Deutsche Bank

22 August 2008

Polish construction

Soft landing ahead?

Tomasz Krukowski, CFA
Research Analyst
(48) 22 579 8732
tomasz.krukowski@db.com

Initiation of Coverage

Top picks	
PBG (PBGG.WA),PLN242.00	Buy
POL-AQUA (PQAA.WA),PLN50.10	Buy

Companies featured			
PBG (PBGG.WA),PLN242.00			**Buy**
	2007A	2008E	2009E
DB EPS (PLN)	7.60	11.23	14.53
P/E (x)	46.2	21.6	16.7
EV/EBITA (x)	45.1	15.3	11.1
Budimex (BMEX.WA),PLN82.40			**Hold**
	2007A	2008E	2009E
DB EPS (PLN)	0.59	3.36	4.15
P/E (x)	169.1	24.6	19.9
EV/EBITA (x)	75.8	14.3	10.6
Polimex (MOSD.WA),PLN5.45			**Sell**
	2007A	2008E	2009E
DB EPS (PLN)	0.21	0.28	0.31
P/E (x)	44.7	19.8	17.3
EV/EBITA (x)	30.5	13.6	12.1
POL-AQUA (PQAA.WA),PLN50.10			**Buy**
	2007A	2008E	2009E
DB EPS (PLN)	2.10	3.19	4.06
P/E (x)	36.3	15.7	12.3
EV/EBITA (x)	33.5	13.8	9.8

Buy PBG and Pol-Aqua, Sell Polimex, Hold Budimex
We are initiating coverage of PBG, Pol-Aqua, Polimex and Budimex with the following recommendations/target prices: PBG Buy/PLN 275, Pol-Aqua Buy/PLN 60, Polimex Sell/PLN 5.0 and Budimex Hold/PLN 85. Polish construction is unlikely to be totally immune to the economic slowdown, but EU-financed infrastructure investments should act as a safety buffer and provide a soft landing. We expect aggregate 3-year net profit CAGR of 39% and believe that Polish construction average multiples (2009E P/E ratio of 16.9.x) are again becoming attractive.

EU-financed infrastructure to hold back the slowdown?
With YTD output increasing by 16.3% YoY, Polish construction appears to show no signs of a slowdown as of now. However, we do expect some slowdown to come, driven by the residential, public and industrial segments. Infrastructure, for the development of which the EU has earmarked EUR 21.5bn in 2007-2013, should be a safety buffer and provide a soft landing.

We expect 3-year net profit CAGR of 39%
Companies' backlogs, which have exceeded 2007 aggregate revenues by 68%, appear to secure medium-term earnings, but past experience tells us that the earnings of construction companies tend to lag behind the economic downturn, while in the mid-run, the risk of receivable write-downs is rising. We expect aggregate 3-year net profit CAGR of 39%, with 108% for Budimex, 38% for Pol-Aqua, 36% for PBG and only 23% for Polimex. The decreasing momentum should be visible in all four companies.

Buy exposure to infrastructure, Sell residential, industrial and exports
In the expected challenging environment, we recommend buying companies with a high exposure to EU-financed projects (PBG, Pol-Aqua with infrastructure shares in 2008E revenues of 68% and 34%, respectively) and avoid exposure to residential, industrial and exports. We find that Polimex (Sell) is highly exposed to industrial and exports. We see Budimex's high infrastructure exposure as counterbalanced by the significant scale of its operations in residential and public segments.

Valuation multiples; having de-rated by 70%, we again deem them attractive
We derive all our target prices from DCF models: PBG – PLN 275 (Buy), Pol-Aqua – PLN 60 (Buy), Polimex – PLN 5.0 (Sell) and Budimex – PLN 85 (Hold). We present a peer comparison for illustrative purposes and note that despite the over 70% ratios derating since May 2007, our Polish construction universe trades at double-digit premiums to both Western European and emerging market peers. We argue that earnings growth rates (39% aggregate 3-year net profit CAGR) justify P/E ratios of 20.5x for 2008E and 16.9x for 2009E. We see delays in the launch of new infrastructure projects as a major macro risk to our somewhat positive scenario. Company specific risks to our calls include higher-than-provisioned-for losses on old contracts in acquired entities for PBG, delays in invoicing for Pol-Aqua and a higher-than-expected utilization rate in new manufacturing planned in 2010 for Polimex. (See company pages for individual company valuation and risks.)

Table of Contents

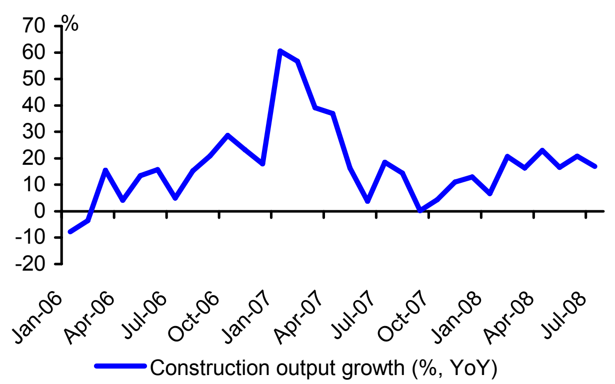
Polish construction outlook

Almost no signs of slowdown as of now…

Although Polish construction output increased by 16.3% YoY and companies' backlogs are very strong…

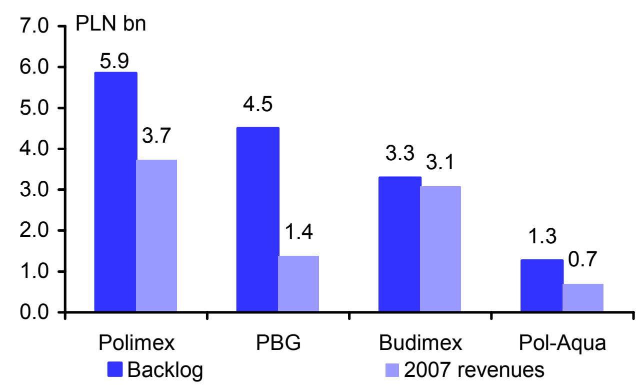
While the words "slowdown" and "downturn" have dominated headlines in the economic world recently, Polish construction appears to be an isolated island in that respect. Polish construction output increased by 16.9% YoY in July 2008 and by 16.3% YoY year to date. The construction business climate indexes continue to indicate a positive sentiment among industry players. The aggregate current backlog of the four largest WSE-listed construction companies exceeds the aggregate 2007 revenues by 68% (we acknowledge that part of the expansion is due to M&A).

Figure 1: Polish construction output increased by 16.3% YTD



Source: CSO

Figure 2: Companies' current backlogs significantly exceed 2007 revenues



Source: Company data

…but general downturn should also impact construction

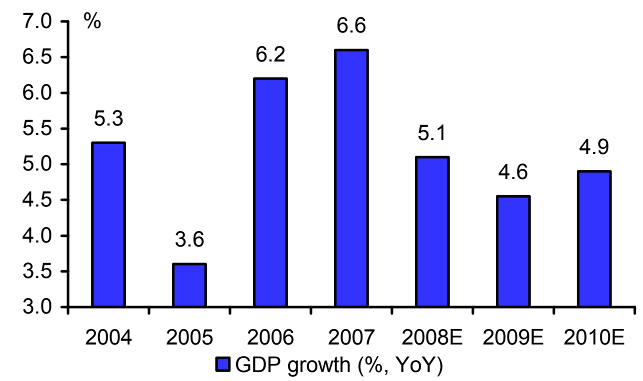
…we expect some slowdown, driven by industrial, public and residential segments

However, we do not believe that construction can be totally isolated from and immune to a slowdown in the surrounding economic activity. In recent years, Polish construction has showed a high correlation with fixed investment, though we expect the latter to decelerate from 17.6% in 2007 to 12.4% in 2008E and further to 10.0% in 2009E. Looking from a bottom-up perspective at the construction market we note that:

- In the industrial segment, many manufacturing companies are currently struggling with 1) significant sales growth deceleration (or even sales declines), and 2) margin pressure due to zloty appreciation against the euro, and have already declared cuts in capex, especially versus spending in previous years.
- In the public segment, rise in construction prices in recent years have made the budgets of many projects unrealistically low, leading to the cancellation or postponement of the project. The most noteworthy example of that is the cancellation of the EUR 1.9bn tender for the construction of the underground in Warsaw.
- In the residential development segment, recent data point to pre-sales declines in Poland's six largest metropolis (by 28% YoY in 2Q 2008) coupled with a surge in number of offered projects (by 108% YoY as of June 2008). As such, we expect developers to freeze launching construction of new projects and a contraction in residential development activity in 2009-2010.

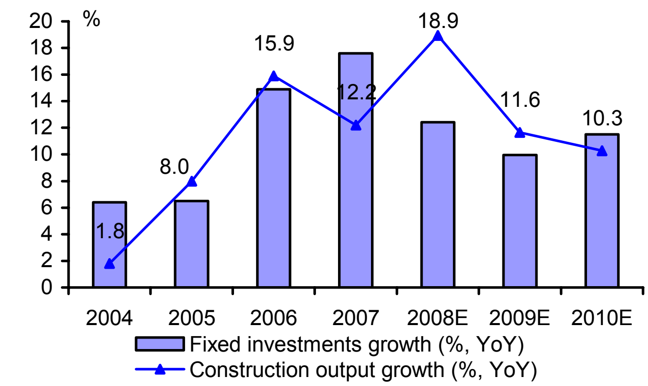
Against this backdrop, we expect growth in Polish construction output to decelerate from 18.9% in full year 2008E to 11.6% in 2009E and 10.3% in 2010E.

Figure 3: Poland's GDP growth to decelerate to below 5% in 2009-2010…



Source: Deutsche Bank

Figure 4: …with decelerating fixed investments undercutting construction activity



Source: Deutsche Bank

EU-financed infrastructure spending a safety buffer?

Infrastructure to be the major driving force…

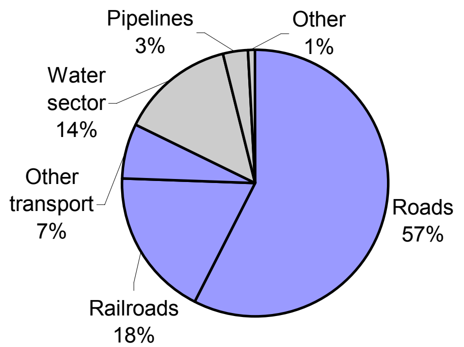
Note that, despite the general economic slowdown, we expect construction to be relatively robust, with growth rates in double digit territory in 2008E, 2009E and 2010E. In light of the expected deceleration in the industrial, public and residential segments, we expect infrastructure to be the major driving force.

…underpinned by EUR 21.5bn EU financing

The case for the Polish infrastructure development is made not just by the poor quality of existing infrastructure, but also because the European Union is financing the bulk of development costs. Under the approved EU budget for 2007-2013, Poland is to receive a total consideration of EUR 67.3bn in cohesion and structural funds, of which as much as EUR 26.2bn is planned to be spent on various construction work. The infrastructure segment (mainly roads and railroads), with EU allocation amounting to EUR 21.5bn, is set to be the major beneficiary.

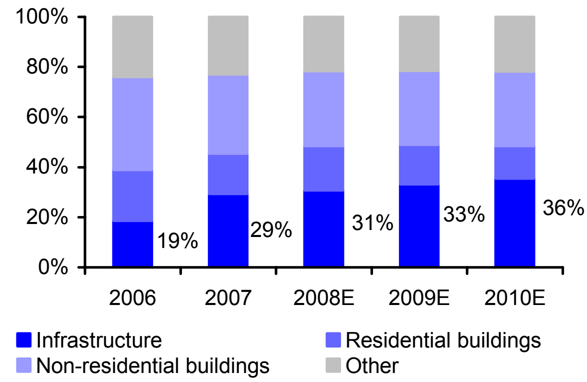
We expect the infrastructure construction market to grow at a CAGR of 21% between 2007 and 2010 and offset the expected slowdown in other market segments. In 2010 we expect infrastructure to account for 36% of the total Polish construction market, up from the 29% recorded in 2007.

Figure 5: EU allocated EUR 26.2bn for Polish construction in 2007 - 2013, mainly for infrastructure…



Source: Ministry of Regional Development

Figure 6: …which we expect to drive the market (structure of Polish construction market)



Source: Deutsche Bank estimates

Delays in new project as the major risk to our soft landing scenario…

The major risk to our still optimistic scenario for Polish construction (3-year CAGR of 13.6%) is a delay in the launch of EU-financed infrastructure projects. Recent reports in the Polish press suggest that such a scenario is likely given that Polish construction/project management law is not fully compliant with EU regulation. Failure on that front could result in the EU's refusing to finance specific infrastructure projects.

…but we note that the value of contracts signed in road construction YTD has already exceeded the total for 2007

Although we do not ignore that risk, we point out that utilization of the EU money is a priority for Poland's government. We note that as of June 2008, Poland had utilized 89% of funds that were allocated by the EU for 2004-2006 (with the effective deadline for spending at the end of 2008). We note that YTD the value of contracts signed in road construction has reached PLN 6.9bn (tenders for an additional PLN 2.9bn have been completed with the respective contracts to be signed shortly), already exceeding the figure for full year 2007 of PLN 6.2bn. We also note that construction of some motorway sections is being financed by companies which are not related to the state, which have been granted concession to operate them following construction.

Figure 7: Road construction contracts signed in 2007 and YTD 2008 (PLNm)

Contract type	2007	YTD 2008
Motor- and expressways	4,383	4,595
Localways	964	948
Bypasses	684	807
Other	218	577
TOTAL	**6,249**	**6,926**

Source: General Directorate for National Roads and Motorways

What do sector trends imply for earnings?

Medium-term earnings appear immune to a slowdown

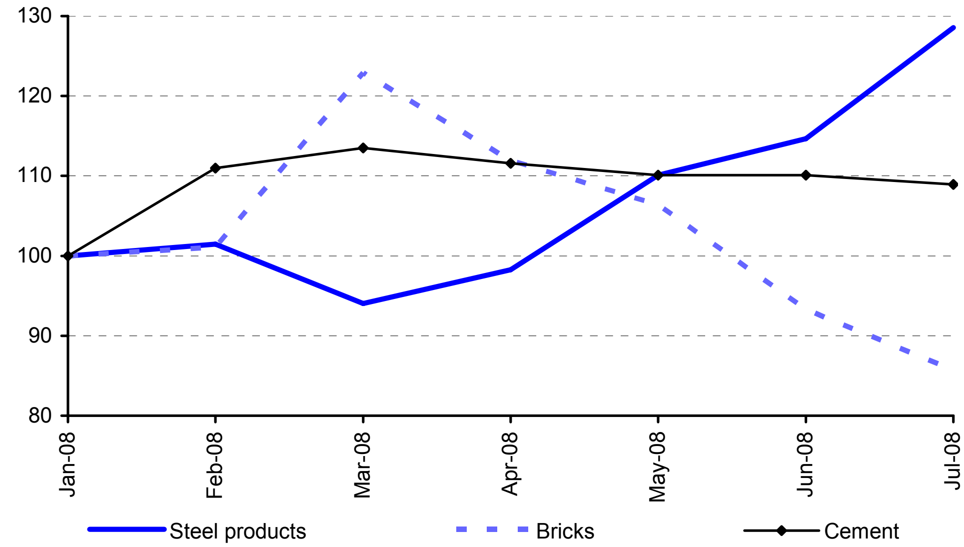
Solid backlogs appear to secure medium-term earnings…

Although a slowdown usually implies sales and margin contractions for corporates, construction companies appear to be different in that respect, at least in the medium run (i.e. in 2008 and 2009).

- While we expect construction market growth to decelerate in 2009, we forecast the aggregate revenues of the four companies in our universe (PBG, Polimex, Budimex, Pol-Aqua) to increase by 26% in 2008E and 18% in 2009E, with the visibility of those forecasts being relatively high, given the aggregate backlog exceeding reported revenues 2007 by 68%.

- On the gross margins front, we note that 1) construction companies have had relatively high pricing power recently, suggesting the current backlog is good quality, and 2) we view the recent trend of slight declines in building material prices (especially bricks and cement) as margin supportive.

Figure 8: Building material prices (rebased to 100)



Source: PBS

...but watch out for receivables write-down risk...

Risks: watch out for receivables write-downs

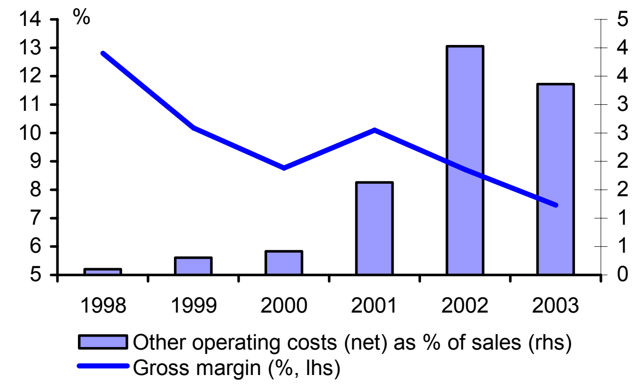
Liquidity dysfunction among corporates, a consequence of the economic slowdown, usually leads to an increased trade receivables collection period (as a mild consequence) or receivables write-downs (as a more severe one). Analyzing specific segments of the construction market, we believe there is a major risk of receivables write-downs in residential construction. This is because residential development in Poland has been predominantly financed by prepayments of the clients and a deceleration of pre-sales is likely to have a negative effect on the liquidity of residential property developers. Although we do not have detailed data on this, debt collection agencies cited in the Polish press report an increase of more than 40% in debt collection orders from the construction sector (source: *Gazeta Prawna*, 25 July 2008)

...and note that in construction earnings tend to lag behind a general slowdown

Examples from the past – construction companies' earnings lag behind the slowdown

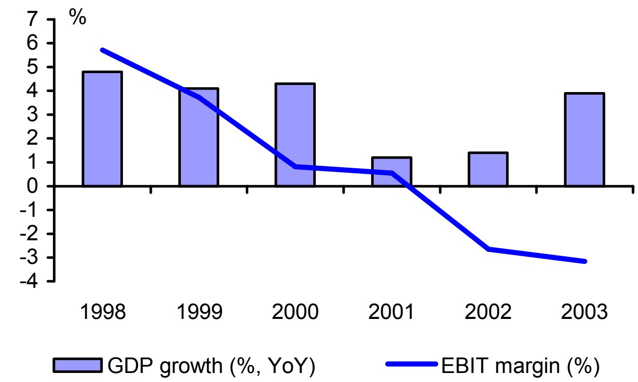
Lessons from the past appear to support our view that the reaction of construction companies to economic slowdown is a lagged one, with the major short-term risk being receivables write-downs. We looked at 2001 and 2002 (during which time Poland's GDP growth slowed to 1.2% and 1.4%, respectively and the construction market was in a recession) and aggregated the earnings of three sizeable companies at that time (Budimex, Mostostal Warszawa and Mostostal Zabrze). Our analysis shows that the companies did not see any deterioration on the gross margin front in either 2001 or 2002, which we attribute to the effect of a good quality backlog signed in more prosperous times. However, receivable write-downs, booked in the other operating costs line, more than doubled, pushing down the EBIT margin.

