



Food
Poland

Current price	PLN 13.1
Target price	PLN 13.8
Market cap	PLN 953m
Free float	PLN 713m
Avg daily trading volume (3M)	PLN 5.51m

Shareholder Structure

Russian Standard	9.91%
Mark Kaufman	9.70%
Blackrock	6.81%
ING OFE	5.70%
William Carrey	5.53%
Others	62.35%

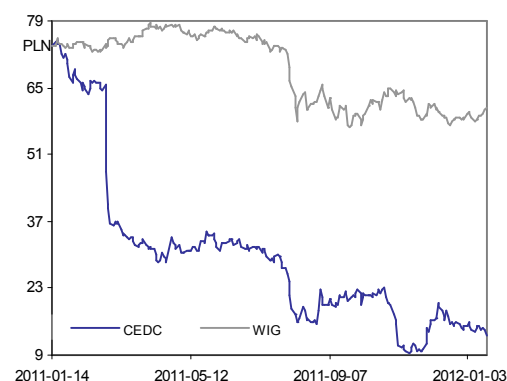
Sector Outlook

The global vodka market grows at a rate of 2-3% annually, with sales led by Europe which accounts for about 50% of global consumption. Poland and Russia are ranked the fifth and first, respectively, consumers of vodka in the world. We believe further growth in these markets can only be achieved through elimination of the black market and through market concentration.

Company Profile

CEDC is a leading producer of vodka in the world with 2010 production and sales at 32.7 million of nine-liter cases. The company's liquor range includes its own products as well as imported spirits. CEDC's three core markets are Poland, Russia, and Hungary, but it exports its products to other countries as well, including Ukraine.

CEDC vs. WIG



Gabriela Borowska

(48 22) 697 47 36

gabriela.borowska@dibre.com.pl

www.dibre.com.pl

CEDC

CDC.PW; CEDC.WA

Hold

(Downgraded)

Weak 2011 Results, Bleak 2012 Outlook

CEDC had a disappointingly weak 2011, and it slashed its EPS guidance for the year by 61% to USD 0.25-0.45 because of weak sales volumes generated in Russia. We were surprised by the dismal results posted by the company in Q4'11, even compared to an equally dismal Q4'10 (when CEDC's production and sales suffered due to excise formalities), as we had expected a rebound in Russian volumes. We also anticipated stronger sales growth in Poland relative to Q4'10 when revenues and margins were depressed by marketing costs. Q4'11 profits were also weighed down by high spirit costs even after grain prices started to decline in Q2/Q3 2011. Our new EPS estimate of USD 0.21 is lower than the company's guidance. For 2012, we predict continued shrinkage in the vodka market and we expect spirit prices to remain elevated. CEDC is heavily in debt (with debt at 9.0x 2011 EBITDA), but this is not a new problem which the company will probably address by either rolling the debt over or by raising equity. CEDC can benefit from greater involvement by its new shareholder Russian Standard which can help with financing and revive the dwindling Russian operations. If CEDC and Russian Standard finally reach an agreement, it will have a positive effect on valuation. We are downgrading our forecasts for CEDC to account for an expected 14% market shrinkage in Russia and high spirit costs. We downgrading our 9M price target from PLN 36.8 to PLN 13.8, and the rating to hold.

Shrinking market and sales, rising costs of raw material

The factors which depressed CEDC's profits in 2011 and which will continue to affect its performance in 2012 include a shrinking Russian market (-14%), brand cannibalization, sales marketing in Poland (where strong volumes do not translate to equally strong revenues), and rising costs of spirit.

Weak 2011 results, weak 2012 outlook

We had expected CEDC to cut its 2011 EPS guidance, but not by 61%. In 2012, the company faces higher excise taxes (a hike by 10% in January and a further 18% in July) which will contribute to a further shrinkage in the official vodka market even as the Russian government implements a clamp down on the black market. We revised our expectations with respect to the rate of market shrinkage in 2011 and 2012 from 4% to 14%. To add insult to injury, CEDC also faces continued high costs of spirit in 2012 as prices remain high despite a reduction in grain prices.

Russian Standard still interested in takeover

CEDC could be considered a worthy acquisition target by some even at the current valuation, but its Board of Directors adopted certain changes in the bylaws that scare away potential buyers, especially those considering a hostile takeover. However, the ongoing negotiations with Russian Standard may end with a takeover and increased involvement by new shareholders.

Valuation

Our 2012 EPS estimate is lower than CEDC's target of USD 0.21. In our view, CEDC cannot expect to post higher gross margins this year in a down market and due to expensive spirit. We are lowering financial forecasts for the company and we are reducing the price target on its shares. Successful negotiations with Russian Standard can provide a boost to the stock.

