4 July 2012

Periodic Report

BRE Bank Securities

Monthly Report

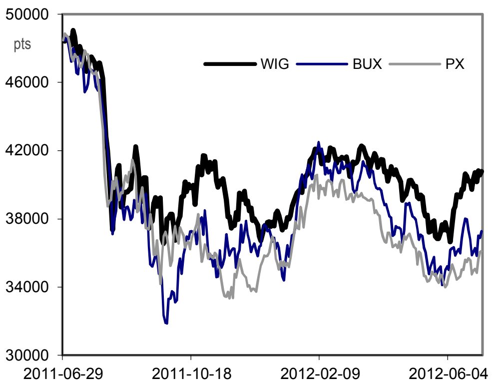
July 2012

Equity Market

Macroeconomics

WIG	**40 788**
Average 2012E P/E	10.0
Average 2013E P/E	9.5
Avg daily trading volume	PLN 703m

WIG vs. indices in the region



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Macroeconomics
BRE Bank Economists

Equity Market

After the June gains, our expectations for July involve a mix of weak economic data and anticipation of central bank actions, leading to a consolidation of stock indices at the same or only slightly higher levels as now.

Company Outlook

Financial Sector. We would advise investors to cash in their bank shares ahead of a weak earnings season, with bank profits weighed down by provisions for possible losses on construction industry loans. Our top pick in the sector is PZU (which is paying high dividend and which remains attractive even as the State Treasury is planning to increase the supply of its stock). Our least favorite bets are Pekao (due to its demanding valuation and outstanding loans from the bankrupt PBG) and Millennium (which also has PBG as a borrower).

Gas & Oil. Oil stocks are likely to trade higher ahead of what is expected to be a strong second-quarter earnings season, but in the medium term much will depend on oil prices. By contrast, PGNiG is expected to report weak results for Q2.

Power Utilities. The improved sentiment to European power stocks should carry over into the Polish sector. Out top pick remains Tauron which has the most potential to beat low expectations.

Telecoms. We remain neutral on the telecom sector. Market trends are working against Netia and TPSA, but at current levels the continuing subscriber losses seem to be priced in in both cases.

Media. In a persistently unfavorable market environment, Agora and TVN display some upside potential provided by their low valuations and possible ownership changes.

IT. Polish IT companies have welcomed the unlocking of funds allocated to e-administration projects, and the signing of contracts with tender winners. Forthcoming contract awards will help sustain positive sentiment to the sector.

Mining and Metals. Despite weak data, anticipation of action from the FOMC and the Chinese government should keep the prices of industrial metals elevated.

Manufacturers. The outlook for July is most promising for Impexmetal and Kęty. We would also encourage investors to take a look at AC SA and Berling.

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

Real Estate Developers. Polnord was the real estate sector's star performer in June thanks to its successful land compensation case against the City of Warsaw. Overall, however, market conditions have not been favorable for housing developers. After the downslide of the last few days, P.A. Nova is currently trading at attractive levels.

Ratings. As of the date of this Monthly Report, we are upgrading our ratings for ZA Puławy (Hold), we are downgrading Ciech (Hold), Millennium (Reduce), MOL (Reduce), Pekao (Reduce), PKO BP (Hold), and PZU (Hold), and we are terminating coverage of Centrum Klima.

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Equity market

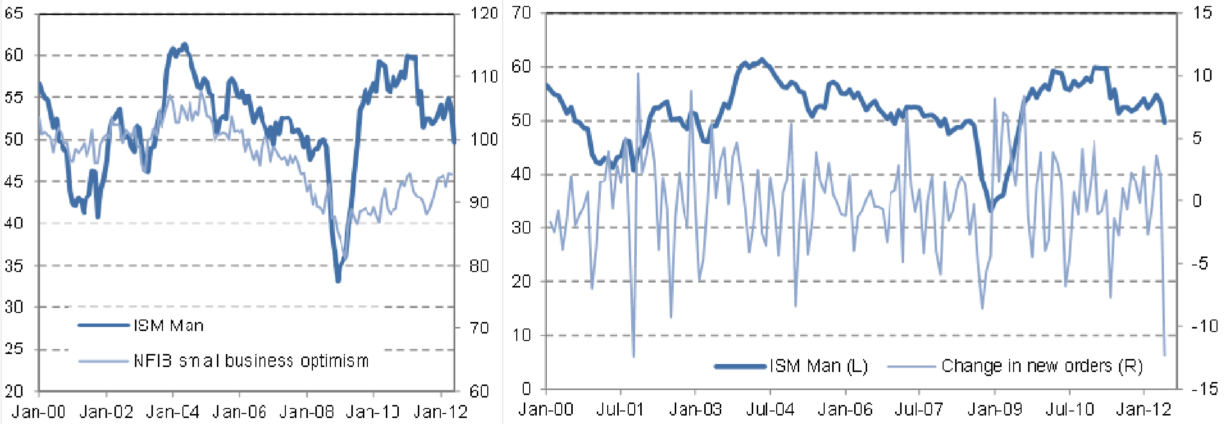
June saw most stock market indices go up (S&P by 4% m/m, DAX by 2.4% m/m and WIG20 by 8.5% m/m), which means that, so far, the positive three month-scenario we proposed in early June is playing out. The climb in stock prices was associated with falling commodity prices, a factor that should support the global economy in the future. The economic data that were published during that time were predominantly disappointing, especially ISM Manufacturing, which we had used earlier to support our view that American manufacturing was expecting a revival (as recently as May, the new orders index stood at 60pts). The surprisingly weak June reading (primarily due to a 12.3pts. m/m plunge in new orders) suggest that the American economy may actually decelerate, which, of course, makes economic stimuli measures on the part of FOMC and the Obama administration more likely (especially in the context of the weak economic momentum in Europe and the approaching presidential election in the USA). In our opinion, weaker 'hard' economic data will be offset by expectations of actions on the part of the Fed. The earnings reporting season is also approaching. Results for Q1'12 helped equity owners, but now there is a risk that solid earnings will be interspersed with warning signs. The weak economic data were offset by the effects of the EU summit. Relative to expectations and disappointments that the earlier summits were, investors were surprised on the upside this time. It is still to be seen whether and how quickly the declarations made there turn into facts, but we believe that the summit is going to have a calming effect on the Eurozone over the next few weeks. The yield on Spain's 10Y bonds has fallen to 6.2% (from nearly 7.3%), and on Italian bonds, to 5.6% (from 6.3%). American investors remain pessimistic, however. At the end of June, 28.7% of investors surveyed were bulls on S&P500 (vs. 28% previously), 55.4% were bears (vs. 42% previously) and 27% were undecided (vs. 30% previously). In turn, the VIX volatility index fell 17pts, which is a warning sign. After a strong June, we expect July to be marked by a combination of weak economic data and expectations of further steps on the part of central banks, leading to consolidation at close to the current level, or slight movement north. The decisions taken at the EU summit towards banks may have a negative impact on the industry's relative performance in Poland (investors will buy cheap shares in banks in the region, and Polish banks may appear to be more defensive), all the more so that the PKO BP (and, in terms of valuation multiples, also Pekao) and PZU stocks have reached levels that might prompt the State Treasury to sell its stakes. Moreover, the banks' provisions for loans to construction industry have proved higher than expected (cf. the data for May). In turn, expectations of actions on the part of FOMC and the Chinese government should keep prices of industrial metals high.

Very weak ISM Manufacturing reading in USA

In our opinion, the biggest negative surprise in last months' economic data was the very weak ISM Manufacturing index, which fell from 53.5pts to 49.7pts (vs. 52pts expected), this being the first time since the end of the previous recession that it has dipped below 50pts (a level that, in theory, implies industrial contraction). Unfortunately, what drove the index down was the new orders sub-index, which plunged by 12.3pts, from 60.1pts to 47.8pts. The production index also fell significantly (from 55.6pts. to 51.0pts.) We have not seen such as sharp plunge in new orders since October 2001 (-12.4pts.) At that time, it rebounded sharply the following month (by 10.4pts) and then continued growing four straight months. Since 2000, there have been five other instances of the new orders index falling by 7pts. m/m or more, usually from high levels of ca. 60pts., harbingering a soft-patch. In two cases (2000 and 2008) such plunges occurred from levels of under 50pts., 2-5 months before ISM Manufacturing bottomed out (at times of deep economic slowdown).

The fact that ISM Manufacturing has fallen below 50pts. does not mean the entire US economy will go into recession. Most of the country's GDP comes from services. In statistical terms, the GDP can be expected to fall when ISM Manufacturing falls below 47pts. It is worth noting that small companies, whose exposure to the global economic trends is more limited, are still experiencing improvements in their situation (thanks to, inter alia, increased availability of credit). Due to the credit crunch and because of size limitations, such companies did not feel a material improvement in their situation in the initial revival phase after the last recession.

