5 August 2009

**Periodic Report**

BRE Bank Securities

**Equity Market**

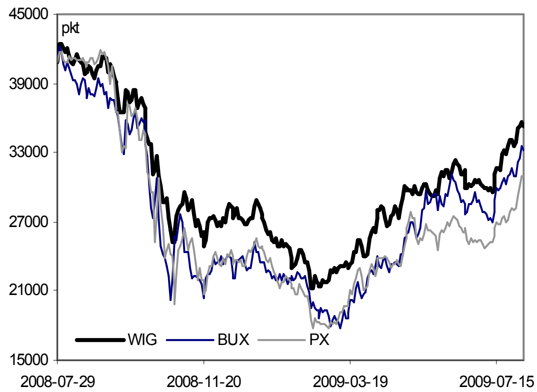
Macroeconomics

# Monthly Report

## August 2009

| | |
|---|---|
| **WIG** | **35 364** |
| Average 2009E P/E | 14.5 |
| Average 2010E P/E | 15.0 |
| Avg daily trading volume | PLN 1 247m |

**WIG vs. indices in the region**





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BRE Bank Macroeconomics Team


### Equity market

We are about to see an improvement in the "hard" macroeconomic data (as opposed to merely in the leading indicators) and in company earnings, which will push equity prices up on decreasing investor risk aversion. We expect inflows into investment funds, which should allow small and medium companies to outperform WIG20.

### Company News

**Banks.** To a certain extent, the banks' current market valuations discount an improvement in interest margin driven by higher market rates or a considerable rebound in volumes. We believe neither development is likely over the next three quarters.

**Gas&Oil.** We believe the current price of PGNiG is a good opportunity to sell its stock. We still see considerable upside for Orlen, as petrochemical margins improve and the trend reverses on the Urals/Brent spread. The valuation of Lotos is attractive as well.

**Telecommunications.** At the current valuations, the TPSA stock is more attractive: in August, it should reach a preliminary settlement with the regulator concerning the division proceedings and it will gain more from the appreciation of the PLN.

**Media.** Of the two companies whose business is based on advertising, Agora appears more attractive and we recommend overweighting it vs. TVN. In case of Cyfrowy Polsat we recommend holding.

**IT.** Despite significant rallies, AB and Asbis still appear attractive. We also have a positive view of Sygnity and Asseco. In case of Action and Komputronik, we recommend holding.

**Construction.** We consider Polimex Mostostal the most attractive investment in the construction segment at the moment. We are also optimistic about Mostostal Warszawa, but we recommend reducing PBG.

**Real-Estate Developers.** Our attitude towards Polnord remains positive, but we are still negative on J.W. Construction and Dom Development.

**Retail.** In the FMCG sector, Emperia's Q2 earnings may surprise on the upside. We remain neutral towards Eurocash.

**Ratings.** We are downgrading our ratings on the following stocks as of the release date of this Monthly Report: BZ WBK (Reduce), Ciech (Hold), ING BSK (Sell), LW Bogdanka (Hold), Netia (Hold), Pekao (Hold), PGNiG (Sell), PKO BP (Hold) and we suspend ratings for Erbud (Suspended), Rafako (Suspended) and Ulma Construccion Polska (Suspended).

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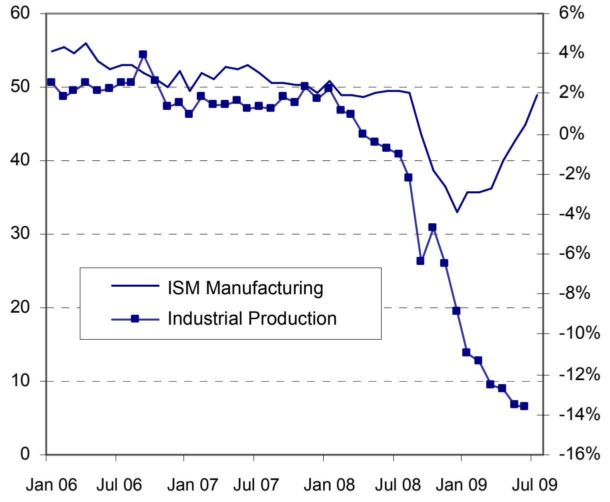
# Equity market

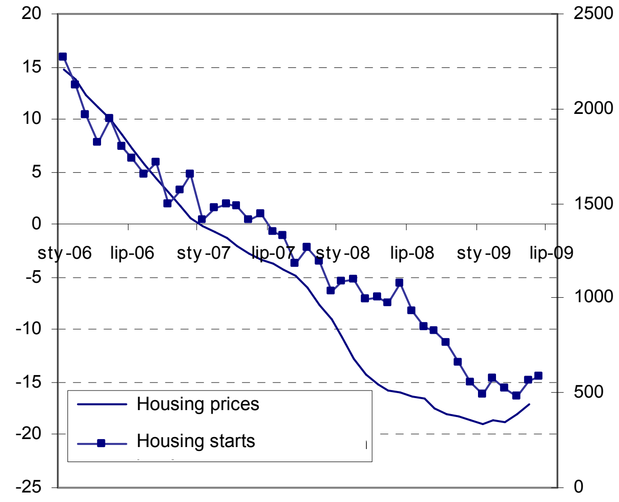
**Last month, we predicted that the WIG20 index would retreat to 1700 pts (creating buy opportunities), and then bounce back to 2000 pts. But improved US company earnings and economic data (jobs, construction, factory orders) spurred a flurry of buying, and as a result the index slipped much less than we had forecasted (1760 pts), and then rebounded over 2180 pts. The conclusion is that playing on a correction in this trend guarantees no success, and that the global sentiment is still being shaped by US corporate earnings and economy. Looking at the current economic momentum, we can say that we are facing at least a medium-term uptrend. An imminent improvement in "hard" (not only leading) economic indicators and earnings, combined with a growing risk appetite among traders, should drive stock prices up. Remember that more than half of the S&P500 companies derive their profits from overseas (which may send the index up even amid weak GDP data). In our view, in this market cycle, investors are not discouraged by stock valuations, which are very hard to determine based on earnings generated in a crisis period (coincident indicators). Today, traders look for companies with growth potential that can be realized once the economy shifts upwards, meaning that some of these companies are significantly overpriced (whether fundamentals can catch up with the valuations remains to be seen, although they usually don't, whether in an uptrend or a sideways trend). As earnings and economic trends improve, analysts make upward revisions to their financial forecasts. In Poland, as equity sentiment lifts, and stocks yield positive returns while banks reduce savings interest rates, there is potential for stronger inflows to TFI funds, leading to a rally on small and mid-caps which, we think, are going to perform much better than the WIG20 index in the second half of the year. We expect to be wowed by construction firms, for whom 2009 may not be the last profitable year after all, and by manufacturers. Amid demanding valuations, banks remain under supply pressure. The one vital but missing piece of this puzzle is a US (and European) consumer who has started to pay off debts (as the effects of stimulus packages wear away, consumer spending also dwindles). Summing up, as we stand by a 2009 economic recovery scenario, 2010 is a big question mark.**

## USA still crucial for stock markets

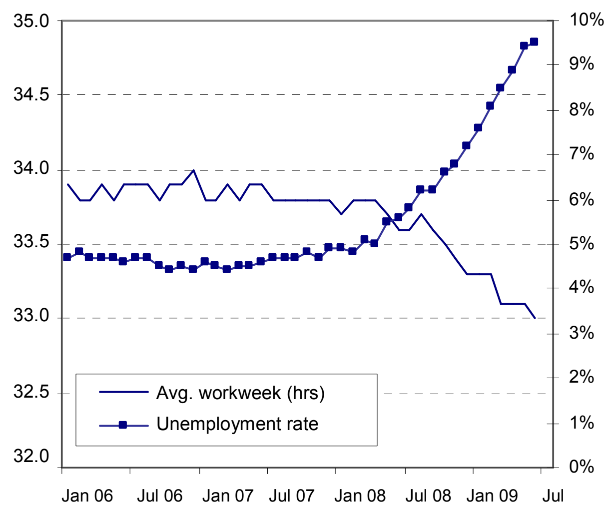
So far, improving leading- and confidence indicators in developed markets have sufficed to compensate for the 2008/9 bear markets. "Hard" economic indicators, including industrial production, housing, and jobs, are following year-on-year downtrends at the moment, but they are likely to start displaying upward movement in the next month or two, against low Q308 and Q408 bases. In the US, which is the main force shaping global stock sentiment, an improvement will be first noticeable in production data, as suggested by the new orders index. US capacity utilization is only 68% at the moment, meaning that, before job data can improve, employers have to first reduce layoffs (job cuts have already slowed down), increase capacity usage, extend the average work week, and start hiring again, offering higher salaries. In the best-case scenario, this process will take between a few months and a few quarters. A rebound in the job market is a prerequisite for a sustained improvement in consumer confidence which, according to Conference Board research, is currently in the dumps. On the upside, the real-estate market, which strongly influences consumer confidence, is showing signs of steadying, or even recovery (building permits, new home sales, month-on-month price trends).

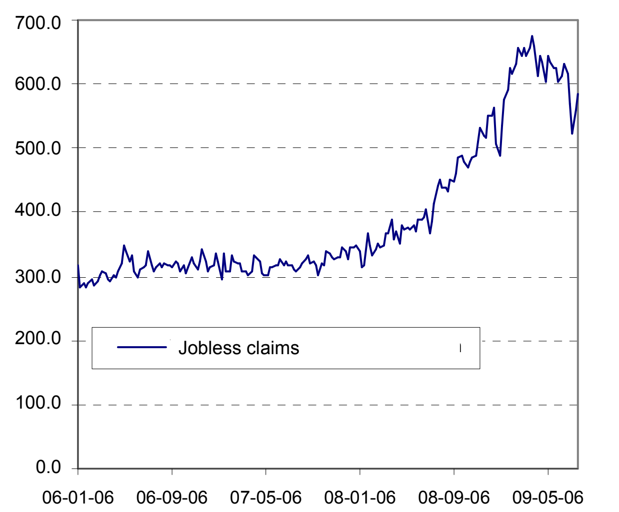
### Industrial production lags behind the ISM, housing steadies




### Fewer jobless claims, no improvement in working hours and jobs



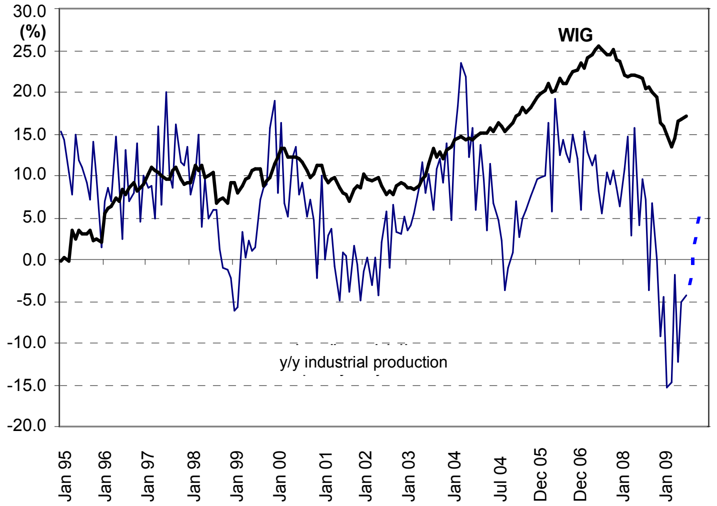

*Source: Bloomberg*

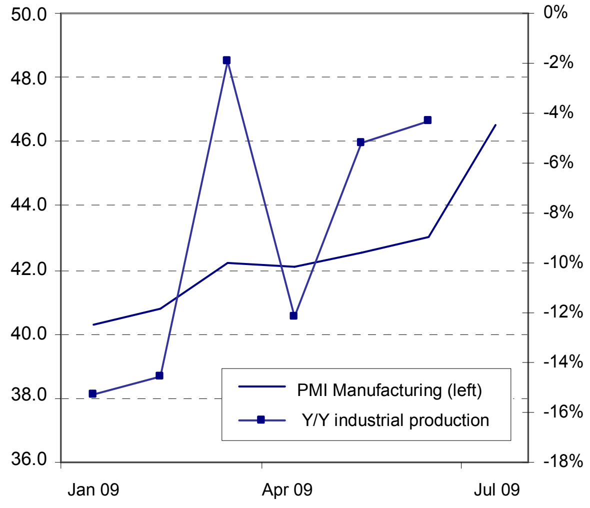
Although a recovery scenario is taking shape, it will be hard for the USA to maintain GDP growth rates above 1-1.5% without rebuilding internal demand and boosting consumer spending, which is additionally affected by increasing oil prices. This may mean an unpleasant surprise for the stock market in 2010. The situation can be saved by a continuing depreciation on the US dollar, which not only relieves credit stress (at the expense of inflation), but can also help fill the US budget gap, and hence alleviate the job market situation – a scenario which seems very likely at the moment. As a result, a challenge emerges for China (which will face an accumulation of a growing production output, paired with considerable consumer debt and increasing inflationary pressure – upward pressure on the yuan), as well as Europe (a strong euro affecting the competitiveness of exporting countries like Germany, which focuses on investment goods and experiences weak demand due to low global usage).

### Industrial cycle and the WSE

Increasing production and a weakening zloty can trigger an improvement in the Polish job market and internal consumer spending. Like in the case of other countries, an industrial revival (year-on-year growth) is heralded by the PMI. Historically, the performance of the WIG index has been strongly correlated with industrial production, and there is no reason why this should change in the present cycle.

**Industrial production (y/y changes) vs. WIG and PMI**



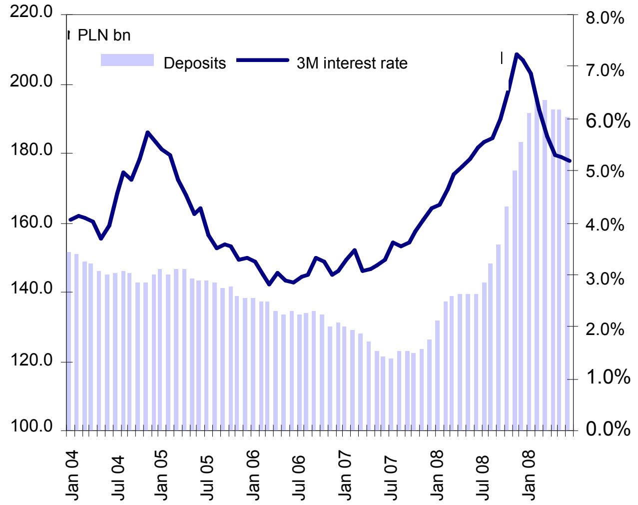

*Source: Central Statistical Office (GUS), WSE, BRE Bank*

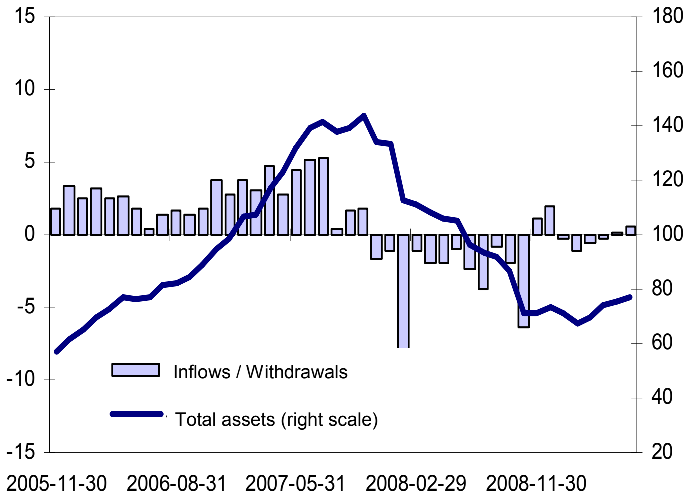
## Demand/Supply

As stock markets gain ground, investors become more inclined to invest in equity funds. According to Emerging Portfolio Fund Research, emerging market funds have recorded net inflows totaling US $32 billion in the last 3.5 months, which was more than the gains reported in the same period in the previous cycle. Given significant variations in the 2010 growth projections for developed economies (0.5%-1%) and developing countries (over 3%), fund assets dedicated to equities may flow from global funds to emerging market funds, possibly leading to speculation bubbles.

Polish investment funds (TFIs) are beginning to notice an increased interest in equity portfolios. According to fund-review Website *Analizy Online*, dismal initial months of 2009 were followed by net inflows of PLN 100m and PLN 580m, respectively, in May and June. As rates of return rise, and savings rates decline, funds will launch more aggressive offers on their shares.

**Term deposits, 3M deposit rates, TFI inflows/withdrawals**

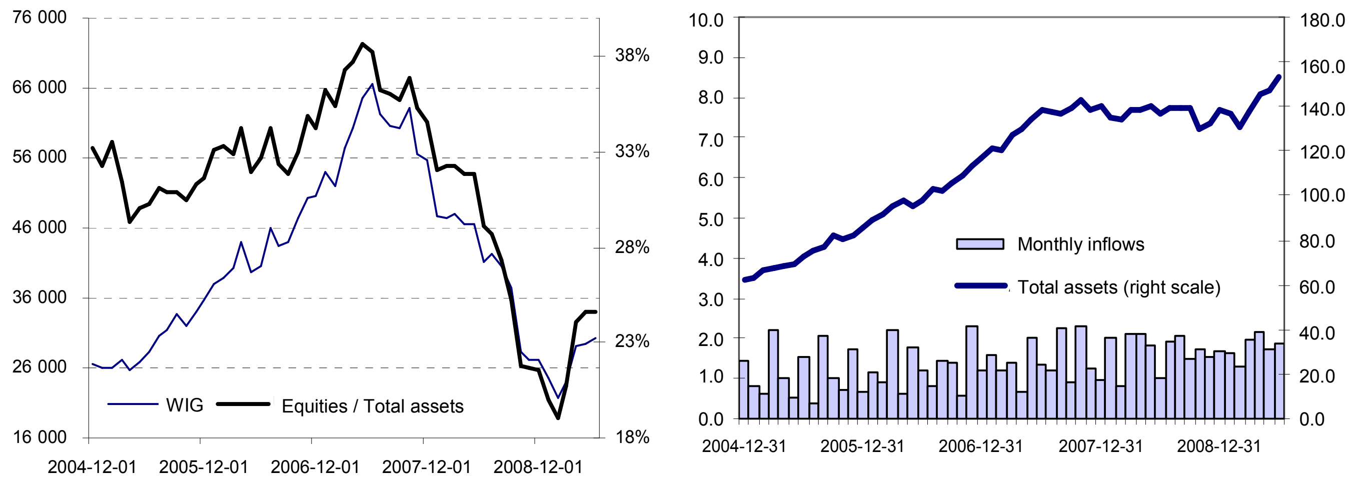



*Source: Analizy Online*

Polish pension funds (OFEs) record steady monthly inflows between PLN 1.7bn and 1.9bn from the Social Insurance Institution (ZUS). At 30 June 2009, the share of equities in the aggregate OFE portfolio stood at 24.6%.

**OFE assets**




*Source: Analizy Online*

In the next five months, and more notably in 2010, the main risks facing Polish stocks, and in particular big caps, is an equity supply resulting from the State Treasury‘s privatization agenda, expected to generate gains totaling PLN 35.7bn by the end of 2010. These gains are to be used to fill our country's budget hole. The ultimate scale of new equity supply will depend on the size of next year’s budget deficit, which might not be as big as the government expects given the positive economic outlook. What is more, it is obvious that, in case of certain companies featured on the government’s list, like copper producer KGHM, trade unions will do everything in their power to obstruct any privatization plans (the government may be allowed to sell a 10% stake in KGHM, which is currently worth PLN 1.9 billion).

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# Macroeconomics

## Inflation and money supply

In June, the annual inflation rate fell from 3.6% to 3.5%. The considerable discrepancy with our forecast (3.8-3.9%) was due almost entirely to food prices (the June decline in the prices of fruit (-11.3%) and vegetables (-7.5%) was quite a deep one, almost in excess of seasonal patterns). What is striking is the m/m increase in prices in the demand categories of the inflation basket. Significant growth was observed in the category “recreation and culture” (1.1% m/m), due to the more expensive euro and the increase in the price of foreign travel. June was also another month of sharp price increases in the “restaurants and hotels” category (0.5% m/m) and prices of "other goods and services" once again increased by 0.4% m/m. We estimate that the core inflation rate excluding food and energy prices declined only slightly vs. May, to 2.7% y/y, mostly due to base effects. According to our preliminary estimates, CPI will approach 3.0-3.2% in July, and it will remain above the 3% threshold in the ensuing months. In Q4, it might increase again due to strong base effects related to the dramatic plunges in fuel prices in the fall of 2008. We expect the core inflation rate to decline very slowly (in July, it might approach 2.7-2.8%).The issue of what inflation will be like in 2010 is getting more and more interesting: strong base effects from Q1 2009 might bring it down to ca. 1.5% y/y. The outlook for 2011 does depend on policies, however. The data have not changed our perspective on Poland's monetary policy. We believe that the consensus in the Monetary Policy Council appears to be moving towards a postponement of interest rate cuts till the fall (for reasons that include the higher level of inflation excluding food and fuel prices, experiments with alternative monetary instruments and the undesirable misalignment with the ECB's interest rate moves). In the fall, the question of how persistent inflation excluding food and fuels is will be settled, as the NBP will have prepared a new inflation projection. We would like to stress, however, that we consider an interest rate cut in the fall a risk rather than part of the base scenario.

M3 money supply increased by PLN 693.5bn in June, up from PLN 685.4bn recorded at the end of May. Annual rate of money supply growth was 12.43% vs. 14.2% seen in May. As we expected, in June we saw a further large decline in Social Security Fund deposits (by over PLN 3bn), which is a direct consequence of the growing deficit in this area. Retail deposits, in turn, conformed to the trends seen in the recent months (increase by 1.2% m/m), which is a consequence of the increase in the savings rate and the war for deposits being waged by the banks. Since the start of the year, retail deposits have increased by over 9%. Corporate deposits have been growing surprisingly fast (5.1% m/m, +PLN 7.2bn), which is probably by and large a consequence of tax reimbursements. As far as loans are concerned, the trends seen in the past months have been confirmed, i.e. meager growth in household loans (0.8% m/m) and further decline in corporate credit (-1.0% m/m). We believe later in the year we should see "decent" deposit growth and cash "stockpiling" by businesses, as well as their further deleveraging by the banks, leading to a contraction in credit.

In June, producer prices increased by 0.6% m/m, much above our expectations; as a result, the annual growth rate was 4.0% (vs. 3.4% in the forecast consensus and 3.7% growth in May). The increase in producer prices was driven by price hikes in manufacturing (+0.8%) and mining (+2.3%) and the fact that the decline in utility prices was small (-1.7%), much below the changes in pricelists. The increase in prices in manufacturing was primarily driven by price hikes in the category "coke production and petroleum refining" (+11% m/m), which had some impact on growth in the other categories. It appears that some companies are taking advantage of the temporary increase in commodity prices to make prices rigid (cf. also the fact that there was practically no change in retail fuel prices despite the strong decline in crude oil prices and the appreciation of the zloty). We do not believe this is sustainable in the medium term (all the more so that increases in commodity prices turned out to be one-off developments, and the zloty is slowly climbing up).

## Current-account balance

In May, we once again saw a current account surplus (EUR 207m vs. EUR 147m a month ago). In terms of individual components, the picture was as follows: a slight deficit in the balance of trade in goods (EUR -58m vs. -EUR -4m a month ago), positive net transfers (EUR 467m), positive balance of trade in services (EUR 235m, due to the weakening demand for foreign services) and negative net factor income (-EUR 437m). The depreciation of the zloty and the substitution of domestic products for imported products (in combination with low levels of consumer optimism) led to a drastic correction in imports (-32.8%), which, combined with the relatively better performance of exports (-23.8%) brought about a relatively low deficit in the balance of trade. It should be stressed that the improvement in exports was driven by car exports, mostly to Germany, which increased year on year. We believe that the gap between the growth rate of imports and exports may widen (or remain fairly high, given the fact that exports are fairly imports-intensive) as the economies of Poland’s main trading partners improve (Poland's key exports are still simple products that serve as production materials) while domestic demand remains weak. The resulting high contribution of net exports will improve GDP growth statistics in 2009, allowing growth to remain positive despite weak consumption and reduction in investment demand. We believe this tendency will be confirmed in Q2'09 GDP data. With the contribution of net exports at 3pp and less far-reaching negative adjustment in inventories (as shown by slightly better retail sales and industrial production data), GDP growth of 1-1.5% is possible. At -EUR 474m negative foreign investment is striking, although this is partially offset by higher amounts of securities purchased as portfolio investment. The newest data may also bring some comfort to the skeptics – in May, the balance of errors and omissions grew slower than before. We believe that in the upcoming months, funds will be diverted away from foreign direct investment, which will have an impact on this category in emerging markets, including Poland. That said, due to the positive current account tendencies (the fact that the balance of trade was balanced fast, the positive net transfers and balance of trade in goods – all of which means that C/A balance as percent of GDP may be close to zero in FY2009), a standard currency crisis is a very unlikely scenario. We believe that the positive C/A trends will make it possible for Poland to reach the time of decreased risk-aversion without much pain.

## Labor market

The average employment in the enterprise sector declined by 1.9% y/y in June, which is in line with our forecast. The real data are confirming what has already been seen in sentiment indicators. The improvement in employment indicators we have been observing for a while suggests that the slower decline of the labor market is not a consequence of a seasonal reduction in unemployment (these two statistics are constructed on the basis of very different samples). We believe that layoffs will continue at 10-20k per month in the near future. Although some companies remain in the doldrums, which forces them to undertake restructuring efforts, the signs of a revival in foreign economies might encourage Polish firms to keep "stowing" employment, so as to avoid costly staff rotation. What is more, additional cushioning is provided by the slower growth of salaries, which may have even been frozen in some cases thanks to reduced union activity, which made a reduction in real salaries possible, a positive development from the point of view of future production and cost–competitiveness of Polish companies. Although employment is declining somewhat slower, we should not expect companies to start hiring anytime soon. Due to adjustments such as workweek reduction (unfortunately we only have anecdotal evidence on this issue), slow employment growth will probably persist into 2010 and 2011. In June, salary growth in the enterprise sector fell to 2.0% y/y from 3.8% y/y seen in May, which is in line with the downward trend observed in the preceding months: the pressure on salaries is coming to a screeching halt. As early as at the start of the year we said that the slowdown of salary growth to 2% was only a matter of time. In addition, the June data point was artificially lowered by the high base from 2008 (profit bonuses for miners). The decline in bonuses will dampen salary growth in H2 2009 as well, possibly pulling it down to levels as low as 1%. In the medium term, the slower salary growth should reduce inflation in services (but this effect will not be clearly felt until 2010). Lower salary expenditures are also a harbinger of slower retail deposit growth (these have increased by 6.5% already since the start of the year). Although today's data support the view that the macroeconomic environment is disinflationary and that in the medium term inflation is set to fall, they are unlikely to induce the Monetary Policy Council into further loosening anytime soon. As we have said, the Council is experimenting with alternative quantitative loosening methods and it wants to avoid misalignment with the ECB.

## Industrial production

In June, industrial production beat the forecast consensus, declining by 4.3% y/y vs. -5.2% y/y in May. Year-on-year, production declined in 21 out of the 34 sectors. Month-on-month growth was recorded in 13 sectors (such as electronics, electrical equipment and furniture), which might harbinger a revival in domestic demand. It needs to be stressed that just as in May, the improvement is not due to one-off factors – the seasonally adjusted data indicate a 5.6% y/y decline vs. -5.9% y/y a month ago. We can see an ongoing improvement in industrial production, and this impression is further reinforced by the sentiment indicators. The newest industrial production data provide another signal (after, e.g. employment data) that the situation in the Polish economy is stabilizing on the supply side. In the upcoming months, industrial production growth will remain negative, but as the German economy emerges from the recession, Polish manufacturers will feel some degree of relief (especially those that focus on exports). The expected improvement on the supply side, however, will not lead to a quick improvement in domestic demand. We remain pessimistic in this respect (consumption growth may decline to 1.5% in the upcoming quarters, and we expect a significant decline in investment in Q2-Q3 – in the previous cycle investment shrank for 9 consecutive quarters).

## Retail sales

Retail sales increased by 0.9% y/y in June (nominally) compared to 1.1% in May. In real terms, this is a 0.7% decline (vs. -0.5% a month earlier). Retail sales exceeded expectations

(0.4% y/y) due to the “rebound” in durable goods sales after the deep plunges in the previous months (with car sales declining by 8.6% y/y in June vs. 21.5% in April and 10.7% in May and with furniture and household equipment sales increasing by 6.3% vs. 3.0% in May); food sales increased as well. Since the start of the year, retail sales growth excluding food and fuels (which reflects the part of retail demand that is the most closely linked to the economic cycle) has stabilized at slightly above zero. The outlook for retail sales remains fairly bleak, as household current and expected incomes continue to decline. We expect retail consumption growth to gradually decline towards 1.5% by the end of the year, which will have a negative impact on budget revenues. Retail sales deflator has stabilized at 1.6% and it remains strongly influenced by the sharp increases in fuel prices. The growth of prices excluding food and fuels was slightly slower in June than in May, once again approaching zero. We reiterate our view that core inflation is driven by administered prices and the entire basket of non-market services.

