

28 March 2011

Update



Construction
Poland

Current price	PLN 98.8
Target price	PLN 98.2
Market cap	PLN 2.5bn
Free float	PLN 0.9bn
Avg daily trading volume (3M)	PLN 3.1m

Shareholder Structure

Ferrovial Agroman	59.06%
OFE PZU	5.66%

Others	35.28%
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Sector Outlook

The *WIG Budownictwo* index has fallen over 10% since the beginning of the year, due to downward pressure from the deteriorating earnings outlook faced by building companies in 2011 and an expected construction slowdown in 2012 and 2013 caused by decreasing government road expenses. In spite of the bearish sector sentiment, we see certain companies in it with attractive valuations. We are upgrading our sector rating from 'underweight' to 'neutral.'

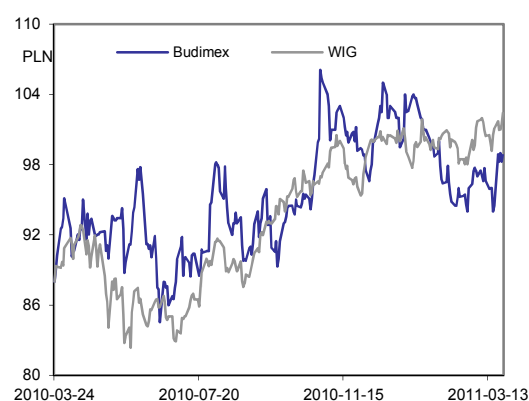
Company Profile

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

Important Dates

16.05.11 - Q1 2011 report
30.08.11 - H1 2011 report
14.11.11 - Q3 2011 report

BDX vs. WIG



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Budimex

BMEX.WA; BDX PW

Hold

(Upgraded)

How Much Real Cash Has Budimex Got?

The highlight of Budimex's Q4 2010 report was an impressive operating cash flow totaling PLN 944m (after consortium partner stakes). Historically, the company's cash flows did not correspond with earnings, and they came from differences between accounts payable and accounts receivable (ca. PLN 1.5bn) such as contract advances received from the national road authority (GDDKiA) or overdue payments to contractors. Such balances do not have a long-term influence on Budimex's value. But high cash can also come from undistributed earnings retained as a sort of cushion for lean times. We can imagine a scenario where Budimex reports strong profits amid a slumping construction industry. According to the company's CEO, Q1 2011 earnings results may be better than in the same quarter a year ago, and we believe the only way this can happen is through profits brought forward from prior years. Budimex's strong cash position is partly offset by its aggressive pricing policy applied to recently acquired contracts. In the tough 2010, the company's construction revenues increased 28.6%, while the building output in Poland rose just 3.3%. We expect reduced competition in and an improved sentiment to the construction industry in H2 2011. Until then, investors should not expect Budimex to generate strong earnings while its competition struggles. The question of the sustainability of the company's high cash position, which is a major factor contributing to current valuation, should be answered within the next two quarters. We are raising our price target for Budimex from PLN 91.5 to PLN 98.2 per share, and we are upgrading the stock from reduce to hold.

"No future" for road construction?

Poland's record 2010 road budget of PLN 34 billion is expected to decrease in future years, to reach PLN 15 billion in 2013. Moreover, future EU funding allocations are uncertain given the financial troubles faced by some of the Member States. For Budimex, this means shrinkage in road construction revenues by an estimated 64% in 2011, and continued contraction in 2012.

Budimex vs. construction sector

The strong Q4 2010 cash flow makes for attractive valuation multiples of 2010 P/E of 9.4 and EV/EBIDTA of 1.9. As projected cash flows decrease in future years, the forward EV/EBIDTA increases to an estimated 7.5. A forward P/E ratio around 11 looks attractive compared to its historical levels, but Budimex is still poised for two years of falling revenues and limited growth prospects. Valuation around P/E 11 seems fair.

(PLN m)	2009	2010	2011F	2012F	2013F
Revenue	3 289.9	4 430.3	4 865.0	4 718.9	4 134.0
EBITDA	221.7	352.6	284.5	307.6	231.6
EBITDA margin	6.7%	8.0%	5.8%	6.5%	5.6%
EBIT	200.5	331.4	262.9	285.5	209.1
Net profit	173.7	267.4	224.0	235.0	174.6
P/E	14.5	9.4	11.3	10.7	14.4
P/CE	12.9	8.7	10.3	9.8	12.8
P/BV	4.3	3.7	3.8	3.2	3.0
EV/EBITDA	7.6	2.0	7.6	7.5	9.7
DYield	5.9%	6.9%	9.2%	4.4%	4.7%

Q4 2010 Results

Budimex reported good Q4 2010 results, the highlight of which was a high operating cash flow of PLN 1 billion stemming from reduced receivables and increased payables. A detailed look at Budimex's cash flows and their potential impact on earnings is discussed below.

