Friday, March 04, 2016 | periodic report

Monthly Report: March 2016

Equity Market, Macroeconomics

Equity Market

The Polish stock market will continue to benefit from rising oil prices and improved sentiment to emerging markets in the short term, but in the medium term it is poised to experience high volatility as a string of largely negative economic data is poised for release in the second quarter.

Sector Outlook

Financial Sector

Updates on the planned conversion of CHF mortgage loans into zlotys are going to weigh on the Polish bank sector in March. On the upside, in the month ahead we expect to see a strong 2015 earnings release from the insurer PZU, and we anticipate improved sentiment toward regional banks.

Gas & Oil

The continuing downward pressure on cracking margins so far finds no reflection whatsoever in the share price of PKN Orlen which, to boot, is facing a squeeze on petrochemical margins as oil prices turn higher. MOL and PGNiG are good alternatives for the month ahead.

Energy

The dismissal last month of the CEO of the state coal miner Kompania Węglowa may be a sign that the government has had a change of heart as regards its restructuring plan for the coal industry and the degree to which state power companies (PGE, ENA) should be involved in this process. Our top pick for March is Energa, expected to offer generous dividends.

Telecoms, Media, IT

Our top pick in the media sector is Orange Polska. Rising advertising expenses should also provide upside to the shares of Agora and Wirtualna Polska. In IT we prefer Asseco Business Solutions, whose 2016 backlog is 10% higher than last year, and which is offering 6.5% dividend yield.

Industrials

The 2015 fourth-quarter earnings season in the Industrials sector is expected to witness strong year-over-year growth at Berling, Elemental Holding, Feerum, Forte, Grupa Azoty, Oponeo, Pozbud, and Uniwheels. On the other hand we anticipate worsened profits at Boryszew, Synthos, and PKM Duda. Our top industrial picks for March are Alumetal, Amica, Elemental, Kernel, and UNIWHEELS. We would avoid Alchemia, Boryszew, Patentus, and PGO.

Construction

As delays in public tenders continue, we would avoid railroad builders like Trakcja, Torpol, and ZUE in March. In turn Erbud, Unibep, Elektrobudowa, Herkules, and Elektrotim are all trading at attractive multiples (P/E~10, EV/EBITDA~6x).

Property Developers

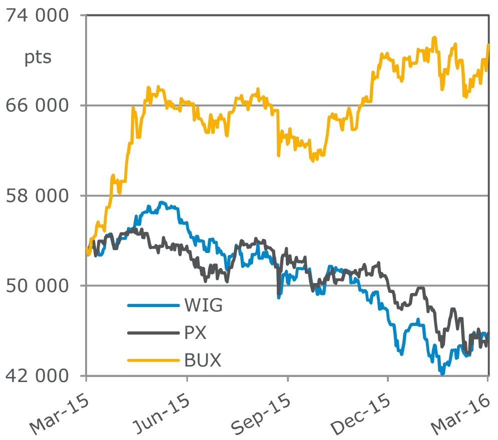
The recent sale of a commercial property portfolio by Echo Investment confirmed that yields in Poland are narrowing. At the same residential developers are selling more homes this year than last, putting an end to concerns over a housing slowdown in Poland. We are overweight developers.

Retail

The finalization of the planned retail tax legislation is likely to worsen sentiment in the retail sector in March. Our top growth stories in the sector are Jeronimo Martins and AmRest.

WIG	46,448
Average 2015E P/E	13.9
Average 2016E P/E	12.7
Avg. daily trading volume (3M)	PLN 749m

WIG vs. CEE indices



Rating Changes

Company	Rating	Change
BZ WBK	Accumulate	▼
CCC	Hold	▼
ENERGA	Buy	▲
HANDLOWY	Hold	▼
ING BSK	Hold	▼
KOMERCNI BANKA	Accumulate	▲
KOPEX	Suspended	▶
KRUK	Hold	▼
PEKAO	Sell	▼
PKN ORLEN	Reduce	▼

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Equity Market

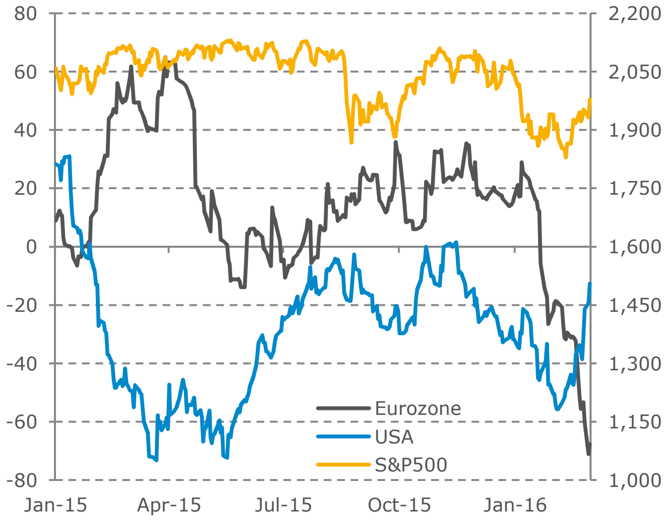
World stock markets continued their upward climb in February in sync with oil prices. In the time since we published our 2016 Investment Strategy at the beginning of February, we have witnessed surprisingly upbeat economic data from the US countered by disappointing data coming from the Euro Area, and we have seen China continue to ease its monetary policy (with the reserve requirement ratio cut again, and the Manufacturing PMI for February down to 48 points). This bolstered expectations of a rate hike by the US Fed and intensified the pressure on the ECB to expand QE. As commodity prices rebound, investors are seeing reduced risk of the commodity crisis spreading onto other sectors, and if the upturn, especially in oil, continues, this could change our negative market outlook in the next few months. With that said, looking at the persistent global economic weakness, for the time being we consider the current increases in S&P500/DAX to be an upward correction from the previous lows, with the S&P500 through June expected to test the 1700 level. The upward correction in anticipation of central bank actions may extend into the better part of March. Given the level of expectations, the policy announcement after the next ECB meeting may be a source of great disappointment for the markets.

In Poland, the equity market as well is benefitting from the oil price shift and the general improvement in sentiment toward emerging markets. Also helping is the relative calm we are experiencing today after months of political media frenzy spurred by intense policy activity on the part of the new government. From what we could gather during our interactions recently with a number of foreign investors, the concerns abroad about Poland plotting to dismantle pension funds, and about the government's plans with respect to state companies, which completely ignore the interests of minority shareholders, are still very much a reality. Looking at the decelerating manufacturing activity in Germany, the Polish government may be facing a budget gap next year in light of its far-reaching welfare spending agenda, and the easiest way to fill the hole would be to take money from the pension funds. With all this in mind, the Polish stock market is poised for continued heightened volatility in the weeks ahead as the second quarter of 2016 is bracing for what we expect to be a string of rather negative data, and this may prompt investors to heed the old saying of 'sell in May and go away.'

A Mixed Bag of Data

We have witnessed a mixed bag of economic data over the recent weeks, with the US data (especially when it comes to housing, jobs, and manufacturing) coming in stronger than expected, reinforcing expectations of a rate raise by the Fed (the odds of the next hike are put at 19% for April, 35% for June, 38% for July, 50% for September, and 64% for December), and the Eurozone lagging- as well as leading indicators missing economists' forecasts, resulting in raised expectations of further QE expansion on the part of the ECB.

Citi Economic Surprise Index, US and Eurozone vs. S&P 500



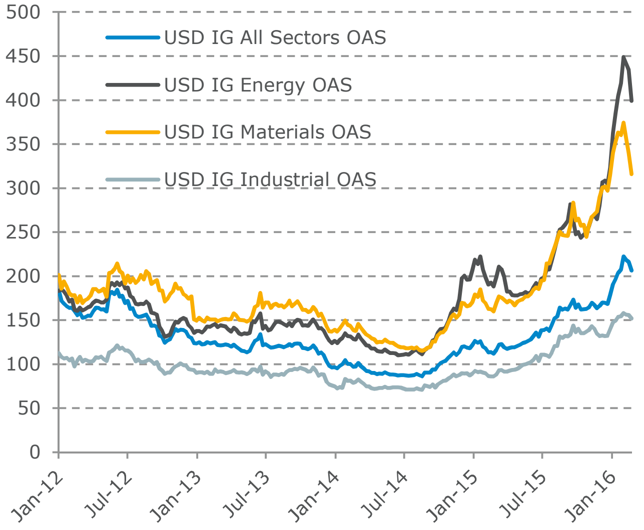
Source: Bloomberg

The key German sentiment indicators, PMI Manufacturing and the Ifo business climate index, both indicated contraction in February. Moreover, the Commerzbank 'Early Bird' indicator, comprising monetary policy, the global economy, and forex market developments, (PMI Global is barely above the 50pt mark) has been on a downward trend for a year now. Historically, the Early Bird foretells the momentum in the German economy several months ahead. All in all, this year's GDP growth in Germany and the whole Euro Area may fall short of the currently forecast respective rates of 1.8% and 1.6%. In fact, Commerzbank economists have gone as far as putting the growth at just 1.3% for both. This tells us that we are in for a year of downward revisions when it comes to economic growth in Europe, and consequently forecast cuts for company earnings. In addition, in our view the investors who are anticipating far-reaching action from the ECB as soon as in March are in for a grave disappointment. According to some analysts, there are legal arguments against any further increase in asset purchases. At the same time, ECB President Draghi during the last policy meeting said the bank still had a variety of tools at its disposal to stimulate growth.

Energy & Commodities Still Cast a Shadow

The upward shift in recent weeks in the prices of oil and other commodities has spurred an upturn in energy and materials stocks which in our view is driven mainly by investors unwinding their short positions in the sector. In actuality, the sector still has months of strong turbulence ahead given that miners are not seeing any actual improvement in their financial standing. Moody's in its latest research is warning of a 30% surge this year in global corporate defaults, suggesting that the energy crisis is about to spill over into other commodity-based sectors. In 2015 the number of bankruptcies doubled, with the total default estimated at $97.9bn, the highest level since 2009. 32% of the defaults came from gas, oil, and energy companies, and 14% were in the mining sector. The biggest failures of last year included the US coal producers Alpha Natural Resources ($4.5bn) and Walter Energy ($3.7bn), the Indonesian coal miner Berau Coal ($950m), the Swiss-based Ukrainian iron ore producer Ferrexpo ($500m), and the rare earth materials producer Molycorp ($1.45bn). Going forward, the access to credit for energy companies and miners is likely to become even more restricted this year as rating agencies threaten to downgrade debt amid persistently low materials prices and weakening global growth. Moody's puts the 2016 default rate in commodity-based sectors at 8-9%, representing a level higher than in 2015 and 2-3x over the historical averages. For comparison, in 2009 the default rate in commodities was 9.4% following two years of zero bankruptcies as a sharp fall followed by a quick rebound in prices saved producers and their suppliers from defaulting. Today, the prices have been trading much lower for much longer than seven years ago.

Option adjusted spreads of US investment grade bonds



Source: Bloomberg

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Sector Outlook for March

Financial Sector

- As the proposed CHF mortgage conversion legislation makes its way to the Parliament, sentiment to Polish banks is set to remain subdued in March.
- On a positive note, the sector is expected to generate expanding net interest margins in 2016 while provisioning and operating costs remain under tight control.
- After the ytd price declines, we anticipate a shift in sentiment to CEE banks (Erste Bank, RBI, OTP Bank, KB), supported by optimistic 2016 guidance.
- For March we are overweight Komercni Banka (accumulate) and underweight Pekao (sell); both banks are leaders in their countries, and both have high liquidity ratios and offer high dividends, however KB is currently valued at a wide discount to its Polish peer even though its operating risk exposure is much lower.
- We are downgrading Kruk to hold after the February price spike.
- Key ratings: Erste Bank (buy), PZU (buy), Pekao (sell).

Gas & Oil

- Refinery margins are under downward pressure from the lingering global oil glut (underpinned by increased shipments from China, weakening demand, and rising production as facilities come back out of maintenance), combined with a rebound in crude oil prices which drives up internal fuel costs. The rising price of crude is also putting a squeeze on petrochemical margins. We stand by our prediction that the price of Brent crude will average $50/bbl this year.
- In the current macroeconomic setting, we would consider increasing allocations to companies benefitting from a positive correlation to oil prices: PGNiG and MOL, which in addition are both set to deliver positive dividend surprises in our view. We would be more wary of PKN Orlen whose shares have staged an upturn recently in complete contradiction to the downward trend observed in cracking margins.

Chemicals

- In the soda ash industry, the market trends in the month ahead will be shaped by China, which continues to monthly increase exports at a rate of 20% compared to last year. For Ciech, the resulting downward pressure on prices is likely to weigh on spot market sales as well as potentially on the margins on 2017 deliveries. With this in mind, we would not view the recent fall in the CIE stock price as buy opportunity.
- The fertilizer producer Grupa Azoty is expected to report strong financial results for Q4 2015 on 11 March. The synthetic rubber producer Synthos, which is announcing Q4 results on 7 March, is likely to offer a PLN 0.25 per-share dividend payout this year, but on the downside it will probably be removed from the WIG20 index after the 18 March review.

Energy

- CEE electricity prices have been trading at low but stable levels in recent weeks, kept down by a warm winter (the upturn in oil prices has not affected either coal or natural gas). Polish 1-year contracts are currently priced close to PLN 153/MWh – a level equivalent to the average effective sales price expected to be realized this year by vertically-integrated producers after the recent fall in emission allowances.
- The Polish power sector sharply underperformed the broad market in February due to statements by government officials suggesting a change of dividend policy at state companies, and hinting that power producers will be made to help bail out the coal industry after all. The risk that the government will yield to coal mine union demands is real in our view, and until concrete decisions are made we would keep clear of PGE and ENA. ENG, with its capacity to deliver an upside dividend surprise this year, remains our top pick in the power sector.

Telecoms, Media, IT

- Polish telecoms are planning considerable investment in infrastructure in the next few years. Orange Polska wants to reach 3.5 million households via FTTH by 2018, Netia wants to cover 2.55 million households via NGA by the end of 2020, and Cyfrowy Polsat has allocated PLN 1bn (capped at 10% of revenues) on 1800 MHz network expansion.
- As for dividends, Orange is offering DPS of PLN 0.25 this year, Netia has cut this year's distribution to PLN 0.20 per share (but it wants to make up for the cash cut with a share buyback), and Cyfrowy has announced it would definitely be paying its first dividend this year in an as-yet unknown amount. The dividend yields are 4.3% Orange vs. 4.1% Netia. Our valuation o Netia is based on its fixed -line-based business profile.
- As P4, Orange Polska, and T-Mobile expand their LTE reach, Cyfrowy faces intensified competition in mobile broadband in regional and rural areas which could result in missed earnings forecasts in the coming years.
- For this reason, we rate Cyfrowy lower than Orange.
- In the media sector, a recovery in global advertising expenditures is expected to give upside to Polish companies in March. We have positive views on Agora and Wirtualna Polska.
- In IT we prefer Asseco Business Solutions whose 2016 backlog is 10% higher than last year, and which is offering 6.5% dividend yield.
- CD Projekt is set to report good Q4 2015 earnings and unveil an updated strategy plan in March, which is likely to be a source of upside.

Industrials

- Our Q4 2015 earnings estimates for the industrial sector put the percentage of companies likely to report year-over-year growth in the period at 47%, with the ratio of companies experiencing a slowdown at an estimated 35%, marking improvement from the previous quarter. The 2015 fourth-quarter earnings season in the Industrials sector is expected to witness strong year-over -year growth at Berling, Elemental Holding, Feerum, Forte, Grupa Azoty, Oponeo, Pozbud, and Uniwheels. On the other hand we anticipate worsened profits at Boryszew, Synthos, and PKM Duda.
- Polish manufacturers exporting to the EU are benefitting from a weak zloty vs. the euro.
- Our top industrial picks for March are AML, AMC, EMT, KER, and UNI. We would avoid ALC, BRS, PAT, and PGO.
- The mining machinery maker Famur in the near term is poised to capitalize on the financial woes of its main local rival Kopex.

- The metals recycler Elemental is expected to deliver strong results for Q4 2015, and the steel constructor Vistal is likely to report a higher-than-expected backlog for 2016.
- Top Picks: Elemental Holding (buy), Kernel (accumulate), UNIWHEELS (buy).

Construction

- Order acquisition in the Polish building sector has been sluggish recently. Road and railroad builders are poised to see more bidding opportunities after June.
- Budimex, Herkules, and Elektrotim reported better-than-expected earnings results for 2015, but the potential for upside surprises in the releases coming in March from the remaining companies is low in our view.
- We see the most upside potential in Erbud (2016E P/E=9.7x, EV/EBITDA=4.7x) and in Unibep and Elektrobudowa (P/E~10-11x, EV/EBITDA~6x).

Property Developers

- The spectacular sale by Echo Investment of its entire commercial property portfolio for EUR 1.2bn in February (12.4% over the book value) has set a new benchmark for the rest of the sector. The current NOI of the Echo portfolio is EUR 75m, implying a yield of 6.3%.
- Contrary to concerns, the first two months of the year have been strong for residential developers in terms of sales.
- We are overweight developers and we have buy ratings for Robyg, Dom Development, and GTC, and accumulate ratings for Echo Investment and Capital Park.

Retail

- The expected finalization of the retail tax legislation in March is going to dampen sentiment to the sector.
- Fashion and footwear retailers are experiencing margin contraction under pressure from a high USDPLN exchange rate, and in the year ahead they also face upward pressure on salaries and a possible increase in SG&A expenses as euro-denominated retail space rental rates increase in line with the rising exchange rate.
- The restaurant operator AmRest is expected to post another strong quarter for Q4 2015 on 11 March.
- At Jeronimo Martins, the outlook for 2016 is strong thanks to increasing consumer spending and decelerating deflation in Poland.
- We are downgrading CCC from buy to hold after its stock price reached our target in February.
- Key ratings: AmRest, Jeronimo Martins.

Macroeconomics

GDP

The annual GDP growth rate in Q4 2015 amounted to 3.9% according to a flash estimate, with seasonally adjusted quarterly growth accelerating to 1.1%.

With the detailed data not yet available, we maintain our guess that personal consumption in the fourth quarter was probably flat, while public spending accelerated to a record 4%. Investment relative to the third quarter will have risen by 5% at best. Inventories made a considerable positive contribution to the quarterly GDP (after rising by ca. 0.2ppt from a low year-ago base), while net exports made a negative contribution of about -0.3ppt.

The economic policy of the new government has reinforced the role of domestic factors as GDP drivers, though at the same time the structure of exports remains healthy. It is worth noting that as a country with a high share of domestic value added in exports and relatively low private FX debt, Poland has been a net beneficiary of a weakened zloty which should help maintain a positive trade balance even if imports increase in 2016.

The fourth-quarter GDP data is not likely to change the outlook of the Monetary Policy Council. On the other hand, the solid domestically-driven growth should be welcomed by the financial markets as a factor diminishing Poland's credit risk. There are signs that political and fiscal risks as well are on track to be minimized as well, including statements suggesting the softening of the presidential FX loan bill and the entry into force of stricter VAT collection regulation set for July. This means that, barring an escalation in global risks, the government has realistic prospects for achieving its future budget targets. In light of this, the current yield curve is probably too steep and long-term bonds are too expensive.

Inflation

The CPI posted an 0.7% y/y fall in January, indicating a slight acceleration in the deflation rate. The flash estimate does not provide specifics, but we can guess that the core CPI was close to zero. The drivers behind the falling inflation rate included lower prices of fuels and household utilities, as well as a dip in the prices of medications. Interestingly, the inflation rate hit a new local low in January despite a slightly stronger uptick in food prices (1% m/m).

Price trends are not likely to have shifted in February, but the inflation rate is expected to start recovering slowly in the following months, to enter the positive territory around September, and reach levels of 1.5-2.0% at the end of the year.

Job Market

The average monthly salary in Poland was 4% higher in January 2016 than in the same month last year, topping market forecasts. With details not provided, out best guess as to what caused the upside surprise are higher-than-expected pay hikes in either manufacturing or construction (the latter has erratic seasonal patterns and could easily repeat last year’s jump). Regardless of the reason, the January growth is consistent with the recent trend, which is likely to steepen in the months ahead as labor market tightening begins to bite as a result of demographic changes and the negative impact of the new child benefits on labor supply (especially in the lowest decile of the wage income distribution). As a result, wage growth will accelerate to 5% this year.

The January job data came as a major surprise, showing a spike in employment of a staggering 2.3% on annual basis, well ahead of forecasts. Unfortunately, the acceleration has little to do with actual hiring and almost everything to do with the annual resampling done by the Central Statistics Office. While the impact of this procedure on the employment statistics is positively correlated with net job growth over the previous year, the relationship is not precise enough to make accurate forecasts. The unemployment rate remains the better gauge of labor market trends metric for now, and so far it has been on a steady decline.

The string in the last few months of stellar labor market data should of course be assessed positively. The wage bill is increasing at an annual rate of 7.2% (in constant prices), and even though the aforementioned statistical issues are biasing this measure upwards, this does not change the fact that a rising household income is having positive effects on personal consumption, which is about to receive an extra boost from the PLN 500-a-child family benefits, potentially reaching 4% growth by the end of the year. Poland's measured economic growth, accompanied by an improving labor market, sends a positive message to financial markets, as well as providing a rationale for lower credit risk premiums in Polish assets.