## Current ratings by BRE Bank Securities

| Company | Rating | Target Price | Rating Date |
|---|---|---|---|
| AB | Buy | 10.31 | 2009-04-30 |
| ACTION | Hold | 12.30 | 2009-07-03 |
| AGORA | Buy | 19.60 | 2009-07-24 |
| ASBIS | Buy | 2.16 | 2009-04-30 |
| ASSECO POLAND | Buy | 67.40 | 2009-05-27 |
| BUDIMEX | Hold | 65.80 | 2009-05-11 |
| BZWBK | Reduce | 102.00 | 2009-08-05 |
| CIECH | Hold | 31.80 | 2009-08-05 |
| CYFROWY POLSAT | Hold | 14.55 | 2009-05-29 |
| DOM DEVELOPMENT | Sell | 24.10 | 2009-06-15 |
| ELEKTROBUDOWA | Hold | 162.70 | 2009-06-04 |
| EMPERIA HOLDING | Buy | 70.30 | 2008-11-28 |
| ERBUD | Suspended | | 2009-08-05 |
| EUROCASH | Hold | 9.90 | 2009-05-06 |
| HANDLOWY | Sell | 40.90 | 2009-05-07 |
| ING BSK | Sell | 313.00 | 2009-08-05 |
| J.W. CONSTRUCTION | Reduce | 9.70 | 2009-06-15 |
| KĘTY | Buy | 109.40 | 2008-08-04 |
| KGHM | Reduce | 54.90 | 2009-06-08 |
| KOMPUTRONIK | Hold | 10.48 | 2009-05-29 |
| KREDYT BANK | Sell | 4.10 | 2009-03-05 |
| LOTOS | Buy | 26.40 | 2009-05-28 |
| LW BOGDANKA | Hold | 64.50 | 2009-08-05 |
| MILLENNIUM | Sell | 1.80 | 2009-05-12 |
| MONDI | Accumulate | 57.40 | 2009-07-10 |
| MOSTOSTAL WARSZAWA | Accumulate | 65.60 | 2009-06-04 |
| NETIA | Hold | 3.80 | 2009-08-05 |
| NOBLE BANK | Suspended | | 2009-01-29 |
| PBG | Reduce | 201.60 | 2009-06-04 |
| PEKAO | Hold | 133.20 | 2009-08-05 |
| PGNiG | Sell | 3.58 | 2009-08-05 |
| PKN ORLEN | Buy | 40.10 | 2009-06-02 |
| PKO BP | Hold | 30.20 | 2009-08-05 |
| POLICE | Sell | 5.80 | 2009-06-04 |
| POLIMEX MOSTOSTAL | Accumulate | 3.80 | 2009-05-25 |
| POLNORD | Accumulate | 35.20 | 2009-07-03 |
| RAFAKO | Suspended | | 2009-08-05 |
| SYGNITY | Buy | 25.30 | 2009-05-27 |
| TELEKOMUNIKACJA POLSKA | Buy | 19.40 | 2009-07-31 |
| TRAKCJA POLSKA | Buy | 4.90 | 2009-05-18 |
| TVN | Hold | 10.00 | 2009-07-01 |
| ULMA CONSTRUCCION POLSKA | Suspended | | 2009-08-05 |
| UNIBEP | Hold | 5.30 | 2009-05-26 |
| WSiP | Buy | 17.80 | 2009-08-04 |
| ZA PUŁAWY | Hold | 82.70 | 2009-05-28 |

## Ratings issued in the past month

| Company | Rating | Old Rating | Target Price | Rating Date |
|---|---|---|---|---|
| AGORA | Buy | Buy | 19,60 | 2009-07-24 |
| MONDI | Accumulate | Hold | 57,40 | 2009-07-10 |
| TELEKOMUNIKACJA POLSKA | Buy | Accumulate | 19,40 | 2009-07-31 |
| WSiP | Buy | Buy | 17,80 | 2009-08-04 |

## Stocks rerated as of 5 August 2009

| Company | Rating | Old Rating | Target Price | Rating Date |
|---|---|---|---|---|
| BZWBK | Reduce | Accumulate | 102.00 | 2009-08-05 |
| CIECH | Hold | Accumulate | 31.80 | 2009-08-05 |
| ERBUD | Suspended | Reduce | 35.00 | 2009-08-05 |
| ING BSK | Sell | Hold | 313.00 | 2009-08-05 |
| LW BOGDANKA | Hold | Accumulate | 64.50 | 2009-08-05 |
| NETIA | Hold | Buy | 3.80 | 2009-08-05 |
| PEKAO | Hold | Accumulate | 133.20 | 2009-08-05 |
| PGNiG | Sell | Reduce | 3.58 | 2009-08-05 |
| PKO BP | Hold | Accumulate | 30.20 | 2009-08-05 |
| RAFAKO | Suspended | Buy | 8.70 | 2009-08-05 |
| ULMA CONSTRUCCION PL | Suspended | Hold | 40.20 | 2009-08-05 |

## Ratings Statistics

| | All | | | | | For clients of BRE Bank Securities | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Statistics | Sell | Reduce | Hold | Accumulate | Buy | Sell | Reduce | Hold | Accumulate | Buy |
| count | 7 | 4 | 14 | 4 | 12 | 1 | 0 | 6 | 4 | 3 |
| % of total | 17.1% | 9.8% | 34.1% | 9.8% | 29.3% | 7.1% | 0.0% | 42.9% | 28.6% | 21.4% |

# Financial Sector

### Pengab up 5.3pts, reaching 18.9pts

In July, the banking industry sentiment gauge Pengab rose by 5.3pts, to 18.9pts. The aggregate assessment of the current situation improved by 4.6pts m/m to 14.8pts, while the future outlook assessment went up by 6.0pts to 23.0pts. Respondents noted an increased interest in zloty deposits (term deposits and current accounts). They expect currency deposits to contract. The situation continued to improve in zloty and foreign-currency consumer loans and small corporate loans (under EUR 1m), and this trend is expected to persist. Prices of business loans increased. The assessment of the market for bonds and insurance was positive as well, and further improvement is expected in the former category. After the money supply data, this is another batch of slightly positive news. Pengab is reflecting the revival in the banking sector which is typical of the spring and early summer. If growth were to be observed in August as well, we would consider this a sign of improvement, as it is a vacation month. Pengab is still at a very low level compared to last year (34.1pts in July 2008). We believe it is too early to call a trends reversal (the 12M moving average for Pengab continues to decline, although we may venture to guess that we are past the absolute trough in sentiment).

### War for savings abating?

According to *Rzeczpospolita*, the average APR on 3-month deposits at Poland's top 20 banks is 5.59%, vs. 6.3% in March and as much as 10% at some banks at the start of the year. Recently, interest rates on deposits were cut by PKO BP, among others. Competitors are likely to follow suit. We agree that interest paid on deposits is going down and the NBP's statistics confirm this. However, if clients could open 3-month term deposits at 6.3% in March, these did not expire until the end of June. In addition, market rates have fallen. Thus, the impact of the war for savings will be felt for a while, affecting earnings in the ensuing quarters.

### SNB will continue to intervene against the appreciation of the CHF

According to Mr. Thomas Jordan, one of the governors of the Swiss central bank, the SNB will continue to intervene in the forex market in order to counteract CHF appreciation. Good news for Polish banks.

### Money supply

M3 increased by 14.3% y/y and 4% YTD. The data are fairly good as far as retail and corporate deposits are concerned. Retail deposits increased by PLN 4.3bn within the month (10% YTD, 25% y/y), while corporate deposits surged by a staggering PLN 7.2bn (vs. PLN 3.7bn a month earlier, after declines seen at the start of the year), which represents growth of 7% y/y (-0.9% YTD). At the same time, local governments and the Social Security Fund withdrew funds (-PLN 1.6bn and -PLN 3.2bn, respectively). Lending remains slow. Loans increased by 27% y/y (vs. 29% a month earlier). While retail loans are on the rise (by PLN 3bn within a month, 8% YTD), corporate loans keep declining (-PLN 2.3bn, 0.9% YTD). The loans-to-deposits ratio was 114.8% at the end of June, having improved from 115.6% recorded at the end of May. In June, exchange rates were relatively stable, with the zloty appreciating by 0.4% vs. the CHF and depreciating by 0.24% vs. the EUR. The retail segment is doing better than we expected, with deposits growing faster than projected. Even if that changes in H2 (unemployment, alternative types of savings), we can see that our forecasts will be exceeded. We will revise our volume projections in our next report. We are also able to be somewhat more optimistic about retail lending. Businesses are under pressure and banks are unwilling to lend to them, although we like the June increase in the segment's deposits. We reiterate our forecast of a 7% decline in corporate deposits in FY2009, but we see that our projection for loans (-13.5%) assumes that the portfolio will be shrinking faster than will actually be the case. As a result, the supply of corporate credit may be reduced next year as well, even if corporate savings improve.

### NBP: The value of mortgage lending increased by PLN 1.6bn in June

In May, the value of mortgage loans granted to individuals increased by PLN 3.9bn. The value of F/X loans increased by PLN 55.6m in June, after a PLN 2.5bn surge in May; the value of zloty loans by PLN 1.6bn vs. PLN 1.45bn in May. With the exchange rate fixed, the value of mortgages increased by PLN 2.26bn (in June, the PLN appreciated vs. the CHF by 0.4%). This is stronger fixed-rate growth than in May, when it amounted to slightly less than PLN 2bn. We can see a certain revival in terms of the value of loans granted, but this does not change the picture of the market. Last year, sales were higher in June than in May as well.

### NPLs

In June the ratio of NPLs to gross loans increased to 6.3% vs. 6% at the end of May, mostly due to corporate NPLs (10.1% vs. 9.3% a month earlier, increase by nearly PLN 1.7bn). The value of retail NPLs increased as well, by PLN 0.4bn vs. PLN 0.74bn in May; they now amount to 4.2% of gross loans (vs. 4.1% a month earlier). The ratio increases not just because NPLs are on the rise (at a similar m/m pace), but also because total loans are shrinking.

## ZBP: Mortgages at PLN 16.8bn in H1’09

In H1’09, the banks granted 83,283 mortgages for a total of PLN 16.8bn. In H1’08, 165,000 loans were granted for a total of PLN 36bn. The Union of Polish Banks (ZBP) projects a total of PLN 40bn for FY2009 (the H1 total is 42% of this amount). While in January 11,000 loans were granted, in May 15,200 and in June, 16,700. According to preliminary data, in Q2’09, banks granted some 45,000 mortgages for a total of PLN 9.1bn. The real estate market is experiencing a revival that is typical of the spring and early summer. We expect the demand for mortgages and home sales to slow down in the upcoming vacation season. The big question mark is what happens in the fall, when demand typically revives. This year, this may be derailed by the expected increase in unemployment. In the winter, demand for real estate typically declines. At present, we view the ZBP's forecast as overly optimistic, although after seeing the results for Q2'09, we are inclined to believe that sales may be somewhat better than our current forecast (PLN 25–30bn), i.e. in excess of PLN 30bn in FY2009. Such a discrepancy, however, will have little impact on the banks' earnings (even with a margin at 2pp above the cost of the loan, an additional PLN 3bn lent entails additional PLN 60m annually in interest income).

## State-subsidized mortgages at PLN 555.1m in June

According to BGK, in June 3,107 state-subsidized mortgages were granted, vs. 2,858 in May. In H1’09 as a whole, there were 12,444 such loans for a total of PLN 2.128bn; since the start of the program, i.e. January 2007, 23,073 loans for a total PLN 3.415bn. The average loan granted in June was PLN 178,000 (which is basically unchanged since May). The average value of the subsidized loans in the first six months of the year was PLN 171,000, i.e. there has been an increase since the start of the year. We believe such loans are playing an increasingly important role in the sector, and sales have remained high in June. It illustrates the seasonal revival in sales that is typical for the spring and early summer. This does not change our projection of PLN 25–30bn in mortgages across the sector in FY2009.

## Savings up by 2.7% q/q to PLN 689.4bn in Q1’09

According to Analizy Online, total household savings in Poland have reached PLN 689.4bn. According to this analysis, due to the changes that have taken place in the structure of the disposable income of households, the banks are the key driver of savings. At the end of last year, the bank's share of total savings has returned to 50%. During the first quarter, the value of savings deposited with banks increased by PLN 23.9m, reaching PLN 356m (+7% YTD). The second important segment are pension funds, whose total declined slightly, by 0.8% q/q. The value of funds kept outside the banking system has reached a record-high level; after increasing by 0.4% in the first quarter, it accounts for 13% of total savings. Households remain the main driver of the banks' funds for lending. We should also expect the banks to be most willing to extend loans to this group of clients, although the rate of lending growth will be aligned with savings growth, given the much more careful approach to credit risk.

## ZBP: Over 11.9m retail clients have online access to their accounts

The number of retail clients with online access to their accounts reached 11.94m at the end of Q1'09. 6.62m of them conduct an average of 4.4 transactions per month. In addition, 1.31m SMEs and 105,500 bigger businesses have online access to their accounts and they conduct an average of 16.4 and 119 transactions per month, respectively. The banks’ potential for savings on client service costs is increasing.

## Crowds at banks that offer mortgages on attractive terms

The banks that offer mortgages on good terms (which according to *Rzeczpospolita* include DnB Nord, Deutsche PBC, Nordea Bank, some branches of PKO BP) receive more applications than they can process. It takes up to two months before the decision comes. Clients apply at several banks. The demand for mortgages remains high despite all the noise in the media about the crisis. Banks did, however, reduce loan supply sharply. Looking at the current offers, we can expect reshuffles among the top players in this segment. The listed banks, which have been dominant till now, will be losing more and more ground to the smaller fry.

## Interbank market

According to *Rzeczpospolita*, the interbank market remains dominated by loans of up to few days; liquidity is severely reduced for 3M and 6M loans. Yesterday, the 3M WIBOR was 4.18% (0.7pp above the reference rate, i.e. the same as right after the Lehman Brothers bankruptcy). The banks, rather than lend to each other, opt for Treasury bills. According to dealers, the situation improved in that the market is not in panic, and credit limit reductions (which were sometimes imposed by foreign investors) are becoming a thing of the past. The picture will not change until the global players (who are often the strategic investors in the Polish banks) start to attach a lower price tag to risk. At the same time it is worth noting that the spread between the 3M WIBOR and the reference rate has started to shrink. On June 1, it amounted to 87bps.

## BGK sent guarantee agreements to banks

According to *Rzeczpospolita*, commercial banks were to sign agreements on SME loan guarantees with BGK on 30 July. The following banks declared they would do so: BZ WBK, BGŻ, Millennium. ING BSK, BRE Bank, Raiffeisen, DnB Nord, Pekao and Handlowy are still negotiating, but they too are likely to sign as well. They do not believe, however, that the program can be successful due to its price (2% of the amount of the loan, payable in advance). The banks are attempting to reduce this amount, in one case to 1%. The jury will be out for several more months. July is no over, and the agreements are yet to be signed. We believe the guarantee system will be launched after the summer. This is when we will know how well-prepared the process is operationally. We will see its impact in Q4'09, although due to the decline in demand from businesses, the higher cost of credit risk and the need to obtain financing we do not expect a strong revival in corporate loans even if the process is carried out in an efficient manner.

### Santander and AIG Bank Polska to merge

The transaction involves a share swap, after which Santander will own a 70% stake in AIG Bank Polska and will control the new entity, while AIG will own a 30% stake. The new bank will focus on the retail segment. In terms of assets, it will probably be Poland's 15th bank. The merger has to be approved by the Financial Supervision Authority (KNF) and the competitor watchdog UOKiK. The valuation of AIG Bank Polska in this transaction was not disclosed. AIG will get no cash from the transaction, just shares in the new entity.

### Ukrainian banks in the red

11 out of 16 Ukrainian banks recorded losses for Q2'09 and H1'09, with the record going to Raiffeisen Bank Awal (UAH 716m), followed by First Ukrainian International Bank (UAH 484m). Bad news for PKO BP, Pekao and Getin Holding, which have subsidiaries in the Ukraine.

### Demand for finance and banking employees increases by 9% in Q2 2009

According to pracuj.pl. the number of job offers in banking and finance increased by 9% q/q vs. 3% for the entire labor market. It is, among other things, a consequence of the growth of Alior Bank and higher employment at Euro Bank. This does not indicate that headcount will increase at the listed banks. We believe that layoffs or hiring freezes will continue until the end of the year.

### Loan to ZUS will reduce lending to other segments

This year's shortfall at the Social Insurance Institution (ZUS) is estimated at PLN 5–8bn. If ZUS takes out loans, this could lead to reduced lending to individuals and companies. Currently, bids are being submitted for a new credit line of PLN 2.5bn, as the previous one (in the same amount) expires at the end of September. We expect the loans/deposits ratio to increase considerably in this area. Social security deposits have been falling sharply for two months (over PLN 3bn in June). The demand for loans from these quarters will lead to a significant reduction in lending to the two biggest client segments, households and businesses. While the amounts cited appear negligible when compared to the entire loan portfolio, they are very significant when compared to new loan production, especially in FY2009.

### Bonuses increase risk

The Head of the Financial Supervision Authority (KNF) wrote a letter to the President of the Polish Banks Union (ZBP), in which he suggested that banks should change their approach to remuneration, i.e. eliminate the link between remuneration and quantitative targets. Banks can hardly be expected not to set targets for their employees. The model, in any case, is not home-grown – that's how the global economies function.

### BGŻ's factoring revenue climbs to PLN 875.4m in H1'09

BGŻ saw a 16% year-on-year increase in the first half of 2009 and expects sales of debt factoring services to continue increasing after the launch of an e-factoring system eBGŻ Faktor on 1 June. Revenues generated by factoring services are on the rise thanks to greater liquidity-management needs of bank customers. Overall, however, factoring is a minor contributor to bank revenues.

### Businesses can apply for technology loans

Polish companies can use the new EU-funded technology loan, under a PLN 440m stimulus program (up to PLN 4m per borrower). Support is offered through six banks (PKO BP, Pekao, BRE Bank, BPH, Raiffeisen Bank, and BPS) which had signed arrangements with the government-owned bank BGK. Subsidized loans have a small share in lending portfolios, but they help banks to establish relationships with SMEs and form a basis for future growth.

### Fortis–Dominet merger expected to generate PLN 100m cost synergies

Fortis Bank Poland estimates that its merger with Dominet Bank can bring PLN 100m in cost synergies in two years. Fortis is financing the merger by offering 5.24m shares to existing shareholders (meaning that 99.19% of the offering will go to Fortis Bank SA/NV). The merger process will take place between 1st and 3rd August, with the legal merger on 31 July. The merged organization, which is going to operate as Fortis Bank, will be ranked fourteenth in asset size (PLN 23.1bn at the end of Q1'09), and eleventh in network size (270 branches including 160 partner outlets). The merger will not influence other banks. This news has already been known. The KNF approved the merger in July.

### More than 20m personal accounts across the sector

According to Bankier.pl, there were 20m personal accounts open with Polish banks as of the end of Q1'09 (+1m y/y). PKO BP remains the leader, with 6.34m checking accounts. Pekao is the runner up with 2.96m accounts, followed by the online bank mBank (1.52m) and BZ WBK (1.5m). The other banks with more than 1m accounts are Millennium and ING BSK. One change from last year's ranking is that BZ WBK relinquished its spot on the podium to mBank. Altogether, BRE Bank (i.e. mBank and Multibank) operate 1.77m accounts. The number of accounts is growing at the slowest pace at PKO BP (+43,000). Pekao benefited from its merger with BPH. As for the other top banks, growth looked as follows: mBank 242,000 accounts, BZ WBK 216,000 accounts, Bank Millennium 210,000, ING BSK 166,000. Of the smaller players, the following added accounts at a fast pace: Lukas Bank (68,000), Eurobank (70,000), MultiBank (52,000) and Alior Bank (which opened almost 92,000 personal accounts since its launch in November 2008). According to the Union of Polish Banks, 7.5m people use online access to their accounts. These official statistics do not exclude unused accounts. The number of users is also smaller than 20m, as a single person may have accounts at more than 1 bank. Interesting data that show the "natural" shares of the individual banks in the retail segment. PKO BP's share by the number of accounts is 32%, but its retail deposit portfolio indicates a smaller share. One reason is the fact that it is more entrenched in smaller towns, where the average deposits tend to be lower.

### NBP to accept more types of collateral for Lombard loans

The NBP is now going to accept foreign-currency denominated securities as collateral for Lombard loans. At first, only EUR-denominated bonds issued by the Polish government will be accepted; as the situation in the market changes, the NBP may start accepting Polish Treasury bonds denominated in other currencies as well as securities issued by other countries. At the same time, the NBP Board did not recommend to the Monetary Policy Council (RPP) that repo loans be extended, but if this might still happen if necessary, A member of the RPP, Mr. Marian Noga, said in late June that the banks would be given long-term access to money. Good news for the banking industry. The banks would like, however, to see mortgage-backed securities accepted as well.

### New strategy for BOŚ

According to the new strategy of BOŚ, covering 2009-2013, the bank will be injected with capital in the amount of PLN 470m by 2011, of which PLN 150-300m is to be obtained this year. Next year, a public share offering is possible, which would boost the liquidity of the stock. According to CEO Mariusz Klimczak, the strategic goals which will be pursued with these funds include achieving a net income of PLN 260m and a return on equity of 15% in 2013. Income from banking operations is to reach PLN 785m (vs. PLN 331.5m in 2008), including PLN 412m from the retail segment. Mr. Klimczak added that the Bank would like to increase the number of retail clients to 500,000 by the end of 2013, vs. 200,000 at the end of 2008. The number of corporate clients is to increase from 19,000 to 36,000. The Bank says it will introduce "nonstandard retail products" in H2'09, and that its corporate image will be changed. BOŚ is still a small retail-focused bank. These plans do, however, increase competitive pressure on other smaller players (e.g. in the area of deposits).

### Bank Pocztowy targets SMEs

The Bank has prepared a strategy which foresees its share of the SME segment increasing eightfold within three years from the current 0.3–0.5% (by number of companies). The target clients have revenues in the range of PLN 3–200m, with special focus on the smaller ones (under PLN 30m). The Bank is eying considerable economies of scale. Its income from banking operations is supposed to double within three years. For now, the Bank's weakness lies in the lack of online access. Moreover, growth hinges on capital injection. BP might be able to find clients in small towns, where there are no alternatives (or there is little competition), and the clients' demands as far as product sophistication is concerned are limited. For smaller businesses, Bank Pocztowy may be a very attractive bank, due to its pricing and the wide reach of its network (i.e. the postal network).

### Annual general meeting at Fortis Bank Polska, KNF approves subordinated loan

The Financial Supervision Authority (KNF) has approved FBP's request to include a EUR 20m loan in supplementary funds. In other news, shareholders approved a capital increase and the merger with Dominet Bank. According to *Parkiet*, the SPO may exceed PLN 400m. Its goal is to protect the Bank against the mounting cost of risk. The Bank's new investor (BNP Paribas) might create provisions for Vistula's debt or client F/X losses. This will be a tough year for the Bank. We do approve of the support given by the new investor.

### Getin Holding: Fitch downgrades ratings for TU Europa and TU na Życie Europa to 'BB'

The decision in question applies to the insurers' international financial strength ratings, which were previously at 'BBB-'. The ratings are now equal to Getin Bank's rating, mostly due to the high exposure of the companies to GB (through investment). At the same time, Fitch lowered the two companies national rating from 'A' to 'BBB'. The outlook was changed from stable to negative. TUE stresses that despite the rating downgrade, the situation of the insurers remains good operationally and financially. Earnings are 36% above last year's level, and gross premium written (by Polish Accounting Standards) has increased by 105% y/y. TU Europa supplies Getin Bank with deposits. Not news for the market.

### Getin Holding & Noble Bank: Post–merger plans

In the request to the Financial Supervision Authority (KNF) for permission to merge Getin Bank and Noble Bank and for the strategic shareholders to exceed 75% of votes, a pledge was made that no actions would be taken to withdraw Noble Bank shares from the WSE. If such actions are needed, the KNF will be consulted first. In addition, a pledge was made that for 3.5 years after the merger, free float will not decrease to below 15%. The issuer is planning to pay out half of its profits as dividends; if earnings are exceptionally good and capital adequacy is high, higher dividends may be considered. Dividends will be paid out if the capital adequacy ratio allows for that. Given the current macroeconomic circumstances, the 50% payout ratio should be considered a target rather than something that will be in force starting next year.

### Noble Bank, Getin Bank buy a 19.947% stake in TU Europa

Getin Holding sold 785,200 shares of bancassurance provider TU Europa to Getin Bank and Noble Bank for PLN 67.06m each (PLN 85.4/share), making for a total 1570.4 thousand shares sold for PLN 134.112m, and representing a 19.94% equity interest. Getin Holding still owns 79.85% of TU Europa's outstanding shares. According to *Parkiet*, this inter-company deal was aimed either at providing the parent with acquisition capital, or at improving liquidity. We suspect that Getin Holding may use the cash either toward acquisitions, or toward capital injections into subsidiary companies, possibly outside of Poland given that the cash was provided by Polish operations. From the point of view of the minority shareholders, the change is that there has been a slight reduction in the involvement of Getin Holding in TU Europa. Getin Holding owns almost all of Getin Bank, and 73.64% of Noble Bank.

# BZ WBK (Reduce)

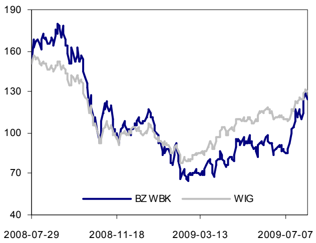
**Current price: PLN 124.1 Target price: PLN 102**

**Analyst: Marta Jeżewska**

**Last Recommendation: 2009-08-05**

| **(PLN m)** | **2007** | **2008** | **change** | **2009F** | **change** | **2010F** | **change** | **Basic data (PLN m)** | |
|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 1 286.7 | 1 635.1 | 27.1% | 1 515.4 | -7.3% | 1 483.8 | -2.1% | Number of shares (m) | 73.0 |
| Interest margin | 3.5% | 3.3% | | 2.7% | | 2.7% | | MC (current price) | 9 054.4 |
| Revenue f/banking oper. | 2 940.6 | 3 190.0 | 8.5% | 2 868.3 | -10.1% | 2 941.8 | 2.6% | Free float | 29.5% |
| Operating income* | 1 395.2 | 1 575.9 | 13.0% | 1 263.0 | -19.9% | 1 319.9 | 4.5% | | |
| Pre-tax income | 1 391.4 | 1 211.4 | -12.9% | 365.0 | -69.9% | 456.8 | 25.2% | | |
| Net income | 954.7 | 855.4 | -10.4% | 248.3 | -71.0% | 320.5 | 29.1% | | |
| ROE | 23.0% | 18.4% | | 4.9% | | 6.0% | | Price change: 1 month | *43.3%* |
| P/E | 9.5 | 10.6 | | 36.5 | | 28.3 | | Price change: 6 month | *47.7%* |
| P/BV | 2.1 | 1.8 | | 1.7 | | 1.6 | | Price change: 12 month | *-25.3%* |
| D/PS | 6.0 | 3.0 | | 0.0 | | 0.0 | | Max (52 week) | 179.9 |
| Dyield (%) | 4.8 | 2.4 | | 0.0 | | 0.0 | | Min (52 week) | 64.5 |

** before provisions*




**Q2'09 earnings beat our expectations due to higher trading income and lower provisions. Interest income declined in H1'09 due to the war for savings and write-offs on options. In H2'09, we can expect a slight improvement in net interest margin (the war for savings is abating), higher valuation of debt instruments, gradual improvement in fee income but lower trading income as volatility decreases in the financial markets. Interest margin rebound will be constrained by the decline in market interest rates, and trading income will be under pressure from weaker volumes. In the near future, we will revise our earnings projections for BZ WBK. Its market cap amounts to PLN 9.4bn. In order for its '10 P/E to reach 10, the Bank would have to show a net income of PLN 940m, i.e. 10% higher than in FY2008. We believe it is very unlikely that such a result can be obtained next year. We are downgrading our rating for the bank from accumulate to reduce.**

## Shares floated as part of incentive scheme

115,729 shares were floated as part of the implementation of BZ WBK's incentive scheme. In April 2006, a decision was taken to issue 200,000 shares for this purpose. There is another incentive scheme, approved a year later, which allows for the issue of up to 150,000 shares. In our next research report on BZ WBK, we will verify the data on the number of shares. Those issued under the first incentive scheme account for less that 0.16% of all shares allowed into trading, which means that this development will not have a significant impact on valuation.

# Handlowy (Sell)

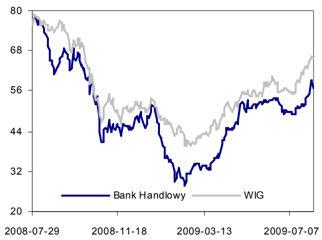
**Current price: PLN 57** **Target price: PLN 40.9**

**Analyst: Marta Jeżewska**
**Last Recommendation: 2009-05-07**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Net interest income | 1 204.4 | 1 365.8 | 13.4% | 1 467.5 | 7.4% | 1 449.5 | -1.2% |
| Interest margin | 3.2% | 3.4% | | 3.4% | | 3.3% | |
| Revenue f/banking oper. | 2 447.1 | 2 312.8 | -5.5% | 2 289.9 | -1.0% | 2 324.4 | 1.5% |
| Operating income* | 990.3 | 909.6 | -8.1% | 894.6 | -1.7% | 882.9 | -1.3% |
| Pre-tax income | 1 034.2 | 759.2 | -26.6% | 411.5 | -45.8% | 539.2 | 31.0% |
| Net income | 824.2 | 600.4 | -27.2% | 326.7 | -45.6% | 428.0 | 31.0% |
| ROE | 15.0% | 10.7% | | 5.6% | | 7.0% | |
| P/E | 9.0 | 12.4 | | 22.8 | | 17.4 | |
| P/BV | 1.3 | 1.3 | | 1.3 | | 1.2 | |
| D/PS | 4.1 | 4.8 | | 0.0 | | 1.3 | |
| Dyield (%) | 7.2 | 8.3 | | 0.0 | | 2.2 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 130.7 |
| MC (current price) | 7 447.6 |
| Free float | 25.0% |
| Price change: 1 month | *14.9%* |
| Price change: 6 month | *81.0%* |
| Price change: 12 month | *-26.3%* |
| Max (52 w eek) | 77.5 |
| Min (52 w eek) | 28.0 |

** before provisions*




**Declining revenues, cost of risk that remains high and the retention of last year's profits in equity will have a negative impact on the ROE. We also believe Bank Handlowy will be expanding its risk-weighted assets at the time of a slowdown very slowly. The potential stemming from its liquid balance sheet and the considerable capital surplus will not be taken advantage of in the next few quarters. This will further delay the rebound in revenues. We are reiterating a sell rating.**

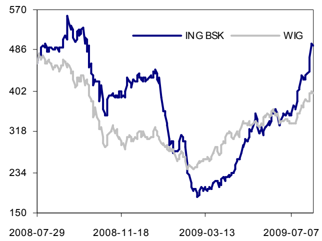
# ING BSK (Sell)

**Current price: PLN 496** **Target price: PLN 313**

**Analyst: Marta Jeżewska**
**Last Recommendation: 2009-08-05**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 1 047.9 | 1 152.0 | 9.9% | 1 217.5 | 5.7% | 1 236.9 | 1.6% | Number of shares (m) | 13.0 |
| Interest margin | 2.1% | 1.9% | | 1.9% | | 2.0% | | MC (current price) | 6 453.0 |
| Revenue f/banking oper. | 2 008.5 | 2 060.5 | 2.6% | 2 187.9 | 6.2% | 2 306.7 | 5.4% | Free float | 18.5% |
| Operating income* | 640.2 | 580.4 | -9.3% | 752.1 | 29.6% | 817.2 | 8.7% | | |
| Pre-tax income | 787.0 | 563.1 | -28.5% | 241.4 | -57.1% | 491.3 | 103.5% | | |
| Net income | 630.7 | 445.4 | -29.4% | 191.6 | -57.0% | 390.0 | 103.5% | | |
| ROE | 16.6% | 11.1% | | 4.4% | | 8.5% | | Price change: 1 month | *41.3%* |
| P/E | 10.2 | 14.5 | | 33.7 | | 16.5 | | Price change: 6 month | *65.3%* |
| P/BV | 1.7 | 1.5 | | 1.5 | | 1.3 | | Price change: 12 month | *4.2%* |
| D/PS | 27.9 | 11.7 | | 0.0 | | 0.0 | | Max (52 week) | 557.0 |
| Dyield (%) | 5.6 | 2.4 | | 0.0 | | 0.0 | | Min (52 week) | 182.1 |

** before provisions*




**ING BSK does not participate in the war for savings thanks to its considerable surplus of loans over deposits. It does remain an active lender, however. Corporate debt accounts for a significant share of its loan portfolio, which greatly facilitates pricing revisions. As a result, the Bank's interest income will continue to exceed last year's levels. However, as market rates decline it will be difficult to further improve interest income. The cost of credit risk will remain a negative factor as well. The market has already discounted the expectations of good Q2'09 earnings. We are downgrading our rating from hold to sell.**

## CEO interview

In an interview for *Puls Biznesu*, the CEO of ING BSK, Mr. B. Bartkiewicz, lashed out at the Polish banks' dishonest practices. He believes that the current advertising is manipulative, uninformative and misleading; the banks' offerings are not transparent. The example he cited in the interview were ads for deposits. Mr. Bartkiewicz believes that advertisements that lack transparency undermine public trust in the sector. He also stated that CHF-denominated mortgages should be banned in Poland. He said that his bank had been forced to grant these at some point or else it would have been pushed out of the mortgage market altogether. An appeal to the other players. We do not believe it will change anything.