Figure 9: Gross margin showed resistance to the economic slowdown in 2001-2002, but receivable write-downs surged…



Source: Company data, Deutsche Bank estimates

Figure 10: …pushing EBIT margin into the red (charts below based on aggregate data for Budimex, Mostostal Warszawa and Mostostal Zabrze)



Source: CSO, Company data, Deutsche Bank estimates

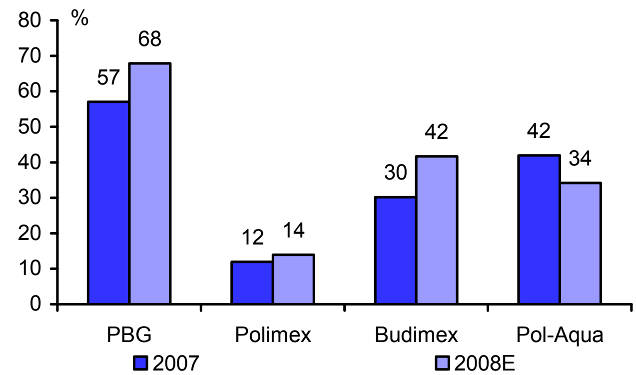
How to play the more challenging environment

Buy exposure to infrastructure, Sell exposure to residential, industrials and exports

Our analysis suggests that:

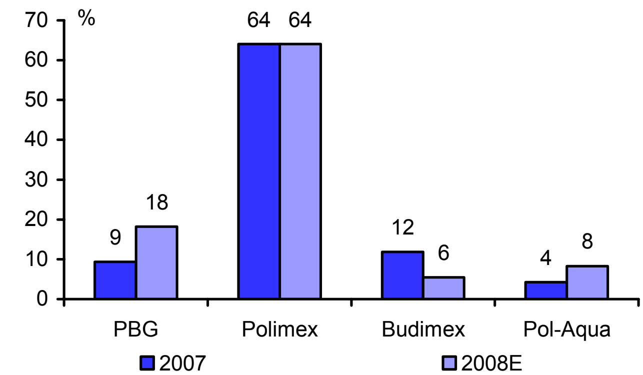
- The companies with the highest exposure to the infrastructure sector (including EU-financed projects in environmental construction) appear to be those best positioned to benefit from the expected market developments. This is not only because we expect continued robust growth in infrastructure, but also because there is almost no risk of not being paid for the work undertaken (state or local government budgets pay for this). We place PBG and Budimex, with 2008E expected share of infrastructure works in total sales of 68% and 42%, respectively, in this group.
- Companies with high exposure to Western European markets and to the industrial segment appear to be the most susceptible to the expected market slowdown. In that group we highlight Polimex with 33% of sales from exports in 2008E (mainly steel structure products) and 64% of sales to industrial clients (power generation, chemicals, oil & gas).
- Companies with high exposure to the residential segment appear to face the highest risk of receivables collection problems. Pol-Aqua and Budimex fall into this category, with 2008E expected share of residential construction in total revenues at 17% and - 20%, respectively. We note, however, that roughly half of Budimex's sales in residential construction are intra-group, to Budimex's 50%-owned residential development subsidiary.

Figure 11: Infrastructure as % of revenues



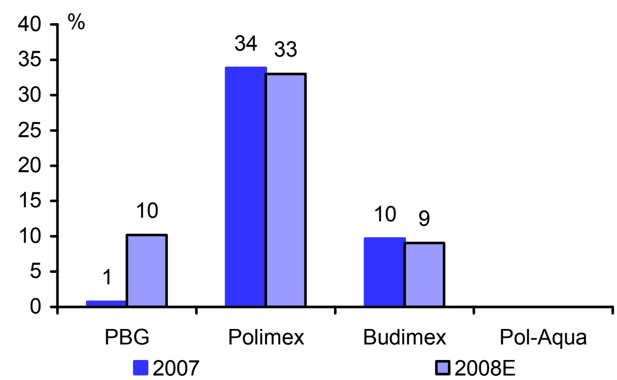
Source: Company data, Deutsche Bank estimates

Figure 12: Industrial construction as % of revenues



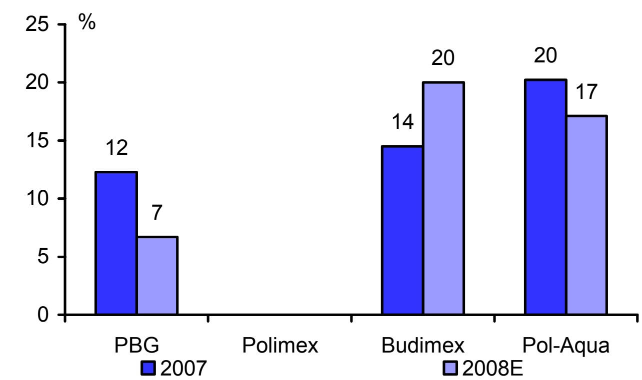
Source: Company data, Deutsche Bank estimates

Figure 13: Exports as % of revenues



Source: Company data, Deutsche Bank estimates

Figure 14: Residential construction as % of revenues



Source: Company data, Deutsche Bank estimates

Earnings forecasts

We forecast 3-year CAGR of 20% for aggregate sales…

Based on the expected macro development and company-specific issues, we expect the aggregate revenues of Budimex, PBG, Polimex and Pol-Aqua to increase at a 3-year CAGR of 20%, with momentum declining from 26% in 2008E to 15% in 2010E. PBG and Pol-Aqua are our leaders in top line expansion with the former benefiting from mega-projects in oil and gas, the latter from recently conducted M&A.

…and 39% for aggregate net profit

At the net profit level, we expect a 3-year aggregate CAGR of 39% for aggregate earnings. Budimex is the leader here (CAGR of 108%) but note 2007's low base and the finally materialising earnings recovery story. PBG and Pol-Aqua boast very sound 3-year net profit CAGRs of 36% and 38%, respectively. Polimex is the laggard (we expect 3-year EPS CAGR of only 23%) as we believe the company will be the most affected by the expected slowdown in construction activity. For a detailed discussion of our earnings forecasts for each company, please see the respective company sections of this report.

Figure 15: Earnings forecasts for Budimex, PBG, Polimex, Pol-Aqua

PLNm	2007	2008E	*%, YoY*	2009E	*%, YoY*	2020E	%, YoY	*3-year CAGR, %*
Sales								
Budimex	3,076	3,302	*7*	3,953	*20*	4,573	16	*14*
PBG	1,377	1,963	*43*	2,376	*21*	2,750	16	*26*
Polimex	3,720	4,681	*26*	5,329	*14*	6,138	15	*18*
Pol-Aqua	706	1,262	*79*	1,579	*25*	1,773	12	*36*
Total	**8,880**	**11,207**	***26***	**13,237**	***18***	**15,235**	**15**	***20***
EBIT								
Budimex	28	110	*294*	132	*20*	165	25	*80*
PBG	109	209	*91*	281	*35*	359	28	*49*
Polimex	160	238	*48*	273	*15*	321	17	*26*
Pol-Aqua	60	100	*67*	137	*36*	158	16	*38*
Total	**358**	**658**	***84***	**823**	***25***	**1,002**	**22**	***41***
Net profit								
Budimex	15	86	*469*	106	*24*	136	28	*108*
PBG	102	151	*48*	195	*29*	259	33	*36*
Polimex	100	133	*33*	152	*14*	188	23	*23*
Pol-Aqua	50	88	*75*	112	*27*	131	18	*38*
Total	**267**	**457**	***71***	**565**	***23***	**714**	**26**	***39***

Source: Company data, Deutsche Bank estimates

Valuation and recommendations

The sector average 12-month prospective P/E slumped from 59.3x in May to 16.5x currently.

Sector has experience a multiple de-rating of over 70% since the peak in May 2008…
Construction sector has been on the downward trend since May 2007, when euphoria related to granting Poland the EURO 2012 soccer championships pushed prices to peak levels. Our construction sector index (unweighted price index including Budimex, PBG, Polimex and Pol-Aqua) has declined by 47% since May 2008. The average 12-month prospective P/E has slumped by 72% from 59.3x to 16.5x currently. We note that, during this period of falling prices, the companies have mostly delivered on earnings expectations and the 2008-2009 outlook has not deteriorated.

Figure 16: Construction sector index* and 12-month prospective P/E at major turning points

Source: Deutsche Bank **NOTE: unweighted price index of including Budimex, PBG, Polimex and Pol-Aqua, rebased to 100*

…but still at a premium to international peers

Polish construction stocks are trading at double digit premiums to their peers…

Our Polish construction sector universe (including Budimex, PBG, Polimex and Pol-Aqua) is currently trading at average 2008E and 2009E P/E ratios of 20.5x and 16.9x, respectively. Those multiples, despite the severe de-rating, continue to imply significant premiums to Western European peers (95% and 59%) as well as some premiums to Emerging Markets companies (16% and 33%).

Figure 17: Polish construction sector: Domestic peer comparison

Company	Ticker	Price	MCAP	P/E (x)			EV/EBITDA (x)		
		PLN, 19 Aug	US$m	2008E	2009E	2010E	2008E	2009E	2010E
Budimex	BMEX.WA	82.0	926	24.4	19.8	15.4	11.7	8.9	6.2
PBG	PBGG.WA	231.0	1,372	20.6	15.9	12.0	12.6	9.4	7.2
Polimex	MOSD.WA	5.6	1,200	20.3	17.8	14.5	11.0	9.4	7.9
Pol-Aqua	PQAA.WA	50.8	617	15.9	12.5	10.6	10.5	7.7	6.3
Median				**20.5**	**16.9**	**13.2**	**11.4**	**9.2**	**6.8**
Premium/(Discount) to Western European peers (%)				*95*	*59*	*69*	*83*	*61*	*25*
Premium/(Discount) to Emerging Markets peers (%)				*16*	*33*	*28*	*22*	*39*	*33*

Source: Deutsche Bank estimates

…which we deem justified by superior growth rates

Are those premiums justified? We believe that, largely, they are. Firstly, the Western European construction market is recording negative output growth in 2008, while Poland's is expanding at a double digit rate. Secondly, the medium- and long-term outlook of the Polish construction market is well underpinned by the EU-financed infrastructure investments. We also note that companies operating in markets with booming infrastructure investments (e.g. China, India) enjoy similar multiples to the Polish market. On the other hand, we note that in bear market times there is a reluctance to pay high multiples even for high growth stories, a major downside valuation risk to Polish construction, in our view.

Figure 18: Construction sector: International peer comparison (priced as of 19 August)

Company	Ticker	Country	Curr.	Price (local)	MCAP (US$m)	Recc.	P/E (x) 2008E	P/E (x) 2009E	P/E (x) 2010E	EV/EBITDA (%) 2008E	EV/EBITDA (%) 2009E	EV/EBITDA (%) 2010E
Western European peers												
ACCIONA	ANA.MC	Spain	EUR	128.9	12,300	Buy	15.4	11.6	NA	6.2	5.4	NA
ACS	ACS.MC	Spain	EUR	30.4	14,793	Buy	8.7	7.9	7.8	7.3	6.9	6.7
BAUER AG	B5AG.DE	Germany	EUR	54.9	1,441	Buy	9.5	8.2	7.6	5.3	4.5	3.8
BILFINGER BERGER	GBFG.DE	Germany	EUR	44.7	2,406	Buy	11.2	8.4	7.8	4.6	3.6	3.4
FCC	FCC.MC	Spain	EUR	33.0	6,208	Hold	10.5	10.3	9.3	6.2	6.1	5.8
FERROVIAL	FER.MC	Spain	EUR	33.4	6,875	Buy	NM	377.1	NA	11.0	10.7	NM
HOCHTIEF	HOTG.DE	Germany	EUR	49.5	5,140	Hold	19.7	11.0	9.8	6.2	4.0	3.4
STRABAG	STRV.VI	Austria	EUR	41.8	7,039	Hold	17.9	14.5	13.2	6.8	5.9	5.4
TERNA S.A.	TERr.AT	Greece	EUR	6.6	449	Buy	8.8	15.4	10.3	5.1	7.2	5.8
YIT CORPORATION	YTY1V.HE	Finland	EUR	10.7	2,090	Buy	6.4	5.0	4.6	5.6	4.6	4.1
VINCI	SGEF.PA	France	EUR	36.9	28,394	Buy	12.2	11.3	0.0	7.0	6.5	NM
EIFFAGE	FOUG.PA	France	EUR	43.0	6,045	Hold	10.5	10.5	9.8	7.5	7.4	7.1
NCC	NCCb.ST	Sweden	SEK	83.5	1,401	Hold	6.4	8.4	NA	4.3	5.1	NA
SKANSKA	SKAb.ST	Sweden	SEK	81.3	5,274	Buy	9.1	10.7	0.0	3.7	4.0	NM
Median							**10.5**	**10.6**	**7.8**	**6.2**	**5.7**	**5.4**
Emerging Markets peers												
DAEWOO E&C	047040.KS	Korea	KRW	13,600.0	4,171	Hold	15.2	12.7	10.2	7.5	6.3	5.0
GS E&C	006360.KS	Korea	KRW	111,000.0	5,322	Buy	11.9	11.1	8.8	7.5	5.6	3.8
HYUNDAI DEV. CO.	012630.KS	Korea	KRW	46,450.0	3,380	Buy	17.7	8.0	NA	9.6	3.4	NA
IVRCL INFRA	IVRC.BO	India	INR	318.1	975	Sell	20.2	17.8	14.0	12.8	10.1	8.6
LANCO	LAIN.BO	India	INR	303.7	1,534	Sell	18.9	14.3	10.4	22.5	17.0	15.0
SAMSUNG ENGINEERING	028050.KS	Korea	KRW	70,800.0	2,672	Buy	15.8	12.4	10.2	10.6	6.8	5.1
WBHO	WBOJ.J	South Africa	ZAR	128.0	881	Buy	15.8	11.9	10.3	7.6	5.4	4.3
CHINA RAILWAY CONSTRUCTION	1186.HK	China	HKD	11.2	17,595	Buy	29.9	18.1	13.5	9.3	6.6	5.0
CHINA RAILWAY GROUP	0390.HK	China	HKD	5.4	15,515	Buy	32.8	19.1	14.6	9.1	6.6	5.4
Median							**17.7**	**12.7**	**10.3**	**9.3**	**6.6**	**5.1**
MEDIAN TOTAL							**13.7**	**11.3**	**9.8**	**7.3**	**6.1**	**5.1**

Source: Deutsche Bank estimates

Target prices based on DCF; two Buys, one Sell, one Hold

We used DCF to derive target prices

We use a 5-year DCF model to derive 12-month target prices for Budimex, PBG, Polimex and Pol-Aqua. Detailed assumptions of our valuation models are discussed in the respective company sections of this report.

Figure 19: Polish construction: target prices and recommendations

	Ticker	12M TP (PLN)	Price (PLN, 19 Aug)	Total return (%)	Recommendation
Budimex	BMEX.WA	85	82.0	4	HOLD
PBG	PBGG.WA	275	231.0	19	BUY
Polimex	MOSD.WA	5	5.6	-11	SELL
Pol-Aqua	PQAA.WA	60	50.8	18	BUY

Source: Deutsche Bank

Buy PBG with TP of PLN 275

PBG is our top pick within the Polish construction universe. Our 12-month target price of PLN 275 is 19% above the 19 August share price. In our view, the company is the best exposed in Poland to the inflow of EU funds and planned mega projects in oil and gas. PBG's current backlog already covers over 70% of our sales forecast through 2010. The stock is trading at a 2008E P/E ratio of 20.6x versus expected three-year EPS CAGR of 36%.

Buy Pol-Aqua with TP of PLN 60

Our alternative Buy is Pol-Aqua with a 12-month target price of PLN 60 (18% above the 19 August share price). Our positive stance is based on 1) the company's high exposure to the civil engineering market that is booming due to EU financing, 2) M&A-driven expansion into other construction markets (general, roads, building materials), and 3) an inexpensive valuation -- we expect 18% total return potential on a 12-month horizon and the stock is trading at a 2008E P/E of 15.9x vs. our expected three-year EPS CAGR of 38%.

Sell Polimex with TP of PLN 5.0

We recommend Selling Polimex (12-month target price of PLN 5.0, 11% below the 19 August share price). We view the company as being the most exposed, in our Polish construction universe, to the expected slowdown, as a result of its high reliance on exports and on industrial clients. We expect Polimex's earnings growth to decelerate from 33% in 2008E to 14% in 2009E. Our forecast of three-year EPS CAGR of 23%, the lowest in our construction universe, does not appear to be reflected in Polimex's valuation: 2008E P/E of 20.3x is in line with the sector averages.

Hold Budimex with TP of PLN 85

We initiate coverage of Budimex with a Hold recommendation and a 12-month target price of PLN 85 (4% above the 19 August share price). We believe Budimex's ongoing earnings recovery is priced in; we forecast 2008E net profit at PLN 86m, up 469% YoY (already reported 1H 2008 net profit accounts for 50% of our FY estimate). The stock is trading at 2008E and 2009E P/E ratios of 24.4x and 19.8x, implying a premium of 19% and 17%, respectively, to sector averages.

This page has been intentionally left blank

Emerging Europe Poland
Building and Construction Construction

22 August 2008

PBG

Reuters: **PBGG.WA** Bloomberg: **PBG PW**

Backlog already full while new mega projects are coming

Initiating with Buy and 12-month target price of PLN 275

We are initiating coverage of PBG with a Buy rating and 12-month target price of PLN 275. In our view, the company is best exposed within the sector in Poland for the inflow of EU funds as well as planned mega projects in oil and gas. PBG's current backlog already covers over 70% of our sales forecast through 2010. The stock is trading at 2008E P/E ratio of 20.6x versus expected 3-year EPS CAGR of 36%. PBG is one of our top picks within Polish construction universe. We see significant total shareholder return: Buy.

Backlog of PLN 4.5bn already covers over 70% of our sales forecast until 2010

PBG, with leading position in Poland's environmental and hydro construction, looks well placed to benefit from the EU-financed boom. We expect the new wave of tenders to kick off in 4Q, and PBG, with orders of nearly PLN 2bn in that market segment, is well positioned to cherry-pick the highest margin contracts. Additionally, the signing of a PLN 1.4bn contract in oil & gas has increased the company's total backlog to over PLN 4.5bn. In addition, we believe PBG could be the frontrunner to win PLN 1.1bn tender for an underground gas storage project, which should be completed in October.

We expect 3-year EPS CAGR of 36%

We forecast PBG to report 48% and 29% net profit growth in 2008E and 2009E to PLN 151m and PLN 195m, respectively. Completion of old contracts in the environmental division and the increased share of high-value-added oil and gas engineering should drive margins expansion.

DCF-based target price of PLN 275

Our 12-month target price of PLN 275 is based on DCF model. PBG is trading at 2008E P/E and EV/EBITDA of 20.6x and 12.6x, respectively, broadly in line with sector averages. We believe the stock deserves a premium reflecting seemingly higher earnings visibility and stability. We see delays in launching new EU-financed projects as a major macro risk, while the potential of higher losses than have been provisioned for on old contracts in acquired entities is a major company specific risk.

Forecasts and ratios

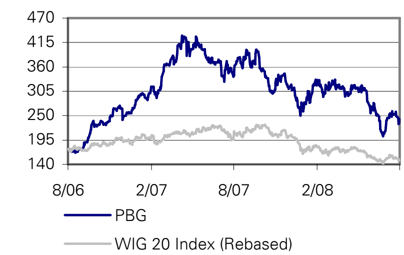
Year End Dec 31	2007A	2008E	2009E	2010E
Revenue (PLNm)	1,377	**1,962**	2,376	2,750
EBITDA (PLNm)	138	**242**	315	394
EBITA (PLNm)	109	**209**	281	359
Net Income (PLNm)	102	**151**	195	259
EPS (PLN)	7.60	**11.23**	14.53	19.31
P/E (DB EPS) (x)	46.2	**20.6**	15.9	12.0
EV/EBITDA (x)	35.7	**12.6**	9.4	7.2
Yield (%)	0.0	**0.0**	0.0	0.0

Source: Deutsche Bank estimates, company data

Buy

Price at 19 Aug 2008 (PLN)	**231.00**
Price Target (PLN)	**275.00**
52-week range (PLN)	**399.00 - 203.50**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*12.2*	*-22.7*	*-28.4*
WIG 20 Index	*-0.9*	*-13.3*	*-24.0*

Stock data

Market Cap (PLNm)	**3,102.3**
Market Cap (US$m)	**1,394.2**
Free float (%)	**67**
WIG 20 Index	**2,554.7**

Key indicators (FY1)

ROE (%)	**15.5**
Book value/share (PLN)	**88.8**
Price/book (x)	**2.6**
Net interest cover (x)	**14.2**
EBIT margin (%)	**10.6**

Model updated:04 February 2008

Running the numbers

Emerging Europe

Poland

Construction

PBG

Reuters: PBGG.WA Bloomberg: PBG PW

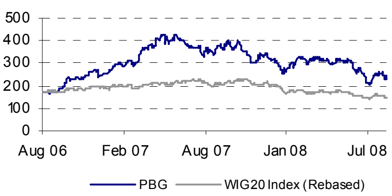
Buy

Price (19 Aug 08)	PLN 231.00
Target price	PLN 275.00
52-week Range	PLN 203.50 - 399.00
Market Cap (m)	PLNm 3,102 USDm 1,394

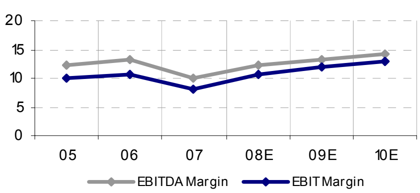
Company Profile

PBG is a construction company with a leading position in Poland in 1) oil & gas engineering (extraction, transmission and storage facilities), 2) environmental construction (water and sewage systems) and 3) hydro-construction (dams, storage reservoirs). PBG is also entering civil infrastructure segment (mainly roads). High specialization as well as focus on value added engineering works make PBG on of the highest-margin player within Polish construction universe. PBG is also very well exposed to benefit from the inflow of EU cohesion and structural funds to Poland.

