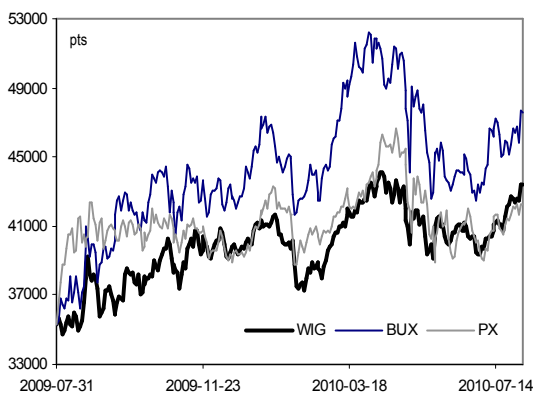


4 August 2010

Periodic Report


**Equity Market**  
 Macro-economics

<b>WIG</b>	<b>43 413</b>
Average 2010E P/E	15.1
Average 2011E P/E	12.3
Avg daily trading volume	PLN 1,566m

**WIG vs. indices in the region**

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**Macroeconomic Analyst**

BRE Bank Macro-economics Team

# Monthly Report

## August 2010

**Equity Market**

In July, a slew of good news arrived in equity markets obscuring the weaker US macroeconomic data, all this at a time when pessimism started to prevail. In the following weeks, the American macroeconomic data should continue to come in weak, pulling Europe along the downward path. The company earnings season has already been discounted; further quarters should bring no more surprises in this respect. We expect a bigger slump in the markets in the fall (with WIG20 falling to 2100pts), which means the current price upswings should be seen as an opportunity to sell.

**Company Outlook**

**Banks.** The most important developments in August will be Q2'10 earnings reports. We believe that the key issues to watch are balance-sheet developments, pressure on interest margin brought about by declining market interest rates and deterioration in loan quality, especially in the retail segment.

**Fuels.** Macroeconomic deterioration points to a less-than-rosy outlook for the second-quarter earnings of PKN Orlen and Lotos, and may reflect on their values. We are reiterating a buy rating for PGNiG which is supported by a strengthening zloty.

**Power Utilities.** Expectations of good second-quarter results, combined with high spot electricity prices and growing power usage in Poland, should give an upward push to the prices of Polish power stocks.

**Telecoms.** TPSA's earnings for Q2'10 have confirmed that the worst is now over as far as operating and regulatory aspects are concerned. At the moment, TPSA offers one of the highest dividend yields among European telecoms. When the environment improves for TPSA, it deteriorates for Netia.

**Media.** The current advertising upturn seems to be more fully priced in the shares of TVN than Agora. After a recent price increase and dividend payout, Cyfrowy Polsat no longer shows any upside potential. Our investment rating for Cinema City is hold.

**IT.** We are reiterating a buy rating on Asseco Poland, while maintaining a bearish view on Comarch. Action received a downgraded hold rating after a recent price rally. Our favorite pick among IT distributors is AB.

**Manufacturers.** Manufacturers of mining machines are operating in an increasingly favorable macroeconomic environment. As for aluminum manufacturer Kęty, its value is expected to come under pressure after weaker-than-expected Q2 results.

**Construction.** The margins and profits of Polish construction companies are on a downward trend which should be increasingly discounted by investors. Starting in Q3 2010, major players are going to build revenues based on new contracts.

**Property Developers.** Some Polish real-estate firms still display upside potential, trading below their net asset values, thus minimizing the risks of potential losses.

**Rating Changes.** As of the date of this Monthly Report, we are downgrading our investment ratings for Action (Hold), Lotos (Sell), Budimex (Sell), Centrum Klimy (Accumulate), Rafako (Hold), Cyfrowy Polsat (Hold), TVN (Reduce), LW Bogdanka (Hold), and we are temporarily suspending coverage of ING BSK, Millennium, and PZU.

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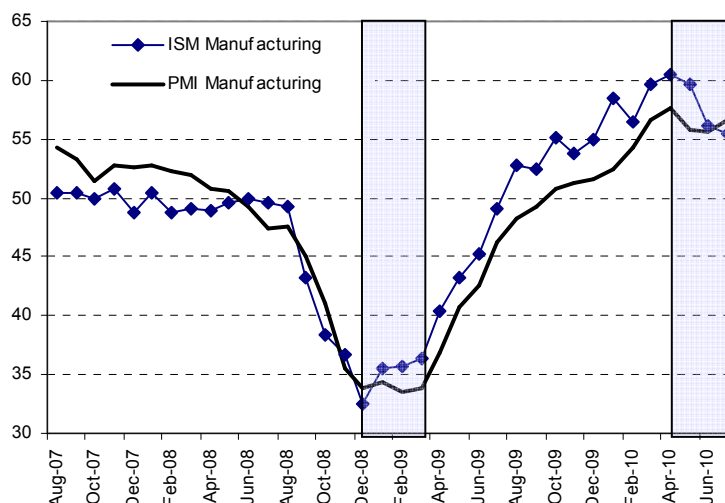
## Equity Market

Thanks to good second-quarter company results (and a good third-quarter outlook) in the USA, improved economic data in Europe, and anticipation of a government-induced economic recovery in China, July turned out to be better for equities and commodities than we had predicted. Investor sentiment during the month was further buoyed by successful T-bond auctions in Greece, Portugal, and Spain which have, at least temporarily, averted the prospect of government spending cuts in those countries. Last but not least, European banks did better than expected on the July stress tests (even if, according to some, these tests were not rigorous enough), moreover, there are reports about a planned relaxation of the Basel III requirements. In short, financial markets received a healthy dose of good news (which overshadowed weaker economic data coming from the USA) just in time before widespread pessimism took over (leading to an unwinding of short positions). Going forward, we expect a continuation of weakening US data, with European data, which either have or are about to reach their highs (e.g. on leading indicators), following suit. The second-quarter earnings season is already priced in, and future quarters are not likely to bring equally strong positive surprises (a slowing GDP, higher expectations after Q2 results). Also priced in is the prospect of interest rates remaining at their record low levels throughout next year (the US economy is said to be under increasing deflationary pressures). With this in mind, we predict a stronger downward correction in stock prices in the fall (with the WIG20 index going down to 2100 pts), and we recommend that investors take advantage of the current run-up in prices and cash in.

### Leading Indicators in Europe and USA

The Euro-Zone economic data released in recent weeks is noticeably better than the US data, especially when it comes to industrial production. The main reason behind these differences is the strong rebound in the export-driven German economy, underpinned by an increasing global trade and a weak euro. Back in 2008, when the global economy was picking up from the crisis, leading economic indicators in the US started to rise three months before the European indicators, acting as a harbinger of a trend shift in the real economy. This year, we have been seeing the ISM Manufacturing index decline for last three months, which may be interpreted as a sign for Europe - or not if consumption continues on its current path, and a weak euro continues to help exporters (the falling ISM Manufacturing Index may be a result of the strength of the US dollar). It is hard to predict at the moment the extent to which this effect will offset the impact of the planned tax increases and spending cuts in European countries, paired with the cooling economies of the United States, China, and Japan.

### The euro must continue to strengthen



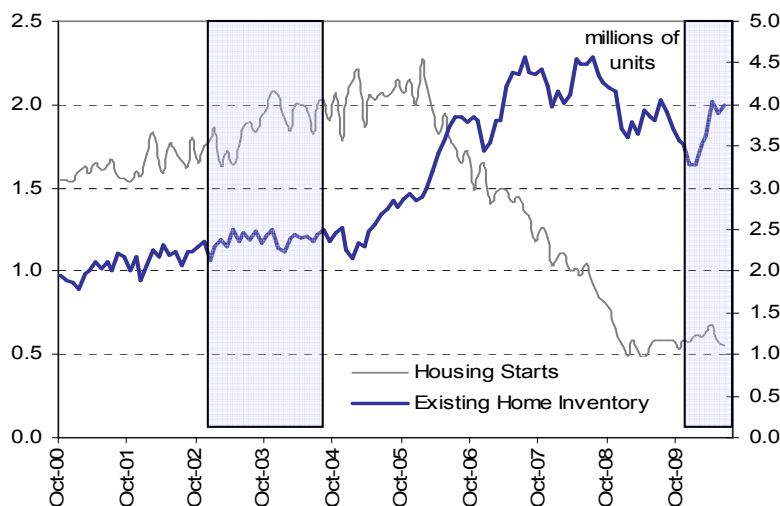
Source: Bloomberg

### Is the current economic phase a repeat of 2003/4?

Given the inter-dependence of world economies and the inter-connectedness of the world's major financial markets, investor sentiment going forward is no doubt going to be shaped by the economic situation in the US. Many investors see similarities between the current state of the economy, and hence the equity market, and the situation seen at the beginning of the previous cycle, i.e. the years 2003-2004. For our part, we see a number of significant

differences, best demonstrated by the example of America's housing market. In the 2003/2004 cycle, when a bull market was starting, low interest rates and easy access to credit spurred a major building boom which stimulated the US GDP. At the time, the number of housing completions increased to 1.5 million while the unsold home inventory hovered around 2 million. Today, the unsold inventory is almost double the level from six years ago, ruling out the inception of a similarly strong recovery. It is possible that the US Administration will announce new stimuli (tax credits, subsidies) aimed at reducing the home inventory in a manner similar to that was seen in 2009.

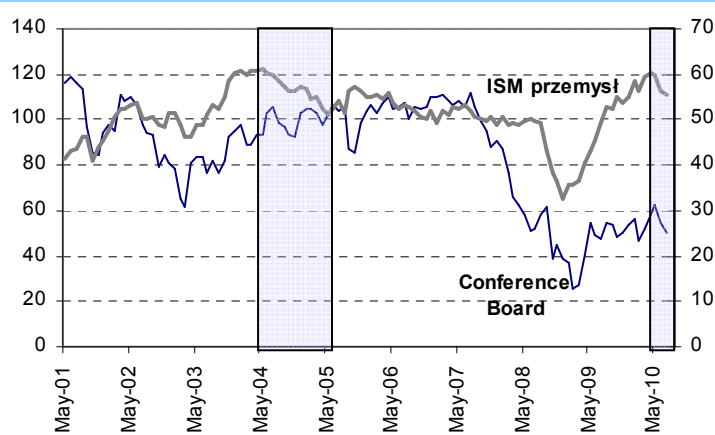
### US housing market during two last economic cycles



Source: Bloomberg

Like in 2004, ISM Manufacturing has probably already hit its peak in the current cycle. However, provided that the index stays over 50 points, this does not mean that the manufacturing industry will not continue to grow, albeit at a slower pace. That said, we have to point out that, during the previous cycle, the upward manufacturing momentum continued while consumer confidence (as measured by the Conference Board) rose, driving demand for domestic products. Today, consumer confidence is much lower, among others as a consequence of a higher unemployment rate (at 9.5% compared to 6% in the previous cycle) and higher household debt.

### Leading US indicators of manufacturing production and consumption in last two economic cycles

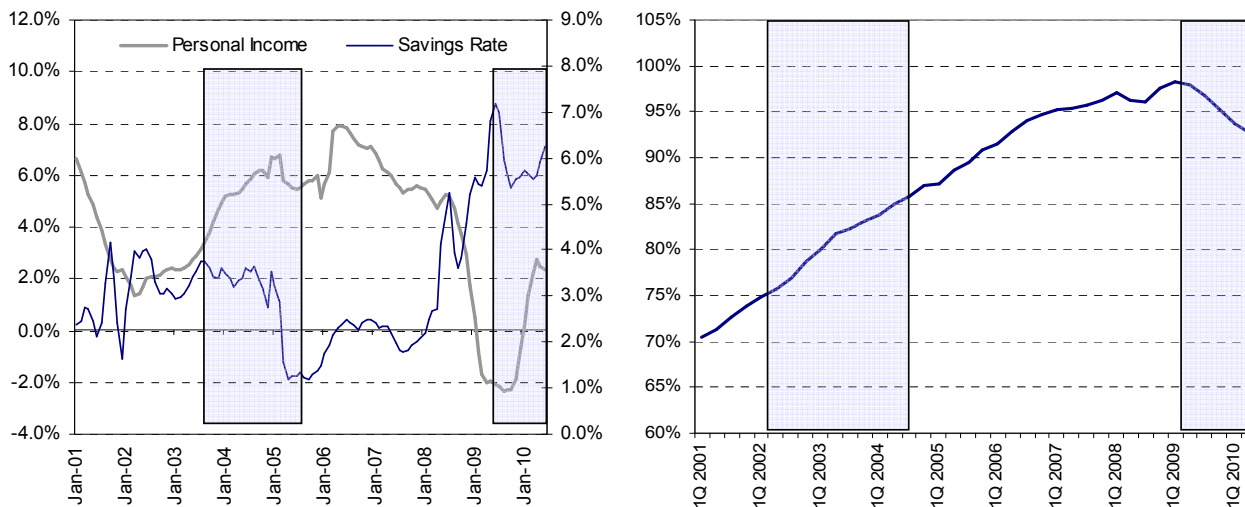


Source: Bloomberg

Compared to the early phases of the previous cycle, today's consumers in America are clearly focused on making savings (the savings rate is twice higher, compared to a negative rate recorded in late 2005/ early 2006) and repaying debts (ratio of household debt to GDP); disposable income is increasing at a much slower rate of 2.5% y/y (vs. 4-5% in the previous cycle). It must be further noted that the 2-3% rates of personal income growth recorded recently are measured against low 2009 bases. Both the current and the previous cycle are

characterized by low interest rates, the difference being that banks have since dramatically tightened their lending criteria.

**US personal income vs. savings (left), household debt as percentage of GDP**



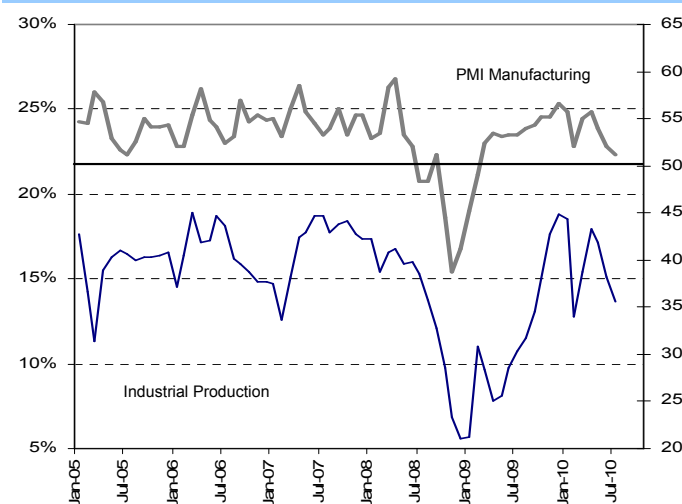
Source: Bloomberg

The fast-growing consumer debt and building boom observed in the early phases of the previous cycle are contrasted with the current household deleveraging, low consumer confidence, and a weak housing market. Moreover, government debt is much higher today. Granted, corporations are doing better, but this is true mainly for international giants that derive their earnings from different markets (and have a lot of free cash and attractively priced stocks). In light all this evidence, we conclude that the comparisons between the current recovery and the one seen in 2003/4, especially based on the example of the United States, do not stand up.

**China Will Rebound**

As predicted by analysts, the Chinese economy is decelerating, as shown, inter alia, by the decline in the industrial production growth rate (+13.7% y/y in June), with a deeper slowdown harbingered by leading indicators (PMI Industry = 51.2%). GDP growth is expected to decline to 7-8% in Q3. Nevertheless, in July Shanghai Composite went up by 11.4%, driven not just by the global improvement in sentiment towards equities, but also the belief that the economy had slowed down enough to prompt the next wave of stimulation on the part of the Chinese government, in the form of infrastructural spending and internal demand stimulation (cf. the assent to partially float the currency). Internal demand, which is supposed to cushion the potential reduction in exports (brought about by the appreciation of the currency and the decline in demand in key markets) will be further spurred by salary hikes, due in turn to the ever-more-common strikes and pressure on foreign corporations. The best examples here are the automotive manufacturers Honda and Toyota, which raised their salaries by 100% to USD 290. This is still very little compared to developed countries, but enough to prompt migration by some international corporations to even cheaper countries such as Vietnam or Bangladesh. For the time being, it is hard to predict the net short-term impact of the changes that are taking place now.

### PMI Manufacturing vs. industrial production in China

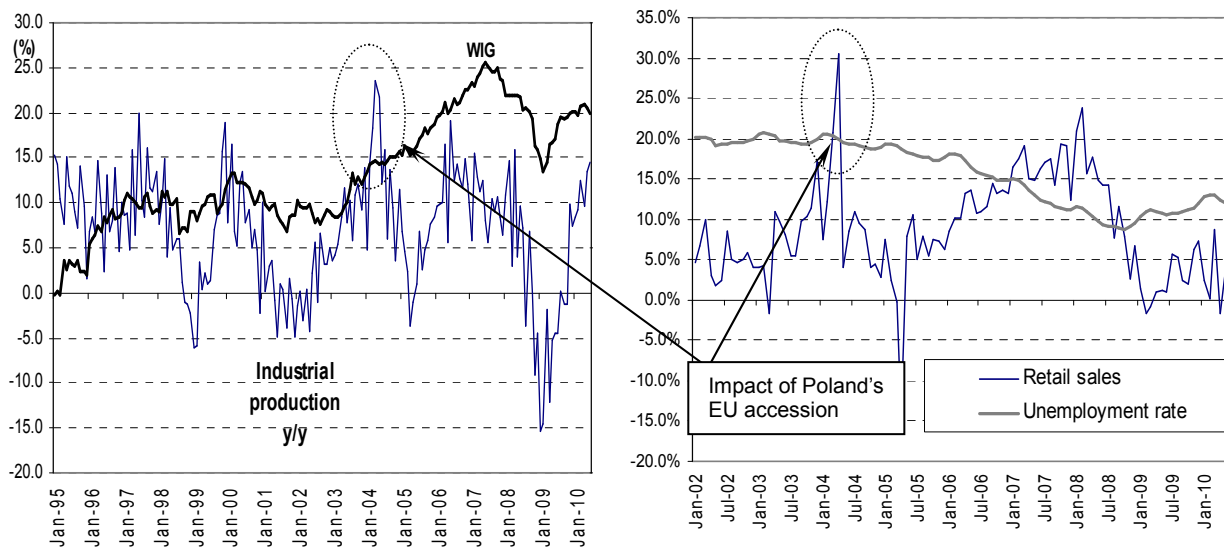


Source: Bloomberg

### Poland

The Polish economy is still experiencing a strong revival, which is especially clear in industrial production. It is also having an impact on the labor market (increase in employment, increase in salaries - in excess of 4% taking into account one-time factors), and, at the end of the day, consumption. In manufacturing, the fastest growth rates are being recorded for electronics, metals, cars and chemicals, i.e. sectors with a considerable export component and exposure to the German market. Taking into account the abovementioned factors concerning the US market – and their eventual impact on the German market – it appears that the trends currently observed in the Polish economy may slow down growth in subsequent quarters, which may also impact company earnings.

### Industrial production growth vs. WIG, retail sales vs. unemployment



Source: Bloomberg

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## Macroeconomics

### Industrial Production

In June, industrial production growth accelerated to 14.5% y/y from 13.5% y/y (adjusted) recorded in May. Manufacturing was nearly 16% higher than in June 2009. The seasonally adjusted annual rate of production growth was 11.7% compared to 10.7% in May. The survey showed growth in 27 out of the 34 manufacturing subsectors. The structure of this growth (the output of electronics and computers surged over 98% y/y, and metals, cars, and chemicals were also on an upward momentum) shows that industrial production in Poland is still being fueled by the recovering, export-driven German economy. The enduring weakness of the zloty, which boosts the competitiveness of Polish exports, may play an important role as well. This trend is likely to persist in the coming months. One thing to note is the increasing contribution to production growth of the so-called "domestic component," which allows more optimism in the forecasts for the coming months (on the question of the internal "self-sustainability" of production growth). Moving on to second-quarter GDP estimates, it may turn out that growth in the period was even higher than the 3.0% y/y rate recorded in Q1 2010. Construction growth outperformed expectations by a large margin for two straight months (+9.6% y/y in June), suggesting an acceleration in infrastructure projects in Q2 2010, and a rebound across the entire expenditure aggregate. This leads us to the conclusion that the 12.4% y/y drop in investment seen in Q1 2010 was due to the weather, and it is not going to undermine GDP growth going forward.

### Producer Prices

Producer prices were 1.9% higher in June 2010 than in the same month a year ago, which hardly came as a surprise considering that the month-on-month dynamics were in line with our forecasts (+0.8%), and the higher reading was a consequence of the previous month's reading revision from 1.6% to 1.9% (which usually happens when prices are rising quickly and not all surveys are returned on time). Manufacturing prices increased at a month-on-month rate of 0.8%, which was nearly one-third slower than in May (the core indicator – excluding coke and refined petroleum products – was 0.6% vs. 2.2% a month earlier, making the deceleration in monthly growth much more noticeable). The changes in PPI over the past three months resulted from the distribution of price shocks (F/X rates, metal prices) that hit three months ago, as suggested by the characteristic hump-shaped pattern of the monthly growth rates. Despite the temporary nature of the impulse, a significant (i.e. lasting) increase has been observed in the inflation expectations of businesses. Combined with strong production growth and capacity utilization rates (the industrial production index has already exceeded the levels observed before the slowdown, and it can be considered a fairly accurate reflection of capacity utilization), this gives rise to expectations that producer prices will accelerate (though this time not in such a shock mode), and be gradually transferred onto consumers (also imminent is an increasing upward pressure on payroll costs as jobs and salaries rebound).

### Retail Sales

Retail sales displayed 6.4% year-on-year growth in June, marking an acceleration from the 4.3% recorded in May (consensus: 4.0%), fueled mainly by increased sales of food (3.2% y/y vs. -3.6% in May). Other components again showed decent growth rates as well, with car sales up 8.5% y/y, sales of furniture, household appliances, and electronics soaring 19.7%, pharmaceuticals rising an impressive 20.4%, and clothing sales up 12.2%. The same trends were preserved on the core industry aggregate (ex food and fuels). Note, however, that the positive retail-sales readings are in contrast with slightly weaker confidence indicators (especially for food). Given the current consumer optimism (as reflected, among others, in an increasing number of mortgages, although we are waiting for a confirmation of the Central Statistical Office's dismal confidence reading) and the clear improvement in the job market, we see no important factors that could slow retail sales down anytime in the near future.

### Labor Market

Private-sector employment increased 1.1% y/y in June, again beating analysts' expectations. Compared to May, the number of jobs increased by 0.3%. There has been an unprecedented acceleration in the rate of labor market improvement over the past three months. This growth (considered by subsectors rather than at the aggregate level) does not seem to be a one-off phenomenon, and we expect the trend to continue in coming months despite the often ambiguous sentiment readings. One factor that may have boosted hiring in June was post-flood infrastructure restoration. July is likely to see continued job growth in our view. Salaries slowed down to 3.5% y/y in June from 4.8% in May (the consensus was 4.6%), but this was mainly due to delayed bonus payment in the mining industry. We reckon that salaries in the most solid sector of manufacturing production continued to increase at an annual pace of 4-5%. We expect the average salary to continue rising in the months ahead, in line with rising employment.

### **Inflation**

The annual inflation rate increased to 2.3% in June from 2.2% in May (vs. 2.1% expected by analysts and the Finance Ministry). The discrepancy vs. forecasts was once again caused by food prices which increased by 0.5% m/m (vs. +0.1% m/m forecasted by the Finance Ministry). Fuel prices increased by 0.4% m/m, and energy appreciated by 0.5%, following the increase in natural gas prices. The remaining categories still showed delayed effects of reduced demand pressure (with prices stable in such categories as telecommunications, education, household expenses). Prices increased by 0.9% in the "leisure" and "culture" categories. Core inflation (excluding energy and food prices) slowed down from 1.7% y/y to 1.5% y/y. June was really the last but one month when the annual inflation rate was shaped by a high statistical base. In July, we can expect inflation to fall slightly, but weather conditions and food-price trends make a slowdown below a rate of 2% y/y much less likely. In the fall, the inflation rate should start going up due to the good situation in the labor market, rising domestic demand and the NBP's foreign-exchange policies; by December, the inflation rate could reach 2.8%-3.0%.

### **Current Account Gap**

Poland's current account balance showed a EUR 268m gap in May compared to a deficit of EUR 336m recorded in April. The revisions announced over the past 12 months have amounted to a total of EUR +116m. The different components of the current account still show no clear new trends. Balance-of-trade data were much below our expectations, mostly due to a sharp acceleration in imports for which there is no explanation as of now in the recently-published macroeconomic data. As far as concrete figures are concerned, the trade gap in goods figured to EUR 455m vs. EUR 262m a month earlier, the deficit in services was stable at EUR 259m, the balance of the income account figured to EUR -955m, while transfer payments increased significantly to EUR 993m due to a sizable transfer from the EU. Our current macroeconomic scenario foresees a shift in the structure of GDP growth in favor of exports and inventory accumulation (combined with continuing growth in public spending); in the case of exports, the driving factor is the excellent performance of the German economy (and there is a very high correlation between Poland and Germany as regards GDP growth and export volumes). Inventories are undergoing their regular building cycle which is out of phase with the GDP growth cycle. Given the risks for personal consumption (not to be confused with total internal demand), i.e. the risk of a sharp drop in consumer confidence, possibly combined with an increase in the savings rate and reparation of household budgets, we expect the growth path to flatten in the second half of the year (perhaps the process will be extended into the beginning of 2011), which should result in a deceleration in imports and an improvement in the balance of trade. The trends observed in the balance of trade will be the main factor shaping the whole current account which, at the end of the year, may show a bigger deficit than we thought (the deficit-to-GDP ratio should not exceed 2%). In the coming months, an important driver of imports may be post-flood reconstruction, which, however, will not be able to offset the trends stemming from a slowdown in consumer demand.

### **Long-Term National Financial Plan**

The Plan sets a PLN 45bn target for the central budget deficit in 2011. In the following years, the deficit is to be reduced to PLN 40bn, 35bn and 30bn, respectively. Under the Plan, Poland's general government deficit will not go down below 3% of the GDP until 2013. As of next year, the three VAT rates will be 6%, 8% and 23%. The hike is to remain in place for three years, and is expected to bring the budget ca. PLN 5.5bn in additional revenue. In addition, salaries in administration will be frozen. Looking at the elements of the Plan that have been made public, it is hard not to think that the main deficit-reducing steps are of one-off nature. Representatives of the government have said VAT rates will not be made uniform (which would undoubtedly be a systemic solution) and the social security contribution will not be raised. Except for the "expenditure rule" (ca. PLN 2bn in savings) and the move towards centralized management of public-finance liquidity (one-time savings of PLN 16bn in 2011), no expense-reducing steps have been proposed. To the central government deficit of PLN 45bn we must add a nearly PLN 20bn gap in the so-called EU account, a nearly PLN 10bn deficit of the Road Fund and a ca. PLN 20bn deficit run by local governments. Given the likely reduction in income from privatization next year, net borrowing needs will increase to ca. PLN 100bn, and gross borrowing needs to an estimated PLN 215bn vs. PLN 192bn planned for 2010. It should also be remembered that budget deficit estimates are a function of the underlying assumptions (as of now, no bills allowing for a systematic reduction in the deficit have been proposed, and the past year showed that with GDP growth below 4% y/y Poland's deficit increases). Finally, it does seem that the Plan was determined by political calculations (with the ruling coalition attempting to retain public support prior to the parliamentary ballot scheduled for 2011), and a serious discussion on public finances has been postponed until after the elections, which, of course, we are not pleased with.

### **Market implications**

At the moment, the market is expecting the FY 2011 budget deficit to reach ca. PLN 40bn; the value mentioned in the Plan, i.e. ca. PLN 45bn will therefore constitute a certain negative

surprise (though it need not be a signal for a dramatic depreciation);

- A potentially more damning problem is the lack of a systematic approach to deficit reduction, and doubts as to the credibility of the path assumed for 2011-2013;
- The Finance Ministry's assumptions (which we infer from the non-aggressive deficit reduction path) as to the lack of deficit reduction in Euroland may prove mistaken – and a divergence of the Polish budget deficit from Spain's or Portugal's might, even if the Polish GDP grows faster, kick off a negative trend for Polish assets (at the moment, investors are clearly starting to attach much more importance to medium-term perspectives rather than liquidity issues, as has already been seen for peripheral Euro countries);
- A fiscal strategy with low credibility could provide a negative signal for rating agencies (and a rating downgrade would be a clear signal for a sharp depreciation in bond pricing; otherwise, the risk premium will remain elevated, and the trend on Polish bond yields could change – the unconvincing fiscal strategy might be offset for a while by positive surprises as regards GDP growth);
- The fiscal strategy proposed by the government is a negative signal for the Monetary Policy Council (some of its members have been stressing the need to increase interest rate hikes in reaction to fiscal loosening, the depreciation of the zloty etc.).