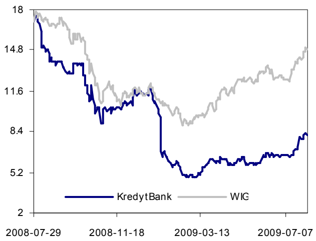
# Kredyt Bank (Sell)

**Current price: PLN 8.2** **Target price: PLN 4.1**

**Analyst: Marta Jeżewska**
**Last Recommendation: 2009-03-05**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 871.5 | 1 059.9 | 21.6% | 971.3 | -8.4% | 1 015.1 | 4.5% | Number of shares (m) | 271.7 |
| Interest margin | 3.5% | 3.2% | | 2.6% | | 2.7% | | MC (current price) | 2 224.9 |
| Revenue f/banking oper. | 1 360.2 | 1 585.9 | 16.6% | 1 465.8 | -7.6% | 1 535.8 | 4.8% | Free float | 9.4% |
| Operating income* | 468.1 | 531.3 | 13.5% | 468.4 | -11.8% | 527.6 | 12.6% | | |
| Pre-tax income | 499.7 | 421.1 | -15.7% | 13.6 | -96.8% | 63.3 | 364.4% | | |
| Net income | 390.5 | 324.9 | -16.8% | 10.6 | -96.8% | 49.0 | 364.4% | | |
| ROE | 17.9% | 13.2% | | 0.4% | | 1.8% | | Price change: 1 month | *26.4%* |
| P/E | 5.7 | 6.8 | | 210.8 | | 45.4 | | Price change: 6 month | *42.2%* |
| P/BV | 1.0 | 0.8 | | 0.8 | | 0.8 | | Price change: 12 month | *-52.9%* |
| D/PS | 0.4 | 0.5 | | 0.0 | | 0.0 | | Max (52 week) | 17.4 |
| Dyield (%) | 4.5 | 6.3 | | 0.0 | | 0.0 | | Min (52 week) | 4.8 |

** before provisions*




**The net loss recorded in Q1'09 included considerable provisions for corporate loans; it will not allow the Bank to get in the black already after H1'09. In FY2009, there will be only a nominal profit. The high surplus of loans over deposits, the fact that the Bank is dependent on financing from its strategic investor (such financing accounts for over a fourth of total assets) – all this will hamper growth in the ensuing quarters. The Bank will focus on restructuring, in an attempt to puts its existing business lines in order. In addition, even if its liquidity improves, the Bank will not be able to sell the product that drove its assets during the previous economic cycle, i.e. F/X denominated mortgages. Due to the nature of the consumer finance market (the cost of risk harms banks that extend cash loans to non-clients), Żagiel's sales will not increase and its provisions will weigh the Bank down. We are reiterating a sell rating.**

# Millennium (Sell)

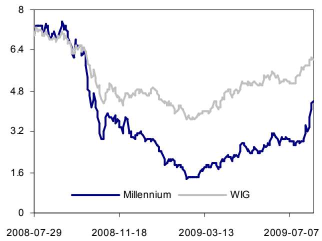
**Current price: PLN 4.4** **Target price: PLN 1.8**

**Analyst: Marta Jeżewska**

**Last Recommendation: 2009-05-12**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 771.7 | 980.9 | 27.1% | 661.0 | -32.6% | 828.3 | 25.3% | Number of shares (m) | 849.2 |
| Interest margin | 2.8% | 2.5% | | 1.4% | | 1.7% | | MC (current price) | 3 736.4 |
| Revenue f/banking oper. | 1 648.2 | 1 827.5 | 10.9% | 1 495.1 | -18.2% | 1 638.1 | 9.6% | Free float | 34.5% |
| Operating income* | 651.1 | 657.0 | 0.9% | 481.7 | -26.7% | 609.7 | 26.6% | | |
| Pre-tax income | 584.6 | 521.8 | -10.7% | 22.8 | -95.6% | 118.6 | 420.7% | | |
| Net income | 461.6 | 413.5 | -10.4% | 18.1 | -95.6% | 94.0 | 420.7% | | |
| ROE | 19.5% | 15.5% | | 0.6% | | 3.3% | | Price change: 1 month | *57.1%* |
| P/E | 8.1 | 9.0 | | 207.0 | | 39.8 | | Price change: 6 month | *131.6%* |
| P/BV | 1.5 | 1.3 | | 1.3 | | 1.3 | | Price change: 12 month | *-40.5%* |
| D/PS | 0.2 | 0.2 | | 0.0 | | 0.0 | | Max (52 week) | 7.6 |
| Dyield (%) | 3.9 | 4.3 | | 0.0 | | 0.0 | | Min (52 week) | 1.4 |

** before provisions*




**Q2'09 earnings disappointed; the Bank is still facing problems as far as the financing of its loan portfolio is concerned. The improved sentiment in financial markets (lower cost of F/X loan refinancing, gradual decline in retail deposit pricing) has already been priced in. In the upcoming quarters, we can expect a decline in market rates (including 3M WIBOR, which is the basis for loan pricing); they should then stabilize at a lower level, which will have a negative impact on interest income. Bank Millennium has significant exposure to the F/X mortgage market, but it "replaces" CHF LIBOR with Polish interest rates through derivatives. In addition, low new lending volumes remain a problem, which will make a lasting improvement in revenues difficult. The Management said that in the ensuing quarters the costs of credit risk would increase, which will reduce the positive impact of the decline in financing costs. We are reiterating a sell rating.**

## Second-quarter results

The Bank's operating income after provisions is PLN 2m vs. the expected PLN 0.4m. A second-quarter net income of PLN 8.9m included many one-time gains. We believe interest income is of poor quality. Operating income before provisions undershot our forecasts by 26%, due to low revenues. The Bank's interest income was very low (PLN 85m vs. PLN 119m); fee income was PLN 106.6m vs. PLN 115m forecasted. Falling interest and fee income was partly offset by trading income (trading income + other net operating income + FX swap gains = PLN 129m vs. our estimate of PLN 115m), which continued to reach impressive levels in the period. As financial markets become less volatile, we expect this line of revenues to dry out. All in all, Millennium's second-quarter income fell 7% short of our estimate. In turn, expenses were PLN 8m lower than expected after a flat quarter-on-quarter increase. Millennium continues to reduce administrative expenses which, however, demonstrated an over-PLN 6m increase versus a low Q1'09 base, when the bank reversed bonus allowances. We were surprised to note a drop in non-payroll expenses given that Millennium launched a savings account advertising campaigned in the second quarter. Cost of credit risk fell to 63 bps in Q2'09 from 148 bps in Q1'09 (86 bps without options-related charges). The improved situation in financial markets (cf. the appreciation of the zloty) may have allowed the Bank to reduce its provisions. The fact that retail loans make up the majority of Millennium's loan portfolio enables the bank to report relatively low loan-loss provisions for now. The bank's loan portfolio is still bigger than the deposit portfolio (loans/deposits = 106%, after a decline from 112% facilitated by a stronger zloty). The main deposit driver (although quarter-on-quarter growth was just 1.8%) were households (+4% q/q), while corporate deposits fell compared to the first quarter. An inconsiderable, 4% quarter-on-quarter contraction in the overall loan portfolio was owed to a strong zloty (which influenced mortgages and corporate loans), and a tighter supply of corporate credit. Only the smallest part of the portfolio, the consumer finance segment, is on the rise. We can clearly see the areas in which the Bank remains active.

# Pekao (Hold)

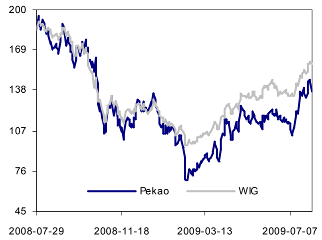
**Current price: PLN 137.5 Target price: PLN 133.2**

**Analyst: Marta Jeżewska**

**Last Recommendation: 2009-08-05**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 4 323.0 | 4 509.5 | 4.3% | 3 792.0 | -15.9% | 4 241.0 | 11.8% | Number of shares (m) | 262.2 |
| Interest margin | 3.6% | 3.5% | | 2.8% | | 3.1% | | MC (current price) | 36 054.2 |
| Revenue f/banking oper. | 8 314.2 | 7 578.2 | -8.9% | 6 686.1 | -11.8% | 7 409.1 | 10.8% | Free float | 36.7% |
| Operating income* | 4 509.5 | 4 535.0 | 0.6% | 3 126.6 | -31.1% | 3 731.0 | 19.3% | | |
| Pre-tax income | 4 342.4 | 4 346.0 | 0.1% | 1 963.1 | -54.8% | 2 587.7 | 31.8% | | |
| Net income | 3 547.2 | 3 528.0 | -0.5% | 1 577.2 | -55.3% | 2 083.1 | 32.1% | | |
| ROE | 23.1% | 23.0% | | 9.4% | | 11.2% | | Price change: 1 month | *20.6%* |
| P/E | 10.2 | 10.2 | | 22.9 | | 17.3 | | Price change: 6 month | *38.2%* |
| P/BV | 2.5 | 2.3 | | 2.1 | | 1.8 | | Price change: 12 month | *-26.3%* |
| D/PS | 9.0 | 9.6 | | 0.0 | | 0.0 | | Max (52 week) | 192.0 |
| Dyield (%) | 6.5 | 7.0 | | 0.0 | | 0.0 | | Min (52 week) | 67.9 |

** before provisions*




**The Bank has several strengths: it has kept a liquid balance sheet (88% after Q2'09), it has kept its expenses in check (-1% y/y after H1'09) and its capital adequacy ratio is high (14.5% consolidated, 13.7% for bank Pekao itself). In addition, so far the Bank's NPLs have been growing at a slower pace than at peers (NPL/gross loans up from 5.5% at the end of 2008 to 6.7%). The Bank argues that this is a consequence of its conservative approach to credit risk assessment during the last boom. The market has already discounted this advantage. Given that we expect slow volume growth and the market interest rates to fall, it will be difficult to achieve strong revenue growth in the upcoming quarters. The Bank is valued at a '10 P/E of 18, on the forecast of a PLN 2.1bn net income next year. Increasing the net income projection by as much as 50% still entails a '10 P/E of 12. We believe that net income at the FY2008 level is an over-ambitious target. Another factor that has a negative impact on Pekao valuation may be the additional supply of shares, should the Treasury follow on its plans to sell its minority stake. We are downgrading our rating for the Bank from accumulate to hold.**

## CEO pleased with Q2 2009 results

Mr. J. K. Bielecki, the CEO, said he was pleased with Q2 2009 earnings. He added that the Polish banking sector was coping with the crisis well - for many Polish banks profits are still a distinct possibility, while foreign entities frequently report losses. We concur. We believe that in the next few quarters, the biggest banks will record better-than-average earnings. The banks are coping in the tough environment, but we should remember that this year's profits will be 50–60% lower than a year ago.

# PKO BP (Hold)

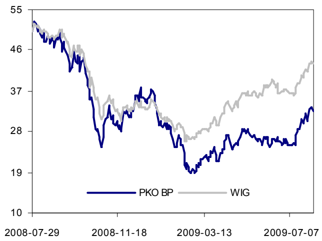
**Current price: PLN 32.6** **Target price: PLN 30.2**

**Analyst: Marta Jeżewska**

**Last Recommendation: 2009-08-05**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 4 646.6 | 6 127.3 | 31.9% | 5 056.9 | -17.5% | 5 327.7 | 5.4% | Number of shares (m) | 1 000.0 |
| Interest margin | 4.4% | 5.0% | | 3.6% | | 3.6% | | MC (current price) | 32 600.0 |
| Revenue f/banking oper. | 7 444.7 | 9 096.7 | 22.2% | 7 993.2 | -12.1% | 8 257.4 | 3.3% | Free float | 48.8% |
| Operating income* | 3 661.5 | 5 092.1 | 39.1% | 3 872.2 | -24.0% | 4 130.7 | 6.7% | | |
| Pre-tax income | 3 609.2 | 3 977.3 | 10.2% | 1 787.5 | -55.1% | 2 019.2 | 13.0% | | |
| Net income | 2 903.6 | 3 120.7 | 7.5% | 1 436.9 | -54.0% | 1 627.0 | 13.2% | | |
| ROE | 26.4% | 24.1% | | 9.8% | | 10.0% | | Price change: 1 month | *29.9%* |
| P/E | 11.2 | 10.4 | | 22.7 | | 20.0 | | Price change: 6 month | *27.8%* |
| P/BV | 2.7 | 2.3 | | 2.1 | | 1.9 | | Price change: 12 month | *-37.3%* |
| D/PS | 1.0 | 1.1 | | 1.0 | | 0.0 | | Max (52 w eek) | 52.0 |
| Dyield (%) | 3.0 | 3.3 | | 3.1 | | 0.0 | | Min (52 w eek) | 18.9 |

** before provisions*




**The possibility that the day of execution for preemptive rights will be moved from 29 October to 6 October (as per the draft resolutions for the special meeting of shareholders on 31 August 2009) brings net income dilution closer. Given the Management recruitment schedule, it appears all but certain that at the time of the SPO the Bank will be led by its Acting CEO (all the more so that the new Supervisory Board members to be appointed at the special meeting might not welcome choices made by the current Supervisory Board). All these factors may have an impact on issuing price. In Q2'09, the downward trend in interest margin was stopped by the increase in the 3M WIBOR. Towards the end of June, however, market rates started falling again and the current 3M WIBOR is lower than in June. This will put pressure on deposit spread (especially on current accounts), which will delay the positive impact of lower term deposit costs (as the war for savings abates). We are downgrading our rating for the Bank from accumulate to hold.**

## Treasury inclined to bring the SPO forward

The Ministry of the Treasury might decide to carry out PKO BP's SPO in early October, should the success of the operation require this. At the next special meeting of shareholders, the Ministry will be pushing for a shorter timeline. The new CEO is to be selected in mid-September and in early October he or she would have to be responsible for the SPO effort. This means that the recruitment process may in fact take longer, and the bank will still be led by the Acting CEO at the time of the SPO. Time is running out though.

## Acting CEO, W. Papierak, promises further work on the SPO

The Acting CEO assures that work on the SPO is being continued; advisor will soon be picked. According to *Rzeczpospolita*, the relevant taskforce had been led by Ms. Anna Trzcińska, who was fired. Three other directors hired by the former CEO left with her. We are awaiting further developments. Vacancies at the top hardly facilitate decision making at the bank. In addition, the decisions taken so far suggest we can expect reshuffles throughout the structure, which will draw out the Management Board selection process further.

## BGK to acquire PLN 2bn worth of shares in PKO BP's SPO

The CEO of the state-owned BGK said that his bank was planning to acquire PLN 2bn worth of shares in PKO BP's SPO At present, he is awaiting the Supervisory Board's consent for the move. The State Treasury's stake in PKO BP is slightly above 51%. If the Bank's SPO gains are to amount to PLN 5bn (as per the original declarations), PLN 0.5bn will have to come from other sources.

## PZU eying PKO BP's SPO

PZU maintains that it might take part in the PKO BP share capital increase. PZU hopes for strategic cooperation with the Bank, and it would consider equity involvement if it were to facilitate this. After BGK, PZU is another company co-owned by the state that is interested in the SPO.

## CEO dismissed

The Supervisory Board dismissed CEO J. Pruski and VP in charge of investment T. Mirończuk. W. Papierak, until now VP in charge of retail, will be the acting CEO. The Treasury has opened the Management Board recruitment process. According to *Puls Biznesu*, more heads might roll (one candidate for dismissal is allegedly J. Myjak, VP in charge of the corporate division). His post might be taken over by J. Wojtas, who actually won the race for this post last year, but was rejected by Mr. Pruski. In late August, a special meeting of shareholders will be held, during which Management and Supervisory Board changes will be considered. Mr. Pruski issued a statement saying that he had not been told the reasons for his dismissal.

### Treasury planning a special meeting of shareholders

Minister of the Treasury, Aleksander Grad, said that the dismissal of the CEO and the VP of PKO BP was an independent decision of the Bank's Supervisory Board. On July 1, the Ministry asked the Management Board to call a special meeting of shareholders, during which Supervisory Board changes could be made. We do not know at the moment, how many members might be affected. Most likely, the meeting will take place on August 21, although it might be postponed till September 1. The Chair of the Bank's Supervisory Board, M. Piszczek, said that the recruitment procedure had been opened, with interviews scheduled for early September. Among the potential candidates for the top spot, newspapers list S. Lachowski (formerly the head of BRE Bank), M. Klimczak (CEO of BOŚ), I. Chalupec (former CEO of PKN Orlen), M. Karpiński (former CEO of GEMB) and R. Juszczak (former CEO of PKO BP). Given that the main shareholder wanted to call a special meeting of shareholders as early as July 1, with a view to SB reshuffles, the current Board will not necessarily be the one making decisions on Management Board membership. The recruitment schedule outlined by the Supervisory Board is thus in conflict with the plans to call a shareholder meeting. This means there is a risk that the process will take longer than planned, which in turn might delay the SPO. We are awaiting further developments.

### PLN 7bn in savings accounts

The Bank has collected PLN 7bn in 430,000 savings accounts. The interest rate paid on these accounts was cut by 25–35bps. The interest rate was cut by 35bps to 4.15% for amounts under PLN 20,000, by 25bps to 4.25% for amounts between PLN 20,000-50,000 and by 25bps to 4.8% for amounts in excess of PLN 50,000. The cut in interest rates is a consequence of the recent move by the Monetary Policy Council (RPP). We believe nonetheless that Banks will continue to cut interest rates as the year progresses, even if the RPP fails to cut rates further.

### Additional PLN 1bn for the budget

Ms. Joanna Szmid, Deputy Minister of the Treasury, said while speaking in the Parliament that the government wanted to get a further PLN 1bn from PKO BP (advance dividends for FY2009 and proceeds from the sale of rights in the SPO). The market has known what the government's expectations are for a long time. The payout hinges, however, on the schedule and the success of the SPO.

# Gas & Oil, Chemicals

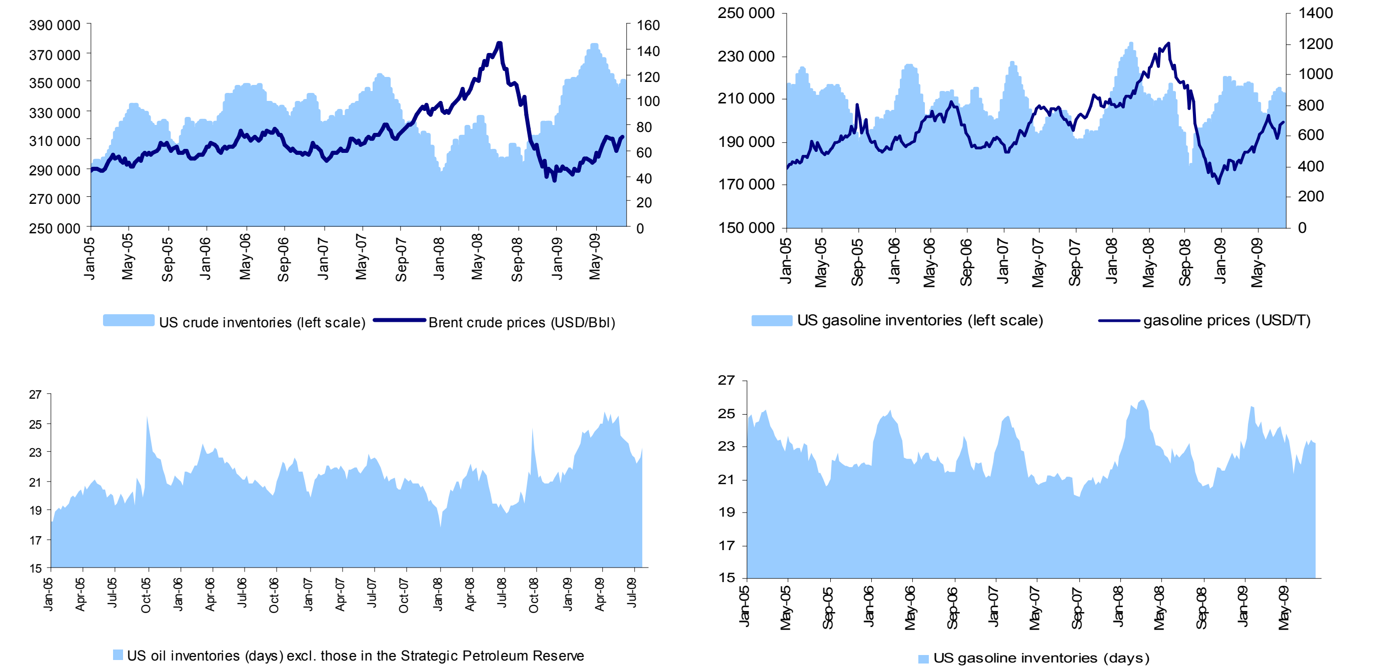
### Orlen and Lotos object to the Belarus pipeline project

According to the newspapers, Orlen and Lotos want to block the project of a pipeline that could transport cheaper Diesel from Belarus to Poland. The government will probably agree with the refineries and OLPP will withdraw from the project. The pipeline would make the importation of cheaper fuel possible, and the Polish refineries cannot like this. We believe they will attempt to take control over imports from Belarus and to sell the fuel from Belarusian refineries themselves. As a reminder, Poland is a net importer of Diesel. Last year, imports accounted for ca. 32% of domestic consumption.

### Future unclear in the fuel market

Despite the good start, July failed to bring a clear improvement in the US fuel situation. Crude oil inventories did fall m/m in the end, by 2.3m bbl, but due to the fact that refineries once again restricted demand (so as to defend their margins), this tendency clearly weakened towards the end of the month. The key problem as far as fuel production profitability is concerned were still the low crack spreads on Diesel – where the demand fell again m/m. The situation in the gasoline market is much more stable (with demand remaining at the June level), which is of course reflected by high margins. One product is not enough, however, to ensure refining profitability, especially when petroleum prices are quickly increasing. This is why the recent decline in crude oil prices should be treated as good news for the Polish refineries, as it entails lower costs of energy generation for own needs.

**US crude, gasoline inventories**




*Source: BRE Bank Securities based on data by the US Department of Energy*

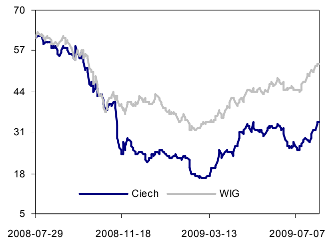
# Ciech (Hold)

**Current price: PLN 34.2** **Target price: PLN 31.8**

**Analyst: Kamil Kliszcz**
**Last Recommendation: 2009-08-05**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 3 415.0 | 3 781.3 | 10.7% | 3 795.4 | 0.4% | 3 861.9 | 1.8% |
| EBITDA | 222.3 | 459.7 | 106.8% | 476.8 | 3.7% | 514.8 | 8.0% |
| *EBITDA margin* | *6.5%* | *12.2%* | | *12.6%* | | *13.3%* | |
| EBIT | 43.0 | 256.4 | 496.6% | 228.5 | -10.9% | 261.0 | 14.2% |
| Net profit | -31.7 | 44.5 | | 70.4 | 58.3% | 99.5 | 41.4% |
| P/E | | 21.5 | | 13.6 | | 9.6 | |
| P/CE | 6.5 | 3.9 | | 3.0 | | 2.7 | |
| P/BV | 0.9 | 1.1 | | 1.1 | | 1.0 | |
| EV/EBITDA | 9.6 | 5.7 | | 5.5 | | 5.3 | |
| Dyield (%) | 6.1 | 6.1 | | 0.0 | | 0.0 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 28.0 |
| MC (current price) | 957.6 |
| EV (current price) | 2 641.1 |
| Free float | 35.6% |
| Price change: 1 month | *28.6%* |
| Price change: 6 month | *52.0%* |
| Price change: 12 month | *-44.6%* |
| Max (52 week) | 61.7 |
| Min (52 week) | 16.4 |




**After their very weak performance in June, the Ciech stock recovered the lost ground, rallying by more than 26%. The share price has exceeded our target, however, and we are therefore closing our accumulate rating. We believe the market has already discounted good earnings in Q2'09, and another positive surprise may be hard to come by, all the more so that Solvay has already said it will cut soda prices, and margins in the organic segment are under pressure after the prices petrochemical materials have gone up. In this light, the upside for the stock within the next few months is limited.**

## CEO Kunicki promises net income in Q2'09

According to Mr. Ryszard Kunicki, in the second quarter the company will record a net profit (we project PLN 13.7m), but not due to the sale of the caverns, which will not happen until Q3. Mr. Kunicki believes the Group's net income in FY2009 should be higher than in FY2008 (we forecast PLN 70m vs. PLN 44.5m a year ago).

# Lotos (Buy)

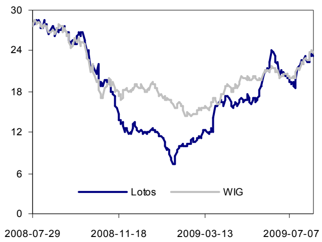
Current price: PLN 23.3 Target price: PLN 26.4

Analyst: Kamil Kliszcz
Last Recommendation: 2009-05-28

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 13 125.1 | 16 294.7 | 24.1% | 12 469.8 | -23.5% | 19 029.4 | 52.6% |
| EBITDA | 1 019.9 | 169.2 | -83.4% | 746.0 | 340.9% | 1 154.7 | 54.8% |
| *EBITDA margin* | *7.8%* | *1.0%* | | *6.0%* | | *6.1%* | |
| EBIT | 713.7 | -145.8 | | 339.9 | | 494.2 | 45.4% |
| Net profit | 777.2 | -453.9 | | 335.5 | | 452.2 | 34.8% |
| P/E | 3.4 | | | 7.9 | | 5.8 | |
| P/CE | 2.4 | | | 3.6 | | 2.4 | |
| P/BV | 0.5 | 0.5 | | 0.5 | | 0.4 | |
| EV/EBITDA | 3.3 | 36.9 | | 10.9 | | 8.5 | |
| Dyield (%) | 1.5 | 0.0 | | 0.0 | | 0.0 | |

| Basic data (PLN m)* | |
|---|---|
| Number of shares (m) | 129.9 |
| MC (current price) | 3 019.5 |
| EV (current price) | 8 508.4 |
| Free float | 36.0% |
| Price change: 1 month | *19.2%* |
| Price change: 6 month | *145.5%* |
| Price change: 12 month | *-18.1%* |
| Max (52 week) | 28.6 |
| Min (52 week) | 7.3 |

** On 17 July 2009, the placement of 16.2m shares to the Treasury in exchange for Petrobaltic shares was registered, but as our forecasts include minority exclusions, the rations are calculated for the old number of shares, i.e. 113.7m, not 129.9m*




**The Lotos stock rallied by 14.8% in July, i.e. in line with WIG20. We believe the Company might outperform the index in August due to the gradual improvement in the refining market (especially in the case of the Urals/Brent spread) and the expectation of good earnings for Q2. Should the current F/X and petroleum price trends persist, we can be optimistic about the results to be reported for Q3'09, although the quality of the earnings is surely more important than quantity. We reiterate once again our buy rating for Lotos, although we do see bigger upside for Orlen.**

## Petroleum from the Yme field not before next year

Crude oil extraction from the Norwegian Yme field will begin next year and not in 2009, as previously planned. The change in the schedule was caused by delays on the part of the supplier of drilling platform equipment and underwater tanks. Lotos has a 20% stake in the project. Its original assumption was that this year's output may amount to 190,000 thousand tons (the target capacity is 500,000 tons). In our forecasts, we have ignored the Norwegian deposits; we reiterate our petroleum production forecast of 175,000 tons in 2009. We would also to remind that given the high effective tax rate for Norwegian upstream companies, the potential impact on Lotos's net income will be small.

## HDS was launched in July

Near the end of July, feedstock materials were introduced into the Diesel hydrodesulphurization line built under the 10+ Program. At the same time, an ancillary installation was launched (a sulfur/amine unit). By the end of the summer, Lotos is also planning to open the first storage facilities built under the 10+ program and a pipeline to Naftoport (sea terminal) and to finish the modernization of its sewage treatment facility. By the end of the year, the integrated petroleum distillation unit (CDU/VDU) should be ready, and likewise the hydrogen generation unit (HGU). The 10+ Program is progressing on schedule, but we are unlikely to see business impact until next year.

## CFO interview

In a press interview, CFO Mariusz Machajewski said that Lotos would most likely not use the reserve credit tranche under the 10+ program (USD 150m), having chosen to invest its own funds to a greater extent. Mr. Machajewski expects positive consolidated net income after H1, in line with previous announcements; in H2, the first effects of the launch of the HDS line should be seen. The Management is currently considering relaunching some of the projects withheld due to the economic crisis and the Company's anti-crisis package. The interview confirms that financing for the 10+ program is not under threat and that there is a considerable cushion against potential further turmoil in the markets.

## Final steps in the Petrobaltic acquisition

Shareholders approved the placement of 16.2m shares to the Treasury in exchange for an in-kind contribution of the minority stake in Petrobaltic. The offering price has been set at PLN 22.07. The cost of the operation (PLN 463,000) will be charged against supplementary capital. The CEO said that the transaction would make it possible to intensify the Group's upstream business.

