

Sector: Construction
Fundamental rating: Buy (→)
Market relative: Overweight (→)
Price: PLN 209.1
12M EFV: PLN 242.0 (↓)

Market Cap.: US\$ 834 m
Reuters code: PBGG.WA
Av. daily turnover: US\$ 1.46 m
Free float: 67%
12M range: PLN 175.30-318.50

Quarterly results corner; 1Q09E preview

PBG is to publish its 1Q09 results on May 15. We forecast the quarterly showing to be mixed (for details please refer to *Figure 1* below), with nearly 60% yoy increase of the Company's operating profit, yet the net profit expected to be only moderately above the base period's level; in our opinion, such quarterly posting should not constitute a major surprise for the investors' community (either way).

Fig. 1 PBG; 1Q09 results' forecast

IFRS consolidated PLN m	1Q09E		yoy chg	Realisation of the FY figures in 1Q:	
	1Q09E	1Q08		1Q09E	1Q08
Sales	340.0	307.3	11%	12%	15%
Gross profit on sales	57.8	40.7	42%	13%	12%
Gross profit on sales margin	17.0%	13.2%	-	-	-
EBIT	32.8	20.6	59%	10%	9%
EBIT margin	9.6%	6.7%	-	-	-
Pre-tax profit	22.8	22.0	4%	8%	10%
Pre-tax margin	6.7%	7.1%	-	-	-
Net profit	16.0	14.8	8%	8%	9%
Net margin	4.7%	4.8%	-	-	-

Source: Company, DM IDMSA estimates

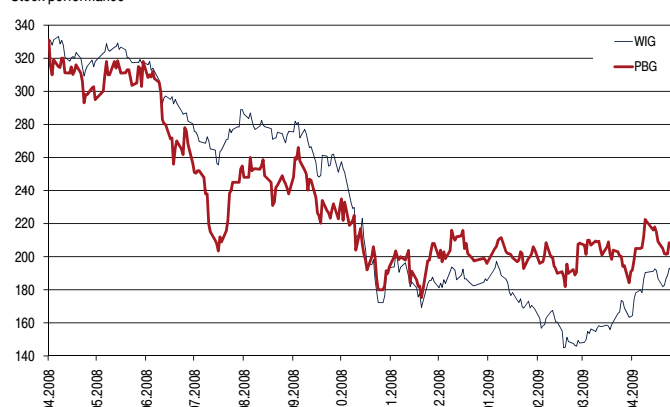
We forecast PBG to post its 1Q09 sales at PLN 340 million, 11% up yoy. We believe that the gross profit on sales margin should rest at a very high level (we forecast the Company's gross profit on sales margin at c. 17% in 1Q09 vs. 13.2% recorded in 1Q08), due to three main reasons: (i) good quality of the backlog (bulk of contracts signed on the price peak; furthermore, the Company (and its subsidiaries) completed majority of the low-margin contracts in 2008), (ii) envisaged higher yoy contribution of high-margin gas & oil contracts, and (iii) lowering construction costs. As a result, we forecast the Company's quarterly gross profit on sales at PLN 57.8 million, vs. PLN 40.7 million in 1Q08. At the operating profit line, we expect c. PLN 3 million of other operating income to be booked (envisaged provision reversal in Hydrobudowa Polska, the Company's subsidiary), boosting the Company's quarterly EBIT to PLN 32.8 million. On the other hand, we forecast yoy hike of financial costs to c. PLN -24 million (higher yoy net debt), of which c. PLN -10 million relates to FX losses (translation loss, FX loss on hedging); such development will lower the Company's pre-tax profit to only PLN 22.8 million (4% up yoy), according to our projections. At the bottom line, in turn, we forecast PLN 16.0 million (8% yoy rise), after having accounting for the profit share of the minorities.

Key data

IFRS consolidated		2008	2009E	2010E	2011E
Sales	PLN m	2,089.3	2,729.7	3,132.1	3,508.0
EBITDA	PLN m	270.3	377.8	427.1	465.5
EBIT	PLN m	223.4	330.6	377.1	412.8
Net profit	PLN m	158.0	196.0	234.4	259.5
EPS	PLN	11.76	14.59	17.45	19.33
EPS yoy chng	%	55	24	20	11
Net debt	PLN m	507.8	521.9	409.5	234.2
P/E	x	17.8	14.3	12.0	10.8
P/CE	x	13.7	11.5	9.9	9.0
EV/EBITDA	x	12.3	8.8	7.5	6.5
EV/EBIT	x	14.8	10.1	8.5	7.4
EV/Sales	x	1.6	1.2	1.0	0.9
Gross dividend yield	%	0.0	0.0	0.0	0.0
No. of shares (eop)	ths.	13,430	13,430	13,430	13,430

