



# CONSTRUCTION

## SECTOR REPORT - Poland

ESPIRITO SANTO Research

26 November 2008

### FORECAST AND VALUATION REVISION

#### MARKET GROWTH WOULD WEAKEN IN 2009E-10E

Giving weaker prospects of GDP growth, significant deterioration in residential segment and stricter financing conditions (that hits many construction projects) we decided to cut our estimates for construction market growth to 7.6% in 2009E (from 14.6%) and 3.2% in 2010E (from 14.2%). Residential, commercial (retail centres/offices) and industrial construction segments may be mostly affected. On the other hand infrastructure works should be fuelling the growth. We still believe that beyond 2010E the market would come back on the fast growth track. Our construction market 2008E-13E CAGR is 11.1% (down from 13.8%).

#### WHO IS THE MOST/LEAST IMMUNE TO THE SLOWDOWN?

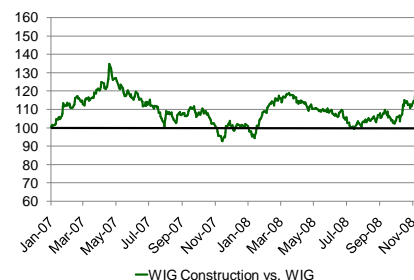
In terms of safety of the business we would classify our coverage as following (starting from the safest): 1) Budimex (it is mostly exposed to large infrastructure projects although has some residential business as well), 2) PBG (large share of public financed works + relatively safe contracts from gas industry), 3) Elektrobudowa (mostly power sector), 4) Polimex (good exposure to power sector + road & railways but concerns about steel production division and chemical construction), 5) Erbud (highly exposed to residential and commercial buildings construction).

#### 2009E DOESN'T LOOK BAD (AT LEAST FOR THE BIG ONES), THE RISK IS ABOUT 2010E

The biggest contractors enter 2009 with the record high backlogs (filled with high margin contracts) and should benefit from lower cost pressure (both materials and wages) that together should result in further growth in volumes and decent margins. The slowdown should however hit later – if there is lack of new tenders in 1H09 the market would deteriorate in 2010E. We cut aggregated net profit for our construction sector coverage by 11% and 18% in 2009E-10E respectively. Forecasts for Polimex and Erbud see the major cut; Elektrobudowa is slightly reduced while Budimex and PBG are only slightly changed (see details at the following page). At Erbud there is also major cut in 2008E that results from recent losses on currency speculation (credibility is another concern here).

#### WE CUT THE SECTOR TO HOLD

Sector is trading at historically low levels (2009 median P/E of 12) and looks attractive from the long run perspective. However, there are factors that make us being cautious: 1) There is relatively high forecast risk related to current market conditions. 2) The other sectors are even more depressed in terms of valuation 3) The sector is trading at high premium to Western peers (to some extent the premium is due to different long-term prospects) - the drawback here may be delay in forecast revisions. Giving all the factors mentioned above we put most of our recommendations at HOLD, despite decent nominal upsides. The only BUY we reiterate is Elektrobudowa.



#### Budimex

##### HOLD – Medium/Low Risk

Price Target (Nov. 09)	<b>PLN 80</b>
from	<b>PLN 90</b>
Price (25 Nov. 08)	<b>PLN 62.7</b>
Potential	28%

#### Elektrobudowa

##### BUY - Medium/Low Risk

Price Target (Nov. 09)	<b>PLN 215</b>
from	<b>PLN 259</b>
Price (25 Nov. 08)	<b>PLN 160</b>
Potential	34%

#### Erbud

##### HOLD – High Risk

Price Target (Nov. 09)	<b>PLN 24</b>
from	<b>PLN 93</b>
Price (25 Nov. 08)	<b>PLN 21</b>
Potential	12%

#### PBG

##### HOLD – Medium/Low Risk

Price Target (Nov. 09)	<b>PLN 220</b>
from	<b>PLN 252</b>
Price (25 Nov. 08)	<b>PLN 198</b>
Potential	11%

#### Polimex Mostostal

##### HOLD – Medium/Low Risk

Price Target (Nov. 09)	<b>PLN 4.1</b>
from	<b>PLN 8.5</b>
Price (25 Nov. 08)	<b>PLN 3.36</b>
Potential	22%

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## INVESTMENT SUMMARY

### Construction market – we are looking for weaker growth.

As consequence of lower GDP growth, worsening outlook for residential market and very difficult credit conditions we had to revise down our expectations on construction market growth. We revise up our 2008E market growth forecast (to 19.5% from 15.5%) but reduce our expectations for 2009E-2012E. We have done the major cuts in our forecasts for 2009E-10E where we expect the financial crisis to have the biggest impact on number of construction projects. We are now looking for 2009E market growth of 7.6% (down from 14.6%) and 2010E growth of 3.2% (from 14.2%). We also did slight downward corrections to our 2011E-12E forecasts and some upward move to our 2013E prediction. Consequently we decreased our construction market 2008E-13E CAGR to 11.1% from previous 13.8%.

We've done major cuts to our residential construction forecasts where we are looking for 22.6% and 15% drops respectively in years 2009E-10E. We are also quite negative on non-residential buildings (retail centres, offices, schools, hospitals etc.): -1.8% in 2009E and -14.4% in 2010E. On the other hand we are still optimistic on civil engineering works (transport infrastructure is the most important in this category) where we expect 35% and 21% hikes in 2009E-10E driven primarily by start of construction of large infrastructure projects financed by EU money. Later in the report we provide in details our forecasts for individual market segments.

### Forecast & Valuation Revision

In the tables below we present summary of changes to our forecasts, valuations and recommendations. We cut target prices for all stocks under coverage, which is mostly result of new financial forecasts and higher WACC applied to the DCF valuation.

In terms of net profit we revised down our 2009E-10E financial estimates for the sector by 11% and 18% respectively. The major revisions we did at Erbud and Polimex where the exposure to sector slowdown is relatively high. We cut both companies from BUY to HOLD. We did only minor changes to Budimex and slightly revised up our forecasts for PBG. We retain our HOLD rating on Budimex and upgrade PBG to HOLD from SELL – despite being relatively immune to the market slow down these two companies are also trading with premium to the sector on 2009E results. We slightly revised down our estimates for Elektrobudowa but we reiterate our BUY rating on the stock.

We also did some changes to our 2008E forecast, which are usually of minor significance apart from Erbud where accounting for currency losses depressed net profit.

*We reduce our expectations on construction market growth to 7.6% in 2009E and 3.2% in 2010E*

*In the long run we are still optimistic - looking for 2008E-13E CAGR of 11.1% (though it is down from previous forecast of 13.8%)*

*We revise down our aggregated net profit for covered companies by 11% in 2009E and 18% in 2010E*

*We put most of the recommendations on a HOLD rating. The only BUY we reiterate is Elektrobudowa*

### Construction Companies - Recommendation and target price revision summary

Company	Current		Current Target		Previous	
	Recommendation	Change	Price (PLN)	Change	Recommendation	Price (PLN)
Budimex	HOLD	↔	80	↓	HOLD	90
Elektrobudowa	BUY	↔	215	↓	BUY	259
Erbud	HOLD	↓	24	↓	BUY	93
PBG	HOLD	↑	220	↓	SELL	252
Polimex	HOLD	↓	4.1	↓	BUY	8.5

Source: Espirito Santo Research Poland

*We cut all target prices as a result of weaker expected growth and higher WACC incorporated to valuations*

### Construction Companies - Forecast Revision Summary - EPS in PLN, 2008E-2010E

Company	2008E EPS			2009E EPS			2010E EPS		
	Old	New	Change	Old	New	Change	Old	New	Change
Budimex	3.30	3.72	13%	4.17	4.40	6%	5.89	5.74	-3%
Elektrobudowa	12.7	13.46	6%	14.1	13.27	-6%	17.1	15.17	-11%
Erbud	4.20	0.65	-84%	5.13	2.58	-50%	6.06	2.16	-64%
PBG	10.94	11.19	2%	14.90	15.28	3%	18.11	18.63	3%
Polimex	0.30	0.27	-12%	0.39	0.29	-25%	0.49	0.31	-38%

Source: Espirito Santo Research Poland

*We do the major cuts at Polimex and Erbud*

**Budimex – Forecast Revision Summary, PLN in million 2008E-10E**

	2008E			2009E			2010E		
	Old	New	chg	Old	New	chg	Old	New	chg
<b>Revenues</b>	<b>3 213.2</b>	<b>3 336.5</b>	<b>4%</b>	<b>3 771.6</b>	<b>3 706.2</b>	<b>-2%</b>	<b>4 677.3</b>	<b>4 342.0</b>	<b>-7%</b>
<b>Gross Profit</b>	259.5	291.8	12%	341.0	312.8	-8%	439.3	369.7	-16%
gross margin	8.1%	8.7%	0.7 pp	9.0%	8.4%	-0.6 pp	9.4%	8.5%	-0.9 pp
SG&A cost	-161.2	-145.3	-10%	-190.6	-158.4	-17%	-234.7	-182.3	-22%
SG&A as % of sales	5.0%	4.4%		5.1%	4.3%		5.0%	4.2%	
<b>EBIT</b>	<b>106.1</b>	<b>112.6</b>	<b>6%</b>	<b>148.2</b>	<b>141.1</b>	<b>-5%</b>	<b>201.9</b>	<b>183.2</b>	<b>-9%</b>
<b>Net Income</b>	<b>84.2</b>	<b>95.0</b>	<b>13%</b>	<b>106.3</b>	<b>112.4</b>	<b>6%</b>	<b>150.5</b>	<b>146.5</b>	<b>-3%</b>
<b>EPS (PLN)</b>	<b>3.3</b>	<b>3.7</b>	<b>13%</b>	<b>4.2</b>	<b>4.4</b>	<b>6%</b>	<b>5.9</b>	<b>5.7</b>	<b>-3%</b>

Source: Espirito Santo Research Poland

*Budimex – Only minor changes to forecasts*

**Elektrobudowa – Forecast Revision Summary, PLN in million 2008E-10E**

	2008E			2009E			2010E		
	Old	New	chg	Old	New	chg	Old	New	chg
<b>Revenues</b>	<b>844.0</b>	<b>852.4</b>	<b>1%</b>	<b>975.5</b>	<b>890.8</b>	<b>-9%</b>	<b>1 199.1</b>	<b>1 023.8</b>	<b>-15%</b>
<b>Gross Profit</b>	86.2	91.5	6%	97.9	94.1	-4%	117.7	104.5	-11%
gross margin	10.2%	10.7%	0.5pp	10.0%	10.6%	0.5pp	9.8%	10.2%	0.4pp
SG&A cost	-14.5	-17.9	24%	-15.7	-18.7	19%	-20.0	-20.5	2%
SG&A as % of sales	1.7%	2.1%		1.6%	2.1%		1.7%	2.0%	
<b>EBIT</b>	<b>68.9</b>	<b>72.6</b>	<b>5%</b>	<b>79.2</b>	<b>74.4</b>	<b>-6%</b>	<b>94.7</b>	<b>83.0</b>	<b>-12%</b>
<b>Net Income</b>	<b>57.1</b>	<b>60.3</b>	<b>6%</b>	<b>67.1</b>	<b>63.0</b>	<b>-6%</b>	<b>81.2</b>	<b>72.0</b>	<b>-11%</b>
<b>EPS (PLN)</b>	<b>12.7</b>	<b>13.5</b>	<b>6%</b>	<b>14.1</b>	<b>13.3</b>	<b>-6%</b>	<b>17.1</b>	<b>15.2</b>	<b>-11%</b>

Source: Espirito Santo Research Poland

*Elektrobudowa – The general construction division could suffer. We implement prudent approach.*

**Erbud – Forecast Revision Summary, PLN in million 2008E-10E**

	2008E			2009E			2010E		
	Old	New	chg	Old	New	chg	Old	New	chg
<b>Revenues</b>	<b>948.9</b>	<b>978.2</b>	<b>3%</b>	<b>1 158.9</b>	<b>892.3</b>	<b>-23%</b>	<b>1 370.4</b>	<b>861.5</b>	<b>-37%</b>
<b>Gross Profit</b>	100.2	91.2	-9%	122.4	76.6	-37%	143.3	67.0	-53%
gross margin	10.6%	9.3%	-1.2 pp	10.6%	8.6%	-2 pp	10.5%	7.8%	-2.7 pp
SG&A cost	-35.1	-32.3	-8%	-41.7	-30.3	-27%	-48.0	-28.4	-41%
SG&A as % of sales	3.7%	3.3%		3.6%	3.4%		3.5%	3.3%	
<b>EBIT</b>	<b>66.6</b>	<b>57.4</b>	<b>-14%</b>	<b>82.2</b>	<b>45.7</b>	<b>-44%</b>	<b>96.9</b>	<b>38.1</b>	<b>-61%</b>
<b>Net Income</b>	<b>52.8</b>	<b>8.2</b>	<b>-84%</b>	<b>64.5</b>	<b>32.5</b>	<b>-50%</b>	<b>76.1</b>	<b>27.2</b>	<b>-64%</b>
<b>EPS (PLN)</b>	<b>4.2</b>	<b>0.7</b>	<b>-84%</b>	<b>5.1</b>	<b>2.6</b>	<b>-50%</b>	<b>6.1</b>	<b>2.2</b>	<b>-64%</b>

Source: Espirito Santo Research Poland

*Erbud – We significantly decrease our expectations. We expect weakening at most of the company's business lines.*

**PBG – Forecast Revision Summary, PLN in million 2008E-10E**

	2008E			2009E			2010E		
	Old	New	chg	Old	New	chg	Old	New	chg
<b>Revenues</b>	<b>2 061.0</b>	<b>2 098.1</b>	<b>2%</b>	<b>3 028.0</b>	<b>2 618.4</b>	<b>-14%</b>	<b>4 052.0</b>	<b>3 291.5</b>	<b>-19%</b>
<b>Gross Profit</b>	278.0	323.7	16%	427.0	432.3	1%	550.0	550.5	0%
gross margin	13.5%	15.4%	1,9 pp	14.1%	16.5%	2,4 pp	13.6%	16.7%	3,2 pp
SG&A cost	-115.0	-104.9	-9%	-163.0	-125.7	-23%	-215.0	-151.4	-30%
SG&A as % of sales	5.6%	5.0%		5.4%	4.8%		5.3%	4.6%	
<b>EBIT</b>	<b>198.0</b>	<b>228.5</b>	<b>15%</b>	<b>295.0</b>	<b>316.3</b>	<b>7%</b>	<b>347.0</b>	<b>389.7</b>	<b>12%</b>
<b>Net Income</b>	<b>147.0</b>	<b>150.2</b>	<b>2%</b>	<b>200.0</b>	<b>205.3</b>	<b>3%</b>	<b>243.0</b>	<b>250.2</b>	<b>3%</b>
<b>EPS (PLN)</b>	<b>10.9</b>	<b>11.2</b>	<b>2%</b>	<b>14.9</b>	<b>15.3</b>	<b>3%</b>	<b>18.1</b>	<b>18.6</b>	<b>3%</b>

Source: Espirito Santo Research Poland

*PBG – Only slight changes (upward). Backlog is full with high profitable long-term contracts.*

**Polimex – Forecast Revision Summary, PLN in million 2008E-10E**

	2008E			2009E			2010E		
	Old	New	chg	Old	New	chg	Old	New	chg
<b>Revenues</b>	<b>4 449.0</b>	<b>4 364.0</b>	<b>-2%</b>	<b>5 139.6</b>	<b>4 696.5</b>	<b>-9%</b>	<b>5 930.6</b>	<b>5 029.8</b>	<b>-15%</b>
<b>Gross Profit</b>	431.0	452.2	5%	514.0	492.0	-4%	607.1	524.7	-14%
gross margin	9.7%	10.4%	0.7 pp	10.0%	10.5%	0.5 pp	10.2%	10.4%	0.2 pp
SG&A cost	-196.0	-206.8	6%	-222.6	-223.1	0%	-244.2	-241.7	-1%
SG&A as % of sales	4.4%	4.7%		4.3%	4.8%		4.1%	4.8%	
<b>EBIT</b>	<b>235.3</b>	<b>242.8</b>	<b>3%</b>	<b>292.3</b>	<b>265.5</b>	<b>-9%</b>	<b>364.3</b>	<b>278.9</b>	<b>-23%</b>
<b>Net Income</b>	<b>139.8</b>	<b>123.5</b>	<b>-12%</b>	<b>179.0</b>	<b>134.5</b>	<b>-25%</b>	<b>229.2</b>	<b>143.1</b>	<b>-38%</b>
<b>EPS (PLN)</b>	<b>0.30</b>	<b>0.27</b>	<b>-12%</b>	<b>0.39</b>	<b>0.29</b>	<b>-25%</b>	<b>0.49</b>	<b>0.31</b>	<b>-38%</b>

Source: Espirito Santo Research Poland

*Polimex – we take very cautious approach towards chemical construction and steel structures sales. We decrease our forecasts.*

Construction Companies Aggregated Data - Forecast Revision Summary, PLN mm, 2008E-10E

	2008E			2009E			2010E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenues	11 515.8	11 629.3	1%	14 073.3	12 804.2	-9%	17 229.8	14 548.5	-16%
Operating Profit	675.2	713.9	6%	897.0	843.1	-6%	1 105.2	973.0	-12%
Net Profit	480.8	437.3	-9%	617.1	547.6	-11%	780.2	639.1	-18%

Source: Espirito Santo Research Poland

Exposure to the slowdown

We divided construction market contracts into five groups (from the most risky to the safest) to distinguish between exposure of construction companies to the expected market slowdown. The major drawback of these data is that not all contracts are reflected in reporting on contract acquisition.

The most risky group we see are contracts in residential construction that should see the major freeze in the following two years. The second group are contracts for building commercial projects (as retail centres, offices) where problems with financing could have negative impact on realisation start. The third group is industrial construction – here the risk would be different depending on the branch but generally we find it less risky than the previous two groups. The fourth group consists of construction works financed by public sector (non infrastructure) – very often co-financed by EU funds but with low priority to be finished in specified time. The last group are infrastructure contracts financed by government/municipalities that are heavily supported by EU money.

In the table below we present our coverage with a breakdown of material contracts signed during the last 18 months divided into these 5 risk groups.

*We did the breakdown of material contracts signed to evaluate exposure to market slowdown*

Construction coverage. Breakdown of the material contracts signed by type of client during last 18 months, PLN mm

	1			2			3			4			5		
	TOTAL	Residential	% of total	Commercial buildings (retail centres, offices etc.)	% of total	Industrial	% of total	Construction for government/municipalities (Buildings)	% of total	Construction for government/municipalities (Infrastructure)	% of total				
Budimex	4 594	925	20.1%	480	10.5%	99	2.1%	264	5.7%	2 826	61.5%				
Elektrobudowa	485	32	6.6%	153	31.5%	292	60.2%	0	0.0%	8	1.7%				
Erbud	1 184	275	23.2%	816	68.9%	94	7.9%	0	0.0%	0	0.0%				
PBG	3 717	0	0.0%	0	0.0%	3 130	84.2%	587	15.8%	0	0.0%				
Polimex	3 889	0	0.0%	310	8.0%	1 611	41.4%	532	13.7%	1 435	36.9%				
<b>Total/Average</b>	<b>13 869</b>	<b>1 231</b>	<b>8.9%</b>	<b>1 759</b>	<b>12.7%</b>	<b>5 225</b>	<b>37.7%</b>	<b>1 383</b>	<b>10.0%</b>	<b>4 270</b>	<b>30.8%</b>				

Source: Company data and Espirito Santo Research Poland

**Budimex** is the safest choice as over 60% of its contract acquisition came from infrastructure contracts from public sector.

**PBG** is number 2 for us despite majority of the contracts coming from the “industrial group”. The important thing here is that industrial group in case of PBG consists mostly of relatively safe and profitable contracts in gas sector. Additionally PBG has quite strong exposure to construction for municipalities/government, which is not fully reflected in the data below as many of these contracts are of smaller size (not reported). When looking at the backlog data (see PBG section later in the report) – it consists of water system works in almost 40% (works for municipalities).

We would put **Elektrobudowa** on the third position despite the fact the company almost do not win contracts in the two most safe categories. However, the contracts it gets in the “industrial” area usually come from relatively safe power sector. Additionally Elektrobudowa’s business consist of production of electric equipment, which is not reflected in the contract acquisition statistics nor in the backlog figures (usually small short term contracts).

The following one would be **Polimex**. The company is exposed to the market slowdown in its production division unit (to large extent not included in contract acquisition data) as well as through part of contracts from industrial group (related to chemical industry). On the other hand it is quite well exposed to infrastructure works (roads & railways) and has ability to win contracts in power sector (also in the industrial group in the table).

We see **Erbud** as the company that is the most exposed to construction market deterioration. The company gains mostly contracts for construction of residential and commercial buildings – the two areas that we think should suffer in 2009E-10E.

