

3 December 2010

Research Report

Retail
Poland

2010 P/E*	23.6x
2011 P/E*	17.1x
2010 EV/EBITDA*	12.0x
2011 EV/EBITDA*	10.3x

* median for WSE-listed clothing retailers

	Price (PLN)*	9M TP (PLN)	Change (%)
LPP	2 140	2 300	7.5%
NG2	62.5	62.7	0.0%

* closing prices of 2 December 2010

	YTD	1M
LPP	23.9%	1.0%
NG2	30.5%	10.4%
WIG	14.0%	-0.2%

Retail

Q4'10 Bodes Well for 2011

Clothing and footwear retailers are trading at FY11 P/E of 17.1 and EV/EBITDA of 10.3. Q4 is the period when retailers reap their highest sales and net earnings. FY10, due to a slowdown in retail sales and to one-time events, has not been easy for the industry, but recent sales reports have confirmed that the time of negative growth is now over. Sales in Q4 are being boosted by weather conditions and a low base effect. In FY09, LFL growth was negative, but it was the fourth quarter when it was in negative double digits. Hence the low base of comparison. Due to the weak H1 2010, the low-base effect will be visible in 2011 as well.

We are initiating coverage of LPP with an "accumulate" rating, and of NG2 with a "hold" rating.

Valuations have not been higher this year...

Since the start of the year, the LPP and NG2 stocks have outperformed the WIG (+30.5% YTD for LPP, +23.9% for NG2 and +14.0% for WIG). Both companies saw rallies early in the year following the publication of their earnings for Q4'09 and recently, after excellent sales data for October.

... but LPP could still surprise on the upside...

Following the publication of good sales data for November (+16% y/y) we expect a very good December, which will allow the Company to meet the FY10 consensus forecast. In 2011, we expect sales to grow thanks to a low base of comparison. With costs still in check, we expect an increase in profitability. LPP is trading at a 4% premium to WSE-listed peers on FY11 P/E of 17.2 and with its EV/EBITDA at 9.8. In favorable circumstances, i.e. if sales per square meter increase in 2011, the Company's restructured costs may allow it to translate rising sales into a rising net profit.

... while market consensus for NG2 is unlikely to increase

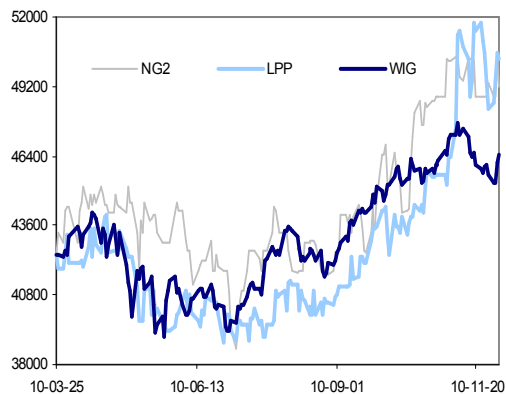
Following the excellent sales reported for November (+35%), we do not expect the consensus forecast to go up. By December, the Company has already earned a net profit of PLN 126m. December usually adds little to the bottom line, so we can say that 2010 is already over for NG2. In the next two years, NG2 is planning to grow fast and expand its market share. The PLN 150m net profit target for 2011 is realistic, but it does exceed our expectations slightly. Even though the bottom line profit is expected to grow 15% in 2011, the Company is already trading at an FY11 P/E of 16.4 and with a 15% premium over peers on FY11 EV/EBITDA of 11.6. We consider a higher valuation unwarranted and we recommend holding the stock.

Valuation multiples for Polish and Foreign retailers

Polish companies have always traded at a premium to foreign peers. The premium for P/E is 23% and for EV/EBITDA, 56%.

	2010F	2011F	2010F	2011F	2011/2012
	P/E	P/E	EV/EBITDA	EV/EBITDA	EPS
LPP	24.2	17.2	12.8	9.8	40.8%
NG2	19.0	16.4	15.2	11.6	15.4%
Bloomberg consensus					
LPP	23.8	17.9	12.9	10.8	34.7%
NG2	19.9	16.3	15.0	11.8	22.2%
WSE-listed retailers	23.6	17.1	12.0	10.3	34.3%
Foreign retailers	19.4	13.7	7.1	7.2	16.6%
WSE premium/discount	22%	25%	68%	44%	

LPP, NG2 vs. WIG



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The Market

2009 was not a good year for clothing and footwear retailers. The economic slowdown hurt sales per square meter, and F/X rate volatility dampened profitability at every level of the income statement. Better-managed companies used 2009 for restructuring and to get rid of ineffective stores. Companies with weaker balance sheets struggled to survive.

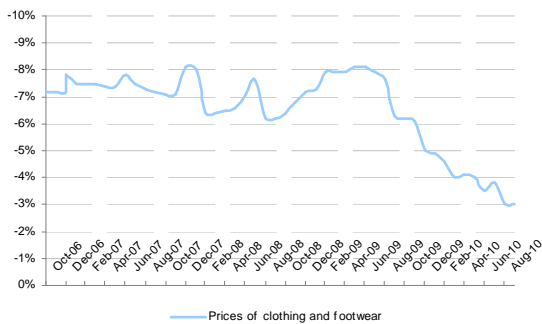
Sales in H1 2010 were hurt by a period of national mourning and floods. Q3 2010 failed to bring LFL growth, but a rebound in sales has been visible since September. Due to the low base, the LFL growth rate is now positive and we expect a good fourth quarter. Both companies recorded very good sales in November. LPP increased its revenue by 16% y/y, and NG2 by 35% (this factors in price hikes for the fall-winter collection). Good sales data for October generated expectations that the fourth quarter as a whole would be very strong and pushed market valuations of clothing and footwear retailers up, as a result of which they are now close to ours.

Market Data

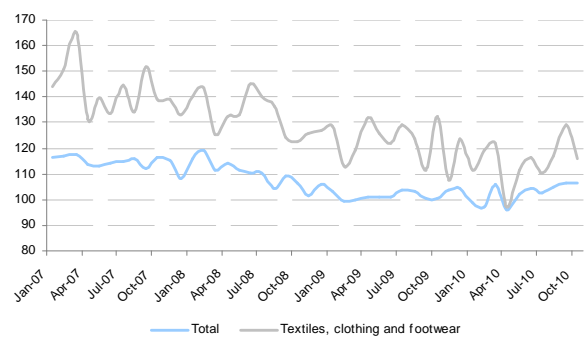
Retail sales increased by 9.0% y/y in October. Sales in constant prices increased by 6.4% y/y, and sales of clothing and footwear rose by 16.0% y/y.

FY 2009 retail sales totaled PLN 582.8bn, of which 4.5% were sales of textiles, clothing and footwear (ca. PLN 26.2bn). The average Pole's monthly spending on clothing and footwear is ca. PLN 50. In the past, the share of spending on clothing and footwear in household budgets was fairly stable at 5.0-5.7%, but when changes in total spending are taken into consideration, an average household can be said to have spent the same amount on clothing and footwear in as in 2008, which was reflected by the retailers' earnings.

Y/Y change in clothing and footwear prices

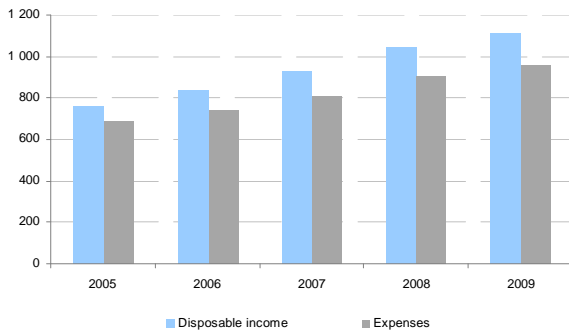


Retail sales

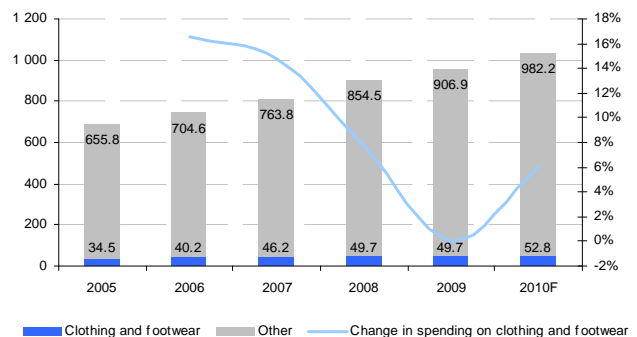


Source: NG2 SA, BRE Bank Securities

Average household monthly revenue and spending, PLN



Average household spending, PLN



Source: NG2 SA, BRE Bank Securities



LPP vs. CCC: Scenarios

In theory, NG2 and LPP operate in a similar market and have similar business profiles; in practice, there are considerable differences between them. NG2 operates in a much less competitive market and has a 12% market share; the market share of its nearest rival, Deichman, is just half that. LPP must compete with global leaders, and the clothing market is much more fragmented, which limits the potential to transfer changes in F/X rates onto end customers. CCC's sales show positive LFL growth during slowdowns (excluding one-offs such as the national mourning and floods in H1 2010) thanks to goods addressed to customers with more constrained budgets.

Sales in 2011

If the slowdown in retail sales continues, NG2 should fare better, because it sells cheaper goods. In addition, lack of competition and sales volumes approaching 15m pairs of shoes per year make it possible to increase volumes even at a time of a slowdown. LPP would have to compete on price, which, given that its competitors are market leaders, would hurt its profitability. LFL sales growth will benefit LPP more, because thanks to savings and cost restructuring it should be able to show improved operating margins.

F/X Rate Volatility

The margins of both companies are affected by the USDPLN and EURPLN exchange rates. What matters is not so much where the exchange rates are heading, but rather their short-term volatility. High volatility, like in 2009, has a negative impact on the gross margin (USDPLN: the companies buy most of the goods and China and pay for them in the USD) and the EBIT (EURPLN: rents are denominated in the EUR). A weak dollar supports profitability when the costs of production in China rise.

High Material and Labor Costs

The high prices of materials such as cotton and the rising salary pressure in China have been affecting gross profits. While LPP has the option to partially move production to other countries (at the moment, China accounts for some 70% of the Company's supplies; several years ago, at the time of the IPO, the figure exceeded 90%), the synthetic shoes sold by NG2 can only be manufactured in China. On the other hand, LPP's market is more competitive and the company has limited options as far as changing its prices is concerned, including translating higher costs into a higher retail price. NG2 successfully hiked its prices in September, and in 2011 it is planning to continue shifting the rising costs onto customers. With the average price of shoes sold by NG2 at PLN 50-60 per pair, a 10% price hike should not impact volumes, all the more so that there is no competition in this price segment.

Long-Term Outlook

Next year, both companies will slow down retail space additions due to the reduction in the supply of modern commercial space. NG2's goal is to increase its market share to 20% in 2012 from the current 12%. We believe LPP's strategy looks better for the long term. The company is already present in the regions two biggest markets (Russia and Ukraine), and we believe this is where it will expand the most in the upcoming years. NG2 is only planning expansion into Russia and Ukraine through franchises.

LPP vs. CCC: Earnings

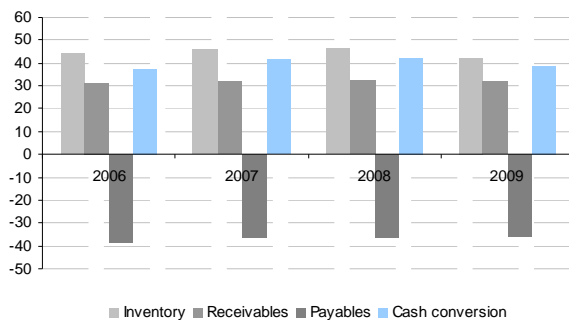
The companies are similar in terms of their valuation multiples. On FY11 P/E, both are trading at ca. 17x. On EV/EBITDA, LPP is cheaper with its 9.8x multiple (vs. 11.6 for NG2).

	LPP				NG2			
	2008	2009	2010F	2011F	2008	2009	2010F	2011F
Revenues	1 623	2 003	2 062	2 394	754	922	1 028	1 199
Average floor area for the year	183	255	305	340	120	141	156	166
Sales per square meter	738	655	564	586	526	543	551	602
Gross margin	59.5%	52.8%	55.4%	56.5%	53.7%	52.2%	54.6%	55.1%
Selling, general and administrative costs	731	863	923	1 061	275	375	416	472
SG&A/m2	332	282	252	260	191	221	223	237
SG&A to sales	45%	43%	45%	44%	36%	41%	40%	39%
Inventory turnover	104	59	78	78	112	96	98	98
Receivables turnover	23	17	21	21	30	15	35	35
Payables turnover	63	44	68	68	41	35	45	45
Cash conversion	64	32	31	31	100	76	87	87
FCF/EBITDA	-42%	77%	17%	42%	-2%	2%	-1%	1%
P/E	22.4	35.8	24.2	17.2	23.4	28.8	19.0	16.4
EV/EBITDA	15.0	14.3	12.8	9.8	17.2	19.4	15.2	11.6
FCF/EV	-3%	5%	1%	4%	-2%	2%	-1%	1%

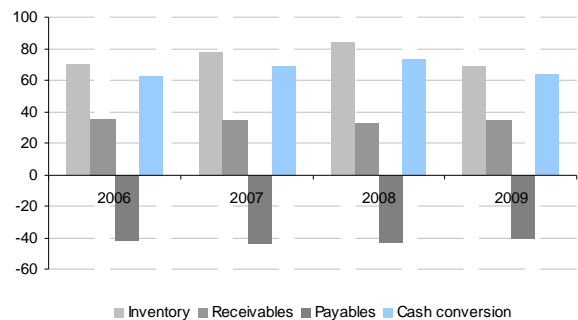
Source: LPP SA, NG2 SA, BRE Bank Securities

The main difference between the two companies' multiples lies in working capital management. LPP restructured its stock and since 2009 its cash conversion cycle measured in days has been better than for the market as a whole. NG2 has always generated weaker cash flows from operations due to its longer inventory turnover and faster payment of trade payables.