ISM Manufacturing vs. NFIB Small Firms Index (L), monthly change in new orders sub-index vs. ISM Manufacturing (R)



Source: Bloomberg

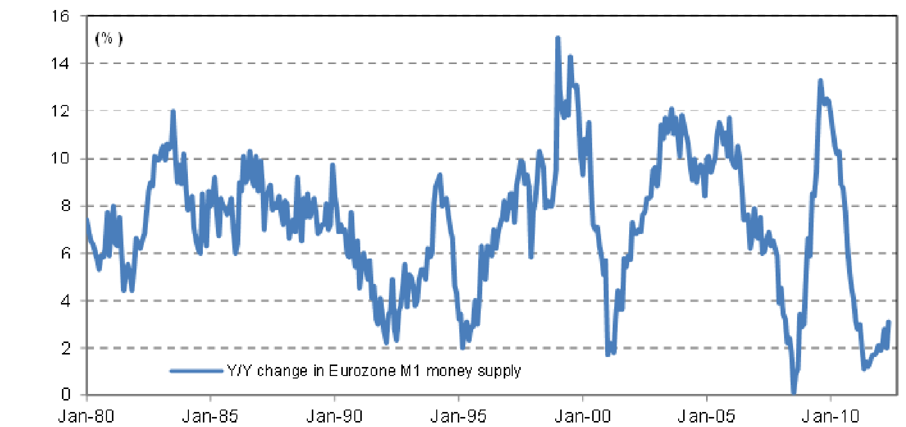
The weaker ISM reading makes it more likely that the FOMC will act. According to our macroeconomics team, the "standard" Quantitative Easing (i.e. a broad asset-buying scheme) is reserved for a potential escalation of the Eurozone crisis. If the economy continues to weaken, or fails to improve, FOMC is likely to test alternative stimulus programs, which it is probably currently developing.

EU summit: a positive surprise, but what next?

Relative to expectations and to disappointments that previous EU summits led to, the most recent one brought surprisingly concrete solutions, although it should be stressed that these are still 'palliative' rather than 'curative' efforts. That said, with additional support from the ECB, financial markets should be calm for a while. The most important decisions taken at the summit include: the declaration that the establishment of European banking supervision will be accelerated (with the work to be concluded by the end of the year) and the increase in the flexibility of stability funds (which means, for example, that Italian bonds can be bought directly by EFS/ESM, and that Spain and other countries can recapitalize their banks directly from EFS/ESM, without putting a burden on their national budgets). In addition, the summit included a discussion on instruments that would make it possible to reduce Spain's and Italy's financing costs (the details are to be agreed on during the summit planned for 9 July). In the next few weeks, we will find out whether the agreed measures will be pursued (signals of dissent have already come from some countries), or whether they get stuck in political discussions, and we will learn what further summits bring and what the ECB's role is going to be.

In spite of the dismal sentiment in Eurozone, it should be noted that late June and early July brought economic data that were weak but better than expected. This is true of retail sales (+0.6% m/m vs. +0.3% m/m expected) and PMI Services (up from 46.7pts. to 47.1pts. vs. 46.8pts. expected), while PMI Manufacturing stopped falling (45.1 in May and June). Note also that M1 money supply has been improving for several months.

M1 money supply in Eurozone



Source: Bloomberg

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Macroeconomics

Monetary council on interest rates

The global economic outlook has worsened, and Poland's GDP data for the first quarter as well have confirmed a slowdown (some of the members of the Monetary Policy Council expect even weaker data for the second quarter, and we agree). The MPC seems to be divided into a number of small camps in its discussions about the nature of the slowdown (there is no majority or even a minority consensus). MPC members are more in accord with each other when it comes to the job market: not only is the unemployment rate not falling, but jobs are actually on a decline, reassuring some of the MPC members that salaries are not coming under any major pressure (the MPC has considerably softened its stance since the last meeting; the risk of second round effects is limited). The MPC has retained its stance on inflation, indicating that the period when inflation will be deviating from the target may be longer than originally thought, with core inflation considered to be the main cause (moving towards commodities in May). CPI's decline after an unexpected increase in April should appease the concerns of those MPC members who point to core inflation. There has been a major change in rhetoric when it comes to interest rates: some MPC members have suggested that, at the current level, interest rates seem to be supporting price stability in the medium term. Interestingly, there is a minority voice saying that rate hikes would hamper consolidation measures in the public finance sector, leading to more severe fiscal restrictions and further deceleration in growth. Some of the MPC members stressed that, given the obvious economic cooling, the latest central bank rate hike was probably a sufficient measure adjusting interest rate levels to the current and future macroeconomic situation in Poland. While the majority of MPC members are still waiting for projections, the Council's newly discovered sensitivity to economic data minimizes the risk of decision-making based on projections, especially in a fast-changing macro environment. We maintain that the MPC will keep rates steady at the July meeting. The market's attention is moving towards possible interest rate cuts (the FRA curve reflects two cuts in the next nine months, one cut within six months, and a possible cut within three months), particularly after the positive inflation surprise in May, but we believe these expectations will not be met. Data shows that the slowdown is gradual, and, as the MPC uses much more dovish rhetoric, stability issues will gain in importance. The MPC will not start thinking about stimulus measures until inflation drops to levels necessitating hikes in real interest rates.

Retail sales

Retail sales increased 7.7% in May, marking an acceleration from the 5.5% y/y growth recorded in April. Excluding food, fuel, and autos, the expansion from the year before amounted to 6.9% in May compared to 4.5% in April (with even growth recorded across all basic categories). The main growth drivers included fuel (3.2% m/m), food (where 2ppts of the 5.8% y/y increase were contributed by base effects), and the category of furniture, electronics, and household appliances (6.2% m/m). The biggest surprise came from the (hard to predict) category of "other sales" (which accounts for over 20% of total sales) which showed month-on-month expansion by 6.8%. In turn, retail sales of clothes and footwear fell 5.1% relative to April, and "other sales in non-specialized stores" were down 3.1%. Looking at the trends observed across the different categories, we can see that the EURO2012 soccer Cup was influencing consumer behavior ahead of its June launch. Note for instance the increase in electronics purchases paired with a drop in fashion shopping (a shift confirmed by slower sales generated by shopping centers which had to use summer price discounts earlier than usual to attract shoppers). By the same token, we can expect further departures from seasonal patterns in June, obscuring the trends that are indicative of the economy's real state. Still, this does not affect our core scenario which foresees a downturn in consumption in 2012 due to a number of strong fundamental factors (including the decelerating labor market) as well as long-term correlates of personal spending (economic expectations of households, a record-low savings rate).

Manufacturing

In May, industrial production shot up unexpectedly by a staggering 4.6% y/y (4.5% m/m) and by 3.1% y/y (0.1% m/m) in seasonally-adjusted terms. While this reading comes as a surprise, the May car manufacturing forecasts published by Samar suggested that the y/y growth rate in manufacturing would approach 5%, which at the time seemed unrealistic given our economic slowdown scenario and the very weak seasonally-adjusted industrial production trend. The actual reading did in fact validate Samar's indicator, with manufacturing output growing at 5.2% y/y. In terms of individual sectors, there has been little change from the preceding month, with growth in 23 categories out of 34 vs. 22 in April. The biggest drops were observed in exports-oriented industries such as furniture (-10.3% y/y) and cars (-7.2% y/y), with the strongest growth recorded in chemicals (+15.3% y/y) and electrical appliances (+12.5% y/y). It is hard to draw firm conclusions here. We can see, however, that the weaker zloty is not boosting exports-oriented output. Strong growth was also observed in the food industry, which could be due to the Euro 2012 soccer championship, although this factor should be much less relevant for industrial output as opposed to other variables. In June and July, we will still see positive base effects (as well as, possibly, positive Euro 2012 effects), but once the summer ends industrial production will enter a downturn not just as a result of the progressing economic slowdown (sentiment indicators are still pointing south), but also due to 2011 base effects (a solid recovery path from an earlier soft patch). Construction output grew 23.7% m/m in May, which translated into 6.2% y/y growth (vs. 8.1% y/y in April). Growth was faster when adjusted for seasonal factors: 7.2% y/y vs. 1.9% y/y in April. All the sectors demonstrated growth vs. April: civil engineering (27.8%), building construction (27.4%) and specialist work (11.3%), although the latter category saw a contraction vs. May 2011. We believe that this structure suggests that infrastructural projects are being continued, an effect that may persist for 1-2 months before gradually waning. Therefore, we are expecting a clear slowdown in investment starting with Q3.

Job market

Average employment in the private sector sustained the May growth rate of 0.3% y/y. In month-on-month terms, employment did not change vs. April due to rounding; in absolute figures, 800 jobs were lost. The data are consistent with a scenario of a progressing slowdown. When we have seen a more detailed breakdown of the data, we will be able to assess where employment structure is heading. Even now, however, we would venture to say that the main problem area is construction, where the number of jobs seems to be falling. Manufacturing seems to be relatively stable (which is likely to change as signals of economic downturn intensify), while growth may have been recorded in retail and in restaurants and hotels (note that both of these categories may have benefitted from the Euro 2012 soccer championship). This "soccer effect” will affect the data primarily in June (a surprise on the upside is possible), but afterwards, regular economic developments will have the upper hand. Therefore, we expect the m/m employment growth rate to remain in the (-0.2)-0.0% range, which could bring the y/y rate below zero for a few months. That said, the current employment slowdown remains much more controlled than in 2009. Salary growth accelerated from 3.4% y/y in April to 3.8% y/y in May. We do not need to see the data broken down into individual categories to say that salaries are slowing down in manufacturing, i.e. the area that is the most sensitive to economic situation turns, and that the growth stems from last year's base effect. In the upcoming months, salaries will be in a downtrend. In this situation, real salary growth remains close to zero, if not slightly below, which, coupled with reduced employment in the private sector, will have a negative effect on consumption in 2012 and most likely in 2013 as well.

