8 April 2013

Periodic Report

BRE Bank Securities

Equity Market

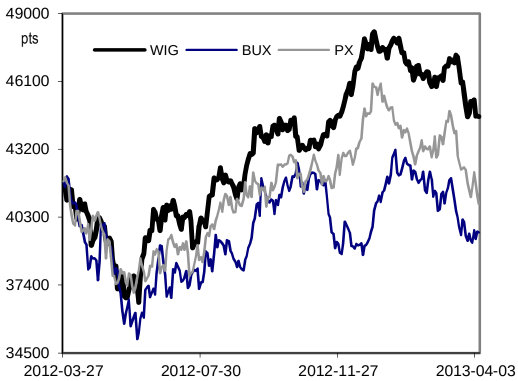
Macroeconomics

Monthly Report

April 2013

WIG	**44,597**
Average 2013E P/E	12.3
Average 2014E P/E	10.9
Avg daily trading volume	PLN 878m

WIG vs. indices in the region



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Macroeconomics
BRE Bank Economists

Equity Market

An expected strengthening of the zloty, dividend payouts, the return of capital to emerging markets after several months of outflows, and cash inflows into investment funds, should all support the stock market in April in spite of slower-than-anticipated economic recovery in eurozone countries and the uncertain future of Polish pension funds.

Company Outlook

Financial Industry. We remain cautiously bullish on the financial sector in anticipation of an economic rebound in the second half of the year. We would recommend selective accumulation of PKO BP, BZ WBK, ING BSK, PZU, and Kruk.

Gas & Oil. We are upgrading PKN Orlen from accumulate to buy to reflect the recent price declines. Going forward, PKN's market performance should be supported by high margins generated both by the refining business and the petrochemical business. In case of PGNiG, whose share price also fell in March, our investment rating remains a reduce.

Power Utilities. Despite strong Q4 2012 earnings results, utility stocks staged a downturn in late March after the rebounds observed earlier in the month. Our top pick in the sector remains Tauron whose Q1 2013 results are likely to beat the analysts' consensus.

Mining & Metals. KGHM is an attractive investment at the current price level in our view given the positive medium-term outlook for the copper market and the rebound in prices of gold and silver. As for coal stocks, they may come under pressure in the coming weeks due to a tough coal market and increasing stockpiles, combined with falling prices of steel and a decelerated uptrend in the prices of coking coal.

Manufacturers. Our favorite manufacturing sector picks for April are smaller companies like Bumech, Pozbud, PKM Duda, and Selena. We would avoid producers of building materials, who are being affected by unfavorable weather (GK Kęty, Libet, Rovese).

Construction. The disastrous earnings results reported by companies involved in power engineering, and the cancelation by PGE of its power plant project in Opole, all bode ill for large construction firms. A better outlook lies ahead of residential builders (Unibep, Erbud) with large backlogs and decent margins.

Real Estate Developers. First-quarter home sales statistics prove that a developer's financial problems will sooner or later reflect on its operating results. Our preferred residential stocks are developers with reasonable debt that offer high dividends (Dom Development, Robyg). In the commercial segment, we would bet on firms that enjoy healthy fundamentals and deliver consistent profits (Echo Investment, P.A. Nova).

Ratings. As of the date of this Monthly Report, we are upgrading our investment ratings for Alchemia (Hold), BZ WBK (Buy), Elektrobudowa (Hold), and PKN Orlen (Buy), we are downgrading ZCH Police (Sell), and we are suspending coverage of Mostostal Warszawa and Rafako.

BRE Bank Securities does not rule out offering brokerage services to an issuer of securities being the subject of a recommendation. Information concerning a conflict of interest arising in connection with issuing a recommendation (should such a conflict exist) is located on the final page of this report.

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Equity Market

A positive momentum in the US economy is here to stay; S&P 500 index seems resistant to any bad news from the market; FED maintains it will consider a reduction of asset repurchase once the unemployment rate in the longer term falls below 6.5%, the season for reporting Q1 results is about to start – the expectations assume almost 2% decline in company earnings (the lowest level since 2009). The Bank of Japan announced a buyout of assets whose scale is several times higher than the size of the economy if compared to USA. It is expected this will launch reallocations of some of Japanese savings, a thing which should benefit Europe, including CEE countries. Slightly weaker than expected growth in Asia, the Cypriot problem and still unresolved structural problems of the Euro Zone do not allow the European economy to overcome the recession. March leading indicators showed rather disappointing results, which makes us doubt the forecast of revival expected in H2, including for Poland. In addition, sudden depreciation of the yen to the euro will undermine the competitiveness of European exports to Asian markets – this applies to Germany, but also to Italy. Therefore it should be expected that the following weeks will see growing expectations of markets of a change in the policy of European Central Bank (another stage of easing) – this would provide a positive catalyst to stocks in Europe. The reduction of interest rates to 3.25% will lead to further decreases in bank deposit interest rates (interest rates on new are 3.6% on average, compared to December 2012 average of s 4.9%), which in our view will drive the inflow of new cash to investment funds (TFI). Participating in offers placed by PKO, Pekao and BZWBK, pension funds (OFE) have drastically increased their equity holdings (38%), despite a falling WIG index. It should be decided in May/June whether and what changes will be introduced to the pension system, by the time this happens all the concerns and uncertainty around this issue remain one of the main obstacles to stock growth. WIG, however, is not the only weak performer (relative to S&P500 or DAX), this refers also to other indices in the region (also other EM), which has usually been accompanied by weakening local currencies. From the beginning of the year WIG20 denominated in USD lost 12%. We do not see any major potential for further depreciation of PLN, our macroeconomists are assuming the return of an upward trend (which was usually a key factor for foreign capital). A lot of large solvent companies will pay out dividend with high – for European standards – dividend yields. In our view, following a very weak beginning of the year and a strong downtrend in emerging markets indices, capital will again make its way into these markets, especially in considering the decisions by the Bank of Japan. We are reiterating a positive approach to the equity market and we recommend accumulating stocks.

No changes in Fed's policy

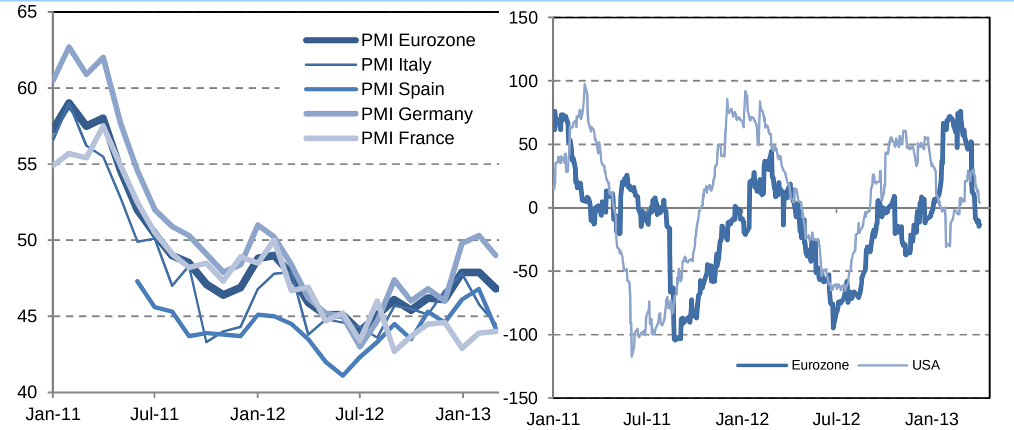
The data from the job or property markets confirm that the US economy is still in the process of revival. The valuation of American stocks is bolstered by the consistent stance of the Fed which again assured that the program of buying assets will be continued (USD 85bn per month) until a clear improvement in the economy and especially on the job market is in sight. The policy may be changed to a more stringent one only if in the long-term (more than several months): i) unemployment falls below 6.5%, ii) inflation does not grow above 2%, iii) other indexes confirm that the economy is now in the stage of a robust growth. This is a very positive signal for the equity market.

Are weak leading indicators in Europe heralding major disappointment in H2?

This is one of the major risks undermining our positive scenario for equity market in 2013 and one of the greatest negative surprises relative to our expectations from the beginning of December. The period of December-February brought a slow (below expectations, but still growing) revival of PMI for the EuroZone, the revival is robust in Germany, France faces major disappointments. Results from March gave us a 'cold shower' (published at the beginning of April), which show that swift recovery from recession expected for H2 may turn out a failure. Indexes for industry and services for the whole Euro Zone dropped by 1.3-1.4 pts to 46.5-46.6 pts. Following a positive surprise in February, PMI for German industry fell again below 50 pts. (49 pts, confirmed also by IFO and ZEW indexes). In case of France index for industry stays at a mere 44 pts (without changes m/m) and went down for services to 41.3 pts. (-2.4 m/m). The published data imply a recession for the EuroZone in Q1 at -0.3%, and stagnation in Germany (despite the expected slight growth). Very optimistic information from PMI implies that new orders are contracting (especially in South Europe), which may be interpreted especially negatively in the context of the next following weeks. The results of a survey research may have been negatively impacted by the situation on Cyprus, and long and steady snowfalls in Northern Europe (construction, construction related branches). Taking into account weak indexes and the actions undertaken by the Bank of Japan (depreciating yen), it seems that in the following weeks market analysts will have more expectations as to more stimulation from

ECB (so far comments by Mario Draghi have suggested that the Bank is highly determined to sustain its current policy).

PMI Manufacturing for given countries (L) and index of surprises by Citibank (R)



Source: Bloomberg

As for the Polish economy, the current macro data do not diverge from the forecast of our macroeconomists formulated at the beginning of December. Similarly to the whole EU, the leading indicators provided a negative surprise as they undermine the market revival and question its dynamic pace expected in H2 2013.

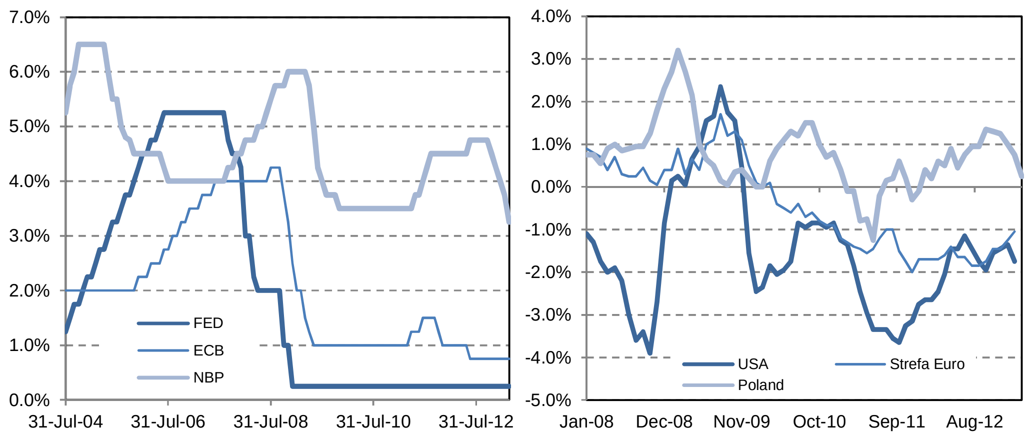
New strategy of the Bank of Japan and its consequences

Bank of Japan (BoJ) has announced another stage of easing monetary policy, the scale of which is without precedent in modern history. The Bank will buy out assets worth ca. USD 75m per month doubling its balance in 2 years time. As a comparison, the Fed spends USD 85bn to buy assets, and increasing its balance sheet twofold took 5 years. If the Fed were to catch up with the pace of expansion of Bank of Japan, it would have to buy assets worth a total of USD 200bn a month. What consequences may the actions undertaken by the Bank of Japan bring? First, it is expected that part of the Japanese capital will aim at a higher return on assets - mostly unprofitable, Japanese treasury securities (95% of which were purchased by the Japanese). This should provide a benefit for European governments, especially the peripheries of the EU (Italy, Spain, possibly also CEE countries). Another important consequence is a strong appreciation of EUR relative to the yen. For German exporters, for whom Japan and South Korea are the biggest competitors on the Asian market, this may generate a serious problem (which can be seen by the downfall of German companies' stock price and falling KOSPI index in Korea - in addition, the effect of growing tension in the conflict with North Korea). Will this impact the situation of Polish subcontractors delivering to German corporations (negative impact on the results and sentiment of foreign investors)? Will this prompt a reaction from ECB, which when compared with FED, BoE or Bank of Japan seems to be very conservative (positive impact on sentiment to the equity market)?

Interest rate cuts vs. deposits and inflows to investment funds

Despite a weak economic environment, a decision passed by the Polish Monetary Policy Council (RPP) in March regarding a reduction of interest rates by 50pts came as a major surprise. At the same time, the goal set by our macroeconomists regarding the reduction of repo rate to 3.25% materialized. Taking into account more dynamic than expected by macroeconomists fall of inflation in Poland (1.3% in February), real interest rates in Poland remain at a relatively high level, which gives more room for other actions by the RPP. Most probably at the next sessions (April-May) the Council will wait with the assessment of the condition of the economy withholding any further cuts. Decisions passed by RPP significantly translate into falling interests on deposits in banks (reduction from 4.9% in December to 4.4% currently, with interest rates on new deposits down to 3.6%; clients are looking for products with higher ROE) and influence sales policy of banks which are looking for fee income (shares in investment funds) facing a downfall in interest income.

Reference rates FED, ECB and NBP (L) vs. real interest rates (R)



Source: Bloomberg

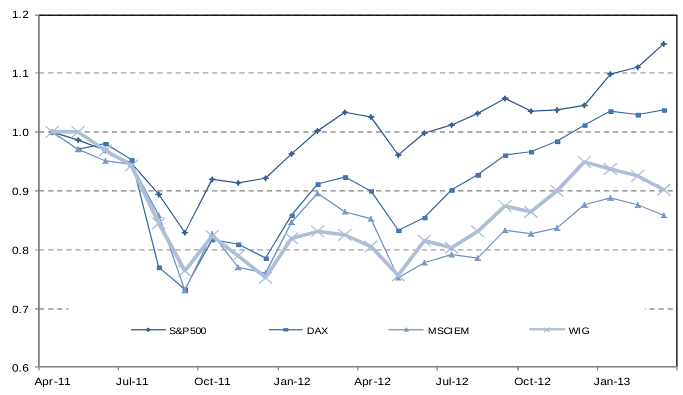
What is next for OFEs? Continued…

Over the last three months open pension funds (OFE) participated in several major transactions of selling shares by strategic shareholders (PKO BP, BZ WBK, Pekao – shares sold for a total of PLN 13.4bn), which allowed for the increase of allocation of shares to 38% at the end of March from 35% at the end of December 2012 (despite the fall of WIG). This level still diverges from the acceptable 47.5% limit imposed by the law, however it leaves less and less room for new purchases. In addition, there is a lot of uncertainty as to the future shape of pension scheme in Poland (we addressed this problem in the previous report). Polish PM Donald Tusk says that decisions on the future of OFE will be made this May/June. What seems the most probable option is that assets accumulated by people who will retire in 10 years will be moved from OFE to the Social Insurance Institution ZUS. The exact details remain unknown (whether the shift will be distributed over a longer period of time or performed one time only, whether it will cover only bonds, etc.). The mere awareness that OFE (which have so far had capital inflow only) may no longer be a party that is only purchasing, effectively deters from buying further funds (the decline of premium of Polish companies relative to companies in the region).

Polish market is not the only one to show weakness

In the recent quarters global equity markets were strongly correlated with each other, the last three months have marked a clear reversal of this tendency (at least in case of WIG). This may be explained by stronger than expected economic slowdown, especially in internal demand, which has so far been resistant to external situation (we addressed this problem in detail in the previous reports). How the future of OFE unfolds is yet another concern. However, Polish market is not isolated in the tendency to underperform if compared with S&P500 or DAX. Stock exchanges in Moscow, Budapest or Prague resemble the behavior of WIG. Historically, falling stock prices were accompanied by the depreciation of local currencies.

WIG vs. other indices



Source: Bloomberg

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Macroeconomics

Retail Sales

Polish retail sales dropped by 0.8% y/y in February after rising 3.1% in January. Positive statistical effects from the previous month are long forgotten, similarly to the positive influence of delayed payments to farmers. In January – similarly to 2009, when the distribution of working days was identical (-1 y/y, -2 m/m) – only two sales categories reported m/m growth (food by a mere 0.2% and the most volatile ‘other’ category). The consumer confidence data published simultaneously by the Central Statistical Office (GUS) imply that, after the February correction, March again brought weaker sentiment and more pessimistic expectations of the future financial situation – historically good forecasters of personal spending. Falling sales were mostly impacted by a major decline in fuels (-5.2% m/m) which reduced headline by 1.4pp. Due to base effects (and generally shifts between January and February), other sales in non-specialized shops (-4.6% m/m) and car sales (-2.6% m/m) were the most difficult to forecast. We would like to point out one important fact: falling fuel prices were not only a nominal, but also a real phenomenon. This means that this category reflects cyclical features of the economy (weak demand), not only price effects. This obviously contributed to the negative interpretation of the whole aggregate. The above-mentioned composition means that core retail sales excluding different category combinations: food, fuels, cars, slightly increased in February – between 0.3-1.0% y/y. In real terms, core sales excluding food and fuels were up 0.8%y/y. Falling real sales were driven mostly by fuels (-5.7% y/y) and food (-0.8% y/y).

The data (both on retail sales and consumer confidence) clearly indicate that we should not expect an increase in consumption in Q1 (pressure on growing savings is strong, which is best reflected by deposits). Therefore, GDP growth in Q1 2013 will be significantly lower than the one reported at the end of the last year (our current estimates suggest that it will be lower by at least 50%). This means that the demand gap in Polish economy is widening, while drastic inflation plunges de facto put pressure on monetary policy (growing real interest rates). Let us be clear – in these circumstances the Monetary Council may easily reduce interest rates. If we add the fact that cyclical necessity to rebuild savings rates make real interest rate level insignificant for saving propensity, this may encourage the Council to further adjust monetary policy, even before the July inflation and GDP projections.

Industrial Production

Polish industrial output dropped by 2.1% y/y in February after a 0.3% rise in January. In seasonally adjusted terms output contracted by 2.4% y/y. Production contracted in 17 out of 34 sub-sectors. Production of machines and equipment showed the most drastic plunges (-13.2%), followed by metals (-8.2%), and cars (-5.9%). Export-oriented sub-sectors recorded the biggest drops, as any positive effects of the alleged revival in Germany on the Polish industry were nowhere to be seen. In addition, February data might have been skewed on the upside as an aftermath of the very weak end of 2012 (as was also the case in January). March data may prove essential for determining the momentum of industrial output as they should already reflect orders for the next six months. Keep in mind, however, that industrial production in March may be weighed down by the weather effect.

Construction output dropped by 11.4% on annual basis (the seasonally adjusted downturn was 12.2%). A turnaround in construction is nowhere in sight despite a deceleration from a drop of 25% in December and 16.1% in January. First, a slight increase in year-on-year dynamics is probably attributable to more favorable weather conditions – our own forecast amounting to -3.0% y/y is based mainly on this effect. Second, the slump is observed both in residential and infrastructure investment. Double-digit declines in the coming months are bound to occur on base effects (preparations to the Euro 2012 Soccer Cup and high activity in the residential sector in H1 2012). Based on base effects alone we may expect that any positive signals from either the residential sector or public investment will not come until the second half of the year (double-digit slumps will persist until June). Thirdly, we are still waiting for any signs of a recovery in housing. As for the public sector, it will not serve as a catalyst for an economic rebound until EU funding from the new 2014-2020 budget becomes available.

Inflation

The annual inflation rate fell from 1.7% in January to just 1.3% in February, the lowest annual CPI growth since October 2006. The inflation rate fell short of our 1.6% forecast and a consensus projection of 1.5%, due mainly to falling prices of food and stronger-than-expected disinflation across the core categories. Regarding food prices, we expected an increase of 0.5% (confirmed by data from regional peers and estimates published by Institute of Agricultural and Food Economics), which made an actual drop of 0.2% a surprise. Fuel prices rose 1% from January, in line with expectations. Prices of telecommunications services came as the biggest surprise, falling 3% m/m thanks to promotions offered by mobile carriers (prices of mobile calls dropped 3.1% m/m, and handset prices declined 0.6%). Consequently, we estimate January core inflation at ca. 1,5%, followed by a decline to just 1.1-1.2% in February. We expect consumer prices to continue decelerating in the months ahead, with March inflation down to ca. 1.1%, reaching lows of 0.8-0.8% in the summer months, well below the bottom end of the acceptable deviations from the central bank target. Core inflation will decrease even more. An unexpected drop below the target may prompt the Monetary Council to adopt a wait-and-see stance and stop the monetary easing cycle, especially in light of the fact that the official inflation projections assume a much softer downward curve (with the inflation rate falling below the bottom end of the target at ca. 1.4% only in the second quarter of the year).

Job Market

Annual salary growth accelerated sharply from 0.4% in January to 4.0% in February (our call was 3.7%). Such growth should not come as a surprise, though. Even the negative effect of working days was covered by a low base in mining and energy from the previous year. It should also be remembered that in 2012 bonus payments were often moved back from February to January due to an increase in healthcare premiums, which generated a low base for February 2013. Owing to weak economic activity, the following months are unlikely to bring a significant acceleration; we expect salary growth around 2.0% due to continued streamlining policies implemented by companies.

Employment in the private sector decreased by 8000 jobs in February, representing a year-on-year decline of 0.8% (the same as in January) vs. a consensus forecast of an 0.9% decline. Compared to 2009, the job losses were much less severe. but this does not mean that the job market is starting to recover; rather, it seems to be following a stable downward curve (this may mean that the effects of group redundancies are now in place and job eliminations are now behind us). For employment to accelerate to a noticeable pace, GDP would have to accelerate considerably as well, which it is clearly not even close to doing. In the coming months, annual employment growth will hover around -1% (on a month-to-month basis negative growth will dominate in H1). The job data support our scenario of weak consumption growth (more or less stagnant consumption scenario) and the need to rebuild savings rates as the outlook for the job market remains negative.

Government Deficit

Poland's government deficit widened to PLN 21.6bn in February, reaching over 60% of the annual budget of PLN 35bn. A PLN 13bn, the month-to-month expansion in the budget gap may look shocking, but actually it is not that much of a surprise – government deficit tends to widen fast in the first half of the year, and stabilize during the summer. The February surge is attributed to large subsidies paid into the central social security fund and pension funds, combined with low tax receipts reflecting slower economic activity observed in January. The seasonal patterns are probably why the government is not working on budget revisions. That said, a closer look at the February budget data reveals some concerning developments. First, the February gap surge does mark an all-time high. Moreover, looking at the tight fiscal targets set for the year (with the nominal budget practically unchanged), and the gap achieved to date, the cumulative deficit is at a record-high level relative to the annual target. Second, the budget gap expansion is again the fault of tax receipts which were 15% below budget at the end of February (vs. 16.4% last year), and which were 12.5% lower than a year earlier. VAT receipts particularly are ailing this year, showing a nearly 25% drop in February relative to the same month a year ago in a continuation of a downward trend. Set against expectations of steady monthly inflows, the YTD VAT receipts are at their lowest level in at least five years and they are more than likely to miss this year's target. Third, the miscalculations of the Polish government with regard to GDP growth and made when developing this year's budget are becoming increasingly obvious. Note that tax receipts are calculated based on nominal rather than real values, as reflected in the YTD direct tax inflows. Therefore, expectations of impending budget revisions do not seem unreasonable at this point even though the spending side is much more flexible and even if the government decides to transfer part of pension fund assets to the Social Insurance Institution.

Current Account Deficit

The current account deficit amounted to EUR 1546m in January, falling in line with consensus projections and slightly short of our EUR -1685m projection. The widening of the C/A deficit stemmed largely from seasonal factors, specifically large EU transfers. Only the trade balance was somewhat of a surprise, showing a deficit narrowing by ca. EUR 200m, and bringing the account up to a small surplus of EUR 5m. In more detailed terms, although the rebound in exports after the December downturn was not as strong as anticipated, once again, imports were the bigger surprise, increasing at a slower rate than expected by economists. One conclusion from this is that domestic demand remained weak in January, and thus did not manage to create a stronger need for foreign goods and services. Secondly, the trade account surplus indicates that net exports continued to contribute positively to GDP in the first quarter. Finally, as the trends observed in the last few months continue, the Polish economy is approaching a balanced state as shown in the falling trade deficit and the narrowing C/A gap.

Current recommendations of BRE Bank Securities S.A.

Company	Recommendation	Date issued	Price on report date	Target price	Current price	Upside / Downside	P/E 2012	P/E 2013	EV/EBITDA 2012	EV/EBITDA 2013
Banks										
BZ WBK	Buy	2013-04-08	269.00	300.00	269.00	11.5%	19.7	18.0		
GETIN NOBLE BANK	Accumulate	2012-12-10	1.73	1.90	1.73	9.8%	12.4	13.2		
HANDLOWY	Hold	2012-12-10	97.50	96.00	92.00	4.3%	12.4	15.3		
ING BSK	Accumulate	2013-02-06	88.60	93.00	90.00	3.3%	14.1	15.0		
MILLENNIUM	Hold	2013-03-06	4.84	4.80	4.57	5.0%	11.7	15.7		
PEKAO	Accumulate	2013-02-06	159.00	170.00	152.00	11.8%	13.5	15.5		
PKO BP	Buy	2013-02-06	34.59	40.00	34.79	15.0%	11.6	14.0		
Insurance										
PZU	Accumulate	2013-02-06	402.50	435.00	399.90	8.8%	10.6	12.1		
Financial services										
KRUK	Buy	2013-03-28	58.85	68.30	62.30	9.6%	13.0	12.2		
Fuels, chemicals										
CIECH	Buy	2012-12-10	22.42	28.30	21.35	32.6%	-	10.2	44.6	4.8
LOTOS	Hold	2013-02-06	39.50	37.40	39.92	-6.3%	5.6	8.4	11.9	8.1
MOL	Hold	2012-12-06	260.00	254.57	231.00	10.2%	11.6	11.0	5.8	5.4
PGNiG	Reduce	2013-03-11	5.93	5.00	5.36	-6.7%	14.1	9.5	8.7	5.8
PKN ORLEN	Buy	2013-04-08	50.00	59.30	50.00	18.6%	9.1	10.1	7.0	5.8
POLICE	Sell	2013-04-08	16.20	10.90	16.20	-32.7%	11.7	14.1	6.5	6.7
ZA PUŁAWY	Hold	2012-12-10	135.60	123.40	130.80	-5.7%	9.5	14.2	5.2	6.8
Power Utilities										
CEZ	Hold	2012-11-30	109.00	109.20	93.35	17.0%	7.5	7.7	5.7	5.9
ENEA	Accumulate	2012-11-30	15.80	17.55	13.95	25.8%	8.6	10.9	3.0	3.8
PGE	Hold	2012-11-30	17.85	18.10	16.99	6.5%	9.9	11.3	4.3	4.9
TAURON	Buy	2012-11-30	4.40	6.16	4.18	47.4%	5.0	7.6	3.2	4.5
Telecommunications										
NETIA	Suspended	2013-02-21	4.01	-	4.19	-	-	-	-	-
TPSA	Suspended	2013-02-12	11.64	-	6.42	-	-	-	-	-
Media										
AGORA	Hold	2012-12-10	9.99	10.30	7.01	46.9%	-	-	2.1	2.0
CINEMA CITY	Accumulate	2012-12-10	34.02	36.50	27.36	33.4%	14.5	12.3	7.0	5.9
CYFROWY POLSAT	Hold	2012-12-10	15.40	15.60	15.50	0.6%	10.6	12.8	7.3	7.7
TVN	Accumulate	2012-12-10	8.80	10.30	9.25	11.4%	-	17.2	10.4	10.7
IT										
AB	Suspended	2013-02-05	23.50	-	20.25	-	-	-	-	-
ACTION	Suspended	2013-02-05	29.70	-	31.20	-	-	-	-	-
ASBIS	Suspended	2013-02-05	3.21	-	3.87	-	-	-	-	-
ASSECO POLAND	Hold	2012-12-10	43.20	43.70	42.11	3.8%	8.9	9.1	6.2	6.1
COMARCH	Suspended	2013-03-11	89.60	-	83.25	-	-	-	-	-
SYGNITY	Suspended	2013-02-05	16.80	-	14.03	-	-	-	-	-
Mining & Metals										
JSW	Accumulate	2012-12-04	87.80	104.00	87.50	18.9%	10.4	18.8	3.6	4.8
KGHM	Accumulate	2013-01-07	193.50	204.00	159.60	27.8%	6.6	6.6	4.0	3.8
LW BOGDANKA	Accumulate	2012-12-04	134.00	143.80	120.50	19.3%	14.6	11.4	6.4	5.4
Manufacturers										
ALCHEMIA	Hold	2013-04-08	3.84	4.20	3.84	9.4%	30.3	13.6	10.2	6.9
ASTARTA	Buy	2012-12-10	57.45	76.90	63.80	20.5%	5.6	3.7	5.8	4.2
BORYSZEW	Hold	2012-12-10	0.53	0.56	0.42	33.3%	17.2	12.7	8.5	8.0
FAMUR	Reduce	2012-12-10	4.80	4.20	4.65	-9.7%	8.2	15.6	4.7	6.5
IMPEXMETAL	Buy	2012-12-10	3.14	4.20	2.58	62.8%	9.1	8.5	6.9	5.7
KERNEL	Hold	2013-03-04	62.60	61.10	59.25	3.1%	7.1	7.7	6.5	6.8
KĘTY	Reduce	2012-12-10	147.60	126.70	140.00	-9.5%	11.0	15.8	6.8	7.8
KOPEX	Hold	2013-03-06	15.20	16.20	15.00	8.0%	33.7	12.6	9.8	6.4
ROVESE	Reduce	2013-04-08	1.39	1.40	1.39	-13.7%	-	28.8	8.2	7.1
Construction										
BUDIMEX	Hold	2012-12-10	69.80	66.80	71.50	-6.6%	9.8	13.1	2.6	6.5
ELEKTROBUDOWA	Hold	2013-04-08	117.00	121.20	117.00	3.6%	14.1	14.0	9.5	9.0
ERBUD	Hold	2013-03-06	18.00	19.20	16.19	18.6%	12.6	10.5	3.0	5.5
MOSTOSTAL WAR.	Suspended	2013-04-08	7.43	-	7.43	-	-	-	-	-
RAFAKO	Suspended	2013-04-08	4.70	-	4.70	-	-	-	-	-
ULMA CP	Hold	2013-03-06	54.70	56.20	50.00	12.4%	12.9	407.2	2.7	3.8
UNIBEP	Accumulate	2013-03-06	6.69	6.80	5.71	19.1%	11.6	10.3	7.7	7.4
ZUE	Hold	2013-01-07	6.47	6.60	6.30	4.8%	53.3	12.2	12.3	5.8
Property Developers										
BBI DEVELOPMENT	Accumulate	2012-12-10	0.39	0.42	0.39	7.7%	92.7	45.0	39.7	54.5
DOM DEVELOPMENT	Accumulate	2013-04-04	30.50	33.40	32.00	4.4%	8.7	11.9	6.9	10.2
ECHO	Accumulate	2012-12-10	5.19	5.80	5.83	-0.5%	6.4	15.9	24.8	17.7
GTC	Hold	2012-11-06	8.27	8.30	7.60	9.2%	-	34.7	-	19.4
J.W.C.	Reduce	2012-08-01	4.22	4.00	3.85	3.9%	21.7	11.2	13.6	16.3
PA NOVA	Buy	2012-09-11	15.49	22.90	18.00	27.2%	10.2	8.0	15.4	9.5
POLNORD	Hold	2012-12-10	10.69	11.10	6.40	73.4%	6.4	13.8	5.1	14.1
ROBYG	Hold	2012-12-10	1.48	1.45	1.40	3.6%	18.1	12.1	13.2	11.8

Ratings issued in the past month

Company	Rating	Previous rating	Target Price	Rating day
ROVESE	Reduce	Hold	1.20	2013-04-08
COMARCH	Suspended	Reduce		2013-03-11
DOM DEVELOPMENT	Accumulate	Sell	33.40	2013-04-04
KRUK	Buy	Hold	68.30	2013-03-28
PGNiG	Reduce	Hold	5.00	2013-03-11

Ratings changed as of 8 April 2013

Company	Rating	Previous rating	Target Price	Rating day
Alchemia	Hold	Reduce	4.20	2013-04-08
BZ WBK	Buy	Accumulate	300.00	2013-04-08
Elektrobudowa	Hold	Reduce	121.20	2013-04-08
Mostostal Warszawa	Suspended	Hold		2013-04-08
PKN Orlen	Buy	Accumulate	59.30	2013-04-08
Police	Sell	Reduce	10.90	2013-04-08
Rafako	Suspended	Hold		2013-04-08

Ratings Statistics

	All					For issuers who are clients of BRE Bank Securities				
Statistics	Sell	Reduce	Hold	Accumulate	Buy	Sell	Reduce	Hold	Accumulate	Buy
count	1	8	25	15	5	0	2	13	10	4
as % of total	1.9%	14.8%	46.3%	27.8%	9.3%	0.0%	6.9%	44.8%	34.5%	13.8%

Banks

Poland's Central Bank quoted February statistics for deposits and loans

Total deposits fell slightly by 0.1% m/m (+6,1% y/y, 0.5% YTD) as outflow of non-monetary financial institutions savings (-5.8% m/m; +15.6% y/y and 1.5% YTD) was generously made up for by the growth of corporate deposits (+0.6% m/m, -5.4% y/y and YTD) and retail deposits (+1.3% m/m, +8.3% y/y and 2.5% YTD).
Loans showed a slow growth m/m by 0.1% (+2.9% y/y and +0.2% YTD) thanks to the increase of corporate loans (+0.2% m/m; +2.5% y/y and 0.8% YTD) and retail loans (+0.2% M/M, +2.8% Y/Y and 0.3% YTD). The growth of retail loans stems exclusively from further increase of mortgage loans (+0.4% m/m, +4.6% y/y and 0.9% YTD), and especially loans denominated in Polish zloty (+0.9% m/m, +18.4% y/y and 2.1% YTD), which account for 45% of total mortgages. The balance of non-mortgage loans dropped by 0.1% m/m (+0.1 y/y, but -0.5% YTD). As loans showed a slight growth whereas deposits reported a minor m/m decline in, loans/deposits ratio fell by 18bps m/m amounting to 100.5%.

