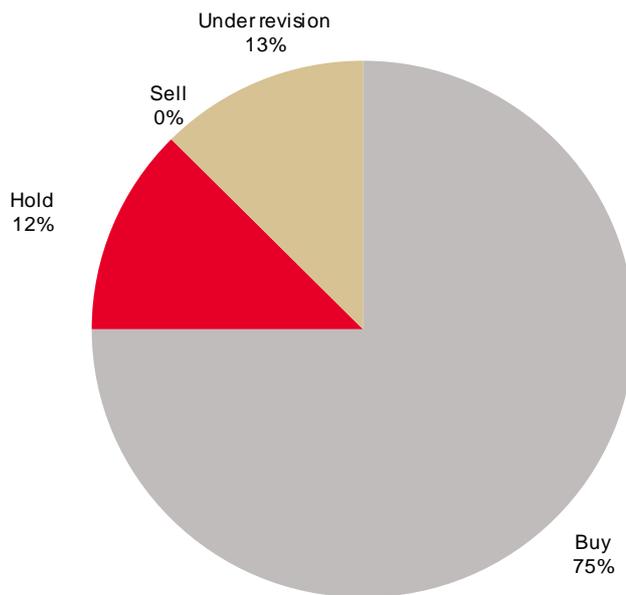
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The chart below shows the structure of grades of valid investment recommendations of equity research of KB Economic & Strategy Research (8 recommendations).

Investment recommendations of KB equity research



Source: Economic & Strategy Research, Komerční banka

KB Equity Research ratings on a 12 month period

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HOLD: absolute total shareholder return forecast between 0% and +15% over a 12 month period.

SELL: absolute total shareholder return forecast below 0% over a 12 month period.

Total shareholder return means forecast share price appreciation plus all forecast cash dividend income, including income from special dividends, paid during the 12 month period. Ratings are determined by the ranges described above at the time of the initiation of coverage or a change in rating (subject to limited management discretion). At other times, ratings may fall outside of these ranges because of market price movements and/or other short term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by research management.

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	Avast	CME	CEZ	Kofola	MONETA Money Bank	O2 CR	PFNon-wovens	Philip Morris CR	Vienna Insurance
Overview of last investment research and recommendations related to stocks of particular issuers									
Recommendation	Buy	Hold	Buy	Buy	Buy	Buy	In revision	Buy	End of coverage
Target price	GBp 466	No price	CZK 621	CZK 482	CZK 97	CZK 293	In revision	CZK 18308	
Date	30.08.2019	12.11.2019	23.07.2020	04.07.2019	29.10.2019	08.01.2020	30.04.2020	03.12.2018	
Price on the day of the publication	GBp 380	USD 4.4	CZK 474	CZK 291	CZK 76.3	CZK 234	CZK 624	CZK 14800	EUR 24.7
Investment horizon	12 months	12 months	12 months	12 months	12 months	12 months	12 months	12 months	12 months
Author	J. Kostka	M. Frayer	B. Trampota	J. Kostka	M. Frayer	B. Trampota	B. Trampota	J. Kostka	M. Frayer
Overview of investment researches and recommendations for last 12M (quarterly)									
Recommendation	In revision	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy
Target Price	In revision	USD 5.2	CZK 717	CZK 484	CZK 97	CZK 298	CZK 924	CZK 17546	EUR 27
Date	14.08.2019	28.03.2019	10.06.2019	26.09.2018	07.03.2019	12.12.2018	01.04.2019	22.08.2017	11.09.2018
Recommendation	Buy	Buy	Buy		Buy	Hold	Hold	Hold	Buy
Target Price	GBp 342	USD 5	CZK 620		CZK 93	CZK 270	CZK 924	CZK 13500	EUR 26
Date	15.06.2018	27.07.2017	11.06.2018		06.03.2018	18.08.2017	26.10.2018	25.05.2017	42797
Recommendation		Buy	Buy		Buy	Hold	In revision	Buy	
Target Price		USD 4.2	CZK 542		CZK 90	CZK 267	In revision	CZK13500	
Date		27.04.2017	20.09.2017		17.08.2017	31.01.2017	17.05.2018	13.06.2016	
Recommendation		Buy			Buy	Buy	Sell		
Target Price		USD 3.7			CZK 95	CZK 267	CZK 876		
Date		10.03.2017			09.06.2017	09.12.2016	13.09.2017		
Valuation methods	DFCF	DFCF	DFCF	DFCF	DFCF DDM ERM	DFCF DDM	DFCF	DDM	DDM ERM
Frequency of rec. (per year)	twice	twice	twice	twice	twice	twice	twice	twice	twice
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 (0.5% or more) of the registered capital of the issuer.	no	no	no	no	no	no	no	no	no
Author's direct or indirect share (0.5% or more) of the registered capital of the issuer.	no	no	no	no	no	no	no	no	no
Signific. fin. interest in the issuer of the persons partic. in elaboration of inv. research and rec.	no	no	no	no	no*	no	no	no	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

Note: DFCF – Discounted free cash flow model, DDM – Discounted dividend model, ERM – Excess return model

* The author of the investment recommendation owns 635 shares of the issuer Moneta Money Bank. The author is not entitled to acquire any further shares of any issuer listed here.

Source: Economic & Strategy Research, Komerční banka