Government deficit

The Polish government deficit totaled PLN 27bn in May, reaching 77.2% of the 2012 target, in keeping with the schedule which predicted achievement of a 77.3% ratio by that time. Such consistency was owed to the revenue side (actual: 38.6%, budgeted: 38.7%) as well as the spending side (right on target at 43%). Most of the major component categories remained steady compared to past years. Such precision in delivery of the budget targets ceases to amaze once one learns that the latest budget projections were just published a few weeks ago. What is more interesting are current trends in tax receipts in light of the weaker-than-forecasted first-quarter GDP data. Direct tax collections in the first few months of 2012 remained virtually unchanged relative to the same months a year ago, showing much weaker year-on-year growth rates, which have mostly hovered around zero (except in March and May when they displayed year-on-year contraction). By contrast, direct tax receipts in early 2011 showed year-on-year growth over 10%. When it comes to direct taxes, 2012 resembles the weak 2009, confirming our belief in a gradual moderation of business activity in Poland. Summing up, we maintain that 2012 will be a leaner-than-expected year for the government in terms of revenues.

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	1.76	5.1%	9.5	9.3		
HANDLOWY	Hold	2012-01-19	73.95	69.25	78.40	-11.7%	14.1	13.2		
ING BSK	Hold	2012-01-19	80.70	80.00	81.00	-1.2%	12.3	11.1		
KREDYT BANK	Suspended	2012-02-28	11.96	-	13.01	-	-	-		
MILLENNIUM	Reduce	2012-07-04	3.68	3.30	3.68	-10.3%	11.9	9.8		
PEKAO	Reduce	2012-07-04	150.40	130.00	150.40	-13.6%	14.4	13.4		
PKO BP	Hold	2012-07-04	33.70	33.70	33.70	0.0%	12.5	11.2		
Insurance										
PZU	Hold	2012-07-04	327.00	345.00	327.00	5.5%	12.0	11.3		
Financial services										
KRUK	Buy	2012-03-29	50.90	59.40	46.25	28.4%	9.5	8.4		
Fuels, chemicals										
CIECH	Hold	2012-07-04	20.51	21.60	20.51	5.3%	47.7	10.8	5.7	4.6
LOTOS	Reduce	2012-03-05	26.84	21.60	28.50	-24.2%	8.8	6.8	8.3	6.5
MOL	Reduce	2012-07-04	264.60	208.19	264.60	-21.3%	13.3	10.4	6.3	5.3
PGNiG	Reduce	2012-01-16	4.04	3.69	4.07	-9.3%	24.8	8.3	8.1	4.6
PKN ORLEN	Hold	2011-11-17	39.25	39.00	37.80	3.2%	13.5	11.3	6.3	5.6
POLICE	Hold	2012-01-16	9.62	10.00	9.90	1.0%	9.7	8.6	5.6	4.4
ZA PUŁAWY	Hold	2012-07-04	100.40	96.60	100.40	-3.8%	11.0	11.2	5.4	5.6
Power Utilities										
CEZ	Hold	2012-06-05	127.80	117.50	114.20	2.9%	8.5	8.3	6.2	6.3
ENEA	Accumulate	2011-11-04	17.77	21.24	15.88	33.8%	7.9	7.7	3.1	3.5
PGE	Buy	2012-03-05	19.80	23.07	19.30	19.5%	8.1	9.2	4.3	5.0
TAURON	Buy	2012-01-02	5.35	7.13	4.50	58.4%	5.8	7.6	3.6	4.1
Telecommunications										
NETIA	Hold	2012-06-05	5.72	5.70	5.87	-2.9%	19.2	15.8	4.8	4.5
TPSA	Hold	2012-01-23	17.90	15.90	15.48	2.7%	17.2	15.3	4.5	4.3
Media										
AGORA	Buy	2012-01-23	10.66	15.30	10.09	51.6%	17.0	15.3	3.0	2.8
CINEMA CITY	Hold	2012-03-05	32.00	33.50	27.56	21.6%	11.6	9.5	6.0	5.1
CYFROWY POLSAT	Hold	2011-10-13	15.35	14.80	14.76	0.3%	13.1	12.5	8.3	7.8
TVN	Accumulate	2012-06-05	8.10	10.20	9.09	12.2%	10.6	10.0	7.5	6.7
IT										
AB	Hold	2012-03-05	21.72	22.50	20.10	11.9%	7.5	6.7	6.1	5.6
ACTION	Reduce	2012-03-05	23.25	17.30	21.60	-19.9%	9.7	9.0	6.8	6.3
ASBIS	Hold	2012-03-05	2.80	2.60	2.66	-2.3%	8.5	7.4	5.0	5.0
ASSECO POLAND	Buy	2011-05-27	49.60	62.80	49.00	28.2%	9.0	8.4	5.4	4.9
COMARCH	Reduce	2011-10-13	50.25	45.90	65.50	-29.9%	16.4	15.3	7.4	6.5
SYGNITY	Hold	2012-03-05	21.76	23.00	20.35	13.0%	14.1	10.0	5.8	4.7
Mining & Metals										
JSW	Buy	2012-01-23	99.00	127.00	100.60	26.2%	8.1	10.0	3.5	3.8
KGHM	Hold	2012-03-05	151.40	151.50	150.00	1.0%	7.1	11.7	2.5	3.3
LW BOGDANKA	Hold	2012-03-05	127.80	132.00	126.00	4.8%	14.4	9.2	6.5	4.5
Manufacturers										
ASTARTA	Hold	2012-06-05	51.95	56.1	58.40	-3.9%	4.2	3.4	4.8	3.9
BORYSZEW	Hold	2012-06-05	0.60	0.65	0.60	8.3%	15.0	14.3	7.8	7.4
CENTRUM KLIMA	Suspended	2012-07-04	14.21	-	14.21	-	-	-	-	-
FAMUR	Reduce	2012-06-05	3.94	3.6	3.99	-9.8%	13.9	13.5	7.8	7.9
IMPEXMETAL	Buy	2012-01-19	3.46	5.7	3.50	62.9%	8.7	7.4	5.9	5.0
KERNEL	Hold	2012-06-05	58.00	61.1	60.90	0.3%	5.6	4.9	4.8	3.8
KĘTY	Accumulate	2012-03-05	123.40	136.7	118.00	15.8%	9.8	9.4	6.1	5.8
KOPEX	Suspended	2012-05-07	20.01	-	18.15	-	-	-	-	-
ROVESE	Suspended	2012-06-14	3.40	-	2.56	-	-	-	-	-
Construction										
BUDIMEX	Accumulate	2012-02-27	87.80	87.10	58.10	49.9%	6.3	7.8	1.7	4.4
ELEKTROBUDOWA	Hold	2012-03-05	116.00	112.40	96.50	16.5%	10.0	8.4	6.2	5.2
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	14.68	85.3%	7.6	5.6	2.7	2.0
PBG	Suspended	2012-06-05	14.63	-	8.48	-	-	-	-	-
POLIMEX MOSTOSTAL	Buy	2012-05-07	1.00	2.01	0.73	175.3%	3.7	3.5	4.0	3.6
RAFAKO	Accumulate	2012-05-07	9.27	11.00	7.67	43.4%	8.2	7.0	5.0	3.7
TRAKCJA TILTRA	Suspended	2011-12-19	1.10	-	0.92	-	-	-	-	-
ULMA CP	Accumulate	2012-05-07	55.75	69.30	39.50	75.4%	7.2	14.4	2.4	2.5
UNIBEP	Buy	2012-01-23	6.04	7.00	4.90	42.9%	6.2	6.0	5.9	3.2
ZUE	Buy	2012-01-26	7.33	9.20	6.58	39.8%	7.3	7.2	3.6	3.2
Property Developers										
BBI DEVELOPMENT	Accumulate	2012-06-05	0.30	0.34	0.29	17.2%	316.9	34.4	30.6	48.3
DOM DEVELOPMENT	Hold	2012-01-23	29.50	31.40	28.80	9.0%	8.3	13.6	6.7	12.3
ECHO	Buy	2012-01-24	3.75	4.70	3.60	30.6%	5.7	10.4	9.5	27.0
GTC	Buy	2012-06-14	6.10	7.30	6.31	15.7%	34.0	14.7	20.2	15.0
J.W.C.	Hold	2012-05-07	5.38	6.10	4.75	28.4%	9.1	9.1	13.2	15.7
PA NOVA	Buy	2012-01-23	19.23	25.80	17.00	51.8%	9.5	5.3	12.9	6.8
POLNORD	Hold	2012-01-23	15.10	15.70	14.96	4.9%	6.2	5.4	18.4	-
ROBYG	Hold	2012-03-05	1.46	1.43	1.36	5.1%	8.3	11.6	8.6	11.8

Ratings issued in the past month

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
ROVESE	Suspended	Accumulate		2012-06-14
CEZ	Hold	Reduce	117.50	2012-06-05
FAMUR	Reduce	Hold	3.60	2012-06-05
GETIN NOBLE BANK (f.GET BANK)	Hold	Reduce	1.85	2012-06-05
GTC	Buy	Suspended	7.30	2012-06-14
KERNEL	Hold	Reduce	61.10	2012-06-05
MILLENNIUM	Hold	Sell	3.30	2012-06-05
MOL	Hold	Reduce	208.19	2012-06-05
NETIA	Hold	Reduce	5.70	2012-06-05
PBG	Suspended	Buy		2012-06-05
PEKAO	Hold	Reduce	130.00	2012-06-05
TVN	Accumulate	Hold	10.20	2012-06-05

Ratings changed as of 4 July 2012

Company	Rating	Previous Rating	Target Price	Rating Day
CENTRUM KLIMA	Suspended	Sell		2012-07-04
CIECH	Hold	Buy	21.60	2012-07-04
MILLENNIUM	Reduce	Hold	3.30	2012-07-04
MOL	Reduce	Hold	208.19	2012-07-04
PEKAO	Reduce	Hold	130.00	2012-07-04
PKO BP	Hold	Accumulate	33.70	2012-07-04
PZU	Hold	Accumulate	345.00	2012-07-04
ZA PUŁAWY	Hold	Reduce	96.60	2012-07-04