*Budimex that is strongly exposed to infrastructure looks the safest while...*

*...Erbud with its exposure to residential and commercial buildings construction is likely to be hit*

**Construction Sector Valuation – Attractive from the long-term perspective though there are some risk in the short/middle run**

Looking at historical valuation (see the graph below) of Polish construction sector as well as having in minds its long-term prospects we would say the valuations are at attractive level now. On the other hand we cannot say that giving the prospected market slowdown in 2009E-10E the valuations are highly suppressed in the nominal terms. We are aware that the forecast risk becomes very high now – especially in terms of projected length of the global economic slowdown (that has implications for Polish economy and thus for Polish construction sector) – therefore we would not conclude that the sector is clearly underpriced now. DCF valuations suggest quite significant upsides from current levels but these models are based on the assumptions that: 1) long term double-digit growth is resumed in 2011E, 2) The construction market slowdown is not a severe one (though slowly, the market is still growing in 2009E-10E).

*Construction sector looks cheap from the historical perspective but it is not so attractive on the relative basis*

*DCF models also suggest upside but...*

*...there is serious forecast risks incorporated*

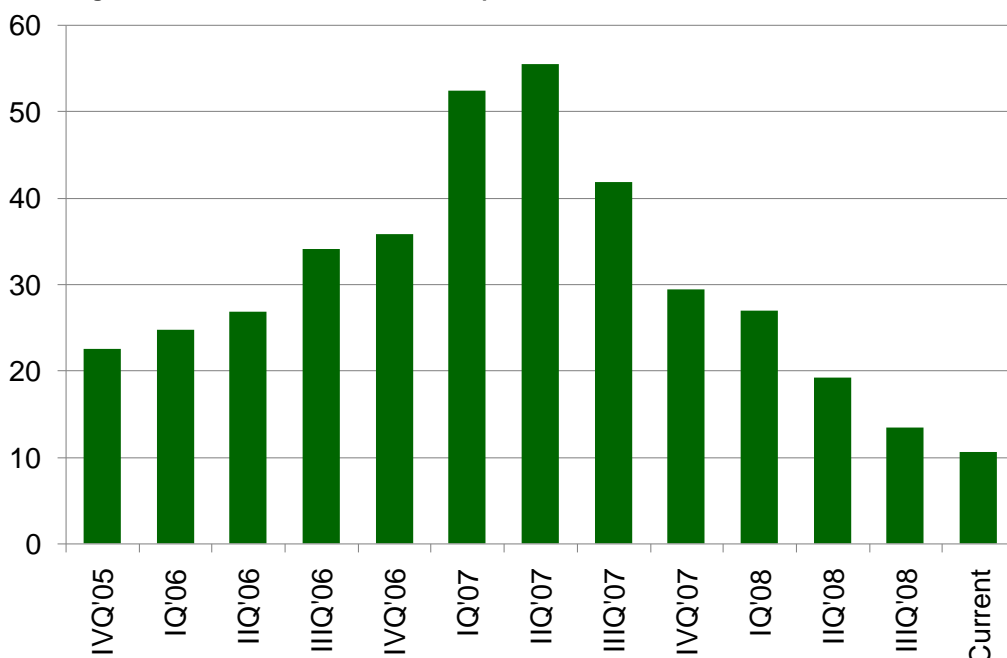
Therefore we put most of our recommendation on a Hold rating until we see how the crisis actually impacts construction market growth.

We would not overweight the sector now due to its relatively high valuation vs. other sectors (i.e. Banks, Chemicals) – even though we believe that it should do relatively well in terms of profits growth. We think the **Neutral** stance is justified now.

	P/E	
	2009E	2010E
Banks	8.1	7.4
Chemicals	6.9	7.6
Construction	12.1	10.6
TMT	13.2	9.4

Source: Espirito Santo Research Poland

**4Q Trailing P/EBIT of 20 construction listed companies between 4Q05 and 3Q08**



Source: Espirito Santo Research Poland

VALUATION & RECOMMENDATION SUMMARY

In the table below we present short summary of construction stocks under coverage with valuation outcomes (using different valuation methods), main business areas, opportunities and risks. We have set target prices for companies under coverage based on long-term DCF models. We believe that this is the best way to capture long-term above average growth potential that Polish construction companies should continue to post. In this table we present only final results, however in the specific company sections we provide detailed DCF models with its major assumptions and sensitivity analysis.

To cross check our DCF valuation results, we applied multiple valuation analysis. We reached our multiple valuation ranges using median ratios for the domestic companies under our coverage (based on 2009 P/E and EV/EBITDA ratios).

Coverage Summary – Construction Companies Under Coverage

Company name:	Budimex	Elektrobudowa	Erbud	PBG	Polimex Mostostal
Bloomberg ticker: Mkt.Capitalisation (€ m)	BDX PW 437	ELB PW 200	ERB PW 71	PBG PW 698	PXMPW 415
Recommendation	<b>HOLD - Medium / Low Risk</b>	<b>Buy - Medium / Low Risk</b>	<b>Hold - High Risk</b>	<b>Hold - Medium / Low Risk</b>	<b>Hold - Medium / Low Risk</b>
Comment	The best positioned to potential market slowdown. Low debt level. Trading at premium to its peers.	The highest quality in the sector. Could suffer a little bit from the slowdown but long-run perspectives remain intact. No debt. Trading in line with the sector's median.	Could be seriously hit the most by the market weakening. Creditability issue after the management lost money on FX speculation. Trading at discount to the sector.	Relatively immune to the slowdown. Good backlog of high margin contracts. High Debt level. Trading at premium to the sector but growing fast.	Some business lines may be hit by the market slowdown. Very high debt level. Trading at small discount to its peers.
Target price (Nov 09) Upside Potential	<b>PLN 80</b> <b>28%</b>	<b>PLN 215</b> <b>34%</b>	<b>PLN 24</b> <b>12%</b>	<b>PLN 220</b> <b>11%</b>	<b>PLN 4.1</b> <b>22%</b>
DCF valuation outcome (Nov 09)	80	215	24	220	4.1
Multiple valuation range: (current prices) - with no discount on 2009 P/E - 2009 EV/EBITDA vs. median domestic peer group	53 - 60	176 - 170	31 - 29	184 - 198	3.5 - 4.9
Main business areas	Infrastructure construction with focus on roads  Developing activity	Power infrastructure construction  Specialized energy related construction for industry	General construction (specializes in shells of buildings)  Roads and developing activity commenced	Construction for gas, oil and fuels industries  Waterworks  Roads and developing activity commenced	Construction for chemical and power industry  Production of steel elements  Roads and Railroads activity
Main growth drivers / Opportunities	Huge road construction program  Interesting high margin housing projects	Power infrastructure investments  Privatization of the power plant sector  First contract on nuclear power plant	Diversification of revenues  Entering local road markets	Expected big investments in oil & gas sectors  Difersification into other market segments	Exposure to railway construction market  Planned increase of production capacity
Risks	Magnitude of expected recovery  Potential one-off losses on airport contract	Timing of start of investments in Polish power sector	High exposure to residential and commercial segments	Huge working capital needs (capital increase may be needed)	Performance of construction for chemical industry  Market capacity in steel structures division

Source: Espirito Santo Research Poland

26 November 2008

## Multiple valuation analysis

In this section we provide a detailed multiple valuation analysis for our sector's coverage. In the following tables we present ratios for Polish and Western European stocks, Premium/(Discount) analysis and finally the implied valuation of the companies in our coverage universe using specific assumptions.

### Polish Construction Stocks – Peer Group Multiples, Prices as of November 25, 2008

		Last Price	Market Cap (EUR m)	P/E				EV/EBITDA			EV/SALES		
				2008E	2009E	2010E	2008E-10E	2008E	2009E	2010E	2008E	2009E	2010E
PLN	Budimex	PLN 62.7	437	16.8	14.2	10.9	24.2%	11.1	8.9	6.9	0.43	0.39	0.33
PLN	Elektrobudowa	PLN 160	200	11.9	12.1	10.5	6.2%	9.1	8.5	7.3	0.83	0.79	0.65
PLN	Erbud	PLN 21	71	32.1	8.1	9.7	81.8%	4.2	5.0	5.3	0.27	0.27	0.26
PLN	PBG	PLN 198	698	17.7	13.0	10.6	29.1%	11.2	8.1	6.6	1.37	1.10	0.87
PLN	Polimex	PLN 3.36	415	12.6	11.6	11.0	7.3%	7.1	6.2	5.8	0.50	0.46	0.43
<b>Median</b>				<b>16.8</b>	<b>12.1</b>	<b>10.6</b>	<b>24.2%</b>	<b>9.1</b>	<b>8.1</b>	<b>6.6</b>	<b>0.50</b>	<b>0.46</b>	<b>0.43</b>

Source: Espirito Santo Research Poland

### Western European Construction Stocks – Peer Group Multiples, Prices as of November 25, 2008

	Company	Last Price	Market Cap (EUR m)	P/E				EV/EBITDA			EV/SALES		
				2008E	2009E	2010E	2008E-10E	2008E	2009E	2010E	2008E	2009E	2010E
GBp	Balfour Beatty	GBp 292.5	1 840.46	7.3	7.2	6.4	6.9%	7.8	7.1	7.0	0.23	0.22	0.22
EUR	Bauer AG	EUR 17.99	323.26	3.0	3.6	3.8	-10.9%	4.1	4.9	4.9	0.73	0.74	0.75
EUR	FCC	EUR 27.56	3 448.65	8.9	9.3	8.9	0.2%	8.3	8.2	8.0	1.11	1.09	1.06
EUR	Heijmans NV	EUR 4.25	104.96	5.6	3.2	2.2	58.2%	10.6	8.4	6.9	0.21	0.22	0.22
EUR	Hochtief	EUR 26.4	1 869.00	11.7	9.3	8.4	17.9%	5.6	4.8	4.7	0.20	0.19	0.19
GBp	Kier Group PLC	GBp 873	377.71	8.7	7.3	6.1	19.3%	2.9	2.9	2.8	0.09	0.09	0.09
GBp	Morgan Sindall PLC	GBp 487.5	274.35	5.1	6.0	5.2	-1.3%	3.3	3.9	3.6	0.09	0.10	0.09
EUR	OHL	EUR 8.73	772.55	4.8	4.4	4.1	8.0%	6.1	5.4	5.0	0.90	0.84	0.81
EUR	Sacyr Vallehermoso SA	EUR 7.5	2 461.09	5.4	4.2	4.0	15.4%	19.1	18.9	18.7	3.77	3.81	3.80
SEK	Skanska	SEK 61.25	2 745.61	6.2	7.7	8.3	-14.0%	4.2	4.9	5.1	0.19	0.19	0.19
EUR	Strabag	EUR 13	1 402.20	5.7	5.6	4.7	9.8%	6.0	5.4	5.3	0.37	0.31	0.31
<b>Median</b>				<b>5.7</b>	<b>6.0</b>	<b>5.2</b>	<b>8.0%</b>	<b>6.0</b>	<b>5.4</b>	<b>5.1</b>	<b>0.23</b>	<b>0.22</b>	<b>0.22</b>

Source: Espirito Santo Research Poland

Polish construction companies trade at a very high premium to its Western peers (that has widened during last 5 months). We think the premium is to some extent justified by different growth potential of Polish and Western construction markets, however it is difficult to justify premiums that amount to 100% and more. The major drawback here could be outdated forecast for Western European peers – median P/E of 6 for 2009 (some companies trading at 3-4) could suggest expectations of slowdown in 2010, which looks exactly the opposite in the data we have.

We believe that the most useful information from the table below is the comparison of Polish stocks vs. domestic peer group, which shows what is relatively cheap/expensive.

### Polish Construction Stocks – Peer Group Comparison – Premium/(Discount) analysis, Prices as of November 25, 2008

	P/E					EV/EBITDA			EV/SALES		
	2008E	2009E	2010E	Growth 2008E-10E	PEG 2008E-10E	2008E	2009E	2010E	2008E	2009E	2010E
<b>Budimex - premium/(discount) to</b>											
- Median Domestic Peers	0%	18%	3%	0%	0%	22%	9%	4%	-14%	-16%	-24%
- Median Western European Peers	198%	138%	110%	201%	54%	86%	66%	37%	85%	77%	53%
<b>Elektrobudowa - premium/(discount) to</b>											
- Median Domestic Peers	-29%	0%	-1%	-75%	177%	0%	4%	10%	67%	70%	51%
- Median Western European Peers	110%	102%	103%	-23%	327%	52%	58%	44%	259%	260%	202%
<b>Erbud - premium/(discount) to</b>											
- Median Domestic Peers	90%	-33%	-9%	238%	-44%	-54%	-39%	-20%	-47%	-43%	-39%
- Median Western European Peers	467%	36%	86%	918%	-13%	-30%	-7%	5%	15%	22%	22%
<b>PBG - premium/(discount) to</b>											
- Median Domestic Peers	5%	7%	0%	20%	-13%	23%	0%	0%	175%	137%	102%
- Median Western European Peers	213%	117%	104%	262%	35%	87%	51%	31%	491%	403%	304%
<b>Polimex - premium/(discount) to</b>											
- Median Domestic Peers	-25%	-4%	3%	-70%	149%	-22%	-24%	-12%	0%	0%	0%
- Median Western European Peers	124%	94%	111%	-9%	284%	18%	15%	15%	115%	112%	100%

Source: Espirito Santo Research Poland

Below we present the implied valuation of the Polish construction companies under our coverage at the median multiple of domestic peer group. Please note that in multiple valuation method we derive implied share price for the stock as of today (or more exactly as of pricing day), while in case of DCF method we get 12 month target price. In order to derive 12 month target price based on our multiple analysis - one should multiple implied share price by WACC for particular company.

**Polish Construction Stocks – Peer Group Comparison – Implied share price calculation, Prices as of November 25, 2008**

	P/E			EV/EBITDA			EV/SALES		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
<b>Budimex - implied share price</b>									
- at no discount to domestic peers	63	53	61	55	60	63	74	76	82
<b>Elektrobudowa - implied share price</b>									
- at no discount to domestic peers	249	176	177	176	170	162	110	109	136
<b>Erbud - implied share price</b>									
- at no discount to domestic peers	11	31	23	41	29	23	35	29	30
<b>PBG - implied share price</b>									
- at no discount to domestic peers	188	184	198	158	198	198	61	74	89
<b>Polimex - implied share price</b>									
- at no discount to domestic peers	4.5	3.5	3.3	4.7	4.9	4.0	3.4	3.4	3.4

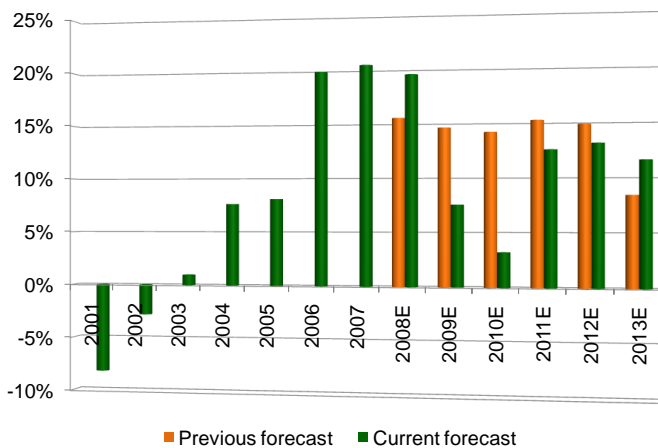
Source: Espirito Santo Research Poland

## CONSTRUCTION SECTOR – CHANGES TO FORECASTS

The growth of construction sector has been maintained throughout 2008 as YTD real growth amounted to 15.5% yoy (nominal 21.7% yoy), but current tough economic outlook cast shadows on the prospects of the growth sustainability. New approach of financial institutions redefines the probability of the execution of the recently acquired contracts making us revise our long term forecast for the construction sector in Poland.

The poor economic outlook is likely to impact the construction market as well, though the review of the listed companies results suggests that majority of companies possesses large backlog that is enough to produce another good year. On the other hand, we expect poor contract acquisition in next couple of months in relation to the tighter financing approach applied by banks. The constructions for residential, commercial and industrial sectors are expected by us to be the most vulnerable to the slowdown. Roads construction is likely to support the market growth in 2009, though several obstacles have to be removed to release the contracts distribution. Accordingly we remain positive about the prospects of the Polish construction sector, though slower 2009 and 2010 are expected.

Comparison of ESRP previous and current construction sector annual growth rates between 2008 and 2013E

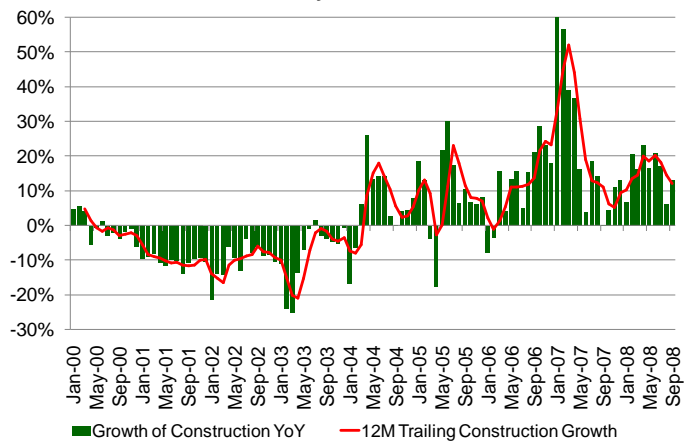


Source: Statistical Office and Espirito Santo Research Poland

Accordingly we revise our 2008E-13E CAGR of construction sector from 13.8% to 11.1%. The new forecast explicitly differentiates between two periods i.e. 2009E-10E with average growth of 5.4% and 2011E-13E when we expect the growth to accelerate to 12.3%. The main reason for weaker forthcoming years is postponing of contracts' commencement and expected poor contracts' acquisition in 2009E. On the other we expect that commencement of large infrastructure program i.e. roads, railroads, power – both generation and distribution and completion works of Euro 2012 related projects are likely to boost the sector in the next phase of our forecast spectrum.

We expect construction for residential, industrial and commercial segments to be the most hurt by the unfolding events. We present the current situation of the construction for residential segment in the detailed description below. As far as industrial and commercial investments are considered, the developers' will to develop their project with some degree of leverage might face delays or even cancelation of the already started investments. The direct impact of stricter credit policy is expected to be in reduction of the number of projects scheduled for 2009E, what translates into lower construction sales in 2010E. On the other hand we expect that MPC is going to cut the rates by c. 75 - 100 bps in the next 12 months what should alleviate the borrowers' position and release the demand withheld in 2009. This of course is in large part dependable on the developments of the financial institutions situations as the deleveraging process is not expected to be completed by this time.

Construction in Poland. Monthly Nominal Growth YoY



Source: Statistical Office and Espirito Santo Research Poland

**We revise our construction CAGR to 11.1% from 13.8% but only 5.4% in 2009E-10E**

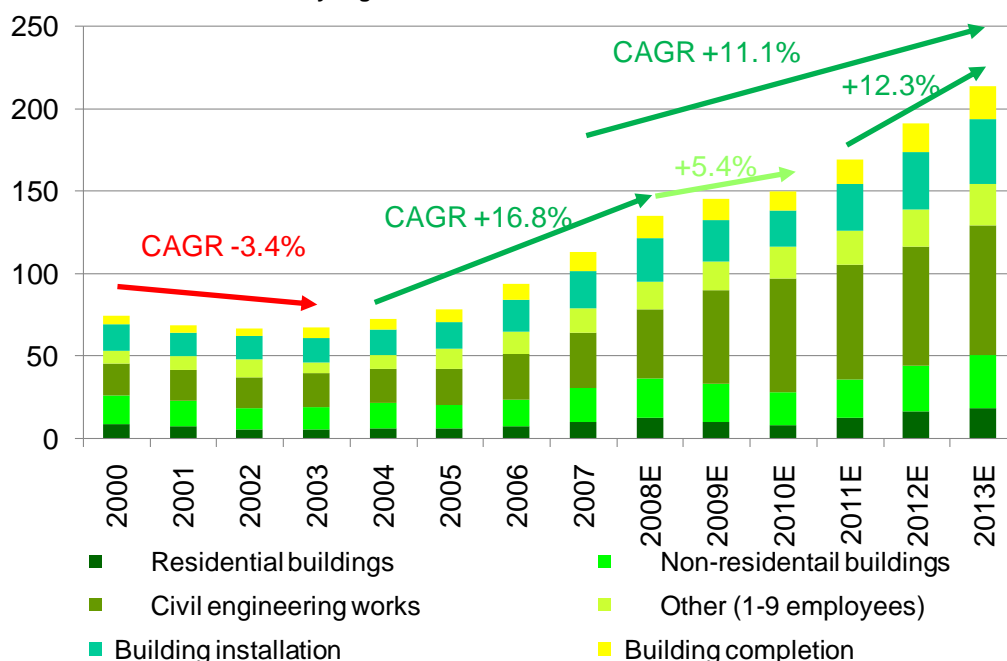
**Demand stemming from residential, industrial and commercial segments is expected to be weaker in 2009**

**Acquisition of contracts is expected to diminish in 2009, though lower interest rates could trigger the demand back in 2010**

The infrastructure financed from public sources is expected to perform better supported by high input of EU money. However, as the municipalities spending on water and waste systems, water treatment plants etc are expected to be performed on schedule, the governmental program of roads construction is already delayed in respects of certain parts of roads. We decide to investigate this matter in greater detail and present our findings in the roads construction segment (please see below for details). The expected large investments in the power segments are expected to occur as the government showed its will to start the privatization regardless of market conditions. Furthermore, the virtual lack of indebtedness of Polish power companies and expected widening of the spread between electricity prices and coal price in PLN/MWh terms are the main reasons for our optimism about the probability of the unfolding new contracts for construction companies from the sector.

