

3 February 2010

Periodic Report

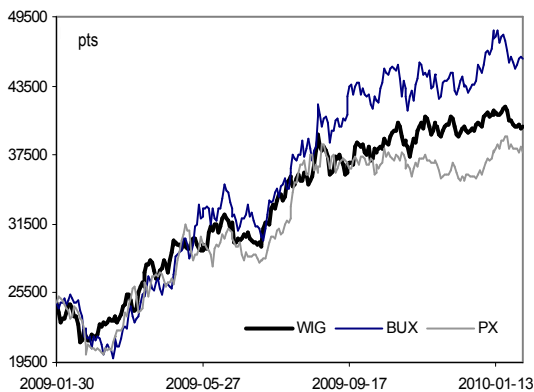

**Equity Market**  
 Macroeconomics

<b>WIG</b>	<b>39 904</b>
Average 2010E P/E	13.7
Average 2011E P/E	11.7
Avg daily trading volume	PLN 1 362m

# Monthly Report

## February 2010

### WIG vs. indices in the region



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### Equity Market

As predicted, the WIG20 index started to move down in January after hitting 2500 points, and this downward correction is expected to last a few more weeks, bringing the index to a level of 2100 points. Falling stocks are accompanied by a strengthening dollar and depreciating metals.

### Company Outlook

**Banks.** An expected 15% quarter-on-quarter drop in the aggregated Q409 earnings of Polish banks could trigger a downward correction on financial stocks. Looking forward, bank growth in the first half of 2010 depends largely on the job market (retail loan provisions), which we expect to worsen during the period. We maintain a defensive outlook on the financial sector, which we expect to start improving earnings in H2 2010.

**Gas&Oil.** As the fourth-quarter earnings season gets underway, we recommend keeping an eye on PGNiG, which is likely to report better-than-expected profits from Trade& Storage operations, supported by a seasonal upswing in sales volumes. As far as oil refiners are concerned, we still advise overweighting PKN Orlen versus Lotos.

**Power Utilities.** Sentiment on power utilities is still low across the CEE region because of unfavorable EEX prices and because of upcoming major IPOs. Good fourth-quarter earnings should bolster PGE's stock price.

**Telecoms.** Amid rising risk aversion, telecom stocks are expected to perform better than others. TPSA is set to declare annual dividend after Q409 results; we expect a continuation of the 1.5 zloty-a-share payout policy.

**Media.** We maintain a positive outlook on companies generating revenues from advertisement sales. We are downgrading Cyfrowy Polsat to hold, and we remain neutral on WSiP

**IT.** We are reiterating positive investment ratings on Asseco Poland and Sygnity. As far as hardware distributors, we see upside potential in AB and Action. We have hold ratings on Komputronik and Asbis.

**Metals.** Prices of metals are in a downward spiral which is not likely to stop any time soon, and which is going to negatively affect metal stocks.

**Construction.** Our top picks in the construction sector are Mostostal Warszawa and Unibep. We also like Rafako, while downgrading Polimex and Erbud to account for recent rallies on their stocks.

**Real-Estate Developers.** We reiterate our advice to overweight housing developers versus commercial developers. We have buy ratings on Dom Development, J.W. Construction, and Polnord.

**Ratings.** We are upgrading our rating on Dom Development (Buy), and downgrading Asbis (Hold), Cyfrowy Polsat (Hold), Erbud (Hold), LW Bogdanka (Hold), PKN Orlen (Accumulate), Police (Reduce), Polimex Mostostal (Hold), Rafako (Accumulate), and Unibep (Accumulate), as of the date of this Monthly Report.

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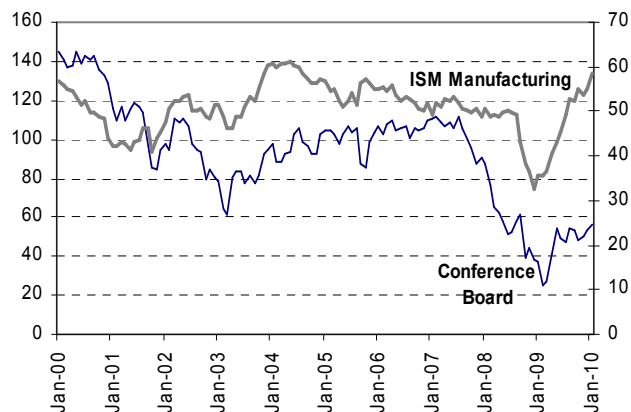
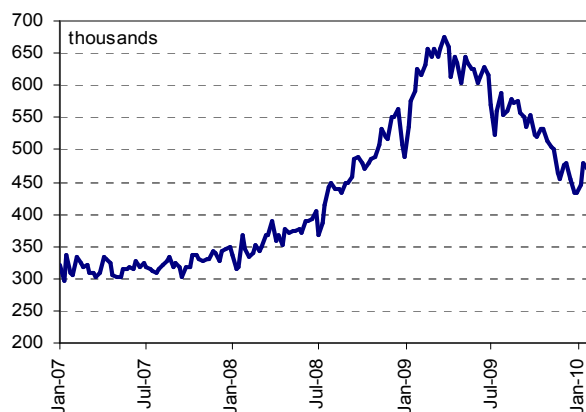
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## Equity Market

Major WSE indexes had a flat month-on-month finish in January. As predicted, the WIG20 index started to move down last month after hitting 2500 points, and this downward correction is expected to last a few more weeks, bringing the index to a level of 2100 points. Falling stocks are accompanied by a strengthening dollar and depreciating metals. Emerging-market currencies remain relatively strong. Note that equity markets seem unable to continue moving upwards in spite of a string of good economic data coming from the US (GDP, leading indicators), China (exports), as well as Poland (consumption, GDP), which, we think, is a sign that investors have already discounted the positive medium-term outlooks. For more in-depth equity market prognoses, refer to our January 19th 2010 *Investment Strategy* release.

Latest US economic data confirm a recovery which, at the moment, is most pronounced on the supply side. The manufacturing momentum is positive, and it is expected to continue in coming months (growing at a year-on-year pace of ca. 10%). On the other hand, the real-estate market is showing no signs of a turnaround, and the number of jobless Americans increases from week to week (unemployment data is what markets will be most sensitive to in the coming weeks). Added to this economic picture is an expected 5.7% expansion in annual GDP, fueled by a surge in inventories (which contributed 3.4 ppts to GDP growth), accompanied by a 0.2% dip in government spending and a 2% decline in consumer spending. All forecasts for the US economy predict a rebuilding of internal demand, providing support to the “supply” side, in the next phase of the cycle. As we said in our 2010 *Investment Strategy* publication, even as the Conference Board index reports improvement in consumer confidence (an increase to 55.9 in January), and the savings rate increases (6%), consumption growth going forward will be too slow to sustain the strong manufacturing momentum in the long term.

### US Jobless Claims, Leading Economic Indicators



Source: Bloomberg

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## Macroeconomics

### Public Finance Development and Consolidation Plan

The Plan outlines guidelines for proposed legal changes, which have been the topic of public discussion numerous times. The government should approve these guidelines by the end of H1'10, and the appropriate acts should be passed by the end of the year. Of all the actions aimed at making Polish public finances stable again, the planned introduction of a "fiscal rule" and the proposed Public Finance Stability Act stand out. According to the fiscal rule, the growth of non-fixed expenditures should not exceed 1% per year in real terms. In order to strengthen the fiscal discipline of the owners of individual sub-budgets, as well as of those responsible for generating long-term, fixed expenditures, a catalogue of appropriate preventive and corrective measures will be defined (which is, admittedly, quite a vague claim). The Plan, as outlined by the Prime Minister, devotes a lot of attention to the pension system and to the transparency of public debt. There is a proposal to modify public debt statistics so that they capture the impact of pension reform. In addition to a public debt metric, data will be published on the long-term fiscal burden on the current and the future generations of employees and taxpayers stemming from the government's decisions. In addition, the part of pensions-related public debt that has remained "hidden" so far will be disclosed.

The reform of the pension system will encompass extending general social insurance rules to the police and the armed forces (with no right to early retirement after 2012) and a review of disability pensions. The plan foresees only gradual changes in the farmers' social insurance system, rather than the elimination of the separate institution, and nothing more than a debate on the truly key issue that an increase in retirement age is. The Prime Minister did not make any definitive statements concerning changes in the "second pillar" of the pension system (e.g. how the premiums will be divided), but he did say there will be a debate concerning the efficacy of the system, changes to benchmarks for private pension funds and changes to the schedule of commissions. In respect to the need to improve spending efficiency, the Prime Minister promised that work will continue on task-based budgeting and long-term financial planning, as well as the unification of accounting rules for various agencies of the state and a revision of the rules for the provision of banking services to the state. One concrete measure is the obligation to locate available funds on a deposit with the Ministry of Finance. This measure is supposed to reduce public debt through the reduction of the state's borrowing needs thanks to the employment of the sector's assets in the management of national budget liquidity (by ca. PLN 14.6bn, i.e. ca. 1.1% of the GDP, starting in 2010). The State Treasury will consolidate the debt on account of deposits taken over from individual entities of the public sector, which will enable it to temporarily reduce bond offerings.

As far as revenues are concerned, the Plan foresees more efficient VAT collection (electronic cash registers for doctors and lawyers), expansion of the tax base, reduction in VAT deductions (especially VAT refund when purchasing cars registered as trucks). The expected increase in budget revenues in the coming years is between PLN 500m and PLN 1900m. As far as deficit financing is concerned, the Treasury's privatization plans have been reiterated (+PLN 25bn). The plan foresees intensified use of EU funds. The Prime Minister expects the positive impact of EU funds on GDP growth to increase nearly five-fold compared to 2004-2008 (to 0.8pp in 2009-2013 per year on average vs. 0.15pp); employment is to increase twice as fast in 2009-2013 as in 2004-2008 (by 109,000 vs. 45,000); the positive impact of EU funds on the increase in the investment rate is to increase five-fold (+1.79pp in 2009-2013 vs. +0.35pp in 2004-2009). These estimates appear realistic, especially if we take into consideration the recent acceleration in the use of EU funds, which led to an increase in the deficit in the public sector to 7.2% of the GDP in 2009, but prevented a considerable reduction in investment growth from the perspective of national accounts (the recent data indicate positive growth in Q4'09 is possible).

### GDP growth above expectations in 2009

In 2009, the Polish GDP increased by 1.7% y/y vs. 4.8% y/y growth recorded in 2008, which is in line with our forecasts and above market expectations. Moving on to the individual components of the GDP, in 2009 we saw a 2.3% increase in retail consumption, a "mere" 0.3% drop in investment and a 0.9% decline in domestic demand. The Polish economy performed well (relative to other European countries) thanks to greater substitution of imports with domestic production and faster absorption of EU funds (we estimate that the latter account for more than 0.5pp of the growth recorded). As usual, we can use the FY data to extrapolate the data for the fourth quarter, as yet unpublished. We estimate GDP growth in Q4'09 at 3.0% y/y vs. 1.7% y/y in Q3'09. Retail consumption probably increased by 2.1% y/y vs. 2.2% y/y in the third quarter. It is investment growth that impresses the most, however: +1.9% (!) vs. -1.5% in Q3'09. We expect the positive trends observed in Q4'09 to be sustained throughout 2010. In particular, we expect GDP growth at 3% y/y or higher. Investment should accelerate to 4% y/y, while consumption growth should at least stabilize in the 2.5-3.2%

bracket, spurred by the improving labor market and increase in demand due to infrastructural investment. The lower contribution of net exports should be offset by the continuing recovery in inventories.

### **Inflation below expectations in December**

In December, the annual inflation rate increased from 3.3% to 3.5%, i.e. less than forecasted by the Finance Ministry (3.6% y/y). The increase in the y/y rate vs. November is mostly a reflection of the strong base effect of December 2008, when fuel prices plunged by over 9%. The discrepancies between the data and the forecasts were driven by declines in the core categories of the inflation basket (-1.3% m/m in recreation and culture, -1% m/m in telecommunications, merely +0.1% m/m in housing expenses and in restaurants and hotels, i.e. slower than in the preceding months). We estimate that the core inflation rate declined from 2.8% y/y in November to 2.6% y/y in December, as the impact of the F/X rate shock from early 2009 withered away and demand pressure weakened after the period of economic slowdown. Moving on to the outlook for the upcoming months, it seems to us that in January inflation may be only slightly above 3% y/y. In the following months of the year, we will see a clearer decline in the annual rate, due to the massive base effects from early 2009. The inflation rate should bottom out around mid-year at under 2% y/y, after which we expect to see a gradual revival in inflationary pressure, as the economic recovery solidifies and the labor market stabilizes. In our opinion, the systematic declines in inflation and core inflation might have an impact on expectations regarding the suddenness of monetary tightening in Poland. While individual members of the Monetary Policy Council (RPP) have made quite hawkish comments, in the near future the expectations of monetary tightening should become less strong. This process may be checked by two publications: of the minutes from the first meeting of the new Council (the issue being whether or not they will contain indications of a discussion on a potential shift of the Council's stance) and the publication of the new inflation projection (which will indicate a temporary reduction in inflation, followed by its revival in 2011 and 2012). That said, lower current inflation might paradoxically help the long end of the yield curve (supporting a noninflationary growth scenario and limiting the risk that higher inflation will become something permanent).

### **Another C/A surprise**

The NBP is clearly preparing for a change in its methodology of calculation of the balance of payments. As a result, the recent data revisions are more far-reaching than average revisions in the past and making accurate forecasts is more about guesswork than correct modeling. In November, the C/A gap was EUR 1,272m vs. -EUR 266m in October after an upwards revision. The improvement in the C/A was largely driven by the balance of trade, where there was an upwards revision of the reading for the previous month (to -EUR 103m) and only a small gap of -EUR 292m in November (to be sure, the data from the Central Statistical office led us to expect a positive balance, but this may still come after the NBP revises its data next month). With a small balance of trade deficit, we can now expect faster GDP growth in Q4'09 (3.2% y/y). The income account looked exceptionally good, much better than expected. This was caused by the fact that the dividend payment to Eureko B.V. (a total of ca. EUR 1.9bn including minority shareholders) was not recognized in the income account in full; a portion was recognized under current transfers (as confirmed by the deficit recorded in that area despite the high inflows of EU funds). In the ensuing months, the C/A gap should diminish towards zero, thanks to the small balance of trade gap and the fact that PZU dividends will no longer affect these figures. As a result, the ratio of C/A gap to GDP should be around -1.3%, i.e. the value we have been forecasting for several months. A conclusion springs to mind: it is possible to be right about the mechanisms that govern the economy (and the stimulating effect of the weak zloty) and the medium-term trend, and still get it wrong as far as monthly C/A fluctuations – with the inevitable data revisions – are concerned.

### **Rapid salary growth in the enterprise sector in December**

In December, salary growth in the enterprise sector increased from 2.3% y/y to 6.5% y/y (the forecast consensus was 3.0%). The increase in the growth rate stems from the following factors: 1) base effect from December 2008, when downturns, the withholding of bonuses and delays in salary disbursement pushed the average salary down, 2) delay in the payment of annual bonuses to miners from November to December, 3) an upwards trend for salaries in manufacturing (we believe that this is the most stable area and that trends observed there may harbingers the movement of the aggregate). In our view, salaries should grow at 4-5% y/y in the ensuing months; we would expect this rate to accelerate in the second half of the year. As for employment growth in the enterprise sector in December, it increased from -2.2% y/y to -1.8% y/y, i.e. employment shrank in line with our expectations and slower than forecasted by the consensus. It should be stressed here that the monthly growth rate was negative this time, with the number of employed people shrinking by 9,000 in absolute terms. In no way is this indicative of a trend shift, representing year-end seasonalities. We still believe that the labor market proved to be very resistant to the impact of the economic slowdown. Sentiment indicators make it clear that employment is in an upwards trend, and the fact that companies

are announcing reductions of their layoff plans gives ground for optimism as well. In the upcoming months, we expect these trends to solidify. It should be remembered, however, that the January reading will be distorted as the number of companies employing 10 or more people is re-estimated. The changes in sample size make an accurate forecast for the following month difficult as well. We expect that as the economy recovers and free capacity is gradually put to use, the enterprise sector should be able to create new jobs already in H1'10. The data may also prompt discussions within the Monetary Policy Council concerning a shift to a neutral stance. This will not happen before the February meeting (the inflation projection will be published then). That said, given the persistent uncertainty as to economic growth prospects, which some of the Council's new members have stressed, and the downward trend in the y/y inflation rate, monetary tightening is probably not coming just yet. We expect the first interest rate hikes in H2 2010.

### **Industrial production growth slower than expected**

In December, industrial production increased by 7.4% y/y compared to 9.9% y/y in November. The fairly high growth rate still reflects a base effect (the first dramatic plunges in industrial production were recorded in November 2008), additional working days and a big improvement in vehicle manufacturing. Growth is still evident across many diverse sectors - in fact, 24 out of 34 sectors were in the black, just as in the previous month. Seasonally adjusted, the growth figure is 6.2% y/y vs. 6.8% y/y in November. The seasonally adjusted monthly rate did decline, falling below zero (-2.8%), which clearly contradicts the previously-published seasonally-adjusted PMI. What is more, the seasonally adjusted m/m rate clearly diverges from the upwards trend we have been observing recently. Given that we have not seen any indications that it is changing (nearly all sentiment indicators published by the Central Statistical Office keep going up), the weakness of the December data may be due to seasonal factors that the adjustment failed to capture. The most likely scenario is that, just as last year, companies sent their employees on vacation to take advantage of the still-low capacity utilization. Another possible culprit is the weather, which has an indirect impact on manufacturing output as it slows down growth in construction (3.1% vs. 7.9% expected). The real (i.e. clearly upwards) trend in industrial production will most likely get confirmed in January (though weather anomalies may have an impact this time as well). We believe that these results may be considerably impacted by the rebound in German manufacturing (including delayed new orders). In the following months, the y/y growth rate will also be impacted by the low base of comparison that coincides with the onset of the slowdown.

### **Retail sales accelerate once again**

In December, retail sales increased by 7.2% y/y vs. 6.3% y/y in November. In real terms, growth increased from 3.9% y/y to 4.1% y/y. The December reading was driven by the higher number of working days (+1 y/y), the low base of comparison and the improving trend. In December, sales in the core part of the basket grew at approximately the same rate as in November (6.4% y/y vs. 6.2% y/y). Sales increased in the "other" category (e.g. construction retailers), as well as in clothes and shoes. Our expectation of a slowdown in car sales was confirmed (3.9% y/y vs. 8.2% y/y in November). As purchases driven by tax breaks in other countries (especially Germany) end, we can expect the slump in this category to deepen. That said, the strong base effects from last year (beginning of the economic slowdown) will keep retail sales growth at above 5% in the upcoming months. According to our long-term projections, retail sales will continue on an upward curve in coming months, supported by a stabilizing job market (the last unemployment rate figure was again lower than the seasonal benchmark). We believe that this effect, which impacts consumer confidence, will outweigh the deceleration in salaries (which, in any case, is much less profound than during the previous economic slowdown).

**Current ratings by BRE Bank Securities**

Company	Rating	Target price	Current price	Rating day	Price on rating day	FY09 P/E
AB	Buy	15.13	14.15	2009-08-06	11.55	11.3
ACTION	Buy	18.49	16.70	2009-12-22	15.98	9.6
AGORA	Buy	23.70	21.00	2009-11-13	19.75	31.5
ASBIS	Hold	4.23	4.56	2010-02-03	4.56	
ASSECO POLAND	Buy	71.90	59.00	2009-11-19	57.30	12.1
BUDIMEX	Accumulate	82.50	74.20	2010-01-06	75.75	10.8
BZWBK	Hold	195.40	180.20	2010-01-19	190,00	16.2
CENTRUM KLIMA	Buy	15.10	12.47	2009-11-06	11.50	15.9
CEZ	Hold	140.60	140.80	2009-11-04	143.80	8.9
CIECH	Hold	39.90	29.99	2009-12-03	37.49	
CYFROWY POLSAT	Hold	14.90	14.90	2010-02-03	14.90	18.1
DOM DEVELOPMENT	Buy	50.10	41.40	2010-02-03	41.40	13.0
ELEKTROBUDOWA	Hold	169.30	168.00	2009-12-04	170.00	14.9
EMPERIA HOLDING	Hold	70.30	88.50	2009-09-04	72.30	18.8
ERBUD	Hold	53.50	51.80	2010-02-03	51.80	15.0
EUROCASH	Hold	9.90	16.90	2009-05-06	9.81	22.4
GETIN	Buy	10.20	9.05	2010-01-19	8,80	23.7
HANDLOWY	Buy	90.30	74.15	2010-01-19	73.55	16.9
ING BSK	Accumulate	811.60	695.00	2010-01-19	739.00	14.5
J.W. CONSTRUCTION	Buy	14.00	11.75	2009-12-02	11.26	6.6
KĘTY	Hold	115.40	118.90	2009-11-05	106.80	15.7
KGHM	Reduce	90.40	100.00	2009-12-01	107.80	9.2
KOMPUTRONIK	Hold	11.56	9.88	2009-12-08	11.39	37.5
KREDYT BANK	Accumulate	15.30	13.95	2010-01-19	14.10	90.3
LOTOS	Reduce	26.60	28.10	2009-12-01	31.94	4.8
LW BOGDANKA	Hold	80.10	77.00	2010-02-03	77.00	12.8
MILLENNIUM	Hold	4.33	4.20	2010-01-19	4,49	
MONDI	Hold	56.00	74.50	2009-09-03	51.00	58.3
MOSTOSTAL WARSZAWA	Buy	79.60	62.50	2009-12-02	68.00	12.4
NETIA	Hold	4.30	4.64	2009-11-06	4.36	
PBG	Hold	212.00	209.10	2009-11-12	218.50	14.7
PEKAO	Hold	181.50	168.00	2010-01-19	176,00	18.4
PGE	Buy	27.49	23.25	2009-11-04	23.00	11.9
PGNiG	Accumulate	4.11	3.78	2009-11-13	3.73	26.8
PKN ORLEN	Accumulate	38.20	34.20	2010-02-03	34.20	10.0
PKO BP	Hold	39.60	39.00	2010-01-19	38.90	21.1
POLICE	Reduce	5.50	5.85	2010-02-03	5.85	
POLIMEX MOSTOSTAL	Hold	4.50	4.40	2010-02-03	4,40	13.2
POLNORD	Buy	46.80	33.20	2009-12-15	31.77	12.3
RAFAKO	Accumulate	11.60	11.14	2010-02-03	11.14	23.6
SYGNITY	Buy	18.10	12.95	2009-12-15	14.15	
TELEKOMUNIKACJA POLSKA	Accumulate	19.20	15.85	2009-10-30	17.58	14.7
TRAKCJA POLSKA	Hold	4.20	4.03	2010-01-06	4.10	9.8
TVN	Buy	14.60	14.00	2009-12-02	12.55	25.2
ULMA CONSTRUCCION POLSKA	Hold	82.20	85.00	2010-01-06	84.50	
UNIBEP	Accumulate	6.60	6.17	2010-02-03	6.17	11.4
WSiP	Hold	17.20	16.36	2009-09-03	16.61	13.3
ZA PUŁAWY	Hold	72.05	73.00	2010-01-06	80.90	20.6

**Ratings issued in the past month**

Company	Rating	Old Rating	Target Price	Rating Day
BUDIMEX	Accumulate	Hold	82.50	2010-01-06
BZWBK	Hold	Hold	195.40	2010-01-19
ERBUD	Accumulate	Hold	53.50	2010-01-06
GETIN	Buy	Accumulate	10.20	2010-01-19
HANDLOWY	Buy	Hold	90.30	2010-01-19
ING BSK	Accumulate	Hold	811.60	2010-01-19
KREDYT BANK	Accumulate	Hold	15.30	2010-01-19
MILLENNIUM	Hold	Accumulate	4.33	2010-01-19
PEKAO	Hold	Reduce	181.50	2010-01-19
PKO BP	Hold	Reduce	39.60	2010-01-19
POLIMEX MOSTOSTAL	Accumulate	Buy	4.50	2010-01-06
TRAKCJA POLSKA	Hold	Accumulate	4.20	2010-01-06
ULMA CONSTRUCCION PL	Hold	Accumulate	82.20	2010-01-06
UNIBEP	Buy	Hold	6.60	2010-01-06
ZA PUŁAWY	Hold	Accumulate	72.05	2010-01-06

**Ratings changed in this Monthly Report**

Company	Rating	Previous rating	Target price	Date issued
ASBIS	Hold	Accumulate	4.23	2010-02-03
CYFROWY POLSAT	Hold	Accumulate	14.90	2010-02-03
DOM DEVELOPMENT	Buy	Accumulate	50.10	2010-02-03
ERBUD	Hold	Accumulate	53.50	2010-02-03
LW BOGDANKA	Hold	Buy	80.10	2010-02-03
PKN ORLEN	Accumulate	Buy	38.20	2010-02-03
POLICE	Reduce	Hold	5.50	2010-02-03
POLIMEX MOSTOSTAL	Hold	Accumulate	4.50	2010-02-03
RAFAKO	Accumulate	Buy	11.60	2010-02-03
UNIBEP	Accumulate	Buy	6.60	2010-02-03

**Rating statistics**

Statistic	All					For clients of BRE Bank Securities				
	Sell	Reduce	Hold	Accumulate	Buy	Sell	Reduce	Hold	Accumulate	Buy
Count	0	3	23	8	14	0	0	9	2	7
% of total	0.0%	6.3%	47.9%	16.7%	29.2%	0.0%	0.0%	50.0%	11.1%	38.9%

## Banks

### **Pengab up 3.3pts in January, reaching 30.4pts**

The banking industry sentiment gauge Pengab rose 3.3pts to 30.4pts in January. A year ago, it stood at 22.8pts. The aggregate assessment of the current situation improved by 6.4pts m/m to 26.8pts, while outlook went up by 0.3pts to 34.1pts. Lending weakened somehow, especially in the case of corporate loans and mortgages. A slight revival persisted for consumer and F/X loans. We are now above 30pts. The upwards trend has been here for several months. It should be remembered, however, that a spike in January in reaction to a decline in December is typical for this index. In 2010, we expect the average Pengab score to increase (the average for last year was 19.4).

### **KNF expects lending growth in 2010 to be faster than in 2009**

The Financial Supervision Authority (KNF) expects lending growth in 2010 to be faster than in 2009. We expect lending to expand at a similar pace as last year, which does not entail a reduction in new production (the annual change in the portfolio will also be affected by the exchange rate of the zloty). We expect loans to expand by ca. 7%.

### **KNF: in 2010 banks will improve earnings and create lower provisions**

The Financial Supervision Authority (KNF) expects some of the commercial banks to be in the red in Q4'09. In 2010, Polish banks should improve their earnings, and they should create lower provisions than in 2009, due to, inter alia, the high base of comparison (cf. options-related provisions and the extraordinary reviews of loan portfolios, as in the case of Millennium in Q3'09 or Kredyt Bank's consumer loan segment in Q4'09). We do not believe the costs of risk will decline considerably until 2011. We expect the industry's profit to grow in 2010 as well, driven by revenues (increase in interest income, improvement in fee income).

### **Money supply in December**

Money supply (M3) increased by 8.1% y/y in the final month of 2009 (vs. +6.6% y/y expected). Deposits expanded very fast, by the staggering PLN 18.5bn, driven by households (+PLN 12.7bn) and companies (+PLN 10.8bn); the other segments saw an aggregate decline of PLN 5bn, of which local authorities accounted for PLN 3.4bn. In terms of percentage growth, the overall portfolio increased by 10% y/y (households +15% y/y, corporations +10% y/y, other -12% y/y). The very fast growth in retail deposits is a consequence of the disbursement of annual bonuses (which were postponed until January last year for tax reasons) and the earlier disbursement of EU subsidies to farmers. In loans, there were no major surprises. The portfolio expanded by 8.6% y/y, with households loans growing at 12% y/y and corporate loans declining by 3.4% y/y; loans expanded very fast for the other segments (+43% y/y, comprising a PLN 3.8bn y/y increase in social security debt, PLN 8.7bn increase in local authority debt and PLN 6.3bn increase in the debt of nonmonetary financial institutions). Compared to the end of November, the increase in the loan portfolio was very moderate (PLN 2.4bn, including +PLN 2.9bn for households, -PLN 4.6bn for businesses, +PLN 1.1bn for nonmonetary financial institutions, +PLN 4.3bn for local authorities, -PLN 1.4bn for social security). The ratio of loans to deposits declined from 116% to 113%. Good news as far as deposits are concerned. We believe some of this growth will disappear in the ensuing months (m/m changes in the data for local authorities indicate a decline in deposits and an increase in loans). In case of corporations, we can see that their condition started to improve in the fourth quarter, allowing them to amass cash and reduce loans. This is in line with our expectations for 2010, although the changes are happening earlier than we thought. We expect corporate deposits to increase very fast, while loan volumes will remain low.

### **Mortgage loans at 31 December 2009**

By 31 December, retail loans had climbed to PLN 221.6bn (+12% y/y). F/X loans, which accounted for nearly 64% of all mortgages, had increased by 4.5% y/y, while zloty loans had increased by 28% y/y. The impact of F/X loan revaluation was slight, as the zloty appreciated vs. the CHF, which is the main currency for F/X mortgages, by 1.3% y/y. Adjusted for this effect the growth figure would increase by slightly less than 1pp. We estimate that new mortgage figure in December was very close to the November figure (over PLN 3.5bn), but lower than in September and October (the best months of last year). We estimate that F/X mortgages accounted for slightly more than 30% of FY2009 production, with the caveat that this share was higher in H1'09 due to the disbursements of loans granted earlier. We believe F/X lending will remain at ca. 30% of all mortgage lending in 2010 as well. We estimate the FY2009 total for mortgages at ca. PLN 40bn, and our projection for this year is PLN 45–48bn, of which approximately 70% will be in the zloty. This entails a 25–27% expansion in the PLN mortgage portfolio and a 6–7% growth of the F/X portfolio (excluding any appreciation of the zloty). Overall, the mortgage portfolio will expand by 13–14%, but it will be slowed down further by the appreciation of the zloty.

