PBG S.A.

HOLD reiterated. Risk rating downgraded to Medium.

Recommendation and forecast revision. Introduction of 2011E.

We fine tune our 2009E/2010E EPS estimates on the back of new Management guidance, acquisition of significant material contracts and 1Q09 figures. At the same time we introduce 2011E figures. We reiterate both 12M Target Price of PLN 220 and recommendation to Hold the stock, though we revise up the risk rating from Low to Medium on the back of dilution risk. Though we still find business model and underlying market fundamentals as healthy and offering good growth prospects, we recognize the announced new share issues as accounting for additional dilution risk for current shareholders.

Solid 1Q09 Results – Above consensus

PBG reported 1Q09 net profit of PLN 23.2m (+57% yoy) that is 21% above consensus and 25% above our estimate. The operating profit of PLN 34.8m (+16% yoy) has beaten our and consensus estimates by 11%. General impression – good set of operating results, at the net level additionally supported by low tax rate in the group (positive tax at Hydrobudowa).

Management Guidance for 2009

PBG issued its 2009 guidance with targeted top line of PLN 2,800m, EBIT of PLN 300m and net profit of PLN 190m. The guidance does not include any proceeds from Armenian projects due to the uncertainty of its execution. Our forecast comes close to the guidance though we apply slightly different breakdown of the segments in the top line as we expect larger share of oil and gas and specialized construction on the back of successful acquisition of Euro 2012 stadium contracts and different FX rates assumptions.

High share capital increase considered. Risk increases.

The rapid expansion of PBG group to new market segments was fuelled by acquisitions financed in part by new shares issuances in the past. Currently PBG considers launching new segment involved in energy segment through acquisition of an incumbent and considers issuance of 0.86m shares, 4m of convertible bonds and 2.7m of shares, the latter subject to Board decision. This would imply dilution in the range between 27% and 36%, while the return on new capital remains unknown as long as PBG does not reveal its acquisition target.

Table 1 Summary Financial Data

	2006	2007	2008	2009E	2010E	2011E
Revenues (PLN m)	674.3	1 407.0	2 091.4	2 711.8	3 205.0	3 463.6
EBITDA (PLN m)	88.4	166.1	271.5	351.1	424.9	451.4
EBIT (PLN m)	70.6	167.5	227.9	299.9	366.1	389.5
Net profit (PLN m)	52.2	104.3	158.2	201.4	254.2	270.0
EPS (PLN)	4.63	8.19	11.78	15.00	18.93	20.11
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0.0
EV/EBITDA	35.3	24.2	11.5	9.7	7.8	6.8
P/E (x)	55.5	37.5	16.6	13.9	11.0	10.4

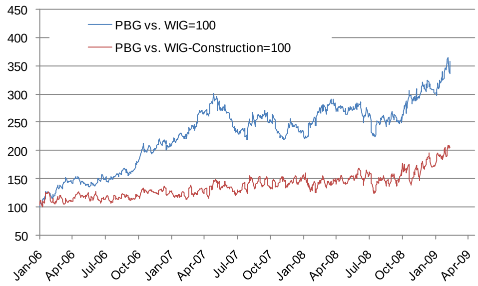
Source: Company, IPOPEMA Research

13 May 2009

PBG

HOLD – Medium Risk

12M TP PLN 220/ *(May 12th) PLN 208.3*



Key Ratios	2009E	2010E
EBITDA Margin	12.9%	13.3%
EBIT Margin	11.1%	11.4%
ROE	18.1%	18.0%
Bank Debt / Assets	28.0%	21.9%

Share data	
Number of shares (m)	13.4
Market Cap (€m)	635.8
12M Avg daily volume (th)	30.2
12M Average daily turnover (€m)	2.49
52 W High / Low	318.5 / 175.3
WIG Weight (%)	1.64
Reuters	PBGG.WA
Bloomberg	PBG PW

Performance	Abs.	vs. WIG
3M	2%	-16%
YTD	4%	-5%
12M	-34%	6%

Shareholders	Stake
Wiśniewski Jerzy	50.1%
BZ WBK AIB Investment Fund	5.1%
ING NN Pension Fund	5.1%
Other	39.7%

Analysts

Arkadiusz Chojnacki, CFA + 48 22 236 92 44

arkadiusz.chojnacki@ipopema.pl

Tomasz Duda + 48 22 236 92 32

tomasz.duda@ipopema.pl

Forecasts Revision

We fine tune our 2009E/2010E EPS estimates on the back of new Management guidance, acquisition of significant material contracts and 1Q09 figures. At the same time we introduce 2011E figures. We recognize new accounting rules applies by PBG to recognition of consortium partners' sales, greater risk of Armenian contract, the volatility of FX rates and the recently signed, large stadium contracts.