Industrial Production

Polish industrial production decelerated to an annual pace of 1.4% in January from 6.7% in December, and it fell short of consensus expectations due to one fewer working day and normalization of orders from the Polish railways. On a seasonally adjusted basis, the January manufacturing growth amounted to 3.3%, indicating a sustained momentum.

Output in January increased in 21 out of 34 sectors, driven mostly by export orders. In the months ahead the growth in exports-driven industrial output should continue, supported by strong demand and a weak zloty. Though German auto production has slowed as the VW scandal casts a shadow, February production could still show an annual growth rate as high as 7% thanks to working-day effects.

Construction

Construction output fell 8.6% y/y in January, much more than anticipated by the market (-3.9%) and closer to our forecast of -5.4%. We caution not to overinterpret this figure – the typical range of variation of January output growth is very large and has an outsized impact on annual growth figures (1 pp. of m/m growth translates into more than 3 pp. of y/y growth). The monthly growth rates, even though they are correlated with weather and calendar effects (both negative), should be treated as largely random. Even the seasonally-adjusted figure indicating monthly contraction of 4.8% m/m might be an exaggeration of the actual weakness in construction, though on the other hand we would be wary of expecting too much in the year ahead given the cuts in the infrastructure budgets of local governments and the slowdown observed in office and retail investment. Against this backdrop, the strong growth seen in road construction and residential investment is merely a compensatory mechanism.

Retail Sales

Retail sales were another disappointing January metric, showing a rise of just 0.9% on the year, much lower than the 3% growth expected by the market. The downside surprise was driven by falling sales of cars (showing a deceleration from 16.7% to 2.2% stemming from negative base and working-day effects), fuels, and printed publications. In keeping with previous months' trends, food and supermarket sales went in completely opposite directions, with the former reducing its annual falls from 5.9 to 3.2%, and the latter staging a sharp downturn from 31.8% to -0.6%. Due to structural changes in the sector, the two categories are now notoriously difficult to predict. On a positive note, most durable goods categories showed no signs of slowdown in January. Thus, our view that consumer demand this year will accelerate to an annual rate of 4%, driven by elevated household income, remains unchanged.

PPI

Producer prices posted an annual decline of 1.2% in January, exceeding the 0.8% falls expected by the market, and compared to December the PPI also registered a slippage of 0.5%. The accelerated price falls last month were driven mainly by mining, with manufacturing adding to the trend after significant drops in the prices of coke and petroleum products. The January data indicates that contrary to hopes the PPI deflation will not be reversed by the end of March after all.

In our view Polish GDP growth in the first quarter of 2016 may show a small deceleration from the 3.9% posted in Q4 2015 as fiscal stimulus, with potential to add as much as 1% to our economic growth, will have not fully kicked in yet by the end of March. Nevertheless the sustained solid momentum should keep credit risk worries at bay while reducing the downward pressure on the zloty. Coupled with low (negative) interest rates globally, this should lead to lower yields on Polish 10Y bonds.

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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										
ALIOR BANK	Buy	2016-02-02	60.20	82.96	61.22	+35.5%	13.6	12.8		
BZ WBK	Accumulate	2016-03-04	297.50	305.10	297.50	+2.6%	12.6	13.6		
GETIN NOBLE BANK	Buy	2016-02-02	0.46	0.96	0.57	+68.4%	10.1	14.5		
HANDLOWY	Hold	2016-03-04	84.41	81.97	84.41	-2.9%	18.4	18.6		
ING BSK	Hold	2016-03-04	121.45	119.38	121.45	-1.7%	14.6	16.6		
MILLENNIUM	Buy	2016-02-02	5.20	7.00	5.89	+18.8%	12.9	13.1		
PEKAO	Sell	2016-03-04	156.70	127.42	156.70	-18.7%	18.1	20.0		
PKO BP	Buy	2016-02-02	24.84	31.62	25.59	+23.6%	12.8	11.1		
KOMERCNI BANKA	Accumulate	2016-03-04	4942	5428 CZK	4942	+9.8%	14.1	15.3		
ERSTE BANK	Buy	2016-02-02	26.17	32.34 EUR	24.00	+34.8%	10.3	9.0		
RBI	Buy	2016-02-02	11.32	17.14 EUR	12.79	+34.1%	9.8	13.9		
OTP BANK	Accumulate	2016-02-02	6155	6487 HUF	6195	+4.7%	29.0	9.5		
Insurance										
PZU	Buy	2016-02-02	32.33	42.44	34.60	+22.7%	14.4	12.7		
Financial services										
KRUK	Hold	2016-03-04	187.50	185.12	187.50	-1.3%	16.7	14.4		
PRIME CAR MANAGEMENT	Buy	2016-02-02	35.10	46.76	35.90	+30.3%	11.0	9.9		
SKARBIEC HOLDING	Buy	2016-02-02	27.00	42.20	31.80	+32.7%	14.2	8.3		
Fuels, chemicals										
CIECH	Hold	2016-02-02	80.00	77.20	73.65	+4.8%	13.3	8.8	7.0	5.9
GRUPA AZOTY	Hold	2016-02-02	104.00	100.20	93.72	+6.9%	17.4	12.5	8.7	7.0
LOTOS	Accumulate	2016-02-02	25.63	29.20	26.40	+10.6%	-	7.6	9.3	4.8
MOL	Buy	2016-02-02	198.00	236.75	207.50	+14.1%	-	10.6	3.8	4.0
PGNiG	Hold	2016-02-02	5.04	5.30	5.02	+5.6%	13.9	14.1	4.9	5.7
PKN ORLEN	Reduce	2016-03-04	64.73	60.40	64.73	-6.7%	9.8		5.9	
POLWAX	Buy	2016-02-02	15.70	24.30	16.90	+43.8%	7.2	7.1	5.9	5.8
SYNTHOS	Hold	2016-02-02	3.96	3.79	4.11	-7.8%	12.8	15.0	10.1	10.0
Power Utilities										
CEZ	Buy	2016-02-02	65.00	86.30	60.41	+42.9%	8.0	9.7	5.4	5.6
ENEA	Hold	2016-02-02	11.50	12.40	11.36	+9.2%	5.1	7.9	4.9	5.3
ENERGA	Buy	2016-03-04	13.11	15.20	13.11	+15.9%	6.3	8.0	4.3	5.1
PGE	Hold	2016-02-02	13.55	14.60	13.04	+12.0%	-	7.4	3.3	4.3
TAURON	Buy	2016-02-02	2.71	3.78	2.60	+45.4%	3.6	4.9	3.4	4.3
Telecommunications										
NETIA	Accumulate	2016-02-02	5.56	6.30	4.60	+37.0%	171.6	-	4.0	4.1
ORANGE POLSKA	Buy	2016-02-02	6.43	8.30	6.08	+36.5%	32.4	32.1	3.4	4.3
Media										
AGORA	Buy	2016-02-02	11.45	14.10	11.60	+21.6%	41.4	40.0	5.2	5.5
CYFROWY POLSAT	Hold	2016-02-02	21.99	22.10	23.75	-6.9%	12.8	12.4	7.2	7.0
WIRTUALNA POLSKA	Buy	2016-01-28	36.37	50.00	39.51	+26.6%	97.6	14.3	14.4	10.1
IT										
ASSECO POLAND	Buy	2016-02-02	56.50	65.90	58.35	+12.9%	13.6	13.2	7.2	6.8
CD PROJEKT	Buy	2016-02-02	23.09	26.50	24.00	+10.4%	6.5	20.3	4.5	12.9
COMARCH	Suspended	2013-03-11	89.60	-	126.45	-	-	-	-	-
SYGNITY	Suspended	2013-02-05	16.80	-	8.30	-	-	-	-	-
Mining & Metals										
KGHM	Hold	2016-02-02	56.26	63.00	73.50	-14.3%	-	520.0	8.2	6.0
LW BOGDANKA	Hold	2016-02-02	31.33	33.00	37.85	-12.8%	7.0	8.7	2.9	3.1
Manufacturers										
ELEMENTAL	Buy	2016-01-08	4.06	4.80	3.67	+30.8%	13.7	11.6	11.3	9.4
FAMUR	Buy	2016-02-02	1.75	2.20	1.60	+37.5%	15.5	15.9	4.0	3.4
KERNEL	Accumulate	2016-01-26	42.80	49.00	52.24	-6.2%	9.8	5.9	3.5	4.2
KĘTY	Hold	2016-02-02	281.75	277.80	282.00	-1.5%	12.9	14.3	8.8	8.5
KOPEX	Suspended	2016-03-04	2.30	-	2.30	-	-	-	-	-
UNIWHEELS	Buy	2016-01-12	121.00	142.90	132.30	+8.0%	10.3	9.4	7.2	7.1
VISTAL	Buy	2016-02-02	8.00	15.80	8.92	+77.1%	8.0	6.8	7.8	7.0
Construction										
BUDIMEX	Accumulate	2015-11-04	211.00	225.10	204.90	+9.9%	22.2	18.2	9.4	9.9
ELEKTROBUDOWA	Buy	2015-12-03	141.00	170.50	119.20	+43.0%	10.5	10.3	6.8	5.9
ERBUD	Buy	2016-02-03	25.95	36.00	27.04	+33.1%	10.0	9.7	5.2	4.7
UNIBEP	Buy	2016-02-03	9.89	12.10	10.05	+20.4%	15.4	10.6	8.6	6.6
Property Developers										
CAPITAL PARK	Accumulate	2015-10-02	5.88	6.50	5.96	+9.1%	-	45.5	120.9	30.2
DOM DEVELOPMENT	Buy	2016-01-28	49.47	60.80	50.50	+20.4%	15.5	11.6	13.1	9.5
ECHO	Accumulate	2016-02-02	5.77	6.57	6.35	+3.5%	17.8	11.8	20.1	16.8
GTC	Buy	2015-11-20	7.08	8.20	6.97	+17.6%	21.2	9.5	16.5	12.7
ROBYG	Buy	2016-01-28	2.83	3.40	2.88	+18.1%	9.8	9.0	16.1	8.3
Retail										
AMREST	Buy	2016-02-02	188.50	217.00	183.40	+18.3%	27.1	25.2	11.6	9.6
CCC	Hold	2016-03-04	147.30	149.00	147.30	+1.2%	31.9	27.4	21.2	16.6
EUROCASH	Reduce	2016-02-02	53.74	47.30	51.90	-8.9%	34.1	28.1	15.9	13.5
JERONIMO MARTINS	Buy	2016-02-02	13.08	15.1 EUR	13.87	+8.9%	25.9	21.7	11.8	10.0
LPP	Reduce	2016-02-02	5411	4900	5099	-3.9%	24.2	23.9	13.1	13.0
Other										
WORK SERVICE	Accumulate	2016-02-02	11.96	13.70	11.00	+24.5%	22.6	15.6	10.1	8.6

Ratings changed as of 4 March 2016

Company	Rating	Previous Rating	Target Price	Rating Day
BZ WBK	Accumulate	Buy	305.10	2016-03-04
CCC	Hold	Buy	149.00	2016-03-04
ENERGA	Buy	Accumulate	15.20	2016-03-04
HANDLOWY	Hold	Accumulate	81.97	2016-03-04
ING BSK	Hold	Accumulate	119.38	2016-03-04
KOMERCNI BANKA	Accumulate	Hold	CZK 5,428	2016-03-04
KOPEX	Suspended	Hold	-	2016-03-04
KRUK	Hold	Accumulate	185.12	2016-03-04
PEKAO	Sell	Reduce	127.42	2016-03-04
PKN ORLEN	Reduce	Hold	60.40	2016-03-04

Ratings Statistics

Rating	All		For Issuers who are Clients of Dom Maklerski mBanku	
	Count	As pct. of total	Count	As pct. of total
Sell	1	1.7%	1	3.1%
Reduce	3	5.1%	1	3.1%
Hold	14	23.7%	9	28.1%
Accumulate	10	16.9%	5	15.6%
Buy	31	52.5%	16	50.0%

Banks

Alior Bank	**Buy**								
Analyst: Michał Konarski	Current price:		PLN 61.22				Last rating:		2016-02-02
	Target price:		PLN 82.96						
(PLN m)	**2013**	**2014**	**change**	**2015**	**change**	**2016E**	**change**	**Key metrics**	
Net interest income	998.6	1,215.8	21.8%	1,501.1	23.5%	1,698.8	13.2%	Number of shares (m)	70.0
Net interest margin	3.9%	4.4%		4.3%		4.0%		MC (current price, PLN m)	4,284.1
Total income	1,562.3	1,892.9	21.2%	2,196.2	16.0%	2,470.1	12.5%	Free float	74.8%
Operating income*	692.7	947.7	36.8%	1,058.1	11.6%	1,366.1	29.1%		
Pre-tax income	287.7	401.1	39.4%	386.0	-3.8%	568.4	47.2%		
Net income	227.9	322.7	41.6%	309.6	-4.1%	334.1	7.9%		
ROE	11.9%	12.4%		9.5%		9.3%		Price change: 1M	1.7%
P/E	17.1	13.3		13.8		12.8		Price change: 6M	-30.0%
P/BV	1.8	1.4		1.2		1.2		Price change: 12M	-24.9%
DPS	0.0	0.0		0.0		0.0		Low (52 weeks)	54.0
Dyield (%)	0.0	0.0		0.0		0.0		High (52 weeks)	98.6

* before provisions

We maintain a buy rating for Alior Bank with the 9-month price target at PLN 82.96 per share. ALR stock fell 26.2% in the three months through February 2016 on concerns over the impact of the new bank tax and worries over capital ratios which indeed were confirmed after the Bank released its financial statements for FY2015 showing a CET1 ratio of 9.7% and a TCR of 12.54, both falling short of the respective 10.25% and 13.25% requirements set to enter into force on 1 June. Alior is confident it can reach the required ratios by the June deadline thanks to retained earnings and corporate loan portfolio guarantees. As for the other outlook for FY2016, the Bank expects to grow net loans by PLN 5bn this year, and it believes it can post a higher net income even despite the greater tax burden. In addition, Alior generates one of the highest ROEs in the sector at >9%, and it achieves the best cost efficiency.

BZ WBK	**Accumulate**								
Analyst: Michał Konarski	Current price:		PLN 297.5				Last rating:		2016-03-04
	Target price:		PLN 305.1						
(PLN m)	**2013**	**2014**	**change**	**2015**	**change**	**2016E**	**change**	**Key metrics**	
Net interest income	3,276.6	3,996.8	22.0%	4,309.2	7.8%	4,700.0	9.1%	Number of shares (m)	98.9
Net interest margin	3.9%	3.3%		3.1%		3.3%		MC (current price, PLN m)	29,431.4
Total income	6,089.8	6,579.0	8.0%	7,540.1	14.6%	7,396.2	-1.9%	Free float	30.0%
Operating income*	3,227.7	3,475.2	7.7%	3,961.3	14.0%	4,046.7	2.2%		
Pre-tax income	2,514.7	2,640.0	5.0%	3,178.3	20.4%	3,388.8	6.6%		
Net income	1,982.3	1,914.7	-3.4%	2,327.3	21.5%	2,170.7	-6.7%		
ROE	11.9%	12.6%		13.0%		11.2%		Price change: 1M	14.9%
P/E	14.0	14.5		12.6		13.6		Price change: 6M	-3.6%
P/BV	2.0	1.7		1.5		1.5		Price change: 12M	-13.3%
DPS	7.6	10.7		0.0		22.6		Low (52 weeks)	232.5
Dyield (%)	2.6	3.6		0.0		7.6		High (52 weeks)	386.0

* before provisions

We are downgrading BZW from buy to accumulate after a 5.8% February price increase, but we maintain our 9-month price target at PLN 305.10 per share. BZ WBK is planning to distribute dividends this year using undistributed net income for 2014 and the 2015 earnings. In 2016 we expect BZ WBK to deliver a 12.9% increase in net income before the new bank tax, and on an adjusted basis we estimate the bottom-line growth at 20.5%. Note that the pre-adjustment estimate includes one-time gains on the sale of BZ WBK AM, but it does not include the potential gains on the Visa Europe-Visa International deal which the Bank estimates at PLN 281m. In our opinion BZW should be valued at a premium to peers given its high solvency ratios, dividend-paying potential, and high returns on equity.

Getin Noble Bank

Buy

Analyst: Michał Konarski		Current price:	PLN 0.57				Last rating:	2016-02-02
		Target price:	PLN 0.96					

(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Net interest income	1,297.8	1,430.5	10.2%	1,160.1	-18.9%	1,207.6	4.1%	Number of shares (m)	2,650.1
Net interest margin	4.1%	2.2%		1.7%		1.8%		MC (current price, PLN m)	1,510.6
Total income	1,886.3	1,956.3	3.7%	1,673.7	-14.4%	1,636.1	-2.2%	Free float	49.8%
Operating income*	1,007.4	1,033.3	2.6%	497.3	-51.9%	710.6	42.9%		
Pre-tax income	388.0	314.3	-19.0%	160.3	-49.0%	361.9	125.7%		
Net income	399.7	360.0	-9.9%	149.7	-58.4%	114.4	-23.6%		
ROE	8.8%	7.3%		2.9%		2.1%		Price change: 1M	26.7%
P/E	3.8	4.2		10.1		14.5		Price change: 6M	-35.2%
P/BV	0.3	0.3		0.3		0.3		Price change: 12M	-69.7%
DPS	0.0	0.0		0.0		0.0		Low (52 weeks)	0.4
Dyield (%)	0.0	0.0		0.0		0.0		High (52 weeks)	1.9

* before provisions

We maintain a buy rating for Getin Noble Bank. Getin's 2016 earnings outlook remains subdued due to the use of asset securitization as a way of strengthening capital, combined with limited lending. On a positive note, the Bank eyes NIM expansion this year by a projected 11bps thanks to a reduction in financing costs. Due to its low returns, lack of dividends, a possible share issue, and substantial CHF exposure, Getin deserves to be valued at a discount to the sector, however if we consider its improving NIM, asset quality, and solvency ratios, which though low are far from levels that could be deemed a threat to stability, on 0.2x price-to-book the Bank is grossly undervalued. Note further that by selling the remainder of Getin Leasing for PLN 218m, and adding the 2015 net income to equity, Getin can improve its CET1 ratio to 11% and raise TCR to 15%, thus potentially avoiding a capital raise. Moreover, the additional cost burden of providing government-mandated relief to CHF borrowers may potentially result in a quarterly net loss at Getin, making it exempt from paying the new bank tax.

Handlowy

Hold

Analyst: Michał Konarski		Current price:	PLN 84.41				Last rating:	2016-03-04
		Target price:	PLN 81.97					

(PLN m)	2013	2014	change	2015	change	2016E	change	Key metrics	
Net interest income	1,242.2	1,163.9	-6.3%	976.6	-16.1%	977.5	0.1%	Number of shares (m)	130.7
Net interest margin	2.8%	2.4%		2.0%		1.9%		MC (current price, PLN m)	11,029.0
Total income	2,600.5	2,465.4	-5.2%	2,051.8	-16.8%	2,118.4	3.2%	Free float	25.0%
Operating income*	1,183.3	1,149.9	-2.8%	773.5	-32.7%	858.1	10.9%		
Pre-tax income	1,218.1	1,167.7	-4.1%	790.8	-32.3%	846.1	7.0%		
Net income	972.7	947.3	-2.6%	626.4	-33.9%	593.4	-5.3%		
ROE	15.3%	12.9%		8.8%		8.5%		Price change: 1M	14.6%
P/E	11.3	11.6		17.6		18.6		Price change: 6M	-1.8%
P/BV	1.5	1.5		1.6		1.6		Price change: 12M	-18.8%
DPS	5.8	7.2		7.4		4.6		Low (52 weeks)	61.5
Dyield (%)	6.9	8.5		8.8		5.4		High (52 weeks)	114.0

* before provisions

We are downgrading BHW from accumulate to hold after a 9.5% February price increase, but we maintain our 9-month price target at PLN 81.97 per share. Handlowy has been the least hurt by the new bank tax thanks to its portfolio of tax-exempt Treasuries, with our tax burden estimate recently revised from 22% to 13-14% of annual net income. Further, we expect Handlowy to reduce the loans/deposits ratio this year by lowering deposits in a bid to bring down the balance-sheet total and minimize the impact of low interest rates. BHW deserves to be valued at a premium to the sector given its above-average solvency ratios and good balance-sheet structure, but at the current level the premium is adequate.

