Thursday, September 03, 2015 | periodic report

Monthly Report: September 2015

Equity Market, Macroeconomics

Equity Market

Developed markets are enjoying stable economic conditions, US rates hikes are becoming a more and more remote prospect, and German companies are delivering positive earnings surprises. Assuming a soft landing in China we would look at the falling stock prices as a vigorous downward correction rather than as the beginning of a downtrend.

Sector Outlook

Financial Sector

The negative sentiment to the Polish bank sector is likely to persist through September, dampened by the prospects of additional costs in the wake of a mandatory CHF loan conversion combined with a possible extra levy against the sector's assets. We hope to hear more detailed proposals with respect to the new financial sector tax in the coming days as the election campaign gathers steam. Our best bets for August are international banks (OTP and Erste) and in Poland we prefer PZU and PCM.

Gas & Oil

Refining margins have come under pressure after the recent rebound in oil prices, however the sector's outlook remains buoyant in our view. Lotos and MOL both are benefitting from the improvement in diesel margins relative to gasoline cracks. We maintain a bearish outlook for PGN.

Power Producers

Investors are expected to regain confidence in power producers in the coming months after the recent share falls thanks to the expected increase in the operating capacity reserve budget which should be followed by an upward shift in electricity prices. We are upgrading PGE to buy.

Telecoms, Media, IT

Orange Polska faces a share price decline in the near term on the heels of the government's new plans on how to bring the LTE spectrum auction to an end, potentially resulting in a dividend cut. Our long-term outlook for the Telecom, however, remains positive. The LTE auction finalization plans can have a negative impact on Cyfrowy Polsat.

Resources

The current downturn in metals prices is driven mainly by Chinese slowdown worries and have no grounding in consumption. Further monetary easing in China should result in short position unwinding and a price rebound in H2.

Industrials

Our of the forty-nine industrial companies we track 43% reported year-on-year earnings growth in Q2 2015. Our top industrial sector picks at the moment are ACE, Berling, Elemental Holding, Relpol, SecoWarwick, Vistal, and Uniwheels. We would steer clear of Alchemia, Boryszew, Grupa Kęty, PGO, and Patentus.

Construction

The construction stocks in our coverage universe delivered annual EBITDA and net profit growth of 30% and 64%, respectively, in Q2 2015. We have a rating upgrade to buy for Budimex and we want to point out the upside Q2 earnings surprises delivered by Elektrobudowa, Erbud, and Elektrotim, and the attractive valuation multiples of Trakcja and Torpol.

Property Developers

Dom Development, LC Corp, and Robyg all delivered strong results in Q2 which reinforced their positive outlook for the rest of the year. The market continues to favor residential developers over commercial developers.

Retail

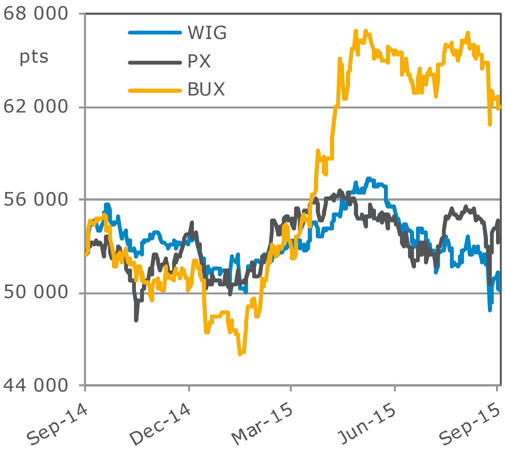
CCC and LPP both reported weak August sales figures which gave rise to concerns over the gross margin contraction. After Markedly reducing debt in Q2 Eurocash is expected to announce value-affecting M&A plans.

Other

Work Service is showing more downside risk after a weak second quarter of 2015.

WIG 50,136
Average 2015E P/E 14.0
Average 2016E P/E 12.3
Avg. daily trading volume (3M) ... PLN 786m

WIG vs. CEE indices



Rating Changes

Company	Rating	Change
Budimex	Buy	▲
Dom Development	Buy	▲
Famur	Buy	▲
Lotos	Buy	▲
PGE	Buy	▲
PZU	Buy	▲
TVN	Suspended	

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Equity Market

Global financial market turmoil, combined with fears over the slowdown in China, in August triggered an unexpected sell-off on world stock markets (S&P500 -6.3%, DAX -9.3%, MSCI EM -8.9%, WIG20 -2.8%). What could calm the markets? In our view it can only be aggressive action from the Chinese government combined with further monetary easing (one rate cut has already happened) and fiscal stimuli. The downgrading of Chinese growth forecasts has to stop. In the current setting the US Federal Reserve is not likely to raise interest rates yet in September, and the resulting weakening of the dollar should theoretically have a positive effect on emerging markets. Moreover low prices of commodities, especially oil, are actually good for the global economy, including China. Investors in commodity-dependent emerging markets may have already discounted the risk (falling asset prices, weak currencies). With all this in mind (as China's economy is likely headed for a soft landing), we would view the current turmoil as a dynamic downward correction rather than a trend shift, sending stocks lower for the last time before a new rally inevitably begins in emerging markets and commodities. In Poland political risk continues to weigh (FX loan conversion, new tax looming over banks, possible involvement of power producers in a coal industry bailout), however at this point it should be mostly priced in. What is more the final proposals by legislators that are set to bear on the financial and the power sector will most likely be less severe than the ideas which the market has been discounting for the past few weeks.

US growth beats expectations but risks persist

Second-quarter GPD growth in the US, confirmed at 3.7%, shows that the local economy is starting to recover from the first-quarter slowdown. 2015 first-half GDP growth was 2.1%. The final growth figure for Q2 was adjusted upward to reflect higher investment, retail sales, consumption, and inventories. The positive outlook was reinforced by a stronger-than-expected increase in new durable goods orders which jumped 2% in July, much more than the 0.2% projection. At the same time the message of the buoyant July data was dampened by the ISM Manufacturing Index which in August fell to 51.1pts vs. 53pts expected by the market and 52.7pts in July. Especially worrying was the sudden slump in new factory orders to 51.7pts from 56.5pts the month before. An unstable external environment (mainly China), combined with recent statements by the Fed's Dudley and Lockhart, indicate that the rate hike anticipated in September will most likely be moved back to December. If the economic momentum, affecting manufacturing, continues to worsen, the market will start to speculate about an even further delay or possibly about the return of quantitative easing.

While Asia's manufacturing sector slows, in Europe the PMI Manufacturing index remains on an upward trend, reaching 52.3pts in August after a rise from 52.4pts at the end of July. In Germany PMI in the period posted a gain from 51.8 to 53.3 points, and the second-quarter earnings season delivered by German companies confirmed a sustained upward momentum, prompting upward revisions to analysts' expectations.

Global stock panic – a trend change or a sharp correction in developed markets?

The August price falls in commodities and stocks had all the markings of a fire sale triggered by panic selling of ETFs and withdrawals from dedicated funds, especially emerging market funds. In just the thirteen months through July the outflows from the top nineteen EM funds totaled $940 billion. This compares to inflows of $2 billion into these funds in the 66 months from 2009 until mid-2014. The Bloomberg Commodity Index has sunk to its lowest level in 16 years and oil has had its longest run of weekly losses since the mid-90s. The problem with assessing the situation lies in the credibility and predictability of the Chinese economic data. The failed expectations of another stimulus package were one of the major triggers behind the August panic, with investors feeling let down by insufficient measures, consisting basically in the devaluation of the yuan (1.8%), and by the central bank's failure to cut the reserve requirement for banks.

Meanwhile the data being fed to traders indicate that the situation in China is actually better today than it was during the 2008-2010 crisis. The Chinese economy is expected to decelerate below 7% this year, which means it will still contribute $700 billion to the global GDP (equivalent to Switzerland). Further unlike during the 2008 crisis the external environment today is relatively stable and China has ample reserves to stimulate the economy. China's benchmark lending rate still stands at 4.8%, and the foreign exchange reserves are $3.6bn. According to economists, compared to Western Europe the stock market has a relatively small influence on consumption in China where only a small percentage of the most well-to-do households are invested in securities. Note also that it was only last week that the Shanghai composite index fell below its January opening price.

Polish economy continues to thrive

With GDP growth at 3.6% in the first quarter and 3.3% in the second quarter, the Polish economy is not exactly booming, but it definitely stands out from other emerging economies if we consider the tough external conditions (weak Euro Area growth, uncertainty in other emerging markets). Going forward we expect an acceleration in Poland's growth driven by faster personal consumption (fueled by increasing salaries and lending combined with low prices of fuel), rising investment (especially EU-funded infrastructure projects), and inventory rebuilding by local businesses. Exports may remain the one category to deliver negative surprises in the coming quarters judging by the latest data. In the Euro Area the meager growth is owed to recovering consumption, but the China slowdown is set to curb exports from Germany, Italy, and France. Also supporting the positive economic outlook is money supply, which in July increased 8.6% from last year, coupled with more new lending which in July was 7% higher than last year in the household as well as the corporate sector. The biggest negative surprise of the last few weeks is the sharp decline in Manufacturing PMI to 51.1 from 54.5 points, not borne out by any other leading indicators published by the central bank or the BIEC. In our view the August manufacturing slowdown to the lowest level since 2009 was a temporary glitch caused mostly by the power supply cuts for industrial customers during the summer heatwave, and the future monthly PMI readings are more than likely to be much better. Against this macroeconomic backdrop WSE-listed small and midsized businesses are set for continued earnings growth at even faster rates than in the first half of 2015.

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Macroeconomics

Q2 GDP growth

The final confirmed Q2 GDP growth figure for Poland is 3.3%, marking a deceleration from 3.6% in the previous quarter, though on an adjusted basis the momentum was actually stronger q/q at 3.6% vs. 3.4%. As thought, personal consumption and investment increased at respective annual rates of 3.0% and 6.4% in Q2, while net exports delivered a surprise with a zero contribution as June exports slowed while imports accelerated, Inventories made a small negative contribution of 0.2ppt. Public spending showed a q/q slowdown to 2.4% from 3.3%. Poland's economic outlook remains buoyant with GDP set to accelerate slightly in H2 2015 driven by personal spending and investment (in our view the Q2 slowdown in the latter was only a correction from the sharp upturn posted in Q1). Inventory builds as well are sure to step up in H2 after the sluggish builds observed in H1, especially given the low prices of commodities. The outlook for net exports remains rather grim. As imports rise, supported by increasing domestic demand, exports will be suppressed by a tightening global trade with China. On the other hand they will receive a boost from the increasing consumption observed in the Euro Area. With all this in mind we think GDP growth may come close to 4% by the end of the year - a momentum high enough not to exacerbate credit risk and low enough to keep inflationary pressures at bay. This scenario favors low interest rates throughout 2015 and 2016.

Retail sales

Retail sales growth was only 1.2% in July (vs. 2.8% consensus), with the factors most to blame including low sales of fuel which fell 6.8% y/y, definitely not due to high prices, and a 13.6% drop in "other" sales. Though disappointing the weak July retail sales data were nothing more than a downward correction of the previous high reading. By now everything is back on to normal.

Industrial production

Industrial production increased at an annual rate of 3.8% in July, falling slightly short of the 4.4% consensus, and marking a slowdown from June led by working-day differences and a high year-ago base. On an adjusted basis the July manufacturing momentum was steady. In August we predict a sharp acceleration to 8% which again will be owed to calendar and base effects. Overall manufacturing tends to be lethargic in the summer and this year this pattern will be additionally underpinned by power cuts, which led to lower productivity at the affected plants, and by longer than usual maintenance downtimes.

As predicted construction remained flat in July compared to the same month last year, but compared to June it increased 3.4% on an adjusted basis in a pattern similar to what was experienced last year. In the months ahead building activity in Poland will be fueled by public infrastructure investment.

Jobs

In July, wage growth in Poland accelerated from 2.5% to 3.3%. The figure is broadly consistent with both our forecast and market consensus. As usual, any discussion on the details of the release must be speculative until detailed wage data is published in the Statistical Bulletin. Nevertheless, we suspect that the acceleration in wage growth is a result of a very low statistical base, generated last month by the three sectors most prone to fluctuations: mining, manufacturing and construction. Each of them massively surprised on the downside (in case of manufacturing and construction the ex post forecast error is largest in history, exceeding 2ppt). As a result, the increase in YoY growth is simply normalization after a disastrous June. Furthermore, one can hardly detect wage pressures in recent monthly data. The rebound in wage growth translates into stronger growth of wage bill, in annual terms, from 3.4 to 4.3% in current prices and from 4.2 to 5.0%. Both figures are very close to the average of the past 12-18 months. This, in turn, remains consistent with stable consumption growth (ca. 3%). Hence, no consumer boom.

Employment in enterprise sector rose in July by 0.9%, matching our forecast and market consensus. Businesses added 6000 jobs in the period compared to June. Firms did not make up for the weak June, therefore our hypothesis concerning the specifics of this statistic stays intact: companies employing more than 9 workers are not meant to be the workhorse of the employment statistics; smaller firms set to perform the task, however, it is not going to be visible in this very employment indicator. Moreover, since economy (temporarily) lost some momentum, firms may be less eager to expand employment and this moment, which makes us think that employment growth in the enterprise sector is unlikely to exceed 1% at year end.

Inflation

The annual inflation rate increased from -0.8% to -0.7% in July remaining negative for the 13th month in a row, led by higher prices of drugs and communications. Food prices fell 1.1% m/m and prices of clothing and footwear showed a seasonal drop of 3%. The other categories remained stable. Core inflation was up to 0.4% from 0.2% and in the months ahead it is expected to remain close to zero. CPI may be lower in August and September due to low prices of fuels and household natural gas.

Government deficit

The government deficit increased to PLN 26.6bn in July from PLN 26.1bn in June, remaining below the annual target. The lower-than-budgeted deficit is owed equally to revenues and expenditures. Tax revenues were higher across the board in July than in the same month in 2014 except for excise revenue which fell from an annual rate of 5.7% to -3.8%. Lower-than-budgeted VAT receipts, which on a full-year basis may miss the target by as much as PLN 6-7bn, were offset by over-budget income taxes. Overall the 2015 tax revenue gap should not exceed PLN 5bn owing to a slow rise in public expenditures which at the end of July were only 0.6% higher than last year and stood PLN 5bn below target. The discipline stems from the same set of factors including low cost of servicing public debt and lower subsidies, or from another point of view they are simply a result of the government overstating its 2015 budget. That said the over-PLN 20bn below-budget deficit achieved by the government last year has no chance of being repeated in 2015.

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Dom Maklerski

Current recommendations by Dom Maklerski mBanku

Company	Recommendation	Date issued	Price on report date	Target price	Current price	Upside / Downside	P/E 2015	P/E 2016	EV/EBITDA 2015	EV/EBITDA 2016
Banks										
BZ WBK	Reduce	2015-01-26	343.15	310.36	299.10	+3.8%	15.8	12.8		
GETIN NOBLE BANK	Buy	2015-01-26	1.80	2.26	0.89	+153.9%	8.4	4.9		
HANDLOWY	Hold	2015-07-03	92.97	95.35	85.31	+11.8%	13.5	13.1		
ING BSK	Hold	2015-01-26	136.50	135.20	123.70	+9.3%	15.0	12.7		
MILLENNIUM	Buy	2015-04-02	6.64	8.36	5.88	+42.2%	12.5	9.8		
PEKAO	Reduce	2015-01-26	179.00	166.96	158.00	+5.7%	16.2	13.9		
PKO BP	Buy	2015-07-03	30.25	38.59	28.75	+34.2%	13.2	9.6		
KOMERCNI BANKA	Reduce	2014-12-11	4920	4549 CZK	5452	-16.6%	16.5	15.8		
ERSTE BANK	Accumulate	2015-03-06	23.29	25.43 EUR	25.98	-2.1%	14.1	11.5		
RBI	Buy	2015-01-26	10.21	18.27 EUR	11.60	+57.5%	9.7	5.2		
OTP BANK	Accumulate	2015-08-21	5635	6288 HUF	5380	+16.9%	16.5	9.0		
Insurance										
PZU	Buy	2015-09-03	425.00	488.23	425.00	+14.9%	13.6	12.7		
Financial services										
KRUK	Hold	2015-05-06	154.00	143.10	170.00	-15.8%	16.5	14.1		
PRIME CAR MANAGEMENT	Buy	2015-09-02	43.01	53.60	43.85	+22.2%	12.3	11.3		
SKARBIEC HOLDING	Buy	2015-05-14	47.83	64.30	36.19	+77.7%	7.9	6.1		
Fuels, chemicals										
CIECH	Reduce	2015-03-06	54.00	46.90	71.50	-34.4%	22.2	16.5	8.5	7.9
LOTOS	Buy	2015-09-03	29.18	34.40	29.18	+17.9%	9.2	6.7	5.3	4.9
MOL	Buy	2015-04-28	199.55	251.60	183.20	+37.3%	10.5	8.7	4.5	4.0
PGNiG	Sell	2015-05-06	6.49	5.24	6.46	-18.9%	13.9	14.7	6.4	6.5
PKN ORLEN	Hold	2015-04-28	69.30	70.80	70.15	+0.9%	8.4	8.6	5.7	5.7
POLWAX	Buy	2014-11-06	15.05	24.20	16.11	+50.2%	7.0	6.8	6.3	5.8
SYNTHOS	Hold	2015-05-05	4.76	4.75	3.76	+26.3%	14.0	10.2	9.3	8.0
Power Utilities										
CEZ	Hold	2015-07-30	88.40	89.20	84.70	+5.3%	10.4	12.3	6.5	7.2
ENEA	Buy	2015-07-30	13.94	18.10	13.64	+32.7%	7.1	8.8	4.4	5.5
ENERGA	Reduce	2015-07-30	19.70	18.60	19.10	-2.6%	9.0	11.4	5.5	6.4
PGE	Buy	2015-09-03	15.08	17.60	15.08	+16.7%	7.7	9.2	4.0	5.0
TAURON	Buy	2015-07-30	3.63	4.70	3.40	+38.2%	5.3	6.2	4.2	4.8
Telecommunications										
NETIA	Hold	2015-01-26	5.70	5.80	5.57	+4.1%	97.0	62.0	5.0	5.2
ORANGE POLSKA	Buy	2015-08-06	8.12	10.20	7.09	+43.9%	26.1	31.9	3.6	4.3
Media										
AGORA	Hold	2015-01-26	8.35	8.20	11.20	-26.8%	-	-	8.2	8.2
CYFROWY POLSAT	Reduce	2015-01-26	22.90	21.80	22.27	-2.1%	17.7	14.4	7.0	6.4
WIRTUALNA POLSKA	Buy	2015-07-01	33.67	44.70	37.60	+18.9%	23.7	13.9	13.7	10.8
IT										
ASSECO POLAND	Hold	2015-04-02	58.68	59.00	52.10	+13.2%	12.5	12.4	6.9	6.7
COMARCH	Suspended	2013-03-11	89.60	-	126.00	-	-	-	-	-
SYGNITY	Suspended	2013-02-05	16.80	-	9.15	-	-	-	-	-
Mining & Metals										
JSW	Hold	2015-01-26	20.40	27.00	11.79	+129.0%	-	-	6.2	2.2
KGHM	Buy	2015-01-26	108.25	127.00	76.31	+66.4%	7.1	6.1	4.2	3.9
LW BOGDANKA	Under Review	2015-06-12	66.00	-	50.97	-	-	-	-	-
Manufacturers										
ELEMENTAL	Accumulate	2015-06-17	4.07	4.50	4.35	+3.4%	19.1	17.9	12.8	10.4
FAMUR	Buy	2015-09-03	1.69	3.00	1.69	+77.5%	8.9	7.6	3.2	2.6
KERNEL	Reduce	2015-07-17	40.35	35.00	42.07	-16.8%	5.8	6.2	3.0	4.2
KĘTY	Reduce	2015-03-06	319.00	261.39	298.95	-12.6%	14.5	14.6	8.8	8.8
KOPEX	Hold	2015-06-03	8.08	8.10	6.14	+31.9%	10.3	9.3	3.7	3.5
TARCZYŃSKI	Hold	2015-03-06	14.65	15.00	13.50	+11.1%	10.6	10.0	6.4	6.1
UNIWHEELS	Buy	2015-06-11	115.05	136.60	121.60	+12.3%	10.8	10.2	7.4	6.8
VISTAL	Buy	2015-01-26	9.59	16.40	11.69	+40.3%	9.5	7.0	7.5	6.3
Construction										
BUDIMEX	Buy	2015-09-03	187.20	225.10	187.20	+20.2%	22.4	15.8	10.5	8.1
ELEKTROBUDOWA	Accumulate	2015-06-02	134.00	149.70	142.95	+4.7%	14.4	14.6	8.6	8.6
ERBUD	Accumulate	2015-07-03	32.00	34.50	32.49	+6.2%	14.9	12.9	7.6	6.8
UNIBEP	Hold	2015-03-06	10.25	10.40	11.60	-10.3%	16.8	13.1	10.1	8.1
Property Developers										
CAPITAL PARK	Buy	2015-07-20	4.89	6.50	5.19	+25.2%	-	39.6	-	28.8
DOM DEVELOPMENT	Buy	2015-09-03	47.01	57.90	47.01	+23.2%	15.5	12.2	12.6	9.9
ECHO	Accumulate	2015-06-03	7.17	8.00	6.20	+29.0%	18.8	11.5	25.9	16.6
GTC	Hold	2015-05-06	6.25	6.60	6.00	+10.0%	19.8	9.4	16.5	13.1
ROBYG	Buy	2015-01-26	2.16	2.95	2.35	+25.5%	13.6	9.1	11.7	8.0
Retail										
AMREST	Buy	2015-07-10	148.00	180.00	166.95	+7.8%	26.9	23.0	10.5	8.8
CCC	Sell	2015-03-06	185.55	158.00	159.00	-0.6%	18.2	15.0	17.6	14.2
EUROCASH	Accumulate	2015-04-24	36.80	40.80	43.50	-6.2%	27.3	21.7	13.8	11.9
JERONIMO MARTINS	Sell	2015-05-06	13.10	10.7 EUR	12.07	-11.4%	23.1	19.9	10.5	9.5
LPP	Sell	2015-01-26	7716	6400	7470	-14.3%	33.7	25.7	18.6	14.8
Other										
WORK SERVICE	Accumulate	2015-03-06	21.50	21.90	16.49	+32.8%	22.9	15.0	10.8	8.2

Ratings issued in the past month

Company	Rating	Previous Rating	Target Price	Rating Day
BUDIMEX	Accumulate	Hold	225.10	2015-08-05
PRIME CAR MANAGEMENT	Buy	Buy	53.60	2015-09-02
ORANGE POLSKA	Buy	Hold	10.20	2015-08-06
OTP BANK	Accumulate	Hold	6288.00	2015-08-21

Ratings changed as of 3 September

Company	Rating	Previous Rating	Target Price	Rating Day
BUDIMEX	Buy	Accumulate	225.10	2015-09-03
DOM DEVELOPMENT	Buy	Accumulate	57.90	2015-09-03
FAMUR	Buy	Hold	3.00	2015-09-03
LOTOS	Buy	Accumulate	34.40	2015-09-03
PGE	Buy	Hold	17.60	2015-09-03
PZU	Buy	Accumulate	488.23	2015-09-03
TVN	Suspended	Sell	-	2015-09-03

Ratings Statistics

Rating	All		For Issuers who are Clients of Dom Maklerski mBanku	
	Count	As pct. of total	Count	As pct. of total
Sell	4	6.9%	1	3.2%
Reduce	8	13.8%	3	9.7%
Hold	16	27.6%	9	29.0%
Accumulate	12	20.7%	6	19.4%
Buy	18	31.0%	12	38.7%

Banks

Bank sector earnings in July

The Polish bank sector had a good month in July marked by continued expansion in margins coupled with reductions in cost of risk and administrative costs. On a less positive note trading income in the sector posted another monthly falls. Net income for the seven months through July 2015 was down 9.7% from the same period in 2014, falling in line with the 2015 full-year 10.3% contraction projection by the KNF, however without a stronger income upswing in the remaining part of the year the annual fall may be sharper than thought.

The aggregate July net income of the Polish bank sector at PLN 1,432m was 9.8% lower than in June and 17.3% lower than in July last year. Net interest income increased 4.3% m/m (thanks to 3.9% higher interest revenue which more than offset 3.1% lower interest expenses) but fee income fell 6.3% m/m and 1.6% y/y. Most importantly the July NIM posted improvement for the third month straight, rising by 2bps. On the other hand trading income fell 9.9% and dividend income was down 93.2% relative to June. Operating costs fell 2.3% month on month but rose 1.6% year on year. Risk reserves were reduced again by 13.4% m/m and 28.9% y/y, indicating continuing NPL sales. Cost of risk (to average loans) decreased to 57bps in July from 66bps in June.

The 9.7% decrease in Polish bank sector earnings for the seven months through July 2015 (PLN 9,388m) compared to the same month last year occurred despite high one-time gains, led by a 8.8% fall in net interest income, a 3.6% contraction in fee income, and a 11.6% decrease in trading income. At the same time total costs in the sector remained flat and risk reserves were reduced by 14.1%.

MFI loan and deposit statistics for July

Loans made by monetary financial institutions in July 2015 remained flat relative to June but increased 6.8% year-on-year according to central bank statistics. Compared to the previous month July mortgage lending was down 0.7% while consumer lending increased 0.5% and corporate lending rose 0.2%. FX lending fell 2.9% month on month due to exchange rate variations.

Compared to July 2014 total lending in July 2015 was 6.8% higher, driven by a 6.4% increase in corporate loans and a 7.1% increase in retail loans.

Deposits in monetary financial institutions in July 2015 remained flat relative to June but increased 7.7% year-on-year thanks to respective increases of 5.8% in corporate savings (down 1.6% m/m) and 9.0% in retail savings (up 0.8 m/m). The loans/deposits ratio remained virtually unchanged in July at 102.8%.

Polish bank loan quality in July

The NPL ratio remained flat m/m in July at 7.3%, supported by stable asset quality in corporate banking as well as in retail where a solid quality of mortgage loans was accompanied by a slight improvement in consumer loans.

Mortgage lending picks up slightly in Q2

Sales of mortgage loans by Polish banks amounted to PLN 10,059m in Q2 2015, marking a 12% increase from the previous quarter and a 5% increase from the same period in 2014 supported by government subsidies, although the share of subsidized mortgages in the total was only 1.1%. The average loan amount in the quarter was PLN 209,356. 47% of the mortgages were issued at LTV over 80%, and 62% were extended for 25-35 years. The average margin on a mortgage loan stood at 1.76% at the end of June, showing a comparable level to the end of March. In the last six quarters the lowest margin offered by a bank was 1.66% in January 2014, and the highest margin was 1.83% in August 2014. Summing up Q2 lending was good however the share of the MdM loan subsidy program in total home loan sales remains low.

Treasury not selling stakes in PKO BP, PZU, or PGE

Treasury Minister Andrzej Czerwiński denied that the Ministry had any intention of selling its shares in either of PKO BP, PZU, or PGE, especially in light of the current situation in financial markets. The PKO BP share transfer to the state bank BGK has nothing to do with the coal industry bailout according to the Minister.

FSC sees bill on restructuring of FX loans as a threat to the banking system

The Financial Stability Committee (FSC) assessed that the entry into force of the bill on the currency conversion of mortgage loans in the version adopted by the lower chamber threatens to destabilize the Polish banking sector, leading to economic slowdown and depreciation of the Polish zloty. Finance Minister, Mateusz Szczurek, added that the FSC published a unanimously negative opinion on the current shape and form of the document. He also stressed that the conversion of mortgages to zloty will have an adverse effect on the exchange rate, further exacerbating the situation of the remaining foreign currency denominated mortgage borrowers. The Finance Minister announced that the budgetary revenues from CIT may be weighed down and curbed by around PLN 3.5bn. The FSC also is of the opinion that the adoption of the bill as it is now will lead to limitations in bank lending to the broader economy in subsequent years both in the household segment as well as in the corporate segment. Furthermore, as pointed out by the FSC, the unequal treatment of mortgage borrowers depending on the currency of their mortgage also raises doubts as to whether or not this breaches the constitutional principle of equality of all citizens before the law. In the assessment of the FSA, assistance interventions should be addressed at borrowers in financial difficulties and with a low income, who, for reasons independent of them, have problems in paying back their loans, irrespective of the currency in which those taken out mortgages are denominated in.

NBP presents estimates of the impact of the amended Swiss franc mortgage bill

In the response addressed to the lower house Parliamentary Committee on Public Finance the National Bank of Poland (NBP) presented its estimates in relation to the consequences of adopting the amendments to the Swiss franc mortgage restructuring bill. Based on the adopted assumptions, it was calculated that mortgages qualifying for conversion constitute approx. 47% of the value of the foreign currency mortgage portfolio, namely, around PLN 68bn. The results of the estimation indicate that the sum of bank losses resulting from the forgiveness of a portion of the borrowers' liabilities would approximately amount to PLN 21bn, which is roughly 20% more than the gross proceeds for the past 1 months of the banks falling within the scope of the bill. The write-downs resulting from the forgiveness would exceed the gross profit in 11 banks with a 46% share in the banking sector assets. The NBP also found that the current minimum regulatory requirements in the scope of solvency would most probably not be breached, however, the sector overall would be hit by losses. The central bank warns that the estimate does not take into account other, indirect effects of the implemented restructuring, including the costs of the release or modification of instruments hedging against currency fluctuations, preferential interest rates for the remaining part of the receivables or operating costs. Furthermore, the NBP pointed out that the long time frame (until mid 2020) within which borrowers could apply for restructuring will also have a detrimental impact on the situation of banks, increasing the uncertainty relative to the ultimate scale of costs. As for budgetary resources, it was projected that the CIT loss would stand at around PLN 4bn, where in the first half year the tax would drop by approx. PLN 2bn. Revenues would also spiral down due to the absence of dividends at banks in which the State Treasury has a direct stake, and the loss has been estimated at PLN 380m. NBP also highlights that lending activity may decelerate as a result of the passing of the bill due to capital constraints, and draws attention to the legal opinions challenging the constitutionality of the legislation. No impact on stock performance. The position of the NBP sums up the consequences for banks, society and public finance pointed out earlier, but the presented projections are higher than published recently by the PFSA. The regulator pointed out that the cumulative loss of banks that includes the value of forgiven debt along with the costs of changing borrowing costs would amount to ca. PLN 21.9bn, and the pool of loans meeting the criteria outlined in the bill would constitute ca. 33% of the overall value of mortgage loans in Swiss francs and euro, namely, PLN 56.1bn.

Polish Senate wants to revert FX loan bill to its original version

Poland's Senate pubic finance committee recommended in August that the Swiss franc loan conversion bill be restored to its original version whereby the costs of the conversion would be shouldered equally by the lenders and the borrowers. The original bill also proposed to give priority in the first year from passing to the loan conversion requests of borrowers with LtV ratios over 120%, followed by 100-120% LtV in the second year and LtV over 80% in the third year. According to the Chair of the Polish financial market regulator Wojciech Kwaśniak a 50-50 cost share would not threaten the stability of the banking system, though it would curb dividend payments by the banks. The Senate's recommendations were in line with expectations. Any changes will have to be approved by the lower chamber, the Sejm. According to estimates by the market regulator in the version proposed by the Senate the FX loan conversion would be at a cost to the banking system of PLN 13.6 billion compared to the PLN 21.9bn cost of the current version.

Polish Prime Minister supports restoring equal share of currency conversion costs

The Polish Press Agency reported, quoting the Polish Prime Minister, Ewa Kopacz's statement, that she will press for the share of Swiss franc mortgage conversion costs to be restored to its original 50-50 proportions during the vote on the bill in the Senate. The PM stresses that this was the original solution under the Civic Platform proposal and intends to keep it at this level since the responsibility must be shared between those that decided to take out a mortgage in Swiss francs and those that provided such funding. Last minute amendments to the bill have radically driven the bank share in the conversion costs up to 90%. Kopacz said that the bill in its current shape and form adopted by the lower chamber will destabilize the banking system by adding approx. PLN 10bn in costs to the sector as a result of the adopted amendments and, what's more, it is impossible to preclude yet another appreciation of the franc against the zloty. Commenting on the confusion surrounding the bill, the PM blamed the rampant populism in politics and the pre-election period for the increasing empty promises being made. This is a welcome development. The Polish PMs declaration is in line with expectations that the upper chamber will decide to return to the original equal participation of banks and clients in Swiss franc mortgage conversion costs during its session planned for 2-3 September.

Senator Kleina backs reinstating government proposal of the FX loan restructuring bill

The Chairman of the upper chamber Budget and Finance Commission, Kazimierz Kleina, representing the Civic Platform said that he thinks the upper chamber should restore or even amend the government proposals in the bill on restructuring of foreign currency loans to further cut the loan conversion time. Kleina added that he advocates the original proposal but the upper chamber will continue the discussion on the best possible solutions. He argued that new elements are continually being raised and he thinks that the conversion time of foreign currency mortgages should be cut short instead of spacing the process over a 3 year term as was in the government's submission. When asked about the this time frame, he said that it could be one year or even less. Klein also stressed that he bases his views on the opinions of the Financial Supervision Authority and of the National Bank of Poland prepared at the Commission's request. Now the Senator thinks that the document should be amended as it is unjust in many cases, giving Swiss franc borrowers the upper hand over borrowers with zloty mortgages. He added that the aid should indeed be offered but on more reasonable terms that would not undermine financial stability. A welcome development. The Senator from the center-right Civic Platform assured that his party intends to introduce significant amendment to the current shape and form of the lower chamber bill. The quoted statement also suggests that politicians have started to gain a broader view and deepen their understanding of the currency conversion thanks to the opinions of Poland's National Bank and of the Financial Supervision Authority, recapping on the negative impact of the bill on various areas, including, importantly, on Poland's budget and economy. The document was given a negative opinion by Financial Stability Committee.

Equal distribution of FX loan conversion costs optimal: Head of Parliamentary Public Finance Committee

The Head of the Parliamentary Finance Committee Krystyna Skowrońska said that she considered optimal the sharing of the loan conversion costs between the lenders and the borrowers over a period of three years. The conversion bill is set to be debated in the Senate. Any amendments to the bill that made be made by the Senate will need to be approved by the Sejm. The statement by a representative of the sitting government indicates support for the original version of the bill which has less dire implications for banks than the current version.

Polish Peoples' Party may not back CHF bill

According to Bloomberg, a Polish People's Party (PSL) representative said that the party backed the amendments to the bill presented by the Alliance of Democratic Left (SLD) because they feel that banks are to blame for the current painful situation of Swiss franc borrowers. The representative also confirmed that the share of banks in the losses resulting from the currency conversion could be cut by 90%, on a level of 2/3. The Polish People's Party will not be forced to yield during the vote because it is not a government proposal. The loss that the banks will have to incur in the PSL proposal (2/3 of the costs are covered by the banks) in view would amount to around PLN 14bn (PLN 16bn without compensation from the borrowers) compared to PLN 22bn in the current shape of the bill. It may be very difficult to go back to the original shape of the bill due to the lack of support in the Sejm.

Banks should take responsibility for Swiss franc mortgages according to Polish President

In an interview published by Reuters, President Andrzej Duda said Polish banks should bear responsibility for solving the issue of Swiss franc mortgages because they made huge profits on them, but a solution must not destabilize the banking sector. Duda added that solving the issue of Swiss franc mortgages should not be the Polish taxpayers' problem. He said that of banks can significantly, in one way or another, transfer the profits to parent companies, disappearing beyond Polish borders, and neither Poles nor Poland's economy actually benefits from them. Duda also highlighted that banking fees in Poland are some of the absolutely highest in Europe. According to Duda, lenders had largely failed to properly inform their customers of the risks associated with Swiss franc mortgages. Speaking to Reuters, the President failed to specify whether or not he will sign the bill on foreign currency mortgage restructuring in the form approved be Polish parliament's lower chamber and asked whether he is ready to submit his own bill to resolve the issue, Duda said that he was "open to it" if the ruling-party (PO) sponsored law does not help Swiss franc mortgage holders sufficiently. Asked if whether a solution to the mortgage issue should be combined with a tax on bank assets, he said that he is not in favor or very sudden moves and that he will carry everything out slowly and calmly, negotiating these actions also on the level of financial markets. The statements of the Polish President Andrzej Duda do not give an unequivocal position towards the underlying premises, however, they would have to be included in the CHF restructuring bill in order to be signed by the President. The content of his statement suggests that President Duda does not have his own proposal ready yet. The President also declares that on the one hand he would like to avoid destabilizing the Polish banking sector which was earlier widely commented on by various experts, but on the other, he criticizes banks for allegedly siphoning profits off abroad and charging high bank fees. According to the data of the PFSA, in 2014 banks allocated approx. 50% of their 2013 net profit to dividend payments and the other half was used to strengthen its capital base.

Banks demand income caps on FX loan conversion eligibility

The Polish Bank Association is proposing an inclusion in the FX loan conversion bill of income limits for borrowers wishing to convert their Swiss franc home loans into zlotys. Other amendments to the bill put forth by the banks include equal participation in conversion costs by the lenders and the borrowers, the involvement of the central bank in the conversion process, an extension of the consideration period for conversion applications to 90 business days depending on the LtV. The Head of the Bank Association is of the opinion that the final conversion law should not jeopardize the stability of client deposits and of the overall banking system so as not to affect its ability to finance the Polish economy.

Foreign owners of Polish banks to seek compensation for FX loan conversion losses

General Electric, Commerzbank, and Raiffeisen Bank International have issued written warnings to the Polish government saying that they would seek compensation for any losses incurred by their Polish subsidiaries in the wake of the FX loan conversion bill. The foreign shareholders have pointed out that if passed the bill will violate their rights as strategic investors as well as being in contravention of international treaties and laws requiring the fair treatment of foreign investors. Moreover the banks feel that the radical changes to the legal and economic framework for doing business in Poland that the bill will introduce go far beyond what can be reasonably expected of lenders. Finally Raiffeisen has issued a pre-notice of a dispute under an agreement between Poland and Austria on the promotion and protection of investments the warnings issued by the foreign owners of Polish banks send a message that the FX loan conversion bill may have much more far-reaching consequences than considered to date. The threat of claims against the Polish government can become an international matter, giving pause to the lawmakers trying to rush the bill through.

Civic Platform to submit a draft proposal to bail out borrowers with PLN-denominated debts

According to the Polish Press Agency, the head of the lower chamber Finance Committee Krystyna Skowrońska announced that the center-right Civic Platform will submit a draft bill to the lower house that envisages aid to borrowers with mortgages in zloty that find themselves in a financial difficulty. The support would amount to 1.5 thousand zloty and borrowers would be granted the assistance over a maximum period of 18 months. The aid program would apply to those indebted consumers that were made redundant and the value of their real estate would exceed the value of their mortgage (LTV above 100%), and their credit instalment exceeds 60% of their households' disposable income. The funding would be awarded on favorable conditions, free of interest, and its reimbursement would be required within 2 years of the funding being granted and could be extended over an eight year period. A special Mortgage Borrower Fund amounting to PLN 600m would be created at the state bank BGK in order to finance the aid, with contributions coming from banks proportional to the volume of their residential mortgage portfolio. This is bad news for the sector. The draft bill that will be announced by the ruling party will add to the burden on banks aside from the potential bank tax and the costs of conversion of Swiss franc mortgages. It may also be perceived as another initiative resulting from the election campaign that complements the bill on restructuring of foreign currency loans that was recently passed in the lower chamber. On top of that, one of the things that may be challenged by banks is the criterion by which the fund participation amount was determined, which was directly based on the size of the housing mortgage portfolio. According to our calculations, the largest contribution to the found could be from PKO BP (PLN 187m; 6% of the annual profit), followed by Pekao (PLN 98m; 4% of the net profit), GNB (PLN 58.2m; 14% of the net profit), BZ WBK (PLN 49m, 2.2% of net profits), ING BSK (PLN 40m; 3.3% of the net profit) and Bank Handlowy (PLN 3.5m, 0.4% of the net profit).

Bank tax may be cut

The Law and Justice (PiS) largest opposition party Tax Consultant, Konrad Raczkowski, in an interview for Bloomberg said that the party is considering introducing a lower tax at 0.25%-0.32% on total assets rather than the earlier proposal at 0.39%. Mr. Raczkowski believes that the high tax rate may encourage banks to avoid it. Finally, Mr. Raczkowski said that the Law and Justice party is considering modification of the construction of this tax by excluding deposits from the base. A tax rate of 0.32% wouldn't be a significant improvement for Polish banks and would inject the expected by PiS PLN 5bn into the budget whereas at a rate of 0.25%, the banking sector would have to pay ca. PLN 3.9bn. We believe that a tax rate of 0.32% has already been fully reflected in the market price of shares of PKO BP (8% potential growth), Bank Millennium (8.0% potential growth) and GNB (49% potential growth). At the same time, even at a rate of 0.25% we anticipate a potential for decrease in banks Pekao, BZ WBK, ING and Handlowy.

