

Wednesday, November 26, 2014 | update

Rovese: sell (downgraded)

RSE PW; RSE.WA | Building Materials, Poland

Sołowow Bid Presents Exit Opportunity

In the last five years, Rovese raised a whopping PLN 917.2m through three public offerings while generating only PLN 46.7m free cash flow. In the same period, the cumulative EBITDA dropped 16.5% (despite plant acquisitions completed in 2013) and the EBITDA margin shrunk by 6.6ppts. In five years of coverage, Rovese's quarterly earnings results exceeded our expectations only once, in Q2 2011. Otherwise, fourteen out of the nineteen quarterly reports were a source of disappointment. At the current market cap, Rovese's price-to-book ratio not including acquisition gains amounts to 0.97x. In our view, the only factor which could justify a valuation of Rovese above the current market cap (PLN 1.1bn) is its replacement value, estimated at PLN 4.1bn. Unfortunately, in the current market, characterized by oversupply and weakening demand, the development of new tile capacity to add to the already existing overcapacity is not a viable option for any business. Our 9-month price target for RSE is 3.6% higher than the price offered in the upcoming tender offer by the businessman Michał Sołowow, presenting a good opportunity to exit a troubled investment.

Rovese targeted in acquisition bid

A tender offer for 339.2 million Rovese shares representing 41.8% of all shares outstanding was announced in November by the businessman Michał Sołowow and his subsidiary FTF Galleon, offering to pay PLN 1.42 per share (PLN 478m total). The bid is designed to run in three stages, the first starting on 3. and ending on 8. December, the second lasting from 9. to 15. December, and the third lasting from 16. December to 8. January 2015. The goal is to acquire a 100% voting stake in Rovese and delist it from the Warsaw Stock Exchange.

Only replacement value may justify higher valuation

Rovese's total capacity today includes 77.7 million square meters of tile and 8.5 million pieces of bathroom and kitchen fixtures per year. Assuming the cost to build capacity equivalent to Rovese's product mix is EUR 6 for 1 sqm of tile and EUR 30 for a fixture, the total cost to replace figures to PLN 3.0 billion. If we add to this the costs of commissioning and financing, working capital, brand values, and a 10% preparedness premium, the equity value of such a hypothetical project would amount to PLN 4.8 billion (with the potential market cap at PLN 4.1bn). So done, the replacement cost valuation of Rovese's production capacity exceeds the current capitalization 3.6 times.

(PLN m)	2012	2013	2014E	2015E	2016E
Revenue	1 669.0	1 870.5	1 770.2	1 835.3	1 923.8
EBITDA	162.3	213.9	247.2	259.0	276.7
EBITDA margin	9.7%	11.4%	14.0%	14.1%	14.4%
EBIT	18.2	37.4	77.7	92.5	116.2
Net profit	-62.8	-64.4	-168.3	54.5	76.8
Dyiel	0.0%	0.0%	0.0%	0.0%	1.9%
P/E	-	-	-	21.0	14.9
P/CE	14.1	10.2	887.9	5.2	4.8
P/BV	0.5	0.6	0.7	0.7	0.7
EV/EBITDA	8.2	8.6	7.1	6.4	5.6

Current Price	PLN 1.41
Target Price	PLN 1.37
Market Cap	PLN 1.1bn
Free Float	PLN 0.1bn
ADTV (3M)	PLN 0.76m

Ownership

Michał Sołowow	65.99%
ING PTE	14.55%
Others	19.46%

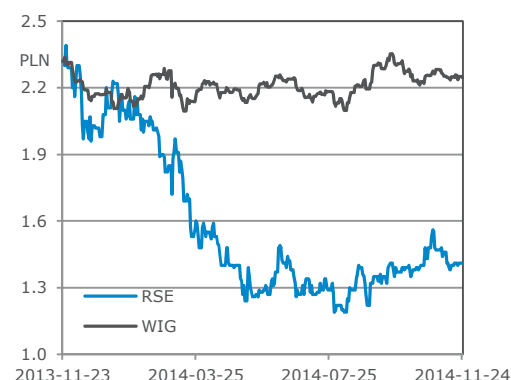
Sector Outlook

Ownership of the Polish market of ceramic tiles has shifted dramatically in the last two years, and the former leader Rovese has been the biggest loser in terms of market share. As the ruble and the hryvnia deteriorate in value, exports to Russia and Ukraine, which are strategic markets for many Polish producers, are likely to weaken, and the resulting oversupply at home will keep sales prices down.

Company Profile

Rovese manufactures and sells bathroom fittings, including sanitaryware, ceramic tiles, shower cabins, acrylic bathtubs and basins, bathroom furniture and other accessories. It has production facilities in Poland, Russia, and Ukraine.

RSE vs. WIG



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2014 Q3 results

At PLN 532.2m, the Q3 2014 revenue of Rovese exceeded our estimate by 7.3% after increasing 5.3% year on year. By segment, sales of ceramic tiles were 7.9% higher than anticipated after 7.7% growth from Q3 2013, sales of bathroom and kitchen fixtures rose 0.9% year over year, and sales of other ceramics grew 3.9%.

Q3 2014 actuals vs. our estimates

(PLN m)	Q3'14	Q3'13	change	Q3'14E	differ.
Revenue	523.2	552.7	-5.3%	487.4	7.3%
EBITDA	78.6	81.0	-3.0%	78.6	0.0%
margin	15.0%	14.7%		16.1%	
EBIT	39.2	41.3	-4.9%	35.1	11.7%
Pre-tax profit	28.6	-12.7	-	23.3	22.9%
Net profit	26.3	-11.7	-	18.7	40.1%

Source: Rovese, Dom Maklerski mBanku

The gross profit margin remained weak in Q3 at 31.8% (vs. 32.5% expected by us and 31.7% posted in Q3'13), and the gross profit showed y/y contraction of 4.9%. SG&A expenses proved 28% higher than anticipated even after a year-on-year reduction of 9.8%. Other operating activity generated a small loss of PLN 0.4m in Q3.