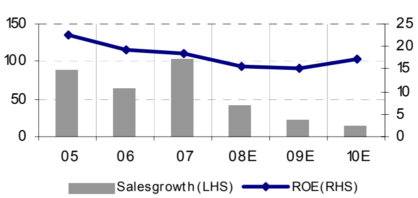
Price Performance



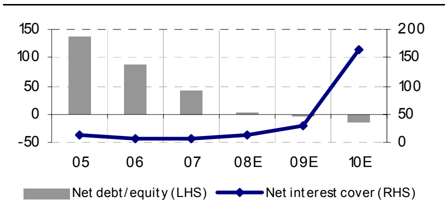
Margin Trends



Growth & Profitability



Solvency



Tomasz Krukowski, CFA
+48 22 579-8732 tomasz.krukowski@db.com

Fiscal year end 31-Dec	2005	2006	2007	2008E	2009E	2010E
Financial Summary						
DB EPS (PLN)	3.43	4.34	7.60	11.23	14.53	19.31
Reported EPS (PLN)	3.43	4.34	7.60	11.23	14.53	19.31
DPS (PLN)	0.00	0.00	0.00	0.00	0.00	0.00
BVPS (PLN)	16.9	30.5	55.7	88.8	103.3	122.6
Weighted average shares (m)	11	12	13	13	13	13
Average market cap (PLNm)	619	2,004	4,713	3,102	3,102	3,102
Enterprise value (PLNm)	845	2,320	4,928	3,046	2,971	2,824
Valuation Metrics						
P/E (DB) (x)	17.2	38.4	46.2	20.6	15.9	12.0
P/E (Reported) (x)	17.2	38.4	46.2	20.6	15.9	12.0
P/BV (x)	4.97	8.42	5.51	2.60	2.24	1.88
FCF Yield (%)	nm	nm	nm	nm	nm	2.1
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	2.1	3.4	3.6	1.6	1.3	1.0
EV/EBITDA (x)	16.9	26.2	35.7	12.6	9.4	7.2
EV/EBIT (x)	20.5	32.2	45.1	14.6	10.6	7.9
Income Statement (PLNm)						
Sales revenue	**409**	**674**	**1,377**	**1,963**	**2,376**	**2,750**
Gross profit	**80**	**133**	**214**	**360**	**462**	**564**
EBITDA	**50**	**89**	**138**	**242**	**315**	**394**
Depreciation	9	17	29	33	34	35
Amortisation	0	0	0	0	0	0
EBIT	**41**	**72**	**109**	**209**	**281**	**359**
Net interest income(expense)	-4	-12	-21	-15	-9	-2
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	8	10	56	18	0	0
Profit before tax	**45**	**70**	**144**	**212**	**272**	**357**
Income tax expense	8	15	27	40	52	68
Minorities	1	3	15	21	26	30
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**36**	**52**	**102**	**151**	**195**	**259**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**36**	**52**	**102**	**151**	**195**	**259**
Cash Flow (PLNm)						
Cash flow from operations	**-97**	**-98**	**-150**	**-109**	**22**	**107**
Net Capex	-142	-106	-106	-39	-36	-41
Free cash flow	**-238**	**-204**	**-256**	**-149**	**-14**	**65**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0
Net inc/(dec) in borrowings	258	54	340	-200	0	0
Other investing/financing cash flows	18	120	275	441	115	110
Net cash flow	**38**	**-31**	**359**	**93**	**101**	**176**
Change in working capital	*-27*	*-31*	*-113*	*-109*	*-77*	*-69*
Balance Sheet (PLNm)						
Cash and other liquid assets	82	51	410	503	604	779
Tangible fixed assets	177	266	335	341	343	349
Goodwill/intangible assets	10	77	281	281	281	281
Associates/investments	30	30	134	134	134	134
Other assets	367	621	1,129	1,598	1,929	2,229
Total assets	**666**	**1,045**	**2,289**	**2,857**	**3,291**	**3,773**
Interest bearing debt	332	385	725	525	525	525
Other liabilities	150	281	781	1,084	1,297	1,490
Total liabilities	**482**	**666**	**1,507**	**1,609**	**1,822**	**2,015**
Shareholders' equity	178	367	748	1,193	1,388	1,647
Minorities	7	12	35	56	81	111
Total shareholders' equity	**184**	**379**	**783**	**1,248**	**1,469**	**1,758**
Net debt	*250*	*334*	*315*	*22*	*-78*	*-254*
Key Company Metrics						
Sales growth (%)	89.1	65.1	104.2	42.5	21.1	15.8
DB EPS growth (%)	117.8	26.6	75.2	47.7	29.4	33.0
EBITDA Margin (%)	12.3	13.1	10.0	12.3	13.3	14.3
EBIT Margin (%)	10.1	10.7	7.9	10.6	11.8	13.0
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0
ROE (%)	22.5	19.2	18.3	15.5	15.1	17.1
Capex/sales (%)	34.7	15.7	7.7	2.0	1.5	1.5
Capex/depreciation (x)	16.0	6.4	3.7	1.2	1.1	1.2
Net debt/equity (%)	135.5	88.0	40.2	1.8	-5.3	-14.5
Net interest cover (x)	11.7	6.2	5.2	14.2	30.9	163.8

Source: Company data, Deutsche Bank estimates

Investment thesis

Outlook

We rate PBG a Buy. Our positive stance is based on the valuation (we expect double-digit total shareholder return on a 12-month basis) and bright earnings outlook (we forecast 3-year EPS CAGR of 36%). PBG is a leader in environmental and hydro construction in Poland; these two market segments are currently booming on the projects financed by the EU cohesion and structural funds. Moreover, under the 2007-2013 EU budget, Poland's environmental and hydro construction is to receive EUR 3.6bn for new projects, which we expect to sustain the growth in the market. PBG is also well-positioned to benefit from the planned investments in oil & gas sector, as an entity with seemingly the best track record in the Polish market. Recently, PBG signed a PLN 1.4bn contract with Polish Oil and Gas and we note that other projects of similar size are planned.

Valuation

Our 12-month target price of PLN 275 for PBG is based on a 5-year discounted cash flow (DCF) analysis. Major assumption to our DCF are cost of equity of 13.6% and WACC of 9.7%, both derived from CAPM using risk free rate of 6.5%, equity risk premium of 5.0% and unlevered fundamental beta of 0.8x (Damodaran industry average). We use terminal growth rate of 4.7%, calculated by multiplying the company's reinvestment rate and ROIC.

For an illustrative purpose, we also present peer comparison. PBG is trading broadly in line with its peers based on 2008E P/E and EV/EBITDA. We believe the company deserves a premium reflecting 1) above average expected earnings momentum, 2) highest earnings visibility (highest backlog to 2008E revenues ratio), and 3) seemingly highest earning stability (highest operating margins imply lowest operating leverage).

Risks

We see several risks to our earnings and valuation of PBG. Risks on the macro side include delays in launching new environmental and hydro-construction projects. We note that although the financing in most cases is secured by the EU funds, the projects tend to get delayed due to imperfections in Poland's construction law and procurement procedures. Looking at company specific risks, we point out that in recent years PBG has acquired a few entities with backlogs of loss-making contracts. Although the potential losses were written off, we note that some of those contracts are not yet completed and the actual losses on them may be higher than created provisions.

Earnings outlook & valuation

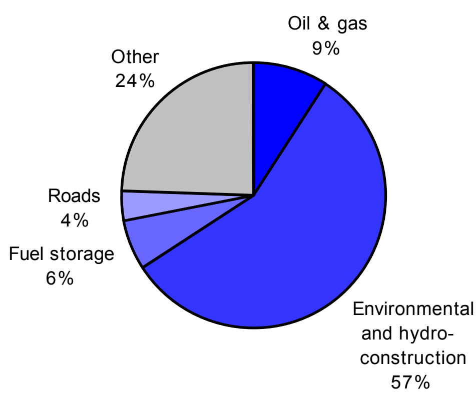
Key business areas

Market leader in environmental and hydro construction, as well as oil & gas engineering

PBG is an engineering and construction company, specializing in two market segments: oil & gas construction (leading position in Poland in crude oil and natural gas extraction facilities, storage facilities and pipelines) and environmental and hydro construction (environmental protection plants, water and sewage systems, water reservoirs). We expect the two market segments to account for 9% and 57% of the company's sales in 2008.

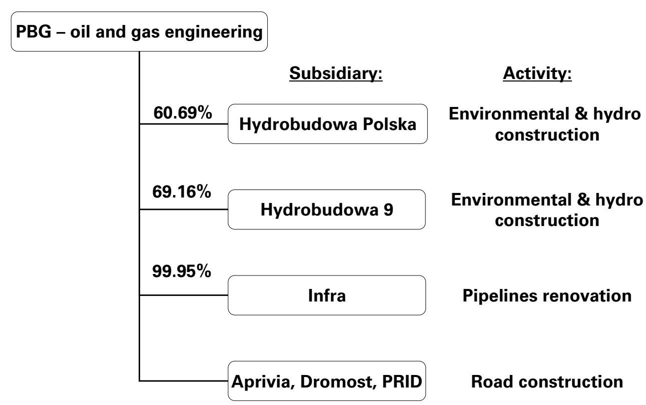
PBG's revenues have been growing at a CAGR of 85% between 2004 and 2007 mainly due to the acquisition in environmental construction. In this market segment, the company operates mainly through its subsidiaries Hydrobudowa Polska, Hydrobudowa 9 and Infra. The competence in oil and gas lies with the parent company.

Figure 20: PBG: 2008E revenues structure



Source: Deutsche Bank estimates

Figure 21: PBG group structure (major subsidiaries)



Source: PBG, Deutsche Bank estimates

Earnings drivers

1. Inflow of EU money into environmental construction and infrastructure

Hydro construction is to receive EUR 3.6bn for new projects between 2007 and 2013 from EU

PBG is well-positioned to benefit from the EU money inflow to Poland due to its high exposure (57% of sales in 2008E) to the environmental and hydro construction segment. Hydro construction started to boom around 2005, when the construction of the projects financed from the funds allocated to Poland for the period of 2004-2006 were launched. We expect this boom to continue, as Poland's environmental and hydro construction segment is to receive EUR 3.6bn for new projects under the 2007-2013 EU budget.

Owing to prospects for the infrastructure segment (EUR 21.5bn allocated to Poland under the 2007-2013 EU budget), PBG has decided to enter the road construction business, focusing on regional roads. The expansion is driven by M&As (three entities are already acquired) with PBG targeting to achieve revenues of PLN 0.5bn in three years.

2. Restructuring of acquired entities

Full earnings power of 2005-2007 acquisitions only in 2009

In 2005-2007, PBG acquired a few entities operating in the environmental construction segment (the largest are Hydrobudowa Polska are Hydrobudowa 9) and many of them at that time were in a financially distressed situation, straggling with liquidity problems and backlog of loss-making contracts. As restructuring and backlog roll-over usually takes two years, the

One contract for 1.4bn in oil has already been secured; another contract for PLN 1.1bn is likely

3. Contracts with PGNiG in oil & gas

PBG, with leading position in the oil and gas engineering segment in Poland and a track record of successfully completing numerous projects in that market segment, appears to be the best exposed to benefit from the big capex plans of PGNiG in the area of oil and gas extraction, transmission and storage. Recently, PBG, as a consortium leader, signed a PLN 1.4bn contract for the construction of crude oil extraction facilities, LMG, in western Poland. The other big project, for which we believe PBG could be a frontrunner, is the construction of natural gas storage near Wierzchowice. PBG, as the only company participating in the tender, placed its offer amounting to PLN 1.1bn. The tender is expected to be completed by October, though we note that there have been delays on that front in the past.

Earnings forecasts

Order backlog amounts to PLN 4.5bn and covers 72% of our revenues projections from now till 2010

Revenues expansion to decelerate…

We expect PBG's revenues to increase by 43% YoY to PLN 1,963m in 2008E, 21% to PLN 2,376m in 2009E and by 16% to PLN 2,750m in 2010E. Following recent signings of new contracts, the company's order backlog amounts to PLN 4.5bn and covers 72% of our revenues projections from now till 2010. Looking at particular market segments, we expect environmental and hydro construction to generate stable revenues in 2008E – 2010E at around PLN 1.1bn annually, with growth being driven by oil and gas engineering (LMG contract with PGNiG) and road construction.

Figure 22: PBG: Revenues forecasts

PLNm	2006	2007	2008E	2009E	2010E
Oil & gas engineering	117	129	208	358	672
of which LMG contract with PGNiG			*50*	*200*	*500*
Environmental and hydro-construction	461	756	1,121	1,181	1,054
Fuel storage	51	192	120	130	142
Other	45	300	514	707	882
of which road construction			*100*	*150*	*300*
Total	**674**	**1,377**	**1,963**	**2,376**	**2,750**

Source: PBG, Deutsche Bank estimates

Completion of old contracts in the environmental division and increased share of high value-added oil and gas engineering should drive margins expansion

…but margins should improve

We forecast PBG's EBIT margin to widen from 7.9% in 2007 to 10.6%, 11.8% and 13.0% in 2008E, 2009E and 2010E, respectively. We see two major reasons for margin improvement:

- PBG's subsidiaries operating in environmental and hydro construction (Hydrobudowa Polska, Hydrobudowa 9) should demonstrate their full earnings power only in 2009E, when the results will no longer be negatively affected by loss-making contracts signed before the entities were acquired by PBG.
- The contracts in oil and gas engineering generate above average margins and based on the already signed contracts, we expect the share of this market segment in PBG's total revenues to increase from 9% in 2007 to 24% in 2010E

We forecast 48%, 29% and 33% net profit growth in 2008E, 2009E and 2010E, respectively

We expect 3-year EPS CAGR of 36%, but risks appear to be on the upside

We forecast PBG's net profit to increase by 48% YoY to PLN 150.8m in 2008E. Although our forecast exceeds the company's official guidance by 6%, PBG's management has already suggested the upgrade. In 2009 and 2010, we forecast 29% and 33% increase in net profit to PLN 195.1m and PLN 259.4m, respectively. Risks appear to be on the upside, as our forecast does not incorporates PBG's potential success in securing the PLN 1.1bn project for the construction of gas storage facility as well as potential contracts from KRI, an affiliate of PBG which is planning to expand in the liquefied natural gas distribution business.

Figure 23: PBG: Earnings forecasts

PLNm	2006	2007	2008E	%, YoY	2009E	%, YoY	2010	%, YoY
Sales	674.3	1,376.8	1,962.5	*43*	2,375.8	*21*	2,750.2	*16*
Gross profit (after D&A)	116.1	185.0	327.1	*77*	428.7	*31*	529.3	*23*
Gross margin (%)	*17.2*	*13.4*	*16.7*	-	*18.0*	-	*19.2*	-
EBIT	72.0	109.4	208.8	*91*	281.4	*35*	358.8	*28*
EBIT margin (%)	*10.7*	*7.9*	*10.6*	-	*11.8*	-	*13.0*	-
Pre-tax profit	69.9	144.1	212.1	*47*	272.3	*28*	356.6	*31*
Net profit	52.2	102.1	150.8	*48*	195.1	*29*	259.4	*33*

Source: PBG, Deutsche Bank estimates

Valuation and recommendation: Buy with 12M TP of PLN 275

DCF model

Our DCF model puts 12-month target price at PLN 275

We have developed a 5-year DCF model to arrive at a 12-month target price for PBG. The major assumptions are as follows:

- We forecast PBG's revenues to grow at a CAGR of 19% and EBIT of 32% in 2008E-2012E. We forecast an average EBIT margin of 12.5% in the respective period.
- Our terminal growth rate is 4.7%. We calculated this on the basis of the following formula: Terminal growth rate = Reinvestment rate x ROIC
- We use cost of equity of 13.6% and WACC of 9.7%. We used CAPM to achieve those values, using risk free rate of 6.5%, equity risk premium of 5.0% and unlevered beta of 0.8x (Damodaran industry average).

Based on the above, we arrived at a 12-month target price of PLN 275 for PBG. With expected total shareholder return of 19%, we rate PBG as a Buy.

Figure 24: PBG: DCF model

PLNm	2008E	2009E	2010E	2011E	2012E
Revenues	1,962.5	2,375.8	2,750.2	3,029.6	3,260.4
EBIT	208.8	281.4	358.8	409.6	433.2
Cash taxes on EBIT	37.5	50.0	67.3	81.0	90.6
NOPAT	171.3	231.4	291.5	328.6	342.5
Depreciation	33.0	33.7	34.8	36.5	38.9
Change in operating WC	196.3	138.5	125.5	93.6	77.4
Capital expenditure	39.3	35.6	41.3	45.4	52.2
Net investment	202.5	140.4	132.0	102.6	90.6
Free cash flow	(31.2)	91.0	159.5	226.0	251.9
WACC (%)	9.7				
PV FCF 2008E-2012E	482				
Terminal growth (%)	4.7				
Terminal Value (TV)	5,205				
PV TV	3,274				
Total EV	3,756				
Net debt (Jan 2008)	315				
Minority interest	421				
Equity value	3,020				
Number of shares (m, fully diluted))	13.4				
Value per share (PLN, 1 Jan 2008)	225				
Month	19.0				
12-month target price	275				
Revenue growth	42.5	21.1	15.8	10.2	7.6
EBIT growth (%)	90.9	34.8	27.5	14.1	5.8
NOPAT growth (%)	97.7	35.1	26.0	12.7	4.3
FCF growth (%)	n.m.	m.m.	75.3	41.6	11.5
EBIT margin (%)	10.6	11.8	13.0	13.5	13.3
NOPAT margin (%)	8.7	9.7	10.6	10.8	10.5
Capex/Revenues (%)	2.0	1.5	1.5	1.5	1.6
Change in WC/Revenues (%)	10.0	5.8	4.6	3.1	2.4
Change in WC/Change in revenues (%)	33.5	33.5	33.5	33.5	33.5

Source: Deutsche Bank estimates

Peer comparison

PBG is trading at 2008E P/E of 20.6x, broadly in line with its sector peers, while we believe the stock deserves a premium

PBG is trading at 2008E P/E and EV/EBITDA of 20.6x and 12.6x, respectively, broadly in line with the average for our Polish construction universe. However, we believe that PBG deserves a premium in multiples for seemingly 1) highest earnings visibility (highest backlog to 2008E revenues ratio), 2) highest earning stability (highest operating margins imply lowest operating leverage), and 3) upside risks associated with being a frontrunner to win the over PLN 1.1bn contract from Polish Oil and Gas. PBG's expected 3-year EPS CAGR of 36%, implying 2008E PEG ratio of 0.6x, suggests that earnings growth fully justifies current valuation multiples.