Source: Company, DM IDMSA estimates

Stock performance



Source: ISI

Upcoming events

1. 1Q09 results release: May 15, 2009

Catalysts

1. Signing new large environmental protection contracts co-financed by EU
2. Signing new LT and high-margin gas&oil contracts
3. Looming acquisitions

Risk factors

1. Prolonging administrative procedures may negatively affect smooth absorption of EU funds' inflow by investors (public sector)

Financial forecast

We downgrade our financial forecast for PBG (for details please refer to *Figure 2* on the next page). We decrease our projection of sales by 12-23% for 2010 and beyond, due to worsening mid- to long-term outlook for PBG and its subsidiaries (rising competition in the environmental protection construction segment, delays in announcing new large contracts by municipalities). We also slightly decrease our projection of margins, which results in decrease of our NP projection in the range of 21-34% in 2010 and beyond.

Fig. 2 PBG; Changes in IDM's forecast

IFRS consolidated PLN m	2009E			2010E			2011E		
	current	previous	change	current	previous	change	current	previous	change
Sales	2,729.7	2,692.4	1%	3,132.1	3,559.4	-12%	3,508.0	4,556.2	-23%
EBIT	330.6	324.1	2%	377.1	462.2	-18%	412.8	605.3	-32%
NP	196.0	197.5	-1%	234.4	297.1	-21%	259.5	393.1	-34%

Source: DM IDMSA estimates

Event: Management's FY09 forecast release

Today (after the session) the management of PBG released their financial forecast for 2009 (for details please refer to *Figure 3* below). The forecast is based on the current backlog and prospective contracts to be won this year; however, it does not include (i) the contract for renovation of the production plant called 'Nairit Plant CJSC' in Armenia (please note that the contract of the value of USD 210 million was signed by PBG in April 2008, yet obtaining of the related financing is still a question mark), (ii) execution of the residential construction project called 'Górecka Projekt', and (iii) prospective acquisitions (please note, however, that these are looming). The projection is slightly below our and the market's expectations; however, it should not constitute a major surprise for the investors, given conservative nature of the management's expectations (we expect the management's FY09 forecast to be upgraded, most likely in 4Q09).

Fig. 3 PBG's 2009 results forecast; management vs. IDM

IFRS consolidated PLN m	Management	IDM	Management's vs. IDM's forecast
Sales	2,800.0	2,730.0	3%
EBIT	300.0	330.6	-9%
NI	190.0	196.0	-3%

Source: Company, DM IDMSA estimates

Valuation

As a result of (i) aforementioned downward changes in our financial forecast, (ii) envisaged lower NWC utilization (lowering share of EU co-financed contracts), and (iii) projected lower profit share of minorities, our DCF-derived 12M EFV for PBG's shares decreases only moderately (by 13%) to PLN 242 per share (from PLN 279 per share previously).

Recommendation

We keep our LT fundamental Buy rating and ST market relative Overweight bias intact. We remain positive on PBG, due to a number of reasons. First, we like its exposure to infrastructure constructions (these co-financed by EU), which considerably reduces the Company's sensitivity to the periodic swings in GDP growth rate. Second, we are happy to see large contracts in the Company's portfolio (e.g., LMG, Wierchowice, stadium contracts), improving the mid-term visibility of PBG's earnings. Third, we are pleased with PBG's expanding backlog of lucrative gas & oil contracts, which should enable the Company to enhance its margins despite more demanding external environment. Last, but not least, we applaud the Company's moves aimed at building its references abroad, which constitutes a good LT strategy for the post-EU-funds-decline period.

