ING WHOLESALE BANKING

EQUITY MARKETS
Strategy

Poland

July 2008

Polish strategy

Storm clearing

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- We move from underweight to overweight for Polish equities in our EMEA universe
- Local redemptions are hindering a market recovery, but we expect a steady reduction in outflows in 2H08 and ultimately a market rebound in 4Q08 on valuation grounds
- In the current environment we prefer large caps. Our strongest conviction picks are Asseco, BRE, CEDC, Getin, GTC & KGHM
- Midcap stocks that we believe are undervalued and relatively resilient to earnings erosion are Astarta, Bomi, Kernel and PBG

Contents

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Executive summary

We view prolonged weakness in the Polish equity market as opportunity. Yes, the market is likely to suffer from local mutual funds redemptions and we expect PLN6.0bn in redemptions in 2H08, the majority in 3Q08. Yes, it is difficult to expect earnings surprises in an environment of rising interest rates, persistently appreciating currency and wage inflation in double-digit territory. Yes, growth will moderate to below 5% in 3Q08-1Q09 but even 4-5% growth in GDP is earnings enhancing and any analogy with the slowdown earlier in this decade is misleading.

In 2000-01 Polish inflation more than doubled in less than 18 months. The Central Bank raised interest rates from 13% in September 1999 to 19% by August 2000 and held them there into 2001 thus amplifying Poland's negative reaction to the global slowdown in 2001. Poland's GDP growth slumped from 6.6% YoY in 4Q99 to 0.4% by 4Q01. Polish equities peaked in March 2000: the WIG index fell 49% over the subsequent 18 months. Polish equities this time around have already fallen 45% in local currency terms from the peak, yet we don't believe the economy is likely to suffer the same fate.

This time around a soft landing is much more likely scenario. We believe the magnitude of the correction in the market is largely the function of local liquidity issues and is disproportionate to the damage that arguably a more challenging macro environment does to corporate earnings. Corporate earnings are growing and we believe that inflation will not spin out of control in Poland. Before the peak we expect just one 25bp increase in interest rates in 3Q08 to 6.25%.

Moreover, consensus is already overly bearish indicating just 5%/9% earnings growth for Poland in 2008F/09F and valuations are attractive. Our universe trades at a 2008F PER of 10.9x and 2009F PER of 9.7x. We forecast 7%/11% increase in earnings in 2008F/09F. Timing entry to market remains key and we would certainly not rush to buy the market but remain smart buyers on the dips. Our 12-month target value for the WIG20 is 2,994 and we expect a 23% return, of which the capital gain is 19% and the dividend return is 3.8%.

We prefer blue-chip companies over midcaps and our favourite picks are Asseco Poland, BRE, CEDC, Getin, GTC and KGHM.

In the midcap universe, we like Astarta, Bomi, Kernel and PBG, as we believe these stocks are not only undervalued but also are relatively resilient to erosion in earnings.

Finally, we point to the 'fallen angels' category of companies, where perhaps our conviction is lower but the valuation case is very tempting. In our view, Agora, Amrest, ComArch, Emperia, Kety, Lotos, PKN, Stalprodukt, Sygnity and TVN have all corrected far too much.

Our new actionable changes in ratings for major companies are the following. We raise Getin from Hold to **BUY** with a target price of PLN12.9. We upgrade PKN Orlen from Hold to **BUY** with a target price of PLN45.0. We downgrade Budimex from Hold to **SELL** with a target price of PLN59.8. We downgrade EM&F from Hold to **SELL** with a target price of PLN15.4 and we also downgrade LPP from Hold to **SELL** with a target price of PLN1,626.

Strategy

Time to return to Poland?

Time to return to Poland?

Reports suggest that Polish émigrés may already be returning to Poland. We would suggest that emerging market investors consider following them.

Poland's WIG index has fallen 45% in local currency terms

Poland's WIG index has fallen 45% in local currency terms over the past 12 months – almost as much as the 49% sell-off in the 2000-01 collapse. Mid-caps have underperformed, with the MIDWIG index down over 60% since its peak a year ago. Polish equities have even underperformed the Turkish market, despite a less risky macroeconomic backdrop; it is only the strength of the zloty which masks the extent of the market's weakness to the dollar- (or euro-) based investor.

We believe that local investors are causing an over-reaction on the market

We believe that local investors are causing an over-reaction on the market. Polish stocks no longer trade at a significant premium to regional or GEMs valuations; and – having just taken a fresh look at our Polish earnings models – we don't see particular downside in consensus earnings numbers (unless the external environment dramatically worsens). International investors are underweight, exports (which may well suffer from a strong currency and weak external environment) are less important to the Polish economy than for other regional peers; the private sector is less exposed to credit and while there is upside risk to interest rates in Poland, we think a repeat of the 2000-01 experience – when rates had to be hiked to 19%, causing a sharp economic slowdown – is unlikely.

We upgrade the market to overweight in an EMEA context

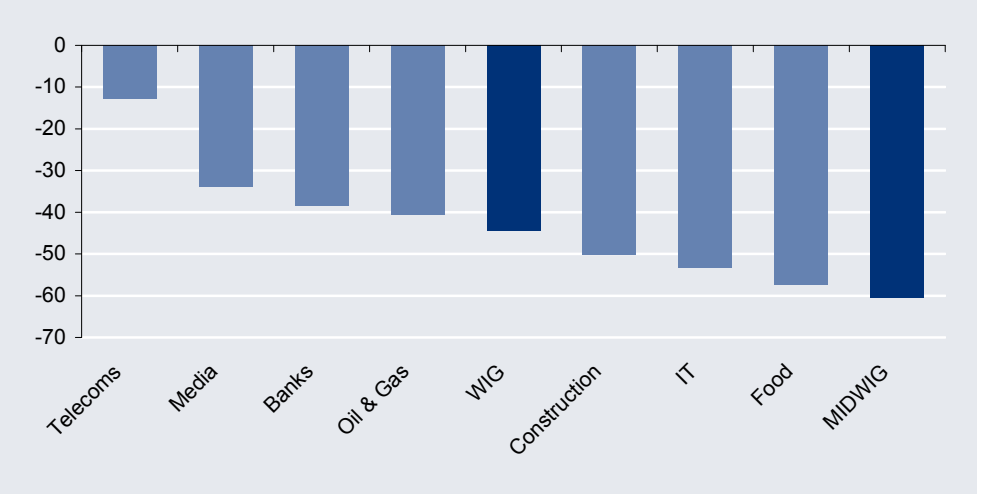
We upgrade the market to overweight in an EMEA context.

Seven arguments in favour of Poland

We identify seven reasons why investors should consider closing underweights in Poland

1. Poor performance of the market
2. Relative valuation now looks better
3. Local investor sentiment poor – market may be oversold
4. This is not 2000-01 (we think…)
5. International investors underweight
6. Less exposure to the credit crunch
7. Less exposure to a potential EU slowdown

Fig 1 WIG constituents – falls since market peak (06/07/07)



Source: Bloomberg

Focusing on domestic plays over industrials and exporters

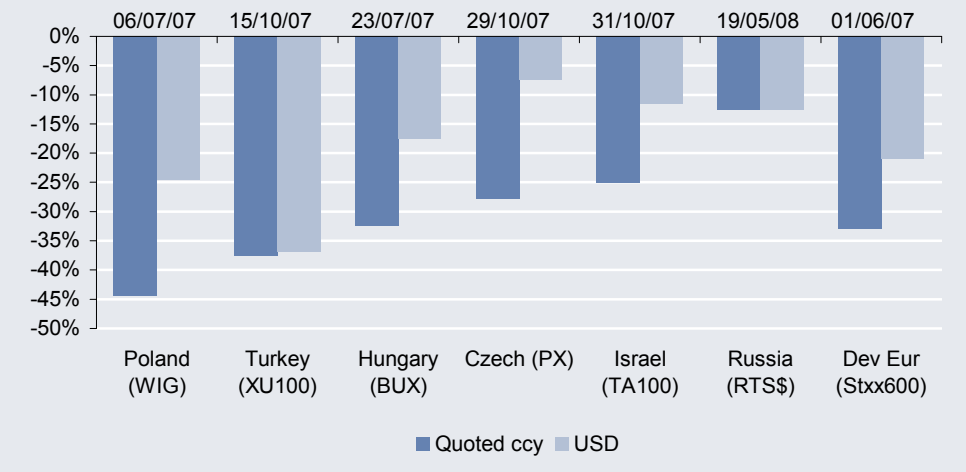
From a strategy perspective, we would focus on domestic plays over industrials and exporters. In terms of sectors, we would focus on consumer staples, beverages, and selected retail, media and IT. Telecoms remains defensive (but has significantly outperformed the market) and we would consider maintaining exposure to refining. While banks might bounce if we see a summer rally in global markets, we remain cautious over the coming months of the sector globally. We steer clear of construction and real estate for now.

Performance

1. Performance

Polish equities have had a torrid time of late, with the WIG index falling 45% from its peak a year ago. This is even worse than the Turkish market, which has fallen 38% since its October peak. The MIDWIG index has performed even worse: down over 60% from its peak.

Fig 2 Market performance since local currency peak (date shown)

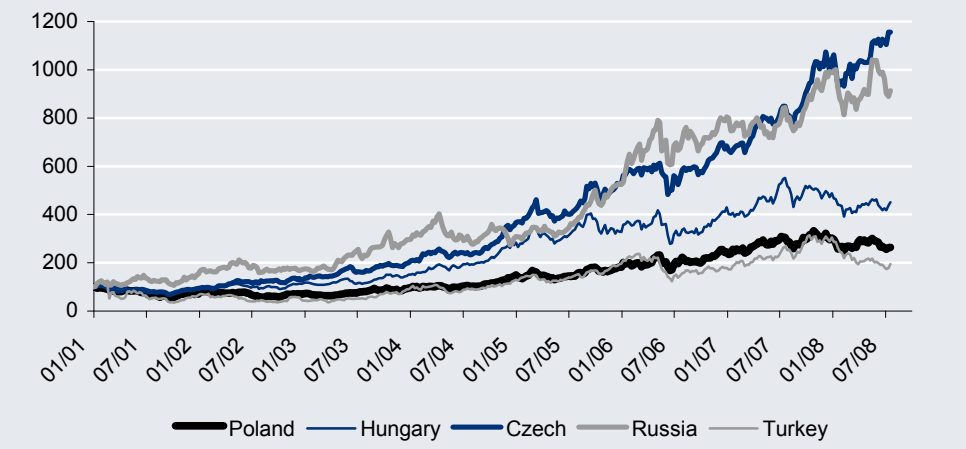


Source: Bloomberg

It is only currency strength that has masked the extent of the sell-off to the dollar or euro based investor. However, we think the currency's recent strength is sustainable: our economists believe the zloty to be in an appreciation trend which could see another 5-8% by year end. Our PPP analysis (see the most recent *Directional Economics*, page 50) suggests that Poland continues to have the cheapest currency in central Europe.

The long-term performance of Polish equities isn't much better: MSCI Poland has been a massive underperformer over the last seven years:

Fig 3 MSCI Indices (rebased, US$)

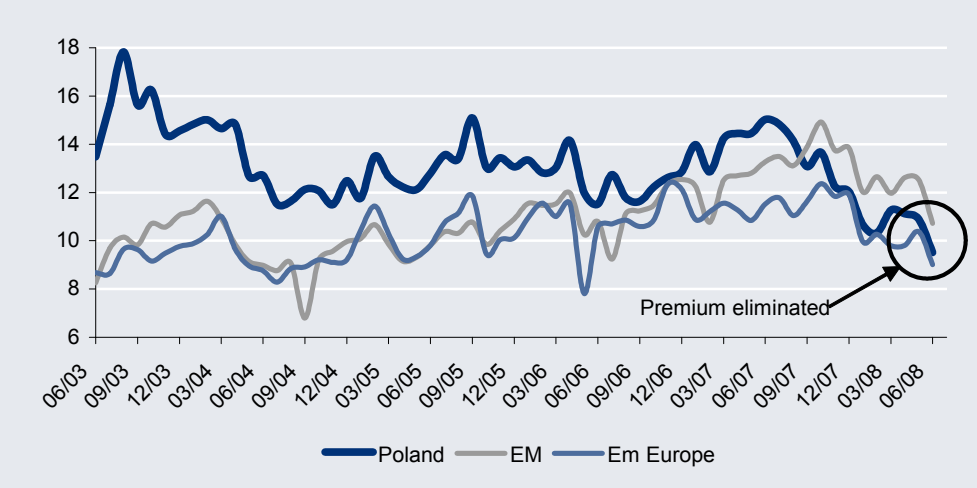


Source: Bloomberg

Relative valuation now looks better

2. Relative valuation now looks better

Fig 4 Elimination of the premium (12m FWD PER)



Source: Bloomberg, ING estimates

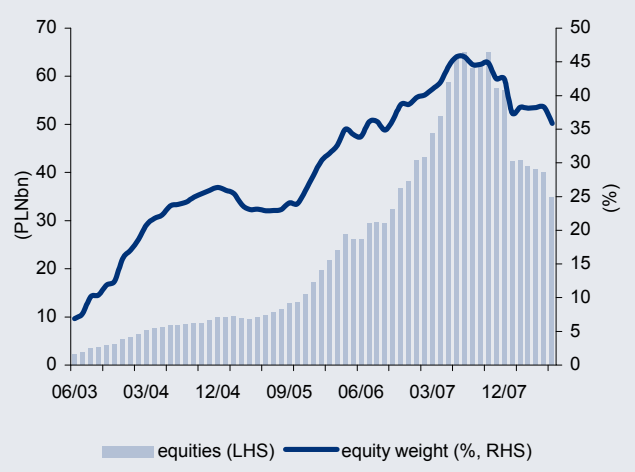
One of the arguments against the Polish market has always been the relative valuation of Polish equities versus regional peers. With the recent positive re-rating in Russia, and the sell-off in Poland, this is no longer the case. Polish equities now trade in-line with their emerging market peers – and though we don't see much scope for upgrades in Poland (Russia could see earnings upgrades), having taken a fresh look at our Polish estimates, we don't see particular downside risk to consensus earnings in Poland (unless the external environment dramatically worsens).

Local investor sentiment poor – market may be oversold

3. Local investor sentiment poor – market may be oversold

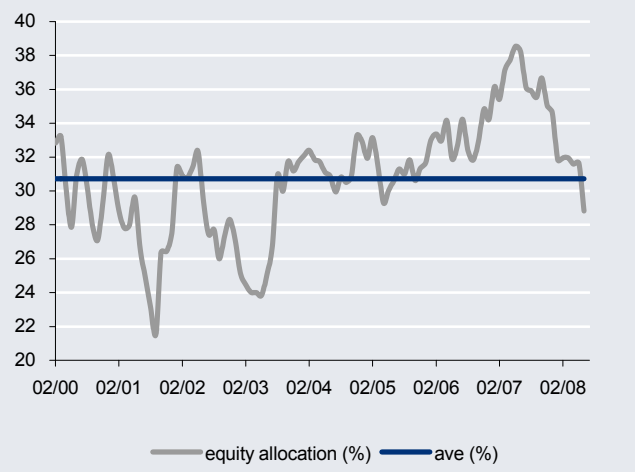
Polish investors have been spooked by fears of an economic slowdown/inflation scare, and have sold holdings aggressively. The strong influence of domestic institutions (mutual funds, pension funds) on the market is tending to make the market overshoot as investors redeem portfolios and as institutions (which tend to be benchmarked against one another) reduce their equity exposure. Mutual fund holders who have switched assets out of bank accounts have also lost confidence versus their personal (cash) benchmarks.

Fig 5 Equity allocation in mutual funds



Source: National sources, ING estimates

Fig 6 Equity allocation in pension funds



Source: National sources, ING estimates

Pension funds have reduced their exposure to equities, and are currently 28.8% weighted (approaching the all-time low level of 22% at the depths of the 2000-01 collapse), and well below the peak of 38.6% seen in May 2007 (near the regulatory maximum of 40%).

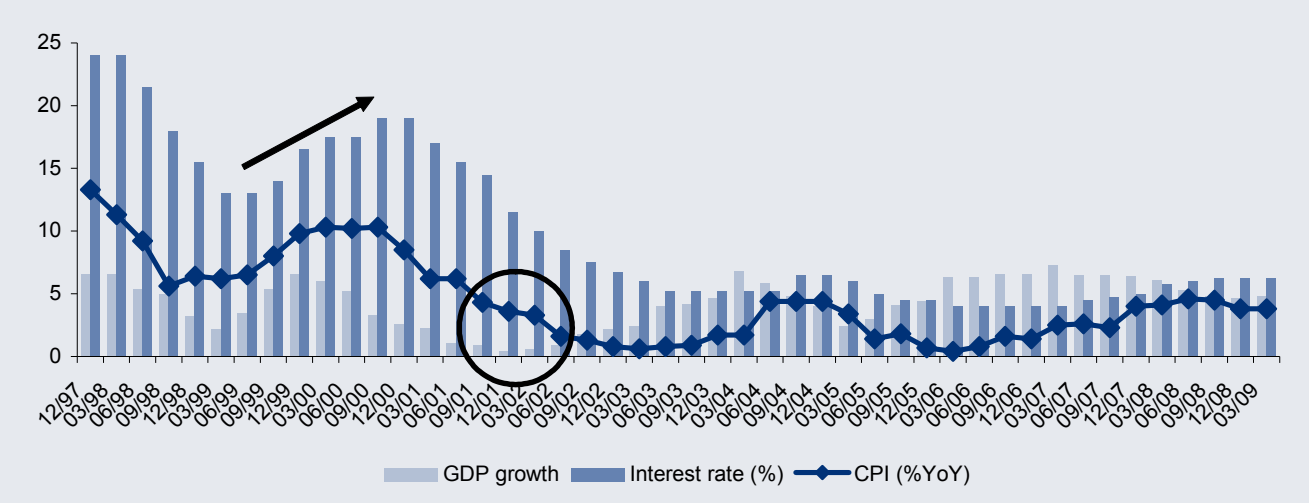
Mutual funds saw PLN19bn of outflows in 1H08 – we believe there is scope for further outflows in 2H08, but that the rate of outflows should slow – we have pencilled in another PLN6bn over the remainder of 2008 (mainly in 3Q08). Equity funds' holdings of equities have fallen from 45.8% a year ago to 35.8% now.

This is not 2000-01 (we think…)

4. This is not 2000-01 (we think…)

Polish investors have been spooked by the prospect of an economic slowdown/inflation scare along the lines of what happened in Poland in 2000-01, when Polish inflation more than doubled in less than 18 months, from 5.6% YoY in February 1999 to 11.6% by July 2000 – resulting in the central bank applying the brakes, hiking rates from 13% in September 1999 to 19% by August 2000 and holding them there in to 2001, thus amplifying Poland's negative reaction to the global slowdown in 2001 (Poland's GDP growth slumped from 6.6% YoY in 4Q99 to 0.4% by 4Q01).

Fig 7 Poland – 2001 was not a good year



Source: National sources, ING estimates

Polish equities peaked in March 2000: the WIG index fell 49% over the subsequent 18 months. Polish equities this time around have *already* fallen 45% in local currency terms, yet we don't believe the economy is likely to suffer the same fate.

Polish GDP is growing at a healthy rate: 6.1% YoY in 1Q08. The Polish central bank started raising rates from 4% in the spring of 2007; they are currently 6%, and we expect a further 25bp increase this year (the futures market is also suggesting a further 25bp in 1Q08) – though there is some upside risk for rates in Poland, the story is very different than 2000-01.

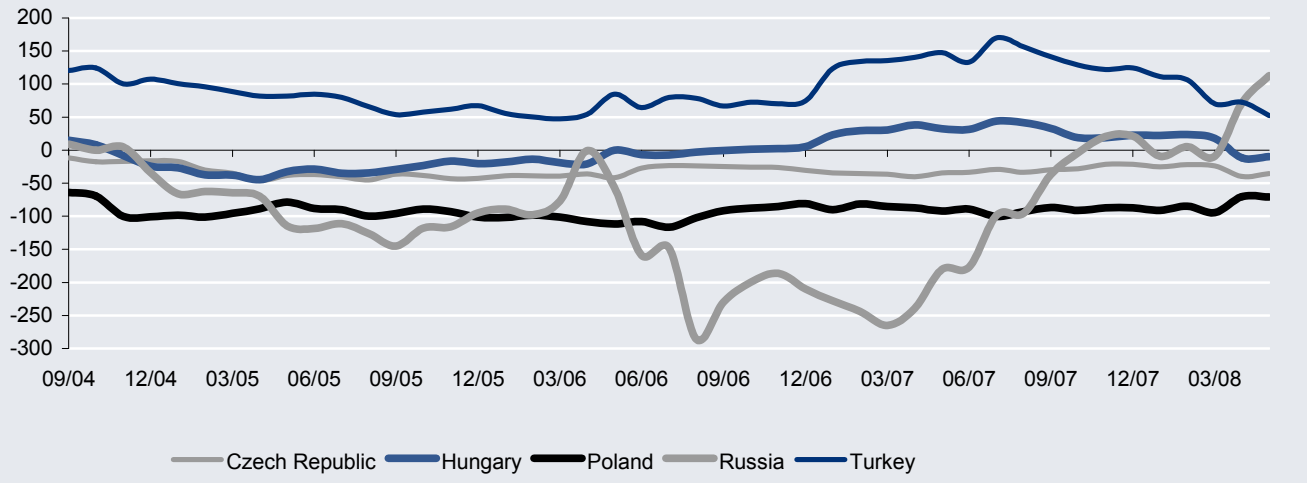
June inflation this year was 4.6% YoY, but we forecast it to come down to 3.8% by year end. We expect GDP growth to decline somewhat in the coming quarters, to 4.7% YoY in 4Q08 before starting to recover.

International investors underweight

5. International investors underweight

Investors have not been keen on the Polish market in recent years, complaining – among other things – primarily about valuations. GEMs investors remain underweight Poland (despite the recent sell-off). In fact, the most recent major move has been a slashing of the overweight in Turkey (as global financial risks have risen) in favour of Russia (as a safe macro, commodity exporter). If oil momentum turns, there is certainly scope for some reallocation of funds towards Poland.

Fig 8 International investors underweight Poland



Note: GEMS mutual fund investor aggregate positions benchmarked against MSCI EM index, with overweights (+) and underweights (-) expressed in basis points

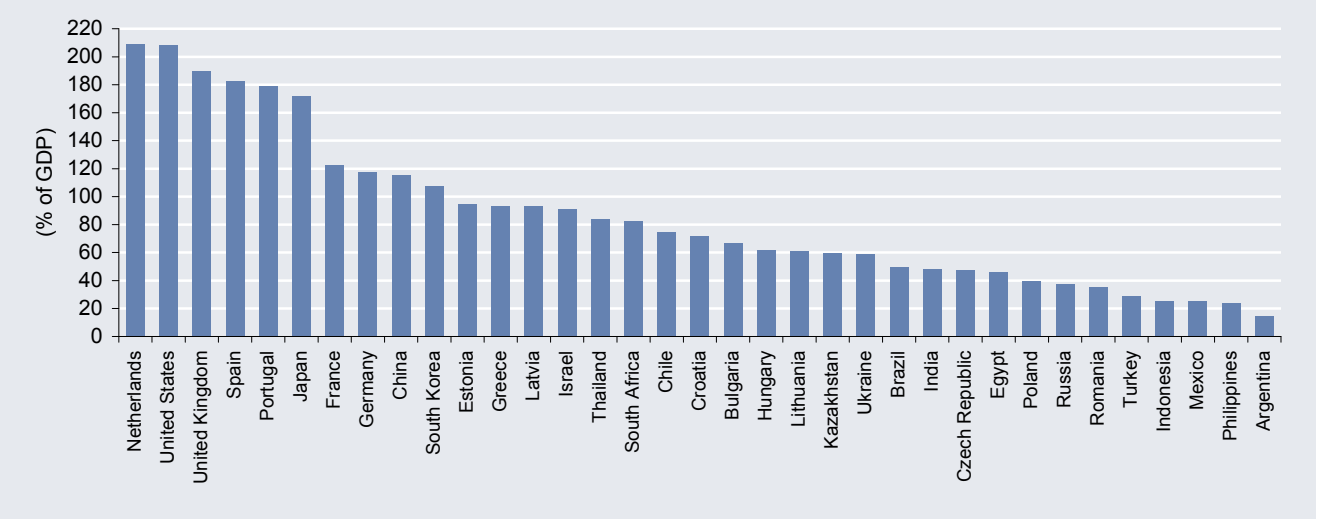
Source: EPFR, MSCI, Bloomberg, ING estimates

Less exposure to the credit crunch

6. Less exposure to the credit crunch

We believe that Poland may be less exposed than other regional emerging markets to the ongoing global financial stresses. Bank lending to the private sector in Poland is much lower than in other markets and growth rates have been more restrained in recent years than in other booming credit markets (see page 36 of the most recent *Directional Economics* for more details). Over two-thirds of the Polish banking sector is controlled by foreign strategic investors, and though many major global banks are suffering from tough financial conditions, we believe net-net such ownership provides additional stability to the financial sector.

Fig 9 Lending/GDP – households and corporates (2007)



Source: IMF, ING Directional Economics (page 31)

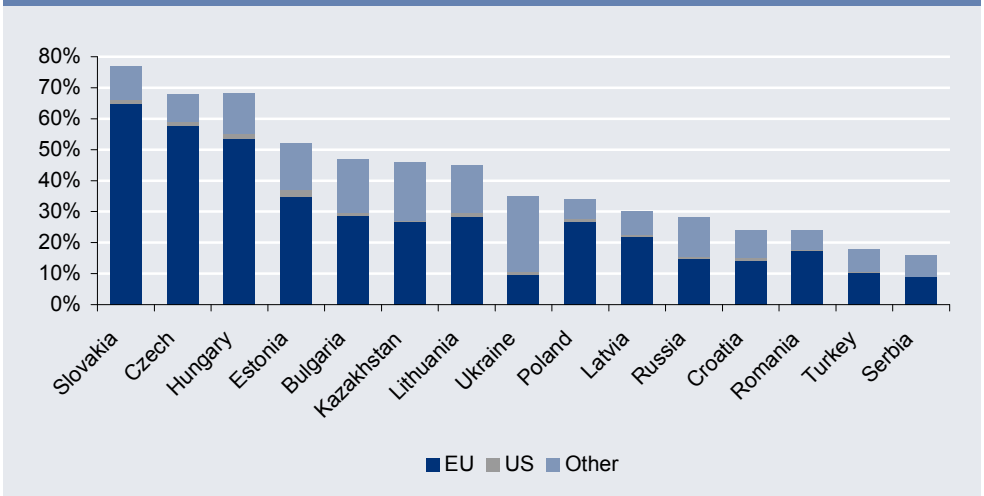
Less exposure to a potential EU slowdown

7. Less exposure to a potential EU slowdown

Partly as a result of its large relative size, Poland is a much more domestically focused economy than the Czech Republic, Hungary and Slovakia – that is to say, exports make up a much lower proportion of GDP.

We do expect exports to come under pressure from recent zloty strength and slowing growth in Western Europe; however, Poland should be relatively shielded compared with other countries in the region.

Fig 10 Export vulnerability (exports, %GDP)



Source: IMF, National sources, ING

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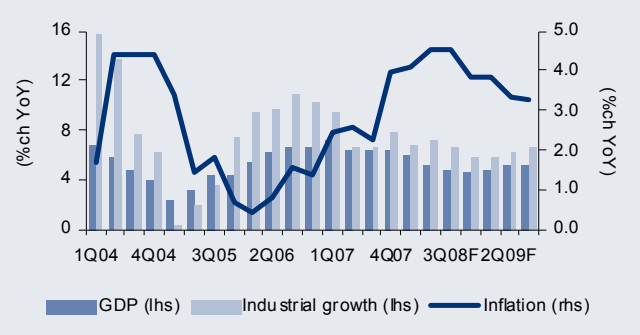
Market drivers and impact

Macro – supportive

The economic slowdown in Poland has been very gradual with 1Q GDP growth still above 6% and wage growth likely to exceed 10% until early 2009. We do forecast investments and exports moderating and headline GDP temporary heading below 5% YoY growth in 2H08/1Q09. Since 2Q09 we expect growth to accelerate on YoY comparison.

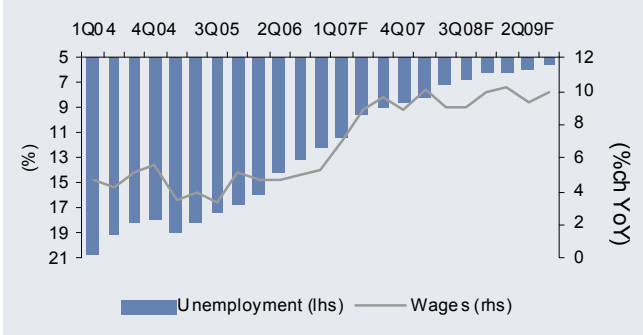
Following the weather-related surge in construction and investment in 1Q07, most analysts were expecting an equivalent YoY slowdown in early in 2008. But favourable weather, the acceleration of EU-funded infrastructure spending and surging wages and employment supported domestic demand growth and overall GDP expansion of 6.1% in 1Q08. This indicates that an eventual slowdown will be led by net exports, hit by the strengthening zloty, increasing labour costs and slowing external demand. The labour market remains tight, but the wave of emigration seems to be reversing, hopefully increasing non-inflationary growth potential while strengthening spending power at the same time.

Fig 11 Activity and inflation



Source: ING estimates, Main Statistical Office

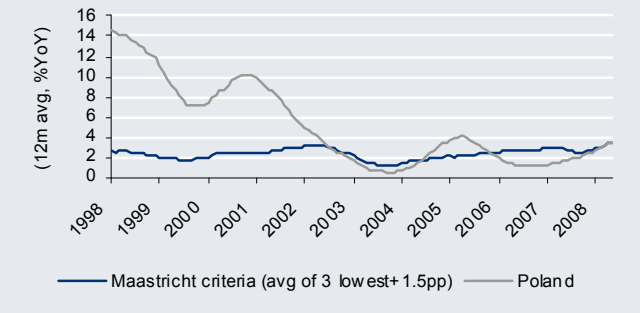
Fig 12 Employment and wages



Source: ING estimates, Main Statistical Office

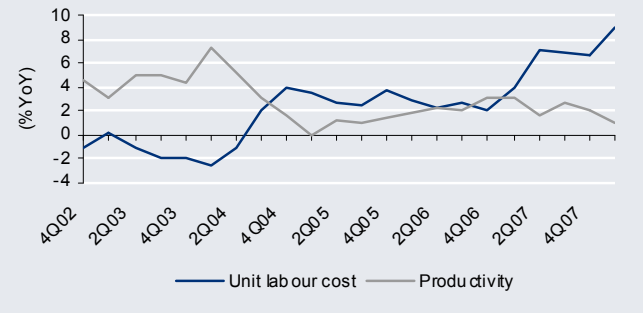
In 2Q08 Polish inflation was at the 3.6% ceiling of the Maastricht threshold. While CPI may temporarily exceed the reference level in 2H08, it should return below it in 2009. The current government seems more determined to curb spending and reach a general government deficit of 1% in 2011 (the 2009 budget is consistent with this). There is a risk of a slowdown or second-round inflation problems, but we think the biggest risk is on the political side.

Fig 13 CPI



Source: Central Bank

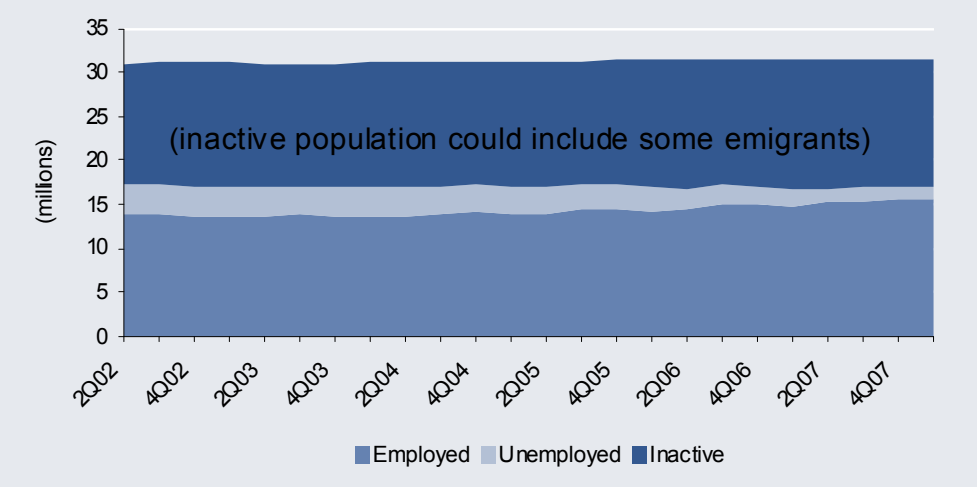
Fig 14 Unit labour cost and productivity gains



Source: Central Bank

The post-2004 EU accession emigration wave not only brought hope and income, but also drove down unemployment from 20% to 10% in four years. Anecdotal evidence (on which we have often relied in the integrated EU labour market) points to the wave of emigration reversing. According to Interactive Marketing Research Organisation, half of UK immigrants have returned to Poland. An economic slowdown (in the construction sector in particular) in the main Western European destinations, sterling-denominated wage growth exceeding 35% in Poland in the last year alone, have done a better job at luring back the young, now experienced Poles. The returns raise hopes of not only increasing potential, non-inflationary growth (via the higher supply of workers, often well educated and with newly acquired skills), but they could also contribute to short-term PLN strengthening. While the steady flow of remittances was supporting consumption and depressing €/PLN, the emigrants returning with their sterling or euro savings (and exchanging them back with frustration into PLN) can have an even bigger impact, at least in the short run.

Fig 15 Working-age population



Source: Central Bank

Fig 16 Poland: Key economic forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008F	2009F	2010F
Activity											
Real GDP (%YoY)	4.3	1.2	1.4	3.9	5.3	3.6	6.1	6.7	5.2	5.1	4.9
Private consumption (%YoY)	3.1	2.3	3.4	2.0	4.4	2.0	5.0	5.0	5.8	5.5	5.5
Government consumption (%YoY)	2.1	2.7	1.4	4.9	3.1	5.2	3.9	5.8	2.2	2.2	3.5
Investment (%YoY)	2.7	-9.7	-6.3	-0.1	6.4	6.5	16.5	17.6	13.3	9.8	10.0
Industrial production (%YoY)	7.8	0.6	1.4	8.6	13.1	4.1	12.0	9.7	8.2	7.5	8.5
Unemployment year-end (%) (new methodology from 2001)	15.0	19.4	20.0	20.0	19.0	17.6	14.9	11.4	8.7	8.0	7.8
Nominal GDP (PLNbn)	744	780	809	843	925	983	1,060	1,168	1,270	1,448	1,569
Nominal GDP (€bn)	176	195	221	218	208	218	272	309	379	454	492
Nominal GDP (US$bn)	186	179	209	247	259	271	342	423	589	671	668
GDP per capita (US$)	4,859	4,680	5,169	5,419	6,213	7,076	8,980	11,098	15,720	16,576	16,227
Gross domestic saving (% of GDP)	19.4	18.1	16.2	17.2	19.0	19.8	20.6	21.1	24.0	24.5	24.8
Prices											
CPI (average %YoY)	10.1	5.5	1.9	0.8	3.5	2.1	1.0	2.5	3.8	3.5	2.6
CPI (end-year %YoY)	8.5	3.6	0.8	1.7	4.4	0.7	1.4	4.0	3.8	3.5	2.3
PPI (average %YoY)	7.9	1.7	1.1	2.6	7.0	0.7	2.3	2.3	3.4	3.4	2.6
Wage rates (%YoY, nominal)	11.8	7.1	3.5	2.6	4.3	3.2	5.0	9.1	11.3	9.8	7.0
Unit wage costs (%YoY)	-9.9	-0.5	1.0	-7.6	-13.0	0.5	-6.4	-0.5	2.0	1.1	-1.8
Fiscal balance (% of GDP)											
Consolidated government balance (ESA 95 from 2000)	-3.0	-5.1	-5.0	-6.3	-5.7	-4.3	-3.8	-2.1	-2.9	-2.6	-2.6
Consolidated primary balance	1.4	-0.7	-0.4	-1.9	-1.3	-1.5	-0.4	-0.3	-0.5	-0.7	-0.2
Total public debt (ESA 95 from 2000)	36.8	37.6	42.2	47.1	45.7	47.1	47.8	47.1	48.0	49.1	49.5
External balance											
Exports (US$bn)	35.9	41.7	46.7	61.0	81.9	96.4	117	145	185	200	214
Imports (US$bn)	48.2	49.3	54.0	66.7	87.5	99.2	124	161	214	234	255
Trade balance (US$bn)	-12.3	-7.7	-7.2	-5.7	-5.6	-2.8	-7.0	-15.6	-29.4	-33.8	-40.9
Trade balance (% of GDP)	-6.6	-4.3	-3.5	-2.3	-2.2	-1.0	-2.1	-3.7	-5.0	-5.0	-6.1
Current account balance (US$bn)	-10.0	-5.4	-5.0	-4.6	-10.7	-4.8	-11.1	-15.8	-31.3	-34.3	-35.9
Current account balance (% of GDP)	-5.4	-3.0	-2.4	-1.9	-4.1	-1.8	-3.2	-3.7	-5.3	-5.1	-5.4
Net FDI (US$bn)	9.3	5.8	3.9	4.3	12.3	7.0	10.0	14.2	14.0	11.8	14.2
Net FDI (% of GDP)	5.0	3.2	1.9	1.7	4.7	2.6	2.9	3.4	2.4	1.8	2.1
Current account balance plus FDI (% of GDP)	-0.4	0.2	-0.5	-0.1	0.6	0.8	-0.3	-0.4	-2.9	-3.4	-3.3
Export volume (%YoY)	28.6	18.2	7.6	16.5	28.0	18.0	20.5	17.5	19.3	8.0	7.0
Import volume (%YoY)	15.9	4.5	4.8	9.5	24.9	13.6	24.1	23.1	25.2	9.0	9.0
Foreign exchange reserves (ex gold, US$bn)	26.6	25.6	28.7	32.6	35.3	40.9	46.4	63.0	58.7	62.2	63.1
Import cover (months of merchandise imports)	6.6	6.2	6.4	5.9	4.8	4.9	4.5	4.7	3.3	3.2	3.0
Debt indicators											
Gross external debt (US$bn)	69.5	72.0	84.9	107	130	133	169	230	276	326	391
Gross external debt (% of GDP)	37	40	41	43	50	49	50	54	47	49	59
Gross external debt (% of exports)	193	173	182	176	159	138	144	158	149	163	183
Total debt service (US$bn)	3.1	3.6	3.2	3.6	4.1	4.2	5.3	6.7	7.8	9.8	12.5
Total debt service (% of GDP)	2	2	2	1	2	2	2	2	1	1	2
Total debt service (% of exports)	9	9	7	6	5	4	5	5	4	5	6
Interest & exchange rates											
Central bank key rate (%) year-end	19.00	11.50	6.75	5.25	6.50	4.50	4.00	5.00	6.25	6.25	5.00
Broad money supply (%YoY)	11.6	13.7	-2.1	5.8	9.4	10.3	16.0	13.4	14.0	13.0	10.0
3-month interest rate (t-bill avg %)	18.8	16.1	16.0	9.0	5.7	6.1	4.2	4.8	6.4	6.5	5.7
3-month interest rate spread over Euribor (ppt)	14.4	11.8	12.7	6.7	3.6	3.9	1.1	0.5	1.5	2.5	1.6
2-year yield (avg %)	17.2	13.4	7.8	5.5	7.0	4.9	4.6	5.1	6.5	6.3	4.8
10-year yield (avg %)	11.73	10.73	7.19	5.72	6.99	5.17	5.08	5.55	6.18	5.99	5.37
Exchange rate (PLN/US$) year-end	4.14	3.99	3.84	3.74	2.99	3.26	2.91	2.44	2.07	2.21	2.38
Exchange rate (PLN/US$) annual average	4.00	4.36	3.86	3.42	3.58	3.63	3.10	2.76	2.16	2.16	2.35
Exchange rate (PLN/€) year-end	3.85	3.52	4.02	4.72	4.08	3.86	3.83	3.58	3.10	3.10	3.10
Exchange rate (PLN/€) annual average	4.24	4.00	3.65	3.87	4.45	4.52	3.90	3.78	3.36	3.19	3.19

Source: ING estimates

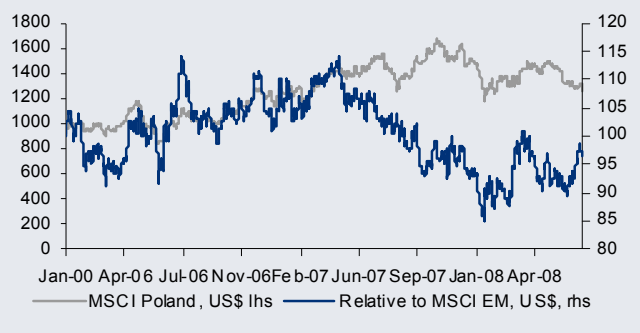
Interest rates – neutral

We expect one 25bp interest rates hike in 4Q08. Forward rate swap agreements market is pricing one 25bp interest rates hike in 1Q09. We believe rates should peak in 4Q08 as strong currency and already high real-interest rates should help to contain inflationary pressures. Timing of the cuts in interest rates is difficult to predict as we are still in the tightening cycle but our core scenario assumes interest rates cuts in 1H09 already.

Valuations and earnings expectations – supportive

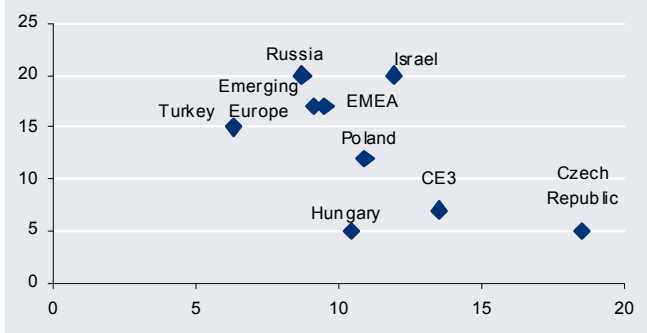
Our universe is trading at 10.9x 2008F PER and 9.7x 2009F PER. Excluding PKN, Lotos and PGNIG we see our universe trading at 2008F/09F PER of 12.2x and 10.3x respectively. We and the consensus could be wrong and too optimistic about the earnings growth but we are comfortable with our estimates at this point as we factored in more conservative assumption for a number of industries. Also, consensus is looking for just 5% growth for earnings and 1% for industrial companies which we do not think are particularly challenging expectations. In our view the market has been sceptical on expectations for the past couple of months already and much of the adjustments in prices came through; however, not all.

Fig 17 Poland vs GEMs



Source: MSCI, Bloomberg

Fig 18 2008F PER vs 3yr earnings growth



Source: ING estimates

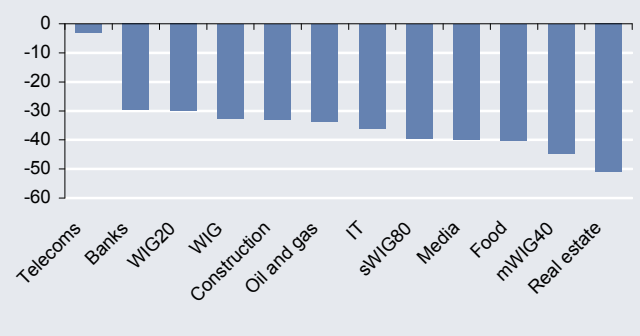
Funds flows – negative

We expect PLN6bn of outflows from local mutual funds in 2H08 compared with an estimated PLN18.9bn in 1H08. Outflows will do some damage as market volumes declined severely but we expect flows to stabilise in 4Q08. Pension funds' allocation in equities is 28.8%. It was 24% in 2003 when the market hit the rocks and the record low was 22% after the September 11 attacks in 2001. Pension funds are not stepping because of what we believe is a noisy blast of comments on a severe slowdown impacting possible earnings downgrades. Our analysis indicate that selected smaller service sectors such as construction, media and general retailers are indeed prone to downgrades. However, we believe that consensus figures are already too pessimistic for the banks and for the market overall.

Sector and stock picks

WIG20 index is down 30% YTD and WIG index is down 33% and contrary to our earlier expectations indices fell through January lows. The differential between the performance of blue-chip shares and midcap stocks has widened in recent months. The WIG40 index is down 45% YTD.

Fig 19 Sector performance YTD



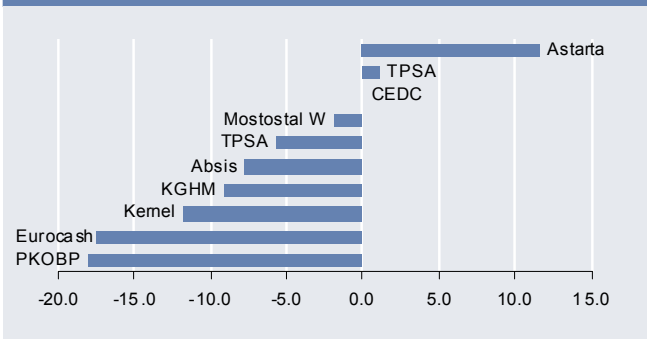
Source: WSE

Fig 20 WIG20 forward PER

Source: Bloomberg

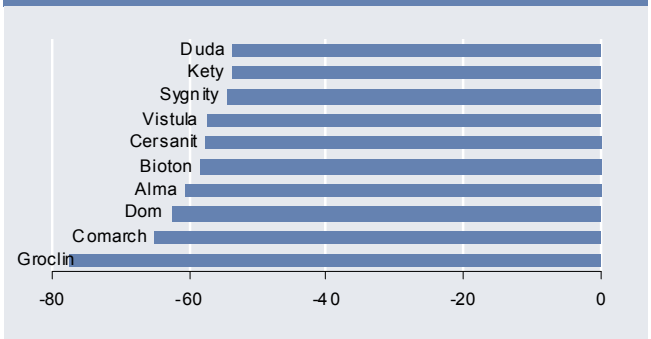
Telcoms and banks were the only outperforming sectors YTD still with negative 3%/30% returns, respectively. Real estate, food and media were the worst-performing sectors. The WIG20 index is currently trading at 9.9x consensus 2008 PER.

Fig 21 Best...



Source: ING

Fig 22 ...and worst performers YTD, div inc %



Source: ING

Fig 23 ING sector and stock picks (six month view)

Sector	ING stance	Favoured stocks	Least-favoured stocks
Banks	Neutral	Getin, BRE	Pekao SA
Oil & gas	Overweight	Lotos	
Telecoms	Overweight from Neutral	TPSA	Netia
Media and entertainment	Overweight	TVN	
Construction	Underweight from Neutral	PBG	Budimex, Polimex
Real-estate	Underweight	GTC	
General retailers	Underweight from Overweight	NG2	EM&F, LPP, V&W
Food retail	Overweight	Emperia, Bomi	Alma
Food and beverage	Overweight	Astarta, CEDC, Kernel	
Metal and mining	Overweight	KGHM, Stalprodukt	
IT	Overweight from Neutral	Asbis, Asseco Poland, Sygnity	ComArch
Automotive	Underweight from Overweight		Fota
Industrials	Underweight		Ciech

Source: Company data, ING estimates

We maintain a Neutral weighting for the banks. The are a few negative factors: cyclicality of the sector (when the macro outlook has more risks than opportunities); outperformance of the sector (although mild); general market consensus about a better 2H08 than 1H08, which create little space for positive surprises; HOLD ratings for Pekao and PKO BP that are responsible for two-thirds of sector weightings. However, at the same time Polish banks premiums versus regional peers fell to long-term lows, which should protect them from major underperformance. In this report we upgrade Getin from Hold to BUY as the price was affected too much by the problems of the main shareholder (which do not affect the fundamentals of the company).

We maintain our recommendation to Overweight the Polish IT sector. Trading on a 2008F PER of 11.9x and 2009F PER of 9.7x, we find the sector strongly undervalued in relation to the fundamentals and the forecast earnings growth. Asseco Poland, due to its strong cash flows, possibility of exceeding consensus numbers, high dividends paid and strong outlook for 2Q08, remains our top pick. We also believe that Sygnity could be an outperformer. Should management meet its target of BEP in 2Q08, the outlook would be for a strong turnaround. Although we find ComArch undervalued, we believe that the slow pace of profitability improvement is unlikely to generate positive sentiment towards the company in the second half.

We recommend to Underweight the Polish general retailers. The 2008F PER of 16.9x for the sector does not price in, in our opinion, a potential slowdown in private consumption and the potential, negative for gross profit margins, strengthening of US$ against the zloty, which may materialise in the upcoming months. We believe that NG2 could be the safest haven, as even though it has the strongest dependency on Polish consumption, due to a low base effect it should show strong earnings recovery. Other retailers are likely to face strong base effects and may suffer in the short term from consolidation actions conducted and growing pressure on costs.

Although WIG construction declined by 31% YTD – in line with the WIG index, it still trades at demanding valuations of 17x PER based on 2008F. We also believe that 2Q08 will not be supportive for construction companies as the results should come in weaker than expected. We have revised downwards our 2008/09F net profit forecasts for the majority of construction & building materials companies and believe that current market forecasts are still too optimistic. 2Q08 results for PBG and Polimex will in our view not be supportive given current valuations of the construction sector. We therefore believe that construction will underperform over the next six months. PBG is our top pick on a 12-month basis as we think the company will deliver a 32% CAGR in 2007-10F EPS. Polimex will lack triggers for growth as reported 1H08 net profit will constitute only 43% of 2008 net profit market consensus. We expect a strong 2Q08 for Budimex but would be sellers on a share price outperformance as we think that the turnaround in profitability is already priced in.

Changes in ratings and target prices

Fig 24 Changes to ratings and target prices

	Closing price (11/07/08)	Target price (PLN)	Upside/ downside (%)	Old target price (PLN)	Rating	Old rating	Dynamic	EPS growth (%) 2008F	2009F
ABG	5.1	7.9	55.8	7.9	Buy	Buy	Maintained	17.0	-
Agora	26.2	37.0	43.2	57.6	Buy	Buy	Maintained	24.8	8.9
Alma	57.5	52.0	-9.6	65	Sell	Sell	Maintained	-23.7	18.0
AmRest	72.0	124.0	72.2	138	Buy	Buy	Maintained	32.1	56.4
Asbis	8.1	10.3	28.7	11	Buy	Buy	Maintained	11.7	15.9
Asseco BS	10.4	15.2	46.6	15.1	Buy	Buy	Maintained	17.9	8.6
Asseco Poland	50.0	80.1	61.3	80	Buy	Buy	Maintained	46.0	12.4
Asseco Slovakia	28.4	33.2	19.5	33	Buy	Hold	Upgrade	41.0	8.1
Astarta	36.0	50.4	40.1	53.3	Buy	Buy	Maintained	16.6	30.6
Bomi	19.4	31.0	59.8	31	Buy	Buy	Maintained	58.5	29.7
BPH	68.0	71.2	4.7	99.1	Hold	Hold	Maintained	-	-41.9
BRE	350.1	483.2	38.0	483.4	Buy	Buy	Maintained	48.0	-14.5
Budimex	65.0	59.8	-7.7	89	Sell	Hold	Downgrade	321.5	64.0
BZ WBK	133.0	145.1	11.4	179.6	Hold	Hold	Maintained	2.1	20.2
CCI	23.2	27.8	19.8	27.8	Buy	Hold	Upgrade	22.4	26.9
CEDC (US$)	75.9	87.5	15.3	87.5	Buy	Buy	Maintained	76.5	43.9
Cersanit	14.5	15.8	9.0	34.7	Hold	Buy	Downgrade	-3.6	63.8
Ciech	64.0	63.6	2.7	89.8	Hold	Hold	Maintained	-10.1	0.6
ComArch	67.9	92.3	36.0	92	Buy	Hold	Upgrade	13.4	4.2
Comp Safe Support	59.1	97.0	64.2	96.7	Buy	Buy	Maintained	-17.5	17.7
Dom Development	35.0	37.0	12.2	67	Hold	Hold	Maintained	-9.1	-0.4
Duda	3.5	3.8	9.3	6.1	Hold	Hold	Maintained	11.5	11.9
Elstar	4.2	4.7	13.3	5.2	Hold	Sell	Upgrade	-	56.1
EM&F	16.3	15.4	-5.2	22	Sell	Hold	Downgrade	18.8	21.8
Emperia	95.0	156.0	65.2	175	Buy	Buy	Maintained	29.5	28.0
Eurocash	12.0	12.5	7.0	12.6	Hold	Hold	Maintained	38.0	30.8
Fota	15.3	13.7	-10.5	27.9	Sell	Buy	Downgrade	-22.4	91.0
Getin	8.8	12.9	46.3	15.6	Buy	Hold	Upgrade	-16.5	17.7
GTC	27.0	41.7	55.0	54.4	Buy	Buy	Maintained	-49.1	184.0
Handlowy	73.0	93.3	34.3	112.9	Buy	Buy	Maintained	2.5	18.8
Inter Cars	77.0	87.0	13.9	153.8	Hold	Buy	Downgrade	22.6	19.8
Kernel	30.0	45.0	50.0	45	Buy	Buy	Maintained	114.7	48.8
Kety	74.5	100.8	41.4	111.9	Buy	Hold	Upgrade	-6.7	11.8
KGHM	99.4	129.2	37.7	138	Buy	Buy	Maintained	-18.8	1.4
Lotos Group	27.6	47.9	79.0	47.9	Buy	Buy	Maintained	-7.9	-34.3
LPP	1,715.0	1,626.1	-5.2	2,223	Sell	Hold	Downgrade	27.0	17.7
Millenium	6.4	8.9	43.0	9.5	Buy	Buy	Maintained	9.9	24.0
Mostostal Warszawa	54.0	60.0	10.7	66.3	Hold	Buy	Downgrade	44.7	17.1
NG2	39.4	42.2	8.5	42	Hold	Hold	Maintained	62.1	29.2
PBG	215.1	260.0	22.5	350	Buy	Buy	Maintained	35.9	45.8
Pekao	155.0	167.7	14.4	211	Hold	Hold	Maintained	7.8	6.1
PGNiG	3.3	3.4	3.5	5	Hold	Hold	Maintained	46.0	22.0
PKN Orlen	37.3	45.0	25.2	45	Buy	Hold	Upgrade	-10.1	-23.0
PKO BP	44.6	46.6	6.8	47.2	Hold	Hold	Maintained	29.5	10.5
Polimex	5.3	5.0	-4.7	8.9	Hold	Hold	Maintained	16.7	22.6
Stalprodukt	530.0	660.6	26.9	958	Buy	Buy	Maintained	6.7	12.3
Sygnity	16.1	30.5	89.4	30.8	Buy	Buy	Maintained	-	132.3
TP SA	22.0	26.2	27.0	26.2	Buy	Buy	Maintained	9.3	12.4
TVN	16.4	22.8	42.8	24.8	Buy	Buy	Maintained	51.5	2.6
V&W	5.8	6.7	14.9	10.2	Hold	Hold	Maintained	15.8	17.3

Source: ING estimates

Where we are different

We are more bullish than consensus on banks, IT and real-estate companies. For banks we forecast 15% growth in earnings in 2008F vs consensus growth of 11% as we are more bullish than the market on PKO BP and BRE. We are less optimistic than the market consensus on earnings growth pace in media, construction, non-food retail and oil and gas sectors. We believe for media and construction companies the process of cuts in estimates has only started and has some way to go as the majority of brokers are behind the curve with their estimates. We expect deeper decline in earnings for the mining and metals sector than consensus in 2008F but we expect growth next year against again decline anticipated

by other brokers. For food and food retailers we are more bullish this year and less bullish than consensus next year. For real-estate companies we are significantly above the consensus for GTC, but believe it has flaws and is not very up-to-date.

Fig 25 ING vs. consenus estimates for net profit (PLNm)

		Consensus			ING forecast		ING vs consensus	ING vs consensus
	2006	2007	2008F	2009F	2008F	2009F	2008F (%)	2009F (%)
ABG	26	33	44	52	44	49	0	-6
Agora	32	100	117	145	123	129	5	-11
Alma	15	12	17	26	9	11	-47	-59
AmRest	39	49	49	71	64	100	30	41
Asseco BS	3	14	27	31	27	31		
Asseco Poland	53	146	254	319	271	340	7	7
Asseco Slovakia	17	30	42	47	45	53	7	13
Asbis	9	19	N/A	N/A	24	27		
Astarta	25	82	63	99	78	112	23	13
Bomi	10	17	40	65	55	72	37	11
Budimex	4	15	60	139	64	104	7	-25
BRE	421	710	1,016	986	1,051	898	3	-9
BZ WBK	758	955	1,010	1,175	975	1,172	-3	-0
CCI	46	63	62	79	68	84	10	6
CEDC	172	213	266	390	311	453	17	16
Cersanit	146	121	181	259	122	208	-33	-20
Ciech	196	240	244	315	216	217	-12	-31
ComArch	47	43	52	63	49	51	-6	-19
Comp Safe Support	11	21	N/A	N/A	26	31		
Dom Development	135	201	194	200	185	185	-5	-7
Duda	50	40	N/A	N/A	45	51		
Elstar Oils	8	(3)	22	42	13	20	-42	-52
Emperia	23	88	102	136	114	146	12	8
EM&F	51	71	95	129	84	103	-12	-20
Eurocash	42	59	87	113	82	107	-6	-5
Fota	12	8	N/A	N/A	6	12		
Lotos	680	777	588	353	716	470	22	33
Getin	160	626	562	714	523	676	-7	-5
GTC	761	886	207	597	439	1,233	113	106
Handlowy	657	824	878	1,012	844	1,003	-4	-1
Inter Cars	20	59	85	111	72	86	-15	-22
Kernel	4	54	143	186	133	202	-7	9
Kety	88	98	100	120	91	102	-9	-15
KGHM	3,386	3,799	3,144	2,702	3,084	3,128	-2	16
LPP	39	135	183	230	171	203	-7	-12
Millenium	301	462	523	630	507	629	-3	-0
Mostostal Warszawa	17	41	N/A	N/A	68	90		
NG2	53	53	86	111	87	112	1	1
PBG	54	102	155	218	140	204	-10	-6
Pekao	3,056	3,547	3,834	4,135	3,828	4,066	-0	-2
PGNiG	1,328	915	1,556	1,966	1,336	1,629	-14	-17
PKN	1,986	2,323	2,404	1,775	2,089	1,608	-13	-9
PKO BP	2,149	2,904	3,351	4,032	3,759	4,154	12	3
Polimex	60	100	138	181	126	157	-9	-14
Stalprodukt	274	350	361	503	374	419	3	-17
Sygnity	3	(66)	21	43	12	27	-44	-37
TP S.A.	2,094	2,273	2,365	2,465	2,485	2,794	5	13
TVN	259	243	390	439	370	381	-5	-13
V&W	6	61	38	49	31	37	-18	-24
Total earnings	**19,759**	**23,877**	**25,155**	**27,449**	**25,435**	**28,178**		
Total earnings growth, %		**21**	**5**	**9**	**7**	**11**		

Source: Company data, ING estimates

Fig 26 ING vs consensus banks

Net profit, PLNm	Consensus			ING Forecast		
	2007	2008F	2009F	2007	2008F	2009F
BRE	710	1,016	986	710	1,051	898
BZ WBK	955	1,010	1,175	955	975	1,172
Getin	626	562	714	626	523	676
Handlowy	824	878	1,012	824	844	1,003
Millennium	462	523	630	462	507	629
Pekao	3,547	3,834	4,135	3,547	3,828	4,066
PKO BP	2,904	3,351	4,032	2,904	3,759	4,154
Total earnings	**10,028**	**11,175**	**12,684**	**10,028**	**11,488**	**12,599**
%ch		11	14		15	10

Source: Company data, ING estimates

Fig 27 ING vs consensus construction

Net profit, PLNm	Consensus			ING forecast		
	2007	2008F	2009F	2007	2008F	2009F
Budimex	15	60	139	15	64	104
PBG	102	155	218	102	140	204
Polimex	100	138	181	100	126	157
Total earnings	**217**	**353**	**538**	**217**	**330**	**465**
%ch		63	53		52	41

Source: Company data, ING estimates

Fig 28 ING vs consensus food and food retailers

Net profit, PLNm	Consensus			ING forecast		
	2007	2008F	2009F	2007	2008F	2009F
Alma	12	17	26	12	9	11
AmRest	49	49	71	49	64	100
Astarta	82	63	99	82	78	112
Bomi	17	40	65	17	55	72
CEDC	213	266	390	213	311	453
Elstar	(3)	22	42	(3)	13	20
Emperia	88	102	136	88	114	146
Eurocash	59	87	113	59	82	107
Kernel	54	143	186	54	133	202
Total earnings	**570**	**789**	**1,126**	**570**	**859**	**1,223**
%ch		38	43		51	42

Source: Company data, ING estimates

Fig 29 ING vs consensus general retailers

Net profit, PLNm	Consensus			ING forecast		
	2007	2008F	2009F	2007	2008F	2009F
EM&F	71	95	129	71	84	103
LPP	135	183	230	135	171	203
NG2	53	86	111	53	87	112
V&W	61	38	49	61	31	37
Total earnings	**320**	**402**	**518**	**320**	**373**	**455**
%ch		26	29		17	22

Source: Company data, ING estimates

Fig 30 ING vs consensus IT

Net profit, PLNm	Consensus			ING forecast		
	2007	2008F	2009F	2007	2008F	2009F
ABG	32.8	43.8	merged	32.8	43.9	merged
Asseco BS	14	27	31	14	27	31
Asseco Poland	146	254	319	146	271	340
Asseco Slovakia	30	42	47	30	45	53
ComArch	43	52	63	43	49	51
Sygnity	(66)	21	43	(66)	12	27
Total earnings	**199**	**439**	**502**	**199**	**448**	**503**
Change, %		121	14		125	12

Source: Company data, ING estimates

Fig 31 ING vs consensus media

Net profit, PLNm	Consensus			ING forecast		
	2007	2008F	2009F	2007	2008F	2009F
Agora	100	117	145	100	123	129
CCI	63	62	79	63	68	84
TVN	243	390	439	243	370	381
Total earnings	**406**	**569**	**663**	**406**	**561**	**594**
%ch		40	17		38	6

Source: Company data, ING estimates

Fig 32 ING vs consensus metals and mining

Net profit, PLNm	Consensus			ING Forecast		
	2007	2008F	2009F	2007	2008F	2009F
Kety	98	100	120	98	91	102
KGHM	3,799	3,144	2,702	3,799	3,084	3,128
Stalprodukt	350	361	503	350	374	419
Total earnings	**4,247**	**3,605**	**3,325**	**4,247**	**3,549**	**3,650**
Change, %		-15	-8		-16	3

Source: Company data, ING estimates

Fig 33 ING vs consensus oil & gas

Net profit, PLNm	Consensus			ING forecast		
	2007	2008F	2009F	2007	2008F	2009F
Lotos	777	588	353	777	716	470
PGNiG	915	1,556	1,966	915	1,336	1,629
PKN	2,323	2,404	1,775	2,323	2,089	1,608
Total earnings	**4,015**	**4,548**	**4,094**	**4,015**	**4,140**	**3,708**
%ch		13	(10)		3	(10)

Source: Company data, ING estimates

Fig 34 ING vs consensus real estate

Net profit, PLNm	Consensus			ING forecast		
	2007	2008F	2009F	2007	2008F	2009F
Dom Development	201	194	200	201	185	185
GTC	886	207	597	886	439	1,233
Total earnings	**1,087**	**400**	**797**	**1,087**	**624**	**1,418**
%ch		(63)	99		(43)	127

Source: Company data, ING estimates

Banks

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Banks

Fundamental highlights for Polish banking sector:

- Mutual fund redemptions are larger than expected. At the moment, it seems that there is no major chance for revival of trust (and some inflows) in 2H08, which we had expected at the start of the year. In June, AUM of Polish mutual funds fell 30% YoY and reached their lowest level since November 2006
- What is worse for banks is that the structure of funds is changing: clients move funds from equity to bond funds, which are much less profitable
- Other revenues from capital markets are also under severe threat because IPOs are delayed or cancelled, and secondary revenues from equity trading are shrinking (in 1H08 equity turnover fell 30% YoY and June was the weakest month since July 2006)
- Money from mutual funds goes to deposits and structured products (bancassurance) and these segments are performing quite well
- After a weak start to the year, the mortgage lending rebounded and this is definitely a positive surprise. YoY growth rates are falling but it is largely the effect of higher base: in the January-May 2008 period outstanding mortgage loans grew by PLN15.4bn versus PLN15.0bn in the corresponding period for 2007
- Owing to changes in interest rates, customer preferences move from PLN to FX again. While a year ago the share of PLN mortgage loans in total sales was around 50%, now it is c.60-70%.
- The growth of domestic demand will likely boost sales of cards, cash loans and bancassurance, which will become new drivers.
- Another positive surprise is provisioning costs and quality of lending. Most banks report that they see no major signs of deterioration and some have lowered their expected provision costs for this year (eg, Millennium)
- Most banks are expanding their networks, which will boost employment. At the same time, there is pressure on salary growth. But the growth in staff costs may be partly reduced by lower bonuses (due to weaker sales of mortgages and funds)
- Growing interest rates are still supportive of deposit margins, although this is not as visible as in 2H07. While competition has increased somewhat, there is no price war which we had seen as a potential risk six months ago
- The outlook for earnings is neutral. We were forced to cut our forecasts for most of the banks over the last six months (in case of recurring profits by more than 10% in case of BZ WBK and Pekao), but the total growth of recurring earnings for banks we cover is still double-digit (13% YoY, median at 8%), as PKO BP's earnings outlook improved. Except for BPH, we do not expect a decline in recurring earnings at any bank.

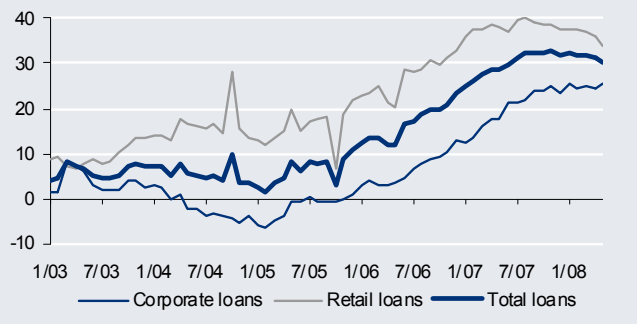
The premiums of Polish banks versus their regional peers shrank again to levels which have not been seen for a very long time. Polish banks are now traded at par (2008F PER) to Czech Republic and Hungarian banks (not seen since 2004), at a discount to Russia (-18% versus -13% at the start of the year), and at a 74% premium to Turkey (versus usual level of around 100%).

Despite shrinking premiums, we maintain our **Neutral** stance on the banks (in comparison with the rest of Polish universe), for the following reasons:

- This is a fairly cyclical sector. The Polish macro outlook is not bad, but it seems that there are more risks than opportunities in this area. Conversely, the Polish market is biased to cyclical stocks (very few defensive utilities), so the banks are not likely to stand out.
- We see that the market expects an acceleration of earnings in 2H08 after relatively weak growth in 1H08. In 2Q08, most banks will report a YoY decline in earnings (the exceptions are PKO BP, Getin and BRE). As the expectations are high, we think that good 2H08 earnings (which we also forecast) will not be able to surprise positively.
- We are cautious about Pekao and PKO BP (both **HOLD**). Both banks stand together for two-thirds of index weightings of the sector, so mid cap banks, which we like, will struggle to boost the banking index enough for it to outperform the rest of the market visibly.