### **NPLs**

The ratio of NPLs to total loans increased to 7.6% at the end of December (vs. 7.3% at the end of November and 4.4% at the end of 2008). Retail NPLs increased to 5.4% (vs. 5.3% in November and 3.5% in December 2008), while corporate NPLs increased to 11.8% (vs. 11.1% and 6%, respectively). In absolute figures, retail and corporate NPLs increased by PLN 985m and PLN 965m, respectively. The aggregate increase for FY2009 was nearly PLN 22bn (PLN 12.2bn for businesses, PLN 9.6bn for households). The December increase in NPLs was in line with our expectations for the nominal increase in NPLs. However, we expected the ratio to be lower as we assumed a bigger loan portfolio. The data have little impact on our views as regards the future growth in NPLs. We expect the ratio to reach 9% at the end of 2010, with the cost of risk at the banks we cover increasing to 1.3% of net loans on average.

### **State-subsidized mortgages**

BGK estimates that the 2009 record total for state-subsidized mortgages will be exceeded by 40% this year. It is very likely, however, that the caps on property prices in the program will be reduced in April. In 2009, 31,000 state-subsidized loans were granted for a total of PLN 5.417bn; therefore, BGK is projecting PLN 7.5bn total for 2010. The YTD total as of 20 January was PLN 202m (twice as much as last year). We await further developments. Our aggregate forecast for new mortgages in 2009 is PLN 45–48bn.

### **Household deposits**

We have learnt the components of the PLN 12bn increase in household deposits in December 2009 (the general M3 supply data were published earlier). Most of the funds ended up in current deposits (PLN 9.9bn), the remainder in term deposits. In the latter category, 3-6 month deposits were the most popular (+PLN 4.2bn m/m), as well as very short deposits under 1 month (+PLN 1bn); 1-3 month deposits and 6-12 month deposits shrank (by PLN 1.2bn and PLN 1.1bn, respectively). As was commented on occasion of the publication of M3 data, the very rapid growth in retail deposits in December was partially due to one-off factors (bonuses, disbursement of EU subsidies to farmers). These funds were first placed in current deposits; in the following months, we can expect them to be moved elsewhere. The smaller the scale of this shift, the better it will be for the banks in terms of the cost of financing; we do believe, however, that most of the funds will end up in deposits or other forms of savings.

### **Competition for SME clients heats up**

Bank Millennium and Kredyt Bank plan to step up their efforts in the SME segment. Millennium hopes to replicate its successes in the retail segment, while Kredyt Bank plans to rely on mobile advisors and loans disbursed within 24 hours of application. This is the segment where the competition for market shares will be the most intense. For the banks, the SME segment is attractive as individual loans are not overly big, while margins can be high. Further, the clients could be persuaded to use other products. We are becoming a little concerned about the banks' high interest in the SME segment. Millennium and Kredyt Bank are not the only institutions eyeing it; a few days ago, BZ WBK said its target was to outpace the market in this area, PKO BP clearly wants to increase its market shares in the corporate segment, and even small niche banks such as Bank Pocztowy have made the segment the cornerstone of their strategy for 2010. At the same time, we believe that after a period of restructuring and adjustment to tougher macroeconomic conditions, businesses will be unwilling to quickly bury themselves in debt. We believe that the first stage of the economic revival will not be credit-driven, which entails slow growth in lending. With everybody vying for a piece of the cake in such an environment, margins are bound to fall.

### **KNF considering a turnaround program for several banks**

The Financial Supervision Authority (KNF) expects to see multiple ownership changes in the sector in 2010, most likely among the smaller banks. We are not going to try to guess whether the banks that could be subjected to a KNF turnaround program include listed banks. So far, this only happened to BPH. Millennium was in the red after Q3'09, but it is currently issuing new shares. We agree with the regulator as far as ownership changes are concerned. This could lead to consolidation, especially in the case of the smaller players. We believe that we cannot preclude such transactions among the listed players, but they remain very unlikely.

### **Leasing plunges 30% in 2009**

Members of the Polish Leasing Association financed goods worth PLN 23bn in 2009, marking a 30% drop from 2008. Property leases fell 37% to PLN 2bn, and leases of vehicles and equipment plunged 29% to PLN 20.9bn. According to the CEO of EFL, the downturn can be attributed to the fact that most leasing customers are small and mid-sized businesses which have been most severely affected by the economic crisis. The share of leasing in investments was an estimated 10.5% in 2009, far below the historical high of 17%, and less than European averages of 12%–14%. Leasing companies expect an 8% increase this year to about PLN 25bn. The data is in line with expectations. The portfolio of lease receivables displayed a much less dramatic deterioration.

### **GUS: Aggregate income of the banks down 44.6% y/y in January-November**

According to preliminary estimates by the Central Statistical Office (GUS), the aggregate net income of Polish banks in January-September 2009 figured to PLN 7.01bn, which represents a 44.6% y/y decline. The banks that were in the black earned PLN 8.21bn net, those that failed to break even lost PLN 1.21bn (the figures were PLN 10.03bn and PLN 1.44bn at the pre-tax level, respectively). Historical data, already reported by the Financial Supervision Authority.

### **BIK releases 1.45m credit reports in December, +11.6% y/y**

In Q4'09, 4.41m credit such reports were issued (+10.1% y/y), and in FY09, 17.07m (+10.8% y/y). In addition, 11.37m monitoring reports were issued in FY2009, vs. 4.47m in FY2008. All reports totaled 28.44m in FY2009 (+43% y/y). This increase is consistent with the increase in household debt (+11.8% YTD at 30 November).

### **Banks want to securitize NPLs**

Banks want to sell their NPL portfolios this year with a view to reducing provisions, or indeed, in some cases, making a profit. According to *Parkiet*, PKO BP is awaiting bids for a PLN 500–600m portfolio of retail loans, and it may put more such portfolios up for sale this year. Other banks that are planning to sell loan portfolios are BZ WBK, BGŻ, ING BSK and BPH. A move like this improves liquidity, makes it possible to release provisions, increases the efficiency of collections, and, in some cases, could bring a profit. The data is in line with expectations. Good news for the banks, but we would not expect proceeds of such sales to have a material impact on earnings. We believe the provisioning cycle (especially in the retail segment) is not over yet, and if the banks are able to release provisions, they will use this opportunity to reduce their overall provisions. Tax issues remain a barrier, however.

### **New law on consumer loans**

The government accepted guidelines for the new law on consumer loans, which extend the time the borrower has for withdrawing from the loan agreement to 14 days upon signing it and raise the cap for loans covered by the provisions of consumer lending laws from PLN 80,000 to EUR 75,000. New consumer lending regulations will have little impact on the banks.

### **NBP and SBC to stop providing CHF financing as of 31 January**

The Swiss Central Bank confirmed that its cooperation with the National Bank of Poland in respect of the provision of CHF financing ends as of 31 January. Initially, the commercial banks were quite willing to use CHF financing from the NBP, borrowing several hundred million francs per week. Recently, the weekly average decreased to ca. CHF 50m. No material impact on the current situation of the banks.

### **Competition intensifies for loans to local governments**

The high demand for credit on the part of local governments, coupled with high margins and low risk, makes this a very attractive segment for the banks, prompting them to bid for such loans. As a result, companies lose access to credit. The demand for credit on the part of local governments will remain at the current high level. The EU Financial Perspective for 2007–2013 foresees several dozen billion euro in such loans, and we should also take into consideration loans related to the Euro 2012 soccer championship. Loans to local governments are of higher quality and are less capital-intensive. Increased interest on the part of the banks is noticeable when looking at individual cases. Thus, in November, six banks bid for the opportunity to lend nearly PLN 40m to the city of Poznań, offering margins of 1.09% to 1.4%. This is a very attractive area and, while margins are attractive in comparison with those from before the crisis, they are already going down. Last year, when financing costs were high and liquidity was limited, they approached 200bps (or even exceeded this figure). Increased lending to local governments could indeed restrict credit supply for businesses. That said, we do not expect corporate demand for credit to be high. We are currently seeing low capacity utilization rates and the economy is still facing considerable risks, so we cannot expect businesses to have big credit needs.

### **Bank Pocztowy's growth plans**

The Bank's growth strategy for 2010–2013 is almost ready. One of the scenarios foresees a WSE debut in H2'11, with proceeds of several dozen million zloty. The net profit target for FY2010 is ca. PLN 14m (which is close to the FY2009 figure). The Bank will continue to focus on simple, basic products. Its goal is to acquire 156,000 new retail clients (vs. 490,000 it has currently) and 900 new SME clients. By the end of 2010, its loan portfolio is to amount to PLN 2.9bn (+53% y/y), with deposits at PLN 3.7bn (+37% y/y). The retail segment is to provide 59% of the total income, the SME segment, 29%, and the remainder will come from settlement services. BP is a small niche bank which has been successfully elbowing its way around the market for basic banking services. Given the potential of the post office network, it could grow fast for several more years, but it does not have the required capital.

### **Bank Pocztowy doubles its retail loans to over PLN 1bn in 2009**

Near the end of 2009, Bank Pocztowy's retail loan portfolio exceeded PLN 1bn, increasing by over PLN 520m vs. FY2008. Mortgage loans figured to nearly PLN 479m vs. over PLN 166m a year earlier, to a large extent thanks to the "Rodzina na swoim" state-subsidy program (PLN 255m). Loans granted to institutional clients totaled PLN 536m at the end of the year (+PLN 288.6m vs. last year); the average size of the corporate portfolio was PLN 730.5m (+PLN 332.7m y/y). Retail deposits figured to PLN 1.3bn (+PLN 300m y/y). Over the year, the bank increased its retail customer base by over 105,000 to over 490,000, and it had 13,000 corporate clients. Bank Pocztowy had an excellent year, but it remains a small niche player, although its reach and network (post offices) give it a much greater potential.

### **Treasury considering options for the privatization of BGŻ**

The State Treasury is considering its options for the privatization of BGŻ. At present, the Treasury owns a 37.26% stake in the bank. The other big investor is Rabobank (59%). The Treasury's possible moves include sale to Rabobank, through the stock market or to another investor. We have known for a long time that BGŻ is to be privatized. We believe a sale to Rabobank is the most likely scenario.

### **Fitch: Polish banks outperforming their CEE peers**

According to Fitch, in 2009, Polish banks outperformed their Central and Eastern European peers, and are better poised to grow when the economy starts to expand. This is so because the financial system is less imbalanced in Poland thanks to slower expansion in loan portfolios. F/X loans and the loans/deposit ratio remain problematic, however, though less so than in the other countries of the region. Capital quality (cf. the increase in the capital adequacy ratio thanks to the retention of profits for 2008) testifies to the industry's profitability in the face of the increasing costs of risk. Fitch estimates that NPLs are already decelerating, and that they will peak sometime in 2010. Fitch also praised business repositioning, new approach to credit risk, diversification of the sources of financing and effective cost management as factors that enabled the banks to absorb losses, and, in conjunction with capital accumulation, made it possible to reduce the downward pressure on ratings. Fitch believes the Polish banking industry has sufficient liquidity at the moment, although it is unevenly distributed and tends to be affected by F/X rate fluctuations. We agree with this assessment, but it describes the last year's developments, which the market has already discounted.

### **Fortis Bank: PLN 400m in mortgages, PLN 2bn in corporate loans**

According to representatives of Fortis Bank Polska and BNP Paribas, FBP has allocated PLN 2bn to corporate loans and is aiming to extend PLN 400m worth of mortgage loans in 2010, as well as acquire several dozen thousand retail clients. The Bank hopes that by the end of the year it will have 50 advisors in 8 corporate banking centers serving approximately 2,000 companies, SMEs as well as international groups, including companies with annual revenue in excess of PLN 0.5m. It wants to become a bank of first choice for retail clients, whose number should increase from ca. 350,000 currently to ca. 400,000 by the end of the year. More and more banks are coming out with their strategies for the upcoming years (most recently, Millennium, Handlowy and Getin). We know that PKO BP is working on its strategy, and Pekao is expected to do this as well given the change at the helm and speculation concerning changes in its management structure.

### **BPH: Józef Wancer retires**

The CEO of BPH, Mr. Józef Wancer, wants to retire in H2'09. According to the press release, Mr. Wancer believes that the legal merger of BPH and GE Money Bank, carried out at the end of 2009, and their operational merger, set to conclude in mid-2010, will constitute an appropriate finale to his over 10-year term as the Bank's CEO. The Supervisory Board has decided to commence the search for his replacement, hoping to attract a top-class leader from the Polish market. Mr. Wancer will depart when the term in office of the current Management Board ends (June 2010). Bad news for the Bank. During his 10 years at the helm, Mr. Wancer successfully steered the Bank through two mergers.

### **BPH: Management Board changes**

Mr. Kazimierz Łabno will step down as Management Board member and VP in charge of operations, IT, settlements and services on 31 January 2010. The Supervisory Board appointed two new executives: Mr. Richard Gaskins, who will be in charge of strategy and integration (as well as additional bank-wide operational tasks), and Mr. Ronald James Malak, who will be responsible for operations, IT, settlements and services, provided that he receives a work permit in Poland. Mr. Gaskins joined GE in 1993, after 13 years spent at Ford Credit in the UK and Ireland. Mr. Malak took over as the CEO of GE Money Romania in 2007 and led that bank through a period of considerable transformation. No major impact on stock performance. In the next 6 months, the Bank will be concluding its operational merger, and we believe during that period it will focus on internal processes rather than aggressive expansion. In addition, the earnings of the merged Bank will be under pressure from GEMB's cash loan portfolio.

**BPH: aligning services after the merger**

GEMB and BPH are initiating efforts to create a joint service mix after their official merger on December 31st, 2009. Old GEMB accounts will have their numbers changed starting next year. All banking agreements between the former BPH and GEMB and their customers remain valid and binding. GEMB is contributing its mortgage lending business to the joint offer, while BPH is bringing in personal accounts and CHF and EUR loans (for LTV of up to 80%). The new BPH is going to apply much more stringent credit ratings to home loan applicants. All in all, the rollout of the joint services will be gradual, and the "old" customers of both banks will be offered the new banking solutions once their existing arrangements expire. Over the next few months, the new bank will also be working on unifying both branch networks. In line with expectations. The success of the merger depends on the effectiveness of the new BPH's integration efforts (number of errors, lack of access to accounts etc.) More time is needed to comment on the new product mix. We do not expect many customer defections due to the changes, however.



## BZ WBK (Hold)

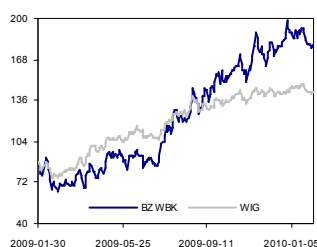
Current price: PLN 180,2 Target price: PLN 195,4

Analyst: Marta Jeżewska

Last Recommendation: 2010-01-19

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	1 286,7	1 635,1	27,1%	1 562,5	-4,4%	1 761,0	12,7%	Number of shares (m)	73,0
Interest margin	3,5%	3,3%		2,7%		3,0%		MC (current price)	13 147,4
Revenue f/banking oper.	2 940,6	3 190,0	8,5%	3 249,0	1,9%	3 467,7	6,7%	Free float	29,5%
Operating income*	1 395,2	1 575,9	13,0%	1 618,1	2,7%	1 751,8	8,3%		
Pre-tax income	1 391,4	1 211,4	-12,9%	1 069,2	-11,7%	1 200,0	12,2%		
Net income	954,7	855,4	-10,4%	812,1	-5,1%	875,7	7,8%		
ROE	23,0%	18,4%		15,2%		14,1%		Price change: 1 month	-4,4%
P/E	13,8	15,4		16,2		15,0		Price change: 6 month	45,3%
P/BV	3,0	2,7		2,3		2,0		Price change: 12 month	130,7%
D/PS	6,0	3,0		0,0		0,0		Max (52 week)	198,0
Dyield (%)	3,3	1,7		0,0		0,0		Min (52 week)	64,5

\* before provisions



The rate at which BZ WBK will grow in 2010 will depend greatly on the situation of its owner, Ireland's AIB. We predict an increase in loan volumes by just 3.5% this year (compared to a market average of +7%), because of the large share of corporate loans and decreasing mortgage lending. Retail loans (a little under 30% of the total) will not offset this effect. Nevertheless, we expect the bank to improve interest income and fee income, while trading income will be under pressure. The 2010 bottom line does not have much potential to grow against a high 2009 base (at PLN 812m, last year's net income displayed a year-on-year decline of just 5% y/y); we predict an 8% increase. Earnings could accelerate in 2011 assuming good economic momentum in Poland. At the current price level (FY10E P/BV = 2.0 assuming that BZ WBK retains all of its 2009 and 2010 earnings), the earnings growth expected in 2010 is already priced in. We recommend holding the stock. That said, it is worth reminding investors that diversified sources of revenues, paired with skilled management, make BZ WBK virtually immune to major losses (as demonstrated last year). That is why we would recommend increasing positions in the stock on any downward correction.

### Outlook for 2010 according to the CEO

In an interview for PAP, the CEO of BZ WBK professed his optimism about the growth prospects of the Polish GDP, claiming it could be as high as 3.5%. In this environment, the Bank is going to pursue a strategy of "cautious growth". It expects a ca. 10–12% increase in total loans across the sector (15% y/y for retail loans, under 5% y/y for corporate loans). Mortgages are expected to grow fast (at ca. 20% y/y), and other retail loans somewhat slower due to the implementation of the "T" Recommendation (midway through the year), as well as provisions. Banks will engage more and more in cross-selling. Mortgages, despite the toll they take on equity and liquidity, will remain an important product that ensures reasonable margins and low losses. BZ WBK wants to grow at a double-digit rate in the retail segment, and by several percent in the corporate segment. It should outpace the market in the SME sector and in other retail loans, and keep up with it in mortgages. F/X mortgages will be targeted to a select group of customers. EUR-denominated mortgage loans have been on offer for a few days; their share in overall lending is not expected to exceed 30%. All in all, the loan portfolio is to expand at a double-digit rate, driven by retail loans. Growth in deposits will depend on market pricing. If the war for deposits remains intensive, the loans/deposits ratio could increase (85% after Q3'09), but remain in the 80-95% bracket. The portfolio of deposits should grow at nearly 10%. The Bank is "smoothing" its costs of credit risk. Compared to the average for the past 5–6 quarters, provisions should decline in the second half of the year. Quarterly average provisions in 2010 should not exceed the level from the previous year. The ratio of NPLs to total loans will increase across the industry, but the Bank should be able to keep it below the market average, as is the case now. The Bank is planning to return, very cautiously, to its plans to open new branches (above all franchise-based, but also a dozen or so proprietary branches). All in all, as many as 100 franchised branches may be opened. In 2009, the Bank completed the rebranding of the Minibank network to BZ WBK Partner (there are currently approximately 100 of them). With its own brand now much more recognizable than two years ago, BZ WBK has no plans to rebrand. Revenues should increase faster than expenses, bringing the cost/income ratio down. Dividends are being considered, and the Bank is preparing for negotiations with the KNF, but even if it does opt to make a payout, it will not be very big. The Bank's target is for its capital adequacy ratio to remain above 10% (12.6% after Q3'09). We believe that in this context BZ WBK's should easily be able to improve its profits to our forecasted PLN 876m (ROA = 1.5%). Compared to our expectations, the Bank is more optimistic as regards retail loans (our forecast is +9% y/y). We are also not expecting such rapid growth in corporate loans (we forecast +3.5% y/y). We believe the Bank will be reducing its exposure to the latter segment (especially

corporate mortgages). Loans to businesses account for nearly 72% of the Bank's total loans; if growth in this area does not exceed 5%, double-digit growth in the loan portfolio must entail very rapid growth in the retail segment. Like the CEO, we expect a 10% increase in deposits in 2010. We expect the loans/deposits ratio to fall to 78%, but given the rapid growth in loans promised by the CEO, the 80–95% bracket seems reasonable as well. We expect the same level of loan loss provisions in 2010 as in 2009 (PLN 552m vs. PLN 549m, respectively). Most of the new provisions will be created in H1 2010, which is consistent with the promise to reduce quarterly provisioning in the second half of the year. As the Bank already revealed its plans for “cautious expansion”, our current forecast foresees a ca. 5% increase in expenses (vs. +3.6% y/y for the sector); still, it should sustain the positive trend on the cost/income ratio (down to 49.8% from 50.5% forecasted for FY2009 and 51.2% in FY2008). We assume the Bank will not pay dividends this year, while dividends from FY2010 profits will have little impact on valuation.



## Getin (Buy)

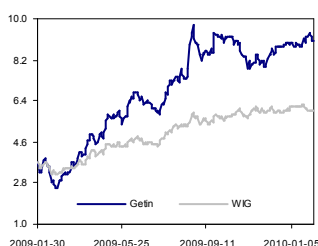
Current price: PLN 9,1      Target price: PLN 10,2

Analyst: Marta Jeżewska

Last Recommendation: 2010-01-19

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	561,2	807,6	43,9%	969,5	20,1%	1 114,6	15,0%	Number of shares (m)	710,9
Interest margin	3,6%	3,2%		2,9%		3,1%		MC (current price)	6 433,9
Revenue f/banking oper.	1 336,3	2 029,9	51,9%	2 078,9	2,4%	2 160,0	3,9%	Free float	28,0%
Operating income*	902,7	1 079,9	19,6%	1 185,5	9,8%	1 174,1	-1,0%		
Pre-tax income	802,4	701,0	-12,6%	400,0	-42,9%	615,0	53,7%		
Net income	626,4	508,5	-18,8%	271,3	-46,7%	423,6	56,1%		
ROE	24,3%	15,2%		7,3%		10,4%		Price change: 1 month	1,1%
P/E	10,3	12,7		23,7		15,2		Price change: 6 month	21,5%
P/BV	2,1	1,8		1,7		1,5		Price change: 12 month	85,6%
D/PS	0,0	0,0		0,0		0,0		Max (52 week)	9,8
Dyield (%)	0,0	0,0		0,0		0,0		Min (52 week)	2,6

\* before provisions



According to our calculations, Getin Holding will generate a return on equity of 10% in 2010, and 15% in subsequent years. We have a much more conservative outlook on the Holding's future earnings performance than its Management Board. According to our estimates, if Getin Noble Bank really achieved its 2010 ROE target of 20%, if Getin Holding's Russian operations turned a profit this year, and if TU Europa's 2010 bottom line matched last year's, the Holding would report a net income of approximately PLN 700 million this year (with a ROE of 16-17%). We find these assumptions unrealistic, for the following reasons: (i) the costs of risk remain fairly high (2.2% vs. 1.3% market average); (ii) the bank's interest margins expand at a modest rate due to the premium vs. peers that it has pay for customer deposits, (iii) the 2009 base for trading income is high. All in all, however, we agree that Getin Holding can exceed analysts' expectations this year. An improvement in profits achieved through reduced provisions would be in line with our predictions. Even based on our conservative estimates (FY10 net income at PLN 424m), the Holding's FY10E P/E ratio of 15.2 shows an over-8% discount to the sector median. We recommend buying the stock

### Getin Noble Bank targeting top 5 within 3–4 years.

Getin Noble Bank wants its return on equity to exceed 20% at the end of 2010 and continue growing, while the cost/income ratio is to remain below 35% in the next three years (at present it stands at 32%), said the CEO, Mr. Krzysztof Rosiński. The Bank is also hoping to keep its loans/deposits ratio under 100%. In the current year, GNB will come out with an attractive offering of current accounts, so as to draw retail clients. At present, 250,000 retail clients have deposits with it, but not their current account. Changing this will open the door to long-term relationships with them. The merged bank has retained both brands; as the business lines are unrelated, no branch synergies are planned. The focus of this year will be to strengthen distribution channels and build new ones. By 2012, the network is to expand from the current 535 to 661 (ca. 130 new branches, including ca. 80 for Getin Bank). In addition, online and phone banking will expand, with employee headcount in these areas set to increase by 200–300. In addition, the Bank wants to build a corporate banking division in three years, and to strengthen its position in car leasing through organic growth. An in-house collections unit is being built; it should employ 500 people by the end of 2010. The Bank is not expecting the quality of its loans to deteriorate; in fact, collection rate has improved in November and December. The merged bank wants to keep its Tier 1 capital adequacy ratio at 9.5-11.0%. Expansion plans will increase employee headcount by ca. 1,600 people (to 5,000). Very ambitious targets, which we are not discounting in our forecasts for Getin Holding. The targets discussed here are for the bank only, the group also includes TU Europa and foreign operations (though GNB is admittedly the key source of profits). The consolidated ROE will be slightly lower (inter alia due to the consolidation of Eastern European subsidiaries), but our forecasts for 2010 (10%) is much lower anyway. Perhaps the bank will be helped by lower provisions this year; we do not believe it can increase its revenue sufficiently in such a short time.

### Eastern European operations

The group has considerably restructured its Eastern European operations. It is hoping to post a decent profit in FY2010, despite being in the red by PLN 10m in Q1-Q3 2009, which was surely not made up for in Q4'09. That said, earnings did start to improve in Q3'09 and this trend is expected to persist. The Ukrainian Plus Bank weighed the earning down the most. Its branch network has been trimmed and its focus will now be on car loans. Meanwhile, the Ukrainian financial intermediary Accord Plus and financial intermediary Carcade are being gradually wound up. Leasing operations in Russia, also under the Carcade brand, will continue. While

Russia's automotive market plunged by 60% in FY2009 (with sales at Carcade down 45% to USD 112m), the Company did make a profit. Its current network of 47 branches is set for expansion. With a 27% market share, it is the second-biggest player in the market. In Romania, there is the financial intermediary Perfect Finance (two branches). It is currently undergoing a restructuring process and a decent result is within its reach. Getin Holding expects its foreign operations to bring in profits well in excess of PLN 10m. Another piece of good news from Getin Holding.

### **Fitch awards Getin Noble Banking issuer default rating of "BB"**

Fitch awarded Getin Noble Banking issuer default rating of "BB", short-term rating of "B" and individual rating of "D". Support rating was set at "5", and the long-term domestic rating at "BBB (pol)". The three former ratings were placed on a watchlist, without specifying the direction of the potential change. This reflects the fact that GB and NB only have preliminary financial data for 2009. Fitch will remove these ratings from the watchlist in Q1'10 after scrutinizing the banks' full financial reports and meeting the Management to discuss future directions for GNB. Fitch has recently withdrawn ratings for Getin Bank due to the merger. No impact on stock performance.

### **Fitch places TU Europa's ratings on a watchlist**

Fitch placed the insurer's financial strength ratings of TU Europa and TU na Życie Europa ("BB" for both) on a watchlist. Their national IFS ratings were also placed on the watchlist ("BBB(pol)"). The Agency said that this move is a consequence of the earlier move towards Getin Noble Bank. On 7 January, it was awarded a long-term issuer default rating of "BB", which was immediately placed on a watchlist, without specifying the direction of the potential change. The move towards the insurer is thus directly related to the fact that the new rating for GNB was also watchlisted.

### **TU Europa share offering**

TU Europa is going issue up to 1.575m shares of 'H' stock. The current shareholders will have no preemptive rights. The offering is to be approved by the EGM on 10 February, and the prospectus may be submitted to the Financial Supervision Authority (KNF) as soon as in February, seeing that the company is aiming to conclude the process as soon as possible and before PZU's debut. Proceeds will be used for further growth. Shares will be offered to Polish institutional and individual investors, although the Management is also planning to approach a select few foreign institutions. At present, Getin Holding and its subsidiary Getin Noble Bank control 99.79% of the stock. Neither of them is planning to sell its shares in the offering. In other news, the insurer, which has been paying 60–70% of its profits as dividends, will not pay any dividends from its FY2009 profits. After the first three quarters of 2009, TUE's net profit figured to PLN 90m, with ROE at 38.5%. The company promises to keep its ROE above 25% through 2012. The offering will amount to nearly 20% of the current number of shares (16.7% post-dilution). The WSE will see a new category: insurers. Given the current market price of PLN 125 per share (the stock is trading on the WSE despite the marginal free float), the offering may amount to as much as PLN 200m. Using the price Getin Bank and Noble Bank paid for shares in TUE a few months ago (PLN 85.4 per share), the figure is PLN 130–140m.

### **Getin Noble Bank proposes buyback in lieu of dividends**

In case it has extra capital, Getin Noble Bank would prefer share buyback for redemption to dividends. It is still interested in acquisitions, as long as they do not weigh current earnings down, but we are not taking this into account in our forecasts for now.



## Handlowy (Buy)

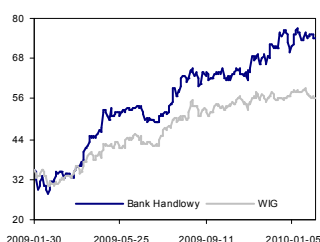
Current price: PLN 74,2 Target price: PLN 90,3

Analyst: Marta Jeżewska

Last Recommendation: 2010-01-19

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	1 204,4	1 365,8	13,4%	1 525,4	11,7%	1 579,5	3,5%	Number of shares (m)	130,7
Interest margin	3,2%	3,4%		3,7%		3,9%		MC (current price)	9 688,4
Revenue f/banking oper.	2 447,1	2 312,8	-5,5%	2 435,1	5,3%	2 511,8	3,2%	Free float	25,0%
Operating income*	990,3	909,6	-8,1%	1 215,4	33,6%	1 152,0	-5,2%		
Pre-tax income	1 034,2	759,2	-26,6%	735,4	-3,1%	828,5	12,7%		
Net income	824,2	600,4	-27,2%	573,6	-4,5%	653,9	14,0%		
ROE	15,0%	10,7%		9,7%		10,4%		Price change: 1 month	3,7%
P/E	11,8	16,1		16,9		14,8		Price change: 6 month	27,8%
P/BV	1,7	1,7		1,6		1,5		Price change: 12 month	154,4%
D/PS	4,1	4,8		0,0		3,5		Max (52 week)	76,8
Dyield (%)	5,5	6,4		0,0		4,7		Min (52 week)	28,0

\* before provisions



Bank Handlowy can offer the highest returns in the next few months in our view. In addition to being a defensive stock (gross dividend yield at 4.7%), it could also improve its earnings quickly (cf. the new strategy it has recently made public). Handlowy can finance growth from its own equity base (Tier 1 capital adequacy ratio was over 15% after Q3'09) which, combined with a high dividend payout ratio (we assume 80% in the long term), will translate into a rising ROE. We think that the Bank will distribute 80% of its 2009 profits to shareholders this year, even though flat volumes and a high CAR offer potential for an even bigger payout. On a less optimistic note, we consider the Bank's ambition of achieving a ROE of over 20% as early as in 2012 a bit too far-fetched. Our forecasts for FY2012 are a ROE of 14% (17% excluding goodwill), a ROA of 2.2%, and a ratio of costs to income of 54%. We recommend buying the stock

### Bank Handlowy aiming for ROE in excess of 20% in 2012

Bank Handlowy's ROE and Cost/Income targets for 2012 are above 20% and below 50%, respectively. Its ROA should exceed 2.5%. Very ambitious targets. The market does not discount the Bank's success in pursuing them. Our own forecasts assume a ROE of 14% (17% when book value is adjusted for goodwill), CIR of 54% and ROA of 2.2%. The Bank's ROA has not exceeded 2.5% since 2003. In order to attain a 20% return on equity adjusted for goodwill, net income would have to approach PLN 1.2bn, assuming that 80% of earnings will be paid out as dividends in 2010–2012. The return on assets would then figure to 2.6% (based on our asset forecast). As for the cost/income ratio, if we assume that it is reduced solely through higher revenue, the Bank would have to exceed our forecasts by 10% (this yields a cost/income ratio of 49.6%). We currently assume that net interest margin on total assets will improve to 3.9% (3.7% in 2009, 3.4% in 2008). We believe that there is little further upside potential, as this is already one of the highest NIMs in the sector (justified by the structure of the Bank's loans and its liquid balance sheet). With higher volumes, the Bank would not be able to attain such a high ROA. Interest income accounts for 60% of our FY2012 income projection; thus, in order to attain such a considerable increase in income, the Bank would have to considerably improve its fee and trading income.

