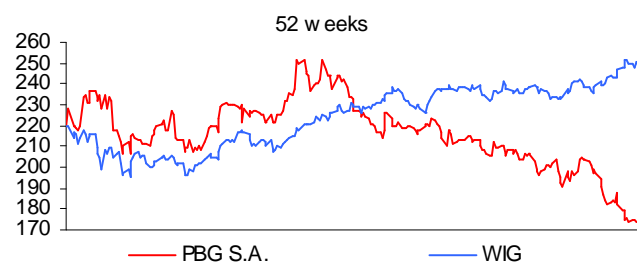


Company Report – Construction Services – Poland – April 19, 2011

PBG S.A. Reduce

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PLN mn	2010	2011e	2012e	2013e
Net sales	2,740.3	2,454.4	2,310.0	2,539.7
EBITDA	319.4	285.1	273.0	284.3
EBIT	272.7	232.4	228.9	235.2
Net result after min.	224.3	197.6	193.9	197.8
EPS (PLN)	15.69	13.82	13.57	13.84
CEPS (PLN)	18.40	16.98	16.26	16.55
BVPS (PLN)	112.29	152.69	162.11	162.39
Div./share (PLN)	1.40	4.15	13.57	13.84
EV/EBITDA (x)	12.2	9.5	10.1	9.9
P/E (x)	13.6	12.6	12.8	12.6
P/CE (x)	11.6	10.3	10.7	10.5
Dividend Yield	0.7%	2.4%	7.8%	7.9%



Performance	12M	6M	3M	1M
in PLN	-20.9%	-23.3%	-16.7%	-13.3%
in EUR	-22.7%	-24.0%	-18.4%	-11.1%

Share price (PLN)	174.10	Reuters	PBGG.WA	Free float	75.9%
Number of shares (mn)	14.3	Bloomberg	PBG PW	Shareholders	Jerzy Wisniewski (26.1%)
Market capitalization (PLN mn / EUR mn)	2,489 / 630	Div. Ex-date			Pioneer Pekao IM (21.58%)
Enterprise value (PLN mn / EUR mn)	2,720 / 689	Target price	167.0	Homepage:	www.pbg-sa.pl

Running out of gas

- Since our last report (in which we assigned PBG a Reduce recommendation), the share price has decreased by over 20%. However, in the meantime, PBG 1) failed to significantly strengthen its backlog; 2) did not present convincing or promising ideas for future development; 3) reported a deteriorating margin; and 4) is gradually running out of the most profitable gas contracts. Therefore, we lower our 1Y target price for PBG to PLN 167 per share and maintain our Reduce recommendation
- Our valuation of PBG is not far from current market prices, but we think that PBG will continue to underperform the market. At a recent conference, PBG indicated that Spain's OHL - which is to buy subsidiary Hydrobudowa Polska - may be a bit more cautious after the failed acquisition of Pol-Aqua by its competitor Dragados. PBG management points out that the transaction is almost certain. We also assume a successful end for PBG. However, the delays in closing the transaction (it is now planned for 3Q11) on the sale of Hydrobudowa Polska are worrying. In our opinion, PBG gets a very good price for its subsidiaries, which are performing quite weakly. The possible failure could cause a significant negative impact on the price (according to our estimations, about PLN 14 per share).
- The plan for the acquisition of 66% of listed company EPD (in which PBG already holds 25%) will not be sufficient to reverse the downward trend. In our opinion, PBG will succeed in the acquisition of EPD, as the price it pays offers a premium to the peers. Moreover, the recent results of EPD were rather disappointing and the power engineering market has still not woken up from its slumber.

INVESTMENT STORY

1Q results ahead - should be neutral for the market

We expect some y/y improvement in 1Q 2011 (in comparison to the very weak 1Q 2010). However, this would be only thanks to other operating net boosting the results by PLN 10mn. Without this, the core business results would be weaker y/y (last year in 1Q there was no major one-off). Overall we expect no major influence of the 1Q 11 results on the market price.

