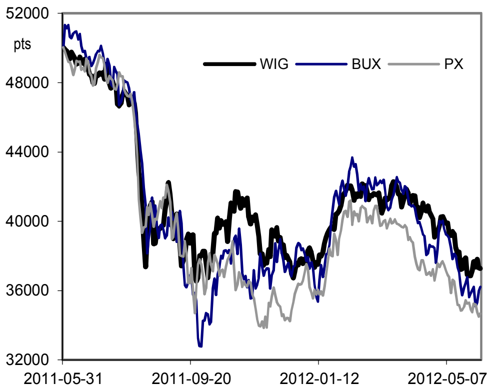
5 June 2012

Equity Market

Macroeconomics

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

Periodic Report

BRE Bank Securities

Monthly Report

June 2012

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.

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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.

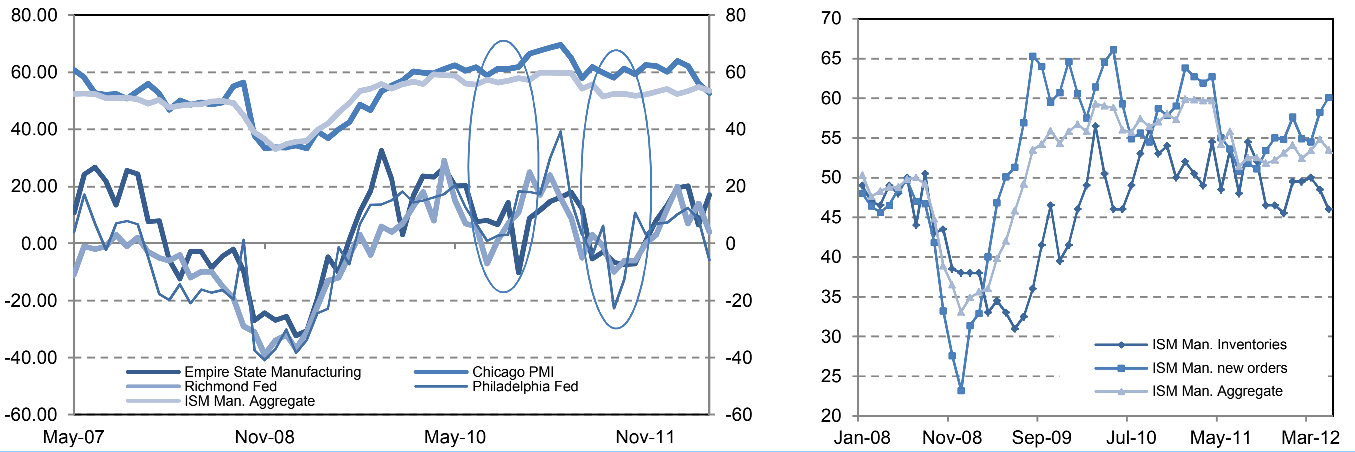
For the time being, the weaker labor market data may be interpreted as a correction within an upward trend (as suggested by the Chairman of the Fed). On the other hand, data from the property market may be a source of optimism. While housing starts (717 thou.) and new home sales (343 thou.) are far from 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

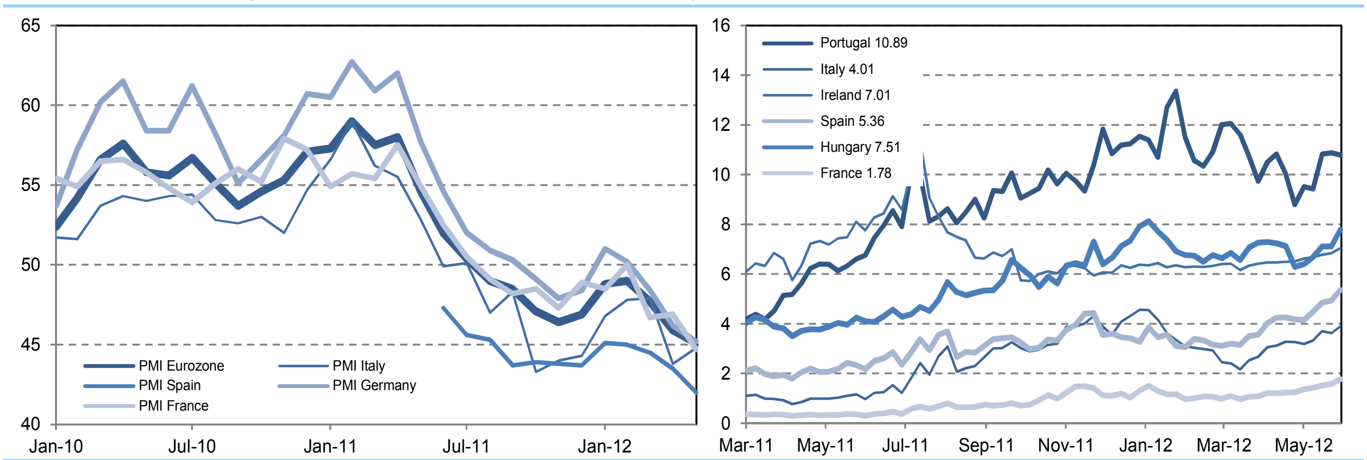


Source: Bloomberg

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



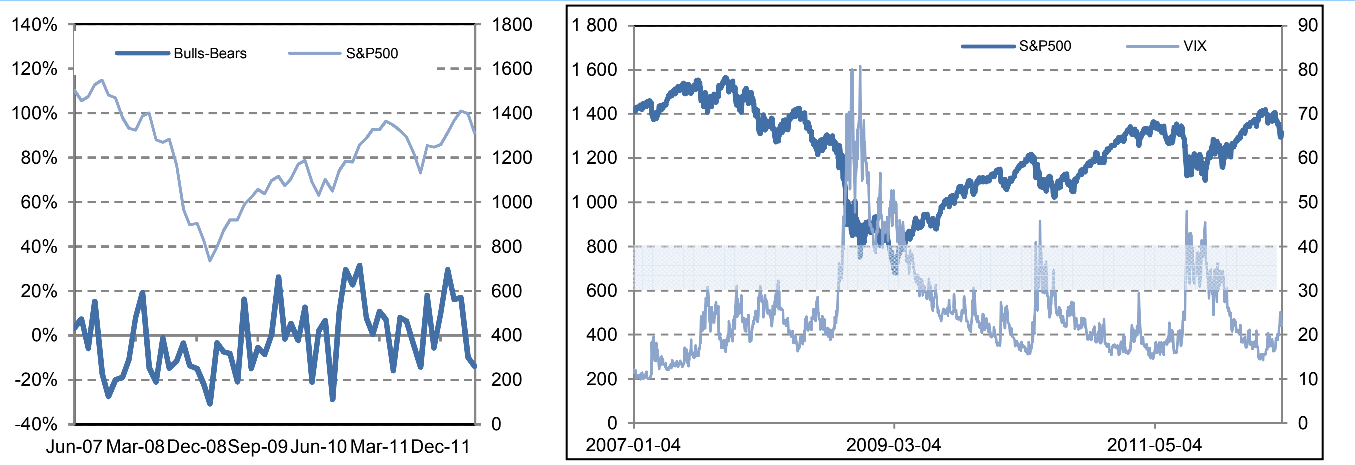
Source: Bloomberg

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.

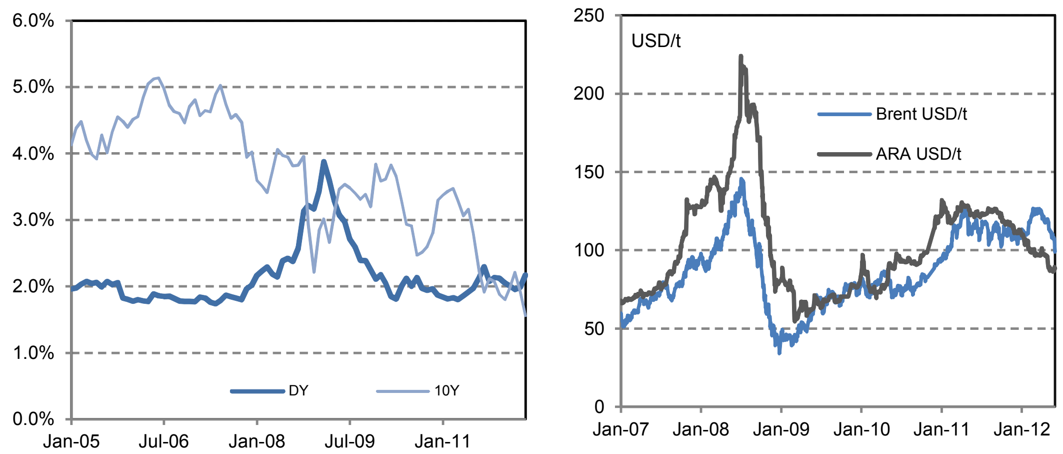
Investor sentiment indicators: Bulls-Bears and S&P500 VIX



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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Macroeconomics

Polish GDP in Q1 2012

Poland's GDP contracted to 3.5% in Q1 from 4.3% in Q4 2011. Though consistent with expectations, the slowdown, as well as its structure, is a clear sign that a cyclical slowdown is inevitable. Consumption showed disappointing growth, with personal spending rising only 2.1% (the same as in Q4) despite double-digit expansion in retail sales (and, interestingly, an acceleration in the added value of most categories of market services). Consumption was about 0.7ppt slower than forecasted by the NBP. Year-on-year investment growth decelerated to 6.7% in Q1 from 9.7% in the quarter before (it is also worth noting the downward revisions to the whole of 2011 investments), led by lower investment in machines and equipment – a conclusion drawn by us based on a comparison of value added growth in construction and the increase in investment. This means that a cyclical slowdown is starting to affect investment activity related strictly to production or to expectations of future demand from the private sector (mind you, we could have written something completely different in the previous quarter, which means that the shock of uncertainty is leaving its mark on Poland as well). Supporting GDP growth in Q1 2012 were inventories (+0.8ppt) and next exports (+0.7ppt suggesting revisions may have been made to foreign trade data (lower trade deficit)). The Finance Ministry continued its consolidation measures in the first quarter. Public spending was down 1.3% compared to Q1 2011, indicating that the government's fiscal policy is not going to support GDP in the quarters ahead.

On the supply side, value added in manufacturing showed disappointing deceleration from 6.6% to 3.4%. Value added in other categories either accelerated (construction, sales, transportation, information and communications, financial and insurance activity, real estate management), or remained flat to only slightly slower (hospitality and food service, professionals, science and technology, public administration, national defense).

We anticipate continuing GDP deceleration in the quarters ahead, with the growth rate at 2% y/y by the end of 2012. Private consumption will decrease as well (except a possible upturn, particularly in services, during the EURO 2012 soccer games). The likelihood that rebound in investment is sustainable is looking less and less certain; in addition to infrastructure projects being completed, investment may be affected by project cutbacks in the corporate sector.

From the point of view of the Polish Monetary Policy Council, the implications of the first-quarter data are neutral. The focus in the MPC's thinking has shifted to issues connected more with stability and the growth theory than just cyclical factors. Support for rebuilding of the savings rate can also be a key consideration. That is why we think there is a possibility that the Council will announce another rate hike during the next meeting, although the risk factors do have to be expanded to include the latest disappointing GDP data.

Retail sales

Retail sales increased 5.5% in April, marking a deceleration from the 10.7% y/y growth recorded in March. The deceleration was primarily a consequence of slower growth in food sales (+1.0% vs. +9.8% in the month before), which suggests that the lower aggregate growth rate might be attributable to the effects of the timing of Easter (the April 2011 base was high). The deceleration in sales in non-specialist stores (which rose 8.5% in April vs. 17.7% in March) also supports this conclusion. A major slowdown was observed in clothing and footwear sales (+1.4% vs. +14.4% in March), but this also represents a base effect. In the other categories, year-on-year growth decelerated slightly, as demonstrated by the core sales growth indicator (excluding food, fuels and cars). The sales data are in line with our scenario predicting gradual slowdown in sales and retail consumption (the important categories are those that are gradually slumping because they illustrate the fundamental trend) in line with the deceleration observed in wholesale sales, combined with deterioration in the job market and in the financial expectations of Polish households (the latter indicator has been consistently low for several months, but note that it is a leading indicator par excellence, which suggests that further slowdown in consumption growth is inevitable). It is worth noting that retail sales growth is gradually approaching 0% in real terms.

Manufacturing

As predicted, industrial production accelerated slightly in April, from 0.7% to 2.9% y/y. The risks stemming from lower employment and salary growth readings failed to materialize. In seasonally-adjusted terms, production increased by 5.0% y/y vs. 3.9% last month. The composition of production growth is neutral: manufacturing accelerated to 3.1% while mining and utilities offset each other (-11% and +6.2% respectively). The picture is far from clear when individual subsectors are considered: growth was observed in 22 out of 34 of the subsectors, not only in export-oriented ones. It is therefore hard to draw firm conclusions. That said, we expect that the relatively strong growth in the German economy will support the export-oriented sectors of Polish manufacturing (which may also benefit from the recent depreciation of the zloty). We do not believe, however, that export-oriented production is likely to make up the ground lost by weaker domestic demand (lower consumption, declining infrastructural investment), especially after the conclusion of the EURO 2012 soccer championship, which might distort the recently emerging trends. In addition, there is the risk is that the German economy will grow slower. Production can be expected to slow down in May compared to last year's high base. In turn, base effects will be supporting June and July readings.

April construction was 14.6% higher than in March and 8.1% (vs. 3.5% in March) higher than in April 2011. The seasonally adjusted growth rates were less buoyant at 10.1% m/m and 1.9% y/y (vs. -0.3% y/y in March). All subsectors demonstrated growth vs. March: civil engineering (30.2%), building construction (8.4%) and specialist works (5.1%), although the latter category saw a contraction vs. April 2011. Such structure seems to suggest that work on infrastructural projects is continuing (despite the downturn in March), and this effect might go on for 2-3 more months (it is already being suggested that the projects that fail to be completed in time for the EURO 2012 soccer championship will be finalized during the championship), and then it will gradually expire. Therefore, we are expecting a clear slowdown in investment starting with Q2/Q3, and this effect will be exacerbated in May by the strong comparable base of 2011.

Job market

In April 2012, average employment in the private sector grew at just 0.3% y/y vs. 0.5% in the preceding month 0.5% expected by analysts. In month-on-month terms, employment contracted for the third straight month, by 0.1% (8.3 thousand jobs were lost, compared to 4 thousand in March and a combined 20 thousand in February through April). We expect employment growth to continue decelerating in the months ahead, with month-over-month rates falling in the (-0.2)-0.0% range, which could push year-on-year growth into the negative territory during several of the remaining months of the year. Salary growth decelerated from 3.8% y/y in March to 3.4% y/y in April, in spite of there being no negative contribution from differences in the number of working days. Since salaries are delayed vs. the economic cycle, the interpretation of a single data point carries a considerable margin of error. That said, we do expect the negative trend to continue in the upcoming months. In this situation, real salary growth will be close to zero, if not slightly below, which, coupled with reduced employment in the private sector, will have a negative effect on consumption.

Inflation

Poland's CPI inflation accelerated from 3.9% in March to 4.0% in April. The acceleration was not merely a consequence of higher gas prices (which drove energy prices by 1.2% m/m) and higher fuel prices (+1.3% m/m). Strong growth was also recorded for clothing and footwear (+3.1%), housing (+0.9%), and transportation (+1.2%), also after exclusion of fuel prices. Food prices were surprisingly stable (+0.2%), because vegetable prices diverged from the seasonal pattern and fell by 3%. The unseasonably slow expansion in food prices poses a risk that CPI will be "catching up" in May. Therefore, we estimate the May reading at 4% (with an upside risk). We do not expect the CPI to go below this level until November (June/July is likely to see a peak at ca. 4.5% due to the Euro 2012 soccer championship). Meanwhile, core inflation might grow to ca. 3%.

Current account balance

Poland's current account deficit, which returned disappointing readings in the past few months, was a source of a positive surprise in Marc after closing with a deficit of EUR 228m, compared to EUR 1516m in February (data revisions amounted to an upward EUR 596m). As predicted, current transfers were inflated (by EUR 837m relative to February) by a huge inflow from the EU without which they would have been PLN 1 billion in the red. The income account was also in line with expectations, declining just slightly vs. the preceding month (by EUR 69m). In turn, the balance of trade in services improved from EUR 285m to EUR 396m), but it was not the key source of the overall C/A surprise. This role was clearly played by the balance of trade in goods, where the deficit was halved in March after two straight months of high readings (from an average of EUR -830m to EUR -399m in March). The main cause was a slowdown in imports (from 7% y/y to 3% y/y), coupled with stable exports (still growing at ca. 6% y/y). We were arguing for a while that the correction in imports would be a sudden one, and we were right, although sooner than anticipated. That said, this is still a fairly minor correction relative to readings recorded in the past. Although we do not expect the 2009 scenario to play out again this year, we do expect exports and imports growth to diverge by as much as 4-5pp, providing a natural mechanism that will help the Polish economy reach an equilibrium. In the upcoming months, we expect the current account deficit to shrink. However, it seems that the appropriate point of reference is the current account gap adjusted for EU transfers, i.e. by ca. EUR 1.1bn.

The deficit financing side does not offer as rosy a picture as might have been expected. Although FDI inflows have clearly improved (we prefer to compare March with December 2011, because February saw a one-off negative reading here which was a statistical artifact rather than a reflection of real movements of capital), the deficit was financed through asset sales by residents (portfolio investment and other assets, chiefly banks), with relatively limited inflows of portfolio investment (the outflow of funds from banks continued). In these circumstances, foreign financing still seems "fragile" (as the zloty depreciates, we are likely to see portfolio investment contract, primarily on the side of monetary financial institutions).

Ratings issued in the past month

Company	Rating	Previous Rating	Target Price	Rating Day
CENTRUM KLIMA	Sell	Suspended	14.40	2012-05-09
CIECH	Buy	Buy	21.60	2012-05-15
J.W.C.	Hold	Reduce	6.10	2012-05-07
KOPEX	Suspended	Hold		2012-05-07
MONDI	Suspended	Sell		2012-05-07
PBG	Suspended	Buy		2012-06-05
POLIMEX MOSTOSTAL	Buy	Accumulate	2.01	2012-05-07
RAFAKO	Accumulate	Hold	11.00	2012-05-07
ULMA CP	Accumulate	Hold	69.30	2012-05-07
ZA PUŁAWY	Reduce	Reduce	96.60	2012-05-25

Ratings changed as of 5 June 2012

Company	Rating	Previous Rating	Target Price	Rating Day
ASTARTA	Hold	Reduce	56.10	2012-06-05
BBI DEVELOPMENT	Accumulate	Hold	0.34	2012-06-05
BORYSZEW	Hold	Reduce	0.65	2012-06-05
CEZ	Hold	Reduce	124.90	2012-06-05
FAMUR	Reduce	Hold	3.60	2012-06-05
GETIN NOBLE BANK (f. GET BANK)	Hold	Reduce	1.85	2012-06-05
KERNEL	Hold	Reduce	61.10	2012-06-05
MILLENNIUM	Hold	Sell	3.30	2012-06-05
MOL	Hold	Reduce	214.57	2012-06-05
NETIA	Hold	Reduce	5.70	2012-06-05
PEKAO	Hold	Reduce	135.00	2012-06-05
TVN	Accumulate	Hold	10.20	2012-06-05

Rating Statistics

	All					For issuers who are clients of BRE Bank Securities				
Statistics	Sell	Reduce	Hold	Accumulate	Buy	Sell	Reduce	Hold	Accumulate	Buy
count	1	6	25	11	15	0	2	11	3	11
as % of total	1.7%	10.3%	43.1%	19.0%	25.9%	0.0%	7.4%	40.7%	11.1%	40.7%

Current recommendations of BRE Bank Securities S.A.

Company	Recommendation	Date issued	Price on report date	Target price	Current price	Upside / Downside	P/E 2012	P/E 2013	EV/EBITDA 2012	EV/EBITDA 2013
Banks										
GETIN NOBLE BANK (f.GET BANK)	Hold	2012-06-05	1.42	1.85	1.42	30.3%	7.6	7.5		
HANDLOWY	Hold	2012-01-19	73.95	72.00	70.70	1.8%	12.7	11.9		
ING BSK	Hold	2012-01-19	80.70	80.00	74.95	6.7%	11.3	10.3		
KREDYT BANK	Suspended	2012-02-28	11.96	-	12.98	-	-	-		
MILLENNIUM	Hold	2012-06-05	3.42	3.30	3.42	-3.5%	11.1	9.1		
PEKAO	Hold	2012-06-05	136.00	135.00	136.00	-0.7%	13.0	12.1		
PKO BP	Accumulate	2012-04-05	33.00	35.00	31.66	10.5%	11.7	10.6		
Insurance										
PZU	Accumulate	2012-01-23	327.00	345.00	297.60	15.9%	11.0	10.3		
Financial services										
KRUK	Buy	2012-03-29	50.90	59.40	45.15	31.6%	9.3	8.2		
Fuels, chemicals										
CIECH	Buy	2012-05-15	17.70	21.60	18.22	18.6%	42.4	9.6	5.4	4.4
LOTOS	Reduce	2012-03-05	26.84	21.60	23.45	-7.9%	7.2	5.6	7.9	6.1
MOL	Hold	2012-06-05	226.80	214.57	226.80	-5.4%	11.6	9.0	5.8	4.9
PGNiG	Reduce	2012-01-16	4.04	3.69	3.80	-2.9%	23.2	7.7	7.7	4.4
PKN ORLEN	Hold	2011-11-17	39.25	39.00	33.04	18.0%	11.8	9.9	5.8	5.1
POLICE	Hold	2012-01-16	9.62	10.00	8.10	23.5%	8.0	7.0	4.8	3.7
ZA PUŁAWY	Reduce	2012-05-25	100.30	96.60	99.05	-2.5%	10.8	11.0	5.4	5.5
Power Utilities										
CEZ	Hold	2012-06-05	127.80	124.90	127.80	-2.3%	9.1	9.0	6.5	6.6
ENEA	Accumulate	2011-11-04	17.77	21.24	15.13	40.4%	7.5	7.4	2.9	3.3
PGE	Buy	2012-03-05	19.80	23.07	18.18	26.9%	7.6	8.6	4.0	4.8
TAURON	Buy	2012-01-02	5.35	7.44	4.29	73.4%	5.5	7.2	3.5	4.0
Telecommunications										
NETIA	Hold	2012-06-05	5.72	5.70	5.72	-0.3%	18.7	15.4	4.7	4.4
TPSA	Hold	2012-01-23	17.90	17.40	16.33	6.6%	18.2	16.2	4.7	4.5
Media										
AGORA	Buy	2012-01-23	10.66	15.30	9.60	59.4%	16.1	14.6	2.8	2.6
CINEMA CITY	Hold	2012-03-05	32.00	33.50	27.80	20.5%	11.2	9.1	5.8	4.9
CYFROWY POLSAT	Hold	2011-10-13	15.35	14.80	13.50	9.6%	12.0	11.4	7.8	7.3
TVN	Accumulate	2012-06-05	8.10	10.20	8.10	25.9%	9.4	8.9	7.0	6.2
IT										
AB	Hold	2012-03-05	21.72	22.50	19.61	14.7%	7.3	6.5	6.0	5.5
ACTION	Reduce	2012-03-05	23.25	17.30	20.00	-13.5%	9.0	8.3	6.4	5.9
ASBIS	Hold	2012-03-05	2.80	2.60	2.32	12.1%	7.0	6.2	4.5	4.6
ASSECO POLAND	Buy	2011-05-27	49.60	62.80	48.28	30.1%	8.9	8.3	5.3	4.8
COMARCH	Reduce	2011-10-13	50.25	45.90	59.15	-22.4%	14.8	13.8	6.6	5.8
SYGNITY	Hold	2012-03-05	21.76	23.00	20.29	13.4%	14.1	10.0	5.8	4.7
Mining & Metals										
JSW	Buy	2012-01-23	99.00	127.00	88.30	43.8%	7.1	8.7	2.9	3.2
KGHM	Hold	2012-03-05	151.40	151.50	126.50	19.8%	6.0	9.9	1.9	2.6
LW BOGDANKA	Hold	2012-03-05	127.80	132.00	116.20	13.6%	13.2	8.5	6.0	4.2
Manufacturers										
ASTARTA	Hold	2012-06-05	51.95	56.1	51.95	8.0%	3.5	2.9	4.3	3.5
BORYSZEW	Hold	2012-06-05	0.60	0.65	0.60	8.3%	15.0	14.3	7.8	7.4
CENTRUM KLIMA	Sell	2012-05-09	14.28	14.4	14.40	0.0%	13.2	12.4	8.1	7.7
FAMUR	Reduce	2012-06-05	3.94	3.6	3.94	-8.6%	13.7	13.3	7.8	7.8
IMPEXMETAL	Buy	2012-01-19	3.46	5.7	3.43	66.2%	8.5	7.2	5.8	4.9
KERNEL	Hold	2012-06-05	58.00	61.1	58.00	5.3%	5.0	4.5	4.4	3.5
KĘTY	Accumulate	2012-03-05	123.40	136.7	115.20	18.7%	9.5	9.1	6.0	5.7
KOPEX	Suspended	2012-05-07	20.01	-	16.76	-	-	-	-	-
ROVESE	Accumulate	2012-03-05	5.38	6.0	3.37	78.0%	8.0	7.2	5.0	4.4
Construction										
BUDIMEX	Accumulate	2012-02-27	87.80	87.10	67.20	29.6%	7.3	9.0	2.5	5.3
ELEKTROBUDOWA	Hold	2012-03-05	116.00	112.40	91.00	23.5%	9.4	7.9	5.8	4.8
ERBUD	Buy	2012-01-26	17.25	24.00	14.97	60.3%	7.0	6.8	4.2	3.6
MOSTOSTAL WAR.	Buy	2012-01-26	18.72	27.20	13.98	94.6%	7.2	5.3	2.5	1.9
PBG	Suspended	2012-06-05	14.63	-	14.63	-	-	-	-	-
POLIMEX MOSTOSTAL	Buy	2012-05-07	1.00	2.01	1.06	89.6%	5.4	5.0	4.6	4.2
RAFAKO	Accumulate	2012-05-07	9.27	11.00	6.08	80.9%	6.5	5.5	4.0	2.8
TRAKCJA TILTRA	Suspended	2011-12-19	1.10	-	0.90	-	-	-	-	-
ULMA CP	Accumulate	2012-05-07	55.75	69.30	42.50	63.1%	7.8	15.5	2.5	2.7
UNIBEP	Buy	2012-01-23	6.04	7.00	4.88	43.4%	6.1	6.0	5.9	3.2
ZUE	Buy	2012-01-26	7.33	9.20	6.90	33.3%	7.6	7.5	3.8	3.4
Property Developers										
BBI DEVELOPMENT	Accumulate	2012-06-05	0.30	0.34	0.30	13.3%	327.8	35.6	31.1	48.7
DOM DEVELOPMENT	Hold	2012-01-23	29.50	31.40	29.50	6.4%	8.5	13.9	6.9	12.6
ECHO	Buy	2012-01-24	3.75	4.70	3.42	37.4%	5.4	9.8	9.3	26.5
GTC	Suspended	2012-04-05	6.28	-	5.80	-	-	-	-	-
J.W.C.	Hold	2012-05-07	5.38	6.10	3.99	52.9%	7.6	7.7	12.7	15.2
PA NOVA	Buy	2012-01-23	19.23	25.80	20.95	23.2%	11.7	6.6	14.2	7.6
POLNORD	Hold	2012-01-23	15.10	15.70	11.03	42.3%	4.5	4.0	16.6	-
ROBYG	Hold	2012-03-05	1.46	1.43	1.34	6.7%	8.2	11.4	8.6	11.7

Banks

April data on deposits, loans in banking industry

According to Poland's central bank, in April 2012 total deposits expanded by 1.0% m/m (-1.0% YTD, +7.9% y/y). Declines were observed in all the categories, in particular for corporate deposits which shrank by 3.0% m/m (-12.8% YTD, +4.2% y/y). One of the reasons why these March trends have continued might be delayed income tax payments (e.g. by PKN Orlen for the sale of Polkomtel). Retail deposits declined by 0.3% m/m (+1.6% YTD, 10.5% y/y), while the deposits of nonmonetary financial institutions went down by 1.1% m/m (+10.4% YTD, -0.1% y/y). Loans expanded by 0.4% m/m (-0.1% YTD, +12.0% y/y), with slight support from the depreciating zloty (by 0.6% m/m vs. the CHF, by 0.3% m/m vs. the EUR and by 1.0% vs. the USD). M/M growth adjusted for F/X effects was 0.3%. Corporate loans increased by 0.4% m/m (+1.8% YTD, 13.9% y/y, 10.4% y/y after adjustment for F/X effects), while retail loans increased by 0.6% m/m (-1.0% YTD, but +10.1% y/y and 5.8% y/y after adjustment for F/X effects). Among retail loans, non-mortgages expanded by 0.4% m/m (-0.7% YTD, 2.1% y/y and 1.2% y/y after adjustment for F/X rate changes), and mortgages increased by 0.7% m/m (-1.3% YTD, 16.3% y/y and 8.8% y/y after adjustment for F/X rate changes). Growth continues to be driven by zloty-denominated loans (40.5% of the mortgage total), which increased by 1.4% m/m (4/7% YTD, 19.9% y/y). For the second straight month, FX loans grew at a pace slightly slower than the rate of depreciation of zloty vs. the EUR and the CHF, which we believe illustrates increasingly fast portfolio amortization.
With deposits falling and loans expanding, the loans/deposits ratio deteriorated by 1.1pp to 106.3%.

As expected, March was the best month in Q1 industry-wide

According to a report by the Financial Supervision Authority, in March 2012 the aggregate net profit of the Polish banks amounted to PLN 1350m (+12% q/q). This entails a plunge by a staggering 20% y/y, but we believe the comparable base (March 2011) had been inflated by one-off events (cf. Getin Noble Bank’s gain on the sale of Open Finance). Interest income remains strong in both y/y and m/m terms (+6% y/y, +4% m/m), while fee income is weaker (-5% y/y, but +12% m/m), and so are operating expenses (+10% y/y, +6% m/m). The sector’s YTD aggregate earnings totaled PLN 3,820m, marking a 8% increase from the same period in 2011. This result is consistent with the reports of the individual banks. March contributed a staggering 35% of the quarter’s overall profit. Relative to Q4 2011, the banks’ aggregate net income went up by 13%, driven not just by typical seasonalities stemming from lower operating expenses, but also a clear improvement in trading income. Most of the banks covered by us have shown gains on the sale of bonds, which is also reflected in the industry's earnings. It is worth noting that core income (the total of interest and fee income) has fallen by 2% q/q.

Mortgage lending contracts 17% y/y in Q1 2012 to PLN 10.2bn

According to the Union of Polish Banks and Amron, in Q1 2012 mortgage lending in Poland totaled PLN 10.2bn, which entails reductions by 5% q/q and 17% y/y. Zloty-denominated loans accounted for a whooping 84% of the total (+3% q/q, -13% y/y). Foreign-currency loans contracted by 35% q/q and 32% y/y. The authors of the report stand by their FY projection for mortgage lending (PLN 44bn, -11% y/y). We consider the Q1’12 data neutral, because all the banks have already reported their results. As for the FY forecast, it implies a slight rebound in H2'12 vs. H1’12. During its post-earnings conference, Open Finance presented similar projections, while stressing that Q2 2012 is likely to remain relatively weak due to the timing of several events: Easter in April, an extra long “May weekend” and European soccer championship in June.

Mortgage lending: Reshuffle at the top after March

According to Puls Biznesu, March was the first month when Pekao extended more mortgages than PKO BP. The figure for the former was PLN 580m (-15% y/y from PLN 686m) and for the latter, PLN 518m (-52% y/y from PLN 1069m). The same situation obtained in April (PLN 630m for Pekao, +8% m/m, PLN 540m for PKO BP, +4% m/m). Other banks with strong lending in March included ING BSK (PLN 308m), BZ WBK (PLN 239m) and BGŻ (PLN 120m). The banks that saw major y/y plunges included Getin Noble Bank (PLN 288m), Kredyt Bank (PLN 178m) and Nordea (PLN 127m). It seems to us that such a reshuffle among top mortgage lenders was inevitable after the Financial Supervision Authority revised its Recommendation S and after the changes to the *Rodzina na Swoim* mortgage subsidy program. Another factor at play was the availability of direct F/X financing. We still expect a y/y reduction in mortgage lending for the industry as a whole from the PLN 49bn total for 2011 (in Q1, lending fell 17% y/y to PLN 10.2bn).

NBP may support forced interchange fee cut if no compromise is reached

If no compromise is reached regarding a reduction in interchange fees, Poland’s central bank will initiate or support actions aimed at introducing appropriate legislation. A special taskforce set up by the Payment System Council has prepared a program aimed at lowering the fees, which has been accepted by most of its members, who represent all the participants of card payment systems, and, on 30 March 2012, by the Council itself. According to the program, interchange fees in Poland will be reduced gradually towards the EU average, a level to be reached in 2017. The first, unconditional cut will come by 1 January 2013, with the fee on debit card transactions falling to 1.1% and on credit card transactions to 1.2%. Further cuts will be contingent on selected indicators of growth in non-cash transactions. In April 2012, the central bank forwarded the program to payment card companies active in Poland (VISA, MasterCard, American Express, Diners Club) for review which is to be completed by the end of May. MasterCard has announced that it will cut most interchange fees in Poland, but it will not join the NBP-sponsored agreement. MasterCard's Michał Skowronek said that the Company wants to respond to the NBP's expectations while preserving the right to making its own business decisions. In addition, MasterCard has business and legal objections to the proposed agreement. MasterCard's decision means that the agreement on interchange fee reduction will not come into force. Its objective was to reduce interchange fees as well as all other card fees for all cards. According to Renata Pawlicka, who heads the NBP's payment system department, two options remain on the table: one is unilateral fee reductions by individual players, the other, an imposed regulatory solution. Although MasterCard's decision will most likely make the process of cutting interchange fees longer, we believe that the NBP and retailers are determined enough to see it through. In our opinion, banks and card companies may find the regulated scenario even more painful than the compromise solution proposed by the NBP.

Financial Supervision on bank dividends next year

Wojciech Kwaśniak, the Deputy Head of Poland's Financial Supervision Authority (KNF), said he believed Polish banks could resume paying dividends next year at their own discretion provided they generate good earnings and solvency ratios and as soon as the Polish interbank market gets going. To facilitate dividend distributions, all bank sector risks have to be secured with additional funds or liquidity. If such risks are found to prevent banks from cooperating in the interbank market, the KNF may have to set dividend limits again next year for the bank industry. Our financial forecasts for banks assume "normal" dividend payments will be resumed in 2013.

KNF has drafted amendments to Recommendation J

The Financial Supervision Authority (KNF) announced that it had drafted amendments to Recommendation J, which regulates the bank's approach to the collection and processing of information on real estate. The data in question may play an important role in the management of the risks that could stem from inadequate foreclosure proceedings. In a letter to the Union of Polish Banks, the KNF stresses that an ongoing analysis of the property market is one of the most important countermeasures against such problems. Banks should create databases comprising information on the value of properties as well as on the key value-determining parameters. The information should encompass most of the relevant market, and it should be based on reliable, diversified sources, so as to eliminate the impact of subjective factors that could distort the analyses and their conclusions. The KNF would like the banks to be active participants in global information exchange on the property market, which means they should create a joint database. Recommendation J will apply to all the banks whose exposure to mortgages exceeds 10% of their overall loan portfolios.

Another pension fund for sale

Parkiet reported that the two smallest pension funds in Poland, i.e. Polsat and Warta, had been put up for sale. According to the newspaper, the potential buyers include PKO BP, a new investor from another Central European country, AXA and IDM. Parkiet puts the estimated value of Warta at PLN 90-150m, with Polsat valued at PLN 60-100m. It is not news that the pension fund market will be consolidating. ING OFE is also for sale. When valuing pension funds, legal and political risks are an important consideration. In our view, the valuations should not exceed 10x P/E.

Sberbank to lose interest in further CEE expansion following likely acquisitions in Turkey

Citing Sberbank's CFO Anton Karamzin, *Reuters* reports that once Sberbank finalizes the acquisition of Denizbank in Turkey, it will most likely loose interest in further expansion in 'Emerging Europe'. That said, the Russian bank will keep an eye on Poland. Sberbank was mentioned numerous times as a potential buyer of Polish banks put up for sale by their Western European owners. On the other hand, some observers said that the Financial Supervision Authority, which clears such transactions, could be unwilling to do so in this case for political reasons.

DnB Nord changing strategy, increasing share capital

The new CEO of DnB Nord, Artur Tomaszewski, announced that the Bank had changed its strategy and increased its share capital by ca. PLN 500m (including conversion of subordinated debt to equity). The Bank will focus on the corporate segment, hoping to increase the number of clients with revenues in excess of PLN 80m. The retail business will be scaled down, which will make downsizing necessary (the segment currently employs 900 people) as well as branch network reduction (39). The scale of the restructuring effort will be known by the end of June. The CEO does not rule out selling some of the branches, the brokerage office and Monetia, a network of small banking agencies.

BGŻ

Tender offer for BGŻ stock extended through 30 July

Rabobank's tender offer for 17,262,699 shares in BGŻ has been extended through 30 July. It was originally scheduled to run from 2 May through 31 May.

Treasury close to positive decision on BGŻ tender offer

Minister Mikołaj Budzanowski said that the State Treasury was leaning towards a positive decision on the tender offer for the BGŹ stock.

Getin Holding

TU Europa takeover by Talanx and Meji Yasuda gets OK from financial supervision

Poland's Financial Supervision Authority (KNF) agreed to TU Europa's takeover by Talanx AG and Meji Yasuda Life Insurance Company. Talanx AG committed to listing its shares on the Warsaw Stock Exchange within two years from the time it obtains approval to acquire TU Europa, TUnŻ Europa, Open Life TUŻ, and TUiR Warta.

Getin Holding to tender shares in TU Europa

Getin Holding announced that it was going to tender its shares in TU Europa to Talanx and Mejii Yasuda Life, since all the conditions precedent to the tale had been met.

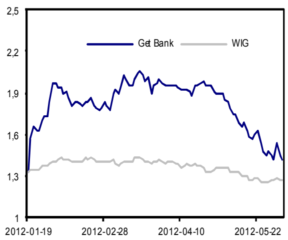
Getin Noble Bank (f. Get Bank) (Hold)

Current price: PLN 1.42 **Target price: PLN 1.85**

Analyst: Iza Rokicka
Last Recommendation: 2012-06-05

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Net interest income	1 081.0	1 394.0	29.0%	1 581.7	13.5%	1 669.2	5.5%	Number of shares (m)	2 245.5
Interest margin	2.8%	2.8%		2.9%		2.9%		MC (current price)	3 188.6
Revenue f/banking oper.	2 280.8	2 469.4	8.3%	2 468.7	0.0%	2 592.6	5.0%	Free float	46.9%
Operating income*	1 382.4	2 129.2	54.0%	1 670.1	-21.6%	1 636.6	-2.0%		
Pre-tax income	306.4	902.5	194.5%	568.8	-37.0%	609.5	7.2%		
Net income	288.7	736.5	155.1%	452.0	-38.6%	493.9	9.3%		
ROE	9.3%	20.2%		10.0%	`	9.3%		Price change: 1 month	*-23.2%*
P/E	11.0	4.3		8.2		7.5		Price change: 6 month	
P/BV	1.0	0.8		0.7		0.7		Price change: 12 month	
DPS	0.0	0.0		0.0		0.0		Max (52 week)	2.1
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	1.3

** before provisions*



In Q1, Getin Noble Bank generated just 22% of our FY 2012 net income forecast of PLN 384m (adjusted for the sale of shares in Idea Bank), and we note the risk that it may prove overly ambitious. This is why, in spite of the 19% drop in Get Bank share price in May, we have decided to upgrade our Reduce rating only to Hold. We are concerned about future interest margin growth following its plunge in Q1. June-July may be turn out to be the critical period, as this is the maturity period for most deposits offered in late 2011 / early 2012 to clients who used to have the now-banned tax-evading deposits. The cost at which these deposits are rolled over will be a key determinant of the Bank's profitability in H2 2012. Despite the attractive valuation (0.73x 2012 P/BV, 9.8x 2012 adjusted P/E), we advise a neutral standing to the Getin Noble Bank stock (formerly Get Bank) in the current highly volatile market.

KNF greenlights Get Bank / Getin Noble Bank merger

Having obtained permission from financial supervision, Get Bank and Getin Noble Bank merged on 1 June 2012. Get Bank is taking over all the assets of Getin Noble Bank and raising its share capital through a new stock issue offered to the other shareholders of Getin Noble Bank. As a reminder, Get Bank is set to issue 144,617,688 new shares and swap them for minority interests in Getin Noble Bank at a ratio of 2.411 new Get Bank shares for each share of Getin Noble Bank. In the next step, the merged bank will raise its share capital by about PLN 300-400m through a rights issue. Note that upon the registration of the merger by court, the merged entity has been renamed from Get Bank to Getin Noble Bank.

Trading in Getin Noble Bank stock suspended on 1 June

The WSE has announced that due to the planned merger of Getin Noble Bank and Get Bank, trading in the Getin Noble Bank stock has been suspended from 1 June 2012 until they are delisted. The merger was registered in court on 1 June. Three working days later, i.e. 6 June, will be the "reference day", i.e. new shares in Get Bank will be allocated to Getin Noble Bank shareholders based on the number of shares recorded in their brokerage accounts on that day (all GNB shareholders other than Get Bank itself will get 2.4112461 shares in Get Bank for one share in GNB). On 18 June, shares in Get Bank will be recorded in the accounts of GNB's shareholders, and cash adjustments will be made. 18 June will also be the first day of trading in new Get Bank shares, and the day when Getin Noble Bank shares are delisted.

Q1 in-line net income boosted by one-offs

Getin Noble Bank's (GNB) Q1 2012 net income came in at PLN 167m, showing an increase of 142% relative to Q4 2011 and 67% year-on-year growth, and falling in line with our forecasts (PLN 164m and market expectations (PLN 165m). As predicted, the quarterly bottom line was boosted by proceeds from the sale of interests in Idea Bank. Factoring in a deferred payment discount, pre-tax income came in at PLN 94.3m and net income was PLN 83.7m (we expected PLN 87.0m). The adjusted net income shows 21% q/q growth and a 17% y/y drop. GNB sold an NPL portfolio in Q1 but it did not disclose the impact of the sale on the quarterly data. Note that GNB's equity increased by only PLN 24m q/q in Q1 (i.e. PLN 143m less than the amount of net income). Similarly to Millennium, the bank recognized hedge (swap) revaluation losses directly against equity.
As predicted, Get Bank's Q1 interest income showed 10% quarter-on-quarter shrinkage to PLN 319m. The net interest margin contracted by a whopping 33bps to 2.34%. The margin on interest-bearing assets increased by 10 bps (driven by sales of high-margin products), while at the same time the margin on interest-bearing liabilities slumped by 40bps to 1.1%. The rising cost of financing is a consequence of deposit promotions carried out in November 2011 and January 2012. Q1 2012 fee income displayed a quarter-on-quarter increase of 13% (and a year-

on-year decline of 7%) at PLN 225m. The quarter-on-quarter growth was owed to strong sales of investment products (+29% q/q). Other sales showed flat growth relative to the preceding quarter. Trading income was weak, showing 66% q/q drop to PLN 10m. Foreign exchange income contracted 30%, reaching a normalized level of PLN 29m, while negative swap revaluations increased by 60% points to PLN -19m.
Operating expenses were the highlight of Get Bank's Q1 earnings report, falling 2% q/q and y/y at PLN 200m. Get Bank's loan-loss provisions decreased 16% or PLN 45m to PLN 244m relative to Q4 2011. The main reason behind the decline were cash loans and net reversals of PLN 9m. In our opinion, at least half of the decline was due to a sale of an NPL portfolio. Cost of risk was 234bps after q/q decrease by 46bps.

