10 February 2009

Research report

BRE Bank Securities

Construction

Poland

Current price	**PLN 3.47**
Target price	**PLN 5.20**
Market cap	PLN 0.22m
Free float	PLN 0.04m
Avg daily trading volume(3M)	PLN 1.02m

Rafako

Buy

RAFA. WA; RFK.PW

(New)

Earnings Will Improve Soon

Rafako's earnings in the past two years have been weak because its costs have been growing much faster than was assumed in its contract budgets. We believe that during the next 12 months the situation may change appreciably, as the pressure on salary growth abates and the price of materials and outsourced labor decreases. The outlook for the Company has also improved because of the appreciation of the EUR from its record-low levels (contracts denominated in the EUR account for ca. 35% of the Company's revenues). We are optimistic about the prospects for the power-plant engineering segment in 2010, as new projects should be launched. Currently, work is going at "full steam" in several foreign market, including Germany. We believe that the current negative sentiment towards the Company, caused by Elwo's losses on options, provides an opportunity to buy Rafako stock at a bargain price. We would also like to point out the significant over-liquidity of the Company's balance sheet. We project that at the end of Q4'08, the Company will have PLN 154.5m in net cash, i.e. PLN 2.2 per share. This means that Rafako's operating activities, which generate PLN 1bn in revenue, are valued at PLN 1.2 per share. As this is a bargain level, we recommend buying the stock.

Shareholder Structure

Laris Investments	37.45%
BZ WBK AIB Asset Management	25.55%
Elektrim	12.47%
Pionier Pekso Investment Management	4.99%
Others	19.54%

Sector Description

Outlook: We use a sector-based approach in our analysis of the building industry. At the moment, the outlook is most bullish for the infrastructure sector (road, rail development, environmental engineering) and power-plant engineering (a boom coming in 2011 through 2017). We are neutral on chemical engineering and we see the most risks in building construction.

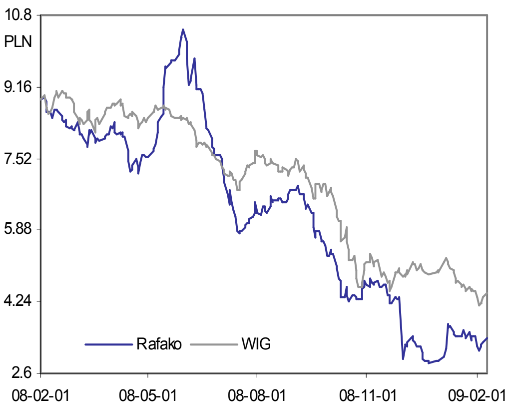
Company Profile

The Rafako Group is one of Europe's biggest constructors of boilers. The Company's product range also includes desulfurization systems, electrostatic precipitators and boiler elements.

Important Dates

26.02 - Q1 2009 report
09.04 - FY 2008 report
14.05 - Q2 2009 report

Rafako vs. WIG



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Impact of Slower Expense Growth on Rafako's Earnings

Many of Rafako's contracts are long-term contracts. In terms of accounting, Rafako's contracts are treated as typical construction contracts (IAS 11), which means that they are recognized in the books based on revised budgets. We believe that as salary growth slows down while materials and outsourced work become cheaper, it will be possible to revise contract budgets, which will give a boost to earnings. We do not believe, however, that the full impact of this effect will be seen in 2009 (the Company is not completing any big contracts this year, which would have allowed it to reverse provisions and improve its financial results even more).

High Demand for Rafako Products

We believe that the demand for the Company's products is high, on the part of both foreign and Polish power suppliers (we expect the latter to intensify their investment projects starting in 2011). We believe the economic crisis has a limited impact on investments in the energy sector, due to their long-term nature and the fact that it is utilities who play the role of investors. Rafako's current order portfolio stands at PLN 750m, which is less than last year (PLN 1.1bn). We nonetheless believe that in the near future Rafako will be able to acquire new contracts, including the order for a desulfurization system at the Rybnik power plant (ca. PLN 300m, decision expected in March). The order portfolio for the upcoming years amounts to PLN 1.4bn.

