

27 November 2009

Update



## Construction

Poland

# Polimex Mostostal

**Buy**

MOSD. WA; PXM.PW

(Reiterated)

<b>Current price</b>	<b>PLN 3.70</b>
<b>Target price</b>	<b>PLN 4.50</b>
Market cap	PLN 1.72bn
Free float	PLN 0.96bn
Avg daily trading volume (3M)	PLN 9.91m

### Shareholder Structure

ING OFE	8.70%
OFE PZU	8.61%
Gloria S.a.r.l.	6.18%
Sices International	6.16%
AVIVA OFE BZ WBK	5.92%
Pioneer Pekao IM	5.56%
Polimex Development	2.83%
Others	56.04%

### Sector Outlook

Our investment ratings for construction companies are based on more refined criteria. In addition to analyzing the firms by business segment and backlog size, we look at such factors as risk of margin erosion, or net cash position. We would also like to turn the attention of investors to small building firms which are a good alternative to the larger listed players.

### Company Profile

Polimex manufactures galvanized-steel products, steel components, and boilers for the energy industry, and offers construction services to the manufacturing, chemical, power, road, and railroad industries as well as developing properties.

## Big Contracts on the Horizon

Q3 2009 earnings were close to our expectations. We do not expect them to exceed our forecasts by a wide margin in the upcoming quarters, but we do believe positive surprises are possible as far as new contract acquisition is concerned. We are expecting big contracts to be awarded in the energy sector (in H1 2010, contracts worth at least PLN 6bn are up for grabs, in H2 2010, the total is at least PLN 10bn) and in road construction (by mid-2010, contracts will be awarded for a total of at least PLN 10bn, and in H2 2010, PLN 6bn). We are neutral as to the share exchange ratio that has been proposed. In November, the new steel product plant has become operational. We do not expect Polimex to face difficulties selling its output, including steel constructions. The situation of small manufacturers (which output labor-intensive constructions produced in small batches for the domestic market) is much more difficult. Polimex is a mass-scale producer of big constructions that are mostly exported, with the energy sector accounting for a big part of the customer base. We do not know yet whether depreciation charges on the new plant will start being booked in November or in early 2010. In the former case, Q4'09 earnings would be negatively affected, but in a transient and fully transparent way. Given the developments with respect to energy-sector and road-construction contracts, and the stable situation in the other segments, we consider the valuation of Polimex attractive. We are reiterating our "buy" rating with a new price target of PLN 4.5 (vs. PLN 4.4) per share.

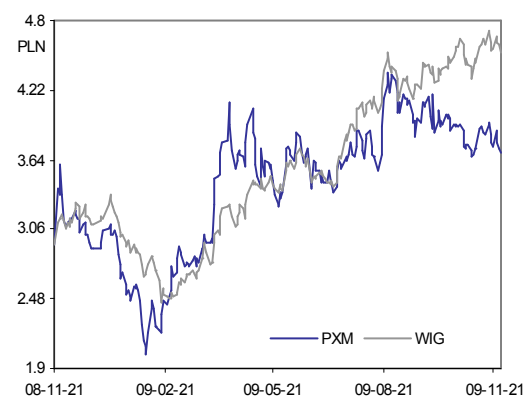
### Tenders and Contracts

We expect that in H1 2010, energy-sector contracts for a total of PLN 6bn may be awarded (Siekierki CHP, also multiple small contracts for the modernization of units 7-12 at Bełchatów). In the second half of the year, we expect the contract for the construction of two units at the Opole power plant to be awarded. We believe that Polimex will bid for all the contracts mentioned above, in each case as one of 4-5 bidders. In addition, a number of smaller orders will be available. In road construction, we expect new contracts for a total of PLN 10bn in H1 2010 and for PLN 6bn in H2 2010. We expect Polimex to bid for approximately half of these in consortia with partners, against 7-9 competitors.

### Polimex vs. PBG

We consider Polimex more attractive than PBG. In the areas where PBG is planning to grow (roads, energy), Polimex has had a presence for several years. Assuming that both of these companies bid for the same projects, their margins should converge in the medium and the long term. The current valuation of PBG discounts very high margins, which is not the case with Polimex.

### PXM vs. WIG



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(PLN m)	2007	2008	2009F	2010F	2011F
Revenue	3 720.5	4 301.7	4 691.7	4 764.9	5 096.9
EBITDA	205.4	298.5	348.4	314.9	334.6
EBITDA margin	5.5%	6.9%	7.4%	6.6%	6.6%
EBIT	160.4	228.1	267.2	213.6	233.3
Net income	100.1	120.1	150.3	145.1	167.0
P/E	17.1	14.3	11.4	11.8	10.3
P/CE	11.8	9.0	7.4	7.0	6.4
P/BV	1.7	1.6	1.4	1.2	1.1
EV/EBITDA	10.7	7.6	6.8	7.1	6.3
DYield	0.5%	0.3%	0.0%	0.0%	0.0%



## Third-Quarter Results

Polimex's Q3 2009 announcement brought no surprises. Revenues exceeded expectations, while the gross profit was lower than predicted (gross margin at 9.9% vs. 11.2% forecasted), as were general expenses (PLN 57.7m vs. PLN 65.0m forecasted). As a result, operating profit adjusted for other income and expenses amounted to PLN 66.2m, which was PLN 3.2m (or 4.5%) less than we estimated.