Working capital for the clothing and footwear market in days



Working capital for the footwear market in days



Source: BRE Bank Securities, Bloomberg

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Current price	PLN 2 140
Target price	PLN 2 300
Market cap	PLN 3 746m
Free float	PLN 1 480m
Avg daily trading volume (3M)	PLN 1.42m

Shareholder Structure

Grangefond Limited. London	20.00%
Monistor Limited (Cyprus)	11.47%
Jerzy Lubianiec	10.00%
Marek Piechocki	10.00%
Aviva OFE	9.02%
Others	39.51%

Sector Outlook

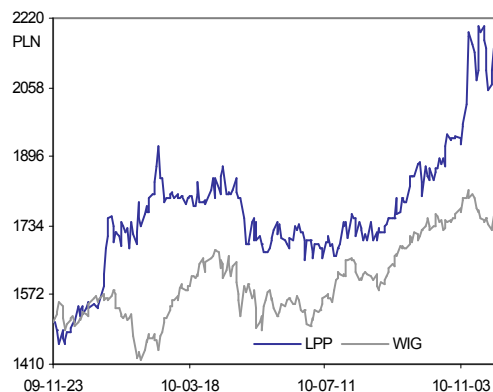
Clothing and footwear retailers have been experiencing a slowdown over the past two years, and the recovery expected in the coming months will be a base effect rather than a result of a momentum shift in the industry.

Company Profile

LPP is a typical clothing retailer operating in Central and Eastern Europe. It operates through four clothing brands. At the end of Q3 2010, LPP had 890 stores with a total floor area of 307k square meters.

Important dates

1-3.12.10 - November 2010 sales figures

LPP vs. WIG

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LPP

LPPP.WA; LPP PW

Accumulate

(Initial)

Low Base Will Boost Earnings

In the fourth quarter, retailers typically reap the year's highest revenues and margins. On average, LPP generates 70% of its FY bottom line in the fourth quarter, and Q4'10 should be no different. Sales were very strong in October and November (+15% y/y) and we expect such growth in December as well. While LPP's performance in FY 2010 has already been priced in, FY 2011 has the potential to surprise on the upside. Throughout Q4 2010, sales growth has been supported by the low base of comparison of Q4 2009. We initiate coverage with an "accumulate" rating and target price of PLN 2,300 per share.

FY 2010 Hinges on Q4'10

In Q4 2007, the industry saw its record-high sales per square meter. Q4 2008 was very good for sales and weak for margins: retailers had built considerable inventories and sold them out already in the fourth quarter due to the economic downturn. For LPP, the situation in Q4 2009 was exactly reversed: the Company's stock was limited and sales per square meter declined. Discount sales were reduced, which allowed the margin to rise to a record-high level. We expect a similar situation this year: a limited stock will bring a high margin. We do not expect it to be as high as last year, however, due to the changed foreign-exchange rates.

Network Efficiency

Since the end of 2009, LPP has kept its costs firmly in check. In 2009, selling, general and administrative expenses per square meter declined by 15%, while revenue per square meter declined by 11%, all this despite the highly volatile USD/PLN and EUR/PLN exchange rates. This cost reduction is partially permanent, which will allow LPP to generate better operating earnings while increasing sales per square meter.

Cash Flows Keep Getting Stronger

The Company is generating increasingly strong cash flows. By the end of 2009, it reduced inventory per square meter by half, generating cash which allowed it to pay its first-ever dividend (DY=2.3%).

Valuation

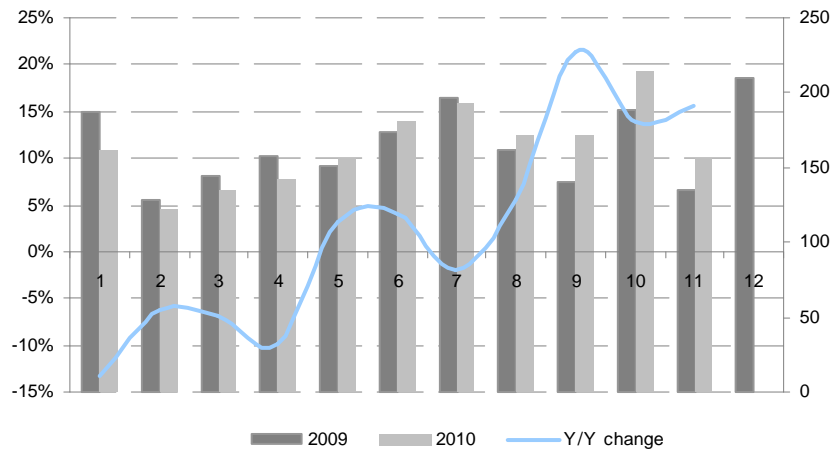
LPP is the industry's leader and its network will grow at 10% p.a. or faster. This year's investment outlays are paid for by depreciation. The Company has restructured its expenses (with the average costs per square meter declining by 3% y/y in Q3'10 and by 25% y/y in Q3'09) as well as its debt (80% of financial debt is long-term). Coupled with the industry's highest cash flows from operations, this warrants a premium.

(PLN m)	2008	2009	2010F	2011F	2012F
Revenue	1 623.0	2 003.1	2 062.3	2 393.8	2 756.4
EBIT	214.8	181.3	215.8	292.9	340.0
<i>EBIT margin</i>	13.2%	9.0%	10.5%	12.2%	12.3%
EBITDA	281.1	277.4	311.4	398.1	448.5
Net income	167.5	104.7	154.5	217.4	258.2
DPS	0.0	0.0	49.1	71.4	100.5
P/E	22.4	35.8	24.2	17.2	14.5
P/CE	16.0	18.6	15.0	11.6	10.2
P/BV	6.6	5.5	5.6	4.9	4.5
EV/EBITDA	15.0	14.3	12.8	9.8	8.6
DYield	0.0%	0.0%	2.3%	3.3%	4.7%

Overview

Sales were strong in October and November (+15% y/y), which confirmed that Q4'10 as a whole was going to be good. November was the third consecutive month when the fashion distributor recorded positive LFL dynamics, which bodes well for fourth-quarter results. The Management did warn that the monthly sales reports were going to show a reduction in the gross margin (the Company currently sells goods bought at a higher USDPLN exchange rate, and profitability was a record-high level throughout Q4'09).

Monthly sales, PLN m



Source: LPP SA

The valuation of LPP is currently close to the valuation of the market as a whole, with the median for Polish retailers at 23x for FY10 P/E and 17x for FY11 P/E. In our opinion, the Company should trade at a premium to the other retailers listed on the WSE due to: (i) the size of its business, (ii) its Management, (iii) the cost savings it attained in 2009 and (iv) its higher cash flows from operations.

- i. Thanks to its well-known brands and extensive sales network, LPP is among Poland's most important shopping mall tenants. Shopping mall operators strive to have LPP's customer-attracting brands in their venues, which increases the Company's bargaining power in negotiations (rental terms, percentage of outlays on stores covered by the investor). All told, increasing size results in a decreasing cost of growth.
- ii. Undoubtedly, another source of a valuation premium should be LPP's Management, which has proved more than once that it is capable of reacting quickly to market shifts. One good example is the restructuring of the Company's debt right before the crisis (through the issue of 3Y convertible bonds). Moreover, in 2009 inventory turnover was cut by half, which made it possible to generate more operating cash and, consequently, to pay a dividend for the first time in the Company's history.
- iii. Cost savings attained in 2009 will impact profitability in the following years. In 2010 this effect will not be that visible due to a drop in sales per square meter, but we expect that in the following years a bigger impact on operating profit growth will be observed as sales per square meter increase. LPP cut selling, general and administrative expenses per square meters in an environment of declining sales per square meter and a volatile EURPLN exchange rate. In part, this is indicative of a lack of cost efficiency in the preceding periods, but the restructuring exercise brought good results that should boost margins in the following periods.
- iv. LPP generates higher cash flows from operations than any of its WSE-listed peers. It has the best working-capital management, which also warrants a valuation premium. The table below is limited to companies that generate positive cash flows from operations.

**Cash flows of WSE-listed retailers**

CFO/Net profit	2007	2008	2009	Average
LPP	1.3	1.2	3.0	1.8
CCC	0.6	0.4	1.5	0.9
EMF	1.9	0.3	1.3	1.1

CFO/EBIT	2007	2008	2009	Average
LPP	1.0	0.9	1.8	1.2
CCC	0.5	0.3	1.2	0.7
EMF	1.4	0.4	0.9	0.9

CFO/EBITDA	2007	2008	2009	Average
LPP	0.8	0.7	1.1	0.9
CCC	0.4	0.3	1.0	0.6
EMF	1.0	0.1	0.4	0.5

Source: Companies

Q3 2010 results

LPP's Q3 2010 EBIT and net profit exceeded expectations. Sales increased 7.6% as a result of slower year-on-year declines in like-for-like sales (-3.4% vs. -16.2% in Q3 2009). The gross margin expanded 5.3pts y/y thanks to favorable USD/PLN trends. In Q3 2009, margins were weaker because of FX movements and weak sales of the fall-winter collection in September due to warm weather. In 2010, the fall-winter collection has been generating stronger sales, boosting the gross margin. An 18.2% expansion in LPP's retail spaces in Q3 2010 was accompanied by a 14.9% increase in SG&A expenses, confirming continued cost discipline. The third-quarter net profit was affected by negative FX differences, similarly to Q3 2009 when FX losses were exacerbated by a high effective tax rate (the tax charge amounted to PLN 3.1m then, the same as in Q3 2010, but it was levied on a profit which was 5.6 times lower).

Quarterly earnings

(PLN m)	3Q 2010	3Q 2009	Change	1-3Q 2010	1-3Q 2009	Change
Revenues	543.4	505.0	7.6%	1 449.5	1 458.9	-0.6%
Gross profit	271.6	225.4	20.5%	762.3	702.2	8.6%
<i>Gross profit margin</i>	<i>50.0%</i>	<i>44.6%</i>	<i>5.3pp</i>	<i>52.6%</i>	<i>48.1%</i>	<i>4.5pp</i>
SG&A costs	235.0	204.5	14.9%	674.2	639.7	5.4%
Profit on sales	36.6	20.9	74.7%	88.2	62.5	41.0%
<i>Margin on sales</i>	<i>6.7%</i>	<i>4.1%</i>	<i>2.6pp</i>	<i>6.1%</i>	<i>4.3%</i>	<i>1.8pp</i>
Operating income	36.8	21.1	74.1%	85.0	58.2	46.1%
<i>Operating margin</i>	<i>6.8%</i>	<i>4.2%</i>	<i>2.6pp</i>	<i>5.9%</i>	<i>4.0%</i>	<i>1.9pp</i>
Net income	16.7	0.5	-	49.8	22.8	118.6%
<i>Net margin</i>	<i>3.1%</i>	<i>0.1%</i>	<i>3pp</i>	<i>3.4%</i>	<i>1.6%</i>	<i>1.9pp</i>

Source: LPP SA, BRE Bank Securities

LPP's accumulated profit for the nine months ended 30 September is PLN 49.8m. Sales increased 14% y/y in October, which is a very good result given that sales in October 2009 were strong. Year-on-year LFL growth rate for November was already in the positive territory.

Business Profile

LPP designs and distributes clothing in Poland and other Central and Eastern European Countries. The Company operates five retail chains: Reserved, Cropp, House, Mohito and Esotiq. Clothing accounts for the lion's share of sales, supplemented by footwear, bags and accessories.

LPP's clothing is designed in studios located in Gdańsk (Reserved, Cropp, Esotiq) and Kraków (House, Mohito). The designs then go to the procurement division, which orders the manufacture of individual items from factories located in Poland and elsewhere. Contact with Chinese manufacturers is made directly from Poland or through an office in Shanghai.

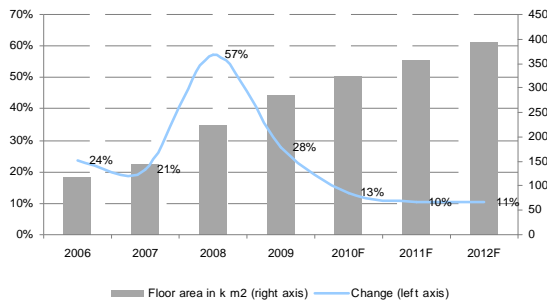
Sales Structure

At the end of Q3 2010, LPP's sales network comprised 890 stores with aggregate area of 307k m² spread across 11 Eastern and Central European countries. Approximately 68% of LPP's total floor area is located in Poland, 13% in Russia and Ukraine, 7% in the Czech Republic and Slovakia and 7% in the Baltic states. The remaining 5% is shared by Romania, Bulgaria and Hungary.