(PLN m)	2007	2008F	2009F	2010F	2011F
Revenues	1137.5	1150.3	1060.9	1049.6	1127.6
EBITDA	35.1	41.0	46.3	54.3	57.5
EBITDA margin	*3.1%*	*3.6%*	*4.4%*	*5.2%*	*5.1%*
EBIT	22.1	26.0	33.4	41.0	43.7
Net profit	12.2	-78.8	25.7	32.5	35.2
P/E	19.8	-3.1	9.4	7.4	6.9
P/CE	9.6	-3.8	6.2	5.3	4.9
P/BV	0.7	0.9	0.7	0.7	0.6
EV/EBITDA	2.6	2.2	2.0	1.7	1.6
DYield	0.2%	0.0%	0.0%	0.0%	0.0%

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Rafako's Product Range

Boilers

Rafako's key products are boilers, especially the biggest boilers, where the competition is limited. Important competitors with similar capacity include SES Tlmace, as well as branches of some international power-generation conglomerates such as Alstom (cf. its boiler manufacturing division in Brno, Czech Republic). The Polish market for medium-sized boilers also includes Foster Wheeler Energy Fakop and Sefako (part of the Polimex Mostostal Group). Energoinstal manufactures small biomass-fueled boilers. In recent years, Rafako has supplied boilers for two of the three biggest projects in the power generation sector: the Bełchatów power plant (contract in progress) and the PAK power plants. As a subcontractor, the Company is currently involved in multiple projects in Germany. Due to the long timeline (up to three years), the contracts for the biggest boilers used to be the least profitable ones. Costs have outpaced the expectations of sector insiders, which can be clearly seen in the earnings of Rafako, SES Tlmace and the power-generation segment of Polimex Mostostal.

Earnings of Rafako and SES Tlmace, 2004 – Q3 2008

	2004	2005	2006	2007	Q1-Q3 2008
Rafako					
Revenue (PLN m)	394.3	503.0	777.2	1 137.5	872.3
Y/Y growth (%)		27.6%	54.5%	46.4%	7.6%
EBIT margin (%)	3.6%	2.9%	2.7%	1.9%	2.7%
SES Tlmace					
Revenue (SKK m)	4 415.1	3 667.6	3 097.4	5 020.2	3 058.0
Y/Y growth (%)		-16.9%	-15.5%	62.1%	20.6%
EBIT margin (%)	7.5%	1.8%	0.8%	3.3%	0.1%

Source: Rafako and SES Tlmace financial reports, SKK 3058m = PLN 451.3m at SKK/PLN of 0.147589.

Desulfurization Systems

Rafako manufactures desulfurization systems, mandatory under EU regulations on sulfur emissions. Contracts for desulfurization systems are to a large extent based on subcontracting, which means that the margins are lower than in the case of new boilers. Rafako supplies desulfurization systems to Polish power suppliers. Its current order portfolio includes a PLN 450m order from the Siekierki power plant in Warsaw. In March, a decision may come in the tender for the construction of a desulfurization system at the Dolna Odra power plant (PLN 300m; according to unofficial sources, Rafako is the lowest bidder).

Electrostatic Precipitators

Electrostatic precipitators are a ancillary tool used in coal-fired boilers to remove dust from the emitted gas. Within the Rafako group, electrostatic precipitators are manufactured by Elwo. As this subsidiary is expected to go into liquidation due to its foreign currency options, Rafako may stop making electrostatic precipitators for some time. Rafako might restart production of electrostatic precipitators in its own plants, but we do not take this scenario into account for the time being.

Rafako revenues by product, 2006-2010F

	2006	2007	2008F	2009F	2010F
Boilers	40.6%	41.4%	62.5%	74.0%	68.9%
Desulfurization systems	41.8%	40.7%	25.5%	18.1%	27.5%
Electrostatic precipitators	16.6%	14.6%	8.6%	4.2%	0.0%
Real estate	0.5%	0.3%	0.3%	0.3%	0.3%
Other	0.4%	3.0%	3.0%	3.3%	3.3%

Source: Rafako financial reports

General Contracting Opportunities in Power Plant Construction

Rafako would like to team up with a foreign company in order to participate in general contracting tenders for the construction of new power units. We believe that Rafako stands a good chance of landing such deals. However, in addition to a foreign partner who could supply the turbine and assume partial responsibility for installation, a Polish partner is needed to provide services in power plant and building construction as well as in the realm of steel constructions. We believe a good candidate would be Mostostal Warszawa. At the same time, we expect Polimex Mostostal to create a competing general contracting alliance, as it is able to provide by and large all types of construction and installation services, but also manufactures steel constructions and pipelines. The one element it is missing is the ability to make a big boiler. General contracting in power-unit construction could quickly boost Rafako's revenues (1 MW costs approximately EUR 1.5m to construct). At the same time, such contracts would expose Rafako to a whole set of new risks (stemming from the need to meet to the complex technical requirements of power units). As a result, these contracts can be expected to generate high construction-quality provisions (i.e., Rafako would recognize a high profit if the unit turns out to work well, but during the construction itself, profitability would be lower). Because is quite uncertain whether Rafako can land general contracting deals, we have not factored them into our forecasts.