Other net operating income was just PLN 1.2m vs. our expected PLN 10.5m. Polimex did not recognize the one-time gain booked by its subsidiary Energomontaż Pólnoc from forgiven debt in the amount of PLN 11.5m. Adjusted for the one-off, Q309 EBIT was only slightly (1.4%) lower than our estimate. Other finance expenses and the effects of equity in affiliates amounted to PLN 15.9m (we expected PLN 12.0m). The effective tax rate was higher than predicted (15%) at 28%, but minority interests were lower (PLN 3.5m or PLN 6.4m after adjustment for the one-time gain of Energomontaż Pólnoc vs. PLN 10.4m). All in all, the third-quarter profit before the one-off referred to above was lower than forecasted, and the adjusted figure was only 1% short of our estimate.

All in all, the Q3 2009 results came in line with expectations. The consensus for Polimex was made up of some forecasts which factored in the one off, and some which did not.

### Reported vs. forecasted Q3 2009 results

(PLN m)	Q3 2009	Q3 2008	Differ.	Q3 2009F	Differ.	Q309F ex one-off	Differ.	Consensus Estimates	Differ.
Revenue	1258.2	1086.0	15.9%	1200.0	4.8%	1200.0	4.8%	1197.0	5.1%
Gross profit	123.9	113.0	9.7%	134.4	-7.8%	134.4	-	-	-
%	9.9%	10.4%	-	11.2%	-12.0%	11.2%	-	-	-
EBIT	67.4	65.0	3.8%	79.9	-15.6%	68.4	-1.4%	65.4	3.1%
%	5.4%	6.0%	-	6.7%	-	5.7%	-	5.5%	-
Pre-tax income	51.6	47.6	8.2%	61.6	-16.3%	50.1	-	-	-
Net income	33.8	33.3	1.4%	41.7	-18.9%	34.2	-1.0%	37.3	-9.4%
%	2.7%	3.1%	-	3.5%	-	2.8%	-	3.1%	-

Source: BRE Bank Securities

### Polimex's revenues by business segment

(PLN m)	Production	Construction	Power Engineering	Chemical-Plant Engineering	Roads & Railroads	Other	Total
<b>Q3 2009</b>							
Sales	123.5	318.6	274.0	229.1	290.1	22.8	1258.2
<b>Q2 2009</b>							
Sales	138.1	333.1	235.9	236.0	211.9	21.5	1176.4
<b>Q1 2009</b>							
Sales	164.0	235.1	186.8	167.0	105.2	19.1	877.3

Source: BRE Bank Securities

## Financial Forecasts

### Financial forecasts by business segment

	Chemical-Plant Engineering	Power Engineering	Construction	Production	Roads & Railroads
<b>2009</b>					
Revenue	850.0	1000.0	1219.0	640.0	985.0
Gross profit	86.7	115	118.2	124.288	64.025
Gross margin	10.20%	11.50%	9.69%	19.42%	6.50%
<b>2010</b>					
Revenue	730.0	1075.0	1140.0	752.0	1050.0
Gross profit	69.4	107.5	95.1	112.8	81.9
Gross margin	9.50%	10.00%	8.34%	15.00%	7.80%
Estimated order backlog	550	500	920	550	780
Captured contracts / expected revenue	75.3%	46.5%	80.7%	73.1%	74.3%
<b>2011</b>					
Revenue	693.5	1225.3	1183.8	849.8	1144.5
Gross profit	65.9	122.5	82.9	140.2	82.4
Gross margin	9.50%	10.00%	7.00%	16.50%	7.20%

Source: BRE Bank Securities

We are lowering our FY2009 revenue estimate for Polimex from PLN 4,909m to PLN 4,691.7m, while raising the expected gross margin and general expenses. As a result, the expected EBIT increases from PLN 254.4m to PLN 267.2m. After higher finance expenses, the bottom-line estimate decreases to PLN 150.3m from PLN 159.1m.