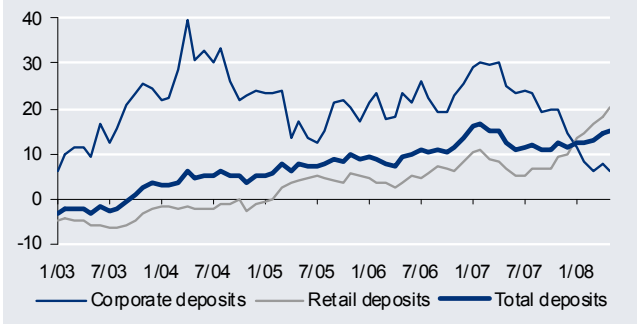
Our current order of preference for Polish banking sector would be: BRE, Getin (upgraded from Hold to **BUY**), Millennium, Handlowy, BPH, BZ WBK, PKO BP and Pekao.

Fig 35 Growth of loans in Poland (YoY)



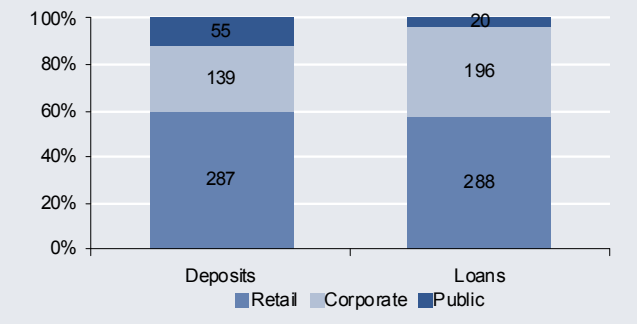
Source: NBP

Fig 36 Growth of deposits in Poland (YoY)



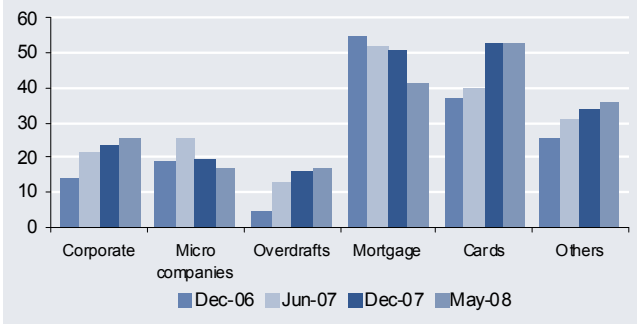
Source: NBP

Fig 37 Loans and deposits structure (May 08)



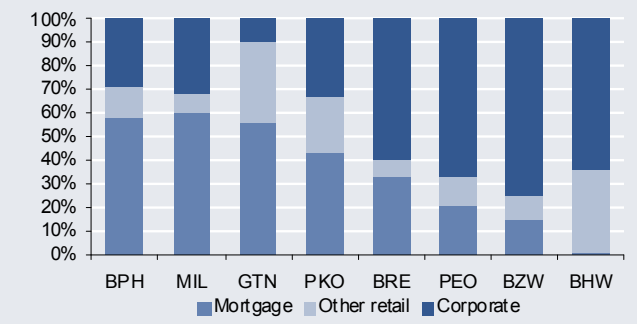
Source: NBP

Fig 38 Loan growth by segments (%, YoY)



Source: NBP *mainly consumer loans

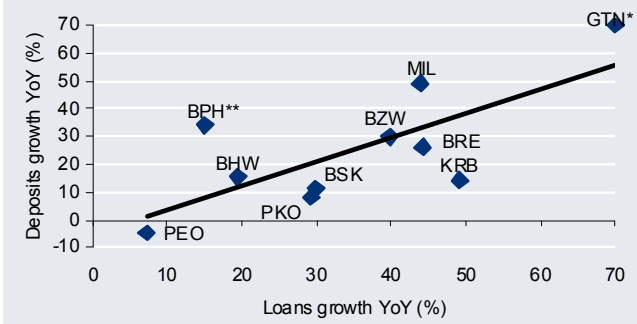
Fig 39 Structure of loan portfolios in 1Q08 (%)



*in Pekao and BPH estimated post-merger at end-2007F (in case of BPH 'corporates' means 'small enterprises'

Source: Company data, ING estimates

Fig 40 Loans and deposits growth in 1Q08 (%)



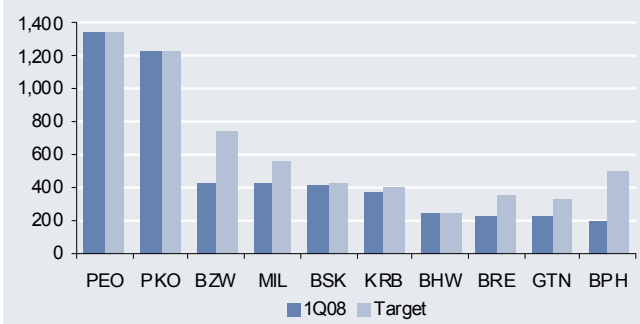
*Getin values were adjusted to fit the chart (loans growth of 82%, deposits - 82% YoY) **BPH – only retail

Source: Company data, ING estimates

Fig 41 YoY growth of salaries in Polish banks (%)

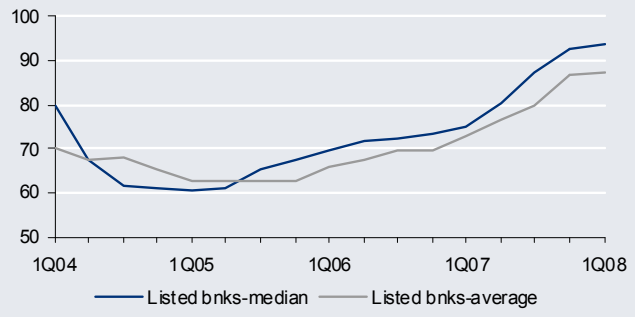
Source: NBP. Note: aggregated data for all commercial banks

Fig 42 Number of branches and expansion plans



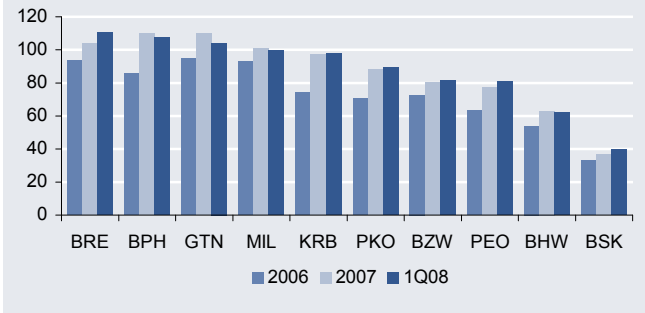
Source: Company data *pro-forma

Fig 43 Loans / deposits ratio in the sector(%)



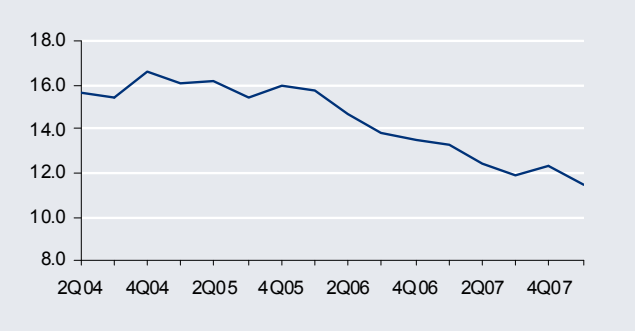
Source: Company data, ING estimates

Fig 44 Loans / deposits ratio by banks (%)



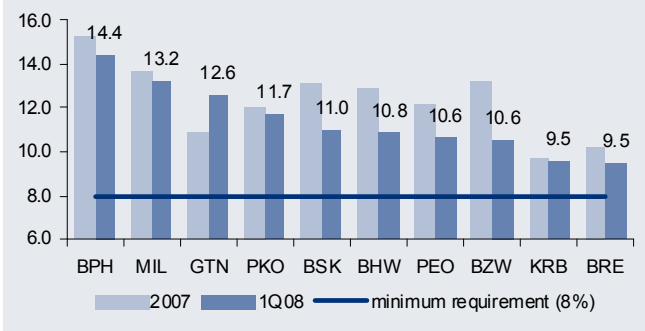
Source: Company data, ING estimates

Fig 45 Median CAR of listed banks



Source: Company data, ING estimates. Note: minimum level is 8%

Fig 46 CAR in listed banks

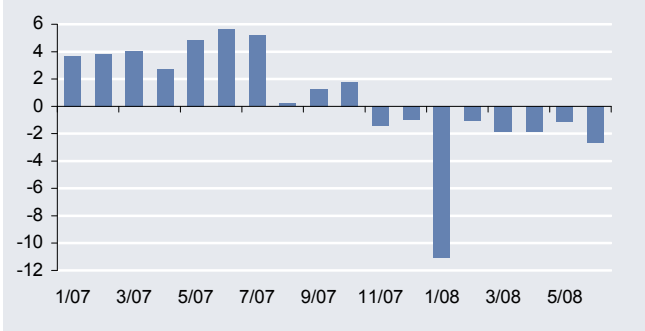


Source: Company data, ING estimates

Fig 47 Polish mutual funds: YoY ch of AUM (%)

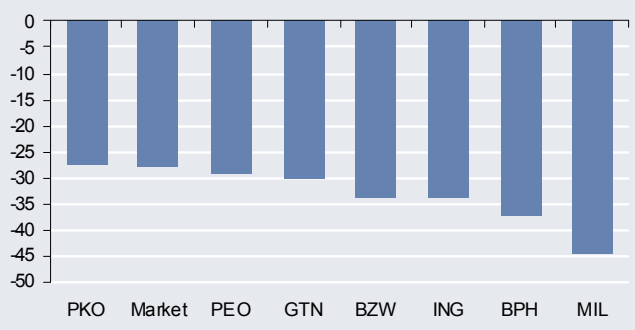
Source: Company data, ING estimates

Fig 48 Net flows to Polish mutual funds (PLNbn)



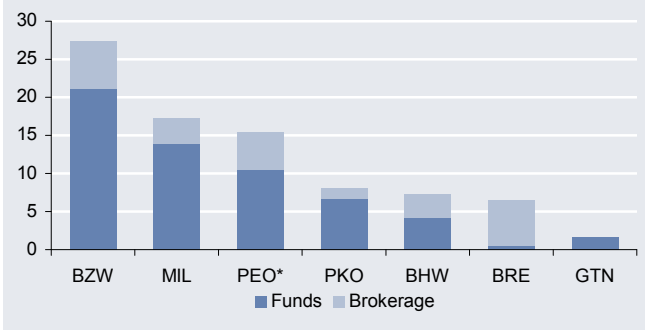
Note: in case of BHW – ING estimate, *Pekao – pro forma with "large BPH"
Source: Company data (1H07), ING estimates

Fig 49 Change in AUM in 1H08 (%)



Source: Company data, ING estimates

Fig 50 Funds & brokerage fees as % of revenues



Note: in case of BHW – ING estimate, *Pekao – pro forma with "large BPH"
Source: Company data (1H07), ING estimates

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BPH

New investor steps in with a foul

Maintained
Hold

Banks **Bloomberg: BPH PW**

- **Lack of a public bid for all shares raises questions about future merger parity with GE Money Poland**
- **Corporate division rebuilt faster than planned**

Investment case

In June 2008 GE Money completed the acquisition of a 55.9% stake in BPH from Unicredit. The transaction was made without a public bid for all shares (only a technical bid for 0.1%). Although such a scenario was partly expected, it does not change the fact that this behaviour is not fair in relation to minority shareholders. This raises questions about the treatment of minorities in the upcoming merger of BPH (in which GE Money has a 66% stake) and GE Money PL (100% owned by GE), which should be completed by end-1H09.

While the questions about future merger parity are valid, we must admit the merger itself is likely to be favourable for BPH. Both banks have quite an aggressive attitude to the market and their corporate cultures are similar. GE Money PL (PLN15bn assets) is similar in size to BPH. It is very strong in mortgage lending (which was neglected at BPH under Unicredit's umbrella) and consumer finance (historically relatively weak in BPH). However, it is absent in deposits and current accounts, where BPH has a meaningful position. GE has no corporate segment and BPH is quickly rebuilding its position in this area. In 1Q08 BPH had PLN0.15bn in loans, PLN0.12bn in deposits and 286 clients in the corporate segment vs zero just after the spin-off (and 10,000 before). As a result, in May it raised its target for 2008 from 1,000 to 1,200 clients.

The main risk to share performance is share overhang. Unicredit has a 5.1% stake and the Polish State Treasury owns a 3.7% stake. Both want to exit but GE Money cannot buy from them as it would trigger a bid for all shares.

Following the spin-off in November 2007 BPH has a strong basis for development: it has 200 retail branches (a similar number to BRE, Handlowy), the highest CAR among listed banks (c.14%) and a CEO, Jozef Wancer, who seems very eager to regain a strong position in the Polish banking sector. The strategy assumes significant branch expansion. The bank targets 500 branches within three years, which would give it a top-five position in Poland (the merger with GE Money PL will add over 100 branches and it aims to open a further 200).

The BPV ratio of BPH (at 1.2x) is the lowest in the sector, but the problem is that "book value" is unlikely to generate major profits in 2008-09, so the PER is extremely high. Because the profitability will be significantly distorted in the medium term we are cautious concerning the merger parity with GE Money PL. The small public bid price (PLN89.02) must be some indicator, and we use it as the basis for setting our target price, but apply a 20% discount as our concerns about the strategic investor are growing rather than disappearing.

Price (11/07/08)	**PLN68.0**
	Previously: PLN99.1
Target price (12 mth)	**PLN71.2**

12-month forecast returns (%)

Share price	4.7
Dividend	0.0
12m f'cst total return	**4.7**

Source: ING

Key ratios (%)

	2008F	2009F
NIM	5.2	4.9
Loans to assets	55.6	64.5
Loans to deposits	112.6	123.2
ROA	0.8	0.4
NPL	4.0	3.0

Source: Company data, ING estimates

Share data

No. of shares (m)	28.7
Daily t/o (US$m)	1.0
Free float (%)	25.2
Mkt cap (US$m)	930
Mkt cap (lc m)	1,953

Source: Company data, ING estimates

Share price performance

Source: Reuters

Forecasts and ratios

	2006	2007	2008F	2009F	2010F
Total Assets (PLNm)	64,757	13,027	14,434	17,652	22,098
Reported net profit (PLNm)	1,268	1,571	114	66	141
Recurring EPS (PLN)	44.15	2.47	1.73	2.31	4.91
Recurring EPS Growth (%)	22	-94	-30	34	112
PER (x)	1.5	1.2	17.1	29.4	13.8
P/BV (x)	0.3	1.3	1.2	1.2	1.1
ROE (%)	19.2	37.7	7.5	4.1	8.2
Div Yield (%)	53.2	0.0	0.0	0.9	2.9

Source: Company data, ING estimates

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Quarterly preview

BPH will publish 2Q08 results on 30 July, before the market open.

We expect some revival in NII due to better volumes, but fees are likely to remain under significant pressure as BPH's exposure to mutual funds is among the highest in the sector. At the same time, costs are likely to continue to grow quickly as the bank is focused on rebuilding capacities. As a result the recurring net profit is likely to shrink QoQ to nearly zero. The reported net profit will be supported by outsourcing revenues from Pekao (c.PLN25m) and profits from the sale of real estate assets (eg, Marynarska building, no official data on profits, we assume PLN10m).

2Q08 results preview

	1Q08	2Q08F
NII	154	159
Revenues	268	270
Costs	-192	-212
Provisions	-8	-10
Net profit	47	33

Source: ING estimates

Earnings drivers and outlook

The revenues are likely to grow quickly due to branch expansion and strong marketing campaigns, particularly in mortgage loans. It is likely that the bank will be able to increase its customer base. Corporate revenues should also appear. However, very high current C/I (around 80% on a recurring basis) is unlikely to improve quickly because of the cost of the expansion and marketing. Therefore, we would not expect major growth in profitability in 2008-2009. (in 2Q08-4Q08 the bank is likely to be around break-even). Meaningful profits should appear in 2010.

Revenues from outsourcing services to Pekao (PLN133m in 2007 on a pro-forma basis, PLN33m in 1Q08) will disappear after 1H08, as Pekao completed the operational merger of ex-BPH branches in May. These are a kind of one-off, but the drop in reported profits may be sharp. For the same reason the bank's costs may fall slightly in 2H08, but we would not overestimate the benefits of this on the cost line.

Growth in revenues will be affected by fund fees, as their share jumped in post-spin-off BPH from c.5% to c.20% (almost as high as in BZ WBK). While we fear that its sales may be affected by the fact that Pekao could try to seduce ex-BPH customers that hold BPH funds, it seems that the risk was exaggerated: during 1H08 the BPH fund lost 63bps of market share, not much less than Pekao (-46bps).

Again, these are our expectations for BPH alone, while in 2009 it will likely operate as much larger entity, after the merger with GE Money Poland, which is similar size to BPH. It is quite likely that despite the growth strategy the merged bank will need heavy restructuring (including staff reductions), especially at the headquarters. This may be an additional driver for 2010.

P&L account

PLNm	2007	2008F	2009F	2010F
NII	**460**	**631**	**704**	**852**
%ch	*-79*	*37*	*12*	*21*
Fees	**356**	**331**	**421**	**551**
%ch	*-74*	*-7*	*27*	*31*
Total revenues	869	979	1,182	1,470
%ch	*-75*	*13*	*21*	*24*
Total costs	(698)	(847)	(1,007)	(1,166)
%ch	*-57*	*21*	*19*	*16*
Provisions	(20)	(35)	(53)	(81)
Pre-tax profit	2,045	176	122	224
Net profit	**1,571**	**114**	**66**	**141**
%ch	*24*	*-93*	*-42*	*112*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Interbank assets	2,122	2,228	2,005	2,105
Bonds and similar	3,178	2,542	2,542	2,670
Loans	**6,165**	**8,024**	**11,378**	**15,559**
%ch	*-83*	*30*	*42*	*37*
Goodwill	0	0	0	0
Other assets	1,562	1,640	1,726	1,765
Total assets	**13,027**	**14,434**	**17,652**	**22,098**
%ch	*-80*	*11*	*22*	*25*
Interbank liabilities	3,501	3,326	3,493	3,667
Bonds, similar borrowing	1,445	1,590	2,225	2,782
Deposits	**5,621**	**7,125**	**9,236**	**12,315**
%ch	*-86*	*27*	*30*	*33*
Total liabilities	11,554	12,847	15,998	20,320
Equity	**1,473**	**1,587**	**1,654**	**1,778**
Total liabilities & equity	13,027	14,434	17,652	22,098
Loans / deposits (%)	109.7	112.6	123.2	126.3
Equity / assets (%)	11.3	11.0	9.4	8.0
CAR (%)	15.5	13.5	12.4	10.6

Source: Company data, ING estimates

Other ratios (%)

	2007	2008F	2009F	2010F
Cost / income	80.3	86.5	85.2	79.3
ROE	37.7	7.5	4.1	8.2
NPL ratio	5.2	4.0	3.0	2.4
Provision coverage	76	84	88	93
DPS (PLN)	0.00	0.00	0.58	1.97
Payout ratio	0	0	25	40

Source: Company data, ING estimates

Company profile

BPH used to be a universal bank, but after the spin-off in December 2007 it concentrated on the retail segment only (although the rebuilding of its corporate segment is currently in progress). It has 200 branches (around #10 position in Poland). GE Money is a strategic investor in the bank (66% stake).

BRE

New CEO but same old story

Maintained
Buy

Banks **Bloomberg: BRE PW**

- **The change of CEO does not change the picture.**
- **First data from foreign operations is encouraging.**

Investment case

In April Commerzbank changed most of BRE's management board, including Slawomir Lachowsk, the CEO and the father of the retail success of the bank. It caused major turmoil but the new head, Mariusz Grendowicz, also has a good track record and managed to convince the market that he will continue BRE's growth story. The new CEO wants to focus more on profitability than on growth, which does not have to be bad, assuming that the expansion in the Czech Republic and Slovakia will be continued (he confirmed this).

BRE keeps gaining market share in all major segments of its activity (loans and deposits, both retail and corporate) thanks to a successful internet platform for retail clients and experience in corporate banking. Moreover, the third largest client base in Poland (2m customers) seems to be still underpenetrated in several products (eg, cards, cash loans).

Because of the strong growth in mortgage lending the bank faces problems of liquidity and low CAR. So far it was managed by tier-2 capital provided by the parent company. This year the sale of non-core assets (especially the pension fund) will likely give some relief but in the medium term the shortage of capital/liquidity remains the main risk.

In corporate banking BRE is strongly focused on SMEs and micro-companies as it sees relatively weaker prospects in the large corporate sector, where margins are tiny. This exposure to the corporate segment may become quite attractive because volumes accelerate and margins, although lower than in retail segment, are finally expanding.

The success of retail operations in Poland make the management in the Czech Republic and Slovakia. It targets 30 outlets in Czech Republic and 14 in Slovakia by end-2008. Breakeven is expected in 2011 but we think that there is reasonable chance it will happen sooner. By end-March (ie, during four months of activity) BRE gathered 85,000 clients and €236m deposits, which we find very encouraging. We expect that the newsflow from Czech and Slovakia will be still supportive also in 2H08.

BRE has been consistently traded at a premium (PER) to the sector and we do not think this will change in the future due to the aforementioned successful strategy and *still* good management. The premium is around 15% on 2009F (2008F too affected by one-offs), which is the usual level. It may even widen considering supportive newsflow and good financial results.

Price (11/07/08)	**PLN350**
Target price (12 mth)	Maintained **PLN483**

12-month forecast returns (%)

Share price	38.0
Dividend	0.0
12m f'cst total return	**38.0**

Source: ING

Key ratios (%)

	2008F	2009F
NIM	2.25	2.27
Loans to assets	67.4	71.6
Loans to deposits	120.8	126.2
ROA	1.5	1.2
NPL	3.5	3.6

Source: Company data, ING estimates

Share data

No. of shares (m)	29.7
Daily t/o (US$m)	8.9
Free float (%)	29.7
Mkt cap (US$m)	4,225
Mkt cap (lc m)	10,394

Source: Company data, ING estimates

Share price performance

Source: Reuters

Forecasts and ratios

	2006	2007	2008F	2009F	2010F
Total Assets (PLNm)	42,331	56,007	67,195	76,761	86,658
Reported net profit (PLNm)	421	710	1,051	898	1,072
Recurring EPS (PLN)	14.27	20.94	25.05	30.26	36.12
Recurring EPS Growth (%)	66	47	20	21	19
PER (x)	24.5	14.6	9.9	11.6	9.7
P/BV (x)	4.1	3.1	2.4	2.0	1.6
ROE (%)	18.5	24.3	27.3	18.6	18.5
Div yield (%)	0.0	0.0	0.0	0.0	1.0

Source: Company data, ING estimates

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Quarterly preview

BRE will publish 2Q08 results on 31 July, before market opening.

BRE's core revenues (NII and fees) should be stay strong, thanks to relatively low exposure to mutual funds and strong growth of lending, although the growth rates may be slightly lower than in 1Q08 (NII +8% QoQ, fees +11%) when the bank booked minor one-offs in both lines. Also FX revenues should perform well thanks to consistent growth of mortgage lending (mainly FX). Costs are likely to keep growing at high rates due to domestic and foreign expansion although some deceleration is possible versus 19% YoY growth in 1Q08. Losses on bonds and higher provisions may put some drag on the bottom line. The company will likely book part of the gains (we assumed PLN52m as tax gain and PLN70m as financial profit) on its pension fund stake, as the court registered the merger with Aegon at the end of June.

2Q08 results preview

	1Q08	2Q08F
NII	315	328
Revenues	652	700
Costs	-345	-377
Provisions	-22	-31
Net profit	351	278

Source: ING estimates

Earnings drivers and outlook

Revenues should keep high double digit rates, particularly on the back of credit cards, cash loans and bankassurance. NIM is likely to improve again (to 2.25% from 2.19% in 2007 and 2.03% in 2006) but lower growth rates in the balance sheet should mean that this year fees growth should be better than NII change, especially due to the bank's relatively low exposure to mutual funds.

The foreign expansion will drive the costs (especially marketing costs) but there is a chance that the growth in total costs will be trimmed by lower bonuses as it is not likely that the targets will be so easily beaten as in 2007.

Costs of provisions are likely to grow as they were affected by recoveries in 2007, which are not likely to be repeated. However, the bank admits that the quality of loan portfolio remains surprisingly sane so far this year.

In the short term the bottom line may be supported by disposal of non-core assets (pension fund, cable TV), which can provide PLN300m+ gains together (in our forecasts we included PLN307m of net one-offs vs PLN88m last year).

After including one-offs from the pension fund we are 5% above consensus, but it is possible that the consensus includes lower one-offs than we do (before the official announcement in early July the market expected gains on the pension fund of PLN100-150m while it looks this will be around PLN170-180m).

We do not make any major changes to our forecasts and DDM-based target price here as the bank is developing in line with our earlier expectations.

P&L account

PLNm	2007	2008F	2009F	2010F
NII	**1,028**	**1,327**	**1,567**	**1,784**
%ch	*42*	*29*	*18*	*14*
Fees	**564**	**647**	**796**	**935**
%ch	*36*	*15*	*23*	*17*
Total revenues	2,202	2,596	3,054	3,447
%ch	*36*	*18*	*18*	*13*
Total costs	-1,280	-1,469	-1,621	-1,704
%ch	*23*	*15*	*10*	*5*
Provisions	-77	-118	-251	-332
Pre-tax profit	955	1,316	1,182	1,411
Net profit	**710**	**1,051**	**898**	**1,072**
%ch	*69*	*48*	*-15*	*19*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Interbank assets	4,117	3,293	2,964	2,816
Bonds and similar	15,771	15,771	15,771	14,982
Loans	**33,707**	**45,260**	**54,970**	**65,685**
%ch	*46*	*34*	*21*	*19*
Goodwill	32	32	32	32
Other assets	2,381	2,839	3,025	3,143
Total assets	**56,007**	**67,195**	**76,761**	**86,658**
%ch	*32*	*20*	*14*	*13*
Interbank liabilities	12,287	15,359	16,894	18,584
Bonds, similar borrowing	6,754	8,781	10,098	11,613
Deposits	**32,426**	**37,479**	**43,554**	**48,899**
%ch	*31*	*16*	*16*	*12*
Total liabilities	52,682	62,820	71,488	80,312
Equity	**3,325**	**4,375**	**5,274**	**6,346**
Total liabilities & equity	56,007	67,195	76,761	86,658
Loans / deposits (%)	103.9	120.8	126.2	134.3
Equity / assets (%)	5.9	6.5	6.9	7.3
CAR (%)	10.2	9.8	10.4	10.5

Source: Company data, ING estimates

Other ratios

PLNm	2007	2008F	2009F	2010F
Cost / income (%)	58.1	56.6	53.1	49.4
ROE (%)	24.3	27.3	18.6	18.5
NPL ratio (%)	3.6	3.5	3.6	3.7
Provision coverage (%)	55	56	55	55
DPS	0.00	0.00	0.00	3.61
Payout ratio (%)	0	0	0	10

Source: Company data, ING estimates

Company profile

BRE used to be predominantly corporate bank (specialised in servicing foreign trade transactions) but after launching mBank and Multibank earlier this decade the share of retail revenues started growing quickly. At this point it is No.3 in Poland in terms of number of retail clients (2m) and No.4 in terms of assets (7% market share). German Commerzbank is the strategic investor.

BZ WBK

Mix of many risks and low valuations

Maintained
Hold

Banks **Bloomberg: BZW PW**

- **Acceleration of expansion may boost costs…**
- **…in a situation where revenues are under pressure due to the weakness of capital markets.**
- **Low valuations but no growth this year and question marks about rebound in 2009.**

Investment case

In May, the bank's CEO, Mateusz Morawiecki, said that the network expansion project will be developed faster than planned this year (around 80 new branches instead of 50-60). While we think that the increase of network coverage is a proper move from a strategic point of view and should be beneficial in the long-term, we think also that the decision was made a bit too late, which may affect ROI.

Moreover, the project comes at the same time that the top line is under pressure. Last year, BZ WBK had very strong growth of earnings fuelled by inflows to its mutual funds and good performance of its brokerage house. As a result, the share of revenues from these two sources grew to 27% of total, the highest in the sector. What had been a blessing in the past in the current environment of redemptions became a curse, and this is the biggest risk for the fundamentals of the bank, in our view. The impact will be slightly diluted by the fact that most of the funds stay with the bank as deposits (26% QoQ growth of retail deposits in 1Q08), but margins there are much weaker than mutual funds owing to aggressive pricing

In lending, the bank used to show relatively steady growth of volumes as it offers only PLN mortgage loans, while half of the market is FX. Moreover, the latest trends are favourable for FX lenders. The bank has a relatively strong position in corporate lending, as it gained an excellent position in the developing and construction segments, where the growth rates are above average. It may become a problem soon, as development is one of the sectors which faces the biggest pressure on profitability, and the quality of such loans may deteriorate.

After the latest sell-off, the bank is the cheapest on 2008F PER, but we think that the risk of negative surprises is fairly high in a situation where the most important sources of profits record a significant slowdown, and *at the same* time the bank is investing heavily. There are also risks connected with possible rebranding as well as mentioned troubles of developer borrowers and a shift of client preference toward FX mortgage loans. As there is no realistic chance of really positive news flow that could be the catalyst for a major price rebound, we maintain our **HOLD** rating.

Price (11/07/08)	**PLN133.0**
	Previously: PLN179.6
Target price (12 mth)	**PLN145.1**

12-month forecast returns (%)

Share price	9.1
Dividend	2.3
12m f'cst total return	**11.4**

Source: ING

Key ratios (%)

	2008F	2009F
NIM	3.65	3.58
Loans to assets	62.4	67.5
Loans to deposits	86.7	93.9
ROA	2.1	2.2
NPL	2.8	3.4

Source: Company data, ING estimates

Share data

No. of shares (m)	73.0
Daily t/o (US$m)	7.1
Free float (%)	27.9
Mkt cap (US$m)	4,621
Mkt cap (PLN m)	9,704

Source: Company data, ING estimates

Share price performance

Source: Reuters

Forecasts and ratios (PLNm)

Year to Dec	2006	2007	2008F	2009F	2010F
Total assets	33,042	41,332	50,382	54,929	59,829
Reported net profit	758	955	975	1,172	1,403
Recurring EPS (PLN)	10.39	13.08	13.36	16.06	19.23
Recurring EPS growth (%)	47	26	2	20	20
PER (x)	12.8	10.2	10.0	8.3	6.9
P/BV (x)	2.5	2.2	1.9	1.6	1.4
ROE (%)	20.7	23.0	20.7	21.2	21.6
Div. yield (%)	4.5	2.3	3.0	3.6	5.8

Source: Company data, ING estimates

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Quarterly preview

BZ WBK publishes its 2Q08 results on 30 July, before the market opens. NII is likely to drive the revenues as the bank should benefit from extending margins on large retail deposits gathered in 1Q08.

Redemptions in mutual funds will again hit BZ WBK's fee revenues, although this time the drop in AUM (-11% QoQ) was much lower than in 1Q08 (-25%), so the impact should be also lower. As is usual in 2Q, the bank will book dividends from CU group (PLN65m). Costs will grow seasonally but the growth may be relatively low as 1Q08 costs were inflated by large marketing campaigns. For BZ WBK, the losses on bonds may be fairly low because it books most of the securities as available for sale so they will go through the equity.

2Q08 results preview (PLNm)

	1Q08	2Q08F
NII	376	398
Revenues	755	840
Costs	-400	-425
Provisions	-6	-12
Net profit	243	293

Source: ING estimates

Earnings drivers and outlook

We expect a visible deceleration of the revenues this year, mainly due to mutual fund fees (we expect them to decline 30%). The growth in other fees (cards, accounts) should be strong because of network expansion and growth in customer numbers but not sufficient to replace the most important source.

Costs are likely to grow at similar rates to last year (around 20%). Like BRE, the bank pays relatively high bonuses so because of the slowdown there is scope for some savings in this area. However, the cost of expansion will not allow it to reduce total cost growth rate much. Hence, we do not believe that revenues will grow faster than costs, which was expected by the CEO in May.

After major provision recoveries in BZ WBK, especially in 1H07, we do not see chance for significant positive surprises in this line this year.

A significant slowdown of earnings is likely in 2008 and the positive impact of the expansion will allow for some acceleration in 2009, although for 2009 there is a question-mark over the cost of risk (possible negative surprises connected with developer loans) and capital markets.

Due to the acceleration of branch expansion and continued redemptions, we reduce our net profit forecast by 5% for both 2008F and 2009F. Therefore, we still see scope for negative surprises in terms of earnings announcements, as our forecast is 4% below the market consensus.

Following the changes in our forecasts as well as higher RFR and ERP assumptions (from 4.20% to 4.50%), we cut our DDM-based target from PLN180 to PLN145.

P&L account

PLNm	2007	2008F	2009F	2010F
NII	**1,287**	**1,594**	**1,805**	**1,934**
%ch	*25*	*24*	*13*	*7*
Fees	**1,334**	**1,230**	**1,458**	**1,728**
%ch	*33*	*-8*	*19*	*19*
Total revenues	2,955	3,204	3,697	4,139
%ch	*24*	*8*	*15*	*12*
Total costs	(1,559)	(1,789)	(1,949)	(2,089)
%ch	*21*	*15*	*9*	*7*
Provisions	(4)	(53)	(131)	(116)
Pre-tax profit	1,391	1,362	1,617	1,935
Net profit	**955**	**975**	**1,172**	**1,403**
%ch	*26*	*2*	*20*	*20*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Interbank assets	4,783	5,262	5,262	5,262
Bonds and similar	10,434	11,478	10,330	9,814
Loans	**23,950**	**31,440**	**37,090**	**42,452**
%ch	*36*	*31*	*18*	*14*
Goodwill	0	0	0	0
Other assets	2,165	2,202	2,248	2,301
Total assets	**41,332**	**50,382**	**54,929**	**59,829**
%ch	*25*	*22*	*9*	*9*
Interbank liabilities	4,484	5,156	5,414	5,685
Bonds, similar borrowing	1,358	1,765	1,853	1,946
Deposits	**29,766**	**36,284**	**39,516**	**41,634**
%ch	*23*	*22*	*9*	*5*
Total liabilities	36,991	45,284	48,952	52,800
Equity	**4,342**	**5,098**	**5,977**	**7,029**
Total liabilities & equity	41,332	50,382	54,929	59,829
Loans/deposits (%)	80.5	86.7	93.9	102.0
Equity/assets (%)	10.5	10.1	10.9	11.7
CAR (%)	11.8	10.4	10.7	11.1

Source: Company data, ING estimates

Other ratios (%)

	2007	2008F	2009F	2010F
Cost/income	52.8	55.8	52.7	50.5
ROE	23.0	20.7	21.2	21.6
NPL ratio	2.8	2.8	3.4	4.1
Provision coverage	85	71	68	68
DPS	3.00	4.01	4.82	7.69
Payout ratio	23	30	30	40

Source: Company data, ING estimates

Company profile

BZW BK is the seventh largest bank in Poland in assets (5% share). The bank has corporate roots (still 41% of deposits and 75% of loans), but it is also strong in selected retail products, eg, mutual funds (second in Poland, 15% mkt share) and cash loans. Ireland's AIB is a strategic shareholder in the bank.

Getin

Good as always, cheap as never

Previously: Hold
Buy

Banks **Bloomberg: GTN PW**

- **The main shareholder's problems affect the price...**
- **...but the fundamentals remain good.**

Investment case

The main driver for the share price in recent weeks has been the problems of the main shareholder, Leszek Czarnecki (56% stake in Getin), who was accused by *Rzeczpospolita* of cooperation with the communist secret services in the 1980s. He has denied the accusations. While we are not in any position to judge the truth of the matter, we believe it should not affect the value of Getin. First, it was a long time ago and meanwhile he has proven that he treats minority shareholders in his companies fairly. Second, the accusations are ethical rather than legal in nature. Third, unlike other Polish moguls he does not make major deals in the public sector, so it should not affect his businesses (we cannot imagine that people would stop making deposits or taking loans from Getin for this reason, when celebrated leader of the trade unions, Lech Walesa, also faces similar accusations).

Following problems with liquidity in 2007, Getin focused on deposits and this strategy has started to pay off. Deposit growth accelerated from 40% YoY in 2006 to 82% in 1Q08. In 1H09 Getin Bank (the key subsidiary) gathered c.PLN2.9bn in retail deposits, more than in 2007 as a whole. This improved liquidity so much that the bank had no problems in repaying €150m Eurobonds in April, which were not rolled over due to excessive spreads. Obviously, the success in volumes has a cost – Getin offers the highest deposit rates in the market – which is not a big issue as long as market rates grow. But the possibility that at some point it will overpay for retail funding is definitely a major risk.

On the lending side (mortgage and cash loans), the bank is likely to keep outperforming the market, especially as it is focused on FX mortgage loans (90% of sales), which have become more attractive again, and the sales are supported by consistently expanding the branch network. It targets 500 outlets in 2009 (50% will be franchise) versus 200 now. In this area the risk is connected with aggressive sales and marketing (rather than with pricing as is the case with Millennium), which may result in problems with NPLs in the future. So far there are no signs of such a bearish scenario and the company charges the highest provisions in the sector.

The stock still trades at a premium to Polish peers. However, that premium used to be 50%, whereas now it is just 10%, the lowest in the history of our coverage. At the same time the fundamentals are strong. Getin is the only Polish bank in our coverage that has not disappointed in any of the past five quarters. Because we believe that the price weakness is connected with short-term 'publicity' factors, we upgrade the stock to BUY.

Price (11/07/08)	**PLN8.82**
	Previously: PLN15.6
Target price (12 mth)	**PLNPLN12.91**

12-month forecast returns (%)

Share price	46.3
Dividend	0.0
12m f'cst total return	**46.3**

Source: ING

Key ratios (%)

	2008F	2009F
NIM	3.70	3.55
Loans to assets	66.9	72.8
Loans to deposits	111.9	118.5
ROA	2.3	2.4
NPL	5.0	5.0

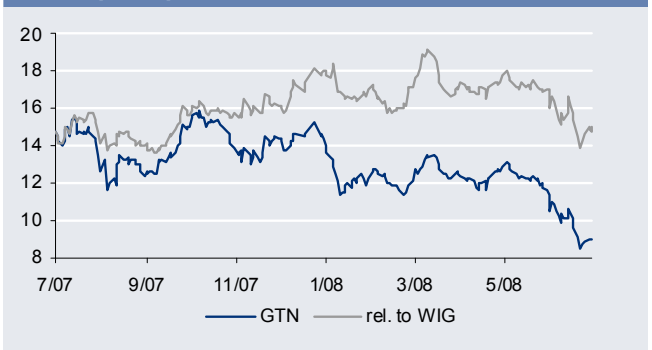
Source: Company data, ING estimates

Share data

No. of shares (m)	709.0
Daily t/o (US$m)	5.8
Free float (%)	44.3
Mkt cap (US$m)	2,542
Mkt cap (lc m)	6,253

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios

	2006	2007	2008F	2009F	2010F
Total Assets (PLNm)	12,045	19,004	25,603	31,794	37,389
Reported net profit (PLNm)	160	626	523	676	825
Recurring EPS (PLN)	0.25	0.60	0.74	0.87	1.06
Recurring EPS Growth (%)	69	141	23	18	22
PER (x)	35.5	10.0	12.0	10.2	8.3
P/BV (x)	2.8	2.0	1.7	1.4	1.2
ROE (%)	10.1	24.3	15.5	15.7	15.2
Div Yield (%)	0.0	0.0	0.0	0.0	1.2

Source: Company data, ING estimates

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Quarterly preview

Getin will publish 2Q08 results on 14 August.

Reported net profit is likely to shrink in comparison with 2Q07, but this will mainly be due to the fact that last year the company booked over PLN200m profit from Noble Bank IPO. The adjusted profit is likely to grow 12% YoY. The YoY growth is unlikely to be as impressive because 2Q07 was an excellent quarter for the bank, which additionally booked PLN9m revenues connected with IPO of LC Corp (as the bank financed loans for securities purchase).

In comparison with 1Q07 we expect c.10% growth. Volumes are likely to be very strong as the company has already provided some preliminary data, which is very good (30% YoY growth in sales of mortgages and 20% YoY growth in automotive loans, as well as over PLN1bn in retail deposits granted by the most important subsidiary, Getin Bank). However, because the aggressive competition for deposits is costly we expect further dilution of margin, so NII may only show a 5% improvement. We also expect only small growth in fees because the 1Q08 figure seemed to be artificially high (although the bank's officials claim it was fully recurring). The boost for profits should come from lower provisions (in 1Q08 they were just too high) and FX (benefiting from accelerating sales of mortgage loans).

2Q08 results preview

	1Q08	2Q08F
NII	169	178
Revenues	396	431
Costs	-166	-189
Provisions	-64	-52
Net profit	127	139

Source: ING estimates

Earnings drivers and outlook

We expect Getin to provide 23% growth of recurring EPS in 2008, one of the highest rates in the sector. Reported profit is likely to decline due to PLN201m positive one-offs in 2007. Also in 2009 we expect better-than-average growth. It is likely that 2009 EPS growth will be affected by dilutive share issue (we included 10% dilution). The growth of the bottom line will be driven by the fast growth of assets (35%, the highest in the sector). We expected earlier improvement of NIM in 2008 but now it looks that it will not happen as the aggressive pricing of deposits will offset gains connected with higher interest rates in Poland.

At the same time the growth of costs should decelerate visibly because next year's network expansion (an additional 100 branches to the current 200) will be based mainly on low-cost small franchise outlets.

Provisions are likely to grow again from 118bp of loans last year (the most conservative figure among the listed banks) because cash loans are likely to grow fast and they need a high level of provisioning.

Changes to the risk premium and higher RFR lead us to lower our DDM-based target price.

P&L account

PLNm	2007	2008F	2009F	2010F
NII	**561**	**765**	**958**	**1,131**
%ch	*54*	*36*	*25*	*18*
Fees	**257**	**235**	**313**	**379**
%ch	*47*	*-9*	*33*	*21*
Total revenues	1,262	1,634	2,083	2,472
%ch	*84*	*29*	*27*	*19*
Total costs	(586)	(730)	(891)	(953)
%ch	*49*	*24*	*22*	*7*
Provisions	(104)	(200)	(282)	(411)
Pre-tax profit	799	704	910	1,108
Net profit	**626**	**523**	**676**	**825**
%ch	*291*	*-16*	*29*	*22*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Interbank assets	3,953	4,546	4,319	4,319
Bonds and similar	2,032	2,235	2,571	2,956
Loans	**11,444**	**17,140**	**23,146**	**28,272**
%ch	*84*	*50*	*35*	*22*
Goodwill	842	842	842	842
Other assets	733	839	916	1,001
Total assets	**19,004**	**25,603**	**31,794**	**37,389**
%ch	*58*	*35*	*24*	*18*
Interbank liabilities	1,198	1,437	1,581	1,739
Bonds, similar borrowing	3,349	4,018	4,018	5,224
Deposits	**10,406**	**15,312**	**19,537**	**22,532**
%ch	*58*	*47*	*28*	*15*
Total liabilities	15,899	21,975	26,789	31,561
Equity	**3,105**	**3,628**	**5,004**	**5,829**
Total liabilities & equity	19,004	25,603	31,794	37,389
Loans / deposits (%)	110.0	111.9	118.5	125.5
Equity / assets (%)	16.3	14.2	15.7	15.6
CAR (%)	9.6	9.3	11.7	11.6

Source: Company data, ING estimates

Other ratios (%)

	2007	2008F	2009F	2010F
Cost / income	46.5	44.6	42.8	38.6
ROE	24.3	15.5	15.7	15.2
NPL ratio	5.7	5.0	5.0	5.5
Provision coverage	90	82	73	78
DPS	0.00	0.00	0.00	0.11
Payout ratio	0	0	0	10

Source: Company data, ING estimates

Company profile

Getin is tier-2 bank in Poland with 2.3% share in total assets, but it is extremely strong in the segments in which it is focused: mortgage loans (#7 in Poland) and car loans (#1). Apart from Getin Bank, the most important part of the group, the company also controls insurer (Europa), private banking arm (listed Noble Bank), leasing company (Carcade) and several financial intermediaries (Open Finance, Fiolet).

Handlowy

Focus on efficiency

Maintained
Buy

Banks **Bloomberg: BHW PW**

- **More focus on profitability forced the banks to make staff reductions**
- **Exposure to cards and cash loans should pay off**
- **6% dividend yield is value**

Investment case

In April Handlowy presented its new strategic goals for 2008-2010, which included 20% ROE (c18% according to our calculation standards) and 50% C/I ratio. The management decided to use tools much different from those chosen by other banks. Instead of major expansion, it wants to reduce cost by redundancies (490 people, ie, 10% of workforce this year). In our view, it is a risky move as the market is still seeking specialists, so it may affect the company's human capital. Other moves (higher utilisation of existing network by integration of CitiFinancial outlets, cross-selling, many new products) seem to be reasonable.

Handlowy was and remains weak in mortgage lending, and we are not convinced that the bank's new idea (a kind of trading platform for such loans) is the proper way to get exposure to this segment. On the other hand, it is likely to benefit from positive trends in credit cards and cash loans, where the bank is very strong. It seems that the new retail strategy is successful, especially in credit cards. As for consumer finance, the structure of the balance sheet is quite favourable: 34% share of consumer finance in total loan book is one of the highest in the sector (only Getin has more).

The liquidity is not a problem, as the loans/deposits ratio (63% in 2007) is the lowest among the banks that we cover. Considering that we expect more favourable conditions for corporate lending (still majority of the business) in 2008F, we see possibilities that the bank will be able to utilise its large deposit base better than in the past.

Despite falling CAR and accelerating lending, the company decided to pay a high dividend (75% of 2007 profit vs our forecast of 60%). While we think that such a high ratio is unsustainable, we believe the policy of high dividend payouts will be continued (6% yield of this year's profit) and supportive for the stock price.

Because of the very defensive profile of the bank and its still low valuations (at discount on 2009F PER), we still believe that the stock is attractive at current price levels and we maintain our **BUY** rating.

Price (11/07/08)	**PLN73.0**
	Previously: PLN112.9
Target price (12 mth)	**PLN93.3**

12-month forecast returns (%)

Share price	27.8
Dividend	6.5
12m f'cst total return	**34.3**

Source: ING

Key ratios (%)

	2008F	2009F
NIM	3.60	3.55
Loans to assets	38.4	42.9
Loans to deposits	71.2	78.8
ROA	2.1	2.4
NPL	9.7	8.7

Source: Company data, ING estimates

Share data

No. of shares (m)	130.7
Daily t/o (US$m)	2.3
Free float (%)	25.0
Mkt cap (US$m)	4,542
Mkt cap (lc m)	9,538

Source: Company data, ING estimates

Share price performance

Source: Reuters

Forecasts and ratios (PLNm)

Year to Dec	2006	2007	2008F	2009F	2010F
Total assets	35,991	38,908	41,000	43,530	46,118
Reported net profit	657	824	844	1,003	1,168
Recurring EPS (PLN)	3.80	6.14	6.46	7.68	8.94
Recurring EPS growth (%)	-20	62	5	19	16
PER (x)	14.5	11.6	11.3	9.5	8.2
P/BV (x)	1.8	1.7	1.6	1.5	1.4
ROE (%)	12.3	15.0	14.8	16.6	17.9
Div. yield (%)	5.6	6.5	5.8	6.8	8.0

Source: Company data, ING estimates

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Quarterly preview

Handlowy will publish 2Q08 results on 12 August, before the market opens.

In our view, it is unlikely that the company will beat 2Q07 profit of PL242m, as that figure was inflated by PLN37m profit on sales of Empik and over PLN20m in NPL recoveries.

We expect single-digit growth QoQ. There is a likely decline in the trading result, which was very high in 1Q08 because the bank was a bit fortunate in proprietary trading in foreign bonds. Also, some losses on domestic bonds are likely in 2Q08 (they do not have to be huge in P&L because most of the portfolio is booked as available for sale and the losses will go through the equity). Lower trading income should be offset by lower costs (in 1Q08, the bank booked PLN30m provisions for staff reductions) and provisions (some changes in provisioning standards in 1Q08 that boosted the charges).

2Q08 results preview (PLNm)

	1Q08	2Q08F
NII	322	338
Revenues	657	630
Costs	-411	-380
Provisions	-20	-10
Net profit	180	193

Source: ING estimates

Earnings drivers and outlook

With its large corporate deposit base, Handlowy is in a position to benefit from widening deposit margins. However, we expect fees to be under pressure because growing card fees will have difficulty offsetting the fall in fees from investment products this year (we were too optimistic in this area, which was partly connected with relatively weak disclosure for fees split).

Cost should be under control, as the bank trimmed its expansion plans. Moreover, staff cuts should have a positive effect on this line (in 2009 rather than 2008).

We revise our net profit forecasts, as the reduction of expansion plans seems to have a negative impact on the growth of assets. Additionally, the slowdown in capital markets had a surprisingly large influence on total fee revenues. Taking into account these factors, we reduce our net profit forecast by 7%/6% for 2008/2009. We think that the target set by the CEO in April (18% ROE) will not be achieved this year, despite the fact he indicated such possibility. A 2010 C/I target of 50% is challenging, but the bank should be close to it.

Because of lower profitability and higher cost of capital, we cut our DDM-based target price by 17% to PLN93.3.

After the changes, we are 4% below consensus with our 2008F net profit forecast. Therefore, we see some possibility of negative surprises in terms of consensus revisions, which is the risk to our **BUY** rating.

P&L account

PLNm	2007	2008F	2009F	2010F
NII	**1,204**	**1,337**	**1,398**	**1,465**
%ch	*17*	*11*	*5*	*5*
Fees	**737**	**726**	**878**	**1,040**
%ch	*19*	*-1*	*21*	*19*
Total revenues	2,486	2,648	2,916	3,189
%ch	*18*	*7*	*10*	*9*
Total costs	-1,523	-1,545	-1,580	-1,633
%ch	*1*	*1*	*2*	*3*
Provisions	53	-47	-82	-95
Pre-tax profit	1,043	1,056	1,254	1,460
Net profit	**824**	**844**	**1,003**	**1,168**
%ch	*25*	*2*	*19*	*16*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Interbank assets	12,040	10,836	9,753	9,753
Bonds and similar	11,603	11,603	12,183	12,183
Loans	**12,487**	**15,728**	**18,672**	**21,161**
%ch	*22*	*26*	*19*	*13*
Goodwill	1,244	1,244	1,244	1,244
Other assets	1,534	1,589	1,678	1,776
Total assets	**38,908**	**41,000**	**43,530**	**46,118**
%ch	*8*	*5*	*6*	*6*
Interbank liabilities	8,189	6,960	7,308	7,674
Bonds, similar borrowing	4,373	5,029	5,281	5,545
Deposits	**19,811**	**22,093**	**23,690**	**25,224**
%ch	*5*	*12*	*7*	*6*
Total liabilities	33,305	35,173	37,249	39,321
Equity	**5,603**	**5,827**	**6,281**	**6,797**
Total liabilities & equity	38,908	41,000	43,530	46,118
Loans/deposits (%)	63.0	71.2	78.8	83.9
Equity/assets (%)	14.4	14.2	14.4	14.7
CAR (%)	12.9	10.5	10.7	10.9

Source: Company data, ING estimates

Other ratios (%)

	2007	2008F	2009F	2010F
Cost/income	61.2	58.4	54.2	51.2
ROE	15.0	14.8	16.6	17.9
NPL ratio	12.2	9.7	8.7	8.3
Provision coverage	85	83	81	80
DPS (PLN)	4.75	4.20	4.99	5.81
Payout ratio	75	65	65	65

Source: Company data, ING estimates

Company profile

Handlowy is a mid-sized Polish bank with 5% share in total assets. It is corporate-biased (62% of loans, 72% of profits in 2007) with a strong position in large corporates. It has an excellent position in credit cards (fourth in terms of number of cards, leader in generated turnover) and cash loans. Citibank holds a 75% stake in Handlowy.

Millennium

Mutual funds versus mortgage lending

Maintained
Buy

Banks **Bloomberg: MIL PW**

- **Mutual funds continue to lose market share**
- **Sales of mortgage loans is very strong**
- **Some slowdown in new openings of branches.**

Investment case

So far this year two of the bank's most important products have shown quite different patterns. Mutual funds are losing market share (falling for ten consecutive quarters, with market share reduced from 4.4% to 3.0% since July 2007), with the result that the long-term target of 6% is becoming challenging. This puts pressure on total fees, although fund fees are declining so quickly that soon they will not be significant to the company's overall revenue.

On the other hand mortgage lending has performed much better than was expected at the start of the year. Although the bank had to sacrifice some of its margin to increase volume, we believe that overall the performance of this segment is a big positive surprise (although a further deterioration of NIM is a key risk factor). Moreover, the current shift of customer preferences from PLN to FX loans is positive for the bank as it specialises in SFr loans (over 80% of new sales).

Millennium is expanding its retail network (in 2007 by 16%) and the new outlets are performing very well (the expected break-even period was reduced from three to two years in mid-2007), which allows it to maintain high growth rates, especially in such products as credit cards (+54% YoY in 1Q08), leasing (+40%) and cash loans (+58%). In fact, in 1Q08 the project broke even, so from now on it should have a positive impact on the bottom line. However, profitability was achieved more quickly than expected thanks to a slowdown in the speed of new openings. We think the bank has tried to maintain profitability by trimming branch expansion. We do not see anything wrong at this stage, although the management denies such a strategy and sticks to its target of 490 branches at the end of 2008.

Millennium is also the most developed bank in terms of securitisation of assets, which should help manage CAR and liquidity issues, despite the fact that loans grew faster than deposits and the loans/deposits ratio exceeded 100%. After securitisation of the PLN0.8bn leasing portfolio, the bank wants to make a similar transaction on part of its mortgage book this year, which would be much more important due to the size of mortgage portfolio, although more difficult to achieve.

We like the management's strategy and believe that from 2009 the earnings will accelerate thanks to positive operating leverage from branch expansion, so we maintain our BUY rating. The 7% reduction of our DDM-based target price is connected with the recent dividend payout, the higher cost of capital and minor adjustments in our forecasts.

Price (11/07/08)	**PLN6.35**
	Previously: PLN9.54
Target price (12 mth)	**PLN8.89**

12-month forecast returns (%)

Share price	40.0
Dividend	3.0
12m f'cst total return	**43.0**

Source: ING

Key ratios (%)

	2008F	2009F
NIM	2.85	2.75
Loans to assets	77.4	84.3
Loans to deposits	112.5	124.4
ROA	1.5	1.5
NPL	3.5	3.6

Source: Company data, ING estimates

Share data

No. of shares (m)	849.2
Daily t/o (US$m)	3.0
Free float (%)	34.5
Mkt cap (US$m)	2,407
Mkt cap (lc m)	5,392

Source: Company data, ING estimates

Share price performance

Source: Reuters

Forecasts and ratios

	2006	2007	2008F	2009F	2010F
Total Assets (PLNm)	24,692	30,530	38,034	44,014	50,562
Reported net profit (PLNm)	301	462	507	629	793
Recurring EPS (PLN)	0.35	0.53	0.59	0.74	0.93
Recurring EPS Growth (%)	58	51	11	25	26
PER (x)	17.9	11.7	10.6	8.6	0.0
P/BV (x)	2.4	2.1	1.9	1.6	0.0
ROE (%)	13.1	19.5	18.8	20.3	0.0
Div Yield (%)	2.7	3.0	3.3	4.1	0.0

Source: Company data, ING estimates

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Quarterly results

Millennium, the first Polish bank to report, will announce 2Q08 results on Monday 21 July. It seems that this time the bank will not be able to show YoY and QoQ growth in net profit. The bank is likely to show another quarter of slow growth in NIM, as in March it repriced its mortgage loans down again (by c.10 bps). Other negative factors are similar to the previous quarters: losses on bonds (probably bigger than in 1Q08) and a fall in mutual funds (smaller than in 1Q08 but still meaningful). The positive factor will almost certainly be the volume of mortgage lending, as the bank reported that in April-May it sold PLN1.1bn of mortgage loans, which means monthly sales were 30% better than in 1Q08. This should be supportive for NIM and FX income. Millennium does not expect a deterioration in asset quality, so we assume a similar level of provisions as previous quarters. At the end of the day the lack of positive one-offs may be decisive for QoQ decline (c.PLN6m depreciation writebacks in 1Q08).

2Q08 results preview

PLNm	1Q08	2Q08F
NII	223	232
Revenues	445	456
Costs	-275	-297
Provisions	-11	-11
Net profit	127	118

Source: ING estimates

Earnings drivers and outlook

We expect that in 2008 card and bankassurance fees will replace mutual funds as the key drivers. However, because they weight much less in fee revenues (10% and 11% respectively versus 39% in the case of funds) the fee line will likely indicate a strong slowdown. This scenario was suggested by 1Q08 data, in which bankassurance fees jumped nearly 50% QoQ and increased their share of fees to 23%.

However, both margins and asset volumes should be healthy (especially in cash loans and deposits) so the slowdown in the top line should be less visible. Moreover, it seems that the money from mutual funds stays in the bank as deposits, so net profit may be less affected than would be expected by a change of fund fees.

Total costs are likely to remain high due to branch openings. However, because bonus payments should be lower, the recurring net profit should grow 11% YoY. The bank sees no deterioration in loan quality, so its provision/loans ratio target of 40-60bps may be undershot again.

In comparison with our previous report we revise down our net profit forecast by 3%. The only changes in our model are the reduction of our NIM assumption by 3bps and a slightly stronger decline in fund fees YoY (from -15% to -20%).

The management sees its 2009 C/I target of 55% as ambitious and we agree that it will be difficult to meet, because this year the ratio may deteriorate due to a slowdown in the top line. However, from 2009 the positive operational leverage from the branch expansion should be more visible.

P&L account

PLNm	2007	2008F	2009F	2010F
NII	**772**	**949**	**1,099**	**1,224**
%ch	*19*	*23*	*16*	*11*
Fees	**543**	**570**	**711**	**867**
%ch	*49*	*5*	*25*	*22*
Total revenues	1,679	1,907	2,287	2,636
%ch	*33*	*14*	*20*	*15*
Total costs	-1,037	-1,180	-1,342	-1,409
%ch	*21*	*14*	*14*	*5*
Provisions	-67	-90	-150	-223
Pre-tax profit	585	642	796	1,004
Net profit	**462**	**507**	**629**	**793**
%ch	*53*	*10*	*24*	*26*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Interbank assets	2,310	2,310	1,848	1,663
Bonds and similar	5,276	5,276	3,957	3,957
Loans	**22,027**	**29,429**	**37,113**	**43,820**
%ch	*47*	*34*	*26*	*18*
Goodwill	0	0	0	0
Other assets	916	1,018	1,095	1,121
Total assets	**30,530**	**38,034**	**44,014**	**50,562**
%ch	*24*	*25*	*16*	*15*
Interbank liabilities	2,569	3,468	4,161	5,202
Bonds, similar borrowing	2,991	4,486	6,056	7,872
Deposits	**21,800**	**26,160**	**29,822**	**32,506**
%ch	*36*	*20*	*14*	*9*
Total liabilities	28,010	35,168	40,697	46,672
Equity	**2,520**	**2,866**	**3,317**	**3,890**
Total liabilities & equity	30,530	38,034	44,014	50,562
Loans / deposits (%)	101.0	112.5	124.4	134.8
Equity / assets (%)	8.3	7.5	7.5	7.7
CAR (%)	13.7	12.0	11.8	11.5

Source: Company data, ING estimates

Other ratios (%)

	2007	2008F	2009F	2010F
Cost / income	61.8	61.9	58.7	53.5
ROE	19.5	18.8	20.3	22.0
NPL ratio	3.4	3.5	3.6	3.7
Provision coverage	79	68	60	56
DPS (PLN)	0.19	0.21	0.26	0.37
Payout ratio	35	35	35	40

Source: Company data, ING estimates

Company profile

Millennium is a mid-size bank with a 4% share in total assets (#7 in Poland). It is biased toward the retail segment and is especially strong in mortgage lending (#2 position, 11% share in stock, 14% in new sales) and mutual funds. It has a relatively large retail network (400 branches, the third largest). Portuguese BCP is the strategic shareholder in the bank (67% stake).

Pekao

Patience is the key

Maintained
Hold

Banks **Bloomberg: PEO PW**

- **The BPH merger is still having a negative impact on both volumes and profits.**
- **Positive effects will come but not in the short term.**

Investment case

Following the 1Q08 data release, many investors lost trust in Pekao, which visibly underperformed the market in terms of volume growth in all major categories. Management blamed the merger process, but this is insufficient an explanation in the case of the corporate segment (especially deposits), which was fully consolidated after the merger in November 2007.

The merger is still negatively affecting Pekao in terms of human resources. Several managers left the bank in 2Q08, despite its assurances a few months ago that all the people from BPH who wanted to leave the merged Pekao had done so last December. As the issue does not seem to be sorted out, it is likely to have a negative impact on the operations.

Pekao completed the operational part of the merger with BPH in May, in line with the agenda. This should allow management to focus more on daily operations and the rebuilding of its market position. We therefore still expect the merger synergies to materialise and think that results will improve consistently over the coming quarters. However, the weakness of core revenues and volumes indicates that this may happen more slowly than we had hoped and that management will have to make a major effort to maintain its market positions in key areas. The potential risk is planned rebranding (to Unicredit) as it is not particularly beneficial (the Pekao brand is well recognised and they refreshed the logo only a few years ago), while it may again dilute the focus on normal business.)

Post-merger, an enlarged client base creates space for cross-selling, which was always the bank's forte (mutual funds and cash loans). In the very short term, some ex-BPH clients may still leave, but the amount should not be large (c.5%), especially as the churn ratio has so far been low, despite the merger having been on the cards for two years.

The bank's biggest non-merger problem is its very high exposure to mutual funds, which are slowing down in 2008. Sensitivity to this source was reduced after the merger (from 16% to 11% of total revenues) because all mutual funds stayed with BPH.

We still expect the positive merger effects to materialise as Unicredit, a strategic investor in Pekao, has experience in similar operations. However, they will come later than the market expected so investors need to wait patiently for positive catalysts (ie, positive surprises connected with merger) to appear. We therefore maintain our **HOLD** rating.

Price (11/07/08)	**PLN155**
	Previously: PLN211
Target price (12 mth)	**PLN168**

12-month forecast returns (%)

Share price	8.2
Dividend	6.2
12m f'cst total return	**14.4**

Source: ING

Key ratios (%)

	2008F	2009F
NIM	3.72	3.65
Loans to assets	59.1	64.7
Loans to deposits	81.9	91.2
ROA	3.0	3.0
NPL	7.2	6.7

Source: Company data, ING estimates

Share data

No. of shares (m)	261.9
Daily t/o (US$m)	33.6
Free float (%)	37.4
Mkt cap (US$m)	19,332
Mkt cap (PLNm)	40,598

Source: Company data, ING estimates

Share price performance

Source: Reuters

Forecasts and ratios

	2006	2007	2008F	2009F	2010F
Total assets (PLNm)	67,704	124,096	129,815	140,148	152,498
Reported net profit (PLNm)	1,788	3,547	3,828	4,066	4,699
Recurring EPS (PLN)	10.69	12.94	13.25	15.49	17.88
Recurring EPS growth (%)	16	21	2	17	15
PER (x)	14.5	11.4	10.6	10.0	8.7
P/BV (x)	2.9	2.8	2.5	2.3	2.1
ROE (%)	20.7	30.0	24.9	24.3	25.6
Div yield (%)	5.8	6.2	6.6	7.0	8.1

Source: Company data, ING estimates

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Quarterly preview

Pekao is due to publish its 2Q08 results on 1 August, before market opening.

In 1Q08, Pekao booked a PLN0.35bn gain on the sale of its institutional brokerage business so reported profit should fall. However, recurring net profit (adjusted for brokerage transactions and merger costs) is likely to grow by c.5% QoQ. NIM should benefit from higher interest rates, and costs are likely to decline because of lower merger expenses (the process was completed in May).

However, we think the focus will be on volumes rather than profits. We should remember the situation in 1Q08 when net profit was broadly in line with market consensus, while weak volume growth (+1% QoQ in loans/-3% in deposits) created a very negative impression and depressed the price. We would expect at least 2-3% QoQ growth in both categories in 2Q08.

2Q08 results preview (PLNm)

	1Q08	2Q08F
NII	1,123	1,179
Revenues	1,905	1,965
Costs	(929)	(913)
Provisions	(50)	(50)
Net profit	1,138	832

Source: ING estimates

Earnings drivers and outlook

Pressure on fee revenues due to a deterioration in the mutual funds market and brokerage (part of which has shifted to CAIB) is a fact and was partly expected. However, the real problem is that NII was expected to be strong and this was not the case in 1Q08. We hope this will change in the coming quarters, but a major disappointment in this line is an important risk factor.

Positive cost effects of the merger will not be very visible this year as Pekao is simultaneously processing the costs of the merger (around PLN60m in 2008). From 2009, we should see a net positive effect from the merger, which should allow Pekao to lower the cost line (the bank estimates synergies for over PLN0.2bn pa).

Pekao is the only bank likely to reduce provisioning costs this year. This is connected with the high level of provisioning in the past (as a result of which, the provision coverage ratio is 90%) and possible sales of NPLs, which were expected to be done after the merger.

Due to the increase in the cost of capital and a downward revision of our forecasts (only fund fees as mutual funds data for May and June was weak), we are lowering our DDM-based target price from PLN211 to PLN168.

P&L account

PLNm	2007	2008F	2009F	2010F
NII	**4,323**	**4,538**	**4,737**	**5,003**
%ch	*82*	*5*	*4*	*6*
Fees	**2,932**	**2,647**	**3,196**	**3,667**
%ch	*54*	*-10*	*21*	*15*
Total revenues	8,136	7,971	8,775	9,620
%ch	*73*	*-2*	*10*	*10*
Total costs	(3,805)	(3,756)	(3,660)	(3,674)
%ch	*61*	*-1*	*-3*	*0*
Provisions	(320)	(183)	(293)	(373)
Pre-tax profit	4,208	4,467	4,821	5,573
Net profit	**3,547**	**3,828**	**4,066**	**4,699**
%ch	*98*	*8*	*6*	*16*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Interbank assets	22,082	23,186	23,186	23,186
Bonds and similar	27,508	24,757	21,044	17,887
Loans	**69,702**	**76,757**	**90,637**	**105,931**
%ch	*113*	*10*	*18*	*17*
Goodwill	0	0	0	0
Other assets	4,804	5,114	5,281	5,493
Total assets	**124,096**	**129,815**	**140,148**	**152,498**
%ch	*83*	*5*	*8*	*9*
Interbank liabilities	10,434	10,434	13,042	15,650
Bonds, similar borrowing	5,433	5,977	6,574	7,232
Deposits	**89,944**	**93,680**	**99,371**	**104,544**
%ch	*74*	*4*	*6*	*5*
Total liabilities	109,349	113,759	122,706	133,203
Equity	**14,747**	**16,056**	**17,442**	**19,295**
Total liabilities & equity	124,096	129,815	140,148	152,498
Loans/deposits (%)	77.5	81.9	91.2	101.3
Equity/assets (%)	11.9	12.4	12.4	12.7
CAR (%)	13.8	10.9	10.4	9.8

Source: Company data, ING estimates

Other ratios (%)

	2007	2008F	2009F	2010F
Cost/income	46.8	47.1	41.7	38.2
ROE	30.0	24.9	24.3	25.6
NPL ratio	7.9	7.2	6.7	6.4
Provision coverage	82	87	85	85
DPS	9.62	10.22	10.84	12.51
Payout ratio	71	70	70	70

Source: Company data, ING estimates

Company profile

Following the merger with a large part of BPH in November 2007, Pekao became the largest bank in Poland in terms of assets (17% share) and branches (1,400), although in terms of client numbers, it is still behind PKO BP (4m vs 6m), and in the case of loans and deposits, the banks are similar in size. Pekao is strong in mutual funds (number one) but relatively weak in mortgage lending (below the top five as it does not offer FX loans) and credit cards.

