

Polish Construction Sector

Budimex, Polimex, PBG

Poland

Sector Report

Downgrading Tier1. Turning to Tier2

WIG Index

52,873

	Rec.	12M TP (PLN)	Upside (%)	P/E (x)			PEG (x)		EV/EBITDA (x)		
				2007E	2008E	2009E	2007E	2008E	2009E	2007E	2008E
Budimex	Hold (↓)	105	(2)	52.8	28.0	19.2	0.2	29.3	15.6	9.8	
Polimex	Hold (↓)	183	1	34.2	23.3	20.5	1.2	17.7	12.9	11.1	
PBG	Hold	315	1	47.0	31.0	21.9	1.0	29.1	20.2	15.4	
Average				44.6	27.5	20.5	0.8	25.4	16.2	12.1	

Source: CA IB estimates

The WIG Construction index increased by 22% YTD, outperforming the broad market by 17 percentage points. The 61% increase in construction output in Poland in January demonstrates that robust growth in the sector is continued. However, the 4Q 2006 results reported by Budimex, Polimex and PBG failed to deliver any positive surprises as had been observed in previous quarters, while room for any 2007 earnings upgrades appears to be limited. As such, the multiples expansion continued, with the construction sector currently trading at 2007E P/E of 44.6x (P/E increased by 28% YTD). Against this backdrop, we downgrade our ratings on both Budimex and Polimex to HOLD from Buy and reiterate our HOLD recommendation on PBG. Our order of preference is Polimex, PBG, Budimex.

While searching for other investment opportunities within the construction sector, we looked at a number of tier2 stocks listed on the WSE. Those companies, including Mostostal Warszawa, Elektrobudowa, Energomontaz Polnoc, and Mostostal Export, are trading at 2006 P/E of 43.6x, a 38% discount to tier1 stocks, but still a multiple that we cannot consider a bargain. Of those companies, we draw attention to Elektrobudowa, a domestic leader in specialised installation services, trading at management's guidance 2007E P/E of 33.4x (against 46% 2005-2007E EPS CAGR), a 25% discount to tier1 stocks.

- **Budimex (Downgrade to HOLD, TP upped to PLN 105)** Budimex was a top performer among the construction stocks, gaining 43% YTD. We note that the company has not delivered on earnings expectations for the last few years (including 4Q 2006) and we would like to see additional confirmation that the expected strong earnings recover is finally materialising. Budimex is trading at the lowest 2009E P/E of its peers, at 19.2x, but given the company's track record, the risk to our 2009 expectations appears to be the highest.
- **Polimex (Downgrade to HOLD, TP upped to PLN 183)**. We continue to like the company's diversified business model and M&A-driven expansion strategy. We note, however, that 1) going forward it will be difficult for the company to beat earnings expectations and 2) a scarcity of sizable and inexpensive M&A targets may slow down the historical growth momentum. Polimex is trading at 2007E P/E of 34.2x versus 3-year EPS CAGR of 29%.
- **PBG (HOLD, TP upped to PLN 315)**. We reiterate our HOLD recommendation on PBG, increasing our 12-month target price to PLN 315 from PLN 267. The company appears to be well on track in large contracts plans for 2007, and has been successful in its entrance into road building and new foreign markets. We acknowledge that valuation multiples are the highest in the construction sector (2007E P/E of 47.0x) but 3-year EPS CAGR growth is also superior (47%).

Please note that the information at the back forms an integral part of this report.

See disclaimer for more information on UniCredit Markets & Investment Banking.

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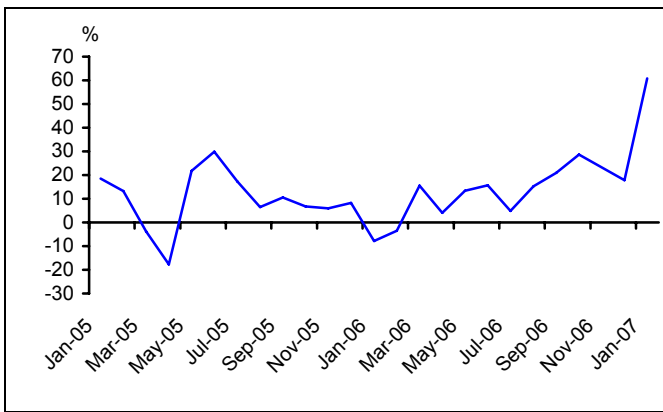
Investment summary

Top line sector trends still supportive...

Construction output increased by 61% YoY in January on mild winter weather but we note that 1Q accounts for only up to 15% of the full-year figure

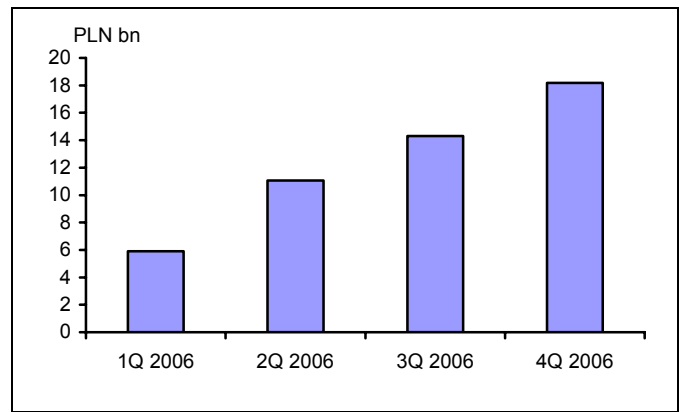
In January 2007, construction output in Poland posted a 60.8% YoY growth rate, following a 17.5% increase recorded in FY 2006. Although exceptionally strong January figures, resulting from warm winter weather, should not be taken as a proxy for the full year (the first quarter usually accounts for only up to 15% of the full year figure), they are symptomatic of continued robust growth in the sector.

Figure 1: Construction output growth (YoY, %)



Source: GUS

Figure 2: Construction output by quarters: 4Q (not 1Q) is key



Source: GUS

We expect growth to be driven by infrastructure, housing and industrial segments

Looking at particular segments of the construction market, we expect the growth to be driven by:

- Roads:** Between 2007 and 2009, annual spending on road construction is expected to average PLN 12.7bn, up 37% vs. planned spending in 2006. The inflow of EU money is set to be a major deliverable there. Between 2007 and 2013, the planned inflow of EU funds to the road construction sector amounts to EUR 11bn.
- Environmental projects:** We estimate environmental and hydro-construction projects will receive EUR 7.2bn between 2007 and 2013 from EU funds, being the second largest beneficiary after the road segment.
- Housing:** Following a more than 50% increase in residential property prices in Poland's major cities in 2006, the residential property development industry is witnessing an acceleration in preparation of new projects as well as the entrance of new players onto the market. In 2006, the authorities granted building permits for 160,000 new residential units vs. the 115,000 units completed during that year.
- Industrial:** Rising capacity utilisation among corporates has prompted new investments. In 2006 fixed assets spending increased by 16.7% and we expect that trend to be continued. The sectors worth highlighting are oil & gas (only PGNiG is set to increase capex by 50% in 2007), chemicals and power generation, although the latter may once again experience delays in the investment process.