Post February quality of loans

The share of non-performing loans in total loans in the Polish bank sector increased by 7 bps m/m to 8.7% in February. The quality of corporate loans deteriorated further by 19 bps to 13.2% m/m. The trend was observed both in SMEs (+14bps m/m) and big enterprises (+25bps m/m). Retail loans remained stable at 7.6% m/m. Although mortgage loans deteriorated (+7 bps m/m to 2.9%), the quality of other retail loans improved by 4bps to 14.7%.

February banking sector results

According to a February 2013 report by the Poland's Central Bank (NBP), the Polish banking sector earned a combined net income of PLN 1 065m, -19% y/y and -39% m/m. In January-February 2013 the net profit amounted to PLN 2 816m marking 2% drop vs. the same period a year ago. Compared to January, February results are very weak, the interest income dropped by 10%, while reserves increased by 131%. As a reminder, January results were surprisingly strong, a thing we were not able to explain. When we compare the average January-February results to the monthly average from 2012, there has been pressure on revenues across all segments: the interest income is lower by 8% (driven by lower market interest rates), the fee income is lower by 7% (most probably due to lower interchange fee and seasonally weak Q1), and the trading income is lower by 8%. Loan-loss reserves turned out astonishingly low.

Alior posts higher–than-expected Q4 net loss on weak interest income

Alior Bank recognized a net loss of PLN 49m in Q4 2012, which compares to net profits of PLN 90m recorded in Q3 2012 and PLN 71m booked in Q4 2011. The result turned out lower than market expectations. The quarterly loss exceeded a consensus forecast of PLN -22m. As predicted, Alior Bank's stock option program generated additional payroll costs of PLN 147m in Q4 2012 (these costs did not affect the Bank's equity). After adjustment for these costs, the quarterly bottom line shows a profit of PLN 98m, which is 7% more than in the quarter before and 36% more than the year before. The main reason behind the higher-than-expected net loss was weak interest income which showed quarter-on-quarter contraction of 1%, and which fell 16% short of analysts' forecasts. The quarterly interest margin shrunk by a whopping 60bps to 3.9%.

2013 net profit at PLN 414m – CEO

The CEO of Alior Bank Wojciech Sobieraj said that an average 2013 net profit of PLN 414m expected by analysts is 'definitely within reach'. With this assumption in place the Bank is now trading at 10.7x P/E.

Looking for investor takes time

The CEO of Alior Bank Wojciech Sobieraj said that the Bank had begun to look for a strategic investor. This process proceeds very slowly, though, there is neither a short nor a long list yet and it will accelerate in H2 2013.

The Bank will develop Express branches

The CEO of Alior Bank Wojciech Sobieraj said that in 2013 the Bank is planning to open between 100 and 180 Alior Bank Express branches.

No dividend from 2012 profits

Management is against paying out dividend from 2012 profits. Neutral news, in line with expectations.

Alior Bank opens PLN 2bn bond issue program

Alior Bank's Supervisory board approved an issue of unsecured bonds of up to PLN 2 bn aimed at raising funds for potential acquisitions. The maximum maturity of the bonds will be set at 10 years. The CEO Wojciech Sobieraj said that the Company will seriously consider acquiring portfolios or companies as they may positively impact revenues, diversify the offer and increase the value for shareholders. The COE confirmed that the development strategy of Alior Bank will still be based on a dynamic organic development and sustainable growth of loans and deposits.

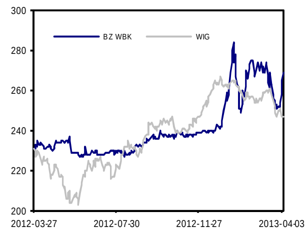
BZ WBK (Buy)

Current price: PLN 269 **Target price: PLN 300**

Analyst: Iza Rokicka
Last Recommendation: 2013-04-08

(PLN m)	2010	2011	change	2012	change	2013F	change	Basic data (PLN m)	
Net interest income	2 949.9	3 218.7	9.1%	3 060.7	-4.9%	3 055.3	-0.2%	Number of shares (m)	93.5
Interest margin	3.1%	3.2%		3.0%		3.0%		MC (current price)	25 163.6
Revenue f/banking oper.	5 079.5	5 319.4	4.7%	551.1	-89.6%	5 473.6	893.2%	Free float	30.0%
Operating income*	2 476.9	2 524.3	1.9%	2 896.4	14.7%	2 579.7	-10.9%		
Pre-tax income	1 591.9	1 973.6	24.0%	1 679.0	-14.9%	1 795.6	6.9%		
Net income	1 160.2	1 511.6	30.3%	1 277.4	-15.5%	1 399.3	9.5%		
ROE	12.9%	15.2%		11.4%		10.7%		Price change: 1 month	*0.0%*
P/E	21.7	16.6		19.7		18.0		Price change: 6 month	*13.0%*
P/BV	2.7	2.4		2.1		1.8		Price change: 12 month	*15.9%*
DPS	3.1	7.3		6.2		7.7		Max (52 w eek)	283.9
Dyield (%)	1.2	2.7		2.3		2.8		Min (52 w eek)	227.0

** before provisions*



Since our price target at PLN 300m implies 17% upside potential, we are upgrading our recommendation to Buy from Accumulate. Now that the risk of shares supply has disappeared, we consider BZ WBK stock an attractive investment opportunity driven by the improvement of profitability of the merged bank in 2014-2015. We anticipate that thanks to economic revival and materializing merger synergies (mostly cost synergies) the net profit will grow by 31% in 2014 and by 21% in 2015 relative to 13-14% average in the sector. On the other hand, investment risks, such as high integration costs which will be incurred mostly this year, or the acquisition of Santander Consumer Bank are known to the market and the current valuation definitely reflects them.

BZ WBK enters MSCI index in April

MSCI reports that as of 9 April BZ WBK will enter MSCI Poland, MSCI EME and EMEA indices. The reason behind that is the offer of BZ WBK's stock placed by Santander and KBC. MSCI added that it treats SPO equal to IPO, therefore past trading of BZ WBK's stock was not taken into account.

SPO price at PLN 245.00

As a result of SPO, KBC sold 15.1m shares of the Bank (16.2% of the capital) while Santander sold 4.8m shares (5.2% of the capital) at PLN 245.00 a share. As a consequence, KBC reduced its share in equity to 0%, Santander to 70% and free float stood at 30%. The implementation of the above mentioned transaction will allow Santander to deliver on the commitment given to the Financial Supervision Authority (KNF) under which at least 30% of BZ WBK's capital will fall in the hands of minority shareholders by the end of 2014.

Supervisory Board Member steps down

BZ WBK informed that Guy Libot resigned from the position of Supervisory Board Member as of 2 April. The reason for resignation is that KBC Bank NV sold all the stock it held in the Bank.

Getin Noble Bank (Accumulate)

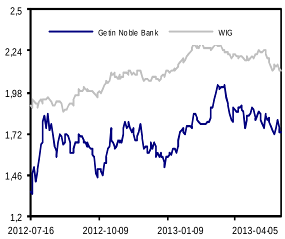
Current price: PLN 1.73 **Target price: PLN 1.9**

Analyst: Iza Rokicka

Last Recommendation: 2012-12-10

(PLN m)	**2010**	**2011**	**change**	**2012**	**change**	**2013F**	**change**	**Basic data (PLN m)**	
Net interest income	1 052.5	1 369.4	30.1%	1 247.6	-8.9%	1 270.0	1.8%	Number of shares (m)	2 245.5
Interest margin	2.8%	2.8%		2.2%		2.2%		MC (current price)	3 884.8
Revenue f/banking oper.	2 253.0	2 411.2	7.0%	2 136.1	-11.4%	2 182.7	2.2%	Free float	44.3%
Operating income*	1 524.3	2 113.0	38.6%	1 404.0	-33.6%	1 377.5	-1.9%		
Pre-tax income	467.0	903.4	93.4%	455.9	-49.5%	444.7	-2.5%		
Net income	450.1	778.0	72.8%	371.1	-52.3%	348.2	-6.2%		
ROE	14.6%	21.4%		8.5% `		7.2%		Price change: 1 month	*-4.9%*
P/E	8.6	5.0		12.4		13.2		Price change: 6 month	*-2.3%*
P/BV	1.2	1.0		1.0		0.9		Price change: 12 month	*-11.7%*
DPS	0.0	0.0		0.0		0.0		Max (52 w eek)	2.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 w eek)	1.3

** before provisions*



Although we continue to believe that in H1 2013 Getin Noble Bank may struggle to post good financial results, we are reiterating our Accumulate recommendation with the target price set at PLN 1.90. We consider PLN 1bn bottom line in 2014 aspired to by the Board (vs. PLN 371m in 2012) to be very demanding. Since the majority of the expected improvement of profitability should come in 2015, the market should ignore this forecast for the next year as it is difficult to asses whether it can be delivered. In our view, the forecast presented by the Board assumes an unambiguously positive scenario both for the economy and the Company itself. Our forecasts have assumed PLN 528m net profit in 2015, which implies undemanding 9.2x P/E ratio, 26% below the market average.

Getin Noble Bank buys Dexia

The antitrust authority (UOKiK) approved the takeover of Dexia Kommunalkredit Bank by Getin Noble Bank. Financial Supervision Authority (KNF) agreed for the transaction in February 2013. The transaction took place on 28 March. The final purchasing price amounted to PLN 57.08m, 0.7xP/BV. Following the transaction Getin Noble Bank will recognize ca. PLN 20m badwill in Q1'13 results.

Getin Noble Bank to issue up to PLN 750m bonds

Getin Noble Bank's Supervisory Board has approved a PLN 750m bond program. The Bank wants to do at least two bond issues within 12 months from the Board resolution.

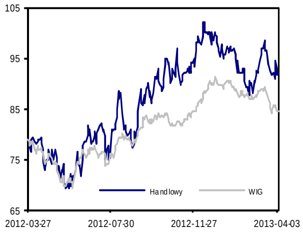
Handlowy (Hold)

Current price: PLN 92 **Target price: PLN 96**

Analyst: Iza Rokicka
Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012	change	2013F	change	Basic data (PLN m)	
Net interest income	1 498.8	1 434.4	-4.3%	1 488.3	3.8%	1 446.7	-2.8%	Number of shares (m)	130.7
Interest margin	4.0%	3.6%		3.5%		3.4%		MC (current price)	12 020.7
Revenue f/banking oper.	2 564.8	2 416.3	-5.8%	2 745.1	13.6%	2 461.4	-10.3%	Free float	25.0%
Operating income*	1 184.4	996.6	-15.9%	1 297.1	30.2%	1 086.0	-16.3%		
Pre-tax income	942.6	921.5	-2.2%	1 239.5	34.5%	981.7	-20.8%		
Net income	754.8	736.4	-2.4%	970.1	31.7%	785.3	-19.0%		
ROE	11.9%	11.4%		14.0%		10.7%		Price change: 1 month	*-0.2%*
P/E	15.9	16.3		12.4		15.3		Price change: 6 month	*1.1%*
P/BV	1.9	1.9		1.6		1.7		Price change: 12 month	*20.1%*
DPS	3.8	5.7		2.8		5.5		Max (52 week)	102.0
Dyield (%)	4.1	6.2		3.0		6.0		Min (52 week)	69.4

** before provisions*



Handlowy offers the highest dividend yield across the sector amounting to 6.0%. Since at the end of 2012 the solvency ratio amounted to 18%, in the following years Handlowy will continue to generously share its profits with shareholders. However, following record results in 2012 when the Bank earned PLN 970m (+32% y/y) we are expecting a drastic 19% plunge of the net profit in 2013 to PLN 785m. This will be driven by considerably lower than expected proceeds from bonds, which amounted to PLN 278m in 2012 (10% of total revenues) generating 23% pre-tax profit. As a consequence, Handlowy is trading at an unattractive 15.3x2013 ratio, 4% above the average for peer companies. In our opinion, a combination of high DY and relatively high P/E give grounds for issuing Hold recommendation.

Dividend recommendation

The Board of Bank Handlowy will propose a dividend at 75% of the standalone profit, as recommended by the Financial Supervision Authority (KNF). This means a dividend of PLN 5.79 and DY of 6.3%. The Board proposed also to schedule dividend record day for 5 July 2013 and the dividend payout day for 30 August 2013. These recommendations will have to be subject to the approval of the Supervisory Board, however we are expecting a positive opinion. The dividend is in line with our and market expectations.

Handlowy slims down leasing operations

Handlowy informed that its Supervisory Board had approved the strategy regarding leasing operations assuming that a subsidiary Handlowy-Leasing Sp z o.o. would limit operations in this area. The Company added that the profits from these operations have systematically fallen and its share in total revenues amounted to less than 1% in 2012. Leasing products will stay in the Bank's offer and will be sold as part of the so-called 'open architecture', partnership cooperation of the Bank with entities from outside the Group. Since in Q4'12 results Handlowy wrote-off tax assets of its leasing subsidiary, we believe that slimming down this segment will not drastically impact consolidated results.

Vice CEO on 2013 loan quality

Vice CEO Witold Zieliński told Polish Press Agency PAP that Handlowy wants to maintain costs of risk and the NPL ratio at above-market levels in 2013, but said that achieving an NPL ratio of 7.5% would be considered a big success. The beginning of 2013 did not bring surprises as to the quality of the loan portfolio. Our FY2013 forecasts for Handlowy assume cost of risk of 70bps, 30bps more than in 2012 and ca. 50bps more than our forecasted sector average.

Vice CEO on loan portfolio growth perspectives in 2013

Vice CEO of Handlowy, Witold Zielinski said in an interview for PAP that in 2013 the Bank wants to increase its loan portfolio in the corporate segment faster than the market average, which will grow at 1-3% y/y. As for retail loans, the Bank is planning to grow in line with the market. Zielinski says that in 2013 retail loans will grow more slowly than corporate loans. The perspectives regarding the growth of loan portfolio presented by Handlowy differed from ours. We are assuming that corporate loans will drop by 2-3% y/y in 2013, while retail loans will grow by 3-6% y/y.

ING BSK (Accumulate)

Current price: PLN 90 **Target price: PLN 93**

Analyst: Iza Rokicka

Last Recommendation: 2013-02-06

(PLN m)	2010	2011	change	2012	change	2013F	change	Basic data (PLN m)	
Net interest income	1 627.6	1 851.5	13.8%	2 048.9	10.7%	2 060.2	0.6%	Number of shares (m)	130.1
Interest margin	2.6%	2.8%		2.8%		2.7%		MC (current price)	11 709.0
Revenue f/banking oper.	2 682.5	2 895.5	7.9%	3 150.0	8.8%	3 134.6	-0.5%	Free float	25.0%
Operating income*	1 096.5	1 248.7	13.9%	1 343.2	7.6%	1 330.4	-1.0%		
Pre-tax income	934.1	1 117.5	19.6%	1 016.1	-9.1%	978.4	-3.7%		
Net income	753.1	880.1	16.9%	832.3	-5.4%	782.7	-6.0%		
ROE	14.3%	14.6%		11.4%		9.5%		Price change: 1 month	*1.4%*
P/E	15.5	13.3		14.1		15.0		Price change: 6 month	*7.7%*
P/BV	2.1	1.8		1.4		1.4		Price change: 12 month	*1.9%*
DPS	0.0	1.5		0.0		0.0		Max (52 week)	94.0
Dyield (%)	0.0	1.7		0.0		0.0		Min (52 week)	73.9

** before provisions*

We are reiterating our opinion that in 2013 ING BSK may partly cash out proceeds from bonds accumulated in capital, although the Bank did not do so in the previous year. At the end of 2012 the revaluation reserve of debt instruments amounted to a staggering PLN 591m, which represents 75% of our net profit forecast in 2013. Based on our current forecast for 2013, which does not take into account the potential proceeds from bonds, the Bank is trading at 15.0xP/E, equal to the sector average. We are reiterating our valuation at PLN 93.0 and accumulate recommendation for ING BSK.

The Board recommends no dividend from 2012 profits

ING BSK informed that its Board will recommend allocating the whole profit from 2012 in internal funds. The above mentioned decision is driven by the requirements imposed by the KNF. In one of the stress scenarios (sudden growth of proceeds from treasury bonds) the solvency ratio drops below 12%. News in line with our expectations.

New VP of Board appointed

ING BSK informed that Joanna Erdman was appointed Vice President of the Board as of 1 April 2013. She will be responsible for Strategic Clients and Financial Markets segments.

Millennium (Hold)

Current price: PLN 4.57 **Target price: PLN 4.8**

Analyst: Iza Rokicka

Last Recommendation: 2013-03-06

(PLN m)	2010	2011	change	2012	change	2013F	change	Basic data (PLN m)	
Net interest income	1 009.8	1 190.8	17.9%	1 227.3	3.1%	1 103.8	-10.1%	Number of shares (m)	1 213.1
Interest margin	2.2%	2.4%		2.4%		2.0%		MC (current price)	5 543.9
Revenue f/banking oper.	1 714.4	1 901.7	10.9%	1 951.1	2.6%	1 812.7	-7.1%	Free float	34.5%
Operating income*	633.0	765.6	20.9%	831.8	8.6%	698.6	-16.0%		
Pre-tax income	407.8	591.1	44.9%	596.0	0.8%	442.1	-25.8%		
Net income	326.0	466.5	43.1%	472.2	1.2%	353.7	-25.1%		
ROE	9.5%	10.8%		10.0%		7.1%		Price change: 1 month	*-5.6%*
P/E	17.0	11.9		11.7		15.7		Price change: 6 month	*9.6%*
P/BV	1.4	1.2		1.1		1.1		Price change: 12 month	*3.9%*
DPS	0.0	0.1		0.0		0.0		Max (52 week)	5.2
Dyield (%)	0.0	2.2		0.0		0.0		Min (52 week)	3.2

** before provisions*

In April the European Commission will present its recommendations and conclusions regarding the conditions of granting EUR 3.0bn public help to BCP by Portuguese government. This information may turn out crucial for the shareholders of the Polish bank, as it should put an end to market speculations regarding the potential sale of Millennium. As a reminder, our valuation does not include temporary premium, and with the price set at PLN 4.80 the Bank is trading at 1.14x2013 P/BV, lower than the final price at which BZ WBK bought Kredyt Bank (1.54x). On our conservative 2013 net profit forecast (-25% y/y at PLN 354m; The Board aspires to at least repeat 2012 results), Millennium is still trading at 15.7 P/E ratio, 4% above average valuation of peer companies.

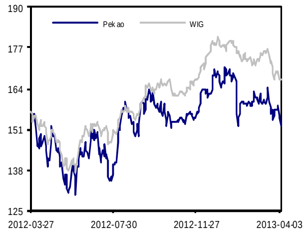
Pekao (Accumulate)

Current price: PLN 152 Target price: PLN 170

Analyst: Iza Rokicka
Last Recommendation: 2013-02-06

(PLN m)	2010	2011	change	2012	change	2013F	change	Basic data (PLN m)	
Net interest income	4 103.7	4 557.9	11.1%	4 805.4	5.4%	4 772.5	-0.7%	Number of shares (m)	262.4
Interest margin	3.1%	3.2%		3.2%		3.1%		MC (current price)	39 882.2
Revenue f/banking oper.	7 196.9	7 661.4	6.5%	7 817.2	2.0%	7 553.2	-3.4%	Free float	49.9%
Operating income*	3 614.0	4 056.4	12.2%	4 303.0	6.1%	3 972.0	-7.7%		
Pre-tax income	3 101.5	3 592.9	15.8%	3 680.3	2.4%	3 180.8	-13.6%		
Net income	2 525.2	2 899.4	14.8%	2 955.7	1.9%	2 567.0	-13.2%		
ROE	13.1%	14.0%		13.2%		11.0%		Price change: 1 month	-6.5%
P/E	15.8	13.8		13.5		15.5		Price change: 6 month	-3.2%
P/BV	2.0	1.9		1.7		1.7		Price change: 12 month	-1.9%
DPS	2.9	6.8		5.4		8.3		Max (52 week)	170.5
Dyield (%)	1.9	4.5		3.5		5.5		Min (52 week)	130.2

** before provisions*



Although Pekao is trading with 11% premium to PKO BP on 2013E P/E ratio (15.5x), we are reiterating our accumulate recommendation. Pekao reported strong Q4 results proving that a bank with a corporate structure of the balance sheet is less vulnerable to falling interest rates than retail banks. We are expecting similar tendencies in interest margins and interest income in H1 2013. In addition, Pekao is trading with an attractive dividend yield of 5.5%, and high solvency ratio (19% at the end of 2012) implies that in the future the Bank will generously share its profits with shareholders. Note that at the end of 2013 the value of debt instruments in capitals amounted to PLN 705m (27% of the net profit expected in 2013), which may generate additional revenues not included in our forecast.

Pekao posts solid Q4 2012 core earnings

Pekao reported PLN 743m net profit in Q4'12 marking 7% fall q/q and 4% decrease relative to Q4'11. Nevertheless, the result exceeded a PLN 724m consensus estimate by 3% and topped our PLN 714m forecast by 4%. It is important to note that the better-than-expected profits were not provided by trading income (as proceeds from bond sales were "just" PLN 44m, -71% Q/Q, 41% below expectations), and were achieved in spite of higher-than-expected loan-loss reserves. The main reason behind the strong quarterly performance were strong core earnings (with both interest income and fee income exceeding expectations) which increased 2% from the quarter before, combined with tightly controlled operating expenses which decreased 3% Q/Q. Summing up, we have a positive view of Pekao's fourth-quarter results despite a problematic reserve structure.

Q4 2012 fee income and interest income came as a positive surprise exceeding our forecasts by 2% each. Interest income rose 1% Q/Q to PLN 1221m, and fee income increased 4% Q/Q to PLN 576m. In spite of falling interest rates, the interest margin remained flat at the quarter-before level of 3.3% as downward pressure on deposit margins was offset by improving interest margins. This confirms our belief that balance sheets predominantly made up of corporate assets are less sensitive to interest rate cuts. The quarter-on-quarter increase in Pekao's Q4 2012 fee income was led by a seasonally strong, 10% increase in card fees combined with 9% higher brokerage fees. Pekao generated strong trading income in Q4 2012 even after a quarter-on-quarter drop of 34%. Bond gains of PLN 44m were 71% lower than in Q3 and much lower than our PLN 75m forecast. Thanks to favorable conditions in the debt market in Q4'12, Pekao managed to considerably raise its available-for-sale bond revaluation reserve, which increased by ca. PLN 290m from Q3 at PLN 705m –an equivalent of 27% of the annual net profit expected in 2013. Adjusted for the bond gains, trading income amounted to PLN 130m, marking an 18% increase from Q3 and a 15% decrease from Q4 2011.

Operating expenses surprised on the upside, falling 3% Q/Q and 5% Y/Y to a level seen in Q4 2007 when Pekao acquired most of the assets of the former BPH. Non-payroll costs decreased 4%, thanks probably to end-of-year cost adjustments, and payroll costs were reduced by 2% through partial reversals of payroll allowances.

Pekao's Q4 2012 loan-loss reserves showed a slightly higher-than-expected Q/Q increase of 12% to PLN 201m, but the biggest surprise for us was the composition of these reserves. As it turns out, Pekao reversed PLN 72m of retail loan reserves in Q4 (vs. PLN 70m on average in the three preceding quarters), and raised a whopping PLN 258m new reserves for corporate loan losses (vs. PLN 91m in Q1-Q3). The Bank's CEO explained the higher retail reversals with an extension of the recovery rate period from five to seven years resulting in ca. PLN 160m reversals which, however, were partly offset by the adoption of more conservative assumptions for other measurements. Note that the effect of extending the term of recovery rate implies that 2006-2007 were on average 'better' than 2008-2012. As the "good" months of 2006 and 2007 drop out of the formula and what are sure to be "bad" months of 2013 get in, the positive effect on retail loan loss reserves will last only into the mid-term. As for the high net charge-offs in the corporate segment, we think they pertained to loans already marked as non-performing, particularly loans extended to construction companies and residential developers.

2013 outlook

Pekao presented its 2013 outlook on the Polish bank sector during the Q4 2012 earnings conference. The Bank projects that the sector will report 12.7% y/y fall of profits based on the assumption of 2.6% lending growth (including a 3.1% increase in retail lending, 0.6% decline in corporate lending), and a 5.8% increase in deposits (with retail deposits expected to rise 6.9%, and corporate deposits expanding 4.3%). Further, Pekao expects the introduction of a bank tax at 10bps of risk-weighted assets. Such a levy will slow down net income growth by ca. 4.0ppts.

Pekao is aiming at generating above-market growth in profits and volumes despite downward pressure on interest income and fee income which may most probably be expected this year. The Bank is planning to maintain or even reduce its cost base y/y. Cost of risk is expected to remain flat at ca. 80bps, with charge-offs increasing in the retail segment and decreasing in the corporate segment. Pekao did not clarify its plans with respect to treasury bonds classified as available for sale, but we believe these bonds may be sold this year as a profitability supporting measure.

Our 2013 forecasts for the bank sector as well foresee deposit expansion at a faster rate than loan expansion (+4.4% vs. +1.4%) although our assumptions are a bit more conservative in this respect. Our 2013 aggregate net profit forecast for the banks in our coverage assumes 11% contraction in the annual profit not including the impact of the new bank tax. For Pekao specifically, our FY2013 net income forecast of PLN 2.6bn implies 13% year-on-year shrinkage. We have more conservative expectations than the Bank when it comes to cost of risk (85bps) and operating expenses (+2% Y/Y).

Dividend recommendation

The Board of PKO presented its 2012 dividend proposal. It will amount to PLN 8.39 a share representing 75% of the standalone profit and 5.5% DY. The Board proposed also to schedule dividend record day for 21 June 2013 and the dividend payout day for 8 July 2013. The dividend is slightly above our forecast, which stood at PLN 8.29 a share.

Board reshuffle

Pekao informed that as of 12 March Marco Iannaccone resigned from the position of VP of the Board, the resignation becomes effective on 31 March. Iannaccone will assume another managerial position in UniCredit group. The Supervisory Board appointed Stefano Santini the VP of the Board as of 1 April 2013.

Fitch confirms ratings for Pekao

Pekao informed that Fitch confirmed its ratings on an unchanged level: Long-term IDR in foreign currencies – ‘A’- (stable outlook), short-term IDR in foreign currencies – ‘F2’, viability rating – ‘a’ and support rating at ‘2’. The ratings were revised and reaffirmed following the revision and downgrade of ratings for Italian banks, including UniCredit - a parent company of Pekao.