Q3 2014 actuals vs. market consensus

(PLN m)	Q3'14	Q3'13	change	market	differ.
Revenue	523.2	552.7	-5.3%	504.8	3.6%
EBITDA	78.6	81.0	-3.0%	82.3	-4.5%
margin	15.0%	14.7%			
EBIT	39.2	41.3	-4.9%	36.8	6.6%
Pre-tax profit	28.6	-12.7	-	n/a	n/a
Net profit	26.3	-11.7	-	11.0	138.7%

Source: Rovese, PAP

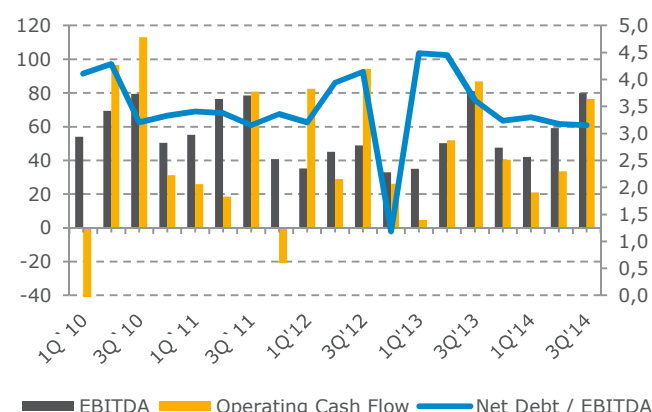
Q3 2014 EBITDA at PLN 78.6m came in line with our forecast but fell 4.5% short of market forecasts. However, after lower-than-anticipated D&A (at PLN 39.4m vs. PLN 43.5m consensus) the quarterly EBIT exceeded all expectations.

Rovese recognized FX gains on loan value adjustments of PLN 2.2m in Q3 2014 (vs. FX losses of PLN 3.2m expected by us) and as a result the quarterly pre-tax profit was 22.9% higher than we had assumed. After a low effective tax rate of 8.1%, the quarterly net profit beat our forecast by 40.1%.

Rovese generated operating cash flow of PLN 76.5m in Q3 2014 vs. PLN 86.9m in Q3 2013. Net debt as of 30 September 2014 was PLN 720.9m (3.2x 12M EBITDA).

Summing up, we have a neutral view on Rovese's performance in Q3 2014.

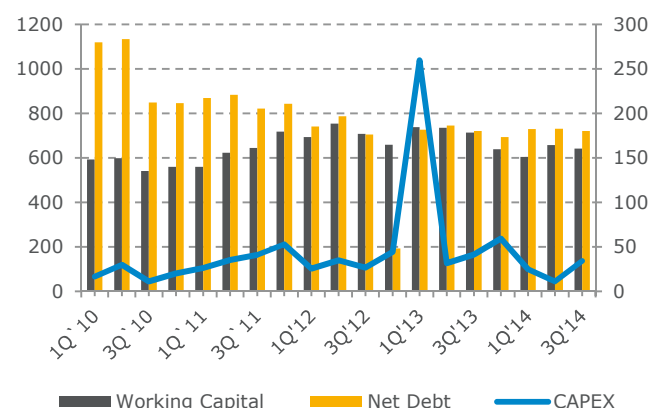
Quarterly EBITDA (lhs, PLN m), OCF (lhs, PLN m), Net debt/EBITDA ratio (rhs), 2010-2014



Source: Rovese, Dom Maklerski mBanku

In the nearly six years since the beginning of 2009, Rovese reduced net debt by PLN 389.2m but at the same time it raised PLN 917.2m in share issue proceeds. Capital investment between 2009 and 2014 totaled PLN 825.5m, and cash flow from operations amounted to PLN 850.9m, however free cash flow came in at a less-than-impressive PLN 46.7m.

Working capital (lhs), Net debt (lhs), and CAPEX (rhs), 2010-2014 (PLN m)

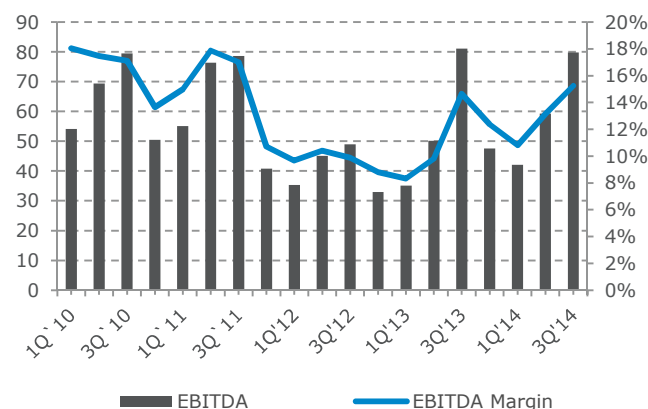


Source: Rovese, Dom Maklerski mBanku

Working capital in the five-year period discussed increased by PLN 131.9m, driven mainly by a PLN 174.5m increase in inventories.

The positive takeaway from all this is the balance achieved by Rovese between cash locked in working capital and net debt, observed since 2011. The bad news is that the balance was created through stock issues completed in 2010 and 2011 combined with the fact that working capital this year has started to slightly exceed net debt.

Quarterly EBITDA (PLN m) and EBITDA margins (%), 2010-2014



Source: Rovese, Dom Maklerski mBanku

Rovese's EBITDA has shrunk by 16.5% in course of the last five years, and the downturn was not stemmed by the acquisitions made in 2013. The cumulative shrinkage in the EBITDA margin in the period amounted to 6.6ppts with the Q1-Q3 2014 average at 13.4%.

Five years of overwhelmingly negative earnings surprises

In the five years since we cover Rovese, the Company's quarterly earnings results exceeded our expectations only once, in Q2 2011. Otherwise, fourteen out of the nineteen quarterly reports covered brought negative earnings surprises.