### New business goals

Bank Handlowy will focus on cross selling. It also wants to double the number of online banking clients from the current 557,000 to 1.03m. The Bank wants to take advantage of its capital strength and good liquidity, as well as the global reach of the group it belongs to. It is changing its approach, hoping to strike lasting and multiproduct relationships with clients. Having segmented its clients, it hopes to increase the number of products per client through tailored offers, network expansion (service points, branches and other) and a new incentive program for the sales force. At present, over 50% of the Bank's clients have just one product with it (66% in the retail segment). The product/client ratio is 2.4 in the corporate segment and slightly more than 1 in the retail segment. Under its new strategy, Handlowy wants to integrate traditional banking with phone and business banking. Mobile banking services will also be launched this year. Bank Handlowy currently has over 1m retail clients and over 20,000 corporate clients. The goal of the strategy is taking advantage of the existing client base. We believe that the current figures leave room for the cross-selling ratio to be increased, which could boost fee income.

### Buying back Lehman Brother bonds from clients

Handlowy wants to buy back bonds issued by Lehman Brothers Treasury Co. B.V. from clients who bought them through the Bank. It is offering 60% of the initial value of the investment in the given currency. 229 people invested in Lehman Brothers' products through Bank Handlowy.



The aggregate value of their investment since 2004 is below USD 15m. A dozen or so clients are demanding damages. This was before the fall of 2008, so the Bank's participation in the sale of these bonds cannot be considered news. Negative impact on the Bank's image, but without real impact on earnings and our outlook for it (though additional write-offs are a possibility).



## ING BSK (Accumulate)

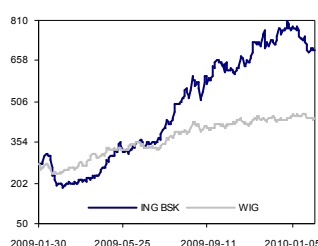
Analyst: Marta Jeżewska

Current price: PLN 695    Target price: PLN 811,6

Last Recommendation: 2010-01-19

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	1 047,9	1 152,0	9,9%	1 466,9	27,3%	1 644,6	12,1%	Number of shares (m)	13,0
Interest margin	2,1%	1,9%		2,2%		2,4%		MC (current price)	9 042,0
Revenue f/banking oper.	2 008,5	2 060,5	2,6%	2 601,5	26,3%	2 825,5	8,6%	Free float	18,9%
Operating income*	640,2	580,4	-9,3%	1 076,1	85,4%	1 205,3	12,0%		
Pre-tax income	787,0	563,1	-28,5%	778,5	38,3%	888,5	14,1%		
Net income	630,7	445,4	-29,4%	622,8	39,8%	710,8	14,1%		
ROE	16,6%	11,1%		13,7%		13,7%		Price change: 1 month	-10,2%
P/E	14,3	20,3		14,5		12,7		Price change: 6 month	36,9%
P/BV	2,4	2,1		1,9		1,6		Price change: 12 month	150,9%
D/PS	27,9	11,7		0,0		0,0		Max (52 week)	810,0
Dyield (%)	4,0	1,7		0,0		0,0		Min (52 week)	182,1

\* before provisions



In spite of unfavorable market conditions, ING BSK had a very successful year in 2009. We expect the Bank to report a record operating income before provisions (in excess of PLN 1 billion), and a ROE close to 14%, on a par with the returns generated by such players as PKO BP, Pekao, and BZ WBK. We expect this year's ROE to be equally high. The reason behind ING BSK's financial success of 2009 was a liquid balance sheet which facilitated an expansion of interest margins. While 2010 interest margins are not likely to top the 2.4% recorded in Q3'09, they will be better than the overall result achieved in 2009. Combined with increasing volumes, this should contribute to continued income growth. ING BSK continues to be valued at a discount to the sector (FY10E = 12,7), which we think is undeserved given the strong returns it generates on equity, and the safety measures incorporated in the balance sheet which protect the bank from the effects of a potential market downturn. We recommend accumulating the stock.

### Supervisory Board member steps down

Mr. Jerzy Hausner resigned from his position at the Supervisory Board of ING BSK.



## Kredyt Bank (Accumulate)

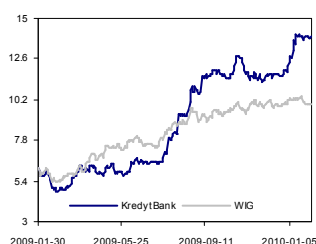
Current price: PLN 14      Target price: PLN 15,3

Analyst: Marta Jeżewska

Last Recommendation: 2010-01-19

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	871,5	1 059,9	21,6%	1 051,8	-0,8%	1 136,6	8,1%	Number of shares (m)	271,7
Interest margin	3,5%	3,2%		2,7%		2,8%		MC (current price)	3 789,6
Revenue f/banking oper.	1 360,2	1 585,9	16,6%	1 542,0	-2,8%	1 648,6	6,9%	Free float	7,7%
Operating income*	468,1	531,3	13,5%	893,3	68,1%	712,2	-20,3%		
Pre-tax income	499,7	421,1	-15,7%	52,4	-87,5%	207,4	295,4%		
Net income	388,3	324,9	-16,3%	42,0	-87,1%	165,9	295,4%		
ROE	17,9%	13,2%		1,6%		6,0%		Price change: 1 month	14,3%
P/E	9,8	11,7		90,3		22,8		Price change: 6 month	49,2%
P/BV	1,7	1,4		1,4		1,3		Price change: 12 month	141,8%
D/PS	0,4	0,5		0,0		0,0		Max (52 week)	14,1
Dyield (%)	2,7	3,7		0,0		0,0		Min (52 week)	4,8

\* before provisions



In 2009, the Bank paid a hefty price for cash loans sold through Żagiel: provisions will reduce its net income to a mere PLN 42m. We are very pleased, however, by the improvement in its recurrent income before provisions (excluding Żagiel), which we project to exceed PLN 0.6bn (+15% y/y). Kredyt Bank achieved this through a sharp reduction in its cost base (-9% y/y); its revenues remained flat. The Bank thus finally got rid of its cost overhang. In 2010, the positive effects of downsizing will still be felt. We expect recurrent operating income before provisions to improve further, where increase in revenues in 2010 is a sector-wide expectation. The ratio of the Bank's price to operating income before provisions is among the most attractive in Poland (5.3 vs. 8 median for the other banks). The Bank's '10 P/BV is 1.3, which we consider unjustified given the upside potential of its operating income. We recommend accumulating the stock.



## Millennium (Hold)

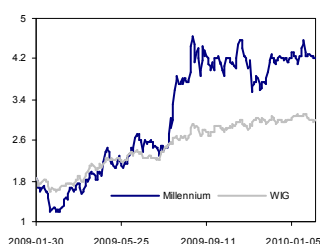
Current price: PLN 4,2    Target price: PLN 4,33

Analyst: Marta Jeżewska

Last Recommendation: 2010-01-19

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	819,9	1 181,3	44,1%	684,7	-42,0%	916,4	33,8%	Number of shares (m)	849,2
Interest margin	3,0%	3,0%		1,5%		1,9%		MC (current price)	3 566,6
Revenue f/banking oper.	1 648,2	1 827,5	10,9%	1 381,1	-24,4%	1 634,2	18,3%	Free float	26,3%
Operating income*	651,1	657,0	0,9%	346,5	-47,3%	561,6	62,1%		
Pre-tax income	584,6	521,8	-10,7%	-73,7		133,1			
Net income	461,6	413,5	-10,4%	-59,7		107,8			
ROE	19,5%	15,5%				3,3%		Price change: 1 month	-2,8%
P/E	7,7	8,6				47,3		Price change: 6 month	13,8%
P/BV	1,4	1,3		1,3		1,3		Price change: 12 month	153,0%
D/PS	0,2	0,2		0,0		0,0		Max (52 week)	4,7
Dyield (%)	4,0	4,5		0,0		0,0		Min (52 week)	1,2

\* before provisions



PLN 1bn from the new stock offering will considerably boost the Bank's potential as far as increase in market shares is concerned. The strategy for 2010-2012 foresees considerable increase in market shares in the corporate segment (from 3% currently to 5%). The plans also foresee the stabilization of market shares in the retail segment at around the current levels (ca. 6% for the loan portfolio). In the context of our expectations for 2010 (increase in the corporate loan portfolio by 3%, in retail loans by 9% y/y), Millennium's chosen path will not bring immediate results. We believe that in the near future we will continue to see elevated provisions, especially in retail. We believe the Bank will work its way towards the goals assumed by our forecast for FY2010 in the second half of the year, which is also when we will see the first effects of its actions in respect to sales. We also reiterate the view that the 15% ROE target for the end of 2012 is a very ambitious one; we have not factored it into our model. In order to meet this target, the Bank would have to improve return on existing assets (especially mortgages). This, however, hinges on market conditions (deposit pricing). We recommend holding the stock.

### Growth plans

The Bank's prospectus states that no dividends will be paid from FY2009 profits. Most of the funds obtained in the share offering will be used to boost lending (75% in the corporate segment, 25% in retail). This is in line with the strategy published in October 2009, when the Bank's rights offering was announced. The Bank wants to strengthen its corporate banking arm and stabilize its shares in the retail market (as well as gradually reduce its share of the mortgage market, where it is far ahead of the other areas of the retail business). After the first three quarters of 2009, the Bank was in the red, so the fact that it is not planning to pay dividends is not a surprise. We do not expect it to pay dividends from FY2010 profits either.

### Stock offering

On 8 February, shares will be allocated in the now-ongoing rights offering. Trading in new shares will start on 12 February at the latest.



## Pekao (Hold)

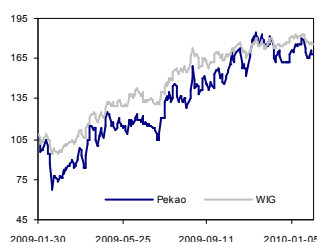
Current price: PLN 168 Target price: PLN 181,5

Analyst: Marta Jeżewska

Last Recommendation: 2010-01-19

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	4 323,0	4 509,5	4,3%	3 846,2	-14,7%	4 445,7	15,6%	Number of shares (m)	262,3
Interest margin	3,6%	3,5%		2,9%		3,2%		MC (current price)	44 071,5
Revenue f/banking oper.	8 314,2	7 578,2	-8,9%	7 118,7	-6,1%	7 688,5	8,0%	Free float	40,8%
Operating income*	4 509,5	4 535,0	0,6%	3 485,1	-23,2%	3 967,0	13,8%		
Pre-tax income	4 342,4	4 346,0	0,1%	2 967,2	-31,7%	3 340,0	12,6%		
Net income	3 547,2	3 528,0	-0,5%	2 394,3	-32,1%	2 696,3	12,6%		
ROE	23,1%	23,0%		14,0%		14,4%		Price change: 1 month	-0,3%
P/E	12,4	12,5		18,4		16,3		Price change: 6 month	23,0%
P/BV	3,0	2,8		2,4		2,3		Price change: 12 month	73,0%
D/PS	9,0	9,6		0,0		7,3		Max (52 week)	184,6
Dyield (%)	5,4	5,7		0,0		4,3		Min (52 week)	67,9

\* before provisions



Changes in management structure (to the so-called divisionalized model that is in place across the UniCredit group) and rebranding which is planned for the current year (and which is likely to be a fairly complex operation given the Bank's scale) mean that the Bank will be increasingly focused on internal processes. We expect the new CEO to come out with a new strategy within three months. We expect profitability, rather than market shares, to remain a priority, all the more so that multiple internal changes make aggressive sales campaigns unlikely. Last year, Pekao failed to take advantage of its position (liquid balance sheet, high capital adequacy ratio) and reduced its market shares in order to protect product profitability. We do not expect significant changes in this respect this year. This does suggest, however, that the Bank has considerable potential for dividends (we assume a long-term payout rate of 80%); its '09 DPS yield on the current market price amounts to 4.3%, making it the sector's runner-up. Outside of dividends, we do not see any other important reasons to invest in Pekao. We recommend holding the stock.

### Alicja Kornasiewicz appointed CEO

The Supervisory Board appointed Ms. Alicja Kornasiewicz the CEO of Pekao as of 15 February, which is when the new Management Board starts its term in office. Mr. Luigi Lovaglio will be the Acting CEO through February 14; afterwards, Ms. Kornasiewicz will take over as Acting CEO, until she is approved as CEO by the Financial Supervision Authority (KNF). Ms. Kornasiewicz resigned from Pekao's Supervisory Board. The chair of the Board, Mr. Jerzy Woźnicki, said that in the near future the Bank will focus on strategy and on working out management structure changes in cooperation with the KNF (the issue here is the so-called "divisionalization" process). No surprise, as this candidacy appeared frequently in newspaper speculation (according to which Ms. Kornasiewicz had Unicredit's support). In the context of the management reshuffle, the key issues for us are: (i) the new strategy, (ii) the impact of the planned divisionalization on Pekao, (iii) the cost and the efficient implementation of rebranding planned for this year and (iv) any other possible changes in the Bank's Management Board (the term in office expires for all members this year). We believe 2010 may prove a difficult year for Pekao. Until now, the Bank has been improving its indicators, despite losing market share. Last year, although its position was much better than competitors', the decline in market share continued. We believe it will be difficult to reverse this trend this year, especially if the Bank needs to focus on internal changes as well.

### KNF on "divisionalization" plans

The Financial Supervision Authority (KNF) has requested that Unicredit, the owner of Pekao, provide explanations concerning the changes in management structure it is planning to implement. The issue in question is the plan to make individual divisions of Pekao respond directly to the Milan headquarters following the so-called "divisionalization". According to Mr. W. Kwaśniak, such a move would marginalize the Polish Management Board; furthermore, if this were to be allowed at one of the biggest banks, the door would be open for other banks to follow suit. This would reduce Polish banks to mere branches. It is quite possible that the Italians will modify their plans. According to one newspaper, the Supervisory Board prepared a response to KNF's inquiries, and Unicredit is prepared to shelve the divisionalization plans. The new management structure is not being introduced for now, but Pekao follows the group's policies anyway. If the changes were implemented, the decision-making process would be impacted, and the perspective on individual segments would become less local.



## PKO BP (Hold)

Current price: PLN 39

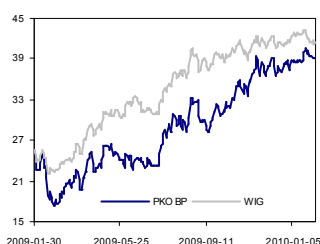
Target price: PLN 39,6

Analyst: Marta Jeżewska

Last Recommendation: 2010-01-19

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	4 646,6	6 127,3	31,9%	5 041,6	-17,7%	6 021,6	19,4%	Number of shares (m)	1 250,0
Interest margin	4,4%	5,0%		3,5%		3,8%		MC (current price)	48 750,0
Revenue f/banking oper.	7 444,7	9 096,7	22,2%	8 567,7	-5,8%	9 383,3	9,5%	Free float	48,8%
Operating income*	3 661,5	5 092,1	39,1%	4 574,2	-10,2%	5 265,5	15,1%		
Pre-tax income	3 609,2	3 977,3	10,2%	2 961,0	-25,6%	3 751,0	26,7%		
Net income	2 903,6	3 120,7	7,5%	2 313,7	-25,9%	2 960,5	28,0%		
ROE	26,4%	24,1%		13,6%		14,4%		Price change: 1 month	0,8%
P/E	13,4	12,5		21,1		16,5		Price change: 6 month	28,1%
P/BV	3,3	2,8		2,4		2,3		Price change: 12 month	73,3%
D/PS	1,0	1,1		1,0		1,4		Max (52 week)	40,5
Dyield (%)	2,5	2,8		2,6		3,6		Min (52 week)	17,4

\* before provisions



We believe the Bank's assets increased by 12% in 2009 (9% YTD after Q3'09). Compared to the sector, whose assets increased by less than 1% in Q1-Q3, this is a big achievement. The Bank remained an active lender, especially in the corporate segment (+12% YTD vs. flat for the market as a whole), but also in the retail segment (+10% YTD, the same rate as for the sector as a whole). Acquisition of new loans at the time of inflated margins will allow the Bank to remain the leader as far as interest margin is concerned. We believe the Bank will remain an active lender (we project increase by 12% in 2010 vs. +7% for the market), which will allow it to considerably improve its interest income (+19%), which accounts for ca. 60% of its banking income. Among the big banks, it will see the biggest increase in net profit (+28% vs. +9% for BZ WBK and +15% for Pekao). We believe the current market valuation already discounts this (FY10 P/E = 16.5). PKO BP will also fail to stand out as far as its return on equity is concerned (we project 14-15% for the three biggest banks). We recommend holding the stock.

### PKO BP wraps up 2010-2012 strategy

PKO BP is finalizing its 2010–2012 strategic plan, which is going to be approved by the Management and presented to the Supervisory Board in Q1'10. It is aimed at ensuring organic growth in spite of many acquisition proposals received from Polish and CEE banks. The objective is to achieve double-digit growth and expand the asset base from PLN 150bn (PLN 146.5bn after Q'309) to over PLN 200bn and maintain the ratio of costs to income within the range of 40–45%. This is supposed to lead to double-digit earnings growth over the next three years. Retail deposits will remain the main source of financing for the lending business, with additional support coming from a EUR 0.75–1bn eurobond offering scheduled for May. According to CEO Jagiełło, PKO BP's Q4'09 results should confirm that the bank can maintain the loans/deposits ratio at +/- 95% (96% after Q3'09). Monthly sales of PLN 1bn in corporate loans give PKO BP a 14% market share, and PLN 1bn mortgage sales represent a market share of 40%, according to the CEO. According to our calculations, at the end of 2009 PKO BP will report assets in excess of PLN 151bn, and a loans/deposits ratio of 98%. A spike in corporate deposits in December could lead to a faster increase in deposits, but this should have little impact on the Bank's earnings. Our asset forecast for the end of 2012 is PLN 194bn (FY09/12 CAGR at 9%), and it is slightly more conservative than the Bank's, which assumes average 10% annual growth in the next three years, suggesting a PLN 200bn asset target. Assuming that PKO BP will be achieving ROA levels of 2.5–2.6% during the period, this implies PLN 180-190m in additional annual profit (about 4% more than our 2012 forecast). Further, we expect PKO BP to achieve a costs/income ratio of 40.5% in 2012 (45% in 2010), and a FY10/12 net-income CAGR of 27.5% (we predict an acceleration in earnings growth after the end of the current provisioning cycle). Operating income before provisions is expected to increase by an average 14% a year during the next three years. We believe the Management's expectations as regards net income might actually be similar to ours, despite the expectation of faster asset growth (i.e. it is projecting lower profitability). In this scenario, the FY12E P/E figures to 10, and it does not show any major discounts to other banks (the median is 9.3). PKO BP is the fourth Polish bank to announce ambitious growth plans for the next three years.

### PKO BP extends PLN 3.8bn in corporate loans in Q4'09

In Q4'09, PKO BP extended PLN 7.6bn worth of corporate loans (PLN 3.8bn excluding the loan to the Social Insurance Institution ZUS). Since June, the bank has been granting corporate loans in excess of PLN 1bn per month. The figure for October and November is PLN 2.7bn each, and for December, PLN 2bn (PLN 1.2bn, PLN 1.4bn and PLN 1.2bn, respectively, if the loan to ZUS is excluded). Corporate deposits have been rising fast as well. We expect PKO

BP's portfolios to keep expanding quite rapidly. The Bank has been quite successful as far as gaining market shares in the corporate segment is concerned. Still, we believe the current market valuation already discounts this.

### **Jakub Papierski appointed VP**

The Supervisory Board appointed Mr. Jakub Papierski Vice President in charge of investment banking. He will assume his responsibilities on 1 April 2010. Between November 2001 and September 2003, Mr. Papierski worked at Pekao. In October 2003 he was appointed CEO of CDM Pekao, and in September 2006 also the Deputy Chair of the Supervisory Board of Pioneer Pekao TFI. He has been the CEO of Allianz Bank Polska since October 2009 (Acting CEO since May 2009). According to *Puls Biznesu*, Mr. Papierski is one of several executives affiliated with the new CEO to appear at PKO BP. Other newspapers report that the new strategy should be approved within weeks. Its cornerstone is the plan to improve PKO BP's product/client ratio (1.3 vs. 2.5 market average). Expected changes. The new CEO is building the team that will help him implement the new strategy.

### **Changes in the agency network business model**

The Bank is planning to introduce certain changes in its network of franchise-based agencies which may cause some of the agents to sever their relationship with it. There are over 2,000 such agencies now, and according to the Management, some of them are substandard, weighing down on the Bank's image. The Management would like its agencies to be bigger, better-equipped and in better locations, so that clients can detect a marked improvement in service level. This new model started to be implemented in November 2009. The Bank expects its agents to declare by mid-January whether or not they want to continue cooperating on new terms, which will be introduced through agreements coming into force in May 2010 (though time will be given until the end of 2011 for relocation and equipment upgrades). Along with improved service quality, the goal is to increase lending. Until now, most of the business at the agencies were transactions (nearly 90% of all activity). Only 200–300 agents out of 2,000 generate satisfactory product sales, comparable to small branches. In consequence of the Bank's actions, more and more agents start negotiating with other banks, claims one of them. There will be fewer agencies, but the Bank's income need not suffer. For PKO BP, which has the biggest network of proprietary branches in Poland, profitability and efficiency are of key importance.

### **PKO BP will issue over 6 million Visa payWave proximity cards**

PKO BP will be the first Polish bank to introduce the Visa payWave proximity payment functionality on a mass scale, as it starts to issue microchip cards (the Bank has decided to replace its retail customers' Visa debit cards, all of which are magnetic-stripe cards at the moment). Until now, PKO BP has issued 6.5m debit cards, which makes its Poland's top Visa-card issuer and one of the top 10 among 4,600 banks that issue Visa debit cards in Europe. PKO BP has a 28% market share in debit cards, and a ca. 40% share in Visa debit cards. In 2010, the Bank will issue 2–2.25m debit cards with the proximity functionality. The entire operation should be concluded by the end of 2011. The Bank will incur higher expenses on this occasion, though some of these expenses would have to be incurred anyway in the process of regular card replacement. Proximity payments are not very popular at the moment.

### **PKO BP has over 662,000 zloty savings accounts**

At the end of 2009, PKO BP had over 662,000 zloty savings accounts, with aggregate balance of over PLN 10bn. After Q3'09, the Bank announced there were 642,000 such accounts, with aggregate balance of PLN 10.3bn. Thus, the number of accounts has increased, but the volume of savings has not. The savings account was introduced when PKO BP changed its policy in the area of deposits (fall 2008). At present, the account pays an APR of 3.75% for sums under PLN 20,000, 4% for PLN 20,000-50,000 and 4.5% for PLN 50,000-200,000.

## Fuels, Energy, Chemicals

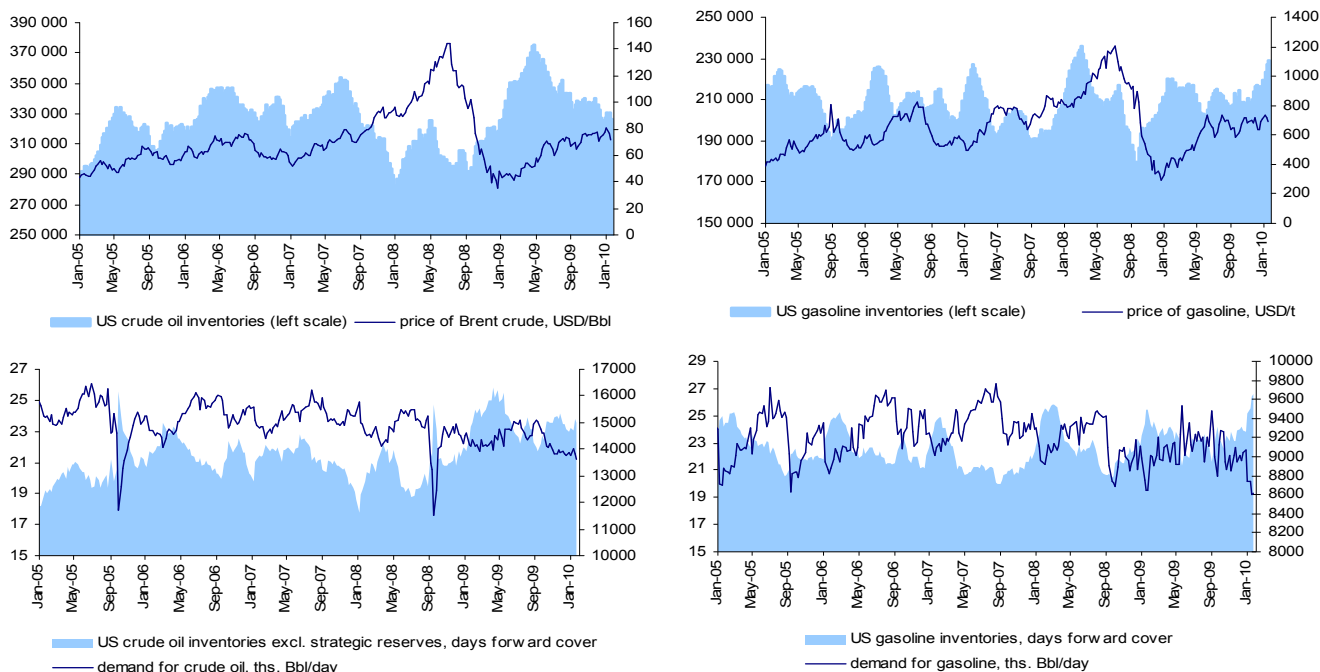
### Council of Ministers to review new strategic reserve laws in March

The bill is aimed at transferring maintenance of strategic gas and oil reserves from oil companies to the government. The public consultations stage will begin in February. At present, PKN Orlen maintains about PLN 6bn of strategic reserves, and Lotos keeps an estimated PLN 2bn.

### Demand for gasoline under weather pressure

In January, US crude oil inventories were subject to weekly fluctuations, but their end-of-the-month level was very similar to that recorded at the end of December. In general, the DoE data were strongly impacted by weather conditions, i.e. low temperatures and high precipitation. This was reflected by a considerable drop in gasoline consumption (by ca. 4% on average) and an increase in its inventories on the one hand (+6% m/m), and logistic problems at harbors resulting in decreased imports on the other. The middle distillate market was the least affected, with the demand remaining stable and inventories increasing slightly. We believe these data should not be seen as a harbinger of negative developments in the months to come. Outside of weather, there are no fundamental factors suggestive of a structural drop in gasoline demand in the US.

### US petroleum and gasoline inventories



Source: BRE Bank Securities based on Department of Energy data



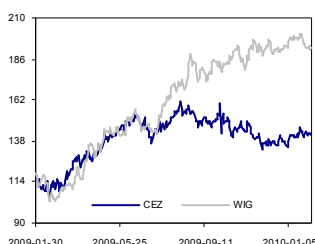
## CEZ (Hold)

Current price: PLN 140.8 Target price: PLN 140.6

Analyst: Kamil Kliszcz

Last Recommendation: 2009-11-04

(CZK m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)
Revenues	174 563.0	181 638.0	4.1%	188 635.5	3.9%	181 819.4	-3.6%	Number of shares (m) 538.0
EBITDA	72 469.0	87 253.0	20.4%	90 450.5	3.7%	86 657.0	-4.2%	MC (current price) 75 749.0
EBITDA margin	41.5%	48.0%		47.9%		47.7%		EV (current price) 95 983.5
EBIT	50 303.0	65 163.0	29.5%	67 420.5	3.5%	61 535.3	-8.7%	Free float 29.3%
Net profit	41 555.0	46 510.0	11.9%	54 150.5	16.4%	47 079.2	-13.1%	
P/E	12.0	11.7		9.1		10.5		Price change: 1 month 2.3%
P/CE	7.8	7.9		6.4		6.9		Price change: 6 month -9.4%
P/BV	2.9	3.1		2.5		2.3		Price change: 12 month 60.9%
EV/EBITDA	7.9	7.4		6.9		7.4		Max (52 week) 161.1
Dyield (%)	2.2	4.4		5.4		5.9		Min (52 week) 105.0



After a few months when it underperformed the index, the CEZ stock did slightly better than WIG20 in January, though we believe few factors are working to its advantage at the moment. EEX energy futures are depreciating again (by over 7% in January), and we are yet to see an improvement in the spot market, which impacts the current earnings. The financial report for Q4'09 will, to be sure, show a considerable y/y improvement, but this will be a consequence of the artificially low base for 2008 rather than any positive current trends. As a reminder, we need to see earnings for Q1'10 to get a full picture of CEZ's profitability this year, given that new contracts foresee energy prices ca. EUR 5/MWh lower. We are therefore reiterating a neutral rating on the Company.

### Nuclear power output slightly below expectations

According to information released by the Company, CEZ's nuclear power plants produced 27.2 TWh of energy in 2009, compared to the Management's target of 27.4 TWh. The slightly lower output is a consequence of the longer-than-planned fuel replacement downtime at Temelin. This should come as no surprise and it will not have a big impact on Q4'09 earnings (7 TWh vs. 6.5 TWh in Q3'09 and 6 TWh in Q4'08).