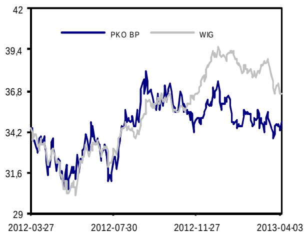
PKO BP (Buy)

Current price: PLN 34.79 Target price: PLN 40

Analyst: Iza Rokicka
Last Recommendation: 2013-02-06

(PLN m)	2010	2011	change	2012	change	2013F	change	Basic data (PLN m)	
Net interest income	6 516.2	7 609.1	16.8%	7 882.8	3.6%	7 413.1	-6.0%	Number of shares (m)	1 250.0
Interest margin	4.0%	4.2%		4.1%		3.8%		MC (current price)	43 487.5
Revenue f/banking oper.	10 021.9	10 999.8	9.8%	11 392.2	3.6%	10 614.5	-6.8%	Free float	68.6%
Operating income*	5 948.4	6 731.0	13.2%	6 951.5	3.3%	6 100.4	-12.2%		
Pre-tax income	4 079.2	4 780.9	17.2%	4 645.3	-2.8%	3 884.0	-16.4%		
Net income	3 216.9	3 807.2	18.4%	3 748.6	-1.5%	3 108.3	-17.1%		
ROE	15.4%	17.2%		15.8%		12.3%		Price change: 1 month	-0.7%
P/E	13.5	11.4		11.6		14.0		Price change: 6 month	-2.3%
P/BV	2.0	1.9		1.8		1.7		Price change: 12 month	3.5%
DPS	1.9	2.0		1.3		1.5		Max (52 week)	38.0
Dyield (%)	5.5	5.7		3.7		4.3		Min (52 week)	30.5

** before provisions*



Although the strategy for 2013-2015 presented by the Bank did not bring major surprises, it included several elements which, in our view, will foster the stock price. We still believe that 2013 which will see a sharp decline of market interest rates will pose a challenge for the profits of PKO BP (we are expecting 17% decline of the net profit to PLN 3.1bn). Therefore the release of payment assets through a strategic alliance (eService, expected to fetch PLN 200m one-time profit) expected most probably in Q2 2013 should be even more appreciated. In the long-term the decline of cost of risk to 1.2 ppts vs. our forecast of 1.4ppts seems promising and it translates into ca. PLN 250m difference in the annual net profit. On our conservative forecast of 2013 net profit (which does not include the standalone net profit from the valuation of eService), PKO BP is valued at an attractive 14.0x P/E, 6% below the sector's average. We are reiterating a Buy rating for PKO.

Strategy for 2013-2015

PKO BP presented its strategy for 2013-2015. The main financial goal is to achieve over 15% return on equity with:

- Loans/deposit ratio below 98%
- Solvency ratio above 12% and Tier-1 above 11%
- Cost/income ratio below 45% and
- Cost of risk at 120 bps.

The Bank wants to achieve the following through:

- Growing satisfaction, improved productivity, innovation and new technologies, improving distribution network in the retail banking
- Development of transactional banking and new sales strategy in corporate banking,
- Growing sales of capital market products and optimization of assets and liabilities in the investment banking,
- strategic alliances in the area of payments (eService) and insurances.

Moreover, the Management Board reiterated its opportunistic approach as to acquisitions both on Polish and foreign markets as well as to selling non-core assets (Qualia – developer company, Inter Risk Ukraina – debt collection company in Ukraine and Finansowa Kompania – factoring company in Ukraine). Although the strategy presented by PKO BP is hardly a surprising one (it is in line with market expectations and previous information quoted by the CEO), several positive aspects should be highlighted: 1) cost of risk falling to 120 bps (in our forecast we have assumed 140 bps in 2015), 2) strategic alliance in the area of payment in Q2 2013 (this will allow for the generation of PLN 200m valuation of shares in eService; the Company is now valuated at PLN 55.5m on the balance sheet; this aspect has not been taken into account in our net profit forecast) and a strategic alliance in the area of insurances expected between 2013 and 2014 (it may potentially also generate one-time positive revaluation, beside the growth of business itself).

CEO on growth strategy

In an interview for the DGP daily paper, CEO Jagiełło confirmed plans to seek acquisition opportunities in light of limited potential for organic expansion. PKO BP would like to strengthen its presence in small cities as well as larger metropolitan areas. In the former case, this could be achieved through an alliance with the Polish Post Office formed to compete with coop banks and credit unions. In the latter case, PKO BP could acquire a medium-sized bank with good high-street locations and a portfolio of HNW accounts.

Recommendation on dividend from 2012 profits expected in April

The bank has informed it will present its proposal on dividend from 2013-2015 profits after 15 April. The dividend payout ratio will be lower than 100%.

The Treasury expects highest possible dividend from PKO BP and PZU

Minister of the Treasury Mikołaj Budzanowski said he is expecting PKO BP and PZU to pay out a maximum possible dividend from profits. As we understand this comment this would mean the highest dividend acceptable by the Financial Supervision Authority (KNF). In case of PKO BP, this represents 75% of standalone net profit (PLN 2.16 a share), and in case of PZU it is 100% of standalone net profit (PLN 29.9). In our current forecast we are expecting PLN 1.49 for PKO BP and PLN 26.0 for PZU, which means that finally dividends may be higher by 45% for PKO BP and 15% for PZU.

The minister of administration and digitization against the acquisition of Bank Pocztowy

The Minister of Administration and Digitization (who supervises Polish Post Office) said he was against the take over of Bank Pocztowy by PKO BP. In his view the only alternative is that Polish Post Office (Poczta Polska) buys shares of Bank Pocztowy from PKO BP 'on reasonable terms'. On the other hand, the Minister of Treasury, Mikołaj Budzanowski said that from the perspective of the banking sector it would be reasonable to merge Bank Pocztowy with PKO BP. He also added that the Financial Supervision Authority (KNF) shares this view. Therefore the Treasury asked all involved parties to reconsider this issue. As a reminder, PKO BP's share in Bank Pocztowy (25%) is valuated at PLN 107m, P/BV of 1.2x on the balance sheet.

Insurance

PZU (Accumulate)

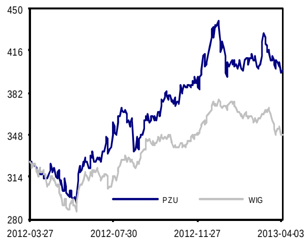
Current price: PLN 399.9 Target price: PLN 435

Analyst: Iza Rokicka

Last Recommendation: 2013-02-06

(PLN m)	2010	2011	change	2012	change	2013F	change
Gross written premium	14 541.0	15 279.3	5.1%	16 243.1	6.3%	16 545.2	1.9%
property insurance	8 028.5	8 527.5	6.2%	8 789.2	3.1%	8 813.4	0.3%
life insurance	6 512.5	6 751.8	3.7%	6 751.8	0.0%	7 454.0	10.4%
Technical profit	17 066.7	16 491.2	-3.4%	19 916.4	20.8%	19 121.1	-4.0%
Pre-tax income	3 029.4	2 907.6	-4.0%	4 038.7	38.9%	3 518.7	-12.9%
Net income	2 439.2	2 345.4	-3.8%	3 255.2	38.8%	2 862.9	-12.1%
ROE	20.3%	18.3%		24.1%		19.6%	
P/E	14.2	14.7		10.6		12.1	
P/BV	2.7	2.7		2.4		2.3	
DPS	158.6	26.0		22.4		26.0	
Dyield (%)	39.6	6.5		5.6		6.5	

Basic data (PLN m)	
Number of shares (m)	86.4
MC (current price)	34 532.3
Free float	64.8%
Price change: 1 month	*-2.7%*
Price change: 6 month	*10.3%*
Price change: 12 month	*23.0%*
Max (52 week)	440.0
Min (52 week)	292.1



We are reiterating an accumulate rating on PZU with target price of PLN 435 a share. We stand by our opinion that dividend represents the most attractive aspect of investing in PZU. The fact that despite a one-time increase of reserves PZU SA did not incur net loss on a Q4 standalone statement means that dividend from 2012 profits may reach even PLN 29.9 a share (DY: 7.5%), 15% above our forecast of PLN 26.0. In our view this dividend should not be treated as exceptionally high. In our opinion the next dividend may reach even PLN 33.15 a share (DY: 8.3%) with the expected 12% decline of consolidated net profit to PLN 2.9bn in 2013. Despite a high dividend yield, PZU is still trading at reasonable 12.1x2013 P/E ratio.

Dividend from 2012 profits - CEO

In FY 2012 the standalone net profit of PZU SA amounted to PLN 2 581m, flat y/y (the profit is 21% lower than the consolidated net profit due to lower revenues from dividend in PZU Życie. The Board informed that it would like to pay out a dividend close to the upper threshold of PZU-s dividend policy (50-100% of the consolidated profit, not more than 100% of the standalone profit). In our view the Board will recommend a dividend close to 100% of standalone profit, which would give a maximum of PLN 29.9 a share (15% more than our forecast – PLN 26.0 a share) and DY at 7.5%. Nevertheless the CEO mentioned that at EGM scheduled for the end of May or the beginning of June 2013 the majority shareholder of PZU (the Treasury) may repeat the argument of capital surplus. This may imply that the Treasury will propose a higher dividend than the Board's recommendation. As of the end of 2012 solvency margin of PZU amounted to 406%, which gives ca. PLN 6.4bn capital surplus (including 2012 profit) over the PZU's minimum solvency margin of 250%. In the most optimistic scenario the Company could pay out a staggering PLN 74 dividend a share (combined with a dividend from 2012 profits), which implies DY of 18.5%.

The Treasury expects highest possible dividend from PKO BP and PZU

Minister of the Treasury Mikołaj Budzanowski said he is expecting PKO BP and PZU to pay out a maximum possible dividend from profits. As we understand this comment this would mean the highest dividend acceptable by the Financial Supervision Authority (KNF). In case of PKO BP this represents 75% of standalone net profit (PLN 2.16 a share), and in case of PZU 100% of standalone net profit (PLN 29.9). In our current forecast we are expecting PLN 1.49 for PKO BP and PLN 26.0 for PZU, which means that finally dividends may be higher by 45% for PKO BP and 15% for PZU.

CEO on administrative costs in 2013

Andrzej Klesyk, the CEO of PZU said that administrative costs in 2013 should be close to the 2012 levels. In our 2013 forecast we have assumed administrative costs of PLN 1 429m, 1% decline y/y.

Board on perspectives for 2013

During the Q4 2012 earnings conference the Board of PZU said they were expecting pressure on 2013 net profit driven mostly by: deposit income and earnings from motor insurance policies. We are expecting that in 2013 the consolidated net profit will amount to PLN 2 871m, 12% less than a year ago.

PZU loses court battle over lack of dividends

The Supreme Court has ruled that PZU violated good industry practice by not paying dividends out of 2006 earnings. This marks the end of the court case filed by the Company's minority shareholders at the time, led by Manchester Securities Corporation. PZU has not issued a comment yet as it is waiting for a judicial explanation of the verdict. From what we understand, if the Company is forced to pay the back dividends (which were de facto paid out in 2009 as dividend from capitals), they will go to the current shareholders. As for the court fees, they should not affect PZU's profitability in any major way.

CEO on medical market

Speaking at a post-results conference the CEO of PZU, Andrzej Klesyk, did not refer to press speculations regarding the potential acquisition of EMC Instytut Medyczny. Nevertheless, the CEO does not rule out acquisitions on the healthcare market. He reiterated the goal of PZU to reach PLN 5bn from written premiums for health insurance in 5 years adding this will not be possible without legislative changes regarding National Healthcare Fund (NFZ) and/or acquisitions on this market.

Financial Services

KRUK (Buy)

Current price: PLN 62.3 **Target price: PLN 68.3**

Analyst: Iza Rokicka
Last Recommendation: 2013-03-28

(PLN m)	2010	2011	change	2012	change	2013F	change	Basic data (PLN m)	
Income	164.3	274.0	66.8%	343.0	25.2%	391.3	14.1%	Number of shares (m)	16.9
Debt purchases	118.1	230.4	95.1%	303.0	31.5%	347.2	14.6%	MC (current price)	1 052.9
Collection	44.1	41.0	-7.0%	32.9	-19.7%	31.3	-4.9%	Free float	59.7%
Indirect margin	74.7	143.7	92.2%	194.1	35.1%	205.6	5.9%		
Pre-tax income	35.6	68.5	92.5%	85.1	24.1%	91.1	7.0%		
Net income	36.1	66.2	83.5%	81.0	22.4%	86.9	7.2%		
ROE	31.6%	35.9%		29.2%		24.1%		Price change: 1 month	*14.3%*
P/E	26.4	15.9		13.0		12.3		Price change: 6 month	*36.9%*
P/BV	7.3	4.4		3.3		2.6		Price change: 12 month	*24.1%*
DPS	0.0	0.0		0.0		0.0		Max (52 week)	63.9
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	42.5

Kruk is operating in four EEC countries, where the combined debt collection market will rise on average by 4% in 2013-2015. In our view the Company will be able to increase its annual CAPEX from PLN 308m in 2012 to PLN 406m in 2015, i.e. by 10%. Looking at the portfolio of purchases made in 2012, we see that such a diversified geographic presence allows the Company to more flexibly navigate the competitive landscape and invest in whichever market offers the highest returns at a given time. In addition, despite the forecasted increase of CAPEX for portfolio purchases, Kruk is likely to pay out its first dividend in 2015 at the latest. The Company is set to see 7% growth to PLN 87m in annual net income in 2015, which means it is doing much better than other companies in the financial sector. Calculated based on our forecasts, Kruk shares are currently trading at attractive ratios of FY2013 P/E of 12.3x and 2014 P/E of 11.2x, showing discounts of 9% and 5%, respectively, to international peers. We are reiterating a Buy rating for Kruk.

Net profit 2012 ahead of expectations at PLN 27.1m

At PLN 27.1m, the Q4 12 net income of Kruk showed a 93% surge from the same period in 2011 and a 25% increase from the quarter before, and it came 7% ahead of our PLN 25.3m forecast thanks mainly to higher-than-expected collections revenue. The year-on-year earnings expansion was owed mainly to base effects experienced in the purchased debt segment, while the quarter-on-quarter growth stemmed from stronger revenues generated from debt management services combined with PLN 7m gain resulting from forecast adjustments (we anticipated PLN 8.5m). Kruk's annual net income for FY2012 amounted to PLN 81.0m, marking an increase of 22% from 2011.

As promised, Kruk spent PLN 119m on portfolio purchases in Q4 12 (-16% Y/Y, +28% Q/Q). The nominal value of the debt was PLN 1079m, which means that the average price amounted to 11.1% vs. 8.6% in FY2012. In Q4'12 repayments amounted to PLN 119m (+12% y/y and +3% q/q) and came in line with our expectations. Note that this is the highest quarterly level in history. Portfolios recognized on the balance sheet as of 31 December 2012 had a value of PLN 873m (+22% Y/Y, +11% Q/Q).

At PLN 97.9m, Kruk's Q4 revenue showed 17% growth from Q4'11 and 14% expansion from Q3'12, and it exceeded our estimate by 7%. The main revenue driver was the segment of outsourced debt collection which grew its topline by 22% from Q3 (Y/Y growth was negative at -9%) to PLN 9.3m thanks to recognition of irregular and unpredictable revenues from secondary collection (Kruk is an agent for companies which bought Polish debt portfolios). Revenues in the core segment of purchased debt were also strong, increasing 18% Y/Y and 13% Q/Q to PLN 86.2m. Revaluation of portfolios generated a gain of PLN 7m, up PLN 3.5m from Q3.

Q4 2012 direct and indirect costs (the so-called variable costs) surged 20% relative to Q3 (but decreased 6% from the high Q4'11 base), reaching PLN 42.7m, which was 11% higher than we had forecasted. Costs were driven by a 23% Q/Q increase to PLN 35.9m in the expenses incurred by the purchased debt segment, and by a higher volume of e-court claims which is expected to remain high in Q1 13 ahead of planned changes in e-court regulation.

Costs in the debt collection segment decreased 3% Y/Y and rose 1% Q/Q at PLN 5.0m, which was slightly less than anticipated. SG&A expenses (incl. amortization) increased 12% Q/Q to PLN 15.5m in line with normal seasonal patterns.

Kruk incurred a PLN 13.2m loss on financing operations in Q4 12 (+56% Y/Y) despite a downturn in market interest rates. Most of the Company's debt carries interest rates at variable WIBOR 6M, which means its financing costs reflect changes in market rates with a delay. Kruk's net debt amounted to PLN 553.7m at 31 December 2012 after a 26% increase from 2011 and a 16% increase from 30 September, similar to the increases shown by debt portfolios. The ratio of a 16% increase from 30 September, similar to the increases shown by debt portfolios. The ratio of net debt to equity was 174% vs. 165% at 30 September and 185% at 31 December 2011. The ratio of debt to cash EBITDA was 204%, +14 pp Q/Q, -21 pp Y/Y. We consider these ratios to be at safe levels well below what is required by loan covenants.

Kruk on international expansion plans

Kruk is looking into opportunities to expand into Turkey, Russia, and Spain. The Company is hoping to gain a foothold in at least one of these markets, all of which are less mature than the Polish debt market, this year. The international expansion will be achieved organically as well as through an acquisition if such an opportunity becomes available. In our opinion, Spain seems like the most realistic destination for Kruk at the moment. Kruk's international business strategy is to become an agent for companies that purchased retail loan portfolios from banks (Kruk's Polish operations include purchases of corporate debt portfolios). This way, the Company will be able to focus on debt collection without having to invest its own capital. This way Kruk would like to 'learn' the new market and gather the necessary knowledge to determine portfolio values in the future. An expansion into Turkey takes time due to licensing requirements, but we think Kruk will probably acquire a licensed debt collector there rather than apply for a license itself. The venture into Russia is the least advanced at this point. Our financial forecast for Kruk does not take into account the international expansion plans.

Kruk to step up investment in 2013

According to CEO Piotr Krupa, Kruk is going to spend more on portfolio purchases in 2013 than in previous years. The Company is aiming to achieve over-10% net earnings growth this year. Our FY2013 outlook for Kruk is more conservative; we assume capital expenses will be 17% higher than in 2012 at ca. PLN 361m, and we forecast a 7% increase to PLN 86.9m in annual net profit.

Supervisory Board appointments

Kruk shareholders added two new members to the now seven-strong Supervisory Board yesterday. Ms. Katarzyna Beuch and Mr. Robert Koński are joining existing members Dariusz Prończuk, Robert Koński, Krzysztof Kawalec, Piotr Stępniak, Józef Wancer, and Arkadiusz Orlin Jastrzębski.

Bonds issue

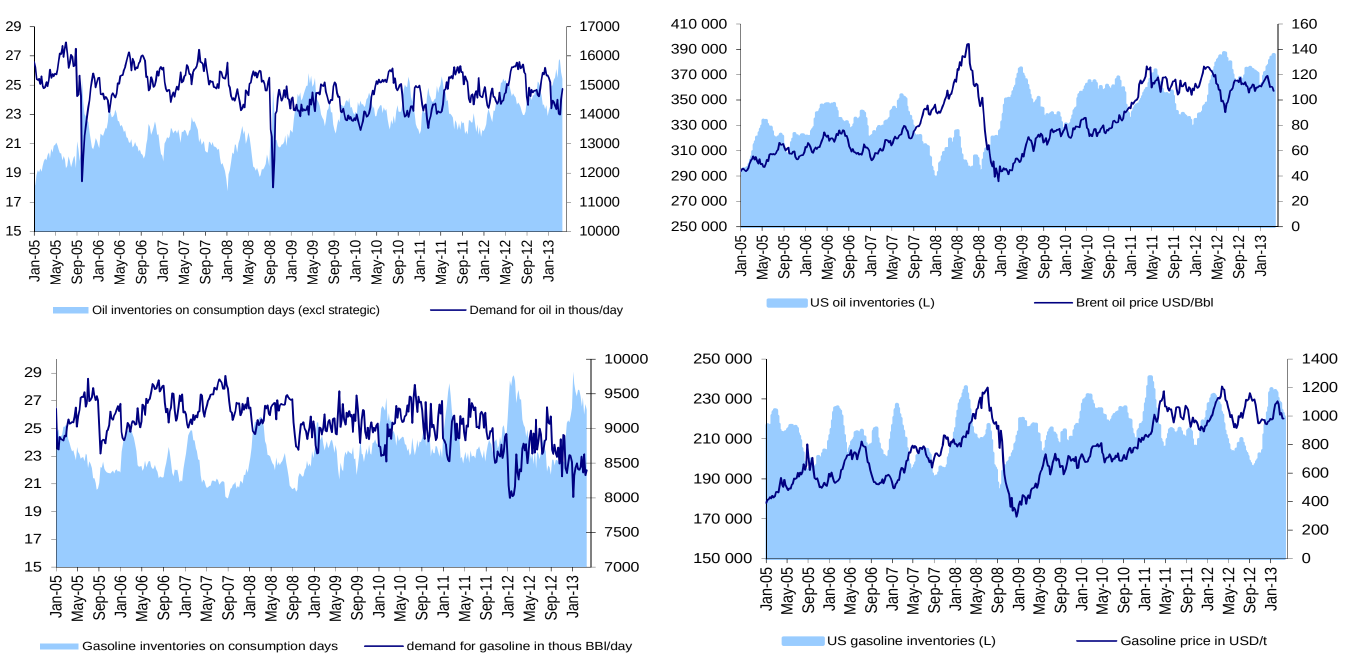
Kruk informed that on 7 March the Board decided to issue PLN 30m P2 series bonds. As a reminder, the bonds are maturing in 4 years time and they were priced at 3M WIBOR + 460bps.

Fuels, Chemicals

US fuel inventories fall

US crude inventories increased by 8 million barrels in March (+2.2%), although imports fell by 1.3% compared to the previous month. The increase of reserves was driven by both record production from local deposits (+1% m/m and +22% y/y) and lower demand from refineries which entered the seasonal period of downtimes (capacity utilization ratio of 83.1% vs. 84% in February). Therefore we have observed further decrease of ready fuels inventories, which declined by 7.2m barrels for gasoline (-3.2%) and by 8.9m barrels for middle distillates (-7.2%) and are now below the previous year levels, by 1% and 15% respectively. Demand-wise March marked similar results to February due to delayed beginning of the transport season resulting from weather conditions. Latest reports by the Energy Department have confirmed that the Spring season should bring further improvement of refining margins driven by a tension on the fuel market which will also be infected by planned maintenance works in big installations in Russia and Asia.

US oil and gasoline inventories



Source: BRE Bank Securities based on DoE data

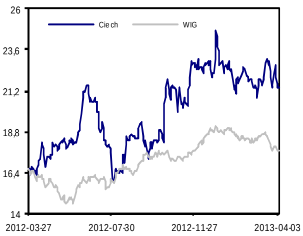
Ciech (Buy)

Current price: PLN 21.35 **Target price: PLN 28.3**

Analyst: Kamil Kliszcz

Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012	change	2013F	change	Basic data (PLN m)	
Revenues	3 960.3	4 174.5	5.4%	4 378.0	4.9%	3 720.8	-15.0%	Number of shares (m)	52.7
EBITDA	384.7	340.8	-11.4%	52.4	-84.6%	465.1	786.9%	MC (current price)	1 125.1
EBITDA margin	*9.7%*	*8.2%*		*1.2%*		*12.5%*		EV (current price)	2 340.0
EBIT	146.9	118.7	-19.2%	-184.2		236.5		Free float	37.8%
Net profit	24.3	1.5	-93.8%	-449.5		110.5			
P/E	24.6	747.1				10.2		Price change: 1 month	*-0.7%*
P/CE	2.3	5.0				3.3		Price change: 6 month	*17.4%*
P/BV	0.7	0.9		1.2		1.1		Price change: 12 month	*29.4%*
EV/EBITDA	5.4	6.4		44.6		4.8		Max (52 week)	24.7
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	15.8



Soda prices have risen both in the USA and Europe by 4.5% relative to average prices reported in Q4'12. In our forecast for Ciech we assumed an increase by 3.4% y/y. In their Q4 results comments both FMC and Solvay reiterated their positive approach to the price trajectory in the following quarters (Solvay reversed write-offs on soda assets made in 2010). FMC implies that US soda consumption will rise in the motor and construction industries accompanied by a very strong demand from the packaging industry. How the situation in China unfolds will be of a key importance as prices are currently under pressure and local producers generate losses driven by high production costs. The stock price of Ciech may be additionally supported by potential disinvestments, especially in case of Sarzyna, where the value of transaction could reach at least PLN 300-350m.

Conditions for the agreement with BASF met

Ciech informed that the Ukrainian antitrust authority agreed for the sale of TDI's assets to BASF, which means that all conditions were met and the parties may finalize the agreement.

ZAP makes a bid on Organika Sarzyna

ZA Puławy has made a non-binding bid to acquire a 98.85% stake in the chemicals producer Organika Sarzyna from Ciech. Details of the bid have not been revealed. This is obviously good news for Ciech, however the price will be of a key importance. We estimate taking into account the new MCPA line launched just this year that Ciech should get at least PLN 300-350m for its herbicide producer.

Alwernia makes a bid for ZCH Rudniki

Synthos and Alwernia are among eight bidders seeking to acquire ZCH Rudniki, producer of sodium and potassium silicates, from the Polish State Treasury. The current round of bids is another attempt on the Treasury's part to privatize the ZCH Rudniki. The involvement of Alwernia comes as a surprise given that it is in the process of being sold by Ciech (the Company signed a preliminary agreement on 31 January), and that ZCH Rudniki's business profile is closer to that of Ciech's silicate arm Vitrosilicon.

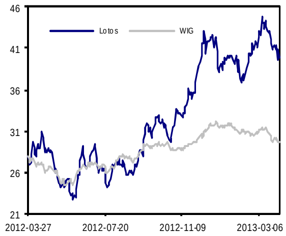
Lotos (Hold)

Current price: PLN 39.92 Target price: PLN 37.4

Analyst: Kamil Kliszcz
Last Recommendation: 2013-02-06

(PLN m)	2010	2011	change	2012	change	2013F	change
Revenues	19 662.8	29 259.6	48.8%	33 111.0	13.2%	30 422.1	-8.1%
EBITDA	1 451.3	1 693.4	16.7%	967.7	-42.9%	1 376.9	42.3%
EBITDA margin	*7.4%*	*5.8%*		*2.9%*		*4.5%*	
EBIT	1 061.4	1 084.8	2.2%	301.1	-72.2%	746.7	148.0%
Net profit	679.2	649.0	-4.4%	922.9	42.2%	616.1	-33.2%
P/E	7.6	8.0		5.6		8.4	
P/CE	4.8	4.1		3.3		4.2	
P/BV	0.7	0.7		0.6		0.6	
EV/EBITDA	7.7	7.3		11.9		8.1	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	129.9
MC (current price)	5 184.5
EV (current price)	11 473.5
Free float	46.8%
Price change: 1 month	*-5.5%*
Price change: 6 month	*22.0%*
Price change: 12 month	*46.6%*
Max (52 week)	45.0
Min (52 week)	22.7



Lotos is currently trading with a 30% premium to PKN Orlen on 2013E LIFO EV/EBITDA ratios and despite our overall positive approach to the refining sector we do not see any growth potential for Lotos. In our opinion PKN Orlen remains the most interesting investment opportunity in the sector, especially if we take into account additional profits generated by the petrochemical segment. Note also that Lotos is highly vulnerable to USD/PLN exchange rate and its Q2 results may be burdened with the costs of maintenance downtime (especially the lost margin). We remain neutral on Lotos.

Q4 2012 actuals largely matching January estimates

Lotos's reported Q4 2012 EBIT results show small deviations from the preliminary estimates released in January. At PLN 139m, the consolidated quarterly EBIT was PLN 33m lower than predicted in January because of higher impairment losses and additional allowances recognized in Upstream (a charge related to Geonafta and a cost allowance related to Yme). Downstream EBIT exceeded the original PLN 158m estimate at PLN 165m. Lotos posted financing gains of PLN 23m in Q4 2012 (lower than our PLN 41m forecast), including FX gains on payables (PLN 39.6m actual vs. PLN 58m forecasted), hedging gains (PLN 27.8m actual vs. PLN 43m forecasted), and interest (PLN 46m actual vs. PLN 53m forecasted). Operating cash flow generated in Q4 2012 was strong at PLN 396m, but relatively high CAPEX (over PLN 400m incl. settlement of payments for Lithuanian E&P assets) means that net debt increased by PLN 100m from Q3 2012 to PLN 6.3bn. Lotos's financial statements for FY2012 do not take into account the recent Yme settlement.

CEO on growth strategy

Speaking in an interview the CEO Olechnowicz commented on recent speculations regarding the sale of Lotos Kolej. In his opinion the concern is looking for a new option for the railway company that could facilitate further development. The CEO will not decide on selling assets but rather look for a business partner. When asked about the privatization of Lotos the CEO said that rights offering or gaining a strategic investor may be an option for the future, however for the time being the Treasury is not planning neither of the above mentioned, and changing the share of the Treasury in the Company would require modifications in energy policy.

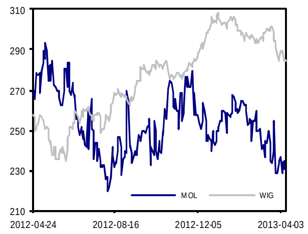
Talisman Energy, SBM Offshore, reach settlement on Yme platform

Talisman Energy (the operator of the Norwegian Yme field) and SBM Offshore (the owner of the drilling platform) reached a settlement over the elimination of a faulty platform from Yme project. Under the agreement SBM agreed to pay Talisman, representing all the license stakeholders, USD 470m, for the scrapped project. Talisman undertook to remove the platform from the offshore site, and SBM will arrange its transportation and utilization. Ownership of the subsea structures will be transferred to the Yme license holders. Lotos's stake in the settlement is USD 94m. but a part of this money will go toward removal of the platform, so the net cash receipts have yet to be determined. We do not know, either, whether Lotos fully recognized the costs of removal in the write-offs, so what the book results after taking into account the compensation will be. Nevertheless, the settlement is good news for Lotos which stands to earn extra cash (PLN 2.3/share gross and PLN 0.5 net assuming a Norwegian tax rate of 78%), and sell the project faster than originally thought.

MOL (Hold)

Current price: PLN 231 | Target price: PLN 254.57 | Analyst: Kamil Kliszcz | Last Recommendation: 2012-12-06

(HUF bn)	2010	2011	change	2012	change	2013F	change	Basic data (PLN m)	
Revenues	4 299.7	5 343.2	24.3%	5 527.0	3.4%	5 521.3	-0.1%	Number of shares (m)	104.5
EBITDA	526.0	603.0	14.6%	538.9	-10.6%	575.7	6.8%	MC (current price)	24 143.9
EBITDA margin	*12.2%*	*11.3%*		*9.8%*		*10.4%*		EV (current price)	43 231.4
EBIT	245.5	253.2	3.1%	220.5	-12.9%	264.0	19.8%	Free float	31.3%
Net profit	104.0	153.7	47.8%	149.7	-2.6%	158.1	5.6%		
P/E	16.7	11.3		11.6		11.0		Price change: 1 month	
P/CE	4.5	3.5		3.7		3.7		Price change: 6 month	
P/BV	1.2	1.1		1.0		1.0		Price change: 12 month	
EV/EBITDA	6.0	5.3		5.8		5.4		Max (52 week)	
Dyield (%)	0.0	0.0		2.6		4.6		Min (52 week)	



Following a positive beginning of the month the stock of MOL showed a persisting downward trend throughout March driven mostly by falling oil prices and the downgrade of ratings reflecting worse evaluation of Hungary by S&P as well as disappointing dividend proposal. Political aspects related to the governmental decisions regarding the buyout of shares in gas storage facilities as well as the possible energy price reductions (potential downfall of gas tariff) exacerbated the situation. We remain skeptical about growing oil prices which should remain under pressure due to an oversupply and growing inventories (the surplus of production over demand may be lower in 2013 than in 2012 due to a decision passed by OPEC, but still it will be significant). We reiterate Hold recommendation.

