

2 April 2009

Update



Construction

Poland

Budimex

Hold

BMEX.WA; BDX.PW

(Downgraded)

Current price	PLN 66.4
Target price	PLN 69.1
Market cap	PLN 1.69bn
Free float	PLN 0.39bn
Avg daily trading volume (3M)	PLN 4.44m

Shareholder Structure

Ferrovial Agroman	59.06%
BZ WBK AIB Asset Management S.A.	12.74%
PTE PZU	5.21%

Others	22.99%
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Sector Outlook

We use a sector-based approach in our analysis of the building industry. At the moment, the outlook for the infrastructure sector (road, rail development, environmental engineering) and power-plant engineering (a boom coming in 2011 through 2017), is most bullish. We are neutral on chemical-plant engineering and we see the most risks in building construction (residential, commercial and public-utility buildings).

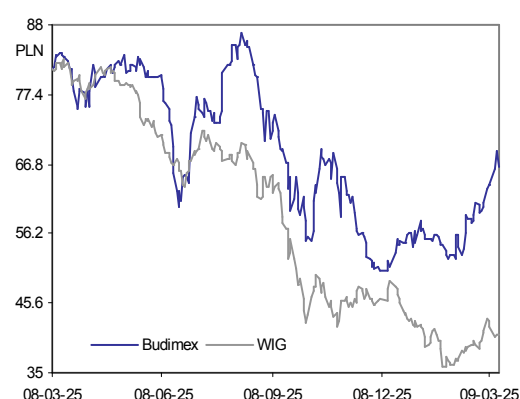
Company Profile

Budimex provides construction services, specializing in road construction and building construction (homes, offices, retail space and public utility buildings). It is a general contractor in large infrastructure, public utility and other projects, also active in the real-estate development market.

Important dates

28.04 - consolidated Q1 2009 report
14.08 - consolidated Q2 2009 report
27.10 - consolidated Q3 2009 report

Budimex vs. WIG



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Excess Liquidity Can End

As we expected, the Company decided to pay dividends on its FY2008 profits, in fact as much as PLN 100m (yield at 6.2%). At the end of 2008, the Company had significant excess liquidity (net cash per share at PLN 19.2). The high levels of cash stems from the high level of payables vs. receivables (i.e. the time cost of money is borne by subcontractors) as well as the advance payment system used in road construction. We expect that in a downturn, the excess of payables over receivables may shrink, which will lead to lower cash levels. Cash reserves may also be affected by the investment in the Autostrada Południe highway consortium: the Company is aiming to build the Stryków-Pyrzowice (a 5% stake would cost PLN 350-400m; according to the Management, Budimex's share in the project may increase). Because we do not have the data on the profitability of the project, we do not take into account the profits that could potentially come from the operation of the highway (conservative scenario). On the other hand, if the General Directorate of National Roads and Motorways pays additional advances to contractors, as it says it will, the Company's level of cash could go up. We forecast the Company's net cash as of year-end 2009 at PLN 158.7m. Dividend payments may not be repeated in 2010 and 2011. Due to the increase in the Company's share price, we are lowering our rating to hold with the target price unchanged.

Other Important Events

We approve of the Company's increased involvement in environmental engineering (it has placed the lowest bid in the tender for the expansion and modernization of the Wrocław sewage treatment facility). We believe it is too early to discount the favorable court ruling in the dispute with PPPL concerning the Okęcie terminal in Warsaw. It is uncertain what the ruling will be in the part that concerns guarantees + interest (Budimex could get PLN 25.3m on this account). The announcement that SG&A costs will remain at the current level (ca. 4.5% of revenues) is another reason why we are inclined to revise our forecasts (we expected SG&A costs to decrease vs. revenues in the upcoming years).

A1 Contract: Opportunities and Threats

We are pleased to see that the Company has the opportunity to get a contract for the construction of a stretch of the A1 highway, which would bring ca. PLN 1bn in revenue in the tough 2010. There are risks too, however. The project will not end before 2012; it is possible that the expansion of construction costs, expected in 2011, will be faster than inflation, eroding margins in 2011-2012.