(USD m)	2009	2010	2011F	2012F	2013F
Revenue	689.4	711.5	931.3	931.1	1 037.5
EBIT	184.5	-23.6	-547.2	122.8	159.4
EBIT margin	26.8%	-3.3%	-58.8%	13.2%	15.4%
EBITDA	195.7	-6.6	-527.3	141.1	178.1
Net profit	78.3	-104.7	-800.3	12.5	27.9
DPS	128.0	39.0	15.5	12.5	27.9
P/E	1.6	7.0	18.3	22.8	10.2
P/CE	1.5	4.9	8.0	9.2	6.1
P/BV	0.1	0.2	0.4	0.4	0.4
EV/EBITDA	7.0	11.6	11.0	11.0	8.9
DYield	0.0	0.0	0.0	0.0	0.0

Future Outlook

New shareholders can help restructure Russian operations

CEDC has recently gained two new shareholders in Mark Kaufman (9.6%) and Roustam Tariko (9.9%), both with a track record in the spirit industry. Mr. Kaufman had sold its wine and spirit importing company Whitehall Group to CEDC, and Mr. Tariko is the owner of Russian Standard, producer of premium vodka brands and importer of premium spirits. CEDC responded to Mr. Kaufman's investment by adopting a flip-in poison pill defense for the future, but it was much more welcoming to Mr. Tariko. Mr. Tariko wrote a letter to CEDC's Board of Directors, proposing a strategic alliance between CEDC and Russian Standard. He said he would like to address CEDC's debt problems by having Russian Standard Bank grant the company a credit facility. In return, CEDC would issue new shares that would give Russian Standard a 19.9% stake in CEDC, as well as additional shares so that RS can participate in the increased value of CEDC provided that the price of CEDC shares climbs above certain price thresholds. CEDC would have to issue about 14.5 million new shares, and Russian Standard's stake in its diluted equity would approximate 25%. CEDC and Russian Standard have already had preliminary discussions about the terms of the investment. The fact that both of CEDC's new shareholders have previous experience in the challenging Russian spirit market works to its advantage, and an arrangement with Russian Standard which could help reform its Russian operations and address debt is sure to boost its value.

Disappointing Q3 2011 results

CEDC's Q3 2011 results fell short of expectations because of low volumes and sales generated in Russia, weak revenues generated in Poland, and higher-than-anticipated costs of spirit. The quarterly EBIT missed our estimate by a whopping 22% or USD 10.2m. After a dismal third quarter, CEDC issued an even bleaker guidance for Q4 2011 and FY2012.

Bleak Q4 2011 outlook

Against a low Q4 2010 base stemming from weak revenues and margins which were depressed by marketing costs, CEDC was supposed to report growth in Q4 2011. The year-ago basis for volume comparison was also low because of excise licensing issues which stopped production for a few weeks in the midst of a high sales season. Sadly, after a weak third quarter, CEDC issued a disappointing guidance for the fourth quarter, especially for the Russian market where it expects low volumes from a dwindling vodka market (which suffered a value drop by 14% YTD). Q4 2011 margins will be affected by persistently high spirit costs which have not backed off despite falling prices of grain.

Discouraging new guidance

CEDC cut its FY2011 view again last November, slashing expected EPS by 61% to USD 0.25-0.45 on estimated revenue at USD 850-950m. Based on the new guidance and the results for the first three quarters, it would follow that Q4 2011 revenue should approximate PLN 302m, and EPS be ca. USD 0.63 USD, with EBIT at an estimated PLN 84m (EBIT margin at 28%). Such EBIT figures are unrealistic in our view, and we anticipate lower EBIT on higher revenue (EPS at USD 0.21 vs. USD 0.25-0.45 guidance).

2013 debt payments

CEDC is due to repay USD 56.7m debt in 2012 and USD 303.4m in 2013. The next major installment of USD 958.7m falls due in 2015/2016. Given the weak 2011 and 2012 earnings outlook, the likelihood that the company can generate enough cash in 2013 to repay the debts is nonexistent. In our opinion, CEDC will have to either roll the debt over or raise equity. A rollover may mean higher loan payments. The solution could be to accept the debt restructuring offer of Russian Standard.

One-time losses?

We have trouble determining whether the one-offs that depressed CEDC's earnings in 2010 and 2011 were truly non-recurring events. Problems with excise renewals by Russian alcohol retailers are likely to reoccur from time to time. The seemingly one-off aggressive brand marketing campaign which weighed on 2010 earnings was repeated in 2011. Finally, CEDC faces continued goodwill write-downs as the vodka market continues to shrink at a faster-than-budgeted rate. Goodwill and trademark impairment results in non-cash charges which nevertheless affect balance-sheet ratios while the debt incurred to finance the goodwill lingers on the books. Recurring non-cash charges also include foreign exchange losses which in Q3 2011 alone depressed the bottom line by PLN 170m. FX losses will continue to weigh on CEDC's profits going forward as the euro and dollar appreciate relative to the zloty and the Russian ruble.