MOL to sell gas storage facilities

MOL signed a letter of intent regarding the sale of its 72.5% stake in the natural gas storage operator MMBF. The Company will sell a 51% stake to the Hungarian government, and the remaining 21.5% interest to the local strategic reserve agency which currently holds a minority interest in MMBF. The final agreement is scheduled to be signed within 90 days. MMBF was set up with the aim of ensuring safe storage of Hungary's strategic natural gas reserves. It has a 30 -year contract for maintenance of strategic gas reserves and a 10-year contract for commercial gas storage. In 2012, MMBF generated EBIT of HUF 16bn and net profit of HUF 9bn, of which HUF 6.7bn was attributable to MOL. The book value of a 100% stake in MMBF is approximately EUR 480m (HUF 140-150bn), implying P/E ratio of 16.6. The share of 72.5% MMBF in the capitalization of MOL would amount to 6.3%.

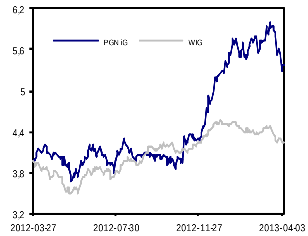
PGNiG (Reduce)

Current price: PLN 5.36 **Target price: PLN 5**

Analyst: Kamil Kliszcz
Last Recommendation: 2013-03-11

(PLN m)	2010	2011	change	2012	change	2013F	change
Revenues	21 281.2	23 003.5	8.1%	28 729.8	24.9%	29 516.6	2.7%
EBITDA	4 411.4	3 259.6	-26.1%	4 600.8	41.1%	6 470.3	40.6%
EBITDA margin	*20.7%*	*14.2%*		*16.0%*		*21.9%*	
EBIT	2 886.7	1 685.5	-41.6%	2 531.8	50.2%	4 369.9	72.6%
Net profit	2 453.7	1 626.8	-33.7%	2 236.8	37.5%	3 317.8	48.3%
P/E	12.9	19.4		14.1		9.5	
P/CE	7.9	9.9		7.3		5.8	
P/BV	1.3	1.3		1.2		1.1	
EV/EBITDA	7.4	10.8		8.7		5.8	
Dyield (%)	0.4	2.1		0.0		2.7	

Basic data (PLN m)	
Number of shares (m)	5 900.0
MC (current price)	31 624.0
EV (current price)	39 930.8
Free float	27.4%
Price change: 1 month	*-6.5%*
Price change: 6 month	*34.0%*
Price change: 12 month	*32.7%*
Max (52 week)	6.0
Min (52 week)	3.7



As PGNiG is enjoying a positive macroeconomic sentiment, the risks that may accompany the process of freeing the gas market have so far been underestimated, and these are: active crossborder price arbitrage (the Polish tariff is above German prices), losing lucrative industrial clients in favor of unprofitable household customers, and potential problems with balancing long-term contracts given the sudden increase of imports capacity (physical reverse flow). The valuation does not take into account that the business profile of PGNiG has changed into a more risky one (the production will generate 64% of 2013 EBITDA). The discount on PGNiG's stock price was attributable to disappointing Q4 results, which shed bad light on the future profitability of the trade segment. We stand by our arguments to reduce PGNiG’s stock even though there is little downside potential left

USD 480m loan, rating outlook downgrade

MOL signed USD 480m loan agreement with a consortium of banks, the term of agreement is 3 years with an option of extension by another 2 years. On the other hand, S&P has downgraded MOL’s rating outlook from stable to negative, mainly to reflect the downgraded ratings issued for Hungary.

PGNiG's Trade business disappoints in Q4 2012

PGNiG’s Q4 2012 results fell short of our expectations and consensus forecasts, even considering the effect of one-offs. The biggest disappointment came in the Trade segment where EBIT came in at PLN 2.1bn vs. our forecast of PLN 2.6bn in spite of higher gains provided by settlements with Gazprom (PLN 3bn actual vs. PLN 2.75bn forecasted). Given there were no other one-offs, it looks like PGNiG did not manage to turn a profit on its gas trade operations in Q4 even despite reduced prices of Yamal gas. This does not bode well for 2013 considering lower price tariffs and the fact that the current gas inventories were acquired at higher prices than last year. The poor results of the Trade segment were partly offset by better-than-expected performance in the Exploration and Production segment where EBIT (after adjustment for PLN 387m charges) came in at PLN 520m, well ahead of our PLN 382m estimate (dry well write-offs amounted to PLN 66m vs. PLN 50m forecasted). The E&P EBIT received a ca. PLN 90m boost from earlier-than-expected reclassification of the costs of geophysical research to CAPEX (which we thought would take place in Q1 2013). Moreover, the E&P segment generated higher-than-expected revenues from sales of other products (helium, LNG) and geophysical services, and it incurred surprisingly low costs in Q4 2012 (costs did not display a normal seasonal upturn in Q4 2012 despite high payroll expenses and the recognition of a PLN 70m voluntary turnover allowance). Further, Q4 EBIT in the Distribution segment came in line with our PLN 310m estimate at PLN 328m, and EBIT in the Generation segment amounted to PLN 47m vs. PLN 42m forecasted. PGNiG’s Q4 2012 financing expenses exceeded our PLN 34m forecast at PLN 66m, but this was offset by PLN 87m gains from revaluation of Europolgaz profits.

Management Board recommends no dividends for 2012

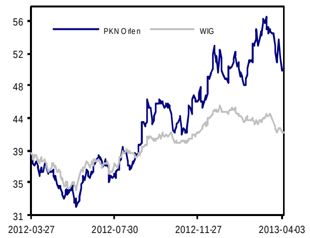
The Management Board of PGNiG recommends to allocate full 2012 profit in reserve capital due to planned high CAPEX in the next following years. We have forecasted PLN 0.15/share dividend.

PKN Orlen (Buy)

Current price: PLN 50 **Target price: PLN 59.3**

Analyst: Kamil Kliszcz
Last Recommendation: 2013-04-08

(PLN m)	2010	2011	change	2012	change	2013F	change	Basic data (PLN m)	
Revenues	83 547.4	106 973.1	28.0%	120 101.6	12.3%	123 697.4	3.0%	Number of shares (m)	427.7
EBITDA	5 545.7	4 446.4	-19.8%	4 284.5	-3.6%	5 022.6	17.2%	MC (current price)	21 385.5
EBITDA margin	*6.6%*	*4.2%*		*3.6%*		*4.1%*		EV (current price)	29 974.8
EBIT	3 123.0	2 066.5	-33.8%	2 024.4	-2.0%	2 809.5	38.8%	Free float	72.5%
Net profit	2 371.7	2 363.4	-0.4%	2 344.6	-0.8%	2 107.9	-10.1%		
P/E	9.0	9.0		9.1		10.1		Price change: 1 month	*-10.6%*
P/CE	4.5	4.5		4.6		4.9		Price change: 6 month	*10.1%*
P/BV	1.0	0.9		0.8		0.8		Price change: 12 month	*33.9%*
EV/EBITDA	5.7	7.0		7.0		5.8		Max (52 week)	56.8
Dyield (%)	0.0	0.0		0.0		5.1		Min (52 week)	32.0



The data published by the US Energy Department confirm that in the following weeks the tension on the US fuel market will intensify (falling inventories combined with growing demand), which may further support the already strong refining margins. 2013 should mark very strong financial results driven by positive Ural/Brent differentials and high profits from the petrochemical segment. Our scenario envisioning the beginning of the growth cycle in the refining sector and LIFO EBIT exceeding the record level achieved in the previous year is materializing. Therefore, we are expecting further increase of conservative market forecasts. We are also expecting that a positive verdict in the arbitration case regarding PKN Lietuva and higher-than-proposed by the Board dividend from 2012 profits will act as a positive catalyst. Following recent downfalls in the stock price we are upgrading our recommendation to Buy.

Dividend proposal

In an annual report the Board proposed PLN 641m dividend payout from 2012 profits (for consolidated statement the payout rate amounts to 27%, for the standalone statement – 30%), which implies PLN 1.5/share and DY of 3%. The proposal is far from our expectations (PLN 2.54) and the market consensus (PLN 1.71), however the decision of the Treasury on GM will be crucial. We are expecting that shareholders will increase the dividend payout.

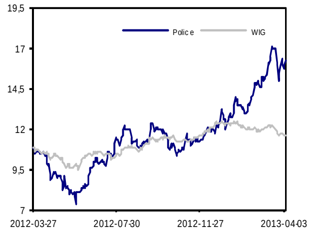
Police (Sell)

Current price: PLN 16.2 | Target price: PLN 10.9

Analyst: Kamil Kliszcz
Last Recommendation: 2013-04-08

(PLN m)	2010	2011	change	2012	change	2013F	change
Revenues	2 022.6	2 765.6	36.7%	2 981.2	7.8%	2 928.8	-1.8%
EBITDA	103.7	336.3	224.3%	210.9	-37.3%	181.2	-14.1%
EBITDA margin	*5.1%*	*12.2%*		*7.1%*		*6.2%*	
EBIT	29.4	257.7	777.9%	127.8	-50.4%	101.5	-20.6%
Net profit	27.4	311.9	1036.9%	104.2	-66.6%	86.0	-17.5%
P/E	44.3	3.9		11.7		14.1	
P/CE	11.9	3.1		6.5		7.3	
P/BV	2.2	1.4		1.2		1.1	
EV/EBITDA	13.9	4.2		6.5		6.7	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	75.0
MC (current price)	1 215.0
EV (current price)	1 376.3
Free float	18.1%
Price change: 1 month	*7.3%*
Price change: 6 month	*36.2%*
Price change: 12 month	*52.8%*
Max (52 week)	17.1
Min (52 week)	7.4



To our surprise March marked another month of growths in Police's stock, although the positive sentiment was dampened by very weak Q4 results. Macroeconomic environment is systematically deteriorating (falling titanium white prices, lower margin on ammonia, decreasing volumes of NPK fertilizers) which remains in stark contrast to the stock price, probably due to the fact that investors are expecting potential tender offer from Azoty. Gloomy perspectives for 2013 results may, in our view, discourage the Company from buying out minority shareholders in the following months, especially since Police will have to incur more CAPEX (the acquisition of Siarkopol, buying minority shares of ZAP, Sarzyna). In this context negative macroeconomic trends may have increasingly stronger impact on the stock price of Police. Following the recent price rise, we are downgrading our recommendation to Sell.

ZCH Police posts dismal Q4 2012 results despite one-time gains

The Q4 2012 earnings announcement of ZCH Police was an all-out disappointment. EBIT showed a loss of PLN 1.8m even after receiving a PLN 38m boost from other operating gains (reversals of fixed-asset write-offs totaling PLN 47m, a subsidy extended to the Infrapark unit, partly offset by new charges and reserves). The adjusted EBIT loss comes up to a staggering PLN 40m, stemming from weak revenues (which took a more severe-than-expected hit from a failure of an ammonia unit, affecting ammonia and urea sales volumes, and which were additionally impacted by weaker sales of multi-nutrient fertilizer) combined with weak profit margins (PCE generated negative margins on titanium white). The results of financing operations were consistent with expectations. ZCH Police generated negative operating cash flow of PLN -61m in Q4 2012 due to a PLN 54m increase in inventories, but OCF before the increase was also rather weak at PLN 15m (annual OCF amounted to PLN 177m). On weak OCF combined with CAPEX over PLN 50m, ZCH Police's net debt increased from PLN 39m to PLN 157m at the end of 2012.

Management recommends PLN 0.67 dividend

The Management Board of ZCH Police is recommending payment of PLN 50.2m in dividends from 2012 profit implying dividend yield of 4.1%. We had expected ZCH Police would want to retain cash to help weather the upcoming slowdown in the markets for titanium white and NPK fertilizers. As of the end of Q4, the Company had net debt of PLN 157m.

Grain market rebounds

In a report published in March by USDA the forecast for wheat inventories were upgraded by 1.5m tons led by the expected higher crops and unchanged consumption estimates. As for corn, reserves estimates at the end of 2012/13 season were slightly downgraded (by 0.5m tons) due to higher demand expectations. In the second half of March the price of grains rebounded from the local minimum levels and slightly exceeded the February results especially in the USA as there were concerns about delayed sowing (led by weather conditions) and ethanol production significantly rose due to improving margins (a definite growth of certificate prices for blending biofuels). Perspectives for crops in 2013/14 season remain unchanged and it will be the forecast regarding the end of June 2014 (the first data by USDA will appear at the beginning of May) that shall determine the price of wheat and corn in the following months.

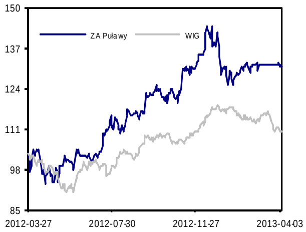
ZA Puławy (Hold)

Current price: PLN 130.8 **Target price: PLN 123.4**

Analyst: Kamil Kliszcz
Last Recommendation: 2012-12-10

(PLN m)	2010/11	2011/12	change	2012/13F	change	2013/14F	change
Revenues	2 882.3	3 948.3	37.0%	3 682.5	-6.7%	3 592.1	-2.5%
EBITDA	413.6	778.5	88.2%	435.8	-44.0%	336.4	-22.8%
EBITDA margin	*14.3%*	*19.7%*		*11.8%*		*9.4%*	
EBIT	327.6	664.0	102.7%	301.1	-54.7%	187.0	-37.9%
Net profit	279.4	600.5	115.0%	263.4	-56.1%	176.1	-33.1%
P/E	8.9	4.2		9.5		14.2	
P/CE	6.8	3.5		6.3		7.7	
P/BV	1.3	1.0		1.0		1.0	
EV/EBITDA	5.9	2.5		5.2		6.8	
Dyield (%)	0.8	2.8		8.9		5.3	

Basic data (PLN m)	
Number of shares (m)	19.1
MC (current price)	2 500.2
EV (current price)	2 256.9
Free float	40.0%
Price change: 1 month	*-0.4%*
Price change: 6 month	*6.2%*
Price change: 12 month	*31.9%*
Max (52 week)	144.1
Min (52 week)	93.3



The price of ZAP's stock remains stable thanks to a limited free float and a tender offer by ZA Tarnów. Nothing will change in this respect over the next several months and the stock price is unlikely to react to trends occurring in the Company's key markets. We remain neutral on ZAP.

Opinion on ZAT price in tender offer

The Board of ZA Pulawy believes that taking into account development perspectives, market tendencies, financial standing, earnings and an opinion passed by authorized expert, the price of ZAT stock proposed in a tender offer (PLN 132.6) does not correspond to the fair value of the Company.

ZAP makes a bid on Organika Sarzyna

ZA Puławy has made a non-binding bid to acquire a 98.85% stake in the chemicals producer Organika Sarzyna from Ciech. Details of the bid have not been revealed.

Grain market rebounds

In a report published in March by USDA the forecast for wheat inventories were upgraded by 1.5m tons led by the expected higher crops and unchanged consumption estimates. As for corn, reserves estimates at the end of 2012/13 season were slightly downgraded (by 0.5m tons due to higher expectations as to the demand. In the second half of March the price of grains rebounded from the local minimum levels and slightly exceeded the February results especially in the USA as there were concerns about delayed sowing (led by weather conditions) and ethanol production significantly rose due to improving margins (a definite growth of certificate prices for blending biofuels). Perspectives for crops in 2013/14 season remain unchanged and it will be the forecast for the end of June 2014 (the first data by USDA will appear at the beginning of May) that shall determine the price of wheat and corn in the following months.

Power Utilities

Polish electricity usage falls 9.5% in February

According to Polish Transmission System Operator (PSE) data, electricity usage fell 9.5% in February relative to the same month a year ago after rising 1.6% in January. Electricity production decreased by "only" 8.3% due to a 21% increase in net exports (+120 GWh y/y). A breakdown by fuel shows that lignite-fired power plants saw the steepest, 10.8% shrinkage in volumes, and hard coal-fired plants reduced production by 7.8%. Wind farms also reported year-on-year declines in output. The weaker February demand was caused by warmer weather (with average temperatures over 7 degrees higher than in February 2012), combined with slower business activity and a lack of a leap day this year (a factor responsible for a 3.4% y/y drop in usage). For lignite-fired plants, lower demand coincided with the shutdown of a 206 MW unit in Turów (which accounted for 2% of the total lignite capacity) and maintenance downtime at units in Bełchatów and Pątnów. We expect continued usage declines in March even despite the still-cold weather.

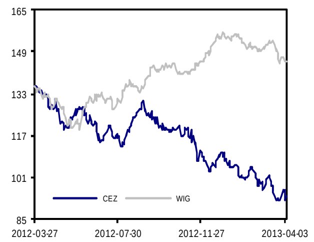
CEZ (Hold)

Current price: PLN 93.35 Target price: PLN 109.2

Analyst: Kamil Kliszcz
Last Recommendation: 2012-11-30

(CZK m)	2010	2011	change	2012	change	2013F	change
Revenues	198 848.0	209 761.0	5.5%	215 095.0	2.5%	190 910.3	-11.2%
EBITDA	88 848.0	87 312.0	-1.7%	85 531.0	-2.0%	83 322.7	-2.6%
EBITDA margin	*44.7%*	*41.6%*		*39.8%*		*43.6%*	
EBIT	64 788.0	61 542.0	-5.0%	57 931.0	-5.9%	55 532.7	-4.1%
Net profit	47 051.0	40 756.0	-13.4%	41 429.0	1.7%	40 045.6	-3.3%
P/E	6.6	7.6		7.5		7.7	
P/CE	4.4	4.7		4.5		4.6	
P/BV	1.4	1.4		1.3		1.2	
EV/EBITDA	5.1	5.5		5.7		5.9	
Dyield (%)	9.1	8.6		7.8		7.9	

Basic data (PLN m)	
Number of shares (m)	538.0
MC (current price)	50 221.3
EV (current price)	79 466.5
Free float	29.3%
Price change: 1 month	*-5.1%*
Price change: 6 month	*-21.6%*
Price change: 12 month	*-30.9%*
Max (52 week)	136.0
Min (52 week)	91.9



Negative sentiment on the stock of CEZ persisted throughout February despite an agreement signed with Czech Coal, which should provide ca. CZK 2bn boost to EBITDA relative to the previous forecast of the Board. Gloomy moods were caused by the news about the proceedings undertaken by the Prosecutor's Office against the Bulgarian subsidiary of CEZ and possible changes in the renewable energy support system (negative impact on EBITDA amounts to CZK -2bn annually). Within the following months the stock price should slightly rebound driven by a high dividend perspective (DY: 7.7%). We are reiterating our neutral recommendation as, due to persisting low energy prices, we believe that our 2014 forecast should be revised.

Contract with Czech Coal, sale of Chvaletice power plant

The Board of CEZ informed about signing the contract with Czech Coal regarding long-term (50-year) supplies of brown coal. The volume was set at 5m tons per year (so far it was 8.5m tons a year) whereas 2013 price was set at CZK 38.8/GJ vs. the current CZK 33/GJ. By 2023 the price should reach 65% thermal coal price parity, which would mean a growth to CZK 48/GJ. The Czech Company had also signed a contract to sell Chvaletice power plant (part of the agreement with the EC) for CZK 4.1bn provided that free-of-charge allowances for these units stay in CEZ (their market value amounts to CZK 450m). It is hard to consider this price a positive surprise (the press had speculated about even CZK 10bn), however the scale of transaction is relatively insignificant. The agreement with Czech Coal will have limited impact on the results of CEZ. The Board suggested also that this contract will prompt the increase of production outputs which should support EBITDA by CZK 2bn, however much will depend on current energy prices as the sale of this volume has not been secured so far. In the meantime prices of electricity have dropped by another EUR 2/MWh. We are estimating that the final impact on EBITDA amounts to CZK 1.5bn.

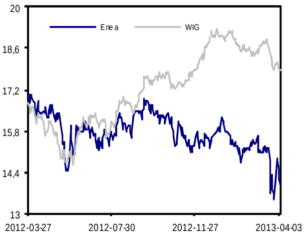
Enea (Accumulate)

Current price: PLN 13.95 **Target price: PLN 17.55**

Analyst: Kamil Kliszcz
Last Recommendation: 2012-11-30

(PLN m)	2010	2011	change	2012	change	2013F	change
Revenues	7 836.9	9 688.9	23.6%	10 096.0	4.2%	9 721.8	-3.7%
EBITDA	1 364.6	1 555.8	14.0%	1 596.3	2.6%	1 479.4	-7.3%
EBITDA margin	*17.4%*	*16.1%*		*15.8%*		*15.2%*	
EBIT	712.0	844.2	18.6%	846.5	0.3%	670.4	-20.8%
Net profit	639.3	793.3	24.1%	717.2	-9.6%	566.1	-21.1%
P/E	9.6	7.8		8.6		10.9	
P/CE	4.8	4.1		4.2		4.5	
P/BV	0.6	0.6		0.6		0.5	
EV/EBITDA	2.5	2.4		3.0		3.8	
Dyield (%)	2.7	3.2		3.4		3.7	

Basic data (PLN m)	
Number of shares (m)	441.4
MC (current price)	6 158.1
EV (current price)	4 739.2
Free float	29.9%
Price change: 1 month	*-7.9%*
Price change: 6 month	*-14.3%*
Price change: 12 month	*-18.2%*
Max (52 week)	17.1
Min (52 week)	13.5



Despite strong Q4 results (adjusted for one-offs) the stock of Enea underperformed in March, also relative to other peers. Even the news about further reductions in coal price on Polish market did not manage to improve the sentiment. One of the reasons behind this may be concerns surrounding the potential supply of shares owned by Vattenfall – a Company which withdrew from Poland over a year ago. The Swedish entity may get impatient waiting for a clear perspective of further privatization of the Company, which would provide a chance to sell shares to other strategic investor. We treat this as a short -term risk and reiterate our positive recommendation. We still believe that the Ministry of Treasury may try to sell Enea in H2, which may stimulate the stock price due to the fact that Enea is valued below RAV of distribution, therefore from the perspective of a long-term investor the market price is attractive.

Enea posts better-than-expected core Q4 results

The Q4 2012 earnings of ENEA were severely impacted by one-time charges totaling PLN 110m, which included a PLN 30m allowance pertaining to unauthorized use of land, and loss and litigation reserves. ENEA's Q4 D&A expenses were PLN 45m lower than in the preceding quarters as a result of reclassification of the carbon emissions costs incurred by the Białystok CHP as costs of materials (which had no impact on EBIT, but did make EBITDA look worse than it was). Unlike most competition, increasing payroll provisions did not affect ENEA's profits in Q4 because they were recognized in full (PLN 60m) off the income statement. In fact, payroll costs showed a year-on-year reduction of PLN 20m, but this was owed mainly to restructuring and base effects (ENEA recognized a PLN 24m payroll reserve in Q4'11). A segmental breakdown of the Q4 results shows better-than-expected performance in the Trade business where lower allowances for certificates of origin (facilitated by their lower prices) drive EBIT well ahead of our PLN 39m forecast at PLN 63.5m. EBIT in the Production segment also exceeded our PLN 49.5m estimate at PLN 63.6m. Distribution incurred an EBIT loss of PLN 7.4m in Q4 (we expected a profit of PLN 15m), but this was due to the fact that the bulk of the one-time charges mentioned above (which were only partly factored into our forecasts) were expensed against that segment's profits.

Dividend proposal

The Board recommends PLN 158.6m dividend from 2012 profits, PLN 0.36 a share (DY: 2.4%), but the Supervisory Board recommended PLN 0.48. A year before the Board recommended PLN 0.24 a share, but the General Meeting of Shareholders decided to pay out PLN 0.48 a share, which accounted for 27% of consolidated net profit. We have assumed the dividend payout at PLN 0.51, which accounts for 30% of the forecasted net profit.

Board reshuffle

The Supervisory Board dismissed the incumbent Board of Enea and appointed Krzysztof Zamasz to the position of CEO (position retained), Grzegorz Kinelski for the position of Vice CEO responsible for sales (he previously worked for Vattenfall and Tauron) and Paweł Orlof to the position of Vice CEO for corporate issues (he previously worked for RWE). The Board did not appoint any candidate to the position of Vice CEO responsible for financials and will repeat recruitment process.

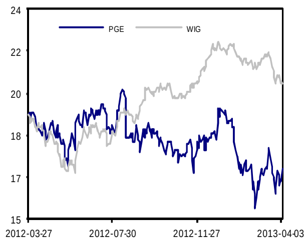
PGE (Hold)

Current price: PLN 16.99 | Target price: PLN 18.1

Analyst: Kamil Kliszcz
Last Recommendation: 2012-11-30

(PLN m)	2010	2011	change	2012	change	2013F	change
Revenues	20 471.4	28 111.4	37.3%	30 556.8	8.7%	27 506.6	-10.0%
EBITDA	6 804.4	6 855.0	0.7%	6 790.6	-0.9%	6 197.2	-8.7%
EBITDA margin	*33.2%*	*24.4%*		*22.2%*		*22.5%*	
EBIT	4 149.2	4 144.5	-0.1%	4 358.7	5.2%	3 360.2	-22.9%
Net profit	2 990.3	4 936.1	65.1%	3 210.4	-35.0%	2 803.7	-12.7%
P/E	10.6	6.4		9.9		11.3	
P/CE	5.6	4.2		5.6		5.6	
P/BV	0.9	0.8		0.8		0.7	
EV/EBITDA	4.8	4.1		4.3		4.9	
Dyield (%)	5.0	4.4		10.8		7.0	

Basic data (PLN m)	
Number of shares (m)	1 869.8
MC (current price)	31 767.6
EV (current price)	29 332.4
Free float	38.1%
Price change: 1 month	*0.0%*
Price change: 6 month	*-5.6%*
Price change: 12 month	*-11.9%*
Max (52 week)	20.2
Min (52 week)	15.4



Despite a strong beginning of March the stock of PGE did not manage to make up for the losses after weak Q4 results and disappointing dividend proposal. On the one hand, investors reacted enthusiastically to speculations regarding a potential revision of investment plans (including resigning from coal plants in Opole), on the other this did not allow for a permanent change of sentiment. In our opinion, withdrawing from the project in Opole may be related to an increase in the scale of investment in brown coal in Turów and other areas, therefore we are recommending prudent approach to discounting the scenario of a major improvement of cash flow in PGE in the mid-term. We still believe that PGE - being the biggest integrated energy producer - is not the best exposure to the sector in the environment of persistently low electricity prices (weak perspectives for 2014). In this context we are reiterating a neutral rating for PGE.

PGE posts in-line Q4 core results, announces PLN 0.86 dividend

In line with an earlier warning, PGE's Q4 2012 profits were depressed by one-time charges (impairment of the ZEDO unit, adjustments to actuarial provisions, write-offs of expenses on a carbon capture and storage plant, and compensation adjustments) which resulted in a total charge of PLN 1.5bn against EBIT (which also received a PLN 40m boost from provision reversals). The adjusted EBIT (not including long-term contract compensation) figures to PLN 1.03bn, which is in line with our estimate of PLN 1.04bn (which did include PLN 100m LTC). By segment, power generation and wholesale (analyzed jointly because of the high portfolio management fees booked against wholesale profits) generated core EBIT of PLN 691m, slightly below our PLN 720m estimate (the difference may be due to lower brown coal power volumes caused by a failure at one of the power plants which, however, is covered by insurance). EBIT in the distribution segment amounted to PLN 170m, and it also fell slightly below our PLN 190m forecast due to a higher-than-expected payroll reserve (PLN 75m), which we only partly took into account in our forecast. The retail segment posted higher-than-expected EBIT of PLN 125m (vs. PLN 85m forecasted) thanks to positive effects of cheaper green certificates and falling electricity prices.

PGE announces PLN 0.86 dividend

PGE announced it was planning to distribute 50% of the 2012 profit to shareholders as dividends of PLN 0.86 per share. The final decision will obviously belong to the General Meeting and we are expecting that the payout will be slightly higher. As of the end of December PGE had PLN 2.9bn net cash while the q/q decline results from disappointing cash flows (PLN 1.26bn vs. PLN 2.4bn a year before) and CAPEX (PLN 1.2bn) as well as the acquisition of a wind farm Żuromin.

Court upholds PGE's appeal regarding long-term contract compensation

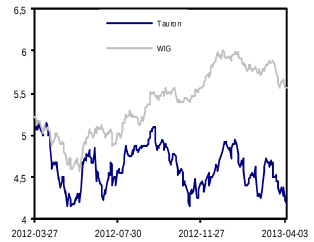
Poland's Competition Court upheld PGE's appeal against a decision of the energy regulator URE claiming PLN 45m in back adjustments to 2009 stranded costs due to the CHP plant in Gorzów. The URE can still appeal. This is good news from PGE although the value of the won claims is small. PGE had filed similar appeals on behalf of its power plants in Opole and Turów, and rulings in these two cases will be more important. The total amount of back 2009 long-term contract compensation claims pursued by the Company is PLN 673m. Mind that that the ruling is not yet binding.

Tauron (Buy)

Current price: PLN 4.18 **Target price: PLN 6.16**

Analyst: Kamil Kliszcz
Last Recommendation: 2012-11-30

(PLN m)	2010	2011	change	2012	change	2013F	change	Basic data (PLN m)	
Revenues	15 428.9	20 755.2	34.5%	24 741.3	19.2%	24 326.9	-1.7%	Number of shares (m)	1 752.5
EBITDA	2 758.0	3 022.6	9.6%	3 839.6	27.0%	3 324.9	-13.4%	MC (current price)	7 325.7
EBITDA margin	*17.9%*	*14.6%*		*15.5%*		*13.7%*		EV (current price)	12 321.5
EBIT	1 399.3	1 611.5	15.2%	2 153.4	33.6%	1 560.9	-27.5%	Free float	54.5%
Net profit	858.7	1 220.0	42.1%	1 466.8	20.2%	966.6	-34.1%		
P/E	8.5	6.0		5.0		7.6		Price change: 1 month	*-11.6%*
P/CE	3.3	2.8		2.3		2.7		Price change: 6 month	*-13.5%*
P/BV	0.5	0.5		0.5		0.4		Price change: 12 month	*-17.7%*
EV/EBITDA	2.8	3.9		3.2		4.5		Max (52 week)	5.2
Dyield (%)	0.1	3.6		7.4		7.2		Min (52 week)	4.1



In the recent weeks the stock of Tauron again showed negative tendencies and previous growths have been virtually neutralized. Q4 results adjusted for one-offs were definitely better than expected and cash flow was outstanding in comparison to competitors. The market has also ignored information about the prospect of additional proceeds from LTC amounting to PLN 500m. We still believe that Tauron remains the only company from the sector for which the forecast consensus will rise and Q1'13 results should already contribute to this effect (very strong results of the trade segment, lower decline in production led by the reduction of coal prices, lack of high restructuring costs). We are reiterating a Buy rating for Tauron.