Quarterly snapshot

Consolidated, IFRS

(PLN, mn)	1Q 11e	1Q 10	y/y
Revenue	520.0	469.0	11%
EBITDA	47.4	35.5	34%
EBIT	36.0	23.9	51%
Net earnings	22.0	17.8	24%
Operating margin	6.9%	5.1%	
Net margin	4.2%	3.8%	

Source: Company Data, Erste Group Research

Sale of Hydrobudowa Polska

As we wrote in our previous report, the price for Hydrobudowa Polska and Aprivia is very good. Looking at the depreciating construction companies, the contrast is even stronger. OHL declared that it would pay PLN 4.01 per share for Hydrobudowa. This implies an EV/EBIT ratio of around 20, which is quite demanding. Currently, the market price of Hydrobudowa amounts to about PLN 2.3 per share, which is more in line with the peers. At a recent conference, PBG indicated that, after the huge disappointment of Spain's Dragados in the acquisition of Pol-Aqua, OHL is a little more cautious concerning the acquisition of Hydrobudowa. Nevertheless, the CEO declared that he believes in the successful closing of the transaction (we also assume such a scenario), but the dose of uncertainty will remain a burden on the share price. In our opinion, the potential cancellation by OHL would result in a significant negative blow for PBG's market price.

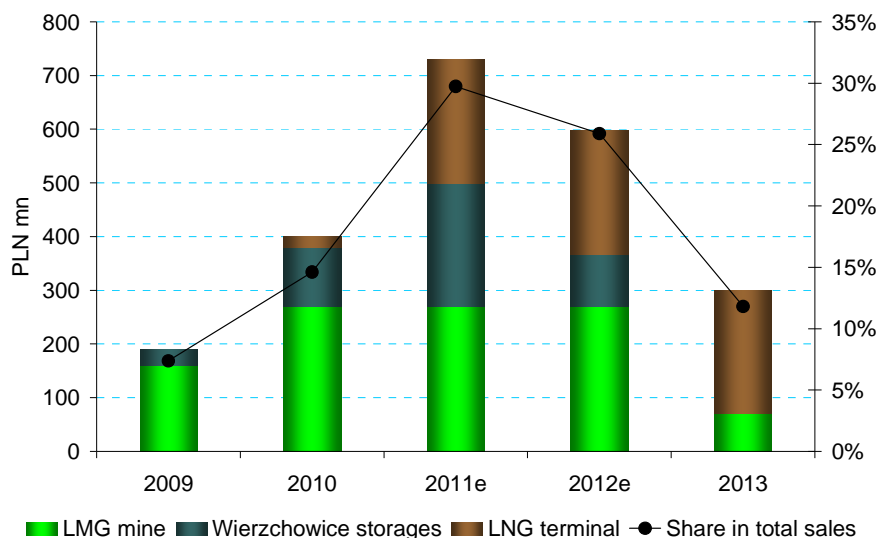
Deteriorating results

We are observing decreasing profitability of the core business operations. This is characteristic for almost all construction companies. However, in the case of PBG, we expected a bit stronger performance, due to the execution of two gas contracts signed before the slump. PBG failed to meet its EBIT forecast for 2010 of PLN 300mn. EBIT amounted to only PLN 272mn and, more importantly, the profit on the sale amounted to only PLN 238mn. For 2011, the company plans EBIT of PLN 230mn. This is below our earlier forecast of PLN 240mn, due especially to the fact that we assumed the consolidation of subsidiaries for sale only in 1Q11, while it seems that Hydrobudowa and Aprivia will be consolidated for most of the year.

Gas contract Eldorado to slowly diminish

The major source of the extraordinary profitability of PBG (which, with a gross margin at 12.7% in 2010, is almost double the sector average) is two contracts in the gas segment – the LMG mine and underground storage in Wierzchowice. Gas & oil construction in 2010 generated 52% of the total gross margin (while generating only 29% of sales); for 2011, we expect this ratio to increase to 62% (36% of sales). However, we think that 2010 and 2011 are the culmination and we expect a gradual step down in the coming periods. The graph below illustrates the expected income on major gas contracts.

Participation of major contracts in oil & gas segment in total sales



Source: Company data, Erste Group Research

There are three major contracts in the gas & oil segment - the LMG mine, Wierchowice gas storage and LNG terminal. We assume over a 20% gross margin only in the cases of the LMG mine and Wierchowice gas storage. LNG is a contract grabbed in the midst of the crisis (the first part of 2010). We would definitely assume lower profitability on this project.

Striving to keep results flat

In the near future, we do not foresee any factors that could boost the share price of PBG. We expect that PBG will be striving to maintain its result at levels close to PLN 200mn in the coming periods. The factors that will burden PBG's results in the subsequent periods are listed below:

-2011: We expect the net result close to the FY forecast of PLN 200mn (11% decrease y/y). This should be a year of record inflows from two most profitable major gas contracts. However the deterioration of margins on other fields is a burden.