Reported vs. forecasted Q4 2010 results

(PLN m)	Q4 2010	Q4 2010F	Difference	Consensus	Difference	Q4 2009	change
Revenue	1 269.6	1 177.5	7.8%	1 110.0	14.4%	899.0	41.2%
Gross profit	116.8	102.7	13.8%	-	-	106.4	9.7%
Margin	9.2%	8.7%	-	-	-	11.8%	-
EBIT	72.0	57.1	26.1%	58.4	23.3%	70.1	2.7%
Margin	5.7%	4.8%	-	-	-	7.8%	-
Pre-tax profit	75.9	62.6	21.3%	-	-	71.0	6.9%
Net profit	60.1	50.7	18.6%	50.2	19.7%	54.3	10.8%

Source: Budimex, BRE Bank Securities; Consensus estimates by PAP

The Q4 2010 gross margin exceeded our 8.7% estimate at 9.2% in spite of higher-than-expected changes in contract provisions (PLN 30.6m vs. PLN 19.5m forecasted). A breakdown by business segment shows better-than-expected profitability achieved by building construction (with margin at 9.1% vs. 7.7% forecasted), and a lower-than-predicted margin generated in the real-estate development business (16.0% vs. 17.5%). SG&A expenses were more or less in line at PLN 46.2m (we expected PLN 43.6m). Other net operating expenses showed a zero balance (we expected PLN 2m).

Net financial income amounted to PLN 6m (we expected PLN 4m). The effective tax rate was 20.8%.

Reported vs. forecasted Q4 2010 results by business segment

(PLN m)	Actuals			Forecasts		
	Revenue	Gross profit	Gross margin	Revenue	Gross profit	Gross margin
Construction	1 158.6	105.8	9.1%	1 015.9	78.4	7.7%
Real estate	44.2	7.1	16.0%	123.6	21.6	17.5%
Other operations	65.2	5.8	8.9%	38.0	2.7	7.0%
Eliminations	1.6	-1.9	-	0.0	0.0	-
Total	1 269.6	116.8	-	1 177.5	102.7	-

Source: Budimex, BRE Bank Securities

Order Backlog

Budimex has accumulated an order backlog worth nearly PLN 7 billion. To account for delays in the completion dates of some of the contracts, we made small downward revisions to our 2011 revenue estimates while raising the topline expected in 2012.

Order backlog overview

(PLN m)	2011	2011+	Total
Infrastructure contracts	2 840.0	2 349.0	5 189.0
incl. contracts covered by provisions*	1 856.0	1 260.7	3 116.7
General construction	1 160.0	551.0	1 711.0
Total	4 000.0	2 900.0	6 900.0

Source: Budimex, BRE Bank Securities; *our estimates

Where Did the Q4 2010 Cash Come From?

Budimex's net cash position in Q4 2010 amounted to PLN 1831.7m, or PLN 1745m after adjustment for amounts due to consortium partners, which was more than what we had projected in January (PLN 797.7m). Operating cash flows generated in Q4 2010 alone totaled PLN 1bn. How such high cash balances came about is somewhat of a puzzle considering the following:

- 2010 was the second year in a row when Budimex's cash flows were much higher than earnings
- Budimex reports very unusual receivables and payables turnover ratios compared to other construction firms
- the difference between Budimex's payables and receivables is a whopping PLN 1569.3m (after provisions for contract losses and advances received from buyers of the flats developed by Budimex Nieruchomości).

Until recently, we were convinced that the high cash position comes from contract advances received from the national road authority GDDKiA (one-time inflows) and non-cash provisions covering potential contract losses. Now, we think that a portion of the cash comes from deferred income from prior periods. Such deferrals can serve as a cushion against potential profit deterioration in 2011 and 2012.

Q4 2010 changes in balance sheet

(PLN m)	Q3 2010	2010	q/q change	2010F
Current assets	2 786.8	3 434.4	-378.6	2 773.7
Inventories	970.6	991.4		918.9
- finished goods (homes)				200.2
- goods (land)				508.4
- other (building materials)				210.2
Trade debtors	597.2	373.0	-224.2	758.9
Performance bonds	23.9	24.6	0.7	49.4
Accounts receivable under construction contracts	319.8	152.0	-167.8	189.3
Taxes receivable	0.3	0.3	0.0	0.2
Derivative instruments	3.6	3.2	-0.4	2.2
Other financial assets at fair value		14.0	14.0	0.0
Assets held for sale	5.9	5.9	0.0	5.9
Short-term prepayments	8.6	7.6	-0.9	9.1
Cash and cash equivalents	857.0	1 862.4		839.7
Current liabilities	2 487.2	3 131.9	644.6	2 430.0
Trade creditors	1 087.1	1 270.7	183.6	1 016.9
Performance bonds	114.7	124.8	10.2	126.9
Accounts payable under construction contracts	764.8	1 034.2	269.4	725.9
Advances received	162.6	225.8	63.2	209.3
Provisions for short-term payables and other charges	109.5	110.5	1.0	98.5
Taxes payable	92.0	173.1	81.0	95.1
Employee benefits	1.7	1.7	0.0	1.7
Derivative instruments	1.9	0.5	-1.4	6.1
Loans and debt instruments	16.8	17.5	0.7	19.1
Short-term accruals	125.9	166.6	40.7	125.0
Short-term deferrals	10.2	6.6	-3.7	5.5

