

21 February 2011

Construction		Current price	PLN 201.50*	Hold
Poland		Fair value	PLN 215.60	Rating downgraded
Performance over	1M	3M	12M	
Absolute	-4%	-8%	2%	
Rel. WIG20	+1%	-8%	-14%	
12M Hi/Lo	PLN 250.2 / 192.0			
Reuters	PBGG.WA			
Bloomberg	PBG.PW			
Market cap	EUR 723.9m			
Next corporate event	4Q10 results - 21 March 2011			
PLN / EUR	3.91			
	PLN m	2009A	2010F	2011F
	Sales	2,578.0	2,773.7	1,922.6
	EBITDA	333.6	327.4	292.0
	EBIT	286.5	278.6	243.7
	Net profit	210.6	218.9	264.9
	EPS (PLN)	14.7	15.3	14.8
	P/E (x)	13.7	13.2	10.9
	DPS (PLN)	0.0	1.4	4.6
	Dividend Yield (%)	0.0%	0.7%	2.3%
	EV/EBITDA (x)	10.0	10.2	8.3

Source: KBC Securities

* Priced at COB 18 February 2011

We still believe that PBG's decision to exit road construction, decrease exposure to hydro engineering and focus cash on power engineering and operational business was the right strategy for the firm. However, no major contracts have been reported in these new fields and any positive impact from the alliance with OHL will only emerge in 2012 at the earliest. Meanwhile, energy contracts in Poland are facing huge delays, which has prompted us to cut our forecasts for the segment in 2011 and subsequent years. We also view as slightly negative the recent downscaling of the LNG contract by 8.5% by the contractor. We have cut our net profit forecasts by 3.1% to PLN 218.9m for 2010, 8.2% to PLN 264.9m for 2011 and 7.4% to PLN 255.7m for 2012. We have lowered our fair value estimate by 21.2% to PLN 215.6 per share, which implies 7.0% upside. We downgrade our rating to Hold.

Rating downgraded to Hold

- **Asset disposal to OHL:** We still believe that the decision to exit road construction, decrease exposure to hydro engineering and focus on power engineering and operational business was the right strategy for PBG. The deal with OHL is likely to be finalized by end-1Q11, although the transaction 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 10.2x.
- **Development plans and recent investments:** Together with OHL, PBG plans to participate in PPP projects in Poland and Latin America or bid for waste incineration plants in Prague. At present, however, there are no tangible domestic deals to replace the huge gap in revenues after the disposal of Hydrobudowa and Aprivia, while expansion outside Poland is relatively high risk. We view the recent downscaling of the LNG contract by 8.5% as negative. Also, we do not currently attach any positive value to Tlumaczow stone quarry, as it is at nascent stage of development.
- **Protracted negotiations:** PBG initially planned to increase its presence in Energomontaz Poludnie (EPD PW) from 25% to 50%. However, the process seems to be facing huge obstacles since part of the current shareholders (private entrepreneurs holding a 28.17% stake) are seemingly not in favour of the idea of merging with PBG. Thus PBG could be forced to backtrack and search for new, relatively scarce acquisition targets. We see a risk of PBG finding itself without sufficient know-how or credentials ahead of tenders for huge energy contracts in late 2011.
- **Downgraded to Hold:** On a 2012F EV/EBITDA of 7.0x PBG trades at a premium to the sector average. We see PBG trading somewhere between the multiples of Budimex and Polimex. While the deal with Spain's OHL should leave PBG's high exposure to the oil & gas niche segment intact, the firm might face serious difficulties in replacing the water and road segment deals in the portfolio.

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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
21 January 2010	PLN 77.90	PLN 80.90	Hold
25 January 2010	PLN 73.86	PLN 77.30	Hold
26 April 2010	PLN 91.42	PLN 99.75	Hold
09 September 2010	PLN 88.31	PLN 93.00	Hold
26 November 2011	PLN 112.90	PLN 101.20	Buy
21 February 2011	PLN 109.55	PLN 95.25	Buy

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

Date of issue	Valuation	Market price	Recommendation
21 January 2010	PLN 245.3	PLN 219.0	Buy
26 April 2010	PLN 247.0	PLN 218.0	Buy
09 September 2010	PLN 261.64	PLN 250.2	Hold
08 October 2010	PLN 273.50	PLN 241.0	Buy
21 February 2011	PLN 215.60	PLN 201.50	Hold

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

Date of issue	Valuation	Market price	Recommendation
21 January 2010	PLN 5.40	PLN 4.36	Buy
26 April 2010	PLN 5.90	PLN 4.86	Buy
09 September 2010	PLN 5.54	PLN 4.55	Buy
28 October 2010	PLN 4.83	PLN 4.15	Buy
21 February 2011	PLN 3.70	PLN 3.49	Hold

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During the last quarter KBC Securities NV Branch in Poland issued 47 recommendations:

22 BUY	47%
16 HOLD	34%
9 SELL	19%

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