## Treasury planning to sell shares

Yesterday, the Ministry of the Treasury announced that it was planning to sell the Lotos shares it acquired in the capital increase process in exchange for Petrobaltic shares. The stake in question comprises 16.2m shares, i.e. over 12% of the current capital stock of Lotos. As a result of this announcement, the share price may be depressed until the transaction. In other news, the recent changes to shareholder structure (after the Petrobaltic contribution) will allow the limit on Management pay to be increased from 4 to 7 times the national average (in line with the regulations on executive pay in state-owned companies).

### Most likely in the black after H1

According to Mr. Paweł Olechnowicz, the CEO, Lotos should be able to close H1 in the black. According to our estimates, advantageous exchange rates at the end of the quarter and gains on inventory revaluation might indeed boost the Company's earnings in the second quarter. We expect a net profit of ca PLN 713 vs. the PLN 658m loss recorded in the first quarter.

### Letter of intent with SOCAR

Lotos has signed a letter of intent with the Azeri company SOCAR. The two companies will jointly conduct technical and economic analyses for potential business projects. They will jointly appoint a team of experts that will discuss potential paths of cooperation.

### Upstream growth plans

Mr. Paweł Olechnowicz, the CEO, commented on upstream growth plans. By the end of the year, a growth strategy for the upstream segment will be presented, focusing on the Baltic Sea and the Norwegian Shelf. Lotos will not focus its efforts on small projects.

### Lotos/PKN Baltic alliance

In line with earlier reports, PGNiG and Lotos are going to jointly develop a gas field in the Baltic Sea. The two energy producers are set to work out the details of their partnership this year, and start drilling in a few years. The capacity of the field is estimated at 3.8 billion cubic meters, and exploration and development costs will approximate PLN 1 billion. In related news, PGNiG plans to audit an oil field in Kazakhstan which it has been invited to explore by the Kazakh government.

### Lotos set to build new service stations

Lotos is scheduled to start building four new service stations along A2 and A4 motorways. The refiner launched the first service spot on the A6 back in May, and obtained licenses to build two more stations on the A4. Motorway service stations generate better profits and fuel sales twice as high in some cases as other locations. Sales of non-fuel merchandise are also higher. Since this new sales channel is in early stages of development, Lotos will not feel its positive effects for two more years.

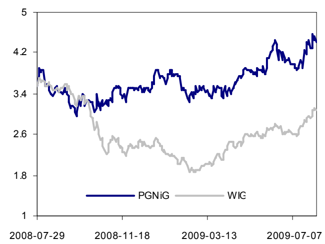
# PGNiG (Sell)

**Current price: PLN 4.4** **Target price: PLN 3.58**

**Analyst: Kamil Kliszcz**
**Last Recommendation: 2009-08-05**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 16 652.1 | 18 432.0 | 10.7% | 19 207.3 | 4.2% | 18 601.2 | -3.2% |
| EBITDA | 2 291.3 | 2 264.9 | -1.2% | 2 930.7 | 29.4% | 3 699.6 | 26.2% |
| *EBITDA margin* | *13.8%* | *12.3%* | | *15.3%* | | *19.9%* | |
| EBIT | 861.0 | 839.9 | -2.4% | 1 384.6 | 64.8% | 1 897.2 | 37.0% |
| Net profit | 915.0 | 904.6 | -1.1% | 1 104.5 | 22.1% | 1 521.2 | 37.7% |
| P/E | 28.5 | 28.8 | | 23.6 | | 17.1 | |
| P/CE | 11.1 | 11.2 | | 9.8 | | 7.8 | |
| P/BV | 1.2 | 1.3 | | 1.2 | | 1.2 | |
| EV/EBITDA | 10.8 | 11.3 | | 9.2 | | 7.2 | |
| Dyield (%) | 3.8 | 4.3 | | 2.1 | | 3.8 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 5 900.0 |
| MC (current price) | 26 078.0 |
| EV (current price) | 26 896.5 |
| Free float | 15.3% |
| Price change: 1 month | *11.1%* |
| Price change: 6 month | *27.4%* |
| Price change: 12 month | *15.4%* |
| Max (52 week) | 4.6 |
| Min (52 week) | 3.0 |




**In July, the PGNiG stock did underperform WIG20, but its price increased by almost 10% in absolute terms. It was aided by the appreciating zloty, which makes very high earnings in Q4'09 likely. We believe that while the F/X trends are indeed good for the Company and the net income may exceed PLN 1bn in Q4'09, this does not justify the current price. Even with annual net income at PLN 1.2-1.3bn (we project an accumulated net loss of ca. PLN 200m after H1), the premium to peers exceeds 30% (on this year's P/CE and EV/EBITDA). For the next year, when we expect the EBITDA to return to the record-high levels from FY2007 (adjusted for write-offs), the premium is 20%, after adjusting the market cap for the value of leasing, Norwegian fields and shares in EurRoPolGaz. We are therefore downgrading our rating to sell. We would also like to point out that the positive impact of PGNiG's accounting for an increased share of the index is slowly disappearing (higher free float) due to the allocation of employee shares (the Treasury has already allocated over 660m shares out of 750m shares).**

### PGNiG cops out of Nabucco project

PGNiG decided not to get involved in the Nabucco gas pipeline project because of a tight CAPEX budget. The gas utility is currently considering whether to apply for a transmission capacity allocation on the pipe.

### Lotos/PKN Baltic alliance

In line with earlier reports, PGNiG and Lotos are going to jointly develop a gas field in the Baltic Sea. The two energy producers are set to work out the details of their partnership this year, and start drilling in a few years. The capacity of the field is estimated at 3.8 billion cubic meters, and exploration and development costs will approximate PLN 1 billion. In related news, PGNiG plans to audit an oil field in Kazakhstan which it has been invited to explore by the Kazakh government.

### CEO interview

In a press interview, CEO Michał Szubski said that Q2'09 earnings would be better than in the preceding quarters, when the Company had been in the red. He added, however, that due to the weakness of the zloty, the situation would not be as good as the Management had expected (the Q1'09 loss was not offset). PGNiG is starting to make money on imported gas. The Company is reiterating its plans to invest in energy-generation sector, although now it says it plans to team up with companies from the sector. Two projects that have been confirmed so far: one in Gdańsk with Lotos and Energa and one in Stalowa Wola with Tauron. The Company is continuing the work on an interconnector with Germany and storage facilities near Świnoujście, but the project is still in its preliminary stages, just as the project to build a regional gas trading hub. The CEO is promising slow but systematic increase in domestic extraction in the upcoming years. We are expecting PGNiG to earn ca. PLN 190m in Q2'09, which means that after H1'09 the Company will have a loss of PLN 200m. In the ensuing quarters, earnings will clearly improve (positive spread on imported gas, increase in distribution tariffs). According our preliminary estimates, PGNiG will earn over PLN 480m in Q3'09 and over PLN 900m in Q4'09.

### Exploratory work on the Danish license

In mid-September, PGNiG will start seismic studies on the Danish license in which it holds an 80% stake. The work will cost ca. PLN 16-18m and it will be performed by Geofizyka Toruń, a subsidiary. According to current estimates, the field in question contains ca. 4.8bn m3 of gas and 3.1m tons of crude oil. More precise estimates will be possible after exploratory drilling, planned for 2010. The work conducted under this license should not impact share price at the current stage due to the remoteness of actual production prospects.

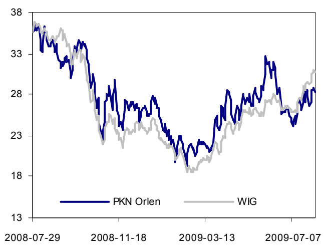
# PKN Orlen (Buy)

**Current price: PLN 28.2 Target price: PLN 40.1**

**Analyst: Kamil Kliszcz**
**Last Recommendation: 2009-06-02**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 63 793.0 | 79 535.2 | 24.7% | 65 818.5 | -17.2% | 74 645.2 | 13.4% |
| EBITDA | 5 035.3 | 887.6 | -82.4% | 4 855.3 | 447.0% | 5 027.6 | 3.5% |
| *EBITDA margin* | *7.9%* | *1.1%* | | *7.4%* | | *6.7%* | |
| EBIT | 2 603.9 | -1 603.8 | | 2 164.5 | | 2 294.6 | 6.0% |
| Net profit | 2 412.4 | -2 505.7 | | 1 608.7 | | 1 774.1 | 10.3% |
| P/E | 5.0 | | | 7.5 | | 6.8 | |
| P/CE | 2.5 | | | 2.8 | | 2.7 | |
| P/BV | 0.6 | 0.7 | | 0.6 | | 0.6 | |
| EV/EBITDA | 4.7 | 30.8 | | 5.9 | | 5.9 | |
| Dyield (%) | 0.0 | 5.7 | | 0.0 | | 0.0 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 427.7 |
| MC (current price) | 12 061.4 |
| EV (current price) | 28 811.1 |
| Free float | 67.3% |
| Price change: 1 month | *14.6%* |
| Price change: 6 month | *24.2%* |
| Price change: 12 month | *-21.0%* |
| Max (52 week) | 36.5 |
| Min (52 week) | 19.3 |




**There was no breakthrough in July and the Orlen stock once again performed much worse than WIG20 (+7.8% vs. +14.8%, respectively). The comparison with the sector index MSCI looks a bit better (+6.8%), although a direct comparison with such peers as MOL (+15%) or Lotos (+14.7%) is negative as well. Such performance is above all a consequence of the lost arbitration proceedings (with Agrofert), the unfavorable changes to the charter pushed through by the Treasury and the signals that Q2'09 earnings would be of poor quality. Over the next few months, we expect better news to start coming in, both as far as market aspects are concerned (we are already observing a clear increase in petrochemical margins, trends reversal on the Urals/Brent spread) and those directly linked with the Company (Polkomtel disinvestment, mandatory reserves bill). We believe the market is still failing to discount this scenario in the case of PKN (the discount to peers exceeds 30%). We are reiterating a buy rating.**

## Q2'09 operating earnings estimates

Orlen announced that the total negative impact of macroeconomic factors and lower volumes on LIFO EBIT will amount to -PLN 1bn y/y. Earnings will be further depressed by the inflated comparison base due to the PLN 100m damages received last year. The impact of inventory revaluation will be ca. PLN 900m. Financing activities will bring gains of PLN 600m. The announcement entails a -PLN 1.1bn reduction in LIFO EBIT, from PLN 786m to -PLN 314m (we expected -PLN 107m). An important factor in this discrepancy must be the clear decline in crude oil throughput in Mazeikiu Nafta (-17% y/y), which we did not take into consideration. The most important factor in the decline were lower crack spreads and lower Urals/Brent spread. The LIFO effect is slightly higher than expected (PLN 900m vs. PLN 837m), which should imply a reported EBIT of PLN 600m vs. the PLN 730m we previously estimated. Financing gains are higher than expected (PLN 600m vs. PLN 214m), perhaps due to higher FX gains in non-credit positions of the balance sheet. All in all, net income may exceed PLN 0.9-1.0bn vs. PLN 762m we expected. To sum up, the announcement indicates a negative discrepancy vs. our assumptions, although given that it is largely a consequence of downtimes, it should not lead to forecast reductions for H2.

## Polkomtel decision in the fall

VP Sławomir Jędrzejczyk said that in late September or early October, Orlen should decide whether it is going to sell its stake in Polkomtel on its own or within the operator's IPO. The former is the preferred option, and first steps in that direction will be taken in July. Orlen expects to get a better price than TDC did. We believe it might be possible to sell the stake in Polkomtel before the end of the year, but it may be difficult to get more than what is implied by the TDC transaction, i.e. PLN 3.7bn. Whether the sale is possible might depend on the PGE and KGHM, which have recently declared they could sell their shares together with Orlen.

## Unfavorable arbitration ruling

Orlen announced that following a decision by a court of arbitration, it would have to pay a contractual penalty plus interest to Agrofert Holding (EUR 105m). Agrofert's two other claims, exceeding EUR 90m, were dismissed. At present, Agrofert is still demanding EUR 700m in another ongoing dispute. Orlen has created provisions for these damages, which means its income statement will not be affected, but it surely had taken its toll on the Company's cash holdings. Payment was required by 3 July. The damages come down to PLN 1.1 per share. As a reminder, this has no impact on our valuation – we conservatively factored in potential damages in the amount of PLN 624m. We believe Agrofert's final lawsuit, in the amount of EUR 700m, will be rejected as well.

### Orlen will resume talks on Mazeikiu Nafta pipeline

Orlen wants to resume negotiations with the Russians concerning a pipeline to the refinery (currently, supplies come by the sea). Negotiations with the Lithuanian government concerning the purchase of a sea terminal in Klaipeda and the construction of a pipeline linking this terminal and the refinery (which would lower the cost) have been unsuccessful so far. According to the CEO of Orlen, the only hope is an intervention by Lithuania's new president.

### Contract with Petrotrade terminated

PKN Orlen terminated its agreement with the UAE-based KD Petrotrade FZE, under which it was supposed to receive 2.4m tons of REBCO crude oil via the "Druzhba" pipeline through 30 June 2012. Instead, PKN secured supplies through spot deals with Liechtenstein-based Souz Petrolium Establishment. These actions will not entail a higher cost of petroleum purchase, according to the Company.

### PKN sues Yukos

PKN Orlen filed an arbitration complaint against Yukos International BV, demanding payout of US $250m which had been deposited in an escrow account as collateral in case Yukos defaulted on the terms of sale of Mazeikiu Nafta. The arbitration proceeding will be held in London. Yukos rejected a similar claim by PKN Orlen in December 2008. Arbitration seems a natural next step for PKN in the escrow case. Statements by the company's executives (the details of the MN acquisition agreements are kept under wraps) suggest that the Polish refiner has a strong case because the Mazeikiu refinery was destroyed by a fire at the time of the acquisition, meaning that Yukos had misrepresented its condition. We expect a ruling in PKN's favor, but not earlier than in a few years' time.

### Shareholders pass bylaw amendments

PKN shareholders voted in favor of the Management Board's proposal to limit the voting powers of shareholders acting in concert unless they can prove otherwise. Such reduction of powers will not apply to the State Treasury. Contrary to expectations, the shareholders did not make any changes in the Supervisory Board. We are somewhat surprised by the outcome of the vote – our calculations suggested that the Treasury did not have enough voting power to amend the bylaws. The changes are unwelcome from a PR standpoint, as it may lead to discrimination against minority shareholders, and a hostile takeover against which the new voting rules were introduced was unlikely before the change as well.

### Negotiations on the purchase of the remaining stake in Petrolot?

According to the newspapers, in the near future Orlen might buy LOT's 49% stake in Petrolot. Similar negotiations were held in the past (Orlen owns a 51% stake). Orlen valued minority interest in Petrolot at PLN 36m as 31 December. The price could end up being lower, however, due to the increasing competition at Polish airports (Petrolot has been a monopolist until now) and the seller's determination.

### Good news from the petrochemical sector

In past few weeks, a clear improvement in petrochemical margins has been observed, both for olefins and polyolefins, thanks both to higher product prices (by +10% vs. the beginning of June) and the decline in naphtha prices due to the correction in petroleum prices. The increase in margins is a consequence of the reviving demand for plastics on the one hand, and of a series of unscheduled downtimes (2.5m tons of capacity), which, in combination with the previous, economically-motivated capacity utilization reductions, led to a quick decline in petrochemical sales (in particular propene, ethylene and butadiene) These installation failures occurred in France, Italy, Sweden and Norway; in addition, a Serbian producer had liquidity problems. Also of importance was the downtime at Płock (production resumed in July). In this context, we expect a significant improvement in the earnings of Orlen's petrochemical segment in Q3'09.

### New CEO for Mazeikiu Nafta

Mazeikiu Nafta's CEO Marek Mroczkowski is leaving the company when his term of office ends on the last day of July. He will be replaced by current VP Krystian Pater, who is also a VP of PKN Orlen.

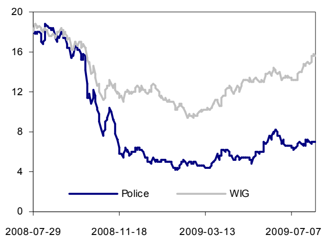
# Police (Sell)

**Current price: PLN 7** **Target price: PLN 5.8**

**Analyst: Kamil Kliszcz**
**Last Recommendation: 2009-06-04**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 1 824.2 | 2 403.6 | 31.8% | 1 993.3 | -17.1% | 1 846.6 | -7.4% |
| EBITDA | 235.1 | 230.1 | -2.1% | -40.2 | | 107.6 | |
| *EBITDA margin* | *12.9%* | *9.6%* | | *-2.0%* | | *5.8%* | |
| EBIT | 187.5 | 164.0 | -12.5% | -122.7 | | 20.2 | |
| Net profit | 204.0 | 28.7 | -85.9% | -140.8 | | 6.7 | |
| P/E | 2.6 | 18.2 | | | | 78.3 | |
| P/CE | 2.1 | 5.5 | | | | 5.6 | |
| P/BV | 0.6 | 0.5 | | 0.6 | | 0.6 | |
| EV/EBITDA | 1.6 | 2.3 | | | | 6.3 | |
| Dyield (%) | 6.2 | 0.0 | | 0.0 | | 0.0 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 75.0 |
| MC (current price) | 524.3 |
| EV (current price) | 708.2 |
| Free float | 26.2% |
| Price change: 1 month | *8.7%* |
| Price change: 6 month | *55.3%* |
| Price change: 12 month | *-60.9%* |
| Max (52 week) | 18.7 |
| Min (52 week) | 4.2 |




**All in all, the fact that a new Management Board was appointed helped stabilize the price of the Company's shares, although we still consider the current price a good moment to divest. As signaled by CEO Miklewicz, earnings will not improve in Q2'09 (despite the higher capacity utilization we expect), and the protracted negotiations on the revolving loan make earnings improvement in H2 unlikely. To be sure, the situation is getting more stable in the fertilizer market, but prices are very low, and we do not expect FY2010 EBITDA to exceed PLN 107m. Taking into consideration the planned increase in debt (conversion of options-related liabilities, new PLN 190m revolving loan), the Company will be trading at a '10 EV/EBITDA of 7.0, i.e. much higher than its Polish peers (average of 5.5). We are reiterating a sell rating.**

## New Management

On Friday, the Supervisory Board appointed the new Management Board. The new CEO is Mr. Zbigniew Miklewicz (hitherto CFO), Mr. Bogusław Kokotowski, until now a procurement specialist, will be the VP in charge of sales, and Mr. Tomasz Zieliński, previously a director at DGA (a consultancy), will be in charge of strategy.

## New CEO on earnings

The new CEO, Mr. Zbigniew Miklewicz, said that due to the tough macroeconomic situation the Company was unlikely to improve its earnings q/q in Q2'09 (in Q1'09, there had been an operating loss of PLN 86.7m). He added, however, that the Management was expecting an improvement in Q3'09 (with the chance for a positive EBIT). As part of their restructuring activities, Police is planning to divest some non-operating assets and to outsource energy generation; the possible savings on this account are estimated at PLN 200m. This news is hardly optimistic. We expected that the loss would be very much reduced in Q2'09 (to PLN 19m), mostly thanks to higher capacity utilization (in Q1, most of the sales came from stockpiles). If the loss is to approach the Q1'09 figure, we doubt a positive EBIT in the ensuing quarters is realistic.

## Financing delayed

The Management expect that the audit of the principles of the turnaround program, which PKO BP has demanded, should be over by the end of August. This means that the decision whether the Company gets the PLN 190m revolving loan might not be taken before September. Such a delay vs. earlier declarations means that Police may not be able to finance feedstock purchases for the fall production season. CEO Zbigniew Miklewicz assures that the Company's liquidity is not under threat, however, despite the fact that it has some PLN 80-100m in past-due payments.

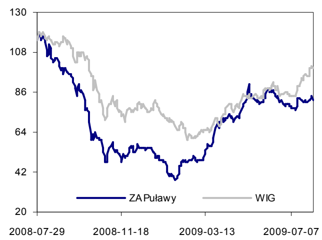
# ZA Puławy (Hold)

**Current price: PLN 81.3** **Target price: PLN 82.7**

**Analyst: Kamil Kliszcz**
**Last Recommendation: 2009-05-28**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 2 503.5 | 2 413.0 | -3.6% | 2 148.2 | -11.0% | 2 370.4 | 10.3% |
| EBITDA | 432.8 | 471.1 | 8.9% | 173.8 | -63.1% | 234.7 | 35.1% |
| *EBITDA margin* | *17.3%* | *19.5%* | | *8.1%* | | *9.9%* | |
| EBIT | 358.7 | 402.9 | 12.3% | 102.7 | -74.5% | 156.0 | 51.8% |
| Net profit | 330.8 | 259.7 | -21.5% | 127.7 | -50.8% | 143.8 | 12.6% |
| P/E | 4.7 | 6.0 | | 12.2 | | 10.8 | |
| P/CE | 3.8 | 4.7 | | 7.8 | | 7.0 | |
| P/BV | 1.0 | 0.9 | | 0.9 | | 0.8 | |
| EV/EBITDA | 2.4 | 1.8 | | 6.3 | | 5.0 | |
| Dyield (%) | 2.1 | 5.3 | | 5.1 | | 2.5 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 19.1 |
| MC (current price) | 1 553.1 |
| EV (current price) | 1 092.7 |
| Free float | 29.2% |
| Price change: 1 month | *4.2%* |
| Price change: 6 month | *77.8%* |
| Price change: 12 month | *-30.1%* |
| Max (52 week) | 116.5 |
| Min (52 week) | 38.1 |




**In July, the share price of ZA Puławy (+4.4%) mirrored the performance of the other listed fertilizer producers (ZAT, +4.3%, Police +3.4%), i.e. it undershot the broad market by a wide margin. We believe this was fully justified, because while in the other sectors there appear signals that the recession is nearing its end, ZAP is only entering the period of a considerable deterioration in earnings. The very low export prices of fertilizers and the need to cut domestic prices by 30%, with gas prices going down only slightly, mean that the profitability of the segment will plunge in the upcoming quarters, which will not be offset by gains on melamine sales (here the pressure on prices is also high due to the falling gas prices in Europe) and on caprolactam sales. We reiterate our projection of a 50% drop in EBITDA in the FY which is now starting and we expect that the price of the ZAP stock may be under pressure after the final decision on dividends has been taken and the Company can no longer boost huge cash reserves. Until then, our rating remains neutral.**

## Price cuts, higher share of domestic sales

Director Hubert Kamola says that due to transportation costs and competitive pressure from producers who purchase their gas cheaper, ZAP will focus on domestic contracts in 2009/2010 (the Polish distributors are ordering a little more than last year). In order to maximize volumes, the Company cut fertilizer prices by ca. 30%. ZAP is still concerned about potential gas shortages towards the end of the year, seeing that PGNiG and Gazprom have not signed an agreement for supplies to replace the gas previously purchased from RUE. A 30% price cut may have a significant impact on the Company's profitability in the ensuing quarters and this is the scenario we assume in our forecasts. Given the current price ratios of grain and fertilizers, we do not expect the situation to change quickly, even when there is a seasonal spike in demand.

## ZAP's costly deal with unions

ZAP granted its workers one-time cash payments at the end of fiscal 2008/2009, which will cost a total of PLN 5.5m (not including financial charges payable by the employer). Further, ZAP is going to set aside PLN 4.6m in fiscal 2009/10 earmarked for motivational salary raises, plus an additional PLN 5m incentive reserve conditioned on good H2 earnings results. It follows that rate of average salary growth at ZAP increased from 4.2% to 7.7% in FY08/09. The total costs of these incentives, including mandatory charges, will amount to PLN 6.6m in the fourth quarter, which has not been factored into our quarterly forecast.

## Earnings announcement

In a press release published on Friday, the Company announced that the estimated revenues for the FY ended in June were PLN 2.55-2.65bn, with EBITDA at PLN 300-420m and net income at PLN 190-200m. Our quarterly forecasts entail PLN 2.4bn, PLN 435m and PLN 228m, respectively. The discrepancy at the level of revenues is the most difficult to explain - they are to amount to PLN 700-800m in the last quarter, compared to PLN 646m a quarter earlier and PLN 662m a year ago. As far as EBITDA and net income are concerned, the key question is how big the traditional employee benefits reserve will be (we projected PLN 18m).

# Coal Mining

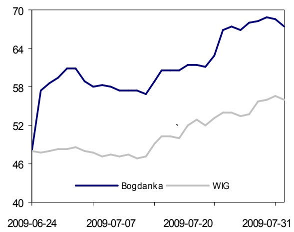
## LW Bogdanka (Hold)

Current price: PLN 67.6 Target price: PLN 64.5

Analyst: Michał Marczak
Last Recommendation: 2009-08-05

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 862.5 | 1 033.3 | 19.8% | 1 116.1 | 8.0% | 1 206.7 | 8.1% |
| EBITDA | 243.4 | 339.6 | 39.5% | 373.0 | 9.8% | 383.3 | 2.8% |
| *EBITDA margin* | *28.2%* | *32.9%* | | *33.4%* | | *31.8%* | |
| EBIT | 121.4 | 203.5 | 67.7% | 217.6 | 7.0% | 189.3 | -13.0% |
| Net profit | 94.1 | 156.0 | 65.8% | 172.9 | 10.8% | 142.3 | -17.7% |
| P/E | 16.5 | 10.0 | | 13.3 | | 16.1 | |
| P/CE | 7.2 | 5.3 | | 7.0 | | 6.8 | |
| P/BV | 1.6 | 1.4 | | 1.3 | | 1.2 | |
| EV/EBITDA | 6.4 | 4.6 | | 5.7 | | 6.1 | |
| Dyield (%) | 3.2 | 0.4 | | 3.9 | | 0.8 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 34.0 |
| MC (current price) | 2 297.6 |
| EV (current price) | 2 131.6 |
| Free float | 33.0% |
| Price change: 1 month | *16.0%* |
| Price change: 6 month | |
| Price change: 12 month | |
| Max (52 w eek) | |
| Min (52 w eek) | |




**We are downgrading our rating for the Company from accumulate to hold. The Company signed an agreement with the Kozienice power plant for the supply of steam coal in 2010, which strongly supports our earnings forecast. In line with expectations, the coal industry has started to cut prices, but slower than we expected for now. With the PLN appreciating vs. the USD and with ARA coal prices stabilizing at USD 66/ton, the risk increases that imports will drive prices further down. This will primarily impact the mines that are loss-making already (including KHW), which is advantageous to LWB in the long term.**

### KHW must be restructured

KWH is facing bankruptcy. According to the newspapers, one of the banks is preparing a motion to this effect. One of the reasons are F/X options, which may have cost the holding as much as PLN 100m. KHW, which is Poland’s second biggest mining company, has had difficulties paying its payables for months. Its unpaid bills now exceed the astronomical amount of PLN 600m. In order to cope with its liquidity problems, KHW has issued coal bonds (repayable with cash or coal) for a total of PLN 900m. We have discussed the industry’s problems in our research report. The news coming from KHW confirms the observations made there – the Polish mining industry has to restructure, which includes the closure of loss-making mines, or it will collapse. This scenario works to the advantage of LW Bogdanka, which is set to double its output capacity by 2014.

### Coal supply deal with Kozienice power plant

The Company signed an appendix to its long-term coal supply agreement with the Kozienice power plant, applicable to next year. Its revenues on this account will be PLN 643m (net, +/-1%), according to the quality of the coal set out in the agreement. Failure to supply or to accept supplies carries a penalty of 7.5% of the coal that was not supplied or not accepted. In another appendix, LWB cut the price of coal for Kozienice by 4.55% in the next three quarters.

# Telecommunications

### Treasury wants to sell Polkomtel?

According to deputy Minister of the Treasury Mr. Jan Bury, PGE should consider divesting all non-core assets and focusing exclusively on the energy distribution. One of PGE's key noncore assets is its 21.85% stake in Polkomtel. In early February, PGE informed that it would not rush into divesting Polkomtel, and that it would do that only if there were a satisfactory offer. PGE's other shareholders are PKN Orlen and KGHM (24.39% each), and Węglokoks with 4.98%. PKN Orlen indicated that it would start divestment preparations already in July. We reiterate the view that the Polish shareholders should sell their stakes at the same time, which should help them gain a higher price (control premium). The Treasury would be pleased with such a transaction, as it would entail a PLN 1.2bn tax, which is a non-negligible sum of money at a time of a mounting budget deficit. The cash-rich KGHM opposes the sale the most (the concern is that funds from the divestment might end up being paid out as dividends next year). We reiterate the view that the transaction could take place before the end of this year and that Vodafone (which has a 24.5% stake and preemptive rights for the rest of PGE shares) will be the only bidder.

### PTC prevails over UKE in court

An administrative court in Warsaw ruled that telecom regulator the UKE should not have rejected PTC‘s demand that the 2007 tender for 1800 MHz frequency be voided. The frequencies were awarded to Mobyland, which is linked with Mr. Zygmunt Solorz-Żak, and Centernet, linked with Mr. Roman Karkosik. The UKE has already said it would appeal. This is potentially good news for the established operators, but since we do not consider either Mobyland or Centernet real competitors, even their potential disappearance will not solve the problems whose source is primarily Play.

### Regulatory audit of mobile operators

The UKE launched an audit to verify whether mobile operators are enabling their customers to smoothly port their numbers to other networks. As of July 6th, the time needed to port a mobile number must not be longer than one day, and the service is free of charge, according to a Regulation by the Infrastructure Ministry. Fixed-line number porting is also free, and should take no longer than two weeks. This is a big change considering that, just two weeks ago, number porting cost PLN 50 and lasted an average of 28 days. Operators who have not complied are subject to a penalty. We suspect that some Polish telecoms will not avoid a fine, but we think that, this early on, the UKE will be imposing small penalties as a warning.