Quarterly actuals vs. expectations

Quarter	Actuals vs. Expectations
1Q'10	-
2Q'10	-
3Q'10	-
4Q'10	-
1Q'11	-
2Q'11	+
3Q'11	-
4Q'11	-
1Q'12	-
2Q'12	-
3Q'12	-
4Q'12	-
1Q'13	-
2Q'13	-
3Q'13	0
4Q'13	-
1Q'14	0
2Q'14	0
3Q'14	0

Source: Dom Maklerski mBanku

For three consecutive years starting in 2010, Rovese conducted "cheap" annual SPOs at PLN 2.1 per share in 2010, PLN 3.5 in 2011, and PLN 1.07 in 2012. If we deduce the proceeds of each SPO from the current market capitalization, the market cap drops from PLN 4.4 billion at the beginning of 2008 to just upwards of PLN 0.2 billion today. Consequently, the lack of any tangible restructuring effects combined with consistent earnings disappointments would have driven the RSE share price down to an estimated PLN 1.56 from PLN 30+ at the start of 2008.

Current MCap and MCap adjusted for SPO proceeds (2008-2014)



Source: Dom Maklerski mBanku

Share price estimation ex. SPO proceeds vs. WIG (2008-2014)



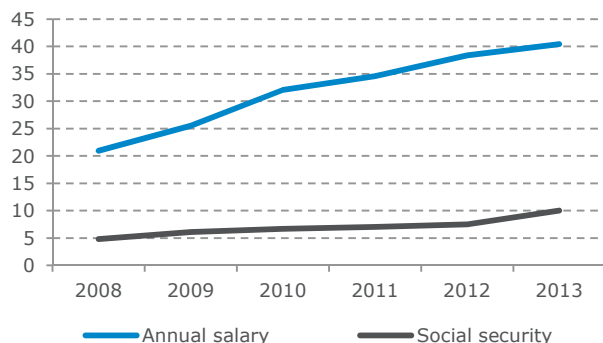
Source: Dom Maklerski mBanku

Wherein lies the problem?

We attribute Rovese's deteriorating profitability to increasing payroll and rising costs of materials and utilities which do not go hand in hand with matching hikes in the sales prices. In addition to saving on external services (transport and logistics), Rovese *has* been making efforts to contain payroll costs through downsizing. In the six years through 2013, the average monthly salary earned by a Rovese employee increased by a staggering 93.2% to PLN 3,370, with monthly social security charges soaring 110% to PLN 840. In the same six-year period, Rovese reduced its employee headcount by 24.3% to 7,035 (5,844 before the 2013 acquisitions). At the same time, its revenue in the period increased by 23.3% on 21.1% higher sales volumes.

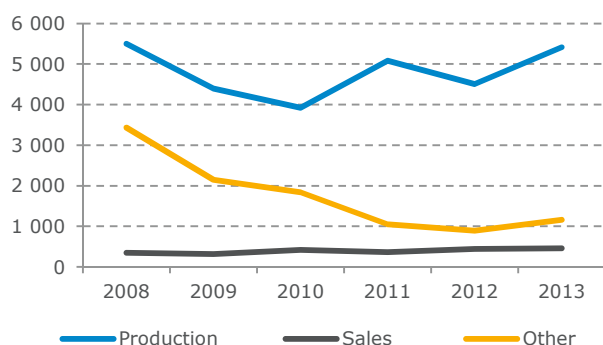
Of the workforce downsized in the six years through 2013, only 1.6% worked in production and 66.2% were employed in other capacities. The sales force in the period was expanded by 30.9%.

Increase in annual employee compensation and social security benefits (PLN '000) per Rovese employee, 2008-2013



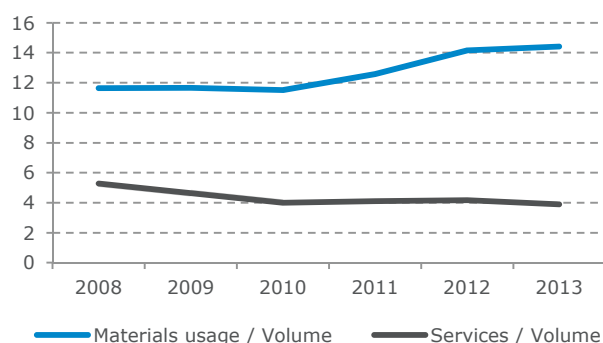
Source: Rovese, Dom Maklerski mBanku

Average annual employee headcount in production, sales, and other, 2008-2013



Source: Rovese, Dom Maklerski mBanku

Ratio of costs of materials and utilities and costs of services to sales volumes, 2008-2013



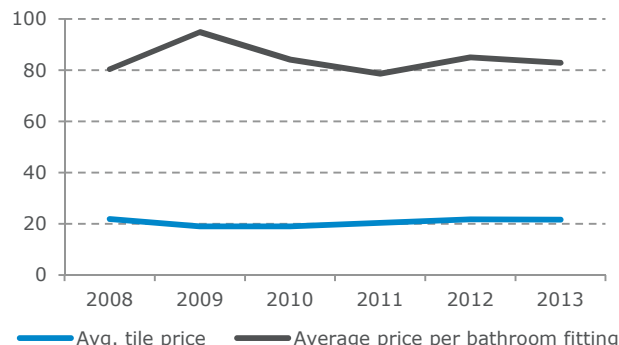
Source: Rovese, Dom Maklerski mBanku

Total costs of materials and utilities as percentage of sales volumes (i.e. tiles, which weigh 15-20 kilograms per square meter, and bathroom fittings which fall in the following weight ranges: a bidet: 15-18.5kg, toilet bowl: 15-20 kg, complete flush toilet: 19-23 kg, urinal 7.5-13 kg, sink 5-14 kg) surged 23.8% in the six years through 2013 (incl. 1.8% in 2013 alone). At the same time, costs of services as percentage of sales volumes (mainly transport) were reduced by 26.5% (6.8% in 2013). Relative to total costs, the share of materials and utilities increased from 45.6% to 50.7%, and the share of services decreased from 20.7% to 13.7%, between 2008 and 2013.