Earnings Improvement Opportunities

Expenses

Slower Salary Growth, Cheaper Materials and Subcontracting

Salary growth has slowed down appreciably, while prices of materials and subcontracting services have fallen. Over the past three years, salaries at Rafako grew at the average rate of 10% p.a. In 2009, salaries will increase by 5% at most (the precise rate depends on how many new deals can be landed). In the past few months, we have seen significant declines in the price of steel (by ca. 40%), as well as copper and other metals. The impact of lower prices of materials should not be overestimated, however (the Company uses specialist alloys, whose prices did not decrease quite as much). The decline in subcontracting costs will also have a limited effect, as a lot of the work is contracted at early stages of contract execution (to pass risks onto subcontractors).

Depreciation of the Zloty vs. the Euro

The depreciation of the zloty vs. the euro is a positive development, which will allow Rafako to become more competitive in the export markets in the long term. It will also give a boost to its earnings. Of all the EUR-denominated contracts, which account for 25% of the order portfolio, ca. 70-80% (net of EUR-denominated expenses) is hedged with forward contracts. We conservatively assume that in the case of EUR-denominated contracts, exposure is limited to salary expenses and the gross margin (i.e. there is upside potential for ca. PLN 17.5m of unhedged EUR-denominated revenues, including PLN 12.3m in 2009).

EUR/PLN exchange rate forecast, Q1 2009 – Q4 2010

	2009 Q1F	2009 Q2F	2009 Q3F	2009 Q4F	2010 Q1F	2010 Q2F	2010 Q3F	2010 Q4F
EUR/PLN	4.45	4.35	3.95	3.75	3.60	3.50	3.50	3.50

Source: BRE Bank Securities

When Will Earnings Improve?

We do not expect a significant improvement in Rafako's operating earnings in Q4 2008, due to the limited scale of revenues generated from unhedged EUR contracts. We expect some improvement in Q1 2009, while a bigger progress will come when the current big projects end (2010). The improvement in Q1 2009 will be a result of slower salary growth. We believe that the Company needs to approve its FY2009 budget in order to achieve higher profitability on ongoing contracts. The Company said that it had been able to transfer most risks onto subcontractors. This means that the potential to cut costs through savings on the current order portfolio is limited. The situation is similar as far as the cost of materials is concerned. We do see upside potential stemming from the current appreciation of the EUR vs. the PLN, with half of the effect related to the valuation of hedging transactions as of the end of Q4 2008. We believe an important factor is that Rafako will not be completing any big contracts in 2009. As a result, we do not expect any significant provisions to be created or released (provisions may be released in 2010, when several big contracts are completed). To sum up, given the current order portfolio we are expecting salary and social security payment growth to fall by 5% and the costs of materials and subcontracted services by 0.5%. All in all, this will lead to a 1% increase in gross margin. Using BRE Bank's foreign exchange rate projections, we expect the EUR appreciation effect to be neutral for the profitability of the current order portfolio in 2009 (PLN 12.3 from the unhedged positions will be offset by ca. PLN 12m in exposure valued at EUR/PLN 4.17 exchange rate at the end of Q4 2008).

Rafako Expenditure Breakdown

	H1 2008	2007	2006
Amortization and depreciation	1.4%	1.2%	1.5%
Materials and utilities	43.4%	47.7%	43.7%
Subcontracting	42.2%	38.9%	39.7%
Taxes and charges	0.6%	0.6%	0.8%
Salaries	9.1%	8.0%	9.9%
Social security and other employee benefits	2.3%	2.1%	2.7%
Other	1.1%	1.5%	1.7%
Total costs	100.0%	100.0%	100.0%

Source: Rafako financial reports

New Contract Opportunities

Power Generation Projects in Poland

We have not changed our projections as regards power-plant engineering projects in Poland since our report on the construction industry. We believe the first new units to be built will be in Warsaw's Siekierki power plant (Vattenfall, 460 MW), Rybnik (EdF, 700-900 MW) and Kozienice (Enea, 1000 MW). According to experts, it will be necessary to launch the construction of new power units at 1000 MW per year in order to replace old units. 1 MW of power costs ca. EUR 1.5m in the case of coal-fired power plants. We believe that the construction of the first units might commence in 2011. The construction of the remaining ones will be launched gradually. We expect capacity under construction to increase through 2015.