Getin Noble Bank aiming to keep cost/income ratio at 30%, planning to improve interest margin

Radosław Stefurak of Getin Noble Bank's Management Board said that the Bank was aiming to keep its cost/income ratio at ca. 30% in the upcoming quarters (vs. 36.1% in Q1 2012 upon exclusion of the gains on the sale of shares in Idea Bank) while improving its interest martin to levels seen before Q1 2012. Mr. Stefurak also said that after the merger is completed (late May or early June), the share capital increase process would be launched and that it would amount to ca. PLN 300m, i.e. the lower end of the PLN 300-400m range previously announced. Our valuation of Get Bank factors in a PLN 400m share capital increase.

Getin Noble Bank finalizing car loan portfolio securitization

Getin Noble Bank's Krzysztof Spyra said that the Bank was about to conclude the securitization of a car loan portfolio. The process should be completed in Q2 and is expected to have limited impact on earnings, but a fairly big impact on the maturity of the Bank's liabilities, which will get significantly longer.

Time is ripe for acquisitions, says CEO

In an interview for TVN CNBC, Getin Noble Bank's CEO Krzysztof Rosiński said that the current situation was a 'good' time for acquisitions of financial companies in Poland. We do not expect Getin Noble Bank to carry out an acquisition, but, given its history to date, such a scenario cannot be ruled out.

Fitch affirms Getin Noble Bank's ratings

Fitch has affirmed the following ratings previously issued for Getin Noble Bank: long term rating at 'BB' with stable outlook, short-term rating at 'B', long-term domestic rating at 'BBB(pol)' with stable outlook, viability rating at 'bb' and support rating at '3'.

Open Finance to pay dividend for 2011

The Management Board of Getin Noble Bank's associate Open Finance will recommend a PLN 0.27 per-share dividend payout from 2011 profits (16% payout rate, 1.8% yield), with the proposed day of record on 28 September and the proposed payout on 19 October. Moreover, it was announced that in the future years, Open Finance's Management Board will recommend to shareholders dividend payouts not lower than 50% of net profit, provided that the Company's business situation, future plans and financing needs allow this.

Handlowy (Hold)

Current price: PLN 70.7 **Target price: PLN 72**

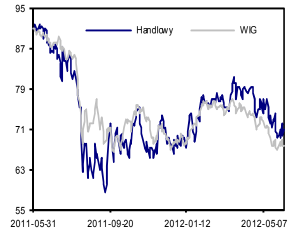
Analyst: Iza Rokicka

Last Recommendation: 2012-01-19

(PLN m)	2010	2011	change	2012F	change	2013F	change
Net interest income	1 498.8	1 434.4	-4.3%	1 471.8	2.6%	1 500.4	1.9%
Interest margin	4.0%	3.6%		3.6%		3.7%	
Revenue f/banking oper.	2 564.8	2 416.3	-5.8%	2 491.7	3.1%	2 589.3	3.9%
Operating income*	1 184.4	996.6	-15.9%	1 024.6	2.8%	1 074.3	4.9%
Pre-tax income	942.6	921.5	-2.2%	908.8	-1.4%	972.5	7.0%
Net income	754.8	736.4	-2.4%	727.1	-1.3%	778.0	7.0%
ROE	11.9%	11.4%		11.0%		11.4%	
P/E	12.2	12.5		12.7		11.9	
P/BV	1.4	1.4		1.4		1.4	
DPS	3.8	5.7		2.7		5.6	
Dyield (%)	5.3	8.1		3.8		7.9	

Basic data (PLN m)	
Number of shares (m)	130.7
MC (current price)	9 237.6
Free float	25.0%
Price change: 1 month	*-4.5%*
Price change: 6 month	*-4.2%*
Price change: 12 month	*-22.1%*
Max (52 week)	91.6
Min (52 week)	58.6

** before provisions*



On our FY2012 net income estimate of PLN 727m (34% of which was generated in Q1 2012), Bank Handlowy is trading at a P/E ratio of 12.7x. Given that the stock is still trading cum dividends (3.8% yield), we consider this level neutral. On the one hand, we are concerned about the growth outlook for the Bank's retail segment in the medium and long term; on the other, we note the strengths that the Bank has in the current environment. Despite a lower dividend for 2011, the Bank's capital adequacy ratio of 18% entails considerable upside potential in the future. Moreover, in 2012 Handlowy should expand its market shares in loans thanks to its broad exposure to corporate banking. Finally, we would like to draw attention to the fact that it has the least exposure to the construction industry among all the banks in our coverage.

Handlowy hoping to offer higher dividends in the future

Handlowy's Management Board are hoping to be able to offer higher dividend rates in the future than the 49% payout set for this year. We believe Handlowy can afford to distribute 100% of its annual earnings in the next few years as the entry into force of Basel III requirements should not be a major burden. Even in the most conservative Basel approach, the bank's capital adequacy ratio can decrease by 150-175bps.

Cost of risk will not rise in 2012

Handlowy says its cost of risk is not going to increase in 2012 thanks to favorable conditions in corporate banking. Handlowy's cost of risk was 43bps in Q1 2012, and we estimate its full-year value at 85bps.

VP appointment

Handlowy's Supervisory Board appointed Mr. Brendan Carney to a three-year term as Vice-President of the Management Board subject to Mr. Carney obtaining a foreigner work permit .

Supervisory Board member proposed for reappointment

Bank Handlowy announced that on 28 May its shareholder Aviva PTE Aviva BZ WBK (a pension fund) had notified it that it was going to propose Igor Chalupec as a candidate for the Bank's Supervisory Board. The Annual General Meeting will take place on 20 June. Mr. Chalupec has been a member of the Bank's Supervisory Board since 2009.

Handlowy not for sale, says CEO of Citigroup

The CEO of Citigroup, Vikram Pandit, told Parkiet that Bank Handlowy's organic growth strategy had the support of its parent, and that Citigroup was not planning to sell its Polish assets.

ING BSK (Hold)

Current price: PLN 74.95 Target price: PLN 80

Analyst: Iza Rokicka
Last Recommendation: 2012-01-19

(PLN m)	2010	2011	change	2012F	change	2013F	change
Net interest income	1 627.6	1 851.5	13.8%	1 941.5	4.9%	2 040.0	5.1%
Interest margin	2.6%	2.8%		2.7%		2.6%	
Revenue f/banking oper.	2 682.5	2 895.5	7.9%	2 993.4	3.4%	3 130.3	4.6%
Operating income*	1 096.5	1 248.7	13.9%	1 286.9	3.1%	1 361.1	5.8%
Pre-tax income	934.1	1 117.5	19.6%	1 061.0	-5.1%	1 167.8	10.1%
Net income	753.1	880.1	16.9%	859.4	-2.4%	945.9	10.1%
ROE	14.3%	14.6%		12.6%		12.6%	
P/E	12.9	11.1		11.3		10.3	
P/BV	1.7	1.5		1.4		1.2	
DPS	0.0	1.5		0.7		2.0	
Dyield (%)	0.0	2.0		0.9		2.6	

Basic data (PLN m)	
Number of shares (m)	130.1
MC (current price)	9 751.0
Free float	25.0%
Price change: 1 month	*-5.8%*
Price change: 6 month	*-0.1%*
Price change: 12 month	*-10.8%*
Max (52 w eek)	90.5
Min (52 w eek)	66.6

** before provisions*

We are reiterating a hold rating and a PLN 80 per-share target price on ING BSK. Although the Bank will not be paying dividends for 2011, we believe its stock has defensive qualities, thanks in particular to its low exposure to the CHF/PLN exchange rate. Thus, in the highly volatile market we are expecting, the stock should outperform other medium banks (Millennium and Getin Noble Bank, formerly Get Bank). On the other hand, we note that ING BSK is trading at 2012 P/BV of 1.36x, i.e. at a considerable premium to small and medium banks (0.79x average), which can only partly be attributed to its expected higher return on equity (12.6% vs. 7.9%). Moreover, although the Bank's total exposure to the construction sector is limited (second-lowest after Handlowy among all the banks we cover), it is one of the creditors of PBG, which is facing liquidity problems.

Higher than expected net income on strong interest, trading income

ING BSK's Q1 2012 net income came in at PLN 272m, marking 27% Q/Q growth and 28% Y/Y growth and beating the PLN 220m consensus estimate by 23% and our PLN 213m estimate by 28%. The main earnings drivers in the period were stronger-than-anticipated interest income and trading income, and lower-than-expected tax. Trading income was boosted by a reversal of a PLN 20.4m counterparty risk provision recognized in Q3 2011. Moreover, ING BSK made a PLN 16,5m revision to a deferred tax allowance after a change in the approach to calculating foreign exchange differences implemented by one of its subsidiaries, which had a positive effect on the bottom-line profit. Adjusted for the two one-offs, the Q1'12 net income figures to ca. PLN 239m, which is about 12% more than we had forecasted. Further, ING BSK unexpectedly sold a bond portfolio in Q1 at a profit of PLN 19.1m recognized in trading income, and recorded stronger-than-expected improvement in returns on a changed asset structure. The less positive aspects include operating expenses and fee income.

ING BSK reported an impressive 7% q/q (or PLN 34m) increase in its Q1 interest income which amounted to PLN 514m. The bank recorded positive effects of ING ABL consolidation in the amount of PLN 25.8m, but we believe the actual effect may have been smaller because of a loan extended earlier to ING ABL (which also generated interest income). The adjusted interest income will have increased by at least 2% from the preceding quarter – a good result when compared to other banks. Fee income displayed an in-line decline of 1% to PLN 247m relative to the quarter before. However, given that ING ABL added about PLN 6m to the consolidated figure, we estimate the q/q decrease in the adjusted fee income at 4%, resulting from lowered card and account management fees and lower F/X gains. Trading income came well ahead of our expectations at PLN 75m vs. PLN 4m in the quarter before. Such strong growth was owed to one-time events (reversal of a PLN 20.4m provision for counterparty risk recognized in Q3 2011), combined with successful proprietary trading activities (which included a PLN 19.1m gain from a bond portfolio sale).

ING BSK disappointed with high operating expenses of PLN 465m (+12%q/q) incurred in the first quarter of 2012. Part of the blame (PLN 16.8m) can be put to the consolidation of ING ABL, but the adjusted OPEX was still 8% higher tan in Q4'11 and 10% higher than in Q1 2011.

As expected, provisions went up by 27% q/q to PLN 64m, bringing the cost of risk to 57bps. Provisions increased the most in the retail banking segment (+36% q/q at PLN 19.2m (50bps)). Provisions for corporate loans showed a smaller, 24% q/q growth to PLN 45.1m (78bps). The consolidation of ING ABL reduced the corporate charge-offs by PLN 4m.

Kredyt Bank (Suspended)

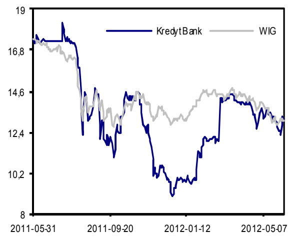
Current price: PLN 12.98 Target price: -

Analyst: Iza Rokicka

Last Recommendation: 2012-02-28

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Net interest income	1 127.8	1 150.1	2.0%	1 162.9	1.1%	1 206.5	3.7%	Number of shares (m)	271.7
Interest margin	2.7%	2.7%		2.6%		2.5%		MC (current price)	3 526.1
Revenue f/banking oper.	1 588.4	1 546.3	-2.7%	1 549.4	0.2%	1 602.1	3.4%	Free float	20.0%
Operating income*	703.5	626.0	-11.0%	618.8	-1.1%	639.6	3.4%		
Pre-tax income	234.7	431.1	83.7%	283.0	-34.4%	333.1	17.7%		
Net income	185.9	327.2	76.0%	226.4	-30.8%	266.5	17.7%		
ROE	6.9%	11.1%		7.1%		7.8%		Price change: 1 month	*-2.4%*
P/E	19.0	10.8		15.6		13.2		Price change: 6 month	*22.5%*
P/BV	1.2	1.2		1.1		1.0		Price change: 12 month	*-25.4%*
DPS	0.0	0.4		0.0		0.0		Max (52 week)	18.3
Dyield (%)	0.0	2.9		0.0		0.0		Min (52 week)	9.0

** before provisions*



While we work on updating our forecasts and rating, our recommendation for the Kredyt Bank stock remains suspended.

Disappointing net income on weak interest income

Kredyt Bank's net income of PLN 56m marked a 26% increase on Q4 2011 but a 58% drop vs. Q1 2011. It was 17% ahead of market consensus (PLN 48m), thanks primarily to lower provisions, but 14% below our forecast of PLN 66m due to lower interest income. The pressure on deposit margin reflects the need to collect deposits in the local market to replace the maturing wholesale financing from KBC. The poor interest income result was partly offset by higher-than-expected fee income and trading income. To sum up, total revenues fell by 10% q/q, undershooting our forecasts by 7%. Operating expenses decreased by 3% q/q, beating our expectations by a slight margin due to a 9% q/q reduction in non-payroll expenses. Provisions amounted to just PLN 58m after a 49% q/q decline, which was 23% below our projection thanks to much lower-than-expected provisions for corporate loans.

Interest income was weak, showing 19% Q/Q drop to PLN 218m (after 10% q/q drop in Q4 2011). According to the Management, this drop is partly attributable to the inflated base of Q4 2011 (when the Bank received over PLN 10m in previously written-off interest income from one of its clients). This means that the pressure on the deposit margin is much greater than it seemed upon publication of the Q4 2011 report. Finally, note that for the time being the Bank is not engaged in hedge accounting, and direct F/X financing from KBC is being replaced with swaps. A dozen or so million zloty was shifted from interest income to trading income. Fee income finally increased, by 9% q/q and 2% y/y to PLN 82m as a result of stronger than expected sales of investment products and higher transactional activity on the part of corporate clients (currency exchange). Trading income rose by 4% q/q to the very high level of PLN 58m. As we explained above, trading income is currently being supported by q/q growth in earnings on swap points, which cannot be recognized in interest income for now.

Operating expenses decreased by 3% q/q to PLN 239m, beating our expectations thanks to reduced marketing expenses. Provisions improved much more than we had expected, by 49% to PLN 58m. Although retail provisions increased by 11% q/q to PLN 53m, corporate provisions amounted to just PLN 5m. Further, the Management revealed that the Bank did not create additional provisions for exposure to DSS. Although the Bank supports the motion for DSS to be declared bankrupt with option for settlement, it believes the company's possible liquidation will not have an additional negative impact on earnings.

Kredyt Bank, BZ WBK confirm share exchange ratio

Kredyt Bank and BZ WBK announced that they had agreed and signed the merger plan that had first been revealed in February. The exchange ratio was set at 6.99 BZ WBK shares for 100 Kredyt Bank shares. All the assets and liabilities of Kredyt Bank will be transferred onto BZ WBK, and the latter's share capital will be increased by issuing shares which will be placed to all the current shareholders of Kredyt Bank. The share capital increase will be capped at PLN 189.7m. The exchange ratio and its structure are consistent with the information the banks' parent companies published back in February.

Shareholders vote to retain 2011 profit in equity

Kredyt Bank's shareholders have approved the Management's recommendation to retain the entire profit for 2011 in equity.

Millennium (Hold)

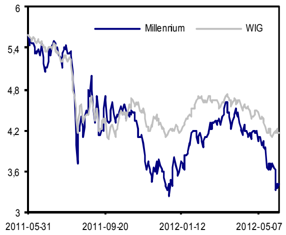
Current price: PLN 3.42 **Target price: PLN 3.3**

Analyst: Iza Rokicka
Last Recommendation: 2012-06-05

(PLN m)	2010	2011	change	2012F	change	2013F	change
Net interest income	1 009.8	1 190.8	17.9%	1 214.4	2.0%	1 282.8	5.6%
Interest margin	2.2%	2.4%		2.3%		2.3%	
Revenue f/banking oper.	1 714.4	1 901.7	10.9%	1 905.5	0.2%	1 985.7	4.2%
Operating income*	633.0	765.6	20.9%	763.7	-0.3%	803.7	5.2%
Pre-tax income	407.8	591.1	44.9%	468.8	-20.7%	568.0	21.2%
Net income	326.0	466.5	43.1%	375.1	-19.6%	454.4	21.2%
ROE	9.5%	10.8%		7.9%		8.8%	
P/E	12.7	8.9		11.1		9.1	
P/BV	1.0	0.9		0.8		0.8	
DPS	0.0	0.1		0.0		0.0	
Dyield (%)	0.0	2.9		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	1 213.1
MC (current price)	4 148.9
Free float	34.5%
Price change: 1 month	*-15.3%*
Price change: 6 month	*-3.9%*
Price change: 12 month	*-37.4%*
Max (52 w eek)	5.5
Min (52 w eek)	3.2

** before provisions*



Since our 9-month target price of PLN 3.30 per share implies just 3.5% downside potential, we are upgrading our rating from Sell to Hold. Although the current valuation of Bank Millennium at 0.84x 2012 P/BV may appear attractive, we consider it fair, because the Bank's profitability, as measured by return on equity, will be under pressure in the medium term (i.e. below the expected cost of capital). We project the Bank's ROE at just 7.9% in 2012 and 8.8% in 2013. From the fundamental point of view, we are still concerned about the current very low cost of risk, especially for mortgages. We reiterate the view that it is not sustainable in the medium term. As a reminder, in 2007-2008 Millennium was one of several aggressive mortgage lenders alongside Getin Noble Bank, Kredyt Bank and PKO BP. While the latter three banks report deteriorating mortgage portfolio quality and create provisions, Millennium shows the opposite tendencies.

Pekao (Hold)

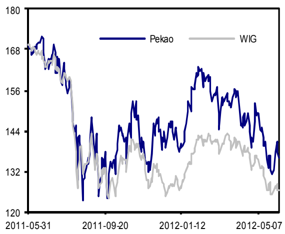
Current price: PLN 136 **Target price: PLN 135**

Analyst: Iza Rokicka
Last Recommendation: 2012-06-05

(PLN m)	2010	2011	change	2012F	change	2013F	change
Net interest income	4 103.7	4 557.9	11.1%	4 766.0	4.6%	4 952.1	3.9%
Interest margin	3.1%	3.2%		3.2%		3.2%	
Revenue f/banking oper.	7 196.9	7 661.4	6.5%	7 734.8	1.0%	8 033.2	3.9%
Operating income*	3 563.3	4 050.6	13.7%	4 015.8	-0.9%	4 191.0	4.4%
Pre-tax income	3 101.5	3 592.9	15.8%	3 396.3	-5.5%	3 642.7	7.3%
Net income	2 525.2	2 899.4	14.8%	2 741.5	-5.4%	2 940.1	7.2%
ROE	13.1%	14.0%		12.5%		12.7%	
P/E	14.1	12.3		13.0		12.1	
P/BV	1.8	1.7		1.6		1.5	
DPS	2.9	6.8		5.5		7.3	
Dyield (%)	2.1	5.0		4.0		5.4	

Basic data (PLN m)	
Number of shares (m)	262.4
MC (current price)	35 682.0
Free float	40.8%
Price change: 1 month	*-8.7%*
Price change: 6 month	*-6.9%*
Price change: 12 month	*-19.0%*
Max (52 week)	172.0
Min (52 week)	123.4

** before provisions*



Since our 9-month target price of PLN 135 per share implies just 2% downside potential, we are upgrading our rating from Reduce to Hold. We consider the Bank's current valuation at 13.0x 2012 P/E neutral, even though it still incorporates a hefty premium over the industry as a whole and PKO BP (11% in both cases). We believe new lending will be the highlight of Pekao's results (in terms of portfolio expansion and new loans). This will be made possible by the fact that the corporate segment will remain the key growth driver in the industry, as well as by the fact that the Bank 'specializes' in zloty-denominated loans, which have a much better outlook than F/X mortgages. On the other hand, we are still concerned about possible pressure on the cost of risk, especially in the corporate segment (just 27bps in 2011). We expect this to be the result of the deteriorating financial condition of SMEs and of the Bank's exposure to the construction industry (including PBG).

Q1 net income tops out estimate but falls in line with consensus

At PLN 711m, Pekao's Q1 2012 net income displayed 10% expansion from the year-ago figure and 8% contraction from the quarter before, and it came in line with the consensus estimate of PLN 704m and topped our PLN 682m estimate by 4%. Overall revenues matched our estimate, while operating expenses and loan-loss provisions were slightly lower than expected. Fee income was weak, and trading income was boosted by proceeds from a loan portfolio sale.

Like most banks, Pekao experienced 1% contraction to PLN 1193m in interest income. Unlike other banks, however, this contraction was a consequence of downward pressure not on interest-bearing liabilities, but on interest-bearing assets. In our view, the q/q contraction in margins on interest-bearing assets (-16bps q/q) may have been due to lower yields on the bond portfolio amid rising interest rates. Fee income continued on a downward trend inQ1, falling 7% q/q and 8% y/y at PLN 551m - the lowest level since Q1 2009. The reasons included a drop in loan fees and a fall in other fees (due to lower corporate customer transaction volumes and customers switching to electronic and mobile banking which generate lower fees). As predicted, trading income showed 13% q/q drop to PLN 158m in Q1 2012. It received a major, PLN 42m boost from investment operations (+54 q/q, +19% y/y) which, we think, may have included a bond portfolio sale. Other trading activity produced weak results, with income down 20% y/y and 25% q/q at PLN 115m.

Operating expenses decreased by 1% q/q to PLN 911m despite the low base in Q4 2011. Payroll expenses increased 4% from the low quarter-before base, but they were 2% lower than a year earlier at PLN 479m. Non-payroll costs increased 8% compared to Q1 2011 due to higher marketing expenses, but they were 7% lower than in Q4 2011. Loan loss provisions rose just 3% q/q and 1% y/y in Q1 2012, and they were 6% lower than expected. This was partly owed to a PLN 10m reversal of an off-balance-sheet exposure allowance (a customer decided not to use a credit facility), and partly to a 30% q/q drop to PLN 56m in provisions for retail loans. Corporate loan provisions increased 9% q/q to PLN 71m.

Pekao aiming for replay of 2011 earnings in 2012

Pekao's CEO says 2012 will be a tough year for the bank industry but he believes Pekao can generate net income of PLN 2.9bn this year as well. The interest margin should remain constant, and annual loan sales are estimated at PLN 10bn. Costs are expected to accelerate from the 1% q/q rate recorded in Q1 in the coming quarters. Pekao achieved 26% of our FY2012 net income estimate of PLN 2741m in Q1 2012.

Shareholders approve dividends for 2011

Pekao's shareholder approved the Management's dividend recommendation (PLN 5.48 per share, 3.9% yield.

Pekao outperforms PKO BP on mortgages in March, April

According to *Puls Biznesu*, March was the first month when Pekao extended more mortgages than PKO BP. The figure for the former was PLN 580m (-15% y/y from PLN 686m) and for the latter, PLN 518m (-52% y/y from PLN 1069m). The same situation obtained in April (PLN 630m for Pekao, +8% m/m, PLN 540m for PKO BP, +4% m/m). Other banks with strong lending in March included ING BSK (PLN 308m), BZ WBK (PLN 239m) and BGŻ (PLN 120m). The banks that saw major y/y plunges included Getin Noble Bank (PLN 288m), Kredyt Bank (PLN 178m) and Nordea (PLN 127m). It seems to us that such a reshuffle among top mortgage lenders was inevitable after the Financial Supervision Authority revised its Recommendation S and after the changes to the Rodzina na Swoim mortgage subsidy program. Another factor at play was the availability of direct F/X financing. We still expect a y/y reduction in mortgage lending for the industry as a whole from the PLN 49bn total for 2011 (in Q1, lending fell 17% y/y to PLN 10.2bn). As far as the two biggest banks are concerned, it is possible that their new relative ranking will remain in place in the upcoming months, with Pekao outperforming PKO BP. On the other hand, we believe that given the slow expansion in retail loan portfolios that we are expecting in 2012, interest margin and a bank's ability to improve it in an environment of rising interest rates may have a greater impact on earnings than new loans.

Supervisory Board appointments for new term

Pekao announced that the following individuals had been appointed for a joint three-year term on the Bank's Supervisory Board: Jerzy Woźnicki, Roberto Nicastro, Enrico Pavoni, Alessandro Decio, Paweł Dangel, Leszek Pawłowicz, Laura Penna, Doris Tomanek and Wioletta Rosołowska. Their term in office started on 2 June 2012.

PKO BP (Accumulate)

Current price: PLN 31.66 Target price: PLN 35

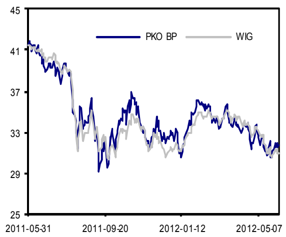
Analyst: Iza Rokicka

Last Recommendation: 2012-04-05

(PLN m)	2010	2011	change	2012F	change	2013F	change
Net interest income	6 516.2	7 609.1	16.8%	7 721.4	1.5%	7 950.8	3.0%
Interest margin	4.0%	4.2%		4.0%		3.9%	
Revenue f/banking oper.	10 021.9	10 999.8	9.8%	10 985.9	-0.1%	11 284.9	2.7%
Operating income*	5 948.4	6 731.0	13.2%	6 532.3	-3.0%	6 686.2	2.4%
Pre-tax income	4 079.2	4 780.9	17.2%	4 215.0	-11.8%	4 683.1	11.1%
Net income	3 216.9	3 807.2	18.4%	3 374.3	-11.4%	3 749.2	11.1%
ROE	15.4%	17.2%		14.3%		14.8%	
P/E	12.3	10.4		11.7		10.6	
P/BV	1.9	1.7		1.6		1.5	
DPS	1.9	2.0		1.5		1.3	
Dyield (%)	6.0	6.3		4.7		4.3	

Basic data (PLN m)	
Number of shares (m)	1 250.0
MC (current price)	39 575.0
Free float	48.8%
Price change: 1 month	*-3.3%*
Price change: 6 month	*-5.8%*
Price change: 12 month	*-23.6%*
Max (52 week)	41.6
Min (52 week)	29.2

** before provisions*



Following the Monetary Policy Council's decision to increase the reference rate by 25bps to 4.75%, we believe that the outlook for PKO BP's interest margin has improved greatly. In our opinion, PKO BP's margin is strongly positively correlated with market interest rates. Our macroeconomics team do not expect any interest rate cuts through 2013, which means that the Bank might be able to benefit from this situation for two more years. The only factor that casts a slight shadow on the positive interest income outlook is the decelerating new lending in the retail segment (falling mortgage lending following discontinuation of F/X loans and lack of rebound in consumer loans). In this context, we consider our current net income forecast for 2012 (PLN 3374m) conservative. Despite this, the Bank is still trading at a non-demanding P/E of 11.7x, 10% below Pekao. It is also important that the question of dividends for 2011 remains open, and we believe shareholders may vote to increase it from PLN 1.27 to PLN 1.55 per share.

Net income beats PLN 1bn again

PKO BP's Q1 2012 net income came in at PLN 1005m, marking an increase of 6% from the quarter before and year-on-year growth by 15%, and falling in line with our estimate of PLN 1030m and the consensus estimate of 1027m. As predicted, the main earnings driver in the period was interest income combined with lower operating expenses.

Interest income contracted 1% Q/Q to a decent and in-line 2059m. Although the margin on interest-bearing liabilities improved by 12bps q/q thanks to higher market rates, this effect was more than offset by a pressure on the margin on interest-bearing assets. In our opinion, this was due to narrowing loan margins caused by an increasing share of low-margin mortgages and a decreasing share of high-margin consumer loans. Fee income was down 9% Q/Q and 2% Y/Y at just PLN 723m While income on insurance policies and loans deteriorated, income from account management and cards was strong. Trading income was stronger than expected, soaring 28% Q/Q to PLN 106m. PKO BP saw an increase in the valuation of financial instruments carried through profit and loss account, particularly debt instruments (bonds). Foreign exchange income was flat at the quarter-before level.

Operating expenses decreased 3% to PLN 1152m from the seasonally worst Q4 2011. There was a decrease in payroll expenses (-2% Q/Q) as well as nonpayroll costs (-5% Q/Q). On a year-on-year basis, costs were up 9% half of which the Bank attributes to an increase in payroll expenses stemming from pay hikes in late April and early July, which was combined with costs of process modernization and automation, higher marketing expenses, and rising regulatory charges (BFG, KNF).

Loan loss provisions fell 6% Q/Q to PLN 528m, but they showed a Y/Y increase by 20%. The Q/Q improvement was owed to the "other" line which in Q4 2011 included charge-offs related to Kredobank. Retail loan provisions increased 49% or PLN 80m Q/Q to PLN 244m, and they pertained to consumer loans (+32% Q/Q, probably due to higher provisions set aside for NPLs held for sale in Q2 2012) and mortgages (+89% Q/Q from a low H2 2011 base). In turn, provisions for corporate loan losses fell 22% Q/Q. The Bank admitted that in Q1 2012 it had created additional provisions for loans to construction companies, especially infrastructural and SME companies (ca. PLN 60-80m).

Dividend proposal

PKO BP's Management Board is recommending payout of PLN 1.27 dividend from 2012 earnings. The proposed record date is June 12th, with payout tentatively scheduled for June 27th. The recommendation has been approved by the Supervisory Board. The payout ratio implied by the proposed dividend, which is 15% lower than our PLN 1.50 guess, is 42%, and the dividend yield is 4.0%.

State Treasury considers PKO BP, PZU dividend reasonable

The Polish State Treasury considers the dividends recommended by the Management Boards of PKO BP and PZU to be reasonable and consistent with financial supervision regulation.

PKO BP not ruling out eurobond issue in June

Deputy CEO Jakub Papierski believes that June may be a more opportune moment for a potential bond issue (in EUR or in CHF). In addition, PKO BP will consider an issue denominated in the USD in the fall. Mr. Papierski said previously that PKO BP was planning to issue 3Y bonds with total value of several hundred million zloty. News without impact on stock performance.

CFO on earnings in upcoming quarters

CFO Bartosz Drabikowski said that interest income growth would remain strong in the upcoming quarters, though not as strong as in Q1 2012. He added that 2012 fee income should be on a par with the 2011 result, or slightly lower. The cost of risk is expected to be stable, and loans to construction companies (ca. 5% of total loans) are not a major problem. As far as the expansion of the loan portfolio is concerned, it is expected to slow down vs. Q1 2012, and the key growth driver will be corporate loans and mortgages. No surprises here. Y/Y interest income growth will be slowing down from the 20% figure recorded in Q1 2012 as the base goes up. Fee income is likely to be one of the disappointments in 2012, as shown already by Q1 2012 results. As for loan portfolio growth, it will still be largely determined by F/X rates.

Pekao outperforms PKO BP on mortgages in March, April

According to *Puls Biznesu*, March was the first month when Pekao extended more mortgages than PKO BP. The figure for the former was PLN 580m (-15% y/y from PLN 686m) and for the latter, PLN 518m (-52% y/y from PLN 1069m). The same situation obtained in April (PLN 630m for Pekao, +8% m/m, PLN 540m for PKO BP, +4% m/m). Other banks with strong lending in March included ING BSK (PLN 308m), BZ WBK (PLN 239m) and BGŻ (PLN 120m). The banks that saw major y/y plunges included Getin Noble Bank (PLN 288m), Kredyt Bank (PLN 178m) and Nordea (PLN 127m). It seems to us that such a reshuffle among top mortgage lenders was inevitable after the Financial Supervision Authority revised its Recommendation S and after the changes to the Rodzina na Swoim mortgage subsidy program. Another factor at play was the availability of direct F/X financing. We still expect a y/y reduction in mortgage lending for the industry as a whole from the PLN 49bn total for 2011 (in Q1, lending fell 17% y/y to PLN 10.2bn). As far as the two biggest banks are concerned, it is possible that their new relative ranking will remain in place in the upcoming months, with Pekao outperforming PKO BP. On the other hand, we believe that given the slow expansion in retail loan portfolios that we are expecting in 2012, interest margin and a bank's ability to improve it in an environment of rising interest rates may have a greater impact on earnings than new loans.

S&P assigns A-/A-2 ratings

S&P has given PKO BP an "A-/A-2" rating with a stable outlook. Earlier, PKO BP’s long-term zloty liabilities were rated 'A-pi'.

Insurance

KNF approves takeover of Warta by Talanx, Mejii Yasuda

The Financial Supervision Authority announced that it had no objections to the takeover of Warta by Talanx International AG and Meji Yasuda Life Insurance Company. The KNF took into consideration the investors' commitments with regard to potential financial support, dividend policies, active participation in the process of preparing Warta for Solvency 2 requirements, as well as their consent not to relocate Warta's headquarters outside Poland and not to convert Warta into a branch of a foreign entity within the next three years. In addition, Talanx AG will float its shares on the WSE within 2 years of the acquisition of shares in Warta and TU Europa.

CEO of Uniqua says accident insurance prices will rise

The CEO of Uniqua Poland, Andrzej Jarczyk, told Parkiet that the prices of motor liability insurance in Poland were 20-30% too low relative to the risks. According to him, a systematic rise in premiums was an 'irreversible' trend which will only be accelerated by actions taken by the regulator and other institutions. Mr. Jarczyk believes that a premium hike by ca. 20% will not create an excessive burden on drivers. Although this would be a significant increase, the average premiums are not so high that drivers will risk driving without coverage. Mr. Jarczyk added that the biggest problem and challenge for the industry was the fact that liability coverage gives rise to "long-tail" claims, i.e. the liability lasts for many years.

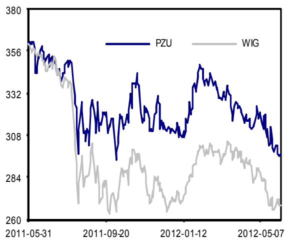
PZU (Accumulate)

Current price: PLN 297.6 Target price: PLN 345

Analyst: Iza Rokicka

Last Recommendation: 2012-01-23

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Gross written premium:	14 541.0	15 279.3	5.1%	15 787.2	3.3%	16 402.6	3.9%	Number of shares (m)	86.4
property insurance	8 031.9	8 527.5	6.2%	8 838.1	3.6%	9 232.2	4.5%	MC (current price)	25 698.4
life insurance	6 512.5	6 751.8	3.7%	6 751.8	0.0%	6 949.1	2.9%	Free float	64.8%
Technical profit	17 066.7	16 491.2	-3.4%	17 344.4	5.2%	18 553.7	7.0%		
Pre-tax income	3 029.4	2 907.6	-4.0%	2 916.9	0.3%	3 091.8	6.0%		
Net income	2 439.2	2 345.4	-3.8%	2 346.4	0.0%	2 495.6	6.4%		
ROE	20.3%	18.3%		18.2%		18.8%		Price change: 1 month	*-7.3%*
P/E	10.5	11.0		11.0		10.3		Price change: 6 month	*-8.9%*
P/BV	2.0	2.0		2.0		1.9		Price change: 12 month	*-17.5%*
DPS	158.6	26.0		22.4		24.5		Max (52 week)	361.9
Dyield (%)	53.3	8.7		7.5		8.2		Min (52 week)	294.2



After PZU's shareholders approved a higher dividend than was recommended by the Management Board (PLN 22.43 per share for 7.6% yield!), we reiterate our Accumulate rating for the stock and our 9-month target price of PLN 345 per share. Given the expected volatility of the markets in June, we believe this high dividend yield should help keep the share price stable. We would also like to point out that PZU's Q1'12 net income accounts for 35% of our FY forecast (PLN 2346m, flat y/y). Despite this, the Company is trading at an attractive 2012 P/E of 11.0x (10.1x ex-dividend). Although we are aware that the lock-up period on the stock is expiring now, we still believe that the Treasury is highly unlikely to sell its remaining 10% stake in the current market.

PLN 822m net income undershoots our expectations by 9% due to higher operating expenses

PZU's net income for Q1 2012 amounted to PLN 822m (+4% y/y, +69% q/q), undershooting our PLN 903m projection by 9% and the PLN 867m market consensus by 5%. The main source of disappointment were high operating expenses (both administrative and acquisition costs, 9% ahead of our forecasts), as well as investment gains, which undershot our projections by 4%. At PLN 1092m (-7% y/y, -12% q/q), net premium earned less net claims and benefits was in line with our expectations.

According to PZU, the administrative cost line included a PLN 20m charge to the mandatory Company Social Benefits Fund, which partly explains the negative surprise. The 6% y/y increase in acquisition costs reflected, inter alia, the rising share of more expensive channels of distribution (agents, non-exclusive agencies). Moreover, Q1 2012 earnings were weighed down by losses on farmers' insurance policies on account of winter crop losses (+PLN 90m y/y to PLN 170m, a factor included in our forecasts). Finally, reversals of provisions on the account of conversion of long-term group life policies to one-year policies amounted to PLN 100m (-57% y/y), exactly as predicted.

CEO expects premium written growth to slow down in the upcoming quarters

PZU's CEO Andrzej Klesyk says that premium written growth in 2012 will not be as strong as in Q1 2012, and that it will not exceed 8.7% in the year as a whole. The FY technical profit on property insurance will not be lower than in 2011. The very strong premium written growth in Q1 2012, especially in the property insurance segment, reflects, inter alia, the fact that accident insurance became mandatory for hospitals on 1 January, which brought PLN 63.7m in premium written, or ca. ok.1/3 of y/y premium written growth in property insurance. Our forecasts assume that consolidated premium written will grow by 3% in 2012. As far as technical income on property insurance is concerned, note that in 2011 the Company incurred losses on farmers' insurance in Q2 as well as in Q1, at ca. PLN 80m per quarter. In 2012, these losses are expected to be recognized in Q1 only, in the amount of ca. PLN 170m. Therefore, H1'12 earnings will be on a par with H1'11, while Q2'12 by itself will show a y/y improvement.

Slight y/y improvement in net profit expected, says CFO

Management Board member Przemysław Dąbrowski says that the Company's net profit for 2012 should show a certain increase over 2011 barring a major financial crisis. Our forecasts for 2012 foresee a net profit of PLN 2347m, i.e. no change vs. 2011.

Shareholders approve Treasury's motion for higher dividends

During yesterday's Annual General Meeting, PZU's shareholders sided with the State Treasury and approved a PLN 22.43 per-share payout from 2011 earnings, which is 10% more than originally recommended by the Management Board (PLN 20.3 per share). The resultant payout rate was 83%, and dividend yield, 7.6%. The record day is 30 August, with payout on 20 September.

Dividend deemed compliant with KNF rules

Poland's Financial Supervision Authority KNF confirmed that the dividends that PZU and PZU Życie are planning to distribute to shareholders comply with the Authority's February 13th guidelines. The KNF stressed that the 75% cap placed on the dividends pertained to the standalone (not consolidated) 2011 profits of the two companies reported in accordance with Polish Accounting Standards (not IFRS). PZU Życie's PLN 1177m dividend is equivalent to 74.4% of the standalone net income and PZU's PLN 1937m dividend (PLN 22.43/share) represents a payout ratio of 75.0%. The KNF also noted that the dividend recommendation of PZU's Management Board was based on consolidated net earnings reported under IFRS.

PZU not in talks about foreign acquisitions

PZU may consider making acquisitions in Lithuania, Latvia, and Estonia, in the future, but it is not conducting any talks with potential targets at the moment. The insurer is developing a growth strategy for its foreign units, and it is planning to establish a new unit called PZU International after the General Meeting scheduled for the end of May.

PZU to finish rebranding by September

PZU's branch rebranding program, scheduled to last until September, is expected to cost the insurer about PLN 25m. PZU' average marketing budget is PLN 40-50m. The extra costs will have a negligible impact on PZU's financial standing.

PZU does not rule out participation in PHN's IPO

Management Board member Ryszard Trepczyński says that PZU does not rule out involvement in the IPO of Polski Holding Nieruchomościowy (PHN), provided that such an investment can bring a return.

Supervisory Board changes

PZU announced that Krzysztof Dresler had resigned from the Supervisory Board, while Marzena Piszczek was dismissed from the post of the Supervisory Board Chair. At the request of the State Treasury, the Supervisory Board was expanded from 7 to 9 members, and the following new members were appointed: Tomasz Zganiacz, Maciej Piotrowski, Włodzimierz Kiciński oraz Alojzy Nowak.

CEO of Uniqua says accident insurance prices will rise

The CEO of Uniqua Poland, Andrzej Jarczyk, told *Parkiet* that the prices of motor liability insurance in Poland were 20-30% too low relative to the risks. According to him, a systematic rise in premiums was an 'irreversible' trend which will only be accelerated by actions taken by the regulator and other institutions. Mr. Jarczyk believes that a premium hike by ca. 20% will not create an excessive burden on drivers. Although this would be a significant increase, the average premiums are not so high that drivers will risk driving without coverage. Mr. Jarczyk added that the biggest problem and challenge for the industry was the fact that liability coverage gives rise to "long-tail" claims, i.e. the liability lasts for many years. In 2011, PZU's liability coverage business remained in the red for the retail and corporate client alike. On the other hand, the operating loss it generated was 28% lower than in 2010 at PLN 166m (PLN 102m for retail clients and PLN 64m for corporate clients). In 2011, PZU carried out some premium hikes (in March/April for retail clients, in November for corporate clients). In both segments, operating earnings are boosted by the full coverage business. If Polish insurers decide to implement further premium hikes, this will be good news for PZU.

Financial services

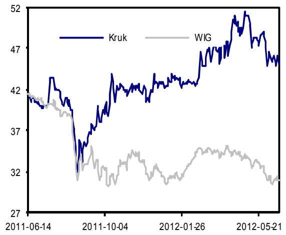
KRUK (Buy)

Current price: PLN 45.2 Target price: PLN 59.4

Analyst: Iza Rokicka
Last Recommendation: 2012-03-29

(PLN m)	2010	2011	change	2012F	change	2013F	change
Income	164.3	274.0	66.8%	361.3	31.9%	411.9	14.0%
Debt purchases	118.1	230.4	95.1%	321.7	39.6%	372.5	15.8%
Collection	44.1	41.0	-7.0%	34.7	-15.2%	31.5	-9.4%
Indirect margin	74.7	143.7	92.2%	186.2	29.6%	212.4	14.1%
Pre-tax income	35.6	68.5	92.5%	85.4	24.6%	101.3	18.6%
Net income	36.1	66.2	83.5%	82.7	25.0%	95.2	15.1%
ROE	31.6%	35.9%		29.6%		25.8%	
P/E	19.2	11.5		9.3		8.2	
P/BV	5.3	3.2		2.4		1.9	
DPS	0.0	0.0		0.0		0.0	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	17.1
MC (current price)	772.6
Free float	59.5%
Price change: 1 month	*-5.6%*
Price change: 6 month	*6.0%*
Price change: 12 month	*11.3%*
Max (52 w eek)	51.6
Min (52 w eek)	32.0



Although our FY earnings forecast has been met at just 17% after Q1, we believe PLN 82.7m net profit in FY 2012 is a realistic target (+25% y/y). The weak performance in Q1 was a result of negative revaluations driven by the appreciation of the zloty vs. the RON. Since the end of March, the zloty has fallen back against the RON by 4%, which means that Kruk could make up for the lost ground in Q2. We still believe that the Company's record-high outlays on debt purchases in 2011 (PLN 564m, +193% y/y) will support earnings in 2012 as well, an assumption which is confirmed by the collections curve. The Company aims to recover the invested capital within 2-2.5 years of the acquisition of a given portfolio, and the shape of the curve is the key determinant of the internal rate of return. Given our current net income forecast, Kruk is trading at a P/E of 9.3x, i.e. at a14% discount to peer average and a 29% discount to Intrum Justitia. We are reiterating our buy rating with a 9M target price of PLN 59.4 per share.

PLN 14.0m net income in line with expectations

Kruk reported a PLN 14.0m net profit for Q1 2012 (-1% y/y and q/q). This result was in line with our expectations and market consensus (PLN 14.1m each). Note that the gross profit amounted to PLN 15.7m, beating our expectations by 6% thanks to lower variable costs in the purchased debt segment. The source of the discrepancy between pre-tax and net income forecasts and actuals was a higher effective tax rate (10.9% vs. 5.0% expected by us). As we expected, Kruk carried out a negative revaluation of debt portfolios in the amount of PLN 10m (for a ca. -PLN 5.6m net portfolio revaluation effect), which reduced the bottom line profit in a practically direct fashion. The revaluations were applied above all to Romanian debt portfolios, reflecting a 7% q/q appreciation of the zloty vs. the RON.