Figure 25: PBG: Domestic peer comparison

(Priced as at 19 August 08)	Ticker	Recc.	Price	MCAP	P/E (x)			3-year EPS	EV/EBITDA (x)		
			(PLN)	(US$m)	2008E	2009E	2010E	CAGR (%)	2008E	2009E	2010E
Budimex	BMEX.WA	HOLD	82.0	926	24.4	19.8	15.4	108	11.7	8.9	6.2
PBG	**PBGG.WA**	**BUY**	**231.0**	**1,372**	**20.6**	**15.9**	**12.0**	**36**	**12.6**	**9.4**	**7.2**
Polimex	MOSD.WA	SELL	5.6	1,200	20.3	17.8	14.5	23	11.0	9.4	7.9
Pol-Aqua	PQAA.WA	BUY	50.8	617	15.9	12.5	10.6	38	10.5	7.7	6.3
Median					**20.5**	**16.9**	**13.2**	**37**	**11.4**	**9.2**	**6.8**
PBG's Premium/(Discount), %					*1*	*-6*	*-9*	*-*	*11*	*3*	*7*

Source: Deutsche Bank estimates

Appendix: Capital history and shareholder structure

Mr. Jerzy Wisniewski, PBG's founder and CEO, holds 33.5% of share capital and 50.2% voting rights

PBG went for an initial public offering on the WSE in July 2004, issuing 3m of new shares at PLN 32. Since then, the company has made two capital increases: in early 2006 and early 2007, raising PLN 138m (1.5m shares at PLN 92/share) and PLN 350m (1.4m shares at PLN 250/share), respectively. Mr. Jerzy Wisniewski, PBG's founder and CEO, remains the company's major shareholder controlling 33.5% of share capital and 50.2% voting rights.

Figure 26: PBG: Capital history

Date	Series	No. of shares	Issue price (PLN)	Total no. of shares outstanding	Comment
Jan-04	A,B	7,200,000	1.00	7,200,000	conversion to plc
Jul-04	C	3,000,000	32.00	10,200,000	IPO
Jul-04	D	330,000	1.12	10,530,000	motivation plan
Mar-06	E	1,500,000	92.00	12,030,000	rights issue
Mar-07	F	1,400,000	250.00	13,430,000	rights issue

Source: PBG

Figure 27: PBG: Shareholder structure

Shareholder	No. of shares	As % of total	No. of voting rights	As % of total
Mr. Jerzy Wisniewski	4,495,054	33.5	8,990,108	50.2
ING NN Pension Fund	912,991	6.8	912,991	5.1
BZWBK Mutual Fund	899,265	6.7	899,265	5.0
Other	7,122,690	53.0	7,122,690	39.7
Total	**13,430,000**	**100.0**	**17,925,054**	**100.0**

Source: PBG

Emerging Europe Poland
Building and Construction Construction

22 August 2008

Polimex

Reuters: **MOSD.WA** Bloomberg: **PXM PW**

Too much slowdown exposure

Initiating coverage with Sell and 12-month target price of PLN 5.0
We initiate coverage of Polimex with a Sell, and a 12-month target price of PLN 5.0. We view the company as being the most exposed in our Polish construction universe to the expected slowdown, owing to its high reliance on exports and on industrial clients. We expect Polimex's earnings growth to fall from 33% in 2008 to 14% in 2009. Our 3-year EPS CAGR forecast of 23%, the lowest in our construction universe, appears not to be reflected : 2008E P/E of 20.3x, in line with the sector average. We see significant downside potential: Sell.

Only short-term earnings perspective appears to be secured
While Polimex's PLN 5.85bn backlog appears to secure the company's short-term earnings perspective, we see some dark clouds on the horizon. First, exports account for one third of Polimex's sales, while Western European markets are already witnessing negative growth in construction. Second, we expect industrial clients, which in total account for ca. 60% of Piolimex's sales, to downsize their capex plans due to weakening demand.

We expect 3-year EPS CAGR of 23%, the lowest in our construction universe
We forecast Polimex's net profit to increase by 33% to PLN 133m in 2008 but the growth to decelerate to 14% to PLN 152m. Opening of a new capacity in the manufacturing segment should fuel growth in 2010: we expect 23% YoY to PLM 188m, but overall, our forecast of 3-year EPS CAGR of 23% places Polimex at the end of our universe, 14 percentage points below the sector average.

DCF-based target price of PLN 5.0
Our 12-month target price of PLN 5.0 is based on DCF model. Polimex is currently trading at 2008E P/E and EV/EBITDA of 20.3x and 11.0x, broadly in line with sector averages, while we believe inferior earnings growth prospects demand a discount. On the macro side, major upside risks to our negative stance on the stock include lack of slowdown in investments in Poland and upturn in construction activity in Western Europe. Looking at company-specific issues, we view higher-than-expected utilization rate of 50% at new manufacturing plant in 2010 as the major upside risk.

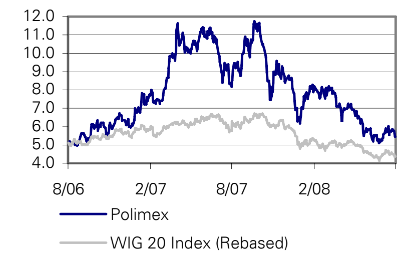
Forecasts and ratios				
Year End Dec 31	2007A	**2008E**	2009E	2010E
Revenue (PLNm)	3,720	**4,681**	5,329	6,138
EBITDA (PLNm)	205	**302**	359	421
EBITA (PLNm)	160	**238**	273	321
Net Income (PLNm)	100	**133**	152	188
EPS (PLN)	0.21	**0.28**	0.31	0.39
P/E (DB EPS) (x)	44.7	**20.3**	17.8	14.5
EV/EBITDA (x)	23.8	**11.0**	9.4	7.9
Yield (%)	0.0	**0.0**	0.0	0.0

Source: Deutsche Bank estimates, company data

Sell

Price at 19 Aug 2008 (PLN)	**5.61**
Price Target (PLN)	**5.00**
52-week range (PLN)	**11.75 - 5.10**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*3.4*	*-20.3*	*-33.4*
WIG 20 Index	*-0.9*	*-13.3*	*-24.0*

Stock data

Market Cap (PLNm)	**2,712.0**
Market Cap (US$m)	**1,218.8**
Free float (%)	**100**
WIG 20 Index	**2,554.7**

Key indicators (FY1)

ROE (%)	**12.8**
Book value/share (PLN)	**2.3**
Price/book (x)	**2.5**
Net interest cover (x)	**4.8**
EBIT margin (%)	**5.1**

Model updated:Unavailable

Running the numbers

Emerging Europe

Poland

Construction

Polimex

Reuters: MOSD.WA Bloomberg:

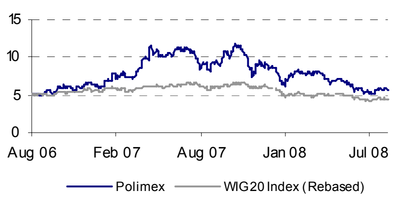
Sell

Price (19 Aug 08)	PLN 5.61
Target price	PLN 5.00
52-week Range	PLN 5.10 - 11.75
Market Cap (m)	PLNm 2,712 USDm 1,200

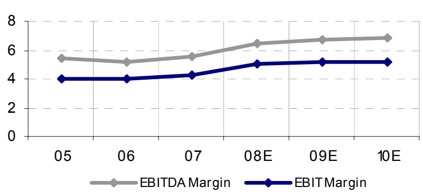
Company Profile

Polimex is a diversified construction group active primarily in 1) steel structures manufacturing, 2) industrial construction (power generation, oil & gas, chemicals) , 3) general construction (housing, commercial centres) and 4) infrastructure (roads and railroads). Last years' expansion conducted mainly through M&A activity made Polimex Poland's largest (by revenues) construction player.

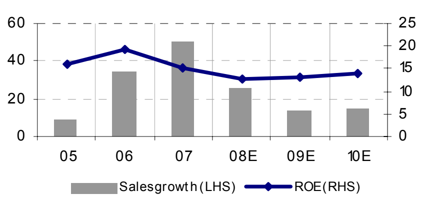
Price Performance



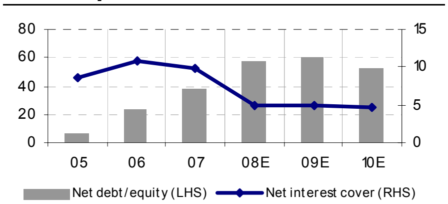
Margin Trends



Growth & Profitability



Solvency



Tomasz Krukowski, CFA
+48 22 579-8732 tomasz.krukowski@db.com

Fiscal year end 31-Dec	2005	2006	2007	2008E	2009E	2010E
Financial Summary						
DB EPS (PLN)	0.12	0.16	0.21	0.28	0.31	0.39
Reported EPS (PLN)	0.12	0.16	0.21	0.28	0.31	0.39
DPS (PLN)	0.00	0.00	0.00	0.00	0.00	0.00
BVPS (PLN)	0.8	0.9	2.0	2.3	2.6	2.9
Weighted average shares (m)	368	387	483	483	483	483
Average market cap (PLNm)	558	1,655	4,472	2,712	2,712	2,712
Enterprise value (PLNm)	568	1,753	4,892	3,303	3,382	3,317
Valuation Metrics						
P/E (DB) (x)	13.0	26.4	44.7	20.3	17.8	14.5
P/E (Reported) (x)	13.0	26.4	44.7	20.3	17.8	14.5
P/BV (x)	3.13	6.63	4.21	2.45	2.18	1.91
FCF Yield (%)	15.0	3.8	nm	nm	nm	3.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	0.3	0.7	1.3	0.7	0.6	0.5
EV/EBITDA (x)	5.6	13.5	23.8	11.0	9.4	7.9
EV/EBIT (x)	7.8	17.8	30.5	13.9	12.4	10.3
Income Statement (PLNm)						
Sales revenue	**1,850**	**2,483**	**3,720**	**4,681**	**5,329**	**6,138**
Gross profit	**228**	**275**	**367**	**514**	**602**	**700**
EBITDA	**101**	**130**	**205**	**302**	**359**	**421**
Depreciation	28	31	45	64	86	100
Amortisation	0	0	0	0	0	0
EBIT	**73**	**98**	**160**	**238**	**273**	**321**
Net interest income(expense)	-8	-9	-16	-49	-56	-67
Associates/affiliates	0	-2	4	4	4	4
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	4	1	0	0	0
Profit before tax	**65**	**93**	**145**	**189**	**217**	**254**
Income tax expense	16	17	33	36	41	38
Minorities	6	11	17	24	28	32
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**43**	**63**	**100**	**133**	**152**	**188**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**43**	**63**	**100**	**133**	**152**	**188**
Cash Flow (PLNm)						
Cash flow from operations	**102**	**144**	**-219**	**122**	**154**	**182**
Net Capex	-19	-80	-218	-278	-218	-100
Free cash flow	**84**	**64**	**-437**	**-156**	**-65**	**82**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	0	-7	-9	-5	-6	-7
Net inc/(dec) in borrowings	-44	146	305	250	100	0
Other investing/financing cash flows	-12	-140	135	-99	-37	-41
Net cash flow	**27**	**62**	**-5**	**-10**	**-8**	**33**
Change in working capital	*43*	*5*	*-489*	*-137*	*-127*	*-159*
Balance Sheet (PLNm)						
Cash and other liquid assets	86	148	143	133	125	158
Tangible fixed assets	214	262	426	651	783	783
Goodwill/intangible assets	2	20	438	428	428	428
Associates/investments	85	102	98	164	164	164
Other assets	722	1,100	1,696	2,062	2,343	2,694
Total assets	**1,108**	**1,632**	**2,801**	**3,438**	**3,843**	**4,228**
Interest bearing debt	109	254	559	809	909	909
Other liabilities	635	928	1,157	1,445	1,640	1,883
Total liabilities	**743**	**1,183**	**1,716**	**2,254**	**2,549**	**2,792**
Shareholders' equity	293	355	983	1,105	1,244	1,418
Minorities	72	94	103	79	50	18
Total shareholders' equity	**365**	**449**	**1,086**	**1,183**	**1,294**	**1,436**
Net debt	*23*	*106*	*416*	*676*	*784*	*751*
Key Company Metrics						
Sales growth (%)	8.8	34.2	49.8	25.8	13.9	15.2
DB EPS growth (%)	-15.2	39.2	27.9	33.2	14.1	23.3
EBITDA Margin (%)	5.5	5.2	5.5	6.4	6.7	6.9
EBIT Margin (%)	4.0	4.0	4.3	5.1	5.1	5.2
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0
ROE (%)	16.1	19.3	15.0	12.8	13.0	14.1
Capex/sales (%)	1.0	3.2	5.9	5.9	4.1	1.6
Capex/depreciation (x)	0.7	2.6	4.8	4.4	2.5	1.0
Net debt/equity (%)	6.2	23.7	38.3	57.1	60.6	52.3
Net interest cover (x)	8.6	10.7	10.0	4.8	4.9	4.8

Source: Company data, Deutsche Bank estimates

Investment thesis

Outlook

We rate Polimex a Sell on the basis of our valuation, which provides negative total return on a 12-month basis and deteriorating earnings outlook. We view Polimex as the company with the highest exposure, in our Polish construction universe, to the slowdown in the construction activity we expect. This is due to Polimex's high exposure to Western European markets (exports account for about one-third of total revenues) as well as to the industrial companies, which, we believe, are likely to downsize their capex plans due to contracting demand. We expect Polimex's EPS growth to slow down from 33% in 2008E to 14% in 2009E.

Valuation

Our 12-month share price target of PLN 5.0 for Polimex is based on a 5-year discounted cash flow (DCF) analysis. Major assumption to our DCF are cost of equity of 12.3% and WACC of 10.1%, both derived from CAPM using risk free rate of 6.5%, equity risk premium of 5.0% and unlevered fundamental beta of 0.8x (Damodaran industry average). We use terminal growth rate of 4.6%, calculated through multiplication of the company's reinvestment rate and ROIC.

For illustrative purposes, we also present peer comparison. Polimex is trading broadly in line with its peers based on 2008E P/E and EV/EBITDA, while we believe there should be a discount, reflecting 1) lower-than-expected earnings expansion, and 2) higher capex requirements (Polimex generates 45% of its gross profit in the manufacturing segment, where growth and maintenance capex tends to be higher than in purely construction activity).

Risks

Since our negative view on Polimex is largely based on the deteriorating industry fundamentals, both in Poland and Western Europe, a reversal on that front (meaning lack of slowdown in investments in Poland, upturn in construction activity in Western Europe) would imply upside risks to our earnings estimates and valuation. On the company-specific side, we point out at company's capex plans in manufacturing division, where we cautiously expect the new facility to operate at 50% capacity utilization rate in 2010, while better rate would imply and increase our estimates for that year. We also note that Polimex appears to have high chances of securing sizable contract for the construction of stadiums in Poland before EURO 2012 soccer championships (the company has already secured one contract in that market segment).

Earnings outlook & valuation

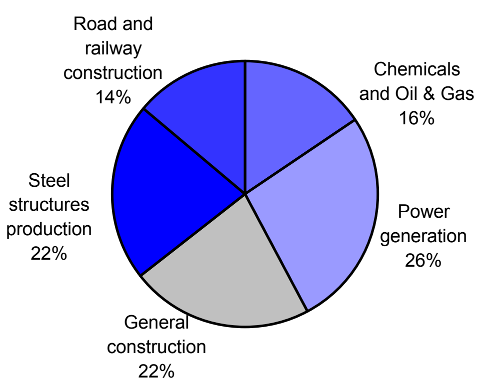
Key business areas

Diversified construction company focused on industrial segment

Polimex is a diversified construction company focused on industrial construction. Specifically, Polimex is active in chemicals, oil & gas and power generation, which when combined accounts for 42% of the company's total revenues in 2008 as per our estimate. Additionally, Polimex operates in infrastructure segment (railroads and roads and it has a steel structures manufacturing division).

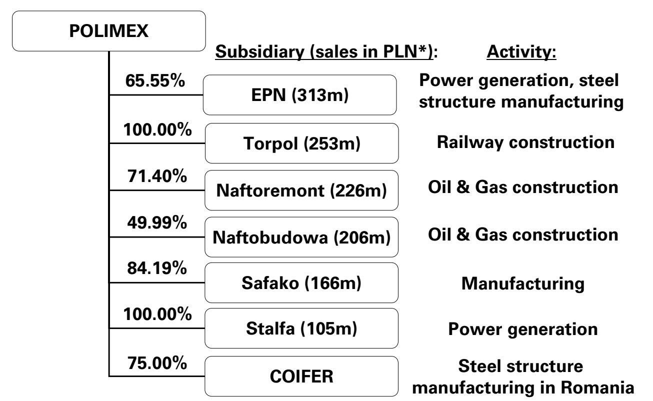
With our 2008 sales forecast of PLN 4.7bn, we expect Polimex to be Poland's largest construction company by revenues. We note that Polimex maintains a holding structure, in which seven major subsidiaries generate approximately one-third of its total sales. From the operating viewpoint, Polimex very often tenders for big construction contracts, where its subsidiaries are utilized as subcontractors.

Figure 28: Polimex: 2008E revenues structure



Source: Polimex, Deutsche Bank estimates

Figure 29: Polimex : Group structure (major subsidiaries)



Source: Polimex, Deutsche Bank estimates **NOTE: 2007 revenues*

Earnings drivers

1. Steel structures manufacturing – 45% of gross profit

Steel structures production generates only 22% of sales but as much as 45% of gross profit

Polimex's manufacturing activity (production of steel structures used in construction works), although generating only 22% of total revenues, accounts for as much as 45% of the company's gross profit. This division's performance is, therefore, most vital for the company's earnings. We note that sizable portion of steel structures products is being exported, making this division of Polimex susceptible to global economic slowdown.

2. Sizable contracts in the industrial segment

Strong backlog of contracts in chemicals, oil & gas and power generation

We estimate contracts in the industrial construction business line to account for 42% of Polimex's 2008E revenues and 37% of gross profit. In 2007 and 1H 2008, Polimex signed numerous sizable contracts in chemicals (PLN 550m with PKN), oil & gas (PLN 221m with Technip), Power generation (PLN 203m with Elektrownia Polaniec, PLN 97m with Elektrownia Zeran) which we expect to drive earning in 2008 and 1H 2009. Replacement of backlog in industrial segment (following the completion of current contracts) appears to be one of the major challenges for Polimex, in our view.

Infrastructure has not yet provided expected margins

3. Infrastructure – going up on the learning curve

Polimex entered the infrastructure segment only in 2006, following the acquisition of railway construction company Torpol and the creation of its own road construction division. In 2008, we expect Polimex's revenues from infrastructure at PLN 650m, but we note that Polimex is still a beginner here (especially in road construction) which translates into low margins (we forecast only 6% contribution to gross profit in 2008E).

Earnings forecasts

Backlog of PLN 5.85 covers majority of our sales forecast till 2009

We expect 3-year EPS CAGR of 23%...

We forecast Polimex's revenues to increase by 26% to PLN 4,681m in 2008E, by 14% to PLN 5,329 in 2009E and by 15% to PLN 6,138m in 2010E. We note that the company's backlog of PLN 5.85bn (as of now) covers majority of our sales projections throughout 2009.

On the operating margins front, we expect slight improvement in 2008 to 5.1% (driven by the acquisition of Romania-based COIFER) and flat levels thereafter. We do not believe that the company's total margin will increase in 2010 following the completion of capacity extension program in manufacturing as in its first years the new capacity is unlikely to operate at full utilization which usually warrant high margins.