Tauron posts stronger-than-expected core Q4 results

Tauron's reported Q4 2012 earnings figures fell short of expectations due to one-time charges including a PLN 121.7m downward adjustment to a payroll reserve and a PLN 87m inventory write-off. Adjusted for these charges, the quarterly EBIT figures to PLN 515m – an amount well ahead of analysts' estimates. Note that Tauron's Q4 profits were additionally weighed down by costs of a voluntary turnover program (PLN 26.5m severance pay reserve and PLN 48m costs) which we had expected to match the PLN 30m average reported in the preceding quarters. By segment, Power Generation reported a quarterly EBIT loss of PLN 32m (we expected PLN 77m) stemming from the payroll charges mentioned above, lower-than-expected LTC compensation (PLN 135m actual vs. PLN 150m forecasted), voluntary turnover costs (ca. PLN 40m), and a PLN 87m write-off pertaining to certificates of origin. The adjusted segmental EBIT is considerably higher than anticipated. In the core segment of Distribution, EBIT exceeded our PLN 130m forecast at PLN 167m even despite actuarial charges and voluntary turnover costs of ca. PLN 20m. Trade EBIT was also higher than expected at PLN 115m (vs. PLN 84m forecasted) thanks to decreasing prices of green certificates. The other operating segments performed in line with expectations. The results of Q4 financing activities were also in line. The operating cash flow of PLN 1.1 billion generated in Q4 2012 is testament to the good quality of Tauron's earnings results, especially considering a negative working capital contribution of PLN -60m. With quarterly CAPEX at PLN 0.9bn, net debt remained below PLN 4.5bn as of 31 December 2012 (1.2x 2012 EBITDA, 1.35x 2013E EBITDA).

Agreement with Kompania Węglowa annexed

Tauron signed a renewed 3-year agreement for coal supplies with Kompania Weglowa spanning 2013-2015. The contract will replace the previous agreement expiring in December this year. The estimated value of the contract is PLN 2.4m and the projected volume is to reach 7.2m tons. The termination of the previous contract which assumed prices would grow this year in the current market conditions (falling spot prices, high coal deposits) implies that Tauron should gain better trade conditions. However, whether this happens is impossible to asses based on the reported data, as the volume quoted probably does not reflect the real scale of the contract considering that so far KW has supplied ca. 3.9-4.4m tons of coal a year. Net value (PLN 2.4bn) is close to the value of the whole contract from 2010, which implies fuel prices will fall relative to 2012. The annual costs of external coal supplies amount to over PLN 2bn, so they may have a significant impact on 2013 results.

Tauron eyes PLN 530m LTC compensation in 2013

Tauron expects to see cash inflows of an estimated PLN 530m from final adjustments to back long-term contract compensation, although it will not book any new compensations in 2013. Very good news, this will add PLN 0.30 a share. Combined with the strong balance-sheet position reported as of the end of 2012, this should put an end to speculation about Tauron's debt issues.

Tauron's green certificate status

The CEO Zawadzki said that Tauron secured certificates of origin for 2013. By securing green certificates at higher prices (currently PLN 2013/MWh), Tauron may have precluded itself from taking advantage of possible price spreads on electricity sold directly to end customers. This needs further explanations as it is not unlikely that the green certificates the Company was referring to are the ones scheduled for cancellation in Q1 13 in fulfillment of the 2012 quota. In short-term intangible assets category, certificates of origin amounted to PLN 649m at the end of December vs. PLN 683m a year before (they are booked based on purchasing price). Certificates purchased to fulfill the next annual quota should be booked as long-term intangible assets under Tauron's accounting policy, but they are not. Inventories show certificates held for sale generated by subsidiaries (inventories include a PLN 90m charge and green certificates with a 31 Dec. 2012 value of PLN 132m). If we are right, the concerns about the loss of margins provided by falling prices of green certificates will be dismissed. Another argument in favor of our theory is that the Polish market offers very limited possibilities of hedging green certificate positions on as-needed basis.

Jaworzno power plant project still on

Tauron intends to go ahead with its power plant project in Jaworzno which has been determined to be financially viable even after adjustments to future price projections. At the same time the Company is looking into the implications of closure of eight 120 MW plants this year if negotiations over cold reserve fee with PSE fail. Investors may not be pleased with the news that Tauron is going ahead with the Jaworzno project.

Mining & Metals

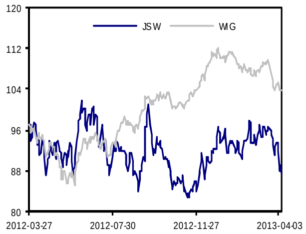
JSW (Accumulate)

Current price: PLN 87.5 Target price: PLN 104

Analyst: Michał Marczak
Last Recommendation: 2012-12-04

(PLN m)	2010	2011	change	2012	change	2013F	change
Revenues	7 288.9	9 376.8	28.6%	8 888.0	-5.2%	7 790.9	-12.3%
EBITDA	2 770.5	3 576.9	29.1%	2 353.2	-34.2%	1 836.1	-22.0%
EBITDA margin	*38.0%*	*38.1%*		*26.5%*		*23.6%*	
EBIT	1 946.9	2 732.6	40.4%	1 311.0	-52.0%	751.8	-42.7%
Net profit	1 454.2	2 086.6	43.5%	1 000.9	-52.0%	554.2	-44.6%
P/E	6.5	4.6		10.4		18.8	
P/CE	4.2	3.2		5.1		6.4	
P/BV	1.6	1.1		1.2		1.2	
EV/EBITDA	2.9	2.1		3.6		4.8	
Dyield (%)	1.4	2.9		6.1		2.9	

Basic data (PLN m)	
Number of shares (m)	119.2
MC (current price)	10 430.7
EV (current price)	8 454.2
Free float	33.0%
Price change: 1 month	*-7.7%*
Price change: 6 month	*-5.9%*
Price change: 12 month	*-7.4%*
Max (52 week)	101.6
Min (52 week)	82.8



The spot price of coking coal in Australia (Queensland) fell slightly from USD 171/t in February to USD 169/t today. Falling prices of steel give reasons for concerns (LME: 3M ingot price below USD 200/t, the difference between spot and 15M prices is USD 75/t) and so do data on steel production and consumption in China (production is to grow to 750m tons, consumption will amount to a mere 670m tons). This situation creates the risk that the growth path of coking coal prices assumed by us (USD 190/t by the end of the year) may turn out overly optimistic. Currently, the risk of potentially lower prices of raw materials is offset by weaker PLN relative to USD, therefore are not change the current assumptions just yet. However, if steel follows the downward trend, we may be forced to do so.

JSW posts in-line Q4 2012 results

JSW posted Q4 results close to our and market expectations. With PLN 1.9bn revenue (-14.2% y/y) the company generated PLN 242.5m EBITDA (-82%y/y) and PLN 40m net loss. Our expectations were the following: PLN 1,97/241/-29,2m, and market consensus: PLN 1.97/230/-57m, respectively. Coking coal output amounted to 2.31m tons (-2.5% y/y, +0.7% q/q), and thermal coal production stood at 0.96m tons (-14.8% y/y, -5.4% q/q). In both segments production results came in line with our expectations. Coking coal generated a but weaker result (0.89m tons, +17.3% y/y, -12.4% q/q), and the Board stressed that in Q3 2013 capacity utilization was back to the maximum level. Despite a continuing economic slowdown and tough situation in the steel segment JSW managed to allocate on the market larger coking coal volumes than the current production (coal outputs dropped by a total of 245 thousand tons. The external sales of coking coal increased by 5.5% q/q to 1.33m tons. The average selling price amounted to USD 159/t (-17.6%), which was in line with our expectations and benchmark prices (USD 170/t for hard coal, USD 117/t for semi-soft coal). As for coking coal the inventories grew by 2% q/q (sales volume of -14.6% q/q), while selling price plunge was lower than in case of coal and amounted to -13% q/q. To confirm that the business environment for coke is improving in 2013 the Company states that coke inventories amounted to 267 thousand tons at the end of February 2013. This means that relative to the end of 2012 they dropped by 99 thousand tons. Thermal coal inventories reported a slight increase, and the quarterly sales amounted to 0.82m tons (-21.6% y/y). The average coal sales revenue per ton amounted to PLN 303/t (-4.4% q/q), which may be considered a positive surprise (we are expecting a more drastic price plunges in Q1 2012). EBITDA was weighed down by several one-offs, which depressed the result by a total of PLN 158m (adjusted EBITDA would amount to PLN 400m). The one-offs are as follows: reserve for the disputed property tax on underground mines (PLN 48.5m), the results of the agreement signed with employees regarding salary rises (PLN 61.1m) and payroll reserves (actuarial losses). It should also be stressed that in FY 2012 the Company significantly reduced trade receivables (PLN 340m y/y, in Q4 alone PLN -185m). At the year's end the net cash on the balance sheet amounted to PLN 2.17bn (high potential for dividend payout, the Board will recommend a dividend of at least 30% from the net profit). In 2013 JSW is planning to increase coal production by 0.5% to 13.525m tons a year and raise the share of coking coal in total production to 74.3%. Coking coal output is to amount to 10.048m tons relative to 9.47m tons in 2012 (+6.1% y/y).

Management recommends PLN 2.52 dividend

JSW's Management Board is recommending distribution of PLN 296m (30% of 2012 profit), or PLN 2.52 per share, as dividends to shareholders (implying dividend yield of 2.7%). The proposed date of record is July 31st, and the payout could take place on August 20th. The final decision will be made at OGM (the date has not been set yet). A dividend of PLN 2.52 is consistent with the minimum payout assumed in our valuation model for JSW, which reported having net cash of PLN 2 billion as of 31 December 2012. The decision about the actual size of the payout lies with the Company's majority shareholder, the State Treasury, which needs all the cash it can get judging by the state of the government budget after just three months of 2013.

Higher dividend from JSW in question

JSW's Management Board is recommending distribution of PLN 296m (30% of 2012 profit), or PLN 2.52 per share, as dividends to shareholders. Tomasz Tomczykiewicz from the Ministry of Finance reiterated that he will not apply for a higher dividend but financial funds (PLN 2bn cash is to stay in the Company and be spent on investments). The Ministry of the Economy is neither planning to apply for dividends from Weglokoks, Katowicki Holding Weglowy and Kompania Weglowa. The annual operating CAPEX of JSW may be represented by the net profit plus D&A, i.e. PLN 1.5bn. The only investment that could 'consume' the surplus of accumulated cash are investments in other companies from the sector, KHW. Investors would probably react negatively to such news. If in the following months the situation on thermal coal market does not start to improve (the current long winter should be helpful), this scenario is even more likely to materialize (currently likelihood is 30%). Note that this is a comment from the Ministry of the Economy which is not always unanimous with the Ministry of the Treasury when it comes to the mining sector, so most probably the Minister of Finance will have his say, especially if the budget gap continues to grow at the current pace.

KGHM (Accumulate)

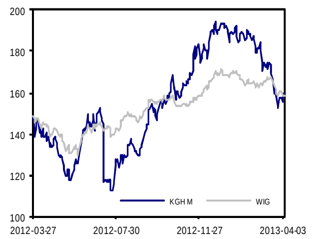
Current price: PLN 159.6 Target price: PLN 204

Analyst: Michał Marczak

Last Recommendation: 2013-01-07

(PLN m)	2010	2011	change	2012	change	2013F	change
Revenues	16 766.5	22 107.2	31.9%	26 837.4	21.4%	25 631.6	-4.5%
EBITDA	6 262.4	13 997.8	123.5%	8 059.0	-42.4%	8 167.2	1.3%
EBITDA margin	*37.4%*	*63.3%*		*30.0%*		*31.9%*	
EBIT	5 506.3	13 153.6	138.9%	6 604.0	-49.8%	6 580.5	-0.4%
Net profit	4 645.7	11 004.4	136.9%	4 811.8	-56.3%	4 864.6	1.1%
P/E	6.9	2.9		6.6		6.6	
P/CE	5.9	2.7		5.1		4.9	
P/BV	2.2	1.4		1.5		1.3	
EV/EBITDA	4.6	1.4		4.0		3.8	
Dyield (%)	1.9	9.3		17.8		6.3	

Basic data (PLN m)	
Number of shares (m)	200.0
MC (current price)	31 920.0
EV (current price)	32 275.5
Free float	68.0%
Price change: 1 month	*-8.3%*
Price change: 6 month	*4.3%*
Price change: 12 month	*11.5%*
Max (52 w eek)	194.5
Min (52 w eek)	111.4



We will soon learn about final decisions regarding dividend from 2012 profits (the GM is usually held in the middle of June, minimum dividend is PLN 10 a share, DY: 6.2%), and in the mean time we are likely to hear contradicting comments: The Company will talk about high investment needs and pressure on earnings, and the Treasury will expect higher dividend than recommended by the Board (this will result in fluctuations of the share price). We have been observing further expansion in global copper inventories at a pace which exceeds annual seasonal demand/supply patterns, translating into weak trends in metal prices. From the perspective of KGHM, this effect is partly offset by a depreciating PLN. Currently we are not changing our assumptions in the model. In the short-term the copper market should be supported by a prolonging strike action in the Chilean Angamos port, which is 'a window to the world' for supplies from such mines as Codelco and BHP Biliton. We are reiterating an Accumulate rating for KGHM.

Tunnel collapse at KGHM's Rudna mine

A small earthquake measuring 4.7 on the Richter scale shook KGHM's Rudna mine on the evening of 19 March, about 1000 meters below the surface. Luckily, there were no casualties, and all of the miners were pulled alive by rescue teams. The collapsed area has been shut down for inspection. Asked how the mine collapse will impact this year's production volumes, KGHM's representatives said it does not affect the 425.000 ton production forecast for copper concentrate.

KGHM will pay out more than 30% dividend?

The deputy Treasury Minister P. Tamborski said that the Treasury is considering higher dividend from KGHM's profits than the one proposed by the Board (30%). The stock reacted positively to this news. Until very recently investors were selling shares as the Board presented investment plans and recommendation on dividend. It is a recurring game which always concludes with the GM deciding (usually, not always) on higher dividend payout than desired by the Company. In our forecast we are still assuming that KGHM will pay out PLN 2bn dividend (PLN 10 a share, DY: 6.25%, 41% of the standalone profit). We view this assumption as conservative.

Copper market

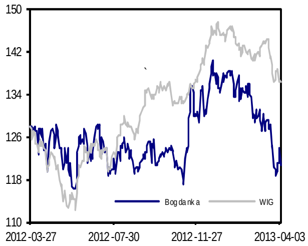
Despite a seasonal increase of demand, inventories monitored on LME, COMEX and SHP exchanges grew by a staggering 146.5 thousand tons in March relative to February. The biggest growth was reported in the USA (+91 thousand tons) and Europe (+39.6 thousand tons). Inventories in Asia rose by 15.7 thousand tons. The situation is unusual as the inventories in the US storage facilities amount to 362 thousand tons growing by 278 thousand tons in 5 months and they account for the bulk part of global inventories increase (+421 thousand tons, including +49.2 in Asia). The inventories accumulated in the US account for 15% of annual metal consumption in USA and Canada. Interestingly, 71% of the inventories monitored by LME (64% of inventories monitored by exchanges) are concentrated in three locations (Antwerp, Johor in Malaysia, New Orleans), controlled by one global concern - Glencore. These were the locations which reported a several-fold increase of inventories.

LW Bogdanka (Accumulate)

Current price: PLN 120.5 **Target price: PLN 143.8**

Analyst: Michał Marczak
Last Recommendation: 2012-12-04

(PLN m)	2010	2011	change	2012	change	2013F	change	Basic data (PLN m)	
Revenues	1 230.4	1 301.3	5.8%	1 823.0	40.1%	2 033.9	11.6%	Number of shares (m)	34.0
EBITDA	414.5	450.6	8.7%	689.6	53.0%	824.7	19.6%	MC (current price)	4 098.6
EBITDA margin	*33.7%*	*34.6%*		*37.8%*		*40.5%*		EV (current price)	4 438.3
EBIT	276.5	265.7	-3.9%	371.4	39.8%	480.6	29.4%	Free float	33.0%
Net profit	230.4	221.2	-4.0%	281.2	27.1%	359.9	28.0%		
P/E	17.8	18.5		14.6		11.4		Price change: 1 month	*-6.6%*
P/CE	11.1	10.1		6.8		5.8		Price change: 6 month	*-1.1%*
P/BV	2.1	1.9		1.8		1.6		Price change: 12 month	*-5.3%*
EV/EBITDA	9.4	9.3		6.4		5.4		Max (52 week)	140.4
Dyield (%)	0.0	1.2		3.3		3.4		Min (52 week)	116.2



Q4 results came close to expectations, currently the Company is still negotiating the conditions of coal supplies in 2013. The two biggest contracts (power plants in Kozienice, Ostrołęka) may be renegotiated in the middle of the year. By this time we should not expect any significant changes of the average price of coal. Taking into account the situation on the Polish coal market (9m tons of inventories) and Europe (the price of thermal coal from Russia fell to USD 77t), we are of the opinion that this year average prices of coal will go down by 5% y/y. In the short-term the environment will remain troubling, our valuation is based on long-term assumptions regarding the growth of production volumes and projection that prices will stay at similar levels to 2013.

Hard coal market after 2M 2013

In the first two months of 2013 mines produced slightly more than 13m tons of coal (-2% y/y), out of which 11mt was thermal coal (-1.9% y/y). In the same time the sales of coal grew by 3% y/y (to 12.16m tons), driven by 14.8% increase of coking coal sales (mostly to coking plants) and more than 80% increase of coal sold to foreign markets (to 1.63m tons). This means that local sales of thermal coal (the demand is fueled by power utilities) dropped by ca. 7% y/y. In consequence at the end of February more than 9m tons of coal were accumulated in Polish mines (+3.83m tons y/y, at the end of December 2012 it was 8.39m tons). The data confirm the announcements by the Board of JSW regarding growing production and sales in the coking coal segment, as coking coal is sold easily (falling inventories). When it comes to thermal coal LW Bogdanka, which is secured with long-term contracts, is unlikely to see lower prices in Q1, however we believe that market situation (the only positive aspect is growing export sales, however this category is historically very volatile) will influence price negotiations with power utilities and prices in H2 2013 (negative impact, we are expecting 5% decline in Poland).

The future of coal in Poland

The Ministry of the Economy responsible for the mining sector commissioned an analysis to update the guidelines of national energy policy and evaluate future demand for coal in Poland. The reason for this is that Poland has committed to the EU that it will switch off coal-run power units of the total 5GW production capacity. The current energy policy (adopted in 2009) envisions the reduction of hard coal consumption by 16.5%, brown coal by 23% and the increase of gas consumption by 40% (the efficiency of new units is growing by an avg. of 10%).

Manufacturers

February manufacturing data, investing ideas

Industrial production growth in Poland decelerated to 2.1% in February relative to the same month in 2012. Annual growth rates in preceding months amounted to +0.3% in January, -10.6% in December, -0.8% in November, +4.6% in October, -5.2% in September, +0.5% in August, +5.2% in July, +1.2% in June, +4.6% in May, +2.9% in April, and +0.7% in March. Year-on-year increases were recorded in seventeen out of the thirty-four sub-sectors, and three sub-sectors also saw expansion relative to January.

Production increased in the categories of other transportation equipment (+15.2% y/y), other non-metallic mineral products (+5.1%, marking a reversal of the downward trend recorded in January), electrical equipment (+2.5% in a deceleration from the month before), wood, cork, straw, and wicker products (+2.2%), and food (+1.7% in a deceleration from the month before).
In turn, the strongest contraction occurred in the sectors of machines and equipment (-13.2% in an acceleration of the January downtrend), computers, electronics, and optical devices (down 13.2% Y/Y, marking a deceleration of the downward trend recorded in January), metals (down 8.2% in a deceleration of the January downtrend), motor vehicles and trailers (down 5.9% in a deceleration of the January downward trend), hard and brown coal (down 5.9% in a reversal of the January uptrend), utilities (down 5.8% in a reversal of the January uptrend), and coke and refined petroleum (down 5.3% in a reversal of a January uptrend).

Leading indicators for manufacturing industries worldwide also remain weak. Eurozone PMI remained below 50pts again in February at 46.6 points, with Germany's Manufacturing PMI down to 48.9pts from 50.3pts in January. PMI Poland was below 50pts in November and December 2011, but rebounded over this mark in the first three months of 2012, to drop back below 50pts in April, with the March 2013 index down to 48.0pts from 48.9pts in February. The months ahead could bring a small rebound in PMI data following implementation of fiscal stabilization packages by ECB and FED. Polish PMI is expected to eventually follow the leading indicators for Germany which are edging closer to the 50 point mark. For now, however, the outlook for the manufacturing industry is dampened by unfavorable weather conditions observed throughout March and into April.
Our top picks in the manufacturing sector among the smaller companies include AC SA, Amica, Armatura, BSC Drukarnia, Bumech, Fasing, Hydrotor, Izostal, Mercor, Orzeł Biały, PKM Duda, Pozbud, Relpol, Selena, and Zetkama. Among Ukrainian stocks, we would consider the most undervalued grain producers like Agroton, Astarta, and KSG Agro.

Recommended portfolio allocations

Company	Portfolio	Price	P/E 2011	P/E 2012	P/E 2013	EV/EBITDA 2011	EV/EBITDA 2012	EV/EBITDA 2013	DY 2011	DY 2012	DY 2013	FY'12 Net debt/EBITDA
AC Auto Gaz	Overweight	29.29	12.1	10.9	10.5	8.4	8.1	7.3	0.0%	8.2%	7.2%	-0.2
ACE	Marketweight	7.10	17.5	15.2	15.4	3.4	5.5	5.0	4%	3%	3%	1.2
Amica	Overweight	72.50	7.1	11.8	6.9	8.8	6.1	6.0	4.1%	0.0%	4.4%	0.4
Apator	Underweight	29.50	21.8	11.1	14.1	12.4	8.8	8.9	1.2%	3.7%	4.6%	0.1
Armatura	Overweight	1.24	19.1	-37.8	14.2	6.1	28.6	7.0	7.9%	16.0%	0.0%	8.4
Barlinek	Marketweight	0.75	-5.2	-5.0	88.7	8.0	7.8	5.7	0.0%	0.0%	0.0%	5.7
Berling	Underweight	6.50	8.5	10.8	11.7	8.6	5.7	6.6	1.4%	3.1%	3.1%	-1.5
BSC Drukarnia	Overweight	20.80	12.6	11.9	11.8	7.2	6.7	6.1	0.0%	2.4%	2.5%	-1.1
Bumech	Overweight	8.39	6.3	11.6	6.3	4.1	4.4	3.4	0.0%	0.0%	0.0%	2.1
Cognor	Underweight	1.27	0.5	-189.8	-13.6	3.4	9.0	7.9	0.0%	0.0%	0.0%	7.7
Duda	Overweight	0.50	3.5	-7.0	6.1	4.2	9.5	4.8	0.0%	0.0%	0.0%	5.7
Ergis Eurofilms	Marketweight	2.40	635.2	12.5	11.4	6.0	5.7	4.9	0.0%	0.0%	0.8%	3.0
ES System	Underweight	2.50	9.2	25.0	15.9	4.2	7.0	6.9	4.0%	4.0%	2.0%	-1.1
Fasing	Overweight	22.50	6.4	5.7	7.0	4.4	3.4	3.9	0.9%	2.7%	4.4%	1.1
Ferro	Marketweight	6.17	7.2	7.5	7.6	7.3	7.9	7.4	0.0%	4.9%	0.0%	3.6
Forte	Underweight	16.34	10.0	11.2	13.6	7.4	7.3	7.8	4.6%	4.6%	4.6%	1.3
Hydrotor	Overweight	26.00	8.6	9.7	10.6	4.5	5.6	4.9	3.3%	4.8%	4.1%	0.3
Izostal	Overweight	6.80	11.6	11.0	9.6	7.9	7.0	6.2	0.0%	2.5%	2.6%	0.4
Libet	Underweight	2.58	4.1	37.3	18.1	3.3	7.8	6.8	27.5%	15.5%	2.7%	3.3
Mercor	Overweight	14.98	11.0	-5.4	9.0	8.5	7.4	7.1	0.0%	0.0%	0.0%	2.4
Orzeł Biały	Overweight	16.88	7.8	26.6	10.0	5.1	9.8	5.5	3.6%	4.4%	1.4%	-0.4
Patentus	Underweight	1.98	14.9	7.0	15.6	11.0	5.0	8.4	0.0%	0.0%	0.0%	1.1
Polska Grupa Odlewni-	Marketweight	1.87	9.0	6.8	12.9	5.0	5.1	7.2	0.0%	0.0%	14.7%	0.1
Pozbud	Overweight	3.90	10.2	11.6	8.5	7.5	8.2	6.4	0.0%	1.3%	2.6%	1.3
Radpol	Marketweight	8.77	15.4	18.1	13.8	8.2	10.6	8.7	2.1%	5.3%	2.3%	1.8
Relpol	Overweight	7.34	10.3	7.6	6.8	5.1	4.6	4.1	0.0%	0.0%	2.8%	0.0
Seco Warwick	Marketweight	42.00	28.2	15.6	11.1	13.2	8.6	7.0	0.0%	0.0%	0.0%	-0.7
Selena FM	Overweight	10.50	11.5	52.8	8.9	12.8	6.9	4.8	0.0%	0.0%	0.0%	2.3
Zamet Industry	Marketweight	3.72	14.7	12.0	15.9	10.6	9.2	10.6	0.0%	10.2%	4.2%	0.1
Zetkama	Overweight	45.00	8.4	9.7	9.5	6.6	6.4	6.0	0.0%	2.2%	3.6%	1.6
ZM Kania	Marketweight	2.32	11.7	44.7	17.6	17.5	18.5	11.3	0.0%	0.0%	0.0%	4.1
ZM Ropczyce	Marketweight	15.79	17.4	8.3	14.7	9.3	6.5	7.1	0.0%	0.0%	2.2%	3.2

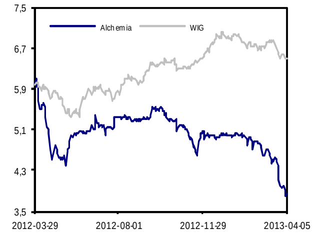
Source: BRE Bank Securities

Alchemia (Hold)

Current price: PLN 3.84 **Target price: PLN 4.2**

Analyst: Jakub Szkopek
Last Recommendation: 2013-04-08

(PLN m)	**2010**	**2011**	**change**	**2012**	**change**	**2013F**	**change**	**Basic data (PLN m)**	
Revenues	670.6	1 156.0	72.4%	1 139.3	-1.4%	1 134.4	-0.4%	Number of shares (m)	207.0
EBITDA	47.6	194.3	308.2%	88.1	-54.7%	119.6	35.8%	MC (current price)	794.9
EBITDA margin	*7.1%*	*16.8%*		*7.7%*		*10.5%*		EV (current price)	897.6
EBIT	22.3	141.7	536.4%	49.7	-64.9%	79.2	59.3%	Free float	16.8%
Net profit	14.7	118.3	704.3%	26.2	-77.9%	58.4	122.9%		
P/E	54.0	6.7		30.3		13.6		Price change: 1 month	
P/CE	19.8	4.6		12.3		8.0		Price change: 6 month	
P/BV	1.5	1.3		1.3		1.2		Price change: 12 month	
EV/EBITDA	19.8	4.4		10.2		6.9		Max (52 week)	
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	



World leaders in seamless steel pipe production (Tenaris, TMK, Vallourec) have an overall positive sales outlook for 2013, but they are observing a slowdown in European markets expected to persist throughout the first half of the year. In Poland, pipe sales have stabilized in January and February after a downturn of 14% observed in November and December 2012 (with volumes reaching levels last seen in Q4 2008). At the same time, however, prices remain well below (5% to 10%) the levels enjoyed a year ago. Combined with high base effects, this does not bode well for Alchemia's H1 2013 earnings outlook. We are upgrading ALC from reduce to hold because the share price has reached our target.

Alchemia on 2013 plans

Alchemia wants to spend about PLN 23m on capital investment in 2013 expected to generate annual savings of ca. PLN 8m. Moreover, Alchemia is aiming to increase sales of OCTG pipes by 40-50% in H1 2013. Our financial forecasts for Alchemia assume 2013 CAPEX of PLN 30m. We expect the Company to report earnings slowdown in H1 2013 due to weaker demand for steel pipes, the prices of which are about 10% lower than last year.

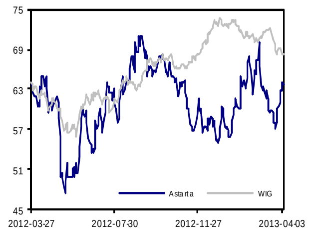
Astarta (Buy)

Current price: PLN 63.8 | Target price: PLN 76.9

Analyst: Jakub Szkopek
Last Recommendation: 2012-12-10

(UAH m)	2010	2011	change	2012	change	2013F	change
Revenues	2 328.2	3 385.5	45.4%	3 352.9	-1.0%	4 189.2	24.9%
EBITDA	1 051.4	1 236.0	17.6%	1 151.5	-6.8%	1 512.9	31.4%
EBITDA margin	*45.2%*	*36.5%*		*34.3%*		*36.1%*	
EBIT	911.7	1 041.1	14.2%	890.9	-14.4%	1 288.8	44.7%
Net profit	834.9	976.1	16.9%	724.6	-25.8%	1 086.3	49.9%
P/E	4.8	4.1		5.6		3.7	
P/CE	4.1	3.4		4.1		3.1	
P/BV	1.8	1.3		1.0		0.8	
EV/EBITDA	4.9	5.0		5.8		4.2	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	25.0
MC (current price)	1 595.0
EV (current price)	2 646.2
Free float	32.0%
Price change: 1 month	*1.6%*
Price change: 6 month	*-5.8%*
Price change: 12 month	*2.9%*
Max (52 week)	71.0
Min (52 week)	47.5



At the end of 2012, sugar prices in the Ukraine plummeted to levels about 16% below production costs. A 9% decrease in sugar output projected for the 2012/2013 is expected to bring the ratio of sugar inventories to usage down to 5-10% from 18.4% in the 2011/2012 season, resulting in a rebound in the local prices which are expected to hit a high of UAH 6500/t eventually in 2013. Further, in the 2013/2014 season, sugar supply will decrease due to discontinuation of production by companies like Kernel and Sintal. Ukrainian producers expect contraction by over 20% in Ukraine's sugar beet growing areas in the 2012/2013 season. While sugar prices remain low, milk prices in the Ukraine have surged 45% to UAH 4200/t since the beginning of the year, implying considerable upward adjustments to the Q1 2013 value of livestock assets. We are reiterating a buy rating for AST.