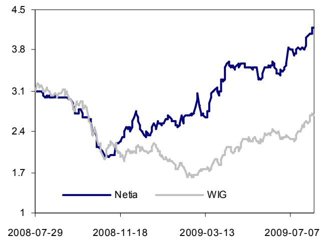
# Netia (Hold)

**Current price: PLN 4.2** **Target price: PLN 3.8**

**Analyst: Michał Marczak**
**Last Recommendation: 2009-08-05**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 838.0 | 1 121.2 | 33.8% | 1 503.1 | 34.1% | 1 640.3 | 9.1% |
| EBITDA | 170.7 | 170.6 | 0.0% | 234.0 | 37.1% | 290.1 | 24.0% |
| *EBITDA margin* | *20.4%* | *15.2%* | | *15.6%* | | *17.7%* | |
| EBIT | -103.8 | -99.7 | -4.0% | -23.4 | -76.5% | 36.6 | |
| Net profit | -268.9 | 230.6 | | -9.9 | | 43.3 | |
| P/E | | 7.1 | | | | 37.5 | |
| P/CE | 288.5 | 3.2 | | 6.6 | | 5.5 | |
| P/BV | 0.9 | 0.8 | | 0.8 | | 0.8 | |
| EV/EBITDA | 9.7 | 8.4 | | 5.6 | | 4.3 | |
| Dyield (%) | 0.0 | 0.0 | | 0.0 | | 0.0 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 389.2 |
| MC (current price) | 1 626.7 |
| EV (current price) | 1 320.6 |
| Free float | 100.0% |
| Price change: 1 month | *10.0%* |
| Price change: 6 month | *66.5%* |
| Price change: 12 month | *34.8%* |
| Max (52 week) | 4.2 |
| Min (52 week) | 2.0 |




**We are changing our investment outlook on Netia from positive to neutral. At the current share price, telecom players are unlikely to be interested in investing in the telecom. What is more, second-quarter results will not impress given the increasing fixed-line customer defections to mobile services (the same as seen by TPSA). We also expect a slowdown in the expansion of broadband (BSA) revenues.**

## Netia sells data communications equipment to P4

P4 is buying the equipment used by Netia to provide data communications for PLN 65.4m (payable in installments, the last of which is due on 1 July 2010). P4 transferred its rights in the equipment to its subsidiary 3GNS. This is a follow-up to a sale agreement signed earlier this year, approved by Netia's financing banks. Netia is not going to make any profit on the deal, but just recover what it invested.

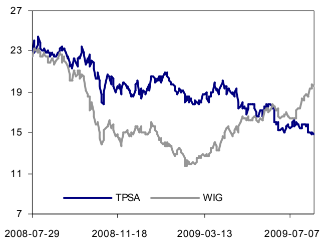
# TP SA (Buy)

**Current price: PLN 14.9** **Target price: PLN 19.4**

**Analyst: Michał Marczak**
**Last Recommendation: 2009-07-31**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 18 244.0 | 18 165.0 | -0.4% | 16 964.6 | -6.6% | 16 477.4 | -2.9% |
| EBITDA | 7 721.0 | 7 630.0 | -1.2% | 6 627.2 | -13.1% | 6 667.1 | 0.6% |
| *EBITDA margin* | *42.3%* | *42.0%* | | *39.1%* | | *40.5%* | |
| EBIT | 3 282.0 | 3 313.0 | 0.9% | 2 412.5 | -27.2% | 2 586.3 | 7.2% |
| Net profit | 2 273.0 | 2 188.0 | -3.7% | 1 583.1 | -27.6% | 1 826.8 | 15.4% |
| P/E | 9.2 | 9.3 | | 12.6 | | 10.9 | |
| P/CE | 3.1 | 3.1 | | 3.4 | | 3.4 | |
| P/BV | 1.2 | 1.2 | | 1.2 | | 1.2 | |
| EV/EBITDA | 3.4 | 3.4 | | 3.8 | | 3.5 | |
| Dyield (%) | 12.7 | 11.4 | | 10.1 | | 9.5 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 1 335.6 |
| MC (current price) | 19 914.5 |
| EV (current price) | 25 131.5 |
| Free float | 46.0% |
| Price change: 1 month | *-3.1%* |
| Price change: 6 month | *-20.5%* |
| Price change: 12 month | *-36.0%* |
| Max (52 week) | 24.4 |
| Min (52 week) | 14.9 |




**TPSA's second-quarter earnings results were weaker than the consensus estimates which had already been lowered after the poor Q109 showing. We believe the second quarter was the absolute abyss of fiscal 2009. Soon, TPSA should reach a preliminary settlement with telecom regulator the UKE and alternative operators, concerning access to its infrastructure, which will put an end to the functional-split squabble. The appreciation of the zloty vs. the euro and the dollar will lower international interconnection rates as well as equipment purchase costs (which increased by PLN 200m in H1 2009) and some of office space rental expenses. Thanks to a decision by the UKE, the asymmetry in mobile termination rates will be reduced, which will restrict Play's competitive advantage. The last risk factor still threatening TPSA is its dispute with DPTG, which is demanding damages of EUR 840m. We consider this amount an element of DPTG's litigation strategy; in reality, the final sum of damages should not exceed EUR 100m (a decision is expected in Q4 2009). With the weaker H1 2009 showing and with our FY2009 forecasts lowered, TPSA is the cheapest national telecom in Europe, trading at a FY09E EV/EBITDA of 4.0, i.e. with a 25% discount to the European average. We believe the Management's 2009 target of PLN 3bn in NFCF a realistic one. At the current market cap, this implies a gross yield of 14.2%. With these factors taken into consideration, we recommend buying TPSA, with a 9M target price of PLN 19.4 per share.**

## 2Q2009

A 12.7% decline in fixed voice revenues (due to churn to WLR and mobile telephony) and a 8.7% decline in mobile revenues (due to lower MTRs) are hardly a surprise, just like the 1.8% increase in operating expenses. Q209 was the second quarter in a row when TPSA faced falling revenues and was unable to contain expenses, which used to be its strength. We cannot rule out that TPSA is inflating expenses on purpose, for the benefit of the ongoing functional-split dispute, or the recent information that FT might want to purchase the Treasury's 4% stake in the company. Despite the weaker earnings, operating cash flows still look very solid (PLN 2.88bn vs. PLN 3.2bn in H1 2008), and, coupled with a visible reduction in investment expenses (PLN 0.9bn vs. PLN 1.22bn in H1 2008), guarantees a high dividend (plus buyback) next year.

## TPSA on investments and the settlement with UKE

TPSA is reviewing its strategy plan. The telecom set the 2009 CAPEX at 12% of revenues. Future expenditure will depend on the settlement the company is able to reach with alternative operators and the UKE concerning the forced split issue. The final and official agreement might come in September. TPSA hopes the terms of the settlement will be such that it will be able to increase investment (depending on the terms on which altnets will have access to the dominant operator's new infrastructure). In H109, TPSA's CAPEX amounted to 10.7% of revenues, which was less than the range of 12%-14% announced at the beginning of the year. Once the telecom/UKE agreement is reached, CAPEX could go up to 18% of revenues for a while, prior to returning to its previous levels. Judging from what the parties are saying, the question is not whether a settlement will be reached, but when. This is good news for TPSA, for which the current period is of absolutely crucial strategic importance. We believe that the company's situation will start to stabilize after an agreement is reached, and its earnings will start to improve.

## Deal on functional separation getting nearer

The regulator UKE expects that TPSA will undertake two investment projects in return for regulatory stability (i.e. no more cuts in LLU, WLR and BSA rates). One issue is a fast-tracking of connections of the customers whom TPSA failed to connect within 10 months, and who are being paid a compensation on this account (the connections are to be up and running by the end of 2009). The second issue relates the 2010 CAPEX. The CEO of TPSA said earlier that, if

an agreement is reached with the UKE and the altnets, the company might increase its CAPEX from 12% of revenues in 2009 to as much as 18% within 2-3 years. The next functional-split meeting is set for 11 August. If a compromise is reached, the UKE might informally suspend work on the division of TPSA. The formal conclusion to the proceedings might take place at the end of September, but it will only be valid for three months, and will then be extended through the end of 2010.
In other news, Standard & Poor's lowered TPSA's rating outlook from “stable” from "positive", and affirmed its long-term rating at "BBB+".

### Dispute with DPTG will be resolved in Q4?

As per the words of the CEO, Mr. Witucki, it is rather unrealistic to expect a solution to the dispute with DPTG in Q3 2009, which is what the Danish company expects. The court dates confirm Mr. Witucki's prediction, In our view, TPSA's possible loss is already priced in its shares. DPTG is claiming EUR 800m in damages, but we think that this is part of its trial strategy.

### FT keen to buy minority stake from the government

According to reports, France Telecom would like to buy the government's minority stake in TPSA. Once confirmed, this should send TPSA stock prices up.

# Media

### 2009 advertising revenue forecasts

According to ZenithOptimedia, in 2009, the value of the Polish advertising market will be PLN 7.43bn, i.e. 4.1% less than in 2008, due to the impact of the global economic crisis. Revenues will contract the most at newspapers and magazines while increasing for Web advertisers and cinemas. Given the data for Q109, which indicate a 5% decline in advertising expenses, as well as the signals that the market may have suffered a much deeper slump in Q209, the 4% decrease forecast for the entire year may be overly optimistic. We expect a 12% drop in ad revenues.

### Outdoor revenues down 10% in Q209

According to data compiled by the Polish Chamber of Outdoor Advertising (IGRZ), the outdoor market shrunk nearly 10% in the second quarter of 2009, and 9% in the first half of the year. However, since the data is not comparable, and since new entities were added to the panel, the downturn was probably actually 2-3 ppts deeper. In our second-quarter estimates for Agora, we assumed that its outdoor unit AMS would see a drop in revenues by close to 20%. If the actual downslide proves to be closer to IGRZ’s predictions, we will adjust our estimate upward by ca. PLN 3m.

### TV Puls seeks license expansion

TV Puls filed a request with the Polish Broadcasting Council (KRRiTV) to expand its broadcasting license to a "universal" one by removing the obligation to broadcast family-oriented and Christian programming, and news broadcasting. Under the current license, TV Puls is obligated to broadcast several hours a week of news programming and current-affairs commentary, 21 hours a week of Christian and family-oriented programming, 7 hours a week of religious programming, and 3 hours a week of educational and guidance programming. These requirements greatly restrict the broadcaster's programming flexibility, and deter advertisers. Plus, news programming tends to be the most expensive part of TV Puls's schedule. On the other hand, religious programming was the main reason why TV Puls was granted ownership of several terrestrial transmitters which entitle the station to frequency slots in the first multiplex. That is why a removal of mandatory faith-based broadcasting from the license may be hard to achieve.

### TVN and Agora object to the terms of competition for multiplex slots

16 entities (including Agora, Polsat, TVN and TP) have submitted comments to the terms of competition for frequency slots in the second multiplex. The most controversial clause is the one granting as many as 300 points to companies that do not publish national newspapers, and do not own radio stations or air terrestrially-broadcast nationwide public programming. The current terms make it very difficult for companies with a strong presence in the Polish media market to acquire slots on the second multiplex. As a result, it will most likely not contain any thematic channels of national broadcasters Agora or Eurozet. In our view, whether this clause stands depends on whether foreign broadcasters express interest in multiplex slots. If they do not, the lack of Polsat’s and TVN’s thematic channels would seriously lower the quality of the project, thereby harming the entire digitization project. The best solution would be to lower the point premium granted to new entrants.

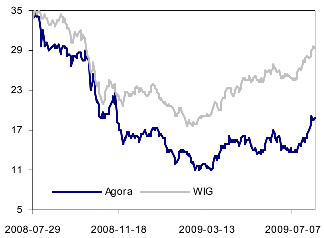
# Agora (Buy)

Current price: PLN 18.9 Target price: PLN 19.6

Analyst: Piotr Grzybowski
Last Recommendation: 2009-07-24

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 1 272.3 | 1 277.7 | 0.4% | 1 120.6 | -12.3% | 1 127.4 | 0.6% |
| EBITDA | 198.6 | 128.4 | -35.3% | 116.5 | -9.3% | 144.6 | 24.1% |
| *EBITDA margin* | *15.6%* | *10.0%* | | *10.4%* | | *12.8%* | |
| EBIT | 120.3 | 44.6 | -62.9% | 32.3 | -27.6% | 60.1 | 86.0% |
| Net profit | 100.3 | 23.4 | -76.7% | 26.7 | 13.9% | 50.5 | 89.4% |
| P/E | 10.4 | 44.4 | | 37.2 | | 19.6 | |
| P/CE | 5.8 | 9.7 | | 8.9 | | 7.3 | |
| P/BV | 0.9 | 0.9 | | 0.8 | | 0.8 | |
| EV/EBITDA | 4.2 | 7.3 | | 7.7 | | 5.7 | |
| Dyield (%) | 1.8 | 0.0 | | 1.3 | | 2.5 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 52.4 |
| MC (current price) | 991.6 |
| EV (current price) | 894.8 |
| Free float | 64.1% |
| Price change: 1 month | *36.5%* |
| Price change: 6 month | *47.7%* |
| Price change: 12 month | *-45.5%* |
| Max (52 week) | 34.7 |
| Min (52 week) | 11.0 |




**Agora stock far outpaced broad-index returns in July, surging over 31%. However, the shares are expected to back off the current high levels on weak second-quarter results. Even so, Agora remains attractively priced, and we recommend buying the stock on any weakness.**

## GW sees drop in H109 ad revenues

According to a survey by Expert Monitor, Agora's daily broadsheet *Gazeta Wyborcza* (GW) was the leader in advertising sales in the first half of 2009, with revenues reaching PLN 395.7m after a 25.24% drop versus the same period a year ago. The only other national newspaper to see a bigger slump was *Dziennik*, whose first-half revenue was down a staggering 40%. Another national paper of record, *Rzeczpospolita*, recorded a 19% year-on-year decrease, while the business daily *Gazeta Prawna* and the tabloid *Fakt* lost just 2% of year-on-year ad revenues. As always, Expert Monitor's rate-card-based data should be taken with a grain of salt. After a 31% drop in the first quarter, we expect GW to report a year-on-year second-quarter pullback in advertising revenues between 35% and 40%.

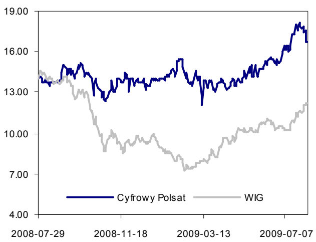
# Cyfrowy Polsat (Hold)

Current price: PLN 16.7 Target price: PLN 14.55

Analyst: Piotr Grzybowski
Last Recommendation: 2009-05-29

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 796.7 | 1 136.3 | 42.6% | 1 351.4 | 18.9% | 1 446.0 | 7.0% |
| EBITDA | 165.9 | 347.8 | 109.6% | 389.9 | 12.1% | 491.9 | 26.2% |
| *EBITDA margin* | *20.8%* | *30.6%* | | *28.9%* | | *34.0%* | |
| EBIT | 145.1 | 324.3 | 123.4% | 361.0 | 11.3% | 462.2 | 28.0% |
| Net profit | 113.4 | 269.8 | 137.8% | 296.2 | 9.8% | 381.5 | 28.8% |
| P/E | 39.4 | 16.6 | | 15.1 | | 11.7 | |
| P/CE | 33.3 | 15.3 | | 13.8 | | 10.9 | |
| P/BV | 73.2 | 15.1 | | 10.8 | | 7.4 | |
| EV/EBITDA | 26.2 | 12.4 | | 10.7 | | 8.3 | |
| Dyield (%) | 0.0 | 0.8 | | 4.0 | | 4.4 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 268.3 |
| MC (current price) | 4 473.0 |
| EV (current price) | 4 182.3 |
| Free float | 31.8% |
| Price change: 1 month | *3.5%* |
| Price change: 6 month | *9.0%* |
| Price change: 12 month | *18.6%* |
| Max (52 week) | 18.1 |
| Min (52 week) | 12.0 |




**The appreciation in the value of the zloty observed since the beginning of the third quarter bodes well for CP's second-half results. That said, the nearly-25% rally in the company's stock over the last two months factors in the expectations of the zloty's strengthening to 4.0 versus the euro and 2.9 versus the dollar, and then some. That is why we are reiterating a hold rating on Cyfrowy Polsat, and we recommend underweighting the stock in August.**

## CP rounds off talks with Sferia, Solorz invests in Mobyland

According to reports, CP and fixed-line telecom Sferia are about to seal the deal on a joint service offering. Further, it was rumored that the law firm which acquired a majority stake in Mobyland, licensee of the 1800 MHz frequency band, is associated with CP owner Zygmunt Solorz-Żak. While the alliance with Sferia is old news, investors should be pleased to hear about the Mobyland acquisition, which could enhance CP's triple-play project. Note, however, that since neither Mobyland nor Sferia have extensive network infrastructure in place, their initial contribution to CP's earnings would be small.

## CP reports flat q/q ARPU

According to CEO Dominik Libicki, CP's second-quarter ARPU was similar to the first-quarter figure. ARPU normally increases in the second quarter, as the promotional prices offered to new subscribers added during the Christmas season cease to apply. This year, however, new customers enjoyws a longer period of free digital television.

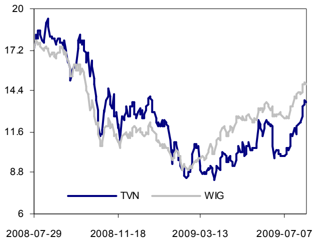
# TVN (Hold)

**Current price: PLN 13.6** **Target price: PLN 10**

**Analyst: Piotr Grzybowski**
**Last Recommendation: 2009-07-01**

| **(PLN m)** | **2007** | **2008** | **change** | **2009F** | **change** | **2010F** | **change** |
|---|---|---|---|---|---|---|---|
| Revenues | 1 554.7 | 1 897.3 | 22.0% | 2 166.4 | 14.2% | 2 450.3 | 13.1% |
| EBITDA | 552.6 | 711.4 | 28.7% | 505.3 | -29.0% | 523.5 | 3.6% |
| *EBITDA margin* | *35.5%* | *37.5%* | | *23.3%* | | *21.4%* | |
| EBIT | 480.5 | 631.9 | 31.5% | 347.7 | -45.0% | 299.3 | -13.9% |
| Net profit | 241.8 | 363.7 | 50.4% | 230.6 | -36.6% | 180.6 | -21.7% |
| P/E | 19.5 | 13.1 | | 20.6 | | 26.3 | |
| P/CE | 15.0 | 10.7 | | 12.2 | | 11.7 | |
| P/BV | 3.3 | 2.9 | | 2.8 | | 2.7 | |
| EV/EBITDA | 9.8 | 8.1 | | 13.0 | | 12.7 | |
| Dyield (%) | 2.7 | 2.5 | | 3.8 | | 2.4 | |

| **Basic data (PLN m)** | |
|---|---|
| Number of shares (m) | 349.4 |
| MC (current price) | 4 751.6 |
| EV (current price) | 6 575.5 |
| Free float | 38.4% |
| Price change: 1 month | *36.0%* |
| Price change: 6 month | *25.3%* |
| Price change: 12 month | *-24.4%* |
| Max (52 week) | 19.3 |
| Min (52 week) | 8.4 |




**The general rally in Polish stocks observed in July sent TVN share prices soaring almost 35%, 20% over the blue-chip index. Like in the case of Agora, however, TVN is expected to report weak second-quarter results, which will likely cool investor sentiment. We are reiterating a hold rating on the TV broadcaster, and recommend underweighting TVN stock in August.**

## Rate card revenue in June

In January-June 2009, TVN recorded the highest rate-card based revenues of all Polish TV stations, at PLN 1.374bn (+7.3% y/y, the data exclude discounts). Polsat slipped to second spot with PLN 1.116bn (-12.7% y/y). Further, a July issue of *Puls Biznesu* claimed that Polsat was being weighed down by its decision to be tough in negotiating discounts, taken in early 2009, and that while TVN's revenues may decline by 15%, Polsat's may fall by 25-30%. Experts from CR Media believe that the decision not to grant big discounts will weigh Polsat down through the end of the year. Rate-card data are completely meaningless in today's market. As for the declines projected by CR Media, we expect TVN's consolidated revenues to fall a little less steeply, except for the TVN channel itself, which may see a decline between 17%-18%. We disagree with the belief that discounts negotiated early in the year are fixed. In April, TVN and Polsat started to agree to bigger discounts (TVP was already there). We expect Polsat's revenue to decline more deeply mostly due to the profile of its audience.

## Zygmunt Solorz-Żak speaks on TV advertising

In an interview for *Puls Biznesu*, Mr. Zygmunt Solorz-Żak, the owner of Cyfrowy Polsat, said that the competition in the advertising market had become "literally cutthroat," and that the implicit solidarity of the broadcasters had evaporated. This confirms that competition in TV advertising has become very tough in the first moths of the year. The first signals that a price war was brewing came in March. At present, a certain equilibrium seems to have been reached, but a very low one. Whether the hole deepens depends on future levels of consumption and on the broadcasters' ability to stay calm.

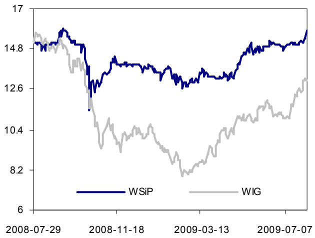
# WSiP (Buy)

**Current price: PLN 15.8** **Target price: PLN 17.8**

**Analyst: Piotr Grzybowski**
**Last Recommendation: 2009-08-04**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 224.9 | 198.2 | -11.9% | 196.2 | -1.0% | 198.2 | 1.0% |
| EBITDA | 34.6 | 50.0 | 44.5% | 42.7 | -14.6% | 44.2 | 3.5% |
| *EBITDA margin* | *15.4%* | *25.2%* | | *21.8%* | | *22.3%* | |
| EBIT | 29.8 | 46.3 | 55.1% | 38.7 | -16.4% | 40.1 | 3.6% |
| Net profit | 49.2 | 39.1 | -20.5% | 31.7 | -18.9% | 33.3 | 5.1% |
| P/E | 8.5 | 10.0 | | 12.3 | | 11.7 | |
| P/CE | 7.7 | 9.1 | | 11.0 | | 10.5 | |
| P/BV | 3.4 | 3.5 | | 3.8 | | 3.7 | |
| EV/EBITDA | 10.1 | 7.2 | | 8.2 | | 8.0 | |
| Dyield (%) | 6.7 | 11.4 | | 10.0 | | 8.1 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 24.8 |
| MC (current price) | 391.2 |
| EV (current price) | 351.8 |
| Free float | 0.0% |
| Price change: 1 month | *7.6%* |
| Price change: 6 month | *20.2%* |
| Price change: 12 month | *5.3%* |
| Max (52 week) | 15.9 |
| Min (52 week) | 11.5 |




**WSiP shares displayed a steady performance in July, but underperformed the broad market index. We expect a continued flat performance in August, as Q209 results are not likely to provide any incentive for the stock to move either up or down. That said, an upcoming buyback (which will probably take place around October) prompts a reaffirmation of a positive investment rating.**

## Acquisition, buyback plans

According to WSiP executive Mr. Karol Żbikowski, the acquisition of a specialist publishing house, which the company announced a while ago, may be delayed due to the summer vacation period. The Supervisory Board might approve the acquisition at its meeting on September 8. At the same time, WSiP reiterated its interest in the privatization of Bellona, as long as it is invited to the negotiating table. In addition, in late fall, shareholders will vote on a PLN 40m buyback. The timing of the buyback program is a function of high operating cashflows in Q3, due to the highly seasonal nature of the company's sales.

## Earnings in line with expectations, FY guidance will be met

According to Mr. Żbikowski, Q209 was in line with the Management's expectations, and the standalone guidance of PLN 180.2m in revenue and PLN 30m in net income will be met. We share the Management's optimism. Despite the increased outlays on textbook promotion, which is a consequence of curriculum changes, the company should exceed its net income target. Moreover, WSiP's subsidiaries are doing very well, including last year's acquisition Zielona Sowa, which will give a boost to consolidated income.

# IT Sector

### "112," "pl.ID" tenders expected in late summer

Mr. Witold Drożdż, Deputy Minister for Internal Affairs, believes that a tender for a national "112" emergency call system will be announced in August, followed by a tender for the "pl.ID" electronic ID system in early September. Mr. Drożdż confirmed that the Interior Ministry plans to announce IT tenders totaling PLN 350m this year. Most of the larger projects will be awarded in stages, except for the one big tender for the 112 system. We stand by our prediction that Polish IT firms will not receive a penny this year from these tenders. However, the launch of bidding for the "112" and "pl.ID" projects is good news which offers hope that the two projects will actually get underway in 2010. A decision by the Ministry to entrust the rollout of the 112 system to a single supplier stems from the fact that the emergency call network has to be in place by the time of the Euro 2012 Cup.

## Asseco Business Solutions

### CEO unhappy with Q209 results

CEO Romuald Rutkowski admitted that Asseco Business Solutions, being the business-services arm of Asseco Poland, experienced a downturn in the second quarter. Indeed, ABS is the unit most sensitive to economic trends. We think that its sales in Q209 may have dropped by more than 10 percent.

## Comarch

### New contract

A consortium involving Comarch and led by Spain's Matica won a PLN 9.1m contract for the expansion of the communications hub of Polish Border Patrol Services. We estimate that Comarch's share in the contract fee represents less than 0.6% of last year's revenue.

### Three-year deal with PGNiG

Comarch and Poland's natural-gas monopoly PGNiG signed a 3-year agreement for the supply of Microsoft licenses. The contract was signed on 30 June, and the total consideration is PLN 37.76m (gross). Comarch will supply PGNiG with over six thousand licenses, plus additional services, under a Microsoft Enterprise Agreement. The net value of the contract is ca. PLN 31m. The licenses themselves will most likely be supplied at very low margins, but there is potential for higher income from the extra services. Unfortunately, Comarch's press release did not contain information as to what software is to be supplied, which would make it possible to estimate the value of the licenses vs. additional services. We estimate that the value of the licenses themselves may amount to ca. PLN 6m, which would entail PLN 25m in extra services. This would imply a gross margin of 16-17%.

## Qumak Sekom

### Qumak to report good Q209 results

CEO Paweł Jaguś reassured investors that Qumak Sekom had a strong second quarter, with revenues up from and profitability on a level with year-ago figures. Mr. Jaguś reiterated that the company was going to improve its full-year results.

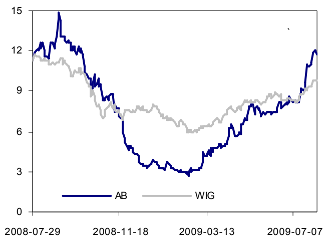
# AB (Buy)

Current price: PLN 11.8 Target price: PLN 10.31

Analyst: Piotr Grzybowski
Last Recommendation: 2009-04-30

| (PLN m) | 2007/08 | 2008/09F | change | 2009/10F | change | 2010/11F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 3 012.2 | 2 700.6 | -10.3% | 2 749.4 | 1.8% | 2 999.8 | 9.1% |
| EBITDA | 39.5 | 79.6 | 101.5% | 40.7 | -48.9% | 44.3 | 9.0% |
| *EBITDA margin* | *1.3%* | *2.9%* | | *1.5%* | | *1.5%* | |
| EBIT | 35.2 | 74.2 | 110.9% | 35.2 | -52.6% | 38.8 | 10.1% |
| Net profit | 16.1 | 21.9 | 36.0% | 14.3 | -34.6% | 19.3 | 35.0% |
| P/E | 11.6 | 8.6 | | 13.1 | | 9.7 | |
| P/CE | 9.2 | 6.9 | | 9.5 | | 7.5 | |
| P/BV | 0.9 | 0.8 | | 0.8 | | 0.7 | |
| EV/EBITDA | 9.8 | 4.3 | | 8.3 | | 7.6 | |
| Dyield (%) | 0.0 | 0.0 | | 0.0 | | 0.0 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 16.0 |
| MC (current price) | 187.4 |
| EV (current price) | 335.7 |
| Free float | 51.3% |
| Price change: 1 month | *44.3%* |
| Price change: 6 month | *291.7%* |
| Price change: 12 month | *-2.0%* |
| Max (52 week) | 14.9 |
| Min (52 week) | 2.7 |




**AB shares rallied over 47% in July, and are well ahead of our target. Even so, we still see upward potential in the stock, supported by expected strong second-quarter results. We are reiterating a buy rating on AB, and we recommend overweighting it in August.**

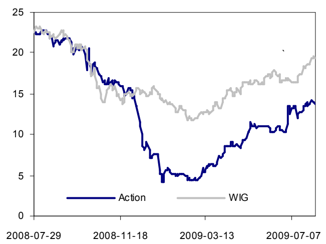
# Action (Hold)

Current price: PLN 13.7 Target price: PLN 12.3

Analyst: Piotr Grzybowski
Last Recommendation: 2009-07-03

| (PLN m) | 2006/07 | 2007/08 | change | 2008/09F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 1 797.5 | 2 343.4 | 30.4% | 3 320.6 | 41.7% | 2 489.8 | -25.0% |
| EBITDA | 37.7 | 66.3 | 75.8% | 59.3 | -10.5% | 50.5 | -14.9% |
| *EBITDA margin* | *2.1%* | *2.8%* | | *1.8%* | | *2.0%* | |
| EBIT | 30.4 | 58.3 | 91.9% | 46.3 | -20.6% | 41.5 | -10.4% |
| Net profit | 22.0 | 33.8 | 53.4% | 25.6 | -24.4% | 24.3 | -4.8% |
| P/E | 10.2 | 7.0 | | 9.2 | | 9.7 | |
| P/CE | 7.7 | 5.6 | | 6.1 | | 7.1 | |
| P/BV | 1.6 | 1.3 | | 1.3 | | 1.1 | |
| EV/EBITDA | 7.7 | 5.8 | | 5.9 | | 7.3 | |
| Dyield (%) | 0.0 | 1.9 | | 10.1 | | 2.2 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 17.2 |
| MC (current price) | 236.1 |
| EV (current price) | 346.9 |
| Free float | 35.9% |
| Price change: 1 month | *3.8%* |
| Price change: 6 month | *167.6%* |
| Price change: 12 month | *-38.6%* |
| Max (52 week) | 22.8 |
| Min (52 week) | 4.1 |




**Action completed a very bad quarter marked by unfavorable impact from a strengthening zloty, weak sales, and a lack of government orders similar to those that drove last year's results. Although the company's Q209 earnings release is slated for September, low expectations are already affecting its performance. We are reiterating a hold rating on Action, and recommend underweighting it in August.**

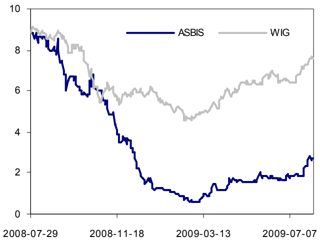
# ASBIS (Buy)

**Current price: PLN 2.7** **Target price: PLN 2.16**

**Analyst: Piotr Grzybowski**
**Last Recommendation: 2009-04-30**

| **(USD m)** | **2007** | **2008** | **change** | **2009F** | **change** | **2010F** | **change** |
|---|---|---|---|---|---|---|---|
| Revenues | 1 397.3 | 1 495.3 | 7.0% | 1 252.0 | -16.3% | 1 339.9 | 7.0% |
| EBITDA | 27.6 | 18.2 | -34.2% | 10.2 | -43.7% | 15.8 | 54.4% |
| *EBITDA margin* | *2.0%* | *1.2%* | | *0.8%* | | *1.2%* | |
| EBIT | 25.7 | 15.3 | -40.4% | 7.3 | -52.2% | 12.8 | 75.2% |
| Net profit | 18.7 | 4.0 | -78.5% | -1.1 | | 4.9 | |
| P/E | 2.8 | 13.0 | | | | 10.7 | |
| P/CE | 2.5 | 7.6 | | 29.5 | | 6.7 | |
| P/BV | 0.5 | 0.6 | | 0.6 | | 0.5 | |
| EV/EBITDA | 1.9 | 3.9 | | 6.8 | | 4.9 | |
| Dyield (%) | 5.3 | 18.4 | | 0.0 | | 3.9 | |

| **Basic data (PLN m)** | |
|---|---|
| Number of shares (m) | 55.5 |
| MC (current price) | 149.3 |
| EV (current price) | 198.6 |
| Free float | 34.2% |
| Price change: 1 month | *51.1%* |
| Price change: 6 month | *169.0%* |
| Price change: 12 month | *-68.4%* |
| Max (52 week) | 8.9 |
| Min (52 week) | 0.6 |




**Even though Asbis overshot our target in July, rallying 50%, like AB, the company still has upward potential in our view. That is why we are reiterating a buy rating on the stock, and recommend overweighting it in June.**

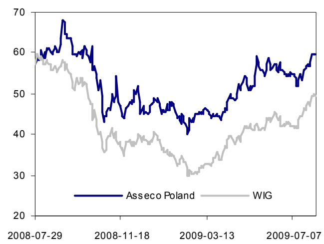
# Asseco Poland (Buy)

**Current price: PLN 59.7** **Target price: PLN 67.4**

**Analyst: Piotr Grzybowski**
**Last Recommendation: 2009-05-27**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 1 282.4 | 2 786.6 | 117.3% | 3 023.5 | 8.5% | 3 213.6 | 6.3% |
| EBITDA | 274.5 | 591.8 | 115.6% | 597.2 | 0.9% | 653.8 | 9.5% |
| *EBITDA margin* | *21.4%* | *21.2%* | | *19.8%* | | *20.3%* | |
| EBIT | 236.7 | 494.3 | 108.9% | 492.1 | -0.4% | 547.0 | 11.2% |
| Net profit | 161.0 | 321.6 | 99.7% | 309.6 | -3.7% | 347.2 | 12.1% |
| P/E | 28.8 | 14.4 | | 15.0 | | 13.3 | |
| P/CE | 23.3 | 11.0 | | 11.2 | | 10.2 | |
| P/BV | 2.2 | 1.2 | | 1.1 | | 1.0 | |
| EV/EBITDA | 17.7 | 8.0 | | 8.3 | | 7.4 | |
| Dyield (%) | 0.6 | 1.7 | | 2.0 | | 2.2 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 77.6 |
| MC (current price) | 4 630.7 |
| EV (current price) | 4 973.1 |
| Free float | 55.1% |
| Price change: 1 month | *8.9%* |
| Price change: 6 month | *37.6%* |
| Price change: 12 month | *2.9%* |
| Max (52 week) | 68.0 |
| Min (52 week) | 40.0 |




**Asseco shares gained 10% in July versus a 15% rise in blue chips. The company is expected to report solid Q209 results in August that should provide more support for its shares. The software producer is gradually building up its 2010 order backlog. We are reiterating a buy rating on Asseco, and recommend overweighting the stock in August.**

## Asseco to use treasury stock to buy back minority stake in Asseco Slovakia

According to CEO Mr. Góral, Asseco Poland's stock of 9.32m treasury shares may be used to buy out minority interests in Asseco Slovakia and increase holdings to 100%. This is an interesting idea. Originally, Asseco Poland was going to use the treasury stock for purposes of its Western European acquisitions. An increase of interests in Asseco Slovakia has the advantage of carrying smaller risk, because Asseco Slovakia is a mature company well known to Asseco Poland and its shareholders. It could help minimize the discount which investors attach to the Asseco treasury stock.