Power Generation Projects in Germany

Germany is currently undergoing a period of increased spending on power-unit construction. 14 new objects are currently being built, with total capacity of almost 9 GW. As per estimates by BDEW from December 2009, German utilities (power plants, environmental protection, sewage systems, etc.) will spend EUR 9.4bn in 2009 (EUR 8.2bn in 2008, plus 14.5% y/y), and EUR 10.8bn in 2010 (+15% y/y). Of course, the crisis may have a certain impact on whether new projects are launched or not, but given who the investors are, we should not see a contraction in investments. In 1988-2008, German utilities did not invest too much. Currently, we are observing the natural replacement cycle (the last big boom took place in 1982-1988).

Contracts Within Reach

Rafako is conservatively assuming that in 2009 it will land orders with a total value of PLN 0.9-1bn (including the potential contract for the construction of a desulfurization system at the Dolna Odra power plant, PLN 300m). We are therefore expecting Rafako's order portfolio to reach PLN 1.5-1.6bn at the start of 2010, vs. the current PLN 1.4bn (of which PLN 750m is for 2009).

Successful Litigation Opportunity in Ukraine

We see an opportunity for additional earnings in Ukraine (litigation). In November, the Business Court in the Donetsk Region awarded Rafako UAH 56.74m (PLN 26m at UAH/PLN = 0.4586) in damages from Donetskbloenergo. Ten years ago, the Ukrainian company cancelled its order for a boiler from Rafako. In January, the Donetsk Appellate Court upheld this decision, but the Ukrainians appealed to Ukraine's Higher Business Court. As the final outcome is still a question mark, we have not taken this into account in our forecasts.

Will Rafako Cut Excess Liquidity?

We forecast that Rafako will have PLN 154.5m in net cash at the end of 2009. The funds were supposed to be used for capacity-enhancing investments. Currently, these plans have been partially suspended. The Company expects that a significant share of its free cash flows could be used in general contracting projects in Poland. It is also expecting attractive acquisition opportunities in the near future. result, we do not expect dividend payments in the near future (another factor here is shareholder structure, which we describe in the section on investment risks).

Elwo's Currency Transactions

Outline of Elwo's Currency Transactions

In mid-2008, Elwo entered into asymmetrical option transactions with four banks (Millennium, Fortis Bank, ING BŚ and Pekao). Most of these options are call options, totaling EUR 149m.

Put options amount to EUR 70.4m. Rafako became aware of these transactions in November and made this knowledge public. Rafako did not reach a settlement with the banks. As a result, ING BŚ seized the funds on Elwo's assets and annulled the options (as did Fortis Bank and Millennium). Before 2008 was over, Elwo filed for bankruptcy.

Rafako's subsidiaries

Company	Rafako's stake	Business
PGL-DOM	100%	Real estate management
Elwo	95.26%	Electrostatic precipitators
FPM	70.42%	Furnaces and burners
Palserwis	70.42%	Furnaces and burners
Rafako Engineering	100%	Design services
Rafako Engineering Solutions	75%	Design, consulting and supervision

*Source: Rafako; *the company filed for bankruptcy with asset liquidation*

Impact of Elwo Bankruptcy on Rafako's Earnings

We expect that Elwo's option transactions will result in a PLN 100m increase in other financing costs in the Q4 2008 consolidated report. At the same time, the standalone report will include a PLN 19m write down of the book value of the Elwo holding. We expect that in Q1 2009 Elwo will continue to be consolidated. We also assume that the bankruptcy motion will be approved in court and that Elwo will no longer be included in the consolidated report for Q2 2009. The Elwo bankruptcy means that there will be a decline in consolidated cash, as well as in fixed and current assets. Employment in the group will fall by ca. 400 people, and consolidated revenue by PLN 150m.

Impact of Derivatives on Q4 2008 Earnings

Position	PLN m
Operating profit	2.8
"Recurrent" financing costs	1.0
Loss on the valuation of Rafako's derivatives	-18.0
Loss on Elwo's options	-100.0
Pre-tax income	-114.2

Source: BRE Bank Securities

Medium-term Impact of Elwo Bankruptcy on Rafako's Earnings

We approve Rafako's decision not to guarantee Elwo's liabilities towards banks. We expect that Rafako would have to pay ca. PLN 100m in such guarantees to prevent bankruptcy of a company that generates ca. PLN 150m in revenues (P/S = 0.66). Assuming that in 2009 Elwo's 2009 profitability would equal that of the Rafako group as a whole (2.43%), its net income on PLN 150m of revenue would amount to PLN 3.6m (P/E = 4.1). Elwo's fixed assets were worth PLN 27m at the end of 2006. Moreover, its electrostatic precipitator manufacturing licenses were transferred to Rafako at an earlier time. All in all, we believe that Elwo could be recreated at a cost not higher than half the cost of the potential rescue effort. In the short term, the bankruptcy of Elwo entails a clear reduction in the share of electrostatic precipitators in the group's revenues. In a few years, they could be manufactured within Rafako (it does have the licenses). Rafako declares that when Elwo stops its operations (bankruptcy through asset liquidation), Rafako could hire its employees. We have to admit that the attractiveness of Rafako's product range may temporarily decrease (for some buyers, the combination of a boiler and electrostatic precipitator made by one manufacturer is an advantage).