(PLN m)	2007	2008	2009F	2010F	2011F
Revenue	3075.9	3350.0	3541.0	4772.0	4928.2
EBITDA	51.7	134.2	201.0	177.4	158.4
EBITDA margin	1.7%	4.0%	5.7%	3.7%	3.2%
EBIT	28.0	112.2	178.1	154.1	134.7
Net profit	15.1	104.7	148.1	119.5	116.6
P/E	112.4	16.2	11.4	14.2	14.5
P/CE	43.8	13.4	9.9	11.9	12.1
P/BV	3.2	2.6	2.5	2.1	1.8
EV/EBITDA	28.2	9.0	6.0	6.8	7.6
DYield	0.0%	0.0%	6.2%	0.0%	0.0%

Abundance of Cash

Sources of net cash in Q4 2008 at Budimex, Trakcja Polska and Rafako

	Budimex	Trakcja Polska	Rafako
Cash	704.3	313.2	268.5
Treasury and commercial bonds	99.5	0.0	0.0
Long-term debt	218.7	33.3	0.0
Short-term debt	95.6	11.6	9.6
Net cash	489.6	268.3	258.9
Surplus of trade payables over receivables	299.5	72.1	-28.8
Net cash (1)	190.1	196.2	287.6
Surplus of construction contract payables over receivables	91.0	62.4	233.0
Net cash	99.0	133.8	54.6
Surplus of construction contract security deposit payables over construction contract receivables	25.6		
Net cash	73.4		
Advance payments	121.5		
Net cash (2)	-48.0		
Prepayments		0.3	-48.2
Net cash (2)		133.4	102.8

Source: BRE Bank Securities, Budimex, Trakcja Polska, Rafako

Risk of Decline in Cash Levels

Budimex aims to replicate the Spanish model, in which construction company transfer the time cost of money onto subcontractors, thereby generating moderate return rates (2-3% net) and high positive cashflows, afterwards reinvested. In the Polish market, the system of advance payments in infrastructural construction makes such a model possible. In the analysis presented above, we itemized the factors that have brought about the high levels of cash at Budimex. Almost PLN 300m is a consequence of an excess of trade payables over trade receivables. We believe this factor will be losing its importance in the future (one reason is that as subcontractors in building construction weaken, they will not be able to finance work on their own). Net cash (1) factors in trade payables and receivables (which can change), while net cash (2) also includes advance payments and security deposits, which should not change as the economic situation does.

Relative Valuation for Budimex Stock

Relative valuation for Budimex stock

	2009F P/E	2010F P/E	2009F EV/EBITDA	2010F EV/EBITDA	2009F P/S	2010F P/S
Erbud	8.05	11.31	5.91	8.81	0.31	0.33
Elektrobudowa	11.06	10.98	8.90	8.93	0.75	0.74
Mostostal Warszawa	8.16	10.40	4.01	5.06	0.33	0.32
PBG	12.28	12.77	9.08	9.13	1.02	0.85
Polimex Mostostal	9.14	10.73	5.82	6.21	0.29	0.30
Trakcja Polska	7.85	7.89	5.83	5.93	0.62	0.55
Median	8.65	10.85	5.87	7.51	0.48	0.44
Budimex	11.44	14.18	5.99	6.79	0.48	0.35
Premium (discount)	32.22%	30.63%	2.11%	-9.57%	0.71%	-19.34%

Source: BRE Bank Securities

For information purposes, we present relative valuation of Budimex stock. Compared to the



other construction companies, Budimex is trading at a 22.8% premium (using P/E and EV/EBITDA).

Earnings Forecast and Valuation

Using a DCF valuation model, we estimated the nine-month per-share price target for Budimex stock at PLN 69.1/share.

DCF Analysis

Model Assumptions

- Risk-free rate = 6.3% (10Y T-bond yield).
- FCF growth after FY2017 = 3%.



