5 June 2012

Equity Market
Macroeconomics

Periodic Report

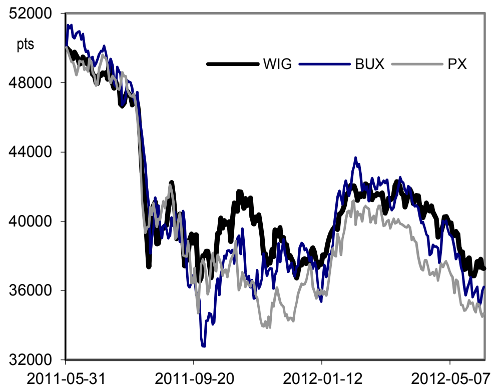
BRE Bank Securities

Monthly Report

June 2012

WIG	**37,288**
Average 2012E P/E	9.4
Average 2013E P/E	9.0
Avg daily trading volume	PLN 743m

WIG vs. indices in the region



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Macroeconomics
BRE Bank Economists

Equity Market

In April and May, we put forward a hypothesis that stock markets would go into a downward correction, and that June would be a good month to buy stocks even if still in a downtrend. We stand by this call.

Company News

Financial Sector. Even after rating upgrades to neutral, we recommend that investors employ caution when considering investment in Millennium and Getin Noble Bank (formerly Get Bank) as these two banks are extremely sensitive to exchange rate fluctuations. We remain overweight on financial institutions with attractive valuations and high dividend yields, like PKO BP and PZU.

Gas & Oil. Our predictions for the oil market have materialized, as reflected in the current prices of energy stocks. We maintain that investors are overlooking the unfavorable fundamentals (USD exchange rates, falling oil prices) affecting the business of PGNiG.

Power Utilities. The string of positive messages (earnings, dividends, lower prices of carbon emissions) coming from the Polish power industry in May could not change the bearish sentiment towards the sector, which is affected by falling prices on power exchanges. We expect investors to give these positive messages more consideration in the coming weeks.

Telecoms. TPSA and Netia both posted disappointing first-quarter results. Amid uncertainty in financial markets, however, TPSA can be an interesting pick mitigating portfolio risks. Its other advantage is a high dividend. In case of Netia, a share buyback can be an incentive for investors.

Media. We would underweight the media sector, which has a challenging future ahead. TVN is selling Onet.pl at a very attractive price, prompting a rating upgrade to accumulate.

IT. Asseco Poland remains our top pick in the IT sector. Sygnity should continue trading at steady levels for the duration of the tender offer for its shares. IT distributors are poised for a gradual decline in momentum in our view.

Mining and Metals. A slowdown in China, paired with a recession in Europe, are all affecting prices of commodities, except precious metals which have been on an upward trend in the past few weeks.

Manufacturers. June should see strong performance from Kęty, which is scheduled to announce second-quarter estimates at the end of the month. A rebound in the broad market is not unlikely for stocks with high beta values, for example Impexmetal and Boryszew.

Construction. The drama unfolding in the road construction sector is not likely to spread to other sectors of the construction industry. We would overweight construction stocks, especially small and medium-sized companies. We would avoid large road builders.

Real Estate Developers. The shares of the commercial real estate developers in our coverage lost 6.7% of their value in May, compared to a 17.0% plunge taken by residential developers. Commercial stocks remain the safer choice. We recommend a selective approach when picking homebuilders.

Ratings. As of the date of this Monthly Report, we are upgrading our ratings Astarta (Hold), BBI Development (Accumulate), Boryszew (Hold), CEZ (Hold), Getin Noble Bank (f. Get Bank) (Hold), Kernel (Hold), Millennium (Hold), MOL (Hold), Netia (Hold), Pekao (Hold), TVN (Accumulate), and we are downgrading Famur (Reduce). Coverage of CEDC, Eurocash, LPP, NFI EMF, NG2, and Vistula is suspended as of June.