In Q1 2012, Kruk spent just PLN 12.m on debt portfolio purchases (-82% m/m, -91% y/y), paying 5.6% of nominal value on average. According to Kruk's Management Board, in Q1 2012 only one major debt portfolio sale was concluded in Poland, and Kruk was not involved. In the same period, repayments amounted to PLN 108m (+1% y/y, +63% q/q). The overall value of collections may have been impacted by the appreciation of the PLN vs. the RON as well as the fact that Romania's transportation and telecommunication systems were paralyzed in February by excessive snowfall. At the end of 1Q, the value of debt portfolios on Kruk's balance sheet amounted to PLN 693m (-4% q/q, +126% y/y).

Total revenues declined by PLN 4% q/q to PLN 79.9m, and were just slightly higher than expected by us. The Company saw q/q deterioration in the purchased debt segment (-5% q/q due to negative debt portfolio revaluation) and in debt collection services (-16% q/q due to typical seasonal patterns). Net revaluations amounted to –PLN 5.6m. The main driving factor here was the appreciation of the PLN vs. the RON by 7% q/q, which had a negative impact on the zloty value of Romanian portfolios. We estimate the gross impact of this factor at as much as PLN 10m.

Just as revenues, variable costs (direct and indirect) declined vs. the preceding quarter, by 18% q/q, ending up 6% lower then expected. As a result, in spite of the declining revenues, Kruk's indirect margin rose at an attractive rate of 12% q/q to PLN 42.5m. It amounted to 53.1%, which entails a 7.8bps q/q and 0.8bps y/y improvement. General and administrative expenses including depreciation rose by 6% q/q to PLN 14.2m, reflecting Kruk's expanding size.

Net loss on financing activities was PLN 12.8m after a 51% q/q increase. This was caused by F/X losses totaling PLN 1.6m, compared to PLN 1.7m F/X gains recognized in Q4 2011. Net debt amounted to PLN 409m at the end of the quarter, declining by 7% q/q due to debt portfolio amortization. The net debt / equity ratio amounted to 161% vs. 185% in Q4'11 (+23bps). The net debt / cash EBITDA ratio was 188% vs. 225% at the end of 2011.

Kruk expects market stability in Poland, decline in Romania

Kruk's CEO Piotr Krupa expects that outlays on retail debt portfolios in Poland will level off at ca. PLN 1.0bn in 2012 and that the supply of corporate portfolios will increase. In Romania, Mr. Krupa expects debt purchase outlays to level off or to decline just slightly. Mr. Krupa also said that Q1 was a calmer period, with many NPL portfolios becoming available for sale but few transactions getting finalized; the only major one was Getin Noble Bank's portfolio sale. Decisions have been made in several other tenders, but final agreements are yet to be signed. Kruk believes that competition is fairly strong and it does not expect prices to go down in the upcoming months. Our forecasts for the purchased debt market foresee a 5% y/y drop on Polish retail portfolios to PLN 1.1bn, a 65% y/y growth on Polish corporate portfolios to PLN 83m and a 6% drop in Romania to PLN 184m.

Kruk makes early bond call

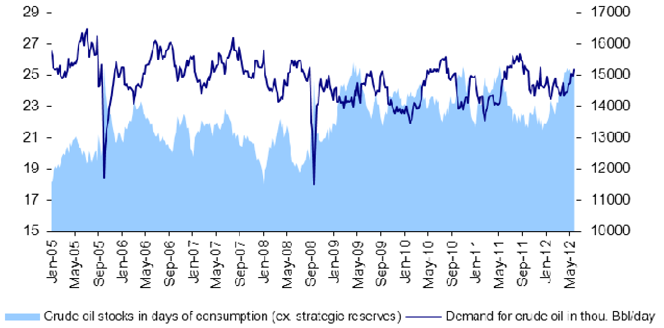
Kruk announced that on 25 May it had redeemed a portion of G2, H1 and H2 bonds for cancellation. The bonds, which had a nominal value of PLN 5.2m, were redeemed for PLN 5.1m. This was the second operation of this type carried out by Kruk. The moves are aimed at optimizing the Company's financing structure.

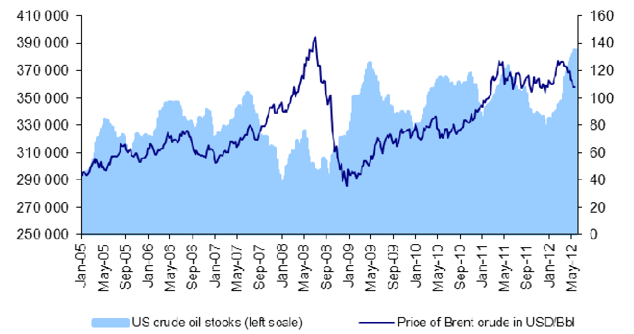
Fuels, Chemicals

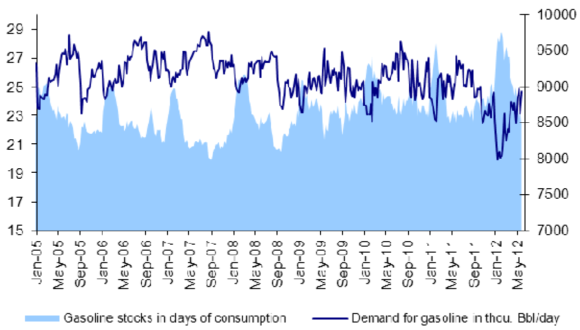
US crude inventories highest since 1990

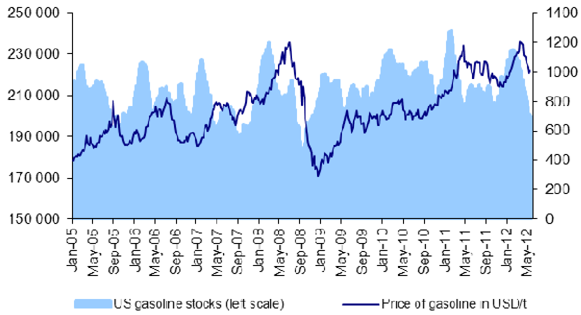
In May, US crude oil inventories grew by a further 8.9m bbl. (2.3%), reaching the highest level since 1990. Such a strong increase in crude oil stock in the face of a seasonal increase in gasoline demand and in the refineries' capacity utilization (by 3.2pp to 88%) reflected strong imports (+1.9% m/m) and a continued rise in production from American sources (+11% y/y). The imbalance between global demand and supply is increasing, and we believe this will lead to further expansion in global stocks. Oil supply is additionally fueled by OPEC, as confirmed by May data showing the highest output since October 2008. Given the last few readings, we note risks for IEA's forecasts, both in terms of demand (a downward revision is possible) and supply (upward revision). In the past few weeks, crude oil prices have clearly started to 'lose ground' vs. the broad commodity index (the 'ground' that they gained in 2011). In March, crude oil was as much as 38% ahead of the CRB index due to geopolitical turmoil in Libya and the tension surrounding Iran. Since then, this "advantage" has shrank to 28%. An event that could lead to another spike in the risk premium would be a NATO intervention in Syria, but for the time being official diplomatic pronouncements suggest it is unlikely.

US oil and gasoline inventories









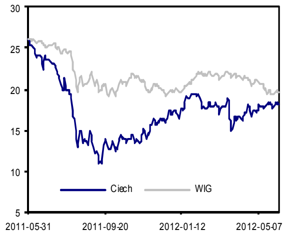
Source: BRE Bank Securities based on data released by US Department of Energy

Ciech (Buy)

Current price: PLN 18.22 **Target price: PLN 21.6**

Analyst: Kamil Kliszcz
Last Recommendation: 2012-05-15

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	3 960.3	4 174.5	5.4%	4 290.3	2.8%	4 335.4	1.1%	Number of shares (m)	52.7
EBITDA	384.7	340.8	-11.4%	418.9	22.9%	480.3	14.7%	MC (current price)	960.2
EBITDA margin	*9.7%*	*8.2%*		*9.8%*		*11.1%*		EV (current price)	2 251.7
EBIT	146.9	118.7	-19.2%	164.6	38.7%	232.3	41.1%	Free float	37.8%
Net profit	24.3	1.5	-93.8%	22.7	1404.8%	99.9	341.0%		
P/E	21.0	637.6		42.4		9.6		Price change: 1 month	*4.4%*
P/CE	1.9	4.3		3.5		2.8		Price change: 6 month	*17.3%*
P/BV	0.6	0.7		0.7		0.7		Price change: 12 month	*-28.0%*
EV/EBITDA	5.1	5.9		5.4		4.4		Max (52 week)	25.3
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	10.8



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 currently trading at an attractive 5.3x 2012 EV/EBITDA. After recent newspaper reports, the market may increasingly discount a potential tender offer for the Company, all the more so that, unlike in the case of fertilizer producers, there seem to be no political obstacles on the part of the State Treasury. We are reiterating a buy rating.

Zdenek Bakala eying Ciech?

According to agency reports, the Czech billionaire owner of NWR Zdenek Bakala is interested in Ciech and is engaged in negotiations with the State Treasury. A tender offer is reportedly in the making pending additional discussions.

New Management Board appointed

Shareholders appointed Dariusz Krawczyk to the post of CEO and Andrzej Kopeć as CFO. The latter had previously served in this position at ZA Puławy.

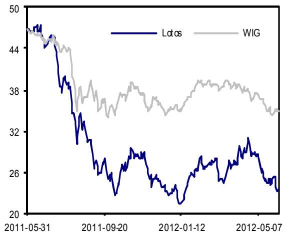
Lotos (Reduce)

Current price: PLN 23.45 **Target price: PLN 21.6**

Analyst: Kamil Kliszcz
Last Recommendation: 2012-03-05

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	19 680.5	29 258.5	48.7%	33 863.2	15.7%	30 723.7	-9.3%
EBITDA	1 451.3	1 608.8	10.9%	1 342.1	-16.6%	1 630.9	21.5%
EBITDA margin	*7.4%*	*5.5%*		*4.0%*		*5.3%*	
EBIT	1 061.4	1 016.5	-4.2%	651.3	-35.9%	854.9	31.3%
Net profit	679.2	653.8	-3.7%	420.9	-35.6%	541.4	28.6%
P/E	4.5	4.7		7.2		5.6	
P/CE	2.8	2.4		2.7		2.3	
P/BV	0.4	0.4		0.4		0.3	
EV/EBITDA	6.2	6.3		7.9		6.1	
Dyield (%)	0.0	0.0		0.0		2.8	

Basic data (PLN m)	
Number of shares (m)	129.9
MC (current price)	3 045.5
EV (current price)	10 545.2
Free float	46.8%
Price change: 1 month	*-17.7%*
Price change: 6 month	*-6.2%*
Price change: 12 month	*-49.6%*
Max (52 week)	47.5
Min (52 week)	21.3



Falling crude oil prices and depreciating zloty are the main sources of the slump in Lotos's share price last month. An additional cause may have been the weaker-than-expected earnings for Q1 and the likelihood of further significant write-offs on the Yme project. In the current macro environment, the Company is likely to post fairly weak earnings, and F/X losses and hedging losses may top PLN 500m. At the current USD/PLN exchange rate, revaluation alone would increase net debt by a whooping PLN 940m. We reiterate our view that in the current highly volatile environment, Lotos is a risky investment. Another delay in the Yme project could prompt a downward revision in our valuation. We reiterate our negative rating for the stock.

Adjusted operating earnings slightly weaker than expected

Lotos's Q1 2012 EBIT figure came in line with our estimate and slightly ahead of the consensus estimate, but this after a boost of close to PLN 21m from the sale of the subsidiary Lotos Parafiny. Adjusted for the one-off and for inventory revaluations (PLN 232.7m vs. PLN 242m expected), LIFO EBIT amounted to PLN 165m vs. our estimate of PLN 176m and the consensus estimate of PLN 232m. The Refining segment did worse than anticipated in Q1 2012 with LIFO EBIT at PLN 108m (after a PLN 16.3m loss incurred by the retail business and the one-time gain mentioned above) vs. our forecast of PLN 149m. An oil output of 2.3mmt missed our 2.4mmt estimate, but we had anticipated more improvement in LIFO EBIT (compared to the year-ago level of PLN 125m) despite deteriorated macro conditions after Lotos reduced the share of heavy residue in its refinery slate. Meanwhile, sales of heavy fuel oil were only 100 thousand tonnes lower (tmt) in Q1 2012 than in Q1 2011 (we expected a 200tmt reduction in favor of higher-quality "white" products). The Upstream segment posted a much better-than-expected EBIT of PLN 134.5m (vs. PLN 41m) thanks to PLN 100m higher revenue from oil sales achieved after the launch of test drilling in B8 deposit, continuing in the second quarter. Due to small Rozewie crude throughput, however, PLN 62m of the segmental EBIT was eliminated upon consolidation. Even so, the adjusted Upstream EBIT of PLN 72m was still well ahead of what we had anticipated.

Weak cash flows from operations

Lotos generated financing gains of PLN 318m in Q1 (we expected PLN 240m), provided by FX gains on loan revaluations totaling PLN 224m (we expected PLN 215m) and hedging gains in the amount of PLN 143m (we expected PLN 82m, but as it turns out Lotos has a much higher position in USD/PLN instruments). Lotos's cash flow in Q1 2012 was a disappointing negative PLN 308m stemming from an increase in working capital (an effect of inventories combined with a considerable reduction in payables due to smaller March purchases). With CAPEX at PLN 190m, after the sale of Lotos Parafiny, net debt decreased by only PLN 122m to PLN 6.9bn despite dollar loan revaluations totaling PLN 560m.

Further write-downs on Yme possible

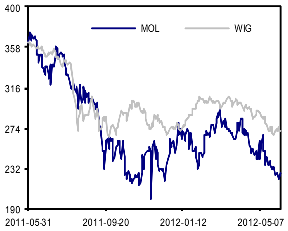
Lotos emphasizes in its Q1 report that Talisman, the operator of the Yme project, recognized high impairment losses on the project which necessitate recognition of additional provisions as high as PLN 300-400m by Lotos (the company has recognized PLN 240m charges so far). Lotos and Talisman are currently carrying a revaluation of the Yme project.

MOL (Hold)

Current price: PLN 226.8 | Target price: PLN 214.57

Analyst: Kamil Kliszcz
Last Recommendation: 2012-06-05

(HUF bn)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	4 299.7	5 343.2	24.3%	5 731.0	7.3%	5 296.9	-7.6%	Number of shares (m)	104.5
EBITDA	526.0	603.0	14.6%	540.4	-10.4%	631.3	16.8%	MC (current price)	23 704.9
EBITDA margin	*12.2%*	*11.3%*		*9.4%*		*11.9%*		EV (current price)	45 906.1
EBIT	245.5	253.2	3.1%	214.5	-15.3%	303.7	41.6%	Free float	31.3%
Net profit	104.0	153.7	47.8%	140.9	-8.3%	180.7	28.3%		
P/E	15.7	10.6		11.6		9.0		Price change: 1 month	*-12.8%*
P/CE	4.2	3.2		3.5		3.2		Price change: 6 month	*-3.9%*
P/BV	1.1	1.0		0.9		0.9		Price change: 12 month	*-38.0%*
EV/EBITDA	5.8	5.1		5.8		4.9		Max (52 week)	370.8
Dyield (%)	0.0	0.0		2.8		3.9		Min (52 week)	200.0



The MOL stock has now reached our target price, which is why we are closing our Reduce rating. Our scenario for the crude oil market has played out in full, with Brent crude prices falling by 15% since mid-April and approaching our expected USD 100/bbl. We still believe that given the very weak fundamentals for petroleum, investment in upstream companies is very risky, which is why within the industry we prefer Orlen, which should benefit from the correction in Brent crude prices through a medium-term improvement in margins. In the case of MOL, it will be very difficult to fill the gap left by lost gas and oil revenues. As time passes, risks are mounting for our baseline scenario of the Syrian project (resumption of cash flows).

USD 500-550m cost-cutting program

MOL has presented its new cost-cutting program for the refining segment, which is expected to boost its EBITDA by USD 500-550m by 2014. The program covers all elements of the segment's value chain, from oil selection, through the refining and petrochemical processes, to the wholesale and retail business. These savings would amount to ca. 17% of 2012 EBITDA. A tough stance on costs is a good idea, but we believe such programs need to be taken with a grain of salt, since their effects tend to be obscured by major shifts in refining macro.

MOL's Q1 2012 results miss expectations due to one-time losses

MOL's Q1 2012 EBIT exceeded the consensus estimate by 15% thanks to gains totaling HUF 35.9m generated on inventory revaluations and foreign exchange gains recorded by the Upstream segment. We had estimated the one-time gains at HUF 32.8bn, but the quarterly EBIT figure fell short of our expectations because of one-time charges posted by the Downstream segment (HUF 10.8bn toward fines and asset impairment losses at INA). Adjusted for this, Downstream profit amounts to HUF 77.3bn vs. HUF 78.1bn expected by us, i.e. there is no major surprise here. After adjustment for revaluation effects (inventories, oil payments) and petrochemical losses (HUF 10.5bn reported vs. HUF 7.8bn forecasted), the LIFO EBIT of the Downstream segment (after crisis tax) showed a loss of nearly HUF 5bn, higher than our anticipated loss of HUF 2.5bn, incurred on lower-than-expected volumes depressed by falling fuel demand observed in key markets (Hungary -4.6% y/y, Croatia -5.7% y/y). EBIT in the Gas Midstream segment came in line with expectations despite higher-than-expected gas trading losses incurred in Croatia (HUF 15bn vs. HUF 9bn), offset by better results generated by FGSZ which benefitted from higher transmission tariffs.

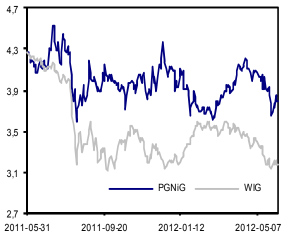
PGNiG (Reduce)

Current price: PLN 3.8 | Target price: PLN 3.69

Analyst: Kamil Kliszcz
Last Recommendation: 2012-01-16

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	21 281.2	23 003.5	8.1%	26 649.4	15.8%	29 195.9	9.6%
EBITDA	4 411.4	3 259.6	-26.1%	3 894.7	19.5%	6 676.7	71.4%
EBITDA margin	*20.7%*	*14.2%*		*14.6%*		*22.9%*	
EBIT	2 886.7	1 685.5	-41.6%	1 740.0	3.2%	4 325.1	148.6%
Net profit	2 453.7	1 626.8	-33.7%	967.6	-40.5%	2 899.7	199.7%
P/E	9.1	13.8		23.2		7.7	
P/CE	5.6	7.0		7.2		4.3	
P/BV	1.0	0.9		0.9		0.8	
EV/EBITDA	5.3	8.0		7.7		4.4	
Dyield (%)	0.6	3.2		2.3		2.2	

Basic data (PLN m)	
Number of shares (m)	5 900.0
MC (current price)	22 420.0
EV (current price)	30 053.5
Free float	27.4%
Price change: 1 month	*-6.6%*
Price change: 6 month	*-2.6%*
Price change: 12 month	*-10.0%*
Max (52 week)	4.5
Min (52 week)	3.6



While the price of the PGNiG stock has been travelling south in the past few weeks, approaching our target price, we believe that in relative terms it has not yet fully discounted the negative environment in which the Company currently operates. The drastic depreciation of the zloty vs. the USD will strongly impact earnings in Trade & Storage (all the more so that the Company is currently stocking), while another tariff hike is unlikely. In turn, falling crude oil prices are depressing the outlook for the Upstream segment, which has been the main earnings driver in the past few quarters, as well as the outlook for profit growth in 2013, when new crude oil mines are to be launched. Meanwhile, PGNiG is still perceived as a defensive company, despite its aggressive investment plans (PLN 27bn to be spent on hydrocarbon exploration by 2020!) and fairly high debt (2.5x EBITDA at the end of March). In this context, we reiterate our negative rating for the stock.

Government mulls earlier implementation of hydrocarbon tax

Poland's Finance Ministry is reportedly considering putting the hydrocarbon tax into effect right after gas price deregulation in 2013 rather than in 2015 when shale gas drilling is expected to commence throughout Poland. The hydrocarbon tax bill is set to be ready by the end of June 2012. An earlier imposition of the hydrocarbon levy would hurt PGNiG which would not be able to enjoy two years of deregulated commercial gas prices without paying additional charges. Much will depend on how the tax will be calculated. Our financial forecasts for PGNiG assume a 30% hydrocarbon tax rate starting in 2015.

PGNiG posts disappointing Q1 results across all segments

The EBIT of the Exploration and Production segment came in at ca. PLN 430m (we expected PLN 445m) after dry well costs of PLN 58m (we expected PLN 50m). The discrepancy vs. our forecast was caused by stronger deviations from oil sales price benchmarks. The Trade and Storage segment posted an EBIT loss of PLN 778m (we expected PLN 759m) despite a PLN 74m gain on gas cost hedges. The high loss may have been partly due to foreign exchange losses totaling PLN 187m of which PLN 90m were incurred on gas purchases and the rest on a loan extended to the Norwegian subsidiary (this portion of the FX losses was offset by cross currency swap hedging gains). In Distribution, on record volumes, EBIT was flat at the year-ago level at PLN 528m (we expected PLN 593m). PGNiG explains this with the accounting approach to customer receivables which are based on moving average usage from the preceding few months, leading to distortions in the way the higher volumes are reflected in revenues (expected to be eliminated in the second quarter). Negative tax on the Norwegian assets allowed PGNiG to reduce the discrepancy vs. our forecasts at the bottom-line level. PGNiG generated strong operating cash flow of PLN 1.9bn in Q1 2012 (vs. PLN 2.0bn in Q1 2011) in spite of trading losses and thanks to (seasonal) changes in working capital (PLN 1.5bn vs. PLN 1bn a year earlier). However, the Vattenfall asset acquisition and CAPEX totaling PLN 1bn brought the company's debt up to PLN 6bn, equivalent to 2.5 times annual EBITDA.

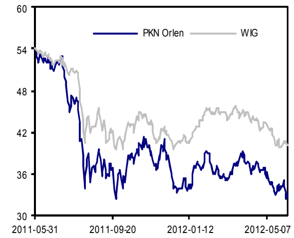
PKN Orlen (Hold)

Current price: PLN 33.04 **Target price: PLN 39**

Analyst: Kamil Kliszcz
Last Recommendation: 2011-11-17

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	83 547.4	106 973.1	28.0%	102 913.0	-3.8%	101 015.2	-1.8%
EBITDA	5 545.7	4 446.4	-19.8%	4 001.2	-10.0%	4 369.7	9.2%
EBITDA margin	*6.6%*	*4.2%*		*3.9%*		*4.3%*	
EBIT	3 123.0	2 066.5	-33.8%	1 545.6	-25.2%	1 883.6	21.9%
Net profit	2 371.7	2 363.4	-0.4%	1 196.2	-49.4%	1 432.3	19.7%
P/E	6.0	6.0		11.8		9.9	
P/CE	2.9	3.0		3.9		3.6	
P/BV	0.7	0.6		0.6		0.5	
EV/EBITDA	4.4	5.5		5.8		5.1	
Dyield (%)	0.0	0.0		8.9		4.6	

Basic data (PLN m)	
Number of shares (m)	427.7
MC (current price)	14 131.5
EV (current price)	23 146.3
Free float	72.5%
Price change: 1 month	*-6.8%*
Price change: 6 month	*-16.4%*
Price change: 12 month	*-36.8%*
Max (52 week)	53.3
Min (52 week)	32.3



After the very good April, the macro for the refining industry deteriorated in May, but may still be considered satisfactory, especially relative to the weak months that preceded and relative to last year. In our opinion, the recent decline in crude oil prices, even though it has been having the traditional negative impact on the prices of gas & oil companies, has a limited impact on the real value of Orlen. Moreover, in the medium term, lower crude oil prices could boost refining margins and reduce working capital needs. However, due to uncertainties in the global economy, we maintain our neutral approach to the stock for the time being. That said, it seems to be the most interesting pick within the industry.

Transneft to start maintenance work on pipeline to Mazeikiu Nafta refinery?

The Russian Transneft is planning to launch maintenance work on the stretch of the Druzhba pipeline that had provided Orlen's Mazeikiu Nafta refinery in Lithuania with crude oil until 2006. According to Transneft's spokesman, this stretch of the pipeline should be replaced in full. Needless to say, it would be a good development for Orlen if crude oil were to start flowing again through the pipeline, but this will not come soon if the entire infrastructure has to be replaced.

No dividends, updated strategy to be published after summer

Orlen's shareholders sided with the Management Board and decided to pay no dividends from 2011 profits. The Management is working on an updated strategy, which will include growth plans for upstream and power generation. For the time being, not concrete acquisition targets are being analyzed, but they will be considered when they appear (gas station networks, oil fields).

Police (Hold)

Current price: PLN 8.1 **Target price: PLN 10**

Analyst: Kamil Kliszcz
Last Recommendation: 2012-01-16

(PLN m)	**2010**	**2011**	**change**	**2012F**	**change**	**2013F**	**change**
Revenues	2 022.6	2 765.6	36.7%	2 647.2	-4.3%	2 409.6	-9.0%
EBITDA	79.8	336.3	321.5%	158.5	-52.9%	176.9	11.6%
EBITDA margin	*3.9%*	*12.2%*		*6.0%*		*7.3%*	
EBIT	5.4	257.7	4645.0%	86.5	-66.4%	105.2	21.7%
Net profit	27.4	311.9	1036.9%	76.2	-75.6%	86.2	13.2%
P/E	22.1	1.9		8.0		7.0	
P/CE	6.0	1.6		4.1		3.8	
P/BV	1.1	0.8		0.7		0.6	
EV/EBITDA	10.5	2.4		4.8		3.7	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	75.0
MC (current price)	607.5
EV (current price)	756.9
Free float	18.1%
Price change: 1 month	*-8.9%*
Price change: 6 month	*-19.4%*
Price change: 12 month	*-41.3%*
Max (52 week)	13.9
Min (52 week)	7.4

In May, the Police stock greatly underperformed the broad market in spite of the Company's better-than-expected showing for Q1. In our opinion this was caused by the deteriorating outlook for the NPK segment, as well as, paradoxically, by the tender offer for ZAT and the "parent company's" acquisition plans, which mean that ZAT itself will not be making a tender offer for the remaining shares in Police in the next few months. We are reiterating our negative outlook on the future of the fertilizer market in the upcoming quarters and therefore, despite the recent drop in the share price, we are not changing our neutral rating. Further signals confirming our negative scenario for the agro market will depress investor sentiment towards the industry.

USDA 2012/13 crop production forecast

The USDA has published its preliminary crop production forecast for 2012/2013 season. We see the corn market as the one setting the price trends for the coming months. Corn inventories in the US have been falling in recent years, supporting prices of corn as well as wheat (through substitution effects) despite a lack of price-driving fundamentals in the latter case. Wheat stocks remained high (the highest level in 10 years, 1% of consumption). According to USDA, in the 2012/2013 season corn stocks will increase by a whooping 19% y/y to PLN 152m driven by an 8.7% estimated increase in production fueled by larger sowing areas, mainly in the United States which account for 40% of the corn market. Note that the inventory builds will be accompanied by a 6.2% increase in consumption according to the USDA (vs. 2.2% in the 2011/12 season). The USDA's forecasts with respect to wheat are more conservative, predicting a decrease from 197mmt to 188mmt in inventories on lower production.

ZCH Police reports stellar Q1, mainly in fertilizers

ZCH Police's Q1 2012 EBITDA of PLN 82m came nearly 25% ahead of our estimate which was lower than the consensus estimate. The main earnings driver was the Fertilizer segment which generated EBIT of PLN 48m in the period on PLN 593m revenue. Despite weaker demand, ZCH Police sold 327 thousand tonnes of fertilizer in Q1, 13% more than we had anticipated. As predicted, the segment of Titanium White saw quarter-on-quarter contraction in EBIT to PLN 31.8 from PLN 46m due to a sharp increase in costs of raw materials accompanied by flat sales prices. Unit cost in the segment surged 27%, leading us to conclude that costs of titanium slag and ilmenite doubled in the period. Meanwhile, ZCH Police's report states that these costs were actually 2-3 times higher, indicating that they may increase even further in the second quarter after the company uses up the remaining stockpiles. Q1 2012 financing expenses amounted to PLN 10.6m (we forecasted PLN 5.7m), fueled by high FX losses of PLN 6.5m. These expenses were offset by higher-than-expected profits of subsidiaries accounted for under the equity method (Kemipol) which amounted to PLN 9.7m (a result not likely to have been achieved from core operations) vs. PLN 2m the year before. After all this, ZCH Police's Q1 2012 bottom-line profit beat our estimate by 40% at PLN 49.5m. One sour note in an otherwise sweet Q1 earnings season was a weak operating cash flow of a negative PLN 28m, caused by cash outflows into working capital (a considerable decrease in trade creditors). Combined with capital expenditure of PLN 14m, this led to an increase by PLN 52m to PLN 233m in ZCH Police's net debt.

ZA Puławy (Reduce)

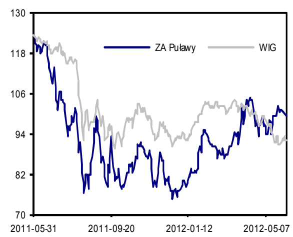
Current price: PLN 99.05 **Target price: PLN 96.6**

Analyst: Kamil Kliszcz

Last Recommendation: 2012-05-25

(PLN m)	2010/11	2011/12F	change	2012/13F	change	2013/14F	change
Revenues	2 882.3	3 983.8	38.2%	3 373.5	-15.3%	3 594.3	6.5%
EBITDA	413.6	835.0	101.9%	339.0	-59.4%	326.6	-3.6%
EBITDA margin	*14.3%*	*21.0%*		*10.0%*		*9.1%*	
EBIT	327.6	714.7	118.1%	203.7	-71.5%	181.7	-10.8%
Net profit	279.4	585.0	109.4%	175.1	-70.1%	171.6	-2.0%
P/E	6.8	3.2		10.8		11.0	
P/CE	5.2	2.7		6.1		6.0	
P/BV	1.0	0.8		0.8		0.8	
EV/EBITDA	4.4	1.9		5.4		5.5	
Dyield (%)	1.0	3.7		12.4		4.6	

Basic data (PLN m)	
Number of shares (m)	19.1
MC (current price)	1 893.3
EV (current price)	1 813.9
Free float	40.0%
Price change: 1 month	*3.2%*
Price change: 6 month	*19.3%*
Price change: 12 month	*-17.5%*
Max (52 week)	121.4
Min (52 week)	74.4



In the past few quarters, ZA Puławy (ZAP) benefitted from an unprecedented conjunction of two factors: strong momentum in the Agro business combined with record margins generated on caprolactam, resulting in windfall profits. Unfortunately, the outlook for the next fiscal year of 2012/2013, beginning on July 1st, is looking less rosy. We predict a sharp downturn in global prices of grain, accompanied by an economic slowdown in China, the coming on line of new caprolactam capacity, and hikes in natural gas prices, all conspiring to put downward pressure on ZAP's earnings results. We believe the emergence of an investor looking to buy into ZAP with approval from the Polish State Treasury is unlikely given the lack of resolutions regarding the Polish gas market. The recent tender offer for the shares of rival ZAT made by the Russian fertilizer producer Acron poses a potential threat to ZAP's competitive position in the domestic market. We are reiterating a reduce rating on the stock.

USDA 2012/13 crop production forecast

The USDA has published its preliminary crop production forecast for 2012/2013 season. We see the corn market as the one setting the price trends for the coming months. Corn inventories in the US have been falling in recent years, supporting prices of corn as well as wheat (through substitution effects) despite a lack of price-driving fundamentals in the latter case. Wheat stocks remained high (the highest level in 10 years, 1% of consumption). According to USDA, in the 2012/2013 season corn stocks will increase by a whooping 19% y/y to PLN 152m driven by an 8.7% estimated increase in production fueled by larger sowing areas, mainly in the United States which account for 40% of the corn market. Note that the inventory builds will be accompanied by a 6.2% increase in consumption according to the USDA (vs. 2.2% in the 2011/12 season). The USDA's forecasts with respect to wheat are more conservative, predicting a decrease from 197mmt to 188mmt in inventories on lower production.

Quarterly earnings in line with expectations after adjustment for one-offs

ZAP's earnings for Q3 2011/12 outperformed out expectations and market consensus, but in the former case this was primarily a consequence of PLN 31m other net operating profit, including PLN 24m gain on the acquisition of Azoty-Adipol. As we expected, the Agro segment reported strong earnings (PLN 139m vs. PLN 15m last quarter and PLN 194m one year ago), because negative pricing trends visible in the benchmarks did not affect the domestic market. In turn, earnings fell in Chemicals, with the EBIT falling by PLN 70m driven by the end of the record-strong margins on caprolactam on the one hand and continued deterioration in margins on melamine on the other. We did not observe major q/q fluctuations in financing operations. Cash flows from operations amounted to +PLN 197m, and they were affected by a major increase in receivables (+PLN 110m), which, coupled with high investment outlays (PLN 107.8m) and dividend payment (PLN 70m) prevented a material increase in net cash (PLN 362m at the end of March).

Power Utilities

Electricity demand rises 0.2% in April

Polish power usage rose 0.2% in April 2012 compared to the same period a year ago after a 1.9% decrease in March. The power output was down 0.4% due to a small reduction in exports from 0.4 TWh to 0.3 TWh. There is a continuing downtrend in the output of hard coal-fired power plants (-10% y/y), accompanied with increasing production by lignite-fired plants driven by a new unit and less downtime at the power plant complex in Bełchatów. Wind farms recorded a year-on-year volume increase of 0.1 TWh and a quarter-on-quarter decline of 0.1 TWh in April. Despite the strong year-on-year growth (an effect of 23% higher capacity and favorable wind conditions), wind has a small, 2.7% share in the total power output. The April data confirms the trends recorded in the previous months of 2012.

New proposals for renewable energy regulations

The Ministry of the Economy revealed the key principles of the new renewable energy bill. Relative to its earlier version, some "correction factors" have been changed (from 0.75 to 0.9 for wind, from 0.7 to 0.3 for biomass co-burning and from 0.95 to 1.15 for biomass). Biomass co-burning installations will receive support for five years only, which means that power utilities will lose a considerable portion of green certificates for co-burning already next year. In turn, support is likely to continue for most hydroelectric plants that were expected to lose all their certificates of origin in 2013.

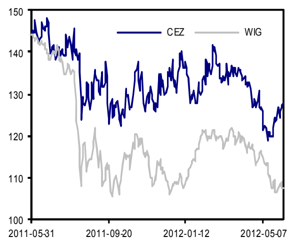
CEZ (Hold)

Current price: PLN 127.8 **Target price: PLN 124.9**

Analyst: Kamil Kliszcz
Last Recommendation: 2012-06-05

(CZK m)	**2010**	**2011**	**change**	**2012F**	**change**	**2013F**	**change**
Revenues	198 848.0	209 761.0	5.5%	213 244.4	1.7%	230 025.0	7.9%
EBITDA	89 089.0	87 312.0	-2.0%	89 786.0	2.8%	87 999.1	-2.0%
EBITDA margin	*44.8%*	*41.6%*		*42.1%*		*38.3%*	
EBIT	65 057.0	61 542.0	-5.4%	63 250.0	2.8%	60 677.8	-4.1%
Net profit	47 232.0	40 830.0	-13.6%	44 047.3	7.9%	44 854.8	1.8%
P/E	8.5	9.9		9.1		9.0	
P/CE	5.7	6.1		5.7		5.6	
P/BV	1.8	1.7		1.6		1.5	
EV/EBITDA	6.2	6.6		6.5		6.6	
Dyield (%)	7.0	6.7		5.7		6.0	

Basic data (PLN m)	
Number of shares (m)	538.0
MC (current price)	68 755.1
EV (current price)	100 056.4
Free float	29.3%
Price change: 1 month	*1.4%*
Price change: 6 month	*-5.1%*
Price change: 12 month	*-11.7%*
Max (52 week)	147.9
Min (52 week)	119.0



CEZ's performance in Q1'12 undershot our expectations somewhat. Moreover, investors started to be concerned about the impact of losses in Albania on the Company's ability to deliver this year's earnings guidance. That said, the stock performed much better than the industry on average, which is surprising given the Company's very high exposure to CO2 prices (CEZ will be getting significantly lower prices in 2013, which will not be offset by costs at nuclear plants). Since the downside potential vs. our target price is now miniscule, we are closing our reduce rating, although we do reiterate the view that Polish utilities seem much more attractive.

Q1 net profit slightly lower than expected

CEZ's Q1 2012 report shows slightly lower than expected net profit and higher than expected EBIT. A segmental breakdown reveals strong performance of the Power Generation segment whose EBIT of CZK 14.6bn topped our estimate of CZK 13.3bn, thanks partly to lower-than-expected CO2 emission allowances (+CZK 0.3bn), and partly to positive effects of a higher EUR/CZK exchange rate. In turn, Distribution did worse the anticipated with EBIT at just CZK 3.2bn vs. CZK 4.1bn forecasted weighed down by losses generated by the Albanian unit due to unfavorable regulation (CZK -0.8bn – we made an allowance for these losses in our Q1 forecast), combined with higher-than-expected costs connected with transmission losses (CZK -0.9bn). Other segments performed largely in line with predictions. CEZ booked financing expenses of a whopping CZK 1.8bn in Q1, contrary to expectations of neutral effects of financing operations. The bulk of these expenses stemmed from foreign exchange losses on derivative instruments and the debts of Romanian units. Q1 2012 net profit fell short of our expectations and the analysts' consensus. CEZ generated operating cash flow of CZK 16.1bn in the first quarter. With CAPEX at CZK 11bn, this enabled the company to reduce net debt to CZK 154bn (1.8 x EBITDA).

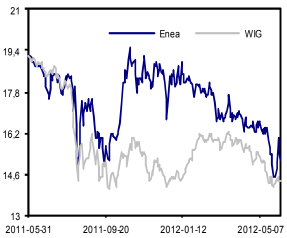
Enea (Accumulate)

Current price: PLN 15.13 **Target price: PLN 21.24**

Analyst: Kamil Kliszcz
Last Recommendation: 2011-11-04

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	7 836.9	9 690.1	23.6%	10 336.7	6.7%	11 135.9	7.7%
EBITDA	1 364.6	1 561.7	14.4%	1 746.3	11.8%	1 927.0	10.3%
EBITDA margin	*17.4%*	*16.1%*		*16.9%*		*17.3%*	
EBIT	712.0	850.7	19.5%	1 102.4	29.6%	1 192.0	8.1%
Net profit	639.3	801.2	25.3%	889.1	11.0%	905.6	1.9%
P/E	10.4	8.3		7.5		7.4	
P/CE	5.2	4.4		4.4		4.1	
P/BV	0.7	0.6		0.6		0.6	
EV/EBITDA	2.8	2.8		2.9		3.3	
Dyield (%)	2.5	2.7		3.2		0.0	

Basic data (PLN m)	
Number of shares (m)	441.4
MC (current price)	6 679.0
EV (current price)	5 084.2
Free float	21.8%
Price change: 1 month	*-9.2%*
Price change: 6 month	*-17.8%*
Price change: 12 month	*-20.8%*
Max (52 week)	19.5
Min (52 week)	14.5



The price of the ENEA stock was shaped by the current sentiment to the industry, with further negative impact from the recent declaration by the Minister of State Treasury that the privatization process will not be resumed until the Kozienice project becomes an "inseparable" element of the Company. Some investors assumed that ENEA would get a strategic investor before the end of this year. An expensive wind farm acquisition did not help either. All in all, at the end of the month the stock recovered most of the lost ground. We reiterate our positive rating, though we still consider Tauron and PGE more interesting alternatives.

Q1 earnings ahead of expectations

ENEA's first-quarter results came ahead of our estimates and analysts' expectations. EBITDA was PLN 56m higher than our forecast and PLN 37m higher than the consensus estimate, but EBIT was not that much ahead due to PLN 13m higher D&A expenses resulting from completed power plant upgrades. ENEA posted other operating income of PLN 8m provided by compensation for delayed coal and biomass deliveries and charge reversals. A breakdown by operating segment reveals better-than-expected performance of Power Generation where EBIT reached PLN 134m (we anticipated PLN 96.6m) thanks to higher biomass co-firing volumes and lower costs incurred by the power plant in Kozienice. Distribution also posted higher-than-expected EBIT of PLN 145m (vs. PLN 136m forecasted) thanks to a PLN 10m year-on-year increase in unbilled receivables. EBIT in the Trade segment was slightly lower than our PLN 47m estimate at PLN 42m. Financing income was also in line at PLN 35m (we expected PLN 28m). Operating cash flow amounted to PLN 176m vs. PLN 273m in Q1 2011 due to high outflows toward working capital (PLN -220m). Combined with CAPEX of PLN 387m and a second wind farm payment of PLN 203m (the price of the 50MW windfarm was PLN 476m, which is much even assuming a higher load factor of 34%; it figured to EUR 2.2m/MW), this led to a reduction in net cash by PLN 384m to PLN 1.9bn.

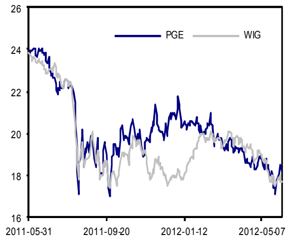
PGE (Buy)

Current price: PLN 18.18 Target price: PLN 23.07

Analyst: Kamil Kliszcz
Last Recommendation: 2012-03-05

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	20 476.5	28 111.4	37.3%	30 022.9	6.8%	32 033.3	6.7%
EBITDA	6 840.5	6 855.0	0.2%	8 338.1	21.6%	7 896.2	-5.3%
EBITDA margin	*33.4%*	*24.4%*		*27.8%*		*24.6%*	
EBIT	4 185.3	4 144.5	-1.0%	5 587.4	34.8%	5 114.4	-8.5%
Net profit	3 014.1	4 935.4	63.7%	4 459.1	-9.7%	3 931.7	-11.8%
P/E	11.3	6.9		7.6		8.6	
P/CE	6.0	4.4		4.7		5.1	
P/BV	0.9	0.8		0.8		0.8	
EV/EBITDA	5.1	4.4		4.0		4.8	
Dyield (%)	4.6	3.6		8.7		6.6	

Basic data (PLN m)	
Number of shares (m)	1 869.8
MC (current price)	33 992.7
EV (current price)	33 343.7
Free float	30.7%
Price change: 1 month	*-3.3%*
Price change: 6 month	*-9.8%*
Price change: 12 month	*-24.1%*
Max (52 week)	24.0
Min (52 week)	17.0



After a fairly weak start to the month, the price of the PGE stock closed the month higher than the broad index, but it does not seem that the market has discounted all the positive developments that emerged during the month (higher dividend with a 10% yield, strong earnings for Q1, no acquisition of Energa, positive rulings on long-term contract compensation, no further acquisitions of offshore wind farms). In our opinion, it is hard to justify PGE's current valuation at 3.5x EV/EBITDA and 7.6x P/E (6.9x ex-dividend) given the Company's current net cash and its likely growth (over PLN 8bn EBITDA vs. PLN 5.5bn CAPEX). We are reiterating a buy rating. Another positive catalyst could be the sale of shares in Opole power plant.

Court dismisses PGE's appeal on Energa

A competition court has dismissed PGE's appeal against the competition authority's decision to block the takeover of Energa. A further appeal is possible and PGE will decide within the next few weeks whether to pursue it. This is a positive development, because PGE was willing to pay an overly high price (given the current valuations in the industry and the risk that Energa's hydroelectric plant in Włocławek will lose green certificates).

CCS project suspended

PGE has decided not to launch the EUR 600m carbon capture and storage project at the Bełchatów Power Plant for now. The project will not get a green light until it receives appropriate support from the authorities, e.g. in the form of a special allocation of certificates.