*But publicly financed projects and energy sector ones are in much less risk of cancelation.*

Poland – Construction market by segment



Source: Statistical Office and Espirito Santo Research Poland

Annual Growth Rates of Main Segments of Construction Market between 2004 and 2013E

Segments	2004	2005	2006	2007	2008E	2009E	2010E
Residential buildings	5.9%	3.2%	11.5%	39.6%	27.4%	-22.6%	-15.0%
Non-residential buildings	15.8%	-10.1%	20.6%	21.9%	15.0%	-1.8%	-14.4%
Civil engineering works	1.5%	7.3%	22.0%	23.6%	25.2%	35.3%	21.3%
Other (1-9 employees)	25.5%	46.3%	11.3%	13.0%	10.0%	6.3%	7.5%
Building installation	5.3%	3.2%	20.9%	14.4%	19.2%	-6.3%	-11.6%
Building completion	-1.3%	22.2%	30.6%	16.8%	17.0%	-4.3%	-8.0%
<b>Construction sector</b>	<b>7.6%</b>	<b>8.1%</b>	<b>19.8%</b>	<b>20.4%</b>	<b>19.5%</b>	<b>7.6%</b>	<b>3.2%</b>

Source: Statistical Office and Espirito Santo Research Poland

### Construction for residential segment

The already weak sales of houses in Poland are going to suffer even more from the stricter mortgage policies applied by banks over the last months. The increased liquidity needs of the financial institutions are suppressing the demand for houses twofold i.e. by reduced LTV of the mortgages (8 out of 14 major banks in Poland diminished LTV in the range of 10% to 35% over the last month) and by increasing margin on mortgages (average increase on Swiss franc denominated mortgages was 65 bps and was implemented by 12 out of 14 banks). We expect these changes to be long term ones as even after the financial turmoil is over and greater liquidity appears in the market, the banks are likely to adjust slowly and cautiously to these changes, partly from the financial stability and partly due to willingness to profit reasons.

*Lower sales volumes of houses are further hit by tighter approach of banks...*

*...which reduced LTV and increase margins*

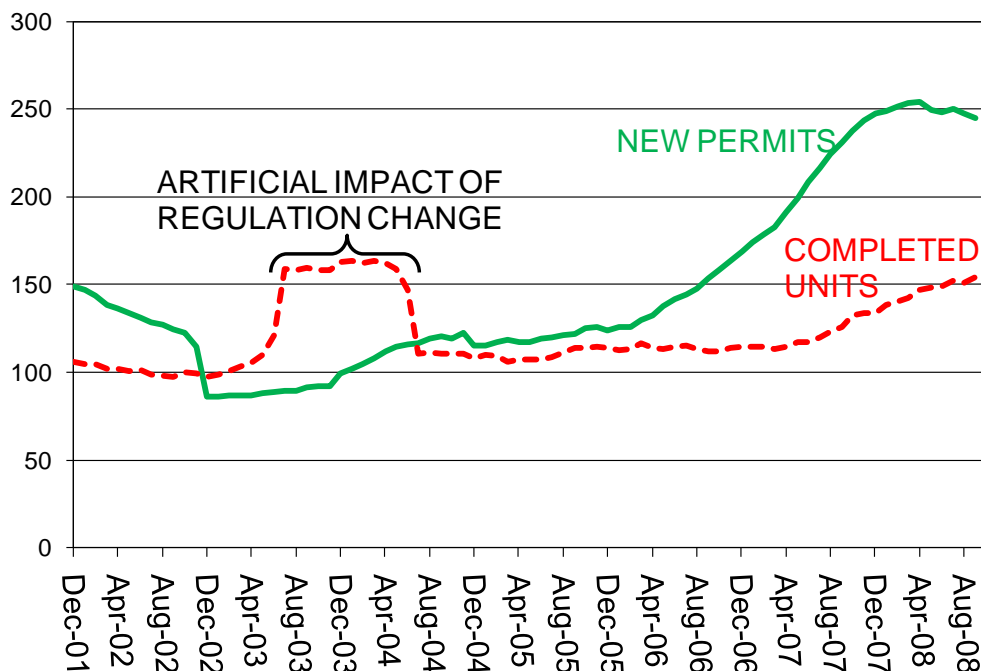
The indication for the sector of the construction for the residential market was given by major listed developers who rescheduled the projected commencement of several project by a year. Their strategy is to reschedule investments projected to begin in 2009 to 2010 while the projects already commenced in 2008 are to be built throughout 2009. Thus construction companies targeting the residential segment are expected by us to have the highest risk of low orders/backlog at the end of 2009.

*Developers reschedule their projects by a year*

In fact, first depictions of these declarations can already be seen in the statistical data. To present this we use the Twelve Trailing months gap between the number of the issued construction permits and completed units, which peaked in December 2007 and declined YTD 20% closing the gap by 22.5 thousand units.

*And the growth of construction permits is slowing to decline in September for the first time since 2003*

**4Q Trailing changes in no. of new permits issued and completed units**



Source: Espirito Santo Research Poland

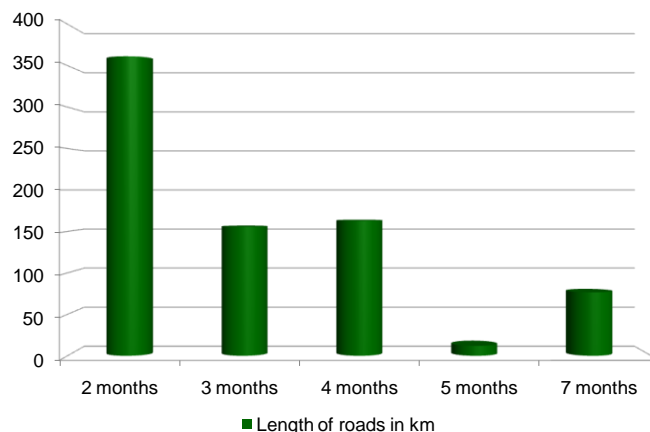
YTD the gap was being closed by the rising number completions while the number of permits remained flat yoy in 2008, what we expect to turn into the decline already in 4Q08.

**Infrastructure construction**

The nature of the current liquidity crisis is expected to impact environmental construction the least with roads and railways believed to cope with the crisis relatively smoothly as well. The main reason for environmental construction strength is their client (municipalities which remain more trustworthy partner for banks than private companies) and the fact that they are in large part financed by EU money. Similar statement can be made about the roads and railroads segment.

Although we expect the growth of roads construction to be maintained, the delays occur more often than expected due to legal and procedural problems in large part. Over the last five years the execution and utilization of funds allocated to roads and railways construction in Poland reached the range of 90 to 95%.

**Breakdown of delays of 2008-2012 road construction program execution by delayed months in km**



Source: GDDKiA and Espirito Santo Research Poland

2008 is expected to be good indicator of the clerks' ability to process the much greater amounts of funds (2009-2012 period allocation) as this year GDDKiA is dealing with c. PLN 20 bn, which is two times larger than last years' allocation. As of the end of August (latest available data) 44% of the budget was executed – a similar percentage to 2007 data. 47% of the delays do not exceed 2 months, followed with 20% of 3 months delays and 21% of 4 months delays. Although the delays are minor as of now, we do not expect the quick resolution of the reasons underlying the delays resulting in rescheduling of c. 750km of roads to 2013.

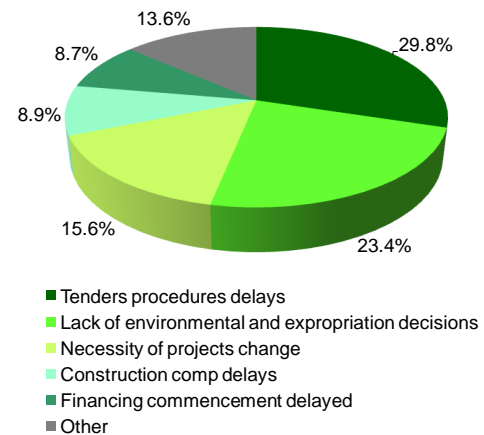
Although the data for 2007 suggests various reasons for failing to meet 2007 budget targets by GDDKiA (see chart for details), the latest report on the progress of 2008-2012 roads program points out to the lack of environmental decisions as the main culprit.

The formal actions to solve the problem were already undertaken as the Access to Environmental Information and Appraisal of the Impact on Environment Act was signed on October 3<sup>rd</sup>. However its implementation process with creation of General Directorate of Environment Protection (GDEP) as the main highlight might take time until 1Q09 and accordingly delay execution of the program. We expect the number of delayed roads to remain in the range of 750km due to the fact that creation of GDEP should cut the expectation for environmental impact decisions from 18 – 24 months to 6 – 12 months due to centralization and specialization of the workload.

Another reason for roads construction delays was the necessity to change the projects in relation with incompatibility with EU laws where Natura 2000 area was questioned. The completion of allocation of regions to new area of Natura 2000 is completed and already sent to European Commission for approval, thus the formal completion is expected at the beginning of 2009. The area of Natura 2000 should increase from 17.5% to 20%, but the most important aspect of the matter is the approval of European authorities, which should enable proceeding with roads investments in a more efficient manner.

Accordingly we expect 2H09 to show much more efficient processing of roads investments by governmental bodies and acceleration of projects execution. The situation of railroads is more favourable as majority of the projects envisages renovations and modernization rather than construction of new routes. Thus the risk of investments' delays is limited to PKP PLK ability to process large sums of allocated money.

The main reasons for not delivery of the budget by GDDKiA in 2007



Source: Highest Chamber of Control (NIK) and Espirito Santo Research Poland

***New environmental law is expected to cut the approval expectation time by 12 months***

***The final resolution of questioned Natura 2000 areas should be granted in a few months***

***Making 2H09 the earliest date of projects' execution acceleration***

## BUDIMEX – WELL POSITIONED FOR SLOWDOWN

### Big Road Contracts Are In The Pipeline

Despite the fact we are looking for significant construction market slowdown in 2009E-10E we can't say similar thing about infrastructure. The governmental program of road construction alone represents PLN 121bn. (€ 36bn) in 2008E-12E and 80% of that should be financed by EU money. Therefore we tend to believe that this segment is likely to boom. Budimex is one of the top 3 road contractors in Poland and is likely to take advantage of this market situation. "Autostrada Poludnie" (where Ferrovial is the main shareholder and Budimex holds 5% stake) is currently negotiating with the State Treasury concessions on two motorway sections (180km "A1" and 90km "A2"). In case "Autostrada Poludnie" wins Budimex should be granted at least 50% value of the construction contract that are worth approximately €1.8bn and €0.9bn. Knowing this and expecting more road construction contracts to come we are quite optimistic on Budimex backlog/results in next 3-4 years.

### Forecast Revision

We do only minor changes to our 2008E-10E forecasts – we increase 2008E EPS by 13% (strong 3Q08 results), increase 2009E EPS by 6% (mostly due to lower cost assumed and despite expected weaker residential sales) and decrease 2010E EPS by 3% (again we assume weaker residential segment comparing with our previous forecast).

### Valuation & Recommendation

We revise down our target price for the company to PLN 80 from previous PLN 90 those results mostly from higher interest rates incorporated into our DCF model (WACC of 11.1% vs. 10.4% previously) and more conservative valuation of residential business. We continue to rate Budimex shares HOLD Rating. On 2009E P/E the company is trading with 18% premium to the sector that we find justified by its infrastructure oriented business and low debt level.

### 3Q08 Results – Above Expectations

Budimex reported very good 3Q08 results that came out well ahead of our and consensus expectations. The company reported very strong margins on construction activity (13% or 12% if accounting for hedging), which however have been impacted by extraordinary payments from old road contracts (previously contested by the investor) – anyway even if accounting for these one offs the margins were still solid. Another good thing about 3Q08 numbers were continuing efficient cost control – SG&A cost down 18% yoy despite revenues growing by 9% in the same time.

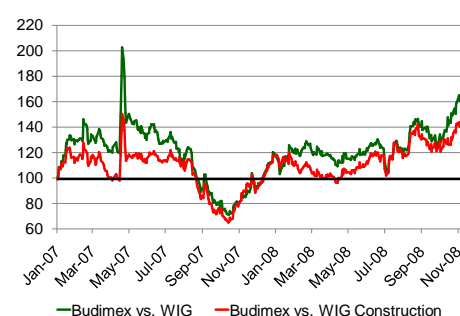
	Revenues	EBITDA	Net Profit	EPS	EPS (adj)	EPS chg.	P/E	EV/EBITDA	DY
2006	3 043	31	4	0.2	0.2	92%	479.3	51.1	0.0%
2007	3 076	52	15	0.6	0.6	287%	156.4	40.5	0.0%
2008E	3 337	129	95	3.7	3.7	531%	16.8	10.7	0.0%
2009E	3 706	161	112	4.4	4.4	18%	14.2	8.5	0.0%
2010E	4 342	207	147	5.7	5.7	30%	10.9	6.7	0.0%

Source: Company for historical figures and Espirito Santo Research Poland for estimates. Note: Revenues, EBITDA, net profit in PLN m; EPS in PLN; Extraordinary items excluded from EPS (adj)

## Budimex

### HOLD – Medium/Low Risk

Price Target (Nov. 09)	<b>PLN 80</b>
from	<b>PLN 90</b>
Price (25 Nov. 08)	<b>PLN 62.7</b>
Potential	28%



### Trading

Reuters Code	BMEX.WA
Bloomberg Code	BDX.PW
Shares Outstanding (m)	25.53
Market Cap (€m)	422
12M Avg. Daily Turnover (€m)	1.1
12M Avg. Daily Volume (th)	66.7
WIG Weight (%)	0.70
WIG 20 Weight (%)	na
52 W High / Low	99.8 / 52.5

Performance	Abs.	vs. WIG
3M	-26%	9%
YTD	-32%	39%
12M	-25%	52%

Financials	2009E
Revenue growth	11.1%
Operating margin	3.8%
ROE	17.8%
Bank Debt / Equity	36.6%

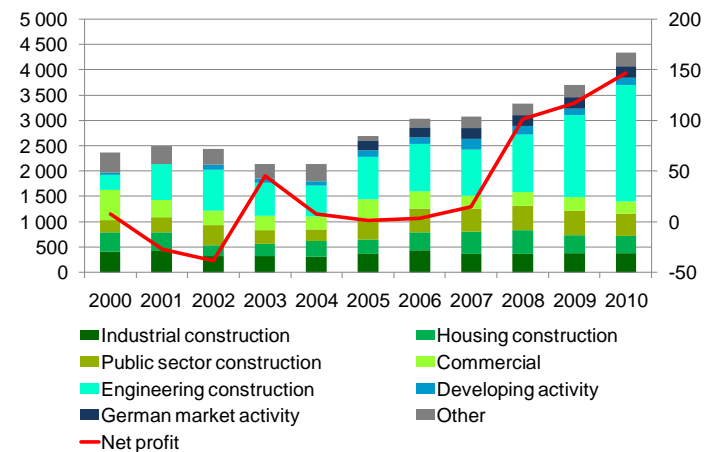
Shareholders	Stake
Valivala Holdings (Ferrovial Group)	59.1%
BZ WBK AIB AM	14.2%
Other	26.7%

Source: Espirito Santo Research Poland

### Analysts

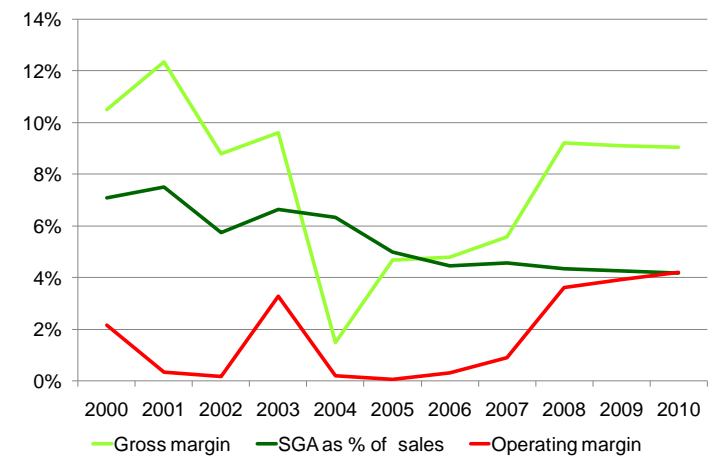
Arkadiusz Chojnacki, CFA	
achojnacki@esinvestment.pl	+ 48 22 347 40 40
Tomasz Duda	
tduda@esinvestment.pl	+ 48 22 347 40 42

**Budimex. Revenues (LHS) and net profit (RHS) between 2000-2010E in PLN m**



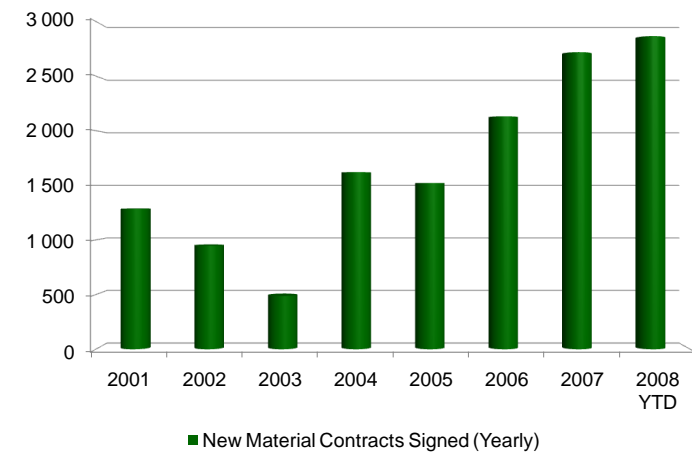
Source: Company data and Espirito Santo Research

**Budimex. Gross profit margin, SGA cost and operating margin between 2000-2010E**



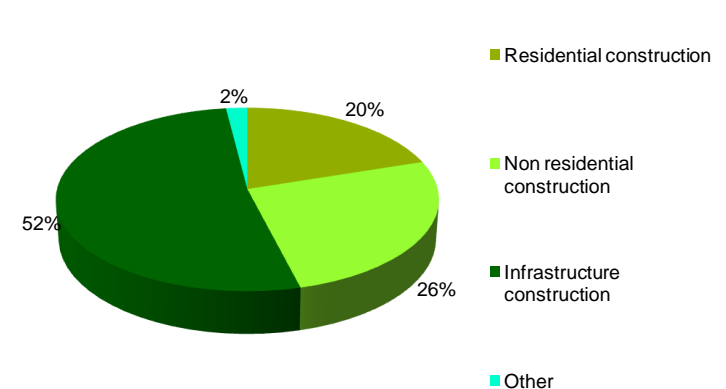
Source: Company data and Espirito Santo Research

**Budimex. New material contracts signed**



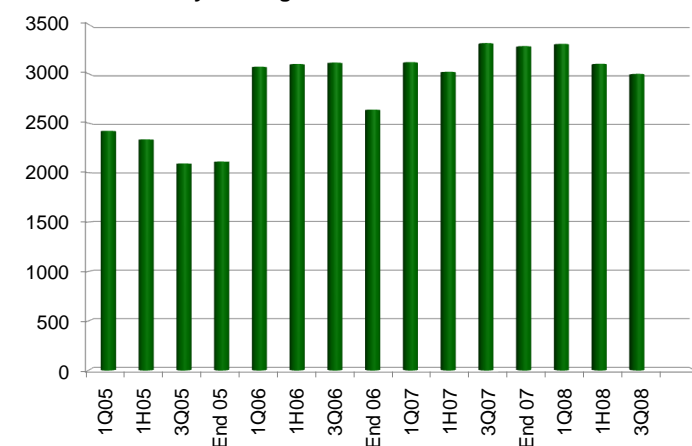
Source: Company data and Espirito Santo Research

**Budimex. Backlog structure as of the end of 3Q08**



Source: Company data and Espirito Santo Research

**Budimex. Quarterly backlog in PLN m**



Source: Company data and Espirito Santo Research

**Budimex. Future growth catalysts – Potential contracts' size estimation in PLN m**

Potential contracts description	Contract's size
A-1 Motorway	6000-7000
A-2 Motorway	2500-3500
S-5 expressway	3500-4500
S-7 expressway	1000-2000
S-8 express way	1 000
S-17 expressway	800-1500
S-19 expressway	800-1000
Stadiums: Warsaw , Gdansk	500-1000