Poland's competition watchdog UOKiK is instituting proceedings against Pekao and Getin Noble Bank

The Office for Competition and Consumer Protection (UOKiK) announced that it has initiated proceedings against Pekao SA and Getin Noble Bank due to them defaulting from mortgage loans contracts denominated in Swiss francs, which constitutes a prohibited market practice. The competition watchdog announced that based on their analysis, the stipulated banks do not take the negative LIBOR base rate into account when calculating the interest rates on mortgage loans in Swiss francs in the situation when its absolute value is higher than the loan margin, despite the fact that the sum of interest due by that time and the in current settlement period exceeds 1 grosz, meaning the lowest possible interest. The Office for Competition is conducting similar proceedings against four other banks – BPH, BNP Paribas, mBank and ING Bank Śląski. This is bad news for the sector. Another case of unfair commercial practices proceedings concerning mortgages in Swiss francs may compromise banks even further and be used by certain politicians as an argument against financial institutions that don't want to ease the mortgage burden for borrowers with Swiss franc mortgages. UOKiK opened investigation procedures against the practices of banks affecting mortgage agreements after the Swiss franc soared. The Polish Prime Minister Ewa Kopacz requested the Office for Competition and the Financial Supervisions Authority to lead the investigation into such banking practices.

KNF reckons the stability of the sector may be endangered in the present shape of the Swiss franc bill

According to the Chairman of the financial market regulator KNF Andrzej Jakubiak, the stability of the banking sector may be at risk if the underlying provisions of the draft Swiss franc bill adopted in August by the Parliament will not change. The Head of the PFSA stressed that the fact that the bill foresees a one-off bank burden is problematic and, in his view, this poses a much greatest challenge to financial institutions than the conversion of 90% of credit facilities. The previous version of the bill authored by Poland's ruling party proposed the process to be phased over a period of three years. According to the head of banking supervision, in order to put an end to financial instruments in Swiss francs, hedging foreign currency loans and at the same time maintain liquidity and security of customer savings, banks will have to raise close to PLN 37bn. Andrzej Jakubiak does not rule out banks turning to the National Bank of Poland for assistance. Polish financial institutions will also be assessed to their disadvantage by foreign investors. This may translate into the cost of raising funding and an increase in credit interest. The Chairman of the PFSA also warns that the calculations may change in the course of the Parliament's work. He also mentioned that the banking sector's net profit anticipated this year will most probably be below the PLN 16bn mark, and the PFSA, which is responsible for the stability of the banking system will analyze and monitor the entire legislative process from the point of view of the security of deposits. This is bad news for the sector. In the opinion of the Senate Committee, the PFSA estimated that the cumulative loss to banks resulting from the redemptions involved in the currency conversion of credit facilities and the costs of changing the financing would amount to PLN 21.9bn, exceeding the 2014 net earnings of ten of the banks in our coverage.

CHF restructuring program may be appealed against

According to the *Parkiet* daily, lawyers are challenging the CHF restructuring bill. A legal analysis of the new bill revealed that it may be tantamount to regulatory expropriation as it violates bank rights in relation to the group of borrowers. The PFSA estimated the cost of the bill in a letter to the Senate, which in its current shape is at PLN 21.9bn. According to PFSA calculations, the bill would cover about 33% of CHF loans. We believe that are strong chances for the bill to be contested by banks at the Constitutional Tribunal. A similar situation in Hungary gave rise to the Government abandoning the maneuver due to it being against constitutional requirements. The share (1/3) of mortgages denominated in Swiss francs to undergo restructuring is close to the initial calculations of PKO BP and GNB.

Hungary to convert consumer credit

Hungary's Economy Minister, Mihaly Varga, announced that consumer credit and car loans will be converted to forint. Banks will convert at current market rates. Borrowers will receive 31 billion forint in subsidies on new loans, which is designed to compensate the currency depreciation for them. This means that the conversion will be performed at a lower rate of 10% what with the total value of loans at 305 billion forint. Lenders and the government will equally share the costs of the conversion. The government will not pay cash but will provide banks with the possibility of deducting half of their loss from their taxes. Banks took part in the consultations. According to our calculations, the presented bill should have a relatively small impact on OTP Bank (HUF 5.8bn) and Erste Bank (EUR <5m).

Bank BPH

PZU, Leszek Czarnecki place binding bids on BPH

Leszek Czernecki, the principal owner of Getin, and PZU, reportedly made binding offers on Bank BPH to GE Capital. PZU is determined to get BPH as part of its ongoing expansion in banking. The acquisition is not likely to affect dividends. For Mr. Czarnecki BPH which at 30 June had a CET 1 ratio of 14.3% and a combined ratio of 16.8% is a way of improving the capital position of his bank.

BZ WBK | **Reduce**

Analyst: Michał Konarski		Current price:	PLN 299.1					Last rating:	2015-01-26
		Target price:	PLN 310.36						
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Net interest income	3 276.6	3 996.8	22.0%	3 868.8	-3.2%	4 365.7	12.8%	Number of shares (m)	98.9
Net interest margin	3.9%	3.3%		2.8%		3.0%		MC (current price, PLN m)	29 589.7
Total income	6 089.8	6 579.0	8.0%	6 578.2	0.0%	7 233.0	10.0%	Free float	30.0%
Operating income*	3 227.7	3 475.2	7.7%	3 414.2	-1.8%	4 014.0	17.6%		
Pre-tax income	2 498.4	2 638.7	5.6%	2 551.5	-3.3%	3 110.6	21.9%		
Net income	1 982.3	1 914.7	-3.4%	1 871.1	-2.3%	2 314.2	23.7%		
ROE	11.9%	12.6%		10.9%		12.5%		Price change: 1M	0.0%
P/E	14.1	15.5		15.8		12.8		Price change: 6M	-10.2%
P/BV	2.0	1.8		1.7		1.5		Price change: 12M	-25.3%
DPS	7.6	10.7		9.6		10.0		Low (52 weeks)	275.9
Dyield (%)	2.5	3.6		3.2		3.3		High (52 weeks)	408.7

* before provisions

We maintain a reduce rating for BZ WBK whose shares (in PLN) fell 19.2% in the year to 31 August compared to a 14.4% drop in the WIG-Banks index. In the month ahead BZW performance will continue to be affected by the election campaign and the plans to introduce a financial sector tax at 0.39% of assets which would reduce our valuation of the Bank to PLN 241.07/share. Added to this is the amended CHF loan conversion bill with a negative per-share impact estimated at PLN 8.46.

Getin Noble Bank — Buy

Analyst: Michał Konarski	Current price:	PLN 0.89						Last rating:	2015-01-26
	Target price:	PLN 2.26							
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Net interest income	1 297.8	1 430.5	10.2%	1 333.4	-6.8%	1 640.0	23.0%	Number of shares (m)	2 650.1
Net interest margin	2.1%	2.2%		1.9%		2.2%		MC (current price, PLN m)	2 358.6
Total income	1 887.4	1 956.3	3.7%	1 882.7	-3.8%	2 225.8	18.2%	Free float	49.8%
Operating income*	1 007.4	1 033.3	2.6%	913.2	-11.6%	1 241.4	35.9%		
Pre-tax income	382.9	300.2	-21.6%	258.9	-13.8%	582.6	125.1%		
Net income	399.7	360.0	-9.9%	281.8	-21.7%	485.0	72.1%		
ROE	8.8%	7.3%		5.3%		8.5%		Price change: 1M	-23.3%
P/E	5.9	6.6		8.4		4.9		Price change: 6M	-51.1%
P/BV	0.5	0.5		0.4		0.4		Price change: 12M	-68.2%
DPS	0.0	0.0		0.0		0.0		Low (52 weeks)	0.8
Dyield (%)	0.0	0.0		0.0		0.0		High (52 weeks)	3.0

* before provisions

GNB shares (in PLN) plummeted 59.8% in the year through August on concerns over a possible capital raise combined with the zloty's depreciation vs. CHF and the prospect of a banking tax and a mandatory CHF loan conversion. At 0.39% of assets the new levy would reduce our valuation of GNB to PLN 0.93/share, and the FX loan conversion bill in the current form would take away a further PLN 0.3/share. GNB believes it will not need to raise capital even in the worst-case conversion scenario where banks would be expected to shoulder 90% of the costs. To reinforce its Tier-1 capital ratio the Bank want to optimize and sell RWA and retain annual earnings.

2015 Q2 results

Q2 2015 net profit showed a net profit of PLN 70.0m, -45.6 Q/Q and -48.5% Y/Y, which was slightly above the average market estimate (PLN 58.6m, +19.5%) and our forecast (PLN 64.6m). The better-than-expected result was supported by the lower provisioning and operating costs than the market outlook. The Tier 1 ratio at the end of the second quarter of the year was 9.9%, and the CAR amounted to 13.1%. Getin Noble also provisioning below market expectations. The second quarter results make up as much as 85% of the annual market forecast (source: Bloomberg) for GNB (57% Bloomberg GAAP forecast) and should entail an upward revision of the consensus estimate. We believe the change of the rating should have a beneficial effect on its stock performance today. Interest income in the second quarter saw a 5.0% Q/Q upturn but experienced a 22% downturn Y/Y to PLN 284.7m in line with the consensus forecast. The GNB interest margin (over average assets) grew 3bps over the quarter to the 1.57% level. Loans increased over the quarter by 0.7% (including leasing) while deposits fell by 4.0%. Nevertheless, the Loan-to-Deposit ratio still is at a safe level of 91.2% (86.9% in Q1 2015). There was a 5.1% decline in operating costs in the quarter (+0.7% Y/Y), below average market expectations. Provisions fell in the second quarter down to the level of PLN 66.9m (-47.9% Q/Q and -59.0% Y/Y) below the consensus supported by NPL sales. The cost of risk in the second quarter amounted to 51bps.

Q2 2015 earnings conference highlights

The CEO of Getin Noble Bank, Krzysztof Rosiński, expects the interest income in the year's third quarter to be higher on a quarterly basis. He also highlighted that the interest margin has been picking up since March. The second quarter saw the interest income grow 5.0% compared to the first quarter. Executives don't want the loan write-downs in the third quarter to exceed PLN 100m and for them to be below PLN 550m for the whole year, Costs of risk are also to be maintained at a steady level below 100 basis points at the end of the year. The development of the provisioning guidance at Getin Noble Bank is supported by the sale of impairment loans. The face value of disposed of loans in the second quarter amounted to PLN 591m and in total this came to PLN 1,037m in the first half of the year. The ambition GNB executives is to finalize higher sales of reclassified loans this year than the year before, when the value of the sold portfolios exceeded the PLN 1.8bn threshold. here will be no pressure at Getin Noble Bank on granting new mortgages until the mortgage bank is set up in the Group in 2017. Getin Noble Bank explains that due to the long-term nature of this product, lenders will take on difficult-to-measure risks which they were not dealing with earlier. GNB announced that the average monthly sale of mortgages in the first half of the year stood a PLN 12m. The President of Getin Noble Bank repeated that after the bill on restructuring of foreign currency loans enters into force, the bank would meet the requirements concerning capital ratios. He also stressed that even if the bill would be signed in its current shape and form, the indicator levels would rather be oscillating around the thresholds required by the PFSA. Immediately after the adoption of the bill by the lower chamber, Rosiński announced that according to initial estimates, around 1/3 of the Swiss franc mortgage portfolio would qualify for conversion, which would lead to about 90% of those customers applying for the conversion and the core capital ratio would not fall below 8% but would not exceed 9%. The consolidated CET1 solvency ratio at the end of the second quarter stood at 9.9%, while the total capital ratio came to 13.1%.

Handlowy	Hold							
Analyst: Michał Konarski	Current price:	PLN 85.31					Last rating:	2015-07-03
	Target price:	PLN 95.35						

(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Net interest income	1 242.2	1 163.9	-6.3%	1 086.1	-6.7%	1 268.5	16.8%	Number of shares (m)	130.7
Net interest margin	2.8%	2.4%		2.1%		2.2%		MC (current price, PLN m)	11 146.6
Total income	2 600.5	2 423.8	-6.8%	2 349.3	-3.1%	2 447.7	4.2%	Free float	25.0%
Operating income*	1 183.3	1 149.9	-2.8%	1 048.5	-8.8%	1 123.7	7.2%		
Pre-tax income	1 219.5	1 167.7	-4.2%	1 017.5	-12.9%	1 051.6	3.4%		
Net income	972.7	947.3	-2.6%	824.9	-12.9%	852.5	3.4%		
ROE	15.3%	12.9%		11.3%		11.8%		Price change: 1M	-7.0%
P/E	11.5	11.8		13.5		13.1		Price change: 6M	-18.5%
P/BV	1.5	1.5		1.5		1.5		Price change: 12M	-26.9%
DPS	5.8	7.2		7.4		6.3		Low (52 weeks)	78.7
Dyield (%)	6.8	8.4		8.7		7.4		High (52 weeks)	127.2

* before provisions

We maintain a hold rating for BHW whose shares (in PLN) fell 18.3% in the year to 31 August compared to a 14.4% drop in the WIG-Banks index. The market consensus as to the Bank's net income for 2015 has been downgraded by 19% in the last 12 months, with the average estimate for 2016 cut by 24%. We believe Handlowy deserves to be valued at a premium to the sector given its conservative balance sheet, high solvency ratios, above-average dividends, and lack of material exposure to CHF loans. On the other hand the bank delivered weak Q2 results and its market price does not yet factor in the new tax risks.

Q2 2015 results

Bank Handlowy Q2'15 net profit showed a growth and amounted to PLN 150.2m, -30.8% Q/Q and -43.6% Y/Y, which was slightly under the average market estimate (PLN 153.6m, -2.2%) and our forecast (PLN 156.5m). This disappointing result resulted from the lower interest revenues (-6.5% Q/Q) and trading income (-49.4% Q/Q). The marked pressure being put on the margin in this quarter is disappointing. The results for the first half of the year constitute a mere 45% of the current average market forecast for net profit in 2015. We anticipate that the composition of results may be slightly disappointing and expect a mildly negative response from the market.

Net interest income in Q2 2015 fell 6.5% Q/Q and 20.6% Y/Y to a level of PLN 240.0m, below consensus (PLN 247.2m). The net interest margin in Q2 2015 (over average assets) shrunk by 17 bps Q/Q to 1.94%.

Net loans grew 4.0% Q/Q, driven mainly by corporate lending (+4.9% Q/Q). In the retail lending segment (+2.6% Q/Q) Bank Handlowy reported a significant rise in credit cards (+4.3% Q/Q) and payday loans (+2.1% Q/Q). The Bank also recorded a slight growth in mortgages (+1.2% Q/Q) and a drop in other unsecured receivables (-5.6%). Deposits showed a 2.0% Q/Q increase and were driven both by the corporate segment (+2.2% Q/Q) and the retail segment (+1.4% Q/Q). The ratio of loans to deposits rose to 63% in Q2 2015 compared to 60% in Q1 2015.

Fee income exceeded average expectations in Q2 2015 after a q/q increase of 4.8%. The growth in commission and fees was mainly driven by card-related fees (+11.3% Q/Q) and other fees (+112.6% Q/Q). The Bank also experienced a 25% decline in brokerage fees, 6% linked to trust services and 12% relating to cash management.

Operating expenses fell marginally by 0.5% Q/Q in the second quarter of 2015, in line with market expectations. The fall in labor costs in Q2 2015 (-4.3% Q/Q) was offset by a rise in general administration costs (+3.5% Q/Q). The Bank posted a marked increase in telecommunications expenses (+18.7% Q/Q) and marketing-related costs (+20.9% Q/Q).

Handlowy **set aside** PLN 2.0m **reserves** in the second quarter of 2015, which was below the consensus estimate of PLN 4.1m. The Bank made PLN 2.0m reversals in the corporate segment and in the retail segment posted charge-offs of PLN 4.0m. The quality of the assets remained stable in Q2 2015 with the NPL ratio at 4.7%. The coverage ratio remained stable at 85%.

Handlowy expects H2 margin to stay flat

At the Q2 2015 post-earnings conference, the Management Board stated that the Bank's interest margin should stabilize in following quarters while the interest revenues may be jacked up thanks to growing volumes. Moreover, Bank executives believe that it is possible to keep the drop in operating expenses from the first half of the year at the 3% level until year end. The Bank ultimately concluded that the second quarter of this year should be the worse quarter in terms of the 2015 net profit. We believe the Management's outlook is in line with expectations.

ING BSK

Hold

Analyst: Michał Konarski	Current price: PLN 123.7	Last rating:	2015-01-26
	Target price: PLN 135.2		

(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Net interest income	2 042.6	2 330.2	14.1%	2 413.0	3.6%	2 754.9	14.2%	Number of shares (m)	130.1
Net interest margin	2.5%	2.5%		2.3%		2.4%		MC (current price, PLN m)	16 093.4
Total income	3 290.4	3 532.5	7.4%	3 673.6	4.0%	3 988.1	8.6%	Free float	25.0%
Operating income*	1 422.0	1 602.8	12.7%	1 647.2	2.8%	1 912.5	16.1%		
Pre-tax income	1 154.8	1 335.1	15.6%	1 326.0	-0.7%	1 562.4	17.8%		
Net income	961.5	1 040.7	8.2%	1 073.7	3.2%	1 265.1	17.8%		
ROE	11.5%	10.9%		10.8%		13.0%		Price change: 1M	-3.0%
P/E	16.7	15.5		15.0		12.7		Price change: 6M	-8.3%
P/BV	1.9	1.5		1.7		1.6		Price change: 12M	-11.0%
DPS	0.0	4.4		4.0		4.1		Low (52 weeks)	113.7
Dyield (%)	0.0	3.6		3.2		3.3		High (52 weeks)	150.5

* before provisions

We maintain a neutral investment rating for ING BSK. ING shares (in PLN) fell 9.1% in the year to 31 August compared to a 14.4% drop in the WIG-Banks index. The Bank owes the better sentiment to a conservative balance sheet, high solvency ratios, low sensitivity to changes in interest rates, and low exposure to CHF loans, though the planned mandatory CFH loan conversion could prompt a small downward adjustment of PLN 0.6 to our per-share valuation. As for the potential bank tax, at 0.39% of assets it would knock 35% off ING's annual net income, making the bank the most sensitive to the new tax risk in the sector.

Millennium

Buy

Analyst: Michał Konarski	Current price:	PLN 5.88	Last rating:	2015-04-02
	Target price:	PLN 8.36		

(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Net interest income	1 220.1	1 454.1	19.2%	1 382.1	-5.0%	1 601.9	15.9%	Number of shares (m)	1 213.1
Net interest margin	2.2%	2.5%		2.1%		2.2%		MC (current price, PLN m)	7 133.1
Total income	2 080.1	2 308.4	11.0%	2 254.5	-2.3%	2 502.3	11.0%	Free float	50.0%
Operating income*	916.8	1 104.2	20.4%	995.1	-9.9%	1 211.3	21.7%		
Pre-tax income	682.7	838.7	22.8%	705.8	-15.8%	902.6	27.9%		
Net income	535.8	650.9	21.5%	571.7	-12.2%	731.1	27.9%		
ROE	10.5%	11.7%		9.7%		11.8%		Price change: 1M	-3.3%
P/E	13.3	11.0		12.5		9.8		Price change: 6M	-15.6%
P/BV	1.3	1.2		1.2		1.1		Price change: 12M	-30.4%
DPS	0.0	0.2		0.3		0.2		Low (52 weeks)	5.3
Dyield (%)	0.0	3.7		4.6		4.0		High (52 weeks)	9.4

* before provisions

MIL shares (in PLN) fell 28.3% in the year through August, far underperforming the WIG-Banks index which posted a drop of 14.4%, led by concerns over the implications of the zloty's depreciation vs. the CHF and the planned introduction of new bank levies in Poland. CHF loans account for about 66% of the Bank's total mortgage portfolio and 29% of total assets, implying a reduction in the per-share value by PLN 0.9 if the current CHF loan conversion bill is passed into law. At 0.39% of assets the new financial sector tax would reduce our valuation of MIL further to PLN 5.54 per share. At the current price level MIL stock fully reflects the CHF loan conversion risk but only partly factors in the tax risk.

Pekao		Reduce							
Analyst: Michał Konarski		Current price:		PLN 158				Last rating:	2015-01-26
		Target price:		PLN 166.96					
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Net interest income	4 505.6	4 461.3	-1.0%	4 402.2	-1.3%	5 130.3	16.5%	Number of shares (m)	262.5
Net interest margin	2.9%	2.7%		2.5%		2.7%		MC (current price, PLN m)	41 470.3
Total income	7 475.6	7 284.9	-2.6%	7 136.2	-2.0%	7 824.8	9.6%	Free float	49.9%
Operating income*	4 031.9	3 856.1	-4.4%	3 622.3	-6.1%	4 266.5	17.8%		
Pre-tax income	3 432.9	3 296.5	-4.0%	3 160.5	-4.1%	3 666.2	16.0%		
Net income	2 784.8	2 714.7	-2.5%	2 562.5	-5.6%	2 972.9	16.0%		
ROE	12.0%	11.4%		10.9%		12.9%		Price change: 1M	-2.6%
P/E	14.9	15.3		16.2		13.9		Price change: 6M	-14.2%
P/BV	1.8	1.7		1.8		1.8		Price change: 12M	-17.7%
DPS	8.4	10.0		10.0		9.8		Low (52 weeks)	152.5
Dyield (%)	5.3	6.3		6.3		6.2		High (52 weeks)	196.0

* before provisions

We maintain a reduce rating for Pekao whose shares have outperformed the WIG-Banks index since the beginning of the year, owing to a conservative balance sheet, high solvency ratios, and low CHF loan exposure. We estimate the negative impact of the current CHF loan conversion bill on PEO's per-share valuation at PLN 1.1. In addition at 0.39% of assets a new bank tax would lower the Bank's value further to PLN 133.12 per share. At the current price level PEO stock fully reflects the CHF loan conversion risk but only partly factors in the tax risk.

PKO BP	Buy								
Analyst: Michał Konarski	Current price:	PLN 28.75						Last rating:	2015-07-03
	Target price:	PLN 38.59							
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Net interest income	6 722.0	7 522.9	11.9%	7 053.7	-6.2%	8 199.0	16.2%	Number of shares (m)	1 250.0
Net interest margin	3.4%	3.4%		2.7%		3.0%		MC (current price, PLN m)	35 937.5
Total income	10 706.9	11 494.8	7.4%	11 053.8	-3.8%	12 311.3	11.4%	Free float	68.6%
Operating income*	6 047.4	5 901.4	-2.4%	5 377.8	-8.9%	6 792.6	26.3%		
Pre-tax income	3 959.9	4 002.8	1.1%	3 281.7	-18.0%	4 557.1	38.9%		
Net income	3 233.8	3 254.1	0.6%	2 716.3	-16.5%	3 752.3	38.1%		
ROE	13.0%	12.3%		9.6%		12.4%		Price change: 1M	-3.2%
P/E	11.1	11.0		13.2		9.6		Price change: 6M	-10.7%
P/BV	1.4	1.3		1.2		1.1		Price change: 12M	-28.1%
DPS	1.8	0.8		1.0		0.9		Low (52 weeks)	27.0
Dyield (%)	6.3	2.6		3.5		3.0		High (52 weeks)	40.4

* before provisions

PKO shares fell 16.8% in the year through August 2015 compared to a 14.4% dropped logged by the WIG -Banks index, led by concerns over the new financial sector tax and mandatory CHF loan conversion combined with expectations of a 6% stake sale by the State Treasury. We estimate the negative impact of the current CHF loan conversion bill on PKO's per share valuation at PLN 1.52. In addition at 0.39% of assets the new financial sector tax would reduce our valuation of the Bank further to PLN 28.4 per share.

PKO delivers strong Q2 2015

The net profit at PKO BP in Q2 2015 amounted to PLN 702.9m, +8.6% Q/Q but -17.8% Y/Y, above average market expectations. The higher-than-expected results are mainly down to a better commission and fee income (+11.5% Q/Q) bolstered in the quarter by commissions and fees related to loans and credit facilities (+9.8% Q/Q), bank cards (+17.2% Q/Q) and asset management fees and commission (+15.1% Q/Q). The Bank's interest revenue boosted by the increase in credit facilities (+1.6% Q/Q) saw an 0.8% Q/Q increase (-13.2% Y/Y), in line with market expectations. The interest margin dropped by a mere 2 basis points, behaving much better than expected (-12 bps Q/Q). Operating expenses went down by 2.3% Q/Q, but increased by 2.2% Y/Y. The healthy cost discipline may suggest no significant costs related to integration in Q2 2015. The balance of provisions in Q2 2015 equaled PLN 375.1m, +0.4% Q/Q but -32.7% Y/Y, slightly above average market expectations. The cost of risk in Q2 2015 (over gross lending) amounted to 78 bps, flat Q/Q. The Bank also recorded a slight increase in the non-performing loan ratios from 6.8% in Q1 2015 to 6.9% in Q2 2015, against a stable ratio reflecting the coverage of provisions at 62.5%. This is good news, however, considerably higher integration costs can be expected to be reported by the Bank in subsequent quarters, which may have a negative effect on the profit dynamics.

Q2 earnings conference highlights

PKO BP is expecting improved performance in 2H 2015. The improvement will be driven by a net interest income and decrease of reserves. The Bank is also not expecting the integration costs from 1H 2015 (ca. PLN 40m) to significantly increase level in 2H 2015, which means much lower integration costs than initially anticipated (PLN 130m). The Bank is ultimately expecting that according to the current restructuring act provisions, 30% of the Bank's CHF portfolio will be converted. We believe the potential exists to improve the average market expectations considering that PKO BP, even before the quarterly pickup in performance, should marginally outdo current projections.

Interest revenue bounces back

The interest income in Q2 2015 grew by 0.8% Q/Q. The Company expects the interest income growth dynamics to pick up in subsequent quarters. Loan volumes and the further reduction on the funding side are intended to underpin the interest revenue. The Management Board is also expects a stable interest margin in Q3 2015 (2.9% in Q2 2015) and a growth in Q4 2015 above the 3% level.

Commission income to be upheld

Commission income increased by 11.5% Q/Q in Q2 2015, much more than the market outlook. The promising commission income should also be maintained in subsequent quarters but adjusted by the one-off impact of renegotiation o agreement with payment companies (ca. PLN 30m). The Bank also pointed out the growth in client transactions in points of sale (+40% Y/Y in the period from July 2013 to June 2014 and July 2014 and June 2015), which helps to mitigate the negative impact of cutting interchange fees.

Operating expenses now under control

Operating expenses in Q2 2015 dropped by 2.3% Q/Q but increased by 2.2% Y/Y, slightly below the market outlook. Operating expenses in Q2 2015 were hit hardest by integration costs amounting to ca. PLN 32m (ca. PLN 8m in Q1 2015). The Bank Management Board expects integration costs in 2H 2015 to remain on the same level as in 1H'15 (ca. PLN 40m). This may mean transferring a portion of the integration costs to 2016 (ca. PLN 50m) or a better than projected by the Bank's Board cost discipline. The Board also maintains that the same cost synergies in 2016 should generate approximately a 10% increase in net profit.

Balance of provisions to continue to improve

The balance of provisions has practically remained unchanged Q/Q in Q2 2015 but saw a 32.7% Y/Y. The Bank expects the balance of provisions to drop further in subsequent quarters and in Q2 2015 itself, it was increased on a one-off basis by approx. PLN 50m (e.g. Additional provisions for the portfolio put up for sale). Also the cost of risk for mortgage loans is envisioned to be around 30 bps.

30% of the portfolio to be converted

According to the Board's estimates, about 30% of the CHF portfolio will be restructured (currency conversion) in light of the present form of the Bill on borrowers with CHF-denominated loans. The Bank expects the loss may be distributed within staggered payments considering the similar situation concerning BGF charges. The Bank's Board believes that it currently has enough capital buffers to perform such an operation. In our estimates, the conversion of 30% of the CHF-denominated credit of PKO would set the Bank back

PLN 2.9bn (10% of the loss will be covered by clients, the bank is using a tax shield) which translates into PLN -2.33 per share.

Treasury contributes 1.96% PKO stake to fund state investment

The Polish Treasury has transferred a 1.96% stake in PKO to the state-run development bank BGK to boost strategic national investment. The Treasury has retained a controlling stake in PKO. The transfer of a 2% stake does not eliminate the market overhang that affects PKO's value, nor has it diminished the government's control over the Bank.

Komercni Banka

Reduce

Analyst: Michał Konarski		Current price:	CZK 5452					Last rating:	2014-12-11
		Target price:	CZK 4549						
(CZK m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Net interest income	21 207.0	21 423.0	1.0%	21 642.1	1.0%	22 903.7	5.8%	Number of shares (m)	37.8
Net interest margin	2.6%	2.4%		2.4%		2.4%		MC (current price, CZK m)	205 928.5
Total income	30 894.0	30 676.0	-0.7%	30 669.5	0.0%	32 041.5	4.5%	Free float	39.6%
Operating income*	17 746.0	17 642.0	-0.6%	17 600.7	-0.2%	18 706.1	6.3%		
Pre-tax income	16 940.0	16 031.0	-5.4%	15 752.3	-1.7%	16 482.4	4.6%		
Net income	12 528.0	12 985.0	3.6%	12 467.7	-4.0%	13 066.4	4.8%		
ROE	13.1%	13.7%		12.9%		13.5%		Price change: 1M	-2.5%
P/E	16.4	15.9		16.5		15.8		Price change: 6M	3.6%
P/BV	2.2	2.1		2.1		2.1		Price change: 12M	12.6%
DPS	230.0	230.0		310.0		300.0		Low (52 weeks)	4 551.0
Dyield (%)	4.2	4.2		5.7		5.5		High (52 weeks)	5 667.0

* before provisions

We maintain a reduce rating for Komercni Banka. Komercni offers one of the highest dividend yields in the sector, but at the same time it faces a challenging market environment through 2016 (e.g. falling interchange fees). That said given that it is not experiencing the political pressures that Polish banks are, in our view KOMB deserves to be valued without a discount to the Polish bank sector.

Erste Bank	Accumulate								
Analyst: Michał Konarski	Current price:		EUR 25.975				Last rating:		2015-03-06
	Target price:		EUR 25.43						
(EUR m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Net interest income	4 673.5	4 495.2	-3.8%	4 406.4	-2.0%	4 535.8	2.9%	Number of shares (m)	429.8
Net interest margin	2.3%	2.3%		2.2%		2.1%		MC (current price, EUR m)	11 164.1
Total income	6 812.0	6 697.3	-1.7%	6 549.2	-2.2%	6 722.3	2.6%	Free float	69.5%
Operating income*	2 148.7	1 356.0	-36.9%	2 547.8	87.9%	2 735.7	7.4%		
Pre-tax income	374.3	-803.2		1 341.1		1 576.0	17.5%		
Net income	245.8	-1 442.0		793.8		968.3	22.0%		
ROE	2.2%			7.8%		8.9%		Price change: 1M	-6.6%
P/E	45.4			14.1		11.5		Price change: 6M	14.2%
P/BV	1.0	1.1		1.1		1.0		Price change: 12M	27.4%
DPS	0.4	0.2		0.0		0.5		Low (52 weeks)	17.0
Dyield (%)	1.5	0.8		0.0		1.8		High (52 weeks)	28.7

* before provisions

We maintain an accumulate rating for Erste Bank driven by expectations of improving margins in 2015. Our 2015 net profit estimate for the Bank is EUR 794m, implying ROTE of 9% (Erste's guidance is 8-10%). Erste's earnings outlook for the coming years is strong based on the improving performance of the Romanian business (BCR) which serves as a meaningful driver for consolidated profits. Given its lack of major exposure to Ukraine and Russia, we believe Erste should be valued at a premium over RBI and OTP Bank.

Erste posts excellent Q2 results

At EUR 261.4m the Q2 2015 net profit of Erste Bank showed an increase of 15.8% from the previous quarter and it exceeded a EUR 239.3m consensus estimate and topped our EUR 229.9m forecast. The positive surprise was owed to low risk reserves, partly offset by a high loss posted under minority interests. Erste has reiterated its ROTE guidance for 2015 but has a more optimistic outlook when it comes to provisioning.

Total income in Q2 was up 0.7% q/q but y/y it declined 0.3%. Net interest income exceeded expectations after 1.4% q/q growth while fee income fell short after a 1% contraction. Other operating activity produced a gain of EUR 70.1m in Q2 after one-time losses incurred in the first quarter Tax in Q2 was 50.5% lower than in Q1 when Erste paid fully the Hungarian tax levy. Second-quarter operating costs were flat q/q but increased 1.7% y/y. Loan-loss reserves increased 4.2% q/q but fell 55.8% y/y as a reduction from EUR 109m to EUR 3m by the Austrian business was offset by an increase from EUR +2.3m to EUR -61m in Hungary.

By division Austria posted 66.1% q/q and 101.4% y/y earnings growth in Q2 driven by low provisioning. In CEE the Czech business generated small 0.7% growth, Slovakia grew 38.6% q/q, and Croatia improved 17.8%. In turn Romania fell 26.4%, Serbia fell 30.9%, and Hungary fell 19.2% even despite the lower bank tax

Erste maintains the 2015 ROTE guidance at 8-10% but it reduced its provisioning forecast to EUR 0.9-1.1bn from EUR 1.0-1.2bn. The total tax burden for the year is estimated at EUR 360m. Operating income is set to decrease at a single -digit rate. Finally Erste has an optimistic outlook on economic momentum this year with CEE GDP expected to grow 2%-4% and Austria GDP set for <1% expansion.

RBI	Buy								
Analyst: Michał Konarski	Current price:		EUR 11.6					Last rating:	2015-01-26
	Target price:		EUR 18.27						
(EUR m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Net interest income	3 728.9	3 788.9	1.6%	3 513.1	-7.3%	3 651.3	3.9%	Number of shares (m)	292.4
Net interest margin	2.8%	3.0%		2.8%		2.7%		MC (current price, EUR m)	3 392.1
Total income	5 324.1	4 762.4	-10.5%	4 837.6	1.6%	5 043.0	4.2%	Free float	21.5%
Operating income*	1 984.6	1 738.9	-12.4%	1 922.9	10.6%	2 137.3	11.1%		
Pre-tax income	835.4	23.0	-97.3%	451.8	1866.9%	853.2	88.9%		
Net income	358.1	-598.5		349.5		651.1	86.3%		
ROE	4.8%			4.1%		6.7%		Price change: 1M	-13.2%
P/E	6.3			9.7		5.2		Price change: 6M	-9.6%
P/BV	0.3	0.4		0.4		0.3		Price change: 12M	-44.7%
DPS	1.2	1.0		0.0		0.4		Low (52 weeks)	9.0
Dyield (%)	10.1	8.8		0.0		3.1		High (52 weeks)	21.2

* before provisions

We maintain a buy rating for Raiffeisen Bank International (RBI) with the price target at EUR 18.27 per share. RBI stock has underperformed due to the Bank's large exposure to Russia and Ukraine. In addition, a falling ruble and hryvnia have driven RBI's solvency ratios down, prompting speculation about a capital raise. Further, sentiment has been dampened by the announcement of restructuring in 2015-17, set to result in another annual net loss, combined with an exit from the least profitable markets. For our part we do not think RBI intends to raise capital, and at the current level we consider it underpriced. Moreover we expect the Bank to revise restructuring plans in light of the issues it is having with selling its Polish unit.

RBI delivers upside surprise in Q2 2015

Q2 bottom line of Raiffeisen Bank International (RBI) came in at EUR 204.2m, beating market consensus at EUR 133m (source: RBI). The better-than-expected results are down to a drop in provisions and revenue increase in its core activity. The Management Board has confirmed that the bank may incur a loss over the entire year due to posting the majority of costs connected with the restructuring process amounting to EUR 550m. We welcome these results and expect a positive reaction from the market.

Profits

The net interest income in Q2 2015 saw an upturn by 5.0% Q/Q but experienced an 11.6% downturn Y/Y to EUR 861.7m. The derivative interest income had a considerable impact on the increase in net interest income (EUR +36m Q/Q). The RBI interest margin (over average assets) grew by 17 bps Q/Q to the level of 2.83%. The net interest income in Q2 2015 increased by 7.1% Q/Q, but dropped 1.1% Y/Y, exceeding the market expectations of a 2.0% Q/Q growth. The increase in commission income was driven by seasonal factors as well as transfer charges (+6% Q/Q or EUR +9m Q/Q) and by commissions and fees related to loans and credit facilities (+15% Q/Q or EUR +7m Q/Q) and M&A activity (EUR +7m Q/Q). The balance of provisions declined by 27.4% Q/Q and 15.8% Y/Y, below the market outlook. The increase in reserves is attributed by the bank to operations in Asia and the corporate segment. The NPL ratio in Q2 2015 remained unchanged at 11.9% in Q2 2015, whereas the ratio reflecting the coverage of provisions grew slightly to the level of 66.6% (65.9% in Q1 2015). The NPL ratio deterioration in CEE (from 10.3% in Q1 2015 to 8.4% in Q2 2015) and in SEE (from 13.2% to 12.8%) was counterbalanced by growth in EE (from 14.9% to 16.7%), Non-Core (from 14.0% to 14.6%) and in group markets (from 3.7% to 4.8%). Costs increased by 0.9% in Q2 2015 but dropped 8.8% Y/Y, above average market expectations. The increase in costs was caused by the Bank Resolution Fund and the closing of branches in Hungary. The CET 1 solvency ratio at the end of the second quarter of the year was 10.7%, and the CAR was 16.0% (fully loaded).

Upswing in profits in regional breakdown

RBI posted improved results in CEE (+235% Q/Q), SEE (+20.8% Q/Q) and EE (+168% Q/Q). The net result in Russia dropped 10.0% Q/Q. Net profit in Russia dropped mainly because of the 29.9% Q/Q growth in the balance of provisions accompanied by an increase in the NPL ratio from 6.4% to 8.1% in Q1 2015. RBI obtained a net profit at EUR 25m in Ukraine after a loss coming to EUR 82m in Q1 2015. The better net result in Ukraine is down to the higher trading income (EUR 26m compared to EUR -96m in Q1 2015) and the drop in provisions (-60.1% Q/Q).

Management outlook

The Management Board has maintained its current outlook. RBI is planning to build its solvency ratio again up to the 12% level by the end of 2017. The Company has also maintained its EUR 16bn reduction plan of its risk-adjusted assets by 2017. The Bank also intends to reduce its cost base by 20% (2014 base equal to EUR 3,024m) which should translate into the cost/income ratio at 50-55% and for its provisions to shrink from the EUR 1,716m level reported in 2014. Finally, the restructuring should also be reflected in the Bank's medium-term ROE at 11% (14% gross ROE).

RBI confirms delay in sale of Polish bank

In its H1 2015 report Raiffeisen Bank International announced that the sales process of its operations in Poland is delayed due to prevailing external conditions which is why it is not very probable that the transaction will be closed within one year. During the post H1 outlook, RBI confirmed that preparations for the IPO of the Polish bank in mid-2016 are under way and its sale procedures are proceeding concurrently. The requirement of conducting a public offering of its shares by that date was imposed by the Polish Financial Supervision Authority since the acquisition of Polbank EFG was approved in 2012. Bloomberg also reported, citing CFO Martin Gruell, that Raiffeisen may, if required, omit the Swiss franc mortgage portfolio from the transaction and leave it on its own books. The Management Board also looks to the draft bill on restructuring of foreign currency loans to being rejected as debt cuts would mean the expropriation of banks. News without impact on stock performance. The news that the finalization of the sale of the Austrian bank's Polish operations may be more drawn out in time already appeared in earlier media communications. As at the end of June 2015, Raiffeisen Polbank had a Swiss mortgage loan portfolio granted to individuals totaling to PLN 12.5bn.

OTP BANK	Accumulate								
Analyst: Michał Konarski	Current price:	HUF 5380						Last rating:	2015-08-21
	Target price:	HUF 6288							
(HUF bn)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Net interest income	653.8	635.3	-2.8%	558.0	-12.2%	548.9	-1.6%	Number of shares (m)	267.0
Net interest margin	6.4%	6.0%		5.2%		5.2%		MC (current price, HUF bn)	1 436.6
Total income	874.6	828.6	-5.3%	749.4	-9.6%	747.0	-0.3%	Free float	100.0%
Operating income*	457.4	417.1	-8.8%	357.4	-14.3%	352.6	-1.3%		
Pre-tax income	184.9	142.3	-23.0%	134.6	-5.4%	212.6	57.9%		
Net income	64.2	-102.0		87.2		159.1	82.4%		
ROE	4.3%			6.8%		11.6%		Price change: 1M	-6.4%
P/E	22.4			16.5		9.0		Price change: 6M	29.6%
P/BV	1.0	1.1		1.1		1.0		Price change: 12M	21.2%
DPS	121.7	146.9		147.0		148.1		Low (52 weeks)	3 479.0
Dyield (%)	2.3	2.7		2.7		2.8		High (52 weeks)	6 065.0

* before provisions

We maintain an accumulate rating for OTP Bank with the price target at HUF 6,288/share. Even after the 11.2% gain (in USD) posted in the last 12 months (vs. a 2.8% gain in BUX and a 39.3% drop in MSCI EME Financials) the Bank's market value does not yet fully reflect its growth potential. Going forward we expect the discount at which OTP is trading relative to peers to narrow based on a conservative balance sheet, decreasing Hungarian taxes, a lack of meaningful CHF exposure, and the improving economic momentum in the CEE region. Moreover we believe the 2016-2017 earnings consensus for the Bank is due for upgrades.