Shareholder lawsuit will not affect profits

CEDC is the defendant in a class action suit filed by its shareholders of record between 5 August 2010 and 28 January 2011 who are accusing the company of making misleading statements about its financial performance leading to a drop in the stock price by USD 8.52 following the FY2010 earnings announcement. According to CEDC's lawyers, the lawsuit will not affect the company in a significant way because any damages awarded to the plaintiffs will probably be covered by insurance. Usually, shareholders gain some kind of compensation in these types of cases, on average 25 percent. Given that CEDC has insurance in place and that the case can take 3-4 years to resolve, we are not factoring it into the valuation model.

Chances of takeover

Last year's downturn in the stock price made CEDC an attractive takeover target. Knowing this, the company's Board of Directors adopted a poison pill mechanism to fend off a potential hostile takeover, including through dilution of the potential bidder's stake if it exceeds 10%, and new Board compensation rules. The Board seems to welcome an increased future investment by Russian Standard; the question is whether its CEO will accept even higher dilution through a stock issue to Russian Standard.

Valuation

CEDC is a risky investment given its large debt falling due in 2013. We adjusted our FY2011 estimates for the company to reflect its own new guidance, and we revised our FY2012 forecasts based on the assumptions that there will be no sharp decline in spirit costs, and that any rise in other costs will be offset against sales prices. We expect CEDC to continue to struggle in Russia this year as the local vodka market shrinks at double-digit rates. On the upside, we are looking forward to a value-enhancing press release describing the deal worked out with Russian Standard. Investors will not regain confidence in CEDC until the company can report several quarters of solid earnings results and resolve its debt problems. Following significant downward revisions to 2011-2013 earning forecasts, we are lowering our price target for CEDC from PLN 36.8 to 13.8 per share, and we are downgrading the stock to hold.

Disappointing Q3 2011 results

CEDC's dismal Q3 2011 results fell short of our estimates and analysts' expectations. Core revenue amounted to USD 228.9m (marking an increase of 45.1% from the year-ago level but falling 4.2% short of consensus), and adjusted EBIT came in at USD 36.2m (+11.5% y/y, missing consensus by 8.4% and our estimate by 22%). At USD 4.2m, the quarterly net profit failed to match the consensus estimate of USD 12.0m and our estimate of USD 15.8m. The reported bottom line showed a loss of USD 839.5m resulting mainly from goodwill and trademark impairment charges (USD -674.5m) and FX losses totaling USD 170.8m (we expected USD 150.8m). CEDC cut its FY2011 earnings-per-share guidance to USD 0.25-0.45 from USD 0.8-1.0. Summing up, considered on a comparable basis, CEDC's core Q3 2011 results showed year-on-year improvement but fell short of expectations due to trade marketing in Poland, lower volumes generated in Russia, and rising prices of spirit. The company's guidance for Q4 2011 is also well below our estimates.

Reported Q3 2011 results

(USD m)	Actuals			Actuals vs. Forecasts		Actuals vs. Consensus	
	3Q2011	3Q2010	change	3Q2011F	differ.	3Q2011C	differ.
Revenue	228.9	157.8	45.06%	248.1	-7.77%	238.8	-4.15%
EBITDA	-640.3	33.4	-	52.1	-	45.4	-
<i>margin</i>	-	21.17%	-	20.99%	-	19.02%	-
EBIT	-644.8	29.1	-	46.4	-	39.6	-
Pre-tax profit	-856.3	84.2	-	-130.7	-	-	-
Net profit	-839.5	68.9	-	-130.7	-	12.0	-

Source: CEDC, F – forecasts by BRE Bank Securities, Consensus estimates by PAP

There was a gap between reported Q3 2011 results and the core earnings, created by goodwill and trademark impairment losses totaling USD 674.5m, including USD 547m goodwill charges and a USD 128m loss on the Bols vodka brand due to cannibalization by Żubrówka Biała. In addition, CEDC posted a USD 170.8m loss on in FX debt revaluations.

Adjusted Q3 2011 results

(USD m)	Actuals			Actuals vs. Forecasts		Actuals vs. Consensus	
	3Q2011	3Q2010	change	3Q2011F	differ.	3Q2011C	differ.
Revenue	228.9	157.8	45.06%	248.1	-7.77%	238.8	-4.15%
EBITDA	41.4	38.8	6.67%	52.1	-20.58%	45.4	-8.90%
<i>margin</i>	18.07%	21.17%	-	-279.77%	-	19.02%	-
EBIT	36.2	32.5	11.51%	46.4	-22.04%	39.6	-8.44%
Net profit	4.2	8.5	-	15.8	-73.45%	12.0	-64.94%

Source: CEDC, F – forecasts by BRE Bank Securities, Consensus estimates by PAP

Q3 2011 sales increased 45.1% compared to Q3 2010, led by Russia (+64% y/y), boosted by the consolidation of Whitehall (which a year earlier was recognized as an equity investment) and price hikes. At the same time, however, the Russian sales volumes were lower than expected by the company and by us due to a shrinking market (which fell 14% in volume terms). US dollar sales in Poland increased 13% on higher volumes (volumes expanded 18% y/y, and the slower revenue growth was due to higher marketing costs).