Fig. 4 PBG; DCF valuation

PLN m	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	>2019E
Sales	2,729.7	3,132.1	3,508.0	3,935.4	4,399.8	4,702.1	4,965.6	5,118.3	5,265.6	5,420.2	5,582.5	
yoy change	31%	15%	12%	12%	12%	7%	6%	3%	3%	3%	3%	
EBIT margin	12.1%	12.0%	11.8%	11.7%	11.9%	12.1%	11.8%	11.9%	12.4%	12.4%	12.4%	
EBIT (PLN m)	330.6	377.1	412.8	460.5	523.4	569.4	585.9	607.4	651.8	670.9	690.5	
yoy change	48%	14%	9%	12%	14%	9%	3%	4%	6%	3%	3%	
Effective cash tax rate (T)	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	
EBIT * (1-T)	267.8	305.5	334.4	373.0	423.9	461.2	474.6	492.0	528.0	543.4	559.3	
yoy change	41%	14%	9%	12%	14%	9%	3%	4%	7%	3%	3%	
EBITDA	377.8	427.1	465.5	515.8	581.5	630.5	650.0	674.8	699.1	719.2	740.2	
yoy change	40%	13%	9%	11%	13%	8%	3%	4%	4%	3%	3%	
EBITDA margin	13.8%	13.6%	13.3%	13.1%	13.2%	13.4%	13.1%	13.2%	13.3%	13.3%	13.3%	
Depreciation	47.2	50.0	52.6	55.3	58.1	61.1	64.2	67.4	47.2	48.2	49.7	
EBIT * (1-T) + D	314.9	355.5	387.0	428.3	482.1	522.3	538.7	559.4	575.2	591.7	609.0	
yoy change	33%	13%	9%	11%	13%	8%	3%	4%	3%	3%	3%	
Capex	-62.1	-51.7	-53.2	-54.8	-57.5	-60.3	-63.3	-66.5	-47.7	-50.4	-51.9	
Change in NWC	-203.1	-171.0	-148.7	-185.8	-303.5	-133.9	-110.1	-66.4	-70.2	-67.8	-71.1	
Equity issue proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Free cash flow	49.8	132.7	185.1	187.8	121.1	328.1	365.3	426.6	457.3	473.5	486.1	
Cost of equity												
Risk free rate (nominal)	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	5.0%
Equity risk premium	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Unlevered beta	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Beta adjusted for leverage	1.18	1.16	1.12	1.08	1.04	1.03	1.02	1.02	1.02	1.02	1.02	1.02
Required rate of return	11.3%	11.2%	11.0%	10.9%	10.7%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	9.6%
Cost of debt												
Cost of debt (pre-tax)	7.9%	7.6%	6.6%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Effective tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
After-tax cost of debt	6.4%	6.2%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
WACC												
Weight of debt	18%	16%	13%	9%	5%	4%	3%	3%	3%	3%	3%	3%
Weight of equity	82%	84%	87%	91%	95%	96%	97%	97%	97%	97%	97%	97%
Cost of equity	11.3%	11.2%	11.0%	10.9%	10.7%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	9.6%
After-tax cost of debt	6.4%	6.2%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
WACC	10.4%	10.4%	10.3%	10.4%	10.4%	10.4%	10.5%	10.5%	10.5%	10.5%	10.5%	9.5%
Discount multiple	1.00	1.08	1.19	1.31	1.45	1.60	1.77	1.95	2.16	2.38	2.63	
Discount factor	1.00	0.93	0.84	0.76	0.69	0.62	0.57	0.51	0.46	0.42	0.38	
PV of free cash flow		123.1	155.7	143.1	83.6	205.0	206.7	218.5	212.1	198.8	184.8	
Sum of FCFFs PVs												1,731.5
Weight of debt in the residual period												3%
Weight of equity in the residual period												97%
Average cost of equity in the definite period												10.8%
Average WACC in the definite period												10.4%
WACC in the residual period												9.5%
Residual growth of FCFFs, base-case scenario												2.5%
Residual value												7,132.8
Present value of the residual value												2,711.4
Value of PBG's operations												4,442.9
Cash and equivalents, eop 2009E												342.7
Interest-bearing debt, eop 2009E												864.6
PV of minorities												305.7
Residual value of minorities												367.4
Equity value												3,247.9
No. of shares (m)												13.4
12-month forward fair value of PBG (PLN)												242

Source: Company, DM IDMSA estimates

Financial statements (IFRS consolidated)