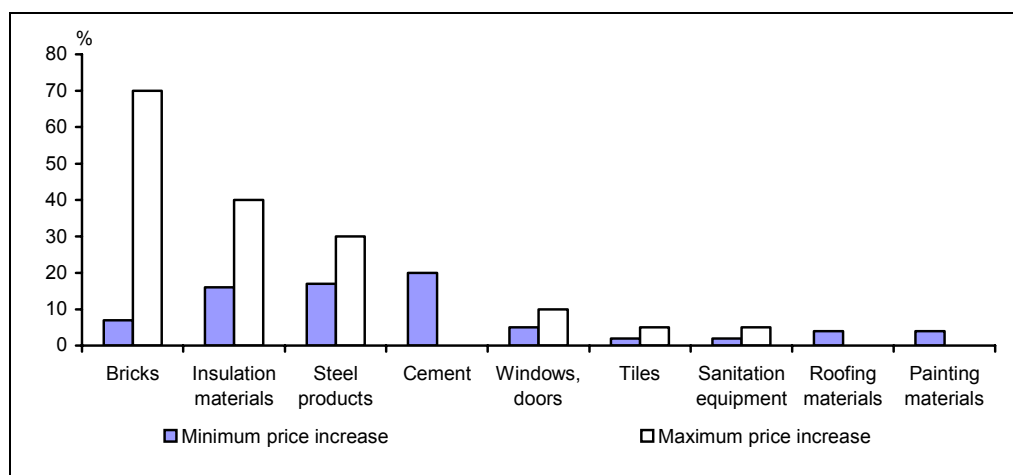
...but watch out for high costs inflation

Material costs are on the rise...

We see two major threats to construction companies' earnings in the medium run. Those are:

- **Lack of workforce:** An estimated wave of more than 1m people have emigrated from Poland since its entrance to the EU in 2004, a significant proportion of whom were construction workers. Although the official GUS data shows a 10% YoY increase in wages of construction workers in 2006, industry representatives suggest that in certain areas of specialisation, wage growth has reached 30%.
- **Increase in building material prices:** According to PSB data, the increase in basic construction materials over the span of 2006 has reached 20%.

Figure 3: Price increases in major building materials between January and December 2006



Source: PSB

...but companies claim to be prepared for this

Cost inflation problem was especially visible in the margins of general contractors in 2006 (i.e. Budimex), with margin pressure still visible. However, our discussions with the management of construction companies has led to the conclusion that, following the negative cost surprise in 2006, the companies are much better prepared for rising costs in 2007, budgeting much higher increases in their recently signed contracts. With regards to workforce shortages, we note that all listed companies are perceived to be stable employers, which increases stabilisation of the workforce base.

4Q 2006 Results review: in line (with no positive surprises this time)

Polimex and PBG posted 4Q 2006 results in line; Budimex as usual disappointed slightly

The construction companies that we cover (Budimex, Polimex, PBG) posted sound results in 4Q 2006 in most cases, with a slight disappointment coming from Budimex. The company, despite a 24% YoY increase in revenues to PLN 970.7m (8% above our forecasts), failed to deliver on our earnings expectations, although we note that the scale of the disappointment is not significant (only PLN 3.8m at the EBIT level). Budimex's 4Q 2006 results were once again negatively affected by more than PLN 20m in provisions for the Okecie airport contract.

Both Polimex and PBG reported 4Q 2006 earnings in line with expectations. PBG's impressive momentum is worth highlighting: the company reported a 36% YoY and 86% YoY increase in EBIT and net profit, respectively.

Table 1: 4Q 2006 Results review

PLNm	4Q 2006	4Q 2005	YoY, %	4Q 2006E	Diff. (%)	2006	2005	YoY, %
Budimex								
Sales	970.7	783.2	24	901.2	8	3,043.2	2,702.9	13
EBIT	(1.2)	(33.6)	<i>n.m.</i>	2.6	<i>n.m.</i>	9.9	2.0	406
Net profit	0.9	0.5	97	1.6	(42)	3.9	2.0	92
Polimex								
Sales	866.5	524.8	65	713.1	22	2,466.1	1,849.9	33
EBIT	16.3	0.4	4,170	16.1	1	99.6	73.2	36
Net profit	7.7	7.2	8	7.7	1	60.1	42.8	40
PBG								
Sales	250.0	169.0	48	418.0	(40)	672.0	408.5	64
EBIT	26.8	19.8	36	24.3	10	74.3	41.3	80
Net profit	23.5	12.6	86	23.5	(0)	53.6	36.1	49

Source: Polimex, Budimex, PBG, CA IB estimates

Margins improved YoY

With respect to margin trends, the aggregate EBIT margin of the three companies improved to 2.0% in 4Q 2006 from the negative of 0.9% in the corresponding period a year before. PBG is the only company that saw a 1-percentage point decline in operating margin in 4Q 2006 to 10.7%, to a level that is still five times higher than the average EBIT margin level.

Medium-term outlook: positive though without any major earnings upgrades for 2007

We have left our earnings forecast mostly unchanged for 2007 and increased it slightly for 2008...

We have updated our financial models incorporating recent developments and results for 4Q 2006. We have left our earnings forecasts for 2007 almost intact (upgrades of 4% in Budimex and 1% in Polimex), noting that our 2007E EPS growth expectations are already high: 30% for Polimex, 49% for PBG, 12-fold for Budimex. With respect to 2008, we have increased our net profit estimates by 8% for Budimex (expected higher profitability of the company's Inflancka residential property development project) and by 5% for PBG (on expectations of higher profitability of the LMG project).

...while in the past the results releases usually prompted earnings upgrades

We note that the very low scale of the earnings upgrades (unlike following the release of the 1-3Q results), combined with the in line 4Q 2006 results, suggests that we are approaching the point at which earnings expectations are already very high and positive surprises will be every difficult to achieve.