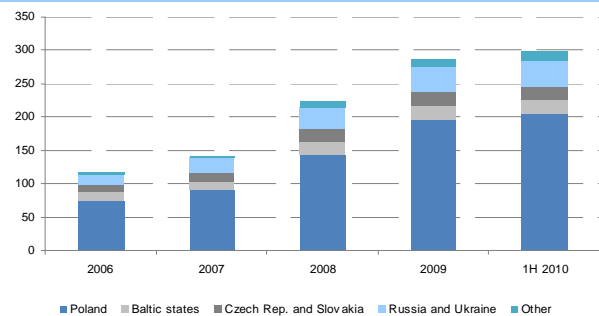
LPP has been adding retail space at a double-digit rate. Next year, this growth may be slowed down somewhat due to a limited supply of retail space available for rent, but we believe that in a longer term, with its cash and improving market standing, the Company will not afford to let its growth rate to slip below 10% y/y, and this will force it to expand mostly abroad.

Less and less retail space will be added in Poland, and more and more abroad, due to the saturation of the Polish clothing market on the one hand, and to the dearth of modern commercial space on the other. New shopping mall projects are not coming within the horizon of the next two years (or longer). The breakdown of LPP's sales by geography is shown in the chart below.

Network expansion



Geographical breakdown (thousand m²)



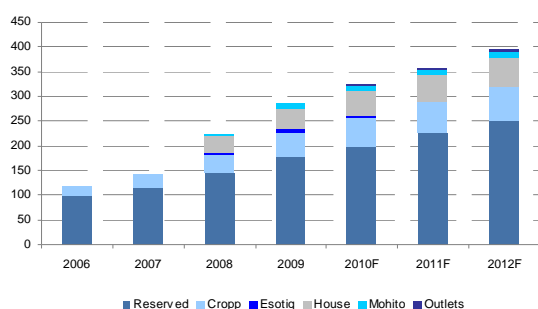
Source: LPP SA, BRE Bank Securities

As far as the breakdown by brand is concerned, Reserved dominates with an over 60%, followed by Cropp and House with 18% and 15% shares, respectively. These proportions should remain stable in the upcoming years.

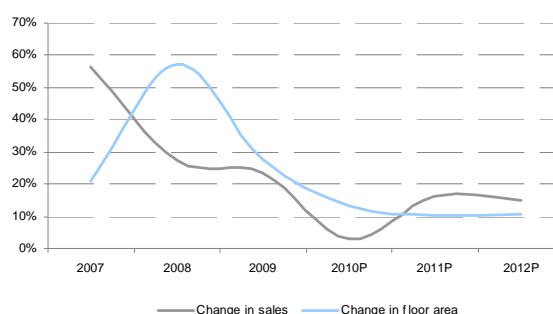
In 2007, most retailers saw their sales grow faster than their retail space. This was an ideal situation for them, but the trend shifted in 2008 and the industry now faces negative LFL growth. The LPP network should be able to show sales growth starting already in 2011, if only due to a low-base effect (what the retailers want the most is for the line representing sales growth in the chart to be as high as possible above the one representing retail space growth). In the upcoming years, we expect sales per square meter to grow by 2.5% on average.



Retail space growth by brand



Network efficiency



Source: LPP SA, BRE Bank Securities

In the past few years, the Company saw a considerable decline in sales per square meter. According to our scenario, its bottom line will exceed PLN 200m next year, but depending on the scenario (growing vs. flat sales and rising vs. flat margin), it may fall anywhere between PLN 100m and PLN 320m.

Columns 1-4 of the table below show in a simplified way revenue and costs per one meter of retail floor area (using average floor area for the year). On the assumption that average sales per square meter in 2011 match the 2007-2010 average (+16% Y/Y) and that gross margin remains at the same level (Column A), gross profit will figure to PLN 368 per square meter. In such a context, selling costs per square meter will increase as well, but more slowly (administrative expenses, rental rates etc. will not change), reaching ca. PLN 285 per square meter. This change in revenue will enable LPP to post an average EBIT of ca. PLN 83.7 per square meter. Relative to our baseline scenario (a 4% increase in sales per square meter and an EBIT of PLN 71.7m per square meter), the Company's operating earnings would be 18% higher. With finance expenses at the same level, the bottom line would increase to PLN 259m, which entails an FY11 P/E of 14.5 rather than our 17.0.

LPP's earnings: scenarios for sales per square meter and gross margin

Scenarios	1				2		3		4		A		B		C		D		E	
	Average sales/m ² in 2007-2010		Average sales/m ² and maximum margins from 2007-2010		Average sales/m ² and minimum margins from 2007-2010		Flat sales, average margins		Minimum sales and margins											
Data per square meter	2008	2009	2010F	2011F	2011F	2011F	2011F	2011F	2011F	2011F	2011F	2011F	2011F	2011F	2011F	2011F	2011F	2011F	2011F	
Average sales per square meter	737.9	654.5	563.9	586.4	652.1	652.1	652.1	652.1	563.9	563.9										
Pct. change		-11%	-14%	4%	16%	16%	16%	16%	0%	0%										
Floor area at the end of the year (k m ²)	224.1	286.0	323.6	356.8	356.8	356.8	356.8	356.8	356.8	356.8										
Average floor area for the year	183.3	255.0	304.8	340.2	340.2	340.2	340.2	340.2	340.2	340.2										
Gross margin	59.5%	52.8%	55.4%	56.5%	56.5%	59.5%	52.8%	56.5%	52.8%	52.8%										
Gross profit	438.8	345.7	312.2	331.6	368.7	387.8	344.4	318.8	297.8											
Costs/m2	332.2	281.8	252.4	259.8	285.0	285.0	285.0	259.8	259.8											
Pct. change		-15%	-10%	3%	13%	13%	13%	3%	0%											
EBIT/m2	106.6	63.8	59.9	71.7	83.7	102.8	59.4	59.0	38.0											
EBIT margin	14%	10%	11%	12%	13%	16%	9%	10%	7%											
EBIT in PLN m	234.3	195.3	219.0	292.9	341.8	419.4	242.5	240.9	155.0											
Finance gains/losses	-1.5	-42.0	-20.6	-18.0	-18.0	-18.0	-18.0	-18.0	-18.0											
Adjusted net income	186.2	122.6	158.7	219.9	259.1	321.1	179.6	178.3	109.6											
P/E 2011 for individual scenarios				17.0	14.5	11.7	20.9	21.0	34.2											

Source: LPP SA, BRE Bank Securities

Seasonal Patterns

The entire clothing market is subject to seasonal patterns. Thus, for example, the second quarter of each year sees a higher gross margin than the first thanks to regular sales of the



spring-summer collection. Sales and margins peak in the fourth quarter, when the winter collection is being sold.

Margins

Lack of Infrastructure Hampers Diversification

LPP's manufacturing activities are located in the Far East. Over the past few years it was able to diversify its orders. At the moment, ca. 70% of goods are bought in China, and the remainder in Poland, India and Bangladesh. It is not easy to transfer production from China to other Asian countries, as appropriate infrastructure is missing. In turn, the output of Vietnamese and Thai factories is typically bought by American companies, whose orders are big. Prices in those countries would not be competitive.

USDPLN and Discount Sales, or Gross Margin

The gross margin is affected by two crucial factors: (i) foreign-exchange rates, (ii) sales at a discount.

The Company's margins are determined by the country of origin of the product. All components such as the price of textiles, cotton etc. have an impact on the end price, but exchange rates are the key determinant, especially the USDPLN rate. The exchange rate of the CNY is also relevant.

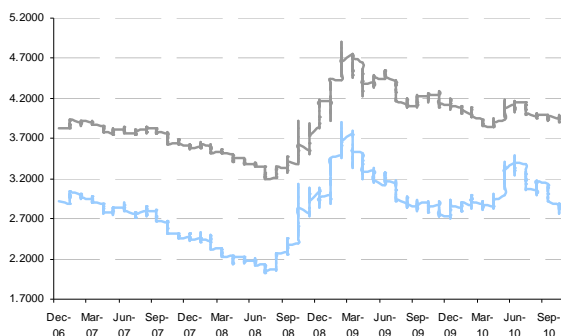
The gross margin is also affected by collection closeouts, whose intensity is determined by (i) the size of the remaining stock and (ii) the competitors' actions.

In our opinion, given a stable USD exchange rate the Company is capable of generating a gross margin of 58% in the long term. Our conservative forecast for FY10 puts it at 56.5%.

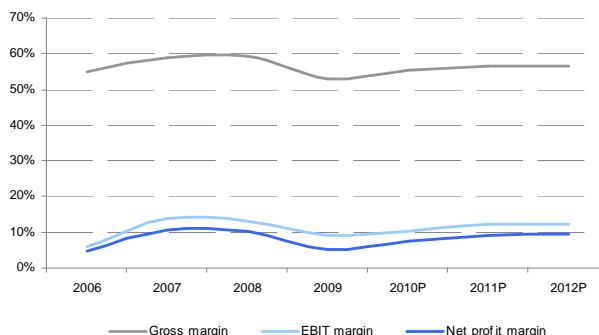
EURPLN, or EBIT margin

The EURPLN exchange rate affects operating earnings. Over 35% of selling, general and administrative costs are rents, which are denominated in the EUR both in Poland and abroad. In both cases, i.e. of the gross margin, which is swayed by the USDPLN rate, and EBIT margin, which is affected by the EURPLN rate, what matters most is not where the exchange rate is going, but how stable it is. Considerable F/X rate volatility has a negative impact on margins in the short term, as could be observed in 2009.

EUR/PLN, USD/PLN 2007-2010



Margins



Source: NBP, LPP, BRE Bank Securities

Balance Sheet

Debt

In 2009, the Company converted its short-term financial debt into 3Y convertible bonds. At the end of Q3 2010, financial debt and net debt amounted to 30% and 17% of total liabilities, respectively. Cash generated in 2009 allowed LPP to pay its first-ever dividend (PLN 86m in October 2010).

Working Capital

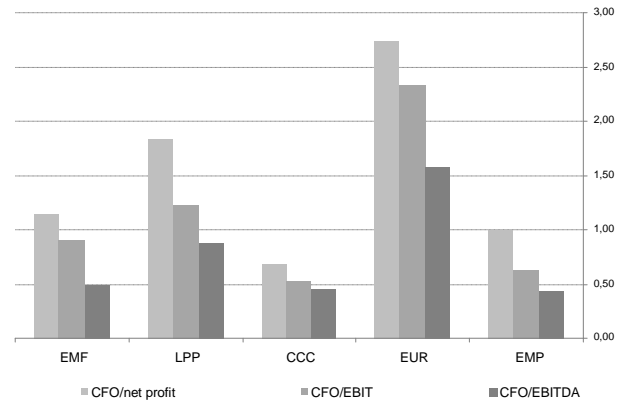
LPP is getting better and better at working capital management. In 2009, its inventory per square meter declined from PLN 2.1k/m² to PLN 1.1k/m², resulting in higher cash flows. In our opinion, inventory per square meter should remain close to the 2009 level. In our forecasts for the following years we cautiously assume an unchanged inventory turnover, but we believe this indicator will be getting even shorter as sales per square meter increase.

Trade payables have been stable and we do not expect bigger changes here.

Working capital turnover in days



2007-2009 average cash flows vs. peers

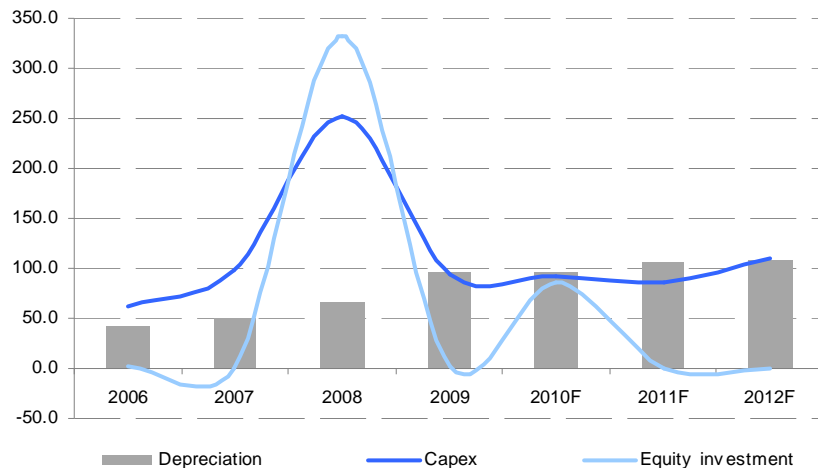


Source: NG2 SA, company reports, BRE Bank Securities

CAPEX

The Company made two important investments to date: (i) outlays on a distribution center and (ii) the acquisition of Artman S.A., both in 2008.

Depreciation and CAPEX (PLN m)



Source: LPP SA, BRE Bank Securities

LPP is planning to grow organically as there are no interesting brands available for purchase. In 2010, CAPEX will be lower than depreciation for the first time, and we expect this situation to be repeated in 2011 due to the limited availability of modern retail space. All in all, LPP wants to add some 36k m² of new retail space in 2011 at an estimated cost of up to PLN 65m (average CAPEX – PLN 1,800/m²).