PGE finds potential buyers for Opole power plant

PGE's VP Wojciech Ostrowski revealed that potential buyers had expressed interest in purchasing a 50% stake in the company's existing and planned power generation facilities in Opole. However, PGE is holding off negotiations until it obtains environmental approvals for the new power units. Mr. Ostrowski said further that PGE had not found attractive acquisition targets abroad, and that the Polish market offered much more interesting rates of return. As for PGE's nuclear power plant project, the company will decide on a financing model after it chooses the desired technology in about two years' time. The Opole power plant had a book value of PLN 1.5bn as of the end of 2011 (93.5%), implying PGE's value of PLN 1.6bn. Its sale would meet with market approval not so much as a source of big cash but as a move facilitating reduction of PGE's capital expenses on coal-fired power units which today are considered to be a major source of risk.

PLN 1.83 per-share dividend

Shareholders have approved a dividend payout in the amount of PLN 1.83 per share compared to PLN 1.32 per-share recommended by the Management Board. The record day is 22 August, with payout on 6 September. The payout will total PLN 3.4bn. At the end of Q1, PGE had PLN 5.4bn net cash.

Adjusted earnings in line

At PLN 1.82bn, PGE's Q1 2012 EBIT exceeded our estimates and analysts' expectations thanks to a boost of PLN 188m from "other operating activities." These activities included an adjustment to receivable long-term compensation to account for the recently won court cases (PLN 130m), combined with other compensation and charge reversals. At the same time, the company unexpectedly recognized PLN 91m costs related to its voluntary employee separation program already in the first quarter. Adjusted for the one-time events, the Q1 2012 EBIT is in line with our estimate and just 2.4% higher than the consensus estimate. By operating segment, Conventional Energy posted EBIT of PLN 1.3bn (we expected PLN 1.2bn) which included LTC compensation of PLN 56m (we expected PLN 62.5m). After LTC adjustments, severance provisions (PLN 77m), and a PLN 44m gain recognized on overdue certificates of origin (a won dispute with the energy regulator), EBIT is in line with expectations. EBIT came in line with predictions in Distribution (PLN 277m reported vs. PLN 278m forecasted), as well as Retail (PLN 56.5m vs. PLN 62m). The segment of Renewable Energy topped our PLN 26m estimate at PLN 41m (on higher revenue from system services), and EBIT in the Wholesale segment topped our PLN 56m estimate at PLN 73m (thanks to reversals of allowances for customer payments). Financing income came well ahead of expectations at PLN 115m (we expected PLN 45m) thanks to a PLN 41m gain on the sale of TGE and higher interest income. As a result, PGE's Q1 bottom-line profit topped expectations by a wider margin than EBIT. PGE generated strong operating cash flow of PLN 2.2bn in Q1 2012 (vs. PLN 0.7bn in Q1 2011), thanks partly to working capital of PLN 185m. After CAPEX of PLN 1.15bn and a refund of PLN 148m in miscalculated dividends to non-controlling shareholders, this resulted in a surge in net cash from PLN 1.2bn to PLN 5.4bn.

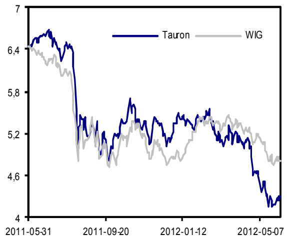
Tauron (Buy)

Current price: PLN 4.29 **Target price: PLN 7.44**

Analyst: Kamil Kliszcz
Last Recommendation: 2012-01-02

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	15 428.9	20 755.2	34.5%	25 380.5	22.3%	26 769.3	5.5%
EBITDA	2 758.0	3 023.0	9.6%	3 606.6	19.3%	3 579.5	-0.8%
EBITDA margin	*17.9%*	*14.6%*		*14.2%*		*13.4%*	
EBIT	1 399.3	1 611.5	15.2%	1 999.6	24.1%	1 725.0	-13.7%
Net profit	858.7	1 220.0	42.1%	1 356.8	11.2%	1 039.3	-23.4%
P/E	8.8	6.2		5.5		7.2	
P/CE	3.4	2.9		2.5		2.6	
P/BV	0.5	0.5		0.5		0.4	
EV/EBITDA	2.9	4.0		3.5		4.0	
Dyield (%)	0.1	3.4		5.1		3.6	

Basic data (PLN m)	
Number of shares (m)	1 752.5
MC (current price)	7 518.4
EV (current price)	12 719.9
Free float	59.6%
Price change: 1 month	*-4.2%*
Price change: 6 month	*-19.7%*
Price change: 12 month	*-33.7%*
Max (52 week)	6.7
Min (52 week)	4.1



The Tauron stock once again trailed other companies from the industry in spite of strong earnings for Q1, an increase in the consensus forecast for FY 2012 and the approaching high dividend (7.5% yield with record day on 2 July). The Management's declarations that the Company was not planning a stock offering did not help. In our opinion, given the current low CO2 prices and the positive earnings outlook for 2013, it is hard to justify the view that Tauron should be valued at multiples typical for mining companies with strong operating leverage, since the 'safe' business lines (distribution and heat) generate as much as 70% of its EBITDA. We stand by our positive rating and we would like to point out that in addition to fundamental factors, the stock might benefit from KGHM's plans to increase its exposure to Tauron.

Tauron wows with Q1 results

Tauron's Q1 2012 results beat all expectations, with EBIT topping our estimate by over 8% or PLN 43m. EBIT was supported by higher-than-expected LTC compensation recognized in the period (PLN 121m vs. PLN 90m), but on the other hand it was weighed down by higher D&A expenses (PLN 10m) and voluntary termination reserves of close to PLN 60m (PLN 43.6m for power generation employees and PLN 16.1m for distribution employees – we had estimated these charges at only PLN 50m). Adjusted for these charges, EBIT would have been about PLN 32m higher than our Q1 estimate. An analysis of Tauron's performance in a breakdown by operating segment is made difficult by the fact that the company established two new divisions in the first quarter, dealing with heat and customer service. If we look at the overall generation operations, comprising electricity and heat, their quarterly EBIT (adjusted for LTC and provisions) was over PLN 50m lower than in Q1 2011 due to 17% lower production volumes (affected by maintenance and limited RMR generation due to the launch of a new unit in Bełchatów). Keep in mind that Tauron offsets additional restructuring costs against LTC compensation, so EBIT adjustments to include full LTC amounts do not reflect the full potential of the power generation segment. EBIT came in line with expectations in the distribution segment (at PLN 231m vs. PLN 233m forecasted), and in the renewable energy segment (PLN 43m vs. PLN 40m). In the mining segment, EBIT came ahead of our PLN 19.2m estimate at PLN 22.7m, and it is worth noting that coal sales were lower than mining volumes by as much as PLN 10m (delayed to the next quarter). Higher-than-expected EBIT was posted by the trade segment (PLN 96m vs. PLN 80m) which saw additional margins from differences between CER and EUA price spreads.

Higher LTC compensation, no stock offering

Tauron's Management Board revealed during yesterday's earnings conference that it expected to receive over PLN 500m in LTC compensation this year. The Board dismissed the recent rumors that it was planning a stock issue. CEO Zawadzki announced that the long-term goal was to keep the debt/EBITDA ratio below 2.5x (the ratio is expected to be 1.5x by December) by reassessing it with each major investment project, and downsizing such projects if they threaten to being the ratio over the target. When it comes to financing, Tauron's focus at the moment are EIB agreements, but it also has commitments in place from banks willing to assist in increasing the current bond program.

Telecommunications

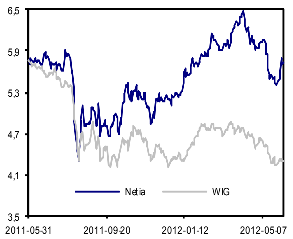
Netia (Hold)

Current price: PLN 5.72 **Target price: PLN 5.7**

Analyst: Piotr Grzybowski
Last Recommendation: 2012-06-05

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	1 569.3	1 618.8	3.2%	2 283.0	41.0%	2 274.7	-0.4%
EBITDA	586.4	611.5	4.3%	584.3	-4.4%	615.5	5.3%
EBITDA margin	*37.4%*	*37.8%*		*25.6%*		*27.1%*	
EBIT	285.8	302.7	5.9%	176.8	-41.6%	218.1	23.3%
Net profit	263.9	248.8	-5.7%	118.8	-52.2%	144.6	21.8%
P/E	8.4	9.0		18.7		15.4	
P/CE	3.9	4.0		4.2		4.1	
P/BV	1.0	0.9		0.9		0.9	
EV/EBITDA	3.2	4.5		4.7		4.4	
Dyield (%)	0.0	2.8		11.4		5.4	

Basic data (PLN m)	
Number of shares (m)	389.3
MC (current price)	2 227.0
EV (current price)	2 763.7
Free float	55.0%
Price change: 1 month	*-5.1%*
Price change: 6 month	*10.4%*
Price change: 12 month	*-0.5%*
Max (52 week)	6.5
Min (52 week)	4.3



Netia's earnings for Q1'12 disappointed both financially and operationally. In the upcoming quarters, however, we should see the first clear synergy effects stemming from the post-acquisition restructuring effort (but also its costs). As for the bid for TK Telekom, we believe Netia may find it hard to get a good price as its competitors include a consortium of IT Polpager and Hawe, and potential synergies may be more limited than in the case of Dialog and Crowley. After falling in May, the stock has reached our target price. Therefore, we are upgrading our rating to hold.

Weak showing for Q1

Q1 2012 is the first quarter when Netia's financials include the earnings of Dialog and Crowley consolidated for the entire period. Thus, we finally get a full picture of the new entity. The reported results are a disappointment. With revenues slightly higher than projected (PLN 544.3m vs. PLN 531m), the Company generated an EBITDA of PLN 124.1m and a net loss of PLN 9.8m, while we expected PLN 136.3m revenues and PLN 5.7m net profit. The reported EBITDA includes one-off takeover and restructuring expenses of PLN 8.6m, but the earnings are still weak, especially in terms of the subscriber base. In broadband, Netia added just 0.8 thousand users, which is the worst result since 2006, when the service was launched. The ARPU increased from PLN 56 to PLN 57 per month, but there is still no growth in revenues from this area vs. the preceding quarter (-PLN 1m with Dialog and Crowley consolidated on pro-forma basis). In voice services, the Company saw the biggest plunge in the number of subscribers in its entire history (-16.9 thousands), coupled with a fall in the ARPU in the Company's own network from PLN 50 last quarter to PLN 49. As for the widely-advertised TV access service, the addition of 11.1 thousand subscribers may be considered disappointing, all the more so than TV is expected to play a major role in Netia's strategy. We still believe that as the economy slows down, Netia will find it difficult to report growth in any segment. Traditional voice services will continue to erode.

No dividends this year

At an AGM to be held on 19 June, shareholders will vote on the Management's recommendation to retain 2011 profits in supplementary capital. After the publication of Q1'12 earnings, the Company announced that it had launched the next tranche of treasury share buyback capped at PLN 75m. Therefore, the fact that there will be no dividends does not come as a surprise.

Netia makes binding offer on TK Telekom

Netia and a consortium of IT Polpager and Hawe have reportedly submitted binding bids on TK Telekom, a subsidiary of PKP. News in line with expectations.

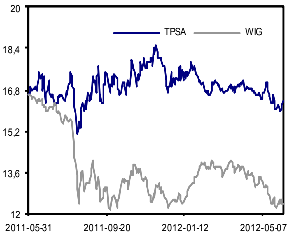
TP SA (Hold)

Current price: PLN 16.33 **Target price: PLN 17.4**

Analyst: Piotr Grzybowski
Last Recommendation: 2012-01-23

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	15 715.0	14 922.0	-5.0%	14 529.6	-2.6%	14 537.3	0.1%
EBITDA	4 700.0	5 984.0	27.3%	5 456.8	-8.8%	5 485.7	0.5%
EBITDA margin	*29.9%*	*40.1%*		*37.6%*		*37.7%*	
EBIT	908.0	2 217.0	144.2%	1 849.3	-16.6%	2 016.8	9.1%
Net profit	177.3	1 917.0	981.2%	1 199.0	-37.5%	1 347.6	12.4%
P/E	123.0	11.4		18.2		16.2	
P/CE	5.5	3.8		4.5		4.5	
P/BV	1.5	1.6		1.7		1.7	
EV/EBITDA	5.5	4.2		4.7		4.5	
Dyield (%)	9.2	12.9		9.2		7.4	

Basic data (PLN m)	
Number of shares (m)	1 335.6
MC (current price)	21 811.1
EV (current price)	25 751.6
Free float	45.0%
Price change: 1 month	*-0.7%*
Price change: 6 month	*-9.3%*
Price change: 12 month	*-2.6%*
Max (52 week)	18.5
Min (52 week)	15.1



TPSA had a disappointing first quarter, reporting a massive dent in the fixed-line and mobile voice subscriber base, not offset by a negligible number of broadband additions. Further, despite downsizing its workforce by 1800, the company recognized a very small decrease in payroll expenses compared to the same period in 2011, and incurred higher costs of purchases. In light of the steady erosion of the fixed-line business, TPSA's main advantage at the moment is high dividend yield close to 9%. We are reiterating a hold rating.

TPSA to sell 250 properties

TPSA is planning to sell over 250 office properties, retail locations, warehouses, and residential properties located across Poland. TPSA has been selling off its property holdings for a few years now. Therefore, this piece of news does not constitute a change vs. current market expectations.

TPSA sells PLN 350m real estate

TPSA has put up for sale real estate worth a combined total of ca. PLN 240m, and it is planning to list more properties with an estimated value of PLN 110m. The divestment plan has no deadline. TPSA has been selling off its property holdings for a few years now. Assuming the latest batch is sold at book value, its impact on the company's value is PLN 0.26 or about 1.5%. The real-estate proceeds are factored in most analysts' financial projections for TPSA.

Eurorating downgrades TPSA's rating outlook

Eurorating has downgraded TPSA's rating outlook from stable to negative to reflect the telecom's already weak liquidity being further weakened by dividend. The payment of damages to DPTG did put a dent in TPSA's liquidity, but we do not agree that the situation is as dramatic as implied by the rating downgrade (0.8x net debt/EBITDA). On the other hand, TPSA has been experiencing high churn in fixed-line voice services while its broadband customer base remains flat.

Media

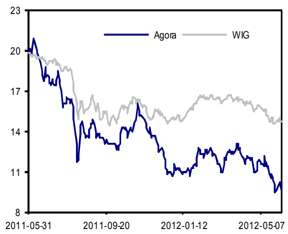
Agora (Buy)

Current price: PLN 9.6 | Target price: PLN 15.3

Analyst: Piotr Grzybowski
Last Recommendation: 2012-01-23

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	1 116.7	1 234.6	10.6%	1 220.3	-1.2%	1 250.6	2.5%
EBITDA	167.3	144.7	-13.5%	130.9	-9.6%	135.1	3.2%
EBITDA margin	*15.0%*	*11.7%*		*10.7%*		*10.8%*	
EBIT	84.9	51.9	-38.9%	40.8	-21.4%	43.6	7.0%
Net profit	71.9	42.2	-41.3%	30.3	-28.2%	33.6	10.8%
P/E	6.8	11.6		16.1		14.6	
P/CE	3.2	3.6		4.1		3.9	
P/BV	0.4	0.4		0.4		0.4	
EV/EBITDA	2.5	2.7		2.8		2.6	
Dyield (%)	5.2	5.2		5.2		5.2	

Basic data (PLN m)	
Number of shares (m)	50.9
MC (current price)	489.0
EV (current price)	370.4
Free float	73.2%
Price change: 1 month	*-17.9%*
Price change: 6 month	*-22.6%*
Price change: 12 month	*-51.1%*
Max (52 week)	20.8
Min (52 week)	9.5



As expected, Agora's earnings were indicative of problems stemming from the weak situation in the advertising market and the advertisers move away from print media. The Management Board is recommending a PLN 1 per-share dividend, which investors, who disapprove of many of Agora's acquisitions, should welcome, as it represents a desired alternative to acquisitions for the Company's excess liquidity. Nonetheless, the stock price remains under heavy downward pressure, as a result of which dividend yield is approaching 10.0%. Although we do see the situation in the advertising market as a real threat to future earnings, it should be remembered that Agora is not in debt and retains the ability to generate strong cash flows, which makes it the most interesting pick in the media industry. We are reiterating a buy rating.

Q1 2012 earnings

Agora's consolidated Q1 2012 results came in line with expectations, but a segmental breakdown revealed some major surprises. Our original assumption (which was in line with the analysts' consensus) was that we would see a large EBITDA drop in the Newspaper segment, partly offset by small increases in the segmental EBITDA results of Internet, Outdoor, and Radio. Meanwhile, Outdoor was the only line to report EBITDA increase from PLN 2.6m to PLN 3.0m, while Radio recorded a drop from zero to negative EBITDA of PLN 1.3m, and Internet saw a decline to PLN 2.5m from PLN 3.0m in Q1 2011. The Cinema segment also experienced stronger-than-anticipated contraction in EBITDA to PLN 8.6m from PLN 12.3m a year earlier. On a positive note, the deterioration in the Newspaper segment was not as pronounced as thought, with EBITDA coming in at PLN 24.0m after a year-on-year decline by PLN 4.3m. The differences between forecasted and reported Q1 results can be largely attributed to costs. Revenues came in line with expectations across all segments except Internet which reported zero topline growth. Outdoor revenue saw 2.9% year-on-year expansion in advertising revenue, and Radio enjoyed 6.2% growth. In turn, Newspaper advertising revenue displayed a downturn of 13.6% (including an 18.6% slump recorded by *Gazeta Wyborcza*), and Magazines ad revenue was down 7.2% relative to Q1 2011. It is possible that Agora recognized cost shifts between the different segments.

Summing up, we have a neutral view on Agora's performance in the first quarter. The company continues to be affected by a weak advertising market, and it is no longer able to compensate for the falling revenues by keeping a tight rein on costs. That said, this state of affairs is priced in the AGO stock price.

Newspaper circulation in March

In March, total paid circulation of Agora's *Gazeta Wyborcza* newspaper averaged 263,736 copies per day, marking a 15.3% drop from the same month in 2011. *Dziennik Gazeta Prawna*, a joint venture of Infor and Axel Springer Polska, saw its total paid circulation fall by 13.1% y/y to 86,988 copies, the tabloid *Fakt* experienced a 1.7% decline to 396,120 copies, and the *Super Express* tabloid recorded a 3.8% decrease to 169,400 copies, Daily circulation of the broadsheet Rzeczpospolita fell 13.9% to 116,069 copies. The March figures show a continuing decline in newspaper sales, particularly broadsheets.

Agora shareholders to vote on PLN 1 dividend

During an Annual General Meeting on June 22nd, Agora's shareholders will vote on payment of PLN 1-a-share dividends. The proposed record day is July 16th, and the payout would take place on August 3rd. The proposed distribution implies dividend yield of 10.6%.

Agora targeted for acquisition?

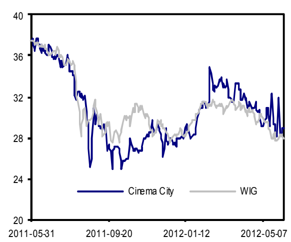
Puls Biznesu ran a story about Agora having been targeted for takeover by the businessman and print media investor Grzegorz Hajdarowicz. In our opinion, the story of Agora's takeover is highly unlikely. If it were to be true, however, such a deal would provide a considerable premium. Mr. Hajdarowicz paid PLN 135m for Presspublica, the publisher of among others the leading newspaper of record *Rzeczpospolita* and the business daily *Parkiet*. Taking into account the differences in scale between Presspublica and Agora, the latter's print media business alone is worth about PLN 300m. Agora's total EV is approximately PLN 400m.

Cinema City (Hold)

Current price: PLN 27.8 **Target price: PLN 33.5**

Analyst: Piotr Grzybowski
Last Recommendation: 2012-03-05

(EUR m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	234.5	267.5	14.0%	296.0	10.7%	323.7	9.4%	Number of shares (m)	51.2
EBITDA	56.2	50.1	-10.8%	61.7	23.1%	69.7	12.9%	MC (current price)	1 423.4
EBITDA margin	*24.0%*	*18.7%*		*20.9%*		*21.5%*		EV (current price)	1 571.7
EBIT	36.3	24.7	-32.0%	37.3	50.8%	44.6	19.7%	Free float	17.6%
Net profit	30.4	20.9	-31.1%	29.0	38.6%	35.5	22.3%		
P/E	10.7	15.5		11.2		9.1		Price change: 1 month	*-0.7%*
P/CE	6.5	7.0		6.1		5.4		Price change: 6 month	*3.0%*
P/BV	1.5	1.4		1.2		1.1		Price change: 12 month	*-21.2%*
EV/EBITDA	6.2	7.4		5.8		4.9		Max (52 week)	37.7
Dyield (%)	0.0	0.0		0.0		18.8		Min (52 week)	25.0



The second quarter is the low season for cinema attendance, and spring 2012 seems to be confirming this pattern. The accumulation of holidays (Easter, an exceptionally long 'May weekend') and fair weather have been reducing ticket sales. On the other hand, a new Wednesday promotion was launched in April in replacement of the "Orange Wednesday", as CCI's alliance with the telecom operator ended in late 2011. This new offer might help the Company recapture some of the market share. The current market price seems to be a fair reflection of the Company's value. We are reiterating a hold rating.

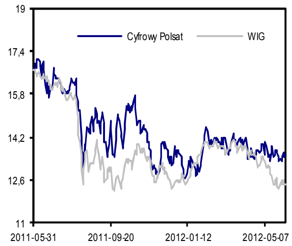
Cyfrowy Polsat (Hold)

Current price: PLN 13.5 **Target price: PLN 14.8**

Analyst: Piotr Grzybowski
Last Recommendation: 2011-10-13

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	1 482.5	2 422.7	63.4%	2 838.2	17.2%	2 919.7	2.9%
EBITDA	406.9	736.2	80.9%	856.8	16.4%	885.0	3.3%
EBITDA margin	*27.5%*	*30.4%*		*30.2%*		*30.3%*	
EBIT	325.8	562.0	72.5%	683.2	21.6%	692.0	1.3%
Net profit	258.5	159.7	-38.2%	393.0	146.1%	412.5	5.0%
P/E	14.0	29.4		12.0		11.4	
P/CE	10.7	14.1		8.3		7.8	
P/BV	8.5	2.5		2.2		2.0	
EV/EBITDA	14.7	9.4		7.8		7.3	
Dyield (%)	4.2	0.0		0.0		4.2	

Basic data (PLN m)	
Number of shares (m)	348.4
MC (current price)	4 702.8
EV (current price)	6 668.6
Free float	51.5%
Price change: 1 month	*0.0%*
Price change: 6 month	*-3.6%*
Price change: 12 month	*-19.6%*
Max (52 week)	17.1
Min (52 week)	12.7



Cyfrowy Polsat reported by far the best earnings among all the media companies. That said, in the upcoming months its broadcasting segment will be under pressure as the premium stemming from expanded reach expires while the pressure from small thematic channels increases, which will combine with the weakness of the advertising market to put a pressure on margins. On the other hand, the outlook for the Pay TV segment is much better. The launch of the multi-room service will boost ARPU and margins (the service generates minuscule costs). We are reiterating a hold rating.

Major positive surprise

Cyfrowy Polsat's (CPL) reported Q1 2012 results well ahead of our expectations and consensus estimates, with positive surprises in the pay-TV segment (165.4m EBITDA vs. PLN 147.0m forecasted by us and PLN 123.6m one year ago) and the broadcasting segment (PLN 92.0m vs. PLN 71.0m forecasted by us).

In the latter segment, the biggest surprise was seen in the markedly higher revenues, with advertising revenues at a staggering PLN 201.6m compared to PLN 187.3m forecasted by us (7.3% ahead of our expectations) Content expenses undershot our expectations by ca. PLN 5m.

In the pay TV segment, costs were responsible for the surprise with lower-than-expected licensing fees (PLN 100.1m vs. PLN 110.8m forecasted by us and PLN 113.2m in Q4 2011). Impairment charges on receivables were also lower than expected (PLN 8.1m vs. PLN 14.5m forecasted by us and PLN 20.2m one year ago).

Financing income undershot our forecasts just slightly (+43.1m vs. +40.7m), and the effective tax rate was also lower (16.7% vs. 19.0%).

The number of pay-TV subscribers increased by 1670 q/q, with an increase by 12.1 thousand for the Family packages and a decrease by 10.4 thousand for the Mini package, which is a natural trend as digital terrestrial television becomes more common. We expect that the Mini package will experience increasing pressure from this free-of-charge competition. In addition, the Company added 15.5 thousand new broadband users (to 88.7 thousand currently) and 1 thousand MVNO users (to 143.7 thousand).

To sum up, we are pleased with CPL's results. While the low impairment charges on receivables may artificially inflate earnings in the pay-TV segment, this factor is responsible only for a certain portion of the positive earnings surprise.

TV ratings for April

In the commercial demographic (16-49 years of age), Polsat saw its 24h ratings fall from 17.2% to 16.8% in April, while the ratings of the TVN channel decreased from 17.8% to 16.9%, TVP1 saw its ratings fall from 13.6% to 11.5%, and TVP2 from 12.2% to 10.3%. Network-wide figures were 23.4% for TVN vs. 21.2% for Polsat (no changes vs. April 2010), and a drop from 29.3% to 25.9% for public broadcasters. The April ratings are indicative of the ongoing trend toward market fragmentation (all the networks' general-interest channels are suffering heavy losses). Moreover, as we expected, the premium that Polsat's channels have been enjoying thanks to expansion in their reach is gradually waning, and comparable ratings changes are now seen for Polsat and TVN. We expect these trends to continue in the upcoming months. As the ratings of major general-interest channels decline, so will the earnings of Cyfrowy Polsat and TVN.

S&P affirms CPL's rating

Standard&Poor's has affirmed Cyfrowy Polsat's BB- rating. No impact on stock performance.

TVN (Accumulate)

Current price: PLN 8.1 **Target price: PLN 10.2**

Analyst: Piotr Grzybowski

Last Recommendation: 2012-06-05

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	2 490.7	2 466.1	-1.0%	2 779.8	12.7%	2 920.9	5.1%	Number of shares (m)	341.9
EBITDA	610.7	659.8	8.0%	713.8	8.2%	772.9	8.3%	MC (current price)	2 769.2
EBITDA margin	*24.5%*	*26.8%*		*25.7%*		*26.5%*		EV (current price)	5 027.1
EBIT	363.8	432.7	18.9%	456.9	5.6%	529.3	15.9%	Free float	43.7%
Net profit	42.8	-317.4		293.5		309.9	5.6%		
P/E	64.7			9.4		8.9		Price change: 1 month	*-11.9%*
P/CE	9.6			5.0		5.0		Price change: 6 month	*-18.6%*
P/BV	2.2	2.6		2.0		1.7		Price change: 12 month	*-52.7%*
EV/EBITDA	8.3	8.0		7.0		6.2		Max (52 week)	17.3
Dyield (%)	3.8	0.0		0.0		3.2		Min (52 week)	7.9

TVN's earnings for Q1 2012 confirmed that it is operating in a difficult macro environment which is resulting in a y/y drop in EBITDA across all segments. On the other hand, the Company announced the sale of a 75% stake in Onet for a price that implies a PLN 1250m valuation for the entire subsidiary, ahead of our fair value estimate that includes the expected synergies from cooperation with the TV segment (PLN 1100m), and ahead of market expectations for the transaction price (PLN 900-950m). Thus, the price in the transaction implies a PLN 0.75-0.85 per-share upside on earlier speculations. Moreover, the sale of Onet and the ensuing partial deleveraging may make Canal+ more willing to increase its interest in TVN. TVN's and ITI's heavy leverage was one of the major obstacles that prevented Vivendi and Canal+ from acquiring a majority stake in TVN. When debt decreases, they may reconsider and a tender offer could be a possibility. This would make TVN an interesting short-term pick, even though in the long term we still see it as very exposed to the changes that are taking place in the advertising market, especially the TV segment. We are upgrading our rating to accumulate.

Q1'2012

TVN's Q1 2012 results came mostly in line with expectations. The one figure which deviated from our estimate, resulting in a noticeable difference between the forecasted and the report bottom-line profit, was income from discontinued operations, as ITI Neovision reported generating a PLN 5.7m gain instead of our expected PLN 46.1m loss.

TVN's advertising revenue increased at a slightly smaller-than-anticipated rate of 1.2% from the year-ago figure (we expected 2.5% growth). The EBITDA of the TV segment decreased less than anticipated, falling from PLN 113.7m to PLN 105.8m (our estimate was PLN 102.1m). The Online segment reported 2.6% revenue contraction and an EBITDA decline from PLN 19.5m to PLN 18.1m (vs. our estimate of PLN 20.5m) caused by a small, 0.4% rise in revenue from display advertising combined with a transfer of TVN's programming content from Onet.pl to TVN Player.

The Pay TV segment expanded its EBITDA loss from PLN 2.1m a year earlier to PLN 5.6m in Q1 2012 despite a larger subscriber base (an increase from 830 to 966 thousand users) and due to new film contracts with Monolith and 20thCenturyFox.

Summing up, we have a neutral view on TVN's performance in the first quarter. The higher-than-expected net profit is an effect purely of the company's approach to accounting for discontinued operations (the Pay TV generated a PLN 49.8m operating loss, and the amount taken to calculate losses on discontinued operations was PLN 8.9m).

TV ratings for April

In the commercial demographic (16-49 years of age), Polsat saw its 24h ratings fall from 17.2% to 16.8% in April, while the ratings of the TVN channel decreased from 17.8% to 16.9%, TVP1 saw its ratings fall from 13.6% to 11.5%, and TVP2 from 12.2% to 10.3%. Network-wide figures were 23.4% for TVN vs. 21.2% for Polsat (no changes vs. April 2010), and a drop from 29.3% to 25.9% for public broadcasters. The April ratings are indicative of the ongoing trend toward market fragmentation (all the networks' general-interest channels are suffering heavy losses). Moreover, as we expected, the premium that Polsat's channels have been enjoying thanks to expansion in their reach is gradually waning, and comparable ratings changes are now seen for Polsat and TVN. We expect these trends to continue in the upcoming months. As the ratings of major general-interest channels decline, so will the earnings of Cyfrowy Polsat and TVN.

IT

e-Healthcare contracts yet to be signed

Puls Biznesu reports that the expected date of the signing of e-Healthcare contracts has been postponed. The Ministry of Administration and Digitization is allegedly putting pressure on the Finance Ministry to provide financing, but the latter wants to hear what the Public Procurement Office and the European Commission have to say first. A further delay would be bad news for the IT industry, because it raises concerns about the remaining public IT contracts. That said, these problems are by and large priced in due to the earlier reports on delays in tendering procedures.

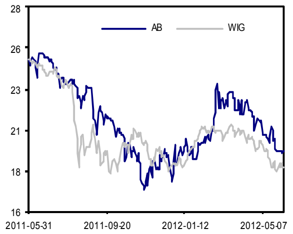
AB (Hold)

Current price: PLN 19.61 **Target price: PLN 22.5**

Analyst: Piotr Grzybowski
Last Recommendation: 2012-03-05

(PLN m)	2010/11	2011/12P	change	2012/13F	change	2013/14F	change
Revenues	3 564.4	3 671.8	3.0%	3 850.6	4.9%	4 059.8	5.4%
EBITDA	69.7	69.9	0.2%	73.4	5.0%	77.4	5.5%
EBITDA margin	*2.0%*	*1.9%*		*1.9%*		*1.9%*	
EBIT	60.9	61.1	0.4%	64.3	5.3%	68.1	5.9%
Net profit	51.7	40.3	-21.9%	43.5	7.8%	48.7	12.0%
P/E	6.1	7.9		7.3		6.5	
P/CE	5.2	6.5		6.0		5.5	
P/BV	1.0	0.9		0.8		0.7	
EV/EBITDA	6.8	6.5		6.0		5.5	
Dyield (%)	1.6	1.3		1.4		1.5	

Basic data (PLN m)	
Number of shares (m)	16.1
MC (current price)	316.6
EV (current price)	438.6
Free float	38.9%
Price change: 1 month	*-4.9%*
Price change: 6 month	*1.5%*
Price change: 12 month	*-21.6%*
Max (52 week)	25.3
Min (52 week)	17.3



AB's earnings were nominally in line with expectations, but cash flows surprised on the upside. It is now likely that our FY 2011/2012 net income forecast will be beaten by a wide margin, with the bottom line profit reaching PLN 48m. On the other hand, the very rapid growth in revenues of Poland's top IT distributors, coupled with stagnation in the overall market, means that the potential stemming from market share expansion will be gradually waning. We are reiterating a hold rating.

AB posts in-line Q1 profits, strong cash flows

AB's financial performance in the third quarter of fiscal 2011/2012 (first calendar quarter) was consistent with our forecasts. The highlight was a strong operating cash flow which amounted to PLN 43.0m, and helped reduce net debt from PLN 252.1m in Q4'11 to PLN 213.4m. AB's Polish operations generated quarterly revenue of PLN 639.9m and pre-tax income of PLN 6.1m. In the Czech Republic, sales amounted to PLN 303.8m, and pre-tax income came in at PLN 4.7m. Slovakia posted quarterly revenue of PLN 57.5m and pre-tax income of PLN 0.25m.

Summing up, AB had a good first quarter, particularly in terms of cash flows, but we do not expect its share price to skyrocket today as investor expectations were probably higher after last week's better-than-anticipated earnings reports of rival Action and ASBIS. AB shares performed steadily compared to the rallying prices of peer stocks, but investors may conclude that they had priced in expectations of considerably exceeded consensus estimates.

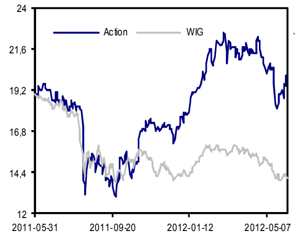
Action (Reduce)

Current price: PLN 20 **Target price: PLN 17.3**

Analyst: Piotr Grzybowski

Last Recommendation: 2012-03-05

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	2 105.9	2 804.8	33.2%	2 787.6	-0.6%	3 008.8	7.9%	Number of shares (m)	17.0
EBITDA	46.2	68.8	48.9%	64.0	-7.0%	66.8	4.5%	MC (current price)	339.1
EBITDA margin	*2.2%*	*2.5%*		*2.3%*		*2.2%*		EV (current price)	406.4
EBIT	34.6	57.3	65.9%	52.0	-9.3%	54.7	5.2%	Free float	36.8%
Net profit	25.8	42.4	64.5%	37.9	-10.7%	40.9	7.9%		
P/E	13.2	8.0		9.0		8.3		Price change: 1 month	*-0.7%*
P/CE	9.1	6.3		6.8		6.4		Price change: 6 month	*17.6%*
P/BV	1.8	1.5		1.3		1.2		Price change: 12 month	*6.3%*
EV/EBITDA	8.9	6.1		6.4		5.9		Max (52 week)	22.6
Dyield (%)	4.1	4.2		2.4		2.2		Min (52 week)	13.0



Action's earnings for Q1 2012 were a major positive surprise, showing that the Company is capable of sustaining strong earnings even in the face of less favorable F/X trends. The good start to 2012 makes us somewhat more optimistic as far as AB's prospects of delivering the Management's earnings guidance are concerned. That said, we still see these targets as ambitious given the highly uncertain economic future. Moreover, the trend towards market consolidation, whereby bigger player eliminate the small fry, might weaken in the upcoming quarters, affecting listed companies, which have been major beneficiaries of these developments. We are reiterating a reduce rating on the stock.

Q1 2012 earnings

Action's Q1 2012 results came ahead of expectations. At PLN 787.8m, quarterly sales were 45.9% higher than in Q1 2011 and 10.4% higher than we had anticipated. Like in preceding quarters, exports were the main revenue driver in Q1, increasing to PLN 257.9m from PLN 97.5m generated in the same period a year ago. The gross profit margin fell short of expectations at 6.0% (we expected 6.4%), while SG&A expenses of PLN 38.1m exceeded our PLN 31.9m estimate. At the same time, Action posted other operating income of PLN 6.1m (we expected a loss of PLN 1.0m), including PLN 4.5m FX gains (PLN 4.8m FX income and PLN 0.2m losses). Given that Action uses hedge accounting, this figure probably comes from ineffective FX hedges, but it seems it should have a "minus" sign in front considering that the first quarter was a period when the zloty appreciated, and assuming that the company should have entered into currency call options to complement its natural FX exposure. The ineffective portion of the hedges should have therefore resulted in FX losses in most cases. The gains reported instead are probably a coincidence and FX deviations from the quarterly volatility trends at times when the hedges were ineffective. Action generated negative operating cash flow of PLN 22.0m in Q1 2012, and it increased its working capital by PLN 35.3m. Net debt as of 31 March stood at PLN 110.9m.

Summing up, Action had a good first quarter. Our expectations of a rapid shrinkage in export profits due to the end of a premium on account of a weak zloty came true only to a limited extent. Export profits did decrease, but the margin dilution seems negligible in light of the scale of the exports.

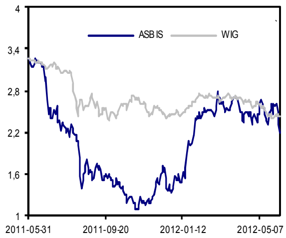
ASBIS (Hold)

Current price: PLN 2.32 **Target price: PLN 2.6**

Analyst: Piotr Grzybowski
Last Recommendation: 2012-03-05

(USD m)	2010	2011	change	2012F	change	2013F	change
Revenues	1 435.1	1 482.1	3.3%	1 533.7	3.5%	1 642.8	7.1%
EBITDA	12.4	18.7	50.7%	17.7	-5.5%	18.9	6.8%
EBITDA margin	*0.9%*	*1.3%*		*1.2%*		*1.1%*	
EBIT	9.4	15.7	66.1%	14.6	-7.0%	15.7	7.8%
Net profit	0.9	5.4	471.0%	5.2	-3.3%	6.0	13.6%
P/E	38.6	6.8		7.0		6.2	
P/CE	9.4	4.3		4.4		4.0	
P/BV	0.4	0.4		0.4		0.3	
EV/EBITDA	6.3	3.7		4.5		4.6	
Dyield (%)	0.0	8.9		8.6		9.7	

Basic data (PLN m)	
Number of shares (m)	55.5
MC (current price)	128.8
EV (current price)	280.4
Free float	65.4%
Price change: 1 month	*-11.0%*
Price change: 6 month	*48.3%*
Price change: 12 month	*-30.6%*
Max (52 week)	3.3
Min (52 week)	1.1



ASBIS surprised on the upside with its earnings for Q1 2012, thanks in part to a higher-than-expected positive impact of high hard disc prices. The results looked much weaker in cash-flow terms, but the Management argues that this should be fixed in the upcoming quarters. Because the impact of higher margins on hard drives should be waning, we do not expect the Company to surprise investors quite as much as it did in Q1. We are reiterating a hold rating.

Asbis reports good Q1 profits, weak cash flow

ASBIS's Q1 2012 results came ahead of expectations. especially at the bottom-line level. Net profit was influenced by higher financing gains and other operating gains (the net effect of financing operations was USD -1.9m vs. USD -2.4m forecasted), and a lower tax (the effective tax rate was 12.4% vs. 19% forecasted). The impact of foreign currency fluctuations on pre-tax income was just USD 0.2m, which is proof that ASBIS is employing much more effective hedging strategies. On the downside, ASBIS generated dismal cash flow in the first quarter. OCF was negative at a whopping USD -38.1m (compared to USD -33.1m posted in Q1 2011 when the company generated much weaker profits). Net debt increased from USD 1.8m to USD 40.4m in the course of the quarter.

Summing up, ASBIS had a solid first quarter with growing revenues experienced for the first time since Q2 2011. Note that the company continued to benefit from widened margins on hard drive sales (due to stoppages in Thailand) in the first quarter of 2012. As Thai manufacturers recover from the flood damage, these margins will contract.

USD 0.04 per-share dividend

Shareholders have approved a USD 0.04 per-share dividend payout from 2011 profits. The day of record will be 10 June, with the payout on 17 June. In line with the original proposal.

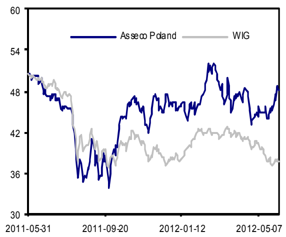
Asseco Poland (Buy)

Current price: PLN 48.28 **Target price: PLN 62.8**

Analyst: Piotr Grzybowski
Last Recommendation: 2011-05-27

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	3 237.7	4 641.3	43.4%	4 862.1	4.8%	5 117.8	5.3%
EBITDA	695.0	812.5	16.9%	844.3	3.9%	873.7	3.5%
EBITDA margin	*21.5%*	*17.5%*		*17.4%*		*17.1%*	
EBIT	569.0	660.0	16.0%	688.6	4.3%	715.3	3.9%
Net profit	415.1	389.3	-6.2%	421.2	8.2%	450.3	6.9%
P/E	9.0	9.6		8.9		8.3	
P/CE	6.9	6.9		6.5		6.2	
P/BV	0.6	0.6		0.6		0.5	
EV/EBITDA	6.6	5.8		5.3		4.8	
Dyield (%)	3.0	3.7		3.4		3.6	

Basic data (PLN m)	
Number of shares (m)	77.6
MC (current price)	3 744.9
EV (current price)	4 481.5
Free float	66.8%
Price change: 1 month	*8.9%*
Price change: 6 month	*3.3%*
Price change: 12 month	*-4.0%*
Max (52 week)	52.0
Min (52 week)	33.8



Asseco Poland reported strong earnings that confirmed the promising outlook for 2012. The order backlog as well, which amounted to PLN 4.19bn on 9 May, shows that in the current highly volatile economic environment Asseco Poland is a company with solid fundamentals, something which investors value a lot. In addition, investors should appreciate the (at least temporary) suspension of the strategy based on major international acquisitions as well as efforts to simplify Group structure (through the buyout of minority shareholders in Asseco Central Europe). As far as the NASDAQ debut plans are concerned, we believe that a successful public offering priced PLN 60 per share is an ambitious goal in the current uncertain times, which is why we are not factoring it into our forecasts for the time being. We are reiterating a buy rating.

Q1 2012 earnings

Asseco Poland posted better-than-expected first-quarter results thanks to the strong performance of the parent company which generated EBIT of PLN 87.3m vs. PLN 83.6m a year earlier and PLN 74.0m forecasted by us. Note that Q1 2011 EBIT had been boosted by settlement of an EU subsidy which had added about PLN 4m to the quarterly operating profit. At the same time, the contribution to consolidated EBIT provided by Formula Systems was lower than anticipated at PLN 37.5m (we expected PLN 42.0m vs. PLN 38.1m a year earlier). Formula started to consolidate the revenues of Sapiens (and its recent acquisitions IDIT and FIS International) again in February 2012. The results of Magic Software are also supported by acquisitions. At the same time, Asseco Poland uses a different approach to accounting for the D&A expenses of the Formula Group this year than last, resulting in a quarter-on-quarter increase of ca. PLN 5m in D&A expenses and charges against EBIT. In line with the company's own estimates, we had expected to see a PLN 13.7m gain in financing income from revaluation of Asseco's investment in Sapiens International. The actual gain proved lower at PLN 10.6m. As a result, the overall one-time additions to the Q1 net profit were about PLN 1.5m lower than anticipated. Asseco generated operating cash flow of PLN 217.5m in Q1 2012 compared to PLN 133.3m in the same period in 2011. The OCF of the parent company surged from PLN 29.2m to PLN 97.2m. Investing cash flow showed a PLN 250m outflow toward an allowance for Asseco's tender offer for Sygnity. At the same time, the consolidation of Sapiens added to the overall net cash position,

As a result, net cash amounted to PLN 253.3m at the end of the quarter vs. PLN 368.3m at the end of 2011.

Summing up, Asseco Poland had a decent first quarter with strong cash flows that marked a positive change from 2011 when the company was struggling to maintain healthy cash flows.