Figure 30: Polimex: Earnings forecasts

	2006	2007	2008E	*%, YoY*	2009E	*%, YoY*	2010	*%, YoY*
Sales	2,483.4	3,720.5	4,680.7	*26*	5,329.0	*14*	6,137.9	*15*
Gross profit (after D&A)	244.3	322.2	450.8	*40*	515.1	*14*	599.6	*16*
Gross margin (%)	*9.8*	*8.7*	*9.6*	-	*9.7*	-	*9.8*	-
EBIT	98.5	160.4	238.0	*48*	272.8	*15*	320.6	*17*
EBIT margin (%)	*4.0*	*4.3*	*5.1*	-	*5.1*	-	*5.2*	-
Net financial costs	5.3	15.4	49.2	*220*	55.6	*13*	67.1	*21*
Pre-tax profit	93.2	145.0	188.8	*30*	217.3	*15*	253.5	*17*
Net profit	62.6	100.1	133.3	*33*	152.2	*14*	187.6	*23*

Source: Polimex, Deutsche Bank estimates

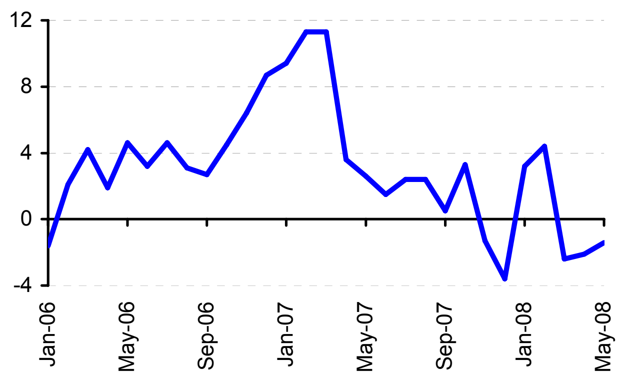
We see roll-over of backlog contract at high margin contracts as well as slowdown in Western Europe as major downside risks to earnings

…but we see sustaining of earning momentum as a major challenge

At the bottom line, we forecast net profit of PLN 133.3m in 2008, PLN 152.2m in 2009 and PLN 187.6m in 2010. We note that we expect Polimex's earning's momentum to decelerate from 33% in 2008E to 14% in 2009E and 23% in 2010E. In our view, major challenges associated with this development are:

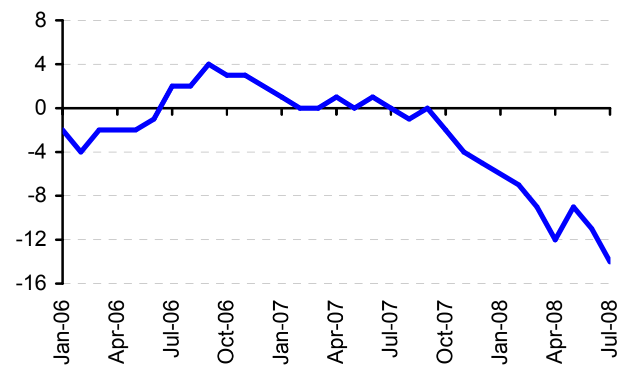
- Roll-over of backlog with high margin contract: Polimex's current backlog includes many specialized contracts (i.e. in chemicals and power generation sectors) which should yield higher margins than in general construction. While we expect more severe competition in general construction in the coming years resulting from general economic slowdown, we believe it will be crucial for Polimex to roll over backlog with high margin orders. We believe the construction of stadiums associated with EURO 2012 soccer championships will not be a remedy given the high competition there.
- Maintain margins in export-oriented manufacturing division: We expect the slowdown in the construction markets of Western Europe (see Figures 31-32) to undercut demand for Polimex's steel structure sold in those markets. Year-to-date appreciation of zloty against euro is also not supportive of margins.

Figure 31: Euro area construction output (YoY chg. %)



Source: Eurostat

Figure 32: Euro area construction confidence index



Source: Eurostat

3-year capex of PLN 0.5bn

New manufacturing capacity is a flagship project in PLN 0.5bn 3-year capex plan

Polimex plans to spend PLN 0.5bn until 2010, with the flagship projects being new steel structure manufacturing capacity in special economic zone near Siedlce (Eastern Poland). The new facility is planned to be completed by the end of 2009 with the company's target for its annual revenues at PLN 0.5 – 0.6bn. While we remain positive on Polimex's developments plans in this market segment, we are sceptical about the company being able to place on the market steel structures from the additional capacity within one year – we expect 2-year period for the plant to reach full capacity utilization and the abundance of new products' supply to put pressure on margins.

Balance sheet already stretched

Polimex had net debt of PLN 416m as of December 2007, implying Net Debt to Equity ratio of 42% and Net Debt to EBITDA of 2.0x. With the company's capex plan for 2008-2010, we forecast Polimex's net debt to increase to PLN 676m as of December 2008 and PLN 784m as of December 2009, but the respective leverage ratios should be in check (with Net Debt to EBITDA of 2.2x in both years).

Valuation and recommendation: Sell with 12-m target price of PLN 5.0

DCF model

Our DCF model produced 12-month target price of PLN 5.0

We have developed a 5-year DCF model to arrive at 12-month target price for Polimex. The major assumptions are as follows:

- We forecast Polimex's revenues to grow at a CAGR of 16% and EBIT of 21% in 2008E-2012E. We forecast the average EBIT margin of 5.2% in the respective period.
- We expect terminal growth rate at 4.6%. We calculated it on the basis of the following formula: Terminal growth rate = Reinvestment rate x ROIC
- We use Cost of Equity of 12.3% and WACC of 10.1%. We used CAPM to achieve those values, using risk free rate of 6.5%, equity risk premium of 5.0% and unlevered beta of 0.8x (Damodaran industry average).

Based on the above, we arrived at 12-month target price for Polimex of PLN 5.0. With expected total shareholder return of minus 11%, we rate Polimex as a Sell.

Figure 33: Polimex: DCF model

PLNm	2008E	2009E	2010E	2011E	2012E
Revenues	4,680.7	5,329.0	6,137.9	7,044.3	7,812.3
EBIT	238.0	272.8	320.6	368.5	408.1
Cash taxes on EBIT	45.2	51.8	50.8	57.9	63.7
NOPAT	192.8	221.0	269.8	310.6	344.4
Depreciation	63.5	86.4	100.1	108.6	118.2
Change in operating WC	144.5	132.2	165.0	184.9	120.7
Capital expenditure	278.3	218.4	100.3	110.2	119.5
Net investment	359.3	264.2	165.1	186.4	121.9
Free cashflow	(166.5)	(43.2)	104.7	124.2	222.5
WACC (%)	10.1				
PV FCF 2008E-2012E	113				
Terminal growth (%)	4.6				
Terminal Value (TV)	4,229				
PV TV	2,609				
Total EV	2,722				
Net debt (Jan 2008)	416.2				
Minority interest	288				
Equity value	2,018				
Number of shares (m, fully diluted))	483.4				
Value per share (PLN, 1 Jan 2008)	4.2				
Month	19.0				
12-month target price	5.0				
Revenue growth	25.8	13.9	15.2	14.8	10.9
EBIT growth (%)	48.4	14.6	17.5	15.0	10.8
NOPAT growth (%)	54.7	14.6	22.1	15.1	10.9
FCF growth (%)	(66.1)	(74.1)	(342.3)	18.7	79.1
EBIT margin (%)	5.1	5.1	5.2	5.2	5.2
NOPAT margin (%)	4.1	4.1	4.4	4.4	4.4
Capex/Revenues (%)	5.9	4.1	1.6	1.6	1.5
Change in WC/Revenues (%)	3.1	2.5	2.7	2.6	1.5
Change in WC/Change in revenues (%)	15.1	20.4	20.4	20.4	15.7

Source: Deutsche Bank estimates

Peer comparison

Polimex is trading in line with peers based on 2008E ratios while we believe inferior growth prospects demand some discount

Polimex is trading at 2008E P/E and EV/EBITDA of 20.3x and 11.0x, broadly in line with the average of our Polish construction universe. However, with 3-year EPS growth of 23% the company lags behind its peers. Consequently, based on 2010E, Polimex is trading at P/ E of 14.5x and EV/EBITDA of 7.9x, at respective 9% and 17% premium to peers. We also note that based on 2008E multiples, Polimex is trading at equal multiples to those of PBG, while we believe there should be a discount, not only for lower expected earnings expansion, but also because Polimex generates 45% of its gross profit in the manufacturing segment, where higher capex requirement should imply lower ratios.

Figure 34: Polimex: Domestic peer comparison

(Priced as at 19 August 08)	Ticker	Recc.	Price	MCAP	P/E (x)			3-year EPS	EV/EBITDA (x)		
			(PLN)	(US$m)	2008E	2009E	2010E	CAGR (%)	2008E	2009E	2010E
Budimex	BMEX.WA	HOLD	82.0	926	24.4	19.8	15.4	108	11.7	8.9	6.2
PBG	PBGG.WA	BUY	231.0	1,372	20.6	15.9	12.0	36	12.6	9.4	7.2
Polimex	**MOSD.WA**	**SELL**	**5.6**	**1,200**	**20.3**	**17.8**	**14.5**	**23**	**11.0**	**9.4**	**7.9**
Pol-Aqua	PQAA.WA	BUY	50.8	617	15.9	12.5	10.6	38	10.5	7.7	6.3
Median					**20.5**	**16.9**	**13.2**	**37**	**11.4**	**9.2**	**6.8**
Polimex's Premium/(Discount), %					*-1*	*6*	*9*	*-*	*-3*	*3*	*17*

Source: Deutsche Bank estimates

Appendix: Capital history, shareholder structure

Pension funds are Polimex's largest shareholder

Polimex in its current structure has been created in 2004 as a result of the merger of Polimex Cekop and Mostostal Siedlce, though the history of the two companies dates back to 1940s. In 2007, the company went for two capital increases (ex-rights, 22% dilution)) with new share issues being utilized to pay for acquisition of ZREW and EPN. Polish pension funds are Polimex's largest shareholders.

Figure 35: Polimex: Capital history

Date	Series	No. of shares	Issue price (PLN)	No. of shares outstanding	Comment
Sep-04	F	8,948,633	1.00	18,548,633	merger with Mostostal Siedlce
May-05		-3,300,142		15,248,491	shares redemption
May-05	G	762,417		-	motivation plan - warrants
Mar-07	H	1,032,905	198.47	16,281,396	merger with ZREW
Apr-07	I	2,292,829	110.13	18,574,225	Energomontaz-Polnoc acqusition
Aug-07				464,355,625	split 1:25
	J	23,217,183		-	motivation plan - warrants

Source: Polimex

Figure 36: Polimex: Shareholder structure

Shareholders	No. of shares	As % of total	No. of voting rights	As % of total
Commercial Union Pension Fund	41,486,075	8.9	41,486,075	8.9
ING NN Pension Fund	40,406,650	8.7	40,406,650	8.7
PZU Pension Fund	40,000,000	8.6	40,000,000	8.6
Gloria S.a.r.l.	28,702,825	6.2	28,702,825	6.2
Sices International B.V.	28,617,900	6.2	28,617,900	6.2
Polimex-Development	13,152,500	2.8	13,152,500	2.8
Other	271,989,675	58.6	271,989,675	58.6
Total	**464,355,625**	**100.0**	**464,355,625**	**100.0**

Source: Polimex

Emerging Europe Poland
Building and Construction Construction

22 August 2008

POL-AQUA

Reuters: **PQAA.WA** Bloomberg: **PQA PW**

Cheaper exposure to Polish construction

Initiating with Buy and 12-month target price of PLN 60
We initiate coverage of Pol-Aqua with a Buy recommendation and 12-month target price of PLN 60. Our positive stance is based on 1) the company's high exposure to the civil engineering market where growth is supported by EU financing, 2) M&A-driven expansion into other construction markets (general, roads, building materials), and 3) an inexpensive valuation -- we project 18% total return potential on a 12-month horizon and the stock is trading at 2008E P/E of 15.9x vs. our projected three-year EPS CAGR of 38%.

M&A's fueled expansion
Pol-Aqua's primary specialization in civil engineering is benefiting from the upturn in that market segment driven by EU-financed projects. We expect this prosperity to continue in years to come because Poland's environmental and hydro-construction is scheduled to receive EUR 3.6bn for new projects under the 2007-2013 EU budget. Additionally, in recent years Pol-Aqua has entered (mainly through M&A) other segments of the construction market (general construction, building materials production), which we expect to significantly contribute to the revenues and profit from 2008E.

We forecast a 3-year EPS CAGR of 38%
Based on organic growth and already-conducted acquisitions we expect Pol-Aqua to report 75% net profit growth in 2008E to PLN 88m. The company's 1H 2008 net profit of PLN 31m, up 58% YoY, suggests that it is on track to deliver on our forecasts. We expect Pol-Aqua's 2009E and 2010E earnings to increase by 27% and 18%, respectively.

We expect 18% total return potential on a 12-month horizon
Our 12-month target price of PLN 60 is based on a DCF model (WACC 10.4%, coe 11.1%, tg 4.8%). Pol-Aqua is currently trading at 2008E P/E and EV/EBITDA of 15.9x and 10.5x, respectively, at 22% and 7% discounts to our Polish construction universe. Downside risks on the macro side include delays in kick-off of the EU-financed projects and an expected slowdown in general construction; company specific risks include restructuring and the integration of acquired entities, and delays in invoicing leading to the postponement of revenue recognition.

Forecasts and ratios

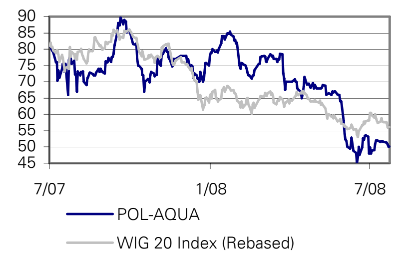
Year End Dec 31	2007A	**2008E**	2009E	2010E
Revenue (PLNm)	706	**1,262**	1,579	1,773
EBITDA (PLNm)	88	**134**	175	202
EBITA (PLNm)	60	**100**	137	158
Net Income (PLNm)	50	**88**	112	131
EPS (PLN)	2.10	**3.19**	4.06	4.78
P/E (DB EPS) (x)	36.3	**15.9**	12.5	10.6
EV/EBITDA (x)	22.8	**10.5**	7.7	6.3
Yield (%)	0.0	**0.0**	0.0	0.0

Source: Deutsche Bank estimates, company data

Buy

Price at 19 Aug 2008 (PLN)	**50.75**
Price Target (PLN)	**60.00**
52-week range (PLN)	**89.70 - 45.00**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*0.4*	*-27.9*	*-34.7*
WIG 20 Index	*-0.9*	*-13.3*	*-24.0*

Stock data

Market Cap (PLNm)	**1,395.6**
Market Cap (US$m)	**627.2**
Free float (%)	**57**
WIG 20 Index	**2,554.7**

Key indicators (FY1)

ROE (%)	**13.5**
Book value/share (PLN)	**25.2**
Price/book (x)	**2.0**
Net interest cover (x)	**24.5**
EBIT margin (%)	**8.0**

Model updated:Unavailable

Running the numbers

Emerging Europe

Poland

Construction

POL-AQUA

Reuters: PQAA.WA Bloomberg: PQA PW

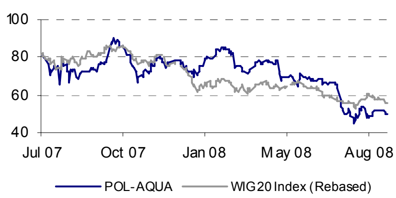
Buy

Price (19 Aug 08)	PLN 50.75
Target price	PLN 60.00
52-week Range	PLN 45.00 - 89.70
Market Cap (m)	PLNm 1,396 USDm 627

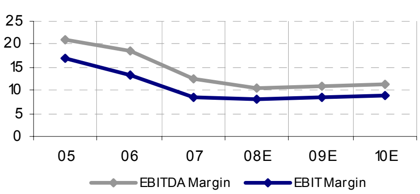
Company Profile

Pol-Aqua is a diversified construction company which initially was specializing in water and sewage system engineering and oil & gas pipeline construction but a few years ago it began the process of diversification into other areas of the construction market, i.e. general construction, steel structure manufacturing and some building material production. Pol-Aqua's business model calls for high integrity and participation in many stages of the value chain of the construction process.

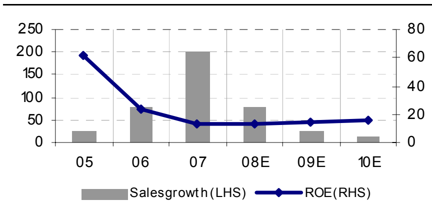
Price Performance



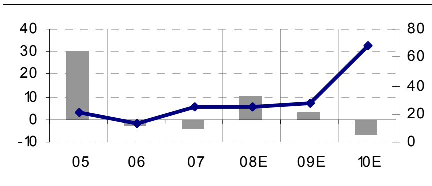
Margin Trends



Growth & Profitability



Solvency



Tomasz Krukowski, CFA

+48 22 579-8732 tomasz.krukowski@db.com

Fiscal year end 31-Dec	2005	2006	2007	2008E	2009E	2010E
Financial Summary						
DB EPS (PLN)	1.07	1.11	2.10	3.19	4.06	4.78
Reported EPS (PLN)	1.07	1.11	2.10	3.19	4.06	4.78
DPS (PLN)	0.00	0.00	0.00	0.00	0.00	0.00
BVPS (PLN)	2.2	7.6	22.0	25.2	29.2	34.0
Weighted average shares (m)	16	20	28	28	28	28
Average market cap (PLNm)	na	na	2,099	1,396	1,396	1,396
Enterprise value (PLNm)	na	na	2,011	1,402	1,355	1,269
Valuation Metrics						
P/E (DB) (x)	na	na	36.3	15.9	12.5	10.6
P/E (Reported) (x)	na	na	36.3	15.9	12.5	10.6
P/BV (x)	0.00	0.00	3.55	2.02	1.74	1.49
FCF Yield (%)	na	na	nm	nm	2.5	5.7
Dividend Yield (%)	na	na	0.0	0.0	0.0	0.0
EV/Sales (x)	nm	nm	2.8	1.1	0.9	0.7
EV/EBITDA (x)	nm	nm	22.8	10.5	7.7	6.3
EV/EBIT (x)	nm	nm	33.5	14.0	9.9	8.0
Income Statement (PLNm)						
Sales revenue	**131**	**234**	**706**	**1,262**	**1,579**	**1,773**
Gross profit	**40**	**61**	**118**	**207**	**266**	**304**
EBITDA	**28**	**43**	**88**	**134**	**175**	**202**
Depreciation	5	12	28	33	38	44
Amortisation	0	0	0	0	0	0
EBIT	**22**	**31**	**60**	**100**	**137**	**158**
Net interest income(expense)	-1	-2	-2	-4	-5	-2
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	1	1	3	6	0	0
Profit before tax	**22**	**29**	**60**	**102**	**132**	**156**
Income tax expense	5	7	10	16	21	26
Minorities	0	0	0	-1	-1	-1
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**17**	**22**	**50**	**88**	**112**	**131**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**17**	**22**	**50**	**88**	**112**	**131**
Cash Flow (PLNm)						
Cash flow from operations	**6**	**-40**	**-20**	**10**	**85**	**135**
Net Capex	-14	-67	-115	-43	-50	-56
Free cash flow	**-8**	**-107**	**-135**	**-33**	**35**	**79**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-3	0	0	0	0	0
Net inc/(dec) in borrowings	3	25	64	0	0	0
Other investing/financing cash flows	11	124	155	-61	13	9
Net cash flow	**3**	**41**	**84**	**-94**	**48**	**88**
Change in working capital	*-7*	*-51*	*-114*	*-153*	*-88*	*-55*
Balance Sheet (PLNm)						
Cash and other liquid assets	5	46	130	36	84	172
Tangible fixed assets	33	87	174	183	195	207
Goodwill/intangible assets	0	0	202	237	237	237
Associates/investments	2	33	65	65	65	65
Other assets	64	152	499	867	1,067	1,191
Total assets	**104**	**320**	**1,070**	**1,388**	**1,649**	**1,872**
Interest bearing debt	18	42	106	106	106	106
Other liabilities	45	125	359	589	737	827
Total liabilities	**63**	**167**	**465**	**695**	**842**	**933**
Shareholders' equity	35	152	605	692	804	935
Minorities	7	0	0	1	2	4
Total shareholders' equity	**41**	**152**	**605**	**693**	**806**	**939**
Net debt	*13*	*-4*	*-24*	*70*	*22*	*-66*
Key Company Metrics						
Sales growth (%)	26.2	78.0	202.5	78.6	25.1	12.3
DB EPS growth (%)	177.4	3.3	90.1	51.5	27.4	17.6
EBITDA Margin (%)	21.1	18.4	12.5	10.6	11.1	11.4
EBIT Margin (%)	17.0	13.2	8.5	8.0	8.7	8.9
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0
ROE (%)	61.3	23.7	13.3	13.5	14.9	15.1
Capex/sales (%)	10.4	28.7	16.3	3.4	3.2	3.2
Capex/depreciation (x)	2.5	5.5	4.0	1.3	1.3	1.3
Net debt/equity (%)	30.4	-2.6	-4.0	10.1	2.7	-7.0
Net interest cover (x)	21.4	12.6	24.9	24.5	27.2	68.8

Source: Company data, Deutsche Bank estimates

Investment thesis

Outlook

We rate Pol-Aqua Buy; our positive stance is based both on valuation (we expect double-digit total return on a 12-month basis) and a positive earnings outlook. Pol-Aqua, whose primary specialization is civil engineering (mainly construction of water and sewage systems) is benefiting from the upturn in that market segment driven by EU-financed projects. We expect this prosperity to continue in years to come as Poland's environmental and hydro-construction is scheduled to receive EUR 3.6bn for new projects under the 2007-2013 EU budget. Additionally, in recent years Pol-Aqua has entered (mainly through M&A's) other segments of the construction market (general construction, building materials production), which we expect to significantly contribute to the company's top and bottom lines starting from 2008. Overall, we expect Pol-Aqua's EPS to expand at a CAGR of 38% in 2008E-2010E.

