

23 August 2010

Update


Metals
Poland

Current price	PLN 105.50
Target price	PLN 115.38
Market cap	PLN 1.0bn
Free float	PLN 0.6bn
Avg daily trading volume (3M)	PLN 2.81m

Shareholder Structure

ING OFE	17.76%
PZU Złota Jesień	7.59%
Aviva OFE	10.15%

Others	64.60%
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Sector Outlook

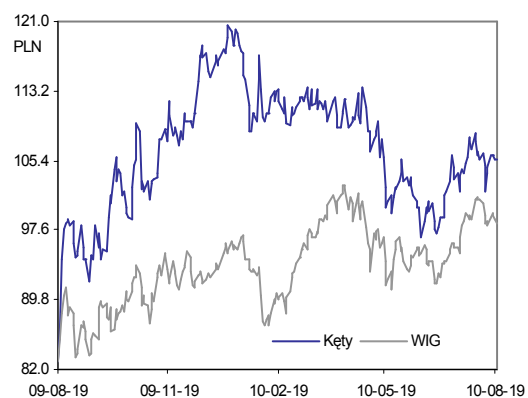
In a weak market, aluminum profile manufacturers cannot easily transfer the premium charged by ingot makers onto the final product. In the second half of the year, a revival in sales has been observed both home and abroad. As a result, manufacturers are gradually rising their prices, which should lead to higher margins.

Company Profile

Kęty's business is divided into five segments: manufacture of aluminum systems, manufacture of extruded products, manufacture of flexible packaging, building services, and manufacture of building accessories. The core focus of the company's operations is production and sales of aluminum profiles for retail customers, construction firms and car makers.

Important Dates

27.10 - Consolidated Q3'10 report

Kęty vs. WIG

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Grupa Kęty Accumulate

KETY.WA; KTY.PW

(Upgraded)

Surprisingly High Demand...

Kęty's earnings for Q2 2010 show that aluminum profile and construction joinery sales are reviving. In Q2 2010, Extruded Products increased sales by 43.7% y/y (+24% y/y by sales volume), with an over 80% y/y increase in exports. Sales in Aluminum Systems increased in Poland (+6% y/y), but decreased abroad (-9% y/y). Unlike in the past, bigger orders started to come in June (the high season usually starts after the summer vacation period) thanks to rapid growth in industrial production in Western Europe in the second quarter (over 10% y/y in Germany), which the Polish economy is reacting to with a certain delay. The high sales volumes observed in these two segments since the second half of June will allow Kęty to increase the average price and its margin. The Management has already adjusted the segments' pricelists by some 4-5% effective September. Coupled with higher sales volumes and the fact that the third quarter is the time of the highest sales and margins, this means that despite the fact that after the first half of the year the Company had met only 35.8% of its EBIT target and 42.1% of its bottom line target, FY10 forecast remains realistic. In addition, the bottom line will be aided by negotiations with creditor banks, which will reduce the margins on the Company's loans. This could lead to a PLN 5.7m y/y reduction in debt servicing costs already this year. Should the Company be able to sustain this year's sales volumes at higher prices, with lower debt servicing costs it could generate as much as PLN 90m in net profit in 2011. Given the current market cap, this would entail a P/E of under 11, making Kęty an attractive investment. We recommend accumulating the stock and we are raising our target price from PLN 104.71 per share to PLN 115.38 per share.

2010 Q1 results

In the second quarter of 2010, Kęty's sales increased by 2.5% y/y, but its EBIT fell by 24.3% y/y (it would have been 7.2% y/y higher taking into account aluminum price hedging). Despite the increase in Extruded Products sales (+43.7% y/y) and Aluminum Systems (+0.8% y/y), the profitability of these segments remained low (with the EBITDA margin falling by 11.0pp and 1.6pp, respectively), as the prices of processed products remained low. Sales remained high in the Flexible Packaging segment (+4.6% y/y), and the rising prices of feedstock materials had little impact on profitability (with the EBITDA margin at 22.8% vs. 24.3% one year earlier).

(PLN m)	2008	2009	2010F	2011F	2012F
Revenues	1 170.8	1 111.0	1 206.9	1 263.9	1 301.1
EBITDA	188.4	189.0	177.8	192.3	202.4
<i>EBITDA margin</i>	16.1%	17.0%	14.7%	15.2%	15.6%
EBIT	126.7	124.9	110.0	121.7	128.9
Net income	61.2	70.6	81.5	92.4	98.9
DYield	4.3%	0.0%	3.8%	4.6%	6.2%
P/E	15.9	13.8	11.9	10.5	9.8
P/CE	7.9	7.2	6.5	6.0	5.6
P/BV	1.4	1.2	1.1	1.0	1.0
EV/EBITDA	7.2	6.2	6.8	6.2	5.7