Equity market

In April and May we assumed that stock indices will be in a correction phase, while June, though perhaps still dominated by bears, might be the moment to buy in. We stand by this view. Due to weak economic data and the escalating crisis in Europe, May alone saw global equity prices plunge by 9%, with risk aversion skyrocketing (as shown by the yields on US and German bonds). Usually, such a fall within one month harbingers a rapid rebound rather than the onset of a bear market. This view might also be supported by the investor's weak sentiment, which is typical of turning points. The difference between S&P500 bulls and bears currently amounts to -14pp. Unfortunately, the volatility index for S&P500 (VIX) currently stands at 27pts, and turning points are typically marked by levels of 30-40pts. When we consider this in the context of the important dates coming in June, we might venture to sketch what the market is going to look like in the upcoming weeks. In the first half of the month, indices will continue to slide under pressure from weak economic data and uncertainties surrounding Greece and Spain. The VIX index will exceed 30pts, and sentiment will deteriorate further. Then there will be several events that could bring a breakthrough. On 7 June, the Chairman of the Fed will address joint houses of Congress. Ben Bernanke has said numerous times that if the debt crisis in Europe escalates, the Fed will be ready to launch QE3. Quite possibly, the recent strength of precious metal prices is discounting the next round of monetary loosening. A Fed meeting is scheduled for 19-20 June. On 17 June, Greece is holding elections. Regardless of which party prevails, the key decisions lie with the leaders of the Eurozone's biggest countries, i.e. Germany and France, who cannot allow for an uncontrolled 'Grexit' (the markets should see any alternative scenario as neutral at worst). Finally, June will see the launch of ESM, a fund aimed to provide relief to banks in peripheral countries. Good news include plunging prices of crude oil (-8% m/m) and other commodities, which could be considered an "aid package" for the global economy, whose effects will be seen in H2 2012.

US data disappoint in April, but the trend still points upward

The main negative surprise included labor market data (new non-farm jobs: +69 thou., coupled with a revision of the data for April from 115 thou. to 77 thou., initial jobless claims at 383 thou.) and the Conference Board consumer confidence index, which fell from 68.7pts to 64.9pts (moreover, the former reading had been revised down from 69.2pts). While the labor market could have been expected to deteriorate based on ISM readings, the Conference Board data conflict with the earlier data published by the University of Michigan. For the past thee months, the UM Consumer Sentiment Index has been indicative of a upward trend, and the Conference Board Index, of a downtrend. It is therefore hard to make a clear-cut interpretation of these data. In the next few weeks, falling crude oil prices should have a positive impact on US consumer sentiment.

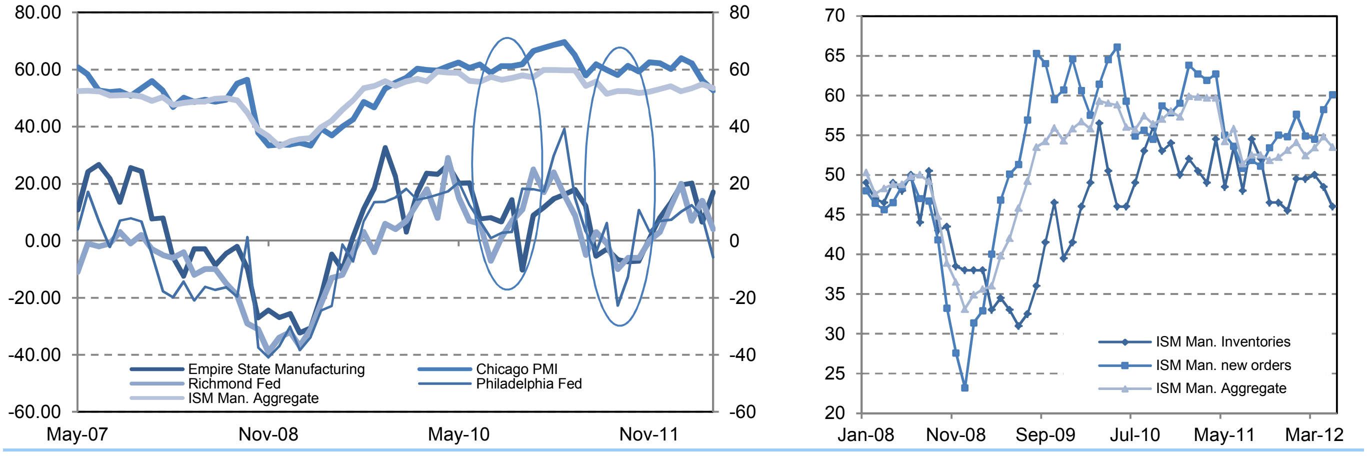
For the time being, the weaker labor market data may be interpreted as a correction within an upward trend (as suggested by the Chairman of the Fed). On the other hand, data from the property market may be a source of optimism. While housing starts (717 thou.) and new home sales (343 thou.) are far from the pre-crisis levels (2.2m and 1.3m, respectively), it is worth noting that prices are no longer falling. In February and March, a slight y/y increase in prices was in fact noted, which, coupled with steady supply (the number of unsold homes remains 2.5m vs. 4m in 2007) should lead to an improvement in the construction industry in H2'12.

