

**Building Materials**

Poland

**Rovese**

RSE PW; CRSA.WA

**Suspended**

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**Rovese Acquires Assets From Majority Owner****Current price: PLN 3.40**

Rovese signed an agreement regarding acquisition of a number of companies in different CEE locations directly from its majority shareholder, Michał Sołowow, for a total price of PLN 524m. The company plans to finance the acquisitions with a stock offer consisting of between 405.7 and 811.4 million shares (adding to the 270.5 million already outstanding). Assuming its goal is to raise PLN 524m, the issue price would fall in the range of PLN 0.65 to PLN 1.29 per share. By acquiring these companies, Rovese, and therefore its shareholders, are taking on some of the risks entailed in global business operations. The shareholders who decide not to participate in the SPO can expect dilution of their interests. We expect negative market reactions to the acquisition and SPO announcement. Rovese has not disclosed much information about the companies it is about to acquire, making it impossible to assess the impact of these transactions on the company's value. That is why we are suspending coverage of Rovese until we find out more details.

**The acquisitions**

The companies that Rovese is taking over from Michał Sołowow for PLN 524m include Pilkington's Manufacturing (a UK-based company priced at PLN 6m), Meissen Keramik (a German ceramic tile manufacturer valued at PLN 87m), ZAO Syzranska Keramik (a Russian company operating based on assets leased from OOO Pilkington's EAST), Pilkington's EAST (a Russian ceramic tile manufacturer; the combined value of ZAO Syzranska Keramik and Pilkington's EAST was estimated at PLN 284m), and OOO Opoczno (a Russian ceramic tile manufacturer estimated at PLN 147m). The condition precedent to the entry into force of the acquisition agreements is obtaining of financing through a stock issue. Rovese has distribution deals in place for its products with Meissen Keramik, Pilkington's Manufacturing, and ZAO Syzranska Keramik.

**Assets being acquired from main shareholder**

(PLN m)	Price	Business	Location
Pilkington's Manufacturing Ltd	6	Distribution	UK, Ireland
Meissen Keramik GmbH	87	Distribution and manufacture of ceramic tiles	Western Europe
ZAO Syzranska Keramik	284	Distribution	Russia
OOO Pilkington's EAST		Manufacture of ceramic fixtures	Russia
OOO Opoczno Rus	147	Manufacture of ceramic tiles	Russia

Source: Rovese, BRE Bank Securities

**The stock issue**

Rovese has called a General Meeting for July 20th to vote on a cum-rights issue of 405.7 to 811.4 million shares of I stock (adding to the 270.5 million shares currently outstanding), aimed at raising capital to finalize the acquisitions. Any surplus proceeds will be allocated toward debt repayment and working capital. Assuming Rovese is aiming to raise PLN 524m, the share issue price will fall in the range of PLN 0.65 to PLN 1.29 (a cheap SPO). In our view, the cheap stock offer will not be welcome by Rovese's major shareholders who will be forced to participate so as to avoid dilution. At the same time, the addition of international companies to the Rovese Group means more diversified risk in the global market. Assuming Rovese generates the same earnings results in 2012 as in 2011, its 2012E P/E ratio is approximately 13.4. For the acquisitions to be considered attractive by shareholders, the acquired companies would have to generate a combined net profit of at least PLN 39m (equivalent to 50% of Rovese's 2011 net profit and 15% of EBITDA).

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# 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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