## PLN 10m agreement for ABG

ABG signed an agreement with the National Fund for the Rehabilitation of the Disabled, under which it will provide maintenance and upgrade services to the Fund's IT systems for PLN 10m (gross) over three years.

## EBIT improved in Q209

CEO Góral talked about Asseco's second-quarter results, which he expects to be strong. The CEO also reiterated expectations of year-on-year earnings growth across the Asseco Group. Mr. Góral is hopeful that his company can secure three bank-system orders soon. Good quarterly results will confirm Asseco's solid standing, unaffected by the crisis. If the company manages to secure the three contracts mentioned by the CEO, its backlog will approximate the value of last year's revenue.

## Contract for ASEE

Two subsidiaries of Asseco South Eastern Europe, Ibis and Antegra, signed an agreement for the implementation of a central BI system at Vakufska Banka DD from Sarajevo. The project is divided into 16 stages, and the expected completion date is January 2010. The price was not disclosed. The contract is probably one of the three bank-order opportunities mentioned earlier by CEO Góral. Given the deadline, most of the consideration is likely to be recognized this year.

## Another contract for ASEE

Asseco South Eastern Europe announced that its subsidiary Pexim had signed an agreement for the development of a mobile banking system at OTP Bank Serbia. The price was not disclosed. After the contract with Vakufska Banka Sarajevo signed by Ibis and Antegra, this is another banking contract for Asseco's Balkan arm. As per prior statements by the CEO, we can expect one more agreement of this type.

## CEO interview

In an interview for *Rzeczpospolita*, CEO Adam Góral discussed Q2 earnings, remarking that net income should exceed the PLN 83m forecast. Mr. Góral believes that the quarter's results make increase the likelihood of exceedinf the full-year profit target of PLN 312m. Asseco has been negotiating a big system-replacement contract with a financial industry company. The company hopes to sign an agreement for the acquisition of a Danish company with ca. EUR 2.2m net income in August.

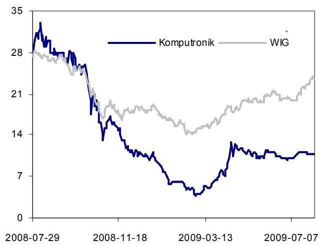
# Komputronik (Hold)

**Current price: PLN 10.8** **Target price: PLN 10.48**

**Analyst: Piotr Grzybowski**
**Last Recommendation: 2009-05-29**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 519.3 | 757.9 | 45.9% | 848.0 | 11.9% | 980.8 | 15.7% |
| EBITDA | 12.1 | 10.8 | -10.5% | 9.8 | -9.5% | 15.2 | 56.1% |
| *EBITDA margin* | *2.3%* | *1.4%* | | *1.2%* | | *1.6%* | |
| EBIT | 10.3 | 5.6 | -45.4% | 4.1 | -27.5% | 9.5 | 131.9% |
| Net profit | 10.3 | 5.6 | -45.4% | 4.1 | -27.5% | 9.5 | 131.9% |
| P/E | 7.8 | 15.7 | | 21.7 | | 9.3 | |
| P/CE | 6.7 | 8.2 | | 9.1 | | 5.8 | |
| P/BV | 0.9 | 0.6 | | 0.6 | | 0.6 | |
| EV/EBITDA | 4.0 | 9.8 | | 15.1 | | 10.0 | |
| Dyield (%) | 0.6 | 0.0 | | 0.0 | | 0.0 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 8.2 |
| MC (current price) | 88.5 |
| EV (current price) | 147.4 |
| Free float | 25.2% |
| Price change: 1 month | *8.2%* |
| Price change: 6 month | *75.9%* |
| Price change: 12 month | *-65.5%* |
| Max (52 week) | 32.9 |
| Min (52 week) | 3.8 |




**We maintain that the worst is still ahead for IT retailers, and, for Komputronik, we predict a continuing shrinkage in margins and sales even after a successful completion of restructuring at Karen. We recommend holding Komputronik and underweighting its shares in August.**

## Loan agreement appendix

Komputronik extended the due date of a loan granted to its subsidiary Karen to 31 December 2009. The interest rate on the loan is 1M WIBOR + 1.5%.

## Komputronik reports PLN 351m revenue for H109

Komputronik reported that its first-half sales were more than 24% higher than last year, at PLN 351m. First-quarter standalone sales were reported at PLN 182m, which implies a second-quarter figure of PLN 168.5m compared to PLN 136.6m in Q208. Keep in mind, however, that 2009 has seen an increase in inter-company sales to subsidiary Karen. Assuming that such "internal" sales are on a level with what was seen in Q1, we estimate that Komputronik's consolidated revenue for Q209 approximated PLN 175m, which is 9.3% more than the PLN 160m recorded in Q208.

## CEO on 2009 earnings outlook

CEO Wojciech Buczkowski believes that Komputronik will see an over-10% increase in revenue this year. To keep margins near last year's levels will be tough, but it is not impossible. Komputronik changed its mind about enlarging its store chain, and has shelved any expansion plans for now. Our revenue growth projection for 2009 is between 8% and 12%, probably closer to the lower end of that range given the shelved expansion plans, which in itself was a good idea given the current cost trends.

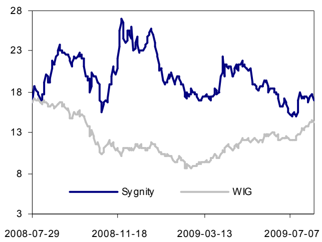
# Sygnity (Buy)

Current price: PLN 17 Target price: PLN 25.3

Analyst: Piotr Grzybowski
Last Recommendation: 2009-05-27

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 1 201.9 | 995.7 | -17.2% | 838.2 | -15.8% | 877.7 | 4.7% |
| EBITDA | -16.3 | 56.6 | | 51.1 | -9.6% | 49.6 | -3.0% |
| *EBITDA margin* | *-1.4%* | *5.7%* | | *6.1%* | | *5.7%* | |
| EBIT | -72.0 | 11.5 | | 12.1 | 5.3% | 12.8 | 5.1% |
| Net profit | -65.6 | -1.5 | -97.7% | 4.3 | | 8.1 | 90.1% |
| P/E | | | | 47.1 | | 24.8 | |
| P/CE | | 4.6 | | 4.7 | | 4.5 | |
| P/BV | 0.6 | 0.5 | | 0.5 | | 0.5 | |
| EV/EBITDA | | 3.8 | | 3.1 | | 3.1 | |
| Dyield (%) | 10.1 | -0.2 | | 0.6 | | 1.2 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 11.9 |
| MC (current price) | 201.5 |
| EV (current price) | 160.7 |
| Free float | 64.5% |
| Price change: 1 month | *10.9%* |
| Price change: 6 month | *-15.3%* |
| Price change: 12 month | *-7.4%* |
| Max (52 week) | 26.9 |
| Min (52 week) | 15.1 |




**After paying off a portion of outstanding loans, Sygnity reduced its debt to PLN 60m, thus resolving the liquidity problem. Sygnity's biggest concern remains its unimpressive order backlog. However, we believe that, as the company rolls over some of its debt and sells some assets, a reinforced liquidity will enable it to reach for orders that require initial cash expenses, accelerating the backlog buildup process. We are reiterating a buy rating on Sygnity.**

## Acquisition plan in the works

CEO Piotr Kardach said that Sygnity would develop an acquisition plan within the next 2-3 months. The M&A activity could be financed through a stock offering and from other sources. The list of potential acquisitions includes one of the companies listed on the WSE. We believe that Sygnity will finally deal with the problem of debt in 2009, which will allow it to look for potential acquisition targets. Preparing a plan is a good move, but we are concerned about using a stock offering to finance takeovers. At present, the company is seriously undervalued, which leads to a (small) risk of unfavorable share exchange ratio in the potential M&A deals.

## Agreement with GUS

A consortium of Sygnity and PTK Centertel signed an agreement with the Central Statistical Office (GUS) for the creation of an IT system which will support a trial national census over mobile terminals. The PLN 4.7m (gross) contract fee is hardly impressive; moreover, Sygnity will only recognize its share of the contract, which is unusual in the IT sector (the consortium leader typically recognizes the full amount on its books). Of course, this has no impact on the profit to be generated, but it does reduce reported sales. The contract does make it more likely that Sygnity will be chosen to do the same work during the 2010 national farm census and the 2011 national census.

## Sygnity not merging with Aram

Sygnity decided not to incorporate its wholly-owned subsidiary Aram Sp. z o.o. because of unfavorable market conditions. The merger was planned as a part of a general restructuring within the Sygnity group, and was not expected to produce any major savings.

## Sygnity unloads KPG

Sygnity sold its geoscience subsidiary KPG for PLN 5.9m (PLN 3.5m was paid in advance, and the remaining PLN 2.4m is payable in installments until June 2010). Sygnity was set to sell its KPG and Geomar units a year ago, but the deal fell through because of an unreliable buyer. The divestment will bring about PLN 960,000 in gains which will be recognized in Q309. The sales of KPG, and Web Inn before that, were not due to a cash shortage (the company was able to easily pay off the bonds which matured on 27 July), but in order for the company to maintain focus on core operations.

## Bond tranche paid off

Sygnity announced that it had paid off some of its bonds for a total of PLN 31.5m, thereby reducing its debt to under PLN 60m. The Management would like to shave off a dozen million or so of the total debt by the end of the year. The company did announce a long time ago that it was planning to pay off a significant part of the bond tranche with maturity on 27 July. Despite this operation, we estimate that the company's cash holdings amount to ca. PLN 20m (inclusive of asset divestment gains set to come in by mid-2010), which provides sufficient liquidity. Whether more bonds are paid off depends on the contracts the company is able to land this year. If it can build a backlog of ca. PLN 750m, it should have net cash by the end of the year, which would allow it to repay more of its debt while maintaining the necessary cash reserves.

# Metals

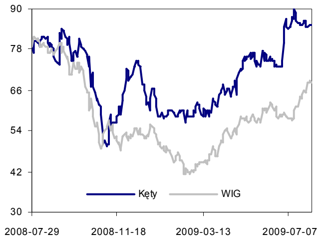
## Kęty (Buy)

**Current price: PLN 85.2** **Target price: PLN 109.4**

**Analyst: Michał Marczak**
**Last Recommendation: 2008-08-04**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 1 253.0 | 1 183.5 | -5.5% | 982.3 | -17.0% | 1 139.5 | 16.0% |
| EBITDA | 194.0 | 190.2 | -2.0% | 170.3 | -10.5% | 181.7 | 6.7% |
| *EBITDA margin* | *15.5%* | *16.1%* | | *17.3%* | | *15.9%* | |
| EBIT | 141.9 | 128.3 | -9.5% | 108.1 | -15.8% | 119.6 | 10.7% |
| Net profit | 97.8 | 63.4 | -35.2% | 64.4 | 1.7% | 77.3 | 19.9% |
| P/E | 8.0 | 12.4 | | 12.2 | | 10.2 | |
| P/CE | 5.2 | 6.3 | | 6.2 | | 5.6 | |
| P/BV | 1.1 | 1.1 | | 1.0 | | 0.9 | |
| EV/EBITDA | 5.9 | 6.1 | | 6.4 | | 5.7 | |
| Dyield (%) | 4.7 | 5.3 | | 5.5 | | 5.6 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 9.2 |
| MC (current price) | 785.5 |
| EV (current price) | 1 090.7 |
| Free float | 46.0% |
| Price change: 1 month | *1.4%* |
| Price change: 6 month | *45.9%* |
| Price change: 12 month | *5.8%* |
| Max (52 week) | 90.2 |
| Min (52 week) | 49.5 |




**We are reiterating a positive rating on Kęty, which is benefitting from the economic momentum and a weak zloty, and records a growing number of orders. We expect second-quarter results to validate the company's full-year bottom-line income target of PLN 62m. Kęty is willing to sell its flexible-packaging business for the right price, and we believe it can get more that would follow from the current market cap (packaging manufacturers are valued at higher multiples than aluminum manufacturers). The sale could take place in 2010.**

# KGHM (Reduce)

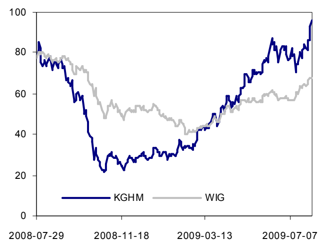
**Current price: PLN 95.8** **Target price: PLN 54.9**

**Analyst: Michał Marczak**

**Last Recommendation: 2009-06-08**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 12 183.0 | 11 302.9 | -7.2% | 9 730.5 | -13.9% | 10 406.9 | 7.0% |
| EBITDA | 5 034.0 | 4 077.7 | -19.0% | 2 732.0 | -33.0% | 2 857.4 | 4.6% |
| *EBITDA margin* | *41.3%* | *36.1%* | | *28.1%* | | *27.5%* | |
| EBIT | 4 682.0 | 3 596.4 | -23.2% | 2 200.5 | -38.8% | 2 325.9 | 5.7% |
| Net profit | 3 799.0 | 2 910.4 | -23.4% | 2 038.7 | -30.0% | 2 124.5 | 4.2% |
| P/E | 5.0 | 6.6 | | 9.4 | | 9.0 | |
| P/CE | 4.6 | 5.6 | | 7.5 | | 7.2 | |
| P/BV | 2.1 | 1.8 | | 1.8 | | 1.6 | |
| EV/EBITDA | 3.3 | 4.3 | | 6.3 | | 5.7 | |
| Dyield (%) | 17.7 | 9.4 | | 9.4 | | 4.3 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 200.0 |
| MC (current price) | 19 150.0 |
| EV (current price) | 17 261.0 |
| Free float | 36.0% |
| Price change: 1 month | *25.6%* |
| Price change: 6 month | *173.6%* |
| Price change: 12 month | *16.9%* |
| Max (52 week) | 95.8 |
| Min (52 week) | 21.4 |




**Contrary to our predictions, world copper prices are trending upwards, fueled by strong demand from China and commodity speculation. As prices rose in July, so did LME copper inventories. According to unofficial reports, there are ships docked in China harbors carrying 100,000 tons of unregistered concentrate, which was supposed to be sold for an arbitrage profit when Shanghai prices were higher than LME prices. Now that the premium has disappeared, there is no room for arbitrage. At the copper prices, KGHM is able to achieve an annual profit of PLN 2.5 billion. If we adjust the company's market cap for telecom assets, KGHM's copper business is valued at a P/E of 6.3, the same as was recorded at the peak of the 2008 bull market. We are reiterating a reduce rating on KGHM.**

## Government dithers on KGHM divestment

According to State Treasury officials, the government may decide to sell a less-than-controlling stake in KGHM. No details were revealed. After a recent announcement of a 41% KGHM stake sale, which was promptly denied by other government members, the Treasury found another solution, and one which, as we pointed out, is the most realistic one. By selling a non-controlling stake in KGHM, the Treasury will maintain control over the copper producer, while reaping a cash gain. What is more, the Treasury would remain the sole bargaining partner for KGHM workers. The sale is not likely to take place before 2010.

## New Old CEO

Mr. Herbert Wirth was appointed as KGHM's new CEO after defeating 27 counter-candidates. Mr. Wirth has held the function of Vice President since April 2008, and has been acting CEO since the term of former CEO Mr. Krutin ended on June 16th, 2009. All in all, Mr, Wirth has a long history with KGHM. After the election, the new CEO said that he intended to continue with KGHM's strategy of minimizing costs and upgrading production facilities, in particular at the smelters. We are neutral on the CEO choice.

## KGHM may raise FY09 guidance in August

KGHM reiterated its 2009 full-year net-earnings estimate at PLN 1.9bn, but said that it may revise it upwards in August, after the first-half earnings announcement. The company's Management do not see any fundamental support for the recent rally in copper prices to $5000 per ton. KGHM further confirmed its savings target at ca. PLN 300m, to be achieved mainly through the recently launched cost-effectiveness plan, and by creating a central procurement unit which should augment achievable savings in coming years. With a 2009 capex budget of several dozen million zlotys, KGHM is looking at four possible investments, including copper deposits in Mongolia, Peru, USA, and Laos. The producer is looking for large fields with a capacity between several hundred thousand and 1.5 million tons, that are in different stages of prospecting. The CEO says that the investment will not cost more than PLN 900m. If copper continues trading this high throughout the summer, KGHM is sure to raise its earnings guidance. Even though rising commodity prices are usually accompanied by an appreciation in the zloty against the dollar, if copper prices remained at their current levels in H209, KGHM's profit would exceed the current target by some PLN 530m, and approximate PLN 2.43bn (compared to our estimate of PLN 2.04bn).

## KGHM inspects copper deposits in Mongolia

A delegation of KGHM mining experts left for Mongolia to inspect a local copper field. If the experts can confirm that the ore is good quality, KGHM may form a joint venture with a Chinese partner and set up mining operations on the field. A decision whether to invest in the joint venture will be made within a month. In itself, an expansion into the Far East seems like a good plan. Mongolia is a country with vast unexplored copper fields, and, as an added bonus, it is close to other Asian markets, and can provide cheap labor. A large mine with an annual capacity of 300,000 tons could cost the joint venture between 4 and 6 billion dollars. As an alternative, KGHM could just get into the venture as the mine operator. If the producer decides to go ahead with the project, actual work on the field will start in 5-6 years.

# Construction

### Construction growth in June
According to official GUS statistics, construction output in June was 0.6% higher than a year earlier and 16.3% higher than in May. Seasonally adjusted output growth figured to 0.4% and 1.2% respectively.

## Road Construction

### Road Fund bond issue (PLN 600m)
Bank BGK and CitiBank Handlowy underwrote a PLN 600m bond offering by the National Road Fund (KFD). There will be further tranches, as the total value of all bonds is to amount to PLN 7.8bn. The Deputy Minister of Infrastructure points out that KFD appropriations this year amount to PLN 16.5bn, while the total road budget totals PLN 22.7bn. In addition to the bonds, the KFD gets funding from European Investment Bank loans (PLN 5.5bn), EU refinancing (PLN 900m), the fuel tax (PLN 1.3bn) and concession fees (PLN 800m). Originally, total spending on roads in 2009 was to amount to PLN 32m, which was then reduced to PLN 24.5bn and finally to PLN 22.7bn (cf. over PLN 13bn in 2008). Future spending on roads depends, among others, on the success of the bonds offering. The bonds from the first tranche mature in three years, and subsequent tranches will come with longer maturities. The interest rate will be determined during book building.

### Problems with Road Fun bonds issue
There may be problems with the National Road Fund's (KFD's) bonds issue, scheduled for late 2009, because the Ministry of Finance is unwilling to provide PLN 4.5bn in government guarantees so as not to inflate the budget deficit. As a result, an amendment to the KFD Act may be required. At the end of June, the Minister of Finance approved a guarantees in the amount of PLN 4.2bn for GTC, which is constructing a stretch of the A1 highway (Grudziądz-Toruń). Year to date, PLN 5.7bn was spent on road construction; PLN 2bn remains. According to the Minister of Infrastructure, road construction spending will exceed PLN 20bn this year.

### Skanska lands PLN 3.1bn motorway deal
GTC, concessionaire and developer of a section of the A1 motorway, hired a consortium of Skanska and NDI to build the 62 km stretch for PLN 3.1bn. At the end of June, GTC was granted Finance Ministry guarantees, which enabled the disbursement of the A1 financing.

### Astaldi makes lowest bid (PLN 1.72bn)
Three consortia submitted quotes in a bid to bring (on a design-and-build basis) national road #8 from Piotrków Trybunalski to Rawa Mazowiecka up to expressway standards. The budget of the project owner, national road authority the GDDKiA, is over PLN 1.89bn. The quotes submitted by the bidders ranged from PLN 1.72bn offered by Astaldi to PLN 1.77bn offered by a consortium involving Budimex Dromex and Mostostal Warszawa.

## Railroad Construction

### Costs are down in railroad construction
As building costs decline, railroad developers are able to offer lower prices for their services. For example, the lowest bid for a contract to build a rail link to Warsaw's Chopin airport was PLN 100m lower than the investor's budget. Trakcja Polska's quote in the "LCS Ciechanów" track modernization tender was PLN 220m lower than budgeted, and the best bidder in a PLN 54m European Rail Traffic Management System tender offered PLN 41m. According to the CEO of Trakcja Polska, such low prices stem from reduced costs of labor, building materials, and the fact that national rail operator PKP PLK determined its project budgets when the EUR/PLN exchange rate was 4.0.

## Housing

### Housing statistics
According to the National Statistical Office (GUS), housing starts in June fell 15.7% to 15.2 thousand vs. the same month a year ago, while the number of building permits issued in the period was 33.2% lower than a year ago. In turn, housing completions increased 18.5% to 12.4 thousand.

### Housing downturn worse than official figures
According to the Polish Association of Real-Estate Developers (PZFD), as much as 70% fewer developments were started in the first half of 2009 than in the same period a year ago. Meanwhile, the GUS estimates the drop at 50%. The difference stems from the fact that the GUS uses data derived from official project notifications (which indicate that 18,800 building

units were started in H109), while PZDF believes that some of these starts were notified just to prevent expiration of building permits. PZDF estimates that an increased supply of homes, accompanied by tight access to credit, drove housing prices down between 10% and 20%.

### 2009-10 housing completion projections

PZDF estimates that 2009 housing completions will amount to 170-180 thousand, marking a y/y increase between 5% and 10%. In 2010, completions are expected to drop 10-20%.

## Building Materials

### Budimex CEO on building costs and profits

Budimex's CEO Michałowski believes that prices of building materials have already bottomed out, and that they will follow a more or less steady trend in the next few months. As infrastructure projects accumulate in 2011 and 2012, housing is also expected to recover, fueling demand for, and prices of materials.

## Energomontaż Południe

### CEO on firsts-half results

Energomontaż Południe's (EPD) CEO revealed that revenues generated in the first two quarters amounted to PLN 120m (i.e. 30% more than a year earlier), and net profit exceeded PLN 9m. Results analyzed on a consolidated basis were lower because they did not factor in dividends received in Q1 from subsidiary Amontex. EPD decided not to sell flats in the residential complex it is currently building in Katowice until the project is completed. Profits on that development are expected to materialize in 2010. EPD has accumulated a contract backlog of PLN 450m, which means that it should have no problem reaching the full-year PLN 300m revenue target.

### PBG, EPD agree on takeover price

According to reports, the shareholders of PBG and Energomontaż Południe reached an agreement regarding the per-share takeover price, which is set within a range of PLN 3.4 and PLN 3.5. PBG might become EPD's customer in the future, in projects such as steel frames for stadiums.

## Energopol Południe

### PLN 22.72m deal

Energopol Południe and Wikar were awarded a PLN 22.72m contract for construction work related to water and sewage system improvements in Bytom. The deadline falls in H2 2010.

## Mostostal Płock

### PLN 83.3m contract

Mostostal Płock received a PLN 83.3m order from gas-pipeline operator PERN for two 100,000 cubic-meter tanks.

## Mostostal Zabrze

### Mostostal Zabrze inks PLN 122m contract

A consortium including Mostostal Zabrze (MZ) signed a contract to supply a roof for the Śląski Stadium in Chorzów. The entire contract is worth PLN 277.4m, and MZ's 44% stake in it is equivalent to PLN 121.7m (11% of expected 2009 revenue of PLN 1.1bn).

## Pol-Aqua

### Pol-Aqua acquires PLN 150m-worth of orders in three months

Pol-Aqua has signed over PLN 150m-worth of contracts since May, according to the CEO, who reiterated that 2010 revenues are expected to grow 20-25%.

### Tender offer on Pol-Aqua

Spanish construction company Dragados has launched a tender offer for the acquisition of 65.5% (18 021 846 shares) of all outstanding shares of Pol-Aqua. Dragados intends to buy the tendered shares provided that they represent an equity stake of at least 49.5% (13 621 831 shares) by the end of the offering period. The purchase price is PLN 27 a share, and the offering period starts on August 19th and ends on September 21st. On July 28th, Pol-Aqua's main shareholder Mr. Stefański agreed to sell a 47.34% interest (13 018 962 shares) in the company. Dragados has an established presence in the Polish market, and is a member of Grupo ACS, similar in structure to Ferrovial and Acciona. There is very little probability that Pol-Aqua shareholders are going to miss an opportunity to sell and force Dragados to lift the purchase price (the Spanish investor wants at least a 49.5% stake and, after buying the 47.3%

interest of Mr. Stefański, it will only need to solicit 2.2% from the market).

## Remak

### Remak fills 2009 order backlog

Remak's CEO Marek Brejwo announced that the order backlog for this year is full, and the backlog for next year is half-full, but will hopefully be filled up in coming weeks with two contracts from German and Dutch customers for an estimated total of EUR 16m. The CEO said that the second quarter was successful in terms of sales.

## Żurawie Wieżowe

### Merger in the works

Żurawie Wieżowe (ŻW) signed a merger memorandum with power- and telecom-infrastructure builder Gastel. The merger schedule is set to be ready by 21 August, and the two companies will complete mutual due diligence audits by 25 September. Gastel's CEO says that the merger will not involve cash. A marriage between ŻW (150 cranes and wheeled hydraulic cranes) and Gastel (108 cranes) will create the largest crane-rental enterprise in Poland, with a 20% market share.

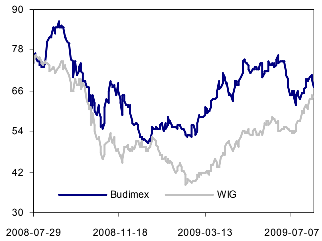
# Budimex (Hold)

**Current price: PLN 67.3** **Target price: PLN 65.8**

**Analyst: Maciej Stokłosa**

**Last Recommendation: 2009-05-11**

| **(PLN m)** | **2007** | **2008** | **change** | **2009F** | **change** | **2010F** | **change** | **Basic data (PLN m)** | |
|---|---|---|---|---|---|---|---|---|---|
| Revenues | 3 075.9 | 3 350.0 | 8.9% | 3 451.0 | 3.0% | 4 636.6 | 34.4% | Number of shares (m) | 25.5 |
| EBITDA | 51.7 | 134.2 | 159.8% | 207.3 | 54.5% | 179.0 | -13.6% | MC (current price) | 1 718.2 |
| *EBITDA margin* | *1.7%* | *4.0%* | | *6.0%* | | *3.9%* | | EV (current price) | 1 751.2 |
| EBIT | 28.0 | 112.2 | 300.1% | 184.4 | 64.4% | 155.8 | -15.5% | Free float | 26.7% |
| Net profit | 15.1 | 104.7 | 595.1% | 150.5 | 43.7% | 118.3 | -21.4% | | |
| P/E | 114.0 | 16.4 | | 11.4 | | 14.5 | | Price change: 1 month | *3.9%* |
| P/CE | 44.4 | 13.6 | | 9.9 | | 12.1 | | Price change: 6 month | *20.2%* |
| P/BV | 3.2 | 2.7 | | 2.7 | | 2.2 | | Price change: 12 month | *-10.1%* |
| EV/EBITDA | 28.6 | 10.3 | | 8.4 | | 10.3 | | Max (52 week) | 86.8 |
| Dyield (%) | 0.0 | 0.0 | | 8.7 | | 0.0 | | Min (52 week) | 50.7 |




**We are reiterating a hold rating on Budimex. According to preliminary estimates, the company generated in-line Q209 revenue and EBIT figures, and a lower-than-expected net income. The final announcement, however, may include positive surprises, with a higher-than-expected gross profit. On the other hand, operating expenses also could be boosted by one-time charges. Budimex's 2010 order backlog currently constitutes ca. 60% of expected sales. A recently executed contract for a stretch of the A1 motorway provides for no advance payments, and the fees are payable within 49 days from billing, which is likely to affect Budimex's net cash base.**

### CEO promises improvement in Q209

CEO Mr. Michałowski says that Budimex's second-quarter results will be better across all P&L items. The company's order backlog is worth over PLN 4.5bn at the moment, and could increase to PLN 5bn by the end of the year.