PKO BP

High profits, growing expectations

Maintained
Hold

Banks **Bloomberg: PKO PW**

- **New management, but old challenges.**
- **Strongly outperforming market and the sector – investors are expecting more and more.**

Investment case

In May, the State Treasury replaced almost the entire management board of PKO BP (one member of the previous board survived), including the CEO. However, the new management team seems reluctant to make major changes in the previous strategy, which assumed maintaining or increasing market share in key products and improving the cross-selling ratio in the existing client base. The press reports that the changes in the strategy may be significant (rebranding, foreign *greenfield* expansion of the internet arm) and are risks rather than opportunities.

In the long term, the greatest upside potential would come from increasing the cross-selling ratio, which is currently very low (two products per customer; the target is three). On the other hand, we are concerned about PKO BP's consistent focus on market share ("to be #1 again"). At such a large institution, the incremental cost of increasing market share (marketing, pricing) is quite high and is likely to more than offset the positive effects of scale. We therefore hope that a small adjustment in the bank's strategy (expected in autumn) will shift focus somewhat from *size* to *profitability*. Signs of such a shift have appeared from time to time (eg, an increase in the prices of mortgage loans in 1H08), but we are not sure whether they represent adjustments in strategy or are merely tactical moves.

PKO BP's long-term cost advantage is its large, countrywide network (1,200 branches + 2,500 agents), which does not need expansion. PKO BP is also the largest bank in terms of employee numbers (it is visibly overstaffed), but we do not foresee a big restructuring for political reasons.

While the bank has had very good results for the last few quarters, is positively leveraged to increases in domestic interest rates and is likely to show one of the highest profit growth rates in the sector this year, we are very cautious about its price performance in 2H08: in just three months, PKO BP has outperformed the market (WIG) by 18% and the Polish banking sector by 11%. This indicates that market expectations for the bank may be quite inflated after good 1Q08 figures and that the chances of negative surprises are growing. PKO BP is the second-largest bank in Poland, so we do not see any reason why its performance (in terms of fundamentals) should be so different from market averages. We therefore maintain our **HOLD** rating on the bank. We are not making any major changes in our forecasts and DDM-based target price in this report. The main risks to our target price are political influence, cost control (on the downside) and further rate hikes (on the upside).

Price (11/07/08)	**PLN44.6**
	Previously: PLN47.2
Target price (12 mth)	**PLNPLN46.6**

12-month forecast returns (%)

Share price	4.4
Dividend	2.4
12m f'cst total return	**6.8**

Source: ING

Key ratios (%)

	2008F	2009F
NIM	5.10	4.70
Loans to assets	75.5	80.5
Loans to deposits	95.1	102.7
ROA	3.2	3.1
NPL	3.2	2.9

Source: Company data, ING estimates

Share data

No. of shares (m)	1,000.0
Daily t/o (US$m)	38.6
Free float (%)	37.7
Mkt cap (US$m)	21,238
Mkt cap (PLNm)	44,600

Source: Company data, ING estimates

Share price performance

Source: Reuters

Forecasts and ratios

	2006	2007	2008F	2009F	2010F
Total assets (PLNm)	102,026	108,569	124,654	139,897	154,601
Reported net profit (PLNm)	2,149	2,904	3,759	4,154	4,777
Recurring EPS (PLN)	2.15	2.90	3.76	4.15	4.78
Recurring EPS growth (%)	24	35	29	11	15
PER (x)	20.8	15.4	11.9	10.7	9.3
P/BV (x)	4.4	3.7	3.1	2.5	2.1
ROE (%)	22.9	26.4	28.4	25.8	24.8
Div yield (%)	2.2	2.4	2.5	3.3	3.7

Source: Company data, ING estimates

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Quarterly preview

PKO BP is due to publish 2Q08 results on 8 August, before market opening. A few months ago, we expected 2Q08 to show a major deterioration in margins due to the end of a special deposit campaign, which boosted profitability in 1Q08. However, further growth in interest rates in 2Q08 is likely to keep deposit margins strong. Moreover, the bank has tightened its lending policy, so loan margins should also be firm (on the other hand, a more restrictive attitude may have caused a deterioration in loan growth; according to press reports, sales of mortgage loans were just PLN0.9bn in June versus PLN1.4bn in April). Despite supportive NII, the bottom line is likely to shrink QoQ (still 46% growth YoY) due to losses on bonds and seasonal factors (costs are seasonally low in 1Q and rebound in 2Q). We expect still low provisions as any revisions in provisioning policy are unlikely so soon after the change in management.

2Q08 results preview (PLNm)

	1Q08	2Q08F
NII	1,427	1,499
Revenues	2,161	2,211
Costs	(948)	(1,051)
Provisions	(27)	(40)
Net profit	951	890

Source: ING estimates

Earnings drivers and outlook

While at the start of the year we believed that PKO BP's NIM would deteriorate YoY in 2008, the situation has change over the last few months. The bank is not competing for deposits as fiercely as we thought, while interest rates (one of the key factors for deposit margins) are growing faster than expected, supporting PKO BP's total NIM. When rates stop growing in 2009, the bottom line should see a significant deceleration. Fees are likely to slow down due to a slowdown in mutual funds, despite the fact that the bank's exposure to this product is relatively low (note that the c.30% growth in 2007 is not a good comparison due to accounting changes that moved part of the revenues from 'other operating income' to 'fee income').

PKO continues to make modest staff reductions (5% pa), but the gap in salaries, c.20% below the market, may boost staff costs (although so far costs have surprised positively). Implementation of a new IT system will allow for savings, but they are likely to appear in 2009 rather than 2008.

In 2H08, net profits may be affected by adjustments in provisioning made by new management as the bank has so far made quite small provision charges (8bp in 2007). It is possible that the new CEO will be more conservative or will make an 'opening' review of assets and some write-offs.

In May, departing CEO Rafal Juszczak said that the bank may earn PLN4bn this year. We do not believe this is achievable, and nor does the market. In the case of 2008 net profit forecasts, we are 14% above consensus (PLN3.3bn), so we think growth in consensus estimates is likely and may be a supportive factor over the short term.

P&L account

PLNm	2007	2008F	2009F	2010F
NII	**4,644**	**5,646**	**5,914**	**6,518**
%ch	*21*	*22*	*5*	*10*
Fees	**2,335**	**2,480**	**2,820**	**3,092**
%ch	*25*	*6*	*14*	*10*
Total revenues	7,744	9,023	9,728	10,637
%ch	*19*	*17*	*8*	*9*
Total costs	(4,083)	(4,195)	(4,274)	(4,303)
%ch	*7*	*3*	*2*	*1*
Provisions	(57)	(171)	(310)	(424)
Pre-tax profit	3,605	4,657	5,144	5,910
Net profit	**2,904**	**3,759**	**4,154**	**4,777**
%ch	*35*	*29*	*11*	*15*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Interbank assets	9,975	8,977	7,182	5,746
Bonds and similar	16,790	15,111	13,600	12,920
Loans	**76,417**	**94,122**	**112,663**	**129,456**
%ch	*30*	*23*	*20*	*15*
Goodwill	0	0	0	0
Other assets	5,387	6,444	6,451	6,479
Total assets	**108,569**	**124,654**	**139,897**	**154,601**
%ch	*6*	*15*	*12*	*11*
Interbank liabilities	4,704	5,175	5,175	5,175
Bonds, similar borrowing	3,074	4,303	5,594	7,272
Deposits	**86,611**	**98,962**	**109,755**	**119,351**
%ch	*4*	*14*	*11*	*9*
Total liabilities	96,648	110,064	122,280	133,661
Equity	**11,921**	**14,590**	**17,616**	**20,939**
Total liabilities & equity	108,569	124,654	139,897	154,601
Loans/deposits (%)	88.2	95.1	102.7	108.5
Equity/assets (%)	11.0	11.7	12.6	13.5
CAR (%)	12.0	10.1	10.6	11.0

Source: Company data, ING estimates

Other ratios (%)

	2007	2008F	2009F	2010F
Cost/income	52.7	46.5	43.9	40.5
ROE	26.4	28.4	25.8	24.8
NPL ratio	3.8	3.2	2.9	2.7
Provision coverage	58	59	60	61
DPS	1.09	1.13	1.45	1.67
Payout ratio	38	30	35	35

Source: Company data, ING estimates

Company profile

PKO BP is the second-largest bank in Poland in terms of assets (14% share) and the largest in terms of retail clients (6m current accounts). It has the second-largest branch network (1,200 branches) but also has 2,500 agents (a kind of micro-outlets). It is the largest mortgage lender in the country. It is biased toward retail banking (68% of loans, 78% of deposits) and the public sector. The bank has minor operations in Ukraine (Kredobank subsidiary). PKO BP is controlled by the Polish State Treasury (with a 51% stake).

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Automobiles

Fota

Depleted credibility

Previously: Buy
Sell

Automobiles **Bloomberg: FOT PW**

- **Continued under-deliverance on forecasts increases investors' scepticism making them reluctant to look beyond 2008...**
- **... and therefore we downgrade Fota to SELL with TP of PLN13.7 mainly on the back of a 23.5x 2008F PER.**

Investment case

The company has continuously disappointed in delivering results: in 2007, even after cutting its forecasts Fota failed to deliver and afterwards further decreased reported profit due to forex losses. As a result, investors have limited confidence in Fota's profits potential and we do not believe they are willing to look further than at 2008. And for this year Fota trades at unappealing 2008F PER of 23.5x, so we downgrade the company from Buy to SELL with a TP of PLN13.7 based 50% on peer valuation and 50% on DCF. Fota is, moreover, expected to post rather weak 2Q08 results.

The main undertaking of the management for 2008 is converting the distribution branches into franchises, ie, giving the agents control over the branch in exchange for a 50% share in the gross profit. Currently c.50 out of the 103 branches are operated by independent agents. At the beginning the agent gets more (55-60%) in order to get better acquainted with the business model. Such a transitory period of higher share lasts up to two years.

Negotiations with potential agents are now being held and we expect new branches to be converted no sooner than in 4Q08. The process will therefore have no impact on this year's P&L and will contribute to only limited margins improvement in 2009, as the majority of the converted branches will act at above-target share in gross margin.

The second important aim is further building the infrastructure of regional warehouses. Currently Fota has four warehouses, out of which three are too small for the realised turnover levels. They will either be expanded or moved to new warehouses in the region. In 2007 the company was supposed to launch two warehouses: in Warsaw and in Wroclaw, but the latter is delayed due to problems with construction permissions and is expected to be finished in 2009. Moreover, there are three more warehouses in the pipeline for 2009-11.

One of the risk factors for Fota's financial standing is its high level of inventories: the inventory turnover has oscillated around 180 days for the past few years. Thanks to the newly implemented IT system and more focus on optimising the assortment of goods in every warehouse case by case, the inventory turnover is supposed to decrease in 2008. We forecast the ratio will drop to 164 days from 184 in 2007.

Price (11/07/08)	**PLN15.3**
	Previously: PLN27.9
Target price (12 mth)	**PLN13.7**

12-month forecast returns (%)

Share price	-10.5
Dividend	0.0
12m f'cst total return	**-10.5**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	3.7	4.2
Operating margin	2.6	2.9
Net debt/equity	55.9	65.9
DPS (PLN)	0.00	0.00
ROE	3.11	5.68

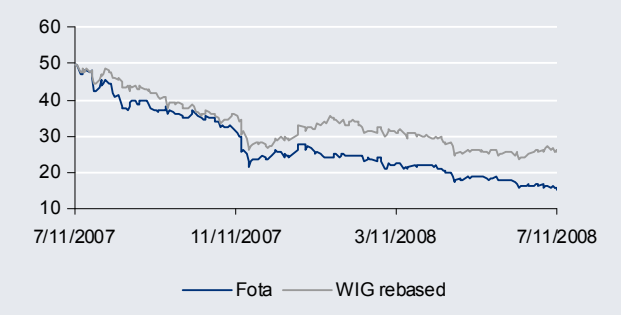
Source: Company data, ING estimates

Share data

No. of shares, diluted (m)	9.4
Daily t/o (US$m)	0.01
Free float (%)	18.9
Mkt cap (US$m)	66
Mkt cap (PLNm)	144

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	438.5	595.4	768.6	858.9	898.8
EBITDA (PLNm)	23.0	24.8	28.6	36.0	41.3
Net income (PLNm)	12.1	8.2	6.1	11.7	14.3
EPS (PLN)	1.9	0.9	0.6	1.2	1.5
PER (x)	8.2	17.6	23.5	12.3	10.1
P/BV (x)	0.6	0.7	0.7	0.7	0.6
EV/EBITDA (x)	3.9	9.1	9.0	7.9	6.9
ROE (%)	9.3	4.4	3.1	5.7	6.5

Source: Company data, ING estimates

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Quarterly results

We forecast revenue to grow slightly less than in 1Q08, ie, at 35% YoY (compared with 42% in the first three months). We also expect the gross margin to improve further to 25.0% (vs 23.5% in 2Q07 and 23.6% in 1Q08). Nevertheless, we expect administrative costs to remain high (at 22.3% of sales) and to contribute to lower operating margin YoY (2.4% vs 2.5%) but higher QoQ (1.0%). The company recognised extraordinary financial income in 2Q amounting to PLN1.9m, compared with PLN2m in net financial expenses in 1Q08 (excluding forex loss) and expected in 2Q08, so we forecast it to post lower net profit YoY despite higher EBIT.

2Q08 results (PLNm)

	2Q07A	2Q08F
Revenue	134.6	181.8
EBITDA	4.4	6.3
EBIT	3.3	4.4
Net profit	3.5	1.9
EPS (PLN)	0.37	0.20

Source: Company data, ING estimates

Earnings drivers and outlook

We expect improvement in gross margin from 24.1% in 2007 to 25.3%, thanks to initiatives of the new trade department. On the other hand, we forecast the administrative costs to grow in relation to sales as a result of restructuring costs. In 1Q08 SG&A rose to 22.3% of sales from c.21.3% in the past years. This is mainly attributable to IT system implementation and changes in organisation of logistics. Moreover, there is a different split of sales and administrative costs: the former now represent 13.8% of sales (compared with 15% in 2007) and the latter 8.5% (vs 6.3%). In accordance with management's guidance, we expect it to stay at this level for the remainder of the year. For 2009 we expect a drop in general expenses to 8.0%, since the majority of the restructuring costs should end.

2008 results will be burdened by part of the forex losses on contracts made in 2007. They were recognised in 1Q and amounted to PLN3.9m. Therefore, despite a 13% YoY improvement on the operating profit, we forecast net profit will be lower this year.

In 2009 we assume further improvement in the gross margins as well as operating margin as a result of:

(1) end of restructuring expenses

(2) converting distribution branches into franchise model

(3) optimisation of the inventory management

We forecast the EBITDA margin to grow from 3.7% in 2008 to 4.2% in 2009 and 4.6% in 2010. Further improvement in 2010 stems from the end of the transitory period of 60% agents' share in the gross margin.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**595.4**	**768.6**	**858.9**	**898.8**
%ch	*35.8*	*29.1*	*11.8*	*4.6*
SG&A	126.8	173.3	193.7	201.0
EBITDA	**24.8**	**28.6**	**36.0**	**41.3**
EBIT	**17.7**	**19.9**	**25.0**	**28.5**
%ch	*0.2*	*12.7*	*25.4*	*14.2*
Margin (%)	*3.0*	*2.6*	*2.9*	*3.2*
Pre-tax profit	10.1	7.6	14.4	17.6
Tax	1.7	1.4	2.7	3.3
Net profit	**8.2**	**6.1**	**11.7**	**14.3**
%ch	*-32.2*	*-25.3*	*90.9*	*22.3*
Margin (%)	*1.4*	*0.8*	*1.4*	*1.6*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	18.4	13.9	16.2	14.2
Inventory	231.4	258.2	287.3	300.3
Trade debtors	75.4	97.4	108.8	113.9
Other current assets	7.0	7.0	7.0	7.0
Total current assets	**332.2**	**376.5**	**419.3**	**435.5**
PPE	43.0	49.4	58.6	61.3
Other fixed assets	19.2	19.2	19.2	19.2
Total fixed assets	**62.2**	**68.6**	**77.8**	**80.5**
Total assets	**394.4**	**445.0**	**497.0**	**515.9**
ST debt	97.2	122.2	152.2	152.2
Trade creditors	72.1	91.6	101.9	106.5
Other current liabilities	22.0	22.0	22.0	22.0
Total current liabilities	**191.3**	**235.8**	**276.1**	**280.7**
LT debt	2.2	2.2	2.2	2.2
Other LT liabilities	7.4	7.4	7.4	7.4
Total LT liabilities	**9.7**	**9.7**	**9.7**	**9.7**
Equity	**193.5**	**199.6**	**211.3**	**225.6**
Total liabilities & equity	**394.4**	**445.0**	**497.0**	**515.9**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	(51.3)	(14.5)	(7.5)	13.6
CF from investment	(25.9)	(15.0)	(20.3)	(15.5)
CF from funding	27.6	25.0	30.0	0.0
Change in cash	(49.6)	(4.5)	2.3	(1.9)
Cash last year	68.0	18.4	13.9	16.2
Cash year end	18.4	13.9	16.2	14.2

Source: Company data, ING estimates

Company profile

Fota is the third-largest independent importer and distributor of replacement car parts in the Polish market with an estimated share of 10.5%. It also has subsidiaries in the Czech Republic, Hungary and Ukraine.

Inter Cars

Synergies to emerge in 2009

Previously: Buy
Hold

Automobiles **Bloomberg: CAR PW**

- **We downgrade our forecasts for 2008, mainly as a result of the strengthening zloty and the cost of adapting JC Auto's distribution chain.**
- **We expect a weak 2Q08 and improvement in 2H08, and suggest buying into the stock if the price drop after the results announcement is steep.**

Investment case

Although Inter Cars (IC) and JC Auto (JC) have almost perfectly complementary product portfolios (JC and IC competed only marginally, mostly in own brands for European car parts), the joint entity will not be a simple sum of the two parts.

First, in 2007 JC posted 46% revenue growth, but after subtracting the PLN109m sold to Inter Cars, the growth amounted only to 5% and comes solely from export sales.

Second, the companies have partially overlapping distribution chains, so branches had to be closed or moved.

Third, JC had a different sales system: it operated through own branches, as opposed to IC's franchise branches. Some JC outlets have been converted to the IC model, and now the merged company has 115 franchise branches in Poland. However, turnover at some newly converted branches is too small for the agent to make a satisfactory profit on a 50:50 gross margin division system. IC has to subsidise such branches, making the effective share in gross margin lower than 50% and impacting on margins.

After the merger, IC has a PLN515m financial debt (1.91 debt/equity ratio), leading to the risk of further expansion of financing costs. With PLN100-130m assumed capex for 2008, its financing needs will grow even further. Moreover, 2008 will be burdened by an appreciating zloty, leading to the risk of price lists expressed in PLN being lowered. This has little effect on margins (lower sales and proportionally lower COGS), but depresses the overall scale.

As a result of our forecast cut, we lower our DCF and relative valuation-based TP to PLN87.

Inter Cars is changing its plans with respect to distribution centres: previously it planned to expand the JC distribution centre near Warsaw (Kajetany), and now it is considering selling or leasing the space and building three new regional warehouses instead (Lublin, Silesia, Tri-City). It plans to invest in automation, which will allow for significant savings, above all in payroll. Management estimates the payback period to be four years (two years with EU subsidies), assuming flat wages. We estimate the cost of one system at PLN6.5m and that IC will buy six in 2009-11. Such an investment should improve margins visibly, but would also create further financing needs.

Price (11/07/08)	**PLN77**
	Previously: PLN154
Target price (12 mth)	**PLN87**

12-month forecast returns (%)

Share price	13.0
Dividend	0.9
12m f'cst total return	**13.9**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	7.9	8.8
Operating margin	6.8	6.9
Net debt/equity	109.9	94.2
DPS (PLN)	0.69	1.05
Dividend yield	0.90	1.36

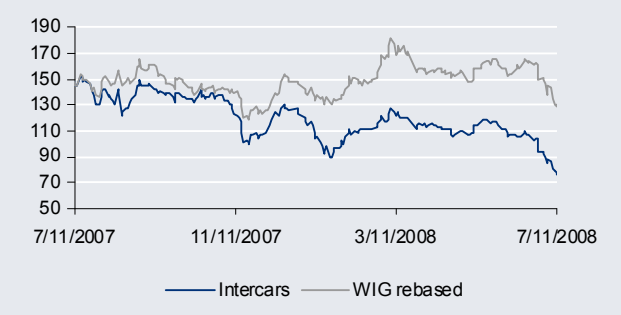
Source: Company data, ING estimates

Share data

No. of shares (m)	13.7
Daily t/o (US$m)	0.35
Free float (%)	33.0
Mkt cap (US$m)	481
Mkt cap (PLNm)	1,055

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios (PLNm)

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue	1,013.1	1,326.9	1,814.2	2,120.6	2,295.7
EBITDA	49.0	102.5	143.8	187.6	210.9
Net income	19.6	58.6	71.9	86.1	98.4
EPS (PLN)	1.7	4.3	5.2	6.3	7.2
PER (x)	46.4	18.0	14.7	12.2	10.7
P/BV (x)	8.1	6.3	2.3	2.0	1.7
EV/EBITDA (x)	25.5	13.6	10.8	8.3	7.3
ROE (%)	19.6	41.8	22.9	17.4	17.2

Source: Company data, ING estimates

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Quarterly preview

In 1Q08 Inter Cars showed 39% YoY revenue dynamics, translating to mere 11% pro forma growth. We expect the situation to be similar in 2Q, since the majority of the negative factors are still in force (political instability in Ukraine, depreciating euro and overlapping IC and JC distribution chains). Moreover, in 1Q08 there were positive non-recurring items (PLN4m gross profit on land sales) and IC consolidated JC only for one month (the company ceased its selling activity and generated only costs). In 2Q08 we expect negative one-offs: a merger bonus for key employees and the revaluation of bonuses from suppliers (IC allocates the expected bonuses proportionally to every quarter). We assume the EBITDA margin will drop to 6.7% in 2Q08 vs. 9.5% in 1Q08 and 8.1% in 2Q07 (7.7% pro-forma). The company could also post lower YoY net profit as a result of growing interest expense.

2Q08 results preview (PLNm)

	2Q07	2Q07 pro forma	2Q08F
Revenue	325.7	403.0	439.6
EBITDA	26.5	31.2	29.5
EBIT	25.0	29.8	25.4
Net profit	18.0	19.9	13.1
EPS (PLN)	1.52	1.45	0.96

Source: ING estimates

Earnings drivers and outlook

We expect Inter Cars to post PLN1.8bn revenues in 2008, translating into pro forma YoY growth of 13%. Such unusually slow dynamics for Inter Cars would be the result of three factors:

- Appreciating zloty lowering the sales prices
- Partially overlapping distribution infrastructure of JC and IC
- Time needed to convert the JC sales chain into franchise model used at IC.

As a result of operating synergies (economies of scale, almost perfectly complementary portfolios, optimisation of SG&A) as well as higher gross margin on Asian car parts, we expect Inter Cars to improve EBITDA margin to 7.9% in 2008 compared to 7.7% in 2007. Nevertheless, the net profitability will be burdened by growing financing costs (our estimate for 2008 is PLN35.3m net interest expense, compared with PLN14.1m in 2007), and as a result the net margin will deteriorate from 4.4% to 4.0% respectively, in our view.

In 2009 we expect the companies to overcome the consolidation difficulties and optimise the distribution chain. Also, the transition period of subsidising the newly converted branches should be complete.

We also look for shortening inventory turnover: after IC took over JC's stock, turnover grew to 184 days in 2007 from 125 a year earlier. We forecast 146 and 131 in 2008 and 2009 respectively.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**1,326.9**	**1,814.2**	**2,120.6**	**2,295.7**
%ch	*31.0*	*36.7*	*16.9*	*8.3*
EBITDA	**102.5**	**143.8**	**187.6**	**210.9**
EBIT	**87.7**	**123.6**	**146.7**	**158.4**
%ch	*149.4*	*40.9*	*18.7*	*8.0*
Margin (%)	*6.6*	*6.8*	*6.9*	*6.9*
Pre-tax profit	73.7	88.7	106.3	121.5
Tax and minorities	15.7	16.9	20.2	23.1
Net profit	0.0	0.0	0.0	0.0
Adjusted net profit	**58.6**	**71.9**	**86.1**	**98.4**
%ch	*199.1*	*22.6*	*19.8*	*14.3*
Margin (%)	*4.4*	*4.0*	*4.1*	*4.3*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	22.9	17.9	23.2	22.5
Inventory	482.7	513.8	540.5	585.2
Trade debtors	154.5	211.2	246.9	267.3
Other current assets	485.2	601.2	627.9	672.6
Total current assets	**662.5**	**830.4**	**898.1**	**962.4**
PPE and intangibles	90.6	257.7	305.2	336.8
Other fixed assets	62.6	182.0	182.0	182.0
Total fixed assets	**153.2**	**439.7**	**487.1**	**518.8**
Total assets	**815.7**	**1270.1**	**1385.2**	**1481.2**
ST debt	318.6	468.5	468.5	458.5
Trade creditors	261.4	256.9	300.3	325.1
Other current liabilities	20.3	30.9	30.9	30.9
Total current liabilities	**600.3**	**756.3**	**799.7**	**814.5**
LT debt	38.8	46.7	46.7	46.7
Other LT liabilities	8.6	7.6	7.6	7.6
Total LT liabilities	**47.4**	**54.3**	**54.3**	**54.3**
Equity	**168.1**	**459.5**	**531.2**	**612.4**
Total liabilities & equity	**815.7**	**1270.1**	**1385.2**	**1481.2**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	(52.3)	(0.3)	108.0	110.7
CF from investment	(70.0)	(115.2)	(88.4)	(84.2)
CF from funding	130.8	110.6	(14.4)	(27.2)
Change in cash	8.5	(4.9)	5.3	(0.7)
Cash last year	14.5	22.9	17.9	23.2
Cash year-end	22.9	17.9	23.2	22.5

Source: Company data, ING estimates

Company profile

Inter Cars is the largest car parts distributor in the CEE, with an estimated 23% share of the domestic Polish market and with established operations in the Czech Republic, Slovakia, Ukraine and Lithuania. Through the merger with JC Auto, it also gains presence in Hungary and Croatia. Outside of car parts distribution, Inter Cars is involved in related businesses: a service station franchise (Auto Crew, Q-Service, Perfect Service), car parts refurbishment (Lauber) and trailer assembly (Feber).

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Construction and building materials

Budimex

Still more expensive than the competition

Previously Hold
Sell

Construction & Building materials **Bloomberg: BDX PW**

- **Despite expectations of a strong 2Q08, we believe the turnaround in margins is priced in already.**
- **Budimex trades at a 36% and 19% premium to peers based on 2008F and 2009F PER, which despite high CAGR growth rates in EPS is unjustified considering the low potential for profitability improvement beyond 2009.**

Investment case

We believe that the market consensus is too optimistic both with regard to the company's margin improvement beyond 2009 and the company's revenue growth potential in the years 2008 and 2009. We forecast 5% and 15% growth in revenues in 2008 and 2009 respectively vs market consensus of 24% and 20%. We are also more cautious towards the company's margin improvement potential and believe that the market consensus for 2009 net profit is 18% too high. In our view in 2009 the company will lack a significant contribution from the high-margin residential development segment. We expect residential construction to add PLN38m to Budimex's gross profit in 2009 vs PLN49m in 2008.

Budimex's backlog of orders at the end of May 2008 amounted to PLN3.0bn and remained flat YoY. The backlog is split into infrastructure projects amounting to 60% (or PLN1.8bn), while general construction activity constitutes 39% of signed contracts. The environmental segment constitutes only 1% of the company's backlog. Budimex is able to execute up to 100 contracts at the same time. Currently it has 60 in its portfolio.

We expect 2008 revenues to increase only 5% YoY following a flat YoY backlog. However, net profit margin will pick up from 0.5% in 2007 to 1.8% in 2008, following the completion of loss making contracts. We believe the compensation payment demands from Okecie airport investor PPL (which is demanding PLN54m from Budimex) will be solved without any negative impact on Budimex's financials.

Budimex trades at 2008F and 2009F PERs of 26x and 16x respectively, equating to a 36% and 19% premium to peers. Considering the limited potential for net margin improvement beyond 2009 we see no upside potential to the share price.

We increase our forecast for 2008 net profit by 20% and make only minor adjustments to our 2009 profit forecast. We simultaneously decrease our 2008 and 2009 revenue forecasts by 6% and 2% respectively. Other changes in our DCF assumptions include the increase of beta from 1.0 to 1.2 and a rise in the equity risk premium from 4.5% to 5.0%. The decrease in Budimex's net cash position, from PLN236m as of end 3Q07 to PLN59m as of end 1Q08, leads us to lower our TP to PLN60.0. There is upside risk to our target price if profitability improvement proves to be long term in nature.

Price (11/07/08)	**PLN65**
	Previously: PLN89
Target price (12 mth)	**PLN60**

12-month forecast returns (%)

Share price	(7.7)
Dividend	0.0
12m f'cst total return	**(7.7)**

Source: ING

Key ratios (%)

	2007	2008F
EBITDA margin	1.6	2.6
Operating margin	0.9	1.9
Net debt/equity	(43.3)	(46.9)
DPS (PLN)	0.0	0.0
Dividend yield	0.0	0.0

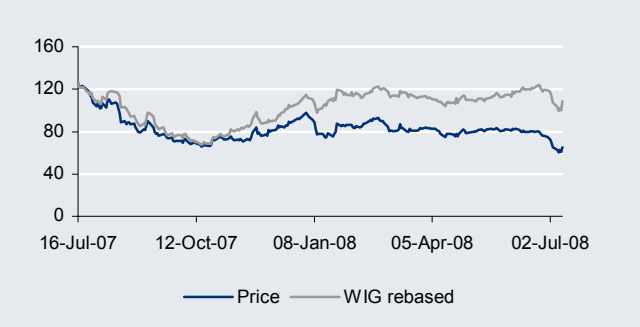
Source: Company data, ING estimates

Share data

No. of shares (m)	25.5
Daily t/o (US$m)	0.8
Free float (%)	41
Mkt cap (US$m)	809
Mkt cap (lc m)	1,658

Source: Company data, ING estimates

Share price performance



Source: Bloomberg

Forecasts and ratios

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	3,043	3,076	3,215	3,696	4,059
EBITDA (PLNm)	31	50	84	135	186
Net income (PLNm)	4	15	64	104	145
EPS (PLN)	0.15	0.59	2.49	4.09	5.68
PER (x)	425.7	110.0	26.1	15.9	11.4
EV/EBITDA (x)	43.2	28.5	16.7	9.7	6.3
P/BV (x)	3.2	3.1	2.8	2.4	2.0
ROE (%)	0.7	2.8	11.2	16.0	0.0

Source: Company data, ING estimates

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Quarterly preview

Budimex will report 2Q08 results on 15 August. In previous quarters Budimex announced preliminary figures on the date of Ferrovial's quarterly earnings announcement. As Ferrorvial reports 2Q08 on 30 July, Budimex's preliminary 2Q08 results are also likely to be announced that day.

We expect Budimex to report flat 2Q08 revenues YoY. Lack of growth in the company's backlog has already resulted in flat YoY revenues in 1Q08.

Budimex should report two one-offs in 2Q08. The sale of some real estate assets as well as a stake in power construction subsidiary ZRE should add PLN3.3m to profit before tax.

The company indicated that the troublesome Wyszkow ringroad contract might result in up to PLN10m of losses in 2Q08. However, this should be offset by better-than-expected margins on other general construction projects.

2Q08 results preview

	2Q07A	2Q08F
Revenue	780	772
EBITDA	7,7	29,9
EBIT	2,4	25,2
Net profit	-3,0	19,0
EPS (PLN)	-	0.75

Source: ING estimates

Earnings drivers and outlook

Although Budimex has not indicated problems with the sale of its residential projects, the company confirmed that its ability to increase prices is almost non-existent, and sooner or later this will put pressure on margins. We expect gross margins to decline from 28% in 2008 to 20% in 2009. At the beginning of 2008 the company revised down its ambitious target of 600 flats sold in 2008 to 477. In 2009 the number of housing units should decline to below 400 units and pick up sharply from 2010. For the years 2010-12 the project pipeline assumes the construction of almost 2,500 housing units. Should the standstill in the housing market continue, however, Budimex could be forced to further revise its targets for residential units sold.

After a strong 1Q08 (driven by residential development) and expectations of an even stronger 2Q08 (following the seasonal improvement in construction activity) we believe that 2H08 will show further YoY improvement in profitability. Although residential construction contribution should decrease in 2H08, the construction segment should improve its profitability as contracts at breakeven gross margins (amounting to PLN139m as of end 1Q08) will be completed throughout 2H08. Gross margins in the construction segment in 2H08 should help to answer the question of whether the improvement in profitability is sustainable.

Major drivers of the share price include the announcement of crucial highway and motorway construction contracts scheduled for late 3Q08/early 4Q08, as well as a quicker-than-expected improvement in profitability in the coming quarters.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**3,076**	**3,215**	**3,696**	**4,059**
%ch	*4.5*	*15.0*	*9.8*	*10.7*
EBITDA	**50**	**84**	**135**	**186**
EBIT	**28**	**61**	**109**	**157**
%ch	*182*	*119*	*77*	*45*
Margin (%)	*0.9*	*1.9*	*2.9*	*3.9*
Pre-tax profit	12	77	127	178
Tax	1	(15)	(24)	(34)
Minorities	1	1	1	1
Net profit	**15**	**64**	**104**	**145**
%ch	*287*	*322*	*64*	*39*
Margin (%)	*0.5*	*2.0*	*2.8*	*3.6*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	509	457	569	720
Goodwill				
Other current assets	1,329	1,368	1,528	1,645
Total current assets	**1,838**	**1,824**	**2,096**	**2,365**
PPE	97	110	125	141
Intangibles	5	5	5	5
Other fixed assets	404	404	404	404
Total fixed assets	**506**	**519**	**534**	**550**
Total assets	**2,344**	**2,343**	**2,630**	**2,915**
ST debt	106	96	96	96
Other current liabilities	1,386	1,425	1,623	1,764
Total current liabilities	**1,493**	**1,520**	**1,719**	**1,860**
LT debt	171	80	65	65
Other LT liabilities	144	144	144	144
Total LT liabilities	**315**	**224**	**209**	**209**
Minorities	0	-1	-2	-3
Equity	**536**	**600**	**704**	**849**
Total liabilities & equity	**2,344**	**2,343**	**2,630**	**2,915**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	(81)	52	62	114
CF from investment	74	(19)	46	17
CF from funding	**42**	**(102)**	**(15)**	**0**
Change in cash	**20**	**(53)**	**112**	**152**
Cash last year	489	509	457	569
Cash year end	509	457	569	720

Source: Company data, ING estimates

Company profile

Budimex is the third largest Polish construction company with regard to revenues and the second largest contractor in road construction (32% share in 2007 revenues) after Skanska. Budimex' largest activity, however, is general construction (67% of 2007 revenues). The company is majority owned by Spanish Ferrovial (which controls 59%). Focused on activities in lower margined general construction and road construction segments, Budimex has suffered from increases in wages and construction materials on long-term infrastructure contracts.

Cersanit

Margins rebound deferred

Previously: Buy
Hold

Construction and building materials | **Bloomberg: CST PW**

- **2008 results are likely to prove disappointing in an unfavourable environment of a strengthening zloty, and high energy and raw material prices.**
- **Still the argument of natural forex hedging afforded by the launch of local manufacturing facilities is still in tact in the medium and the long term, and the market has in our view adequately discounted any ensuing profitability rebound.**
- **We lower our recommendation from Buy to HOLD with a new 12-month target price of PLN15.3.**

Investment case

Cersanit is the largest manufacturer of ceramic products in CEE and the CIS, and is executing a strategy which should place the company among the largest producers of ceramics globally. In 2006 and 2007, Cersanit completed acquisitions in Romania and Russia, and through a merger with the largest Polish ceramic tiles producer Opoczno, also gained access to manufacturing facilities in the Baltics. At present, the company is launching its newly built factory in Ukraine. Existing capacities of 64.8m m² of ceramic tiles and 5.3m units of sanitary ware are to be expanded to 97.8m m² and 10.3m respectively by the end of 2011 at a combined 2008-11F capex of PLN1.58bn.

Frianovo factory in Russia, acquired in 2007, and the Ukrainian facility launched this month, will allow Cersanit to service what are now export markets from local facilities. This will lead to the elimination of a 15% duty burden placed on exports to the key target markets outside of Poland and will lower transportation costs. Both markets are also characterised by lower energy costs (about 15%), raw materials and, in Ukraine's case, also labour. More important, sales and costs are to be denominated in local currencies limiting the pressure on margins due to zloty appreciation vs the US$ (and the euro in the case of Romanceram). Still, any ensuing rebound in the gross and operating margins is not likely to surface until 2009F, while Cersanit's profitability should continue the observed negative trend this year with pre-depreciation gross margin declining from 49.5% in 2007 to 48.5% in 2008F.

We forecast 17.8% revenue and 25% EPS CAGR for Cersanit in 2008-10F. Growth will be driven primarily by the abovementioned expansion of capacities and profitability rebound generated thanks to the substitution of exports with supply from local production facilities, reversing the margin-eroding impact of zloty appreciation. Despite that, potential continuation of unfavourable currency trends remains the biggest risk for Cersanit. Our macro forecasts assume that the zloty will depreciate against the US$ in 2009-11F. With assumed 20% of sales in Romania, Ukraine and Russia supplied with exports denominated in US$ and euro in the medium term, Cersanit's margins will remain susceptible to zloty appreciation. Continuation of zloty strengthening against the euro, also undermines its competitive position vs Western European peers.

Price (11/07/08)	**PLN14.5**
	Previously: PLN34.7
Target price (12 mth)	**PLN15.8**

12-month forecast returns (%)

Share price	9.0
Dividend	0.0
12m f'cst total return	**9.0**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	22.0	23.0
Operating margin	15.3	16.1
Net debt/equity	103.6	112.7
DPS (PLN)	0.0	0.0
Dividend yield	0.0	0.0

Source: Company data, ING estimates

Share data

No. of shares (m)	144.3
Daily t/o (US$m)	2.6
Free float (%)	51.1
Mkt cap (US$m)	949.6
Mkt cap (PLNm)	1,927.7

Source: Company data, ING estimates

Share price performance (PLN)

Source: Bloomberg

Forecasts and ratios

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	760.3	1455.2	1638.8	2079.3	2377.1
EBITDA (PLNm)	214.4	321.9	360.1	477.7	581.8
Net income (PLNm)	146.4	121.1	122.2	207.6	257.8
EPS (PLN)	1.1	0.9	0.9	1.4	1.8
PER (x)	13.2	15.9	16.5	10.1	8.1
EV/EBITDA (x)	10.1	8.2	8.1	6.8	5.9
P/BV (x)	2.6	2.3	2.0	1.6	1.3
ROE (%)	21.9	15.3	13.5	19.4	19.8

Source: Company data, ING estimates

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Quarterly preview

Cersanit is expected to present 2Q08 results on 15 August. The 23% YoY and 11% YoY zloty appreciation versus the US$ and the euro respectively should be the predominant force behind what we expect to be a disappointing quarterly performance. We forecast 16% YoY revenue growth, which should be achieved primarily on the back of consolidation of Russian operations acquired in 2H07. Margins continue to be under pressure. We assume a decline in Cersanit's gross profitability from 44.1% recorded in 2Q07 to 42% in 2Q08. Outside of unfavourable currency trends, the company's margin is negatively affected by growing raw materials, energy, and labour prices, as well as consolidation of recent acquisitions characterised by lower profitability levels compared with Cersanit. The company is demonstrating strong control of SG&A costs, which should be maintained at a level below 26% of sales. Administrative expenses remain relatively flat YoY despite takeover of new entities due to the significant costs associated with the M&A process recognised throughout 2007. In addition to the continuation of operating margins decline, increasing burden of financial expenses (higher rates and financing of expansion) will in our view lead to a 11.7% YoY decline in earnings in 2Q08 to PLN33.1m against the backdrop of CEO's recent interview statements presenting the aim of meeting 2Q07 profit levels.

2Q08F results preview

	2Q07	2Q08F
Revenue	385.8	447.6
EBITDA	93.4	94.0
EBIT	70.7	69.0
Net profit	37.5	33.1
EPS (PLN)	0.3	0.2

Source: ING estimates

Earnings drivers and outlook

The 2008F net profit consensus based on the analysts' forecasts still assumes Cersanit will reach management's 2008 net profit target of PLN200m. Although this prognosis is out of line with market perceptions of the company's profitability this year, it points to the fact that the official earnings forecasts for the company will continue to be downgraded in upcoming months. Cersanit's quarterly numbers are likely to put the share price under pressure not only in 2Q08 but also in the current quarter.

Still, with Cersanit's shares down 57% YTD having underperformed the market by 38% YTD, the current share price adequately reflects the company's medium and long-term cash generation potential. The last quarter of 2008 is expected to show a profitability rebound with the Ukrainian facility operating close to full capacity and with anticipated stabilisation of the zloty vs the US$. The company trades at a demanding 2008F PER of 16.5x but with 2009F earnings yielding a PER of 10.1x, Cersanit should continue to trade around present levels.

We value Cersanit on the basis of a DCF model and comparative analysis incorporating the 2008-10F PER and EV/EBITDA ratios for domestic and Western European ceramics producers. The dramatic decline in the 12-month target price from PLN34.7 to PLN15.8 follows a 50% and 49% downward earnings revision for 2008F and 2009F respectively due to stronger-than-expected zloty appreciation and delays in the launch of production in Ukraine as well as declines in the peer valuations.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**1,455.2**	**1,638.8**	**2,079.3**	**2,377.1**
%ch	*91.4*	*12.6*	*26.9*	*14.3*
EBITDA	**321.9**	**360.1**	**477.7**	**581.8**
EBIT	**232.1**	**250.4**	**334.4**	**404.2**
%ch	*35.1*	*7.9*	*33.5*	*20.8*
Margin (%)	*0.2*	*0.2*	*0.2*	*0.2*
Pre-tax profit	164.9	159.8	253.2	318.3
Tax	(25.9)	(27.2)	(45.6)	(60.5)
Minorities	(18.0)	(10.4)	0.0	0.0
Net profit	**121.1**	**122.2**	**207.6**	**257.8**
%ch	*-17.3*	*0.9*	*69.9*	*24.2*
Margin (%)	*8.3*	*7.5*	*10.0*	*10.8*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	388.9	184.0	31.9	58.5
Receivables	316.6	393.3	499.0	570.5
Other current assets	408.6	420.8	523.6	580.8
Total current assets	**1,114.0**	**998.1**	**1,054.6**	**1,209.8**
PPE	1,061.0	1,409.8	1,817.9	2,183.4
Intangibles	283.8	283.8	283.8	283.8
Other fixed assets	18.2	20.5	26.0	29.8
Total fixed assets	**1,363.0**	**1,714.1**	**2,127.8**	**2,497.0**
Total assets	**2,477.0**	**2,712.3**	**3,182.4**	**3,706.8**
ST debt	606.6	633.1	803.3	918.4
Other current liabilities	344.4	376.4	468.3	519.5
Total current liabilities	**951.1**	**1,009.6**	**1,271.7**	**1,437.9**
LT debt	506.2	550.0	550.0	650.0
Other LT liabilities	17.0	17.4	17.7	18.1
Total LT liabilities	**523.2**	**567.4**	**567.7**	**668.1**
Minorities	160.1	170.5	170.5	170.5
Equity	**842.6**	**964.8**	**1,172.5**	**1,430.3**
Total liabilities & equity	**2,477.0**	**2,712.3**	**3,182.4**	**3,706.8**

Source: Company data, ING estimates

Cash flow account

PLNm	2006	2007F	2008F	2009F
CF from operations	203.3	133.8	273.9	310.4
CF from investment	-389.4	-643.1	-549.1	-632.6
CF from funding	379.7	483.8	70.3	170.2
Change in cash	193.6	-25.5	-204.9	-152.0
Cash last year	220.8	414.4	388.9	184.0
Cash year end	414.4	388.9	184.0	31.9

Source: Company data, ING estimates

Company profile

Cersanit is the largest sanitary ware and ceramic tiles producer in the CEE. The company operates manufacturing facilities in Poland, Lithuania, Romania, Russia and in Ukraine. Cersanit's production capacities amount to 65m m² of ceramic tiles and 5.3m pieces of sanitary ware. The company's products are sold in over 20 countries throughout Europe, primarily in the CEE and CIS markets.

Kety

Negative newsflow priced in

Previously: Hold
Buy

Construction & Building materials **Bloomberg: KTY PW**

- **We decrease our DCF-derived TP from PLN112 to PLN101 following more conservative margin assumptions but simultaneously we upgrade our rating from Hold to BUY.**
- **Kety trade at a 27% discount to peers based on our 2008F forecasts – an attractive entry opportunity.**

Investment case

Kety published preliminary 2Q08 results that were below our expectations. The extruded profiles sector especially disappointed – a consequence of the weak US$. As a result, the company should report only 38-40% of 2008 forecasted PLN103m net profit after 1H08. We have revised downwards our 2008/09F net profit assumptions by 5%/3%, respectively, following a more conservative margin outlook.

Kety faces a slowdown in its extruded profiles division, its most important segment (nearly 40% of total sales). The European economic slowdown had a negative affect on demand and many European producers of aluminium profiles admit that the outlook for this year is bearish.

Another macroeconomic problem is the fact that Polish interest rates are rising faster than expected (Kety has a debt/equity ratio of 50%) and the zloty is strengthening versus the euro (c.50% of Kety's sales are euro-denominated). These are the most important macro drivers for the company's profitability, so the fact that the domestic economic growth remains strong and the US dollar weak versus the euro (35% of raw materials, mainly aluminium, are imported) helps very little.

Despite many unfavourable external factors, in our view, Kety has internal strengths: it has solid management possessing vision, high quality products and modern plant capacities, which may create a positive surprise when the macroeconomic situation improves. Valuation is another; the stock trades at a long-term low in terms of its 12-month forward PER (7.5x on 2008F PER based on our assumptions and 6.6x based on market consensus) and a 27%/25% discount to global peers based on 2008F/09F market consensus. We believe Kety is an attractively valued indirect play on the Polish construction sector.

In 2007 we argued that Kety deserved some premium in comparison with its Western European peers, due to better growth prospects. It looks as though this may no longer be the case, as Kety's earnings are likely grow at a slower pace in the medium term. Therefore, we believe that valuations at par with its peers are fair. We therefore see the 27% discount to peers as an attractive entry opportunity.

Price (11/07/08)	**PLN74.5**
	Previously: PLN112
Target price (12 mth)	**PLN101**

12-month forecast returns (%)

Share price	35.4
Dividend	6.0
12m f'cst total return	**41.4**

Source: ING

Key ratios (%)

	2007	2008F
EBITDA margin	15.4	14.9
Operating margin	11.3	10.3
Net debt/equity	49.8	52.6
DPS (PLN)	4.0	4.5
Dividend yield	5.4	6.0

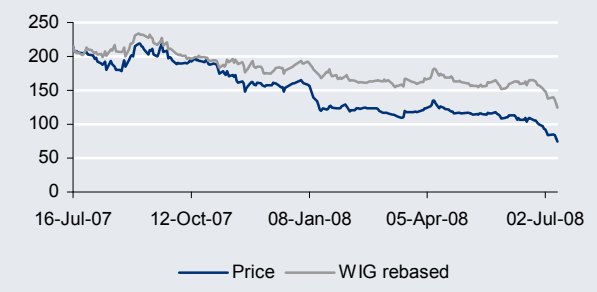
Source: Company data, ING estimates

Share data

No. of shares (m)	9.23
Daily t/o (US$m)	1.12
Free float (%)	100
Mkt cap (US$m)	335
Mkt cap (lc m)	687

Source: Company data, ING estimates

Share price performance



Source: Bloomberg

Forecasts and ratios

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	1,056	1,253	1,382	1,556	1,724
EBITDA (PLNm)	154	193	206	226	237
Net income (PLNm)	88	98	91	102	116
EPS (PLN)	9.52	10.62	9.90	11.08	12.56
PER (x)	7.8	7.0	7.5	6.7	5.9
EV/EBITDA (x)	6.1	5.4	5.3	4.7	4.3
P/BV (x)	1.0	1.0	0.9	0.8	0.8
ROE (%)	13.8	13.8	12.5	13.0	13.7

Source: Company data, ING estimates

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Quarterly preview

Kety will post 2Q08 results on Thursday, 31 July. The company did, however, publish preliminary 2Q08 numbers already and we do not expect the actual numbers to differ significantly.

Revenues should decline by up to 9% following a 15% decline in aluminium prices in PLN currency. 65% of company revenues are currency denominated.

Net profit should increase by c.14% YoY following gains in the €/US$ currency gains. Kety reports a majority of costs in US$, while revenues are primarily booked in €.

2Q08 results preview (PLNm)

	2Q07	2Q08F
Revenue	320.7	290-300
EBITDA	41.6	46-48
EBIT	28.7	31-33
Net profit	21.0	22-24
EPS (PLN)	2.28	2.38-2.60

Source: Company data, ING estimates

Earnings drivers and outlook

If we compare our 1H08 results forecasts with Kety's FY08 forecasts we conclude that achieving the PLN103m net profit target will be extremely difficult. Achieving only 38-40% of budget after the 1H08 results have been published is considered as very low given historical data. In fact, during the past four years it was only below 50% in 2007, but this was partly the result of changes in accounting which added 4% to the bottom line in 4Q07. This is one of the reasons why we believe that management's target will be missed by 12%. We, however, believe that the 26% decline in share price following the announcement of preliminary 2Q08 results on 27 June is exaggerated – especially considering only a 6% decline for the WIG index. The negative newsflow is, in our view, already priced in the share price and the downside potential is limited.

Among earnings drivers on the negative side we see unfavourable currency environment: a continuously appreciating PLN currency vs the € will hit export margins. Although we assume an EBITDA margin decline from 15.4% in 2007 to 14.9% in 2008F and 14.5% in 2009F, further PLN currency appreciation and a simultaneous appreciation of the US$ vs € would have a negative impact on profitability. A decline in Kety's EBITDA margin in 2009 by 0.3% would lead to a decrease of company's net profit by PLN4m.

Operations in Ukraine, if successful, could be an upside risk factor. Despite the fact that Ukrainian factory started operations in mid-2007 it currently seems that it is delayed in meeting targets by more than a year (vs management forecasts) and 2008F revenues should reach only PLN50m. The company currently expects full capacity usage (7,000-8,000 tons annually) in 2010. Any signal of a speeding up capacities in Ukraine would be a positive trigger to the share price.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**1 253**	**1 382**	**1 556**	**1 724**
%ch	*18.7*	*10.2*	*12.6*	*10.8*
EBITDA	**193**	**206**	**226**	**237**
EBIT	**141**	**143**	**157**	**167**
%ch	*28.6*	*1.2*	*9.9*	*6.4*
Margin (%)	*11.3*	*10.3*	*10.1*	*9.7*
Pre-tax profit	122	114	127	144
Tax	(24)	(22)	(25)	(28)
Minorities	0	0	0	0
Net profit	**98**	**91**	**102**	**116**
%ch	*11.6*	*-6.7*	*11.8*	*13.4*
Margin (%)	*7.8*	*6.6*	*6.6*	*6.7*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	17	51	34	27
Goodwill	81	76	72	68
Other current assets	450	499	562	633
Total current assets	**467**	**550**	**596**	**660**
PPE	706	773	769	768
Intangibles	11	11	11	11
Other fixed assets	50	55	57	59
Total fixed assets	**847**	**915**	**909**	**906**
Total assets	**1,314**	**1,465**	**1,505**	**1,565**
ST debt	224	200	150	150
Other current liabilities	230	257	291	326
Total current liabilities	**454**	**457**	**441**	**476**
LT debt	146	250	250	210
Other LT liabilities	0	0	0	0
Total LT liabilities	**146**	**250**	**250**	**210**
Minorities	6	0	0	0
Equity	**708**	**758**	**814**	**879**
Total liabilities & equity	**1,314**	**1,465**	**1,505**	**1,565**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	155	151	170	172
CF from investment	(154)	(130)	(65)	(70)
CF from funding	(19)	14	(122)	(110)
Change in cash	(19)	35	(17)	(7)
Cash last year	35	17	51	34
Cash year end	17	51	34	27

Source: Company data, ING estimates

Company profile

Kety is the leading Polish producer by market share of extruded profiles (47% of revenues 2007), aluminium systems and shutters (33% of revenues) and flexible packagings (20% of revenues). The most important clients are from the construction, food and automotive industries. Around one-third of sales come from exports.

Mostostal Warszawa

Waiting for the subway contract

Previously: BUY
Hold

Construction & building materials | **Bloomberg: MSW PW**

- **MSW Group's Impressive PLN4.2bn backlog of orders corresponds to 180% of forecast 2008F revenues.**
- **We downgrade Mostostal Warszawa from Buy to HOLD following lower valuations in the Polish construction sector. We decrease our TP from PLN66 to PLN60.**

Investment case

MSW Group has the highest value of new contracts of all listed Polish construction companies, having already signed contracts worth PLN2.3bn on a YTD basis. The company's backlog stands at PLN4.2bn; reflecting an impressive 75% YoY growth. The current backlog translates into the equivalent of 22 months of revenue based on our 2008 forecasts. Among the large Polish construction companies, MSW has the second highest backlog coverage in monthly terms and is outpaced only by PBG (25 months).

After reporting net losses of PLN107m during 2003-05, MSW has turned itself around and has recorded improving profitability since then. We believe that MSW is one of the few stocks that could profit from EU-funded projects during 2007-13 and is less susceptible to a potential downturn in the Polish economy. MSW submits tender offers that take into account forecasts of double-digit annual increases in wages and construction materials until 2010. In our view, these assumptions should presage healthy margins in the coming years. We forecast a pick-up in gross margin from 5.5% in 2007 to 5.9% in 2008F and 7.2% in 2009F.

The major risk factor for MSW is its dependence on its major shareholder, Acciona. Acciona's Polish residential development arm, Acciona Nieruchomosci (AN), outsources the construction of residential complexes to MSW at profit margins that remain undisclosed by MSW. In 2007, contracts with AN amounted to 15% of MSW's revenues. Another risk factor is its exposure to long-term contracts. The unpredictability of global raw material prices could impact on the profitability of running contracts, especially as approximately 15% of them within its backlog have completion dates in 2010.

MSW trades at an adjusted PER of 17x 2008F and 12x 2009F, which equates to a 22% and 21% discount to local peers respectively. Given an expected improvement in profitability and 26% CAGR in 2007-10F EPS, we see 11% upside on a 12-month basis.

We rate MSW a Hold with a TP of PLN60, the outcome of a DCF valuation and a peer valuation with equal weightings applied to both methods.

Price (11/07/08)	**PLN54**
	Previously (PLN66)
Target price (12 mth)	**PLN60**

12-month forecast returns (%)

Share price	10.7
Dividend	0.0
12m f'cst total return	**10.7**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	4.1	5.1
Operating margin	3.1	4.0
Net debt/equity	(46.1)	(2.2)
DPS (PLN)	0.0	0.0
Dividend yield	0.0	0.0

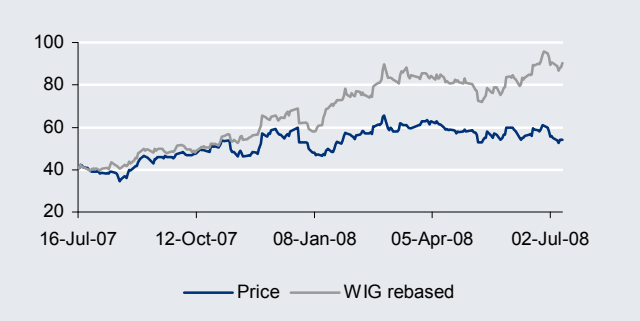
Source: Company data, ING estimates

Share data

No. of shares (m)	20.0
Daily t/o (US$m)	0.6
Free float (%)	50
Mkt cap (US$m)	527
Mkt cap (lc m)	1,080

Source: Company data, ING estimates

Share price performance



Source: Bloomberg

Forecasts and ratios (PLNm)

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue	1,188	1,928	2,339	2,697	2,967
EBITDA	41	78	97	138	174
Net income	17	53	77	90	107
EPS (PLN)	0.99	2.65	3.83	4.48	5.34
Adj PER (x)	54.3	26.7	15.8	12.0	10.1
EV/EBITDA (x)	11.9	11.5	9.0	7.2	6.3
P/BV (x)	2.4	3.8	3.0	2.4	2.1
ROE (%)	10.9	20.8	23.7	22.1	21.9

Source: Company data, ING estimates

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Quarterly preview

Mostostal Warszawa reports 2Q08 results on 14 August. However, on a stand-alone basis MSW and subsidiaries Remak and Mostostal Plock announce quarterly results on 4 August. We expect the results to reflect the trends in profitability.

We expect revenues to increase by 20% following a sharp increase in group backlog from PLN2.4bn as of end 1H07 to PLN4.0bn as of end 1H08.

We believe gross margin will improve from 5.0% (or PLN23m) in 2Q07 to 6.5% (or PLN36m) in 2Q08 following gains at Mostostal Warszawa, which reported only a 3.3% gross margin in 2Q07.

We expect the net profit margin to decline from 5.0% to 3.3%, due to the PLN22m pre-tax gains on the sale of assets.

2Q08 results preview (PLNm)

	2Q07	2Q08F
Revenue	457,1	548,5
EBITDA	28,0	27,4
EBIT	22,3	21,9
Net profit	22,8	18,1
EPS (PLN)	1,14	0,91

Source: ING estimates

Earnings drivers and outlook

We believe that the MSW-led consortium (including Acciona, Strabag and Pebeka) has the highest probability of winning the tender for the construction of Warsaw's second metro line. It is the largest infrastructure construction contract in Poland's history, and is expected to cost up to PLN4.9bn. MSW and Acciona hold a 42% share in the consortium which should allow them to realise PLN2.1bn. The consortium achieved the highest score in the overall tender process, despite not having the most attractive pricing. MSW scored 2.5 points more in the tender process than the other two consortia. In our view, MSW's consortium possesses an excellent record and has the experience necessary to execute the PLN4.9bn contract, as Acciona has completed successfully the construction of several metro lines in different parts of the world. Although we believe that the award could be a trigger for the share price, we choose to be conservative and so exclude any possible cash flows from our valuation and financial projections.

Another catalyst for the share price on a 12-month basis could be the long-awaited profitability improvement of its listed power subsidiary, Remak. We believe that by 2009F Remak should improve MSW's net margin by 0.2% and another 0.1% in 2010F.

We expect 40bp YoY improvement in gross margin in 2008. Should the company report stronger than expected 2Q08, it would be the next step towards further margin improvement in 2009 (we expect 7.2% gross margin in 2009F vs 5.9% in 2008F). We believe profitability improvement in 2009 is related to the completion of 'old' low-margin contracts and the turnaround at its subsidiary, Remak.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**1,928**	**2,339**	**2,697**	**2,967**
%ch	*62.3*	*21.3*	*15.3*	*10.0*
EBITDA	**78**	**97**	**138**	**174**
EBIT	**59**	**74**	**108**	**138**
%ch	*178*	*25*	*47*	*27*
Margin (%)	*3.1*	*3.1*	*4.0*	*4.6*
Pre-tax profit	60	91	114	139
Tax	(4)	(9)	(18)	(26)
Minorities	(6)	(6)	(6)	(6)
Net profit	**41**	**68**	**90**	**107**
%ch	*212*	*45*	*17*	*19*
Margin (%)	*2.1*	*2.9*	*3.3*	*3.6*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	288	267	210	179
Goodwill				
Other current assets	537	653	772	847
Total current assets	**825**	**920**	**982**	**1,026**
PPE	151	256	350	420
Intangibles	1	1	1	1
Other fixed assets	32	34	35	36
Total fixed assets	**184**	**291**	**387**	**458**
Total assets	**1,009**	**1,210**	**1,368**	**1,483**
ST debt	29	50	100	100
Other current liabilities	601	666	628	667
Total current liabilities	**630**	**716**	**728**	**767**
LT debt	16	50	100	100
Other LT liabilities	18	18	18	18
Total LT liabilities	**34**	**68**	**118**	**118**
Minorities	59	65	71	76
Equity	**285**	**362**	**451**	**522**
Total liabilities & equity	**1,009**	**1,210**	**1,368**	**1,483**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	140	37	(36)	110
CF from investment	(37)	(112)	(120)	(142)
CF from funding	14	54	100	0
Change in cash	117	(21)	(57)	(31)
Cash last year	171	288	267	210
Cash year end	288	267	210	179

Source: Company data, ING estimates

Company profile

MSW is the fifth-largest Polish construction company by revenue, is active in general and infrastructure construction, and possesses a power industry construction arm (12% of 2007 revenues). A Spanish strategic investor, Acciona, controls a 50% stake in the company.

PBG

Weak 2Q08F a buying opportunity

Maintained
BUY

Construction & Building Materials | **Bloomberg: PBG PW**

- **We reiterate our BUY rating on PBG, but lower our DCF-based TP to PLN260 on more conservative assumptions and changes in peer valuations.**
- **PBG has already won one of two lucrative PGNiG contracts. The second should follow in 2H08.**

Investment case

Down 46% from its peak in April 2007, PBG still trades at 20% and 12% premiums to major peers on 2008 and 2009 forecasts, respectively. We see this as justified given PBG's impressive backlog in terms of both quality and value (211% of 2008F revenues), which guarantees the company the highest revenue coverage in monthly terms among Polish construction companies. We therefore believe that weaker-than-expected 2Q08 results (see next page) could be a good buying opportunity.

PBG's backlog amounts to almost PLN4.4bn (including the PLN1.4bn LMG contract) vs PLN3.0bn at the beginning of 2008. Of this amount, PLN1.1bn constitutes 2008 revenues, while the remaining PLN3.3bn will be executed in 2009-12. Almost 40% of the total backlog consists of contracts in the environmental protection segment.

A consortium led by PBG was awarded a PLN1.4bn contract for the development of PGNiG's gas and oil field. Contract completion is foreseen in 2H12. Although the contract should have a limited impact on the 2008 top line, as construction will primarily include project development and site development works in 2H08, the awarding of the project to PBG is positive as it secures PBG's pipeline of contracts beyond 2008 and is characterised by premium profitability.

PBG is also close to being awarded PGNiG's second important contract – for the Wierzchowice underground gas storage facility project. PBG is the sole bidder and is offering PLN1.1bn for construction, PLN0.5bn of which in subcontractor works. Construction completion is expected 36 months after signing (scheduled for the end of 3Q08). The impact on the company's 2008 and 1H09 figures should be limited given a calculated nine-month contract initiation stage. Nevertheless, the contract would increase PBG's exposure to the high-margin gas & oil segment and should lead to margin improvement in 2009.

We have applied more conservative assumptions, increasing the beta (from 1.0 to 1.2) and our risk-free rate assumptions.

We see the failure of the expected signing of PGNIG's PLN1.1bn Wierzchowice contract as the major risk factor to the share price performance in the short term.

Price (11/07/08)	**PLN215.1**
	Previously: PLN350
Target price (12 mth)	**PLN260**

12-month forecast returns (%)

Share price	22.5
Dividend	0.0
12m f'cst total return	**22.5**

Source: ING

Key ratios (%)

	2007	2008F
EBITDA margin	9.9	10.8
Operating margin	7.9	9.3
Net debt/equity	14.2	6.2
DPS (PLN)	0.0	0.0
Dividend yield	0.0	0.0

Source: Company data, ING estimates

Share data

No. of shares (m)	13.4
Daily t/o (US$m)	3.3
Free float (%)	67
Mkt cap (US$m)	1,409
Mkt cap (PLNm)	2,889

Source: Company data, ING estimates

Share price performance

Source: Bloomberg

Forecasts and ratios

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	675	1,377	2,082	2,423	2,797
EBITDA (PLNm)	91	136	225	344	389
Net income (PLNm)	54	102	140	204	238
EPS (PLN)	4.55	7.67	10.42	15.19	17.75
PER (x)	47.3	28.1	20.6	14.2	12.1
EV/EBITDA (x)	27.0	20.3	13.2	8.4	7.0
P/BV (x)	6.2	3.5	3.3	2.6	2.2
ROE (%)	19.9	18.3	17.1	20.6	19.7

Source: Company data, ING estimates

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Quarterly preview

PBG is due to report 2Q08 results on 14 August. We expect a weak quarter YoY following the consolidation of environmental protection arm H9, the majority of whose running contracts were signed at breakeven gross margins.

We expect revenues to grow 49% YoY to PLN470m following the consolidation of H9 and a PLN245m contribution from HB Polska.

The company's EBIT margin should decline from 10.1% in 2Q07 to 8.9% in 2Q08 on the larger share in revenues of HB Polska, which we expect to report a 6.3% EBIT margin in 1H08. PBG's operating profit will be helped by one-offs, with a PLN9m operating profit booked by subsidiary H9 from a revaluation of assets.

We expect PBG's net margin to decline sharply from 10.1% in 2Q07 to 5.1% in 2Q08. Last year, the company booked a PLN9.4m net financial gain on the sale of Mostostal Zabrze shares. Minority profits (PBG now consolidates a 60% stake in HBP vs 76% a year ago) will contribute PLN8m to the 2Q08 decline.

2Q08 results preview (PLNm)

	2Q07	2Q08F
Revenue	315	470
EBITDA	37.9	51.0
EBIT	31.7	42.0
Net profit	31.8	24.0
EPS (PLN)	2.38	1.79

Source: ING estimates

Earnings drivers and outlook

We believe 2Q08 will turn out weaker than the market expects. We would use any potential share price weakness following the results as a buying opportunity. PBG has backlog coverage of 2008F revenues amounting to 25 months, which is the highest level among Polish construction companies and almost covers 2009/10 revenue growth. PBG's subsidiary H9 should see a profitability improvement once 'old' zero-margin contracts have been executed in 2H08.

We expect 1H08 net profit to constitute only 25% of annual 2008 net profit following a weaker 2Q08. We believe that PBG will report 3Q08 net profit amounting to 25% of the forecast PLN140m net profit in 2008, with the remaining 50% of annual net profit coming through in 4Q08. Should 3Q08 come out significantly weaker than expected, we believe the shares might lose a significant part of their premium to peers and underperform the sector.

