

7 May 2012

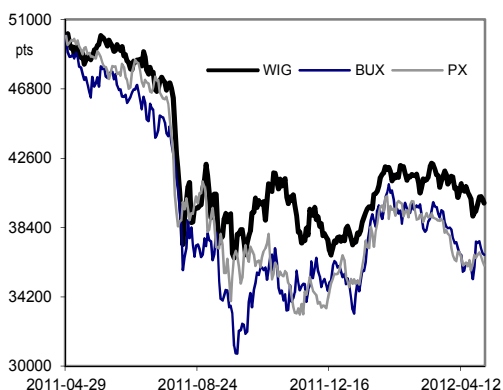
Periodic Report



Equity Market Macroeconomics

WIG	39,888
Average 2012E P/E	10.7
Average 2013E P/E	9.9
Avg daily trading volume	PLN 790m

WIG vs. indices in the region



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Macroeconomics
BRE Bank Economists

Monthly Report

May 2012

Equity Market

Markets face weakening economic data and the end of a good earnings season in the USA on the one hand, and expectations of monetary loosening by the Fed and ECB on the other hand. The stock market remains in a controlled downward correction which should last through May.

Company Outlook

Financial Industry. We would overweight financial industry players that are positioned for an upbeat earnings season and that offer high dividend yields, for instance PZU and PKO BP. We would underweight Millennium, Get Bank, and Pekao which are set for disappointing quarterly announcements.

Gas & Oil. Strong product margins supported refinery stocks in April, but as macroeconomic conditions get tougher, if oil prices drop as anticipated, May will bring values down in the sector. Falling oil prices will also negatively affect PGNiG.

Power Utilities. Sentiment to power stocks continued to sour throughout April despite positive newsflow regarding LTC compensation and dividends. We remain bullish on the sector in anticipation of better-than-expected Q1 results.

Telecoms. Loss of fixed-line voice customers is the main factor which will affect the future earnings of telecoms. However, high dividend and a share buyback in case of TPSA, and synergy benefits in case of Netia, should give stability to the two stocks.

Media. Investors considering investment in the media sector should bear in mind that a weak advertising market and increasing competition will be putting downward pressure on the future earnings of media companies.

IT. IT distributors have almost exhausted the growth potential provided by industry consolidation. IT integrators are poised for month-long delays in contract awards caused by Poland's changing e-government agenda.

Mining & Metals. Commodity markets remain stable despite weaker economic data, suggesting a good earnings outlook throughout the first half of 2012. One exception are coking coal miners who are experiencing temporary pressure on coke prices caused by weak demand from Chinese steel manufacturers.

Manufacturers. We anticipate a strong earnings season from Famur and Rovese. We would avoid Astarta and Kernel, but look out for opportunities to buy into Kopex and Impexmetal after weak Q1 results.

Construction. The problems faced by PBG have triggered a selloff in construction stocks which are trading at their lowest levels since 2004, or, in some cases, in history. Investors will have no problem finding stocks valued at recurring P/E ratios of ~4-6 or EV/EBITDA ~2-3. We would overweight smaller companies and underweight the majors.

Real-Estate Developers. Selected real-estate stocks are trading at attractive levels after the recent price downturn. We would look for opportunities to buy Robyg and Polnord on further price dips. Developers with commercial property portfolios still offer more upside potential.

Ratings. As of the date of this Monthly Report, we are upgrading our ratings for J.W.C. (Hold), Polimex Mostostal (Buy), Rafako (Accumulate), Ulma CP (Accumulate), and we are suspending coverage of Centrum Klima, Kopex, and Mondy.