PBG. 2009E-10E Forecasts Revision. Introduction of 2011E. (PLN m)

	2009E			2010E			2011E
	Old	New	chg	Old	New	chg	New
Revenues	**2 618.4**	**2 711.8**	**4%**	**3 291.5**	**3 205.0**	**-3%**	**3 463.6**
Gross Profit	432.3	426.6	-1%	550.5	509.3	-7%	551.2
gross margin	16.5%	15.7%		16.7%	15.9%		15.9%
SG&A cost	**-123.1**	**-127.5**	**4%**	**-148.1**	**-144.2**	**-3%**	**-162.8**
SG&A as % of sales	-4.3%	-4.7%		-4.9%	-4.5%		-4.7%
EBIT	**321.0**	**299.9**	**-7%**	**403.4**	**366.1**	**-9%**	**389.5**
Net Income	**201.2**	**201.4**	**0%**	**258.8**	**254.2**	**-2%**	**270.0**
EPS (PLN)	**15.0**	**15.0**	0%	**19.3**	**18.9**	-2%	**20.1**

Source: IPOPEMA Research

PBG issued its 2009 guidance with targeted top line of PLN 2,800m, EBIT of PLN 300m and net profit of PLN 190m. Our forecast comes close to the guidance though we apply slightly different breakdown of the segments in the top line as we expect larger share of oil and gas and specialized construction on the back of successful acquisition of Euro 2012 stadium contracts and different FX rates assumptions. At the same time we expect the robust growth of water segment to be less spectacular in the forthcoming years, the conclusion supported by backlog figures of water segment. The water segment backlog at the end of 2007 stood at PLN 2.2 bn, while after 1Q09 we estimate the figure at PLN 1.8-1.9 bn as the backlog of Hydrobudowa Polska of PLN 2.3 bn included already Baltic Arena. We still believe the prospects of the water market in Poland are robust, though we apply conservative approach on the back of PBG's policy of selection of the most profitable contracts, which might turn in lower acquisition ratio at current construction market.

Comparison of 2009 PBG guidance and Ipopema estimates. (PLN m)

2009 figures	Ipopema	PBG guidance	Diff
Revenues	2 711.8	2 800.0	-3.1%
EBIT	299.9	300.0	0.0%
Net profit	201.4	190.0	6.0%

Source: IPOPEMA Research

High share capital increase considered. Risk increases.

The rapid expansion of PBG group to new market segments was fuelled by acquisitions financed in part by new shares issuances in the past. Currently PBG considers launching new segment involved in energy segment through acquisition of an incumbent and considers issuance of 0.86m shares, 4m of convertible bonds and 2.7m of shares, the latter subject to Board decision. This would imply dilution in the range between 27% and 36%, while the return on new capital remains unknown as long as PBG does not reveal its acquisition target. Due to increased dilution risk we find the premium on PBG no longer justified.

Company	Last Price	Market Cap (PLN m)	2009E	2010E	2011E	2009E	2010E	2011E
				P/E			EV/EBITDA	
Budimex	PLN 73.5	1 889	14.5	13.0	11.7	8.9	7.5	6.3
Elektrobudowa	PLN 150	695	13.6	12.9	12.9	9.1	8.3	7.7
Erbud	PLN 37	463	11.9	12.9	11.1	8.7	8.4	7.3
PBG	PLN 208.3	2 717	14.1	11.0	10.9	9.5	7.5	7.2
Polimex	PLN 3.75	1 588	14.4	14.2	11.3	7.7	7.2	6.1
MEDIAN			**14.1**	**12.9**	**11.3**	**8.9**	**7.5**	**7.2**

Source: IPOPEMA Research

Financials

P&L (PLN m)	2006	2007	2008	2009E	2010E	2011E
Revenues	**674**	**1 407**	**2 091**	**2 712**	**3 205**	**3 464**
- yoy change	*65%*	*109%*	*49%*	*30%*	*18%*	*8%*
Gross Profit	**116**	**215**	**342**	**427**	**509**	**551**
- yoy change	*63%*	*85%*	*59%*	*25%*	*19%*	*8%*
Other Operating Income/(Cost)	10	6	-8	1	1	1
EBIT	**71**	**168**	**228**	**300**	**366**	**389**
- yoy change	*45%*	*137%*	*36%*	*32%*	*22%*	*6%*
EBITDA	**88**	**166**	**272**	**351**	**425**	**451**
- yoy change	*76%*	*88%*	*64%*	*29%*	*21%*	*6%*
Financial Income/(Cost)	-1	-21	-12	-12	-12	11
Other and Extraordinary						
Pretax Profit	**70**	**146**	**216**	**288**	**354**	**401**
Income Tax	-15	-27	-26	-46	-60	-68
Minority (Profits)/Losses	-3	-15	-32	-41	-40	-63
Net Income	**52**	**104**	**158**	**201**	**254**	**270**
EPS (PLN)	**4.63**	**8.19**	**11.78**	**15.00**	**18.93**	**20.11**
- yoy change	*24%*	*77%*	*44%*	*27%*	*26%*	*6%*
Profitability Ratios						
Gross Margin	17.2%	15.3%	16.3%	15.7%	15.9%	15.9%
EBIT Margin	10.5%	11.9%	10.9%	11.1%	11.4%	11.2%
Net Margin	7.7%	7.4%	7.6%	7.4%	7.9%	7.8%
ROE	28.3%	27.5%	20.2%	18.1%	19.3%	17.2%