Investment Risks

Ownership Questions

The legitimacy of Laris Investments' holdings in Rafako was challenged during the course of the Elektrim bankruptcy proceeding, preventing investment in the company by a strategic investor. Laris Investments took over the Rafako shares from Elektrim as compensation for a defaulted loan, and Elektrim's creditors claim that the loan agreement was a scheme aimed at transferring the shares. The hearing on the matter of Rafako's ownership, scheduled for early February, was postponed for the second time.

Contingent Liabilities and Receivables

As supplier of industrial process furnaces, Rafako is required to provide guarantees for substantial amounts, and hence recognizes substantial contingent liabilities which totaled PLN 799.4m at the end of Q308. At the same time, the performance bonds which Rafako requires of its subcontractors make for substantial contingent receivables (PLN 308.2m at 30 Sep. 2008). The company shares the guarantee risks with banks, and therefore incurs large finance expenses (PLN 3.3m in H108).

Warranties on Elwo products

Rafako provided warranties on Elwo products totaling PLN 21.9m, of which PLN 8.4m pertains to 2009. Rafako will probably take over the contracts covered by the joint warranties (talks with Elwo customers are underway). Since performance of these contracts is not very advanced, and does not require replacements, Rafako should incur no losses. We are not taking these contracts into account in our financial estimates because their takeover is still undecided, and will probably depend on Rafako's relationship with Elwo's trustee (whose job includes making sure that the work in progress is finished).

Competition from China

In five to ten years' time, Rafako could face increased competition from Chinese furnace manufacturers. Due to rapid economic growth, China launched an ambitious program to expand its mostly coal-based energy industry. The combined capacity of Chinese power stations is 800 GW (vs. 315 GW in 2000). In 2007 and 2008, about 90 GW of new capacity was added per year (which is 90 times more than Poland plans to add annually in the future). Even in spite of these huge upgrades, China continues to experience blackouts, and supply and demand are still not in balance. But it is almost inevitable that the investment put in power generating facilities is going to outbalance local demand at some point, causing Chinese furnace manufacturers to look for buyers in international markets. From Rafako's standpoint, one mitigating factor is the future expansion of other Asian energy industries, including India, and the need for Chinese manufacturers to comply with EU quality requirements.

Costs

Once world economies start to recover from the crisis, there is a risk of inflation, underpinned by the recent surge in the US monetary base. As a result, commodity prices will probably start trending upwards again, accompanied by a strengthening zloty, affecting the future operating margins generated by Rafako (as observed in the 2005-2008 period).

Relative Valuation

Valuation

Rafako is trading at P/E and EV/EBITDA multiples similar to peers (the P/E premium is offset by an EV/EBITDA discount). The basis for comparison is limited in Rafako's case because of a lack of peers with closely similar business profiles. Alstom Power and Foster Wheeler are international corporations for whom furnaces are just one line of business. Polimex Mostostal, which deals in construction and manufacture, generates less than 10% of revenues from furnace production via its subsidiary Sefako. Energoinstal manufactures small biomass-fired boilers and waste incinerators, as well as providing installation and construction services. Its customer base is different from Rafako's, and consist mostly of CHP plants and local waste-management authorities. The closest to matching Rafako's business model is SES Tlmace, but the problem here is a lack of available financial forecasts.

Relative Valuation

	2009E P/E	2010E P/E	2009E EV/EBITDA	2010E EV/EBITDA	2008 P/S	2009E P/S	2010E P/S
Alstom Power	10.80	9.40	5.80	5.10	0.68	0.65	0.60
Energoinstal	5.64	5.06	1.71	1.57	0.41	0.29	0.28
Foster Wheeler	6.20	6.10	2.80	2.80	0.50	0.44	0.43
Polimex Mostostal	7.61	7.24	5.18	4.98	0.27	0.24	0.24
Ses Tlmace					0.27		
Median	**6.91**	**6.67**	**3.99**	**3.89**	**0.41**	**0.37**	**0.35**
Rafako	**9.38**	**7.43**	**1.96**	**1.67**	**0.21**	**0.23**	**0.23**
Premium (discount)	35.87%	11.43%	-50.97%	-57.20%	-48.76%	-37.84%	-35.03%

Source: BRE Bank Securities, Bloomberg

Earnings Forecast and Valuation

Based on DCF analysis, we set the nine-month price target on Rafako's stock at PLN 5.2/share.