Consensus net profit estimates for PBG for 2008 and 2009 are demanding, at PLN154m and PLN212m, respectively.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**1,377**	**2,082**	**2,423**	**2,797**
%ch	*104.1*	*51.3*	*16.3*	*15.4*
EBITDA	**136**	**225**	**344**	**389**
EBIT	**109**	**194**	**308**	**347**
%ch	*48*	*77*	*59*	*13*
Margin (%)	*7.9*	*9.3*	*12.7*	*12.4*
Pre-tax profit	144	203	301	350
Tax	(27)	(39)	(57)	(67)
Minorities	(15)	(24)	(40)	(45)
Net profit	**102**	**140**	**204**	**238**
%ch	*88*	*37*	*46*	*17*
Margin (%)	*7.4*	*6.7*	*8.4*	*8.5*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	410	335	422	617
Goodwill	267	267	267	267
Other current assets	894	1,231	1,379	1,482
Total current assets	**1,571**	**1,834**	**2,069**	**2,366**
PPE	365	459	544	585
Intangibles	13	13	13	13
Other fixed assets	340	336	336	336
Total fixed assets	**718**	**808**	**892**	**934**
Total assets	**2,289**	**2,641**	**2,961**	**3,301**
ST debt	467	200	200	150
Other current liabilities	710	1,024	1,091	1,197
Total current liabilities	**1,177**	**1,224**	**1,291**	**1,347**
LT debt	50	190	200	200
Other LT liabilities	280	280	280	280
Total LT liabilities	330	470	480	480
Minorities	35	59	98	144
Equity	**748**	**888**	**1,092**	**1,330**
Total liabilities & equity	**2,289**	**2,641**	**2,961**	**3,301**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	(178)	51	171	285
CF from investment	(83)	0	(93)	(40)
CF from funding	620	(127)	10	(50)
Change in cash	359	(75)	87	195
Cash last year	51	410	335	422
Cash year end	410	335	422	617

Source: Company data, ING estimates

Company profile

PBG is the largest Polish construction company specialising in hydro engineering and gas & oil construction. Originally only active in gas & oil, in 2005-07 PBG acquired three traditional environmental protection companies, which now contribute c.40% of its backlog. PBG also decided to enter road construction in order to profit from the infrastructure boom in 2008-15, acquiring several local construction companies.

Polimex MS

Backlog still strong but margins are not picking up

Maintained
Hold

Construction & Building materials | **Bloomberg: PXM PW**

- **We maintain our HOLD rating but decrease our DCF and peer valuation based target price from PLN8.9 to PLN5.0 following lower 2008/09 earnings forecasts and a derating of the construction sector.**
- **High debt burden makes potential acquisitions unlikely without EPS dilution. Without them Polimex will, in our view, miss market expectations on 2008F net profit. We cut our 2008F net profit forecasts by 13%.**

Investment case

We cut our 2008/09F net profit forecasts from PLN145m/PLN183m to PLN126m/PLN156m following expectations of a weak 2Q08 and lower profitability in 2H08 and 2009. We believe that after 1H08 Polimex's net profit will only reach 43% of the current market consensus net profit forecast of PLN135m, whereas in 1H06 and 1H07 this corresponded to 55% of the annual net profit. Although in 2008 we believe the situation is likely to improve in the second half, we believe that net profit market consensus is 7% too high and forecast PLN126m.

One of the major factors that led to a downward revision in 2008 net profit margin (we now expect 2.9% net margin in 2008 vs 3.2% previously) is company's heavy debt burden. Net debt grew from PLN231m as of end 2Q07 to PLN576m as of end 1Q08. The company confirmed that any potential acquisition of medium/large sized competitor would have to be financed from new shares issue.

Polimex's backlog currently amounts to PLN5.5bn, a 38% YoY. According to the company 70%, or PLN3.9bn, will be executed in the coming 12 months. Based on the current backlog management envisages PLN4.4bn revenues in 2008 (PLN1.9bn after 1H08F).

The company's AGM approved a management motivating programme for 2009-11, which would result in the issue of new shares in 2013-16. New shares would be available to key managers at PLN6.5 per share. The basis for the programme is PLN135m net profit. In 2009-11 the company's EPS and EBITDA should grow at a CAGR of 15-21% in order to meet the guidelines of the programme. If all the criteria of the programme are met, Polimex will issue shares amounting up to between 3% and 5% of equity.

We decreased our gross margin from 10.1%/10.5% in 2008/09F to 9.7%/10.0% respectively and our long- term gross margin from 11.9% to 10.5% in 2017F.

Negative risk factor: Further increase of debt in connection with hikes in interest rates would lead to a deterioration of profitability. Positive: Significant pick-up in profitability beginning from 3Q08.

Price (11/07/08)	**PLN5.25**
	Previously: PLN8.9
Target price (12 mth)	**PLN5.0**

12-month forecast returns (%)

Share price	(4.9)
Dividend	0.2
12m f'cst total return	**(4.7)**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	5.6	5.8
Operating margin	4.6	4.6
Net debt/equity	34.3	30.4
DPS (PLN)	0.04	0.05
Dividend yield	0.8	1.0

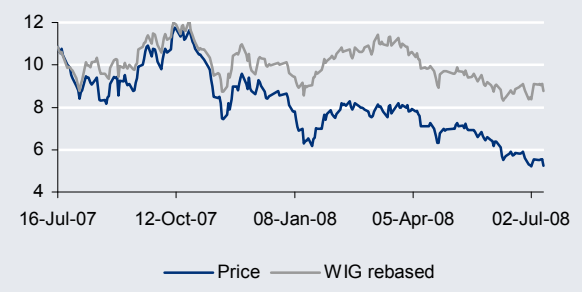
Source: Company data, ING estimates

Share data

No. of shares (m)	464.3
Daily t/o (US$m)	3.1
Free float (%)	100
Mkt cap (US$m)	1,189
Mkt cap (lc m)	2,438

Source: Company data, ING estimates

Share price performance



Source: Bloomberg

Forecasts and ratios

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	2,466	3,720	4,450	5,192	6,032
EBITDA (PLNm)	129	205	247	300	361
Net income (PLNm)	60	100	126	157	181
EPS (PLN)	0.18	0.24	0.28	0.35	0.40
PER (x)	29.0	21.9	18.7	15.1	13.1
EV/EBITDA (x)	16.0	13.1	11.5	9.4	7.5
P/BV (x)	5.7	2.5	2.2	2.0	1.8
ROE (%)	18.6	15.0	12.2	13.6	14.0

Source: Company data, ING estimates

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Quarterly preview

Polimex MS announces its 2Q08 results on 8 August. We expect a 17% YoY growth in revenues following a 38% YoY growth in backlog to PLN5.5bn as of end 2Q07 (PLN4.0bn as of end 2Q07).

Polimex should in our view increase its operating margin from 4.3% in 2Q07 to 4.7% in 2Q08. The improvement will result from higher margins in the construction segment (5.4% margin in 2Q07) as well as dynamics of SG&A expenses below revenue level.

The company's net profit margin will, however, decline from 3.2% in 2Q07 to 2.8% in 2Q08 following higher net financial expenses (we forecast PLN7m in 2Q08 vs PLN3m financial gains in 2Q07) as well as minority profits (PLN5m vs PLN2.5m in 2Q07).

2Q08 results preview

	2Q07A	2Q08F
Revenue	844	990
EBITDA	47	63
EBIT	36	47
Net profit	26,7	27,7
EPS (PLN)	0.06	0,06

Source: ING estimates

Earnings drivers and outlook

Polimex plans to decrease its debt burden. The company is considering the sale of land plots or the sale of its own shares (it currently controls 13.1m shares). Given share price weakness over previous months we don't expect Polimex to sell its own shares at current prices, while the sale of land plots is very likely. One-off gains on this transaction could help Polimex to meet 2008F net profit targets or ambitious forecasts related to the 2009-11 management option programme.

Profitability gains at power industry subsidiary EPN. In 2007 EPN suffered from low margined long-term contracts and increases in raw material prices (especially steel) and wages (constitute 33% of COGS). As a result the company reported only PLN5m net profit on PLN313m revenues in 2007. Operating in the prospective power industry segments an improvement in profitability should already be achieved in 2008. We expect at least PLN350m revenues and PLN14m net profit. Should EPN fail to deliver on 4% net margin expectations in 2008, the contribution to Polimex's bottom line would be lower than the expected PLN10m. A lower 2008 profit might also lead to a revaluation of Polimex's stake in EPN (Polimex controls a 65% stake) as the book value amounts to PLN420m.

We forecast an 18% CAGR in EPS in 2007-10F (vs 22% forecasted earlier) and an improvement in net profit margin from 2.7% in 2007 to 2.8% in 2008 and 3.0% in 2009. Romanian acquisition Coifer should report 3-4% net profit margin on 2008 revenues vs our earlier forecasts of 7%.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**3,720**	**4,450**	**5,192**	**6,032**
%ch	*50.9*	*19.6*	*16.7*	*16.2*
EBITDA	**205**	**247**	**300**	**361**
EBIT	**160**	**193**	**237**	**270**
%ch	*61*	*20*	*23*	*14*
Margin (%)	*4.3*	*4.3*	*4.6*	*4.5*
Pre-tax profit	149	173	213	247
Tax	(33)	(33)	(41)	(47)
Minorities	(17)	(14)	(16)	(19)
Net profit	**100**	**126**	**157**	**181**
%ch	*66*	*26*	*24*	*16*
Margin (%)	*2.7*	*2.8*	*3.0*	*3.0*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	143	376	278	427
Goodwill	-	-	-	-
Other current assets	1,675	1,810	2,107	2,257
Total current assets	**1,818**	**2,186**	**2,386**	**2,684**
PPE	426	528	569	569
Intangibles	11	11	11	11
Other fixed assets	546	546	546	546
Total fixed assets	**983**	**1,085**	**1,126**	**1,126**
Total assets	**2,801**	**3,271**	**3,512**	**3,810**
ST debt	229	300	250	200
Other current liabilities	1,028	1,186	1,379	1,598
Total current liabilities	**1,258**	**1,486**	**1,629**	**1,798**
LT debt	**330**	**450**	**400**	**360**
Other LT liabilities	128	128	128	128
Total LT liabilities	**458**	**578**	**528**	**488**
Minorities	103	116	132	151
Equity	**983**	**1,089**	**1,221**	**1,371**
Total liabilities & equity	**2,801**	**3,270**	**3,510**	**3,809**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	(335)	164	72	290
CF from investment	27	(123)	(70)	(52)
CF from funding	316	191	(100)	(90)
Change in cash	8	232	(98)	148
Cash last year	136	143	376	278
Cash year end	143	376	278	427

Source: Company data, ING estimates

Company profile

Polimex MS is the largest Polish construction company operating in four area: chemical, power industry, general construction as well as production (steel structures and galvanizing services). The company controls a number of companies specialising in chosen industries including listed power industry Energomontaz Polnoc (EPN PW; NR) and oil & gas construction company Naftobudowa (NFT PW; NR)

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Food processing

Astarta

Still benefiting from high agriculture prices

Maintained
Buy

Food processing | **Bloomberg: AST PW**

- **New strategy is more aggressive**
- **In 2008 sugar margins should improve**

Investment case

Last month the company presented its strategic goals for 2008-2012. The strategy assumes growth of net profit to EUR58m in 2012 (versus EUR24m this year), a land bank of 0.25m ha (this year around 0.16m ha) and sugar production of 0.4m tonnes (this year 0.2m). In terms of financial forecasts there was an upward revision of c.20% in net profit and 10% in volumes vs the previous strategic plan announced in January.

However, last year the surprisingly strong profits were the result of grain production (20% of revenues) rather than sugar. Prices surged for grains (eg, sunflower seeds +150%, wheat +41%) and good crops (output jumped 53%). However, higher grain prices create the opportunity for an improvement in sugar profitability. In 2008 Ukraine faces an approximate 15% reduction in supply vs demand, which should stimulate price growth. In the past a rise in sugar prices used to boost farming of sugar beet, which depressed prices in the following season. However, because farmers are now more interested in grain farming (much easier) there is a chance that supply will remain low (and prices high) in the 2008/09 production season too. This should benefit Astarta, which wants to increase its sugar production by 30% to c.200,000 tonnes (although we believe the company may slightly undershoot this target, considering that it devotes just 20% of its land to sugar beet, while we had expected 23%).

The main risks connected with the company are now growing fertilizer and natural gas prices (15% of costs; Russia has demanded high double digit increases in the price of gas supplies to Ukraine for 2009), as well as the political decision concerning subsidies for the agriculture sector (responsible for c.20% of net profit). The moves in international sugar prices are less important because the Ukrainian domestic sugar market is protected by very high custom duties.

The opportunities for the company are the possible opening of the Russian market for Ukrainian sugar (from 1 December 2009), as well as the cancellation of restrictions on the export of grains from Ukraine.

The fact that agriculture and food processing are low-beta sectors is advantageous for the company in a risky 2008. Astarta is trading at 11x 2008F PER, which is a 20% discount to its Western European peers (in the past it usually traded at par). We reiterate BUY.

Price (11/07/08)	**PLN36.0**
	Previously: PLN53.3
Target price (12 mth)	**PLN50.4**

12-month forecast returns (%)

Share price	40.1
Dividend	0.0
12m f'cst total return	**40.1**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	34.4	33.0
Operating margin	26.3	26.3
Net debt/equity	53.2	40.1
DPS (PLN)	0.0	0.0
Dividend yield	0.0	0.0

Source: Company data, ING estimates

Share data

No. of shares (m)	25.00
Daily t/o (US$m)	0.39
Free float (%)	25
Mkt cap (US$m)	333
Mkt cap (lc m)	900

Source: Company data, ING estimates

Share price performance

Source: Reuters

Forecasts and ratios

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (UAHm)	433	615	869	1,148	1,496
EBITDA (UAHm)	65	214	299	379	488
Reported net income (UAHm)	41	150	175	228	263
Adjusted net income (UAHm)	18	86	155	218	263
PER (x)	38.4	12.2	11.6	8.0	6.2
EV/EBITDA (x)	27.5	10.3	8.3	6.0	4.0
P/BV (x)	4.0	2.5	2.2	1.6	1.2
ROE (%)	14.2	26.7	21.4	22.5	20.9

Source: Company data, ING estimates

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Quarterly preview

We believe that there will be no major growth in volumes YoY in 2Q08, as the company produced a similar amount of sugar in 2007 (which is being sold now) as in 2006. The main driver for revenues will be the growth of prices eg, products (high double-digit YoY rates for grains and nearly 10% YoY gains for sugar). As in 2Q07 the most important driver for EBIT growth is likely to be the revaluation of biological assets. Last year it was nearly UAH60m and we expect a similar amount again this year (grain prices grew but so did raw materials).

2Q08 results preview (UAHm)

	2Q07	2Q08F
Revenue	104	162
EBITDA	65	86
EBIT	56	70
Net profit	29	39
EPS (UAH)	1.18	1.56

Source: ING estimates

Earnings drivers and outlook

We expect that 2008 profits will be driven by high grain prices, although we expect some corrections after huge growth in 2007. There are downside risks connected with prices as grain harvests are expected to be very good in Ukraine this year.

On the other hand, there should be rebound in sugar prices (we assume +8% for the company and +10%-15% for the market) due to the end of oversupply which hit prices in the 06/07 season, as in the 07/08 season total production stood at 1.9m tonnes vs domestic demand of 2.3-2.4m tonnes. As discussed earlier, in the case of sugar prices there is some opportunity for a positive surprise.

The biggest risk to profitability this year is rising fertiliser prices, especially as they are imported (prices are denominated in EUR and the UAH has depreciated significantly vs the euro). In addition, the growth of gas prices (from USD169 in 2007 to USD218 in 2008F) will consume part of the savings achieved through better vertical integration.

Because inflation is growing in Ukraine we revise up our interest cost forecasts for the company and we do not assume it will be able to reduce its cost of debt through refinancing. This is also the reason for the slight reduction in our net profit forecast (by 8%) and the cut in our DCF-based target price by 5% to PLN50.4 per share.

We forecast EUR122m sales, EUR42m EBITDA and EUR26m net profit before minorities in 2008F, which is broadly in line with the official management's forecast from June 2008. However, it is worth mentioning that the company significantly raised its forecasts (net profit up by 20%) last month at the time of the general sell-off on the Warsaw Stock Exchange, so the new forecasts may not yet have been factored in by the market.

P&L account

UAHm	2007	2008F	2009F	2010F
Revenue	**615**	**869**	**1148**	**1496**
%ch	*42.1*	*41.3*	*32.1*	*30.3*
EBITDA	**214**	**299**	**379**	**488**
EBIT	**179**	**228**	**302**	**409**
%ch	*277.9*	*27.6*	*32.2*	*35.5*
Margin (%)	*29.1*	*26.3*	*26.3*	*27.3*
Pre-tax profit	159	185	242	351
Tax	1	1	1	-70
Minorities	(12)	(15)	(18)	(20)
Net profit	**150**	**175**	**228**	**263**
%ch	*267.7*	*16.6*	*30.6*	*15.6*
Margin (%)	*24.3*	*20.1*	*19.8*	*17.6*

Source: Company data, ING estimates

Balance sheet

UAHm	2007	2008F	2009F	2010F
Cash	8	15	9	21
Goodwill	0	0	0	1
Other current assets	641	834	1,028	1,252
Total current assets	**649**	**849**	**1,037**	**1,273**
PPE	577	646	688	669
Intangibles	1	1	1	1
Other fixed assets	56	71	85	96
Total fixed assets	**634**	**718**	**774**	**768**
Total assets	**1,282**	**1,567**	**1,811**	**2,039**
ST debt	333	417	396	317
Other current liabilities	93	120	157	201
Total current liabilities	**427**	**537**	**553**	**518**
LT debt	48	48	48	48
Other LT liabilities	47	47	47	47
Total LT liabilities	**95**	**95**	**95**	**95**
Minorities	34	34	34	34
Equity	**727**	**901**	**1,129**	**1,392**
Total liabilities & equity	**1,282**	**1,567**	**1,811**	**2,039**

Source: Company data, ING estimates

Cash flow account

UAHm	2007	2008F	2009F	2010F
CF from operations	24	58	141	170
CF from investment	(135)	(141)	(120)	(60)
CF from funding	100	90	(27)	(98)
Change in cash	(12)	7	(6)	12
Cash last year	20	8	15	9
Cash year end	8	15	9	21

Source: Company data, ING estimates

Company profile

Astarta is the second largest producer of sugar in Ukraine (7% market share in terms of sales in 2008). It also produces grains (wheat, maize, sunflower, barley, soy) and milk. The company has 135,000ha land under lease.

Duda

Many pros, many cons

Maintained
Hold

Food processing | **Bloomberg: DUD PW**

- **A weak euro is the problem but demand/supply relations in the meat market are improving.**
- **Grain profits are likely to jump this year.**
- **Growing indebtness is a worry.**
- **2Q08 is likely to show a rebound in profitability.**

Investment case

Duda's results have been under increasing pressure over the past four quarters due to low pork prices in Poland, connected to pork oversupply in Europe and a strong PLN, which supports imports of meat to Poland. A continuing strong PLN is major risk to profitability. Fortunately for Duda, low prices triggered farmers to reduce their pig herds, which should be supportive for pig and pork prices in the future (the number of pigs in Poland is at a five-year low).

Even worse, progress at the Ukrainian operations, which we expected to be one of the key drivers for the company, has been slower than planned. As a result, management is now targeting livestock production of 40,000 pigs in Ukraine versus 30,000 in 2007.

It appears that the pig market has now reached the point where it will be able to transfer growing grain prices to end-customers. As a result, high grain prices will be less harmful for the production division than in the past. But the agriculture division (17% of total profits) should still benefit from favourable grain prices. Moreover, we see further room for improvement here: Duda has doubled arable land (from 10,000ha to 20,000ha), which should boost profits from grains later this year.

Duda has continued its policy of acquisitions (two minor takeovers in 2Q08), which we are not keen on as it stretches the balance sheet more and dilutes management control. In our view, at this stage of development it should focus on costs restructuring.

As a result of investments and loose control of working capital, in 1Q08 net debt grew by PLN50m (11% of equity). While we hope it is partly down to seasonal factors, if Duda does not improve the cash flow it could prove a big risk for Duda, especially when interest rates are increasing.

Duda is traded at 10x 2008F PER (adjusted for one-offs), ie, at a 30% discount to its most similar peers in Europe. However, we believe that the company has relatively many specific risks while opportunities (especially a rebound in the pig market is common). Therefore HOLD maintained.

Price (11/07/08)	**PLN3.52**
	Previously: PLN6.12
Target price (12 mth)	**PLN3.85**

12-month forecast returns (%)

Share price	9.3
Dividend	0.0
12m f'cst total return	**9.3**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	7.5	7.4
Operating margin	5.0	5.0
Net debt/equity	58.5	53.7
DPS (PLN)	0.0	0.1
Dividend yield	0.0	2.6

Source: Company data, ING estimates

Share data

No. of shares (m)	96.40
Daily t/o (US$m)	0.41
Free float (%)	85
Mkt cap (US$m)	162
Mkt cap (lc m)	339

Source: Company data, ING estimates

Share price performance

Source: Reuters

Forecasts and ratios

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	1041	1325	1498	1663	1802
EBITDA (PLNm)	83	82	113	123	137
Reported net income (PLNm)	50	40	45	51	66
Adjusted net income (PLNm)	39	38	35	46	66
PER (x)	3.5	8.5	7.6	6.8	5.3
EV/EBITDA (x)	4.6	7.6	5.6	5.1	4.4
P/BV (x)	0.7	0.8	0.7	0.6	0.6
ROE (%)	16.4	10.7	7.5	9.0	11.6

Source: Company data, ING estimates

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Quarterly preview

Duda will report 2Q08 results on 6 August. 2Q08 is likely (finally) to show a rebound in profitability. Meat and pig prices jumped 11-12% MoM in May and remained high in June. According to our estimates the difference between the prices of half-carcasses (Duda product) and livestock (raw material) was PLN2.01, the highest level since 3Q06. As a result, margins should improve. However, volumes are likely to be under pressure due to fewer livestock in the market as well as lower seasonal demand (this year Easter holidays, seasonally the peak of meat consumption, were in 1Q08 while in 2Q in 2007). Thanks to higher margins the company should boost its net profit by 50% QoQ. YoY decine will be connected with the growing cost of debt and the lack of financial one-offs (PLN1.5m in 2Q08). We do not expect any big improvement in inventories turnover (as the company had to 'invest' in gains and they will not be cashed until harvests in 3Q08). However, receivables should grow much slower than 1Q08 (+PLN18m QoQ) as invoices resulting from Eastern sales should be repaid.

2Q08 results preview

	2Q07	2Q08F
Revenue	327.5	331.0
EBITDA	20.9	24.9
EBIT	14.2	16.7
Net profit	12.6	8.5
EPS (PLN)	0.13	0.09

Source: ING estimates

Earnings drivers and outlook

Given that the pressure on meat prices seems to have ended, we expect 2H08 results will be better than 1H08. Additionally, the bottom line will likely benefit from the fact that the company will sell its crops in 2H. Also, in 2H08 Ukrainian sales should accelerate due to farms opening.

While there is relief on product prices, the company still sees large pressure on salaries growth, which was another important reason for the decline in profitability in the slaughtering segment (salaries were up by 20% in 2007).

While operating profits are likely to improve significantly in the next few quarters, net profit is likely to improve much slower as growing debt and interest rates will boost financial costs. However, there will not be any financial one-offs this year. On the other hand, Duda wants to dispose of some real-estate assets, which should boost other operating revenues (we factor PLN10m into our forecasts). Without this divesture, we believe it would be almost impossible to reach the target set by the CEO, who hopes to repeat 2007's profit.

An improvement in profits is expected in 2009. Ukraine will benefit from operating leverage, pig cycle should be quite favourable by that time, strengthening US$ should allow to increase exports from Europe.

We reduce our DCF-based target price for Duda by 37% for the following reasons: lower forecasts for adjusted net profit (by c.20% for both 2008 and 2009), higher beta assumption (due to liquidity and debt issues) and higher RFR.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**1,325**	**1,498**	**1,663**	**1,802**
%ch	*27.3*	*13.0*	*11.0*	*8.3*
EBITDA	**82**	**113**	**123**	**137**
EBIT	**55**	**75**	**83**	**97**
% change	*-13.9*	*38.0*	*10.4*	*16.6*
Margin (%)	*4.1*	*5.0*	*5.0*	*5.4*
Pre-tax profit	48	54	61	79
Tax	-8	-9	-10	-13
Minorities	0	0	0	0
Net profit	**40**	**45**	**51**	**66**
% change	*-20.5*	*12.1*	*12.5*	*29.6*
Margin (%)	*3.0*	*3.0*	*3.0*	*3.6*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	26	36	27	20
Goodwill	165	165	165	165
Other current assets	285	321	356	385
Total current assets	**310**	**357**	**383**	**405**
PPE	359	406	427	427
Intangibles	2	2	2	2
Other fixed assets	43	28	28	28
Total fixed assets	**569**	**602**	**622**	**622**
Total assets	**880**	**959**	**1,005**	**1,028**
ST debt	205	195	185	155
Other current liabilities	119	141	155	162
Total current liabilities	**324**	**335**	**340**	**317**
LT debt	107	130	130	120
Other LT liabilities	0	0	0	0
Total LT liabilities	**107**	**130**	**130**	**120**
Minorities	0	0	0	0
Equity	**449**	**494**	**535**	**591**
Total liabilities & equity	**880**	**959**	**1,005**	**1,028**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	19	89	92	102
CF from investment	(104)	(70)	(60)	(40)
CF from funding	78	(8)	(41)	(68)
Change in cash	(7)	11	(9)	(7)
Cash last year	33	26	36	27
Cash year end	26	36	27	20

Source: Company data, ING estimates

Company profile

Duda is the third-largest producer of meat in Poland. It has the largest slaughterhouse and above 5% market share in the slaughtering business in Poland. Meat production accounts for 44% of sales. It also controls distribution of meat in major Polish cities (eg, the largest distributor in the capital, Warsaw). It also farms pig livestock and grains although it is minor part of the revenues (4% in 2007) but quite profitable (17% of profit). The company also has operations in Ukraine (around 6% of total revenues) and Germany (minor). Exports revenues stands for 11% of total sales.

Elstar

More patience needed

Previously: Sell
Hold

Food processing | **Bloomberg: ELS PW**

- **The biodiesel market has finally commenced but it is likely to bring little profit to Elstar in 2008**
- **Following the share price fall we upgrade from Sell to HOLD. We also reduce our target price, which is based on an average of DCF and peer valuation.**
- **Oversupply and a possible shortage of raw materials are among the largest industry risks**

Investment case

In 2006 and particularly 2007 Elstar suffered from the delay in agreeing effective regulations for the biofuels market. It invested over PLN80m in 2006 in an esters production plant and purchased more raw materials (rapeseed) in order to provide for future biodiesel production. Depreciation grew from PLN3.2m in 2005 to PLN5.8m in 2007, while financial costs grew from PLN4.1m to PLN12.6m over the same period. Moreover, Elstar had to resell the rapeseed at a loss. As a result, net profitability dropped from 5.1% in 2005 and 3.9% in 2006 to -0.7% in 2007.

After the successful launch of the biodiesel market in Poland this year, the company should finally stop losing on its investment, the majority of which is financed with cash from the IPO in 2004 and the SPO in 2006. Nevertheless, in 2008 Elstar will only reach break even on the biodiesel business. Target net profitability of 7% is only likely to be reached once full capacity utilisation is achieved (in 2011, in our view).

The biofuels market in Poland is regulated by the National Indicator Aims (NIA), which defines percentage of sold fuels that has to come from natural resources ie, either biodiesel or bioethanol. The volume of required biofuels is expected to grow by 19% pa in 2007-2013. This seems an optimistic prognosis for the future of the market, but there are several important risks that spoil the big picture.

First, there is already oversupply in the biodiesel sector, as the total installed capacity is 500,000tpa while demand is forecast at 340,000tpa. Even if no further capacity is built, there will be a supply surplus until 2010. Second, there is a risk of rising rapeseed prices. IERiGZ (Agriculture Institute) estimates a rise of 40% YoY even, after this year's harvest in August which will be lower than last year due to the smaller area under crop (due to the disadvantageous ratio of rapeseed to wheat prices at time of planting) and demand should increase because of the launch of biodiesel production. In the long term, the area under crop will become insufficient to meet the demand created by NIA already in 2011.

The edible oils arm faces mediocre prospects. The market is sluggish, as edible oils consumption in Poland dropped by 2.7% pa in 2003-2006. Furthermore, the company will process an increasing quantity of oils into biodiesel, leaving less to sell directly as edible oils.

Price (11/07/08)	**PLN4.15**
	Previously: PLN5.2
Target price (12 mth)	**PLN4.7**

12-month forecast returns (%)

Share price	13.3
Dividend	0.0
12m f'cst total return	**13.3**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	6.0	7.9
Operating margin	4.8	6.3
Net debt/equity	203.9	167.3
ROE	8.42	11.67
DPS (PLN)	0.0	0.0

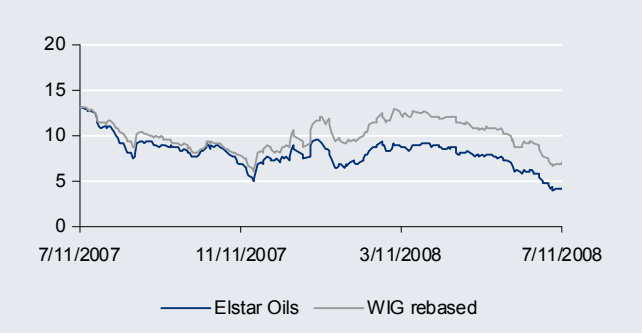
Source: Company data, ING estimates

Share data

No. of shares, diluted (m)	48.2
Daily t/o (US$m)	0.24
Free float (%)	43.9
Mkt cap (US$m)	91
Mkt cap (PLNm)	200

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	208.9	381.5	646.3	672.5	698.3
EBITDA (PLNm)	18.2	3.5	38.5	52.8	70.7
Net income (PLNm)	8.1	-2.8	12.3	18.9	33.8
EPS (PLN)	0.2	-0.1	0.3	0.4	0.7
PER (x)	24.6	-	16.3	10.6	5.9
P/BV (x)	1.3	1.4	1.3	1.2	1.0
EV/EBITDA (x)	25.8	121.1	13.3	9.2	6.3
ROE (%)	6.8	-	8.4	11.7	18.0

Source: Company data, ING estimates

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Quarterly results

The company announced that sales of oil in 2Q08 amounted to PLN132m. We forecast that PLN97m from this amount was sales of oils to food sector clients, and the rest was sold to the biodiesel plant, which added its margin for processing and generated PLN30m revenues. In 2Q the company sold biodiesel to Orlen only, as the quarterly agreement with Lotos ended in 1Q07. We expect 12% lower total sales compared to 1Q08, as a result of lower resale of rapeseed. We forecast the net margin on edible oils to reach 3.9% (vs 3.6% in 1Q08), 1.0% on biodiesel (vs 3.1%) and 0% on rapeseed (unchanged).

2Q08 results

	2Q07A	2Q08F
Revenue	114.5	162.1
EBITDA	0.4	10.5
EBIT	- 1.0	8.6
Net profit	- 1.0	4.1
EPS (PLN)	- 0.02	0.09

Source: ING estimates

Earnings drivers and outlook

The main growth driver in Elstar's earnings will be the biodiesel segment. In our model we assume selling 45,000 tonnes in 2008, 60,000 tonnes in 2009 and reaching full capacity utilisation of 100,000 tonnes in 2011. The biodiesel segment should exceed 50% of revenues in 2010.

The target net margin on the sales of biodiesel is 7% and we expect this to be achieved in 2011, together with reaching full capacity utilisation. Net profitability in 2011 should only slightly exceed 0%.

Revenues from the food segment (sales of rapeseed oils) are likely to grow slowly – mostly due to price growth rather than volume growth – according to our estimates. This is a result of increased demand from the biodiesel segment for oils to process into esters.

The food segment is showing declining profitability. In 2007 Elstar achieved a net margin of only 1.4% on edible oils, compared to 6.6% in 2004. We expect some improvement compared to last year, when the margins on oils were depressed by oversupply connected with the delayed launch of the biodiesel market, and assume the net profitability on edible oils will reach 4.1%. Management's long-term target net margin is 7% for the food segment. The downward profitability trend seen in the last three years is not persuasive for us and we expect the segment to reach only 5% net margin in the long term (2011 and onwards).

In 2007 Elstar generated PLN142m in revenue from rapeseed sales. We forecast this figure to grow to PLN185m this year, due to expected growth in rapeseed processing capacity and the need to secure future access to raw materials in advance. Elstar will not realise profits on the resale of rapeseed and it will have a 29% share in total revenues, meaning it will affect margins. We expect Elstar to achieve 1.9% net margin in 2008 (2.7% excluding the resale of rapeseed).

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**381.5**	**646.3**	**672.5**	**698.3**
%ch	*82.7*	*69.4*	*4.1*	*3.8*
Revenue ex. rapeseed	240.0	461.3	560.0	673.9
EBITDA	**3.5**	**38.5**	**52.8**	**70.7**
EBIT	**(2.4)**	**31.0**	**42.1**	**58.9**
%ch	-	-	*36.0*	*39.9*
Margin (%)	-0.6	4.8	6.3	8.4
Pre-tax profit	(5.7)	15.0	21.5	39.2
Tax	(2.9)	2.7	2.6	5.4
Net profit	**(2.8)**	**12.3**	**18.9**	**33.8**
%ch	-	-	*53.4*	*79.1*
Margin (%)	*-0.7*	*1.9*	*2.8*	*4.8*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	12.7	6.2	10.3	13.9
Inventory	132.5	193.6	186.6	180.7
Trade debtors	44.6	75.5	78.6	81.6
Other current assets	145.5	206.6	199.6	193.7
Total current assets	**202.7**	**288.2**	**288.5**	**289.2**
PPE	173.4	195.9	195.2	193.6
Other fixed assets	16.0	16.0	16.0	16.0
Total fixed assets	**189.4**	**211.9**	**211.2**	**209.7**
Total assets	**392.2**	**500.2**	**499.7**	**498.9**
ST debt	169.7	234.7	224.7	199.7
Trade creditors	18.2	28.9	29.6	30.0
Other current liabilities	2.6	2.6	2.6	2.6
Total current liabilities	**190.5**	**266.2**	**256.9**	**232.3**
LT debt	56.1	76.1	66.1	56.1
Other LT liabilities	5.7	5.7	5.7	5.7
Total LT liabilities	**61.8**	**81.8**	**71.8**	**61.8**
Equity	**139.9**	**152.2**	**171.1**	**204.8**
Total liabilities & equity	**392.2**	**500.2**	**499.7**	**498.9**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	65.4	(61.5)	34.2	48.9
CF from investment	(14.7)	(30.0)	(10.0)	(10.3)
CF from funding	(74.4)	85.0	(20.0)	(35.0)
Change in cash	(23.7)	(6.5)	4.2	3.6
Cash last year	36.4	12.7	6.2	10.3
Cash year end	12.7	6.2	10.3	13.9

Source: Company data, ING estimates

Company profile

The primary activity of Elstar is the production of rapeseed oil for the food industry. At its production facility in Czernin (near Malbork, north-western Poland) it processes rapeseed and refines plant oils. In addition to that, the company manufactures biofuels from rapeseed oil in its production plant in Malbork.

Kernel

Sunflower oil, grain and land

Maintained
Buy

Food processing **Bloomberg: KER PW**

- **Still strong pricing environment and expansion in volumes of oil production and grain exports point to robust growth.**
- **Better product mix, economies of scale, expansion of farming operations and integration of grain trans-shipment terminal to drive margin expansion**

Investment case

Kernel enjoyed a buoyant pricing environment, demonstrating strong earnings growth over the last two years. We still expect the company to deliver three-year EPS CAGR of 38.1%, driven by volume growth in oil production and grain exports (three-year CAGR of 29.6% and 20.4%, respectively), making the growth less dependent on cyclicality of soft commodity prices (although we still expect three-year CAGR of 23.7% in oil and 15.9% in grain prices).

New farming project offers higher gearing to grain prices. Kernel Group has recently announced plans to expand its farming operations from 30,000ha to 250,000ha by the end of calendar 2009. The company raised US$80m in new equity at the beginning of March to finance land lease acquisitions, new equipment and working capital needed. While building up a land bank will not make Kernel's crushing operations self-sufficient in raw materials, the new land may supply up to 160,000 tons of sun seed and rapeseed, representing 11% of planned installed capacity in 2009. We are looking for farming to add nearly US$200m in revenues and US$50m in EBITDA by 2011/12F, (excl. VAT credits and biological assets revaluation) and to have a positive effect on the company's consolidated EBITDA margin.

Integration of a recently acquired grain trans-shipment terminal will not only give Kernel control of the last grain export leg, but should also enhance overall margins (we estimate port's EBITDA margin at 51.6% in 2008/09F). Further value creation is possible via margin enhancement on optimization of grain storage facilities and segmentation of different kinds and grades of grain, and SG&A synergies.

Strong growth prospects, underpinned by buoyant soft commodity prices, crushing capacity expansion, diversification into farming and strong management execution make the current valuation discount to peers unwarranted. At 2008/09F PER of 11.0x and EV/EBITDA of 7.5x, Kernel trades at a 12.5% and 16.7% discount to global peers respectively. We view this discount as undeserved and recommend BUYing Kernel shares, which now offer 50% upside to our DCF-based 12-m TP of PLN 45.0.

Main risks for Kernel's results remain soft commodity prices, adverse weather conditions and regulation.

Price (11/07/08)	**PLN30.0**
Target price (12 mth)	Maintained **PLN45.0**

12-month forecast returns (%)

Share price	50.0
Dividend	0.0
12m f'cst total return	**50.0**

Source: ING

Key ratios (%)

	2007F	2008F
EBITDA margin	17.5	17.2
Operating margin	15.4	14.6
Net debt/equity	38.6	65.8
DPS (PLN)	0.0	0.0
Dividend yield	0.0	0.0

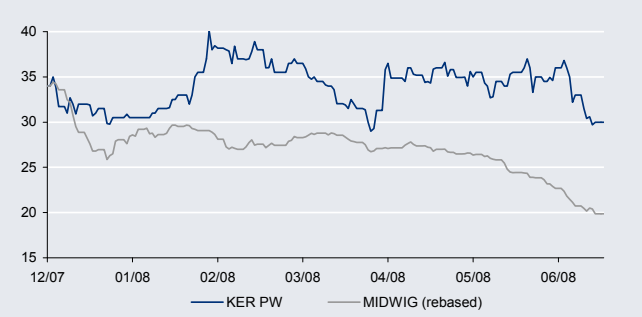
Source: Company data, ING estimates

Share data

No. of shares (m)	68.8
Daily t/o (US$m)	1.4
Free float (%)	40.9
Mkt cap (US$m)	980.6
Mkt cap (PLNm)	2,063.1

Source: Company data, ING estimates

Share price performance



Source: Bloomberg

Forecasts and ratios (US$m)

Year to Jun	2005/06	2006/07	2007/08F	2008/09F	2009/10F
Revenue	215.2	350.4	611.6	1,063.0	1,159.6
EBITDA	16.1	46.2	107.0	182.7	203.1
Net income	1.3	19.5	61.8	91.9	75.9
EPS (US$)	0.03	0.42	0.90	1.34	1.10
PER (x)	761.9	50.2	15.9	10.7	12.9
EV/EBITDA (x)	66.2	24.4	10.5	7.0	6.6
P/BV (x)	23.5	15.2	2.8	2.2	1.9
ROE (%)	3.1	36.8	29.5	23.0	15.7

Source: Company data, ING estimates

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Quarterly preview

4Q08 results preview (US$m)

	3Q08	4Q08F
Revenue	243.2	118.0
EBITDA	32.4	30.2
EBIT	29.3	25.4
Net profit	19.6	21.5
EPS (US$)	0.28	0.32

Source: ING estimates

In April, the European Commission launched an investigation into contamination of imported Ukrainian sunflower oil with hydrocarbons. This might have had a negative affect on overall volumes of Ukrainian oil shipped out of the country by oil traders. While Kernel sells all of its oil on an FOB basis and, therefore, bore no risk to volumes shipped, potential delays in logistics on the trader side could have postponed a small amount of oil shipments from 2007/08 into the 2008/09 fiscal year. We estimate the effect to be no more than 6,000 MT (3.5% of our FY08 estimates) or less than US$1.0m in EBITDA and to be fully offset by higher volumes and revenues from grain trading business.

Earnings drivers and outlook

For 2008/09F, we expect the company's earnings to be driven by the following:

- A 26% increase in actual sun seed crushing capacity to 856,000 tons, leading to 42% increase in crude oil exports from 171,000 MT in FY08 to 234,000 MT in FY09. We expect bottled oil volumes to remain nearly flat YoY.
- A 20% average increase in sunflower prices (while we expect a 17% correction until calendar YE08 from recent peak of US$1,740/ton, we still expect prices to be on average 20% higher compared average of June 2007–June 2008 due to low average of US$1,160/ton in calendar 3Q07). We expect a net effect of volume and price increases to translate into 47% growth YoY in oil revenues in FY09.
- Grain exports to quadruple to 1.0m MT due to good harvest and removal of grain export restrictions. Although we also expect average trading margin to fall to US$34.0/ton in FY09 from US$60.0/ton in FY08, we still expect a net effect of a near tripling of grain trading revenues from US$102m to US$288m in FY09.
- Acquisition of grain terminal should add another US$36.4m in revenue and US$18.8m in EBITDA, having a small but positive effect on overall EBTDA margin. We estimate the margin will increase from previously estimated 16.1% to 17.2% in FY09.
- Increased land bank from 60,000 ha at fiscal YE08 to 150,000 ha at fiscal YE09 should drive the contribution from farming business. We expect farming to contribute US$44.7m in sales, US$12.7m in operating profit (before VAT refunds and biological assets), US$18.9m in EBITDA and US$25.6m in net profit, thanks to a US$17.4m gain on VAT credits (the company uses these for farming business capex payments) and biological assets revaluation (which, in effect, is an early profit booking).

P&L account

US$m	2005/06	2006/07	2007/08F	2008/09F
Revenue	**215.2**	**350.4**	**611.6**	**1,063.0**
%ch	*49.7*	*62.8*	*74.6*	*73.8*
EBITDA	**16.1**	**46.2**	**107.0**	**182.7**
EBIT	**12.0**	**38.6**	**94.2**	**155.5**
%ch	*514.2*	*221.7*	*143.8*	*65.0*
Margin (%)	*5.6*	*11.0*	*15.4*	*14.6*
Pre-tax profit	(0.0)	16.7	66.8	99.4
Tax	(0.1)	(1.9)	5.0	7.5
Minorities	(1.2)	(0.9)	0.0	0.0
Net profit	**1.3**	**19.5**	**61.8**	**91.9**
%ch	*-80.5*	*1419.0*	*216.1*	*48.8*
Margin (%)	*0.0*	*5.3*	*10.1*	*8.6*

Source: Company data, ING estimates

Balance sheet

US$m	2005/06	2006/07	2007/08F	2008/09F
Cash	6.4	25.3	9.5	20.3
Goodwill	3.0	11.5	11.5	11.5
Other current assets	61.6	90.7	205.6	345.9
Total current assets	**68.0**	**116.0**	**215.1**	**366.2**
PPE	72.5	127.9	279.9	342.9
Intangibles	7.4	16.8	46.0	108.7
Other fixed assets	5.0	2.9	2.9	2.9
Total fixed assets	**87.9**	**159.1**	**340.4**	**466.0**
Total assets	**155.8**	**275.1**	**555.5**	**832.2**
ST debt	23.3	37.4	34.9	34.9
Other current liabilities	11.2	21.8	31.2	49.4
Total current liabilities	**34.5**	**59.2**	**66.1**	**84.3**
LT debt	59.8	116.7	101.1	268.5
Other LT liabilities	13.9	21.4	20.9	20.3
Total LT liabilities	**73.8**	**138.1**	**122.0**	**288.9**
Minorities	5.9	13.2	13.1	13.1
Equity	**41.7**	**64.6**	**354.3**	**446.2**
Total liabilities & equity	**155.8**	**275.1**	**555.5**	**832.5**

Source: Company data, ING estimates

Cash flow account

US$m	2005/06	2006/07	2007/08F	2008/09F
CF from operations	(29.0)	11.6	(31.5)	(3.7)
CF from investment	(5.4)	(57.2)	(194.1)	(153.1)
CF from funding	30.7	64.5	209.9	167.6
Change in cash	(3.4)	18.8	(15.7)	10.8
Cash last year	9.4	6.4	25.3	9.5
Cash year end	6.4	25.3	9.5	20.3

Source: Company data, ING estimates

Company profile

Kernel Group is one of the leading producers of sunflower oil in Ukraine with exposure to export and local markets, operating three crushing plants with total installed capacity of 730,000 tons. The company is the second largest sunflower seed crusher and third largest oil exporter in Ukraine, with a 17% and 11% market share in the respective segments.

The group is the largest refiner and bottler of oil in Ukraine, with five different brands across all price segments, representing a combined 35% market share.

The company is also among the top 10 grain exporters, having exported c.550,000 tons of different grains in 2007, representing 8% of all grain exports from Ukraine. Kernel owns 26 grain silos, the second largest network in Ukraine, with 1.7mt of storage capacity.

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Food retail

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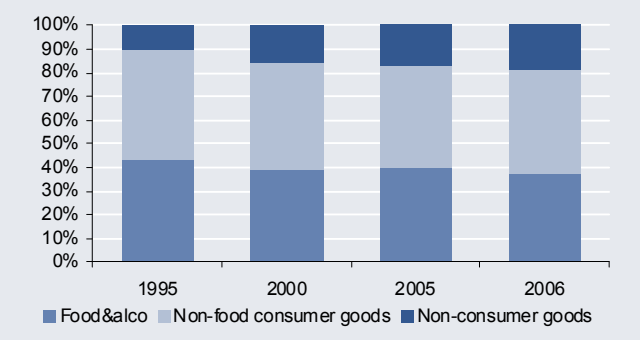
Food retail

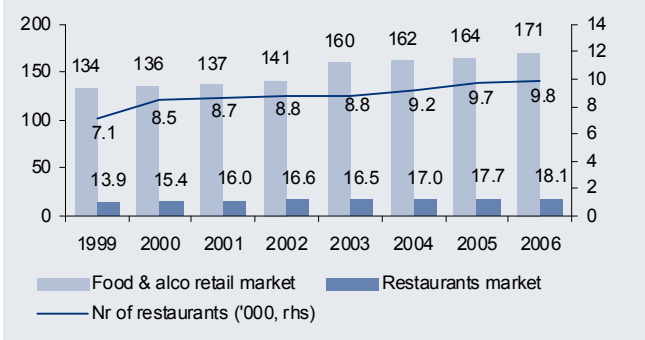
- Food and non-alcoholic beverages comprise less than 30% of total retail market in Poland
- Share of food in consumption expenses has been dropping (from 41.5% in 1995 to 36.4% in 2006) and we believe it will continue to do so, even more quickly in the future, as disposable income grows

Fig 51 Structure of retail sales



Source: Polish Statistical Office

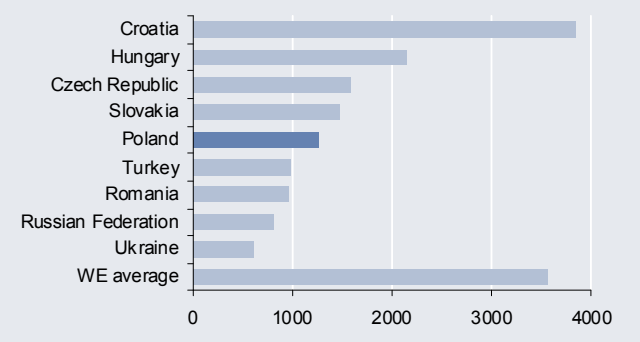
Fig 52 Food retail and restaurants market (PLNm)



Source: Polish Statistical Office

- Food retail market grew a modest 3.4% CAGR in 2000-06, close to 3.7% pa GDP growth in this period
- In the past few years, food retail growth dynamics has accelerated: in 2007, it is estimated to 14% YoY, compared with 3.8% in 2006 and 1.5% in 2005. For 2008, we forecast the market to rise by 5.2%. We expect the food retail segment to grow faster in 2007-11 (4.3% CAGR) than in 2000-06, but to continue growing more slowly than GDP (5.3% forecast by ING)

Fig 53 Food consumption per capita (US$)



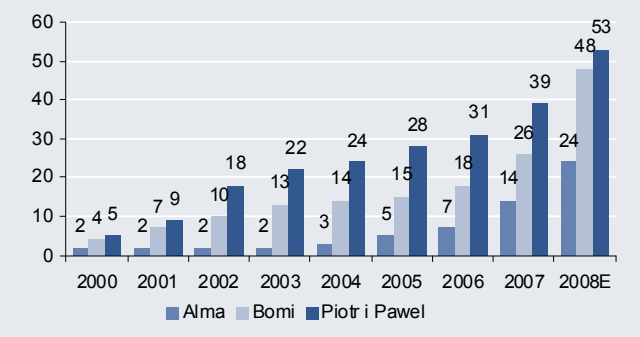
Source: Statistical Offices, ING estimates

Fig 54 Retail sales chains

Source: GfK Polonia, ING estimates

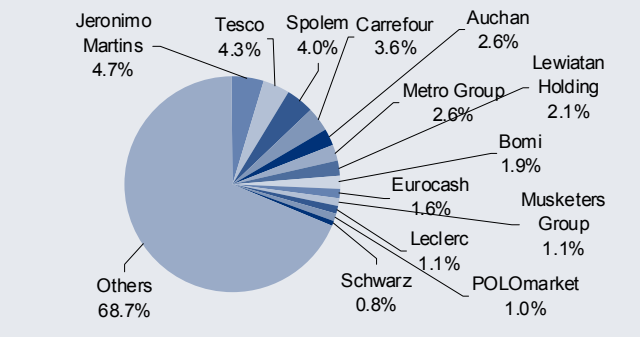
- Modern trade is gaining importance in retail sales, but a relatively low urbanisation rate makes it hard to win more than half the market
- We see the best prospects in the delicatessen and discount stores segment
- Delicatessen comprises 2% of food retail's segment value in Poland, whereas in WE it is usually 8-10%. There are only three chains, all of them domestic
- We believe the share of delicatessen in food retail will reach 5% in 2011, translating to over 30% pa growth until then

Fig 5 Main delicatessen chains growth



Source: Company data, ING estimates, E-companies plans

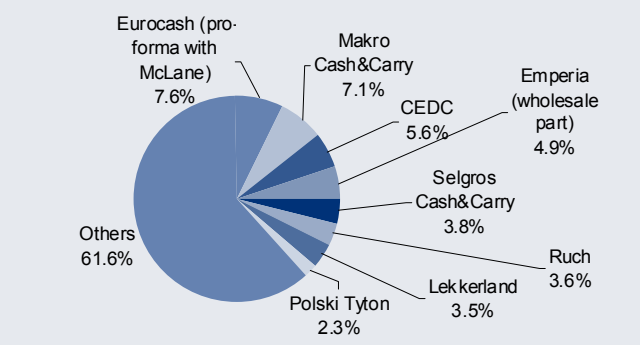
Fig 55 Main FMCG retail market companies



Source: Company data, ING estimates

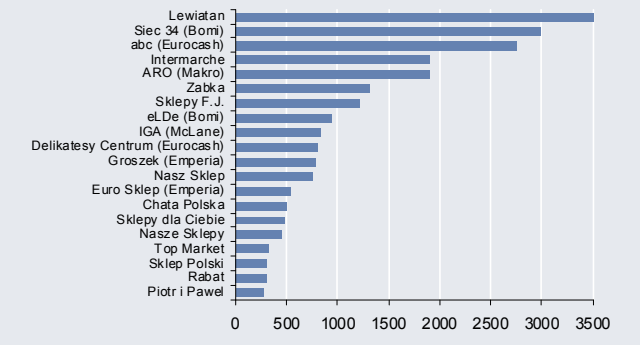
- The food wholesale market in Poland is fragmented, with the three largest companies holding only 20.3% of its total value as measured by revenues. As a result, the sector is undergoing consolidation process and the number of companies in the sector has halved in the last 10 years
- Independent retailers are increasingly willing to organise into franchise chains or sell directly to wholesalers in order to gain competitive advantage

Fig 7 Main FMCG wholesale market players



Source: Company data, ING estimates

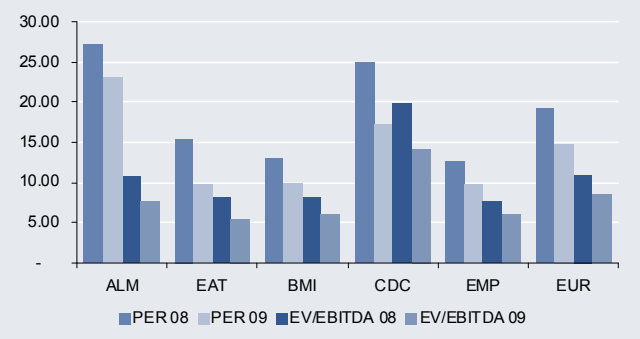
Fig 8 Main franchise chains' store numbers



Source: Company data, ING estimates

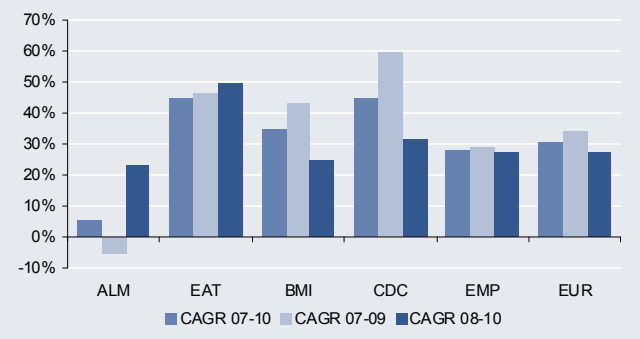
- Among listed food retailers the most expensive are Alma (Sell, TP PLN52) and CEDC (Buy, TP PLN87.5). The fastest growing are CEDC (explaining the rating), AmRest (Buy, TP PLN124) and Bomi (Buy, TP PLN31).
- Emperia (Buy, TP PLN156) and Eurocash (Hold, TP 12.5) grow at similar rates, but Eurocash trades at higher multiples.

Fig 7 Listed retailers' multiples



Source: ING estimates

Fig 8 Listed retailers' EPS growth rates



Source: ING estimates

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AmRest

Never been so cheap

Maintained
Buy

Food retail **Bloomberg: EAT PW**

- **We believe the share price has reached a bottom and will finally rebound.**
- **Uncertainty connected with the possible Sfinks acquisition is the main risk factor. Our TP is based on an average of DCF and peer valuation, and is lowered to PLN124 due to peer group multiples depreciation.**

Investment case

AmRest's share price is suffering from low expectations regarding results this year. The company has significantly accelerated its development, which hampers short-term profitability. We believe it will show satisfactory improvement in results in 2009 and we feel the share price drop already reflects temporary profitability weakness. We anticipate the share price to oscillate around PLN70 for a few months, but over a 12-month perspective, we expect the market to start appreciating future results, especially in the light of single-digit 2009F PER of 10.2x. Moreover, we find our forecasts rather conservative, as they fall below the management's expectations of PLN1.9bn revenue from CEE in 2009 (compared to our forecast of PLN1.6bn).

In May, the company announced that it had purchased a controlling stake in American Apple Grove, franchisee of *Applebee's Neighborhood Grill & Bar* casual dining brand. Although there are limited synergies from operating in the US for the CEE business, we believe the transaction adds shareholder value. It was conducted at 6.0x 12-months trailing EV/EBITDA, compared to AmRest's 21.3x and 9.0x average in the US. Moreover, Applebee's brand could be developed in the CEE region; the company may even consider rebranding its Rodeo Drive brand to Applebee's. Rodeo is an internally developed brand with no success whatsoever and it has a similar meal offer to Applebee's. The only synergy from this transaction we can see is access to experienced staff, contributing to an easier and cheaper introduction of the Applebee's brand to CEE than what was the case with Starbucks. AmRest will not have to use external services to train its staff, for instance.

Also, in May, AmRest announced it purchased 5% of Sfinks because it believes the *Sphinx* brand will be better off under its supervision. Regardless of the fact that we find the latter to be true (Sfinks' major problem is decentralised supply of foodstuffs and resulting susceptibility to inflation) and that there is a huge potential in optimising Sfinks' costs, the uncertainty connected with conditions of any acquisition or merger could affect the AmRest share price. We think that management is negotiating the price with Sfinks' majority shareholder (holding 40% of capital) and that it will be higher than its market price. From an AmRest shareholder perspective, exchange of shares could be more advantageous, taking into account the already high interest expense in AmRest.

Price (11/07/08)	**PLN72**
	Previously: PLN138
Target price (12 mth)	**PLN124**

12-month forecast returns (%)

Share price	72.2
Dividend	0.0
12m f'cst total return	**72.2**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	11.3	11.3
Operating margin	7.0	7.3
Net debt/equity	93.1	69.0
ROE	19.7	24.4
DPS (PLN)	0.0	0.0

Source: Company data, ING estimates

Share data

No. of shares, diluted (m)	14.2
Daily t/o (US$m)	1.68
Free float (%)	53.8
Mkt cap (US$m)	463.8
Mkt cap (PLNm)	1020.3

Source: Company data, ING estimates

Share price performance

Source: Reuters

Forecasts and ratios

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	629	853	1,453	2,134	2,498
EBITDA (PLNm)	88	119	164	242	321
Net income (PLNm)	38	48	64	100	143
EPS (PLN)	2.7	3.4	4.5	7.1	10.1
PER (x)	26.5	21.1	16.0	10.2	7.1
P/BV (x)	6.5	3.5	2.9	2.2	1.7
EV/EBITDA (x)	12.3	9.7	8.2	5.5	3.9
ROE (%)	27.6	21.6	19.7	24.4	26.8

Source: Company data, ING estimates

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Quarterly results

The company stated that its revenue in 2Q08 will amount to PLN264.5m. The main factors influencing profitability are food costs, which we assume will stay flat at the 4Q07 and 1Q08 level, and marketing expenses, which vary considerably QoQ. In 4Q07, the latter amounted to 6.1% of sales and in 1Q08 to 3.2% only. We assume they will equal 5.0% in 2Q08.

We expect the company to improve operating profit by one-quarter YoY but for it to post lower net income. This is a result of growing financial costs as well as a higher effective tax rate due to a higher statutory rate in Russia. The scale of EBIT improvement should be higher than in 1Q08, which should have a positive impact on the share price.

2Q08 results

	2Q07	2Q08F
Revenue	187.1	264.5
EBITDA	26.8	34.4
EBIT	15.2	19.4
Net profit	11.5	11.3
EPS (PLN)	0.81	0.80

Source: ING estimates

Earnings drivers and outlook

The Apple Grove purchase will have a crucial impact on the company's profitability. It has a lower EBITDA margin compared to AmRest (5.8% vs 2008 expected 13% and target 15%) so it will lead to dilution of overall margins. Annual revenues of Apple Grove amount to US$260m.

We conservatively assume 1.5% US dollar revenue growth YoY for the whole 10-year forecast period, translating to dropping revenues in Polish zloty terms. We do not assume growth of the Applebee's restaurants base, neither by acquisitions in the US nor by openings in CEE. We also apply a stable 5.8% EBITDA margin – despite management guidance that it is possible to improve it to some extent, however, slowly. We also assume Apple Grove will generate a 3.5% net margin. This is based on low amortisation (no new restaurants and a low 1% of revenue maintenance capex) and a 15% tax rate assumption (the company benefits from a tax shield).

Apple Grove will be consolidated starting from 3Q08. The overall EBITDA margin this year will amount to 11.8%, according to our estimates, and stay flat in 2009. This is a result of two offsetting factors: improvement in AmRest's margins and consolidation of Apple Grove throughout the whole year in 2009.

The takeover will also influence AmRest's cash flow account. It will have to incur more debt in 2008 (PLN150, according to our calculations) but Apple Grove's cash generation ability will allow for financing the consecutive year's investments with own resources only. This is also possible thanks to AmRest's negative working capital. We do not assume Apple Grove has a different working capital structure.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**853.4**	**1,452.7**	**2,134.3**	**2,497.8**
%ch	*35.6*	*70.2*	*46.9*	*17.0*
EBITDA	**118.9**	**164.5**	**241.9**	**320.7**
EBIT	**67.1**	**101.5**	**155.7**	**208.3**
%ch	*51.2*	*51.3*	*53.4*	*33.8*
Margin (%)	*7.9*	*7.0*	*7.3*	*8.3*
Pre-tax profit	63.9	84.4	133.5	189.1
Tax	15.2	18.6	29.4	41.6
Minorities	0.3	1.9	4.1	4.0
Net profit	**48.4**	**64.0**	**100.1**	**143.5**
%ch	*25.8*	*32.1*	*56.4*	*43.4*
Margin (%)	*5.7*	*4.4*	*4.7*	*5.7*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	46.9	9.0	13.1	12.1
Trade debtors	16.7	28.5	41.8	49.0
Other current assets	23.6	20.1	29.4	34.3
Total current assets	**87.2**	**57.6**	**84.4**	**95.5**
PPE	263.5	436.4	592.8	696.8
Other fixed assets	231.9	400.0	400.0	400.0
Total fixed assets	**495.4**	**836.4**	**992.9**	**1096.8**
Total assets	**582.6**	**894.0**	**1077.2**	**1192.2**
ST debt	38.6	38.6	38.6	38.6
Trade creditors	111.6	189.9	279.0	326.5
Other current liabilities	5.2	5.2	5.2	5.2
Total current liabilities	**155.3**	**233.7**	**322.8**	**370.3**
LT debt	124.1	291.4	281.4	201.4
Other LT liabilities	11.7	11.7	11.7	11.7
Total LT liabilities	**135.8**	**303.1**	**293.1**	**213.1**
Minorities	4.3	6.2	10.3	14.3
Equity	**291.4**	**357.3**	**461.4**	**608.9**
Total liabilities & equity	**582.6**	**894.1**	**1077.3**	**1192.3**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	102.0	187.3	256.8	295.4
CF from investment	(149.7)	(375.5)	(242.6)	(216.4)
- capex	*(94.6)*	*(218.6)*	*(242.6)*	*(216.4)*
- acquisitions	*(71.3)*	*(156.9)*	*()*	*()*
CF from funding	70.3	150.0	(10.0)	(80.0)
Change in cash	22.5	(38.2)	4.1	(1.0)
Cash last year	25.1	47.2	9.0	13.1
Cash year end	47.2	9.0	13.1	12.1

Source: Company data, ING estimates

Company profile

AmRest is the leading CEE restaurant chain, currently operating 273 restaurants in 6 countries: Poland, Czech Republic, Hungary, Russia, Bulgaria and Serbia. The company uses 6 brands: internationally recognised Pizza Hut, KFC, Burger King, Starbucks, as well as internally developed Freshpoint and Rodeo Drive. Recently AmRest also purchased the American operator of 104 Applebee's restaurants.

Alma

Increasing uncertainty

Maintained
Sell

Food retail **Bloomberg: ALM PW**

- **There looks to be no imminent return from the overly ambitious development strategy**
- **More distraction and limited synergies connected with potential mergers with V&W and Paradise**

Investment case

In 4Q07 Alma opened 5 new stores taking the total to 14. In 2008, it plans to launch 10 stores. With average breakeven after 12-15 months, the entire year will be burdened with the costs of new stores. The mature 9 stores will be earning to provide for the 15 new stores.

This will affect margins, but not only this year. A challenging development strategy combined with high capex per store (PLN9.5m) translates to escalating depreciation and interest, costs that cannot be reduced quickly. We forecast 25% CAGR in 2008-10 net profit, but yet the company is still trading with 2010 PER of 17.9x.

Alma has announced that it reached almost 6% in V&W's capital. Alma's CEO, who is chairman of V&W's supervisory board, stated that he intends to merge the companies. We expect the merger to materialise no sooner than 2H09.

We see limited synergies from a potential merger with V&W. A possible synergy is the proposal of a joint loyalty programme. We would not associate it with visible earnings for the companies. Also, there is talk of synergies in renting costs. Alma, however, appears as an anchor tenant (as main delicatessen store) with whom negotiations are held separately from other tenants, such as V&W (boutiques). We do not believe the Alma stores are valuable enough for the shopping mall vendors to induce them to give V&W boutiques better conditions in order to attract Alma, since there are many supermarket chains racing to set-up shop in every new mall. Even if it would be possible, the benefit would be on the V&W side, not on Alma's.

We also see limited synergies from taking over the Paradise Group, a franchisee of *Armani*, *Zegna*, *Boss*, *Burberry* and other premium clothing brands. The companies have the same majority shareholder (Alma's CEO, Mr Mazgaj) and already co-operate by common loyalty programmes. Issuance of 0.5-1.5m shares (to be decided on 25 July 2008 at the AGM) will most likely lead not only to EPS dilution.

As a result of changes in forecasts (above all implementation of PLN5m costs of office space renting throughout 2008-10) our DCF standalone valuation deteriorated by 12%. We have increased our development arm valuation from PLN69m to PLN83m to reflect the new office project's value. As a result of the new peer valuation outcome (PLN37.5), our new TP is PLN52. The key risk to our recommendation is the overly optimistic market reaction to the merger with Paradise Group.

Price (11/07/08)	**PLN57.5**
	Previously: PLN65
Target price (12 mth)	**PLN52.0**

12-month forecast returns (%)

Share price	(9.6)
Dividend	0.0
12m f'cst total return	**(9.6)**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	4.0	4.9
Operating margin	2.3	2.4
Net debt/equity	75.4	126.3
ROE	5.7	6.2
DPS (PLN)	0.0	0.0

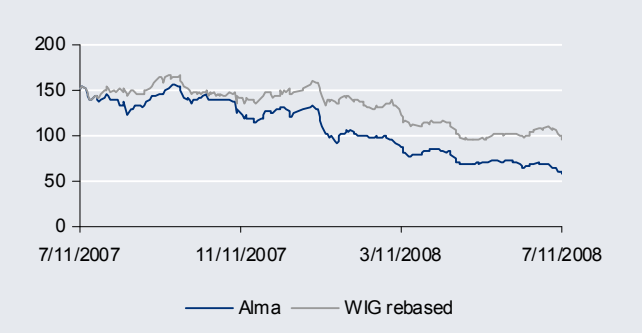
Source: Company data, ING estimates

Share data

No. of shares, diluted (m)	4.2
Daily t/o (US$ m)	0.16
Free float (%)	42.6
Mkt cap (US$ m)	91.5
Mkt cap (PLN m)	242.5

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios (consolidated data)

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	477.0	650.9	889.5	1,216.7	1,517.3
EBITDA (PLNm)	25.8	35.4	36.0	60.2	84.5
Net income (PLNm)	15.4	31.0	17.9	10.5	13.5
Adj. net income (PLNm)	14.6	11.7	8.9	10.5	13.5
EPS (PLN)	3.5	2.8	2.1	2.5	3.2
PER (x)	16.6	20.8	27.2	23.1	17.9
EV/EBITDA (x)	9.1	7.5	10.8	7.8	5.8
ROE (%)	13.7	8.9	5.7	6.2	7.5

Source: Company data, ING estimates

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Quarterly results

We expect Alma to show better results than in 1Q08, but still worse YoY. In 1Q08, after adjusting for the PLN11.1m revaluation gain, the company earned circa PLN0.9m. We believe that a portion of the stores opened in 4Q07 (five stores) and 1Q08 (one) will generate fewer losses, as they are approaching the breakeven point. In 2Q08, Alma launched one store, as one opening was postponed to 3Q.