Rating Statistics

	All					For issuers who are clients of BRE Bank Securities				
Statistics	Sell	Reduce	Hold	Accumulate	Buy	Sell	Reduce	Hold	Accumulate	Buy
count	0	9	25	8	15	0	5	10	1	12
as % of total	0.0%	15.8%	43.9%	14.0%	26.3%	0.0%	17.9%	35.7%	3.6%	42.9%

Banks

May data on deposits, loans in banking industry

According to Poland's central bank, in May 2012 total deposits expanded strongly by 2.1% m/m (+1.2% YTD, +10.0% y/y) thanks to a sharp increase in corporate savings (+3.7% m/m, -9.6% YTD, +4.6% y/y) and in deposits from nonmonetary financial institutions (+6.1% m/m, +17.1% YTD,. +8.2% y/y). Retail deposits increased by 0.6% m/m (+2.2% YTD, +12.8% y/y).
Loans also expanded sharply by 2.2% m/m (+2.1% YTD, +12.0% y/y), with major support from the depreciating zloty (by 5.2% m/m vs. the CHF, by 5.2% m/m vs. the EUR and by 12.3% vs. the USD). M/M growth adjusted for F/X effects was 0.3%, a level comparable to that seen in April. Corporate loans increased by 2.1% m/m (+4.0% YTD, +14.6% y/y, +9.6% y/y after adjustment for F/X effects), while retail loans increased by 2.4% m/m (+1.4% YTD, +9.9% y/y and +5.0% y/y after adjustment for F/X effects). Corporate loans are consistently the main driver of the industry’s loans. On the other hand, note that their F/X-adjusted growth rate is decelerating by the month, from 13.9% in January to 9.6% in May. We expect this trend to continue in the following months. Among retail loans, non-mortgages expanded by 0.8% m/m (+0.1% YTD, +1.8% y/y and +0.5% y/y after adjustment for F/X rate changes), and mortgages increased by 3.6% m/m (+2/2% YTD, 15.9% y/y and 8.0% y/y after adjustment for F/X rate changes). When the F/X effect is taken out, growth in mortgages continues to be driven by zloty-denominated loans (39.7% of the mortgage total), which increased by 1.5% m/m (6.3% YTD, 19.3% y/y). May was the fourth straight month when F/X loans did not merely fail to expand, but contracted at a faster rate than the month before, which in our opinion represents accelerating portfolio amortization.
With comparable m/m growth in deposits and in loans, the loans/deposits ratio was practically flat at 106.4%.

Loan quality statistics for April

In April, the share of non-performing loans in total loans increased by 6bps m/m to 8.2%. Following a period of stability in corporate NPL ratio, in April it surged by 19bps m/m to 11.6%, which might reflect the dire straits in which construction companies involved in road contracts have found themselves. The quality of the retail portfolio was stable vs. March, with the NPL ratio at 7.6%. In terms of the individual sub-segments, the quality of mortgages fell somewhat (+3bps to 2.6%), while the quality of non-mortgages improved (-3bps. to 14.9%).

Banking industry earnings through May

According to a report by the Financial Supervision Authority (KNF), in May Polish commercial banks (including foreign branches) generated an aggregate net profit of PLN 890m (-21% y/y, -27% m/m). The aggregate figure for the initial five months of 2012 is PLN 5.9bn (+2% y/y). The plunge vs. April was caused by rising provisions (operating income before provisions increased by 5% y/y and 1% y/y to PLN 2200m in May). Provisions rose by 50% y/y and 61% m/m to PLN 1141m (by PLN 445m vs. the average for January-April). In our opinion, this is a consequence of the financial dire straits in which construction companies involved in road contracts have found themselves. Note that the increase in provisions in nominal terms is close to our estimates of the provisions that banks will have to create towards their exposure to PBG. (We have estimated that Polish banks, i.e. excluding Gazprombank, will create PLN 460m additional provisions on this occasion).
We would also like to point out that the banks’ aggregate net income after Q2 2012 reflects a 6% drop vs. April-May 2011 and a 15% drop vs. January-February 2012. Relative to April-May 2011, we see falling fee income (-1% y/y following +3% y/y growth in Q1'12). In turn, a comparison with January-February 2012 shows falling interest income (by 4% q/q), but also rising fee income (+5% q/q) and trading income (+10% q/q).

Number of cash loan extensions contracts 20% y/y in Q1'12

The Credit Information Bureau (BIK) has reported that the number of consumer loan extensions is falling increasingly fast. In Q1’12, Polish banks granted 20% fewer of such loans than in Q1'11. On the other hand, their value went up by 5% y/y. According to BIK’s Andrzej Topiński, the number of loans granted is falling due to the stricter rules introduced in the regulator’s Recommendation T. Mr. Topiński adds that the trend has persisted for four straight months and is strengthening. In 2011, y/y contraction in the number of new loans did not exceed several percent. Most of the reduction in lending came at the top ten consumer lending banks, which control a 90% share of the market between them. As far as mortgage loans are concerned, BIK reports that the number of new loans contracted by 9% y/y.

Foreign parents of Polish banks have cut financing by PLN 15m over past 9 months

Puls Biznesu reports that over the past three quarters, foreign parent companies of Polish banks have cut their financing by nearly PLN 15m, or 8.6% of their total exposure to the Polish banking industry. On the other hand, the Financial Supervision Authority (KNF) has informed the newspaper that the average maturity of this financing has increased. In mid-2011, over 50% of the foreign financing had maturity under 6 months; now, nearly 90% has maturity in excess of one year, and in many cases, over 5 years. According to *Puls Biznesu*, the KNF attributes the reduction in foreign financing to the fact that some banks have changed their approach to F/X lending, which has reduced their F/X financing needs. The KNF points out that the bigger 'issue' as far as the mobility of funds is concerned are deposits from parent companies, which have fallen by 23%. Loans, over which the KNF exercises greater control, are much more stable. It is not possible to entirely ignore the issue of parent companies deleveraging at the expense of their subsidiaries, including Polish ones. On the other hand, note that this issue is only relevant for some banks. Among those in our coverage universe, this would be Kredyt Bank, whose financing from KBC has fallen by PLN 3.2bn (-26%) to PLN 9.2bn between the end of June 2011 and the end of March 2011.

NBP, SNB sign agreement on CHF PLN swaps

The National Bank of Poland (NBP) announced that it had signed a CHF/PLN currency swap agreement with the Swiss National Bank (SNB). Thanks to this move, if the situation in the CHF interbank market becomes strained, the NBP will be able to use this instrument to provide Polish banks with Swiss francs. All swap transactions are subject to SNB approval. The swaps have a term of 7 days. Both parties see the agreement as a precautionary measure that will not have to be implemented in practice. A similar agreement was signed in November 2008 on the EUR/CHF pair (in addition, the NBP swapped the EUR for PLN with the ECB). The NBP suspended these operations in January 2010 due to lack of demand on the part of the banks. While we are somewhat surprised at this new agreement (it does not seem such a facility is needed), it is certainly good news that the NBP is ready to provide liquidity.

Compromise on interchange fee could come from unilateral decisions

The central bank's Payment System Council believes that a non-regulatory compromise leading to reduced interchange fees cannot be achieved through multi-lateral agreements. There is an alternative, however, where card companies make unilateral decisions to cut the fees in accordance with the previously-developed Program, and other parties to card transactions, i.e. card issuers, clearing agents and retailers sign statements declaring their commitment to the Program. The Council would want all the major parties to declare their willingness to join the Program by 15 July. If not enough of them do, or if they fail to follow their declarations with actions at a later stage, the Council will recommend a regulatory cut to interchange fees. As a reminder, the interchange fee compromise was derailed by MasterCard, which refused to join an agreement sponsored by the NBP. However, MasterCard has unilaterally declared it will cut selected interchange fees starting on 1 January 2013.

Administration bankruptcy of PBG Group and its potential impact on banks

Following the decision by PBG, Hydrobudowa and Aprivia to file for administration bankruptcy, we present below a preliminary analysis of the potential negative impact of this development on the bank's provisions in Q2 2012. Our analysis is based on loans to PBG Group outstanding as of the end of 2011. Since Hydrobudowa's gross loans then accounted for 48% of the overall debt of PBG Group, our estimates assume that the same structure holds for all the banks that finance the Group. We assume that 56% of Hydrobudowa's debt will be written off, as will be 31% of the remaining debt of the Group. Moreover, our estimates are based on two very conservative assumptions: 1) that until now no bank has created provisions for these exposures and 2) that the value of security interests held by the banks is zero. Under such a simplified approach, the banks that will have to set aside the biggest provisions are BZ WBK (PLN 78m), Pekao (PLN 71m), Millennium (PLN 48m) and ING BSK (PLN 42m). When compared to the bank's pre-tax profits for 2011, these amounts are material in size only in the case of Millennium (8.2%), BZ WBK (5.0%) and ING BSK (3.7%).

Note that these estimates are based solely on loans outstanding as at the end of 2011. Most likely, additional provisions will be needed for any guarantees issued and bonds held.