Thanks to a reduction in inventory levels, warehouses are now used at ca. 20%. We do not expect more extensive investment in logistics, and potential investment in storage infrastructure is factored into our forecast of replacement CAPEX.

LPP vs. the Industry

At the moment, the clothing market has two leaders who can be considered paradigm retailers: the Spanish Inditex (Zara, Stradivarius, etc., ticker: ITX) and the Swedish Hennes&Mauritz (H&M, ticker: HMB). Both of them compete with LPP in the CEE region.

If we ignore the fact that they both have sales networks ca. 9 times the size of LPP's network, and sales ca. 20 times higher than LPP, they are not that different from it save for one aspect.

This difference lies in sales per square meter. This parameter is lower for LPP, which is hardly surprising given that (i) nearly 70% of sales continue to come from the Polish market, and (ii) H&M and Zara are more recognizable brands. Average sales per square meter in Poland are

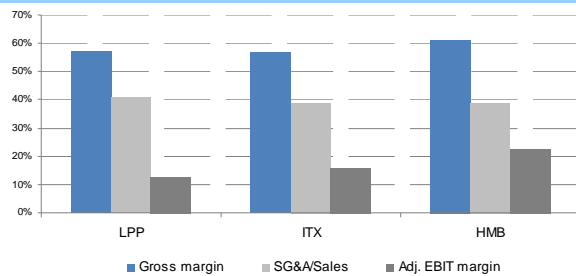
ca. 50% higher than abroad, and this factor will also continue to affect the Company's valuation in the upcoming years.

Relative to the two leaders, two issues merit attention: (i) margins and (ii) working capital.

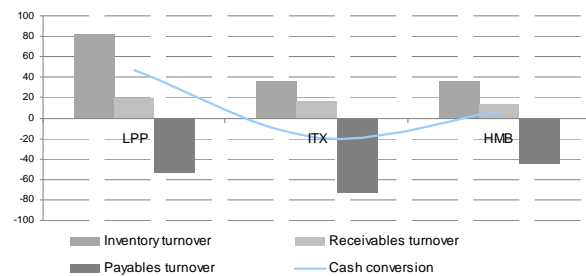
As far as margins are concerned, LPP's margins are close to the leaders' margins. ITX has a lower gross margin, but some of its products are manufactured in North Africa and in Europe, where the costs are higher than in the Far East. Given its much smaller size, LPP is doing quite well as far as its gross margin is concerned, but its higher SG&A expenses result in an EBIT margin which is some 3pp lower than ITX's and a staggering 10pp lower than HMB's. LPP has already carried out a considerable cost-restructuring effort, and we expect a higher EBIT margin in the following years, but we do not expect the Company to match benchmarks without a considerable increase in sales per square meter.

As far as working capital is concerned, the main difference between LPP and market leaders is inventory turnover. There is little difference in terms of receivables turnover, but this ratio is irrelevant for retailers, while payables turnover differs for the benchmarks themselves. Although in 2009 LPP reduced its inventory per square meter by some 50%, and our estimate of its payables turnover is 78 days, this is still two times the value for ITX and HMB. In our opinion, the only way this ratio can be improved on following last year's slashing of inventory levels is an increase in sales per square meter.

Margins



Working capital management in days



Source: Company reports, BRE Bank Securities
 * all multiples calculated on the basis of averages for 2007-2009

Valuation

Using a DCF model and relative valuation, we estimate the per-share value of LPP at PLN 2,300.

Summary	Weight	PLN
DCF Valuation	50%	2 239
Relative Valuation	50%	2 004
Price		2 121
9M target price		2 300

DCF Model Assumptions

- Growth rate after the forecast horizon = 2.5%
- Risk-free rate = 5.9% (based on yields on 10Y T-bonds).
- Beta = 1.0
- We assume that the Company's retail floor area will expand at ca. 10% per year within the forecast horizon, with more new space added outside of Poland.
- We assume that breakdown of sales by brand will remain at a level close to 2010.
- We assume that sales per square meter will grow faster abroad than in Poland.

**Relative valuation**

Polish companies	P/E			EV/EBITDA		
	2010F	2011F	2012F	2010F	2011F	2012F
NG2 SA	19.9	16.3	13.4	15.0	11.8	10.1
VISTULA GROUP SA	23.5	14.1	10.1	10.0	8.2	7.1
NFI EMPIK MEDIA & FASHION SA	24.6	20.0	15.5	11.0	9.9	8.3
Maximum	24.6	20.0	15.5	15.0	11.8	10.1
Minimum	19.9	14.1	10.1	10.0	8.2	7.1
Median	23.5	16.3	13.4	11.0	9.9	8.3
LPP	24.2	17.2	14.5	12.8	9.8	8.6
(premium / discount)	3.19%	5.45%	8.38%	15.68%	-1.22%	3.31%
Implied valuation						
Median	23.5	16.3	13.4	11.0	9.9	8.3
Multiple weight	50.00%			50.00%		
Year weight	33.30%	33.30%	33.30%	33.30%	33.30%	33.30%
Equity value per share (PLN)	2 004					

Foreign companies	P/E			EV/EBITDA		
	2010F	2011F	2012F	2010F	2011F	2012F
HENNES & MAURITZ AB-B SHS	20.6	19.5	17.1	13.1	12.3	10.9
INDITEX	29.7	22.6	20.3	15.4	12.1	11.0
GEOX SPA	17.4	19.2	16.3	6.8	7.2	6.3
BENETTON GROUP SPA	7.8	7.9	7.2	5.3	5.2	4.9
NEXT PLC	11.3	9.5	8.9	6.5	6.1	5.9
ESPRIT HOLDINGS LTD	10.9	11.8	10.3	7.0	7.4	6.3
IC COMPANY S A/S	22.3	17.4	13.7	12.6	9.8	8.1
KAPPAHL AB	9.8	9.8	8.1	7.1	6.8	6.1
LIFESTYLE INTL HLDGS LTD	27.5	23.9	21.8	20.2	17.6	15.4
MACY'S INC	19.4	13.0	11.6	6.7	5.8	5.7
MARKS & SPENCER GROUP PLC	13.3	11.7	10.9	6.9	6.4	5.9
BROWN SHOE COMPANY INC	38.1	13.7	10.7	8.2	6.6	5.6
FOOT LOCKER INC	35.0	18.2	16.0	10.0	7.2	6.5
Maximum	38.1	23.9	21.8	20.2	17.6	15.4
Minimum	7.8	7.9	7.2	5.3	5.2	4.9
Median	19.4	13.7	11.6	7.1	7.2	6.3
LPP	24.2	17.2	14.5	12.8	9.8	8.6
(premium / discount)	24.81%	25.93%	25.30%	79.81%	36.71%	36.74%
Implied valuation						
Median	19.4	13.7	11.6	7.1	7.2	6.3
Multiple weight		50.00%			50.00%	
Year weight	33.30%	33.30%	33.30%	33.30%	33.30%	33.30%
Equity value per share (PLN)	1 537					



DCF Model

(PLN m)	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2020+
Sales revenue	2 394	2 756	3 076	3 418	3 759	4 101	4 467	4 872	5 329	5 795	5 939,7
<i>change</i>	16.07%	15.14%	11.59%	11.11%	10.00%	9.10%	8.92%	9.05%	9.38%	8.75%	2.50%
EBITDA	398.1	448.5	487.6	532.6	578.4	623.8	672.4	727.6	790.9	854.1	886.9
<i>EBITDA margin</i>	16.63%	16.27%	15.85%	15.58%	15.39%	15.21%	15.05%	14.94%	14.84%	14.74%	14.93%
Depreciation	105.2	108.5	109.3	112.4	115.4	118.5	122.5	128.3	136.2	143.3	0.0
EBIT	292.9	340.0	378.3	420.2	463.0	505.3	549.9	599.3	654.7	710.8	728.6
<i>EBIT margin</i>	12.23%	12.34%	12.30%	12.30%	12.32%	12.32%	12.31%	12.30%	12.29%	12.27%	12.27%
Tax rate on EBIT	61.2	71.0	79.1	87.8	96.7	105.6	114.9	125.2	136.8	148.5	152.2
NOPLAT	231.7	269.0	299.3	332.4	366.2	399.7	435.0	474.1	517.9	562.3	576.4
CAPEX	-85.8	-110.6	-118.4	-124.2	-127.5	-130.2	-143.8	-154.4	-170.4	-158.3	-158.3
Working capital	-27.8	-30.4	-26.8	-28.6	-28.6	-28.7	-30.7	-33.9	-38.3	-39.1	-40.0
Equity investment	0	0	0	0	0	0	0	0	0	0	0
FCF	223.4	236.5	263.4	292.0	325.5	359.4	383.1	414.2	445.4	508.2	536.3
<i>WACC</i>	10.65%	10.77%	10.89%	10.90%	10.90%	10.90%	10.90%	10.90%	10.90%	10.90%	10.90%
<i>discount factor</i>	81.11%	73.23%	66.04%	59.54%	53.69%	48.42%	43.66%	39.37%	35.50%	35.50%	35.50%
PV FCF	200.5	191.8	192.9	192.8	193.8	192.9	185.5	180.8	175.3	180.4	

WACC	10.53%	10.65%	10.77%	10.89%	10.90%	10.90%	10.90%	10.90%	10.90%	10.90%	10.90%
Cost of debt	6.69%	6.69%	6.69%	6.69%	6.69%	6.69%	6.69%	6.69%	6.69%	6.69%	6.69%
Risk-free rate	5.90%	5.90%	5.90%	5.90%	5.90%	5.90%	5.90%	5.90%	5.90%	5.90%	5.90%
Risk premium	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Effective tax rate	20.89%	20.89%	20.89%	20.89%	20.89%	20.89%	20.89%	20.89%	20.89%	20.89%	20.89%
Net debt / EV	3.85%	2.61%	1.41%	0.09%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cost of equity	10.90%	10.90%	10.90%	10.90%	10.90%	10.90%	10.90%	10.90%	10.90%	10.90%	10.90%
Risk premium	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

FCF growth after the forecast horizon	2.50%	Sensitivity Analysis					
Terminal value	6 384.9	FCF growth in perpetuity					
Present value of terminal value (PV TV)	2 266.4	0.00%	1.00%	2.50%	3.00%	5.00%	
Present value of FCF in the forecast horizon	1 886.7	Beta=0.8	2 202	2 337	2 608	2 725	3 429
Enterprise value (EV)	4 153.1	Beta=0.9	2 182	2 411	2 509	3 078	3 038
Net debt	234.1	Beta=1	2 043	2 239	2 321	2 788	2 751
Minority interests	0.0	Beta=1.1	1 918	2 087	2 156	2 543	2 509
Equity value	3 919.0	Beta=1.2	1 729	1 806	1 951	2 011	2 334
Number of shares (millions)	1.8						
Equity value per share (PLN)	2 239.1						
Cost of equity (9M)	8.18%						
Target Price	2 422.1						

EV/EBITDA for the target price	11.2
P/E for the target price	19.5
TV to EV	55%

**Income Statement**

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F
Sales revenue	1 274.3	1 623.0	2 003.1	2 062.3	2 393.8	2 756.4	3 075.7
<i>change</i>	56.33%	27.36%	23.42%	2.96%	16.07%	15.14%	11.59%
COGS	521.4	658.0	945.2	920.4	1 040.2	1 198.2	1 337.3
Gross profit	753.0	965.0	1 057.9	1 141.9	1 353.6	1 558.1	1 738.4
<i>gross margin</i>	59.09%	59.46%	52.81%	55.37%	56.54%	56.53%	56.52%
Selling, general and administrative costs	567.5	730.7	862.5	923.0	1 060.7	1 218.1	1 360.1
Other net operating expenses	-10.2	-19.6	-14.1	-3.1	0.0	0.0	0.0
EBIT	175.3	214.8	181.3	215.8	292.9	340.0	378.3
<i>change</i>	254.69%	22.54%	-15.60%	19.06%	35.70%	16.09%	11.27%
<i>EBIT margin</i>	13.75%	13.23%	9.05%	10.47%	12.23%	12.34%	12.30%
Finance gains/losses	-9.4	-1.5	-42.0	-20.6	-18.0	-13.7	-9.9
Extraordinary gains/losses	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
Pre-tax profit	165.8	213.2	139.3	195.3	274.9	326.3	368.4
Tax	31.1	45.7	34.5	40.8	57.4	68.2	77.0
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	134.7	167.5	104.7	154.5	217.4	258.2	291.4
<i>change</i>	242.67%	24.31%	-37.48%	47.50%	40.76%	18.73%	12.89%
<i>margin</i>	10.57%	10.32%	5.23%	7.49%	9.08%	9.37%	9.47%
Depreciation	49.7	66.4	96.1	95.6	105.2	108.5	109.3
EBITDA	225.0	281.1	277.4	311.4	398.1	448.5	487.6
<i>change</i>	147.60%	24.94%	-1.32%	12.26%	27.83%	12.66%	8.72%
<i>EBITDA margin</i>	17.66%	17.32%	13.85%	15.10%	16.63%	16.27%	15.85%
Shares at year-end (millions)	1.7	1.7	1.7	1.8	1.8	1.8	1.8
EPS	79.1	99.0	60.7	88.3	124.2	147.5	166.5
CEPS	108.3	138.2	116.3	142.9	184.3	209.5	228.9
ROA	19.33%	11.74%	7.69%	10.69%	14.20%	15.81%	16.76%
ROE	33.22%	29.63%	15.27%	23.20%	28.68%	30.72%	31.58%