Table 2: Earnings revisions

PLNm	2007E			2008E			2009E
	Old	New	Ch. %	Old	New	Ch. %	
Budimex							
Sales	3,297.3	3,297.3	0	3,730.4	3,730.4	0	4,129.5
EBIT	64.3	62.3	3	117.9	110.4	7	169.4
Net profit	51.8	50.0	4	97.5	90.5	8	142.2
Polimex							
Sales	3,033.9	3,033.9	0	3,629.2	3,629.2	0	4,088.1
EBIT	144.8	141.8	2	204.0	201.0	1	230.6
Net profit	98.4	97.1	1	146.0	144.4	1	166.5
PBG							
Sales	1,419.4	1,419.4	0	2,019.0	2,019.0	0	2,503.7
EBIT	116.8	116.6	0	172.9	166.9	4	228.1
Net profit	88.8	88.7	0	134.6	128.5	5	190.9

Source: CA IB estimates

Valuation update

Construction sector is trading at 2007E P/E of 44.6x and PEG of 0.8x

Following a 22% increase in the WIG Construction index YTD, Polish construction companies are trading at an average 2007E P/E ratio of 44.6x and EV/EBITDA of 25.4x. With our 2007E earnings forecast left almost intact, the YTD multiples expansion amounted to 28% and 32% respectively for P/E and EV/EBITDA. The average 2007E PEG ratio amounts currently to 0.8x, but this figure is understated by Budimex's very low PEG ratios, which compared to the very low 2006 earnings base, is not relevant.

Table 3: Construction sector: peer comparison

	Price	P/E (x)			3-year EPS	PEG (x)	EV/EBITDA (x)		
	PLN	2007E	2008E	2009E	CAGR (%)	2007E	2007E	2008E	2009E
Budimex	107.0	52.8	28.0	19.2	231.8	0.2	29.3	15.6	9.8
Polimex	181.0	34.2	23.3	20.5	29.4	1.2	17.7	12.9	11.1
PBG	311.0	47.0	31.0	21.9	47.2	1.0	29.1	20.2	15.4
Average		44.6	27.5	20.5		0.8	25.4	16.2	12.1

Source: CA IB estimates

Polimex with 2007E P/E of 34.2x continues to be the most attractive on that basis

Looking at specific stocks, Polimex – with 2007E P/E of 34.2x – continues to be the most attractive on that basis (27% discount to PBG and 35% to Budimex), but its expected 3-year EPS CAGR is the lowest in the sector (29% vs. 47% for PBG and 232% for Budimex).

Recommendations: Down to HOLD

Target price upgrades

We have updated our DCF models, incorporating earnings forecasts revisions and rolling-over models by one year. Consequently, we have upgraded our 12-month target prices: for Budimex by 12% to PLN 105, for Polimex by 9% to PLN 183 and for PBG by 18% to PLN 315.

Budimex and Polimex cut to HOLD, PBG – Hold reiterated

With almost no upside to our target prices on a 12-month horizon, we downgrade our recommendations on Budimex to HOLD from Buy and on Polimex to HOLD from Buy. We reiterate our HOLD recommendation on PBG.

Table 4: Construction sector: Changes in recommendations and target prices

	Recommendation		12-month TP		Upside to TP	
	New	Old	New	Old	Ch. %	(%)
Budimex	Hold	Buy	105	93	12	(2)
Polimex	Hold	Buy	183	168	9	1
PBG	Hold	Hold	315	267	18	1

Source: CA IB estimates

Cheaper opportunities in the small cap segment? Hardly any...

Tier2 construction stocks are trading at 2006 P/E of 43.6x

We looked at several tier2 construction companies listed on the WSE in our perusal of more attractive valuations. The group of 10 tier2 construction companies that we have selected (combined MCAP of PLN 4.7bn) is trading at a 2006 P/E ratio of 43.6x, although at a 38% discount to tier1 stock (Budimex, Polimex, PBG), at multiples that we cannot consider to be a bargains.

Table 5: Tier2 construction companies

Company	Ticker	Price	MCAP	Performance		P/E (x)
		PLN	PLNm	YTD %	12M %	2006
Mostostal Zabrze	MSZ PW	8.2	1,053.0	96.9	274.0	62.5
Mostostal Warszawa	MSW PW	38.0	759.8	(10.0)	162.0	46.6
Elektrobudowa	ELB PW	140.0	590.8	29.4	220.4	38.4
Energomontaz Polnoc	EPN PW	23.5	559.9	(6.0)	113.6	65.8
Hydrobudowa	HBD PW	160.0	538.5	34.9	150.0	75.7
Prochem	PRM PW	74.8	291.9	6.9	126.0	28.6
Instal Krakow	INK PW	36.3	264.3	35.9	353.5	74.1
Mostostal Export	MSX PW	5.9	262.0	97.3	197.0	10.6
Projprzem	PJP PW	42.7	257.2	13.8	182.8	40.7
Naftobudowa	NFT PW	26.6	157.0	(3.3)	247.7	39.2
Median						43.6

Source: WSE, Bloomberg, CA IB estimates

Elektrobudowa is trading at 2007E P/E of 33.4x, a 25% discount to tier1 construction stock

Of the companies in Table 5, above, we have visited four recently: Mostostal Warszawa, Elektrobudowa, Energomontaz Polnoc and Mostostal Export. Of these four, we would like to feature Elektrobudowa, a leader on the domestic market of installation services for the industrial and power generation segment. Between 2003 and 2006 the company posted net profit CAGR of 71%. Based on conservative management guidance (implying 15% net profit growth), Elektrobudowa is trading at 2007E P/E of 33.4x, a 25% discount to tier1 construction stock.