ING BSK

Hold

Analyst: Michał Konarski	Current price:	PLN 121.45	Last rating:	2016-03-04
	Target price:	PLN 119.38		

(PLN m)	2013	2014	change	2015	change	2016E	change	Key metrics	
Net interest income	2,042.6	2,330.2	14.1%	2,467.1	5.9%	2,755.9	11.7%	Number of shares (m)	130.1
Net interest margin	2.5%	2.5%		2.4%		2.4%		MC (current price, PLN m)	15,800.6
Total income	3,290.4	3,532.5	7.4%	3,778.1	7.0%	3,980.9	5.4%	Free float	25.0%
Operating income*	1,422.0	1,602.8	12.7%	1,622.4	1.2%	1,888.5	16.4%		
Pre-tax income	1,192.9	1,347.4	13.0%	1,390.3	3.2%	1,558.3	12.1%		
Net income	961.5	1,040.7	8.2%	1,127.0	8.3%	953.2	-15.4%		
ROE	11.5%	10.9%		10.7%		8.7%		Price change: 1M	9.5%
P/E	16.4	15.2		14.0		16.6		Price change: 6M	-0.8%
P/BV	1.8	1.5		1.5		1.4		Price change: 12M	-9.1%
DPS	0.0	4.4		4.0		4.2		Low (52 weeks)	101.6
Dyield (%)	0.0	3.6		3.3		3.4		High (52 weeks)	150.0

* before provisions

We are downgrading ING from accumulate to hold after a 4.5% February price increase, but we maintain our 9-month price target at PLN 119.38 per share. ING BSK has a solid balance sheet (with low CHF loan exposure) and a high solvency ratio, and as such it is well-positioned for future growth. Moreover in 2015 the Bank delivered earnings 12% ahead of expectations. On the other hand, the new bank tax according to our calculations will reduce ING's net income for 2016 by a painful 25%, as well as taking away PLN 26.09 from our per-share valuation. We do not see any more upside potential in ING BSK from the current level.

Millennium

Buy

Analyst: Michał Konarski	Current price:	PLN 5.89	Last rating:	2016-02-02
	Target price:	PLN 7		

(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Net interest income	1,220.1	1,454.1	19.2%	1,368.0	-5.9%	1,480.7	8.2%	Number of shares (m)	1,213.1
Net interest margin	2.2%	2.5%		2.2%		2.2%		MC (current price, PLN m)	7,145.3
Total income	2,080.1	2,308.4	11.0%	2,246.6	-2.7%	2,370.7	5.5%	Free float	50.0%
Operating income*	916.8	1,104.2	20.4%	952.4	-13.7%	1,186.0	24.5%		
Pre-tax income	680.6	838.5	23.2%	696.8	-16.9%	894.2	28.3%		
Net income	535.8	650.9	21.5%	555.4	-14.7%	544.9	-1.9%		
ROE	10.5%	11.7%		9.2%		8.3%		Price change: 1M	12.2%
P/E	13.3	11.0		12.9		13.1		Price change: 6M	-2.5%
P/BV	1.3	1.2		1.1		1.0		Price change: 12M	-21.2%
DPS	0.0	0.2		0.0		0.0		Low (52 weeks)	4.6
Dyield (%)	0.0	3.7		0.0		0.0		High (52 weeks)	8.0

* before provisions

We maintain a buy rating for Millennium with the 9-month price target at PLN 7.00 per share. MIL stock was among the top performers in the bank sector in February after a gain of 11%. Going forward the single biggest downside risk faced by the Bank is the potential government-mandated FX loan conversion into zlotys which, if it is passed in its current form, in the worst-case scenario may cause the Bank to fall short of the minimum CET 1 requirement of 10.25%. With that said, we presume that the legislators will want to amend the bill to mitigate the impact on banks, delaying its passing. That is why even after the February price spike we still see upside potential in MIL which is trading at a discount to book value even though it generates above-average ROE and maintains a solvency ratio which is among the highest in the whole region.

Pekao — Sell

Analyst: Michał Konarski	Current price: PLN 156.7							Last rating:	2016-03-04
	Target price: PLN 127.42								
(PLN m)	**2013**	**2014**	**change**	**2015**	**change**	**2016E**	**change**	**Key metrics**	
Net interest income	4,443.9	4,461.3	0.4%	4,166.6	-6.6%	4,563.0	9.5%	Number of shares (m)	262.5
Net interest margin	2.9%	2.7%		2.5%		2.6%		MC (current price, PLN m)	41,129.1
Total income	7,475.6	7,284.9	-2.6%	6,993.5	-4.0%	7,248.2	3.6%	Free float	49.9%
Operating income*	4,031.9	3,856.1	-4.4%	3,235.5	-16.1%	3,804.6	17.6%		
Pre-tax income	3,432.9	3,359.7	-2.1%	2,831.1	-15.7%	3,205.0	13.2%		
Net income	2,784.8	2,714.7	-2.5%	2,292.5	-15.6%	2,057.5	-10.2%		
ROE	12.0%	11.4%		9.7%		8.8%		Price change: 1M	14.0%
P/E	14.8	15.2		17.9		20.0		Price change: 6M	-1.8%
P/BV	1.8	1.7		1.8		1.8		Price change: 12M	-14.6%
DPS	8.4	10.0		10.0		8.4		Low (52 weeks)	126.6
Dyield (%)	5.4	6.4		6.4		5.3		High (52 weeks)	196.0

* before provisions

We are downgrading PEO from reduce to sell after a 5.3% price increase in the year through March, but we maintain our 9-month price target at PLN 127.42 per share. Pekao says it may utilize surplus capital to finalize an acquisition which in our view can have a number of negative consequences for its business. These include a higher bank tax, a lower ROA as the acquired assets take about three years to generate full cost synergies, and a lower Tier-1 ratio, all together potentially forcing the Bank to cut dividends by as much as 50% (the minimum TCR that Pekao has to have to distribute 100% of net income to shareholders is 16.85% vs. 17.7% reported at year-end 2015). Further, our updated earnings outlook for Pekao assumes that after a 16% fall in 2015 its net income will decrease further by 9.3% in 2016, followed by a small, 2.6% pickup in 2017. Finally, we consider the 29% and 34% premiums at which PEO is valued relative to the 2016-2017E peer P/E averages to be too high, especially given that, historically, its premium to the WIG-Banks index on 12M FWD P/E was only 13%.

PKO BP — Buy

Analyst: Michał Konarski	Current price: PLN 25.59							Last rating:	2016-02-02
	Target price: PLN 31.62								
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Net interest income	6,722.0	7,522.9	11.9%	7,024.7	-6.6%	7,919.9	12.7%	Number of shares (m)	1,250.0
Net interest margin	3.4%	3.4%		2.8%		3.0%		MC (current price, PLN m)	31,987.5
Total income	11,178.1	11,494.8	2.8%	10,909.0	-5.1%	11,842.8	8.6%	Free float	68.6%
Operating income*	6,084.3	5,901.4	-3.0%	4,563.9	-22.7%	6,082.8	33.3%		
Pre-tax income	4,044.5	4,034.6	-0.2%	3,084.7	-23.5%	4,458.9	44.5%		
Net income	3,233.8	3,254.1	0.6%	2,498.0	-23.2%	2,873.2	15.0%		
ROE	13.0%	12.4%		8.7%		9.5%		Price change: 1M	9.5%
P/E	9.9	9.8		12.8		11.1		Price change: 6M	-13.0%
P/BV	1.3	1.2		1.1		1.0		Price change: 12M	-25.5%
DPS	1.8	0.8		0.0		1.8		Low (52 weeks)	22.5
Dyield (%)	7.0	2.9		0.0		6.9		High (52 weeks)	37.7

* before provisions

We maintain a buy rating for PKO BP with the 9-month price target at PLN 31.62 per share. The fundamentals of PKO are solid, with an expanding net interest margin (+20p.bbps in Q3'15) and cost synergies expected in 2016-2017 likely to offset most of the negative impact of the new tax. As a result, the Bank's net income next year is set to show growth of 15.0% followed by a further 7.5% projected in 2017, and this not including the one-time windfall from the Visa Europe-Visa International deal estimated at PLN 0.4-0.8bn. The single biggest risk faced by PKO is the FX loan conversion bill which could cause it to lose the whole of the CET1 surplus over the minimum regulatory requirement. At the moment, however, the odds that the conversion bill will be passed into law are very small in our view.

Dom Maklerski

Komercni Banka

Accumulate

Analyst: Michał Konarski		Current price:	CZK 4942					Last rating:	2016-03-04
		Target price:	CZK 5428						
(CZK m)	**2013**	**2014**	**change**	**2015**	**change**	**2016E**	**change**	**Key metrics**	
Net interest income	21,207.0	21,423.0	1.0%	20,456.0	-4.5%	20,900.6	2.2%	Number of shares (m)	37.8
Net interest margin	2.6%	2.4%		2.3%		2.2%		MC (current price, CZK m)	186,665.2
Total income	30,894.0	30,676.0	-0.7%	30,131.0	-1.8%	30,436.0	1.0%	Free float	39.6%
Operating income*	17,746.0	17,642.0	-0.6%	16,692.0	-5.4%	16,850.0	0.9%		
Pre-tax income	16,940.0	16,031.0	-5.4%	15,770.0	-1.6%	15,393.8	-2.4%		
Net income	12,528.0	12,985.0	3.6%	12,759.0	-1.7%	12,177.4	-4.6%		
ROE	13.1%	13.7%		12.8%		11.4%		Price change: 1M	-2.1%
P/E	14.9	14.4		14.6		15.3		Price change: 6M	-9.3%
P/BV	2.0	1.9		1.8		1.7		Price change: 12M	-9.0%
DPS	230.0	230.0		310.0		310.0		Low (52 weeks)	4,624.0
Dyield (%)	4.7	4.7		6.3		6.3		High (52 weeks)	5,667.0

* before provisions

We are upgrading Komercni Banka from hold to accumulate with the price target maintained at CZK 5,428 per share. KOMB stock in US dollars has lost 8% in the past month following a weak Q4 2015 earnings release. On the one hand, Komercni faces a challenging market environment in 2016 (e.g. falling interchange fees, one-time contribution to the deposit guarantee fund), and on the other hand it offers one of the highest dividend yields in the sector which in our view makes it undeserving of the discount at which it continues to be valued relative to its Polish peers, who face much worse political and operating risks. We would take the recent share price fall as an opportunity to increase positions in KOMB over the relatively more expensive Pekao.

Erste Bank

Buy

Analyst: Michał Konarski		Current price:	EUR 24					Last rating:	2016-02-02
		Target price:	EUR 32.34						
(EUR m)	**2013**	**2014**	**change**	**2015**	**change**	**2016E**	**change**	**Key metrics**	
Net interest income	4,685.0	4,495.2	-4.1%	4,444.7	-1.1%	4,520.4	1.7%	Number of shares (m)	429.8
Net interest margin	2.4%	2.3%		2.2%		2.2%		MC (current price, EUR m)	10,315.2
Total income	6,710.3	6,697.3	-0.2%	6,584.0	-1.7%	6,719.7	2.1%	Free float	69.5%
Operating income*	1,805.6	1,356.0	-24.9%	2,368.2	74.6%	2,863.2	20.9%		
Pre-tax income	31.2	-803.2		1,639.1		2,019.4	23.2%		
Net income	-92.4	-1,442.0	1460.4%	968.2		1,150.3	18.8%		
ROE				9.3%		10.1%		Price change: 1M	-4.1%
P/E				10.7		9.0		Price change: 6M	-6.3%
P/BV	0.9	1.0		0.9		0.9		Price change: 12M	3.1%
DPS	0.4	0.2		0.0		0.6		Low (52 weeks)	22.2
Dyield (%)	1.7	0.8		0.0		2.5		High (52 weeks)	29.0

* before provisions

We maintain a buy rating for Erste Bank with the price target maintained at EUR 32.34. Erste stock has edged down only 0.8% in the 12 months through February 2016 compared to a 27.1% fall in MSCI EM Financials. The outperformance was owed to improved profitability in Romania and Austria and a lack of negative earnings surprises in Q4 2015 except for the Croatian FX loan conversion at a cost of EUR 144.9m. Incurred in 2015, this cost will reduce the comparable base for 2016 net earnings, expected to log an increase 14.4%. Erste's guidance puts 2016 ROTE at 10-11%, but we consider this a conservative target, especially in light of the upcoming gain on the Visa deal. Erste Bank is a lower-risk investment at the moment than any Polish bank.

RBI	Buy								
Analyst: Michał Konarski	Current price:	EUR 12.785						Last rating:	2016-02-02
	Target price:	EUR 17.14							
(EUR m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Net interest income	3,728.9	3,788.9	1.6%	3,327.0	-12.2%	3,263.5	-1.9%	Number of shares (m)	292.4
Net interest margin	2.8%	3.0%		2.8%		2.9%		MC (current price, EUR m)	3,738.0
Total income	5,323.4	4,762.4	-10.5%	4,877.0	2.4%	4,356.6	-10.7%	Free float	21.5%
Operating income*	1,983.9	1,738.9	-12.3%	1,962.0	12.8%	1,623.3	-17.3%		
Pre-tax income	834.7	23.0	-97.2%	696.0	2930.2%	621.5	-10.7%		
Net income	357.3	-598.5		383.0		269.8	-29.5%		
ROE	4.8%			4.9%		3.4%		Price change: 1M	15.9%
P/E	7.0			9.8		13.9		Price change: 6M	10.8%
P/BV	0.3	0.5		0.5		0.5		Price change: 12M	2.3%
DPS	1.2	1.0		0.0		0.0		Low (52 weeks)	10.2
Dyield (%)	9.2	8.0		0.0		0.0		High (52 weeks)	15.7

* before provisions

We maintain a buy rating for Raiffeisen Bank International (RBI) with the price target at EUR 17.14 per share. RBI stock (in US$) plunged 15.8% in the last three months, logging a stronger drop than MSCI EME Financials which fell 8.2%. The underperformance was a result of the Bank's exposure to the economic slowdown in Russia and Ukraine. This year, RBI's outlook has improved significantly in our view given its stable capital position and looking at the quarterly earnings surprises delivered in 2015. That said, the Bank's profits in the year ahead will be under pressure from restructuring costs carried forward from last year, which may increase relative to the level anticipated today if the divestment price of the Polish unit proves well below its book value. After a temporary dip in 2016, RBI's ROE is expected to rebound to 9% in 2017.

OTP BANK	Accumulate								
Analyst: Michał Konarski	Current price:	HUF 6195						Last rating:	2016-02-02
	Target price:	HUF 6487							
(HUF bn)	2013	2014	change	2015	change	2016E	change	Key metrics	
Net interest income	653.8	635.3	-2.8%	555.9	-12.5%	553.0	-0.5%	Number of shares (m)	267.0
Net interest margin	6.4%	6.0%		5.1%		5.2%		MC (current price, HUF bn)	1,654.3
Total income	874.6	828.6	-5.3%	759.0	-8.4%	763.6	0.6%	Free float	100.0%
Operating income*	457.4	417.1	-8.8%	366.7	-12.1%	372.1	1.5%		
Pre-tax income	184.9	142.3	-23.0%	146.0	2.5%	222.1	52.2%		
Net income	64.2	-102.0		63.6		173.7	173.2%		
ROE	4.3%			5.1%		13.2%		Price change: 1M	3.4%
P/E	25.8			26.0		9.5		Price change: 6M	13.5%
P/BV	1.1	1.3		1.3		1.2		Price change: 12M	48.2%
DPS	121.7	146.9		147.0		163.3		Low (52 weeks)	4,179.0
Dyield (%)	2.0	2.4		2.4		2.6		High (52 weeks)	6,220.0

* before provisions

We maintain an accumulate rating for OTP Bank with the price target at HUF 6,487 per share. Even after soaring 33.6% (in US$) in the last 12 months (vs. a 23.3% gain in BUX and a 27.1% 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 further based on a conservative balance sheet (loans/deposits 70%; Tier-1 13%), reduced 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.

Insurance

PZU	Buy								
Analyst: Michał Konarski	Current price:	PLN 34.6						Last rating:	2016-02-02
	Target price:	PLN 42.44							
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Gross written premium:	16,480.0	16,884.6	2.5%	18,025.1	6.8%	18,569.0	3.0%	Number of shares (m)	863.5
non-life insurance	8,739.8	9,110.7	4.2%	10,125.6	11.1%	10,412.1	2.8%	MC (current price, PLN m)	29,877.9
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%	19,229.1	-1.5%	20,288.1	5.5%		
Pre-tax income	4,119.1	3,693.2	-10.3%	2,589.3	-29.9%	3,239.6	25.1%		
Net income	3,294.9	2,967.6	-9.9%	2,081.2	-29.9%	2,350.6	12.9%		
ROE	24.1%	22.6%		17.2%		19.9%		Price change: 1M	10.2%
P/E	9.1	10.1		14.4		12.7		Price change: 6M	-19.8%
P/BV	2.3	2.3		2.7		2.4		Price change: 12M	-27.2%
DPS	3.8	3.4		2.4		2.7		Low (52 weeks)	30.7
Dyield (%)	11.0	9.9		7.0		7.9		High (52 weeks)	50.2

We maintain a buy rating for PZU with the 9-month price target taking into account the new bank tax at PLN 42.22 per share. PZU stock fell 30.2% in the last 12 months vs. a 22.9% decrease in the WIG20 benchmark. The underperformance reflects concerns over earnings growth in the wake of a slowdown in investment income and the new tax, potential equity investments in coal mines, the overhang of shares held by the State Treasury, and the changes entailed in the change of government. With that said, we do see upside potential in PZU provided by high dividends, a capital surplus, and high returns on assets which should minimize the impact of the new tax on the annual net profit to just about 10% in 2016 and 2017. Moreover, unlike in the case of banks, most of the risks that PZU faces in the year ahead are already discounted in its market value. Taking into consideration its above-average ROE, generous dividends, and low sensitivity to the financial sector tax, we view PZU as an attractive alternative to the bank sector.

Financial Services

Kruk — Hold

Analyst: Michał Konarski | Current price: PLN 187.5 | Target price: PLN 185.12 | Last rating: 2016-03-04

(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Income	405.6	487.9	20.3%	588.8	20.7%	727.7	23.6%	Number of shares (m)	17.1
Debt purchases	355.7	442.4	24.4%	542.0	22.5%	679.2	25.3%	MC (current price, PLN m)	3,208.1
Collection	39.9	31.7	-20.5%	29.4	-7.3%	29.9	1.6%	Free float	87.0%
Indirect margin	222.9	293.9	31.9%	336.2	14.4%	414.4	23.3%		
Pre-tax income	98.5	152.8	55.2%	192.7	26.1%	248.1	28.7%		
Net income	97.8	151.8	55.3%	191.7	26.3%	223.3	16.5%		
ROE	26.7%	30.3%		28.7%		25.9%		Price change: 1M	13.4%
P/E	32.5	21.1		16.7		14.4		Price change: 6M	10.5%
P/BV	7.7	5.5		4.3		3.3		Price change: 12M	42.4%
DPS	0.0	0.0		1.5		0.0		Low (52 weeks)	127.8
Dyield (%)	0.0	0.0		0.8		0.0		High (52 weeks)	191.3

We are downgrading Kruk from accumulate to hold after the 7.3% February price fall, with the 9-month price target maintained at PLN 185.12 per share. Kruk remains the leader in debt collection in Poland and Romania, and by expanding into other European countries it should be able to continue increasing its profits in the years ahead. We expect Kruk to grow net earnings in the next three years at a much faster pace than direct competition as well as faster than Polish banks. At the same time, at 14.2x 2016E P/E and 12.2x 2017E P/E, the Company is valued at excessive premiums of 19%-26% relative to international peers, most of whom are offering higher dividend yield this year. Finally Kruk's earnings will suffer once the Polish government puts in place measures to improve tax enforcement in Poland.

Prime Car Management — Buy

Analyst: Michał Konarski | Current price: PLN 35.9 | Target price: PLN 46.76 | Last rating: 2016-02-02

(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Total revenue	557.0	552.1	-0.9%	540.9	-2.0%	576.3	6.5%	Number of shares (m)	11.9
Costs	-497.9	-476.2	-4.4%	-491.5	3.2%	-521.2	6.0%	MC (current price, PLN m)	427.5
Receivables finance leases	380.1	453.0	19.2%	575.3	27.0%	627.1	9.0%	Free float	40.0%
Pre-tax profit	59.1	75.8	28.2%	49.4	-34.9%	55.1	11.5%		
Net profit	44.0	62.6	42.4%	38.8	-38.1%	43.2	11.5%		
ROE	9.9%	13.0%		8.0%		9.1%		Price change: 1M	-1.3%
P/E	9.7	6.8		11.0		9.9		Price change: 6M	-16.7%
P/BV	0.9	0.9		0.9		0.9		Price change: 12M	-28.9%
DPS	0.4	2.2		5.3		3.3		Low (52 weeks)	31.0
Dyield (%)	1.1	6.1		14.7		9.1		High (52 weeks)	52.0

We maintain a buy rating for Prime Car Management with the 9-month price target at PLN 46.76 per share. In our view the current 2016 earnings consensus for PCM is underestimated (placing 8% below our estimates), while the 2017 expectations are overestimated at 4% above our forecasts. At the same time, PCM continues to trade at a 2.3% discount to peer ratios at 9.9x 2016E P/E which we consider excessive given its above-average dividends (with dividend yield at 9%-11%), conservative balance sheet (D/E at 1.7x), and positioning as the #2 player in the Polish market.