Source: Budimex, BRE Bank Securities

Working capital turnover ratios: Budimex vs. other builders

Company	2008	2009	2010
Receivables turnover			
Budimex	86.0	58.6	45.9
Erbud	100.4	91.8	84.8
Mostostal Warszawa	112.0	91.1	98.5
PBG	262.6	263.5	237.5
Polimex Mostostal	115.3	101.0	122.1
Trakcja Polska	73.6	42.7	121.6
Payables turnover			
Budimex	163.6	185.8	196.7
Erbud	102.7	120.6	89.8
Mostostal Warszawa	113.9	103.4	111.3
PBG	121.9	189.7	207.4
Polimex Mostostal	124.3	124.2	132.4
Trakcja Polska	163.9	74.3	221.6

Source: Companies, BRE Bank Securities; incl. trade creditors, taxes, contract balances, etc. and excl. financial balances

Budimex's 2006-2010 earnings vs. OCF

PLN m	2006	2007	2008	2009	2010
Net profit	4.0	14.1	93.7	173.7	267.4
Operating cash flow	-78.0	-15.2	173.0	1 036.0	1 191.1

Source: Budimex, BRE Bank Securities

Advances from GDDKiA

Virtually all large road builders reported strong operating cash flows in Q4 2010 which we believe came from contract advances received thanks to the national road authority's (GDDKiA) end-of-year spending rush. This year, government advances toward road contracts will most probably be much less generous given the GDDKiA's high expenses and the tight national budget.

As evident in the table below, Budimex's ratio of Q4 2010 operating cash flows to expected 2011 revenue is consistent with industry averages. What distinguishes Budimex from other firms is that it reported similarly high cash resources and a similarly wide gap between payables and receivables in the quarter before, partly also thanks to contract advances.

In our financial forecasts for the company, we assume a decrease in road contract advances from the GDDKiA in 2011.

Revenues from road contracts vs. cash flows

(PLN m)	Expected 2011 road revenue	Q4 2010 operating cash flow	OCF / Expected road revenue
Budimex	3 124.0	943.7*	30.2%
Hydrobudowa Polska	420.0	145.6	34.7%
Mostostal Warszawa	944.8	184.9	19.6%
PBG *	1 144.0	329.8	28.8%
Polimex Mostostal	1 130.0	366.4	32.4%

Source: Companies, BRE Bank Securities; * adjusted for amounts to due consortium partners

Payments to subcontractors vs. Ferrovial's cash needs

We suspect that Budimex might be slightly delaying payments to its subcontractors so as to be able to report higher cash balances at the end of each period. Such a practice would be helpful to its 59.1% owner, Ferrovial (which consolidates Budimex's revenues using the full method) which has a huge debt stemming from infrastructure projects (EUR 19.8 billion at year-end 2010, with net debt / EBITDA at 7.9).

Once Ferrovial starts deleveraging and reducing its debt-to-EBITDA ratio, there will no longer be a need for Budimex to artificially boost its cash balances.

Provisions for contract losses

Budimex had PLN 476.3m in provisions for contract losses set aside at the end of Q4 2010. Such provisions are a non-cash expense at the time they are recognized, and result in cash outflows when drawn upon. When reversed, they add to profits rather than cash flows.

We expect Budimex to reverse PLN 141.8m and expense PLN 141.8m-worth of contract provisions in 2011. The contracts in question are mainly design-and-build road assignments which will make substantial contributions to future revenues. We predict that Budimex will make allowances for as many as 65% of its total road contracts in 2011.