### Budimex, Mostostal Warszawa land PLN 1.5bn contract

A consortium of Budimex and Mostostal Warszawa was officially awarded a contract to build a stretch of the A1 motorway. The stakes in the PLN 1.5bn fee are 90% for Budimex (PLN 1.35bn equivalent to 40% of expected '09 revenue), and 10% for Mostostal Warszawa (PLN 150m, i.e. 5% of '09 revenue). The assignment requires Budimex to cover initial construction expenses (there will be no advance from National Road Authority the GDDKiA), and payments will be due within 49 days of billing date.

### PLN 110.4m order

National road authority the GDDKiA selected Budimex's offer for a contract to build a bypass road around Mrągowo. The company offered PLN 110m (3.2% of 2009 revenue estimate). The parties are expected to sign the contract within 30 days, and Budimex's deadline will be 18 months.

### Budimex wins damages over canceled contract

Budimex sued the General Directorate for National Roads and Motorways (GDDKiA) for damages in the amount of PLN 43.9m plus interest related to the discontinuation of the Augustów beltway project. A court in Białystok awarded the PLN 43.9m damages to the company. The GDDKiA appealed the ruling.

### Budimex unsatisfied with damages

A Court of Appeals ordered the City of Krakow to pay Budimex PLN 6.9m plus interest accrued since November 2007, as a refund of a performance bond which the company had provided against a contract terminated in 2007 due to delays, and out of which the City had drawn PLN 20.7m at the time. Budimex believes that the City should pay back the whole PLN 20.7m, and intends to appeal to the Supreme Court.

### Target price adjustment for dividends

Following a 29 June record date, we downgraded our price target on Budimex from PLN 71.6 to PLN 65.8 a share (i.e. by PLN 5.84/share) in July.

# Elektrobudowa (Hold)

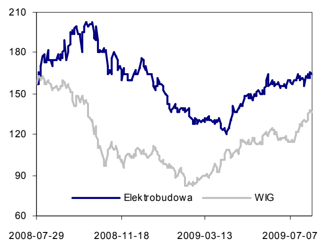
Current price: PLN 165 Target price: PLN 162.7

Analyst: Maciej Stokłosa

Last Recommendation: 2009-06-04

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 679.6 | 811.0 | 19.3% | 819.9 | 1.1% | 829.8 | 1.2% |
| EBITDA | 49.6 | 79.0 | 59.3% | 71.1 | -10.1% | 70.4 | -1.0% |
| *EBITDA margin* | *7.3%* | *9.7%* | | *8.7%* | | *8.5%* | |
| EBIT | 44.2 | 71.3 | 61.1% | 61.6 | -13.6% | 60.5 | -1.7% |
| Net profit | 34.7 | 60.3 | 73.7% | 52.7 | -12.6% | 55.7 | 5.7% |
| P/E | 20.1 | 13.0 | | 14.9 | | 14.1 | |
| P/CE | 17.4 | 11.5 | | 12.6 | | 12.0 | |
| P/BV | 6.2 | 3.1 | | 2.7 | | 2.4 | |
| EV/EBITDA | 14.1 | 8.8 | | 10.0 | | 9.8 | |
| Dyield (%) | 1.2 | 1.5 | | 2.2 | | 2.3 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 4.7 |
| MC (current price) | 783.4 |
| EV (current price) | 713.2 |
| Free float | 39.1% |
| Price change: 1 month | *3.1%* |
| Price change: 6 month | *21.3%* |
| Price change: 12 month | *1.0%* |
| Max (52 week) | 202.5 |
| Min (52 week) | 121.0 |




**We are reiterating a hold rating on Elektrobudowa. We maintain our prediction that, once energy capacity expansion projects get underway in Poland, Elektrobudowa can look forward to a major sales boost in 2011. In the mean time, the company may see a deterioration in earnings in 2010. Elektrobudowa switchgears take about 3 months to deliver, and, should a temporary slowdown occur after current work in progress is completed, the company might have to settle for smaller orders and face greater competitive pressure. We would liken Elektrobudowa's business cycles to those experienced by manufacturers of finishing materials (who have yet to be hit by the effects of the crisis that are currently affecting building-shell service providers like Ulma and Żurawie Wieżowe). In spite of imminent risks, Elektrobudowa has so far delivered on its 2009 backlog- and budget targets, and even exceeded them in Q1 2009 thanks to positive FX differences.**

## H109 slightly ahead of expectations

According to CEO Faltynowicz, H109 earnings are slightly above expectations, to a large extent due to what happened in the second quarter. The company is forecasting revenues of PLN 806m (we project PLN 819.9m) and consolidated net income of PLN 48m (PLN 52.7m in our forecast). Despite the better-than-expected first half of the year, the CEO admits it is too early to increase FY targets, as the H2 backlog is still being filled. Most of the company's contracts have 3-month timelines. The company is expecting another contract soon, which increases the scope of work performed at the Olkiluoto power plant in Finland from the current EUR 33.6m. In addition, the CEO expects orders for a total of several million USD in Saudi Arabia, whose economy is doing better than Poland's or Western Europe's. Despite the downturn in Russia, both of the company's Russian subsidiaries (Kruelta, Vector) are expected to be in the black.

## CEOs on Elektrobudowa-TP merger

The CEO of Trakcja Polska (TP) Mr. Radziwiłł can see possible synergies to be gained from his company's merger with an electrical engineering firm like Elektrobudowa. Not long ago, TP's main shareholder Comsa successfully merged with Elektrobudowa's Spanish counterpart, EMTE. Further, Mr. Radziwiłł got very positive responses to the idea from open pension funds. In turn, Elektrobudowa's CEO Mr. Faltynowicz cannot think of any benefits that could arise from such a merger. He says that his company has nothing to do with railroad development, and that the two companies use incompatible technologies. Moreover, track-building companies are almost completely dependent on one customer, the railroad operator PKP – a situation which Mr. Faltynowicz finds far from desirable. He himself does not see a worthy investor among Polish engineering companies, but the decision ultimately lies with Elektrobudowa stockholders, i.e. mostly pension funds.

# Erbud (Suspended)

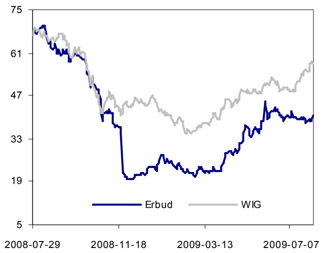
**Current price: PLN 40.5** **Target price: -**

**Analyst: Maciej Stokłosa**

**Last Recommendation: 2009-08-05**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 663.1 | 1 059.0 | 59.7% | 865.0 | -18.3% | 924.8 | 6.9% |
| EBITDA | 34.6 | 71.3 | 106.0% | 49.0 | -31.3% | 41.4 | -15.4% |
| *EBITDA margin* | *5.2%* | *6.7%* | | *5.7%* | | *4.5%* | |
| EBIT | 32.8 | 64.8 | 97.7% | 42.6 | -34.2% | 35.0 | -17.9% |
| Net profit | 31.8 | 10.4 | -67.4% | 35.1 | 237.9% | 31.0 | -11.6% |
| P/E | 16.0 | 49.0 | | 14.5 | | 16.4 | |
| P/CE | 15.1 | 30.0 | | 12.3 | | 13.6 | |
| P/BV | 2.6 | 2.5 | | 2.2 | | 1.9 | |
| EV/EBITDA | 12.7 | 7.0 | | 8.3 | | 9.5 | |
| Dyield (%) | 0.0 | 0.0 | | 0.0 | | 0.0 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 12.6 |
| MC (current price) | 509.0 |
| EV (current price) | 405.2 |
| Free float | 21.0% |
| Price change: 1 month | *1.2%* |
| Price change: 6 month | *65.9%* |
| Price change: 12 month | *-40.0%* |
| Max (52 week) | 70.0 |
| Min (52 week) | 19.9 |




**Among Erbud stories in July, we were glad to hear that developer LC Corp had resumed work on its Calisia Residence project in which Erbud is the general contractor. Further, the company has built a backlog of local general-contracting orders which accounts for 78.5% of expected revenues, prompting a revision in our financial forecasts. Until our revised research on the builder is ready (look out for an update in coming days), we are suspending coverage of Erbud.**

## Erbud returns to residential development site

Housing developer LC Corp is resuming work on its “Calisia Residence” project in Warsaw, where Erbud acts as the contractor The two companies signed an annex to their 2008 agreement, which sets Erbud’s fee at PLN 31.9m. Given that PLN 3.4m-worth of construction is already completed, the remaining work is worth PLN 28.5m, of which PLN 8m will be booked in 2009.

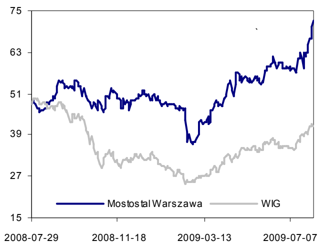
# Mostostal Warszawa (Accumulate)

**Current price: PLN 72** **Target price: PLN 65.6**

**Analyst: Maciej Stokłosa**
**Last Recommendation: 2009-06-04**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 1 928.4 | 2 154.2 | 11.7% | 2 711.1 | 25.8% | 2 809.4 | 3.6% |
| EBITDA | 78.5 | 136.3 | 73.7% | 167.3 | 22.7% | 146.5 | -12.4% |
| *EBITDA margin* | *4.1%* | *6.3%* | | *6.2%* | | *5.2%* | |
| EBIT | 58.9 | 113.4 | 92.6% | 143.5 | 26.6% | 122.4 | -14.7% |
| Net profit | 52.9 | 75.5 | 42.6% | 105.3 | 39.4% | 92.4 | -12.2% |
| P/E | 27.2 | 19.1 | | 13.7 | | 15.6 | |
| P/CE | 19.9 | 14.6 | | 11.2 | | 12.4 | |
| P/BV | 5.1 | 4.3 | | 3.4 | | 3.1 | |
| EV/EBITDA | 16.0 | 9.4 | | 7.6 | | 8.8 | |
| Dyield (%) | 0.1 | 0.0 | | 2.6 | | 3.7 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 20.0 |
| MC (current price) | 1 440.0 |
| EV (current price) | 1 278.0 |
| Free float | 18.7% |
| Price change: 1 month | *22.0%* |
| Price change: 6 month | *53.2%* |
| Price change: 12 month | *50.0%* |
| Max (52 week) | 72.0 |
| Min (52 week) | 36.3 |




**Mostostal Warszawa (MW) shares rallied to a level close to the per-share price of Budimex, but that does not affect our accumulate rating on the company. We believe that MW may report better-than-expected results for Q2 2009. We like the company's policy of turning down large contracts because it guarantees greater financial security (costs are recognized within several months from contract execution). MW's 2010 order backlog currently constitutes ca. 60% of expected sales. Note that, while the net free-cash base of Budimex results from its approach to the settlement of investor and subcontractor payments, MW has PLN 230m of cash at its disposal even after all trade payables and receivables are netted. A strong cash base provides a safety cushion and enables the company to take on capital-intensive contracts.**

## PLN 3.6bn backlog

The CFO for Mostostal Warszawa announced that the company had built a contract backlog worth PLN 3.6bn.

## Budimex, Mostostal Warszawa land PLN 1.5bn contract

A consortium of Budimex and Mostostal Warszawa was officially awarded a contract to build a stretch of the A1 motorway. The stakes in the PLN 1.5bn fee are 90% for Budimex (PLN 1.35bn equivalent to 40% of expected '09 revenue), and 10% for Mostostal Warszawa (PLN 150m, i.e. 5% of '09 revenue). The assignment requires Budimex to cover initial construction expenses (there will be no advance from National Road Authority the GDDKiA), and payments will be due within 49 days of billing date.

## Subsidiary lands contracts for PLN 40.7m

Mostostal Warszawa's subsidiary Wrobis received three new orders totaling PLN 40.7m (1.5% of 2009 revenue estimate). One contract is for a foil manufacturing plant for Verpa Folie Wrocław (PLN 17.5m), the second is for sports facilities in Tarnów Opolski (PLN 4.2m), and the third is for a sports and entertainment center in Ustronie Morskie (PLN 19.0m).

## PLN 46m contract

Mostostal Warszawa, as consortium leader, signed a PLN 46m contract (1.7% of 2009 revenue estimate) with the city of Puławy for an overhaul and expansion of the local sports and leisure center. The contract will be carried out in stages, the first ending in July 2010, and the second in June 2011.

## PLN 45m contract

A consortium led by Mostostal Warszawa was hired to complete stage two of a philharmonics construction project in Olsztyn. The PLN 45m contract (1.7% of expected 2009 revenue) has a deadline in January 2011.

## Appeals denied for metro bidders

The National Chamber of Appeals rejected appeals by China Overseas Engineering Group (Covec) and Mostostal Warszawa against the award of contract for the second line of the Warsaw metro to Italian/Turkish consortium Astaldi-Gulemark.

# PBG (Reduce)

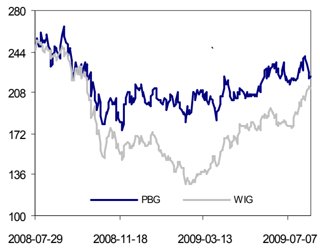
**Current price: PLN 221.8 Target price: PLN 201.6**

**Analyst: Maciej Stokłosa**

**Last Recommendation: 2009-06-04**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 1 376.8 | 2 089.3 | 51.8% | 2 902.0 | 38.9% | 3 198.8 | 10.2% |
| EBITDA | 138.2 | 270.3 | 95.6% | 360.1 | 33.2% | 383.6 | 6.5% |
| *EBITDA margin* | *10.0%* | *12.9%* | | *12.4%* | | *12.0%* | |
| EBIT | 109.4 | 223.4 | 104.3% | 313.4 | 40.3% | 336.6 | 7.4% |
| Net profit | 102.1 | 158.0 | 54.9% | 196.4 | 24.3% | 223.0 | 13.6% |
| P/E | 29.2 | 18.8 | | 15.2 | | 13.4 | |
| P/CE | 22.8 | 14.5 | | 12.3 | | 11.0 | |
| P/BV | 4.0 | 1.0 | | 1.0 | | 0.9 | |
| EV/EBITDA | 24.1 | 14.2 | | 10.4 | | 8.4 | |
| Dyield (%) | 0.1 | 0.0 | | 0.0 | | 0.0 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 13.4 |
| MC (current price) | 2 978.8 |
| EV (current price) | 3 742.8 |
| Free float | 53.0% |
| Price change: 1 month | *2.0%* |
| Price change: 6 month | *6.4%* |
| Price change: 12 month | *-10.6%* |
| Max (52 week) | 266.0 |
| Min (52 week) | 175.3 |




**We are reiterating a reduce rating on PBG. While the company can boast a very skilled management team and an 80% full 2010 order backlog, its shares continue to be overpriced (FY09E P/E = 15.2, EV/EBIDTA = 10.4, P/S = 1.0), making it the most expensive construction stock on the WSE aside from Mostostal Zabrze. Moreover, we do not expect PBG to wow us with its second-quarter results. The builder tends to generate higher-than-average margins which, at least in case of some business lines like environmental engineering and general construction, are likely to fall going forward. While we will probably revise our earnings projections for PBG soon, there revisions will probably not affect our investment rating.**

## CEO sells interests

CEO Jerzy Wiśniewski requested that 260,000 out of his 4.5 million preferred shares be converted into shares of common stock so that he can sell them to financial investors. Mr. Wiśniewski claims that this is the first and last such sale on his part. A share block worth PLN 57m will be offered to those funds which were unsatisfied with SPO allocations.

## PBG increases contract fee

PBG signed an annex to a water-engineering contract extending the scope of work, and increasing the fee by ca. PLN 216m. The contract has a deadline on 31 December 2011. It accounts for 7.4% of PBG's 2009 revenue estimate.

## PBG, EPD agree on takeover price

According to reports, the shareholders of PBG and Energomontaż Południe reached an agreement regarding the per-share takeover price, which is set within a range of PLN 3.4 and PLN 3.5. PBG might become EPD's customer in the future, in projects such as steel frames for stadiums.

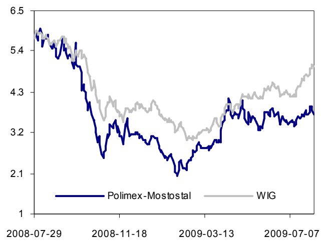
# Polimex Mostostal (Accumulate)

**Current price: PLN 3.7** **Target price: PLN 3.8**

**Analyst: Maciej Stokłosa**
**Last Recommendation: 2009-05-25**

| **(PLN m)** | **2007** | **2008** | **change** | **2009F** | **change** | **2010F** | **change** |
|---|---|---|---|---|---|---|---|
| Revenues | 3 720.5 | 4 301.7 | 15.6% | 4 909.0 | 14.1% | 4 449.6 | -9.4% |
| EBITDA | 205.4 | 298.5 | 45.3% | 337.0 | 12.9% | 309.0 | -8.3% |
| *EBITDA margin* | *5.5%* | *6.9%* | | *6.9%* | | *6.9%* | |
| EBIT | 160.4 | 228.1 | 42.2% | 255.6 | 12.0% | 210.1 | -17.8% |
| Net profit | 100.1 | 120.1 | 20.0% | 159.7 | 33.0% | 138.0 | -13.6% |
| P/E | 17.7 | 14.8 | | 11.1 | | 12.9 | |
| P/CE | 12.2 | 9.3 | | 7.4 | | 7.5 | |
| P/BV | 1.8 | 1.7 | | 1.4 | | 1.3 | |
| EV/EBITDA | 11.0 | 7.8 | | 7.1 | | 7.1 | |
| Dyield (%) | 0.5 | 0.3 | | 0.0 | | 0.0 | |

| **Basic data (PLN m)** | |
|---|---|
| Number of shares (m) | 476.7 |
| MC (current price) | 1 773.4 |
| EV (current price) | 2 395.7 |
| Free float | 58.8% |
| Price change: 1 month | *7.5%* |
| Price change: 6 month | *69.1%* |
| Price change: 12 month | *-34.7%* |
| Max (52 w eek) | 6.0 |
| Min (52 w eek) | 2.0 |




**Polimex remains one of the cheapest construction stocks traded on the WSE (FY09E P/E = 11.1, EV/EBITDA=7.1). We expect that the company's Q209 results will be well ahead of the quite-low consensus estimates. Further, Polimex has accumulated an impressive 2010 contract backlog, which is almost full with respect to the general construction business, over 50% full in road and railroad development, and much smaller in chemical-plant and power-plant engineering (but this is explained by the fact that these types of orders usually have short deadlines). Polimex calculates the value of steel-frame orders based on average product prices and average volumes contracted under framework agreements. Note that, since profitability improved in the power-engineering business (2008 saw negative margins on old contracts) and general construction, the contribution of steel frame sales to operating profit has fallen to around 18% (as predicted for 2009). We are reiterating an accumulate rating on Polimex.**

# Rafako (Suspended)

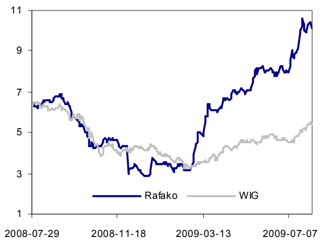
**Current price: PLN 10.2** **Target price: -**

**Analyst: Maciej Stokłosa**

**Last Recommendation: 2009-08-05**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 1 137.5 | 1 125.6 | -1.1% | 1 062.0 | -5.6% | 1 121.2 | 5.6% |
| EBITDA | 35.1 | 76.1 | 116.8% | 68.4 | -10.2% | 64.2 | -6.1% |
| *EBITDA margin* | *3.1%* | *6.8%* | | *6.4%* | | *5.7%* | |
| EBIT | 22.1 | 60.8 | 175.6% | 52.6 | -13.5% | 48.0 | -8.8% |
| Net profit | 12.2 | -11.6 | | 37.8 | | 41.1 | 8.5% |
| P/E | 57.9 | | | 18.7 | | 17.2 | |
| P/CE | 28.0 | 188.4 | | 13.2 | | 12.3 | |
| P/BV | 2.0 | 2.1 | | 1.9 | | 1.7 | |
| EV/EBITDA | 13.6 | 6.0 | | 7.2 | | 7.1 | |
| Dyield (%) | 0.0 | 0.0 | | 0.0 | | 0.0 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 69.6 |
| MC (current price) | 706.4 |
| EV (current price) | 492.8 |
| Free float | 19.5% |
| Price change: 1 month | *26.9%* |
| Price change: 6 month | *207.6%* |
| Price change: 12 month | *61.9%* |
| Max (52 w eek) | 10.7 |
| Min (52 w eek) | 2.8 |




**Rafako shares have overshot our May price target by 17%, prompting us to suspend coverage until we make appropriate revisions to our earnings and value forecasts. We do not expect any major developments from the company in 2009, but we do predict positive changes in the future. We believe that Rafako is most suitably positioned to double its revenues in the next few years. In the near term, the company might capture some new minor power-engineering orders this year, but is poised to benefit from major capacity-building projects planned by top Polish power plants (the upgrades could start around the first half of 2010). Rafako has already accumulated a 2010 order backlog of 97%, which means that we need to accordingly revise our 2009 earnings estimates for the company. Look out for a research update on Rafako in coming days.**

## PLN 323m order

The Bełchatów Power Plant concluded that Rafako made the best bid (PLN 323m) on a contract to deliver a flue-gas desulphurization plant. The consortium offered PLN 323m. The bid accounts for 30% of estimated 2009 revenue.

## PLN 49m contract

Rafako signed a PLN 49m contract with PKN Orlen for “turnkey” construction of a boiler within PKN's catalytic cracking installation. The deal accounts for ca. 4.6% of revenues forecasted for this year.

## EUR 8.7m contract

Rafako received an order to supply two waste heat recovery boilers to a customer in Azerbaijan. The contract is worth EUR 8.7m (PLN 37m, or 3.5% of 2009 revenue estimate).

## Speculation continues on Laris Investments

According to *Parkiet*, coming weeks may bring a solution to the ownership issue related to Rafako stock; about 38% of the company’s stock was pledged as collateral by special-purpose vehicle Laris Investments. Laris withdraw its claims against Elektrim in June, which may mean that it wants to take over ownership of the Rafako shares. Another possibility is that Elektrim will be given back the title to those shares, and will be allowed to sell them. Rumored prospective buyers include PBG, Polimex, Siemens Energy, and Doosan.

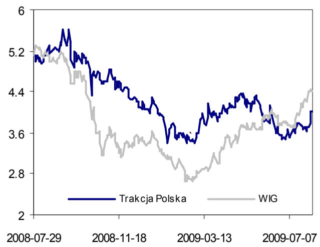
# Trakcja Polska (Buy)

Current price: PLN 4 Target price: PLN 4.9

Analyst: Maciej Stokłosa
Last Recommendation: 2009-05-18

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 646.8 | 794.6 | 22.9% | 879.4 | 10.7% | 949.5 | 8.0% |
| EBITDA | 35.6 | 60.9 | 71.0% | 83.3 | 36.8% | 70.1 | -15.9% |
| *EBITDA margin* | *5.5%* | *7.7%* | | *9.5%* | | *7.4%* | |
| EBIT | 29.6 | 53.0 | 79.3% | 66.9 | 26.2% | 53.8 | -19.6% |
| Net profit | 28.7 | 54.7 | 90.7% | 65.0 | 18.8% | 54.3 | -16.4% |
| P/E | 18.3 | 11.8 | | 9.9 | | 11.9 | |
| P/CE | 15.1 | 10.3 | | 7.9 | | 9.1 | |
| P/BV | 3.6 | 2.1 | | 1.7 | | 1.5 | |
| EV/EBITDA | 12.9 | 6.3 | | 5.2 | | 5.5 | |
| Dyield (%) | 0.0 | 0.0 | | 0.0 | | 0.0 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 160.1 |
| MC (current price) | 645.2 |
| EV (current price) | 429.7 |
| Free float | 38.8% |
| Price change: 1 month | *15.1%* |
| Price change: 6 month | *12.9%* |
| Price change: 12 month | *-21.0%* |
| Max (52 w eek) | 5.6 |
| Min (52 w eek) | 3.4 |




**We are reiterating a positive rating on Trakcja Polska (TP). We expect the rail track developer to post solid second-quarter results. A possible contract opportunity worth ca. PLN 140m would increase the ratio of 2010 orders to expected revenue from 20% to over 30%. TP is also bidding for a major PLN 1 billion track-modernization contract (the "LCS Działdowo"), but the results of the tender will not be known until late September (unless there are delays). We may make upward revisions to our financial forecasts for TP, but we are reiterating a buy rating on the stock, which is among the cheapest ones in the Polish construction sector (FY09E P/E = 9.9, EV/EBITDA = 5.2, P/S = 0.7).**

## Contract opportunities

CEO Radziwiłł revealed that Trakcja Polska is poised to sign a PLN 140m contract with customers other than its primary buyer, national railroad operator PKP PLK. The contract is expected to add about PLN 30m to this year's revenue, which is estimated at PLN 800m. The 2009 bottom-line income will increase versus 2008, says the CEO. Faced with a downslide in the railroad track-development industry, TP is looking for contract opportunities in general construction and in other countries. PKP PLK launched two major tenders in July, each of which is worth over PLN 1bn. If TP succeeds in winning at least one of these assignments, its 2010 order backlog, currently at PLN 200m, would increase to over PLN 300m. Another source of potential future opportunities is the recent merger between TP's main shareholder Comsa and electrical engineering firm EMTE.

## TP to offer ready-made wind-farm designs

According to TP's CFO Tadeusz Kołaczyński, the company plans to sell wind-farm designs without offering construction services, except on full market terms. TP can be hired to build entire wind-farm infrastructure except for turbines. One megawatt of wind capacity costs EUR 1.5m. The company expects to sell the first design in the first half of 2010. TP is the owner of a 41% stake in wind-farm developer Eco-Wind Construction, which is currently running 10 projects with a combined capacity of ca. 650 MW.

## TP considers stock-for-stock acquisition

Asked about TP's acquisition plans, Mr. Kołaczyński said that the company could make a private stock placement to the owner of an infrastructure developer generating sales in the hundreds of millions as consideration for a stake in the latter's equity. Further, TP wants to buy railway-sleeper manufacturer "WPK Kolbet" whose annual revenues hover around PLN 70m. Unfortunately, TP was not given an exclusive right to negotiate the takeover of track-building firm PRK Krakow.

## CEOs on Elektrobudowa-TP merger

TP's CEO Mr. Radziwiłł can see possible synergies to be gained from his company's merger with an electrical engineering firm like Elektrobudowa. Not long ago, TP's main shareholder Comsa successfully merged with Elektrobudowa's Spanish counterpart, EMTE. Further, Mr. Radziwiłł got very positive responses to the idea from open pension funds. In turn, Elektrobudowa's CEO Mr. Faltynowicz cannot think of any benefits that could arise from such a merger. He says that his company has nothing to do with railroad development, and that the two companies use incompatible technologies. Moreover, track-building companies are almost completely dependent on one customer, the railroad operator PKP – a situation which Mr. Faltynowicz finds far from desirable. He himself does not see a worthy investor among Polish engineering companies, but the decision ultimately lies with Elektrobudowa stockholders, i.e. mostly pension funds.

### TP / PRK-7 merger to bring PLN 1m savings

TP's shareholders approved a merger with subsidiary PRK-7, which is expected to bring about PLN 1m in annual savings, and facilitate cooperation between the two companies. After a failed attempt at taking over track developer PRK Krakow, TP is still looking for acquisition opportunities within its industry. In a few weeks, it is set to complete merger negotiations with WPS Kolbet, manufacturer of prestressed concrete sleepers, and continues to look for more infrastructure targets.

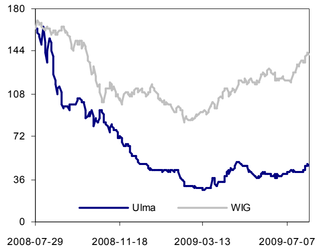
# Ulma Construccion Polska (Suspended)

**Analyst: Maciej Stokłosa**

**Current price: PLN 47.5** **Target price: -** **Last Recommendation: 2009-08-05**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 222.6 | 241.5 | 8.5% | 182.3 | -24.5% | 190.0 | 4.2% |
| EBITDA | 108.4 | 103.4 | -4.7% | 72.9 | -29.5% | 76.6 | 5.0% |
| *EBITDA margin* | *48.7%* | *42.8%* | | *40.0%* | | *40.3%* | |
| EBIT | 66.6 | 40.9 | -38.5% | 17.8 | -56.4% | 22.1 | 23.9% |
| Net profit | 50.9 | 25.9 | -49.2% | 4.7 | -81.6% | 9.8 | 105.6% |
| P/E | 4.9 | 9.7 | | 52.6 | | 25.6 | |
| P/CE | 2.7 | 2.8 | | 4.2 | | 3.9 | |
| P/BV | 1.0 | 0.9 | | 0.9 | | 0.9 | |
| EV/EBITDA | 2.9 | 4.2 | | 5.1 | | 4.5 | |
| Dyield (%) | 0.0 | 0.0 | | 0.0 | | 0.0 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 5.3 |
| MC (current price) | 249.6 |
| EV (current price) | 373.5 |
| Free float | 24.5% |
| Price change: 1 month | *16.9%* |
| Price change: 6 month | *9.3%* |
| Price change: 12 month | *-70.0%* |
| Max (52 w eek) | 165.0 |
| Min (52 w eek) | 27.0 |




**As provider of rental formworks used in the initial stages of construction, Ulma is among the first to be hit by the current slowdown in the building industry. While we expect some improvement in the earnings department next year, a real rebound which could justify investment will not take place before 2011. In spite of weak earnings, Ulma is going to continue generating cash from asset rental, and this ability is reflected in the low estimated EV/EBITDA ratios of 5.1 in 2009, and 4.5 in 2010. The second-quarter bottom-line profit will be close to zero, but it will improve in subsequent quarters (thanks to cost cuts and an increase in infrastructure orders). Ulma is a growth story fueled by a general improvement in the construction industry, that is why we are not downgrading the company even though its share price has overshot our target. Instead, we are working on revised financial forecasts for Ulma, which we expect to release in coming days.**

# Unibep (Hold)

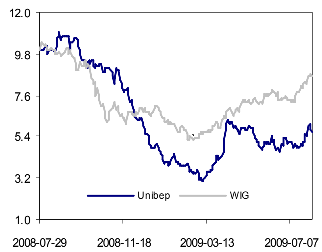
**Current price: PLN 5.7** **Target price: PLN 5.3**

**Analyst: Maciej Stokłosa**

**Last Recommendation: 2009-05-26**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 407.5 | 502.9 | 23.4% | 545.7 | 8.5% | 523.8 | -4.0% |
| EBITDA | 16.7 | 33.4 | 99.6% | 28.1 | -15.9% | 18.3 | -35.0% |
| *EBITDA margin* | *4.1%* | *6.6%* | | *5.1%* | | *3.5%* | |
| EBIT | 15.8 | 31.8 | 101.3% | 23.6 | -25.5% | 13.8 | -41.8% |
| Net profit | 11.7 | 27.6 | 135.3% | 18.1 | -34.5% | 12.4 | -31.3% |
| P/E | 13.1 | 6.9 | | 10.6 | | 15.4 | |
| P/CE | 12.1 | 6.5 | | 8.5 | | 11.3 | |
| P/BV | 9.3 | 1.9 | | 1.6 | | 1.4 | |
| EV/EBITDA | 8.4 | 4.0 | | 7.6 | | 8.5 | |
| Dyield (%) | 0.3 | 0.0 | | 0.0 | | 0.0 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 33.9 |
| MC (current price) | 191.7 |
| EV (current price) | 213.8 |
| Free float | 23.0% |
| Price change: 1 month | *10.8%* |
| Price change: 6 month | *44.9%* |
| Price change: 12 month | *-43.5%* |
| Max (52 week) | 11.0 |
| Min (52 week) | 3.0 |




**We are reiterating a hold rating on Unibep, which has captured new construction contracts in the past month, increasing the ratio of the 2010 order backlog to projected revenue to 55%. We do not expect to see any improvement in the company's second-quarter results. Unibep is trading lower than comparable stocks on its price-to-sales ratio, and this discount seems justified (concerns over the profitability of new contracts).**

## PLN 56m contract

A consortium led by Unibep signed a contract to design and build a sports center in Częstochowa. The contract price is PLN 56m (10 of FY2009 revenue forecast), and the deadline is in mid-2012. The fee will be indexed to the index of construction prices compiled by the National Statistical Office (GUS).