Skarbiec Holding

Buy

Analyst: Michał Konarski		Current price:	PLN 31.8					Last rating:	2016-02-02
		Target price:	PLN 42.2						
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Management fee	68.6	108.2	57.8%	74.7	-31.0%	82.9	11.0%	Number of shares (m)	6.8
Success fee	24.6	24.0	-2.5%	2.0	-91.5%	11.0	440.9%	MC (current price, PLN m)	216.9
Revenue	101.3	143.8	41.9%	84.5	-41.2%	103.5	22.5%	Free float	25.4%
Operating costs	-65.8	-102.6	56.1%	-65.9	-35.8%	-72.1	9.4%		
Pre-tax income	36.1	40.9	13.1%	18.8	-54.0%	32.1	70.6%		
Net income	28.9	32.3	11.6%	15.2	-52.8%	26.0	70.6%		
ROE	35.4%	33.8%		16.1%		27.2%		Price change: 1M	18.2%
P/E	7.5	6.7		14.2		8.3		Price change: 6M	-11.6%
P/BV	2.3	2.2		2.4		2.2		Price change: 12M	-22.1%
DPS	1.0	2.8		3.1		2.9		Low (52 weeks)	25.0
Dyield (%)	3.1	8.8		9.9		9.2		High (52 weeks)	50.3

We maintain a buy rating for Skarbiec Holding with the 9-month price target at PLN 42.20 per share. Skarbiec is the owner of Skarbiec TFI, a leading Polish investment fund company which at December 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. At the same time, the portfolio of high-margin assets is poised to shrink in the wake of the global financial market turmoil. SKH is trading at 7.2x 2017E P/E, showing a wide discount to the market average and to Polish peers. While we agree that Skarbiec should be valued at cheaper multiples than its peers given the extent to which its earnings rely on success fees, at the current level the discount is too high in our opinion.

Gas & Oil, Chemicals

Ciech

Hold

Analyst: Kamil Kliszcz		Current price:	PLN 73.65				Last rating	2016-02-02
		Target price:	PLN 77.2					
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	3,501.0	3,243.9	-7.3%	3,248.6	0.1%	3,554.7	9.4%	Number of shares (m)	52.7
EBITDA	356.3	524.8	47.3%	735.4	40.1%	833.7	13.4%	MC (current price, PLN m)	3,881.3
EBITDA margin	10.2%	16.2%		22.6%		23.5%		EV (current price, PLN m)	5,130.8
EBIT	139.7	320.3	129.2%	519.5	62.2%	590.1	13.6%	Free float	48.8%
Net profit	49.4	167.1	238.0%	291.4	74.4%	441.2	51.4%		
P/E	78.5	23.2		13.3		8.8		Price change: 1M	-7.9%
P/CE	14.6	10.4		7.7		5.7		Price change: 6M	2.6%
P/BV	4.3	3.9		3.0		2.2		Price change: 12M	36.4%
EV/EBITDA	14.2	9.6		7.0		5.9		Low (52 weeks)	52.6
Dyield (%)	0.0	1.5		0.0		0.0		High (52 weeks)	87.5

Ciech has lost over 15% of its market capitalization since the beginning of the year in reaction to the allegations of corruption during the Company's 2014 privatization made by the new government. In our view this has no bearing whatsoever on Ciech's current business which has a strong outlook in the year ahead, supported by the slump in natural gas prices which drives the profits of the German soda unit. Unfortunately, the earnings prospects for 2017 are less robust in light of the supply pressures coming from China, whose monthly soda ash shipments are up 20% compared to last year. This is creating downward price pressures in Asia, and though Europe has been mostly spared so far, eventually we are bound to see a shift into a buyer's market once Eti Soda adds 0.5mmt of new capacity toward the end of 2016. In addition, Ciech's profits in 2017 may be affected by a rebound in commodities which will put upward pressure on costs (in 2015, lower prices of coal and natural gas added PLN 40m to the annual EBITDA). We maintain a neutral rating for Ciech and we would not view the recent share price falls as a buy opportunity.

Grupa Azoty

Hold

Analyst: Jakub Szkopek		Current price:	PLN 93.72				Last rating	2016-02-02
		Target price:	PLN 100.2					
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	9,821.0	9,898.5	0.8%	9,903.5	0.1%	9,920.4	0.2%	Number of shares (m)	99.2
EBITDA	1,246.0	822.4	-34.0%	1,198.4	45.7%	1,487.6	24.1%	MC (current price, PLN m)	9,296.6
EBITDA margin	12.7%	8.3%		12.1%		15.0%		EV (current price, PLN m)	10,430.8
EBIT	697.9	302.2	-56.7%	724.9	139.9%	1,001.7	38.2%	Free float	22.7%
Net profit	639.0	231.4	-63.8%	534.1	130.9%	746.1	39.7%		
P/E	14.5	40.2		17.4		12.5		Price change: 1M	-6.1%
P/CE	7.8	12.4		9.2		7.5		Price change: 6M	3.9%
P/BV	1.7	1.6		1.5		1.3		Price change: 12M	14.3%
EV/EBITDA	8.3	12.7		8.7		7.0		Low (52 weeks)	74.0
Dyield (%)	1.8	0.4		0.0		0.0		High (52 weeks)	111.5

Grupa Azoty will continue to benefit from low prices of natural gas in 2016, expected to be 22% lower than the 2015 average, resulting in annual savings of PLN 480m. Thanks to a high level of industry concentration (with the market controlled by two players), prices of mineral fertilizers in Poland are more stable than elsewhere in the world. For this reason, despite the lower costs of natgas fuel, we anticipate that local fertilizer prices this year will post a dip of 2.6%. Based on this, we project an increase of 22.7% in the 2016 EBITDA of Grupa Azoty, driven by a projected rise of 24.6% in the EBITDA of the fertilizer business. At the same time, due to reasons of political nature (i.e. the presence of Russia's Acron in the ownership structure), we would not expect Grupa Azoty to pay dividends in 2016 or 2017. Moreover, in our view the lower gas costs and the strong growth outlook are already priced in. Grupa Azoty is scheduled to release its earnings report for Q4 2015 on 11 March, and we expect to see year-on-year growth of 10.2% in the quarterly EBITDA and 8% in net profit. We maintain a hold rating for ATT.

Lotos

Accumulate

Analyst: Kamil Kliszcz	Current price:	PLN 26.4	Last rating	2016-02-02
	Target price:	PLN 29.2		

(PLN m)	2013	2014	change	2015	change	2016E	change	Key metrics	
Revenue	28,559.2	28,501.9	-0.2%	22,709.4	-20.3%	21,009.6	-7.5%	Number of shares (m)	184.9
EBITDA	809.1	-584.1		1,138.0		2,149.2	88.9%	MC (current price, PLN m)	4,880.7
EBITDA margin	2.8%	-2.0%		5.0%		10.2%		EV (current price, PLN m)	10,581.8
EBIT	166.6	-1,393.0		423.4		1,155.4	172.9%	Free float	46.8%
Net profit	39.4	-1,466.3		-263.3	-82.0%	639.7			
P/E	87.0					7.6		Price change: 1M	4.1%
P/CE	5.0			10.8		3.0		Price change: 6M	-9.6%
P/BV	0.4	0.6		0.6		0.6		Price change: 12M	0.0%
EV/EBITDA	11.3			9.3		4.8		Low (52 weeks)	24.1
Dyield (%)	0.0	0.0		0.0		0.0		High (52 weeks)	33.2

Lotos's business outlook is shaped by a mix of opposing factors, as a beneficiary of recovering oil prices through the Upstream segment (whose EBITDA gains anywhere between PLN 160m and PLN 320m on any $10 rise in the price of a barrel of crude), on the one hand, and a victim on the other hand through higher fuel costs (a $10 rise in oil implies a PLN 150m increase in fuel costs). Similarly, a strengthening USD/PLN exchange rate simultaneously boosts EBITDA and net debt (though FX translations). In a scenario where oil prices this year rebound over $50/bbl, all in all Lotos's earnings prospects look good, especially compared to the local rival PKN Orlen whose value shows a direct negative correlation with oil. The benefits also include a possible increase in the value of the strategic oil reserves maintained by Lotos which it will be able to sell in 2017. Note also that the current earnings consensus for Lotos does not yet factor in the contributions of newly acquired Norwegian assets, expected to add over PLN 0.3bn to EBITDA. We maintain an accumulate rating for LTS in anticipation of improving sentiment led by the continued recovery in oil prices, and in the near term by the strong financial results for Q4 2015.

MOL

Buy

Analyst: Kamil Kliszcz	Current price:	PLN 207.5	Last rating	2016-02-02
	Target price:	PLN 236.75		

(HUF bn)	2013	2014	change	2015	change	2016E	change	Key metrics	
Revenue	5,400.4	4,869.4	-9.8%	4,102.6	-15.7%	3,706.0	-9.7%	Number of shares (m)	104.5
EBITDA	521.1	409.0	-21.5%	647.5	58.3%	603.8	-6.7%	MC (current price, PLN m)	21,687.7
EBITDA margin	9.6%	8.4%		15.8%		16.3%		EV (current price, PLN m)	34,402.5
EBIT	-18.6	40.9		-216.0		257.1		Free float	31.3%
Net profit	21.9	4.8	-77.9%	-256.6		146.5			
P/E	70.8	320.7				10.6		Price change: 1M	8.7%
P/CE	2.8	4.2		2.6		3.1		Price change: 6M	12.3%
P/BV	0.9	0.9		0.9		0.9		Price change: 12M	28.1%
EV/EBITDA	4.7	6.2		3.8		4.0		Low (52 weeks)	159.3
Dyield (%)	2.5	3.2		3.2		3.5		High (52 weeks)	207.5

MOL stock has remained unmoved by the rebound in oil prices, due probably to concerns over high 2015 write-offs. In the end, the core earnings delivered last year were a source of positive surprise, proving that the Company is capable of fully capitalizing on favorable macro conditions and generating high cash flow (in 2016, the CAPEX budget has been cut to $1.3bn, showing flexibility when it comes to scheduling capital projects). MOL's current net debt is equivalent to only 0.7x EBITDA, and after it exercises its call option on Magnolia shares in March, the ratio will go up slightly to 1.0x, still leaving plenty of room for a dividend payout. Assuming, as we do, that cracking margins will return to their medium-term averages, and the average oil price moves, MOL should be able to again generate high cash flow this year (2016-2018E FCF/EV=13%). Looking at the sustained growth in organic FCF delivered in recent years amid volatile market conditions, MOL commands a premium to its peers in our view, meanwhile today it is valued at a steep discount - something that traders should take into account, especially at a time when shrinking refining margins are taking a severe hit on the profitability of the overvalued rival PKN Orlen. We maintain a buy rating for MOL.

PGNiG	Hold							
Analyst: Kamil Kliszcz	Current price: PLN 5.02 Target price: PLN 5.3						Last rating	2016-02-02
(PLN m)	2013	2014	change	2015	change	2016E	change	Key metrics	
Revenue	32,044.0	34,304.0	7.1%	36,464.0	6.3%	32,578.7	-10.7%	Number of shares (m)	5,900.0
EBITDA	5,612.0	6,345.0	13.1%	6,080.0	-4.2%	5,732.8	-5.7%	MC (current price, PLN m)	29,618.0
EBITDA margin	17.5%	18.5%		16.7%		17.6%		EV (current price, PLN m)	29,766.0
EBIT	3,149.0	3,843.0	22.0%	3,290.0	-14.4%	2,978.6	-9.5%	Free float	27.6%
Net profit	1,918.0	2,823.0	47.2%	2,134.0	-24.4%	2,093.9	-1.9%		
P/E	15.4	10.5		13.9		14.1		Price change: 1M	0.8%
P/CE	6.8	5.6		6.0		6.1		Price change: 6M	-21.2%
P/BV	1.0	1.0		1.0		0.9		Price change: 12M	-0.6%
EV/EBITDA	6.1	5.1		4.9		5.7		Low (52 weeks)	4.5
Dyield (%)	2.6	3.0		4.0		6.7		High (52 weeks)	7.0

PGNiG stock enjoyed strong performance during the better part of 2015 after delivering higher-than-expected profits on gas trade, however after a slump in Q3, which sent the share price plummeting, the total annual return for the year on PGN stock amounted to 19%. Sentiment has remained dampened for the last few months due to the continuing decline in the trade profits, combined with downward pressure on the profits of the upstream segment stemming from the falling oil prices. These risks are already priced in in our view, and once the consensus is adjusted accordingly we believe PGNiG has potential to deliver positive earnings surprises this year thanks to the expected recovery in oil and gas prices and favorable regulatory changes to the price tariff. What is more, we think PGNiG will offer high dividend yield this year of ca. 7% given its strong balance sheet position and the fact that it is 72% controlled by the state. With all that said, at the current price level we maintain a hold rating for PGN.

PKN Orlen	Reduce							
Analyst: Kamil Kliszcz	Current price: PLN 64.73 Target price: PLN 60.4						Last rating	2016-03-04
(PLN m)	2013	2014	change	2015	change	2016E	change	Key metrics	
Revenue	113,597.0	106,832.0	-6.0%	88,336.0	-17.3%	83,552.1	-5.4%	Number of shares (m)	427.7
EBITDA	2,418.0	-2,720.0		6,235.0		7,559.0	21.2%	MC (current price, PLN m)	27,685.6
EBITDA margin	2.1%	-2.5%		7.1%		9.0%		EV (current price, PLN m)	36,566.6
EBIT	307.0	-4,711.0		4,340.0		5,356.1	23.4%	Free float	72.5%
Net profit	176.0	-5,811.0		2,837.0		3,792.5	33.7%		
P/E	157.3			9.8		7.3		Price change: 1M	10.4%
P/CE	12.1			5.9		4.6		Price change: 6M	-11.9%
P/BV	1.1	1.5		1.2		1.1		Price change: 12M	16.8%
EV/EBITDA	15.0			5.9		4.7		Low (52 weeks)	52.7
Dyield (%)	2.3	2.2		2.5		3.6		High (52 weeks)	85.3

Cracking margins fell to about $2 a barrel in February from over $5 in January, and in the past week they shrunk further to levels as low as $1, led by rising prices of oil (which drive up internal energy costs and reduce margins on HSFO) and the persistent global crude glut (high diesel inventories, strong gasoline stock builds in the US) which stems from weak demand combined with increased supply from China. Going forward, we anticipate a continued uptrend in the oil price which is not factored into the consensus expectations for PKN Orlen and which also affects the Company's petrochemical margins. Based on this (and on capacity utilization by the Lithuania unit), we expect PKN to suffer painful shrinkage in this year's EBITDA relative to the record PLN 10bn achieved in 2015 (the 2008-2014 LIFO EBITDA average was only PLN 4bn). Worse still, PKN is operating under political pressures created by the recent Management Board reshuffling and the changes that the Polish government wants to make in the way state-owned companies do business (including in their investment plans, dividend policies, and role as facilitators of the national economic policy). We are downgrading PKN to reduce after the recent price increase.

Polwax — Buy

Analyst: Kamil Kliszcz		Current price:	PLN 16.9				Last rating	2016-02-02
		Target price:	PLN 24.3					
(PLN m)	**2013**	**2014**	**change**	**2015**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	241.1	258.2	7.1%	280.7	8.7%	282.0	0.5%	Number of shares (m)	10.2
EBITDA	27.5	30.8	11.7%	34.2	11.3%	34.9	1.9%	MC (current price, PLN m)	171.8
EBITDA margin	11.4%	11.9%		12.2%		12.4%		EV (current price, PLN m)	201.9
EBIT	24.9	27.7	11.3%	29.9	8.1%	30.6	2.1%	Free float	51.3%
Net profit	20.0	22.4	12.2%	23.8	6.3%	24.5	2.7%		
P/E	8.5	7.6		7.2		7.1		Price change: 1M	6.4%
P/CE	7.5	6.7		6.1		6.0		Price change: 6M	2.4%
P/BV	3.2	2.6		2.2		1.9		Price change: 12M	-13.7%
EV/EBITDA	8.5	6.8		5.9		5.8		Low (52 weeks)	14.0
Dyield (%)	2.4	5.9		7.2		6.9		High (52 weeks)	19.6

Polwax shares have enjoyed strong performance so far this year owed to a strong earnings announcement for Q4 2015 when continued expansion in sales volumes in the core segment of paraffin wax confirmed the easing of competitive pressures from paraffin substitutes, as evidenced by the increase in the unit price of paraffin observed for the first time in four quarters. Sales of industrial paraffins are on an upward momentum as well (with 2015 sales up 17%), providing upside potential in the medium term. Polwax is constantly working on expanding the sales and market mix in the segment, creating room for price increases. Polwax generated strong operating cash flow in 2015 at close to PLN 32m, equivalent to 93% of the annual EBITDA. As a result, despite higher CAPEX and dividends, at the end of the year it was able to reduce net debt to 0.9x EBITDA. Based on this, we believe the Company is capable of paying solid dividends averaging PLN 0.93 per share in 2016-2019 even as it is planning extensive capacity upgrades which, once details are provided, are likely to boost the share price upside potential. We maintain a buy rating for PWX.

Synthos — Hold

Analyst: Jakub Szkopek		Current price:	PLN 4.11				Last rating	2016-02-02
		Target price:	PLN 3.79					
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	5,359.3	4,618.8	-13.8%	4,059.0	-12.1%	4,300.4	5.9%	Number of shares (m)	1,323.3
EBITDA	605.3	635.8	5.0%	618.3	-2.7%	649.4	5.0%	MC (current price, PLN m)	5,438.6
EBITDA margin	11.3%	13.8%		15.2%		15.1%		EV (current price, PLN m)	6,262.2
EBIT	453.0	479.6	5.9%	452.1	-5.7%	478.7	5.9%	Free float	37.5%
Net profit	416.9	356.9	-14.4%	426.2	19.4%	363.4	-14.7%		
P/E	13.0	15.2		12.8		15.0		Price change: 1M	5.4%
P/CE	9.6	10.6		9.2		10.2		Price change: 6M	9.6%
P/BV	2.4	2.4		2.4		2.4		Price change: 12M	-5.9%
EV/EBITDA	9.9	9.7		10.1		10.0		Low (52 weeks)	3.3
Dyield (%)	18.5	7.6		6.1		6.1		High (52 weeks)	4.9

Global demand for synthetic rubbers has weakened in the wake of the economic slowdown in China and Brazil, and this is accompanied by a depreciation in the currencies of Indonesia, Malaysia, and Thailand which between them account for about 70% of the global production of natural rubbers, expected to result in intensified NR-SR price competition in 2016. The 2016 earnings outlook of Synthos is additionally worsened by the higher costs of butadiene supplies to the Litvinov facility from a third-party source after the regular supplier suffered plant damage, not expected to be repaired fully until October 2016. Consequently, despite a 22% capacity increase (through a new SSBR facility), Synthos is not likely to achieve significant EBITDA growth this year. On a positive note, with an operating cash flow projected at PLN 700m (thanks to low commodity prices), with assistance from divestment proceeds, the Company has the capacity to pay per-share dividend of PLN 0.25 this year, implying 6.3% Dyield). Note that Synthos is set to be removed from the WIG20 index after the 18 March 2016 review. We maintain a neutral rating for SNS.

Power Utilities

CEZ	Buy								
Analyst: Kamil Kliszcz	Current price:	PLN 60.41						Last rating	2016-02-02
	Target price:	PLN 86.3							
(CZK m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	216,988.0	200,657.0	-7.5%	197,553.2	-1.5%	201,838.2	2.2%	Number of shares (m)	538.0
EBITDA	73,592.0	64,651.0	-12.1%	64,841.7	0.3%	62,398.8	-3.8%	MC (current price, PLN m)	32,500.0
EBITDA margin	33.9%	32.2%		32.8%		30.9%		EV (current price, PLN m)	56,093.0
EBIT	45,690.0	36,946.0	-19.1%	34,055.4	-7.8%	33,092.2	-2.8%	Free float	29.5%
Net profit	35,886.0	22,403.0	-37.6%	25,340.5	13.1%	20,868.3	-17.6%		
P/E	5.6	9.0		8.0		9.7		Price change: 1M	-5.6%
P/CE	3.2	4.0		3.6		4.0		Price change: 6M	-30.0%
P/BV	0.8	0.8		0.8		0.8		Price change: 12M	-36.8%
EV/EBITDA	5.2	5.7		5.4		5.6		Low (52 weeks)	58.2
Dyield (%)	10.6	10.5		10.6		10.6		High (52 weeks)	96.6

CEZ's performance since the beginning of the year has been under pressure from the sharp falls in German energy prices. As stockpiles expand amid a warm winter, the prices of natural gas have taken a downward turn, causing a shift in the merit order by pushing up low-emissions natural gas capacity, which in turn has led to a slump in the prices of carbon allowances. For a vertically-integrated low-emissions power producer like CEZ, this makes for a highly undesirable situation. CEZ has hedged its 2016 electricity sales at EUR 35/MWh, and compared to the current market price of EUR 21.5/MWh this indicates how much its generation profits are set to shrink once the old hedges expire (for every EUR 10/MWh price decline CEZ stands to lose about CZK 15bn of EBITDA). With that said, we do expect EEX prices to rebound in the medium term in line with oil prices. If this prediction proves accurate, there is no need to apply a discount to CEZ's stock today to reflect the low spot market prices in our view. What is more, CEZ's dividend plans for 2016 suggest a record dividend yield over 10%. We maintain a buy rating for CEZ and we recommend taking advantage of the recent price falls to taking positions in the stock.