PLN 107

Hold

(Downgrade from Buy)

Target price PLN 105
(Previously: PLN 93)**WIG index**

52,873

of shares

25.5m

MCAP

PLN 2.7bn

US\$ 0.9bn

Free float

PLN 1.1bn

US\$ 379m

BMEX.WA / BDX PW

Budimex

Construction & Materials

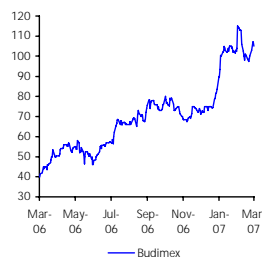
Poland

Company Update

It's high time to deliver

	2003	2004	2005	2006P	2007E	2008E	2009E
Revenues (PLNm)	2,147.0	2,150.7	2,702.9	3,043.2	3,297.3	3,730.4	4,129.5
EBIT (PLNm)	70.9	4.5	2.0	9.9	64.3	117.9	169.4
Net profit (PLNm)	45.4	8.4	2.0	3.9	51.8	97.5	142.2
EPS (PLN)	1.78	0.33	0.08	0.15	2.03	3.82	5.57
CEPS (PLN)	3.05	1.34	0.89	0.97	2.54	4.49	6.41
BVPS (PLN)	19.97	20.38	20.36	20.50	22.60	27.94	36.37
P/E (x)	60.2	326.7	1,345.7	701.5	52.8	28.0	19.2
P/CE (x)	35.0	79.6	120.2	110.8	42.2	23.8	16.7
P/BV (x)	5.4	5.3	5.3	5.2	4.7	3.8	2.9
EV/Sales (x)	1.2	1.1	0.9	0.8	0.7	0.6	0.5
EV/EBITDA (x)	24.8	80.1	104.3	78.3	29.3	15.6	9.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholder Structure:	Ferrovial 59.1%, BZ WBK AIB AM 5.0%						

- Investment case:** Budimex was a top performer among construction stocks, gaining 43% YTD. Following the recent rally we are downgrading our recommendation to HOLD from Buy, increasing our 12-month target price to PLN 105 from PLN 93. We note that Budimex has not delivered on earnings expectations for the last few years (including 4Q 2006), and we would like to see additional confirmation that the expected strong earnings recovery is finally materialising. Budimex is trading at the lowest 2009E P/E of its peers, at 19.2x, but given the company's track record, the risk to our 2009 expectations appears to be the highest.
- Recent developments:** Budimex has announced YTD contracts for the total consideration of PLN 1.1bn. Although this figure includes a PLN 0.4bn contract for the Augustow bypass, the construction of which is being protested by environmentalist and questioned by the EU, the backlog expansion looks impressive. We note; however, that Budimex, which is a general contractor, appears to be the most exposed to the rise in construction material prices. The company's management suggests that the company is prepared for this in 2007 much better than it did in 2006.
- 4Q 2006 Results review and outlook:** Budimex once again failed to deliver on earnings expectations in 4Q 2006, although we note that the scale of the disappointment was rather minor. The company posted a 24% YoY increase in revenues (8% above our forecast) but EBIT loss of PLN 1.2m (we had expected profit of PLN 2.6m). More than PLN 20m in provisioning on the Okęcie airport contract once again dragged the reported earnings downwards. On the back of the announcement of more details on the company's residential development projects (mainly the Inflancka project in Warsaw, valued at PLN 0.7bn), we have increased our net profit forecast by 4% and 8%, respectively for 2007 and 2008.
- Valuation:** We have rolled-over our DCF model by one year and incorporated our revised earnings forecasts. Consequently we have increased our 12-month target price by 12% to PLN 105.

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16 March 2007

Please note that the information at the back forms an integral part of this report.

See disclaimer for more information on UniCredit Markets & Investment Banking.

Financial statements

Table 6: Budimex: Income statement forecasts

PLNm	2003	2004	2005	2006P	2007E	2008E	2009E
Net revenues	2,147.0	2,150.7	2,702.9	3,043.2	3,297.3	3,730.4	4,129.5
COGS	1,973.0	2,144.3	2,597.0	2,918.4	3,074.5	3,432.7	3,760.8
Gross profit	174.0	6.4	105.9	124.7	222.8	297.7	368.7
SG&A	142.5	136.5	135.2	136.0	155.0	175.3	194.1
Other operating items	39.3	134.6	31.3	21.2	(3.6)	(4.5)	(5.3)
EBITDA	103.5	30.5	22.7	30.7	77.2	135.1	191.0
Depreciation	32.6	26.0	20.7	20.8	13.0	17.2	21.6
EBIT	70.9	4.5	2.0	9.9	64.3	117.9	169.4
Net financials	(4.6)	(3.4)	(4.2)	(0.4)	0.2	(2.6)	(6.3)
Pre-tax profit	75.0	8.0	6.2	10.4	64.0	120.5	175.7
Tax	31.0	0.7	6.1	8.2	12.2	22.9	33.4
Minorities/associates	1.4	1.1	2.0	1.7	(0.1)	(0.1)	(0.1)
Net profit	45.4	8.4	2.0	3.9	51.8	97.5	142.2

Source: Budimex, CA IB estimates

Table 7: Budimex: Cash flow statement forecasts

PLNm	2003	2004	2005	2006P	2007E	2008E	2009E
Net profit	45.4	8.4	2.0	3.9	51.8	97.5	142.2
Depreciation	32.6	26.0	20.7	20.8	13.0	17.2	21.6
Other non-cash	12.7	(266.1)	(1.0)	120.7	(7.5)	10.0	9.2
Cash earnings	90.7	(231.8)	21.7	145.4	57.3	124.7	173.0
Change in WC	120.4	174.6	(60.2)	(157.8)	99.6	(19.5)	(18.0)
Capex	78.5	(27.2)	(14.1)	(25.2)	(84.6)	(35.1)	(36.7)
Free cash flow	289.6	(84.4)	(52.6)	(37.6)	72.3	70.1	118.4
Ch. in investment	(151.0)	228.2	137.7	(0.9)	67.3	43.1	39.7
Dividends	0.0	0.0	0.0	0.0	1.9	38.8	73.1
New capital/(debt)	(55.2)	(0.1)	65.1	34.2	0.0	0.0	0.0
Change in liquid funds	83.4	143.7	150.2	(4.3)	141.6	152.0	231.2

Source: Budimex, CA IB estimates

Table 8: Budimex: Balance sheet forecasts

PLNm	2003	2004	2005	2006P	2007E	2008E	2009E
Fixed assets	339.3	371.0	292.5	291.3	362.9	380.9	396.0
Working capital	204.8	30.2	90.3	248.2	148.5	168.0	186.0
Capital employed	544.1	401.1	382.8	539.5	511.5	548.9	582.0
Shareholders equity	509.9	520.2	519.7	523.3	577.0	713.3	928.6
Net debt/(cash)	(168.9)	(288.8)	(369.3)	(328.5)	(470.1)	(622.2)	(853.4)
Other liabilities	417.4	396.0	478.5	503.8	564.4	627.1	684.9
Total assets	1,356.9	1,754.4	1,942.5	2,214.7	2,302.4	2,632.9	3,027.1

Source: Budimex, CA IB estimates

PLN 181

Hold

(Downgrade from Buy)

Target price PLN 183

(Previously: PLN 168)

WIG index

52,873

of shares

18.8 (fully diluted)

MCAP

PLN 3.4bn (fully diluted)