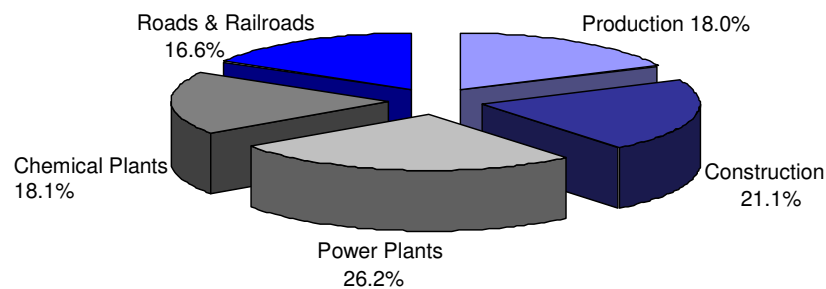
Revisions in FY2010 forecasts include a reduction in the expected revenue of the Power-Engineering business to PLN 1,075m from PLN 1,120m, and an increase in the expected revenue of the Chemical Plant Engineering segment to PLN 730m from PLN 600m, combined with a 0.5 ppt decrease in the segment's margin estimate following a review of its contract portfolio. The Power Engineering segment can look forward to many opportunities to expand its modest order backlog going forward, but any contracts captured next year will be recognized in later years. Polimex has captured more power-engineering orders from international customers than we thought, mainly through its subsidiary Naftobudowa, whose 2010 contract backlog is worth ca. PLN 100m.

We are raising our 2010 revenue estimate for the Construction segment from PLN 1051.2m, while lowering the gross margin from 9.05% to 8.34% (7.9% after adjustment for the real-estate business), to account for a higher-than-expected order backlog.

Further, we are raising both our revenue and gross margin (from 13.5% to 15.5%) estimates for the Production segment, which has not been experiencing the problems faced by other manufacturers; Polimex manufactures large steel building systems on a mass scale and sells them mostly abroad, where it has loyal customers. A large portion (40%) of companies that buy Polimex's steel products hail from the power-engineering industry. Within the Polish steel industry, there is tough competition for labor-intensive, customized orders from domestic customers (e.g. soccer stadiums). Small producers marketing their products abroad (Projprzem, Polimex's subsidiary Naftobudowa, Energomontaż Południe) are doing better than producers focusing on just the Polish market (e.g. Pol-Aqua). Exports of steel building frames are exposed to one major risk, namely, a sharp appreciation of the zloty (e.g. to EUR/PLN levels of 3.3-3.4), but we do not factor this possibility in our forecasts.

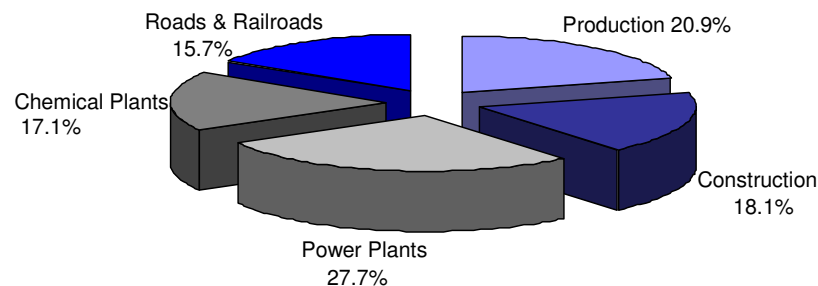
Finally, we raised our revenue estimate for the Roads and Railroads segment from PLN 946.5m to account for recent major contract acquisitions.

### FY2009E EBIT by segment



Source: BRE Bank Securities

### FY2010E EBIT by segment



Source: BRE Bank Securities

## Factors that may affect Polimex's future profits

A number of factors are expected to shape Polimex Mostostal's profits this year and next. First, the company has not decided how to account for a PLN 100m tax break obtained thanks to operations in a special economic zone. There are two options: either to book a one-time gain in 2009 or 2010 bottom line, or to gradually reduce the effective tax rate over the next four years (the option that we based our financial forecasts on). The decision is expected after an auditor's review of Polimex's FY2009 financial statements in Q1 2010.

Secondly, we do not know when the company plans to start reporting depreciation on a recently launched new plant. We assume that the depreciation period will start in early 2010 since the factory started operations this November and its capacity usage does not exceed 30%.

Further, we wonder what Polimex will do with its stock option plan after the absorption of subsidiaries. One of the conditions for the incentives is maintenance of EBITDA per share at a certain level. Meanwhile, the absorption will increase the number of shares, but not the EBITDA, making the plan impracticable. We expect that it will be replaced with a new one. In 2009, general expenses will increase by an estimated PLN 27.7m, of which about PLN 20m is a stock option plan reserve. Cancellation of the plan would result in a reversal of the reserve and a PLN 20m credit to either 2009 or 2010 profits (we do not take this probability into account in our forecasts).

Finally, Polimex wants to sell "Hotel Warszawa" which it purchased in 2005 for EUR 6.3m. We can safely assume that the selling price will be higher, although we cannot say how much. Hotel Warszawa is a historical building in need of thorough renovation. Our expectations with respect to the sale applied in the valuation model are very conservative – we value the hotel at cost, and we do not assume any profit on its sale.