OTP beats expectations in Q2 2015

OTP Bank in Q2 2015 reported a net income at HUF 38.23bn given the previous year's Q1 loss at HUF 153.15bn and net profit at HUF 1.91bn. The results delivered in Q2 2015 have exceeded average market expectations at HUF 32.4bn (+18%), and our projections at HUF 32.3bn. The better-than-expected outturn was mainly down to the lower reserves and higher commission and other operating income. In regional terms, the Bank surprised investors with its net profit in Ukraine (HUF 0.59bn) and the lower-than-expected loss in Russia. In our view, the market outlook on the bottom line being at HUF 103bn is still too low.

Positive dynamics in the result on core operating activities in 2 2015 (+2.5% Q/Q) in line with market outlook. The drop in interest income in Q2 2015 (-1.5% Q/Q) partially offset the growth in interest income (+17.7% Q/Q, above average investor outlook). The interest margin (without one-offs, OTP method) dropped from 5.34% in Q1 2015 to 5.23% in Q2 2015. The Bank saw plummeting margins in Ukraine (from 10.54% in Q1 2015 to 6.16%) and in Romania (from 3.98% to 3.47%).

On the other hand, OTP Bank has started to rebuild its interest margin in Russian, where after a drop from 18.8% in Q4 2014 to 13.60% in Q1 2015 the margin regained momentum increasing to 17.56% in Q2 2015. Operating expenses increased by 2.9% Q/Q, but dropped 5.0% Y/Y, in line with market expectations. The quality of assets remained stable in line with the NPL ratio (+90D) at 18.4%, while the coverage ratio was pushed up from 88.8% in Q1 2015 to 89.6% in Q2 2015. The balance of provisions at OTP Bank declined by 29.7% Q/Q and 28.5% Y/Y in Q2 2015 and was well below average market expectations. Provisions decreased mainly because of Ukraine (-92.0% Q/Q) and Russia (-11.9% Q/Q).

Broken down by divisions, we can see outturn in Ukraine positively where instead of losses, the Bank reported a low net profit (HUF 0.6bn) and even lower than expected loss in Russia (HUF -4.2bn). Ukraine results could regain momentum thanks to the strong drop in the balance of provisions whereas in Russia it was driven by the pickup in the interest margin and the lower costs of risk. Note also the stable result in Hungary (HUF 31.2bn) and the decrease in profit in Bulgaria (-42% Q/Q, but only -1.2% Y/Y) driven by the shrinking provisions balance.

OTP Bank anticipates slowdown in H2

OTP Bank announced that its net profit for 2015 will not exceed the amount posted in 2014 (HUF 118bn without one-offs). Bank executives have projected the 2H 2015 profit to spiral down in Bulgaria and Ukraine due to higher provisioning. Also, the cumulative loss in Ukraine and Russia in 2015 will not exceed that incurred in 2014 (HUF 57.7bn). The Bank also expects the cost of risk to slip in 2016 and the Bank will achieve a ROE in 2017 in the range of 15-20%. Further acquisitions by the Bank are in store, in particular in Serbia, Romania and Bulgaria. Finally, Bank executives have forecast that mortgage loans taken out in Hungary will continue to experience slow growth and there are no prospects for a double-figure surge earlier than in three years' time.

Insurance

PZU	Buy								
Analyst: Michał Konarski		Current price:	PLN 425					Last rating:	2015-09-03
		Target price:	PLN 488.23						
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Gross written premium:	16 480.0	16 884.6	2.5%	17 844.3	5.7%	18 380.9	3.0%	Number of shares (m)	86.4
non-life insurance	8 739.8	9 110.7	4.2%	9 944.8	9.2%	10 224.0	2.8%	MC (current price, PLN m)	36 699.7
life insurance	7 745.1	7 807.7	0.8%	7 807.7	0.0%	7 948.1	1.8%	Free float	64.8%
Technical profit	19 062.5	19 513.7	2.4%	19 859.7	1.8%	20 558.6	3.5%		
Pre-tax income	4 119.1	3 693.2	-10.3%	3 341.6	-9.5%	3 555.9	6.4%		
Net income	3 294.9	2 967.6	-9.9%	2 706.1	-8.8%	2 879.7	6.4%		
ROE	24.1%	22.6%		21.8%		24.2%		Price change: 1M	-0.4%
P/E	11.1	12.4		13.6		12.7		Price change: 6M	-11.5%
P/BV	2.8	2.8		3.1		3.0		Price change: 12M	-14.3%
DPS	49.7	34.0		30.0		43.2		Low (52 weeks)	398.2
Dyield (%)	11.7	8.0		7.1		10.2		High (52 weeks)	511.0

We are upgrading PZU from accumulate to buy with the price target at PLN 488.23 a share. PZU stock has fallen 11.4% ytd on concerns over earnings growth in the wake of a possible new tax, the equity investments made in the bank sector, and the overhang of shares held by the State Treasury. We share the market's concerns when it comes to PZU's expansion plans in the bank market, however we do not think these plans will affect the size of future dividend payments. In addition we believe the potential impact of the new financial sector tax is already priced in at the current level. Taking into consideration its above-average ROE, generous dividends, and low sensitivity to the potential financial sector tax, we view PZU as an attractive alternative to the bank sector.

PZU posts disappointing investment income in Q2

At PLN 380.2m the Q2 2015 net profit of PZU showed a q/q drop of 59.6% and y/y shrinkage of 60.4%, and it fell short of the consensus estimate (PLN 426.2m) and our forecast (PLN 428.6m) due to lower-than-expected investment income which fell 88.8% q/q, more than the 78% drop expected by us. At the same time gross written premiums in both life and nonlife came in line with expectations. We expect downward revisions to the current net earnings consensus of PLN 2.8bn for PZU but we remain positive on the Insurer which is trading at an attractive price level and which offers unmatched dividend yield and has low sensitivity to the planned financial sector tax.

Year-on-year the comparability of the Q2 results is affected by foreign acquisitions. Gross written premiums in Q2 increased 5.5% q/q and 8.9% y/y to PLN 4,446m (in line with consensus). Under the new segmentation of financial results, Non-Life GWP in Q2 amounted to PLN 2,489m (+16.7% y/y), and Life GWP came in at PLN 2,018m (+3.3% y/y). Net claims fell 2.8% q/q to PLN 2,960.5m but compared to Q2 2014 they were 7.5% higher (in line). Operating costs increased 3.2% and 10.6% y/y (in line). Q2 investment income at PLN 106.7m (-88.8% q/q, -87.0% y/y) far missed the PLN 204.9m analysts' forecast.

Q2 earnings conference takeaways

Motor Insurance: PZU wants to increase the profitability of the motor insurance business, especially third-party liability policies, and to that end it is planning to scale back discounts, especially those offered to corporations (with the full effects expected to be noticeable in Q4), and to better control the inflation in spare part costs (effects in Q3).
Investment Income: PZU maintains that it can achieve a 4.5% portfolio yield at the end of 2015 depending on the situation in global financial markets.
Capital Surplus and Acquisitions: PZU estimates its capital surplus at PLN 1 billion under Solvency I and even more under Solvency II (the actual amount will be calculated in October). The Insurer maintains it wants to make another acquisition in Poland this year and says it is considering buying the insurance portfolio of Liberty Direct. At the same time PZU has no interest whatsoever to invest in coal mines. Any future acquisitions will not negatively affect PZU's dividend policy.
Drought Claims: PZU estimates the impact on its earnings of the recent drought experienced in Poland at PLN 10-20m.
Costs and Claims: Recurring costs in 2015 will be flat, rising only in the areas of strategy implementation (at an annual rate expected to be in the range of 5%-8%) and M&A. The combined ratio this year should not exceed last year's level of 94.5%.
Group Insurance: Margins in the group life business will remain above 20% this year but they are not likely to bounce back to last year's 24.4%.
International Operations: PZU's international operations are expected to improve earnings in the coming quarters, especially after the sale of the Lithuanian unit. In Ukraine the Insurer is aiming to become the #3-4 player.

Financial Services

Kruk	Hold								
Analyst: Michał Konarski	Current price:	PLN 170						Last rating:	2015-05-06
	Target price:	PLN 143.1							
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Income	405.6	487.9	20.3%	553.3	13.4%	666.7	20.5%	Number of shares (m)	17.0
Debt purchases	355.7	442.4	24.4%	502.7	13.6%	612.4	21.8%	MC (current price, PLN m)	2 883.0
Collection	39.9	31.7	-20.5%	35.5	11.8%	37.4	5.4%	Free float	87.0%
Indirect margin	222.9	293.9	31.9%	337.6	14.8%	409.4	21.3%		
Pre-tax income	98.5	152.8	55.2%	179.7	17.6%	215.9	20.1%		
Net income	97.8	151.8	55.3%	174.3	14.8%	205.1	17.7%		
ROE	26.7%	30.3%		26.2%		24.2%		Price change: 1M	-2.4%
P/E	29.5	19.0		16.5		14.1		Price change: 6M	28.4%
P/BV	6.9	4.9		3.9		3.0		Price change: 12M	61.9%
DPS	0.0	0.0		1.5		0.0		Low (52 weeks)	100.5
Dyield (%)	0.0	0.0		0.9		0.0		High (52 weeks)	182.5

We maintain a hold rating for Kruk whose shares soared 58.8% in the year through August. In our view Kruk is set for a profit slowdown in H2 2015 due to higher costs of management incentives, marketing, and geographic expansion. The debt purchases the Company has made in Germany so far are too small to have a meaningful impact on P&L. Given that it does not pay dividends Kruk's current valuation premium is not justified.

Kruk posts in-line Q2 results

At PLN 57.1m, the Q2 2015 net profit of Kruk showed a 12.8% increase from the previous quarter and a 5.0% drop from Q2 2014, and it in line with the PLN 56.6m consensus estimate and our PLN 54.0m forecast. Revenue beat consensus by 5.9%, but operating costs were higher than we had anticipated after a q/q surge of 25.8%. Collections on purchased debt portfolios increased 13% q/q to PLN 211m. Relative to Q1 gross profits increased 12.3% in purchased debt, 4.9% in debt collection outsourcing, and 4.7% in other services. Kruk recognized a revaluation gain of PLN 9m in Q2, and its net profit for the period was additionally boosted by a PLN 1.1m tax refund. We expect neutral market reactions to the in-line Q2 results. Kruk achieved 63% of the 2015 annual net profit consensus in H1 but analysts' expectations are not likely to be raised given the weaker H2 outlook.

Kruk aims for double-digit growth

Kruk expects its net earnings to increase at double-digit rates this year and next. In H2 profit may be weighed down by higher costs of management incentives, marketing, court litigation, and expansion in Germany and Spain where Kruk is planning to launch operations in 2016.

Prime Car Management — Buy

Analyst: Michał Konarski	Current price:	PLN 43.85	Last rating:	2015-09-02
	Target price:	PLN 53.6		

(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Total revenue	557.0	552.1	-0.9%	550.7	-0.2%	577.5	4.9%	Number of shares (m)	11.9
Costs	-497.9	-476.2	-4.4%	-496.8	4.3%	-518.6	4.4%	MC (current price, PLN m)	522.2
Receivables finance leases	380.1	453.0	19.2%	566.2	25.0%	617.2	9.0%	Free float	40.0%
Pre-tax profit	59.1	75.8	28.2%	54.0	-28.8%	58.9	9.2%		
Net profit	44.0	62.6	42.4%	42.4	-32.4%	46.3	9.2%		
ROE	9.9%	13.0%		8.7%		9.6%		Price change: 1M	3.8%
P/E	11.9	8.3		12.3		11.3		Price change: 6M	-14.0%
P/BV	1.1	1.0		1.1		1.1		Price change: 12M	0.6%
DPS	0.4	2.2		5.3		3.6		Low (52 weeks)	40.0
Dyield (%)	0.9	5.0		12.0		8.1		High (52 weeks)	56.0

We maintain a buy rating for Prime Car Management (Masterlease) with the 9-month price target at PLN 53.60 per share. Our forecasts for the Company are 13% lower than the 2015 and 2016 consensus estimates. Looking at PCM's worse-than-expected financial performance in the first half of 2015, with the net profit for the period accounting for 43% of the annual consensus, we believe downgrades to analysts' expectations are inevitable. With that being said, trading at 12.3x 2015E P/E and 11.3x 2016E P/E, PCM is showing respective discounts of 6% and 1% to the peer group which we consider excessive given its above-average dividends (dividend yield at 8-12%), conservative balance sheet (D/E at 1.6x), and positioning as the #2 player in the Polish market.

Masterlease posts Q2 disappointment

At PLN 9.6m the Q2 2015 net profit of Masterlease showed a 16.4% drop from Q1 and a 64.4% drop from Q2 2014, and it fell short of the PLN 11.3m consensus estimate and missed our PLN 11.4m forecast. The vehicle fleet in the period increased 3.6% q/q and 8.3% y/y to 24,303 vehicles. Masterlease is feeling pressure on margins in the financial as well as the operational lease segment. Despite a rise of 0.9% in the number of leased vehicles Q2 income from operational leases fell 0.9% and interest income posted only a small rise of 2.9% compared to the first quarter. At the same time remarketing income increased from PLN 4.0m in Q1 to PLN 4.8m in Q2, while the service margin contracted slightly by PLN 0.6m. With its H1 2015 net income at PLN 21.1m Masterlease may have a hard time fulfilling the full-year consensus forecast of PLN 49m.

PCM eyes margin stabilization in Q3

PCM expects its financial margin to stabilize in Q3 thanks to reduced competitive pressures and flat interest rates, supported by higher lease volumes. After achieving 53% of the 2015 vehicle delivery target (9,270 cars) the Company may exceed the target by the end of the year. In Q2 2015 the cost per vehicle was PLN 136.1 after a slight increase led by marketing expenses and ABB but in Q3 it is expected to go down below PLN 135.0. PCM believes in H2 2015 it can achieve the same net profit as in H1 (PLN 21.1m). The market is likely to be skeptical about margin stabilization at PCM and analysts will probably downgrade their 2015 earnings expectations for the Company.

Skarbiec Holding — Buy

Analyst: Michał Konarski	Current price:	PLN 36.19	Last rating:	2015-05-14
	Target price:	PLN 64.3		

(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Management fee	68.6	107.5	56.7%	78.3	-27.2%	91.7	17.2%	Number of shares (m)	6.8
Success fee	24.6	26.9	9.3%	22.5	-16.4%	25.2	12.0%	MC (current price, PLN m)	246.9
Revenue	101.3	145.6	43.7%	109.6	-24.7%	127.8	16.6%	Free float	25.4%
Operating costs	-65.8	-100.5	52.9%	-72.0	-28.4%	-79.3	10.2%		
Pre-tax income	36.1	44.3	22.5%	38.8	-12.4%	49.7	28.0%		
Net income	28.9	35.9	24.0%	31.4	-12.4%	40.2	28.0%		
ROE	35.4%	36.0%		28.3%		33.2%		Price change: 1M	-9.2%
P/E	8.5	6.9		7.9		6.1		Price change: 6M	-11.7%
P/BV	2.6	2.3		2.1		2.0		Price change: 12M	11.4%
DPS	1.0	2.8		3.1		4.6		Low (52 weeks)	32.0
Dyield (%)	2.7	7.7		8.7		12.7		High (52 weeks)	50.3

We maintain a buy rating for Skarbiec Holding with the 9-month price target at PLN 64.30 per share. Skarbiec is the owner of Skarbiec TFI. a leading Polish investment fund company which at 30 June 2015 ranked fifth in the country in assets under management. Skarbiec TFI has a well-diversified retail AUM portfolio and it operates through a vast distribution network and generates strong income supported by performance fees. Going forward we anticipate a gradual shift in the composition of Skarbiec's AUM in favor of high-margin investment products, resulting in higher profits despite an expected downward pressure on margins.

Skarbiec posts better-than-expected Q2

In the sixth quarter of the fiscal year 2014/2015 ended 30 June (second quarter of calendar 2015) Skarbiec Holding generated a net profit of PLN 4.6m, marking a 50.2% drop from the previous quarter and 3.4% contraction from the same period last year, and exceeding the consensus forecast by 5% while falling short of our PLN 5.3m estimate. The annual FY2014/2015 net profit amounted to PLN 32.3m vs. PLN 33.0m expected by us and PLN 29.1m consensus. The q/q bottom-line shrinkage experienced in Q2 was led by a falling success fee (-80.2% q/q, -39.8% y/y) as the management fee in the period increased 9.3% y/y and 7.7% q/q, most likely driving the revenue beat. Fund inflows drove distribution costs up by 15.3% q/q and 13.7% y/y in Q2. At the same time Skarbiec reduced payroll costs by 22.3% q/q and 19.8% y/y due to lower employee compensation tied with the success-fee. Skarbiec's Management has proposed distribution of PLN 3.13 per share dividends (we expected PLN 3.17), implying dividend yield of 9%. The date of record is 2 October and the payout is set for 16 October. We expect neutral market reactions to the Q2 results. Skarbiec if offering one of the highest dividend yields in the financial sector but nevertheless its market performance is likely to remain subdued due to the turmoil in global financial markets and the political pressures in Poland.

Gas & Oil, Chemicals

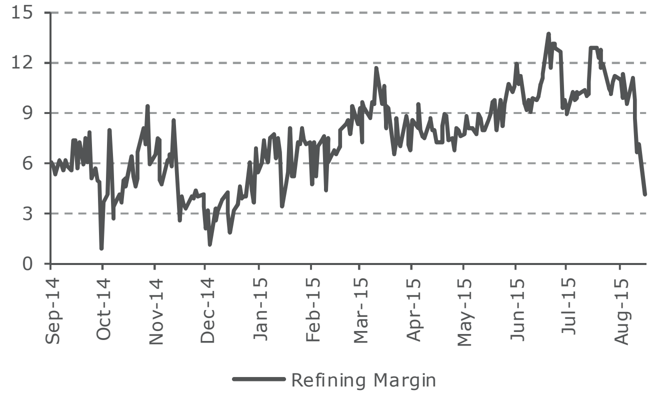
Refining margins briefly lose steam

The average refining margin in August was just under $10/bbl after a slight decline from $11 in July, but at the end of the month margins staged a sharper fall as low as to $4-5. The gasoline crack spread especially decreased to a level on a par with its diesel counterpart. All this amid strong fluctuations in oil prices. In our view the August declines were a temporary setback, however margins are not likely to rebound to the record levels recorded in the last few months as the peak travel season comes to an end. As the prospect of Iran supply looms the Urals/Brent pricing spread remains close to $2/Bbl. In Petrochemicals margins, especially margins on olefins, posted even sharper declines at the end of August, due probably to weaker demand while prices remained high and the Chinese economy experienced a slowdown.

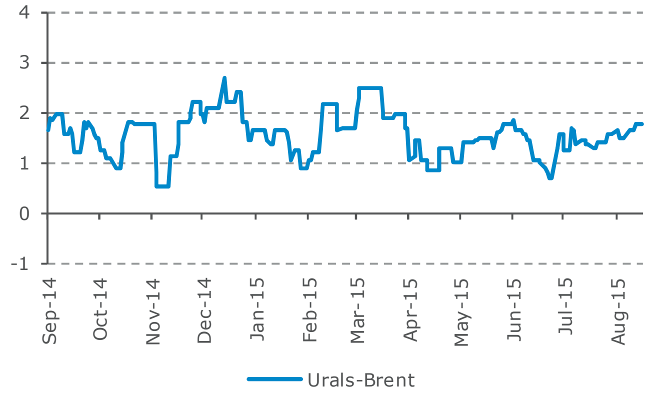
US oil inventory remains steady in August

US oil inventories remained steady in August relative to June but compared to August 2014 they increased 27% (up from 24.5% y/y builds recorded in July). Imports rose 3% last month but at the same time local refiners slightly cut capacity utilization rates from 95.3% to 94.6% and local production contracted by 2%. The crude inventory held at the price-shaping Cushing hub did not show much change month on month. The US gasoline stocks in August posted a monthly drop of 2.6mmbl (-1.2%) while holding 2% above the year-ago level (vs. 1.35% at end July). Distillate reserves increased further by 5.1mmbl (+3.5%). August fuel demand remained strong in the US, with gasoline usage in the last four weeks up 4.8% from last year.

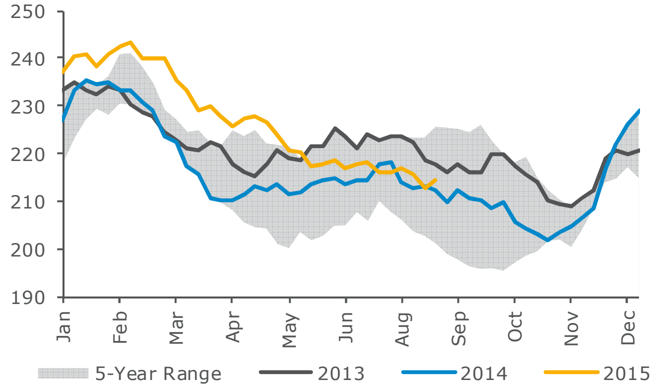
Refining Margin (USD/Bbl)



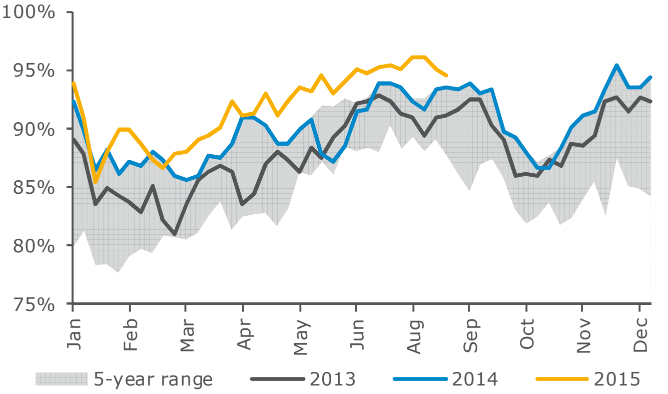
Urals-Brent Price Spread (USD/Bbl)



US Gasoline Inventory



US Refinery Capacity Utilization



Source: Bloomberg, Reuters, Dom Maklerski mBanku

Ciech		Reduce						
Analyst: Kamil Kliszcz		Current price:	PLN 71.5				Last rating	2015-03-06
		Target price:	PLN 46.9					
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	3 501.0	3 243.9	-7.3%	3 133.8	-3.4%	3 272.6	4.4%	Number of shares (m)	52.7
EBITDA	356.3	524.8	47.3%	574.9	9.5%	613.5	6.7%	MC (current price, PLN m)	3 768.0
EBITDA margin	10.2%	16.2%		18.3%		18.7%		EV (current price, PLN m)	4 903.2
EBIT	139.7	320.3	129.2%	364.1	13.7%	387.6	6.5%	Free float	
Net profit	49.4	167.1	237.9%	170.1	1.8%	227.7	33.9%		
P/E	76.2	22.5		22.2		16.5		Price change: 1M	-0.6%
P/CE	14.2	10.1		9.9		8.3		Price change: 6M	37.5%
P/BV	4.1	4.0		3.4		2.8		Price change: 12M	83.9%
EV/EBITDA	13.9	9.3		8.5		7.9		Low (52 weeks)	37.7
Dyield (%)	0.0	1.6		0.0		0.0		High (52 weeks)	75.7

Ciech continues to trade close to its medium-term highs and it is expected to continue its strong performance going forward even though its EV/EBITDA ratio assuming PLN 700m 2015 annual EBITDA is higher than 7.0. In our view Ciech's future growth potential is limited by increasing competition in the soda market where synthetic producers in India continue to invest in new capacity to take advantage of higher margins (owed to low prices of coal, coke, and natural gas), and producers in China have regained profitability thanks to lower prices of ammonia inputs combined with higher prices of the byproduct ammonium chloride. Chinese firms benefit additionally from changes in export tax and a weakened yuan (in 5M 2015 Chinese soda exports increased 34% and in 2014 local soda production totaled 25mmt compared to 32mmt capacity). Leading market players (OCI Resources) have noticed the rising pressure. At the current share price level Ciech investors should pay more attention to the resulting risks. We stand by our negative rating for CIE.

Q2 adjusted EBITDA beats expectations

Ciech generated core EBITDA of PLN 188m in Q2 2015, coming 7% ahead of our estimate. The biggest positive surprise was delivered by the Soda Division where recurring EBITDA was PLN 157m vs. PLN 150m expected thanks to higher sales volumes achieved through bigger inventory draws. In the Organic Division EBITDA fell slightly short of expectations (PLN 17.6m vs. PLN 19.8m) due to lower pesticide sales caused by weather. In Silicates EBITDA exceeded our PLN 9.5m forecast at PLN 10.4m. Financing losses were lower than our PLN 34m forecast at PLN 15m thanks to PLN 13m FX gains. Q2 operating cash flow amounted to PLN 58m, and with CAPEX reaching PLN 91m this resulted in a net debt increase to PLN 1.19bn.

Lotos

Buy

Analyst: Kamil Kliszcz	Current price:	PLN 29.18	Last rating	2015-09-03
	Target price:	PLN 34.4		

(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	28 559.2	28 501.9	-0.2%	20 824.6	-26.9%	24 278.6	16.6%	Number of shares (m)	184.9
EBITDA	809.1	-584.1		2 010.5		2 224.9	10.7%	MC (current price, PLN m)	5 394.6
EBITDA margin	2.8%	-2.0%		9.7%		9.2%		EV (current price, PLN m)	10 626.8
EBIT	166.6	-1 393.0		1 146.9		1 221.8	6.5%	Free float	46.8%
Net profit	39.4	-1 466.3		584.5		810.9	38.7%		
P/E	96.1			9.2		6.7		Price change: 1M	-6.3%
P/CE	5.6			3.7		3.0		Price change: 6M	16.7%
P/BV	0.4	0.7		0.6		0.6		Price change: 12M	8.4%
EV/EBITDA	11.7			5.3		4.9		Low (52 weeks)	23.1
Dyield (%)	0.0	0.0		0.0		0.0		High (52 weeks)	33.2

After the recent oil price rebound, which positively affects the profitability of current production and the NPV of the B8 field development project, combined with a tightened spread between gasoline and diesel cracks and strong Q2 results, we would allocate more of the portfolio to Lotos than to PKN Orlen. In Q3 we expect Lotos to deliver final proof that it is capable of monetizing the favorable market conditions and beating EBITDA expectations. The positive outlook is additionally reinforced by next year's deregulation of gas prices which may result in savings as high as PLN 100m. Finally, not yet priced in is the expected reduction in net debt thanks to high cash flow from the refining business. We are upgrading LTS from accumulate to buy after the recent price decline.

Q2 LIFO EBITDA beats consensus

Lotos's LIFO EBITDA for Q2 amounted to PLN 695m vs. our projections of PLN 681m and PLN 614m incorporated in the market consensus. The results were bolstered - in line with expectations - by operating FX gains (PLN 37.5m vs. our projections at PLN 30m) and reversals of write-downs in inventories (PLN 57.9m vs. the expected PLN 40m). If the LIFO EBITDA is adjusted by these elements, it would amount to almost PLN 600m vs. PLN 611m in our predictions (it is difficult to assay which amounts were reflected in the consensus, which was clearly below our estimates). The refining segment generated PLN 576m LIFO EBITDA vs. the projected PLN 540m, and after the mentioned adjustment, this would give PLN 481m vs. PLN 470m, thus, the results from this area are in line with expectations. Lotos refineries were operating at full load and successfully took advantage of the conducive macro environment. Investors were impressed by retail (EBITDA PLN 27m vs. PLN 23m) and although the range of deviation from the Group's perspective may not be so significant in this case, it is evident in the consecutive quarter that the Lotos network is maturing (15% volume increase y/y) and is stabilising the cash flow generated on higher levels. The upstream segment posted PLN 102m EBITDA vs. our projections of PLN 86m at a similar level of volume sales. However, the Company did generate PLN 20m higher revenues, which may suggest a higher average selling price in the oil and gas mix. Contrary to expectations, Lotos failed to disclose the outstanding margin on domestic production, which we normally expected to be at the level of the intercompany eliminations (PLN 30m). The LIFO effect totalled PLN 60m vs. our expectations of PLN 113m, which gave rise to the deviation from original estimates on the level of the reported EIT figure. There was a positive balance on financial operations (PLN 27m), which we assumed would be neutral. However, the Company posted higher FX gains (PLN 45m vs. PLN 20m) and hedging transactions (PLN 36m vs. PLN 16m). The cash flow from operating activities was PLN 199m, but was infected by the cash outflow on the purchase o crude oil under an arbitration forward transaction in a contango (in Q1 2015 100,000 tonnes of crude oil were purchased and 149,000 tonnes were acquired in Q2, the profit from which will be recognised next year and will total around PLN 50m). After cleaning the CF, this would total ca. PLN 450m. The Company managed to slightly reduce its net debt to PLN 5.6bn with relatively small investment outlays (PLN 160m). The negative findings in the report worth mentioning include the delay in the evacuation process from the Yme platform (Q4 2015) and the revised schedule for the commercial operation of the DCU unit (Q3 2018 vs. beginning of 2018).

MOL	Buy								
Analyst: Kamil Kliszcz		Current price:	PLN 183.2				Last rating		2015-04-28
		Target price:	PLN 251.6						
(HUF bn)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	5 400.4	4 869.4	-9.8%	3 651.2	-25.0%	4 143.8	13.5%	Number of shares (m)	104.5
EBITDA	521.1	409.0	-21.5%	589.3	44.1%	652.0	10.6%	MC (current price, PLN m)	19 147.9
EBITDA margin	9.6%	8.4%		16.1%		15.7%		EV (current price, PLN m)	35 443.5
EBIT	-18.6	40.9		265.7	550.3%	309.8	16.6%	Free float	31.3%
Net profit	21.9	4.8	-77.9%	136.0	2712.3%	162.9	19.8%		
P/E	64.9	294.1		10.5		8.7		Price change: 1M	-7.2%
P/CE	2.5	3.8		3.1		2.8		Price change: 6M	12.9%
P/BV	0.8	0.8		0.8		0.8		Price change: 12M	11.7%
EV/EBITDA	4.4	6.4		4.5		4.0		Low (52 weeks)	142.0
Dyield (%)	2.7	3.5		3.5		5.1		High (52 weeks)	205.7

MOL proved with its Q2 results that it has positive exposure to strong refining and petrochemicals fundamentals, and it rendered the current consensus underestimated. In our view the Company can generate a core LIFO-based EBITDA over the $2.2bn guidance. In H1 upstream accounted for only 34% of total EBITDA so we do not understand the reasoning behind the high discount at which it MOL is trading to peer EV/EBITDA. MOL's upside can be strengthened further after the power shift in Croatia in the December elections, and by the INA dispute which may be turning in favor of MOL. What is more, a piece of good news which traders seem to have ignored is the resumption of regular payments to oil producers by Kurdistan. Finally MOL has the best FCF profile in the CEE refining sector. We maintain a buy rating for MOL.

MOL posts better-than-expected Q2

MOL generated adjusted LIFO-based EBITDA of HUF 179.5bn in Q2 2015, well ahead of our HUF 164bn estimate and HUF 167bn consensus. The growth was owed to downstream where the adjusted LIFO-based EBITDA came in at HUF 127.4bn vs. HUF 104bn expected. Within that petrochemicals EBITDA was HUF 46bn vs. HUF 35n expected and refining EBITDA was HUF 81bn vs. HUF 69bn expected. The upside surprise was owed to an 18% y/y surge in refinery throughput and 9% higher sales of petrochemicals combined with favorable market conditions. In upstream EBITDA came in at HUF 53.5bn vs. HUF 56bn expected, missing the mark due to lower gas sales prices and gains on receivables management in Egypt. Gas midstream generated EBITDA of HUF 10.3bn in Q2 (we expected HUF 15bn) on lower-than-expected domestic and transit volumes (down 18% and 64% respectively). SG&A and intercompany transactions were in line and financing costs were HUF 6bn lower than expected at HUF 10bn thanks to more favorable FX effects. After high tax (HUF 39bn incl. HUF 10.9bn Robin Hood tax) net profit fell slightly short of expectations. Some of the FX-led tax burden will be reversed in H2. MOL generated CFO of HUF 124bn in Q2 (working capital outflow of HUF 60bn) and after CAPEX of HUF 54bn and dividend of HUF 40bn it did not manage to noticeably reduce debt in the period. MOL has raised its 2015 adjusted EBITDA guidance from $2.0bn to $2.2bn and reduced the CAPEX estimate to $1.3bn (-13%). The Company has no plant downtime scheduled for H2.

ENI selling petrol stations in Hungary

The press reported that both MOL as well as PKN Orlen may be interested in taking over a network of 180 petrol stations on the Hungarian market from ENI (half of which are ENI petrol stations). MOL is the market leader in Hungary where it owns 364 petrol stations. It seems that it will be more determined to win this acquisition deal than Orlen (especially considering recent movements in this area), which would have to build a new outpost for the retail segment that is far from its refineries. In the case of the Polish concern, a more natural move would be to buy such assets in southern Germany.

Kurdistan to resume regular payments to oil producers

The Kurdistan government issued a statement in August saying that it would start making regular payments to oil producers in September, with the first payment set at $75-100m. The resumption of regular payments by the KRG is good news after months of withholding is very good news for oil producers based in Kurdistan. Assuming the KRG honors the pledge MOL eyes additional revenue of $80-100m next year from its Iraq operations, resulting in higher EBITDA.

PGNiG	Sell								
Analyst: Kamil Kliszcz	Current price:	PLN 6.46						Last rating	2015-05-06
	Target price:	PLN 5.24							
(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	32 044.0	34 304.0	7.1%	34 874.7	1.7%	33 716.7	-3.3%	Number of shares (m)	5 900.0
EBITDA	5 612.0	6 345.0	13.1%	6 323.4	-0.3%	6 160.9	-2.6%	MC (current price, PLN m)	38 114.0
EBITDA margin	17.5%	18.5%		18.1%		18.3%		EV (current price, PLN m)	40 620.6
EBIT	3 149.0	3 843.0	22.0%	3 631.1	-5.5%	3 377.9	-7.0%	Free float	27.6%
Net profit	1 918.0	2 823.0	47.2%	2 734.4	-3.1%	2 590.3	-5.3%		
P/E	19.9	13.5		13.9		14.7		Price change: 1M	1.1%
P/CE	8.7	7.2		7.0		7.1		Price change: 6M	31.8%
P/BV	1.3	1.3		1.2		1.2		Price change: 12M	27.2%
EV/EBITDA	7.7	6.5		6.4		6.5		Low (52 weeks)	4.3
Dyield (%)	2.0	2.3		2.5		3.7		High (52 weeks)	7.0

PGNiG has outperformed for the past few weeks despite signs of deteriorating profitability in the trade segment (retail tariff cuts, price discounts, falling prices of electricity) coupled with low oil prices which depress E&P profits. We think the market assumes wrongly that PGNiG is immune to changes in market conditions, and we expect margin contraction in the coming quarters will cause a shift in sentiment. In addition low electricity prices mean the Company cannot keep retail prices low next year. We stand by our negative rating for PGN.

Q2 Adjusted EBITDA comes close to consensus expectations

The reported second-quarter EBITDA turned out to be over 20% higher than or projections and market consensus but this was driven by one-offs: release of field abandonment provisions (PN +139m), release of provisions for non-contractual use of land within distribution (PLN +39m), release of provisions for gas reserves within trading (PLN +25m), release of provisions for employee benefits (PLN +55m: PLN 30m of which is within distribution) and creation of voluntary employee turnover (PLN -51m, mainly in trading). As announced earlier, the Company also made write-offs in the upstream segment figured at PLN 361m. The balancing result in distribution was also much higher than projections (PLN 172m vs. PLN 100m), which customarily be neutralized in subsequent periods. After adjustment for all the above elements, second quarter EBITDA would stand at PLN 1.65bn vs. the projected PLN 1.66bn. Broken down by segments, the core profits also did not differ greatly from our outlook. In the upstream segment, the adjusted EBITDA amounted to PLN 886m vs. our projections of PLN 893m. In trade, EBITDA was jacked up to PLN 197m vs. the projected PLN 218m (with the absence of the Qatar contract costs, which we estimated at tens of millions of zloty). In distribution, the EBITDA adjusted by one-offs and the balancing result amounted to PLN 456m vs. PLN 441m. The heating sector fared a little worse (EBITDA PLN 102m vs. PLN 112m). The FX gains anticipated by us on the dollar-denominated loan from Norway failed to appear in financing activity, further to that, the effective income tax rate was higher (35% vs. 25% due to the large share of PGNiG Norway in the EBIT) and, as a result, the posted net profit was more in line with our projections despite the large deviation on the reported EBIT. Operating cash flow stood at PLN 1.6bn with neutral changes recorded in the working capital, which, with a CAPEX below PLN 0.7bn allowed the net debt to be cut (at the end of June, the Company was reporting net cash at a level of PLN 245m). PGNiG maintained its annual EBITDA target at PLN 5.8bn (vs. PLN 4bn earned in the first half of the year, our projections at PLN 6.3bn, and consensus at PLN 6.9bn).

Regulator approves PGNiG retail gas tariff

The energy regulator URE cut PGNiG's retail tariff by 6.5% due to the decrease in costs of acquisition on POLPX and the reduction on the bilateral contract with PGNiG SA. The new tariff will remain binding until the end of the year. The entry into force of the tariff in Q4 will means PGNiG revenues will be offset in relation to the scenario of maintaining the price at around PLN 200-250m (in the case of our projections, the tariff cut compensates for the smaller drop in the wholesale tariff). The regulator's decision demonstrates that it is difficult to assume that PGNiG will once again generate high returns next year on this group of customers. Note that this year the regulator had a much more difficult task as the PGNiG Retail portfolio was closed under a contract with the parent company after relatively high prices corresponding to high ratings on POLPX for Q4 2014. This year, due to the greater capacity on cross-border connections we are not expecting such a surge in quoted prices towards the end of the year, which could justify the higher tariff of the retail Polish Oil and Gas Company.

PGNiG Norway credit agreement

PGNiG Norway signed a $400m reserve-based loan with a consortium of banks (SocGen, BNP, ING, HSBC, Citi, CACIB, SEB and Natixis). The funds raised will help finance investment activities and repayment of loans to the parent company.

PKN Orlen		**Hold**							
Analyst: Kamil Kliszcz		Current price:	PLN 70.15					Last rating	2015-04-28
		Target price:	PLN 70.8						
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	113 597.0	106 832.0	-6.0%	84 191.7	-21.2%	97 707.1	16.1%	Number of shares (m)	427.7
EBITDA	2 418.0	-2 720.0		7 139.5		7 012.7	-1.8%	MC (current price, PLN m)	30 003.8
EBITDA margin	2.1%	-2.5%		8.5%		7.2%		EV (current price, PLN m)	40 619.3
EBIT	307.0	-4 711.0		5 258.3		4 919.0	-6.5%	Free float	72.5%
Net profit	176.0	-5 811.0		3 581.6		3 494.9	-2.4%		
P/E	170.5			8.4		8.6		Price change: 1M	-7.5%
P/CE	13.1			5.5		5.4		Price change: 6M	28.2%
P/BV	1.2	1.6		1.4		1.2		Price change: 12M	73.9%
EV/EBITDA	16.0			5.7		5.7		Low (52 weeks)	40.4
Dyield (%)	2.1	2.1		2.4		3.3		High (52 weeks)	85.3

Refining and petrochemical margins have come under pressure and though they are expected to remain high they are not likely to return to the record summer levels. The contraction in refining is a seasonal development and in petrochemicals it is due to a slowdown in Asia and resumed production in temporarily closed European plants. For PKN Orlen this should result in underperformance relative to LTS and MOL. Fire damage will keep the Litvinov plant closed for weeks, resulting in lower margins. Further PKN faces a possible politically-driven management reshuffle as it remains the last state-owned enterprise not to have been affected so far by the election campaign. We maintain a neutral rating for PKN.

Earlier strategic oil stock repurchase

As expected, PKN decided to repurchase the mandatory reserve sold within a ticket transaction. Under the original contract, the repurchase was to take place in Q1 2016. The cash outflow stood at PLN 2.67bn. Although the selling price was PLN 2.2bn (fuel hedging), the Company failed to hedge the currency risk and the cost will now go up by PLN 0.5bn due to the USD/PLN exchange rate increase. For this reason, a PLN 0.5bn loss on FX losses will be posted in the Q3 P&L account.