Tender offer extended through 27 June

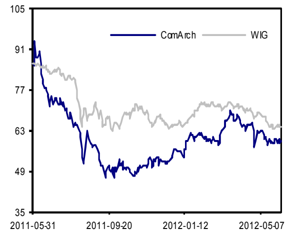
Asseco Poland has extended its tender offer for 100% of shares in Sygnity from 25 May through 27 June as the antitrust authority UOKiK is yet to approve the takeover. We have expected this. The current tender offer cannot be extended beyond 27 June. If the antitrust clearance is not in by then, Asseco will most likely make another offer.

ComArch (Reduce)

Current price: PLN 59.15 **Target price: PLN 45.9**

Analyst: Piotr Grzybowski
Last Recommendation: 2011-10-13

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	761.4	784.6	3.1%	825.3	5.2%	877.5	6.3%	Number of shares (m)	8.1
EBITDA	64.4	81.3	26.2%	64.8	-20.3%	70.9	9.4%	MC (current price)	476.3
EBITDA margin	*8.5%*	*10.4%*		*7.9%*		*8.1%*		EV (current price)	425.6
EBIT	24.8	39.6	59.7%	28.3	-28.7%	34.8	23.0%	Free float	38.1%
Net profit	43.7	37.5	-14.3%	32.1	-14.4%	34.5	7.6%		
P/E	10.9	12.7		14.8		13.8		Price change: 1 month	*-6.0%*
P/CE	5.7	6.0		6.9		6.7		Price change: 6 month	*11.8%*
P/BV	0.8	0.8		0.8		0.8		Price change: 12 month	*-32.8%*
EV/EBITDA	5.9	5.4		6.6		5.8		Max (52 week)	89.9
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	46.7



Comarch's earnings for Q1'12 failed to impress. We reiterate our view that the Company may be hard-pressed to improve on its 2011 earnings performance due to the very high costs of its diagnostic center (it does not have a contract with the National Health Fund, which means that the only revenues it will get will be from commercial activities) as well as due to the lack of one-off gains from the transfers of Cracovia soccer club players. The fact that Cracovia was relegated from the top tier of the Polish soccer league is also bad news, because it means that it will generate higher losses (no money from the sale of TV licensing rights). We are reiterating a reduce rating on the stock.

FY 2011 report

According to the financial report for FY 2011, Comarch generated revenues of PLN 785.7m, an operating profit of PLN 38.8m and a net profit attributable to the shareholders of the parent in the amount of PLN 36.3m. These figures are slightly lower than those presented in the Q4'11 report (PLN 784.6m, PLN 39.6m and PLN 37.5m, respectively).

Government contract

Comarch signed a contract for hardware and data infrastructure maintenance with the Agency for Development and Modernization of Agriculture (ARiMR). The PLN 28m (gross) contract is scheduled to run through 2014. The net value of the ARiMR contract is equivalent to 2.8% of our 2012 revenue estimate for Comarch.

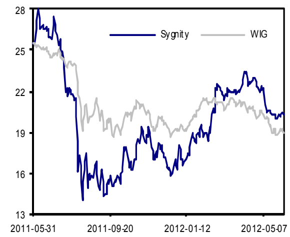
Sygnity (Hold)

Current price: PLN 20.29 **Target price: PLN 23**

Analyst: Piotr Grzybowski
Last Recommendation: 2012-03-05

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	524.0	566.0	8.0%	611.8	8.1%	655.6	7.2%
EBITDA	-7.5	23.4		43.5	86.1%	49.1	12.9%
EBITDA margin	*-1.4%*	*4.1%*		*7.1%*		*7.5%*	
EBIT	-34.3	8.0		27.6	245.2%	32.9	19.3%
Net profit	-42.8	8.2		17.2	109.8%	24.2	40.8%
P/E		29.5		14.1		10.0	
P/CE		10.2		7.3		6.0	
P/BV	1.1	1.0		1.0		0.9	
EV/EBITDA		11.3		5.8		4.7	
Dyield (%)	0.0	0.0		0.0		3.0	

Basic data (PLN m)	
Number of shares (m)	11.9
MC (current price)	241.2
EV (current price)	252.1
Free float	77.4%
Price change: 1 month	*-9.0%*
Price change: 6 month	*15.5%*
Price change: 12 month	*-23.8%*
Max (52 week)	28.0
Min (52 week)	14.0



Sygnity's earnings for Q1'12 disappointed, but the Management has reiterated its FY earnings guidance (PLN 580-620m revenues, 5-7% operating margin). The Company has not been able to sign its e-Healthcare contract so far, and we believe that in the light of the serious objections to the tendering procedure raised by the Public Procurement Office, this will happen with a delay of at least a few months. Meanwhile, Asseco Poland has extended its tender offer for 100% shares in the Company through 27 June, which should keep the share price at a level close to the price offered, i.e. PLN 21. We are reiterating a hold rating.

Sygnity posts dismal quarterly results

Sygnity had a very poor fifth quarter of fiscal 2011/2012, the main sources of disappointment being 1) general expenses, 2) financing expenses, 3) cash flows, 4) the rate of backlog growth. SG&A expenses proved much higher than anticipated at PLN 23.9m (we forecasted PLN 19.1m), and they showed an increase from the year-ago level of PLN 21.9m, when Sygnity had still not yet fully implemented its cost-cutting program. At PLN 2.1m, financing expenses were the highest since Q1 2011 when the company still had considerable short-term high-interest debt outstanding. The high losses incurred on Q5 2011/2012 financing operations included mainly hedging losses of PLN 0.8m. Interest expenses increased to PLN 1.9m from PLN 1.6m in Q4 2011 on heightened debt (March bond issue), in line with expectations. Adding to the bleak picture is a quarterly operating cash flow at a negative PLN 3.5m. Further, Sygnity's net debt soared from PLN 19.6m in Q4'11/12 to PLN 41.2m in Q5. Sygnity reported having an order backlog for calendar 2012 of PLN 320m at the moment, which is a mere PLN 60m more than the value reported at the end of 2011. The order book is currently thinner than in May 2011 when it stood at PLN 360m. Despite the dismal first calendar quarter, Sygnity reiterated its plans to generate EBIT margin of 5-7% on revenue of PLN 580-620m in calendar 2012. These seem to us very ambitious, and possibly unattainable, objectives.
Note that Sygnity deliberately moved its Q5 publication date to one day prior to the completion of the Asseco Poland tender offer for its shares.

Sygnity strikes partnership deal with Dell

Sygnity and Dell signed a partnership agreement to carry out joint projects in the area of cloud-computing, mobile solutions, and SME solutions. According to the agreement, Sygnity's "Quatra" solution dedicated to small and mid-sized businesses can be pre-installed on Dell computers. Sygnity's Management expect the partnership to generate revenue of PLN 50m over a two-year period. A partnership with Dell can help broaden Sygnity's reach and make it more recognizable in Poland, but it does not necessarily entail higher revenues in our view. We would take the PLN 50m revenue projection with a pinch of salt.

CEO on outlook for upcoming years

According to CEO Norbert Biedrzycki, in the next 2-3 years Sygnity's revenues will be growing at 7-8% p.a., while the EBITDA margin will go up to 8-10%, i.e. the benchmark for IT companies. At this time, such declarations are subject to considerable risks. Mr. Biedrzycki is basing his projections on projects which are at a very early stage of development (new proprietary solutions, alliance with Huawei).

Tender offer extended through 27 June

Asseco Poland has extended its tender offer for 100% of shares in Sygnity from 25 May through 27 June as the antitrust authority UOKiK is yet to approve the takeover. We have expected this. The current tender offer cannot be extended beyond 27 June. If the antitrust clearance is not in by then, Asseco will most likely make another offer.

Mining & Metals

JSW (Buy)

Current price: PLN 88.3 **Target price: PLN 127**

Analyst: Michał Marczak
Last Recommendation: 2012-01-23

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	7 288.9	9 376.8	28.6%	8 605.1	-8.2%	8 366.3	-2.8%	Number of shares (m)	119.2
EBITDA	2 770.5	3 576.9	29.1%	2 797.6	-21.8%	2 531.8	-9.5%	MC (current price)	10 526.1
EBITDA margin	*38.0%*	*38.1%*		*32.5%*		*30.3%*		EV (current price)	8 208.2
EBIT	1 946.9	2 732.6	40.4%	1 878.9	-31.2%	1 535.6	-18.3%	Free float	33.0%
Net profit	1 454.2	2 086.6	43.5%	1 472.3	-29.4%	1 204.7	-18.2%		
P/E	6.6	4.6		7.1		8.7		Price change: 1 month	*-3.2%*
P/CE	4.2	3.3		4.4		4.8		Price change: 6 month	*-1.7%*
P/BV	1.6	1.1		1.1		1.0		Price change: 12 month	
EV/EBITDA	2.9	2.1		2.9		3.2		Max (52 week)	141.5
Dyield (%)	1.4	2.8		5.9		4.2		Min (52 week)	81.3

Prices of steel are down to EUR 433/t in Europe, and the average price in the second quarter (EUR 504/t) is 4% lower than in the first quarter. This downward trend in steel is a harbinger of similar trends in coal and coke, most likely in the upcoming quarters as well (the analysts' consensus does not allow for this possibility, and JSW itself maintains that prices are leveling off). This scenario seems to be further confirmed by the data on imports prices from China. The price of Australian coal has gone up slightly after strikes began in coal mines. With coal prices steady, falling steel prices may lead to speculation on potential capacity shutdowns by steel producers, which would indirectly affect JSW as well. At the current share price level, given the lower-than-expected but still high dividend yield, JSW is a bargain. Looking ahead, however, the company's fundamentals contain no factors that could enable the stock to outperform the market. Such factors could include the implementation of economic stimuli in China which accounts for 47% of the global steel output.

JSW reports strong first quarter

JSW's Q1 2012 results came ahead of expectations. Revenue was 3.9% higher than a year earlier and 6.3% higher than in the quarter before at PLN 2.36bn, EBIT amounted to PLN 630.6m (-20% y/y), and net profit came in at PLN 497.2m (-18.6% y/y). This compares to our respective forecasts of PLN 2.0bn, PLN 0.43bn, and PLN 0.35bn. The main momentum driver in the period was the coke business. JSW had announced in March that its coke units were experiencing weak demand and working at just 80% of capacity. However, the Q1 report shows a coke output of 0.9mmt (+19% q/q) and sales volumes of the same size (+21% q/q). Moreover, the average sales price achieved in the quarter (PLN 1180/t, -4.1% q/q) was higher than could have been expected based on reports about falling prices of coking coal. In the end, the coke segment drove JSW's Q1'12 revenue PLN 200m over our estimate. In the coal segment, profits proved only slightly higher than expected thanks to higher volumes of steam coal. Like in the preceding quarter, JSW sold part of its semi-soft output in bundles with steam coal to increase its calorific value. The total quarterly coal output amounted to 3.7mmt (+6% q/q), including 2.5mmt of coking coal (+5.5% q/q) and 1.2mmt of steam coal (+6.8% q/q). The revenue generated by the coal segment totaled PLN 1.175bn, which was PLN 50m more than forecasted. Average revenue per tonne of coking coal (type 35 (86%) and 34 (14%)) amounted to USD 224 (-11% q/q), which was only USD 11 less than the Australian hard coal benchmark (USD 235/t, -17.5% q/q); the gap compared to the benchmark was in the range of USD 25-30/t in the two preceding quarters. At current benchmark price levels, we believe a 10-dollar gap can be sustained in a longer term. Aside from core operations, JSW's Q1 2012 report shows revenue from "other" operations (the company did not elaborate on the nature of these operations) which has doubled to PLN 113.6m from PLN 55.3m. Costs came in line with expectations. On higher volumes and sales, per-tonne production costs become diluted.

JSW disappoints with small dividend

JSW's shareholders sided with the Management Board's proposal that the company would pay dividends of PLN 5.38 per share (PLN 632m total). The record date is July 6th, and the payout will take place on July 24th. At the current price level, the implied gross dividend yield is 6%. We had expected a higher payout (PLN 8.5 per share), especially given that at the end of Q1 the Company had nearly PLN 2.8bn in net cash.

KGHM (Hold)

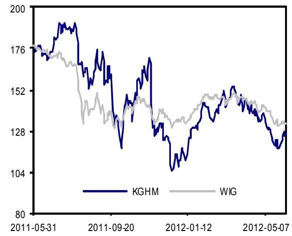
Current price: PLN 126.5 **Target price: PLN 151.5**

Analyst: Michał Marczak

Last Recommendation: 2012-03-05

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	15 945.0	20 097.4	26.0%	18 150.9	-9.7%	16 735.9	-7.8%
EBITDA	6 253.6	14 360.0	129.6%	7 864.6	-45.2%	6 168.4	-21.6%
EBITDA margin	*39.2%*	*71.5%*		*43.3%*		*36.9%*	
EBIT	5 638.1	13 687.6	142.8%	7 147.6	-47.8%	5 392.0	-24.6%
Net profit	4 568.6	11 334.5	148.1%	4 224.6	-62.7%	2 560.7	-39.4%
P/E	5.5	2.2		6.0		9.9	
P/CE	4.9	2.1		5.1		7.6	
P/BV	1.8	1.1		1.1		1.0	
EV/EBITDA	3.6	0.9		1.9		2.6	
Dyield (%)	2.4	11.8		15.8		5.9	

Basic data (PLN m)	
Number of shares (m)	200.0
MC (current price)	25 300.0
EV (current price)	15 215.3
Free float	68.0%
Price change: 1 month	*-6.4%*
Price change: 6 month	*3.5%*
Price change: 12 month	*-27.8%*
Max (52 week)	191.0
Min (52 week)	104.6



China's economic cooling and Europe's recession have caused a plunge in the prices of commodities, including copper. Our financial forecasts and valuation of KGHM are based on the assumption that copper prices will average USD 7300/t in Q3 and USD 6900/t in Q4, with the PLN/USD exchange rate at 3.2. We stand by these assumptions. As for when would be a good time to increase positions in KGHM, the June 28th General Meeting, which includes a dividend vote (we maintain the payout will be PLN 20/share), should give a boost to the share price. For our part, we are reiterating a neutral rating on KGHM until we know the outcome of the Greek elections and the response of central banks.

KGHM reports in-line Q1results

KGHM's standalone earnings for Q1 were in line with expectations, with revenue at PLN 5217m, EBIT at PLN 1757m, and net profit at PLN 1405m. This compares to our respective estimates of PLN 5023m, PLN 1932m, and PLN 1584m, and consensus estimates of PLN 5080m, PLN 2021m, and PLN 1402m. KGHM produced 134 thousand tonnes (kt) of copper (including 102kt primary copper) and 335t of silver in the firsts quarter of 2012. Sales amounted to 140kt for copper and 322t for silver, which was in line with expectations. The per-tonne cost of copper production amounted to PLN 14,637, i.e. it was 8% higher than last year. A loss on other operations in the amount of PLN 581m was mostly a consequence of F/X losses stemming from a buildup of funds ahead of the acquisition of Quadra FNX (a one-off). We had expected a PLN 250m loss here. KGHM also reported on the earnings of the former Quadra, now known as KGHM Int. In Q1'12, the miner produced 25kt of copper, 1.4kt of nickel, and 632 kg of precious metals, a result that is in line with the Management's full-year projection (100kt of copper). KGHM Int. generated revenue of USD 330m, EBITDA of PLN 74m, and a net profit of PLN 33m, in Q1 and these figures were also consistent with expectations.

Dividend proposal

KGHM's Management Board is recommending payout of 30% of the 2011 profits, which translates to a cash payment of PLN 3.4bn in total and PLN 17 per share. The proposed record date is July 16th, and the payout could take place on August 20th. According to unofficial sources quoted by the *Parkiet* daily, the Polish State Treasury may be pushing for a higher payout of 40% or PLN 4.8bn in total (PLN 24 per share). The vote is scheduled to take place during a General Meeting on June 28th. In our financial forecasts for KGHM, we assume a dividend payout of PLN 4bn (PLN 20 a share) – an amount which would fall midway between what KGHM can afford and what investors are expecting. KGHM is putting into motion a large-scale investment program, which includes construction of new mines in Chile and Canada (for PLN 6bn expected to be spent by 2015), in a market environment marked by uncertainty.

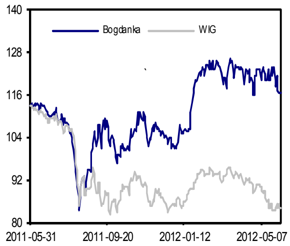
LW Bogdanka (Hold)

Current price: PLN 116.2 **Target price: PLN 132**

Analyst: Michał Marczak
Last Recommendation: 2012-03-05

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	1 230.4	1 301.3	5.8%	1 916.9	47.3%	2 479.6	29.4%
EBITDA	414.5	450.6	8.7%	722.5	60.3%	963.7	33.4%
EBITDA margin	*33.7%*	*34.6%*		*37.7%*		*38.9%*	
EBIT	276.5	265.7	-3.9%	404.3	52.1%	605.4	49.7%
Net profit	230.4	221.2	-4.0%	298.6	35.0%	463.5	55.2%
P/E	17.2	17.9		13.2		8.5	
P/CE	10.7	9.7		6.4		4.8	
P/BV	2.0	1.9		1.7		1.4	
EV/EBITDA	9.0	9.3		6.0		4.2	
Dyield (%)	0.0	1.2		1.7		2.3	

Basic data (PLN m)	
Number of shares (m)	34.0
MC (current price)	3 952.3
EV (current price)	4 370.1
Free float	33.0%
Price change: 1 month	*-5.0%*
Price change: 6 month	*10.2%*
Price change: 12 month	*3.2%*
Max (52 week)	126.4
Min (52 week)	83.2



Prices of steam coal as quoted at ARA ports are down to USD 88 a tonne, and Russian coal is trading at USD 80/t (9.5 million out of the total 14mmt of coal imported to Poland in 2011 came from Russia). At the same time, the recent depreciation of the Polish zloty relative to the US dollar means that coal imports are more expensive than a month ago even as global prices fall. That said, if these prices ease further, they will put pressure on LWB to lower its sales prices as well (a prospect which may materialize in 2013). We are reiterating a neutral investment rating for LWB due to uncertainty about future trends in global coal prices which are correlated with oil prices.

LWB posts stellar Q1 results

The 2012 first-quarter results of LW Bogdanka came well ahead of expectations on stronger sales volumes and higher sales prices. Revenue expanded 9.6% q/q and 54% y/y to PLN 477m, EBIT surged to PLN 119.3m from PLN 43.7m in Q4 2011, and net profit displayed year-on-year growth of a whopping 175% at PLN 99.1m. This compares to our respective forecasts of PLN 439m, PLN 85m, and PLN 66m. The main profit driver in the period was high revenue generated per tonne of coal sales which we had forecasted at PLN 211 (based on LWB's statement that Q1 revenue per tonne would be flat relative to the quarter before due to delayed deliveries to power plants priced at 2011 levels), but which reached PLN 221(+6% q/q). The difference between our forecast and the actual revenue translates to PLN 21m higher operating profit. Our FY2011 full-year per-tonne-revenue forecast assumes a quarterly level of PLN 227 in the following quarters, so there is no need for major revisions to our annual estimates. Also fueling LWB's profits in Q1'12 were higher-than-expected production and sales volumes. The company mined 2.18mmt of coal, 15% more than in Q4'11 (we estimated mine output at 2mmt), and it sold 2.08mmt (+4% q/q, +44.5% y/y). Coal inventories increased by 100 thousand tonnes to 125.6tmt. The Q1 2012 EBIT was weighed down by a one-time charge in the form of a PLN 25m allowance for additional payments to Mostostal Warszawa for extra construction work performed on a coal processing plant. LWB impressed with the cost side of its first-quarter operations. The estimated production cost of one tonne of coal fell 3.4% q/q to PLN 159, and the cash cost was down to PLN 121 per tonne – its lowest level since LWB's reporting history which began in Q1 2009. LW Bogdanka's stellar first-quarter results stand in contrast with an increasingly less favorable market environment.

Manufacturers

Manufacturing growth in Poland accelerated to 2.9% in April relative to the same month in 2011 (but contracted 7.5% from the month before) from 0.7% in March. Growth rates in preceding months amounted to 4.6% in February and 9.0% in January. Similarly as in March, sales increased in 22 out of the 34 subsectors of the manufacturing industry. The strongest growth was recorded in machinery and equipment (+18.9% y/y on a rising trend), chemicals (+11.4% y/y on a downward trend), and electrical equipment (+9.2% y/y on a rising trend). Year-on-year declines were recorded in coal mining (-13.7% y/y and falling), furniture (-9.8% y/y after a rebound), pharmaceuticals (-8.9% and falling), and vehicles (-6.8% y/y, marking an acceleration in an otherwise downward trend). Exporters continued to enjoy a growing momentum, except furniture makers who saw their output fall for the second month in a row. A surge in production was also reported by manufacturers of electrical equipment.

Leading indicators for the manufacturing industry suggest a bleak outlook for the future. Eurozone PMI fell below 45pts again in May (its lowest level since June 2009), and Germany's PMI hit 45 points (its lowest level since July 2009). PMI in France fell back to 44.4pts after an increase in April. PMI Poland was below 50pts in November and December 2012, but rebounded over this mark in the first three months of 2012. May saw a decline to 48.9pts. If activity indicators for the German and Eurozone manufacturing sectors continue their declines, this means tougher times for Polish manufacturers. Exporters are benefitting from the zloty's weakness relative to the euro for the moment, but their business will contract once Germany reduces imports.

Against this backdrop, of the companies in our coverage universe, the brightest outlook lies ahead of the metal producer Impexmetal, and the metal processing company GK Kęty.

Our favorite stock picks in the sector of small manufacturers are the following: AC SA (FY’12 P/E 7.9; 6.0 EV/EBITDA), Bumech (4.5 P/E; 3.1 EV/EBITDA), Fasing (5.4 P/E; 3.7 EV/EBITDA), Polska Grupa Odlewnicza (6.6 P/E; 4.5 EV/EBITDA), Zamet Industry (10.2 P/E; 6.9 EV/EBITDA; 8.9% DY), and Zetkama (7.8 P/E; 5.1 EV/EBITDA). AC SA is a manufacturer of LPG autogas systems which can help Polish drivers save on fuel after the recent hike in the diesel excise tax. Some say demand for autogas systems is set to return to 2007-2008 levels this year. Bumech provides mine drilling services and manufactures road headers. It is currently benefitting form a pickup in mine investment in the Polish coal industry. The industrial chain manufacturer Fasing is also profiting from this trend. Polska Grupa Odlewnicza produces cast iron, cast steel, and spheroidal castings. Its orders and earnings have been on an upward trajectory since H2 2011. Zamet Industry manufactures custom-made, high-margin offshore drilling equipment. It ended 2011 with a strong order backlog which included contracts captured in Q4 2011 at favorable exchange rates. Its prospects for H1 2012 are strong. Zetkama manufactures industrial valves and fasteners. It has reported improving profits since H2’11, supported by operating leverage. The recent acquisition is expected to generate synergies.

We would also take a closer look at Berling (7.8 P/E; 4.7 EV/EBITDA), a distributor of cooling equipment.

AC Auto Gaz

2012 Q1 results

AC SA, the auto gas systems manufacturer, saw a 15.6% year-on-year increase to PLN 39.2m in Q1 2012 revenue. The gross profit amounted to PLN 11.6m (+7.3% y/y), and the gross margin shrunk to 29.6% from 31.9% in Q1'11 (while D&A expenses surged 26.2%). EBIT came in at PLN 6.7m, 0.9% more than in the same period the year before, and its growth was stumped by 13.6% higher administrative expenses (AC was negotiating an acquisition in Q1 and may have incurred one-time costs as a result). Q1'12 net profit was 4.1% higher than in Q1'11 at PLN 5.5m. Operating cash flow improved by 1% to PLN 8.0m. Overall, AC had a good first quarter. Based on our forecasts, the company's stock is trading at 2012E 7.9 P/E and 6.0 EV/EBITDA.

Berling

AGM motions include dividend proposal

Motions to be voted on at the AGM scheduled for 13 June include a proposal of a PLN 0.20 per-share dividend payout from 2011 profits (5.7% yield). The proposed record date is June 29th, and the payout could be made on September 14th. Based on our forecasts for 2012, Berling is trading at 7.8x P/E and 4.7x EV/EBITDA. The company has considerable cash resources, and its apparent change of stance on dividend distributions can help it regain the favor of investors.

Bumech

Material contract

Bumech announced that it had signed a PLN 37.0m contract with JSW for mining work as leader of a consortium whose other member is its subsidiary BTG. The fee is equal to 37% Bumech's 2011 revenue.

Fasing

CEO on 2012 outlook

Fasing's CEO Zdzisław Bik says he expects the mining chain supplier to generate over PLN 100m in standalone sales in 2012 (compared to PLN 93m in 2011). He believes 2012 can be another record year in terms of profits. Fasing is currently taking orders for delivery in November and December, meanwhile, its backlog acquisition in past years was typically for just one quarter ahead. Demand for mining equipment and tools is on an upward momentum according to the CEO, as evidenced by strong first-quarter results. Fasing plans to spend about PLN 50m on plant upgrades in the next three years. It is considering floating its Chinese joint venture in Shanghai or Shenzhen, and it is preparing further expansion in the Chinese market. Fasing exports about 70% of its output, and it is hoping to increase this ratio going forward. The company is planning to make a distribution to shareholders this year, with the per-share dividend higher than last year's PLN 0.2.

Fasing lands material contract

Fasing signed a mining chain supply contract worth PLN 17.5m with Beijing Huahai Machinery Ltd. of Beijing, China. The deliveries are scheduled to commence in January 2013. The contract accounts for 9.2% of Fasing's expected 2012 revenue.

Hutmen

2012 Q1 results

In Q1 2012, Hutmen generated revenue of PLN 235.5m, exceeding our estimate by 1.5% on 1.7% higher sales volume of 9,800 tonnes. EBIT came in at PLN 3.9m, beating our PLN 1.2m estimate. There was other operating income of PLN 0.9m provided by asset divestments. Despite a 3.8% year-on-year decrease in the zloty prices of copper, Hutmen's gross margin was lower than in Q1 2011 at 5.2% vs. 6.0%. The company explained that the first quarter was characterized by aggressive pricing practices employed by competition, with additional pressure on margins put by a less lucrative sales structure (a smaller share of high-margin copper tubes). Consequently, the Q1 2012 gross profit showed year-on-year contraction by 10.3%. Hutmen incurred a lower loss on discontinued operations in Q1 2012 (PLN 0.3m) than in the same period in 2011 (PLN 5.4m) thanks to restructuring of Temer (a process started in Q4'10) and the transfer of HMN Szopienice to the Impexmetal Group. Cash flows from operations were a negative PLN 5.8m after decreasing from the year-ago positive level of PLN 3.3m, led by a surge in accounts receivable (PLN -33.2m) and inventories (PLN -18.8m). We have a neutral view on Hutmen's performance in the first quarter. The most important takeaway for us is that the deterioration in profits was not so severe as to affect the Q1 earnings season of the parent company Impexmetal.

Zamet Industry

2012 Q1 results

Zamet's Q1 2012 revenue amounted to PLN 47.9m, representing a surge of 90.6% relative to the same period a year ago. Higher revenues triggered operational leverage, as a result of which EBIT figured to PLN 10.4m vs. PLN 1.3m in Q1'11. The bottom line amounted to PLN 7.7m vs. PLN 0.6m in Q1'11. The operating cash flow was strong at PLN 14.8m.

Zetkama

Zetkama issues FY2012 guidance

Zetkama's FY2012 financial guidance predicts a 10.4% revenue increase to PLN 264.3m, and pegs EBITDA at PLN 36.3m (-9.6% y/y after one-offs, +23.3% before one-offs) and net profit at PLN 21.1m (-20.0% y/y after one-offs, +34.6% before one-offs). The guidance assumes average EUR/PLN exchange rate of 4.25, and raw material costs at the level recorded in Q4'11. Based on the guidance, Zetkama is currently trading at 2012E P/E of 7.8 and EV/EBITDA of 5.1.

2012 Q1 results

The industrial valve manufacturer Zetkama saw a 25.8% year-on-year increase to PLN 73.1m in Q1 2012 revenue, fueled by the segments of fasteners (+30.1% y/y), automotive components (+32.4% y/y), and castings (+19.2% y/y). Gross profit amounted to PLN 18.6m (+47.7% y/y), and the gross margin increased to 25.4% from 21.6% in the same period a year ago. EBIT came in at PLN 9.4m after 94.0% y/y surge, and net profit displayed 81.7% growth to PLN 6.4m. Operating cash flow was a negative PLN 1.2m (vs. PLN +3.0m in Q1'11) due to a PLN 2.8m increase in inventories and a PLN 13.3m increase in receivables. Net debt at the end of the quarter stood at PLN 38.9m after a decrease of PLN 4.1m relative to the preceding quarter.

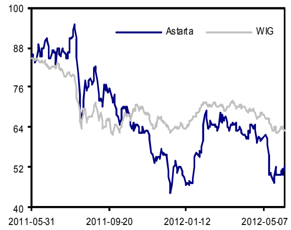
Astarta (Hold)

Current price: PLN 51.95 **Target price: PLN 56.1**

Analyst: Jakub Szkopek
Last Recommendation: 2012-06-05

(UAH m)	2010	2011	change	2012F	change	2013F	change
Revenues	2 328.2	3 400.1	46.0%	4 261.4	25.3%	4 207.7	-1.3%
EBITDA	1 051.4	1 257.8	19.6%	1 250.5	-0.6%	1 461.0	16.8%
EBITDA margin	*45.2%*	*37.0%*		*29.3%*		*34.7%*	
EBIT	911.7	1 078.3	18.3%	1 046.3	-3.0%	1 236.0	18.1%
Net profit	834.9	1 008.5	20.8%	850.1	-15.7%	1 044.6	22.9%
P/E	3.6	3.0		3.5		2.9	
P/CE	3.1	2.5		2.8		2.4	
P/BV	1.4	0.9		0.7		0.6	
EV/EBITDA	4.0	4.0		4.3		3.5	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	25.0
MC (current price)	1 298.8
EV (current price)	2 350.7
Free float	32.0%
Price change: 1 month	*-15.1%*
Price change: 6 month	*-8.9%*
Price change: 12 month	*-38.4%*
Max (52 week)	94.9
Min (52 week)	44.4



After a 15% plunge in May led by weak first-quarter results, Astarta's share price is back at levels that accurately reflect the trends in Ukrainian prices of sugar, which are currently 39% lower than in the same period in 2011 (milk prices are down 17% from the year-ago levels). Astarta is expected to report weak financial results for the second quarter of 2012 relative to a high Q2 2011 base. Its outlook is further worsened by the economic situation in the Ukraine. While the hryvnia is not likely to undergo any rapid depreciation ahead of the EURO 2012 UEFA Cup and the October elections, its value relative to the US dollar will probably fall after these events. Astarta had an equivalent of UAH 1.4 billion in dollar-denominated debt as of 31 December 2011. We estimate that a 10% depreciation of the UAH vs. USD can bring the company's ratio of net debt to 2012E EBITDA up by 0.11x (resulting in a loss of value of PLN 2.22/ share). We are upgrading AST from reduce to hold after the recent price decline near our target.

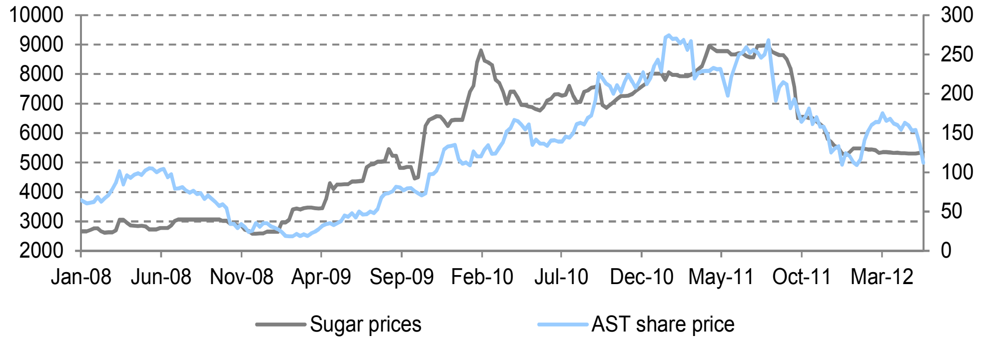
Astarta posts weak Q1 results

At UAH 694.8m, Astarta's Q1 2012 revenue was 10.2% lower than we anticipated and 25.5% higher than in Q1 2011. Sugar sales amounted to UAH 338.1m, exceeding our estimate by 11.8% thanks to 9.8% higher-than-expected sales prices. Grain sales beat expectations by 24.2% on 25% higher volumes. Astarta did not disclose in the Q1 report how much grain exactly it had sold in the first quarter, but it did reveal that sales prices in Q1 2012 were lower than in Q1 2011. Sales generated by the milk segment were largely in line with expectations. The consolidated Q1 2012 gross profit (without taking into account fair value remeasurements of biological assets) came 12.9% ahead of expectations at UAH 261.2m. The gross profit margin showed year-on-year contraction from 46.6% to 37.6%, but it topped our 29.9% estimate. The high sales profits and margins were owed to higher-than-anticipated grain sales which generated average gross margins of an estimated 34%, compared to margins of 22% provided by sugar sales. What raised our concerns was an 81.8% y/y surge in Astarta's selling expenses, which were 37.0% higher than forecasted (the combined milk, sugar, and grain volumes sold in the period were 60% higher than the year before), combined with a 41% increase in administrative expenses (which were 35.6% higher than forecasted). First-quarter biological asset revaluations resulted in a UAH 5.7m gain, UAH 1.1m higher than anticipated. Surprisingly, despite a 15.5% drop in milk prices in the course of the quarter, Astarta recognized an UAH 11.6m gain on livestock revaluations. This was contrary to the company's own estimates that a 10% drop in milk prices results in revaluation losses of UAH 63.3m on average. This makes us anticipate higher valuation charges in the following quarters. Astarta's Q1 2012 EBIT of UAH 131.2m was 14.9% lower than we had forecasted and 44.6% lower than in the same period in 2011. Note that the company's D&A expenses displayed a 60% y/y surge and exceeded our estimate by 25%. A net income of UAH 91.9m fell 23.6% short of expectations and showed 58.2% year-on-year shrinkage. Operating cash flow amounted to UAH 23.0m (vs. UAH 90.6m in Q1'11, and the ratio of OCF to EBITDA was only 11.8%. Like in all the quarters before counted from Q2'10, net debt increased to UAH 2182.3m (1.9x 12M EBITDA). Summing up, Astarta had a disappointing first quarter which saw worrying growth in SG&A expenses. Profits fell short of expectations and relative to last year despite revaluation gains recorded despite lower milk prices. Cash flows are on a downward trend, while net debt continues to increase.

Share price back in tune with fundamentals

Astarta shares are again trading at levels consistent with the price trends in Ukrainian sugar prices.

Astarta share price (UAH/share) vs. Ukrainian sugar prices (UAH/t)



Source: BRE Bank Securities, Bloomberg, Agroperpectiva

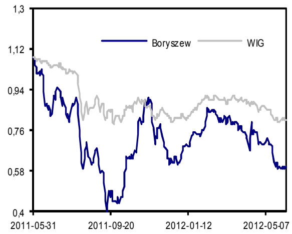
Boryszew (Hold)

Current price: PLN 0.6 | Target price: PLN 0.65

Analyst: Jakub Szkopek
Last Recommendation: 2012-06-05

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	3 134.8	4 332.8	38.2%	4 618.0	6.6%	4 681.0	1.4%
EBITDA	268.3	351.0	30.8%	304.1	-13.4%	301.3	-0.9%
EBITDA margin	*8.6%*	*8.1%*		*6.6%*		*6.4%*	
EBIT	188.1	253.3	34.7%	199.8	-21.1%	199.4	-0.2%
Net profit	93.9	145.3	54.8%	90.5	-37.7%	94.4	4.2%
P/E	7.2	9.3		15.0		14.3	
P/CE	3.9	5.6		7.0		6.9	
P/BV	1.1	1.6		1.4		1.3	
EV/EBITDA	6.5	6.9		7.8		7.4	
Dyield (%)	0.0	0.0		0.0		2.8	

Basic data (PLN m)	
Number of shares (m)	2 256.7
MC (current price)	1 354.0
EV (current price)	2 359.7
Free float	36.2%
Price change: 1 month	*-15.5%*
Price change: 6 month	*-15.5%*
Price change: 12 month	*-42.3%*
Max (52 week)	1.0
Min (52 week)	0.4



Since its inclusion in the WIG20 index on March 16th, Boryszew's stock has lost over 25% of its value, underperforming the index which fell 13%. We reckon the company is poised for a rebound after such a deep plunge, supported by an expected increase in the WIG20. Between January and April 2012, Boryszew's main customer VW Europe sold 0.9% fewer cars than in the same period a year ago (VW's global sales were up 8.6%). Daimler reported a 4.1% increase in sales, and BMW experienced an uptick of 0.5%. Boryszew's segment of automotive components would benefit from a downtrend in oil prices (the plastic component suppliers AKT, Theysohn, and Ymos) and rubber prices (the rubber tube manufacturer Maflow). We are upgrading our rating for BST from reduce to hold now that the stock price has hit our target.

Boryszew posts weak core Q1 2012 results

Boryszew’s sales revenues amounted to PLN 1194.3m in Q1’12, ca. 5.3% more than we expected. The source of the discrepancy lies in "other chemical products” (Boryszew ERG, +11.1% vs. our forecast) and Impexmetal (+18.6%). Sales undershot our expectations for polymers and polyesters (Elana, Elana PET, Elana Energetyka and Torlen, -12.3%) and the automotive segment (-9.0%). Other operating income amounted to PLN 21.8m vs. PLN 27.3m expected by us. Contrary to our expectations, the company did not recognize a major revaluation of Ymos, which it bought in Q1’12 (+PLN 3.7m vs. +PLN 25.0m expected). Boryszew did book PLN 5.5m in reversed provisions for client complaints at Maflow Brazil, and PLN 4.5m in reversed impairment charges on receivables. The company also recognized PLN 3.2m from the sale of green certificates by Elana Energetyka (+PLN 2.3m). Operating profit excluding other operating income was PLN 36.2m (-16.4% vs. our projection) due to a weaker performance by Impexmetal (by 7.8%, mostly in consequence of higher D&A charges) and the automotive segment, whose adjusted earnings undershot our projections by 18.9%. Financing losses were over twice as high as we expected after the company booked PLN 8.4m F/X losses (we expected +PLN 2.5m in hedging and F/X gains). The tax rate was low at 9.7% (vs. 17.8% in Q1'11). At PLN 25.1m, the bottom line was 42.9% lower than we expected. After Q1, Boryszew generated 26.3% of the FY2012 revenues forecasted by us, 20.1% of the EBITDA, 18.3% of the EBIT and 14.1% of the net profit. One positive aspect of the Q1 are operating cash flows. Although they amounted to PLN -9.1m (vs. PLN +3.6m one year earlier), it should be noted that Impexmetal generated negative cash flows of PLN 20.7m, which means that the other companies in the group generated PLN 11.6m cash. Otherwise, however, Boryszew's first-quarter earnings, even after one-offs, were a source of disappointment.

Shareholders vote in favor of major changes

Boryszew’s shareholders decided to appoint Piotr Szeliga to the post of CEO. Prior to that, Mr. Szeliga led Boryszew's subsidiary Impexmetal. The Management Board will also comprise Miłosz Wiśniewski and Paweł Miller (the latter was also a member of the outgoing Board). Management Board members Kamil Dobies and Robert Bednarski were not reappointed. Małgorzata Iwanejko, who used to be the CEO of Boryszew, was appointed CEO of Impexmetal. In addition, Sebastian Bogusławski was appointed to Boryszew's Supervisory Board. In other news, Impexmetal’s shareholders decided to allocate the entire profit for 2011 to supplementary capital, contrary to the Management's recommendation of a PLN 40m dividend payout (PLN 0.20 per share). In our last research update for Impexmetal, we predicted that dividend for 2011 would amount to PLN 0.20 per share, but also speculated that Boryszew may decide to increase the subsidiary's payout, perhaps even by profits from prior years. Instead, the shareholders decided to retain the entire profit. The Chairman of Boryszew’s Supervisory Board, Arkadiusz Krężel, says that Impexmetal will not pay a dividend because it needs funds for growth. The company will either enter the rare earths exploration business, carry out an acquisition, or team up with aluminum producers. The reshuffle at the top comes at a surprise. It is worth noting that as CEO of Impexmetal, Mr. Szeliga has been well-perceived by the markets.

Bond issue

Boryszew announced that a subsidiary had acquired 63 registered bonds with nominal value of PLN 1m each (issued at PLN 63m). The bonds mature on 31 August 2013. 30 May 2012 was the maturity date for one of the tranches of bonds issued to Impexmetal (PLN 61.8m). Most likely, the latest issue represents a rollover of that debt.

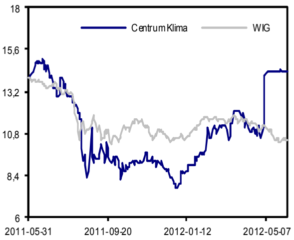
Centrum Klima (Sell)

Current price: PLN 14.4 **Target price: PLN 14.4**

Analyst: Jakub Szkopek
Last Recommendation: 2012-05-09

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	84.5	93.2	10.3%	102.8	10.2%	105.9	3.0%
EBITDA	10.3	13.5	31.8%	15.4	13.8%	15.9	2.9%
EBITDA margin	*12.2%*	*14.5%*		*15.0%*		*15.0%*	
EBIT	7.9	10.4	31.4%	11.9	14.9%	12.4	4.1%
Net profit	6.6	8.1	21.8%	9.3	14.9%	9.9	6.5%
P/E	18.5	15.1		13.2		12.4	
P/CE	13.6	10.9		9.6		9.2	
P/BV	1.8	1.7		1.6		1.5	
EV/EBITDA	12.4	9.0		8.1		7.7	
Dyield (%)	3.1	3.1		3.5		4.6	

Basic data (PLN m)	
Number of shares (m)	8.5
MC (current price)	122.7
EV (current price)	124.5
Free float	33.8%
Price change: 1 month	*1.0%*
Price change: 6 month	*55.0%*
Price change: 12 month	*1.3%*
Max (52 w eek)	15.0
Min (52 w eek)	7.6



After purchasing a 51.8% stake in Centrum Klima from controlling shareholders Marek Perendyk and Wojciech Jakrzewski, Lindab AB announced a tender offer to acquire the remaining 48.2% interest at PLN 14.50 per share (the same price as was offered to the controlling shareholders). The tender price is 29% higher than CKL's closing price as of 27 April and 39% higher than the six-month volume weighted average price. Based on Lindab's offer, Centrum Klima is trading at 2012E P/E of 13.3 and EV/EBITDA of 8.1, showing a discount of 0.5% and a premium of 11.9%, respectively, to peer averages. Further, after taking into account the PLN 0.95-a-share dividend distributed from 2010 and 2011 earnings, Lindab's offered price is PLN 0.30 higher than the H1 2012 six-month average when CKL stock was trading at its highest level since the 2009 SPO. Looking at Centrum Klima's weak Q1 2012 earnings, we would take advantage of the tender offer to take profits in CKL.

Management Board on Lindab AB's tender offer

Centrum Klima's Management Board stated that it considered the price offered by Lindab AB to be fair. The price is also higher than the average for the past six months.