**Q2 2010 Results**

Kety improved its quarterly sales by 2.5% relative to Q2 2009. The Extruded Products Segment (EPS) recorded a strong, 43.7% revenue upturn on higher sales volumes (5.9KT vs. 5.6KT a year earlier), and higher aluminum prices which surged 43.6% y/y in zloty terms. The 24% volume expansion was owed mainly to exports (whose value increased a whopping 80% relative to Q209), most notably to Hungary, Germany, the Czech Republic, and Slovenia. A pickup in sales was also reported by the Flexible Packaging Segment (FPS, a 4.6% y/y increase) and the Aluminum Systems Segment (ASS, +0.8%). The pace of aluminum systems sales was much slower than the global upward momentum in aluminum prices because of lower exports (-9% y/y) and slower domestic sales (+6% y/y). The second quarter of 2010 saw a considerable sales downturn in the segments of Building Services (BSS, a 45.1% y/y drop) and Building Accessories (BAS, -44.2% y/y). In case of BSS, the drop was an effect of a high 2009 base, when the company completed a contract for a US real-estate developer and a number of other contracts for international customers (Q2'10 revenues from international business services were down over 75% vs. Q209). In case of BAS (which supplies fittings and accessories to window and door producers), sales were depressed by a downturn in orders from Russia, Lithuania, and Bulgaria, and, on the domestic front, by unfavorable weather conditions and a drop in orders from smaller producers (who were negatively affected by price cuts made by major players).

Earnings Overview

(PLN m)	2009	2010F	change	1H2009	1H2010	change	2Q2009	2Q2010	change
Revenues	1 111.0	1 135.8	2.2%	525.9	532.9	1.3%	278.2	285.0	2.5%
FPS	291.8	306.3	5.0%	145.8	149.7	2.7%	70.4	73.6	4.6%
EPS	357.7	422.1	18.0%	160.1	224.7	40.3%	85.2	122.4	43.7%
ASS	388.2	353.2	-9.0%	180.7	170.9	-5.4%	98.2	99.0	0.8%
BAS	53.6	48.3	-10.0%	27.4	15.3	-44.1%	16.4	9.1	-44.2%
BSS	107.9	101.5	-6.0%	49.3	32.7	-33.7%	31.8	17.4	-45.1%
Other	55.7	52.0	-6.7%	25.9	15.0	-42.1%	13.2	7.4	-43.8%
EBIT	124.9	104.0	-16.7%	65.6	42.1	-35.9%	35.5	26.9	-24.3%
EBIT margin	11.2%	9.2%	-	12.5%	7.9%	-	12.8%	9.4%	-
EBITDA	189.0	171.7	-9.1%	97.6	76.2	-22.0%	51.5	44.1	-14.5%
EBITDA margin	17.0%	15.1%	-	18.6%	14.3%	-	18.5%	15.5%	-
Net income	70.6	72.2	2.3%	23.4	34.3	46.6%	20.6	19.3	-6.4%

Source: BRE Bank Securities

At EPS, stronger sales volumes and revenues did not translate into greater profitability, with the EBITDA margin down from 17.0% in Q209 to 11.5% in Q2'10. The margin contraction was probably due to expensive aluminum (whose prices were 43.6% higher than a year earlier) and strong competition which prevented price hikes. The second quarter saw a continuing downward pressure on margins and an inability to pass costs onto buyers. SSA experienced the same cost-price issues as EPS, combined with a slowdown in exports which depressed the EBITDA margin to 12.1% from 13.7% a year earlier. FPS managed to keep its margin at 22.8% (vs. 24.3% in Q209) in spite of increased aluminum and paper costs. The EBITDA margins of BSS and BAS came in at 15.8% and 9.3% respectively vs. 14.4% and 2.6% a year earlier.

Kety's EBITDA margins by business segment (%)

EBITDA margin	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10
Flexible Packaging Segment	16.4%	14.9%	15.2%	16.4%	25.5%	24.3%	19.2%	15.5%	17.9%	22.8%
Extruded Products Segment	19.8%	17.0%	15.4%	11.0%	15.3%	22.4%	18.5%	11.0%	10.9%	11.5%
Aluminum Systems Segment	15.8%	13.2%	16.7%	19.3%	15.9%	13.7%	18.0%	11.8%	11.6%	12.1%
Building Accessories Segment	7.5%	10.6%	16.9%	2.7%	11.0%	2.6%	14.8%	1.8%	12.7%	9.3%
Building Services Segment	8.8%	8.3%	12.3%	15.0%	15.2%	14.4%	10.6%	-1.9%	1.8%	15.8%
Other	-22.4%	-21.9%	-12.4%	-18.2%	34.9%	-64.4%	-25.6%	5.7%	-15.5%	-25.7%
Total	16.3%	15.8%	17.1%	15.0%	18.6%	18.5%	18.2%	12.6%	13.0%	15.5%

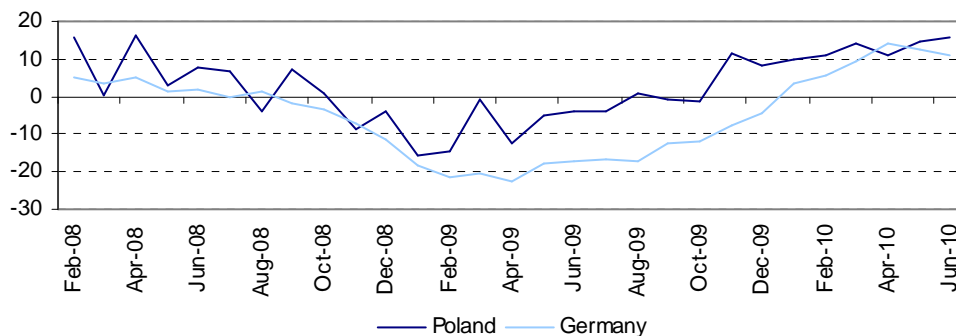
Source: BRE Bank Securities

Outlook For Coming Quarters

Kety's Management are optimistic about the upcoming quarters, and expect an improvement in the operating margin in Q3 thanks to a sales pickup observed toward the end of Q2. Stronger sales have allowed the company to raise the prices of extruded products and aluminum systems by an average 4-5% as of September. Combined with a demand pickup observed in the third quarter, this is expected to increase operating margins by 1-2%. EPS's aluminum-

