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BRE Bank Securities

15 May 2012

Update

Chemicals
Poland

Ciech

CIE PW; CECH.WA

Buy

(Reiterated)

Current price	**PLN 17.70**
Target price	**PLN 21.60**
Market cap	PLN 932.8m
Free float	PLN 356.5m
Avg daily trading volume (3M)	PLN 3.64m

Shareholders

State Treasury	38.72%
OFE PZU	5.96%
OFE ING	7.59%
Pioneer Pekao IM	9.90%
Other	37.83%

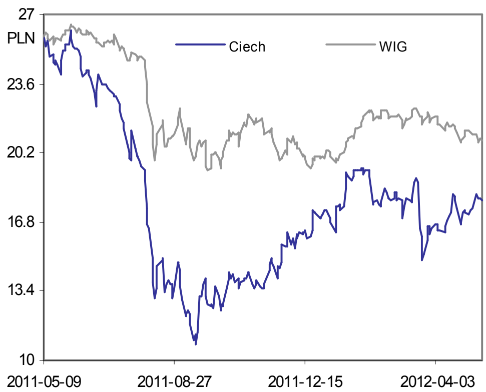
Sector Outlook

The situation remains good in the Soda segment for now after buyers accepted price hikes for 2012. High commodity prices blunt the competitive edge of Chinese producers, allowing the global soda ash market to reach an equilibrium. After a very tough period, the situation is improving gradually in the Organic segment, with the margins on TDI recovering slowly from their 2011 breakdown.

Company Profile

Ciech is Poland's largest chemicals producer. It has a diversified business portfolio which consists of the Soda Division (second largest soda ash manufacturer in Europe), the Organic Division (TDI, EPI, epoxy resins), and the Agro Division (pesticides). Ciech runs operations in Poland as well as Germany and Romania.

Ciech vs. WIG



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Selling Zachem Is an Attractive Option

Ciech's Q1 earnings give grounds for optimism for the upcoming quarters, especially in the Organic segment, where expectations were very low. The possible sale of Zachem constitutes another line of support, as the subsidiary currently weighs Ciech down earnings-wise as well as in the balance sheet. Under the positive scenario, getting rid of Zachem could increase shareholder value by as much as 50% (sale for the nominal zloty plus debt). An important factor that could also constitute a catalyst for the stock price is the recently-terminated amine supply contract (lower price, compensation). Given its options and the outlook for its future, Ciech is trading at an attractive 5.3x 2012 EV/EBITDA. We are reiterating a buy rating, with our target price changed just slightly (PLN 21.6 vs. PLN 21.5 per share previously).

Promising earnings outlook in upcoming quarters

In Q1'12, Ciech surprised the market on the upside for the first time in many quarters. While the results did not diverge much from our forecasts, when they are seen in conjunction with the positive trends on the Company's main products, they allow for more optimism for the upcoming periods. The rising prices of TDI should add ca. PLN 12m to Q2 EBIT, and the appreciation of the EUR vs. the PLN, coupled with rising volumes, should improve earnings on soda ash. There will be a marked seasonal drop in pesticide sales, but it should be less pronounced than last year due to Ciech's entry into new markets. Moreover, H2 earnings will be boosted by the launch of a new production line, which will add ca. PLN 60m to revenues in this lucrative segment. As a result, despite a weaker performance on the part of the recently taken-over German CHP plant, Ciech's FY 2012 EBITDA should beat PLN 400m.

Zachem divestment would be a major development

Due to Zachem's very tough situation (PLN 60m EBITDA loss last year, without excluding a PLN 30m discount on amine) and its persistently tough economic environment, Ciech's previous Management Board started negotiations on the potential sale of the subsidiary. According to newspapers, the interested parties include Dow Chemical and a Chinese holding that is the owner of Borodschem. At this time, it is hard to estimate Ciech's chances of success (all the more so that there has been a reshuffle at top, which could protract the process), not to mention the precise financial parameters of such a transaction. Note, however, that Zachem currently owes Ciech PLN 320m; even if a portion of these liabilities is assumed by the buyer, the effect on Ciech's valuation will be very positive (as will be the fact that the loss on TDI will no longer be consolidated). Note also that after Air Products terminated an agreement for amine supply, Ciech might be able to get a sizable compensation, perhaps as much as USD 50m.

(PLN m)	2010	2011	2012F	2013F	2014F
Revenues	3960.3	4174.5	4290.3	4335.4	4517.2
EBITDA	384.7	340.8	418.9	480.3	501.2
EBITDA margin	*9.7%*	*8.2%*	*9.8%*	*11.1%*	*11.1%*
EBIT	146.9	118.7	164.6	232.3	248.7
Net profit	24.3	1.5	22.7	99.9	122.2
DPS	0.00	0.00	0.00	0.00	0.57
P/E	20.4	619.4	41.2	9.3	7.6
P/CE	1.9	4.2	3.4	2.7	2.5
P/BV	0.6	0.7	0.7	0.7	0.6
EV/EBITDA	5.0	5.9	5.3	4.3	3.9
DYield	0.0%	0.0%	0.0%	0.0%	3.2%

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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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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%
Recommendations are updated at least once every nine months.

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Previous ratings issued for Ciech

Rating	Buy
Rating date	2012-01-16
Price on rating day	17.35
WIG on rating day	37991.91