## Absorption of subsidiaries

Polimex announced its suggestions with respect to the ratios at which it is going to swap its shares for the shares of its subsidiaries. The company will pay PLN 109.9m for a 34.5% stake in Energomontaż Północ, PLN 66.0m for a 50% stake in Naftobudowa, and PLN 35m for a 33% stake in Naftoremont (payable in shares). Further, a 1.8% stake in ZRE Kraków will cost PLN 0.2m, a 4.6% stake in ZRE Lublin is priced at PLN 1.3m, and EPE-Rybnik and Eceremont already are already 100% owned. Based on Polimex's share price of PLN 3.73, the exchange ratios for the publicly-traded subsidiaries imply a per-share price of Energomontaż Północ of

PLN 13.39 (exchange ratio: 3.62 shares of Polimex for each share of Energomontaż Pólnoc), and a per-share price of PLN 22.35 for Naftobudowa (exchange ratio: 6.04). These prices can change because they are determined by a 30-day price average for Polimex in addition to the swap ratio. The high P/E and low EV/EBITDA ratios of Energomontaż and Naftobudowa are an effect of their considerable cash resources. Considering the EV/EBITDA multiple, the swap ratio is neutral to the attractiveness of Polimex's stock price. We are not taking the subsidiary absorption into account in our financial forecasts for the time being. In the short term, the mergers are expected to slightly depress Polimex's financial ratios in 2010, but, in a longer term (2011+), they should improve the company's efficiency and ability to handle large contracts, including power-engineering jobs.

#### Stock-swap ratios for absorbed subsidiaries

Company	Swap ratio	Stake being acquired	Polimex's share price (PLN)	Takeover price (PLN m)	Implied price per share
Energomontaż Pólnoc	3.62	34.5%	3.7	109.9	13.39
Naftobudowa	6.04	50.0%	3.7	66.0	22.35
Naftoremont	2081.29	33.0%	3.7	35.0	
ZRE Kraków	123.65	1.8%	3.7	0.2	
ZRE Lublin	8.52	4.6%	3.7	1.3	
EPE Rybnik	-	-			
Eceremont	-	-			

Source: BRE Bank Securities,

#### Financial Forecasts for Energomontaż Pólnoc

(PLN m)	2007	2008	2009F	2010F	2011F
Revenue	312.9	321.8	405.9	393.1	430.6
EBITDA	7.9	29.9	52.8	30.4	32.6
EBITDA margin	2.5%	9.3%	13.0%	7.7%	7.6%
EBIT	2.0	22.6	42.3	19.2	21.2
Net income	3.3	24.5	40.8	20.5	23.4
p/E	95.7	13.3	8.0	15.9	13.9
p/CE	34.6	10.3	6.4	10.3	9.4
P/BV	2.3	2.2	1.7	1.6	1.4
EV/EBITDA	38.5	8.2	4.5	7.2	6.2
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: BRE Bank Securities

#### Financial forecasts for Naftobudowa

(PLN m)	2007	2008	2009F	2010F	2011F
Revenue	206.5	208.7	210.5	189.0	201.2
EBITDA	22.6	16.5	26.7	14.4	15.1
EBITDA margin	10.9%	7.9%	12.7%	7.6%	7.5%
EBIT	19.5	12.2	22.0	9.6	10.3
Net income	12.4	13.6	6.2	9.0	9.9
P/E	10.6	9.7	21.4	14.7	13.3
P/CE	8.5	7.4	12.1	9.6	8.9
P/BV	2.3	2.2	1.7	1.5	1.4
EV/EBITDA	5.4	7.1	4.0	6.6	5.7
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: BRE Bank Securities

#### Subsidiary valuation based on the announced share exchange ratio

Company	2009F P/E	2009F EV/EBITDA	2010F P/E	2010F EV/EBITDA	2009F P/S	2008 P/E	Q309 P/BV
Energomontaż Pólnoc	8.0	4.5	15.9	7.2	0.8		2.1
Naftobudowa	21.4	4.0	14.7	6.6	0.63		2.0
Naftoremont	-	-	-	-	0.64	8.4	1.5
ZRE Kraków					0.20	4.0	0.4
ZRE Lublin					0.54	8.5	1.1
Polimex Mostostal	11.4	6.8	11.8	7.1	0.37	14.3	1.4

Source: BRE Bank Securities

### Impact of absorbed subsidiaries on Polimex's earnings

Company	2009 (millions of zlotys / shares)	2010 (millions of zlotys / shares)
<b>Reduction in minority interests after the merger (F)</b>		
Energomontaż Północ	13.6	6.6
Naftobudowa	3.1	4.5
Naftoremont	5.1	2.3
ZRE Kraków	0.0	0.0
ZRE Lublin	0.3	0.1
<b>Total</b>	<b>22.1</b>	<b>13.6</b>
Earnings before absorption	150.3	145.1
Number of shares before absorption	463.6	463.6
P/E before absorption	11.4	11.8
Earnings after absorption	172.4	158.6
Number of shares after absorption	521.0	521.0
P/E after absorption	11.2	12.2
EV before absorption	2367.3	2239.3
EV/EBITDA before absorption	6.8	7.1
EV after absorption	2444.6	2338.9
EV/EBITDA after absorption	7.0	7.4