-2012: The full deconsolidation of the Hydrobudowa and Aprivia puts around PLN 40mn burden on EBIT of the group. Sales from most profitable gas contracts to decrease by around PLN 140mn (decrease in terms of gross margin by around PLN 35mn).

-2013: LMG mine contract to be completed, strong sales from much less profitable (according to our assumptions) LNG terminal contract.

Power engineering segment to disappoint in 2011

As is the case for nearly all of its competitors, PBG hopes to reverse the negative trend by winning major contracts in the power engineering segment. However, we assume that 2011 will be a significant disappointment for all companies in the segment in terms of new contracts. We assume that there will not be a single major contract in power engineering in Poland through the end of the year. Below, we present a list of the most advanced major projects that earlier seemed to have a realistic chance of being resolved by the end of the year, along with our reasoning concerning the possible resolution date.

Siekierki power plant by Vattenfall: Estimated value of PLN 3bn, best bid by Polimex.

Initially the most advanced project, but the withdrawal of Vattenfall from Poland will certainly delay the investment – although the project itself is reasonable. We expect resolution at the end of 2012.

Opole power plant: Estimated value of over PLN 10bn, three bids, including from consortium with PBG.

Currently the most advanced project. However, we have a feeling that PGE is a little hesitant concerning the realization of the project. There is a chance for resolution in 4Q11, but we think that the more probable date of closure is 2012.

Stalowa Wola power plant: Estimated value of PLN 2bn.

Joint venture project of Tauron and PGNiG. The project is reasonable and the determination of the investors is visible. However, the number of companies interested in its execution is double-digit, which it is bound to prolong the whole process significantly. We would assume closure in 2012.

Jaworzno power plant: Estimated value of PLN 5bn.

The contracting process is not very advanced and again hesitation concerning the realization of hard coal projects appears. In our opinion, there is no chance for a resolution in 2011. Closure in 2012 is possible.

Ostroleka power plant: Estimated value of PLN 5bn.

Again, an investment planned by a state-owned company, so realization is possible. We would assume closure in 2012.

Kozienice power plant: Estimated value of PLN 5bn.

The privatization process blocked the realization of the investment. EDF did not want to agree to the realization of the project, which is quite meaningful. Closure can potentially happen in 2012.

Polnoc power plant: Estimated value of PLN 10bn

The big unknown. This is the only major project to be executed not by a state-owned group. What is more, it is a greenfield investment (the formal process seems to be quite hard for execution in Poland) and it is planned to be fired with hard coal. So far, private and foreign capital seem to be completely unwilling to invest in such projects. The investor hopes to finalize the process this year. We think that this is not very realistic.

Energomontaz Poludnie to strengthen power engineering arm

PBG has announced a public bid for the shares of Energomontaz Poludnie (EPD), a power engineering construction company. PBG already holds a 25% stake in EPD and wants to increase its share to 66%. PBG has offered to pay PLN 4.1 per share; the total value of the purchase would amount to PLN 120mn. In our opinion, the offered price includes some premium to peers; investors will probably eagerly respond to the bid and PBG will succeed. The recent performance of EPD (in terms of recorded results) has been quite weak. We do not expect a major improvement of the performance of the core business soon. The other risk factor is that it seems that its management the Gasinowicz family (which owns a 26% stake in EPD) - does not seem to back the bid. We assume the consolidation of EPD starting from the beginning of 3Q11, but the transaction does not increase our valuation of the PBG group.

Cooperation with OHL

PBG often emphasizes the good prospects of potential cooperation with Spain's OHL. PBG wants to target the markets of South America, Russia and the Middle East together with its partner. We are a bit skeptical, as we do not see the significant value added for OHL in such a venture. PBG also lacks capacities and experience in terms of the execution of export contracts. What is more, the example of other Polish companies shows that the barriers to entering foreign markets are strong.

Company Report – PBG S.A.

VALUATION

We employed a DCF valuation tool to estimate the fair value of the company. The DCF is based on our forecasts for 2011-2015e. We used a discounted rate based on WACC and a terminal value based on perpetuity. The DCF led us to a fair value of PLN 167 per share, which we think accurately reflects the value of the company. The peer comparison shows that PBG is traded with premium to its peers especially looking ahead. This is due to the fact that PBG is going through peak margins (which weight in sales will slowly diminish) while in case of most of its peers bottom performance is already recorded and recovery is expected. Taking all this into consideration, we have decided to maintain our Reduce recommendation.