**Current ratings by BRE Bank Securities**

Company	Rating	Target Price	Current	Rating Day	Price on	FY2010 P/E
AB	Accumulate	18.80	17.90	2010-05-06	16.90	10.4
ACTION	Hold	18.49	18.47	2010-08-04	18.47	11.8
AGORA	Hold	24.70	24.95	2010-05-27	24.76	21.4
ASBIS	Hold	4.69	4.15	2010-05-10	4.65	10.1
ASSECO POLAND	Buy	70.60	55.80	2010-04-06	57.60	12.8
ASTARTA	Sell	45.83	62.00	2010-05-11	57.50	5.3
BUDIMEX	Sell	78.30	98.20	2010-08-04	98.20	13.5
BZWBK	Hold	200.50	187.50	2010-04-07	216.50	13.8
CENTRUM KLIMA	Accumulate	14.65	13.58	2010-08-04	13.58	14.5
CERSANIT	Hold	13.43	14.30	2010-06-04	14.00	16.9
CEZ	Hold	131.87	141.50	2010-03-03	133.90	10.0
CIECH	Buy	39.20	26.91	2010-06-02	27.00	10.6
CINEMA CITY	Hold	39.90	40.40	2010-07-16	39.00	18.0
COMARCH	Reduce	79.50	84.30	2010-08-03	86.35	32.5
CYFROWY POLSAT	Hold	16.03	14.94	2010-08-04	14.94	13.2
DOM DEVELOPMENT	Accumulate	50.10	47.00	2010-07-05	44.80	43.1
ELEKTROBUDOWA	Hold	169.20	169.30	2010-03-12	171.00	16.4
EMPERIA HOLDING	Hold	81.60	84.45	2010-03-09	77.50	16.6
ENEA	Buy	21.24	18.39	2010-06-02	18.17	12.4
ERBUD	Accumulate	54.60	50.50	2010-07-05	50.00	12.4
EUROCASH	Reduce	18.60	23.15	2010-05-06	20.61	24.9
FAMUR	Hold	2.03	2.00	2010-05-28	2.00	16.8
GETIN	Hold	10.34	10.25	2010-05-06	10.19	13.4
GTC	Hold	23.90	24.11	2010-05-28	23.80	7.2
HANDLOWY	Buy	87.10	77.80	2010-06-02	75.00	16.0
ING BSK	Suspended		821.00	2010-08-04	821.00	15.8
J.W. CONSTRUCTION	Hold	16.40	17.39	2010-07-09	16.10	5.7
KĘTY	Hold	100.71	107.50	2010-07-06	103.00	13.7
KGHM	Hold	96.10	109.40	2010-05-27	93.70	6.6
KOMPUTRONIK	Hold	11.56	11.14	2009-12-08	11.39	12.2
KOPEX	Hold	18.46	18.65	2010-05-28	18.90	17.2
KREDYT BANK	Hold	15.30	15.70	2010-04-07	14.60	33.1
LOTOS	Sell	26.50	33.15	2010-08-04	33.15	11.0
LW BOGDANKA	Hold	80.70	79.15	2010-08-04	79.15	14.5
MILLENNIUM	Suspended		4.68	2010-08-04	4.68	19.2
MONDI	Hold	67.30	73.40	2010-06-02	67.90	18.8
MOSTOSTAL WARSZAWA	Hold	68.60	68.05	2010-08-02	67.50	17.1
NETIA	Hold	4.30	4.80	2009-11-06	4.36	49.9
PBG	Reduce	194.00	228.00	2010-06-02	213.40	15.2
PEKAO	Hold	172.80	171.20	2010-03-05	165.50	16.9
PGE	Buy	27.90	22.49	2010-03-30	23.00	12.4
PGNiG	Buy	4.24	3.55	2010-06-14	3.45	12.4
PKN ORLEN	Hold	40.20	41.45	2010-04-08	39.40	11.4
PKO BP	Hold	40.10	41.00	2010-03-17	39.07	16.5
POLICE	Hold	5.50	5.41	2010-06-02	5.39	
POLIMEX MOSTOSTAL	Reduce	4.27	4.84	2010-07-30	4.74	16.3
POLNORD	Buy	51.60	35.75	2010-06-02	37.70	23.1
PZU	Suspended		399.00	2010-08-04	399.00	15.2
RAFAKO	Hold	14.00	13.85	2010-08-04	13.85	18.8
SYGNITY	Buy	18.20	14.18	2010-03-02	12.57	
TELEKOMUNIKACJA POLSKA	Accumulate	18.20	16.35	2010-07-29	15.55	16.7
TRAKCJA POLSKA	Hold	4.16	4.31	2010-05-06	4.14	16.5
TVN	Reduce	16.69	18.70	2010-08-04	18.70	22.2
ULMA CONSTRUCCION POLSKA	Accumulate	82.20	71.00	2010-07-05	73.00	15.0
UNIBEP	Accumulate	9.00	8.12	2010-05-14	7.90	14.1
ZA PUŁAWY	Hold	72.05	69.40	2010-01-06	80.90	16.1

**Ratings issued in the past month**

Company	Rating	Old Rating	Target Price	Rating Day
ACTION	Accumulate	Hold	18.49	2010-07-05
BUDIMEX	Reduce	Sell	78.30	2010-07-05
CINEMA CITY	Hold		39.90	2010-07-16
COMARCH	Reduce	Hold	79.50	2010-08-03
DOM DEVELOPMENT	Accumulate	Hold	50.10	2010-07-05
ERBUD	Accumulate	Hold	54.60	2010-07-05
J.W. CONSTRUCTION	Hold	Hold	16.40	2010-07-09
KĘTY	Hold	Hold	100.71	2010-07-06
MOSTOSTAL WARSZAWA	Hold	Accumulate	68.60	2010-08-02
POLIMEX MOSTOSTAL	Reduce	Buy	4.27	2010-07-30
RAFAKO	Buy	Hold	14.00	2010-07-05
TELEKOMUNIKACJA POLSKA	Accumulate	Accumulate	18.20	2010-07-29
ULMA CONSTRUCCION PL	Accumulate	Hold	82.20	2010-07-05

**Ratings changed as of 4 August 2010**

Company	Rating	Old Rating	Target Price	Rating Day
ACTION	Hold	Accumulate	18.49	2010-08-04
LOTOS	Sell	Reduce	26.50	2010-08-04
BUDIMEX	Sell	Reduce	78.30	2010-08-04
CENTRUM KLIMA	Accumulate	Buy	14.65	2010-08-04
RAFAKO	Hold	Buy	14.00	2010-08-04
CYFROWY POLSAT	Hold	Accumulate	16.03	2010-08-04
TVN	Reduce	Hold	16.69	2010-08-04
ING BSK	Suspended	Hold	749.00	2010-08-04
MILLENNIUM	Suspended	Accumulate	5.31	2010-08-04
PZU	Suspended	Hold	358.80	2010-08-04
LW BOGDANKA	Hold	Buy	80.70	2010-08-04

**Rating Statistics**

Statistics	All					For Clients of BRE Bank Securities				
	Sell	Reduce	Hold	Accumulate	Buy	Sell	Reduce	Hold	Accumulate	Buy
Count	3	5	31	7	8	0	1	10	3	5
As pct of total	5.6%	9.3%	57.4%	13.0%	14.8%	0.0%	5.3%	52.6%	15.8%	26.3%

## Banks

### **IBnGR, REAS: New mortgages in FY10 forecasted at PLN 40-50m**

The Gdańsk Institute for Market Economics (IBnGR) and REAS expect margins on mortgage loans to go down in 2010. Despite temporary setbacks in 2008 and 2009 (as well as in 2010), the upwards trend in this market will persist for at least a few more years. Over the next two or three, the key stimulating factor will be the relaxation of lending policies by the banks. We concur; our own forecast for mortgages in 2010 is PLN 45–48bn.

### **Subsidized mortgages in June at PLN 664m**

In June over 3,500 mortgage loans were extended under the “Rodzina na swoim” subsidy program for a total of PLN 664m. The total for H1'10 is 17,700 loans with a total value of PLN 3.2bn. The highest monthly figures were recorded in June and in March. In May, 3,000 loans were extended for a total of PLN 571m. We can see a revival in mortgage lending (good results for subsidized mortgages are likely to entail good sales results in the entire market). We nonetheless believe mortgages are the only type of credit where a revival can be observed.

### **Mortgages through May**

A report by the Polish Bank Union cited by *Rzeczpospolita* indicates that PKO BP is still the leader of the mortgage market, after extending loans for a total of PLN 4.8bn between January and May 2010 (a 28.5% share of the market). The runner up is Getin Bank (PLN 2.1bn, 12.3%), followed by Nordea Bank (PLN 1.39bn), Pekao (PLN 1.38bn), Deutsche Bank PBC (PLN 1.34bn), ING BSK (PLN 1.15bn), Kredyt Bank (PLN 963m), BZ WBK (PLN 731m) and Millennium (PLN 669m). The BRE Bank Group extended mortgage loans for a total of PLN 931m, but this total is split between Multibank and mBank. The grand total for the 20 banks covered by the report is nearly PLN 16.8bn, which according to the newspaper accounts for 93.7% of the market. Bankers expect the mortgage market to remain strong. According to forecasts by the Gdańsk Institute for Market Economics, the FY 2010 market total for new mortgages will be PLN 40–50bn, compared to PLN 38.6bn in 2009. The figures quoted in the report entail an annualized total of over PLN 40bn for FY 2010. Note however that these data include the weak onset to the year (with sales slow in January and February due to the tough winter, the situation in the labor market and the banks' lending practices), which means that average monthly sales may end up being higher in the latter seven months of the year. We are reiterating our PLN 45–48bn forecast for mortgages in 2010.

### **NBP: loans may continue decelerating over the next few quarters**

Over the next few quarters, loans may continue decelerating, and stronger growth in the key categories may not come until 2011, says an NBP report on the stability of the financial system in July 2010. We believe the aggregate credit portfolio will grow in FY 2010, albeit at low single digits. An important issue are foreign exchange rates, which have a strong impact on the growth rate of the portfolio.

### **NBP: five banks need extra capital under base scenario, sixteen under shock scenario**

Under the NBP's base scenario, which relies on the central bank's June projection, a capital increase would be needed by five small banks with aggregate share in total assets of commercial banks of 1.4%. Under a shock scenario, 16 small and medium banks would be in need of extra capital (12.1% of total assets of commercial banks). The simulation encompasses the period through 2012. We consider these results satisfactory. Let us point out that under the shock scenario, the 12.1% share in assets is split among 16 banks, i.e. an individual bank in this group has a market share below 1%. The risk is thus dispersed.

### **KNF: low downpayment insurance is an acceptable way of increasing credit capacity**

Towards the end of August, most of the provisions of the Financial Supervision Authority's (KNF's) new “T” recommendation, governing mortgage lending, will come into force. One of the provisions states that the LTV ratio for loans with maturity of five years or more should not exceed 80%. According to experts, this will lead to a drop in the value of loans granted. Some banks have suggested low downpayment insurance could be a remedy, and the KNF confirmed yesterday such an approach is acceptable as long as the insurance contract is not subject to additional constraints. Low downpayment insurance has been used by Polish banks for quite a while. Thus, little will change, because banks have required such insurance for quite some time, especially for F/X loans. The “T” recommendation also imposes a limit on loan payments as proportion of the borrower's total income. However, this provision will only affect very aggressive players, and perhaps the consumer finance segment.



## BZ WBK (Hold)

Current price: PLN 187.5 Target price: PLN 200.5

Analyst: Iza Rokicka

Last Recommendation: 2010-04-07

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Net interest income	1 635.1	1 563.2	-4.4%	1 797.8	15.0%	1 914.0	6.5%	Number of shares (m)	73.0
Interest margin	3.3%	2.8%		3.2%		3.1%		MC (current price)	13 680.1
Revenue f/banking oper.	3 190.0	3 239.4	1.5%	3 465.5	7.0%	3 694.0	6.6%	Free float	29.5%
Operating income*	1 575.9	1 644.4	4.3%	1 812.8	10.2%	1 925.6	6.2%		
Pre-tax income	1 211.4	1 163.3	-4.0%	1 334.7	14.7%	1 690.0	26.6%		
Net income	855.4	886.2	3.6%	993.3	12.1%	1 270.2	27.9%		
ROE	18.4%	16.2%		15.8%		17.8%		Price change: 1 month	0.4%
P/E	16.0	15.4		13.8		10.8		Price change: 6 month	11.5%
P/BV	2.8	2.3		2.1		1.8		Price change: 12 month	56.9%
D/PS	3.0	0.0		4.0		4.5		Max (52 w eek)	220.9
Dyield (%)	1.6	0.0		2.1		2.4		Min (52 w eek)	118.7

\* before provisions



**We are reiterating our hold rating on BZ WBK with a target price of PLN 200.5 per share. We consider the current valuation at FY10 P/E of 13.8 fair relative to medium-sized banks, but attractive in comparison with the average of PKO BP's and Pekao's multiples. Earnings for Q2'10 were in line with our expectations, and we therefore reiterate our earnings forecasts for 2010 and 2011 (PLN 993m and PLN 1 270m, respectively).**

### Q2'10 bottom line in line with expectations at PLN 250m

BZ WBK reported a PLN 250m bottom line for Q2'10 (-3% y/y, +7% q/q), which was in line with our forecasts (PLN 253m) and market consensus (PLN 263m). Total income was strong and increased by 8% q/q thanks to dividends from Aviva (PLN 53m). Adjusted for seasonal factors and dividends, total income was flat q/q. Interest income was strong (+3% q/q) thanks to the widening interest margin (+11bps to 3.19%) brought about by increased return on assets. On the other hand, trading income adjusted for dividends from Aviva declined both quarter-on-quarter (by 8%) and year-on-year (by 10%). Total expenses (+2% q/q) remained in check, thanks mostly to a decline in payroll expenses (-7% q/q). On the other hand, administrative expenses increased sharply by 18% q/q, due to increased marketing expenditures. Provisions brought about a negative surprise at PLN 146m (+108% q/q and +19% y/y), which entails costs of risk at 173bps (+90bps q/q). It is also noteworthy that costs of risk on the retail portfolio increased by 104bps q/q to 480bps. The proportion of non-performing loans increased by 50bps to 6.3%, mostly due to a deterioration in the quality of corporate loans (+90bps to 7.9%). The coverage of NPLs with provisions declined slightly, by 85bps q/q, to 57.6%.

### CEO reiterates cost-of-risk and cost / income ratio targets (< 130bps, <50%)

During the earnings conference for Q2'10, BZ WBK CEO Mateusz Morawiecki has reiterated his earlier forecasts regarding costs of risk and the cost / income ratio in FY 2010 (under 130bps and under 50%, respectively). Both figures are close to our current forecasts of 135bps and 48.1%, respectively.

BZ WBK is expecting to pay 50% of its FY10 profits as dividends

(this is the payout rate used in its calculations of the capital adequacy ratio). This value is more optimistic than our current forecasts, which assume dividend payout of 33%, i.e. at the FY 2009 level.

### Four meeting with potential buyers have been held

CEO Mateusz Morawiecki told analysts that four meeting with potential buyers had been held. Newspaper reports suggest these would be PKO BP, Santander, BNP Paribas and Intesa Sanpaolo (the only one to officially confirm its participation). In our opinion, the current frontrunners are PKO BP (preferred by the government and the financial supervisor) and Santander (which, according to newspapers, made a bid for all three assets AIB had put on sale). Bids are due by mid-August, and the new investor will be known in September.



## Getin (Hold)

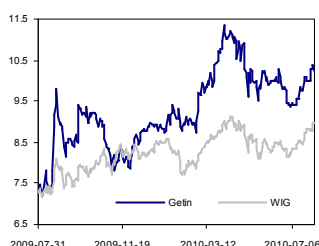
Current price: PLN 10.25 Target price: PLN 10.34

Analyst: Iza Rokicka

Last Recommendation: 2010-05-06

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Net interest income	1 017.7	977.5	-3.9%	1 207.9	23.6%	1 329.9	10.1%	Number of shares (m)	712.4
Interest margin	4.0%	2.9%		3.2%		3.2%		MC (current price)	7 302.3
Revenue f/banking oper.	2 029.9	2 094.4	3.2%	2 208.4	5.4%	2 394.1	8.4%	Free float	28.0%
Operating income*	1 079.9	1 200.0	11.1%	1 230.6	2.5%	1 351.7	9.8%		
Pre-tax income	701.0	357.6	-49.0%	669.1	87.1%	937.3	40.1%		
Net income	508.5	276.0	-45.7%	543.6	97.0%	677.1	24.6%		
ROE	15.2%	7.4%		13.3%		14.4%		Price change: 1 month	9.6%
P/E	14.3	26.5		13.4		10.8		Price change: 6 month	15.6%
P/BV	2.0	1.9		1.7		1.4		Price change: 12 month	35.0%
D/PS	0.0	0.0		0.0		0.0		Max (52 week)	11.4
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	7.2

\* before provisions



Despite the surprisingly strong growth of loans, deposits and income we expect Getin Holding to display this year (by 14%, 12% and 5%, respectively), we are reiterating our hold rating with a PLN 10.34 per-share target price due to the declining quality of the loan portfolio. After the share of non-performing loans in the consumer finance segment increased from 15.2% at the end of 2008 to 39.0% in Q1'10, GNB started to also see a deterioration in the quality of its mortgages (with the share of NPLs at 2.8% in Q1'10 vs. 1.2% at the end of 2008). In our opinion, not only will the risk of increased mortgage provisions materialize in Q2'10 earnings, but it might have a negative impact on the Company's profitability in H2 2010 as well.

### Costs of risk will once again determine earnings in Q2'10

We expect Getin Holding to report a Q2'10 bottom line of PLN 63m (-42% q/q and -21% y/y). However, our forecast does not factor in one-time gains, such as a tax refund or a write-off of goodwill on account of the GMAC takeover. We expect continued rapid income growth (+7% q/q), mostly thanks to a strong fee income (+10% q/q) from lending and brokerage services. We expect costs to increase at the same rate as income (+7% q/q), which will allow the Bank to keep its cost / income ratio at an unchanged level of 37.2%. We expect the costs or risk to remain very high (400bps) due to the decline in the quality of mortgages.

### Getin Holding acquires a 10% stake in Fiolet PDK for PLN 19m

Getin Holding purchased 56,172 shares in Fiolet PDK (10.13%) from Polish Purple Investments S.a.r.l., a Luxembourg based company, for PLN 19m. After this purchase, GH owns 237,864 shares in Fiolet PDK (42.94%).

### TU Europa will resume its SPO plans if the stock market turns for the better

TU Europa maintains it is going to carry out its SPO before the end of they year if the situation in the stock market improves.



## Handlowy (Buy)

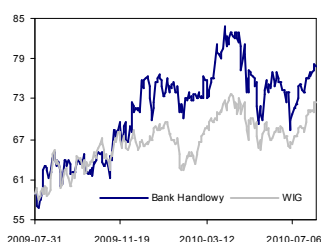
Current price: PLN 77.8    Target price: PLN 87.1

Analyst: Iza Rokicka

Last Recommendation: 2010-06-02

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Net interest income	1 365.8	1 505.4	10.2%	1 507.7	0.2%	1 560.7	3.5%	Number of shares (m)	130.7
Interest margin	3.4%	3.8%		3.8%		3.7%		MC (current price)	10 165.3
Revenue f/banking oper.	2 312.8	2 418.4	4.6%	2 482.6	2.7%	2 600.0	4.7%	Free float	25.0%
Operating income*	909.6	1 200.6	32.0%	1 133.0	-5.6%	1 183.0	4.4%		
Pre-tax income	759.2	655.3	-13.7%	806.0	23.0%	1 105.3	37.1%		
Net income	600.4	504.4	-16.0%	633.4	25.6%	868.6	37.1%		
ROE	10.7%	8.5%		10.1%		13.2%		Price change: 1 month	9.9%
P/E	16.9	20.2		16.0		11.7		Price change: 6 month	7.6%
P/BV	1.8	1.6		1.6		1.5		Price change: 12 month	36.9%
D/PS	4.8	0.0		3.8		3.9		Max (52 w week)	83.9
Dyield (%)	6.1	0.0		4.8		5.0		Min (52 w week)	56.9

\* before provisions



We are reiterating our buy rating for Bank Handlowy with a PLN 87.1 per-share price target. BH is one of two significantly overcapitalized Polish banks (with Q1'10 Tier 1 ratio at the staggering 18.4%). Combined with the expected non-exacting increase in risk weighted assets, we can expect high future dividend payouts. With the 80% payout rate we currently assume for 2010-2012 (vs. 88% in 2009), gross dividend yield will figure to 5.0-7.5%, and we consider this the Bank's main strength.

### Q2'10 bottom line expected at PLN 177m, in line with consensus

We expect Bank Handlowy to report a high net profit of PLN 177m (+17% q/q, +148% y/y), in line with market expectations (PLN 174m). We expect strong revenue growth (+10% q/q), due mostly to a strong trading income and a positive impact of other operating income (no write-off on account of the buyback of Lehman Brothers' bonds). We expect the main income lines, i.e. interest and fee income, to show only slight changes vs. Q1'10, of -2% in the former case (due to pressure on the deposit margin brought about by declining market interest rates) and by +3% in the latter case. We believe the strong increase in income will be accompanied by an equally strong growth in expenses (+8% q/q). In particular, we expect a fast growth rate for administrative expenses (+9% q/q) due to the low base of comparison in Q1'10. We expect a slight q/q increase in provisions (by 11%), as we do not expect reversals of provisions for corporate loans.



## ING BSK (Suspended)

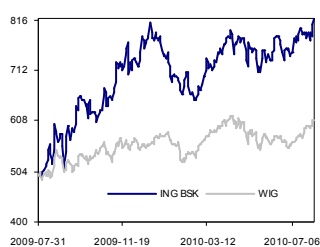
Analyst: Iza Rokicka

Current price: PLN 821 Target price: -

Last Recommendation: 2010-08-04

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Net interest income	1 152.0	1 442.1	25.2%	1 539.3	6.7%	1 658.7	7.8%	Number of shares (m)	13.0
Interest margin	1.9%	2.2%		2.5%		2.5%		MC (current price)	10 681.2
Revenue f/banking oper.	2 060.5	2 488.3	20.8%	2 649.7	6.5%	2 847.6	7.5%	Free float	18.9%
Operating income*	580.4	990.7	70.7%	1 116.4	12.7%	1 247.2	11.7%		
Pre-tax income	563.1	738.3	31.1%	840.7	13.9%	1 145.3	36.2%		
Net income	445.4	595.1	33.6%	677.5	13.9%	923.1	36.2%		
ROE	11.1%	13.1%		13.0%		15.3%		Price change: 1 month	10.3%
P/E	24.0	18.0		15.8		11.6		Price change: 6 month	22.5%
P/BV	2.5	2.2		1.9		1.6		Price change: 12 month	66.2%
D/PS	11.7	0.0		0.0		0.0		Max (52 w eek)	821.0
Dyield (%)	1.4	0.0		0.0		0.0		Min (52 w eek)	494.0

\* before provisions



**We are currently updating our forecasts and recommendations and we are therefore suspending our rating for ING BSK.**



## Kredyt Bank (Hold)

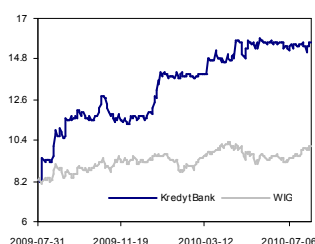
Current price: PLN 15.7 Target price: PLN 15.3

Analyst: Iza Rokicka

Last Recommendation: 2010-04-07

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Net interest income	1 059.9	1 061.2	0.1%	1 110.0	4.6%	1 174.5	5.8%	Number of shares (m)	271.7
Interest margin	3.2%	2.7%		2.8%		2.9%		MC (current price)	4 265.0
Revenue f/banking oper.	1 585.9	1 530.4	-3.5%	1 597.3	4.4%	1 699.0	6.4%	Free float	7.7%
Operating income*	531.3	848.1	59.6%	651.5	-23.2%	700.2	7.5%		
Pre-tax income	421.1	46.7	-88.9%	161.0	245.1%	552.4	243.1%		
Net income	324.9	34.6	-89.4%	128.8	272.7%	441.9	243.1%		
ROE	13.2%	1.3%		4.9%		15.0%		Price change: 1 month	1.7%
P/E	13.1	123.4		33.1		9.7		Price change: 6 month	14.2%
P/BV	1.6	1.6		1.6		1.4		Price change: 12 month	91.0%
D/PS	0.5	0.0		0.0		0.0		Max (52 week)	15.9
Dyield (%)	3.3	0.0		0.0		0.0		Min (52 week)	8.2

\* before provisions



We unambiguously approve of Kredyt Bank's cost optimization efforts in 2009 and we believe they may turn out to be one of the key factors in its future return to profitability (above the cost of capital). That said, we believe that attaining a further reduction in costs in nominal terms will be tough, and an improvement in operating income before provisions can only be driven by revenues, which will be difficult to achieve in 2010. Although we expect a considerable improvement in profits in FY10 (+273% to PLN 129m) due to a sharp reduction in the costs of risk (-39%), we believe this only warrants a hold rating with a target price of PLN 15.30 per share.

### Net income to fall 20% q/q to PLN 48m in Q2'10

We expect the Bank's net profit for Q2'10 to figure to PLN 48m (-20% q/q, +19% y/y and 14% below the current consensus forecast). We expect a slight drop in interest income (-1% q/q) brought about primarily by a decline in market interest rates. In our opinion, any potential q/q growth in deposits will not lead to an increase in loans or total assets. We believe a reduction in the Bank's business activity will also keep fee income flat. Just like income, costs will hardly budge. With the retail costs of risk stabilizing, we expect corporate provisions to increase (in Q1'10, the Bank released PLN 3m worth of corporate provisions).



## Millennium (Suspended)

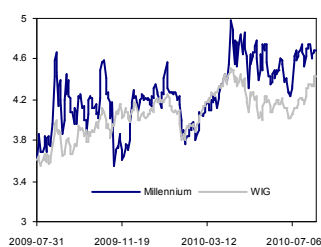
Current price: PLN 4.68 Target price: -

Analyst: Iza Rokicka

Last Recommendation: 2010-08-04

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Net interest income	1 135.1	691.1	-39.1%	998.9	44.5%	1 139.4	14.1%	Number of shares (m)	1 213.1
Interest margin	2.9%	1.5%		2.1%		2.3%		MC (current price)	5 677.4
Revenue f/banking oper.	1 827.5	1 434.2	-21.5%	1 744.7	21.6%	1 956.9	12.2%	Free float	26.3%
Operating income*	657.0	431.0	-34.4%	693.9	61.0%	837.0	20.6%		
Pre-tax income	521.8	1.9	-99.6%	370.3	19639.9%	656.6	77.3%		
Net income	413.5	1.5	-99.6%	295.3	19639.9%	523.6	77.3%		
ROE	15.5%	0.1%		8.6%		12.1%		Price change: 1 month	8.1%
P/E	9.6	2 656.5		19.2		10.8		Price change: 6 month	17.0%
P/BV	1.4	1.4		1.4		1.2		Price change: 12 month	26.8%
D/PS	0.2	0.0		0.0		0.0		Max (52 week)	5.0
Dyield (%)	4.1	0.0		0.0		0.0		Min (52 week)	3.6

\* before provisions



**We are currently updating our forecasts and recommendations and we are therefore suspending our rating for Bank Millennium.**



## Pekao (Hold)

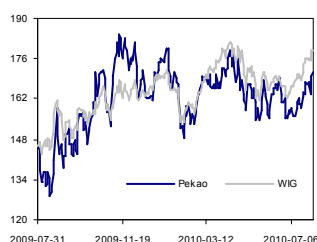
Current price: PLN 171.2 Target price: PLN 172.8

Analyst: Iza Rokicka

Last Recommendation: 2010-03-05

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Net interest income	4 509.5	3 802.3	-15.7%	4 313.5	13.4%	4 660.1	8.0%	Number of shares (m)	262.3
Interest margin	3.5%	2.9%		3.2%		3.3%		MC (current price)	44 911.0
Revenue f/banking oper.	7 578.2	7 062.6	-6.8%	7 552.6	6.9%	8 131.2	7.7%	Free float	40.7%
Operating income*	4 535.0	3 466.0	-23.6%	3 805.9	9.8%	4 267.2	12.1%		
Pre-tax income	4 346.0	2 997.7	-31.0%	3 305.9	10.3%	3 920.4	18.6%		
Net income	3 528.0	2 412.0	-31.6%	2 661.0	10.3%	3 157.4	18.7%		
ROE	23.0%	14.1%		14.3%		16.2%		Price change: 1 month	9.3%
P/E	12.7	18.6		16.9		14.2		Price change: 6 month	10.4%
P/BV	2.8	2.5		2.4		2.2		Price change: 12 month	28.6%
D/PS	9.6	0.0		2.9		8.1		Max (52 w week)	184.6
Dyield (%)	5.6	0.0		1.7		4.7		Min (52 w week)	128.0

\* before provisions



Pekao is one of two Polish banks best provided with capital, with capital adequacy ratio at 18.0% after Q2'10. Although we do not believe Pekao is able to increase its risk-weighted assets enough to make effective use of surplus funds, we do not expect it to use them to pay a dividend either. In our opinion, the Bank will maintain surplus capital in order to be prepared for potential acquisitions in the Polish banking industry, especially if PKO BP succeeds in its efforts to take over BZ WBK. After Pekao met 46% of our FY10 PLN 2.66bn net profit forecast, we see no reasons to change our forecasts and outlook on the Bank. We are reiterating a hold rating with a price target of PLN 172.80 per share.

### Second-quarter earnings in line with expectations

Pekao's Q2 2010 net income came in at PLN 619m (+3% q/q, +1% Y/Y), matching our PLN 606m forecast and the PLN 619m consensus estimate. The bank reported faster-than-expected rates of expansion in deposits (+6% q/q) as well as loans (+8% q/q), fueled by corporate accounts. In spite of decent asset growth, interest income showed flat quarter-on-quarter growth at PLN 1.0bn, caused by a narrowing in the interest margin (which declined by 4 bps to 3.07%) led by decreasing market rates. Both fee income (+3% q/q) and trading income (+5% q/q) were satisfactory. Second-quarter costs were under control and remained flat at the first-quarter level. A 2% uptick in payroll expenses was offset by an 8% decline in D&A expenses facilitated by streamlined IT and logistics processes. At PLN 136m, loan-loss provisions were 3% lower than in Q1 and in line with our estimate. As a result, costs of risk amounted to 69 bps after a slight, 4bps decline vs. Q1.

### Still no clear declaration as to how surplus capital will be used

During the earnings conference, the Management avoided a clear answer as to the Bank's surplus capital and its potential uses. We believe that with PKO BP well-positioned to take over BZ WBK, Pekao will not use these funds to pay a dividend (restricting it to current profits), so as to be prepared for future acquisition opportunities in Poland. As a result, in our forecasts we assume an 80% dividend payout rate.



## PKO BP (Hold)

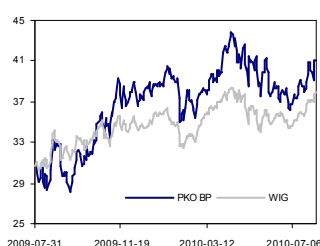
Current price: PLN 41      Target price: PLN 40.1

Analyst: Iza Rokicka

Last Recommendation: 2010-03-17

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Net interest income	6 127.3	5 051.2	-17.6%	6 224.4	23.2%	6 824.2	9.6%	Number of shares (m)	1 250.0
Interest margin	5.0%	3.5%		3.8%		3.7%		MC (current price)	51 250.0
Revenue f/banking oper.	9 096.7	8 607.0	-5.4%	9 636.9	12.0%	10 446.9	8.4%	Free float	48.8%
Operating income*	5 092.1	4 624.0	-9.2%	5 462.2	18.1%	6 168.3	12.9%		
Pre-tax income	3 977.3	2 943.3	-26.0%	3 924.9	33.4%	5 461.6	39.2%		
Net income	3 120.7	2 305.5	-26.1%	3 100.7	34.5%	4 314.7	39.2%		
ROE	24.1%	13.4%		14.5%		18.2%		Price change: 1 month	11.8%
P/E	13.1	22.2		16.5		11.9		Price change: 6 month	16.9%
P/BV	2.9	2.5		2.3		2.0		Price change: 12 month	40.6%
D/PS	1.1	1.0		0.8		1.2		Max (52 w week)	43.9
Dyield (%)	2.7	2.4		2.0		3.0		Min (52 w week)	28.1

\* before provisions



We are reiterating a hold rating with a price target of PLN 40.10 per share. In our opinion, the key determinant of the stock price will be further information concerning AIB's divestment of BZ WBK, where PKO BP is one of four institutions admitted to the due diligence stage. While such a transaction appears to be strategically interesting, price is the key factor as far as the assessment of its business sense and impact on the Bank's valuation are concerned. In addition, we believe that risks are not limited to the transaction itself (including price), but extend to the subsequent integration process. Finally, the Company is trading at demanding multiples (with FY10 P/E at 16.5, 10% above that of the Polish banks). On the other hand, if PKO BP does not make any acquisitions by the end of the year, investors can expect a handsome dividend payout (PLN 1.90 per share, entailing a 4.6% gross yield), which could support the stock price through December.

### We expect strong results for Q2'10 with a bottom line of PLN 738m

We expect a bottom line of PLN 738m (+2% q/q, +21% q/q). The positive momentum will persist despite a decline in market interest rates, which depresses the deposit margin. We believe that sustained lending activity and the elimination of the "Progresja" term deposit will allow the Bank to keep its interest income at the Q1'10 level. We also expect a higher fee income (+3% q/q). As per the Management's earlier declarations, we expect operating expenses to remain in check (+3% q/q). We expect the costs of credit risk to remain flat vs. Q1'10.

### The Government could sell shares in PKO BP while retaining a 25% stake

Prime Minister Donald Tusk said that the Government's long-term financial plan did not preclude a divestment of shares PKO BP and PZU, provided that the Treasury retains stakes of 25% or more in each. The decision is motivated by national budget balancing difficulties expected in 2011-2012.

### PKO BP extends PLN 5.9bn worth of mortgages in H1 2010

In H1'10, PKO BP extended PLN 33,600 mortgages for a total of PLN 5.9bn, including 31,100 zloty-denominated loans for PLN 5.4bn and 2,500 EUR-denominated loans for a total of PLN 0.6bn.

### PKO BP successfully passes European stress tests

PKO BP, which was one of 91 European banks to be subjected to EU's stress tests, has passed them successfully. Under the negative scenario, its Tier 1 capital adequacy ratio would figure to 15.7% in 2011 (-80bps vs. the base scenario with Tier 1 of 16.5%) vs. 13.3% at the end of 2009. In a negative scenario taking into account additional sovereign risk shock, the ratio would go down further by 30bps, to 15.4% at the end of 2011. According to the Bank, stress tests show a core capital surplus of EUR 2,825m vs. the Tier 1 capital level of 6% used in the tests.

### Shareholders approve a conditional dividend payout of PLN 1.90 per share

Shareholders have approved a conditional dividend payout from FY 2009 profits at PLN 1.90 per share. The payment will be disbursed on 20 December 2010 (after a record date of 23 October), unless by 10 December 2010 PKO BP acquires a Polish bank. The decision entails a payout rate of 100% and dividend yield of 4.6%. We believe that if there is no acquisition, such a high dividend will support the stock price.

### PKO BP eying several Polish banks

The CEO of PKO BP, Mr. Zbigniew Jagiełło, has said that the Bank is considering the purchase

of one of several Polish banks. The bank in question would need to enough healthy assets to guarantee that the transaction make business sense. The acquisition should lead to accelerated organic growth. The scenario sketched by the CEO applies above all to BZ WBK.