Source: Espirito Santo Research

## FINANCIALS

## Budimex. Forecast Revision Summary, 2008E-2010E

	2008E			2009E			2010E		
	Old	New	chg	Old	New	chg	Old	New	chg
<b>Revenues</b>	<b>3 213.2</b>	<b>3 336.5</b>	<b>4%</b>	<b>3 771.6</b>	<b>3 706.2</b>	<b>-2%</b>	<b>4 677.3</b>	<b>4 342.0</b>	<b>-7%</b>
<b>Gross Profit</b>	259.5	291.8	12%	341.0	312.8	-8%	439.3	369.7	-16%
gross margin	8.1%	8.7%	0.7 pp	9.0%	8.4%	-0.6 pp	9.4%	8.5%	-0.9 pp
SG&A cost	-161.2	-145.3	-10%	-190.6	-158.4	-17%	-234.7	-182.3	-22%
SG&A as % of sales	5.0%	4.4%		5.1%	4.3%		5.0%	4.2%	
<b>EBIT</b>	<b>106.1</b>	<b>112.6</b>	<b>6%</b>	<b>148.2</b>	<b>141.1</b>	<b>-5%</b>	<b>201.9</b>	<b>183.2</b>	<b>-9%</b>
<b>Net Income</b>	<b>84.2</b>	<b>95.0</b>	<b>13%</b>	<b>106.3</b>	<b>112.4</b>	<b>6%</b>	<b>150.5</b>	<b>146.5</b>	<b>-3%</b>
<b>EPS (PLN)</b>	<b>3.3</b>	<b>3.7</b>	<b>13%</b>	<b>4.2</b>	<b>4.4</b>	<b>6%</b>	<b>5.9</b>	<b>5.7</b>	<b>-3%</b>

Source: Espirito Santo Research Poland

<b>BUDIMEX - P&amp;L (PLN m)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
<b>Revenues</b>	<b>2 703</b>	<b>3 043</b>	<b>3 076</b>	<b>3 337</b>	<b>3 706</b>	<b>4 342</b>
- yoy change		13%	1%	8%	11%	17%
Cost of Revenue	-2 597	-2 918	-2 928	-3 045	-3 393	-3 972
<b>Gross Profit</b>	<b>106</b>	<b>125</b>	<b>148</b>	<b>292</b>	<b>313</b>	<b>370</b>
- yoy change		18%	19%	97%	7%	18%
SG&A cost	-135	-136	-141	-145	-158	-182
- yoy change		1%	4%	3%	9%	15%
Hedging gain/(loss)	52	23	42	7	0	0
Other Operating Income/(Cost)	-21	-2	-21	-41	-13	-4
<b>EBIT</b>	<b>2</b>	<b>10</b>	<b>28</b>	<b>113</b>	<b>141</b>	<b>183</b>
- yoy change		406%	182%	301%	25%	30%
Depreciation cost	-21	-21	-24	-16	-20	-23
<b>EBITDA</b>	<b>23</b>	<b>31</b>	<b>52</b>	<b>129</b>	<b>161</b>	<b>207</b>
- yoy change		34%	66%	149%	25%	28%
Interest Income/(Cost)	15	9	10	10	3	1
Other Financial Income/(Cost)	-10	-8	-26	-6	-6	-4
Amortisation of Goodwill	0	0	0	0	0	0
Extraordinary Items	0	0	0	0	0	0
Share in (profit)/loss of companies subject to acquisition accounting	1	2	2	2	2	2
<b>Pretax Profit</b>	<b>7</b>	<b>12</b>	<b>14</b>	<b>118</b>	<b>140</b>	<b>183</b>
- yoy change		66%	12%	771%	18%	30%
Income Tax	-6	-8	1	-23	-28	-36
Minority (Profits)/Losses	1	0	1	0	0	0
<b>Net Income</b>	<b>2</b>	<b>4</b>	<b>15</b>	<b>95</b>	<b>112</b>	<b>147</b>
- yoy change		92%	287%	531%	18%	30%
<b>EPS (PLN)</b>	<b>0.08</b>	<b>0.15</b>	<b>0.59</b>	<b>3.72</b>	<b>4.40</b>	<b>5.74</b>
- yoy change		92%	287%	531%	18%	30%
<b>Profitability Ratios</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Gross Margin	3.9%	4.1%	4.8%	8.7%	8.4%	8.5%
Gross Margin including hedging	5.9%	4.9%	6.2%	9.0%	8.4%	8.5%
EBIT Margin before other operating items	0.9%	0.4%	1.6%	4.6%	4.2%	4.3%
EBIT Margin	0.1%	0.3%	0.9%	3.4%	3.8%	4.2%
Net Margin	0.1%	0.1%	0.5%	2.8%	3.0%	3.4%
ROE	0.4%	0.7%	2.9%	17.7%	17.8%	19.7%
ROA	0.1%	0.2%	0.7%	4.1%	4.5%	5.3%

Source: Espirito Santo Research Poland

26 November 2008

<b>BUDIMEX - Balance Sheet (PLN m)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
<b>Total Current Assets</b>	<b>1 591</b>	<b>1 887</b>	<b>1 838</b>	<b>1 937</b>	<b>2 168</b>	<b>2 565</b>
Cash and Equivalents	457	489	509	465	483	529
Receivables	706	985	760	817	889	1042
Inventory	279	385	533	617	704	847
Other Current Assets	149	28	36	38	91	148
<b>Total Fixed Assets</b>	<b>343</b>	<b>425</b>	<b>506</b>	<b>543</b>	<b>601</b>	<b>667</b>
Tangible Assets	97	103	97	114	131	149
Investments	57	128	161	162	179	187
Other Fixed Assets	190	193	248	267	292	331
<b>Total Assets</b>	<b>1 935</b>	<b>2 312</b>	<b>2 344</b>	<b>2 481</b>	<b>2 770</b>	<b>3 233</b>
<b>Stockholders` Equity</b>	<b>520</b>	<b>523</b>	<b>536</b>	<b>631</b>	<b>744</b>	<b>890</b>
Including Minority Interest	3	1	0	0	0	0
<b>Long Term Liabilities</b>	<b>135</b>	<b>216</b>	<b>313</b>	<b>321</b>	<b>339</b>	<b>378</b>
Long -Term Debt	23	96	171	167	168	178
Other Long - Term liabilities	112	120	142	154	171	200
<b>Short Term Liabilities</b>	<b>1281</b>	<b>1573</b>	<b>1495</b>	<b>1528</b>	<b>1687</b>	<b>1964</b>
Accounts Payable	767	1049	912	984	1093	1281
Short -Term Debt	102	138	106	104	104	110
Other Current Liabilities	411	386	477	440	489	573
<b>Total Equity &amp; Liabilities</b>	<b>1 935</b>	<b>2 312</b>	<b>2 344</b>	<b>2 481</b>	<b>2 770</b>	<b>3 233</b>
BVPS (PLN)	20.2	20.5	21.0	24.7	29.1	34.9
<b>Ratios</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Current Ratio	1.2	1.2	1.2	1.3	1.3	1.3
Quick Ratio	1.0	1.0	0.9	0.9	0.9	0.9
Bank Debt/Assets	6%	10%	12%	11%	10%	9%
Bank Debt/Equity	24%	45%	52%	43%	37%	32%

<b>BUDIMEX - Cash Flow (PLN m)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Net Profit	2	4	15	95	112	147
Depreciation and Amortisation	21	21	24	16	20	23
Net Working Capital Change	8	-118	19	-61	-39	-88
Other	-80	15	-72	-56	28	54
<b>Operating Cash Flows</b>	<b>-50</b>	<b>-78</b>	<b>-15</b>	<b>-6</b>	<b>122</b>	<b>136</b>
Capital Expenditures (Net)	-14	-21	-11	-38	-41	-45
Other	136	37	30	26	-44	-42
<b>Cash Flows from Investing Activities</b>	<b>123</b>	<b>17</b>	<b>19</b>	<b>-12</b>	<b>-85</b>	<b>-88</b>
Change in Debt	58	100	22	-6	2	16
Issuance of Shares	0	0	0	0	0	0
Interest paid	-2	-7	-6	-20	-20	-19
Dividends paid	0	0	0	0	0	0
Other	-3	0	0	0	0	0
<b>Cash Flows from Financing Activities</b>	<b>53</b>	<b>93</b>	<b>16</b>	<b>-26</b>	<b>-19</b>	<b>-3</b>
Beginning Cash	332	457	489	509	465	483
Increase/(Decrease) in Cash	126	32	20	-44	18	46
<b>Ending Cash</b>	<b>457</b>	<b>489</b>	<b>509</b>	<b>465</b>	<b>483</b>	<b>529</b>
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Espirito Santo Research Poland

## VALUATION

Budimex - DCF Model (PLN m)	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	Terminal Year
Revenue Growth Rate	12.6%	1.1%	8.5%	11.1%	17.2%	13.5%	11.3%	9.0%	5.5%	2.0%
Revenues	3 043	3 076	3 337	3 706	4 342	4 927	5 483	5 976	6 305	6 431
Operating Margin	0.3%	0.9%	3.4%	3.8%	4.2%	4.1%	4.1%	4.3%	4.4%	4.5%
<b>EBIT</b>	<b>10</b>	<b>28</b>	<b>113</b>	<b>141</b>	<b>183</b>	<b>202</b>	<b>224</b>	<b>256</b>	<b>277</b>	<b>289</b>
Taxes Rate	0.0%	0.0%	0.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
<b>EBIT(1-t)</b>	<b>10</b>	<b>28</b>	<b>113</b>	<b>114</b>	<b>148</b>	<b>164</b>	<b>181</b>	<b>208</b>	<b>224</b>	<b>234</b>
+ Depreciation				20	23	27	31	33	34	35
- Capital Expenditures				-33	-36	-40	-44	-47	-43	-38
- Chg WC				-50	-107	-32	-45	-49	-33	-13
<b>FCFF</b>				<b>51</b>	<b>28</b>	<b>118</b>	<b>123</b>	<b>144</b>	<b>182</b>	<b>219</b>
Terminal Value										<b>2 479</b>
Cost of Capital Calculations										
Tax Rate				19%	19%	19%	19%	19%	19%	19%
Debt Ratio				12%	13%	13%	13%	14%	15%	15%
Equity Ratio				88%	87%	87%	87%	87%	85%	85%
Beta				1.0	1.0	1.0	1.0	1.0	1.0	1.0
Cost of Equity				12.3%	12.0%	11.9%	11.8%	11.7%	11.7%	11.7%
Cost of Debt				6.8%	6.5%	6.4%	6.3%	6.2%	6.2%	6.2%
Cost of Debt for the Firm				7.8%	7.5%	7.4%	7.3%	7.2%	7.2%	7.2%
After-tax cost of debt				6.3%	6.1%	6.0%	5.9%	5.9%	5.8%	5.8%
<b>Cost of Capital</b>				<b>11.6%</b>	<b>11.3%</b>	<b>11.1%</b>	<b>11.0%</b>	<b>10.9%</b>	<b>10.8%</b>	<b>10.8%</b>
Present Value Calculations										
Cumulative WACC				1.0	1.1	1.2	1.4	1.5	1.7	
<b>Present Value of FCFF</b>				<b>51</b>	<b>25</b>	<b>96</b>	<b>90</b>	<b>95</b>	<b>108</b>	
Present Value of Terminal Value										<b>1 469</b>

**Budimex - DCF Valuation Summary (PLN m)**

PV of FCFF during high growth phase =	465
PV of Terminal Value =	1 469
Value of Operating Assets of the firm =	1 935
Value of Cash & Non-operating assets =	395
<b>Value of Firm =</b>	<b>2 330</b>
- Value of Outstanding Debt =	-271
<b>Value of Equity =</b>	<b>2 059</b>
Value of Equity per share at 2009 end (PLN) =	81
<b>12 Month Target Price (PLN)</b>	<b>80</b>

**Budimex - DCF Model Key Assumptions**

Revenue CAGR 2008E-2014E	11%
Nominal growth rate in perpetuity	2%
Average operating margin in 2009E-2014E	4.1%
Operating margin in perpetuity	4.5%
Market Risk Premium	5.5%
Average WACC in 2009E-2014E	11.1%
WACC in perpetuity	10.8%

**Budimex - Target Price Sensitivity (PLN)**

Real Growth Rate in Perpetuity	Operating Margin in Perpetuity			
	Nominal Growth	5.5%	4.5%	3.5%
-2.0%	1.0%	89	75	62
-1.0%	2.0%	95	<b>80</b>	65
0.0%	3.0%	103	86	69

Source: Espirito Santo Research Poland

## ELEKTROBUDOWA – VALUE CARRIER VEHICLE

## Immune to slowdown, hence we check downside risks

The complex specialization of Elektrobudowa's business makes it the most immune Company to the slowdown on the construction market. Hence we decided to look for risks that could waver Company's immunity. Though industrial segment seems logical choice, we expect flat sales rather than contraction as Company is likely to win over clients with the quality of its service. The main risk we see is the pressure on margins in this segment, though Management's profit-wise focus and bargaining power might be helpful. Energy sector revenues should remain immune to any slowdown and margins are unlikely to fall significantly with implementation of large investments.

## Forecast Revision

We revise our 2008-2010 EPS forecast +6%, -6% and -11%, respectively. 2008 upward revision comes from strong 3Q08 figures, while 2009E-10E figures are revised down on the back of weaker growth prospects. We revise down our top line estimates by 9% and 15% in 2009E-10E as greater competition might hamper Elektrobudowa's growth rather than margins. In fact we revise up our gross margin estimates by 50 bps and 40 bps on the back of greater than expected profitability of newly acquired subsidiaries. Thus automation segment fat margins are expected to more than offset poorer outlook for industrial segments margins. We see production part of Elektrobudowa with its dominant position on the market as the most immune segment of the Company, though its growth prospects are limited to segments growth. In terms of overheads we expect the structure of compensation program to trigger both margins apprehension and flexibility of SG&A line.

## We remain positive and reiterate BUY recommendation

We reiterate BUY recommendation for Elektrobudowa cutting our 12M Target Price by 17% from PLN 259 to PLN 215 mainly on the back of the increased cost of capital (WACC up to 11.1% from 10.6%) and more prudent approach towards growth prospects (2008E-14E top line CAGR reduced from 16.6% to 14.3%).

## 3Q08 Results and Future Growth Prospects

We see 3Q08 results as a good indicator for the future developments of the particular segments of the Company. Industrial segment's growth weakened, though we expect it to remain flat yoy in 2009E. We expect flat yoy energy segments as we apply more cautious approach. Automation segment is expected to boost both top line and bottom line with solid margins recorded already in 3Q08. Sound financial position of the Company makes large part of current credit crunch related problems irrelevant and enables Elektrobudowa to copy its successful business model abroad.

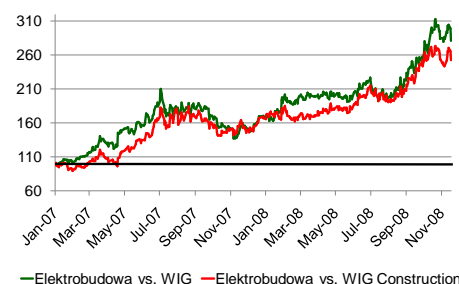
	Revenues	EBITDA	Net Profit	EPS	EPS (adj)	EPS chg	P/E	EV/EBITDA	DY
2006	474	28	15	3.8	3.8	61%	28.5	16.0	1.4%
2007	680	50	35	8.2	8.2	119%	24.3	17.0	1.0%
2008E	852	78	60	13.5	13.5	64%	11.9	9.1	1.6%
2009E	891	83	63	13.3	13.3	-1%	12.1	8.5	3.8%
2010E	1 024	92	72	15.1	15.1	14%	10.6	7.3	5.3%

Source: Company for historical figures and Espirito Santo Research Poland for estimates. Note: Revenues, EBITDA, net profit in PLN m; EPS in PLN; Extraordinary items excluded from EPS (adj)

## Elektrobudowa

## BUY - Medium/Low Risk

Price Target (Nov. 09)	<b>PLN 215</b>
from	<b>PLN 259</b>
Price (25 Nov. 08)	<b>PLN 160</b>
Potential	34%



## Trading

Reuters Code	LBUD.WA
Bloomberg Code	ELB PW
Shares Outstanding (m)	4.75
Market Cap (€m)	200
12M Avg. Daily Turnover (€m)	0.3
12M Avg. Daily Volume (th)	6.3
WIG Weight (%)	0.72
WIG 20 Weight (%)	na
52 W High / Low	208.9 / 157.1

Performance	Abs.	vs. WIG
3M	-12%	30%
YTD	-20%	63%
12M	-11%	81%

Financials	2009E
Revenue growth	4.5%
Operating margin	8.4%
ROE	25.1%
Bank Debt / Equity	0.0%

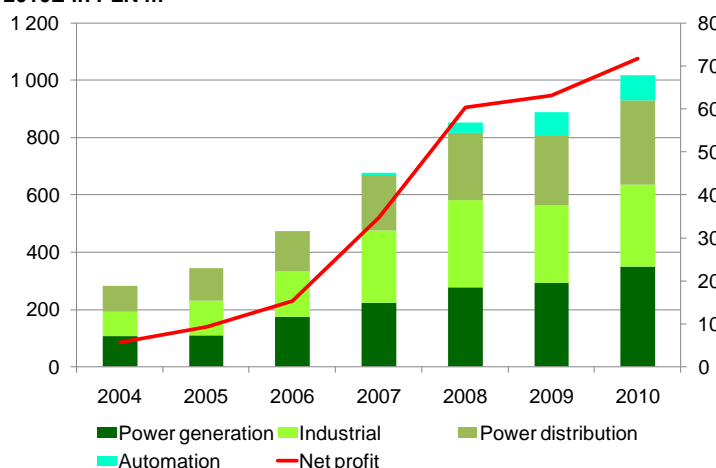
Shareholders	Stake
ING NN Pension Fund	15.9%
CU Pension Fund	11.4%
AIG Pension Fund	7.6%
PZU Pension Fund	7.5%
AXA Pension Fund	6.5%
Other	51.1%

Source: Espirito Santo Research Poland

## Analysts

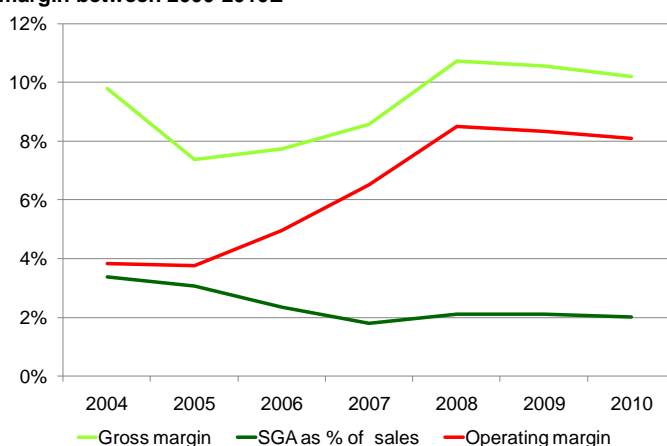
Arkadiusz Chojnacki, CFA	
achojnacki@esinvestment.pl	+ 48 22 347 40 40
Tomasz Duda	
tduda@esinvestment.pl	+ 48 22 347 40 42

**Elektrobudowa. Revenues (LHS) and net profit (RHS) between 2000-2010E in PLN m**



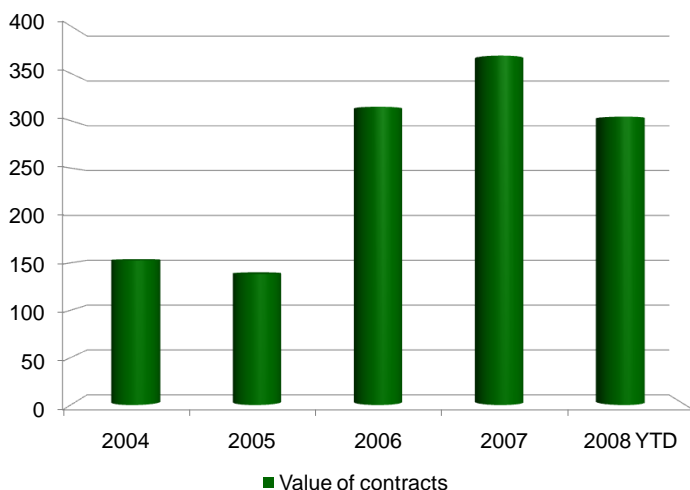
Source: Company data and Espirito Santo Research