As costs of production and employment grew, the sales prices achieved by Rovese in the six-year period fell by 0.8% in case of tiles and rose just 3.1% in case of ceramic

fittings, resulting in a continued downtrend in earnings which is not likely to shift any time soon given fierce market competition which keeps prices low.

Average prices of ceramic tiles (PLN/sqm) and fixtures (PLN/unit), 2008-2013

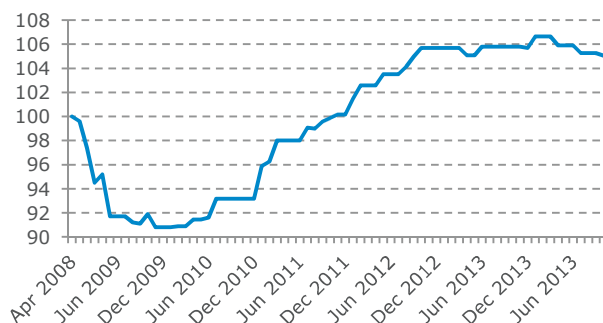


Source: Rovese, Dom Maklerski mBanku

Polish sales outlook

Polish tile producers between them have combined annual capacity of 140-150 million square meters, but the actual production is less than 80% of this at some 110mmsqm. Annual domestic demand averages 85mmsqm, exports reach 35mmsqm, and 10 million square meters of tile are imported annually from abroad. Half of the exports go to the East, primarily Russia and Ukraine where Polish tile producers have established a significant presence.

Price trends in ceramic tiles and bathroom fixtures as reported by PSB (2008-2014, Dec'08 =100)



Source: Polskie Składy Budowlane; Rovese S.A.

After reaching a high in 2013, prices of ceramic tiles and kitchen and bathroom fixtures as quoted by the Polish DYI wholesaler PSB embarked on a downward curve in 2014 under pressure from intense local competition.

The recent weakening in the Ukrainian hryvnia and the Russian ruble has rendered Polish goods much less competitive in these markets as well, moreover, the capital flight from Russia and Ukraine's faltering economy is bound to affect foreign direct investment in those countries, resulting in dampened demand for building materials, including for ceramic tiles from Poland.

Export outlook

Russia and Ukraine accounted for 17.2% and 25.9%, respectively, of Rovese's sales in 2013, with the ratios in H1 2014 going down by respective 4.5% to 25.9% and by 33% to 13.2% compared to H1 2013. It is important to note that the profit margins achievable in those countries

are much higher for Polish producers than the margins generated at home.

The ongoing political conflict between Russia and Ukraine is likely to hurt the export potential of Polish producers like Rovese. The conflict with Russia is expected to curb building activity in Ukraine, moreover Rovese's Ukrainian tile factory faces sales cannibalization by the upgraded sister factories in Russia and possible import bans on Ukrainian goods. Another risk faced by the Ukrainian operations are delays in VAT reimbursements on export sales. Finally, should Russia decide to stop natural gas deliveries to Ukraine, the factory faces unplanned downtime resulting in lower output.

Asset-based valuation of Rovese

Rovese's book value as of 30 September 2014 was an estimated PLN 1,547.0m with negative goodwill at PLN 370.9m. Calculated using the current market capitalization, the ratio of book value to market cap not including acquisition gains is 0.97x (which means market cap is equivalent to book value adjusted for acquisition gains).

The only possible rationalization for valuation of Rovese above the current market valuation are the costs that any other firm would have to incur in order to achieve Rovese's current production capacity.

Valuation based on cost-to-replacement value

Rovese Production Facilities	Cersanit III Wałbrzych (Poland)	Cersanit IV Krasnystaw (Poland)	Cersanit Invest (Ukraine)	Cersanit Romania	Cersanit Russia	Opoczno (Poland)	Syzran (Russia)	Kuchino (Russia)	Meissen (Germany)	Total
Annual ceramic tile capacity (mmsqm)	19.0		12.0		8.0	27.0		8.7	3.0	77.7
Annual fixture capacity (millions of units)		4.5	1.0	1.0			2.0			8.5
Cost of 1 sqm of capacity (tiles) (EUR)					6.0					
Cost of one fixture (EUR/piece)					30.0					
Total cost of tile capacity (EUR m)	114.0		72.0		48.0	162.0		52.2	18.0	466.2
Total cost of fixture capacity (EUR m)		135.0	30.0	30.0			60.0			255.0
Organization and commissioning cost	11.4	13.5	10.2	3.0	4.8	16.2	6.0	5.2	1.8	72.1
Financing costs	8.6	10.1	7.7	2.3	6.1	12.2	7.7	6.5	0.9	62.0
Total CAPEX + commissioning and financing costs (EUR m)	134.0	158.6	119.9	35.3	58.9	190.4	73.7	63.9	20.7	855.3
EUR/PLN					4.20					
Total CAPEX + commissioning and financing costs (PLN m)	562.6	666.2	503.4	148.1	247.6	799.5	309.5	268.5	86.9	3,592.2
Working capital at 30 Sep. '14 (PLN m)					641.18					
Brands (PLN m)			95.9					21.0		116.9
Total										4,350.3
Preparedness premium (10%)										10%
EV (PLN m)										4,785.3
Net debt at 30 Sep. '14 (PLN m)										720.9
MC (PLN m)										4,064.4
Current Market Cap (PLN m)										1,136.0
Discount (%)										-72.0%

Source: Rovese, Dom Maklerski mBanku

Rovese's total capacity today includes 77.7 million square meters of tile and 8.5 million pieces of bathroom and kitchen fixtures per year. At an assumed cost of EUR 6 per square meter of tile and EUR 30 per fixture (similar to what Rovese estimated in a presentation to the shareholders), the total cost of achieving capacity equivalent to Rovese's figures to EUR 721.2m (PLN 3.0bn). If we add to this financing costs and factory start-up costs, the total cost-to-replacement needed increases by EUR 134.1m (PLN 563.2m). After further adding cost of

working capital, brand value, and a 10% preparedness premium, the equity value of the hypothetical replacement project reaches roughly PLN 4.8 billion (with the hypothetical market cap at PLN 4.1bn). So done, the cost-to-replacement value of Rovese's production capacity exceeds the current capitalization 3.6 times. Unfortunately, in the current market, characterized by oversupply and weakening demand, the development of new tile capacity to add to the already existing overcapacity is not a viable option for any business.

