30 April 2009

Update

BRE Bank Securities

IT Distributors
Poland

Komputronik

KOMR.WA; KOM PW

Hold
(Downgraded)

Current price	**PLN 11.88**
Target price	**PLN 10.97**
Market cap*	PLN 97.0m
Free float*	PLN 19.8m
Avg. daily trading volume (3M)	PLN 0.29m

Shareholder Structure

Wojciech Buczkowski	37.37%
Krzysztof Buczkowski	18.67%
Ewa Buczkowska	18.63%
CU IM	5.01%
Others	20.32%

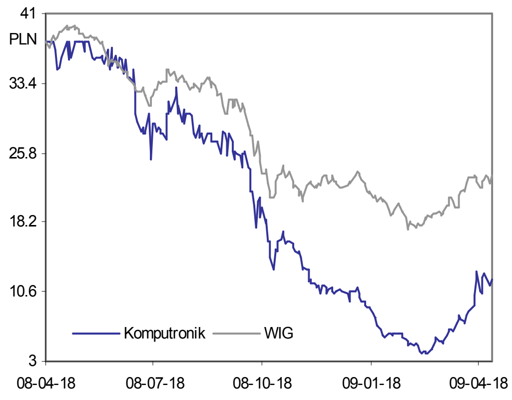
Sector Outlook

According to research agencies, over 3.7 million computers were sold in Poland in 2008, including 2.1 million laptops. This year, sales volumes are expected to increase by 3% to 6%, while revenues will be on a downward curve.

Company Profile

Komputronik is a leading computer retailer. In December 2008, it operated through 74 own stores, 166 franchise outlets, and 93 "Komputronik Partner" stores.

KOM vs. WIG



Piotr Grzybowski
(48 22) 697 47 17
piotr.grzybowski@dibre.com.pl
www.dibre.com.pl

Awaiting Synergies

Komputronik's earnings results in the fourth quarter of 2008 left no doubt that synergies from the acquisition of Karen Notebook will take much more time to materialize than thought. The latest projection is that Karen will finish restructuring in the third quarter of 2009. This delay coincides with an economic slowdown which will no doubt dampen household demand for, and undercut corporate investment in, computers, among other things. All this makes 2009 a year of unprecedented challenges for Komputronik. That said, we believe that the company is well positioned to survive the downturn and eventually resume to generate strong earnings, even if the near future does not hold much promise. Unfavorable trends may affect the value of Komputronik shares which, even after a recent decline, are trading at a substantial premium.

We set the price target on Komputronik at PLN 10.97 per share, and recommend holding the stock.

Karen Weighs On Earnings

The second half of 2008 was marked by Karen's struggle with shifting market trends, and its dismal earnings performance underpinned by an absence of any synergies from the merger with Komputronik. According to the Management's estimates, Karen will not be able to fully capitalize on merger synergies until the third quarter, meaning that Q109 results will be similar to those achieved in the quarter before. Karen's ongoing restructuring efforts include diversification of the sales mix, and repositioning of the "Karen Notebook" brand to build a profile closer to that of the parent.

Economic Downturn

The months ahead are going to be hard for all computer distributors. Weaker consumer demand and financial problems faced by the corporate sector could drive the market growth rate to zero, while fierce competition will put downward pressure on margins and upward pressure on working capital as distributors cut prices to make sales. We predict that, thanks to longer trade-credit periods granted by hardware producers, distributors will be able to handle the working-capital pressure. As for Komputronik itself, its profits will be affected by large exposure to retail, which is characterized by high overheads and a resulting sensitivity to weak sales.

(PLN m)	2007	2008	2009F	2010F	2011F
Revenues	519.3	757.9	855.2	995.4	1 167.3
EBITDA	15.2	15.4	13.7	23.7	29.2
EBITDA margin	*2.9%*	*2.0%*	*1.6%*	*2.4%*	*2.5%*
EBIT	13.5	10.2	8.0	17.9	23.3
Net income	10.3	5.6	5.1	9.9	14.0
DPS	0.0	0.1	0.0	0.0	0.0
P/E	8.6	17.3	19.1	9.8	6.9
P/CE	7.3	9.0	9.0	6.2	4.9
P/BV	1.0	0.7	0.7	0.6	0.6
EV/EBITDA	3.7	7.5	11.2	6.7	5.5