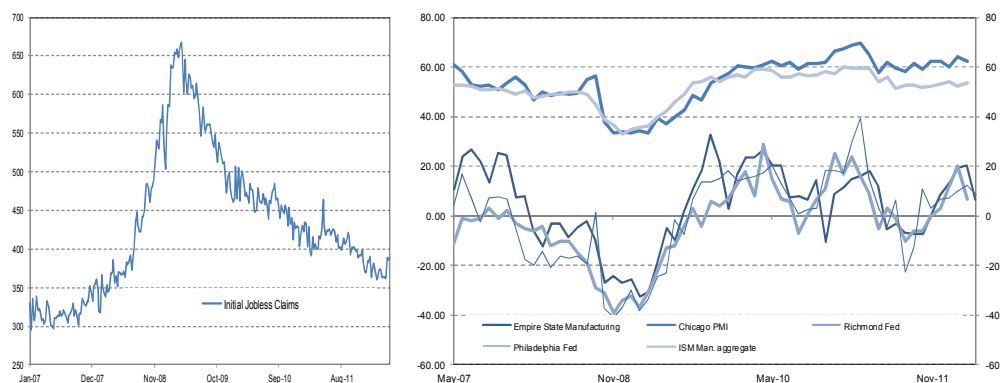
Equity market

In line with our expectations, April brought more disappointing economic data in Europe (especially the PMI index, sentiment in German manufacturing) and in the USA (new orders in manufacturing, labor market). What is worrying, among other things, is that the Eurozone crisis is increasingly spilling over from the peripheral countries to the two biggest economies, Germany and France, as shown by leading indicators (PMI), not just for manufacturing, but for services as well. The weak economic data coincided with strong earnings by American companies, which at least prevented S&P500 from suffering major losses. The Polish market is still significantly weaker than other emerging markets, which reflects liquidity problems in the construction industry on the one hand (a factor that impacts banks as well), and a slowdown in Germany on the other (which is expected to affect the Polish economy in the latter half of the year). With the sentiment weakening, concerns about debt levels in peripheral countries are rising again, as shown by the actions of rating agencies. In late April, S&P downgraded Spain's rating by two levels, from "A" to "BBB" with negative outlook. Until the end of June, FED will continue with Operation Twist, and afterwards, the deteriorating economic data and the upcoming presidential election will make a further round of monetary loosening increasingly likely. As far as the ECB is concerned, it is still refusing to undertake further actions, but seems to have no alternative, especially if we take into account the most recent economic data. The question is when. Therefore, despite the negative momentum on economic data, we do not expect a major downside in the equity market. That said, there is little fuel for further growth in the near future. The reporting season in America is over, and company earnings in Europe are unlikely to give comfort to investors. The most likely scenario for May is a gradual slump in the market on weakening volumes. Starting in June, dividends and funds coming from shares sold in tender offers should give a boost to the market through the inflow of new money into investment funds.

US data disappoint in April

While the data from the American economy surprised in the upside in January-February and fell close to consensus in March, April brought a number of disappointments. The biggest one are consistently weak data on new durable goods orders (-4.2% m/m), as well as lower-than-expected leading indicators for New York and Philadelphia. Moreover, after the last labor market data, the number of initial jobless claims is back at ca. 380k, i.e. 10-20k more than in February-March. Finally, new non-farm jobs have fallen from ca. 250k to 120k. According to macroeconomists, these data illustrate a temporary slowdown in the strong trend observed in the preceding months. The FED as well, in its overview of the state of the economy, advises observers to focus on the trend rather than data for a single month. Existing home sales disappointed as well (4.48m vs. 4.62m expected), but it should be observed that supply shrank by 30k homes after a 70k increase in the preceding month. The surplus supply of second-home market has been depressing property prices for several years.