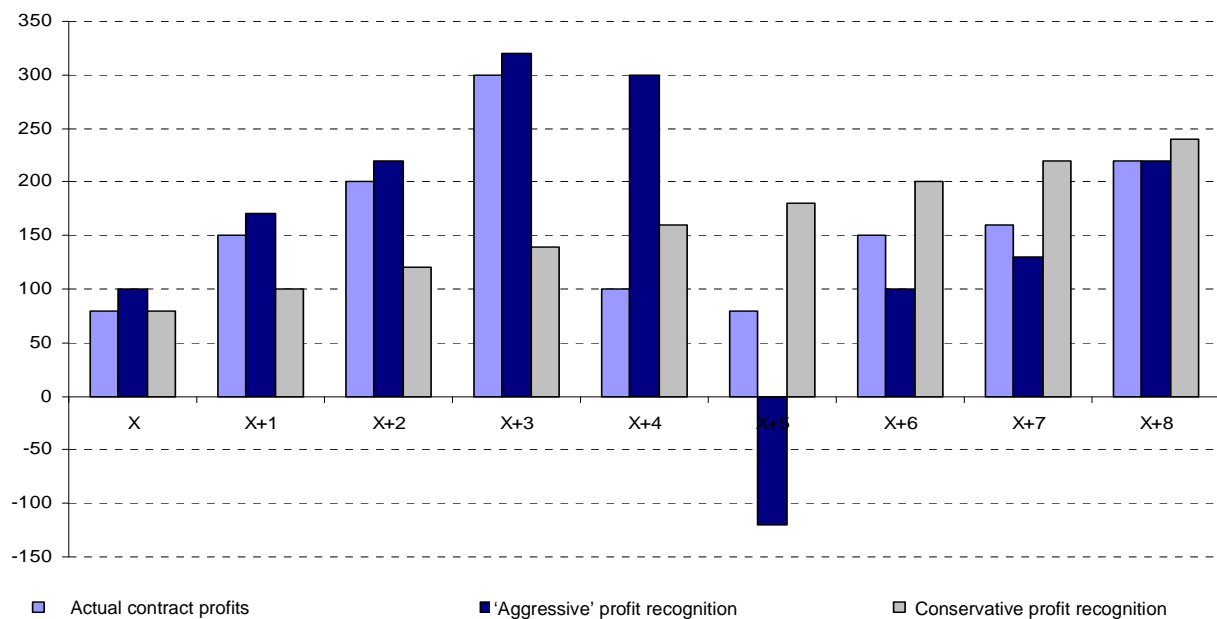
Deferred income

Another factor which possibly added to Budimex's high cash balances is deferred income which the company first recognizes under liabilities (including provisions) rather than adding it to earnings. This practice allows a company to report strong earnings figures even during leaner years when, for example, intense competition depresses profit margins on new contracts.

There are several reasons why a construction company may choose to defer income. First, some risks involved in major road development projects tend to materialize in very late stages of such projects. Second, the company may be offering earnings-based incentives to its employees. Third, income "smoothing" can enhance valuation and investor sentiment.

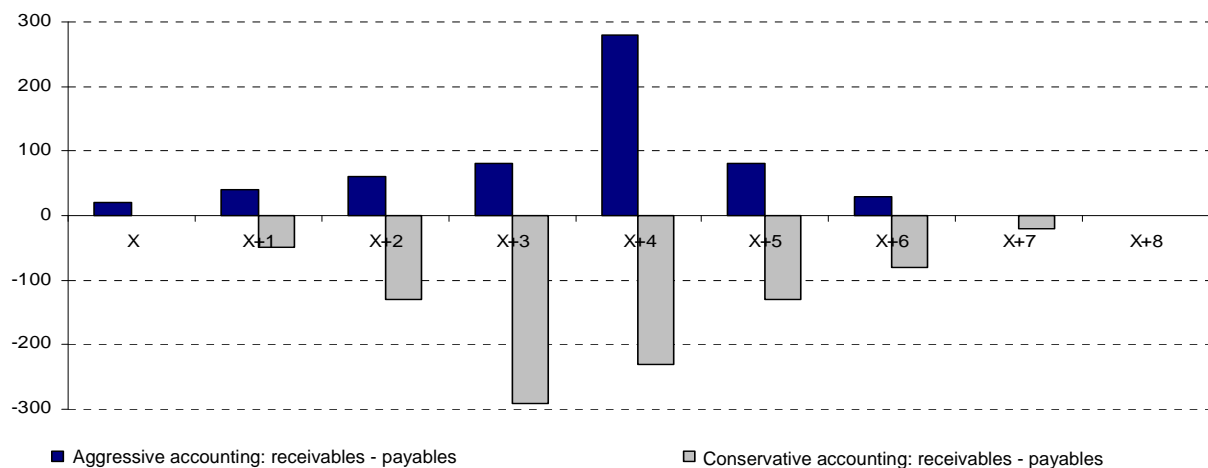
In any case, Budimex's accounting policy is more conservative than the policies used by its rivals. Many firms (one example is Pol-Aqua) tend to overestimate contract revenues or recognize them prematurely. The possible impacts on earning of different approaches to contract revenue recognition are illustrated in the following diagrams.

Accounting policy and earnings



Source: BRE Bank Securities

Accounting policy and working capital



Source: BRE Bank Securities

Budimex's cash projections

Based on the cash reported in Q4 2010 (adjusted for amounts payable to consortium partners), we expect Budimex to recognize negative operating cash flows of about PLN 700m in Q1 2011. We predict that the cash resources will continue to decrease throughout the year.

Our predictions are based on the following assumptions:

- from the PLN 1077.9m cash left at the end of Q1 2011 (less PLN 476.3m provisions for contract losses), PLN 60.2m (10%) will be deferred into future periods;
- provision draws will reduce cash by PLN 141.8m;
- inventories will increase by PLN 63.3m relative to Q1 2010 due to new real-estate projects;
- GDDKiA will not pay contract advances to road builders in 2011;
- receivables will increase and payables will decrease but still remain much higher than receivables.

Q1 2011 cash projection

(PLN m)	Q4 2009	Q1 2010	decrease	difference	Q4 2010	Q1 2011F	decrease	difference
Cash	1 130.4	719.1	-36.4%	411.2	1 776.0	1 077.9	-39.3%	698.1
Debt	293.2	257.0	-12.3%	36.2	30.7	30.7	-	0.0
Net cash	837.2	462.1	-44.8%	375.1	1 745.3	1 047.2	-40.0%	698.1

Source: Budimex, BRE Bank Securities

Aggressive Pricing

Budimex's optimistic earnings projections for the future clash with the implications of its latest pricing policy which seems more aggressive as competition, especially in road construction, has become more intense.

In 2010, while Poland's construction output increased 3.3%, Budimex's revenue surged 28.6% compared to the year before. Of a total of PLN 22bn contracts awarded by GDDKiA in 2010, PLN 3.2bn (14.5%) went to Budimex. In 2009, Budimex also captured PLN 3.2bn (15.2%) of GDDKiA's PLN 21bn budget.