Fig. 5 PBG; Balance sheet

PLN m	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Fixed assets	909.3	924.2	926.0	926.5	926.0	925.3	924.6	923.7	922.8	923.2	925.4	927.6
Intangibles	14.6	14.5	16.2	16.8	16.3	15.6	14.8	14.0	13.0	13.4	14.2	15.0
Goodwill	333.1	333.1	333.1	333.1	333.1	333.1	333.1	333.1	333.1	333.1	333.1	333.1
Tangible fixed assets	411.5	426.5	426.5	426.5	426.5	426.5	426.5	426.5	426.5	426.5	427.9	429.4
LT receivables	21.5	21.5	21.5	21.5	21.5	21.5	21.5	21.5	21.5	21.5	21.5	21.5
LT investments	89.2	89.2	89.2	89.2	89.2	89.2	89.2	89.2	89.2	89.2	89.2	89.2
LT deferred assets	39.4	39.4	39.4	39.4	39.4	39.4	39.4	39.4	39.4	39.4	39.4	39.4
Current assets	1,947.6	2,355.1	2,717.1	3,002.9	3,287.9	3,542.5	3,854.9	4,052.6	4,186.3	4,328.6	4,460.2	4,598.0
Inventories	69.3	89.7	102.8	115.6	129.9	145.2	155.0	164.5	169.6	173.6	178.7	184.1
ST receivables	1,502.9	1,836.9	2,107.7	2,325.6	2,608.9	2,916.8	3,117.2	3,291.9	3,393.1	3,490.7	3,593.2	3,700.9
ST deferred assets	21.1	21.1	21.1	21.1	21.1	21.1	21.1	21.1	21.1	21.1	21.1	21.1
Cash & equivalents	289.7	342.7	420.8	476.0	463.3	394.6	497.0	510.4	537.8	578.4	602.4	627.3
Other assets	64.7	64.7	64.7	64.7	64.7	64.7	64.7	64.7	64.7	64.7	64.7	64.7
Total assets	2,857.0	3,279.3	3,643.1	3,929.5	4,213.8	4,467.8	4,779.5	4,976.3	5,109.0	5,251.8	5,385.5	5,525.6
Equity	1,114.6	1,346.1	1,616.9	1,928.1	2,285.2	2,702.8	2,987.7	3,151.0	3,238.3	3,344.4	3,432.8	3,525.1
Minority interest	103.7	139.2	175.7	227.3	287.2	350.3	416.7	484.8	554.0	626.2	702.1	781.7
Liabilities & reserves	1,742.4	1,933.3	2,026.1	2,001.4	1,928.6	1,765.0	1,791.8	1,825.3	1,870.8	1,907.4	1,952.8	2,000.5
Reserves	91.4	60.9	69.9	78.2	87.8	98.1	104.9	110.8	114.2	117.5	120.9	124.5
LT Liabilities	340.1	412.5	455.8	438.8	342.3	246.1	188.3	140.5	141.7	142.9	144.2	145.5
Non-interest-bearing	17.0	22.2	25.5	28.6	32.1	35.8	38.3	40.5	41.7	42.9	44.2	45.5
Interest-bearing	323.1	390.2	430.2	410.2	310.2	210.2	150.0	100.0	100.0	100.0	100.0	100.0
ST liabilities	1,294.2	1,445.6	1,484.1	1,465.9	1,477.9	1,397.6	1,473.8	1,548.0	1,588.0	1,619.4	1,659.2	1,701.1
Non-interest-bearing	819.8	971.2	1,084.1	1,165.9	1,277.9	1,297.6	1,373.8	1,448.0	1,488.0	1,519.4	1,559.2	1,601.1
Interest-bearing	474.4	474.4	400.0	300.0	200.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Deferred liabilities	16.8	14.4	16.5	18.5	20.7	23.1	24.7	26.1	26.9	27.7	28.5	29.4
Total liabilities and equity	2,857.0	3,279.3	3,643.1	3,929.5	4,213.8	4,467.8	4,779.5	4,976.3	5,109.0	5,251.8	5,385.5	5,525.6

Source: Company, DM IDMSA estimates

Fig. 6 PBG; Income statement

PLN m	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Sales	2,089.3	2,729.7	3,132.1	3,508.0	3,935.4	4,399.8	4,702.1	4,965.6	5,118.3	5,265.6	5,420.2	5,582.5
COGS	-1,751.2	-2,268.4	-2,599.9	-2,921.5	-3,284.1	-3,671.9	-3,918.7	-4,158.8	-4,288.3	-4,390.0	-4,518.9	-4,654.7
Gross profit on sales	338.1	461.4	532.2	586.5	651.4	728.0	783.4	806.8	830.0	875.6	901.3	927.8
Selling costs	0.0	-1.4	-1.6	-1.8	-2.0	-2.2	-2.4	-2.5	-2.6	-2.6	-2.7	-2.8
General administration costs	-106.8	-132.4	-153.5	-171.9	-188.9	-202.4	-211.6	-218.5	-220.1	-221.2	-227.6	-234.5
Net profit on sales	231.3	327.6	377.1	412.8	460.5	523.4	569.4	585.9	607.4	651.8	670.9	690.5
Other operating income	18.1	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other operating costs	-25.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	223.4	330.6	377.1	412.8	460.5	523.4	569.4	585.9	607.4	651.8	670.9	690.5
Financial income	49.3	20.9	21.7	22.1	20.1	18.9	19.4	21.1	21.7	22.7	23.7	24.4
Financial costs	-61.4	-65.7	-64.4	-50.8	-39.7	-26.7	-18.2	-14.6	-13.0	-13.0	-13.0	-13.0
Other	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	213.5	285.8	334.4	384.1	440.9	515.6	570.6	592.4	616.1	661.6	681.6	702.0
Income tax	-25.8	-54.3	-63.5	-73.0	-83.8	-98.0	-108.4	-112.5	-117.1	-125.7	-129.5	-133.4
Minority interest in net income	-29.7	-35.5	-36.5	-51.6	-59.9	-63.1	-66.5	-68.1	-69.2	-72.2	-75.9	-79.7
Net income	158.0	196.0	234.4	259.5	297.3	354.5	395.7	411.8	429.8	463.7	476.3	488.9