The Q3 2011 gross margin fell 8ppts compared to the year before because of a different product mix, higher costs of spirit (the combined negative impact of these costs was a USD 6m charge against net profit), and FX losses. Total operating expenses as percentage of sales showed a 3ppt y/y decline. Adjusted EBIT was 11.5% higher than the year before at PLN 93.7m thanks to a USD 4.6m boost provided by Whitehall. The adjusted EBIT margin amounted to 15.8% vs. 20.6% in Q3 2010 (even adjusted further for high spirit cost effects, the margin was still lower than a year earlier at 18.5%).

The cash flow from operating activities that CEDC generated in the first three quarters of 2011 was 38% lower than in the same period in 2010. The company cites weaker H1 2011 Russian sales as the reason. The Q3 2011 quarterly OCF was a positive USD 3.0m (vs. USD 32.1m in Q3 2010). Working capital outflows in the period totaled USD 17.2m compared to inflows of USD 30.3m reported in Q3 2010.

Sales and volumes generated in Poland

thousands of liters	1Q 2011	1Q 2010	change	2Q 2011	2Q 2010	change	3Q 2011	3Q 2010	change
Vodka	14 594	13 349	9.33%	16 493	14 182	16.30%	16 374	14 076	16.33%
Imports & Exports	3 545	3 264	8.61%	5 588	4 582	21.96%	4 678	3 814	22.65%
Total liters	18 140	16 765	8.20%	22 080	18 764	17.67%	21 052	17 890	17.68%
Total sales (PLN '000)	132 179	139 501	-5.25%	161 560	165 565	-2.42%	173 484	162 384	6.84%

Source: CEDC, BRE Bank Securities

Sales and volumes generated in Russia

thousands of liters	1Q 2011	1Q 2010	change	2Q 2011	2Q 2010	change	3Q 2011	3Q 2010	change
Vodka	27 051	32 326	-16.32%	27 845	37 652	-26.05%	31 188	31 617	-1.36%
Imports & Exports	1 682	1 419	18.53%	6 822	4 179	63.24%	7 350	5 876	25.09%
Key products (quantity)	28 733	33 745	-14.85%	34 666	41 831	-17.13%	38 538	37 493	2.79%
Key product sales (RUB '000)	3 156 396	3 265 508	-3.34%	3 739 889	4 281 868	-12.66%	3 498 865	2 795 537	25.16%
RTD beverages	2 537	6 530	-61.15%	8 955	8 334	7.45%	7 232	6 998	3.34%
Total sales (RUB '000)	112 432	281 666	-60.08%	318 381	251 132	26.78%	263 504	223 264	18.02%

Source: CEDC, BRE Bank Securities

CEDC slashed its FY2011 guidance to reflect (i) weaker-than-expected Q3 2011 results, (ii) high spirit costs (which increased 8% in Russia and 3-4% in Poland in Q4 2011), (iii) a 2-5% drop in Russian volumes expected in Q4 2011 rather than a 5-7% increase anticipated earlier, and FX losses. The 2011 sales estimate was cut from USD 900-1050 million to USD 850-950 million, and the EPS estimate was reduced from USD 0.8-1.0 to USD 0.25-0.45, well below our own estimate of USD 0.7.

Guidance revisions

(USD m)	Guidance			Change
	Min	Max	Average	
Q1 2011				
Revenue	880.0	1 080.0	980.0	
EPS	1.1	1.3	1.2	
Q2 2011				
Revenue	900.0	1 050.0	975.0	-1%
EPS	0.8	1.0	0.9	-22%
Q3 2011				
Revenue	850.0	950.0	900.0	-8%
EPS	0.3	0.5	0.4	-61%

Source: CEDC, BRE Bank Securities

Valuation

Based on DCF analysis and relative valuation, we value CEDC at USD 3.7 per share. We set our 9-month target price at USD 4.1, which, with the USD/PLN exchange rate at 3.35, translates into PLN 13.8 per share. To reflect the company's high debt and distinctive balance-sheet structure, we attached a 25% discount to CEDC's value relative to peers in multiples analysis.

Valuation Summary	Weight	PLN
DCF Valuation	50%	12.3
Relative Valuation	50%	12.6
Value		12.5
9M Target Price		13.8

DCF model assumptions

- Growth rate after the forecast period = 2.5%.
- Risk-free rate = 5.9% (equivalent to the yield on 10Y T-bonds).
- Beta = 1.5 to reflect CEDC's high debt (2012E net debt/EBITDA at 9.0x) and its distinctive balance-sheet structure (with intangible assets accounting for nearly 60% of total assets in 2011). On this assumption, the cost of equity is set at 14.9%
- We assume given CEDC's weak earnings prospects that its cost of debt will increase to 10% during each the debt is rolled over.