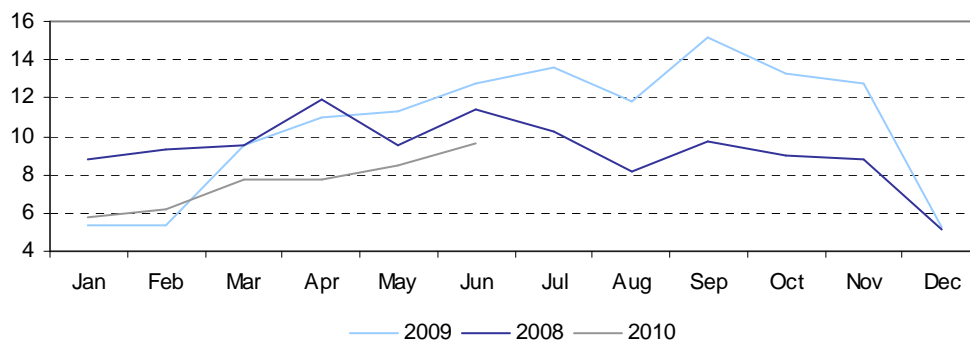
section factory is estimated to be working at 90% of capacity in Q3 compared to 80% in Q2, owing to a larger number of orders received from Western European customers and small Polish producers. At ASS, growing demand is led mainly by minor industrial buyers and retail customers, suggesting an upswing in construction finishing works. A continuation of this trend would allow Kęty to increase the prices of its aluminum systems, transfer high production costs onto end-users, and so expand ASS's operating margin in future quarters. The recovery currently experienced by Kęty's two main business lines is owed to the recovering production industry of Germany which, with some lag, has been driving the industries of its neighbors and business partners. The same lag effect is expected to work to the benefit of these countries (including Poland) in the second half of 2010 even after a third-quarter slowdown projected in the "old" EU.

2008-2010 industrial production in Poland and Germany (%)



Source: BRE Bank Securities

Polish production of aluminum flat bars and sections, 2008-2010 ('000 tons)



Source: BRE Bank Securities

FY2010 Forecast Revisions

An increase in capacity utilization at EPS from 80% to 90% in Q3 2010 suggests a quarter-on-quarter increase in sales volumes from 5.9KT to 6.6KT. Paired with the 4-5% September price hikes, this should give quarterly EBIT a boost of PLN 1.5m in Q3 and a further PLN 4.3m in Q4. Sales at ASS are not going to be as buoyant as at EPS, but higher selling prices should enhance revenues by about 7.6% in Q3 relative to the same period a year ago, with positive effects on profitability (EBIT margin is expected to increase 2.3 ppts m/m, and EBITDA margin should rise 1.7 ppts). On a less positive note, we are revising downward our FY2010 sales projections for BSS and BAS (by PLN 17.3m and PLN 3.2m respectively) based on their weaker-than-expected performance in the first half of the year. After all these adjustments, our estimate of Kęty's overall full-year revenues increases by PLN 71.1m.

**2010 revenue forecast by business segment (PLN m)**

Revenues	1Q2010	2Q2010	3Q2010F	4Q2010F	2010F Old	2010F New	Change
Flexible Packaging Segment	76.1	73.6	76.4	77.3	306.3	303.4	-2.9
Extruded Products Segment	102.2	122.4	135.1	123.6	422.1	483.4	61.2
Aluminum Systems Segment	71.9	99.0	116.6	101.7	353.2	389.2	35.9
Building Accessories Segment	6.1	9.1	12.4	17.4	48.3	45.1	-3.2
Building Services Segment	15.2	17.4	28.7	22.8	101.5	84.2	-17.3
Other	7.6	7.4	14.3	22.6	52.0	52.0	0.0
Intercompany eliminations	-31.4	-43.9	-48.7	-26.3	-147.7	-150.3	-2.7
Total	247.8	285.0	334.9	339.1	1 135.8	1 206.9	71.1

Source: BRE Bank Securities

The higher selling prices and volumes at EPS and ASS forecasted for the coming quarters are going to drive profitability. We expect the EBITDA margins of EPS to expand from 11.5% in Q2 to 12.6% in Q3 and 13.1% in Q4, with ASS's margins rising from 12.1% to 13.8% in Q3, and declining to 12.8% in Q4. FPS should also record stronger margins in future quarters thanks to higher sales and larger volumes of higher-added-value products (again, FPS managed to keep profitability high in Q2 in spite of rallying costs of basic materials). Finally, all the segments selling abroad will benefit from the zloty's weakness vis-à-vis the euro.