Fire at Unipetrol plant

A fire broke out in August at the Unipetrol Litvinov plant at a steam cracker (propylene leak) which resulted in the installation having to be shut down. At the end of the day, the petrochemical complex was practically closed and the ammonia installation and refinery were operating at minimum load. Unipetrol announced that it will assess the damages over the next few days and see how long the downtime resulting from the outbreak of fire will last. The Litvinov complex is the core of the Unipetrol's downstream segment which generated just under CZK 4bn EBITDA LIFO (CZK 42m per day) in the second quarter. The Company failed to provide the results generated by the refinery and the butadiene installation in Kralupy during this period (other assets of the segment), which makes it difficult to precisely assess the potential daily losses for the concern resulting from the Litvinov downtime. The recent cracker downtime lasting a two weeks at a time at this plant set the Company back by CZK 19-24m per day. Considering the above, the impact of a potential four-week interruption in production at the petrochemical complex and the limited refinery operations (petrochemical feedstocks) could cost Unipetrol CZK 0.8bn (PLN 120m). Note, however, that Unipetrol should be insured against such events also in terms of the lost margin, hence, it is too early to assess the detrimental impact of the fire on the concern. Nevertheless, this kind of failure at a peak margin period undoubtedly means bad news both for Unipetrol as well as Orlen (in Q2, Unipetrol generated ca. 20% EBITDA LIFO of the Orlen Group).

ENI selling petrol stations in Hungary

The press reported that both MOL as well as PKN Orlen may be interested in taking over a network of 180 petrol stations on the Hungarian market from ENI (half of which are ENI petrol stations). MOL is the market leader in Hungary, where it owns 364 petrol stations. It seems that it will be more determined to win this acquisition deal than Orlen (especially considering recent movements in this area), which would have to build a new outpost for the retail segment that is far from its refineries. In the case of the Polish concern, a more natural move would be to buy such assets in southern Germany.

Dom Maklerski

Polwax

Buy

Analyst: Kamil Kliszcz	Current price:	PLN 16.11	Last rating	2014-11-06
	Target price:	PLN 24.2		

(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	241.1	258.2	7.1%	257.2	-0.4%	260.0	1.1%	Number of shares (m)	10.2
EBITDA	27.5	30.8	11.8%	32.7	6.2%	33.7	3.2%	MC (current price, PLN m)	164.3
EBITDA margin	11.4%	11.9%		12.7%		13.0%		EV (current price, PLN m)	205.3
EBIT	24.9	27.7	11.4%	29.9	8.0%	30.8	3.1%	Free float	51.3%
Net profit	20.0	22.4	12.2%	23.6	5.2%	24.3	3.1%		
P/E	8.1	7.2		7.0		6.8		Price change: 1M	-7.9%
P/CE	7.1	6.3		6.2		6.1		Price change: 6M	-15.4%
P/BV	3.0	2.5		2.1		1.8		Price change: 12M	7.4%
EV/EBITDA	8.2	6.5		6.3		5.8		Low (52 weeks)	14.9
Dyield (%)	2.5	6.2		7.6		7.1		High (52 weeks)	19.6

Polwax shares have taken a hit in recent weeks amid a general market downtrend combined with the removal of anti-dumping duties from Chinese candle imports. In our view the potential competition from China will have a limited impact on Polwax which mainly produces paraffin for cemetery lanterns. More importantly the situation in the paraffin market in the first half of 2015 was much harder than in the same period last year. In H1 2015 Polwax achieved 35% of our full-year EBITDA estimate (vs. 40% in H1 2014) which may have to be revised downward depending on the results for the third quarter. That said margins on lantern paraffin have stabilized by now and margins on industrial paraffin products remain high.

EU lifts anti-dumping duties on Chinese candles

The European Commission, following the year-long settlement proceedings, decided to repeal anti-dumping duties on Chinese candle imports. According to the Commission, Chinese producers have reduced their capacities and currently do not have the resources to reactive them, which means that the risk of the European market being inundated with cheap imports is limited. Candle producers differ, claiming that their Chinese rivals are unpredictable. The duties were imposed in 2009. European producers are currently covering around 90% of the Continent's candle demand. A possible increase in imports from China could jeopardize the situation for Polwax clients, but it is still too early for a clear assessment of the decision of the EC. Between April 2013 and March 2014 EU candle production amounted to 413,000 tons while Chinese imports classified as dumped totaled 39,000 tons. At the same time EU candle consumption was 443,000 tons. Before the 2009 anti-dumping duty in 2005-2007 Chinese imports totaled 150-180kt compared to EU demand of 550-570kt, indicating that cheap Chinese imports account for only 9% of total EU consumption today vs. 28% before the restrictions.

Polwax posts worse-than-expected Q2

Polwax generated 15% lower-than-expected EBITDA in Q2 2015 which, however, is seasonally the slowest quarter of the year and as such has little bearing on full-year profits (representing 19% of the annual EBITDA in 2014). After a successful first quarter sales in the candle segment fell more than anticipated in the second quarter (10% y/y), but sales of industrial waxes posted a 14% increase from last year driven by higher volumes and sales prices. On an improved sales mix and higher prices the gross profit margin increased from 17.2% in Q2 2014 to 19.5% in Q2 2015. On a consolidated basis, however, lower revenue and consolidation expenses resulted in a q/q contraction in the EBITDA margin. Q2 financing activity and tax were in line. Polwax generated negative operating cash flow of PLN 6m in Q2 2015 vs. PLN -10m in Q2 2014. CAPEX in the quarter totaled PLN 6.6m including payment for acquired laboratories and land and a partial payment for the 'Future' project (EUR 0.6m out of EUR 1m total). Consequently net debt posted a temporary increase to PLN 23.6m.

Synthos

Hold

Analyst: Jakub Szkopek	Current price:	PLN 3.76	Last rating	2015-05-05
	Target price:	PLN 4.75		

(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	5 359.3	4 618.8	-13.8%	4 799.8	3.9%	5 856.8	22.0%	Number of shares (m)	1 323.3
EBITDA	605.3	635.8	5.0%	651.5	2.5%	816.9	25.4%	MC (current price, PLN m)	4 975.4
EBITDA margin	11.3%	13.8%		13.6%		13.9%		EV (current price, PLN m)	6 077.8
EBIT	453.0	479.6	5.9%	486.8	1.5%	641.3	31.7%	Free float	37.5%
Net profit	416.9	356.9	-14.4%	355.0	-0.5%	490.0	38.0%		
P/E	11.9	13.9		14.0		10.2		Price change: 1M	-19.8%
P/CE	8.7	9.7		9.6		7.5		Price change: 6M	-15.1%
P/BV	2.2	2.2		2.2		2.0		Price change: 12M	-20.7%
EV/EBITDA	9.2	9.0		9.3		8.0		Low (52 weeks)	3.8
Dyield (%)	20.2	8.3		6.6		5.0		High (52 weeks)	4.9

Synthos delivered a positive surprise in Q2 2015 and despite a weak first quarter its earnings for the first half of 2015 were significantly better than in the same period in 2014. Synthos completed investment in SSBR capacity and it expects no delays in the power generation project. Due to a recent Czech refinery fire the Company has had to look for alternative fuel sources for its production plant in Kralupy. The slowdown in China, combined with falling butadiene prices, mean that Synthos's profits are set for a decline in Q3 2015. We maintain our 2015 forecasts and hold rating for Synthos.

2015 Q2 results

At PLN 1,147.2m, the Q2 2015 revenue of Sytnhos came 14.9% ahead of our forecast. By segment revenue from rubber and latex exceeded expectations by 20.3% after 3.7% y/y growth, and sales of styrene products were 14.8% higher than anticipated after rising 0.3% (the two segments account for over 80% of total sales). EBITDA exceeded expectations at PLN 232.6m, driven by the segment of styrene products (+116.5% y/y) which benefitted from an increase in European sales prices. In synthetic rubber despite higher butadiene prices in rival Asian markets EBITDA fell 6.4% y/y. On the upside the Europe-Asia butadiene price gap and cheaper exports to China resulted in a strong increase in rubber sales in H1 2015. Q2 2015 net profit at PLN 154.8m was 46.1% higher than our forecast. Synthos incurred lower-than-expected FX losses on foreign-currency denominated bonds in the period. Q2 2015 operating cash flow was PLN 152.4m vs. PLN 124.0m in Q2 2014. Net debt stood at PLN 694.7m at 30 June 2015 vs. PLN 635.8m at 31 March. Synthos achieved 44% of our annual revenue forecast, 51% of expected EBITDA, and 69% of our annual net profit estimate in H1 2015.

Synthos revealed during the second-quarter earnings conference that after a timely launch the new SSBR plant produced the first rubber slab on 4 August 2015. Further the power production project is progressing on schedule and is expected to be finished in the third or fourth quarter of 2015. Due to a Czech refinery fire the Company has had to look for alternative fuel sources for its production plant in Kralupy.

Power Utilities

Different ideas for utility involvement in coal mine bailout

The original idea on how to save Poland's largest coal miner Kompania Węglowa (KW) from bankruptcy was to involve the state coal trader Węglokoks, with support from a special fund consisting of assets contributed by PGE and Energa. Most recently the State Treasury announced it did not expect any contributions from power plants, however speculation to the contrary is still rife in the market. According to media stories KW will receive capital contributions from PGE (PLN 400m), Energa (PLN 300m), and PGNiG Termika (PLN 100m).

Energy consumption upturn in July +0.7%

According to PSE data, energy consumption in July rose year-on-year by 0.66% with a YTD dynamics of +1.68%. Energy production grew by 2.2% as a result of the changes in the net imports balance by 0.2 TWh. An increased load was noted by hard-coal units (+1.5%), gas units (+7.6%) and wind power plants (+66%). Lignite-fired output fell (-0.2%) as did production in hydroelectric power plants (-42$), which was driven by the unfavorable hydrological conditions. A lower demand dynamics compared to the last few months is down to the slightly lower temperatures on a year-on-year basis (-0.2 degrees) combined with weaker manufacturing growth.

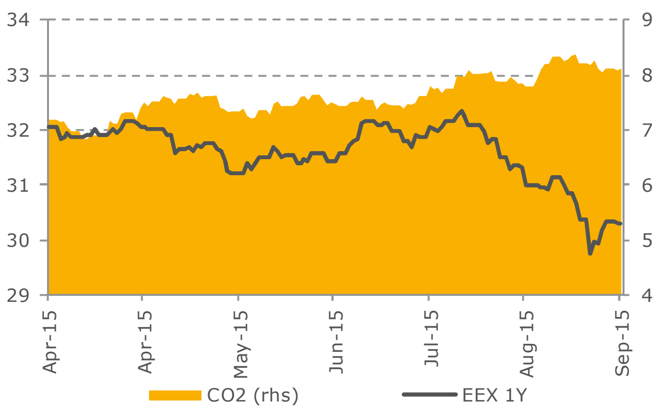
Energy market update

Tauron stopped 2016 power sales commitments at about 4 TWh in April (its 2015 production target is 15-16 TWh). This gave rise to speculation that Polish power plants are having trouble selling electricity because they are being pushed out of the merit order by clean producers. In our view this speculation is completely wrong. Electricity demand in Poland has been rising faster than expected this year (+1.7% ytd), and next year the capacity reserve is expected to decrease by ca. 0.5 GW. This includes the cold reserve (-0.8 GW) and the power stations in Bełchatów (–370 MW), Stalowa Wola and Łagisza (-225 MW), and Połaniec (-225 MW), new wind farms (+1.0 GW maximum, 0.4 GW available capacity), and two gas-fired plants (0.9 GW). The real reason why utilities have been reluctant to commit to firm sales contracts (the volume of electricity sold in July and August is estimated to have been 4 TWh lower than in the same months last year) as we see it they are waiting for a pickup in prices which today are being weighed down by low spot prices tied to cheap coal.

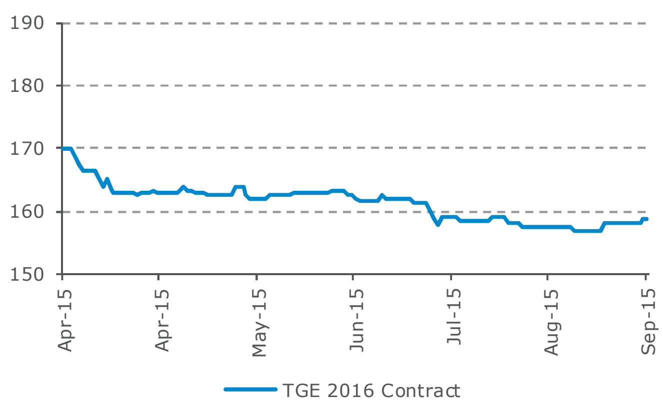
Operating reserve budget set for review

One reason why we think a rebound in electricity prices is forthcoming is the expected increase in the operating reserve budget by the Polish transmission system operator PSE. PSE is currently in talks with power plants and the energy regulator to determine the formula which will be used next year to reward companies willing to maintain standby reserves. This year the OR budget was cut by ca. PLN 150-200m to PLN 400m. According to unofficial reports the 2016 budget being discussed is closer to PLN 600-700m as the regulator and the TSO were made aware of the need to up the budget after a capacity shortage this August forced power plants to limit supplies to industrial customers. The 2016 OR budget will be announced no earlier than in December, but the market may start discounting the hike sooner.

Electricity (EUR/MWh) v. Carbon Allowances (EUR/t)



Poland 2016 Electricity Contracts (PLN/MWh)



Source: Bloomberg, Dom Maklerski mBanku

CEZ	Hold								
Analyst: Kamil Kliszcz	Current price:		PLN 84.7					Last rating	2015-07-30
	Target price:		PLN 89.2						
(CZK m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	216 988.0	200 657.0	-7.5%	213 266.8	6.3%	216 380.5	1.5%	Number of shares (m)	538.0
EBITDA	73 592.0	64 651.0	-12.1%	69 808.8	8.0%	63 309.1	-9.3%	MC (current price, PLN m)	45 567.7
EBITDA margin	33.9%	32.2%		32.7%		29.3%		EV (current price, PLN m)	71 334.2
EBIT	45 690.0	36 946.0	-19.1%	41 196.8	11.5%	35 572.9	-13.7%	Free float	29.5%
Net profit	35 886.0	22 403.0	-37.6%	28 005.9	25.0%	23 556.4	-15.9%		
P/E	8.1	13.0		10.4		12.3		Price change: 1M	-6.9%
P/CE	4.6	5.8		5.1		5.7		Price change: 6M	-10.4%
P/BV	1.1	1.1		1.1		1.1		Price change: 12M	-11.6%
EV/EBITDA	6.4	7.1		6.5		7.2		Low (52 weeks)	83.0
Dyield (%)	7.4	7.3		7.4		7.2		High (52 weeks)	100.6

As German electricity prices and thermal coal prices continue to fall, this is affecting the profitability of CEZ's generation assets (lignite, nuclear plants) to the point where, like its Polish peer PGE before, the Czech Utility may have to book impairment charges this year. The downside risk entailed in an earnings slowdown is still offset by attractive dividend, however by now the 2016E dividend yield matches the 5-year average, and we do not think investors will accept anything less as the US mulls interest rate hikes and its public utility sector suffers from worsened sentiment. CEZ outperformed the Polish power sector in recent weeks although we see more upside potential in local power stocks in light of the upcoming increase in electricity prices on the POLPX exchange. We maintain a neutral rating for CEZ.

CEZ Q2 EBITDA slightly beats expectations

The reported quarterly results of CEZ on the level of the EBITDA were in line with our expectations but were boosted by a one-off event by CZK 1.1bn. After the adjustment, the EBITDA would fall short of our views by 6% and by 10% compared to the market consensus. The Management Board also decided to reduce the annual forecast from CZK 70bn to CZK 68bn (CZK 69.4bn expected by the consensus) due to the later than planned opening up of new coal capacity, the prolonged downtime in Temelin and the negative price trends on the energy market. Summing up, we are disappointed by the Q2 report. In the power production segment, the EBITDA was in total just under CZK 8bn vs. our forecast of CZK 8.8bn. The energy output was close to our projected level, which is why it was the average realized price that probably was responsible for the surprise (low spot prices). Distribution EBITDA came in at CZK 6.7bn vs. the forecast CZK 5.8bn. However, the result was additionally propped up by the CZK 1.1bn reimbursement received by CEZ Prodej back in 2010. In the case of extraction and other activity no deviations were observed. The balance of financial activity turned out to be more favorable than expected (CZK +0.3bn vs. – CZK 1.1bn) and the main reason for the surprise was the dividend from the consolidated companies by means of the equity method which was not taken into account (ca. CZK 0.7bn). In effect, the net profit exceeded our expectations.

The operating cash flow (CZK 13.6bn) exceeded the capital expenditure (CZK 7.7bn) and, in effect, net debt fell from CZK 159bn to CZK 150bn.

Enea	Buy								
Analyst: Kamil Kliszcz	Current price:		PLN 13.64					Last rating	2015-07-30
	Target price:		PLN 18.1						
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	9 150.5	9 855.4	7.7%	9 903.4	0.5%	9 815.7	-0.9%	Number of shares (m)	441.4
EBITDA	1 667.6	1 914.9	14.8%	1 886.6	-1.5%	1 759.1	-6.8%	MC (current price, PLN m)	6 021.3
EBITDA margin	18.2%	19.4%		19.1%		17.9%		EV (current price, PLN m)	8 346.0
EBIT	905.9	1 186.5	31.0%	1 129.9	-4.8%	964.4	-14.6%	Free float	48.5%
Net profit	722.5	908.3	25.7%	848.9	-6.5%	686.4	-19.1%		
P/E	8.3	6.6		7.1		8.8		Price change: 1M	-6.6%
P/CE	4.1	3.7		3.7		4.1		Price change: 6M	-17.3%
P/BV	0.5	0.5		0.5		0.5		Price change: 12M	-14.8%
EV/EBITDA	3.0	3.7		4.4		5.5		Low (52 weeks)	13.0
Dyield (%)	2.6	4.2		3.4		4.2		High (52 weeks)	18.1

Against sentiment Enea has outperformed its Polish sector peers this year thanks to strong earnings (with 2015 EBITDA likely to be as good as the adjusted year-ago figure) achieved thanks to internal initiatives (cost cuts which through cutbacks in payroll and services alone totaled PLN 30m y/y in H1 2015, coupled with an improved efficiency of heat generation) as well as thanks to favorable market conditions (which through a pro-active purchasing policy resulted in a reduction in the effective coal costs by 5.5% y/y). After the completion of a new power plant in July 2017, boosted by this year's PLN 440m PPA compensation, Enea's dividend-paying capacity will double to produce a target dividend yield of over 6%, allowing for a narrower discount to peers on EV/EBITDA. We maintain a buy rating for ENA.

Enea eyes high PPA compensation

The energy regulator URE determined after final adjustments that Enea is owed PLN 315m in PPA compensation, making for a total compensation of PLN 551m still due. Enea has already recognized PLN 258m of the expected PPA compensation, so in H2 2015 it is set to book the remaining PLN 293m. By the end of the year it should receive PLN 442m in cash, adding ca. PLN 0.66 to our per-share valuation.

Enea post in-line core Q2 EBITDA

At PLN 385m Enea's Q2 2015 EBITDA slightly missed expectations, but this was due solely to a PLN 10m one-time net loss on other operating activity. By segment EBITDA in generation fell short of our PLN 122m estimate at PLN 112m despite higher volumes, we think because of a lower trading margin. Distribution EBITDA was in line at PLN 271m vs. PLN 268m expected. Trade EBITDA beat our PLN 21m forecast at PLN 31m despite one-time charges, but this was offset by high intercompany eliminations related to certificates of origin. Enea generated a gain of PLN 3.3m on financing activity in Q2 (we expected a PLN 16.8m loss) but after a higher-than-expected tax the quarterly profit fell 5% short of our forecast. Operating cash flow was strong in the second quarter at PLN 594m (of which PLN 270m owed to improved working capital) and after CAPEX of PLN 590m net debt at 30 June remained steady at PLN 1.38bn.

Acquisition of 36 MW wind farm

Enea entered into a conditional agreement to acquire a 100 percent stake in the company responsible for the construction of a 36 MW wind farm project. The farm, which is located in central Poland, will be comprised of 12 wind turbines each with 3 MW capacity. According to the provisions of the contract, Enea will become the hundred percent shareholder once the investment has been officially commissioned for use. The wind farm is planned to be launched by the end of the year. Enea has failed to stipulate the value of the possible transaction but it can be assumed to range between PLN 250-300m.

Management Outlook

Enea CEO, Krzysztof Zamasz, told Parkiet that the Company is considering various acquisition scenarios, also in the coal mining sector (journalists enquired about KHW or Bogdanka), however, final decisions are yet to be made. The Management Board is carefully monitoring the environment in the hope to welcome new and promising opportunities. It also stressed that it is not pushed for time. The interview may further strengthen speculation about such a deal being signed. We believe this to be a more distant perspective. KHW is currently not for sale (politically, this process may be more drawn out in time). As for Bogdanka, we see certain restrictions keeping Enea from financing such a venture.

Energga	Reduce								
Analyst: Kamil Kliszcz	Current price:		PLN 19.1					Last rating	2015-07-30
	Target price:		PLN 18.6						
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	11 429.2	10 590.6	-7.3%	10 685.2	0.9%	10 498.9	-1.7%	Number of shares (m)	414.1
EBITDA	1 965.5	2 307.0	17.4%	2 182.2	-5.4%	2 001.0	-8.3%	MC (current price, PLN m)	7 908.7
EBITDA margin	17.2%	21.8%		20.4%		19.1%		EV (current price, PLN m)	11 911.7
EBIT	1 194.8	1 446.2	21.0%	1 301.1	-10.0%	1 081.4	-16.9%	Free float	50.0%
Net profit	764.0	982.1	28.6%	878.3	-10.6%	691.1	-21.3%		
P/E	10.4	8.1		9.0		11.4		Price change: 1M	-6.8%
P/CE	5.2	4.3		4.5		4.9		Price change: 6M	-14.5%
P/BV	1.0	0.9		0.9		0.9		Price change: 12M	-16.2%
EV/EBITDA	5.5	4.8		5.5		6.4		Low (52 weeks)	18.5
Dyield (%)	6.3	5.2		7.5		5.1		High (52 weeks)	27.0

Energa outperformed local peers in the last few weeks against tough market conditions, owing to its low negative exposure to electricity prices and limited risk of involvement in the coal mine bailout. In addition the transfer of a power plant project to a state investment fund put an end to concerns over investment risks, though in our view the project will probably come back on the table in this election campaign. Further Energa is set for a slowdown in H2 2015 (scheduled downtime, distribution volume settlements) expected to last through 2016 (lower WACC, low prices of green certificates, lack of hydropower subsidies). With all this in mind we maintain a negative rating for ENG.

Energa to transfer assets to state investment fund

Energa has offered to transfer PLN 400-500m-worth of assets (shares in one of its power stations and a new power plant project) to the Polish Development Fund PIR which could use these assets as collateral against loans earmarked among others to fund the ailing coal industry. An asset transfer is a better option than any of the other ways of involving Energa in the coal industry bailout proposed before. That said a minority stake in a power station which does not have the capacity to pay dividends (with H1 2015 EBITDA at PLN 75m) is not going to give PIR much bargaining power when it comes to negotiating financing.

Q2 core profits fall slightly short of expectations

The reported EBITDA in Q2 was slightly lower than expected, nevertheless, several one-offs appeared in the results. On the one hand, they were subject to a green certificate write-down at PLN -29m (this write-down was taken into account), PDO costs in distribution (PLN -9m) and wind farm project write-downs (PLN -11m). While on the other, the Company has reduced its actuarial provisions in distribution due to the PLN 26m interest rate increase. The adjusted EBITDA therefore would ultimately be PLN 20m lower than our projections. Broken down into different segments, the distribution segment fared better (EBITDA PLN 433m vs. PLN 420m) mainly due to the higher volumes and the mentioned reversal of provisions. No significant deviations were recorded in the RES segment (EBITDA PLN 50m), similarly to the Ostrołęka Power Plant (PLN 30m), whose results were impaired by the much lower level of production accompanied by a 4% q/q decrease in coal production costs. The trade segment fell short of expectations where the EBITDA amounted to a mere PLN 18m vs. PLN 44m. This was probably down to the higher than expected costs of the "off-taker of last resort" function. Financing activity was slightly worse than expected (PLN 10m from our estimate), which combined with the higher effective income tax rate which did have a greater impact on the bottom line. Operating cash flow stood at PLN 464m, which with CAPEX at PLN 341m and the unpaid dividends increased its net debt to PLN 3.7bn (1.6x EBITDA).

PGE	Buy								
Analyst: Kamil Kliszcz	Current price:	PLN 15.08						Last rating	2015-09-03
	Target price:	PLN 17.6							
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	30 145.0	28 137.0	-6.7%	29 955.0	6.5%	29 567.5	-1.3%	Number of shares (m)	1 869.8
EBITDA	7 829.0	8 120.0	3.7%	7 909.6	-2.6%	7 265.6	-8.1%	MC (current price, PLN m)	28 196.3
EBITDA margin	26.0%	28.9%		26.4%		24.6%		EV (current price, PLN m)	31 440.8
EBIT	4 847.0	5 096.0	5.1%	4 669.2	-8.4%	4 003.1	-14.3%	Free float	38.1%
Net profit	3 948.0	3 638.0	-7.9%	3 653.9	0.4%	3 052.7	-16.5%		
P/E	7.1	7.8		7.7		9.2		Price change: 1M	-14.6%
P/CE	4.1	4.2		4.1		4.5		Price change: 6M	-24.8%
P/BV	0.6	0.6		0.6		0.6		Price change: 12M	-31.8%
EV/EBITDA	3.2	3.3		4.0		5.0		Low (52 weeks)	14.8
Dyield (%)	5.7	7.3		5.2		5.2		High (52 weeks)	22.5

PGE stock has fallen 20% ytd led by a continuing electricity price downturn, speculation about involvement in the coal mine bailout, and asset impairment. At the current level the shares have become an attractive investment option, prompting a rating upgrade from hold to buy. Going forward we anticipate a rebound in Polish electricity prices after an increase in the operating capacity reserve budget, and we think the government will drop the idea of involving utilities in saving the coal industry. Further the asset impairment losses incurred by PGE will reduce its annual D&A expenses by ca. PLN 0.5bn, and under the new dividend policy this implies higher shareholder distributions. Finally PGE is revising its capital investment plans and we think it may cancel some of the projects, which include a PLN 3.64 billion power plant project.

PGE Q2 2015 EBITDA misses expectations by 9%

At PLN 2.1bn the Q2 2015 EBITDA of PGE fell slightly short of expectations despite a one-time boost of PLN 245m (mainly charge reversals). Adjusted for PPA compensation of PLN 139m (we expected PLN 162m) EBITDA would have missed our forecast by 9% at PLN 1.7bn. The main reason behind the downside surprise was the conventional generation segment where recurring EBITDA fell PLN 100-150m short of our expectations (depending on the distribution of actuarial reserves between operating segments) led by lower production by lignite-fired power plants. In the renewables segment EBITDA missed the PLN 90m mark as well at PLN 77m, due probably to steeper-than-anticipated decline in prices of green certificates. Operating profits in the remaining segments came more or less in line with expectations. PGE incurred financing costs of PLN 7m in Q2, less than our PLN 34m forecast, owing to gains earned on carbon market transactions. With operating cash flow at PLN 1.7bn and CAPEX at PLN 1.6bn net debt in Q2 decreased only slightly by PLN 0.2bn.

Regulator sets stranded costs compensation adjustment at PLN 559m

Polish power regulator the URE made an adjustment to the annual stranded cost compensation for PGE in the amount of PLN 559m. The adjustment was factored into PGE's PPA compensation for 2014.

PGE adjusts dividend policy

In the wake of the Q2 impairment losses PGE has adjusted its dividend policy by setting the annual dividend payout ratio at 40-50% of net profit adjusted for fixed asset impairment losses. Given the expected PLN 0.5bn annual D&A savings this means that not only can shareholders look forward to another dividend next year, the dividend could actually be even higher.

PGE to take PLN 8.8bn impairment loss against Q2 profit

As warned PGE booked asset impairment losses of PLN 8.8bn in Q2 of which PLN 5.1bn contributed by the Turów power plant and PLN 3.1bn incurred by the Bełchatów station. This confirms our theory that the downward margin adjustments made in the asset impairment model applied to lignite burning, reflecting lower prices of hard coal (PGE's model assumed flat coal prices through 2018 followed by a rebound in 2019-20, a 20% increase in electricity prices by 2020, and a 2.5x increase in prices of carbon allowances by 2020). PGE is going to revise its strategy by the end of the year, with the objectives including further improvement in cost effectiveness (PLN 1bn savings after 2016), diversification of the generation portfolio, and CAPEX optimization.

PGE extends power plant deadline to comply with emission caps

PGE has extended the deadline for the completion of the power plant in Turów by three months during which the general contractor is to prepare a plan for complying with the tightened EU emission caps. We do not think the added works will boost the project budget by much.

Tauron	**Buy**								
Analyst: Kamil Kliszcz		Current price:	PLN 3.4					Last rating	2015-07-30
		Target price:	PLN 4.7						
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	19 131.1	18 440.8	-3.6%	19 260.8	4.4%	19 011.8	-1.3%	Number of shares (m)	1 752.5
EBITDA	3 661.5	3 627.1	-0.9%	3 463.6	-4.5%	3 446.8	-0.5%	MC (current price, PLN m)	5 958.7
EBITDA margin	19.1%	19.7%		18.0%		18.1%		EV (current price, PLN m)	14 612.2
EBIT	1 934.1	1 830.1	-5.4%	1 744.7	-4.7%	1 670.1	-4.3%	Free float	54.5%
Net profit	1 308.3	1 180.9	-9.7%	1 128.8	-4.4%	956.3	-15.3%		
P/E	4.6	5.0		5.3		6.2		Price change: 1M	-11.0%
P/CE	2.0	2.0		2.1		2.2		Price change: 6M	-26.7%
P/BV	0.3	0.3		0.3		0.3		Price change: 12M	-34.7%
EV/EBITDA	3.2	3.5		4.2		4.8		Low (52 weeks)	3.2
Dyield (%)	5.9	5.6		4.4		3.8		High (52 weeks)	5.5

Tauron stock has plummeted 30% since the beginning of the year, making it the one of the worst performers in the sector. After a temporary decline the discount on EV/EBITDA at which the shares are valued to the peer group has widened back to 20%. The negative sentiment stems from worries over the impact of the planned coal mine acquisition on the balance sheet and loan covenants. Adding to the concerns are low electricity prices and 2016 power supply commitments. By now we can say with some certainty that the mine acquisition will be on Tauron's terms (with a neutral effect on shareholder value), and we anticipate a rebound in power prices driven by a raised operating capacity reserve budget (Tauron is the main beneficiary of the reserve payments). Based on this we think 2016 may see a repeat of the 2014 massive upside earnings surprise delivered by the generation segment. We maintain a buy rating for TPE.

Adjusted EBITDA 9% higher than consensus outlook

The Q2 2015 EBITDA came in at PLN 894m and was 3-4% higher than our projections and the expectations of analysts. However, reported earnings were plagued by the negative balance on other operating activities amounting to PLN -73m, in which adjustment o stocks and interim production settlements at PLN -86m also played their part (our outlook only took into account the adjustment effect of 100,000 tons of stock at PLN 30m) and the reversal of employee benefit provisions at PLN +12m. Once the forecasts and profit were brought to comparability, EBITDA would be 9% higher than the forecast. An upside surprise appeared in terms of production (EBITDA PLN 188m vs. projected PLN 155m) and distribution (EBITDA PLN 696m vs. forecast PLN 644m). In both instances, volumes were the main sources of surprise (y/y dynamics +9% and +4%, respectively), as well a cost savings (mainly in production). The trading segment noted results in line with expectations (EBITDA PLN 141m). In production, what with the mentioned higher stock adjustments and accruals, the EBITDA loss turned out to be higher than our projections (PLN -113m vs. PLN -85m). The financing activity balance turned out to fare much worse than expected (PLN -158m vs. PLN -97m) due to the losses on the valuation of CIRS transactions hedging instruments at PLN -67m. This led to the reported bottom line being below expectations. Cash flows from operations reached a level of PLN +939m and practically compensated the capital expenditure (PLN 949m). The net debt showed a small rise to PLN 6.9bn (2.0x EBITDA).

Tauron defines terms of Brzeszcze acquisition

Tauron has set the following terms on the potential acquisition of the assets of the KWK Brzeszcze (KWK) coal mine from SRK: 1) due to a risk of the acquisition being deemed excessive state aid SRK has to make a public tender for the sale of the KWK assets 2) the price will be a token 1 zloty 3) the offer will be made by an SPV formed jointly with government agencies 4) the offer will be subject to the SPV partners agreeing on the terms of their respective investment in KWK 5) SRK should address the business risks faced by KWK before the takeover through measures including workforce reduction to 828 FTEs, outsourcing of 715 employees, implementation of an incentive-based compensation scheme, and the installation of a ventilation system. In deciding on whether to make an offer on KWK Tauron will rely on professional expertise and feasibility studies. In 2014 KWK Brzeszcze generated a PLN 200m EBITDA loss with coal output at 0.9mmt and employment at 2,200 people. The downsizing plan can generate savings for the mine of PLN 100-150m and assuming coal production increases by 0.6mmt this implies PLN 120m in additional revenue. After investment of PLN 253m and target EBITDA at PLN 70m the NPV of the project could come close to zero (or above if coal prices rebound). On the terms proposed above the KWK acquisition will not destroy value for shareholders, nor will it affect Tauron's balance sheet. contrary to the market concerns which in the last few weeks have taken away between PLN 0.3 and 0.5 from Tauron's per-share value.

Voluntary turnover program in upstream segment

Tauron's Coal Mining unit Tauron Wydobycie launched a voluntary leave program on 6 August which should slash 200 jobs and bring employment down to 5.6 thousand workers. The program will last until 15 October and is directed at pre-retirement-age employees. Voluntary turnover may drive Tauron's annual labor costs down by ca. PLN 20m.

Supervisory Board reshuffle

The Polish State Treasury dismissed three members of Taurons' Supervisory Board and appointed five new members. This coincided with the resignation of Chairman Antoni Tajduś for an undisclosed reason.

Trade unions demand meeting with State Treasury

Tauron Group trade unions are set on calling an urgent meeting with the Treasury Minister concerning the Brzeszcze buyout process in full swing. In a letter addressed the State Treasury, unionists point out the Treasury putting pressure on a non-market rate take-over of these assets have raised the concerns of the crew over their job and question the continuity of the investments that ensure the Group's growth.

KWK Brzeszcze mine up for sale

The state mine restructuring vehicle SRK announced a tender for the assets of the KWK Brzeszcze coal mine, set to be finalized on 25 September. This is good news for Tauron which can probably buy the mine's assets on its own terms. The completion of the tender before the October elections would also be beneficial for the Company.

Telecommunications

Netia	Hold								
Analyst: Paweł Szpigiel	Current price:		PLN 5.57					Last rating	2015-01-26
	Target price:		PLN 5.8						
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	1 876.0	1 674.0	-10.8%	1 562.3	-6.7%	1 512.0	-3.2%	Number of shares (m)	347.9
EBITDA	532.8	738.7	38.7%	421.8	-42.9%	397.3	-5.8%	MC (current price, PLN m)	1 937.9
EBITDA margin	28.4%	44.1%		27.0%		26.3%		EV (current price, PLN m)	2 111.1
EBIT	92.8	157.4	69.7%	41.6	-73.5%	55.6	33.4%	Free float	35.9%
Net profit	46.3	174.8	277.7%	20.0	-88.6%	31.3	56.4%		
P/E	41.9	11.1		97.0		62.0		Price change: 1M	-4.8%
P/CE	4.0	2.6		4.8		5.2		Price change: 6M	-5.1%
P/BV	0.9	0.9		1.0		1.1		Price change: 12M	-2.3%
EV/EBITDA	4.2	2.9		5.0		5.2		Low (52 weeks)	5.4
Dyield (%)	0.0	7.5		7.7		7.8		High (52 weeks)	6.6

We maintain a neutral view on Netia which reported Q2 2015 results in line with expectations, with stable cash flow reflecting a stable financial situation. The acquisition of TK Telekom at 5.2x EV/EBITDA (not including cost synergies) does not seem to be priced in yet. We expect synergies on the acquisition to be achieved primarily through payroll cuts. Further there is potential for synergies in SG&A (IT, office maintenance, etc.), rental costs, and network maintenance. Assuming ca. PLN 40m in synergies the deal has a good value at <4.1x EV/EBITDA. By acquiring TK Telekom Netia gained access to an important customer in PKP and added 7,400 kilometers of fiber-optic network. The other benefits of the acquisition include slower revenue erosion as well as positioning Netia as a prime acquisition target (for players such as Cyfrowy Polsat).

Q2 2015 results

Netia's Q2 2015 revenue at PLN 380.3m showed a year-on-year drop of 9.9% led again by direct voice (-20% y/y) and data (-7%). On the upside Netia continues to build revenues from other telecommunications services (PLN 36.8m vs. PLN 32.2m a year ago) through activity in B2B. COGS totaled PLN 268.6m vs. PLN 271m expected and SG&A were PLN 109.0m vs. PLN 105m expected. Like Orange, Netia displayed intensified commercial activity in Q2 (reflected in advertising costs which increased by 81% and PLN 3.6m and other sales and distribution costs which increase 13% and PLN 2.2m), offset by lower administrative expenses Restructuring bore fruit in Q2 with payroll costs down from PLN 50.1m in Q1 2015 and PLN 56m in Q2 2014 to PLN 43.7m in Q2 2015. Netia recognized other operating costs of PLN 6.9m in the quarter (we expected only PLN 1.0m), due mainly to a refund of a court deposit (PLN 4.0m). On an adjusted basis EBITDA amounted to PLN 108.6m, in line with our PLN 109.4m forecast. Netia recognized financing gains of PLN 0.4m vs. PLN 1.3m financing costs expected by us. Operating cash flow was PLN 117m in Q2 vs. PLN 94m in the same period in 2014 and combined with relatively stable CAPEX this made for nearly twice higher FCF year on year, owed mainly to positive changes in working capital.

Orange Polska

Buy

Analyst: Paweł Szpigiel		Current price:	PLN 7.09					Last rating	2015-08-06
		Target price:	PLN 10.2						
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	12 923.0	12 212.0	-5.5%	11 834.8	-3.1%	11 467.7	-3.1%	Number of shares (m)	1 312.0
EBITDA	3 895.0	4 059.0	4.2%	3 625.1	-10.7%	3 349.4	-7.6%	MC (current price, PLN m)	9 302.1
EBITDA margin	30.1%	33.2%		30.6%		29.2%		EV (current price, PLN m)	13 208.6
EBIT	788.0	986.0	25.1%	716.0	-27.4%	637.2	-11.0%	Free float	49.3%
Net profit	294.0	535.0	82.0%	357.0	-33.3%	291.2	-18.4%		
P/E	31.6	17.4		26.1		31.9		Price change: 1M	-12.7%
P/CE	2.7	2.6		2.8		3.1		Price change: 6M	-25.6%
P/BV	0.7	0.8		0.8		0.8		Price change: 12M	-34.8%
EV/EBITDA	3.6	3.3		3.6		4.3		Low (52 weeks)	7.1
Dyield (%)	7.1	3.5		7.1		7.1		High (52 weeks)	11.9

The Polish Ministry for Administration and Digitization launched consultations last week on a plan to bring the LTE spectrum auction to an end. The Ministry's push for an end means that contrary to our expectations the auction will not be shut down and redone on new terms. As a result we have to change our expectations as to the auction's impact on Orange Polska in case of a win, with the CAPEX per 800 MHz band assumed at PLN 1.3bn. Under the Ministry's proposal the auction will end on the 115th bidding day, and this prospect can reduce our valuation of Orange Polska (OPL) by PLN 1.3 (with the target price at PLN 10.20, all other things being equal). Regardless we think OPL still has long-term upside potential. It is valued at 2015E EV/EBITDA of 4.7x, an attractive level given that it will get the 800 MHz band faster and as a result will have the widest reach. In the near term, however, the auction plans can result in negative reactions from investors expecting stable annual dividends.

Regulator on LTE Auction

Following the announcement of the LTE auction plans by the Ministry of Administration the energy regulator UKE issued a statement saying that it had no plans to cancel the auction, and that it fully intended to allow the bidders to determine the price of the LTE frequency bands.

Former UKE Head on LTE auction

Former UKE President Anna Streżyńska said in an interview that she thought the LTE auction should be canceled as soon as possible and redone on new terms that are more favorable for the industry and the general population, and that will not affect the expansion of mobile broadband access.

Media

Agora		Hold							
Analyst: Paweł Szpigiel		Current price: Target price:		PLN 11.2 PLN 8.2				Last rating:	2015-01-26
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	1 073.9	1 102.4	2.7%	1 094.8	-0.7%	1 127.0	2.9%	Number of shares (m)	50.9
EBITDA	103.4	77.7	-24.8%	79.0	1.6%	81.2	2.8%	MC (current price, PLN m)	570.5
EBITDA margin	9.6%	7.1%		7.2%		7.2%		EV (current price, PLN m)	645.9
EBIT	7.3	-18.3		-12.1	-34.0%	-7.7	-36.2%	Free float	62.0%
Net profit	0.6	-11.0		-17.9	62.4%	-14.8	-17.4%		
P/E	923.1							Price change: 1M	-5.3%
P/CE	5.9	6.7		7.8		7.7		Price change: 6M	7.7%
P/BV	0.5	0.5		0.5		0.5		Price change: 12M	40.0%
EV/EBITDA	5.7	7.9		8.2		8.2		Low (52 weeks)	7.4
Dyield (%)	0.0	0.0		0.0		0.0		High (52 weeks)	12.9

Agora delivered better-than-expected financial results in Q2 2015, driven primarily by a 4.8% y/y increase in the number of advertisements placed in each copy of its *Gazeta Wyborcza* newspaper published in the period. The other operating segments as well reported higher to stable profits in the second quarter, with Outdoor posting EBITDA growth of 20% thanks to cost savings. We see upside potential in AGO.