Valuation

Our 12-month target price for Pol-Aqua of PLN 60.0/share is based on a five-year discounted cash flow analysis. Major assumptions for our DCF are a Cost of Equity of 11.1% and WACC of 10.4%, both derived from CAPM using a risk free rate of 6.5%, equity risk premium of 5.0% and an un-levered fundamental beta of 0.8x (the Damodaran industry average). We use a terminal growth rate of 4.8%, calculated through multiplication of the company's reinvestment rate and ROIC.

For illustrative purposes, we also present a peer comparison. Pol-Aqua is trading at double-digit discounts to its peers based on 2008E P/E and EV/EBITDA, despite its expected EPS expansion being above average. On the other hand, Pol-Aqua is the smallest company in our universe, and its inferior liquidity demands some discount.

Risks

Downside risks to our positive stance on Pol-Aqua on the macro side include delays in the launch of new environmental and hydro-construction projects. Although the financing in most cases is secured by the EU funds, the projects tend to get delayed due to imperfections in Poland's construction law and procurement procedures. Additionally, Pol-Aqua's sizable general construction division appears to be susceptible to the expected slowdown in that market segment. Looking at company-specific risk, we point out that 1) Pol-Aqua's acquisition-driven expansion may create execution problems (i.e. integration and restructuring of acquired entities), and 2) since the company recognizes revenues in its P&L only after invoicing, and delays on that front are not unusual in Poland's public sector, earnings recognition might be postponed.

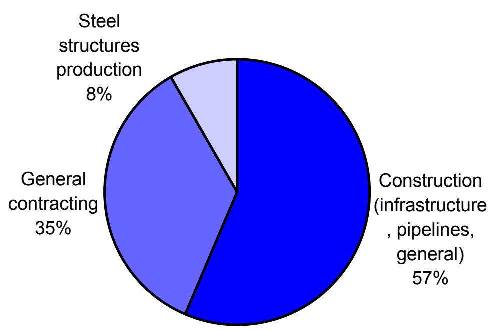
Earnings outlook & valuation

Key business areas

Civil engineering has been Pol-Aqua's core business but acquisitions diversified into general construction and building materials production

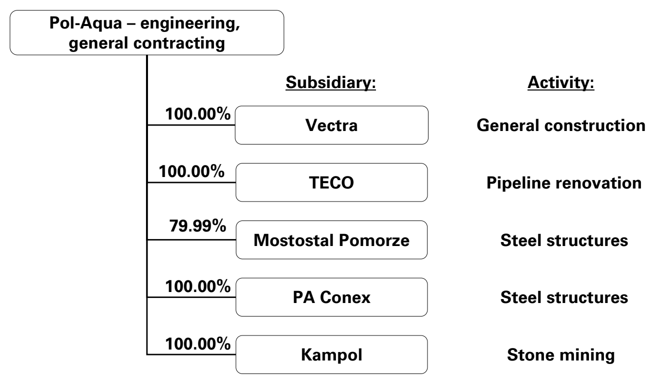
Until 2006 Pol-Aqua was a construction company that specialized in civil engineering (primarily water and sewage systems) and pipelines. In 2007 Pol-Aqua began rapidly expanding, driven by general contracting (through acquisition), general construction (through acquisition) and steel structure manufacturing (through acquisition and organically). On top of that, the company plans to enter the granite mining business through acquired granite deposits. In 2008E we expect construction (mainly infrastructure and pipelines) to account for 57% of total revenues and lower-margin general contracting (mainly commercial centres and residential properties) to account for 35%.

Figure 37: Pol-Aqua: 2008E revenues structure



Source: Deutsche Bank estimates

Figure 38: Pol-Aqua group structure (major subsidiaries)



Source: Deutsche Bank

Earnings drivers

1. Acquisitions

Three sizable M&A's were initiated in 2007, two others in 2008, and the pipeline includes a PLN 0.6bn road construction player

Pol-Aqua conducted three sizable acquisitions in 2007, taking over subsequently the general contraction operations of Polnord (for PLN 100m), Vectra (general construction, for PLN 70m) and Mostostal Pomorze (steel structures manufacturing, for PLN 48m). We estimate that these three entities should generate 52% of Pol-Aqua's 2008E sales and 31% of gross profit. Year to date, two further acquisitions were conducted, though not as sizable: Teco (a pipeline renovations company) and Placidus Investments (a producer of sound-absorbing screens). Pol-Aqua is also still in talks to take over a PLN 0.6bn revenue road construction company, with the chances of the transaction being signed estimated at 50% by the company's management.

2. EU inflows into environmental infrastructure

Under the 2007-2013 EU budget, Poland's environmental and hydro-construction should receive EUR 3.6bn for new projects

Pol-Aqua is a leader in the Polish water and sewage systems construction market. Additionally, the company has competence and know-how in the construction of solid waste segregation and utilisation facilities. Both market segments are in the boom phase due to the inflow of EU money. We expect this prosperity to continue in years to come as Poland's environmental and hydro-construction is scheduled to receive EUR 3.6bn for new projects under the 2007-2013 EU budget.

Capex in steel structures is being completed this year, granite mining should kick off in 2009E

3. Building materials production (steel structures, granite)

In addition to the acquisition of Mostotsal Pomorze (for detail see point 1), Pol-Aqua is developing building materials production activity in two major areas: the manufacturing of steel structures and the extraction of granite. The former is located in 100% owned subsidiary named Conex, which is currently finishing its PLN 30m capex programme. The latter is to be conducted on the basis of 25.7m tonnes of granite deposits, the extraction licence for which Pol-Aqua expects to receive by the end of this year. We estimate Pol-Aqua's building materials production to generate 14% of sales and 20% of gross profit in 2010E.

In 2007 Pol-Aqua failed to deliver on expectations, highlighting execution risk of M&As

Risks: managing the growth

We see restructuring of the acquired entities and managing of the rapid growth as major challenges for Pol-Aqua's management. This risk already materialised in 2007 as the company failed to deliver on the earnings expectations (on the underlying basis) also due to below-expectation profitability of the general contracting business.

Earnings forecasts

Current backlog of PLN 1.3bn is likely to increase in the short run…

Backlog of PLN 1.3bn…

Pol-Aqua's current backlog amounts to PLN 1.3bn (of which PLN 0.9bn is planned to be booked in 2008) with the figure being flat in recent months. However, the company's management is claiming that:

- Starting from 4Q 2008 the company expects a number of procurement procedures in the EU-financed environmental segment (water and sewage systems, waste utilisation facilities), with the average projects' value increasing vs. what the company has currently in its backlog.
- It is currently in talks with several investors about sizable projects (over PLN 100m) in the area of general construction (commercial centres) and infrastructure.

…but it already covers our FY 2008E sales projections

…fully covers our 2008E sales forecast

We forecast Pol-Aqua's 2008E sales at PLN 1,262m, which implies revenues for 2H 2008E of PLN 760m vs. the company's backlog of PLN 900m for this period. Our conservatism stems from Pol-Aqua's need to invoice for revenue recognition in its construction activity and the frequency of delays on that front (i.e. in 2007).

We expect Pol-Aqua's sales to increase by 25% to PLN 1,579m in 2009E and by 12% to PLN 1,773m in 2010E, driven by environment/infrastructure construction and building materials production (steel and granite). We note that our revenues do not incorporate the potential effects of the acquisitions that the company is working on.

Figure 39: Pol-Aqua: Revenues forecasts

PLNm	2006	2007	2008E	2009E	2010E
Construction, of which	233.6	395.1	713.3	852.9	955.2
Civil engineering	*203.3*	*296.2*	*431.4*	*500.0*	*560.1*
Pipelines	*30.3*	*88.4*	*131.9*	*152.8*	*171.2*
General construction	*0.0*	*10.5*	*150.0*	*200.0*	*224.0*
General construction	0.0	282.9	443.8	514.4	576.2
Steel structures manufacturing	0.0	28.5	105.0	150.0	180.0
Granite mining	0.0	0.0	0.0	62.0	62.0
Total	**233.6**	**706.5**	**1,262.1**	**1,579.3**	**1,773.4**
Change (%, YoY)	*78*	*202*	*79*	*25*	*12*

Source: Pol-Aqua, Deutsche Bank estimates

We expect a 3-year EPS CAGR of 38%

Restructuring and new businesses should drive margins expansion

We expect Pol-Aqua's gross margin to expand to 13.8% in 2008E from 12.7% in 2007 due to recovery in the company's general contracting business, which was acquired in early 2007 with a backlog of unprofitable contracts. In 2009E and 2010E we forecast Pol-Aqua's gross margin to widen further to 14.4% and 14.7%, respectively, due to a rising share of higher-margin building materials production in total revenues.

We forecast 2008E net profit of PLN 88m

On the earnings front, we forecast Pol-Aqua's net profit to increase by 75% YoY to PLN 87.7m in 2008E. This is 12% below management guidance of PLN 100m, which has been recently reiterated, but in 2007 the management failed to deliver on the expectations on the underlying basis. In 2009E we forecast a 27% rise in net profit to PLN 111.7m but in 2010E the momentum should decrease; we forecast 18% YoY growth of PLN 131.4m.

Figure 40: Pol-Aqua: Earnings forecasts

PLNm	2006	2007	2008E	%, YoY	2009E	%, YoY	2010E	%, YoY
Sales	233.6	706.5	1,262.1	*79*	1,579.3	*25*	1,773.4	*12*
Gross profit (after A&D)	48.4	89.6	173.8	*94*	227.5	*31*	260.0	*14*
Gross margin (%)	*20.7*	*12.7*	*13.8*	-	*14.4*	-	*14.7*	-
EBIT	30.8	60.0	100.4	*67*	136.7	*36*	158.0	*16*
EBIT margin (%)	*13.2*	*8.5*	*8.0*	-	*8.7*	-	*8.9*	-
Pre-tax profit	29.5	60.5	102.3	*69*	131.6	*29*	155.7	*18*
Net profit	22.1	50.2	87.7	*75*	111.7	*27*	131.4	*18*

Source: Pol-Aqua, Deutsche Bank estimates

Strong 1H 2008 figures: net profit by 58% up YoY

1H figures suggest that the company is on track

Pol-Aqua posted very sound results for 1H 2008 with revenues more than doubling to PLN 501.8m and net profit increasing by 58% to PLN 30.8m. The latter accounts for 34% of our FY forecast, but we note that due to seasonal considerations the company traditionally books the bulk of its earnings in the second half of the year.

Figure 41: Pol-Aqua: 1H 2008 results review

PLNm	2Q08	2Q07	%, YoY	1H08	1H07	%, YoY
Sales	293.9	172.9	70	501.8	241.4	108
EBIT	22.2	15.5	43	29.5	18.5	60
Net	23.4	15.5	51	30.8	19.4	58

Source: Pol-Aqua

Valuation and recommendation: Buy with 12-month TP of PLN 60

DCF model

Our DCF derived a 12-month target price of PLN 60

We have developed a 5-year DCF model to arrive at 12-month target price for Pol-Aqua. The major assumptions are as follows:

- We forecast Pol-Aqua's revenues and EBIT to grow at a CAGR of 25% in 2008E-2012E. We forecast an average EBIT margin of 8.6% in the period.
- We expect a terminal growth rate of 4.8%. We calculated it based on the following formula: Terminal growth rate = Reinvestment rate x ROIC.
- We use a cost of equity of 11.1% and WACC of 10.4%. We used CAPM to achieve those values, using a risk free rate of 6.5%, an equity risk premium of 5.0% and an un-levered beta of 0.8x (the Damodaran industry average).

Based on the above, we arrived at 12-month target price for Pol-Aqua of PLN 60.0. With expected total shareholder return of 18%, we rate Pol-Aqua a Buy.

Figure 42: Pol-Aqua: DCF model

PLNm	2008E	2009E	2010E	2011E	2012E
Revenues	1,262	1,579	1,773	1,945	2,133
EBIT	100	137	158	170	184
Cash taxes on EBIT	16	22	26	29	31
NOPAT	84	114	132	142	153
Depreciation	33	38	44	51	60
Change in operating WC	139	64	40	36	39
Capital expenditure	43	50	56	62	75
Net investment	149	75	52	47	54
Free cash flow	-65	39	80	95	99
WACC (%)	10.4				
PV FCF 2008E-2012E	157				
Terminal growth (%)	4.8				
Terminal Value (TV)	1,823				
PV TV	1,109				
Total EV	1,266				
Net debt (Jan 2008)	-24				
Equity value	1,290				
Number of shares (m, fully diluted))	27.5				
Value per share (PLN, 1 Jan 2008)	46.9				
Month	19.0				
12-month target price	60				
Revenue growth	78.6	25.1	12.3	9.7	9.7
EBIT growth (%)	67.4	36.1	15.6	7.9	7.9
NOPAT growth (%)	70.4	36.3	15.1	7.6	7.7
FCF growth (%)	n.m.	n.m.	105.4	19.0	3.5
EBIT margin (%)	8.0	8.7	8.9	8.8	8.6
NOPAT margin (%)	6.7	7.2	7.4	7.3	7.2
Capex/Revenues (%)	3.4	3.2	3.2	3.2	3.5
Change in WC/Revenues (%)	11.0	4.0	2.2	1.8	1.9
Change in WC/Change in revenues (%)	25.1	20.0	20.6	20.9	21.0

Source: Deutsche Bank estimates

Peer comparison

Pol-Aqua trades at double-digit discounts to its peers based on 2008E ratios

Pol-Aqua is trading at 2008E P/E and EV/EBITDA of 15.9x and 10.5x, with respective discounts of 22% and 7% to our Polish construction universe. We note, however, that Pol-Aqua is the smallest company in our universe, with inferior liquidity that demands some discount.

Figure 43: Pol-Aqua: Domestic peer comparison

	Ticker	Rec.	Price 19 Aug	MCAP	P/E (x)			3-year EPS	EV/EBITDA (x)		
			(PLN)	(US$m)	2008E	2009E	2010E	CAGR (%)	2008E	2009E	2010E
Budimex	BMEX.WA	HOLD	82.0	926	24.4	19.8	15.4	108	11.7	8.9	6.2
PBG	PBGG.WA	BUY	231.0	1,372	20.6	15.9	12.0	36	12.6	9.4	7.2
Polimex	MOSD.WA	SELL	5.6	1,200	20.3	17.8	14.5	23	11.0	9.4	7.9
Pol-Aqua	**PQAA.WA**	**BUY**	**50.8**	**617**	**15.9**	**12.5**	**10.6**	**38**	**10.5**	**7.7**	**6.3**
Median					**20.5**	**16.9**	**13.2**	**37**	**11.4**	**9.2**	**6.8**
Pol-Aqua's Premium/(Discount), %					-22	-26	-19	-	-7	-16	-7

Source: Deutsche Bank estimates

Appendix: Capital history and shareholder structure

Pol-Aqua conducted an IPO on the Warsaw Stock Exchange in July 2007 raising PLN 231m (3m shares at PLN 77/share).

Figure 44: Pol-Aqua: Capital history

Date	Series	No. of shares	Issue price (PLN)	Total no. of shares outstanding	Comment
Oct-97	A	104,934	1.00	104,934	conversion to plc
Oct-97	B	55,066	1.00	160,000	capital increase
Oct-97	C	1	31.00	160,001	capital increase
Mar-06				16,000,100	split 1:100
Oct-06	D	4,000,000	23.00	20,000,100	Private placement to Prokom
Mar-07	E	4,500,000	40.00	24,500,100	Private placement to Prokom
Jul-07	F	3,000,000	77.00	27,500,100	IPO

Source: Pol-Aqua, Deutsche Bank

Mr. Stefanski, founder and CEO, was a sizable insider buyer and selling in recent year

Mr. Marek Stefanski, Pol-Aqua's founder and CEO, is the company's major shareholder and holds a 43% stake. This stake is scheduled to be increased by an additional 3.6% on the basis of already-signed purchase agreements. Mr. Stefanski has been active in insider transactions in the recent year. First he sold 1m share at the IPO at PLN 77/share in July 2007; afterwards, up until December 2007, Mr. Stefanski repurchased 1.3 shares at prices in the range of PLN 68-79/share. Finally, in August 2008, Mr. Stefanski disposed of 2.9m shares at an average price of PLN 48/share, claiming the previous purchases were leveraged while he had to repay his bank loans.

Figure 45: Pol-Aqua: Shareholder structure

Shareholders	No. of shares	As % of total	No. of voting rights	As % of total
Mr. Marek Stefanski	11,830,482	43.0	11,830,482	43.0
Commercial Union Pension Fund	1,700,000	6.2	1,700,000	6.2
Pioneer Pekao Mutual Fund	1,606,520	5.8	1,606,520	5.8
ING Pension Fund	1,435,949	5.2	1,435,949	5.2
BZ WBK Mutual Fund	1,127,181	4.1	1,127,181	4.1
Other	9,799,968	35.6	9,799,968	35.6
Total	**27,500,100**	**100.0**	**27,500,100**	**100.0**

Source: Pol-Aqua, Deutsche Bank

Emerging Europe Poland
Building and Construction Construction

22 August 2008

Budimex

Reuters: **BMEX.WA** Bloomberg: **BDX PW**

Initiate with Hold. Earnings recovery appears priced in

Initiating with a Hold and 12-month target price of PLN 85
We believe Budimex's ongoing earnings recovery is priced in; we forecast 2008E net profit at PLN 86m, up 469% YoY (already reported 1H 2008 net profit accounts for 50% of our FY estimate). The stock is trading at 2008E and 2009E P/E ratios of 24.4x and 19.8x, implying respective 19% and 17% premiums to sector averages.

Earnings recovery story…
We see Budimex as an earnings turnaround story, with the drivers being both internal (changes in top management in 2007, improved risk management procedures), and external (revival in the Polish construction market, long-awaited kick off in sizable road construction projects). We see Budimex as the best exposure in Poland to road construction, for which the EU has dedicated EUR 15.1bn under its 2007-2013 budget. We expect the share of infrastructure in Budimex's total revenues to reach 52% in 2010E, up from 30% in 2007.

…this time on track to deliver on expectations
We forecast Budimex's net profit to increase by 469% to PLN 86m in 2008E and by a further 24% to PLN 106m in 2009E [please check]. While we acknowledge that in recent years Budimex has failed to deliver, this time the company appears to be on track, with 1H 2008 net profit of PLN 43m already accounting for half of our FY projection, while the second half of the year is usually stronger due to seasonal considerations.

We expect a low, single digit total return on the 12-month horizon
Our 12-month target price of PLN 85.0 is based on a DCF model. Budimex is currently trading at 2008E P/E and EV/EBITDA of 24.4x and 11.7x, implying respective 19% and 3% premiums to the sector average. Delays/acceleration of the EU-financed road construction projects constitute downside/upside risks. Company specific risks are legal disputes with the company's former clients: downside – Warsaw Airport; upside – City of Krakow.