Source: Company, DM IDMSA estimates

Fig. 7 PBG; Cash flow

PLN m	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Pre-tax profit (loss)	213.5	285.8	334.4	384.1	440.9	515.6	570.6	592.4	616.1	661.6	681.6	702.0
Depreciation and amortization	46.8	47.2	50.0	52.6	55.3	58.1	61.1	64.2	67.4	47.2	48.2	49.7
NWC change:	-469.2	-203.1	-171.0	-148.7	-185.8	-303.5	-133.9	-110.1	-66.4	-70.2	-67.8	-71.1
Change in inventories	-28.3	-20.5	-13.1	-12.7	-14.3	-15.3	-9.8	-9.5	-5.1	-4.0	-5.1	-5.4
Change in receivables	-534.0	-334.0	-270.8	-217.8	-283.4	-307.9	-200.4	-174.7	-101.2	-97.6	-102.5	-107.6
Change in payables	93.0	151.4	112.9	81.8	112.0	19.8	76.2	74.1	40.0	31.4	39.8	41.9
Other	-115.8	-31.2	-0.4	-24.9	-42.9	-67.6	-92.8	-103.6	-114.3	-124.2	-128.7	-133.0
Operating cash flow	-324.7	98.7	213.0	263.2	267.6	202.7	405.0	442.8	502.8	514.4	533.4	547.6
Capital expenditures	-200.2	-62.1	-51.7	-53.2	-54.8	-57.5	-60.3	-63.3	-66.5	-47.7	-50.4	-51.9
Other	8.5	14.9	15.7	16.1	14.1	12.9	13.4	15.1	15.7	16.7	17.7	18.4
Investing cash flow	-191.7	-47.2	-36.1	-37.1	-40.7	-44.6	-46.9	-48.2	-50.7	-30.9	-32.7	-33.5
Change in interest-bearing debt	79.7	67.2	-34.4	-120.0	-200.0	-200.0	-60.2	-50.0	0.0	0.0	0.0	0.0
Dividends payment	0.0	0.0	0.0	0.0	0.0	0.0	-177.3	-316.5	-411.8	-429.8	-463.7	-476.3
Interest	-47.0	-65.7	-64.4	-50.8	-39.7	-26.7	-18.2	-14.6	-13.0	-13.0	-13.0	-13.0
Other	292.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing cash flow	325.1	1.5	-98.8	-170.8	-239.7	-226.7	-255.7	-381.2	-424.8	-442.8	-476.7	-489.3
Total cash flow	-191.3	53.0	78.1	55.3	-12.8	-68.6	102.3	13.5	27.4	40.7	24.0	24.9

Source: Company, DM IDMSA estimates

Fig. 8 PBG; Ratios

	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Sales growth (yoy)	52%	31%	15%	12%	12%	12%	7%	6%	3%	3%	3%	3%
Gross profit on sales growth (yoy)	81%	36%	15%	10%	11%	12%	8%	3%	3%	5%	3%	3%
EBITDA growth (yoy)	98%	40%	13%	9%	11%	13%	8%	3%	4%	4%	3%	3%
Operating profit growth (yoy)	110%	48%	14%	9%	12%	14%	9%	3%	4%	7%	3%	3%
Net income growth (yoy)	55%	24%	20%	11%	15%	19%	12%	4%	4%	8%	3%	3%
A/R turnover days	225	223	230	231	229	229	234	236	238	239	239	238
Inventory turnover days	11	13	14	14	14	14	14	14	14	14	14	14
A/P turnover days	117	95	101	105	106	107	109	109	111	111	111	111
Cash cycle days	119	141	142	139	136	136	139	140	142	141	142	142
NWC/Sales	35%	34%	35%	36%	36%	39%	40%	40%	40%	40%	40%	40%
Gross margin	16.2%	16.9%	17.0%	16.7%	16.6%	16.5%	16.7%	16.2%	16.2%	16.6%	16.6%	16.6%
EBITDA margin	12.9%	13.8%	13.6%	13.3%	13.1%	13.2%	13.4%	13.1%	13.2%	13.3%	13.3%	13.3%
EBIT margin	10.7%	12.1%	12.0%	11.8%	11.7%	11.9%	12.1%	11.8%	11.9%	12.4%	12.4%	12.4%
Pretax margin	10.2%	10.5%	10.7%	11.0%	11.2%	11.7%	12.1%	11.9%	12.0%	12.6%	12.6%	12.6%
Net margin	7.6%	7.2%	7.5%	7.4%	7.6%	8.1%	8.4%	8.3%	8.4%	8.8%	8.8%	8.8%
ROE	16.6%	15.9%	15.8%	14.6%	14.1%	14.2%	13.9%	13.4%	13.5%	14.1%	14.1%	14.1%
ROA	6.1%	6.4%	6.8%	6.9%	7.3%	8.2%	8.6%	8.4%	8.5%	9.0%	9.0%	9.0%
Current ratio	1.5	1.6	1.8	2.0	2.2	2.5	2.6	2.6	2.6	2.7	2.7	2.7
Quick ratio	1.5	1.6	1.8	2.0	2.1	2.4	2.5	2.5	2.5	2.6	2.6	2.6