US labor market: New jobs (L), initial jobless claims (M); US property market: Existing homes for sale, Y/Y change in prices (R)

Source: Bloomberg

ISM Manufacturing also looks good. While its value has fallen slightly (from 54.8 to 53.5), the previously available Philadelphia, Richmond and Chicago data suggested that the contraction would be a bigger one. Moreover, the structure of the index looks good as well, with new orders rising to 60.1pts, i.e. the highest level since April 2011. In turn, the inventories sub-index has fallen to 46pts (from 48.5pts). Thus, the difference between new orders and inventories currently amounts to 14.4pts (the highest gap since 2010), suggesting an upcoming revival in manufacturing. We also present below a chart that shows that since the start of 2010, local ISM readings (NY/Richmond/Philadelphia) fell below 0 at least twice, but the overall index still remained above 50pts.

Local ISM readings vs. ISM Manufacturing (L), selected components of ISM Manufacturing

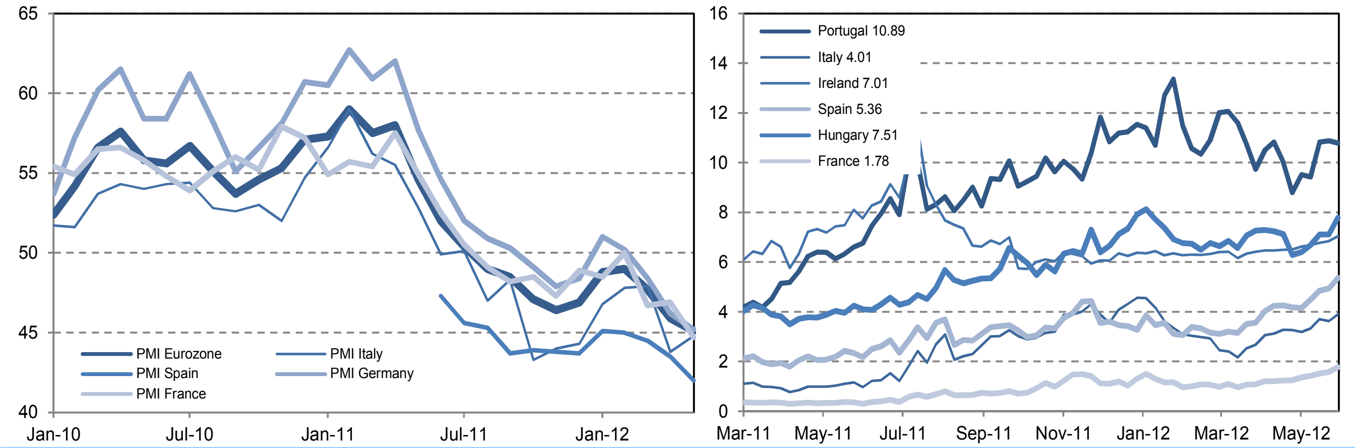


Source: Bloomberg

Eurozone growth slackening, further trouble ahead in Spain

In contrast with US ISM readings and the analysts' expectations, Eurozone PMI readings fell, suggesting that the risk of the recession getting deeper is rising. As a result, 2012 GDP growth forecasts were cut to -0.4/-0.8%. Note that PMI Germany (45.2pts) is now on a par with the Eurozone reading (45.1pts), while it used to be 2.7pts higher on average. The situation in Germany is the biggest determinant of the condition of the Polish economy. Based on the PMI index, recession is no longer getting deeper in Italy (44.8pts). Among the big countries, Spain is still seeing the lowest readings (42.0pts).