## Ciech (Hold)

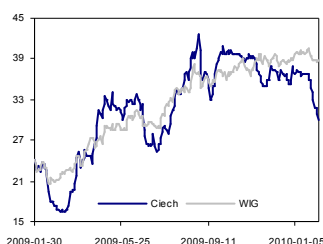
Current price: PLN 30

Target price: PLN 39.9

Analyst: Kamil Kliszcz

Last Recommendation: 2009-12-03

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	3 415.0	3 781.3	10.7%	3 560.1	-5.8%	3 810.0	7.0%	Number of shares (m)	28.0
EBITDA	222.3	459.7	106.8%	372.8	-18.9%	450.3	20.8%	MC (current price)	839.7
EBITDA margin	6.5%	12.2%		10.5%		11.8%		EV (current price)	2 507.8
EBIT	43.0	256.4	496.6%	147.3	-42.6%	210.0	42.5%	Free float	35.6%
Net profit	-31.7	44.5		-45.9		70.3			
P/E		18.9				12.0		Price change: 1 month	-18.5%
P/CE	5.7	3.4		4.7		2.7		Price change: 6 month	-12.6%
P/BV	0.8	1.0		1.0		1.0		Price change: 12 month	29.9%
EV/EBITDA	9.1	5.4		6.7		5.7		Max (52 week)	42.7
Dyield (%)	7.0	6.9		0.0		0.0		Min (52 week)	16.4



In January, the price of Ciech stock fell by the staggering 15%, mostly because of the further delay in the signing of its agreement with banks and the speculation in the press that the privatization process might fail. The current price appears attractive, but we believe investors might want to withhold buying the stock until the publication of the earnings for Q4'09, which are unlikely to show a clear improvement. We are not expecting a clearly positive EBIT nor a positive surprise in the Organic segment until Q1'10. We are reiterating a neutral rating.

### Agreement with banks postponed again?

In January, Ciech announced that its standstill agreement with the banks was extended once again; the parties now have until the end of February to conclude the negotiating process. According to unofficial information in the press, there has been a clear progress, however, and another extension of the standstill agreement is unlikely.

### Treasury on privatization progress

Deputy Treasury Minister Adam Leszkiewicz told reporters that the Ministry was going to decide whether and who to invite to the next round of the privatization process of the so-called "first chemical group" (comprising Ciech, ZA Tarnów, and ZA Kędzierzyn) at the beginning of February. Should the bids not stand to scrutiny, the process might be cancelled.

### Bids for Polfa are in

The Management confirmed that the Company has received 5 serious bids for Polfa Ciech. These bids are now being analyzed, and the transaction should be finalized by the end of H1'10. The value of Polfa is estimated at ca. PLN 10m. In 2008, Polfa generated revenue of PLN 55m and a net profit of nearly PLN 1m.



## Lotos (Reduce)

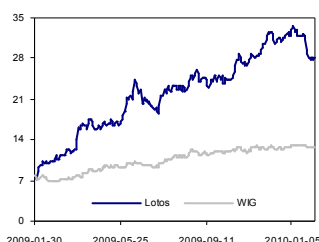
Current price: PLN 28.1

Target price: PLN 26.6

Analyst: Kamil Kliszcz

Last Recommendation: 2009-12-01

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	13 125.1	16 294.7	24.1%	14 559.0	-10.7%	18 048.2	24.0%	Number of shares (m)	129.9
EBITDA	1 019.9	169.2	-83.4%	720.3	325.7%	777.0	7.9%	MC (current price)	3 649.4
EBITDA margin	7.8%	1.0%		4.9%		4.3%		EV (current price)	9 320.1
EBIT	713.7	-145.8		428.0		439.5	2.7%	Free float	36.0%
Net profit	777.2	-453.9		762.6		392.1	-48.6%		
P/E	4.1			4.8		9.3		Price change: 1 month	-14.7%
P/CE	2.9			3.5		5.0		Price change: 6 month	21.1%
P/BV	0.5	0.6		0.6		0.5		Price change: 12 month	226.7%
EV/EBITDA	3.9	40.2		12.9		13.9		Max (52 week)	33.5
Dyield (%)	1.3	0.0		0.0		0.0		Min (52 week)	8.6



Since we issued our negative recommendation, the price of the Lotos stock fell by 12%, due to the decline in the price of crude oil as well as, probably, the sale of a considerable stake in the Company by the Treasury. We reiterate the view that the earnings we will be seeing in the coming quarters will not impress and could even disappoint given the high expectations following Q3. An additional problem as far as net profitability is concerned might come from depreciation charges on those elements of the '10+' program that have been completed already. We are therefore reiterating our negative approach and we recommend reducing the stock.

### Full privatization of Lotos possible?

After selling 14m shares in Lotos to financial investors at PLN 29 per share in January, the Ministry of the Treasury is currently analyzing its options; one of them is reducing the state's interest in the Company below 51% by selling shares in it to an industry investor. Rumor has it that one of the potential buyers is the International Petroleum Investment Company, a subsidiary of the Abu Dhabi government responsible for investments in oil and chemicals (IPIC owns interests in OMV, Borealis, Nova Chemicals, and Cepsa). We would not put much stock into rumors like this until more is known about the scale of interest in the acquisition among potential buyers, and until the Treasury can convince the public that a full privatization of Lotos is a good idea.

### Salary negotiations

Lotos has reached an agreement with the unions, under which salaries will increase by 2% in 2010. Taking into account the 5% hike in October 2009 and assuming similar developments across the group, this entails a PLN 25-30m y/y increase in personnel expenses in 2010.



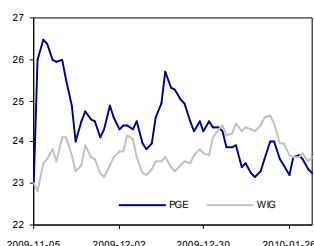
## PGE (Buy)

Current price: PLN 23.3 Target price: PLN 27.49

Analyst: Kamil Kliszczyk

Last Recommendation: 2009-11-04

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	23 090.7	20 597.8	-10.8%	22 382.3	8.7%	22 036.6	-1.5%	Number of shares (m)	1 730.1
EBITDA	5 975.1	5 846.9	-2.1%	7 958.9	36.1%	7 788.4	-2.1%	MC (current price)	40 224.6
EBITDA margin	25.9%	28.4%		35.6%		35.3%		EV (current price)	48 180.2
EBIT	2 134.3	3 262.3	52.8%	5 309.7	62.8%	5 010.8	-5.6%	Free float	15.0%
Net profit	3 967.9	1 920.2	-51.6%	3 382.8	76.2%	3 256.3	-3.7%		
P/E	8.6	17.8		11.9		12.4		Price change: 1 month	-4.5%
P/CE	4.4	7.6		6.7		6.7		Price change: 6 month	
P/BV	1.6	1.5		1.3		1.2		Price change: 12 month	
EV/EBITDA	7.8	8.0		6.1		6.4		Max (52 week)	26.5
Dyield (%)	0.7	1.2		2.3		4.1		Min (52 week)	23.0



The PGE stock remains under pressure as we await the Treasury's divestment. The assurances that the 10-20% stake would not be up for sale until H2'10 did little to allay concerns. Further, it seems all but certain that in preparation for the consolidation of the its assets, the Group will be issuing shares for its employees, and all these shares will immediately hit the trading floor (by the end of August). This can clearly harm the stock's performance. Opposing forces of sorts will be its inclusion in WIG20 after the 18 March trading session as well as the earnings for Q4'09, which are expected to be strong (especially in terms of cashflows) and which will be released on 22 March. We are reiterating a buy rating.

### PGE to merge with subholding companies

As part of an organizational integration plan, PGE is going to merge with its subholding companies PGE Energia (grouping power distribution and trading companies) and PGE Górnictwo i Energetyka (mines and power plants) by offering 136 698 146 new shares to their minority shareholders. The merger is expected to be completed by the end of August. PGE's Management believe that the integration can generate PLN 15m in savings during the first year (the money will cover the costs of the operation), and as much as PLN 1 billion within three years. The merger is a part of a larger integration exercise. As a reminder, the first stage of the process foresees a conversion of stock held by the employees of PGE subsidiaries (i.e. mines, power plants, and distribution companies) into shares of the two subholdings representing interests of the State Treasury. During the PGE / subholdings merger, these employees will receive 136.7 million new shares. After all this, PGE will control 90% and 87.25% of its core production and distribution assets (an increase from 75% and 72%, respectively, with 10-12% controlled by the State Treasury (PGE will probably want to buy these interests back during the next stage of the integration). Today, the book value of minority interests (represented mainly by PGE Energia and PGE GiE) as reported by PGE is PLN 7.9bn, of which roughly PLN 4.3bn is employee stock, and PLN 3.6bn are Treasury holdings. It would then follow that a repurchase of the employee stock in exchange for 136.7 million new shares (representing 7.5% of increased share capital) which, at the current price level, are worth an estimated PLN 3.3bn, is a fair offer to PGE shareholders that will meet their expectations. Of course, the terms of the possible future repurchase of the interests held by the State Treasury might not be as attractive.

### PGE restores capacity after power plant blast

According to a press release, a coal dust explosion on 24 January destroyed a portion of a coal conveyor system at PGE's "Dolna Odra" power plant complex near Gryfino. Fortunately, other facilities allow for uninterrupted coal feeding to furnaces. No critical systems were damaged, and two of the four generators temporarily shut down after the blast have already been restored. The causes of the explosion and the resulting losses are being assessed by a special committee. While the scale of the losses PGE will have to recognize is unknown as of now, the "Dolna Odra" compound is a typical baseload plant which uses just 46% of capacity on average per year, and which is insured against damage and lost profits.

### Go-ahead signal for the CCS project

Yesterday, the shareholders of Elektrownia Bełchatów decided that the carbon capture and storage project will be pursued. The company received a EUR 180m subsidy from the EU, which must be used by the end of this year. The decision appears to have been a formality, seeing that the Management of PGE announced the investment some time before. PGE will have to spend ca. PLN 1.3bn in addition to the subsidy. The CCS installation will cut carbon dioxide emissions by ca. 1.8m tons starting in 2015, which has been factored into our model.

**URE approved distribution tariffs**

The energy regulator URE has approved distribution tariffs for six PGE subsidiaries. Fees for distribution will increase by 3.6-7%. The average increase (weighted by volume) will be 5.7%. We would like to point out once again that the fee increases are bigger than we assumed (2.2%) and than what was preliminarily agreed in the negotiations between power companies and the regulator (1.5%). If the two remaining PGE distributors see similar increase in their revenue, it will be possible to increase our forecasts for this segment. We are currently projecting an EBIT of PLN 484m in 2010 (vs. PLN 393m in 2009). Assuming that operating expenses remain flat, the new tariffs could increase the segment's EBIT by more than PLN 100m.

**PSE wants to buy shares in Poland-Sweden interconnector**

PSE wants to buy PGE's stake in the Swedish company SwePol Link, which owns the electricity interconnector between Poland and Sweden (PGE holds a 49% stake in the company and the remaining 51% belongs to the Swedish transfer network operator). The interconnector is the only international link not controlled by PSE. PGE may accede to PSE's request; its decision can be expected by the middle of the year. The book value of the stake in SwePol Link is PLN 62m. Selling it should have no impact on the valuation of PGE. At present, the interconnector is mostly used as a source of energy import to Poland, helping to balance our market.

**CFO on 2009 results**

CFO Wojciech Topolnicki is optimistic about PGE's future, and encourages investors not to miss the company's FY2009 earnings announcement scheduled for March 22nd. We expect PGE to report stronger-than-predicted cash flows and reduced debt.

**Treasury on PGE divestment timeline**

Deputy Treasury Minister Jan Bury said yesterday that the Treasury will probably decide to wait out the upcoming large IPOs before putting up PGE for sale. Minister Bury's statement should support PGE's stock value, which at the moment prices in the possibility of supply of cheap new equity in the near future. Further, PGE shares are slated to be added to the WIG20 index after the end of trading on March 18th.



## PGNiG (Accumulate)

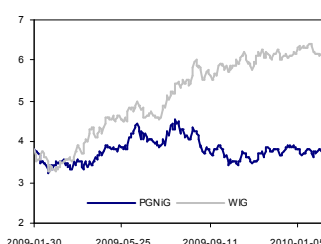
Current price: PLN 3.8

Target price: PLN 4.11

Analyst: Kamil Kliszcz

Last Recommendation: 2009-11-13

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	16 652.1	18 432.0	10.7%	18 774.1	1.9%	18 794.6	0.1%	Number of shares (m)	5 900.0
EBITDA	2 291.3	2 225.6	-2.9%	2 430.3	9.2%	4 109.7	69.1%	MC (current price)	22 302.0
<i>EBITDA margin</i>	13.8%	12.1%		12.9%		21.9%		EV (current price)	23 279.3
EBIT	861.0	800.7	-7.0%	951.5	18.8%	2 391.9	151.4%	Free float	15.3%
Net profit	915.0	865.3	-5.4%	832.9	-3.7%	1 937.8	132.7%		
P/E	24.4	25.8		26.8		11.5		Price change: 1 month	-0.5%
P/CE	9.5	9.7		9.6		6.1		Price change: 6 month	-12.3%
P/BV	1.1	1.1		1.1		1.0		Price change: 12 month	1.1%
EV/EBITDA	9.1	9.8		9.6		5.5		Max (52 w eek)	4.6
Dyield (%)	4.5	5.0		2.4		2.0		Min (52 w eek)	3.2



**We still believe PGNiG's quarterly earnings could bring a positive surprise that might push the consensus forecast up (PLN 1.6bn vs. PLN 2bn in our estimates). We believe that thanks to a seasonal increase in volumes and a positive margin on imported gas the Company will be able to generate record-high profits in Trade&Storage, and that its consolidated EBIT will also be supported by Distribution (cf. new tariffs awarded in June 2009) and by Upstream. We recommend accumulating the stock.**

### Agreement with Gazprom

PGNiG and Gazprom signed an agreement concerning additional gas supplies under the Yamal contract and the future of EuRoPolGaz. The deal is that Gazprom was relieved from its \$80m debt to EuRoPolGaz (stemming from its having paid too little for gas transfer) in exchange for a discount on the gas sold to Poland. The signing of the contract eliminates the risk that supplies to the industry will be curtailed and it should allow the Company to take full advantage of the weather and the positive spread on imported gas.

### New agreement with Gazprom, new tariff application

By the middle of the month, PGNiG will file a new tariff application, seeing that the current tariff expires at the end of March. Although industrial consumers expect otherwise, the gas giant believes the discounts Gazprom granted it will not justify a cut in the price, but only slower growth. Apparently, the discounts apply when PGNiG buys a specified minimum amount of gas. Our forecasts assume no changes to gas tariffs throughout 2010.

### EC wants to free the gas market

The European Commission says that the Polish legal requirement for gas companies to submit their tariffs to the regulator for approval violates European directives. The Commission is investigating this issue and newspapers claim the end result could be unregulated gas prices in Poland. Such a scenario would clearly be good for PGNiG, giving it stable margins in the Trade and Storage segment. It is too early to discount this, however.

### ZCH Police determined to keep to PGNiG debt payment schedule

ZCH Police's CEO Zbigniew Miklewicz reassured investors that the company would pay back the debt owed to PGNiG on time, in spite of a delay in the disbursement of financial aid granted by the Industrial Development Agency (ARP). ZCH Police owes PGNiG over PLN 133m in overdue gas payments. The company undertook to pay back the total amount of the debt by 30 June 2010, with a PLN 10m payment due by 31 March, and gas bills for November through January due by the end of January. Mr. Miklewicz's assurances mean that PGNiG will not have to charge allowances for ZCH Police's debt against 2009 profits.



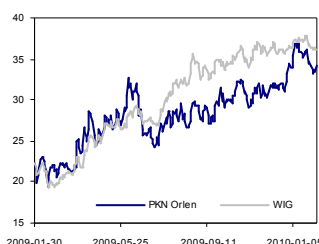
## PKN Orlen (Accumulate)

Current price: PLN 34.2      Target price: PLN 38.2

Analyst: Kamil Kliszcz

Last Recommendation: 2010-02-03

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	63 793.0	79 535.2	24.7%	67 689.0	-14.9%	80 186.0	18.5%	Number of shares (m)	427.7
EBITDA	5 035.3	887.6	-82.4%	3 634.0	309.4%	4 121.0	13.4%	MC (current price)	14 627.6
EBITDA margin	7.9%	1.1%		5.4%		5.1%		EV (current price)	29 878.5
EBIT	2 603.9	-1 603.8		1 051.0		1 456.4	38.6%	Free float	67.3%
Net profit	2 412.4	-2 505.7		1 470.0		1 376.4	-6.4%		
P/E	6.1			10.0		10.6		Price change: 1 month	-3.4%
P/CE	3.0			3.6		3.6		Price change: 6 month	19.0%
P/BV	0.7	0.8		0.8		0.7		Price change: 12 month	64.4%
EV/EBITDA	5.2	33.7		8.2		7.5		Max (52 w eek)	36.8
Dyield (%)	0.0	4.7		0.0		0.0		Min (52 w eek)	19.3



With refining margins on the rise, the global sentiment to the refining sector improved in late December/early January, which was reflected in the price of the Orlen stock. The upside potential vs. our target price is now 12%, prompting us to downgrade our rating from buy to accumulate. We expect the positive trends on refining and petrochemical margins to be continued, which means that the deeper correction we are expecting to see in the stock market in the near future might be an opportunity to invest. An important stock-price-supporting factors over the upcoming months will also be the reduction in the Company's debt and CAPEX as well as the fact that a new PX/PTA facility will be launched towards the end of the year.

### Covenants have been met

VP Sławomir Jędrzejczyk confirmed once again that there were no reasons to worry that Orlen's creditor banks might find it in breach of loan covenants at the end of 2009. In addition to the friendly macroeconomic environment (crude oil prices and F/X rates), Orlen was helped by initiatives taken in the area of working capital management, such as factoring and extension of time in payables. Further, the Company recognized a dividends advance from Polkomtel in the amount of PLN 113m. Mr. Jędrzejczyk made similar pronouncements already at the end of December, so this piece of news should come as no surprise. According to our estimates, with the end-of-December EUR/PLN and USD/PLN exchange rates and the projected gains from the revaluation of petroleum stockpiles, Orlen's net debt/EBITDA ratio was 3.3, i.e. below the 3.5 limit.

### Capacity utilization

Newspapers report the Mazeikiu Nafta refinery used its capacity at only 76% in January (vs. 80% in Q4'09 and 90% in Q3'09). Unipetrol worked at 90% capacity (84% in Q3'09), and the refinery in Płock at 100% (just as throughout 2009). Petrochemical plants have increased capacity utilization to 90%. The low output at Mazeikiu Nafta does not come as a surprise; Orlen did announce this a while ago. The information about improvement at Unipetrol and in the petrochemical segment is good news. We believe the worst is already over for the sector.

### Salary negotiations

Just as in 2009, Orlen suggested that salaries be frozen in 2010, while the unions demanded a 15% hike. Should the unions prevail across the group, costs would increase by PLN 290m. Such an increase appears unlikely, however; furthermore, we should remember that in 2010 we will see the first financial effects of layoffs carried out last year.

### ZAP makes bid on Anwil

ZA Puławy announced that it had submitted an offer to purchase an 84.79% stake in Anwil from PKN Orlen. VP Sławomir Jędrzejczyk said Orlen expected two other bids. The Company is planning to select one investor towards the end of February. We estimate the Anwil holdings at PLN 1.7bn. To pay for the acquisition, ZAP will have to either take out a big loan, or make a stock offering. We are looking forward to learning the details of the offer.

### Mazeikiu Nafta for sale?

According to newspapers, Orlen's negotiations with the Lithuanian government concerning operational control over the sea terminal in Klaipeda failed to bring an agreement, prompting the Polish giant to accelerate restructuring activities at its subsidiary. Orlen's representatives admit unofficially that they are already probing what the political fallout of a divestment could be. We believe selling MN in the current macroeconomic environment, given its current earnings, would have to bring a considerable loss. As a reminder, Orlen bought MN for a total of approximately PLN 8.3bn. So far, write downs have reduced MN's net assets by a total of PLN 2.5bn;



therefore, they can be estimated at ca. PLN 5.8bn. Yet the value of MN's capacity, estimated by the current market value of the refining assets of Orlen and Lotos, is just PLN 4.3bn. This makes Orlen's hints appear more like elements of negotiating strategy than a real harbinger of divestment.



## Police (Reduce)

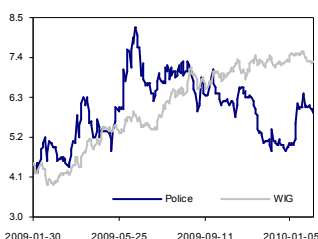
Current price: PLN 5.9

Target price: PLN 5.5

Analyst: Kamil Kliszcz

Last Recommendation: 2010-02-03

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 824.2	2 403.6	31.8%	1 365.2	-43.2%	1 501.7	10.0%	Number of shares (m)	75.0
EBITDA	235.1	230.1	-2.1%	-331.4		76.0		MC (current price)	438.8
EBITDA margin	12.9%	9.6%		-24.3%		5.1%		EV (current price)	583.3
EBIT	187.5	164.0	-12.5%	-412.4		-7.8	-98.1%	Free float	26.2%
Net profit	204.0	28.7	-85.9%	-372.4		-24.8	-93.3%		
P/E	2.2	15.3						Price change: 1 month	17.0%
P/CE	1.7	4.6				7.4		Price change: 6 month	-16.3%
P/BV	0.5	0.5		0.8		0.8		Price change: 12 month	30.9%
EV/EBITDA	1.2	2.0				10.2		Max (52 week)	8.3
Dyield (%)	7.4	0.0		0.0		0.0		Min (52 week)	4.2



As we expected, the positive trends on benchmark fertilizer prices in Europe, especially in the case of DAP (+22% YTD) pushed Police's share price up (+18%). We do not expect these positive trends to continue, however, and with the current spread between materials and products the Company might at most approach the break even point (and the Management in fact has recently said as much). In the near future the European Commission could announce its approval of the lifeline loan from the Industrial Development Agency, but if this triggers an upswing, we would recommend treating this as an opportunity to sell. We are downgrading our rating from hold to reduce.

### EC decision still in the works

In January, ZCH Police submitted to the EC its account of state aid received over the past 10 years. The EC requested such information as it examined the loan to the Company from the Industrial Development Agency. The Management hopes that disbursement in late January or early February is a realistic expectation (half of the PLN 150m loan is to go towards the payment of PGNiG's overdue bills). At present, Police is working on an application for a company restructuring loan, which will allow it to refinance the half-year lifeline loan. The Company might in fact want to borrow more, and share capital increase is a possibility as well. The Management is noting positive trends in the market for fertilizers and it will strive towards an EBIT close to zero or slightly above if disinvestment plans work out. What the Management says is in line with our expectations. We believe that despite the increase in DAP prices, the Company will only be able to reduce its losses and a positive margin is out of its reach. An important factor for investors is the potential share offering, given the dilution it will bring about.

### PCE to increase capacity in spring

ZCH Police plans to open one of two temporarily shut NPK fertilizer plants in the spring to meet increasing demand, thus increasing capacity utilization from 69% to 89%. The recovery in the market of NPK fertilizer observed in recent weeks is going to drive prices and margins.



## ZA Puławy (Hold)

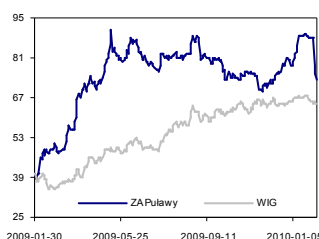
Current price: PLN 73

Target price: PLN 72.05

Analyst: Kamil Kliszcz

Last Recommendation: 2010-01-06

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	2 503.5	2 396.8	-4.3%	2 028.4	-15.4%	2 391.1	17.9%	Number of shares (m)	19.1
EBITDA	432.8	407.2	-5.9%	139.0	-65.9%	200.9	44.5%	MC (current price)	1 395.4
EBITDA margin	17.3%	17.0%		6.9%		8.4%		EV (current price)	1 235.6
EBIT	358.7	338.3	-5.7%	67.9	-79.9%	101.2	49.1%	Free float	29.2%
Net profit	330.8	194.6	-41.2%	67.8	-65.2%	82.5	21.8%		
P/E	4.2	7.2		20.6		16.9		Price change: 1 month	-8.3%
P/CE	3.4	5.3		10.0		7.7		Price change: 6 month	-9.9%
P/BV	0.9	0.9		0.9		0.9		Price change: 12 month	81.1%
EV/EBITDA	2.0	2.0		8.9		7.0		Max (52 week)	90.5
Dyield (%)	2.3	5.9		13.9		1.2		Min (52 week)	40.3



In January, the stock received a considerable boost from dividends (PLN 8.15 per share) and the optimistic data as regards the price of nitrogen fertilizers. The investors' sentiment slumped, however, following the dividends record date. In our opinion this negative tendency might persist, as we expect the earnings for the final quarter of 2009 to be weak, due to the tough situation in the domestic market for fertilizers. In the upcoming periods, we should see a gradual improvement in this area, but the current market price is close to our target (PLN 72.05 per share, ex-dividends), and leaves no room for growth in the medium term. We still believe that the global expectations towards the fertilizer market may prove overly optimistic in 2010.

### ZAP makes bid on Anwil

ZA Puławy announced that it had submitted an offer to purchase an 84.79% stake in Anwil from PKN Orlen. Orlen VP Sławomir Jędrzejczyk said his Company expected to receive two other bids. The Company is planning to select one investor towards the end of February. We estimate the Anwil holdings at PLN 1.7bn. To pay for the acquisition, ZAP will have to either take out a big loan, or make a stock offering. We are looking forward to learning the details of the offer.

## Coal Mining



### LW Bogdanka (Hold)

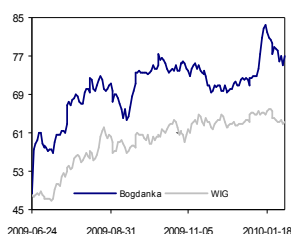
Current price: PLN 77

Target price: PLN 80.1

Analyst: Michał Marczak

Last Recommendation: 2010-02-03

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	862.5	1 033.3	19.8%	1 173.6	13.6%	1 184.0	0.9%	Number of shares (m)	34.0
EBITDA	243.4	339.6	39.5%	395.7	16.5%	388.9	-1.7%	MC (current price)	2 619.0
EBITDA margin	28.2%	32.9%		33.7%		32.8%		EV (current price)	2 341.3
EBIT	121.4	203.5	67.7%	260.4	28.0%	243.3	-6.5%	Free float	33.0%
Net profit	94.1	156.0	65.8%	204.3	30.9%	184.0	-9.9%		
P/E	18.8	11.4		12.8		14.2		Price change: 1 month	6.3%
P/CE	8.2	6.1		7.7		7.9		Price change: 6 month	10.8%
P/BV	1.9	1.6		1.5		1.4		Price change: 12 month	
EV/EBITDA	7.3	5.2		5.9		6.8		Max (52 week)	83.5
Dyield (%)	2.8	0.3		3.4		0.8		Min (52 week)	48.0



Assuming a drop in coal prices by over 6%, the company should deliver a profit exceeding PLN 180m (a revision from an original forecast of PLN 142m; the consensus estimate is PLN 128m). The situation in the European coal market (i.e. increase in the price of ARA coal) works to the Company's advantage, as it reduces the pressure on the price of Polish coal. Further, LW Bogdanka is going to see a sharp increase in 2011 profits following completion of the first stage of its expansion plan (sales volumes are expected to surge 35%, with coal prices remaining flat vs. 2010). The company's shares are trading on FY2011 multiples of P/E = 9.4 and FCF/EV = 7% even as it continues to incur considerable expenses on stage two of the 'Stefanów' mine project (which is forecasted to drive coal output by 50% by 2014, and the FY14E FCF/EV multiple to 23%). Given the recent increases in the company's share price and our PLN 80.1 target, we are downgrading our investment rating from buy to hold.

#### Price of ARA coal on the rise

While the price of ARA coal does not directly translate into Polish coal prices (as is the case with KGHM and LME copper prices), if the imported coal is cheap, this may have a negative impact on our market. In the fourth quarter of 2009, the price of ARA coal figured to USD 77/ton (+10% q/q). In the first four weeks of 2010, it climbed by a further 13% to USD 87/t (USD 97/t for a time in the first half of January). The price of ARA coal also provides a benchmark for the Russian coal. Such pricing levels reduce the pressure towards coal imports (cf. the recent months); as a result, significant price reductions in 2010 vs. 2009 are unlikely. This is of particular importance for the Silesian mines, which are struggling to remain in the black. Another positive factor for the mines have been the low temperatures, which led to increased demand for coal from energy producers, and which should help the mines reduce their stockpiles (ca. 5m tons at the end of Q3'2009).

## Telecommunications

### **Polkomtel IPO deadlock**

According to reports, the market debut of telecom operator Polkomtel has hit an impasse because of indecision and a lack of cooperation between the shareholders (KGHM is yet to decide whether to divest or not while PGE is still talking to its consultants). Speculation about when Polkomtel's Polish owners might float their shares has been rife for weeks (the latest rumors put the IPO date at March). Their hesitation probably stems from concerns that their controlling shareholder, the State Treasury, might demand that the IPO gains be distributed as dividends. A dividends-paying subsidiary like Polkomtel is a better option for them. The longer Polkomtel is kept away from the stock exchange, the better for TPSA which remains without true competition as far as telecom investment opportunities are concerned.

### **Play has 3 million customers**

P4, owner of the mobile network "Play", expanded its customer base to 3 million from 2 million in 2008. Play's 2009 revenue target is PLN 1.3bn compared to PLN 841m in 2008. The operator hopes to achieve an EBITDA break-even for the first time in 2010. 2009 was a very successful year for P4, which was the uncontested leader in customer acquisition thanks largely to considerable asymmetry in MTR rates maintained by the telecom regulator. The asymmetry is going to be gradually reduced going forward, but in the meantime P4 still has about 1.5 years of favorable inter-operator rates ahead of it.

### **P4 for sale?**

Once again, newspapers are speculating that the P4's current owners Novator and Germanos will be selling their shares. It is hard to say whether this transaction might take place this year. Clearly, P4 was set up with a view to future sale to an industry investor. We believe the most likely course of events is that the operator will be bought by one of the three original operators (each of them says it's interested, but the issue is price). As the MTR asymmetry decreases, P4 will find it increasingly difficult to acquire new subscribers, and the sale will be getting more likely. Given the regulator's chosen pathway towards the elimination of the asymmetry, P4 will be in a fairly comfortable situation for the next 18 months. Afterwards, the divestment will become much more likely; before then, when P4 is still on the path of growth, it is unlikely.