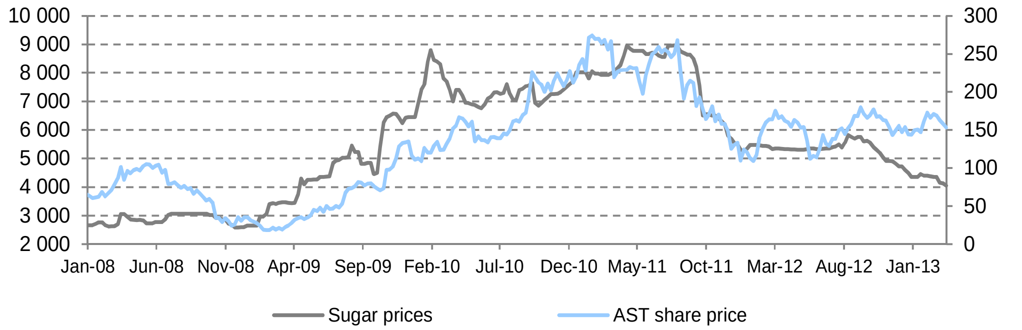
IR on 2013 outlook

Astarta's Head of IR says the Company has an optimistic outlook on 2013. After two years of oversupply, sugar demand in the Ukrainian market is expected to exceed production this year. Astarta is building a soybean crushing plant, scheduled to open this autumn. The overall 2013 CAPEX budget is EUR 60m, the same as in 2012.

Ukrainian sugar prices

Ukrainian sugar prices remained under pressure toward the end of 2012 due to high production volumes. Later this year, however, prices are expected to return on an upward path, reaching UAH 6500/t in the course of the year. Meanwhile, December prices averaged UAH 4500/t, trading 16% below our estimated production costs, indicating sales losses for most Ukrainian players except Astarta.

Astarta share prices (UAH) (R) vs. Ukrainian sugar prices (UAH/t) (L)



Source: BRE Bank Securities, Bloomberg, Agroperspectiva

Ukraine considers 7% VAT on agricultural firms

According to Bloomberg, the Ukrainian Finance Ministry is considering temporarily suspending tax preferences for local agricultural companies, and making them pay 7% value-added tax. We think Astarta can offset the new levy against its sales prices on the local market. As for exports, they will remain VAT free (export prices are quoted net), which means the additional charges should not affect Astarta's profits. Ukrainian agricultural companies will most likely increase exports to minimize the impact of the new VAT burden.

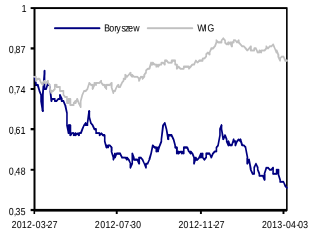
Boryszew (Hold)

Current price: PLN 0.42 | Target price: PLN 0.56

Analyst: Jakub Szkopek
Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012	change	2013F	change
Revenues	3 134.8	4 332.8	38.2%	4 878.0	12.6%	4 613.7	-5.4%
EBITDA	180.4	351.0	94.5%	260.9	-25.7%	276.6	6.0%
EBITDA margin	*5.8%*	*8.1%*		*5.3%*		*6.0%*	
EBIT	100.2	253.3	152.8%	147.7	-41.7%	165.3	11.9%
Net profit	5.2	145.4	2712.9%	55.2	-62.0%	74.6	35.2%
P/E	91.7	6.5		17.2		12.7	
P/CE	5.5	3.9		5.6		5.1	
P/BV	0.9	1.3		1.1		1.0	
EV/EBITDA	8.5	6.0		8.5		8.0	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	2 256.7
MC (current price)	947.8
EV (current price)	2 207.8
Free float	42.9%
Price change: 1 month	*-14.3%*
Price change: 6 month	*-33.3%*
Price change: 12 month	*-44.0%*
Max (52 week)	0.8
Min (52 week)	0.4



Sales of passenger cars in the European Union plummeted 10% in 2012, with average sales during the year hitting five-year lows. From the record-low 2012 base, we believe auto sales are set for stabilization and possibly a rebound in 2013, in line with the expected global economic recovery. As for Boryszew, 2013 will see completion of old low-margin contracts, combined with deliveries of new, more lucrative orders. Despite an expected expansion in margins generated by the automotive segment, Boryszew is trading at premiums of 55% and 119%, respectively, to European auto parts suppliers (Autoliv, Faurecia, Plastic Omnium, Polytec, Valeo) on FY2013 P/E and EV/EBITDA ratios of an estimated 12.7x and 8.0x. At this level, the value premiums hardly make BST an attractive investment even assuming it is set for solid earnings growth. We are reiterating a hold rating on BST.

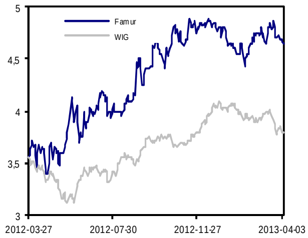
Famur (Reduce)

Current price: PLN 4.65 **Target price: PLN 4.2**

Analyst: Jakub Szkopek
Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012	change	2013F	change
Revenues	635.9	922.6	45.1%	1 471.5	59.5%	1 134.0	-22.9%
EBITDA	115.8	262.0	126.2%	477.3	82.2%	316.6	-33.7%
EBITDA margin	*18.2%*	*28.4%*		*32.4%*		*27.9%*	
EBIT	83.1	154.2	85.6%	349.3	126.5%	192.2	-45.0%
Net profit	73.4	95.2	29.8%	271.5	185.0%	143.8	-47.0%
P/E	30.5	23.5		8.2		15.6	
P/CE	21.1	11.0		5.6		8.3	
P/BV	3.8	3.7		2.5		2.3	
EV/EBITDA	19.1	9.3		4.7		6.5	
Dyield (%)	0.0	3.4		0.0		5.1	

Basic data (PLN m)	
Number of shares (m)	481.5
MC (current price)	2 239.0
EV (current price)	2 239.2
Free float	16.8%
Price change: 1 month	*-1.1%*
Price change: 6 month	*2.2%*
Price change: 12 month	*26.4%*
Max (52 week)	4.9
Min (52 week)	3.4



Polish mines are forced to hold capital investment due to falling output (which was 9.8% lower than sales in 2012), record-high stockpiles of thermal coal (8.1mmt at the end of 2012), and increasing production costs. As a result, Famur faces a continuing downtrend in new orders which will weigh on 2013 profits. The earnings shrinkage expected this year will be exacerbated by base effects stemming from the high profits posted in 2012 (over PLN 50m per quarter in the first three quarters; the fourth quarter marked the beginning of a slowdown). The one development that could prop up Famur's share price in the near term is if the Company wins more damages from Kopex. We are reiterating a reduce rating on FMF.

Kopex appeals damages awarded to Famur

On 1 March Kopex filed a final appeal with the Court of Appeals in Katowice against an earlier ruling ordering the Company to pay liquidated damages of PLN 40.3m to Famur. The damages plus interest were paid to Famur in Q4'12. Kopex had created reserves for the claims in Q1'12. Famur did as well, and the reserves will be reversed depending on the ruling of the Court of Appeals.

Kopex wins dispute with Famur

The District Court in Katowice dismissed Famur's claims against Kopex regarding compensation for a terminated contract in the amount of PLN 22.2m. Presenting reasons for the judgment the Court agreed with the arguments of Kopex saying that the amount demanded by Famur was reasonable, however it was covered by a previously awarded contractual penalty of PLN 40.3m. The Court ruled that Famur should pay the litigation costs. The ruling is not binding. Famur is considering appealing from the ruling. Kopex had not previously created any reserves for the claims, therefore a positive ruling is neutral for the valuation of the Company (also neutral for the valuation of Famur). In the short term the ruling may positively impact the stock of Kopex. Still pending is Famur's case regarding compensation for losses incurred on F/X insurance related to the terminated Chinese contract (PLN 51.9m plus statutory interest of PLN 22.8m = PLN 74.7m; PLN 1.01 per one Kopex share and PLN 0.16 per one Famur share).

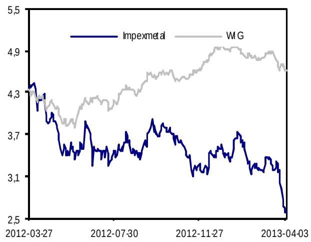
Impexmetal (Buy)

Current price: PLN 2.58 Target price: PLN 4.2

Analyst: Jakub Szkopek
Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012	change	2013F	change
Revenues	2 417.6	2 806.1	16.1%	2 594.3	-7.5%	2 577.8	-0.6%
EBITDA	166.9	202.0	21.0%	136.8	-32.3%	153.1	11.9%
EBITDA margin	*6.9%*	*7.2%*		*5.3%*		*5.9%*	
EBIT	105.5	142.0	34.6%	79.1	-44.3%	93.3	17.9%
Net profit	76.8	104.6	36.2%	56.4	-46.1%	60.4	7.1%
P/E	6.7	4.9		9.1		8.5	
P/CE	3.7	3.1		4.5		4.3	
P/BV	0.6	0.6		0.5		0.5	
EV/EBITDA	5.6	4.7		6.9		5.7	
Dyield (%)	0.0	7.8		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	200.0
MC (current price)	516.0
EV (current price)	941.1
Free float	37.3%
Price change: 1 month	*-21.1%*
Price change: 6 month	*-32.8%*
Price change: 12 month	*-41.4%*
Max (52 week)	4.4
Min (52 week)	2.6



Impexmetal's aluminum processing unit HAK has secured orders for over 90% of this year's output, and its current capacity utilization rates are on the rise, increasing from 88.2% in Q1 2012, 86.7% in Q2'12, 91.1% in Q3'12, and 92% in Q4'12. Other factors expected to support the 2013 earnings of Impexmetal will include a 3.3% decline in gas costs and a 9.0% drop in power costs, combined with narrowing margins paid to aluminum suppliers observed since March. Further, Impexmetal sells over 40% of its output in EU markets, so an upward shift expected to occur in the leading indicators for European manufacturing should give a boost to its stock value. We are reiterating a buy rating for IPX.

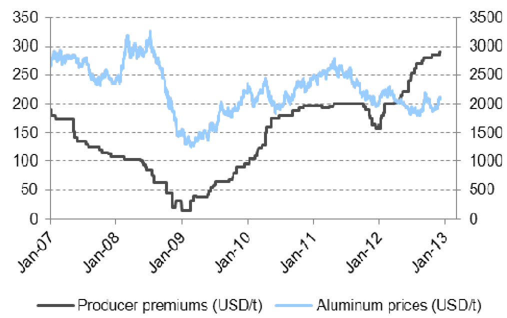
Impexmetal obtains building permit for Warsaw property

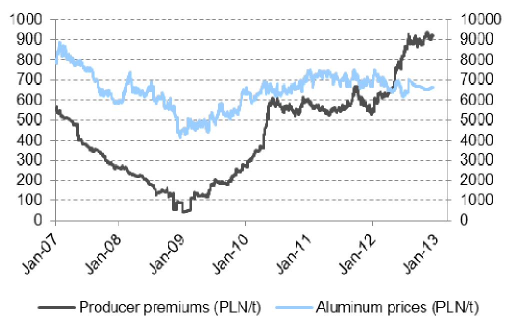
Puls Biznesu daily paper reported that Impexmetal had obtained a building permit for its property at Łucka street in Warsaw which will allow for the construction of two high-rise buildings of 50k sqm living space. The consent is not yet binding. Most probably the Company will perform an upward revision of the land's value in Q2'13 or Q3'13 (adding ca. PLN 65m one-off profit to IPX and BRS results). There is a possibility that the land may be sold (we are estimating for ca. PLN 75m), or the Company will build the residential spaces on its own. In our opinion the market would prefer the first option. The land at Łucka is not factored into our valuation of Impexmetal (it can potentially add PLN 0.38 per IPX share).

Aluminum prices and producer premiums

After an upturn in the second half of 2012, premiums earned by aluminum producers peaked in March and have since been on a downward trend. If this trend continues in the months ahead, aluminum processing companies should see a widening in their real production margins in Q2 2013 (real margin = processing margin – aluminum supplier margin).

Aluminum prices (LME) and European producer premiums





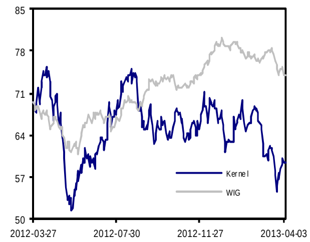
Source: Bloomberg

Kernel (Hold)

Current price: PLN 59.25 **Target price: PLN 61.1**

Analyst: Jakub Szkopek
Last Recommendation: 2013-03-04

(USD m)	2009/10	2010/11	change	2011/12	change	2012/13F	change	Basic data (PLN m)	
Revenues	1 020.5	1 899.1	86.1%	2 157.4	13.6%	2 732.9	26.7%	Number of shares (m)	79.7
EBITDA	190.0	309.6	62.9%	322.0	4.0%	339.5	5.4%	MC (current price)	4 721.2
EBITDA margin	*18.6%*	*16.3%*		*14.9%*		*12.4%*		EV (current price)	5 431.7
EBIT	167.5	277.3	65.5%	256.5	-7.5%	257.8	0.5%	Free float	61.8%
Net profit	152.0	226.3	48.9%	206.7	-8.6%	190.8	-7.7%		
P/E	8.8	6.5		7.1		7.7		Price change: 1 month	*-1.7%*
P/CE	7.7	5.7		5.4		5.4		Price change: 6 month	*-10.2%*
P/BV	2.2	1.5		1.2		1.1		Price change: 12 month	*-12.7%*
EV/EBITDA	7.5	5.1		5.2		5.1		Max (52 week)	75.3
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	51.5



On strong sales volumes, Kernel generated disappointing profits in the segments of farming, grain trade, and export terminals, in the second quarter of fiscal 2013 (fourth quarter of calendar 2012). The consolidated quarterly EBITDA fell 40% short of our expectations, and net profit missed our forecast by 60%. What is more, Kernel has cut its FY2013 net profit guidance from USD 215m to USD 200m while raising the sales forecast from USD 2400m to USD 2800m. The biggest risk facing Kernel in the second half of fiscal 2013 are operating cash flows which stood at a negative USD 428m as of 31 December 2012. According to our calculations, in order to satisfy loan covenants (2.5x EBITDA at the end of the fiscal year), Kernel has to reduce its working capital from USD 975m to about USD 600m (which means a need to generate USD 565m cash in H2'13). The Company is in the process of selling its sugar production assets (Ukrros) and a seed crushing plant (Russian Oils). We expect the cash flow situation to dampen sentiment to Kernel's shares in the coming quarters. In the near term, the April 18th FQ3 2013 earnings announcement, expected to show strong sales growth, will support the Company's value. We are reiterating a neutral rating on KER.

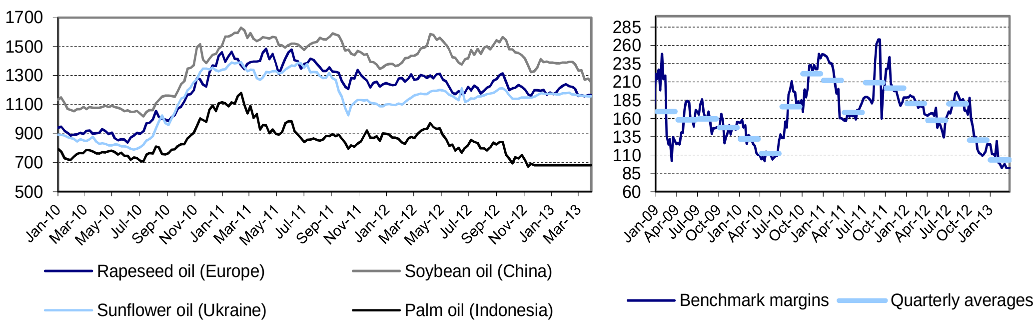
Kernel's CEO stripped of parliament seat

Ukraine's Administrative Court revoked the parliamentary mandate of Kernel's CEO Andriy Verevsky as of March 5th. The ruling is final and binding. Mr. Verevsky won his seat in the Ukrainian parliament in October 2012 as a candidate for the Party of Regions. From what we can tell, his mandate was revoked over his business activity which cannot be combined with a government position under the Ukrainian law. In the long term, however, we believe Mr. Verevsky can continue to enjoy the support of the Ukrainian government.

Sunflower oil margins

Model margins generated from the production of bottled sunflower seed oil contracted throughout the second half of 2012, resulting in decreases in Kernel's per-ton EBITDA margins on bulk oil by 1.5ppt in Q1 and 4.0ppt in Q2 FY2013. Crushing margins in the third fiscal quarter (first calendar quarter) hovered 49% below the level recorded in the same period a year ago (after a 35.3% y/y drop recorded in Q2 FY2013), and they are the lowest since 2010.

Theoretical margins on sunflower oil production (USD/t)



Source: BRE Bank Securities, Bloomberg, Agroperspectiva

Ukraine considers 7% VAT on agricultural firms

According to Bloomberg, the Ukrainian Finance Ministry is considering temporarily suspending tax preferences for local agricultural companies and making them pay 7% value-added tax. We think Kernel can offset the new levy against its sales prices on the local market. As for exports, they will remain VAT free (export prices are quoted net), which means the additional charges should not affect Kernel's profits. Ukrainian agricultural companies will most likely increase exports to minimize the impact of the new VAT burden.

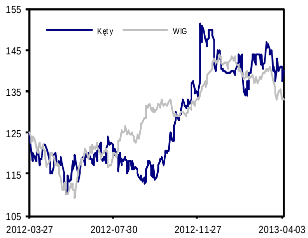
Kęty (Reduce)

Current price: PLN 140 Target price: PLN 126.7

Analyst: Jakub Szkopek
Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012	change	2013F	change
Revenues	1 210.5	1 489.7	23.1%	1 568.1	5.3%	1 494.0	-4.7%
EBITDA	185.3	221.6	19.6%	224.2	1.2%	195.9	-12.6%
EBITDA margin	*15.3%*	*14.9%*		*14.3%*		*13.1%*	
EBIT	118.0	151.1	28.1%	142.1	-6.0%	110.9	-21.9%
Net profit	89.7	114.2	27.4%	117.0	2.5%	81.6	-30.3%
P/E	14.4	11.3		11.0		15.8	
P/CE	8.2	7.0		6.5		7.8	
P/BV	1.5	1.4		1.3		1.3	
EV/EBITDA	8.4	6.8		6.8		7.8	
Dyield (%)	2.9	2.9		3.6		6.5	

Basic data (PLN m)	
Number of shares (m)	9.2
MC (current price)	1 291.6
EV (current price)	1 513.7
Free float	59.4%
Price change: 1 month	*-0.2%*
Price change: 6 month	*18.2%*
Price change: 12 month	*18.7%*
Max (52 week)	151.1
Min (52 week)	110.0



Kęty expects to report 3% year-on-year decline in revenues, a 2.5% decrease in EBITDA, and 20% contraction in net profit, in Q1 2013. We consider these overly optimistic estimates given the unfavorable weather conditions (with temperatures below zero degrees and frequent snowfall), a high year-ago base, and the late March-timing of the Easter holidays. We expect a disappointment similar to what was brought by Q4 2012 results. As for the outlook for the rest of the year, it is affected by a slowdown in building activity (resulting in more intense competition and lower profit margins) and falling margins on extruded products. We are reiterating a reduce rating on KTY.

Dividend proposal

Kęty's Management Board is going to recommend payout of PLN 6 per share in dividends from 2012 profits (DY 4.1%). The proposed payout ratio of 47% is higher than an earlier proposal of 40% distribution.

Q4 results miss analysts' expectations and guidance

At PLN 387.9m, the Q4 2013 revenue of Kęty fell 1.5% short of our estimate and missed the Company's own guidance by 0.5%. By segment, year-on-year contraction in sales revenues was reported in Flexible Packaging (-3.6%), Extruded Products (-7.7%), Aluminum Systems (-4.3%), and Building Accessories (-5.9%); Building Services was the only business to grow sales by 21.9% in Q4.

Consolidated EBIT came in at PLN 19.1m, which was 27.1% less than we had forecast and 26.5% less than estimated by the Company. EBITDA fell 13.5% short of our forecast and 13.1% short of target at PLN 40m. The segment of Building Services had a particularly weak quarter in that respect, posting an EBITDA loss of PLN 5.4m. In Flexible Packaging, the EBITDA margin reached its lowest level since Q4 2010 at 14.7%. Similarly, at 11.1%, the EBITDA margin in Aluminum Systems was the lowest since Q1 2011 when the segment's profits were impacted by unfavorable weather conditions.

Kęty's Q4 2012 net profit came in at PLN 17.3m, and it missed our forecast and the Company's guidance by 8.2% and 4.1%, respectively. Kęty generated operating cash flow of 56.7m in Q4 2012, less than half of the PLN 130m posted in Q4 2011. Net debt as of 31 December was consistent with Kęty's guidance at PLN 240.8m.

Deviations from quarterly earnings guidance to the extent seen in Q4 2012 are a rare occurrence in Kęty's history. Going forward, Kęty has a tough few months ahead given the slowdown observed in Polish building activity which is bound to weigh on the Company's profits.

Kęty issues first-quarter estimates

Kęty's 2013 first-quarter earnings guidance pegs revenue at PLN 340m, marking a 3% decline from the same quarter a year ago. By segment, revenue growth of about 5% was generated only in Flexible Packaging; the other segments reported year-on-year revenue contraction of 3% in case of Aluminum Systems, 8% in case of Extruded Products, and 18% in case of Building Services and Building Accessories.

The consolidated Q1 2013 EBIT is expected to approximate PLN 27m, showing flat growth from the year before, and EBITDA will show a decline to PLN 46m from PLN 47.2m in Q1'12.

Kęty expects to report financing losses (stemming from interest expenses, FX losses) of PLN 3.0m in Q1 2013, which compares to financing gains of PLN 2.8m reported a year ago. Consequently, the quarterly net profit will be about 20% lower than last year at an estimated PLN 19m. Kęty expects to end FY2013 with a net debt of ca. PLN 230m, down from PLN 240m reported at 31 December 2012.

As predicted, Kęty's profits in the first half of 2013 remain under pressure from unfavorable economic conditions. The Company claims its first-quarter EBITDA has not fallen more than 2.5%, but we suspect the actual quarterly profits may again be worse than estimated.

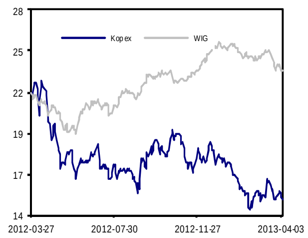
Kopex (Hold)

Current price: PLN 15 **Target price: PLN 16.2**

Analyst: Jakub Szkopek

Last Recommendation: 2013-03-06

(PLN m)	2010	2011	change	2012	change	2013F	change	Basic data (PLN m)	
Revenues	2 365.2	2 126.3	-10.1%	2 022.2	-4.9%	1 809.9	-10.5%	Number of shares (m)	74.3
EBITDA	184.6	274.7	48.8%	174.6	-36.4%	251.3	43.9%	MC (current price)	1 115.0
EBITDA margin	*7.8%*	*12.9%*		*8.6%*		*13.9%*		EV (current price)	1 713.2
EBIT	100.1	172.0	71.9%	49.8	-71.0%	142.5	186.1%	Free float	25.9%
Net profit	33.3	153.5	361.6%	33.1	-78.4%	88.8	168.3%		
P/E	33.5	7.3		33.7		12.6		Price change: 1 month	*-1.3%*
P/CE	9.5	4.4		7.1		5.6		Price change: 6 month	*-18.3%*
P/BV	0.5	0.4		0.4		0.4		Price change: 12 month	*-33.5%*
EV/EBITDA	9.0	6.3		9.8		6.4		Max (52 week)	22.8
Dyield (%)	0.0	0.0		0.0		4.0		Min (52 week)	14.4



Polish mines are forced to hold capital investment due to falling output (which was 9.8% lower than sales in 2012), record-high stockpiles of thermal coal (8.1mmt at the end of 2012), and increasing production costs. As a result, Kopex faces a continuing downtrend in new orders which will weigh on 2013 profits. Moreover, the Company faces the impending economic slowdown with net debt 80% higher than ahead of the previous slowdown. Meanwhile, its customers in the Upper Silesian coal basin ran up record levels of accounts payable (18.5% higher than the four-year average), which means their equipment suppliers, including Kopex, are set for deterioration in liquidity. Given the bleak 2013 outlook, we would take advantage of any share price increase to reduce positions in Kopex, especially if the Company loses two of its remaining court cases against Famur. Still pending is Famur's case regarding compensation for losses incurred on F/X insurance related to a terminated Chinese contract (PLN 51.9m plus statutory interest of PLN 22.8m = PLN 74.7m; PLN 1.01 per one Kopex share). We are reiterating a hold rating on KPX.

Kopex appeals damages awarded to Famur

On 1 March Kopex filed a final appeal with the Court of Appeals in Katowice against an earlier ruling ordering the Company to pay liquidated damages of PLN 40.3m to Famur. The damages plus interest were paid to Famur in Q4'12. Kopex had created reserves for the claims in Q1'12. Famur did as well, and the reserves will be reversed depending on the ruling of the Court of Appeals.

Kopex unveils new five-year strategy

Kopex released a five-year strategy which envisions core revenue expansion to PLN 3.5bn by the end of 2017 (from PLN 1.6bn in 2012), EBIT margin growth from 11% to 21%, and 2017 ROCE of 30-35%, up from 9% in 2012. The Company is planning M&A activity in the next five years, and it is considering discontinuation of certain manufacturing operations to focus on project management. It wants to achieve 50% market share in aftermarket services by the end of 2017. Fulfillment of the strategic objectives will be supported by streamlining measures, including downsizing of fixed assets such as real-estate and manufacturing lines, and reductions in current assets, expected to reduce net debt to PLN 430-510m by the end of 2015.
The new strategy marks a total management and organizational shift for Kopex. The streamlining and restructuring measures scheduled for 2013 and 2014 will probably entail considerable charges stemming from changes in the organizational structure, discontinuation of production (resulting in possible charges related to an exit from a special economic zone), asset sales below fair value, and goodwill write-offs (PLN 1.2bn; 32% of the balance-sheet total). Note that this redesign of the business model coincides with a capital investment slowdown in in the coal industry across the world. Consequently, Kopex may have trouble liquidating the noncore assets, and continue to book high debt levels. In the worst-case scenario, the Company may be forced to borrow money externally.
Summing up, while we think Kopex's new growth strategy is a viable one, its timing could not be worse.

Kopex wins dispute with Famur

The District Court in Katowice dismissed Famur's claims against Kopex regarding compensation for a terminated contract in the amount of PLN 22.2m. Presenting reasons for the judgment the Court agreed with the arguments of Kopex saying that the amount demanded by Famur was reasonable, however it was covered by a previously awarded contractual penalty of PLN 40.3m. The Court ruled that Famur should pay the litigation costs. The ruling is not binding. Famur is considering appealing from the ruling. Kopex had not previously created any reserves for the claims, therefore a positive ruling is neutral for the valuation of the Company (also neutral for the valuation of Famur). In the short term the ruling may positively impact the stock of Kopex. Still pending is Famur’s case regarding compensation for losses incurred on F/X insurance related to the terminated Chinese contract (PLN 51.9m plus statutory interest of PLN 22.8m = PLN 74.7m; PLN 1.01 per one Kopex share and PLN 0.16 per one Famur share).

Kopex loses customer

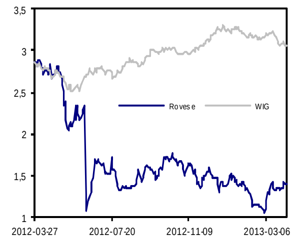
One of Kopex’s customers, the Czech-based company OKD a.s., submitted a notice of termination of a contract for mine shaft deepening. The reason for the termination was not disclosed. The notice period is three months, which means the contract will terminate on 30 June 2013. According to our estimates, the contract will have brought in PLN 123.3m by the time it terminates in June. We suspect OKD was forced to cut costs due to a tough coal market.

Rovese (Reduce)

Current price: PLN 1.39 **Target price: PLN 1.2**

Analyst: Jakub Szkopek
Last Recommendation: 2013-04-08

(PLN m)	**2010**	**2011**	**change**	**2012**	**change**	**2013F**	**change**	**Basic data (PLN m)**	
Revenues	1 531.5	1 638.2	7.0%	1 669.0	1.9%	2 249.9	34.8%	Number of shares (m)	811.4
EBITDA	253.5	250.7	-1.1%	162.3	-35.2%	245.2	51.0%	MC (current price)	1 127.9
EBITDA margin	*16.6%*	*15.3%*		*9.7%*		*10.9%*		EV (current price)	1 329.8
EBIT	142.0	135.8	-4.4%	18.2	-86.6%	77.0	322.4%	Free float	18.4%
Net profit	103.0	87.8	-14.8%	-62.8		39.2			
P/E	2.9	4.3				28.8		Price change: 1 month	*27.5%*
P/CE	1.4	1.9		13.9		5.4		Price change: 6 month	*-19.7%*
P/BV	0.2	0.2		0.5		0.5		Price change: 12 month	*-50.4%*
EV/EBITDA	4.5	4.9		8.2		7.1		Max (52 week)	2.9
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	1.1



Poland is experiencing the longest winter in four years, dampening demand for building services and finishing materials. What is more, the early timing of Easter this year has forced consumers to put off home renovations. We expect Rovese will not complete the acquisitions of companies from its main shareholder by the end of the first quarter, and we predict the Company will make a weak Q1 2013 earnings announcement which will prompt analysts to lower their FY2013 full-year EBITDA expectations below PLN 250m (from the current PLN 285m). We are reiterating a reduce rating for Rovese.

Q4 2012 results

In Q4'12 the revenue of Rovese amounted to PLN 375.7m, lower by 8.3% than our estimates and by 6.1% than market consensus. The sales generated by the segment of ceramic tiles fell 18.1% short of our forecast and showed 4.9% contraction from Q1 2012, and sales of "other" products missed our estimate by 4.5% and were 0.2% lower than a year earlier. Sales of sanitaryware came in 21.7% higher than our forecast, marking 5.7% growth y/y.

The gross profit margin amounted to 32.0% vs. 33.0% forecasted by us. Much higher than expected SG&A were a source for concern (+10.3% vs. our forecast; the Company changed the method of booking SG&A costs and recognized them in sales costs). The increase is attributed to higher investment in traditional sales channels and training of sales personnel. Other net operating income amounted to PLN +2.7m vs. forecasted PLN 0m forecasted. Rovese reported a Q4'12 operating loss of PLN 16.6m vs. an expected profit of PLN 14.2m. It is worth noting the ca. PLN 15m increase in D&A expenses, led probably by write-offs of old promotional materials.

Financing operations generated a gain of PLN 4.4m vs. a loss of PLN 27.2 forecasted by us thanks to lower than anticipated F/X losses. The Q4 bottom line showed a net loss of PLN 33.5m (vs. PLN -10.5m expected by us).

At the end of 2012 Rovese's net debt stood at PLN 192.4m (the decrease was driven by an I series stock issue in Q4'12), and the net debt-to-EBITDA ratio amounted to 1.18x. Q4 2012 operating cash flow reached PLN +26.1m vs. PLN -20.9m in the same period of 2011. Full-year OCF was 43% higher than EBITDA thanks to a considerable, PLN 60m reduction in working capital.

On a quarter-to-quarter basis Rovese managed to reduce its working capital by PLN 49.3m (mostly thanks to lower inventories), which may explain the weak operating profits (inventories are sold at low prices in order to release cash).