Assumptions

Our estimates are based on the following assumptions:

- The sale of Hydrobudowa Polska taking place at the end of 3Q11
- Success in the public bid for EPD (increase of stake to 66%)
- Full realization of quarry project
- We value PBG group real estate at book value
- We value loans granted by PBG (PLN 270mn) at their book value and add them to group valuation.
- We value remaining 12% stake in Hydrobudowa Polska at current market price and do not assume increase of stake
- Risk-free rate at 6.2% (and 5.0% in perpetuity), equity premium at 6% (and 5.7% in perpetuity), debt premium at 2.5%

Peers

	P/E			EV/EBIT			P/BV
	2011e	2012e	2013e	2011e	2012e	2013e	2011e
Mostostal Warszawa	17.8	14.0		9.3	6.4		1.6
PBG S.A.	10.9	11.3		8.7	8.0		1.4
Polimex	12.3	10.2		9.6	8.0		1.2
STRABAG	14.6	14.2		8.8	8.4		0.8
Trakcja Polska	11.6	9.2		7.7	6.6		1.1
Budimex	12.9	13.8	14.9	7.7	8.5	10.6	4.0
Eiffage SA	13.4	11.5	9.0	15.3	13.5	12.3	1.3
Elektrobudowa SA	13.2	12.0	10.8	9.9	8.4	7.0	2.0
Erbud SA	10.6	9.5	8.5	7.3	6.3	5.5	1.7
Hochtief AG	21.4	13.0	11.8	13.3	5.5	5.1	1.6
Skanska AB	10.3	14.1	13.8	6.1	8.8	8.7	2.2
Vinci SA	12.3	11.4	10.6	10.4	9.7	9.0	1.8
Energomontaz Poludnie	16.4	14.1		12.2	9.6		1.7
Median total	12.9	12.0	10.8	9.3	8.4	8.7	1.6
PBG S.A.*	12.6	12.8	12.6	10.6	10.8	10.5	1.1
Premium/discount	-2%	7%	17%	15%	29%	21%	-33%

Source: Factset, Erste Group Research estimations

*EV corrected with other operating assets

Company Report – PBG S.A.

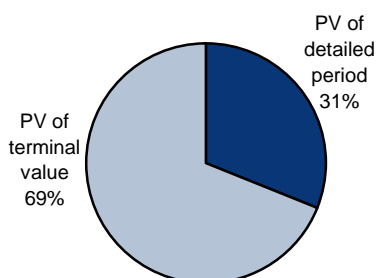
WACC calculation

	2011e	2012e	2013e	2014e	2015e	NY (TV)"
Risk free rate	6.2%	6.2%	6.2%	6.2%	6.2%	5.0%
Equity risk premium	6.0%	6.0%	6.0%	6.0%	6.0%	5.7%
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	12.2%	12.2%	12.2%	12.2%	12.2%	10.7%
Cost of debt	8.7%	8.7%	8.7%	8.7%	8.7%	7.5%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
After-tax cost of debt	7.0%	7.0%	7.0%	7.0%	7.0%	6.1%
Equity weight	72%	74%	71%	69%	68%	70.0%
WACC	10.8%	10.9%	10.7%	10.6%	10.6%	9.3%

DCF valuation

(PLN mn)	2011e	2012e	2013e	2014e	2015e	NY (TV)"
<i>Sales growth</i>	-4.8%	-5.9%	9.9%	6.3%	3.0%	1.5%
EBIT	232.4	228.9	235.2	238.6	240.5	244.1
<i>EBIT margin</i>	9.5%	9.9%	9.3%	8.8%	8.6%	8.6%
<i>Tax rate</i>	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Taxes on EBIT	-44.2	-43.5	-44.7	-45.3	-45.7	-46.4
NOPLAT	188.3	185.4	190.6	193.2	194.8	197.7
+ Depreciation	52.7	44.1	49.1	51.6	53.6	53.6
<i>Capital expenditures / Depreciation</i>	-628.4%	422.0%	154.8%	118.3%	100.0%	100.0%
+/- Change in working capital	-186.3	-31.4	-40.9	-28.2	-14.0	-9.6
<i>Chg. working capital / chg. Sales</i>	150.7%	21.7%	-17.8%	-17.6%	-17.5%	-23.0%
- Capital expenditures	331.0	-186.0	-76.0	-61.0	-53.6	-53.6
Free cash flow to the firm	385.62	12.12	122.76	155.58	180.75	188.11
<i>Terminal value growth</i>						1.5%
Terminal value						2,443.9
Discounted free cash flow - Dec 31 2010	348.1	9.9	90.3	103.5	108.7	1,470.2
Enterprise value - Dec 31 2010	2,130.6					
Minorities	100.0					
Non-operating assets	650.0					
Net debt	629.7					
Other adjustments	0.0					
Equity value - Dec 31 2010	2,051.0					
Number of shares outstanding (mn)	14.3					
Cost of equity	12.2%					
12M target price per share (PLN)	167					
Current share price (PLN)	174.1					
<i>Up/Downside</i>	-4.3%					