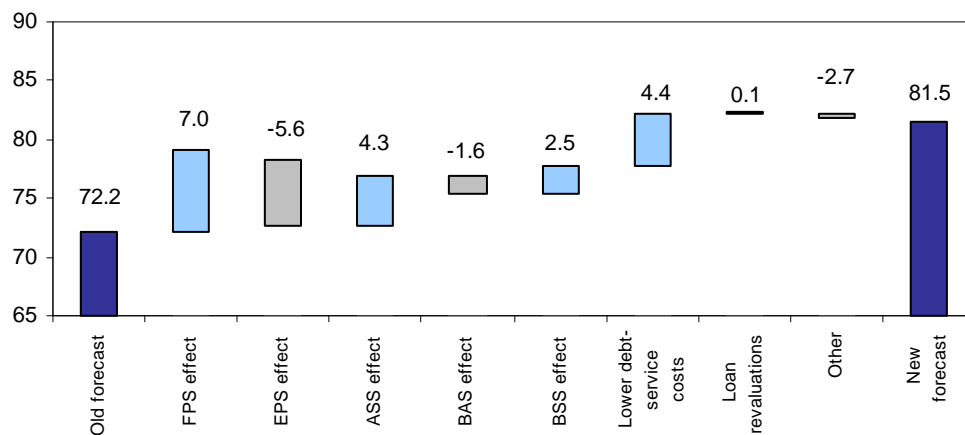
2010 profitability forecasts by business segment

EBIT	1Q2010	2Q2010	3Q2010F	4Q2010F	2010F Old	2010F New	Change
Flexible Packaging Segment	8.4	11.3	11.1	11.2	33.7	42.0	8.3
Extruded Products Segment	4.5	7.2	10.3	9.4	39.7	31.6	-8.1
Aluminum Systems Segment	6.0	9.4	13.8	10.7	34.3	39.5	5.3
Building Accessories Segment	-0.3	0.0	0.1	0.2	2.0	0.0	-2.0
Building Services Segment	-0.1	2.3	3.7	3.0	5.8	8.9	3.1
Other	-2.5	-3.0	-2.6	-2.3	-11.4	-10.4	1.1
Intercompany eliminations	-0.7	-0.4	-0.2	-0.2	0.0	-1.6	-1.6
Total	15.2	26.9	36.2	31.9	104.0	110.0	6.1
EBIT margin	1Q2010	2Q2010	3Q2010F	4Q2010F	2010F Old	2010F New	Change
Flexible Packaging Segment	11.0%	15.3%	14.5%	14.5%	11.0%	13.8%	2.8%
Extruded Products Segment	4.4%	5.9%	7.6%	7.6%	9.4%	6.5%	-2.9%
Aluminum Systems Segment	8.4%	9.5%	11.8%	10.5%	9.7%	10.2%	0.5%
Building Accessories Segment	-5.3%	0.1%	1.0%	1.0%	4.1%	0.0%	-4.1%
Building Services Segment	-0.9%	13.3%	13.0%	13.0%	5.7%	10.6%	4.9%
Other	-33.4%	-39.9%	-18.0%	-10.1%	-22.0%	-19.9%	2.1%
Intercompany eliminations	2.2%	1.0%	0.4%	0.9%	0.0%	1.0%	1.0%
Total	6.1%	9.4%	10.8%	9.4%	9.2%	9.1%	0.0%
EBITDA margin	1Q2010	2Q2010	3Q2010F	4Q2010F	2010F Old	2010F New	Change
Flexible Packaging Segment	17.9%	22.8%	21.4%	21.4%	17.8%	20.7%	2.9%
Extruded Products Segment	10.9%	11.5%	12.6%	13.1%	15.6%	12.0%	-3.7%
Aluminum Systems Segment	11.6%	12.1%	13.8%	12.8%	12.3%	12.5%	0.2%
Building Accessories Segment	12.7%	9.3%	10.0%	7.5%	13.2%	9.7%	-3.5%
Building Services Segment	1.8%	15.8%	14.4%	14.8%	7.3%	12.5%	5.2%
Other	-15.5%	-25.7%	-8.4%	-3.9%	-11.6%	-9.5%	2.1%
Total	13.0%	15.5%	16.0%	14.5%	15.1%	14.7%	-0.4%

Source: BRE Bank Securities

Kęty's net earnings in the next two quarters will be supported by reduced loan margins. In Q2 2010, the company brought its debt-service costs down to PLN 2.2m (with ratio of interest to principal at 3.2%) from PLN 3.5m (4.9%). We estimate that this can generate savings as high as PLN 6m this year.

Impact of revisions on our 2010 net-income estimate for Kęty (PLN m)



Source: BRE Bank Securities

The revisions laid out above have produced a 2010 net-income estimate of PLN 81.5m, compared to the old forecast of PLN 72.2m. The raised profit estimate (PLN 7.0m) for FPS stems from an expected expansion in profitability, and the increase to PLN 4.3m in the expected net profit of ASS is based on higher sales and margins. The PLN 5.6m net loss predicted for EPS is due to the segment's weaker-than-expected profitability, largely offset by higher sales. BSS and BAS are expected to add a combined PLN 0.9m to Kęty's 2010 net profit, and a further PLN 4.4m boost will come from reduced loan interest charges.