Enea	Hold								
Analyst: Kamil Kliszcz	Current price:	PLN 11.36						Last rating	2016-02-02
	Target price:	PLN 12.4							
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	9,150.5	9,855.4	7.7%	10,188.2	3.4%	10,670.7	4.7%	Number of shares (m)	441.4
EBITDA	1,667.6	1,914.9	14.8%	2,074.4	8.3%	2,148.5	3.6%	MC (current price, PLN m)	5,014.8
EBITDA margin	18.2%	19.4%		20.4%		20.1%		EV (current price, PLN m)	10,062.2
EBIT	905.9	1,186.5	31.0%	1,262.1	6.4%	992.1	-21.4%	Free float	48.5%
Net profit	722.5	908.3	25.7%	991.6	9.2%	637.5	-35.7%		
P/E	6.9	5.5		5.1		7.9		Price change: 1M	3.3%
P/CE	3.4	3.1		2.8		2.8		Price change: 6M	-14.4%
P/BV	0.4	0.4		0.4		0.4		Price change: 12M	-30.5%
EV/EBITDA	2.4	3.1		4.9		5.3		Low (52 weeks)	9.9
Dyield (%)	3.2	5.0		4.1		4.9		High (52 weeks)	17.1

Enea stock has enjoyed relative stability this year after the sharp falls taken last year as the market ignores the latest ideas of the Polish government about how it envisions the future investment and dividend policies of state energy companies. Also helping the valuation is the fact that the brand-new Management Board has not yet presented its future strategy plan for the Company. Meanwhile, in our opinion, Enea is ripe to be picked as the prime candidate to provide missing capital to the state coal miner KHW. In addition after the recent acquisition of the coal producer LW Bogdanka, it finds itself stuck with a considerable coal surplus for which it has to find a market. If made to acquire a stake in KHW, Enea will probably be also pushed to build a new power plant, and consequently it will have to revise its dividend policy. Until the main questions are answered, despite the upside potential indicated by our price target, we maintain a hold rating for ENA.

Energa

Energa	Buy								
Analyst: Kamil Kliszcz	Current price:	PLN 13.11						Last rating	2016-03-04
	Target price:	PLN 15.2							
(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	11,429.2	10,590.6	-7.3%	10,629.8	0.4%	10,376.5	-2.4%	Number of shares (m)	414.1
EBITDA	1,965.5	2,307.0	17.4%	2,200.3	-4.6%	2,026.4	-7.9%	MC (current price, PLN m)	5,428.4
EBITDA margin	17.2%	21.8%		20.7%		19.5%		EV (current price, PLN m)	9,436.7
EBIT	1,194.8	1,446.2	21.0%	1,319.2	-8.8%	1,106.8	-16.1%	Free float	50.0%
Net profit	764.0	982.1	28.6%	867.8	-11.6%	678.3	-21.8%		
P/E	7.1	5.5		6.3		8.0		Price change: 1M	-1.6%
P/CE	3.5	2.9		3.1		3.4		Price change: 6M	-31.1%
P/BV	0.7	0.6		0.6		0.6		Price change: 12M	-42.8%
EV/EBITDA	4.3	3.7		4.3		5.1		Low (52 weeks)	11.0
Dyield (%)	9.2	7.6		11.0		7.4		High (52 weeks)	27.0

Energa shares have rebounded from the 2015 lows, and they are currently outperforming the power sector as well as the broad market. The main price and capital investment risks are already priced in. Our PLN 0.97 DPS projection for 2016, which implies a dividend yield of 7.5%, is lower than the market consensus even though per Energa's dividend policy the 2016 DPS should be PLN 1.2. In our view, based on recent statements by the CEO, Energa will decide against moving ahead with a new power plant project until a capacity payment mechanism is put in place in Poland, which means the investment will be delayed by as many as two years. If the Company confirms this, market sentiment is likely to shift in its favor as a power company not encumbered by unquantifiable political risk. With this in mind, and after the recent price decline, we are upgrading our rating for ENG from accumulate to buy.

PGE

PGE	Hold								
Analyst: Kamil Kliszcz	Current price:	PLN 13.04						Last rating	2016-02-02
	Target price:	PLN 14.6							
(PLN m)	2013	2014	change	2015	change	2016E	change	Key metrics	
Revenue	30,145.0	28,137.0	-6.7%	28,542.0	1.4%	29,448.8	3.2%	Number of shares (m)	1,869.8
EBITDA	7,829.0	8,120.0	3.7%	8,228.0	1.3%	6,998.3	-14.9%	MC (current price, PLN m)	24,382.0
EBITDA margin	26.0%	28.9%		28.8%		23.8%		EV (current price, PLN m)	27,121.6
EBIT	4,847.0	5,096.0	5.1%	-3,589.0		4,238.7		Free float	38.1%
Net profit	3,948.0	3,638.0	-7.9%	-3,032.0		3,281.3			
P/E	6.2	6.7				7.4		Price change: 1M	-5.2%
P/CE	3.5	3.7		2.8		4.0		Price change: 6M	-13.6%
P/BV	0.6	0.5		0.6		0.6		Price change: 12M	-34.9%
EV/EBITDA	2.7	2.9		3.3		4.3		Low (52 weeks)	11.8
Dyield (%)	6.6	8.5		6.0		6.1		High (52 weeks)	21.4

PGE's political risk exposure is the worst of all Polish power companies given its increasingly likely involvement in the KW coal miner bailout and a balance sheet which has the most potential to carry out big capital and equity investment (which may include the Polish assets of EdF, rumored to have been earmarked for sale). PGE's CEO has resigned recently, leaving open any questions about the Company's future strategy and dividend policy. The market has tried to quantify the potential risks, as reflected in a 2016E EV/EBITDA ratio just over 4.0x, and the fact that PGE stock has broken its correlation with emissions-adjusted electricity prices. PGE could receive some upside from concrete statements by the government regarding a capacity payment mechanism, but for now, given the persistent uncertainty, we maintain a hold rating for the stock even though it shows fundamentally-driven upside potential. Assuming the uncertainty is alleviated in the next few months, in the second half of 2016 PGE could be reevaluated as a positive exposure to the expected rebound in the commodity market.

Tauron	Buy								
Analyst: Kamil Kliszcz	Current price:	PLN 2.6						Last rating	2016-02-02
	Target price:	PLN 3.78							
(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	19,131.1	18,440.8	-3.6%	19,591.0	6.2%	19,099.2	-2.5%	Number of shares (m)	1,752.5
EBITDA	3,661.5	3,627.1	-0.9%	3,619.5	-0.2%	3,336.6	-7.8%	MC (current price, PLN m)	4,556.6
EBITDA margin	19.1%	19.7%		18.5%		17.5%		EV (current price, PLN m)	12,432.9
EBIT	1,934.1	1,830.1	-5.4%	1,869.8	2.2%	1,544.3	-17.4%	Free float	54.5%
Net profit	1,308.3	1,180.9	-9.7%	1,267.6	7.3%	924.9	-27.0%		
P/E	3.5	3.9		3.6		4.9		Price change: 1M	-0.4%
P/CE	1.5	1.5		1.5		1.7		Price change: 6M	-24.4%
P/BV	0.3	0.3		0.2		0.2		Price change: 12M	-42.9%
EV/EBITDA	2.8	3.1		3.4		4.3		Low (52 weeks)	2.4
Dyield (%)	7.7	7.3		5.8		5.6		High (52 weeks)	4.9

Tauron stock continues on a downward momentum, underperforming the broad market, led most likely by concerns pertaining to the quality of the balance sheet and to the size of dividends after the change of the dividend base from reported net earnings to earnings adjusted for asset value adjustments. The market continues to heavily discount the risk of default against loan covenants even though Tauron has already begun the process of debt refinancing and commenced negotiations with lenders to raise the net debt/EBITDA covenant from 3.0x to 3.5x, and after it announced that banks had agreed to underwrite a PLN 6.3bn bond issue at only a slightly higher margin. As for the 2016 earnings outlook, Tauron stands to be the biggest beneficiary this year of the increased operating reserve budget, and potentially of the capacity payment mechanism being discussed with the government (at the moment, TPE's market value shows a discount to the regulatory value of its conventional power generation assets, which means the market attributes negative value to its other operating segments which generate combined EBTDA of PLN 1.2bn). Further, in our view the market is exaggerating the implications of the recent coal mine acquisition for Tauron's profits, and traders are in for a positive surprise in the quarters ahead. Finally, the upcoming strategy update is expected to include a suspension of the Łagisza cogeneration project which the government does not consider a priority. We maintain a buy rating for TPE.

Dom Maklerski

Telecommunications

Netia

Accumulate

Analyst: Paweł Szpigiel	Current price:	PLN 4.6	Last rating	2016-02-02
	Target price:	PLN 6.3		

(PLN m)	2013	2014	change	2015	change	2016E	change	Key metrics	
Revenue	1,876.0	1,674.0	-10.8%	1,572.2	-6.1%	1,546.8	-1.6%	Number of shares (m)	348.2
EBITDA	532.8	0.0		449.0		456.9	1.8%	MC (current price, PLN m)	1,601.9
EBITDA margin	28.4%	0.0%		28.6%		29.5%		EV (current price, PLN m)	1,869.0
EBIT	92.8	0.0		27.9		55.4	98.3%	Free float	35.9%
Net profit	46.3	0.0		2.2		-22.7			
P/E	34.6			723.8				Price change: 1M	-18.4%
P/CE	3.3			3.8		4.2		Price change: 6M	-15.6%
P/BV	0.7	0.8		0.8		0.9		Price change: 12M	-23.1%
EV/EBITDA	3.5			4.2		4.1		Low (52 weeks)	4.3
Dyield (%)	0.0	9.1		13.0		4.3		High (52 weeks)	6.6

Netia announced last week that it was cutting 2016 dividend after raising the network CAPEX budget for the next three years as a defense strategy against intensified competition from Orange Polska, which is planning to reach 3.5 million households via FTTH by 2018. Given the recent statement by the Company's Management that they felt comfortable with the PLN 250m debt position, equivalent to 0.60x of the adjusted 2015 EBITDA, and considering that the planned long-term capital expenditures are equivalent to 0.9x 2015 EBITDA, the dividend cut came as an unwelcome surprise. Netia is trading at ca. 4.1x 2016E EV/EBITDA compared to Orange's 4.3x, while a DPS of PLN 0.20 implies a dividend yield of 4.3% in case of the former vs. 4.1% offered by the latter. Netia's discount valuation is a result of its fixed-line-based business, though thanks to stable B2B profits Netia can be an acquisition target. The Company has announced a share buyback which we consider an attempt at stabilizing the share price in the near term. We maintain an accumulate rating for Netia after the recent share price drop.

Orange Polska

Buy

Analyst: Paweł Szpigiel	Current price:	PLN 6.08	Last rating	2016-02-02
	Target price:	PLN 8.3		

(PLN m)	2013	2014	change	2015	change	2016E	change	Key metrics	
Revenue	12,923.0	12,212.0	-5.5%	11,840.0	-3.0%	11,484.5	-3.0%	Number of shares (m)	1,312.0
EBITDA	3,895.0	4,059.0	4.2%	3,443.0	-15.2%	3,376.4	-1.9%	MC (current price, PLN m)	7,977.0
EBITDA margin	30.1%	33.2%		29.1%		29.4%		EV (current price, PLN m)	11,975.4
EBIT	788.0	986.0	25.1%	572.0	-42.0%	664.6	16.2%	Free float	49.3%
Net profit	294.0	535.0	82.0%	254.0	-52.5%	248.6	-2.1%		
P/E	27.1	14.9		31.4		32.1		Price change: 1M	-4.3%
P/CE	2.3	2.2		2.6		2.7		Price change: 6M	-15.9%
P/BV	0.6	0.6		0.7		0.7		Price change: 12M	-35.7%
EV/EBITDA	3.2	3.0		3.5		4.3		Low (52 weeks)	6.0
Dyield (%)	8.2	8.2		8.2		4.1		High (52 weeks)	10.5

Orange Polska reported lower-than-expected Q4 2015 results and 2016 guidance, following which its share price fell by over 5%. At the same time, the Company unveiled a 2016-2018 action plan which aims to restore revenue and EBITDA growth by 2018 and puts the 2016-2018 FTTH infrastructure CAPEX budget at ca. PLN 2.2bn, expected to widen coverage to 3.5 million households. Orange plans to expand its LTE reach using the frequencies won in last year's auction. By 2017, LTE coverage is to be 99%. Moreover Orange wants to increase its market share in fixed-line broadband and mobile services. The convergent subscriber base is to exceed 1 million by 2018, with the share of customers using three or more Orange services expected to increase to 45%. After it finalizes the network upgrades, Orange is poised to become the Polish leader in terms of infrastructure and the B2C and B2C service offer. The raised medium-term net debt/EBITDA target at 2.2x reassures us in our 2016 dividend expectations. We maintain a bullish outlook for OPL.

Media

Agora

Buy

Analyst: Paweł Szpigiel		Current price:	PLN 11.6					Last rating:	2016-02-02
		Target price:	PLN 14.1						
(PLN m)	**2013**	**2014**	**change**	**2015**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	1,073.9	1,102.4	2.7%	1,189.3	7.9%	1,185.5	-0.3%	Number of shares (m)	50.9
EBITDA	103.5	77.7	-24.9%	120.7	55.4%	119.0	-1.4%	MC (current price, PLN m)	590.9
EBITDA margin	9.6%	7.0%		10.2%		10.0%		EV (current price, PLN m)	629.4
EBIT	7.4	-18.3		18.7		25.5	36.3%	Free float	62.0%
Net profit	0.5	-12.6		12.7		14.8	16.2%		
P/E	1,284.5			46.5		40.0		Price change: 1M	3.4%
P/CE	6.1	7.1		5.2		5.5		Price change: 6M	2.7%
P/BV	0.5	0.5		0.5		0.5		Price change: 12M	11.8%
EV/EBITDA	5.9	7.8		5.2		5.5		Low (52 weeks)	9.8
Dyield (%)	0.0	0.0		0.0		4.3		High (52 weeks)	13.9

In the last two years, Agora has transformed its business model from one where print media accounted for nearly 40% of the annual EBITDA to one where in 2015 this ratio is expected to have fallen to 16%. This marks a shift to a lower-risk investment profile for Agora, and given this we consider the 5.5x 2016E EV/EBITDA ratio at which the Company is valued to be underestimated. Agora's earnings have been undergoing positive changes, including stabilization of revenues in Press, a rebound in Outdoor, which drives profitability, and savings in back office costs. Further Agora delivered good earnings results for Q4 2015, and its outlook for 2016 looks buoyant given the expected rebound in advertising expenditures. We maintain a buy rating for AGO with the price target at PLN 14.10 per share

Cyfrowy Polsat

Hold

Analyst: Paweł Szpigiel		Current price:	PLN 23.75					Last rating	2016-02-02
		Target price:	PLN 22.1						
(PLN m)	**2013**	**2014**	**change**	**2015**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	2,910.8	7,409.9	154.6%	9,823.0	32.6%	9,870.5	0.5%	Number of shares (m)	639.5
EBITDA	1,046.3	2,738.1	161.7%	3,685.1	34.6%	3,528.9	-4.2%	MC (current price, PLN m)	15,189.1
EBITDA margin	35.9%	37.0%		37.5%		35.8%		EV (current price, PLN m)	26,224.1
EBIT	789.9	1,442.3	82.6%	1,985.8	37.7%	1,913.4	-3.6%	Free float	33.5%
Net profit	525.5	292.4	-44.4%	1,163.4	297.9%	1,203.7	3.5%		
P/E	15.7	51.9		13.1		12.6		Price change: 1M	11.5%
P/CE	10.6	9.6		5.3		5.4		Price change: 6M	3.3%
P/BV	2.8	4.9		1.5		1.3		Price change: 12M	-1.7%
EV/EBITDA	9.4	6.1		7.1		7.0		Low (52 weeks)	20.3
Dyield (%)	0.0	0.0		0.0		0.0		High (52 weeks)	26.1

Cyfrowy does not show any upside potential in our view in the year ahead. At the moment, CPS is trading at a steep premium to rival Orange Polska which we consider undeserved given their similar FCF Yields of ca. 12% and Cyfrowy's much higher debt (with 2015 year-end net debt/EBITDA after the Midas acquisition estimated at 3.4x). Further, Cyfrowy does not offer fixed-line communications, which means it is set to see contraction in B2B margins and an outflow of subscribers in big cities. On a positive note the Company reported Q4 2015 results in line with expectations and delivered promising KPIs. With the recent allocation of LTE frequencies to rival telecoms, Cyfrowy faces intensified competition in mobile broadband in regional and rural areas which could result in missed earnings forecasts in the coming years. Cyfrowy has promised it will pay dividends to shareholders this year, but the size of the payout will most likely be predicated on the market trends in the second half of the year.

Dom Maklerski

Wirtualna Polska	Buy							
Analyst: Paweł Szpigiel	Current price:	PLN 39.51					Last rating	2016-01-28
	Target price:	PLN 50						

(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	38.3	248.3	547.9%	315.0	26.9%	420.9	33.6%	Number of shares (m)	29.8
EBITDA	4.8	51.0	953.8%	95.5	87.1%	129.8	36.0%	MC (current price, PLN m)	1,176.4
EBITDA margin	12.6%	20.5%		30.3%		30.8%		EV (current price, PLN m)	1,378.2
EBIT	1.6	22.7	1299.0%	65.9	190.6%	93.2	41.3%	Free float	33.6%
Net profit	1.6	-0.3		12.1		82.0	580.4%		
P/E	184.6			97.6		14.3		Price change: 1M	2.6%
P/CE	61.8	42.0		28.3		9.9		Price change: 6M	0.6%
P/BV	3.5	2.1		3.1		2.6		Price change: 12M	
EV/EBITDA	61.0	26.1		14.4		10.1		Low (52 weeks)	32.0
Dyield (%)	0.0	1.2		0.0		5.6		High (52 weeks)	41.2

WPH has a good outlook for FY2016 thanks to the rebound in the range of 7%-18% in online advertising expenditures projected by different media houses, driven by the changing public media landscape in the wake of the 2015 general election. In a bid to ensure that public broadcasters better fulfill their public service mission, Poland's new government is planning to limit advertising by state TV stations. Combined with the raised prices of TV ad rates, this is going to prompt a reallocation of advertising budgets to commercial media and on line. As a result, we anticipate that WPL can achieve organic EBITDA growth of 16% in 2016 to PLN 123m. With an additional boost of over PLN 9m expected to be provided by the recent acquisition, Enovatis, owner of the travel booking sites wakacje.pl and easygo.pl, the total annual EBITDA figure could be as high as PLN 132m, implying a 2016E EV/EBITDA ratio of 9.8x, representing a discount of nearly 24% compared to the sector. Moreover WPH is expected to deliver good results for Q4 2015, with adjusted EBITDA showing y/y growth of 27%. We maintain a buy rating for WPL with the price target at PLN 50.00.

IT

Asseco Poland — Buy

Analyst: Paweł Szpigiel | Current price: PLN 58.35 | Target price: PLN 65.9 | Last rating: 2016-02-02

(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	5,898.1	6,231.9	5.7%	7,061.7	13.3%	7,258.8	2.8%	Number of shares (m)	83.0
EBITDA	875.0	905.1	3.4%	1,033.1	14.1%	1,066.3	3.2%	MC (current price, PLN m)	4,843.1
EBITDA margin	14.8%	14.5%		14.6%		14.7%		EV (current price, PLN m)	7,427.5
EBIT	610.5	636.7	4.3%	750.0	17.8%	775.1	3.4%	Free float	68.0%
Net profit	393.9	358.4	-9.0%	356.6	-0.5%	367.6	3.1%		
P/E	12.3	13.5		13.6		13.2		Price change: 1M	2.5%
P/CE	7.4	7.7		7.6		7.4		Price change: 6M	7.7%
P/BV	0.6	0.6		0.6		0.6		Price change: 12M	0.8%
EV/EBITDA	8.0	8.1		7.2		6.8		Low (52 weeks)	52.0
Dyield (%)	4.1	4.5		5.0		5.2		High (52 weeks)	61.9

Asseco offers above-average dividend-paying potential (DYield = 5.0%), low investment risk (Beta = 0.4x), a healthy balance-sheet position, and geographic diversification, all characteristics that should be attractive to investors. What is more, Asseco's international subsidiaries are generating record earnings, at Formula Systems supported by the dollar's appreciation vs. the zloty. We expect Asseco to report record revenues for Q4 2015, driven by an increase to an estimated PLN 450m in the standalone revenue of the parent company owed to big public IT infrastructure orders. At the same time, due to a write-off of PLN 23.4m related to the terminated digital medical records contract with the Health Ministry (codename: 'P1'), the standalone EBIT will be low at PLN 32.3m, but the bottom-line profit should show 8% y/y growth at a projected PLN 97m. We maintain a buy rating for ACP with the price target at PLN 65.90 per share.