Estimated impact of PBG Group's administration bankruptcy on banks

(PLN m)	Loans outstanding at year-end 2011*	Estimated value of additional provisions	Additional provisions as pct. of 2011 pre-tax profit
BZ WBK	177	-78	5.0
Pekao	162	-71	2.0
Millennium	110	-48	8.2
ING BSK	95	-42	3.7
BRE	10	-4	0.3
Kredyt Bank	9	-4	0.9
Nordea	150	-66	n/a
Raiffeisen	105	-46	n/a
BGŻ	80	-35	n/a
PBP	51	-23	n/a
DnB Nord	45	-20	n/a
DZ Bank	42	-18	n/a
Gazprombank	10	-4	n/a
BNP Paribas	9	-4	n/a
Total	**1 054**	**-463**	**n/a**

** According to information released by PBG, at the end of the year the company owed Pekao PLN 142m, but Pekao called in a PLN 162m loan to PBG; **Although PBG reported that it owed PKO BP PLN 9m at the end of 2011, PKO BP announced that it had no exposure to PBG.*
Source: PBG, estimates by BRE Bank Securities

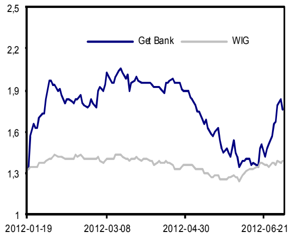
Getin Noble Bank (f. Get Bank) (Hold)

Current price: PLN 1.76 **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)	3 952.1
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	*21.4%*
P/E	13.7	5.4		10.2		9.3		Price change: 6 month	
P/BV	1.2	1.0		0.9		0.8		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*



Just like Millennium, Getin Noble Bank is treated as exposure to the CHF/PLN exchange rate due to the major share of F/X mortgages in its total loans. Although at 40% this ratio is lower at GNB than at Millennium (50%), we believe Getin Noble Bank has a beta that is symmetric vs. the exchange rate (and higher than 1). Unlike Millennium, the Bank has been noting a high cost of risk in mortgages for four straight quarters (above 200bps.) As a result, if the PLN appreciates, we should expect both an improvement in interest margin (reduced pressure on the cost of financing) and a lower cost of risk (as the clients' loan installments go down). This is why, given the appreciation of the zloty that is expected in the medium and long term, GNB seems a more attractive investment pick than Millennium. We are reiterating a hold rating.

EGM motions foresee two stock issues

Getin Noble Bank, formerly known as Get Bank, has convened an Extraordinary General Meeting of Shareholders for 10 July, whose agenda focuses on a rights issue proposal. The motions for the EGM foresee two stock issues (of J and K-series stocks) capped at 250m shares each and PLN 300m. The issues will take the form of rights offerings with the proposed day of record on 7 September 2012. One of the issues is aimed at boosting the Bank's capital adequacy to facilitate growth. In January 2012, when the plan was announced, the Management Board suggested that it would amount to PLN 300-400m. Our forecasts take into account a PLN 400m offering. The second issue is conditional on the Company's M&A moves. Although the day of record is coming relatively soon, the Bank has not commented what company it might be eying for takeover, nor from which industry. In the past. GNB's Management Board suggested numerous times that it was interested in acquiring a small corporate bank. We believe DZ Bank would meet the criteria.

Getin Noble Bank to sell more overdue debt

Parkiet reports that Getin Noble Bank is currently in the process of selling cash loan and credit receivables with nominal value of PLN 426m. According to the paper, the reserve price is PLN 65m, or 15.3% of nominal value. This report comes as a bit of a surprise to us, because the Bank's Management has been stressing that it is focusing on car loan portfolio securitization and not on further debt sales. The reserve price is close to the price obtained in March 2012 (15.3% vs. 14.3%). Since the Q1 overdue debt sale had a 'immaterial' positive impact on net income, we do not expect additional gains on this transaction either. Once finalized, the transaction will be reflected in loan portfolio quality indicators (lower ratio of NPLs to total loans, lower provisions-to-NPL ratio).

New bond program

The Supervisory Board of Getin Noble Bank (f. Get Bank) approved a new bond program for up to PLN 500m. Getin Noble Bank is still offering bonds under an "old" bond program for an authorized amount of up to PLN 1 billion. To date, the bank has issued close to PLN 800m bonds.

KNF approves bond offering prospectus

The Financial Supervision Authority (KNF) has approved the prospectus for Getin Noble Banks PLN 500m bond issue.

Management Board reshuffle

Following the merger of Get Bank and Getin Noble Bank, Grzegorz Słoka and Radosław Stefurak have decided to resign from Get Bank's Management Board. Krzysztof Rosiński, the

CEO of Getin Noble Bank, will lead the merged entity. Note that Radosław Stefurak is a member of Getin Noble Bank's Management Board

Handlowy (Hold)

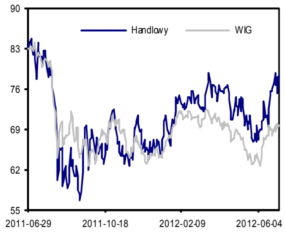
Current price: PLN 78.4 **Target price: PLN 69.25**

Analyst: Iza Rokicka

Last Recommendation: 2012-01-19

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Net interest income	1 498.8	1 434.4	-4.3%	1 471.8	2.6%	1 500.4	1.9%	Number of shares (m)	130.7
Interest margin	4.0%	3.6%		3.6%		3.7%		MC (current price)	10 243.7
Revenue f/banking oper.	2 564.8	2 416.3	-5.8%	2 491.7	3.1%	2 589.3	3.9%	Free float	25.0%
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%		Price change: 1 month	*16.9%*
P/E	13.6	13.9		14.1		13.2		Price change: 6 month	*16.6%*
P/BV	1.6	1.6		1.5		1.5		Price change: 12 month	*-7.3%*
DPS	3.8	5.7		2.7		5.6		Max (52 w eek)	84.6
Dyield (%)	4.8	7.3		3.4		7.1		Min (52 w eek)	56.5

** before provisions*



We reiterate our neutral rating for Bank Handlowy, even though its valuation may appear demanding at 14.1x 2012 P/E, i.e. at a 6% premium to peers, which makes its Poland's second most-expensive bank next to Pekao. We believe that Handlowy's earnings for Q2 2012 may look good relative to peers. Most of them will have to create additional provisions in the corporate segment for road construction loans (e.g. to PBG), while Handlowy seems to be the bank with the smallest exposure to this sector.

Bank Handlowy expects further improvements in loan portfolio quality

Deputy CEO Witold Zieliński says that the Bank will attempt to further reduce the share of non-performing loans in total loans (9.2% after Q1'12 as per the Bank's methodology, 10.7% according to ours). According to Mr. Zieliński, this effort will be facilitated by the new strategy to be implemented in the retail segment, which foresees a focus on selected markets centered around Poland's biggest cities. We believe the main factor driving the NPL ratio down will be expansion of the loan portfolio. Since we expect to see loans expand primarily in the corporate segment, we are somewhat surprised that loan quality improvement is expect to hinge on the retail segment. Still, note that retail banking accounts for 55% of all of Handlowy's NPLs. News without impact on stock performance.

Shareholders approve dividend

Handlowy's shareholders have approved a PLN 2.76-a-share dividend payout. The record day is July 26th, and the payout will take place on August 31rd. News in line with expectations.

Fitch reaffirms ratings

Fitch reaffirmed Handlowy's long term rating at 'A-' with stable outlook, short-term rating at 'F2', viability rating at 'bbb+' and support rating at '1'.

Moody's downgrades Bank Handlowy

Bank Handlowy announced that on 22 June Moody's had downgraded its long-term rating from 'Baa1' to 'Baa3' and the short-term rating from 'Prime-2' to 'Prime-3', both with stable outlook. Prior to the announcement, both ratings had been on watch for a possible downgrade. Moody's decision is a consequence of its having downgraded Citibank. Handlowy's financial strength rating was affirmed at 'D+', with outlook upgraded to stable from negative to reflect the Bank's high recent profitability, strong and expanding capital base and low loans/deposits ratio.

Supervisory Board changes

Bank Handlowy announced that Supervisory Board Member Alberto J. Verme had resigned. Two new members were appointed: Omar Ahmed and Zdenek Turek.

ING BSK (Hold)

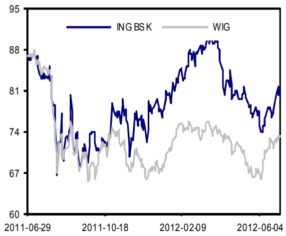
Current price: PLN 81 **Target price: PLN 80**

Analyst: Iza Rokicka

Last Recommendation: 2012-01-19

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Net interest income	1 627.6	1 851.5	13.8%	1 941.5	4.9%	2 040.0	5.1%	Number of shares (m)	130.1
Interest margin	2.6%	2.8%		2.7%		2.6%		MC (current price)	10 538.1
Revenue f/banking oper.	2 682.5	2 895.5	7.9%	2 993.4	3.4%	3 130.3	4.6%	Free float	25.0%
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%		Price change: 1 month	*4.7%*
P/E	14.0	12.0		12.3		11.1		Price change: 6 month	*1.9%*
P/BV	1.9	1.6		1.5		1.3		Price change: 12 month	*-6.1%*
DPS	0.0	1.5		0.7		2.0		Max (52 w eek)	90.5
Dyield (%)	0.0	1.9		0.8		2.4		Min (52 w eek)	66.6

** before provisions*



Although ING BSK'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. While the Bank's loan exposure to PBG amounts to ca. PLN 95m, the sum may be twice as high when bonds and off-balance-sheet liabilities are taken into account. We believe that PBG-related provisions may significantly impact the Bank's second-quarter earnings. Therefore, in anticipation of the second-quarter earnings report and given the 12.3x 2012 P/E valuation, we recommend caution when investing in ING BSK and we reiterate a hold rating.

ING BSK sees corporate loans grow in Q2 2012

Deputy CEO Michał Bolesławski said that the Bank's corporate loans had grown in Q2 2012 at the time when the overall market was flat, the driving force being SME loans. Mr. Bolesławski added that the quality of corporate loans may deteriorate as the economy slows down and as infrastructural projects related to the Euro 2012 soccer championship end. He further suggested that the Bank may attempt to speed up corporate deposit acquisition.