Enterprise value breakdown



Sensitivity (per share)

		Terminal value EBIT margin				
		7.6%	8.1%	8.6%	9.1%	9.6%
WACC	8.3%	167	176	184	192	201
	1.8%	159	167	175	183	190
	1.3%	152	159	167	174	181
	1.8%	146	153	159	166	173
	1.3%	140	147	153	159	166
		Terminal value growth				
		0.5%	1.0%	1.5%	2.0%	2.5%
WACC	8.3%	165	174	184	196	209
	8.8%	158	166	175	185	196
	9.3%	152	159	167	175	185
	9.8%	146	153	159	167	176
	10.3%	141	147	153	160	168

Source: Erste Group Research

Company Report – PBG S.A.

Income Statement	2008	2009	2010	2011e	2012e	2013e
(IAS, PLN mn, 31/12)	31/12/2008	31/12/2009	31/12/2010	31/12/2011	31/12/2012	31/12/2013
Net sales	2,089.33	2,577.98	2,740.31	2,454.37	2,310.00	2,539.66
Cost of goods sold	-1,751.22	-2,185.86	-2,393.08	-2,131.41	-2,004.75	-2,226.57
Gross profit	338.11	392.12	347.24	322.96	305.25	313.09
SG&A	-106.85	-109.76	-109.17	-105.26	-76.31	-77.84
Other operating revenues	-7.85	4.14	34.64	14.73	0.00	0.00
Other operating expenses	0.00	0.00	0.00	0.00	0.00	0.00
EBITDA	270.26	333.62	319.42	285.10	273.02	284.33
Depreciation/amortization	-46.84	-47.12	-46.71	-52.67	-44.08	-49.08
EBIT	223.42	286.50	272.71	232.43	228.94	235.25
Financial result	-9.88	-23.87	-5.10	2.11	10.50	9.01
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	213.53	262.63	267.61	234.54	239.44	244.26
Income taxes	-25.79	-40.59	-49.05	-44.56	-45.49	-46.41
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	-29.70	-11.42	5.76	7.60	0.00	0.00
Net result after minorities	158.04	210.63	224.32	197.58	193.94	197.85
Balance Sheet	2008	2009	2010	2011e	2012e	2013e
(IAS, PLN mn, 31/12)						
Intangible assets	347.65	351.98	388.52	457.56	457.56	457.56
Tangible assets	411.53	368.26	665.39	615.04	756.96	783.88
Financial assets	150.14	291.29	545.22	625.33	612.61	613.75
Total fixed assets	909.32	1,011.53	1,599.13	1,697.93	1,827.13	1,855.20
Inventories	69.27	233.69	293.50	409.71	440.71	473.99
Receivables and other current assets	1,502.92	2,185.15	1,939.05	1,155.42	1,099.84	1,188.26
Other assets	21.09	24.17	54.64	61.36	57.75	63.49
Cash and cash equivalents	354.37	553.80	868.65	736.31	693.00	761.90
Total current assets	1,947.64	2,996.82	3,155.83	2,362.81	2,291.30	2,487.64
TOTAL ASSETS	2,856.96	4,008.35	4,754.96	4,060.74	4,118.43	4,342.83
Shareholders' equity	1,010.88	1,395.31	1,605.15	2,182.72	2,317.39	2,321.29
Minorities	103.69	228.18	226.30	100.00	100.00	100.00
Hybrid capital and other reserves	0.00	0.00	0.00	0.00	0.00	0.00
Pension and other LT personnel accruals	0.00	0.00	0.00	0.00	0.00	0.00
LT provisions	91.36	66.03	88.45	87.69	78.54	73.92
Interest-bearing LT debts	323.08	493.61	952.34	396.47	391.72	453.49
Other LT liabilities	17.02	40.11	0.00	0.00	0.00	0.00
Total long-term liabilities	340.11	533.72	952.34	396.47	391.72	453.49
Interest-bearing ST debts	717.84	701.07	545.97	470.98	464.74	545.89
Other ST liabilities	593.09	1,084.04	1,336.75	822.88	766.05	848.23
Total short-term liabilities	1,294.17	1,774.33	1,858.03	1,279.30	1,217.09	1,379.06
TOTAL LIAB. , EQUITY	2,856.96	4,008.35	4,754.96	4,060.74	4,118.43	4,342.83
Cash Flow Statement	2008	2009	2010	2011e	2012e	2013e
(IAS, PLN mn, 31/12)						
Cash flow from operating activities	-253.05	292.00	476.57	28.82	264.04	251.09
Cash flow from investing activities	-186.65	-124.00	-352.51	200.26	-186.00	-76.00
Cash flow from financing activities	326.22	31.43	190.79	-361.41	-121.35	-106.20
CHANGE IN CASH , CASH EQU.	-113.48	199.44	314.84	-132.34	-43.31	68.90
Margins & Ratios	2008	2009	2010	2011e	2012e	2013e
Sales growth	51.8%	23.4%	6.3%	-10.4%	-5.9%	9.9%
EBITDA margin	12.9%	12.9%	11.7%	11.6%	11.8%	11.2%
EBIT margin	10.7%	11.1%	10.0%	9.5%	9.9%	9.3%
Net profit margin	9.0%	8.6%	8.0%	7.7%	8.4%	7.8%
ROE	17.9%	17.5%	15.0%	10.4%	8.6%	8.5%
ROCE	12.6%	11.3%	9.1%	7.5%	7.2%	7.1%
Equity ratio	39.0%	40.5%	38.5%	56.2%	58.7%	55.8%
Net debt	686.5	640.9	629.7	131.1	163.5	237.5
Working capital	632.4	1,198.3	1,243.2	1,022.1	1,016.5	1,045.1
Capital employed	1,909.5	2,370.5	2,549.6	2,501.5	2,659.4	2,732.7
Inventory turnover	33.5	14.4	9.1	6.1	4.7	4.9