**Elektrobudowa. Gross profit margin, SGA cost and operating margin between 2000-2010E**



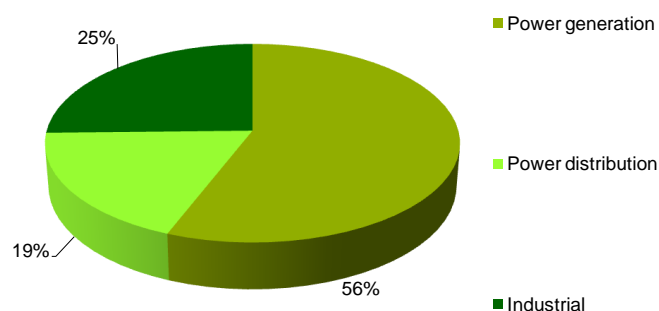
Source: Company data and Espirito Santo Research

**Elektrobudowa. New material contracts signed**



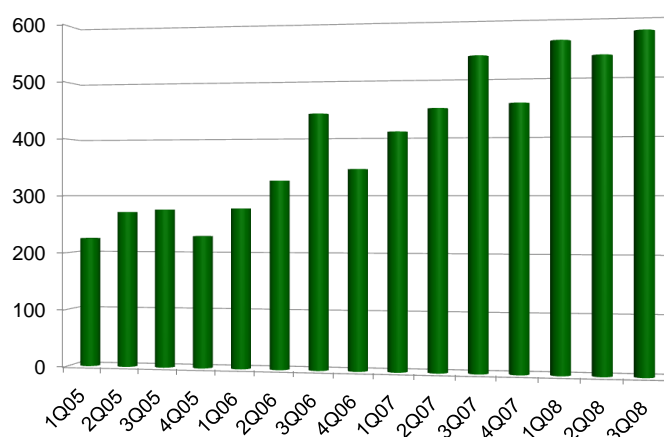
Source: Company data and Espirito Santo Research

**Elektrobudowa. Backlog structure as of the end of 3Q08**



Source: Company data and Espirito Santo Research

**Elektrobudowa. Quarterly backlog in PLN m**



Source: Company data and Espirito Santo Research

**Elektrobudowa. Future growth catalysts – Potential contracts's size estimation in PLN m**

Potential contracts description	Contract's size
Rybnik power plant 600MW unit	133
Vattenfall Siekierki 2 units 500MW each	222
Opole power plant 800 MW unit	178
CEZ Skawina 600 MW Skawina	133
2. Line of Warsaw Subway	450
Follow-up contracts to nuclear power plant in Finland	200
Russian market contracts	25

Source: Company data and Espirito Santo Research

## FINANCIALS

## Elektrobudowa. Forecast Revision Summary, 2008E-2010E

	2008E			2009E			2010E		
	Old	New	chg	Old	New	chg	Old	New	chg
<b>Revenues</b>	<b>844.0</b>	<b>852.4</b>	<b>1%</b>	<b>975.5</b>	<b>890.8</b>	<b>-9%</b>	<b>1 199.1</b>	<b>1 023.8</b>	<b>-15%</b>
<b>Gross Profit</b>	86.2	91.5	6%	97.9	94.1	-4%	117.7	104.5	-11%
gross margin	10.2%	10.7%	0.5pp	10.0%	10.6%	0.5pp	9.8%	10.2%	0.4pp
SG&A cost	-14.5	-17.9	24%	-15.7	-18.7	19%	-20.0	-20.5	2%
SG&A as % of sales	1.7%	2.1%		1.6%	2.1%		1.7%	2.0%	
<b>EBIT</b>	<b>68.9</b>	<b>72.6</b>	<b>5%</b>	<b>79.2</b>	<b>74.4</b>	<b>-6%</b>	<b>94.7</b>	<b>83.0</b>	<b>-12%</b>
<b>Net Income</b>	<b>57.1</b>	<b>60.3</b>	<b>6%</b>	<b>67.1</b>	<b>63.0</b>	<b>-6%</b>	<b>81.2</b>	<b>72.0</b>	<b>-11%</b>
<b>EPS (PLN)</b>	<b>12.7</b>	<b>13.5</b>	<b>6%</b>	<b>14.1</b>	<b>13.3</b>	<b>-6%</b>	<b>17.1</b>	<b>15.2</b>	<b>-11%</b>

Source: Espirito Santo Research Poland

ELEKTROBUDOWA - P&L (PLN m)	2005	2006	2007	2008E	2009E	2010E
<b>Revenues</b>	<b>345</b>	<b>474</b>	<b>680</b>	<b>852</b>	<b>891</b>	<b>1 024</b>
- yoy change		38%	43%	25%	5%	15%
Cost of Revenue	-319	-438	-621	-761	-797	-919
<b>Gross Profit</b>	<b>25</b>	<b>37</b>	<b>58</b>	<b>91</b>	<b>94</b>	<b>104</b>
- yoy change		44%	58%	57%	3%	11%
SG&A cost	-11	-11	-12	-18	-19	-20
- yoy change		6%	9%	47%	5%	9%
Other Operating Income/(Cost)	-2	-2	-2	-1	-1	-1
<b>EBIT</b>	<b>13</b>	<b>24</b>	<b>44</b>	<b>73</b>	<b>74</b>	<b>83</b>
- yoy change		81%	88%	64%	2%	12%
Depreciation cost	-5	-5	-5	-5	-8	-9
<b>EBITDA</b>	<b>18</b>	<b>28</b>	<b>50</b>	<b>78</b>	<b>83</b>	<b>92</b>
- yoy change		56%	76%	57%	6%	11%
Interest Income/(Cost)	0	-1	-1	0	0	0
Other Financial Income/(Cost)						
Amortisation of Goodwill	0	0	0	0	0	0
Extraordinary Items	0	0	0	0	0	0
Share in (profit)/loss of companies subject to acquisition accounting	0	0	2	3	4	6
<b>Pretax Profit</b>	<b>13</b>	<b>22</b>	<b>45</b>	<b>76</b>	<b>78</b>	<b>89</b>
- yoy change		74%	101%	69%	3%	14%
Income Tax	-3	-5	-9	-15	-15	-17
Minority (Profits)/Losses	-1	-2	-1	0	0	0
<b>Net Income</b>	<b>9</b>	<b>15</b>	<b>35</b>	<b>60</b>	<b>63</b>	<b>72</b>
- yoy change		66%	126%	74%	4%	14%
<b>EPS (PLN)</b>	<b>2.3</b>	<b>3.6</b>	<b>8.2</b>	<b>13.5</b>	<b>13.3</b>	<b>15.2</b>
- yoy change		56%	126%	64%	-1%	14%
<b>Profitability Ratios</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Gross Margin	7.4%	7.8%	8.6%	10.7%	10.6%	10.2%
EBIT Margin before other operating items	4.3%	5.4%	6.8%	8.6%	8.5%	8.2%
EBIT Margin	3.8%	5.0%	6.5%	8.5%	8.4%	8.1%
Net Margin	2.7%	3.2%	5.1%	7.1%	7.1%	7.0%
ROE	14.3%	21.9%	41.1%	54.0%	25.1%	24.0%
ROA	5.4%	8.8%	12.7%	17.8%	12.9%	13.3%

Source: Company data and Espirito Santo Research Poland

26 November 2008

<b>ELEKTROBUDOWA - Balance</b>						
<b>Sheet (PLN m)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
<b>Total Current Assets</b>	<b>132</b>	<b>224</b>	<b>281</b>	<b>365</b>	<b>388</b>	<b>477</b>
Cash and Equivalents	10	22	22	48	58	97
Receivables	115	178	238	281	294	338
Inventory	6	23	15	30	31	36
Other Current Assets	1	1	6	5	6	6
<b>Total Fixed Assets</b>	<b>43</b>	<b>49</b>	<b>58</b>	<b>124</b>	<b>153</b>	<b>156</b>
Tangible Assets	30	34	38	100	130	134
Investments	0	0	4	4	4	4
Other Fixed Assets	13	16	16	20	19	18
<b>Total Assets</b>	<b>175</b>	<b>274</b>	<b>339</b>	<b>489</b>	<b>541</b>	<b>632</b>
<b>Stockholders` Equity</b>	<b>72</b>	<b>88</b>	<b>112</b>	<b>251</b>	<b>300</b>	<b>355</b>
Including Minority Interest	2	3	0	0	0	0
<b>Long Term Liabilities</b>	<b>6</b>	<b>8</b>	<b>11</b>	<b>14</b>	<b>14</b>	<b>16</b>
Long -Term Debt	0	0	0	0	0	0
Other Long - Term liabilities	6	8	11	14	14	16
<b>Short Term Liabilities</b>	<b>98</b>	<b>178</b>	<b>216</b>	<b>224</b>	<b>227</b>	<b>261</b>
Accounts Payable	80	153	193	222	224	258
Short -Term Debt	16	22	22	0	0	0
Other Current Liabilities	1	2	0	2	2	3
<b>Total Equity &amp; Liabilities</b>	<b>175</b>	<b>274</b>	<b>339</b>	<b>489</b>	<b>541</b>	<b>632</b>
BVPS (PLN)	17.7	20.0	26.5	52.9	63.2	74.8
<b>Ratios</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Current Ratio	1.3	1.3	1.3	1.6	1.7	1.8
Quick Ratio	1.3	1.1	1.2	1.5	1.6	1.7
Bank Debt/Assets	9%	8%	7%	0%	0%	0%
Bank Debt/Equity	23%	25%	20%	0%	0%	0%
<b>ELEKTROBUDOWA - Cash Flow</b>						
<b>(PLN m)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Net Profit	9	15	35	60	63	72
Depreciation and Amortisation	5	5	5	5	8	9
Net Working Capital Change	8	-5	-12	-30	-11	-15
Other	-5	1	-4	6	1	1
<b>Operating Cash Flows</b>	<b>17</b>	<b>16</b>	<b>23</b>	<b>42</b>	<b>61</b>	<b>67</b>
Capital Expenditures (Net)	-6	-8	-11	-72	-37	-11
Other	1	1	-4	0	0	0
<b>Cash Flows from Investing Activities</b>	<b>-6</b>	<b>-7</b>	<b>-15</b>	<b>-72</b>	<b>-37</b>	<b>-11</b>
Change in Debt	-5	6	-3	-22	0	0
Issuance of Shares	0	5	0	90	0	0
Interest paid	-2	-1	-1	0	0	0
Dividends paid	-4	-6	-8	-11	-14	-17
Other	0	0	0	0	0	0
<b>Cash Flows from Financing Activities</b>	<b>-11</b>	<b>4</b>	<b>-13</b>	<b>57</b>	<b>-14</b>	<b>-17</b>
FX Differences	0	0	0	0	0	0
Beginning Cash	9	2	14	22	48	58
Increase/(Decrease) in Cash	1	12	-4	27	10	39
<b>Ending Cash</b>	<b>10</b>	<b>22</b>	<b>22</b>	<b>48</b>	<b>58</b>	<b>97</b>
DPS (PLN)	1.0	1.5	2.0	2.5	3.0	3.5

Source: Company data and Espirito Santo Research Poland

## VALUATION

Elektrobudowa - DCF Model (PLN m)	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	Terminal Year
Revenue Growth Rate	37.5%	43.3%	25.4%	4.5%	14.9%	25.2%	16.4%	13.2%	12.5%	2.0%
Revenues	474	680	852	891	1 024	1 282	1 492	1 689	1 901	1 939
Operating Margin	5.0%	6.5%	9.0%	8.8%	8.8%	9.3%	9.6%	9.1%	9.3%	7.0%
<b>EBIT</b>	<b>24</b>	<b>44</b>	<b>76</b>	<b>79</b>	<b>90</b>	<b>119</b>	<b>144</b>	<b>155</b>	<b>176</b>	<b>136</b>
Taxes Rate	22.7%	21.3%	21.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
<b>EBIT(1-t)</b>	<b>18</b>	<b>35</b>	<b>60</b>	<b>64</b>	<b>73</b>	<b>96</b>	<b>117</b>	<b>125</b>	<b>143</b>	<b>110</b>
+ Depreciation				8	9	9	9	9	10	10
- Capital Expenditures				-37	-11	-14	-14	-14	-14	-11
- Chg WC				-11	-15	-29	-23	-22	-23	-6
<b>FCFF</b>				<b>24</b>	<b>56</b>	<b>63</b>	<b>88</b>	<b>99</b>	<b>115</b>	<b>103</b>
Terminal Value										<b>1128.5</b>
Cost of Capital Calculations										
Tax Rate				19%	19%	19%	19%	19%	19%	19%
Debt Ratio				0%	1%	2%	2%	3%	3%	10%
Equity Ratio				100%	99%	98%	98%	98%	97%	90%
Beta				1.0	1.0	1.0	1.0	1.0	1.0	1.0
Cost of Equity				12.3%	12.0%	11.9%	11.8%	11.7%	11.7%	11.7%
Cost of Debt				6.8%	6.5%	6.4%	6.3%	6.2%	6.2%	6.2%
Cost of Debt for the Firm				7.8%	7.5%	7.4%	7.3%	7.2%	7.2%	7.2%
After-tax cost of debt				6.3%	6.1%	6.0%	5.9%	5.9%	5.8%	5.8%
<b>Cost of Capital</b>				<b>12.3%</b>	<b>11.9%</b>	<b>11.8%</b>	<b>11.7%</b>	<b>11.6%</b>	<b>11.5%</b>	<b>11.1%</b>
Present Value Calculations										
Cumulative WACC				1.0	1.1	1.3	1.4	1.6	1.7	
<b>Present Value of FCFF</b>				<b>24</b>	<b>50</b>	<b>50</b>	<b>63</b>	<b>63</b>	<b>66</b>	
Present Value of Terminal Value										<b>649</b>

**Elektrobudowa- DCF Valuation Summary (PLN m)**

PV of FCFF during high growth phase =	316
PV of Terminal Value =	649
Value of Operating Assets of the firm =	965
Value of Cash & Non-operating assets =	56
<b>Value of Firm =</b>	<b>1 021</b>
- Value of Outstanding Debt =	0
- Adjustment for Minority Stakes	0
<b>Value of Equity =</b>	<b>1 021</b>
Value of Equity per share at 2009 end (PLN) =	215
<b>12 Month Target Price (PLN)</b>	<b>215</b>

**Elektrobudowa - DCF Model Key Assumptions**

Revenue CAGR 2008E-2014E	14.3%
Nominal (Real) growth rate in perpetuity	2% (-1%)
Average operating margin in 2009E-2014E	9.2%
Operating margin in perpetuity	7.0%
Market Risk Premium	5.5%
Average WACC in 2009E-2014E	11.8%
WACC in perpetuity	11.1%

**Elektrobudowa - Target Price Sensitivity (PLN)**

Real Growth Rate in Perpetuity	Operating Margin in Perpetuity			
	Nominal Growth	8.0%	7.0%	6.0%
-2.0%	1.0%	223	205	186
-1.0%	2.0%	236	<b>215</b>	194
0.0%	3.0%	252	228	205

Source: Espirito Santo Research Poland

## ERBUD – ROCKING AHEAD AGAINST HIGH WATERS

### Prospects are poor, but Company remains solid

Erbud is the most exposed Company to the residential, commercial and industrial segments of construction market – the ones we expect to be the most vulnerable to both sales contraction and price war (due to increased competition). Accordingly we cut significantly our 2009-2010E forecasts. The other side of the coin is the good Management's expertise of the mechanics of construction market. Hence we expect Erbud to be flexible enough to curb costs' pressures during more difficult times and remain profitable, though at much depressed margins compared to 2007-2008 period.

### Forecast Revision

We cut our 2008E - 2010E EPS estimates by 84%, 50% and 64% respectively. The losses on FX speculation are the main reason for the deep cut of 2008E forecast while poorer 2009E-10E market outlook in terms of both growth and margins contribute to the cuts in the following years. The 23% and 37% cut of revenues forecast in 2009E-10E stems mainly from expected poor contracts' acquisitions in 2009E but also from disappointing results of both developing and roads construction arms of Erbud. Expected poor sales of houses in 2009E make us prudent about sales and margins estimates for 2009E-10E of this part of Company business. We expect stable export sales while domestic construction might be hit by both poor growth prospects and renegotiations of contracts resulting in lower margins already in 2009E.

### Valuation & Recommendation

We cut Erbud's 12M Target Price by 74% from PLN 93 to PLN 24 recommending to Hold the stock (previously Buy). Erbud seems great Company on the booming market, but we see significant risks as well when the prospects for construction sector are dimmer. Accordingly we cut our growth expectations from 2008-2014 CAGR of 12.6% to 2%, mainly on the back of poor 2009-2010E outlook and disappointing performance of new subsidiaries. Moreover, we expect weaker construction market to translate into negative construction prices hitting Erbud's margins (average 2008-2014 EBIT margin cut from 6.8% to 5.2%). High Risk recommendation comes from the risks of: further contracts' losses, poor contract acquisition in 2009E, construction prices deflation and exposure to the most vulnerable sectors.

### Speculation puts heavy burden on Erbud, but it should survive

The recent FX speculation resulted in PLN 47.5m of losses putting much pressure on the hitherto sound financial position of the Company. We expect Management to focus as of now on the core activity to compensate investors for the poor 2008 results. We expect the risk of bankruptcy stemming from derivatives losses as low and limited.

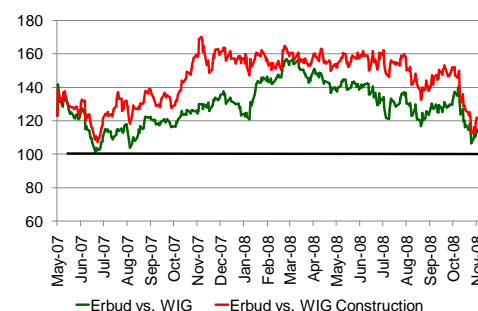
	Revenues	EBITDA	Net Profit	EPS	EPS (adj)	EPS chg.	P/E	EV/EBITDA	DY
2006	426	27	20	2.0	2.0	502%	na	na	na
2007	663	35	32	2.8	2.4	18%	38.1	30.1	0.0%
2008E	978	62	8	0.7	0.7	-72%	32.1	4.2	0.0%
2009E	892	50	32	2.6	2.6	295%	8.1	5.0	1.6%
2010E	862	43	27	2.2	2.2	-16%	9.7	5.3	6.2%

Source: Company for historical figures and Espirito Santo Research Poland for estimates. Note: Revenues, EBITDA, net profit in PLN m; EPS in PLN; Extraordinary items excluded from EPS (adj)

## Erbud

### HOLD – High Risk

Price Target (Nov. 09)	<b>PLN 24</b>
from	<b>PLN 93</b>
Price (25 Nov. 08)	<b>PLN 21</b>
Potential	12%



### Trading

Reuters Code	ERBA.WA
Bloomberg Code	ERB PW
Shares Outstanding (m)	12.57
Market Cap (€m)	71
12M Avg. Daily Turnover (€m)	0.3
12M Avg. Daily Volume (th)	59.4
WIG Weight (%)	0.09
WIG 20 Weight (%)	na
52 W High / Low	98.0 / 18.5

Performance	Abs.	vs. WIG
3M	-66%	-50%
YTD	-77%	-53%
12M	-79%	-56%

### Financials

	2009E
Revenue growth	-8.8%
Operating margin	5.1%
ROE	14.9%
Bank Debt / Equity	36.5%

### Shareholders

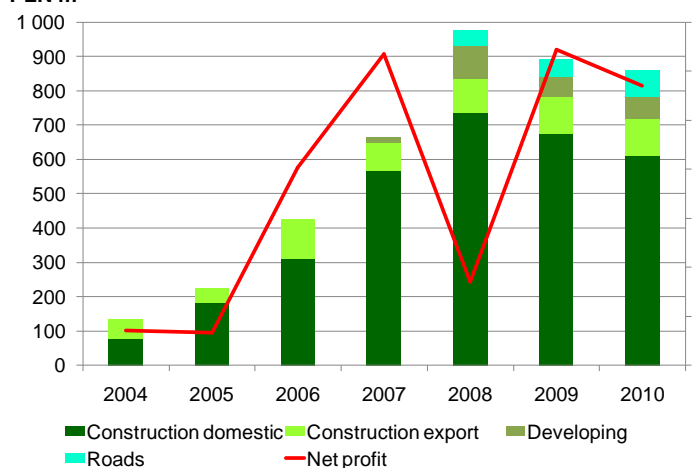
Shareholders	Stake
Wolff&Müller Baubeteiligungen GmbH&Co.	34.2%
Grzeszczak Dariusz	32.3%
CU Pension Fund	6.8%
ING Pension Fund	6.3%
Other	20.4%