It is worth noting, however, that Rovese sold merely 49.2 million square meters of ceramic tiles in 2012, marking a decrease of 6.3% from 2011, despite plans to sell off excess inventory and expand into foreign markets. Sales of ceramic sanitaryware remained flat at the 2011 level of 5.2 million units.

Prices of building materials in January

In January 2013, prices of ceramic tiles and kitchen and bathroom equipment as quoted by the wholesaler PSB remained steady, with the average QTD price up 3.4% relative to the same period in 2012. January was the second consecutive month of falling sales for PSB, with sales down 23% relative to January 2012 and 11% relative to December 2012.

Month-on-month changes in prices of ceramic tiles and bathroom and kitchen fittings

Jan'12	Feb'12	Mar'12	Apr'12	May'12	Jun'12	Jul'12	Aug'12	Sep'12	Oct'12	Nov'12	Dec'12	Jan'13
1.3%	1.1%	0.0%	0.0%	0.9%	0.0%	0.0%	0.6%	0.8%	0.7%	0.0%	0.0%	0.0%

Source: PSB

Construction

Investment summary for companies not reviewed below (PLN m)

Company	Rating	Price (PLN)	MCap	Net debt	EV	Revenue 2012	Revenue 2013F	Net profit 2012	Net profit 2013F	EBITDA 2012	EBITDA 2013F	P/E 2012	P/E 2013F	EV/EBITDA 2012	EV/EBITDA 2013F
Ulma	Hold	50.00	263	59	322	259	224	20	1	118	76	12.9	407.2	2.7	3.8
ZUE	Hold	6.30	139	-3	135	518	483	3	11	12	24	53.0	12.2	12.3	5.8

Source: Companies, BRE Bank Securities

We are reiterating our neutral investment ratings for Ulma and ZUE. Both companies are expected to see falling profit margins this year, and Ulma is additionally set for a decrease in the value of orders from the road infrastructure segment which will be gradually replaced by orders from the power industry (including power plant projects in Stalowa Wola, Kozienice, and Włocławek). The resulting deterioration in 2013 profits will be a temporary phenomenon which should not affect investors' decisions regarding the stock; more important in Ulma's case is its ability to generate cash (high EBITDA, lower investment needs in 2013) and its sound financial situation. As for ZUE, it has accumulated a safe order backlog of PLN 430m, and its profits in the years ahead will be supported by the growth potential of its existing (railroads) and future (power lines) markets.

General

First tenders funded from EU 2014-2020 budget coming in 2013

The Polish government is planning hold tenders for infrastructure projects totaling PLN 32.1bn that will be funded from the 2014-2020 EU budget still this year so as to ensure that the work on these projects can commence in 2014. New contract opportunities coming on line already this year would be good news for road developers like Budimex.

Bipromet

Q4 2012 results

Bipromet generated revenue of PLN 20.3m, a gross profit of PLN 5.2m (with margin at 25.4%), a profit on sales of PLN 3.6m, EBIT of PLN 1.3m (other operating expenses were PLN 2.3m), and net profit of PLN 1.4m, in Q4 2012. Quarterly operating cash flow amounted to PLN 10.0m, adding to an annual OC of PLN 10.9m as of the end of 2012 (MC: PLN 41.2m). Bipromet is relatively cheap (2012 P/E = 10.5x, 2012 EV/EBITDA = 4.6), and rather safe.

Budopol Wrocław

Budopol posts high Q4'12 loss due to overdue payments from Gant

On a revenue of PLN 14.7m, Budpol Wrocław (BDL) incurred a Q4 2012 EBIT loss of PLN 19.9m, and posted a net loss of PLN 48.0m. Further, BDL's equity dropped from PLN 67.3m at 30 September to PLN 19.4m at 31 December 2012. Ending net debt was PLN 43.5m. The high EBIT loss was caused by provisions set aside for warranty repairs, a write-off of the Odra Tower project, falling contract profits, and high fixed costs incurred on stalled projects. In addition, BDL recognized impairment losses on receivables and financial assets. Whether BDL can continue as a going concern going forward hinges upon the continuation of real-estate projects by its main customer Gant, and depends on Gant's ability to pay back overdue accounts owed to BDL.

Elektrotim

CEO on 2013 outlook

Elektrotim's CEO anticipates an improvement in earnings in 2013. The Company is planning to make a distribution to shareholders this year equivalent to 5-10% of its market cap. As for the outlook ahead, the CEO anticipates a rebound in profits later this year after a loss-making first quarter, possibly supported by reversals of some of the provisions booked in 2012. Elektrotim has accumulated an order backlog worth PLN 176.9m (+3.0% y/y) to date, consisting of quality contracts expected to boost profit margins this year. 10-20% of the backlog are orders received from the copper giant KGHM, 20% are army orders, and 30% are power engineering jobs. Elektrotim is trading at 2012 P/E of 13.3 and EV/EBITDA of 5.4. It had a net cash position of PLN 21m at 31 December 2012. Given last year's standalone profit and other capital reserves, Elektrotim has the capacity to pay PLN 6.5m dividend this year (PLN 0.67/share, DYield=7.4%).

Energoinstal

Dividend recommendation
The Management Board of Energoinstal is recommending distribution of PLN 5.4m of 2012 earnings (PLN 0.30/share) as dividends to shareholders, and retention of the PLN 5.2m balance in the Company. The recommendation implies low dividend yield of 2.1%. On 2012 earnings, ENI shares are currently trading at expensive ratios of 2012 P/E of 19.3x and EV/EBITDA of 8.2x.

Energopol Południe

Q4 2012 results
Energopol generated revenue of PLN 51.9m, EBIT of PLN 1.7m, and net profit of PLN 1.4m, in Q4 2012. Operating cash flow was PLN 17.9m.

PLN 286.4m contract bid
Energopol Południe placed the cheapest offer for the development of the "400 kV Ełk bis" overhead line. The offer is worth 220.3% of the expected 2012 revenue. There other two bids were more expensive than EPL's by 31.6% and 65.5%, respectively. EPL's offer accounts for 62% of the project's budget, which seems way too little to ensure that the contract can generate a decent profit.

Herkules

Herkules posts Q4 2012 loss
Herkules generated revenue of PLN 21.8m, an EBIT loss of PLN 0.8m, and a net loss of PLN 1.6m in Q4 2012. Operating cash flow was PLN 6.9m. Herkules's Q4 losses reflect the overall slowdown in the Polish construction industry, expected to continue affecting company earnings throughout 2013. The weak Q4 results explain the downturn in the Company's stock price in March.

Interbud-Lublin

Interbud posts small Q4 2012 loss
Interbud generated revenue of PLN 50.2m, EBIT of PLN 1.1m, and a net loss of PLN 0.2m, in Q4 2012. The weak profits were caused by low margins generated from real-estate development and high SG&A expenses (PLN 2.6m). After a lackluster Q4 2012 Interbud is set for a better Q1 2013 thanks to completion of new real estate projects. The Company's future largely depends on a successful sale of a land property in Lublin (facilitating debt reductions) and whether its financing provider Bank BPS agrees to extend financing for new projects.

Mostostal Warszawa

MSW withdraws from residential contract
Mostostal Warszawa (MSW) withdrew from a contract for construction of a residential complex for Marvipol over a failure on Marvipol's part to conduct timely final inspections of the finished buildings. The contract has a value of PLN 159.5m. There is a risk that Marvipol will retain the PLN 19.6m bank guarantee provided by MSW. If it does, MSW will probably not write this amount off as a loss, but it will see an outflow of cash.

MSW on the contract cancellation
According to MSW, cancellation of the contract with Marvipol was necessary due to the latter's failure to conduct a final inspection of PLN 30m-worth of construction work. Marvipol claims that MSW owes PLN 20m to its subcontractors in the project, and it has issued a request to Bank BZ WBK to disburse performance guarantees totaling PLN 15.8m. MSW says it is not liable to pay any fines since the cancellation of the contract was Marvipol's fault. However, Marvipol is determined to pursue liquidated damages, up to filing a bankruptcy petition against MSW if necessary.

Q4 2012 results below consensus; auditor questions the financial statements
Mostostal Warszawa presented very poor Q4 2012 financial results. Consolidated revenues fell by 37% y/y to PLN 646.6m and they fell 20% short of our forecasts. The Company generated 25-30% lower-than-expected profits at each level of the financial results. The EBITDA loss amounted to PLN 78.1m, and the net loss was PLN 81.2m. The Company closed the year with net debt amounting to PLN 226m (we expected net debt to fall below PLN 200m). Q4 2012 operating cash flow amounted to a mere PLN +65m vs. PLN +220m in the same period of 2011. In their remarks to the financial statements, the auditors (PWC) stressed again that in 2011 and 2012 Mostostal recognized claims of PLN 85.6m and PLN 156.2m, respectively, as revenues. The claims boosted the Company's net profits by PLN 85.2m in 2011 and

PLN 115.0m in 2012. As of the day when the auditors issued their opinion, negotiations with contractors regarding the above-mentioned claims were not at an advanced stage, which prompted doubts whether they can be classified as revenues. Note that Mostostal Warszawa is currently heavily dependent on energy projects and financing from the majority shareholder. If any of these two elements are missing, the Company will fall into trouble.

Court dismisses CNEEC, Hitachi-SNC Lavalin appeals against contract award

The National Chamber of Appeals dismissed the appeals filed by CNEEC and Hitachi-SNC Lavalin against the award by Tauron of a contract for construction of a power plant in Jaworzno to a consortium of Rafako and Mostostal Warszawa. The consortium's bid was PLN 5.4bn. Tauron is hoping to sign the contract by the end of June. However, CNEEC has stated it is considering filing another appeal with a circuit court.

Mostostal Zabrze

MSZ eliminates backlog risks

Mostostal Zabrze has reported having an order backlog of PLN 665m after downward adjustments to the PLN 671m figure reported at the end of 2012 following a cleanout of high-risk jobs.

Small likelihood of prompt claim recovery

Reliz, a wholly-owned subsidiary of Kredyt Bank, now in liquidation, which owes over PLN 62m to Mostostal Zabrze, did not receive any bids on an office building called "Altus" in Katowice which it has put up for sale. It is considering holding another bid in April. The lack of bids reduces Mostostal Zabrze's chances of recovering its claims. Even if sold, the proceeds from the office building will first go toward satisfying the claims of Kredyt Bank.

Pol-Aqua

Pol-Aqua underbids ZUE in railroad contract

National railroad operator PKP PLK selected Pol-Aqua to build a stretch of railroad route #1 based on a bid of PLN 484.3m. This was good news for Pol-Aqua and not so good for ZUE which had offered to do the job for PLN 490.1m.

Polimex Mostostal

Torpol secures PLN 194.2m contract

A consortium involving Polimex's subsidiary Torpol has been hired to modernize railroad route #143 for a fee of PLN 194.2m, representing 4.8% of the expected 2012 revenue of Polimex.

Acting CEO steps down to make room for new CEO

Acting CEO of Polimex Mr. Robert Oppenheim resigned in March. Mr. Oppenheim told the *Parkiet* daily that Polimex would not be making significant write-offs any more in 2013. He added that his resignation follows the fulfillment of his primary task that was saving Polimex from bankruptcy. He is temporarily replaced by Dariusz Krawczyk.

Polimex violates agreement with creditors

Polimex-Mostostal violated its agreement with creditors on April 1st by failing to raise PLN 250m by March 31st through an issue of shares of N1, N2, and O stock. The proceeds raised by the appointed deadline amounted to PLN 200m. Polimex was not able to complete the N2 stock issue because the relevant prospectus is still awaiting approval of Financial Supervision. The most serious possible consequence of the violation is that the creditors representing 66 and 2/3 percent of the total claims may terminate the agreement. Polimex requested an extension of the deadline for raising the missing PLN 50m until 31 May 2013, and it obtained the consent of most of the creditors by 2 April.

Polimex terminates collective bargaining agreement

Polimex-Mostostal has given notice of termination of the collective bargaining agreement as of 31 October at the latest. The Company has eliminated 2300 jobs since August 2012, generating annual savings of PLN 120m. Termination of the CBA marks the next step in Polimex's ongoing restructuring exercise, and it will allow the Company to offer its employees more flexible forms of compensation.

Prochem

Prochem posts Q4 net loss

Prochem generated revenue of PLN 26.3m, an EBIT loss of PLN 0.9m, and a net loss of PLN 1.4m, in Q4 2012. Operating cash flow was PLN 7.1m. The segment responsible for the quarterly losses was general construction; the design business generated a profit, and it should be the driving force behind the improvement expected in 2013.

Prochem prepares for office project

Prochem's subsidiary Irydion received a PLN 15.0m capital injection from "Look Finansowanie Inwestycji S.A." ("Look") in exchange for shares. As a result, Prochem's stake in Irydion decreased to 50%. Further, Look committed to extending a PLN 15m loan to Irydion by 30 September 2013. The loan and the capital injection will be allocated toward an office development project in Warsaw. on the vacant lot Irydion has owned for years.

Rafako

PLN 26.4m contract

Rafako signed a contract for replacement of electrostatic precipitators at an Enea power plant. The contract is worth PLN 26.4m, representing 2% of the Company's 2012 revenue.

Rafako secures loan extension

Bank PKO BP has agreed to extend the term of a PLN 300m loan until 30 June 2013. The extension period is short, probably due to the uncertain prospects of the Opole power plant contract, or because of the perceived risk associated with Rafako's credit exposure.

Rafako gets new Management Board

Rafako's Supervisory Board decided that the Management Board should consist of five members, and appointed two new members to serve on the Board as of March 19th, namely Mr. Edward Kasprzak and Mr. Maciej Modrowski.

Q4 results way below expectations

In Q4 2012 Rafako reported a 16% drop in revenues vs. the same period a year ago, as well as negative operating margin and EBITDA. The net loss in Q4'12 amounted to PLN 24.7m and FY2012 net profit came in at PLN 9.8m. Q4 2012 operating cash flow amounted to a mere PLN 6.1m (PLN -344m in 2012), while net debt came slightly above PLN 200m at the end of the year. Rafako's financial situation is far from comfortable. The Company uses a PLN 300m overdraft facility to finance current operations, which was rolled over until the end of June 2013 in March.

Court dismisses CNEEC, Hitachi-SNC Lavalin appeals against contract award

The National Chamber of Appeals dismissed the appeals filed by CNEEC and Hitachi-SNC Lavalin against the award by Tauron of a contract for construction of a power plant in Jaworzno to a consortium of Rafako and Mostostal Warszawa. The consortium's bid was PLN 5.4bn. Tauron is hoping to sign the contract by the end of June. However, CNEEC has stated it is considering filing another appeal with a circuit court.

Rafako wins PLN 143m bid

Rafako won a bid for modernization of flue gas desulfurization units at two of PGE's power plants in Bełchatów. The Company offered PLN 142.7m gross (PLN 116m net), representing 9% of our 2013 revenue forecast.

Rafako on canceled Opole power plant contract

Excluding the Opole power plant project canceled by the power utility PGE, Rafako's current order backlog has a value of ca. PLN 2.2bn. According to Vice-President Krzysztof Burek, the Company can still generate a profit in 2013, supported by a power engineering contract acquired from Tauron, expected to be signed in Q2. The loss of the Opole contract puts Rafako in a tough situation. Recent statements by the Management Board suggest that the weak earnings results generated in Q4 2012 were not just a one-time event, and that Rafako may have problems regaining profitability. For these reasons, our financial forecasts for Rafako are due for an update.

Ulma

Ulma on 2013 outlook

Ulma would like to maintain earnings at steady levels in 2013, but it may not be able to due to a tough market situation. The Company is hoping to secure orders from power plants this year which will account for 25-30% of the annual revenues. 2013 CAPEX will be just a little over PLN 10m spent on equipment useful on power plant sites. Ulma's Management Board is not going to recommend a dividend payout from 2012 profits, but the decision lies with the main shareholder. We think a repeat of the 2012 profits is an unrealistic expectation. As for CAPEX, the actual expenditure including replacements will probably be higher than stated by Ulma.

ZUE

Pol-Aqua underbids ZUE in railroad contract

National railroad operator PKP PLK selected Pol-Aqua to build a stretch of railroad route #1 based on a bid of PLN 484.3m. This was good news for Pol-Aqua and not so good for ZUE which had offered to do the job for PLN 490.1m.

Q4 2012 results

ZUE's Q4 2012 earnings results fell short of expectations at all possible levels because of downward adjustments to contract profits which led to a very low gross margin of 2.8% (we had forecasted 11%). The impact of the valuation losses was further exacerbated by other operating expenses totaling PLN 1.7m. The dismal fourth-quarter performance goes against seasonal patterns. On a positive note, ZUE reported a healthy balance-sheet position with net debt down to PLN -1.5m as of 31 December from PLN 43.4m at 30 September. Quarterly operating cash flow amounted to PLN 50.1m. Summing up, we are slightly disappointed with ZUE's Q4 results, and we stand by our neutral investment rating for the Company.

ZUE on 2013 outlook

ZUE has accumulated an order backlog of PLN 430m – a level which the Company's executives consider sufficient to weather the building slowdown expected to last through 2014. ZUE is venturing into the market for power engineering services where it faces intense competition from international players. The Company's focus in 2013 is on profitability rather than revenues. It plans to spend at least PLN 5m this year on new equipment (more if it acquires more new contracts).

Subsidiary lands PLN 357m contract

ZUE's subsidiary PRK signed a contract for trackage modernization and maintenance with the national railroad operator PKP PLK. The contract has a net value of PLN 357.1m and a term of 728 days. It is a considerable addition to ZUE's backlog given that the Company's annual revenues hover around PLN 500m. However, its award to PRK had been announced in January. ZUE has accumulated a sufficient backlog of orders to ensure strong revenues this year, but whether these contracts can also generate decent profit margins is somewhat of a concern.

Budimex (Hold)

Current price: PLN 71.5 **Target price: PLN 66.8**

Analyst: Piotr Zybała
Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012	change	2013F	change
Revenues	4 430.3	5 516.7	24.5%	6 077.7	10.2%	4 345.3	-28.5%
EBITDA	352.6	349.8	-0.8%	233.1	-33.4%	204.7	-12.2%
EBITDA margin	*8.0%*	*6.3%*		*3.8%*		*4.7%*	
EBIT	331.4	319.4	-3.6%	182.4	-42.9%	166.0	-9.0%
Net profit	267.4	260.9	-2.4%	186.0	-28.7%	139.3	-25.1%
P/E	6.8	7.0		9.8		13.1	
P/CE	6.3	6.3		7.7		10.3	
P/BV	2.7	3.5		4.2		3.6	
EV/EBITDA		0.5		2.6		6.5	
Dyield (%)	9.5	12.7		15.3		0.0	

Basic data (PLN m)	
Number of shares (m)	25.5
MC (current price)	1 825.4
EV (current price)	601.4
Free float	30.9%
Price change: 1 month	*-7.1%*
Price change: 6 month	*24.1%*
Price change: 12 month	*-16.7%*
Max (52 week)	86.0
Min (52 week)	45.9

We are quite confident that Budimex can deliver good earnings results in 2013 thanks to its conservative approach to assessing the profits achievable on contracts acquired in past years. The outlook for 2014 is much more uncertain. How much more business Budimex can acquire going forward depends on a swift passing of the new 2014-20 EU budget and the subsequent fund allocations. If the processes take too long, the Company may have trouble securing enough business for 2014 to generate significant profits. In this context, the Polish government's plan to launch tender procedures for projects that will be funded from the new EU budget already in 2013 is a cause for optimism. The optimism is further strengthened by the financial struggles of many road developers which can mean less competitive pressures for Budimex in the upcoming tenders. We are reiterating a hold rating on BDX.

Budimex wins PLN 582.2m bid

Pomeranian Municipal Railways chose an offer placed by Budimex for the revitalization of an urban railway line in Gdańsk. Budimex and consortium partners offered a bid of PLN 582.2m, of which PLN 553.1m is due to Budimex.

Budimex wins PLN 36.5m bid

Budimex was selected to build a waste management plant in Bełżyce based on a bid of PLN 36.5m, representing 0.6% of the Company's 2012 revenue.

Budimex wins PLN 61.5m bid

Budimex was selected to rebuild a pavilion at the National Museum in Wrocław based on a bid of PLN 61.5m, representing 1.4% of the Company's expected 2013 revenue.

Budimex lowers guarantee facility

Budimex and Ergo Hestia signed an annex to a guarantee facility agreement lowering the total amount of available guarantees to PLN 100m max from PLN 130m to reflect Budimex's reduced building activity in 2013.

Dividend recommendation

Budimex's Management Board is recommending a dividend payout of PLN 4.39 per share (PLN 112.1m total, equivalent to nearly the whole of the standalone net earnings for 2012). The proposed date of record is May 7th, and the payout date would be May 22nd. Although nominally the lowest in five years, the proposed dividend still offers a decent yield of 6.0%.

Budimex wins PLN 399m bid

A consortium involving 50-50 partners Heilit Woerner Sp. z o.o. (the leader) and Budimex has won a bid to build the next stretch of the A4 motorway based on a price quote of PLN 798m (Budimex's share is PLN 399m). The consortium is to start construction within 18 months from the date of the contract. The contract accounts for 9% of our 2013 revenue forecast for the Company.

Budimex signs PLN 107m contract

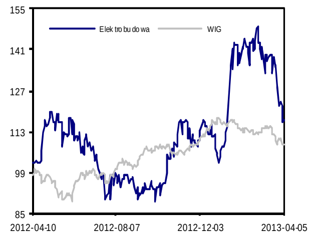
Budimex signed a contract for runway extension at the Chopin Airport in Warsaw for a net fee of PLN 106.9m. The contract accounts for 2.5% of our 2013 revenue forecast for the Company.

Elektrobudowa (Hold)

Current price: PLN 117 **Target price: PLN 121.2**

Analyst: Piotr Zybała
Last Recommendation: 2013-04-08

(PLN m)	2010	2011	change	2012	change	2013F	change	Basic data (PLN m)	
Revenues	786.7	945.2	20.1%	1 029.4	8.9%	1 124.0	9.2%	Number of shares (m)	4.7
EBITDA	64.0	61.6	-3.7%	55.2	-10.4%	59.5	7.8%	MC (current price)	555.5
EBITDA margin	*8.1%*	*6.5%*		*5.4%*		*5.3%*		EV (current price)	522.0
EBIT	53.1	49.3	-7.1%	43.0	-12.7%	47.3	10.0%	Free float	43.5%
Net profit	45.1	38.1	-15.5%	39.5	3.6%	39.8	0.7%		
P/E	12.3	14.6		14.1		14.0		Price change: 1 month	
P/CE	9.9	11.0		10.7		10.7		Price change: 6 month	
P/BV	1.7	1.7		1.6		1.5		Price change: 12 month	
EV/EBITDA	7.6	8.4		9.5		9.0		Max (52 week)	
Dyield (%)	3.0	5.1		3.4		2.1		Min (52 week)	



Elektrobudowa has a very positive outlook ahead provided by planned investment in power transmission infrastructure and generation capacity. However, these opportunities will not start to materialize before 2014, with the bulk of the projects expected to gather steam in 2015-2016. In the mean time, Elektrobudowa faces a temporary slowdown in 2013 as margins in the construction sector continue to be under pressure. After March price declines, ELB's share price is back at levels close to our target price, trading at 2013E P/E = 14.0, EV/EBITDA = 9.0, EV/S 2013 = 0.48, prompting a rating upgrade from reduce to hold.

Elektrobudowa signs two PLN 439.3m contracts

Elektrobudowa signed two contracts worth a combined PLN 439.3m, representing 46.5% of its expected 2012 revenue. The first PLN 215m contract is for expansion and upgrades at a substation in Byczyna, scheduled for completion in 2016. The second PLN 224.3m order is for similar work at a 220/110 kV substation in Skawina, due by the end of 2017.The long-term assignments will not start generating noticeable revenues until 2014.

Dividend recommendation

The Management Board of Elektrobudowa passed a resolution on 2013 dividend, deciding to pay out PLN 9.5m (PLN 2.00/share, DY = 1.6%). The Supervisory Board passed a positive opinion on the recommendation.

Erbud (Hold)

Current price: PLN 16.19 **Target price: PLN 19.2**

Analyst: Piotr Zybała
Last Recommendation: 2013-03-06

(PLN m)	2010	2011	change	2012	change	2013F	change
Revenues	1 108.1	1 527.8	37.9%	1 384.4	-9.4%	1 126.2	-18.6%
EBITDA	33.0	-4.5		38.2		36.8	-3.6%
EBITDA margin	*3.0%*	*-0.3%*		*2.8%*		*3.3%*	
EBIT	24.9	-12.3		30.7		28.9	-5.8%
Net profit	15.2	-20.4		16.1		19.4	20.5%
P/E	13.4			12.6		10.5	
P/CE	8.7			8.6		7.5	
P/BV	0.8	0.9		0.9		0.8	
EV/EBITDA	2.8			3.0		5.5	
Dyield (%)	3.1	0.1		0.0		1.7	

Basic data (PLN m)	
Number of shares (m)	12.6
MC (current price)	203.5
EV (current price)	115.5
Free float	19.3%
Price change: 1 month	*-10.1%*
Price change: 6 month	*21.3%*
Price change: 12 month	*-26.4%*
Max (52 week)	22.0
Min (52 week)	11.3

Erbud is confident that the defective Modlin airport runway job is not going to affect its 2013 profits. If this assumption proves correct, the Company stands to improve earnings results this year. Freezing winter temperatures mean that the improvement will not be noticeable yet in Q1 2013. Moreover, due to few new orders captured during the first quarter, we expect contraction in Erbud's backlog. We are reiterating a hold rating on ERB.

EUR 11.9m contract

Erbud's subsidiary GWI signed an EUR 11.9m contract for construction of an office building in Dusseldorf. The contract accounts for ca. 4.5% of the Company's 2012 revenue.

Erbud slapped with PLN 5m fine

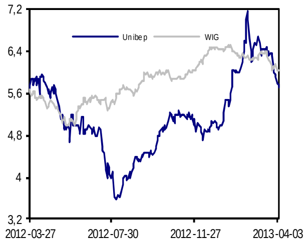
Erbud has been fined PLN 5m for causing the Modlin Airport to remain closed throughout January due to runway damage. Experts have still not determined who is to blame for the faulty runway.

Unibep (Accumulate)

Current price: PLN 5.71 **Target price: PLN 6.8**

Analyst: Piotr Zybała
Last Recommendation: 2013-03-06

(PLN m)	2010	2011	change	2012	change	2013F	change	Basic data (PLN m)	
Revenues	657.9	939.4	42.8%	837.8	-10.8%	936.5	11.8%	Number of shares (m)	33.9
EBITDA	35.7	39.0	9.3%	25.7	-34.1%	29.3	14.0%	MC (current price)	193.7
EBITDA margin	*5.4%*	*4.2%*		*3.1%*		*3.1%*		EV (current price)	199.1
EBIT	29.8	33.8	13.5%	20.2	-40.2%	24.0	18.8%	Free float	27.8%
Net profit	22.7	21.1	-6.9%	16.7	-20.9%	18.8	12.7%		
P/E	8.5	9.2		11.6		10.3		Price change: 1 month	*-14.6%*
P/CE	6.8	7.3		8.7		8.0		Price change: 6 month	*19.0%*
P/BV	1.4	1.2		1.1		1.0		Price change: 12 month	*-2.6%*
EV/EBITDA	6.2	5.6		7.7		7.4		Max (52 week)	7.2
Dyield (%)	1.7	2.1		0.0		0.0		Min (52 week)	3.6



With the 2013 order backlog now slightly higher than our forecast, the one area where Unibep may not meet our expectations this year are profit margins. The contracts that Unibep undertakes are typically relatively low-risk which means the at the moment the Company is set for a very likely increase in profits this year. The sale of an office building finalized in Q1 2013 will give a boost to Unibep's cash position as of the end of March. We are reiterating an accumulate rating on UNI.

Unibep posts negative margins on modular housing

Unibep's Q4 2012 results came as a bit of a disappointment, particularly when it comes to the modular housing business which posted a loss of PLN 2.6m. Profit margins in the remaining business segments (building construction, roads, residential development) came in line with expectations. The consolidated quarterly net profit met our PLN 3.6m forecast at PLN 3.7m thanks to charge reversals of PLN 2.1m and a negative tax. Net debt decreased by PLN 11m to PLN 94m in the fourth quarter, and it is expected to be reduced even further in Q1 2013 following the sale of an office building in Warsaw.

Property Developers

Investment summary for companies not reviewed below (PLN m)

Company	Rating	Price (PLN)	MCap	Net debt	EV	Revenue 2012	Revenue 2013F	Net profit 2012	Net profit 2013F	Equity 2012	Equity 2013F	P/E 2012	P/E 2013F	P/B 2012	P/B 2013F
BBI Development	Accumulate	0.39	204	202	406	78	90	2	5	253	256	92.4	45.0	0.81	0.80
PA Nova	Buy	18.00	180	203	383	168	208	18	22	268	283	10.2	8.0	0.67	0.63
J.W. Construction	Reduce	3.85	208	750	958	356	367	10	19	503	531	21.8	11.2	0.41	0.39
Polnord	Hold	6.40	164	636	800	289	254	26	12	1 328	1 335	6.4	13.8	0.12	0.12

Source: Companies, BRE Bank Securities

Of the four developers listed above, our top pick is P.A. Nova which was the only one on the list to have reported good financial results for Q4 2012, and which enjoys the soundest financial standing and reports consistent profit growth.

The two residential developers, JWC and Polnord, reported disappointing Q4 2012 results and weak Q1 2013 sales figures. Both stocks are highly speculative. Given the high discount to book value and the fact that its stock lost about one-third of its value in March, Polnord seems to be losing the confidence of investors at a much faster rate than JWC. In our opinion, the risk that the Company will fall into financial hardship comparable to what is faced by Gant is small provided that it rolls over at least half of its outstanding bonds in April, and that it improves sales going forward by listing new homes in Q2. The PLN 40m bonds scheduled for maturity in April mark the last stage in a wider debt rollover exercise by Polnord. Assuming it finds buyers for the new bonds, the Company will subsequently be able to focus on growing its business until 2015, when it is due for another round of debt rollover.

As for JWC, its valuation does not accurately reflect investment risk in our view at the current price level. JWC's future rests upon one large project (the "Kasprzaka" development in Warsaw) which requires considerable capital investment. A commercial project in Szczecin is at risk of being put on hold, and the plan to develop luxury housing in Ożarów Mazowiecki has proven a failure. Last but not least, the value of non-core assets that can be sold and bring in extra cash is lower in case of JWC than in case of Polnord.

Finally, BBI Development did not report any developments in March that could change our outlook on the Company. Q4 2012 results came in line with expectations. The next big development, which will not take place until H2 2013, will be the sale of the "Plac Unii" development.

Residential Developers

Q1 2013 home sales statistics

Q1 2013 sales data reported by eight residential developers show that Ronson, Robyg, and Marvipol had a successful first quarter, reporting sales growth relative to the quarter before as well as the same quarter in 2012. Budimex Nieruchomości also saw year-on-year sales growth. In turn, weak sales were reported by Gant, InPro, Polnord, JWC, and Wikana.