## Unibep makes best bid

A consortium of Unibep (leader) and Unimax made the best bid for a contract to build an international culture and arts center in Kielce. The consortium offered PLN 68m (gross) (12.5% of 2009 revenue estimate).

## PLN 16m contract

Unibep signed a PLN 16m contract to build production and storage facilities for milk producer Mlekovita. The contract accounts for 3% of estimated 2009 revenue. The deadline is April 2010.

# Real Estate Development

## Residential Developers

### Housing sales in Q2 2009

Polish residential developers revealed their second-quarter sales results. Gant sold 182 units (net, vs. 171 in Q109), and its CEO expects a slowdown in July and a pickup in August. J.W. Construction, which sold 190 units (not adjusted for cancellations) in Q1, expects the rate of pre-sale deals to continue throughout the summer, and rebound in September. JWC did not disclose how many of the pre-sale deals on its developments were cancelled. Dom Development also saw an acceleration in sales to a “hundred and a few dozen” units in Q2 from 106 in Q1. DD, which offers relatively small discounts, expects sales to continue at the same rate during the vacation season. Polnord sold 131 units net last quarter compared to 95 in the same period a year ago. Ronson sold 63 dwellings (making for 118 units sold in H209; Q208 sales amounted to 43 homes). Marvipol sold 53 units, Atlas Estates sold 52, and Echo Investment saw a q/q increase by several dozen percent.

### Banks averse to new-home financing

Polish banks have tightened the supply of mortgage loans and financing choices (only seven offer CHF loans). Moreover, they tend to increasingly condition homebuyer credit on the financial health of the developer. Banks that are no longer willing to finance dwellings that are at the stage of a “hole in the ground" include mBank, MultiBank, Nordea Bank, BZ WBK, Alior, and Bank Millennium. Millennium and mBank require that at least a complete building envelope be in place. According to business daily *Gazeta Prawna*, banks also refuse credit to people who want to buy homes in developments built by sole proprietorship entities, even if the buildings are finished and unencumbered.

## BBI Development

### BBI Development finds co-investor

BBI Development found a co-investor for its commercial/office building project in Warsaw, namely developer Liebrecht & Wood which is set to take a 50% stake in the investment. Thanks to this, BBI is able to meet bank requirements. Construction on the building is scheduled to start in the first half of 2010, and end in three years. In other news, BBI convinced lenders to extend the financing period for another of its key projects, a revamping of “Koneser” vodka production facilities with an area of ca. 68,000 sqm.

## Gant Development

### Gant pays back PLN 43.5m loan

Gant reported having paid off a PLN 43.5m loan taken out by its subsidiary Gant PMR Kamienna to finance construction of a six-storey building in Wrocław.

## LC Corp

### PLN 30m buyback

According to draft resolutions for the 31 July special meeting of shareholders, LC Corp is planning to allocate PLN 30m toward a share buyback. PLN 30m can buy up to 20 million shares of treasury stock for a maximum price of PLN 1.5 a share.

## Ronson Development Group

### Ronson sells 43 flats in Q209

Ronson Development sold 63 dwellings in Q209 compared to 55 in Q109 and 43 in H1 2008, as a result of increased marketing efforts. Ronson sells home in two of its projects at 15% discounts.

## Warimpex

### Warimpex sells office building in Budapest

Warimpex reported selling a 2,800 square-meter office building in Budapest. The developer did not disclose the price (except that it was less then EUR 10m), but revealed that it was higher than the book value of the building and a CB Richard Ellis fair-value appraisal made in December 2008. Profits from the sale will be recognized in H209 results. Warimpex is looking to sell one of its hotels in July for EUR 30m, and another building for EUR 20m. The company expects to increase sales this year by selling certain properties and opening new hotels. Demand for hospitality services is still low, but the downward trend in revenues has slowed.

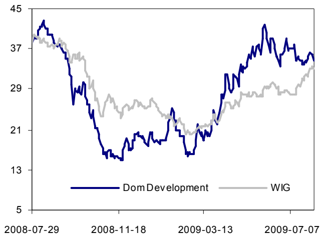
# Dom Development (Sell)

**Current price: PLN 34.7 Target price: PLN 24.1**

**Analyst: Maciej Stokłosa**
**Last Recommendation: 2009-06-15**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 878.8 | 698.2 | -20.6% | 639.1 | -8.5% | 556.8 | -12.9% |
| EBITDA | 243.2 | 168.1 | -30.9% | 138.1 | -17.8% | 25.0 | -81.9% |
| *EBITDA margin* | *27.7%* | *24.1%* | | *21.6%* | | *4.5%* | |
| EBIT | 241.0 | 165.7 | -31.2% | 135.7 | -18.1% | 22.6 | -83.3% |
| Net profit | 200.6 | 136.9 | -31.7% | 121.1 | -11.6% | 33.0 | -72.7% |
| P/E | 4.2 | 6.2 | | 7.0 | | 25.8 | |
| P/CE | 4.2 | 6.1 | | 6.9 | | 24.1 | |
| P/BV | 1.2 | 1.2 | | 1.1 | | 1.0 | |
| EV/EBITDA | 3.5 | 6.7 | | 6.2 | | 18.8 | |
| Dyield (%) | 0.0 | 5.9 | | 2.3 | | 0.0 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 24.6 |
| MC (current price) | 852.2 |
| EV (current price) | 849.7 |
| Free float | 20.0% |
| Price change: 1 month | *-6.0%* |
| Price change: 6 month | *65.2%* |
| Price change: 12 month | *-11.0%* |
| Max (52 week) | 42.5 |
| Min (52 week) | 14.8 |




**We stand by our estimates, which show that Dom Development's (DD) assets are worth much less than would follow from market valuations. Note that the company's land stock, built mostly using SPO proceeds, was purchased at overpriced rates. Even assuming that the book value of the land is accurately reflected in the market value, our NAV valuation model will still not yield a positive investment rating. We believe the company's presales results are set to erode in the summer, due to a seasonal decline in the number of transactions, an unwillingness to cut prices, and the fact that prices in more prestigious Warsaw districts, such as Wilanów, approach DD's asking prices in the remote district of Białołęka. Based on these two factors (asset value, potential erosion of presales), we recommend selling Dom Development stock.**

## CEO on DD's situation so far

DD's CEO says that home sales in the past few months have been stronger than expected, and that cancellations remain marginal. It seems that the real-estate market is slowly recuperating, and that prices have stopped falling, but, as long as access to mortgages remains tight, there can be no talk of a sustained recovery. DD is nearly out of homes for sale, and must soon decide whether to start new projects.

## Withdrawal from preliminary purchase agreement

DD announced that it had withdrawn from the June 17, 2008 preliminary agreement to buy from SBM Natolin a perpetual usufruct of a land lot in Warsaw (11,200 m2). The company will recover the PLN 15m downpayment.

## DD conveys residential road to the City of Warsaw

Dom Development (DD) built a PLN 1.5m road running across its "Derby" housing complex, and handed it over to the city for public use. The road serves to improve driving conditions for Derby residents, and to improve home sales in the complex (DD still has about 250 units for sale there).

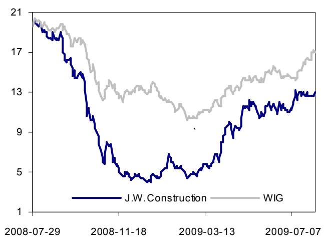
# J.W. Construction (Reduce)

Current price: PLN 13 Target price: PLN 9.7

Analyst: Maciej Stokłosa
Last Recommendation: 2009-06-15

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 781.1 | 721.4 | -7.6% | 965.8 | 33.9% | 845.1 | -12.5% |
| EBITDA | 211.9 | 158.5 | -25.2% | 253.3 | 59.8% | 188.8 | -25.5% |
| *EBITDA margin* | *27.1%* | *22.0%* | | *26.2%* | | *22.3%* | |
| EBIT | 198.6 | 141.1 | -28.9% | 232.8 | 64.9% | 167.8 | -27.9% |
| Net profit | 148.1 | 100.9 | -31.9% | 188.4 | 86.7% | 150.0 | -20.4% |
| P/E | 4.6 | 7.0 | | 3.8 | | 4.7 | |
| P/CE | 4.3 | 6.0 | | 3.4 | | 4.2 | |
| P/BV | 1.3 | 2.7 | | 1.6 | | 1.2 | |
| EV/EBITDA | 5.7 | 8.5 | | 4.4 | | 3.4 | |
| Dyield (%) | 0.0 | 0.0 | | 0.0 | | 0.0 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 54.7 |
| MC (current price) | 710.0 |
| EV (current price) | 1 105.5 |
| Free float | 18.0% |
| Price change: 1 month | *15.9%* |
| Price change: 6 month | *140.4%* |
| Price change: 12 month | *-34.7%* |
| Max (52 week) | 20.0 |
| Min (52 week) | 4.0 |




**In the near future, JW Construction (JWC) could see a large number of cancellations by customers who had booked flats in the "Górczewska Park" project in Warsaw (JWC uses the "10/90" payment system in which buyers make a 10% downpayment and pay the rest after their home is complete). The development was completed in July, and JWC might have to slash prices to prevent cancellations. We would like to point out that, of all the developers covered by our analysis, the land bank accounts for the lowest share of JWC's value; as a result, any upward revisions to our forecasts which assume falling home prices would have the greatest impact on the JWC's valuation. JWC shares have overshot out price target, and this fact, combined with an expected slowdown in the housing market during the summer (weaker sales leading to price reductions), and the company's large short-term debt, prompted us to downgrade the stock to reduce.**

## Earnings growth, debt reduction

According to a J.W. Construction spokesperson, quarterly results going forward should be at least as good as in Q1 2009. In Q209, JWC sold about 190 dwellings (this number is not adjusted for cancellations which, the company claims, are not a big problem). The housing completion schedule for 2010 is similar to that executed in 2009, which means that next year's earnings results will be satisfying. JWC plans to reduce its debt below PLN 200m by the end of the year (plus a PLN 107m debt of the social housing association TBS, with maturity lasting dozens of years, paid back from tenant rent).

## New projects, possible asset divestment

JWC's designers are working on several new projects, and the company is confident that it is able to secure the financing. According to the spokesperson, JWC's earnings results could be boosted by asset sales. Investors are very interested in the developer's projects in Warsaw, which are said to be worth about 5 times their book values.

## Management reshuffle

JWC's Supervisory Board resolved to accept resignations from Management Board members Irmina Łopuszańska and Bożena Malinowska, and replace them with Mr. Piotr Ciszewski (who has worked with JWC since 2005), and Mr. Tomasz Panabażys (JWC employee since 1997).

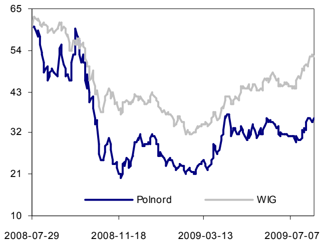
# Polnord (Accumulate)

**Current price: PLN 36** **Target price: PLN 35.2**

**Analyst: Maciej Stokłosa**
**Last Recommendation: 2009-07-03**

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 131.5 | 391.1 | 197.4% | 381.5 | -2.4% | 239.0 | -37.4% |
| EBITDA | 33.0 | 108.7 | 229.0% | 112.9 | 3.9% | 17.2 | -84.8% |
| *EBITDA margin* | *25.1%* | *27.8%* | | *29.6%* | | *7.2%* | |
| EBIT | 31.4 | 106.7 | 239.8% | 110.9 | 3.9% | 15.2 | -86.3% |
| Net profit | 25.1 | 77.8 | 210.2% | 94.1 | 20.9% | 12.1 | -87.1% |
| P/E | 20.3 | 8.4 | | 8.0 | | 62.0 | |
| P/CE | 19.0 | 8.2 | | 7.8 | | 53.3 | |
| P/BV | 0.6 | 0.7 | | 0.7 | | 0.7 | |
| EV/EBITDA | 24.1 | 11.4 | | 10.6 | | 54.6 | |
| Dyield (%) | 0.0 | 0.0 | | 0.0 | | 0.0 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 20.9 |
| MC (current price) | 751.5 |
| EV (current price) | 1 191.7 |
| Free float | 36.0% |
| Price change: 1 month | *14.8%* |
| Price change: 6 month | *56.8%* |
| Price change: 12 month | *-39.0%* |
| Max (52 week) | 59.8 |
| Min (52 week) | 19.8 |




**Polnord remains a bargain relative to the other real-estate stocks in our coverage universe. Polnord's developments are mostly located in Warsaw's Wilanów district, where prices are on a downward curve, which bodes well for sales (the "Miasteczko Wilanów" complex is where the ratio of price to quality is most attractive compared to other Warsaw districts, and which is set to have a complete infrastructure in place in 3 to 5 years). We quite like the developer's strategy of raising equity for purposes of land acquisition given the expected drop in prices caused by a surge in supply accompanied by dwindling demand. Assuming that such purchases are not made prematurely, they can add significantly to Polnord's value. Note that any revisions in the home price projections for our developers would most affect Polnord. We are reiterating an accumulate rating on the stock.**

## Polnord receives credit

Polnord chose two residential developments in the Tricity and Katowice out of 40 projects listed for sale. We do not know where exactly these sites are located, or who owns them, but we do know that Polnord plans to spend on them most of the gains earned from the May SPO. Soon, Polnord will present both projects to its shareholders so that they can decide if they want to finance similar developments in the future (i.e. stock offerings aimed at securing capital to finance development acquisitions). Further, an unnamed bank approved Polnord's loan application concerning the "Wilanów Office Park" project.

## Successful SPO

According to CEO Wojciech Ciurzyński, Polnord sold all 1.23 million warrants, and is going to use the proceeds to purchase attractive development sites in the Tricity, Lublin, and Katowice. At PLN 28 a share, Polnord garnered a total gain of PLN 34.4m.

## City OKs Warsaw avenue project

Warsaw authorities passed a special law advancing the construction of the last, 850m stretch of a much-needed access road (called Aleja Rzeczpospolitej) to a residential complex in the district of Wilanów. Under the law, the City is authorized to take over any land needed to build the road with immediate effect. This is the second decision to that effect by the Warsaw authorities – the first one was successfully appealed by DiE, a developer who owns two land lots that hamper the progress of the construction.

# Retail & Wholesale

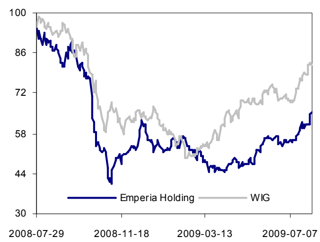
## Emperia Holding (Buy)

Current price: PLN 65.2 Target price: PLN 70.3

Analyst: Kamil Kliszcz
Last Recommendation: 2008-11-28

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 4 479.6 | 5 263.1 | 17.5% | 5 668.9 | 7.7% | 6 046.3 | 6.7% |
| EBITDA | 176.2 | 152.3 | -13.5% | 194.2 | 27.5% | 220.5 | 13.6% |
| *EBITDA margin* | *3.9%* | *2.9%* | | *3.4%* | | *3.6%* | |
| EBIT | 136.2 | 94.9 | -30.3% | 128.8 | 35.7% | 142.2 | 10.4% |
| Net profit | 88.4 | 60.1 | -32.0% | 92.0 | 53.1% | 102.4 | 11.2% |
| P/E | 11.1 | 16.4 | | 10.7 | | 9.6 | |
| P/CE | 7.7 | 8.4 | | 6.3 | | 5.5 | |
| P/BV | 1.4 | 1.3 | | 1.2 | | 1.1 | |
| EV/EBITDA | 6.3 | 8.3 | | 6.5 | | 5.7 | |
| Dyield (%) | 2.7 | 1.3 | | 2.6 | | 3.7 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 15.1 |
| MC (current price) | 985.5 |
| EV (current price) | 1 261.6 |
| Free float | 71.0% |
| Price change: 1 month | *18.2%* |
| Price change: 6 month | *21.0%* |
| Price change: 12 month | *-28.3%* |
| Max (52 week) | 95.0 |
| Min (52 week) | 40.5 |




**Emperia was a slouch in July, recording just a 10.5% gain on its shares compared to a 15.9% rise in the broad index and the gains recorded by its main rivals: Eurocash (+19.4%), Alma (+18.7%), and Bomi (+11.6%). We expect that the company will be able to make up for this sluggishness in August, after reporting a quarter-on-quarter improvement in its Q209 results. We are reiterating a positive rating on Emperia.**

### Dividends

Emperia shareholders resolved to pay dividends totaling PLN 8.92m, that is PLN 0.59 per share. The distribution will include PLN 1.42m out of 2008 profit, and a PLN 7.49m allocation from reserve capital. The date of record is set for August 25th, and the payout is slated for September 9th, 2009. At a 4. Aug. closing price, the dividend yield is 1.06%.

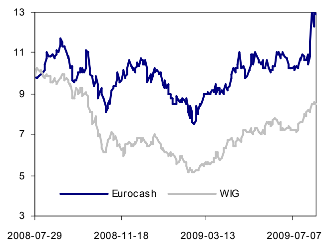
## Eurocash (Hold)

Current price: PLN 12.9 Target price: PLN 9.9

Analyst: Kamil Kliszcz
Last Recommendation: 2009-05-06

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 4 729.4 | 6 121.7 | 29.4% | 7 399.4 | 20.9% | 7 877.6 | 6.5% |
| EBITDA | 121.9 | 158.4 | 30.0% | 186.2 | 17.5% | 205.5 | 10.4% |
| *EBITDA margin* | *2.6%* | *2.6%* | | *2.5%* | | *2.6%* | |
| EBIT | 85.8 | 115.5 | 34.7% | 127.3 | 10.2% | 142.1 | 11.6% |
| Net profit | 58.9 | 78.3 | 33.0% | 105.1 | 34.3% | 117.2 | 11.5% |
| P/E | 28.0 | 21.5 | | 16.0 | | 14.4 | |
| P/CE | 17.3 | 13.9 | | 10.3 | | 9.3 | |
| P/BV | 7.1 | 5.9 | | 4.4 | | 3.8 | |
| EV/EBITDA | 13.1 | 10.1 | | 8.3 | | 7.1 | |
| Dyield (%) | 1.8 | 0.7 | | 2.4 | | 3.1 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 130.4 |
| MC (current price) | 1 682.7 |
| EV (current price) | 1 539.6 |
| Free float | 30.0% |
| Price change: 1 month | *25.9%* |
| Price change: 6 month | *50.9%* |
| Price change: 12 month | *31.0%* |
| Max (52 week) | 13.0 |
| Min (52 week) | 7.6 |




**Eurocash was the top-performing FMCG stock in July, jumping almost 20%. Going forward, however, we do not expect the company to wow investors with Q209 earnings results, leading to slight underperformance versus the index. We are reiterating a positive rating on Eurocash.**

### 2009 to see sales growth

Eurocash expects 2009 revenues to beat the 2008 figure (PLN 6.1bn), partly thanks to the consolidation of the financial results of subsidiary McLane since May 2008. Eurocash spokesman Jan Domański says that sales in existing stores are increasing at a slower rate than last year, but faster than market averages. He denied plans to shut down the IGA franchise, saying that Eurocash fully intends to continue developing the chain. In fact, the company is considering launching new stores. Eurocash's strategy is to grow organically as well as through acquisitions.

# Others

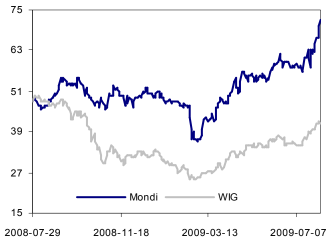
## Mondi (Accumulate)

Current price: PLN 46.1 Target price: PLN 57.4

Analyst: Michał Marczak
Last Recommendation: 2009-07-10

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change |
|---|---|---|---|---|---|---|---|
| Revenues | 1 610.4 | 1 406.3 | -12.7% | 1 310.5 | -6.8% | 1 837.1 | 40.2% |
| EBITDA | 299.0 | 305.5 | 2.2% | 266.0 | -13.0% | 457.1 | 71.9% |
| *EBITDA margin* | *18.6%* | *21.7%* | | *20.3%* | | *24.9%* | |
| EBIT | 194.7 | 194.7 | 0.0% | 118.7 | -39.0% | 275.3 | 131.9% |
| Net profit | 246.2 | 141.2 | -42.6% | 78.1 | -44.7% | 203.5 | 160.6% |
| P/E | 9.4 | 16.3 | | 29.5 | | 11.3 | |
| P/CE | 6.6 | 9.1 | | 10.2 | | 6.0 | |
| P/BV | 2.3 | 2.2 | | 1.9 | | 1.7 | |
| EV/EBITDA | 7.7 | 8.5 | | 11.3 | | 6.4 | |
| Dyield (%) | 11.7 | 0.0 | | 0.0 | | 0.7 | |

| Basic data (PLN m) | |
|---|---|
| Number of shares (m) | 50.0 |
| MC (current price) | 2 305.0 |
| EV (current price) | 2 997.9 |
| Free float | 19.0% |
| Price change: 1 month | *22.0%* |
| Price change: 6 month | *53.2%* |
| Price change: 12 month | *50.0%* |
| Max (52 week) | 72.0 |
| Min (52 week) | 36.3 |




**European markets are not shifting as fast as we expected. Prices still do not show any signs of stabilization, and kraftliner as well as other CCM paper keep hitting new lows. To add insult to injury, the zloty's appreciation against the euro has weighed on Mondi's operating margins, while financial leverage increases (increased debt incurred to buy a new paper machine). If there is not a reversal in the paper price trends in August, we will be forced to reduce our earnings projections for 2009.**

### Paper prices still low

Prices of paper remained under strong downward pressure in July. Kraftliner lost 2.4%, testliner fell 1.8%, and fluting was down 1.9%. Further, a 6.8% appreciation in the zloty vs. the euro affected Mondi's competitive advantage and export margins. Our expected reversal in paper trends has not materialized in spite of a price decrease below the cash costs incurred by most European producers. What is more, the recent launch in Hungary of a new testliner machine with an annual capacity of 450,000 tons negatively impacted the supply/demand ratio. In the near future, 1 million tons of new capacity is expected come on stream, including 480,000 tons from Mondi.

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www.dibre.com.pl

**Latest ratings for companies rerated as of the date of this Monthly Report:**

### BZ WBK

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **rating** | Accumulate | Suspended | Buy | Buy | Buy | Buy | Accumulate |
| **rating date** | 2008-11-07 | 2009-01-06 | 2009-01-12 | 2009-01-23 | 2009-03-05 | 2009-04-07 | 2009-05-06 |
| **price on rating day** | 116.00 | 116.40 | 111.80 | 86.00 | 70.00 | 80.50 | 94.00 |
| **WIG on rating day** | 27976.81 | 28331.88 | 27680.04 | 24932.01 | 22719.61 | 26410.72 | 29777.06 |

### BZ WBK (cont.)

| | | |
|---|---|---|
| **rating** | Accumulate | Accumulate |
| **rating date** | 2009-05-20 | 2009-06-30 |
| **price on rating day** | 94.00 | 90.80 |
| **WIG on rating day** | 30312.26 | 30525.72 |

### Ciech

| | | | | |
|---|---|---|---|---|
| **rating** | Hold | Buy | Hold | Accumulate |
| **rating date** | 2008-11-26 | 2009-04-16 | 2009-05-06 | 2009-07-03 |
| **price on rating day** | 28.50 | 23.55 | 33.00 | 26.50 |
| **WIG on rating day** | 27232.25 | 28274.98 | 29777.06 | 30252.24 |

### Erbud

| | | | | | |
|---|---|---|---|---|---|
| **rating** | Buy | Buy | Hold | Hold | Reduce |
| **rating date** | 2008-11-25 | 2009-03-25 | 2009-05-06 | 2009-05-26 | 2009-06-04 |
| **price on rating day** | 21.60 | 22.40 | 32.00 | 35.60 | 44.00 |
| **WIG on rating day** | 26964.31 | 24443.51 | 29777.06 | 29197.11 | 31030.61 |

### ING BSK

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **rating** | Buy | Suspended | Hold | Buy | Buy | Hold | Hold |
| **rating date** | 2008-11-13 | 2009-01-06 | 2009-01-12 | 2009-01-23 | 2009-03-05 | 2009-05-06 | 2009-05-15 |
| **price on rating day** | 389.50 | 442.10 | 424.90 | 329.80 | 189.10 | 284.00 | 318.00 |
| **WIG on rating day** | 27590.59 | 28331.88 | 27680.04 | 24932.01 | 22719.61 | 29777.06 | 29311.53 |

### LW Bogdanka

| | |
|---|---|
| **rating** | Accumulate |
| **rating date** | 2009-07-02 |
| **price on rating day** | 60.85 |
| **WIG on rating day** | 30688.73 |

### Netia

| | |
|---|---|
| **rating** | Buy |
| **rating date** | 2008-11-14 |
| **price on rating day** | 2.20 |
| **WIG on rating day** | 26702.48 |

### Pekao

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **rating** | Hold | Suspended | Accumulate | Buy | Buy | Accumulate | Accumulate |
| **rating date** | 2008-11-13 | 2009-01-06 | 2009-01-12 | 2009-02-03 | 2009-03-05 | 2009-05-06 | 2009-05-13 |
| **price on rating day** | 115.00 | 134.90 | 123.00 | 104.10 | 81.70 | 123.60 | 118.00 |
| **WIG on rating day** | 27590.59 | 28331.88 | 27680.04 | 23908.36 | 22719.61 | 29777.06 | 30162.14 |

### PGNiG

| | | | | | |
|---|---|---|---|---|---|
| **rating** | Accumulate | Hold | Hold | Reduce | Reduce |
| **rating date** | 2008-11-18 | 2009-02-03 | 2009-03-05 | 2009-05-06 | 2009-05-14 |
| **price on rating day** | 3.35 | 3.78 | 3,49 | 3.91 | 3,82 |
| **WIG on rating day** | 26583.32 | 23908.36 | 22719.61 | 29777.06 | 29495.23 |

### PKO BP

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **rating** | Hold | Suspended | Buy | Buy | Accumulate | Accumulate | Accumulate |
| **rating date** | 2008-11-13 | 2009-01-06 | 2009-01-12 | 2009-03-05 | 2009-05-06 | 2009-05-19 | 2009-06-09 |
| **price on rating day** | 30.00 | 36.55 | 34.33 | 20.65 | 28.40 | 26.97 | 25.25 |
| **WIG on rating day** | 27590.59 | 28331.88 | 27680.04 | 22719.61 | 29777.06 | 29893.31 | 30835.06 |

### Rafako

| | | | | | |
|---|---|---|---|---|---|
| **rating** | Buy | Buy | Accumulate | Accumulate | Buy |
| **rating date** | 2009-02-10 | 2009-03-06 | 2009-04-02 | 2009-04-08 | 2009-05-14 |
| **price on rating day** | 3.40 | 4.56 | 6.00 | 6.60 | 7.05 |
| **WIG on rating day** | 24470.22 | 22547.31 | 24145.69 | 26172.07 | 29495.23 |

### Ulma

| | | | | | |
|---|---|---|---|---|---|
| **rating** | Hold | Hold | Hold | Accumulate | Hold |
| **rating date** | 2008-11-13 | 2008-11-25 | 2009-03-05 | 2009-05-26 | 2009-07-03 |
| **price on rating day** | 76.00 | 64.95 | 29.00 | 37.90 | 40.50 |
| **WIG on rating day** | 27590.59 | 26964.31 | 22719.61 | 29197.11 | 30252.24 |

***List of abbreviations and ratios contained in the report.***
***EV*** *– net debt + market value (EV – economic value)*
***EBIT*** *– Earnings Before Interest and Taxes*
***EBITDA*** *– EBIT + Depreciation and Amortisation*
***PBA*** *– Profit on Banking Activity*
***P/CE*** *– price to earnings with amortisation*
***MC/S*** *– market capitalisation to sales*
***EBIT/EV*** *– operating profit to economic value*
***P/E*** *– (Price/Earnings) – price divided by annual net profit per share*
***ROE*** *– (Return on Equity) – annual net profit divided by average equity*
***P/BV*** *– (Price/Book Value) – price divided by book value per share*
***Net debt*** *– credits + debt papers + interest bearing loans – cash and cash equivalents*
***EBITDA margin*** *– EBITDA/Sales*

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*BUY – we expect that the rate of return from an investment will be at least 15%*
*ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%*
*HOLD – we expect that the rate of return from an investment will range from –5% to +5%*
*REDUCE – we expect that the rate of return from an investment will range from -5% to -15%*
*SELL – we expect that an investment will bear a loss greater than 15%*
*Recommendations are updated at least once every nine months.*

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