Famur (Reduce)

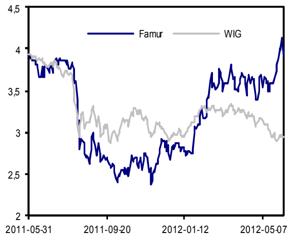
Current price: PLN 3.94 Target price: PLN 3.6

Analyst: Jakub Szkopek

Last Recommendation: 2012-06-05

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	635.9	922.6	45.1%	936.4	1.5%	967.2	3.3%
EBITDA	115.8	262.0	126.2%	274.5	4.8%	273.3	-0.4%
EBITDA margin	*18.2%*	*28.4%*		*29.3%*		*28.3%*	
EBIT	83.1	154.2	85.6%	186.1	20.7%	186.5	0.2%
Net profit	73.4	95.2	29.8%	138.5	45.4%	142.2	2.7%
P/E	25.9	19.9		13.7		13.3	
P/CE	17.9	9.3		8.4		8.3	
P/BV	3.2	3.1		2.6		2.3	
EV/EBITDA	17.5	8.0		7.8		7.8	
Dyield (%)	0.0	4.0		0.0		3.6	

Basic data (PLN m)	
Number of shares (m)	481.5
MC (current price)	1 897.1
EV (current price)	2 127.4
Free float	10.9%
Price change: 1 month	*11.3%*
Price change: 6 month	*41.2%*
Price change: 12 month	*1.0%*
Max (52 week)	4.1
Min (52 week)	2.4



Famur stock gained 11% in May, outperforming the company's foreign peers Joy Global (-17%), Caterpillar (-12%), Atlas Copco (-5%), and Sandvik (-11%). The increase in price was triggered by the announcement of a court win against Kopex, resulting in an award which added PLN 0.12 to the company's value, combined with good first-quarter results and the acquisition of Glinik. Based on our 2012 earnings estimates, Famur is trading at a 44% premium to the average sector P/E and a 26% premium on EV/EBITDA. After a 45% rally since the beginning of the year, we believe now is a good time to cash in on FMF positions. The 2013 prospects for Polish suppliers of mining equipment look bleaker than originally anticipated judging by the latest quarterly results and market outlook announced by Joy Global. We are downgrading FMF from hold to reduce after the recent price rally.

Earnings stronger than expected, offer chance to cash in

At PLN 321.5m, Famur's Q1 2012 revenue beat our forecast by 3.3% and came +9.1% ahead of the consensus estimate. Revenues were boosted by a number of contracts for powered roof supports, as a result of which the revenues in Mining Machinery exceeded our expectations by 10.4%. In addition, the company sold much more coal than expected ("other operations" showed revenues 144.3% ahead of our expectations). Transportation Systems and Mining Services undershot our revenue expectations (by PLN 35.7m and 49.2%, respectively). At PLN 97.0m, gross profit beat our expectations by 10.1%. Selling expenses were markedly lower than anticipated (PLN 0.9m vs. PLN 6.5m). Famur stated that the operating profit was boosted by the conclusion of work on agreements which had been described as long-term contracts at the end of 2011, and which had then been 60% or less complete. In addition, EBIT was boosted by a contract from NWR N.V. It is possible that Famur concluded work on some contracts in Q1'12, but the products will be supplied in Q2'12, which is when the costs of delivery and installation will be booked. Other net operating expenses amounted to PLN 8.5m, comprising guarantee work (PLN 5.9m) and provisions for employee bonuses (PLN 3.8m).. Despite this, EBIT figured to PLN 67.2m, beating our expectations by 16.7% and market consensus by 26.0%. Financing income came close to predictions at PLN 2.6m vs. PLN 4.0m forecasted. At PLN 52.7m, net profit beat our expectations by 12.6% and market consensus by 23.3%. Cash flows from operations were a negative PLN 7.7m vs. PLN -7.1m generated in Q1'11.

Famur takes over Glinik

Famur acquired the mining equipment manufacturer ZMG "Glinik" for PLN 16m in May.

Famur lands material contract

Famur received orders totaling PLN 50.9m from the coal miner Kompania Węglowa (KW) between 3 April and 30 May 2012. The largest of the orders is a PLN 34.5m contract between KW and Fazos for delivery of 166 roof support units.

Joy Global reports Q2 results, sees downturn in new orders

Joy Global, the worldwide leader in mining solutions, reported a 19% year-on-year drop from USD 1.5bn to USD 1.2bn in second-quarter bookings. The company's backlog as of the end of April was USD 3.1bn compared to USD 3.6bn at the end of the previous quarter (-12% q/q). Orders for underground mining solutions fell 27% compared to the preceding year, and orders for surface mining equipment edged down only 1%. New bookings dropped 38%, while aftermarket equipment orders remained steady compared to the same period a year ago. Joy attributes the decreasing demand to a weak US coal market (mild winter combined with low natural gas prices), paired with high year-ago comparables for Australian bookings. In the aftermarket business, reduced demand from Australia, the United States, and Eurasia was largely offset by increased demand from China and South Africa. Delayed contracts and a stronger US dollar also contributed to the decline in bookings. In its outlook for the coming quarters, Joy Global states that it expects that its "order rates could moderate and revenues flatten" until coal mines resume the greenfield projects currently on hold. The market outlook painted by Joy Global has implications for the 2013 revenues of Polish suppliers of mining equipment, including Famur which generated 15% of its revenue 2011 from exports. We had expected Joy to reiterate a positive market outlook like Caterpillar did earlier. Famur is currently trading at FY2012E P/E ratio of 14.2x, showing a premium of 44% relative to sector averages.

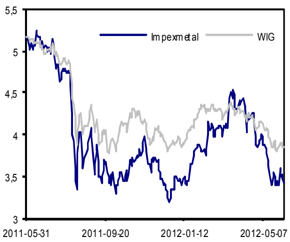
Impexmetal (Buy)

Current price: PLN 3.43 | Target price: PLN 5.7

Analyst: Jakub Szkopek
Last Recommendation: 2012-01-19

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	2 417.6	2 677.2	10.7%	2 574.9	-3.8%	2 556.0	-0.7%
EBITDA	166.9	198.3	18.8%	169.0	-14.8%	180.5	6.8%
EBITDA margin	*6.9%*	*7.4%*		*6.6%*		*7.1%*	
EBIT	105.5	143.5	36.0%	116.5	-18.9%	130.4	12.0%
Net profit	76.8	99.9	30.1%	80.2	-19.7%	95.1	18.6%
P/E	9.5	6.9		8.5		7.2	
P/CE	5.3	4.4		5.2		4.7	
P/BV	0.8	0.8		0.7		0.7	
EV/EBITDA	6.9	5.4		5.8		4.9	
Dyield (%)	0.0	5.8		5.8		8.2	

Basic data (PLN m)	
Number of shares (m)	200.0
MC (current price)	686.0
EV (current price)	980.7
Free float	38.0%
Price change: 1 month	*-14.0%*
Price change: 6 month	*-3.9%*
Price change: 12 month	*-31.9%*
Max (52 week)	5.3
Min (52 week)	3.2



Impexmetal's Q1 2012 results came in line with expectations. The company is reporting continuing expansion in volumes and margins generated on the core line of rolled aluminum products. Its international rival Alco reported a record Q1'12 per-tonne EBITDA, and Novelis saw quarter-on-quarter expansion in its EBITDA as well. IPX share price may be temporarily impacted by its shareholders' decision not to pay PLN 0.20 dividend from 2011 profits. We are reiterating a buy rating on the stock.

Growing volumes make for good outlook

At PLN 694.9m, Impexmetal's Q1 2011 revenue was 18.6% higher than our estimate and 3.4% lower than in Q1 2011. 16% stronger-than-expected sales were generated by the HAK aluminum smelter and Baterpol (where revenue was 15.3% higher than anticipated) on 4.6% and 22.9%, respectively, higher volumes. Average monthly sales of aluminum sheet increased by about 16% from Q4 2011, and total Q1'12 sales volumes came close to the level recorded in Q1'10 (the quarter which marked the beginning of an upward momentum in Impexmetal's profits) – quite an achievement considering how weak February was for Polish manufacturers. Impexmetal experienced marked year-on-year contraction in profit margins in Q1 2012, but it is observing a rebound at the moment which bodes well for future quarters. The Q1 2012 revenue of Hutmen amounted to PLN 235.5m, 1.5% more than we had forecasted (sales volumes were 9,800 tonnes, 1.7% more than anticipated). The sales of ZM Silesia came 4.6% short of expectations due to lower prices (volumes were 3.4% higher than expected). At PLN 26.7m, Impexmetal's consolidated Q1 2012 EBIT fell 7.8% short of our forecast. EBITDA missed our estimate by an even wider margin due to 10.3% higher-than-expected D&A expenses. Selling expenses surged 21% from the same period a year ago while sales volumes contracted 0.2%, driven by higher costs of transportations (fuel prices). Impexmetal generated other operating income of PLN 4.4m in Q1 (a result of allowance recognitions and reversals). As predicted, the core per-tonne EBITDA of the aluminum segment amounted to PLN 477, marking a deterioration from the 2011 average of PLN 1046, but an improvement from the average generated in H1 2010. In the lead recycling segment, represented by Baterpol, operating profit fell short of our PLN 10m estimate at PLN 5.1m due to higher costs of lead scrap and narrower production margins. EBIT came in at PLN 3.9m, beating our PLN 1.2m estimate. Financing operations produced a gain of PLN 0.9m (we expected expenses of PLN 3.4m). At PLN 21.2m, Q1 2012 net income came 17% ahead of our estimate thanks to a low effective tax rate (7.7% vs. 18.8% in Q1'11) and financing expenses. Cash flow from operations was a negative PLN 20.4m vs. a positive PLN 6.1m posted in Q1'11. Impexmetal's accounts receivable increased considerably in the first quarter, while accounts payable incurred in the period were lower than in the same period in 2011. Net debt stood at PLN 334.8m at March 31st after a decrease from the quarter-before level of PLN 317.1m. The high points of Impexmetal's first-quarter results include unexpectedly strong aluminum sheet volumes and improving margins. Note that the company recognized a loss on distribution operations in Q1 2012, which we suspect is a mistake. If we are right, there will be upward revisions to the first-quarter results. The Q1 operating profit came more or less in line with expectations after adjustment for the high D&A expenses. Net profit exceeded expectations. The low point is negative operating cash flow.

Share buyback resumed

Impexmetal announced that it was going to repurchase a further 1 million treasury shares from current stockholders. The company has bought back 6 million shares so far, or 3% of all shares outstanding.

Rolled aluminum leader Novelis reports Q1 results

Novelis, the world's leading manufacturer of rolled aluminum products, achieved sales volumes of 703,000 tonnes in Q1 2012 (-8.8 y/y, +8.5% q/q), and generated core per-tonne EBITDA of USD 331 (-8.7% y/y, +0.8% q/q). The company is counting on continued volume rebuilding and growing margins in the future quarters. The drop in Novelis's per-tonne EBITDA was much less severe than the shrinkage suffered by Impexmetal, whose Q1 EBITDA margin per tonne was 53.6% lower than Novelis's and 64% lower than Alcoa's. In the last two years, the company generated EBITDA/t on average 30% lower than Novelis and 15% lower than Alcoa. Impexpetal is observing a pickup in margins generated on aluminum sheet which can give a boost to future quarterly EBITDA results.

Shareholders vote in favor of major changes

Boryszew's shareholders decided to appoint Piotr Szeliga to the post of CEO. Prior to that, Mr. Szeliga led Boryszew's subsidiary Impexmetal. Małgorzata Iwanejko, who used to be the CEO of Boryszew, was appointed CEO of Impexmetal. In other news, Impexmetal's shareholders decided to allocate the entire profit for 2011 to supplementary capital, contrary to the Management's recommendation of a PLN 40m dividend payout (PLN 0.20 per share). In our last research update for Impexmetal, we predicted that dividend for 2011 would amount to PLN 0.20 per share, but also speculated that Boryszew may decide to increase the subsidiary's payout, perhaps even by profits from prior years. Instead, the shareholders decided to retain the entire profit. The Chairman of Boryszew's Supervisory Board, Arkadiusz Krężel, says that Impexmetal will not pay a dividend because it needs funds for growth. The company will either enter the rare earths exploration business, carry out an acquisition or team up with aluminum producers. The reshuffle at the top comes at a surprise. It is worth noting that as CEO of Impexmetal, Mr. Szeliga has been well-perceived by the markets.

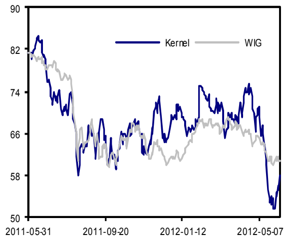
Kernel (Hold)

Current price: PLN 58 | Target price: PLN 61.1

Analyst: Jakub Szkopek
Last Recommendation: 2012-06-05

(USD m)	2009/10	2010/11	change	2011/12F	change	2012/13F	change
Revenues	1 020.5	1 899.1	86.1%	2 339.7	23.2%	2 773.0	18.5%
EBITDA	190.0	309.6	62.9%	369.7	19.4%	408.2	10.4%
EBITDA margin	*18.6%*	*16.3%*		*15.8%*		*14.7%*	
EBIT	167.5	277.3	65.5%	313.4	13.0%	349.9	11.6%
Net profit	152.0	226.3	48.9%	261.4	15.5%	295.3	13.0%
P/E	8.0	5.8		5.0		4.5	
P/CE	6.9	5.1		4.1		3.7	
P/BV	2.0	1.4		1.1		0.9	
EV/EBITDA	6.8	4.6		3.8		3.3	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	79.7
MC (current price)	4 621.6
EV (current price)	4 995.1
Free float	43.6%
Price change: 1 month	*-18.3%*
Price change: 6 month	*-18.7%*
Price change: 12 month	*-28.7%*
Max (52 w eek)	84.4
Min (52 w eek)	51.5



After experiencing 30% year-on-year shrinkage in EBITDA and a 52% drop in net profit in Q1 2012, Kernel slashed its earnings guidance for the 2011/2012 season, with target EBITDA cut from USD 370m to USD 330m, and the net profit target reduced from USD 255m to USD 215m. After three quarters of fiscal 2011/2012, the company achieved 62.6% of the revised EBITDA target and 53.2% of the new bottom-line target. This compares to a guidance delivery range of 78-79% recorded in the past three years. Kernel sold a considerable sugar volume to the Ukrainian reserve fund, and this will support its results in the fourth quarter. Nevertheless, our view remains that even the revised annual guidance is quite ambitious. In addition to weaker earnings, Kernel is generating weak cash flows; OCF for three quarters of 2012 was a negative USD 151m, and Q3 OCF was USD -96m. We are working on an update to our financial forecasts for Kernel. We are upgrading our rating for KER from reduce to hold now that the stock price has hit our target.

Ukraine not likely to reap bumper sunflower harvest this year

In an interview for APK-Inform, Stepan Kapshuk, the General Director of the Ukrliyaprom association, said that, despite a significant expansion in growing areas, the 2012 sunflower harvest will not be record-setting this year, remaining flat at last year's level, due to unfavorable weather and drought in southern and eastern regions of Ukraine. As of May 21st, sunflowers were planted on 3.98 million hectares of land in the Ukraine, representing 97% of the forecasted growing areas. A smaller-than-projected harvest may affect sunflower oil producers.

Kernel cuts 2011/2012 earnings guidance

Kernel announced that it had cut the 2012 guidance from USD 255m to USD 215m for the net profit and from USD 370m to USD 300m for EBITDA. Revenues are still projected at USD 2.3bn. Our earnings forecasts for this season were close to the Management's original expectations. In the near future, we will revise our forecasts for the current fiscal year, which is likely to bring our target price down.

Kernel posts weak FQ3 results

At USD 598,9m, Kernel's Q3 FY2011/2011/12 revenue fell 9.6% short of our forecast and came 2.2% ahead of the consensus estimate. Sales disappointed in the segments of Bottled Oil (where revenue fell 28.7% short of our estimate on 26.8% lower-than-expected volumes and 2.5% lower prices), Bulk Oil (with 23.7% lower-than-expected revenue on 29.8% lower volumes and 8.8% higher prices), and Sugar (where sales missed our forecast by a whopping 90.5%). In turn, the Grain segment posted 14.8% higher-than-expected revenue on 66.3% higher volumes and 20.9% lower prices, and the Grain Storage segment beat our sales forecast by 148.4%. The consolidated first-quarter EBIT came in at USD 44.8m, which was 53.2% less than we had anticipated and 30.3% less than the consensus estimate. EBITDA per tonne of crushed sunflower seeds fell short of expectations by 14.3% in the Bottled Oil segment and 16.8% in the Bulk Oil segment. The reverse LIFO effects observed last year were no longer visible in Q3 2011/12. In the Grain segment, per-tonne EBITDA was 72.3% lower than anticipated at just USD 8.3. Kernel explains this deterioration in profitability with changes in VAT regulation and low margins generated on grain trade. The company's Management are unable to predict future trends in profit margins. The Farming segment generated EBIT loss of USD 8.0m in Q3, and the Sugar segment posted an operating loss of USD 1.6m. The consolidated bottom-line profit of USD 37.2m was 54.3% lower than our estimate and 19.1% lower than the consensus estimate. Cash flow from operations was a negative USD 96.3m in Q3 2011/12 vs. a positive USD 188.5m posted a year earlier (inventories continued to increase in the third quarter even as the season was coming to an end; receivables were also on the rise). Kernel made downward revisions to its FY2011/12 earnings guidance after the weak third quarter. The company achieved 68.9% of its new revenue guidance, 62.6% of expected EBITDA, and 53.2%

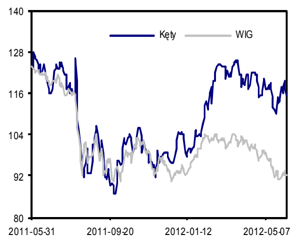
of the revised net profit target, in the nine months to 31 March 2012. This compares to a guidance delivery range of 78-79% recorded in the past three years. The sale of considerable sugar volumes to the Ukrainian reserve fund will support Kernel's results in the fourth quarter, but this does not change our opinion that even the revised annual guidance is quite ambitious.

Kęty (Accumulate)

Current price: PLN 115.2 **Target price: PLN 136.7**

Analyst: Jakub Szkopek
Last Recommendation: 2012-03-05

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	1 210.5	1 503.9	24.2%	1 481.8	-1.5%	1 533.3	3.5%	Number of shares (m)	9.2
EBITDA	181.6	221.8	22.1%	225.1	1.5%	231.0	2.6%	MC (current price)	1 062.8
EBITDA margin	*15.0%*	*14.7%*		*15.2%*		*15.1%*		EV (current price)	1 347.2
EBIT	118.0	151.2	28.2%	150.5	-0.5%	155.8	3.5%	Free float	59.4%
Net profit	89.7	103.5	15.4%	111.5	7.8%	116.3	4.3%		
P/E	11.8	10.3		9.5		9.1		Price change: 1 month	*-1.6%*
P/CE	6.9	6.1		5.7		5.5		Price change: 6 month	*17.4%*
P/BV	1.2	1.1		1.0		1.0		Price change: 12 month	*-9.1%*
EV/EBITDA	7.3	6.1		6.0		5.7		Max (52 w eek)	126.8
Dyield (%)	3.5	3.5		4.3		6.3		Min (52 w eek)	86.6



Kęty's Q1 2012 EBITDA came 3.8% ahead of our estimate, EBIT was 7.1% higher than forecasted, and net profit beat our forecast by 11.6%. Net debt stood at PLN 216.1m as of 31 March after a PLN 2.1m reduction despite PLN 17.7m capital expenses. Kęty sees good Q2 2012 prospects in Aluminum Systems, Construction Services, and Building Accessories, and anticipates flat year-on-year growth in Extruded Products and Flexible Packaging. Based on our FY2012 estimates, Kęty is currently trading with a 33% discount to peer P/E ratios and a 13% discount to peer EV/EBITDA. The company promised to release preliminary Q2 2012 estimates at the end of June, and if these results are good they will give a boost to the share price. In the medium term, KTY stock will also be supported by reports that it has been targeted for possible acquisition by an industry investor and private equity funds. We stand by our accumulate rating for Kęty.

Kęty reportedly targeted by private equity funds

According to a story in *Puls Biznesu*, several private equity funds have been approached recently by representatives of a manufacturer who is seeking to make a tender offer for a takeover of Kęty, gauging their interest in such a tender offer. Kęty's CEO Mr. Mańko confirmed that he had been seeing signs recently of an increased interest in his company.

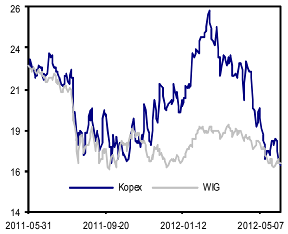
Kopex (Suspended)

Current price: PLN 16.76 **Target price: -**

Analyst: Jakub Szkopek

Last Recommendation: 2012-05-07

(PLN m)	**2010**	**2011**	**change**	**2012F**	**change**	**2013F**	**change**	**Basic data (PLN m)**	
Revenues	2 365.2	2 126.3	-10.1%	2 073.7	-2.5%	2 132.2	2.8%	Number of shares (m)	74.3
EBITDA	184.6	274.7	48.8%	335.6	22.2%	332.4	-0.9%	MC (current price)	1 245.8
EBITDA margin	*7.8%*	*12.9%*		*16.2%*		*15.6%*		EV (current price)	1 749.4
EBIT	100.1	172.0	71.9%	231.5	34.6%	223.6	-3.4%	Free float	28.3%
Net profit	33.3	153.5	361.6%	162.9	6.1%	158.3	-2.9%		
P/E	37.5	8.1		7.6		7.9		Price change: 1 month	*-16.2%*
P/CE	10.6	4.9		4.7		4.7		Price change: 6 month	*-13.6%*
P/BV	0.5	0.5		0.5		0.5		Price change: 12 month	*-25.8%*
EV/EBITDA	9.7	6.8		5.2		5.0		Max (52 week)	25.8
Dyield (%)	0.0	0.0		1.3		6.4		Min (52 week)	16.8



Kopex stock fell 9% in May, in keeping with the downward trend experienced by the company's foreign peers Joy Global (-17%), Caterpillar (-12%), Atlas Copco (-5%), and Sandvik (-11%). The decline was also led by weak first-quarter results affected by a lost court case against Famur. We are working on an update to our financial forecasts and valuation for Kopex. The 2013 prospects for Polish suppliers of mining equipment look bleaker than originally anticipated judging by the latest quarterly results and market outlook announced by Joy Global.

New CEO rumors

The business newspaper *Parkiet* is speculating who could replace Kopex's CEO Krzysztof Jędrzejewski who said recently that he was not planning to stay on for the long haul. The paper says a likely candidate is Andrzeja Jagiełło, an executive with the Polish unit of Sandvik for the last fifteen years. We believe investors would be pleased if someone with first-hand experience in the mining equipment industry were appointed Kopex's CEO.

Q1 profits, cash flows, disappoint

Kopex's Q1 2012 revenue fell 10.9% short of our expectations and missed the consensus estimate by 10.4% at PLN 459.0m. Sales fell 4.2% short of our estimate in Mining Services, 30.5% short in Underground Mining Equipment (due to larger eliminations after deconsolidation of Tagao and weak sales generated by Waratah), 19.3% short in Industrial Equipment, 53.3% short in Electrical and Electronic Equipment (higher eliminations after deconsolidation of a subsidiary in Q3'11), and 18.6% short in Castings. Low-margin lines: Opencast Mining Equipment, Electricity Trade, and Coal Sales, generated higher-than-expected revenue. The Q1 2012 gross profit fell 11.9% short of expectations at PLN 88.5m, led by weak performance of Electrical and Electronic Equipment where gross profit missed our estimate by 63.3%. SG&A expenses were 13.9% lower than anticipated, and other operating expenses amounted to PLN 36.8m vs. PLN 40.4m forecasted (including an allowance for Famur's claims). At PLN 0.35m, EBIT was lower than our PLN 0.46m estimate but higher than the PLN -0.6m consensus estimate. Financing expenses were PLN 32.9m vs. PLN 26.9m forecasted. FX losses were PLN 13.8m vs. PLN 6.0m forecasted. After higher-than-expected tax (PLN 9.2m vs. PLN 2.0m), the Q1 2012 bottom-line loss was deeper than anticipated. Operating cash flow was negative at PLN -47.8m vs. PLN -45.2m reported in Q1 2011 (an effect of increasing inventories, receivables, and accruals). Net debt stood at PLN 693.4m as of 31 March 2012 after an increase from the quarter-before level of PLN 606.7m.

CEO interview

In an interview for *Parkiet*, the CEO of Kopex said that the company's order backlog had grown by 56% y/y, reaching PLN 2bn at the end of April. Orders for core products amount to PLN 1.7bn (+74% y/y), which is enough for the next three years. The CEO expects the company to start generating strong earnings again already in Q2'12, and he hopes that it will win several contracts for powered roof supports in Poland before the quarter is over.

Joy Global reports Q2 results, sees downturn in new orders

Joy Global, the worldwide leader in mining solutions, reported a 19% year-on-year drop from USD 1.5bn to USD 1.2bn in second-quarter bookings. The company's backlog as of the end of April was USD 3.1bn compared to USD 3.6bn at the end of the previous quarter (-12% q/q). Orders for underground mining solutions fell 27% compared to the preceding year, and orders for surface mining equipment edged down only 1%. New bookings dropped 38%, while aftermarket equipment orders remained steady compared to the same period a year ago. Joy attributes the decreasing demand to a weak US coal market (mild winter combined with low natural gas prices), paired with high year-ago comparables for Australian bookings. In the aftermarket business, reduced demand from Australia, the United States, and Eurasia was largely offset by increased demand from China and South Africa. Delayed contracts and a stronger US dollar also contributed to the decline in bookings. In its outlook for the coming quarters, Joy Global states that it expects that its "order rates could moderate and revenues flatten" until coal mines resume the greenfield projects currently on hold. The market outlook painted by Joy Global has implications for the 2013 revenues of Polish suppliers of mining equipment, including Kopex which generated 26% of its 2011 revenue from exports. We had expected Joy to reiterate a positive market outlook like Caterpillar did earlier. Based on core earnings results, Kopex is currently trading at 8.3x P/E, showing a 15% discount to peer averages. At this level, the price seems to factor in the possible downturn in next year's revenues.

Rovese (Accumulate)

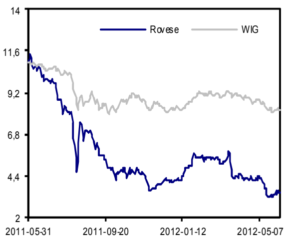
Current price: PLN 3.37 **Target price: PLN 6**

Analyst: Jakub Szkopek

Last Recommendation: 2012-03-05

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	1 531.5	1 638.2	7.0%	1 714.9	4.7%	1 786.3	4.2%
EBITDA	253.5	250.7	-1.1%	300.9	20.0%	311.1	3.4%
EBITDA margin	*16.6%*	*15.3%*		*17.5%*		*17.4%*	
EBIT	142.0	135.8	-4.4%	184.0	35.5%	194.5	5.7%
Net profit	103.0	87.8	-14.8%	113.2	29.0%	126.1	11.4%
P/E	7.1	10.4		8.0		7.2	
P/CE	3.4	4.5		4.0		3.8	
P/BV	0.6	0.6		0.6		0.5	
EV/EBITDA	6.2	7.0		5.0		4.4	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	270.5
MC (current price)	911.5
EV (current price)	1 506.9
Free float	29.2%
Price change: 1 month	*-22.4%*
Price change: 6 month	*-12.9%*
Price change: 12 month	*-69.7%*
Max (52 week)	11.1
Min (52 week)	3.2



Despite rising prices of ceramic tiles and favorable weather, Rovese reported disappointing earnings results for the first quarter of 2012. The gross margin achieved its lowest quarterly level in history at 31.6% after a period of continuing contraction. Margin shrinkage is expected to persist in Q2 2012 due to a 16.9% hike in the prices of natural gas fuel. The outlook for the second quarter is further worsened by slower sales of building materials, depressed by Easter in April and a long weekend in May (people typically perform fewer renovations during such off-periods). We are working on an update to our financial forecasts and valuation of Rovese.

Dismal first quarter prompts possible rating downgrade

Rovese's Q4 2012 revenue fell 7.0% short of our expectations and missed the consensus estimate by 3.5% at PLN 365.9m. Sales of ceramic tiles missed our estimate by 2.1%, sales of "other" products fell 1.7% short, while sales of ceramic sanitaryware topped our forecast by 3.7%. At PLN 115.5m, the first-quarter gross profit was 17.4% lower than anticipated. Despite favorable market conditions (higher prices, pre-hike gas price tariff), the gross margin shrunk to an all-time low of 31.6%, well below our 35.5% estimate. Administrative expenses and selling expenses were 5.6% and 1.3%, respectively, higher than predicted. There were other operating expenses of PLN 1.5m. An EBIT of PLN 5.1m fell 85.1% short of our forecast and 80.2% short of consensus. Financing expenses included foreign-exchange losses of PLN 25.7m, contrary to expectations of FX gains in the amount of PLN 76.6m (given the zloty's appreciation relative to the euro and the dollar, combined with steady hryvnia exchange rates, the value of Rovese's foreign-currency debt should have been revised downwards, producing revaluation gains). Rovese posted a net loss of PLN 28m in the first quarter, which was an extremely disappointing result given our expectations of a PLN 95.3m net profit and analysts' predictions of PLN 33.3m profit. On a positive note, Rovese generated strong operating cash flow of PLN 82.6m in Q1 2012, marking an increase from PLN 26.4m posted in Q1 2011 driven by reduced receivables and increased trade payables. Net debt stood at PLN 740.7m at March 31st after a decrease from the quarter-before level of PLN 843.1m. The ratio of net debt to 12M EBITDA stood at a safe level of 2.9x. That said, if Rovese does not improve its profits in Q2 2012 (which saw the entry into force of a higher gas price tariff), its twelve-month EBITDA will decrease, resulting in deteriorated debt ratios. The lower receivables and higher payables recorded in the first quarter may have been a conscious move on the company's part to prevent such deterioration.

Building materials pricing trends in April

In April, prices of ceramic tiles and kitchen and bathroom equipment as quoted by the building materials wholesaler PSB remained flat at March levels. PSB reported a 4% year-on-year increase in its April sales.

M/M trends in prices of ceramic tiles and bathroom and kitchen fixtures

I 11	II 11	III 11	IV 11	V 21	VI 11	VII 11	VIII 11	IX 11	X 11	XI 11	XII 11	I 12	II 12	III 12	IV 12
2.9%	0.4%	1.8%	0.0%	0.0%	0.0%	1.1%	-0.1%	0.6%	0.3%	0.3%	0.0%	1.3%	1.1%	0.0%	0.0%

Source: PSB

Construction

Polish construction in April
Polish construction in April expanded 2.9% on a year-on-year basis but shrunk 7.5% relative to the preceding month. The adjusted growth rates were +5.0% and +2.3%, respectively.

Road Developers

Road authority fires A4 contractors
Poland's road authority GDDKiA fired the contractors building a stretch of the A4 motorway and the S19 expressway: Radko, Autostrada Wschodnia, and Punj Lloyd, over material delays (despite deadline extension from February to September 2012, the consortium completed only 49% of the contract by April). The news was preceded by a bankruptcy petition filed against Radko by one of its non-construction suppliers a few weeks earlier. Radko put the blame for the delays on factors over which it had no control, and on faulty designs and inadequate supervision, and it is planning to take legal action. The GDDKiA is considering handing the A4 project over to companies building the neighboring stretches of the A4 (Budimex or Mostostal Warszawa), and holding a new bid for the rest of the S19.

Polish government set to pass law on subcontractor payment guarantees
The Polish government is working to pass a new law regulating payment bottlenecks faced by construction subcontractors, within two months. Under the new law, general contractors will be required to provide guarantees equivalent to 3% of the agreed subcontracting fee upon commencement of each project. The guarantees can be provided in cash or as bank or insurance guarantees. In the event a general contractor goes bankrupt, the guarantees will be excluded from the bankruptcy estate to ensure quick payments to subcontractors.

GDDKiA publishes list of top-quality road builders
Poland’s national road authority GDDKiA has ranked road construction companies by the quality of their work. “Quality” was defined by the percentage of samples taken from the different construction sites that met the GDDKiA’s quality standards. Number one on the list is Johan Bunte (7% of non-complaint samples), followed by #2 Polimex Mostostal (8.5%). Mostostal Warszawa ranked fifth (13.3%), Budimex was eighth (15.7%), and Hydrobudowa was 12th (20.6%). The leader of the Polish road industry, Strabag, came in 15th place (22.3%), while Skanska was 21st (30.5%). At the bottom of the list is #24 PRDiM Mińsk Mazowiecki (39.3%). The two road builders who have recently filed for bankruptcy, Poldim and DSS, were ranked high at number 3 and 6, respectively.

Major changes in road construction promised
The Head of Poland’s national road authority GDDKiA promised to include price indexation clauses and advance payments in future road contracts awarded to construction companies. Contract prices will be indexed for the prices of selected building materials, among others asphalt and steel. The new rules will already be applied in upcoming bids for modernization of the Most Grota bridge in Warsaw and construction of a stretch of the S8 expressway from Opacz to Paszków. In addition, the GDDKiA will require general contractors to submit lists of their subcontractors, service providers, and materials suppliers, for approval. In the event of default by the general contractor, the authority will cover their fees. GDDKiA estimates its 2014-2020 infrastructure budget at ca. PLN 70bn (including PLN 40bn in EU funding). The work is to be spread out evenly over 7 years.

Power Engineering

EdF to offer PLN 900m contract opportunities to power engineering companies
The VP of EdF stated that about 50% of the budget of its planned EUR 1.8bn power plant in Rybnik may be awarded to Polish companies. The boiler and engine room will be delivered by Alstom.

ABM Solid

ABM Solid reaches agreement with creditors
ABM Solid signed a debt restructuring agreement with creditors under which it will convert PLN 101.7m debt to equity. Combined with a bank-approved haircut, this will help the company reduce its outstanding balances by PLN 40.1m. The creditors have an option of either accepting an immediate payback after a 35% haircut, having their debts converted to shares, accepting conversion of 25% of the bonds into shares and extension of the remaining paper, or extension of the due dates. The agreement is conditioned upon ABM Solid securing PLN 36.2m in cash, which the company intends to achieve through an issue of up to 2.5 million shares. ABM shareholders are meeting on June 12th to vote on the issue.

Atrem

2012 Q1 results

In Q1 2012, Atrem generated PLN 41.2m revenue, PLN 1.1m EBIT and PLN 0.6m net profit. In the automation / AC segment, the company incurred a PLN 0.6m EBIT loss (resulting form two loss-making contracts). Net debt increased to PLN 22.5m, and cash flows from operations were negative at PLN -8.7m.

Bipromet

2012 Q1 results

In Q1 2012, Bipromet generated revenue of PLN 14.5m, gross profit of PLN 2.8m (19.4% margin), PLN 1.6m EBIT, PLN 1.6m pre-tax profit, and a PLN 0.8m net profit. Cash flows from operations amounted to PLN -12.1m.

Elektrotim

2012 Q1 results

In Q1'12, Elektrotim generated PLN 32.8m revenue, PLN 3.2m gross profit, PLN 0.0m profit on sales, PLN 0.1m EBIT, and PLN 0.2m net profit. Cash flows from operations amounted to PLN -4.8m. At the end of Q1 2012, the company's order backlog was worth PLN 134.7m (+18% y/y).

Elektrotim sets financial goals for FY2012

Elektrotim is aiming to generate revenue of PLN 200m this year, and maintain net profitability at last year's level. The company is set for a good second quarter thanks to an order book worth PLN 172m (compared to PLN 146.3m in April 2011). As for a more long-term outlook, Elektrotim is hoping for contract opportunities from the telecom and power-engineering industries, as well as from the manufacturing industry which seems to be picking up. Business opportunities in public construction, infrastructure development, and probably housing, are bound to be fewer going forward.

Energoinstal

2012 Q1 results

In Q1 2012, Energoinstal generated PLN 79.5m revenue, PLN 9.4m gross profit (11.8% margin), PLN 5.1m profit on sales, PLN 5.5m EBIT and PLN 3.0m net profit. Cash flows from operations amounted to PLN 9.2m.

Energomontaż Południe

Major downward adjustments to 2011 and 2010 earnings

Energomontaż made major downward adjustments to its earnings figures for 2010 and 2011. The gross profit for 2010 was revised down from PLN +8.9m to PLN -5.6m, the EBIT loss widened PLN 14.9m to PLN 29.4m, and the bottom-line loss increased from PLN 19.8m to PLN 34.3m. The gross profit for 2011 was revised down from PLN 22.4m to PLN 14.3m, the EBIT loss increased from PLN 5.8m to PLN 16.6m, and the bottom-line loss surged from PLN 7.4m to PLN 17.7m. The revisions stemmed mainly from underestimated contract profits. EPD's Management commented that the company was aggressive in its contract acquisition policy abroad in 2009 and 2010. The major problems included the price of T24 steel alloy and the lack of qualified employees, which forced the company to hire more expensive subcontractors. The biggest negative impact came from the revision of margins on the contract at the Eemshaven power plant. Energomontaż also explained that due to the Rafako-Alstom dispute, earnings on contracts for Alstom were estimated very conservatively. The auditor's comments on the report point out that Energomontaż is guaranteeing PLN 991.5m worth of PBG's debt.

Order backlog

At the end of 2011, the order backlog of Energomontaż Południe comprised contracts worth PLN 281m, including PLN 261m orders scheduled for completion in 2012.

EPD set for profitable 2012

The CEO of Energomontaż Południe says the company will definitely end 2012 in the black on higher sales. The loan guarantees that EPD granted to its parent company PBG are a potential source of risk. EPD has decided to sell all of its real estate, whose estimated market value is PLN 100m, in a bid to continue business operations without reliance on bank loans. The 170 flats left in the company's residential project in Katowice should be sold within two years. The flats are sold at book value.

Herkules

2012 Q1 results

In Q1 2012, Herkules generated revenue of PLN 23.5m, gross profit of PLN 2.7m, PLN 3.0m EBIT, PLN 2.2m pre-tax profit, and a PLN 1.7m net profit. Cash flows from operations amounted to PLN +9.2m.

Hydrobudowa Polska

Q1 2012: gross loss, negative cash flows

In Q1 2012, Hydrobudowa generated PLN 265.9m revenue, PLN 21.6m gross loss, PLN 30.9m loss on sales, PLN 15.5m EBIT loss and PLN 25.5m net loss. As expected, earnings were weighed down by provisions for losses on road contracts (PLN 30m). In the other segments, the profit on sales was positive. Earnings were also boosted by high other net operating income (PLN 15.4m). while other net financing expenses reduced them by PLN 9.7m. Operating cash flow was a negative PLN 178.8m.

2011 earnings adjustments

Hydrobudowa announced major downward revisions to its 2011 earnings. The gross profit was revised down from PLN 105.8m to PLN 76.0m, EBIT decreased PLN 75.5m to PLN 45.5m, and bottom-line profit shrunk from PLN 41.1m to PLN 14.7m. The Management explained that the profit adjustments were necessitated by downward revisions to road contract budgets. At the end of 2011, Hydrobudowa had available credit lines in the amount of PLN 140m. These facilities are typically linked with particular contracts, which means they cannot be used to resolve all liquidity problems.

Hydrobudowa slapped with bankruptcy petitions

Hydrobudowa’s creditor KSB Pompy i Armatura withdrew its motion for the bankruptcy of Hydrobudowa after an agreement had been reached on the payment of PLN 1.2m in overdue payables. At the same time, an engineering company called PIB Mikulewicz filed a bankruptcy case against Hydrobudowa over outstanding compensation in the amount of PLN 56,800.

Introl

2012 Q1 results

In Q1 2012, Introl generated PLN 66.2m revenue, PLN 10.0m gross profit (15.1% margin), PLN 0.7m profit on sales, PLN 1.7m EBIT and PLN 0.3m net profit. Cash flows from operations amounted to PLN -5.7m. The gross margin was depressed by a weaker showing on steering and measuring devices (6.4% margin in Q1 2012 vs. 10.4% in Q1 2011), the segment which accounted for 50% of Introl’s Q1'12 revenues.

Instal Kraków

2012 Q1 results

In Q1 2012, Instal Kraków generated revenue of PLN 91.6m, gross profit of PLN 10.5m (11.5% margin), PLN 5.7m profit on sales, PLN 4.8m EBIT, and PLN 4.2m net profit. Cash flows from operations amounted to PLN -2.8m. The property development segment brought PLN 12.8m revenue and a 23.5% gross margin. The gross margin on construction projects in Poland was ca. 1.5%, while earnings were very strong in Germany (PLN 15.4m revenue, 7.1% gross margin). Frapol generated PLN 20.1m revenue and a 4.5% gross margin.

Mirbud

2012 Q1 results

On PLN 100.6m revenue, Mirbud’s Q1 gross profit came in at PLN 12.3m (with gross margin at 12.2%), EBIT amounted to PLN 6.8m, and net profit was PLN 3.0m. On a standalone basis, the parent company generated 11.4% gross margin, EBIT of PLN 8.0m, and net profit of PLN 5.9m. Operating cash flow was a positive PLN 35.5m on a consolidated basis and a negative PLN 31m on a standalone basis. Unbilled receivables decreased from PLN 80.5m to PLN 70.2m.

PLN 0.1 dividend proposal

Mirbud's June 22nd General Meeting agenda includes a vote on distribution of dividends totaling PLN 7.5m, i.e. PLN 0.1 per share, implying dividend yield of 8.8%. The proposed record day is September 20th.

Mostostal Płock

MSP posts zero profit for Q1 2012

In Q1 2012, Mostostal Płock generated revenue of PLN 26.0m, gross profit of PLN 1.3m (5% margin), PLN 0.1m EBIT, and zero net profit. Operating cash flow was a negative PLN 8.2m.

Mostostal Zabrze

Subsidiary PRDiM files for bankruptcy

Mostostal Zabrze's (MSZ) subsidiary PRDiM Kędzierzyn Koźle filed for bankruptcy after its financing banks called in PLN 40m in loans. PRDiM generated revenue of PLN 200m and a net loss of PLN 20m in 2011, and it continued to report losses totaling PLN 6m after the first four months of 2012. The company has no other debt outstanding other than the bank loans. It is currently discussing the possibility of a restructuring arrangement with the lenders, and if a deal is reached PRDiM can move to be placed into administration rather than liquidation. Mostostal Zabrze's situation with its subsidiary is similar to what happened earlier between Trakcja-Tiltra and Poldim.

Prochem

2012 Q1 results

In Q1 2012, Prochem generated PLN 35.9m revenue, PLN 4.6m gross profit, PLN 0.1m profit on sales, PLN 0.0m EBIT, and PLN 0.4m net profit. The earnings were negatively impacted by the design segment (PLN 1.8m loss on sales) which, just as in 2011, did not reduce capacity in anticipation of new orders (waste incineration plants, power plants). The company earned PLN 1.2m from divestments (otherwise, it would have been in the red). Cash flows were negative (PLN 11.2m), but this is not a major source of concern since working capital was nearly in equilibrium at the end of 2011. Net cash stood at PLN 3.8m at the end of the quarter.

Qumak Sekom

PLN 53.4m contract

Qumak Sekom, as member of a consortium led by Warbud, signed a contract for construction of a hospital for the Medical University of Warsaw. Qumak's share in the PLN 347.1m fee is PLN 53.4m, representing 14% of its 2011 revenue.

Remak

Remak posts weak Q1 2012

Remak generated revenue of PLN 95.3m, a gross profit of PLN 1.9m (margin was only 2%), EBIT loss of PLN 0.2m, and a net loss of PLN 1.9m, in Q1 2012. Cash flows from operations amounted to PLN -12.1m. Remak explains these poor results with T24 steel quality issues which affected 84% of the contracts performed in the period.

Remak obtains bank financing

Remak was granted a working-capital loan of PLN 7m by Pekao S.A. which it will use to finance a project in Sostanj, Slovenia. The loan is due on 31 March 2013. At the same time, Pekao agreed to increase another of Remak's facilities from EUR 2m to EUR 4m.

Tesgas

Q1 2012: good performance despite low expectations

In Q1 2012, Tesgas generated PLN 23.1m revenue, PLN 2.6m gross profit, PLN 2.7m EBIT, and PLN 2.1m net profit. As much as PLN 2.1m of the gross profit was contributed by the gas engineering segment. The company attributes the low revenues to a low number of orders, low temperatures and payment delays (when these arise, Tesgas delays contract work). Cash flows from operations amounted to PLN +3.8m. Net cash stood at PLN 14.9m at the end of the quarter.