Source: Company, DM IDMSA estimates

BASIC DEFINITIONS

A/R turnover (in days) = $365/(\text{sales}/\text{average A/R})$

Inventory turnover (in days) = $365/(\text{COGS}/\text{average inventory})$

A/P turnover (in days) = $365/(\text{COGS}/\text{average A/P})$

Current ratio = $(\text{current assets} - \text{ST deferred assets})/\text{current liabilities}$

Quick ratio = $(\text{current assets} - \text{ST deferred assets} - \text{inventory})/\text{current liabilities}$

Interest coverage = $(\text{pre-tax profit before extraordinary items} + \text{interest payable})/\text{interest payable}$

Gross margin = $\text{gross profit on sales}/\text{sales}$

EBITDA margin = $\text{EBITDA}/\text{sales}$

EBIT margin = EBIT/sales

Pre-tax margin = $\text{pre-tax profit}/\text{sales}$

Net margin = $\text{net profit}/\text{sales}$

ROE = $\text{net profit}/\text{average equity}$

ROA = $(\text{net income} + \text{interest payable})/\text{average assets}$

EV = $\text{market capitalization} + \text{interest bearing debt} - \text{cash and equivalents}$

EPS = $\text{net profit}/\text{no. of shares outstanding}$

CE = $\text{net profit} + \text{depreciation}$

Dividend yield (gross) = $\text{pre-tax DPS}/\text{stock market price}$

Cash sales = $\text{accrual sales corrected for the change in A/R}$

Cash operating expenses = $\text{accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes}$

DM IDM S.A. generally values the covered non bank companies via two methods: comparative method and DCF method (discounted cash flows). The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the DCF method is its independence from the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Please note that we also resort to other valuation techniques (e.g. NAV-, DDM- or SOTP-based), should it prove appropriate in a given case.

KEY TO INVESTMENT RANKINGS

This is a guide to expected price performance in absolute terms over the next 12 months:

Buy – fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;

Hold – either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;

Sell – fundamentally overvalued (12M EFV < current share price + 1-year cost of equity) + catalysts which should close the valuation gap identified.

This is a guide to expected relative price performance:

Overweight – expected to perform better than the benchmark (WIG) over the next quarter in relative terms

Neutral – expected to perform in line with the benchmark (WIG) over the next quarter in relative terms

Underweight – expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

The recommendation tracker presents the performance of DM IDMSA's recommendations. A recommendation expires on the day it is altered or on the day 12 months after its issuance, whichever comes first. Relative performance compares the rate of return on a given recommended stock in the period of the recommendation's validity (i.e. from the date of issuance to the date of alteration or – in case of maintained recommendations – from the date of issuance to the current date) in a relation to the rate of return on the benchmark in this time period. The WIG index constitutes the benchmark. For recommendations that expire by an alteration or are maintained, the ending values used to calculate their absolute and relative performance are: the stock closing price on the day the recommendation expires/ is maintained and the closing value of the benchmark on that date. For recommendations that expire via a passage of time, the ending values used to calculate their absolute and relative performance are: the average of the stock closing prices for the day the recommendation elapses and four directly preceding sessions and the average of the benchmark's closing values for the day the recommendation expires and four directly preceding sessions.