2015 2Q results

Agora's Q2 2015 financial results exceeded our expectations, with revenue at PLN 292.8m vs. PLN 280.5m anticipated thanks to higher sales in the Film and Books segment which amounted to PLN 24.2m after unexpectedly strong y/y growth. EBITDA in the segment exceeded our forecast as well at PLN 9.7m vs. PLN 0.3m. In the Newspaper segment EBITDA came in at PLN 9.3m vs. PLN 8.1m forecast and the number of advertisements per newspaper copy increased 4.8% (we had assumed zero growth). In Outdoor EBITDA amounted to PLN 12.0m vs. PLN 10.1m anticipated. All in all Agora's consolidated Q2 2015 EBITDA at PLN 33.7m beat our PLN 20.7m estimate.

Agora to bid for two slots on MUX-8

As part of its expansion plans in the television business Agora is planning to bid for at least two MUX8 multiplex licenses.

Cyrowy Polsat	Reduce								
Analyst: Paweł Szpigiel	Current price:	PLN 22.27						Last rating	2015-01-26
	Target price:	PLN 21.8							
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	2 910.8	7 409.9	154.6%	9 756.5	31.7%	10 006.8	2.6%	Number of shares (m)	639.5
EBITDA	1 046.3	2 738.3	161.7%	3 562.5	30.1%	3 668.2	3.0%	MC (current price, PLN m)	14 242.6
EBITDA margin	35.9%	37.0%		36.5%		36.7%		EV (current price, PLN m)	24 962.2
EBIT	789.9	1 442.4	82.6%	1 761.4	22.1%	2 027.2	15.1%	Free float	33.5%
Net profit	525.4	292.5	-44.3%	804.1	174.9%	985.7	22.6%		
P/E	14.8	48.7		17.7		14.4		Price change: 1M	-2.8%
P/CE	9.9	9.0		5.5		5.4		Price change: 6M	-4.6%
P/BV	2.6	1.5		1.4		1.3		Price change: 12M	-12.6%
EV/EBITDA	8.9	9.7		7.0		6.4		Low (52 weeks)	21.2
Dyield (%)	0.0	1.2		0.0		0.0		High (52 weeks)	27.8

Cyfrowy beat expectations in Q2 2015 thanks mainly to lower-than-anticipated costs of devices. Otherwise the quarterly financials did not bring any major surprises. Some of the KPIs reported by the Telecom do not look as good as we would have hoped. For example Cyfrowy added only 33,000 new broadband users in Q2 compared to Orange Polska's 102,000. Results show that price hikes are not without impact on the size of the customer base even though Cyfrowy offers the widest LTE-based mobile Internet each in Poland. We expect the Company to reduce prices in the coming months if it wants to compete with Orange which has already slashed the prices of its fixed-line Internet service. Our outlook for Cyfrowy remains bearish.

Q2 2015 results

At PLN 2,469.0m the Q2 2015 revenue came in line with expectations, but a breakdown shows lower-than-anticipated revenue from device sales (PLN 107m vs. PLN 121m) offset by higher wholesale revenue. The second-quarter KPIs included 12,377,000 revenue-generating units after a q/q decline reported for the first time in a long time. The losses were led by the loss of 44,600 pay-TV RGUs combined with continued RGU losses in mobile and a relatively slow expansion of the Internet user base (46,300 in 2Q'15 vs. 101,200 on average in the four preceding quarters). Costs ex. D&A amounted to PLN 1,530.0m, and they proved PLN 24m lower than we had anticipated thanks to PLN 50m lower COGS which were offset by a PLN 20m increase in technical costs and a PLN 15m increase in payroll costs. Q2 2015 EBITDA at PLN 977m beat our estimate by 4.1%. D&A expenses at PLN 394m were lower than our PLN 435m forecast, and as a result the second-quarter operating profit exceeded our PLN 503m estimate at PLN 584m. After in-line financing costs of PLN 233m the Q2 net profit came in at PLN 305m. Cyfrowy generated strong FCF of PLN 680m in Q2 (there were major changes in trade receivables and payables which need further explaining) thanks to exceptionally low CAPEX (PLN 121m). The Company maintained its 2015 full-year adjusted FCF estimate at PLN 1.2bn. Note that the adjusted LTM FCF after interest amounted to PLN 1.49bn. Cyfrowy's comparable net debt/EBITDA ratio fell to 3.0x at 30 June 2015 from 3.1x at 31 March after a welcome debt reduction.

Q2 earnings conference highlights

CAPEX/sales in 2015 will be ca. 8%, followed by ca. 10% in subsequent years. According to the CEO at the current bidding levels the LTE auction is not going to bring positive returns unless the winning telecom hikes the prices of services. The Q2 customer losses were mainly low-ARPU customers. Cyfrowy wants to implement a sales management system within a year.

TVN	Suspended								
Analyst: Paweł Szpigiel	Current price:		PLN 19.77				Last rating		2015-09-03
	Target price:		PLN -						
(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	1 554.6	1 593.8	2.5%	1 668.6	4.7%	1 732.2	3.8%	Number of shares (m)	340.2
EBITDA	372.4	548.8	47.4%	532.1	-3.0%	641.2	20.5%	MC (current price, PLN m)	6 725.8
EBITDA margin	24.0%	34.4%		31.9%		37.0%		EV (current price, PLN m)	8 788.6
EBIT	297.2	477.3	60.6%	463.3	-2.9%	572.7	23.6%	Free float	46.2%
Net profit	-197.8	194.8		280.9	44.3%	395.8	40.9%		
P/E		34.5		23.9		17.0		Price change: 1M	-0.9%
P/CE		25.3		19.2		14.5		Price change: 6M	7.7%
P/BV	7.2	6.9		6.9		6.2		Price change: 12M	38.3%
EV/EBITDA	24.1	16.0		16.5		13.4		Low (52 weeks)	14.1
Dyield (%)	3.2	0.0		1.5		0.0		High (52 weeks)	20.0

Following its successful acquisition by Scripps Networks we are suspending coverage of TVN.

Scripps Networks acquires 156.72 million TVN shares

Southbank Media Limited, a subsidiary of Scripps Networks Interactive, acquired 156,722,228 shares in TVN through a tender offer.

Q2 2015 results

TVN's Q2 2015 revenue came in line with our forecast at PLN 445m. Advertising revenue fell slightly short of our PLN 332m estimate at PLN 329m, but this was offset by other sales. Costs exceeded our PLN 292m estimate at PLN 303m due to higher amortization expenses and other unspecified costs. The costs related to change of ownership amounted to PLN 17m in Q2. Adjusted EBITDA came in at PLN 164m (-2% y/y), with the EBITDA margin at 36.9% vs. 38.7% in Q2 2014. TVN's associates generated a profit of PLN 17m in Q2, and after in-line financing costs of PLN 106m the net profit for the period at PLN 124.5m missed our estimate by over PLN 10m. TVN reported that the number of subscribers for its pay-TV service nC+ was 2.11 million as of 30 June (-3% y/y). nC+ generated EBITDA of PLN 210m for H1 2015 (-6% y/y). TVN’s operating cash flow for H1 2015 totaled PLN 221m vs. PLN 295m in H1 2014. The balance of capitalized costs of original programming improved in the period (PLN 15.8m cash inflow). The ratio of net debt to adjusted EBITDA stood at 3.6x at 30 June.

Wirtualna Polska

Buy

Analyst: Paweł Szpigiel	Current price:	PLN 37.6	Last rating	2015-07-01
	Target price:	PLN 44.7		

(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	38.3	248.3	547.9%	276.3	11.3%	301.3	9.0%	Number of shares (m)	29.8
EBITDA	4.8	51.0	953.8%	88.0	72.5%	110.3	25.3%	MC (current price, PLN m)	1 119.6
EBITDA margin	12.6%	20.5%		31.8%		36.6%		EV (current price, PLN m)	1 209.0
EBIT	1.6	22.7	1299.0%	63.4	179.5%	87.2	37.4%	Free float	
Net profit	1.6	-0.3		47.3		80.3	69.7%		
P/E	175.7			23.7		13.9		Price change: 1M	-1.1%
P/CE	58.8	39.9		15.6		10.8		Price change: 6M	17.5%
P/BV	3.3	2.0		1.9		1.7		Price change: 12M	17.5%
EV/EBITDA	58.0	25.0		13.7		10.8		Low (52 weeks)	32.0
Dyield (%)	0.0	1.3		0.0		1.0		High (52 weeks)	38.0

Wirtualna Polska Holding (WPH) is the owner of one of Poland's largest horizontal portals and dozens of vertical portals, as well as being the #1 provider of electronic mail in the country. After a comprehensive cost streamlining exercise in 2014, starting this year the Company is poised to benefit from operating leverage and to monetize the recovery observed in online advertising expenditures in Poland. With its 15.6 million real users, WPH can use Big Data to more effectively target consumers with more personalized marketing messages. Furthermore, the Company's future growth strategy includes expansion in e-commerce based on a diversified portfolio of vertical portals and price comparison platforms, expected to maximize revenues as the volume of online shopping continues to grow (the 2014-2019 CAGR for online sales is projected by PMR at 15%). WPH delivered financial results in line with expectations in Q2 2015, and our 2015 annual EBITDA forecast for the Company remains intact. We maintain a positive outlook for WPH.

Q2 2015 results

Wirtualna Polska reported a 31.9% y/y increase in revenue to PLN 77.8m in Q2 2015, with revenue ex. barter down 27.1% to PLN 68.4m vs. PLN 70.1m expected by us. Payroll costs at PLN 24.1m were slightly lower than the PLN 23.1m posted in Q1. EBITDA fell short of our PLN 27.3m forecast at PLN 23.8m, but this was due to one-time costs including consulting fees related to the IPO in the amount of PLN 4.1m and restructuring costs of PLN 1.2m. Wirtualna Polska incurred a relatively high loss of PLN 2.4m on barter transactions in Q2. On an adjusted basis second-quarter EBITDA came in at PLN 27.8m, showing year-on-year growth 33%, and coming slightly ahead of our PLN 27.3m forecast. Financing costs in Q2 amounted to PLN 3.0m (vs. PLN 3.5m expected), and tax totaled PLN 3.3m (vs. PLN 0.5m expected) due to the recognition and reversal of temporary differences (the actual tax paid in Q2 was PLN 0.55m). Operating cash flow was low at PLN 7.9m (vs. PLN 19.2m in Q1) due to unspecified material changes of PLN 16.6m in working capital.

Management on future plans

WPH expects the Polish online advertising market to grow 10% this year depending on the global economic situation. The Company is planning to grow organically and through acquisitions. As for the television plans WPH is still considering its options.

IT

Asseco Poland — Hold

Analyst: Paweł Szpigiel	Current price:	PLN 52.1	Last rating:	2015-04-02
	Target price:	PLN 59		

(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	5 898.1	6 231.9	5.7%	6 443.6	3.4%	6 664.9	3.4%	Number of shares (m)	83.0
EBITDA	875.0	905.1	3.4%	918.3	1.5%	926.6	0.9%	MC (current price, PLN m)	4 324.3
EBITDA margin	14.8%	14.5%		14.3%		13.9%		EV (current price, PLN m)	6 334.8
EBIT	610.5	636.7	4.3%	656.2	3.1%	667.4	1.7%	Free float	68.0%
Net profit	393.9	358.4	-9.0%	345.6	-3.6%	348.0	0.7%		
P/E	11.0	12.1		12.5		12.4		Price change: 1M	-9.4%
P/CE	6.6	6.9		7.1		7.1		Price change: 6M	-4.6%
P/BV	0.6	0.6		0.6		0.5		Price change: 12M	19.3%
EV/EBITDA	7.4	7.1		6.9		6.7		Low (52 weeks)	42.9
Dyield (%)	4.6	5.0		5.4		5.8		High (52 weeks)	61.9

We maintain a neutral outlook on Asseco Poland. Asseco has a solid order backlog and a healthy cash position, and it delivered in-line Q2 2015 results. Going forward Asseco will tap into the expected rebound in public expenditures on EU-funded IT projects. Poland has been allocated EUR 82.5bn in EU Cohesion Policy funding for the years 2014-2020, and part of this money will be spent on IT solutions for the public administration of which Asseco Poland is a leading supplier. The funding is currently being appropriated, meaning that actual orders will not come on line until 2015, with delivery deadlines mostly in 2016.

Q2 2015 results

Asseco's consolidated Q2 2015 revenue came in at PLN 1.71bn, and it exceeded our PLN 1.63bn forecast thanks mainly to the Israel unit Formula Systems which reported sales of PLN 894m vs. PLN 808m expected. Formula also delivered a positive surprise in EBIT which came in at PLN 72m vs. PLN 67m forecast. The Polish operations, represented by the parent company, as well achieved higher-than-expected EBIT of PLN 56.5m vs. PLN 49.5m owed to one-time gains from asset sales. The consolidated Q2 net profit fell short of expectations after higher financing costs (PLN 8m due to FX effects) and tax (with the effective tax rate at 17% vs. 11% in Q2 2014) incurred by the parent company. Asseco generated weak cash flow of just PLN 92m in Q2 2015 compared to PLN 237m in the same period last year (on a standalone basis cash flow fell to PLN 25m from PLN 102m). The main reason were changes in working capital amounting to PLN 88m n a consolidated basis and PLN 156m on a standalone basis. Asseco's 2015 backlog is worth PLN 6.1bn, marking a 16% increase from last year owed primarily to a stronger dollar.

Asseco forms Asseco Data Systems

Asseco Poland is merging six of its subsidiaries: ADH Soft, ZETO Bydgoszcz, ZETO Łódź, Combidata, Unizeto Technologies, and Otago to form a single organization called Asseco Data Systems (ADS). ADS does not need extra capital at the moment but should such a need arise in the future it will consider an IPO. Its service mix will include applications, data processing, programming services, and infrastructure solutions. It will employ 800 people in 10 locations and in 2015 it is expected to generate sales of PLN 236m and EBIT of PLN 31m.

Asseco joins battlefield management system development team for Polish Army

Asseco Poland has formed a consortium with partners Teldat, Siltec, Enigma, CMGI, and the Military University of Technology (WAT), designed to develop an advanced battlefield management system for the Polish Military.

Dom Maklerski

Resources

JSW	Hold								
Analyst: Michał Marczak	Current price:	PLN 11.79						Last rating	2015-01-26
	Target price:	PLN 27							
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	7 632.2	6 814.9	-10.7%	7 270.5	6.7%	8 742.1	20.2%	Number of shares (m)	117.4
EBITDA	1 382.1	521.2	-62.3%	489.5	-6.1%	1 439.7	194.1%	MC (current price, PLN m)	1 384.1
EBITDA margin	18.1%	7.6%		6.7%		16.5%		EV (current price, PLN m)	3 021.9
EBIT	201.9	-774.8		-833.8	7.6%	128.6		Free float	44.8%
Net profit	77.3	-1 079.2		-776.8	-28.0%	-35.2	-95.5%		
P/E	17.9							Price change: 1M	0.9%
P/CE	1.1	6.4		2.5		1.1		Price change: 6M	-41.1%
P/BV	0.2	0.2		0.2		0.2		Price change: 12M	-64.3%
EV/EBITDA		4.5		6.2		2.2		Low (52 weeks)	10.0
Dyield (%)	21.4	0.0		0.0		0.0		High (52 weeks)	34.0

Spot prices of coking coal are trading at $80-82/t, and the reference price of Q3 deliveries is hovering around $93/t, indicating that JSW is set for another big loss this quarter. The market is on a downward momentum which is not likely to shift in the coming weeks despite the increase in Polish steel production, and this combined with an imminent bond rollover means the Company may have make an emergency capital raise in the second half of 2015. Note that the Management has officially denied that JSW is in need of such additional capital.

JSW books oneoffs

JSW decided to test its assets for impairment in light of low coal prices and as a result it adjusted the value of the assets of its Krupiński mine downward by PLN 211.2m, charged against the profits for Q2 2015. In other news after negotiations with workers JSW agreed to reverse an employee benefit allowance of PLN 207.9m against the profits for Q3 2015. The one-time events do not affect JSW's valuation.

Q2 2015 results

JSW delivered disappointing Q2 2015 results with revenue down 6.5% y/y at PLN 1.69bn, EBITDA showing an operating loss of PLN 94.2m (vs. an operating profit of PLN 109.2m posted in Q2 2014), and the bottom line a loss of PLN 426.8m (-117% y/y). As a reminder JSW booked PLN 211m asset impairment charges against the Q2 net profit. Second-quarter performance was disappointing both in the coal and in the coking segment. Sales of coking coal were lower than expected and 8% lower than in Q1 at 1.47mmt despite relatively high production (2.9mmt) with the remaining quantity (1.33mmt, +8% q/q) delivered to the JSW coking plant which produced its highest quarterly output in a long time (1.07mmt). This bears the mark of the new CEO, who used to be in charge of the coke production business, and who is expected to continue to maximize coking plant capacity utilization in the coming quarters rather than relying on raw coal sales. As expected sales prices of coking coal (hard, semi) averaged $105/t in Q2 (-5.4% q/q). The European prices of blast furnace coke in the period fell ca. 13.8% q/q to $188/t, and though the contraction in per-ton revenue was less severe in case of JSW at 7.6% q/q, the quarterly EBITDA did decrease by PLN 42.5m as a result. With the Q2 earnings season done and dusted JSW is up for a challenging second half of the year. The coking price benchmark in Q2 fell 15.5% q/q to US $93/t, and to save liquidity JSW cut the 2015 CAPEX budget for the coal segment to PLN 847m from PLN 1.48bn in 2014. At 30 June the Company had a cash position of PLN 544.9m and financial obligations of PLN 1.68bn (with net debt at PLN 1.136bn vs. PLN 794m at end 2014). JSW has spent PLN 607.7m on fixed assets to far this year. Its operating cash flow in H1 2015 amounted to PLN 391m – an impressive result given market conditions which however is not likely to be repeated in the second half. Further JSW managed to significantly reduce accounts receivable (PLN 119.4m, 11% of total) while increasing accounts payable by PLN 57m and lowering reserves by PLN 33m. With net debt increased by PLN 341m in the course of H1 2015, given market conditions JSW will run out of cash by the end of the year.

KGHM	Buy								
Analyst: Michał Marczak	Current price:		PLN 76.31				Last rating		2015-01-26
	Target price:		PLN 127						
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	24 110.0	20 492.0	-15.0%	23 220.4	13.3%	23 873.1	2.8%	Number of shares (m)	200.0
EBITDA	5 952.0	5 311.0	-10.8%	5 300.8	-0.2%	5 744.5	8.4%	MC (current price, PLN m)	15 262.0
EBITDA margin	24.7%	25.9%		22.8%		24.1%		EV (current price, PLN m)	22 211.3
EBIT	4 372.0	3 676.0	-15.9%	3 403.8	-7.4%	3 750.2	10.2%	Free float	68.2%
Net profit	3 033.0	2 450.0	-19.2%	2 159.7	-11.9%	2 490.4	15.3%		
P/E	5.0	6.2		7.1		6.1		Price change: 1M	-19.2%
P/CE	3.3	3.7		3.8		3.4		Price change: 6M	-35.5%
P/BV	0.7	0.6		0.6		0.6		Price change: 12M	-43.7%
EV/EBITDA	2.9	3.7		4.2		3.9		Low (52 weeks)	71.3
Dyield (%)	12.8	6.6		5.9		4.6		High (52 weeks)	136.8

Copper and other metals are experiencing a price slump due to expectations of a dollar appreciation led by US interest rate hikes and, most notably, due to concerns over China which, as it turns out, have no founding in actual statistics describing global demand or in the supply data derived from exchange-monitored inventories. KGHM shares have underperformed peers (Antofagasta) in recent days despite the fact that the Polish company may actually be the one beneficiary of the change of government expected after the October election through the opposition's proposed suspension of the mining tax in 2016-2026 which if passed will result in annual cost savings of PLN 1.3-1.4bn. Since KGHM is not among the state-owned companies expected to get involved in the coal industry bailout it will probably be free to do with these savings what it wants. We maintain a buy rating for KGH.

China beats expectations for July copper imports

Despite the economic slowdown (with PMI Manufacturing at 47.1pts in August) Chine imported 259,000 tons of refined copper in July, marking an increase of 6% from the same month last year. Imports of copper concentrate in the month were up 7.2% y/y while scrap imports fell 0.5%. The July import statistics mark the first upside surprise this year relative to the general consensus on falling copper purchases. Compared to the same period in 2014 year-to-date Chinese imports of refined copper have dropped 8.8%, scrap purchases are down 3.5%, and the volume of incoming copper concentrate grew 10.3% after the relaunch of the Grasberg mine.

KGHM posts excellent second quarter

KGHM surprised investors with its financial results for Q2. Standalone revenue increased to PLN 4.3bn from PLN 3.77bn in Q1, EBITDA amounted to PLN 1.27bn (PLN 1.1bn in Q1), and net profit closed at PLN 824m vs. PLN 497m. The consensus estimates were at PLN 4.15/1.26/0.68bn. Earnings on the consolidated level stood at PLN 5.3bn (+12.6% q/q), with EBITDA at PLN 1.46bn (+17.2% q/q), and net profit at PLN 796bn (+100% q/q). Market analyst expectations were: PLN 5.2/1.36/0.59bn. KGHM's standalone better results generated are mainly down to higher revenues, which was largely linked to the higher copper and silver sales volumes and the higher effective price (after hedging) achieved from product sales. KGHM International also surprised positively – most of all thanks to the lowering the costs of production ($-36m q/q). This drove EBITDA in foreign operations to more than double (PLN 122m) compared to Q1 (PLN 52m). After a disappointing Q1, as announced by its executives, KGHM was in line with the budget in the next three months - selling 145.5 thousand tons of copper (+10% q/q) and 317 tons of silver (+29.4% q/q). Product sales at KGHM Int. were slightly lower than in the previous quarter: copper – 20.9 thousand tons (-9.5% q/q); precious metals -4.6% q/q. The good production results do not indicate that this could be down to problems within the Company but rather shifts in delivery terms. The C1 copper cash cost in KGHM alone amounted to $1.52/lb (+4.1% q/q), and in operations performed by KGHM Int. $1.83/lb vs. $2.21 in the previous quarter. In the entire first half year, the Group's operating cash flows stood at PLN 2.43bn in relation to PLN 2.5bn n the same period last year. Cash flow from investing activities closed at PLN 2.17bn compared to PLN 2.57bn the year before. At the end of June, the consolidated net debt was PLN 4.97bn vs. PLN 4.34bn last year – which is below 1X of the Group's analyzed EBITDA. In this respect, KGHM belong to the relatively safe companies in the extractive sector (at a similar level to Rio Tinto, BHP Billiton; the most indebted – over 4.5xEBITDA includes FreePort and Glencore). In its report, KGHM presented its shareholdings structure broken down by types of investors: 31.8% State Treasury, 26.6% national investment funds, 25.7% foreign institutional investors, 8.8% individual investors, and 7.1% comprising other and unidentified investors. Sierra Gorda will, in line with earlier announcements from 1 July 2015, draw up outturn accounts. KGHM managed to deliver 56% of our annual forecast in the first half year.

The price of a Chilean coal mine

On 30 July Barrick Gold Corporation signed an agreement with Antofagasta for the sale of a 50% stake in its Chilean copper mine Zaldívar for a cash consideration of $1.0 billion. The sale is to be finalized by the end of the year. In 2014 Zaldívar produced 222 million pounds (100,000 tons) of copper at a C1 cost of $1.79 per pound. In 2015 the mine expects to increase production to 230-250 million pounds, with the C1 cost projected at $1.65-1.95. As of year-end 2014 Zaldivar proven copper reserves were 5.6 billion pounds. By comparison KGHM's 55%-owned Sierra Gorda mine in the initial period after launch extracted 220,000 tons of copper from reserves estimated at 14 billion pounds.

Grasberg shutdown

FreePort McMoran and the Indonesian government continue their negotiations on the issue of copper export approval (575,000 tons of copper, which is 3% of world production over the next six months). The previous license expired on 25 July. The new mining law introduced in Indonesia imposes a ban on exports of unprocessed raw materials (adopted in January 2014). Some mining companies like FreePort have managed to obtain export approval for six months, however, in exchange they have promised to start building smelters processing the copper concentrate and will also pay higher taxes. As far as the Indonesian government is concerned, FreePort failed to meet its obligations in terms of the design schedule and make the capital contribution for the construction of the plant ($115m instead of the expected $170m). The license will be given once these conditions are met.

LW Bogdanka — Under Review

Analyst: Michał Marczak	Current price:	PLN 50.97	Last rating	2015-06-12
	Target price:	PLN -		

(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	1 899.8	2 013.6	6.0%	1 817.9	-9.7%	1 881.7	3.5%	Number of shares (m)	34.0
EBITDA	754.9	750.0	-0.7%	590.7	-21.2%	583.5	-1.2%	MC (current price, PLN m)	1 733.0
EBITDA margin	39.7%	37.2%		32.5%		31.0%		EV (current price, PLN m)	2 294.3
EBIT	424.8	362.3	-14.7%	203.1	-44.0%	190.1	-6.4%	Free float	100.0%
Net profit	329.7	272.4	-17.4%	153.2	-43.8%	144.0	-6.0%		
P/E	5.3	6.4		11.3		12.0		Price change: 1M	-1.4%
P/CE	2.6	2.6		3.2		3.2		Price change: 6M	-43.1%
P/BV	0.7	0.7		0.6		0.6		Price change: 12M	-57.2%
EV/EBITDA	2.9	3.1		3.9		3.8		Low (52 weeks)	33.5
Dyield (%)	11.4	11.4		6.9		0.0		High (52 weeks)	119.2

In August the power producer Enea terminated its long-term (2010-2025) coal supply contract with LW Bogdanka over differences as to the price of 2016 deliveries. The termination is subject to a two-year notice period which means supplies 2016 and 2017 will continue on the same terms. The total coal volume originally agreed for the 15-year period is unknown, however Bogdanka did reveal that the contract had a value of PLN 5.056bn, implying annual deliveries of 3.5-3.7 million tons. The termination may be taken as proof that the speculation that Enea is preparing to acquire Bogdanka is not incorrect. On the other hand it could also be a government-mandated switch to coal supplies from state-owned coal mines. Whatever the reason for the termination, Bogdanka now has two years to find new buyers, and this is not an easy task given the structure of the Polish energy market and the characteristics of LWB coal (with a high sulfur content). In short Bogdanka faces tough price negotiations with the prospective customers, and assuming a 15% long-term decline in average per-ton revenue (the worst-case scenario) its market capitalization could be cut in half. In the long term Bogdanka's' outlook also depends on how the crisis in the state-owned coal mines is resolved. If the solution is to hike up the prices of state coal this will also have a positive effect on commercial coal producers like Bogdanka.

US, Australian producers close mines

Alpha Natural Resources, the second-largest coal producer in the US, filed for bankruptcy protection in August. In 2014 Alfa produced a total coal output of 84.6mmt including 18.6mmt of hard coking coal. In the same year it exported over 17mmt of coal including 11mmt to Europe. After acquisitions made in 2008 Alfa fell into debt over $3.6bn and this year it became incapable of meeting its financial obligations. As a result it is expected to shut down part of its 80 mines. In related news Australia's Newport Consulting has just issued a report stating that due to low coal prices mines employing a total of 30 thousand miners will have to be closed in 2016. These developments are a reflection of the ongoing process of adjusting the global coal supply to tightened demand. For prices to go up, however, more capacity has still to be closed across the world.

Operating profit above consensus forecast

In Q2 2015, Bogdanka posted revenue at PLN 415.3m (-10.5% y/y), EBITDA at PLN 147.4m (+13.3% y/y) and net profit came in at PLN 42.8m (+48.5% y/y). This performance turned out to be much better than anticipated by analysts (consensus: PLN 409.8/134.8/27.3m, respectively) and came in close to our projections (PLN 415.3/141.8/31.4M, respectively). Two elements deserve particular attention. The revenue per ton of coal sold stood at PLN 412.6, which was 1.75% higher than in Q1 and 0.71% higher y/y. Considering the market data showing a 10% drop in the average realized sales price (Silesian mines), Bogdanka's q/q results came as an upside surprise. This confirms the theory that a decline in average market results from aggressive selling of stocks by KW (SPOT), however, prices under annual contracts remain close to the y/y levels (which is also imperative in the long run for KW to restore its viability – in H1, KW recorded net losses at almost PLN 800m, thermal coal stockpiles dropped y/y by over 2 million tons). The level of operating costs also exceeded expectations. What with the 5.7% y/y lower production volumes and 10.8% y/y lower sales – the costs of materials and goods sold dropped 13.7% y/y. In our view, the Company limited the scope of conducted preparatory works, which is reflected in the sharp decrease (-32.7% y/y) in costs of outsources services. Considering the current CAPEX in this field and the planned future volumes mined, we believe that the Company, in its present position, still has significant capacity to cut costs. The "external services" item also includes savings connected with a curtailment of production (combined with shrinking production) on Saturdays (higher hourly wages). The costs of consumption of materials and energy also slipped 21.4% (lower volumes, falling steel prices). The only cost item that is growing is wage costs (+1.8% y/y). Expenditure in this area should be expected to fall in subsequent quarters along with the reduction in employment. The fact that Bogdanka released some of its provisions in the second quarter also has a bearing (in total: PLN -13.5m, incl. for labor costs, for mine decommissioning costs), which upped the gross profit to PLN 4.1m (the remainder are down to changes in the balance sheet).

Industrials

Polish manufacturing growth

(%)	Jul'14	Aug'14	Sep'14	Oct'14	Nov'14	Dec'14	Jan'15	Feb'15	Mar'15	Apr'15	May'15	Jun'15	Jul'15
Y/Y	+2.3%	-1.9%	+4.2%	+1.6%	+0.3%	+7.9%	+1.7%	+4.9%	+8.8%	+2.3%	+2.8%	+7.6%	+3.8%

Source: GUS

Q2 2015 earnings season in the Industrial sector

Of the 49 companies comprising our industrial sector index (mDM Industrials) 43% reported year-on-year earnings growth in Q4 2015, representing a ratio similar to the 49% recorded in Q2 2014, 43% in Q3 2014, 44%in Q4 2014, and 45% in Q1 2015. The second quarter of 2015 was supported by a low year-ago base reduced by the drop in exports in the wake of the conflict between Russia and Ukraine. From the reduced year-ago base the ratio of companies in our sample experiencing falling profits amounted to 39%, similar to the levels observed in the three preceding quarters (37% in Q1'15, 34% in Q2'14, 36% in Q4'14, and 35% in Q4'14.

In Q3 the industrial sector faces a slowdown in manufacturing production led by the slowing growth in China (where Manufacturing PMI hit 47.3pts in September). PMI Germany posted a gain in September. Also affecting the Q3 outlook is the fact that PMI Poland as well has dropped to 51.5pts in September from 54.5pts in August, combined with production cuts in August forced by power supply interruptions lasting for 3-4 days. Further a continuing depreciation in the Russian ruble is affecting the profits of Russian operations. Finally current strong demand is forcing manufacturers to increase overtime, resulting in higher payroll costs. In Q2 2015 the revenues of Polish industrial companies derived from sales to Russia and Ukraine showed declines led by reduced volumes paired with sharp falls in local currencies. Examples include Amica, Mercor, Relpol, Radpol, and Selena.

The manufacturers delivering the strongest Q2 earnings in 2015 included automotive parts producers (ACE, Alumetal, Uniwheels), lighting producers (ES-System, Lena Lighting), meat processors (Tarczyński, ZM Kania), chemical companies (Krakchemia, Synthos), and export-oriented firms (Ergis, Fasing, Rawplug, SecoWarwick, Vistal). Strong profits were also posted by BSC Drukarnia (lower prices of paper), Elemental Holding (international acquisitions), Oponeo (strong tire sales), Relpol (sales and margin growth), and Ropczyce (strong sales despite slowdown in Easter exports).

Negative earnings surprises in Q2 included companies affected by a strong dollar (Apator, Boryszew, Ferro), producers of mining equipment (Kopex, Patentus), companies affected by low prices of oil (Alchemia, Zamet Industry), and companies affected by expensive petrochemicals (Gekoplast, Radpol). Elsewhere Cognor experienced margin shrinkage due to high prices of metal scrap, Mercor was affected by lower sales to Russia, Forte had to postpone margin recognition to the next quarter, Kruszwica was hurt by high downward price pressure, Orzeł Biały was affected by a slow used battery market, PKM Duda saw year-on-year contraction in profits, and Zetkama suffered from weaker demand.

Compared to our expectations, the ratio of companies delivering upside surprises in Q2 2015 was much lower than in the previous quarter at 38% vs. 51%. The negative surprise ratio was the same at 38%. The ratio of in-line earnings reports was relatively high at 25%.

Valuation

Our Industrials price tracker has fallen 4% year to date while at the same time MSCI Industrials Europe increased 6% and MSCI Industrials World fell 6%. The index also outperformed the WIG20 (-6%) and the WIG (-2%). Trading at median 2015E P/E of 11.5x and 7.1xEV/EBITDA, the mDM Industrials index shows discounts in the range of 25-29% relative to MSCI Industrials Europe and World. On price-to-book, Polish industrials are valued at 1.2x 2015E P/B, i.e. 51-55% lower than their global peers. The ratio of P/(BV-goodwill) (tangible P/B) for Polish stocks is estimated at 1.4x in 2015.

Portfolio allocation

Our **top industrial sector picks** at the moment are ACE (set for 2015 earnings growth driven by a pickup in auto sales), Berling (reporting a net cash position), Biomed (set for a boost in revenues in 2015), Elemental Holding (set for double-digit earnings growth through acquisitions), Ergis (which delivered a strong Q2 despite high petrochemicals prices), Fasing (the cheapest mining equipment producer at the moment), Kruszwica (achieving strong rapeseed crushing margins), Pozbud (strong Q2, launch of new capacity), Relpol (a cheap stock with zero debt), SecoWarwick (set for 2015 earnings growth), Vistal (poised to benefit from increased EU -funded infrastructure spending, has high backlog), and Uniwheels (strong Q2, good Q3 outlook).

We would **avoid** Alchemia (stagnant sales, obsolete plant, sales affected by low oil prices), Boryszew (which sells products at overpriced rates compared to foreign competition and which had a weak Q2 despite strong demand for automotive parts), Kęty (experiencing an earnings slowdown in H1), PGO (expensive multiples with 2015E EV/EBITDA at 12.9x), and Patentus (large negative exposure to the Polish mine industry).

Recommended Portfolio Allocations

Company	Allocation	Price (PLN)	P/E '13	P/E '14	P/E '15	EV/EBITDA '13	EV/EBITDA '14	EV/EBITDA '15	DY '13	DY '14	DY '15	P/(BV-goodwill) '13	P/(BV-goodwill) '14	P/(BV-goodwill) '15	2014 Net Debt/ EBITDA
AC Auto Gaz	MW	28.50	9.9	10.5	11.2	6.6	7.0	7.5	7.4%	8.0%	8.1%	2.8	2.7	2.7	-0.2
ACE	OW	13.11	34.7	43.3	15.0	7.6	8.2	6.7	2.2%	7.7%	2.1%	1.8	2.1	2.1	1.9
Alchemia	UW	4.65	-	60.6	53.0	22.0	16.8	16.4	0.0%	0.0%	0.0%	1.7	1.4	1.4	1.7
Amica	MW	155.0	13.5	15.4	12.4	10.3	7.6	7.2	3.0%	2.3%	1.9%	2.9	2.6	2.6	0.2
Apator	MW	31.10	16.0	13.0	14.6	10.1	9.1	9.3	4.5%	3.5%	3.1%	3.3	3.0	2.7	0.0
Berling	OW	4.00	6.4	10.1	10.0	3.5	4.5	4.2	5.3%	7.6%	5.0%	0.8	0.8	0.8	-3.3
Biomed Lublin	OW	3.83	63.3	-	-	25.4	42.3	28.9	0.0%	0.0%	0.0%	2.5	2.9	2.9	2.8
Boryszew	UW	5.20	90.7	11.4	13.0	13.1	8.4	8.6	0.0%	0.0%	1.9%	2.0	1.5	1.4	2.7
BSC Drukarnia	MW	32.89	18.2	15.0	11.7	10.0	8.7	7.7	1.5%	1.5%	1.8%	1.8	1.7	1.5	-0.3
Ceramika NG	MW	1.24	-	25.9	25.1	7.0	6.5	5.7	0.0%	6.4%	8.1%	0.3	0.3	0.3	2.7
Cognor	MW	1.37	-	16.0	10.6	9.9	5.6	6.8	0.0%	0.0%	0.0%	0.7	0.5	0.5	4.7
Duda	MW	6.20	7.5	7.6	11.8	5.1	5.9	6.8	0.0%	0.0%	0.0%	0.5	0.5	0.5	2.8
Elemental	OW	4.35	27.5	22.1	19.1	25.3	17.4	12.8	0.0%	0.0%	0.0%	2.6	2.5	2.2	0.7
Ergis Eurofilms	OW	6.12	21.2	12.9	8.7	7.6	7.0	6.1	0.3%	1.6%	2.5%	1.2	1.1	1.0	2.4
ES System	MW	2.81	27.4	19.3	14.2	7.8	6.4	5.4	1.8%	1.8%	12.5%	0.8	0.8	0.8	-1.5
Famur	OW	1.69	3.9	8.1	8.9	1.8	3.0	3.2	0.0%	49.7%	0.0%	1.1	1.0	1.1	0.1
Fasing	OW	18.00	7.0	6.8	4.9	3.2	3.1	3.1	3.6%	3.9%	4.4%	0.4	0.4	0.4	1.3
Feerum	MW	23.00	18.1	31.6	17.6	12.8	19.9	10.9	0.0%	0.0%	0.9%	2.4	2.3	2.0	0.8
Ferro	MW	10.88	10.6	9.6	9.3	8.3	8.4	8.3	2.2%	9.2%	9.2%	1.2	1.2	1.2	2.3
Forte	MW	55.00	22.6	17.4	16.5	14.6	12.2	11.5	1.7%	2.7%	3.6%	3.4	3.1	2.9	0.4
Grajewo	MW	23.67	7.7	11.4	9.9	8.4	6.4	5.6	0.0%	0.0%	0.0%	1.8	1.6	1.3	0.5
Hydrotor	MW	38.39	13.1	12.8	11.5	7.4	6.6	6.1	5.2%	5.2%	5.2%	1.2	1.1	1.1	0.2
Impexmetal	MW	2.62	7.2	4.7	6.6	8.1	5.7	5.8	0.0%	0.0%	0.0%	0.6	0.6	0.6	2.1
Izostal	MW	4.59	11.4	30.5	14.0	8.4	18.6	9.5	3.9%	2.6%	1.5%	0.9	0.9	0.9	3.8
Kernel	MW	11.37	8.1	-	5.9	5.4	7.1	3.1	0.0%	0.0%	0.0%	0.7	0.9	0.8	3.0
Kety	UW	298.9	18.1	16.6	14.5	13.2	9.6	8.8	2.0%	3.3%	4.8%	2.5	2.3	2.2	0.5
Koelner	MW	8.17	28.4	19.0	13.7	8.6	9.8	7.2	1.1%	4.0%	4.0%	0.7	0.7	0.7	4.5
Kopex	MW	6.14	6.8	4.5	10.3	3.6	2.9	3.7	1.0%	0.0%	6.5%	0.2	0.2	0.2	1.3
Kruszwica	OW	51.20	11.0	9.8	10.4	7.2	5.5	5.9	0.2%	4.6%	5.2%	1.6	1.5	1.4	-0.7
Lena Lighting	MW	4.50	12.2	11.2	10.4	7.6	7.7	7.1	6.7%	6.7%	6.7%	1.3	1.2	1.2	0.3
Libet	OW	2.33	19.0	13.1	11.9	5.5	5.4	5.1	0.0%	2.1%	0.0%	0.5	0.5	0.5	2.7
Mercor	MW	10.10	13.7	22.2	12.5	3.7	11.2	8.6	0.0%	91.7%	10.1%	0.6	1.2	1.3	2.8
Oponeo	MW	18.25	73.6	63.1	32.3	20.3	21.5	18.4	0.2%	0.4%	0.2%	3.6	3.5	3.2	-2.2
Orzeł Biały	MW	6.60	-	-	28.6	-	18.0	9.2	3.3%	0.0%	0.1%	0.5	0.5	0.5	4.1
Patentus	UW	0.77	3.8	10.3	-	5.5	5.0	7.1	0.0%	0.0%	0.0%	0.2	0.2	0.2	3.2
PG Odlew.	UW	5.34	23.7	29.0	20.4	14.0	15.8	13.0	0.0%	0.0%	1.2%	2.7	2.4	2.1	2.0
Pozbud	OW	5.09	11.7	10.3	8.6	7.8	7.8	6.1	1.7%	2.6%	3.4%	0.9	0.8	0.8	1.0
Radpol	MW	6.53	11.0	17.6	21.7	7.5	9.2	9.6	3.1%	4.3%	4.3%	1.7	1.6	1.6	2.5
Relpol	OW	6.10	11.9	11.4	9.1	5.6	4.9	4.4	6.1%	4.1%	6.2%	0.9	0.8	0.8	0.2
Seco Warwick	OW	21.01	14.6	-	9.0	8.0	13.2	5.2	0.0%	0.0%	0.3%	0.8	0.8	0.8	0.1
Selena FM	MW	17.79	19.8	19.5	11.7	6.5	5.9	6.6	2.1%	1.6%	1.0%	1.0	1.0	0.9	1.4
Synthos	MW	3.76	-	13.9	14.0	9.2	9.0	9.3	20.2%	8.3%	6.6%	2.2	2.2	2.2	1.1
Tarczyński	MW	13.50	16.4	13.1	10.6	7.6	6.8	6.4	1.5%	1.4%	1.1%	1.3	1.2	1.1	3.1
Uniwheels	OW	121.6	22.1	13.1	11.4	9.7	8.2	7.8	2.4%	0.0%	2.6%	3.4	3.5	2.0	1.9
Vistal Gdynia	OW	11.69	8.1	13.5	9.5	8.4	8.7	7.5	0.0%	0.0%	2.6%	1.1	1.0	0.9	4.5
Zamet Industry	MW	2.03	6.5	7.5	8.9	5.6	5.3	5.8	15.8%	0.0%	4.0%	1.7	1.4	1.3	0.7
Zetkama	MW	85.00	16.4	14.1	15.5	11.1	9.6	9.8	0.0%	0.0%	0.0%	2.7	2.2	1.9	0.1
ZM Kania	MW	2.67	21.9	10.5	8.5	15.4	8.9	6.8	0.0%	0.0%	0.0%	2.2	1.9	1.5	2.9
ZM Ropczyce	MW	21.50	7.8	9.8	6.9	6.4	6.4	6.3	1.6%	3.0%	3.0%	0.5	0.5	0.4	2.9

Source: Dom Maklerski mBanku

Elemental

Accumulate

Analyst: Jakub Szkopek		Current price:	PLN 4.35					Last rating	2015-06-17
		Target price:	PLN 4.5						
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	859.6	772.3	-10.1%	1 151.8	49.1%	1 346.9	16.9%	Number of shares (m)	158.5
EBITDA	28.6	41.2	43.9%	66.1	60.4%	80.2	21.2%	MC (current price, PLN m)	689.3
EBITDA margin	3.3%	5.3%		5.7%		6.0%		EV (current price, PLN m)	847.1
EBIT	25.7	34.9	35.6%	54.9	57.2%	65.4	19.1%	Free float	27.0%
Net profit	24.4	31.1	27.4%	36.0	15.7%	38.5	6.9%		
P/E	27.5	22.1		19.1		17.9		Price change: 1M	2.8%
P/CE	24.6	18.4		14.6		12.9		Price change: 6M	13.0%
P/BV	2.6	2.5		2.2		1.9		Price change: 12M	66.0%
EV/EBITDA	25.3	17.4		12.8		10.4		Low (52 weeks)	2.5
Dyield (%)	0.0	0.0		0.0		0.0		High (52 weeks)	4.5

By lengthening the value chain and expanding into new, higher-margin product lines (recycling of printed circuit boards, catalytic converters, and waste electronic and electrical equipment) Elemental expects to reduce the share of the low-margin waste wholesale business in annual EBITDA below 30% in 2015. In the near future the Company intends to focus on growing the collection volumes of spent catalytic converters and on upgrading its capacity for treating waste printed circuit boards (PCB) and catalytic converters (CAC) through capital investment estimated at EUR 6 million. Aside from organic development Elemental aims to grow through acquisitions, and to that end it has recently acquired a controlling stake in Gorenje Surovina, the metal recycling unit of Gorenje d.d. operating in Slovenia and Serbia. By 2016 the acquisition can boost Synthos's revenue as high as to PLN 1.3 billion, and increase annual EBITDA to PLN 80m. Elemental generated higher-than-expected revenue in Q2 2015 however EBITDA for the period fell slightly short of our estimate and the consensus forecast. Operating cash flow after the second quarter remains negative due to the continued development of the Turkish scrap metal unit Evciler. Elemental achieved 61% of our 2015 annual net profit forecast in H1, indicating potential for a small upward revision. In the near term market sentiment may be dampened by the plans to raise the CAPEX budget for planned future capital investment. We maintain an accumulate rating for EMT.