DCF Analysis

Model Assumptions

- Risk-free rate = 5.7% (10Y T-bond yield).
- FCF growth after FY2017 = 0%.

DCF Valuation Model

	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2018+
Revenues	**1 060.9**	**1 049.6**	**1 127.6**	**1 210.5**	**1 297.0**	**1 376.8**	**1 443.7**	**1 498.4**	**1 538.8**	**1 561.3**	
change	*-7.8%*	*-1.1%*	*7.4%*	*7.4%*	*7.2%*	*6.2%*	*4.9%*	*3.8%*	*2.7%*	*1.5%*	
EBITDA	**46.3**	**54.3**	**57.5**	**52.9**	**54.3**	**56.2**	**57.2**	**56.8**	**56.9**	**55.2**	
EBITDA margin	*4.4%*	*5.2%*	*5.1%*	*4.4%*	*4.2%*	*4.1%*	*4.0%*	*3.8%*	*3.7%*	*3.5%*	
amortization	12.9	13.3	13.8	14.4	14.9	15.5	15.9	16.2	16.2	16.2	
EBIT	**33.4**	**41.0**	**43.7**	**38.6**	**39.4**	**40.7**	**41.3**	**40.6**	**40.7**	**39.1**	
EBIT margin	*3.1%*	*3.9%*	*3.9%*	*3.2%*	*3.0%*	*3.0%*	*2.9%*	*2.7%*	*2.6%*	*2.5%*	
Tax rate on EBIT	6.3	7.8	8.3	7.3	7.5	7.7	7.8	7.7	7.7	7.4	
NOPLAT	**27.0**	**33.2**	**35.4**	**31.2**	**31.9**	**32.9**	**33.5**	**32.9**	**33.0**	**31.6**	
CAPEX	-17.4	-18.0	-20.0	-20.8	-21.6	-22.5	-20.7	-19.4	-19.4	-16.2	
Working capital	-2.8	-2.0	-0.9	0.1	-0.7	-0.7	-0.8	-0.7	-0.9	-0.8	
Other	-6.5	-6.4	-6.9	-7.4	-7.9	-8.4	-8.8	-9.1	-9.4	-9.5	
FCF	**13.2**	**20.1**	**21.5**	**17.5**	**16.6**	**16.9**	**19.1**	**19.8**	**19.4**	**21.4**	**21.4**
WACC	*10.7%*	*10.7%*	*10.7%*	*10.7%*	*10.7%*	*10.7%*	*10.7%*	*10.7%*	*10.6%*	*10.6%*	
discount factor	*90.3%*	*81.6%*	*73.7%*	*66.6%*	*60.2%*	*54.3%*	*49.1%*	*44.3%*	*40.1%*	*36.3%*	
PV FCF	11.9	16.4	15.8	11.7	10.0	9.2	9.4	8.8	7.8	7.7	

	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F
WACC	***10.7%***	***10.7%***	***10.7%***	***10.7%***	***10.7%***	***10.7%***	***10.7%***	***10.7%***	***10.6%***	***10.6%***
Cost of debt	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.8%*	*6.8%*
Risk-free rate	*5.7%*	*5.7%*	*5.7%*	*5.7%*	*5.7%*	*5.7%*	*5.7%*	*5.7%*	*5.6%*	*5.6%*
Risk premium	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*
Effective tax rate	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*
Net debt / EV	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Cost of equity	*10.7%*	*10.7%*	*10.7%*	*10.7%*	*10.7%*	*10.7%*	*10.7%*	*10.7%*	*10.6%*	*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	*0.0%*
Terminal value	201.5
Present value of the terminal value (PV TV)	73.0
Present value of FCF in the forecast horizon	108.7
Equity value (EV)	181.8
Net debt	-152.9
Other non-operating assets	0.0
Minority interests	0.0
Equity value	334.7
Number of shares (millions)	69.6
Equity value per share (PLN)	**4.8**
Cost of equity (9M)	0.1
Target Price	**5.2**