Relative Valuation Model

	P/E			EV/EBITDA		
	2011F	2012F	2013F	2011F	2012F	2013F
BOSTON BEER COMPANY INC-A	27.8	24.8	21.6	12.6	11.8	10.6
BROWN-FORMAN CORP-CLASS B	23.2	21.6	19.7	14.0	13.5	12.6
CONSTELLATION BRANDS INC-A	11.4	10.1	9.3	8.3	8.2	7.8
DAVIDE CAMPARI-MILANO SPA	17.1	15.2	13.8	11.1	10.3	9.6
DIAGEO PLC	17.8	15.8	14.2	13.1	12.1	11.1
GRUPO MODELO S.A.B.-SER C	25.5	23.2	21.6	10.1	9.2	8.4
LAURENT-PERRIER GROUP	24.0	19.3	17.2	17.0	13.6	11.8
LUZHOU LAOJIAO CO LTD-A	18.0	13.5	10.9	14.1	11.2	9.4
MOLSON COORS BREWING CO -B	12.5	12.1	11.5	8.6	8.4	7.6
PERNOD-RICARD SA	17.8	16.2	14.5	13.6	12.9	12.0
REMY COINTREAU	28.7	23.6	19.0	17.9	14.6	13.2
SHANXI XISHAN COAL & ELEC-A	15.8	13.3	12.7	8.4	6.8	5.6
SYNERGY CO	6.4	5.4	4.1	5.1	4.4	3.8
WULIANGYE YIBIN CO LTD-A	18.7	14.1	11.4	10.5	7.9	6.4
YANTAI CHANGYU PIONEER-B	19.3	14.8	11.9	19.7	14.3	11.9
Maximum	28.7	24.8	21.6	19.7	14.6	13.2
Minimum	6.4	5.4	4.1	5.1	4.4	3.8
Median	18.0	15.2	13.8	12.6	11.2	9.6
CEDC	43.5	22.8	10.2	11.0	10.9	7.7
(premium / discount)	142.28%	50.21%	-25.91%	-12.11%	-2.84%	-20.28%
Implied value						
Median	18.0	15.2	13.8	12.6	11.2	9.6
Multiple weight		50.00%			50%	
Year weight	33.33%	33.33%	33.33%	33.33%	33.33%	33.33%
Value per share (USD) after discount		5.0				

DCF Model

(USD m)	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2021+
Revenue	931.1	1 037.5	1 112.7	1 183.7	1 235.5	1 272.1	1 309.5	1 341.1	1 373.2	1 405.9	1 441.0
change	-0.02%	11.43%	7.25%	6.39%	4.37%	2.96%	2.94%	2.41%	2.40%	2.38%	2.50%
EBITDA	141.1	178.1	200.5	223.2	240.3	254.8	269.8	276.6	283.5	290.5	297.8
EBITDA margin	15.16%	17.17%	18.02%	18.85%	19.45%	20.03%	20.61%	20.63%	20.64%	20.66%	20.66%
D&A expenses	18.3	18.7	18.8	19.0	19.1	19.3	19.5	19.7	19.8	20.0	22.4
EBIT adjusted*	122.8	159.4	181.7	204.2	221.1	235.5	250.4	256.9	263.7	270.5	275.4
EBIT margin	13.19%	15.37%	16.33%	17.25%	17.90%	18.51%	19.12%	19.16%	19.20%	19.24%	19.11%
Tax on EBIT	25.8	33.5	38.2	42.9	46.4	49.5	52.6	54.0	55.4	56.8	57.8
NOPLAT	97.0	126.0	143.5	161.3	174.7	186.0	197.8	203.0	208.3	213.7	217.6
CAPEX	-21.9	-20.1	-20.5	-20.7	-20.9	-21.1	-21.2	-21.4	-21.6	-21.8	-22.4
Working capital	-25.9	-54.0	-19.8	-18.8	-13.7	-9.7	-9.9	-8.3	-8.5	-8.6	-8.8
Equity investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	67.6	70.5	122.0	140.8	159.3	174.6	186.1	192.9	198.0	203.3	208.7
WACC	9.50%	10.17%	10.30%	10.51%	11.05%	11.34%	11.68%	12.06%	12.48%	12.96%	
Discount factor	91.67%	83.20%	75.43%	68.26%	61.46%	55.21%	49.43%	44.11%	39.22%	34.72%	
PV FCF	61.9	58.6	92.0	96.1	97.9	96.4	92.0	85.1	77.7	70.6	
WACC	9.50%	10.17%	10.30%	10.51%	11.05%	11.34%	11.68%	12.06%	12.48%	12.96%	
Cost of debt	8.00%	9.30%	9.30%	9.30%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	
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	2.10%	3.40%	3.40%	3.40%	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%	
Effective tax rate	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	
Net debt / EV	62.95%	62.60%	60.84%	58.15%	54.94%	50.91%	46.06%	40.60%	34.52%	27.77%	
Cost of equity	14.90%	14.90%	14.90%	14.90%	14.90%	14.90%	14.90%	14.90%	14.90%	14.90%	
Risk premium	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	
Beta	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	