In the road tenders won in 2009 and 2010, Budimex's bids were on average 5.2% lower than the second lowest bids and 11.3% higher than the third lowest bids. The company used particularly aggressive pricing in the tenders for an A2 motorway stretch, a bypass around Nowogard, a bridge over the Vistula river, and a bypass around Augustów (see table below).

We think that Budimex may be estimating its contract budgets based on overly sanguine economic and cost projections.

Summary of Budimex's major 2009 and 2010 contract wins

	Road	Stretch	Contract type	Bidders	Budimex's bid	Budimex vs. other bidders (pct)			
						2nd lowest bid	3rd lowest bid	4th lowest bid	5th lowest bid
1	A1	Pyrzowice - Piekary Śląskie	D&B	8	1 499.5	4.0%	6.7%	9.1%	11.8%
2	DK59	Mrażowo bypass	Build	6	110.4	4.8%	14.0%	25.3%	27.7%
3	A2	Stryków - Konotopa (stretch E)	D&B	7	348.8	21.9%	32.5%	42.7%	49.3%
4	A4	Jarosław – Radymno	D&B	5	794.5	-0.6%	4.5%	8.5%	88.8%
5	S6/DK7	Karczemki node	Build	7	152.9	0.3%	0.5%	10.1%	12.8%
6	S6	Nowogard bypass	Build	7	132.4	15.1%	16.1%	16.6%	27.1%
7	A4	Dębica Pustynia - Rzeszów	Build	7	1 418.4	0.4%	1.0%	6.3%	18.0%
8	A1	Stryków node	Build	11	252.1	7.2%	10.5%	10.8%	11.3%
9	S3	Międzyrzecz Płd. - Sulechów	Build	9	275.5	1.9%	7.4%	22.6%	24.7%
10	DK 90	Vistula bridge	Build	11	250.8	5.2%	8.2%	9.1%	11.4%
11	DK 78	Jędrzejów bypass	Build	12	152.3	1.6%	1.7%	5.3%	5.4%
12	DK 8, S61	Augustów bypass	D&B	8	659.3	6.8%	28.9%	43.0%	50.6%
13	S17	Kurów - Lublin - Piaski	Build	11	327.1	-1.5%	14.9%	19.4%	22.1%
Total					6 374.0				
Average				8		5.2%	11.3%	17.6%	27.8%

Source: Budimex, BRE Bank Securities

Future Growth

Budimex is branching out into railroad construction and power engineering. In railroads, the company will have to make room for itself by offering competitive prices, so its initial profit margins on the new business are bound to be low. To ensure faster returns, Budimex could acquire PNI which, however, is in need of major restructuring. Other acquisition possibilities include companies like Feroco. As part of its first steps in power engineering, Budimex has joined a consortium of companies bidding to build a power plant in Jaworzno for Tauron for an estimated PLN 5bn.

There is a possibility that Budimex will eventually launch M&A activity abroad, but it is too soon to be taking this into account when forecasting future earnings. Moreover, Budimex and Ferrovial started a waste management joint venture but we do not know much about it. The growth planned in urban road infrastructure maintenance is accounted for in our forecasts for the road construction segment.

As for the real-estate business, Budimex is considering diversifying its land bank into new cities like Wrocław or the Tricity. Other than that, the company has no plans to grow this business beyond the close to 1000 flats started each year. The sales target for 2011 is 600-700 flats.

Earnings forecast by business segment

Revenue forecast by business segment

(PLN m)	2010	2011F	2012F	2013F	2014F	2015F
general construction	2 330.0	3 124.0	2 581.1	1 785.1	1 838.7	1 893.8
public facilities	1 444.6	1 276.0	1 339.8	1 406.8	1 477.1	1 551.0
other	160.0	176.0	184.8	194.0	203.7	213.9
railroads		125.0	250.0	262.5	275.6	289.4
power plants				111.4	117.0	122.8
real estate	495.7	164.0	363.3	374.2	385.4	397.0
Total	4 430.3	4 865.0	4 718.9	4 134.0	4 297.5	4 467.9

Source: BRE Bank Securities

Gross profit forecast by business segment

(PLN m)	2011F	2012F	2013F	2014F	2015F
general construction	141.0	140.0	109.4	117.7	121.2
public facilities	75.3	85.7	90.0	94.5	99.3
other	10.4	11.8	12.4	13.0	13.7
railroads	5.0	14.8	16.8	17.6	18.5
power plants	0.0	0.0	7.1	7.5	7.9
real estate	20.5	98.1	93.5	92.5	95.3
Total contracts	252.2	350.4	329.4	342.9	355.8
Provision reversals	141.8	70.8	25.6		
Deferred revenue	30.1	30.1			
Total	424.1	451.2	355.0	342.9	355.8

Source: BRE Bank Securities

3-year forecast for the road business

PLN m	2011F	2012F	2013F
Order backlog	2 840.0	1 725.1	409.1
Pending bids	15 400.0	12 000.0	14 000.0
Duration of construction (years)	2.5	2.5	2.5
Chances of winning	10.0%	10.0%	10.0%
Expected value	284.0	856.0	1 376.0
Total revenue	3 124.0	2 581.1	1 785.1

Source: Budimex, BRE Bank Securities

Valuation

Using DCF analysis and relative valuation, we set the price target for BDX stock at PLN 98.2 per share. The target implies 0.6% downside potential from current levels, prompting a hold rating.