We expect Krakchemia to render similar results to those reported in 1Q08 and assume no further revaluation gains.

2Q08 results (consolidated)

	2Q07A	2Q08F
Revenue	154.0	209.8
EBITDA	6.2	6.3
EBIT	4.0	3.7
Net profit	2.8	1.7
EPS (PLN)	0.66	0.41

Source: ING estimates

Earnings drivers and outlook

Ambitious development plan impacts the cash flow generating ability. The company needs to finance its requirements with debt, which results in growing interest expense.

A possible relief to the cash flow would be sales of assets. Alma has several pieces of real estate, from which one – land in Krakow – could be sold. The company has permission to develop a residential project on it, but now it is waiting for the approval of changing the purpose of the land to an office building. After that, Alma will either sell it with profit (the book value of the plot amounts to PLN9.1m and the market value is estimated by the company to PLN110m) or realise the project by its subsidiary, Alma Development.

Alma Development will also develop another office building on neighbouring land. The construction is set to begin in 3Q08 and to end in 2010. The second office building would be constructed afterwards.

In 1Q08 the company recognised a PLN11.1m gain on asset revaluation. It was connected with receiving the permission to construct the abovementioned residential project. Alma can recognise another gain after being granted permission for construction of the office building scheduled to start in 3Q08. We do not take this into account in our model, since it is paper profit and does not affect the valuation.

Compared to our earlier forecasts, we increased the number of Krakowski Kredens stores and now expect 2008 to end with 32 stores, in line with management expectations. We also accounted for the company's guidance with respect to capex per store. Previously we assumed it will not exceed PLN8m, but in the annual report Alma informs us it will spend PLN95m on 10 stores in 2008. We assume the opening of at least one store will be postponed to 2009 and therefore assume PLN85m capex for Alma and PLN10m capex for Krakowski Kredens stores in 2008.

P&L account (standalone)

PLNm	2007	2008F	2009F	2010F
Revenue	**369.8**	**539.5**	**816.7**	**1,067.3**
%ch	*39.9*	*45.9*	*51.4*	*30.7*
EBITDA	**30.2**	**28.7**	**51.0**	**72.8**
EBIT	**21.8**	**13.8**	**21.5**	**27.7**
%ch	*29.0*	*(36.8)*	*56.1*	*28.5*
Margin (%)	*5.9*	*2.6*	*2.6*	*2.6*
Pre-tax profit	20.7	8.7	10.0	12.8
Tax	4.2	1.8	2.0	2.6
Net profit	16.5	15.9	8.0	10.2
Adjusted net profit	**8.9**	**6.9**	**8.0**	**10.2**
%ch	*(29.7)*	*(22.1)*	*15.4*	*27.7*
Margin (%)	*2.4*	*1.3*	*1.0*	*1.0*

Source: Company data, ING estimates

Balance sheet (standalone)

PLNm	2007	2008F	2009F	2010F
Cash	11.8	9.0	16.2	22.6
Inventory	33.3	54.0	89.9	128.2
Trade debtors	26.5	38.6	58.4	76.4
Other current assets	35.2	64.6	100.3	138.5
Total current assets	**73.4**	**112.1**	**175.0**	**237.5**
PPE	123.2	205.5	282.1	297.4
Other fixed assets	23.5	23.9	24.2	24.4
Total fixed assets	**146.7**	**229.4**	**306.3**	**321.8**
Total assets	**220.1**	**341.5**	**481.3**	**559.3**
ST debt	6.6	6.6	6.6	6.6
Trade creditors	55.8	81.4	123.2	161.0
Other current liabilities	0.9	0.8	0.8	0.8
Total current liabilities	**63.3**	**88.8**	**130.6**	**168.4**
LT debt	26.9	106.9	196.9	226.9
Other LT liabilities	3.1	3.1	3.1	3.1
Total LT liabilities	**30.0**	**110.0**	**200.0**	**230.0**
Equity	**126.8**	**142.7**	**150.7**	**160.9**
Total liabilities & equity	**220.1**	**341.5**	**481.3**	**559.3**

Source: Company data, ING estimates

Cash flow account (standalone)

PLNm	2007	2008F	2009F	2010F
CF from operations	11.2	14.6	23.5	36.9
CF from investment	(41.4)	(97.4)	(106.2)	(60.5)
CF from funding	32.6	80.0	90.0	30.0
Change in cash	2.5	(2.8)	7.3	6.4
Cash last year	9.3	11.8	9.0	16.2
Cash year end	11.8	9.0	16.2	22.6

Source: Company data, ING estimates

Company profile

Alma operates 16 delicatessen stores with total space of almost 45,000m^2. It also develops a small luxury grocery stores chain under the Krakowski Kredens brand. Alma Market capital group also comprises a chemicals distributor (Krakchemia, WSE listed company) and a developer (Alma Development).

Bomi

Confidence should return with results improvement

Maintained
Buy

Food retail | **Bloomberg: BMI PW**

- **The market should start to appreciate Bomi's prospects if it shows the expected synergy effects**
- **The 1Q08 results were a one off and we look for an improvement in margins**

Investment case

Bomi is still the cheapest stock in the Polish FMCG industry, trading at a PER of 12.9x for 2008F and 10.0x for 2009F, compared with 19.7x and 15.9x, respectively. This is despite it showing the highest growth rates: a 2007-09F diluted EPS CAGR of 54% compared to 31% for the sector.

It seems that the market is waiting too see evidence of synergy effects connected with the pending M&A before it gives the company's management its full confidence.

The market is already prepared for the 2Q08 results, since the company announced 1H08 forecasts. However, the true value of Bomi lies in the synergies from its merger with Rast and Rabat Pomorze, which will become effective in 2H08.

According to the management's declaration, the company increased prices by an average of 2%, which will be visible in large part in 2Q08. The aim for 3Q08 is to increase the gross margin by a further 2pp thanks to economy of joint purchases. This is the most immediate synergy effect, which should create value for shareholders very quickly after the consolidation.

From 2009 the consolidated company should show the full synergy effects. Those will result from: (1) Bomi and Rast purchasing goods jointly for the whole year, and the implementation of a common IT system, enabling (2) employment reduction; and (3) stock-keeping optimisation; as well as (4) access to Rabat's four logistics centres.

We maintain our BUY rating and PLN31 DCF-based target price. We make no major changes to our forecasts, as the 1Q08 results came as a negative surprise, while the 2Q08 results are scheduled to be better than our previous expectations. We view our forecasts for 2008-09F as rather conservative, as the pro-forma results of 1H08 constitute 44% of our full-year forecast and the second half of the year is seasonally much better than the first.

The greatest risks to our recommendation are from the small liquidity of the company and the prospect of worsening sentiment for retail companies. After the exchange of shares with Rast and Rabat Pomorze we expect some more liquidity to emerge. Recent retail sales data shows declining growth dynamics and many retail companies still trade at high multiples. If the trends are reflected in companies' valuations Bomi might lose, despite its attractive valuation on PER and EV/EBITDA.

Price (11/07/08)	**PLN19.4**
Target price (12 mth)	Maintained **PLN31.0**

12-month forecast returns (%)

Share price	59.8
Dividend	0.0
12m f'cst total return	**59.8**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	5.4	5.8
Operating margin	4.5	4.8
Net debt/equity	27.2	8.7
ROE	35.2	26.1
DPS (PLN)	0.0	0.0

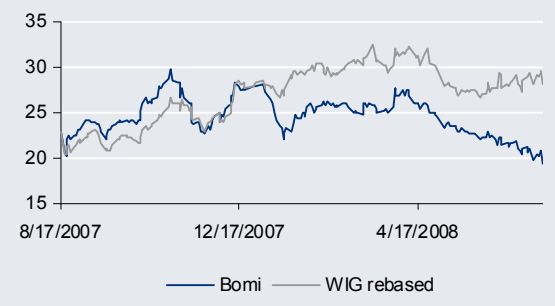
Source: Company data, ING estimates

Share data

No. of shares, after merger (m)	36.9
Daily t/o (US$m)	0.28
Free float (%)	38.4
Mkt cap (US$m)	311.1
Mkt cap (PLNm)	715.4

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	378.8	488.9	1,727.0	2,094.3	2,416.0
EBITDA (PLNm)	15.3	24.4	93.8	122.1	143.2
Net income (PLNm)	10.0	17.0	55.3	71.8	85.8
EPS (PLN)	0.6	0.9	1.5	1.9	2.3
PER (x)	32.3	21.0	12.9	10.0	8.3
P/BV (x)	16.5	4.5	3.0	2.3	1.8
EV/EBITDA (x)	18.0	13.4	8.3	6.1	4.7
ROE (%)	66.6	35.1	35.2	26.1	23.9

Source: Company data, ING estimates

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Quarterly results

The company has already announced forecasts for 1H08, from which 2Q08 expected results can be concluded. In the first six months Bomi's revenues are expected to amount to PLN293m, with net profit of PLN5.5m.

In 2Q08 revenues are scheduled to grow by 14% QoQ and the net margin is forecast to improve from 0.2% to 3.3%. The main reason for the improvement is the opening of two new stores in 2Q08, connected with c.PLN1m bonus (marketing fees) from suppliers per each. After subtracting the estimated effect on the bottom line, the net margin grows by 180bp compared with 1Q08. This is explained by the implementation of an average 2% rise in prices, which should offset the negative impact of the 18% increase in salaries in 1Q08. Part of the pricing effect (the remaining 20bp) will be visible in 3Q08.

2Q08 results (PLNm)

	2Q07	2Q08F
Revenue	110.0	156.1
EBITDA	3.1	9.5
EBIT	2.3	7.5
Net profit	1.3	5.2
EPS (PLN)	0.07	0.29

Source: ING estimates

Earnings drivers and outlook

The EGM on 6 June approved the merger with Rast and the acquisition of Rabat Pomorze. Both companies will be consolidated in 3Q08.

We forecast PLN24m net profit for Bomi in 2008, PLN22m for Rabat Pomorze and PLN12m for Rast, and expect the group to achieve PLN54m pro-forma net earnings (assuming an 80% share in Rabat Pomorze). Looking at the Bomi's 1H08 guidance, the companies already generated 23%, 64% and 34%, respectively, of our full-year net earnings forecasts.

We expect the majority of the improvement in 2H08 to come from Bomi itself. This will be done by growing the stores base and by receiving opening bonuses: we expect the company to launch two-three stores in 3Q08 and five-six stores in 4Q08, compared to two stores in the whole of 1H08.

We feel comfortable with our forecasts for Bomi, as – after adjusting for the effect of opening's bonuses – the assumed net margin in 2H08 amounts to 2.5%, compared to 2.0% in 2Q08. This is more than feasible, as 4Q is connected with: (1) above-average margins due to the Christmas season; (2) annual bonuses from suppliers; and (3) after merging with Rast the supply conditions will be renegotiated and the management expects an improvement of 2pp in margins as a result.

We estimate the total costs of consolidation to PLN6m which will be in large part born in 2008 and will be connected with the Rast's stores rebranding to Bomi supermarket. Those costs will be partially covered by bonuses (marketing fees) from suppliers.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**488.9**	**1,727.0**	**2,094.3**	**2,416.0**
%ch	*29.0*	*253.3*	*21.3*	*15.4*
EBITDA	**24.4**	**93.8**	**122.1**	**143.2**
EBIT	**20.9**	**77.1**	**99.9**	**115.6**
%ch	*63.8*	*269.1*	*29.6*	*15.7*
Margin (%)	*4.3*	*4.5*	*4.8*	*4.8*
Pre-tax profit	21.5	75.0	96.3	114.5
Tax	4.5	15.7	20.2	24.0
Minorities	0.0	4.0	4.4	4.8
Net profit	**17.0**	**55.3**	**71.8**	**85.8**
%ch	*70.3*	*225.1*	*29.7*	*19.5*
Margin (%)	*3.5*	*3.2*	*3.4*	*3.5*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	28.5	16.8	30.6	84.3
Trade debtors	25.3	69.1	83.8	96.6
Other current assets	53.9	151.0	179.8	205.1
Total current assets	**107.7**	**237.0**	**294.2**	**386.0**
PPE	37.1	74.2	113.2	127.3
Other fixed assets	3.2	197.3	196.0	194.8
Total fixed assets	**40.4**	**271.5**	**309.2**	**322.0**
Total assets	**148.0**	**508.5**	**603.5**	**708.0**
ST debt	0.0	0.0	0.0	0.0
Trade creditors	51.7	182.5	221.3	255.3
Other current liabilities	11.8	11.8	11.8	11.8
Total current liabilities	**63.4**	**194.3**	**233.1**	**267.1**
LT debt	0.0	69.2	49.2	29.2
Other LT liabilities	7.7	7.9	7.9	7.9
Total LT liabilities	**7.7**	**77.0**	**57.0**	**37.0**
Minorities	0.0	20.3	24.7	29.5
Equity	**76.9**	**237.2**	**313.3**	**403.9**
Total liabilities & equity	**148.0**	**508.5**	**603.5**	**708.0**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	6.1	65.9	93.7	114.1
CF from investment	(34.3)	(57.5)	(59.9)	(40.4)
CF from funding	38.4	(20.0)	(20.0)	(20.0)
Change in cash	10.2	(11.6)	13.8	53.7
Cash last year	18.3	28.5	16.8	30.6
Cash year end	28.5	16.8	30.6	84.3

Source: Company data, ING estimates

Company profile

Bomi is the second largest delicatessen chain operator in Poland. It currently operates 28 stores with total floor space of nearly 50,000m^2. The company will take over Rabat Pomorze, a food wholesaler active in northern and southern Poland, and merge with Rast, the owner of 22 premium supermarkets in northern Poland.

CEDC

RAG taken over, guidance seems conservative

Maintained
Buy

Beverages **Bloomberg: CEDC US/CDC PW**

- **CEDC raised funding in an equity offering and closed the acquisition of RAG.**
- **We expect positive short-term newsflow from CEDC on the back of (1) strong earnings delivery; (2) potential other acquisitions; (3) potential upward revisions to the company's revenue and earnings guidance as well as brokers' estimates.**

Investment case

Following the acquisition of RAG, CEDC raised its earnings guidance for the fifth straight time this year. It is currently guiding for 2008F comparable fully-diluted EPS of US$2.65-2.80, up from US$2.50-2.65. CEDC also increased its full-year 2009F comparable fully-diluted EPS guidance from US$3.50-3.70 to US$3.75-4.00.

We understand the change in guidance comes solely as a result of the RAG acquisition. Meanwhile, CEDC reported that its Polish business's earnings continue to benefit from the strong currency which appreciated by 15% in 1H08. We believe the updated guidance does not fully account for the effects of the relentless appreciation of zloty to the US dollar. Our forecast are 12%/13% above the midpoint of management's 2008/09F EPS guidance and we would expect CEDC to further increase guidance later this year which should support CEDC's share price.

We believe that the Russian acquisitions should transform CEDC into the leading vodka producer in the country as the company has teamed up with either well established local partners (for the acquisitions of Parliament and Whitehall) or knowledgeable and cash rich international players (in the planned takeover of RAG). We estimate a combined market share for RAG and Parliament at 8.7% of vodka production in Russia in volumes terms in 2007.

Consolidation opportunities are immense in the Russian vodka market as the market remains highly fragmented both in terms of players and in terms of number of brands. The top five producers account for just 30% of vodka production compared with 80% in Poland and 60% in Ukraine in 2007. The share of illegal vodka is still high at 45% in 2007 and the elimination of this should be supportive for growth in legal vodka volumes in the medium term. We believe that CEDC will continue to look for opportunities to fortify its market position in production and distribution of spirits and premium alcohols in Russia.

We estimate that Russia should contribute 24% to group EBITDA in 2008 alone and 42% in 2010F including contributions from Parliament and Whitehall. If CEDC executes the call option for control over RAG then Russia's contribution to CEDC's EBITDA could reach 55% by 2011.

We see four major risk factors for CEDC: (1) the high share of goodwill and intangibles in the assets; (2) possible rises in the price of raw spirits due to the current drought in Poland; (3) initial lack of control over both Whitehall and RAG and (4) forex fluctuations.

Price (11/07/08)	**US$75.9**
Target price (12 mth)	Maintained **US$87.5**

12-month forecast returns (%)

Share price	15.3
Dividend	0.0
12m f'cst total return	**15.3**

Source: ING

Key ratios

	2008F	2009F
EBITDA margin (%)	12.4	13.8
Operating margin (%)	11.5	12.9
Net debt/equity (%)	56.2	36.6
EBITDA/net interest (x)	3.9	5.0
ROE (%)	13.0	13.7

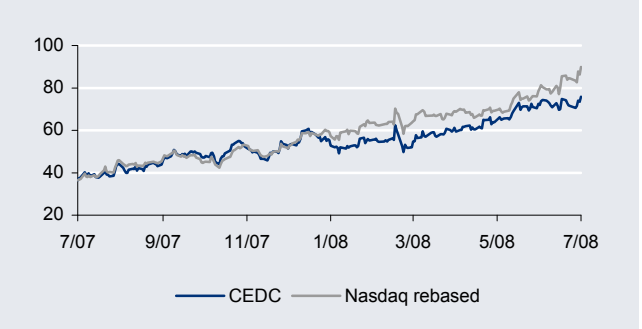
Source: Company data, ING estimates

Share data

Number of shares (m)	45.9
Daily t/o (US$m)	37.0
Free float (%)	90
Mkt cap (US$m)	3,483
Mkt cap (PLNm)	7,141

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios

Year to Dec	2006	2007	2008F	2009F	2010F
Net sales (US$m)	944	1,190	1,739	2,080	2,296
EBITDA (US$m)	100	128	215	287	332
Net income (US$m)	55	77	145	206	247
Comparable EPS (US$)	1.28	1.73	3.05	4.39	5.26
Adj PER (x)	59.3	43.9	24.9	17.3	14.4
EV/EBITDA(X)	30.7	26.9	18.1	13.2	10.9
P/BV (x)	5.3	3.8	2.5	2.2	1.9
ROE (%)	12.4	11.5	13.0	13.7	14.2

Source: Company data, ING estimates

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Quarterly preview

CEDC will report 2Q08 results most likely on 31 July. It will consolidate the two Russian businesses – Parliament for the first time for the full quarter and Whitehall from 26 May, and it promised to deliver a segmental breakdown of operation by country.

We forecast revenue of US$433m, of which Poland and Hungary should deliver US$383m and Russia US$50m. The market is looking for 10% lower revenue of US$389 as we believe brokers are behind the curve on impact of appreciation of PLN to US dollar. Zloty appreciated by 29% to the US dollar in 2Q08 compared with 2Q07 and helped CEDC to boost its reported revenue as well as margins on distribution of imported alcohol.

We forecast EBIT margin of 10.3% in 2Q08 vs 9.4% in 2Q07. We forecast US$24.3m in comparable net profit in 2Q08, a growth of 75% YoY. For comparable 2Q08F EPS of US$0.56 we forecast 66% growth YoY. We believe the market is looking for comparable EPS of US$0.55.

2Q08F results preview (US$m)

	2Q07	2Q08F
Revenue	267	433
EBIT	25.1	44.7
Comparable net profit	13.9	24.3
Comparable EPS (US$)	0.34	0.56

Source: ING estimates

Earnings drivers and outlook

CEDC successfully completed the offering of 3.58m shares and raised net proceeds of US$235m which it spent on investment in equity and exchangeable notes of RAG. CEDC invested US$181.5m in RAG to get an initial stake of 42%. In addition to the equity investment, CEDC purchased US$103.5m of exchangeable notes which can be fully exchanged into additional shares of RAG starting in 2010. The remaining part of the funding came from cash and debt. We have fined-tuned our EPS projections for CEDC increasing our estimated 2008/09F EPS by 1%/1% respectively to account for the effects of equity funding instead of debt funding for acquisition of RAG.

We foresee significant expansion in margins for CEDC based on (1) an increased share of production and owned brands in company revenue; (2) stronger volume growth in Russia than Poland; and (3) the eventual integration of Russian operations. The integration of the existing distribution operations, market share gains and costs savings at the production facilities from the rectification unit and increased spirit storage capacity should underpin improvement in margins for CEDC operations ex-Russia. CEDC's gross profit margin should increase significantly following the acquisition of the Russian businesses from 21.7% in 2007 to 25.2% in 2008. CEDC's management is guiding for gross profit margin of 25% in 2008.

We forecast improvement in EBITDA margin from 11% in 2007 to what we believe is a sustainable long-term level at the current group structure of 16%. CEDC margins are significantly below its peers as we estimate the average EBITDA margin for the peer group should be 24% in 2008. We forecast a 76% increase in diluted comparable EPS in 2008F and 45% in 3-year CAGR in 2010-08F diluted comparable EPS for CEDC based on our revised estimates compared with 26% in the past three years. We believe premium valuation to peers will continue as none of the comparable companies enjoys similar growth rates in earnings and none has similar opportunities to consolidate large fragmented market such as the Russian vodka market.

P&L account

US$m	2007	2008F	2009F	2010F
Revenue	**1,190**	**1,739**	**2,080**	**2,296**
% change	*26*	*46*	*20*	*10*
EBITDA	**128**	**215**	**287**	**332**
EBIT	**28**	**68**	**33**	**16**
% change	*10.8*	*12.4*	*13.8*	*14.5*
Margin (%)	*118*	*199*	*268*	*312*
Pre-tax profit	94	166	233	289
Tax	(16)	(32)	(44)	(58)
Minorities	(1)	(5)	(12)	(15)
Net profit	**77**	**145**	**206**	**247**
% change	*39*	*88*	*42*	*20*
Margin (%)	*6.5*	*8.3*	*9.9*	*10.8*

Source: Company data, ING estimates

Balance sheet

US$m	2007	2008F	2009F	2010F
Cash	88	177	328	491
Goodwill	479	605	636	669
Other current assets	567	782	965	1,159
Total current assets	**80**	**202**	**200**	**197**
PPE	577	1,027	1,027	1,027
Intangibles	546	725	725	725
Other fixed assets	12	143	143	143
Total fixed assets	**1,215**	**2,096**	**2,094**	**2,092**
Total assets	**1,782**	**2,878**	**3,059**	**3,251**
ST debt	43	25	15	10
Other current liabilities	353	401	412	425
Total current liabilities	**396**	**426**	**427**	**435**
LT debt	347	393	354	315
Other LT liabilities	223	648	648	610
Total LT liabilities	**570**	**1,041**	**1,002**	**925**
Minorities	0	6	18	33
Equity	**815**	**1,406**	**1,612**	**1,859**
Total liabilities & equity	**1,782**	**2,878**	**3,059**	**3,251**

Source: Company data, ING estimates

Cash flow account

US$m	2007	2008F	2009F	2010F
CF from operations	23	87	217	263
CF from investment	(159)	(766)	(17)	(18)
CF from funding	65	768	(49)	(82)
Change in cash	(71)	89	152	162
Cash last year	159	88	177	328
Cash year end	88	177	328	491

Source: Company data, ING estimates

Company profile

CEDC is the largest distributor of alcohol in Poland as well as the largest producer of vodka in the country with c.32% market share as measured by production including brands such as Absolwent, Bols, Soplica and Zubrowka. As one of the most active consolidators of the alcohol beverage and distribution in the region company in expanding regionally into Hungarian and Russian markets through acquisition of local companies; however, Poland still represent over 90% of revenue for CEDC.

Emperia

Economies of scale to surpass restructuring costs

Maintained
Buy

Food retail **Bloomberg: EMP PW**

- **Focusing on consolidation and optimising the organisational structure should bring benefits.**
- **The company trades at an attractive 2008F PER and EV/EBITDA of 12.5x and 7.8x.**

Investment case

Last year Emperia was concentrated on consolidation with BOS as well as on conducting minor acquisitions. This year will be spent on consolidating the whole group, both in distribution and retail segments.

Emperia intends to unify seven distribution companies operating in 2007 and two acquired at the turn of 2007/2008 into one distribution company with a common IT system. This will lead to operating costs optimisation, predominantly in inventory management and bookkeeping. Moreover, Emperia plans to grow its logistic centre base by opening up to five new distribution centres in 2008 and another three in 2009, in addition to three operating at the end of 2007. Moreover, one of the existing logistic centres is scheduled to be enlarged. All centres except one will be rented. This will expand Emperia's reach in regions of weak coverage (above all in western Poland) and improve profitability of deliveries in already supplied regions. Moreover, this will allow for increasing supplies to Emperia's franchise stores. Its largest franchise chain, *Groszek,* is satisfying only 35% of its needs at Emperia, and after building logistic centres, the company's offer will become more competitive and its share in supplies should grow.

With respect to retail, Emperia is either owner or franchisor of 10 brands and manages c.1,900 supermarkets and grocery stores across the country. The company intends to restructure the brand portfolio in order to make it more transparent and concentrate on a few of the strongest brands. Emperia is especially focused on developing its proprietary brand, *Stokrotka* (supermarkets) and *Stokrotka Premium* (delicatessen), as well as creating a recognisable brand in strict franchise. Its loose franchise chain, *Groszek*, is growing steadily by 60-70 outlets annually and had 578 stores at the end of 2007.

Emperia also wishes to take over Lewiatan, the largest loose franchise chain in Poland, having over 2,000 stores. Its organisational and ownership structure is fragmented, making the investment difficult and prolonged. Emperia already supervises 366 *Lewiatan* stores, as a result of three transactions totalling PLN3.1m. The company has signed an agreement of close co-operation and future capital interlink with the franchisor of the *Lewiatan* brand. This means Emperia will become the main supplier to *Lewiatan* stores and its share in their purchases will grow together with the company's logistic range.

Price (11/07/08)	**PLN95**
	Previously: PLN175
Target price (12 mth)	**PLN156**

12-month forecast returns (%)

Share price	64.2
Dividend	0.9
12m f'cst total return	**65.2**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	3.5	3.8
Operating margin	2.7	2.9
Net debt/equity	25.7	15.9
DPS (PLN)	0.90	1.17
Dividend yield	0.95	1.23

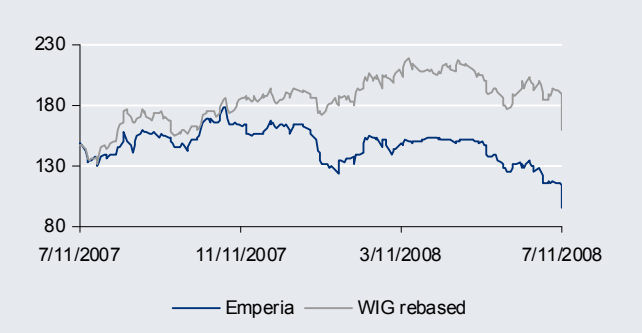
Source: Company data, ING estimates

Share data

No. of shares, diluted (m)	15.0
Daily t/o (US$m)	0.40
Free float (%)	66.4
Mkt cap (US$m)	619
Mkt cap (PLNm)	1,424

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios (PLNm)

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue	1,407	4,597	5,892	6,722	7,394
EBITDA	51	173	208	256	306
Net income	23	90	114	146	185
EPS (PLN)	2.8	6.0	7.6	9.8	12.3
PER (x)	34.0	15.9	12.5	9.7	7.7
P/BV (x)	2.2	2.1	1.8	1.5	1.3
EV/EBITDA (x)	29.6	9.0	7.8	6.1	4.7
ROE (%)	10.1	17.1	15.4	17.1	18.5

Source: Company data, ING estimates

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Quarterly results

In 2Q07 the company realised an extraordinary gain on sales of property amounting to PLN10.5m. In 2Q08 we expect improving margins QoQ (3.5% EBITDA vs 3.0%), but lower YoY (4.9%), even after adjusting for the one-off (3.9%). The profitability will be burdened by the start-up costs of new distribution centre. Average break-even is achieved after 6-7 months and the company launched one centre (at Blonie, near Warsaw) in January 2008. As it converges towards break-even point, it will affect margins less than in 1Q, but the company is starting to bear restructuring costs connected with unification of the distribution arm under one company. We expect two centres to open in 3Q08 and another two in 4Q08.

2Q08 results (PLNm)

	2Q07	2Q08F
Revenue	1,114	1,392
EBITDA	54	49
EBIT	45	36
Net profit	34	26
EPS (PLN)	2.57	1.74

Source: ING estimates

Earnings drivers and outlook

We expect Emperia to slightly exceed its PLN5,800m revenue target in 2008 and to show a small drop in reported margins (flat adjusted margins YoY). There are several factors that will have a crucial impact on Emperia's margins in 2008. The upside comes from:

(1) Emperia is still completing the implementation of a common IT system, which should enable more effective inventory management.

(2) In Emperia's scale, the investment in distribution centres is paying back relatively quickly as it boosts sales (especially in regions of previously low coverage) and activates economies of scale.

(3) For 2008 we estimate the retail segment's share in overall revenues to grow to 30% from 24% in 2007 which should affect margins positively, as retail activity is characterised by higher profitability.

The downside is connected with the issue of how quickly the company can consolidate the companies taken over in 2007-2008, and how much restructuring costs will emerge.

We make no major changes to our forecasts except to increase the depreciation charge in 2008: the 1Q08 results showed that the investments are being finished sooner than we expected.

As a result of the risk-free rate assumption rising as well as updating the peer valuation, our new 12-month TP amounts to PLN156. Among the main risk factors is the possible slowdown in consumer spending in Poland, as well as the costs of restructuring exceeding the efficiencies of scale in Emperia.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**4,596.5**	**5,892.1**	**6,722.5**	**7,394.1**
%ch	*226.8*	*28.2*	*14.1*	*10.0*
EBITDA	**173.4**	**208.4**	**255.5**	**306.1**
EBIT	**134.3**	**157.4**	**196.3**	**238.0**
%ch	*307.5*	*17.2*	*24.7*	*21.2*
Margin (%)	*2.9*	*2.7*	*2.9*	*3.2*
Pre-tax profit	111.2	142.8	182.8	231.2
Tax	21.5	28.6	36.6	46.2
Net profit	89.7	114.3	146.3	185.0
Adjusted net profit	**88.2**	**114.3**	**146.3**	**185.0**
%ch	*277.5*	*29.5*	*28.0*	*26.5*
Margin (%)	*1.9*	*1.9*	*2.2*	*2.5*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	93.0	26.1	32.3	82.9
Trade debtors	350.7	449.6	513.0	564.2
Other current assets	351.8	448.2	510.0	559.9
Total current assets	**795.5**	**923.9**	**1055.3**	**1207.1**
PPE	436.5	560.6	607.1	618.1
Other fixed assets	258.5	261.6	261.6	261.6
Total fixed assets	**695.0**	**822.2**	**868.7**	**879.7**
Total assets	**1490.6**	**1746.1**	**1924.0**	**2086.8**
ST debt	79.4	79.4	79.4	49.4
Trade creditors	549.0	703.7	802.9	883.1
Other current liabilities	22.0	22.0	22.0	22.0
Total current liabilities	**650.4**	**805.1**	**904.3**	**954.5**
LT debt	129.3	129.3	79.3	29.3
Other LT liabilities	20.4	20.4	20.4	20.4
Total LT liabilities	**149.7**	**149.7**	**99.7**	**49.7**
Minorities	2.6	2.6	2.6	2.6
Equity	**690.5**	**791.3**	**920.0**	**1082.6**
Total liabilities & equity	**1490.6**	**1746.1**	**1924.0**	**2086.8**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	94.4	124.7	179.5	232.0
CF from investment	(117.8)	(178.1)	(105.8)	(79.0)
CF from funding	103.7	(13.5)	(67.5)	(102.4)
Change in cash	80.3	(66.9)	6.2	50.6
Cash last year	12.7	93.0	26.1	32.3
Cash year-end	93.0	26.1	32.3	82.9

Source: Company data, ING estimates

Company profile

Emperia is one of the leading FMCG wholesalers in Poland. Its revenue is generated 76% from distribution and 24% from retail. It has own stores (the largest chain is Stokrotka with 117 stores) and several soft franchise chains (the largest is Groszek with 578 stores as of end-2007).

Eurocash

Demanding valuations leave no upside

Maintained
Hold

Food retail | **Bloomberg: EUR PW**

- **The Eurocash share price has lost least value of the Polish food retailers from the beginning of 2008...**
- **...and as a result it is now the most expensive in the sector, apart from Alma (Sell, TP PLN 52).**

Investment case

After one year of organic growth, Eurocash is back on the M&A track and conducted two acquisitions in 2008: McLane and *Nasze Sklepy*.

McLane is an FMCG wholesaler, active predominantly in the HoReCa and gas station sectors, which are new to Eurocash. The company is generating almost PLN1bn in revenues and has c.0.3% net profitability. The acquisition gives Eurocash access to new fields of operations, which are prospective in terms of market growth. Moreover, there are synergies between the new distribution channels and the existing ones with respect to tobacco distribution: it is an important part especially of the gas station segment. With minimal margins, scale is crucial for tobacco wholesale.

In May, Eurocash announced it had purchased a 50.5% share in the *Nasze Sklepy* franchise chain with 160 grocery stores. It has an option to repurchase the remaining stake until 2010. The size of the stake is largely irrelevant, in our view, since the deal's rationale is to gain access to the stores base as a supplier, not actually owning them. *Nasze Sklepy* chain is based on the loose franchise system, meaning there is no compulsion to buy from the franchiser. Eurocash plans to convert 30-50 stores into the Delikatesy Centrum format, which is a strict franchise model. The stores will be able to keep their old brand name, all that will change is the supply system. Eurocash will also gain influence on managing the stores, ie, how products are displayed and how the inventory is managed.

Following our forecast upgrade and peer valuation downgrade, our new TP (50% DCF, 50% peer valuation) is PLN12.5 and we reiterate our **HOLD** rating. The company trades with a demanding 19.4x PER for 2008F and we see no upside potential, given the current market sentiment and Eurocash being one of the most expensive retailers.

Among the factors that we believe will influence Eurocash share price in the short term, the most important is the price it will pay for McLane. The company said only it will pay the equivalent of US$5m in shares and an unspecified amount in cash. To date, Eurocash has been acquiring companies for reasonable historical multiples (eg, 5.6x EV/EBITDA and 8.1x PER for KDWT), but there is a risk it will be willing to overpay, since taking over McLane will enable it to achieve a leading position on the wholesale market. A reasonable price for us is no more than PLN50-60m.

Price (11/07/08)	**PLN12**
	Previously: PLN12.6
Target price (12 mth)	**PLN12.5**

12-month forecast returns (%)

Share price	4.5
Dividend	2.5
12m f'cst total return	**7.0**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	2.4	2.4
Operating margin	1.8	1.9
Net debt/equity	22.2	-12.7
DPS (PLN)	0.30	0.30
Dividend yield	2.48	2.48

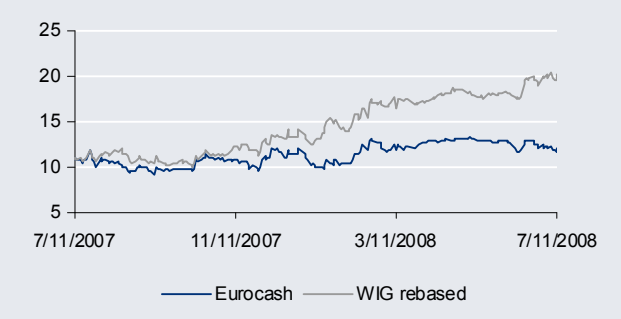
Source: Company data, ING estimates

Share data

No. of shares, diluted (m)	132.0
Daily t/o (US$m)	0.56
Free float (%)	31.8
Mkt cap (US$m)	715
Mkt cap (PLNm)	1,573

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios (PLNm)

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue	3,237.0	4,729.4	6,279.0	7,491.7	8,143.9
EBITDA	93.4	121.9	148.9	179.1	210.9
Net income	41.6	58.9	81.8	107.0	132.2
EPS (PLN)	0.3	0.4	0.6	0.8	1.0
PER (x)	37.8	26.7	19.4	14.8	12.0
P/BV (x)	7.9	6.7	5.5	4.4	3.5
EV/EBITDA (x)	17.4	12.7	11.0	8.5	6.9
ROE (%)	22.2	27.2	31.5	33.4	33.0

Source: Company data, ING estimates

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Quarterly results

We expect Eurocash to show declining YoY growth in revenues (19% compared with 22% in 1Q08) and improvement in EBITDA margin from 2.8% in 2Q07 to 3.2% in 2Q08, thanks to continued above-10% LFL sales growth.

Eurocash is consolidating McLane from 1 May 2008. We expect the company to add c.PLN150m to revenues, but to bring only tiny profits. This will result in overall EBITDA margin staying flat at 2.8%, in our view.

2Q08 results (PLNm)

	2Q07	2Q08F
Revenue	1,150	1,508
EBITDA	32	42
EBIT	23	33
Net profit	17	25
EPS (PLN)	0.13	0.19

Source: ING estimates

Earnings drivers and outlook

We have increased our 2008 and 2009 net profit forecasts by 8% and 14% respectively, as a simple result of a revenue assumptions rise. We raise our expectations regarding Delikatesy Centrum chains, both in terms of number of new stores (we assume opening of 50 and 70 stores in 2008-2009 respectively, compared with 60 openings in 2007) and LFL sales growth (12% and 10% respectively, compared with 19%). Moreover, we raise our expectations with respect to LFL sales growth in wholesale (12% and 8%, respectively, after 14% in 2007).

McLane has significantly lower profitability than Eurocash: in 2007 it reported a 0.7% EBITDA margin compared with 2.6% for Eurocash. We believe there is potential to improve McLane profitability by:

- Strengthening its negotiating power with suppliers
- Economies of scale with respect to a joint logistics system
- Better management quality

Nevertheless, at least in 2008-2009 McLane will depress overall margins and in the long term its margins will always be lower than those of Eurocash ex-McLane because of the different business model: active distribution is by definition less profitable than cash & carry, which is the dominant arm of Eurocash. We expect the consolidated EBITDA margin to drop from 2.6% in 2007 to 2.4% in 2008-2009.

At the bottom line, however, McLane will have a positive impact. The company has a PLN15m tax loss carry-forward, which will decrease the effective tax rate to 18% in 2008-2009 compared to 20%, according to our estimates.

The *Nasze Sklepy* acquisition will have only an indirect influence on the P&L, by increasing the revenues from wholesale. According to the company, the conversion of 30-50 stores into a strict franchise could be conducted over three years.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**4,729.4**	**6,279.0**	**7,491.7**	**8,143.9**
%ch	*46.1*	*32.8*	*19.3*	*8.7*
EBITDA	**121.9**	**148.9**	**179.1**	**210.9**
EBIT	**85.8**	**110.5**	**138.6**	**166.5**
%ch	*55.3*	*28.8*	*25.5*	*20.1*
Margin (%)	*1.8*	*1.8*	*1.9*	*2.0*
Pre-tax profit	73.7	99.9	130.2	160.5
Tax	14.8	18.1	23.2	28.3
Minorities	0.0	0.0	0.0	0.0
Net profit	**58.9**	**81.8**	**107.0**	**132.2**
%ch	*41.7*	*39.0*	*30.8*	*23.5*
Margin (%)	*1.2*	*1.3*	*1.4*	*1.6*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	128.5	22.4	111.1	166.8
Trade debtors	215.5	380.2	378.8	411.7
Other current assets	262.4	342.5	405.2	438.9
Total current assets	**606.4**	**745.1**	**895.1**	**1017.5**
PPE	125.7	150.8	181.9	204.1
Other fixed assets	157.2	207.2	207.2	207.2
Total fixed assets	**282.9**	**358.0**	**389.1**	**411.4**
Total assets	**889.3**	**1103.2**	**1284.2**	**1428.8**
ST debt	73.1	63.1	43.1	23.1
Trade creditors	519.7	690.0	823.3	895.0
Other current liabilities	40.0	40.0	40.0	40.0
Total current liabilities	**632.9**	**793.2**	**906.5**	**958.1**
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	23.0	23.0	23.0	23.0
Total LT liabilities	**23.0**	**23.0**	**23.0**	**23.0**
Minorities	0.0	0.0	0.0	0.0
Equity	**233.4**	**287.0**	**354.7**	**447.7**
Total liabilities & equity	**889.3**	**1103.2**	**1284.2**	**1428.8**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	182.5	45.7	219.6	181.6
CF from investment	(61.7)	(92.5)	(71.6)	(66.7)
CF from funding	(33.6)	(59.3)	(59.3)	(59.3)
Change in cash	87.3	(106.1)	88.7	55.7
Cash last year	41.2	128.5	22.4	111.1
Cash year end	128.5	22.4	111.1	166.8

Source: Company data, ING estimates

Company profile

Eurocash is one of the leading FMCG wholesalers in Poland. Its wholesale is split into two segments: cash & carry and active distribution. Moreover, the company realises revenues on franchise retail chains. It has one loose franchise chain (abc, with 2,500 stores) and one strict franchise chain (Delikatesy Centrum, with over 300 stores).

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General retailers

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General retailers

Highlights for the general retailers sector in Poland are as follows:

- The Polish retail sector is dependent on the overall state of the economy. Although we expect private consumption to grow 5.8% YoY in 2008, real GDP growth is expected to slow to 5.2% this year. Even though nominal wages are forecast to grow 11.3% YoY in 2008, average inflation is set to accelerate to 3.8% in 2008. So far there seems to be no slowdown, but we believe that growing interest rates and falling stock prices (wealth effect) may hurt the propensity to consume.
- As we expect competition to continue to strengthen, especially in the upmarket and luxury end, we believe that consolidation will continue to be the theme in the following months. The first wave has already been initiated, with LPP in the process of acquiring Artman and V&W purchasing W.Kruk, and Alma Market wishing to incorporate Paradise Group and then merge with V&W. With growing pressure on HR costs, companies are willing to consolidate to seek cost efficiencies at the level of combined headquarters (mostly back-office) and rental costs (a large entity has a stronger bargaining power). We believe that due to limited experience, many operational mistakes can be conducted during the first mergers.
- Despite growth opportunities domestically – a 38m population – Polish general retailers are likely to continue to seek growth opportunities abroad. After first experiences in the neighbouring countries (Czech Republic, Slovakia, Hungary or the Baltic countries), Polish retailers are likely to further actively target the high-growth potential Russian and Ukrainian markets. The methods of expansion differ, with LPP developing by company-owned shops in shopping malls, Artman mostly via franchise shops, while EM&F should develop the acquired business, Bukva (refurbished to *Empik*) and Paritet (refurbished top *Smyk*) in Ukraine and Maratex in Russia (franchisee of upmarket clothing brands).
- The outlook for 2Q08 figures is mixed and due to strong seasonality, worries about full-year earnings could materialise, as the majority of earnings is generated in 2H, mostly 4Q. In our opinion, the quarterly figures should be best at NG2, due to forecast recovery, while other players are likely to show mediocre numbers: LPP is likely to suffer from growing cost pressure, V&W from the strong zloty (a fall in exports), refurbishment of GC stores and costs of tender for W.Kruk, while EM&F results are likely to be distorted by one-offs, making year-on-year comparability difficult.

We recommend to underweight the Polish general retailers. The 2008F PER of 16.9x for the sector does not price in, in our opinion, a potential slowdown in private consumption and the negative for gross profit margins strengthening of US$ against the zloty may materialise in the upcoming months. We consider that NG2 could be the safest haven among the listed retailers. Even though the company has the strongest dependency on Polish consumption, due to a low base effect (underperformance in the past two years) and cost-cutting measures, it should show the strongest earnings growths. Other retailers are likely to face strong base effects and may suffer in the short term from consolidation actions conducted and pressure on HR costs (rising salaries and difficulties in finding and retaining employees).

EM&F

Expensive versus peers

Previously: Hold
Sell

General retailers **Bloomberg: EMF PW**

- **The outlook is for decent 2Q08 figures, though these are likely to be substantially distorted by one-offs.**
- **We downgrade our rating to SELL, and due to cuts in our forecasts and peer valuation our TP is reduced to PLN15.4.**

Investment case

EM&F should show the strongest top-line growth among covered retailers, with 2007-10F CAGR at 33.6%, due to an early start in acquisitions conducted in Ukraine (Bukva and Paritet in 2006) and Russia (Maratex in 2007).

The flagship *Empik* stores will mostly be developed domestically, due to difficulties in applying the concept in other countries. With the potential for ten new regular format stores annually, EM&F is also currently testing a smaller *Empik* store format (with the potential for at least a couple of dozen stores if it proves successful). In Ukraine the acquired Bukva stores are being refurbished to become *Empik* stores. We do not expect *Empik* to be launch in Russia any time soon.

Unlike *Empik*, the *Smyk* business is easy to implement abroad, due to central purchases mostly from China. Therefore, some 12-15 new children's shops should be opened annually in Poland, and some 10 shops both in Ukraine and Russia. Development in Germany is likely to be withheld until a suitable partner or target is found.

One of the fastest growing lines should be Ultimate Fashion (clothing) for which EM&F sees potential for some 80 new shops annually (40 in Poland and 40 at Maratex), due to the realisation of current franchise agreements (eg *Esprit*, *Hugo Boss, Aldo*) and the introduction of new brands (*Cortefiel*, *Bodique*). Strong growth should materialise in the language schools, along with entry into Ukraine and Russia. Optimum Distribution should be supported by new sportswear brands.

However, we believe that earnings are unlikely to keep up with the top-line dynamics, as new locations reach maturity after two years, until then negatively affecting the group margin. As with other retailers, EM&F is likely to have to deal with pressure on salaries and increases in rental expenses (especially in Russia and Ukraine). Adjusted EBIT margin is expected to decline from 5.8% in 2007 to 5.7% in 2009F. Our adjusted net earnings forecasts for 2008-09F are some 12% and 20% below the 2008-09 consensus, though comparability is difficult due to various one-offs.

Trading at 19.9x 2008F PER, EM&F is at an 18.1% premium to its sector peers, which we consider unwarranted. The high PER ratio partly results from a 16.5% downward revision in our 2008 adj earnings forecasts. We believe the market is not pricing in either a potential slowdown in consumption in CEE and CIS countries or potential unfavourable currency movements. We downgrade from Hold to SELL.

Price (11/07/08)	**PLN16.3**
	Previously: PLN22.0
Target price (12 mth)	**PLN15.4**

12-month forecast returns (%)

Share price	(5.2)
Dividend	0.0
12m f'cst total return	**(5.2)**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	9.8	9.3
Operating margin	6.8	6.3
Net debt/equity	29.3	25.3
Adj. ROE	17.7	17.2
Dividend yield	0.0	0.0

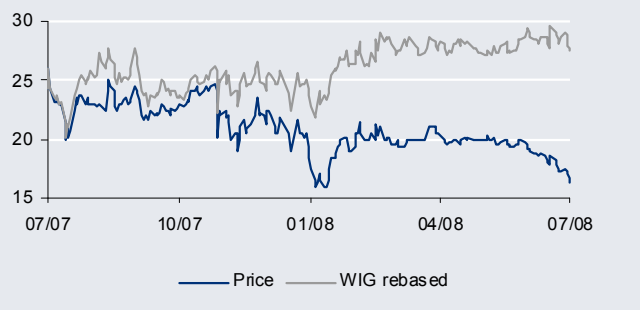
Source: Company data, ING estimates

Share data

No. of shares (m)	102.9
Daily t/o (US$m)	0.7
Free float (%)	34.4
Mkt cap (US$m)	809.6
Mkt cap (PLNm)	1,676.6

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	1,130.7	1,585.0	2,244.3	3,006.5	3,784.3
EBITDA (PLNm)	134.0	155.7	220.8	280.2	333.3
Net income (PLNm)	80.1	84.2	109.7	129.5	142.8
Adj. net profit (PLNm)	50.9	70.6	84.2	102.9	115.9
Adj. EPS (PLN)	0.5	0.7	0.8	1.0	1.1
Adj. PER (x)	33.7	23.6	19.9	16.3	14.6
Adj. EV/EBITDA (x)	17.2	12.4	9.2	7.0	6.0
Adj. ROE (%)	17.9	19.6	18.2	17.8	17.0

Source: Company data, ING estimates

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Quarterly preview

EM&F is expected to report 2Q08 results on 14 August. We forecast group sales of PLN471.3m for the quarter, up 45% YoY due to new floorspace and the contribution from Maratex of PLN62m (not in the base). 2Q08 EBIT should be strong at PLN27.2m, up 55% YoY, despite a smaller positive impact from revaluations and one-offs. In 2Q08 we expect a PLN8m gain from option revaluation and a PLN3.6m cost for the option scheme, while in 2Q07 these items increased EBIT by PLN5.3m, with a PLN3.6m dividend from Sephora coming on top. We forecast net financial expenses of PLN4.5m and an additional PLN2m cost from the revaluation of Maratex put options. We expect reported net earnings of PLN16.8m, up 19.0% YoY, while earnings adjusted for the impact of financial instruments should come in at PLN14.9m, up 50% YoY.

2Q08 results preview

PLNm	2Q07	2Q08F
Revenue	325.0	471.3
EBITDA	28.5	43.6
EBIT	17.6	27.2
Net profit	14.1	16.8
EPS	0.1	0.2

Source: ING estimates

Earnings drivers and outlook

We expect Empik's group revenues to come in at PLN2,244.3m, up 41.6% YoY, mostly as a result of floorspace growth, expected at 209.5k m² (up 39.8% YoY), at the end of 2008. We expect the media and entertainment (M&E) line to dominate the sales structure, with 2008 revenues expected at PLN1,533.3m, up 28% YoY, out of which *Empik* should contribute PLN983.8m, up 21.1% YoY, and *Smyk* PLN436.6m, up 52.1% YoY. The Fashion and Beauty (F&B) segment should add PLN710.9m, up 84% YoY, mostly due to Maratex (PLN288.6m contribution).

We believe that the group EBIT margin should be under pressure in 2008, falling from 6.9% in 2007 to 6.8% on a reported level. We expect gross margin improvement to be eaten into by: (1) costs of new shop openings; (2) growing pressure on HR; (3) consolidation of Matarex, which has a lower EBIT margin; and (4) a higher stock option charge. We expect the group's gross profit margin to expand to 44.3% in 2008 versus 43.8% in 2007, as a result of: (1) the strong zloty versus the US$; and (2) an increasing share of F&B in revenues (24% in 2007E compared with 32% in 2008F), whose margins exceeds 51% versus 41% in M&E (partially due to Maratex, as gross margins in Russia are strong). Overall, we forecast EBIT to come in at PLN152.1m, up 40.0% YoY, and adjusted EBIT at PLN130.6m, up 43.3% YoY.

We expect the net financial activity to be in the red, due to interest on bank loans and corporate bonds as well as the revaluation of issued put options on the minority stake in Maratex. Assuming a statutory tax rate, we forecast net earnings to come in at PLN109.7m, up 30.3% YoY. On the adjusted net earnings line we expect PLN84.2m, up 19.3% YoY.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**1,585.0**	**2,244.3**	**3,006.5**	**3,784.3**
%ch	*40.2*	*41.6*	*34.0*	*25.9*
EBITDA	**155.7**	**220.8**	**280.2**	**333.3**
EBIT	**108.6**	**152.1**	**188.5**	**223.8**
%ch	*7.5*	*40.0*	*24.0*	*18.7*
Margin (%)	*6.9*	*6.8*	*6.3*	*5.9*
Pre-tax profit	106.5	135.5	164.8	188.1
Tax and minorities	(22.3)	(25.7)	(35.3)	(45.3)
Net profit	84.2	109.7	129.5	142.8
Adjusted net profit	**70.6**	**84.2**	**102.9**	**115.9**
%ch	*38.7*	*19.3*	*22.2*	*12.6*
Margin (%)	*5.3*	*4.9*	*4.3*	*3.8*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	201.6	148.7	247.0	155.3
Inventories	373.1	399.8	500.4	628.6
Trade debtors	175.4	202.0	270.6	340.6
Other current assets	0.0	0.0	0.0	0.0
Total current assets	**750.1**	**750.6**	**1,018.0**	**1,124.5**
PPE and intangibles	412.6	591.5	740.8	842.9
Other fixed assets	425.5	480.4	529.6	572.2
Total fixed assets	**838.2**	**1,071.9**	**1,270.3**	**1,415.0**
Total assets	**1,588.3**	**1,822.5**	**2,288.3**	**2,539.5**
ST debt	188.1	218.1	268.1	268.1
Trade creditors	450.8	437.3	567.1	691.5
Other current liabilities	267.7	335.6	408.1	472.7
Total current liabilities	**906.5**	**991.0**	**1,243.3**	**1,432.3**
LT debt	64.2	84.2	144.2	112.0
Other LT liabilities	196.6	216.6	236.6	236.6
Total LT liabilities	**260.8**	**300.8**	**380.8**	**348.7**
Equity	**420.9**	**530.7**	**664.2**	**758.6**
Total liabilities & equity	**1,588.3**	**1,822.5**	**2,288.3**	**2,539.5**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	235.0	182.1	265.8	271.7
CF from investment	(291.2)	(285.0)	(277.6)	(273.3)
CF from funding	131.8	50.0	110.0	(90.1)
Change in cash	75.6	(52.9)	98.2	(91.7)
Cash last year	126.0	201.6	148.7	247.0
Cash year end	201.6	148.7	247.0	155.3

Source: Company data, ING estimates

Company profile

EM&F is the largest Polish retailer of media and entertainment products and the largest operator of premium brand apparel and accessories retail chains, based on exclusive franchise agreements. The brand portfolio includes globally recognised names – *Esprit, Aldo, Mexx, Hugo Boss*, etc, and EM&F proprietary brands – *Empik* (media) and *Smyk* (children-dedicated stores). The company has also established a presence in Ukraine in the media and entertainment segment, and in Russia, Ukraine and Kazakhstan in the fashion and beauty segment. As of June 2008, EM&F had 512 retail locations.

LPP

Expensive Artman acquisition

Previously: Hold
Sell

General retailers **Bloomberg: LPP PW**

- **The acquisition of Artman, although strategically positive, seems to be priced too high.**
- **The outlook is for poor 2Q08 figures, due to problems with costs at company-owned shops.**
- **We downgrade our rating to SELL with a reduced target price of PLN1,626.1, due to falls in our forecasts and peers.**

Investment case

With the two main brands, *Reserved* and *Cropp,* facing domestic saturation, and the *Esotiq* brand yet to provide any meaningful top-line impact, LPP's best opportunity for organic growth comes from foreign operations. Therefore, we expect LPP to continue to develop high-growth markets such as Russia and Ukraine, and enter Romania (one shop opened so far) and Bulgaria (at year end). We expect 2007-10F CAGR in revenues of 20.3%, with a CAGR for exports of 36.6%, resulting in exports contributing 36.4% to 2010F revenues vs 24.8% in 2007.

We believe there remains some potential for margin improvement, though it will be increasingly difficult to achieve. With retail demand remaining strong and the US dollar weak, gross profit margins should remain high at around 59%. With growing sales per m² and strong gross profit margins, the operating leverage should work in LPP's favour. However, we point out that the pressure is likely to come from HR costs (difficulties in finding new headcount and salary growth) and rental expenses abroad (Russia). We expect the operating margin to oscillate around 13.6% for the next few years.

Even though we assume sound top-line growth and some margin expansion, our 2008 and 2009 net earnings forecasts are 6.7% and 11.6% lower respectively than the consensus estimates. As the consensus only factors in Artman's acquisition to a minor extent (it is not in our forecasts either), we believe that downgrades are likely after the 2Q08 figures.

We view LPP's decision to consolidate the fragmented Polish retail market as positive. However, we believe that Artman will be acquired on excessive multiples, with PLN92.65 per Artman's share (PLN395m total, with PLN94m refinanced from share issuance) implying a 2008F PER of 24.7x on Artman's guidance. We see substantial integration risks ahead, due to LPP's lack of acquisition experience.

On a 2008F PER of 16.3x (ex. Artman), LPP trades at a 3.6% discount to its peers. We believe that the discount is warranted as we see risks not only in the Artman acquisition (LPP's first ever purchase) and in merging the two companies' operations, but also in the potential slowdown in consumer demand that could negatively affect like-for-likes, as well as a potential strengthening of the US$ against the zloty (that could hurt gross profit margins).

Price (11/07/08)	**PLN1,715.0**
	Previously: PLN 2,223
Target price (12 mth)	**PLN1,626.1**

12-month forecast returns (%)

Share price	(5.2)
Dividend	0.0
12m f'cst total return	**(5.2)**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	17.0	16.6
Operating margin	13.6	13.6
Net debt/equity	22.2	2.3
Adj. ROE	36.4	31.2
Dividend field	0.0	0.7

Source: Company data, ING estimates

Share data

No. of shares (m)	1.7
Daily t/o (US$m)	0.9
Free float (%)	47.2
Mkt cap (US$m)	1,410.7
Mkt cap (PLNm)	2,889.2

Source: Company data, ING estimates

Share price performance

Source: Reuters

Forecasts and ratios (consolidated data)

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	815.1	1,274.3	1,639.9	1,940.7	2,216.9
EBITDA (PLNm)	90.9	225.0	279.4	321.7	361.2
Net income (PLNm)	39.3	134.7	170.9	203.0	233.1
Adj. net inc. (PLNm)	39.3	141.5	177.7	209.8	233.1
Adj. EPS (PLN)	23.1	83.1	105.5	124.2	137.6
Adj. PER (x)	74.3	20.6	16.3	13.8	12.5
Adj. EV/EBITDA (x)	33.3	12.6	10.5	8.8	7.7
Adj. ROE (%)	15.6	41.8	36.4	31.2	26.5

Source: Company data, ING estimates

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Quarterly preview

LPP is scheduled to publish its 2Q08 results on 12 August, most likely before the market open. We expect LPP to post 2Q08 revenues of PLN356m, up 19.8% YoY (monthly figures already published), driven mostly by growth in floorspace. With a weak US$ vs the zloty, we expect the gross profit margin to expand to 64.0% in 2Q08 versus 62.4% in 2Q07. However, as a result of growth in HR costs, we expect the EBIT margin to contract to 15.2% in 2Q08 versus 17.2% in 2Q07. Assuming less favourable net financial activity and a growth in the effective tax rate, we forecast group net earnings of PLN40.5m, up only 3.4% YoY.

2Q08 results preview

PLNm	2Q07A	2Q08F
Revenue	297.2	356.0
EBITDA	63.5	69.0
EBIT	51.1	54.0
Net profit	39.1	40.5
EPS (PLN)	23.0	24.0

Source: ING estimates

Earnings drivers and outlook

We expect the expansion of LPP to speed up in 2008, especially in 2H08, with the number of new shops opened coming in at 75 (33 Reserved and 42 Cropp) versus 63 in 2007, with floorspace reaching 183.6k m² (up 29% YoY) in ten countries (with shops in Romania and Bulgaria for the first time). As an established player in Poland's neighbouring markets, LPP plans to open larger shops (eg, 900 m² vs 300m² in terms of *Reserved*) in order to be able to display its entire collections.

Even though LPP is equipped with the Retek IT system – enabling it to maximise its gross profit margin – and has a management who is determined to cut costs and inefficiencies, we believe that HR costs will continue to grow strongly. We expect SG&A costs to come in at 44.8% of revenues in 2008F vs 44.5% in 2007. Although the operating leverage should still work in LPP's favour, we expect a less favourable impact from net financial activity. As a result, we forecast 2008 net earnings of PLN170.9m, up 26.9% YoY (ex Artman) and PLN177.7m, up 25.6% YoY, adjusted for charges from the stock option programme.

2008 is going to be a very capex intensive year, due to: (1) an expanding number of shops; (2) growing average m² per shop by closing down old shops and opening new ones (capex is estimated at PLN2.5k per m²); and (3) maintenance capex, with LPP applying a new store design at flagship Reserved stores. Additionally, construction of the company's new logistics centre is underway, with the whole investment estimated at some PLN110m. Overall, we forecast 2008 capex of PLN229m, up 133% YoY.

In the most likely scenario, LPP should start consolidating Artman from 4Q08. The tender for the 100% stake should be announced between the end of July and mid September. LPP is in the process of finalising a bank loan for the transaction. We expect shareholders to approve, as given the recent sell-offs, the price looks immensely attractive.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**1,274.3**	**1,639.9**	**1,940.7**	**2,216.9**
%ch	*56.3*	*28.7*	*18.3*	*14.2*
EBITDA	**225.0**	**279.4**	**321.7**	**361.2**
EBIT	**175.3**	**223.7**	**264.5**	**298.5**
%ch	*254.7*	*27.6*	*18.3*	*12.8*
Margin (%)	*13.8*	*13.6*	*13.6*	*13.5*
Pre-tax profit	165.8	213.7	253.8	291.4
Tax	-31.1	-42.7	-50.8	-58.3
Net profit	134.7	170.9	203.0	233.1
Adjusted net profit	**141.5**	**177.7**	**209.8**	**233.1**
%ch	*260.0*	*25.6*	*18.1*	*11.1*
Margin (%)	*11.1*	*10.8*	*10.8*	*10.5*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	53.4	73.8	179.5	315.9
Inventories	289.5	367.1	434.6	498.3
Trade debtors	60.8	100.0	118.4	135.2
Other current assets	5.3	8.9	10.1	11.2
Total current assets	**409.1**	**549.8**	**742.6**	**960.7**
PPE and intangibles	270.5	443.2	489.1	520.2
Other fixed assets	17.5	20.0	23.5	26.7
Total fixed assets	**288.0**	**463.2**	**512.6**	**546.9**
Total assets	**697.2**	**1,013.0**	**1,255.2**	**1,507.6**
ST debt	57.0	174.5	171.7	173.3
Trade creditors	166.7	214.0	251.3	284.9
Other current liabilities	23.6	4.7	5.5	6.3
Total current liabilities	**247.3**	**393.2**	**428.5**	**464.5**
LT debt	27.9	27.9	27.9	27.9
Other LT liabilities	16.3	21.4	25.3	28.9
Total LT liabilities	**44.2**	**49.2**	**53.1**	**56.7**
Equity	**405.7**	**570.6**	**773.6**	**986.4**
Total liabilities & equity	**697.2**	**1,013.0**	**1,255.2**	**1,507.6**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	173.0	145.7	221.1	254.6
CF from investment	(96.6)	(227.2)	(99.0)	(86.0)
CF from funding	(53.5)	101.9	(16.4)	(32.2)
Change in cash	22.9	20.4	105.7	136.4
Cash last year	30.5	53.4	73.8	179.5
Cash year end	53.4	73.8	179.5	315.9

Source: Company data, ING estimates

Company profile

LPP is one of the largest clothing retailers in Poland and the CEE, with established operations in the Czech Republic, Estonia, Hungary, Lithuania, Latvia, Russia and Ukraine (only franchise shops in Slovakia). The company's first stores in Romania and Bulgaria are to be opened in 2008. The company operates three brands: *Reserved* (general clothing for various ages, similar to the *Zara* concept), *Cropp* (clothes for teenagers) and *Esotiq* (underwear, similar to *Oysho* concept). The company is in the process of acquiring its competitor Artman, that is developing the *House* brand (also clothes for teenagers). At the end of 2Q08 LPP had 355 shops, of which 190 stores were in Poland and 165 stores were abroad. The retail floorspace amounted to 156,900 m².

NG2

Recovery priced in

Maintained
Hold

General retailers **Bloomberg: CCC PW**

- **The outlook is for strong 2Q08 figures (the best among the peers), partially due to a low base.**
- **As our forecasts are in line with the consensus, we believe the rebound in earnings in 2008 is priced in.**
- **We maintain our HOLD rating with a 12-month DCF-based target price of PLN42.2.**

Investment case

NG2 is concentrating its strategy around the domestic market. Contrary to the wave of M&A that is taking place in the fragmented Polish retail market, NG2 is developing greenfield projects. Although we consider the upmarket *Quazi* brand to be a failure, we believe that the low-end of the market *Boti* brand has high-growth potential, especially in smaller towns in Poland, despite disappointment in 2007. With the lack of a strong partner, NG2 is unlikely to develop in Russia anytime soon, concentrating on the neighbouring Czech market. With the *CCC* brand as a key contributor, we expect a 2007-10F revenue CAGR at a high 24.4%.

Given the underperformance in the last two years, we believe there is potential for NG2 to improve its operating margins. We forecast gross profit margins to remain at the current high levels, supported by the ongoing shift to company-owned from franchise shops at the most profitable *CCC* brand. 2Q08 figures should show the success of the cost-cutting measures. Although NG2 is unlikely to resist the wage pressure, with expected healthy growth in *Boti* sales and cost cautiousness at other company-owned shop costs, we forecast the EBIT margin to oscillate around 15%.

We believe that NG2 has the capacity to show net earnings 2007-10F CAGR at 35.6%. However, we point out that a sizeable part of the growth should come from a rebound in 2008. Our net earnings estimates for 2008-09F are in line with consensus estimates. With management's decision not to engage so excessively in hedging transactions, we do not expect any related losses or gains in our forecasts.

We believe that from 2008 earnings, NG2 should return to its suspended dividend payment policy, mostly due to failure to meet profitability guidances. Even though we expect the capex to be sizeable in 2008-09 due to new shop openings (mostly a consequence of *Boti* expansion), we expect a dividend yield of 1.4%.

Trading on a 2008F PER at 17.5x, NG2 trades at 3.6% premium to its domestic peers. We believe that the premium is justified given the rebound in earnings and strong EPS growth (we forecasts 2007-10 CAGR of 35.6%). We see risks in potential slowdown in consumer demand that could negatively affect like-for-likes and potential strengthening of US$ against the zloty (that could hurt the gross profit).

Price (11/07/08)	**PLN39.39**
	Maintained
Target price (12 mth)	**PLN42.2**

12-month forecast returns (%)

Share price	7.0
Dividend	1.4
12m f'cst total return	**8.5**

Source: ING

Key ratios (%)

	2008F	2008F
EBITDA margin	16.5	16.8
Operating margin	14.9	15.2
Net debt/equity	13.0	2.3
Adj. ROE	35.8	33.9
Dividend yield	1.4	2.2

Source: Company data, ING estimates

Share data

No. of shares (m)	38.4
Daily t/o (US$m)	0.34
Free float (%)	32.1
Mkt cap (US$m)	730.4
Mkt cap (PLNm)	1,512.6

Source: Company data, ING estimates

Share price performance

Source: Reuters

Forecasts and ratios (consolidated data)

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	400.9	544.5	736.9	918.0	1,048.2
EBITDA (PLNm)	67.4	83.0	121.8	154.2	181.0
Net income (PLNm)	53.2	53.5	86.7	112.0	133.2
Adj. net inc. (PLNm)	53.2	53.5	86.7	112.0	133.2
Adj. EPS (PLN)	1.4	1.4	2.3	2.9	3.5
Adj. PER (x)	28.4	28.3	17.5	13.5	11.4
Adj. EV/EBITDA (x)	22.6	19.1	12.7	9.9	8.1
Adj. ROE (%)	30.2	28.0	35.8	33.9	31.3

Source: Company data, ING estimates

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Quarterly preview

NG2 should publish its 2Q08 results on 14 August, probably after market close. We expect NG2 to post 2Q08 revenues at PLN192.6m, up 31.9% YoY (unitary sales published), driven by growth in floorspace and rebound in the Boti brand sales. With a weak US$ we expect the gross margin to expand to 54.0% in 2Q08 vs 52.8% in 2Q07. Reductions on the level of company-owned shops (cuts in number of people per shop) should result in EBIT margin growing to 20.8% in 2Q08 vs 17.6% in 2Q07. Assuming a more favourable net financial activity (lack of hedging losses) and growth in effective tax rate, we forecast group net earnings at PLN28.6m, up 46.8% YoY.