CD Projekt — Buy

Analyst: Piotr Bogusz | Current price: PLN 24 | Target price: PLN 26.5 | Last rating 2016-02-02

(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	142.2	96.2	-32.3%	805.4	737.3%	293.5	-63.6%	Number of shares (m)	96.9
EBITDA	17.5	9.3	-46.9%	438.1	4604.5%	140.3	-68.0%	MC (current price, PLN m)	2,324.4
EBITDA margin	12.3%	9.7%		54.4%		47.8%		EV (current price, PLN m)	1,987.8
EBIT	14.4	6.2	-57.3%	432.4	6930.3%	133.7	-69.1%	Free float	47.5%
Net profit	14.5	5.2	-64.1%	357.8	6764.2%	114.6	-68.0%		
P/E	157.0	437.2		6.5		20.3		Price change: 1M	
P/CE	129.1	272.1		6.4		19.2		Price change: 6M	
P/BV	13.7	13.6		4.4		3.6		Price change: 12M	
EV/EBITDA	127.7	241.0		4.5		12.9		Low (52 weeks)	
Dyield (%)	0.0	0.0		0.0		0.0		High (52 weeks)	

The key upcoming value-driving event in March is the 2015 earnings conference, scheduled for March 10th, during which CD Projekt is expected to present its updated growth strategy for the coming years. We believe CDR will deliver strong financial results for Q4 2015, supported by seasonal factors and high sales of downloadable content for *The Witcher*. Sales in the period were driven by intensified marketing, the October release of the first add-on to The Witcher 3, and an appreciation in the USDPLN exchange rate. Based on this, assuming the Company sold 9 million copies of The Witcher in 2015, we predict that the quarterly revenue increased 4.8 times relative to Q4 2014 at an estimated PLN 179.5m. At the same time, we expect to see year-over-year gross margin expansion from 35.2% to 74.8%. The Q4 COGS related to The Witcher 3 are estimated at PLN 17m. After SG&A expenses of PLN 32.9m (vs. PLN 9.8m in Q4 2014), the quarterly EBIT should show an amount 80 times the year-ago figure at a projected PLN 92.6m. After financing activity to the tune of PLN 7.4m and tax at 19%, CD Projekt is set to report a net profit of PLN 81.1m in Q4 2015 vs. PLN 4.9m in the same period the year before. Looking at the upside potential, we recommend buying CDR.

Resources

KGHM	Hold								
Analyst: Michał Marczak	Current price:	PLN 73.5						Last rating	2016-02-02
	Target price:	PLN 63							
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	24,110.0	20,492.0	-15.0%	19,080.0	-6.9%	18,138.0	-4.9%	Number of shares (m)	200.0
EBITDA	5,952.0	5,311.0	-10.8%	2,813.7	-47.0%	3,911.4	39.0%	MC (current price, PLN m)	14,700.0
EBITDA margin	24.7%	25.9%		14.7%		21.6%		EV (current price, PLN m)	22,989.3
EBIT	4,372.0	3,676.0	-15.9%	916.7	-75.1%	1,908.3	108.2%	Free float	68.2%
Net profit	3,033.0	2,450.0	-19.2%	-2,201.4		28.3			
P/E	4.8	6.0				520.0		Price change: 1M	28.9%
P/CE	3.2	3.6				7.2		Price change: 6M	-4.0%
P/BV	0.6	0.6		0.6		0.6		Price change: 12M	-38.8%
EV/EBITDA	2.8	3.6		8.2		6.0		Low (52 weeks)	52.3
Dyield (%)	13.3	6.8		6.1		2.7		High (52 weeks)	131.0

Exchange-monitored copper inventories increased by 25,000 tons in February, indicating a rebound in demand from China. Prices of industrial metals and commodities in general are recovering in line with crude oil, but we anticipate high volatility in the months ahead due to worsening macro. All in all, we predict copper will reach $4,800/t at the end of 2016. In the mean time, however, we foresee a spate of rating downgrades and bankruptcies in the global mining industry, resulting in an eventual reduction in supply which will make for a good opportunity to take positions for the long term. At KGHM, the expected shift in the business strategy toward a greater focus on capital investment at home is likely to result in a widening of the valuation discount attached to KGH by foreign investors. The Company has recently announced one-time write-offs of PLN 4.854 billion against the standalone profits for 2015 following asset impairment tests. On a consolidated basis, the charges will total PLN 5.06bn, of which PLN 3.07bn affecting Sierra Gorda, PLN 936m written off the Sudbury investment, PLN 827m pertaining to the Robinson mine, and PLN 230m affecting the Franke mine investment. KGHM notes that the updated estimates may be subject to change, and that the final values will be presented in the FY2015 financial statements scheduled for release on 17 March. The resulting high quarterly net loss will not affect KGHM's FCF or its ability to fulfill loan covenants. We maintain a hold rating for KGH.

LW Bogdanka	Hold								
Analyst: Michał Marczak	Current price:	PLN 37.85						Last rating	2016-02-02
	Target price:	PLN 33							
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	1,899.8	2,013.6	6.0%	1,860.8	-7.6%	1,893.3	1.7%	Number of shares (m)	34.0
EBITDA	754.9	750.0	-0.7%	632.9	-15.6%	588.2	-7.1%	MC (current price, PLN m)	1,286.9
EBITDA margin	39.7%	37.2%		34.0%		31.1%		EV (current price, PLN m)	1,827.1
EBIT	424.8	362.3	-14.7%	245.3	-32.3%	194.8	-20.6%	Free float	100.0%
Net profit	329.7	272.4	-17.4%	184.7	-32.2%	147.2	-20.3%		
P/E	3.9	4.7		7.0		8.7		Price change: 1M	17.7%
P/CE	2.0	2.0		2.2		2.4		Price change: 6M	-23.0%
P/BV	0.5	0.5		0.5		0.5		Price change: 12M	-57.4%
EV/EBITDA	2.3	2.6		2.9		3.1		Low (52 weeks)	30.4
Dyield (%)	15.3	15.3		9.2		0.0		High (52 weeks)	88.9

Despite a 9% rebound in the oil price, prices of thermal coal at ARA ports failed to budge from their $45.8/t level, while prices in Asia moved up 4% to $50.8/t. For now, as global prices of coal remain low, we see no upside potential in LWB (the coal glut is so bad that even a rebound in oil cannot help). At home, potential growth drivers disappeared after the government has changed its stance on state coal mine restructuring toward a more union-friendly one. Meanwhile, coal miners are escalating their demands and threatening a general strike. In December the government launched a coal purchase program for state coal mines via its Material Reserves Agency to help keep mines afloat; the prices and volumes are confidential. In our view, Poland's ruling party Law and Justice has the mandate right now to launch deep-cutting reforms in coal (including closures of loss-making mines and cutting worker pay to more realistic levels, which would have a positive effect on Bogdanka), which it will probably not use as it tries not to alienate the popular vote. We maintain a hold rating for LWB with the price target at PLN 33 per share.

Industrials

Polish manufacturing growth

(%)	Jan'15	Feb'15	Mar'15	Apr'15	May'15	Jun'15	Jul'15	Aug'15	Sep'15	Oct'15	Nov'15	Dec'15	Jan'16
Y/Y change	+1.7%	+4.9%	+8.8%	+2.3%	+2.8%	+7.6%	+3.8%	+5.3%	+3.1%	+2.4%	+7.8%	+6.7%	+1.4%

Source: GUS

The leading indicators for the EU manufacturing sector in March continue on the downward trend observed for the last few months. The Manufacturing PMI numbers ended February at 50.5 points in Germany (the lowest level since November 2014), 50.2 points in France, 50.8 points in the UK (the lowest level since 2013), and 52.2 points in Italy (the lowest level since 2014), as confidence declines on fears of continued slowdown in developing countries, especially in China and Brazil. The US manufacturing data has been coming in weaker as well. At the same time, in Poland, PMI climbed to 52.8 points in February from 50.9 points in January, driven by higher exports which benefit from the zloty's weakness vis-à-vis the euro. A weaker zloty is expected to drive the earnings results of Polish exporters in the months ahead.

Our Q4 2015 earnings estimates for the Polish industrial sector put the percentage of companies likely to report year-over-year growth in the period at 47%, with the ratio of companies experiencing a slowdown at an estimated 35%, marking improvement from the previous quarter. Among the companies expected to deliver the strongest growth are Berling, Elemental Holding, Feerum, Forte, Grupa Azoty, Oponeo, Pozbud, and Uniwheels. On the other hand, we anticipate worsened profits at Boryszew, Synthos, and PKM Duda.

Valuation

Our mDM Industrials price tracker has fallen 6.1% year to date while at the same time MSCI Industrials Europe declined 0.8% and MSCI Industrials World edged down 2.1%. Our sample also underperformed the Polish benchmarks: the WIG20 (-1.8%) and the WIG composite (-2.4%).

Today, the stocks making up our industrial sample are valued at discounts of 18%-28% on 2016E P/E (10.9x) and EV/EBITDA (7.1x) relative to MSCI Industrials World and Europe.

Our **top picks** for the month ahead are Alumetal (strong auto sales, capacity increase in H2, strong earnings outlook, lower energy costs expected to add PLN 2-3m to 2016 net profit, higher export profits thanks to weak PLN), Amica (UK acquisition, low valuation relative to the sector, higher export profits thanks to weak PLN, increasing sales to EU), Elemental (acquisitions, new capacity launch in H2, strong earnings outlook), Kernel (set for strong earnings growth in 2016, beneficiary of weak UAH/USD, reduced debt suggests higher dividend or more M&A), and UNIWHEELS (strong earnings growth, lower gas costs, low relative valuation, a major beneficiary of a weak PLN/EUR).

Our **least favorite** investments for March include Alchemia (trading at an expensive price despite a lack of earnings growth and weaker demand from the oil industry), Boryszew (overpriced compared to other European automotive suppliers, subsidiary sell-off), Patentus (high debt, high exposure to the troubled Polish coal industry through sales contracts), and PGO (which is overvalued).

Recommended Portfolio Allocations

Company	Weight	Price (PLN)	P/E			EV/EBITDA			DY			P/(BV-goodwill)			2015E Net Debt / EBITDA
			'14	'15	'16	'14	'15	'16	'14	'15	'16	'14	'15	'16	
AC Auto Gaz	MW	34.78	12.8	11.9	11.9	8.5	7.9	7.8	6.6%	6.6%	7.2%	3.3	3.1	3.0	-0.3
Alchemia	UW	5.00	65.2	-	-	17.9	132.2	34.4	0.0%	0.0%	0.0%	1.6	1.8	1.7	10.5
Alumetal	OW	50.99	13.2	9.9	9.4	10.5	8.2	7.7	2.7%	3.8%	5.0%	2.4	2.1	1.9	1.0
Amica	OW	171.00	17.0	13.9	11.0	8.3	8.2	7.5	2.0%	1.8%	2.2%	3.0	3.0	2.0	0.9
Apator	MW	27.37	11.4	15.9	12.2	8.1	10.1	7.7	4.0%	3.5%	2.5%	3.4	3.2	2.8	1.4
Berling	OW	3.93	9.9	7.9	8.2	4.4	3.5	3.4	7.7%	5.1%	6.4%	0.9	0.8	0.8	-2.9
Boryszew	UW	4.56	10.0	27.0	19.4	7.9	10.1	9.2	0.0%	2.2%	1.3%	1.3	1.4	1.3	3.6
BSC Drukarnia	MW	33.60	15.3	10.7	12.1	8.9	7.0	6.6	1.5%	1.8%	3.3%	1.7	1.5	1.4	-0.6
Ceramika NG	MW	1.24	25.9	619.7	102.9	6.5	6.7	5.8	6.4%	8.1%	4.0%	0.3	0.3	0.3	2.8
Cognor	MW	0.95	11.1	-	72.6	5.3	9.0	5.5	0.0%	0.0%	0.0%	0.4	0.4	0.4	7.9
Duda	MW	5.66	7.0	19.2	13.3	5.7	7.8	7.2	0.0%	0.0%	0.0%	0.5	0.5	0.5	3.9
Ergis Eurofilms	OW	4.43	9.4	26.9	7.2	5.7	5.5	4.9	2.2%	3.4%	5.0%	1.2	1.0	0.9	2.3
ES System	MW	2.79	19.2	12.2	13.6	6.3	5.3	5.2	1.8%	12.5%	7.2%	0.8	0.8	0.8	-0.9
Fasing	MW	16.58	6.2	6.5	5.4	2.8	3.2	3.2	4.2%	4.8%	3.4%	0.4	0.4	0.4	1.4
Feerum	MW	18.90	25.9	15.1	9.9	16.5	9.8	6.0	0.0%	1.1%	1.7%	1.9	1.7	1.5	1.1
Ferro	MW	10.50	9.3	9.2	8.5	8.2	8.4	7.8	9.5%	9.5%	8.7%	2.8	2.7	2.5	2.5
Forte	MW	54.60	17.3	15.6	15.3	12.1	11.9	10.7	2.7%	3.7%	1.6%	3.1	2.8	2.5	0.7
Grajewo	OW	26.31	16.3	47.8	17.4	5.6	5.7	5.2	0.0%	0.0%	4.0%	1.4	1.1	1.1	2.6
Hydrotor	MW	36.88	12.3	11.2	11.2	6.3	5.8	5.2	5.4%	5.4%	6.7%	1.1	1.1	1.0	0.0
Impexmetal	MW	2.43	4.3	6.2	6.1	5.5	6.1	5.6	0.0%	0.0%	0.0%	0.5	0.4	0.4	2.4
Izostal	MW	4.25	28.3	20.0	10.5	17.5	12.8	7.5	2.8%	1.6%	2.5%	0.9	0.8	0.8	3.0
Koelner	MW	9.05	21.1	15.0	14.8	10.4	7.8	7.3	3.6%	3.6%	4.0%	0.9	0.9	0.8	3.4
Kruszwica	MW	46.11	8.8	10.4	10.9	4.9	5.6	5.5	5.1%	5.7%	5.7%	1.5	1.4	1.3	-1.0
Lena Lighting	OW	4.45	11.1	11.0	9.7	7.6	7.2	7.1	6.7%	6.7%	9.0%	1.2	1.2	1.2	0.2
Libet	MW	1.78	10.0	12.5	12.6	4.8	4.8	4.6	2.8%	0.0%	2.4%	0.4	0.4	0.4	2.6
Mercor	MW	8.79	19.3	15.8	9.4	10.1	8.8	7.1	105.3%	11.6%	8.7%	1.4	1.7	2.0	2.8
Oponeo	MW	27.20	94.0	35.6	35.2	33.1	21.7	22.3	0.3%	0.2%	0.8%	6.3	5.6	5.1	-2.5
Orzeł Biały	MW	6.42	251.5	31.2	25.8	17.6	8.0	8.1	0.0%	0.0%	0.0%	0.5	0.5	0.4	1.1
Patentus	UW	0.58	7.8	-	-	4.6	6.5	8.7	0.0%	0.0%	0.0%	0.2	0.2	0.2	4.8
PG Odlew	UW	5.76	31.3	14.5	26.0	16.9	12.4	13.3	0.0%	0.0%	1.7%	2.8	2.3	2.0	1.3
Pozbud	OW	4.00	8.1	7.3	6.2	6.3	5.3	5.1	3.3%	0.0%	4.8%	0.7	0.6	0.6	1.0
Radpol	MW	6.49	17.5	41.9	25.1	9.2	12.4	10.8	4.3%	4.3%	1.9%	1.9	1.9	1.9	3.8
Relpol	OW	7.80	14.6	9.7	8.9	6.2	4.9	4.8	3.2%	4.9%	6.2%	1.1	1.0	1.0	0.1
Seco Warwick	MW	13.50	-	-	7.0	8.5	23.5	4.1	0.0%	0.0%	1.6%	0.8	1.0	0.9	2.9
Selena FM	MW	15.46	17.0	12.9	10.9	5.3	6.1	6.1	1.8%	1.8%	2.3%	0.9	0.8	0.8	1.7
Tarczyński	MW	13.97	13.6	9.0	9.0	7.2	6.0	5.6	0.0%	0.0%	4.7%	1.2	1.1	1.0	2.9
Ursus	OW	2.45	7.3	23.4	7.5	7.2	9.1	5.8	0.0%	0.0%	0.0%	1.3	1.0	0.9	3.0
Zamet Industry	MW	1.71	6.3	11.8	12.2	4.6	7.4	7.2	0.0%	0.0%	0.0%	1.3	1.2	1.2	1.4
Zetkama	MW	86.99	14.4	12.9	11.7	9.8	8.4	7.9	0.0%	0.0%	1.9%	2.3	1.9	2.2	0.0
ZM Kania	MW	2.10	8.3	7.5	7.9	7.6	6.5	7.2	0.0%	0.0%	0.0%	1.5	1.3	1.1	2.7
ZM Ropczyce	MW	20.40	9.3	6.5	7.6	6.3	5.7	5.6	3.2%	3.2%	4.6%	0.4	0.4	0.4	2.6

Source: Dom Maklerski mBanku; UW = Underweight, MW = Market Weight, OW = Overweight

Elemental

Buy

Analyst: Jakub Szkopek	Current price:	PLN 3.67	Last rating	2016-01-08
	Target price:	PLN 4.8		

(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	859.6	772.3	-10.1%	911.0	18.0%	1,151.1	26.4%	Number of shares (m)	170.5
EBITDA	28.6	41.2	43.9%	61.6	49.4%	81.6	32.4%	MC (current price, PLN m)	625.6
EBITDA margin	3.3%	5.3%		6.8%		7.1%		EV (current price, PLN m)	693.7
EBIT	25.7	34.9	35.6%	50.9	45.7%	70.9	39.3%	Free float	37.5%
Net profit	24.4	31.1	27.4%	45.5	46.2%	53.8	18.3%		
P/E	23.2	18.7		13.7		11.6		Price change: 1M	-2.9%
P/CE	20.8	15.5		11.1		9.7		Price change: 6M	-16.8%
P/BV	2.2	2.1		2.0		1.7		Price change: 12M	-8.3%
EV/EBITDA	21.7	14.8		11.3		9.4		Low (52 weeks)	3.5
Dyield (%)	0.0	0.0		0.0		0.0		High (52 weeks)	4.7

Elemental is poised to deliver another outstanding earnings season in 2016, with EBITDA growth reaching an estimated 40% and topline growth at an annual rate of 18%, driven by new acquisitions: the Slovenian waste recycler Gorenje Surovina and the Polish spent catalyst recycler PGM Group. Further, with the completion by the end of the year of sampling and assaying lines for printed circuit boards (PCB) and scrap catalytic converters (CAC), the Company will shorten the receivables cycle and increase recycling margins. Elemental is scheduled to release its earnings report for Q4 2015 on 18 March, and we expect to see year-on-year growth of 78% in the quarterly EBITDA and 55% in net profit. We maintain a buy rating for EMT with the price target intact at PLN 4.80.

Famur

Buy

Analyst: Jakub Szkopek	Current price:	PLN 1.6	Last rating	2016-02-02
	Target price:	PLN 2.2		

(PLN m)	2013	2014	change	2015	change	2016E	change	Key metrics	
Revenue	1,176.4	708.8	-39.8%	775.0	9.3%	753.0	-2.8%	Number of shares (m)	481.5
EBITDA	384.7	275.9	-28.3%	205.3	-25.6%	203.9	-0.7%	MC (current price, PLN m)	770.4
EBITDA margin	32.7%	38.9%		26.5%		27.1%		EV (current price, PLN m)	827.9
EBIT	224.6	121.9	-45.7%	62.6	-48.7%	61.2	-2.3%	Free float	13.6%
Net profit	207.6	100.3	-51.7%	49.8	-50.3%	48.6	-2.4%		
P/E	3.7	7.7		15.5		15.9		Price change: 1M	-8.6%
P/CE	2.1	3.0		4.0		4.0		Price change: 6M	-5.3%
P/BV	0.7	0.9		0.9		0.8		Price change: 12M	-50.0%
EV/EBITDA	1.6	2.9		4.0		3.4		Low (52 weeks)	1.4
Dyield (%)	0.0	52.5		0.0		0.0		High (52 weeks)	3.4

Famur ended 2015 with a low net debt (PLN 73m; 0.4x 2015E EBITDA) and a high backlog of foreign orders (PLN 105m, up 7% from the previous year). With its low debt and competitive production costs, Famur offers a much safer risk profile than rival Kopex whose credit lines have recently been frozen after a covenant breach. Moreover, Famur has outstanding PLN 108m bonds maturing in 2020. Famur's earnings results for Q4 2015 came ahead of consensus estimates but fell slightly short of our expectations due to one-time losses totaling PLN 13m, including write-offs and damages. We view Famur as an interesting investment for the long term, and we rate FMF stock as a buy with the price target at PLN 2.20.

Dom Maklerski

Kernel

Accumulate

Analyst: Jakub Szkopek	Current price:	PLN 52.24					Last rating	2016-01-26
	Target price:	PLN 49						
(USD m)	**2012/13**	**2013/14**	**change**	**2014/15**	**change**	**15/16E**	**change**	**Key metrics**	
Revenue	2,796.8	2,393.3	-14.4%	2,329.5	-2.7%	2,293.1	-1.6%	Number of shares (m)	79.7
EBITDA	290.7	223.0	-23.3%	396.6	77.8%	320.0	-19.3%	MC (current price, PLN m)	4,162.7
EBITDA margin	10.4%	9.3%		17.0%		14.0%		EV (current price, PLN m)	4,499.9
EBIT	200.9	128.7	-35.9%	328.3	155.0%	253.2	-22.9%	Free float	59.8%
Net profit	111.3	-98.3		106.9		179.6	67.9%		
P/E	9.4			9.8		5.9		Price change: 1M	16.8%
P/CE	5.2			6.0		4.3		Price change: 6M	22.1%
P/BV	0.8	1.0		1.2		1.0		Price change: 12M	63.3%
EV/EBITDA	4.2	5.5		2.9		3.5		Low (52 weeks)	31.2
Dyield (%)	0.0	0.0		1.9		1.9		High (52 weeks)	55.2

Thanks to robust sales, combined with a depreciation in the value of the Ukrainian hryvnia versus the US dollar, Kernel achieved record profits on its farming business in the second quarter of fiscal 2016, ended 31 December 2015, with the consolidated EBITDA placing 30% ahead of our estimate and net profit registering a beat of 57%. In the weeks ahead, the Company is planning to take over a rival sunflower seed crushing plant with annual capacity for 560,000 tons of seed for US $95.8m, which will increase its total capacity by 19%. We expect Kernel to report increasing sales volumes across all operating segments in the third quarter of FY2016. On the downside, the Company faces narrower margins on sunflower oil production this year due to increased competition from new local capacity (Bunge 0.6mmt, Allseeds 0.8mmt). Nevertheless, based on Kernel's capacity guidance, we have revised our annual EBITDA forecast for Kernel's fiscal 2016 upward from US $320m to $350-355m. We are working on an updated earnings outlook for Kernel. For March, our rating for KER remains accumulate.