Banks

Net Interest Margin (NIM) = $\text{net interest income}/\text{average assets}$

NIM Adjusted = $(\text{net interest income adjusted for SWAPs})/\text{average assets}$

Non interest income = $\text{fees\&commissions} + \text{result on financial operations (trading gains)} + \text{FX gains}$

Interest Spread = $(\text{interest income}/\text{average interest earning assets})/(\text{interest cost}/\text{average interest bearing liabilities})$

Cost/Income = $(\text{general costs} + \text{depreciation} + \text{other operating costs})/(\text{profit on banking activity} + \text{other operating income})$

ROE = $\text{net profit}/\text{average equity}$

ROA = $\text{net income}/\text{average assets}$

Non performing loans (NPL) = loans in 'substandard', 'doubtful' and 'lost' categories

NPL coverage ratio = $\text{loan loss provisions}/\text{NPL}$

Net provision charge = $\text{provisions created} - \text{provisions released}$

DM IDM S.A. generally values the covered banks via two methods: comparative method and fundamental target fair P/E and target fair P/BV multiples method. The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the fundamental target fair P/E and target fair P/BV multiples method is its independence of the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation.

Assumptions used in valuation can change, influencing thereby the level of the valuation. Among the most important assumptions are: GDP growth, forecasted level of inflation, changes in interest rates and currency prices, employment level and change in wages, demand on the analysed company products, raw material prices, competition, standing of the main customers and suppliers, legislation changes, etc.

Changes in the environment of the analysed company are monitored by analysts involved in the preparation of the recommendation, estimated, incorporated in valuation and published in the recommendation whenever needed.

LT fundamental recommendation tracker

Recommendation		Issue date	Reiteration date	Expiry date	Performance	Relative performance	Price at issue/reiteration (PLN)	12M EFV (PLN)	
PBG									
Hold	-	06.02.2008	-	30.11.2008	-26%	30%	281.60	319.00	-
-	-	-	17.02.2008	-	-	-	317.90	319.00	→
-	→	-	21.02.2008	-	-	-	326.70	352.00	↑
-	→	-	30.03.2008	-	-	-	325.00	358.00	↑
-	→	-	14.04.2008	-	-	-	311.00	357.00	↓
-	→	-	29.04.2008	-	-	-	318.00	361.00	↑
-	→	-	15.05.2008	-	-	-	315.00	361.00	→
-	→	-	01.06.2008	-	-	-	318.00	361.00	→
-	→	-	29.06.2008	-	-	-	268.00	356.00	↓
-	→	-	08.07.2008	-	-	-	238.00	348.00	↓
-	→	-	28.07.2008	-	-	-	245.00	348.00	→
-	→	-	04.08.2008	-	-	-	248.00	348.00	→
-	→	-	31.08.2008	-	-	-	238.00	348.00	→
-	→	-	28.09.2008	-	-	-	232.00	348.00	→
-	→	-	19.10.2008	-	-	-	192.10	305.00	↓
-	→	-	29.10.2008	-	-	-	191.50	305.00	→
-	→	-	06.11.2008	-	-	-	198.30	305.00	→
Buy	↑	30.11.2008	-	Not later than 30.11.2009	1%	-4%	208.00	305.00	→
-	→	-	11.01.2009	-	-	-	211.50	305.00	→
-	→	-	25.01.2009	-	-	-	192.90	279.00	↓
-	→	-	08.02.2009	-	-	-	208.50	279.00	→
-	→	-	08.03.2009	-	-	-	207.00	279.00	→
-	→	-	05.04.2009	-	-	-	205.00	279.00	→
-	→	-	29.04.2009	-	-	-	209.10	242.00	↓

Market-relative recommendation tracker

Relative recommendation		Issue date	Reiteration date	Expiry date	Price at issue/reiteration (PLN)	Relative performance
PBG						
Overweight	-	06.02.2008	-	11.01.2009	281.60	30%
-	→	-	17.02.2008	-	317.90	-
-	→	-	21.02.2008	-	326.70	-
-	→	-	30.03.2008	-	325.00	-
-	→	-	14.04.2008	-	311.00	-
-	→	-	29.04.2008	-	318.00	-
-	→	-	15.05.2008	-	315.00	-
-	→	-	01.06.2008	-	318.00	-
-	→	-	29.06.2008	-	268.00	-
-	→	-	08.07.2008	-	238.00	-
-	→	-	28.07.2008	-	245.00	-
-	→	-	04.08.2008	-	248.00	-
-	→	-	31.08.2008	-	238.00	-
-	→	-	28.09.2008	-	232.00	-
-	→	-	19.10.2008	-	192.10	-
-	→	-	29.10.2008	-	191.50	-
-	→	-	06.11.2008	-	198.30	-
-	→	-	30.11.2008	-	208.00	-
Overweight	→	11.01.2009	-	Not later than 11.01.2010	211.50	-3%
-	→	-	25.01.2009	-	192.90	-
-	→	-	08.02.2009	-	208.50	-
-	→	-	08.03.2009	-	207.00	-
-	→	-	05.04.2009	-	205.00	-
-	→	-	29.04.2009	-	209.10	-