Source: Espirito Santo Research Poland

### Analysts

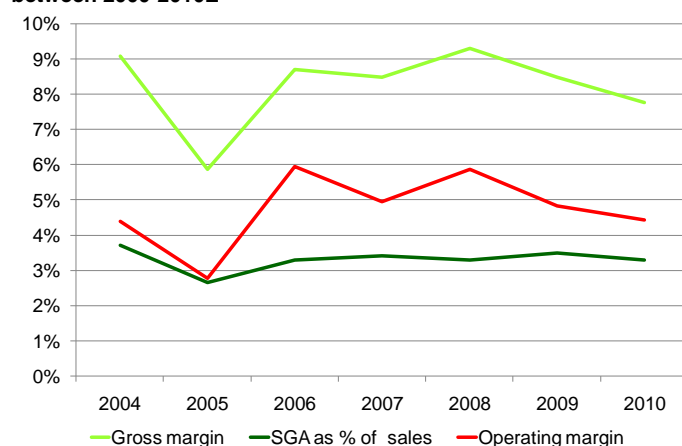
Arkadiusz Chojnacki, CFA	
achojnacki@esinvestment.pl	+ 48 22 347 40 40
Tomasz Duda	
tduda@esinvestment.pl	+ 48 22 347 40 42

**Erbud. Revenues (LHS) and net profit (RHS) between 2000-2010E in PLN m**



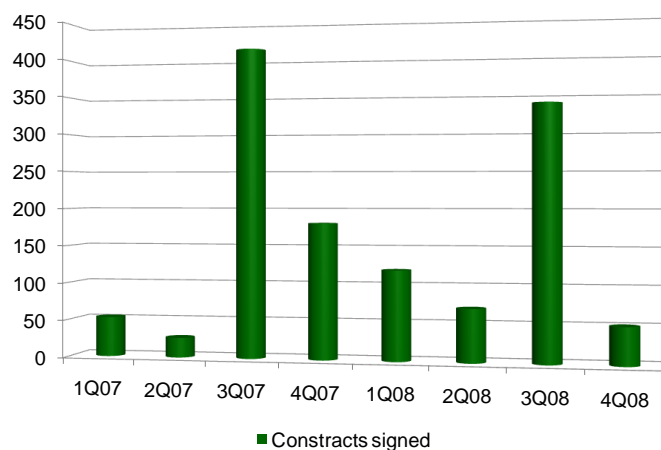
Source: Company data and Espirito Santo Research

**Erbud. Gross profit margin, SGA cost and operating margin between 2000-2010E**



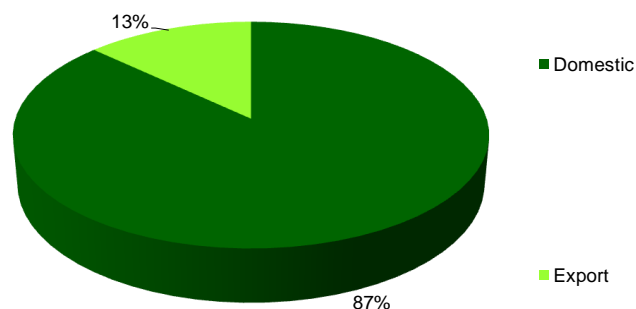
Source: Company data and Espirito Santo Research

**Erbud. New material contracts signed**



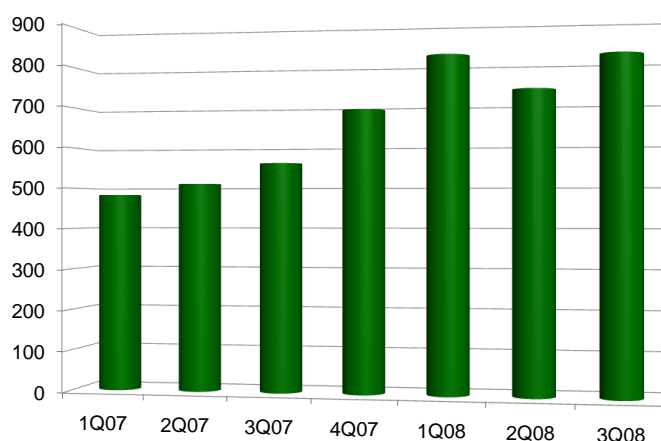
Source: Company data and Espirito Santo Research

**Erbud. Backlog structure as of the end of 3Q08**



Source: Company data and Espirito Santo Research

**Erbud. Quarterly backlog in PLN m**



Source: Company data and Espirito Santo Research

**Erbud. Future growth catalysts – Potential contracts size estimations in PLN m**

Potential contracts description	Contract's size
Retail centre construction - each	100-150
Office buildings construction	20-70
Sporting facilities	20-50
Production plant in Wroclaw	100
Local roads contracts' distribution	50-100
Acquisition of foreign contracts	20-40
Revival of residential market (Budlex)	100
Residential construction contracts	30-120

Source: Company data and Espirito Santo Research

## FINANCIALS

## Erbud. Forecast Revision Summary, 2008E-2010E

	2008E			2009E			2010E		
	Old	New	chg	Old	New	chg	Old	New	chg
<b>Revenues</b>	<b>948.9</b>	<b>978.2</b>	<b>3%</b>	<b>1 158.9</b>	<b>892.3</b>	<b>-23%</b>	<b>1 370.4</b>	<b>861.5</b>	<b>-37%</b>
<b>Gross Profit</b>	100.2	91.2	-9%	122.4	76.6	-37%	143.3	67.0	-53%
gross margin	10.6%	9.3%	-1.2 pp	10.6%	8.6%	-2 pp	10.5%	7.8%	-2.7 pp
SG&A cost	-35.1	-32.3	-8%	-41.7	-30.3	-27%	-48.0	-28.4	-41%
SG&A as % of sales	3.7%	3.3%		3.6%	3.4%		3.5%	3.3%	
<b>EBIT</b>	<b>66.6</b>	<b>57.4</b>	<b>-14%</b>	<b>82.2</b>	<b>45.7</b>	<b>-44%</b>	<b>96.9</b>	<b>38.1</b>	<b>-61%</b>
<b>Net Income</b>	<b>52.8</b>	<b>8.2</b>	<b>-84%</b>	<b>64.5</b>	<b>32.5</b>	<b>-50%</b>	<b>76.1</b>	<b>27.2</b>	<b>-64%</b>
<b>EPS (PLN)</b>	<b>4.2</b>	<b>0.7</b>	<b>-84%</b>	<b>5.1</b>	<b>2.6</b>	<b>-50%</b>	<b>6.1</b>	<b>2.2</b>	<b>-64%</b>

Source: Espirito Santo Research Poland

ERBUD - P&L (PLN m)	2005	2006	2007	2008E	2009E	2010E
<b>Revenues</b>	<b>224</b>	<b>426</b>	<b>663</b>	<b>978</b>	<b>892</b>	<b>862</b>
- yoy change		90%	56%	48%	-9%	-3%
Cost of Revenue	-211	-389	-607	-887	-816	-794
<b>Gross Profit</b>	<b>13</b>	<b>37</b>	<b>56</b>	<b>91</b>	<b>77</b>	<b>67</b>
- yoy change		183%	52%	62%	-16%	-12%
SG&A cost	-6	-14	-23	-32	-30	-28
- yoy change		137%	61%	43%	-6%	-6%
Other Operating Income/(Cost)	-1	2	-1	-2	-1	-1
<b>EBIT</b>	<b>6</b>	<b>25</b>	<b>33</b>	<b>57</b>	<b>46</b>	<b>38</b>
- yoy change		309%	29%	75%	-20%	-17%
Depreciation cost	-1	-1	-2	-3	-4	-4
<b>EBITDA</b>	<b>7</b>	<b>27</b>	<b>35</b>	<b>61</b>	<b>50</b>	<b>43</b>
- yoy change		273%	30%	75%	-17%	-15%
Interest Income/(Cost)	-2	0	6	-47	-5	-5
Other Financial Income/(Cost)						
Amortisation of Goodwill	0	0	0	0	0	0
Extraordinary Items	0	0	0	0	0	0
Share in (profit)/loss of companies subject to acquisition accounting	0	0	0	0	0	0
<b>Pretax Profit</b>	<b>5</b>	<b>25</b>	<b>39</b>	<b>10</b>	<b>41</b>	<b>34</b>
- yoy change		450%	55%	-74%	295%	-17%
Income Tax	-1	-5	-7	-2	-8	-6
Minority (Profits)/Losses	0	0	0	0	0	0
<b>Net Income</b>	<b>3</b>	<b>20</b>	<b>32</b>	<b>8</b>	<b>32</b>	<b>27</b>
- yoy change		502%	57%	-74%	295%	-16%
<b>EPS (PLN)</b>	<b>0.34</b>	<b>2.02</b>	<b>2.82</b>	<b>0.65</b>	<b>2.58</b>	<b>2.16</b>
- yoy change		502%	39%	-77%	295%	-16%
<b>Profitability Ratios</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Gross Margin	5.9%	8.7%	8.5%	9.3%	8.6%	7.8%
EBIT Margin before other operating items	3.2%	5.4%	5.1%	6.0%	5.2%	4.5%
EBIT Margin	2.8%	5.9%	4.9%	5.9%	5.1%	4.4%
Net Margin	1.5%	4.7%	4.8%	0.8%	3.6%	3.2%
ROE		100.6%	77.4%	3.9%	14.9%	11.0%
ROA		22.3%	20.8%	1.7%	5.6%	4.6%

Source: Espirito Santo Research Poland

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<b>ERBUD - Balance Sheet (PLN m)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
<b>Total Current Assets</b>	<b>83</b>	<b>140</b>	<b>445</b>	<b>486</b>	<b>490</b>	<b>479</b>
Cash and Equivalents	20	29	128	35	42	83
Receivables	58	105	127	254	268	241
Inventory	3	0	119	147	161	151
Other Current Assets	1	5	71	50	20	5
<b>Total Fixed Assets</b>	<b>8</b>	<b>14</b>	<b>46</b>	<b>92</b>	<b>97</b>	<b>100</b>
Tangible Assets	2	5	17	43	52	56
Investments	1	1	12	10	9	9
Other Fixed Assets	5	8	17	39	36	35
<b>Total Assets</b>	<b>91</b>	<b>153</b>	<b>491</b>	<b>578</b>	<b>587</b>	<b>580</b>
<b>Stockholders` Equity</b>	<b>20</b>	<b>41</b>	<b>210</b>	<b>218</b>	<b>247</b>	<b>258</b>
Including Minority Interest	0	0	17	17	17	17
<b>Long Term Liabilities</b>	<b>1</b>	<b>3</b>	<b>25</b>	<b>22</b>	<b>23</b>	<b>21</b>
Long -Term Debt	0	0	21	17	18	16
Other Long - Term liabilities	1	3	4	5	5	5
<b>Short Term Liabilities</b>	<b>70</b>	<b>109</b>	<b>256</b>	<b>338</b>	<b>317</b>	<b>301</b>
Accounts Payable	58	99	166	207	187	181
Short -Term Debt	2	1	20	68	72	64
Other Current Liabilities	10	9	71	63	58	56
<b>Total Equity &amp; Liabilities</b>	<b>91</b>	<b>153</b>	<b>491</b>	<b>578</b>	<b>587</b>	<b>580</b>
BVPS (PLN)	2.0	4.1	15.3	16.0	18.2	19.1
<b>Ratios</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Current Ratio	1.2	1.3	1.7	1.4	1.5	1.6
Quick Ratio	1.1	1.3	1.3	1.0	1.0	1.1
Bank Debt/Assets	2%	1%	8%	15%	15%	14%
Bank Debt/Equity	10%	3%	19%	39%	37%	31%
<b>ERBUD - Cash Flow (PLN m)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Net Profit	3	20	32	8	32	27
Depreciation and Amortisation	1	1	2	3	4	4
Net Working Capital Change	-7	-2	13	-104	-37	21
Other	2	-6	-11	5	20	23
<b>Operating Cash Flows</b>	<b>-1</b>	<b>14</b>	<b>36</b>	<b>-89</b>	<b>20</b>	<b>75</b>
Capital Expenditures (Net)	-2	-3	-3	-49	-13	-9
Other	3	-3	-72	0	0	0
<b>Cash Flows from Investing Activities</b>	<b>2</b>	<b>-6</b>	<b>-75</b>	<b>-49</b>	<b>-13</b>	<b>-9</b>
Change in Debt	0	1	19	44	5	-10
Issuance of Shares	0	1	121	0	0	0
Interest paid	0	0	-2	0	0	0
Dividends paid	0	0	0	0	-4	-16
Other	0	0	0	0	0	0
<b>Cash Flows from Financing Activities</b>	<b>-1</b>	<b>2</b>	<b>138</b>	<b>44</b>	<b>1</b>	<b>-26</b>
FX Differences						
Beginning Cash	21	20	29	128	35	42
Increase/(Decrease) in Cash	-1	9	99	-94	8	40
<b>Ending Cash</b>	<b>20</b>	<b>29</b>	<b>128</b>	<b>35</b>	<b>42</b>	<b>83</b>
DPS (PLN)	0.0	0.0	0.0	0.0	0.3	1.3

Source: Espirito Santo Research Poland

## VALUATION

<b>Erbud - DCF Model (PLN m)</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>Terminal Year</b>
Revenue Growth Rate	90.4%	55.6%	47.5%	-8.8%	-3.5%	6.9%	8.5%	5.0%	5.0%	2.0%
Revenues	426	663	978	892	862	921	999	1049	1101	1123
Operating Margin	5.9%	4.9%	5.9%	5.1%	4.4%	4.8%	5.3%	5.3%	5.3%	5.0%
<b>EBIT</b>	<b>25</b>	<b>33</b>	<b>57</b>	<b>46</b>	<b>38</b>	<b>45</b>	<b>53</b>	<b>55</b>	<b>58</b>	<b>56</b>
Taxes Rate	20.2%	18.9%	20.0%	20.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
<b>EBIT(1-t)</b>	<b>20</b>	<b>27</b>	<b>46</b>	<b>37</b>	<b>31</b>	<b>36</b>	<b>43</b>	<b>45</b>	<b>47</b>	<b>45</b>
+ Depreciation				4	4	5	5	5	6	7
- Capital Expenditures				-13	-9	-9	-9	-9	-9	-10
- Chg WC				-17	45	4	-8	-6	0	-3
<b>FCFF</b>				<b>11</b>	<b>72</b>	<b>36</b>	<b>31</b>	<b>36</b>	<b>44</b>	<b>39</b>
Terminal Value										<b>421.9</b>
Cost of Capital Calculations										
Tax Rate				20%	19%	19%	19%	19%	19%	19%
Debt Ratio				15%	14%	14%	14%	13%	13%	7%
Equity Ratio				85%	86%	86%	86%	87%	87%	93%
Beta				1.0	1.0	1.0	1.0	1.0	1.0	1.0
Cost of Equity				12.3%	12.0%	11.9%	11.8%	11.7%	11.7%	11.7%
Cost of Debt				6.8%	6.5%	6.4%	6.3%	6.2%	6.2%	6.2%
Cost of Debt for the Firm				7.8%	7.5%	7.4%	7.3%	7.2%	7.2%	7.2%
After-tax cost of debt				6.2%	6.1%	6.0%	5.9%	5.9%	5.8%	5.8%
<b>Cost of Capital</b>				<b>11.4%</b>	<b>11.2%</b>	<b>11.0%</b>	<b>11.0%</b>	<b>11.0%</b>	<b>11.0%</b>	<b>11.3%</b>
Present Value Calculations										
Cumulative WACC				1.0	1.1	1.2	1.4	1.5	1.7	
<b>Present Value of FCFF</b>				<b>11</b>	<b>65</b>	<b>29</b>	<b>23</b>	<b>24</b>	<b>26</b>	
Present Value of Terminal Value										<b>250</b>

**Erbud - DCF Valuation Summary (PLN m)**

PV of FCFF during high growth phase =	177
PV of Terminal Value =	250
Value of Operating Assets of the firm =	427
Value of Cash & Non-operating assets =	35
<b>Value of Firm =</b>	<b>417</b>
- Value of Outstanding Debt =	-85
- Adjustment for Minority Stakes	-30
<b>Value of Equity =</b>	<b>302</b>
Value of Equity per share at 2009 end (PLN) =	24
<b>12 Month Target Price (PLN)</b>	<b>24</b>

**Erbud - DCF Model Key Assumptions**

Revenue CAGR 2008E-2014E	2.0%
Nominal (Real) growth rate in perpetuity	2% (-1%)
Average operating margin in 2009E-2014E	5.0%
Operating margin in perpetuity	5.0%
Market Risk Premium	5.5%
Average WACC in 2009E-2014E	11.1%
WACC in perpetuity	11.3%

**Erbud - Target Price Sensitivity (PLN)**

Real Growth Rate in Perpetuity		Operating Margin in Perpetuity		
Perpetuity	Nominal Growth	6.0%	5.0%	4.0%
-2.0%	1.0%	27	23	19
-1.0%	2.0%	29	<b>24</b>	19
0.0%	3.0%	31	26	21

Source: Espirito Santo Research Poland

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## PBG – GOOD BACKLOG MAKES IT A DEFENSIVE STORY

### Hydro-works + Gas contracts fill the backlog

PBG backlog reached over PLN 6bn (not excluding partners' share in consortium contracts) with sizable exposure to highly profitable gas contracts. This together with quite sizable flow of contracts from hydro-works segment (financed usually by EU) makes PBG quite immune to construction market slowdown. Consequently the company should be relatively safe in securing decent growth by 2010E. The upside beyond could come from potential contracts for "Metro" construction, stadium construction or (what is the most probable) from contracts in the environmental protection. The company has only limited operations in residential and commercial buildings construction.

### Forecast Revision – Only Fine Tuning

We do only very minor changes to our 2008E-10E net profit forecasts. We significantly change our revenue and operating profit expectations but these results only from the change in accounting principles (the impact will be later visible also in backward 2007 revision). Revenues go down because sales of consortium partners is not longer reflected on PBG P&L. EBIT grows as hedging activity will be moved from financials to operating line

### Valuation & Recommendation

We revise down our target price for the company to PLN 220 from previous PLN 250 those results mostly from higher interest rates we incorporated into our DCF model (WACC of 11.3% vs. 10.3% previously) and slightly more conservative growth assumptions in 2011E-14E. At the same time we upgrade the stock to HOLD from SELL as it represents some upside at current price level. On 2009E P/E the company is trading with 7% premium to the sector but the premium disappears in 2010E.

### 3Q08 Results – Not Very Impressive

Reported profit was in line with market expectations but at the same time the company continued to show significant negative operating cash flow (PLN 323m YTD). We find cash flow needs as one of the major risk factors for anticipated continuing business growth – the management declares that with new "quicker paid" contracts as Stadium in Poznan or UGS "Wierchowice" the situation should improve. On the other hand margins were good and showed sizable improvement vs. 3Q07.