Moody's downgrades ING BSK to "Baa1" with negative outlook

Moody's has downgraded the long-term local- and foreign-currency deposit ratings of ING Bank Śląski to Baa1 with a negative outlook from A2, and short-term ratings to "Prime-2" from "Prime-1". The financial strength rating is unchanged at D+/baa3 with stable outlook. According to the agency, the downgrade is a consequence of an earlier downgrade to the financial strength rating of the Bank's parent, ING BSK.

PZU OFE's stake exceeds 5%

ING BSK announced that PZU OFE had increased its stake in the Bank from 4.998% to 5.097% as of 11 June 2012.

Kredyt Bank (Suspended)

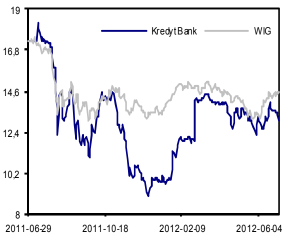
Current price: PLN 13.01 Target price: -

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)	3 534.3
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	*-1.4%*
P/E	19.0	10.8		15.6		13.3		Price change: 6 month	*32.2%*
P/BV	1.2	1.2		1.1		1.0		Price change: 12 month	*-24.8%*
DPS	0.0	0.4		0.0		0.0		Max (52 week)	18.3
Dyield (%)	0.0	2.8		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.

KNF okays KBC TFI divestment

On 21 June, Kredyt Bank finalized the sale of a 30% stake in investment fund company KBC TFI for PLN 37.5m (2.4% of assets under management as of May 2012). Earlier, the Bank had announced that the Financial Supervision Authority had decided during its June 19 meeting that it had no reasons to object to the planned acquisition by KBC Asset Management NV of shares in KBC TFI leading to the former controlling over 50% of votes in the latter. The Bank had announced that it was planning to sell its stake on 17 January 2012. The transaction will boost Q2 2012 net income by PLN 11.7m (the earlier estimate was PLN 12.8m).

KNF to study merger plans in detail

Deputy Chair of the Financial Supervision Authority (KNF) Wojciech Kwaśniak told TOK FM radio station that the planned merger of BZ WBK and Kredyt Bank would be subjected to an in-depth analysis due to the current situation in the market. According to Mr. Kwaśniak, the process is now more complex than it was six months ago. He refused to provide the date when the KNF will make its decision. We believe such pronouncements do not make a negative decision on the merger more likely. At this stage, all we would expect is that the process will be longer than was expected.

Kredyt Bank gets CHF equivalent of EUR 100m facility from EBI

Kredyt Bank announced that on 29 June it had signed an agreement with the European Investment Bank for a credit facility amounting to CHF equivalent of EUR 100m. The funds can be drawn in tranches with maturity of 4 years (CHF equivalent of EUR 25m) and 7 years (CHF equivalent of EUR 50m) for a bullet repayment scheme and up to 10 years (CHF equivalent of EUR 25m) for repayment in installments. The funds will be secured by a pledge on Treasury notes held by the Bank, and they will be used to finance loans and leasing for small and medium enterprises and corporations employing under 3000 people. The facility represents 4.6% of the financing that Kredyt Bank had received from KBC (as of the end of Q1 2012).

EGM with merger on the agenda

Kredyt Bank convened an Extraordinary Meeting of Shareholders for 30 July 2012 to approve the plan of a merger with BZ WBK.

Fitch reaffirms ratings

Fitch reaffirmed Kredyt Bank's long term rating at 'BBB' , short-term rating at 'F3', and support rating at '2', and removed it from a watch list for upgrade.

Millennium (Reduce)

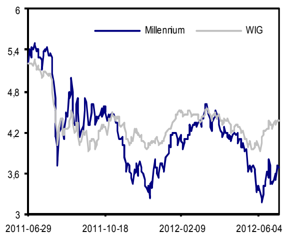
Current price: PLN 3.68 **Target price: PLN 3.3**

Analyst: Iza Rokicka

Last Recommendation: 2012-07-04

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Net interest income	1 009.8	1 190.8	17.9%	1 214.4	2.0%	1 282.8	5.6%	Number of shares (m)	1 213.1
Interest margin	2.2%	2.4%		2.3%		2.3%		MC (current price)	4 464.3
Revenue f/banking oper.	1 714.4	1 901.7	10.9%	1 905.5	0.2%	1 985.7	4.2%	Free float	34.5%
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%		Price change: 1 month	*9.9%*
P/E	13.7	9.6		11.9		9.8		Price change: 6 month	*2.2%*
P/BV	1.1	1.0		0.9		0.8		Price change: 12 month	*-30.6%*
DPS	0.0	0.1		0.0		0.0		Max (52 w eek)	5.5
Dyield (%)	0.0	2.7		0.0		0.0		Min (52 w eek)	3.2

** before provisions*



Bank Millennium is treated as exposure to a CHF/PLN exchange rate due to the major share of F/X mortgages in its total loans (50% vs. 22% industry median). While this is indisputably true, we believe the Bank's beta is asymmetric vs. the exchange rate, that is, it is higher when the zloty depreciates than when it appreciates. A stronger zloty should relieve the pressure on the Bank's interest margin (by reducing financial needs) and the cost of risk (as the borrower's installments go down). We believe that in Millennium's case only the former is true, since until now the Bank has not created additional (not to say: any) provisions for the mortgage portfolio (therefore, it is hard to expect a positive cost of risk as the zloty appreciates). Therefore, even though we expect the zloty to appreciate in the medium and long term, Millennium is not on our list of preferred banks. We believe that with its projected 2012 ROE at ca. 8% (and cost of equity above 10%), its 0.91x 2012 P/BV valuation is demanding. We are downgrading the stock from hold to reduce.

Millennium expects q/q decline in retail cost of risk in Q2'12

Deputy CEO Artur Klimczak says that the Bank has been observing a slight improvement in the quality of its retail loan portfolio in Q2 2012. The quality of mortgages is stable. Thus, the Bank expects to see a lower cost of risk in the retail segment than in Q1 2012 (32bps). The Bank is planning to increase cash lending.

Increase in cash and mortgage lending in Q2 vs. Q1

Deputy CEO Artur Klimczak says that the Bank hopes to extend more cash loans and mortgages in Q2 2012 than in Q1 2012 (PLN 209m and PLN 441m respectively). Mr. Klimczak believes that mortgage lending should amount to no less than PLN 500m. He believes that over the next 3-4 years, the share of mortgages in the overall portfolio may fall below 50% (67% after Q1'12). Finally, Mr. Klimczak said that the Bank was concentrating on the acquisition of new, active clients. Although it is currently adding 12-14 thousand clients per month, it will most likely miss its target of 1.5m clients at the end of 2012.

Interest margin to recover in H2 2012

Deputy CEO Artur Klimczak says that although second-quarter interest margin will already be affected by an increase in cash loan lending, the Bank did not expect a major improvement until Q3 and Q4 2012.

Pekao (Reduce)

Current price: PLN 150.4 Target price: PLN 130

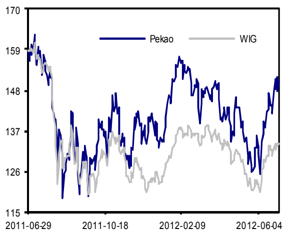
Analyst: Iza Rokicka

Last Recommendation: 2012-07-04

(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	15.6	13.6		14.4		13.4	
P/BV	2.0	1.9		1.7		1.7	
DPS	2.9	6.8		5.5		7.3	
Dyield (%)	1.9	4.5		3.6		4.9	

Basic data (PLN m)	
Number of shares (m)	262.4
MC (current price)	39 460.1
Free float	40.8%
Price change: 1 month	*13.2%*
Price change: 6 month	*11.6%*
Price change: 12 month	*-4.7%*
Max (52 w eek)	163.4
Min (52 w eek)	118.8

** before provisions*



Since 14 June (i.e. the day the stock went ex-dividends), the return on Pekao has amounted to 8.5%, nearly 5pp ahead of the broad market. As a result, Pekao is now the most expensive bank in Poland, valued at 14.4x 2012 P/E, i.e. at a 9% premium over peer average and at a 13% premium to PKO BP. Another illustration of the overvaluation of the stock is the 1.76x 2012 P/BV multiple (in spite of the fact that the ROE amounts to just 12.5%). While a certain premium is acceptable due to the Bank's extremely high capital adequacy ratio, the current one is clearly excessive. Further, there is a risk that second-quarter earnings will be heavily weighed down by additional provisions for loans to such corporate clients as PBG and Bomi. Since our PLN 130 per-share target now implies a 13.6% downside, we are downgrading the stock from hold to reduce.

Pekao to spend PLN 50m on new logo

Pekao has announced that it had commenced the process of adopting UniCredit's logo. In 2012, changes will encompass 500 out of 1046 branches, as well as 880 ATMs located outside of branches. The effort is scheduled for completion in 2013. Its total budget is PLN 50m, of which PLN 40m will cover changes in the network (partly through operating expenses, partly through CAPEX), and ca. PLN 10m will be marketing expenses within standard budgets. Since the total outlays amount to just 1.4% of the bank's annual operating expenses, this piece of news is neutral as far as profit margins are concerned.

