

# PBG

# Hold

Unchanged

Price: PLN 222.5

Price Target: PLN 227.9

(From PLN 234)

## At the cross-roads

We maintain our HOLD recommendation on PBG, setting our price target at PLN 227.9 (from PLN 234), giving 2% upside potential. PBG is currently trading at its usual premium to its Polish construction peers on both P/E and EV/EBITDA due to its above-average profitability. The recently-signed agreement with Spanish OHL puts PBG at a cross-roads and makes the investment story doubly interesting, in our opinion. We believe the likelihood of the success of the deal is significant. However, because there has been no final decision from OHL, in this report, we have approached PBG as running in its current shape. From this point of view, we believe the investment story looks relatively good. With its historically highest backlog, PBG has already secured its future top line, while exposure to the oil&gas segment (and the LNG contract) will help to defend margins that, in our opinion, should remain at an above-average level compared with its domestic peers.

### Expected Events

Finish of OHL deal	1Q, 2011
4Q10 results	Feb, 2011

### Key Data

Market Cap	EUR 793 mil
Free Float	46 %
Shares outstanding	14.3 mil
Average daily volume	EUR 2.7 mil
Majority Shareholder:	Jerzy Wisniewski (45.7%)
Bloomberg Code	PBG PW
Ex. Rate (EUR/PLN)	4.01
WIG20 Index	2,747

We believe there is a significant chance that the deal with OHL will succeed. In this report, we also present a case study on the possibility, and implications, of PBG selling Hydrobudowa and Aprivia. Despite the de-consolidation, which would naturally hamper the revenue base, we see more benefits than losses. Firstly, the sale of HBP and Aprivia would improve the company's margins as these businesses are margin dilutive. Secondly, the transaction would remove PLN 452 mil of debt from the balance sheet and visibly improve the cash position required for further organic and M&A growth. Thirdly, the strategic alliance with OHL would strengthen competencies in the infrastructure segment and would enable PBG to develop in new segments, such as road concessions or railway-track construction, where OHL has strong know-how and references. Although the deal is still not complete, the co-operation seems to be working already. PBG is currently running, together with OHL, in the pre-qualification phase of a tender worth around PLN 5 bil in total and there are more in the preparation phase.

The outcome of the OHL deal is the main issue to watch for in the mid-term, in our opinion. We also believe that any contract won in the energy segment could be a stock price booster.

### Price Performance

52-w range (PLN)	192-252
12M EUR Performance	3.8%
Relative 12M EUR Performance	-9.8%



	Sales (PLNm)	Net Profit (PLNm)	EPS (PLN)	EPS gr (%)	PER (x)	EV/EBITDA (x)	ROE (%)	ROA (%)	PEG (x)
2012E	3,603	262	18.3	-2%	12.2	7.9	13%	10%	2.5
2011E	3,509	266	18.6	23%	12.0	8.2	15%	9%	1.3
2010E	2,859	216	15.1	12%	14.7	11.8	15%	7%	1.3
2009	2,578	187	13.5	12%	16.5	11.3	16%	8%	1.0
2008	2,091	166	12.3	30%	18.1	14.1	20%	9%	1.0
2007	1,407	125	9.5	103%	23.4	21.1	22%	8%	

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