**Balance Sheet**

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F
ASSETS	697.2	1 426.2	1 361.6	1 444.9	1 531.3	1 632.5	1 738.9
Fixed assets	288.0	766.7	740.0	728.5	709.0	711.2	720.3
Property, plant and equipment	258.3	469.1	442.1	435.0	415.5	417.7	426.8
Intangible assets	12.2	14.0	12.8	11.7	11.7	11.7	11.7
Goodwill	0.0	261.1	261.1	261.1	261.1	261.1	261.1
Long-term receivables	3.6	1.8	1.1	1.0	1.0	1.0	1.0
Other fixed assets	13.9	20.8	22.9	19.7	19.7	19.7	19.7
Current assets	409.1	659.5	621.6	716.5	822.2	921.3	1 018.6
Inventories	289.5	462.6	322.8	438.1	508.6	585.6	653.4
Short-term receivables	60.8	100.9	93.4	119.4	138.6	159.6	178.1
Prepayments	5.3	6.1	7.9	7.7	7.7	7.7	7.7
Cash and cash equivalents	53.4	89.8	197.5	151.2	167.4	168.5	179.4
(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F
EQUITY AND LIABILITIES	697.2	1 426.2	1 361.6	1 444.9	1 531.3	1 632.5	1 738.9
Equity	405.7	565.2	685.6	665.7	758.2	840.4	922.9
Share capital	3.4	3.5	3.5	3.5	3.5	3.5	3.5
Other equity	402.3	561.7	682.1	662.2	754.7	836.9	919.4
Long-term liabilities	33.4	322.3	347.7	309.6	262.1	51.5	3.9
Loans	27.9	306.1	342.8	305.7	258.1	47.5	0.0
Other	5.5	16.2	4.9	3.9	3.9	3.9	3.9
Short-term liabilities	258.1	538.7	328.3	469.6	511.0	740.6	812.1
Loans	57.0	247.0	81.9	79.6	59.2	221.2	233.1
Trade creditors	190.3	279.1	240.1	384.8	446.6	514.2	573.8
Accruals	1.8	3.9	3.0	2.1	2.1	2.1	2.1
Other	9.0	8.7	3.2	3.1	3.1	3.1	3.1
Debt	84.9	553.1	424.7	385.3	317.4	268.8	233.1
Net debt	31.5	463.2	227.2	234.1	150.0	100.3	53.7
(Net debt / Equity)	7.75%	81.95%	33.15%	35.16%	19.78%	11.94%	5.82%
(Net debt / EBITDA)	0.1	1.6	0.8	0.8	0.4	0.2	0.1
BVPS	238.1	334.1	397.1	380.4	433.2	480.1	527.3

**Cash Flows**

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F
Cash flows from operating activities	173.0	195.4	318.1	172.1	312.9	349.9	383.9
Net profit	134.7	167.5	104.7	154.5	217.4	258.2	291.4
Depreciation	49.7	66.4	96.1	95.6	105.2	108.5	109.3
Working capital	-42.4	-67.3	128.3	-75.9	-27.8	-30.4	-26.8
Other	30.9	28.9	-11.0	-2.0	18.0	13.7	9.9
Cash flows from investing activities	-96.6	-577.2	-71.2	-158.4	-85.8	-110.6	-118.4
CAPEX	-98.3	-252.9	-94.8	-91.8	-85.8	-110.6	-118.4
Equity investment	-0.8	-331.8	-1.6	-86.2	0.0	0.0	0.0
Other	2.5	7.4	25.2	19.5	0.0	0.0	0.0
Cash flows from financing activities	-53.5	418.2	-139.3	-148.4	-211.0	-238.2	-254.5
Stock issue	0.0	37.0	0.0	0.0	0.0	0.0	0.0
Debt	-53.5	430.5	-138.8	-62.1	-86.0	-62.3	-45.6
Dividend (buy-back)	0.0	-48.7	0.0	-86.0	-125.0	-175.9	-208.9
Other	0.0	-0.5	-0.5	-0.3	0.0	0.0	0.0
Change in cash	22.9	36.4	107.7	-134.6	16.2	1.1	11.0
Cash at period-end	53.4	89.8	197.5	62.9	79.0	80.1	91.1
DPS (PLN)	0.0	0.0	0.0	49.1	71.4	100.5	119.4
FCF	18.2	-118.2	214.4	53.0	167.8	176.6	200.1
(CAPEX / Sales)	7.72%	15.58%	4.73%	4.45%	3.58%	4.01%	3.85%

Market multiples

	2007	2008	2009	2010F	2011F	2012F	2013F
P/E	27.8	22.4	35.8	24.2	17.2	14.5	12.9
P/CE	20.3	16.0	18.6	15.0	11.6	10.2	9.3
P/BV	9.2	6.6	5.5	5.6	4.9	4.5	4.1
P/S	2.9	2.3	1.9	1.8	1.6	1.4	1.2
FCF/EV	0.48%	-2.81%	5.40%	1.33%	4.31%	4.59%	5.27%
EV/EBITDA	16.8	15.0	14.3	12.8	9.8	8.6	7.8
EV/EBIT	21.5	19.6	21.9	18.4	13.3	11.3	10.0
EV/S	3.0	2.6	2.0	1.9	1.6	1.4	1.2
DYield	0.00%	0.00%	0.00%	2.30%	3.34%	4.70%	5.58%
Price (PLN)	2 140.0						
Shares at year-end (millions)	1.7	1.7	1.7	1.8	1.8	1.8	1.8
MC (PLN m)	3 645.5	3 620.6	3 694.7	3 745.6	3 745.6	3 745.6	3 745.6
Equity attributable to minority shareholders (PLN m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV (PLN m)	3 676.9	4 083.8	3 922.0	3 979.7	3 895.6	3 845.9	3 799.3

3 December 2010

Research Report
Retail
Poland

Current price	PLN 62.5
Target price	PLN 62.7
Market cap	PLN 2,400m
Free float	PLN 746m
Avg daily trading volume (3M)	PLN 1.39m

NG2

CCCC.WA; CCC PW

Hold

(Initial)

In-Line Earnings Deserve A Premium

NG2 is the leader of the Polish footwear market. The company is currently reorganizing its sales channels and investing in logistics and IT, which should support sales and profit growth in the future. NG2 is a defensive play – footwear retailers tend to perform better than the apparel industry amid slumping retail sales, generating stronger revenues in a down market. According to our forecasts, NG2 is trading at 16.4x FY2011E P/E, about 4% below the sector median. We are initiating coverage of NG2 with a hold rating and a nine-month target price of PLN 62.7 a share.

Shareholder Structure

Dariusz Miłek	40.00%
PP IM	8.52%
Leszek Gaczorek	7.84%
ING OFE	6.45%
PKO TFI	6.12%
Others	31.07%

Sector Outlook

Clothing and footwear retailers have been experiencing a slowdown over the past two years, and the recovery expected in the coming months will be a base effect rather than a result of a momentum shift in the industry.

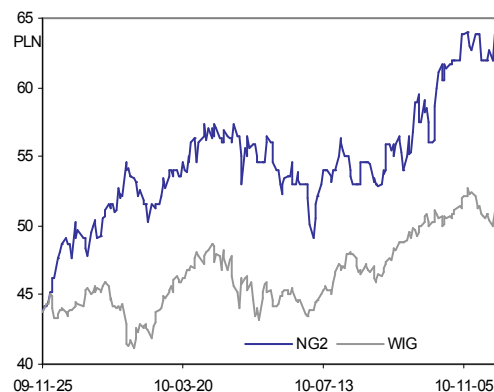
Company Profile

NG2 operates shoe stores in Poland and the Czech Republic. At the end of Q3 2010, the company's sales network consisted of 705 stores, including 80% owned stores and 20% franchise outlets. NG2 is the Polish market leader in terms of scale and sales volumes.

Important dates

1-3.12.10 - November 2010 sales figures

NG2 vs. WIG



Changes unlikely in 2010 consensus estimates

NG2 reported a year-to-date 2010 net profit of PLN 126m after November. Since December sales figures usually do not add to the full-year results, we do not expect upward revisions in the 2010 consensus earnings estimates for the company. NG2's 2010 net profit target as announced at the beginning of the year is PLN 120m, and it is as good as delivered already, though thanks partly to a one-time PLN 18m gain booked in Q2 2010.

Strong 2011-2012 outlook

NG2 aims to achieve 25% sales growth and a steady 11% net margin in the years 2011 and 2012, while increasing market share from 12% to 20%. The sales objectives seem somewhat far-fetched to us, but the profit targets should be met. Future revenues will be supported by ongoing investment in logistics and IT systems. This year, NG2 has been focusing on improving the performance of existing stores rather than on new openings, and the elimination of unprofitable locations, and brand swaps, are going to support future earnings.

Lack of long-term strategy

NG2's mistake is a lack of a growth strategy beyond 2012. An expanding market share suggests that, once the Polish market becomes saturated with NG2 stores, revenue growth at double-digit rates will no longer be possible. One way to prevent this slowdown may be the company's tentative plans to expand outside of Poland by building franchises in Russia and Ukraine. More details are upcoming in a few weeks.

Trading below sector averages

NG2 is trading at 16.4 times estimated 2011 price-to-earnings ratio, 4% below sector averages. However, on EV/EBITDA, it is valued at a 14% premium to comparable retailers. On the one hand, NG2 deserves a premium as a defensive investment and an uncontested market leader, but, on the other hand, it also deserves a discount due to lower cash flows.

(PLN m)	2008	2009	2010F	2011F	2012F
Revenue	754.3	922.4	1 028.4	1 199.0	1 356.5
EBIT	131.9	108.2	141.4	189.1	222.7
<i>EBIT margin</i>	17.5%	11.7%	13.8%	15.8%	16.4%
EBITDA	144.9	126.5	163.0	213.2	252.6
Net income	102.5	83.5	126.5	146.0	174.8
DPS	0.00	1.00	1.01	1.52	2.89
P/E	23.4	28.8	19.0	16.4	13.7
P/CE	20.8	23.6	16.2	14.1	11.7
P/BV	8.1	7.1	6.1	5.0	4.4
EV/EBITDA	17.2	19.4	15.2	11.6	9.7
DYield	0.0%	1.6%	1.6%	2.4%	4.6%

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Overview

NG2 is an ideal stock to have in the portfolio during times of economic slowdown and reduced consumer spending. Footwear is a defensive business, offering low- and medium-end choices to the more price-conscious consumers, thus achieving sales growth while other retailers struggle.

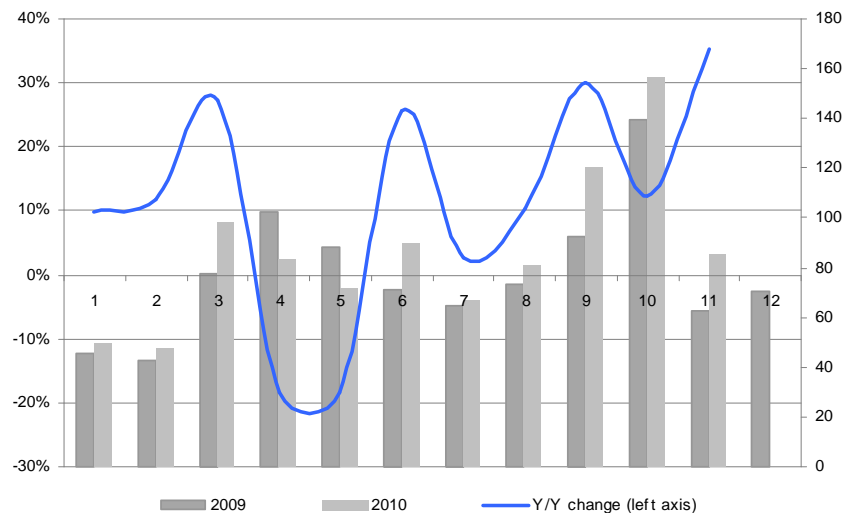
NG2 sells about 15 million pairs of shoes per year at an average price of PLN 50-60 a pair. Its market share (both in volume and value terms) is approximately 12% (Deichmann, the second largest shoe retailer, has half that). NG2 is under much less competitive pressure than clothing retailers who have to compete with a wide range of strong international brands.

NG2 is currently trading at 16.4x 2011 P/E, slightly below the sector average, and at 11.6x 2011 EV/EBITDA, marking a 14% premium to the median for WSE-listed retailers. We believe the premium is deserved amid a retail sales slowdown, for the following reasons: (i) a defensive business model, (ii) a strong balance sheet, high borrowing capacity, and cash resources sufficient to finance dividend payments and further growth, and (iii) a lack of competition in the local footwear market (by contrast, the Polish clothing market is very fragmented). On the other hand, NG2 deserves a discount for its low operating cash flows.

In the fourth quarter, which is typically the best sales season for retailers, NG2 is expected to deliver strong but in-line earnings (the company is rarely off the mark when it comes to matching quarterly results with analysts' expectations, and we are wondering whether this consistent reliability is not worthy of a premium). Not all of the sales losses incurred in H1 2010 (following the presidential plane crash in April, shopping centers were closed during two consecutive weekends as a sign of mourning, and May witnessed heavy rains and floods) are recoverable, but the company's 2010 net-profit target of PLN 120m will be achieved.