#### **CIO steps down**

On 21 July, Mr. Mariusz Zarzycki, PKO BP's VP and Chief Information Officer, tendered in his resignation effective as of 31 July 2010.

#### **PKO BP and three others on the shortlist for BZ WBK**

According to newspapers, the shortlist of bidders admitted to stage two of negotiations for AIB's stake in BZ WBK includes PKO BP, as well as Santander, BNP Paribas and Intensa Sanpaolo. In our opinion, the current frontrunners are PKO BP (preferred by the government and the financial supervisor) and Santander (which, according to newspapers, made a bid for all three assets AIB had put on sale). Bids are due by mid-August, and the new investor will be known in September.

#### **Sale of NPLs**

The bank has sold a PLN 600m portfolio of non-performing loans for an undisclosed price. Representatives of collection agencies claim the price did not exceed 10% of the value of the loans. Normal business activity, though the NPL portfolio sold is quite considerable in size. Banks usually sell NPLs nearly fully provisioned for. The difference between the price obtained and any additional provisions to be created will affect the Bank's earnings, but not in a significant way.

#### **Fitch affirms PKO BP's support rating at "2"**

Fitch has affirmed PKO BP's support rating at "2" The rating reflects the high likelihood of PKO BP's receiving aid from the State Treasury if needed, due to its importance for the Polish banking industry, reflected in its high market share in deposits, as well as due to the Treasury's significant direct (41%) and indirect (10%) interest in the Bank.

#### **PKO BP planning a PLN 5bn subordinated bond offering**

By the end of the year, PKO BP is planning to carry out a subordinated bond offering totaling up to PLN 5bn (10Y bonds with an option for early redemption). Funds obtained from the offering will be added, subject to supervisory approval, to the Bank's supplementary funds. The objectives of the program are defined as "ensuring the highest possible earnings and the best competitive position possible for the Bank". Whether the offering will actually take place and the funds will be used hinges on the situation in the market. Bonds will be offered to Polish investors, i.e. pension and investment funds, insurance companies and banks, although the participation of foreign investors is not precluded. The CEO did not reveal what conditions must be met for the program to be launched. He said the Bank was aiming to reduce its capital adequacy ratio to 11–12%, because the current 14% was too high. He believes the process of consolidation in the Polish banking industry, which started last year, will continue and BZ WBK may not be the only bank to be put up for sale.

# Insurance



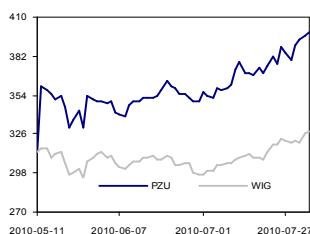
## PZU (Suspended)

Current price: PLN 399 Target price: -

Analyst: Iza Rokicka

Last Recommendation: 2010-08-04

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Gross written premium:	14 563.1	14 362.7	-1.4%	14 503.7	1.0%	15 281.9	5.4%	Number of shares (m)	86.4
property insurance	8 433.0	8 021.9	-4.9%	7 781.8	-3.0%	8 158.2	4.8%	MC (current price)	34 454.6
life insurance	6 130.2	6 340.8	3.4%	6 340.8	0.0%	6 721.9	6.0%	Free float	37.7%
Total income	15 203.5	18 295.1	20.3%	17 063.1	-6.7%	17 992.2	5.4%		
Pre-tax income	2 347.5	4 535.9	93.2%	2 783.7	-38.6%	3 310.5	18.9%		
Net income	2 329.7	3 762.9	61.5%	2 261.0	-39.9%	2 690.1	19.0%		
ROE	12.5%	24.5%		19.7%		20.7%		Price change: 1 month	13.3%
P/E	14.8	9.2		15.2		12.8		Price change: 6 month	
P/BV	1.7	3.1		2.7		2.4		Price change: 12 month	
D/PS	0.0	0.0		10.9		11.8		Max (52 w eek)	399.0
Dyield (%)	0.0	0.0		2.7		3.0		Min (52 w eek)	312.5



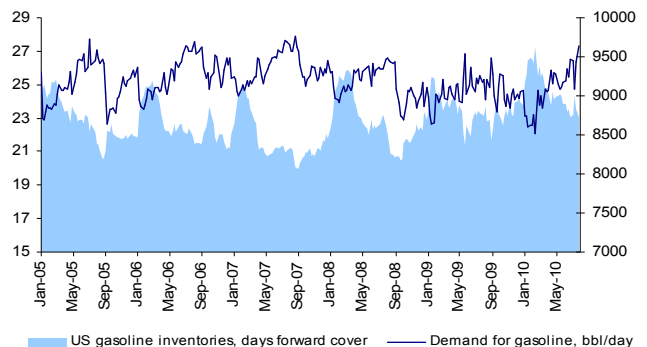
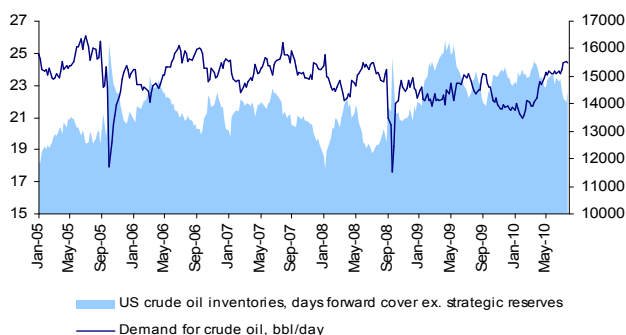
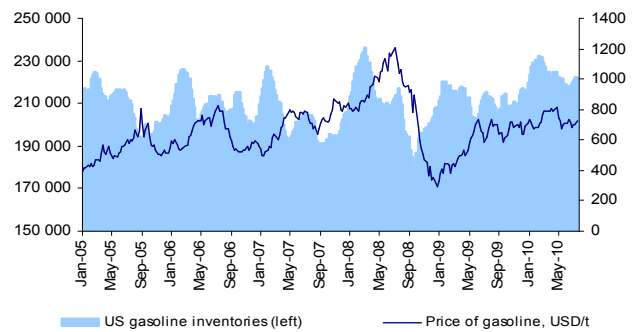
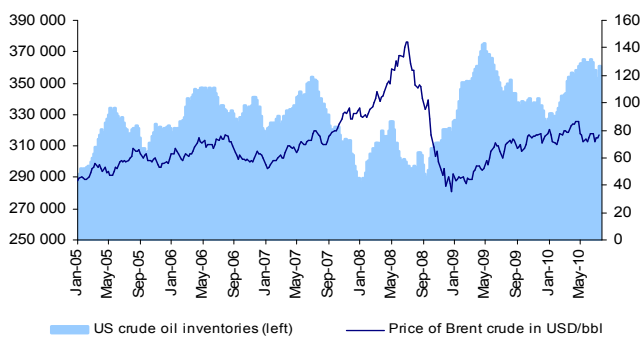
**We are currently updating our forecasts and recommendations and we are therefore suspending our rating for PZU.**

# Fuels, Chemicals

## Diesel stockpiles harm margins

In July, the trend towards increased capacity utilization by American refineries has continued; at the end of the month, they recorded their highest throughput since August 2007. Unfortunately, the demand for fuels did not increase proportionately, which led to an increase in gasoline and middle distillate stockpiles by 1.9% m/m and 5.1% m/m, respectively. In this unbalanced market, a correction in refining margins took place, mostly due to the unfavorable diesel and heavy fuel oil crack spreads. With retail sales and consumer optimism data weak, at the moment we see no grounds to change our outlook on the refining sector in the upcoming months to a more positive one, all the more so that the high season for transportation has already passed the midpoint.

### US petroleum and gasoline inventories



Source: BRE Bank Securities based on Department of Energy data



## Ciech (Buy)

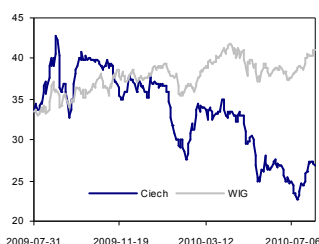
Current price: PLN 26.91

Target price: PLN 39.2

Analyst: Kamil Kliszczyński

Last Recommendation: 2010-06-02

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	3 787.1	3 684.2	-2.7%	3 962.3	7.5%	4 332.3	9.3%	Number of shares (m)	28.0
EBITDA	449.9	365.1	-18.9%	461.0	26.3%	513.6	11.4%	MC (current price)	753.5
EBITDA margin	11.9%	9.9%		11.6%		11.9%		EV (current price)	2 329.9
EBIT	246.7	135.0	-45.3%	233.0	72.6%	273.9	17.5%	Free float	35.6%
Net profit	-41.9	-85.5	103.9%	71.2		112.8	58.4%		
P/E				10.6		6.7		Price change: 1 month	8.5%
P/CE	4.7	5.2		2.5		2.1		Price change: 6 month	-8.5%
P/BV	0.9	0.9		0.8		0.7		Price change: 12 month	-20.4%
EV/EBITDA	5.4	6.4		5.1		4.5		Max (52 week)	42.7
Dyield (%)	7.7	0.0		0.0		0.0		Min (52 week)	22.8



The price of the Ciech stock has rebounded from the local minimum, by and large due to improved sentiment in the broad market, though the progress of the divestment process may have helped as well, especially the PLN 136m sale of the stake in PTU. We believe the Company remains the best pick in the Polish chemical sector, as it is able to generate positive earnings surprises at this time of low expectations. We expect European soda prices to increase in the coming months, fueled by the rising price of gas and coke, which will lead to higher margins in a segment of crucial importance. Other elements supporting the Company's earnings in H2'10 should be the recovering Organic division and the progress of divestment projects, which will lead to a reduction in the scale of the planned IPO. We are reiterating a buy rating.

### ZAT may make its bid for Fosfory towards the end of July

ZAT should conclude its due diligence study of Fosfory in late July or early August, and should be ready to make a bid then. It seems divesting Fosfory in 2010 is a realistic expectation, especially if we remember that the CEO has recently said that ZAT is not the only bidder. Fosfory's port infrastructure is likely to be seen as its most valuable asset. The book value of the subsidiary in Ciech's standalone report is PLN 20.9m, and its equity stands at PLN 114m. We do not know Fosfory's detailed financials, and the only way of estimating its market value is using the average P/BV for ZAP, ZAT and Police, which figures to 0.66; under such a valuation, Fosfory is worth PLN 75m. Were Ciech to get such an amount, we would see it as a positive development, all the more so given that at the end of 2009 Fosfory had PLN 106m in interest-bearing debt.

### Letter of intent with Marvipol

Ciech and Marvipol signed a letter of intent concerning the sale of a piece of land in Warsaw, to be finalized by 7 August. Most likely, the land in question is located at Powązkowska St. In our model, we value it at PLN 16m.

### Ciech unloads Elzab

Ciech's subsidiary Polsin Private Limited has sold its 12.62% stake in Elzab to Novitus for PLN 6.07m.

### PTU sale agreement signed

As per prior arrangements, Ciech signed an agreement for the sale of a 45% stake in PTU to the German insurer Gothaer Finanzholding for PLN 136m. The agreement is conditional on regulatory and corporate approvals, and the sale must be finalized by 30 June 2011. As a reminder, the book value of the stake in PTU was PLN 34m, which means Ciech is going to recognize a PLN 102m gross profit on the transaction, entailing a PLN 116m post-tax cash gain. In our model, we valued the PTU stake at PLN 75m.



## Lotos (Sell)

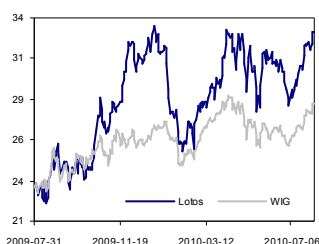
Current price: PLN 33.15

Target price: PLN 26.5

Analyst: Kamil Kliszczyk

Last Recommendation: 2010-08-04

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	16 294.7	14 320.5	-12.1%	17 438.7	21.8%	23 976.6	37.5%	Number of shares (m)	129.9
EBITDA	169.2	724.1	328.0%	805.9	11.3%	1 438.6	78.5%	MC (current price)	4 305.3
<i>EBITDA margin</i>	1.0%	5.1%		4.6%		6.0%		EV (current price)	10 598.9
EBIT	-145.8	424.2		457.1	7.8%	662.0	44.8%	Free float	36.0%
Net profit	-453.9	883.3		391.6	-55.7%	576.0	47.1%		
P/E		4.9		11.0		7.5		Price change: 1 month	14.7%
P/CE		3.6		5.8		3.2		Price change: 6 month	27.7%
P/BV	0.7	0.6		0.6		0.6		Price change: 12 month	45.4%
EV/EBITDA	43.6	13.4		13.2		8.2		Max (52 week)	33.5
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	22.2



The Lotos stock performed very well last month, which is largely attributable to the Treasury's declarations on its future full privatization and to market expectations of a tender offer at a premium to the current price. In our opinion, such a scenario may be unrealistic for political reasons and the fact that most potential buyers are Russian firms. Further, the refinery's earnings could disappoint in the second quarter due to the usual discrepancy vs. benchmark margins at a time of rising crude oil prices and the expected decline in margins on asphalts. The recent rallies have prompted us to downgrade our rating from reduce to sell.

### Government proposes compromise on Lotos privatization

According to reports, the Polish Treasury and Economy Ministries have put forth that, rather than selling Lotos to any highest bidder, they would hand the refiner over to either PKN Orlen, or PGNiG. The Treasury is supposedly intending to sell up to 53% of shares in Lotos for ca. PLN 3bn (PLN 43bn) including a premium for control. At the moment, it is hard to say how credible such information might be. However hard, we can imagine Lotos being taken over by PKN or PGNiG, though not at PLN 43 a share given the current conditions in the market. Even if the acquirer paid just the current market price, the transaction would meet with wide criticism. In case of PKN Orlen, the takeover would bring some synergy benefits, though they would probably be limited to logistics because of local politics which would probably not allow for Lotos's headquarters and administration in Gdańsk to be closed down.



## PGNiG (Buy)

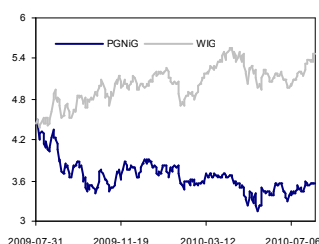
Current price: PLN 3.55

Target price: PLN 4.24

Analyst: Kamil Kliszczyk

Last Recommendation: 2010-06-14

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	18 432.0	19 290.4	4.7%	20 861.5	8.1%	21 546.0	3.3%	Number of shares (m)	5 900.0
EBITDA	2 225.6	2 830.0	27.2%	3 663.5	29.5%	3 963.9	8.2%	MC (current price)	20 945.0
<i>EBITDA margin</i>	12.1%	14.7%		17.6%		18.4%		EV (current price)	23 726.1
EBIT	800.7	1 333.8	66.6%	2 087.0	56.5%	2 270.2	8.8%	Free float	15.0%
Net profit	865.3	1 202.0	38.9%	1 685.1	40.2%	1 602.1	-4.9%		
P/E	24.2	17.4		12.4		13.1		Price change: 1 month	4.7%
P/CE	9.1	7.8		6.4		6.4		Price change: 6 month	0.0%
P/BV	1.0	1.0		0.9		0.9		Price change: 12 month	-15.9%
EV/EBITDA	9.2	7.7		6.5		6.4		Max (52 week)	4.4
Dyiel (%)	5.4	0.7		2.3		3.2		Min (52 week)	3.2



**We reiterate the view that investors are not attaching enough importance to the increase in the value of the Company's E&P assets, in particular its foreign projects, while we believe attention may come to focus on this area in the next few months given the planned launch of production from the Norwegian shelf (even PLN 1bn in additional EBIT starting in 2013) and progress in the Pakistani projects. In addition, the recent appreciation of the zloty supports Trade&Storage margin, and the rising price of gas in European Union allows for moderate optimism as far as the regulator's new tariff decision is concerned. We are reiterating a buy rating.**

### Tariff request filed

PGNiG has filed a new tariff request with the energy regulator URE, reportedly asking for an over 10% hike in the price of gas starting in October. The price tariff currently in force is valid through November. We assumed a 5% hike in Q4 2010 in our valuation model, and we believe that PGNiG is justified in requesting an even higher increase given how expensive gas imports have become. European spot prices are also on the rise (the spread to PGNiG's tariff price has narrowed from \$150 to \$20-40 per 1000 cubic meters), driven by an increasing share of Russian gas. Given the circumstances, a price hike will not severely undermine the competitive position of Polish chemicals producers.

### Appendix to agreement with Police

PGNiG announced it had signed an appendix to its agreement with Police, pursuant to which it will repay PLN 10m of the principal and PLN 14.2m in penalty interest within 7 days, and the remaining total of PLN 118.8m by 31 August 2010. In addition, Police agreed to collateralize further assets to PGNiG, including all the shares owned in Supra and Kemipol. We believe this settlement will enable PGNiG to release a considerable portion of its provisions for receivables from Police. The collateralized assets are interesting and should be easily liquidated if necessary.

### Work on shale gas begins

At PGNiG's request, the American concern Halliburton carried out a shale gas fracking exercise at the Markowola site. The first conclusions will be ready in several weeks. If the outcome is positive, production could start in 3-4 years. Of course, this is preliminary work at the moment, but the 3-4 year timeline may surprise given earlier reports suggesting that shale gas production in Poland will not start until 10 years or so elapse. Let us point out however that PGNiG has been analyzing the Markowola site for several years. It already has extensive geological documentation, and it has carried out conventional drilling; therefore, if it is confirmed that the area contains commercial gas deposits, production could indeed be launched in 3-4 years.

### Government proposes compromise on Lotos privatization

According to reports, the Polish Treasury and Economy Ministries have put forth that, rather than selling Lotos to any highest bidder, they would hand the refiner over to either PKN Orlen, or PGNiG. The Treasury is supposedly going to sell up to 53% of shares in Lotos for ca. PLN 3bn (PLN 43bn) including a premium for control. At the moment, it is hard to say how credible such information might be. However hard, we can imagine Lotos being taken over by PKN or PGNiG, though not at PLN 43 a share given the current conditions in the market. Even if the acquirer paid just the current market price, the transaction would meet with wide criticism.

### Service subsidiaries to be consolidated

PGNiG has started the process of consolidating subsidiaries that provide design and construction services in the gas sector. We estimate the aggregate equity of the companies in question at ca. PLN 120m. The biggest ones are Gazobudowa, Naftomontaż and Naftomet. The

decision to rearrange assets within the Group is a good one, although given the size of the construction companies, the current moves are unlikely to have a big impact on valuation. The Company does not release detailed data concerning the subsidiaries' revenues.

### **Gas shortages coming in winter?**

According to the Ministry of the Economy, the delay in the signing of the Polish-Russian agreement on gas imports may lead to gas shortages in the winter, seeing that Poland has already received 70% of the gas covered by the old contract. With the current relationship between import prices and the domestic tariffs, PGNiG would in fact benefit from decreased volumes, but we do not take such a scenario into consideration for now.

### **CNG terminal plans**

The Management of PGNiG is currently analyzing the possibility of constructing a compressed natural gas (CNG) terminal in the Bay of Puck, which would facilitate the transfer of gas from the Norwegian shelf (at the moment, appropriate infrastructure is being constructed there, and the capacity of the existing LNG terminals is already fully booked). The estimated cost of the project is PLN 800m. In the future, the CNG terminal could also be used to export Polish gas. The project is currently at the stage of preliminary analyses, and will certainly be considered in conjunction with studies on Polish shale gas resources.

### **Non-cash dividend to the Treasury from FY10 profits becomes possible**

At a special meeting, shareholders decided to amend PGNiG's charter as regards in-kind dividends to the State Treasury. Until now, such a payout was allowed only from profits for FY 2005-2009; now, FY 2010 has been added as well. This might mean that in the process of calculating the value of assets that constitute a part of the FY09 dividend payable to the Treasury on 4 October, the pool of transfer assets meant to be transferred to Gaz-System was increased. The current value of leased assets is ca. PLN 280m, while the dividend payable to the Treasury figures to ca. PLN 340m.



## PKN Orlen (Hold)

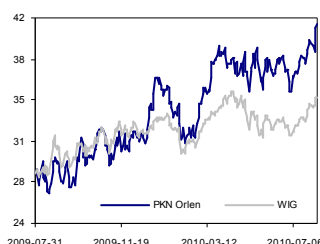
Current price: PLN 41.45

Target price: PLN 40.2

Analyst: Kamil Kliszczyk

Last Recommendation: 2010-04-08

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	79 533.0	67 928.0	-14.6%	83 784.3	23.3%	89 823.6	7.2%	Number of shares (m)	427.7
EBITDA	888.4	3 665.0	312.5%	4 248.3	15.9%	4 964.1	16.9%	MC (current price)	17 728.5
EBITDA margin	1.1%	5.4%		5.1%		5.5%		EV (current price)	32 678.5
EBIT	-1 603.0	1 097.0		1 619.3	47.6%	2 030.3	25.4%	Free float	62.2%
Net profit	-2 505.2	1 308.7		1 553.0	18.7%	1 502.7	-3.2%		
P/E		13.5		11.4		11.8		Price change: 1 month	12.6%
P/CE		4.6		4.2		4.0		Price change: 6 month	31.6%
P/BV	1.0	0.9		0.9		0.8		Price change: 12 month	51.3%
EV/EBITDA	37.1	8.4		7.7		6.8		Max (52 w week)	41.5
Dyield (%)	3.9	0.0		0.0		1.8		Min (52 w week)	26.6



Operating earnings estimates published by Orlen have confirmed that the macroeconomic environment is advantageous for both refining and the petrochemical segment, though LIFO EBIT should not diverge very much from our forecasts. Let us point out however that in July the macroeconomic environment for refining has deteriorated sharply; therefore, earnings for Q2 do warrant an increase in FY forecasts. Therefore, we believe any potential short-term increase in the share price will be an occasion to reduce exposure. In the next few months, a positive catalyst could be an announcement of the divestment of Mazeikiu Nafta, but at the moment it is too early to discount such a scenario. We reiterate a neutral rating on the Company.

### Operating earning estimates

Orlen released preliminary estimates of its operating and financial data for Q2'10. Thanks to advantageous macroeconomic conditions and an increase in sales volumes (with crude oil throughput up by 5% y/y), the Company's EBIT increased by some PLN 800m vs. last year. In addition, cost-cutting effects of ca. PLN 100m will be visible. All in all, the Company's LIFO EBIT should figure to approximately PLN 0.7bn. With the impact of inventory revaluation counted in (PLN 400m), the Company should report an EBIT of PLN 1.1bn. The Company will post a loss of ca. PLN 0.5bn on the revaluation of F/X loans and as much as PLN 0.5bn in other F/X losses (sales- and investment-related).

These estimates are close to our forecasts, with a reported EBIT of PLN 1.1bn vs. PLN 1bn forecasted and reported LIFO EBIT of PLN 700m vs. PLN 675m. There are no major surprises in operational data either (throughput, volumes). The scale of F/X losses incurred is a negative surprise, however (-PLN 1bn vs. -PLN 400m), and it will cause a major discrepancy between the reported net profit and our forecast (most likely, the bottom line will not exceed PLN 100m vs. PLN 504m forecasted by us). To sum up, Orlen's earnings estimates will not influence our FY forecasts; the key factor for the Company will be developments in the refining market, where the situation is currently less friendly than in Q2'10.

### Systems failure at Anwil

A power installation failure occurred at Anwil, affecting the chloride and soda lye facility that operates as one of the three components of the PVC line at Anwil's plant. In 2009, PVC sales accounted for 36.7% of the revenues of PKN Orlen's subsidiary. PVC output will certainly decline. We do not know by how much, but the downtime could last up to five months.

### Minority buyout at Anwil possible

The Management of Orlen is considering the buyout of minority interest in Anwil (15%, owned by the Treasury, Energa, employees and others). The transaction would make it possible to split Anwil into a fertilizer producer and a chemical producer, so as to facilitate divestment. According to newspapers, Orlen would like to spend some PLN 200m on the buyout. However, our valuation of Anwil puts the value of this 15% stake at over PLN 300m.

### PKN confident about loan covenants

CFO Sławomir Jędrzejczyk has provided reassurance that PKN Orlen had fulfilled the loan covenants set for the first half of 2010, with net debt flat at Q1 level (PLN 10.3bn) in spite of a weaker zloty. Mr. Jędrzejczyk pointed out that the oil producer's financials throughout the second quarter were supported by favorable macroeconomic conditions, but the Urals-Brent spread has since returned to much less advantageous levels. According to our estimates, PKN Orlen's net debt increased by PLN 1.3bn as a result of FCY loan revaluations, which means that the company must have recorded some positive changes in its working capital. At the current level, the net debt/EBITDA ratio is so safe that even such a considerable rise in debt would not be a breach of the covenants.



### **Government proposes compromise on Lotos privatization**

According to reports, the Polish Treasury and Economy Ministries have put forth that, rather than selling Lotos to any highest bidder, they would hand the refiner over to either PKN Orlen, or PGNiG. The Treasury is supposedly going to sell up to 53% of shares in Lotos for ca. PLN 3bn (PLN 43bn) including a premium for control. At the moment, it is hard to say how credible such information might be. However hard, we can imagine Lotos being taken over by PKN or PGNiG, though not at PLN 43 a share given the current conditions in the market. Even if the acquirer paid just the current market price, the transaction would meet with wide criticism. In case of PKN Orlen, the takeover would bring some synergy benefits, though they would probably be limited to logistics because of local politics which would probably not allow for Lotos's headquarters and administration in Gdańsk to be closed down.



## Police (Hold)

Current price: PLN 5.41

Target price: PLN 5.5

Analyst: Kamil Kliszczyk

Last Recommendation: 2010-06-02

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	2 403.6	1 485.6	-38.2%	1 919.9	29.2%	2 168.7	13.0%	Number of shares (m)	75.0
EBITDA	230.1	-327.4		70.5		123.5	75.2%	MC (current price)	405.8
<i>EBITDA margin</i>	9.6%	-22.0%		3.7%		5.7%		EV (current price)	763.1
EBIT	164.0	-407.5		-6.1	-98.5%	50.5		Free float	26.2%
Net profit	28.7	-422.1		-12.3	-97.1%	25.9			
P/E	14.1					15.7		Price change: 1 month	15.4%
P/CE	4.3			6.3		4.1		Price change: 6 month	-4.1%
P/BV	0.4	0.8		0.8		0.7		Price change: 12 month	-21.3%
EV/EBITDA	1.8			10.8		6.1		Max (52 week)	7.3
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	4.6



In July, the price of the Police stock recovered some of the ground lost over the past few months, which, in addition to improved broad market sentiment may be attributed to appendices to loan agreements and to announcements on the relaunch of capacity previously idled due to the crisis. Let us point out, however, that the additional volumes will still be sold at low margins, which is why we do not expect strong earnings in the coming quarters. Further, the Company's high indebtedness and structural problems do not allow for optimism as far as the privatization is concerned (i.e. the payment of a premium), with only two investors making bids.

### Loan extension

On 30 June 2010, Pekao S.A. postponed the due date for Police's PLN 82m loan until 20 November 2010. A further extension until 15 January 2011 is possible if the Company gets an extension on its PLN 150m lifeline loan from the Industrial Development Agency until at least 15 January 2011. In addition, Police announced it had signed an appendix to its agreement with PGNiG, pursuant to which it will repay PLN 10m of the principal and PLN 14.2m in penalty interest within 7 days, and the remaining total of PLN 118.8m by 31 August 2010. In addition, Police agreed to collateralize further assets to PGNiG, including all the shares owned in Supra and Kempol.

### Agreements with subsidiaries terminated

The Company terminated agreements with its wholly-owned subsidiaries due to the fact that they had been based on non-market prices. The termination comes into force on 3 June 2011.

### Further production lines relaunched

The Management of Police announced it had relaunched production on ammonia and phosphoric acid lines shut down during the crisis. Resumed production suggests greater demand, probably from abroad, but it is not tantamount with improved profitability. In the past few weeks, there has been no significant change in macroeconomic conditions for fertilizer producers, which is why we recommend approaching such announcements with caution, as they need not entail a significant improvement in earnings.

### First offers are in

The Ministry of the State Treasury has received four preliminary offers on a 50.9% stake in ZA Puławy, and 2 offers on a 59.4% stake in ZCH Police. The Ministry gives itself until the end of August to consider the offers. We consider ZA Puławy to be the more attractive of the two acquisitions, possibly worth a premium to market price. In case of ZCH Police, high debt will probably prompt expectations of a discount from prospective investors.



## ZA Puławy (Hold)

Current price: PLN 69.4

Target price: PLN 72.05

Analyst: Kamil Kliszc

Last Recommendation: 2010-01-06

(PLN m)	2008/09	2009/10F	change	2010/11F	change	2011/12F	change	Basic data (PLN m)	
Revenues	2 396.8	2 090.8	-12.8%	2 391.1	14.4%	2 848.6	19.1%	Number of shares (m)	19.1
EBITDA	407.2	85.9	-78.9%	200.9	133.9%	407.4	102.8%	MC (current price)	1 326.6
<i>EBITDA margin</i>	<i>17.0%</i>	<i>4.1%</i>		<i>8.4%</i>		<i>14.3%</i>		EV (current price)	1 342.2
EBIT	338.3	13.1	-96.1%	101.2	672.6%	282.4	179.0%	Free float	29.2%
Net profit	194.6	27.1	-86.1%	82.5	204.6%	226.9	174.9%		
P/E	6.8	49.0		16.1		5.8		Price change: 1 month	6.0%
P/CE	5.0	13.3		7.3		3.8		Price change: 6 month	-2.3%
P/BV	0.8	0.9		0.8		0.7		Price change: 12 month	-14.2%
EV/EBITDA	1.8	13.6		6.7		3.0		Max (52 week)	89.5
Dyield (%)	6.2	14.7		1.3		1.6		Min (52 week)	61.1



July was the first month since March when the price of the ZAP stock rose, thanks above all to news concerning privatization, i.e. the fact that four bids for the Company have been made. One of them was probably made by employees, but there are reasons to believe the other bids include ones placed by foreign investors who should be able to offer a premium over the current market price (ZAP has net cash and is the biggest fertilizer producer in Poland with an interesting product portfolio). The Treasury will consider all the bids until the end of August, and until then we would not be surprised to see speculative rallies driven by investors betting on a high price in a tender offer. However, at the moment we are not seeing any improvement in the market for fertilizers, and the recent increase in margins on caprolactam seem to represent a short-term hike due to the introduction of import duties in China; therefore, we remain neutral on ZAP.

### First offers are in

The Ministry of the State Treasury has received four preliminary offers on a 50.9% stake in ZA Puławy, and 2 offers on a 59.4% stake in ZCH Police. The Ministry gives itself until the end of August to consider the offers. We consider ZA Puławy to be the more attractive of the two acquisitions, possibly worth a premium to market price. In case of ZCH Police, high debt will probably prompt expectations of a discount from prospective investors.

## Power Utilities



### CEZ (Hold)

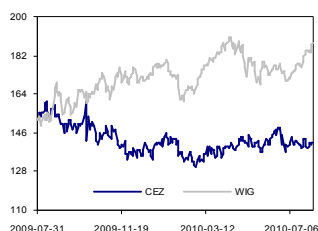
Current price: PLN 141.5

Target price: PLN 131.87

Analyst: Kamil Kliszczyński

Last Recommendation: 2010-03-03

(CZK m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	183 958.0	196 352.0	6.7%	189 756.3	-3.4%	194 221.9	2.4%	Number of shares (m)	538.0
EBITDA	88 744.0	91 075.0	2.6%	87 198.9	-4.3%	87 942.5	0.9%	MC (current price)	76 125.6
<i>EBITDA margin</i>	<i>48.2%</i>	<i>46.4%</i>		<i>46.0%</i>		<i>45.3%</i>		EV (current price)	101 725.1
EBIT	66 654.0	68 199.0	2.3%	61 657.7	-9.6%	61 339.4	-0.5%	Free float	29.3%
Net profit	46 510.0	51 547.0	10.8%	47 095.3	-8.6%	46 677.9	-0.9%		
P/E	11.2	9.1		10.0		10.1		Price change: 1 month	0.1%
P/CE	7.6	6.3		6.5		6.4		Price change: 6 month	3.3%
P/BV	3.0	2.4		2.2		2.0		Price change: 12 month	129.8%
EV/EBITDA	7.0	6.7		7.2		7.5		Max (52 w week)	161.1
Dyielid (%)	4.6	5.6		6.2		5.7		Min (52 w week)	130.0



After the dividend record day, a positive catalyst for the stock is missing and CEZ is underperforming its Polish utility peers. In our view, second-quarter earnings will not bring a breakthrough, and stagnant energy prices on the EEX will successfully deter investors. We are reiterating a neutral rating on the Company.