Forecasts and ratios

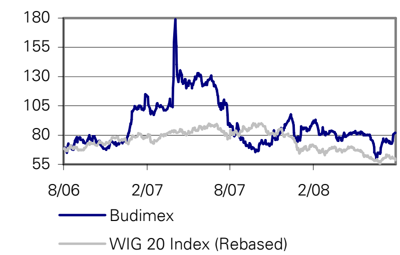
Year End Dec 31	2007A	**2008E**	2009E	2010E
Revenue (PLNm)	3,076	**3,302**	3,953	4,573
EBITDA (PLNm)	52	**134**	156	190
EBITA (PLNm)	28	**110**	132	165
Net Income (PLNm)	15	**86**	106	136
EPS (PLN)	0.59	**3.36**	4.15	5.32
P/E (DB EPS) (x)	169.1	**24.4**	19.8	15.4
EV/EBITDA (x)	41.1	**11.7**	8.9	6.2
Yield (%)	0.0	**0.0**	0.0	0.0

Source: Deutsche Bank estimates, company data

Hold

Price at 19 Aug 2008 (PLN)	**82.00**
Price Target (PLN)	**85.00**
52-week range (PLN)	**97.70 - 60.25**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*18.8*	*-0.6*	*-7.8*
WIG 20 Index	*1.5*	*-15.0*	*-24.7*

Stock data

Market Cap (PLNm)	**2,093.5**
Market Cap (US$m)	**926.0**
Free float (%)	**41**
WIG 20 Index	**2,546.5**

Key indicators (FY1)

ROE (%)	**14.7**
Book value/share (PLN)	**24.8**
Price/book (x)	**3.3**
Net interest cover (x)	**16.2**
EBIT margin (%)	**3.3**

Model updated:04 February 2008

Running the numbers

Emerging Europe

Poland

Construction

Budimex

Reuters: BMEX.WA Bloomberg: BDX PW

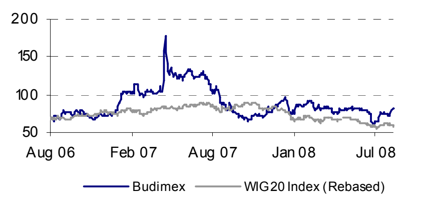
Hold

Price (19 Aug 08)	PLN 82.00
Target price	PLN 85.00
52-week Range	PLN 60.25 - 97.70
Market Cap (m)	PLNm 2,093 USDm 926

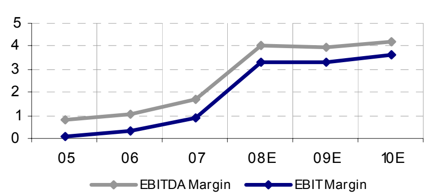
Company Profile

Budimex is a Poland's leading general contractor focused on infrastructure (roads, bridges) and general construction (housing, offices, commercial centres) market segments. The company also holds a 50% stake in a sizable residential property developer operating in Poland's largest cities. Ferrovial of Spain is Budimex's strategic shareholder with a 59% stake in share capital.

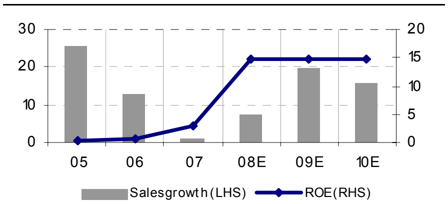
Price Performance



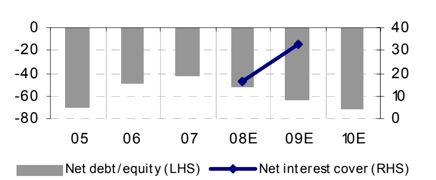
Margin Trends



Growth & Profitability



Solvency



Tomasz Krukowski, CFA
+48 22 579-8732 tomasz.krukowski@db.com

Fiscal year end 31-Dec	2005	2006	2007	2008E	2009E	2010E
Financial Summary						
DB EPS (PLN)	0.08	0.15	0.59	3.36	4.15	5.32
Reported EPS (PLN)	0.08	0.15	0.59	3.36	4.15	5.32
DPS (PLN)	0.00	0.00	0.00	0.00	0.00	0.00
BVPS (PLN)	20.4	20.5	21.0	24.8	31.5	39.9
Weighted average shares (m)	26	26	26	26	26	26
Average market cap (PLNm)	1,141	1,511	2,548	2,093	2,093	2,093
Enterprise value (PLNm)	612	1,107	2,124	1,570	1,392	1,172
Valuation Metrics						
P/E (DB) (x)	562.1	388.0	169.1	24.4	19.8	15.4
P/E (Reported) (x)	562.1	388.0	169.1	24.4	19.8	15.4
P/BV (x)	1.89	3.66	4.38	3.31	2.61	2.06
FCF Yield (%)	6.8	nm	2.2	4.7	7.0	8.1
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	0.2	0.4	0.7	0.5	0.4	0.3
EV/EBITDA (x)	27.0	35.6	41.1	11.7	8.9	6.2
EV/EBIT (x)	311.5	111.4	75.8	14.2	10.5	7.1
Income Statement (PLNm)						
Sales revenue	**2,703**	**3,043**	**3,076**	**3,302**	**3,953**	**4,573**
Gross profit	**127**	**146**	**172**	**256**	**337**	**399**
EBITDA	**23**	**31**	**52**	**134**	**156**	**190**
Depreciation	21	21	24	24	24	26
Amortisation	0	0	0	0	0	0
EBIT	**2**	**10**	**28**	**110**	**132**	**165**
Net interest income(expense)	3	9	10	-7	-4	0
Associates/affiliates	1	2	2	2	2	2
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	2	-8	-26	0	0	0
Profit before tax	**6**	**10**	**12**	**104**	**128**	**165**
Income tax expense	6	8	-1	20	24	31
Minorities	-1	0	-1	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**2**	**4**	**15**	**86**	**106**	**136**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**2**	**4**	**15**	**86**	**106**	**136**
Cash Flow (PLNm)						
Cash flow from operations	**92**	**0**	**70**	**125**	**174**	**203**
Net Capex	-14	-25	-15	-25	-28	-33
Free cash flow	**78**	**-24**	**55**	**99**	**146**	**171**
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	0	0	2	11	64	79
Net inc/(dec) in borrowings	71	109	43	0	0	0
Other investing/financing cash flows	1	-88	-80	-11	-31	-30
Net cash flow	**150**	**-4**	**20**	**100**	**179**	**220**
Change in working capital	*-67*	*-135*	*-23*	*-19*	*-54*	*-52*
Balance Sheet (PLNm)						
Cash and other liquid assets	493	489	509	609	787	1,008
Tangible fixed assets	97	103	97	99	103	110
Goodwill/intangible assets	84	81	78	78	78	79
Associates/investments	164	150	191	191	191	191
Other assets	1,097	1,488	1,468	1,576	1,887	2,183
Total assets	**1,935**	**2,312**	**2,344**	**2,554**	**3,047**	**3,570**
Interest bearing debt	125	234	277	277	277	277
Other liabilities	1,287	1,553	1,531	1,643	1,966	2,274
Total liabilities	**1,412**	**1,788**	**1,808**	**1,920**	**2,243**	**2,552**
Shareholders' equity	520	523	536	633	803	1,019
Minorities	3	1	0	0	0	0
Total shareholders' equity	**523**	**524**	**536**	**633**	**803**	**1,019**
Net debt	*-368*	*-255*	*-232*	*-332*	*-510*	*-730*
Key Company Metrics						
Sales growth (%)	25.7	12.6	1.1	7.4	19.7	15.7
DB EPS growth (%)	-75.7	91.8	286.9	468.6	23.6	28.3
EBITDA Margin (%)	0.8	1.0	1.7	4.1	4.0	4.2
EBIT Margin (%)	0.1	0.3	0.9	3.3	3.3	3.6
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0
ROE (%)	0.4	0.7	2.8	14.7	14.7	14.9
Capex/sales (%)	0.5	0.8	0.5	0.8	0.7	0.7
Capex/depreciation (x)	0.7	1.2	0.6	1.1	1.2	1.3
Net debt/equity (%)	-70.3	-48.6	-43.3	-52.4	-63.5	-71.7
Net interest cover (x)	nm	nm	nm	16.2	32.6	nm

Source: Company data, Deutsche Bank estimates

Investment thesis

Outlook

We rate Budimex a Hold, as we believe that the company's earnings recovery is already priced in, while our 12-month target price provides for only a low, single-digit total return. Budimex, as a general contractor with a significant infrastructure division, offers one of the best exposures in Poland to the expected boom in road building. Until recently, this market segment was characterized by very low margins, but the increase in the number of sizable, EU-financed projects has improved this. The EU budget for 2007-2013 includes EUR 21.5bn earmarked for the development of Poland's transport infrastructure, of which EUR 15.1bn is being directed into road construction. Although we believe that the plan of the General Directorate for National Roads and Motorways to double spending on road construction in Poland in 2008E to PLN 20.8bn (from PLN 10.3bn in 2007) is unrealistic, we expect the road construction market to grow at double digit rates in the years to come, thus benefiting Budimex. We expect Budimex's net profit to increase by 469%, 24%, and 28%, in 2008E, 2009E, and 2010E, respectively, with the share of infrastructure in total revenues reaching 52% in 2010E (up from 30% in 2007).

Valuation

Our 12-month target price for Budimex of PLN 85/share is based on a 5-year discounted cash flow analysis. The major assumptions of our DCF are a cost of equity of 12.2% and a WACC of 10.1%, both derived from CAPM using a risk free rate of 6.5%, an equity risk premium of 5.0%, and an unlevered fundamental beta of 0.8x (Damodaran industry average). We use a terminal growth rate of 4.9%, calculated through multiplication of the company's reinvestment rate and ROIC.

For illustrative purposes, we also present a peer comparison. Budimex is trading at double-digit premiums to its peers based on 2008E P/E and EV/EBITDA.

Risks

Developments in the Polish construction market (mainly infrastructure), with possible delay/acceleration of the EU-financed road construction projects, constitute downside/upside macro risk to Budimex. As for company-specific issues, we note some possible downside risks: 1) the unsettled dispute with Warsaw Airports over Budimex's retention money for the already-completed contract, 2) possible costs overruns (historically many contracts have turned unprofitable); as well as upside risks: 1) write-backs of losses booked in 2007 on contract with City of Krakow (a lawsuit is underway), and 2) success in further tenders for licenses for construction and management of toll motorways by Budimex's affiliate.

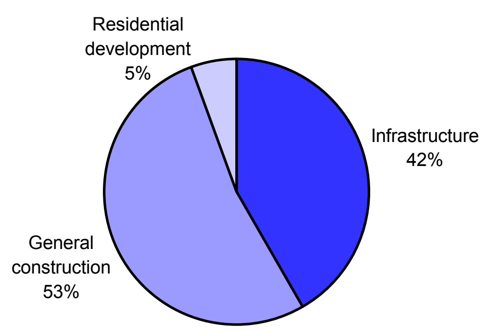
Earnings outlook & valuation

Key business areas

General contractor with sizable infrastructure division

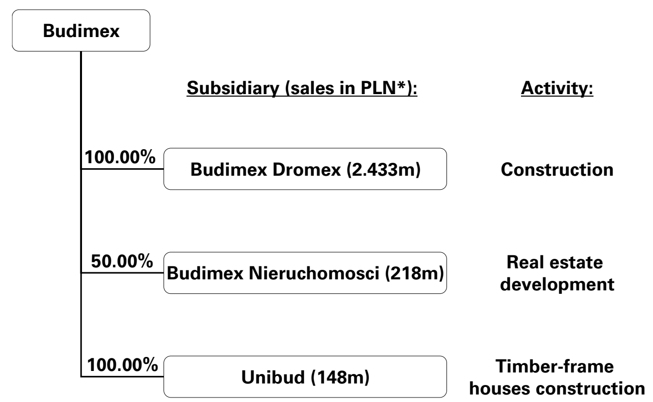
Budimex is a general contractor active in infrastructure segment (roads) and general construction (residential properties, commercial centres, offices). In addition the company owns a 50% stake in a residential property developer (Budimex Nieruchomosci) operating in Poland's major cities.

Figure 46: Budimex: 2008E revenues



Source: Deutsche Bank estimates

Figure 47: Budimex group structure (major subsidiaries)



Source: Budimex, Deutsche Bank estimates *NOTE: 2007 revenues

Earnings drivers

1. Inflow of EU money in development of Poland's infrastructure

The EU budget for 2007-2013 has earmarked EUR 21.5bn for the development of Poland's transport infrastructure, of which EUR 15.1bn is being directed into roads construction

Budimex specializes in large infrastructure projects (motorways, expressways, by-passes) -- the construction of which has been scarce in recent years in Poland. The EU budget for 2007-2013, however, has earmarked EUR 21.5bn for the development of Poland's transport infrastructure, of which EUR 15.1bn is being directed into road construction. Although we believe that the plan of the General Directorate for National Roads and Motorways to double spending on road construction in Poland in 2008E to PLN 20.8bn (from PLN 10.3bn in 2007) is unrealistic, we expect the road construction market to grow at double digit rates in years to come, thus benefiting Budimex. We note that year to date the value of contracts signed by General Directorate for National Roads and Motorways has already exceeded the total for 2007.

2. Construction of 180km section of A1 motorway

Strong chances for PLN 6bn motorway construction project

In July, Autostrada Poludnie, an entity in which Budimex holds 5.05%, won a tender to construct and subsequently operate a 180km section of A1 motorway. The detailed agreement is still under negotiation, but should be completed within a few months. If signed, the deal would pave the way for Budimex to carry out the largest construction contract in its history. The total value of the construction works (in which we expect Budimex to be a general contractor in at least 50%) has not yet been disclosed, but we estimate it at around PLN 6bn (EUR 10m per 1 km of motorway).

3. Residential property development

We expect stable earning contribution from Budimex's residential property development subsidiary

Budimex's residential property development activity is conducted by the company's 50/50 JV with Ferrovial, called Budimex Nieruchomosci. The latter boasts of a land bank located in Warsaw, Krakow and Poznan, which enables construction of almost 0.5m sq. m. of sellable residential space (approximately 8,400 units). Currently, the company is constructing eight projects. Although residential development in Poland is currently experiencing a slowdown, in years to come we expect Budimex's operations in that market segment to continue their solid contribution to consolidated P&L (in 2007 they amounted to PLN 45m at the EBIT level). This is due to 1) the low cost of land acquisition (much below the current market value) which enables the company to achieve high margins, and 2) the company's practice of booking earnings only after a project's completion, implying that in 2008-2009 bookings should reflect strong pre-sales from 2006-2007.

Risks: weak track record delivery

Weak track record of delivery, but this time Budimex appears to be on track

In our view Budimex is an earnings turnaround story, and this time the company appears to be on track to deliver. While we recognise positive developments in the construction market (general revival as compared to three years ago, stabilisation in building material prices) and within the company (more focus on risk control and contract selection) we note that until 2007 Budimex had not delivered on analysts' expectations for several years, mainly due to losses on several contracts.

Earnings forecasts

Backlog shifts to infrastructure; focus on margins, not top-line growth

We expect infrastructure to account for 60% of the backlog following the signing of a contract which has been already won

Budimex's backlog amounts to PLN 3.3bn and is flat year on year. Its structure, however, has shifted more towards infrastructure projects, which currently account for 51% of total, vs. 43% a year ago. The soon to be signed PLN 0.8bn contract for construction of the by-pass of Wroclaw (the tender has been already completed) should increase infrastructure projects' share of the backlog to nearly 60%.

In 2008E we forecast Budimex's revenues to increase by only 7% (vs. expected construction market growth of 19%) as the company has declared that it will now be very selective in taking orders, as it focuses on margins. In 2009E and 2010E we expect Budimex's top-line expansion to be 20% and 16%, respectively. We forecast infrastructure to be the major growth driver, with a 3-year revenue CAGR of 38% in that market segment.

Figure 48: Budimex: revenue forecasts

PLNm	2006	2007	2008E	2009E	2010E
Infrastructure	928	908	1,375	1,950	2,378
General construction	1,904	1,941	1,747	1,747	1,954
Real estate development	130	216	180	255	241
Other	81	11	0	0	0
Total	3,043	3,076	3,302	3,953	4,573
Change (YoY, %)	*13*	*1*	*7*	*20*	*16*

Source: Budimex, Deutsche Bank estimates

We forecast 2008E net profit at PLN 86m; already reported 1H earnings account for 50% of our forecast

On the earnings front, we expect Budimex's EBIT to triple to PLN 110.5 in 2008E, with stable YoY contribution of the real estate development segment (PLN 42m) and a surge in construction EBIT to PLN 69m (from a loss of PLN 17m in the corresponding period a year before). In 2009E and 2010E we forecast increases in EBIT of 20% and 25%, respectively, to PLN 132.2m and PLN 164.8m. We forecast Budimex's net profit to be PLN 85.7m, PLN 105.9m, and PLN 135.9m in 2008E, 2009E, and 2010E, respectively. We note that for 1H 2008 Budimex has already reported net profit of PLN 43m, accounting for 50% of our FY 2008E estimate.

The major risk to our earnings forecast is the contract for the construction of the Okecie Airport in Warsaw, where the airport authority is still holding Budimex's retention money and there is a risk of additional write downs (of up to several dozen PLNm).

Figure 49: Budimex: earnings forecasts

PLNm	2006	2007	2008E	%, YoY	2009E	%, YoY	2010E	%, YoY
Sales	3,043.2	3,075.9	3,302.1	*7*	3,952.8	*20*	4,573.4	*16*
Gross profit (after D&A)	124.7	148.3	232.1	*57*	312.8	*35*	373.8	*19*
Gross margin (%)	*4.1*	*4.8*	*7.0*	-	*7.9*	-	*8.2*	-
EBIT, of which	9.9	28.0	110.5	*294*	132.2	*20*	164.8	*25*
construction	-3.5	-17.4	68.7	*n.m.*	75.0	*9*	95.7	*28*
real estate development	13.5	45.4	41.7	*-8*	57.2	*37*	69.1	*21*
EBIT margin (%)	*0.3*	*0.9*	*3.3*	-	*3.3*	-	*3.6*	-
Pre-tax profit	10.4	12.0	103.6	*766*	128.1	*24*	164.8	*29*
Net profit	3.9	15.1	85.7	*469*	105.9	*24*	135.9	*28*

Source: Budimex, Deutsche Bank estimates

Valuation and recommendation: Hold with 12-M TP of PLN 85

DCF model

Our DCF model returned a 12-month target price of PLN 85

We have developed a 5-year DCF model to arrive at a 12-month target price for Budimex. The major assumptions are as follows:

- We forecast Budimex's revenues will grow by a CAGR of 12%, while EBIT should grow by 45% over 2008E-2012E. High EBIT growth is the result of a very low base in 2007; in 2009E-2012E we forecast an EBIT CAGR of 13%. We forecast the average EBIT margin of 3.4% in 2008E-2012E.
- We expect a terminal growth rate of 4.9%. We calculated it on the base of the following formula: Terminal growth rate = reinvestment rate x ROIC.
- We use a cost of equity of 12.2% and a WACC of 10.1%. We used CAPM to achieve those values, using a risk free rate of 6.5%, an equity risk premium of 5.0%, and an unlevered beta of 0.8x (Damodaran industry average).

Based on the above, we arrived at 12-month target price for Budimex of PLN 85.0. With expected total shareholder return of 4%, we rate Budimex as a Hold.