Q1 2013 home sales by developer

	Q1'13	Q1'12	Y/Y	Q4'12	Q/Q
Dom Development	339	370	*-8%*	334	*1%*
Robyg	303	301	*1%*	297	*2%*
JWC	189	206	*-8%*	306	*-38%*
Polnord	200	266	*-25%*	255	*-22%*
Budimex Nieruchomości	121	98	*23%*	193	*-37%*
Gant	75	251	*-70%*	217	*-65%*
InPro	62	98	*-37%*	70	*-11%*
Ronson	132	97	*36%*	119	*11%*
Marvipol	121	114	*6%*	86	*41%*
Wikana	68	88	*-23%*	88	*-23%*
Total	**1610**	**1889**	***-15%***	**1965**	***-18%***

Source: Companies, PAP

February housing market statistics

According to the latest report by Poland's Central Statistical Office GUS, Polish developers completed 4299 homes in February, marking an increase of 0.9% from February 2012 and a drop of 18.2% from January 2013. Housing starts amounted to 3176 (down 31.1% y/y and up 85.9% m/m). The number of building permits issued during the month was 5055 (-29.2% y/y, +51.0% m/m). Housing starts continue to show a considerable slowdown compared to a year ago, with January housing starts down 50% from the same month in 2012. The slowdown will definitely help offset the current oversupply in the housing market, but not yet in Q1 2013. Note that in Q1 2012 developers listed for sale a relatively large number of new homes which exceeded quarterly sales by ca. 30% (according to REAS). Moreover, home sales at the beginning of 2013 are set for a slowdown caused by a cooling economy and a lack of homebuyer incentives.

Developers expect rebound in housing

Marek Poddany, the Head of the developers' association PZFD, believes the Polish housing market has bottomed out and is set for a rebound. The main problem today are overly stringent lending restrictions which dampen demand, boost supply, and drive profit margins down. That is why developers are waiting for revised, less stringent mortgage lending guidance from the Financial Supervision Authority some time in the second half of the year. We agree with Mr. Poddany's outlook on the housing market. So far, we do not see any reason to raise our sales and profitability forecasts for the developers in our coverage. In fact, Polnord and JWC may experience even stronger margin shrinkage than originally thought.

BBI Development

BBD posts in-line Q4 2012 results

On a revenue of PLN 25.8m, BBI Development (BBD) generated EBIT of PLN 1.5m and a small net loss in Q4 2012. The breakdown of the quarterly revenues is somewhat different than we had anticipated; BBD generated higher-than-expected revenue from services, but reported fewer-than-expected home deliveries. As predicted, net debt increased to PLN 202m in Q4 2012, led by funding allocated to the "Plac Unii" project. In conclusion, BBD's fourth-quarter results do not change our outlook on the Company.

Annex to loan agreement

BBI Development signed an annex to a loan agreement with Pekao S.A. dated 5 October 2007 extending the final deadline for the loan, taken out to refinance the purchase of the land on which the Company is developing the "Koneser" project, to 28 February 2014. The loan amount is PLN 23.1m of which PLN 8m is to be repaid in installments by 31 January 2014.

Celtic Property Developments

PLN 7.1/share buyback

Celtic Property Developments has launched a buyback program for up to 1,732,394 treasury shares, representing 5% of all shares outstanding, at PLN 7.1 a share. The shares can be tendered between 3 and 9 April, and settlement of the buyback is scheduled for 15 April. Back in August 2012, Celtic Property Developments completed a repurchase of 11,541,891 shares at a maximum price of PLN 15.89 a share. The buyback program is designed to run until 31 December 2013 at the latest.

J.W. Construction

JWC's Q4 margins shrink on high costs

JWC's Q4 2012 earnings results were a big disappointment. On slightly higher-than-expected revenue (PLN 144.2m), the Company reported a gross margin of a mere 20.2%, well below our 23.7% forecast. JWC's margins on residential developments has been falling since Q1 2012 when they exceeded 40%, reaching 25.5% in Q4. The hotel business generated a loss of PLN 3.2m in the fourth quarter after posting a profit of PLN 0.2m for the first nine months of 2012, which means the new hotel in Krynica incurred exceptionally high losses during the first quarter in operation. As usual, social housing and construction made negligible contributions to the quarterly results. JWC reduced its D&A expenses by 6% y/y to PLN 16.2m in Q4 2012, and, while this was an achievement, we had anticipated bigger reductions to the tune of 12-24% as managed in the preceding quarters. Further, unexpectedly to us, the Company recognized PLN 7.1m gains from revaluation of investment properties. Nevertheless, its quarterly EBIT fell 4% short of our forecast and missed the consensus forecast by 20%. At PLN 9.0m, Q4 2012 financing expenses were slightly higher than in the quarter before and more than double the amount posted in Q4 2011. With a quarterly net profit of PLN 7.1m, JWC fell nearly 20% short of our estimate and over 30% short of the consensus estimate. Net debt remained steady at PLN 738m at 31 December 2012. An operating cash flow of PLN 34.9m was allocated to CAPEX (PLN 20.8m) and interest payments (PLN 14.1m).

JWC sells 189 homes in Q1 2013

J.W. Construction sold 189 homes (before cancellations) in Q1 2013. This compares to 206 units sold in the same period a year ago, representing 9% higher sales. JWC is hoping for a sales rebound later in the year, once it lists new projects in Warsaw and Katowice. The seemingly small year-on-year decrease in sales is measured against low year-ago base, meaning that JWC is experiencing weak sales this far into 2013.

PA Nova

PA Nova posts in-line Q4 2012 results

As predicted, the fourth quarter of 2012 was the strongest one for P.A. Nova which generated a gross profit of PLN 12.6m on revenue of PLN 59.4m – the best quarterly result since Q4 2010. The stellar profits were owed to two factors: (1) Q4 was the first full quarter of consolidation of PA Nova's two new shopping centers in Kędzierzyn Koźle and Kluczbork, and (2) PA Nova recognized profits from six store construction contracts in the period. SG&A expenses remained low at PLN 0.7m. Note that SG&A were kept down throughout FY2012, reaching a mere PLN 3.6m after a 1.4% year-on-year rise. PA Nova reported an increase in financing costs to PLN 2.4m in Q4 2012 from PLN 1.6m posted in Q3 2012 and Q4 2011, stemming from discontinued capitalization of interest on loans taken out to finance the construction of the Kędzierzyn-Koźle and Kluczbork malls. Financing costs are going to remain at an elevated level in the quarters ahead. At PLN 7.3 , PA Nova's Q4 2012 net profit was slightly lower than out forecast. Net debt amounted to PLN 203.3m as of 31 December 2012 after a small decline from Q3, and operating cash flow was PLN 4.6m – the highest quarterly OCF of 2012. We maintain that PA Nova is set for earnings growth in 2013. On our forecasts, NVA shares are currently trading at 2013E P/E ratio of 8.0x and P/B ratio of 0.63x.

Polnord

Polnord reports February home sales data

Polnord sold 78 flats before cancellations and 72 after cancellations in February 2013. This compares to February 2012 sales of 75 and 67, respectively, and January 2013 sales of only 48 units (net). Our FY2013 net sales forecast for the Company is 931 units (78 on average per month), with sales expected to accelerate in the second half of the year after a H1 slowdown. We have a neutral view on the February figures.

Polnord posts disappointing Q4 profits, cash flows

At first glance, Polnord's Q4 2012 results are higher than our forecasts and the consensus estimates. However, the higher-than-expected EBIT and net profit figures were owed to one-time gains, primarily of a non-cash nature, as evidenced by a weak operating cash flow of a negative PLN 6.1m. A low quarterly gross margin of 13.4% indicates that Polnord must have recognized further inventory impairments combined with falling real-estate margins. Surprisingly, a breakdown of SG&A expenses (PLN 13.0m, down 20% from Q4'11) shows selling expenses much higher than administrative expenses. Polnord recognized valuation gains of PLN 8.8m on its investment properties in Q4 2012 which we would not have expected given that land prices have been on a decline for a while (although the adjustments may have affected other properties). Polnord recognized other one-time events in Q4 2012, including another PLN 25m payment received from its receivables manager, recognized in other operating income, a divestment loss (PLN 13m, stemming probably from sales of Russian assets), and a PLN 7.6m goodwill write-off. Thanks solely to negative tax of PLN 12m, Polnord was able to report a net profit for Q4 2012. Finally, yet another disappointment came from net debt which decreased by a mere PLN 4.3m relative to Q3 at PLN 635.1m.

Polnord sells 200 homes and delivers 135 units in Q1 2013

Polnord sold 200 flats net (218 before cancellations) and delivered 135 flats to homebuyers in Q1 2013. In March alone, sales amounted to 80 units. Polnord is observing increasing interest in larger apartments. In Q2 and Q3 2013, it is planning to start three new developments in Gdańsk, Gdynia, and Ząbki near Warsaw. The Q1 2013 sales were 25% lower than in Q1 2012 and 22% lower than in Q4 2012. We are hoping to see an improvement after new projects are listed in Q2 2013. Polnord achieved 21.5% of our full-year sales forecast in Q1. As for profits, delivery of just 135 flats means they will be weak.

PHN

Q4 2012 : Very weak development segment, major write-offs on investment properties

PHN reported very poor financial results. At PLN 46.6m the Company generated a 24.7% margin on sales. The results were weighed down by the development segment (home sales) which reported a loss of PLN 5.1m (with gross margin at -47.7%). The gross profit and gross margin in the commercial segment also showed declines, although to a less significant extent (Q4 2011: 49.3%, Q4 2012: 48.0%). Taking into account all segments, Q4 2012 gross profit came in 54% lower y/y and fell 33% short of our forecasts. Administrative expenses dropped by 29% y/y in Q4 2012. We projected in our forecasts even lower expenses driven by the restructuring process. In final quarter of 2012, PHN reported investment property revaluation losses of PLN 38.3m – a surprisingly high amount given that all properties were valued by an external real estate appraiser at the end of September. Other operating costs amounted to PLN 8.5m, including PLN 2.6m related to downsizing, PLN 2.1m write-offs to receivables, and

PLN 2.6m reserves. Profit on financial operations did not surprise much. The net loss incurred by the parent company's shareholders amounted to PLN 39.8m, marking a decrease relative to the previous year which was also impacted by major write-offs. In FY 2012 the net loss amounted to PLN 170.8m, marking a 16% increase vs. 2011. Q4 2012 operating cash flow was negative coming at PLN -2.8m vs. PLN 7.3m in Q4 2011.

CEO on plans for upcoming months

PHN signed a preliminary agreement for the sale of one of its properties for PLN 25.1m, slightly above the book value. At the moment, the Company is negotiating sales of seven other properties. PHN is continuing its downsizing program aimed at reducing the ultimate employee headcount below 100, and to date it has managed to reduce the workforce below 300. Further, PHN is about to finalize talks with a prospective partner in the planned “PHN Tower” office building project in Warsaw. PHN is obviously forging ahead with the strategy announced at the time of last month’s IPO with respect to divestments, downsizing, and new projects, has not changed since the IPO.A swift deal with the PHN Tower partner would give a boost to investors’ confidence in the Company.

Rank Progress

Q4 2012 results

The Q4 2012 revenue of Rank Progress (RNK) was very modest at PLN 7.3m, but it was enough to report a quarterly gross profit of PLN 1.2m. The Company recognized PLN 15m gain on revaluation of investment properties despite the zloty’s appreciation versus the euro, and a PLN 6.7m gain stemming from loss of control over a subsidiary (the financial statements did not specify which). As a result, EBIT amounted to PLN 25.4m, and net profit came in at PLN 20.2m. Despite a decent fourth quarter, RNK failed to deliver its FY2012 annual net earnings target of PLN 33m with an actual profit of PLN 24.4m. Further, RNK’s net debt increased by PLN 30m to PLN 354m in Q4 2012, driven by investment in new commercial real-estate.

EUR 25m contract

Rank Progress’s subsidiary signed a preliminary agreement for the sale of the “Galeria Swidnicka” shopping center for EUR 25.0m. The purchasing party is Elsoria Polska I sp z.o.o (a subsidiary of Andrzej Bartnicki – one of the main shareholders of Rank Progress). The final sale agreement is to be signed by 30 September 2013. The buyer extended a total loan of PLN 22m to Rank Progress which will constitute the first payment for the property. The remaining payment will be divided into two installments if the final agreement is concluded, which depends on whether the buyer secures the loan. At the end of December 2012 the value of property on the balance sheet of Rank Progress was PLN 114.8m (ca. EUR 28.1m). Therefore, the price is EUR 3.1m lower than the book value (ca. 3.4% of the market capitalization of Rank Progress). Our outlook on the sale is negative because the buyer is a shareholder of Rank Progress and because the selling price is lower than the book value of the property.

TUP

Q4 2012 results

TUP generated revenue of PLN 4.2m, and booked an EBIT loss of PLN 1.4m and a net loss of PLN 0.4m, in Q4 2012. The Company posted a FY2012 annual net loss of PLN 5.3m stemming from sales below fair value or downward value adjustments to its property holdings. TUP’s annual operating cash flow amounted to PLN 5.4m, with Q4 OCF at PLN 2.8m. The Company reported having net debt of PLN 66m and equity of PLN 174m as of 31 December 2012. TUP is currently trading at price-to-book ratio of 0.20x. The Company has recently reclassified PLN 12.5m-worth of “investment properties” as “available for sale,” and the sales, expected to be finalized in the coming months, will help reduce net debt by the end of the year.

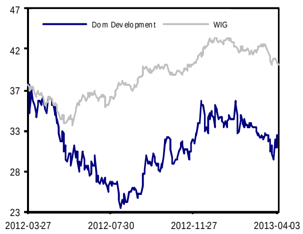
Dom Development (Accumulate)

Current price: PLN 32 | **Target price: PLN 33.4**

Analyst: Piotr Zybała

Last Recommendation: 2013-04-04

(PLN m)	2010	2011	change	2012	change	2013F	change	Basic data (PLN m)	
Revenues	513.7	584.3	13.7%	851.4	45.7%	719.2	-15.5%	Number of shares (m)	24.7
EBITDA	61.4	105.6	72.0%	116.5	10.3%	86.3	-25.9%	MC (current price)	790.9
EBITDA margin	*12.0%*	*18.1%*		*13.7%*		*12.0%*		EV (current price)	809.6
EBIT	59.1	103.2	74.7%	113.5	10.0%	83.4	-26.6%	Free float	26.6%
Net profit	40.4	82.7	104.5%	91.2	10.4%	66.5	-27.1%		
P/E	19.4	9.5		8.7		11.9		Price change: 1 month	*0.1%*
P/CE	18.4	9.2		8.4		11.4		Price change: 6 month	*11.5%*
P/BV	1.0	0.9		0.9		0.9		Price change: 12 month	*-13.0%*
EV/EBITDA	13.5	8.4		6.9		10.2		Max (52 week)	37.5
Dyield (%)	2.5	2.8		4.7		11.5		Min (52 week)	23.5



The Management Board of Dom Development is recommending distribution of nearly the whole of FY2012 profits (PLN 91.0m total, PLN 3.68/share) as dividends to shareholders. The implied dividend yield of 11.5% is about twice what is offered by Robyg. Moreover, the Board has stated an intention to continue recommending higher payouts in the years ahead after conservative distributions made to date which allowed DOM to accumulate a considerable cash surplus. DOM has no plans to invest much in land going forward, having accumulated a sizeable land bank which can be developed into over 7000 flats. Further, cheap purchasing opportunities are few and far between despite the current slowdown in the housing market. For these reasons, we consider the dividend raise to be a good move on DOM's part, and one that does not bear on its growth potential given the small debt and easy access to financing. In spite of an impending earnings slowdown DOM is still trading at (2013-2014E) P/E of 12-13x. We are reiterating an accumulate rating on DOM.

PLN 50m bond issue

Dom Development issued unsecured bearer bonds with a total value of PLN 50m on 26 March 2013. The bonds mature on 26 March 2018. They carry a rate of interest at WIBOR 6M + margin.

Board recommends PLN 3.68 dividend, pushes for change of dividend policy

The Management Board of Dom Development is recommending distribution of nearly the whole of FY2012 profits (PLN 91.0m total, PLN 3.68/share) as dividends to shareholders. The implied dividend yield is 11.5%. The proposed date of record is June 12th, with payout tentatively scheduled for June 26th. Moreover, the Board has stated an intention to continue recommending higher payouts in the years ahead

Polnord sells 339 homes and delivers 519 units in Q1 2013

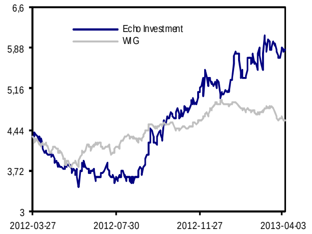
Dom Development signed sales contracts for 339 flats net in Q1 2013, and it delivered 519 homes to homebuyers. DOM is observing increasing interest in higher-end flats purchased without the use of cash. The new sales contracts show an 8% decline from Q1 2012 and a 1% rise from the quarter before. DOM did not list any new developments in Q1 2013, so a listing in Q2 should drive sales. Q1 2013 profits will be supported by the large number of high-margin flats delivered in the period.

Echo Investment (Accumulate)

Current price: PLN 5.83 **Target price: PLN 5.8**

Analyst: Piotr Zybała
Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012	change	2013F	change	Basic data (PLN m)	
Revenues	426.4	406.9	-4.6%	583.6	43.4%	533.5	-8.6%	Number of shares (m)	412.7
EBITDA	172.7	547.2	216.9%	193.5	-64.6%	263.2	36.0%	MC (current price)	2 406.0
EBITDA margin	*40.5%*	*134.5%*		*33.2%*		*49.3%*		EV (current price)	4 803.3
EBIT	168.7	539.4	219.7%	189.2	-64.9%	257.6	36.2%	Free float	36.8%
Net profit	147.7	207.9	40.7%	373.3	79.6%	150.9	-59.6%		
P/E	16.6	11.8		6.4		15.9		Price change: 1 month	*-4.4%*
P/CE	16.1	11.3		6.4		15.4		Price change: 6 month	*37.2%*
P/BV	1.3	1.2		1.0		1.0		Price change: 12 month	*34.0%*
EV/EBITDA	24.3	8.3		24.8		17.7		Max (52 week)	6.1
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	3.4



After a strong earnings announcement in February, Echo Investment reported signing a preliminary sale agreement for three of its shopping centers in March. We believe most of the proceeds from these sales were recognized in Q4 2012 given the high property valuation gains reported in the period. However, Echo has several other retail properties in its portfolio which can be even more attractive for potential buyers, and which can also be put up for sale this year. Our target price for ECH stock was calculated without taking into account a reversed deferred tax liability. Looking at the real-estate projects in progress and given the market value of existing properties, we believe Echo deserves to be valued at a premium to book value. Today, its shares are trading at a price-to-book ratio of 0.98x. We are reiterating an accumulate rating for ECH.

Echo signs deal to sell three shopping centers

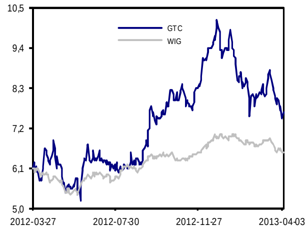
Echo signed preliminary sale agreements concerning three shopping centers located in Tarnów, Radom, and Piotrków Trybunalski, for a combined net price of EUR 67.1m (PLN 272.7m), to London & Cambridge Properties Ltd. Execution of the final agreements is conditioned on fulfillment of certain conditions. We estimate the combined net operating income for the three properties at EUR 5.9m, suggesting a yield of 8.8% (an attractive level given that the malls are over a decade old and that they are located in medium-sized cities).

GTC (Hold)

Current price: PLN 7.6 **Target price: PLN 8.3**

Analyst: Piotr Zybała
Last Recommendation: 2012-11-06

(EUR m)	2010	2011	change	2012	change	2013F	change	Basic data (PLN m)	
Revenues	169.0	153.7	-9.1%	147.6	-4.0%	155.6	5.4%	Number of shares (m)	319.4
EBITDA	111.1	-230.7		-50.8	-78.0%	74.1		MC (current price)	2 427.2
EBITDA margin	*65.8%*	*-150.1%*		*-34.4%*		*47.6%*		EV (current price)	5 971.9
EBIT	110.6	-231.2		-51.3	-77.8%	73.5		Free float	58.8%
Net profit	41.9	-270.4		-96.0	-64.5%	16.7			
P/E	9.5					34.7		Price change: 1 month	*-9.1%*
P/CE	9.4					33.6		Price change: 6 month	*0.0%*
P/BV	0.4	0.5		0.8		0.7		Price change: 12 month	*23.8%*
EV/EBITDA	14.7					19.4		Max (52 week)	10.2
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	5.2



After a disappointing Q4 2012, we are afraid GTC will not be able to impress investors with its financial performance in 2013, either. Our current FY2013 net profit forecast for the Company is EUR 17m, but we feel it is overly optimistic. Further, GTC's Balkan properties are probably going to continue generating valuation losses again this year. A weak business environment in southern markets will probably prompt GTC to sell one of the properties located in Poland (we assume this will be one of the shopping centers) which the Company considers one its most attractive markets. GTC's share price includes a premium for two planned shopping centers in Warsaw. This is premature in our view as neither of the two projects have financing in place at this point, nor do they have specific construction schedules. We are reiterating a hold rating on GTC.

GTC posts disappointing Q4 2012 profits, incurs high loss of valuation of investment properties

The Q4 2012 results of GTC are a major disappointment due to high asset impairment losses and a steep decline in rental revenues. On weak rental revenues and skimpy home sales, the total quarterly revenue amounted to EUR 34.0m, which was 8% less than the consensus estimate and our estimate. Margins also fell short of expectations, with gross profit from rental down falling from EUR 23.9m in Q3 to EUR 19.5m in Q4 2012 (the rental margin contracted from 71.5% to 63.2%) and gross profit in the residential segment coming in at a negative EUR 0.5m (gross margin was -14.5%). GTC posted a EUR 75.6m loss on revaluation of its investment properties, exceeding our forecasted loss of EUR 65.8m. Financing expenses were a little over EUR 20m vs. EUR 15.0m posted in Q3 2012 and EUR 17.9m recorded in Q4 2011, but this was consistent with expectations and marked a one-time increase driven by settlement of hedging instruments. In spite of a high pre-tax loss of EUR 87.4m, GTC reported paying an income tax of EUR 2.0m. Minority interests was a loss of EUR 17.5m, which was not as bad as was implied by the high valuation losses, suggesting that not all of the charges were incurred in the Balkan region. All told, GTC posted a Q4 2012 net loss of EUR 71.9m, much higher than forecasted by analysts (EUR -33.6m) and by us (EUR -36.0m). At EUR 20.6m, the quarterly operating cash flow also showed a deterioration relative to the quarter before and the year before.

Post Q4 results comments

At the Q4 earnings conference the Board of GTC informed about its plans to sell at least one property in 2013 (possibly in Poland). As of the end of 2013 GTC should reduce its debt from the current LTV = 53% to ca. 50%. The Board assumes that South-Eastern European markets will face a difficult time at least until the middle of 2014, while the prospects for the Polish market are good. In H2 2013 the Company is planning to launch two projects in Warsaw, namely shopping centers located in the districts of Białołęka and Wilanów. In the forthcoming months GTC will apply for permits for these projects. If the market conditions are favorable and the Company obtains financing, it will consider two other commercial investments in Belgrade and Bucharest. GTC also decided to close down one of three shopping centers in Romania which it failed to sell in late 2012.

Romanian parliament passes unfavorable law

The Romanian Parliament passed Ordinance 114/2007 on March 12th forbidding reclassification of green areas for other purposes. The law means that GTC will not be able to develop the planned shopping center on a plot in Bucharest which is zoned as a green area, and which has a carrying value of EUR 20.4m. GTC may be forced to write down the mall project.

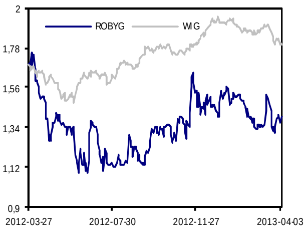
Robyg (Hold)

Current price: PLN 1.4 **Target price: PLN 1.45**

Analyst: Piotr Zybała

Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012	change	2013F	change	Basic data (PLN m)	
Revenues	284.8	160.5	-43.7%	402.9	151.1%	441.7	9.6%	Number of shares (m)	257.9
EBITDA	47.6	11.6	-75.7%	56.1	384.7%	64.5	15.0%	MC (current price)	361.1
EBITDA margin	*16.7%*	*7.2%*		*13.9%*		*14.6%*		EV (current price)	738.3
EBIT	46.9	10.7	-77.2%	55.1	415.4%	63.7	15.6%	Free float	16.5%
Net profit	31.7	22.3	-29.6%	20.0	-10.4%	29.9	49.3%		
P/E	11.4	16.1		18.1		12.1		Price change: 1 month	*4.5%*
P/CE	11.1	15.5		17.2		11.8		Price change: 6 month	*7.7%*
P/BV	0.9	0.9		0.9		0.9		Price change: 12 month	*-20.0%*
EV/EBITDA	15.1	64.8		13.2		11.8		Max (52 week)	1.8
Dyield (%)	0.0	5.0		8.6		7.1		Min (52 week)	1.1



Although somewhat of a disappointment to many, the loss incurred by Robyg in Q4 2012 did not considerably affect its attractiveness. Moreover, the loss was a result of one-time valuation losses recognized on a property in Wrocław which are not likely to recur in future quarters. Further, the drop below 20% in the Q4 2012 gross margin should be considered a normalization of margins to levels which still allow Robyg to report decent earnings results provided it continues to sell about 1000 flats per year. We expect Q1 2013 was a successful quarter for Robyg in terms of sales, with the number of homes sold well over 250, and we stand by our full-year forecasts for the Company. Robyg's Management Board is recommending payment of PLN 0.08 dividends this year, offering the highest dividend yield (5.7%) in the real-estate sector. We are reiterating a neutral rating on ROB.

Robyg finds JV partner for residential project

Robyg signed a memorandum of understanding with NCRE Investments Limited, based in Cyprus (NCRE), concerning an acquisition by the latter of a 49% stake in a residential development called "Osiedle Królewskie" in Warsaw's Wilanów district. The parties agreed that the project will be financed using capital provided by NCRE, Robyg, and banks. The final agreement is set to be signed within 120 business days from the date of the MoU. "Osiedle Królewskie" is a residential complex designed for approximately 600 flats. Its construction is scheduled to start this spring. We are not sure why Robyg felt the need to seek a partner for such a small, low-risk project, except that it can free up cash which can be used to fund new residential projects. That said, the joint venture deal has no influence on Robyg's value.

Robyg posts in-line Q4 core results, announces PLN 0.08 dividend

Robyg's core Q4 2012 results, adjusted for a PLN 13.5m impairment loss on a property in Wrocław, came in line with our forecasts and consensus expectations. Revenue missed our estimate slightly at PLN 83.9m, and the gross margin contracted to ca. 19% from 22% in Q4 2011 and 26% in Q3 2012. Quarterly SG&A expenses were seasonally higher at PLN 9.8m (+12% y/y). Adjusted for one-time events, EBIT figures to PLN 6.3m, which compares to a consensus forecast of PLN 6.5m. As reported, the Q4 bottom line showed a net loss of PLN 13.9m, but the adjusted bottom-line figure is close to zero. Robyg generated negative operating cash flow of PLN 18.2m in Q4 2012, with annual OCF at a positive PLN 95.8m. In related news, Robyg's Management Board is recommending payment of PLN 0.08-a-share dividends from 2012 profits (DYield=5.7%). Last year's dividend was PLN 0.12/share. Going back to the Q4 2012 results, except the one property write-off, Robyg's earnings announcement did not contain any surprises. The fourth quarter proved that margins as high as the 25-26% posted in the three preceding quarters were unsustainable in the long term. Aside from the impaired Wrocław land, Robyg's other properties for development have good profit-making potential, so we do not expect more write-offs in the quarters ahead. As for the dividend, despite it being slightly lower than anticipated, Robyg is still offering one of the highest dividend yields in the Polish real-estate sector.

Robyg sells 303 homes in Q1 2013

Robyg sold 303 flats net in Q1 2013 (+1% y/y, +2% q/q). The Company wants to sign a total of 1000 sales contracts this year. The successful first quarter ensured that Robyg achieved 29.8% of our full-year sales forecast.

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Previous ratings issued for companies re-rated as of the date of this Monthly Report:

Alchemia

rating	Buy	Hold	Hold	Reduce	Hold
rating day	2012-07-26	2012-11-16	2012-12-10	2013-02-27	2013-04-08
price on rating day	5.13	4.73	4.95	4.78	3.84
WIG on rating day	39245.74	43845.94	45538.45	45868.35	44597.66

BZ WBK

rating	Hold	Accumulate	Accumulate	Buy
rating day	2012-09-13	2012-12-10	2013-02-19	2013-04-08
price on rating day	235.00	239.00	274.90	269.00
WIG on rating day	42982.12	45538.45	46508.27	44597.66

Elektrobudowa

rating	Hold	Hold	Hold	Reduce	Hold
rating day	2012-08-06	2012-11-21	2012-12-10	2013-02-06	2013-04-08
price on rating day	91.40	113.50	111.20	142.00	117.00
WIG on rating day	40594.36	44438.93	44438.93	46674.78	44597.66

Mostostal Warszawa

rating	Hold	Hold	Suspended
rating day	2012-08-06	2012-12-10	2013-04-08
price on rating day	13.80	12.00	7.43
WIG on rating day	40594.36	40594.36	44597.66

PKN Orlen

rating	Buy	Hold	Accumulate	Buy
rating day	2012-09-13	2013-01-07	2013-02-22	2013-04-08
price on rating day	42.80	51.30	53.15	50.00
WIG on rating day	42982.12	47888.16	45879.90	44597.66

ZCH Police

rating	Reduce	Sell
rating day	2012-12-10	2013-04-08
price on rating day	12.05	16.20
WIG on rating day	45538.45	44597.66

Rafako

rating	Accumulate	Hold	Hold	Suspended
rating day	2012-08-06	2012-09-04	2012-12-10	2013-04-08
price on rating day	8.10	8.70	8.83	4.70
WIG on rating day	40594.36	41731.43	41731.43	44597.66

List of abbreviations and ratios contained in the report.
EV *– net debt + market value (EV – economic value)*
EBIT *– Earnings Before Interest and Taxes*
EBITDA *– EBIT + Depreciation and Amortisation*
PBA *– Profit on Banking Activity*
P/CE *– price to earnings with amortisation*
MC/S *– market capitalisation to sales*
EBIT/EV *– operating profit to economic value*
P/E *– (Price/Earnings) – price divided by annual net profit per share*
ROE *– (Return on Equity) – annual net profit divided by average equity*
P/BV *– (Price/Book Value) – price divided by book value per share*
Net debt *– credits + debt papers + interest bearing loans – cash and cash equivalents*
EBITDA margin *– EBITDA/Sales*

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

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