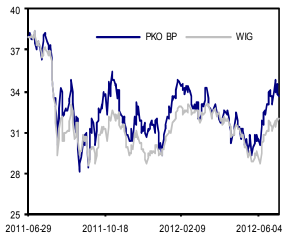
PKO BP (Hold)

Current price: PLN 33.7 **Target price: PLN 33.7**

Analyst: Iza Rokicka
Last Recommendation: 2012-07-04

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Net interest income	6 516.2	7 609.1	16.8%	7 721.4	1.5%	7 950.8	3.0%	Number of shares (m)	1 250.0
Interest margin	4.0%	4.2%		4.0%		3.9%		MC (current price)	42 125.0
Revenue f/banking oper.	10 021.9	10 999.8	9.8%	10 985.9	-0.1%	11 284.9	2.7%	Free float	48.8%
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%		Price change: 1 month	*10.9%*
P/E	13.1	11.1		12.5		11.2		Price change: 6 month	*6.2%*
P/BV	2.0	1.8		1.7		1.6		Price change: 12 month	*-10.9%*
DPS	1.9	2.0		1.5		1.3		Max (52 week)	38.4
Dyield (%)	5.6	5.9		4.4		4.0		Min (52 week)	28.1

** before provisions*



Since in June the PKO BP stock exhausted the entire upside potential relative to our target price (+12%), we are downgrading our rating from accumulate to hold. Despite our conservative net income forecast for 2012 (PLN 3.4bn, -11% y/y), the Bank is trading at a reasonable 2012 P/E of 12.5x, 4% below peer average. Even with the downgraded rating, PKP BP remains our preferred exposure to the banking industry. In our opinion, it is the biggest beneficiary of high interest rates, thanks to the high share of retail current accounts in its deposits. On the other hand, we note the risk that at the current price of the stock the market will start to gradually price in the risk of State Treasury/BGK selling their shares (we would expect this to happen in Q4 2012).

Mortgage lending flat in Q2 2012

Agnieszka Krawczyk, a director in PKO BP's retail client financing department, said that mortgage lending in Q2 2012 was likely to be on a par with the Q1 2012 result, i.e. PLN 1.7bn (ca. -40% y/y). Ms. Krawczyk added that the number of applications has risen since April, when the Bank launched a promotional program for mortgages.

PKO BP takes out CHF 410m 3-year loan

PKO BP announced that it had taken out a 3 year loan in the amount of CHF 410m from a syndicate of seven international banks organized by Bank Handlowy, PNP Paribas and ING Bank NV. We believe that this loan represents the rollover of a CHF 950m facility taken out in 2007, which was set to mature in July 2012. Good news, since this move relieves the pressure to replace maturing wholesale financing with new deposits.

Eurobond issue likely in the fall

According to deputy CEO Jakub Papierski, the fact that PKO BP has taken out a CHF 410m does not affect the Bank's Eurobond issue plans. It is likely to occur in the fall. Mr. Papierski commented that while the situation in the debt market was better in June than in April and May, it was still unfavorable and highly volatile.

PKO BP might sell E-Service

Dow Jones Newswires reported that PKO BP had chosen Merrill Lynch as its advisor in the sale of E-Service. According to *Puls Biznesu*, two scenarios are being considered at the Bank: selling the subsidiary or finding a strategic partner for a joint venture. E-Service is Poland's second-biggest company specializing in payment processing. It has 56.5 thousand point-of-sale terminals. In 2011, it processed transactions with total value of PLN 25.6m, which entails a 24.4% market share. Its net profit for the year was PLN 23.7m (-2% y/y). Although we believe the entire industry is going to feel a pressure on its margins, it enjoys significant economies of scale stemming from a high share of fixed costs and strong cash generation. Therefore, a joint-venture with a specialized company with relevant know-how might be the better option, i.e. one that will create additional shareholder value. At the moment, the balance-sheet value of E-Service is PLN 55.5m. On the rather conservative assumption that the company should be valued at its historical P/E of 15x, we get a PLN 355.5m valuation. Thus, regardless of which option is chosen (sale or joint venture), PKO BP is likely to report a considerable profit on the transaction (ca. PLN 300m pre-tax, ca. PLN 240m after tax).

PKO BP terminates four loans to ABM Solid

ABM Solid announced that PKO BP had terminated four loan agreements with total value of PLN 66.4m, arguing that the Company had lost creditworthiness. At the end of 2011, ABM Solid's bank debt amounted to PLN 94m, 69% of which were loans granted by PKO BP. PKO

BP was the only bank to have created provisions for exposure to construction industry in Q1 2012 (PLN 40-60m), but we do not know whether they were intended to cover loans to ABM Solid. As a reminder, PKO BP has no loan exposure to PBG.

Shareholders approve PLN 1.27 dividend

PKO BP's shareholders approved the Management Board's proposal to pay out dividends of PLN 1.27 per share from 2011 profits. The payout ratio is 42%. The date of record is June 12th, and the payout is scheduled for June 27th.

Treasury may sell PKO BP, PZU shares at any time

Minister Mikołaj Budzanowski said that the State Treasury was planning to sell stakes in PKO BP and PZU by the end of 2013, but the actual sale could come at any time.

S&P issues rating for PKO BP's Eurobonds

PKO BP announced that S&P had issued an “A-“ rating for its EUR 3bn-worth of Eurobonds issued under the EMTN program.

Moody’s downgrades PKO BP’s subordinated bonds

Moody’s has downgraded PKO BP’s subordinated bonds from ‘A3’ to ‘Baa3’ (one notch below the Bank’s rating).

Supervisory Board reshuffle

Shareholders voted to replace Supervisory Board member Ewa Miklaszewska with Zofia Dzik.

Insurance

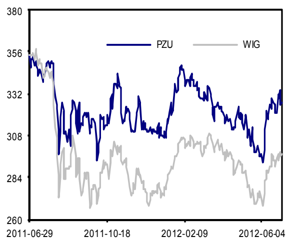
PZU (Hold)

Current price: PLN 327 **Target price: PLN 345**

Analyst: Iza Rokicka

Last Recommendation: 2012-07-04

(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)	28 237.2
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	*10.5%*
P/E	11.6	12.0		12.0		11.3		Price change: 6 month	*6.4%*
P/BV	2.2	2.2		2.2		2.1		Price change: 12 month	*-7.2%*
DPS	158.6	26.0		22.4		24.5		Max (52 week)	352.9
Dyield (%)	48.5	8.0		6.9		7.5		Min (52 week)	292.1



Following the stock's 13% rally over the past month (5pp above the broad market), which has significantly reduced upside potential to our 9M target price of PLN 345 per share, we are downgrading our rating from accumulate to hold. The Company's 2012 P/E of 12.0x is still more attractive than the average valuation of the bank industry, if only due to the high dividend yield (6.9%). On the other hand, we believe the current valuation is more or less fair as we expect that PZU will not improve its earnings this year (in absolute terms).

PZU picks Guidewire as IT system supplier

PZU announced that it had selected Guidewire Software as the supplier of its new client service IT system. The value of the contract was not disclosed, but CEO Andrzej Klesyk says that the cost of implementing the system will not exceed PLN 1bn over 5 years. According to him, the contract will not have a major impact on PZU's earnings. Its first effects will be seen in 2014, including increased flexibility of operations and the ability to quickly adjust prices to market situation and to assess the clients' insurance capacity online.

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 expecting stable premiums in corporate motor insurance

Management Board member Bogusław Skuza said that the Company expected that corporate motor insurance premiums will remain stable in the next 6-9 months, following six months of flat performance. In Q1 2012, overall corporate premiums went up by 30% y/y to PLN 618m despite a plunge in the number of clients.

PZU aiming at 96-98% combined ratio in corporate insurance

Management Board member Bogusław Skuza said that the Company was aiming at a 96-98% combined ratio in the corporate segment (97.8% in 2011, 114.2% in 2010, 81.9% in Q1 2012).

PZU hopes to replicate Q1 2012 technical profit in corporate segment

Management Board member Bogusław Skuza said that the Company was aiming to sustain its Q1 2012 technical profit on corporate insurance (PLN 97m). He stressed, however, that first-quarter and 2011 earnings had not been weighed down by significant claims. If claims shoot up, technical income could prove to be 'fragile'. PZU's objective is to attain long-term profitability in the segment.

Treasury may sell PKO BP, PZU shares at any time

Minister Mikołaj Budzanowski said that the State Treasury was planning to sell stakes in PKO BP and PZU by the end of 2013, but the actual sale could come at any time.

Financial services

getBack launches operations, finalizes recruiting

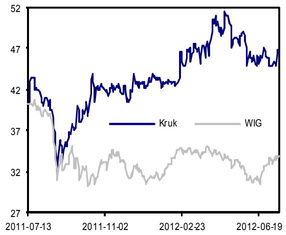
Parkiet reports that getBack, a collections company whose main shareholder is Leszek Czarnecki, is finalizing the recruitment of executive staff. According to the newspaper, the company was set up in February 2012, and it launched operations in March. Since then, it has bought three debt portfolios (two from banks and one from a telecom company). The newspaper did not report on the nominal value of these portfolios, nor on the price paid for them. getBack can clearly be a major competitor for Kruk, as well as other collection companies active in Poland. What is unusual about it, and potentially threatening, is that it has the same main shareholder as Getin Noble Bank (formerly Get Bank). This may put it in a privileged position as far as access to financing and to NPL portfolios put on sale is concerned.