### **Another EC admonishment to UKE for its actions against TPSA**

The European Commission has expressed serious doubts concerning the decision of the Polish telecom regulator UKE that TPSA has significant market power in the IP traffic market. The EC also questions the way in which the UKE President, Ms. Anna Streżyńska, wants to bolster competition and equal treatment in this area. In November, the UKE launched consultations on a draft of a decision mandating that, due to TPSA's significant market power, special requirements should be imposed on it in the area of IP peering service with its network. The UKE claims that TPSA forces alternative internet service providers to use expensive private exchange points it owns. We do not expect the EC's opinion to change the UKE's approach, although it might soften it, as was the case with MTRs. No impact on stock performance. The more impactful piece of news is that TPSA is supposedly planning to outsource network management.



## Netia (Hold)

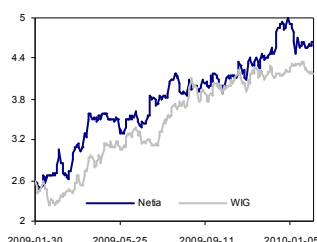
Current price: PLN 4.6

Target price: PLN 4.3

Analyst: Michał Marczak

Last Recommendation: 2009-11-06

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	838.0	1 112.4	32.7%	1 491.9	34.1%	1 525.4	2.2%	Number of shares (m)	389.2
EBITDA	170.7	170.6	0.0%	292.0	71.1%	323.5	10.8%	MC (current price)	1 805.7
EBITDA margin	20.4%	15.3%		19.6%		21.2%		EV (current price)	1 610.7
EBIT	-103.8	-99.7	-4.0%	-2.1	-97.9%	33.7		Free float	100.0%
Net profit	-268.9	230.6		-10.4		37.4			
P/E		7.8				48.3		Price change: 1 month	-5.3%
P/CE	320.2	3.6		6.4		5.5		Price change: 6 month	15.4%
P/BV	1.0	0.9		0.9		0.9		Price change: 12 month	85.6%
EV/EBITDA	10.8	9.4		5.5		4.7		Max (52 w eek)	5.0
Dyield (%)	0.0	0.0		-0.6		2.1		Min (52 w eek)	2.5



After reaching a deal with the telecom regulator, Netia's main rival TPSA is expected to step up competition for customers, affecting the rate at which Netia expands its subscriber base, and creating cost pressure. We are less sanguine about Netia's EBITDA growth potential than the Company itself. Based on our assumptions, we predict that Netia's FCF in FY2011 will reach 5.8% of EV, compared to 10.5% estimated for TPSA (after taking into account a higher CAPEX). We are reiterating a neutral rating on the company.

### Netia still wants Dialog

According to the CEO, Netia is considering the purchase of Telefonía Dialog from KGHM, though no specific negotiations are being held for now. This comes as a response to yesterday's interview with the CEO of KGHM, who said that he would like to sell Dialog to an industry investor rather than through the stock exchange. Netia's CEO said nothing about the potential price, but added that financing would not be an issue. On 22 February Netia will publish its earnings guidance for FY2010. Purchasing Dialog for a reasonable price (under PLN 500m) would add value for Netia's shareholders. We see a number of potential synergies here (economies of scale, compatible and frequently non-overlapping access networks) There has been speculation about such a transaction for years, but speculation is all we have at the moment.



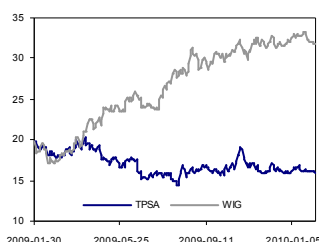
## TP SA (Accumulate)

Current price: PLN 15.9 Target price: PLN 19.2

Analyst: Michał Marczak

Last Recommendation: 2009-10-30

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	18 244.0	18 165.0	-0.4%	16 610.4	-8.6%	16 163.2	-2.7%	Number of shares (m)	1 335.6
EBITDA	7 721.0	7 630.0	-1.2%	6 430.2	-15.7%	6 494.2	1.0%	MC (current price)	21 170.0
EBITDA margin	42.3%	42.0%		38.7%		40.2%		EV (current price)	26 581.2
EBIT	3 282.0	3 313.0	0.9%	2 215.4	-33.1%	2 416.0	9.1%	Free float	46.0%
Net profit	2 273.0	2 188.0	-3.7%	1 444.1	-34.0%	1 663.4	15.2%		
P/E	9.8	9.9		14.7		12.7		Price change: 1 month	-1.0%
P/CE	3.3	3.3		3.7		3.7		Price change: 6 month	4.0%
P/BV	1.2	1.3		1.3		1.3		Price change: 12 month	-17.0%
EV/EBITDA	3.6	3.6		4.1		4.0		Max (52 week)	20.2
Dyield (%)	12.0	10.7		9.5		9.6		Min (52 week)	14.4



We maintain a positive investment rating on TPSA with a 9-month target price of PLN 19.2 a share. Earnings for Q4'09 are less relevant than the traditional announcement of the Management's dividends recommendation and outlook for the year. We believe the Management's PLN 3bn FCF target for 2009 will be met. TPSA still needs to adjust its costs to the current market situation, which we should see happening in each upcoming quarter.

### CEO on near-term prospects

CEO Mr. Witucki said in an interview that TPSA's revenues displayed a deeper year-on-year decline in Q4 2009 than in Q3 2009 (-7.6%), and that he expected the topline to continue on a downward trend this year, albeit at a slower pace. To offset the downturn, the telecom is going to lay off more employees than originally planned. The 2010 CAPEX was increased to 16-18% of revenue to comply with the investment obligations imposed by telecom regulator the UKE. Mr. Witucki did not say anything we did not know. In our 2009 forecasts for TPSA, we predicted an 8.3% contraction in revenues, and a ratio of CAPEX to sales of 17.3%. We have so far assumed that the Company would lay off 2,000 people in 2010, and a further 2,000 in 2011. If the actual cuts are greater, there is potential for an increase in TPSA's share price

### TPSA changes service provision terms for Neostrada

On 1 March, TPSA changed service provision terms for its broadband service Neostrada. The decision was forced upon TPSA by the regulator, which accused the Company of insufficient concern with customer interest and insufficient safeguarding of customer rights (in the light of the telecommunications laws in force). As was the case with mobile operators or with Neostrada itself in 2007 (when the service was decoupled from phone subscriptions), this enables the clients to terminate their contract with TPSA by claiming that they do not accept the changes. TPSA printed announcements in newspapers saying that in such cases it will request the departing customers to reimburse it for any discount received at the time the agreement was signed. This limits the risk that the situation from 2007 will be repeated, when many customers dropped Neostrada and moved to Netia since they did not incur any additional costs for early termination.

## Media

### **Public TV broadcaster TVP cuts costs**

According to newspaper reports, TVP is making dramatic cuts in the budgets of its regional branches. For example, the local branch in Opole has had its 2010 budget slashed by 50%, and the expenses of the branch in Kielce have been cut to just 29% of the 2008 budget (i.e. to PLN 4m from PLN 9m in 2009 and PLN 14m in 2008). An inferior programming offer and weak financial performance (a PLN 100m loss generated during 11 months of 2009) could render public television unable to compete with commercial broadcasters like TVN and Polsat.

### **Public TV's continuing cash shortage**

A spokesman for public broadcaster TVP warned that the network might become temporarily unable to pay salaries on time to its employees this year. The broadcaster is facing financial difficulties due to a downturn in the advertising market and decreasing license revenues. In our opinion, these difficulties will give an upward push to the advertising market. In the past, TVP was responsible for introducing advertising time price cuts (2001-2002 and early 2009) and it slowed down price increases during the 2006-2008 boom, as it was aided by its high license revenue. Now, as TVP loses license revenues, it will become more inclined to raise commercial airtime prices to levels desired by commercial broadcasters.



## Agora (Buy)

Current price: PLN 21

Target price: PLN 23.7

Analyst: Piotr Grzybowski

Last Recommendation: 2009-11-13

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 272.3	1 277.7	0.4%	1 115.0	-12.7%	1 133.5	1.7%	Number of shares (m)	52.4
EBITDA	198.6	128.4	-35.3%	130.9	1.9%	155.8	19.0%	MC (current price)	1 101.2
EBITDA margin	15.6%	10.0%		11.7%		13.7%		EV (current price)	996.1
EBIT	120.3	44.6	-62.9%	46.6	4.6%	71.2	52.6%	Free float	54.3%
Net profit	100.3	23.4	-76.7%	34.9	49.3%	60.1	71.9%		
P/E	11.5	49.3		31.5		18.3		Price change: 1 month	-6.3%
P/CE	6.5	10.8		9.2		7.6		Price change: 6 month	7.7%
P/BV	0.9	1.0		0.9		0.9		Price change: 12 month	73.7%
EV/EBITDA	4.8	8.1		7.6		5.9		Max (52 w eek)	25.4
Dyielid (%)	1.6	0.0		1.6		2.7		Min (52 w eek)	11.0



Towards the end of the month, Agora will publish its earnings for Q4'09, and they should please investors. In our estimate, the Company is trading at FY2009 EV/EBITDA of 5.9 (vs. 7.9 median for peers) and FCF/EV of 9.5%. We believe this gives a considerable upside potential to the stock, further enhanced by the optimistic outlook for the economy in 2010-2011, which makes a rebound in advertising very likely, including newspapers. The EUR/PLN exchange rate is also changing to the Company's advantage, and if it stays there, Agora's cost-cutting potential will increase. We believe index-tracking investors have already discounted the negative fallout of the Company's removal from the blue chip index. We are reiterating a buy rating on Agora.

### Newspaper sales in November

Gazeta Wyborcza saw a 14% y/y drop in sales in November, including a 12.5% drop in newsstand sales. In the same period, the sales of Rzeczpospolita declined by 9.1% y/y. These results are quite in line with the trends visible in the past few months. The bad news is that sales are not decreasing as fast for other newspapers as they are for *Gazeta*.

### Delisting of GDRs from the London Stock Exchange

The Company has announced its global deposit receipts are no longer traded on the LSE as of 20 January. The company did announce such plans previously. The delisting does entail some costs, but their scale is minuscule compared to the scale of the Company's operations (several hundred thousand zloty).

### Outdoor advertising plunges 17% in Q4'09

According to estimates by the Polish Chamber of Outdoor Advertisers, outdoor sales were down 14% to PLN 607.1m in 2009, and fell 17% to PLN 159.0m in Q4'09 alone. The market is expected to stabilize in 2010. Agora's outdoor revenues for the fourth quarter will no doubt reflect the general downtrend, which, however, will be offset by the slower decline in other advertising segments.



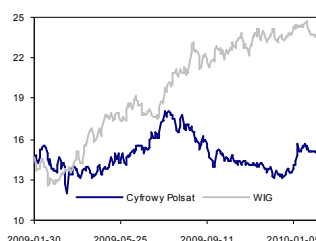
## Cyfrowy Polsat (Hold)

Current price: PLN 14.9      Target price: PLN 14.9

Analyst: Piotr Grzybowski

Last Recommendation: 2010-02-03

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	796.7	1 136.3	42.6%	1 321.9	16.3%	1 380.8	4.5%	Number of shares (m)	268.3
EBITDA	165.9	347.8	109.6%	307.1	-11.7%	395.8	28.9%	MC (current price)	3 998.0
EBITDA margin	20.8%	30.6%		23.2%		28.7%		EV (current price)	3 827.0
EBIT	145.1	324.3	123.4%	265.2	-18.2%	353.2	33.2%	Free float	31.8%
Net profit	113.4	269.8	137.8%	221.2	-18.0%	288.9	30.6%		
P/E	35.2	14.8		18.1		13.8		Price change: 1 month	7.6%
P/CE	29.8	13.6		15.2		12.1		Price change: 6 month	-12.4%
P/BV	65.4	13.5		12.6		8.7		Price change: 12 month	4.6%
EV/EBITDA	23.3	11.3		12.5		9.4		Max (52 week)	18.1
Dyield (%)	0.0	0.9		5.0		3.7		Min (52 week)	12.0



In the early months of the year, Cyfrowy Polsat started offering broadband internet access; in late Q1/early Q2, the product will be integrated with the pay TV service. We see considerable potential in such bundling, especially in terms of higher ARPU and lower churn. Until the arrangement with Sferia has been agreed in detail, however, we are unable to factor this development into our model. For this reason, and because our price target has been reached, we are downgrading our investment rating on CP to hold.

### CPL announces strong Q4'09 sales

According to CEO Mr. Libicki, Cyfrowy Polsat's net subscriber base expanded by 286,000 new users in Q4 2009, reaching 3.2 million. This is a very impressive result considering CPL's fiercely competitive environment (rival DTH platforms n and Cyfra Plus also did well in the period). In our opinion, such robust growth in digital TV users is not solely an effect of an expanding pay-TV market. Rather, there seems to be an overlap of digital and cable TV subscriber bases resulting from limited service offers of cable providers (who are dispersed, and who are not investing in infrastructure and HD programming) causing users to switch to digital TV. On the other hand, subscribers often decide to keep paying for cable to retain triple-play services, while ordering a DTH service as well. This suggests a vast market to tap for Cyfrowy Polsat, which is planning to launch triple-play services in the near future.

### UOKiK fine for illegal practices

The competition watchdog UOKiK fined the Company PLN 933,000 for its use of illegal contract clauses that violate consumer rights. The Company will appeal the decision. Even if the appeal fails, however, the fine will not be a big blow to the Company (ca. 0.4% of net income forecasted for 2009).

### Mr. Solorz-Żak on broadband tests, outlook for 2010

Mr. Zygmunt Solorz-Żak said that tests of the new broadband service had been successful. At present, the network encompasses 350 base stations, each of which provides broadband internet access within a radius of 20 kilometers. The network will be expanded further if there is demand, which will be examined following the commercial launch of the project. We believe the broadband access service, provided in cooperation with Sferia, is an excellent idea. The internet (as well as mobile telephony and, towards the end of the year, fixed telephony) will make CP stand out among other satellite platforms. It also makes the company more competitive against cable providers.

Moreover, Mr. Solorz-Żak discussed the outlook for 2010, saying that it would be very difficult to replicate last year's customer acquisition figures (476,000 net of churn). We concur: the market is bound to slow down now. There may be certain potential in the overlap of the subscriber bases of satellite and cable providers.

### Media mogul Solorz-Żak expands telecom business

Sferia, provider of wireless phone service and broadband internet controlled by Cyfrowy Polsat owner Zygmunt Solorz-Żak, made a reverse acquisition offer to Hawe, operator of telecom infrastructure services which is building a fiber-optic network around Poland. The addition of Hawe to Mr. Solorz-Żak's holdings could accelerate the development of the infrastructure that Sferia and Cyfrowy Polsat need to offer packaged broadband Internet and digital TV services. It is too early to comment on more concrete benefits for the pay-TV platform.



## TVN (Buy)

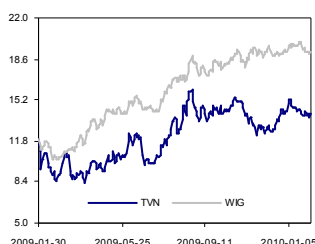
Current price: PLN 14

Target price: PLN 14.6

Analyst: Piotr Grzybowski

Last Recommendation: 2009-12-02

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 554.7	1 897.3	22.0%	2 082.2	9.7%	2 423.5	16.4%	Number of shares (m)	346.4
EBITDA	552.6	711.4	28.7%	596.2	-16.2%	620.2	4.0%	MC (current price)	4 850.0
EBITDA margin	35.5%	37.5%		28.6%		25.6%		EV (current price)	6 968.3
EBIT	480.5	631.9	31.5%	407.7	-35.5%	389.3	-4.5%	Free float	40.6%
Net profit	241.8	363.7	50.4%	192.3	-47.1%	142.5	-25.9%		
P/E	20.1	13.4		25.2		34.0		Price change: 1 month	-6.0%
P/CE	15.5	11.0		12.7		13.0		Price change: 6 month	10.3%
P/BV	3.4	3.0		3.0		2.8		Price change: 12 month	35.9%
EV/EBITDA	10.0	8.3		11.7		11.2		Max (52 week)	16.0
Dyield (%)	2.7	2.5		4.1		0.0		Min (52 week)	8.4



TVN will not excel in Q4'09 due to the costs associated with the expansion of ITI Neovision's subscriber base and finance expenses associated with debt rollover. The appreciation of the zloty vs. the euro we have been observing as of late, as well as the increasingly optimistic economic growth scenarios for Poland in 2010-2011 should, however, have a greater impact on investors. In addition, while its valuation is demanding (2010 EV/EBITDA = 11.2), the Company is still trading with a discount to the median for its European peers (11.5). Compared to CME, whose profile appears to match TVN's the best, the discount on EV/EBITDA amounts to 42% for 2010 and 34% for 2011. The high 2010 P/E (34), and the premium over peers this entails (median = 19.0) stems from the consolidation of the heavily unprofitable digital platform n. We expect this premium to disappear in 2011. We are reiterating a buy rating.

### n expands customer base

After an addition of ca. 127,000 new users in Q4 2009, n's customer base now counts over 697,000 accounts. The number of pre-paid viewers increased to 440,000. A higher-than-expected subscriber expansion could mean weaker profits, but investors should understand that the resulting expenses are the cost of growth. While we still consider TVN's DTH platform to be the main source of risk for investors, the dynamic expansion of the customer base offers more hope for an EBITDA break-even still this year.

### TVN admits to bidding for TV Puls

TVN's spokesman Karol Smolag revealed that TVN had made an offer on TV Puls in the past, but later backed out. We think that an investment in TV Puls would have been an attempt at stifling potential competition rather than part of a growth-through-acquisitions strategy (TVN prefers to build its own stations from scratch to ensure that they fit the overall broadcasting model). As for TV Puls, its main assets right now are its digital terrestrial spectrum allocations within multiplexes.

### Owner of rival Polsat offers rosy outlook for 2010

According to Mr. Zygmunt Solorza-Żak, Polsat's revenues this year are sure to recover from last year's slump. We agree that the advertising market, including television advertising, is going to expand in 2010. We predict a 3% rise in advertising expenses.



## WSiP (Hold)

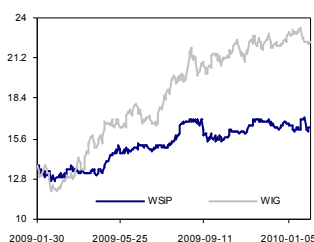
Current price: PLN 16.4

Target price: PLN 17.2

Analyst: Piotr Grzybowski

Last Recommendation: 2009-09-03

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	224.9	198.2	-11.9%	196.2	-1.0%	198.2	1.0%	Number of shares (m)	24.8
EBITDA	34.6	50.0	44.5%	41.2	-17.6%	42.7	3.6%	MC (current price)	405.1
EBITDA margin	15.4%	25.2%		21.0%		21.5%		EV (current price)	366.9
EBIT	29.8	46.3	55.1%	37.2	-19.7%	38.6	3.8%	Free float	0.0%
Net profit	49.2	39.1	-20.5%	30.5	-22.1%	32.0	5.2%		
P/E	8.8	10.4		13.3		12.6		Price change: 1 month	-1.4%
P/CE	8.0	9.5		11.8		11.2		Price change: 6 month	3.5%
P/BV	3.5	3.7		4.0		3.9		Price change: 12 month	23.9%
EV/EBITDA	10.5	7.5		8.9		8.6		Max (52 week)	17.1
Dyield (%)	6.5	11.0		9.7		7.5		Min (52 week)	12.6



**Advent International bought over 75% of shares in WSiP in its tender offer, which gives it an 84% stake in the share capital when the shares it had owned before are counted. In needs to buy 6% more to carry out its plan to delist WSiP. The current valuation by and large reflects the Company's potential. We are reiterating a hold rating.**

### Buyback details

Based on subscriptions, by 7 January WSiP bought 2,478,873 treasury shares at PLN 17.75 per share. Altogether, 178 subscriptions were placed for 17.918.412 shares (72.4% of the share capital), which entails an 86.17% oversubscription.

### Pahoa Investments raises tender offer price

Pahoa Investments has raised the price at which it expects WSiP shareholders to tender their shares from PLN 16.35 to PLN 17.15 apiece. The deadline of the tender offer remains January 29th. The new price significantly increases the chances for Pahoa to reach its objective of soliciting 80% of WSiP's equity. While the tender offer is now likely to succeed, this is not a done deal yet. After factoring the treasury stock bought back by WSiP, the company's market cap implied by the new tender price is PLN 366.5m. WSiP was forced to boost advertising expenses in 2009 to promote new textbooks published in compliance with changed curriculum regulations, which affected its bottom line for the year. This year, however, these expenses can be reduced, and we expect the publisher to generate a full-year profit in excess of PLN 30m. What is more, the company should have between PLN 10m and 15m left from the buyback, which suggests a possible dividend yield on a 100% earnings distribution of 8.2% in coming years. One factor which could prevent a dividend payout would be if WSiP decided to take over a publishing house called Bellona. However, this should not hurt the company's value because Bellona will be a valuable addition to WSiP's business mix (and it should cost less than WSiP's one-year profit). It is not clear to us whether Pahoa's goal is to take actual control over WSiP.

### Advent drops 80% tender offer requirement

Advent announced that it no longer requires 80% of WSiP's outstanding shares to be tendered by existing shareholders. According to preliminary estimates, the fund will get about 70% of WSiP's equity.

## IT

### **Government to spend PLN 408m on IT projects in 2010**

According to declarations by the beneficiaries of 'priority axis 7' within the EU-funded 'Innovative Economy' Operational Program, e-government expenses in 2010 will approximate PLN 408m, which is well ahead of what we would have expected. We predicted that the government would award about PLN 3.5 billion-worth of IT contracts this year, with the caveat that actual payments would start no earlier than in 2011.

### **ZUS invites tenders for client flow management system**

The Social Insurance Institution (ZUS) has invited tenders for the supply and installation of equipment and software to be used in a client flow management system at its 346 branch offices, plus training and post-implementation support. The amount of the deposit requested from bidders (PLN 0.5m) makes it possible to estimate the value of the contract at PLN 16.7m minimum. The contract is a part of ZUS's electronic services platform project, in turn a part of the 'e-administration' program whose estimated total value is PLN 100m.

## ATM

### **ATM inks two government orders**

ATM signed two contracts with the IT Project Center at the Ministry of the Interior and Administration. Under the first agreement, ATM will design, prepare, supply and implement a national IT network which will be used for the purposes of the 112 emergency phone number. The gross fee is PLN 148,778,652.30, but it may be increased to PLN 151,778,652.30 max. The deadline is 23 December 2011. Under the second agreement, ATM will set up the 112 network and provide data transmission services over it. The gross fee is PLN 218,238,650.80, but it may be increased to PLN 220,238,650.80 max. The contract has a deadline on 31 December 2013, but data transmissions services may be extended through 2016. The awards of the two contracts had been announced back in December.

## Comarch

### **New contract**

Comarch signed a PLN 7.3m 12-month system support agreement with the Agricultural Market Agency (ARR). The contract accounts for ca. 1.0% of expected 2009 revenue.

### **Comarch lands two orders**

Comarch won two tenders for delivery of computer hardware to regional gas utility Mazowiecka Spółka Gazownictwa for a combined fee of PLN 2.25m. The contracts account for a combined 0.3% of expected 2009 revenue.

### **SISP contract**

The Central Statistical Computing Center awarded Comarch a contract for the supply of renewable software licenses and the provision of maintenance services within the Public Statistics Information System (SISP) project. The company's bid was PLN 20.3m net. We believe work on the contract will be completed in 2013, with most of the work (75% in our estimate) carried out during the first two years. Comarch's 2010 backlog will therefore expand by ca. PLN 7.4m. It is worth pointing out that several contracts included in the "electronic administration" system have become available recently. We reiterate our view that the total value of revenues from this source (including projects directly controlled by the Ministry of Home Affairs' IT office) will exceed PLN 3.5bn this year.

### **Comarch focuses on developing sales and service support solutions**

According to VP Marcin Warwas, Comarch plans to spend PLN 40m this year on expanding the range of solutions targeted to retailers and service providers, and on two data centers in Germany and France. It looks like Comarch's overall CAPEX budget is going to be much larger than our expected PLN 45m. A focus on sales and service software solutions is a smart move that will enable the company to maximize the benefits of the recent acquisition of SoftM with its know-how and customer base. On the downside, an increased CAPEX will have a temporary negative impact on Comarch's earnings results.

## Comp Safe Support

### **2010 order backlog**

Comp Safe Support's order backlog is worth PLN 70m, which compares to PLN 35m accumulated in the same period a year ago. The difference is largely attributable to higher-than-planned revenue from a contract awarded as part of the government's electronic surveillance project. In FY2010, the company's net income is expected to increase by more than 10%.



## Qumak Sekom

### Backlog exceeds PLN 170m

VP Aleksander Plata said in an interview that Qumak-Sekom's FY2010 contract backlog amounted to PLN 170m. He also confirmed that the company was planning to pay dividends this year, though the size of the payout had not been determined yet. Qumak is in a very good situation as far as its contract backlog is concerned. The company can still capture contracts for stadium automation systems and infrastructure, and is not without chance as far as e-government contracts are concerned.

## Wasko

### FY2010 to improve in a down market

According to CEO Mr. Kosobudzki, Wasko should report better earnings for FY2010 than for FY2009. However, Mr. Kosobudzki does not believe in a big IT market revival in 2010. He thinks that big government orders expected to come on line this year will be mostly for systems rather than hardware. Wasko's current order backlog is comparable to what it was last year. We agree that a recovery in demand for computer hardware will not come earlier than in late 2010 or early 2011. Wasko could improve its earnings performance through cost cuts made under restructuring programs put in motion in 2009.

## Wola Info

### New contract

Wola Info received a PLN 4.57m order from PTC for the supply of software and system implementation and maintenance services.



## AB (Buy)

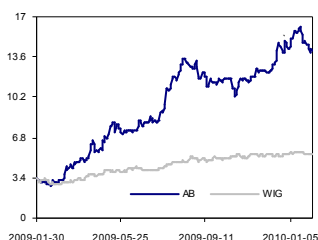
Current price: PLN 14.2

Target price: PLN 15.13

Analyst: Piotr Grzybowski

Last Recommendation: 2009-08-06

(PLN m)	2007/08	2008/09F	change	2009/10F	change	2010/11F	change	Basic data (PLN m)	
Revenues	3 012.2	2 929.5	-2.7%	2 788.9	-4.8%	2 866.7	2.8%	Number of shares (m)	16.0
EBITDA	39.5	88.4	123.9%	40.5	-54.2%	52.0	28.5%	MC (current price)	225.7
EBITDA margin	1.3%	3.0%		1.5%		1.8%		EV (current price)	401.2
EBIT	35.2	83.1	136.0%	35.0	-57.8%	46.5	32.7%	Free float	41.9%
Net profit	16.1	27.7	72.3%	20.0	-27.7%	23.8	18.7%		
P/E	14.0	8.1		11.3		9.5		Price change: 1 month	-1.6%
P/CE	11.1	6.8		8.8		7.7		Price change: 6 month	15.6%
P/BV	1.1	1.0		0.9		0.8		Price change: 12 month	357.9%
EV/EBITDA	10.8	4.8		9.9		7.5		Max (52 week)	16.1
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	2.7



**AB is scheduled to release its H1 2009/2010 earnings report, which, we think, will show strong results for the second fiscal quarter ended 31 December, on March 1st. The 12% slippage in the price of AB shares observed in the last two weeks suggests potential for a rebound, prompting a reiterated buy rating.**



## Action (Buy)

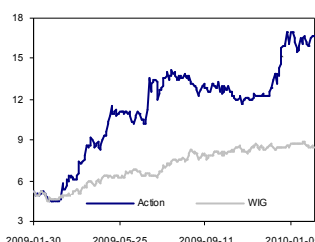
Current price: PLN 16.7

Target price: PLN 18.49

Analyst: Piotr Grzybowski

Last Recommendation: 2009-12-22

(PLN m)	2006/07	2007/08	change	2008/09F	change	2010F	change	Basic data (PLN m)	
Revenues	1 797.5	2 343.4	30.4%	3 067.4	30.9%	2 142.3	-30.2%	Number of shares (m)	17.2
EBITDA	37.7	66.3	75.8%	59.9	-9.6%	49.0	-18.3%	MC (current price)	287.7
EBITDA margin	2.1%	2.8%		2.0%		2.3%		EV (current price)	394.0
EBIT	30.4	58.3	91.9%	46.6	-20.0%	40.1	-14.0%	Free float	35.9%
Net profit	22.0	33.8	53.4%	29.9	-11.5%	27.0	-9.8%		
P/E	12.4	8.5		9.6		10.7		Price change: 1 month	-1.5%
P/CE	9.3	6.9		6.7		8.0		Price change: 6 month	21.1%
P/BV	1.9	1.6		1.5		1.4		Price change: 12 month	230.7%
EV/EBITDA	9.0	6.6		6.6		7.8		Max (52 week)	17.0
Dyield (%)	0.0	1.5		8.2		2.2		Min (52 week)	4.4



We expect Action to report good results for the last fiscal quarter (which ran from November through December) in spite of a PLN 1.5m loss on a sale transaction. On a FY2010E P/E of 10.7 and an EV/EBITDA of 7.8, Action offers considerable upside potential. 2010 is going to be a tough year for hardware distributors, but large players like Action should make it through unharmed. We are reiterating a buy rating on the company.

### Action sells majority stake in Action Ukraine

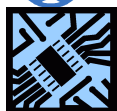
Action sold a 51% stake in the Ukrainian subsidiary to its UK co-owner BlueMare LPP for \$2m. Action had acquired Action Ukraine in early 2004 for PLN 917,000. After an equity raise in 2007, the value of the investment increased to ca. \$510,000. According to an agreement signed back then, BlueMare was supposed to take over Action's interests for \$4.08m + 51% of undistributed earnings for the period from 1 January 2007 to 31 December 2008. It is not clear why the actual price is more than twice lower. However, the divestment of operations which consistently generate losses (FY09 net loss is estimated at PLN 5m) will undoubtedly have a positive effect in Action's financial results.