Signs of Slowing Demand

Market Outlook

Changes to the Group's Structure

In the first quarter, Komputronik sold a 60% stake in KEN Technologie Informatyczne for PLN 11.6m, thereby reducing its interest in the company to 20%. The transaction will be neutral as far as the quarterly earnings are concerned, because the sale was at a price almost equal to the book value of these shares. In terms of operations, Komputronik will no longer have the ca. PLN 31m in revenues that KEN TI generated last year. As for accounting consequences of the transaction, it entails a change from full consolidation to the equity method. As a result, the Company will only recognize 20% of the valuation loss on a JPY interest rate swap, which hurt Q4'08 earnings. It will be also less exposed in the risk related to the exchange of the principal amounts of the swap at the moment of its closure (PLN 9m at exchange rate PLN 2.04 for JPY 100).

Restructuring at Karen

In the light of the huge difficulties plaguing Karen in the past 6 months, the Management decided to change its strategy for this brand. Under the new strategy, the Karen network will become Komputronik's franchisee. In exchange for the right to use the Komputronik brand and trademark and for marketing support, Karen will pay a fee amounting to 0.5% of its revenues. Some of Karen's franchisees have chosen to keep the old brand, but they will receive no marketing support. As a result, there will no longer be two brands – premium (Karen) and mass-customer oriented (Komputronik).

The change in the brand management strategy has brought about a problem locations with two stores. In the case of Company-owned stores, the problem affects three malls: Stary Browar (Poznań), Magnolia (Wrocław) and Silesia (Katowice). These stores will be converted into outlets dedicated to certain manufacturers. As a pilot project, this was introduced in Plaza (Poznań), where only Asus's products are sold in one showroom. The decision is a consequence of long-term rental agreements, which make it impossible to close these stores immediately. According to the Management, the Plaza project is profitable, but we doubt it will be possible for these stores to achieve long-term profitability matching that of the standard, "universal" stores – if that were the case, the very need for an intermediary between manufacturer and customer would be put in doubt. The Company could also sell the stores in question, but we believe their excellent locations notwithstanding, it would be very difficult to get an attractive price at a time when the problems of the retail sector are mounting.

FY 2009: Revenues Will Go Up, Profits Probably Will Not

We expect FY2009 to be a tough year for the group. We believe that despite the economic slowdown and the KEN divestment, Komputronik will be able to improve sales, thanks to news store openings (the Company signed several rental agreements and it did not back off from new openings despite the slowdown). The other factors helping to boost revenues will be the fact that Karen will be fully consolidated for 12 months and, to a limited extent, the depreciation of the PLN. We assume here that the key sales-driving factor is consumer demand, which is affected by household budgets and the situation of businesses. We believe that as computer equipment gets more expensive due to the depreciation of the zloty, customers will first and foremost switch to cheaper hardware configurations. Hardware spend will increase only slightly in real terms, in as much as technical requirements make this necessary. We do not believe, however, that the higher revenues will generate higher profits, due to the ongoing restructuring at Karen, which we believe will continue through the first half of the year. The deterioration in Poland's macroeconomic situation will be another blow, as the mounting unemployment reduces consumer demand. This will have a particularly strong impact on the fixed-costs-intensive retail distributor that Komputronik is; the increase in sales will fail to keep up with the increase in expenses driven by the expansion of the store network. However, in 2010, Komputronik should be able to quickly improve its earnings, as Karen breaks even and consumer demand rebounds.

Forecasted earnings in Q1 2009

(PLN m)	Q1 2009F	Q1 2008	change
Revenues	198.9	149.9	32.7%
EBITDA	2.9	3.5	-18.2%
margin	1.4%	2.3%	-
EBIT	1.5	2.6	-44.7%
Pre-tax income	0.3	2.7	-90.4%
Net income	1.0	7.7	-87.2%

Source: estimates by BRE Bank Securities

Valuation

Valuation Summary

(PLN m)		Weight	9MTP
DCF valuation	117.3	50%	
Relative valuation	77.3	50%	
based on			
P/E	88.4	50%	
EV/EBITDA	66.2	50%	
Average	**97.3**		**105.5**
per share			12.88

Source: BRE Bank Securities analysis

DCF model assumptions

1. Our valuation is based in the forecast of Komputronik's earnings in 2009-2018.
2. We use net debt at year-end 2008 and cash flows from 2009-2017.
3. The valuation of the minority interest in Karen is based on the market valuation of the shares held by minority shareholders.
4. We assume a risk-free-rate of 6.3% (the yield on Polish 10Y treasury bonds). We assume a risk-free-rate of 6.3% after the forecast horizon.
5. We assume that FCF after 2017 will grow at a rate of 2.0%.