FCF growth after the forecast horizon	2.50%	Sensitivity Analysis						
Terminal value (TV)	1 996.3	FCF growth in perpetuity						
Present value of terminal value (PV TV)	693.1	0.00%	1.00%	2.50%	3.00%	3.50%		
Present value of FCF in the forecast horizon	828.4	Beta=	1.00	5.2	6.4	8.7	9.6	10.7
Enterprise value (EV)	1 521.5	Beta=	1.30	2.9	3.8	5.4	6.1	6.8
Net debt	1 255.0	Beta=	1.40	2.3	3.0	4.5	5.1	5.7
Minority interests	0.0	Beta=	1.50	1.6	2.3	3.7	4.2	4.8
Equity value	266.5	Beta=	1.60	1.1	1.7	2.9	3.4	3.9
Number of shares (millions)	72.7							
Value per share (USD)	3.7							
9M cost of equity	11.18%							
Target Price	4.1							

EV/EBITDA ('12) for the target price	11.0
P/E ('12) for the target price	23.7
TV to EV	46%

*adjusted

Income Statement

(USD m)	2009	2010	2011F	2012F	2013F	2014F
Revenue	689.4	711.5	931.3	931.1	1 037.5	1 112.7
<i>change</i>	20.7%	3.2%	30.9%	0.0%	11.4%	7.2%
COGS	340.5	383.7	553.4	552.1	594.0	628.0
Gross profit	348.9	327.9	377.9	379.0	443.5	484.7
<i>Gross margin</i>	50.6%	46.1%	40.6%	40.7%	42.7%	43.6%
SG&A expenses	144.2	219.6	258.5	256.2	284.0	303.0
Other net operating income/expenses	-20.3	-131.8	-666.6	0.0	0.0	0.0
EBIT	184.5	-23.6	-547.2	122.8	159.4	181.7
<i>change</i>	36.3%	-112.8%	2219.3%	-122.4%	29.8%	13.9%
<i>EBIT margin</i>	26.8%	-3.3%	-58.8%	13.2%	15.4%	16.3%
Financing income/expenses	-87.7	-111.7	-247.5	-107.0	-124.2	-124.8
Extraordinary income/expenses	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
Pre-tax profit	96.8	-135.3	-794.6	15.8	35.3	56.9
Tax	18.5	-28.1	-3.2	3.3	7.4	11.9
Minority interests	-0.1	-2.5	8.8	0.0	0.0	0.0
Net profit	78.3	-104.7	-800.3	12.5	27.9	44.9
<i>change</i>	-236.0%	-233.6%	664.6%	-101.6%	123.4%	61.3%
<i>margin</i>	11.4%	-14.7%	-85.9%	1.3%	2.7%	4.0%
D&A expenses	11.3	16.9	19.9	18.3	18.7	18.8
EBITDA	195.7	-6.6	-527.3	141.1	178.1	200.5
<i>change</i>	34.7%	-103.4%	7834.9%	-126.8%	26.2%	12.6%
<i>EBITDA margin</i>	28.4%	-0.9%	-56.6%	15.2%	17.2%	18.0%
Shares at year-end (millions)	53.8	70.1	72.7	72.7	72.7	72.7
EPS	1.5	-1.5	-11.0	0.2	0.4	0.6
CEPS	1.7	-1.3	-10.7	0.4	0.6	0.9
ROA	1.8%	-3.1%	-30.7%	0.5%	1.0%	1.6%
ROE	4.6%	-6.7%	-108.7%	1.7%	3.6%	5.5%