## Enea (Buy)

Current price: PLN 18.39

Target price: PLN 21.24

Analyst: Kamil Kliszcz

Last Recommendation: 2010-06-02

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	6 157.8	7 167.3	16.4%	7 519.7	4.9%	7 602.7	1.1%	Number of shares (m)	441.4
EBITDA	882.7	1 167.0	32.2%	1 365.4	17.0%	1 379.8	1.1%	MC (current price)	8 118.1
EBITDA margin	14.3%	16.3%		18.2%		18.1%		EV (current price)	5 861.8
EBIT	251.4	505.6	101.1%	698.8	38.2%	699.5	0.1%	Free float	18.4%
Net profit	215.4	513.6	138.5%	653.4	27.2%	654.8	0.2%		
P/E	37.7	15.8		12.4		12.4		Price change: 1 month	3.8%
P/CE	9.6	6.9		6.2		6.1		Price change: 6 month	5.3%
P/BV	0.9	0.9		0.8		0.8		Price change: 12 month	-10.6%
EV/EBITDA	6.5	6.3		4.3		5.0		Max (52 week)	25.3
Dyield (%)	1.2	2.5		3.2		4.0		Min (52 week)	17.1



**In our opinion, ENEA will post the best earnings of all power utilities, achieving y/y earnings growth thanks to both high distribution profits and an additional margin scooped in the balancing market (thanks to higher volumes at the Koźienice Power Plant after output was cut at the Połaniec power plant due to the flooding threat). Thus, the Q2 earnings report should constitute a positive catalyst for the stock price, and the privatization process, which is nearing its end, should also help. In our view this is the final opportunity for Vattenfall to take over full control over ENEA and we believe it will attempt to use it. We are reiterating a buy rating.**

### Demand for electricity increases 5.5% in June

According to PSE's data, the demand for electricity in Poland increased by 5.5% y/y in June, compared to 7.1% y/y growth in May. In the same period, output increased by 5.9%, and just like in the preceding months, most of the growth came from bituminous-coal-fired plants, which were the least affected by the crisis-driven reduction in the demand for electricity. In Q2'10 as a whole, consumption increased by 6% y/y, compared to 3.4% increase in Q1'10. Most likely, the June data could have been better had it not been for the floods. As for the following months, growth should persist, all the more so that the current hot weather is likely to lead to intensified electricity consumption.

### Many bidders for ENEA?

According to Mr. Jan Bury, the Deputy Minister of the Treasury, a dozen or so companies have picked up a copy of the informational memorandum on ENEA. Preliminary bids are due by 13 August. The number of copies of the memorandum issued to investors says little about their true interest. As a reminder, one year ago 11 entities picked up a copy of the memorandum.

### Government drafts new renewable energy laws

The Polish Economy Ministry has prepared a draft renewable energy regulation setting the target ratios of renewable energy to total power supply at 15.4% by 2017 (an increase from the current 12.9%), and 18.7% by 2019. Moreover, the Ministry is planning to relax the stringent wood biomass co-burning regulations in 2014. The government's initiatives will provide support to the prices of green certificates, but they will not impact electricity suppliers who, by the time the laws enter into force, will be free to set their own prices in a fully deregulated market.



## PGE (Buy)

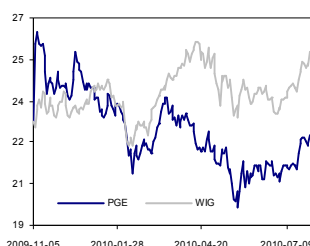
Current price: PLN 22.49

Target price: PLN 27.9

Analitik: Kamil Kliszcz

Last Recommendation: 2010-03-30

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	19 408.7	21 623.4	11.4%	21 123.7	-2.3%	22 348.1	5.8%	Number of shares (m)	1 730.1
EBITDA	5 846.9	7 983.4	36.5%	7 394.2	-7.4%	7 950.2	7.5%	MC (current price)	38 909.7
EBITDA margin	30.1%	36.9%		35.0%		35.6%		EV (current price)	45 257.9
EBIT	3 262.3	5 344.7	63.8%	4 667.4	-12.7%	4 889.6	4.8%	Free float	15.0%
Net profit	1 920.2	3 370.7	75.5%	3 138.3	-6.9%	3 305.3	5.3%		
P/E	17.2	11.5		12.4		11.8		Price change: 1 month	8.9%
P/CE	7.3	6.5		6.6		6.1		Price change: 6 month	0.6%
P/BV	1.4	1.2		1.2		1.1		Price change: 12 month	
EV/EBITDA	7.8	5.9		6.1		6.2		Max (52 week)	26.5
Dyield (%)	1.3	3.2		3.4		4.0		Min (52 week)	19.7



July brought a certain improvement in the performance of the PGE stock, but the Company still underperformed the broad market. In our opinion, the situation should start improving and investor sentiment is bound to change, due to (i) the expected good earnings for the second quarter (adjusted for long-term contract compensation), (ii) the persistently high spot prices in Poland, (iii) the high growth of electricity consumption, (iv) the merger stock offering scheduled for late August and early September, which will be advantageous for PGE shareholders, (v) the fact that an increase in free float will boost the Company's share of the key indices. We are reiterating a buy rating.

### Demand for electricity increases 5.5% in June

According to PSE's data, the demand for electricity in Poland increased by 5.5% y/y in June, compared to 7.1% y/y growth in May. In the same period, output increased by 5.9%, and just like in the preceding months, most of the growth came from bituminous-coal-fired plants, which were the least affected by the crisis-driven reduction in the demand for electricity. In Q2'10 as a whole, consumption increased by 6% y/y, compared to 3.4% increase in Q1'10. Most likely, the June data could have been better had it not been for the floods. As for the following months, growth should persist, all the more so that the current hot weather is likely to lead to intensified electricity consumption.

### PGE to trade energy in the exchange

The Management of PGE has changed its prior decision on exchange-base trade in energy; contrary to the Company's previous statements, it is now planning to sell most of its output through the exchange starting with 2011. We reiterate the view that exchange-based trading will not lead to a structural reduction in Polish electricity prices. In a friendly macroeconomic environment, exchange-based trade could in fact lead to a rapid increase in prices. An important consequence of increased liquidity on the exchange will be the fact that the regulator URE will lose an argument it has been using to question prices for retail users and in its calculations of the compensation for terminated long-term contracts.

### Renewable energy segment to go public

The Management of PGE is currently working on a plan to concentrate all of the holding's renewable energy assets (hydroelectric plants, pumped storage plants and the Bełchatów wind farm) in a new subsidiary that will then be made public sometime in early 2011. The Company wants to obtain funds for new investment in wind farms, and to reduce its own exposure to these risky projects, which it does not have extensive experience with. Until now PGE has been planning to build wind farms with 2 GW capacity, half of which would be offshore farms. Expenditure on such projects was to total PLN 8bn by 2012, which seemed very ambitious; we now know many projects will be delayed (our model assumes that CAPEX in this area will total ca. PLN 4.1bn by 2012). PGE does not have experience with wind farms, and it appears that the more likely scenario is its teaming up with a foreign investor that specializes in the area. In our opinion, it will be difficult to collect sufficient funds from the stock market on the basis of current renewable-energy assets (annual EBITA = PLN 200m).

### Exatel divestment kicks off

The Management of PGE has chosen PricewaterhouseCoopers as the advisor in the sale of its 95% stake in Exatel. Prospective buyers include Netia and GTS. The current value of these shares in PGE's balance sheet is PLN 402m. Last year, Exatel generated a net profit of PLN 56.5m and an EBITDA of PLN 153m (including PLN 24m in released provisions), on a revenue of PLN 551m. We estimate the value of the transaction at PLN 580-600m.



### **UOKiK reiterates its objections to PGE-Energa merger**

The Head of the antitrust watchdog UOKiK, Ms. Małgorzata Krasnodębska-Tomkiel, has reiterated her objections to the potential purchase of Energa by PGE, claiming that such a transaction would hurt the Polish electricity market. UOKiK did express this view before. Without knowing any details on PGE's bid for Energa we are unable to comment on the potential impact of UOKiK's objections on the stock price.

### **Government drafts new renewable energy laws**

The Polish Economy Ministry has prepared a draft renewable energy regulation setting the target ratios of renewable energy to total power supply at 15.4% by 2017 (an increase from the current 12.9%), and 18.7% by 2019. Moreover, the Ministry is planning to relax the stringent wood biomass co-burning regulations in 2014. The government's initiatives will provide support to the prices of green certificates, but they will not impact electricity suppliers who, by the time the laws enter into force, will be free to set their own prices in a fully deregulated market.

## Telecommunications

### **European Court of Justice rules on regulatory treatment of number porting costs**

In yesterday's ruling in the case of Polska Telefonia Cyfrowa (PTC) v. national telecoms regulator UKE, the European Court of Justice obliged the regulator to "take account of the costs incurred by mobile telephone network operators in implementing number portability when it assesses whether the direct charge to subscribers for the use of that service is a disincentive". However, the Court continues, the UKE "retains the power to fix the maximum amount of that charge levied by operators at a level below the costs incurred by them, when a charge calculated only on the basis of those costs is liable to dissuade users from making use of the portability facility."

### **Three funds eying Polkomtel**

Three international private equity funds (Blackstone, APAX and Texas Pacific Group) have expressed their interest in Polkomtel, whose current owners (PKN Orlen, PGE, KGHM and Węłokoks) want to sell it in Q1 2011.

### **Egyptian investor also eyes Polkomtel**

Weather Investments, owner of Egyptian mobile company Orascom Telecom, is considering a move into Poland. Weather's holdings also include Italy's Wind network and the Greek mobile operator Wind Hellas.



## Netia (Hold)

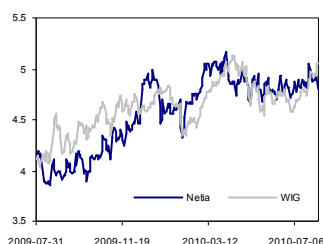
Current price: PLN 4.8

Target price: PLN 4.3

Analyst: Michał Marczak

Last Recommendation: 2009-11-06

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	1 112.4	1 505.9	35.4%	1 525.4	1.3%	1 629.0	6.8%	Number of shares (m)	389.2
EBITDA	170.6	284.3	66.6%	323.5	13.8%	359.3	11.1%	MC (current price)	1 868.0
<i>EBITDA margin</i>	15.3%	18.9%		21.2%		22.1%		EV (current price)	1 585.4
EBIT	-99.7	-14.2	-85.7%	33.7		79.2	135.1%	Free float	100.0%
Net profit	230.6	88.7	-61.6%	37.4	-57.8%	78.1	108.6%		
P/E	8.1	21.1		49.9		23.9		Price change: 1 month	-1.6%
P/CE	3.7	4.8		5.7		5.2		Price change: 6 month	10.3%
P/BV	1.0	0.9		1.0		0.9		Price change: 12 month	16.2%
EV/EBITDA	9.8	5.9		4.9		4.2		Max (52 week)	5.2
Dyield (%)	0.0	-0.6		2.0		4.2		Min (52 week)	3.9



**The Company should improve its earnings vs. Q1 somewhat, but in our opinion the market momentum is changing to its disadvantage. New regulations adopted by the UKE will make new subscriber acquisition tougher, and it now seems that Polkomtel is more likely to acquire Dialog, having been granted due diligence exclusivity. Acquiring Dialog would be an interesting move for Netia synergy-wise and a potential valuation-boosting factor. We are reiterating a neutral rating on the stock.**

### Upcoming acquisition

Netia has signed an agreement with Rabobank Polska, Raiffeisen Bank Polska and BRE Bank, under which it will get new financing which, according to the Management, should enable it to carry out important acquisitions. Netia has therefore given up an unused credit line.



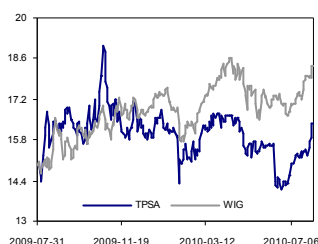
## TP SA (Accumulate)

Current price: PLN 16.35      Target price: PLN 18.2

Analyst: Michał Marczak

Last Recommendation: 2010-07-29

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	18 165.0	16 560.0	-8.8%	15 835.1	-4.4%	15 643.7	-1.2%	Number of shares (m)	1 335.6
EBITDA	7 630.0	6 246.0	-18.1%	5 850.9	-6.3%	5 913.9	1.1%	MC (current price)	21 837.9
<i>EBITDA margin</i>	<i>42.0%</i>	<i>37.7%</i>		<i>36.9%</i>		<i>37.8%</i>		EV (current price)	26 407.7
EBIT	3 313.0	2 096.0	-36.7%	2 001.9	-4.5%	2 127.6	6.3%	Free float	46.0%
Net profit	2 188.0	1 280.0	-41.5%	1 307.9	2.2%	1 412.3	8.0%		
P/E	10.2	17.1		16.7		15.5		Price change: 1 month	12.1%
P/CE	3.4	4.0		4.2		4.2		Price change: 6 month	7.9%
P/BV	1.3	1.3		1.4		1.4		Price change: 12 month	12.8%
EV/EBITDA	3.7	4.2		4.5		4.5		Max (52 week)	19.0
Dyield (%)	10.4	9.2		9.2		9.2		Min (52 week)	14.1



The improved financial results and slower churn reported for Q2 2010 are a good sign for the second half of the year, when the year-on-year rates of revenue decline should be less than 4%. The second quarter was particularly successful for TPSA's mobile business, represented by Centertel which, thanks to the launch of new calling plans, managed to capture 250,000 new subscribers in the quarter (the biggest increase in net additions since 2007), and record a 5.7% increase in ARPU on the first quarter. Moreover, there has been a slowdown in the downward trend in the number of POTS and broadband customers. TPSA is set to launch new 2Mb/s Internet plans in Q3 2010, no longer based on the "retail-minus" pricing rule (under which wholesale line rental prices were fixed), which, we believe, is going to allow it to recapture broadband market share. The telecom has raised the 2010 FCF estimate from PLN 2bn to PLN 2.3bn, increasing the probability of a PLN 1.5-a-share dividend payout next year. Our investment rating is a reiterated accumulate.

### Q2 2010 results

TPSA generated a revenue of PLN 3.987 billion (-4.7% y/y), an EBITDA of PLN 1,472 million (-5.5% y/y), and a net profit of PLN 325 million, in the second quarter of 2010. The reported results came ahead of our estimates, which were PLN 3.815bn, PLN 1,384m, and PLN 276m respectively. The highlights of the second quarter was a year-on-year decline by just 1.5% in the revenues of Centertel (compared to a 9% drop in Q1), and the continuing reductions in operating expenses.

### Sentiment shift

Investor sentiment to TPSA has been extremely negative recently, but we expect this to change going forward as the telecom reports improving earnings results, accompanied by an increasing number of mobile and broadband customers. These positive trends will be supported by a more favorable regulatory environment (decreasing MTR asymmetry, replacement of the "retail-minus" wholesale broadband pricing model with the "cost-plus" approach). In our view, the telecom regulator (UKE) will be placing an increasing emphasis on infrastructure development, which cannot be achieved without cooperation from the dominant operator. The Polish telecommunications market is one where regulatory interference has been the most substantially reduced (which implies less risks in the future, and one of the highest DYs in Europe). Moreover, TPSA is eligible for EU subsidies in its future projects, plus, it is set to finally receive a refund of its universal service costs (which it estimates at PLN 800m).

### TPSA allowed to reduce prices

The Office of Electronic Communications (UKE) has approved TPSA's new price schedule of retail broadband services (for 1-2 Mb/s connections) based on a margin-squeeze test. This means that TPSA is able to offer lower prices of its most popular connection speeds without having to reduce the wholesale line rental rates for the competition. As a result, the dominant operator can more effectively compete with alternative ISPs, who will be forced to accept lower margins to maintain their cost advantage.

### Application for universal service subsidy

TPSA has applied for a PLN 236.17m subsidy to the net cost of universal service provision in 2009. At present, the telecom regulator UKE is considering four subsidy applications, covering the years 2006 - 2009. It is currently picking an auditor who will analyze the entire documentation. In the next step, the Head of the UKE will make her decision. Ms. Streżyńska has already made a preliminary verification of TPSA's costs for 2006-2008, and is doing the same for the 2009 application. Decisions will be taken "with no undue delay". In our opinion, TPSA is entitled to universal-service funding, and the only question is in what amount. The total

amount TPSA is requesting for 2006-2009 is PLN 0.8bn. Whatever the actual amount ends up being, it will boost the Company's valuation (analysts do not take it into account in their balance sheets), as it will represent extra cash and future cash flows.

## Media

### **TVP makes first ever profit on World Cup broadcasts**

Public broadcaster TVP is estimating that the 2010 World Cup was the first soccer event in history to have made a profit for the station. TVP's success suggests that the advertising industry thrived in the latter part of the second quarter, with advertisers taking advantage of the World Cup games to air the commercials that could not be broadcast during the national mourning period in April, thus making up for any revenue losses incurred in the first part of the second quarter. June was also a successful ratings month for TVN, which should find a reflection in the broadcaster's second-quarter earnings figures.

### **TVP in the black this year?**

According to TVP CEO Romuald Orzeł, public television should be in the black at the end of the year, compared to the PLN 205.6m net loss incurred last year. TVP generated revenue of PLN 46.0m from soccer World Cup broadcasts. The improvement in the condition of the public television seems to testify to the rapid improvement in the advertising market (and better-than-planned license fee collection), because the broadcaster's cost-cutting moves will not bring a clear effect until 2011. We believe that Q2'10, despite the period of national mourning in April, turned out very well for the advertising market, and we expect this positive trend to continue through the end of the year at the least. 2011 is still full of uncertainties, however, due to risks faced by the global economy.

### **MPG on H1 2010 in advertising**

According to MPG, the value of the advertising market in H1 2010 figured to PLN 4.1bn (+12%); By the end of the year, the market may expand by 14.3%. According to the MPG data, in H1 2010 TVN sold 1% more rating points. Sales of newspaper advertisements and AMS's outdoor advertising spaces both declined by 10%. We consider the 14.3% growth rate forecast somewhat overly optimistic, but we do agree that H2 2010 is likely to be a period of positive surprises and accelerated growth. MPG's estimate of TVN's rating point sales reflects viewership rather than the condition of the advertising market, and the more important factor as far as its earnings are concerned will be the scale of price hikes. As far as Agora is concerned, our forecasts imply -11.5% and -10.5% growth in newspaper and outdoor advertising, respectively, which is roughly in line with the values reported by MPG.

### **Starlink upbeat on advertising in Q2**

According to Starlink, in the second quarter the value of the Polish advertising market increased by 8.2%. The fastest growth was observed for the online channel (+23.1%), cinemas (+18.3%) and television (+8.5%). Radio advertising also increased in value (+0.4%). The market continued to shrink for the other media, i.e. outdoor advertising (-12.7%), magazines (-7.6%) and newspapers (-5.6%). If Starlink's estimates prove accurate, this will surely lead to positive surprises in earnings. We would be surprised, however, if the value of radio advertising truly increased, as the period of national mourning must have had a strong impact on this medium. As far as outdoor advertising is concerned, Starlink's estimates are at variance with estimates prepared by the Outdoor Advertising Chamber, i.e. -1% in Q2 (in our forecasts for Agora, we are much closer to Starlink's estimates). Another positive aspect of these estimates is the fact that the rate at which the value of advertising spend in newspapers is declining has decelerated sharply, which in our view raises hopes that it may go positive in the second half of the year.



## Agora (Hold)

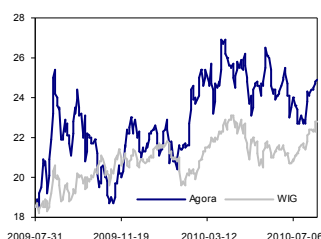
Current price: PLN 24.95

Target price: PLN 24.7

Analyst: Piotr Grzybowski

Last Recommendation: 2010-05-27

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	1 277.7	1 110.1	-13.1%	1 087.8	-2.0%	1 134.0	4.2%	Number of shares (m)	50.9
EBITDA	128.4	134.1	4.4%	149.8	11.7%	148.9	-0.6%	MC (current price)	1 270.9
EBITDA margin	10.0%	12.1%		13.8%		13.1%		EV (current price)	1 034.0
EBIT	44.6	52.9	18.6%	65.4	23.6%	64.2	-1.8%	Free float	54.3%
Net profit	23.4	38.3	63.6%	59.5	55.3%	61.9	4.1%		
P/E	58.6	33.2		21.4		20.5		Price change: 1 month	4.0%
P/CE	12.8	10.6		8.8		8.7		Price change: 6 month	16.6%
P/BV	1.2	1.1		1.0		1.0		Price change: 12 month	34.9%
EV/EBITDA	9.8	8.1		6.9		6.6		Max (52 w week)	27.0
Dyield (%)	0.0	1.5		2.3		2.4		Min (52 w week)	18.5



After receiving antitrust approval for the purchase of Helios, Agora should be able to finalize the transaction quickly, generating an estimated PLN 1.5 per share in additional value. Moreover, the stock price should be supported by Q2'10 earnings, which we expect to be excellent. We believe Agora should be able to improve its earnings in the second half of the year as well. While positive statistical base effects in the area of salaries and representation and advertising expenses will be gone, the Company will have excellent potential to cut the costs of materials and energy as it renegotiates paper prices contracted early in the year. In addition, we expect Agora's advertising revenue to grow in the second half of the year, which will provide further support to its earnings in this period. When the stock market goes bearish, as we predict, the Company's earnings should allow it to considerably outperform the index. We are reiterating a hold rating.

### Newspaper sales in May

In May, the sales of *Gazeta Wyborcza* declined by 8.7% y/y. In the same period, the sales of *Rzeczpospolita* declined by 4.3% y/y, while *Super Express* and *Fakt* saw increases by 0.7% and 1.1%, respectively. Newsstand sales of *GW* declined by 3.9%. Thus, *Gazeta's* sales results are much better than in Q1'10, but it should be remembered that the base of comparison in May 2009 was very low, despite the high share of other forms of circulation (a distribution campaign in cooperation with McDonald's). In terms of newsstand sales, it was the worse month of last year (-23.8% y/y). To a certain extent, the reduction in the rate of sales deceleration is thus a consequence of the considerable drop seen last year. We expect June to be a very good month for newspaper sales due to the presidential campaign. Ratings of news channels have surged (TVN24, TVP Info), and we expect a similar situation for the other news media.

### UOKiK approves the takeover of Helios

The antitrust watchdog UOKiK has approved Agora's takeover of an 84% stake in Helios. According to the agreement, the transaction must be finalized by the end of October, although it does seem the parties will aim to achieve this earlier. We reiterate our very positive opinion of the transaction. We believe it is an excellent move that adds ca. PLN 75m to company value. In our opinion, the market has so far failed to fully discount this acquisition. The UOKiK approval, followed by quick finalization of the transaction, should be beneficial for the stock price.

### AMS and Stroer to make a joint bid for Warsaw bus shelter license

Agora's subsidiary AMS and Stroer will make a joint bid for the construction and operation of bus shelters in Warsaw. The companies signed a consortium agreement on 27 July. Joining forces appears to be beneficial for both entities, as it limits the risk of being pushed out of this segment altogether (the city wants to license bus-shelter advertising to one contractor only). In our opinion, AMS and Stroer stand a good chance of winning the contract.

### Details on AMS/Stroer bid for Warsaw bus shelters

AMS and Stroer have made public their planned joint bid for advertising space on Warsaw bus shelters. The companies will evenly divide both the costs (estimated at PLN 80m) and the number of bus shelters they will use, but they will sell advertising space separately. These terms appear to be quite logical as the two entities have comparable competitive power. We reiterate our positive view of this arrangement, which strengthens the companies' chances in the Warsaw market.

### Outdoor expenses edge down 1% in Q2

According to a report by IGRZ, outdoor advertising expenses decreased by 1% to PLN 174.8m in Q2 2010. In our second-quarter forecasts for Agora, we assumed an 11.5% drop in outdoor revenues but the market data suggests that the actual contraction was much less dramatic.



However, we are leaving our forecasts intact in case we overestimated revenue growth in other lines, or Agora's cost-cutting effectiveness (especially in the area of representation and advertising). The adjusted outdoor revenues might have raised Agora's Q2 2010 topline by some PLN 5m.



## Cinema City (Hold)

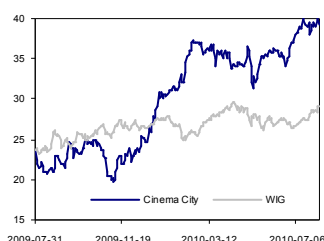
Current price: PLN 40.4

Target price: PLN 39.9

Analyst: Piotr Grzybowski

Last Recommendation: 2010-07-16

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)
Revenues	179.0	211.6	18.2%	238.7	12.8%	270.9	13.5%	Number of shares (m) 51.2
EBITDA	40.2	46.5	15.7%	54.5	17.0%	61.6	13.1%	MC (current price) 2 068.5
<i>EBITDA margin</i>	22.5%	22.0%		22.8%		22.7%		EV (current price) 2 064.1
EBIT	21.8	30.2	38.4%	35.6	17.9%	41.2	15.5%	Free float 17.6%
Net profit	17.7	24.4	38.3%	28.7	17.5%	35.0	21.9%	
P/E	29.0	21.0		18.0		14.8		Price change: 1 month 3.1%
P/CE	14.2	12.6		10.9		9.3		Price change: 6 month 22.2%
P/BV	3.3	2.9		2.5		2.1		Price change: 12 month 82.1%
EV/EBITDA	15.0	12.8		9.5		8.2		Max (52 week) 40.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week) 19.7



The cinema market in Central and Eastern Europa is currently experiencing very rapid growth, which is the result of the growing wealth of the population, the expansion of the cinema network and the worldwide increase in the popularity of 3D features. In expectation of further market growth, Cinema City is currently implementing a broad investment program, which will allow it to increase the number of screens by more than half through 2013, and to position itself in the market in a way that will allow it to take the greatest possible advantage of the expected boom. We approve of the Company's strategy in this respect and we expect it to improve its profits in the coming years at a rate that will fully justify the premium vs. peers at which it is currently trading.

### 3D boosts profits

CCI's Deputy CFO Nisan Cohen expects this year's EBITDA margin to be even higher than the original over-20% estimate thanks to the great popularity of 3D films. Mr. Cohen revealed that the week of national mourning in April did not affect CCI's second-quarter Polish earnings. We agree that 3D films must have given a boost to CCI's second-quarter results and we also expect the cinema chain to post a 2010 EBITDA ahead of 20%.



## Cyfrowy Polsat (Hold)

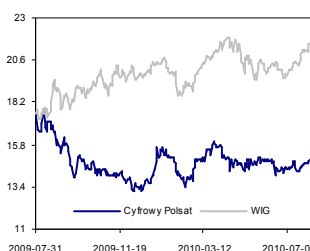
Current price: PLN 14.94

Target price: PLN 16.03

Analyst: Piotr Grzybowski

Last Recommendation: 2010-08-04

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	1 136.3	1 266.1	11.4%	1 456.4	15.0%	1 534.5	5.4%	Number of shares (m)	268.3
EBITDA	347.8	327.4	-5.9%	438.9	34.0%	505.6	15.2%	MC (current price)	4 008.8
EBITDA margin	30.6%	25.9%		30.1%		32.9%		EV (current price)	3 880.5
EBIT	324.3	285.5	-12.0%	374.7	31.3%	417.2	11.4%	Free float	31.8%
Net profit	269.8	237.9	-11.8%	304.7	28.0%	340.7	11.8%		
P/E	14.9	16.8		13.2		11.8		Price change: 1 month	3.7%
P/CE	13.7	14.3		10.9		9.3		Price change: 6 month	6.0%
P/BV	13.5	12.1		8.4		6.5		Price change: 12 month	-9.5%
EV/EBITDA	11.4	12.0		8.8		7.6		Max (52 week)	17.8
Dyield (%)	0.9	5.0		3.9		5.0		Min (52 week)	13.1



The main factor negatively affecting Cyfrowy Polsat's Q2 earnings is the depreciation of the zloty. That said, in H2 2010 the Polish currency could still rebound to the average levels foreseen in our last report (3.90 for EUR/PLN and 2.90 for USD/PLN). Over the past month, the price of the stock increased by 9.8%, and the Company paid a dividend (DY = 4.2%); as a result, the price of the stock has come close to our target. We are downgrading our rating to hold.

### mPunkt to sell Play mobile plans and devices

P4, owner of the mobile network Play, signed an agreement with Cyfrowy Polsat's mobile phone dealership mPunkt whereby the products of the former will be offered at 146 outlets of the latter. This is good news for Cyfrowy Polsat and mPunkt which lost a major telecom customer last year. Although the Company claimed that it can keep mPunkt profitable anyway, the addition of Play will make it easier. The distribution agreement excludes Play's Internet services, preventing cannibalization of CPL's broadband revenues.

### Merger with mPunkt

Cyfrowy Polsat is planning a merger with mPunkt Holdings Ltd., which owns mPunkt Polska S.A., the operator of 140 sales outlets and a training center. The merger is supposed to bring additional savings and to simplify the structure of the Group. We therefore approve of the move, though we doubt it can bring truly material savings.



## TVN (Reduce)

Current price: PLN 18.7

Target price: PLN 16.69

Analyst: Piotr Grzybowski

Last Recommendation: 2010-08-04

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	1 897.3	2 123.4	11.9%	2 485.0	17.0%	2 718.1	9.4%	Number of shares (m)	340.4
EBITDA	711.4	794.8	11.7%	661.0	-16.8%	784.2	18.6%	MC (current price)	6 365.1
EBITDA margin	37.5%	37.4%		26.6%		28.9%		EV (current price)	8 509.3
EBIT	631.9	612.1	-3.1%	432.0	-29.4%	540.6	25.1%	Free float	40.2%
Net profit	363.7	420.8	15.7%	287.1	-31.8%	361.3	25.9%		
P/E	18.0	15.1		22.2		17.6		Price change: 1 month	16.1%
P/CE	14.7	10.5		12.3		10.5		Price change: 6 month	38.5%
P/BV	4.0	5.0		5.1		4.1		Price change: 12 month	51.4%
EV/EBITDA	10.6	10.4		12.9		10.6		Max (52 week)	19.3
Dyield (%)	1.9	4.1		1.7		1.4		Min (52 week)	12.2



In our opinion, TVN is going to post excellent second-quarter earnings. As we expect the situation in advertising to remain good at least through the end of the year, H2 2010 should also be good for the Company. In addition, pay-TV revenue should improve thanks to the PLN 6 hike in the monthly subscription charge of the 'n' digital platform. FY 2011 is another story, however, as investors who expect a further acceleration in advertising are likely to be disappointed. We expect the growth of advertising revenue will slow down from 6.1% forecasted for FY 2010 to 5.1%, though the later figure may turn out even lower. Over the past month, the price of the stock has increased by 16.1%, prompting us to revise our rating to reduce.

### Public consultations on the digitization process

According to the draft of the new law on digitization, commercial broadcasters (TVN, Polsat and TV Puls) would be obligated to finance the purchase of set-top boxes for the least affluent and for those exempt from the payment of the TV license fee. During public consultations, the broadcasters strongly objected to such plans. The government estimates the total cost of the STB subsidy at PLN 400m, the companies at ca. PLN 1bn. We believe there is no legal basis upon which the broadcasters could be forced to bear these costs. The regulator UKE would have to give them something in return, perhaps a long-term guarantee for their multiplex slots and a restriction on new entrants. Such a scenario would be very good for TVN and Polsat, but not necessarily acceptable to the UKE. We expect that set-top boxes will end up being financed from public funds.