Share issue for further acquisitions and investments in new technological lines

It was announced that Elemental Holding wants to carry out a private placement of 12 million shares from which it wants to raise PLN 50m. The resources are to be allocated to the development of machinery and acquisitions. Elemental Holding executives are planning on presenting a new and revised development strategy for the Group according to which, after the series of acquisitions, the Companies will turn their attention to the development of recovery technologies in order to obtain the highest available purity. Elemental is carrying out consultations with entities that may be subject to take-over in the future. The first stage of the strategy will involve the Company investing in printed circuit board (PCB) sampling technologies and catalytic converters for cars enabling pure fractions of the end product to be obtained from recovery processes, giving higher margins. An Extraordinary General Meeting of Shareholders, which will decide on the issue of up to 12m Series P shares, has been convened for 9 September.

Elemental to acquire spent catalyst recycler

Elemental's subsidiary Syntom signed a memorandum to acquire a 51% or higher stake in 'one or more spent catalyst recyclers' based in Poland subject to successful due diligence and price negotiations. The acquisition is to be finalized by 31 October 2015. It is consistent with Elemental's plans. The target company generates annual sales of ca. PLN 70m and EBITDA of PLN 4.5-5.0m, and it has zero debt.

2015 Q2 results

At PLN 280.1m the Q2 2015 revenue of Elemental came 25.0% ahead of our forecast and exceeded consensus by 15.7%, supported by the full consolidation of the recent acquisitions Metal Holding and Evciler. EBITDA exceeded our estimate and consensus at PLN 15.8m. Other operating activity in Q2 generated a small gain of PLN 0.2m. After partial reversal of the positive FX differences recognized in Q1, financing activity in Q2 produced a loss of PLN 1.9m. After all this the quarterly net profit at PLN 9.6m came 2.7% ahead of our forecast and fell 11.6% short of the consensus estimate. Elemental achieved 42% of our annual revenue forecast, 46% of expected EBITDA, and 61% of the net profit estimate in H1 2015. Operating cash flow in Q2 2015 was low at PLN 0.1m vs. PLN 8.6m in Q2 2014, due probably to the continued expansion of Evciler. Net debt as of 30 June was PLN 130.7m (2.6x 12M EBITDA) after increasing by PLN 41.3m in the course of the second quarter.

Famur

Buy

Analyst: Jakub Szkopek		Current price:		PLN 1.69				Last rating	2015-09-03
		Target price:		PLN 3					
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	1 176.4	708.8	-39.8%	816.0	15.1%	890.1	9.1%	Number of shares (m)	481.5
EBITDA	384.7	275.9	-28.3%	229.8	-16.7%	258.7	12.6%	MC (current price, PLN m)	813.7
EBITDA margin	32.7%	38.9%		28.2%		29.1%		EV (current price, PLN m)	732.6
EBIT	224.6	121.9	-45.7%	95.6	-21.6%	129.3	35.3%	Free float	13.6%
Net profit	207.6	100.3	-51.7%	91.3	-8.9%	107.1	17.3%		
P/E	3.9	8.1		8.9		7.6		Price change: 1M	-2.3%
P/CE	2.2	3.2		3.6		3.4		Price change: 6M	-47.2%
P/BV	1.1	1.0		1.1		1.2		Price change: 12M	-51.9%
EV/EBITDA	1.8	3.0		3.2		2.6		Low (52 weeks)	1.6
Dyield (%)	0.0	49.7		0.0		4.5		High (52 weeks)	3.9

Famur is set for earnings contraction in Q3 2015 after two strong quarters when its top line was supported by two major contracts delivered to customers from Kazakhstan (EUR 20m) and Russia (EUR 23m). Major contracts for delivery in subsequent years include a PLN 272.9m longwall systems order for a Turkish customer due in 2015 and PLN 139.8m orders for deslagging systems due in 2017 and 2018 secured by the recently acquired subsidiary Famak. Despite the strong sales Famur will not be able to deliver improvement in profits this year. Its financial results for Q2 2015 came in line with our estimates and market expectations, however we were pleased to see a strong operating cash flow and significantly reduced debt. We are upgrading FMF from hold to buy to reflect the price decline below our target.

2015 Q2 results

At PLN 160.4m the Q2 2015 revenue of Famur was 7.7% higher than our forecast and 8.3% higher than the consensus forecast. By segment sales proved 23% higher than anticipated in longwall systems thanks to delayed contract billing, while sales of gallery systems and transport systems fell short of expectations. Q2 gross profit was low at PLN 30.2m due to weak results generated in the longwall systems segment (with gross margin 75.5% lower than anticipated at 4.9%) and in transport systems. This year's acquisition Famak saw gross profit shrinkage from PLN 5.8m in Q1 to PLN 2.2m in Q2. Other operating activity generated a one-time loss of PLN 1.9m in Q2 and as a result EBITDA amounted to PLN 34.2m, 10.1% less than our forecast and 4.8% short of market expectations. After financing gains on positive FX effects of PLN 1.2m the Q2 net profit slightly exceeded expectations at PLN 4.5m. Famur reduced working capital by PLN 89.9m in Q2 and as a result its operating cash flow in the period amounted to PLN 168.7m while net debt decreased by PLN 143.7m to PLN 46.6m (0.2x 12M EBITDA). Famur achieved 53% of our FY2015 annual revenue forecast, 41.9% of expected EBITDA, and 36.6% of our net profit estimate, in H1 2015. The debt reduction posted in Q2 is a positive development amid falling demand from the coal industry.

Dom Maklerski

Kernel	Reduce							
Analyst: Jakub Szkopek	Current price:	PLN 42.07					Last rating	2015-07-17
	Target price:	PLN 35						
(USD m)	**2011/12**	**2012/13**	**change**	**2013/14**	**change**	**14/15F**	**change**	**Key metrics**	
Revenue	2 796.8	2 393.3	-14.4%	2 367.4	-1.1%	2 139.9	-9.6%	Number of shares (m)	79.7
EBITDA	290.7	223.0	-23.3%	463.8	108.0%	316.5	-31.8%	MC (current price, PLN m)	3 352.3
EBITDA margin	10.4%	9.3%		19.6%		14.8%		EV (current price, PLN m)	3 868.2
EBIT	200.9	128.7	-35.9%	375.8	192.0%	231.3	-38.4%	Free float	54.9%
Net profit	111.3	-98.3		154.4		144.3	-6.6%		
P/E	8.0			5.8		6.2		Price change: 1M	-3.7%
P/CE	4.4			3.7		3.9		Price change: 6M	33.5%
P/BV	0.7	0.9		0.8		0.7		Price change: 12M	66.6%
EV/EBITDA	3.7	4.8		2.2		3.2		Low (52 weeks)	22.0
Dyield (%)	0.0	0.0		2.2		4.3		High (52 weeks)	45.6

Kernel generated record EBITDA of an estimated US$ 463.8 million in the year ended 30 June 2015 (FY2015), marking annual growth of a whopping 108% led by high sales volumes accompanied by a sharp depreciation in the Ukrainian hryvnia. In fiscal 2016, however, its profit outlook is affected by the fact that the area planted to sunflowers in the 2014/2015 season was 10.4% smaller than in the previous season at 4.7 million hectares, and as result this year's sunflower seed harvest at a projected 8.9-9.9 million tons will be 2-12% lower than last year (marking the second year in a row of falling crop after an 8.3% drop in 2014). The resulting squeezed supply of seed inputs for sunflower oil producers like Kernel is underpinned by the low reserves left over from the previous crushing season, indicating more intense market competition and downward pressure on margins in the next season. Also adding to the pressure this year will be the lack of the positive FX effects (USH/USD exchange rate depreciation by 80%) that last year provided a major boost to the profits of Ukrainian agricultural producers and exporters. We maintain a reduce rating for KER.

Rival crushing plant opens in Ukraine

In mid-July Alseeds Black Sea opened a vegetable oil pant in the Yuzhny port in Odessa. The Swiss-Dutch owned plant can crush 800kt of sunflower seeds or 500kt of rapeseeds or 500kt of soy a year.Ukraine's total sunflower seed crushing capacity is estimated at 11-12mmt a year with the total oilseed processing capacity at 15mmt.The Allseeds plant is one of the biggest in the Odessa region.

Winter crop harvest

Kernel reported that it had harvested an average of 5.1 tons per hectare of winter wheat crop this year, marking a drop of 5% from the previous crop season. We had estimated the wheat yield at 5.2 t/ha.

Interview with Ukraine Minister of Agriculture

Ukraine’s Minister of Agriculture in an interview with APK-Inform said that the unusually high temperatures in August will have a negative impact on the condition of crops with a long growing season (maize, sunflower, sugarbeet). The high temperatures are also preventing from planting works of winter crops to commence. Maize constitutes over 60% of Kernel’s cereal production volume. Possible sunflower seed production losses will also bring the crop balance down and affect the competition between seed crushing plants. Astarta is benefiting from the poor sugar beet harvest, which will profit from the price hike resulting from the negative sugar stock balance.

Kernel reveals size of debt at end June

Kernel reported that its debt at the end of fiscal year 2014/2015 ended 30 June stood at $339m according to preliminary estimates. Kernel's estimate is $173m lower than our $512m forecast, adding PLN 8.6 to our per-share valuation. The low June debt was owed to a significant reduction in working capital, most likely stemming from an earlier completion of the sunflower seed crushing season due to a tight seed supply. According to reports the Ukrainian seed inventory fell to $138m at the end of June from $318m at the end of March 2015 (compared to $300m at end June 2014), reaching its lowest level since June 2009. This indicates low capacity utilization by Kernel crushing plants in Q3 2015.

Kęty	Reduce								
Analyst: Jakub Szkopek	Current price:		PLN 298.95				Last rating		2015-03-06
	Target price:		PLN 261.39						
(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	1 593.8	1 819.6	14.2%	1 958.8	7.7%	1 950.9	-0.4%	Number of shares (m)	9.4
EBITDA	225.9	309.3	36.9%	335.3	8.4%	330.2	-1.5%	MC (current price, PLN m)	2 804.4
EBITDA margin	14.2%	17.0%		17.1%		16.9%		EV (current price, PLN m)	2 961.0
EBIT	144.9	224.6	55.0%	250.8	11.7%	247.9	-1.2%	Free float	82.0%
Net profit	153.5	169.0	10.1%	193.9	14.7%	191.7	-1.2%		
P/E	18.1	16.6		14.5		14.6		Price change: 1M	-1.5%
P/CE	11.8	11.1		10.1		10.2		Price change: 6M	-6.5%
P/BV	2.5	2.3		2.2		2.1		Price change: 12M	18.3%
EV/EBITDA	13.2	9.6		8.8		8.8		Low (52 weeks)	248.5
Dyield (%)	2.0	3.3		4.8		4.5		High (52 weeks)	330.0

Kęty posted 3.5% y/y EBITDA growth in Q2 2015, marking a deceleration from previous quarterly growth at annual rates of 8.7% in Q1, 25% in Q4, 32.9% in Q3, 53.4% in Q2, and 50.5% in Q1 2015. The slowdown was observed across all operating segments but one, with falling EBITDA margins posted in Aluminum Systems, Extrusions, Building Accessories, and Flexible Packaging, while Building Services generated y/y margin expansion by 6.0ppt. Further Kęty incurred higher capital expenditures and generated lower operating cash flow in Q2 2015 than in Q2 2014. Our 2015 EBITDA growth estimate for the Company is modest at 6.4%. In the near future Kęty is set to incur increased capital expenditures on a new flexible packaging plant. We maintain a reduce rating for KTY.

Q2 results nominally in line, disappointing structure and lower OCF y/y

Sales revenue of the Kęty Group in Q2 2015 stood at PLN 494.9m and were 12.0% y/y higher and exceeded our projection by 0.6% (in line with the Management outlook published earlier). The most dynamic segment in terms of the sales generated was, as anticipated, Extrusions (+22.4% y/y), followed by Aluminium Systems (+17.4% y/y), and Flexible Packaging (+12.9% y/y). The Building Accessories and Building Services Segment posted a drop in sales of -19.1% y/y and -4.4% y/y, respectively. The EBITDA in Q2 2015 stood at PLN 84.2m and was 3.5% y/y higher and exceeded our forecast by 1.0% (in line with the Management outlook published earlier). One worrying fact is that 4 out of 5 segments reported lower EBITDA margin (Aluminium Systems -3.2ppts y/y, Extrusions -2.7ppts y/y, Building Accessories -11.5ppts and Flexible Packaging -0.7ppts y/y). The only segment to improve its EBITDA margin was the one connected with the Building Services segment (+6.0ppts y/y). What's more, on the operational level in Q2 2015, other operating activities at a level of PLN +2.8m vs. PLN -1.8m in Q2 2014 has a positive effect on the results. A factor that could have contributed to the loss in profitability in the Aluminium Systems and Packaging segments was the increase in polyurethane foil and crude product prices used in the manufacture joinery. The net result in Q2 2015 was PLN 57.6m which is 9.4% y/y higher and 10.7% higher than our predictions. The higher value results from the lower recorded tax rate (15% vs. the anticipated 22%). We expect sales in H1 2015 to be delivered at 49%, EBITDA at 47% and the net profit at 48%. The operating cash flow in Q2 2014 was PLN +7.6m vs. PLN 61.1m in the second quarter last year. The net debt resulting from the high CAPEX (PLN 74.3m in Q2 2015) remained unchanged at the end of H1 2015 until the end of Q1 2015 (PLN 201.6m).

Management on H2 outlook

Kęty is counting on a good second half year in terms of performance and is confident that the budgetary targets for 2015 will be met. The second half shouldn't be any worse this year than last. Kęty's exports in 2016 may grow to 50%.

Dom Maklerski

Kopex	Hold							
Analyst: Jakub Szkopek	Current price:	PLN 6.14					Last rating	2015-06-03
	Target price:	PLN 8.1						
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	1 395.1	1 433.9	2.8%	1 202.0	-16.2%	1 161.7	-3.4%	Number of shares (m)	74.3
EBITDA	241.4	287.4	19.1%	220.0	-23.4%	221.5	0.7%	MC (current price, PLN m)	456.4
EBITDA margin	17.3%	20.0%		18.3%		19.1%		EV (current price, PLN m)	822.9
EBIT	91.2	135.6	48.6%	75.1	-44.6%	81.9	9.1%	Free float	25.9%
Net profit	67.6	101.3	49.9%	44.2	-56.4%	49.0	10.9%		
P/E	6.8	4.5		10.3		9.3		Price change: 1M	-11.8%
P/CE	2.1	1.8		2.4		2.4		Price change: 6M	-43.0%
P/BV	0.2	0.2		0.2		0.2		Price change: 12M	-46.0%
EV/EBITDA	3.6	2.9		3.7		3.5		Low (52 weeks)	6.0
Dyield (%)	1.0	0.0		6.5		3.9		High (52 weeks)	12.0

Kopex expects a rebound in earnings results the second half of 2015 as contracts being delivered to customers in Argentine and Russia become more advanced (the remaining revenues from these contracts are PLN 57m and PLN 93m, respectively). At the same time due to payment delays from local coal miners (including the postponement of a PLN 35m payment for drilling services performed for JSW until 2016) the Company's debt is not likely to decrease this year. Our 2015 projections for Kopex assume a 16% drop in revenues and a 23% decrease in EBITDA, underpinned by a decreasing contribution of the lucrative Argentinean contract combined with intense competition in the Polish market. The risks, reflected in a discount valuation, include the planned involvement in a coal mine project and the possibility of a share sale by the main shareholder TDJ. In Q2 2015 Kęty experienced a slowdown compared to the same period last year, with the profits for the period falling short of our expectations. Moreover the order backlog at 30 June 2015 was 14% lower than at 31 March and 25% lower than in June 2014. On the upside Kopex generated positive quarterly operating cash flow in Q2. We maintain a neutral rating for KPX.

2015 Q2 results

At PLN 286,3m the Q2 2015 revenue of Kopex missed our forecast by 10% and fell 9.6% short of the consensus estimate due to weaker-than-expected sales of mining services and equipment. Sales of electrical and electronic equipment exceeded our forecast by 52.4% but they remained flat at the same level as in the previous quarter. The gross profit was 31% lower than anticipated at PLN 32.8m due again to mining-related segments while the gross profit in the electrical segment exceeded our estimate by 72.8%. EBITDA came in at PLN 41.6m in Q2, and it fell 17.5% short of market expectations. After higher-than-expected financing gains and lower tax, the quarterly net profit exceeded our PLN 2.2m forecast at PLN 8.4m but came in line with consensus. Kopex generated operating cash flow of PLN 35.2m in Q2 2015, marking improvement from the negative OCF of PLN 4m posted in Q2 2014. Net debt as of 30 June remained steady at PLN 464.8m (1.7x 12M EBITDA). Kopex achieved 51% of our annual revenue forecast, 41% of expected EBITDA, and 36% of our annual net profit estimate in H1 2015.

Kopex on future outlook

Kopex’s order backlog at 30 June was PLN 1.1bn, marking a decrease of 14% from the end of March and 25% from June 2014. The Company is hoping to add more orders to the backlog, mainly from abroad, in the coming weeks.

Tarczyński	**Hold**							
Analyst: Jakub Szkopek	Current price:	PLN 13.5					Last rating	2015-03-06
	Target price:	PLN 15						
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	448.3	494.2	10.2%	540.5	9.4%	592.0	9.5%	Number of shares (m)	11.3
EBITDA	32.9	41.8	27.0%	42.4	1.3%	43.5	2.7%	MC (current price, PLN m)	153.2
EBITDA margin	7.3%	8.5%		7.8%		7.3%		EV (current price, PLN m)	273.1
EBIT	17.3	21.6	24.8%	23.3	7.8%	25.1	7.6%	Free float	61.7%
Net profit	9.3	11.7	25.4%	14.4	23.6%	15.3	5.9%		
P/E	16.4	13.1		10.6		10.0		Price change: 1M	4.1%
P/CE	6.1	4.8		4.6		4.5		Price change: 6M	-2.2%
P/BV	1.3	1.2		1.1		1.0		Price change: 12M	39.9%
EV/EBITDA	7.6	6.8		6.4		6.1		Low (52 weeks)	9.4
Dyield (%)	0.8	0.0		0.0		4.7		High (52 weeks)	15.0

Tarczyński is expected to grow sales volumes by 12% in 2015 thanks to the launch of a new processing plant, the entry into the new markets of Czech Republic and Slovakia under the Lidl label, and growing deli meat sales in the UK. What is more, the Company has renewed its partnership with the meat distributor Bruno Tassi which before the 2013 IPO accounted for over 10% of total sales. TAR stock market performance in the near term may be negatively affected by the upcoming launch of a rival meat processing plant by Pini. In Q2 2015 Tarczyński's financial results topped our expectations but came in line with market expectations, with strong operating cash flow the main highlight of the quarter. After the first half of the year we think analysts may be expecting the Company to achieve a 2015 annual EBITDA of PLN 47-50m and net profit in the range of PLN 15-17m. We maintain a hold rating for TAR.

2015 Q2 results

In Q2 2015, the total sales revenue amounted to PLN 129.1m and were 6.1% below our outlook and 8.0% below the consensus. The gross result on sales in Q2 2015 was PLN 30.7m, which was in line with our forecast. The gross margin turned out to slightly top forecast levels (23.7% vs. projected 22.3% and 18.4% in Q2 2014), and it did not slip significantly relative to Q1 (24.4%) despite customer price revisions (e.g. Lidl). SG&A expenses were in line with our expectations. Costs of advertising turned out to exceed projections (PLN 1.9m vs. expected PLN 0.5m and PLN 2.5m in Q2 2014). Despite that, the EBITDA in Q2 2015 stood at PLN 12.4m and was 8.2% higher than our outlook and 1.8% lower than consensus. In Q1 2015, the net revenue amounted to PLN 3.9m and was 7.9% below our outlook and 11.1% below the expectations of analysts. Tax CIT exceeded our outlook (CIT 21.5% vs. projected 19%). The operating cash flow was PLN 9.2m vs. PLN -2.6m in the second quarter last year. The net debt at the end of the first half of the year was close to the level in the first quarter of the year (PLN 155.8m; 3.1x 12M EBITDA). After the first half of the year, our full-year revenue forecast stands at 47% on the level of revenue, 61% EBITDA and 64% net profit. After the first half year results, the market may speculate that Tarczyński will achieve FY levels at EBITDA PLN 47-50m and net profit PLN 15-17m.

Tarczyński receives investment subsidy

Tarczyński received the remaining PLN 10.8m subsidy (out of PLN 14.1m total) granted to its production plant expansion project in August.

UNIWHEELS	Buy							
Analyst: Jakub Szkopek	Current price:	PLN 121.6					Last rating	2015-06-11
	Target price:	PLN 136.6						
(EUR m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	337.2	362.6	7.5%	401.6	10.8%	438.9	9.3%	Number of shares (m)	12.5
EBITDA	38.3	46.3	20.9%	52.0	12.3%	58.2	12.0%	MC (current price, PLN m)	1 517.6
EBITDA margin	11.3%	12.8%		12.9%		13.3%		EV (current price, PLN m)	1 630.3
EBIT	23.6	32.1	36.0%	36.5	13.8%	39.4	8.0%	Free float	38.7%
Net profit	13.2	22.2	67.5%	33.3	49.8%	35.2	5.9%		
P/E	21.7	12.9		10.8		10.2		Price change: 1M	5.3%
P/CE	10.3	7.9		7.4		6.6		Price change: 6M	15.8%
P/BV	3.4	3.4		1.9		1.5		Price change: 12M	15.8%
EV/EBITDA	9.6	8.2		7.4		6.8		Low (52 weeks)	105.0
Dyield (%)	2.5	0.0		2.8		3.2		High (52 weeks)	129.0

Uniwheels is a European manufacturer of aluminium wheels which ranks third in revenues from direct sales to car makers and first in aftermarket production volumes with a 13% market share. Going forward Uniwheels is set for sustained growth driven by an increasing demand for and complexity of aluminium wheels observed across the world as auto manufacturers continue to look for ways to make their cars sleeker and lighter. At the rate seen to date, within three years global production of aluminium wheels is likely to increase by 25%. Accompanied by an uptrend observed in the average size of passenger car wheels, the growing demand will eventually put a strain on the global wheel capacity. After increasing its sales volumes at an average annual rate of 6% between 2012 and 2014, Uniwheels decided to build a new production facility in Poland at a cost of EUR 87m. Scheduled to come on line in the second half of 2016, the factory is expected to boost the Company's capacity by 24% (from 8.0 to 9.9 million units a year). After an upside surprise delivered in Q2 2015 Uniwheels achieved 54% of our 2015 full-year revenue and EBITDA estimates and 50% of our net profit forecast. We maintain a buy rating for UNW.

2015 Q2 results

Uniwheels' Q2 2015 results was the source of an upside surprise reporting higher-than-expected revenues at 14% and the EBITDA exceeding our projections by 20%. The Company managed to increase volume sales in the Aftermarket and OEM segment and bring average product prices up. As a result, EBITDA per wheel rose in Q2 2015 by 12.6% y/y up to EUR 7.34. The results were accompanied by a highly positive operating cash flow. After the first half of the year, Uniwheels delivered 54% of our full-year revenue forecast, 54% of our EBITDA estimate and 58% of the net profit projection. Uniwheels executives are expecting revenues to increase by 15-20% over the year and a similar dynamics in the case of EBITDA (our outlook to date was +12.3% y/y). We have a positive view on this news. The sales revenue of Uniwheels in Q2 2015 stood at PLN 112.2m and were 31.2% y/y higher and 14,3% higher than our expectations. Sales in the Aftermarket segment rose by 16.7% y/y (+23.3% vs. our projections), and in the OEM segment by 34.6% y/y (+12.6% vs. our outlook). The wheel sales volumes in Q2 2015 stood at 1999 thousand wheels, which means that the Company was operating at 100% of its production capacity. Volume sales in the Aftermarket segment rose by 6.4% y/y (+20.2% vs. our projections), and in the OEM segment by +15.8% y/y (+7.8% vs. our outlook). Average prices in the Aftermarket segment in Q2 2015 amounted to EUR 55.8 (+9.7% y/y; +2.6% vs. our forecast), and in the OEM segment were EUR 55.4 (+16.3% y/y; +4.4% vs. our estimate). Wheel sales, apart from the high production capacity utilization, was accompanied by a more favorable product mix (more wheels at higher average prices and meeting higher technical requirements). The EBITDA in Q2 2015 stood at PLN 14.7m and was 23.1% y/y higher and exceeded our forecast by 20.4%. The average Uniwheels profit per wheel rim was EUR 7.34 (+12.6% y/y and +9.6% vs. our outlook). The Company experienced the negative impact of IPO-related costs on its other operating activities (almost EUR 1.8m higher). Uniwheels financing activity produced a EUR 1.9m loss mainly down to FX differences (in Q1 2015 FX gains exceeded EUR 4m). In effect, the net profit was on at a lower level y/y but was also 29.8% higher than we expected in our forecasts. The Company has a positive operating cash flow in Q2 2015 at EUR +7.7m (EUR +10.5m in Q2 2014). The cash flow from operating activities was practically twice as high as last year in the first half of 2015 (EUR 10.2m). The net debt at the end of the first half of the year dropped from EUR 90m to EUR 15.8m, mainly thanks to the Company's high ability to generate cash, remission of a shareholder loan and proceeds from the issue of shares. In the first half of the year, Uniwheels delivered 54% of our full-year revenue forecast, 54% of our EBITDA estimate and 58% of the net profit projection.

Q2 earnings conference highlights

According to Uniwheels executives the European automotive market is on a continued uptrend. The Company has complete coverage of its orders book for September and October. The slump in orders resulting from the downturn in China has not generated any effect. The Company predicts that it is not very probable that the Chinese situation will make its mark on its volumes this year. The growing demand for wheel rims is driven by new customer wins (Suzuki) and an increase in current orders (Mercedes, Audi). The Management Board notes that Turkish rim producers have experienced higher costs of purchase of aluminium since the summer of 2015 because of the import duties introduced in Turkey (6%). Up until now, they were incredibly cost effective due to low labor costs. The Company raised its prices in the Aftermarket segment in March and April. Despite this level of sales volume, the segment grew year-on -year. The average size of the wheels sold also grew in Q2 2015, which translated into higher margins. The Board sees a possible outcome concerning the easing of rim import duties from China in October. It also points out that the process is being drawn out in time and has taken a very political turn. Imports free of duties are currently possible in many other Asian countries like South Korea. Nevertheless, this is not destructive to the market. The construction project for a new plant in Stalowa Wola is on track. Apart from Borbet and Uniwheels, the Company believes that nobody else is working on the development of new wheel rim production plants. Management Board raised its expected sales dynamics target on the occasion of publishing its Q2 2015 earnings from a single digit figure by 15-20%. It is still expecting an EBITDA margin close to that of last year.

Vistal

Buy

Analyst: Jakub Szkopek		Current price:	PLN 11.69					Last rating	2015-01-26
		Target price:	PLN 16.4						
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	283.4	322.4	13.8%	334.2	3.7%	355.4	6.3%	Number of shares (m)	14.2
EBITDA	34.2	39.6	15.7%	41.8	5.4%	46.7	11.9%	MC (current price, PLN m)	166.1
EBITDA margin	12.1%	12.3%		12.5%		13.1%		EV (current price, PLN m)	312.5
EBIT	23.5	27.1	15.3%	26.1	-3.9%	31.0	19.2%	Free float	29.6%
Net profit	20.4	12.3	-39.7%	17.5	42.8%	23.8	35.4%		
P/E	8.1	13.5		9.5		7.0		Price change: 1M	-8.3%
P/CE	5.3	6.7		5.0		4.2		Price change: 6M	7.2%
P/BV	1.1	1.0		0.9		0.8		Price change: 12M	-21.3%
EV/EBITDA	8.4	8.7		7.5		6.3		Low (52 weeks)	8.7
Dyield (%)	0.0	0.0		2.6		3.2		High (52 weeks)	14.9

The value of new bridge projects in Poland can exceed PLN 400m this year according to our estimates (+10% y/y), and in 2016 it is expected to jump to PLN 1.1bn (vs. PLN 950m in the record year of 2010). As of September 2014 Vistal had submitted bids on civil engineering contracts worth a total of PLN 0.7bn, moreover it grew the backlog of infrastructure orders from foreign customers six times to PLN 89m, suggesting a positive sales momentum in the infrastructure segment in 2015. In June 2015 the Company signed a large, PLN 75.5m contract for the delivery of oilrig components even as oil prices remained low. Vistal's financial results for Q2 2015 exceeded our expectations thanks to a good profit composition, though the operating cash flow was lower than anticipated and debt showed a temporary increase. Vistal's backlog amounted to PLN 325.1m as of 30 June 2015, representing growth of 54.5% from the same time last year and an increase of 29.2% from end March 2015. We stand by our buy rating for VST.

Vistal signs PLN 19.5m contract

Vistal signed a PLN 19.5m contract for the construction of a railway overpass, accounting for 5.8% of our 2015 revenue forecast for the Company.

Vistal lands PLN 15m contract

Vistal signed a PLN 15m contract with a Norwegian company operating in the marine business for the delivery of ship hull components. The contract accounts for about 5% of Vistal's expected 2015 revenue.

2015 Q2 results

At PLN 112.8m, the Q2 2015 revenue of Vistal was 27.2% higher than our forecast after y/y growth of and 43.0%. Compared to our expectations Q2 sales were higher in the marine&offshore segment, the infrastructure segment, and the buildings segment. The gross profit at PLN 17.3m showed a y/y increase of 34.1% driven by all three operating segments where the gross profit figures came ahead of expectations. SG&A expenses were 15.1% higher than thought after a 19.7% y/y surge After a gain of PLN 4.2m achieved on other operating activity the Q2 2015 EBITDA came 20.2% ahead of expectations. Net profit after a financing loss of PLN 3.9m came 469.1% ahead of our estimate at PLN 6.2m (PLN 1.9m adjusted for one-offs). Vistal achieved 59.5% of our annual revenue forecast, 62.7% of expected EBITDA, and 69.1% of our annual net profit estimate in H1 2015. Note that the Company generated high negative operating cash flow of PLN -24.2m in Q2. Net debt stood at PLN 239.8m as of 30 June 2015 (5.1x 12M EBITDA) after an increase of PLN 33.9m from 31 March. Summing up we like the quality of Vistal's Q2 profits but we were disappointed by the increased debt and weak OCF.

Q2 earnings conference highlights

Vistal's backlog amounted to PLN 325.1m as of 30 June 2015, representing growth of 54.5% from the same time last year and an increase of 29.2% from end March 2015. By segment 39% of the orders were for marine & offshore infrastructure, 23% were domestic infrastructure contracts, and 20% were orders for construction services. Pending orders at the end of June had an estimated total value of PLN 265.4m (+131.2% y/y; +22.0% q/q), with 38% represented by potential infrastructure contracts from abroad, 28% marine&offshore contracts, 20% domestic infrastructure contracts, and 5% construction contracts. Vistal anticipates many contract opportunities in the public infrastructure business in 2016, supported by EU funding under the new budget. The Company wants to continue to reinforce its position as a general contractor. It is also noticing a revival in seaport infrastructure orders, and it is hoping to sign new infrastructure contracts with Scandinavian customers after the summer vacation season. Despite a general slowdown in demand for marine&offshore systems Vistal has recently landed a PLN 75.5m order for oilrig components which is scheduled to commence by Q4 2015 and end in October 2016. The Company is hoping for ancillary business from the customer Johan Sverdrup as part of the oilrig contract. Vistal believes it can exceed the PLN 400m revenue target set for 2017 sooner. The Company agrees that its net debt is high at the moment, but it expects positive operating cash flow in Q3 and Q4 2015 which will help to reduce the amount of the debt in the second half of the year.

Construction

Road Construction

Government updates road building program

Polish PM Ewa Kpacz said in August that the government would spend a total of PLN 107bn through 2025 on 3,900 kilometers of motorways and expressways. This marks an upward revision from an earlier estimate of PLN 93bn.

Elektrotim

2015 2Q results

Elektrotim posted in-line financial results for Q2 2015. From a high of PLN 0.8m in the last three years the Q2 net profit this year increased to PLN 3.3m, making for a H1 2015 total of PLN 1.8m vs. a net loss of PLN 2.6m booked in H1 2014. Compared to Q2 2014 the second-quarter revenue soared 63% y/y to PLN 66.2m and the gross margin expanded to 10.7% from 5.7%. SG&A expenses remained steady at PLN 3.9m. Income from other operating activity and financing activity was PLN 0.5m each. Despite a decrease in CFO from a negative PLN 8m in H1 2014 to PLN -18m in H1 2015 Elektrotim's net cash at 30 June increased from PLN 6.9m in 2014 to PLN 10.5m in 2015. Summing up Elektrotim had a successful second quarter. We stand by our 2015 PLN 12.1m net profit estimate for the Company.

Elektrotim inks PLN 19m contract

Elektrotim's subsidiary Mawilux signed a PLN 19m contract for the installation of lighting infrastructure in the Wrocław airport. The deadline is 30 April 2016.

PLN 3.7m contract

Elektrotim signed an agreement with the Przedsiębiorstwo Budowy Kopalń PeBeKa S.A. shaft and gallery construction consortium with its seat in Lubin for the performance of works in the scope of Control and Measurement Instruments and Automation in the Głogów I copper smelter. The value of the contract: Net PLN 3.7m. The subject of the agreement will be completed by 28 December 2015. The total value of all the contracts concluded with the said contracting authority equals a net PLN 9.7m.

Contract worth PLN 12m goes to Elektrotim

Elektrotim received from the consortium of companies comprised of: KGHM ZANAM S.A. with its seat in Polkowice and the Legnica-based ELSUR Sp. z o.o., a notification on the Company being selected for the performance of the task titled: "Restoration of basic rectifier units ZP-1, ZP-3, ZP-4, and ZP-6 along with transformers at the Copper Electrorefining Department in the "Legnica" Copper Smelter. The fee for the performance of the task is net PLN 12.0m.

Herkules

2015 2Q results

Herkules posted good but in-line Q2 results. Revenue increased 33% from last year and the gross margin remained at the steady but solid level of ca. 18%, and as a result operating profit showed a 40% y/y surge to PLN 5.8m and net profit soared 49% to PLN 3.6m. 97% of the quarterly EBIT was delivered by the rental cranes segment but the production segment improved its performance a well with EBIT in H1 2015 at a positive PLN 0.5m vs. PLN -0.3m last year. Thanks to subsidies Herkules recognized a PLN 2.1m gain in Q2 2015 from other operating activity. Net debt decreased to a still high PLN 101.8m in the quarter but thanks to higher EBITDA the net debt/EBITDA ratio decreased to 2.7x at 30 June 2015 from 4.2x at June 2014. Herkules delivered 34% of our PLN 12.2m net profit forecast for 2015 and 44% of the expected EBITDA (PLN 38.6m).

Budopol dispute continues

The Extraordinary General Meeting of Shareholders of PGMB Budopol on Herkules' initiative during which decisions were to be made concerning a capital increase in the Company failed to take place in August. The Regional Court in Lublin secured the claim of Arkadiusz Ertel (Corleonis owner), seeking the a declaration of invalidity of resolutions concerning the election of new Supervisory Board members.

LC Corp

2015 2Q results

LC Corp reported very good financial results for 2Q 2015 on home sales which amounted to 346 units (+31% y/y, -28% q/q). Overall the quarterly profits were higher than in the same period last year and exceeded analysts' expectations. EBIT increased 25% y/y in Q2 and 39% y/y in H1 2015. The Q2 gross profit amounted to PLN 60.0m and the gross margin was 27.5%, representing the highest quarterly level in four years. LCC generated revenue of PLN 32.1m from property rental in Q2 2015, with gross profit at PLN 21.5m - the highest in history (though compared to the quarter before and the same period last year it increased only 2% and 1% respectively). Property revaluation effects in Q2 were PLN 28.4m stemming mainly from a 2.6% increase in the EUR/PLN exchange rate with an estimated value of PLN 40m implying that value adjustments to investment properties resulted in losses. Pre-tax profit was PLN 35.6m in Q2 (+134% y/y) and after surprisingly high tax of PLN 16.1m net profit at PLN 19.5m fell 11% short of market expectations despite a 63% beat in EBIT.

Mirbud

2015 2Q results

Mirbud generated revenue of PLN 180m (-38% y/y), EBITDA of PLN 12.5m (-22%), and net profit of PLN 5.9m (-22%) in Q2 2015. Despite the contraction relative to Q2 2014 the quarterly results were good. The gross margin at 9.5% was higher than the 7.0% achieved in Q2 2014. On a less positive note revenues from road construction fell 82% in the second quarter. Worse still after negative investing cash flow of PLN 17.5m (CFO was positive at PLN 9.5m) Mirbud's net debt as of 30 June 2015 was PLN 213m vs. PLN 191m at June 2014, with the net debt/EBITDA ratio reaching a high 5.8x. The high debt is likely to weigh on MRB shares which are trading at 6.4x P/E and 8.4x EV/EBITDA.