2Q08 results preview

PLNm	2Q07	2Q08F
Revenue	146.0	192.6
EBITDA	27.7	42.9
EBIT	25.7	40.1
Net profit	19.5	28.6
EPS (PLN)	0.5	0.7

Source: ING estimates

Earnings drivers and outlook

We expect strong sales growth at NG2 in 2008, mostly as a result of development of the Polish operations, with the Czech shops remaining a small contributor to group revenues. We forecast sales to come in at PLN736.9m, up 35.3% YoY, fuelled by expected opening of 205 new shops (200 domestically and 5 abroad). CCC brand should remain the biggest contributor (78.7% 2008F sales), followed by Boti and Quazi brand (14.1% and 3.8%, respectively).

We believe that the operating margin should be on the rise in 2008, due to: 1) increased revenues per sqm, mostly at the Boti concept, 2) cutting down some costs at company-owned shops, and 3) lack of hedging losses, translating into the operating leverage working in favour of NG2. We expect the gross profit margin at 51.6% in 2008 versus 51.2% in 2007, due to a growing proportion of sales realised via company-owned shops where the retail margin is grasped. With the SG&A costs at least partially under the control, we expect the operating margin to come in at 14.9% in 2008 versus 13.6% in 2007.

With our 2008 net earnings forecast at PLN86.7m, up 62.1% YoY, we remain far below management's target which seems to be the attainment of a triple-digit net earnings level in 2008. In our forecasts we assume an effective tax rate lower than the statutory 19% corporate tax rate, which results from the NG2 factory producing for internal purposes being located in a special economic zone.

Due to ambitious shop opening plans (205 new shops in 2008 vs 170 in 2007), we believe that capex will remain at high levels at NG2. We expect the outlays for new stores and refurbishment should amount to PLN 40.6m in 2008 versus PLN38.6m in 2007. We expect the pressure on the free cash flow to start easing up from 2009, when we forecast a slowdown in new floorspace acquisition.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**544.5**	**736.9**	**918.0**	**1,048.2**
%ch	*35.8*	*35.3*	*24.6*	*14.2*
EBITDA	**83.0**	**121.8**	**154.2**	**181.0**
EBIT	**73.9**	**110.0**	**139.8**	**164.3**
%ch	*19.1*	*48.8*	*27.1*	*17.6*
Margin (%)	*13.6*	*14.9*	*15.2*	*15.7*
Pre-tax profit	63.6	105.7	137.2	163.6
Tax	-10.1	-19.1	-25.2	-30.3
Net profit	53.5	86.7	112.0	133.2
Adjusted net profit	**53.5**	**86.7**	**112.0**	**133.2**
%ch	*0.5*	*62.1*	*29.2*	*19.0*
Margin (%)	*9.8*	*11.8*	*12.2*	*12.7*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	10.9	14.7	27.5	62.9
Inventories	100.7	114.1	141.9	163.1
Trade debtors	84.0	89.1	110.9	126.7
Other current assets	5.1	6.9	8.6	9.8
Total current assets	**200.7**	**224.8**	**288.9**	**362.5**
PPE and intangibles	127.4	156.2	176.7	189.7
Other fixed assets	3.7	5.0	6.3	7.2
Total fixed assets	**131.1**	**161.2**	**183.0**	**196.9**
Total assets	**331.8**	**386.0**	**471.9**	**559.4**
ST debt	81.8	51.6	36.0	15.7
Trade creditors	22.3	28.0	34.9	39.8
Other current liabilities	24.5	15.0	17.9	20.1
Total current liabilities	**128.6**	**94.6**	**88.8**	**75.6**
LT debt	0.2	0.2	0.2	0.2
Other LT liabilities	4.3	5.9	7.3	8.3
Total LT liabilities	**4.5**	**6.1**	**7.5**	**8.6**
Equity	**198.6**	**285.3**	**375.6**	**475.3**
Total liabilities & equity	**331.8**	**386.0**	**471.9**	**559.4**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	30.5	78.9	87.7	119.7
CF from investment	(49.2)	(40.2)	(34.3)	(28.3)
CF from funding	20.7	(34.8)	(40.5)	(56.1)
Change in cash	2.0	3.9	12.8	35.4
Cash last year	8.9	10.9	14.7	27.5
Cash year end	10.9	14.7	27.5	62.9

Source: Company data, ING estimates

Company profile

NG2 is the largest Polish retailer, importer and producer of footwear. The company mostly operates on the domestic market, with the only exports market being the Czech Republic. Domestically, NG2 develops three brands: mainstream *CCC* brand, up-market *Quazi* brand and low-end of the market *Boti* brand. Only the *CCC* brand, the most mature, is developed on exports. At the end of 2Q08 the company had 513 stores, 297 *CCC* (194 company-owned and 103 franchise), 28 *Quazi* and 188 *Boti* shops (108 company-owned, 80 franchise). The total floorspace encompassed 110,900m². For the time being, NG2's plans do not include exports expansion. Within the upcoming months the company plans to concentrate on improving the profitability of the domestic operations.

Vistula & Wolczanka

Two possible mergers ahead

Maintained
Hold

General retailers **Bloomberg: VST PW**

- **The controlling stake in W.Kruk was acquired at a fair price, but we lack details regarding the merger.**
- **A V&W merger with Alma Market, post inclusion of Paradise Group in the latter, is increasingly likely.**
- **We maintain our HOLD rating but reduce our peer and DCF-based TP from PLN10.2 to PLN6.7, due to cuts in our forecasts and peer valuations.**

Investment case

V&W is in the final stage of transforming from a subcontractor and producer of suits and shirts into a designer and distributor of mid- and upmarket clothing. The strategy encompasses a higher positioning of the V&W brands, which, though successful so far, we view mildly negatively, as the company is starting to compete with luxury brands (eg, Hugo Boss), charging only slightly lower prices. At the same time, new concepts in the form of franchises (eg, *Murphy & Nye* and *Wolford*) are being conducted. We expect these shops to total 205 by 2010.

From Autumn/Winter 2008, the new 'women oriented' concept of *Galeria Centrum* (GC) stores is going to be more visible via the augmented collection of proprietary clothing brands. We expect V&W to continue its strategy of refurbishing GC stores into a more modern and up-market design, causing some temporary disturbance in sales. We expect the number of GC stores to reach 38 by 2010.

At the end of May, Vistula acquired a 66% stake in W.Kruk (a top three domestic jewellery company) for PLN298.4m (PLN24.5 per share) via a tender offer. The aim is to merge Vistula with W.Kruk (merger parity not announced so far) to cut down on headquarter and back-office costs. Vistula also targets synergies from combined rental negotiations and marketing outlays (loyalty programmes), although we are currently somewhat sceptical about the latter.

We also believe there will be a merger with Alma Market (owner of a delicatessen network), as its CEO, Mr Mazgaj, has become chairman of Vistula's supervisory board and a new management team has been chosen. Before such a merger happens (not before end-2009), we believe Paradise Group (franchisee of luxury brands, eg, *Burberry* and *Zegna*) will be incorporated into Alma Market. This would create a strong player in the upper end of the retail market.

On a 2008F PER of 14.3x (excluding the consolidation of W.Kruk), Vistula is trading at a 15% discount to its peers. We believe a discount is warranted by the operational risks that the company is facing: the merger with W.Kruk, resultant potential one-off costs, uncertainty over merger parity as well as risks relating to a potential merger with Alma Market and plans of the new V&W management.

Price (11/07/08)	**PLN5.82**
	Previously: PLN10.2
Target price (12 mth)	**PLN6.7**

12-month forecast returns (%)

Share price	14.9
Dividend	0.0
12m f'cst total return	**14.9**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	15.1	16.8
Operating margin	10.7	11.4
Net debt/equity	39.4	55.9
Adj. ROE	9.6	10.2
Dividend yield	0.0	0.0

Source: Company data, ING estimates

Share data

No. of shares (m)	80.2
Daily t/o (US$m)	0.7
Free float (%)	100.0
Mkt cap (US$m)	225.4
Mkt cap (PLNm)	466.9

Source: Company data, ING estimates

Share price performance

Source: Reuters

Forecasts and ratios (consolidated data)

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	180.8	411.6	435.4	506.3	581.8
EBITDA (PLNm)	14.0	74.8	65.8	84.9	100.3
Net income (PLNm)	6.1	60.7	30.9	36.5	41.1
Adj. net inc. (PLNm)	6.1	27.9	32.5	38.2	41.1
Adj. EPS (PLN)	0.1	0.4	0.4	0.5	0.5
Adj. PER (x)	60.5	16.6	14.3	12.2	11.4
Adj. EV/EBITDA (x)	22.4	10.5	9.2	8.1	6.6
Adj. ROE (%)	3.8	9.6	9.6	10.2	10.0

Source: Company data, ING estimates; without W.Kruk acquisition

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Quarterly preview

V&W should publish 2Q08 results on 14 August, probably after market close. We expect the figures to be decent but difficult to compare due to W.Kruk's consolidation in June 2008. We expect 2Q08 sales of PLN114.5m, up 7.2% YoY, with V&W adding PLN103.0m, down 3.5%, due to a fall in exports not offset by growing retail sales (one GC shop under reconstruction and main shop partially flooded). We expect group EBIT to come in at PLN12.1m, up 12.5% YoY, with V&W adding PLN10.7m (flat YoY due to higher gross margins offset by assumed negative other operating line) and W.Kruk PLN1.4m. Assuming a negative net financial activity (interest on debt and one-offs due to W.Kruk tender) but lower than statutory tax, we forecast group net earnings at PLN8.0m, down 19.9% YoY, PLN0.6m from W.Kruk.

2Q08 results preview (PLNm)

	2Q07	2Q08F
Revenue	106.7	114.5
EBITDA	14.3	15.3
EBIT	10.8	12.1
Net profit	10.0	8.0
EPS (PLN)	0.1	0.1

Source: ING estimates

Earnings drivers and outlook

We expect 2008 revenues to come in at PLN435.4m, up 5.8% YoY, excluding W.Kruk's consolidation from June. We forecast revenues from the V&W brands to come in at PLN171.3m, up 20.9% YoY, due to new shop openings and growth in sales per m^2 (higher pricing). We believe the *Galeria Centrum* concept should be a bigger sales contributor (PLN204.0m in 2008F, up 22.4% YoY), despite ongoing refurbishment, especially if the Autumn/Winter new style collection proves a success. We believe W.Kruk group sales guidance of PLN204.9m should be achieved.

With higher pricing at V&W stores, the maturing of the new concept *Galeria Centrum* stores and a fall of exports in sales (due to €/PLN and a strategic decision to cut down on low-margin revenues), we expect the gross margin to expand from 52.7% in 2007 to 54.8% in 2008. With more favourable relations of SG&A costs, we expect the 2008 EBIT margin to come in at 10.7% and EBIT at PLN46.4m.

We expect 2008 net earnings of PLN30.9m, down 49% YoY, due to one-offs in the base period. Adjusted earnings are forecast at PLN32.5m, up 16.8% YoY. We do not consolidate W.Kruk but partially include the high leverage taken for the transaction (interest payments). However, we believe problems at the level of the Deni Cler subsidiary will mean that W.Kruk is unlikely to meet its ambitious 2008 earnings guidance of PLN24m, up 26.6% YoY.

2008 will be a capex-intensive year. For Vistula stand-alone, we expect capex to reach PLN70.8m, up 60% YoY, as a result of development of V&W and *Galeria Centrum* stores, maintenance of existing floorspace and outlays for a new distribution centre. Vistula paid PLN298.4m for a 66% stake in W.Kruk, consolidated since June 2008.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**411.6**	**435.4**	**506.3**	**581.8**
%ch	*127.6*	*5.8*	*16.3*	*14.9*
EBITDA	**74.8**	**65.8**	**84.9**	**100.3**
EBIT	**60.4**	**46.4**	**57.9**	**66.0**
%ch	*784.8*	*-23.2*	*24.8*	*13.9*
Margin (%)	*14.7*	*10.7*	*11.4*	*11.3*
Pre-tax profit	65.6	36.4	43.5	50.7
Tax	-4.9	-5.5	-7.0	-9.6
Net profit	60.7	30.9	36.5	41.1
Adjusted net profit	**27.9**	**32.5**	**38.2**	**41.1**
%ch	*353.5*	*16.8*	*17.3*	*7.7*
Margin (%)	*6.8*	*7.5*	*7.5*	*7.1*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	63.9	40.2	31.2	23.0
Inventories	130.8	143.7	155.5	160.6
Trade debtors	35.0	61.0	65.8	69.8
Other current assets	2.3	2.3	2.6	2.9
Total current assets	**232.0**	**247.2**	**255.1**	**256.4**
PPE and intangibles	180.2	278.2	383.8	397.1
Other fixed assets	77.5	79.1	80.9	82.8
Total fixed assets	**253.5**	**355.6**	**462.9**	**477.9**
Total assets	**485.4**	**602.9**	**718.0**	**734.3**
ST debt	15.5	70.0	100.0	100.0
Trade creditors	84.7	49.2	55.5	59.3
Other current liabilities	29.5	17.2	19.4	20.7
Total current liabilities	**129.7**	**136.4**	**174.9**	**180.0**
LT debt	30.2	110.0	150.0	120.0
Other LT liabilities	1.7	1.8	1.9	2.0
Total LT liabilities	**32.0**	**111.8**	**151.9**	**122.0**
Equity	**323.7**	**354.6**	**391.2**	**432.3**
Total liabilities & equity	**485.4**	**602.9**	**718.0**	**734.3**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	50.7	(26.8)	68.4	85.1
CF from investment	(96.4)	(131.2)	(147.4)	(63.3)
CF from funding	29.0	134.3	70.0	(30.0)
Change in cash	(16.8)	(23.7)	(9.0)	(8.2)
Cash last year	80.6	63.9	40.2	31.2
Cash year end	63.9	40.2	31.2	23.0

Source: Company data, ING estimates

Company profile

Vistula & Wolczanka (V&W) is the largest Polish retailer of men's formalwear, operating two concepts: *Vistula*, a suits boutique; and *Wolczanka*, a shirt kiosk. At the end of 2006, V&W acquired from Empik a chain of department stores under the *Galeria Centrum* brand (consolidated since 2M07). The concept of this store is being changed into centres dedicated to women, offering clothing, cosmetics and accessories. V&W is also a franchisee of the *Murphy & Nye* and *Wolford* brands. At the end of May, V&W acquired a 66% stake in WSE-listed W.Kruk (a top three jewellery company in Poland). A merger between the two companies is very likely, as is a merger with Alma Market (already having the Paradise Group assets).

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IT

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Polish IT

Highlights for the Polish IT sector are as follows:

- The Polish IT sector is underdeveloped in relation to Western European countries. Although the play on convergence has disappointed in the past, we believe that some 10% pa growth in upcoming years is feasible, fuelled by: inflow of EU subsidies, changes within industries and the growing need for outsourcing.
- The banking and telecommunication sectors should remain cash cows, with IT expenditure concentrated on front-office systems and security rather than core IT systems. The ERP segment for SMEs should remain the fastest-growing part of the market, while a boost could come from the industry (especially energy) segment. We do not expect any large public administration IT tenders to materialise in 2008.
- We believe that further consolidation will take place on the Polish IT market, as it remains fragmented – in 2007 only 71 companies had revenues higher than PLN100m. In our opinion, after the upcoming merger with ABG, Asseco Poland will refrain from domestic acquisitions in the medium term. We see consolidation as more likely among small players, losing competitiveness against the large domestic companies and international giants, increasingly stronger in Poland.
- Trading on a 2008F PER of 11.9x and 2009F PER of 9.7x, we find the sector strongly undervalued in relation to the fundamentals and the forecast earnings growth. Surprisingly, software houses (Asseco Poland, Asseco Business Solutions and ComArch), which we consider to have a higher competitive advantage, trade at almost the same multiples as integrators (Sygnity). We believe that via closer relationships with customers, software houses should in the medium term suffer to a lesser extent from growing HR costs, as they have a stronger bargaining power over customers to increase prices.
- The outlook is for decent 2Q08 figures, although the Polish IT sector is highly seasonal, with the 2H strongly outperforming the 1H figures. Therefore, the market's confidence in analysts' full-year forecasts may still be lukewarm. We believe that positive newsflow regarding 2Q08 figures could come from Asseco Poland, which should show strong year-on-year growth as in each quarter historically, and Sygnity, which should deliver on its guidance for no further quarterly operating losses. Some negative newsflow could come from Comp, which should record seasonally poor figures, and ComArch, expected to show rather mediocre operating profitability.
- The key risks for the sector remain: (1) intensifying competition, which could come from the side of international giants or new entrants (potentially Indian IT companies); (2) problems with the workforce (the shortage of IT specialists is forecast to continue in upcoming years, putting pressure on salaries) and (3) potential economic downturn (which to some extent could hurt spending on ERP).

We maintain our recommendation to overweight the Polish IT sector, which we find undervalued. We now have BUY ratings on all the companies, following the recent sell-off on the WSE. We believe now is a good time to take positions in these companies, as they tend to appreciate in 2H, along with expectations for the seasonally best 4Q.

Asbis

Continued strong delivery

Maintained
Buy

IT hardware **Bloomberg: ASB PW**

- **We lower our multiples and DCF-based target price by 6% to reflect de-rating in the IT distribution sector.**
- **With strong demand and no signs of a slowdown in Russia and in the CEE region, Asbis is on track to deliver on our estimates despite softening demand in the Middle East region and a difficult macro environment in Kazakhstan and Ukraine. BUY.**

Investment case

Management maintained guidance for 20-25% growth in revenue and an improvement in the gross profit margin in 2008. We forecast that after 1H08, Asbis should report a 33% increase in revenue and gross profit margin of 5.4% compared to 4.2% in 1H07. Improvement in profitability remains one of the key priorities of the management particularly for the branded products category, which is growing in importance. In 1H08, Asbis completed investments in warehouse facilities in Slovakia, Turkey and in Dubai, which should bring a visible increase in revenue and margins on these markets. Slovakia retained its position as Asbis' third-largest market in 2007, with an 11% share in revenue and Turkey is a very attractive – although also very challenging – new market for Asbis, with over 2m PCs and a 60m population. Improvement in margins underpins our bullish case for earnings growth for Asbis as we forecast CAGR in EPS of 18% for Asbis for the next three years.

The company continues to rebuild its sales mix, with an increased share of branded products from Dell, Toshiba and Lenovo, fast-growing Microsoft software licences and laptops at the cost of computer components in 1H08. In so doing, Asbis escaped the sword of a decline in sales volumes of desktop components as desktop-to-laptop migration spreads widely in the region. We understand the share of private labels remained rather stable in 1H08.

A number of regional (AB, Action, Indeks, Arena) as well as developed market peers (Esprinet, Bell) derated significantly in 1H08. Asbis closed valuation discount and trades at a 10% premium to the average sector 2008F PER of 8.5x but a 8% discount to the average sector 2008F EV/EBITDA of 6.6x. However, it also trades at a 28% and 6% premium to the respective averages for Polish peers, which might hamper share price performance.

We see three major risk factors to our investment case. First, that Asbis' dealings through the IT4profit online platform reach 50% of Asbis' revenue (the company only has an 18% stake in E-Vision, the company which holds the ownership rights to the IT4profit platform). Second, pre-IPO shareholders are subject to a lock-up period that ends in October 2008. Finally, interest rates went up significantly in 1H08 in Ukraine, and Asbis has to provide working capital financing for its Ukrainian operations. Possible further deterioration of the macro environment could impact operating results of the subsidiary and Ukraine is the second-largest market for Asbis, with 17% of revenue in 2007.

Price (11/07/08)	**PLN8.1**
	Previously PLN11.0
Target price (12 mth)	**PLN10.3**

12-month forecast returns (%)

Share price	26.7
Dividend	2.1
12m f'cst total return	**28.7**

Source: ING

Key ratios (%)

	2008F	2009F
Gross profit margin	5.0	5.1
Operating margin	1.9	1.9
Net debt/equity	0.3	-4.0
Cash conversion (days)	26	27
Dividend yield	2.1	2.6

Source: Company data, ING estimates

Share data

No. of shares (m)	55.5
Daily t/o (US$m)	0.1
Free float (%)	19.5
Mkt cap (US$m)	219.3
Mkt cap (lc m)	449.6

Source: Company data, ING estimates

Share price performance

Source: Reuters

Forecasts and ratios

Year to Dec	2006	2007F	2008F	2009F	2010F
Revenue (US$m)	1,008.8	1,397.3	1,733.5	2,009.9	2,213.6
EBITDA (US$m)	17.9	27.6	36.0	41.8	47.0
Net income (US$m)	9.5	18.7	23.5	27.3	30.8
EPS (US$)	0.20	0.38	0.42	0.49	0.56
PER (x)	20.0	10.4	9.3	8.0	7.1
EV/Sales	0.19	0.16	0.13	0.11	0.09
EV/EBITDA (x)	10.7	8.0	6.1	5.2	4.4
ROE (%)	17	24	22	21	20

Source: Company data, ING estimates

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Quarterly preview

Asbis will report its 2Q08 result on 12 August. Management expects top-line growth to be close to 30% in 2Q08 on the basis of which we forecast 28% growth in revenue compared to 39% in the company obtained in 1Q08. We understand from the management that Russia, Ukraine and CEE either beat the budget or perform in line with company assumptions, while Middle East and Kazakhstan underperform due to the slowdown and credit crunch, respectively.

Gross margins continue to benefit from very profitable sales of Microsoft licences in Russia, as well as growing contribution of branded products and we estimate a gross profit margin of 4.7% in 2Q08 vs 4.0% in 2Q08 and compared to 6.0% in 1Q08. Seasonal patter is different for Asbis than for Polish IT distributors and 2Q is typically weaker in terms of profitability than 1Q.

We forecast a SG&A ratio of 3.5%, down from 3.6% in 1Q08 but up from 3.0% in 2Q07. As a result we forecast very strong 83%/90% increase YoY in EBIT/net profit, respectively.

2Q08F results preview

US$m	2Q07	2Q08F
Revenue	280.9	359.5
Gross profit	11.1	16.9
EBIT	2.4	4.4
Net profit	1.3	2.5
EPS (US$)	0.03	0.04

Source: ING estimates

Earnings drivers and outlook

We keep our 2008-10F revenue and earnings estimates unchanged for Asbis. The company continues to benefit from strong sales of Microsoft in Russia where it continues to generate sub-normally high double-digit gross profit margin on sales of Microsoft licences. Central Europe performs in line with expectations helped by desktop-to-laptop substitution, growing sales of branded products of Dell and Toshiba as well as continued high growth in the laptop category. Asbis is currently signing distribution agreements for Dell and Toshiba in selected countries of the Balkan region. Margins on Dell products are not yet on target, which Asbis set up at 6.5% for gross margin while the company is currently realising just a 5% margin on Dell. We understand both parties learn how to co-operate and we believe the margin on Dell products should improve going forward. Asbis started also its distribution operations in Turkey in 2Q08.

We forecast flat gross profit margins of 4.9%/4.9% for Asbis in 2008/09F, compared to 4.9% in 2007. The margin is 1H08 is likely to be higher at 5.4% but we factor in an erosion of margin on Microsoft licences, which from management's view is unlikely to continue at double-digit level for much longer. We try to be conservative also because Asbis is having difficulty in reaching revenue/profit budgets in the Middle East and Kazakhstan due to a worsening macro environment. The Ukrainian operations of Asbis are unaffected by a spike in interest rates as Asbis is able to borrow funds from the parent company to the Ukrainian subsidiary at 5-6% cost in US dollars, which is much lower compared to up to 20% costs of borrowing in the local currency.

P&L account

US$m	2007	2008F	2009F	2010F
Revenue	**1,397**	**1,733**	**2,010**	**2,214**
%ch	*39*	*24*	*16*	*10*
EBITDA	**27.6**	**36.0**	**41.8**	**47.0**
%ch	*54*	*30*	*16*	*12*
Margin (%)	*2.0*	*2.1*	*2.1*	*2.1*
EBIT	*25.7*	*33.1*	*38.1*	*42.7*
Pre-tax	21	28	32	36
Tax	(3)	(4)	(5)	(5)
Minorities	0	0	0	0
Net profit	**18.7**	**23.5**	**27.3**	**30.8**
%ch	*97*	*26*	*16*	*13*
Margin (%)	*1.3*	*1.4*	*1.4*	*1.4*

Source: Company data, ING estimates

Balance sheet

US$m	2007	2008F	2009F	2010F
Cash	45	43	49	64
Goodwill	303	376	436	480
Other current assets	348	419	485	544
Total current assets	**16**	**22**	**24**	**24**
PPE	0	0	0	0
Intangibles	1	1	1	1
Other fixed assets	0	0	0	0
Total fixed assets	**17**	**23**	**25**	**25**
Total assets	**366**	**442**	**510**	**569**
ST debt	41	41	41	41
Other current liabilities	227	281	326	359
Total current liabilities	**268**	**322**	**367**	**400**
LT debt	2	2	2	2
Other LT liabilities	0	0	0	0
Total LT liabilities	**2**	**2**	**2**	**2**
Minorities	0	0	0	0
Equity	**96**	**117**	**141**	**167**
Total liabilities & equity	**366**	**442**	**510**	**569**

Source: Company data, ING estimates

Cash flow account

US$m	2007	2008F	2009F	2010F
CF from operations	1	7	15	23
CF from investment	(8)	(8)	(5)	(3)
CF from funding	24	(2)	(4)	(5)
Change in cash	17	(2)	6	15
Cash last year	28	45	43	49
Cash year end	45	43	49	64

Source: Company data, ING estimates

Company profile

According to management, Asbis was the second-largest distributor for Intel, AMD, Seagate and Hitachi in the EMEA region in 2006. Asbis currently distributes a wide portfolio of IT hardware components, laptops, desktops, servers, accessories and multimedia to 14,000 business customers. Asbis has a centralised purchasing system controlled from its Cypriot headquarters buying from worldwide leading manufacturers of computer components, blocks and peripherals. With 31 warehouses located in 25 countries and sales to 70 countries, Asbis generates most of its revenue in Russia, Ukraine, Slovakia, the Czech Republic, Poland, Belarus and Romania. B2B on-line sales solution handled over 50% of revenue value in 2007.

Asseco Poland

Leader in consolidation

Maintained
Buy

Software and computer services | **Bloomberg: ACP PW**

- **Asseco Poland has the strongest outlook for 2Q08 in its peer group.**
- **We maintain our BUY rating with a 12-month DCF-based target price of PLN80.1.**

Investment case

Asseco Poland's strategy aims to become a leading European IT company via value-accretive mergers domestically and acquisitions abroad. In mergers, value is created by exceeding expectations on cost synergies, while in acquisitions it is created by purchasing high growth-potential players at attractive prices. The strategy is financed from: equity issuance, debt and treasury shares.

Following the merger with Prokom, which should result in PLN79m of annual cost synergies, we view favourably the merger with ABG that should help streamline the group's structure. We believe the merger with ABG should result in at least PLN10m cost synergies annually (cuts in software production), with more than double to follow from the creation of one integration company. We find the merger parity acceptable for shareholders of both companies and expect the merger to be approved at the August EGMs. The merged entity is to be listed since October 2008.

With the domestic operations increasingly restructured, we believe that the management's focus will increasingly switch to foreign operations. Asseco Poland is most likely to create new concepts, Asseco DACH, incorporating German and Austrian assets, and Asseco South Western Europe, which would be created based on Spanish (acquisitions in process) and potentially French IT companies.

As a result of the inclusion of ABG merger cost synergies, our adjusted net earnings forecasts for 2008 and 2009 are some 7% above consensus for both years. We forecast a 2007-10 EPS CAGR of 20.2%. We expect upgrades to follow. Moreover, despite its concentration on M&A activity, Asseco Poland plans to continue its dividend policy of paying out 20-40% of net earnings. We expect the dividend yield to reach a healthy 2.6% in 2009F.

We emphasise that Asseco Poland has treasury shares (16.3% of equity), which will most likely be redeemed in proportion to the usage of the authorised capital (issuance to be approved by August EGMs). With a sizeable free-float (72.4%), Asseco Poland could become a takeover target, especially as its valuation is not demanding and there are no defensive clauses in the bylaws.

On a 2008F adjusted PER of 10.9x, Asseco is at a 8.4% discount to its peers, which we find unwarranted given the benefits of the mergers with Prokom (completed) and ABG (proposed) and value accretion from upcoming purchases.

Price (11/07/08)	**PLN50.0**
	Previously: PLN 80.0
Target price (12 mth)	**PLN80.1**

12-month forecast returns (%)

Share price	60.2
Dividend	1.1
12m f'cst total return	**61.3**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	18.2	18.7
Operating margin	15.6	16.5
Net debt/equity	-4.6	-12.0
Adj. ROE	9.7	9.4
Dividend yield	1.1	2.6

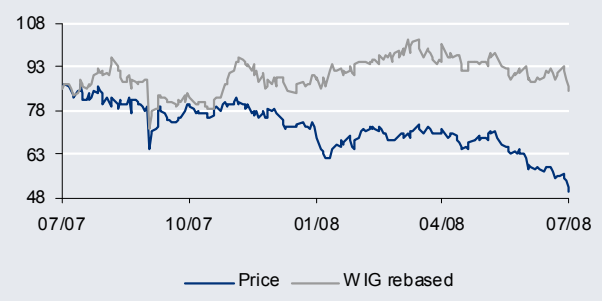
Source: Company data, ING estimates

Share data

No. of shares (m)	71.3
Daily t/o (US$m)	3.1
Free float (%)	72.4
Mkt cap (US$m)	1,440.9
Mkt cap (PLNm)	2,984.1

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios (consolidated data)

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	497.7	1,282.4	2,862.5	3,322.0	3,539.9
EBITDA (PLNm)	58.0	274.4	521.8	622.8	652.8
Net income (PLNm)	74.6	160.9	291.4	340.4	360.3
Adj. net inc. (PLNm)	53.2	145.5	271.4	340.4	360.3
Adj. EPS (PLN)	2.1	3.1	4.6	5.2	5.5
Adj. PER (x)	23.7	15.9	10.9	9.7	9.2
Adj. EV/EBITDA (x)	20.1	10.3	7.6	5.8	5.1
Adj. ROE (%)	16.9	11.8	9.7	9.4	9.1

Source: Company data, ING estimates; '09 onwards merged entity

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Quarterly preview

Asseco Poland publishes its 2Q08 results on 11 August 2008, most likely after the session. The 2Q08 figures should be strong but not comparable, due to changes in the group structure. Group revenues are expected at PLN 685.8m, up 136.4% YoY, with dynamics resulting from the merger with Prokom and new assets consolidation. We forecast the group EBIT at PLN93.6m, up 129.1% YoY. A fall in the EBIT margin to 13.6% should result from inclusion of lower margin Prokom and seasonality at Asseco Systems and Asseco Germany. We expect a PLN20m one-off from the gain on dilution in Asseco Slovakia, but we believe that the PLN 17m loss on the sale of ABG will be booked in equity. We expect group net earnings to come in at PLN74.2m, up 126.9% YoY and adjusted earnings at PLN54.2m, up 65.7% YoY.

2Q08 results preview

PLN m	2Q07	2Q08F
Revenue	290.1	685.8
EBITDA	47.8	105.9
EBIT	40.9	93.6
Net profit	32.7	74.2
EPS (PLN)	0.7	1.2

Source: ING estimates

Earnings drivers and outlook

We expect a boost in 2008 revenues as a result of a consolidation of new assets, the merger with Prokom and ABG, as well as organic development for the majority of group members. As a result, we forecast 2008 sales at PLN2,862.5m, up 123.2% YoY (60% backlog coverage). The parent company should be the biggest contributor, with 2008 sales expected at PLN946.6m, up 113.5% YoY (90% backlog coverage). Sizeable contribution should also come from ABG (PLN501.2m), Asseco Slovakia (PLN 530.5m) and Asseco SEE (PLN298.1m).

We expect the group EBIT to come in at PLN447.3m, up 89.1% YoY. We believe that the post-merger parent company (ie, including Prokom from 2Q08) should be the biggest EBIT contributor, with the operating line forecasts at PLN202.3m, up 51% YoY. The remaining EBIT contributors should be diversified, with ABG adding PLN43.8m, Asseco Slovakia PLN 70.1m and Asseco SEE PLN51.3m. Still, we expect the group operating margin to fall from the very high 18.4% in 2007 to 15.6% in 2008, mostly as a result of an expected drop in the margin at the parent company (synergy at Prokom fully visible in 2009) and full-year consolidation of the foreign assets that have a lower EBIT profitability than the parent (eg, Asseco Germany or Lithuanian Sintagma).

Including the upgraded target for cost synergy, the merger with ABG and the current group structure, we forecast 2008 reported net earnings at PLN291.4m, up 81.1% YoY and adjusted net earnings of PLN271.4m, up 86.5% YoY (excluding the impact of a gain on dilution in Asseco Slovakia). Our forecasts exceed consensus by 6.8% for 2008. In recent press interviews, the CEO has stated that consensus estimates should be exceeded (excluding one-offs).

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**1,282.4**	**2,862.5**	**3,322.0**	**3,539.9**
%ch	*157.7*	*123.2*	*16.1*	*6.6*
EBITDA	**274.4**	**521.8**	**622.8**	**652.8**
EBIT	**236.6**	**447.3**	**546.9**	**579.3**
%ch	*423.4*	*89.1*	*22.3*	*5.9*
Margin (%)	*18.4*	*15.6*	*16.5*	*16.4*
Pre-tax profit	238.4	473.2	550.9	584.0
Tax and minorities	-77.5	-181.8	-210.4	-223.7
Net profit	160.9	291.4	340.4	360.3
Adjusted net profit	**145.5**	**271.4**	**340.4**	**360.3**
%ch	*173.4*	*86.5*	*25.4*	*5.8*
Margin (%)	*11.3*	*9.5*	*10.2*	*10.2*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	241.5	271.9	531.5	743.4
Inventories	36.6	49.6	69.5	83.9
Trade debtors	566.4	1,099.7	1,292.8	1,395.3
Other current assets	201.8	236.2	246.2	250.9
Total current assets	**1,046.4**	**1,657.4**	**2,140.0**	**2,473.5**
PPE and intangibles	251.6	457.1	456.2	460.7
Other fixed assets	1,958.2	3,126.3	3,154.9	3,168.4
Total fixed assets	**2,209.7**	**3,583.4**	**3,611.0**	**3,629.1**
Total assets	**3,256.1**	**5,240.8**	**5,751.0**	**6,102.6**
ST debt	61.1	86.4	97.4	102.7
Trade creditors	188.6	440.5	537.8	580.2
Other current liabilities	307.9	568.3	644.0	679.9
Total current liabilities	**557.6**	**1,095.2**	**1,279.3**	**1,362.8**
LT debt	202.1	202.1	152.1	102.1
Other LT liabilities	375.7	488.2	520.9	536.4
Total LT liabilities	**577.8**	**690.3**	**673.0**	**638.5**
Equity	**2,120.7**	**3,455.4**	**3,798.8**	**4,101.3**
Total liabilities & equity	**3,256.1**	**5,240.8**	**5,751.0**	**6,102.6**

Source: Company data, ING estimates;

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	49.0	405.6	475.5	504.8
CF from investment	(422.1)	(560.3)	(75.0)	(78.0)
CF from funding	575.2	(15.3)	(141.0)	(215.0)
Change in cash	202.1	(170.0)	259.6	211.9
Cash last year	39.4	441.9	271.9	531.5
Cash year end	241.5	271.9	531.5	743.4

Source: Company data, ING estimates

Company profile

Asseco Poland is the biggest Polish IT company, a WIG20 member, created through a series of M&As. The growth started with the IPO, when the banking software house used the money to take control in Asseco Slovakia. In Autumn 2005, SPO proceeds were used for diversification into the enterprises segment. The step change came with the merger with Softbank (announced May 2006, effective January 2007), which created a giant in the banking segment of the IT market. The merger with Prokom (announced in September 2007, effective 1 April 2008) created a domestic giant. Mid-May 2008, a merger with ABG was announced, to be completed by October 2008. Asseco Poland is actively purchasing abroad with holdings ranging from the Czech Republic and Slovakia, through the Balkans and Romania to Germany and Austria.

Asseco Slovakia

Awaiting new acquisitions

Previously: Hold
Buy

Software and computer services | **Bloomberg: ACS PW**

- **The outlook is for decent 2Q08 figures at the group level, showing strong YoY growth.**
- **We upgrade our rating to BUY due to recent falls in the share price, with a 12-month DCF-based target price of PLN33.2.**

Investment case

We believe that Asseco Slovakia's group revenues will grow at a 2007-10 CAGR of 29.2%, mostly due to the full-year consolidation of acquired assets rather than organic growth. After the expected boost in parent revenues in 2008 (on preparations for euro adoption), we expect organic growth to be mediocre (5-8%). Potential enhancement could come from public administration contracts in Slovakia, but these remain uncertain due to delays.

We expect margins at the Asseco Slovakia group to remain high (around 13.3% on EBIT), but to fall somewhat due to the inclusion of lower-margin companies in the group and some pressure on HR costs. Group profitability looks set to become increasingly dependent on the Asseco Czech Republic pillar. Asseco Czech Republic should be able to contribute a nominal value to group EBIT that is slightly lower than that of the Slovak pillar combined with Uniquare.

Group expansion is likely to result in strong earnings growth. We expect a 2007-10 net earnings CAGR of 31%. However, due to share issuance in 2008, the 2007-10F EPS CAGR comes in lower, at 18.6%.

Asseco Slovakia plans to invest the PLN108.6m from the recent SPO (16.6% dilution) in strengthening the Asseco Austria pillar, creating Asseco Hungary and making further purchases in local markets. Transactions are likely to be conducted on 2008F PERs of 10-12x. We believe the strategy may be slightly altered so as to suit the new developments at Asseco Poland. We would not be surprised to see Asseco's Austria pillar incorporated into Asseco Germany so as to create Asseco DACH (Germany, Austria and potentially Switzerland), to fit into Asseco Poland's augmented strategy of creating stronger subsidiaries.

With the current high risk aversion, we believe investors should warmly welcome the company's healthy dividend payments. We expect the payout ratio to be cut from 73% to 40% in 2008, due to intense M&A plans, higher-than-historical use of debt, and the founders do not necessarily having the power to demand high dividend payments after the recent SPO. Nevertheless, the forecast payments should result in a healthy dividend yield of 3.0%.

On a 2008F PER of 13.2x, Asseco Slovakia trades at a 10.9% premium to its sector peers, due to outperformance of the share price in most recent weeks.

Price (11/07/08)	**PLN28.44**
	Previously: PLN 33.0
Target price (12 mth)	**PLN33.2**

12-month forecast returns (%)

Share price	16.6
Dividend	3.0
12m f'cst total return	**19.5**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	15.6	15.7
Operating margin	13.3	13.3
Net debt/equity	-23.1	-29.2
Adj. ROE	15.0	12.4
Dividend yield	3.0	4.4

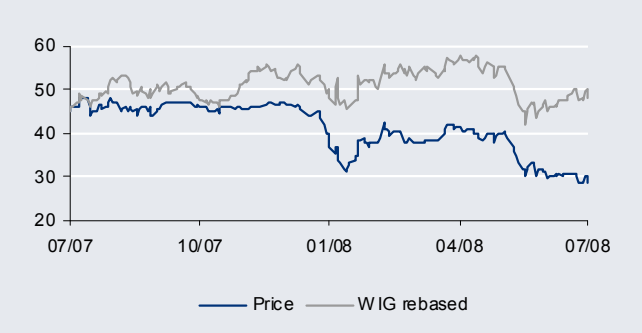
Source: Company data, ING estimates

Share data

No. of shares (m)	21.4
Daily t/o (US$m)	0.1
Free float (%)	59.9
Mkt cap (US$m)	275.8
Mkt cap (PLNm)	607.5

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios (consolidated data)

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (Skm)	1,416.4	2,480.1	4,585.9	4,984.9	5,352.4
EBITDA (Skm)	264.3	455.4	714.2	784.3	829.4
Net income (Skm)	140.4	229.8	391.5	464.0	506.8
Adj. net inc. (Skm)	161.4	224.4	389.0	461.5	504.3
Adj. EPS (Sk)	12.5	14.2	20.0	21.6	23.6
Adj. PER (x)	21.2	18.6	13.2	12.2	11.2
Adj. EV/EBITDA (x)	10.4	12.9	9.2	8.8	7.9
Adj. ROE (%)	22.5	16.0	15.0	12.4	12.4

Source: Company data, ING estimates

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Quarterly preview

Asseco Slovakia is to publish its 2Q08 results on 6 August, most likely after market close. The group figures should come at levels similar to 1Q08 figures, showing strong YoY growth due to changes in group structure. Group sales are expected to come in at Sk930.3m, up 129.2% YoY, with the biggest contributors being the parent company (Sk208.3m) and Asseco Czech parent (Sk250.0m). We forecast group EBIT to come in at Sk105.7m, up 175.5% YoY. The parent company should have the biggest influence on group figures, with unitary EBIT expected at SKK44.8m, up 4.5% YoY. We expect Asseco Czech parent EBIT at Sk28.5m, and believe that Berit should be the only subsidiary in the red (-Sk5.5m). With an expected negative impact from financial activity (interest on the loan for Uniquare), and including all the changes in minorities, we forecast the group's net earnings at Sk64.5m, up 64.4% YoY. Unitary net earnings are expected at Sk35.5m, down 19.9% YoY.

2Q08 results preview

Sk m	2Q07	2Q08F
Revenue	405.8	930.3
EBITDA	57.1	144.3
EBIT	38.4	105.7
Net profit	39.2	64.5
EPS (Sk)	2.5	3.4

Source: ING estimates

Earnings drivers and outlook

We believe 2008 should be favourable for the Asseco Slovakia group, although we are still likely to see many developments and changes. We expect group revenues to come in at Sk4,585.9m, up 84.9% YoY, while parent company sales should reach Sk1,013.2m, up 9.8% YoY. Among the subsidiaries, Asseco Czech parent company should be the biggest contributor, with annual sales expected at Sk1,349.2m, up 6.9% YoY (small growth due to focus on change in sales mix).

Although we expect group EBIT to come in at Sk608.0m, up 66.7% YoY, in 2008, we expect the operating margin to fall to 13.3% in 2008 versus 14.7% in 2007. We believe the fall should result from the full-year consolidation of lower margin assets. There are substantial differences between the margins recorded by group members, with the parent company and Uniquare the leaders (2008F EBIT margin forecast at 22.4% and 17.7%, respectively), followed by Asseco Czech Republic (a key nominal contributor), which is expected to obtain 12.6% EBIT margin in 2008, and ending on Berit, which is expected to barely break even in 2008.

The net earnings line should be the most affected by changes in group structure, due to various changes in the minorities line. Our group net earnings and EPS forecasts include: (1) consolidation of Uniquare; (2) a full stake in LCS; (3) the SPO shares; and (4) a further rebound at the 100% owned Asseco Czech parent. Our 2008 net earningsforecast of Sk391.5m is broadly in line with consensus expectations.

P&L account

Sk m	2007	2008F	2009F	2010F
Revenue	**2,480.1**	**4,585.9**	**4,984.9**	**5,352.4**
%ch	*75.1*	*84.9*	*8.7*	*7.4*
EBITDA	**455.4**	**714.2**	**784.3**	**829.4**
EBIT	**364.7**	**608.0**	**665.2**	**704.1**
%ch	*79.3*	*66.7*	*9.4*	*5.8*
Margin (%)	*14.7*	*13.3*	*13.3*	*13.2*
Pre-tax profit	375.7	589.6	664.0	719.1
Tax and minorities	(145.9)	(198.1)	(200.0)	(212.3)
Net profit	229.8	391.5	464.0	506.8
Adjusted net profit	**224.4**	**389.0**	**461.5**	**504.3**
%ch	*63.6*	*70.4*	*18.5*	*9.2*
Margin (%)	*9.0*	*8.5*	*9.3*	*9.4*

Source: Company data, ING estimates

Balance sheet

Sk m	2007	2008F	2009F	2010F
Cash	521.8	779.6	1,071.7	1,364.9
Inventories	17.4	30.2	35.5	39.0
Trade debtors	1,393.4	2,063.7	2,168.4	2,309.6
Other current assets	196.9	293.2	311.7	328.7
Total current assets	**2,129.3**	**3,166.7**	**3,587.4**	**4,042.2**
PPE and intangibles	462.3	496.7	522.1	544.9
Other fixed assets	776.7	1,784.8	1,791.4	1,798.2
Total fixed assets	**1,239.0**	**2,281.4**	**2,313.6**	**2,343.1**
Total assets	**3,368.3**	**5,448.1**	**5,901.0**	**6,385.3**
ST debt	423.8	45.6	13.2	11.3
Trade creditors	424.4	765.8	807.5	840.3
Other current liabilities	444.2	796.1	865.3	929.1
Total current liabilities	**1,292.4**	**1,607.5**	**1,686.1**	**1,780.7**
LT debt	146.9	0.0	0.0	0.0
Other LT liabilities	268.4	308.6	309.2	352.8
Total LT liabilities	**415.3**	**308.6**	**309.2**	**352.8**
Equity	**1,660.6**	**3,532.0**	**3,905.7**	**4,251.8**
Total liabilities & equity	**3,368.3**	**5,448.1**	**5,901.0**	**6,385.3**

Source: Company data, ING estimates

Cash flow account

Sk m	2007	2008F	2009F	2010F
CF from operations	(14.5)	861.3	619.1	652.9
CF from investment	(618.7)	(1458.4)	(132.7)	(122.2)
CF from funding	84.4	855.0	(194.3)	(237.6)
Change in cash	(548.8)	257.8	292.1	293.1
Cash last year	1,070.6	521.8	779.6	1,071.7
Cash year end	521.8	779.6	1,071.7	1,364.9

Source: Company data, ING estimates

Company profile

Asseco Slovakia is a 40.1% subsidiary of Asseco Poland, and has been present in the Asseco Group since the end of 2004. The parent company is a software house and top-3 IT company in Slovakia, specialising in the banking segment, and present in the Slovak IT market since the early 1990s. Asseco Slovakia has several Slovak IT companies (Slovanet, Datalock, MPI Slovakia and Disig). The company is a top-5 IT player in the Czech Republic via its subsidiaries (Asseco Czech Republic, ie, former PVT, LCS and Berit). Asseco Slovakia has become the regional centre for acquisitions in the Slovak and Czech markets and is now pursuing M&A in the Austrian (Uniquare purchased at the end of 2007) and Hungarian markets.

Asseco Business Solutions

Play on fast-growing ERP market

Maintained
Buy

Software and computer services **Bloomberg: ABS PW**

- **The outlook is for strong 2Q08 figures, although weaker than 1Q08 results due to seasonality.**
- **We maintain our BUY rating with a 12-month DCF-based target price of PLN15.2.**

Investment case

ERP should be the fastest-growing segment in the Polish IT market, at 16.5% YoY until 2009. ABS should be the prime beneficiary through its Oracle and Microsoft-based proprietary software and WA-PRO solutions for small players. We forecast ABS group sales to grow at a 2007-10F CAGR of 34.8% and organic growth to reach 13.5%.

We believe the high operating leverage should continue to work in the business' favour. We therefore expect margins to remain at high levels. We expect the operating margin to oscillate around 18.4% in the years to come. This should be the result of flat margins at Anica Systems and a forecast improvement at ABS's parent company (mostly as a result of economies of scale in the ERP business).

We forecast a 2007-10 CAGR in net earnings of 37.5%. The 2007-10 EPS CAGR should be lower, at 13.0%, due to the share issuance for the 100% stake in Anica Systems. Nevertheless, the purchase of Anica is value-accretive, in our opinion, and should allow for net margin expansion from 14.7% expected in 2008 and to 15.0% in 2010.

With the forecast strong hike in net earnings, ABS should be able to start paying out dividends from 2008F earnings. At first the payouts should remain small (losses from the last years have to be covered), in the lower brackets of the 10-40% dividend payment policy. Still, this should translate into a decent dividend yield of 0.8%.

After the merger between the four companies (Incenti, Safo, Softlab and WA-PRO) in 2007 and the purchase of Anica (accomplished in 2Q08), we believe the pressure on ABS to consolidate has eased up. While some negotiations are still held, ABS is more focused on organic growth, due to the strong business model it possesses, and we believe that only minor acquisitions could materialise. We believe the company is going to concentrate on exploiting the cross-selling possibilities within Asseco Poland group.

Trading in line with the sector average, we find ABS attractively priced. We believe that a premium is warranted due to its concentration on proprietary software, strong profitability outlook and above-average return on equity. At the same time, we point out that there is a 7.2% share overhang from the Anica shareholders. These shares could be sold to the market. Should this materialise, we believe that it could improve the limited liquidity of ABS' shares.

Price (11/07/08)	**PLN10.4**
	Previously: PLN 15.1
Target price (12 mth)	**PLN15.2**

12-month forecast returns (%)

Share price	45.8
Dividend	0.8
12m f'cst total return	**46.6**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	22.0	21.6
Operating margin	18.4	18.6
Net debt/equity	-14.1	-18.3
Adj. ROE	12.2	11.2
Dividend yield	0.8	1.1

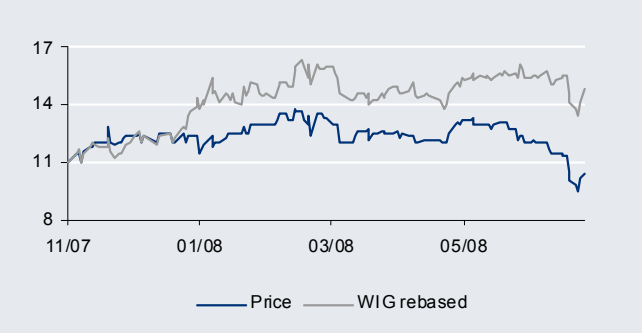
Source: Company data, ING estimates

Share data

No. of shares (m)	33.4
Daily t/o (US$m)	0.04
Free float (%)	29.2
Mkt cap (US$m)	167.8
Mkt cap (PLNm)	347.5

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios (consolidated data)

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	29.4	96.0	184.6	209.2	235.1
EBITDA (PLNm)	4.4	19.8	40.6	45.2	50.6
Net income (PLNm)	3.1	13.6	27.1	31.3	35.3
Adj. net inc. (PLNm)	3.1	13.6	27.1	31.3	35.3
Adj. EPS (PLN)	0.3	0.7	0.9	0.9	1.1
Adj. PER (x)	33.9	14.2	12.0	11.1	9.9
Adj. EV/EBITDA (x)	23.7	9.7	8.0	7.7	6.9
Adj. ROE (%)	9.1	12.6	12.2	11.2	11.4

Source: Company data, ING estimates

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Quarterly preview

ABS is to publish its 2Q08 results on 6 August 2008, most likely after the market close. The results should show strong YoY growth, but the base is not available, and when reported will not be comparable. Therefore, we provide a QoQ comparison. Group sales are expected to come in at PLN37.4m, down 11.6% QoQ. Parent company sales are expected at PLN25.6m, down 17.6% QoQ, due to a seasonal fall in sales of Incenti and WA-PRO (small ERP). Anica's sales are expected at PLN11.8m, up 5.2% QoQ. We forecast EBIT to come in at PLN6.6m, down 23.5% QoQ, incurring a one-off PLN1m additional depreciation charge from the merger. Assuming a lower-than-statutory tax rate (tax asset from Incenti), we forecast net earnings at PLN5.3m, down 26.0% QoQ.

2Q08 results preview (PLNm)

	1Q08	2Q08F
Revenue	42.2	37.4
EBITDA	10.7	8.8
EBIT	8.7	6.6
Net profit	7.2	5.3
EPS (PLN)	0.3	0.2

Source: ING estimates

Earnings drivers and outlook

We forecast ABS group sales to come in at PLN184.6m, up 92.3% YoY, in 2008. The growth should result from three sources: 1) the merger of the ERP assets and Incenti being visible through the whole year; 2) consolidation of Anica for the whole year; and 3) organic growth of group members. We expect the revenues of the parent company to come in at PLN 128.3m, up 47.4% YoY, with revenues of Anica to come in at PLN 56.3m, up 16.9% YoY. We believe that the key sources of organic growth should be: 1) a strong product offer; 2) cross-selling between group members; and 3) the support that a presence in the Asseco Poland group provides.

We believe that there should be margin expansion at ABS in 2008. This should take place mostly at the level of the ERP part of the parent, where the operating leverage is the strongest (former WA-PRO, Safo and Softlab companies). We expect an improving product mix at Incenti but stable EBIT margins at Anica, as client acquisitions and growing subscription sales should be offset by competition copying its solutions. We forecast 2008 EBIT at PLN34.0m, up 120.8% YoY and an EBIT margin at 18.4%.

We expect net earnings of PLN27.1m, up 100% YoY, in 2008. The growth should again come from organic development and changes in the group structure. We forecast net earnings of the parent company at PLN18.5m, up 49.2% YoY, while net earnings of Anica are expected at PLN9.7m, up 19.5% YoY, with the contribution to group bottom-line coming in at PLN8.6m. Our 2008 net earnings forecasts are broadly in line with management's expectations and consensus estimates. We point out that 2008 should be the last year when earnings will be fuelled by tax asset recognition from losses at the former Incenti.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**96.0**	**184.6**	**209.2**	**235.1**
%ch	*226.0*	*92.3*	*13.4*	*12.4*
EBITDA	**19.8**	**40.6**	**45.2**	**50.6**
EBIT	**15.4**	**34.0**	**38.8**	**43.7**
%ch	*942.4*	*120.8*	*14.3*	*12.5*
Margin (%)	*16.0*	*18.4*	*18.6*	*18.6*
Pre-tax profit	15.8	33.8	38.7	43.5
Tax and minorities	-2.2	-6.7	-7.3	-8.3
Net profit	13.6	27.1	31.3	35.3
Adjusted net profit	**13.6**	**27.1**	**31.3**	**35.3**
%ch	*341.8*	*100.0*	*15.5*	*12.6*
Margin (%)	*14.1*	*14.7*	*15.0*	*15.0*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	14.1	33.2	50.2	68.2
Inventories	1.0	1.9	2.4	2.9
Trade debtors	41.8	73.9	84.5	95.8
Other current assets	7.0	8.0	8.3	8.6
Total current assets	**63.9**	**117.1**	**145.4**	**175.5**
PPE and intangibles	103.5	104.2	106.3	108.9
Other fixed assets	47.3	107.4	108.0	108.7
Total fixed assets	**150.8**	**211.6**	**214.4**	**217.6**
Total assets	**214.7**	**328.7**	**359.8**	**393.1**
ST debt	0.6	0.6	1.1	0.2
Trade creditors	16.3	30.3	30.5	31.9
Other current liabilities	8.1	15.6	16.6	17.5
Total current liabilities	**25.0**	**46.6**	**48.2**	**49.6**
LT debt	1.1	1.1	1.1	1.1
Other LT liabilities	8.5	15.0	15.8	16.5
Total LT liabilities	**9.6**	**16.1**	**16.9**	**17.6**
Equity	**180.1**	**266.0**	**294.6**	**326.0**
Total liabilities & equity	**214.7**	**328.7**	**359.8**	**393.1**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	13.7	(31.1)	27.6	32.3
CF from investment	(58.4)	(7.4)	(8.4)	(9.4)
CF from funding	57.6	57.7	(2.2)	(4.9)
Change in cash	12.9	19.2	17.0	18.0
Cash last year	1.1	14.1	33.2	50.2
Cash year end	14.1	33.2	50.2	68.2

Source: Company data, ING estimates

Company profile

Asseco Business Solutions is the Polish ERP competence centre of Asseco Poland. ABS's predecessor, Incenti, was established in 2001 by Prokom and TPSA to provide outsourcing and data centre services. In 2005, the former Prokom divested Incenti to its subsidiary at the time, Softbank. Following the Asseco/Softbank merger, Asseco Poland decided to create an ERP competence centre based on Incenti, incorporating WA-PRO, Softlab and Safo as of 1 July 2007. November 2007 saw the IPO of ABS, with proceeds being used for the acquisition of a 60.6% stake in Anica Systems from Asseco Poland. Construction of the ABS group was accomplished in May, when the remaining stake in Anica Systems was acquired (share issuance).

ABG

Merger with Asseco Poland brings synergy

Maintained
Buy

Software and computer services | **Bloomberg: ABG PW**

- **The outlook is for decent 2Q08 figures.**
- **We maintain our BUY rating with a 12-month target price of PLN7.9 (based on merger parity).**

Investment case

We view the merger with Asseco Poland favourably, as it should streamline the group's structure, cutting down on intra-group competition and allowing for cost synergies. Within the merger, ABG will be split into a software part and an integration part, with the latter to be incorporated into Asseco Systems. We expect at least PLN10m in annual cost synergies, coming from cuts in software production and back-office costs. This amount could be more than doubled after the creation of one integration company.

In our opinion, the merger parity of 0.099 Asseco Poland shares for one ABG share is acceptable for both groups of shareholders. Following negotiations with shareholders, we expect the parity and the merger to be approved at the August EGMs. The merged entity is to be listed on the WSE from October 2008.

Following the announcement of the Asseco Poland/ABG merger, we believe ABG's strategy announced prior to the merger agreement will have to be modified. We believe ABG is more likely to concentrate on organic growth and maximising benefits from the Asseco Poland merger than purchasing new players.

In terms of the software part of ABG, we expect the company to continue to find new customers and expand its relationships with current clients. In terms of agriculture, we expect it to lobby for large public administration contracts related to EU subsidies for farmers. Contracts worth PLN400m are at stake and could be obtained without a tender together with HP (prime contractor). We believe that a lot remains to be done in the health segment, where new ventures could come from a combined offer for hospitals and creation of a unified product. With a sizeable market share, we believe ABG could start dictating prices.

In case of the integration part of ABG business, we believe that growth will first stem from limiting the intra-group competition that was taking place until recently. We believe sales efforts could be spread among a larger number of customers, potentially increasing the hit ratio. At the same time, the combination of the businesses will make a strong player, thus increasing its bargaining power with suppliers and, as a result, giving it the chance to charge lower prices without hurting margins.

On a 2008F PER of 11.0x, ABG is trading at a 7.8% discount, which we find unwarranted given the upcoming merger with Asseco, which we perceive as creating value.

Price (11/07/08)	**PLN5.09**
Target price (12 mth)	Maintained **PLN7.9**

12-month forecast returns (%)

Share price	55.8
Dividend	0.0
12m f'cst total return	**55.8**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	10.8	18.7
Operating margin	8.4	16.5
Net debt/equity	-10.3	-12.0
Adj. ROE	9.6	9.4
Dividend yield	3.5	2.6

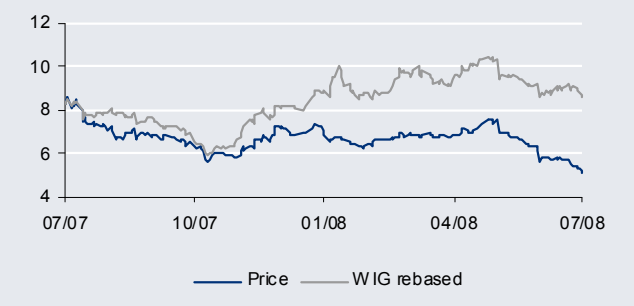
Source: Company data, ING estimates

Share data

No. of shares (m)	94.6
Daily t/o (US$m)	0.4
Free float (%)	55.4
Mkt cap (US$m)	232.5
Mkt cap (PLNm)	481.5

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios (consolidated data)

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	274.9	467.7	633.4	3,322.0	3,539.9
EBITDA (PLNm)	31.1	44.5	68.2	622.8	652.8
Net income (PLNm)	25.5	32.8	43.9	340.4	360.3
Adj. net inc. (PLNm)	10.7	31.5	43.9	340.4	360.3
Adj. EPS (PLN)	0.2	0.4	0.5	5.2	5.5
Adj. PER (x)	30.7	12.8	11.0	10.0	9.4
Adj. EV/EBITDA (x)	15.4	7.7	6.4	6.0	5.3
Adj. ROE (%)	5.6	9.7	9.6	9.4	9.1

Source: Company data, ING estimates; 2009 onwards is merged entity

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Quarterly preview

ABG is due to publish its 2Q08 results on 6 August, most likely after the market close. The 2Q08 figures should be strong but they will not be directly comparable with the previous year, due to changes in group structure (in 2Q07 ABG was in a pre-merger with SPiN). Group revenues are expected to come in at PLN157.0m, up 89.5% YoY, with dynamics resulting from the merger with SPiN and sizeable hardware contracts. We forecast group EBIT to come in at PLN10.2m, up 482% YoY, mostly due to an improved sales mix and cost synergies from the merger with SPiN. With a negative impact from net financial activity (mark-to-market of investments in mutual funds) and an assumption of a statutory tax rate, we expect 2Q08 group net earnings to come in at PLN7.2m, up 94.5% YoY on a reported basis and up 191% YoY on an adjusted basis.

2Q08 results preview

PLNm	2Q07	2Q08F
Revenue	82.9	157.0
EBITDA	3.5	15.3
EBIT	1.7	10.2
Net profit	3.7	7.2
EPS (PLN)	0.1	0.1

Source: ING estimates

Earnings drivers and outlook

We forecast 2008 revenues to come in at PLN633.4m, up 35.4% YoY. We expect revenues to remain diversified and ABG to grow in all business lines, although we see telco, agriculture (public overall) and finance as the likely key revenue contributors. The backlog for 2H08 at PLN108.1m, coupled with our 1H08 sales forecasts, constitutes a healthy 62.7% coverage of our 2008 sales forecasts. Our expectations do not incorporate any revenue synergies from the merger with Asseco Poland.

We believe the standalone operating improvement at ABG in 2008 should result mostly from: (1) cost synergies from the already-conducted merger with SPiN; (2) the implementation of Asseco Poland cost standards; and (3) the operating leverage of the business. We expect the gross margin to come in at 25.3% in 2008 as a result of a higher portion of software in sales (47.3% of sales expected for 2008). In terms of SG&A, we assume that the bulk of the improvement will come from cost benefits resulting from the merger with SPiN – in the form of reduced rental expenses and a reduction in employees (mostly managers). Overall, we expect group standalone EBIT to come in at PLN53.5m, up 59.6% YoY, in 2008, implying a margin of 8.4%.

We expect 2008 net earnings to come in at PLN43.9m, up 39.1% YoY on an adjusted basis. Our 2008 net earnings forecasts are broadly in line with Asseco Poland's target of PLN45m. Our forecasts are also broadly in line with consensus expectations for 2008. We point out that from 2008 onwards we apply a 19% statutory tax rate, as the tax shield from losses from the former Ster-Projekt has been used up.

P&L account (post merger)

PLNm	2007	2008F	2009F	2010F
Revenue	**467.7**	**633.4**	**3,322.0**	**3,539.9**
%ch	*70.1*	*35.4*	*424.5*	*6.6*
EBITDA	**44.5**	**68.2**	**622.8**	**652.8**
EBIT	**33.5**	**53.5**	**546.9**	**579.3**
%ch	*30.9*	*59.6*	*922.7*	*5.9*
Margin (%)	*7.2*	*8.4*	*16.5*	*16.4*
Pre-tax profit	38.7	54.3	550.9	584.0
Tax and minorities	-5.9	-10.4	-210.4	-223.7
Net profit	32.8	43.9	340.4	360.3
Adjusted net profit	**31.5**	**43.9**	**340.4**	**360.3**
%ch	*195.3*	*39.1*	*675.7*	*5.8*
Margin (%)	*6.7*	*6.9*	*10.2*	*10.2*

Source: Company data, ING estimates

Balance sheet (standalone)

PLNm	2007	2008F	2009F	2010F
Cash	53.1	44.3	60.8	103.6
Inventories	19.5	27.3	28.8	30.2
Trade debtors	233.1	306.2	326.7	345.3
Other current assets	42.8	47.4	48.6	31.9
Total current assets	**348.5**	**425.1**	**464.9**	**511.1**
PPE and intangibles	103.4	104.1	103.8	100.6
Other fixed assets	227.9	233.4	236.3	239.1
Total fixed assets	**331.3**	**337.5**	**340.1**	**339.7**
Total assets	**679.7**	**762.7**	**805.0**	**850.8**
ST debt	18.0	26.5	21.8	20.0
Trade creditors	113.9	151.1	160.5	168.9
Other current liabilities	30.0	40.6	43.3	45.8
Total current liabilities	**161.9**	**218.2**	**225.7**	**234.7**
LT debt	1.0	0.0	0.0	0.0
Other LT liabilities	66.8	80.7	79.7	79.9
Total LT liabilities	**67.8**	**80.7**	**79.7**	**79.9**
Equity	**450.1**	**463.8**	**499.5**	**536.2**
Total liabilities & equity	**679.7**	**762.7**	**805.0**	**850.8**

Source: Company data, ING estimates

Cash flow account (standalone)

PLNm	2007	2008F	2009F	2010F
CF from operations	11.1	17.5	37.9	49.1
CF from investment	4.8	-15.5	-15.5	0.7
CF from funding	4.6	-10.8	-5.9	-7.0
Change in cash	20.5	-8.8	16.5	42.8
Cash last year	32.6	53.1	44.3	60.8
Cash year end	53.1	44.3	60.8	103.6

Source: Company data, ING estimates

Company profile

ABG in its current structure was created as a result of two mergers that had taken place under the auspices of the former Prokom. The first took place in 2005 between the listed Ster-Projekt and the unlisted ABG, creating ABG Ster-Projekt. The second merger, between ABG Ster-Projekt and SPiN, both subsidiaries of the former Prokom, took place in mid-2007, creating ABG SPiN (recently renamed ABG). On 12 May 2008, Asseco Poland and its subsidiary ABG announced a merger plan. As a result of the merger, ABG will no longer be listed, and its current assets will be split into parts and distributed among the Asseco Poland group. The merged entity is to be listed on the WSE from October 2008.

ComArch

Refraining from consolidation

Previously: Hold
Buy

Software and computer services | **Bloomberg: CMR PW**

- **The outlook is for mediocre 2Q08 figures, with earnings growth mostly due to interest on cash.**
- **We upgrade to BUY due to a significant share price fall, with a 12-month DCF-based target price of PLN92.3.**

Investment case

ComArch is concentrated on strengthening its competitive advantage by developing proprietary products in all the business lines in which it operates. We expect ComArch to continue to move towards standardised software, the implementation of which is more efficient as it can be multiplied several times, decreasing the incremental costs.

In order to secure superior growth rates in the medium term, ComArch is continuously investing in exports. Although at first the development was rather chaotic, we see ComArch starting to focus on the Western Europe and US, due to higher margin potential. The biggest emphasis will most likely be put on Germany, where intensification of marketing is planned. We expect exports to constitute 23.4% of sales in 2010 versus 19.5% in 2007.

Despite its favourable market positioning, we believe that ComArch's margins are likely to remain under pressure, mostly due to expected constant pressure on salaries. We believe ComArch will have to speed up moving up the value pyramid, ie, resign from low margin contracts, and reconsider price increases both domestically and abroad (margins are hurt by the strong zloty). We expect the EBIT margin to oscillate around 7% in the years to come.