Source: BRE Bank Securities

### Relative valuation of Polimex Mostostal

	F/E 2009F	F/E 2010F	F/E 2011F	EV/EBITDA 2009F	EV/EBITDA 2010F	EV/EBITDA 2011F	F/S 2009F	F/S 2010F	F/S 2011F
Budimex	11.6	10.6	12.3	9.2	8.0	8.3	0.60	0.49	0.47
Erbud	15.5	14.7	16.1	9.4	9.1	8.0	0.70	0.58	0.54
Elektrobudowa	14.8	16.4	13.0	9.9	11.2	9.0	0.95	0.97	0.88
Mostostal Warszawa	12.9	12.7	13.0	5.8	7.1	7.0	0.49	0.47	0.44
PBG	16.1	14.4	13.0	11.5	9.8	8.9	1.10	0.87	0.83
<b>Median</b>	<b>14.8</b>	<b>14.4</b>	<b>13.0</b>	<b>9.4</b>	<b>9.1</b>	<b>8.3</b>	<b>0.70</b>	<b>0.58</b>	<b>0.54</b>
<b>Polimex Mostostal</b>	11.4	11.8	10.3	6.8	7.1	6.3	0.37	0.36	0.34
Discount	-22.8%	-17.9%	-21.0%	-27.5%	-22.2%	-24.0%	-47.5%	-37.4%	-37.3%

Source: BRE Bank Securities

Based on trading multiples, Polimex is valued at a 22.6% discount to comparable companies. However, due to differences between the operations of the different construction firms, we do not take relative valuation into account when determining Polimex's value.



## Earnings Forecast and Valuation

Based on DCF analysis, we set the nine-month price target on Polimex-Mostostal at PLN 4.5/share.

### DCF analysis

#### Model Assumptions

- Risk-free rate = 6.2% (based on yields on 10Y T-bonds).
- FCF growth rate after FY2017 = 3%.
- Credit risk premium at 1.5% in 2009 through 2017.
- We added the value of Polimex's development land and Hotel Warszawa to valuation (at cost).
- We adjusted the number of shares for maximum dilution under the stock option plan and for treasury stock held by Polimex-Cekop Development.



## DCF Valuation Model

(PLN m)	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2019+
<b>Revenue</b>	<b>4 764.9</b>	<b>5 096.9</b>	<b>5 554.9</b>	<b>5 962.3</b>	<b>6 345.1</b>	<b>6 700.6</b>	<b>7 074.3</b>	<b>7 454.7</b>	<b>7 782.8</b>	<b>8 119.9</b>	
change	1.6%	7.0%	9.0%	7.3%	6.4%	5.6%	5.6%	5.4%	4.4%	4.3%	
<b>EBITDA</b>	<b>314.9</b>	<b>334.6</b>	<b>392.2</b>	<b>417.2</b>	<b>439.1</b>	<b>459.7</b>	<b>475.1</b>	<b>492.9</b>	<b>500.9</b>	<b>454.8</b>	
EBITDA margin	6.6%	6.6%	7.1%	7.0%	6.9%	6.9%	6.7%	6.6%	6.4%	5.6%	
Amortization & depreciation	101.3	101.3	102.2	103.9	105.6	107.3	109.0	109.9	109.9	54.9	
<b>EBIT</b>	<b>213.6</b>	<b>233.3</b>	<b>290.0</b>	<b>313.3</b>	<b>333.5</b>	<b>352.4</b>	<b>366.0</b>	<b>383.0</b>	<b>391.0</b>	<b>399.9</b>	
EBIT margin	4.5%	4.6%	5.2%	5.3%	5.3%	5.3%	5.2%	5.1%	5.0%	4.9%	
Tax rate on EBIT	10.7	11.7	14.5	51.7	63.4	67.0	69.5	72.8	74.3	76.0	
<b>NOPLAT</b>	<b>202.9</b>	<b>221.6</b>	<b>275.5</b>	<b>261.6</b>	<b>270.2</b>	<b>285.5</b>	<b>296.5</b>	<b>310.3</b>	<b>316.7</b>	<b>323.9</b>	
CAPEX	-117.2	-101.3	-102.2	-118.9	-120.6	-122.3	-124.0	-124.9	-109.9	-54.9	
Working capital	-34.8	-35.1	-85.9	-49.7	-47.9	-45.3	-42.8	-42.4	-35.5	-33.8	
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>FCF</b>	<b>152.2</b>	<b>186.6</b>	<b>189.6</b>	<b>196.9</b>	<b>207.3</b>	<b>225.1</b>	<b>238.6</b>	<b>252.8</b>	<b>281.2</b>	<b>290.1</b>	<b>298.8</b>
WACC	10.5%	10.7%	11.0%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	10.6%	
discount factor	90.5%	81.7%	73.6%	66.2%	59.5%	53.5%	48.2%	43.3%	38.9%	35.2%	
PV FCF	137.7	152.4	139.6	130.3	123.4	120.5	114.9	109.5	109.5	102.1	