Distribution of IDM's current recommendations

	Buy	Hold	Sell	Suspended	Under revision
Numbers	18	27	9	1	0
Percentage	33%	49%	16%	2%	0%

Distribution of IDM's current recommendations for companies that were within the last 12M IDM customers in investment banking

	Buy	Hold	Sell	Suspended	Under revision
Numbers	2	3	0	1	0
Percentage	33%	50%	0%	17%	0%

Distribution of IDM's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	21	14	19	1	0
Percentage	38%	25%	35%	2%	0%

Distribution of IDM's current market relative recommended weightings for the companies that were within the last 12M IDM customers in investment banking

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	1	2	2	1	0
Percentage	17%	33%	33%	17%	0%

Institutional sales

Director – **Dariusz Wareluk**
tel.: +48 (22) 489 94 12
d.wareluk@idmsa.pl

Leszek Mackiewicz

tel.: +48 (22) 489 94 23
l.mackiewicz@idmsa.pl

Maciej Bąk

tel.: +48 (22) 489 94 14
m.bak@idmsa.pl

Bartosz Zieliński

tel.: +48 (22) 489 94 13
b.zielinski@idmsa.pl

Research

Sobiesław Pająk, CFA
(IT, Media, Equity strategy)

tel.: +48 (22) 489 94 70
s.pajak@idmsa.pl

Sylwia Jaśkiewicz, CFA

(Construction materials, Retail, Mid-caps)
tel.: +48 (22) 489 94 78
s.jaskiewicz@idmsa.pl

Maciej Wewiórski

(Commodities, Construction, Real estate)
tel.: +48 (22) 489 94 62
m.wewiorski@idmsa.pl

Michał Sobolewski

(Banks)
tel.: +48 (22) 489 94 77
m.sobolewski@idmsa.pl

Jakub Viscardi

(Telco, Retail)
tel.: +48 (22) 489 94 69
j.viscardi@idmsa.pl

Adrian Kyrzcz

(Construction)
tel.: +48 (22) 489 94 74
a.kyrzcz@idmsa.pl

Łukasz Prokopiuk

(Associate)
tel.: +48 (22) 489 94 72
l.prokopiuk@idmsa.pl

Marek Kaźmierczak

(Associate)
tel.: +48 (22) 489 94 78
m.kazmierczak@idmsa.pl

This report is for information purposes only. Neither the information nor the opinions expressed in the report constitute a solicitation or an offer to buy or sell any securities referred herein. The opinions expressed in the report reflect independent, current judgement of DM IDM S.A. Securities. This report was prepared with due diligence and scrutiny. The information used in the report is based on all public sources such as press and branch publications, company's financial statements, current and periodic reports, as well as meetings and telephone conversations with company's representatives. We believe the above mentioned sources of information to be reliable, however we do not guarantee their accuracy and completeness. All estimates and opinions included in the report represent our judgment as of the date of the issue. The legal entity supervising DM IDM S.A. is Financial Supervision Commission in Warsaw (KNF in Polish abbreviation).

IDM does not take any responsibility for decisions taken on the basis of this report and opinions stated in it. Investors bear all responsibility for investment decisions taken on the basis of the contents of this report. The report is intended exclusively for private use of investors – customers of IDM. No part or excerpt of the report may be redistributed, reproduced or conveyed in any manner or form written or oral without the prior written consent of IDM. This report is released to customers the moment it is issued and the whole report is made available to the public one month after the issuance.

The analyst(s) responsible for covering the securities in this report receives compensation based upon the overall profitability of IDM which includes profits derived from investment banking activities, although the analyst compensation is not directly related thereto.

IDM releases analytical reports via mail or electronic mail to selected clients (professional clients).

Apart from mentioned above, there are no ties of any kind between DM IDM S.A., the analyst/analysts involved in the preparation of the report and his/her relatives and the company/companies analyzed in this publication, especially in the form of: i) offering of financial instruments in the primary market or/and Initial Public Offer within 12 months preceding the issue of this report, ii) purchasing and selling of financial instruments for own account due to tasks connected with organization of the regulated market, iii) purchasing and selling of financial instruments due to underwriting agreements and iv) the role of a market maker for securities analysed by IDM. The analysed company/companies does/do not possess DM IDM S.A. shares.

IDM has not signed with the company/companies any contracts for recommendation writing. Investors should assume that DM IDM S.A. is seeking or will seek business relationships with the company/companies described in this report. The report was not shown to the analyzed company/companies before the distribution of the report to clients.