Initial jobless claims in USA, local leading indicators vs. ISM



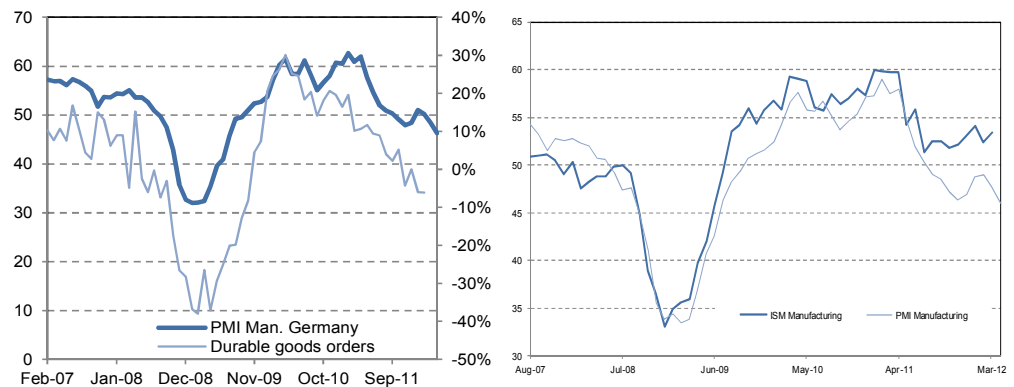
Source: Bloomberg

In contrast to the weak macroeconomic data, American companies published excellent earnings for Q1'12, giving a major boost to the equity market. By April 27, 239 companies had published their earnings, and 180 of them beat the analysts' consensus, by 7.7% on average. The average increase in EPS was 8% y/y. The sectors that surprised the most were the financial industry, new technologies and telecoms.

Where is Eurozone headed?

Except for the German ZEW, practically all the data published disappoint. A particular source of concern is the drop seen in the leading indicators of the major economies, i.e. Germany and France. In the latter case, PMI Manufacturing fell to 47.3pts, and PMI Services declined as well (46.4pts vs. 50.1pts the month before). In the case of Germany, PMI Services remained above 50pts (52.6pts), but PMI Manufacturing fell to 46.3pts. The leading indicators are followed by hard data (industrial production in Germany: -0.9% y/y, new orders: -6% y/y). The data for Germany are of special importance for the foreign investors' perception of Poland, because its economy tends to lag 6-9 months behind.

Durable goods orders vs. PMI Manufacturing in Germany (L), PMI Manufacturing in Eurozone vs. ISM Manufacturing (R)



Source: Bloomberg

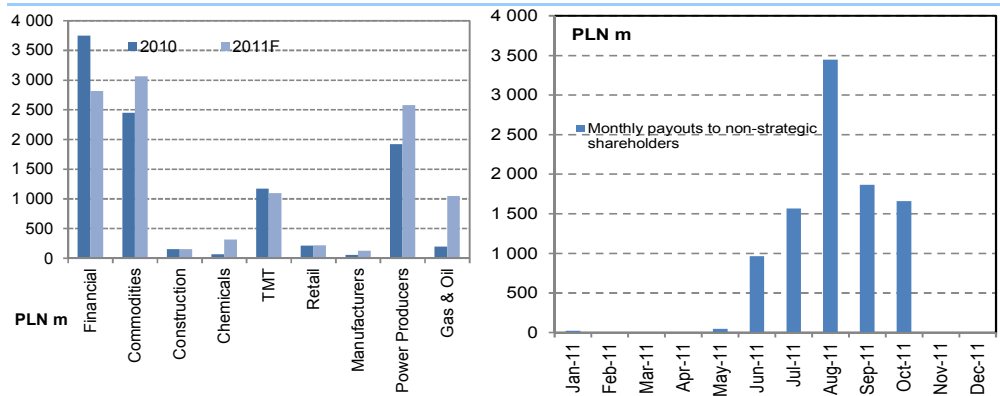
The increasingly weak condition of the Eurozone economy raises concerns about national budget deficits. LTRO is a short-term solution to this problem (bond auctions in Spain or Italy have continued successfully), but debt is still rising quite fast. Rating agencies are back, too. S&P's has cut Spain's rating by two levels, from "A" to "BBB" with negative outlook, which harbingers further downgrades in the future. The agency argues that the country's tough economic situation will continue to weigh the national budget down, which entails a further increase in debt. An exacerbating factor is the fact that banks are increasingly likely to be in the need of rescue.

Will dividends and tender offers aid the Polish equity market?

Security premiums payable to retirement funds have been cut and new funds are not flowing into investment funds, resulting in a fairly weak institutional demand. The situation might be improved by funds coming from dividends, as well as divestments of stakes in companies which have been the subject of tender offers recently. In the next few months, investment and retirement funds may get over PLN 5bn from this source.