Valuation Summary

	Value per share	Weight
DCF Valuation	91.4	75%
Relative Valuation	88.5	25%
Average	90.7	
9M cost of equity	8.4%	
Target Price	98.2	

Source: BRE Bank Securities

Relative Valuation

The relative valuation of Budimex consists in a comparison of its forward 2011-2013 P/E and EV/EBITDA ratios with the multiples of its peers. Assessed based on forward multiples, Budimex is trading at a 25.8% premium to the construction sector. The premium is the highest in 2013 (which has a 20% weight in the valuation), when we do not expect Budimex's earnings to be supported by deferred income or provision reversals.

Relative valuation based on recurring earnings multiples

	2011 P/E	2012 P/E	2013 P/E	2011 EV/EBITDA	2012 EV/EBITDA	2013 EV/EBITDA
Erbud	11.0	9.9	8.9	6.7	5.9	5.2
Elektrobudowa	12.9	11.5	10.1	8.1	6.9	5.9
Mostostal Warszawa	14.9	11.0	8.7	6.2	4.8	3.9
PBG	12.1	11.7	10.7	8.7	8.1	7.2
Polimex Mostostal	12.6	9.8	7.3	7.1	6.1	4.9
Trakcja Polska	11.4	9.6	10.5	7.3	6.2	6.3
Unibep	13.3	7.0	8.5	9.8	5.1	5.5
ZUE	10.6	10.2	9.9	5.1	4.2	3.6
Median	12.3	10.1	9.4	7.2	6.0	5.4
Budimex	11.2	10.7	14.3	7.5	7.4	9.6
Premium (discount)	-9.4%	5.8%	53.0%	4.5%	22.7%	79.5%
Multiple weight	20.0%	20.0%	10.0%	20.0%	20.0%	10.0%

Source: BRE Bank Securities

DCF Valuation

DCF Model Assumptions

- Growth rate after FY2020 = 3%.
- Risk-free rate is 6.3% (10Y T-bond yield).
- Segmental revenue and margin growth as discussed above.
- The working capital of the construction business will converge to show a balance between receivables and payables.
- Land inventories expected to decrease with time to average market levels.
- Advance payments from homebuyers to positively influence working capital.
- Budimex will pay out 50% of future profits as dividends to shareholders.
- Half of contract provisions will be expensed, and half will be reversed.
- The target EBIT margin for the construction business is 3%.



DCF Model

(PLN m)	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2020+
Sales revenue	4 865.0	4 718.9	4 134.0	4 297.5	4 467.9	4 645.5	4 826.0	5 006.7	5 176.9	5 340.0	
Change	53.9%	-3.0%	-12.4%	4.0%	4.0%	4.0%	3.9%	3.7%	3.4%	3.2%	
EBITDA	284.5	307.6	231.6	214.2	221.6	229.3	237.1	244.8	252.2	259.3	
EBITDA margin	5.8%	6.5%	5.6%	5.0%	5.0%	4.9%	4.9%	4.9%	4.9%	4.9%	
D&A expenses	21.6	22.1	22.5	23.0	23.4	23.9	24.4	24.6	24.9	24.9	
EBIT	262.9	285.5	209.1	191.3	198.2	205.4	212.7	220.1	227.3	234.4	
EBITDA margin	5.4%	6.1%	5.1%	4.5%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	
EBIT tax	49.9	54.2	39.7	36.3	37.7	39.0	40.4	41.8	43.2	44.5	
NOPLAT	212.9	231.3	169.4	154.9	160.5	166.4	172.3	178.3	184.1	189.8	
CAPEX	-23.8	-24.3	-24.8	-25.3	-25.8	-26.3	-26.8	-25.9	-26.1	-24.9	
Working capital	-1453.3	-260.1	-8.4	64.2	61.2	54.3	61.3	53.7	9.8	-4.0	
FCF	-1242.5	-31.0	158.7	216.8	219.4	218.2	231.2	230.8	192.7	185.8	191.4
WACC	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	10.6%	
Discount factor	92.3%	82.9%	74.5%	66.9%	60.1%	54.0%	48.5%	43.6%	39.2%	35.4%	
PV FCF	-1146.7	-25.7	118.3	145.1	131.9	117.9	112.2	100.7	75.5	65.8	
WACC	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	10.6%	
Cost of debt	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	6.8%	
Risk-free rate	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	5.6%	
Credit risk premium	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	
Net debt / EV	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	
Cost of equity	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	10.6%	
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	
FCF growth after the forecast horizon	3.0%										
Terminal value	2518.0										
Present value of terminal value (PV TV)	892.2										
Present value of FCF in the forecast horizon	-304.9										
Equity value	587.3										
Net debt	-1745.3										
Dividend	0.0										
Minority interests	0.1										
Equity value	2 332.5										
Number of shares (millions)	25.5										
Equity value per share (PLN)	91.4										
Cost of equity (9M)	8.4%										
Target Price	99.0										
EV/EBITDA ('10) for the target price	1.9										
P/E ('10) for the target price	9.5										
TV to EV	152%										

