

**Company Update**
**Construction & Materials**
**Poland**
**17 July 2009**
**PBG**
**Acquisition time. Waiting for triggers.**

We reiterate our Hold recommendation on PBG, having trimmed our target price by 5% to PLN 229/share on the back of higher RFR assumption at 6.25% and lower 2009E earnings. We have cut our 2009E earnings by 7% to PLN 202mn, given: 1) greater portion of revenues from the Wierzchowice contract to be recognized by consortium members (more than 50%), and 2) lower by 1pp gross margin assumptions for Hydrobudowa Polska. We view the recent PLN 40mn acquisition of the 51% stake in Energopol Ukraina positively. As for the potential acquisition of a 25% stake in Energomontaz Poludnie, we like the idea of diversification into power engineering construction, but the price has not yet been set. The stock is trading at a significant premium on P/E for 2009, but in line with peers for 2010.

- **Recent developments:** At the beginning of June, PBG's AGM approved a PLN 190mn capital increase, to be spent on acquisitions. PBG has recently acquired a 51% stake in Energopol Ukraina for PLN 40mn. In our view, the value added for PBG from the planned residential project development in Kiev may reach PLN 1.5/share. As for the potential acquisition of a 25% stake in Energomontaz Poludnie, given the uncertainty related to the acquisition price, we have not included the transaction into our model. We cut our 2009E earnings by 7% to PLN 202mn, due to: 1) greater portion of revenues from the Wierzchowice contract to be recognized by consortium members, and 2) lower by 1pp gross margin assumptions for Hydrobudowa Polska.
- **2Q 2009 Results preview:** We expect only moderate 2Q figures, with earnings of PLN 36.5mn, flat yoy (see over for details).
- **Valuation:** PBG is currently trading at 2009E P/E of 15.0x, a significant 30% premium to peers, but in line with peers on 2010E P/E of 12.6x. Our TP of PLN 229/share implies a mere 5% upside. Hold reiterated.

	2007	2008	2009E	2010E	2011E
Revenues (PLNmn)	1,407.0	2,089.3	3,028.5	3,425.5	3,727.3
EBITDA (PLNmn)	168.1	270.3	404.0	456.0	490.9
EBIT (PLNmn)	139.3	223.4	343.3	387.2	413.4
Net profit (PLNmn)	104.3	158.0	201.6	246.4	263.1
EPS (PLN)	7.8	11.8	14.5	17.2	18.4
CEPS (PLN)	9.9	15.3	18.9	22.0	23.8
BVPS (PLN)	55.9	75.3	98.1	115.4	133.8
P/E (x)	39.5	16.7	15.0	12.6	11.8
P/CE (x)	31.0	12.8	11.5	9.9	9.1
P/BV (x)	5.5	2.6	2.2	1.9	1.6
EV/EBITDA (x)	26.4	12.5	9.1	7.6	6.6
EV/Sales (x)	3.2	1.6	1.2	1.0	0.9
ROIC (%)	14.3	16.2	17.1	17.1	17.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

2007-2008 multiples calculated on year-end prices

Source: PBG, UniCredit Research

**Hold (prev. Hold)**

Price on 13 July 2009	PLN 218.00
Target price (prev. PLN 242.00)	PLN 229.00
Upside to TP	5.0%
Cost of equity	12.4%
High/Low (12M) (PLN)	266.00/175.30

**INVESTMENT HIGHLIGHTS**

Construction company specializing in oil & gas engineering and environmental construction  
 High exposure to expected EU transfers to Polish infrastructure projects

**STOCK TRIGGERS**

New significant contracts  
 Acquisitions

**STOCK DATA**

Reuters/Bloomberg	PBGG.WA/PBG.PW
Average daily volumes ('000)	32.9
Free float (%)	66.5
Market capitalization (PLNmn)	2,921.2
No. of shares in issue (mn)	13.4
Shareholders	Mr. J. Wisniewski 33.47%; ING Pension Fund 6.8%; BZ WBK AIB TFI 6.82%

**UPCOMING EVENTS**

1H 2009 results	31 August 2009
3Q 2009 results	16 November 2009


**STOCK PERFORMANCE (CHG. %)**

	1M	3M	6M
absolute	-4.0	1.0	8.0
rel. to MSCI EME	15.0	-2.8	-11.1
rel. to MSCI Poland	5.6	-8.1	-2.6

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**Comment on 2Q 2009 results preview:** We expect PBG to report rather uninspiring 2Q results, with an 8% yoy decline on the operating level, despite a stronger top line, and only flat yoy earnings. On the top line, we expect revenues to grow 20% yoy to PLN 623mn. On the operating level, we expect EBIT of PLN 59.3mn, down 8% yoy, on the back of a 2.5-percentage-point yoy deterioration in the gross margin. We assume a rather weak gross margin of 14% due to the following: 1) higher gross margin-generating contracts in oil & gas construction (LMG and Wierzchowice) are to be fully implemented only in 2H 2009; and 2) we assume gross profitability in environmental construction (which should account for the majority of revenues in 1H 2009, according to the company) to deteriorate yoy due to increased competition. We expect net profit to be only flat yoy at PLN 36.5mn.