Valuation

Using DCF analysis and relative valuation, we estimated Kęty's nine-month price target at PLN 115.38 per share.

	Weight	Price
Relative Valuation (PLN)	50%	100.43
DCF Analysis (PLN)	50%	113.83
		price 107.13
		9M target price 115.38

We compared Kęty's trading multiples with those of world producers of aluminum extrusions and flexible packaging.

Relative Valuation

	Country	2009 P/E	2010F P/E	2011F P/E	2012F P/E	2009 EV/ EBITDA	2010F EV/ EBITDA	2011F EV/ EBITDA	2012F EV/ EBITDA
ALCOA INC	USA	-	23.1	9,9	8,0	30,4	8,4	6,0	5,2
AMCOR LTD	Australia	16.5	19.1	14,0	11,8	8,4	7,4	5,4	4,9
MIDAS HOLDINGS LTD	Singapore	22.1	17.4	12,5	11,2	15,7	12,5	8,9	7,9
NIPPON LIGHT METAL CO LTD	Japan	-	14.3	10,6	9,8	-	8,0	6,6	5,7
NORSK HYDRO ASA	Norway	-	19.1	10,1	8,4	21,1	7,2	4,4	4,0
PROFILGRUPPEN AB-B SHS	Sweden	-	12.5	8,6	6,8	15,5	6,0	5,2	4,6
REXAM PLC	UK	11.9	9.6	9,1	8,5	6,7	6,1	5,8	5,5
VIOHALCO	Greece	-	-	21,0	9,5	13,2	16,5	8,6	6,3
VSMPO-AVISMA CORP-CLS	Russia	15.7	18.4	11,9	7,7	6,9	7,6	6,2	4,7
Maximum		22.1	23.1	21,0	11,8	30,4	16,5	8,9	7,9
Minimum		11.9	9.6	8,6	6,8	6,7	6,0	4,4	4,0
Median		16.1	17.9	10,6	8,5	14,4	7,6	6,0	5,2
Kęty		13.8	11.9	10,5	9,8	6,2	6,8	6,2	5,7
Premium (discount)		-14.3%	-23.3%	-0,3%	15,3%	-61,3%	-12,0%	4,2%	13,4%
Implied price									
Median		16.1	17.9	10,6	8,5	14,4	7,6	6,0	5,2
Discount		0%	0%	0%	0%	0%	0%	0%	0%
Multiple weight				50%				50%	
Year weight			10%	40%	50%		10%	40%	50%
Equity value per share (PLN)		100.43							

We based our relative valuation on the P/E and EV/EBITDA multiples. On the former, Kęty is trading with a discount in 2009, 2010 and 2011, but a premium in 2012. On the latter, Kęty is trading with a discount in 2009 and 2010 and a premium in 2011 and 2012. The peer group includes the following companies: Alcoa, Amcor, Midas Holdings, Nippon Light Metal, Norsk Hydro, Profilgruppen, Rexam, Viohalco and Vsmo-Avisma. Alcoa is an integrated manufacturer of alumina, aluminum and profiles, as well as aluminum packaging. Amcor is an international holding that manufactures cardboard boxes, aluminum and steel cans, plastic packages and glass jars. Midas Holdings is above all a manufacturer of polyethylene pipes, but also extruded aluminum products. Nippon Light Metal is an integrated manufacturer of aluminum products, which directs its output to construction companies and manufacturers of electronics. Norsk Hydro makes aluminum products for the automotive sector and the construction industry. Profilgruppen mines, processes and produces aluminum and aluminum products. It has customers from diverse industries, but the automotive industry plays a major role. Rexam produces and distributes packaging material to the makers of cosmetics, foodstuffs, beverages and drugs. Viohalco makes copper and aluminum products through three subsidiaries: Viohalco, Hellenic Copper and Aluminum Industry SA. Vsmo-Avisma supplies components made of titanium, aluminum and steel.



DCF Valuation

Assumptions:

- Risk-free rate = 5.40% (based on yields on 10Y T-bonds).
- FCF growth rate after FY2019 = 3%.
- Beta = 1.0.
- Net debt is as at year-end 2009, plus 2009 dividends (the dividend record date was 14 July 2010).
- Cash flows are discounted to their value as of early August 2010.
- We assume that Kęty will spend PLN 115.4m on investment in 2010 (PLN 147.0m inclusive of subsidies), and PLN 73m in 2011.
- The 2010 year-end value of Kęty's loans is calculated at EUR/PLN and USD/PLN exchange rates of 4.10 and 3.10, respectively. The revaluation of these loans entails finance costs of PLN 1.3m.