Torpol

2015 2Q results

Torpol reported weak financial results for Q2 2015. On an in-line 96% y/y revenue surge to PLN 275.6m driven by the Rail Baltica and the Łódź train station projects, the gross margin in the period fell to 3.2% from 7.8% in Q2 2014. The reason was an extension of the deadline for the Łódź contract which entailed upward cost adjustments. SG&A expenses showed a 13% y/y increase to PLN 4.7m in the second quarter, and after neutral other operating activity and a loss of PLN 0.8m on financing activity (vs. PLN 1.0 in Q2 2014) Torpol's Q2 2015 net profit came in at PLN 2.8m, down PLN 30m year on year. Operating cash flow in the second quarter was weak at a negative PLN 105m, and net debt at 30 June was PLN 15m. Summing up Torpol owes the disappointing second-quarter showing to the substantial budget revisions for the Łódź contract. Torpol's order backlog at the end of June was worth

PLN 1.2bn, with the potential gross margin at 5.8% as estimated by the Company. Despite the weak second quarter we believe assuming no further negative budget revisions that Torpol can achieve a 2015 annual net profit over PLN 20m.

International expansion plans

Torpol would like to generate one-third of its future revenues in Norway which is planning to invest NOK 168bn (ca. PLN 80bn) in railway infrastructure in 2014-2023. At the moment Norwegian contracts accounts for 5% of total sales. The Norwegian order backlog exceeded PLN 90m at 30 June 2015. At the same time Torpol is looking for business opportunities in Slovenia, Croatia, and Serbia.

Management on post-Q2 outlook

Completion of the "Łódź Fabryczna" train station contract is expected to be postponed to 2016 due to no fault of Torpol. Depending on the terms negotiated with PKP PLK the contract's budget may be revised upward in the future. The Rail Baltica contract is progressing on schedule. Rail Baltica represents 50% of Torpol's backlog with Łódź Fabryczna contributing about 20%. Torpol is bidding for new orders totaling PLN 1.8 billion. The Company expects the first railroad contracts funded under the new EU budget, with an estimated total value of PLN 4bn, to come on line still this year.

Contract worth PLN 32m goes to Torpol

PKP PLK have selected the Torpol bid as the most favorable offer in the tender for the modernization of the railway infrastructure within train platforms on the western side of the Poznan Main Train Station. The net worth of the Torpol bid is PLN 32.4m in relation to the investor' net budget of PLN 51.7m. The other bidders taking part in the tender were Trakcja PRKiI (PLN 33.0m), Budimex (PLN 34.9m) and Porr Polska (PLN 37.9m).

Trakcja

Q2 2015 results

Trakcja achieved very good second-quarter financial results. An improved profitability and lower debt servicing costs enabled the Company to generate a higher net profit than last year despite the Company's revenue being down 17% y/y. A net debt of PLN 149m was 22% higher y/y. After the first six months, Trakcja is fulfilling 35% of our net profit forecast (vs. 18% over the same period last year). We are reiterating our "overweight" rating for Trakcja. Sales revenue came in at PLN 334m, which means a 17% drop y/y. Revenue had a negligible impact over the whole of the first half of the year: -2.5%). Trakcja managed to significantly improve its viability from 9.2% gross margin in the second quarter of last year to 12.5% in the same period this year. The improved margins were also visible in the performance for the first half of the year (8.6% in H1 2014 vs. 11.4% in H1 2015). Strong growth in SG&A costs in the second half of 2015 to PLN 20.1m (+31% y/y). This is also linked to the costs of scrapping contracts with former company executives. A much better year-on-year turned out to be the financial result (PLN -0.8m in Q2 2015 vs. PLN -4.6m in Q2 2014), which results from the reduction in interest expenses and income from the discount on financial assets. The construction backlog of the Trakcja Group as at 30 June 2015 came to PLN 698m. What's more, between the balance sheet date and the publishing of second-quarter results, companies from the Trakcja Group signed construction contracts with a total value of PLN 717m. According to Trakcja executives, the Group's current 2015 backlog and value of contracts already obtained by the posting of second-quarter performance ensure full utilization of the production capacity in subsequent quarters of the financial year and the participation in tenders in the third and fourth quarters will enable the Group to further secure their contracts portfolio for future periods.

Management on 2015 outlook

Trakcja is not likely to repeat last year's PLN 1.6bn revenue this year but it has new orders pending in a total amount over PLN1 bn. The Company is planning large equipment purchases with a budget through 2016 of PLN 35m. Trakcja has PLN 32.4m bonds set for 2015 maturity which it intends to redeem without following up with another debt issue.

Trakcja inks PLN 134m contract

Trakcja's subsidiary AB Kauno tiltai signed a EUR 31.8m (PLN 134.7m) road extension contract with the Lithuanian road authority. The deadline is in nine months.

Ulma

2015 2Q results

Ulma posted a 3% y/y revenue decline in Q2 2015 while reporting gross margin expansion from 6.1% to 24.9%. Adjusted for PLN 7.2m receivables impairment, profits showed considerable improvement from Q2 2014 (with EBITDA margin up from 36% to 45%). Ulma paid back in full its bank debt in Q2 resulting in an increase in the net cash position to PLN 41m at end June 2015 from PLN 2m in June 2014 and PLN 38m at end March 2015. The cash balance would have been higher had it not been for high investment.

Q2 earnings conference highlights

Operations in Poland in the first half of the year bore ca. PLN 4m net losses (vs. PLN 10m losses in the first half of the year). The positive operating result of the entire Group was possible because of the profits gained in Kazakhstan. Investors can count on an improvement in the financial results on the Polish market in the second half of the year. This is related with the drastic cut backs in operating costs (already visible in H1 2015 figures) and new contracts entering into force, especially in the road infrastructure segment, which are more profitable than the housing market (driving H1 2015 results). A stronger performance in connection with road contracts can be expected no earlier than from 2016. Company executives have expressed concern over the condition of the construction market in Kazakhstan in subsequent quarters. Spiraling crude oil prices have forced many infrastructural investments in the country to be suspended and this has led to a decline in the prices of services offered by Ulma. Ulma's H1 2015 result has put ca. PLN 7m pressure on the write-down on receivables. This was associated with the Company's old contracts performed for one customer. Ulma executives do not expect similar write-downs in the future. The substantial decrease in D&A from PLN 37m in H1 2014 to PLN 29m in H1 2015 was driven by the adjustment of the Company's D&A policy to its parent. D&A should be relatively stable over the next quarters. CAPEX in the first half of the year was jacked up by ca. 50% y/y to PLN 19m. The increased CAPEX y/y will also be reflected in the second half of the year, however, substantial capital expenditure connected with the reconstruction of its equipment base can be expected no sooner than in 2016-2017. These investments will be on a smaller scale than in 2006-2009 when CAPEX exceeded PLN 100m.

ZUE

2015 2Q results

As predicted ZUE improved its financial results in Q2 205 compared to the same period last year. On a revenue of

PLN 143m, marking a y/y drop of 21% led by fewer railroad contracts, the gross margin was twice the year-ago amount at 9.1%. According to ZUE the improved profitability is owed to better risk management and cost cuts. A 50% rise to PLN 5.9m in Q2 SG&A expenses was driven by the acquisition of a new subsidiary. Other operating costs in Q2 were high as well at PLN 2.4m (vs. PLN 0.9m in Q2 2014). Despite the higher costs EBITDA showed strong, 44% growth from last year, and EBIT increased by an impressive 79%. Net profit was 63% higher than in Q2 2014 at PLN 3.0m. Cash flow in H1 2015 amounted to a negative PLN 38m vs. PLN 23m in H1 2014, due probably to outflows on the acquisition of Railway gft. ZUE achieved 25% of our 2015 annual net profit forecast of PLN 11.9m in the first half of the year, and we believe it is well on track to fulfilling our expectations in the seasonally stronger second half when revenues are expected to approximate PLN 315m. ZUE's order backlog is currently worth PLN 950m.

Management on post-Q2 outlook

ZUE is bidding for new orders totaling PLN 1.6bn, including abroad, and its current backlog is PLN 950m. The recent acquisition Railway gft is generating profits and will contribute positively to this year's consolidated earnings. In Q2 Railway achieved sales of ca. PLN 22m and a net profit of PLN 400,000. On the other hand ZUE wrote the value of its design business down to zero and set aside reserves for the restructuring of the design segment.

PLN 53m contract

ZUE signed a deal with Tramwaje Warszawskie for the modernization of the tram route on the Dworzec Wileński - Żerań Wschodni section. Date of Completion: 15 April 2016.

Budimex

Buy

Analyst: Piotr Zybała	Current price:	PLN 187.2						Last rating	2015-09-03
	Target price:	PLN 225.1							
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	4 749.5	4 949.9	4.2%	5 094.7	2.9%	6 232.4	22.3%	Number of shares (m)	25.5
EBITDA	362.2	270.3	-25.4%	276.8	2.4%	386.0	39.5%	MC (current price, PLN m)	4 779.2
EBITDA margin	7.6%	5.5%		5.4%		6.2%		EV (current price, PLN m)	2 913.4
EBIT	333.3	247.3	-25.8%	255.5	3.3%	365.0	42.9%	Free float	30.9%
Net profit	300.5	192.0	-36.1%	213.0	10.9%	302.1	41.8%		
P/E	15.9	24.9		22.4		15.8		Price change: 1M	0.1%
P/CE	14.5	22.2		20.4		14.8		Price change: 6M	13.3%
P/BV	7.6	9.2		8.3		7.2		Price change: 12M	50.4%
EV/EBITDA	8.8	11.2		10.5		8.1		Low (52 weeks)	122.0
Dyield (%)	2.3	6.3		3.3		4.5		High (52 weeks)	207.0

According to the latest update the Polish road infrastructure program through 2023 has a budget of PLN 107bn marking a 15% upward revision of the previous budget. The increase is good news for Budimex, moreover it spreads the road projects more evenly over the five-year period from 2016 to 2020, and gives credence to our earnings projections for the Company. We are upgrading BDX from accumulate to buy to reflect the August price declines.

Winning tender worth PLN 1.28bn

Budimex's net PLN 1.28bn bid was selected as the most advantageous offer in the tendering procedure for the construction of the S7 expressway on the Nowy Dwór Gdański-Kazimierzowo section. The works deadline is 27 months from the execution of the agreement. The winter months (from 15 December to 15 March) have been excluded from the completion time.

Budimex wins PLN 243m bid

The most favorable offer in the tender for the design and construction of the Suwałki bypass within the S-61 expressway (Section A and B) was the bid submitted by Budimex with a net worth of PLN 243.5m.

Winning bids worth PLN 490m

Budimex offers with a net worth of PLN 234.6m and 254.98m were selected under the tender procedure for the design and construction of the S17 Garwolin-Kurów expressway, which has been divided into two parts: Garwolin-Gończyce and Gończyce-border of the Mazovian and Lublin voivodships.

Budimex inks PLN 57m contract

Budimex has been selected to build a surgical ward in a military hospital in Lublin based on a net offer of PLN 57.2m.

Elektrobudowa	Accumulate								
Analyst: Piotr Zybała	Current price:	PLN 142.95						Last rating	2015-06-02
	Target price:	PLN 149.7							
(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	905.6	1 108.3	22.4%	1 170.8	5.6%	1 142.3	-2.4%	Number of shares (m)	4.7
EBITDA	38.8	49.3	27.0%	79.2	60.6%	77.0	-2.7%	MC (current price, PLN m)	678.7
EBITDA margin	4.3%	4.4%		6.8%		6.7%		EV (current price, PLN m)	683.2
EBIT	24.7	35.7	44.7%	65.5	83.3%	63.6	-2.9%	Free float	43.5%
Net profit	17.2	27.3	58.7%	47.2	72.8%	46.6	-1.4%		
P/E	39.4	24.8		14.4		14.6		Price change: 1M	5.1%
P/CE	21.7	16.6		11.1		11.3		Price change: 6M	30.1%
P/BV	2.1	2.0		1.8		1.6		Price change: 12M	96.8%
EV/EBITDA	15.6	14.6		8.6		8.6		Low (52 weeks)	69.7
Dyield (%)	1.4	1.4		0.0		2.8		High (52 weeks)	144.6

Elektrobudowa delivered a positive surprise in Q2 2015, with strong sales, margins, and cash flow which reinforce the outlook for the rest of the year. In the last three years Elektrobudowa achieved 13% on average of the annual net profit in the first six months, and this year this ratio relative to the guidance is much higher at 61%. Assuming high gross margins in H2 we believe the Company can achieve a net profit of PLN 60m this year (P/E=11x). We maintain an accumulate rating for ELB.

2015 2Q results

Elektrobudowa generated revenue of PLN 347m (+35% y/y), EBIT of PLN 21.9m (+333%), and net profit of PLN 17.5m (+226%) in Q2 2015, with our expectations exceeded by high single digits. Operating profits came ahead of our forecasts in the segments of power generation and power distribution solutions while in industrial engineering there was an EBIT loss of PLN 4m after a Q1 profit. One-time events were small in Q2. ELB generated strong operating cash flow of PLN 62m in Q2 (with H1 OCF at PLN 116m) vs. PLN -59m in Q2 2014. As of 30 June, its cash position was PLN 68m vs. PLN 15m at end June 2014. At the same time amounts receivable under construction contracts were PLN 226m (-6% y/y).

Elektrobudowa mulls 2015 guidance raise

After a better-than-expected first half of the year Elektrobudowa is thinking about raising its 2015 earnings guidance which currently puts net profit at PLN 45m and pegs revenue at PLN 1.197bn.

Erbud

Accumulate

Analyst: Piotr Zybała

Current price: PLN 32.49

Target price: PLN 34.5

Last rating 2015-07-03

(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	1 225.1	1 693.8	38.3%	1 642.1	-3.1%	1 694.9	3.2%	Number of shares (m)	12.8
EBITDA	40.1	52.7	31.4%	54.8	3.9%	59.8	9.1%	MC (current price, PLN m)	414.6
EBITDA margin	3.3%	3.1%		3.3%		3.5%		EV (current price, PLN m)	414.7
EBIT	32.4	43.8	35.1%	46.7	6.7%	51.5	10.3%	Free float	
Net profit	17.5	27.2	55.7%	27.9	2.4%	32.2	15.6%		
P/E	23.7	15.2		14.9		12.9		Price change: 1M	-1.5%
P/CE	16.4	11.5		11.5		10.3		Price change: 6M	-2.0%
P/BV	1.6	1.5		1.4		1.3		Price change: 12M	32.9%
EV/EBITDA	9.7	6.4		7.6		6.8		Low (52 weeks)	23.7
Dyield (%)	0.0	2.2		1.5		2.0		High (52 weeks)	34.8

Erbud achieved 55% of our full-year net profit forecast in H1 2015 vs. 30% on average in the three years prior thanks to improved profitability observed across all operating segments. Accordingly we think the Company may exceed our 2015 estimates. We maintain an accumulate rating for ERB.

2015 2Q results

Erbud's Q2 2015 revenue exceeded consensus by 15%, with net profit beating expectations by 45%. The main earnings driver in the period was the engineering & road segment which boosted revenue 379% y/y to PLN 124m and achieved a good EBIT margin of 4.4%. The real-estate segment also did well in Q2 in terms of profitability, supported by a PLN 5m property valuation gain, and together with roads it accounted for 60% of the consolidated Q2 EBIT. In building construction and power engineering high costs made for weak profits in Q2. Erbud's order backlog at 30 June was PLN 1.34bn (-5% y/y) Operating cash flow amounted to a negative PLN 76m in H1 2015 vs. PLN -33m in H1 2014. Net debt as of 30 June 2015 was PLN 14m vs. PLN 10m at 30 June 2014. Summing up Erbud had a successful second quarter.

Erbud inks PLN 38m contract

Erbud's subsidiary GWI GmbH signed a contract for the construction of an office complex for Wüstenrot & Württembergische AG as a member of a consortium in which it has a EUR 8.9m (PLN 37.7m) share. The deadline is in November 2017.

Erbud inks PLN 50m contract

Erbud signed a PLN 50m contract with Fortum for the construction of a 25MW heating plant in Bytom. The deadline is end 2016.

Unibep	Hold								
Analyst: Piotr Zybała	Current price:	PLN 11.6						Last rating	2015-03-06
	Target price:	PLN 10.4							
(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	920.5	1 079.7	17.3%	1 253.1	16.1%	1 357.7	8.3%	Number of shares (m)	35.1
EBITDA	34.0	32.0	-5.9%	41.2	28.8%	51.5	24.9%	MC (current price, PLN m)	406.8
EBITDA margin	3.7%	3.0%		3.3%		3.8%		EV (current price, PLN m)	417.7
EBIT	28.1	25.1	-10.7%	34.6	38.0%	44.8	29.4%	Free float	27.8%
Net profit	13.6	19.8	45.1%	24.3	22.5%	31.1	28.4%		
P/E	29.3	20.5		16.8		13.1		Price change: 1M	-7.1%
P/CE	20.4	15.2		13.2		10.8		Price change: 6M	11.4%
P/BV	2.2	2.0		1.9		1.7		Price change: 12M	54.7%
EV/EBITDA	11.2	11.0		10.1		8.1		Low (52 weeks)	7.1
Dyield (%)	1.0	1.0		1.3		1.7		High (52 weeks)	13.5

Unibep acquired a number of new orders in August, achieving a higher-than-expected bid-to-hit rate. In Q2 2015 the Company experienced improvement in profits which would have been even greater had it not been for the weak business in German and Russia. We maintain a hold rating for UNI.

2015 2Q results

Unibep had an excellent second quarter int he road construction business in Q2 but its performance in building construction was disappointing. The net profit for the quarter came just slightly below our PLN 5.5m forecast at PLN 5.2m but EBIT was 26% lower at PLN 5.7m after a y/y drop of 33%. On an adjusted basis the difference was not as significant. Unibep again achieved high margins in the road segment (10.3%) and the light structures segment (12.5%) but the margin in building construction was slim at just 2.1% (vs. 5.3% in Q2'14), due probably to reserves set aside for German contracts. Unibep had net cash of PLN 5m at 30 June vs. PLN 15m in June 2014. The Company achieved 41% of our full-year net profit forecast (PLN 24.3m) in H1 2015 and we believe it can fulfill our expectations.

PLN 69m contract

Unibep signed a subcontractor agreement with Astaldi for construction work within the investment involving the extension of the national road No. 8 on the section from the Mężenina Bypass to Jeżewo. The estimated net worth of the contract is PLN 69m. The exact remuneration is dependent on the scope of works actually performed. The performance of the subject of the contract is set to be completed in the fourth quarter of 2016.

Unibep inks PLN 120m contract

Unibep has been hired to build a tennis center in Minsk, Belarus for a net fee of EUR 28.6m (PLN 119.6m).

PLN 120m contract

Unibep signed an agreement for the performance as the General Contractor of a centre for tennis in Minsk in the Republic of Belarus. "Akwa-Mińsk" is the Principal. The subject of the agreement has been divided into two parts: design works (Part I) and construction works (Part II). The agreement in the scope of Part I will enter into force on the day of its execution, While within the scope of Part II, once the Principal has collected the necessary funds. The completion term for the investment is 22 months from the day of entry into force of the agreement within the scope of Part II. Unibep will be paid EUR 28.6m net (ca. PLN 119.6m) for completing the entire investment.

Property Developers

Residential Developers

Mortgage lending rebounds in Q2

The value of home loans issued in Q2 2015 in Poland increased 12% from Q1 to PLN 10.06bn according to the latest AMRON-SARFiN report. The number of loans written in the period increased 10.3% to 46,504.

BBI Development

2015 2Q results

Dom Development posted in-line Q2 results achieved thanks to one-time property valuation gains (PLN 2.9m) and equity in profits of associates (PLN 3.6m), owed primarily to EUR/PLN trends. On zero revenue from sales of homes and services, after SG&A of PLN 3.4m, the revaluation gains helped achieve a quarterly operating profit of PLN 3.6m. Net profit amounted to PLN 2.7m in Q2, making for a H1 2015 net loss of PLN 1.1m. Debt increased 5.5% q/q to PLN 154m in Q2.

JW Construction

2015 2Q results

The Q2 profits of JWC were boosted by the first home closings in the "Bliska Wola" development in Warsaw. The closings were still few at 156, however looking at the strong Q2 margin of the residential segment (29.3% vs. 21.5%) the development has potential to deliver high margin sin the future. In the hotel segment the margin fell to 3% from 30% in 2Q'14. JWC recognized a PLN 3.3m downward value adjustment to its property portfolio in Q2 for the first time in 18 months. In short on PLN 84.5m revenue, JWC generated EBIT of PLN 7.2m and a net profit of PLN 3.5m in Q2 2015. Operating cash flow in H1 2015 was strong at PLN 120m vs. PLN 63m in H1 2014. Net debt decreased to PLN 117m at the end of June.

JWC lists 480 units in Bliska Wola

JW Construction is embarking on the construction of Phase III of the Bliska Wola project in Poland's Capital. This will add another 480 units to the Developer's offer. The completion of works is planned to take place at the turn of the first and second quarter of 2017. The entire residential estate will have over 3,000 residential units. The first phase was commissioned in the first quarter of this year and the construction of phase two is set to be completed at the turn of Q1 and Q2 2016.

CEO on 2015 outlook

CEO Wojciechowski expects JWC to sell 1500 homes in 2015 followed by 1500-1700 annually in subsequent years.

P.A. Nova

2015 2Q results

P.A. Nova's Q2 2015 financial results did not deliver any surprises with revenue down 2.5% to PLN 40.4m compared to Q2 2014, EBIT showing a 13.7% y/y increase to PLN 8.7m, and net profit up 13.5% to PLN 4.9m. In H1 2015 P.A. Nova achieved 45% of our full-year revenue forecast and 49% of our EBITDA and net profit estimates. In the rental property segment P.A. Nova generated revenue of PLN 10.9m (-1.6% y/y) and NOI of PLN 7.1m (+0.5% y/y). In H2 the completion of three retail parks and a shopping center will boost the rental property portfolio. In the construction segment Q2 revenue amounted to PLN 28.5m (-0.6% y/y) and profit was PLN 2.2m (+60% y/y). In H2 2015 we expect steady results in the segment. Investment in commercial properties drove up net debt to PLN 315m at 30 June 2015 from PLN 217m at the same time last year, and we expect that by the end of the year net debt will increase further to PLN 380m.

Management on post-Q2 outlook

P.A. Nova wants to pay dividends next year at least the same as last year's DPS of PLN 0.5. Revenues are set to be steady in 2015 followed by a strong rebound in 2016 after the opening of the Galeria Galena mall and two retail parks which will also contribute to the 50% boost in rental income expected next year. P.A. Nova wants to strengthen its presence in the development of industrial facilities. It may sell one of its investment properties by the beginning of next year.

Polnord

2015 2Q results

Polnord recognized revenues from only 174 flats in Q2 (vs. sales at 488 units), including 79 units in joint-venture developments, and this was the reason behind the meager quarterly profits even though the gross margin was good at 25.1%, SG&A expenses were reduced by 15% y/y to PLN 6.8m, and financing costs fell 20% to PLN 4.2m. One-time events included a downward adjustment of PLN 3.7m to a property value and a PLN 5.6m gain on the acquisition of a 7.67% stake in KB DOM below fair value. The pre-tax loss was PLN 3.1m but after a PLN 5.3m tax credit Polnord was able to post a Q2 2015 net profit of PLN 2.3m. Net debt in Q2 increased 1% q/q to PLN 421m, marking a reduction of 15% from 2014.

Ronson

Management on dividend

Ronson expects its operating cash flow to be firmly in the positive territory in H2 2015 but this year's dividend payout will depend on land purchase opportunities and ownership considerations.

Management on 2015-2016 outlook

Ronson sold 105 homes in July and expects Q3 sales to be similar to Q2 (220 units). The home inventory currently consists of ca. 950 units The 2015 sales target is over 800 units. Ronson is planning to offer for sale a total of 562 flats in five new developments this year. The 2015 closings target is over 700 units followed by over 1000 in 2016. Ronson is planning more land purchases at a budget of PLN 50m.

Capital Park

Buy

Analyst: Piotr Zybała	Current price:	PLN 5.19	Last rating	2015-07-20
	Target price:	PLN 6.5		

(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	38.7	54.8	41.6%	76.3	39.1%	124.5	63.2%	Number of shares (m)	105.3
EBITDA	43.4	-34.8		-25.8	-25.6%	60.2		MC (current price, PLN m)	546.8
EBITDA margin	112.0%	-63.4%		-33.9%		48.4%		EV (current price, PLN m)	1 570.3
EBIT	43.0	-35.2		-26.3	-25.3%	59.8		Free float	
Net profit	25.6	-61.5		-46.6	-24.2%	14.1			
P/E	21.3					39.6		Price change: 1M	2.8%
P/CE	21.0					38.5		Price change: 6M	33.1%
P/BV	0.6	0.6		0.6		0.6		Price change: 12M	19.3%
EV/EBITDA	25.0					28.8		Low (52 weeks)	3.6
Dyield (%)	0.0	0.0		0.0		0.0		High (52 weeks)	5.3

Capital Park opened the Royal Wilanów commercial development to tenants on 19 August as planned. The building is two-thirds rented, and it increased by 40% Capital Park's completed space portfolio. In Q2 due to revaluation losses net profit came PLN 10m below expectations (-PLN 0.10/share), however CAP currently offers the biggest upside potential in the commercial real estate sector. We expect improvement in sentiment after the sale of the Eurocentrum office complex. We maintain a buy rating for CAP.

2015 2Q results

Capital Park reported in-line Q2 results with rental income at PLN 17.5m and NOI at PLN 12.7m showing steady levels compared to the previous quarter and over-50% growth from Q2 2014. EBIT adjusted for revaluation (PLN 9.8m) exceeded our forecast by 4% thanks to lower administrative expenses (PLN 3.4m).CAP delivered 45% of our annual adjusted EBIT forecast of PLN 44.1m and we believe it can reach the target after completing two developments in the second half of the year. Property value adjustments in Q2 produced a gain of PLN 19.9m, much lower than the PLN 40.9m anticipated by us taking into account only EUR/PLN effects. The adjustments included a PLN 6m loss incurred in H1 on residential properties. and a PLN 4.5m loss on the presentation of rental income as well as probably other adjustments not specified in the report.Q2 EBIT after revaluation came in at PLN 29.0m vs. PLN 49.6m expected. Net interest expenses exceeded expectations by over 20% at PLN 9.1m due to higher bond costs which increased 26% q/q to PLN 161m. On the upside the Q2 profits were supported by a partial reversal of deferred tax reserves, however in the end the quarterly net profit missed our PLN 21.4m estimate at PLN 11.1m (PLN 0.10 per share).

Eurocentrum officially up for sale

Capital Park has put up for sale the Eurocentrum office complex in Warsaw. At 30 June Eurocentrum's NAV (book value less loans) was PLN 332m, equivalent to 60% of CAP's market cap.

Dom Development Buy

Analyst: Piotr Zybała	Current price:	PLN 47.01					Last rating	2015-09-03
	Target price:	PLN 57.9						

(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	676.4	784.3	16.0%	823.8	5.0%	875.3	6.3%	Number of shares (m)	24.8
EBITDA	76.5	72.3	-5.5%	98.5	36.2%	122.2	24.1%	MC (current price, PLN m)	1 164.5
EBITDA margin	11.3%	9.2%		12.0%		14.0%		EV (current price, PLN m)	1 238.1
EBIT	73.3	69.0	-5.9%	95.3	38.2%	119.1	24.9%	Free float	26.6%
Net profit	54.4	55.7	2.3%	75.1	34.8%	95.5	27.2%		
P/E	21.4	20.9		15.5		12.2		Price change: 1M	-9.9%
P/CE	20.2	19.7		14.9		11.8		Price change: 6M	0.6%
P/BV	1.4	1.4		1.3		1.3		Price change: 12M	9.9%
EV/EBITDA	16.7	16.7		12.6		9.9		Low (52 weeks)	40.6
Dyield (%)	7.8	4.7		4.8		6.4		High (52 weeks)	55.0

Dom Development delivered slightly better-than-expected Q2 2015 owing to a conservative pricing policy which has borne fruit in the form of higher margins. We maintain our 2015 and 2016 earnings projections for the Developer. DOM shares are currently trading at 15.5x 2015E P/E and 12.2x P/E, implying 2016-2017 dividend yield in the range of 6.4-8.2%. We are upgrading DOM from accumulate to buy to reflect the August price declines.

2015 2Q results

Dom Development's 2015 second-quarter financial results exceeded market expectations and our estimates with gross profit coming in at PLN 38.1m on sales revenue of PLN 158m. The quarterly gross margin amounted to 24.2% vs. 22.0% expected by us. The quarterly results do not seem to include any one-time events. it is worth noting Dom Development's restructured debt with no short-term loans or bonds held on the books as of 30 June 2015 and with net debt reduced to PLN 80m from PLN 119m at the same time last year. The ratio of net debt to equity at 10% remains safe.

DOM on 2015 outlook

DOM is happy with the situation in the Polish housing market and it expects stabilization in prices and increasing sales volumes. The biggest risk faced by the Company right now is general economic uncertainty. About 30% of DOM's housing inventory is eligible for loan subsidies under the MdM program which has recently been redesigned to include existing homes. While this is a disadvantage for new home developers it should not significantly affect DOM's sales. DOM expects that in the two final quarters of 2016 it will achieve higher sales than the record 598 units sold in Q2 2015. At 30 June DOM's home inventory counted an unprecedented 2658 flats (+4% y/y). In H2 2015 DOM is planning to commence construction of 950 flats, making for total 2015 housing starts over 2,300 (+18% y/y). DOM spent PLN 140m in H1 2015 on seven land lots where it is planning to develop about 2600 flats. In H2 it is prepared to spend the same on new land for development depending on the economic situation. DOM wants to close over 2000 homes in 2015 at an average gross margin of 21%, DOM will achieve 15% of its projected annual earnings in the first three quarters of 2015, with the remaining 85% expected to be generated in Q4 after the recognition of about 50% of the total closings scheduled for this year.

Dom Development – 167 homes listed

Dom Development listed 167 homes within Phase I of its Osiedle Moderna investment in Warsaw’s Targówek district. The date of delivery of the home starts is the second quarter of 2017. Around 750 homes will be available in this residential estate.

Echo Investment		Accumulate							
Analyst: Piotr Zybała		Current price:	PLN 6.2					Last rating	2015-06-03
		Target price:	PLN 8						
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	517.4	577.4	11.6%	610.9	5.8%	778.7	27.5%	Number of shares (m)	412.7
EBITDA	514.7	667.2	29.6%	215.2	-67.7%	366.3	70.2%	MC (current price, PLN m)	2 558.7
EBITDA margin	99.5%	115.6%		35.2%		47.0%		EV (current price, PLN m)	5 579.9
EBIT	510.5	662.2	29.7%	209.9	-68.3%	360.9	72.0%	Free float	36.8%
Net profit	331.1	405.1	22.3%	135.8	-66.5%	222.8	64.0%		
P/E	7.7	6.3		18.8		11.5		Price change: 1M	-4.0%
P/CE	7.6	6.2		18.1		11.2		Price change: 6M	-7.7%
P/BV	0.9	0.8		0.8		0.7		Price change: 12M	-1.7%
EV/EBITDA	9.2	7.8		25.9		16.6		Low (52 weeks)	6.0
Dyield (%)	0.0	0.0		0.0		0.0		High (52 weeks)	7.2

Echo announced in August that it was commencing a comprehensive review of its property portfolio, but all this means to us is a delay in the next strategy presentation. ECH stock fell 9% last month on a lack of communication from the new owner combined with a weak second quarter. At our current price target (PLN 8.0) ECH is trading at a reasonable price-to-book ratio of ca. 1x. We stand by our rating for the Company.

2015 2Q results

Echo posted a negative surprise in Q2 2015. Due to two one-time events: a PLN 14m bonus reserve and a PLN 38m downward adjustment to the value of two land properties, the quarterly EBIT at PLN 101m fell 36% short of our forecast. On an adjusted basis EBIT missed the mark by an even wider margin of 40% due to the dismal performance in the period across all operating segments combined with high SG&A. On a positive note Echo incurred much lower-than-expected financing costs in Q2 (PLN 14m vs. PLN 39m). The net profit for Q2 2015 came in at PLN 16m, falling far short of our PLN 51m estimate. The implications of the weak Q2 results are mitigated somewhat by a better first quarter combined with the fact that operating cash flow in H1 was only 4% lower than in the same period in 2014.

Majority shareholder stake bounced to 62.17%

Echo Partners B.V. is informing that the 50% threshold of total votes in Echo Investment S.A. was indirectly exceeded on 7 August 2015. The 50% threshold was overrun as a result of the settlement of the call to register for the sale of shares at Echo Investment, announced on 24 June 2015 by Lisala sp. z o.o., where Echo Partners has a 100% stake in the share capital. Based on the call, a total 85.1m shares were acquired, constituting 20.62% of the aggregated number of shares in Echo. Thus, the shareholder reached a total 256.6m shares in the company's share capital, constituting 62.17% of the total number of shares.

GTC		Hold							
Analyst: Piotr Zybała		Current price:		PLN 6				Last rating	2015-05-06
		Target price:		PLN 6.6					
(EUR m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	122.9	124.3	1.2%	115.4	-7.2%	114.0	-1.2%	Number of shares (m)	351.3
EBITDA	-121.1	-123.8	2.3%	74.2		102.3	37.8%	MC (current price, PLN m)	2 107.9
EBITDA margin	-98.6%	-99.6%		64.3%		89.7%		EV (current price, PLN m)	5 187.0
EBIT	-121.6	-124.3	2.3%	73.7		101.7	38.1%	Free float	58.8%
Net profit	-146.8	-183.8	25.2%	25.2		53.1	111.1%		
P/E				19.8		9.4		Price change: 1M	0.8%
P/CE				19.4		9.3		Price change: 6M	23.2%
P/BV	0.7	1.0		1.0		0.9		Price change: 12M	-2.0%
EV/EBITDA				16.5		13.1		Low (52 weeks)	4.6
Dyield (%)	0.0	0.0		0.0		0.0		High (52 weeks)	6.5

GTC outperformed a slumping broad market in August, and it seems to have addressed most of the past issues judging by the financial results for Q2 2015. The one issue still affecting earnings are the consequences of mall acquisitions which in Q2 materialized as a EUR 39m drop in equity attributable to the shareholders of the parent, equivalent to 8% of GTC's market cap, to EUR 17m. At the current price level GTC is trading at 1.09x P/B (1.12x after minority equity), showing a premium to NAV which would only be justified if the Company could provide a specific completion date for the Galeria Wilanów mall, which it will likely not be able to do this year. We maintain a hold rating for GTC.

Q2 2015 results

GTC second-quarter results did not cause major surprises. The revaluation played no significant role in past quarter (EUR -1.4m). Core EBIT (EUR 16.8m), although 5% YoY lower, still 3% higher than our projections. The downside surprise in net profit came as a result of booking a high tax at EUR 9.2m and should not come cause any concerns. The finalization of the CB Kazimierz sale has helped the debt to fall at the end of June to LTV 50%. The operating cash flow in Q2 2014 was EUR 15.7m (-22% y/y). The weaker cash flow was because of the greater involvement in the working capital. Cash flow adjusted by changes in the working capital came to EUR 17.0m (-4% y/y, +3% q/q).

Q2 conference highlights

GTC may acquire properties whose gross total value stands at EUR 50-100m by the end of the year using the money raised from the adopted issue of new shares. It maintains that it still intends to allocate about half of the funds raised from this issue for acquisitions, with the remaining half going to the execution of projects from the GTC's current land bank. The share issue price will be announced along with the prospectus before the date of subscription set for 10 September. We are anticipating an issue price at around PLN 5.50 per share. This would be a 10% higher price than the minimum set by its executives that would also present a reasonable discount in relation to the current share quotation (ca. 13%). We would expect GTC to raise a sum that would be sufficient to cover the execution of the investment projects announced at the end of March (ca. EUR 140m). A share issue price at PLN 5.50 would mean the issue of about 105-110m new shares. The finalized sale of several non-core business assets can be expected by the end of the year. Galeria Varna, Galeria Osijek, Galeria Arad, the office development in Bratislava, and the land plot in Konstancin and in Slovakia (Vinohrady). We estimate that the Company will raise over a gross EUR 20m in cash from these de-investments in the second half of the year. The Company has still not performed the fair value measurement of the first phase of the FortyOne office development in Belgrade. A positive revaluation of the structure amounting to EUR 3.0-3.5m can be expected in the second half of the year. GTC sees the chance of starting the next phase of the investment in the near future. The Company is currently in the process of applying for the building permit for the Galeria Wilanów shopping complex. GTC executives have not set any time frames for obtaining the building permit but would be very pleased should they manage to do this over the next 12 months. The performance of the Galeria Północna project is proceeding without any complications. GTC has secured the funds for this investment. The completion of the construction works is scheduled for the third quarter of 2017. The Company restructured its loans worth EUR 90m in the second quarter of 2015. It currently has not credit facilities with covenant violations.

GTC hires contractor for office building project

GTC hired Strabag to build the second building forming part of the University Business Park development.

GTC takes out construction loan for Galeria Północna mall

GTC signed financing agreements to finance the construction of the Galeria Północna mall in Poland's Capital. The Company secured a construction loan up to EUR 116m and an investment loan up to EUR 150m or EUR 175m from Pekao Investment Banking. The maturity of the loans 7 years from the consumption of the credit but it may not exceed the term of 31 December 2024.

Robyg	Buy								
Analyst: Piotr Zybała	Current price:		PLN 2.35					Last rating	2015-01-26
	Target price:		PLN 2.95						
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	485.9	409.3	-15.8%	410.1	0.2%	474.3	15.7%	Number of shares (m)	262.1
EBITDA	57.8	61.6	6.5%	67.7	9.9%	93.1	37.5%	MC (current price, PLN m)	615.9
EBITDA margin	11.9%	15.1%		16.5%		19.6%		EV (current price, PLN m)	795.4
EBIT	56.7	60.5	6.6%	65.7	8.6%	91.1	38.7%	Free float	16.5%
Net profit	26.1	42.3	62.1%	45.2	6.8%	67.5	49.5%		
P/E	23.5	14.6		13.6		9.1		Price change: 1M	0.9%
P/CE	22.5	14.2		13.0		8.9		Price change: 6M	1.7%
P/BV	1.5	1.4		1.4		1.3		Price change: 12M	4.4%
EV/EBITDA	14.2	13.8		11.7		8.0		Low (52 weeks)	2.1
Dyield (%)	3.4	3.4		4.7		5.5		High (52 weeks)	2.5

Robyg performed a series of intercompany deals in Q2 2015 (trademark transfers) which will probably result in tax breaks to the tune of PLN 30m possibly as soon as in Q3 2015. Even without such-one time boosts the Company's outlook for H2 2015 is much better than in H1. We maintain a buy rating for ROB.

Q2 2015: Much better than expected performance

At the beginning of July, Robyg informed of settling around 200 homes in its financial results (vs. 597 homes sold), providing a rough amount of deliveries in investments that had greatest impact on its results. Our financial projections assumed the settlement of a somewhat higher number of homes, which failed to prevent the Company from outdoing our projections. Robyg's results also turned out to surpass market consensus. Sales revenue came in Q2 2015 stood at PLN 64.9m (6% above consensus). The gross sales margin also turned out to top our forecast level (19.9% vs. 17.5%). The developer margin is also higher compared to last year, both quarter-over-quarter and half-yearly. A net profit at PLN 3.1m (vs. forecast: PLN 2.7m) on JV projects also came as an upside surprise. Out of the mentioned 206 delivered flats, we expect JV projects to be comprised of around 90 units. This confirms that this group of the Company' projects are in excellent shape. A marked increase of 33% y/y to PLN 11.2m was posted in the costs of general governance and sales items. These higher costs failed to hinder the Company from exceeding our operating profit projections, which came to PLN 3.3m. The revaluation of investment properties at the amount of PLN 1.4m had a negative impact on the result in the period. The impairment probably concerned the office building in Wilanów and was slightly higher than our projections. Despite the low number of homes settled in its results (the number of homes sold was around 3x higher), Robyg posted a positive financial result in Q2 2015, which stood at PLN 1.2m. We expect a very promising second half of the year from the Company as (1) the number of settled homes in its results should be around 3x higher than in H1 2015, (2) we expect more positive outcomes from the organizational restructuring at Robyg, leading to the creation of significant deferred tax assets (estimated at PLN 30m). Robyg had a negative operating cash flow in Q2 2015 which stood at PLN 32m (increase in spending on inventories in connection with the purchase of new land and increase in construction expenditure).

151 new listings in Wilanów

The Robyg Group has offered 151 units for sale in Phase V and VI of the Królewski Park Residential Estate. The investment is located in the Wilanów district of Warsaw. Works are to start in the third quarter of 2015 and its completion is planned for the fourth quarter of 2016.