Sensitivity Analysis

FCF growth in perpetuity

	2.0%	2.5%	3.0%	3.5%	4.0%
WACC -1.0pp	94.3	96.5	99.0	101.9	105.2
WACC -0.5pp	94.3	96.5	99.0	101.9	105.2
WACC	94.3	96.5	99.0	101.9	105.2
WACC +0.5pp	94.3	96.5	99.0	101.9	105.2
WACC +1.0pp	94.3	96.5	99.0	101.9	105.2



Income Statement

(PLN m)	2007	2008	2009	2010	2011F	2012F	2013F
Sales revenue	3 075.9	3 274.3	3 289.9	4 430.3	4 865.0	4 718.9	4 134.0
Change	1.1%	6.4%	0.5%	-3.9%	53.9%	-3.0%	-12.4%
COGS	2 927.7	2 885.8	2 877.2	3 946.0	4 440.9	4 267.7	3 779.0
Gross profit	148.3	388.4	412.6	484.3	424.1	451.2	355.0
Gross margin	4.8%	11.9%	12.5%	10.9%	8.7%	9.6%	8.6%
Selling expenses	-26.2	-30.2	-22.8	-23.5	-25.8	-26.6	-23.4
General and administrative expenses	-114.6	-135.5	-129.4	-123.3	-129.4	-133.3	-117.3
Other net operating expenses	-21.1	-25.9	-56.3	-12.9	-6.0	-5.8	-5.1
Profit/loss on derivative instruments	41.7	-88.9	-3.7	6.7	0.0	0.0	0.0
EBIT	28.0	107.9	200.5	331.4	262.9	285.5	209.1
Change	182.2%	285.0%	85.7%	65.3%	-20.7%	10.7%	-31.0%
EBITDA margin	0.9%	3.3%	6.1%	7.5%	5.4%	6.1%	5.1%
Financial activity	-16.1	14.9	22.0	3.5	13.7	4.6	6.4
Other	1.6	2.9	1.7	-3.1	0.0	0.0	0.0
Pre-tax profit	13.6	125.8	224.2	331.8	276.5	290.1	215.6
Tax	-0.5	32.1	50.5	64.3	52.5	55.1	41.0
Minority interests							
Net profit	14.1	93.7	173.7	267.4	224.0	235.0	174.6
change	255.3%	563.3%	85.3%	54.0%	-16.2%	4.9%	-25.7%
margin	0.46%	2.86%	5.28%	6.04%	4.60%	4.98%	4.22%
D&A expenses	23.6	22.2	21.2	21.2	21.6	22.1	22.5
EBITDA	51.7	130.2	221.7	352.6	284.5	307.6	231.6
Change	66.0%	152.0%	70.3%	59.0%	-19.3%	8.1%	-24.7%
EBITDA margin	1.7%	4.0%	6.7%	8.0%	5.8%	6.5%	5.6%
Shares at year-end (millions)	25.5	25.5	25.5	25.5	25.5	25.5	25.5
EPS	0.6	3.7	6.8	10.5	8.8	9.2	6.8
CEPS	1.5	4.5	7.6	11.3	9.6	10.1	7.7
ROAE	2.7%	17.1%	30.3%	42.2%	33.1%	32.0%	21.2%
ROAA	0.6%	3.3%	5.2%	7.2%	6.3%	7.7%	6.0%



Balance Sheet

(PLN m)	2007	2008	2009	2010	2011F	2012F	2013F
ASSETS	2 344.3	3 286.1	3 339.6	4 067.2	3 059.0	3 005.6	2 849.7
Fixed assets	475.6	462.9	517.9	632.9	635.0	637.2	639.5
Property, plant and equipment	97.1	118.5	99.8	106.6	108.8	111.0	113.2
Goodwill	103.6	94.3	93.9	89.3	89.3	89.3	89.3
Deferred tax assets	97.6	167.0	241.5	357.3	357.3	357.3	357.3
Other	177.3	83.2	82.7	79.6	79.6	79.6	79.6
Current assets	1 868.7	2 823.2	2 821.7	3 434.4	2 424.0	2 368.3	2 210.2
Inventories	533.3	1 219.8	1 128.6	991.4	1 054.7	991.3	900.5
Accounts receivable	758.3	771.6	528.3	557.2	946.8	993.9	880.0
Cash and cash equivalents	509.2	726.0	1 130.4	1 862.4	399.1	359.8	406.3
Other	68.0	105.8	34.4	23.4	23.4	23.4	23.4
(PLN m)	2007	2008	2009	2010	2011F	2012F	2013F
EQUITY AND LIABILITIES	2 344.3	3 286.1	3 339.6	4 067.2	3 059.0	3 005.6	2 849.7
Equity	536.2	561.7	586.2	680.4	672.6	795.6	852.7
Minority interests	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Long-term liabilities	312.9	433.6	418.0	255.0	255.0	355.0	355.0
Loans	171.0	254.7	230.2	13.2	13.2	113.2	113.2
Reserves	48.5	81.8	78.8	102.1	102.1	102.1	102.1
Performance bonds	89.8	93.3	105.1	135.5	135.5	135.5	135.5
Other	3.6	3.8	3.9	4.2	4.2	4.2	4.2
Short-term liabilities	1 495.1	2 290.8	2 335.4	3 131.9	2 131.4	1 855.0	1 642.1
Loans	106.2	136.4	62.9	17.5	17.5	17.5	17.5
Accruals	1 133.6	1 375.3	1 514.2	1 794.4	1 014.2	960.4	865.5
Trade creditors	216.0	192.0	546.9	1 034.2	814.0	591.4	473.3
- provisions for contract losses	42.4	51.7	241.1	476.3	192.7	51.2	0.0
Other	-3.1	535.5	211.4	285.7	285.7	285.7	285.7
Debt	277.2	391.1	293.2	30.7	30.7	130.7	130.7
Net debt	-232.0	-334.9	-837.2	-1 831.7 *	-368.4	-229.1	-275.6
(Net debt / Equity)	-43.3%	-59.6%	-142.8%	-269.2%	-54.8%	-28.8%	-32.3%
(Net debt / EBITDA)	-4.5	-2.6	-3.8	-5.2	-1.3	-0.7	-1.2
BVPS	21.0	22.0	23.0	26.7	26.3	31.2	33.4

