KBC Securities

# Flash

# PBG

08 October 2010

## More power

| | | | |
|---|---|---|---|
| **Construction** | **Current price** | PLN 241.0* | **Buy** |
| **Poland** | **Fair value** | PLN 273.5 | Rating upgraded |

| Performance over | 1M | 3M | 12M |
|---|---|---|---|
| Absolute | 1% | 16% | 11% |
| Rel. WIG20 | -4% | 3% | -8% |
| 12M Hi/Lo | PLN 252 / 192 | | |

| | |
|---|---|
| Reuters | PBGG.WA |
| Bloomberg | PBG PW |
| Market cap | € 867.8m |
| Next corporate event | 3Q10 results on 15 November 2010 |
| PLN / EUR | 3.97 |

| PLN m | 2009 | 2010F | 2011F | 2012F |
|---|---|---|---|---|
| Sales | 2,578.0 | 3,276.5 | 2,112.0 | 2,705.5 |
| EBITDA | 333.6 | 383.3 | 319.5 | 378.3 |
| EBIT | 286.5 | 326.2 | 275.9 | 329.3 |
| Net profit | 210.6 | 226.0 | 288.4 | 276.1 |
| EPS (PLN) | 14.7 | 15.8 | 16.5 | 19.3 |
| P/E (x) | 16.4 | 15.2 | 11.9 | 12.5 |
| DPS (PLN) | 0.0 | 1.4 | 4.3 | 10.5 |
| Dividend Yield (%) | 0.0% | 0.6% | 1.8% | 4.4% |
| EV/EBITDA (x) | 11.7 | 9.8 | 9.2 | 8.0 |

*Source: KBC Securities* ** Priced at COB 7 October 2010*

**PBG will sell (subject to due diligence) to Obrascón Huarte Lain a 50% stake in Hydrobudowa Polska (water, road and general construction segments) and a 50.1% stake in Aprivia (road segment). PBG will maintain 12% in Hydrobudowa Polska, with plans to increase this to 20%, and 49.9% in Aprivia. With the cash raised (PLN 505m), the company plans to increase exposure to the energy segment and could expand abroad. To account for the changes in consolidation method for the two subsidiaries and increase in power engineering exposure, we have adjusted down our EBITDA forecast by 35.7% to PLN 319.5m for 2011 and by 29.9% to PLN 378.3m for 2012. We have also cut our net profit forecast by 5.4% to PLN 288.4m for 2011 and by 18.6% to PLN 276.1m for 2012. We have increased our fair value estimate by 4.6% to PLN 273.5 per share, which implies 13.5% upside. We upgrade our rating to Buy.**

## Rating upgraded to Buy

- **Major asset disposal:** We view the decrease in exposure to road construction and hydro engineering and the decision to concentrate cash on power engineering as the right strategy. However, the transaction itself has no significant impact on our valuation. The sale took place at an average 2010F EV/EBITDA of 9.1x (10.6x for Hydrobudowa and 4.3x for Aprivia), below PBG's average group multiple of 9.8x. We believe this discount is justified by a forecast decline in revenues in these segments and margin pressure in the road construction.
- **Cash rich:** With the PLN 505m raised from these asset disposals and an additional PLN 400m-500m planned to be raised via bond issuance this fall, the company should have sufficient cash to increase exposure to power engineering on the local market and to expand outside of the country. Additionally, PBG may restructure some of its short-term debt into longer maturities.
- **Focus on power engineering:** PBG plans to increase its stake in Energomontaz Poludnie (energy player) from 25% to over 50%, is considering other possible acquisitions in power engineering, and has budgeted for increased working capital needs in this segment. We see this as positive, given our optimistic view on the segment, which should deliver an above-market 2009-2012 CAGR of 19.7%, higher and more stable margins versus other segments (i.e roads) and the fact that large contracts are due to be awarded next year providing a stock catalyst.
- **Alliance with OHL:** Together with OHL, PBG plans to participate in PPP projects in Poland and in Latin America or to bid for waste incineration plants in Prague. We believe the partnership with OHL should be beneficial for the company on a domestic level, whilst we see expansion outside Poland as relatively high risk. We forecast a very limited contribution from foreign markets to the company's revenues and profit.
- **Premium valuation:** On a 2011F EV/EBITDA of 9.2x, PBG trades at a 18.1% premium to domestic peers. We believe a higher premium is justified by the company's increasing exposure to power engineering, a segment which should grow faster than the market (power segment revenues at 2012F-2015F CAGR of 21% versus overall construction 2012F-2015F CAGR of 8.3%) provide a higher margin than other segments which are experiencing increasing competition, and in which large contracts are to be awarded next year.

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**Important Polish Disclosure**

Belgian Banking and Finance Commission is exercising the Supervision over KBC Securities NV Branch in Poland.

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**The definitions of terms applied in the publication:**

EBITDA = EBIT + amortization and depreciation

EPS = Net profit / No of shares outstanding

DPS = Dividend per Share

NBV per share = Net Book Value / No of shares outstanding

EBITDA margin = EBITDA / Revenue

EBIT margin = EBIT / Revenue

CFPS = Cash flow / No of shares outstanding

Net Financial Debt = Financial debt – Cash equivalents

ROE = Net profit / Average Equity

EV = Market Capitalization + Net Financial Debt

P/E = Stock Price / EPS

P/CF = Stock Price / (Net Profit + amortization and depreciation)

P/BV = Stock Price / NBV per share

P/S = Market Capitalization / Revenue

Gross Dividend Yield = Dividend per share / Stock

**List of recent recommendations concerning Budimex shares issued by KBC Securities NV Branch in Poland**

| Date of issue | Valuation | Market price | Recommendation |
|---|---|---|---|
| 08.10.2010 | Buy | 241.0 | 273.50 |
| 09.09.2010 | Hold | 250.2 | 261.64 |
| 26.04.2010 | Buy | 218.0 | 247.0 |
| 22.01.2010 | Buy | 219.0 | 245.3 |

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During the last quarter KBC Securities NV Branch in Poland issued 46 recommendations:

| | |
|---|---|
| 24 BUY | 52% |
| 15 HOLD | 33% |
| 7 SELL | 15% |

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