Additional pressure on Rovese's valuation today is exerted by FX trends which influence interest-bearing debt. A major portion of Rovese's debt is denominated in foreign currencies. At FX rates equivalent to the averages for the last three years (EUR/PLN 3.83, USD/PLN 2.91, EUR/UAH 10.96), interest-bearing debt would be PLN 52.7m lower (+PLN 0.065 per-share value).

Rovese targeted in acquisition bid

A tender offer for 339.2 million Rovese shares representing 41.8% of all shares outstanding was announced in November by the businessman Michał Sołowow and his subsidiary FTF Galleon, offering to pay PLN 1.42 per share (PLN 478m total). The bid is designed to run in three stages, the first starting on 3. and ending on 8. December, the second lasting from 9. to 15. December, and the third lasting from 16. December to 8. January 2015.

The goal is to acquire a 100% voting stake in Rovese and delist the Company from the Warsaw Stock Exchange.

Today, Mr. Sołowow directly and indirectly holds a 65.99% stake in Rovese (the indirect holdings are via FTF Galleon with 51.91% and Calgeron Investment Limited, a subsidiary of Synthos, with 7.8%).

Valuation

Using DCF analysis and relative valuation, we set our nine-month per-share price target for Rovese at PLN 1.37.

(PLN)	weight	price
Relative Valuation	50%	1.31
DCF Analysis	50%	1.21
	price	1.26
9M Target Price		1.37

Relative Valuation

The peer group serving as the benchmark for the valuation of Rovese consists of Polish and foreign tile producers: Ceramic Industries, Ceramika Nowa Gala, Compagnie de Saint-Gobain, Dynasty Ceramic, Hsil, Imerys, Norcros, Panariagroup Industrie, and Siam City Cement. Ceramic Industries produces ceramic floor and wall tiles and bathroom fittings. Ceramika Nowa Gala is Rovese's local

competitor in ceramic tiles. Compagnie de Saint-Gobain is a French producer of construction materials such as insulation cover, gypsum, roofing, barriers and balustrades, plate glass materials for the construction industry and motor industry, glass containers, jars and bottles. It operates a chain of 4200 stores selling building materials. Dynasty Ceramic is a producer of ceramic tiles for floors and walls both for interior and exterior use. Hsil produces bathroom and kitchen accessories as well as glass products. Imerys manufactures and sells building materials, including mineral materials and ceramic tiles accounting for a significant part of sales. Norkros is a producer of ceramic tiles and showers with a presence in the UK, South Africa, and Australia. Panariagroup Industrie manufactures a wide range of ceramic wall and floor tiles. Siam City Cement is recognized cement producer based in Thailand which also manufactures bathroom fittings and ceramic tiles.

The relative valuation model ignores the effects of foreign-currency loan revaluations.

Multiples Comparison

Company	Country	P/E				EV/EBITDA			
		2013	2014E	2015E	2016E	2013	2014E	2015E	2016E
CERAMIKA NOWA GALA SA	Poland	-44.5	19.2	56.8	-	8.0	6.4	6.6	-
COMPAGNIE DE SAINT-GOBAIN	France	18.9	16.8	13.8	11.1	6.4	6.8	6.1	5.3
DYNASTY CERAMIC PUB CO LTD	Thailand	16.4	18.2	16.2	13.9	11.7	12.8	11.5	10.1
GRUPA KETY SA	Poland	16.6	15.6	14.8	16.1	11.1	9.6	9.0	8.3
ES-SYSTEM SA	Poland	23.4	12.4	13.0	-	8.3	6.1	6.1	-
FERRO SA	Poland	9.5	7.7	7.9	6.7	7.6	7.1	7.0	6.5
LIBET SA	Poland	13.9	12.6	10.2	8.0	5.1	4.7	4.4	3.8
HSIL LTD	India	33.4	61.0	32.1	19.5	11.8	14.6	11.1	-
IMERYS SA	France	15.3	14.5	13.2	12.2	7.5	7.7	7.2	6.6
MERCOR SA	Poland	8.8	8.7	8.4	-	0.9	7.2	6.9	-
NORCROS PLC	UK	9.7	8.8	9.2	8.8	7.2	5.6	6.0	5.1
PANARIAGROUP INDUSTRIE CERAM	Italy	-	-	21.3	12.8	-	6.4	5.0	4.4
POZBUD T&R SA	Poland	10.0	12.5	9.9	8.5	6.7	9.1	7.0	8.9
SELENA FM SA	Poland	16.7	8.4	8.7	-	5.7	5.1	7.4	-
Maximum		33.4	61.0	56.8	19.5	11.8	14.6	11.5	10.1
Minimum		-44.5	7.7	7.9	6.7	0.9	4.7	4.4	3.8
Median		15.3	12.6	13.1	11.7	7.5	6.9	6.9	6.5
Rovese		-17.8	-6.8	21.0	14.9	8.6	7.1	6.4	5.6
Premium (discount)		-216.0%	-153.9%	60.2%	27.8%	14.1%	3.2%	-8.3%	-13.9%
Implied valuation									
Median			12.6	13.1	11.7		6.9	6.9	6.5
Discount			0%	0%	0%		0%	0%	0%
Multiple weight				50%				50%	
Year weight			0%	60%	40%		0%	60%	40%
Value per share			1.31						

DCF Analysis

DCF Model Assumptions:

- Risk-free rate: 6.7% (weighted average yield on 10-year government bonds in local currencies issued in Poland, Ukraine, and Russia). We assigned weights of 63% to Poland, 15% to Ukraine, and 22% to Russia, reflecting the local tile capacities of Rovese.
- FCF growth rate after FY2023: 2.0%.
- Beta=1.0.