US\$ 1.2bn (fully diluted)

Free float

PLN 3.4bn (fully diluted)

US\$ 1.2bn (fully diluted)

MOSD.WA / PXM.PW

Polimex Mostostal

Construction & materials

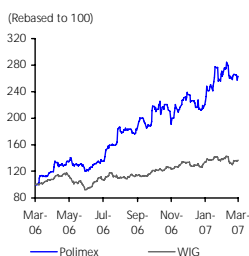
Poland

Company Update

No positive surprises this time

	2003	2004	2005	2006P	2007E	2008E	2009E
Revenues (PLNm)	564.9	1,701.0	1,849.9	2,466.1	3,033.9	3,629.2	4,088.1
EBIT (PLNm)	35.8	79.8	73.2	99.6	144.8	204.0	230.6
Net profit (PLNm)	12.2	37.3	42.8	60.1	98.4	146.0	166.5
EPS (PLN)	1.27	3.43	2.91	4.08	5.30	7.76	8.85
CEPS (PLN)	2.98	6.03	4.81	6.10	7.78	10.53	11.92
BVPS (PLN)	11.53	16.18	19.91	23.55	37.20	43.26	50.50
P/E (x)	142.1	52.8	62.3	44.3	34.2	23.3	20.5
P/CE (x)	60.7	30.0	37.6	29.7	23.3	17.2	15.2
P/BV (x)	15.7	11.2	9.1	7.7	4.9	4.2	3.6
EV/Sales (x)	6.1	2.1	1.9	1.4	1.1	0.9	0.8
EV/EBITDA (x)	66.1	32.3	33.9	27.2	17.7	12.9	11.1
Dividend yield (%)	0.0	0.0	0.2	0.4	0.5	0.7	0.8
Shareholder structure:	CU Pension Fund 10.0%, PZU Pension Fund 8.5%, NN Pension Fund 6.26, Pioneer Pekao IM 5.2%, BGK 5.1%						

- Investment case:** We are downgrading our recommendation on Polimex to HOLD from Buy and increasing our 12-month target price to PLN 183 from PLN 168. We continue to like the company's diversified business model and M&A-driven expansion strategy. We note, however, that 1) going forward it will be difficult for the company to beat earnings expectations and 2) a scarcity of sizable and inexpensive M&A targets may slow down the historical growth momentum. Polimex is trading at 2007E P/E of 34.2x versus 3-year EPS CAGR of 29%.
- Recent developments:** Year to date, Polimex has signed contracts for the total consideration of more than PLN 400m, primarily in the industrial segments (power generators and chemicals installations). These contracts combined with last year's signings in the road construction segment (for more than PLN 0.5bn) and railway segment (more than PLN 200m) as well as consolidation of ZREW and Energomontaz Polnoc constitute a strong basis for a the 30% EPS growth that we expect the company to report in 2007.
- 4Q 2006 Results review and outlook:** Polimex posted strong results for 4Q 2006 with a 65% YoY increase in sales to PLN 866.5m (22% above our forecast) and an 8% YoY rise in net profit to PLN 7.7m (in line with our expectations). Steel structures manufacturing and power engineering were the major drivers of this good performance. We note that, unlike previous quarters, Polimex did not surprise on the positive with its 4Q earnings. We have marginally (by 1-2%) increased our earnings forecasts for 2007 and 2008.
- Valuation:** We have rolled-over our DCF model by one year and incorporated our revised earnings forecasts. Consequently we have increased our 12-month target price by 9% to PLN 183. Following the 16% increase in its share price YTD, we are downgrading our rating on Polimex to HOLD from Buy.

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16 March 2007

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Financial statements

Table 9: Polimex: Income statement forecasts

PLNm	2003	2004	2005	2006P	2007E	2008E	2009E
Net revenues	564.9	1,701.0	1,849.9	2,466.1	3,033.9	3,629.2	4,088.1
COGS	468.4	1,498.6	1,650.3	2,223.6	2,679.7	3,174.1	3,571.4
Gross profit	96.5	202.3	199.6	242.5	354.2	455.1	516.8
SG&A	53.3	133.3	123.3	132.4	206.3	246.8	278.0
Other operating items	(7.4)	10.8	(3.1)	(10.5)	(3.1)	(4.3)	(8.2)
EBITDA	52.2	108.2	101.2	129.3	190.8	256.1	288.3
Depreciation	16.4	28.4	28.0	29.7	46.0	52.1	57.7
EBIT	35.8	79.8	73.2	99.6	144.8	204.0	230.6
Net financials	3.6	20.3	8.5	5.3	6.6	2.5	(1.2)
Pre-tax profit	28.2	59.5	64.7	94.3	138.2	201.6	231.8
Tax	13.7	11.9	15.7	20.9	26.8	39.1	45.6
Minorities and associates	(2.3)	(10.3)	(6.2)	(13.3)	(13.0)	(16.5)	(19.7)
Net profit	12.2	37.3	42.8	60.1	98.4	146.0	166.5
EPS (PLN)	1.27	3.43	2.91	4.08	5.30	7.76	8.85

Source: Polimex, CA IB estimates

Table 10: Polimex: Balance sheet forecasts

PLNm	2003	2004	2005	2006P	2007E	2008E	2009E
Net profit	12.2	37.3	42.8	60.1	98.4	146.0	166.5
Depreciation	16.4	28.4	28.0	29.7	46.0	52.1	57.7
Other non-cash	5.8	34.0	(11.7)	16.6	20.7	19.8	15.3
Cash earnings	34.4	99.6	59.1	106.4	165.0	217.9	239.4
Change in WC	56.2	(199.7)	43.2	(181.3)	(18.4)	(83.0)	(57.0)
Capex	(19.8)	(166.1)	(18.7)	(89.6)	(127.0)	(63.8)	(57.5)
Free cash flow	70.8	(266.2)	83.6	(164.5)	19.6	71.1	124.9
Change in LT investments	(131.2)	78.1	(27.1)	46.5	(157.7)	42.6	32.8
Dividends	0.0	0.0	0.0	(6.9)	(9.6)	(15.8)	(23.4)
New capital (debt)	67.8	226.9	(29.4)	175.0	282.1	(23.4)	(26.6)
Change in liquid funds	7.4	38.8	27.0	50.2	134.4	74.5	107.7