Relative valuation

We estimated the relative value of Komputronik by comparing its estimated P/E and EV/EBITDA multiples in the years 2009 through 2011 with peer multiples. Each multiple is assigned a weight of 50%, and each year is assigned weights of 25%, 45%, and 30% respectively.

P/E and EV/EBITDA estimates for comparable IT distributors

		EV/EBITDA			P/E		
	Price	2009F	2010F	2011F	2009F	2010F	2011F
Avnet		5.7	6.2	-	9.1	10.0	7.8
Cellnet Group		-	-	-	-	-	-
Esprinet		6.9	6.0	5.3	10.1	9.2	7.5
Ingram Micro		5.1	4.3	-	14.1	9.6	8.8
Synnex Corporation		5.5	5.2	-	8.2	7.7	6.7
Tech Data		3.9	4.9	4.3	11.2	13.0	10.9
Elektrocomponents PLC		6.3	7.7	7.6	10.0	12.9	12.2
Arrow Electronics PLC		6.5	5.7	-	11.0	9.1	7.0
Maximum		6.9	7.7	7.6	14.1	13.0	12.2
Minimum		3.9	4.3	4.3	8.2	7.7	6.7
Median		**5.7**	**5.7**	**5.3**	**10.1**	**9.6**	**7.8**
Komputronik	11.88	**11.2**	**6.7**	**5.5**	**19.1**	**9.8**	**6.9**
Premium (discount)		97.6%	17.5%	4.7%	88.6%	2.5%	-10.7%

P/E and EV/EBITDA for IT distributors listed on the WSE

	EV/EBITDA			P/E		
	2009F	2010F	2011F	2009F	2010F	2011F
AB	3.3	6.2	5.7	4.8	7.3	5.4
Action	7.0	5.6	5.2	9.4	6.2	5.5
ASBIS	4.9	3.7	3.5	-29.5	6.6	4.5
Komputronik	**11.2**	**6.7**	**5.5**	**19.1**	**9.8**	**6.9**

DCF Valuation Model

(PLN m)	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2018+
Revenue	**855.2**	**995.4**	**1 167.3**	**1306.4**	**1427.4**	**1515.8**	**1574.9**	**1627.8**	**1676.7**	**1706.0**	
change	*12.8%*	*16.4%*	*17.3%*	*11.9%*	*9.3%*	*6.2%*	*3.9%*	*3.4%*	*3.0%*	*1.7%*	
EBITDA	**13.7**	**23.7**	**29.2**	**32.7**	**35.0**	**34.8**	**36.1**	**36.8**	**36.5**	**35.6**	
EBITDA margin	*1.6%*	*2.4%*	*2.5%*	*2.5%*	*2.5%*	*2.3%*	*2.3%*	*2.3%*	*2.2%*	*2.1%*	
Amortization and depreciation	5.7	5.8	5.9	6.0	6.1	6.2	6.3	6.3	6.4	6.5	
EBIT	**8.0**	**17.9**	**23.3**	**26.7**	**29.0**	**28.7**	**29.8**	**30.5**	**30.1**	**29.1**	
EBIT margin	*0.9%*	*1.8%*	*2.0%*	*2.0%*	*2.0%*	*1.9%*	*1.9%*	*1.9%*	*1.8%*	*1.7%*	
Tax rate on EBIT	1.5	3.4	4.4	5.1	5.5	5.4	5.7	5.8	5.7	5.5	
NOPLAT	**6.5**	**14.5**	**18.9**	**21.6**	**23.5**	**23.2**	**24.1**	**24.7**	**24.4**	**23.6**	
CAPEX	-13.3	-9.3	-9.8	-9.8	-9.7	-9.3	-8.7	-8.0	-7.5	-6.5	
Working capital	-10.6	-12.4	-12.3	-6.7	-4.8	-5.6	-8.2	-3.6	-3.3	-4.1	
Other	0.0	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	
FCF	**-11.7**	**-1.3**	**2.7**	**11.0**	**15.0**	**14.5**	**13.5**	**19.4**	**20.1**	**19.5**	**19.9**
WACC	*10.2%*	*10.2%*	*10.2%*	*10.2%*	*10.2%*	*10.2%*	*10.2%*	*10.2%*	*10.2%*	*10.2%*	*11.3%*
discount factor	*93.7%*	*85.0%*	*77.1%*	*70.0%*	*63.5%*	*57.6%*	*52.3%*	*47.4%*	*43.0%*	*39.0%*	*35.1%*
PV FCF	-11.0	-1.1	2.1	7.7	9.6	8.4	7.1	9.2	8.6	7.6	83.5