PMI Manufacturing for selected Eurozone countries, yields on 10Y bonds vs. 10Y Bunds



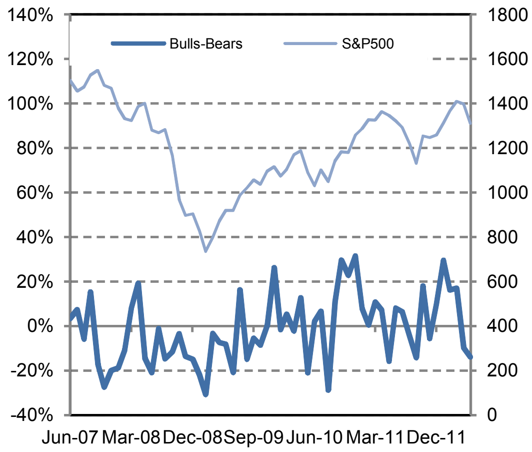
Source: Bloomberg

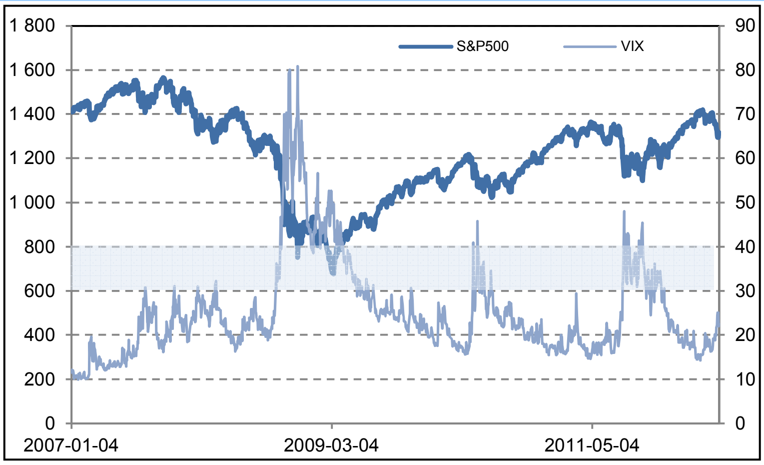
The battle against the European debt crisis is turning into a race against time in which European politicians appear to be falling behind. The epicenter has moved from the tiny Greece to Spain, which needs to inject capital into its banking system even as its budget deficit expands, engendering aversion in financial markets, as illustrates by bond yields which are now at 6.5%, the pre-LTRO level. The Spanish government maintains that the country does not need outside help, but financial markets do not believe this anymore. In this context, IMF aid would be welcome. The prospect of Greece leaving Eurozone meets with mixed reaction. Some analysts believe that, were this process to be accompanied by an appropriate stimulus package and a firewall for the remaining countries, the markets will welcome such a development. An uncontrolled 'Grexit' would mean that the problem will spill over to other peripheral countries, triggering further flight from risky assets. In every scenario, decisive actions on the part of politicians are necessary in the upcoming weeks. One possibility is the setting up a bailout fund which would nationalize some of the threatened banks in peripheral countries without the need to use ESM funds. Another round of LTRO is also possible. All these measures are for the short term, however, and they do not represent systemic changes.

Does current sentiment suggest growth?

The investors' sentiment seems to stand fairly low, but not low enough to recommend buying shares just yet. At the end of May, S&P500 bears outnumbered bulls by 14pp (28% bulls, 42% bears, 30% uncertain). We would consider -15/-21pts the range when buying equities is safe. As far as the VIX index is concerned, it currently stands at 27pts. Assuming that we are dealing with a correction in an upward trend, the safe level would be 30-40pts.