Apart from the core business, ComArch is likely to seek growth via niche projects. After the sale of Interia, investments are to be carried via a venture capital fund. The first investment is the iMed24 project, but further projects (two) are to come before year end. If successful, these ventures could increase ComArch's competitive advantage and change the growth profile of the company. However, in the short-term, we expect them to mostly generate losses. Inclusion of these losses results in our net earnings forecasts for 2009 onwards being sizeably below consensus.

The wave of M&As has induced ComArch's CEO to change his approach towards purchases. Although the track record is limited, ComArch indicates that some purchases, especially in the actively targeted Western European markets, could materialise this year, as several targets with various characteristics have been approached.

Having fallen some 20% in the last month, ComArch now trades at a 7% discount to peers on 2008F PER and we find the company relatively attractively valued. However, we still see a risk of pressure on margins in the medium term and risk related to upcoming acquisitions (mostly overpayment).

Price (11/07/08)	**PLN67.85**
	Previously: PLN 92.0
Target price (12 mth)	**PLN92.3**

12-month forecast returns (%)

Share price	36.0
Dividend	0.0
12m f'cst total return	**36.0**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	10.5	11.4
Operating margin	7.1	7.5
Net debt/equity	-28.9	-31.4
Adj. ROE	12.1	9.6
Dividend yield	0.0	0.0

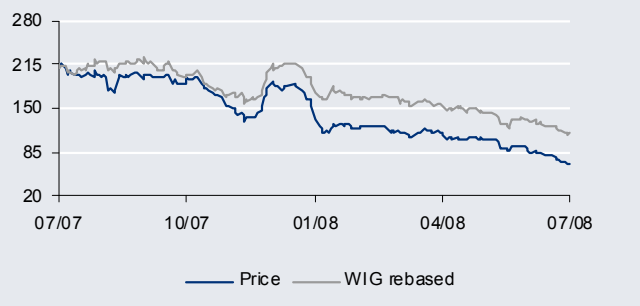
Source: Company data, ING estimates

Share data

No. of shares (m)	8.0
Daily t/o (US$m)	0.4
Free float (%)	57.1
Mkt cap (US$m)	260.8
Mkt cap (PLNm)	540.1

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios (consolidated data)

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	491.6	581.0	660.5	747.2	835.1
EBITDA (PLNm)	58.3	61.1	69.5	85.3	94.6
Net income (PLNm)	52.8	42.8	203.8	52.0	55.7
Adj. net inc. (PLNm)	47.3	43.0	48.8	50.9	54.6
Adj. EPS (PLN)	6.3	5.4	6.1	6.4	6.9
Adj. PER (x)	10.8	12.5	11.1	10.6	9.9
Adj. EV/EBITDA (x)	8.2	8.8	5.2	4.3	3.5
Adj. ROE (%)	22.6	15.4	12.1	9.6	9.4

Source: Company data, ING estimates

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Quarterly preview

ComArch is set to publish its 2Q08 results on 14 August, most likely after market close. We believe that the 2Q08 figures should be mediocre. We forecast revenues to come in at PLN178.1m, up 3.5% YoY, with limited growth due to the strong zloty and lower hardware sales. We expect EBIT to come in at PLN10.1m, down 2.8% due to growth in stock option charges and consolidation of first losses from new projects. With a favourable impact from net financial activity (interest on cash from Interia) and a high effective tax rate (reversal of tax asset), we expect 2Q08 net earnings to come in at PLN8.1m, up 5.3% YoY, and adjusted net earnings at PLN10.8m, up 8.8% YoY.

2Q08 results preview (PLNm)

	2Q07	2Q08F
Revenue	172.0	178.1
EBITDA	14.6	14.9
EBIT	10.4	10.1
Net profit	7.7	8.1
EPS (PLN)	1.0	1.0

Source: ING estimates

Earnings drivers and outlook

We forecast ComArch's group revenues to come in at PLN660.5m, up 13.7% YoY. For 2008 our forecasts are broadly in line with management guidance of 15% YoY growth. However, we do note that the backlog of PLN450.4m (up only 10.3% YoY) at the beginning of 2Q08 is mediocre, partially as a result of the poor export backlog of PLN86.3m (up 4.6% YoY). The coverage ratio stands at 68% for 2008.

In our opinion, counteractive measures undertaken by the company, in the form of: (1) stronger quality control of employees; and (2) cutting down the pace of hiring, could have only a limited positive impact on group profitability in 2008. As a result, our 2008 EBIT margin forecast stands at 7.1%, ie, lower than the 8% level targeted by management (according to the CEO, this is the reported EBIT profitability target), which we find unrealistically high given 1Q08 figures, high stock option charges and likely losses from new ventures. Surprisingly, recently the CEO started cutting the guidance to PLN50m of EBIT, while we forecast 2008 EBIT at PLN46.6m, with adjusted EBIT at PLN52.4m.

On the bottom-line ComArch should benefit from sizeable interest on cash from the sale of Interia and a lower-than-statutory effective tax rate (operations conducted in tax-free Cracow zone). We forecast 2008 reported net earnings at PLN203.8m, up 376.6% YoY, while adjusted net earnings at PLN48.8m, up 13.4% YoY, which translate into an adjusted earnings margin of 7.4% in 2008. Our 2008F earnings estimates are 6.2% below consensus.

In 2008, we expect capital expenditure of more than PLN60m. Some PLN20m was spent on real estate in Lodz, PLN10m on maintenance capex and PLN25m on finishing a third building in the special economic zone (SEZ). In 2009, we expect ComArch to build another building in Cracow.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**581.0**	**660.5**	**747.2**	**835.1**
%ch	*18.2*	*13.7*	*13.1*	*11.8*
EBITDA	**61.1**	**69.5**	**85.3**	**94.6**
EBIT	**44.0**	**46.6**	**56.1**	**61.6**
%ch	*-3.4*	*5.9*	*20.3*	*9.8*
Margin (%)	*7.6*	*7.1*	*7.5*	*7.4*
Pre-tax profit	45.5	243.1	59.8	64.8
Tax and minorities	-2.7	-39.3	-7.8	-9.1
Net profit	42.8	203.8	52.0	55.7
Adjusted net profit	**43.0**	**48.8**	**50.9**	**54.6**
%ch	*-8.9*	*13.4*	*4.2*	*7.3*
Margin (%)	*7.4*	*7.4*	*6.8*	*6.5*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	66.4	244.4	261.5	292.3
Inventories	32.8	37.2	41.9	47.0
Trade debtors	195.3	222.0	251.2	280.7
Other current assets	21.6	12.5	14.2	15.9
Total current assets	**316.1**	**516.2**	**568.8**	**635.9**
PPE and intangibles	218.2	257.5	265.6	267.1
Other fixed assets	24.2	27.0	31.6	36.6
Total fixed assets	**242.4**	**284.5**	**297.2**	**303.7**
Total assets	**558.5**	**800.7**	**866.1**	**939.6**
ST debt	4.9	18.5	22.3	30.1
Trade creditors	135.4	153.8	173.9	194.2
Other current liabilities	27.6	31.2	35.1	39.1
Total current liabilities	**168.0**	**203.5**	**231.3**	**263.4**
LT debt	77.7	80.0	65.0	50.0
Other LT liabilities	12.0	13.0	14.1	15.1
Total LT liabilities	**89.7**	**93.0**	**79.1**	**65.1**
Equity	**300.8**	**504.1**	**555.7**	**611.1**
Total liabilities & equity	**558.5**	**800.7**	**866.1**	**939.6**

Source: Company data, ING estimates;

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	39.2	17.3	62.0	69.2
CF from investment	-59.2	152.6	-27.3	-25.5
CF from funding	25.0	8.1	-17.6	-12.9
Change in cash	5.0	178.0	17.1	30.7
Cash last year	61.4	66.4	244.4	261.5
Cash year end	66.4	244.4	261.5	292.3

Source: Company data, ING estimates

Company profile

ComArch is a diversified software house operating domestically and actively targeting exports. Key export markets include Western Europe and the US. ComArch operates in the following sectors: banking and finance, telco, trade and services, industry and public administration. Following the sale of Interia (internet portal), ComArch is looking to develop new ventures. The founders are the key shareholders of the company, with Mr Filipiak the CEO of ComArch. The company is increasingly evolving into a 'family enterprise', with the CEO's children involved in daily operations. The headquarters are located in a special economic zone in Cracow where three buildings (four to be completed by year end) are located. ComArch also has a stake in a football club.

Comp Safe Support

Attractively priced

Maintained
Buy

Software and computer services | **Bloomberg: CMP PW**

- **The outlook is for seasonally weak 2Q08 figures. Majority of forecast earnings to materialise in 4Q.**
- **We maintain our BUY rating with a 12-month DCF-based target price of PLN97.0.**

Investment case

We forecast Comp group revenues to grow at a 2007-10 CAGR of 23.3% (ie, faster than the market), as a result of organic growth and the full-year consolidation of new assets. We forecast a 2007-10 CAGR for organic growth of 6.9%, which we expect to originate from the forecast increase in demand for security solutions and services. We believe that Comp is very well positioned to benefit from forecast growth in outlays in security and services areas.

The most important factor influencing the group revenues and EBIT is the merger with CSS. We view the merger favourably. Although few cost synergies will be realised, the merger strengthens the competitive position of both companies. We expect the merger to generate PLN2m in revenue synergies from 2008 onward, due to the cross-selling of solutions. Our estimate is below Comp's forecast of an extra PLN12-13m in sales leading to a PLN5m additional margin, leaving upside potential.

Although we forecast an adjusted 2007-10 CAGR of net earnings of 18.3%, the 2007-10 CAGR of EPS remains low at 3.1%, as the forecast fall in EPS in 2008 is caused by EBIT margin dampening, due to the need to consolidate the seasonally poor 9M of the former CSS (in 2007 only the seasonally strong part of CSS's earnings were consolidated, despite the merger shares appearing in mid-December).

Comp is currently streamlining its capital group by creating competence centres with distinct leaders in security (both qualified and corporate), trade and services. We view these actions positively, as they could enable entry of a potential strategic investor and could help in future acquisitions.

However, the recent M&A developments, eg, a reverse takeover of Elzab (competitor of Novitus, Comp's subsidiary) by Exorigo and Upos point to some problems with delivering on acquisitions. Comp, together with its Novitus subsidiary, have several acquisition targets and Comp plans to strengthen each of the new units, with acquisitions in the trade/retail segment set to be first (probably using the shares that the Novitus subsidiary has in Comp).

Trading at a 2008F PER of 10.7x, with a 9.8% discount to the sector average, we consider Comp attractively priced. We believe a lower discount is warranted, due to the company's high profitability compared to peers. However, we believe that sentiment towards the stock is likely to remain mediocre due to strong earnings seasonality.

Price (11/07/08)	**PLN59.1**
	Previously: PLN 96.7
Target price (12 mth)	**PLN97.0**

12-month forecast returns (%)

Share price	64.2
Dividend	0.0
12m f'cst total return	**64.2**

Source: ING

Key ratios (%)

	2007	2008F
EBITDA margin	17.0	12.5
Operating margin	14.7	11.3
Net debt/equity	3.0	-0.3
Adj. ROE	10.9	9.1
Dividend yield	0.0	0.0

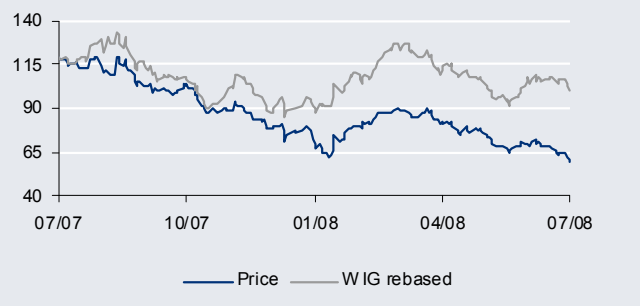
Source: Company data, ING estimates

Share data

No. of shares (m)	4.7
Daily t/o (US$m)	0.07
Free float (%)	74.1
Mkt cap (US$m)	135.5
Mkt cap (PLNm)	280.6

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios (consolidated data)

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	137.5	180.3	281.1	310.4	337.6
EBITDA (PLNm)	25.1	30.6	35.2	41.2	47.0
Net income (PLNm)	13.5	23.2	26.2	30.8	34.7
Adj. net inc. (PLNm)	10.8	20.8	26.2	30.8	34.7
Adj. EPS (PLN)	3.9	6.7	5.5	6.5	7.3
Adj. PER (x)	15.1	8.9	10.7	9.1	8.1
Adj. EV/EBITDA (x)	7.4	5.7	6.7	5.5	5.2
Adj. ROE (%)	11.4	10.9	9.1	9.7	10.0

Source: Company data, ING estimates

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Quarterly preview

Comp is to publish its 2Q08 results on 13 August, most likely after market close. The results should be seasonally weak and lack comparability, due to changes in group structure (the consolidation of Novitus took place via full-method 2Q07 and equity in 2Q08; 2Q08 figures show the merged entity). We expect group sales of PLN54.7m, up 57.4% YoY, with dynamics resulting from merger with CSS and a shift in contract recognition from 1Q08. Despite having reduced HR costs, the cost base remains high, which coupled with losses at the Pacomp subsidiary, BEP at Safe Computing and changes in group structure, should result in 2Q08 EBIT coming at PLN0.9m, down 76% YoY. Including Novitus' minority income and higher-than-effective tax rate, we forecast earnings of PLN0.9m, down 44.5% YoY.

2Q08 results preview (PLNm)

	2Q07	2Q08F
Revenue	34.8	54.7
EBITDA	4.4	2.6
EBIT	3.6	0.9
Net profit	1.6	0.9
EPS (PLN)	0.6	0.2

Source: ING estimates

Earnings drivers and outlook

We forecast 2008 revenues to come in at PLN281.1m, up 55.9% YoY, with a sizeable part of the growth coming as a result of the merger with CSS being visible for the whole year. The parent company should be the biggest revenue contributor, with sales reaching PLN245.0m, up 91.4% YoY, generated from contracts for security solutions and service oriented CSS. The second biggest contributor should be Safe Computing, which specialises in corporate security.

We expect Comp's consolidated EBIT margin to remain at lower levels in 2008 vis-à-vis the 2007 peak. The fall in margin results from the lower-margin CSS operations being consolidated through the whole year. Consequently, we forecast the group EBIT margin to fall to 11.3% in 2008 versus 14.7% in 2007. As with revenues, we expect the parent company to be the biggest EBIT contributor, due to high-margin proprietary solutions and the volume of services sales. We also assume that cooperation with the army and revenue synergies will gradually start to materialise. The second biggest EBIT contributor should be Safe Computing, followed by Enigma. We expect that only Pacomp, the production company, will end 2008 in the red.

We forecast a 2007-10 CAGR of adjusted net earnings of 18.5%. Our forecasts are in line with management's expectations of double-digit adjusted net earnings growth in 2008. We point out that the forecast fall in EPS in the 2008 results, caused by EBIT margin dampening, is due to the need to consolidate the seasonally poor 9M of the former CSS, while in 2007 only the seasonally strong part of CSS's annual earnings were consolidated, despite the merger shares appearing in mid-December.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**180.3**	**281.1**	**310.4**	**337.6**
%ch	*31.1*	*55.9*	*10.4*	*8.7*
EBITDA	**30.6**	**35.2**	**41.2**	**47.0**
EBIT	**26.5**	**31.6**	**37.5**	**42.7**
%ch	*43.4*	*19.5*	*18.6*	*13.8*
Margin (%)	*14.7*	*11.3*	*12.1*	*12.7*
Pre-tax profit	29.6	32.2	38.0	42.9
Tax and minorities	-6.4	-6.1	-7.2	-8.2
Net profit	23.2	26.2	30.8	34.7
Adjusted net profit	**20.8**	**26.2**	**30.8**	**34.7**
%ch	*93.5*	*25.5*	*17.7*	*12.7*
Margin (%)	*11.6*	*9.3*	*9.9*	*10.3*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	27.7	24.7	36.3	54.8
Inventories	16.8	14.8	16.3	17.6
Trade debtors	138.4	185.9	210.0	228.3
Other current assets	7.8	12.2	13.5	14.6
Total current assets	**190.8**	**237.6**	**276.0**	**315.4**
PPE and intangibles	21.2	27.3	31.9	36.6
Other fixed assets	194.6	196.0	196.5	196.9
Total fixed assets	**215.8**	**223.3**	**228.4**	**233.5**
Total assets	**406.5**	**460.9**	**504.4**	**548.9**
ST debt	17.5	9.0	13.3	13.4
Trade creditors	59.0	78.7	86.9	94.5
Other current liabilities	16.9	26.4	29.1	31.6
Total current liabilities	**93.4**	**114.0**	**129.3**	**139.6**
LT debt	18.5	14.8	8.9	5.3
Other LT liabilities	20.3	31.7	35.0	38.0
Total LT liabilities	**38.8**	**46.4**	**43.8**	**43.3**
Equity	**274.3**	**300.4**	**331.2**	**365.9**
Total liabilities & equity	**406.5**	**460.9**	**504.4**	**548.9**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	14.3	18.8	21.4	30.9
CF from investment	-50.5	-9.6	-8.3	-9.0
CF from funding	38.9	-12.2	-1.6	-3.4
Change in cash	2.7	-3.0	11.6	18.5
Cash last year	25.0	27.7	24.7	36.3
Cash year end	27.7	24.7	36.3	54.8

Source: Company data, ING estimates

Company profile

Comp Safe Support is an IT company with a broad range of security-related products and services, both in qualified (contracts with governmental institutions) and corporate security (software- and hardware-based solutions), targeted to telecom, banking and industry customers. After the merger with CSS in December 2007, Comp obtained exposure to the services segment (outsourcing, servicing etc), while via the acquisition of a controlling stake in Novitus it gained a diversification into the trade market (eg, cash registers and software for retail networks). The company's operations are run domestically and exports are not actively targeted.

Sygnity

Awaiting profitability

Maintained
Buy

Software and computer services | **Bloomberg: SGN PW**

- **The outlook is for mediocre 2Q08 figures, albeit fulfilling management's guidance of EBIT breakeven.**
- **We maintain our BUY rating with a 12-month target price of PLN30.5 (previously PLN30.8).**

Investment case

We believe Sygnity will continue to concentrate on improving its cash position. After December 2007's SPO, management focused on the divestiture of non-core assets for a total PLN51m. Despite the promised PLN50-60m in proceeds having been achieved, further sales are likely, with management aiming for at least PLN20m in additional inflows. We believe Sygnity wishes to cut down on debt usage, while an agreement for medium-term bank financing should be signed within the next few weeks.

Any progress on cost restructuring is likely to face scrutiny. Actions undertaken encompass: HR cuts (500 people laid off) and non-HR reductions. The steps that follow will most likely concentrate on improving the quality of contracts possessed and internal consolidation, due to the large number of subsidiaries. However, given ongoing pressure on salaries, we doubt the official target of PLN75m of annual cost reductions from 2009 will prove achievable.

We believe the share price is unlikely to rebound until management regains market credibility after the very poor 1Q08 figures. To some extent, this could happen with the 2Q08 figures, should the EBIT breakeven target be achieved. The market also doubts that the ambitious guidance of a 3-4% 2008 EBIT margin will be achieved, even though this includes gains from the sale of non-core assets. Still, 4Q08 figures will be crucial to the 2008 figures.

With the liquidity and cost restructuring mostly under control, we believe Sygnity's management will wish to concentrate on the growth of the company. Strategic cooperation with Microsoft has recently been announced, but more actions could follow. Due to internal problems after the merger, Sygnity has not participated in consolidation, thus losing market share. We believe that only small M&A transactions are likely to materialise over the coming years.

We believe the company could resume the payment of dividends, suspended in 2007 (due to liquidity issues), from 2009 earnings, should the restructuring prove successful. However, dividends are unlikely to be paid from 2008 earnings, due to the need to buy out PLN50m of bonds.

Sygnity trades in line with its peers on 2008F PER but at a 47.4% discount on 2009F PER. We believe it deserves to trade at higher multiples due to the scale of improvement that restructuring should bring from 2009 onwards, as well as the stabilising cash position.

Price (11/07/08)	**PLN16.1**
	Previously: PLN30.8
Target price (12 mth)	**PLN30.5**

12-month forecast returns (%)

Share price	89.4
Dividend	0.0
12m f'cst total return	**89.4**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	5.8	6.8
Operating margin	1.6	2.9
Net debt/equity	5.0	-2.0
Adj. ROE	0.3	1.6
Dividend yield	0.0	0.7

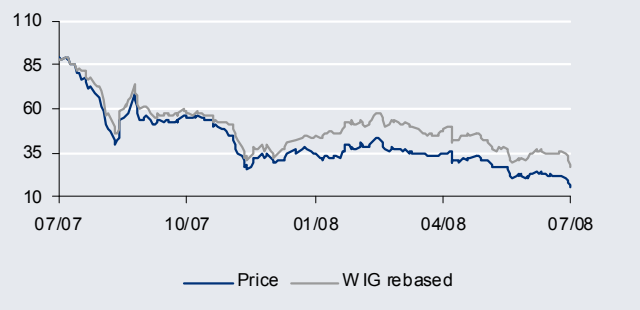
Source: Company data, ING estimates

Share data

No. of shares (m)	11.9
Daily t/o (US$m)	0.5
Free float (%)	91.4
Mkt cap (US$m)	84.1
Mkt cap (PLNm)	191.4

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios (consolidated data)

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	927.1	1,265.8	1,278.3	1,310.2	1,372.2
EBITDA (PLNm)	55.1	(13.3)	74.7	88.5	112.2
Net income (PLNm)	(27.6)	(62.3)	11.5	27.1	47.3
F. adj. net inc. (PLNm)	3.2	(66.2)	16.2	37.6	57.6
F. adj. EPS (PLN)	0.5	(7.0)	1.4	3.2	4.8
F. adj. PER (x)	35.7	N/M	11.8	5.1	3.3
F. adj. EV/EBITDA (x)	19.8	N/M	4.2	2.4	1.4
F. adj. ROE (%)	-2.3	-5.2	0.3	1.6	2.6

Source: Company data, ING estimates; fully adjusted for additional deprec.

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Quarterly preview

Sygnity is due to publish 2Q08 results on 12 August, most likely after market close. We believe management should meet its aim of breaking even at the EBIT level, helped by one-offs. We expect 2Q08 revenues of PLN341.6m, down 5% YoY, despite large hardware contracts in both quarters, due to the disposal of selected assets. We forecast EBIT to come in at PLN6.2m in 2Q08 versus a PLN28.6m loss in 2Q07. The improvement should result from: (1) an expansion in the gross margin from 9.2% in 2Q07 to 12.7% in 2Q08; (2) PLN7.5m in one-offs on the sale of GIS assets; and (3) employee lay-offs. Assuming a negative impact of net financial activity (growing interest charges) but a lower than statutory effective tax rate, we forecast net earnings at PLN2.9m in 2Q08 versus a loss of PLN20.4m in 2Q07.

PLNm	2Q07	2Q08F
Revenue	358.4	341.6
EBITDA	(16.7)	18.9
EBIT	(28.6)	6.2
Net profit	(20.4)	2.9
EPS (PLN)	(2.5)	0.2

Source: ING estimates

Earnings drivers and outlook

We forecast Sygnity group revenues to come in at PLN1,278.3m in 2008, flat YoY, with limited organic growth, due to the company concentrating on higher-margin maintenance and upgrade revenues at recurring customers rather than new contracts. We believe the public administration should remain the key revenue contributor, followed by banking and industry and utilities. The backlog at the beginning of 3Q08 of PLN690m offers 54.5% coverage of our 2008 sales forecast.

We believe that 2008 should show some margin recovery at Sygnity after the disastrous 2007. We expect Sygnity's operating margins to improve as a result of: (1) higher-quality services contracts; and (2) the benefits of the cost-cutting programme. We forecast a gross margin of 16.2% in 2008 vs 11.9% in 2007 due to low-margin former ComputerLand contracts ending. Incorporating PLN36.9m of cost reductions, we forecast the EBIT margin at 1.6% (with one-offs), leaving upside to management's – in our view – ambitious guidance for a 2008 EBIT margin of 3-4% (including gains from the sale of non-core assets).

We forecast PLN11.5m in net earnings in 2008 (up on our previous forecast due to the inclusion of PLN7.5m in one-offs), a strong improvement on the PLN62.3m loss generated in 2007. We believe downside risk to our forecasts comes from further pressure on salaries and limited improvements in contract quality. We remain significantly below consensus estimates, which – contrary to the stock price – we believe have not adjusted to take account of the higher cost base. Upside risk comes from the possibility of a stronger positive impact from cost restructuring. We do not forecast any minor acquisitions.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**1,265.8**	**1,278.3**	**1,310.2**	**1,372.2**
%ch	*36.5*	*1.0*	*2.5*	*4.7*
EBITDA	**(13.3)**	**74.7**	**88.5**	**112.2**
EBIT	**-69.0**	**20.7**	**38.6**	**62.0**
%ch	*N/M*	*N/M*	*86.4*	*60.7*
Margin (%)	*-5.4*	*1.6*	*2.9*	*4.5*
Pre-tax profit	(81.8)	11.6	33.6	58.6
Tax and minorities	19.5	(0.2)	(6.6)	(11.3)
Net profit	(62.3)	11.5	27.1	47.3
Fully adj. net profit	**(66.2)**	**16.2**	**37.6**	**57.6**
%ch	*N/M*	*N/M*	*132.3*	*52.9*
Margin (%)	*-5.2*	*1.3*	*2.9*	*4.2*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	51.3	57.5	52.4	96.1
Inventories	71.6	69.8	71.0	74.0
Trade debtors	340.8	345.5	355.4	373.6
Other current assets	80.2	80.9	82.7	86.2
Total current assets	**544.0**	**553.7**	**561.5**	**629.8**
PPE and intangibles	133.9	121.2	115.0	111.3
Other fixed assets	184.6	184.8	185.4	186.6
Total fixed assets	**318.5**	**306.0**	**300.4**	**297.9**
Total assets	**862.4**	**859.7**	**861.9**	**927.7**
ST debt	169.9	86.6	53.1	55.8
Trade creditors	182.4	207.0	211.5	220.8
Other current liabilities	66.1	66.7	68.3	71.5
Total current liabilities	**418.4**	**360.3**	**332.9**	**348.1**
LT debt	0.7	0.7	0.7	0.7
Other LT liabilities	96.7	97.6	100.0	104.6
Total LT liabilities	**97.4**	**98.4**	**100.7**	**105.3**
Equity	**346.6**	**401.0**	**428.2**	**474.4**
Total liabilities & equity	**862.4**	**859.7**	**861.9**	**927.7**

Source: Company data, ING estimates;

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	-6.9	99.6	72.2	88.7
CF from investment	-6.4	-41.2	-43.8	-46.4
CF from funding	4.8	-52.2	-33.5	1.3
Change in cash	-8.5	6.2	-5.1	43.6
Cash last year	59.8	51.3	57.5	52.4
Cash year end	51.3	57.5	52.4	96.1

Source: Company data, ING estimates

Company profile

Sygnity was created through the merger of former ComputerLand and former Emax. Its business model is largely based on integration services, backed up by proprietary applications. The company operates in four key areas: banking and finance, public administration (including the health segment), general business and telecommunications. It has limited foreign exposure, with exports sales coming from small contracts from Russia and Lithuania. Following the December 2007 SPO, the company is recovering from earlier liquidity problems. Sygnity is also continuously selling non-core assets, with PLN51m of proceeds achieved so far, so as to cut down on debt usage. The company has a sizeable 91.4% free float, with the remaining shares in the hands of the BBI private equity fund, and could become a takeover target.

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Mining and metals

KGHM

Dollar against copper

Maintained
Buy

Mining **Bloomberg: KGH PW**

- **We cut our target price by 4% following our new set of assumptions on FX and the prices of metals.**
- **The stock trades at a 48% discount to peers based on its 2008F mining PER of 4.4x, which in our view is excessive. We reiterate BUY.**

Investment case

KGHM is one of few safe harbours on the turbulent sea of Polish equities, with supportive high dividends, strong copper prices and none of the cost issues that trap many other copper companies. However, the zloty's strength injects uncertainty into the future direction of any change in company guidance, and prevents KGHM narrowing its discount in valuation to peers.

A number of longer-term issues may affect the supply of copper. While many are not new, some have deteriorated further in the last few months. The key concerns revolve around: (1) an increasing reliance on exotic locations for future reserves; (2) an expected decline in average grade from 1.1% currently to 0.85% in the long-term; (3) the need to move underground, as by 2020 50% of mining output will come from underground mining compared with 26% now; (4) labour issues; and (5) project delays. The ICSG estimates a copper surplus of 85,000t this year (0.5% of demand) and 429,000t in 2009 (2.2% of demand). However, the market has consistently understated supply disruptions. We believe that disruptions over the next few years could reach 5-6% a year, which would imply a shortfall of 900,000-1mtpa this year and potentially in subsequent years. We now believe that mine production could be fall by as much as 985,000t, or 6%, this year as forecast at the beginning of the year. In turn, this could lead to a substantial refined copper deficit of as much as 875,000t compared with previous assumptions of a surplus of 85,000-111,000t (International Copper Study Group, GFMS-Metals Consulting). These two groups forecast an increase in demand this year of 695,000-956,000t, equivalent to an increase of 3.8-5.2%. Even if we assumed flat demand globally this year, this could still therefore leave an implied deficit for the year.

We have recently increased our copper price forecasts for 2008 and 2009 by 4% to US$8,300/t and 14% to 8,700/t respectively. We lower our 2008F US dollar assumption by 3% to PLN2.15. Going forward we have decide to use a flat PLN/US$ rate of 2.00 although our house view is that the US dollar should strengthen against the zloty starting in 2009. This implies a 17% lower US dollar rate for 2009 vs our previous assumption. As a result we cut our 2008F and 2009F net profit estimates by 4% and 14% respectively. Due to our very conservative set of assumptions for the US dollar we cut our 12-month target price to PLN129. Our target price is based on SOTP, 2008F mining PER of 6.8x and 2008F mining EV/EBITDA of 3.4x and the multiples imply 20% discount to median multiples for copper peers.

Price (11/07/08)	**PLN99.4**
	Previously PLN138
Target price (12 mth)	**PLN129**

12-month forecast returns (%)

Share price	30.0
Dividend (2008F)	7.7
12m f'cst total return	**37.7**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	37.1	38.5
Operating margin	32.4	33.2
Net debt/equity	(33.3)	(38.0)
DPS (PLN)	7.65	7.78
Dividend yield	7.7	7.8

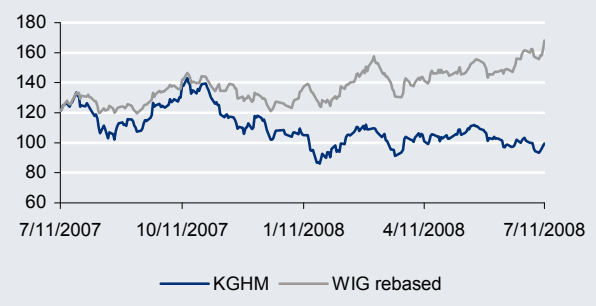
Source: Company data, ING estimates

Share data

No. of shares (m)	200
Daily t/o (US$m)	33
Free float (%)	55
Mkt cap (US$bn)	9.7
Mkt cap (PLNbn)	19.9

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios

Year to Dec	2006	2007	2008F	2009F	2010F
Turnover	11,709	12,183	10,920	10,666	8,439
EBITDA	4,566	5,104	4,048	4,104	3,675
Net profit	3,386	3,799	3,084	3,128	2,783
EPS, (PLN)	16.93	18.99	15.42	15.64	13.91
PER, (x)	5.9	5.2	6.4	6.4	7.1
Mining PER (x)	5.1	4.4	5.3	5.3	6.0
EV/EBITDA, (x)	3.9	3.4	4.2	3.9	4.1
Mining EV/EBITDA (x)	3.1	2.6	3.2	2.9	3.0

Source: Company data, ING estimates

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Quarterly preview

KGHM reports 2Q08F results on 14 August. Focus will be on costs following a profit warning from management. We forecast a 7% rise, both YoY and QoQ, in copper unit production costs to PLN11,805/t on the basis of changes in the cost of electricity, wages and copper inputs of 10%, 8% and 5% respectively. We forecast a 10% YoY drop in copper sales volumes to 130k tonnes, due to the high base of 2Q07 (unchanged QoQ). If our net profit estimate materialises KGHM will comfortably realise 61% of its annual guidance after 1H08.

2Q08F results preview (unconsolidated)

PLNm	2Q07	2Q08F
Revenue	3,217	2,906
EBITDA	1,270	1,055
EBIT	1,166	939
Net profit	930	788

Source: ING estimates

Earnings drivers and outlook

KGHM plans to update its earnings guidance in August. Management indicated that there are possible issues with raw material and electricity costs impacting the company's costs base and, together with a strong zloty, offsetting the benefits of visibly stronger copper prices. For its current guidance management assumed unit copper production costs of PLN12,455/t and in 1Q08 unit copper production costs were comfortably lower at PLN11,062/t. The average ytd copper price of PLN18,230/t remains 3% above management's forecast of PLN17,750/t. Wages, which made up 34% of total operating expenses in 1Q08, are expected to increase by 8% this year including benefits and bonuses. Unions recently made claims for wage increases, but we believe management is unlikely to increase wages more than 8% this year. Costs of copper scrap and imported concentrate made up 19% of operating costs in 1Q08. These costs should be lower in 2H08 as KGHM aims to boost the output of its own copper concentrate as the strong zloty reduces these costs. Management stated that electricity is the only cost element that could increase by double-digit rates ie, by c.10% to PLN550m this year.

KGHM needs to resolve two rather serious production problems: (1) a decline in ore richness; and (2) closure of mines on Sunday. The content of copper in ore fell to a record low of 1.6% in 1Q08, from 1.72% in 1Q07, and we understand it is going to take the miners at least two quarters to increase the copper content in the ore. Company discretion over the high-grading of deposits is limited given the underground nature of mines. In order to open mines on Sunday management is considering various options inter alia outsourcing of production, which is the solution that has been adopted by some coal mines in Poland. We would view a solution to these output issues as a potential share price catalyst, in addition to delivery on earnings expectations, hefty dividends and the strong prices of metals.

A correction in the copper price and an appreciation of the zloty vs US$ are two major risk factors to our bullish case for KGHM. Management estimates that a 2% zloty appreciation (PLN0.05) vs US$ would wipe out PLN182m of gross profit, while a decline in copper prices of US$100/t, or 1.5%, would reduce gross profit by PLN105m.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**12,183**	**10,920**	**10,666**	**8,439**
%ch	*4*	*-10*	*-2*	*-21*
EBITDA	**5,104**	**4,048**	**4,104**	**3,675**
%ch	*12*	*-21*	*1*	*-10*
Margin (%)	*41.9*	*37.1*	*38.5*	*43.5*
EBIT	**4,682**	**3,540**	**3,542**	**3,065**
Pre-tax	4,829	3,807	3,862	3,436
Tax	(918)	(723)	(734)	(653)
Minorities	0	0	0	1
Net profit	**3,799**	**3,084**	**3,128**	**2,783**
%ch	*12*	*-19*	*1*	*-11*
Margin (%)	*31.2*	*28.2*	*29.3*	*33.0*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	2,535	3,442	4,529	5,484
Other current assets	2,457	2,377	2,278	1,685
otal current assets	4,992	5,818	6,807	7,169
PPE	**4,833**	**5,310**	**5,814**	**6,121**
Goodwill	0	0	0	0
Intangibles	75	55	59	62
Other fixed assets	2,479	2,479	2,479	2,478
Total fixed assets	**7,387**	**7,844**	**8,352**	**8,662**
Total assets	**12,379**	**13,662**	**15,159**	**15,832**
ST debt	9	9	9	9
Other cur liabilities	1,965	1,965	1,864	1,310
Total current liabilities	**1,974**	**1,974**	**1,872**	**1,318**
LT debt	20	20	20	20
Other LT liabilities	1,419	1,419	1,419	1,419
Total LT liabilities	**1,439**	**1,439**	**1,439**	**1,439**
Minorities	0	0	0	1
Equity	**8,966**	**10,250**	**11,848**	**13,074**
Total liabilities & equity	**12,379**	**13,662**	**15,159**	**15,832**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	3745	3405	3368	3061
CF from investment	(941)	(965)	(1070)	(920)
CF from funding	(2722)	(1533)	(1210)	(1186)
Change in cash	82	907	1087	955
Cash last year	2,453	2,535	3,442	4,529
Cash year end	2,535	3,442	4,529	5,484

Source: Company data, ING estimates

Company profile

KGHM was the 9th-largest producer of copper and the 3rd-largest producer of silver in the world in 2007 producing 533k tonnes of copper and 1,215 tonnes of silver. KGHM possesses its own copper ore deposit and its own integrated production structure, comprising three mines, two copper smelters, a wire rod plant and auxiliary units supporting the core business. The company also owns a 100% stake in Dialog, the third-largest fixed telephony company in Poland and a 20% stake in Polkomtel, country second largest mobile operator.

Stalprodukt

Record high profits in 2Q08

Maintained
Buy

Steel & other metals **Bloomberg: STP PW**

- **We reiterate our BUY rating on processed steel manufacturer Stalprodukt, but lower our DCF-based target price due to a downward revision of profit margins beyond 2008 as well as lower peer valuation.**
- **Despite a more conservative approach to the company's profit margins, we believe that attractive valuations, expectations of record high profits in 2Q08 and 2008 and the capacity expansion from 2009 justify our positive view on the company.**

Investment case

Stalprodukt has managed to offset a 10% YoY appreciation of the PLN vs the € in 1H08F with increased revenues from steel profiles and other goods segments. As 40% of its revenues are euro-denominated, this was perceived as one of the major threats to the company. We expect record high revenues and profits in 2Q08 following an approximate 15% YoY increase in steel profile prices, higher steel profile volume sales by 4,000 tonnes YoY and revenue recognition from steel service centres. Prices of hot rolled coils, the major raw material used by Stalprodukt, have increased by around 30% YTD. Despite enormous price increases, demand for steel profiles has remained at 2007 levels in 1H08.

The company's PLN600m capex programme, which aims to increase capacity in steel profiles and transformer steel has been delayed by several months as a result of technical difficulties in the technologically advanced programme, and should now be completed in 1Q09. Processing capacities in the transformer segment will then grow by another 67% to 100,000 tonnes annually. Following more conservative assumptions, we expect gross margins in this segment to decline from 58% in 2007 to 45% in 2009. We expect Stalprodukt to increase volume sales in transformer steel from 60,000 tonnes in 2008 to 90,000 tonnes in 2009.

Considering the lack of local peers, we compare Stalprodukt with global peers. Stalprodukt trades at 2008F and 2009F PERs of 9.5x and 8.5x, respectively, the latter implying a 3% discount to peers. We consider the discount unjustified given the company's focus on promising niche segments in the steel industry and apply a 10% premium to its peers.

We have decreased our gross margin forecasts for Stalprodukt's transformer steel segment from 50% in 2009 and 2010 to 45% and 40%, respectively, and to 35% going forward. In 2008, we expect a gross margin of 53%. We have increased the equity premium from 4.5% to 5%.

The main risk factors for our recommentaion are steel and €/PLN price movements (see earnings drivers and outlook).

Price (11/07/08)	**PLN530**
	Previously: PLN958
Target price (12 mth)	**PLN661**

12-month forecast returns (%)

Share price	24.7
Dividend	2.3
12m f'cst total return	**26.9**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	24,2	22,2
Operating margin	22,7	20,4
Net debt/equity	(21,1)	(28,3)
DPS (PLN)	12,0	11,1
Dividend yield	2,3	2,1

Source: Company data, ING estimates

Share data

No. of shares (m)	6.7
Daily t/o (US$m)	0.5
Free float (%)	41
Mkt cap (US$m)	1,739
Mkt cap (PLNm)	3,564

Source: Company data, ING estimates

Share price performance

Source: Bloomberg

Forecasts and ratios

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	1,312	1,630	1,987	2,463	2,665
EBITDA (PLNm)	359	451	481	547	550
Net income (PLNm)	274	350	374	419	425
EPS (PLN)	40.71	52.06	55.55	62.37	63.26
PER (x)	13.0	10.2	9.5	8.5	8.4
EV/EBITDA (x)	9.7	7.6	7.0	5.9	5.6
P/BV (x)	6.2	4.3	3.2	2.4	2.1
ROE (%)	60.6	50.0	38.3	32.4	26.6

Source: Company data, ING estimates

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Quarterly preview

Stalprodukt is due to post its 2Q08 results on 14 August. We expect a 14% YoY increase in revenues and flat net profit, following a c.13% YoY increase in steel structure prices and a simultaneous 10% YoY decline in the €/PLN exchange rate.

We forecast a 17.3% QoQ increase in revenues following a 20% price increase in steel sections and an additional PLN60m of revenues from the low-margin service centre business. Price increases will offset a 4.6% QoQ appreciation of the PLN vs the €. The transformer steel segment should report almost flat QoQ revenues, while we expect steel sections sales to increase by 8% QoQ.

We expect net profit to reach PLN100.6m (up 6% QoQ but flat YoY). The expansion of the company's business into lower-margin segments should result in a decline in the net margin from 23.6% in 2Q07 to 20.7% in 2Q08.

2Q08 results preview

PLNm	2Q07	2Q08F
Revenue	425	485.6
EBITDA	130.3	132.6
EBIT	124.3	126.3
Net profit	100.4	100.6
EPS (PLN)	14.9	15.0

Source: ING estimates

Earnings drivers and outlook

Prices of hot rolled coils have reached historical highs in 1H08. Depending on the raw material, increases range from 20% to 40% YTD. Prices for hot rolled coils for steel structures processing have increased from €500 per tonne in January 2008 to €700 per tonne at the beginning of July 2008. Despite sharp price increases, demand for steel profiles remains strong, and should steel profiles prices remain at current levels, we believe Stalprodukt will be in a position to show 8% EPS growth in 2008. In 2007, prices of steel structures peaked at the end of 2Q07 and declined steadily in 3Q07 and 4Q07. Our forecasts are based on flat steel prices throughout 2H08. Should steel prices continue to grow in the next few months, this would be positive for Stalprodukt, as the company has historically profited from price increases. Stalprodukt would then be in a position to exceed our PLN374m net profit forecast for 2008.

As 40% of the company's revenues are euro-denominated, significant movements in the €/PLN exchange rate have an impact on its top line. Currency movements do not affect profitability, as Stalprodukt hedges naturally (raw material supplies purchases are conducted in foreign currencies), but they do inevitably lead to a decline in gross profit in nominal terms. Currency appreciation primarily affects the transformer steel segment, which recognises 75% of revenues in euros. As a result, 1H08F revenues in transformer steel declined by 7% YoY, although volumes have remained flat. A depreciation of the PLN versus the € even over a short time frame improves Stalprodukt's profitability and would be a trigger for the share price.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**1,630**	**1,987**	**2,463**	**2,665**
%ch	*24.3*	*21.9*	*24.0*	*8.2*
EBITDA	**451**	**481**	**547**	**550**
EBIT	**427**	**451**	**503**	**502**
%ch	*26*	*6*	*12*	*0*
Margin (%)	*26*	*23*	*20*	*19*
Pre-tax profit	434	461	518	525
Tax	-83	-88	-98	-100
Minorities	0	0	0	0
Net profit	**350**	**374**	**419**	**425**
%ch	*28*	*7*	*12*	*1*
Margin (%)	*21*	*19*	*17*	*16*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	192	265	444	589
Goodwill				
Other current assets	372	467	587	642
Total current assets	**564**	**732**	**1,031**	**1,231**
PPE	541	689	787	870
Intangibles	1	1	1	1
Other fixed assets	11	11	11	11
Total fixed assets	**553**	**701**	**800**	**882**
Total assets	**1,116**	**1,433**	**1,830**	**2,114**
ST debt	14	14	14	14
Other current liabilities	163	206	258	284
Total current liabilities	**176**	**219**	**272**	**297**
LT debt	14	14	14	14
Other LT liabilities	96	96	96	96
Total LT liabilities	**110**	**110**	**110**	**110**
Minorities	2	2	2	2
Equity	**828**	**1,124**	**1,469**	**1,726**
Total liabilities & equity	**1,116**	**1,456**	**1,853**	**2,136**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	326	341	381	421
CF from investment	(227)	(167)	(128)	(107)
CF from funding	(91)	(77)	(75)	(168)
Change in cash	8	96	178	145
Cash last year	161	192	265	444
Cash year end	169	265	444	589

Source: Company data, ING estimates

Company profile

Stalprodukt is the third-largest manufacturer in Europe of grain-oriented electrical steel, the main material used in the construction of distribution and power transformers. Stalprodukt is also among the top ten Polish steel distributors and controls 50% of the Polish road guard rails market. Stalprodukt is set to finish its PLN600m 2007-08 capacity expansion programme in 1Q09 and, as a result, should become a top 10 transformer steel manufacturer worldwide.

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Oil and gas

Lotos Group

Still bullish on long-term outlook

Maintained
Buy

Oil&Gas **Bloomberg: LTS PW**

- **We maintain our BUY recommendation on Lotos Group with a TP of 47.9.**
- **Lotos Group is now trading at 2008F EV/EBITDA of 3.2x, well below the market median of 4.6x. Our DCF also suggests undervaluation**
- **We still like the company's long-term strategy – the top element is the upgrade of the Gdansk refinery by 2011. Lotos seeks upstream opportunities and plans to buy out the state from Petrobaltic**
- **We believe investors underestimate the long-term earnings potential of Lotos Group, driven by the upgrade programme and the potential upstream investments.**

Investment case

We maintain our bullish stance on Lotos Group with a TP of PLN 47.9 based on our DCF model. The current valuation also suggests some upside in Lotos: the stock is trading at 2008F EV/EBITDA of 3.2x vs the market median of 4.6x.

The top story at Lotos Group is the upgrade of the Gdansk refinery, known as the 10+ programme. Lotos plans to boost capacity of Gdansk to 10.5m tons, increasing the middle distillate yield from 43% to 55%. The upgrade of the refinery can be finished by 2011. Lotos develops the wholesale, logistics and retail network parallel with a refinery upgrade.

The company is also planning to invest into different upstream projects. Lotos Group has both opportunities in Poland and the Norwegian Continental Shelf. Although the market is sceptical about these achievements and worried about the financial impact of these large investments, we believe the company is capable of managing these projects and could cut capex costs, if the environment turns sour. Lotos is also trying to acquire the remaining 30.4% state-owned stake in the Baltic Sea producer, Petrobaltic.

We believe investors underestimate the potential of Lotos Group and concentrate on the short-term outlook rather than the long-term potential in the stock. We expect Lotos Group's earnings to be under pressure in the 2008-2010 period due to the deteriorating external environment. Earnings could rise, however, from 2011, when the first signs of the refinery upgrade are visible. We do not see problems placing the products on the fast-growing Polish market, which is already in deficit of high-quality gasoline and diesel fuels. We do not share the worry of the market regarding the upstream investments either. We think Lotos Group will be able to manage these projects and adjust the capex according to the financial ability of the company. Downside risks come from investors' worries about the company's ambition regarding upstream projects.

Price (11/07/08)	**PLN 27.6**
Target price (12 mth)	Maintained **PLN 47.9**

12-month forecast returns (%)

Share price	73.6
Dividend	5.4
12m f'cst total return	**79.0**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	6.4%	6.0%
Operating margin	4.4%	3.8%
Net debt/equity	22.6%	45.9%
DPS (PLN)	0.00	1.50
Dividend yield	0.0	5.4

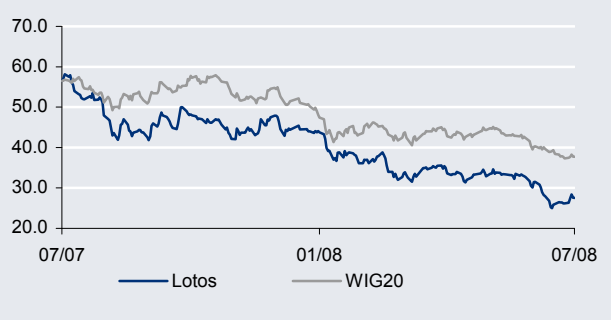
Source: Company data, ING estimates

Share data

No. of shares (m)	113.7
Daily t/o (US$m)	4.0
Free float (%)	0.41
Mkt cap (US$m)	1,516
Mkt cap (PLNm)	3,138

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	12,811	13,125	17,388	19,958	26,520
EBITDA (PLNm)	1,096	1,020	1,117	1,188	1,586
Net income (PLNm)	680	777	716	470	486
EPS (PLN)	5.98	6.84	6.30	4.14	4.27
PER (x)	4.6	4.0	4.4	6.7	6.5
EV/EBITDA (x)	3.3	3.5	3.2	3.0	2.3
P/BV (x)	0.6	0.5	0.5	0.5	0.4
ROE (%)	13.9%	14.1%	11.8%	7.2%	7.1%

Source: Company data, ING estimates

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Quarterly preview

We expect the Lotos Group to report stronger earnings in 2Q08 than in previous quarters. We forecast a much higher E&P contribution on rising prices and more oil processed at the Gdansk refinery. R&M profit should be boosted by higher refining margins (the Ural crack margin is up to US$6.3/bbl, from US$3.7/bbl in 1Q08) and similar levels of inventory gains to those seen in 1Q08. We expect the company not to post such a significant gain on hedge transactions and foreign currency-dominated loans, so net income will not be boosted by these items as it was in 1Q08.

2Q08 results preview (PLNm)

	1Q08	2Q08F
Revenue	3,561	4,050
EBITDA	174	340
EBIT	95	260
Net income	268	266
EPS (PLN)	2.36	2.34

Source: ING estimates

Earnings drivers and outlook

The 10+ programme is the main driver of profit. The company has already agreed with a banking consortium on the financing of the project, while contracts were signed with the main contractors as well. The refinery upgrade will be ready by end 2010, the impact will be visible from 2011 initially. As a result, primary distillation capacity is set to rise from 6.0m tons to 10.5m tons, deep processing capacity will improve: middle distillate (diesel, jet) yield will rise from 46% to 55% of the overall capacity. Lotos Group plans investments in logistics, wholesale and retail units parallel with the upgrade of the refinery. The overall capex plan is PLN 7.9bn.

Lotos Group plans to spend some PLN 5.0bn on different upstream projects both on the Baltic Sea and the Norwegian Continental Shelf. The company recently acquired a 10% stake in four oil blocks in the Norwegian Continental Shelf for USD 52.5m. The Lotos Group also has promising oil acreages in the Baltic Sea (B23), while there are still opportunities in further development of the existing B3 and B8 oil fields. The market is sceptical about the financing and the accomplishment of these projects: we believe the company will adjust these projects to the financial constraints of the corporation. Lotos Group also plans to acquire the 30.4% stake of Petrobaltic from the Polish state via a share swap. We expect that Lotos Group would provide 7-9m newly issued own shares for this stake.

We particularly expect strong growth in the Lotos Group after 2010, when the refinery upgrade has been finished. Our 2012 EBIT forecast of PLN 1.62bn is far above the market consensus of PLN 1.12bn. We believe the market underestimates the potential of Lotos Group, which is facing strong growth, especially after the upgrade of the Gdansk refinery after 2010. The top growth is arising from the upgrade of the refinery, while upstream could boost further the profit of the company, depending on the degree the company could achieve these projects.

P&L account

PLNm	2006	2007	2008F	2009F
Revenue	**12,811**	**13,125**	**17,388**	**19,958**
%ch	*32.8*	*2.5*	*32.5*	*14.8*
EBITDA	**1,096**	**1,020**	**1,117**	**1,188**
%ch	*-17.8*	*-6.9*	*9.5*	*6.4*
Margin (%)	*8.6*	*7.8*	*6.4*	*6.0*
EBIT	*798*	*714*	*759*	*765*
Pre-tax	916	1,004	1,011	729
Tax	(181)	(190)	(192)	(138)
Minorities	(55)	(37)	(103)	(120)
Net profit	**680**	**777**	**716**	**470**
%ch	*-25.7*	*14.3*	*-7.9*	*-34.3*
Margin (%)	*5.3*	*5.9*	*4.1*	*2.4*

Source: Company data, ING estimates

Balance sheet

PLNm	2006	2007	2008F	2009F
Cash	772	925	952	962
Goodwill	3,209	4,287	4,329	4,946
Other current assets	3,981	5,212	5,281	5,908
Total current assets	**3,500**	**3,471**	**4,114**	**4,866**
PPE	67	58	58	58
Intangibles	56	65	62	59
Other fixed assets	322	914	2,280	3,280
Total fixed assets	**3,945**	**4,508**	**6,514**	**8,263**
Total assets	**7,926**	**9,720**	**11,795**	**14,170**
ST debt	174	517	330	504
Other current liabilities	1,468	1,837	2,217	2,545
Total current liabilities	**1,641**	**2,354**	**2,547**	**3,049**
LT debt	331	843	2,060	3,516
Other LT liabilities	420	373	388	387
Total LT liabilities	**751**	**1,216**	**2,448**	**3,903**
Minorities	306	335	438	558
Equity	**5,228**	**5,816**	**6,361**	**6,661**
Total liabilities & equity	**7,926**	**9,720**	**11,795**	**14,170**

Source: Company data, ING estimates

Cash flow account

PLNm	2006	2007	2008F	2009F
CF from operations	654	189	1,557	758
CF from investment	(722)	(816)	(1,400)	(2,125)
CF from funding	(78)	480	318	1,376
Change in cash	(145)	(147)	475	10
Cash last year	768	624	477	952
Cash year end	624	477	952	962

Source: Company data, ING estimates

Company profile

Lotos Group is Poland's #2 oil refiner. The company's top asset is the 6.0m tons Gdansk refinery, located in northern Poland, at the shore of the Baltic Sea. Lotos Group holds 69% in Petrobaltic, the offshore Baltic producer, with 300 ktons annual crude oil production capacity. Lotos Group has 346 filling stations. Finally, the company owns three smaller southern Polish oil refiners, which have been restructured recently to a biofuel plant, storage depot and recycling centre.

PGNIG

Tough quarters ahead

Maintained
Hold

Oil and gas | **Bloomberg: PGN PW**

- **Record-high oil prices are negative for PGNIG margins and we believe market consensus failed to fully recognise the impact.**
- **We cut our TP to PLN3.4 following a drop in earnings multiples for peers as well as a downward revision in our profits estimates for PGNIG. HOLD.**

Investment case

We continue to believe PGNIG will face headwinds this year as record-high oil prices significantly escalate the costs of imported gas impact, which is likely to be much more earnings-destroying in 2H08. At the same time the regulator has plenty of reasons to either object to the renegotiation of PGNIG tariffs or to approve lower-than-applied hikes.

PGNIG again cut its oil production target for coming years. The company now expects to reach 0.9m tonnes of crude oil production only by 2013F due to delayed development of LMG field. Previously the company expected to reach 1.0m tonnes by 2011. Moreover, the domestic gas production target for 2008F of 4.6bn m3 is unlikely to be met, in our opinion, as we understand from the management that the 1H08 output figures suggest that the full-year 2008 output is likely to be flat at 4.3bn m3.

New management is reviewing major investment projects for PGNIG and is likely to make further changes to investment plans, particularly for foreign projects. The company might drop the Skanled project in Norway but the Norwegian Continental Shelf and Baltic Pipe should go ahead. In 3Q08 we expect PGNIG to sign a contract for construction of the Wierzchowice underground storage. The LNG terminal project at the Polish coast remains one of priorities although PGNIG did not secure supplies of gas and the management plans to announce the tender for the construction of terminal only once it signs a long-term contract for delivery of gas. We understand negotiations are held with four potential suppliers.

We cut our target price for PGNIG from PLN5.0 to PLN3.4 due to: 1) lower valuation multiples for peer companies; 2) revision of our profit estimates that predominantly relate to the negative impact of higher oil prices; and 3) delays in achievement of production targets. Our target price is based on the average for 2008F EV/EBITDA multiple of 6.1x and 2008F PER of 11.0x, or at 20% discounts to valuation multiples for the peer group of European utility and gas companies. We believe PGNIG should trade at the visible discount due to the negative impact of high oil price on its earnings, lower operating margins and returns on capital as well as uncertain dates for deregulation of natural gas prices in Poland.

US dollar and tariff rebalancing are major risk factors for PGNIG. We estimate a 5ppt lower increase in the tariff (ie, 15% instead of 20%) in 2009F would lower our EBITDA estimate by 15% while a 10% depreciation of zloty would wipe 21% from our 2009F EBITDA.

Price (11/07/08)	**PLN3.3**
	Previously PLN5.0
Target price (12 mth)	**PLN3.4**

12-month forecast returns (%)

Share price	2.5
Dividend	0.9
12m f'cst total return	**3.5**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	16.4	16.1
Operating margin	8.4	9.0
Net debt/equity	(9.5)	(9.9)
DPS (PLN)	0.03	0.07
Div yield	0.9	2.1

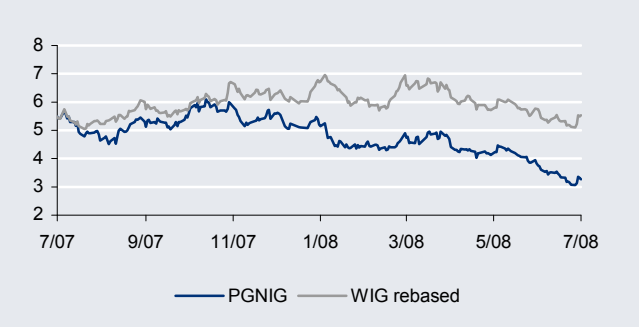
Source: Company data, ING estimates

Share data

No. of shares (m)	5,900
Daily t/o (US$m)	5.4
Free float (%)	15
Mkt cap (US$m)	9,411
Mkt cap (lc m)	19,293

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	15,197	16,652	19,366	22,016	24,753
EBITDA (PLNm)	2,766	2,282	3,174	3,554	4,370
Net income (PLNm)	1,328	915	1,336	1,629	2,192
EPS (PLN)	0.23	0.16	0.23	0.28	0.37
PER (x)	14.5	21.1	14.4	11.8	8.8
EV/EBITDA(X)	6.6	7.9	5.5	4.8	4.0
P/BV (x)	0.9	0.9	0.9	0.8	0.8
ROE (%)	6.3	4.3	6.2	7.2	9.1

Source: Company data, ING estimates

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Quarterly preview

PGNIG will publish 2Q08 results on 13 August. We believe 2Q08 was the last quarter in which the negative impact of record-high oil prices was relatively soft for PGNIG. The top line is expected to benefit from the 14% increase in tariff PGNIG obtained in the last week of April but going forward this increase does not seem sufficient to offset negative impact of rising prices of imported gas. We expect PGNIG will warn investors on a potentially weaker 2H of the year with the release of 2Q08 results. We forecast gas sales of 2.7bn m2 and crude oil sales of 135,000 tonnes. We estimate a 6% QoQ increase in prices of imported gas to US$417 per 1,000 m2 in 2Q08. However, appreciation of the zloty caused that price of imported gas to fall by an estimated 3% QoQ in zloty terms, supporting the result of trade activities. We also expect a PLN100m foreign exchange loss in 2Q08 to lower reported net profit.

2Q08F results preview (PLNm)

	2Q07	2Q08F
Revenue	3392	4001
EBITDA	825	871
o/w E&P	434	555
o/w TST	323	141
o/w Distribution	69	175
EBIT	454	517
Net income	348	358

Source: Company data, ING estimates

Earnings drivers and outlook

Our new assumptions anticipate oil prices at US$119.6/bbl in 2008F, US$131.2/bbl in 2009F and US$132.5/bbl in 2010F. As a result, we forecast PGNIG imports price of natural gas including transit charges at US$547/600/648 per 1,000 m3 in 208F/09F/10F, respectively. There is upward risk in our oil and imported gas prices assumptions for 2008 given continued strength in oil prices.

In 2007, a mild winter left PGNIG with less depleted storages. PGNIG had empty storages early in 2008 and increased purchases of imported gas to fill up the storages. Total costs of imported gas went up 7% in 1Q08 in zloty terms but this increase is modest compared to the 16%/32%/40% estimated increase in imported gas purchase price that we expect in 2Q/3Q/4Q08F in zloty terms. As a result, we forecast a 43% jump in total zloty costs of imported gas for PGNIG in 2008F. Against this projected increase PGNIG obtained just a 14% increase for the tariff in April (vs 34% applied), or 9% on annualised basis. Next hike is unlikely before 2009 and we estimate PGNIG's total bill for imported gas would increase by 16% in 2009 while we assume 20% average annual tariff increase.

As a result of a number of delays in investment decisions we lower our capex assumptions for 2008-09F by 44%/32%, respectively, to account for delays in investment projects and keep 2010F capex estimate unchanged. We expect capex of PLN1.9/2.5/3.8bn in 2008/09/10F, respectively.

We cut our gas output estimates by 7%/9% to 4.3bn/4.6bn m3 for 2008F/09F, respectively, to bring it in line with reality as described by the management. We cut our gas sales volumes by 7%/6%, respectively, for PGNIG in 2008F/09F based on lower sales last year and due to lower estimates for gas consumption. As a result of these and tariff changes we cut our EBITDA/net profit estimates by 3%/16% for PGNIG for 2008F. Our 2009F EBITDA estimate is unchanged but we cut our net profit estimate by 5%. Our 2008F EBITDA estimate is now 7% below the consensus estimate and our net profit is 17% below market consensus.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**16,652**	**19,366**	**22,016**	**24,753**
%ch	*10*	*16*	*14*	*12*
EBITDA	**2,282**	**3,174**	**3,554**	**4,370**
%ch	*(17)*	*39*	*12*	*23*
Margin (%)	*13.7*	*16.4*	*16.1*	*17.7*
EBIT	**852**	**1,627**	**1,977**	**2,690**
Pre-tax	1,003	1,653	2,015	2,710
Tax	(87)	(317)	(386)	(518)
Minorities	(1)	0	0	0
Net profit	**915**	**1,336**	**1,629**	**2,192**
%ch	*(31)*	*46*	*22*	*35*
Margin (%)	*5.5*	*6.9*	*7.4*	*8.9*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	1,584	2,245	2,449	1,833
Goodwill	4,687	5,428	6,152	6,899
Other current assets	6,271	7,673	8,601	8,732
Total current assets	**18,716**	**19,027**	**19,967**	**22,110**
PPE	2	3	4	5
Intangibles	85	85	85	85
Other fixed assets	3,329	3,261	3,004	2,747
Total fixed assets	**22,131**	**22,376**	**23,060**	**24,946**
Total assets	**28,402**	**30,049**	**31,660**	**33,678**
ST debt	107	107	107	107
Other current liabilities	3,394	3,786	4,170	4,565
Total current liabilities	**3,501**	**3,893**	**4,276**	**4,672**
LT debt	31	31	31	31
Other LT liabilities	3,848	3,953	3,953	3,953
Total LT liabilities	**3,880**	**3,985**	**3,985**	**3,985**
Minorities	9	5	5	5
Equity	**21,013**	**22,166**	**23,394**	**25,017**
Total liabilities & equity	**28,402**	**30,049**	**31,660**	**33,678**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	1,772	2,635	2,866	3,521
CF from investment	(2,940)	(1,858)	(2,518)	(3,823)
CF from funding	(788)	(116)	(145)	(314)
Change in cash	(1,956)	661	204	(616)
Cash last year	3,539	1,583	2,245	2,449
Cash year end	1,583	2,245	2,449	1,833

Source: Company data, ING estimates

Company profile

PGNIG's major business is distribution of natural gas in Poland where the company has a monopoly position on the market with estimated 98% market share in 2007. The company exploits also crude oil and natural gas from onshore deposits in Poland as well as provides drilling, geological and geophysical services for other crude oil and natural gas companies in a number of markets in Asia, Europe and Middle East.

PKN Orlen

High crude oil price squeezes margins

Previously: Hold
Buy

Oil&Gas **Bloomberg: PKN PW**

- **Upgrade to Buy from Hold after the recent stock price drop – DCF-based target price remains unchanged at PLN45.0**
- **PKN Orlen is facing a tougher environment from 2H08 to 2010 on both refining and petrochemical areas – the stock price fully reflects the negative changes now**
- **The performance of Mazeikiu Nafta is still the major short-term stock price driver**
- **The company has a new management team led by a new, well-experienced CEO, Wojciech Heydel – on the negative side, the government increased its influence over the company**
- **The 2Q08 outlook is positive on soaring diesel crack spreads – the high crude oil price, however, could hit demand and result in high energy costs**

Investment case

We believe PKN Orlen's stock price now fully reflects the estimated negative changes in the refining and petrochemicals industry for 2008 to 2010. We upgrade the recommendation from Hold to BUY, while keeping our TP unchanged at PLN45.0.

The stock is now trading at a valuation in line with the sector ie, at 4.6x 2008F EV/EBITDA vs the sector median of 4.6x. Our DCF valuation suggests a TP of PLN 45.0.

We believe the main short-term driver is the performance of the Lithuanian refinery, Mazeikiu Nafta. Investors will watch the performance of this unit, as 2008 will be the first year when the Lithuanian refiner will run in full capacities and without direct crude oil supply from Russia.

There is a new management team at PKN Orlen: the company is led by the industry veteran, Wojciech Heydel, who looks to be a good choice. There was a negative development recently when the government overtook the majority of the supervisory board, which increases the chance of direct political influence. We dislike the Polish deputy treasury minister's idea that PKN Orlen should invest into the upstream segment as well as buying into the ailing Polish chemical companies.

The top risk for PKN Orlen is the global slowdown, which could hit demand for refined and petrochemical products worldwide. Investors are worried about the worsening environment, although it looks as if they are overreacting to the potential negative changes. We believe PKN Orlen is better-positioned than most of its sector peers to survive the next few years.

Price (09/07/08)	**PLN37.25**
Target price (12 mth)	Maintained **PLN 45.0**

12-month forecast returns (%)

Share price	20.8
Dividend	4.3
12m f'cst total return	**25.2**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	5.8	5.1
Operating margin	3.0	2.3
Net debt/equity	42.9	41.6
DPS (PLN)	1.6	1.0
Dividend yield	4.3	2.7

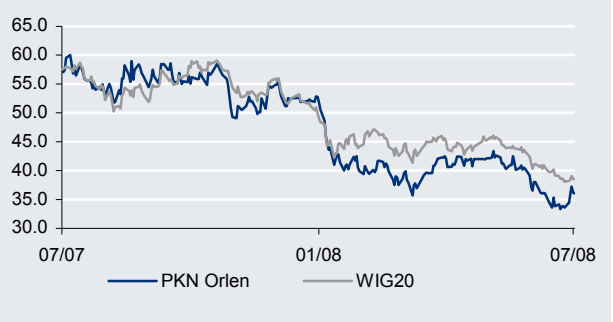
Source: Company data, ING estimates

Share data

No. of shares (m)	427.7
Daily t/o (US$m)	29.6
Free float (%)	0.73
Mkt cap (US$m)	7,655
Mkt cap (lc m)	15,932

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios

Year to Dec	2006	2007P	2008F	2009F	2010F
Revenue (PLNm)	52,867	63,793	94,607	100,428	112,539
EBITDA (PLNm)	4,685	5,040	5,440	5,144	5,581
Net income (PLNm)	1,986	2,323	2,089	1,608	1,831
EPS (PLN)	4.6	5.4	4.9	3.8	4.3
PER (x)	8.0	6.9	7.6	9.9	8.7
EV/EBITDA (x)	5.3	4.9	4.6	4.8	4.4
P/BV (x)	0.7	0.7	0.7	0.6	0.6
ROE (%)	11.2	12.0	10.1	7.3	7.9

Source: Company data, ING estimates

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Quarterly preview

The 2Q08 outlook for PKN Orlen looks more positive now, after the recovery in refining margins. We also expect a positive EBITDA contribution from Mazeikiu Nafta, which has finished the rebuilding of its key vacuum distillation unit and has been running at almost full capacity since January. The strong Polish economy should result in improved retail performance, while fertiliser sales could help Anwil to achieve better earnings. On the negative side, petrochemicals are likely to suffer further due to soaring feedstock and energy prices, which means that the contribution of this segment is likely to be unchanged QoQ. The high energy consumption of the PKN Group (12%) is another negative point in this high oil-price environment, which is not counterbalanced by production as PKN has no exposure to the upstream business.