We predict that NG2 will generate 18% year-on-year sales growth in Q4 2010.

Monthly sales revenues (PLN m)



Source: NG2 SA

20% Market Share Goal

NG2 has an ambition to increase its market share from 12% to 20% in two years' time. A 20% share in a market estimated at PLN 8.0 billion (130 million pairs) would be equivalent to a 2012 revenue of PLN 1.6bn. At a cost of PLN 1 billion, to achieve this target, NG2 would have to increase sales at an annual rate of 26% – an impossible challenge in our opinion.

While growing market share, NG2 intends to continue generating high margins and returns on equity. A net margin target of 11% set for 2012 is feasible, especially after this year's efforts focused on eliminating loss-making stores (new openings have been hampered by a lower supply of retail spaces). High ROE is to be achieved through credit-financed expansion and dividend payments.



New Markets

NG2's potential for expansion in the domestic market is limited by its already notable presence across Poland and a lack of suitable acquisition targets. As its store base reaches saturation point, the company is about to venture outside Poland by establishing franchises in Russia and the Ukraine. These two CEE markets offer the greatest growth opportunities in our opinion, being the only two countries where fashion retailer LPP has seen rising sales in recent months. Based on previous experiences in the Czech Republic, NG2 decided to develop the franchise model in international markets rather than opening company-owned stores. According to the Management, the first franchise locations in Russia and the Ukraine may be opened by spring 2011.

New Logistics Center

NG2's future sales will be supported by improved logistics at a new distribution center being built in Polkowice at an estimated cost of PLN 120.0m, scheduled for completion in 2011. The new facilities will help reduce the employee headcount and eliminate storage space rental fees, and the resulting savings should materialize in 2012. The state-of-the-art handling and shipping facilities will prevent bottlenecks such as those experienced in 2008, when inefficient logistics prevented NG2 from delivering its sales targets.

Q3 2010 Results

NG2 increased sales 16.7% over Q3 2009, and improved the gross margin by 2.7 ppts, in Q3 2010, thanks to lower sales volumes of marked-down footwear during the shorter summer sales period of July and August, and to price hikes on new collections introduced in September. SG&A expenses increased 21.7%, fueled by the company's stock option plan and intensified advertising. Thanks to a y/y drop from PLN 9.2m to PLN 0.5m in other operating expenses, the operating margin expanded by 4.9 ppts. Q3 2010 accounts receivable surged 25.3% vs. Q309. Advances paid toward fourth-quarter supplies weakened the Q3 2010 operating cash flows.

Overview of quarterly results

(PLN m)	3Q 2010	3Q 2009	change	1-3Q 2010	1-3Q 2009	change
Revenue	267.9	229.6	16.7%	708.2	651.8	8.6%
Gross profit	142.5	115.8	23.0%	383.8	331.3	15.9%
<i>gross margin (%)</i>	53.2%	50.4%	2.7p.p.	54.2%	50.8%	3.4p.p.
SG&A expenses	110.7	91.0	21.7%	303.7	269.5	12.7%
Profit on sales	31.7	24.8	28.0%	80.2	61.8	29.7%
<i>margin on sales</i>	11.8%	10.8%	1p.p.	11.3%	9.5%	1.8p.p.
Operating profit	31.2	15.6	100.2%	79.0	62.3	26.8%
<i>Operating margin</i>	11.6%	6.8%	4.9p.p.	11.2%	9.6%	1.6p.p.
Net profit	23.3	11.1	110.9%	76.1	46.6	63.4%
<i>Net margin</i>	8.7%	4.8%	80.7%	10.7%	7.1%	50.4%

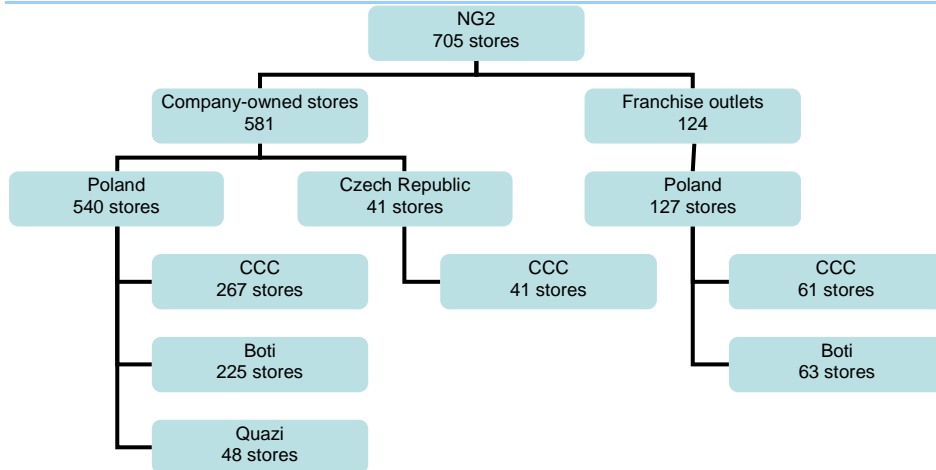
Source: NG2 SA, BRE Bank Securities

LPP's accumulated profit for the nine months ended 30 September was PLN 76.1m. The monthly sales in October showed a 12.4% increase relative to the same month a year ago, while like-for-like sales contracted 5% against the record monthly sales generated in October 2009. We expect NG2 to deliver its net-earnings target of ca. PLN 120.0m in 2010.

Business Profile

NG2 sells footwear at corporate and franchise stores in Poland and the Czech Republic, grouped into three chains: (i) CCC (349 locations), (ii) Boti (288 locations), and (iii) Quazi (48 locations). At 30 September 2010, 82% of the stores were company owned, and the rest were franchise locations, and 664 out of the total 705 outlets were based in Poland (41 in the Czech Republic).

NG2's Organizational Chart

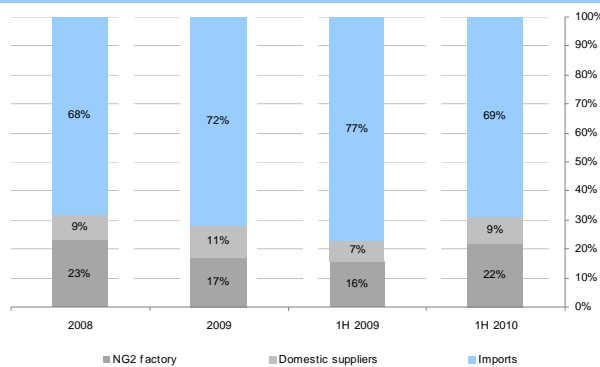


Source: NG2 SA

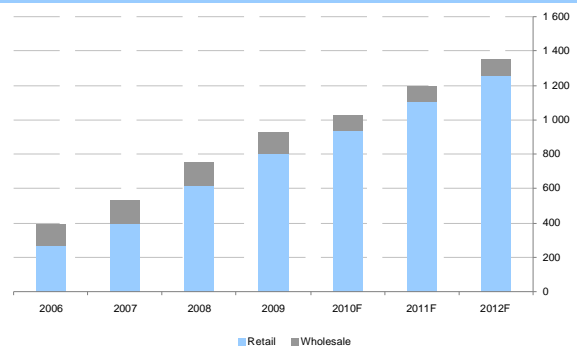
NG2 is committed to expanding its retail space ownership, and, unlike most other retailers, it took advantage of the recent sales slowdown to acquire franchise outlets and incorporate them into its own sales network.

NG2 does not design footwear. The company imports ready-made merchandise from China (mainly women's synthetic leather shoes), and India (men's shoes), and produces women's leather footwear in its own factory in Poland. Greater diversification of the supply sources is hard to achieve because of a lack of the necessary manufacturing facilities in other Asian countries.

Footwear supplies by source



Wholesale and retail as pct of revenues (PLN m)



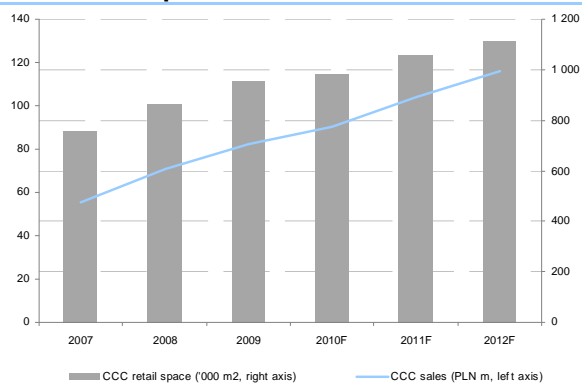
Source: NG2 SA, BRE Bank Securities

Sales Structure

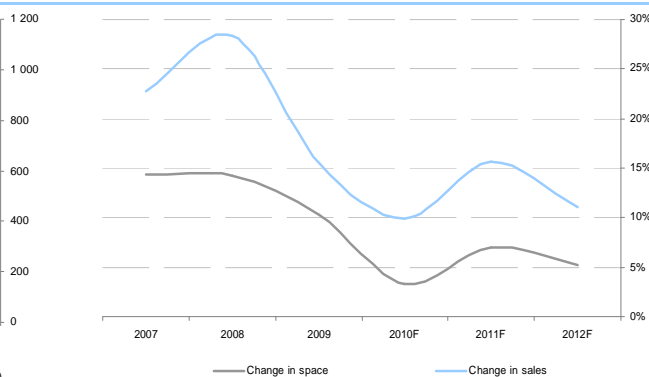
As a result of franchise acquisitions, retail sales generated by corporate CCC stores in Poland and the Czech Republic and by Boti and Quazi outlets in Poland now account for nearly 90% of NG2's total sales. Wholesale footwear is supplied mainly to the CCC and Boti franchises. NG2's goal is to have 1000 stores in Poland and 70 in the Czech Republic. By the end of 2010, the company will have opened 61 new locations (41 net of closings).

CCC is NG2's largest store chain (371 owned and franchise locations in Poland and Czech Republic) offering mid-market shoe brands. Going forward, the chain will no longer be expanded, and some locations will be closed or turned into Boti franchise outlets. An ongoing brand image change campaign in the Czech Republic is expected to contribute to sales growth at the CCC stores there. Year-to-date like-for-like sales at CCC are down 4.6% in Poland and 3.0% in the Czech Republic compared to the same period in 2009 (the slowdown in Polish sales was caused by the April mourning period and May floods).

CCC chain expansion



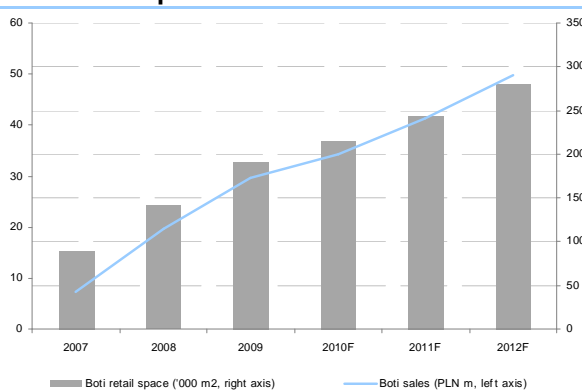
CCC's sales effectiveness



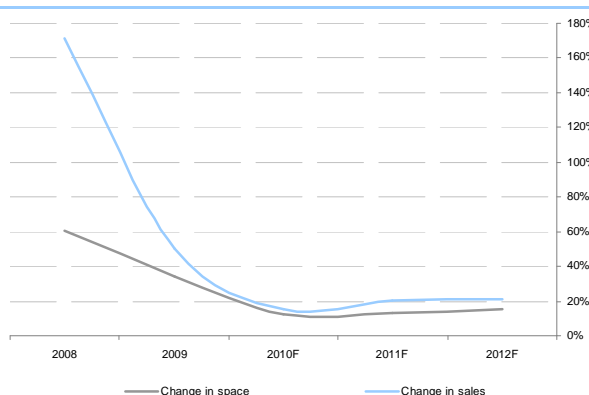
Source: NG2 SA, BRE Bank Securities

NG2's value brand Boti was initially established to compete with street markets, but now Boti stores are also being opened in shopping centers. At 30 September 2010, the chain consisted of 288 corporate and franchise stores. In the future, NG2 plans to increase the average size of Boti stores from ca. 120 to 150-170 square meters. Boti's YTD LFL sales are 6.7% lower than in the same period in 2009 because of weaker sales generated in April and May.