Forecasts of aluminum prices, USD/PLN exchange rates

Aluminum prices	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	+
LME prices (USD)	1 499.2	2 060.9	2 122.7	2 197.0	2 273.9	2 353.4	2 435.8	2 521.1	2 609.3	2 700.6	2 795.2	2 879.0
y/y change	-34.6%	37.5%	3.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.0%
LME prices (PLN)	4 671.7	6 326.8	6 451.4	6 610.5	6 773.4	6 940.4	7 111.5	7 323.6	7 542.0	7 766.9	7 998.6	8 238.5
y/y change	-15.4%	35.4%	2.0%	2.5%	2.5%	2.5%	2.5%	3.0%	3.0%	3.0%	3.0%	3.0%
USD / PLN	3.12	3.07	3.04	3.01	2.98	2.95	2.92	2.90	2.89	2.88	2.86	2.86
y/y change	29.3%	-1.5%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-0.5%	-0.5%	-0.5%	-0.5%	0.0%
Aluminum usage ('000 tons)	47.0	44.7	44.7	45.5	46.5	47.4	48.3	49.3	50.3	51.3	52.3	52.8
y/y change	-4.1%	-5.0%	0.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	1.0%



DCF Valuation Model

(PLN m)	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	+
Revenues	1 206.9	1 263.9	1 301.1	1 337.9	1 376.1	1 415.7	1 462.1	1 510.5	1 560.9	1 613.4	1 660.9
change	8.6%	4.7%	2.9%	2.8%	2.9%	2.9%	3.3%	3.3%	3.3%	3.4%	2.9%
EBITDA	177.8	192.3	202.4	208.5	214.1	220.1	227.6	235.0	243.1	250.8	255.4
<i>EBITDA margin</i>	14.7%	15.2%	15.6%	15.6%	15.6%	15.5%	15.6%	15.6%	15.6%	15.5%	15.4%
Amortization and depreciation	67.8	70.6	73.5	76.3	79.2	73.3	76.2	76.9	79.8	75.7	73.3
EBIT	110.0	121.7	128.9	132.2	134.9	146.8	151.4	158.1	163.3	175.1	182.1
<i>EBIT margin</i>	9.1%	9.6%	9.9%	9.9%	9.8%	10.4%	10.4%	10.5%	10.5%	10.9%	11.0%
Tax	19.4	21.7	23.2	24.0	24.7	27.1	28.1	29.5	30.6	33.0	34.5
NOPLAT	90.6	100.0	105.6	108.2	110.2	119.7	123.4	128.6	132.7	142.1	147.6
CAPEX	-115.4	-73.0	-73.0	-73.1	-73.1	-73.1	-73.2	-73.2	-73.3	-73.3	-73.3
Working capital	-44.3	-18.3	-11.3	-11.6	-12.0	-12.4	-14.4	-14.9	-15.5	-16.1	-15.3
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	-1.3	79.3	94.9	99.8	104.3	107.5	112.0	117.4	123.8	128.4	132.3
WACC	9.4%	9.5%	9.6%	9.7%	9.8%	9.9%	10.0%	10.1%	10.2%	10.3%	10.4%
discount factor	0.96	0.88	0.80	0.73	0.66	0.60	0.54	0.49	0.44	0.40	0.36
PV FCF	-1.2	69.7	76.0	72.8	69.1	64.5	60.9	57.6	54.6	50.8	47.2
WACC	9.40%	9.49%	9.59%	9.69%	9.77%	9.87%	9.96%	10.07%	10.20%	10.35%	10.40%
Cost of debt	6.64%	6.64%	6.64%	6.64%	6.64%	6.64%	6.64%	6.64%	6.64%	6.64%	6.64%
Risk-free rate	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%
Risk premium	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Net debt / EV	19.9%	18.0%	16.0%	14.2%	12.5%	10.5%	8.7%	6.5%	4.0%	1.1%	0.0%
Cost of Equity	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

FCF growth after the forecast horizon	3.0%	Sensitivity Analysis					
Terminal value	1 788.3	FCF growth in perpetuity					
Present value of the terminal value (PV TV)	707.7	0.0%	1.0%	3.0%	4.0%	5.0%	
Present value of FCF in the forecast horizon	574.9	WACC +1.0ppt	86.22	90.96	103.82	112.85	124.71
Equity value	1 282.6	WACC +0.5ppt	92.20	97.63	112.61	123.36	137.75
Net debt	232.4	WACC	98.77	105.02	122.60	135.51	153.20
Other non-operating assets	0.0	WACC -0.5ppt	106.03	113.27	134.05	149.72	171.80
Minority interests	0.0	WACC 1.0ppt	114.08	122.51	147.29	166.57	194.60
Equity value	1 050.2						
Number of shares (millions)	9.2						
Equity value per share (PLN)	113.8						
Cost of equity (9M)	7.7%						
Target price	122.60						
EV/EBITDA for the target price	7.7						
P/E (*10) for the target price	13.9						
TV to EV	55.2%						