- We assume Rovese will pay its first dividend in the forecast period in 2016.
- Net debt is as at year-end FY2013.
- The model factors in the conditional payment of PLN 86m for the assets acquired in 2013 that Rovese will have to pay in 2022 if its EBITDA exceeds PLN 350m
- Future cash flows are discounted to their present value as of early December 2014.
- We assume that Rovese will pay back PLN 100.1m interest debt by the end of 2017. The Company is paying back a EUR 100m loan of LXIV S.a r.l. in fourteen semi-annual installments.

Additional assumptions

	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Tiles sales (millions of square meters)	49.2	57.2	55.0	56.7	58.4	60.1	61.3	62.3	62.9	63.5	64.1
Fixture sales (millions of units)	5.2	5.5	5.4	5.6	5.7	5.9	6.0	6.1	6.2	6.3	6.4
Tile capacity (millions sqm)	66.0	76.3	76.3	76.3	76.3	76.3	76.3	76.3	76.3	76.3	76.3
Fixture capacity (millions of units)	6.5	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1
Capacity utilization: tiles	75%	75%	72%	74%	77%	79%	80%	82%	82%	83%	84%
Capacity utilization: fixtures	80%	68%	67%	69%	71%	73%	74%	75%	76%	78%	79%
Average tile price (PLN/sqm)	21.7	21.6	21.0	21.2	21.6	22.1	22.5	23.0	23.4	23.9	24.4
Average fixture price (PLN/unit)	84.9	82.8	82.0	82.8	84.5	86.2	87.9	89.6	91.4	93.3	95.1

Risk-free rate assumptions

	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	+
Poland	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%
Ukraine	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Russia	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%
Weighted average	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%

DCF Model

(PLN m)	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	+
Revenue	1770.2	1835.3	1923.8	2015.7	2093.4	2164.5	2230.7	2299.0	2369.4	2416.8	2465.1
change	-5.4%	3.7%	4.8%	4.8%	3.9%	3.4%	3.1%	3.1%	3.1%	2.0%	2.0%
EBITDA	247.2	259.0	276.7	294.6	308.5	320.5	332.0	343.9	356.1	359.3	371.3
EBITDA margin	14.0%	14.1%	14.4%	14.6%	14.7%	14.8%	14.9%	15.0%	15.0%	14.9%	15.1%
D&A expenses	169.6	166.5	160.5	153.7	146.4	140.4	136.7	134.2	138.4	141.6	141.8
EBIT	77.7	92.5	116.2	140.9	162.2	180.1	195.3	209.6	217.7	217.6	229.5
EBIT margin	4.4%	5.0%	6.0%	7.0%	7.7%	8.3%	8.8%	9.1%	9.2%	9.0%	9.3%
Tax on EBIT	8.2	11.6	16.8	22.1	26.6	30.3	33.5	36.4	37.8	37.7	40.1
NOPLAT	69.5	80.9	99.4	118.8	135.6	149.8	161.8	173.3	179.9	180.0	189.4
CAPEX	-80.0	-88.0	-94.2	-100.8	-105.8	-111.1	-116.6	-122.5	-214.6	-135.0	-141.8
Working capital	-64.6	-17.9	-24.2	-24.8	-20.8	-18.8	-17.4	-17.8	-18.2	-12.1	-12.3
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	94.5	141.4	141.6	146.9	155.4	160.3	164.6	167.3	85.5	174.4	177.1
WACC	9.9%	10.0%	10.2%	10.3%	10.6%	10.8%	10.9%	11.0%	10.8%	10.9%	11.0%
discount factor	0.99	0.90	0.82	0.74	0.66	0.59	0.53	0.48	0.44	0.39	0.35
PV FCF	93.8	127.6	115.7	108.5	103.1	95.4	87.6	79.6	37.4	68.3	61.8
	0.08	1.08	2.08	3.08	4.08	5.08	6.08	7.08	8.08	9.08	10.08
WACC	9.86%	9.98%	10.18%	10.34%	10.56%	10.76%	10.92%	11.05%	10.79%	10.87%	11.00%
Cost of debt	6.73%	6.73%	6.73%	6.73%	6.73%	6.73%	6.73%	6.73%	6.73%	6.73%	6.73%
Risk-free rate	6.73%	6.73%	6.73%	6.73%	6.73%	6.73%	6.73%	6.73%	6.73%	6.73%	6.73%
Risk premium	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Effective tax rate	4.6%	10.7%	13.3%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Net debt / EV	35.2%	30.7%	26.3%	22.2%	18.6%	15.5%	13.0%	10.8%	15.0%	13.7%	11.6%
Cost of equity	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

FCF after the forecast period

2.0%

Sensitivity Analysis

Terminal value

1 967.3

Present value of residual value (PV TV)

770.7

Present value of FCF in the forecast period

917.0

Enterprise value

1 687.7

Net debt

692.5

Other noncore assets

0.0

Minority interests

9.4

Equity value

985.8

Number of shares (millions)

811.4

Equity value per share (PLN)

1.21

9M cost of equity

8.7%

9M target price (PLN)