2Q08 results preview

(PLNm)	1Q08	2Q08F
Revenue	17,938	20,300
EBITDA	1,152	1,610
EBIT	565	1000
Net income	626	870
EPS (PLN)	1.46	2.03

Source: ING estimates

Earnings drivers and outlook

PKN Orlen's earnings will be driven by three major issues: capacity increases, cost savings and the development of external factors.

Capacity increases: PKN Orlen will invest into refinery capacities at the Mazeikiu Nafta and Plock refineries, which will boost the complexity of both refineries and allow production of some 3.4m tons more middle distillates by 2012. Alongside this, we expect new PP capacities at Mazeikiu. PKN Orlen intends to have upgrades in retail and logistics as well. We wait for Unipetrol's investment plans. On the other hand, we do not believe that PKN Orlen's upstream plans are realistic. Our capex estimate for 20-2012 is PLN19.1bn.

Internal development: PKN Orlen intends to save further costs, which is possible especially at the new subsidiaries, Unipetrol and Mazeikiu Nafta. We expect the second OPTIMA programme to be successful and save some PLN600m until 2009.

External environment: We use US$5.0/bbl long-term refining margins, strengthening USS (our LT PLN/USS rate is 2.78) and rising petrochemical margins (PP-naphtha spread of €700/ton). Overall, the environment will worsen in 2008-10 and will recover from 2011, which generally means that the coming quarters will be challenging for PKN Orlen. The company suffers from the margins squeeze due to high oil prices and a drop of the refining and petrochemical margins due to additional supply. Global refining capacities could rise significantly in 2008-10 and 2012 based on the announcements of different refiners.

P&L account

PLNm	2006	2007P	2008F	2009F
Revenue	**52,867**	**63,793**	**94,607**	**100,428**
%ch	*28.4*	*20.7*	*48.3*	*6.2*
EBITDA	**4,685**	**5,040**	**5,440**	**5,144**
%ch	**-30.4**	**7.6**	**7.9**	**-5.4**
Margin (%)	*8.9*	*7.9*	*5.8*	*5.1*
EBIT	*2,577*	*2,621*	*2,852*	*2,326*
Pre-tax	2,729	2,893	2,734	2,042
Tax	(669)	(500)	(507)	(375)
Minorities	(74)	(70)	(139)	(59)
Net profit	**1,986**	**2,323**	**2,089**	**1,608**
%ch	*-56.7*	*17.0*	*-10.1*	*-23.0*
Margin (%)	*3.8*	*3.6*	*2.2*	*1.6*

Source: Company data, ING estimates

Balance sheet

PLNm	2006	2007P	2008F	2009F
Cash	2,351	1,498	2,968	2,997
Other current assets	15,407	17,865	20,807	22,058
Total current assets	17,758	19,364	23,774	25,056
PPE	**25,200**	**24,835**	**26,958**	**28,198**
Goodwill	0	0	0	0
Intangibles	620	531	578	560
Other fixed assets	1,841	1,424	1,284	1,050
Total fixed assets	**27,661**	**26,790**	**28,821**	**29,809**
Total assets	**45,419**	**46,153**	**52,595**	**54,864**
ST debt	4,278	1,719	4,290	5,390
Other cur liabilities	10,600	10,841	13,449	14,132
Total current liabilities	**14,878**	**12,560**	**17,739**	**19,522**
LT debt	**6,378**	**8,743**	**7,930**	**7,060**
Other LT liabilities	2,580	2,312	2,589	2,706
Total LT liabilities	**8,958**	**11,056**	**10,519**	**9,766**
Minorities	2,732	2,640	2,779	2,838
Equity	**18,851**	**19,898**	**21,559**	**22,739**
Total liabilities & equity	**45,419**	**46,153**	**52,595**	**54,864**

Source: Company data, ING estimates

Cash flow account

PLNm	2006	2007P	2008F	2009F
CF from operations	3,693	1,965	3,613	3,550
CF from investment	(6,746)	(2,845)	(3,695)	(3,782)
CF from funding	4,278	27	1,551	262
Change in cash	1,225	(853)	1,470	30
Cash last year	1,127	2,351	1,498	2,968
Cash year end	2,351	1,498	2,968	2,997

Source: Company data, ING estimates

Company profile

PKN Orlen is one of the top CEE refining and petrochemical companies. Orlen has 31.7m tons/annum deep processing refining capacity in Poland, Czech Republic and Lithuania. PKN ORLEN's retail network comprises approximately 2,700 outlets offering services in Poland, Germany, the Czech Republic and Lithuania. The company is also an active petrochemical business, it has a joint venture with Basel in Poland and owns significant polymer assets in the Czech Republic. PKN Orlen holds 19.61% of mobile operator, Polkomtel and controls 85% of top CEE chemical company, Anwil.

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Real estate

Dom Development

Flat earnings in 2009, at best

Maintained
Hold

Real estate **Bloomberg: Dom PW**

- **Dom shares have fallen 65% ytd due to negative sentiment regarding the housing sector, disappointing unit sales and, more recently, expensive acquisitions of land. Although the stock trades at a 2009F PER of 4.7x, we believe that sentiment will remain negative for longer, barring any major recovery in share price.**
- **We cut our 2009F and DCF-based TP from PLN67 to PLN37 following our revision of earnings projections, lower assumptions for terminal margins and de-rating of peers.**

Investment case

Demand remains weak for primary housing units in Warsaw due to the higher costs of mortgage loans, expectations of a steeper correction in prices and an increased supply of second-hand units. The average interest rate on signed mortgages has gone up by 240bps from the bottom in February 2007 to 7.9% in May 2008. According to research by Reas, the price of new units increased by 3% in 1Q08. We believe prices fell by low single digits in 2Q08. We expect more pronounced weakness in the quarters to come as weaker demand and the visible supply of second-hand units hamper unit sales for developers and force them to accept lower prices. Also, in previous quarters we believe there was a discrepancy between quoted prices and transactional prices of housing units in Warsaw. Many developers cut adjusted transactional prices either in one-to-one negotiations with potential buyers or through selling them at a cheaper price through real-estate agents in order to avoid the impression of outright prices cuts. Weaker developers accept prices 10-20% below quoted prices. Speculative individual investors have switched from demand side to supply side and institutional demand for new housing units is also weak.

We forecast Dom's margins to fall starting from 2H08, with possibly significant compression expected long term as the margins which the company generates at the moment are record highs and are not representative of a period of weaker housing demand. If the recent land purchase in the Ursynow district are an indicator of future profitability than we estimate that Dom's EBIT margin could decline to just 13% in the long term, compared to 27.4% in 2007. We lower our terminal EBIT margin assumption from 17% to 13% for Dom Development.

We view the spike in interest rates, correction in housing prices, low entry barriers as well as the growing supply of second-hand units as major risk factors for Dom Development. We also note than unlike other real-estate companies Dom's operations are concentrated on only two local markets and as such are prone to changes in swings in housing demand in Warsaw and Wroclaw.

Price (11/07/2008)	**PLN34.95**
	Previously PLN67
Target price (12 mth)	**PLN37**

12-month forecast returns (%)

Share price	6.9
Dividend	5.3
12m f'cst total return	**12.2**

Source: ING

Key ratios (%)

	2008F	2009F
Gross margin	32.0	27.0
Operating margin	23.8	18.8
Net debt/equity	18.0	0.0
DPS (PLN)	1.8	1.9
Dividend yield	5.3	5.3

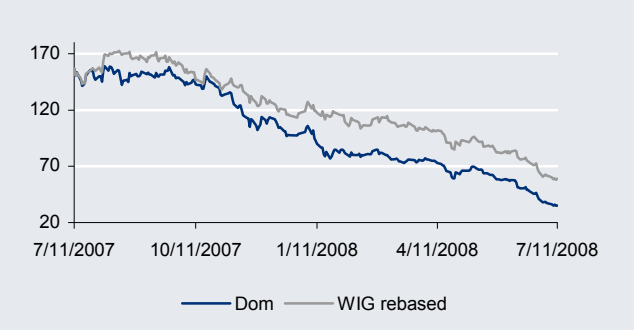
Source: Company data, ING estimates

Share data

No. of shares (m)	24.6
Daily t/o (US$m)	1.5
Free float (%)	22
Mkt cap (US$m)	419
Mkt cap (PLNm)	858

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	730	879	981	1,241	1,930
EBITDA (PLNm)	166	243	236	237	330
Net income (PLNm)	135	201	185	185	272
EPS (PLN)	6.06	8.17	7.43	7.40	10.86
PER (x)	5.8	4.3	4.7	4.7	3.2
EV/EBITDA (x)	5.0	3.5	4.0	4.0	2.1
P/BV (x)	1.6	1.2	1.0	0.9	0.7
ROE (%)	43.2	33.8	24.2	20.6	25.1

Source: Company data, ING estimates

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Quarterly preview

Dom plans to release 2Q08 results on August 13. The company continues to struggle with housing unit sales. We estimate that unit sales in 2Q08 were flat QoQ at around 337 units, including 127 units in the Derby 7 projects which were sold to the Military Housing Agency in a one-off transaction for PLN64.4m. We forecast a 39% drop in unit sales YoY in 2Q08 from the record level of 2Q07 (63% YoY if we were to exclude the transaction with the army).

Nevertheless, we expect Dom to post growth on every line except for net profit in 2Q08F, due to the profitable disposal of the Derby 7 project which generated an estimated gross profit margin of 46%. As a result, we expect a gross profit margin of 40.1% compared to 38.4% in 2Q07 and 40.1% in 1Q08.

2Q08F results preview

PLNm	2Q07	2Q08F
Revenue	230.0	234.8
Gross profit	88.3	94.2
EBITDA	66.4	69.8
EBIT	65.9	69.2
Net profit	54.7	54.5

Source: ING estimates

Earnings drivers and outlook

Weak demand for housing units and delays in sales of new housing projects is likely to hamper revenue growth for Dom in 2008/09F and we cut our revenue forecasts by 11% and 21% respectively. We postpone recognition of several projects including Derby 14, Winnica 1, Akacje 10, Gorczewska, Jugoslowianska and Goclaw, while we now expect Dom to recognise Regaty 2 project in 2008 rather than 2009.

For 2008 we increase our earnings projection by 2% for EBITDA and 1% for net profit due to very profitable disposal of housing project Derby 7 to Military Housing Agency on which Dom recognised estimated very lucrative gross profit margin of 46%. For 2009F we cut our EBITDA/net profit estimates by 17%/19%. Although Dom sees transactional prices rising very slightly on its projects we believe this divergence from the market will not continue. Weak housing demand is likely to force the management to lower prices for units also because Dom continue to generate subnormal high margins (40% gross profit margin in 1Q08 and estimated 40% in 2Q08, or 38% if disposal of Derby 7 is excluded). As a result we currently forecast flat net profit in 2009F of PLN185m, which is 13% below market consensus for Dom.

Dom expects to change its accounting method from IFRS 11 (recognition as multiple of % of sales and % of completion) and to follow IFRS18 (recognition upon physical handover of the housing unit) starting from 2009 for recognition of revenue, costs and earnings. This switch should result in material revisions in reported revenue and profits. We believe that as long as company sells a greater number of units than it transfers and depletes its housing inventory, then the switch from IFRS 11 to IFRS 18 lowers profits. In the current market environment of weakening demand for housing units it is more likely that Dom would hand over more units in 2009 than it would sell, consequently swelling its inventory. If this scenario materialises then we would expect Dom to report higher 2009F under IFRS 18 than our current estimates.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**879**	**981**	**1,241**	**1,930**
%ch	*20*	*12*	*26*	*56*
EBITDA	**243**	**236**	**237**	**330**
EBIT	**46**	**-3**	**0**	**39**
%ch	*27.7*	*24.1*	*19.1*	*17.1*
Margin (%)	*241*	*234*	*234*	*325*
Pre-tax profit	250	228	229	336
Tax	(50)	(43)	(43)	(64)
Minorities	2	3	4	5
Net profit	**201**	**185**	**185**	**272**
%ch	*48*	*-8*	*0*	*47*
Margin (%)	*22.8*	*18.8*	*14.9*	*14.1*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	275	129	24	318
Other current assets	955	1,262	1,282	1,334
Total current assets	**1,230**	**1,392**	**1,305**	**1,652**
PPE	**7**	**7**	**7**	**7**
Deferred tax	12	12	12	12
Intangibles	1	1	1	1
Other fixed assets	3	3	3	3
Total fixed assets	**22**	**22**	**22**	**22**
Total assets	**1,252**	**1,414**	**1,327**	**1,674**
ST debt	37	37	0	0
Other cur liabilities	189	216	269	390
Total current liabilities	**226**	**253**	**269**	**390**
LT debt	**242**	**242**	**0**	**0**
Other LT liabilities	89	89	89	89
Total LT liabilities	**330**	**330**	**89**	**89**
Minorities	0	0	0	0
Equity	**696**	**830**	**969**	**1,195**
Total liabilities & equity	**1,252**	**1,414**	**1,327**	**1,674**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	175	207	222	346
CF from investment	(212)	(353)	(49)	(51)
CF from funding	84	0	(279)	0
Change in cash	47	(146)	(106)	295
Cash last year	228	275	129	24
Cash year end	275	129	24	318

Source: Company data, ING estimates

Company profile

Dom Development is the largest housing developer in Warsaw by the number of units sold as well as revenue and earnings with some 10% market as measured by value of completed units in 2007. The company develops popular flats, apartments, luxury apartments and houses in Warsaw and Wroclaw. Dom sold 11,900 housing units between its inception in 1996 and the end of 2007.

GTC

Cap rates up; valuation down; huge upside remains

Maintained
Buy

Real-estate **Bloomberg: GTC PW**

- **We cut our target price for GTC by 23% to PLN42, owing to 75bp higher assumed capitalisation rates for its office and retail properties.**
- **Stock trades at 2009F P/NAV of 1.1x, which we believe is an attractive entry level. We maintain our BUY rating for GTC and the stock offers 55% upside to our target price.**

Investment case

Six-month Euriobor rates are up c.100bp from January to 5.1%; we believe the short-term outlook is less certain given inflation pressures. Clearly, this increase in risk-free proxy should have an impact on capitalisation rates on central European commercial real estate, as projects are increasingly financed in euros rather than the US dollar. CB Richard Ellis estimates that Warsaw prime office yields increased by 35bp in 1Q08 and to 5.75%. Recent transactions in offices in Warsaw implied capitalisation rate of 5.9% for comparable buildings. GTC estimated weighted capitalisation rate was 5.9% at the end of 2007, according to our estimates.

We deem it appropriate to increase our assumptions on capitalisation rates for GTC by 75bp across the board to preserve our conservative approach to valuation. This change has two major effects: 1) our target price falls from PLN54.4 to PLN42; 2) our earnings estimates are revised downwards due to lower expected gain on revaluation. In fact, GTC might show some negative revaluations on its existing portfolio in November when it reports 3Q08 results. For example, Galeria Kazimierz is valued at a cap rate of 5.5%. Galeria Mokotow is valued at an even lower cap rate of 5.25%, although its rental revenue is mainly in US dollars.

GTC avoided the credit crunch trap as evidenced by the successful offering of PLN350m in zloty-denominated bonds completed in 2Q08. Proceeds should be used to fund real estate developments in the region. Bonds carry a favourable spread of 200bp over WIBOR and have a maturity of five years.

We value GTC using net operating income model for income-producing properties and DCF for housing projects. Besides its 267,000m2 of income-producing space, GTC has 440,000m2 of offices and shopping centres under construction and a further 556,000m2 planned for development until 2012. We estimate GTC completes 118,000m2 in 2008F, 468,000m2 in 2009F and 235,000m2 in 2010F.

GTC de-rated recently on the back of continued correction in a sector which is the worst performing on the WSE YTD. Although GTC outperformed its local peers YTD, its performance was weaker recently also due to widened premium in relative valuation to local peers such as Echo or LC Corp, as well as redemptions in local mutual funds. We believe sound fundamentals do not justify the scale of the de-rating and maintain our **BUY**.

Price (11/07/08)	**PLN27.0**
	Previously PLN54.4
Target price (12 mth)	**PLN42**

12-month forecast returns (%)

Share price	55
Dividend	0
12m f'cst total return	**55**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	42.1	39.9
ROE	12.8	30.1
Net debt/equity	52.5	96.2
NAVPS (PLN)	17.8	23.6
Dividend yield	0.0	0.0

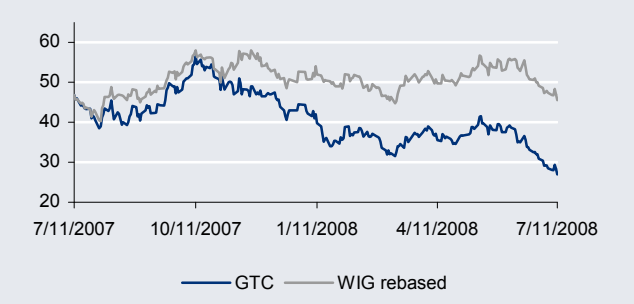
Source: Company data, ING estimates

Share data

No. of shares (m)	219.4
Daily t/o (US$m)	7.3
Free float (%)	54.0
Mkt cap (US$bn)	2.9
Mkt cap (PLNbn)	5.9

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios (€m)

Year to Dec	2007	2008F	2009F	2010F
Revenue	74	149	279	705
Profit from continuing operations	323	209	875	963
EBITDA	28	63	111	307
Net income	234	131	379	413
EPS (PLN)	4.04	2.06	5.84	6.11
PER (x)	6.7	13.1	4.6	4.4
P/NAV (x)	1.6	1.5	1.1	0.9
NAVPS growth (%)	23	3	32	21

Source: Company data, ING estimates

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Quarterly preview

GTC publishes 2Q08 results on 12 August. We forecast revenue of €18m, up 38% YoY and 13% QoQ. We estimate rental revenue to reach €16m, up 32% YoY and 10% QoQ, thanks to filling in buildings completed in 4Q07 and 1Q08 as well as an increased contribution from older offices and shopping centres.

Recognition of the Belgrade housing project was delayed again due to issues with the contractor, and we forecast low housing revenue of just €2m in 2Q08F.

GTC should revalue upon completion two office buildings, Zephirus and Nothus, and we forecast revaluation gain of €17m in 2Q07. We also expect a significant €10m gain on forex and a €10m gain on hedging in 2Q08.

2Q08F results preview (€m)

	2Q07	2Q08F
Revenue	13.1	18.0
Revaluations	90.7	17.3
Profit from continuing operations	96.2	27.2
Net income	56.6	35.2
EPS (€)	0.26	0.16

Source: ING estimates

Earnings drivers and outlook

We forecast unchanged rental revenue in 2008/09F of €65/94m respectively. GTC should report €31m in rental revenue in 1H08, if our 2Q08 forecast proves right. For housing revenue, we expect €84/185m in 2008/09F respectively. Recognition of revenue for the Park Apartment project in Belgrade was delayed, as contracts failed to meet the deadline. Progress on housing projects in Romania is visible, as GTC sold 1,200 apartments there and should be able to reach our revenue targets. We cut our net profit estimates for 2008/09F by 42%/30% respectively due to higher assumed capitalisation rates which we believe will reduce revaluation gains for GTC by 46% to €146m in 2008 and by 23% to €764m in 2009F. As a result NAV should grow by just 3% in 2008F and 32% in 2009F.

Despite an increase in cap rates, the outlook for GTC business remains robust with persistent high demand for office space and insatiable demand for retail space in the region, low-single digit vacancy rates (2.5% Warsaw, 2% Bucharest) and growing or stable prime rentals in major cities of the region such as Warsaw, Prague or Bucharest. We view GTC's growing involvement in the Balkan region as very promising, given that cap rates in more developed countries of Central Europe have probably bottomed, while there is still some room for compression in Romania, Serbia or Croatia, particularly in the retail shopping centre segment which we believe is far from saturated in these markets, particularly in secondary cities. Its recent entry into Russia demonstrates the company's ability to strike deals related to large-scale projects, even in the more difficult markets. GTC has unmatched experience and know-how in project execution across a number of markets and is not dependent on any single segment of the real-estate market or any single location.

Increases in capitalisation rates, declines in occupancy rates and a softening of demand for housing units are the major risk factors to our bullish case. GTC is also facing difficulties in enforcing timely completions of a number of housing and commercial projects, particularly in Romanian secondary cities and in Serbia, which may lead to further delays in project completions. Supply of new space should reach 0.5m m2 in 2008 on the Warsaw office market, which could result in some rental pressure on the older buildings. However, GTC's portfolio is modern, with the majority of leases finalised three to four years ahead of renegotiations.

P&L account

€m	2007	2008F	2009F	2010F
Revenue	**74**	**149**	**279**	**705**
%ch	*(9)*	*103*	*87*	*153*
EBITDA	**28**	**63**	**111**	**307**
%ch	*(8)*	*121*	*77*	*176*
Margin (%)	*38.7*	*42.1*	*39.9*	*43.5*
EBIT	**28**	**62**	**110**	**305**
Revaluation	292	146	764	655
Pre-tax	299	199	816	879
Tax	(38)	(36)	(155)	(165)
Minorities	(27)	(32)	(283)	(301)
Net profit	**234**	**131**	**379**	**413**
%ch	*20*	*(44)*	*189*	*9*

Source: Company data, ING estimates

Balance sheet

€m	2007	2008F	2009F	2010F
Cash	346	135	78	90
Goodwill	229	324	548	796
Other current assets	575	459	626	887
Total current assets	**286**	**451**	**774**	**1,005**
PPE	8	8	8	8
Intangibles	0	0	0	0
Other fixed assets	992	1,314	2,403	3,301
Total fixed assets	**1,286**	**1,772**	**3,185**	**4,314**
Total assets	**1,861**	**2,231**	**3,811**	**5,201**
ST debt	3	10	10	10
Other current liabilities	134	202	329	705
Total current liabilities	**136**	**212**	**339**	**715**
LT debt	578	710	1,500	1,800
Other LT liabilities	158	158	158	158
Total LT liabilities	**737**	**868**	**1,658**	**1,958**
Minorities	29	61	344	645
Equity	**959**	**1,090**	**1,469**	**1,882**
Total liabilities & equity	**1,861**	**2,231**	**3,811**	**5,201**

Source: Company data, ING estimates

Cash flow account

€m	2007	2008F	2009F	2010F
CF from operations	(30)	38	17	437
CF from investment	(155)	(397)	(865)	(733)
CF from funding	253	147	791	309
Change in cash	68	(211)	(57)	12
Cash last year	278	346	135	78
Cash year-end	346	135	78	90

Source: Company data, ING estimates

Company profile

GTC has 14 years' experience as the leading developer of housing, office and retail real estate in Central Europe and the Balkans. GTC has 267,000m^2 of income-producing office and retail space at present in Poland, Czech Republic, Hungary, Romania, Serbia and Croatia. GTC started its first real estate project in Russia in 2008 and is looking to acquire land in Ukraine.

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Telecoms, media & entertainment

Agora

Panic sell-off is over

Maintained
Buy

Media **Bloomberg: AGO PW**

- **We cut our DCF-based TP by 36% to PLN37 owing to the expected squeeze in margins beyond 2008.**
- **We maintain our BUY rating on the shares, which trade at record-low earnings multiples.**

Investment case

Newspapers are suffering from a decline in copy sales, but *Gazeta* is keeping a comfortable distance over its major competitor *Dziennik,* published by Axel Springer. Copy sales of *Gazeta* fell 9% in first five months of 2008, but *Dziennik* plunged 26%. AS is unhappy with this performance and is looking to acquire a 49% equity stake held by the state treasury in Pressrepublica, publisher of *Rzeczpospolita*. We would be surprised to see AS taking control, because the controlling shareholder Mecon is likely either to block the deal or use its pre-emptive right for the 49% stake.

The acquisition of Trader.com contributed among other factors to a de-rating of Agora shares. In our view, the price paid by Agora was too high and we believed it was forced by substantial interest expressed by other potential buyers in Trader.com. We believe Agora had too much to lose by allowing competitors to buy into Trader.com. Rea estate and automotive classified advertisements are moving online quickly. We view this takeover as a defensive move that should allow Agora to protect this revenue which would otherwise migrate to other portals. It should allow Agora to increase is share in online advertising from 12% to 15% in the long term.

According to the press, Agora is interested in acquiring *Superstancja,* for which it is considering paying PLN30m for a 33% stake. Station was set up in 2006 and had 0.2% audience share and gross advertising revenue of PLN39m in 1H08. This acquisition could be completed in 3Q08. Both acquisitions would be in line with announced plans to acquire thematic channels and the proposed prices seem rational to us although the station is unlikely to be profitable. We also believe Agora is one of the potential buyers of another thematic channel, *4Fun.tv*.

Agora stock was never as cheap. Based on revised forecasts it trades at 2008F PER of 11.5x, 2008F EV/EBITDA of 4.9x and 2008F FCF of 10.1%. We believe these valuation levels are unsustainable. Institutional investors took action and proposed a share buyback that the controlling shareholder agreed to approve. Agora earmarked PLN90m for the buyback which should stabilise the shares short-term, as it represents 6.2% of its market cap. In the long term, we expect Agora to be driven by acquisitions in electronic media, delivery on earnings expectations and possible increase in the cover price of *Gazeta*,

Risks to our forecasts remain with newspaper ad spend growth, Agora's share of newspaper ad spend and the level of promotional spend within the group. New competition, including the forthcoming TVN Warsaw channel, may prove our assumptions to be too optimistic on this front. Integration of Trader.com is also a risk factor for Agora.

Price (11/07/08)	**PLN26.2**
	Previously PLN57.6
Target price (12 mth)	**PLN37**

12-month forecast returns (%)

Share price	41.1
Dividend	1.8
12m f'cst total return	**43.2**

Source: ING

Key ratios (%)

	2007F	2008F
EBITDA margin	16.3	17.1
Operating margin	10.0	11.4
Net debt/equity	(21)	(26)
DPS (PLN)	1.50	1.50
Dividend yield	3.2	3.2

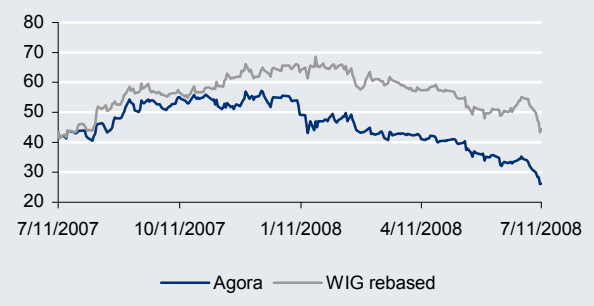
Source: Company data, ING estimates

Share data

No. of shares (m)	55.0
Daily t/o (US$m)	3.3
Free float (%)	70.2
Mkt cap (US$m)	861
Mkt cap (PLN m)	2,584

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios (PLNm)

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue	1,134	1,272	1,331	1,385	1,446
EBITDA	111	199	222	225	234
Net income	32	100	123	129	143
EPS (PLN)	0.59	1.82	2.27	2.48	2.75
PER (x)	83.9	14.4	11.5	10.6	9.5
EV/EBITDA (x)	10.9	6.1	4.9	4.5	3.7
P/BV (x)	1.3	1.2	1.2	1.0	0.9
ROE (%)	2.8	8.4	10.1	10.1	10.3

Source: Company data, ING estimates

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Quarterly preview

Agora publishes 2Q08 results on 12 August. We forecast a 10%/4% YoY increase in revenue from advertising/copy sales respectively. In particular, we forecast a fourth consecutive quarter of double-digit increase in ad revenue from the newspaper and internet segment, which we expect to grow by 14% YoY in 2Q08 to PLN168m. For outdoor, we forecast a 12% increase YoY to PLN55m.

We expect 5% YoY increase in total operating expenses driven by 11% growth in total wage bill as Agora continued to hire workers in a number of segments, more visibly in internet. We expect promotional costs to increase by 6%. Raw material costs should be on the decline following strengthening of zloty to € as well as a lower number of sold *Gazeta*-branded records, books and other collections.

As a result we expect Agora to post 6%/15% increase YoY in EBITDA/net profit.

2Q08F results preview (PLNm)

	2Q07	2Q08F
Revenue	332	349
EBITDA	59	63
EBIT	40	44
Net income	33	38
EPS (PLN)	0.60	0.69

Source: ING estimates

Earnings drivers and outlook

We cut our EBITDA margin estimates for Agora by 40bp in 2008F to 16.7% and by a more pronounced 260bp to 16.2% in 2009F. Increased estimates for marketing and personnel expenses as well as acquisition of less profitable Trader.com are the major drivers behind downward revision in margins. We assume that Agora will keep its marketing spending at unchanged levels slightly over PLN200m in years to come, when previously we expected marketing expenses to decline c.40% in the long-term. Trader.com was at break-even in 2007, and in our view it will take more than a year for Agora to integrate it and to offset negative the impact on group margin. Headcount will increase by 120 workers as a result of the acquisition of trader.com and we estimate revenue addition at PLN15m in 2009, although the large gain should be visible in stable levels of revenue from classified adverting which would otherwise suffer. We cut our EBITDA forecasts by 1%/13% and our net profit estimates by 2%/17% for 2008/09F respectively.

Agora's dependence on advertising revenue was 68% in 2007 and the company remains prone to any downward swing in ad spend. In Poland, advertisers favour electronic media advertising, therefore *Gazeta* should feel the potential pain of slowdown faster than TV channels or the internet. We do not expect the company to release warning on possible slowdown with the 2Q08 results, but the outlook for the end of the year is less certain to us at the moment, particularly two traditional categories of newspaper advertising clients, ie, real-estate companies and labour agencies must have seen the signs of slowdown already. We feel comfortable with our current unchanged assumptions of 8%/5% increase in newspaper adverting growth in Poland in 2008/09F respectively. For internet we expect 30%/20% YoY growth in 2008/09F, and Agora should see internet revenue double in 2008F and increase 64% in 2009F, owing both to the organic build-out of its internet portals and the acquisition of Trader.com.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**1,272**	**1,331**	**1,385**	**1,446**
%ch	*12*	*5*	*4*	*4*
EBITDA	**199**	**222**	**225**	**234**
%ch	**70**	**12**	**1**	**4**
Margin (%)	*15.6*	*16.7*	*16.2*	*16.2*
EBIT	*120*	*148*	*152*	*163*
Pre-tax	129	155	162	179
Tax	(29)	(30)	(31)	(34)
Minorities	(0)	(1)	(1)	(1)
Net profit	**100**	**123**	**129**	**143**
%ch	*213*	*23*	*4*	*11*
Margin (%)	*7.9*	*9.3*	*9.3*	*9.9*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	401	433	559	695
Other current assets	269	284	296	309
Total current assets	**670**	**717**	**855**	**1,004**
PPE	616	583	557	534
Goodwill	0	0	0	0
Intangibles	290	290	290	290
Other fixed assets	47	47	47	47
Total fixed assets	**953**	**920**	**894**	**871**
Total assets	**1,623**	**1,637**	**1,749**	**1,875**
ST debt	35	35	35	35
Other cur liabilities	203	215	223	233
Total current liabilities	**238**	**249**	**258**	**268**
LT debt	104	104	104	104
Other LT liabilities	66	63	63	63
Total LT liabilities	**170**	**168**	**168**	**168**
Minorities	(1)	(1)	(1)	(1)
Equity	**1,217**	**1,221**	**1,324**	**1,440**
Total liabilities & equity	**1,623**	**1,637**	**1,749**	**1,875**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	158	189	191	197
CF from investment	(51)	(45)	(49)	(51)
CF from funding	(42)	(113)	(17)	(10)
Change in cash	65	32	126	136
Cash last year	336	401	433	559
Cash year end	401	433	559	695

Source: Company data, ING estimates

Company profile

Agora is the one of the leading media groups in Poland. It publishes the largest opinion-forming newspaper, *Gazeta,* as well as controlling the largest outdoor company in Poland, AMS. Also, the group has interests in magazines, radio stations, the freesheet Metro, as well as the internet portal, www.gazeta.pl.

Cinema City

Quality prevails

Previously: Hold
Buy

Media & entertainment **Bloomberg: CCI PW**

- **CCI's track record and historically defensive character of the cinema industry provide for the high visibility of company's earnings.**
- **Share price declines in past weeks have raised our expected total return for CCI, leading to an upgrade in our recommendation from Hold to BUY.**

Investment case

CCI's strategy focuses on the expansion of the cinema network in the underpenetrated CEE markets. The pipeline of new location openings in 2008-12, already supported by signed lease agreements, assumes the addition of 42 new theatres with 464 screens across its existing markets, focusing on secondary cities in Poland and all major Romanian cities.

We forecast revenue growth in 2008-12F at 11% pa. Outside new cinemas' contribution, CCI's sales should be driven by the expected 5.3% pa growth in the €-denominated ticket prices, 4.9% pa increase in per visitor concession sales, as well as convergence of per capita admissions in the CEE towards levels observed in developed markets. The most profitable cinema and advertising segments are forecast to develop at a CAGR of 13% and 15% respectively.

With respect to profits, we expect 15.9% CAGR in fully diluted EPS in the 2008-12F period. The bottom-line dynamics are expected to exceed sales growth on the back of improving efficiency of locations through ticket price increases and admissions growth, increasing share of higher margin advertising segment in the overall revenue structure, and slower growth of administrative costs with central offices already established in all of the major markets of operation targeted by the company.

Among the key risks to CCI's development we see the already high saturation of the CEE cinema markets in the region's largest cities, which, in our view, can lead to declines in per-screen ticket sales. CCI is also susceptible to declines in admissions due to potential falls in the number and deterioration of quality of new movie releases. In terms of financial performance, CCI's results could be negatively affected by a simultaneous depreciation of local currencies in its countries of operation versus the euro (the reporting currency) as well as by failure to realise revenues from the divestment of stakes held in real estate.

CCI's relative valuations are continually demanding at 2008F PER of 17.7x and EV/EBITDA of 10.2x, implying an over 30% premium to international cinema peers. Despite that, the more than 5% decline in its share price in the last two weeks has raised our expected annual return on CCI from 13.4% to 19.8%. In turn we upgrade our recommendation for the company from Hold to BUY, maintaining the 12-month target price at PLN27.8.

Price (11/07/08)	**PLN23.2**
	Maintained
Target price (12 mth)	**PLN27.8**

12-month forecast returns (%)

Share price	19.8
Dividend	0.0
12m f'cst total return	**19.8**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	21.7	23.2
Operating margin	12.9	14.6
Net debt/equity	28.3	27.6
DPS (€)	0.0	0.0
Dividend yield	0.0	0.0

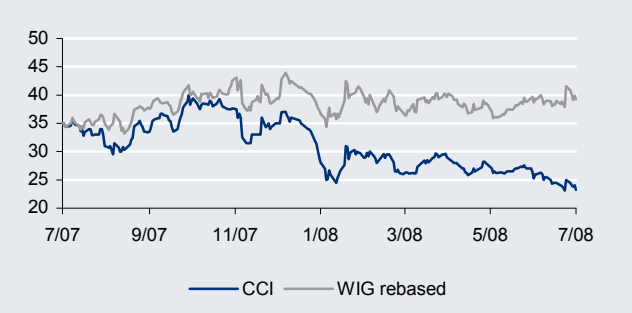
Source: Company data, ING estimates

Share data

No. of shares (m)	50.8
Daily t/o (US$m)	0.6
Free float (%)	31.0
Mkt cap (US$m)	542.3
Mkt cap (lc m)	1,176.8

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (€m)	143.8	161.3	184.3	211.7	247.4
EBITDA (€m)	31.2	34.6	40.0	49.0	54.6
Net income (€m)	11.7	16.6	20.4	25.9	28.9
EPS (€)	0.3	0.3	0.4	0.5	0.6
PER (x)	25.2	21.7	17.7	14.0	12.6
EV/EBITDA (x)	12.8	11.7	10.2	8.5	7.6
P/BV (x)	2.7	2.3	2.2	1.9	1.9
ROE (%)	11.4	11.5	12.6	14.4	15.0

Source: Company data, ING estimates

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Quarterly preview

The 2Q08 performance will in our view be share price neutral. We forecast a moderate 8% YoY increase in revenue to €45.5m, assuming €7.5m contribution from the divestment of Ruse Mall. This would imply a YoY decline in the top line if CCI did not recognise the divestment of real estate proceeds in the 2Q as was the case in the previous years. Still, if the sale was not closed, we would anticipate that CCI includes the revaluation of this project in its 2Q08 figures limiting the negative impact of failure to complete the transaction on operating profitability.

In the cinema operations segment, we expect a 15% YoY increase to €30.4m on the back of the 12% YoY ticket price increase, appreciation of majority of local currencies against the euro (primarily Polish zloty appreciation exceeding 10% YoY), and a YoY increase in the average number of operated screens. The UEFA Euro 2008, which took place in June is likely to negatively affect cinema ticket sales throughout Europe. Czech Republic, Poland, and Romania, three of CCI's six markets of operation, took part in the group stage of the competition, likely denting cinema admissions in the first half of June.

We expect 2Q08 EBITDA margin to reach 22.8%, above management's target of 20% but lower than last year due to unfavourable effect of Euro 2008 as well as an increase in the costs of administration following the launch of Romanian operations at the end of 2007. Depreciation should be lower QoQ at €4.2m vs €4.8m in 1Q08 when a one-off adjustment of €0.7m was recognised. Our 2Q08 net profit forecast of €5m, representing 4.3% YoY decline, is based on the assumption of €0.8m net financial expense, 12% effective tax rate, and €0.3m of losses attributable to minorities.

2Q08 results preview (€m)

	2Q07	2Q08
Revenue	42.1	45.5
EBITDA	9.8	10.4
EBIT	6.2	6.2
Net profit	5.2	5.0
EPS (€)	0.10	0.10

Source: ING estimates

Earnings drivers and outlook

CCI should maintain its solid financial performance in 2008 despite what appears a relatively weaker movie pipeline compared with 2007 and an increase in SG&A costs following the launch of Romanian operations. The growing share of advertising in overall revenue and ticket price increases will in our view allow CCI to maintain EBITDA margin above management's 20% target. We forecast EBITDA profitability at the level of 21.7% in 2008.

1H08 box office data is moderately supportive. Admissions grew in the majority of CCI's markets in 1H08 but primarily on the back of new locations rather than LFL growth. In 1Q08, admissions to CCI's theatres increased 9.2% YoY, while the number of tickets sold LFL dropped 7% YoY. Still, revenues are supported by a 12% YoY increase in ticket prices.

We continue to value CCI shares based on the average of the fair values calculated using the DCF model and the relative valuation methodology (2008-10F PER and EV/EBITDA).

P&L account

€m	2006	2007F	2008F	2009F
Revenue	**143.8**	**161.3**	**184.3**	**211.7**
%ch	*32.9*	*12.2*	*14.2*	*14.8*
EBITDA	**31.2**	**34.6**	**40.0**	**49.0**
EBIT	**17.3**	**19.2**	**23.7**	**31.0**
%ch	*45.4*	*10.5*	*23.8*	*30.7*
Margin (%)	*12.1*	*11.9*	*12.9*	*14.6*
Pre-tax profit	12.6	15.0	20.8	27.7
Tax	-1.4	0.6	-1.7	-2.8
Minorities	0.5	1.0	1.2	1.0
Net profit	**11.7**	**16.6**	**20.4**	**25.9**
%ch	*48.4*	*41.6*	*22.5*	*27.3*
Margin (%)	*8.2*	*10.3*	*11.0*	*12.2*

Source: Company data, ING estimates

Balance sheet

€m	2007	2008F	2009F	2010F
Cash	7.8	24.3	29.6	31.0
Receivables	26.7	30.5	35.1	41.0
Other current assets	23.2	23.8	24.5	25.5
Total current assets	**57.8**	**78.7**	**89.1**	**97.5**
PPE	183.0	195.8	223.5	221.5
Intangibles	1.0	1.1	1.3	1.3
Other fixed assets	1.2	1.2	1.2	1.2
Total fixed assets	**185.3**	**198.1**	**225.9**	**223.9**
Total assets	**243.0**	**276.8**	**315.0**	**321.4**
ST debt	18.6	21.1	23.8	28.2
Other current liabilities	27.2	30.9	34.8	41.3
Total current liabilities	**45.7**	**52.0**	**58.6**	**69.5**
LT debt	**34.8**	**50.7**	**59.1**	**54.7**
Other LT liabilities	8.3	9.6	8.0	7.9
Total LT liabilities	43.1	60.3	67.1	62.6
Minorities	**-1.9**	**-3.1**	**-4.1**	**-4.1**
Equity	**156.2**	**167.5**	**193.5**	**193.5**
Total liabilities & equity	243.0	276.8	315.0	321.4

Source: Company data, ING estimates

Cash flow account

€m	2006	2007F	2008F	2009F
CF from operations	25.5	33.5	39.1	43.3
CF from investment	-25.8	-46.8	-32.0	-49.2
CF from funding	48.4	-32.1	9.4	11.1
Change in cash	48.0	-45.4	16.5	5.3
Cash last year	5.2	53.2	7.8	24.3
Cash year end	53.2	7.8	24.3	29.6

Source: Company data, ING estimates

Company profile

CCI is the largest multiplex cinema operator in the CEE and the fastest growing company in the industry in Europe based on the pipeline of new theatre openings. At the end of 1H08, CCI operated 65 theatres with 578 screens. Poland represented an estimated 52% of sales in 2007 with 20%/14%/9% and 6% contributions from Israel, Hungary, Bulgaria, and the Czech Republic respectively. Cinema revenues are supplemented by movie distribution, real estate, and advertising revenues.

TPSA

Limits of a silver lining

Maintained
Buy

Telecommunications services

Bloomberg: TPS PW

- **TPSA has shown resilience in this year's bear market. Low valuation, attractive yields, good 1Q08 results, continued economic boom in Poland and calmed fears from 'destructive' regulation have all helped. Post 1Q08, and in anticipation of 2Q08, on 14 July we marginally adjusted our DCF FV to PLN24.9 (previously PLN24.8) and 12-month ex-dividend target to PLN26.2 (previously PLN25.7). We maintain our BUY, although TPSA's relative valuation attraction vs peers has to some extent deteriorated.**

Investment case

TPSA has shown its defensive qualities, gaining 16% (US$, YTD) compared with an 18% loss for the MSCI telco index and 25-45% losses for key EMEA cellcos. Since the beginning of this year TPSA has provided a 'silver lining' on a 'cloud' of grossly overvalued (mostly mobile) EMEA assets. In our report *TPSA – Still some value left as everyone sees doom and gloom* from 20 December 2007, we argued that the stock was trading at over 40% EV/EBITDA discount to the EMEA cellcos. Consensus ROIC expectations were at that time excessive for the cellcos vs TPSA, as investors were extrapolating favourable historical trends for them, while focusing on regulatory risks for TPSA. We believe that the stock market has now started to understand this.

TPSA is likely to continue to benefit from a strong economy, more reasonable regulation, consolidation among competitors and new management. The combination of a strong economy and less aggressive regulation has already helped to grow the Polish telecom revenue by 7% in 1Q08 vs a fall last year. While mobile MVNOs are not particularly successful (0.1% market share), we view consolidation of fixed-line competitors (Netia/Tele2) as positive for TPSA, because it should make competition more rational. We see continued consolidation, possibly also involving P4, the fourth mobile operator (3% market share). Management changes at TPSA in sales together with the recently announced real estate disposals could also help.

We remain positive on TPSA, although its relative case vs peers has lost some of its appeal. TPSA offers a potential 11% FCF 2008F yield, 7% dividend yield and value creative share buybacks. It is less vulnerable to ROIC dilution and sudden growth changes vs pure mobile players; however, market expectations for peers have been trimmed too.

Key investment risks for TPSA include possible further adverse regulation, tougher competition (especially in mobile and converged services), mobile substitution of fixed-line, a strong labour union and possible slowdown of the Polish economy.

Price (11/07/08)	**PLN21.95**
	Maintained
Target price (12 mth)	**PLN26.2**

12-month forecast returns (%)

Share price	19.4
Dividend	7.6
12m f'cst total return	**27.0**

Source: ING

Key ratios (%)

	2007	2008F
EBITDA margin	42.3	42.2
Operating margin	18.0	19.0
Net debt/equity	30.2	22.4
DPS (PLN)	1.5	1.7
Dividend yield	6.8	7.6

Source: Company data, ING estimates

Share data

No. of shares (m)	1,368.8
Daily t/o (US$m)	30.6
Free float (%)	52
Mkt cap (US$m)	14,689
Mkt cap (lc m)	30,045

Source: Company data, ING estimates

Share price performance

Source: Reuters

Forecasts and ratios

Year to Dec	2007	2008F	2009F	2010F
Revenue (PLNm)	18,244	18,080	18,238	18,710
EBITDA (PLNm)	7,721	7,636	7,952	8,173
Net income (PLNm)	2,273	2,485	2,794	3,060
EPS (PLN)	1.7	1.8	2.0	2.2
PER (x)	13.2	12.1	10.8	9.8
EV/EBITDA (x)	4.6	4.5	4.2	3.9
ROE (%)	12.7	13.8	15.1	16.1

Source: Company data, ING estimates

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Quarterly preview

Since the publication of its first quarter results, TPSA has been enjoying a strong momentum: the stock is up by 8% (US$), to be compared with its EM telecom benchmark down by 13%. This clearly highlights the defensive qualities of the stock we mentioned in our last update and the craze for its first quarter results.

TPSA published 1Q revenues up by 2% and an EBITDA margin above 44% (vs a FY guidance of -1% and 42/44%). Nonetheless, management refused to change its guidance, mainly because of regulatory uncertainties (MTR) and the ongoing F2M substitution. As a result, the market will probably focus on those topics.

- Since 1 May MTR should have decreased by 15-20% to around PLN0.34 from PLN0.40. Management estimates that this could cut group revenues by 1.5% on an annual basis.
- TPSA was still losing fixed lines at a fast pace during 1Q08 (219-272k if we do not consider the wholesale lines gained).

Therefore, we expect 2Q revenues to slightly decrease on a quarterly basis despite the usual positive seasonal effect.

On the margin side, we will pay attention to the company's ability to sustain its 1Q cost control effort. Following the headcount reduction, management has now to manage the increasing inflationary pressure on wages (CPI is expected at 4.6% in June vs 2.6% one year ago).

Telefonica O2 CZ will publish its results a few days before TPSA and could give a flavour of TPSA's own results.

2Q08 results preview (PLNm)

	1Q08	2Q08F
Revenue	4,479	4,532
EBITDA	1,921	1,944
EBIT	841	846
Net profit	582	586
EPS (PLN)	0.43	0.43

Source: ING estimates

Earnings drivers and outlook

Polish altnet consolidation. Netia recently bought Tele2's Polish business. Following the previous example of the Czech market, we expect this acquisition to be positive for TPSA and to lead to a rationalisation of pricing.

Economic slowdown – What if question. More and more investors envisage a slowdown and we recently assessed its impact on the EM mobiles. Our conclusion was that relative developed mobile markets in more affluent countries – such as Poland – would be less impacted.

P&L account

PLNm	2006	2007	2008F	2009F
Revenue	**18,625**	**18,244**	**18,080**	**18,238**
%ch	1.8	-2.0	-0.9	0.9
EBITDA	**7,856**	**7,721**	**7,636**	**7,952**
EBIT	**3,367**	**3,282**	**3,428**	**3,789**
Margin (%)	42.2	42.3	42.2	43.6
Pre-tax profit	2,634	2,830	3,068	3,449
Tax	(538)	(555)	(583)	(655)
Minorities	(2)	(2)		
Net profit	**2,094**	**2,273**	**2,485**	**2,794**
Margin (%)	11.2	12.5	13.7	15.3

Source: Company data, ING estimates

Balance sheet

PLNm	2006	2007	2008F	2009F
Cash	912	642	723	730
Other current assets	2,241	2,820	2,788	2,808
Total current assets	**3,153**	**3,462**	**3,511**	**3,537**
PPE	21,686	21,120	20,664	20,246
Intangibles	7,280	7,091	6,321	5,631
Other fixed assets	617	749	899	1,078
Total fixed assets	**29,583**	**28,960**	**27,884**	**26,955**
Total assets	**32,736**	**32,422**	**31,395**	**30,493**
ST debt	2,212	4,077	572	463
Other current liabilities	5,430	7,195	6,961	6,683
Total current liabilities	**7,642**	**11,272**	**7,533**	**7,146**
LT debt	5,562	1,920	4,229	3,235
Other LT liabilities	1,429	1,457	1,428	1,399
Total LT liabilities	**6,991**	**3,377**	**5,657**	**4,634**
Minorities	13	13	13	13
Equity	**18,090**	**17,760**	**18,192**	**18,699**
Total liabilities & equity	**32,736**	**32,422**	**31,395**	**30,493**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F
CF from operations	8,352	6,852	6,998
CF from investment	(3,816)	(3,132)	(3,233)
CF from funding	(4,161)	(3,639)	(3,758)
Change in cash	375	81	6
Cash year end	642	723	730

Source: Company data, ING estimates

Company profile

TPSA is the main telecom incumbent in Poland with a dominant share on the fixed-line voice and DSL broadband market. TPSA's mobile subsidiary, Orange Polska, is Poland's leading mobile player (albeit not by a high margin). TPSA is controlled by France Telecom.

The company is facing a deteriorating fixed-line market and increasingly competitive mobile market. However, it should be able to benefit substantially from cost and capex optimisation opportunities, its strong position in the mobile market and broadband opportunities.

TVN

No premium to European peers

Maintained
Buy

Media **Bloomberg: TVN PW**

- **We maintain our BUY rating on TVN, based on its cheap valuation.**
- **We expect the share price to be driven by: (1) strong 2Q08F results, which should display the positive impact of a change in the company's pricing policy; and (2) a revision in 2008 guidance, which we expect in September. The outlook for 2009 is less certain but so far TVN has noticed neither a slowdown in bookings nor budget cuts at its major advertisers.**

Investment case

The correction in the TVN shares continues, on negative sentiment after the N acquisition, a de-rating in the FTA TV sector in Europe and uncertainty over Polish TV ad spend levels in 2009. The N acquisition did increase TVN's overall risk profile, but this and the slowdown in ad spend in 2009 do not justify the 35% YTD decline in the share price.

We still assume TV ad spend will grow 12% in 2008, but cut our TV ad spend growth estimates from 11% to 7% in 2009 and from 8% to just 5% in 2010. We are not changing our TVN market share estimates as advertisers should continue to prefer its channels as the demographic profile of TVN's audiences is superior to those of public television or Polsat. We lower our 2008 and 2009 EBITDA margin forecasts to 35.8% and 34.4%, respectively. The 2008 margin estimate cut stems from a previous underestimation of stock option-related expenses. For 2009, we cautiously assume a margin decline on uncertainty over TV ad spend. As a result, we cut out DCF-based target price for TVN by 8% to PLN22.8.

We view TVN's shares as undervalued at current prices. On our new estimates, the stock trades at a 2008F EV/EBITDA of 9.8x and a 2008F PER of 15.4x, discounts of 11% and 17%, respectively, to its closest peer, CME. If we strip the value and EBITDA of Onet (at the conservative historical price implied by the acquisition made by TVN in 2006) and the equity value of N out of our calculation of TVN's enterprise value, the adjusted 2008F EV/EBITDA falls to just 8.5x, or a 24% discount to CME. Western European FTA broadcasters are trading at an average 2008F EV/EBITDA of 9.8x, despite arguably being less resilient to the adverse effects of a global economic slowdown.

Its acquisition of a stake in N is a major risk factor for TVN, as it is expected to share the risks of what is essentially a start-up project in the competitive DTH satellite-TV platform industry. We expect N to generate EBITDA and net losses in 2008 and 2009 and to break even only in 2010. By the time N generates positive free cash flow, TVN may have agreed to provide funding on *pro rata* basis. TVN may not be able to make an assumed return on the investment if N's ambitious development plans fail to materialise.

Price (11/07/08)	**PLN16.35**
	Previously PLN24.8
Target price (12 mth)	**PLN22.8**

12-month forecast returns (%)

Share price	39.4
Dividend	3.3
12m f'cst total return	**42.8**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	35.8	34.4
Operating margin	31.3	30.1
Net debt/equity	47	35
DPS (PLN)	0.54	0.78
Dividend yield	3.3	4.8

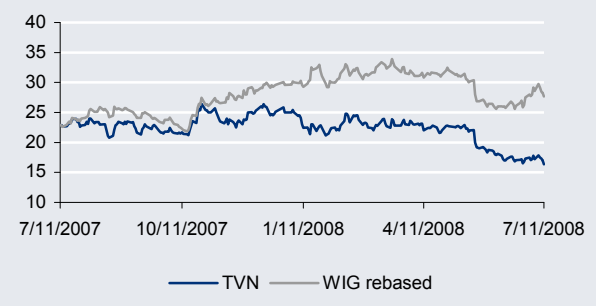
Source: Company data, ING estimates

Share data

No. of shares (m)	349.4
Daily t/o (US$m)	5.9
Free float (%)	40.6
Mkt cap (US$m)	2,786
Mkt cap (PLNm)	5,712

Source: Company data, ING estimates

Share price performance



Source: Reuters

Forecasts and ratios

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue (PLNm)	1,165	1,555	1,831	2,002	2,183
EBITDA (PLNm)	400	554	655	689	815
Net income (PLNm)	259	243	370	381	550
EPS (PLN)	0.74	0.70	1.06	1.09	1.57
PER (x)	22.0	23.3	15.4	15.0	10.4
EV/EBITDA (x)	15.4	11.5	9.8	9.3	7.7
P/BV (x)	4.6	4.0	3.5	3.1	2.7
ROE (%)	31.7	18.2	24.2	22.1	28.1

Source: Company data, ING estimates

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Quarterly preview

TVN is due to post 2Q08 results on 12 August. We forecast 25% and 30% YoY growth in revenue from television and internet to PLN451m and PLN56m, respectively. We expect 20% growth in TVN's effective advertising price in 2Q08 as bookings were strong in all months of the quarter and TVN sold an estimated 82% of the inventory off the price list and only 18% based on a gross rating point system.

We forecast a visible improvement in the TV EBITDA margin to 47%, from 45% in 2Q07. For the internet, we expect an EBITDA margin of 26%, up from 23% in 2Q07. Below the EBIT line, we expect a PNL39m forex gain on the eurobond and a PLN29m loss on the collar hedging structure. We do not forecast any gain on the eurobond embedded option; should the company decide to recognise it, it might add up to PLN30m to pre-tax profit.

2Q08 results preview (PLNm)

	2Q07	2Q08F
Revenue	407	514
EBITDA	172	221
EBIT	156	202
Net income	139	158
EPS (PLN)	0.40	0.45

Source: ING estimates

Earnings drivers and outlook

We believe the earnings outlook remains positive for TVN for 2008. Company revenues and earnings are likely to soar on the wave of increased TV ad spend, which is not showing any sign of slowdown as yet. Revenue and margins for the television business are benefiting from a shift towards the price list and a reduction in less expensive rate card-based pricing for advertising. Management has indicated to us that bookings for July are coming in strongly and above budget. We expect management to raise its 2008 revenue and earnings guidance as soon as October bookings are made available some time in September.

We are more concerned about the 2009 earnings outlook as the slowdown might affect the largest players' advertising budgets. Marketing expenses represent a cost category that is easy to slash, and budgeting for the new year could trim expected advertising spend in Poland. This process has already started in affected economies such as the UK where ITV is rumoured to have witnessed a 13% drop in bookings for September on the basis of bookings by the advance deadline in July. In Poland, the slowdown is likely to be far less severe as household income continues to grow rapidly, spurring double-digit growth in retail sales. We therefore believe advertisers should be less willing to cut marketing expenditure substantially and might even re-allocate some of the marketing budgets from more affected markets where consumer spend is sluggish.

It things turn sour for ad spend, TVN could still reduce costs within three months as 60-70% of its programming expenses are for local productions and TVN has a degree of discretion over these productions costs. TVN has also set up a centralised purchasing department that works to reduce the cost of external productions and purchases. According to management, these costs have fallen by 5-6% since the department's inception.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**1,555**	**1,831**	**2,002**	**2,183**
%ch	*34*	*18*	*9*	*9*
EBITDA	**554**	**655**	**689**	**815**
%ch	*39*	*18*	*5*	*18*
Margin (%)	*35.6*	*35.8*	*34.4*	*37.3*
EBIT	**482**	**573**	**603**	**725**
Pre-tax	297	475	484	648
Tax	(54)	(87)	(91)	(120)
Minorities	0	(18)	(12)	21
Net profit	**243**	**370**	**381**	**550**
%ch	*-6*	*52*	*3*	*44*
Margin (%)	*15.6*	*20.2*	*19.0*	*25.2*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	110	513	651	824
Goodwill	1,646	1,646	1,646	1,646
Other current assets	535	643	709	773
Total current assets	**2,292**	**2,802**	**3,006**	**3,244**
PPE	250	304	316	332
Intangibles	51	51	51	51
Other fixed assets	152	423	449	472
Total fixed assets	**453**	**778**	**816**	**855**
Total assets	**2,745**	**3,580**	**3,822**	**4,098**
ST debt	0	0	0	0
Other current liabilities	349	498	548	578
Total current liabilities	**349**	**498**	**548**	**578**
LT debt	791	1,278	1,280	1,252
Other LT liabilities	175	175	175	175
Total LT liabilities	**966**	**1,453**	**1,456**	**1,427**
Minorities	0	0	0	0
Equity	**1,430**	**1,628**	**1,819**	**2,094**
Total liabilities & equity	**2,745**	**3,580**	**3,822**	**4,098**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	437	653	640	761
CF from investment	(151)	(468)	(195)	(207)
CF from funding	(280)	217	(307)	(380)
Change in cash	6	402	138	174
Cash last year	105	110	513	651
Cash year end	110	513	651	824

Source: Company data, ING estimates

Company profile

TVN is the largest commercial TV broadcaster in Poland as measured by advertising revenue. It operates 14 TV channels and holds a 100% stake in the leading Polish internet portal, Onet.pl. TV advertising accounts for an estimated 70% of group revenue, followed by TV-non-advertising with 16% and the internet with 14%.

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Others

CIECH

Political impact

Maintained
Hold

Chemicals **Bloomberg: CIE PW**

- **Political influence becomes an important factor**
- **Macroeconomic situation does not help either**

Investment case

In June, CIECH acquired a 6.5% stake in Tarnow (producer of nitrogenous fertilisers and caprolactam) during its IPO, claiming it is part of its strategy to expand into fertiliser production. We perceive this move negatively, as it seems that the company was "encouraged" by the state treasury (which has a 37% stake in CIECH) to buy the holding and protect the IPO from failure. At this stage, the acquisition does not make much sense to us, as the minority stake yields nothing (especially since another state-owned company, PGNiG, bought a larger stake) and freezes cash. While the transaction was not very large (PLN50m), we are concerned it may signal that the government wants to be engaged more directly in the management of CIECH, even at the expense of other shareholders. Political influence has been confirmed in the last few days, as the CEO stepped down (perhaps forced by the state).

Since December 2007, CIECH has made four major acquisitions. Because two of the acquired companies (Govora and Zachem) were inefficient CIECH started to restructure them, hence its future should look brighter. The management had estimated all restructuring programmes should yield PLN130m-150m in savings in 2008. However, the target does not look to be achievable, considering problems with the restructuring of Zachem (delayed staff cuts, weak demand for EPI).

The acquisitions and capex boosted financial leverage to a level we find excessive (net debt/equity at 82% in 2007), especially considering high operational leverage and rising interest rates. The CEO confirms that the new acquisition will need the new share issue.

There are also other negative factors, which are deteriorating more and more, ie, raw material prices and strong PLN (c.50% of sales are exports). Prices of key products are still strong but the general weakness in global macro and new capacities of TDI in 2009 may change this.

After our revision of financial forecasts for CIECH (2008F profit by 3%; 2009F by 16%), it trades at an adjusted 2008F PER of 11x, a c.10% premium to European peers, which are less sensitive to unfavourable FX rates. Following our changes in forecasts and the higher beta we assume for the company (from 1.1x to 1.4x), we cut our DCF-based target price from PLN89.8 to PLN63.6.

Price (11/07/08)	**PLN64.0**
	Previously: PLN89.8
Target price (12 mth)	**PLN63.6**

12-month forecast returns (%)

Share price	-0.6
Dividend	3.2
12m f'cst total return	**2.7**

Source: ING

Key ratios (%)

	2008F	2009F
EBITDA margin	14.8	13.9
Operating margin	9.3	8.6
Net debt/equity	85.5	67.4
DPS (PLN)	2.1	1.5
Dividend yield	3.2	2.4

Source: Company data, ING estimates

Share data

No. of shares (m)	28.00
Daily t/o (US$m)	1.46
Free float (%)	53
Mkt cap (US$m)	652
Mkt cap (PLNm)	1,792

Source: Company data, ING estimates

Share price performance

Source: Reuters

Forecasts and ratios (PLNm)

Year to Dec	2006	2007	2008F	2009F	2010F
Revenue	2,174	3,415	3,917	4,302	4,615
EBITDA	288	493	580	596	614
Reported net income	196	240	216	217	257
Adjusted net income	169	186	161	202	239
PER (x)	9.2	7.5	8.3	8.2	7.0
EV/EBITDA (x)	7.9	5.9	5.3	4.9	4.5
P/BV (x)	1.6	1.3	1.2	1.1	1.0
ROE (%)	15.7	15.0	11.3	12.8	13.4

Source: Company data, ING estimates

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Quarterly preview

1Q08 was slightly disappointing and we have similar feelings about 2Q08. While YoY growth of revenues is quite likely due to consolidation of German operations (acquired in 4Q07) the operating margins will be under pressure because of higher raw materials and decelerating growth of product prices. Financial costs are likely to be higher than in 2Q07 because of growing interest rates and debt. There are possibly two one-offs (we are not sure, therefore not included in our forecast). The positive side may be profits from the write-off of negative goodwill on acquisition of minority stakes in its key subsidiaries, Sarzyna and Zachem, which could be PLN2-3m. The negative side may be a c.PLN8m net loss on a 6.5% stake in Tarnow (but it will not appear if CIECH books the stake as a long-term asset).

2Q08 results preview (PLNm)

	2Q07	2Q08F
Revenue	873	981
EBITDA	115	152
EBIT	87	98
Net profit	64	60
EPS (PLN)	2.28	2.13

Source: ING estimates

Earnings drivers and outlook

Prices of key products grew quickly in 2007 (eg, TDI in Europe 18%, soda ash 9%, fertilisers over 100%) which boosted profitability. At the same time, CIECH managed to hedge favourable FX rates. It is quite likely that in 2008 the growth of key product prices will decelerate (we are already seeing a stabilisation of TDI prices in Europe), while growth of raw material prices accelerated for CIECH (in 2008: 12-13% energy, 10-11% coal, at least 30% coking coal, possible triple-digit growth of phosphorites) and the outlook for 2009 is not much better (the latest press reports say about hikes of 15-20% for electrical energy).

In this situation, the appreciation of the PLN (we expect 11% in 2008) will become a valid factor, especially as it looks like the level of hedging is much lower than in previous year. We believe that PLN will remain strong also in 2009 (further 5% appreciation), as the pressure from energy prices increases.

Because PLN is stronger than we had thought and 1Q08 figures were below expectations (despite positive one-offs), we reduce our 2008-2009 net profit forecasts by 3% and 15% respectively (a bigger reduction for next year, as this year there are still some positive one-offs).

We think that the management's target for 2008 (PLN225m net profit) is at risk, although it is too early to say that it is not impossible. There is chance for a positive surprise only if CIECH completes its disposal of a 45% stake in the insurer PTU, which could generate profits of PLN50-80m (not included in our estimates or in the company's forecast).

The main risks are PLN appreciation, growth of interest rates and a hike in energy prices.

P&L account

PLNm	2007	2008F	2009F	2010F
Revenue	**3,415**	**3,917**	**4,302**	**4,615**
%ch	*57.1*	*14.7*	*9.8*	*7.3*
EBITDA	**493**	**580**	**596**	**614**
EBIT	**314**	**363**	**369**	**391**
%ch	*63.4*	*15.9*	*1.5*	*6.0*
Margin (%)	*9.2*	*9.3*	*8.6*	*8.5*
Pre-tax profit	285	270	269	315
Tax	-48	-57	-54	-60
Minorities	-2	-3	-3	-3
Net profit	**240**	**216**	**217**	**257**
%ch	*22.7*	*-10.1*	*0.6*	*18.3*
Margin (%)	*7.0*	*5.5*	*5.0*	*5.6*

Source: Company data, ING estimates

Balance sheet

PLNm	2007	2008F	2009F	2010F
Cash	124	19	143	289
Goodwill	403	403	403	403
Other current assets	1,458	1,599	1,736	1,848
Total current assets	**1,583**	**1,618**	**1,879**	**2,137**
PPE	1,964	2,148	2,171	2,198
Intangibles	128	128	128	128
Other fixed assets	156	210	160	170
Total fixed assets	**2,651**	**2,889**	**2,862**	**2,899**
Total assets	**4,234**	**4,508**	**4,741**	**5,035**
ST debt	453	550	520	490
Other current liabilities	1,631	1,665	1,755	1,866
Total current liabilities	**2,084**	**2,215**	**2,275**	**2,356**
LT debt	766	750	750	750
Other LT liabilities	0	0	0	1
Total LT liabilities	**766**	**750**	**750**	**751**
Minorities	45	45	45	45
Equity	**1,339**	**1,497**	**1,671**	**1,885**
Total liabilities & equity	**4,234**	**4,508**	**4,741**	**5,036**

Source: Company data, ING estimates

Cash flow account

PLNm	2007	2008F	2009F	2010F
CF from operations	653	417	495	544
CF from investment	-456	-454	-200	-250
CF from funding	-218	-68	-171	-148
Change in cash	-21	-105	124	146
Cash last year	146	124	19	143
Cash year end	124	19	143	289

Source: Company data, ING estimates

Company profile

CIECH is the largest chemical producer in Poland. It has a diversified product portfolio, but the most important products are soda ash (c.25% of revenues, CIECH is the second largest producer in Europe, key raw material for glass production), TDI (c.15% of revenues, used for polyurethane foams production), phosphorous fertilisers (10%), plant protection chemicals (6%). Nearly 50% of sales come from foreign markets. The company has two major production plants outside Poland (both soda ash production): Govora in Romania and Sodawerk Strassfurt in Germany.

Disclosures Appendix

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