### Action predicts 30% sales jump in Q4 2010

According to CEO Mr. Bieliński, the first 7-8 months of 2010 will be tough for IT distributors, but the last quarter of the year could see sales surging as much as 30 percent. We agree with Mr. Bieliński's outlook for the year, though we think expectations of a 30% revenue surge are a bit too far-fetched. In our view, the increase will be closer to 15%.

### Action to keep Sferis, pay at least 20% dividends

CEO Bieliński told PAP that Action has no plans to sell its computer store chain Sferis, which is on track to breaking even this year. We agree that, unlike the recently sold Action Ukraine, Sferis is able to eventually start generating profits. Mr. Bieliński also revealed that Action's Management is considering distributing more than the usual 20% of profits this year. A higher dividend is possible in spite of the planned expansion of Action's storage space, thanks to a strong cash position boosted by a treasury stock sale.



# ASBIS (Hold)

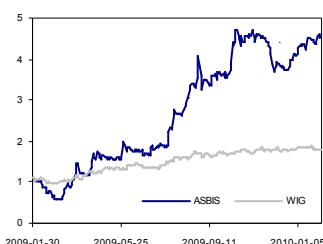
Current price: PLN 4.6

Target price: PLN 4.23

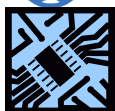
Analyst: Piotr Grzybowski

Last Recommendation: 2010-02-03

(USD m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 397.3	1 495.3	7.0%	1 159.2	-22.5%	1 270.0	9.6%	Number of shares (m)	55.5
EBITDA	27.6	18.2	-34.2%	6.6	-63.7%	17.0	157.1%	MC (current price)	253.1
EBITDA margin	2.0%	1.2%		0.6%		1.3%		EV (current price)	263.5
EBIT	25.7	15.3	-40.4%	3.6	-76.6%	13.8	285.5%	Free float	34.2%
Net profit	18.7	4.0	-78.5%	-1.4		6.9			
P/E	4.7	22.1				12.8		Price change: 1 month	10.1%
P/CE	4.3	13.0		56.9		8.8		Price change: 6 month	72.7%
P/BV	0.9	0.9		1.0		0.9		Price change: 12 month	338.5%
EV/EBITDA	3.1	5.9		14.0		5.9		Max (52 week)	4.7
Dyield (%)	2.9	10.1		0.0		0.0		Min (52 week)	0.6



Asbis's Q4 2009 earnings results are expected to show continued growth. At the current price level, the positive earnings momentum seems to be already priced in. The shaky fundamentals underlying Asbis's operations in Russia and the Ukraine discourage upward revisions in revenue projections for now. Combined with the price rally observed in the past month, this prompts a rating downgrade to hold.



## Asseco Poland (Buy)

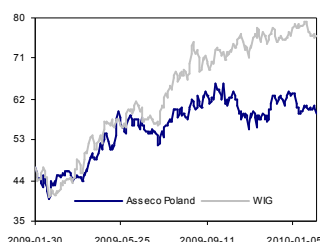
Current price: PLN 59

Target price: PLN 71.9

Analyst: Piotr Grzybowski

Last Recommendation: 2009-11-19

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 282.4	2 786.6	117.3%	3 017.6	8.3%	3 193.7	5.8%	Number of shares (m)	77.6
EBITDA	274.5	591.8	115.6%	660.4	11.6%	681.0	3.1%	MC (current price)	4 576.4
EBITDA margin	21.4%	21.2%		21.9%		21.3%		EV (current price)	5 031.7
EBIT	236.7	494.3	108.9%	546.5	10.6%	573.8	5.0%	Free float	55.1%
Net profit	161.0	321.6	99.7%	377.9	17.5%	365.5	-3.3%		
P/E	28.4	14.2		12.1		12.5		Price change: 1 month	-6.6%
P/CE	23.0	10.9		9.3		9.7		Price change: 6 month	-1.5%
P/BV	2.2	1.2		1.1		1.0		Price change: 12 month	33.6%
EV/EBITDA	17.5	7.9		7.6		7.3		Max (52 w eek)	65.4
Dyield (%)	0.6	2.6		2.4		2.4		Min (52 w eek)	40.0



After a successful fourth quarter, we expect Asseco to post a profit of PLN 378m for FY2009. At the current share price, this implies a FY09 P/E ratio of 12.5, or 10.8 after adjustment for treasury stock. Asseco's value is kept low by a looming supply of 3.4 million new shares, issued with a view to raising acquisition capital, and by the bad press the company has been getting over its long-standing contract with national insurer the ZUS. Moreover, completion last year of major jobs for PKO BP and the Interior Ministry has left a gap in the order backlog that will be hard to fill. Even though FY2010 is looking less robust for Asseco Poland than FY2009 (FY10E P/E at 12.5), we believe that the company offers the easiest and relatively cheap exposure to the major government tenders expected to be announced this year. We are reiterating a buy rating on Asseco.

### Stock offering

Asseco announced plans to issue 3.41m shares of 'I' stock to be traded cum rights, and at the same time retire the same number of treasury shares. The new shares will be offered exclusively to existing rights holders of record as of February 4th at a ratio of one share for 20 rights. The proceeds will be used to finance foreign acquisitions. The prospect of a dilutive offering was one of the reasons why the market failed to discount Asseco's strong earnings results and future outlook.

### Contract for ABG

Subsidiary ABG signed a server modification contract with the Lublin division of the National Health Fund. The net fee is PLN 1.95m.

### Associated company lands PLN 12.81m contract

Asseco Poland's associate Postdata received a PLN 12.81m (net) order from the Polish Post for system maintenance and support. Since Asseco does not consolidate Postdata's earnings, the contract will probably not be added to the consolidated order book, but the profits earned on the deal will be credited to the consolidated net earnings.

### New CEPiK contracts

Asseco Poland extended an agreement with the Interior Ministry under which it provides maintenance for the Central Register of Vehicles and Drivers (CEPiK), and signed a separate agreement for a further development of this system. The extension of the maintenance agreement will bring the company PLN 48.12m (net) over 18 months, and the fee for development services is PLN 7.88m (net). Of the PLN 56m total, ca. PLN 40m will be added to the FY2010 contract backlog. The project will thus generate lower revenue for the company than in preceding years (ca. PLN 58m in FY2008, ca. PLN 52m forecasted for FY2009), but this is understandable as development of the system moves to next stages. In fact, the reduction in revenue is not as big as it might have been.

### CEO interview

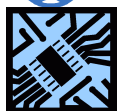
CEO Adam Góral told PAP that 2010 is looking even bleaker than 2009 for the technology industry due to the frozen IT CAPEXes of the business sector. We agree that corporate and bank sales are going to be slow this year. On the upside, Mr. Witucki is certain that a considerable order backlog is going to get Asseco Poland through the year. Moreover, IT expenditure by the central government and local authorities, as well as by the energy industry, is expected to increase in 2010. We, too, expect a number of government contract awards this year (they seem to already be priced in IT stocks), however, payments are not likely to start before 2011. The same goes for the energy industry. Asseco intends to vie for most of the upcoming lucrative e-government contracts (their total value is expected to exceed PLN 750m), and it is the prime candidate to capture a handsome portion of these revenues. Further, Mr.



Witucki said that 2009 fourth-quarter earnings should show no surprises, and that Asseco would probably pay dividends in the maximum amount provided for by the earnings distribution policy (40% of annual earnings). According to our forecasts, the dividend payout will approximate PLN 149m (PLN 1.92 per share), with yield at 3.2%.

**Banking system order**

Asseco Poland received an order from BGK Bank for upgrades to its own def2000 system worth PLN 2.6m.



## Komputronik (Hold)

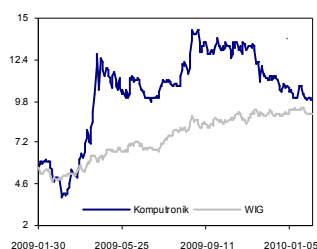
Current price: PLN 9.9

Target price: PLN 11.56

Analyst: Piotr Grzybowski

Last Recommendation: 2009-12-08

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	519.3	758.7	46.1%	1 025.4	35.2%	916.9	-10.6%	Number of shares (m)	8.2
EBITDA	15.2	15.0	-1.4%	10.1	-32.5%	16.2	60.2%	MC (current price)	81.0
EBITDA margin	2.9%	2.0%		1.0%		1.8%		EV (current price)	120.6
EBIT	13.5	10.0	-26.2%	2.3	-76.6%	10.8	362.3%	Free float	25.2%
Net profit	10.3	5.8	-43.6%	2.2	-63.0%	7.5	247.9%		
P/E	7.1	13.9		37.5		10.8		Price change: 1 month	-5.0%
P/CE	6.1	7.4		8.1		6.2		Price change: 6 month	-8.5%
P/BV	0.8	0.6		0.6		0.6		Price change: 12 month	64.7%
EV/EBITDA	2.8	6.5		11.9		7.6		Max (52 week)	14.3
Dyield (%)	0.7	0.0		0.0		0.0		Min (52 week)	3.8



Komputronik's earnings results for the fourth quarter of 2009 will reflect the less-than-stellar financial performance of the parent company, as well as continuing losses generated by subsidiary Karen. Komputronik is taking measures to recover outstanding dues from Techmex which include a takeover of interests in the bankrupt company from its owner Mr. Studencki, and a request filed with the bankruptcy court for Techmex to be put into administration instead of liquidation to improve the chances of debt recovery.

### Techmex phases out operations

As part of a gradual discontinuation of business, Techmex has ceased to service Toshiba laptops, closed its offices in Gdańsk and Warsaw, and slashed its workforce from 270 to 70-80 full-time employees. Techmex, Komputronik, and Karen, have all filed to have the company put into administration rather than liquidation. If the court grants these requests, Komputronik can convert Techmex's debt into equity, increasing the chances of recovering all unpaid dues, which would be much harder with liquidation proceedings.



## Sygnity (Buy)

Current price: PLN 13

Target price: PLN 18.1

Analyst: Piotr Grzybowski

Last Recommendation: 2009-12-15

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 201.9	995.7	-17.2%	608.5	-38.9%	678.4	11.5%	Number of shares (m)	11.9
EBITDA	-16.3	56.6		-61.1		28.5		MC (current price)	153.9
EBITDA margin	-1.4%	5.7%		-10.0%		4.2%		EV (current price)	191.8
EBIT	-72.0	11.5		-94.6		-2.1	-97.8%	Free float	66.1%
Net profit	-65.6	-1.5	-97.7%	-88.0	5831.6%	-7.9	-91.0%		
P/E								Price change: 1 month	-9.8%
P/CE		3.5				6.8		Price change: 6 month	-24.3%
P/BV	0.4	0.4		0.5		0.5		Price change: 12 month	-32.6%
EV/EBITDA		3.0				7.3		Max (52 w eek)	22.3
Dyield (%)	13.3	0.0		0.0		0.0		Min (52 w eek)	11.5



**Sygnity's EBIT for Q4 2009 most likely fell well short of the PLN 24.5m target. Even after a net debt reduction to just PLN 10m in 2009, the company still faces challenges related to further debt rollover needs, and has to find money to cover contractual losses. In spite of these challenges, Sygnity should generate stronger profits this year than last. Moreover, the company is poised for contract opportunities arising out of planned e-government projects, which can boost its 2011 earnings results. We are reiterating a buy rating on Sygnity.**

### Parking meters for Szczecin

A consortium of Parkeon SAS and Aram (a subsidiary of Sygnity) received an order from the City of Szczecin for delivery and installation of 50 Parkeon Stelio Solar parking meters. The contract has a net value of PLN 1.1m.

### Utilis IT: a challenge to Sygnity?

Several former employees of Winuel set up a new IT company called Utilis IT which wants to provide services to the public utilities sector. Since Winuel has retained all copyrights, Utilis IT has to develop its own solutions and find markets for them from scratch. Hence, it is not going to be more of a competition to Sygnity than any other market player.

### Earnings prospects

Sygnity's spokesman Michał Michalski believes that the company can generate an operating profit in 2010. In Q409, Sygnity should reverse provisions in approximately the same amount as in Q309 (PLN 4.7m). We estimate that, despite its restructuring program, completion of old loss-making contracts, and an expected increase in revenues, Sygnity will record a small operating loss this year. Provision reversals are good news, as they indicate that, in line with the Management's earlier pronouncements, provisions created in Q209 were estimated conservatively and the true cost for the company will be lower. Lower provisions entail lower future cash needs, which is also important given Sygnity's three-year struggle for liquidity.

### Sygnity makes best bid

Sygnity outbid Asseco Poland in a tender for a contract to deliver a module supporting the issuance of microchip IDs within the government's pl.ID project. Sygnity is offering PLN 26m net, representing ca. 3.9% of expected revenue. The contract offers a decent profit margin.

### Debt reduction goes as planned

According to spokesman Michał Michalski, Sygnity's net debt stood at PLN 10m as of mid-January after decreasing from PLN 62m reported at 30 September 2009. Note that Sygnity's debt will start increasing again toward the end of the first quarter, fueled by pressure on working capital. However, we are hopeful that the company can keep its liabilities below the levels recorded in Q3 2008.

### 2010-2011 order backlog

Sygnity has accumulated a 2010 order portfolio of PLN 220m, comparable to the level seen in the same period a year ago. The 2011 backlog is worth about PLN 100m. The backlog numbers do not include the recently awarded pl.ID contract, expected to add PLN 9m to the 2010 and 2011 order books each. We also want to point out that last year's contracts were captured amid much more favorable market conditions for IT companies. Based on our predictions of a pickup in IT orders in coming quarters, we expect a 10% improvement in Sygnity's revenue this year.

### Sygnity inks pl.ID contract

Sygnity officially signed the PLN 31.84m contract for pl.ID system components in January awarded a few weeks earlier by the Interior Ministry.



**Sygnity to merge with subsidiary**

Sygnity is going to merge with its 100% subsidiary Aram by taking over all of its assets. The merger is tentatively scheduled for completion by mid-May. The absorption of a subsidiary will facilitate cost streamlining and more centralized procurement. Sygnity wants to reduce its costs by PLN 40m in 2010.

## Metals



### Kęty (Hold)

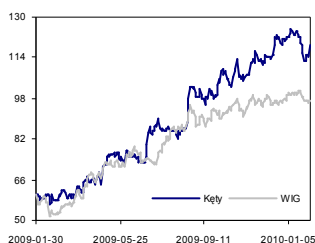
Current price: PLN 118.9

Target price: PLN 115.4

Analyst: Michał Marczak

Last Recommendation: 2009-11-05

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 253.0	1 183.5	-5.5%	1 080.0	-8.7%	1 171.8	8.5%	Number of shares (m)	9.2
EBITDA	194.0	190.2	-2.0%	189.2	-0.5%	185.1	-2.2%	MC (current price)	1 096.9
EBITDA margin	15.5%	16.1%		17.5%		15.8%		EV (current price)	1 289.8
EBIT	141.9	128.3	-9.5%	127.0	-1.0%	123.0	-3.1%	Free float	46.0%
Net profit	97.8	63.4	-35.2%	70.0	10.5%	82.9	18.4%		
P/E	11.2	17.3		15.7		13.2		Price change: 1 month	-2.9%
P/CE	7.3	8.8		8.3		7.6		Price change: 6 month	45.0%
P/BV	1.5	1.5		1.4		1.3		Price change: 12 month	100.8%
EV/EBITDA	7.5	7.7		6.8		7.1		Max (52 week)	125.4
Dyielid (%)	3.4	1.2		0.0		3.4		Min (52 week)	56.6



**Kęty's Management believe that 2010 will be more successful for the company than 2009. Kęty will be aiming to improve revenues across all business segments by taking advantage of a weak zloty, and by increasing sales in international markets. The company is currently producing at 70-75% of maximum capacity. Stronger sales should generate stronger operating margins for the different business segments, but this effect could be offset in some cases (the Flexible Packaging Segment) by a steadying of aluminum prices and a strengthening of the zloty. Kęty is expected to announce in April whether it is going to take public its subsidiary Alupol. When preparing a Q4 2009 earnings guidance, Kęty revised upwards its estimates for the full year, raising the expected revenue figure to PLN 1089.9m, and pegging EBIT at PLN 126.3m and net profit at PLN 69.8m. The company confirmed its intention to pay dividends this year. If the payout ratio is the same as in previous years (40% of consolidated annual profits), investors stand to receive PLN 3.03 per Kęty share. We are reiterating a hold rating on Kęty.**

#### 2010 Outlook

Kęty promises growth across all business segments in 2010, fueled by a weak zloty and increased exports. In the segment of Aluminum Systems, the company plans to increase sales to Germany and the UK, where it has been successfully selling its roller shutters, and hopes to improve sales to Romania and the Ukraine. The plan for the Extruded Products Segment is to capture new international customers who are looking for more sophisticated solutions with added value. In the segment of Building Services and Accessories, sales performance depends on the willingness of lenders to become involved in the company's future projects. The backlog of orders for building services and accessories is worth PLN 50m, slightly less than in the same period a year ago. In the segment of Flexible Packaging, Alupol is expected to generate steady sales this year, but operating margins will contract compared to the levels recorded in H1 2009, when the macroeconomic conditions were more favorable (Alupol reported EBIT margins of 19.1% in Q109, 17.4 in Q209, and 12.3% in Q309). The segment's long-term EBIT target is 12%-13% of sales. Alupol has a five-year CAPEX budget of PLN 100-150m. The packaging producer is currently working at 85% of total capacity. At \$2190-\$2350 a ton, aluminum prices in January were 14.3% higher than in Q4 2009. In 2009, Kęty processed 47,000 tons of aluminum, only 4.1% less than in 2008.

#### Q4 2009 estimates

Kęty expects to report a PLN 14m profit on sales totaling PLN 265m. The company saw a 100% year-on-year surge in sales of construction services, a 7% increase in sales of flexible packaging, and a ca. 10% drop in sales generated by other business segments. The fourth-quarter EBIT is estimated at PLN 22m, and financial operations are expected to generate a 4m loss. Thanks to stronger-than-expected fourth-quarter sales, the FY2009 full-year sales estimate was revised upwards to PLN 1 089.9m from PLN 1075m forecasted in October and PLN 1046m predicted at the beginning of last year, and the EBIT estimate was raised to PLN 126.3m from PLN 124m forecasted in October. Net debt at the end of Q4 2009 stood at an estimated PLN 185m.

#### Dividends

Kęty confirmed that it was going to distribute at least the same portion of 2009 profits as in previous years. This suggests a payout ratio of 40% and a per-share dividend of PLN 3.03.



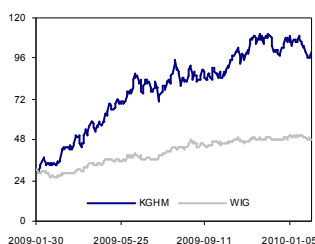
## KGHM (Reduce)

Current price: PLN 100      Target price: PLN 90.4

Analyst: Michał Marczak

Last Recommendation: 2009-12-01

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	12 183.0	11 302.9	-7.2%	10 600.3	-6.2%	10 939.4	3.2%	Number of shares (m)	200.0
EBITDA	5 034.0	4 077.7	-19.0%	3 203.6	-21.4%	3 084.2	-3.7%	MC (current price)	20 000.0
EBITDA margin	41.3%	36.1%		30.2%		28.2%		EV (current price)	19 409.3
EBIT	4 682.0	3 596.4	-23.2%	2 663.8	-25.9%	2 540.8	-4.6%	Free float	36.0%
Net profit	3 799.0	2 910.4	-23.4%	2 184.4	-24.9%	2 270.1	3.9%		
P/E	5.3	6.9		9.2		8.8		Price change: 1 month	-7.8%
P/CE	4.8	5.9		7.3		7.1		Price change: 6 month	13.6%
P/BV	2.2	1.9		1.9		1.8		Price change: 12 month	217.5%
EV/EBITDA	3.5	4.5		6.1		6.2		Max (52 w eek)	110.7
Dyielid (%)	17.0	9.0		11.7		7.6		Min (52 w eek)	31.5



Copper stockpiles monitored in January by metal exchanges in London, New York, and Shanghai, were 50KT higher than in December and 124KT higher than in November, displaying a smaller-than-expected buildup. In keeping with seasonal patterns, the supply of copper should remain higher than the demand throughout February. If the Chinese State Reserve Bureau does not change its stockpiling policy, we will see a depletion in world inventories from March through to the summer season. An expected downturn in commodity markets is going to negatively affect KGHM's stock value, prompting a reiterated reduce rating.

### KGHM announces 2010 budget

KGHM's Supervisory Board approved the FY2010 budget, which sets the sales target at PLN 11.74 billion, and pegs net profit at PLN 2,898m. The budget was calculated based on assumptions of an average price of copper of \$6700/T, an average price of silver of \$17.00/troz, and an average USD/PLN exchange rate of 2.70. KGHM is expected to produce 512KT of copper this year, including 84KT from scrap, and 1100 tons of silver. The per-ton cost of copper is estimated at PLN 12,548/T. Expenditure on property, plant, and equipment is budgeted at PLN 1 633m, and capital investments are set at PLN 1,635m. The increase in electrolytic-copper output planned for 2010 will be supported by increased usage of own concentrate produced during maintenance downtime at the Głogów smelter in 2009, and by initiatives planned as part of a new effectiveness-enhancing program. 2010 total costs of production will be driven by higher costs of labor, higher D&A expenses, and increased usage of in-house prefabricate inventories while anode slime prices are unfavorable. According to KGHM's Management, after completion of all cost-streamlining measures, the company can save over PLN 700m annually. The first tangible effects of these measures will materialize in 2010. In our financial forecasts for KGHM, we assumed a lower copper price average (\$6300/T), and the same exchange rates and silver prices as the company's Management. We think that KGHM deferred some of the copper volumes that it was supposed to sell in 2009 to 2010 (when we expect volumes to display a one-time surge to an estimated 505KT as a result), and will therefore miss its FY09 500KT sales target. As for unit costs, we assumed that they would amount to PLN 12,900/T this year, more than the PLN 12,500 envisaged by the company. If we consider the difference to be an effect of savings measures, the resulting additional credit to FY10 net profit (which we do not factor in our forecast) figures to PLN 165m. The budgeted FY2010 capex puts into question a possible distribution of dividends from FY2009 profits. According to our estimates, KGHM had about PLN 550m in free cash at December 2009. The operating cash flow forecasted for 2010 is a range of PLN 2.9bn and PLN 3.4bn (the lower end of the range being our forecast, and the top end being an estimate based on the budget announcement). If KGHM were to meet our expectations and pay out PLN 1.5 billion in dividends (PLN 7.5/share), while fully implementing its investment plans, it would have to take out additional debt between PLN 0.75bn and PLN 1.25bn, which is not much given its creditworthiness, but which the Management might not agree to.

### 56% of KGHM shares sold by the Treasury were acquired by domestic investors...

... including financial investors such as open pension funds, which acquired one-third of all the shares available.

### KGHM lands \$400m supply deal

After inking a \$400m contract with China Minmetals Nonferrous Metals, KGHM is negotiating a five-year supply deal with the Chinese partner. Moreover, the company has signed an agreement with ENN, another partner from China, concerning possible supplies of gas which it would produce from its lignite deposits. The China Minmetals contract marks a renewal of



KGHM's long-standing partnership with the customer. The \$400m fee is an estimate based on current copper prices, subject to changes in line with price trends on metal exchanges. As for the coal gasification project, it is an old idea that we do not take into account in our financial forecasts at this stage. If it gets underway, it will be another expense eating into the current high FCF.

## Construction

### Construction output in December

According to GUS statistics, construction output in December 2009 was 3.1% higher than a year earlier and 40.9% higher than in November. Stripped of seasonal factors, the growth rates figure to +4.7% and -1.3% respectively.

### Analysts on construction growth in January

According to analysts, cold temperatures led to a 4.3% y/y drop in construction output in January (estimates range between -18% and +2.9%, BRE: -5%).

### Builders to get statutory payment guarantees

Polish lawmakers drafted an amendment to the Civil Code intended to provide builders with the possibility of demanding payment guarantees from project owners at each stage of construction. Investors asked to provide a guarantee will be obliged to comply within 45 days. Construction firms welcome these new regulations, which are designed to reduce payment bottlenecks in the industry. The proposed amendment still needs to pass through the Senate, and be signed by the President. One group that is not happy with the new laws is the Confederation of Polish Employers (KPP), which has raised concerns about the potential for abuse of the guarantees by dishonest contractors. In our opinion, the new law will benefit the Polish construction industry. As for individual companies, payment guarantees will disadvantage firms with strong liquidity (e.g. Mostostal Warszawa), and work to the advantage of players with lower liquidity (e.g. Polimex).

## Road Development

### Budimex consortium loses motorway contract

"Autostrada Południe" a consortium involving Budimex, which was supposed to be the concessionaire of a 180km stretch (Stryków to Pyrzowice) of the A1 motorway, failed to secure the necessary financing by the appointed deadline. This means that Budimex and Ferrovial lost their general-contracting deal with a total value of PLN 5.8bn. The National Directorate for Roads and Motorways (GDDKiA) announced that it was going to handle the construction itself.

## Railroad Development

### Local governments to help finance railroad development

National railroad network administrator PKP PLK plans to complete 27 projects worth PLN 1.84bn by 2015 with the help of subsidies from EU-funded regional operational programs. In 2010, these subsidies will fund 18 projects for a total PLN 1.2 billion. According to railroad industry expert Adrian Furgalski, before work on Polish rail tracks moves full steam ahead, PKP PLK has first to work out reasonable terms of contractor hiring.

### Report on the state of Polish railways

According to a report by the Railway Business Forum, in order to bring railway tracks up to standard, the Polish government would have to spend PLN 7.5 billion a year over a period of ten years. Meanwhile the 2010 budget of national railway operator PKP PLK is PLN 4.3 billion. There is no doubt that the Polish rail system is in bad condition, and that the government is not doing enough to revive it. In our opinion, PKP PLK's actual expenditure this year will not exceed PLN 3.6 billion.

## General Construction

### Public construction firms excluded from LNG terminal tender

Polimex and Erbud consortia did not receive invitations to negotiate the terms of a contract for construction of the offshore portion of an LNG regasification terminal in Świnoujście. Polimex has appealed, and Erbud decided not to.

### Warbud's growth plans

Warbud wants to offer construction services to power plants. The company's track record includes building work performed for Alstom. The builder also wants to expand in environmental engineering (mainly in construction of waste incinerators), expected to generate 30% of revenue in 2010. Further, Warbud plans to compete for public-private partnership assignments, such as schools and hospitals. Warbud's 2010 order backlog is worth PLN 1.4bn, and is 90% made up of government orders which offer modest margins due to strong competition.

## ABM Solid

### ABM Solid had a good 2009

ABM Solid estimates that it increased standalone 2009 revenue by over 10%, and doubled the net profit, vis-à-vis 2008. On a consolidated basis, the bottom line was weighed down by real-

estate operations (a PLN 1-1.5m charge) and subsidiary Resbud (which had a PLN 3.1m loss at 30 September 2009). ABM has sold 46 out of 130 flats in stock so far, and plans to start a new project in Warsaw this year covering 8.1 thousand sqm, scheduled to be listed in 2011. As far as the construction business is concerned, ABM has PLN 400m contracts slated for completion this year. The company is in acquisition talks with several building firms.

## **Energomontaż Południe**

### **2010 order backlog**

After receiving new orders from Alstom Power Systems and canceling a contract with Koksoprojekt, EPD's 2010 order backlog is worth PLN 350.9m.

### **EPD loses PLN 45.6m contract**

Negotiations between Energomontaż Południe and Koksoprojekt concerning extension of a September 2009 contract for delivery of two desorption and catalytic decomposition systems, fell through. The PLN 45.6m contract accounted for a little over 10% of expected 2010 revenue.

### **PLN 100m contract opportunity**

EPD is on the verge of signing a contract for generator upgrades with the Bełchatów Power Plant. Work on the generators is scheduled to start in March and August.

### **Orders from Alstom Power Systems**

Alstom Power Systems hired EPD to deliver flue-gas and air ducts to a power plant in Eemshaven, the Netherlands, and to install the pressure parts of a supercritical boiler at the Rheinhafen Dampfkraftwerk power plant in Karlsruhe, Germany. The PLN 7m (PLN 28.7m) orders represent 6.4% of EPD's expected 2010 revenue. Their deadlines are in April 2011.

## **Mostostal Płock**

### **Mostostal Płock looks for new contracts**

Mostostal Płock's FY2009 net profit margin was similar to the figure reported in Q3 2009. The company's 2010 revenue target is at least PLN 150m. So far, the order portfolio is a little over 50% full. Net margin is expected to be lower this year due to delays in capacity expansion projects planned by petroleum refiners. Mostostal Płock on the lookout for orders from energy producers, and for subcontracting jobs.

## **Mostostal Zabrze**

### **Backlog nears PLN 1bn**

Mostostal Zabrze's 2010 order backlog is close to PLN 1 billion according to the Supervisory Board Chair. This suggests year-on-year growth in the company's revenues this year. In coming months, MSZ plans to focus on capturing orders from power plants and contracts for waste incinerators and flue-gas desulfurization plants. A verdict is expected in late January in the company's PLN 46m suit (plus PLN 30m in accrued interest) against real-estate consulting firm Reliz.

## **Pol-Aqua**

### **Subsidiary makes best bid**

Pol-Aqua's subsidiary Vectra and partner Sonntag Baugasellschaft submitted the lowest bid on a contract for delivery of sewage collectors to the "Czajka" sewage treatment plant. The consortium offered PLN 91.5m (6.6% of Pol-Aqua's expected 2010 revenue). The deadline is 31 August 2010.

## **Remak**

### **Outlook for 2010 and 2011**

Remak generated a profit in Q4 2009, and finished FY2009 in the black with a bottom line of at least PLN 10m. 2010 is not looking as good due to delays in orders from Polish power plants. Remak is bidding for a number of contracts, and we expect it to add new awards to the PLN 100m order portfolio in coming months. The company's CEO predicts an improvement in 2011 and 2012.



