

# PBG

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Sector: Construction  
Fundamental rating: Hold (→)  
Market relative: Underweight (↓)  
Price: PLN 213.0  
12M EFV: PLN 244.6 (→)

Market Cap: US\$ 1,027 m  
Reuters code: PBGG.WA  
Av daily turnover: US\$ 2.44 m  
Free float: 54%  
12M range: PLN 192.00-252.00

## Key points

**Investment story.** Although PBG has probably been doing its best to attain a rightful place on the construction scene, last year showed that a business diversification may not come so easy. At first, the Company smoothly entered the road construction segment, yet limited experience in conducting such projects and predicted tiny margins were probably a crucial motivation behind a decision to dispose its stake in Hydrobudowa (this subsidiary would be main executor of road contracts in PBG Group). The entry into the power sector, in turn, has been another unsuccessful step so far, given the failure in gaining control over Energomontaż Południe (this may prove to be obstacle in tendering for large power contracts). Admittedly, the Company's position in gas & oil segment is well grounded (Company has good track record in winning fat contracts from PGNiG), this might be not enough though to easily develop backlog (especially in power sector) and steadily improve profits at least until new segments of the sector are successively conquered.

**What to expect in 4Q10E.** The last quarter of the year is seasonally the strongest one for PBG, yet we expect PBG's 4Q10 results to be rather not exciting. We expect the Company to meet (or even slightly exceed) the management FY10 financial forecast (management signalled that its result targets were 'safe') encompassing EBIT of PLN 300 million and NP of PLN 220 million. Such development would admittedly imply approx. 9% yoy rise of quarterly EBIT (to PLN 128.6 million), yet it would mean approx. 20% yoy decrease of quarterly NP (to approx. PLN 81 million).

**Mid-term earnings momentum.** Together with the disposal of the stake in HBP, PBG is supposed to recognise a one-off gain of as much as several dozen PLN million on the transaction this year (if deal with OHL is concluded). Simultaneously, investors should be aware that until any acquisition is completed, the risk of some yoy recurring profits contraction in FY11 (i.e. adjusted on a one-off basis) is material.

**Financial forecasts.** Our financial forecast for PBG remains unchanged at the moment; however, it will be subject to a revision (cuts in sales and profits) once the disposal of stakes in HBP and Aprivia has been concluded.

**Risks to financial forecasts.** Balanced. Large power contracts in which the Company may participate (e.g. construction of power units in Opole worth approx. PLN 10-11 billion) constitute probably the main upside risk. The chief downside risk relates to the Company's ability to gain exposure to the power sector, after the fiasco of its broken marriage with Energomontaż Południe.

**Valuation.** 12M EFV unchanged at PLN 244.6 per share.

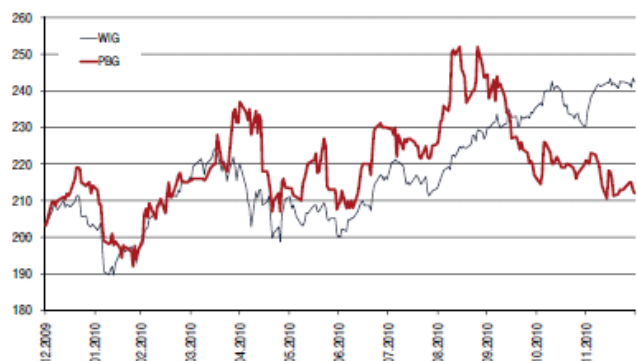
**Guide to adjusted profits**  
No factors necessitating adjustments.

### Key data

IFRS consolidated		2010E	2011E	2012E	2013E
Sales	PLN m	3,132.1	3,508.0	3,935.4	4,399.8
EBITDA	PLN m	374.0	430.4	478.0	521.9
EBIT	PLN m	318.4	366.2	410.5	451.0
Net profit	PLN m	217.0	252.2	294.1	335.0
EPS	PLN	15.18	17.64	20.58	23.44
EPS yoy chng	%	3	16	17	14
Net debt	PLN m	496.7	382.7	244.8	226.4
P/E	x	14.0	12.0	10.3	9.0
P/CE	x	11.1	9.6	8.4	7.5
EV/EBITDA	x	9.4	7.9	6.9	6.2
EV/EBIT	x	11.1	9.3	8.0	7.2
EV/Sales	x	1.1	1.0	0.8	0.7
Gross dividend yield	%	0.7	0.0	0.0	0.0
No. of shares (eop)	m	14.3	14.3	14.3	14.3

Source: DM IDMSA estimates

### Stock performance



Source: ISI

### Upcoming events

1. Release of 4Q10 financial results: February-March 2011

### Catalysts

1. Signing new contracts co-financed by EU
2. Signing new LT and high-margin gas/oil contracts
3. Signing large 'power' contracts
4. Engagement in concession projects

### Risk factors

1. Growing construction costs
2. Lower yoy FY11E recurring profits
3. Failure in conquering 'power' segment

**Ratings and action.** We maintain our LT fundamental Hold recommendation for PBG's equities. We downgrade, however, our ST market relative bias to Underweight (from Neutral previously) due to (i) risk of lower yoy recurring profits in 2011E and (ii) no large contracts in which the Company may participate in the immediate future (probably apart from tender for construction of power units in Opole worth approx. PLN 10-11 billion which may be concluded this year (please note, however, that Company's share in consortium may be tiny, as PBG may suffer from qualified staff shortage once the divorce with Energomontaż Południe becomes a fact)).