**Income Statement**

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Revenues	1 253.5	1 170.8	1 111.0	1 206.9	1 263.9	1 301.1	1 337.9	1 376.1	1 415.7	1 462.1
change	16.3%	-6.6%	-5.1%	8.6%	4.7%	2.9%	2.8%	2.9%	2.9%	3.3%
Flexible Packaging Segment	259.9	262.8	291.8	303.4	312.4	320.1	328.0	336.0	344.3	354.6
Extruded Products Segment	601.4	461.3	357.7	483.4	507.4	530.1	553.7	578.5	604.3	634.4
Aluminum Systems Segment	417.1	428.9	388.2	389.2	418.0	421.4	424.9	428.4	431.9	436.2
Building Accessories Segment	61.2	69.0	53.6	45.1	49.7	51.2	52.7	54.3	56.0	57.6
Building Services Segment	79.0	81.5	107.9	84.2	92.5	105.5	108.2	110.9	113.7	116.5
Other.	42.6	55.8	55.7	52.0	52.0	52.0	52.0	52.0	52.0	52.0
Intercompany eliminations	-207.6	-188.4	-147.6	-150.3	-168.1	-179.2	-181.6	-184.0	-186.5	-189.2
COGS	1 139.6	1 040.5	974.4	1 105.2	1 148.0	1 181.1	1 215.3	1 250.5	1 278.1	1 318.8
EBIT	141.1	126.7	124.9	110.0	121.7	128.9	132.2	134.9	146.8	151.4
change	28.7%	-10.2%	-1.4%	-11.9%	10.6%	5.9%	2.6%	2.1%	8.8%	3.2%
EBIT margin	11.3%	10.8%	11.2%	9.1%	9.6%	9.9%	9.9%	9.8%	10.4%	10.4%
Profit on financing activity	-19.3	-55.5	-33.0	-9.2	-7.4	-6.6	-5.8	-5.1	-4.4	-3.7
Extraordinary gains/losses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax income	121.8	71.2	91.9	100.9	114.3	122.3	126.4	129.8	142.4	147.7
Tax	23.5	9.9	21.1	19.2	21.7	23.2	24.0	24.7	27.1	28.1
Minority interests	0.3	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net income	98.0	61.2	70.6	81.5	92.4	98.9	102.2	105.0	115.1	119.5
change	11.6%	-37.5%	15.4%	15.5%	13.3%	7.0%	3.4%	2.7%	9.7%	3.8%
Net margin	7.8%	5.2%	6.4%	6.8%	7.3%	7.6%	7.6%	7.6%	8.1%	8.2%
Amortization and depreciation	52.2	61.7	64.1	67.8	70.6	73.5	76.3	79.2	73.3	76.2
EBITDA	193.3	188.4	189.0	177.8	192.3	202.4	208.5	214.1	220.1	227.6
change	25.4%	-2.6%	0.3%	-5.9%	8.2%	5.2%	3.0%	2.7%	2.8%	3.4%
EBITDA margin	15.4%	16.1%	17.0%	14.7%	15.2%	15.6%	15.6%	15.6%	15.5%	15.6%
Shares at year-end (millions)	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2
EPS	10.6	6.6	7.7	8.8	10.0	10.7	11.1	11.4	12.5	13.0
CEPS	16.3	13.3	14.6	16.2	17.7	18.7	19.4	20.0	20.4	21.2
ROAE	13.8%	8.6%	8.8%	9.2%	9.9%	10.2%	10.1%	10.1%	10.6%	10.7%
ROAA	7.5%	4.7%	5.5%	5.9%	6.4%	6.7%	6.7%	6.8%	7.2%	7.3%

**Balance Sheet**

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F
ASSETS	1 313.7	1 314.8	1 289.8	1 377.5	1 433.7	1 478.7	1 518.8	1 554.9	1 600.1	1 643.4
Fixed assets	847.0	859.2	820.5	905.7	911.0	913.7	914.3	912.8	918.0	921.3
Intangible assets	74.0	70.7	66.4	67.1	67.7	68.4	69.1	69.8	70.4	71.1
Property, plant and equipment	705.7	721.5	694.5	773.7	776.9	777.9	776.9	773.8	777.3	778.8
Goodwill	17.8	20.8	17.9	17.9	17.9	17.9	17.9	17.9	17.9	17.9
Long-term receivables	10.1	2.8	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Long-term investments	16.4	13.3	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5
Long-term prepayments	23.1	30.0	28.3	30.8	32.2	33.2	34.1	35.1	36.1	37.3
Current assets	466.7	455.7	469.3	471.7	522.7	565.1	604.5	642.1	682.0	722.1
Inventories	220.7	178.9	147.6	171.4	181.9	188.4	195.2	202.2	209.4	217.8
Short-term receivables	227.6	220.1	210.0	243.9	257.2	264.7	272.4	280.3	288.5	298.1
Trade debtors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term investment	0.7	7.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash	16.8	46.1	108.2	52.7	79.7	107.9	132.8	155.4	179.7	201.7
Short-term prepayments	0.9	2.6	3.4	3.7	3.9	4.0	4.1	4.2	4.4	4.5
(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F
LIABILITIES	1 313.7	1 314.8	1 289.8	1 377.5	1 433.7	1 478.7	1 518.8	1 554.9	1 600.1	1 643.4
Equity	708.2	714.6	801.2	882.5	931.7	972.9	1 009.0	1 041.2	1 082.2	1 120.6
Share capital	67.0	67.0	67.0	67.0	67.0	67.0	67.0	67.0	67.0	67.0
Capital reserve	-5.9	-9.4	4.4	4.9	4.9	4.9	4.9	4.9	4.9	4.9
Retained earnings	658.2	677.9	748.5	793.1	840.6	879.5	912.5	940.8	977.2	1 010.3
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term liabilities	206.6	207.3	139.9	142.5	142.5	142.5	142.5	142.5	142.5	142.5
Debt	145.7	147.9	81.7	81.7	81.7	81.7	81.7	81.7	81.7	81.7
Short-term liabilities	398.9	392.9	333.0	335.7	342.0	345.3	348.7	352.3	355.9	360.2
Trade creditors	142.2	106.4	111.0	123.4	129.7	133.1	136.5	140.0	143.6	147.9
Debt	232.5	273.9	222.0	212.3	212.3	212.3	212.3	212.3	212.3	212.3
Provisions	1.8	1.2	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Other	61.6	49.5	14.3	15.6	16.3	16.8	17.3	17.8	18.3	18.9
Debt	378.2	421.8	303.7	294.0	294.0	294.0	294.0	294.0	294.0	294.0
Net debt	361.4	375.7	195.5	241.3	214.3	186.1	161.2	138.6	114.3	92.3
(Net debt / Equity)	51.0%	52.6%	24.4%	27.3%	23.0%	19.1%	16.0%	13.3%	10.6%	8.2%
(Net debt / EBITDA)	1.9	2.0	1.0	1.4	1.1	0.9	0.8	0.6	0.5	0.4
BVPS	76.8	77.5	86.8	95.7	101.0	105.5	109.4	112.9	117.3	121.5