DCF Valuation Model

(PLN m)	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2018+
Revenue	3 541.0	4 772.0	4 928.2	5 138.5	5 413.2	5 399.8	5 388.3	5 528.5	5 701.9	5 882.2	
change	5.7%	34.8%	3.3%	4.3%	5.3%	-0.2%	-0.2%	2.6%	3.1%	3.2%	
EBITDA	201.0	177.4	158.4	153.1	168.0	168.2	163.6	163.8	168.2	172.7	
EBITDA margin	5.7%	3.7%	3.2%	3.0%	3.1%	3.1%	3.0%	3.0%	2.9%	2.9%	
Amortization and depreciation	22.9	23.3	23.7	24.0	24.4	24.7	24.9	25.1	25.2	25.4	
EBIT	178.1	154.1	134.7	129.1	143.6	143.6	138.6	138.7	142.9	147.3	
EBIT margin	5.0%	3.2%	2.7%	2.5%	2.7%	2.7%	2.6%	2.5%	2.5%	2.5%	
Tax rate on EBIT	35.6	30.8	26.9	25.8	28.7	28.7	27.7	27.7	28.6	29.5	
NOPLAT	142.5	123.3	107.8	103.2	114.9	114.8	110.9	111.0	114.3	117.8	
CAPEX	-29.9	-382.8	-33.5	-32.8	-32.5	-31.7	-30.8	-29.5	-25.2	-25.4	
Working capital	-345.8	-3.5	202.3	-7.8	-7.9	-7.7	-7.2	-7.1	-7.1	-7.0	
Real-Estate Development	-208.9	165.7	210.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Construction and other	-136.9	-169.2	-7.8	-7.8	-7.9	-7.7	-7.2	-7.1	-7.1	-7.0	
FCF	-210.3	-239.7	300.2	86.7	98.9	100.1	97.8	99.4	107.3	110.8	114.2
WACC	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	10.6%	
discount factor	92.3%	82.9%	74.5%	66.9%	60.1%	54.0%	48.5%	43.6%	39.2%	35.4%	
PV FCF	-194.1	-198.8	223.7	58.0	59.5	54.1	47.5	43.4	42.0	39.3	
WACC	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	10.6%	
Cost of debt	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	6.8%	
Risk-free rate	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	5.6%	
Risk premium	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	
Net debt / EV	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	
Cost of equity	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	10.6%	
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	
FCF growth after the forecast horizon	3.0%										
Terminal value	1502.07										
Present value of the terminal value (PV TV)	532.2										
Present value of FCF in the forecast horizon	174.5										
Equity value (EV)	706.8										
Net debt	-489.6										
Liquidation value of land and the stake in Autostrada Południe	431.3										
Minority interests	0.1										
Equity value	1 627.5										
Number of shares (millions)	25.5										
Equity value per share (PLN)	63.7										
Cost of equity (9M)	8.4%										
Target Price	69.1										
EV/EBITDA('09) for the target price	3.5										
P/E('09) for the target price	11.9										
TV to EV	75%										

Sensitivity analysis

FCF growth in perpetuity

	2.0%	2.5%	3.0%	3.5%	4.0%
WACC -1.0pp	66.7	68.1	69.6	71.4	73.4
WACC -0.5pp	66.5	67.9	69.4	71.1	73.1
WACC	66.3	67.6	69.1	70.9	72.8
WACC +0.5pp	66.1	67.4	68.9	70.6	72.6
WACC +1.0pp	65.9	67.2	68.7	70.4	72.3