Kęty

Hold

Analyst: Jakub Szkopek	Current price:	PLN 282					Last rating	2016-02-02
	Target price:	PLN 277.8						
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	1,593.8	1,819.6	14.2%	2,017.3	10.9%	2,048.2	1.5%	Number of shares (m)	9.4
EBITDA	225.9	309.3	36.9%	332.8	7.6%	346.7	4.2%	MC (current price, PLN m)	2,662.6
EBITDA margin	14.2%	17.0%		16.5%		16.9%		EV (current price, PLN m)	2,942.8
EBIT	144.9	224.6	55.0%	241.0	7.3%	244.1	1.3%	Free float	82.0%
Net profit	153.5	169.0	10.1%	206.3	22.0%	186.8	-9.5%		
P/E	17.1	15.7		12.9		14.3		Price change: 1M	-1.3%
P/CE	11.2	10.4		8.9		9.2		Price change: 6M	-7.5%
P/BV	2.3	2.2		2.1		2.0		Price change: 12M	-11.6%
EV/EBITDA	12.5	9.1		8.8		8.5		Low (52 weeks)	265.0
Dyield (%)	2.1	3.5		5.1		4.6		High (52 weeks)	330.0

Kęty's FY2016 earnings guidance pegs sales revenue at PLN 2,145m, EBITDA at PLN 360m, and net profit at PLN 245m, and the targets are slightly higher than our own forecasts for the year. Kęty has set its 2016 CAPEX budget at PLN 359m, and it expects to owe interest of PLN 564m at the end of the year. At the same time, the Company is planning to distribute 60% of its net profit for 2015 as dividends to shareholders, implying a total payout of PLN 124.2m. In the year ahead Kęty faces a continued rise in competition in the Polish market for aluminum profiles after the addition of an estimated 27,000 tons of new capacity (equivalent to 40% of the capacity of Kęty) just in the course of 2015. The mounting competitive pressures in the coming years are expected to bring the Company's EBITDA margins from aluminum extrusions down below the five-year average. On the upside, in 2016 Kęty's aluminum systems business is poised for an EBITDA rebound thanks to lower costs of aluminum which accounts for 30% of the segment's total costs (the Q4 average zloty aluminum price including physical delivery premiums was 17% lower than in the three previous quarters). In general, the first half of 2016 is set to see upward momentum in both EBITDA and net earnings. On a less positive note, with pension funds holding a combined 70.6% of its shares, Kęty is exposed to potential sell-off risk in the event of changes in Poland's pension system. We maintain a neutral rating for KTY.

Kopex	**Suspended**								
Analyst: Jakub Szkopek	Current price:	PLN 2.3						Last rating	2016-03-04
	Target price:	PLN -							
(PLN m)	**2013**	**2014**	**change**	**2015**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	1,395.1	1,433.9	2.8%	1,193.7	-16.8%	953.2	-20.1%	Number of shares (m)	74.3
EBITDA	241.4	287.4	19.1%	-287.0		130.1		MC (current price, PLN m)	171.0
EBITDA margin	17.3%	20.0%		-24.0%		13.6%		EV (current price, PLN m)	626.4
EBIT	91.2	135.6	48.6%	-439.6		10.0		Free float	25.9%
Net profit	67.6	101.3	49.9%	-497.6		-11.9	-97.6%		
P/E	2.5	1.7						Price change: 1M	-30.5%
P/CE	0.8	0.7				1.6		Price change: 6M	-62.7%
P/BV	0.1	0.1		0.1		0.1		Price change: 12M	-78.7%
EV/EBITDA	2.4	1.9				4.9		Low (52 weeks)	2.2
Dyield (%)	2.5	0.0		0.0		0.0		High (52 weeks)	10.9

Kopex's financial results for Q4 2015 missed the mark by a wide margin due to massive impairment losses totaling PLN 430m. In addition, the write-offs drove the Company's 2015 year-end net debt/EBITDA ratio up to 6.8x, a level far exceeding the limit set by loan covenants. The consequence was a freeze on credit facilities imposed by the lenders, ING BSK and PKO BP, which is bound to hamper business in the first half of the year when Kopex faces operating losses led by revenue shrinkage on high fixed costs. In addition, with its liquidity in jeopardy, Kopex may have to raise capital through a share issue or through divestment by TDJ, the holder of 7.4 million shares. Due to the uncertain and risk-filled outlook, we are suspending coverage of Kopex.

UNIWHEELS	**Buy**								
Analyst: Jakub Szkopek	Current price:	PLN 132.3						Last rating	2016-01-12
	Target price:	PLN 142.9							
(EUR m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	337.2	362.6	7.5%	434.9	19.9%	460.1	5.8%	Number of shares (m)	12.5
EBITDA	38.3	46.3	20.9%	57.3	23.9%	60.8	6.2%	MC (current price, PLN m)	1,651.1
EBITDA margin	11.3%	12.8%		13.2%		13.2%		EV (current price, PLN m)	1,798.3
EBIT	23.6	32.1	36.0%	42.5	32.5%	42.1	-1.0%	Free float	38.7%
Net profit	13.2	22.2	67.5%	36.8	65.8%	40.4	9.7%		
P/E	23.0	13.7		10.3		9.4		Price change: 1M	4.3%
P/CE	10.9	8.4		7.4		6.4		Price change: 6M	6.7%
P/BV	3.6	3.7		2.0		1.7		Price change: 12M	26.0%
EV/EBITDA	10.0	8.5		7.2		7.1		Low (52 weeks)	105.0
Dyield (%)	2.4	0.0		2.6		4.9		High (52 weeks)	132.3

By expanding its aluminum wheel production capacity by 24% with the completion of a third factory in its Polish manufacturing complex, UNIWHEELS can increase sales by a projected 7.6% in 2016. The higher sales will be underpinned by a 3% expected decline in the average cost of aluminum combined with a 15% fall in the prices of natural gas fuel. What is more, UNIWHEELS this year will report lower SG&A expenses (after booking EUR 2.4m IPO costs in H1 2015), as well as reducing debt service costs by ca. EUR 3.8m thanks to a cut in the cost of a syndicated loan by 45bps and a conversion of a shareholder loan to equity. After all this we anticipate a 6.2% increase to EUR 60.8m in the EBITDA for 2016, and we expect net profit growth of 9.1% to EUR 40.4m. On top of this, UNIWHEELS is planning to distribute 50% of the net profit for 2015 as dividends to shareholders, implying a dividend yield of 5% at the current share price. We think UNI may join the WIG40 index some time in the next four months. UNIWHEELS is scheduled to release its earnings report for Q4 2015 on 24 March, and we expect to see year-on-year growth of 6.3% in the quarterly EBITDA and 42% in net profit. We maintain a buy rating for UNI with the price target at PLN 142.90 per share.

Vistal	Buy								
Analyst: Jakub Szkopek	Current price:	PLN 8.92						Last rating	2016-02-02
	Target price:	PLN 15.8							
(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	283.4	322.4	13.8%	393.7	22.1%	456.8	16.0%	Number of shares (m)	14.2
EBITDA	34.2	44.7	30.4%	44.6	-0.1%	49.8	11.7%	MC (current price, PLN m)	126.8
EBITDA margin	12.1%	13.9%		11.3%		10.9%		EV (current price, PLN m)	347.8
EBIT	23.5	27.1	15.3%	29.5	8.8%	34.2	15.9%	Free float	29.6%
Net profit	20.4	12.3	-39.7%	15.8	28.6%	18.7	18.3%		
P/E	6.2	10.3		8.0		6.8		Price change: 1M	11.5%
P/CE	4.1	4.2		4.1		3.7		Price change: 6M	-26.9%
P/BV	0.8	0.7		0.6		0.6		Price change: 12M	-18.1%
EV/EBITDA	7.2	6.9		7.8		7.0		Low (52 weeks)	7.9
Dyield (%)	0.0	0.0		3.4		3.1		High (52 weeks)	13.9

Vistal's current backlog is worth an estimated PLN 290m, marking year-on-year growth of 17.9%, and it includes a major offshore contract for PLN 75.5m and a PLN 71.6m contract for a stretch of the S7 expressway. Based on this, we predict that the Company can generate revenue of PLN 456.8m this year (+15.6% y/y), with EBITDA expected to reach PLN 49.8m (+11.5%) and net profit set to approximate PLN 18.7m (+17.9%). Despite falling prices of oil and the resulting drop in demand for offshore construction services, Vistal accumulated an offshore order backlog of PLN 84m at the end of 2015, representing an increase of 62% from year-end 2014. The 2016 outlook for the infrastructure business is supported by the planned EU-funded public road and railway projects. Vistal is scheduled to report the financial results for FY2015 on 21 March, and we expect a record year-end order backlog to be one of the highlights. We maintain a buy rating for VST.

Construction

Budimex	Accumulate								
Analyst: Piotr Zybała	Current price:	PLN 204.9					Last rating		2015-11-04
	Target price:	PLN 225.1							
(PLN m)	**2013**	**2014**	**change**	**2015**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	4,749.5	4,949.9	4.2%	5,134.0	3.7%	5,934.9	15.6%	Number of shares (m)	25.5
EBITDA	362.2	270.3	-25.4%	313.5	16.0%	370.9	18.3%	MC (current price, PLN m)	5,231.1
EBITDA margin	7.6%	5.5%		6.1%		6.2%		EV (current price, PLN m)	2,939.8
EBIT	333.3	247.3	-25.8%	292.2	18.1%	349.9	19.7%	Free float	30.9%
Net profit	300.5	192.0	-36.1%	235.8	22.8%	288.0	22.1%		
P/E	17.4	27.2		22.2		18.2		Price change: 1M	4.0%
P/CE	15.9	24.3		20.3		16.9		Price change: 6M	9.1%
P/BV	8.4	10.1		8.9		8.0		Price change: 12M	22.0%
EV/EBITDA	10.1	12.8		9.4		9.9		Low (52 weeks)	159.8
Dyield (%)	2.1	5.8		3.0		3.9		High (52 weeks)	218.0

As usual, Budimex's financial results for Q4 2015 proved better than anticipated by the market, with EBIT and the net profit showing respective beats of 15% and 13%. Based on the estimated standalone net profit for 2015, expected to be PLN 30m lower than the consolidated bottom-line figure due to lower dividend paid by the subsidiary Budimex Nieruchomości, we have revised our original 2016 DPS forecast from PLN 8.88 to some PLN 8.0-8.1, implying dividend yield of 3.9%. Budimex stands to be one of the few construction firms in Poland to generate significant earnings growth this year. After a temporary slowdown in the first half of the year, we anticipate a rebound in public infrastructure orders in the second half of the year, with Budimex continuing to deliver an uncontested hit rate, currently at 24%. In addition, the Company is actively expanding into railway construction with bids placed on most of the tenders held by the national railroad operator PKP PLK. We maintain an accumulate rating for BDX.

Elektrobudowa	Buy								
Analyst: Piotr Zybała	Current price:	PLN 119.2					Last rating		2015-12-03
	Target price:	PLN 170.5							
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	905.6	1,108.3	22.4%	1,194.1	7.7%	1,052.3	-11.9%	Number of shares (m)	4.7
EBITDA	38.8	49.3	27.0%	85.6	73.6%	86.4	1.0%	MC (current price, PLN m)	565.9
EBITDA margin	4.3%	4.4%		7.2%		8.2%		EV (current price, PLN m)	579.6
EBIT	24.7	35.7	44.7%	71.3	99.5%	72.8	2.1%	Free float	43.5%
Net profit	17.2	27.3	58.7%	53.8	96.8%	55.1	2.5%		
P/E	32.9	20.7		10.5		10.3		Price change: 1M	4.6%
P/CE	18.1	13.8		8.3		8.2		Price change: 6M	-22.1%
P/BV	1.7	1.7		1.4		1.4		Price change: 12M	6.5%
EV/EBITDA	12.7	12.3		6.8		5.9		Low (52 weeks)	103.1
Dyield (%)	1.7	1.7		0.0		3.4		High (52 weeks)	158.5

Elektrobudowa made two rather disappointing announcements in February, one regarding this year's dividend payout, with a DPS at PLN 4.00 set 30% below market expectations and 40% lower than we had anticipated. The second unsatisfying announcement was a preliminary 2015 net profit estimate which falls 7% short of consensus and our estimate. Based on the two announcements, Elektrobudowa is currently trading at 10.5x 2015E P/E, and the dividend yield it is set to offer this year is 3.4%. In our opinion, at the current level the Company still shows upside potential driven by a measured growth outlook in the year ahead. We maintain a buy rating for ELB.

Erbud

Buy

Analyst: Piotr Zybała	Current price:	PLN 27.04	Last rating	2016-02-03
	Target price:	PLN 36		

(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	1,225.1	1,693.8	38.3%	1,755.5	3.6%	1,620.5	-7.7%	Number of shares (m)	12.8
EBITDA	40.1	52.7	31.3%	66.1	25.5%	66.3	0.4%	MC (current price, PLN m)	345.1
EBITDA margin	3.3%	3.1%		3.8%		4.1%		EV (current price, PLN m)	344.0
EBIT	32.4	43.8	35.0%	56.2	28.4%	55.3	-1.7%	Free float	
Net profit	17.5	27.2	55.5%	34.4	26.7%	35.6	3.4%		
P/E	19.7	12.7		10.0		9.7		Price change: 1M	-2.5%
P/CE	13.7	9.6		7.8		7.4		Price change: 6M	-18.8%
P/BV	1.3	1.3		1.1		1.1		Price change: 12M	-19.1%
EV/EBITDA	8.0	5.1		5.2		4.7		Low (52 weeks)	22.2
Dyield (%)	0.0	2.7		1.9		4.0		High (52 weeks)	34.8

Erbud stock despite the upturn observed since mid-January is still trading 15% below the mid-November price it achieved after the announcement of 2015 third -quarter earnings results. The underperformance is led by a general market downturn, combined most likely with the 20% shrinkage to PLN 1.23bn in the order backlog as reported last September. With the focus just on the backlog, the market seems to have overlooked completely the fact that in the first nine months of 2015, on 17% higher revenues, Erbud registered EBITDA growth at a rate of 56%, and increased net profit by 74%. What is more, we believe the Company will deliver continued profit growth this year, driven by the improving efficiency of the power engineering business and the lack of one-time charges. Erbud is currently trading at 9.7x 2016E P/E and 4.7x EV/EBITDA. We maintain a buy rating for ERB.

Unibep

Buy

Analyst: Piotr Zybała	Current price:	PLN 10.05	Last rating	2016-02-03
	Target price:	PLN 12.1		

(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	920.5	1,079.7	17.3%	1,210.3	12.1%	1,398.3	15.5%	Number of shares (m)	35.1
EBITDA	34.0	32.1	-5.7%	36.1	12.6%	51.6	42.7%	MC (current price, PLN m)	352.5
EBITDA margin	3.7%	3.0%		3.0%		3.7%		EV (current price, PLN m)	312.0
EBIT	28.1	25.1	-10.5%	28.5	13.5%	43.6	52.7%	Free float	27.8%
Net profit	13.6	19.8	45.1%	22.9	15.5%	33.3	45.8%		
P/E	25.4	17.8		15.4		10.6		Price change: 1M	2.6%
P/CE	17.7	13.2		11.6		8.5		Price change: 6M	-7.4%
P/BV	1.9	1.8		1.6		1.5		Price change: 12M	-2.0%
EV/EBITDA	9.6	9.2		8.6		6.6		Low (52 weeks)	9.4
Dyield (%)	1.2	1.2		1.5		2.0		High (52 weeks)	13.5

We expect Unibep to have made up for the 2015 losses incurred in the German market with higher-than-expected profits achieved in domestic building construction and in modular housing for the Norwegian market, and so we believe the Company will fulfill our forecasts for the year. The outlook for 2016 is robust thanks to a backlog of orders approximating PLN 1.5bn (of which PLN 1.1bn due this year) - a record amount which accounts for more than 80% of our 2016 revenue forecast. Unibep has successfully filled the gap created by the absence of contracts from Germany and Russia with more orders acquired at home and in Belarus. Alongside construction, Unibep's residential real-estate business is generating increasing sales margins, and the new projects that are scheduled to begin this year will result in a strong upturn in the Company's profits in 2017, not yet factored into consensus expectations. We maintain a buy rating for UNI.

Property Developers

Capital Park — Accumulate

Analyst: Piotr Zybała				
	Current price:	PLN 5.96	Last rating	2015-10-02
	Target price:	PLN 6.5		

(PLN m)	2013	2014	change	2015E	change	2016E	change	Key metrics	
Revenue	38.7	54.8	41.6%	75.4	37.5%	124.5	65.1%	Number of shares (m)	105.3
EBITDA	43.4	-34.8		13.8		60.2	336.4%	MC (current price, PLN m)	627.8
EBITDA margin	112.0%	-63.4%		18.3%		48.4%		EV (current price, PLN m)	1,668.9
EBIT	43.0	-35.2		13.4		59.8	346.5%	Free float	
Net profit	25.6	-61.5		-32.1	-47.8%	14.1			
P/E	24.4					45.5		Price change: 1M	4.9%
P/CE	24.1					44.2		Price change: 6M	11.4%
P/BV	0.6	0.7		0.7		0.7		Price change: 12M	52.8%
EV/EBITDA	26.9			120.9		30.2		Low (52 weeks)	3.6
Dyield (%)	0.0	0.0		0.0		0.0		High (52 weeks)	6.1

Capital Park's shares gained an impressive 45% in 2015, and today at ca. 0.7x NAV the Company seems to be valued close to its fair value given the low ROE it is likely to generate in the next few years. Major upside-giving events coming in 2016 include the start of the Art Norblin development and the sale of the Eurocentrum office complex, both based in Warsaw. We maintain an accumulate rating for CAP.

Dom Development — Buy

Analyst: Piotr Zybała				
	Current price:	PLN 50.5	Last rating	2016-01-28
	Target price:	PLN 60.8		

(PLN m)	2013	2014	change	2015	change	2016E	change	Key metrics	
Revenue	676.4	784.3	16.0%	904.2	15.3%	1,025.2	13.4%	Number of shares (m)	24.8
EBITDA	76.5	72.3	-5.5%	106.9	47.9%	139.6	30.6%	MC (current price, PLN m)	1,250.9
EBITDA margin	11.3%	9.2%		11.8%		13.6%		EV (current price, PLN m)	1,395.3
EBIT	73.3	69.0	-5.9%	102.5	48.5%	135.5	32.2%	Free float	26.6%
Net profit	54.4	55.7	2.3%	80.7	45.0%	108.3	34.2%		
P/E	23.0	22.5		15.5		11.6		Price change: 1M	8.4%
P/CE	21.7	21.2		14.7		11.1		Price change: 6M	6.1%
P/BV	1.5	1.5		1.4		1.4		Price change: 12M	8.6%
EV/EBITDA	17.9	17.9		13.1		9.5		Low (52 weeks)	45.3
Dyield (%)	7.3	4.4		4.5		6.4		High (52 weeks)	55.0

Dom Development released in-line financial results for Q4 2015, and its outlook for 2016 also remains consistent with earlier projections. We are confident the Developer will deliver or, even more likely, exceed the 2016 guidance. Note that in Q4 2015 alone DOM purchased five land lots for development with capacity for over 1.8 homes. Note also that the time between land purchase and project start at DOM has shortened significantly in the past year, which means most of the homes planned on the sites acquired in Q4 are likely to be listed as soon as in 2016, potentially resulting in higher-than-currently-assumed sales. DOM has no plans to change its dividend policy in the foreseeable future, implying that from an estimated 6.3% this year the dividend yield could increase to 9.5% in 2018. We maintain a buy rating for DOM.