<b>WACC</b>	<b>10.5%</b>	<b>10.7%</b>	<b>11.0%</b>	<b>11.2%</b>	<b>11.2%</b>	<b>11.2%</b>	<b>11.2%</b>	<b>11.2%</b>	<b>11.2%</b>	<b>10.6%</b>	
Cost of debt	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.1%	
Risk-free rate	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	5.6%	
Credit risk premium	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	
Effective tax rate	5.0%	5.0%	5.0%	16.5%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	
Net debt / EV	17%	12%	6%	0%	0%	0%	0%	0%	0%	0%	
Cost of Equity	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	10.6%	
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	

FCF growth after the forecast horizon	3.0%	<b>Sensitivity Analysis</b>					
Terminal value	3 932.0	<b>FCF growth in perpetuity</b>					
Present value of the terminal value (PV TV)	1 384.3		<b>2.0%</b>	<b>2.5%</b>	<b>3.0%</b>	<b>3.5%</b>	<b>4.0%</b>
Present value of FCF in the forecast horizon	1 240.0	WACC -1.0ppt	4.2	4.4	4.6	4.9	5.2
Equity value (EV)	2 624.3	WACC -0.5ppt	4.2	4.4	4.6	4.8	5.1
Net debt	517.0	WACC	4.1	4.3	4.5	4.8	5.1
Real-estate valuation*	74.2	WACC +0.5ppt	4.1	4.3	4.5	4.7	5.0
Minority interests	236.0	WACC +1.0ppt	4.1	4.3	4.5	4.7	5.0
Goodwill	1 945.6						
Number of shares (millions)**	463.6						
<b>Equity value per share (PLN)</b>	<b>4.2</b>						
Cost of equity (9M)	8.3%						
<b>Target Price</b>	<b>4.5</b>						

EV/EBITDA('09) for the target price	7.5
P/E('09) for the target price	14.0
TV to EV	53%

\* Development land and Hotel Warszawa (at cost of EUR 6.3m)

\*\* Number of shares adjusted for maximum dilution under stock option plan and for treasury stock held by Polimex-Cekop Development.





## Income Statement

(PLN m)	2006	2007	2008	2009F	2010F	2011F	2012F
<b>Revenue</b>	<b>2 483.4</b>	<b>3 720.5</b>	<b>4 301.7</b>	<b>4 691.7</b>	<b>4 764.9</b>	<b>5 096.9</b>	<b>5 554.9</b>
<i>change</i>	<i>34.2%</i>	<i>49.8%</i>	<i>15.6%</i>	<i>9.1%</i>	<i>1.6%</i>	<i>7.0%</i>	<i>9.0%</i>
COGS	2 239.1	3 398.3	3 870.7	4 183.4	4 298.3	4 603.0	4 991.3
Gross profit	244.3	322.2	431.0	508.2	466.6	493.9	563.6
<i>gross margin</i>	<i>9.8%</i>	<i>8.7%</i>	<i>10.0%</i>	<i>10.8%</i>	<i>9.8%</i>	<i>9.7%</i>	<i>10.1%</i>
Selling expenses	-28.1	-28.3	-32.3	-27.6	-28.1	-29.0	-30.4
General and administrative expenses	-106.6	-137.1	-185.3	-213.0	-217.3	-223.7	-234.9
Other net operating income/loss	-11.1	3.6	14.7	-0.4	-7.7	-7.9	-8.3
			77.1				
<b>EBIT</b>	<b>98.5</b>	<b>160.4</b>	<b>228.1</b>	<b>267.2</b>	<b>213.6</b>	<b>233.3</b>	<b>290.0</b>
<i>change</i>	<i>34.5%</i>	<i>62.8%</i>	<i>42.2%</i>	<i>17.1%</i>	<i>-20.1%</i>	<i>9.2%</i>	<i>24.3%</i>
<i>EBIT margin</i>	<i>4.0%</i>	<i>4.3%</i>	<i>5.3%</i>	<i>5.7%</i>	<i>4.5%</i>	<i>4.6%</i>	<i>5.2%</i>
Finance gains/losses	-5.3	-15.4	-72.1	-53.6	-45.9	-40.3	-34.1
Equity in income of associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	-1.7	4.4	2.8	4.7	3.7	4.2	5.6
<b>Pre-tax income</b>	<b>91.5</b>	<b>149.4</b>	<b>158.9</b>	<b>218.3</b>	<b>171.3</b>	<b>197.2</b>	<b>261.6</b>
Tax	17.4	32.7	18.5	49.7	8.6	9.9	13.1
Minority interests	11.5	16.6	20.3	18.3	17.7	20.3	27.0
<b>Net income</b>	<b>62.6</b>	<b>100.1</b>	<b>120.1</b>	<b>150.3</b>	<b>145.1</b>	<b>167.0</b>	<b>221.5</b>
<i>change</i>	<i>46.2%</i>	<i>59.9%</i>	<i>20.0%</i>	<i>25.1%</i>	<i>-3.5%</i>	<i>15.1%</i>	<i>32.6%</i>
<i>margin</i>	<i>2.5%</i>	<i>2.7%</i>	<i>2.8%</i>	<i>3.2%</i>	<i>3.0%</i>	<i>3.3%</i>	<i>4.0%</i>
Amortization & depreciation	31.2	45.0	70.4	81.2	101.3	101.3	102.2
<b>EBITDA</b>	<b>129.7</b>	<b>205.4</b>	<b>298.5</b>	<b>348.4</b>	<b>314.9</b>	<b>334.6</b>	<b>392.2</b>
<i>change</i>	<i>28.1%</i>	<i>58.4%</i>	<i>45.3%</i>	<i>16.7%</i>	<i>-9.6%</i>	<i>6.3%</i>	<i>17.2%</i>
<i>EBITDA margin</i>	<i>5.2%</i>	<i>5.5%</i>	<i>6.9%</i>	<i>7.4%</i>	<i>6.6%</i>	<i>6.6%</i>	<i>7.1%</i>
Shares at year-end (millions)	455.7	463.6	463.6	463.6	463.6	463.6	463.6
EPS	0.1	0.2	0.3	0.3	0.3	0.4	0.5
CEPS	0.2	0.3	0.4	0.5	0.5	0.6	0.7
ROAE	19.3%	15.0%	11.8%	13.2%	11.0%	11.2%	13.1%
ROAA	4.6%	4.5%	3.9%	4.2%	3.7%	4.1%	5.0%