2012 guidance

Tesgas's FY2012 earnings guidance pegs revenue at over PLN 100m and assumes a halving of the annual net earnings. Tesgas is preparing to compete for major contracts. Tesgas has outstanding accounts receivable from PBG totaling PLN 20m.

Trakcja Tiltra

Trakcja-Tiltra reports in-line Q1 results

On revenue of PLN 201.2m, Trakcja-Tiltra generated EBIT loss of PLN 6.3m and a net loss of PLN 7.8m in Q1 2012. These figures do not include the earnings generated by the soon-to-be-bankrupt subsidiary Poldim which generated revenue of PLN 51.2m and a net loss of PLN 64.2m in the quarter. Trakcja-Tiltra's first-quarter net profit figure came in line with expectations. The structure of the quarterly financials, however, was somewhat disappointing. A gross margin of 3.5% fell short of our 8.5% estimate because of high fixed costs incurred by the road segment. TRK posted other operating income of PLN 2.4m in the period (we expected PLN 1.5m expenses). At the same time, it incurred lower-than-expected financing costs (PLN 1.9m vs. PLN 7.1m forecasted). By segment, Railroads generated a relatively high pre-tax profit margin of 2.8% (after intercompany eliminations). Roads recorded a pre-tax loss of PLN 18.6m on weak revenue of PLN 39.6m (annual road revenues average PLN 500m). Net debt stood at PLN 341.9m at March 31st after an increase from the quarter-before level of PLN 312.6m. Note that TRK's balance sheet includes the financials of Poldim as of 31 December 2011. Pro-forma net debt approximates PLN 200m (in line with expectations). Cash flow from operations was negative at PLN 27.6m, but this is understandable given TRK's negative working capital (payables > receivables) reported at the end of 2011.

CEO plans retirement

The CEO of Trakcja Tiltra is considering leaving his post to join the company's Supervisory Board in the capacity of Chair or Member. Trakcja Tiltra's 2012 order backlog excluding the bankrupt Poldim is PLN 1.5bn. The chances of saving Poldim are none, except for the production and trading business which generates PLN 200-300m in annual revenue.

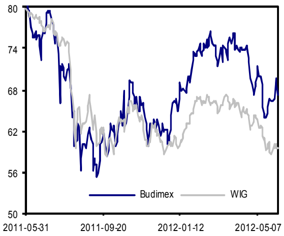
Budimex (Accumulate)

Current price: PLN 67.2 **Target price: PLN 87.1**

Analyst: Maciej Stokłosa

Last Recommendation: 2012-02-27

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	4 430.3	5 516.7	24.5%	5 648.5	2.4%	4 738.8	-16.1%	Number of shares (m)	25.5
EBITDA	352.6	340.6	-3.4%	294.1	-13.7%	257.3	-12.5%	MC (current price)	1 715.6
EBITDA margin	*8.0%*	*6.2%*		*5.2%*		*5.4%*		EV (current price)	745.2
EBIT	331.4	319.4	-3.6%	265.4	-16.9%	228.2	-14.0%	Free float	35.3%
Net profit	267.4	260.9	-2.4%	236.4	-9.4%	190.4	-19.5%		
P/E	6.4	6.6		7.3		9.0		Price change: 1 month	*-4.0%*
P/CE	5.9	6.1		6.5		7.8		Price change: 6 month	*7.9%*
P/BV	2.5	2.4		2.5		2.4		Price change: 12 month	*-14.6%*
EV/EBITDA		0.4		2.5		5.3		Max (52 week)	79.5
Dyield (%)	10.1	13.5		15.5		9.6		Min (52 week)	55.3



Taking into account a record dividend of PLN 10.97 per share, Budimex's stock can be said to have lost almost nothing of its value in May despite the continuing troubles of the construction industry. Budimex's finances are more comfortable than those of most other road builders thanks to higher provisions set aside for contract losses which provide a cushion for 2012 profits (2012E P/E = 7.5). In fact, in the medium to long term, the financial struggles of other road developers can be an opportunity for Budimex to take over business from failing contractors and finish the projects at lower costs if prices of building materials and services decrease as expected in 2013. Moreover, the company is planning to compete for future railroad contracts whose estimated value is PLN 10bn. Unfortunately, competition for these contracts is likely to be fierce. We expect BDX shares to underperform the construction sector in the event of a shift in investor confidence. We are reiterating an accumulate rating on Budimex.

Budimex eyes lower operating cash flow in Q2 2012

Budimex says its operating cash flow in Q2 2012 will be weaker than the negative OCF of PLN 156.4m generated in Q2 2011 due to recognition of loss-making contracts. 2012 revenue is expected to display flat growth from last year.

Budimex on costs of performance bonds

Budimex’s CEO says the proposed legislation requiring general contractors to provide 3% payment guarantees to subcontractors is going to raise construction costs. Budimex currently spends PLN 20m a year on guarantees.

Budimex prepares small acquisition

FB Service, Budimex’s 49% associate, may acquire a small company by the end of the year. FB Service is in the business of road maintenance and waste management, and its strategy is to grow organically and through acquisitions.

Pekao extends Budmex's guarantee limits by one month

Pekao extended the credit lines that Budimex can use to issue performance bonds by just one month. Their value is PLN 523m. Either Budimex is negotiating another extension, or it is going to change the bank.

Budimex stock goes ex-dividends

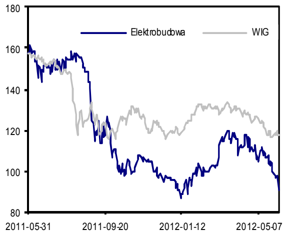
We adjusted our target price for Budimex for PLN 11.0 dividend, from PLN 98.1 to PLN 87.1 per share.

Elektrobudowa (Hold)

Current price: PLN 91 **Target price: PLN 112.4**

Analyst: Maciej Stokłosa
Last Recommendation: 2012-03-05

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	786.7	945.2	20.1%	961.9	1.8%	1 087.8	13.1%	Number of shares (m)	4.7
EBITDA	64.0	61.6	-3.7%	65.0	5.6%	76.2	17.2%	MC (current price)	432.0
EBITDA margin	*8.1%*	*6.5%*		*6.8%*		*7.0%*		EV (current price)	378.2
EBIT	53.1	49.3	-7.1%	53.4	8.5%	64.0	19.7%	Free float	42.4%
Net profit	45.1	37.9	-15.8%	45.7	20.6%	54.6	19.4%		
P/E	9.6	11.4		9.4		7.9		Price change: 1 month	*-14.2%*
P/CE	7.7	8.6		7.5		6.5		Price change: 6 month	*-7.1%*
P/BV	1.3	1.3		1.2		1.1		Price change: 12 month	*-43.0%*
EV/EBITDA	6.0	6.4		5.8		4.8		Max (52 week)	159.8
Dyield (%)	3.8	6.6		3.2		3.8		Min (52 week)	87.0



Though lower than expected, Elektrobudowa's Q1 2012 results were better than average sector earnings, and they showed improvement relative to preceding quarters. Elektrobudowa reiterated its FY2012 earnings estimates which peg the annual net profit at PLN 38.5m (2012E P/E = 12.1, EV/EBITDA = 6.9). We think this is a conservative target, and the actual bottom-line figure can be closer to PLN 45.7m (P/E = 9.4). ELB stock does not seem expensive when measured based on our forecasts, however, it is trading at a double-digit premium to the sector which still includes a number of more attractively priced companies with good prospects for the future. Companies with low price-to-earnings ratios include construction and real estate holdings such as Mirbud, Unibep, Erbud, and Interbud, companies with low EV/EBITDA ratios are Mostostal Warszawa and Tesgas among others, and companies poised to generate windfall profits from power plant construction contracts include Remak and Elektrotim. Until the planned capacity upgrades properly take off in the Polish power industry, Elektrobudowa's growth potential remains limited (the company already has a dominant position in the switchgear market). We expect ELB shares to underperform the construction sector in the event of a shift in investor confidence. We a reiterating a neutral rating on the stock.

2012 Q1 results

Elektrobudowa generated revenue of PLN 184.8m, EBIT of PLN 9.5m, and net profit of PLN 8.1m, in Q1 2012. At 6.7%, the gross profit margin was similar to the Q3 2011 margin of 6.6% but lower than the Q4 2011 margin of 8.1%. Negative operating cash flow of PLN 4.5m was typical of the first quarter of the construction season. Net cash stood at PLN 29.7m as of 31 March (we anticipated PLN 24.4m). Elektrobudowa reaffirmed its FY2012 full-year financial guidance after the first quarter. The value of the contracts captured in the first quarter amounted to PLN 237.7m, which was lower than the year-ago level of PLN 313.5m, but which added to the overall backlog which increased to PLN 908.6m from PLN 852.4m in Q4 2011.

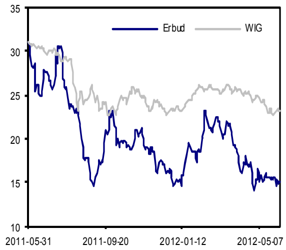
Erbud (Buy)

Current price: PLN 14.97 **Target price: PLN 24**

Analyst: Maciej Stokłosa
Last Recommendation: 2012-01-26

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	1 103.9	1 497.5	35.7%	1 176.0	-21.5%	1 144.0	-2.7%
EBITDA	29.0	-4.7		45.5		46.7	2.6%
EBITDA margin	*2.6%*	*-0.3%*		*3.9%*		*4.1%*	
EBIT	20.9	-12.6		38.7		38.2	-1.3%
Net profit	12.1	-21.4		27.0		27.7	2.5%
P/E	15.6			7.0		6.8	
P/CE	9.3			5.6		5.2	
P/BV	0.8	0.9		0.8		0.7	
EV/EBITDA	3.1			4.2		3.6	
Dyield (%)	3.3	0.1		0.0		2.9	

Basic data (PLN m)	
Number of shares (m)	12.6
MC (current price)	188.2
EV (current price)	192.2
Free float	19.5%
Price change: 1 month	*-6.4%*
Price change: 6 month	*-8.7%*
Price change: 12 month	*-47.3%*
Max (52 week)	30.5
Min (52 week)	14.2



Erbud's Q1 2012 results showed significant improvement compared to preceding quarters. A gross margin of 3% was consistent with our long-term forecasts. We expect continuing growth in Q2 2012, with net profit approximating PLN 7m thanks to completion of loss-making contracts captured in 2009 and the first half of 2010 whose costs proved to have been underestimated. Having incurred significant losses on these contracts in 2011, Erbud has learned its lesson, and it is now exercising much more caution in building its order backlog. The lack of growth in the Polish construction industry is putting downward pressure on prices of rental construction equipment, subcontractor services, and wages, and we believe this will help Erbud to achieve our net profit estimate of PLN 27m in 2012. We are reiterating a buy rating on ERB.

Erbud achieves 3% sales margin, posts weak cash flow in Q1

Erbud generated revenue of PLN 234.4m, EBIT of PLN 7.5m, and net profit of PLN 3.2m, in Q1 2012. The net profit and EBIT figures fell slightly short of expectations. The gross profit came in line at PLN 20.0m. The gross profit margin reached 8.5% – the second highest result since the 9.8% margin recorded in Q2 2010. SG&A expenses exceeded expectations at PLN 12.9m. Other operating income was PLN 0.4m. EBIT fell 7.4% short of expectations. Due to much higher than anticipated financing costs (PLN 3.1m vs. PLN 1.8m), the bottom-line profit fell well below the mark. Operating cash flow was PLN 57.7m in the red, which was disappointing in light of our expected zero OCF. Net debt stood at PLN 28.5m on 31 March vs. net cash of PLN 31.7m posted in Q4 2011. An analysis by operating segment reveals solid performance of Domestic Construction (gross margin: 2.9%), and weaker results in Exports and Roads where margins were only 1.8% and 1.9%, respectively, due to a seasonal slowdown in revenues. The Real-Estate business generated strong gross margin of 15%, and Power Engineering did well with 13.3%. Erbud expects to continue reporting steady profit margins on its projects in the quarters ahead.

CEO on FY2012 outlook

Erbud has accumulated an order backlog of PLN 1.4 billion. CEO Grzeszczak expects the company to continue acquiring contracts totaling PLN 100m each month going forward. Erbud is currently bidding for new orders with a total value of PLN 8bn. In Q1 2012, the company generated improved profits and EBIT margin of 3%, and it hopes to remain on an upward momentum in the upcoming quarters now that all five of its operating segments are generating profits and that miscalculated construction contract budgets have been adjusted.

PLN 38.8m contract

Erbud's subsidiary GWI signed a contract with Projekt Oberkasseler Tor for the construction of an office building in Dusseldorf. The fee is EUR 8.8m, i.e. PLN 38.8m, representing 3.3% of the revenue forecasted for Erbud in 2012. The deadline is June 2013.

New contracts

Erbud is going to build a bakery for FSB Piekarnie for a fee of PLN 22.7m (1.6% of expected 2012 revenue). The deadline is December 2012. Moreover, Erbud and its subsidiary PBDI were selected to build a wind farm in Rząśnia for PLN 43.2m, representing 3.1% of the expected 2012 revenue. The term of the contract is fourteen months.

Mostostal Warszawa (Buy)

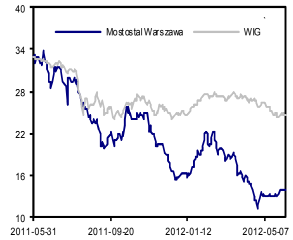
Current price: PLN 13.98 Target price: PLN 27.2

Analyst: Maciej Stokłosa

Last Recommendation: 2012-01-26

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	2 570.4	3 396.3	32.1%	2 843.7	-16.3%	2 832.8	-0.4%
EBITDA	119.7	-104.7		100.9		121.8	20.8%
EBITDA margin	*4.7%*	*-3.1%*		*3.5%*		*4.3%*	
EBIT	84.3	-144.8		58.7		78.6	33.8%
Net profit	62.5	-124.5		38.7		52.7	36.1%
P/E	4.5			7.2		5.3	
P/CE	2.9			3.5		2.9	
P/BV	0.5	0.7		0.6		0.6	
EV/EBITDA				2.5		1.9	
Dyield (%)	12.8	4.4		0.0		4.2	

Basic data (PLN m)	
Number of shares (m)	20.0
MC (current price)	279.6
EV (current price)	255.0
Free float	23.8%
Price change: 1 month	*7.1%*
Price change: 6 month	*-31.8%*
Price change: 12 month	*-57.5%*
Max (52 week)	33.8
Min (52 week)	11.3



Despite losing two waste incinerator contracts on appeals by counter-bidders, Mostostal Warszawa has accumulated a fat order book to the tune of PLN 6 billion. MSW remains the cheapest of the larger construction firms listed on the WSE based on EV ratios. For example, its ratio of EV to Backlog is 6.2% (compared to Polimex's 15.6%). Mostostal obtained a EUR 25m loan from Acciona at the beginning of April, and this news caused its stock to fall on speculation that it may convert the loan to equity in the future in a repeat of 2006. It is true that MSW conducted an SPO in 2006 aimed at raising cash toward loan payments. It sold its shares at PLN 12 apiece, but a few months later Acciona announced a tender offer for its shares at PLN 20 a share which failed as MSW shares experienced a sharp drop. We do not see a reason why MSW should convert the 2011 and 2012 loans taken out with Acciona into equity. We believe that, once it completes road contracts, its debt will decrease, and its profits will start to improve beginning in Q3 2012. We are reiterating a buy rating on MSW.

2012 Q1 results

Mostostal Warszawa generated revenue of PLN 712.2m, EBIT of PLN 8.2m, and net profit of PLN 12.9m, in Q1 2012. The company had a dismal first quarter, with profits coming in line with consensus estimates but falling short of our forecasts. The consolidated gross margin was weak at 1.5% due to a still-high share of loss-making road contracts in Q1 2012 revenue. Cash flow from operations was a negative PLN 305.8m, resulting in an increase in net debt to PLN 188.4m from PLN 97.8m in the preceding quarter. We believe the surge in debt was largely a consequence of increased costs related to the finishing stages of large road contracts (A4, A2 motorways). SG&A expenses amounted to PLN 19.4m in Q1 2012 (we expected PLN 20.1m). MSW posted other operating income of PLN 0.5m in the period (we expected PLN 1.1m expenses). Deconsolidation of the bankrupt subsidiary Terramost resulted in a PLN 10.4m charge against losses attributable to the shareholders of the parent company. Above the bottom line, the deconsolidation charges affected mainly other operating expenses. MSW recognized other financing expenses of PLN 1.9m in Q1, contrary to expectations of other financing income of PLN 0.2m. Minority interests amounted to PLN 2.2m.

MSW has new CEO

Mr. Marek Józefiak was appointed to the post of Mostostal Warszawa's CEO in May. Mr. Józefiak had previously been employed with Ernst & Young Business Advisory where he was in charge of telecom, energy, and infrastructure markets. Before that, he was CEO of TPSA from 2001 to 2006, and still earlier he headed PTK Centertel (currently Orange). Mr. Józefiak says that his experience outside of the construction industry is an asset. He believes MSW needs changes that will enable it to become a more profitable business with stronger market position.

Possible contract fee hike

Mostostal Warszawa's customer, the coal miner LW Bogdanka, recognized a PLN 25m allowance for potential additional work on its coal processing plant which is being developed by Mostostal. PLN 25m is equivalent to 0.9% of Mostostal Warszawa's expected 2012 revenue. Unfortunately, at the same time, LWB is probably charging late fees against MSW's compensation over contract delays. The final settlement of the contract should take place in June.

Appeals rejected, PLN 545.9m contract coming

The wnp.pl website reported that the National Chamber of Appeals had dismissed all appeals concerning the award to Mostostal Warszawa of a contract for construction of a waste incineration plant in Szczecin. This means that the project is now Mostostal's. The company's bid was PLN 545.9m, representing 19.3% of the forecasted 2012 revenue. The counter bidders were Warbud with Vinci (PLN 538.1m), Erbud with Integral Engineering (PLN 604.2m), and Rafako (PLN 599.8m).

MSW loses PLN 598.3m waste incinerator contract

The National Chamber of Appeals upheld an appeal filed by PBG against the award of a waste incinerator contract to Mostostal Warszawa, based on insufficient specifications presented in the bid. The contract was reassigned to PBG.

MSW loses PLN 528.3m waste incinerator contract

The National Chamber of Appeals upheld an appeal filed by PBG against the award of a waste incinerator contract to Mostostal Warszawa, The bidding process will be repeated.

PLN 19.1m contract

Mostostal Warszawa and consortium partner Acciona are going to build a hotel in Gdańsk for Port-Hotel for a fee of PLN 19.1m, representing 0.7% of the expected 2012 revenue of Mostostal.

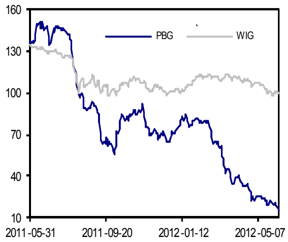
PBG (Suspended)

Current price: PLN 14.63 **Target price: -**

Analyst: Maciej Stokłosa
Last Recommendation: 2012-06-05

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	2 740.3	3 733.8	36.3%	5 014.6	34.3%	4 300.3	-14.2%
EBITDA	319.4	397.3	24.4%	289.6	-27.1%	366.1	26.4%
EBITDA margin	*11.7%*	*10.6%*		*5.8%*		*8.5%*	
EBIT	272.7	336.2	23.3%	210.7	-37.3%	286.8	36.1%
Net profit	224.3	206.5	-8.0%	88.9	-56.9%	138.4	55.6%
P/E	0.9	1.0		2.4		2.1	
P/CE	0.8	0.8		1.2		1.3	
P/BV	0.1	0.1		0.1		0.1	
EV/EBITDA	3.2	5.7		5.8		4.5	
Dyield (%)	9.6	9.6		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	14.3
MC (current price)	209.1
EV (current price)	1 681.3
Free float	41.0%
Price change: 1 month	*-43.4%*
Price change: 6 month	*-78.2%*
Price change: 12 month	*-89.3%*
Max (52 week)	151.5
Min (52 week)	14.6



PBG and its subsidiaries Hydrobudowa and Aprivia have filed for bankruptcy protection to break the deadlock in their negotiations with banks as to the size and nature of the collateral required to secure possible bridge financing. We believe the filings can serve two possible purposes: either they were designed to move the negotiations along and finally reach an agreement with the lenders, or they are a move designed to put pressure on the banks to accept PBG's terms. In the less likely case that the latter proposition is true, the bankruptcy filing could indeed speed up the decision-making process of banks and provide PBG with the bridge financing needed to continue ongoing contracts. The PBG companies filed to be put in to liquidation as well as administration, and it is for the court to decide which solution better secures the interests of creditors. Liquidation always means winding-up of the business and an asset sell-off. In case of PBG, it would entail stoppage of contracts, mandating the cashing of performance bonds by customers. Liquidation would also leave PBG's shareholders with nothing. PBG's creditors would have no choice but to accept a considerable debt haircut (banks have priority over other claims). In turn, administration seems a more favorable solution for all the stakeholders, in particular the holders of PBG's unsecured bonds and certain subcontractors. It would also mean PBG could continue as a going concern. We hope the court will choose to put the PBG Group members into administration. A ruling should be issued in a matter of weeks. The company's creditors will probably propose their own settlement terms which must be approved through a majority vote by creditors whose claims are equivalent to at least two-thirds of the combined debts of all the PBG companies filing for bankruptcy protection. Once it reaches an agreement with the creditors, PBG can continue its operations in the market for gas and oil engineering (where it has a long track record) and power engineering. In the mean time, however, until the court decides which type of bankruptcy is the more appropriate, and until we know with more degree of certainty what kind of future lies ahead of PBG, we are suspending ratings for the company.

PBG reports weak Q1 OCF

On revenue of PLN 715.8m, PBG generated a gross loss of PLN 13.7m, an EBIT loss of PLN 41.5m, and a net loss of PLN 60.5m in Q1 2012. The company had a dismal first quarter. Its debt increased to PLN 2.0bn, and cash invested in working capital totaled a whopping PLN 1.24bn. Operating cash flow was negative at PLN 445.4m (if PBG had additional credit line sin place needed to pay back overdue bills, OCF would have been deeper in the red at ca. PLN -650m). PLN 153m of the OCF was attributable to Rafako’s temporary performance bond provided for the power plant project in Opole, set to be reversed in Q2 2012. Cash flow from investing activity was PLN -188.6m, stemming mainly from the acquisition costs of Rafako. Going back to the first-quarter P&L, PBG reported having generated gross loss of PLN 13.7m and a sales loss of PLN 69.6m in the period. By segment, the losses amounted to PLN 47.3m in Roads, PLN 8.7m in Hydroengineering, PLN 4.2m in Gas & Oil Engineering, and PLN 38.4m in Power Engineering. Hydrobudowa Polska and Aprivia generated net losses of PLN 23.6m due to unprofitable road contracts.

Notes on first-quarter results

PBG expects its road construction units to continue reporting gross losses until the road contracts are completed in early 2013. The company is planning to issue 2012-2013 earnings guidance in June, probably ahead of its planned convertible bond issue. PBG is currently reviewing its road contract budgets. The guidance will be approved by lenders and audited by Ernst & Young. PBG’s total order backlog is worth PLN 8.9bn, of which PLN 3.9bn-worth of contracts are scheduled for completion in 2012. The segmental backlogs are PLN 1.175bn in Gas & Oil Engineering, PLN 625m in Hydroengineering, PLN 444m in Industrial and Housing Construction, PLN 1706m in Roads, and PLN 4958m in Power Engineering.

Bridge loan talks still ongoing

PBG continues its negotiations with banks regarding bridge financing. BZ WBK, ING BŚ, Nordea, and Pekao have already obtained approvals from their respective credit committees to extend the loan to PBG, and the focus now is on agreeing collateral that will be acceptable to all parties. Another topic being discussed is the structure of the financing in the next 12 months. Extension of the negotiations can entail postponement of the entry into force of loan covenants until the end of the year.

Agreement in preparation for bridge financing, bond issue

PBG signed an agreement with banks under which the latter will temporarily and conditionally withhold the collection of amounts due from the company. In addition, the agreement suspends loan covenants. It will be in force through 19 July 2012, or any date subsequently agreed. It may be terminated or expire (in such circumstances as, by way of example, a bankruptcy filing for PBG or its failure to obtain bridge financing). In practice, this means that the agreement will remain in force for as long as this is in the interest of the parties. The agreement specifies a group of “Majority Banks” comprising Bank Zachodni, ING BSK, Nordea Bank Polska, and Pekao S.A.. The amount of facility will not be not lower than PLN 200m. If the loan is not disbursed by June 10th, the standstill agreement will expire. The bridge loan is to be repaid through a convertible bond issue, to be carried out by 19 July 2012. The banks will have seven days to review PBG's bond issue proposal. In addition, PBG announced that the parties intended to execute an agreement refinancing the acquisition of Rafako by 30 June 2012.

Agreement with banks does not foresee further dilution

We wrote in a May flash note that it was unclear whether PBG's agreement with banks was going to bring further conversion of bank debt into convertible bonds (beyond the bridge loan). Now we know it will not, as debt conversion does not fall within the scope of the current agreement.

Bond issue details

PBG estimates that it will need to issue between PLN 300m and PLN 500m convertible bonds in 2012, possibly in several installments, the first tentatively scheduled for late June. The formalities of the bond issue have been completed. The conversion price will be determined based on market conditions. CEO Wiśniewski is willing to acquire convertible bonds of at least PLN 50m (conversion of an unsecured loan extended to the company).

Debt refinancing schedule

PBG announced its debt refinancing schedule. In Q2 2012, the company hopes to a) obtain PLN 200m worth of bridge financing, and b) issue convertible bonds for an amount which has yet to be determined. In Q3 2012, PBG is hoping to obtain a refinance loan for the Rafako acquisition (PLN 360m) and another refinance loan for bonds or bond rollover (PLN 825m). The company is also planning to sell over PLN 100m worth of properties (63 in total with aggregate area exceeding 700,000 sqm). PBG admits that the search for an investor is a lengthy process that will not be finalized within the next couple of months.

Loan covenants

PBG's 2011 earnings report lists the loan covenants which the company is required to observe: They are: a) net profit margin not lower than 5.3%, b) the ratio of net debt and conditional liabilities less intangible assets to equity not exceeding 3.5, c) net debt / EBITDA less than 4, d) the ratio of net profit plus depreciation and interest charges to total interest not lower than 2.0.

Overdue debt, free credit lines

PBG’s financial statements for FY 2011 include a debt aging schedule. Overdue liabilities total PLN 414.7m (2010: PLN 164.8m, 2009: 160.2m), of which PLN 202.4m are payments that have been in default for over one month. Free credit lines amount to PLN 228.6m, but these facilities are linked to particular contracts and may not be used at will.

Bankruptcy cases against PBG subsidiary Dromost withdrawn

A company called PST Andrzej Kasprzak filed a bankruptcy motion against Dromost, a subsidiary of Aprivia which is member of the PBG Group, over unpaid fees in the amount of PLN 863.1m. This was followed by another bankruptcy petition from Multibud, a former supplier seeking to recover PLN 105.000 in unpaid bills. A few days later, both companies withdrew their cases against Dromost. Next, a bankruptcy petition was filed by Żwirownia Dolata over unpaid compensation of PLN 26,000, but as it turned out Dromost had paid the money back one day prior.

PBG bids for PLN 1.5bn new contracts, seeks PLN 1.8bn in extra contract fees

PBG is bidding for contracts with a combined value of PLN 1.5bn, including a waste incinerator in Krakow (where all offers except for PBG's have been rejected), a soccer stadium in Białystok, a sewage treatment plant in Żary, and a heat and power station in Zgierz. PBG's claims for extra contract work have a total value of approximately PLN 1.8bn.

PBG wins PLN 574.5m waste incinerator contract

PBG was selected to build a waste incineration plant in Krakow based on a bid of PLN 574.5m, representing 15.4% of 2011 revenue. The company outbid Mostostal Warszawa, which offered PLN 598.3m, Budimex &co with PLN 609.4m, and Posco with PLN 653.2m.

PLN 103.2m contract

PBG and consortium partners Hydrobudowa Polska and OHL have been hired to finish construction of a soccer stadium in Białystok for a fee of PLN 206.45m. PBG and Hydrobudowa's combined stake in the contract translates to a compensation of PLN 103.2m, equivalent to 2.8% of PBG's expected consolidated 2012 revenue. The term of the contract is nine months.

CEO lends PBG PLN 50m

CEO Jerzy Wiśniewski has lent PBG PLN 50m, of which PLN 36m has already been transferred to the Company, and PLN 14m will be transferred by 15 June. The loan is due by the end of 2012. It is not secured. Mr. Wiśniewski wants the loan to be converted to PBG's convertible bonds.

S&P rating downgrade

S&P has downgraded PBG's credit rating from BB- to B+ with a negative outlook. The downgrade stems from PBG's deteriorating liquidity, upcoming bond maturities, and reliance on external financing. The agency is also concerned about PBG's negative cash flows.

Moody's rating downgrade

Moody's has cut PBG's probability of default rating (PDR) from B2 to Caa3/LD (limited default), and it has lowered the Corporate Family Rating (CFR) from B2 to Caa1, placing the ratings on watch for possible downgrade. Moody's explained the PDR downgrade with PBG's standstill agreement and the need to extend loan terms.

OHL ready to resume negotiations of Hydrobudowa, Aprivia acquisitions

A Spanish newspaper has published an interview with the CEO of OHL, Mr. Juan Miguel Villar Mir. According to him, OHL is still considering the acquisition of a 51% stake in Hydrobudowa and a 50.1% stake in Aprivia in order to enter the CEE market. Poland is considered a key market, alongside, for example, Brazil and Mexico.

2011 earnings adjustments

PBG announced dodnward revisions to its 2011 earnings. The gross profit was revised down from PLN 416.4m to PLN 340.5m, EBIT decreased from PLN 336.2m to PLN 269.3m, and the bottom-line profit shrunk from PLN 206.5m to PLN 160.9m. Only minor revisions were announced to 2010 earnings (e.g. net income down from PLN 190.3m to PLN 186.1m). In 2011, PBG created PLN 30.1m worth of provisions for contract losses and a PLN 36.0m provision for other liabilities. The factor responsible for the downward revisions are road construction contracts. Provisions were created for, among others, a contract for a road connecting the Gdańsk airport and harbor (PLN 8.9m), a PLN 6.7m loss on a road contract, and PLN 6.3m costs of new contracts.

DSS trustee terminates vendor contracts

DSS's trustee has terminated the contract for construction of a stretch of the A4 motorway which had been awarded to the bankrupt company by a consortium involving PBG. The consortium, which consists of PBG, SIAC, Aprivia, and Hydrobudowa, is claiming PLN 17.5m in compensation for delays and other default. DSS has also terminated two other road contracts.

Polimex Mostostal (Buy)

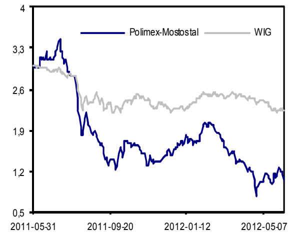
Current price: PLN 1.06 **Target price: PLN 2.01**

Analyst: Maciej Stokłosa

Last Recommendation: 2012-05-07

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	4 160.9	4 826.8	16.0%	5 185.2	7.4%	4 714.5	-9.1%
EBITDA	300.4	229.4	-23.6%	285.5	24.5%	286.3	0.3%
EBITDA margin	*7.2%*	*4.8%*		*5.5%*		*6.1%*	
EBIT	212.7	136.3	-35.9%	188.4	38.2%	188.3	-0.1%
Net profit	109.7	100.4	-8.5%	100.5	0.2%	107.0	6.4%
P/E	4.5	4.9		5.4		5.0	
P/CE	2.5	2.5		2.7		2.6	
P/BV		0.3		0.3		0.3	
EV/EBITDA	3.3	4.9		4.6		4.2	
Dyield (%)	3.7	3.7		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	508.0
MC (current price)	538.5
EV (current price)	1 315.2
Free float	75.1%
Price change: 1 month	*6.0%*
Price change: 6 month	*-24.3%*
Price change: 12 month	*-64.2%*
Max (52 w eek)	3.4
Min (52 w eek)	0.8



Polimex Mostostal is often compared with PBG, which has a similar business profile (power engineering, road construction), operates on a similar scale, and is similarly deep in debt. While some similarities do indeed exist, in many respects, Polimex's financial situation is much better than PBG's. Its debt is PLN 1.2bn compared to PBG's PLN 2.1bn, and it has not been experiencing major payment bottlenecks. Further, Polimex has obtained PLN 100m financing from Bank PKO BP to facilitate redemption of PLN 100m bonds maturing on 25 July 2012. Moreover, the value of Polimex's road contract pipeline is one-thirds of that of PBG, and the overall order backlog is much higher at PLN 12bn vs. PLN 9.2bn (incl. Rafako). It is set for further expansion as Polimex and consortium partner Hitachi have been selected to build a power plant for Enea for a fee of PLN 2.2bn. Once the contract is officially awarded, the consortium stands to receive an advance fee of PLN 250-260m. We believe investors' confidence in Polimex will rebound once PBG resolves its financial troubles. We are reiterating a buy rating on PXM.

Polimex posts small profit improvement, high debt, in Q1

Polimex generated revenue of PLN 1029.7m, gross profit of PLN 88.9m, EBIT of PLN 43.2m, and net profit of PLN 17m, in Q1 2012. We have a neutral to negative view of Polimex's first-quarter performance. Investors are the moment are paying more attention to company debts than to profits, and Polimex's net debt surged to PLN 1.2bn in Q1 from PLN 624m in Q4'11 (we estimated PLN 1.1bn debt). Cash flows from operations were negative at PLN -520.1m. The soaring debt was a result of accounts payable payments (payables fell by PLN 561.6m to PLN 1.24bn), including overdue accounts. Q1 2011 profit figures beat expectations. The gross margin was 8.6% (we expected 8.2%), general expenses were low at PLN 49m (we expected PLN 47.9m, Q1 2011 SG&A were PLN 57m). Polimex posted other operating income of PLN 3.4m in the period (we expected PLN 3.5m expenses). All told, EBIT topped our forecast by nearly 38% and beat consensus by 44%. Other financing expenses were higher than predicted at PLN 34.9m (vs. PLN 25.2m), and they included PLN 13.8m FX losses. Pre-tax income came in at PLN 8.3m (we forecasted PLN 6.2m). Net income was boosted by negative tax of PLN 9m.

Notes on Q1 results

Polimex revealed that it had not received the expected PLN 96.5m advance fee under a power plant contract in Opole yet in Q1 2012. The company is planning to sell PLN 80m-worth of real estate by the end of September, including PLN 50m by the end of June. Polimex's order backlog for the remainder of 2012 is PLN 4.5bn, and the 2013 backlog is PLN 2.8bn.

Polimex wins PLN 2.2bn power plant contract

Enea selected a consortium of Hitachi and Polimex to build a power station in Kozienice based on a bid of PLN 5.1bn. Polimex's stake in the fee is 43% or PLN 2.2bn, representing 42.3% of the expected 2012 revenue. The Hitachi/Polimex offer received a score of 97.7 points, followed by Covec with 92.1 points. The Polish consortium offered a shorter delivery time (58 vs. 71 months) and higher plant efficiency (45.6% vs. 44.7%). Polimex hopes that the contract can be signed within a month, following which it stands to receive an advance fee of PLN 250-260m in early July. Enea says the contract will be inked in Q3 2012.

Loan agreement appendix brings PLN 100m in fresh financing

Polimex Mostostal signed an appendix to its loan agreement with PKO BP, as a result of which the credit limit was increased from PLN 100m to PLN 200m. The loan is due by 30 June 2014.

Debt reduction plans

Polimex does not intend to issue stock any time soon. In the next few months, the company could sell PLN 80-100m worth of assets including the subsidiary Sefako, one-third of the holdings in Torpol, and interests in two Ukrainian units and one Romanian company. Moreover, Polimex owns real estate with carrying value exceeding PLN 360m. The company intends to redeem the PLN 100m bonds maturing in July 2012, and roll over the PLN 194.5m bonds maturing in October. Polimex's order backlog exceeds PLN 12bn, including over PLN 4.5bn in contracts scheduled for delivery in 2012.

Plans for maturing bonds
Bonds worth PLN 100m are maturing on 25 July, with a further PLN 194.5m maturing on 16 October and PLN 73m on 25 January 2013. The total is PLN 367.5m, of which PLN 167.5m is to be rolled over and the remaining PLN 200m to be covered by the planned divestments. Polimex's loan agreements foresee a net debt / EBITDA cap of 4, which, if exceeded, will trigger an increase in financing expenses (but no other consequences). Cash flows will improve, but not before Q4 2012.

Earnings improvement expectations
The CEO of Polimex is expecting lasting improvement in earnings in the upcoming quarters, thanks to, among others, power engineering contracts. The company's budget foresees a PLN 50m y/y cost reduction in 2012, especially in general and administrative expenses. The biggest cuts will be seen in H2 2012. Deeper cost cuts will come in 2013. This year's revenue projection is PLN 5bn.

PLN 114.6m lawsuit against national road authority
In its annual report for FY2011, Polimex revealed that, together with its consortium partners, it had filed a PLN 114.6m lawsuit against Poland's national road authority, the GDDKiA. The dispute concerns the scope of work on the Szarów–Brzesko stretch of the A4 motorway. The company's auditor, Ernst & Young, pointed out that the company's earnings for 2011 included PLN 21m as the amount it expects to receive from the GDDKiA for additional work on the project. The portion of the amount sued for that is attributable to Polimex is PLN 57.3m.

National road authority paying Polimex's subcontractors?
Newspapers reported in May that Poland's national road authority GDDKiA was making delayed payments to Polimex's subcontractors, deducting these from Polimex's fees. The subcontractors interviewed by the newspapers admitted that the delays in question were not very big (up to 30 days). The GDDKiA claims that Polimex has approved such a model, but the company's CEO disputes this. This issue may also be relevant for Hydrobudowa. According to subcontractors, it is easier to say which general contractors make payments reliably because there are so few of them (Budimex, Skanska, Strabag, also Mostostal Warszawa).

Banks demand probe into Polimex's books
The financial institutions that are providing financing for the capacity-building projects of PGE are reportedly pressing on the power producer to look into the books of its general contractors, who include Polimex Mostostal, to check whether they are able to handle these projects in light of the losses they are facing on road contracts.

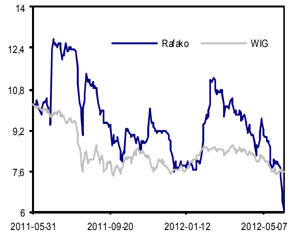
Rafako (Accumulate)

Current price: PLN 6.08 Target price: PLN 11

Analyst: Maciej Stokłosa
Last Recommendation: 2012-05-07

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	1 188.1	1 093.4	-8.0%	1 655.8	51.4%	2 078.9	25.6%
EBITDA	72.1	76.7	6.4%	106.4	38.8%	123.4	16.0%
EBITDA margin	*6.1%*	*7.0%*		*6.4%*		*5.9%*	
EBIT	60.2	64.0	6.4%	89.1	39.2%	105.4	18.3%
Net profit	43.6	58.1	33.2%	65.1	12.1%	76.5	17.5%
P/E	9.7	7.3		6.5		5.5	
P/CE	7.6	6.0		5.1		4.5	
P/BV	1.1	1.0		0.9		0.8	
EV/EBITDA	3.2	4.9		4.0		2.8	
Dyield (%)	4.9	9.4		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	69.6
MC (current price)	423.2
EV (current price)	422.4
Free float	21.5%
Price change: 1 month	*-34.4%*
Price change: 6 month	*-33.6%*
Price change: 12 month	*-40.6%*
Max (52 week)	12.7
Min (52 week)	6.1



Knock-on effects of PBG's financial troubles, combined with the ongoing feud with Alstom, have been putting downward pressure on Rafako's share price. The risks faced by Rafako in connection with PBG are limited to the guarantees that its subsidiary Energomontaż Południe provided for PBG's debt. Rafako also extended a PLN 30m loan to the PBG Group member Hydrobudowa, but this loan is secured against, among others, real estate. We hope there will be no more such lending in the future. Investors are bound to regain confidence in Rafako once PBG resolves its financial situation. In the worst-case scenario, Rafako may be sold to an industry investor, possibly Alstom. Rafako and Alstom are fighting in court over liquidated damages under two contracts. Alstom realizes that it would be against its interests if a new independent rival were to emerge in the Polish power-plant construction market through the acquisition of Rafako. Despite all the risks, we still consider Rafako an attractive investment as a company which generates 100% of its revenues from power engineering jobs. We are reiterating an accumulate rating on RFK.

Rafako posts in-line Q1 2012 results, extends loan to Hydrobudowa

Rafako generated revenue of PLN 321.3m, gross profit of PLN 37.1m, EBIT of PLN 17.1m, and net profit of PLN 13.3m, in Q1 2012. The reported figures came in line with expectations, although, as usual, their structure was somewhat different than we had anticipated. SG&A expenses amounted to PLN 24.5m. Other financing gains were PLN 0.1m. There was a PLN 6.5m reversal of a contract valuation allowance and a PLN 48.3m reduction in provisions for contract delays. The latter change probably had to do with a Hitachi project. Total provisions did not decrease much due to recognition of new allowances (including for the Alstom dispute). A few surprises were found in the Q1 balance sheet. Cash flows from operations were negative at PLN -153m. Receivables more or less matched payables. In receivables, deposits and guarantees increased by PLN 128.7m, probably in connection with the Opole power plant performance bond which Rafako is temporarily covering with cash. If we are right, Rafako's balance-sheet situation looks safe. The biggest surprise was a PLN 32m loan extended to another PBG Group member, Hydrobudowa.

Rafako settles with Hitachi Power Europe

Rafako withdrew its arbitration case against Hitachi Power Europe after receipt of the whole of its claim (EUR 13.4m) and a discharge from liability for usage of T24 steel and any ensuing defects.

Alstom files another lawsuit against Rafako

Alstom is suing Rafako for EUR 28.7m (PLN 124.7m equivalent to 22.9% of the company's market cap) in damages for default under a German power plant contract. The suit was filed with a court in Stuttgart. Rafako says Alstom's claims are groundless because the contract in question did not contain a liability clause.

Minor adjustments to 2011 earnings

Rafako's earnings for 2011 were subject to minor revisions only, with revenues going up from PLN 1.09bn to PLN 1.12bn, gross profit rising from PLN 147.7m to PLN 148.3m, EBIT reduced from PLN 64.3m to PLN 64.0m, and net profit revised downward from PLN 58.7m to PLN 58.3m. The auditor's comments point out guarantees for PBG's debt issued by Energomontaż Południe and the dispute with Alstom (total contract guarantees and receivables = PLN 153m).

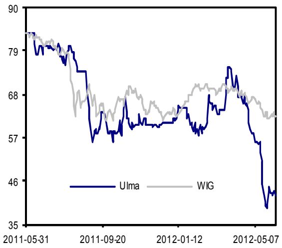
Ulma Construccion Polska (Accumulate)

Analyst: Maciej Stokłosa

Current price: PLN 42.5 **Target price: PLN 69.3** **Last Recommendation: 2012-05-07**

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	215.4	294.5	36.7%	265.1	-10.0%	245.0	-7.6%
EBITDA	104.2	155.6	49.3%	116.2	-25.3%	94.4	-18.8%
EBITDA margin	*48.4%*	*52.8%*		*43.8%*		*38.5%*	
EBIT	27.3	72.5	165.3%	43.6	-39.9%	23.0	-47.3%
Net profit	10.2	49.3	382.3%	28.7	-41.8%	14.4	-49.9%
P/E	21.8	4.5		7.8		15.5	
P/CE	2.6	1.7		2.2		2.6	
P/BV	0.8	0.7		0.7		0.7	
EV/EBITDA	4.1	2.2		2.5		2.7	
Dyield (%)	0.0	0.0		6.2		3.9	

Basic data (PLN m)	
Number of shares (m)	5.3
MC (current price)	223.4
EV (current price)	294.6
Free float	15.2%
Price change: 1 month	*-23.8%*
Price change: 6 month	*-29.4%*
Price change: 12 month	*-49.2%*
Max (52 week)	83.7
Min (52 week)	39.0



Ulma's stock took a dive in May for reasons which remain a mystery to us. Ulma maintains a safe balance sheet and its relationships with banks are good. In Q1 2012, its debt decreased to PLN 93.6m. As an asset-based company, it is normal for Ulma to have debt which is set to decrease as the year progresses. At the same time, the company's profits are expected to deteriorate throughout 2012 and 2013, except EBITDA which should remain attractive. We anticipate that Ulma will reduce its debt to about PLN 21m by the end of 2013, and even if its net profit drops below PLN 10m next year, EBITDA and operating cash flows will remain strong. The estimated 2013 EV/EBITDA ratio should not greatly exceed 3.0. And the 2011 EV/EBITDA ratio is 2.2! Ulma is currently trading at a 25% discount to book value which is grossly understated through a very conservative accounting policy. We are reiterating an accumulate rating on ULM.