#### PBG: 2Q 2009 RESULTS PREVIEW

PLNmn	2Q 2009E	2Q 2008	yoy, %	1H 2009E	1H 2008	yoy, %
Sales	623.4	519.5	20	973	827	18
EBIT	59.3	64.3	-8	94.1	84.9	11
<b>Net profit</b>	<b>36.5</b>	<b>35.1</b>	<b>4</b>	<b>59.8</b>	<b>50.0</b>	<b>20</b>
Gross margin (%)	14.0	16.5	-	15.2	15.3	-
EBIT margin (%)	9.5	12.4	-	9.7	10.3	-
Net margin (%)	5.9	6.8	-	6.1	6.0	-

Source: PBG, UniCredit Research

#### PBG: EARNINGS REVISION

PLNmn	2009E			2010E			2011E
	New	Old	Chg. %	New	Old	Chg. %	New
Sales	3,029	3,161	-4	3,425	3,591	-5	3,727
EBIT	343	366	-6	387	389	0	413
Net profit	202	217	-7	246	248	0	263

Source: UniCredit Research

#### PBG: KEY RATIOS

	2006	2007	2008	2009E	2010E	2011E
EBITDA margin (%)	13.1	11.9	12.9	13.3	13.3	13.2
EBIT margin (%)	10.7	9.9	10.7	11.3	11.3	11.1
Net debt/equity (%)	90.9	42.0	74.3	46.0	21.2	7.5
Current ratio (x)	1.5	1.4	1.4	1.6	1.7	1.8
Debtors turnover (x)	1.7	1.8	1.7	1.7	1.7	1.7
ROE (%)	19.2	18.7	17.9	16.7	16.1	14.8
ROCE (%)	8.4	9.5	9.5	9.4	10.6	11.0

Source: PBG, UniCredit Research

#### PBG: EARNINGS STATEMENT

PLNmn	2006	2007	2008	2009E	2010E	2011E
<b>Net revenues</b>	<b>674.3</b>	<b>1,407</b>	<b>2,089</b>	<b>3,029</b>	<b>3,425</b>	<b>3,727</b>
COGS	558.2	1,192	1,751	2,534	2,868	3,128
<b>Gross profit</b>	<b>116.1</b>	<b>215.0</b>	<b>338.1</b>	<b>494.9</b>	<b>557.8</b>	<b>599.4</b>
SG&A	54.2	81.5	106.8	154.9	175.2	190.6
Other operating items	10.0	5.9	-7.8	3.3	4.7	4.6
<b>EBITDA</b>	<b>88.5</b>	<b>168.1</b>	<b>270.3</b>	<b>404.0</b>	<b>456.0</b>	<b>490.9</b>
Depreciation	16.6	28.8	46.8	60.7	68.8	77.5
<b>EBIT</b>	<b>72.0</b>	<b>139.3</b>	<b>223.4</b>	<b>343.3</b>	<b>387.2</b>	<b>413.4</b>
Net financials	2.0	-7.0	9.9	44.6	33.4	20.1
<b>Pre-tax profit</b>	<b>69.9</b>	<b>146.4</b>	<b>213.5</b>	<b>298.8</b>	<b>353.9</b>	<b>393.3</b>
Tax	15.0	26.7	25.8	56.8	67.2	74.7
Minorities/associates	-2.7	-15.4	-29.7	-40.4	-40.3	-55.5
<b>Net profit</b>	<b>52.2</b>	<b>104.3</b>	<b>158.0</b>	<b>201.6</b>	<b>246.4</b>	<b>263.1</b>
EPS (PLN)	4.3	7.8	11.8	14.5	17.2	18.4

Source: PBG, UniCredit Research

#### PBG: CASH FLOW

PLNmn	2006	2007	2008	2009E	2010E	2011E
Net profit	52.2	104.3	158.0	201.6	246.4	263.1
Depreciation	16.6	28.8	46.8	60.7	68.8	77.5
Other non-cash	151.3	-26.1	-38.8	-5.6	-2.4	-1.8
Cash earnings	220.1	107.0	166.1	256.7	312.8	338.8
Change in WC	-306.6	-232.3	-408.9	-324.9	-10.2	-122.9
Capex	-106.2	-77.7	-152.9	-100.6	-68.5	-70.8
Free cash flow	-192.7	-202.9	-395.7	-168.7	234.1	145.1
Chg. in investment	-34.3	-79.8	-211.9	62.3	26.3	20.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0
New capital (debt)	196.4	641.7	487.0	212.4	-65.1	40.7
Chg. in liquid funds	-30.5	359.0	-120.6	106.0	195.4	205.9

Source: PBG, UniCredit Research

#### PBG: BALANCE SHEET

PLNmn	2006	2007	2008	2009E	2010E	2011E
Fixed assets	372.4	713.1	869.9	909.8	909.5	902.8
Working capital	435.8	665.4	1,081	1,415	1,429	1,555
Capital employed	808.2	1,379	1,951	2,325	2,339	2,458
Shareholders equity	367.2	750.7	1,011	1,403	1,649	1,912
Net debt (cash)	333.9	314.9	751.2	645.3	349.9	144.0
Other liabilities	122.2	376.2	292.6	380.8	444	506
<b>Total assets</b>	<b>1,045</b>	<b>2,259</b>	<b>2,857</b>	<b>3,568</b>	<b>3,874</b>	<b>4,273</b>

Source: PBG, UniCredit Research