Figure 50: Budimex: DCF model

PLNm	2008E	2009E	2010E	2011E	2012E
Revenues	3,302.1	3,952.8	4,573.4	5,054.8	5,498.8
EBIT	110.5	132.2	164.8	167.1	178.4
Cash taxes on EBIT	21.0	25.1	31.3	31.8	33.9
NOPAT	89.5	107.1	133.5	135.4	144.5
Depreciation	23.6	24.3	25.6	27.0	27.9
Change in operating WC	18.8	54.1	51.6	40.0	36.9
Capital expenditure	25.3	28.2	32.6	31.9	30.3
Net investment	20.5	58.0	58.6	45.0	39.3
Free cashflow	69.0	49.0	74.9	90.4	105.1
WACC (%)	10.1				
PV FCF 2008E-2012E	286				
Terminal growth (%)	4.9				
Terminal Value (TV)	2,107				
PV TV	1,303				
Total EV	1,588				
Net debt (Jan 2008)	(232)				
Equity value	1,820				
Number of shares (m, fully diluted))	25.5				
Value per share (PLN, 1 Jan 2008)	71				
Month	19				
12-month target price	85				
Revenue growth	7.4	19.7	15.7	10.5	8.8
EBIT growth (%)	293.9	19.7	24.7	1.4	6.7
NOPAT growth (%)	193.9	19.7	24.7	1.4	6.7
FCF growth (%)	338.2	(28.9)	52.8	20.7	16.3
EBIT margin (%)	3.3	3.3	3.6	3.3	3.2
NOPAT margin (%)	2.7	2.7	2.9	2.7	2.6
Capex/Revenues (%)	0.8	0.7	0.7	0.6	0.6
Change in WC/Revenues (%)	0.6	1.4	1.1	0.8	0.7
Change in WC/Change in revenues (%)	8.3	8.3	8.3	8.3	8.3

Source: Deutsche Bank estimates

Peer comparison

Budimex is trading at 2008E P/E and EV/EBITDA of 24.4x and 11.7x, implying respective 19% and 3% premiums to our Polish construction universe. We believe that Budimex's multiples are already pricing in the expected earnings recovery, which appears to be deliverable based on the company's 1H 2008 results.

Figure 51: Budimex: domestic peer comparison (priced as of 19 August)

	Ticker	Recc.	Price	MCAP	P/E (x)			3-year EPS	EV/EBITDA (x)		
			(PLN)	(US$m)	2008E	2009E	2010E	CAGR (%)	2008E	2009E	2010E
Budimex	**BMEX.WA**	**Hold**	**82.0**	**926**	**24.4**	**19.8**	**15.4**	**108**	**11.7**	**8.9**	**6.2**
PBG	PBGG.WA	Buy	231.0	1,372	20.6	15.9	12.0	36	12.6	9.4	7.2
Polimex	MOSD.WA	Sell	5.6	1,200	20.3	17.8	14.5	23	11.0	9.4	7.9
Pol-Aqua	PQAA.WA	Buy	50.8	617	15.9	12.5	10.6	38	10.5	7.7	6.3
Median					**20.5**	**16.9**	**13.2**	**37**	**11.4**	**9.2**	**6.8**
Budimex's Premium/(Discount), %					*19*	*17*	*17*	-	*3*	*-3*	*-8*

Source: Deutsche Bank estimates

Appendix: Capital history and shareholder structure

Ferrovial of Spain is the strategic shareholder, with a 59.1% stake

Budimex has been listed on the WSE since 1995, but since 2000 the company has not conducted any new issues. Budimex's strategic shareholder is Ferrovial of Spain, which holds a 59.1%.

Figure 52: Budimex: capital history

Date	Series	No. of shares	Issue price (PLN)	No. of shares outstanding	Comment
Aug-94	A	3,000,000	5.00	3,000,000	conversion to plc
Nov-94	B	2,000,000	5.00	5,000,000	rights issue
May-95	C	1,900,285	7.00	6,900,285	IPO
Apr-96	D	1,725,072	17.00	8,625,357	rights issue
Aug-97	E	2,000,000		10,625,357	merger with Budimex Trading
Jun-98	F	5,312,678	15.00	15,938,035	capital increase
Nov-99/Jul-00	G, H, I, K	5,337,046		21,275,081	merger with Unibud, Budimex Warszawa, Budimex Poznan, Mostostal Krakow
Dec-00	L	4,255,017	20.50	25,530,098	rights issue

Source: Deutsche Bank

Figure 53: Budimex: shareholder structure

Shareholder	No. of shares	As % of total	No. of voting rights	As % of total
Grupo Ferrovial	15,078,159	59.1	15,078,159	59.1
BZ WBK Mutual Fund	3,632,317	14.2	3,632,317	14.2
Other	6,819,622	26.7	6,819,622	26.7
Total	**25,530,098**	**100.0**	**25,530,098**	**100.0**

Source: Deutsche Bank

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	**Ticker**	**Recent price***	**Disclosure**
PBG	PBGG.WA	242.00 (PLN) 21 Aug 08	NA
Budimex	BMEX.WA	82.40 (PLN) 21 Aug 08	6
Polimex	MOSD.WA	5.45 (PLN) 21 Aug 08	NA
POL-AQUA	PQAA.WA	50.10 (PLN) 21 Aug 08	6

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

Important Disclosures Required by U.S. Regulators

Disclosures marked with an asterisk may also be required by at least one jurisdiction in addition to the United States. See "Important Disclosures Required by Non-US Regulators" and Explanatory Notes.

6. Deutsche Bank and/or its affiliate(s) owns one percent or more of any class of common equity securities of this company calculated under computational methods required by US law.

Important Disclosures Required by Non-U.S. Regulators

Please also refer to disclosures in the "Important Disclosures Required by US Regulators" and the Explanatory Notes.

6. Deutsche Bank and/or its affiliate(s) owns one percent or more of any class of common equity securities of this company calculated under computational methods required by US law.

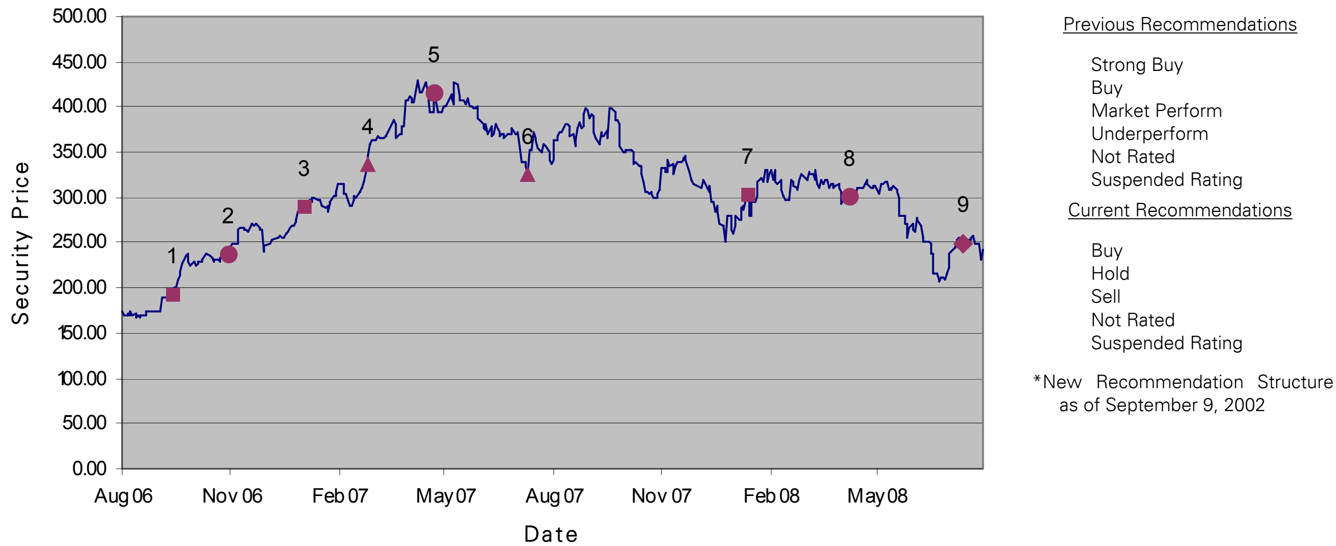
For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at http://gm.db.com.

Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst about the subject issuers and the securities of those issuers. In addition, the undersigned lead analyst has not and will not receive any compensation for providing a specific recommendation or view in this report. Tomasz Krukowski

Historical recommendations and target price: PBG (PBGG.WA)

(as of 21/08/2008)



1.	5/10/2006:	Buy, Target Price Change PLN250.00	6.	2/8/2007:	Upgrade to Buy, PLN400.00
2.	21/11/2006:	Downgrade to Hold, PLN250.00	7.	4/2/2008:	No Recommendation, Target Price Change PLN0.00
3.	24/1/2007:	Hold, Target Price Change PLN300.00	8.	30/4/2008:	Transferred to EMC coverage.
4.	19/3/2007:	Upgrade to Buy, Target Price Change PLN400.00	9.	5/8/2008:	Transferred to sector coverage.
5.	15/5/2007:	Downgrade to Hold, PLN400.00			

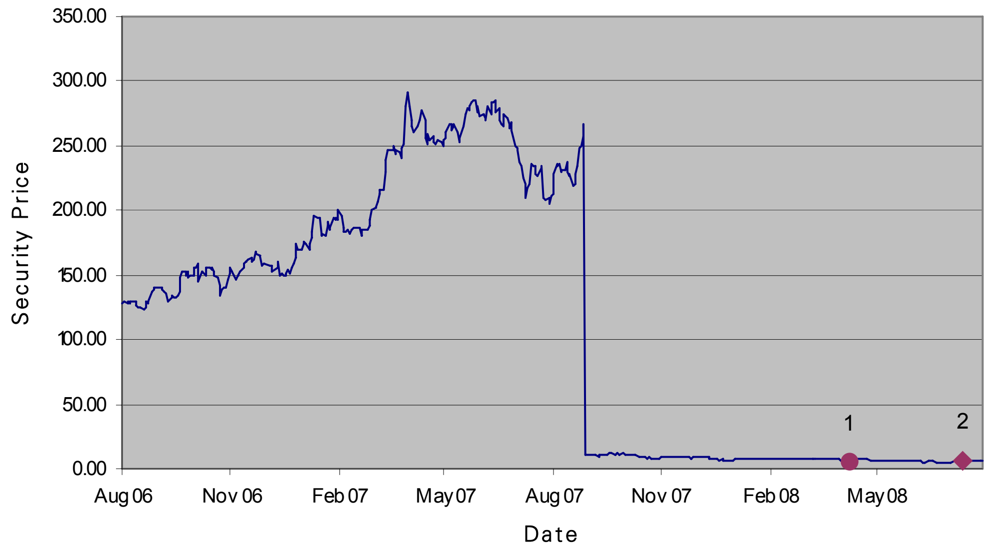
Historical recommendations and target price: Budimex (BMEX.WA)

(as of 21/08/2008)

1.	5/10/2006:	Hold, Target Price Change PLN80.00	4.	20/4/2007:	Upgrade to Buy, Target Price Change PLN200.00
2.	21/11/2006:	Upgrade to Buy, PLN80.00	5.	7/11/2007:	Buy, Target Price Change PLN118.00
3.	24/1/2007:	Downgrade to Sell, Target Price Change PLN90.00	6.	4/2/2008:	No Recommendation, Target Price Change PLN0.00

Historical recommendations and target price: Polimex (MOSD.WA)

(as of 21/08/2008)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

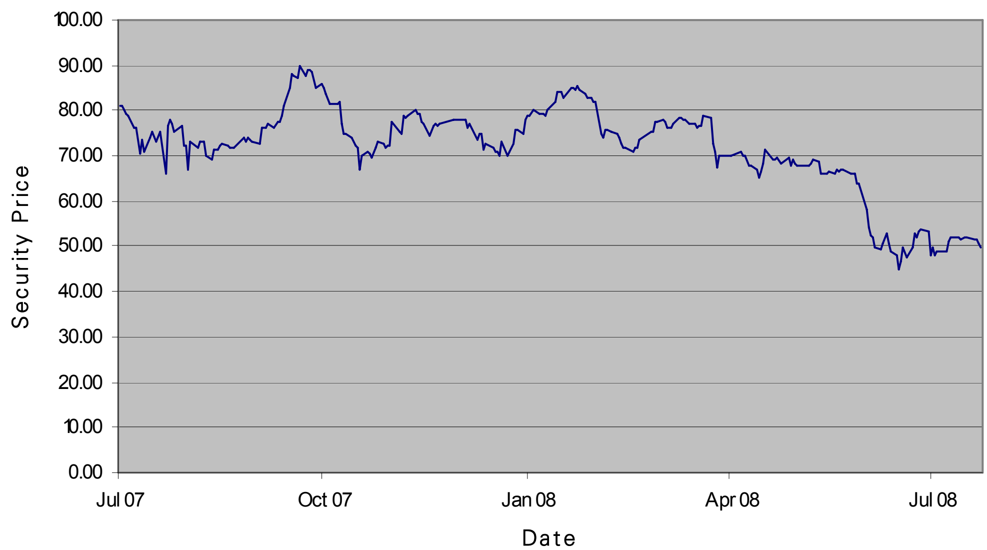
Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure as of September 9, 2002

1.	30/4/2008:	Transferred to EMC coverage.	2.	5/8/2008:	Transferred to sector coverage.

Historical recommendations and target price: POL-AQUA (PQAA.WA)

(as of 21/08/2008)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure as of September 9, 2002

Equity rating key

Buy: Based on a current 12-month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12 months out and, based on this time horizon, do not recommend either a Buy or Sell.

Notes:
1. Newly issued research recommendations and target prices always supersede previously published research.

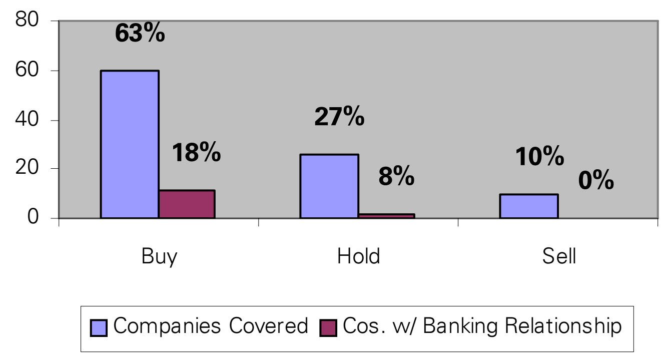
2. Ratings definitions prior to 27 January, 2007 were:

Buy: Expected total return (including dividends) of 10% or more over a 12-month period

Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period

Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships



Global Universe

Regulatory Disclosures

1. Important Additional Conflict Disclosures

Aside from within this report, important conflict disclosures can also be found at https://gm.db.com/equities under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

2. Short-Term Trade Ideas

Deutsche Bank equity research analysts sometimes have shorter-term trade ideas (known as SOLAR ideas) that are consistent or inconsistent with Deutsche Bank's existing longer term ratings. These trade ideas can be found at the SOLAR link at http://gm.db.com.

3. Country-Specific Disclosures

Australia: This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.
EU countries: Disclosures relating to our obligations under MiFiD can be found at http://globalmarkets.db.com/riskdisclosures.
Japan: Disclosures under the Financial Instruments and Exchange Law: Company name - Deutsche Securities Inc. Registration number - Registered as a financial instruments dealer by the Head of the Kanto Local Finance Bureau (Kinsho) No. 117. Member of associations: JSDA, The Financial Futures Association of Japan. Commissions and risks involved in stock transactions - for stock transactions, we charge stock commissions and consumption tax by multiplying the transaction amount by the commission rate agreed with each customer. Stock transactions can lead to losses as a result of share price fluctuations and other factors. Transactions in foreign stocks can lead to additional losses stemming from foreign exchange fluctuations.
New Zealand: This research is not intended for, and should not be given to, "members of the public" within the meaning of the New Zealand Securities Market Act 1988.
Russia: This information, interpretation and opinions submitted herein are not in the context of, and do not constitute, any appraisal or evaluation activity requiring a license in the Russian Federation.

European locations

Deutsche Bank AG London
1 Great Winchester Street
London EC2N 2EQ

Tel: (44) 20 7545 8000

Deutsche-Bank AG,
Seccursale de Paris
3, Avenue de Friedland
75008 Paris Cedex 8
France
Tel: (33) 1 44 95 64 00

Deutsche Bank AG
Equity Research
Große Gallusstraße 10-14
60272 Frankfurt am Main
Germany
Tel: (49) 69 910 0

Deutsche Bank Sim S.p.a
Via Santa Margherita 4
20123 Milan
Italy

Tel: (39) 0 24 024 1

Deutsche Bank AG
Herengracht 450
1017 CA Amsterdam
Netherlands

Tel: (31) 20 555 4911

Deutsche Securities
S.V.B, S.A.
P0 de la Castellana, 42
7th Floor
28046 Madrid, Spain
Tel: (34) 91 782 8400

Deutsche Bank AG
Stureplan 4 A, Box 5781
S-114 87 Stockholm
Sweden

Tel: (46) 8 463 5500

Deutsche Bank AG
Uraniastrasse 9
PO Box 7370
8023 Zürich
Switzerland
Tel: (41) 1 224 5000

Deutsche Bank AG, Helsinki
Kaivokatu 10 A, P.O.Bvox 650
FIN-00101 Helsinki
Finland

Tel: (358) 9 25 25 25 0

Deutsche Bank AG
Hohenstaufengasse 4
1010 Vienna
Austria

Tel: (43) 1 5318 10

Deutsche Bank AG
Aurora business park
82 bld.2 Sadovnicheskaya street
Moscow, 115035
Russia
Tel: (7) 495 797-5000

Deutsche Bank AG, Warsaw
al.Armii Ludowej 26
Budynek FOCUS
00-609 Warsaw
Poland
Tel: (48) 22 579-98

Deutsche Bank AG, Turkey
Eski Buyukdere Cad. Tekfen Tower
No:209 Kat:17-18
TR-34394 Istanbul
Tel: (90) 212 317 01 00

Deutsche Bank AG, Greece
23A Vassilissis Sofias Avenue
6th Floor
10674 Athens, Greece
Tel: (30) 210 72 56 150

International locations

Deutsche Bank Securities Inc.
60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250 2500

Deutsche Bank AG London
1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: (44) 20 7545 8000

Deutsche Bank AG
Große Gallusstraße 10-14
60272 Frankfurt am Main
Germany
Tel: (49) 69 910 0

Deutsche Bank AG
Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG
Level 55
Cheung Kong Center
2 Queen's Road Central
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.
2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6701

Global Disclaimer

The information and opinions in this report were prepared by Deutsche Bank AG or one of its affiliates (collectively "Deutsche Bank"). The information herein is believed to be reliable and has been obtained from public sources believed to be reliable. Deutsche Bank makes no representation as to the accuracy or completeness of such information.

Deutsche Bank may (1) engage in securities transactions in a manner inconsistent with this research report, (2) with respect to securities covered by this report, sell to or buy from customers on a principal basis, and (3) consider this report in deciding to trade on a proprietary basis.

Opinions, estimates and projections in this report constitute the current judgment of the author as of the date of this report. They do not necessarily reflect the opinions of Deutsche Bank and are subject to change without notice. Deutsche Bank has no obligation to update, modify or amend this report or to otherwise notify a recipient thereof in the event that any opinion, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. Prices and availability of financial instruments are subject to change without notice. This report is provided for informational purposes only. It is not an offer or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy.

The financial instruments discussed in this report may not be suitable for all investors and investors must make their own informed investment decisions. Stock transactions can lead to losses as a result of price fluctuations and other factors. If a financial instrument is denominated in a currency other than an investor's currency, a change in exchange rates may adversely affect the investment. Past performance is not necessarily indicative of future results.

Unless governing law provides otherwise, all transactions should be executed through the Deutsche Bank entity in the investor's home jurisdiction. In the U.S. this report is approved and/or distributed by Deutsche Bank Securities Inc., a member of the NYSE, the NASD, NFA and SIPC. In Germany this report is approved and/or communicated by Deutsche Bank AG Frankfurt authorized by the BaFin. In the United Kingdom this report is approved and/or communicated by Deutsche Bank AG London, a member of the London Stock Exchange and regulated by the Financial Services Authority for the conduct of investment business in the UK and authorized by the BaFin. This report is distributed in Hong Kong by Deutsche Bank AG, Hong Kong Branch, in Korea by Deutsche Securities Korea Co. and in Singapore by Deutsche Bank AG, Singapore Branch. In Japan this report is approved and/or distributed by Deutsche Securities Inc. The information contained in this report does not constitute the provision of investment advice. In Australia, retail clients should obtain a copy of a Product Disclosure Statement (PDS) relating to any financial product referred to in this report and consider the PDS before making any decision about whether to acquire the product. Deutsche Bank AG Johannesburg is incorporated in the Federal Republic of Germany (Branch Register Number in South Africa: 1998/003298/10). Additional information relative to securities, other financial products or issuers discussed in this report is available upon request. This report may not be reproduced, distributed or published by any person for any purpose without Deutsche Bank's prior written consent. Please cite source when quoting.