	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2018+
WACC	***10.2%***	***10.2%***	***10.2%***	***10.2%***	***10.2%***	***10.2%***	***10.2%***	***10.2%***	***10.2%***	***10.2%***	***11.3%***
Cost of debt	*7.3%*	*7.3%*	*7.3%*	*7.3%*	*7.3%*	*7.3%*	*7.3%*	*7.3%*	*7.3%*	*7.3%*	*7.3%*
Risk-free rate	*6.3%*	*6.3%*	*6.3%*	*6.3%*	*6.3%*	*6.3%*	*6.3%*	*6.3%*	*6.3%*	*6.3%*	*6.3%*
Risk premium	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
Effective tax rate	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*0.0%*
Net debt / EV	*20.1%*	*20.1%*	*20.1%*	*20.1%*	*20.1%*	*20.1%*	*20.1%*	*20.1%*	*20.1%*	*20.1%*	*0.0%*
Cost of equity	*11.3%*	*11.3%*	*11.3%*	*11.3%*	*11.3%*	*11.3%*	*11.3%*	*11.3%*	*11.3%*	*11.3%*	*11.3%*
Risk premium	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Beta	1.0	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	*2.0%*
Terminal value	213.8
Present value of the terminal value (PV TV)	83.5
Present value of FCF in the forecast horizon	48.1
Equity value (EV)	131.6
Net debt	31.1
Other non-operating assets	0.0
Minority interests	11.6
Goodwill	88.8
Number of shares (millions)	8.2
Equity value per share (PLN)	**10.8**
Cost of equity (9M)	*8.5%*
Target Price	**11.8**

Sensitivity analysis

	FCF growth in perpetuity				
	0.0%	**1.0%**	**2.0%**	**3.0%**	**4.0%**
WACC+1.0pp	7.9	8.6	9.4	10.4	11.6
WACC+0.5pp	8.8	9.6	10.5	11.7	13.1
WACC	9.8	10.7	**11.8**	13.1	14.8
WACC -0.5pp	10.9	11.9	13.1	14.7	16.7
WACC -1.0pp	12.1	13.3	14.7	16.6	19.0

Income Statement

(PLN m)	2007	2008	2009F	2010F	2011F	2012F
Revenue	**519.3**	**757.9**	**855.2**	**995.4**	**1 167.3**	**1 306.4**
change	*53.5%*	*45.9%*	*12.8%*	*16.4%*	*17.3%*	*11.9%*
Cost of sales	456.5	657.3	748.8	867.4	1 018.5	1 141.4
Gross profit	62.9	100.6	106.5	128.0	148.8	165.0
Gross profit margin	*12.1%*	*13.3%*	*12.4%*	*12.9%*	*12.7%*	*12.6%*
Selling costs	37.2	63.7	70.7	80.7	92.5	102.4
General and administrative expenses	11.1	23.6	24.9	26.7	30.6	33.7
Other net operating profit	-1.1	-3.1	-2.8	-2.6	-2.4	-2.1
EBIT	**13.5**	**10.2**	**8.0**	**17.9**	**23.3**	**26.7**
change	*19.2%*	*-24.3%*	*-21.2%*	*123.1%*	*30.0%*	*14.5%*
EBIT margin	*2.6%*	*1.3%*	*0.9%*	*1.8%*	*2.0%*	*2.0%*
Profit on financing activity	-0.4	-4.0	-3.2	-4.5	-4.7	-4.6
Extraordinary gains/losses	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax income	**13.1**	**6.2**	**4.9**	**13.4**	**18.6**	**22.1**
Tax	2.8	2.8	0.9	2.5	3.5	4.2
Minority interests	0.0	-2.3	-1.1	0.9	1.0	1.2
Net income	**10.3**	**5.6**	**5.1**	**9.9**	**14.0**	**16.7**
change	*18.6%*	*-45.4%*	*-9.7%*	*95.2%*	*41.3%*	*19.0%*
margin	*2.0%*	*0.7%*	*0.6%*	*1.0%*	*1.2%*	*1.3%*
Amortization and depreciation	1.7	5.2	5.7	5.8	5.9	6.0
EBITDA	**15.2**	**15.4**	**13.7**	**23.7**	**29.2**	**32.7**
change	*24.9%*	*0.9%*	*-10.6%*	*72.7%*	*23.1%*	*11.9%*
EBITDA margin	*2.9%*	*2.0%*	*1.6%*	*2.4%*	*2.5%*	*2.5%*
Shares at year-end (millions)	7.5	8.2	8.2	8.2	8.2	8.2
EPS	1.4	0.7	0.6	1.2	1.7	2.0
CEPS	1.6	1.3	1.3	1.9	2.4	2.8