1.32

EV/EBITDA ('15) at target price

6.1

P/E ('15) at target price

19.6

TV / EV

45.7%

FCF growth in perpetuity

0.0%

1.0%

2.0%

3.0%

5.0%

WACC +1.0pp

0.96

1.02

1.10

1.20

1.47

WACC +0.5pp

1.04

1.12

1.21

1.32

1.64

WACC

1.13

1.22

1.32

1.45

1.84

WACC -0.5pp

1.23

1.33

1.45

1.60

2.07

WACC -1.0pp

1.34

1.45

1.59

1.77

2.35

Income Statement

(PLN m)	2010	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
Revenue	1531.5	1638.2	1669.0	1870.5	1770.2	1835.3	1923.8	2015.7	2093.4
change	8.2%	7.0%	1.9%	12.1%	-5.4%	3.7%	4.8%	4.8%	3.9%
Tiles	1030.5	1064.4	1066.0	1237.4	1155.8	1202.3	1263.2	1327.1	1380.7
Fittings	353.1	408.5	441.5	455.4	446.3	459.7	483.0	507.4	527.9
Sanitaryware	147.9	165.3	161.4	177.7	168.2	173.2	177.6	181.1	184.8
COGS	928.3	1 036.6	1 139.6	1 322.5	1 205.2	1 256.9	1 307.8	1 361.1	1 405.9
Administrative expenses	115.8	134.1	108.4	119.0	129.1	118.3	120.2	122.1	123.7
Selling expenses	334.9	328.7	390.3	372.1	347.3	367.6	379.4	391.5	401.6
Other net operating gains/losses	-10.4	-3.0	-12.4	-19.5	-11.0	0.0	0.0	0.0	0.0
EBIT	142.0	135.8	18.2	37.4	77.7	92.5	116.2	140.9	162.2
change	-15.5%	-4.4%	-86.6%	105.0%	107.9%	19.1%	25.7%	21.2%	15.1%
EBIT margin	9.3%	8.3%	1.1%	2.0%	4.4%	5.0%	6.0%	7.0%	7.7%
Financing gains / losses	-13.5	-33.0	-70.1	-103.3	-254.9	-31.4	-27.7	-24.7	-22.3
Interest	-52.2	-49.8	-29.8	-54.8	-34.8	-31.4	-27.7	-24.7	-22.3
Other	38.7	16.8	-31.4	-45.6	-190.5	0.0	0.0	0.0	0.0
Pre-tax profit	128.5	102.9	-51.9	-66.2	-177.5	61.1	88.5	116.3	139.8
Tax	25.4	15.5	10.9	-1.9	-8.2	6.6	11.8	22.1	26.6
Minority interests	0.1	-0.4	0.0	0.1	-1.0	0.0	0.0	0.0	0.0
Net profit	103.0	87.8	-62.8	-64.4	-168.3	54.5	76.8	94.2	113.3
change	-	-14.8%	-	-	-	-	40.8%	22.7%	20.3%
margin	6.7%	5.4%	-3.8%	-3.4%	-9.5%	3.0%	4.0%	4.7%	5.4%
D&A expenses	111.5	114.9	144.1	176.5	169.6	166.5	160.5	153.7	146.4
EBITDA	253.5	250.7	162.3	213.9	247.2	259.0	276.7	294.6	308.5
change	-11.0%	-1.1%	-35.2%	31.8%	15.6%	4.7%	6.9%	6.5%	4.7%
EBITDA margin	16.6%	15.3%	9.7%	11.4%	14.0%	14.1%	14.4%	14.6%	14.7%
Shares at year-end (millions)	216.4	270.5	811.4	811.4	811.4	811.4	811.4	811.4	811.4
EPS	0.5	0.3	-0.1	-0.1	-0.2	0.1	0.1	0.1	0.1
CEPS	1.0	0.7	0.1	0.1	0.0	0.3	0.3	0.3	0.3
ROAE	7.8%	5.5%	-3.0%	-3.6%	-10.8%	3.4%	4.6%	5.5%	6.4%
ROAA	3.4%	2.7%	-1.8%	-1.9%	-5.5%	1.8%	2.5%	3.0%	3.5%

Balance Sheet

(PLN m)	2010	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
ASSETS	2987.9	3237.3	3484.5	3334.2	3062.5	3095.9	3132.2	3183.8	3239.6
Fixed assets	1541.7	1680.2	1606.8	2055.4	1750.2	1672.6	1607.6	1556.5	1518.2
Intangible assets	386.3	405.5	399.5	472.1	466.2	465.9	465.9	466.3	466.9
Property, plant and equipment	1138.1	1227.0	1133.2	1475.6	1176.3	1098.9	1033.8	982.3	943.5
Equity value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term receivables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term investment	3.5	6.9	6.9	2.9	2.9	2.9	2.9	2.9	2.9
Long-term prepayments	13.8	40.7	67.2	104.9	104.9	104.9	104.9	104.9	104.9
Current assets	1446.2	1557.1	1877.7	1278.8	1312.3	1423.3	1524.6	1627.3	1721.4
Inventories	442.0	559.7	505.5	609.7	587.9	602.3	621.7	641.5	658.0
Current receivables	561.0	601.1	520.6	471.8	478.6	490.3	506.0	522.2	535.6
Current investment	3.5	5.3	52.5	8.1	8.1	8.1	8.1	8.1	8.1
Cash	423.5	382.6	790.4	168.5	216.0	301.6	368.8	436.6	501.4
Current prepayments	16.2	8.4	8.6	20.6	21.7	20.9	19.9	19.0	18.2
(PLN m)	2010	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
EQUITY AND LIABILITIES	2987.9	3237.3	3484.5	3334.2	3062.5	3095.9	3132.2	3183.8	3239.6
Equity	1319.4	1598.0	2099.7	1778.2	1559.7	1614.2	1669.2	1725.0	1772.3
Share capital	21.6	27.0	81.1	81.1	81.1	81.1	81.1	81.1	81.1
Supplementary capital	1447.6	1673.3	2249.9	2386.2	2386.2	2386.2	2386.2	2386.2	2386.2
Undistributed earnings	-108.6	-64.3	-198.1	-597.3	-765.6	-711.1	-656.1	-600.3	-553.0
Minority interests	0.0	9.6	9.5	9.4	-1.3	-1.3	-1.3	-1.3	-1.3
Long-term liabilities	759.9	785.7	585.0	504.3	675.7	647.1	618.5	604.2	604.2
Debt	739.4	776.0	584.9	339.6	511.0	482.4	453.8	439.5	439.5
Current liabilities	902.5	808.9	723.5	911.0	672.2	676.5	682.2	688.0	692.7
Trade creditors	373.5	359.1	325.6	389.5	350.8	355.1	360.8	366.5	371.2
Debt	529.0	449.8	397.9	521.4	321.4	321.4	321.4	321.4	321.4
Provisions for accounts payable	6.3	19.5	34.7	42.0	71.7	71.7	71.7	71.7	71.7
Other	0.0	15.6	32.1	89.4	84.6	87.7	92.0	96.4	100.1
Debt	1268.4	1225.8	982.8	861.0	832.4	803.8	775.2	760.9	760.9
Net debt	844.9	843.1	192.4	692.5	616.4	502.2	406.4	324.3	259.5
Net debt / Equity	64.0%	52.8%	9.2%	38.9%	39.5%	31.1%	24.3%	18.8%	14.6%
(Net debt / EBITDA)	3.3	3.4	1.2	3.2	2.5	1.9	1.5	1.1	0.8
BVPS	6.1	5.9	2.6	2.2	1.9	2.0	2.1	2.1	2.2