Source: Polimex, CA IB estimates

Table 11: Polimex: Cash flow forecasts

PLNm	2003	2004	2005	2006P	2007E	2008E	2009E
Fixed assets	98.3	283.4	319.2	405.3	666.4	678.1	678.0
Working capital	140.6	340.4	297.1	478.4	496.8	579.8	636.8
Capital employed	239.0	623.8	616.3	883.8	1,163.2	1,257.9	1,314.7
Shareholders equity	110.6	238.3	293.1	352.7	690.3	813.7	949.9
Net debt/(cash)	49.7	94.2	22.7	110.0	(24.4)	(98.9)	(206.6)
Other liabilities	92.1	341.1	317.8	451.7	525.4	573.4	603.3
Total assets	340.4	1,042.8	1,108.3	1,620.1	2,177.8	2,507.6	2,804.8

Source: Polimex, CA IB estimates

PLN 311

Hold

Target price: PLN 315
(Previously: PLN 267)**WIG index**

52,873

of shares

13.4m

MCAP

PLN 4.2bn

US\$ 1.4bn

Free float

PLN 2.8bn

US\$ 0.9bn

PBGG.WA / PBG PW

PBG

Construction & Material

Poland

Company Update

Expansion on track

	2003	2004	2005	2006P	2007E	2008E	2009E
Revenues (PLNm)	180.7	216.1	408.5	672.0	1,419.4	2,019.0	2,503.7
EBIT (PLNm)	14.3	21.8	41.3	74.3	116.8	172.9	228.1
Net profit (PLNm)	11.1	13.9	36.1	53.6	88.8	134.6	190.9
EPS (PLN)	1.55	1.57	3.43	4.45	6.62	10.02	14.21
CEPS (PLN)	2.48	2.33	4.26	5.81	8.69	12.75	17.30
BVPS (PLN)	4.52	13.54	16.87	30.56	54.84	64.86	79.07
P/E (x)	201.1	197.7	90.8	69.8	47.0	31.0	21.9
P/CE (x)	125.5	133.6	72.9	53.5	35.8	24.4	18.0
P/BV (x)	68.9	23.0	18.4	10.2	5.7	4.8	3.9
EV/Sales (x)	23.4	19.5	10.6	6.5	3.0	2.1	1.7
EV/EBITDA (x)	201.3	147.5	86.0	48.6	29.1	20.2	15.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholder structure: Mr. Jerzy Wisniewski 33.5%, BZ WBK AIB Asset Management 7.4%, ING TFI 7.0%							

- Investment case:** We reiterate our HOLD recommendation on PBG, increasing our 12-month target price to PLN 315 from PLN 267. The company appears to be well on track in large contracts, securing plans for 2007, and has been successful in its entrance into road building and new foreign markets. We acknowledge that valuation multiples are the highest in the construction sector (2007E P/E of 47.0) but 3-year EPS CAGR growth is also superior (47%).
- Recent developments:** Having successfully completed a PLN 350m capital increase, PBG appears to have enough capital to implement its M&A expansion strategy as well as to finance the significant contract it expects to win secure this year. The M&A expansion has already begun, with the acquisition of Dromost, a small road construction player. According to PBG's CEO, the advanced negotiations with five other companies are being conducted. On the new contracts front, the company signed a PLN 255m agreement in February for the construction of fuel containers for NATO. The contract for PGNiG's oil & gas plant in LMG deposits is proceeding and should be completed in few months. This contract value is likely to amount to PLN 0.7bn, 70% above our previous estimate. The foreign expansion strategy appears to also be on track with the recent US\$ 5.5m contract for LNG facilities in Pakistan. On a negative note, the Czajka (Warsaw sewage treatment plant) tender has once again been cancelled.
- 4Q 2006 Results review and outlook:** PBG posted strong results for 4Q 2006, with EBIT of PLN 26.8m surpassing our forecasts by 10% and net profit of PLN 23.5m in line with our expectations. Leaving our 2007 earnings estimates unchanged, we have increased our net profit forecasts by 5% for 2008 and by 13% for 2009, mainly on the back of higher value of the LMG contract.
- Valuation:** We have rolled-over our DCF model by one year and incorporated our revised earnings forecasts. Consequently we have increased our 12-month target price by 18% to PLN 315.

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16 March 2007

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Financial statements

Table 12: PBG: Income statement forecasts

PLNm	2003	2004	2005	2006P	2007E	2008E	2009E
Net revenues	180.7	216.1	408.5	672.0	1,419.4	2,019.0	2,503.7
COGS	142.2	172.1	337.4	551.9	1,189.1	1,683.9	2,075.3
Gross profit	38.5	44.0	71.2	120.1	230.3	335.0	428.4
SG&A	23.0	24.1	33.8	54.4	110.7	157.5	195.3
Other operating items	(1.2)	1.9	4.0	8.5	(2.8)	(4.6)	(5.0)
EBITDA	21.0	28.5	50.2	90.6	144.6	209.5	269.6
Depreciation	6.7	6.7	8.8	16.3	27.8	36.6	41.5
EBIT	14.3	21.8	41.3	74.3	116.8	172.9	228.1
Net financials	(0.1)	2.7	(4.0)	1.8	7.4	6.4	1.4
Pre-tax profit	13.8	19.1	45.3	72.5	109.4	166.6	226.7
Tax	2.9	5.1	8.4	16.2	15.6	19.3	20.9
Minorities/associates	0.3	(0.0)	(0.9)	(2.7)	(5.0)	(12.7)	(15.0)
Net profit	11.1	13.9	36.1	53.6	88.8	134.6	190.9
EPS (PLN)	1.55	1.57	3.43	4.45	6.62	10.02	14.21

Source: PBG, CA IB estimates

Table 13: PBG: Cash flow statement forecasts

PLNm	2003	2004	2005	2006P	2007E	2008E	2009E
Net profit	11.1	13.9	36.1	53.6	88.8	134.6	190.9
Depreciation	6.7	6.7	8.8	16.3	27.8	36.6	41.5
Other non-cash	(4.7)	(10.2)	(114.9)	(119.1)	(92.3)	(148.4)	(120.0)
Cash earnings	13.1	10.4	(70.0)	(49.2)	24.4	22.8	112.4
Change in WC	14.1	(65.9)	(26.7)	(4.1)	3.7	(47.4)	(38.4)
Capex	16.9	(14.1)	(141.7)	(98.6)	(100.0)	(40.4)	(37.6)
Free cash flow	44.1	(69.6)	(238.3)	(151.8)	(71.9)	(65.0)	36.5
Ch. in investment	(3.5)	(5.6)	126.4	(77.0)	(13.1)	25.3	20.5
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New capital/(debt)	(35.3)	108.3	149.9	202.9	283.5	13.3	15.6
Change in liquid funds	5.3	33.1	38.0	(26.0)	198.5	(26.4)	72.6