Income Statement

(PLN m)	2006	2007	2008	2009F	2010F	2011F
Revenue	3 043.2	3 075.9	3 350.0	3 541.0	4 772.0	4 928.2
<i>change</i>	12.6%	1.1%	8.9%	5.7%	34.8%	3.3%
Cost of sales	2 918.4	2 927.7	2 962.2	3 176.0	4 402.1	4 576.3
Gross profit	124.7	148.3	387.8	364.9	369.9	351.9
<i>Gross profit margin</i>	4.1%	4.8%	11.6%	10.3%	7.8%	7.1%
Selling costs	-28.0	-26.2	-24.8	-26.1	-32.0	-33.0
General and administrative expenses	-108.0	-114.6	-133.1	-139.7	-171.3	-176.9
Other net operating profit	-1.9	-21.1	-28.8	-21.0	-12.5	-7.2
Derivative gains (losses)	23.1	41.7	-88.9	0.0	0.0	0.0
EBIT	9.9	28.0	112.2	178.1	154.1	134.7
<i>change</i>	405.6%	182.2%	300.1%	58.8%	-13.5%	-12.6%
<i>EBIT margin</i>	0.3%	0.9%	3.3%	5.0%	3.2%	2.7%
Profit on financing activity	0.4	-16.1	24.3	1.6	-10.8	4.9
Other	1.8	1.6	2.9	3.1	4.2	4.3
Pre-tax income	12.2	13.6	139.5	182.8	147.5	144.0
Tax	8.2	-0.5	34.6	34.7	28.0	27.4
Minority interests	0.1	-0.9	0.1	0.0	0.0	0.0
Net income	3.9	15.1	104.7	148.1	119.5	116.6
<i>change</i>	91.8%	286.9%	595.1%	41.4%	-19.3%	-2.4%
<i>margin</i>	0.13%	0.49%	3.13%	4.18%	2.50%	2.37%
Amortization and depreciation	21.2	23.6	22.0	22.9	23.3	23.7
EBITDA	31.1	51.7	134.2	201.0	177.4	158.4
<i>change</i>	34.5%	66.0%	159.8%	49.8%	-11.8%	-10.7%
<i>EBITDA margin</i>	1.0%	1.7%	4.0%	5.7%	3.7%	3.2%
Shares at year-end (millions)	25.5	25.5	25.5	25.5	25.5	25.5
EPS	0.2	0.6	4.1	5.8	4.7	4.6
CEPS	1.0	1.5	5.0	6.7	5.6	5.5
ROAE	0.7%	2.8%	17.7%	22.2%	16.0%	13.5%
ROAA	0.2%	0.6%	4.1%	5.1%	3.5%	3.0%

**Balance Sheet**

(PLN m)	2006	2007	2008	2009F	2010F	2011F
ASSETS	2 311.8	2 344.3	2 798.2	3 013.6	3 749.3	3 959.7
Fixed assets	424.7	475.6	537.0	544.1	903.7	913.5
Current assets	1 887.2	1 868.7	2 261.1	2 469.5	2 845.6	3 046.1
Inventories	384.8	533.3	660.4	861.7	746.6	542.9
Receivables	1 007.3	813.8	791.0	1 108.5	1 843.2	1 938.3
Short-term prepayments	5.9	5.0	5.8	5.8	5.8	5.8
Cash and cash equivalents	489.2	516.6	803.8	493.5	249.9	559.0
(PLN m)	2006	2007	2008	2009F	2010F	2011F
LIABILITIES	2 311.8	2 344.3	2 798.2	3 013.6	3 749.3	3 959.7
EQUITY	523.3	536.2	644.7	688.1	807.6	924.2
Minority shares	1.0	0.1	0.0	0.0	0.0	0.0
Long-term liabilities	214.6	312.9	396.0	395.1	395.1	395.1
Loans	95.9	171.0	218.7	218.7	218.7	218.7
Reserves and other	32.9	48.5	80.8	80.0	80.0	80.0
Other	85.8	93.4	96.4	96.4	96.4	96.4
Short-term liabilities	1 573.0	1 495.1	1 757.5	1 930.4	2 546.6	2 640.4
Loans	138.3	106.2	95.6	95.6	95.6	95.6
Amounts owed to suppliers	919.6	781.7	937.4	1 040.0	1 405.7	1 461.3
Long-term accruals	459.9	543.9	642.1	712.4	962.9	1 001.0
Prepayments	55.3	63.3	82.5	82.5	82.5	82.5
Debt	234.2	277.2	314.3	314.3	314.3	314.3
Net debt	-255.0	-239.4	-489.6	-179.2	64.4	-244.7
(Net debt / Equity)	-48.7%	-44.6%	-75.9%	-26.0%	8.0%	-26.5%
(Net debt / EBITDA)	-8.2	-4.6	-3.6	-0.9	0.4	-1.5
BVPS	20.5	21.0	25.3	27.0	31.6	36.2