In 2011, dividends paid to non-strategic shareholders amounted to ca. PLN 9.6bn, of which ca. PLN 3bn went to investment and retirement funds. We estimate the 2011 dividend figure at PLN 11.4m, of which ca. PLN 4bn will go to domestic funds. In the case of retirement funds, this is equivalent to five months worth of social security premiums. Most of the dividend payouts will come in June-October.

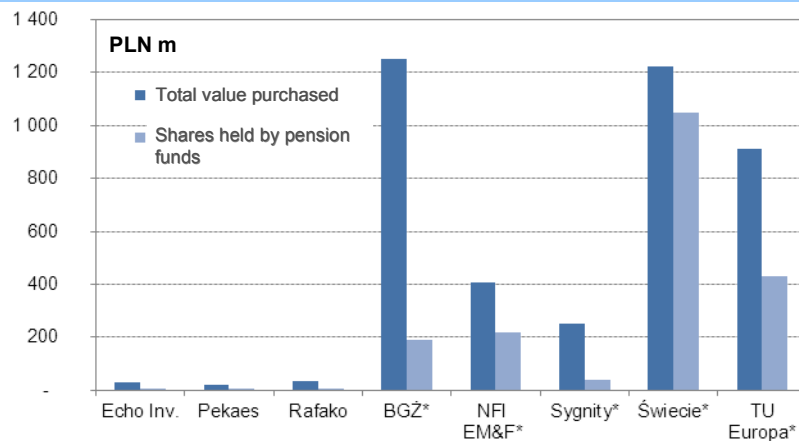
Dividends from 2010/2011 profits payable to non-strategic shareholders



Source: Bloomberg

Since early 2012, strategic investors have made tender offers for WSE-listed companies for a total of PLN 4.13bn. Some of these tender offers are still ongoing, although in the two biggest ones, for Świecie and TU Europa, only formalities remain to be finalized. If all the tender offers are concluded, retirement funds will get ca. PLN 1.9bn. Additional offers are possible. In addition to tender offers, an opportunity for divestments are treasury share buybacks (over PLN 1bn total).

Selected tender offers for shares announced in 2012



Source: BRE Bank Securities, *In progress; Świecie: tender offer concluded, squeeze-out of minority shareholders is underway, TU Europa: KNF approval pending.

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Previous ratings for companies re-rated as of the date of this Monthly Report

CENTRUM KLIMA

rating	Buy
rating day	2011-11-15
price on rating day	9.65
WIG on rating day	40235.00

J.W.C.

rating	Hold	Reduce
rating day	2011-11-03	2012-01-23
price on rating day	7.29	7.15
WIG on rating day	40747.38	39518.87

KOPEX

rating	Buy	Buy	Accumulate	Hold
rating day	2011-09-06	2011-11-28	2012-01-23	2012-03-05
price on rating day	18.20	17.90	21.30	23.10
WIG on rating day	38992.56	37601.56	39518.87	41639.72

MONDI

rating	Accumulate	Accumulate	Buy	Suspended	Sell
rating day	2011-09-13	2011-11-04	2012-01-23	2012-03-05	2012-04-05
price on rating day	71.95	67.50	58.30	71.15	71.50
WIG on rating day	37437.36	41313.92	39518.87	41639.72	40754.08

POLIMEX MOSTOSTAL

rating	Buy	Buy	Buy	Accumulate
rating day	2011-08-11	2012-01-23	2012-01-26	2012-03-05
price on rating day	1.88	1.66	1.69	1.74
WIG on rating day	37368.93	39518.87	39542.67	41639.72

RAFAKO

rating	Buy	Buy	Hold
rating day	2011-11-16	2012-01-23	2012-03-05
price on rating day	8.90	7.63	10.60
WIG on rating day	40042.74	39518.87	41639.72

ULMA CP

rating	Accumulate	Hold
rating day	2012-01-23	2012-04-05
price on rating day	60.70	67.50
WIG on rating day	39518.87	40754.08

List of abbreviations and ratios contained in the report.

EV – net debt + market value (EV – economic value)
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
PBA – Profit on Banking Activity
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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BUY – we expect that the rate of return from an investment will be at least 15%
ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from -5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
SELL – we expect that an investment will bear a loss greater than 15%
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