### July ratings

In July, the ratings of the TVN channel declined from 12.8% to 12.2%, but remained at 19.3% for the Group as a whole, primarily thanks to the excellent ratings of the news channel TVN24, which increased its share of the audience from 3.6% to 4.4%. Among TVN's competitors, the two major public channels sustained their last year's viewership figures (19.3% for TVP1, 14.3% for TVP2), while Polsat's ratings declined (from 14.2% to 12.9%). TVN and the Group as a whole increased their share of the commercial target demographic (16-49), from 12.7% to 13.0% and from 19.2% to 19.7%, respectively. July ratings reflect the Group's long-term strategy, which foresees intensified audience acquisition efforts during the high season. July and August are usually months with low (and declining) viewership.

## IT

### **New opportunity for IT companies**

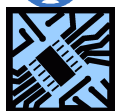
Enion, a member of power utility Tauron, has announced a tender for the delivery, implementation, and maintenance of a network asset management system at Enion and EnergiaPro. The contract's value is estimated at PLN 50m minimum. Bidders have until August 6th to submit quotes. When it comes to Polish systems providers, Sygnity and Asseco Poland (through Asseco Czech Republic) are the two firms with the strongest track records in delivering these types of solutions.

### **Prequalification applications for e-services platform contract for the police**

Comp, IBM Polska and Netline Group filed prequalification applications in the tender procedure for the contract for the construction and implementation of a nationwide e-services platform for the police force, organized by the Home Ministry's IT Project Center. The order is a part of a PLN 100m project co-financed by the Innovative Economy Operational Program. The contractor will build and implement a modern platform for telecommunication and e-services, based on components of the Integrated System of Electronic Document Circulation the police is already using, and on additional hardware and software to be supplied. It is too early to speculate who might win. What may come as a surprise is that so few companies filed prequalification applications, as big contracts in the public administration domain should attract strong interest from IT companies. Should this situation persist, competition may be less intense and prices more attractive for the contractors. Note that this is yet another project from the 7th priority axis of the Innovative Economy Operational Program. In the near future, we expect the Finance Ministry to invite tenders for three projects totaling PLN 500m and the Health Ministry for two totaling PLN 800m.

### **Winners of EU presidency infrastructure tender**

The winners of the Interior Ministry's tender for delivery of IT and data communications infrastructure for purposes of the Polish presidency of the European Union Council include Comarch, Sygnity, Wasko, a consortium of Enigma & Comp, Webtradedcenter with NTT System, Netline Group, IT.expert, Fujitsu Technology, and Techelon with OFEK and BIW Koncept. The bids ranged between PLN 25.5m and PLN 66.3m. The winning vendors will sign general agreements with the Ministry, whose total budget is unknown. Most likely, however, the limits will not be used in full, but in proportion to the proposed price.



## AB (Accumulate)

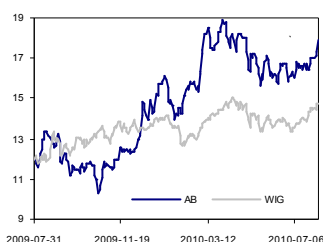
Current price: PLN 17.9

Target price: PLN 18.8

Analyst: Piotr Grzybowski

Last Recommendation: 2010-05-06

(PLN m)	2008/09	2009/10F	change	2010/11F	change	2011/12F	change	Basic data (PLN m)	
Revenues	2 839.7	2 806.6	-1.2%	2 784.8	-0.8%	2 996.2	7.6%	Number of shares (m)	16.0
EBITDA	81.9	53.4	-34.7%	49.7	-6.9%	53.3	7.1%	MC (current price)	285.5
<i>EBITDA margin</i>	2.9%	1.9%		1.8%		1.8%		EV (current price)	367.8
EBIT	76.5	45.5	-40.6%	44.2	-2.8%	47.7	7.9%	Free float	51.9%
Net profit	27.0	30.4	12.6%	27.4	-9.9%	30.1	10.0%		
P/E	10.6	9.4		10.4		9.5		Price change: 1 month	11.9%
P/CE	8.8	7.4		8.7		8.0		Price change: 6 month	26.1%
P/BV	1.1	1.0		0.9		0.8		Price change: 12 month	55.0%
EV/EBITDA	4.8	7.0		7.4		6.7		Max (52 week)	18.9
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	10.3



2009-07-31 2009-11-19 2010-03-12 2010-07-06

Our forecast for Q4 2009/2010 implies a P/E of 9.4 and an EV/EBITDA of 7.0, despite the recent rallies on the stock. In addition, the Company's earnings should be supported by the publication of solid quarterly earnings. Our investment rating is a reiterated accumulate.



## Action (Hold)

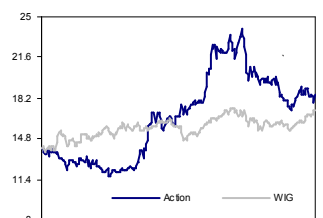
Current price: PLN 18.47

Target price: PLN 18.49

Analyst: Piotr Grzybowski

Last Recommendation: 2010-08-04

(PLN m)	2007/08	2008/09	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	2 343.4	3 136.2	33.8%	2 142.3	-31.7%	2 344.6	9.4%	Number of shares (m)	17.2
EBITDA	66.3	62.2	-6.2%	49.0	-21.3%	57.4	17.2%	MC (current price)	318.2
<i>EBITDA margin</i>	2.8%	2.0%		2.3%		2.4%		EV (current price)	414.2
EBIT	58.3	49.2	-15.5%	40.1	-18.6%	48.4	20.7%	Free float	35.9%
Net profit	33.8	31.2	-7.6%	27.0	-13.6%	33.3	23.5%		
P/E	9.4	10.2		11.8		9.6		Price change: 1 month	4.6%
P/CE	7.6	7.2		8.9		7.5		Price change: 6 month	7.8%
P/BV	1.8	1.7		1.5		1.4		Price change: 12 month	36.4%
EV/EBITDA	7.1	6.8		8.5		7.2		Max (52 week)	24.0
Dyield (%)	1.4	7.5		2.0		1.7		Min (52 week)	11.7



2009-07-31 2009-11-19 2010-03-12 2010-07-06

Since our last monthly report, where we upgraded our rating for Action to accumulate, the price of the stock rose by 8.0%, erasing the upside potential we saw for it. Earnings for the second quarter are likely to bring a disappointment vs. Q4 2008/2009, but this tendency should not be equally strong in the following quarters. Action receives a downgraded hold rating after a recent price rally.



## ASBIS (Hold)

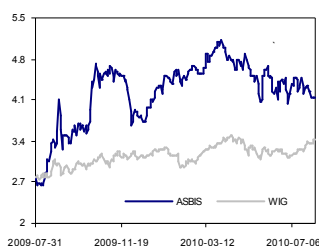
Current price: PLN 4.15

Target price: PLN 4.69

Analyst: Piotr Grzybowski

Last Recommendation: 2010-05-10

(USD m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	1 495.3	1 167.9	-21.9%	1 375.4	17.8%	1 514.2	10.1%	Number of shares (m)	55.5
EBITDA	18.2	5.8	-68.1%	17.9	210.2%	22.7	26.3%	MC (current price)	230.3
<i>EBITDA margin</i>	1.2%	0.5%		1.3%		1.5%		EV (current price)	301.5
EBIT	15.3	2.9	-81.2%	15.0	418.3%	19.6	31.0%	Free float	34.2%
Net profit	4.0	-3.2		7.6		11.3	49.4%		
P/E	18.9			10.1		6.7		Price change: 1 month	-5.0%
P/CE	11.1			7.2		5.3		Price change: 6 month	-6.5%
P/BV	0.8	0.8		0.8		0.7		Price change: 12 month	54.3%
EV/EBITDA	5.9	15.1		5.6		4.5		Max (52 week)	5.1
Dyield (%)	12.3	0.0		0.0		0.0		Min (52 week)	2.6



In the case of Asbis a very negative scenario is playing out as far as foreign exchange rates are concerned. After a period of USD appreciation in H1, and the associated F/X losses in July, i.e. during the low season, the EUR/USD trend is reversing. In our opinion, if the EUR gains in value during the summer, Asbis will be very unlikely to make up for F/X losses incurred in H1, which means we may have to downgrade our earnings forecasts for the current fiscal year. We are reiterating a hold rating.



## Asseco Poland (Buy)

Current price: PLN 55.8

Target price: PLN 70.6

Analyst: Piotr Grzybowski

Last Recommendation: 2010-04-06

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	2 786.6	3 050.3	9.5%	3 193.7	4.7%	3 389.2	6.1%	Number of shares (m)	77.6
EBITDA	591.8	646.1	9.2%	641.2	-0.7%	663.2	3.4%	MC (current price)	4 328.2
<i>EBITDA margin</i>	21.2%	21.2%		20.1%		19.6%		EV (current price)	4 730.8
EBIT	494.3	525.5	6.3%	517.6	-1.5%	537.0	3.7%	Free float	55.1%
Net profit	321.6	373.4	16.1%	337.1	-9.7%	358.2	6.2%		
P/E	13.5	11.6		12.8		12.1		Price change: 1 month	3.9%
P/CE	10.3	8.8		9.4		8.9		Price change: 6 month	-1.7%
P/BV	1.1	1.0		0.9		0.9		Price change: 12 month	-3.0%
EV/EBITDA	7.5	7.4		7.4		6.8		Max (52 week)	65.1
Dyield (%)	2.7	2.6		2.3		2.5		Min (52 week)	52.3



The key risk factor for the price of the Asseco Poland stock is the planned purchase of an American IT Company. The PLN 400m (or more) transaction comes with a considerable risk of a negative investor reaction to the accepted valuation of the company purchased (the multiples of American companies are usually much higher than those of their Western European and Polish peers). On the one hand, the purchase entails the risk of a considerable supply of treasury shares to fund the acquisition; on the other, despite the investor's concerns as to what the Company will do to fill the revenue gap after the termination of a large contract for PKO BP, AP's H1 2010 EBIT adjusted for a one-off event (goodwill write-down) will be only slightly lower than last year, as a result of which the current market cap entails a P/E of 12.8 despite the fact that it still owns a considerable number of treasury shares (7%). We are reiterating a buy rating.

### HP wins e-prescription contract

Hewlett Packard Polska was awarded a contract for the development of the prototype electronic prescription system by the Center for Healthcare Informatics. In addition to the contract itself, this will give HP leading position in the Polish electronic healthcare system, where nearly PLN 800m is up for grabs, most of it from EU funds. Among the other bidders were a consortium involving Qumak-Sekom, Sygnity, Comarch, a consortium involving Wola-Info and one involving Wasko. Asseco Poland will do subcontracting work on the project (cf. the IACS system for the Agency for Agricultural Restructuring and Modernization). We expect a big portion of healthcare projects to go to these two companies.



## ComArch (Reduce)

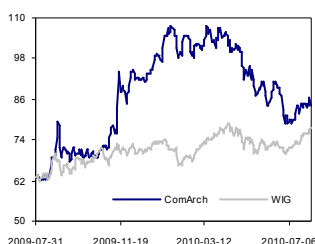
Current price: PLN 84.3

Target price: PLN 79.5

Analyst: Piotr Grzybowski

Last Recommendation: 2010-08-03

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	701.0	729.4	4.1%	701.4	-3.8%	803.5	14.5%	Number of shares (m)	8.1
EBITDA	66.0	56.2	-14.8%	50.9	-9.5%	86.1	69.3%	MC (current price)	678.8
EBITDA margin	9.4%	7.7%		7.3%		10.7%		EV (current price)	591.9
EBIT	45.9	14.3	-68.8%	11.3	-21.1%	47.1	316.1%	Free float	22.5%
Net profit	199.1	32.3	-83.8%	20.9	-35.3%	43.8	109.9%		
P/E	3.4	20.8		32.5		15.5		Price change: 1 month	6.7%
P/CE	3.1	9.1		11.2		8.2		Price change: 6 month	-14.0%
P/BV	1.3	1.2		1.2		1.1		Price change: 12 month	35.0%
EV/EBITDA	9.3	10.3		11.6		6.7		Max (52 week)	107.9
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	62.1



Following a share capital increase carried out by Comarch AG, the Group received EUR 1m in external capital, while its interest in German and French assets (which contribute ca. 33% to consolidated sales) decreased from 100% to 60%. Following the issue, the estimated minority interest in enterprise value has increased from PLN 10.5m to PLN 33.2m, which reduces our valuation by ca. PLN 2.82 per share. In addition, in expectation of weak earnings for H1 2010 we have decided to downgrade our FY forecasts and to reduce the rate of expected earnings improvement. Comarch still trades at a considerable premium to its Polish and foreign peers, which we find unjustified even if the Company does grab a big portion of upcoming governmental projects, as we assume. We are reiterating a reduce rating on Comarch.

### Comarch wins EUR 2.7m tender

Comarch won an order from Enea Operator to deliver Microsoft software licenses and support services for a total fee of EUR 2.7m (1.6% of expected 2010 revenues).

### Joint venture looks unlikely for Comarch and Inspur

CEO Janusz Filipiak says that talks with prospective JV partner, China's Inspur, are not going as well as thought, and that the deal will probably not happen. The joint venture was supposed to market German subsidiary SoftM's "Semiramis" software in China, taking advantage of Inspur's strong market position there. Comarch intends to continue to expand its presence in China even without Inspur's help, through its Shanghai branch, though Mr. Filipiak admits that the process will be longer.

### Comarch close to capturing E-Plus order

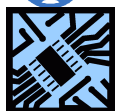
Mr. Filipiak expects that Comarch and E-Plus will sign a contract in July under which the former is going to deliver an Operations Support Systems platform supporting radio access and transport networks, migrate data, and provide support services. E-Plus Group is a subsidiary of KPN Mobile International, a division of the Dutch telecom KPN, a European leader in voice and data services with controlling interests in mobile operators in the Netherlands, Germany (E-Plus), Belgium (KPN), Spain, and France, and 33 million customers. The E-Plus contract is a material addition to Comarch's backlog, though it is going to be signed by Comarch AG in which Comarch will soon hold not a 100%, but a 60% interest following an equity issue.

### 2010 outlook

According to Mr. Filipiak, Comarch might not increase 2010 revenues, but will grow profits thanks to stronger sales of proprietary licenses and services. After a 5% increase in Q1 2010, the company is still feeling upward pressure on salaries. SoftM is expected to have a neutral impact on this year's earnings. Comarch plans to contribute PLN 30m to the Cracovia football club before the end of the year. Comarch's current share price factors in expectations of fast profit growth which the company might fail to achieve if we are to believe the CEO's words.

### Agreement with E-plus by the end of August

Comarch announced that due to internal procedures on the part of E-plus, its agreement with the German telecom would not be finalized until late August. No surprise for investors here, as the Management has already suggested such a timeline. The future of Comarch's joint venture with the Chinese Inspur raises more concerns.



## Komputronik (Hold)

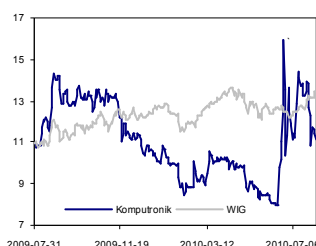
Current price: PLN 11.14

Target price: PLN 11.56

Analyst: Piotr Grzybowski

Last Recommendation: 2009-12-08

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	758.7	1 025.4	35.2%	916.9	-10.6%	1 040.2	13.5%	Number of shares (m)	8.2
EBITDA	15.0	10.1	-32.5%	16.2	60.2%	23.3	43.4%	MC (current price)	91.3
EBITDA margin	2.0%	1.0%		1.8%		2.2%		EV (current price)	134.4
EBIT	10.0	2.3	-76.6%	10.8	362.3%	17.7	64.8%	Free float	25.2%
Net profit	5.8	2.2	-63.0%	7.5	247.9%	11.5	53.7%		
P/E	15.7	42.3		12.2		7.9		Price change: 1 month	-0.1%
P/CE	8.4	9.2		7.0		5.3		Price change: 6 month	26.6%
P/BV	0.7	0.7		0.6		0.6		Price change: 12 month	3.1%
EV/EBITDA	7.2	12.9		8.3		5.7		Max (52 week)	16.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	8.0



**The identity of Karen's new investor disappointed observers. The main element of the investment agreement, which potentially creates value for Komputronik's shareholders, is the investor's promise to buy Komputronik's stake in Karen. However, the two-year timeline entails a considerable risk. After a price rally, the Komputronik stock is back in the bracket entailed by our target price. We are reiterating a hold rating.**

### Agreement with American investor

As promised, Komputronik signed an agreement enacting the terms of a memorandum of understanding signed earlier with a mystery investor, who, as it turns out, is Ms. Halina Paszyńska and the Texas Ranch Company Sp. z.o.o. Under the agreement, the investors are going to purchase Komputronik's claims against Techmex for PLN 11.75 million. Moreover, they are going to acquire new shares of Komputronik representing 16.5% of the share capital (rather than 10% we expected) and take 786 million shares of Karen (for PLN 0.5/share) in exchange for a PLN 340m property and a PLN 53m cash contribution. Komputronik will have a put option on its interests in Karen, exercisable in two year's time at PLN 2.66 per share. Further, the company will issue PLN 35m in bonds convertible into Karen shares, either to the investors, or to Karen. Finally, Komputronik will buy Karen's retail outlets for PLN 18.56m. The terms of the final agreement vary slightly from what was set forth in the memorandum. The most important difference is the higher stock issue by Karen which will give the new investor an over-90% equity interest authorizing a minority squeeze-out. We also have concerns about the reduction in the par value of Karen's stock, and in its share capital and the potential implications for Karen's minority shareholders.

### Contract with Complex Logistics

The agreement in question covers comprehensive logistic services. Its term is indefinite, and the estimated value over 5 years is PLN 36m (the amount includes the cost of services provided by freighters subcontracted by Complex Logistics. The contract requires software adjustments on the part of Komputronik. The Management claims the new arrangement will allow for deep cost cuts in the area of storage operations (30% of the current cost base), up to PLN 10m over the next 5 years. We consider this estimate of future savings overly optimistic, as it is hard to expect that the new Contract will give the Company pricing much below current market rates.

### Komputronik calls General Meeting

During the September 1st AGM, Komputronik shareholders are going to vote on the approval of annual financial statements and Supervisory Board report, as well the E stock issue agreed upon with the company's new investor.

### Purchase of land near Szczecin

Following on the agreement with Texas Ranch and Ms. Halina Paszyńska, Komputronik purchased an undeveloped land lot in Tanów (Police municipality). The lot is 7.1 hectares in size. In exchange for it, Komputronik transferred PLN 11.75m worth of Techmex debt to EL-CORN. Komputronik bears no liability for a potential default on the part of Techmex. The land is zoned for single-family dwellings. It is located on the road from Police to Szczecin, some 15km away from the latter. The price implied by the transaction is ca. PLN 166 per square meters. Comparable land is priced at PLN 100-250, depending on its parameters and the status of utilities. In order to make a more precise assessment of the purchase, we need to learn more about the lot, but given the price bracket mentioned above, the price appears to be close to market value.



## Sygnity (Buy)

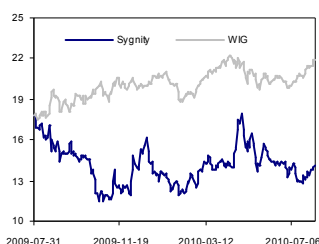
Current price: PLN 14.18

Target price: PLN 18.2

Analyst: Piotr Grzybowski

Last Recommendation: 2010-03-02

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	995.7	572.7	-42.5%	653.0	14.0%	756.8	15.9%	Number of shares (m)	11.9
EBITDA	56.6	-60.3		22.0		39.1	78.0%	MC (current price)	168.5
<i>EBITDA margin</i>	5.7%	-10.5%		3.4%		5.2%		EV (current price)	207.5
EBIT	11.5	-94.8		-9.6	-89.9%	8.4		Free float	66.1%
Net profit	-1.5	-89.4	5923.7%	-13.7	-84.7%	0.3			
P/E						647.2		Price change: 1 month	2.1%
P/CE	3.9			9.4		5.4		Price change: 6 month	19.2%
P/BV	0.4	0.6		0.6		0.6		Price change: 12 month	-16.1%
EV/EBITDA	3.3			9.4		5.2		Max (52 week)	18.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	11.5



The publication of weak second-quarter earnings could have a negative impact on the price of the Sygnity stock. However, the weakness of the first six months should be largely compensated for by profits attained in H2 2010. In our opinion, the main catalyst would be contracts for Electronic Government projects. The Company is well poised to grab a share of these. We are reiterating a buy rating.

### Management changes

Ms. Ilona Weiss has replaced Mr. Piotr Wierzbicki as a VP. The change should have no impact on current operations and the Company's plans for 2010-2012.

### New contract from Defense Ministry

The Defense Ministry's Army Procurement Department has made a decision in a tender for hardware and software supply. Sygnity won two parts of the tender, for anti-virus software and a payment management system. The total value of these two contracts is PLN 2.3m gross. The contract is of minimal importance for the Company's order backlog.

### Framework agreement for ATM deliveries

Sygnity signed a framework agreement for delivery of Nautilus Hyosung ATMs to a leading Polish bank. The value of the order has not been disclosed. A framework agreement is non-binding in nature, moreover, third-party ATMs will generate only a minimum profit. The agreement has no impact on the Company's financial situation.

### Government contract

Sygnity signed a contract with the Ministry of Labor and Social Policy for the maintenance of Pomost service software. The gross value of the contract is over PLN 14m. Over the next two years, Sygnity will provide software development and maintenance services and support for end users. The net value of the contract is ca. PLN 11.5m, i.e. ca. 2.0% of the Company's last year's revenue.

## Mining & Metals



### KGHM (Hold)

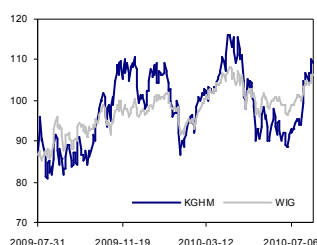
Current price: PLN 109.4

Target price: PLN 96.1

Analyst: Michał Marczak

Last Recommendation: 2010-05-27

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	11 302.9	11 060.5	-2.1%	11 060.5	0.0%	11 501.8	4.0%	Number of shares (m)	200.0
EBITDA	4 077.7	3 645.7	-10.6%	3 716.2	1.9%	3 104.6	-16.5%	MC (current price)	21 880.0
EBITDA margin	36.1%	33.0%		33.6%		27.0%		EV (current price)	20 132.7
EBIT	3 596.4	3 098.1	-13.9%	3 098.1	0.0%	2 430.4	-21.6%	Free float	36.0%
Net profit	2 910.4	2 540.9	-12.7%	3 337.4	31.3%	1 968.6	-41.0%		
P/E	7.5	8.6		6.6		11.1		Price change: 1 month	19.4%
P/CE	6.5	7.1		5.5		8.3		Price change: 6 month	26.5%
P/BV	2.1	2.1		1.7		1.6		Price change: 12 month	21.6%
EV/EBITDA	4.9	5.7		5.4		6.5		Max (52 w week)	116.1
Dyield (%)	8.2	10.7		2.7		4.6		Min (52 w week)	80.6



**Rising copper prices, paired with a relatively weak zloty, bode well for KGHM's third-quarter earnings, suggesting that the company may exceed our PLN 3.35bn net-profit forecast for the year. As far as next year's prospects are concerned, however, we expect the current revival in commodities, including copper, to subside by 2011. Since the current copper gains are already priced in, we are reiterating KGHM as a hold.**

#### KGHM expects to save PLN 200m a year thanks to new furnace

KGHM estimates that the new flash furnace, scheduled for commissioning in 2014, will generate PLN 200m in annual savings thanks to greater capacity, a reduced impact on the natural environment, and lower concentrate smelting costs. Moreover, the power plants that will be built by 2012 in Głogów and Polkowice will bring an estimated PLN 80m a year in electricity savings, and improve the safety of the smelting operations. Construction is set to start in Q4.

#### CEO interview

In an interview for *Parkiet*, CEO Wirth denied any conflicts with the Treasury. After the publication of the second-quarter report, the Management will probably review the FY earnings guidance, which will then be released in September or October. Mr. With added that there had been no breakthrough as regards the Polkomtel divestment. As far as the sale of Dialog is concerned, Polkomtel has the right of first refusal. It is currently carrying out a due diligence study and my file a bid. Negotiations with Netia had also been held.



## LW Bogdanka (Hold)

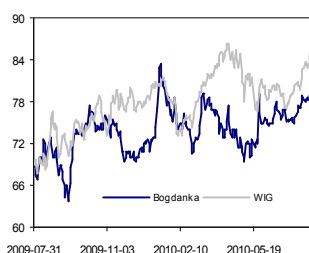
Current price: PLN 79.15

Target price: PLN 80.7

Analyst: Michał Marczak

Last Recommendation: 2010-08-04

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	1 033.3	1 118.0	8.2%	1 176.8	5.3%	1 471.2	25.0%	Number of shares (m)	34.0
EBITDA	339.6	368.0	8.3%	392.5	6.7%	536.1	36.6%	MC (current price)	2 692.1
<i>EBITDA margin</i>	32.9%	32.9%		33.4%		36.4%		EV (current price)	2 837.2
EBIT	203.5	226.7	11.4%	243.0	7.2%	301.2	23.9%	Free float	33.0%
Net profit	156.0	191.5	22.7%	186.2	-2.8%	227.1	22.0%		
P/E	17.3	14.1		14.5		11.9		Price change: 1 month	5.3%
P/CE	9.2	8.1		8.0		5.8		Price change: 6 month	5.5%
P/BV	2.4	1.6		1.4		1.3		Price change: 12 month	18.1%
EV/EBITDA	8.0	6.2		7.2		5.2		Max (52 week)	83.5
Dyield (%)	0.3	3.3		0.7		0.7		Min (52 week)	63.7



2009-07-31 2009-11-03 2010-02-10 2010-05-19

**LWB stock has reached our target, prompting a downgrade from buy to hold. We expect the coal miner to report flat quarter-on-quarter Q2 2010 results, and see an earnings deterioration by an estimated 40% in Q3 2010 relative to a high year-ago base (due to lower coal prices). The 2010 net profit is expected to be similar to last year's (provisions in Q4 2010 should be lower than a year earlier). We may revisit our rating for LW Bogdanka if the prices of the coal that the company made commitments to sell next year increase (look our for a research update after the Q2 2010 announcement).**

### Coal supply agreement

Starting in January 2011, the Company will supply steam coal to the Rybnik Power Plant, which belongs to the EDF Group. The agreement was signed with an Upper Silesian coal distributor PHU Energokrak. The mine is planning to increase its capacity in 2011.

### CEO on possible coal price hikes

LWB's CEO Miroslaw Taras says that the company might raise the prices of next year's coal supplies if the situation in the local market continues to improve. He also added that Bogdanka is close to finalizing the details of a renewed long-term coal supply contract with the Kozienice Power Plant.

## Manufacturers

### Amica

#### CEO on future outlook

Amica's CEO Mr. Rutkowski hopes to see an improvement in this year's standalone profits in spite of flat year-on-year sales. In spite of an overall downturn in the market for household appliances in the first half of the year (with sales plunging 18-20% compared to 2009), the company continued to increase market share in the period. Mr. Rutkowski is observing a pickup in demand from other countries. In Russia, where Amica used to sell EUR 60m-worth of its appliances before the financial crisis, and experienced a drop to EUR 30m in 2009, sales are expected to rebound to EUR 40-45m. Scandinavian sales are steady, and UK sales have been on the rise. Mr. Rutkowski would like to see Amica's debt to decrease to PLN 50m by the end of the year (from PLN 260-300m in January). Moreover, he says it is unlikely that Amica will renew its washing machine and refrigerator supply contract with Samsung after the March 2011 expiration date because it can generate higher margins on devices sourced from Turkey and the Far East. In the autumn, the Management Board is going to decide whether to build a new kitchen-oven factory. The idea to find washing-machine and fridge suppliers in Turkey and the Far East is not new – Amica had considered parting ways with Samsung before, depending on how successful their partnership proves in terms of costs.

### Apator

#### Doubling the output is the goal

Apator announced a plan to build a new production facility which should allow it to double its output. According to the CEO, the new plant will use state-of-the-art technologies, and will also be more energy efficient and cost-effective. In addition, it will be located within the Pomeranian Special Economic Zone. Construction is expected to begin in Q1 2011. The project will be funded with dividends from Apator Mining (a subsidiary and a shareholder in Apator) and from proceeds of the sale of an old factory with adjacent land. The CEO has added that Apator Mining is no longer planning to sell Apator shares.

### Kernel

#### Droughts without impact on quality of Ukrainian crops

The Ukrainian Deputy Prime Minister has issued a statement saying that recent droughts have not affected the quality of commercial crops. The condition of sugar-beet sowings is 30% better than in the same period a year ago, and the state of corn and sunflowers is nothing short of perfect, according to the government official. The good health of sugar-beet crops is bad news for Astarta because it implies a high supply, and hence lower prices, of sugar. In turn, Kernel can look forward to an abundance of feedstock for its sunflower-oil products.

#### Ukraine may cancel sunflower seed export duties

According to reports, Ukraine may cancel export duties on sunflower seeds as early as in 2011 as part of the efforts to create a free-trade zone with the EU. The resulting increase in seed prices is expected to bring about an increase in sunflower seed oil prices. As the world's largest exporter of sunflower seed, Ukraine is the main factor shaping the prices in the region alongside the prices of other plant oils (rapeseed, soybean oil). This year, prices of sunflower seed oil are expected to increase as a result of lower-than-expected rapeseed harvest across Europe. Kernel's Management are not convinced that the export duties will disappear as soon as 2011 considering Ukraine's tight budget.

#### Ukrainian harvest predictions

In its own crop yield forecast published on the corporate Website, Kernel predicts that Ukraine's total grain harvest will fall in the range of 40 and 45 million tons (vs. 46MT in 2009), facilitating export volumes of 18-20 million tons (21MT in 2009). To date, Ukrainian farmers have harvested about 30% of planned wheat, barley, and rapeseed. Kernel stresses that the 30% hike in wheat prices observed in July will provide a "welcome boost in revenue to the Ukraine farming sector." Harvesting of soybean, corn, and sunflower seeds is scheduled to start in mid-September and last through October, and, based on the present state of the crop, the company ventures a guess that the sunflower seed yield could be higher than the original 6MT estimate, at 7-8 million tons. Overall, Kernel notes that the dry weather that has adversely impacted some areas of Europe and Russia has only moderately affected grain production in the Ukraine. Kernel's stock might fall victim to investor overreaction to negative crop forecasts for eastern markets in the near term. However, investors should keep in mind that the company has a 10%-15% share in the Ukrainian crop-exports market, and that this year's harvest predictions for Ukraine are in line with last year's yields. The possibly higher-than-expected sunflower seed harvest will boost Kernel's production volumes and next season's sales.



### **No threat to grain exports**

*Parkiet* reported that Ukraine would not be imposing a cap on grain exports. Earlier, the country's Agriculture Minister said he did not preclude export quotas on milling wheat

### **Russia slashes crop harvest forecasts due to drought**

Russia's Ministry of Agriculture has cut its 2010 grain-crop yield forecasts again last week from 90 million to 81-85 million tons (compared to a 2009 harvest of 97MT) due to a severe drought.

### **Another grain yield forecast reduction in Ukraine**

Ukraine's Ministry of Agriculture lowered this year's grain yield forecast from 45-45.5 to 42 million tons (vs. 46MT harvested in 2009). In addition, the forecast of grain exports was cut from 21 million tons to 18 million tons (vs. 21 million tons last year).