Balance Sheet

(USD m)	2009	2010	2011F	2012F	2013F	2014F
ASSETS	4 439.1	3 396.2	2 604.3	2 614.4	2 777.9	2 850.4
Fixed assets	2 864.1	2 582.9	1 793.9	1 797.5	1 798.9	1 800.7
Property, plant and equipment	215.9	201.5	185.5	189.0	190.5	192.2
Intangible assets	773.2	627.3	471.7	471.7	471.7	471.7
Goodwill	1 484.1	1 450.3	1 064.7	1 064.7	1 064.7	1 064.7
Long-term receivables	0.0	0.0	0.0	0.0	0.0	0.0
Other fixed assets	390.9	303.8	72.0	72.0	72.0	72.0
	0.0	0.0	0.0	0.0	0.0	0.0
Current assets	1 575.0	813.3	810.4	817.0	979.0	1 049.7
Inventories	92.2	93.7	105.2	111.3	130.8	140.3
Short-term receivables	475.1	478.4	466.6	522.3	644.1	690.8
Prepayments	123.0	118.9	133.9	133.9	149.2	160.0
Other current assets	276.8	0.0	3.0	3.0	3.0	3.0
Cash and cash equivalents	607.9	122.3	101.8	46.6	51.9	55.6
(USD m)	2009	2010	2011F	2012F	2013F	2014F
EQUITY AND LIABILITIES	4 439.1	3 396.2	2 604.3	2 614.4	2 777.9	2 850.4
Equity	1 685.2	1 564.7	736.2	748.7	776.6	821.5
Share capital	0.7	0.7	0.7	0.7	0.7	0.7
Other equity	1 684.5	1 564.0	735.5	748.0	775.8	820.8
	0.0	0.0	0.0	0.0	0.0	0.0
Long-term liabilities	1 536.0	1 423.0	1 415.1	1 358.4	1 070.3	1 081.0
Loans	1 331.8	1 251.9	1 281.7	1 225.0	921.6	921.6
Other	204.2	171.1	133.5	133.4	148.7	159.4
	0.0	0.0	0.0	0.0	0.0	0.0
Current liabilities	1 217.9	408.5	453.0	507.3	931.1	947.8
Loans	445.2	46.1	75.1	93.6	429.9	410.3
Trade creditors	325.6	302.3	309.7	345.6	425.3	456.1
Accruals	447.1	60.1	68.1	68.1	75.9	81.4
Other	0.0	0.0	0.0	0.0	0.0	0.0
Debt	1 777.0	1 298.1	1 356.8	1 318.5	1 351.5	1 331.9
Net debt	1 169.2	1 175.7	1 255.0	1 272.0	1 299.6	1 276.3
(Net debt / Equity)	69.4%	75.1%	170.5%	169.9%	167.4%	155.4%
(Net debt / EBITDA)	6.0	-176.9	-2.4	9.0	7.3	6.4
BVPS	31.3	22.3	10.1	10.3	10.7	11.3

Cash Flows

(USD m)	2009	2010	2011F	2012F	2013F	2014F
Cash flows from operating activities	89.8	-29.4	22.7	4.9	-7.5	43.9
Net profit	78.3	-104.7	-800.3	12.5	27.9	44.9
D&A expenses	11.3	16.9	19.9	18.3	18.7	18.8
Working capital	25.2	-76.7	-4.0	-25.9	-54.0	-19.8
Other	-25.1	135.0	807.1	0.0	-0.1	0.0
Cash flows from investing activities	-1 067.1	457.4	-53.7	-21.9	-20.1	-20.5
CAPEX	-16.1	-6.2	-12.1	-21.9	-20.1	-20.5
Equity investment	-573.5	-136.0	-24.1	0.0	0.0	0.0
Other	-477.5	599.6	-17.5	0.0	0.0	0.0
Cash flows from financing activities	998.0	-417.9	18.2	-38.3	33.0	-19.6
Stock issue	491.0	0.0	0.0	0.0	0.0	0.0
Debt	528.4	-428.9	18.1	-38.3	33.0	-19.6
Dividend (buy-back)	0.0	0.0	0.0	0.0	0.0	0.0
Other						
Change in cash	20.6	10.2	-12.8	-55.2	5.3	3.8
Cash at period-end	126.4	122.3	101.8	46.6	51.9	55.6
DPS (USD)	0.0	0.0	0.0	0.0	0.0	0.0
FCF	166.1	-84.6	-428.4	67.6	70.5	122.0
(CAPEX / Sales)	2.3%	0.9%	1.3%	2.4%	1.9%	1.8%

Multiples

	2009	2010	2011F	2012F	2013F	2014F
P/E	1.6	7.0	18.3	22.8	10.2	6.3
P/CE	1.5	4.9	8.0	9.2	6.1	4.5
P/BV	0.1	0.2	0.4	0.4	0.4	0.3
P/S	0.3	0.4	0.3	0.3	0.3	0.3
FCF/EV	12.0%	-5.8%	-27.8%	4.3%	4.5%	7.8%
EV/EBITDA	7.0	11.6	11.0	11.0	8.9	7.8
EV/EBIT	7.5	13.4	12.9	12.7	9.9	8.6
EV/S	2.0	2.0	1.7	1.7	1.5	1.4
DYield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Price (USD)	13.1					
Shares at year-end (millions)	53.8	70.1	72.7	72.7	72.7	72.7
MC (USD m)	210.0	273.7	284.1	284.1	284.1	284.1
Equity attributable to minority shareholders (USD m)	0.0	0.0	0.0	0.0	0.0	0.0
EV (USD m)	1 379.2	1 449.4	1 539.1	1 556.1	1 583.7	1 560.4

Michał Marczak tel. (+48 22) 697 47 38
Managing Director
Head of Research
michal.marczak@dibre.com.pl
Strategy, Telco, Mining, Metals

Research Department:

Kamil Kliszczyk tel. (+48 22) 697 47 06
kamil.kliszczyk@dibre.com.pl
Fuels, Chemicals, Energy