Boti chain expansion



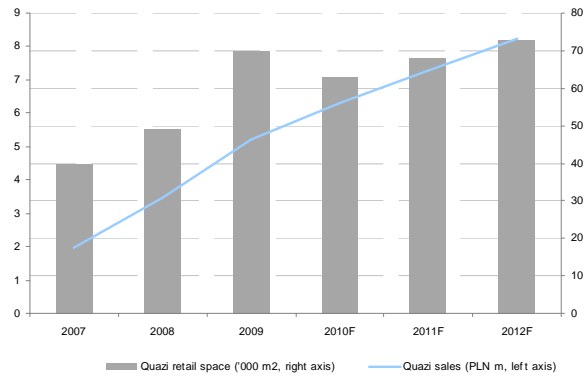
Boti sales effectiveness



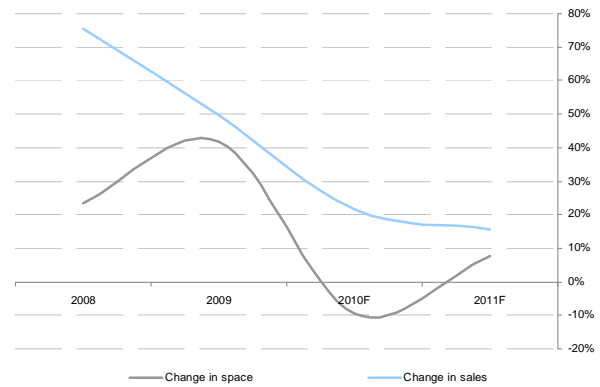
Source: NG2 SA, BRE Bank Securities

Quazi is NG2's premium footwear retailer. After the original concept of offering high-priced Italian shoes failed to deliver the expected revenues and gross margins, with Quazi outlets seeing a lot of returns, NG2 decided to take the chain more "down market" with leather and synthetic-leather footwear. Since the change, the chain's sales and profitability have been on the rise. In 2009, the price of an average pair of shoes offered by Quazi was reduced by 14%, while other retailers hiked prices by an average 10%. NG2 is downsizing the size of an average Quazi store from 170 to 120 square meters. Thanks to reduced space and a low 2009 base, Quazi's YTD LFL sales showed 9.0% year-on-year growth at 31 October 2010.

Quazi chain expansion



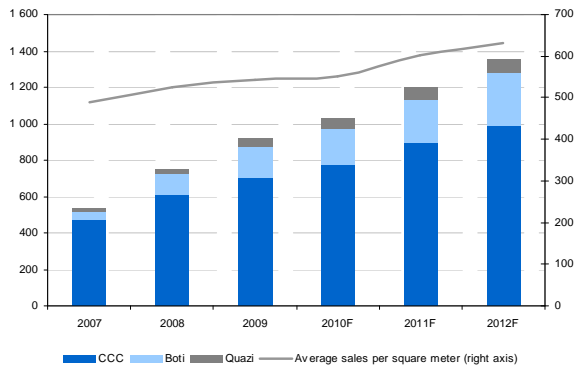
Quazi sales effectiveness



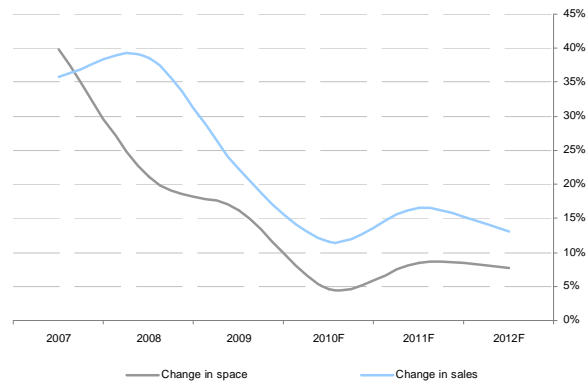
Source: NG2 SA, BRE Bank Securities

An ideal situation for a retailer is when sales growth is faster than retail space growth (e.g. as seen by NG2 in 2008). NG2 was less affected by slower consumer spending than other retailers, and we predict that, after a weak 2010 impacted by one-time losses, the company will be reporting per-square-meter sales growth again in 2011.

NG2 sales by chain



NG2's sales effectiveness

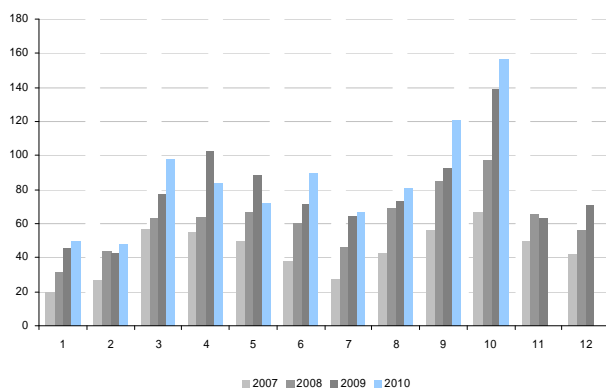


Source: NG2 SA, BRE Bank Securities

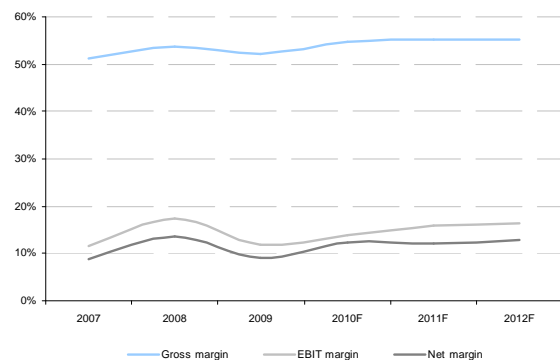
Seasonality

Footwear and clothing retailers are subject to seasonal sales shifts. Gross margins are typically higher in the second quarter than in the first thanks to regular sales of spring/summer collections. The fourth quarter is the peak sales and profit period, driven by winter collections, though in case of shoe sales, the seasonal patterns may be overridden by the weather.

Sales seasonality (monthly sales in PLN m)



Profitability



Source: NG2 SA, BRE Bank Securities

Profitability

Limited Import Sources

NG2 depends on China for supplies of synthetic leather footwear because other countries do not have the necessary manufacturing facilities. As a result, the company's profitability is influenced by China's economic growth. It is important to note that NG2 has the ability to transfer higher costs of its merchandise onto customers – given that the average pair of shoes at its stores costs a very affordable PLN 55, a 10% price hike is virtually unnoticeable for the average buyer. The most recent price hike was made in September.

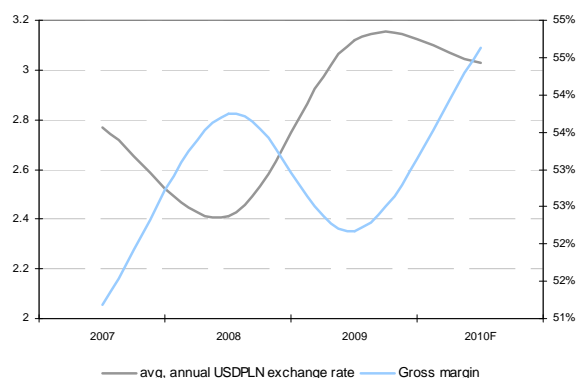
USD/PLN Trends, Markdown Sales and Gross Margins

Because NG2 pays for the shoes imported from China in US dollars (imports from India are settled in euros), its gross margins are very sensitive to USD/PLN exchange rates as well as the yuan's performance relative to leading world currencies. Margins are also shaped by markdown sales seasons and the behavior of competition, most notably Deichmann. Generally speaking (see chart below), the weaker the zloty relative to the dollar, the lower NG2's gross margins.

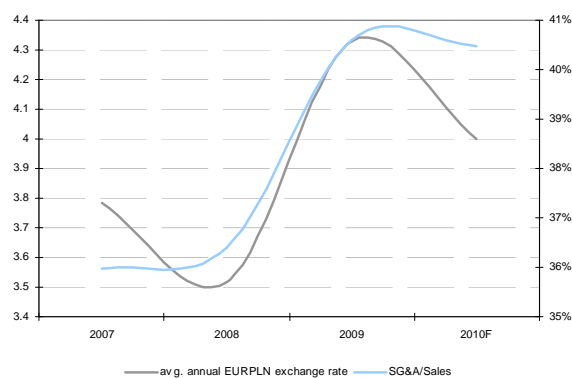
EUR/PLN Trends and Operating Margins

Because Polish shopping centers collect rent in euros, the EUR/PLN exchange rate is a variable which has a significant impact on NG2's operating profits. Rental fees constitute 40% of total costs for the Boti chain (which still pays rent for most of its outlets in zlotys), and 50% for CCC and Quazi. Rising EUR/PLN exchange rates entail higher selling costs per square meters and lower operating margins.

USD/PLN vs. gross margin



EUR/PLN vs. SG&A expenses



Source: NG2 SA, NBP, BRE Bank Securities

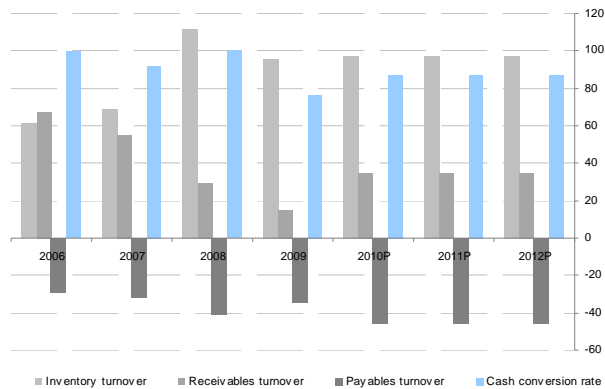
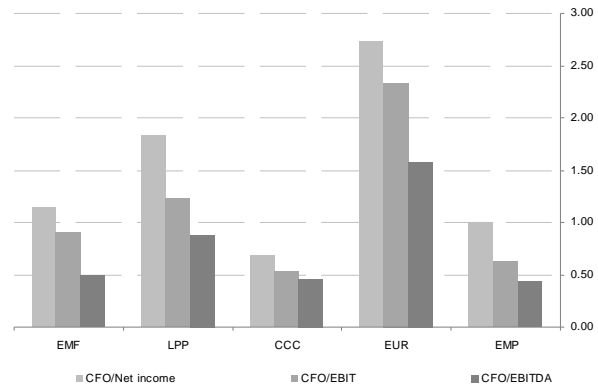
Balance Sheet

NG2 has safe debt levels, with interest debt accounting for 24% of liabilities and representing 1.0x of expected 2010 EBITDA at 30 September 2010. The company's strategy is to finance operations with bank credit, and use its cash resources to pay dividends. Our forecasts for NG2 assume increasing dividend payments achieved at a steady EBITDA-to-Interest coverage ratio.

Working Capital

NG2's inventory and receivables turnover ratios are in line with industry averages, but its payables turns are two times faster than LPP's, resulting in weaker cash flows. Operating cash flows are typically lower than profits – 2009 was an exception when an inventory sell-off drove OCF higher, but this had a negative impact on sales and is not likely to occur again.

One area where there is room for improvement are NG2's inventory turns. An inventory cycle of 100 days is too long compared to market leaders, but this will probably be resolved by the new logistics center. As for accounts payable, we believe that the current turnover ratios are the best that the company can negotiate with suppliers.

**Working capital cycle (days)****2007-2009 CF averages – NG2 vs. competition**

Source: company reports, BRE Bank Securities

Capital Investment

NG2's new logistics center in Polkowice, whose construction started in 2010, will cost an estimated PLN 120.0m. A portion of these costs are subsidized by the EU (eligible expenses are PLN 97m, and the subsidy amount is PLN 38.0m), and a PLN 30.0m portion is financed with a bank loan. In addition, NG2 plans to invest about PLN 7.0m in a new computer system.

Aside from investment in logistics and technology, NG2 is expected to open over 10,000 square meters of retail spaces in 2010 and 14,200 sqm in 2011 (13,400 sqm net). The original space expansion plan for 2010 had to be downsized due to delays and a more selective approach when choosing locations.

Stock Option Plan

NG2 has offered its Management Board and top executives incentives in the form of E stock, to be issued on the condition that accumulated earnings for the period from 2010 through 2012 are no less than PLN 450m. The quarterly costs of the incentive scheme are about PLN 1.5m.

Valuation

Based on DCF analysis and relative valuation, we set the nine-month price target on NG2 at PLN 62.7 per share.

Valuation Summary	Weight	PLN
DCF Valuation	50%	57.0
Relative Valuation	50%	58.9
Price		58.0
9M target price		62.7

DCF Model Assumptions

- FCF growth rate beyond the forecast period = 2.5%.
- Risk-free rate is 5.9% (10Y T-bond yield).
- Beta = 1.0.
- We assume that NG2 will be expanding its retail space at a rate of 5.8% annually after the forecast period.