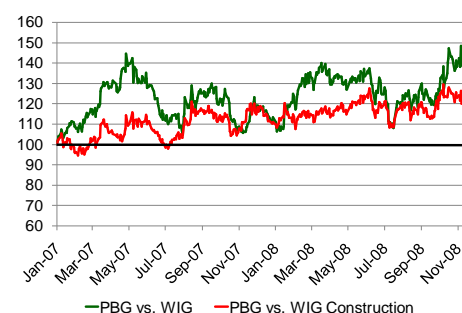
	Revenues	EBITDA	Net Profit	EPS	EPS (adj)	EPS chg.	P/E	EV/EBITDA	DY
2006	674	88	52	4.6	4.5	20%	57.3	37.5	0.0%
2007	1 377	138	102	8.0	6.2	38%	49.8	30.6	0.0%
2008E	2 098	257	150	11.2	11.2	81%	17.7	11.2	0.0%
2009E	2 618	353	205	15.3	15.3	37%	13.0	8.2	0.0%
2010E	3 292	433	250	18.6	18.6	22%	10.6	6.7	0.0%

Source: Company for historical figures and Espirito Santo Research Poland for estimates. Note: Revenues, EBITDA, net profit in PLN m; EPS in PLN; Extraordinary items excluded from EPS (adj)

## PBG

### HOLD – Medium/Low Risk

Price Target (Nov. 09)	<b>PLN 220</b>
from	<b>PLN 252</b>
Price (25 Nov. 08)	<b>PLN 198</b>
Potential	11%



### Trading

Reuters Code	PBGG.WA
Bloomberg Code	PBG PW
Shares Outstanding (m)	13.43
Market Cap (€m)	701
12M Avg. Daily Turnover (€m)	13.7
12M Avg. Daily Volume (th)	9.6
WIG Weight (%)	1.88
WIG 20 Weight (%)	2.90
52 W High / Low	348.1 / 170.3

### Performance

	Abs.	vs. WIG
3M	-20%	18%
YTD	-36%	32%
12M	-38%	26%

### Financials

	2009E
Revenue growth	24.8%
Operating margin	12.1%
ROE	15.4%
Bank Debt / Equity	20.0%

### Shareholders

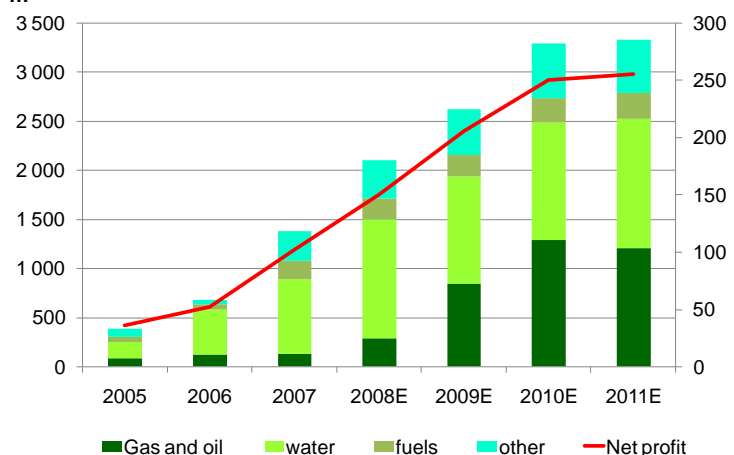
	Stake
Wiśniewski Jerzy	50.1%
BZ WBK AIB Investment Fund	6.7%
Other	43.4%

Source: Espirito Santo Research Poland

### Analysts

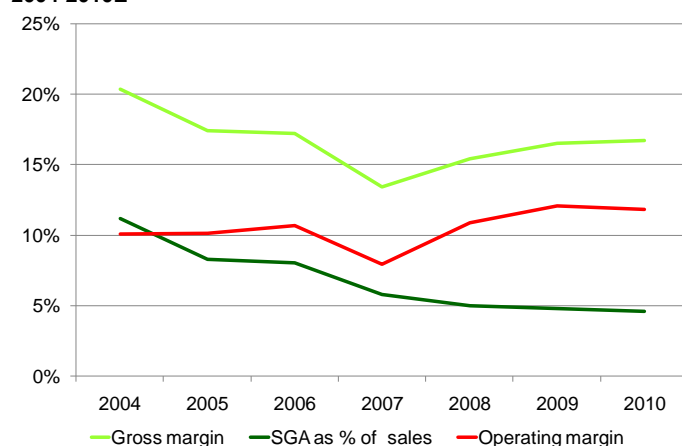
Arkadiusz Chojnacki, CFA	
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Tomasz Duda	
tduda@esinvestment.pl	+ 48 22 347 40 42

**PBG. Revenues (LHS) and net profit (RHS) between 2005-2011E in PLN m**



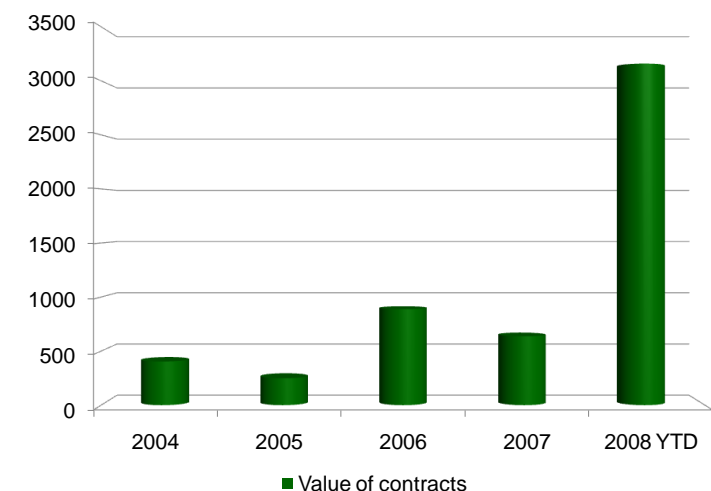
Source: Company data and Espirito Santo Research

**PBG. Gross profit margin, SGA cost and operating margin between 2004-2010E**



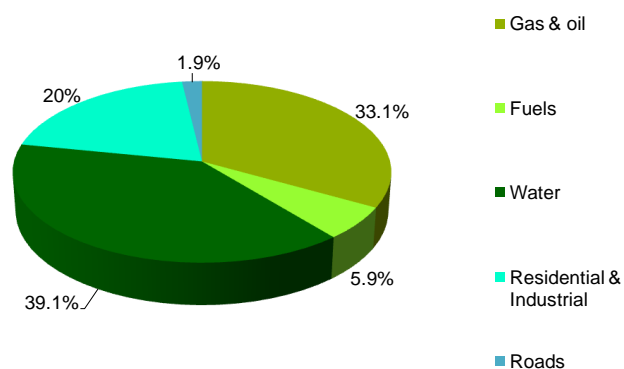
Source: Company data and Espirito Santo Research

**PBG. New material contracts signed**



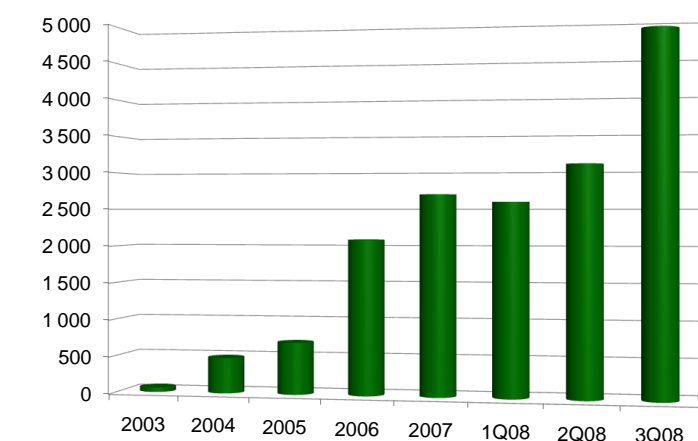
Source: Company data and Espirito Santo Research

**PBG. Backlog structure as of the end of 3Q08**



Source: Company data and Espirito Santo Research

**PBG. Quarterly backlog in PLN m**



Source: Company data and Espirito Santo Research

**PBG. Future growth catalysts – Potential contracts' size estimation in PLN m**

Potential contracts description	Contract's size
Mosina water intake	300
Poznan water collecting point	100
Wroclaw water treatment plant	300
Warsaw water collecting point	300
Wroclaw incinerating plant	500
Poznan incinerating plant	600
2. line of Warsaw underground	3 000
Wroclaw stadium construction	600

Source: Company data and Espirito Santo Research

## FINANCIALS

## PBG. Forecast Revision Summary, 2008E-2010E

	2008E			2009E			2010E		
	Old	New	chg	Old	New	chg	Old	New	chg
<b>Revenues</b>	<b>2 061.0</b>	<b>2 098.1</b>	<b>2%</b>	<b>3 028.0</b>	<b>2 618.4</b>	<b>-14%</b>	<b>4 052.0</b>	<b>3 291.5</b>	<b>-19%</b>
<b>Gross Profit</b>	278.0	323.7	16%	427.0	432.3	1%	550.0	550.5	0%
gross margin	13.5%	15.4%	1,9 pp	14.1%	16.5%	2,4 pp	13.6%	16.7%	3,2 pp
SG&A cost	-115.0	-104.9	-9%	-163.0	-125.7	-23%	-215.0	-151.4	-30%
SG&A as % of sales	5.6%	5.0%		5.4%	4.8%		5.3%	4.6%	
<b>EBIT</b>	<b>198.0</b>	<b>228.5</b>	<b>15%</b>	<b>295.0</b>	<b>316.3</b>	<b>7%</b>	<b>347.0</b>	<b>389.7</b>	<b>12%</b>
<b>Net Income</b>	<b>147.0</b>	<b>150.2</b>	<b>2%</b>	<b>200.0</b>	<b>205.3</b>	<b>3%</b>	<b>243.0</b>	<b>250.2</b>	<b>3%</b>
<b>EPS (PLN)</b>	<b>10.9</b>	<b>11.2</b>	<b>2%</b>	<b>14.9</b>	<b>15.3</b>	<b>3%</b>	<b>18.1</b>	<b>18.6</b>	<b>3%</b>

Source: Espirito Santo Research Poland

PBG - P&L (PLN m)	2005	2006	2007	2008E	2009E	2010E
<b>Revenues</b>	<b>409</b>	<b>674</b>	<b>1 377</b>	<b>2 098</b>	<b>2 618</b>	<b>3 292</b>
- yoy change		65%	104%	52%	25%	26%
Cost of Revenue	-337	-558	-1 192	-1 774	-2 186	-2 741
<b>Gross Profit</b>	<b>71</b>	<b>116</b>	<b>185</b>	<b>324</b>	<b>432</b>	<b>551</b>
- yoy change		63%	59%	75%	34%	27%
SG&A cost	-34	-54	-80	-105	-126	-151
- yoy change		60%	48%	31%	20%	20%
Other Operating Income/(Cost)	4	10	4	10	10	-9
<b>EBIT</b>	<b>41</b>	<b>72</b>	<b>109</b>	<b>229</b>	<b>316</b>	<b>390</b>
- yoy change		74%	52%	109%	38%	23%
Depreciation cost	-9	-16	-29	-28	-37	-43
<b>EBITDA</b>	<b>50</b>	<b>88</b>	<b>138</b>	<b>257</b>	<b>353</b>	<b>433</b>
- yoy change		76%	56%	86%	38%	23%
Interest Income/(Cost)	-6	-12	-21	0	0	0
Other Financial Income/(Cost)	3	11	27	-12	-9	-11
Amortisation of Goodwill	0	0	0	0	0	0
Extraordinary Items	8	-1	28	0	0	0
Share in (profit)/loss of companies subject to acquisition accounting	0	0	0	0	0	0
<b>Pretax Profit</b>	<b>45</b>	<b>70</b>	<b>144</b>	<b>217</b>	<b>308</b>	<b>379</b>
- yoy change		54%	106%	51%	42%	23%
Income Tax	-8	-15	-27	-30	-52	-72
Minority (Profits)/Losses	-1	-3	-15	-36	-50	-57
<b>Net Income</b>	<b>36</b>	<b>52</b>	<b>102</b>	<b>150</b>	<b>205</b>	<b>250</b>
- yoy change		45%	96%	47%	37%	22%
<b>EPS (PLN)</b>	<b>3.72</b>	<b>4.63</b>	<b>8.02</b>	<b>11.19</b>	<b>15.28</b>	<b>18.63</b>
- yoy change		24%	73%	40%	37%	22%
<b>Profitability Ratios</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Gross Margin	17.4%	17.2%	13.4%	15.4%	16.5%	16.7%
EBIT Margin before other operating items	9.1%	9.2%	7.6%	10.4%	11.7%	12.1%
EBIT Margin	10.1%	10.7%	7.9%	10.9%	12.1%	11.8%
Net Margin	8.8%	7.7%	7.4%	7.2%	7.8%	7.6%
ROE	25.2%	28.3%	26.9%	19.2%	15.4%	16.2%
ROA	11.8%	7.8%	9.8%	6.6%	7.0%	7.4%

Source: Espirito Santo Research Poland

26 November 2008

<b>PBG - Balance Sheet (PLN m)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
<b>Total Current Assets</b>	<b>465</b>	<b>671</b>	<b>1 571</b>	<b>2 008</b>	<b>2 372</b>	<b>2 730</b>
Cash and Equivalents	82	51	410	273	288	296
Receivables	342	569	1048	1535	1863	2177
Inventory	12	19	40	69	79	101
Other Current Assets	29	31	73	131	141	155
<b>Total Fixed Assets</b>	<b>201</b>	<b>374</b>	<b>718</b>	<b>922</b>	<b>1 016</b>	<b>1 088</b>
Tangible Assets	183	266	335	462	556	629
Investments	9	6	76	100	100	100
Other Fixed Assets	10	101	307	360	360	359
<b>Total Assets</b>	<b>666</b>	<b>1 045</b>	<b>2 289</b>	<b>2 930</b>	<b>3 388</b>	<b>3 818</b>
<b>Stockholders` Equity</b>	<b>178</b>	<b>367</b>	<b>748</b>	<b>1191</b>	<b>1396</b>	<b>1646</b>
Including Minority Interest	7	12	35	145	145	145
<b>Long Term Liabilities</b>	<b>202</b>	<b>213</b>	<b>330</b>	<b>345</b>	<b>343</b>	<b>330</b>
Long -Term Debt	79	70	50	94	89	71
Other Long - Term liabilities	123	142	280	251	254	259
<b>Short Term Liabilities</b>	<b>280</b>	<b>453</b>	<b>1177</b>	<b>1250</b>	<b>1505</b>	<b>1698</b>
Accounts Payable	124	172	408	524	649	811
Short -Term Debt	138	203	350	286	334	293
Other Current Liabilities	18	78	418	440	522	594
<b>Total Equity &amp; Liabilities</b>	<b>666</b>	<b>1 045</b>	<b>2 289</b>	<b>2 930</b>	<b>3 388</b>	<b>3 818</b>
BVPS (PLN)	16.2	29.5	53.1	77.9	93.2	111.8
<b>Ratios</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Current Ratio	1.7	1.5	1.3	1.6	1.6	1.6
Quick Ratio	1.6	1.4	1.3	1.6	1.5	1.5
Bank Debt/Assets	33%	26%	17%	13%	12%	10%
Bank Debt/Equity	122%	75%	54%	32%	30%	22%
<b>PBG - Cash Flow (PLN m)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Net Profit	36	52	102	150	205	250
Depreciation and Amortisation	9	16	29	28	37	43
Net Working Capital Change	-81	-57	-178	-363	-96	-57
Other	-19	-146	-71	-138	-42	-55
<b>Operating Cash Flows</b>	<b>-55</b>	<b>-134</b>	<b>-118</b>	<b>-322</b>	<b>104</b>	<b>182</b>
Capital Expenditures (Net)	-106	-160	-260	-197	-131	-115
Other	9	48	81	0	0	0
<b>Cash Flows from Investing Activities</b>	<b>-97</b>	<b>-112</b>	<b>-179</b>	<b>-197</b>	<b>-131</b>	<b>-115</b>
Change in Debt	131	46	342	-20	42	-59
Issuance of Shares	67	187	333	402	0	0
Interest paid	-8	-18	-24	0	0	0
Dividends paid	0	0	-2	0	0	0
Other	0	2	6	0	0	0
<b>Cash Flows from Financing Activities</b>	<b>190</b>	<b>217</b>	<b>655</b>	<b>382</b>	<b>42</b>	<b>-59</b>
FX Differences	0	-1	0	0	0	0
Beginning Cash	44	82	51	410	273	288
Increase/(Decrease) in Cash	38	-30	359	-138	15	8
<b>Ending Cash</b>	<b>82</b>	<b>51</b>	<b>410</b>	<b>273</b>	<b>288</b>	<b>296</b>
DPS (PLN)	0.0	0.0	0.1	0.0	0.0	0.0

Source: Espirito Santo Research Poland

26 November 2008

## VALUATION

PBG - DCF Model (PLN m)	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	Terminal Year
Revenue Growth Rate	65.1%	104.2%	52.4%	24.8%	25.7%	10.0%	7.0%	6.0%	4.5%	2.0%
Revenues	674	1 377	2 098	2 618	3 292	3 621	3 874	4 107	4 291	4 377
Operating Margin	10.7%	7.9%	10.9%	12.1%	11.8%	10.3%	9.3%	10.4%	10.4%	11.5%
<b>EBIT</b>	<b>72</b>	<b>109</b>	<b>229</b>	<b>316</b>	<b>390</b>	<b>374</b>	<b>359</b>	<b>426</b>	<b>445</b>	<b>503</b>
Taxes Rate	21.5%	18.5%	14.0%	17.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
<b>EBIT(1-t)</b>	<b>57</b>	<b>89</b>	<b>197</b>	<b>263</b>	<b>316</b>	<b>303</b>	<b>290</b>	<b>345</b>	<b>361</b>	<b>408</b>
+ Depreciation			28	37	43	47	48	49	50	50
- Capital Expenditures			-157	-131	-115	-72	-58	-57	-56	-53
- Chg WC			-363	-147	-121	-125	-92	-69	-55	-25
<b>FCFF</b>			<b>-296</b>	<b>21</b>	<b>123</b>	<b>153</b>	<b>188</b>	<b>268</b>	<b>300</b>	<b>379</b>
Terminal Value										<b>4 778.6</b>
Cost of Capital Calculations										
Tax Rate			19%	19%	19%	19%	19%	19%	19%	19%
Debt Ratio			14%	5%	6%	8%	10%	15%	30%	
Equity Ratio			86%	95%	94%	93%	90%	85%	70%	
Beta			1.0	1.0	1.0	1.0	1.0	1.0	1.0	
Cost of Equity			12.3%	12.0%	11.9%	11.8%	11.7%	11.7%	11.7%	
Cost of Debt			6.8%	6.5%	6.4%	6.3%	6.2%	6.2%	6.2%	
Cost of Debt for the Firm			7.8%	7.5%	7.4%	7.3%	7.2%	7.2%	7.2%	
After-tax cost of debt			6.3%	6.1%	6.0%	5.9%	5.9%	5.8%	5.8%	
<b>Cost of Capital</b>			<b>11.5%</b>	<b>11.7%</b>	<b>11.5%</b>	<b>11.3%</b>	<b>11.1%</b>	<b>10.8%</b>	<b>9.9%</b>	
Present Value Calculations										
Cumulative WACC			1.0	1.1	1.2	1.4	1.5	1.7		
<b>Present Value of FCFF</b>			<b>21</b>	<b>110</b>	<b>123</b>	<b>136</b>	<b>174</b>	<b>175</b>		
Present Value of Terminal Value										<b>2 797</b>

## PBG - DCF Valuation Summary

PV of FCFF during high growth phase =	740
PV of Terminal Value =	2 797
Value of Operating Assets of the firm =	3 537
Value of Cash & Non-operating assets =	363
<b>Value of Firm =</b>	<b>3 900</b>
- Value of Outstanding Debt =	-380
- Adjustment for Minority Stakes	-566
<b>Value of Equity =</b>	<b>2 954</b>
Value of Equity per share at 2009 end (PLN) =	220
<b>12 Month Target Price (PLN)</b>	<b>220</b>

## PBG - DCF Model Key Assumptions

Revenue CAGR 2008E-2014E	12.7%
Nominal (Real) growth rate in perpetuity	2% (-1%)
Average operating margin in 2009E-2014E	10.7%
Operating margin in perpetuity	11.5%
Market Risk Premium	5.5%
Average WACC in 2009E-2014E	11.3%
WACC in perpetuity	9.9%

## PBG - Target Price Sensitivity (PLN)

Real Growth Rate in Perpetuity	Operating Margin in Perpetuity			
	Nominal Growth	12.5%	11.5%	10.5%
-2.0%	1.0%	219	200	182
-1.0%	2.0%	241	<b>220</b>	199
2.0%	3.0%	270	245	221

Source: Espirito Santo Research Poland

## POLIMEX MOSTOSTAL – MORE CONSERVATIVE ASSUMPTIONS ARE JUSTIFIED

### Mixture of Defensive and Aggressive Segments

Some of Polimex Mostostal business lines should do relatively well during the market slowdown – these are construction for power sector and road & railway business. On the other hand its steel structure production as well as construction for chemical industry could be among the worst hit. We believe that thanks to diversification Polimex should continue to organically grow in next two years (high debt burden means that M&A activity should be over at least for some time) but the magnitude of the growth should be affected by economic slowdown.

### Forecast Revision

We revise down our 2008E-10E forecasts for Polimex – we decrease 2008E-10E EPS by respectively 12%, 25% and 38%. The most important reason is that we became much more conservative in our assumptions on both sales and margins in chemical and steel structures division. On the other hand we are looking for better profitability in power segment and general construction business (including road & railways). Consequently our revenue growth forecast is now at 7.6% and 7.1% in 2009E-10E respectively (vs. 15.5% and 15.4% in the old forecast. Overall gross margin goes slightly up to 10.5% and 10.4% in 2009-10E vs. 10.0% and 10.2% in the previous forecast. We also significantly raise our financial expense forecast (higher balance of more expensive debt) that directly impacts net profit line.

### Valuation & Recommendation

We revise down our target price for the company to PLN 4.1 from previous PLN 8.5. Apart from simple impact of lower forecasts and higher WACC (11.5% vs. 10.5% previously) we also took much more conservative assumptions towards utilization on new steel structures production capacity that should come operational at the end of 2010E. We downgrade the stock to HOLD from BUY. On 2009E P/E the company is trading with small 4% discount to the sector but this reflects its high debt level and potential slow down in some business segments that would lead to lower net profit growth.

### 3Q08 Results – Slightly Weaker Than Expected

Headline operating profit has beaten our and market forecast, however it was supported by one-off gains (+5.3m) and FX hedging activity (later taken back on the financial line). Cost growth of 28% yoy (vs. 16% growth in revenues) was rather disappointing. Consequently we would say that operational results were weaker comparing with our expectations.