## Balance Sheet

(PLN m)	2006	2007	2008	2009F	2010F	2011F	2012F
<b>ASSETS</b>	<b>1 631.8</b>	<b>2 801.4</b>	<b>3 438.6</b>	<b>3 773.3</b>	<b>3 965.7</b>	<b>4 259.0</b>	<b>4 604.7</b>
<b>Fixed assets</b>	<b>417.8</b>	<b>983.2</b>	<b>1 381.7</b>	<b>1 554.2</b>	<b>1 570.1</b>	<b>1 570.1</b>	<b>1 570.1</b>
Intangible assets	19.6	437.6	509.4	515.0	515.0	515.0	515.0
Property, plant and equipment	261.7	426.4	710.8	873.0	888.9	888.9	888.9
Long-term investment	110.9	80.9	76.5	82.8	82.8	82.8	82.8
Other	25.6	38.3	84.9	83.3	83.3	83.3	83.3
<b>Current assets</b>	<b>1 213.9</b>	<b>1 818.2</b>	<b>2 056.9</b>	<b>2 219.2</b>	<b>2 395.6</b>	<b>2 688.9</b>	<b>3 034.7</b>
Inventories	168.8	348.9	395.1	373.1	419.7	471.6	530.7
Receivables	872.8	1 289.6	1 347.5	1 548.2	1 572.4	1 682.0	1 833.1
Short-term prepayments	8.8	9.8	11.2	11.2	11.2	11.2	11.2
Cash and cash equivalents	163.5	169.9	303.1	286.6	392.3	524.2	659.7
<b>(PLN m)</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>	<b>2012F</b>
<b>LIABILITIES</b>	<b>1 631.8</b>	<b>2 801.4</b>	<b>3 438.6</b>	<b>3 773.3</b>	<b>3 965.7</b>	<b>4 259.0</b>	<b>4 604.7</b>
<b>Equity</b>	<b>354.9</b>	<b>983.0</b>	<b>1 053.9</b>	<b>1 231.0</b>	<b>1 409.7</b>	<b>1 576.7</b>	<b>1 798.2</b>
Minority interests	93.9	102.6	114.9	135.1	112.8	112.8	112.8
<b>Long-term liabilities</b>	<b>293.0</b>	<b>461.5</b>	<b>634.5</b>	<b>701.6</b>	<b>701.6</b>	<b>701.6</b>	<b>701.6</b>
Loans, finance leases	171.3	329.9	435.9	486.1	486.1	486.1	486.1
Provisions	61.1	92.6	101.1	105.3	105.3	105.3	105.3
Other	60.6	39.0	97.5	110.3	110.3	110.3	110.3
<b>Short-term liabilities</b>	<b>890.0</b>	<b>1 254.4</b>	<b>1 635.3</b>	<b>1 705.6</b>	<b>1 741.6</b>	<b>1 867.9</b>	<b>1 992.1</b>
Loans	83.2	229.4	317.5	317.5	317.5	317.5	317.5
Trade creditors	762.6	897.7	1 240.4	1 310.7	1 346.6	1 473.0	1 597.2
Long-term accruals	44.2	127.2	77.4	77.4	77.4	77.4	77.4
Debt	254.5	559.3	753.4	803.6	803.6	803.6	803.6
Net debt	91.0	389.4	450.4	517.0	411.3	279.4	143.9
(Net debt / Equity)	25.6%	39.6%	42.7%	42.0%	29.2%	17.7%	8.0%
(Net debt / EBITDA)	0.7	1.9	1.5	1.5	1.3	0.8	0.4
BVPS	0.8	2.1	2.3	2.7	3.0	3.4	3.9