Sensitivity Analysis

FCF growth in perpetuity

	2.0%	**2.5%**	**3.0%**	**3.5%**	**4.0%**	
WACC -1.0ppt	5,2	5.2	5.2	5.3	5.4	5.5
WACC -0.5ppt	5,1	5.1	5.2	5.2	5.3	5.4
WACC	5,1	5.1	5.1	**5.2**	5.2	5.3
WACC +0.5ppt	5,0	5.0	5.1	5.1	5.2	5.2
WACC +1.0ppt	5.0	5.0	5.0	5.1	5.1	5.2

EV/EBITDA('09) for the target price	8.2
P/E('09) for the target price	13.0
TV to EV	22%

Income Statement

(PLN m)	2006	2007	2008F	2009F	2010F	2011F
Revenues	**777.2**	**1 137.5**	**1 150.3**	**1 060.9**	**1 049.6**	**1 127.6**
change	*54.5%*	*46.4%*	*1.1%*	*-7.8%*	*-1.1%*	*7.4%*
Cost of sales	705.1	1 065.3	1 067.6	973.7	954.3	1 023.3
Gross profit	72.1	72.2	82.7	87.2	95.3	104.3
gross profit margin	*9.3%*	*6.3%*	*7.2%*	*8.2%*	*9.1%*	*9.2%*
Selling costs	-17.7	-18.2	-20.4	-19.1	-19.4	-22.0
General and administrative expenses	-22.4	-24.2	-31.3	-29.7	-29.9	-33.3
Other net operating profit	-11.1	-7.7	-5.0	-5.0	-4.9	-5.3
EBIT	**20.9**	**22.1**	**26.0**	**33.4**	**41.0**	**43.7**
change	*45.3%*	*5.3%*	*17.8%*	*28.4%*	*23.0%*	*6.6%*
EBIT margin	*2.7%*	*1.9%*	*2.3%*	*3.1%*	*3.9%*	*3.9%*
Profit on financing activity	-3.8	-3.7	-124.8	0.0	0.7	1.4
Equity in income of associates	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax income	**17.2**	**18.4**	**-98.8**	**33.4**	**41.7**	**45.1**
Tax	-3.9	-5.8	18.1	-6.3	-7.9	-8.6
Minority interests	0.6	0.4	-1.9	1.3	1.3	1.4
Net income	**12.8**	**12.2**	**-78.8**	**25.7**	**32.5**	**35.2**
change	-	*-4.6%*	*-746.6%*	*-132.7%*	*26.2%*	*8.3%*
margin	*1.6%*	*1.1%*	*-6.9%*	*2.4%*	*3.1%*	*3.1%*
Amortization and depreciation	10.7	13.1	15.0	12.9	13.3	13.8
EBITDA	**31.7**	**35.1**	**41.0**	**46.3**	**54.3**	**57.5**
change	*29.3%*	*10.8%*	*16.8%*	*12.8%*	*17.4%*	*5.9%*
EBITDA margin	*4.1%*	*3.1%*	*3.6%*	*4.4%*	*5.2%*	*5.1%*
Shares at year-end (millions)	17.4	69.6	69.6	69.6	69.6	69.6
EPS	0.7	0.2	-1.1	0.4	0.5	0.5
CEPS	1.4	0.4	-0.9	0.6	0.7	0.7
ROAE	*5.7%*	*4.2%*	*-25.6%*	*8.6%*	*9.4%*	*9.3%*
ROAA	*2.2%*	*1.7%*	*-10.2%*	*3.5%*	*4.6%*	*4.7%*

Balance Sheet

(PLN m)	2006	2007	2008F	2009F	2010F	2011F
ASSETS	**688.5**	**787.3**	**762.0**	**699.1**	**725.9**	**783.1**
Fixed assets	**185.2**	**197.4**	**251.4**	**215.0**	**219.6**	**225.8**
Intangible assets	3.8	4.7	5.1	3.1	3.1	3.1
Equity value	0.0	0.0	5.0	4.0	4.0	4.0
Property, plant and equipment	128.7	144.7	181.4	155.9	160.6	166.8
Financial assets	18.9	14.8	3.7	3.7	3.7	3.7
Deferred tax assets	33.8	33.1	56.2	48.2	48.2	48.2
Current assets	**503.3**	**589.9**	**510.6**	**484.1**	**506.2**	**557.3**
Inventories	20.3	29.7	40.9	37.3	36.6	39.3
Receivables	192.8	222.3	204.9	188.9	186.9	200.8
Short-term prepayments	65.8	94.7	94.5	87.2	86.3	92.7
Cash and cash equivalents	223.2	241.8	169.0	169.4	195.2	223.3
Other	1.3	1.3	1.3	1.3	1.3	1.3