Cash Flows

(PLN m)	2006	2007	2008	2009F	2010F	2011F
Cash flows from operating activities	-78.0	-15.2	252.3	-174.8	139.2	342.6
Net income	3.9	15.1	104.7	148.1	119.5	116.6
Amortization and depreciation	21.2	23.6	22.0	22.9	23.3	23.7
Working capital	-56.6	-41.1	30.9	-345.8	-3.5	202.3
Other	-46.5	-12.8	94.7	0.0	0.0	0.0
Cash flows from investing activities	16.7	19.1	-69.0	-29.9	-382.8	-33.5
CAPEX	-16.1	-7.8	-11.8	-29.9	-382.8	-33.5
Capital investments	33.5	2.8	0.0	0.0	0.0	0.0
Derivatives	64.4	28.0	0.0	0.0	0.0	0.0
Other	-65.1	-3.8	-57.1	0.0	0.0	0.0
Cash flows from financing activities	93.3	16.0	10.4	-104.7	0.0	0.0
Stock offering	0.0	0.0	0.0	0.0	0.0	0.0
Debt	0.0	0.0	0.0	0.0	0.0	0.0
Dividend (buy-back)	0.0	0.0	0.0	-104.7	0.0	0.0
Other	93.3	16.0	10.4	0.0	0.0	0.0
Change in cash	32.0	20.0	193.7	-309.5	-243.6	309.1
Cash at the end of period	89.5	109.4	303.1	-6.4	-249.9	59.2
DPS (PLN)	0.0	0.0	0.0	4.1	0.0	0.0
FCF	4.6	-10.2	113.9	-210.3	-239.7	300.2
(CAPEX / Sales)	0.5%	0.3%	0.4%	0.8%	8.0%	0.7%

Market multiples

	2006	2007	2008	2009F	2010F	2011F
P/E	435.0	112.4	16.2	11.4	14.2	14.5
P/CE	67.5	43.8	13.4	9.9	11.9	12.1
P/BV	3.2	3.2	2.6	2.5	2.1	1.8
P/S	0.6	0.6	0.5	0.5	0.4	0.3
FCF/EV	0.3%	-0.7%	9.5%	-17.5%	-19.9%	24.9%
EV/EBITDA	46.3	28.2	9.0	6.0	6.8	7.6
EV/EBIT	144.9	51.9	10.7	6.8	7.8	8.9
EV/S	0.5	0.5	0.4	0.3	0.3	0.2
DYield	0.0%	0.0%	0.0%	6.2%	0.0%	0.0%
Price (PLN)	66.4					
Shares at year-end (millions)	25.5	25.5	25.5	25.5	25.5	25.5
MC (PLN m)	1693.9	1693.9	1693.9	1693.9	1693.9	1693.9
Equity attributable to minority shareholders (PLN m)	1.0	0.1	0.0	0.0	0.0	0.0
EV (PLN m)	1 439.9	1 454.6	1 204.4	1 204.4	1 204.4	1 204.4



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**List of abbreviations and ratios contained in the report:**

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

Recommendations of BRE Bank Securities

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

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

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Comparative – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

Previous recommendations issued for Budimex

Recommendation	Buy	Buy	Buy	Buy	Buy
Date issued	2008-07-11	2008-08-14	2008-10-31	2008-11-25	2009-02-27
Price on day of recommendation	61.10	75.00	63.50	65.00	56.00
WIG on day of recommendation	39632.83	41049.76	28056.29	26964.31	21923.27