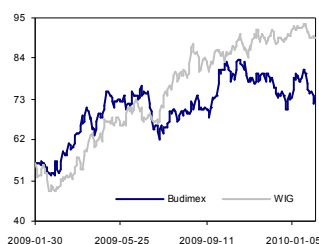
## Budimex (Accumulate)

Current price: PLN 74.2      Target price: PLN 82.5

Analyst: Maciej Stokłosa

Last Recommendation: 2010-01-06

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	3 075.9	3 350.0	8.9%	3 286.0	-1.9%	4 105.8	24.9%	Number of shares (m)	25.5
EBITDA	51.7	134.2	159.8%	230.2	71.6%	262.9	14.2%	MC (current price)	1 894.3
EBITDA margin	1.7%	4.0%		7.0%		6.4%		EV (current price)	1 971.0
EBIT	28.0	112.2	300.1%	208.3	85.7%	240.7	15.6%	Free float	26.7%
Net profit	15.1	104.7	595.1%	174.7	66.8%	188.4	7.9%		
P/E	125.7	18.1		10.8		10.1		Price change: 1 month	1.1%
P/CE	49.0	14.9		9.6		9.0		Price change: 6 month	8.3%
P/BV	3.5	2.9		2.8		2.2		Price change: 12 month	33.7%
EV/EBITDA	32.0	11.6		8.6		7.6		Max (52 w eek)	83.8
Dyield (%)	0.0	0.0		7.9		0.0		Min (52 w eek)	52.3



Budimex is a relatively defensive company thanks to solid profits from real-estate development (expected to exceed PLN 500m in 2011), loss allowances set aside in 2009, and a large order portfolio. As a leading Polish road developer, Budimex stands to add even more contracts to its already big backlog in the future. The company and its partners forming the "Autostrada Południe" consortium have recently lost a license to build a stretch of the A1 motorway, which came as no surprise to us, and which was tantamount to the disappearance of a potential value-adding factor rather than a value destroyer. We are still concerned about Budimex's cash position, which is largely a product of accounts receivable and payable, and which will eventually decrease as competition heats up and the road construction industry grows, fueled by projects planned by national road authority the GDDKiA. In the near term, however, we expect Budimex to report an increase in 2009 cash in spite of an acquisition of a 50% stake in Budimex Nieruchomości (and consolidation of its remaining debt), thanks to the GDDKiA's budget reconciliation efforts reflected in advance contract payments, and thanks to a seasonal improvement in working capital. We expect Budimex's Q4 2009 results to be in line with expectations. We are reiterating an accumulate rating on the company.

### CEO on Q4 2009 results

CEO Mr. Blocher estimates 2009 full-year sales at PLN 3-3.3bn, and the consolidated pre-tax profit at over PLN 220m; 2009 fourth-quarter earnings will be similar to the figures reported in Q2 2009. The CEO revealed that the consolidation of the newly acquired other half of the investment in Budimex Nieruchomości boosted the Q409 bottom line by more than PLN 20m.

### Dividend predictions

Mr. Blocher revealed that Budimex has about PLN 1 billion in net cash at the moment, mandating a dividend payout of 70-80% of 2009 earnings.

### 2010 outlook

Budimex's contract portfolio at 31 December 2009 amounted to PLN 5.2-5.3bn, 50-60% of which (PLN 2.6-3.2bn) are contracts scheduled for completion in 2010. The company expects to increase 2010 revenues by 10-20%. The order backlog accumulated to date accounts for 70% of the sales target. The remaining 30% can be achieved with PLN 400-500m-worth of new contracts, and it no doubt will considering that Budimex is confirmed to have made winning bids on prospective jobs totaling PLN 600-700m. Budimex hopes to maintain the 2010 operating margin at 2009 level (5-6%). The gross margin is expected to contract slightly, but net profit should display year-on-year growth.

### Budimex makes best bid

A consortium of Budimex and Ferrovial made the lowest bid on a contract to rebuild and renovate the historic "Wrocław Główny" train station. The consortium offered PLN 265.7m (ca. 6.5% of Budimex's expected 2010 revenue). The deadline is two years and 10 weeks.

### Budimex consortium loses motorway contract

"Autostrada Południe" a consortium involving Budimex, which was supposed to be the concessionaire of a 180km stretch (Stryków to Pyrzowice) of the A1 motorway, failed to secure the necessary financing by the appointed deadline. This means that Budimex and Ferrovial lost their general-contracting deal with a total value of PLN 5.8bn. The National Directorate for Roads and Motorways (GDDKiA) announced that it was going to handle the construction itself, and that it would do everything in its power to finish the A1 by the time of the Euro 2012 games.

**Max Boegl lands Wrocław stadium contract**

The City of Wrocław signed a contract with Max Boegl to replace Mostostal Warszawa as contractor for completion of a soccer stadium, scheduled for delivery in mid-2011. After analyzing Max Boegl's offer (PLN 655m, to be increased by 3.75% if the need arises to correct work already completed by Mostostal Warszawa), Budimex concluded that it does not guarantee satisfactory profits. The company is open to talks with Max Boegl about a potential subcontracting assignment on the stadium site.

**Mostostal passes up PLN 150m road contract**

Mostostal Warszawa and Budimex, consortium partners in a contract for the Pyrzowice-Piekary Śląskie stretch of the A1 motorway, signed an annex to their August 2009 agreement transferring Mostostal's PLN 150m workload under the PLN 1.5bn contract to Budimex (the additional work accounts for 3.6% of the expected 2010 revenue of Budimex, and 5.4% of the expected sales of Mostostal).



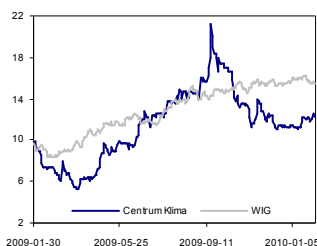
## Centrum Klima (Buy)

Current price: PLN 12.5 Target price: PLN 15.1

Analyst: Maciej Stokłosa

Last Recommendation: 2009-11-06

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	71.8	75.9	5.7%	72.1	-4.9%	75.6	4.9%	Number of shares (m)	8.5
EBITDA	10.8	11.2	3.2%	9.9	-11.5%	11.1	12.0%	MC (current price)	106.2
EBITDA margin	15.1%	14.7%		13.7%		14.6%		EV (current price)	79.9
EBIT	10.0	10.1	1.6%	8.3	-17.8%	9.0	8.2%	Free float	39.2%
Net profit	8.1	7.6	-5.9%	6.7	-12.5%	8.0	20.1%		
P/E	7.9	9.0		15.9		13.3		Price change: 1 month	6.9%
P/CE	7.1	7.9		12.9		10.6		Price change: 6 month	-18.2%
P/BV	2.2	1.7		1.4		1.3		Price change: 12 month	34.7%
EV/EBITDA	6.3	6.6		8.1		8.7		Max (52 week)	21.3
Dyield (%)	4.7	4.4		1.5		1.7		Min (52 week)	5.2



**An earlier completion of new production facilities will support Centrum Klima's profits in 2011. In 2010, the company is expected to see continuous improvement fueled by stronger sales of ventilation duct systems, which are installed at the building-shell stage of construction. The strong possibility that Centrum Klima is going to fall short of our 2009 EBIT and net-profit estimates does not affect our forecasts for FY2010. Lower-than-expected Q409 profits resulted from an increased employee headcount, and late hikes in the prices of certain products that are going to support Q1 2010 profits. We expect more price hikes from CKL in February, leading to higher margins generated on stronger revenues, and hence to better profits in 2011. We are reiterating a buy rating on Centrum Klima.**

### CKL reiterates earnings guidance

Centrum Klima reiterated its FY2009 and 2010 earnings estimates. Sales generated in Q4 2009 came slightly ahead of target, and margins remained steady. CKL has captured new customers in France, Czech Republic, Slovakia, and Belgium, and has set up business in Slovenia. All in all, CKL exports its HVAC solutions to over 20 countries, most notably to Belgium which accounts for 27% of the total revenue. International markets seem to be recovering faster than Poland, and are expected to generate 30% of CKL's revenue this year, and contribute 40-45% of total sales in the long term. Revenues going forward will be further supported by rising prices fueled by increasingly expensive copper and aluminum; CKL is readying 10-15% price hikes for late Q1 2010.



## Elektrobudowa (Hold)

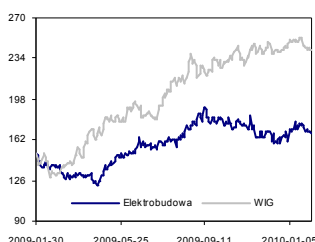
Current price: PLN 168

Target price: PLN 169.3

Analyst: Maciej Stokłosa

Last Recommendation: 2009-12-04

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	679.6	811.0	19.3%	692.9	-14.6%	683.5	-1.4%	Number of shares (m)	4.7
EBITDA	49.6	79.0	59.3%	73.7	-6.8%	67.0	-9.1%	MC (current price)	797.6
EBITDA margin	7.3%	9.7%		10.6%		9.8%		EV (current price)	695.8
EBIT	44.2	71.3	61.1%	63.7	-10.7%	55.5	-12.8%	Free float	39.1%
Net profit	34.7	60.3	73.7%	53.4	-11.4%	51.2	-4.1%		
P/E	20.4	13.2		14.9		15.6		Price change: 1 month	4.3%
P/CE	17.7	11.7		12.6		12.7		Price change: 6 month	3.7%
P/BV	6.3	3.2		2.8		2.5		Price change: 12 month	18.1%
EV/EBITDA	14.3	9.0		9.4		10.3		Max (52 week)	191.0
Dyield (%)	1.2	1.5		2.1		2.1		Min (52 week)	121.0



Elektrobudowa's sales will display flat year-on-year growth in 2010, and profitability will probably contract from its 2009 highs. The company's "power generation" segment, which caters to electricity producers, and which generates about 30% of consolidated revenues, stands to benefit from the opportunities that will arise out of the Polish power industry's upcoming capacity upgrades. That said, these prospective contracts will not start producing profits until 2013. 2010 is not expected to bring any major revenue-boosting opportunities, and sales of switchgear and electrical wiring systems are bound to be weak. Elektrobudowa is far from being the cheapest stock in the construction sector with a FY10E P/E of 15.6 and an EV/EBITDA of 10.3, and we rate it as a hold.

### CEO on 2010 earnings prospects

CEO Faltynowicz predicts that Elektrobudowa's 2010 revenue will be more or less in line with last year's figure. The company is preparing a new earnings guidance, slated for a publication in mid-February. As for FY2009 results, Elektrobudowa exceeded the bottom-line target, but fell short of the topline estimate. The company's Management Board intends to propose payout of dividends of ca. PLN 3.50 a share.

### New contract

Elektrobudowa and consortium partners Qumak Sekom and "Agat" signed a contract with Alpine Construction and Hydrobudowa Polska for installation of electrical systems in the National Stadium in Warsaw. The deadline is May 2011. The contract is worth a total of PLN 91m, of which PLN 30m goes to Qumak Sekom.



## Erbud (Hold)

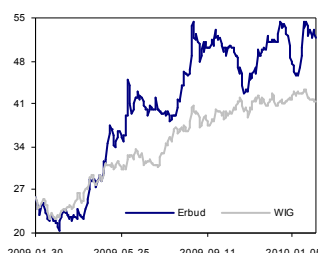
Current price: PLN 51.8

Target price: PLN 53.5

Analyst: Maciej Stokłosa

Last Recommendation: 2010-02-03

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	663.1	1 046.1	57.8%	917.5	-12.3%	1 181.0	28.7%	Number of shares (m)	12.6
EBITDA	34.6	67.3	94.5%	65.0	-3.5%	61.0	-6.1%	MC (current price)	651.2
EBITDA margin	5.2%	6.4%		7.1%		5.2%		EV (current price)	573.7
EBIT	32.8	60.8	85.5%	58.6	-3.6%	54.5	-6.9%	Free float	14.0%
Net profit	31.8	9.3	-70.8%	43.3	365.3%	45.3	4.7%		
P/E	20.5	70.0		15.0		14.4		Price change: 1 month	8.6%
P/CE	19.3	41.1		13.1		12.6		Price change: 6 month	24.1%
P/BV	3.4	3.2		2.7		2.3		Price change: 12 month	115.8%
EV/EBITDA	16.8	9.5		8.8		10.0		Max (52 week)	54.5
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	20.4



Erbud's high-quality order backlog for 2010 can be attributed partly to the efforts of the company's Management, and partly to chance (three contracts captured at high 2008 price levels). The company's focus has shifted from housing construction, its primary business in the past, to capturing high-value contracts in different sectors of the construction industry. Therefore, since upcoming residential building orders will probably be smaller than in past years (real-estate projects are typically contracted in stages), the expected rebound in the Polish housing industry will probably have a limited influence on Erbud's earnings. Erbud's stock price is high after a recent rally, and it does not offer much upside potential, prompting a downgrade to hold.

### 2010 prospects

Erbud aims to maintain its EBIT margin at 5-6% this year. The company is poised to sign a few new contracts in the first quarter of the year, including a EUR 10m contract for construction of three retirement homes in Germany. All in all, international contracts are expected to generate 20% of this year's revenue, and road contracts will contribute about 15% of the topline. Further, Erbud is in talks with two power-engineering companies generating annual sales of PLN 100m each, with which it hopes to form consortia to compete for power-plant orders, Erbud's real-estate subsidiary Budlex plans to take over two projects, one residential and one commercial, in new cities this year. Finally, Erbud might pay dividends out of 2010 profits next year, for the first time in history.

### New contract

Erbud won an appeal against the award of a contract for construction of Poland/Ukraine border-crossing infrastructure to Warbud, and is now the most likely candidate to get the PLN 144.6m order (equivalent to 12% of expected 2010 revenue).

### PLN 48.3m contract

Erbud signed a residential building contract with Dom Development for PLN 48.3m (ca. 4% of expected 2010 revenue). The company will deliver the first stage of the project, designed to house between 250 and 270 flats.



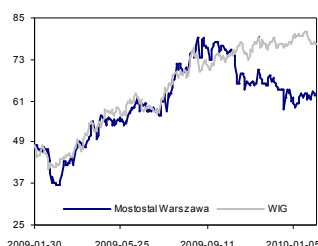
## Mostostal Warszawa (Buy)

Current price: PLN 62.5      Target price: PLN 79.6

Analyst: Maciej Stokłosa

Last Recommendation: 2009-12-02

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 928.4	2 154.2	11.7%	2 668.1	23.9%	2 775.3	4.0%	Number of shares (m)	20.0
EBITDA	78.5	136.3	73.7%	197.4	44.8%	160.8	-18.6%	MC (current price)	1 250.0
EBITDA margin	4.1%	6.3%		7.4%		5.8%		EV (current price)	1 096.9
EBIT	58.9	113.4	92.6%	173.7	53.2%	136.7	-21.3%	Free float	18.7%
Net profit	52.9	72.6	37.2%	100.7	38.6%	102.1	1.4%		
P/E	23.6	17.2		12.4		12.2		Price change: 1 month	1.0%
P/CE	17.2	13.1		10.0		9.9		Price change: 6 month	-12.6%
P/BV	4.4	3.8		3.0		2.6		Price change: 12 month	32.7%
EV/EBITDA	13.6	8.0		5.6		6.7		Max (52 week)	79.0
Dyield (%)	0.1	0.0		2.9		4.1		Min (52 week)	36.3



The loss of the stadium contract in Wrocław, giving rise to potential liquidated damages and a court dispute which, if lost, is going to cause MSW to be banned from taking part in government tenders for three years, are all factors affecting the company's value. In our opinion, the company is not going to take the City of Wrocław to court over the terminated contract, and, even if it does, the dispute would probably take between 2 and 4 years to resolve. We are optimistic that the parties can reach an amicable solution. Mostostal's 2010 order portfolio is worth about PLN 1.4 billion. The company should see buoyant revenue growth in 2011, thanks to decreasing competition which minimizes the need for risk diversification, allowing the company to reach for large orders. Moreover, many analysts do not seem to notice Mostostal's continuing expansion in the market for power-engineering solutions. The company has teamed up with Rafako to bid for generator contracts from power plants in Siekierki and Opole (in both cases, MSW's share in the consortium is less than 50%), and it is competing for a PLN 1 billion plant upgrade contract from the power plant in Bełchatów with another partner. MSW has PLN 250m in net cash which it can use to finance future construction contracts and real-estate projects, or to become an operator of waste incinerators. We expect a good Q4 2009 showing from the company, and downward revisions in 2010 forecasts which will not, however, affect MSW's attractiveness as an investment. We recommend buying MSW shares.

### MSW loses stadium contract

Mostostal Warszawa received a confirmation of termination of its stadium construction contract from the City of Wrocław, accompanied by a claim for PLN 73m in damages (to be divided between Mostostal and its contractors depending on their respective contributions to the delays).

### Mostostal may take legal action against the City of Wrocław

Mostostal Warszawa dismissed as false the allegations that the City of Wrocław raised as grounds for termination of the stadium contract. The company and its consortium partners intend to avail themselves of any legal remedies available to them to protect their interests and good name, including a lawsuit if necessary. The City of Wrocław responded to Mostostal's press release by threatening its own legal action, but later backed out of these threats in an effort to end the dispute quickly and have a new contractor enter the site as soon as possible.

### Implications of potential suit over terminated stadium contract

According to experts, in a possible dispute over breach of contract with the City of Wrocław, if the court found that the MSW consortium was in default leading to even minor losses, Mostostal would be blacklisted and banned from bidding for government contracts for three years. The company can avoid this either by proving that the Wrocław authorities had no grounds to terminate the contract, or by complying fully with the city's decisions (and not taking the case to court). Mostostal is going to issue a statement soon. Government tenders account for ca. 60% of Mostostal's revenues.

### Mostostal calculates liability provisions

Mostostal Warszawa is going to reveal the size of provisions to be set aside for potential liability claims under the Wrocław stadium contract after completion of ongoing talks with subcontractors. According to the company's consortium partner J&P Avax, delays this early in the construction process are normal. The consortium is negotiating an amicable resolution of the dispute with the City of Wrocław.

**MSW lands two contracts**

Mostostal Warszawa signed a contract for resurfacing of national road #2 for PLN 98.7m (deadline is on 30 November 2010), and an 18-month contract for construction of a water park in Kutno for PLN 27m.

**PLN 48.4m contract**

Mostostal Warszawa and subsidiary Wrobis signed a contract for construction of a computer lab for the University of Science and Technology in Krakow. The deadline is in March 2012, and the contract has a value of PLN 48.4m (1.7% of Mostostal's expected 2010 revenue).

**Subsidiary lands two small orders**

MSW's subsidiary Wrobis signed two contracts with a total value of PLN 28.7m (representing about 1% of MSW's expected 2010 revenue).

**Mostostal passes up PLN 150m road contract**

Mostostal Warszawa and Budimex, as consortium partners in a contract for the Pyrzowice-Piekary Śląskie stretch of the A1 motorway, signed an annex to their August 2009 agreement transferring Mostostal's PLN 150m workload under the PLN 1.5bn contract to Budimex (the additional work accounts for 3.6% of the expected 2010 revenue of Budimex, and 5.4% of the expected sales of Mostostal).



## PBG (Hold)

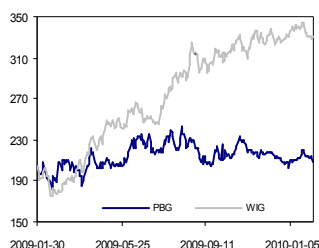
Current price: PLN 209.1

Target price: PLN 212

Analyst: Maciej Stokłosa

Last Recommendation: 2009-11-12

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 376.8	2 089.3	51.8%	2 733.1	30.8%	3 527.3	29.1%	Number of shares (m)	13.4
EBITDA	138.2	270.6	95.8%	338.5	25.1%	359.9	6.3%	MC (current price)	2 808.2
<i>EBITDA margin</i>	<i>10.0%</i>	<i>12.9%</i>		<i>12.4%</i>		<i>10.2%</i>		EV (current price)	3 779.9
EBIT	109.4	223.4	104.3%	293.5	31.4%	314.6	7.2%	Free float	53.0%
Net profit	102.1	158.0	54.9%	191.5	21.2%	213.7	11.6%		
P/E	27.5	17.8		14.7		13.1		Price change: 1 month	-0.3%
P/CE	21.5	13.7		11.9		10.8		Price change: 6 month	-7.1%
P/BV	3.8	1.0		0.7		0.9		Price change: 12 month	6.1%
EV/EBITDA	22.9	13.5		11.2		9.1		Max (52 week)	242.9
Dyield (%)	0.1	0.0		0.0		0.0		Min (52 week)	182.0



**PBG is expected to record strong but in-line earnings results for Q4 2009. We see a risk that the company will not be able to maintain above-average margins on new contracts because of a very high share in the order portfolio of large gas-and-oil engineering jobs. Another medium-term risk is the rate at which PBG is filling its order book for 2011 – to deliver the revenue target for the year, the company has to capture about PLN 5bn-worth of new contracts in 2010. We expect that contract opportunities will be most abundant in the second half of the year. Expansion in power engineering is a smart move considering the capacity-upgrade plans of Polish power plants, and the company's main advantage here is its experience in raising capital and managing large projects. In the event of a prolonged period of freezing (below -10°C) temperatures this winter, PBG might miss some deadlines on its stadium contracts. We are reiterating a neutral rating on PBG.**

### Hydrobudowa bargains for generous 'stadium' margins

Hydrobudowa is looking forward to recognizing strong final margins on stadium contracts. At the moment, profits from these contracts are booked in minimum amounts, as security against potential risks. Looking at the pace and organization of the construction work, it seems that much of the provisions will be reversed and credited to profits in the end.

### HBP, PBG, make best bid

A consortium consisting of Alpine Bau, PBG, and Hydrobudowa Polska, submitted the lowest bid on a contract to build a stretch of the S5 expressway. The consortium offered PLN 948.2m. The companies competed against 10 other consortia in the tender, of which Budimex made the fifth lowest, and Mostostal Warszawa made the ninth lowest bid.

### PBG, Pol-Aqua land gas pipeline orders

Gas and oil pipeline operator PERN awarded contracts for pipe completion with a total value of PLN 62m to two consortia: PBG, KWG, Aqua, and Pol-Aqua, AGAT, Naftoprojekt.

### PBG considers dividends

PBG is thinking about paying out 10% of 2009 earnings as dividends to shareholders. The company expects major contract awards in 2010, which will initially entail considerable expenses. PBG has built an order portfolio of PLN 4.5 billion, of which PLN 3bn-worth of contracts are scheduled for completion this year.



## Polimex Mostostal (Hold)

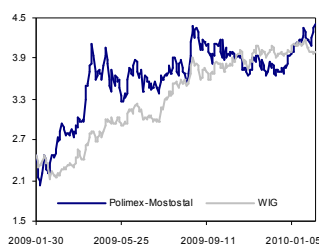
Current price: PLN 4.4

Target price: PLN 4.5

Analyst: Maciej Stokłosa

Last Recommendation: 2010-02-03

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	3 720.5	4 301.7	15.6%	4 666.7	8.5%	4 764.9	2.1%	Number of shares (m)	463.6
EBITDA	205.4	298.5	45.3%	352.0	17.9%	316.8	-10.0%	MC (current price)	2 039.8
EBITDA margin	5.5%	6.9%		7.5%		6.6%		EV (current price)	2 684.4
EBIT	160.4	228.1	42.2%	270.8	18.7%	215.4	-20.4%	Free float	58.8%
Net profit	100.1	120.1	20.0%	155.0	29.1%	147.3	-5.0%		
P/E	20.4	17.0		13.2		13.9		Price change: 1 month	10.0%
P/CE	14.1	10.7		8.6		8.2		Price change: 6 month	14.0%
P/BV	2.1	1.9		1.7		1.4		Price change: 12 month	111.5%
EV/EBITDA	12.3	8.7		7.6		8.1		Max (52 w eek)	4.4
Dyield (%)	0.4	0.2		0.0		0.0		Min (52 w eek)	2.0



Polimex Mostostal operates the second largest power-engineering business after Rafako. The company produces and repairs boilers, and delivers steel structures to power plants (its annual capacity is 90,000 tons). We are conservative in our financial projections for Polimex because we have doubts about its ability to finance and manage larger contracts. We see potential to raise our forecasts for the steel-frames business, but not for the segments of chemical- and power engineering. All in all, we might raise our consolidated 2010 net-profit estimate by PLN 5m-10m. Polimex's steel-frames business generated a net margin of an estimated 4.5% in 2009, and it is a source of high general expenses. The company stands to capture a number of orders from Polish power plants in the second half of 2010. To account for a recent price rally on Polimex's stock, we are downgrading the company to hold.

### Polimex saw 30% earnings growth in 2009

Polimex's 2009 sales increased less than expected (ca. 10%), but net profit could be as much as 30% higher than in 2008. The company's order backlog is close to PLN 8 billion, including PLN 4 billion-worth scheduled for completion in 2010. The parent company's merger with subsidiaries has been delayed to Q2 2010. After consolidation, Polimex's net profit is expected to increase by ca. PLN 20m, and net margin will be about 4%.

### Vattenfall receives two offers on new generator

Vattenfall received two tentative offers on a contract to deliver a 480 MW power generator to the Siekierki Power Plant, estimated at 600-650 million euros. The contract is scheduled to be awarded in the third quarter of 2010, and its deadline is in 2015. Vattenfall's overall 2010 capex is estimated at PLN 1 billion. According to unofficial reports, the two consortia that submitted their bids are led by Polimex and Rafako.

### Future prospects

Polimex's CEO Mr. Jaskóła believes that the construction industry's primary growth driver in the next few years will be large-scale power-plant orders, expected to come on line in 2011. The infrastructure contracts that are in supply at the moment offer weak profit margins due to strong competition. According to Mr. Jaskóła, Polimex managed to reduce its net debt considerably in 2009. Polimex's 2010 order backlog is worth PLN 4 billion. The Management Board has not made a decision yet on the CEO's suggestion to pay out 20% of 2009 profit as dividends. Polimex is currently focused on preparations for a gas-fired power plant project that it is carrying out jointly with Tauron, PGNiG, and ZA Tarnów, expected to take off in 2011.

### EUR 50m contract opportunity

According to CEO Mr. Jaskóła, Polimex's order backlog is close to PLN 8bn, of which half is scheduled for completion in 2010. Polimex has won a tender for provision of services to an international chemical company estimated at EUR 50m, and hopes that the contract can be inked in the first half of the year. Further, the company intends to bid for A1 motorway contracts.

### Polimex sells Hotel Warszawa

Polimex sold the defunct Hotel Warszawa to a group of individuals for an undisclosed price on December 31st. At the same time, the company signed a contract with the buyers for building work worth PLN 90m gross (1.9% of expected 2010 revenue). The transaction, which we expect to generate a profit of PLN 11m, will boost Q4 2009 profits.

### Gloria cashes out

During a block sale in January, Gloria s.a.r.l. sold its entire holdings in Polimex.



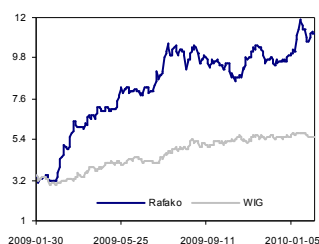
## Rafako (Accumulate)

Current price: PLN 11.1      Target price: PLN 11.6

Analyst: Maciej Stokłosa

Last Recommendation: 2010-02-03

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 137.5	1 125.6	-1.1%	996.5	-11.5%	1 310.2	31.5%	Number of shares (m)	69.6
EBITDA	35.1	76.1	116.8%	72.7	-4.5%	84.4	16.2%	MC (current price)	775.3
EBITDA margin	3.1%	6.8%		7.3%		6.4%		EV (current price)	566.7
EBIT	22.1	60.8	175.6%	56.9	-6.4%	68.2	19.8%	Free float	19.5%
Net profit	12.2	-11.6		32.8		55.8	70.0%		
P/E	63.6			23.6		13.9		Price change: 1 month	10.8%
P/CE	30.7	206.8		15.9		10.8		Price change: 6 month	8.7%
P/BV	2.2	2.3		2.1		1.8		Price change: 12 month	244.9%
EV/EBITDA	15.6	7.0		7.8		6.2		Max (52 week)	11.9
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	3.1



Rafako operates the largest power-engineering business of all mid-sized construction companies listed on the WSE. As such, the company has the best record in the industry, and a good materials base, and it stands to benefit from the upcoming power-plant orders. We see Rafako as a good investment to hold on to until 2012/2013. We are reiterating our 2010 financial estimates for Rafako, and we might raise our FY2011 revenue forecast by about PLN 100m. Major contract opportunities in H1 2010 include FGD orders which, however, are coveted by many local and international players, and orders for long-term maintenance services for the power plant in Bełchatów. A low capacity utilization rate contracted for H2 2010 is not going to depress Rafako's earnings because the company has already set aside reserves against the potential losses. The controversy surrounding the transfer of over 37% of Rafako shares by Elektrim to Laris Investments is still pending resolution. We are also looking forward to hearing whether Alstom, the leading provider of power-plant solutions whose offers have recently been rejected in several tenders in which it competed against Rafako, is going to appeal. We are downgrading Rafako to accumulate.

### Expanding order book

Rafako expects to expand its PLN 2bn order portfolio considerably in 2010 thanks to major orders from power plants. Smaller orders will be harder to come by this year due to a sluggish economy and tight access to financing by smaller power producers, as well as due to increased competition leading to lower margins. Rafako should capture about PLN 150-200m-worth of smaller orders for boiler equipment, which it is producing at full capacity. The high capacity utilization rate on boiler production lines could decline in the second half of the year unless Rafako captures more orders.

### Vattenfall receives two offers on new generator

Vattenfall received two tentative offers on a contract to deliver a 480 MW power generator to the Siekierki Power Plant, estimated at 600-650 million euros. The contract is scheduled to be awarded in the third quarter of 2010, and its deadline is in 2015. Vattenfall's overall 2010 capex is estimated at PLN 1 billion. According to unofficial reports, the two consortia that submitted their bids are led by Polimex and Rafako.

### Rafako inks 48m deal

Rafako signed a contract with the Koziernice Power Plant for replacement of an electrostatic precipitator. The PLN 48m contract accounts for ca. 3.7% of our 2010 revenue estimate for the company.