Balance Sheet

(PLN m)	2007	2008	2009F	2010F	2011F	2012F
ASSETS	**183.5**	**332.9**	**354.4**	**384.5**	**424.0**	**453.9**
Fixed assets	**29.5**	**120.7**	**128.3**	**131.8**	**135.6**	**139.5**
Property, plant and equipment	23.0	42.4	46.2	47.9	49.9	51.8
Intangible assets	5.2	13.2	17.0	18.8	20.7	22.6
Other fixed assets	1.3	65.1	65.1	65.1	65.1	65.1
Current assets	**154.0**	**212.2**	**226.2**	**252.7**	**288.3**	**314.4**
Inventories	33.7	58.8	67.7	80.8	94.9	103.2
Short-term receivables	72.6	93.2	112.5	130.9	153.5	171.8
Cash and cash equivalents	40.1	28.6	14.3	9.3	8.2	7.7
Other current assets	7.7	31.7	31.7	31.7	31.7	31.7

(PLN m)	2007	2008	2009F	2010F	2011F	2012F
LIABILITIES	**183.5**	**332.9**	**354.4**	**384.5**	**424.0**	**453.9**
EQUITY	**86.8**	**138.2**	**142.1**	**153.0**	**168.0**	**183.1**
Share capital	0.7	0.8	0.8	0.8	0.8	0.8
Other equity	86.0	137.3	141.3	152.1	167.2	182.3
Long-term liabilities	**4.0**	**10.2**	**35.2**	**35.2**	**35.2**	**35.2**
Reserves	1.2	2.8	2.8	2.8	2.8	2.8
Debt	2.5	1.3	26.3	26.3	26.3	26.3
Other	0.0	0.3	6.1	6.1	6.1	6.1
Short-term liabilities	**92.8**	**184.5**	**177.1**	**196.3**	**220.7**	**235.6**
Reserves	0.0	0.0	0.0	0.0	0.0	0.0
Debt	5.8	33.4	33.4	33.4	33.4	28.4
Trade creditors	71.1	103.5	121.0	140.2	164.6	184.5
Other	15.9	47.7	22.7	22.7	22.7	22.7
Debt	8.3	34.7	59.7	59.7	59.7	54.7
Net debt	-31.8	6.1	45.4	50.4	51.5	47.0
(Net debt / Equity)	*-36.7%*	*4.4%*	*31.9%*	*32.9%*	*30.6%*	*25.7%*
(Net debt / EBITDA)	*-209.0%*	*40.0%*	*330.6%*	*212.4%*	*176.2%*	*143.8%*
Shares at year-end (millions)	7.5	8.2	8.2	8.2	8.2	8.2
BVPS	11.6	16.9	17.3	18.7	20.5	22.3