## Astarta (Sell)

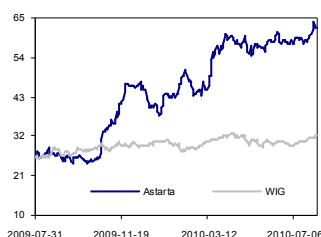
Current price: PLN 62

Target price: PLN 45.83

Analyst: Jakub Szkopek

Last Recommendation: 2010-05-11

(UAH m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	970.7	1 354.8	39.6%	2 193.5	61.9%	1 714.4	-21.8%	Number of shares (m)	25.0
EBITDA	223.5	550.5	146.4%	995.4	80.8%	470.1	-52.8%	MC (current price)	1 550.0
EBITDA margin	23.0%	40.6%		45.4%		27.4%		EV (current price)	1 735.9
EBIT	150.8	457.5	203.4%	881.7	92.7%	351.8	-60.1%	Free float	19.5%
Net profit	-89.2	323.4		769.5	137.9%	240.9	-68.7%		
P/E		12.5		5.3		16.8		Price change: 1 month	6.9%
P/CE		9.7		4.6		11.3		Price change: 6 month	33.3%
P/BV	6.3	3.0		1.9		1.9		Price change: 12 month	129.8%
EV/EBITDA	22.8	9.1		4.5		9.2		Max (52 w week)	63.7
Dyield (%)	0.0	0.0		0.0		5.7		Min (52 w week)	24.5



Ukraine is expected to produce 2.1-2.2MT of sugar next year according to the country's Ministry of Agrarian Policy, suggesting that, with demand at 1.9MT and exports to Russia at 0.3MT, the local sugar market will be fully balanced. This should eliminate the huge disparity between Ukrainian and global sugar prices (\$1000 USD vs. \$600 a ton) by this fall especially if Ukraine is to export to Russia (where prices are also hovering around \$1000/T). As a result, even on higher sales volumes, Astarta is not likely to repeat the stellar earnings figures seen this year in future years. The company's share price has hit its peak, and the expected drop in Ukrainian sugar prices will no doubt knock it off the current high in the second half of the year. We are reiterating a sell rating on Astarta.

### Sugar prices in July

Sugar prices on the LIFFE exchange increased by an average 13.2% in July on reports of delayed shipments from Brazil and concerns over drought-induced harvest losses in Russia. In Brazil, heavy rainfall held up global deliveries totaling 3.62MT, with 122 ships waiting to load sugar in the country's ports. Another July price driver were expectations that importers would step up purchases (for example, Pakistan announced that it needed 0.7 MT of sugar by the end of last month). Further, upward price pressure came from increasing prices of cereals which rallied on concerns over harvest reductions in Russia caused by droughts. European wheat prices gained an average 25.9% in July, and barley appreciated 18.7% compared to June. Today, sugar prices are under downward pressure from expected increased supply from Brazil (+9.9% y/y) and India (+47.4% y/y), where copious rains have boosted the quality of sugar cane. The downward trend is expected to continue going forward as importers wait for prices to drop further before stocking up. In the Ukraine, dollar prices of sugar were 2% higher in July than in June because of a continuing local shortage paired with increased demand from processed-fruit and beverage producers.

### Russia slashes crop harvest forecasts due to drought

Russia's Ministry of Agriculture has cut its 2010 grain-crop yield forecasts again last week from 90 million to 81-85 million tons (compared to a 2009 harvest of 97MT) due to a severe drought.

### Another grain yield forecast reduction in Ukraine

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### Weather threatens Ukrainian crops

Ukrainian crop producers listed on the Warsaw Stock Exchange have been hit by spells of bad weather: first heavy rainfall, and then droughts. A spokesperson for Astarta has suggested that, as a result, this year's sugar-beet yield might be lower than forecasted, and that, paired with the planned reductions in sugar imports from Belarus, this will probably keep Ukrainian sugar prices high in the long term. For Kernel, lower grain harvest means lower export volumes. In our opinion, heavy rainfall followed by drought does not necessarily have to affect the supply of sugar beet, which can retain water in its root, and whose sugar content depends on the amount of sunshine of which there is plenty during a drought.

### Droughts without impact on quality of Ukrainian crops

The Ukrainian Deputy Prime Minister has issued a statement saying that recent droughts have not affected the quality of commercial crops. The condition of sugar-beet sowings is 30% better than in the same period a year ago, and the state of corn and sunflowers is nothing short of perfect, according to the government official. The good health of sugar-beet crops is bad news for Astarta because it implies a high supply, and hence lower prices, of sugar.



## Cersanit (Hold)

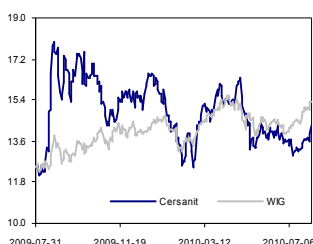
Current price: PLN 14.3

Target price: PLN 13.43

Analyst: Jakub Szkopek

Last Recommendation: 2010-06-04

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	1 517.3	1 415.2	-6.7%	1 506.9	6.5%	1 612.8	7.0%	Number of shares (m)	144.3
EBITDA	339.7	284.7	-16.2%	323.3	13.5%	369.0	14.2%	MC (current price)	2 062.9
EBITDA margin	22.4%	20.1%		21.5%		22.9%		EV (current price)	3 071.5
EBIT	233.9	168.1	-28.1%	207.1	23.2%	252.0	21.7%	Free float	28.1%
Net profit	7.7	-8.1		122.4		144.3	17.9%		
P/E	267.7			16.9		14.3		Price change: 1 month	4.9%
P/CE	18.2	19.0		8.6		7.9		Price change: 6 month	3.8%
P/BV	2.0	1.9		1.7		1.5		Price change: 12 month	18.2%
EV/EBITDA	9.5	11.1		9.5		8.1		Max (52 week)	18.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	12.1



We predict that 2010 will be a year of price and sales stabilization for manufacturers of bathroom tiles in Poland. As far as exports are concerned, a pickup has been observed in Russia, while retail sales in other countries are just approaching their local lows and are not expected to regain an upward momentum until next year. Even in the best-case scenario assuming an increase in revenues in H2 2010, Cersanit is trading on FY2010E P/E and EV/EBITDA multiples of 16.0 and 8.2 respectively, suggesting that the improved sales prospects for Russian and Ukrainian markets are already priced in. In the near term, Cersanit stock may be affected by the planned issue of 10 to 72,128,020 cum-rights G shares, estimated at PLN 151.5m (PLN 2.10 / share), aimed at helping the company repay its debts and strengthen working capital. We are reiterating a hold rating on Cersanit.

### Stock offering plans

Cersanit called an Extraordinary Meeting of Shareholders for 3 August 2010 to consider a stock offering motion (between 10m and 72.128m G-stock shares). The offering will be a rights issue (one right per two existing shares). The offering price will be determined by the Management, and the day of record for preemptive rights will be 17 August. Cersanit hopes to raise between PLN 150 and 250m from its planned stock offering, to be allocated to working capital, debt payments, and future projects in Russia and Romania. Cersanit has renegotiated four credit agreements totaling PLN 215m since January, and the equity raise might come at the suggestion of the creditors (at year-end 2009, Cersanit had about PLN 1.1bn in FCY debt). The increased working-capital needs might come from the increased capacity of Ukrainian production facilities (the factory has increased its output from 1 to 2 million ceramic ware and from 7 to 12 million square meters of tiles per year). Cersanit's main shareholder, Michał Solowow, says that he intends to acquire the new shares proportionally to his current interests (he holds a 7.9% indirect stake and a 40.8% direct stake in the company).



## Famur (Hold)

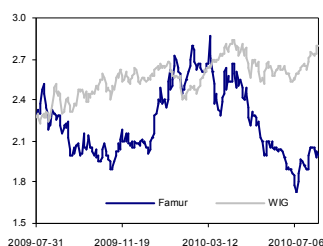
Current price: PLN 2

Target price: PLN 2.03

Analyst: Jakub Szkopek

Last Recommendation: 2010-05-28

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	1 089.1	695.1	-36.2%	625.6	-10.0%	605.4	-3.2%	Number of shares (m)	481.5
EBITDA	199.0	133.6	-32.9%	99.7	-25.4%	157.1	57.6%	MC (current price)	963.0
EBITDA margin	18.3%	19.2%		15.9%		26.0%		EV (current price)	943.8
EBIT	164.2	100.8	-38.6%	66.5	-34.1%	120.7	81.6%	Free float	11.8%
Net profit	59.1	58.0	-1.8%	57.2	-1.4%	97.2	70.0%		
P/E	16.3	16.6		16.8		9.9		Price change: 1 month	12.4%
P/CE	10.3	10.6		10.6		7.2		Price change: 6 month	-18.4%
P/BV	1.5	1.4		1.3		1.1		Price change: 12 month	-13.0%
EV/EBITDA	5.3	7.9		9.5		5.4		Max (52 week)	2.9
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	1.7



The global mining equipment industry is recovering from the dramatic shortfall in orders seen in H2 2009. The world's leading machine supplier Joy Global reported a 43% y/y increase in orders in Q2 2010, and Bucyrus saw a 173% surge in order value. A larger number of worldwide mine projects reduces competition between suppliers, and makes room on the playing field for less well-established players. In Poland, a revival in mine investment is also expected to be spurred by rising prices of Russian coal, which is no longer competitive compared to domestic coal (at the end of May, Russian coal traded at \$91/T compared to \$75 per ton of Polish coal). As Polish power plants inevitably switch to domestic coal suppliers, mines will be able to reduce inventories and improve their liquidity, and hence increase plant purchases. The prospects for Famur's foundry business and lifting equipment line, which generated 25.3% of first-quarter revenues, are less buoyant because of lower demand from auto makers and shipyards, and lower capacity utilization rates among European manufacturers. We are reiterating a hold rating on Famur.

### Worldwide leader in mining solutions sees upturn in demand

On the occasion of its Q2 earnings announcement, Joy Global, the global leader in mining machinery and equipment, revealed that it had increased its order backlog to \$1.7 billion from \$1.5 billion in Q309. The rebound was most prominent among underground mines (+20.1%), and not as strong among open-cast mining customers (+7.4%). The volume of orders for new solutions surged 55% vs. Q209, compared to a 36% increase in used-machinery orders. Joy Global is also observing a pickup in demand from US customers. Joy Global's expanding backlog may be considered a sign of a worldwide pickup. The recovery in the USA is good news for mining-machinery suppliers elsewhere in the world because it potentially means reduced competition from US giants (Joy Global, Bucyrus) who have been forced lately to focus on European, Australian, and Chinese markets.

### Coal mines will fail to spend subsidies in time?

*Rzeczpospolita* reported there is a risk that coal mines will be unable to spend subsidies totaling PLN 400m before the deadline (31 December 2010) due to the red tape involved. Mining executives previously declared that many projects launched in 2010 would qualify for subsidies. We believe the risk is not as big as the newspaper claims, all the more so that the Ministry of the Economy is working very actively on this issue (the EC decision on the subsidies was issued on 6 May, and the relevant Polish ordinance came into force on 6 July).

### Coal mining in May

Production of steam coal was down 17.3% in May vs. the same period in 2009, while the output of coking coal surged 112.2%. At the same time, steam-coal sales declined 8.6%, and coking-coal sales were up 117.2%. Sales to power plants decreased by 19.2%, but exports soared 81.5%. Mine inventories were 20.2% higher than in May 2009. The average price of steam coal fell 11.6%, compared to a 54.1% increase for coking coal. Prices of Russian coal quoted at Baltic ports averaged \$91/T vis-à-vis \$74.2 for a ton of Polish coal. Russian exporters plan to increase supplies in the second half of the year, but they intend to keep prices high to cover expensive freight costs. The Polish coal industry's accounts payable have decreased by 11.6% since January, and accounts receivable have fallen 6.4%. Lower sales to the power industry stem from earlier purchase commitments made by the power plants. As these commitments are fulfilled, and Russian coal continues to trade higher than Polish coal, sales to this industry sector should see a rebound, allowing local mines to reduce inventories and improve liquidity. Growing export volumes indicate that coal from Poland can easily compete with coal from other countries. The YTD May profit of Polish mines amounted to PLN 151.6m, but it included a PLN 325m profit generated by Jastrzębska Spółka Węglowa, suggesting that other miners generated a combined PLN 173.4m loss. All in all, the May trends suggest potential for improvement.

### **Bucyrus reports Q2 2010 results**

The second-quarter results of the world's second-largest mining machinery manufacturer indicate an improvement in demand, demonstrated by a 12% YTD increase in the order backlog. The number of new orders (adjusted for the latest acquisition, Terex) surged 154.0% vs. Q2 2009, with orders for underground mining equipment rising 173.2%, including a 1039.0 % bump in orders for new equipment. Bucyrus's backlog trends confirm the pickup in global demand observed earlier by Joy Global.

### **Poland gets new coal handling terminal**

According to financial daily *Puls Biznesu*, a new coal-handling terminal with an annual capacity of 12 million tons, was opened last week in Gdańsk. The terminal allows for increased imports of Russian coal which, in May 2010, traded at \$91 per ton compared to \$75 per ton of domestically-mined coal. These price gaps suggest that Polish coal producers have no reason for concern at the moment.

### **Famur issues a reminder about recent contracts**

Famur released a statement saying that it had signed PLN 67.2m (net)-worth of contracts with Kompania Węglowa between 29 April and 26 July 2010, and received PLN 64m-worth of orders from Jastrzębska Spółka Węglowa in the past 12 months. Most of these contracts had been announced before. Famur's largest deal with JSW was struck last year.

### **Famur shareholder accused of land fraud**

Tomasz D., Famur's indirect majority shareholder and Supervisory Board member, has been accused of land swindle by the prosecutor's office in Gliwice. According to the prosecution, Mr. D. used fraud to obtain rights of first refusal to purchase church land totaling 200 hectares, given to the Catholic Church by the Polish government as compensation for properties appropriated during the communist rule. Famur was reportedly not involved in the swindle.

### **PLN 1bn opportunities for mining machine suppliers**

According to financial daily *Puls Biznesu*, Poland's leading coal producer JSW wants to spend over PLN 958m by 2014 on shaft deepening at its Budryk mine. In addition to horizontal and vertical conveyors, ventilation, methane abatement systems, and air-conditioning, Budryk is also set for a renovation of its coal-processing plant. These plans present an opportunity for all Polish mine suppliers, including Kopex and Bumech. We think JSW can spend the reported budget provided that coking-coal prices remain high.



## Kęty (Hold)

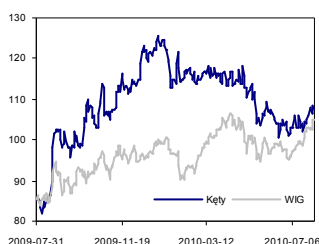
Current price: PLN 107.5

Target price: PLN 100.71

Analyst: Jakub Szkopek

Last Recommendation: 2010-07-06

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	1 170.8	1 111.0	-5.1%	1 135.8	2.2%	1 143.8	0.7%	Number of shares (m)	9.2
EBITDA	188.4	189.0	0.3%	171.7	-9.1%	180.4	5.0%	MC (current price)	991.8
<i>EBITDA margin</i>	<i>16.1%</i>	<i>17.0%</i>		<i>15.1%</i>		<i>15.8%</i>		EV (current price)	1 223.1
EBIT	126.7	124.9	-1.4%	104.0	-16.7%	109.7	5.6%	Free float	58.8%
Net profit	61.2	70.6	15.4%	72.2	2.3%	78.0	8.0%		
P/E	16.2	14.0		13.7		12.7		Price change: 1 month	4.4%
P/CE	8.1	7.4		7.1		6.7		Price change: 6 month	-6.1%
P/BV	1.4	1.2		1.1		1.1		Price change: 12 month	26.5%
EV/EBITDA	7.3	6.3		7.1		6.6		Max (52 w week)	125.4
Dyield (%)	4.2	0.0		3.7		4.0		Min (52 w week)	82.0



**Kęty's second-quarter earnings guidance indicates that the company did not manage to make up for the lost first-quarter sales generated by its Building Accessories, Building Services, and Aluminum Systems Divisions, which cater to the construction industry. Kęty delivered only 35.9% of its 2010 EBIT target, and 38.1% of the net profit target, in H1 2010, compared to average delivery rates of 49.7% and 51.0% respectively in the same periods in 2001 through 2010. This puts into question the achievement of the full-year financial targets (PLN 117.6m EBIT, PLN 81.5m net profit). One of the reasons is a decrease in this year's housing construction (0.4% fewer homes were being built between January and May than in the same period last year), office developments (2010 office deliveries in Warsaw are expected to be 28.9% lower than in 2009), and retail spaces (the number of shopping center projects started in 2009 was much lower than in the two preceding years). Moreover, Kęty is seeing no improvement in demand from the European auto industry, which sold 1% fewer new cars between January and May than in the weak comparable period of 2009). Another factor weighing on this year's earnings are aluminum prices, which have surged 27.9% (10.7% more than the company predicted) in zloty terms from the same period a year ago. As a result, we predict that investors will lower their financial expectations for Kęty after the second-quarter results, with implications for the company's stock value. We are reiterating a hold rating on Kęty.**

### Target price adjustment for dividends

Following dividend distribution, we are reducing our price target on Kęty from PLN 104.71 to PLN 100.71 per share.

### Raiffeisen Zentralbank Osterreich AG reduces interest

Raiffeisen ZO AG has reduced its stake in Kęty from 5.74% to 0.05% as of 14 July 2010.



## Kopex (Hold)

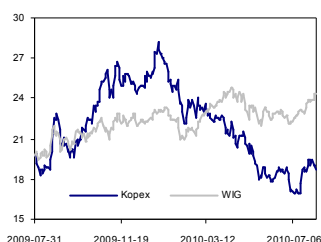
Current price: PLN 18.65

Target price: PLN 18.46

Analyst: Jakub Szkopek

Last Recommendation: 2010-05-28

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	1 982.6	2 313.4	16.7%	2 448.7	5.8%	2 547.3	4.0%	Number of shares (m)	74.3
EBITDA	236.0	217.1	-8.0%	232.2	7.0%	265.5	14.4%	MC (current price)	1 386.3
EBITDA margin	11.9%	9.4%		9.5%		10.4%		EV (current price)	1 765.2
EBIT	174.9	145.3	-16.9%	143.8	-1.1%	173.7	20.8%	Free float	28.5%
Net profit	85.4	87.2	2.1%	80.6	-7.6%	113.6	40.9%		
P/E	14.8	15.9		17.2		12.2		Price change: 1 month	8.7%
P/CE	8.6	8.7		8.2		6.7		Price change: 6 month	-20.8%
P/BV	0.6	0.6		0.6		0.5		Price change: 12 month	-1.2%
EV/EBITDA	6.9	8.3		7.6		6.3		Max (52 w week)	28.3
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 w week)	17.0



The fast-paced coal-based economies of China and India are shaping the worldwide sales of coal. China, which beat the United States in energy production for the first time in 2009, increased its coal imports by a staggering 114.2% in the few months between January and May 2010, creating enormous opportunities for major exporters (Australia's coal exports during the same period were 41.8% higher than a year ago). The other beneficiaries of this upturn are manufacturers of mining equipment. The world's leading machine supplier Joy Global reported a 43% y/y increase in orders in Q2 2010, and Bucyrus saw a 2Q10 surge in order value. A pickup in mine investment is also observed in the United States, engaging the capacities of local suppliers and making more room on the global market for smaller manufacturers like Kopex. Thanks to the zloty's depreciation versus the dollar (by 11.7% YTD), the Polish company is able to offer its equipment at competitive prices. In Poland, a revival in mine investment is also expected to be spurred by rising prices of Russian coal which is no longer competitive compared to domestic coal (at the end of May, Russian coal traded at \$91/T compared to \$75 per ton of Polish coal). As a result, Polish mines can look forward to higher sales, lower inventories, and better liquidity. We are reiterating a hold rating on Kopex.

### Worldwide leader in mining solutions sees upturn in demand

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### Coal mines will fail to spend subsidies in time?

*Rzeczpospolita* reported there is a risk that coal mines will be unable to spend subsidies totaling PLN 400m before the deadline (31 December 2010) due to the red tape involved. Mining executives previously declared that many projects launched in 2010 would qualify for subsidies. We believe the risk is not as big as the newspaper claims, all the more so that the Ministry of the Economy is working very actively on this issue (the EC decision on the subsidies was issued on 6 May, and the relevant Polish ordinance came into force on 6 July).

### Coal mining in May

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The second-quarter results of the world's second-largest mining machinery manufacturer indicate an improvement in demand, demonstrated by a 12% YTD increase in the order backlog. The number of new orders (adjusted for the latest acquisition, Terex) surged 154.0% vs. Q2 2009, with orders for underground mining equipment rising 173.2%, including a 1039.0% bump in orders for new equipment. Bucyrus's backlog trends confirm the pickup in global demand observed earlier by Joy Global.

#### **Poland gets new coal handling terminal**

According to financial daily *Puls Biznesu*, a new coal-handling terminal with an annual capacity of 12 million tons, was opened last week in Gdańsk. The terminal allows for increased imports of Russian coal which, in May 2010, traded at \$91 per ton compared to \$75 per ton of domestically-mined coal. These price gaps suggest that Polish coal producers have no reason for concern at the moment.

#### **PLN 1bn opportunities for mining machine suppliers**

According to financial daily *Puls Biznesu*, Poland's leading coal producer JSW wants to spend over PLN 958m by 2014 on shaft deepening at its Budryk mine. In addition to horizontal and vertical conveyors, ventilation, methane abatement systems, and air-conditioning, Budryk is also set for a renovation of its coal-processing plant. These plans present an opportunity for all Polish mine suppliers, including Kopex and Bumech. We think JSW can spend the reported budget provided that coking-coal prices remain high.

#### **Major contract**

Kopex signed a PLN 20.4m coal-sales agreement with PHU Energokrak, valid from 1 August 2010 until 28 January 2011. The coal probably comes from KHW, and was given to Kopex as settlement for the coal producer's bonds.

#### **BZ WBK AIB TFI reduces interest**

BZ WBK AIB TFI reduced its stake from 5.01% to 4.87%. After a share capital increase last November, the fund owned a 5.98% stake in Kopex.

#### **New order for Tagor**

The Company announced it had signed a contract for the supply of 167 sections of a powered roof support to Kompania Węglowa for PLN 36.9m net (a finance lease). The timeline is September 2010 through January 2011. The new order is good news for Kopex's subsidiary Tagor, which faced low capacity utilization in H2 2010. The Company did say before it was going to acquire domestic orders for powered roof supports in Q3-Q4. However, demand remains low, which depresses the margin on such contracts.



## Mondi (Hold)

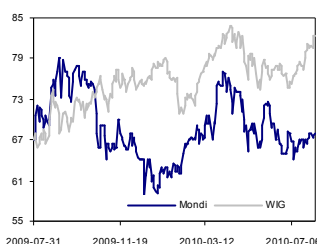
Current price: PLN 73.4

Target price: PLN 67.3

Analyst: Michał Marczak

Last Recommendation: 2010-06-02

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	1 406.3	1 360.8	-3.2%	1 799.9	32.3%	1 986.1	10.3%	Number of shares (m)	50.0
EBITDA	305.5	217.9	-28.7%	413.5	89.7%	493.3	19.3%	MC (current price)	3 670.0
EBITDA margin	21.7%	16.0%		23.0%		24.8%		EV (current price)	4 311.6
EBIT	194.7	99.6	-48.8%	242.2	143.1%	323.0	33.4%	Free float	19.0%
Net profit	141.2	71.4	-49.4%	195.7	174.1%	279.0	42.6%		
P/E	26.0	51.4		18.8		13.2		Price change: 1 month	1.9%
P/CE	14.6	19.3		10.0		8.2		Price change: 6 month	8.0%
P/BV	3.4	3.1		2.7		2.6		Price change: 12 month	-5.5%
EV/EBITDA	13.0	19.9		10.4		8.6		Max (52 week)	79.0
Dyield (%)	0.0	0.0		0.0		6.9		Min (52 week)	58.5



**Mondi is expected to report a strong quarter-on-quarter improvement in Q2 2010, fueled mainly by rising prices of paper and expanding profit margins on recycled paper. That said, our forecasts of the company's financial performance this year and next do not suggest any upside value potential. We are reiterating a hold rating on Mondi.**

### Paper price trends

European prices of corrugated case material did not move much from their June levels last month, with kraftliner rising 2.9%, and testliner and fluting declining by 0.7% and 0.6% respectively. During the same period, prices of OCC materials retreated by 2%, suggesting a widening in Mondi's future margins.

## Construction

### Polish construction in June

According to GUS statistics, June construction output in Poland (in constant prices) was 9.6% higher than a year earlier and 24.4% higher than in May. After adjustment for seasonal factors, production showed a 4.1% increase vs. June 2009 and a 4.5% increase from May 2010.

### Road Construction

#### Czech spending cuts affect road infrastructure

Czech's transport minister announced cuts in the expenses allocated to most of the country's infrastructure projects, including motorways and expressways. A detailed list of the shelved projects is to be revealed in a few days. The Czech case could be seen as a warning for Poland.

### Railroad Construction

#### Polish government to take over PKP PLK

The Polish government wants to start the process of taking over the national railroad maintenance company PKP PLK from PKP SA. The State Treasury would pay PLN 2.35bn to PKP by 2014, drawing on the central Railroad Fund financed from fuel taxes. But the CEO of PKP PLK has another idea, suggesting that the company should be split into two businesses, one holding PKP PLK equity, and the other holding its assets, with the former being eventually taken over by the government. This suggestion has not met with the approval of the Treasury, which would rather buy PKP PLK as a way of minimizing risks entailed in PLN 5.7bn in loan guarantees granted to PKP. The railroad fund financed 9.2% of PKP PLK's CAPEX in 2008, and 7.3% in 2007. Poland's railroad modernization plans assume that the projects will be 60% funded from EU subsidies (an increase from an average 35-45%), with the rest provided by PKP PLK itself, by the government, and from debt.

### Power Engineering

#### Advantageous decision on CO2 emissions

The European Commission has accepted a broad definition of "initiated" construction of new power generation capacity (power plants whose construction started before the end of 2008 will be allowed to buy CO2 emission credits at a discount after 2012). The agreement covers a total of 15MW of new capacity. Work will be considered initiated if land surveying work has been conducted.

### Energoinstal

#### New order

Energoinstal signed a contract for delivery of a steam boiler to the Finnish waste management plant Oulu for EUR 5.6m (PLN 23m). The contract has a deadline in mid-November 2011.

### Mostostal Płock

#### MSP expects no revenue losses

Mostostal Płock expects to keep this year's revenues flat at last year's level. The company is negotiating several contracts at the moment, including with a Middle-Eastern customer, and it managed to make up for the first-quarter delays in the course of the second quarter.

### Mostostal Zabrze

#### New contract

MSZ won a contract for construction of a hydrogen plant for a Dutch customer for EUR 9.6m (PLN 39.4m). The deadline is 6 June 2011.

### Remak

#### Bleak 2010 sales outlook

The CEO of power engineer Remak expects a continuation throughout the year of the downward revenue trend observed in Q1 2010. The reason behind the downturn are project delays as customers hold capital expenses and struggle with financial issues. A turnaround should come in 2011 with a series of major contract tenders. As a result, Remak's revenues will increase from an estimated PLN 140-150m this year to over PLN 200m next year. The company is currently negotiating several contracts worth over PLN 10m each. The CEO is also concerned about falling margins which could depress Remak's net profitability by as much as 20%.



## Budimex (Sell)

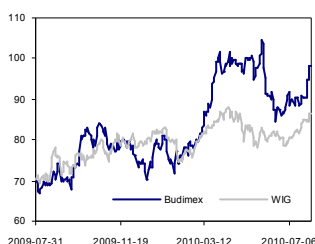
Current price: PLN 98.2

Target price: PLN 78.3

Analyst: Maciej Stokłosa

Last Recommendation: 2010-08-04

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	3 274.3	3 289.9	0.5%	4 419.2	34.3%	4 548.0	2.9%	Number of shares (m)	25.5
EBITDA	130.2	221.7	70.3%	238.3	7.5%	221.8	-6.9%	MC (current price)	2 507.1
<i>EBITDA margin</i>	4.0%	6.7%		5.4%		4.9%		EV (current price)	2 576.3
EBIT	107.9	200.5	85.7%	216.2	7.8%	199.3	-7.8%	Free float	36.8%
Net profit	93.7	173.7	85.3%	185.3	6.7%	161.5	-12.9%		
P/E	26.8	14.4		13.5		15.5		Price change: 1 month	7.9%
P/CE	21.6	12.9		12.1		13.6		Price change: 6 month	32.7%
P/BV	4.5	4.3		4.2		3.9		Price change: 12 month	46.6%
EV/EBITDA	17.1	8.1		10.8		10.8		Max (52 week)	104.5
Dyield (%)	0.0	5.9		6.9		4.5		Min (52 week)	67.0



**Budimex released better-than-expected 2010 first-half earnings estimates. The difference between the company's and our EBIT estimate can be two-thirds attributed to earlier recognition of contract revenues, and one-third generated by one-time events like provision reversals and derivatives valuations. Although possibly better than we thought, Budimex's 2010 financial results are not sustainable in the long term because next year's revenues from real-estate development are expected to decrease by half, and because margins on the construction contracts acquired this year will be lower. Moreover, due of fewer road projects, revenues in 2011 and the following years could embark on a downward trend (road construction generates 70% of Budimex's revenues). Further, there are concerns that the builder's operating cash flows will move to the negative territory in the near future given its huge payables as compared to receivables. Budimex has submitted a preliminary offer on a contract for construction of a power plant in Jaworzno, but the tender is still in very early stages. Once the company submits a price quote, it will expose itself to huge risks (a large contract in a field in which it has no previous experience) and costs totaling EUR 1.5 billion. We are downgrading Budimex to sell.**

### Preliminary data for H1'10

Budimex released preliminary data on its earnings in H1 2010, which are much better than predicted by us and other analysts. In the comments below, we will specifically address the company's earnings for Q2 2010. Revenues beat our forecast by 27%, but, given our FY forecasts, this should not be considered a big positive surprise. Our FY10 forecast for Budimex's revenues is the highest one in the market (PLN 4.4bn vs. PLN 4.0bn for the second-highest one), and we believe we have simply made an error in estimating the timing of the company's revenues. Specifically, we assumed that new road contracts, including Design&Build contracts, will not make a strong impact on revenues until Q3 2010. EBIT exceeded estimates by 50%. Unfortunately, the release does not include the gross profit figure, which makes it impossible to say to what extent the surprise in EBIT is a consequence of operations, as opposed to other operating income and reduced derivative losses. It cannot be precluded that in the second quarter Budimex released some of its contract reserves, or incurred lower-than-forecasted derivative losses (our forecast: PLN 20m). For sure, a considerable portion of the discrepancy at the EBIT level must be a consequence of the combination of higher revenues and flat fixed costs. On the assumption that the additional revenues came in with a gross margin of 10%, the EBIT would exceed our forecast by PLN 24m. The difference between the EBIT and the gross profit suggests that Budimex incurred finance losses of PLN 4.8m (vs. PLN 2.6m forecasted). It is hard to say whether this discrepancy was caused by a reduction in financial income, or, for example, F/X losses. Judging from the difference between pre-tax and net income, the effective tax rate was close to 19%.

### CEO sees a chance for higher earnings in 2011

The CEO believes Budimex's margins could fall in FY 2011 and in H2 2010. At the same time, however, sales will be going up, which could drive profits up. In H2 2010, it will not be possible to sustain H1 margins, as the contribution of the property development segment will decline (the Company expects to transfer some 300 homes to buyers vs. 600 in H1).

### Budimex Nieruchomości launches the construction of 870 homes

Budimex Nieruchomości has launched the construction of 400 homes in two Kraków projects and one Warsaw project. In the fall, another Warsaw-based project with 400 homes will kick off. At the moment, Budimex has 400 homes on offer.

**Budimex to pay out 50-70% of its profits as dividends**

According to the CEO, Budimex could pay out 50-70% of its FY10 profits as dividends to shareholders. The Company will offer a dividend payment in 2011 regardless of whether it finalizes its planned acquisition or not.

**Budimex reveals partner in gas-fired power-plant tenders**

Budimex has revealed that its bidding partner in at least two upcoming gas-fired power-plant contract tenders is Spain's Tecnicas Reunidas. In addition to these projects, one of which, based in Skawina, is worth an estimated PLN 1.3 billion, the company also wants to compete for conventional power-generation systems such as the one in Jaworzno with an estimated value of PLN 5.5bn. Budimex says that it is going to vie for the contract alone, and that it has already found boiler and turbine suppliers for the plant. Moreover, the builder would like to capture waste-incinerator orders together with partners that include Ferrovial.

**Budimex determined to seize all railroad contract opportunities**

Budimex intends to compete for all railroad infrastructure contracts that come on line. To increase its chances, the company may acquire an industry player like PNI. In the 10+ tenders awarded in the past few months, Budimex made three bids that ranked 6th, 4th, and 7th.

**New contracts**

Budimex has been selected to build a learning center in Dąbrowa Górnicza (PLN 51.8m), and offices for the Rzeszów prosecutor (EUR 18m). The total value of the two contracts is PLN 123m (2.9% of forecasted 2010 revenues).