* PLN 1745m before accounts payable to consortium partners



Cash Flows

(PLN m)	2007	2008	2009	2010	2011F	2012F	2013F
Operating cash flows	-15.2	173.0	1 036.0	1 191.1	-1 221.3	-7.6	182.3
Pre-tax income	13.6	125.8	224.2	331.8	276.5	290.1	215.6
D&A expenses	23.6	22.2	21.2	21.2	21.6	22.1	22.5
Working capital	-40.0	-159.2	602.2	433.2	-1 311.5	-189.3	17.2
Provisions for contract losses	42.4	51.7	241.1	476.3	-141.8	-70.8	-25.6
Taxes paid	-20.5	-39.7	-101.0	-101.2	-52.5	-55.1	-41.0
Derivatives valuations	-41.7	88.9	3.7	-10.5	0.0	0.0	0.0
Other	7.4	83.3	44.7	40.3	-13.7	-4.6	-6.4
Cash flows from investing activities	19.1	-64.2	-376.2	-5.2	-23.8	-24.3	-24.8
CAPEX	-5.3	5.5	0.2	-12.7	-23.8	-24.3	-24.8
Equity investment	1.6	-88.4	-307.3	5.1	0.0	0.0	0.0
Derivatives valuations	28.0	16.3	-71.6	0.0	0.0	0.0	0.0
Long-term loans receivable	-6.5	0.0	0.0	0.0	0.0	0.0	0.0
Other	1.2	2.4	2.4	2.4	0.0	0.0	0.0
Cash flows from financing activities	16.0	90.0	-253.6	-454.8	-218.1	-7.4	-111.0
Stock issue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt	28.8	99.2	-97.3	-262.3	0.0	100.0	0.0
Dividend (buy-back)	0.0	0.0	-149.1	-173.6	-231.8	-112.0	-117.5
Other	-12.8	-9.2	-7.3	-18.9	13.7	4.6	6.4
Change in cash	20.0	198.8	406.2	731.2	-1 463.3	-39.3	46.5
Cash at period-end	524.3	725.2	1 130.3	1 861.5	399.1	359.8	406.3
DPS (PLN)	0.0	0.0	5.8	6.8	9.1	4.4	4.6
FCF	-10.2	80.9	84.3	1 243.8	-1 242.5	-31.0	158.7
(CAPEX / Sales)	0.2%	-0.2%	0.0%	0.3%	0.5%	0.5%	0.6%

Market multiples

	2007	2008	2009	2010	2011F	2012F	2013F
P/E	178.6	26.9	14.5	9.4	11.3	10.7	14.4
P/CE	66.8	21.8	12.9	8.7	10.3	9.8	12.8
P/BV	4.7	4.5	4.3	3.7	3.8	3.2	3.0
P/S	0.8	0.8	0.8	0.6	0.5	0.5	0.6
FCF/EV	-0.4%	3.7%	5.0%	180.1%	-57.7%	-1.4%	7.1%
EV/EBITDA	44.3	16.8	7.6	2.0	7.6	7.5	9.7
EV/EBIT	81.7	20.3	8.4	2.1	8.2	8.0	10.7
EV/S	0.7	0.7	0.5	0.2	0.4	0.5	0.5
DYield	0.0%	0.0%	5.9%	6.9%	9.2%	4.4%	4.7%
Price (PLN)	98.8						
Shares at year-end (millions)	25.5	25.5	25.5	25.5	25.5	25.5	25.5
MC (PLN m)	2522.4	2522.4	2522.4	2522.4	2522.4	2522.4	2522.4
Equity attributable to minority shareholders (PLN m)	0.1	0.0	0.0	0.0	0.0	0.0	0.0
EV (PLN m)	2 290.5	2 187.4	1 685.2	690.7	2 154.0	2 293.2	2 246.8



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

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Rating	Reduce	Sell	Reduce	Reduce	Reduce
Date issued	2010-07-05	2010-08-04	2010-09-03	2010-09-13	2011-01-17
Price on rating day	89.90	98.20	91.30	95.10	103.20
WIG on rating day	39805.41	43412.75	42704.39	43671.28	47258.66