Investor sentiment indicators: Bulls-Bears and S&P500 VIX

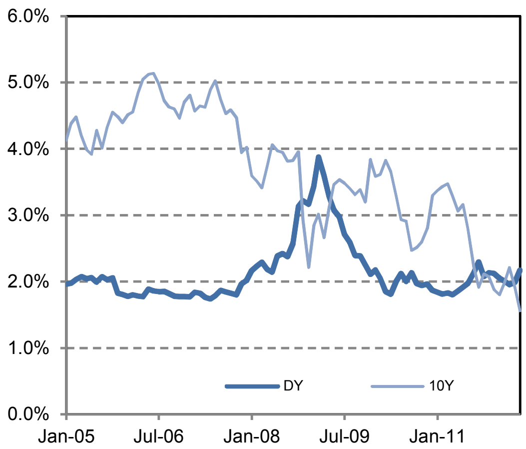


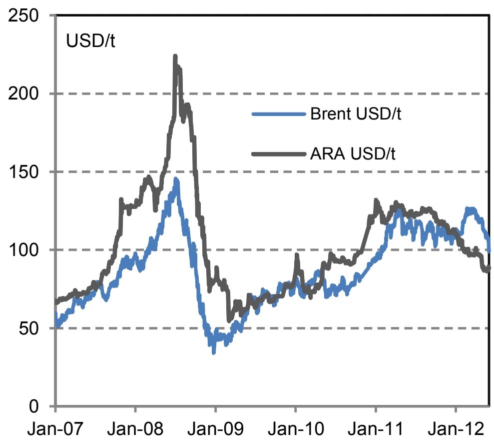


Source: Bloomberg

As far as valuations are concerned, the average dividend yield for S&P500 companies currently amounts to 2.2%, i.e. it exceeds the yield on 10Y bonds (1.6%). The situation was similar in late 2008 / early 2009, when the markets overestimated the scale of the recession that was to follow the Lehman Brothers bankruptcy and its impact on company earnings. A positive development for the global economy and financial markets is the fall in commodity prices, especially crude oil prices (with Brent variety now below USD 100/t). This factor should cushion the economic slowdown in H2 2012. Its effect will be largely confined to developed markets, which did not suffer due to currency depreciation.

DY for S&P500 companies vs. yields on US 10Y bonds (L), prices of crude oil and ARA coal (R)





Source: Bloomberg

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

Astarta

Rating	Hold	Hold	Reduce
Date issued	2011-10-06	2011-12-29	2012-03-01
Price on rating day	65.70	51.50	66.00
WIG on rating day	37496.93	37552.90	41560.55

BBI Development

Rating	Hold
Date issued	2012-01-23
Price on rating day	0.32
WIG on rating day	39518.87

Boryszew

Rating	Hold	Reduce	Hold	Reduce
Date issued	2011-10-14	2011-11-04	2012-01-04	2012-03-05
Price on rating day	0.63	0.80	0.67	0.82
WIG on rating day	39608.13	41313.92	38463.72	41639.72

CEZ

Rating	Hold	Reduce
Date issued	2011-09-06	2012-01-05
Price on rating day	131.00	140.00
WIG on rating day	38992.56	38183.09

Famur

Rating	Buy	Hold
Date issued	2011-11-28	2012-03-05
Price on rating day	2.50	3.66
WIG on rating day	37601.56	41639.72

Getin Noble Bank (f. Get Bank)

Rating	Buy	Buy	Hold	Reduce	Reduce
Date issued	2012-01-05	2012-01-19	2012-01-23	2012-03-05	2012-03-21
Price on rating day	1.33	1.33	1.56	1.90	1.98
WIG on rating day	39056.43	39056.43	39518.87	41639.72	41586.01

Kernel

Rating	Reduce
Date issued	2012-01-10
Price on rating day	71.00
WIG on rating day	37341.29

Millennium

Rating	Hold	Reduce	Sell
Date issued	2011-09-05	2012-01-19	2012-03-05
Price on rating day	4.49	3.82	4.34
WIG on rating day	40544.28	39056.43	41639.72

MOL

Rating	Reduce
Date issued	2012-04-19
Price on rating day	242.10
WIG on rating day	40526.80

Netia

Rating	Hold	Reduce
Date issued	2012-01-23	2012-04-05
Price on rating day	5.66	6.35
WIG on rating day	39518.87	40754.08

Pekao

Rating	Accumulate	Hold	Reduce
Date issued	2011-09-05	2011-11-04	2012-01-19
Price on rating day	142.10	153.00	145.90
WIG on rating day	40544.28	41313.92	39056.43

TVN

Rating	Reduce	Hold
Date issued	2011-09-06	2011-12-05
Price on rating day	13.09	10.13
WIG on rating day	38992.56	39144.14

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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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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DCF – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.

Comparative – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.