Ulma reports weaker-than-expected Q1 P&L, better balance sheet

Ulma generated revenue of PLN 63m, gross profit of PLN 12.8m, EBITDA of PLN 29.5m, EBIT of PLN 7.9m, and net profit of PLN 4.5m, in Q1 2012. Even though the reported figures were slightly lower than forecasted, we consider the first quarter a successful time for Ulma. We believe EBITDA and the balance sheet are the best measures of this success. Operating cash flow was strong at PLN 42.3m, including PLN 21.6m D&A. Capital expenditure was low at PLN 2.8m. As a result, Ulma's net debt decreased from PLN 124.9m to PLN 93.6m, that is by nearly PLN 6 per share. Debt is expected to continue decreasing, though at a slower rate (due to investment in a logistic center), in the quarters ahead. Deleveraging and strong cash flows are what makes Ulma an attractive investment despite a deteriorating earnings outlook for the next two years. It is worth noting that Ulma has not reported any problems with payments from its road-construction customers.

Ulma establishes operations in Lithuania

Ulma registered a company called "Ulma Construccion Baltic" in Vilnius, Lithuania. The new unit will deal in rental and sales of construction scaffolding and formwork.

Supervisory Board approves dividend

Ulma's Supervisory Board approved the Management Board's recommendation to pay out PLN 20m dividends (PLN 3.81 per share, with dividend yield at 9.8%). Ulma has already paid out advance dividends totaling PLN 6m, so the amount left to distribute is PLN 14.0m, or PLN 2.66 per share. The proposed day of record is 21 August, with payout tentatively set for 10 September 2012.

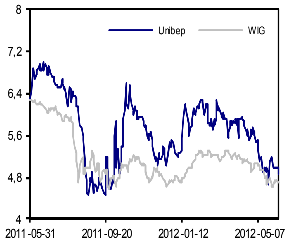
Unibep (Buy)

Current price: PLN 4.88 **Target price: PLN 7**

Analyst: Maciej Stokłosa
Last Recommendation: 2012-01-23

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	657.9	939.4	42.8%	894.1	-4.8%	889.5	-0.5%
EBITDA	35.7	39.0	9.3%	44.1	13.0%	42.4	-3.9%
EBITDA margin	*5.4%*	*4.2%*		*4.9%*		*4.8%*	
EBIT	29.8	33.8	13.5%	37.7	11.5%	36.0	-4.5%
Net profit	22.7	21.1	-6.9%	26.9	27.5%	27.5	2.1%
P/E	7.3	7.8		6.1		6.0	
P/CE	5.8	6.3		5.0		4.9	
P/BV	1.2	1.0		0.9		0.8	
EV/EBITDA	5.0	5.3		5.9		3.2	
Dyield (%)	2.0	2.5		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	33.9
MC (current price)	165.6
EV (current price)	259.0
Free float	27.6%
Price change: 1 month	*-8.8%*
Price change: 6 month	*-3.0%*
Price change: 12 month	*-28.6%*
Max (52 week)	7.0
Min (52 week)	4.5



Unibep is doing very well in a tough industry. The company has control over its debt levels, which are expected to increase in Q2 2012 and decrease in Q4 2012 for no other reason than the need to finance ongoing real estate projects. Unibep's construction business has, and will continue to generate neutral to positive operating cash flows. Cash flows are set to improve considerably in Q3 2012 after completion of a housing contract with long payment terms (120 days). Unibep has put on hold acquisitions of commercial projects for now. Its 2012 earnings are set to show small year-on-year growth. Unibep's's road construction business will incur a small loss this year (the company takes on mainly small contracts, primarily from commercial customers). Profits in 2013 will be supported by lower costs of construction. The 2013 order backlog is already 70% full. We are reiterating a buy rating on UNI.

Unibep posts in-line Q1 2012

Unibep generated revenue of PLN 141.6m, gross profit of PLN 11.9m, EBIT of PLN 5.2m, and net profit of PLN 2.4m, in Q1 2012. The reported results came in line with expectations except EBIT which exceeded our estimate. The gross profit margin beat our 7.7% forecast at 8.4%, owing to a strong margin (29.1% vs. 18.4% forecasted) generated by the real-estate arm. The gross margin on construction operations amounted to 6.2%, less than our 7.2% estimate which assumed that the company would recognize higher revenues on the office building it is building in Warsaw. Note, however, that the Q1'12 construction margin showed considerable improvement from preceding quarters (4.5% in Q4 2011, 3.4% in Q3 2011). As predicted, the road construction segment generated a gross loss of PLN 1.4m in the first quarter, and the prefab house segment booked a gross loss of PLN 0.74m on lower-than-expected revenue. Unibep generated a gain of PLN 0.3m from other operating activities in Q1, contrary to expectations of a PLN 0.5m loss, resulting in that much higher-than-expected EBIT. On the other hand, financing operations incurred PLN 1m higher-than-expected losses of PLN 2.1m. Unibep's 2012 first-quarter operating cash flow was a negative PLN 4.2m – not a bad result for a period which marks the beginning of the construction season. Net debt was up from PLN 40.3m to PLN 55.5m, due mainly to capital expenses incurred on the Warsaw office project.

Shareholders approve dividend

Unibep shareholders voted in favor of distribution of PLN 0.12-a-share dividend (PLN 4.1m total, with yield at 2.4%). The date of record is July 6th, and payout is scheduled for July 20th.

Unibep acquires PLN 13.8m office project

Unibep acquired a 100% stake in Wola House, owner of a 4964-square-meter property in Warsaw, for a total price of PLN 13.8m. The seller was Selvaag Eiendom. The payment will be effected in installments, the last payable by 20 April 2013. Unibep's plan for the property is to develop commercial spaces with a total leasable area of 20,000 square meters.

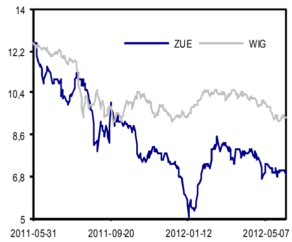
ZUE (Buy)

Current price: PLN 6.9 | Target price: PLN 9.2

Analyst: Maciej Stokłosa
Last Recommendation: 2012-01-26

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	392.4	583.0	48.6%	594.7	2.0%	594.7	0.0%
EBITDA	32.4	36.1	11.4%	36.7	1.9%	36.3	-1.3%
EBITDA margin	*8.2%*	*6.2%*		*6.2%*		*6.1%*	
EBIT	25.6	28.2	10.1%	27.2	-3.6%	26.6	-2.2%
Net profit	16.8	21.2	26.2%	19.9	-6.3%	20.2	1.8%
P/E	6.6	7.2		7.6		7.5	
P/CE	4.7	5.2		5.2		5.1	
P/BV	0.7	0.9		0.8		0.7	
EV/EBITDA	4.1	5.2		3.8		3.4	
Dyield (%)	1.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	22.0
MC (current price)	151.8
EV (current price)	140.5
Free float	22.2%
Price change: 1 month	*-1.4%*
Price change: 6 month	*-8.0%*
Price change: 12 month	*-44.8%*
Max (52 week)	12.5
Min (52 week)	5.1



ZUE generated its best first-quarter results in history in Q1 2012, with net loss at just PLN 0.5m compared to losses of PLN 2.7m posted in Q1 2011 and PLN 4.1m in Q1 2010. ZUE intends to maintain its 2012 earnings results at last year's level, even though it realizes (and we agree) that this will be a challenge (2011 net profit was PLN 21.2m, with P/E at 7.2). Based on 2012 earnings prospects, ZUE's current share price discounts a possible drop by as much as 25% in this year's net profit (EV/EBITDA). ZUE has acquired PLN 223m-worth of new contracts since the beginning of the year, and its order book remains strong. Polish municipalities stand by their urban rail development and maintenance plans, and new contracts expected to come on line going forward are estimated at PLN 1 billion. Moreover, ZUE is poised to benefit form upcoming railroad projects as Poland has PLN 10bn left in unused EU funding (considering a 50:50 financing structure in EU-funded projects, the total value of the potential contracts can be as high as PLN 20bn). That said, competition in the railroad development industry is tough, with 12 to 18 companies competing for each major contract. Smaller contracts worth PLN 20-30m typically attract fewer bidders. We are reiterating a buy rating on ZUE.

Q1 2012 results best in four years

On revenue of PLN 76.8m, ZUE generated an EBIT loss of PLN 0.6m and a net loss of PLN 0.5m in Q1 2012, and these results exceeded our expectations. For comparison, in Q1 2011, ZUE posted a net loss of PLN 2.7m, preceded by a Q1 2010 net loss of PLN 4.1m and a H1 2009 net loss of PLN 4.0m. The lower-than-expected losses were owed to higher revenues which came over 40% ahead of estimates. ZUE managed to get more work done in the seasonally cold first quarter than we had anticipated. By comparison, Q1 2011 revenue of PLN 46m accounted for only 8.8% of the full-year topline. ZUE has accumulated a 2012 order backlog exceeding PLN 500m. On higher revenue facilitating better management of costs, the gross margin came well ahead of our 1.3% estimate at 3.6%. We will not know whether such strong margins are a sustainable trends until the Q2 2012 results. ZUE distributes its costs more evenly across four quarters than it does revenues. At PLN 3.5m, ZUE's Q1 2012 general expenses were the lowest since the company's WSE debut (we estimated SG&A at PLN 4.1m). There was other operating income of PLN 0.1m (we expected PLN 0.3m expenses), and other financing costs of PLN 0.2m (we expected PLN 0.6m). Cash flow from operations was negative at PLN 12.6m, and net debt was lower than our PLN 17m estimate at PLN 16.1m.

PLN 27.4m contract

ZUE's subsidiary PRK Kraków signed a contract with PKP PLK for reconstruction of a train station in Pyskowice plus of additional work. The PLN 27.4m contract represents 4.7% of ZUE's expected 2012 revenue and has a deadline on 30 November 2012.

In the black after Q2 2012

ZUE hopes to replicate its 2011 earnings performance in 2012, although it does admit that this might be a somewhat difficult task. Q2 2012 is expected to be good, and the company is expected to be in the black when it closes.

ZUE subsidiary wins PLN 34m design contract

A consortium involving BIUP (a 49% associate of ZUE), BPK (a 60% subsidiary of ZUE), and E=R=G Polska, has been selected to prepare designs and tender documentation for an upcoming contract tender process regarding modernization of a railway line. The fee is PLN 34m, equivalent to 5.7% of ZUE's expected 2012 revenue. The contract has an effective term of 773 days.

Real Estate Developers

Residential Developers

Subsidized mortgage lending in April

Banks extended PLN 565.0m government-funded home loans (under the *Rodzina na Swoim* program) in April 2012, which compares to subsidized lending of PLN 562.2m issued in March and PLN 1063.3m lent in April 2011. The number of loans issued during April amounted to 3249, 55% of which were used to buy new homes. As it turns out, April saw a rebound in RnS lending after weak January and February. Such a rebound can suggest an acceleration in home sales, or it can be an effect of intense homebuying activity in March. What is surprising about the RnS lending data is that Poland's major housing markets (Warsaw, Krakow) are operating under more stringent subsidy requirements as of April.

House prices fall 1.9% q/q in Q1

As measured by AMRON, the sales prices of one square meter of living space in the six largest cities in Poland fell 1.9% relative to Q4'11 and 5.5% relative to Q1'11. The biggest drop (-4.4% q/q, -7.8% y/y) was recorded in Łódź, while prices in Poznań remained flat at the quarter-before level. AMRON's survey is an aggregate of new- and existing home market data. It is consistent with the figures reported earlier by REAS, Open Finance, and Home Broker. REAS reported a 0.5% q/q decline in new home prices, while the average sales price recorded by Open Finance and Home Broker was over 5% lower at the end of April 2012 than at the end of December 2011.

Banks tighten credit policies

According to an NBP survey of 29 banks, most lenders have tightened their mortgage lending policies this year due mainly to increased loan margins and non-interest costs. Moreover, banks are required to abide by more stringent credit scoring rules put into force by the so-called Recommendation S issued by Financial Supervision. Nearly 25% of the banks surveyed expected further tightening of mortgage restrictions in Q2. 62% expected no further changes. Tighter access to credit has coincided with a record supply of new homes coming to the market this year. Surprisingly, as noted by the banks, demand for homes remains steady, and the situation in the housing market is not looking quite as gloomy as we had anticipated back in January.

Gant

Home sales in April

Gant sold 80 homes before cancellations (66 after cancellations) in April 2012, marking an increase of 12.7% from April 2011 and a decrease of 27.3% from March 2012. In light of expectations of a slowdown in the housing market, Gant's April sales results look good, being close to February sales and not much worse than the 2011 monthly average. Most housing developers are expected to report month-on-month sales deterioration in April after a particularly strong March.

Rank Progress

CEO on investment plans

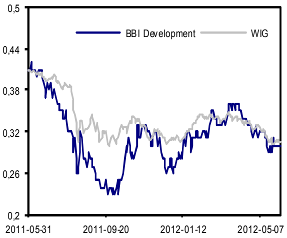
Rank Progress is negotiating purchases of four commercial real estate projects with building permits in place, estimated at PLN 10m-30m each. Some of the projects may be developed as joint ventures. They are located in different cities in Poland with populations ranging from 50 to 100 thousand, and they are designed to have between 10 and 30 thousand square meters of leasable areas. Further, Rank Progress is in talks with a potential buyer for its shopping center in Świdnica, and its projects in Krosno and Grudziądz have attracted interest from investors. Rank Progress had a weak first quarter due to investment property revaluation losses caused by the zloty's appreciation relative to the euro and higher costs resulting from a sale of a shopping center in Kalisz.

BBI Development (Accumulate)

Current price: PLN 0.3 Target price: PLN 0.34

Analyst: Piotr Zybała
Last Recommendation: 2012-06-05

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	67.1	58.6	-12.7%	58.4	-0.3%	50.9	-12.9%	Number of shares (m)	523.1
EBITDA	28.5	21.8	-23.5%	12.1	-44.3%	12.2	0.6%	MC (current price)	156.9
EBITDA margin	*42.5%*	*37.2%*		*20.8%*		*24.0%*		EV (current price)	376.7
EBIT	28.4	21.6	-23.9%	11.9	-44.8%	12.0	0.6%	Free float	65.2%
Net profit	12.0	14.2	19.1%	0.5	-96.6%	4.4	820.9%		
P/E	13.1	11.0		327.8		35.6		Price change: 1 month	*-6.3%*
P/CE	13.0	10.9		224.1		33.8		Price change: 6 month	*0.0%*
P/BV	0.7	0.6		0.6		0.6		Price change: 12 month	*-28.6%*
EV/EBITDA	8.8	13.9		31.1		48.7		Max (52 week)	0.4
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	0.2



BBI shares have eased 6.3% since our last monthly report. The stock has been showing defensive characteristics relative to other real estate stocks. BBI's earnings performance in the last year or so has been less than stellar, but this is likely to change as construction of the Plac Unii development nears completion. The occupancy rate in the building is growing swiftly, and attractive cap rates achievable on these types of projects should enable the company to recognize higher valuation gains on Plac Unii than we predicted in January. Once finished, the sale of Plac Unii can fetch at least PLN 160m and at best about PLN 210m in after-tax cash according to our estimates. BBI's current market capitalization is PLN 157m. We are upgrading BBD shares from hold to accumulate following a price decline below our conservative target.

BBI posts in-line first quarter

BBI delivered few homes, and therefore generated weak profits, in Q1 2012. The earnings figures came in line with expectations, except valuation gains of PLN 3.6m, higher than our PLN 1.5m estimate, offset at bottom-line level by ca. PLN 1.5m higher-than-expected tax. SG&A expenses decreased relative to the preceding quarter, but we cannot say by how much due to changes in the accounting approach to certain cost and income lines. Q1 2012 was the fourth consecutive quarter which ended with BBI's net earnings hovering around zero. Q2 2012 should bring an improvement driven by more home deliveries, combined with higher gains on investment property revaluations if the EUR/PLN exchange rate remains at the current high level.

BBI obtains building permit for a stage of "Koneser" project

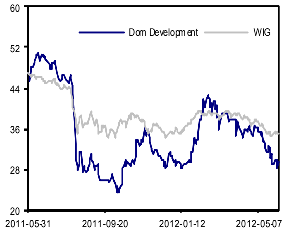
BBI Development has secured a final permit for construction of the first stage of its residential-and-commercial project "Koneser" in Warsaw. We expect construction of the residential buildings to commence in Q3 2012.

Dom Development (Hold)

Current price: PLN 29.5 **Target price: PLN 31.4**

Analyst: Piotr Zybała
Last Recommendation: 2012-01-23

(PLN m)	**2010**	**2011**	**change**	**2012F**	**change**	**2013F**	**change**	**Basic data (PLN m)**	
Revenues	513.7	584.3	13.7%	797.4	36.5%	642.5	-19.4%	Number of shares (m)	24.6
EBITDA	61.4	105.7	72.0%	105.9	0.2%	65.2	-38.4%	MC (current price)	724.5
EBITDA margin	*12.0%*	*18.1%*		*13.3%*		*10.1%*		EV (current price)	725.6
EBIT	59.1	103.2	74.8%	103.4	0.2%	62.8	-39.3%	Free float	26.6%
Net profit	40.4	82.7	104.6%	85.4	3.3%	52.0	-39.2%		
P/E	17.9	8.8		8.5		13.9		Price change: 1 month	*-18.7%*
P/CE	16.9	8.5		8.2		13.3		Price change: 6 month	*-7.8%*
P/BV	0.9	0.9		0.8		0.9		Price change: 12 month	*-38.2%*
EV/EBITDA	12.5	7.9		6.9		12.6		Max (52 week)	50.8
Dyield (%)	2.7	3.1		5.9		9.4		Min (52 week)	23.5



The price slump that took place on the WSE last Friday did not spare Dom Development - one of the least indebted companies in the real estate sector. Despite a lack of major news, DOM shares plummeted 19% in May, hitting lows last recorded in December 2011 and January 2012. Dom Development is offering a good dividend yield of 5.1%, and we believe it can achieve a profit of PLN 100m in 2012 in spite of a soft housing market (P/E = 7.0). As for the outlook for 2013, we anticipate a slowdown in growth depending on when the downward trends in home prices, bank lending, and housing sales, stop. We are reiterating a hold rating on DOM.

DOM lists new flats

Dom Development commenced sales of flats in stage three of its “Derby 14” residential project in the Warsaw district of Białołęka. Stage three, which is designed to consist of 189 flats, is scheduled for completion in Q4 2013. DOM has listed 1000+ flats for sale between January and mid-May, confirming our 2012 first-half listing forecast of ca. 1200.

Shareholders approve dividend

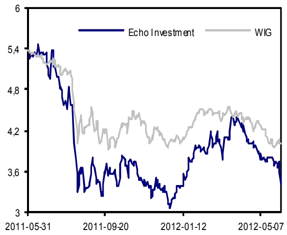
Dom Development’s shareholders approved payment of PLN 1.5-per-share dividends. The record date is June 12th, and payout is set for June 26th. News in line with expectations (DYield=5%).

Echo Investment (Buy)

Current price: PLN 3.42 **Target price: PLN 4.7**

Analyst: Piotr Zybała
Last Recommendation: 2012-01-24

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	426.4	404.2	-5.2%	563.2	39.3%	595.7	5.8%	Number of shares (m)	420.0
EBITDA	172.7	550.0	218.5%	407.7	-25.9%	168.1	-58.8%	MC (current price)	1 436.4
EBITDA margin	*40.5%*	*136.1%*		*72.4%*		*28.2%*		EV (current price)	3 786.6
EBIT	168.7	545.8	223.6%	396.3	-27.4%	156.6	-60.5%	Free float	36.8%
Net profit	147.7	164.0	11.0%	263.7	60.8%	146.0	-44.7%		
P/E	9.7	8.8		5.4		9.8		Price change: 1 month	*-9.5%*
P/CE	9.5	8.5		5.2		9.1		Price change: 6 month	*1.5%*
P/BV	0.8	0.7		0.6		0.6		Price change: 12 month	*-35.5%*
EV/EBITDA	18.1	6.3		9.3		26.5		Max (52 week)	5.5
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	3.1



Echo had a successful first quarter, posting a net profit of PLN 31m which would have approximated PLN 100m had it not been for foreign-exchange effects. Such a strong bottom line was partly owed to revaluations of investment properties in progress. Adjusted for these revaluations, Q1 EBIT was 56% higher than in the same period in 2011 and 41% higher than in the quarter before, and it was driven by windfall profits generated by the housing business which are unlikely to be matched in subsequent quarters. After further adjustment for contributions of the residential segment, first-quarter EBIT displayed 14% year-on-year expansion and a quarter-on-quarter increase of 5%, testifying to the good quality of Echo's rental properties. We are reiterating a buy rating on ECH.

Profit allocation recommendation

Echos Investment’s Management Board is recommending that the profit for 2011 be retained in full in order to finance current operations. Shareholders will vote on this proposal on 6 June 2012.

Echo beats consensus with strong Q1 results

Echo beat our high expectations in Q1 2012 by posting strong quarter-on-quarter and year-on-year expansion in revenues and gross profit. The Residential segment was the main profit driver in the period, growing its gross profit from PLN 2.0m in Q4 2011 to PLN 22.0m thanks to completed projects in Poznań and continuing home deliveries in projects in Warsaw and Kielce. The gross margin in the Residential segment was a stellar 39%. In the segment of Retail Property Rentals, gross profit was flat at the quarter-before level of PLN 56m, but it showed an increase of 12% relative to Q1 2011. The gross profit of the Office and Hotel segment amounted to PLN 12.0m after increasing from PLN 9.6m reported in Q1 2011 and PLN 10.7m in Q4 2011. The growth was facilitated by a decrease in vacancy rates, the end of rent-free periods in selected projects, and partial settlement of a Novotel hotel in Łódź. SG&A expenses were 30% lower than in Q4’11 and 24% higher than in Q1’11. Revaluation losses on investment properties were higher than anticipated at PLN 109.9m (we forecasted PLN 104.0m). In spite of this, the Q1 2012 EBIT loss was 11% smaller than our estimate and 31% smaller than predicted by analysts. We estimate the impact of the euro’s appreciation relative to the zloty on revaluation outcomes at PLN 160-170m. This means that, regardless of FX effects, Echo’s portfolio of work in progress and finished properties generated valuation gains of PLN 50-60m in Q1 2012. Financing expenses decreased to PLN 32m from PLN 36m in Q4 2011. Foreign-currency loan revaluations resulted in a PLN 96m gain. At PLN 31m, Echo’s net income fell only slightly short of our PLN 32m estimate and exceeded the PLN 21m consensus estimate.

PLN 115m bond issue

Echo issued three-year coupon bonds worth PLN 115m. The bonds pay a rate of interest of floating 6M WIBOR+margin. The interest payments will be made on a semiannual basis. The bonds are unsecured. Since PLN 115m of Echo’s earlier two-year bond program was set to mature this month, the new issue is not going to boost the company’s cash position which stood at PLN 436m as of 31 March 2012.

Majority shareholder increases holdings

Echo’s main shareholder Michał Sołowow increased his voting interests by at least 1%, and he now holds a 44.74% equity stake in the company.

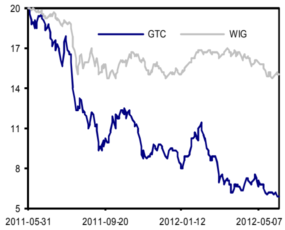
GTC (Suspended)

Current price: PLN 5.8 **Target price: -**

Analyst: Piotr Zybała

Last Recom mendation: 2012-04-05

(EUR m)	2010	2011	change	2012F	change	2013F	change	Bas ic data (PLN m)	
Revenues	169.0	153.7	-9.1%	161.3	5.0%	165.1	2.4%	Number of shares (m)	219.4
EBITDA	111.1	-230.7		61.2		128.7	110.4%	MC (current price)	1 272.4
EBITDA margin	*65.8%*	*-150.1%*		*37.9%*		*77.9%*		EV (current price)	5 826.6
EBIT	110.6	-231.2		60.6		128.1	111.5%	Free float	58.8%
Net profit	41.9	-270.4		17.0		63.8	275.5%		
P/E	6.9			17.1		4.5		Price change: 1 month	*-12.4%*
P/CE	6.8			16.5		4.5		Price change: 6 month	*-37.6%*
P/BV	0.3	0.4		0.3		0.3		Price change: 12 month	*-69.6%*
EV/EBITDA	13.7			21.7		11.4		Max (52 w eek)	19.5
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 w eek)	5.8



GTC's Q1 2012 results came slightly ahead of consensus estimates, indicating that the portfolio remeasurements witnessed in 2011 will not continue in 2012. Eager to push ahead with the planned SPO, GTC announced the schedule right after prospectus approval by the KNF. Investors can subscribe for the shares from June 5th through 14th. Assuming there is no delay, the allotment certificates (PDA) can start trading at the beginning of July. We are suspending coverage of GTC pending a valuation update.

Q1 net profit boosted by negative tax and minority interests

At EUR 36.5m, GTC's Q1 2012 revenue fell slightly short of the consensus estimate (EUR 37.4m), and matched the quarter-before figure. There was a small quarter-on-quarter decline in gross profit caused by a shrinkage to 1.6% from 18.4% in the margins earned on housing sales. The shrinkage was probably due to fewer house deliveries in the Konstancin projects. Going forward, we expect the margin to remain low. On a positive note, GTC's Q1 2012 rental income showed quarter-on-quarter growth to EUR 22.8m from EUR 22.5m. SG&A expenses were 4% lower than a year earlier and 26% lower than in quarter before, which is a good result even if not quite as we had hoped. Revaluations of investment properties provided a negligible gain of EUR 2.3m (we expected EUR 1.0m). The results of other operating activity came in line, and, as predicted, net financing expenses decreased by EUR 1.0m to EUR 16.9m compared to the preceding quarter. GTC's pre-tax income in the first quarter proved EUR 0.7m higher than our forecast thanks to the higher revaluation gains. Thanks to negative tax of EUR 1.2m and losses of EUR 3.3m attributable to minority interests (a testament to the continuing slump in SEE markets), the Q1 2012 net income came in at EUR 6.3m, exceeding our estimate and analysts' expectations by about EUR 5m.

June stock issue, impending sale of BP Platinum

Each share issued by GTC in June will entitle the holder to one right. The value of the secondary offering is EUR 100m. In other news, GTC expects to sell the Platinium Business Park development within 2-3 months, and so free up EUR 40-50m in cash. GTC is hoping to earn EUR 180m on property sales (including Platinium) in the next three years. As recently as one quarter ago GTC's Management shunned questions about precise dates when asked about progress in Platinium sale negotiations. The three month timeline announced in May suggests that the negotiations are coming to an end.

GTC sets issue price for I stock

GTC set the issue price of its June follow-on stock offer at PLN 4.45 per share. The offer will consist of no more than 100 million shares. It will raise the number of GTC's outstanding shares from 219.4 to 319.4 million (+45.6%). The record day was June 4th, which means May 30th was the last day GTC stock was trading with rights to the new shares. On May 31st, the stock price was adjusted downward for the theoretical value of a right (PLN 0.51). The prospectus was approved by financial supervision on June 1st.

SPO schedule

GTC announced the schedule of its secondary public offering. Investors can subscribe for the "I" shares from June 5th to June 14th.

- 4 June – date of record;
- 5 June – first day of subscriptions by rights holders and additional subscriptions;
- 14 June – last day of subscriptions by rights holders and additional subscriptions;
- 25 June – share allocation;
- 26-27 June – subscriptions for shares not acquired by rights holders and for investors invited to subscribe by GTC;
- 27 June – share allocation;
- On or around 3 July - the "I" shares start trading on the WSE.

J.W. Construction (Hold)

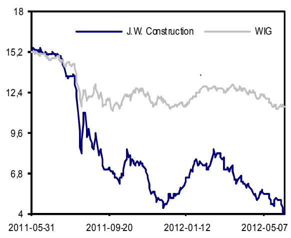
Analyst: Piotr Zybała

Current price: PLN 3.99 Target price: PLN 6.1

Last Recommendation: 2012-05-07

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	620.0	362.9	-41.5%	395.4	9.0%	335.0	-15.3%
EBITDA	155.3	78.1	-49.7%	86.3	10.4%	88.8	2.9%
EBITDA margin	*25.0%*	*21.5%*		*21.8%*		*26.5%*	
EBIT	142.4	65.6	-53.9%	73.8	12.4%	76.3	3.4%
Net profit	92.0	27.8	-69.8%	28.2	1.5%	28.1	-0.4%
P/E	2.3	7.8		7.6		7.7	
P/CE	2.1	5.4		5.3		5.3	
P/BV	0.5	0.4		0.4		0.4	
EV/EBITDA	4.8	10.3		12.7		15.2	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	54.1
MC (current price)	215.8
EV (current price)	1 093.6
Free float	27.3%
Price change: 1 month	*-25.8%*
Price change: 6 month	*-17.7%*
Price change: 12 month	*-73.9%*
Max (52 week)	15.4
Min (52 week)	4.0



JWC shares have lost over 25% of their value in the course of the past month which was the third consecutive month of downward price movements for the company. JWC is one of the most heavily indebted real estate companies in Poland both in absolute terms and relative to equity. Moreover, weak home sales generated so far in 2012, combined with a new installment plan scheme offered to homebuyers, do not bode well for the company's future operating cash flows. Looking at the dwindling investor confidence towards companies with large debts, and given JWC's weak earnings performance to date, there is nothing to suggest that its stock could start performing better than other residential developers any time soon. That is why we are reiterating a hold rating on JWC despite the recent price slump.

JWC posts better-than-expected Q1 margins, increasing debt

At PLN 46.5m, JWC’s Q1 2012 revenue was 36% lower than predicted by analysts, indicating a small number of home deliveries completed in the period. At the same time, the margin on the real-estate operations was surprisingly high at 42.6%. With hotel margins at a negative 26.1%, and a modest margin generated by the construction business, the consolidated Q1 gross margin came in at 27.9% vs. 19.1% in Q4 2011 and 30.5% in Q1 2011. We believe judging by JWC’s building pipeline that the stellar margin achieved on the real-estate business is not sustainable in the long term. Q1 2012 saw a welcome decrease in SG&A expenses which, at PLN 10.9m, showed q/q reduction by 36.6% and y/y cuts by 20.4%. JWC posted high revaluation gains on its investment properties of PLN 10.0m in the first quarter, which came as a surprise given the zloty’s appreciation relative to the euro which should have produced valuation losses. The company employs an aggressive valuation policy. The results of other operating activities were in line with expectations, but financing operations produced a loss of PLN 7.8m, higher than the PLN 4.0m loss posted in the quarter before. The quarterly bottom-line profit amounted to PLN 2.5m, topping our PLN 1.6m estimate and a PLN 2.2m consensus estimate.

JWC’s Q1 2012 results gave a mixed message. On the one had we have the strong real estate margin and reduced costs. On the other hand, a low revenue signifies that the company is experiencing a slowdown in home deliveries and a shrinking inventory. Moreover, JWC’s debt exceeded PLN 600m in Q1 after increasing by PLN 38m, and it is bound to increase further after the recent land purchase.

JWC offers loans to homebuyers

JWC has launched a program called “Lokum” whereby it is offering to provide financing for 70% of the value of its flats to buyers who are able to make downpayments but who are not eligible for mortgage loans. The loans can be extended for as long as 20 years. They will be denominated in euros, and payable in equal installments with floating rate of interest. We do not know how JWC is planning to finance the homebuyer loans. We can say, however, that the Lokum program will cause a slowdown in future cash receipts from customers. Given that JWC has no surplus of cash, we believe it will take out additional debt to finance the program. The success of the Lokum loans will depend on their costs and collateral requirements.

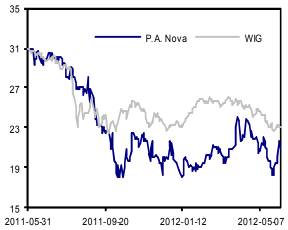
PA Nova (Buy)

Current price: PLN 20.95 | Target price: PLN 25.8

Analyst: Piotr Zybała
Last Recommendation: 2012-01-23

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	146.5	173.9	18.7%	214.1	23.1%	230.5	7.7%
EBITDA	27.9	32.5	16.4%	29.7	-8.6%	51.9	74.6%
EBITDA margin	*19.1%*	*18.7%*		*13.9%*		*22.5%*	
EBIT	25.7	29.7	15.4%	26.7	-10.2%	49.1	84.1%
Net profit	20.2	21.2	5.1%	17.8	-15.8%	31.9	78.5%
P/E	10.4	9.9		11.7		6.6	
P/CE	9.4	8.7		10.0		6.0	
P/BV	0.9	0.8		0.8		0.7	
EV/EBITDA	10.3	9.1		14.2		7.6	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	10.0
MC (current price)	209.3
EV (current price)	421.6
Free float	39.4%
Price change: 1 month	*0.5%*
Price change: 6 month	*4.3%*
Price change: 12 month	*-32.2%*
Max (52 week)	31.0
Min (52 week)	18.0



First-quarter results reaffirmed our full-year earnings forecasts for PA Nova. The company's two shopping center projects in Kędzierzyn Koźle and Kluczbork are going as planned, and they should start contributing to profits in the second half of the year. If PA Nova sells these developments as planned in 2013, next year's annual profit may exceed our current forecast of PLN 32m. The divestments would also provide the company with cash needed to develop a new shopping center in Jaworzno. We are reiterating a buy rating on NVA.

PA Nova posts good if lower-than-expected Q1

P.A. Nova's Q1 2012 net profit fell short of expectations, for two reasons: First, on in-line revenue, the company generated PLN 0.5m lower-than-expected gross profit. Note that profits generated from store development projects performed for retail chains are recognized upon completion, while the revenues are recognized while construction is ongoing. The gross profit shortage relative to our forecast may have been due to recognition of a smaller portion of one such project, which means a larger portion will be booked in Q2 2012. Another explanation is a low margin on this project. Secondly, PA Nova paid PLN 0.4m higher-than-expected tax in Q1 (the effective tax rate was over 26%). Consequently, the quarterly net profit was PLN 0.9m (15%) lower than we had forecasted, but at the same time it topped PLN 5 million for the fourth quarter in a row, and it accounted for 29% of our full-year bottom-line estimate. The larger number of projects scheduled for settlement in Q2 means that this quarter's profit will also be over PLN 5m. There is a considerable difference between PA Nova's reported Q1 EBIT figure and our estimate which probably stems from valuation effects related to a land property purchased in January. The results of other operating activity and financing activity came in line with expectations, as did general expenses which were below PLN 1m.

PA Nova increases overdraft facility to PLN 30m

PA Nova signed an annex to an overdraft facility agreement with PBS bank increasing the amount of the facility to PLN 30m. The loan expires on 25 April 2013.

PLN 0.50-a-share dividend proposal

P.A. Nova's Management Board is proposing a PLN 0.5 per-share dividend payout from 2011 profits. The proposed day of record is 15 July, with payout scheduled for 25 September. Dividend yield is 2.3%. It does not come as a surprise that P.A. Nova is paying a small dividend and keeping most of the profit to finance its investment plans.

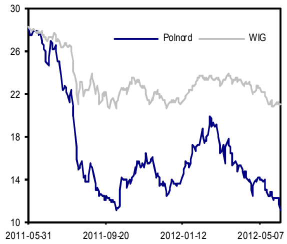
Polnord (Hold)

Current price: PLN 11.03 **Target price: PLN 15.7**

Analyst: Piotr Zybała
Last Recommendation: 2012-01-23

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	180.3	307.7	70.7%	266.6	-13.4%	303.8	14.0%
EBITDA	50.4	86.2	70.9%	52.6	-39.0%	-4.2	
EBITDA margin	*28.0%*	*28.0%*		*19.7%*		*-1.4%*	
EBIT	48.1	84.1	74.6%	50.9	-39.5%	-5.9	
Net profit	51.6	61.5	19.2%	57.9	-5.9%	66.4	14.7%
P/E	4.7	4.0		4.5		4.0	
P/CE	4.5	3.9		4.4		3.9	
P/BV	0.2	0.2		0.2		0.2	
EV/EBITDA	19.1	9.7		16.6			
Dyield (%)	7.8	2.9		4.7		6.6	

Basic data (PLN m)	
Number of shares (m)	23.8
MC (current price)	262.5
EV (current price)	872.6
Free float	55.0%
Price change: 1 month	*-21.4%*
Price change: 6 month	*-22.7%*
Price change: 12 month	*-59.7%*
Max (52 week)	27.9
Min (52 week)	11.0



Polnord was able to recognize a non-recurring gain of nearly PLN 20m in its Q1 2012 P&L, which gave a boost to the quarter's bottom-line profit, after obtaining a binding offer from a debt collector to purchase compensation receivable from the City of Warsaw for road-zoned land properties. Polnord decided not to accept the offer because it is hoping for a higher award through a case filed with the Supreme Administrative Court. In all, the company is counting on cash receipts approximating PLN 100m this year under its case against Warsaw authorities (we estimate the cash at PLN 60m). We expect Polnord to make a bond issue soon to facilitate a rollover of the debts maturing in 2012. After an over-10% price drop recorded in May, PND shares are currently trading at a discount of nearly 80% relative to book value. In our view, the company is undervalued given the cash flows it is expected to generate from ongoing commercial and residential real state projects, and considering the value of its assets. We are reiterating a hold rating on PND.

Q1 results boosted by one-offs

Polnord's Q1 2012 profits was boosted by a one-time gain from compensation receivable for land properties in Warsaw which had been zoned for public roads. The PLN 18.7m boost to pre-tax income helped the company avoid a net loss in the quarter. Polnord decided to recognize the potential compensation after obtaining a commitment from a debt collector to purchase the receivables. The sale is on hold for now pending a court ruling. A favorable ruling would enable Polnord to offer the receivables to a wider group of buyers at higher prices. After adjustment for the one-off, Polnord's Q1 2012 EBIT figure is higher than our estimate and lower than the consensus estimate. On higher-than-expected revenue (PLN 84m vs. our PLN 75m forecast and PLN 77m consensus), gross profit amounted to PLN 11m, and gross margin was a little over 13% (a weak result caused by settlement of a loss-making project in Sopot which will continue to weigh on quarterly results for the rest of 2012). An earlier restructuring exercise was reflected in lower costs, with SG&A falling 21% q/q and 23% y/y. In turn, financing expenses of PLN 12m were higher than our forecast of PLN 8m, driven by higher costs of debt restructuring.

On higher-than-expected EBIT and financing expenses, Polnord reported a pre-tax profit of PLN 4m, which turns to a PLN 15m pre-tax loss after adjustment for one-offs (analysts anticipated a lower loss). The recognition of the potential land compensation in Q1 2012 financial statements is a sign of Polnord's confidence in its ability to recover these claims. Similar receivables were recognized in the company's first-quarter accounts last year, and a successful sale to a debt collector followed in early July.

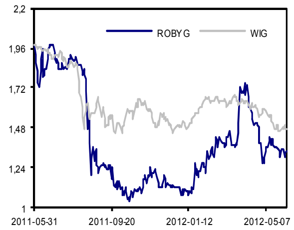
Robyg (Hold)

Current price: PLN 1.34 **Target price: PLN 1.43**

Analyst: Piotr Zybała
Last Recommendation: 2012-03-05

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	284.8	153.7	-46.0%	440.1	186.4%	399.7	-9.2%
EBITDA	47.6	16.3	-65.8%	79.1	385.4%	64.3	-18.7%
EBITDA margin	*16.7%*	*10.6%*		*18.0%*		*16.1%*	
EBIT	46.9	15.4	-67.1%	78.3	407.5%	63.5	-18.9%
Net profit	31.7	35.0	10.4%	42.1	20.4%	30.1	-28.5%
P/E	9.2	9.9		8.2		11.4	
P/CE	9.0	9.6		8.0		11.2	
P/BV	0.7	0.8		0.8		0.8	
EV/EBITDA	13.7	41.8		8.6		11.7	
Dyield (%)	0.0	5.2		4.1		4.9	

Basic data (PLN m)	
Number of shares (m)	257.4
MC (current price)	344.9
EV (current price)	678.2
Free float	16.5%
Price change: 1 month	*0.0%*
Price change: 6 month	*11.7%*
Price change: 12 month	*-26.4%*
Max (52 week)	2.0
Min (52 week)	1.0



Robyg was May's top performer among the real estate developers in our coverage, losing just 2% of its share value. The company reported strong first-quarter results which included improved margins and operating cash flows approximating PLN 50m. Robyg shares are still trading cum-dividend (the record day is June 11th) which offers the highest dividend yield in the residential real-estate sector (9%). Our view on Robyg today is similar to that on Dom Development after the 19% May price drop. Our target price for the company's shares is only slightly higher than the current market price, but an upgrade is not warranted so long as the Polish housing market continues to soften. We are reiterating a hold rating on ROB.

Robyg reports strong Q1 profits, cash flows

As predicted, Rogyg delivered more homes in Q1 2012 than in the quarter before. On revenue of PLN 85.6m (+17% q/q), the company achieved gross profit of PLN 20.9m in the period. and it posted a record gross profit margin of 24.4%, 1ppt higher than our estimate. SG&A expenses showed quarter-on-quarter reduction by 25% and year-on-year expansion by 23%, consistent with Robyg's expanding operations. SG&A remain Robyg's main strength relative to competition. Financing expenses amounted to PLN 2.8m in the first quarter, and they are expected to remain at his level in the following quarters because Robyg has started to recognize formerly capitalized interest in P&L as of this year. A tax of PLN 3.9m calculated in Q1 implies an effective tax rate of 33.4%, but the tax actually paid was only PLN 1.0m, owing probably to the reorganization completed in Q4 2011. In the quarters ahead, we expect effective tax rates to be lower than the standard rate of 19% as well. The adjusted Q1 2012 bottom-line profit came in at PLN 7.3m, marking considerable improvement from he year-ago and quarter-before levels. Robyg generated strong operating cash flow of PLN 48.4m in the first quarter.

Robyg sets aside PLN 30-50m land budget

Robyg wants to spend between PLN 30m and 50m this year on land purchases. One source of financing could be a bond issue. The company is negotiating properties in Warsaw's districts of Wilanów, Praga Południe, Żoliborz, and Bielany. Our financial forecasts for Robyg assume allocation of about PLN 60m to land purchases. At the same time, we assume that the company will commence only one new project in Warsaw in 2012 and 2013, so the lower-than-anticipated land budget does not affect our sales forecasts, but it may affect this year's operating cash flow.

Robyg to deliver 1000 homes in 2012

Robyg expects to deliver over 1000 homes to buyers this year. The number of homes scheduled for delivery in 2012 and 2013 is 1950. Last quarter, Robyg stated that it would recognize over 860 flats in 2012 revenue and 1568 in 2012-2013 revenue. The upward revision to the earlier conservative sales estimates is in line with expectations. Our forecasts assume delivery of about 1000 units this year and the same number of flats next year.

Robyg shareholders approve PLN 0.12 dividend

Robyg's shareholders approved the Management Board's recommendation to pay out dividends of PLN 0.12 per share. The record date is June 11th, and the payout is scheduled for June 25th, 2012. Robyg is offering the highest dividend yield (9%) of all listed housing developers.

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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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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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