**Relative valuation**

Polish peers	P/E			EV/EBITDA		
	2010F	2011F	2012F	2010F	2011F	2012F
LPP SA	23.8	17.9	14.8	12.9	10.8	9.3
VISTULA GROUP SA	23.5	14.1	10.1	10.0	8.2	7.1
NFI EMPIK MEDIA & FASHION SA	24.6	20.0	15.5	11.0	9.9	8.3
Maximum	24.6	20.0	15.5	12.9	10.8	9.3
Minimum	23.5	14.1	10.1	10.0	8.2	7.1
Median	23.8	17.9	14.8	11.0	9.9	8.3
CCC	19.0	16.4	13.7	15.2	11.6	9.7
(premium / discount)	-20.13%	-8.33%	-7.26%	37.96%	17.41%	16.78%
Implied value						
Median	23.8	17.9	14.8	11.0	9.9	8.3
Multiple weight		50.00%			50.00%	
Year weight	33.30%	33.30%	33.30%	33.30%	33.30%	33.30%
Value per share (PLN)	58.9					

Foreign peers	P/E			EV/EBITDA		
	2010F	2011F	2012F	2010F	2011F	2012F
HENNES & MAURITZ AB-B SHS	20.6	19.5	17.1	13.1	12.3	10.9
INDITEX	29.7	22.6	20.3	15.4	12.1	11.0
GEOX SPA	17.4	19.2	16.3	6.8	7.2	6.3
BENETTON GROUP SPA	7.8	7.9	7.2	5.3	5.2	4.9
NEXT PLC	11.3	9.5	8.9	6.5	6.1	5.9
ESPRIT HOLDINGS LTD	10.9	11.8	10.3	7.0	7.4	6.3
IC COMPANY S A/S	22.3	17.4	13.7	12.6	9.8	8.1
KAPPAHL AB	9.8	9.8	8.1	7.1	6.8	6.1
LIFESTYLE INTL HLDGS LTD	27.5	23.9	21.8	20.2	17.6	15.4
MACY'S INC	19.4	13.0	11.6	6.7	5.8	5.7
MARKS & SPENCER GROUP PLC	13.3	11.7	10.9	6.9	6.4	5.9
BROWN SHOE COMPANY INC	38.1	13.7	10.7	8.2	6.6	5.6
FOOT LOCKER INC	35.0	18.2	16.0	10.0	7.2	6.5
Maximum	38.1	23.9	21.8	20.2	17.6	15.4
Minimum	7.8	7.9	7.2	5.3	5.2	4.9
Median	19.4	13.7	11.6	7.1	7.2	6.3
CCC	19.0	16.4	13.7	15.2	11.6	9.7
(premium / discount)	-2.35%	20.19%	18.58%	114.44%	62.49%	54.56%
Implied value						
Median	19.4	13.7	11.6	7.1	7.2	6.3
Multiple weight		50.00%			50.00%	
Year weight	33.30%	33.30%	33.30%	33.30%	33.30%	33.30%
Value per share (PLN)	51.6					



DCF Model

(PLN m)	2011P	2012P	2013P	2014P	2015P	2016P	2017P	2018P	2019P	2020P	2020+
Sales revenue	1 199	1 356	1 488	1 628	1 776	1 922	2 063	2 205	2 349	2 498	2 560
<i>change</i>	16.59%	13.13%	9.68%	9.44%	9.09%	8.18%	7.38%	6.88%	6.50%	6.35%	2.50%
EBITDA	213.2	252.6	276.3	300.9	324.8	348.5	370.0	393.0	416.5	441.2	452.5
<i>EBITDA margin</i>	17.78%	18.62%	18.57%	18.48%	18.28%	18.13%	17.93%	17.82%	17.73%	17.66%	17.67%
D&A expenses	24.1	30.0	31.6	33.2	32.9	32.7	31.0	30.9	30.9	31.1	33.6
EBIT*	189.1	221.3	243.3	266.4	290.5	314.4	337.6	360.7	384.2	408.7	418.9
<i>EBIT margin</i>	15.77%	16.32%	16.36%	16.36%	16.36%	16.36%	16.36%	16.36%	16.36%	16.36%	16.36%
EBIT tax	36.8	42.9	47.0	51.4	56.0	60.6	65.0	69.3	73.8	78.5	79.6
NOPLAT	152.4	178.5	196.3	214.9	234.5	253.9	272.7	291.4	310.4	330.2	339.3
CAPEX	-67.6	-23.4	-25.5	-28.5	-30.0	-28.9	-29.9	-30.1	-31.8	-33.6	-33.6
Working capital	-40.8	-37.7	-31.4	-33.6	-35.4	-34.8	-33.9	-34.0	-34.3	-35.7	-36.6
Capital investment	0	0	0	0	0	0	0	0	0	0	0
FCF	68.0	147.4	170.9	186.0	202.0	222.9	239.9	258.2	275.1	292.1	302.7
<i>WACC</i>	10.74%	10.80%	10.83%	10.87%	10.90%	10.90%	10.90%	10.90%	10.90%	10.90%	10.90%
<i>discount factor</i>	89.47%	80.75%	72.85%	65.71%	59.26%	53.43%	48.18%	43.44%	39.17%	35.32%	35.32%
PV FCF	60.9	119.0	124.5	122.3	119.7	119.1	115.6	112.2	107.8	103.2	

WACC	10.74%	10.80%	10.83%	10.87%	10.90%	10.90%	10.90%	10.90%	10.90%	10.90%
Cost of debt	7.44%	7.44%	7.44%	7.44%	7.44%	7.44%	7.44%	7.44%	7.44%	7.44%
Risk-free rate	5.90%	5.90%	5.90%	5.90%	5.90%	5.90%	5.90%	5.90%	5.90%	5.90%
Risk premium	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Effective tax rate	19.44%	19.37%	19.33%	19.30%	19.28%	19.26%	19.24%	19.22%	19.21%	19.20%
Net debt / EV	3.23%	1.99%	1.34%	0.69%	0.04%	0.00%	0.00%	0.00%	0.00%	0.00%
Cost of equity	10.90%	10.90%	10.90%	10.90%	10.90%	10.90%	10.90%	10.90%	10.90%	10.90%
Risk premium	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

FCF growth after the forecast horizon	2.50%	Sensitivity Analysis					
Terminal value	3 603.9	FCF growth in perpetuity					
Present value of terminal value (PV TV)	1 273.0	1.00%	2.00%	2.50%	3.00%	4.00%	
Present value of FCF in the forecast horizon	1 001.0	Beta=0.8	59.4	63.7	66.4	69.3	76.8
Equity value	2 274.0	Beta=0.9	55.5	59.2	61.4	63.9	70.0
Net debt	83.6	Beta=1	52.0	55.2	57.0	59.1	64.2
Minority interests	0.0	Beta=1.1	48.9	51.6	53.2	55.0	59.3
Equity value	2 190.4	Beta=1.2	46.1	48.4	49.8	51.3	54.9
Number of shares (millions)	2.50%						
Value per share (PLN)	57.0						
9M cost of equity	8.18%						
Target Price	61.7						

EV/EBITDA ('11) for the target price	11.5	11.5
P/E ('11) for the target price	16.2	16.2
TV to EV	56%	56%

*adjusted

**Income Statement**

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F
Sales revenue	544.5	754.3	922.4	1 028.4	1 199.0	1 356.5	1 487.8
<i>change</i>	35.83%	38.53%	22.29%	11.49%	16.59%	13.13%	9.68%
COGS	265.8	348.9	441.2	466.6	538.2	607.1	664.9
Gross profit	278.7	405.3	481.2	561.8	660.9	749.4	822.9
<i>gross margin</i>	51.18%	53.74%	52.17%	54.63%	55.12%	55.25%	55.31%
SG&A expenses	195.9	274.6	374.6	416.3	471.7	528.1	579.6
Other net operating income/expenses	-19.6	1.2	1.5	-4.1	0.0	1.4	1.4
EBIT	63.2	131.9	108.2	141.4	189.1	222.7	244.7
<i>change</i>	1.72%	108.58%	-18.01%	30.74%	33.75%	17.73%	9.89%
<i>EBIT margin</i>	11.62%	17.49%	11.73%	13.75%	15.77%	16.42%	16.45%
Financial activity	-5.0	-9.7	-8.5	-9.4	-7.9	-5.9	-5.3
Extraordinary gains/losses	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
Pre-tax profit	58.3	122.2	99.7	132.0	181.2	216.8	239.4
Tax	10.6	19.7	16.1	5.5	35.2	42.0	46.3
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	47.7	102.5	83.5	126.5	146.0	174.8	193.1
<i>change</i>	-10.46%	115.01%	-18.55%	51.59%	15.38%	19.74%	10.51%
<i>margin</i>	8.75%	13.58%	9.05%	12.30%	12.17%	12.88%	12.98%
D&A expenses	9.1	13.0	18.3	21.6	24.1	30.0	31.6
EBITDA	72.4	144.9	126.5	163.0	213.2	252.6	276.3
<i>change</i>	7.31%	100.25%	-12.72%	28.82%	30.85%	18.48%	9.35%
<i>EBITDA margin</i>	13.29%	19.22%	13.71%	15.85%	17.78%	18.62%	18.57%
Shares at year-end (millions)	38.4	38.4	38.4	38.4	38.4	38.4	38.4
EPS	1.2	2.7	2.2	3.3	3.8	4.6	5.0
CEPS	1.5	3.0	2.7	3.9	4.4	5.3	5.9
ROA	14.59%	20.84%	15.14%	18.24%	18.22%	20.36%	21.34%
ROE	24.71%	34.71%	24.53%	32.11%	30.30%	32.04%	32.83%

**Balance Sheet**

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F
ASSETS	326.6	491.6	551.1	693.5	801.3	858.3	905.3
Fixed assets	131.1	184.5	209.9	272.7	316.2	309.6	303.5
Property, plant and equipment	127.1	177.2	202.6	243.3	279.8	274.6	269.9
Intangible assets	0.3	1.3	1.1	0.9	7.9	6.5	5.1
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term receivables	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Other fixed assets	3.5	5.9	6.1	28.3	28.3	28.3	28.3
Current assets	195.4	307.1	341.2	420.8	485.1	548.7	601.7
Inventories	102.3	230.5	242.7	275.5	321.2	363.4	398.6
Short-term receivables	82.3	61.3	37.6	98.7	115.1	130.2	142.8
Accruals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents	10.9	15.4	60.9	46.7	48.8	55.1	60.4

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F
EQUITY AND LIABILITIES	326.6	491.6	551.1	693.5	801.3	858.3	905.3
Equity	192.8	295.2	340.2	393.9	481.7	545.5	588.4
Share capital	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Other equity	189.0	291.3	336.4	390.1	477.9	541.7	584.5
Reserves	4.3	2.1	1.8	2.3	2.3	2.3	2.3
Long-term liabilities	0.2	13.7	81.2	35.2	32.0	25.6	19.2
Loans	0.0	12.5	80.0	35.0	31.8	25.5	19.1
Other	0.2	1.2	1.2	0.2	0.2	0.2	0.2
Short-term liabilities	129.2	180.6	127.9	223.4	246.6	247.4	259.3
Loans	81.8	95.9	40.0	95.3	97.2	78.5	74.0
Trade creditors	47.4	84.7	88.0	128.1	149.3	168.9	185.3
Accruals	0.0	0.0	0.0	38.8	38.8	37.4	36.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt	81.8	108.4	120.0	130.3	129.1	104.0	93.1
Net debt	70.9	93.0	59.1	83.6	80.2	48.8	32.7
(Net debt / Equity)	36.77%	31.52%	17.37%	21.23%	16.65%	8.95%	5.56%
(Net debt / EBITDA)	1.0	0.6	0.5	0.5	0.4	0.2	0.1
BVPS	5.0	7.7	8.9	10.3	12.5	14.2	15.3

**Cash Flows**

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F
Operating cash flows	30.5	43.6	124.7	96.2	137.2	171.6	197.2
Net profit	47.7	102.5	83.6	126.5	146.0	174.8	193.1
D&A expenses	9.1	13.0	18.3	21.6	24.1	30.0	31.6
Working capital	-27.1	-82.4	21.7	-72.8	-40.8	-37.7	-31.4
Other	0.8	10.5	1.0	20.9	7.9	4.6	3.9
Cash flows from investing activities	-49.2	-57.7	-44.8	-70.2	-67.6	-23.4	-25.5
CAPEX	-38.8	-58.1	-46.4	-70.8	-67.6	-23.4	-25.5
Capital investment	-10.7	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.2	0.4	1.5	0.6	0.0	0.0	0.0
Cash flows from financing activities	20.7	18.6	-34.3	-40.2	-67.4	-142.0	-166.4
Stock issue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt	59.2	18.7	4.3	-1.3	-9.2	-31.0	-16.1
Dividend (buy-back)	-38.4	0.0	-38.4	-38.8	-58.2	-110.9	-150.3
Other	-0.1	-0.1	-0.2	-0.1	0.0	0.0	0.0
Change in cash	2.0	4.5	45.5	-14.2	2.2	6.3	5.3
Cash at period-end	10.9	15.4	60.9	46.7	48.8	55.1	60.4
DPS (PLN)	1.0	0.0	1.0	1.0	1.5	2.9	3.9
FCF	-18.1	-44.5	61.4	-22.7	33.9	110.5	131.1
(CAPEX / Sales)	7.12%	7.70%	5.03%	6.89%	5.64%	1.72%	1.72%

Multiples

	2007	2008	2009	2010F	2011F	2012F	2013F
P/E	50.4	23.4	28.8	19.0	16.4	13.7	12.4
P/CE	42.3	20.8	23.6	16.2	14.1	11.7	10.7
P/BV	12.4	8.1	7.1	6.1	5.0	4.4	4.1
P/S	4.4	3.2	2.6	2.3	2.0	1.8	1.6
FCF/EV	-0.73%	-1.79%	2.50%	-0.91%	1.37%	4.51%	5.39%
EV/EBITDA	34.1	17.2	19.4	15.2	11.6	9.7	8.8
EV/EBIT	39.1	18.9	22.7	17.6	13.1	11.0	9.9
EV/S	4.5	3.3	2.7	2.4	2.1	1.8	1.6
DYield	1.60%	0.00%	1.60%	1.62%	2.42%	4.62%	6.26%
Price (PLN)	62.5						
Shares at year-end (millions)	38.4	38.4	38.4	38.4	38.4	38.4	38.4
MC (PLN m)	2 400.0	2 400.0	2 400.0	2 400.0	2 400.0	2 400.0	2 400.0
Equity attributable to minority shareholders (PLN m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV (PLN m)	2 470.9	2 493.0	2 459.1	2 483.6	2 480.2	2 448.8	2 432.7



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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

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