Q2 earnings conference highlights

Operating cash flow for the first half of the year which came to PLN +31m includes expenditure on the purchase of land at PLN 73m (vs. PLN12m in H1 2014). After deducting new land, the CFO would exceed PLN 100m (+27% y/y). The total value of new land acquisition agreements in the first half of the year came to PLN 130m. This amount concerns land with a potential of around 3.400 units (2 plots in Warsaw and 2 in Gdansk). We expect the price of land per living space in the case of plots in Poland's Capital to be around PLN 800, and in the case of plots in Gdansk approx. PLN 650. Robyg is negotiating the purchase of more land in both these cities. Robyg executives expect its land bank to increase to around 11.0 thousand units by the end of the year from the level of 8.3 thousand homes at the end of June 2015. The Robyg offer at the end of June 2015 totaled 1,386 new starts. Robyg expects its offer to grow by the end of the year in connection with the planned sale of around 1,600 apartments. It is planning on selling 2,200-2,300 homes in 2015. The 2016 target is around 2.500 units. The 2015 home closing potential is max. almost 2,300 units, and almost 2,800 homes in 2016 (Robyg handed over 1,673 apartments in 2014). The 37% y/y increase in general and administrative expenses in the second quarter of the year is partly down to the additional costs related with the change in the organizational structure. We expect the planned reorganization to enable Robyg to post a deferred tax asset at roughly PLN 30m, which will have a positive impact on this year's results. The process of finding a new investor for the 16.03% stake belonging to LBPOL is under way. Company executives have not given any indications as to roughly when this process will end.

Bemowo land purchase finalized

Robyg signed the final agreement for the purchase of a land lot in Warsaw's Bemowo district.

Gdańsk land plot acquisition finalized

A 100% subsidiary of Robyg concluded the final and binding purchase agreement of 0.8222 ha of land located in Gdansk for the total price of PLN 7m. Robyg announced in February the conclusion of the preliminary land purchase contract of 1.5 ha for PLN 12.5m. The final contract concerns only a part of the real estate. According to Robyg, the remaining part of the land parcel will be purchased at a later date.

Next phase of reorganization

Robyg acquired 188,554,080 shares of common registered D stock for total of PLN 188.6m in its subsidiary company Selenium in exchange for an in-kind contribution in the form of the Company's trademarks: "ROBYG Grupa Deweloperska", "ROBYG the Art of Building" and "ROBYG", whose total net value as at the date of the in-kind contribution was PLN 153.3m including VAT.

Retail

Gino Rossi

Gino reports 2% sales growth in July

Gino Rossi generated total sales of PLN 1.19m in July (+2% y/y). By segment Gino Rossi (GN) increased sales by 6% y/y to PLN 12.2m and Simple CP posted a 5% drop to PLN 6.9m. Monthly sales of materials amounted to PLN 2.7m. We attribute the July sales declines to the weather and base effects. In the last two years average annual sales growth in the seven months through July decreased from 18.9% (GN) and 12.5% (Simple) in 2013-2015 to 7.3% (GN) and 5.5% (Simple) in Jul. 2015.

CEO on future outlook

The drop in Simple sales in July 2015 were due to earlier collection launches into the stores. YTD sales in the segment increased 13% y/y, in line with the retail area. Gino Rossi ytd sales grew 7% and the retail area expanded 10%. Sales are set to accelerate in H2 after a H1 slowdown due to unfavorable base effects. The starting retail margin on the fall/winter collection has been raised by several ppts. Gross margins in both segments should be the same as last year. After seven months sales were up 10% y/y, in line with guidance. 2015 cost savings are estimated at PLN 4.5m. H2 is seasonally the most important for earnings. Assuming no weather anomalies Gino Rossi should achieve the PLN 27m EBITDA target for 2015.

Gino Rossi posts disappointing Q2

Gino Rossi's Q2 2015 results fell short of expectations despite 7.3% y/y revenue growth to PLN 70.1m. By segment sales at Simple were up 31% y/y to PLN 27.5m and sales at Gino Rossi increased 12% to PLN 37.6m on a sales area expanded by respective 13% and 11%. Compared to Q2 2014 sales per square meter increased 17.9% at Simple and fell 1.25% at Gino Rossi. The consolidated gross margin showed a drop of 5.6ppt to 46.9% in Q2 led by intense competition. Gino Rossi gross margin contracted by 11.3ppts to 46.5% and Simple gross margin decreased by 7.9ppts to 58.9%. SG&A costs in Q2 increased at a slower rate than revenues (rising 1.3% y/y to PLN 27.7m). Other operating activity in the period produced a loss of PLN 0.2m, resulting in EBIT of PLN 5.1m (-16.1% y/y). After financing costs of PLN 1.5m (due mainly to an early bond redemption which with bond debt converted to bank debt will reduce financing costs in future periods) and after tax at an effective rate of 20% the quarterly net profit came in at PLN 2.9m (+28.4% y/y). Operating cash flow in Q2 amounted to PLN 0.8m vs. PLN 6.9m in Q2 2014, decreasing in line with a reduction in payables. Inventory per square meter was PLN 2499 as of 30 June, marking little change from June 2014.

Bytom

Bytom posts 29.9% sales growth in July

Bytom generated sales of PLN 10.5m in July (+29.9% y/y). Retail sales were PLN 10.2m (+30.7% y/y). YTD total sales were PLN 68.6m (+30.6% y/y). Gross profit was PLN 5.5m (+35.1% y/y), implying a gross margin of 52.1% (+2ppt Y/Y). According to CEO Wójcik net profit was much higher than in Q1 (PLN 0.5m). Per-sqm sales in July increased 12.8% y/y to PLN 1,139m. Bytom wants to keep growing sales at this rate throughout 2015 and its net margin target for the year is 10%. In 2016 gross margin should improve by 1ppt. In the long term gross margin is set at 57% (54.8% in retail in 7M'15). Summing up Bytom continues to generate strong revenue and margin growth.

Q2 2015 results

Bytom generated PLN 5.3m in net profit in Q2 2015 (+157% Y/Y), which corresponds to the profit achieved in 2014. Such a high outcome is down to an improvement in effectiveness of sales/sqm (+17% Y/Y), the right SG&A/sqm discipline (+1% Y/Y) and improvement in the gross sales margin (+1.5ppts Y/Y to 56%). Furthermore, the Company generated huge cash flows from operating activities which met the net profit level and stood at PLN 5.3m (vs. PLN 0.8m in Q2 2014). We have a positive view of the 2Q 2015 results, noting that due to the seasonality of operations, the Company has the potential to further improve its results in the second half of the year. Bytom sales revenue was at PLN 33.4m (+33.9% Y/Y) which surpassed the projections by about PLN 1m. The sales space expanded by 14.1% Y/Y to 8.8,000 sqm in the second quarter of 2015. Considering the revenue dynamics and the growth dynamics of new floor space, we expect the sales/average number of sqm to increase by 17% Y/Y. Thanks to the expansion of the Company's offer, appropriately conducted promotions and effective price strategies, the Company has successfully managed to improve its gross sales margin by 1.5ppts Y/Y to 56%. A successful cost discipline has enabled the Company to maintain the level of SG&A/sqm costs unchanged (+1% Y/Y), despite the 33,9% Y/Y sales growth. The balance on other operating activities stood at PLN +0.3m (mainly including the income resulting from the reversal of a portion of amounts payable to a counterparty that went bankrupt, PLN 0.275m). EBIT in Q2 2015 stood at PLN 5.8m (+184.1% Y/Y). The balance on other financial activities equaled PLN -0.5m, comprised mainly of interest and commission borne in connection with the credit facilities and leases held (PLN 0.3m) as well as FX losses (PLN -0.1m). Income tax in Q2 2015 amounted to PLN 0.025m. The net profit stood at a level of PLN 5.3m (+156.6% Y/Y).

Emperia

Emperia posts disappointing Q2 results

Emperia's Q2 2015 results fell short of market expectations. Even adjusted for one-time costs operating profits show disappointment while net profit exceeds the consensus. Revenue in Q2 fell 1.2% y/y to PLN 496m due to food price deflation (-2.1% y/y) and strong competition. The gross margin increased by 0.22ppt to 29.14% and the gross profit showed a y/y contraction of 0.5% to PLN 114.6m. SG&A increased 2.4% in Q2. Other operating activity produced a loss of PLN 1.56m in Q2 2015 vs. PLN -2.7m in Q2 2014. Consequently compared to Q2 2014 EBIT was 16.4% lower at PLN 13.4m and EBITDA fell 12.5% to PLN 24.3m. After financing losses of PLN 9.2m (vs. PLN 11.4m in Q1 2014) and after tax at an effective rate of 17.6% the Q2 2015 net profit came in at PLN 10.3m after a y/y fall of 27.4%. Emperia opened sixteen stores and closed four in the course of the first half of 2015. The goal for 2015 is ca. 100 openings (with 25 added since 30 June). Emperia generated negative operating cash flow of PLN 02.7m in Q2 2015 vs. PLN -2m in Q2 2014.

Vistula

Vistula posts good jewelry sales, weak clothing sales in July

Vistula generated sales of PLN 40.7 m in July (+18.3% y/y). In the clothing segment sales totaled PLN 21.2m (+14.0% y/y) and jewelry sales were PLN 15.2m (+19.1%). Clothing sales decelerated relative to previous months (14% y/y in July vs. 19.9% y/y in H1). Jewelry sales accelerated to

19.1% from 11.7% in 1H. Estimated per-sqm sales increased 7.3% in clothing and 20% in jewelry (vs. H1 averages of 13.8% and 13.4%).

Vistula posts in-line second quarter

Vistula delivered in-line Q2 2015 results. Compared to Q2 2014 revenue increased 16.2% while the gross margin decreased by 3.1ppts to 51.7% due to higher price mark-downs. SG&A expenses showed a 9.1% y/y increase to PLN 53m in the second quarter, slower than revenue growth. The result of other operating activity was PLN 0.139m in Q2 2015 vs. PLN 0.267m in Q2 2014. Quarterly EBIT came in at PLN 17.4 (+28.7% y/y) and EBITDA amounted to PLN 20.3 (+7.7%). After financing losses of PLN 1.9m (vs. PLN 2.7m in Q2 2014) and an effective tax rate of 22%, Vistula's net profit for the second quarter of 2015 came in at PLN 12.1m, showing y/y growth of 42.9%. By segment revenue from fashion sales in Q2 increased 14.2% y/y to PLN 83.2m on a 4.9% greater sales area, with monthly sales per square meter up 8.9%. Sales at Vistula, Wólczanka, and Deni Cler stores grew at double-digit rates in Q2. The gross margin in the fashion segment expanded by 0.3ppt to 55.5%, and thanks to cost control the EBIT margin there was up by 3.1ppts to 14.6% and EBIT grew to PLN 19.3m. Revenue from jewelry sales increased 19.7% y/y to PLN 49.3m in Q2 and with the retail area in the period expanded by 1.4% y/y to 7000 square meters average monthly per-sqm sales in Q2 were 18% higher than last year. Jewelry Q2 gross margin decreased by 3.7ppts to 50.3%, but thanks to cost control the EBIT margin increased by 2.2ppts to 10.8% and EBIT was PLN 5.3m.

CD Projekt

Q2 2015 results

CD Projekt achieved record profits in Q2 2015 thanks to the third installment of its flagship video game The Witcher which premiered in the quarter. Revenue increased ten-fold to PLN 487m (vs. PLN 365m consensus), EBITDA soared 67x y/y to PLN 292.3m (vs. PLN 275.8m), EBIT increased 85x to PLN 291.2m (vs. PLN 288.5m consensus), and net profit was 78.4x higher than in Q2 2014 at PLN 241.5m (vs. PLN 234.8m). CDR sold 6 million copies of The Witcher 3 in the six weeks after launch, resulting in a quarterly revenue of PLN 452m for the Video Games Development segment. At the same time CDR recognized two-thirds of the game development expenses of ca. PLN 62.7m in Q2. GOG.com generated sales of PLN 44.8m in Q2 (+139% y/y), with The Witcher contributing PLN 13m Third-party games accounted for PLN 31.6m of GOG.com's Q2 revenue, marking a year-on-year upswing of 68%. Gross profit in Q2 2015 was PLN 371.8m, implying a gross margin of 76.3% vs. 30.5% in Q2 2014. Selling expenses soared 144% y/y to PLN 18.5m in Q2 on intensified marketing and administrative expenses (mainly payroll) increased to PLN 11.4m in 2Q'15 from PLN 3.9m in 2Q'14. Operating costs of PLN 26.5m consisted primarily of an employee benefit allowance. After financing losses of PLN 9.2m (vs. PLN 11.4m in Q1 2014) and tax of PLN 47.2m CDR's net profit for the second quarter of 2015 came in at PLN 241.5m, showing growth of 78.4 times from the same period in 2014. Another highlight of the second-quarter earnings season was strong operating cash flow of PLN 136.6m vs. PLN 4.1m in Q2 2014. At the same time CDR's accounts receivable, including royalties due from distributors, increased by PLN 218m. The net cash position at 30 June was PLN 164.2m.

AmRest	Buy								
Analyst: Piotr Bogusz	Current price:	PLN 166.95						Last rating	2015-07-10
	Target price:	PLN 180							
(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	2 700.9	2 952.7	9.3%	3 278.2	11.0%	3 761.6	14.7%	Number of shares (m)	21.2
EBITDA	207.2	316.0	52.5%	428.6	35.7%	505.3	17.9%	MC (current price, PLN m)	3 541.7
EBITDA margin	7.7%	10.7%		13.1%		13.4%		EV (current price, PLN m)	4 509.4
EBIT	17.4	109.9	531.0%	207.8	89.1%	242.0	16.4%	Free float	27.1%
Net profit	9.9	51.7	419.5%	131.5	154.5%	153.7	16.9%		
P/E	361.7	68.5		26.9		23.0		Price change: 1M	-5.1%
P/CE	18.0	13.7		10.1		8.5		Price change: 6M	44.3%
P/BV	3.7	3.9		3.4		3.0		Price change: 12M	91.9%
EV/EBITDA	21.6	14.1		10.5		8.8		Low (52 weeks)	80.5
Dyield (%)	0.0	0.0		0.0		0.0		High (52 weeks)	179.8

AmRest achieved a record gross margin of 17.9% in Q2 2015, driven by more effective restaurant management strategies and improved market conditions. The Company achieved positive EBITDA in the segment of New Markets which in future quarters will continue to drive profits supported by the newly acquired Romanian and Bulgarian Starbucks locations. We maintain a positive outlook for EAT.

Q2 2015 results below market expectations, very good operating cash flows

Sales revenue met the reported earlier revenue forecasts and amounted to PLN 809.3m (+13.4% Y/Y). The gross result on the sale of restaurants figured at PLN 144.8m in Q2 2015, and the profitability on this level picked up by 3ppts. Y/Y to 17.9% in Q2 2015 (driven by lower costs of raw materials and cost discipline on the side of wage costs). EBIT and EBITDA were below market and our expectations and amounted to PLN 45.3m (+65.1% Y/Y, 14.1% below market consensus) and PLN 98.4 (+28.6% Y/Y, 5.1% below analyst estimates). Lower-than-expected results can be seen in the higher-than-expected SG&A, which grew to PLN 65.1m in Q2 2015 vs. PLN 47.6m in Q2 2014. The higher costs may be down to booking costs connected with Starbucks takeovers on the Romanian and Bulgarian markets and to settlement of costs incurred in restructuring the restaurant portfolio. New restaurant write-downs amounted to PLN 3.8m and were lower than our estimates at PLN 5m. The loss on financing activity was posted at PLN -9.1m in Q2 2015, which was lower than the level at PLN -13.2m reported in Q2 2014. The effective income tax rate stood at 27% and was 21% higher than projected, which had a negative impact on the net profit. In effect, the net profit amounted to PLN 25.9m (+480.9% Y/Y, 23.5% below market expectations and 22.4% below our forecast). A positive feature of the presented results is the improved operating cash flow reaching PLN 119m (121% Q2 2015 EBITDA) in Q2 2015 vs. PLN 82.2m in Q2 2014. Broken down by divisions, the achievement of viability by the New Markets segment is the biggest positive surprise which came to PLN 2.4m (we expected a loss of PLN 0.9m). A pickup in the EBITDA margin was recorded in the Czech Republic (+2.5ppts Y/Y to 16.6%) and other CEE (+4.4ppts Y/Y to 11.7%). We see the EBITDA margin remaining unchanged at a level of 13.3% on the Russian market as good news. Poland experienced a 0.1ppts EBITDA margin increase Y/Y to 13.9%, while Spain noted a drop of 0.1ppts Y/Y down to 20.4%. Restaurant activity on the Romanian and Bulgarian market (not consolidated) generated PLN 25.7m revenue and PLN 1.76m net profit.

Finaccess Capital buying out Warburg Pincus shares

AmRest was notified of the indirect acquisition by FCapital of 6,726,790 shares representing a voting stake of 31.71%. The transaction went ahead on 18 August 2015. The communication notifies also that the fund may, from time to time, directly or indirectly acquire or dispose of the Company' shares. FCapital is a PE fund from Mexico. The news of the acquisition/disposal of shares over a period of 12 months from the transaction date may raise concerns. However, we consider there to be a greater chance of the fund enhancing its involvement in AmRest.

Warburg calls EGM for 7 September

Warburg Pincus called an extraordinary general meeting for 7 September without giving a reason, though one of the items on the agenda is a vote on changes in the Supervisory Board in which WP Holdings as the main shareholder has two seats.

CCC	Sell								
Analyst: Piotr Bogusz	Current price:	PLN 159						Last rating	2015-03-06
	Target price:	PLN 158							
(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	1 643.1	2 011.9	22.4%	2 537.2	26.1%	3 111.0	22.6%	Number of shares (m)	38.4
EBITDA	203.4	297.9	46.4%	375.5	26.0%	461.8	23.0%	MC (current price, PLN m)	6 105.6
EBITDA margin	12.4%	14.8%		14.8%		14.8%		EV (current price, PLN m)	6 625.4
EBIT	167.5	247.3	47.6%	326.2	31.9%	405.9	24.4%	Free float	63.0%
Net profit	125.2	422.8	237.6%	336.2	-20.5%	408.1	21.4%		
P/E	48.8	14.4		18.2		15.0		Price change: 1M	-14.7%
P/CE	37.9	12.9		15.8		13.2		Price change: 6M	-12.0%
P/BV	10.3	6.4		5.5		4.2		Price change: 12M	23.3%
EV/EBITDA	30.9	21.9		17.6		14.2		Low (52 weeks)	124.0
Dyield (%)	1.0	1.0		1.0		1.0		High (52 weeks)	198.9

We maintain a bearish outlook for CCC which reported a sharp fall in its gross margin for Q2 2015, reflecting strong competitive pressures. The German and Austrian operations continue to weigh on CCC profits with weak sales.2015 earnings and whether CCC can achieve our 2015 EBIT estimate of PLN 326m depend on the weather and sales in September and October.

CCC posts disappointing Q2

Sales revenue at PLN 608m showed y/y growth of 22.5%. The CCC-owned store area expanded by 23.2% y/y to 302,000sqm in Q2, implying a drop in monthly sales per square meters of 1.5% to PLN 679.6. In H1 2015 like-for-like sales growth in Polish, Czech, Slovakian, and Hungarian stores amounted to respective 4.5%, 16%, 12.5%, and 1.1% w 1H'15. The Q2 gross margin shrinkage to 52.4% was probably caused by higher merchandise costs driven by a strengthened dollar but the monthly SG&A/sqm decreased 4.4% to PLN 259.5. The result of other operating activity was PLN 9.2m in Q2 2015 vs. PLN -4.1m in Q2 2014. EBIT in Q2 2015 was 9.6% higher than a year ago at PLN 95.5m but it fell 6.6% short of market expectations. After financing losses of PLN 9.2m (vs. PLN 11.4m in Q1 2014) and after a tax refund of PLN 13.2m vs PLN -12.7m in Q2 2014, the Q2 2015 net profit came in at PLN 105.1m after soaring 50.7% year on year. CCC generated operating cash flow of PLN 99m in Q2 2015 vs. PLN -4.4m in Q2 2014 thanks to inventory sales.

CCC acquires online footwear retailer eobuwie.pl

CCC signed an agreement to acquire a 74.99% stake in the online footwear retailer eobuwie.pl for PLN 129.982m. There is an additional consideration conditioned upon eobuwie.pl achieving EBITDA over PLN 15m in 2015, to be calculated as a multiple of PLN 12 and every zloty over the PLN 15m mark. CCC has a call option for the remaining shares with the exercise date on 28 February 2020. The acquisition is set to be finalized by 29 January 2016 at the latest.

CEO on future outlook

According to CEO Dariusz Miłek the acquisition of eobuwie.pl expanded CCC's business on a scale which would otherwise take three years to achieve. CCC wants to develop its own online footwear store in 2-3 years offering its own shoe brands as well as over 330 third-part labels. eobuwie.pl is expected to achieve PLN 500m sales in three years while maintaining a stable EBITDA margin of 16%, supported by marketing campaigns inside CCC brick-and-mortar shops. The PLN 200m acquisition is not going to affect dividends (33 -66% annual payout ratio) according to CEO Miłek. CCC is planning to build a logistics center at a cost of PLN 30-35m of which 60% may be refunded under special economic zone tax break rules. Next year CCC will launch online sales in more CEE countries and in Austria.

CCC August sales fall from high year-ago base

CCC generated sales of PLN 152.3m in August 2015 (-2.5% y/y), with ytd sales up 17.2% from the same period year at PLN 1.355 billion. With the sales area expended by an estimated 23% y/y, this implies a 20% drop in monthly sales per square meter in August. On a like-for-like basis sales in August fell across all of CCC's markets, with the slowdown amounting to 17.7% in Poland, 13.5% in the Czech republic, 26.2% in Slovakia, and 13.6% in Hungary. It is worth noting that the August sales contraction was due mainly to base effects as August 2014 sales posted an annual surge of 57.7%. Looking at average annual sales growth in the last two years, CCC's August sales increased 24% in August and 26% in the eight months through August.

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Eurocash	Accumulate								
Analyst: Piotr Bogusz	Current price:	PLN 43.5						Last rating	2015-04-24
	Target price:	PLN 40.8							
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	16 537.5	16 963.8	2.6%	20 352.8	20.0%	21 699.3	6.6%	Number of shares (m)	138.7
EBITDA	402.1	412.5	2.6%	490.8	19.0%	560.0	14.1%	MC (current price, PLN m)	6 031.6
EBITDA margin	2.4%	2.4%		2.4%		2.6%		EV (current price, PLN m)	6 774.6
EBIT	285.7	287.2	0.5%	341.4	18.9%	404.7	18.5%	Free float	46.3%
Net profit	221.0	180.5	-18.3%	221.1	22.5%	277.6	25.6%		
P/E	27.5	33.4		27.3		21.7		Price change: 1M	1.0%
P/CE	18.0	19.7		16.3		13.9		Price change: 6M	33.6%
P/BV	6.9	6.0		5.3		4.6		Price change: 12M	21.2%
EV/EBITDA	16.5	16.8		13.8		11.9		Low (52 weeks)	30.8
Dyield (%)	2.1	1.8		1.5		1.8		High (52 weeks)	43.5

Eurocash generated operating cash flow of PLN 466.5m in Q2 2015, allowing for a reduction of the net debt/EBITDA ratio to 1.2x. In the future quarters this ratio is expected to go down even further below 1x thanks to improving inventory cycles. With lower debt Eurocash can look for acquisition targets. Operating profits in Q2 2015 exceeded market expectations, with EBIT showing y/y growth of 8.3%. Eurocash is poised for an even stronger rebound in H2 as deflation eases and recent acquisitions start contributing to revenues. We maintain a positive outlook for EUR.

Eurocash beats EBIT/EBITDA consensus, posts very good operating cash flows

Eurocash sales revenue surged 20.8% Y/Y to PLN 5.182bn in the second quarter (1.2% above the market outlook and 2% above our projections). The revenue growth was mainly driven by the consolidation of acquired businesses: (1) FMCG (PLN +636.82m Y/Y in Q2 2015) and (2) Inmedio (PLN +125.19m Y/Y in Q2 2015). The Company also reported 2.47% Y/Y organic revenue growth despite a difficult market environment. Negative sales comparable to Q2 2015 were reported by the C&C segment (-2.67%) and Delikatesy Centrum (-3.94%). Gross sales margin saw a +0.77ppt Y/Y uptick to 9.91% in the second quarter of the year, which was driven by increasing the tobacco market share in the sold product mix and the continued pricing pressure. In nominal terms, the gross profit on sales increased by 12.1% to PLN 513.7m. The good cost discipline resulted to SG&A (PLN 425.1m in Q2 2015) growing at a slower pace than the improvement in the gross profit margin on sales in the second quarter (10.9% vs. 12.1% Y/Y). The balance of other operating activity stood at PLN -16.5m in the second quarter vs. PLN 8.4m in the same time last year. In effect, EBIT saw a 8.3% Y/Y increase to PLN 75.3m (+1.4% vs. consensus and +6.7% vs. our outlook), and EBITDA picked up by 13.1% to PLN 114m (+4.2% vs. consensus and +4.8% vs. our forecast). The EBITA growth was fueled by higher sales from Eurocash Dystrybucja and the Delikatesy Centrum retail chain. New developments started in previous quarters exerted a negative impact on EBITDA (1minute and Kontigo). Financing activity amounted to PLN -8.8m in the second quarter vs. PLN 10.7m in the same time last year. The net profit amounted to PLN 48.6m (-1.5% Y/Y, 6.2% below market expectations and 0.9% above our forecast). The reason behind the lower-than-expected net profit may be the high effective income tax rate at 21.35% in the second quarter vs. the 2014 second-quarter level at 16.20%. A very positive element in the reported results was the operating cash flow which stood at PLN 466.5m in the second quarter vs. PLN 288m in last year's second quarter. The marked improvement was associated with the decline in stocks (in relation to the spirits category, where changes in the structure of contracts with suppliers were implemented). This helped to offset the negative effect of the faster liability turnover ratio resulting from the Service FMCG consolidation. The cash conversion cycle was at -18.32 in Q2 201 vs. -17.31 in Q2 2014. High cash flow from operating activity enabled the repayment of PLN 214.5m of credit facilities in Q2 2015 (all in all, PLN 326.4m loans were repaid in the first half of 2015). The net debt to EBITDA ratio was 1.2x at the end of the second quarter. The strong improvement in cash flow is a very positive element of the results which enabled debts to be significantly curbed. We expect the fall in the Net Debt/Equity ratio below the level of 1x to increase Eurocash's acquisition chances. Company executives have announced the continued improvement of working capital in subsequent quarters, which may lead to a considerable debt reduction by the end of the year.

Q2 earnings conference highlights

Eurocash recorded a 0.1ppt increase in the acquisition-adjusted gross sales margin YoY. The EBITDA margin excluding taken over undertakings amounted to 2.5%. The very good operating cash flow resulted from a stock reduction and the renegotiation of terms with suppliers. Further operating cash flow improvement should also be seen in the second half of 2015. Eurocash executives want to complete stock management streamlining process by the end of the year. The high cash flow has helped the Company to reduce its net debt/EBITDA ration from 2.0x at the end of the first quarter of the year to 1.2x at the end of the second quarter. Thanks to the relatively low level of debt, the Management Board is not ruling out acquisitions in subsequent quarters. Eurocash is showing interest in Polish companies with a sufficient level of assets. It expects the positive trend in food prices to continue and for inflation in food products to be around zero towards the end of the year. In the segments of activity, EC Dystrybucja posed a high increase in sales (+11% Y/Y to PLN 1.088bn). Sales were driven by franchisees and key clients. New openings in the Delikatesy Centrum segment failed to meet the Management outlook. Overall, 19 new shops were opened in the first half of the year. Eurocash expects the number of retail outlets to increase by a net 120 units in 2015. Four C&C warehouses were created in the first half of the year. It is also planning on opening a further 10 new C&C warehouses in 2015.

Jeronimo Martins Sell

Analyst: Piotr Bogusz	Current price:	EUR 12.07					Last rating	2015-05-06
	Target price:	EUR 10.7						

(EUR m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	11 829.3	12 680.0	7.2%	13 745.9	8.4%	14 689.5	6.9%	Number of shares (m)	629.3
EBITDA	777.0	732.0	-5.8%	774.3	5.8%	846.1	9.3%	MC (current price, EUR m)	7 595.6
EBITDA margin	6.6%	5.8%		5.6%		5.8%		EV (current price, EUR m)	8 093.3
EBIT	525.0	448.5	-14.6%	479.4	6.9%	542.9	13.3%	Free float	32.3%
Net profit	382.3	301.4	-21.2%	328.6	9.0%	381.9	16.2%		
P/E	19.9	25.2		23.1		19.9		Price change: 1M	-8.8%
P/CE	12.0	13.0		12.2		11.1		Price change: 6M	15.4%
P/BV	5.5	5.4		4.8		4.1		Price change: 12M	16.2%
EV/EBITDA	10.5	11.1		10.5		9.5		Low (52 weeks)	29.5
Dyield (%)	2.8	2.7		2.0		2.2		High (52 weeks)	57.5

JMT's new strategy for the Polish supermarket chain Biedronka bore fruit in Q2, and the Portuguese Pingo Doce and Recheio stores as well generated good results in the period. JMT continued to invest in margins in Q2 and as a result it achieved lfl sales growth across all segments. After H1 2015 we maintain our 2015 full-year EBITDA estimate at EUR 774.3m (46.9% delivered in H1). At the same time we believe JMT's current market valuation is not justified given the expected EBITDA slowdown (7.9% 2014-17 CAGR vs. 15.7% 2010-13 CAGR) led by the reduced pace of Biedronka expansion and the development of the Ara and Hebe chains. We maintain a sell rating for JMT.

JMT incurs higher payment processing, marketing cost in H1 2015

Jeronimo Martins reported that its card payment processing costs increased 45.5% y/y to PLN 9.57m in H1 2015, and this was accompanied by a 23.7% rise in marketing expenses. The higher card processing costs stem from the fact that JMT implemented card payments in Biedronka stores only in May 2014 (2014 full-year card costs were EUR 19.1m). As for marketing expenses, which increased 23.76% y/y to EUR 36.61m in H1, they stemmed from stronger competition in all geographic markets, and they had a positive effect on the sales of Biedronka and Pingo Doce.

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LPP		Sell							
Analyst: Piotr Bogusz		Current price:	PLN 7470					Last rating	2015-01-26
		Target price:	PLN 6400						
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	4 116.3	4 769.3	15.9%	5 448.6	14.2%	6 251.5	14.7%	Number of shares (m)	1.8
EBITDA	764.1	802.8	5.1%	752.0	-6.3%	932.6	24.0%	MC (current price, PLN m)	13 521.2
EBITDA margin	18.6%	16.8%		13.8%		14.9%		EV (current price, PLN m)	13 993.4
EBIT	615.9	609.1	-1.1%	531.1	-12.8%	659.6	24.2%	Free float	48.0%
Net profit	430.9	479.5	11.3%	401.0	-16.4%	526.2	31.2%		
P/E	31.4	28.2		33.7		25.7		Price change: 1M	-3.4%
P/CE	23.3	20.1		21.7		16.9		Price change: 6M	5.9%
P/BV	9.0	8.3		7.0		5.9		Price change: 12M	-26.0%
EV/EBITDA	18.0	17.3		18.6		14.8		Low (52 weeks)	6 525.0
Dyield (%)	1.1	1.3		1.2		1.1		High (52 weeks)	10 100.0

LPP generated better-than-expected profits in Q2 2015 however its gross margin in the quarter fell by 9.2ppts. The Company reduced SG&A per square meter through more flexible hiring, a lack of sales bonuses due to missed targets, and lower costs in Russia owed to the devaluation of the ruble. In August LPP generated weak sales and posted a 6ppt y/y contraction in the gross margin. Looking at the deteriorating profitability we think LPP will have a hard time achieving our 2015 annual EBIT estimate of PLN 531m (which is 10% lower than the consensus estimate). We maintain a sell rating for LPP.

LPP beats consensus, good operating cash flows

LPP results beat the market consensus on the level of EBIT/ EBITDA/net profit by 4.4%/4.9%/24.5%. The EBIT/EBITDA results topping expectations were down to reporting from a better-than-expected control of monthly SG&A/sqm costs, which were cut by 16.1% Y/Y to PLN 230. The higher net profit results were mainly driven by the higher-than-expected positive impact of currency exchange differences. Sales revenue remained level with earlier projections published in monthly reports and totaled PLN 1.291bn (+9% Y/Y) in Q2 2015. Sales space expanded by 15.8% Y/Y to 778.4 thousand square meters in the second quarter of 2015 (+11% Y/Y in Poland, CIS +8% Y/Y, SEE +170% Y/Y – the highest dynamics being in Romania). Comparable sales in Q2 2015 came in at 15% (excl. currency rates) and 0.5% in H1 2015. The gross sales margin was lower than earlier projections published in monthly reports and stood at 52.1% in Q2 2015 (-9.2ppts YoY). The lower profits resulted from the high USD/PLN exchange rate and the performance of intense sales on the Company's main markets. A positive element in the Company' results is the very strong monthly SG&A/sqm cost discipline that its managed to cut back by 16.1% (lower costs of head office, rent, staff costs and other retail outlet costs– mainly on the Russian and Ukrainian market). Total SG&A costs were reduced by 1.8% Y/Y to PLN 523.5m, despite the 9% Y/Y revenue growth. The balance of other operating activity stood at PLN -15m in Q2 2015 vs. PLN -13.1m in Q2 2014, whose main component was the creation of a PLN 5m write-off of receivables on the Romanian market. The EBIT amounted to PLN 136.8m (-23.2% Y/Y, 4.9% above market expectations and 9.8% above our expectations). Net financing activity stood at PLN 21.5m in Q2 2015 (vs. PLN 25.5m in Q 2 2014), which mostly was down to the positive result on the settlement of USD transactions (PLN 13m) and RUB and UAH transactions (PLN 5m). The effective tax rate was 14% in Q2 2015 vs. 17% in Q2 2014. In effect, the Company reported PLN 136.8m net profit (-18.5% Y/Y, 24.5% above market expectations and 19% above our expectations). The maintained high CFO level which totaled PLN 231.2m in Q2 2015 vs. PLN 237m in Q2 2014 was a welcome finding, where the weaker YoY gross profit was compensated by the smaller demand for working capital. Stocks/sqm stood at PLN 1,507 (+4.5% Y/Y) at the end of Q2 2015, which results from the lower-than-planned LFL and higher USD/PLN exchange rate.

LPP sees sales, gross margin contraction in August

LPP saw a 2.4% y/y rise in August sales to PLN 430m, with ytd sales up 7% year on year at PLN 3.166 billion. The monthly gross margin fell by 6ppts to 53%. With the retail area expanded by 15% y/y to 780,000 square meters, the August sales data imply a 11.1% drop to PLN 552.7 in average monthly sales per square meter.

Other

Work Service		Accumulate								
Analyst: Paweł Szpigiel		Current price:	PLN 16.49						Last rating	2015-03-06
		Target price:	PLN 21.9							
(PLN m)	2013	2014	change	2015E	change	2016E	change		Key metrics	
Revenue	918.4	1 739.8	89.4%	2 357.4	35.5%	2 822.0	19.7%		Number of shares (m)	67.4
EBITDA	52.8	98.7	86.9%	124.9	26.6%	166.1	33.0%		MC (current price, PLN m)	1 110.8
EBITDA margin	5.7%	5.7%		5.3%		5.9%			EV (current price, PLN m)	1 350.3
EBIT	48.0	89.1	85.8%	112.4	26.1%	151.4	34.7%		Free float	30.6%
Net profit	26.5	52.4	98.1%	48.5	-7.4%	74.2	52.9%			
P/E	38.3	21.2		22.9		15.0			Price change: 1M	-5.8%
P/CE	32.4	17.9		18.2		12.5			Price change: 6M	-24.0%
P/BV	4.3	2.9		2.4		2.1			Price change: 12M	-2.1%
EV/EBITDA	20.8	12.7		10.8		8.2			Low (52 weeks)	16.0
Dyield (%)	0.0	0.0		0.0		0.0			High (52 weeks)	22.0

Work Service delivered worse-than-expected Q2 2015 results due mainly to the German JV which generated a sales loss of ca. PLN 2-3m in the period, indicating a bleak outlook for the coming quarters. WSE has ambitious plans for the rest of 2015, and it is aiming for a revenue of PLN 2 billion and EBIT of PLN 10m (ex. acquisitions). We are pessimistic as to the Company's ability to deliver these targets given the H1 slump.

WSE posts weaker-than-expected Q2 results

Q2 2015 revenue came in at PLN 503m vs. PLN 478m anticipated but the sales mix showed an unfavorable shift in favor of the less profitable temporary work (75.5% of total vs. 74.6% in Q2 2014). Q2 2015 gross margin at 9.9% was slightly higher than our 9.8% estimate based on expectations of weaker margins in Germany. The gross profit exceeded our forecast as well at PLN 49.5m. SG&A expenses amounted to PLN 38.3m in Q2 vs. PLN 34.8m expected. Other operating activity in the quarter produced a gain of PLN 5.4m (owed probably to a positive settlement of the payment for Prohuman). EBIT in Q2 came in at PLN 16.6m vs. PLN 17.0m expected. After much higher-than-anticipated financing costs (PLN 11.1m vs. PLN 6.5m) and tax paid at an effective tax rate of a whopping 75% vs. 19% anticipated, the second-quarter net profit came in at PLN 1.39m (of which PLN 1.35m attributable to minority shareholders). Work Service generated strong operating cash flow in Q2 2015 at PLN 24.2m vs. PLN 15.1m in the same period last year thanks to positive changes in working capital (including an over-PLN 20m change in short-term payables) and in "other" cash (which includes PLN 10.4m dividend). CFO for H1 2015 matches the cash flow generated in the same period in 2014 (PLN 39m after adjustment for dividends).

Q2 conference highlights

The main driver behind the weak Q2 was the German JV which incurred a sales loss of PLN 2-3m in the period (adjusted for this loss the consolidated Q2 2014 gross profit would have been ca. PLN 52.0m, marking 17% growth from last year). Work Service was not able to adapt its German workforce to market demand in H1 2015, and this is not likely to change in H2 (though sales in the period are expected to be much higher than the PLN 150m posted in H1). Aside from an overall weak performance the German unit pays tax on an advance basis, adding to the quarterly bottom-line loss. The high SG&A costs incurred in Q2 stemmed from intensified marketing in Poland, annual Management bonuses (>PLN 3,0m), one-time acquisition costs, and expenses incurred on the expansion of the structure of IT Kontrakt in Switzerland. The drivers behind the high financing costs included quarterly adjustments, more extensive usage of factoring (which contributed to the strong quarterly CFO; utilization is at ca. PLN 85m), and, to a small extent, one-time costs of a bond issue. Other operating activity in the period included a PLN 6m gain on the settlement of the acquisition of the Hungarian unit Prohuman. Prohuman also paid advance tax in Q2, contributing to the high effective tax rate on the consolidated earnings for the period. Work Service is aiming to be a top 5 player in Europe in five years. To that end it is planning to continue expanding in international markets by entering new destinations: France, the Netherlands, and the UK, where it is hoping to be listed on the London Stock Exchange by 2016. Work Service will present a new strategy soon. The Company is negotiating further acquisitions with hopes that they will add a further PLN 4m to this year's operating profit.

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Previous Ratings for Companies Re-Rated as of the Date of This Monthly Report:

Budimex

rating	Accumulate	Hold	Accumulate	Buy
rating day	2015-01-26	2015-03-06	2015-08-05	2015-09-03
price on rating day	153.25	167.95	198.00	187.20
WIG on rating day	51680.12	53546.40	52941.88	50135.97

Dom Development

rating	Buy	Accumulate	Buy
rating day	2015-01-26	2015-05-06	2015-09-03
price on rating day	46.70	51.99	47.01
WIG on rating day	51680.12	56442.25	50135.97

Famur

rating	Buy	Buy	Hold	Buy
rating day	2014-12-05	2015-01-26	2015-06-03	2015-09-03
price on rating day	3.16	3.28	2.96	1.69
WIG on rating day	53346.86	51680.12	55045.40	50135.97

Lotos

rating	Hold	Accumulate	Buy
rating day	2015-01-08	2015-04-28	2015-09-03
price on rating day	26.56	30.69	29.18
WIG on rating day	51350.42	57060.97	50135.97

PGE

rating	Hold	Hold	Buy
rating day	2014-12-05	2015-07-30	2015-09-03
price on rating day	20.02	17.61	15.08
WIG on rating day	53346.86	52288.10	50135.97

PZU

rating	Accumulate	Buy
rating day	2015-07-22	2015-09-03
price on rating day	433.90	425.00
WIG on rating day	52839.41	50135.97

TVN

rating	Accumulate	Hold	Sell	Suspended
rating day	2015-01-26	2015-07-03	2015-07-07	2015-09-03
price on rating day	17.60	19.50	19.78	19.77
WIG on rating day	51680.12	53074.71	52590.36	50135.97

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

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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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DCF – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.
Comparative – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

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