Balance Sheet (PLN m)	2006	2007	2008	2009E	2010E	2011E
Total Current Assets	**592**	**1 425**	**1 822**	**2 116**	**2 276**	**2 355**
Cash and Equivalents	51	410	290	298	288	277
Other Current Assets	541	1014	1533	1817	1987	2078
Total Fixed Assets	**343**	**587**	**775**	**859**	**913**	**920**
Tangible Assets	266	307	427	513	568	577
Other Fixed Assets	77	281	347	346	345	343
Total Assets	**1 045**	**2 259**	**2 859**	**3 288**	**3 523**	**3 604**
Stockholders` Equity	**379**	**785**	**1114**	**1315**	**1569**	**1839**
Including Minority Interest	12	35	185	185	185	185
Long Term Liabilities	**213**	**332**	**410**	**459**	**391**	**363**
Long -Term Debt	70	50	113	153	103	67
Other Long - Term liabilities	142	282	297	306	287	296
Short Term Liabilities	**453**	**1142**	**1335**	**1515**	**1563**	**1401**
Short -Term Debt	205	467	671	770	682	477
Other Current Liabilities	248	675	663	745	881	924
Total Equity & Liabilities	**1 045**	**2 259**	**2 859**	**3 288**	**3 523**	**3 604**
BVPS (PLN)	30.5	55.9	69.1	84.1	103.0	123.1
Balance Sheet Ratios						
Current Ratio	1.6	1.5	1.6	1.6	1.7	2.0
Quick Ratio	0.1	0.4	0.2	0.2	0.2	0.2
Bank Debt/Assets	26%	23%	27%	28%	22%	15%
Bank Debt/Equity	73%	66%	70%	70%	50%	30%

Cash Flow (PLN m)	2006	2007	2008	2009E	2010E	2011E
Net Profit	52	104	158	201	254	270
Depreciation and Amortisation	16	27	46	51	59	62
Other (incl. WC)	-203	-249	-467	-246	-74	-33
Operating Cash Flows	**-134**	**-118**	**-263**	**6**	**239**	**299**
Capital Expenditures (Net)	-153	-188	0	-136	-112	-69
Other	41	9	0	0	0	0
Cash Flows from Investing Activities	**-112**	**-179**	**0**	**-136**	**-112**	**-69**
Change in Debt	46	342	0	138	-137	-241
Issuance of Shares	187	333	0	0	0	0
Other	-16	-20	0	0	0	0
Cash Flows from Financing Activities	**217**	**655**	**0**	**138**	**-137**	**-241**
Beginning Cash	82	51	410	149	158	148
Increase/(Decrease) in Cash	-30	359	-263	9	-10	-11
Ending Cash	**51**	**410**	**149**	**158**	**148**	**137**
DPS (PLN)	0.00	0.00	0.00	0.00	0.00	0.00

Source: IPOPEMA Research

This document has been prepared by:

IPOPEMA Securities S.A.
ul. Waliców 11
00-851 Warszawa
www.ipopema.pl

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The date stated on the front page is the date of the publication of this document. The price used throughout the recommendation to calculate adequate ratios is the "last" price stated on the front page of this report.

The definitions of terms used in the recommendation include:

NII – Net interest income – interest income minus interest expense
Net F&C – Net fee and commission income – fee and commission income minus fee and commission expense
LLP – loan loss provisions – an expense set aside as an allowance for bad loans
NPL – non-performing loan – loans that are in default or close to be in default
Cost/Income – operating expenses divided by total banking revenue
ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity
ROA – return on assets – net income (or adjusted net income) divided by the average assets
EBIT – interests before earnings and tax
EBITDA – interest before earnings, tax, depreciation and amortization
EPS – earnings per share – the net income (or adjusted net income divided by the number of shares outstanding
P/E – price to earnings ratio – price divided by earnings per share
PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time
CAGR –compound annual growth rate
BVPS – book value per share, the book value of the Company's equity divided by the number of shares outstanding
P/BV – price to book value - price divided by the BVPS
DPS – dividend per share – dividend of a given year divided by the number of shares outstanding
DY – dividend yield – dividend of a given year divided by the current price
DDM – dividend discount model – a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends
TP – target price, calculated based on valuation methods outlined in the document

Our recommendations are:

Buy – expected 12 moths total return of 15% or more.
Hold – expected 12 months total return of 5%-15%.
Sell – expected 12 months total return of below 5%.
There are three risk ratings: High Risk, Medium Risk and Low Risk that take into account fundamental factors as well as liquidity and volatility of the stock. Please note that the risk rating may impact the level of total return that is required for specified recommendation.

The author has no conflict of interest with the company that is the subject of this document.

Investors should be aware that flexible part of the author's compensation may depend on general financial performance of IPOPEMA Securities S.A.

Rating History - PBG

Date	Recommendation	Target Price	Last Price (PLN)
17.02.2009	BUY Low Risk	220	187.9

IPOPEMA Research - Distribution by rating category (Jan 1 - Mar 31, 2009)

	Number	%
Buy	19	49%
Hold	14	36%
Sell	6	15%