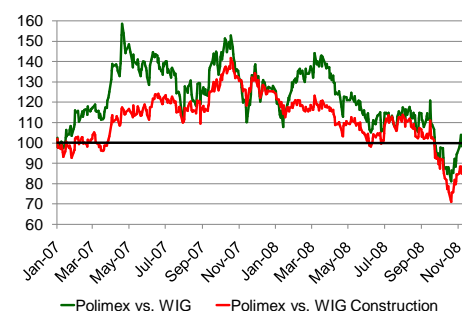
	Revenues	EBITDA	Net Profit	EPS	EPS (adj)	EPS chg.	P/E	EV/EBITDA	DY
2006	2 483	127	63	0.16	0.16	46%	38.1	19.7	0.3%
2007	3 720	205	100	0.23	0.23	37%	38.9	21.9	0.2%
2008E	4 364	307	123	0.27	0.27	18%	12.6	7.0	0.6%
2009E	4 696	350	134	0.29	0.29	9%	11.6	6.2	0.8%
2010E	5 030	373	143	0.31	0.31	6%	11.0	5.8	1.7%

Source: Company for historical figures and Espirito Santo Research Poland for estimates. Note: Revenues, EBITDA, net profit in PLN m; EPS in PLN; Extraordinary items excluded from EPS (adj)

## Polimex Mostostal

### HOLD – Medium/Low Risk

Price Target (Nov. 09)	<b>PLN 4.1</b>
from	<b>PLN 8.5</b>
Price (25 Nov. 08)	<b>PLN 3.36</b>
Potential	22%



### Trading

Reuters Code	MOSD.WA
Bloomberg Code	PXM PW
Shares Outstanding (m)	464.36
Market Cap (€m)	412
12M Avg. Daily Turnover (€m)	14.6
12M Avg. Daily Volume (th)	9.0
WIG Weight (%)	1.46
WIG 20 Weight (%)	2.25
52 W High / Low	9.8 / 2.4

### Performance

	Abs.	vs. WIG
3M	-39%	-10%
YTD	-61%	-20%
12M	-63%	-24%

### Financials

	2009E
Revenue growth	7.6%
Operating margin	5.7%
ROE	11.0%
Bank Debt / Equity	55.6%

### Shareholders

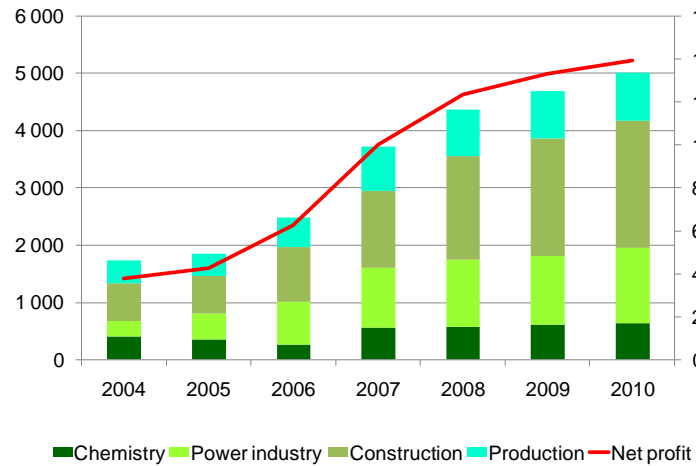
	Stake
CU Pension Fund	8.9%
PZU Pension Fund	7.0%
Gloria s.a.r.l.	6.2%
Sices International B.V.	6.2%
ING NN Pension Fund	5.1%
Polimex-Development	2.8%
Other	72.6%

Source: Espirito Santo Research Poland

### Analysts

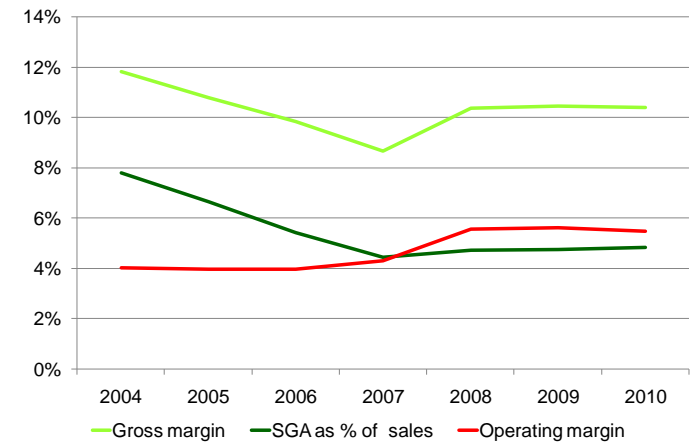
Arkadiusz Chojnacki, CFA	
achojnacki@esinvestment.pl	+ 48 22 347 40 40
Tomasz Duda	
tduda@esinvestment.pl	+ 48 22 347 40 42

Polimex Mostostal. Revenues (LHS) and net profit (RHS) between 2000-2010E in PLN m



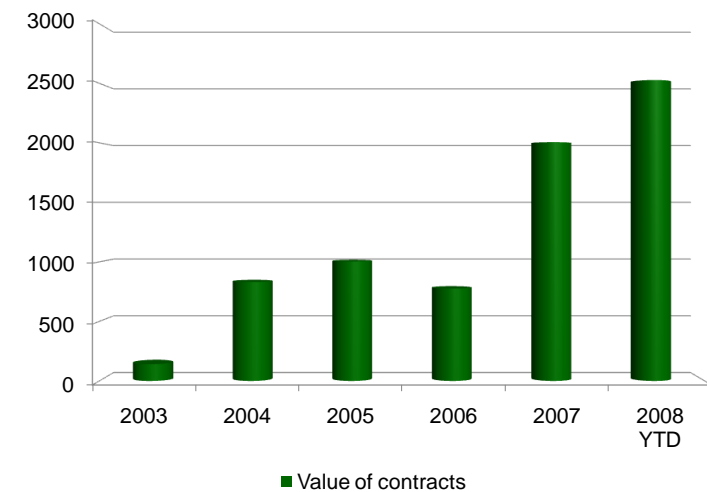
Source: Company data and Espirito Santo Research

Polimex Mostostal. Gross profit margin, SGA cost and operating margin between 2000-2010E



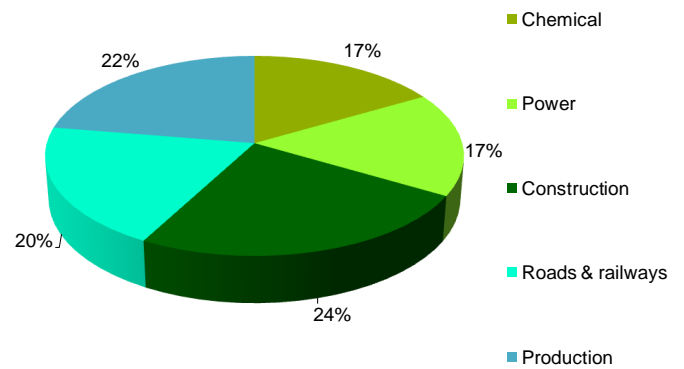
Source: Company data and Espirito Santo Research

Polimex Mostostal. New material contracts signed



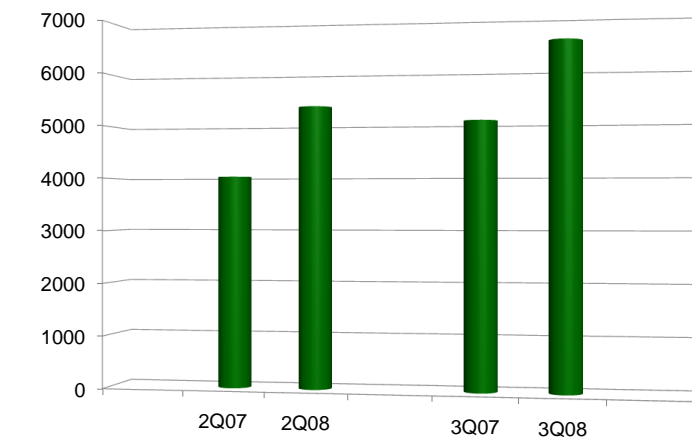
Source: Company data and Espirito Santo Research

Polimex Mostostal. Backlog structure as of the end of 3Q08



Source: Company data and Espirito Santo Research

Polimex Mostostal. Quarterly backlog in PLN m



Source: Company data and Espirito Santo Research

Polimex Mostostal. Future growth catalysts – Potential contracts

Potential contracts description	Contract's size
Oil/Chemical sectors contracts	300-500
Power sector contracts	400-700
Sefako's capacity extension	75
Prodction expansion at Siedlce	+70% capacity
Part of 2. line of Warsaw Underground	300
Stadiums: Wroclaw, Gdansk, Warsaw	500-1000
Roads/Railways contracts	300-800

Source: Company data and Espirito Santo Research

## FINANCIALS

## Polimex Mostostal. Forecast Revision Summary, 2008E-2010E

	2008E			2009E			2010E		
	Old	New	chg	Old	New	chg	Old	New	chg
<b>Revenues</b>	<b>4 449.0</b>	<b>4 364.0</b>	<b>-2%</b>	<b>5 139.6</b>	<b>4 696.5</b>	<b>-9%</b>	<b>5 930.6</b>	<b>5 029.8</b>	<b>-15%</b>
<b>Gross Profit</b>	431.0	452.2	5%	514.0	492.0	-4%	607.1	524.7	-14%
gross margin	9.7%	10.4%	0.7 pp	10.0%	10.5%	0.5 pp	10.2%	10.4%	0.2 pp
SG&A cost	-196.0	-206.8	6%	-222.6	-223.1	0%	-244.2	-241.7	-1%
SG&A as % of sales	4.4%	4.7%		4.3%	4.8%		4.1%	4.8%	
<b>EBIT</b>	<b>235.3</b>	<b>242.8</b>	<b>3%</b>	<b>292.3</b>	<b>265.5</b>	<b>-9%</b>	<b>364.3</b>	<b>278.9</b>	<b>-23%</b>
<b>Net Income</b>	<b>139.8</b>	<b>123.5</b>	<b>-12%</b>	<b>179.0</b>	<b>134.5</b>	<b>-25%</b>	<b>229.2</b>	<b>143.1</b>	<b>-38%</b>
<b>EPS (PLN)</b>	<b>0.30</b>	<b>0.27</b>	<b>-12%</b>	<b>0.39</b>	<b>0.29</b>	<b>-25%</b>	<b>0.49</b>	<b>0.31</b>	<b>-38%</b>

Source: Espirito Santo Research Poland

<b>POLIMEXMS - P&amp;L (PLN m)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
<b>Revenues</b>	<b>1 850</b>	<b>2 483</b>	<b>3 720</b>	<b>4 364</b>	<b>4 696</b>	<b>5 030</b>
- yoy change		34%	50%	17%	8%	7%
Cost of Revenue	-1 650	-2 239	-3 398	-3 912	-4 204	-4 505
<b>Gross Profit</b>	<b>200</b>	<b>244</b>	<b>322</b>	<b>452</b>	<b>492</b>	<b>525</b>
- yoy change		22%	32%	40%	9%	7%
SG&A cost	-123	-135	-165	-207	-223	-242
- yoy change		9%	23%	25%	8%	8%
Other Operating Income/(Cost)	-3	-11	4	-3	-3	-4
<b>EBIT</b>	<b>73</b>	<b>98</b>	<b>160</b>	<b>243</b>	<b>266</b>	<b>279</b>
- yoy change		35%	63%	51%	9%	5%
Depreciation cost	-28	-31	-44	-64	-85	-94
<b>EBITDA</b>	<b>101</b>	<b>130</b>	<b>205</b>	<b>307</b>	<b>350</b>	<b>373</b>
- yoy change		28%	58%	50%	14%	6%
Interest Income/(Cost)	-7	-8	-17	-41	-55	-47
Other Financial Income/(Cost)	-2	2	2	-20	-13	-15
Amortisation of Goodwill	0	0	0	0	0	0
Extraordinary Items	0	0	0	0	0	0
Share in (profit)/loss of companies subject to acquisition accounting	0	-2	4	2	2	0
<b>Pretax Profit</b>	<b>65</b>	<b>91</b>	<b>149</b>	<b>184</b>	<b>199</b>	<b>217</b>
- yoy change		41%	63%	23%	9%	9%
Income Tax	-16	-17	-33	-38	-38	-42
Minority (Profits)/Losses	-6	-11	-17	-22	-26	-32
<b>Net Income</b>	<b>43</b>	<b>63</b>	<b>100</b>	<b>123</b>	<b>134</b>	<b>143</b>
- yoy change		46%	60%	23%	9%	6%
<b>EPS (PLN)</b>	<b>0.11</b>	<b>0.16</b>	<b>0.23</b>	<b>0.27</b>	<b>0.29</b>	<b>0.31</b>
- yoy change		46%	37%	18%	9%	6%
<b>Profitability Ratios</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Gross Margin	10.8%	9.8%	8.7%	10.4%	10.5%	10.4%
EBIT Margin before other operating items	4.1%	4.4%	4.2%	5.6%	5.7%	5.6%
EBIT Margin	4.0%	4.0%	4.3%	5.6%	5.7%	5.5%
Net Margin	2.3%	2.5%	2.7%	2.8%	2.9%	2.8%
ROE	12.9%	17.2%	22.3%	11.4%	11.0%	10.4%
ROA	4.0%	5.7%	6.1%	4.4%	4.1%	4.1%

Source: Espirito Santo Research Poland

26 November 2008

<b>POLIMEXMS - Balance Sheet (PLN m)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
<b>Total Current Assets</b>	<b>784</b>	<b>1 214</b>	<b>1 818</b>	<b>1 984</b>	<b>2 112</b>	<b>2 262</b>
Cash and Equivalents	84	148	143	161	174	186
Receivables	568	873	1290	1418	1503	1610
Inventory	117	169	349	393	423	453
Other Current Assets	14	24	37	11	12	13
<b>Total Fixed Assets</b>	<b>322</b>	<b>418</b>	<b>983</b>	<b>1 262</b>	<b>1 393</b>	<b>1 416</b>
Tangible Assets	214	262	426	641	763	777
Intangibles and consolidation goodwill	2	20	438	494	498	503
Investments	62	42	63	63	63	63
Other Fixed Assets	45	94	56	65	69	73
<b>Total Assets</b>	<b>1 106</b>	<b>1 632</b>	<b>2 801</b>	<b>3 246</b>	<b>3 505</b>	<b>3 678</b>
<b>Stockholders` Equity</b>	<b>365</b>	<b>449</b>	<b>1086</b>	<b>1221</b>	<b>1370</b>	<b>1517</b>
Including Minority Interest	72	94	103	125	151	183
<b>Long Term Liabilities</b>	<b>166</b>	<b>353</b>	<b>628</b>	<b>722</b>	<b>760</b>	<b>735</b>
Long -Term Debt	36	171	330	445	448	421
Other Long - Term liabilities	131	181	298	276	312	314
<b>Short Term Liabilities</b>	<b>575</b>	<b>830</b>	<b>1088</b>	<b>1303</b>	<b>1375</b>	<b>1425</b>
Accounts Payable	389	631	680	829	892	956
Short -Term Debt	73	83	229	312	314	294
Other Current Liabilities	113	116	178	162	169	175
<b>Total Equity &amp; Liabilities</b>	<b>1 106</b>	<b>1 632</b>	<b>2 801</b>	<b>3 246</b>	<b>3 505</b>	<b>3 678</b>
BVPS (PLN)	0.8	0.9	2.1	2.4	2.6	2.8
<b>Ratios</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Current Ratio	1.4	1.5	1.7	1.5	1.5	1.6
Quick Ratio	1.2	1.3	1.4	1.2	1.2	1.3
Bank Debt/Assets	10%	16%	20%	23%	22%	19%
Bank Debt/Equity	30%	57%	52%	62%	56%	47%
<b>POLIMEXMS - Cash Flow (PLN m)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Net Profit	43	63	100	123	134	143
Depreciation and Amortisation	28	28	45	64	85	94
Net Working Capital Change	22	-94	-463	-18	-40	-62
Other	-28	47	134	10	108	71
<b>Operating Cash Flows</b>	<b>66</b>	<b>44</b>	<b>-184</b>	<b>179</b>	<b>287</b>	<b>246</b>
Capital Expenditures (Net)	-46	-68	-149	-284	-212	-113
Other	64	-52	52	38	7	6
<b>Cash Flows from Investing Activities</b>	<b>18</b>	<b>-120</b>	<b>-97</b>	<b>-246</b>	<b>-205</b>	<b>-107</b>
Change in Debt	-34	145	280	198	5	-47
Issuance of Shares	0	11	0	0	0	0
Interest paid	-9	-7	-16	-53	-62	-53
Dividends paid	0	-7	-9	-10	-12	-27
Other	2	-1	3	-50	0	0
<b>Cash Flows from Financing Activities</b>	<b>-42</b>	<b>140</b>	<b>258</b>	<b>85</b>	<b>-69</b>	<b>-127</b>
Beginning Cash	22	78	142	143	161	174
Increase/(Decrease) in Cash	42	64	-24	18	12	12
<b>Ending Cash</b>	<b>84</b>	<b>148</b>	<b>143</b>	<b>161</b>	<b>174</b>	<b>186</b>
DPS (PLN)	0.00	0.02	0.02	0.02	0.03	0.06

Source: Espirito Santo Research Poland

## VALUATION

Polimex - DCF Model (PLN m)	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	Terminal Year
Revenue Growth Rate	34.2%	49.8%	17.3%	7.6%	7.1%	14.4%	14.4%	12.7%	6.0%	2.5%
Revenues	2483	3720	4364	4696	5030	5753	6581	7415	7860	8056
Operating Margin	4.0%	4.3%	5.6%	5.7%	5.5%	5.6%	5.7%	5.8%	5.9%	6.0%
<b>EBIT</b>	<b>98</b>	<b>160</b>	<b>243</b>	<b>266</b>	<b>279</b>	<b>321</b>	<b>373</b>	<b>431</b>	<b>464</b>	<b>483</b>
Taxes Rate	19.0%	0.0%	0.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
<b>EBIT(1-t)</b>	<b>80</b>	<b>160</b>	<b>243</b>	<b>215</b>	<b>226</b>	<b>260</b>	<b>302</b>	<b>349</b>	<b>376</b>	<b>392</b>
+ Depreciation				85	94	96	100	104	105	105
- Capital Expenditures				-212	-113	-110	-126	-141	-118	-111
- Chg WC				-58	-80	-173	-198	-200	-89	-105
<b>FCFF</b>				<b>30</b>	<b>127</b>	<b>73</b>	<b>77</b>	<b>112</b>	<b>273</b>	<b>281</b>
Terminal Value										<b>3628</b>
Cost of Capital Calculations										
Tax Rate				19%	19%	19%	19%	19%	19%	19%
Debt Ratio				4%	4%	5%	6%	8%	13%	25%
Equity Ratio				96%	96%	95%	94%	92%	88%	75%
Beta				1.0	1.0	1.0	1.0	1.0	1.0	1.0
Cost of Equity				12.3%	12.0%	11.9%	11.8%	11.7%	11.7%	11.7%
Cost of Debt				6.8%	6.5%	6.4%	6.3%	6.2%	6.2%	6.2%
Cost of Debt for the Firm				7.8%	7.5%	7.4%	7.3%	7.2%	7.2%	7.2%
After-tax cost of debt				6.3%	6.1%	6.0%	5.9%	5.9%	5.8%	5.8%
<b>Cost of Capital</b>				<b>12.1%</b>	<b>11.8%</b>	<b>11.6%</b>	<b>11.4%</b>	<b>11.2%</b>	<b>11.0%</b>	<b>10.2%</b>
Present Value Calculations										
Cumulative WACC				1.0	1.1	1.2	1.4	1.5	1.7	
<b>Present Value of FCFF</b>				<b>30</b>	<b>114</b>	<b>58</b>	<b>55</b>	<b>72</b>	<b>159</b>	
Present Value of Terminal Value										<b>2116</b>

**Polimex - DCF Valuation Summary**

PV of FCFF during high growth phase =	490
PV of Terminal Value =	2 116
Value of Operating Assets of the firm =	2 606
Value of Cash & Non-operating assets =	275
<b>Value of Firm =</b>	<b>2 881</b>
- Value of Outstanding Debt =	-757
- Adjustment for Minority Stakes	-131
<b>Value of Equity =</b>	<b>1 993</b>
Value of Equity per share at 2009 end (PLN) =	4.1
<b>12 Month Target Price (PLN)</b>	<b>4.1</b>

**Polimex - DCF Model Key Assumptions**

Revenue CAGR 2008E-2014E	11.3%
Nominal (Real) growth rate in perpetuity	2.5% (-0.5%)
Average operating margin in 2009E-2014E	5.7%
Operating margin in perpetuity	6.0%
Market Risk Premium	5.5%
Average WACC in 2009E-2014E	11.5%
WACC in perpetuity	10.2%

**Polimex - Target Price Sensitivity (PLN)**

Real Growth Rate in Perpetuity	Operating Margin in Perpetuity			
	Nominal Growth	7.0%	6.0%	5.0%
-1.5%	1.5%	4.5	3.6	2.6
-0.5%	2.5%	5.1	<b>4.1</b>	3.0
0.5%	3.5%	6.0	4.8	3.5

Source: Espirito Santo Research Poland

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