Source: Company data, Erste Group estimates

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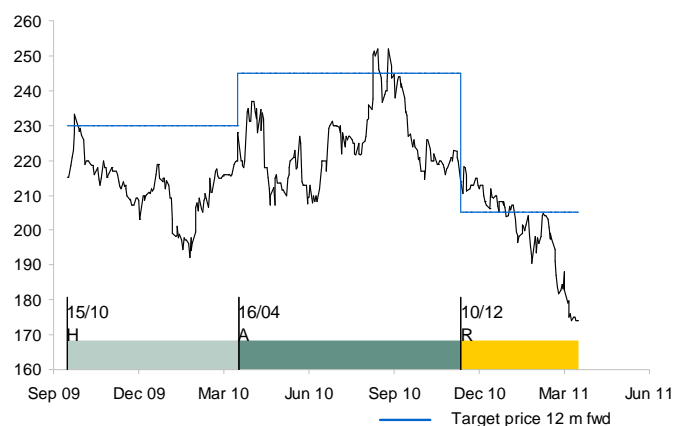
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Company Report – PBG S.A.

PBG S.A.



Rating history

Date	Rating	Price	Target Price
10. Dec 10	Reduce	214.00	205.00
16. Apr 10	Accumulate	228.00	245.00
18. Mar 09	Hold	202.00	230.00
29. Aug 08	Buy	238.00	305.00
14. Aug 07	Accumulate	358.00	380.00
25. Jan 07	Hold	291.50	295.00
22. Jun 06	Buy	133.71	175.00

Company PBG S.A.

Disclosure

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Buy	> +20% to target price
Accumulate	+10% < target price < +20%
Hold	0% < target price < +10%
Reduce	-10% < target price < 0%
Sell	< -10% to target price

Our target prices are established by determining the fair value of stocks, taking into account additional fundamental factors and news of relevance for the stock price (such as M&A activities, major forthcoming share deals, positive/negative share/sector sentiment, news) and refer to 12 months from now. All recommendations are to be understood relative to our current fundamental valuation of the stock. The recommendation does not indicate any relative performance of the stock vs. a regional or sector benchmark.

Distribution of ratings

Recommendation	Coverage universe		Inv. banking-relationship	
	No.	in %	No.	in %
Buy	48	29.3	9	52.9
Accumulate	46	28.0	6	35.3
Hold	44	26.8	2	11.8
Reduce	8	4.9	0	0.0
Sell	7	4.3	0	0.0
N.R./UND.REV./RESTR.	11	6.7	0	0.0
Total	164	100.0	17	100.0

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