Piotr Grzybowski tel. (+48 22) 697 47 17
piotr.grzybowski@dibre.com.pl
IT, Media

Maciej Stokłosa tel. (+48 22) 697 47 41
maciej.stoklosa@dibre.com.pl
Construction

Jakub Szkopek tel. (+48 22) 697 47 40
jakub.szkopek@dibre.com.pl
Manufacturers

Iza Rokicka tel. (+48 22) 697 47 37
iza.rokicka@dibre.com.pl
Banks

Gabriela Borowska tel. (+48 22) 697 47 36
gabriela.borowska@dibre.com.pl
Retail

Piotr Zybala tel. (+48 22) 697 47 01
piotr.zybala@dibre.com.pl
Real-Estate Developers

Sales and Trading:

Piotr Dudziński tel. (+48 22) 697 48 22
Director
piotr.dudzinski@dibre.com.pl

Marzena Łempicka-Wilim tel. (+48 22) 697 48 95
Deputy Director
marzena.lempicka@dibre.com.pl

Traders:

Emil Onyszczyk tel. (+48 22) 697 49 63
emil.onyszczyk@dibre.com.pl

Michał Jakubowski tel. (+48 22) 697 47 44
michal.jakubowski@dibre.com.pl

Tomasz Jakubiec tel. (+48 22) 697 47 31
tomasz.jakubiec@dibre.com.pl

Michał Stępkowski tel. (+48 22) 697 48 25
michal.stepkowski@dibre.com.pl

Paweł Majewski tel. (+48 22) 697 49 68
pawel.majewski@dibre.com.pl

Foreign Markets Unit:

Adam Prokop tel. (+48 22) 697 48 46
Foreign Markets Manager
adam.prokop@dibre.com.pl

Michał Roźmiej tel. (+48 22) 697 48 64
michal.rozmiej@dibre.com.pl

Jakub Słotkiewicz tel. (+48 22) 697 48 64
jakub.slotkiewicz@dibre.com.pl

Jacek Wrześniewski tel. (+48 22) 697 49 85
jacek.wrzesniewski@dibre.com.pl

"Private Broker"

Jarosław Banasiak tel. (+48 22) 697 48 70
Director, Active Sales
jaroslaw.banasiak@dibre.com.pl

Dom Inwestycyjny
BRE Banku S.A.
ul. Wspólna 47/49
00-950 Warszawa
www.dibre.com.pl

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

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

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

This document has been created and published by BRE Bank Securities S.A. The present report expresses the knowledge as well as opinions of the authors on day the report was prepared. The opinions and estimates contained herein constitute our best judgement at this date and time, and are subject to change without notice. The present report was prepared with due care and attention, observing principles of methodological correctness and objectivity, on the basis of sources available to the public, which BRE Bank Securities S.A. considers reliable, including information published by issuers, shares of which are subject to recommendations. However, BRE Bank Securities S.A., in no case, guarantees the accuracy and completeness of the report, in particular should sources on the basis of which the report was prepared prove to be inaccurate, incomplete or not fully consistent with the facts. BRE Bank Securities S.A. bears no responsibility for investment decisions taken on the basis of the present report or for any damages incurred as a result of investment decisions taken on the basis of the present report.

This document does not constitute an offer or invitation to subscribe for or purchase any financial instruments and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document nor any copy hereof is not to be distributed directly or indirectly in the United States, Australia, Canada or Japan.

Recommendations are based on essential data from the entire history of a company being the subject of a recommendation, with particular emphasis on the period since the previous recommendation. Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible.

It is possible that BRE Bank Securities S.A. renders, will render or in the past has rendered services for companies and other entities mentioned in the present report.

The present report was not transferred to the issuer prior to its publication.

BRE Bank Securities S.A., its shareholders and employees may hold long or short positions in the issuer's shares or other financial instruments related to the issuer's shares. BRE Bank Securities S.A., its affiliates and/or clients may conduct or may have conducted transactions for their own account or for account of another with respect to the financial instruments mentioned in this report or related investments before the recipient has received this report.

Copying or publishing the present report, in full or in part, or disseminating in any way information contained in the present report requires the prior written agreement of BRE Bank Securities S.A.

Recommendations are addressed to all Clients of BRE Bank Securities S.A. This report is not for distribution to third parties. The activity of BRE Bank Securities S.A. is subject to the supervision of the Polish Financial Supervision Commission.

Individuals who did not participate in the preparation of this recommendation, but had or could have had access to the recommendation prior to its publication, are employees of BRE Bank Securities S.A. authorised to access the premises in which recommendations are prepared, other than the analysts mentioned as the authors of the present recommendation.

Strong and weak points of valuation methods used in recommendations:

DCF – acknowledged as the most methodologically correct method of valuation; it is based in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.
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 CEDC

Rating	Buy
Date issued	2011-07-21
Price on rating day	29.10
WIG on rating day	46811.06