**PLN 275.5m road contract**

Budimex is going to build a section of the S3 expressway for PLN 275.5m net (6.4% of forecasted 2010 revenues). The contract has a deadline in 25 months. The contract is factored in our financial forecasts for Budimex.

**Customer extends financing-search period**

Budimex signed an annex to its March 2010 conditional agreements with an office-building project owner, extending the period during which the investor is to secure financing for the project until 23 September. Moreover, Budimex's fee was raised by ca. PLN 1m to PLN 105.5m (2.4% of forecasted 2010 revenues).

**Budimex makes lowest bid**

A consortium of Budimex and Ferrovial Agroman submitted the lowest bid (PLN 250.8m) on a contract for construction of a bridge near Kwidzyń.

**New contract**

A consortium of Budimex and Ferrovial Agroman won a contract for construction of gas and waste storage facilities for PLN 64.2m (net).

**PLN 31.8m contract**

Budimex was selected by the town of Suwałki to build a concert and theater hall for PLN 31.8m (0.7% of forecasted 2010 revenues).



## Centrum Klima (Accumulate)

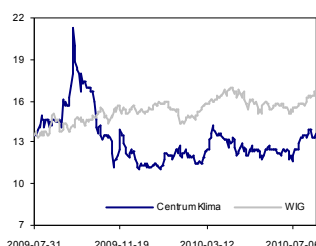
Current price: PLN 13.58

Target price: PLN 14.65

Analyst: Maciej Stokłosa

Last Recommendation: 2010-08-04

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	75.9	71.7	-5.5%	75.4	5.1%	92.8	23.1%	Number of shares (m)	8.5
EBITDA	11.2	9.7	-13.5%	11.0	14.2%	15.5	40.2%	MC (current price)	115.7
<i>EBITDA margin</i>	<i>14.7%</i>	<i>13.5%</i>		<i>14.6%</i>		<i>16.7%</i>		EV (current price)	106.3
EBIT	10.1	8.0	-20.8%	9.0	11.8%	11.6	29.0%	Free float	39.2%
Net profit	7.6	6.7	-12.0%	8.0	18.9%	10.0	25.3%		
P/E	9.8	17.2		14.5		7.5		Price change: 1 month	17.2%
P/CE	8.7	13.9		11.5		5.4		Price change: 6 month	6.3%
P/BV	1.8	1.9		1.4		0.8		Price change: 12 month	-2.6%
EV/EBITDA	7.1	9.4		9.6		4.0		Max (52 w week)	21.3
Dyield (%)	4.0	1.4		1.6		2.1		Min (52 w week)	11.1



According to our tentative calculations, Centrum Klima (CKL) will report a major increase in revenues (by as much as 22%), paired with a contraction in margins (to 8.8% in case of the EBIT margin), for Q2 2010. The revenue growth was owed to stronger production and distribution volumes, and higher prices which, because they are raised with a lag relative to the gains in the prices of raw materials, did not boost the period's profit margins. Even more than by prices of steel, the Q2 EBIT margin was affected by higher USD/PLN exchange rates whose effects were strengthened by increased purchases made to meet rising demand. Following the planned price hikes, CKL should return to generating EBIT margins of around 10% in the medium term. If the upward momentum in sales volumes continues into Q3 2010, and we think it will considering that many building projects are entering their shell stages, the company will fulfill our PLN 8m net-earnings forecast. The launch of new manufacturing facilities in July will drive the HVAC company's future revenues. We are downgrading CKL stock to accumulate after a recent price rally.

### CKL sells production facilities

Centrum Klima signed a preliminary agreement with Multidekor to sell its production facilities in Piastów near Warsaw. The total selling price is PLN 10.4m (10.6% of CKL's market cap), payable in two installments, the first PLN 1m one due on 5 July 2010, and the second payable by 20 January 2011. The final agreement is scheduled for execution on 17 January 2011.



## Elektrobudowa (Hold)

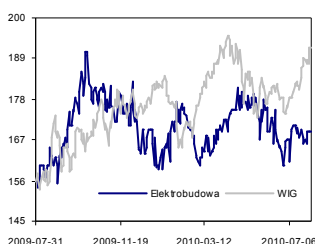
Current price: PLN 169.3

Target price: PLN 169.2

Analyst: Maciej Stokłosa

Last Recommendation: 2010-03-12

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	811.0	700.9	-13.6%	683.5	-2.5%	726.6	6.3%	Number of shares (m)	4.7
EBITDA	79.0	79.0	0.0%	64.3	-18.6%	68.5	6.5%	MC (current price)	803.8
EBITDA margin	9.7%	11.3%		9.4%		9.4%		EV (current price)	693.9
EBIT	71.3	69.0	-3.3%	52.8	-23.4%	55.3	4.7%	Free float	36.7%
Net profit	60.3	54.5	-9.6%	49.1	-10.0%	54.6	11.2%		
P/E	13.3	14.7		16.4		14.7		Price change: 1 month	1.4%
P/CE	11.8	12.4		13.3		11.9		Price change: 6 month	-1.6%
P/BV	3.2	2.8		2.5		2.3		Price change: 12 month	8.5%
EV/EBITDA	9.1	8.8		10.8		9.7		Max (52 week)	191.0
Dyield (%)	1.5	1.8		2.0		2.2		Min (52 week)	155.0



Elektrobudowa (ELB) remains successful business-wise, but it is overpriced relative to comparable firms. Its own 2010 earnings guidance, as well as our forecasts, have not changed. The better-than-predicted 2010 first-half results were owed mainly to a strong first quarter. The company has no ambition to act as general contractor in power-plant projects, and it is poised to capitalize on its subcontracting potential in 2012 and 2013. Power-plant engineering accounts for just one-third of ELB's revenues, the other sources being electrical wiring systems (expected to generate weaker results this year) and switchgear (this line is seeing lower demand this year, but it is expected to maintain margins at high levels thanks to a large market share), the demand for which is not expected to rebound until 2012. ELB stock is trading high, but does not offer much upside potential, prompting a reiterated neutral rating.

### ELB eyes better-than-expected H1 results

Elektrobudowa had a better-than-expected first half of the year in spite of an undersupply of new contracts and tough competition.

### Best bid for concert hall in Koszalin

Elektrobudowa was awarded the contract for the construction of a concert hall in Koszalin. The project, with a deadline in mid-2013, is worth PLN 29m (4.2% of total revenue forecasted for 2010).

### New contract

Elektrobudowa inked a contract for construction of a new concert hall for the Koszalin Philharmonic. The PLN 29.2m (gross) contract has a deadline in April 2013.

### Target price adjustment

With the dividend record date already behind us, we are deducting the PLN 3.5-a-share dividend from our price target on Elektrobudowa.



## Erbud (Accumulate)

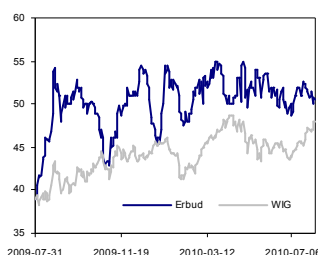
Current price: PLN 50.5

Target price: PLN 54.6

Analyst: Maciej Stokłosa

Last Recommendation: 2010-07-05

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	1 046.1	954.6	-8.7%	1 226.0	28.4%	1 340.5	9.3%	Number of shares (m)	12.6
EBITDA	67.3	68.3	1.4%	66.9	-2.1%	66.2	-1.0%	MC (current price)	634.8
<i>EBITDA margin</i>	6.4%	7.2%		5.5%		4.9%		EV (current price)	583.8
EBIT	60.8	60.5	-0.5%	60.7	0.3%	59.9	-1.2%	Free float	14.1%
Net profit	9.3	41.7	347.9%	51.3	23.2%	50.0	-2.6%		
P/E	68.3	15.2		12.4		12.7		Price change: 1 month	3.6%
P/CE	40.1	12.8		11.0		11.3		Price change: 6 month	2.9%
P/BV	3.1	2.7		2.2		1.9		Price change: 12 month	20.8%
EV/EBITDA	9.2	7.3		8.7		8.2		Max (52 week)	55.0
Dyield (%)	0.0	0.2		1.1		1.2		Min (52 week)	41.5



Operating in a tough and highly competitive market, Erbud is not likely to surpass earnings expectations in the coming year, although it is expected to capture a number of new contracts in the next few months. Next year, the company should see the fastest revenue growth in the road-development business, and the strongest margins in building construction (generated by contracts signed at high 2008 prices). Erbud is generally less prone to margin erosion than other companies, and it offers more attractive price multiples. In a few months' time, the company should announce some value-enhancing purchases, including commercial properties and industry acquisitions. The 2010 second-quarter earnings prospects are lukewarm because Erbud had no contracts scheduled for completion in the period, but this effect is going to be compensated for in future quarters. We are reiterating an accumulate rating on Erbud.

### CEO on 2010 outlook

Erbud's CEO Dariusz Grzeszczak told *Parkiet* that the company's second-quarter revenues should reach PLN 260m after flat quarter-on-quarter growth. Going forward, sales will be driven by an order backlog worth nearly PLN 1bn, which might increase by a further PLN 500m in the next two months depending on the company's success in ongoing tenders. On a less positive note, growing revenues will not translate into higher profits because they are increasingly derived from less lucrative road contracts, and Mr. Grzeszczak estimates the operating margin at 5-6%.

### Erbud completes management stock subscriptions

Erbud has allocated 31,686 management shares at PLN 11 apiece.

### PLN 65m contract

Rank Progress selected Erbud's PLN 65m (net) offer concerning construction of a shopping center for Rank Progress. The contract accounts for 5.4% of the company's expected 2010 revenues.

### Target price adjustment

With the dividend record date already behind us, we are deducting the PLN 0.48-a-share dividend from our price target on Erbud.



## Mostostal Warszawa (Hold)

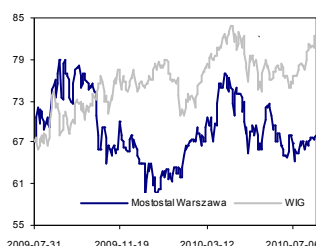
Current price: PLN 68.05

Target price: PLN 68.6

Analyst: Maciej Stokłosa

Last Recommendation: 2010-08-02

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	2 211.3	2 712.1	22.7%	2 585.0	-4.7%	2 789.4	7.9%	Number of shares (m)	20.0
EBITDA	144.6	209.1	44.6%	134.7	-35.6%	134.7	0.0%	MC (current price)	1 361.0
EBITDA margin	6.5%	7.7%		5.2%		4.8%		EV (current price)	1 228.1
EBIT	121.9	181.2	48.7%	97.7	-46.1%	96.7	-1.0%	Free float	32.1%
Net profit	81.1	117.3	44.6%	79.6	-32.1%	76.4	-4.0%		
P/E	16.8	11.6		17.1		17.8		Price change: 1 month	1.9%
P/CE	13.1	9.4		11.7		11.9		Price change: 6 month	8.0%
P/BV	4.0	2.8		2.7		2.5		Price change: 12 month	-5.5%
EV/EBITDA	8.1	5.2		9.1		9.0		Max (52 w week)	79.0
Dyield (%)	0.4	0.5		4.3		2.9		Min (52 w week)	58.5



In 2009, faced with an industry-wide slowdown and increased competition, Mostostal Warszawa (MSW) decided to minimize contractual risks by focusing on recurring, small and medium-sized jobs for the public sector, and taking a selective approach to large road contracts. This approach proved an effective way of mitigating potential losses, but, on the downside, since many of the public-sector contracts were won through competitive bids against small local low-cost providers, they will probably generate slim margins. We expect MSW to report a slight contraction in 2010 revenues on a somewhat smaller backlog. We are also lowering our future profit forecasts for the builder to account for the expected squeeze in contract margins, expected to become noticeable starting in Q3 2010. That said, MSW is the most attractively priced construction stock (the lowest EV/EBITDA ratio) relative to other leading players (PBG, Budimex, Polimex Mostostal). In the longer term, the company is poised to benefit from the slew of power-plant projects expected to come on line in 2012. We are reiterating a hold rating on MSW.

### MSW submits lowest bid

A consortium of Mostostal Warszawa and Acciona offered the lowest price (PLN 190.9m, representing 7.3% of MSW's forecasted 2010 revenue) for a contract concerning adjustments on a stretch of the S8 expressway. The next lowest bid was made by Polimex Mostostal and Doprastav (PLN 198.0m).

### Two housing contracts for PLN 33.5m

Subsidiary Wrobis was awarded two new residential construction contracts for a total of PLN 33.4m (1.2% of revenues forecasted for 2010)

### Another winning bid

Mostostal Warszawa and consortium partner Acciona Infraestructuras submitted the lowest bid on a contract for extension of the S7 expressway, offering PLN 525.9m (20.2% of the 2010 revenues forecasted for MSW).

### MSW to revamp Gdynia train station

Mostostal Warszawa and Acciona Infraestructuras signed a contract for modernization of the "Gdynia Główna" train station (PLN 31m gross, PLN 25.4m net, representing 1% of forecasted 2010 revenues). The deadline is April 2012.

### New contract

A consortium of Mostostal Warszawa and Acciona Infraestructuras signed a contract for delivery of a sewage treatment and water supply system for Nowy Sącz and neighboring towns and villages. The contract has a gross value of PLN 67.2m and a net value of PLN 55.1m (2.1% of expected 2010 revenues).



## PBG (Reduce)

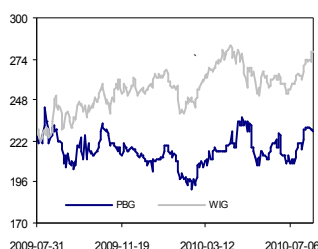
Current price: PLN 228

Target price: PLN 194

Analyst: Maciej Stokłosa

Last Recommendation: 2010-06-02

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	2 089.3	2 578.0	23.4%	3 295.0	27.8%	3 923.6	19.1%	Number of shares (m)	14.3
EBITDA	270.6	338.7	25.2%	338.9	0.1%	330.8	-2.4%	MC (current price)	3 259.3
<i>EBITDA margin</i>	<i>12.9%</i>	<i>13.1%</i>		<i>10.3%</i>		<i>8.4%</i>		EV (current price)	3 594.3
EBIT	223.4	286.5	28.2%	288.6	0.7%	280.1	-2.9%	Free float	45.5%
Net profit	158.0	210.6	33.3%	214.9	2.0%	221.2	2.9%		
P/E	19.4	15.5		15.2		14.7		Price change: 1 month	9.7%
P/CE	14.9	12.4		12.3		12.0		Price change: 6 month	14.6%
P/BV	1.1	2.3		1.0		0.9		Price change: 12 month	2.5%
EV/EBITDA	14.5	11.7		10.6		10.4		Max (52 week)	242.9
Dyield (%)	0.0	0.0		1.3		1.4		Min (52 week)	192.0



The high volume of contracts that PBG captured in June and July did not appease high investor expectations. We estimate the company's order backlog at PLN 6bn, of which a little under PLN 2.4bn-worth of jobs are scheduled for delivery in 2011 (our revenue forecast for next year is PLN 3.9bn). The value of the 2011 oil and gas-engineering pipeline is an estimated PLN 700m, and is still short of our PLN 1bn revenue forecast for the segment. Assuming an average contract term of two years, to achieve our PLN 3.9bn revenue estimate in 2011, PBG needs to add a further PLN 3bn to the backlog – not an easy feat considering the intensity of competition within the construction industry. We expect PBG's profit margins to narrow in 2011 and later years, and we predict that this shrinkage will be increasingly discounted in the company's share price. Moreover, as the year progresses, we expect investors to show increasing preference of early-cycle small, specialized builders over late-cycle construction firms. We are reiterating a reduce rating on PBG.

### PBG eyes higher revenues

CEO Jerzy Wiśniewski announced that, thanks to recently captured road contracts and minor power-engineering jobs, PBG might exceed its 2010 revenue estimate by 10-20%. Yesterday, the company inked a PLN 3bn contract for construction of an LNG terminal in Świnoujście as 33% consortium member, with hopes that its stake can be increased in the future. The contract is expected to generate a net margin of at least 7%. PBG is also set to sign an PLN 800m contract for a stretch of the S5 expressway (as 40% consortium member), and has been confirmed to have offered the lowest price (PLN 144.8m) on a sewage disposal system. The successful contract acquisitions may result in upward guidance revisions around the fourth quarter.

### PBG inks PLN 717m motorway contract

A consortium involving SIAC, PBG, Hydrobudowa, and Aprivia, signed a contract for construction of the "Krzyż-Dębica Pustynia" stretch of the A4 motorway. The contract has a total value of PLN 1.43bn, of which PBG will get about half, i.e. ca. PLN 717m (22% of forecasted 2010 revenues). PBG and Hydrobudowa Polska have also signed guarantee and credit-line agreements with Pekao S.A. as part of the financing arrangements toward the contract.

### Expressway contract

A consortium involving PBG and Hydrobudowa Polska (HBP) won a contract for construction of the S5 expressway. PBG's 40% share in the total PLN 777.2m fee figures to PLN 310.1m, representing 9.7% of expected 2010 revenues. The construction is scheduled to last 20 months, excluding winter months.

### Hydrobudowa lands PLN 144.8m contract

Hydrobudowa Polska and consortium partners PRG Metro, Hydrobudowa 9, and Infra, were selected to deliver stage two of a sewage treatment plant in Warsaw. The PLN 144.8m contract accounts for 4.4% of the forecasted 2010 revenues of PBG.

### New contract

PBG received an order from the copper producer KGHM for delivery and installation of four complete gas-fired turbo-generators for purposes of KGHM's power-plant project. The PLN 95.1m (net) order is scheduled for delivery on 30 November 2012.

### HBD eyes 2010 profit over PLN 40m

A spokesman for Hydrobudowa says that a PLN 40m profit estimate for 2010 is a conservative one. At the beginning of July, the company had an order backlog worth PLN 1.6bn, but has

since captured a number of new orders, including motorway construction contracts totaling PLN 3.9bn (of which half is attributable to HBD).

### **Energomontaż Południe stands alone in power-plant tender**

According to reports, Energomontaż Południe (EPD) formed its own bidding consortium, which includes China Dongfang Electric Corporation, to compete for a contract for a new power plant in Kozienice. Earlier, a consortium of the company's 25% owner, PBG, and Alstom, declared that it was going to compete for the contract as well. PBG has stated that it will consider increasing its interests in EPD if the latter captures a major power-plant contract. At the moment, it considers the power engineer to be an autonomous entity with an independent Management. EPD expects an improvement in standalone earnings in Q2 2010, paired with a deterioration in the consolidated results. The company has PLN 50m set aside toward potential acquisitions.



## Polimex Mostostal (Reduce)

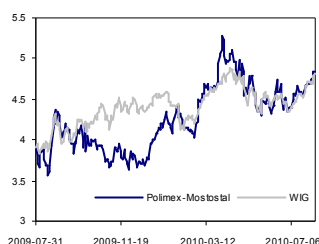
Current price: PLN 4.84

Target price: PLN 4.27

Analyst: Maciej Stokłosa

Last Recommendation: 2010-07-30

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	4 301.7	4 836.7	12.4%	4 504.9	-6.9%	4 760.7	5.7%	Number of shares (m)	477.7
EBITDA	298.5	343.6	15.1%	294.9	-14.2%	286.0	-3.0%	MC (current price)	2 312.2
<i>EBITDA margin</i>	6.9%	7.1%		6.5%		6.0%		EV (current price)	2 851.3
EBIT	228.1	264.9	16.1%	193.5	-27.0%	184.7	-4.6%	Free float	64.9%
Net profit	120.1	156.4	30.2%	142.1	-9.1%	140.5	-1.1%		
P/E	18.7	14.3		16.3		17.9		Price change: 1 month	10.0%
P/CE	11.8	9.5		9.5		10.4		Price change: 6 month	11.8%
P/BV	2.1	1.8		1.7		1.7		Price change: 12 month	32.2%
EV/EBITDA	9.4	7.8		9.7		10.2		Max (52 week)	5.3
Dyiel (%)	0.2	0.2		0.8		0.0		Min (52 week)	3.6



Polimex is among the companies best positioned to benefit from electric power producers' investment in the construction of new units. Unfortunately, such projects tend to get delayed (for example, bids on upgrade jobs for the Bełchatów power plant, estimated at PLN 2.5-3bn, are scheduled for submission in September and October, and the awards are expected late this year). Even if Polimex is able to land a big contract for the construction of a new power-generation unit towards the end of the year, this will not have a material impact on its earnings until 2012 (with construction work starting in H2 2011). We believe that in the meantime (2010-2011), the company's earnings may be a source of negative surprises. FY2010 is a tougher year for power- and chemical-engineering companies as far as contract acquisition is concerned, among others due to a temporary investment slowdown in 2009. The situation has also deteriorated since last year as regards steel products – while Polimex is able to sustain high volumes, this is achieved at the expense of its margins. The situation in the manufacturing segment at selected subsidiaries (Coifer, Elektromontaż Północ) looks definitely worse than last year. Given all these factors, we believe that the current consensus forecast for Polimex, based on the Management's pronouncements from early 2010, is too high. Our revised EBIT and net profit projections for 2010-2011 are 10%-30% lower than the consensus estimate. We believe a negative surprise is possible already in Q2 2010, which could lead to a revision to the overly optimistic forecasts. Given this risk, as well as the risk of a delay in power-sector investment, we are reiterating a reduce rating on PXM stock.

### CEO on 2010 outlook

According to CEO Konrad Jaskóła, Polimex may report a 5% increase in 2010 revenues, and a 10% increase in 2011, thanks to successful contract acquisition. In other news, a Polimex consortium (in which the company has a 51% stake) has made the lowest bid (PLN 1.8bn) on a stretch of the A4 motorway.

### Backlog value tops PLN 10bn

Polimex's CEO Konrad Jaskóła announced that the company's order backlog had exceeded PLN 10 billion.

### Shareholders OK subsidiary absorption

Polimex shareholders approved the absorption by the parent company of seven subsidiaries including Energomontaż Północ and Naftobudowa. The exchange ratios have been set at 3.81 shares of Polimex for each share of EPN, and 6.04 shares of Polimex for each share of Naftobudowa. Polimex is going to issue a total of 56.6 million shares worth PLN 263m for the purposes of the merger. In other news, Polimex sold 4,320 shares, representing its entire, 30% stake, in Valmont Industries Holland B.V. At year-end 2009, Valmont's assets amounted to PLN 19.4m.

### PLN 219.6m contract

A consortium led by Polimex Mostostal signed a contract for construction of the S-69 expressway from Bielsko Biała to Żywiec and Zwardoń. Polimex has a 35% stake in the PLN 646m (net) contract, equivalent to PLN 219.6m, or 4.9% of the forecasted 2010 revenues.

### PXM makes lowest bid

Polimex Mostostal and consortium partner Doprastav submitted the lowest bid on a contract for a stretch of the A4 motorway. The consortium offered PLN 2.2bn (PLN 1.8bn net), of which an estimated PLN 0.9bn goes to Polimex (20.0% of forecasted 2010 revenues). The losing bidders were Autostrada Wschodnia with Mapa Insaat Ve Ticaret (PLN 2.4bn gross) and Mostostal Warszawa with Acciona (PLN 3.0bn gross).

### **Energomontaż inks PLN 75m contract**

A consortium of Hitachi and Energomontaż Północ signed a contract for a turnkey flue-gas denitrogenation plant with Vattenfall Heat Poland. The total net fee is PLN 139.5m, of which PLN 75m goes to Energomontaż (1.7% of expected 2010 revenues).

### **Torpol's successful contract bids**

- A consortium involving PBG's subsidiary Torpol and Feroco, ZRK Dom, and Intercor, offered the lowest price on construction of the E65-C/E65 railroad route. We reckon that Polimex has a 25%-35% stake in the proposed net fee of PLN 479.1m (11.1% of expected 2010 revenues). The next lowest quote was PLN 494.9m.
- A consortium involving Torpol, Feroco, ZRK Dom, and Intercor, offered the lowest price on construction of another railroad route. We reckon that Polimex has a 25%-35% stake in the proposed net fee of PLN 371.5m (8.6% of expected 2010 revenues). The next lowest quote (by Trakcja Polska and PNUiK) was PLN 377.9m.
- A consortium involving Torpol, Feroco, ZRK Dom, and Intercor, offered the lowest price on design and construction of railroad route E30-C/E30. We reckon that Polimex has a 25%-35% stake in the proposed net fee of PLN 516.3m (12.0% of expected 2010 revenues). The next lowest quote (by Trakcja Polska and PNUiK) was PLN 588.7m.
- Torpol offered the lowest price for a contract for railroad infrastructure redevelopment. The potential PLN 21.9m contract accounts for 0.5% of thre 2010 revenues forecasted for Polimex.

### **Torpol's backlog estimate**

If Torpol is awarded all the contracts on which it placed the lowest bids, its 2011 order backlog will amount to an estimated PLN 280m (the company's 2009 revenue was a little over PLN 300m).



## Rafako (Hold)

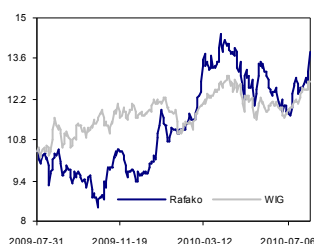
Current price: PLN 13.85

Target price: PLN 14

Analyst: Maciej Stokłosa

Last Recommendation: 2010-08-04

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	1 125.6	963.7	-14.4%	1 036.0	7.5%	1 477.0	42.6%	Number of shares (m)	69.6
EBITDA	76.1	67.5	-11.3%	68.0	0.7%	78.1	15.0%	MC (current price)	964.0
<i>EBITDA margin</i>	6.8%	7.0%		6.6%		5.3%		EV (current price)	716.5
EBIT	60.8	53.9	-11.3%	54.0	0.2%	63.7	17.9%	Free float	21.8%
Net profit	-1.4	37.7		51.4	36.1%	60.2	17.2%		
P/E		25.5		18.8		16.0		Price change: 1 month	17.7%
P/CE	68.8	18.8		14.7		12.9		Price change: 6 month	25.3%
P/BV	2.9	2.7		2.3		2.0		Price change: 12 month	38.5%
EV/EBITDA	9.4	10.8		10.5		8.4		Max (52 week)	14.5
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	8.5



Rafako is best positioned of all listed power-engineering general contractors to benefit from the upcoming power-plant projects (the first awards are expected in late 2010). The prospect of enlarging the order backlog by an estimated PLN 1 billion is a much more powerful value driver for Rafako than it is for other, less specialized firms. Meanwhile, we expect the company to report flat quarter-on-quarter earnings in Q2 2010. From a medium-standpoint, Rafako is a safe investment considering its conservative accounting policy and prudent provisions for potential contract losses. We believe that the company can deliver our PLN 1.5bn revenue forecast for this year. One possible reason for concern is Rafako's desire to acquire the ZE PAK energy complex for an expected PLN 1bn. We are hoping that the company has found a partner who will ease the potential financial obligations arising from such an acquisition. Moreover, investor sentiment in the near term could be dampened by the weaker-than-expected second-quarter earnings of other construction companies, including large players like Polimex and Mostostal Warszawa as well as smaller specialized power engineers like Remak, Energomontaż Południe, Energomontaż Północ, and Ergoinstal. In light of these risks and the recent price rally, we are downgrading Rafako stock to hold.

### Revenues to rebound in 2011

Rafako expects its 2011 revenues to embark on a strong upward path, driven by upcoming contract awards totaling over 10 billion zlotys. The value of the company's current order backlog is in the range of PLN 2.2 to 2.5 billion.

### Rafako required to amend acquisition bid on PAK

RPG Partners and Rafako received requests from the State Treasury to correct their quotes on the ZE PAK power-plant complex, which means that the acquisition negotiations will drag on until October. The Treasury wants to make sure that the bidders can actually afford ZE PAK, and it is probably aiming to obtain higher quotes and assurances that the acquirer will invest in upgrades at the power plants.

### Market for NOx emission control estimated at PLN 2-3bn

Rafako has plans to compete for all contracts for flue-gas denitrogenation plants. The company estimates the six-year value of the market for such solutions at PLN 2bn, but other sources say it is closer to PLN 3bn.

### PLN 0.30 dividend

Rafako is paying PLN 0.30-a-share dividends (DY=2.3%). The record date is 2 August, and payout is set for 16 August 2010.



## Trakcja Polska (Hold)

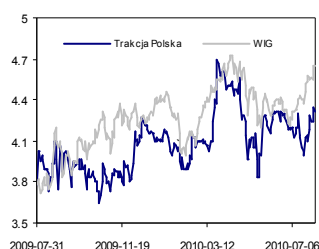
Current price: PLN 4.31

Target price: PLN 4.16

Analyst: Maciej Stokłosa

Last Recommendation: 2010-05-06

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	794.6	711.6	-10.4%	698.5	-1.9%	922.1	32.0%	Number of shares (m)	160.1
EBITDA	60.9	86.8	42.4%	54.8	-36.8%	53.2	-2.9%	MC (current price)	690.1
EBITDA margin	7.7%	12.2%		7.8%		5.8%		EV (current price)	490.5
EBIT	53.0	76.7	44.6%	44.3	-42.2%	42.5	-4.1%	Free float	40.0%
Net profit	54.7	71.6	30.9%	41.9	-41.5%	40.3	-3.8%		
P/E	12.6	9.6		16.5		17.1		Price change: 1 month	2.6%
P/CE	11.0	8.4		13.2		13.5		Price change: 6 month	9.1%
P/BV	2.2	1.9		1.6		1.5		Price change: 12 month	9.1%
EV/EBITDA	6.1	6.4		8.9		8.7		Max (52 week)	4.7
Dyield (%)	0.0	2.3		0.0		0.0		Min (52 week)	3.7



Of the ten major contracts awarded recently by national railroad infrastructure company PKP PLK, three went to Trakcja Polska (TRK), acting in each case as consortium leader with stakes ranging from an estimated 40% to 60%. As the leader, the company is going to recognize the whole of the contract revenues, suggesting a dilution of profit margins. Once signed and sealed, these contracts will bring TRK's 2010 order portfolio value to PLN 1bn (ahead of our revenue forecast for the year), or a little under PLN 570m after adjustment for the builder's consortium stakes. While maintaining our revenue and profit forecasts for 2011, we are planning downward revisions in our 2010 estimates after the Q2 2010 earnings results, with revenues reduced to about PLN 500m based on expected weak Q3 and Q4 2010 earnings. The three latest contracts are design-and-build projects which will not take off earlier than in Q2 2011, suggesting that TRK might be left with idle capacity in the period between Q3 2010 and Q1 2011. We remain neutral on TRK stock.

### Revenue warning

CEO Maciej Radziwił has admitted to the *Parkiet* financial daily that TRK's estimated 2010 first-half revenues were probably less than half of the amount generated in the same period last year. The reason behind the shrinkage was a shortage of orders, expected to be alleviated toward the end of the year. TRK's order backlog is currently worth PLN 1.2bn, of which about PLN 0.5bn will be recognized in 2010.

### PLN 44.9m contract

Trakcja Polska (TRK) and consortium partner PB Filar won a contract for development of a train transfer hub near the Euro 2012 soccer stadium in Wrocław. The PLN 44.9m (net) contract accounts for 4.9% of TRK's forecasted 2010 revenues. It is scheduled for completion within 12 months from execution. The job will help fill TRK's capacity, but it is not likely to yield a big profit margin, considering the huge gap between Trakcja's bid and other quotes (PLN 80.1m offered by Skanska, and PLN 84.2m offered by Strabag).

### TRK makes lowest bids

A consortium involving TRK's subsidiary PRKiI and PNUiK offered the lowest price on a contract to design and build a stretch of the E30-C/E30 railroad route. We reckon that TRK has a 60% stake in the proposed net fee of PLN 409.2m (44.4% of expected 2010 revenues), but, as consortium leader, it is going to recognize the total amount of the contract revenues on its books. The next lowest quote was PLN 412.7m.

In a similar tender for another stretch of the same route, a consortium of PRKiI, Infrakol, and PNUiK placed the lowest bid in the amount of PLN 300m (32.5% of expected 2010 revenues). We reckon that TRK has a 40-50% stake in the proposed net fee, but, as consortium leader, it is going to recognize the total amount of the contract revenues on its books. The next lowest bid was PLN 327.0m.