**Cash Flows**

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Cash flows from operating activities	137.9	161.7	223.9	114.4	152.3	167.9	172.9	177.4	180.6	185.2
Net income	98.0	61.2	70.6	81.5	92.4	98.9	102.2	105.0	115.1	119.5
Amortization and depreciation	52.2	61.7	64.1	67.8	70.6	73.5	76.3	79.2	73.3	76.2
Working capital	-40.4	19.1	48.7	-44.3	-18.3	-11.3	-11.6	-12.0	-12.4	-14.4
Other	28.2	19.7	40.5	9.4	7.6	6.8	6.0	5.3	4.6	3.9
Cash flows from investing activities	177.55	-81.28	-50.21	115.40	-73.00	-73.04	-73.07	-73.11	-73.15	-73.18
CAPEX	-1.95	3.30	-29.83	115.40	-73.00	-73.04	-73.07	-73.11	-73.15	-73.18
Capital investment	173.73	-80.51	7.72	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash flows from financing activities	27.1	-44.4	-111.6	-54.5	-52.3	-66.6	-75.0	-81.7	-83.1	-90.0
Debt	110.9	91.6	-118.1	-9.7	0.0	0.0	0.0	0.0	0.0	0.0
Dividends/share buy-back	-36.9	-41.5	0.0	-36.9	-44.8	-60.0	-69.2	-76.6	-78.7	-86.4
Other	-46.9	-94.5	6.4	-7.9	-7.4	-6.6	-5.8	-5.1	-4.4	-3.7
Change in cash	-18.9	29.5	62.1	-55.5	27.0	28.2	24.8	22.6	24.4	21.9
Cash at the end of period	16.8	46.1	108.2	52.7	79.7	107.9	132.8	155.4	179.7	201.7
DPS (PLN)	4.5	4.5	0.0	4.0	4.9	6.5	7.5	8.3	8.5	9.4
FCF	124.1	186.7	186.7	-1.3	79.3	94.9	99.8	104.3	107.5	112.0
(CAPEX / Sales)	-0.2%	0.3%	-2.7%	-9.6%	-5.8%	-5.6%	-5.5%	-5.3%	-5.2%	-5.0%

Market multiples

	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F
P/E	9.9	15.9	13.8	11.9	10.5	9.8	9.5	9.3	8.5	8.1
P/CE	6.5	7.9	7.2	6.5	6.0	5.6	5.5	5.3	5.2	5.0
P/BV	1.4	1.4	1.2	1.1	1.0	1.0	1.0	0.9	0.9	0.9
P/S	0.8	0.8	0.9	0.8	0.8	0.7	0.7	0.7	0.7	0.7
FCF/EV	9.3%	13.8%	16.0%	-0.1%	6.7%	8.2%	8.8%	9.4%	9.9%	10.5%
EV/EBITDA	6.9	7.2	6.2	6.8	6.2	5.7	5.4	5.2	4.9	4.7
EV/EBIT	9.5	10.6	9.4	11.0	9.8	9.0	8.6	8.2	7.4	7.0
EV/S	1.1	1.2	1.1	1.0	0.9	0.9	0.8	0.8	0.8	0.7
Dyield	4.3%	4.3%	0.0%	3.8%	4.6%	6.2%	7.1%	7.9%	8.1%	8.9%
Price (PLN)	105.50	105.50	105.50	105.50	105.50	105.50	105.50	105.50	105.50	105.50
Shares at year-end (millions)	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2
MC (PLN m)	973.3	973.3	973.3	973.3	973.3	973.3	973.3	973.3	973.3	973.3
Equity attributable to minority shareholders (PLN m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV (PLN m)	1 334.7	1 349.0	1 168.8	1 214.6	1 187.6	1 159.4	1 134.5	1 111.9	1 087.6	1 065.6



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**List of abbreviations and ratios contained in the report:***EV* – net debt + market value*EBIT* – Earnings Before Interest and Taxes*EBITDA* – EBIT + Depreciation and Amortisation*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**Recommendations of BRE Bank Securities**

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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; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

Previous ratings issued for Kety

Rating	Hold	Hold
Date issued	2010-02-24	2010-07-06
Price on rating day	115.00	103.00
WIG on rating day	38533.89	39685.67