(PLN m)	2006	2007	2008F	2009F	2010F	2011F
LIABILITIES	**688.5**	**787.3**	**762.0**	**699.1**	**725.9**	**783.1**
Equity	**230.5**	**347.1**	**268.3**	**329.0**	**361.5**	**396.7**
Minority shares	6.2	2.4	2.4	1.4	1.4	1.4
Long-term liabilities	**20.7**	**34.1**	**50.6**	**50.6**	**50.6**	**50.6**
Loans, finance leases	0.0	0.0	16.5	16.5	16.5	16.5
Reserves and other	20.7	34.1	34.1	34.1	34.1	34.1
Short-term liabilities	**431.1**	**403.6**	**440.7**	**318.0**	**312.3**	**334.4**
Loans	1.0	11.3	0.0	0.0	0.0	0.0
Amounts owed to suppliers	189.4	219.9	190.1	173.4	169.9	182.2
Derivatives	0.0	0.0	93.0	0.0	0.0	0.0
Prepayments	240.7	172.3	157.6	144.6	142.3	152.1
Debt	1.0	11.3	16.5	16.5	16.5	16.5
Net debt	-222.2	-230.5	-152.5	-152.9	-178.7	-206.8
(Net debt / Equity)	-96.4%	-66.4%	-56.8%	-46.5%	-49.4%	-52.1%
(Net debt / EBITDA)	-7.0	-6.6	-3.7	-3.3	-3.3	-3.6
BVPS	13.2	5.0	3.9	4.7	5.2	5.7

Cash Flows

(PLN m)	2006	2007	2008F	2009F	2010F	2011F
Cash flows from operating activities	**163.7**	**-68.6**	**3.9**	**17.8**	**43.1**	**46.7**
Net income	12.8	12.2	-78.8	25.7	32.5	35.2
Amortization and depreciation	10.7	13.1	15.0	12.9	13.3	13.8
Working capital	159.2	-83.9	-38.1	-2.8	-2.0	-0.9
Other	-19.1	-10.0	105.8	-18.0	-0.7	-1.4
Cash flows from investing activities	**-132.7**	**-75.5**	**-57.1**	**-17.4**	**-18.0**	**-20.0**
CAPEX	-13.8	-31.6	-27.9	-17.4	-18.0	-20.0
Capital investments	-125.1	-49.4	-29.2	0.0	0.0	0.0
Other	6.1	5.4	0.0	0.0	0.0	0.0
Cash flows from financing activities	**-4.3**	**107.9**	**-19.6**	**0.0**	**0.7**	**1.4**
Stock offering	0.0	104.4	0.0	0.0	0.0	0.0
Debt	-0.1	10.2	5.2	0.0	0.0	0.0
Dividend (buy-back)	-0.2	-0.6	0.0	0.0	0.0	0.0
Other	-4.0	-6.2	0.0	0.0	0.0	0.0
Change in cash	**26.7**	**-36.2**	**-72.8**	**0.4**	**25.8**	**28.1**
Cash at the end of period	223.2	241.8	169.0	169.4	195.2	223.3
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0.0
FCF	161.1	-107.6	-198.3	13.2	20.1	21.5
(CAPEX / Sales)	*1.8%*	*2.8%*	*2.4%*	*1.6%*	*1.7%*	*1.8%*

Market multiples

	2006	2007	2008F	2009F	2010F	2011F
P/E	4.7	19.8	-3.1	9.4	7.4	6.9
P/CE	2.6	9.6	-3.8	6.2	5.3	4.9
P/BV	0.3	0.7	0.9	0.7	0.7	0.6
P/S	0.1	0.2	0.2	0.2	0.2	0.2
FCF/EV	*-187.7%*	*-117.6%*	*-216.8%*	*14.6%*	*22.3%*	*23.7%*
EV/EBITDA	-2.7	2.6	2.2	2.0	1.7	1.6
EV/EBIT	-4.1	4.1	3.5	2.7	2.2	2.1
EV/S	-0.1	0.1	0.1	0.1	0.1	0.1
DYield	*0.4%*	*0.2%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*

Price (PLN)	**3.5**					
Shares at year-end (millions)	17.4	69.6	69.6	69.6	69.6	69.6
MC (PLN m)	60.4	241.5	241.5	241.5	241.5	241.5
Equity attributable to minority shareholders (PLN m)	6.2	2.4	2.4	1.4	1.4	1.4
EV (PLN m)	-85.9	91.5	91.5	90.5	90.5	90.5

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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*

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