## Trakcja Polska (Hold)

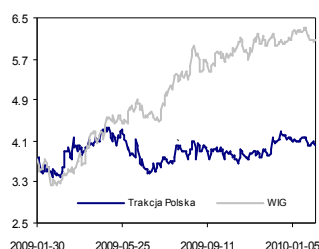
Current price: PLN 4

Target price: PLN 4.2

Analyst: Maciej Stokłosa

Last Recommendation: 2010-01-06

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	646.8	794.6	22.9%	712.7	-10.3%	753.0	5.7%	Number of shares (m)	160.1
EBITDA	35.6	60.9	71.0%	83.7	37.5%	51.2	-38.8%	MC (current price)	645.2
EBITDA margin	5.5%	7.7%		11.7%		6.8%		EV (current price)	472.1
EBIT	29.6	53.0	79.3%	73.7	39.1%	40.7	-44.8%	Free float	38.8%
Net profit	28.7	54.7	90.7%	66.1	20.8%	40.0	-39.5%		
P/E	18.3	11.8		9.8		16.1		Price change: 1 month	-1.5%
P/CE	15.1	10.3		8.5		12.8		Price change: 6 month	1.8%
P/BV	3.6	2.1		1.7		1.5		Price change: 12 month	14.8%
EV/EBITDA	12.9	5.4		5.6		8.5		Max (52 week)	4.4
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	3.4



Unfortunately, an increasingly dismal condition of the Polish railroad system does not guarantee an immediate increase in the budget of the national rail operator PKP PLK. After months of canceled contract tenders, most track developers are in the same boat, with just 70% of their 2010 order backlog filled. As new tenders slowly materialize, competition between these developers is getting more and more heated, forcing them into a price war. All this could render our PLN 40m 2010 profit forecast for Trakcja Polska overly optimistic (our revenue projections remain intact). Considering that the Polish government has given priority to road and motorway development in the next few years, the likelihood of PKP PLK delivering on its promises to award PLN 5bn-worth of railroad-building and modernization contracts this year or next, is small. This bodes ill for Trakcja Polska's earnings in the second half of 2010. We are reiterating a neutral rating on TRK shares.

### PRKiI makes best bid

Trakcja Polska's subsidiary PRKiI submitted the lowest bid on a railroad track modernization contract, offering PLN 70.2m (9.3% of TRK's expected 2010 revenue). We learned that the next lowest bidder in the tender won by PRKiI offered 13.7% more.



## Ulma Construcción Polska (Hold)

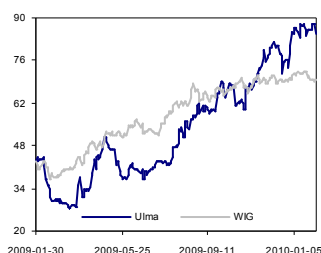
Current price: PLN 85

Target price: PLN 82.2

Analyst: Maciej Stokłosa

Last Recommendation: 2010-01-06

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	222.6	241.5	8.5%	174.7	-27.6%	221.4	26.7%	Number of shares (m)	5.3
EBITDA	108.4	103.4	-4.7%	68.7	-33.5%	112.6	63.9%	MC (current price)	446.7
EBITDA margin	48.7%	42.8%		39.3%		50.9%		EV (current price)	620.0
EBIT	66.6	40.9	-38.5%	4.1	-90.0%	43.4	959.0%	Free float	24.5%
Net profit	50.9	25.9	-49.2%	-5.0		24.9			
P/E	8.8	17.3				17.9		Price change: 1 month	-0.1%
P/CE	4.8	5.1		7.5		4.7		Price change: 6 month	60.4%
P/BV	1.9	1.7		1.7		1.6		Price change: 12 month	95.4%
EV/EBITDA	4.7	6.1		9.0		5.3		Max (52 week)	88.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	27.0



By capturing new orders, including for infrastructure formwork, Ulma has reduced the competitive pressure it was under. Ulma's rental rates are close to the prices charged by Peri, and they are higher than the average rates for rental construction equipment. The rental arrangements with building contractors made in 2009 do not create much potential for further price hikes, and formwork usage in current construction projects will be much lower than in the period from 2007 to 2008. Ulma's Q4 2009 profits will miss our estimates, which were based on underestimated depreciation charges. 2010 earnings prospects look well for the company, except for the first quarter, when it could generate a loss due to adverse weather conditions. Our FY2010 profit estimate for Ulma is PLN 25m. We are reiterating a hold rating on the company.

### CEO on rental formwork market

According to CEO Mr. Kozłowski, the market of rental formwork is recovering from a slump, as evidenced by an increasing number of orders, in particular from housing developers. Mr. Kozłowski says that it is too early to talk specific numbers when predicting 2010 financials (our bottom-line forecast for Ulma is PLN 25m). At 30 September 2009, infrastructure formwork accounted for 35% of Ulma's revenue. As far as international markets are concerned, Romania and Kazakhstan are showing signs of a recovery, while Ukraine continues to lag behind. Ulma is about to start construction of new corporate headquarters and logistics facilities, scheduled for completion in late 2011.



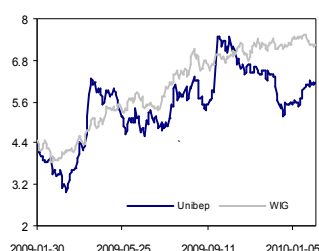
## Unibep (Accumulate)

Current price: PLN 6.2 Target price: PLN 6.6

Analyst: Maciej Stokłosa

Last Recommendation: 2010-02-03

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	407.5	502.9	23.4%	395.6	-21.3%	593.5	50.0%	Number of shares (m)	33.9
EBITDA	16.7	33.4	99.6%	28.5	-14.6%	25.1	-12.1%	MC (current price)	209.3
EBITDA margin	4.1%	6.6%		7.2%		4.2%		EV (current price)	215.6
EBIT	15.8	31.8	101.3%	24.1	-24.2%	20.1	-16.6%	Free float	23.0%
Net profit	11.7	27.6	135.3%	18.3	-33.7%	15.4	-16.2%		
P/E	14.3	7.6		11.4		13.6		Price change: 1 month	11.4%
P/CE	13.2	7.1		9.2		10.3		Price change: 6 month	5.8%
P/BV	10.2	2.0		1.7		1.5		Price change: 12 month	54.3%
EV/EBITDA	9.2	4.6		7.6		9.1		Max (52 week)	7.5
Dyield (%)	0.2	0.0		0.0		0.0		Min (52 week)	3.0



Housing construction companies will see a rapid growth in revenues this year as developers run out of the most popular housing stock. We expect to see at least 20,000 square meters of new living space started in the first half of 2010 in Poland. This implies orders for construction services totaling PLN 3.5 billion at the very least, and Unibep stands to capture a handsome portion of these orders as a builder focused primarily on housing construction. On a less positive note, we are concerned about the company's building jobs in Russia, which we think are too big and therefore too risky. In spite of an aggressive pricing policy used in 2009 to capture new contracts, Unibep's profits are not at risk thanks to strong margins generated by the real-estate business (we might make upward revisions to our real-estate margin forecasts). Now that Unibep has filled up its 2010 order backlog, it can be more 'picky' when looking for new jobs. The company's prefab-house factory will probably not generate a profit yet in 2010, but it has solid long-term potential. We are downgrading Unibep to accumulate to account for a recent price rally.

### PLN 20m profit target

According to a new earnings guidance, Unibep plans to generate a revenue of PLN 607m and a net profit of PLN 20m in 2010. The EBIT target was not revealed.

### PLN 70.5m housing contract

Unibep received an order from Warsaw-based company called "Zielony Żoliborz", a subsidiary of Turret Development, to build a 303-unit residential building with 20,059.6 square meters of living space for PLN 70.5m (12% of expected 2010 revenue). The deadline is October 2011. The entry of the contract into force is conditioned on whether the project owner can secure necessary financing. We are less worried about the developer's chances to get financing than we would have been a few months ago.

### PLN 19.57m housing contract

Unibep was hired by Prestige Budownictwo to build a residential complex in Warsaw comprising 117 flats and 4 commercial facilities. The deadline is 31 August 2011. Unibep's fee is PLN 19.57m (3.26% of expected 2010 revenue).

### Unibep backs out of Russian contract

Unibep terminated a contract for expansion of an apartment building complex in Sochi, Russia, with a value of EUR 109.5 (c. PLN 440m, representing 74% of expected 2010 revenue). Before termination, the company had completed, and had been paid for, 10% of the work.

### PLN 5.1m acquisition

Unibep purchased an 85% stake in infrastructure builder PRDM from the State Treasury for PLN 5.1m.

## Real Estate Developers

### Housing Developers

#### Q4 2009 home sales

In the fourth quarter of 2009, J.W. Construction sold 261 apartments, Polnord sold about 115 units, and Dom Development sold 230 dwellings according to newspaper reports (though the developer might report different sales figures). Ronson's sales in the quarter amounted to 66 units (20% of the stock listed at the beginning of the quarter), Atlas Estates sold 37 homes, Marvipol sold 71 homes, and Wikana sold 90 dwellings.

### Commercial Developers

#### Large deal in commercial real estate

Mayland Real Estate sold two retail properties (a 70,000 sqm mall called "Karolinka" in Opole and a 36,000 sqm shopping center called "Pogoria" in Dąbrowa Górnicza) to MGPA Europe Fund III for EUR 187m. Both properties are 98% leased. MGPA is working on finalizing a purchase of another, 22,000 sqm shopping center in Słupsk. The total value of the three deals is EUR 236m. By 2012, Mayland plans to open new retail space in Krakow, Szczecin, and Rzeszów. After a hiatus that lasted throughout 2009, real-estate experts expect an increase in prime retail property transactions this year.

### Gant Development

#### Gant increases Raiffeisen Bank loan

Gant's SPV signed an annex to a 2007 loan agreement with Raiffeisen Bank increasing to loan amount by PLN 45m to PLN 150m, and extending the payment deadline until 30 December 2011. The additional funds will be used to finance the construction of a residential/commercial complex in Warsaw. The fact that Gant was not required to provide additional collateral to get a higher loan bodes well for the real-estate industry.

#### Home sales in December

Gant sold 34 flats in December, and 72 dwellings in the fourth quarter of 2009.

#### KNF approves Gant's prospectus

The Polish Financial Supervision Authority (KNF) approved Gant's prospectus concerning a secondary offering of 3.06 million new shares for PLN 15 a share, scheduled for 11-17 February.

### GTC

#### Building plans

GTC has projects scheduled for completion during the next year-or-so with a total area attributable to the company of 260,000 square meters. At Q3 2009, GTC's built-space ownership weighted with its interests in special-purpose vehicles stood at 412,000 sqm. The developer has no plans to sell any of its properties in the near future due to low prices. Some of the projects could be refinanced with a view to obtaining capital for new developments. GTC could start construction of an office building and a shopping center in Bucharest, and two office buildings in Warsaw, in 2010. The developer receives many offers to invest in commercial property projects whose owners are unable to carry them out by themselves.

#### GTC rents out offices in Bucharest

GTC Romania rented 9300 square meters of office space in its City Gate building in Bucharest, Romania. The value of the five-year lease is estimated at EUR 11m.

### Triton Development

#### Building plans for 2010

Triton Development plans to start three residential developments in Warsaw in 2010. At the moment, the firm is handling the necessary formalities and permit procedures. The total planned living space is estimated at 35,000 square meters. Triton has sold more than half of the 600 apartments in its "Triton Park" project, set for delivery in Q1 2010. Since June 2009, the developer has been selling six apartments on average per month. Triton is currently looking for sites for small residential developments.



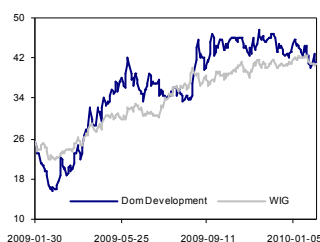
## Dom Development (Buy)

Current price: PLN 41.4 Target price: PLN 50.1

Analyst: Maciej Stokłosa

Last Recommendation: 2010-02-03

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	878.8	698.2	-20.6%	670.8	-3.9%	497.3	-25.9%	Number of shares (m)	24.6
EBITDA	243.2	168.1	-30.9%	110.1	-34.5%	39.7	-63.9%	MC (current price)	1 016.8
EBITDA margin	27.7%	24.1%		16.4%		8.0%		EV (current price)	1 293.9
EBIT	241.0	165.7	-31.2%	107.6	-35.0%	37.3	-65.4%	Free float	20.0%
Net profit	200.6	136.9	-31.7%	78.4	-42.7%	27.3	-65.2%		
P/E	5.1	7.4		13.0		37.2		Price change: 1 month	-8.0%
P/CE	5.0	7.3		12.6		34.2		Price change: 6 month	18.3%
P/BV	1.5	1.5		1.4		1.3		Price change: 12 month	80.0%
EV/EBITDA	4.2	7.7		11.8		30.0		Max (52 week)	47.7
Dyield (%)	0.0	4.9		1.9		0.7		Min (52 week)	15.7



Our outlook on the real-estate sector remains unchanged – we expect developers to report strong profits on new projects in 2011, after enjoying steady improvement in 2010. We are planning revisions to our financial forecasts for housing developers in the spring. Dom Development is still trading at a premium to its net asset value, while maintaining strong liquidity, and a capacity to finance a variety of projects that goes well beyond its official plans (provided that the company diversifies its land bank). The developer is able to start new projects sooner than competition, and it is expected to report stronger-than-average earnings results. A factor which could affect DOM's future profits is a portfolio of high-cost development sites in several major cities. We are upgrading DOM to buy to account for a recent price drop.

### DOM sells 300 homes in Q4 2009

Dom Development reported selling 300 homes (net) in Q4 2009, among others in the new "Saska Kępa" project which is enjoying unexpected popularity among buyers. The developer listed a total of 585 units for sale in the quarter, and its housing stock at the moment comprises 1000 dwellings, including 500 completed flats. Market permitting, DOM is able to list as many as 2000 homes this year. Other plans for 2010 include site purchases in Warsaw for an estimated PLN 180m, which will not affect the year's cash flows.

### CEO on sales and new projects

Dom Development launched construction of 135 flats in Warsaw's Białołęka district, and two developments on each side of the Vistula river. The right-bank project, located close to the city center, is called "Osiedle Adria" and covers 250-270 apartments in the first stage, and over 600 in total.



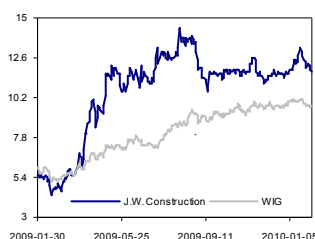
## J.W. Construction (Buy)

Current price: PLN 11.8 Target price: PLN 14

Analyst: Maciej Stokłosa

Last Recommendation: 2009-12-02

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	781.1	721.4	-7.6%	666.4	-7.6%	1 029.9	54.5%	Number of shares (m)	54.1
EBITDA	211.9	158.5	-25.2%	157.4	-0.7%	315.5	100.4%	MC (current price)	635.4
EBITDA margin	27.1%	22.0%		23.6%		30.6%		EV (current price)	888.0
EBIT	198.6	141.1	-28.9%	136.9	-3.0%	294.5	115.1%	Free float	18.0%
Net profit	148.1	100.9	-31.9%	95.7	-5.2%	247.3	158.4%		
P/E	4.2	6.3		6.6		2.6		Price change: 1 month	0.9%
P/CE	3.9	5.4		5.5		2.4		Price change: 6 month	-18.7%
P/BV	1.1	2.0		1.3		0.9		Price change: 12 month	109.1%
EV/EBITDA	5.3	8.0		5.6		1.7		Max (52 week)	14.5
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	4.3



J.W. Construction's construction cycle has about a half-a-year lag to competition. The company's advantages include its land bank, offering probably the best ratio of cost to quality of all major real-estate developers, and its own construction business. We expect JWC to report lower-than-expected Q4 2009 results generated on fewer-than-expected home deliveries made last year (suggesting the need for upward revisions in our 2010 forecasts). We would consider raising our price target for JWC over PLN 14/share if the Polish government passed a proposed law allowing current tenants of low-cost flats developed by housing associations (TBS) to buy their homes at market prices. JWC's TBS developments have low capitalization rates (ca. 3%) relative to their market values. If all were sold at market prices, JWC's value could go up as much as PLN 2.8 a share, though we would assume more conservatively that about half of current tenants will decide to buy their homes. We are reiterating a buy rating on JWC.

### JWC aims to sell 1300 homes in 2010

J.W. Construction plans to sell 1300 homes this year, 10% more than in 2009. The 2010 sales target is just half of what JWC sold before the financial crisis. In Q4 2009, the developer sold 261 flats. New housing projects are on hold until spring.

### Owner sells 7.1% stake

A company controlled by JWC's majority shareholder Mr. Wojciechowski sold 7.1% of the developer's stock. As a result, Mr. Wojciechowski's holdings decreased to just under 67%.



## Polnord (Buy)

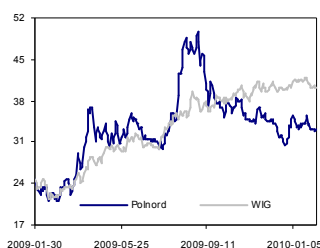
Current price: PLN 33.2

Target price: PLN 46.8

Analyst: Maciej Stokłosa

Last Recommendation: 2009-12-15

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	131.5	391.1	197.4%	207.5	-46.9%	349.4	68.4%	Number of shares (m)	22.1
EBITDA	33.0	108.7	229.0%	96.1	-11.5%	32.5	-66.1%	MC (current price)	734.1
EBITDA margin	25.1%	27.8%		46.3%		9.3%		EV (current price)	1 232.4
EBIT	31.4	106.7	239.8%	94.1	-11.8%	30.6	-67.5%	Free float	36.0%
Net profit	98.8	77.8	-21.2%	59.6	-23.4%	3.9	-93.5%		
P/E	4.7	7.7		12.3		190.2		Price change: 1 month	-6.7%
P/CE	4.7	7.5		11.9		125.5		Price change: 6 month	-21.9%
P/BV	0.6	0.6		0.7		0.7		Price change: 12 month	45.6%
EV/EBITDA	22.9	10.9		12.8		31.1		Max (52 week)	49.5
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	21.0



With proceeds from recent bond offerings (PLN 120.5m from convertible bonds, PLN 75m from non-convertible bonds), Polnord can carry out all of its planned real-estate projects, and may even exceed earnings forecasts by starting a new office development in 2010. The terms of the convertible-bond agreement put restrictions on intercompany transactions. Polnord has good relations with lenders, who agreed to extended the deadlines on much of the loans taken out to finance land purchases. Polnord's land bank includes many attractive locations. We expect the developer to report a net profit of PLN 60m for 2009, owed mainly to property revaluations. A stronger improvement in core earnings will materialize in 2011. Polnord is trading at a huge discount to book value, which we find unjustified. We are reiterating a buy rating on Polnord shares, which show a nearly 40% upside potential.

### Polnord to report PLN 60m profit in 2009

According to CEO Mr. Ciużyński, Polnord's FY2009 net profit will approximate PLN 60m. 2010 will be at least as good. In Q4 2009, Polnord booked gains on revaluation of a site reclassified as investment property, and value adjustments on office space in progress, which boosted the quarter's bottom-line profit.

### PLN 75m bond offering

Polnord issued bonds totaling PLN 75m, maturing on 22 January 2013, marking a successful completion of a program aimed at raising PLN 200m from the debt market. The proceeds are treated as long-term financing synchronized with Polnord's property-development schedule.

### Polnord aims to sell 1000 flats in 2010

Polnord hopes to sell between 800 and 1000 flats in 2010 (compared to 411 units sold in 2009). The developer hopes that it can increase monthly sales from 60-70 dwellings in H1 2010 to 100 in H2 2010. In 2011 and 2012, annual sales are expected to approximate 1500 units. Polnord's housing stock comprises 300 "old" units and 700 units in newly launched projects, with 1000 more units to be added soon. The company is financing new projects and land purchases (mainly in southern Poland) with proceeds from a recent debt offering. CEO Ciużyński expects sales to grow in 2010, accompanied by an upward trend in prices of the most popular small flats.

### Q4 2009 home sales

Polnord sold 174 flats in Q4 2009, and a total of 569 (gross) during the whole year (Q1: 78, Q2: 163, Q3: 154, Q4: 174). Adjusted for 158 cancellations, net sales amounted to 411 units. Sales peaked in November, with 80 flats delivered to buyers.

## Retail & Wholesale



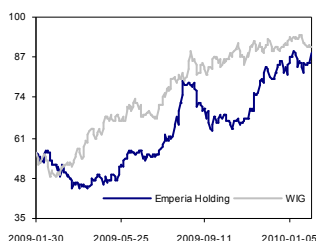
### Emperia Holding (Hold)

Current price: PLN 88.5 Target price: PLN 70.3

Analyst: Kamil Kliszcz

Last Recommendation: 2009-09-04

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	4 479.6	5 263.1	17.5%	5 520.7	4.9%	6 046.3	9.5%	Number of shares (m)	15.1
EBITDA	176.2	152.3	-13.5%	176.7	16.0%	220.5	24.8%	MC (current price)	1 337.7
EBITDA margin	3.9%	2.9%		3.2%		3.6%		EV (current price)	1 613.8
EBIT	136.2	94.9	-30.3%	113.1	19.2%	142.2	25.7%	Free float	71.0%
Net profit	88.4	60.1	-32.0%	71.3	18.6%	102.4	43.6%		
P/E	15.1	22.3		18.8		13.1		Price change: 1 month	4.7%
P/CE	10.4	11.4		9.9		7.4		Price change: 6 month	35.8%
P/BV	1.9	1.8		1.7		1.5		Price change: 12 month	60.9%
EV/EBITDA	8.3	10.6		9.1		7.3		Max (52 week)	88.8
Dyield (%)	2.0	1.0		1.9		2.8		Min (52 week)	44.8



Emperia shares underperformed their FMCG peers slightly in January, rising 4.3%. Until a Q4 2009 earnings announcement slated for March 1st, we do not expect any major developments from the company that could influence its stock value. We are reiterating a hold rating.



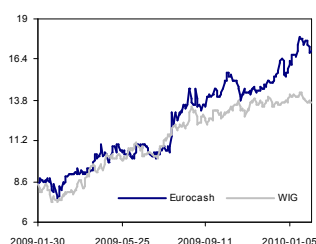
### Eurocash (Hold)

Current price: PLN 16.9 Target price: PLN 9.9

Analyst: Kamil Kliszcz

Last Recommendation: 2009-05-06

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	4 729.4	6 121.7	29.4%	6 754.1	10.3%	7 877.6	16.6%	Number of shares (m)	130.4
EBITDA	121.9	158.4	30.0%	183.3	15.7%	205.5	12.1%	MC (current price)	2 204.5
EBITDA margin	2.6%	2.6%		2.7%		2.6%		EV (current price)	2 061.4
EBIT	85.8	115.5	34.7%	134.6	16.5%	142.1	5.6%	Free float	30.0%
Net profit	58.9	78.3	33.0%	98.6	25.9%	117.2	18.9%		
P/E	36.7	28.2		22.4		18.8		Price change: 1 month	7.0%
P/CE	22.7	18.2		15.0		12.2		Price change: 6 month	30.5%
P/BV	9.2	7.8		5.8		5.0		Price change: 12 month	95.4%
EV/EBITDA	17.3	13.4		11.2		9.6		Max (52 week)	17.9
Dyield (%)	1.4	0.5		1.8		2.4		Min (52 week)	7.6



Eurocash stock soared 10% in January in spite of a lack of any major changes in the underlying fundamentals. Investors are looking forward to a strong Q409 showing from the company, but, even if their expectations are met, Eurocash can hardly be called a bargain on current EV/EBITDA and P/E multiples. We are reiterating a hold rating on the stock.

## Others



### Mondi (Hold)

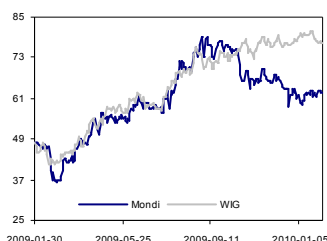
Current price: PLN 74.5

Target price: PLN 56

Analyst: Michał Marczak

Last Recommendation: 2009-09-03

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 610.4	1 406.3	-12.7%	1 337.6	-4.9%	1 804.0	34.9%	Number of shares (m)	50.0
EBITDA	299.0	305.5	2.2%	211.5	-30.8%	488.8	131.1%	MC (current price)	3 725.0
EBITDA margin	18.6%	21.7%		15.8%		27.1%		EV (current price)	4 424.9
EBIT	194.7	194.7	0.0%	91.5	-53.0%	295.2	222.5%	Free float	19.0%
Net profit	246.2	141.2	-42.6%	63.9	-54.7%	220.4	244.7%		
P/E	15.1	26.4		58.3		16.9		Price change: 1 month	1.0%
P/CE	10.6	14.8		20.3		9.0		Price change: 6 month	-12.6%
P/BV	3.8	3.5		3.1		2.7		Price change: 12 month	32.7%
EV/EBITDA	12.4	13.1		20.9		8.9		Max (52 week)	79.0
Dyield (%)	7.2	0.0		0.0		0.4		Min (52 week)	36.3



**A recovery seen in Q4 2009 should support Mondri's future EBITDA which is additionally backed by the launch of a new paper machine (which will initially generate higher finance- and depreciation expenses), and financial costs (hitherto capitalized). Prices of paper are rising, and they should continue moving upwards in the coming months on the back of the current economic momentum and a recovering manufacturing industry. We are reiterating a hold rating on Mondri.**

#### Paper prices in January

Prices of corrugated case materials were on an uptrend in January, though they increased at a slower pace, among others due to an appreciation of the zloty against the euro. Monthly price averages exceeded the Q409 averages by 3.8% in case of kraftliner, 5.2% in case of testliner, and 6.2% in case of fluting. The increase in zloty averages was 1.0%, 2.4%, and 3.3% respectively.

#### First full quarter of new machine operation

The fourth quarter of 2009 saw a 4.7% increase in the average zloty price of kraftliner, a 16.3% appreciation in testliner, and a 19.5% surge in the prices of fluting. Mondri is reporting that the output of its new paper machine is increasing at a faster-than-expected rate, hence, we predict that the Q4 2009 sales volumes will be 45% higher than in Q4 2008. The unit costs of the paper producer by the new machine will prove lower than originally predicted (EUR 150/T) due to higher prices of recycled paper and the zloty's strengthening versus the euro (the original unit-cost estimate was based on an exchange rate of 4.6). The launch of the new machine is expected to have caused a sharp increase in amortization and depreciation expenses and in the costs of its financing, with implications for the Q4 2009 profit.

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**Recent ratings for companies re-rated as of the date of this Monthly Report:**
**ASBIS**

<b>Rating</b>	Buy	Hold	Hold	Accumulate
<b>Date issued</b>	2009-08-14	2009-10-16	2009-11-09	2009-12-02
<b>Price on rating day</b>	2.90	4.70	4.40	3.68
<b>WIG on rating day</b>	34676.38	38626.43	38524.56	39905.57

**CYFROWY POLSAT**

<b>Rating</b>	Hold	Hold	Hold	Accumulate
<b>Date issued</b>	2009-05-29	2009-11-03	2009-11-12	2009-12-02
<b>Price on rating day</b>	14.25	14.26	14.19	13.88
<b>WIG on rating day</b>	29454.42	38290.12	39879.92	39905.57

**DOM DEVELOPMENT**

<b>Rating</b>	Sell	Sell	Suspended	Accumulate	Accumulate
<b>Date issued</b>	2009-05-06	2009-06-15	2009-09-04	2009-09-28	2009-11-05
<b>Price on rating day</b>	32.45	38.99	42.70	44.59	44.00
<b>WIG on rating day</b>	29777.06	32362.67	36009.43	38214.58	38148.50

**ERBUD**

<b>Rating</b>	Hold	Hold	Reduce	Suspended	Accumulate	Hold	Accumulate
<b>Date issued</b>	2009-05-06	2009-05-26	2009-06-04	2009-08-05	2009-08-14	2009-09-04	2009-11-04
<b>Price on rating day</b>	32.00	35.60	44.00	40.49	46.20	49.00	42.90
<b>WIG on rating day</b>	29777.06	29197.11	31030.61	35363.92	35998.12	36009.43	37391.24

**ERBUD cont.**

<b>Rating</b>	Hold	Hold	Accumulate
<b>Date issued</b>	2009-12-02	2009-12-17	2010-01-06
<b>Price on rating day</b>	51.00	54.00	47.15
<b>WIG on rating day</b>	39905.57	39925.72	41052.00

**LW BOGDANKA**

<b>Rating</b>	Accumulate	Hold	Hold	Buy
<b>Date issued</b>	2009-07-02	2009-08-05	2009-09-03	2009-12-15
<b>Price on rating day</b>	60.85	67.55	67.50	70.00
<b>WIG on rating day</b>	30688.73	35363.92	35784.36	39769.97

**PKN ORLEN**

<b>Rating</b>	Buy	Buy	Buy
<b>Date issued</b>	2009-06-02	2009-09-16	2009-11-18
<b>Price on rating day</b>	30.50	27.15	31.97
<b>WIG on rating day</b>	30781.55	35989.98	40723.06

**POLICE**

<b>Rating</b>	Sell	Reduce	Hold	Reduce	Hold	Hold
<b>Date issued</b>	2009-06-04	2009-08-28	2009-09-04	2009-11-04	2009-12-02	2009-12-14
<b>Price on rating day</b>	6.99	6.73	6.09	6.30	5.10	5.02
<b>WIG on rating day</b>	31030.61	37837.39	36009.43	37391.24	39905.57	39463.07

**POLIMEX MOSTOSTAL**

<b>Rating</b>	Hold	Accumulate	Buy	Accumulate	Buy	Buy	Accumulate
<b>Date issued</b>	2009-05-06	2009-05-25	2009-08-14	2009-09-04	2009-11-04	2009-11-27	2010-01-06
<b>Price on rating day</b>	3.88	3.36	3.68	4.11	3.66	3.70	4.00
<b>WIG on rating day</b>	29777.06	29399.62	35998.12	36009.43	37391.24	39275.95	41052.00

**RAFAKO**

<b>Rating</b>	Buy	Suspended	Accumulate	Buy	Buy
<b>Date issued</b>	2009-05-14	2009-08-05	2009-08-14	2009-09-04	2009-09-25
<b>Price on rating day</b>	7.05	10.15	10.20	9.55	9.74
<b>WIG on rating day</b>	29495.23	35363.92	35998.12	36009.43	38353.75

**UNIBEP**

<b>Rating</b>	Hold	Hold	Hold	Accumulate	Reduce	Hold	Buy
<b>Date issued</b>	2009-05-06	2009-05-26	2009-08-14	2009-09-04	2009-10-05	2009-11-04	2010-01-06
<b>Price on rating day</b>	5.87	5.10	5.90	5.75	7.35	6.67	5.58
<b>WIG on rating day</b>	29777.06	29197.11	35998.12	36009.43	37045.62	37391.24	41052.00

**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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**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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**Comparative** – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.