### TRK makes (JW) lowest bid

In yet another tender for yet another stretch of the E30-C/E30 railroad route, a consortium involving TRK's subsidiary PRKiI and PNUiK submitted the lowest bid in the amount of PLN 300m (39.4% of expected 2010 revenues). We reckon that TRK has a 60% stake in the proposed net fee, but, as consortium leader, it is going to recognize the total amount of the contract revenues on its books. The next lowest quote was PLN 312.9m.

### No dividend from 2009 earnings

Trakcja Polska (TRK) shareholders voted against the Management Board's proposal of a PLN 16m (PLN 0.10/share) dividend payout from 2009 profits.



## Ulma Construcción Polska (Accumulate)

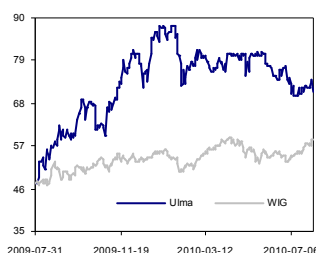
Analyst: Maciej Stokłosa

Current price: PLN 71

Target price: PLN 82.2

Last Recommendation: 2010-07-05

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	241.5	175.4	-27.4%	221.4	26.2%	247.6	11.9%	Number of shares (m)	5.3
EBITDA	103.4	72.1	-30.3%	112.6	56.2%	125.2	11.2%	MC (current price)	373.1
<i>EBITDA margin</i>	<i>42.8%</i>	<i>41.1%</i>		<i>50.9%</i>		<i>50.6%</i>		EV (current price)	526.0
EBIT	40.9	4.0	-90.3%	43.4	996.4%	52.0	19.9%	Free float	18.8%
Net profit	25.9	-5.5		24.9		33.0	32.5%		
P/E	14.4			15.0		11.3		Price change: 1 month	-5.1%
P/CE	4.2	6.0		4.0		3.5		Price change: 6 month	-11.7%
P/BV	1.4	1.5		1.3		1.2		Price change: 12 month	45.1%
EV/EBITDA	5.4	8.2		4.7		4.1		Max (52 week)	88.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	48.9



According to our forecasts, Ulma will report a PLN 4m profit on a PLN 54.4m revenue for Q2 2010. We have revised our bottom-line estimate down from PLN 6m to account for one-time charges, including expenses incurred on formwork maintenance. Our financial estimates for the following quarters stand, except for a possible 8% shortfall in the 2010 net profit and a minor, 1.8% deviation from our EBITDA estimate. Note that Ulma's earnings results are partly shaped by a conservative asset depreciation policy (whereby rental formwork is depreciated over an eight-year period compared to 12-year periods used by other companies). As an investment, Ulma is trading at attractive EV/EBITDA levels, and does not entail any major risks (its earnings going forward are expected to improve as construction picks up in Poland), mandating a reiterated accumulate rating.

### Ulma to report improved results for Q2 2010

According to CEO Andrzej Kozłowski, Ulma made up for the PLN 4m net loss incurred in the first quarter in the second quarter, and expects to continue on an upward momentum throughout the second half of the year. In 2009, in light of a downturn in demand from the construction industry, the company implemented cost-cutting measures, which included closing-down of seven warehouses and staff downsizing. A few weeks ago, Ulma put up for sale its subsidiary production plant Ulma System, with hopes of attracting interest from international players without a presence in Poland, or from the metal industry. If there are no takers for the complete plant, it will be sold "piece by piece."



## Unibep (Accumulate)

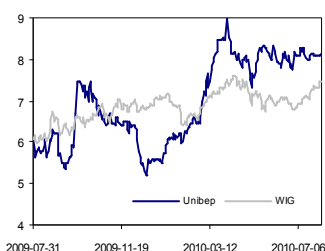
Current price: PLN 8.12

Target price: PLN 9

Analyst: Maciej Stokłosa

Last Recommendation: 2010-05-14

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	503.9	392.7	-22.1%	681.3	73.5%	697.3	2.3%	Number of shares (m)	33.9
EBITDA	33.4	31.4	-6.1%	29.3	-6.7%	28.2	-3.8%	MC (current price)	275.5
<i>EBITDA margin</i>	6.6%	8.0%		4.3%		4.0%		EV (current price)	310.9
EBIT	31.8	26.6	-16.1%	24.3	-9.0%	23.1	-4.9%	Free float	27.5%
Net profit	27.6	17.8	-35.6%	19.6	10.1%	19.0	-3.0%		
P/E	10.0	15.5		14.1		14.5		Price change: 1 month	0.4%
P/CE	9.4	12.2		11.2		11.4		Price change: 6 month	35.6%
P/BV	2.7	2.5		2.0		1.7		Price change: 12 month	41.0%
EV/EBITDA	6.6	8.9		10.6		10.7		Max (52 week)	9.0
Dyield (%)	0.0	1.2		0.0		0.7		Min (52 week)	5.2



Unibep has raised its 2010 net profit estimate from PLN 20m to PLN 22m, and we, too, intend to make upward revisions in our forecasts for the company. Unibep is poised to improve its earnings in the coming years through new construction contracts, and to expand its net margins, which currently hover around 1.5% (a consequence of a 2008 and 2009 order shortage which forced the company to bid low to full the order backlog), to 3% by 2012. Combined with the real-estate business (most notably the recently acquired housing project), this will result in a single-digit price-to-earnings ratio in 2012. Based on Unibep's order backlog and conservative approach to new contract acquisitions, and the upward revisions in 2010 earnings estimates, we are reiterating an accumulate rating on the stock.

### Guidance revision

Unibep's revised 2010 earnings guidance shows a revenue estimate raised from PLN 607m to PLN 680m (we expect PLN 681.3m), and a higher bottom-line estimate of PLN 22m (increased from PLN 20m; our forecast is PLN 19.6m).

### Opportunities in housing

Unibep expects to sign PLN 100m-worth of residential building contracts within a month. The company needs to capture PLN 20-30m-worth of jobs to fulfill its PLN 680m revenue estimate. Including a pending Russian contract, Unibep's 2011 order backlog is worth about PLN 540m.

### PLN 39m housing contract

Unibep signed a contract for construction of a residential estate in Białystok for PLN 39m (5.7% of forecasted 2010 revenues). The contract has a deadline in April 2012.

### PLN 13.5m Norwegian contract

Unibep is going to build two three-storey residential buildings in Stavanger, Norway, for PLN 13.5m (2% of forecasted 2010 revenues). The deadline is in July 2011.

### Unibep hires itself for residential project

Unibep hired its recent acquisition GN Invest to build a residential complex in Warsaw for PLN 55.6m (9.6% of forecasted 2010 revenues). The construction work is set to last until October 2011. The project's per-square-meter cost is PLN 3475. GN Invest will recognize the revenues upon delivery of the finished flats to the buyers.

## Property Developers

### No uptrend in Q2 2010 housing sales

According to our estimates, Dom Development sold about 310 dwellings in Q2 2010 (vs. 342 in Q1), JWC sold 270 units (before cancelations), the same as in Q1 2010 (286), from an unchanged inventory. Gant sold 235 flats in Q2, Polnord sold 280 units in H1 2010, Ronson sold 73 dwellings in Q2 (Q1: 85), and Marvipol sold 34 units (Q1: 83).

### July home sales look good

Based on reports by different developers, home sales remain buoyant in the midst of the summer vacation season. Polnord estimates that its July sales were better than May and June figures. At 60 units, Gant's sales were lower than in June and flat compared to May and April. According to the company's CEO, Poles are using their vacation time to buy homes before the entry into force on August 23rd of Recommendation T, which requires minimum 20% downpayments on homes financed with long-term loans. The situation is similar to what was seen in 2006, before the implementation of Recommendation S. According to experts, banks will find a way to bypass Recommendation T and lend at 100% loan to value ratios.

## Echo Investment

### Echo wins land auction

Echo Investment won an auction for a perpetual leasehold on a property in Warsaw with an area of 73,600 square meters, on which the firm plans to build a 60,000 sqm residential/office development. The price is PLN 63m (PLN 1050 / 1 sqm).

## Gant Development

### June home sales

Gant Development sold 132 homes gross, and 125 units net, in June. The company's best sellers were dwellings in Warsaw and Wrocław. May sales were 52 units, and overall Q2 2010 sales amounted to 230 flats. Gant's 2010 sales target is 994 dwellings.

### Gant issues merger stock

Gant is going to issue 1.158 million shares worth PLN 27.8m as consideration for interests in a Katowice-based housing company "SM Dom." The per-share issue price is PLN 24.04. Together with SM Dom, Gant is taking over former workers' housing, including the tenants.

## LC Corp

### LC Corp granted rezoning for residential project in Katowice

The zoning authorities in Katowice rezoned a 10.4-hectare commercial/recreational land lot owned by LC Corp to allow for housing developments on two-thirds of the area, ranging from seven- to four-storey buildings. LC Corp could start construction of the residences some time in 2011. In related news, J.W. Construction has also obtained a permit to develop affordable housing on one of its properties in Katowice.

## NFI Octava

### Shopping center expansion contract

NFI Octava's subsidiary signed a lease agreement with a prospective tenant, the DIY chain Castorama, which is planning to open a new store within the CH Magnolia retail center in Wrocław. The estimated value of the 10-year agreement is EUR 9.8m.

## Plaza Centers

### Bond issue

Plaza Centers is going to issue bonds worth up to PLN 300m.

## Ronson Development

### Q2 2010 home sales

Ronson sold 28 dwellings in June, 73 units in Q2 2010, and a total of 158 units throughout H1 2010. At the beginning of the year, Ronson's housing inventory comprised 270 dwellings. The company is planning to list new projects for sale in H2 2010.



## Dom Development (Accumulate)

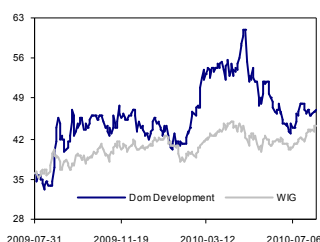
Current price: PLN 47

Target price: PLN 50.1

Analyst: Maciej Stokłosa

Last Recommendation: 2010-07-05

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	698.2	704.4	0.9%	481.3	-31.7%	651.4	35.3%	Number of shares (m)	24.6
EBITDA	168.1	113.6	-32.4%	44.9	-60.4%	119.9	166.7%	MC (current price)	1 154.3
<i>EBITDA margin</i>	<i>24.1%</i>	<i>16.1%</i>		<i>9.3%</i>		<i>18.4%</i>		EV (current price)	1 408.4
EBIT	165.7	111.2	-32.9%	43.0	-61.3%	117.9	174.2%	Free float	24.5%
Net profit	136.9	80.2	-41.4%	26.8	-66.6%	83.9	213.4%		
P/E	8.4	14.4		43.1		13.8		Price change: 1 month	6.8%
P/CE	8.3	14.0		40.2		13.4		Price change: 6 month	14.7%
P/BV	1.7	1.5		1.5		1.4		Price change: 12 month	32.1%
EV/EBITDA	8.5	12.7		31.3		11.0		Max (52 week)	61.0
Dyield (%)	4.3	1.7		0.6		1.8		Min (52 week)	33.2



We expect Dom Development (DOM) to report selling 310 flats in Q2 2010, marking a decline from the 342 units sold in the quarter before, caused by a temporary downswing in demand for the company's residences near the Wisła river during the recent floods. The sales slowdown is already priced in in our view. We stand by our financial forecasts for 2012 which assume that DOM will be selling over 500 homes per quarter after increasing the available inventory in the fall. The developer is well prepared to launch a number of new projects in different locations, expected to boost sales performance, including one Warsaw project scheduled to start this fall, and more (in Warsaw and Wrocław) in early 2011. Aside from these starts, the company will be building the next stages of ongoing projects throughout next year. DOM is trading at a premium to book value, but it has two major strengths: well-prepared new developments, and strong liquidity. Compared to competition, many of whom own too much land and struggle with tight liquidity, Dom Development makes very effective use of its assets. Our financial forecasts for 2012 include a P/E of 8.9, an EV/EBITDA of 6.0, and net cash of PLN 284.8m. We are reiterating an accumulate rating on DOM stock.



## GTC (Hold)

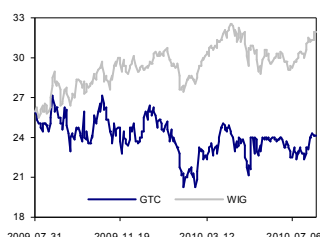
Current price: PLN 24.11

Target price: PLN 23.9

Analyst: Maciej Stokłosa

Last Recommendation: 2010-05-28

(EUR m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	114.5	156.4	36.5%	193.0	23.4%	188.2	-2.5%	Number of shares (m)	219.4
EBITDA	284.3	-121.7		274.0		312.7	14.1%	MC (current price)	5 289.1
EBITDA margin	248.2%	-77.8%		141.9%		166.2%		EV (current price)	10 357.2
EBIT	283.9	-122.1		273.6		312.3	14.2%	Free float	43.4%
Net profit	165.2	-125.2		184.3		175.3	-4.9%		
P/E	8.0			7.2		7.5		Price change: 1 month	7.2%
P/CE	8.0			7.2		7.5		Price change: 6 month	10.8%
P/BV	1.2	1.4		1.1		1.0		Price change: 12 month	-3.6%
EV/EBITDA	7.6			9.4		8.7		Max (52 week)	27.2
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	20.3



We maintain that GTC is one of the most expensive real-estate stocks on the WSE. The company has some defensive quality, but displays no major upside potential in our view, since the expected decrease in capitalization rates, and the two-year building plan, are already priced in. In spite of upbeat real-estate forecasts, property appraisers remain cautious, suggesting that GTC will not be reporting spectacular valuation gains for the first half of the year, and that the gains posted at year-end will fall short of the consensus. As for longer-term prospects, there is little chance of a deficit of commercial spaces in the current economic environment, and there are still plenty of “frozen” projects in Poland that are waiting to get off the ground as soon as their owners secure enough tenants. Moreover, the increase in commercial rental rates observed in the last few months started from very low “crisis” levels, and many of GTC’s existing tenants have been paying rent at above-market rates anyway, which means that the market uptrend is not going to influence the developer’s profits. We are reiterating a hold rating on GTC.

### H1 2010 without major revaluation gains

A GTC executive has said that, since the changes in capitalization rates and rental rates balanced each other out in the first half of 2010, property revaluations will not have a material impact on the period’s profits.

### Polnord, Gant, ink joint venture deal

Polnord sold Gant a 50% stake in the “CH Wilanów” shopping-center project, which will be developed on a 75,000 square-meter property. The partners estimate the costs of the development at EUR 170m, and peg its finished value at EUR 250m (margin: 32%). The start of construction is conditioned on how soon the City of Warsaw issues the necessary permits, and the shopping center’s grand opening is scheduled for 2013.

### Planned Warsaw mall attracts interest from prospective tenants

GTC has revealed that it has received a number of enquiries from prospective tenants concerning the planned shopping-center project located in Warsaw’s upscale district of Wilanów. Moreover, the developer has a good choice of financing offers from several banks eager to get involved in the prestigious project.

### Anti-trust authority OKs Wilanów mall

Poland’s anti-trust office (UOKiK) has given a go-ahead to Polnord and GTC’s shopping-center project in Warsaw’s Wilanów district.



## J.W. Construction (Hold)

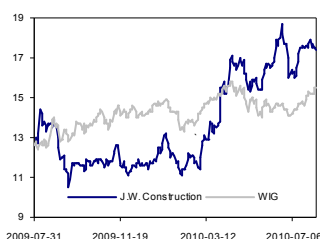
Current price: PLN 17.39

Target price: PLN 16.4

Analyst: Maciej Stokłosa

Last Recommendation: 2010-07-09

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	721.4	713.3	-1.1%	804.5	12.8%	443.9	-44.8%	Number of shares (m)	54.1
EBITDA	158.5	152.9	-3.5%	243.4	59.2%	207.6	-14.7%	MC (current price)	940.3
EBITDA margin	22.0%	21.4%		30.3%		46.8%		EV (current price)	1 383.3
EBIT	141.1	138.9	-1.6%	224.8	61.9%	188.9	-15.9%	Free float	26.1%
Net profit	100.9	100.4	-0.5%	164.2	63.5%	142.5	-13.2%		
P/E	9.4	9.4		5.7		6.6		Price change: 1 month	7.3%
P/CE	8.0	8.2		5.1		5.8		Price change: 6 month	53.9%
P/BV	2.9	2.3		1.6		1.3		Price change: 12 month	36.7%
EV/EBITDA	10.0	9.9		5.7		7.8		Max (52 week)	18.7
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	10.5



2009-07-31 2009-11-19 2010-03-12 2010-07-06

At the end of Q1 2010, JWC. had a staggering 3,792 apartments from old projects remaining to be recognized in its earnings for FY2010 and FY2011. Most of these flats have been sold since then, with about 1500 units remaining on offer. The large inventory is a result of the large number of projects started in 2007-2008, and building on a similar scale is not likely to occur again in the future considering the company's limited financial resources and plans to expand in commercial real-estate. The 3792-unit housing stock is enough to ensure strong earnings and a low P/E ratio in 2010 and 2011 which, however, is already priced in. The home inventory is reflected in JWC's high P/BV ratio and in customer receivables on account of home purchases. Note further that JWC has switched to IAS 18, and its forecasted 2011, 2012, and 2013 EV/EBITDA ratios are high. Compared to a simple multiple-based valuation, the DCF model fully captures the company's specific situation (the high number of homes remaining for delivery). We are neutral on the dissolution of the joint-venture agreement for the construction of a hotel/commercial/residential building in Wrocław, and we are concerned about JWC's lack of preparation for new real-estate projects. JWC's stock is trading around our price target, and, since it offers less upside potential than most other real-estate stocks, we are reiterating it as a hold.

### JWC backs out of hotel project

J.W. Construction is not going to build a Hilton hotel in Wrocław because its prospective joint-venture partner did not want to allow JWC's building subsidiary to handle the construction work. The developer is going to spend the cash allocated toward this project on new land properties in Warsaw, Gdańsk, Wrocław, and Krakow, where it has already set its eyes on some attractive bargains.

### JWC retires 625,000 shares

J.W. Construction retired 625,000 of its shares having a total value of PLN 10.2m (1.1% of market cap).

### Conditional share capital increase

JWC is planning a conditional equity increase through an issue of 6.9 million new shares (equivalent to 12.6% of the total number of shares currently outstanding).



## Polnord (Buy)

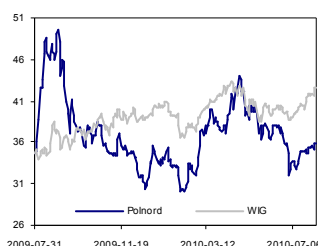
Current price: PLN 35.75

Target price: PLN 51.6

Analyst: Maciej Stokłosa

Last Recommendation: 2010-06-02

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	391.1	221.3	-43.4%	414.2	87.2%	311.0	-24.9%	Number of shares (m)	22.1
EBITDA	108.7	106.9	-1.6%	60.4	-43.5%	100.1	65.7%	MC (current price)	790.5
EBITDA margin	27.8%	48.3%		14.6%		32.2%		EV (current price)	1 219.8
EBIT	106.7	104.9	-1.7%	58.5	-44.2%	98.2	67.8%	Free float	40.7%
Net profit	77.8	63.6	-18.2%	34.3	-46.2%	67.9	98.3%		
P/E	8.3	12.4		23.1		11.6		Price change: 1 month	6.4%
P/CE	8.1	12.0		21.9		11.3		Price change: 6 month	16.9%
P/BV	0.7	0.7		0.7		0.6		Price change: 12 month	-7.8%
EV/EBITDA	11.4	13.6		20.2		14.4		Max (52 week)	49.5
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	30.1



Polnord shares are still a bargain. There are still some concerns over the liquidity situation of the developer's parent company Prokom Investments, but investors should be reassured by the fact that any cash transfers between the two companies are restricted by the terms of the recent convertible-bond issue which require that any intercompany transactions must be approved by the bondholders. Further, Polnord and Prokom reached a compromise with respect to the size of the 2009 earnings distribution. Polnord is trading at a price-to-book ratio of 0.7. The company owns land lots zoned for roads whose book value does not exceed PLN 70/sqm (PLN 0/sqm + capitalized leasehold costs), and whose market value can be estimated at PLN 700-1000/sqm. Polnord has accumulated a large land bank, which means lower expenses in the future – a factor that does not seem to be priced in its shares. We are reiterating a buy rating on PND stock.

### CEO on sales outlook

Based on encouraging July sales results, Polnord's CEO expects the second half of the year to be much better than the first, when the developer sold 336 flats (before 64 cancellations). He hopes to see monthly sales increase to 100 dwellings. Polish homebuyers are still primarily looking for small, affordable homes, and demand for more upmarket dwellings is expected to increase around mid-2011. Home prices are not showing any signs of an upward shift. Polnord is set to start a new, 200-unit housing project in Lublin this year, and it is in the process of acquiring new land for development, including in Gdańsk, Katowice, and Krakow.

### Polnord sells 69 flats in June

Polnord sold 69 flats gross, and 60 units after cancellations, in June. In the course of May and June, the developer added new projects in Szczecin, Sopot, Olsztyn, Gdańsk, and Wrocław, to its housing inventory. Year-to-date home sales amounted to 336 units (272 after cancellations).

### Polnord on lookout for more PPP projects

Polnord hopes that, following approval of the zoning plan in October, it will be able to seal the public-private partnership deal with the City of Gdańsk regarding the Granary Island project before the end of the year. The company expects to have a 51% interest in the joint venture. Moreover, the firm is seeking PPP arrangements with other cities, including Gdynia, whose authorities are considering a major venture designed to foster the city's growth, on land properties belonging to the Polish Railways.

### Dividends

Polnord shareholders approved a distribution of PLN 19.1 million (PLN 0.86 a share, DY=2.6% as dividends. The record date is 26 July, and the payout is set for 9 August 2010.

### Dividends will not strain cash resources

Polnord's CEO is confident that the planned PLN 19m dividend payout is not going to put a strain on the company's financials. He would like the company to maintain 30% earnings payout ratios in the future.

### Polnord wants to accelerate Granary Island project

Polnord announced plans to accelerate construction work on its developments on the Granary Island in Gdańsk so as to complete the two first stages in mid-2012 (the original schedule provided for a 2014 completion). The Granary Island project is conducted jointly with the City of Gdańsk, with Polnord contributing an estimated PLN 59m in initial financing, and the City matching the contribution in land. About PLN 120m will be borrowed from banks. Moreover, Polnord plans to start building 400 new flats in the next few months so as to have a housing

inventory of 2100 units by the end of the year. The company is still waiting for a green light from the anti-monopoly authorities to launch the Warsaw shopping-center project undertaken jointly with GTC. No new bond issues are planned in the near future.

### **Building plans**

Polnord's upcoming commercial property projects include three hotels in Gdańsk, Sopot, and Warsaw (in the district of Wilanów), and a 20,000 sqm office building in Gdańsk-Oliwa, which may take off still this year, and in which the company has a 50% interest.

### **Polnord, Gant, ink joint venture deal**

Polnord sold Gant a 50% stake in the "CH Wilanów" shopping-center project, which will be developed on a 75,000 square-meter property. The partners estimate the costs of the development at EUR 170m, and peg its finished value at EUR 250m (margin: 32%). The start of construction is conditioned on how soon the City of Warsaw issues the necessary permits, and the shopping center's grand opening is scheduled for 2013.

### **Planned Warsaw mall attracts interest from prospective tenants**

GTC has revealed that it has received a number of enquiries from prospective tenants concerning the planned shopping-center project located in Warsaw's upscale district of Wilanów. Moreover, the developer has a good choice of financing offers from several banks eager to get involved in the prestigious project.

### **Anti-trust authority OKs Wilanów mall**

Poland's anti-trust office (UOKiK) has given a go-ahead to Polnord and GTC's shopping-center project in Warsaw's Wilanów district.

### **Target price adjustment**

With the dividend record date already behind us, we are deducting the PLN 0.86-a-share dividend from our price target on Polnord.

## Retail & Wholesale



### Emperia Holding (Hold)

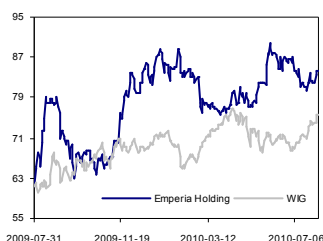
Current price: PLN 84.45

Target price: PLN 81.6

Analyst: Kamil Kliszcz

Last Recommendation: 2010-03-09

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	5 257.1	5 543.7	5.5%	6 051.6	9.2%	6 462.5	6.8%	Number of shares (m)	15.1
EBITDA	148.9	174.2	17.0%	187.2	7.4%	213.2	13.9%	MC (current price)	1 276.5
EBITDA margin	2.8%	3.1%		3.1%		3.3%		EV (current price)	1 637.2
EBIT	96.0	110.7	15.3%	112.5	1.7%	124.4	10.6%	Free float	76.4%
Net profit	59.0	68.2	15.7%	77.1	13.0%	85.6	11.0%		
P/E	21.6	18.7		16.6		14.9		Price change: 1 month	0.2%
P/CE	11.4	9.7		8.4		7.3		Price change: 6 month	0.5%
P/BV	1.7	1.6		1.5		1.4		Price change: 12 month	24.3%
EV/EBITDA	10.3	9.2		8.7		7.8		Max (52 week)	89.8
Dyield (%)	1.0	0.7		0.8		0.9		Min (52 week)	61.3



Emperia underperformed the broad market in July on weak retail sales data and expectations of a quarter-on-quarter slowdown in Q2 earnings growth. We agree that the second-quarter earnings were weighed down by the May and June floods and the week of mourning that followed the presidential plane crash in April, and that the company will have to make up for the lost sales in future quarters. We remain neutral on Emperia.



## Eurocash (Reduce)

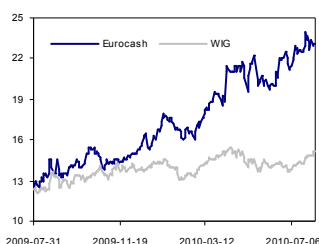
Current price: PLN 23.15

Target price: PLN 18.6

Analyst: Kamil Kliszcz

Last Recommendation: 2010-05-06

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	6 129.7	6 698.3	9.3%	7 395.4	10.4%	8 072.8	9.2%	Number of shares (m)	134.8
EBITDA	158.5	194.5	22.8%	220.1	13.2%	259.2	17.8%	MC (current price)	3 121.0
<i>EBITDA margin</i>	2.6%	2.9%		3.0%		3.2%		EV (current price)	2 876.9
EBIT	115.5	145.2	25.7%	173.7	19.7%	209.8	20.7%	Free float	32.7%
Net profit	78.4	102.5	30.8%	125.5	22.5%	154.1	22.8%		
P/E	38.6	30.4		24.9		20.2		Price change: 1 month	8.1%
P/CE	25.0	20.6		18.2		15.3		Price change: 6 month	38.6%
P/BV	10.7	8.5		7.1		5.9		Price change: 12 month	83.7%
EV/EBITDA	18.6	15.2		13.1		10.7		Max (52 week)	23.9
Dyield (%)	1.3	1.3		1.7		2.0		Min (52 week)	12.5



**Eurocash stock keeps rising from an already elevated level, fueled by expectations of good second-quarter results and another successful acquisition after the recent takeover of the CEDC wholesale operations. Since the current price level leaves no more upside potential, we stand by our reduce rating on Eurocash.**

### Eurocash acquires Pol Cater

Eurocash signed a preliminary agreement to acquire a 100% stake in Pol Cater Holding from Dansk Cater. Financing for the deal will come from the company's own cash resources. Pol Cater, operating through subsidiary Dania Fast Food sp. z o.o. (DFF), is a leading FMCG supplier to the Polish HoReCa industry. Its customers are mainly food-service chains and independent restaurants, catering companies, and fuel stations. DFF operates seven distribution centers in Warsaw, Katowice, Poznań, Łódź, and Gdańsk, and employs about 170 people. The company generated revenues of PLN 92m in the 12 months ended 30 September 2009, and posted sales of PLN 70m in the period from 1 October 2009 to 30 March 2010.

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

<b>rating</b>	Buy	Accumulate	Hold	Accumulate
<b>rating day</b>	2009-12-22	2010-03-05	2010-04-07	2010-07-05
<b>price on rating day</b>	15.98	17.91	22.00	17.10
<b>WIG on rating day</b>	39583.42	39885.37	43562.01	39805.41

**Bogdanka**

<b>rating</b>	Buy	Hold	Buy	Buy
<b>rating day</b>	2009-12-15	2010-02-03	2010-05-06	2010-05-19
<b>price on rating day</b>	70.00	77.00	70.90	72.45
<b>WIG on rating day</b>	39769.97	39904.02	41287.90	41562.65

**Budimex**

<b>rating</b>	Accumulate	Sell	Reduce
<b>rating day</b>	2010-01-06	2010-03-29	2010-07-05
<b>price on rating day</b>	75.75	96.60	89.90
<b>WIG on rating day</b>	41052.00	42395.54	39805.41

**Centrum Klima**

<b>rating</b>	Buy	Accumulate	Buy
<b>rating day</b>	2009-11-06	2010-04-07	2010-05-06
<b>price on rating day</b>	11.50	13.14	12.00
<b>WIG on rating day</b>	43562.01	43562.01	41287.90

**Cyfrowy Polsat**

<b>rating</b>	Hold	Accumulate	Hold	Accumulate
<b>rating day</b>	2009-11-12	2009-12-02	2010-02-03	2010-03-25
<b>price on rating day</b>	14.19	13.88	14.90	15.79
<b>WIG on rating day</b>	39879.92	39905.57	39904.02	41790.34

**ING BSK**

<b>rating</b>	Hold	Accumulate	Accumulate	Hold
<b>rating day</b>	2009-12-02	2010-01-19	2010-02-19	2010-04-07
<b>price on rating day</b>	714.00	739.00	663.50	766.00
<b>WIG on rating day</b>	39905.57	41256.40	38586.52	43562.01

**Lotos**

<b>rating</b>	Hold	Hold	Reduce	Hold	Reduce
<b>rating day</b>	2009-11-04	2009-11-06	2009-12-01	2010-03-02	2010-04-07
<b>price on rating day</b>	26.70	27.92	31.94	27.51	31.40
<b>WIG on rating day</b>	37391.24	38863.29	39581.49	38986.09	43562.01

**Millennium**

<b>rating</b>	Buy	Accumulate	Hold	Accumulate	Hold	Accumulate
<b>rating day</b>	2009-11-10	2009-12-02	2010-01-19	2010-02-11	2010-04-07	2010-04-27
<b>price on rating day</b>	4.19	4.70	4.49	3.90	4.45	4.84
<b>WIG on rating day</b>	39683.10	39905.57	41256.40	37786.61	43562.01	43664.78

**PZU**

<b>rating</b>	Hold
<b>rating day</b>	2010-05-11
<b>price on rating day</b>	312.50
<b>WIG on rating day</b>	41453.12

**Rafako**

<b>rating</b>	Accumulate	Hold	Accumulate	Hold	Buy
<b>rating day</b>	2010-02-03	2010-03-12	2010-05-20	2010-06-02	2010-07-05
<b>price on rating day</b>	11.14	13.55	12.60	13.30	11.95
<b>WIG on rating day</b>	39904.02	41004.33	40441.73	40931.54	39805.41

**TVN**

<b>rating</b>	Accumulate	Suspended	Accumulate	Buy	Hold	Hold
<b>rating day</b>	2009-11-04	2009-11-09	2009-11-10	2009-12-02	2010-02-22	2010-05-19
<b>price on rating day</b>	13.87	14.10	13.65	12.55	15.30	18.00
<b>WIG on rating day</b>	37391.24	38524.56	39683.10	39905.57	38586.52	41562.65

**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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A recommendation is valid for a period of 6-9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:

**BUY** – we expect that the rate of return from an investment will be at least 15%

**ACCUMULATE** – we expect that the rate of return from an investment will range from 5% to 15%

**HOLD** – we expect that the rate of return from an investment will range from -5% to +5%

**REDUCE** – we expect that the rate of return from an investment will range from -5% to -15%

**SELL** – we expect that an investment will bear a loss greater than 15%

Recommendations are updated at least once every nine months.

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**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.