Source: PBG, CA IB estimates

Table 14: PBG: Balance sheet forecasts

PLNm	2003	2004	2005	2006P	2007E	2008E	2009E
Fixed assets	59.4	68.0	195.6	353.8	476.0	479.7	475.8
Working capital	44.1	111.9	235.7	387.8	467.2	664.5	824.0
Capital employed	103.5	179.9	431.3	741.6	943.1	1,144.2	1,299.8
Shareholders equity	32.5	142.6	177.6	367.6	736.5	871.1	1,061.9
Net debt/(cash)	50.8	29.7	136.5	223.6	25.1	51.5	(21.1)
Other liabilities	26.9	14.7	146.6	171.4	202.6	242.7	279.9
Total assets	166.0	305.8	666.3	1,046.1	1,573.3	1,897.9	2,247.2

Source: PBG, CA IB estimates

PLN 140
(Not Covered)

Elektrobudowa

Construction & materials

Poland

Company Report

Quality story at a discount to tier1 stocks

WIG index

52,873

of shares

4.2m

MCAP

PLN 590m

US\$ 200m

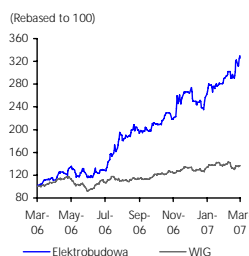
Free float

PLN 590m

US\$ 200m

LBUD.WA / ELB.PW

	2003	2004	2005	2006P	2007E*
Sales (PLNm)	228.8	285.6	344.9	473.9	504.9
EBIT (PLNm)	8.0	11.0	13.0	23.0	n.a.
Net profit (PLNm)	3.1	5.7	9.3	15.4	17.7
Equity (PLNm)	66.0	64.8	70.1	87.8	n.a.
Net Debt (PLNm)	19.0	10.1	9.1	(0.2)	n.a.
EPS (PLN)	0.73	1.35	2.20	3.64	4.19
BVPS (PLN)	15.6	15.3	16.6	20.8	25.0
P/E (x)	192.6	103.8	63.7	38.4	33.4
EV/Sales (x)	2.7	2.1	1.7	1.2	n.a.
EV/EBITDA (x)	40.8	35.6	33.3	21.3	n.a.
P/BV (x)	9.0	9.1	8.4	6.7	5.6
Shareholder structure: ING NN Pension Fund 10.9%, CU Pension Fund 10.5%, AIG 9.4%, PZU Pension Fund 7.6%, Legg Mason AM 5.3%, ING TFI 5.3%. *NOTE: Management forecasts					



- Company description:** Elektrobudowa specialises in the design and construction of electrical installations for power producers (approximately 33% of sales) and industrial clients (approximately 33% of sales). The company is also a producer of low and medium voltage switchgears (approximately 33% of sales). Elektrobudowa holds a leading position in the domestic market in servicing power generators and industrial clients, successfully competing with ABB, Siemens, Elektromontaz. Polish financial institutions are major shareholders of Elektrobudowa.
- Investment story:** 1) Proven track record of earnings delivery: between 2003 and 2006 Elektrobudowa's net profit increased at CAGR of 71%. 2) We expect acceleration of investments among heavy industry players and power generators (modernisations plus construction of desulphurisation units) where Elektrobudowa is an unquestioned market leader in provisioning of electrical installations. 3) Beneficiary of EU-financed construction of environmental protection plants. 4) Successful entry into Russia's switchgears market: in 2006, Elektrobudowa doubled its sales in Russia to approximately US\$ 13m. The company plans to construct a switchgears production facility in Russia with target revenues of US\$ 50m in a few years. 5) Upside risk to management's earnings guidance of PLN 17.7m for 2007. 5) Elektrobudowa's management has set a target to increase sales by 50% by 2009 and further improve margins.
- Risks:** 1) Elektrobudowa is a niche player with an already dominant position in the domestic market – growth is dependant on the expansion of the niche. 2) Risks inherent with activity in Russia, where Elektrobudowa plans to launch manufacturing capacity.
- Valuation:** Elektrobudowa is trading at 2007E P/E ratio of 33.4x (based on management guidance), which may seem demanding. We note however, that the company is trading at a 25% discount to the average of tier1 construction companies (Budimex, Polimex, PBG) while management guidance implies EPS CAGR of 46% between 2004 and 2007.

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PLN 23.5
(Not Covered)

Energomontaz Polnoc

Construction & materials

Poland

Company Report

Waiting for huge power sector investments

WIG index

52,873

of shares

23.8m

MCAP

PLN 560m

US\$ 190m

Free float

PLN 193m

US\$ 66m

ENPO.WA / EPN PW

	2003	2004	2005	2006P
Sales (PLNm)	254.8	199.7	229.8	236.3
EBIT (PLNm)	(28.7)	10.7	(29.8)	8.2
Net profit (PLNm)	(48.5)	2.4	(31.5)	8.5
Equity (PLNm)	42.2	89.2	57.9	130.3
Net Debt (PLNm)	25.3	(0.2)	(3.6)	n.a.
EPS (PLN)	(2.04)	0.10	(1.32)	0.36
BVPS (PLN)	1.77	3.74	2.43	5.47
P/E (x)	neg.	236.5	neg.	65.8
EV/Sales (x)	2.3	2.8	2.4	2.2
EV/EBITDA (x)	neg.	34.8	neg.	40.9
P/BV (x)	13.3	6.3	9.7	4.3
Shareholder structure: Polimex Mostostal 65.6%, ING TFI 12.1%				

- Company description:** Energomontaz Polnoc (ENP) operates primarily in two market segments. First, it provides construction and assembly services for heating and power generation plants (ENP participated in the construction of 70% of the power plants operating in Poland). Second, ENP is Poland's leading construction contractor of oil & gas/chemical installations (the company is not a provider of technology). Polimex, with a 65.6% stake in ENP, is the company's strategic shareholder.
- Investment story:** The long-term prospects of ENP appear to be very optimistic, underpinned by significant planned investments in the power sector in Poland and Germany as well as large projects in the oil & gas sector (i.e. Lotos, PGNiG). However, in the short and medium run, the company's growth may be limited by delays in the launch of all of these projects, a situation that we already witnessed in 2006. On the M&A front (acquisitions were one target for the PLN 80m capital increase that took place in July 2006), ENP is likely to announce a transaction as early as in 1H 2007. The press has reported that management has indicated that it plans to double its net profit in 2007.
- Risks:** Delays in the kick off of sizable construction projects in power generation and oil & gas appear to be a major risk to ENP's rapid earnings growth story.
- Valuation:** If ENP were to deliver its unofficial guidance of net profit, the company would trade at 2007E P/E of 35x, a 25% discount to tier1> construction companies, and broadly in line with Elektrobudowa. We note, however, that there is a significant risk of non-delivery on the guidance, given likely delays in the launch of large projects.