Cash Flows

(PLN m)	2010	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
Cash flow from operating activities	207.1	104.4	232.0	183.9	190.8	233.6	239.5	245.9	258.9
Net profit	103.0	87.8	-62.8	-64.4	-168.3	54.5	76.8	94.2	113.3
D&A expenses	111.5	114.9	144.1	176.5	169.6	166.5	160.5	153.7	146.4
Interest, equity in profits of associates	54.3	51.8	46.7	57.3	34.8	31.4	27.7	24.7	22.3
Working capital	-42.4	-131.6	52.9	-41.3	-64.6	-17.9	-24.2	-24.8	-20.8
Other	-19.2	-18.4	51.1	55.7	219.4	-0.8	-1.3	-1.8	-2.3
Cash flow from investing activities	-67.4	-137.7	-181.4	-384.6	-80.0	-88.0	-94.2	-100.8	-105.8
CAPEX	-77.3	-155.3	-131.1	-387.7	-80.0	-88.0	-94.2	-100.8	-105.8
Equity investment	7.4	17.6	-50.8	3.1	0.0	0.0	0.0	0.0	0.0
Cash flow from financing activities	179.7	-7.6	357.1	-421.2	-63.4	-60.0	-78.1	-77.3	-88.3
Debt	91.8	-144.3	-161.4	-355.6	-28.6	-28.6	-28.6	-14.3	0.0
Share issue	150.7	188.7	577.9	0.0	0.0	0.0	0.0	0.0	0.0
Dividend/buyback	0.0	0.0	0.0	0.0	0.0	0.0	-21.8	-38.4	-65.9
Interest on debt	-62.8	-63.4	-50.6	-61.0	-34.8	-31.4	-27.7	-24.7	-22.3
Other	0.0	11.4	-8.8	-4.6	0.0	0.0	0.0	0.0	0.0
Change in cash	319.5	-40.9	407.8	-621.9	47.5	85.7	67.2	67.8	64.8
Cash at period-end	423.5	382.6	790.4	168.5	216.0	301.6	368.8	436.6	501.4
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
FCF	116.8	-52.6	117.7	-211.8	94.5	141.4	141.6	146.9	155.4
(CAPEX/Sales)	-5.0%	-9.5%	-7.9%	-20.7%	-4.5%	-4.8%	-4.9%	-5.0%	-5.1%

Trading Multiples

	2010	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
P/E	3.0	4.3	-18.2	-17.8	-6.8	21.0	14.9	12.1	10.1
P/CE	1.4	1.9	14.1	10.2	887.9	5.2	4.8	4.6	4.4
P/BV	0.2	0.2	0.5	0.6	0.7	0.7	0.7	0.7	0.6
P/S	0.2	0.2	0.7	0.6	0.6	0.6	0.6	0.6	0.5
P/(BV-goodwill)	0.3	0.3	0.7	0.9	1.0	1.0	1.0	0.9	0.9
FCF/EV	10.2%	-4.3%	8.8%	-11.5%	5.4%	8.6%	9.1%	10.0%	11.1%
EV/EBITDA	4.5	4.9	8.2	8.6	7.1	6.4	5.6	5.0	4.5
EV/EBIT	8.1	9.0	73.3	49.2	22.7	17.8	13.3	10.4	8.7
EV/S	0.8	0.7	0.8	1.0	1.0	0.9	0.8	0.7	0.7
CFO/EBITDA	81.7%	41.6%	142.9%	86.0%	77.2%	90.2%	86.5%	83.5%	83.9%
DYield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.9%	3.4%	5.8%
Price (PLN)	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41
Shares at year-end (millions)	216.4	270.5	811.4	811.4	811.4	811.4	811.4	811.4	811.4
MC (PLN m)	305.1	381.4	1144.1	1144.1	1144.1	1144.1	1144.1	1144.1	1144.1
Minority interests (PLN m)	-0.0	9.6	9.5	9.4	-1.3	-1.3	-1.3	-1.3	-1.3
EV (PLN m)	1150.0	1215.0	1327.0	1827.3	1761.9	1647.6	1551.8	1469.8	1404.9

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 Dom Maklerski mBanku:**

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Recommendations are updated at least once every nine months.

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Previous ratings issued for Rovese

rating	Reduce	Sell	Reduce	Hold
rating day	2014-03-06	2014-04-04	2014-05-07	2014-05-20
price on rating day	1.92	1.53	1.33	1.27
WIG on rating day	52216.05	52376.18	50873.54	51070.22

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