## Cash Flows

(PLN m)	2006	2007	2008	2009F	2010F	2011F	2012F
<b>Cash flows from operating activities</b>	<b>43.6</b>	<b>-203.8</b>	<b>355.5</b>	<b>197.4</b>	<b>275.2</b>	<b>293.9</b>	<b>298.8</b>
Net income	62.6	100.1	120.1	150.3	145.1	167.0	221.5
Amortization & depreciation	31.2	45.0	70.4	81.2	101.3	101.3	102.2
Working capital	-93.8	-463.0	193.1	-114.7	-34.8	-35.1	-85.9
Other	43.7	114.1	-28.1	80.6	63.6	60.7	61.0
<b>Cash flows from investing activities</b>	<b>-120.0</b>	<b>-97.1</b>	<b>-303.4</b>	<b>-250.0</b>	<b>-157.2</b>	<b>-121.7</b>	<b>-129.2</b>
CAPEX	-58.4	-143.7	-323.9	-228.9	-117.2	-101.3	-102.2
Capital investments	-42.1	46.9	0.0	-2.8	-22.3	0.0	0.0
Other	-19.5	-0.2	20.5	-18.3	-17.7	-20.3	-27.0
<b>Cash flows from financing activities</b>	<b>122.1</b>	<b>257.7</b>	<b>100.1</b>	<b>36.2</b>	<b>-12.3</b>	<b>-40.3</b>	<b>-34.1</b>
Stock offering	10.9	0.0	0.0	26.9	33.6	0.0	0.0
Debt	-50.5	109.6	152.6	62.9	0.0	0.0	0.0
Dividend / buy-back	-6.9	-8.5	-4.6	0.0	0.0	0.0	0.0
Other	168.5	156.7	-47.9	-53.6	-45.9	-40.3	-34.1
<b>Change in cash</b>	<b>45.7</b>	<b>-43.1</b>	<b>152.2</b>	<b>-16.5</b>	<b>105.7</b>	<b>131.9</b>	<b>135.6</b>
Cash at end of period	148.3	143.1	295.2	278.8	384.4	516.3	651.9
DPS (PLN)	0.02	0.02	0.01	0.00	0.00	0.00	0.00
FCF	-56.5	-442.8	172.6	-18.2	152.2	186.6	189.6
(CAPEX / Sales)	4.0%	2.6%	7.5%	4.9%	2.9%	2.0%	1.8%

## Market multiples

	2006	2007	2008	2009F	2010F	2011F	2012F
P/E	26.9	17.1	14.3	11.4	11.8	10.3	7.7
P/CE	18.0	11.8	9.0	7.4	7.0	6.4	5.3
P/BV	4.8	1.7	1.6	1.4	1.2	1.1	1.0
P/S	0.7	0.5	0.4	0.4	0.4	0.3	0.3
FCF/EV	-3.0%	-20.1%	7.6%	-0.8%	6.8%	8.9%	9.6%
EV/EBITDA	14.4	10.7	7.6	6.8	7.1	6.3	5.0
EV/EBIT	19.0	13.8	10.0	8.9	10.5	9.0	6.8
EV/S	0.8	0.6	0.5	0.5	0.5	0.4	0.4
DYield	0.4%	0.5%	0.3%	0.0%	0.0%	0.0%	0.0%
<b>Price (PLN)</b>	<b>3.7</b>						
Shares at year-end (millions)*	455.7	463.6	463.6	463.6	463.6	463.6	463.6
MC (PLN m)	1686.0	1715.3	1715.3	1715.3	1715.3	1715.3	1715.3
Minority interests (PLN m)	93.9	102.6	114.9	135.1	112.8	112.8	112.8
EV (PLN m)	1 871.0	2 207.3	2 280.5	2 367.3	2 239.3	2 107.4	1 971.9

\* number of shares adjusted for maximum dilution under stock option plan and for treasury stock held by Polimex-Cekop Development.



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

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Recommendations are updated at least once every nine months.

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**Previous ratings issued for Polimex Mostostal**

Recommendation	Buy	Buy	Buy	Buy	Buy
Date issued	2008-08-04	2008-08-05	2008-10-24	2008-11-07	2008-11-25
Price on day of recommendation	5.70	5.85	2.62	3.32	3.40
WIG on day of recommendation	42017.93	41628.12	26273.30	27976.81	26964.31