Echo Investment — Accumulate

Analyst: Piotr Zybała		Current price:	PLN 6.35					Last rating	2016-02-02
		Target price:	PLN 6.57						
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	517.4	577.4	11.6%	565.5	-2.1%	778.7	37.7%	Number of shares (m)	412.7
EBITDA	514.7	667.2	29.6%	285.4	-57.2%	366.3	28.3%	MC (current price, PLN m)	2,620.6
EBITDA margin	99.5%	115.6%		50.5%		47.0%		EV (current price, PLN m)	5,728.6
EBIT	510.5	662.2	29.7%	280.0	-57.7%	360.9	28.9%	Free float	36.8%
Net profit	331.1	405.1	22.3%	147.4	-63.6%	222.8	51.1%		
P/E	7.9	6.5		17.8		11.8		Price change: 1M	11.8%
P/CE	7.8	6.4		17.2		11.5		Price change: 6M	0.8%
P/BV	0.9	0.8		0.8		0.9		Price change: 12M	-5.1%
EV/EBITDA	9.3	7.9		20.1		16.8		Low (52 weeks)	5.2
Dyield (%)	0.0	0.0		0.0		22.5		High (52 weeks)	7.3

Just a few days prior to this writing, Echo Investment sold a 75% stake in Echo Prime Properties, the unit holding its commercial real-estate portfolio, consisting of office buildings and shopping centers, for the staggering price of EUR 1.2m. The deal has important implications for Echo. Firstly, we expect the Developer to recognize upward fair value adjustments on the Echo Prime portfolio in the financial statements for Q4 2015 to the tune of PLN 550-600m (PLN 1.33-1.45 per share). Since our current earnings estimates for the period do not factor in any such one-time gains, this means we may have to raise our price target for ECH. Assuming adjustments as estimated above, given the 20% surge in the share price last week, we estimate Echo's 2015 price-to-book value ratio at 0.82x. Secondly, the divestment will unlock free cash, estimated roughly at PLN 1.5bn (ca. PLN 3.70 per share), which can be used to pay dividends. As a result, Echo's LTV is likely to drop to just about 40% by year-end 2016 (taking into account the planned PLN 590m shareholder distribution and the PLN 500m CAPEX budget), creating room for a similarly generous dividend payout in 2017 if Echo also sells the commercial properties scheduled for completion this year. We will make a more accurate appraisal of the positive impact of the commercial portfolio sale in our updated valuation of Echo after the 2015 earnings release. For now we maintain an accumulate rating for ECH.

GTC — Buy

Analyst: Piotr Zybała		Current price:	PLN 6.97					Last rating	2015-11-20
		Target price:	PLN 8.2						
(EUR m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	122.9	124.3	1.2%	116.0	-6.7%	121.4	4.7%	Number of shares (m)	460.2
EBITDA	-121.1	-123.8	2.3%	77.3		116.6	50.8%	MC (current price, PLN m)	3,207.7
EBITDA margin	-98.6%	-99.6%		66.7%		96.0%		EV (current price, PLN m)	5,545.5
EBIT	-121.6	-124.3	2.3%	76.9		116.1	51.0%	Free float	58.8%
Net profit	-146.8	-183.8	25.2%	34.9		77.6	122.6%		
P/E				21.2		9.5		Price change: 1M	0.6%
P/CE				20.9		9.5		Price change: 6M	23.1%
P/BV	0.8	1.2		1.2		1.0		Price change: 12M	45.5%
EV/EBITDA				16.5		12.7		Low (52 weeks)	4.8
Dyield (%)	0.0	0.0		0.0		0.0		High (52 weeks)	7.5

GTC successfully restructured debt, completed a EUR 138m capital raise, and commenced the construction of a new shopping center in Warsaw, considered to be one of the two strategic projects, in 2015. As a result, between 2016 and 2018 the Developer is poised to see rapid growth in the value of its commercial property portfolio as the rental area expands by 50% from the current 537 to over 800 thousand square meters. At the same time, NAV will expand at 19% CAGR, and FFO Yield will increase from 4.5% today to a target 10.2% in 2019. The two shopping malls planned in Warsaw will be the key earnings drivers for GTC in the coming years. Note that our financial forecasts for GTC do not take into account potential fair value gains on investment properties. The average yield for the existing portfolio is 8.6%, implying potential for upward adjustments in the future. We maintain a buy rating for GTC.

Robyg	Buy								
Analyst: Piotr Zybała	Current price:	PLN 2.88						Last rating	2016-01-28
	Target price:	PLN 3.4							
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	485.9	409.3	-15.8%	468.8	14.5%	541.9	15.6%	Number of shares (m)	263.1
EBITDA	57.8	61.8	6.9%	59.9	-3.1%	108.8	81.6%	MC (current price, PLN m)	757.7
EBITDA margin	11.9%	15.1%		12.8%		20.1%		EV (current price, PLN m)	963.0
EBIT	56.7	60.5	6.6%	58.1	-3.8%	106.6	83.4%	Free float	16.5%
Net profit	26.1	42.3	62.1%	77.0	82.0%	84.0	9.1%		
P/E	28.8	17.8		9.8		9.0		Price change: 1M	-2.0%
P/CE	27.6	17.3		9.6		8.8		Price change: 6M	18.5%
P/BV	1.8	1.7		1.5		1.5		Price change: 12M	23.1%
EV/EBITDA	16.6	16.0		16.1		8.3		Low (52 weeks)	2.2
Dyield (%)	2.8	2.8		3.8		7.6		High (52 weeks)	2.9

Robyg is poised for two fat years ahead in terms of earnings growth which will be driven by the strong home sales generated in the last few years. On our baseline forecasts, the Company is trading at 9x 2016E P/E and 9.6x 2017E P/E. Robyg's 2016 closings and EBIT guidance suggests that the net profit for the year could exceed PLN 90m. Assuming new residential projects scheduled for the first half of 2016 are commenced without delay, in 2017 the Developer could beat our current earnings guidance by 10-20%. The growth outlook for the future is additionally supported by the plans to reduce the number of projects developed on a joint-venture basis. We maintain a buy rating for ROB.

Retail

AmRest	Buy								
Analyst: Piotr Bogusz	Current price:		PLN 183.4				Last rating		2016-02-02
	Target price:		PLN 217						
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	2,700.9	2,952.7	9.3%	3,338.8	13.1%	3,788.5	13.5%	Number of shares (m)	21.2
EBITDA	207.2	316.0	52.5%	424.7	34.4%	508.8	19.8%	MC (current price, PLN m)	3,890.6
EBITDA margin	7.7%	10.7%		12.7%		13.4%		EV (current price, PLN m)	4,925.1
EBIT	17.4	109.9	531.0%	203.6	85.2%	242.7	19.2%	Free float	33.3%
Net profit	9.9	51.7	419.5%	143.3	177.4%	154.4	7.7%		
P/E	397.3	75.3		27.1		25.2		Price change: 1M	-1.6%
P/CE	19.8	15.1		10.7		9.3		Price change: 6M	10.5%
P/BV	4.0	4.3		3.7		3.3		Price change: 12M	58.5%
EV/EBITDA	23.3	15.2		11.6		9.6		Low (52 weeks)	115.7
Dyield (%)	0.0	0.0		0.0		0.0		High (52 weeks)	199.4

AmRest is expected to deliver strong 2015 fourth-quarter results in March, driven by a 3% increase in sales per restaurant, cost discipline, and contributions from the recently-acquired Starbucks restaurants in Romania and Bulgaria. We estimate the total quarterly sales revenue at PLN 918m (+14.8% y/y), and thanks to low prices of food and cost savings, we believe the gross margin in the period expanded by 2ppts to 17.9%. By division we anticipate EBITDA margin expansion by 3.5ppts to 14.7% in Other CEE (in Q3 the EBITDA margin received a 6.1ppt boost to 15.4% thanks to contributions from the Romanian and Bulgarian Starbucks locations), and we predict total EBITDA of PLN 1.8m and EBITDA margin of 2.9% in New Markets. In Poland and Spain, the quarterly EBITDA margins will show estimated contraction of 0.6ppt and 1.5ppt to 12.3% and 21.1%, respectively. After asset impairment of PLN 17m, the consolidated Q4 2015 EBITDA should show year-on-year growth of 60% at an estimated PLN 107.2m, with the EBITDA margin rising by 3.3ppts to 11.7%. The net profit for Q4 2015 is likely to come in at PLN 25.2m after a y/y surge of 253.7%. We maintain a bullish outlook for EAT.

CCC	Hold								
Analyst: Piotr Bogusz	Current price:		PLN 147.3				Last rating		2016-03-04
	Target price:		PLN 149						
(PLN m)	**2013**	**2014**	**change**	**2015**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	1,643.1	2,009.1	22.3%	2,307.7	14.9%	3,212.5	39.2%	Number of shares (m)	38.4
EBITDA	203.4	295.9	45.5%	307.6	3.9%	397.9	29.4%	MC (current price, PLN m)	5,656.3
EBITDA margin	12.4%	14.7%		13.3%		12.4%		EV (current price, PLN m)	6,029.8
EBIT	167.5	243.2	45.2%	248.5	2.2%	315.5	26.9%	Free float	57.8%
Net profit	125.2	214.0	70.9%	195.0	-8.9%	206.1	5.7%		
P/E	45.2	26.4		29.0		27.4		Price change: 1M	17.7%
P/CE	35.1	21.2		22.3		19.6		Price change: 6M	-10.2%
P/BV	9.6	5.9		5.0		4.5		Price change: 12M	-20.6%
EV/EBITDA	28.7	20.5		19.6		16.6		Low (52 weeks)	109.0
Dyield (%)	1.1	1.1		2.0		1.0		High (52 weeks)	198.9

CCC reported good results for Q4 2015, with the gross margin exceeding the earlier guidance. Thanks to tight cost discipline, the quarterly per-square-meter SG&A were reduced by 19.7% relative to Q4 2014. As a result, EBIT at PLN 118.3m exceeded market expectations by 25.3% and net profit at PLN 105.2m posted a beat of 14.5%. This year, CCC reported an increase in the sales revenue for the first two months by 41.2% to PLN 322m compared to the same period in 2015, driven by favorable weather, clearance sales, and the consolidation of the recently-acquired online shoe retailer E-obuwie. The high sales mean that the Company managed to clear most of the 2015 autumn/winter inventory, improving the capacity to manage working capital. CCC's German stores achieved flat per-sqm sales in the first two months of 2016 despite a 94% y/y sales area expansion relative to the same period last year, implying total sales growth in the double digits. March is the peak sales month of the first quarter for CCC as spring/summer footwear lines are launched in stores at full prices. As the market leader in Poland, CCC is positioned to capitalize on the increasing purchasing power of Polish consumers. Its valuation going forward will be driven mainly by the performance of the German stores, sales margins, and lfl sales growth. We maintain a bullish outlook for CCC.

Eurocash

Reduce

Analyst: Piotr Bogusz		Current price:	PLN 51.9					Last rating	2016-02-02
		Target price:	PLN 47.3						
(PLN m)	**2013**	**2014**	**change**	**2015**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	16,537.5	16,963.8	2.6%	20,318.2	19.8%	22,096.4	8.8%	Number of shares (m)	138.7
EBITDA	402.1	412.5	2.6%	475.6	15.3%	538.4	13.2%	MC (current price, PLN m)	7,196.3
EBITDA margin	2.4%	2.4%		2.3%		2.4%		EV (current price, PLN m)	7,431.7
EBIT	285.7	287.2	0.5%	325.1	13.2%	386.0	18.7%	Free float	46.3%
Net profit	221.0	180.5	-18.3%	212.4	17.6%	255.9	20.5%		
P/E	32.8	39.9		33.9		28.1		Price change: 1M	-3.4%
P/CE	21.5	23.5		19.8		17.6		Price change: 6M	18.0%
P/BV	8.2	7.2		6.5		5.8		Price change: 12M	61.2%
EV/EBITDA	19.4	19.6		15.6		13.5		Low (52 weeks)	31.2
Dyield (%)	1.7	1.5		1.5		1.5		High (52 weeks)	58.3

Eurocash reported Q4 2015 earnings figures close to our forecasts. The highlight of the 2015 financial results was an increase in operating cash flow to PLN 978m, resulting in a reduction in the year-end net debt/EBITDA ratio from 2.1x in 2014 to 0.4x in 2015. Going forward, the room for improvement in inventory cycles is limited. In Q4 2015 Eurocash experienced contraction in the like-for-like sales generated by the Cash & Carry locations and the Delikatesy Centrum supermarkets by respective 3.53% and 0.28%. The Company opened only 73 new Delikatesy Centrum locations last year compared to the 120-140 target. The strong cash flow generated in 2015 gives Eurocash the capacity to make more acquisitions in 2016, with the potential targets most likely to be smaller businesses with limited impact on EUR's valuation and profits. Further, the 2016 outlook is supported by recovering prices of food, lfl sales, and consumer spending. At the same time, we believe Eurocash is overvalued at the current level, and so we give it a reduce rating.

Jeronimo Martins

Buy

Analyst: Piotr Bogusz		Current price:	EUR 13.865					Last rating	2016-02-02
		Target price:	EUR 15.1						
(EUR m)	**2013**	**2014**	**change**	**2015**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	11,829.3	12,680.0	7.2%	13,728.0	8.3%	14,624.9	6.5%	Number of shares (m)	629.3
EBITDA	777.0	732.0	-5.8%	784.2	7.1%	881.2	12.4%	MC (current price, EUR m)	8,725.2
EBITDA margin	6.6%	5.8%		5.7%		6.0%		EV (current price, EUR m)	9,300.7
EBIT	525.0	448.5	-14.6%	485.0	8.1%	574.1	18.4%	Free float	32.3%
Net profit	382.3	301.4	-21.2%	327.7	8.7%	401.5	22.5%		
P/E	22.8	28.9		26.6		21.7		Price change: 1M	5.5%
P/CE	13.8	14.9		13.9		12.3		Price change: 6M	19.7%
P/BV	6.3	6.3		6.5		4.9		Price change: 12M	35.7%
EV/EBITDA	12.0	12.6		11.9		10.0		Low (52 weeks)	44.4
Dyield (%)	2.4	2.4		4.5		0.0		High (52 weeks)	60.2

Jeronimo Martins is poised to see growth in 2016 in the like-for-like sales generated by its Polish supermarket chain Biedronka, driven by recovering prices of food combined with increased consumer spending. In Q4 2015 JMT reported lfl sales growth across all business lines, and it managed to maintain the EBITDA margin at the steady level of 5.8% compared to Q4 2014 by altering the sales mix, revamping store interiors, and maintaining cost discipline. In 2016, as prices of food start to recover from deflation amid favorable macroeconomic conditions, by offering new incentives for shoppers, JMT is expected to see continued sales growth at Biedronka supermarkets, which combined with the resulting dilution of SG&A, should support EBITDA margins. In 2015 JMT increased FCF to EUR 482m from EUR 267m the year before. In 2016 it is planning to increase capital expenditures (mainly on new stores and upgrades of existing locations). The update on the development of the Colombian Ara business in March should provide a boost to JMT's share price. We maintain a buy rating for JMT.

LPP	Reduce							
Analyst: Piotr Bogusz	Current price:	PLN 5099					Last rating	2016-02-02
	Target price:	PLN 4900						
(PLN m)	**2013**	**2014**	**change**	**2015**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	4,116.3	4,769.3	15.9%	5,130.3	7.6%	5,964.0	16.2%	Number of shares (m)	1.8
EBITDA	764.1	802.8	5.1%	726.8	-9.5%	757.1	4.2%	MC (current price, PLN m)	9,229.6
EBITDA margin	18.6%	16.8%		14.2%		12.7%		EV (current price, PLN m)	9,850.4
EBIT	615.9	609.1	-1.1%	503.2	-17.4%	505.0	0.4%	Free float	57.7%
Net profit	430.9	479.5	11.3%	352.0	-26.6%	385.7	9.5%		
P/E	21.4	19.2		26.2		23.9		Price change: 1M	-3.2%
P/CE	15.9	13.7		16.0		14.5		Price change: 6M	-35.3%
P/BV	6.2	5.6		4.9		4.1		Price change: 12M	-27.9%
EV/EBITDA	12.4	12.0		13.6		13.0		Low (52 weeks)	5,011.0
Dyield (%)	1.7	1.9		0.6		1.0		High (52 weeks)	8,099.0

Continuing market trends, intense competition, and cannibalization effects meant that LPP's sales in Q4 2015 increased at a slower rate (12.1%) than the pace of sales area expansion (16.7% y/y). Further, due to a higher USDPLN exchange rate and pricing pressures, the quarterly gross margin shrunk by 4.2ppts to 54.8%. After a reduction by 10.1% in per-sqm SG&A expenses, the Q4 2015 EBIT of PLN 235.9m and net profit of PLN 173.3m fell 10% short of market expectations. In the first two months of 2016, LPP registered an acceleration in sales which amounted to PLN 759m after a 21.3% increase from the same period last year while the retail area expanded by ca. 17%. The rebound was owed to end-of-season clearance sales at reduced prices which, combined with higher dollar costs of merchandise, caused a 6ppt y/y fall to 44% in the gross margin for the period. In the months ahead, margins should recover thanks to positive base effects, however the overall annual gross margin for 2016 is not likely to be maintained at the 2015 level. In addition, LPP faces upward salary pressure this year. LPP is trading at a premium to the sector which we consider undeserved given the slowdown this year in the rate of new store additions. We maintain a reduce rating for LPP.

Other

Work Service	Accumulate								
Analyst: Paweł Szpigiel	Current price:	PLN 11						Last rating	2016-02-02
	Target price:	PLN 13.7							
(PLN m)	**2013**	**2014**	**change**	**2015E**	**change**	**2016E**	**change**	**Key metrics**	
Revenue	918.4	1,739.8	89.4%	2,115.5	21.6%	2,381.6	12.6%	Number of shares (m)	67.4
EBITDA	8.7	89.1	922.1%	103.2	15.8%	120.5	16.7%	MC (current price, PLN m)	741.0
EBITDA margin	0.9%	5.1%		4.9%		5.1%		EV (current price, PLN m)	1,045.7
EBIT	3.9	89.1	2181.6%	91.8	2.9%	106.6	16.2%	Free float	30.6%
Net profit	26.5	36.2	37.0%	32.8	-9.4%	47.4	44.4%		
P/E	25.5	20.4		22.6		15.6		Price change: 1M	-10.6%
P/CE	21.6	20.4		16.7		12.1		Price change: 6M	-34.4%
P/BV	2.9	1.9		2.0		1.7		Price change: 12M	-48.8%
EV/EBITDA	87.5	9.9		10.1		8.6		Low (52 weeks)	11.0
Dyield (%)	0.0	0.0		0.0		0.0		High (52 weeks)	22.0

We maintain a positive outlook for Work Service. In 2015 the Company posted a decline in profits led by lower margins achievable on temporary work, which accounts for 70% of total sales, and this, combined with a 34% surge in SG&A, resulted in flat EBIT growth. The lower temp work margins were caused by the German business. The subsidiary joint venture with Fiege Logistik Stiftung receives nearly half of its orders from Fiege, which is a large logistics provider, and last year Fiege filed fewer orders for temporary staff. In 2016 part of these workers will be reallocated to other German customers, and the rate at which the reassignments are accomplished will shape WSE's stock performance in the coming months.

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

BZ WBK

rating	Hold	Accumulate	Buy	Accumulate
rating day	2015-09-15	2015-12-22	2016-02-02	2016-03-04
price on rating day	311.50	285.25	260.20	297.50
WIG on rating day	51519.45	46247.43	44294.89	46448.27

CCC

rating	Buy	Buy	Hold
rating day	2015-12-15	2016-02-02	2016-03-04
price on rating day	132.00	124.40	147.30
WIG on rating day	43887.16	44294.89	46448.27

Energa

rating	Reduce	Hold	Accumulate	Buy
rating day	2015-07-30	2015-11-25	2016-02-02	2016-03-04
price on rating day	19.70	13.50	13.48	13.11
WIG on rating day	52288.10	47908.15	44294.89	46448.27

Handlowy

rating	Hold	Hold	Accumulate	Accumulate	Hold
rating day	2015-07-03	2015-09-15	2015-12-22	2016-02-02	2016-03-04
price on rating day	92.97	85.50	70.00	74.46	84.41
WIG on rating day	53074.71	51519.45	46247.43	44294.89	46448.27

ING BSK

rating	Hold	Hold	Accumulate	Hold
rating day	2015-09-15	2015-12-22	2016-02-02	2016-03-04
price on rating day	123.20	120.25	111.00	121.45
WIG on rating day	51519.45	46247.43	44294.89	46448.27

Komercni Banka

rating	Hold	Accumulate
rating day	2016-02-02	2016-03-04
price on rating day	5239.00	4942.00
WIG on rating day	44294.89	46448.27

Kopex

rating	Hold	Suspended
rating day	2016-02-02	2016-03-04
price on rating day	3.53	2.30
WIG on rating day	44294.89	46448.27

Kruk

rating	Accumulate	Hold
rating day	2016-02-02	2016-03-04
price on rating day	168.70	187.50
WIG on rating day	44294.89	46448.27

Pekao

rating	**Hold**	**Reduce**	**Reduce**	**Sell**
rating day	2015-09-15	2015-12-22	2016-02-02	2016-03-04
price on rating day	164.40	147.50	139.40	156.70
WIG on rating day	51519.45	46247.43	44294.89	46448.27

PKN Orlen

rating	**Reduce**	**Hold**	**Reduce**
rating day	2015-10-09	2016-02-02	2016-03-04
price on rating day	64.50	61.43	64.73
WIG on rating day	51222.77	44294.89	46448.27

List of abbreviations and ratios contained in the publication:
OVERWEIGHT (OW) – a rating which indicates that we expect the stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market
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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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%
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