Cash Flows

(PLN m)	2007	2008	2009F	2010F	2011F	2012F
Cash flows from operating activities	**-18.3**	**0.8**	**2.2**	**8.8**	**13.4**	**21.7**
Net income	10.3	5.6	5.1	9.9	14.0	16.7
Amortization and depreciation	1.7	5.2	5.7	5.8	5.9	6.0
Working capital	-39.9	-11.7	-10.6	-12.4	-12.3	-6.7
Other	9.5	1.8	2.0	5.5	5.7	5.8
Cash flows from investing activities	**-12.7**	**-93.2**	**-13.3**	**-9.3**	**-9.8**	**-9.8**
CAPEX	0.0	0.0	0.0	0.0	0.0	0.0
Capital investments	-1.1	-69.7	0.0	0.0	0.0	0.0
Other	-11.6	-23.5	-13.3	-9.3	-9.8	-9.8
Cash flows from financing activities	**55.5**	**80.9**	**-3.2**	**-4.5**	**-4.7**	**-12.5**
Stock offering	52.9	67.4	0.0	0.0	0.0	0.0
Debt	3.4	26.4	25.0	0.0	0.0	-5.0
Dividend (buy-back)	-0.5	0.0	0.0	0.0	0.0	-2.8
Other	-0.3	-12.9	-28.2	-4.5	-4.7	-4.6
Change in cash	**24.4**	**-11.5**	**-14.3**	**-5.0**	**-1.1**	**-0.6**
Cash at the end of period	40.1	28.6	14.3	9.3	8.2	7.7

Market multiples

	2007	2008	2009F	2010F	2011F	2012F
P/E	8.6	17.3	19.1	9.8	6.9	5.8
P/CE	7.3	9.0	9.0	6.2	4.9	4.3
P/BV	1.0	0.7	0.7	0.6	0.6	0.5
MC/S	0.2	0.1	0.1	0.1	0.1	0.1
EV/EBITDA	3.7	7.5	11.2	6.7	5.5	4.8
EV/EBIT	4.2	11.3	19.2	8.9	6.9	5.8
EV/S	0.1	0.2	0.2	0.2	0.1	0.1
Price (PLN)	11.9	0.0	0.0	0.0	0.0	0.0
Shares at year-end	7.5	8.2	8.2	8.2	8.2	8.2
MC (PLN m)	88.5	0.0	0.0	0.0	0.0	0.0
Net debt	-31.8	6.1	45.4	50.4	51.5	47.0
Minority interests	0.0	-2.3	-1.1	0.9	1.0	1.2
EV (PLN m)	56.7	3.9	44.3	51.3	52.5	48.2

Michał Marczak tel. (+48 22) 697 47 38
Managing Director
Head of Research
michal.marczak@dibre.com.pl
Strategy, Telco, Mining, Metals, Media

Research Department:

Marta Jeżewska tel. (+48 22) 697 47 37
Deputy Director
marta.jezewska@dibre.com.pl
Banks

Analysts:

Kamil Kliszcz tel. (+48 22) 697 47 06
kamil.kliszcz@dibre.com.pl
Fuels, Chemicals, Retail

Piotr Grzybowski tel. (+48 22) 697 47 17
piotr.grzybowski@dibre.com.pl
IT, Media

Maciej Stokłosa tel. (+48 22) 697 47 41
maciej.stoklosa@dibre.com.pl
Construction, Developers

Sales and Trading:

Piotr Dudziński tel. (+48 22) 697 48 22
Director
piotr.dudzinski@dibre.com.pl

Marzena Łempicka-Wilim tel. (+48 22) 697 48 95
Deputy Director
marzena.lempicka@dibre.com.pl

Traders:

Emil Onyszczuk tel. (+48 22) 697 49 63
emil.onyszczuk@dibre.com.pl

Grzegorz Stępien tel. (+48 22) 697 48 62
grzegorz.stepien@dibre.com.pl

Tomasz Dudź tel. (+48 22) 697 49 68
tomasz.dudz@dibre.com.pl

Michał Jakubowski tel. (+48 22) 697 47 44
michal.jakubowski@dibre.com.pl

Tomasz Jakubiec tel. (+48 22) 697 47 31
tomasz.jakubiec@dibre.com.pl

Grzegorz Strublewski tel. (+48 22) 697 48 76
grzegorz.strublewski@dibre.com.pl

"Private Broker"

Jacek Szczepański tel. (+48 22) 697 48 26
Director
jacek.szczepanski@dibre.com.pl

Paweł Szczepanik tel. (+48 22) 697 49 47
Sales
pawel.szczepanik@dibre.com.pl

Dom Inwestycyjny
BRE Banku S.A.
ul. Wspólna 47/49
00-950 Warszawa
www.dibre.com.pl

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%
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Previous recommendations issued for Komputronik

Rating	Buy	Accumulate
Date issued	2008-08-18	2008-12-02
Price on rating day	29.00	11.50
WIG on rating day	40903.46	26604.96