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16 March 2007

PLN 5.88
(Not Covered)

Mostostal Export

Construction & materials

Poland

Company Report

For the brave only?

WIG index

52,873

of shares

44.6m

MCAP

PLN 262m

US\$ 89m

Free float

PLN 246m

US\$ 84m

MOEX.WA / MSX.PW

	2003	2004	2005	2006P
Sales (PLNm)	424.7	347.8	199.8	203.2
EBIT (PLNm)	(35.8)	(9.2)	(33.2)	(2.9)
Net profit (PLNm)	(37.6)	9.7	20.0	24.7
Equity (PLNm)	43.0	48.1	60.2	84.1
Net Debt (PLNm)	165.0	101.7	(3.5)	5.6
EPS (PLN)	(0.84)	0.22	0.45	0.56
BVPS (PLN)	1.0	1.1	1.4	1.9
P/E (x)	neg.	27.0	13.1	10.6
EV/Sales (x)	1.0	1.0	1.3	1.3
EV/EBITDA (x)	neg.	166.1	(10.0)	94.3
P/BV (x)	6.1	5.5	4.4	3.1
Shareholder structure: Michal Skapietrow 6.2%, Pioneer Pekao IM 5.6%				

- Company description:** Mostostal Export (ME) is active in two areas. First, the company is a general contractor operating in the construction markets of Poland, Germany and CIS countries. Second, ME acts as a residential property developer with projects located in Krakow and Warsaw. The company's major shareholders are Mr. Michal Skapietrow, the CEO (6.2% of shares and 7.5% of votes), and Mr. Bonn Niels (1.8% of shares and 8.0% of votes). The company has been criticised in the past for an unsatisfactory corporate governance policy.
- Investment story:** ME could potentially become a turnaround story, with earnings being driven by the residential property development segment and growing margins in construction activity. In property development, the company is currently executing two residential projects in Krakow through its 49%/51% joint venture with Gant, which has a total value of approximately PLN 430m, as well as one small project in Warsaw. Margins on those projects should be very strong, given 70% increase in property prices in Krakow in 2006 and the relatively low cost of the land that was acquired by ME several years ago. ME has booked earnings from development activity only following the transfer of the property to the client, which implies that earnings on the projects in Krakow should be booked in 2008 and 2009. In general construction activity, ME currently has the potential to generate revenues of approximately PLN 300-350m annually, with approximately 20% being recorded through operating as the general contractor of its own residential development projects. ME's management suggests that under the optimistic scenario, the company's earnings potential for 2007-2009 amounts to PLN 30m p.a., with the 2007 figure being driven by the likely one-off gain on the disposal of a plot of land near Warsaw, while 2008 and 2009 results will benefit from residential development projects.
- Risks:** 1) Weak earnings visibility after 2009 (following the completion of high margin development projects in Krakow), 2) claims for delays in execution of contract from the City of Warsaw amounting to PLN 73.9m and 3) poor corporate governance track record.
- Valuation:** Based on management's optimistic suggestions the company is trading at 2007-2009E P/E of approximately 10x.



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16 March 2007

PLN 37.99
(Not covered)

Mostostal Warszawa

Construction & materials

Poland

Company Report

Diversified player, but not cheap

WIG index

52,873

of shares

20m

MCAP

PLN 760m

US\$ 258m

Free float

PLN 381m

US\$ 129m

MOWA.WA / MSW PW

	2003	2004	2005	2006P
Sales (PLNm)	712.8	683.8	836.4	1,188.2
EBIT (PLNm)	(32.7)	(42.4)	(7.2)	23.5
Net profit (PLNm)	(31.3)	(45.2)	(29.8)	16.3
Equity (PLNm)	126.2	80.1	88.5	223.7
Net Debt (PLNm)	4.4	(31.8)	3.1	(5.1)
EPS (PLN)	(1.42)	(2.06)	(1.36)	0.74
BVPS (PLN)	5.74	3.64	3.64	10.17
P/E (x)	Neg.	Neg.	Neg.	46.6
EV/Sales (x)	1.1	1.1	0.9	0.6
EV/EBITDA (x)	Neg.	Neg.	70.5	17.6
P/BV (x)	6.0	9.5	9.5	3.4
Shareholder structure: Acciona 49.9%, PZU Pension Fund 16.9%, BZ WBK AIB AM 12.1%				



- Company description:** Mostostal Warszawa (MSW) is a diversified construction company operating in the residential, roads, environmental, industrial and power construction segments. Geographically, MSW is strong in the central and southern areas of Poland. MSW is both a general contractor and it owns a number of subcontracting subsidiaries. Acciona of Spain is an MSW strategic shareholder with a 49.9% stake.
- Investment story:** 1) Rapidly growing revenues: over the course of 2006, MSW has significantly increased its execution power (headcount grew by 600 workers) in preparation to expand business volumes. The company has targeted a PLN 1.8bn-1.9bn increase in sales in 2007, from PLN 1.2bn in 2006, claiming that the current backlog almost fully covers this plan. 2) Expected margins improvement: 2006 results were still weak at the operating level (the EBIT was overstated by real estate assets disposal) with an increase in costs (materials, wages) taking a toll on margins. MSW's management expects gradual margins recovery in 2007. The fact that MSW is not only a general contractor but also owns significant construction capacity gives it a competitive edge over pure general contractors in an environment of scarcity of construction workers. 3) The power engineering sector is likely to boom in 2008-2009 on the back of planned investments in Polish power plants. MSW is well prepared to capitalise on that boom.
- Risks:** MSW continues to operate in a quasi-holding structure, with MSW (a parent company) holding a controlling stakes in several entities. Efficiency and operational/financial control over all activities may be challenging under such a structure.

- Valuation:** MSW is trading at a reported (overstated by one-offs) 2006 EPS multiple of 46.6x, and management suggestions imply no significant decline in that ratio for 2007. As such, the stock offers virtually the same profile as a tier1 construction companies.

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Energomontaz Polnoc	No	No	No	No	No	No
Mostostal Export	No	No	No	No	No	No
Mostostal Warszawa	No	No	No	No	No	No

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