KRUK (Buy)

Current price: PLN 46.3 **Target price: PLN 59.4**

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

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Income	164.3	274.0	66.8%	361.3	31.9%	411.9	14.0%	Number of shares (m)	17.1
Debt purchases	118.1	230.4	95.1%	321.7	39.6%	372.5	15.8%	MC (current price)	791.4
Collection	44.1	41.0	-7.0%	34.7	-15.2%	31.5	-9.4%	Free float	59.5%
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%		Price change: 1 month	*0.6%*
P/E	19.6	11.8		9.6		8.4		Price change: 6 month	*6.8%*
P/BV	5.4	3.3		2.5		1.9		Price change: 12 month	*6.3%*
DPS	0.0	0.0		0.0		0.0		Max (52 week)	51.6
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	32.0



In Q2 2012, the debt purchase market accelerated vs. the preceding quarter. Not only were a number of major tenders concluded (including the sale of three portfolios by PKO PB), but several more were announced (PKO BP again, Getin Noble Bank). On the other hand, the value of the transactions remains lower than in the same period of 2011. Kruk bought at least two portfolios in Q2 2012 for no less than PLN 34m. Although this entails 183% increase vs. Q1 2012, it also represents an 86% y/y drop and just 9% of our FY forecast. Still, it should be remembered that the key determinants of 2012-2013 earnings are debt purchases made in 2011. As we await further acceleration in the debt purchase market (H2 is usually stronger than H1) and Kruk's earnings for Q2 2012 (which should not longer be weighed down by impairment charges stemming from the appreciation of the PLN vs. the RON), we reiterate our buy rating and 9M target price of PLN 59.4 per share.

Kruk shelves Hungarian expansion plans

Kruk is putting its Hungarian expansion plans on hold until further notice. The company says the Hungarian market does not offer room for much growth. One consequence of the scrapped plans may be a need to write off investments made to date, most notably the acquisition of SH Money. Kruk did not reveal how much it paid for the company, but we do not think it was more than PLN 1m. Further, our financial forecasts for Kruk assume the company will purchase its first Hungarian debt portfolio in 2012 for PLN 10m, followed by purchases of PLN 15m each in 2013 and 2014, equivalent to 3-4% of the total investment forecasted for these periods. In light of Kruk's announcement, we will have to revise our 2012-2014 net earnings estimates by 1-2%, and adjust our target price for Kruk's shares accordingly.

Kruk buys debt portfolio from Euro Bank

On 6 June Kruk purchased a receivables portfolio from Euro Bank. The nominal value of the portfolio is PLN 118.5m, and its price was 9.5% of that value at PLN 11.3m, Including this latest transaction, Kruk has spent a total of PLN 36.2m on Euro Bank debt portfolios in the last 12 months. If a portfolio purchase from PKO BP is finalized by the end of June, Kruk will have spent about PLN 33m on portfolios in Q2 2012, much more than the PLN 12m spent in Q1 2012. Our 2012 forecast assumes total expenditure in 2012 will amount to PLN 376m.

Fuels, Chemicals

Favorable trends in refining industry

Due to falling crude prices, macro situation in the refining industry has been improving , and in June these trends in fact strengthened. The benchmark refining margin is already ahead of the very high recorded in April despite a systematic reduction in maintenance downtimes since then, thanks to lower costs of internal use and improving crack spreads on heavy products. To be sure, the Urals/Brent pricing differential has fallen in the past few weeks, but this has been more than offset by favorable changes in margins. It is also worth noting that the Polish refineries are enjoying an increase in their 'inland' (domestic) premium (wholesale markup above ARA price + retail margin), which will strongly support earnings growth in Q2 and Q3.

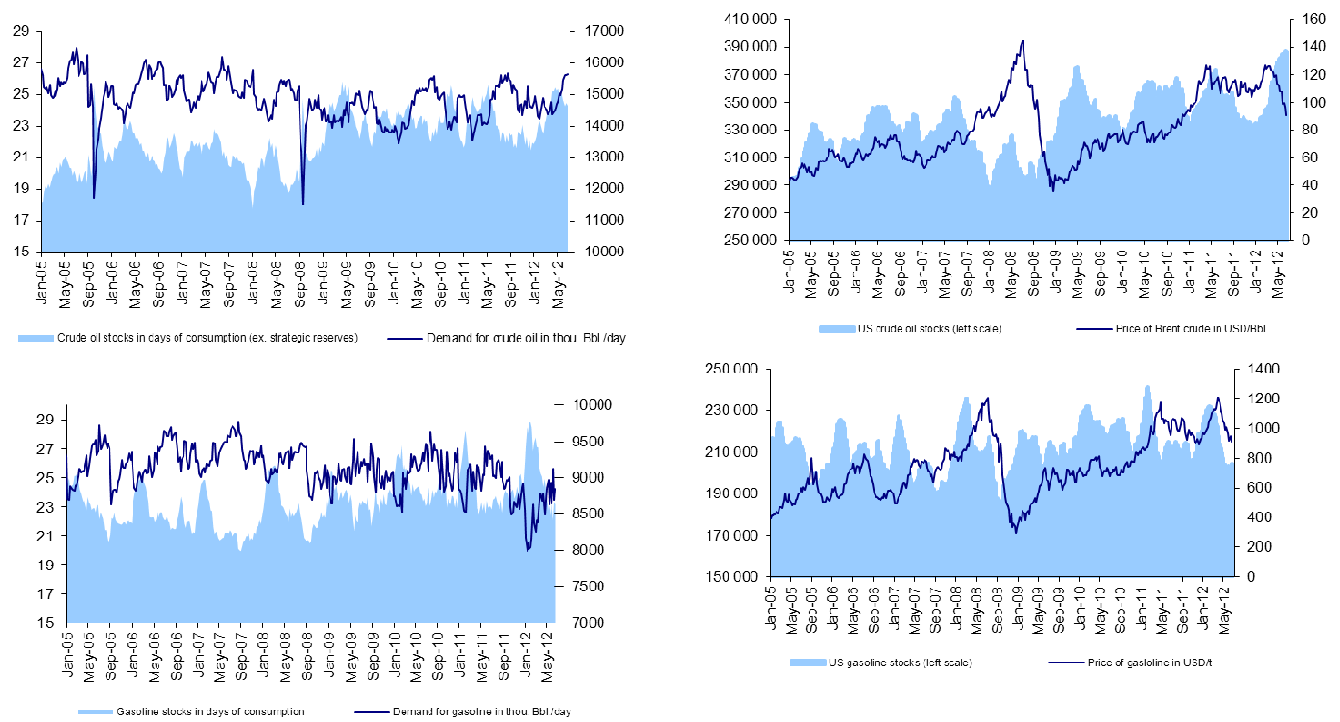
New bill on mandatory reserves

The Ministry of the Economy has prepared a new version of the bill on mandatory reserves, according to which a state agency will buy 30% of the reserves from companies: 10% in 2013 and then 5% tranches in each of the following years. Under the previous version of the bill, the agency was to buy 100% of the reserves over 10 years. The new bill also foresees a change in the calculation methodology applied to mandatory reserves, which should reduce pressure on working capital. Our models assumed that the mechanism set forth in the old bill would be implemented, but the change should in any case be valuation-neutral, because instead of incurring financing costs (financing the reserves), the companies will incur operating expenses (maintenance fees payable to the state agency).

US crude oil stocks still on the rise

US crude oil inventories increased for another straight month. Even though the increase was nominal this time (+0.6%), in the light of seasonal patterns it does confirm that the market is clearly facing excessive supply. Refineries increased their throughput, with capacity utilization going up from 88% to 91.9%, and entered the summer transportation season, even though demand figures do not suggest that fuel supply must go up. In fact, gasoline consumption was slightly lower in June than in May, leading to a 2.3% increase in inventories. Demand for middle distillates was also weak (-4.5% m/m). We reiterate the view that the crude oil market is entering a longer period of structural oversupply, mostly due to rising production in the USA (+11.3% y/y) and the new facilities which will be launched in Russia and Iraq. In addition, demand for fuels remains weak, and growth rates are unlikely to go into the positive territory in the developed countries even if we assume a more optimistic macro scenario. Such an environment is very unfavorable for producers, and to refiners it offers a chance to attain a lasting improvement in margins following three years of strong pressure.

US oil and gasoline inventories



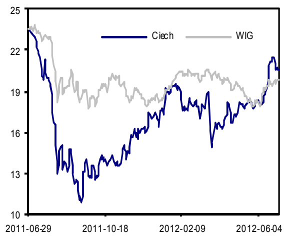
Source: BRE Bank Securities based on data released by US Department of Energy

Ciech (Hold)

Current price: PLN 20.51 **Target price: PLN 21.6**

Analyst: Kamil Kliszcz
Last Recommendation: 2012-07-04

(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)	1 080.9
EBITDA margin	*9.7%*	*8.2%*		*9.8%*		*11.1%*		EV (current price)	2 372.4
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	23.6	717.7		47.7		10.8		Price change: 1 month	*11.8%*
P/CE	2.2	4.8		3.9		3.1		Price change: 6 month	*20.6%*
P/BV	0.7	0.8		0.8		0.8		Price change: 12 month	*-11.9%*
EV/EBITDA	5.3	6.3		5.7		4.6		Max (52 week)	23.3
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	10.8



In the past few weeks, the Ciech stock has been supported by tender offers for chemical companies, though market speculation has not yet materialized into concrete bids for Ciech itself. In our opinion, the Company's current valuation is a fair one even without a strategic investor, because we expect an improvement in the earnings of the Organic segment (thanks to rising margins on TDI) and positive impact of a stronger zloty on the Soda division. In the near future, the new Management Board will probably want to present its own strategic ideas (also with regard to Zachem and the contract with Air Products, i.e. processes that were launched by the previous Board), and this could boost the stock as well. That said, as the upside potential vs. our target price is now very limited, we are downgrading Ciech from buy to hold.

Ciech finds new buyer for Polfa

The NewConnect-listed BM Medical wants to buy the pharmaceuticals distributor Polfa from Ciech. BM Medical is replacing former suitor Invest Pharma which did not succeed in securing the PLN 8.1m it had offered for Polfa. The Polfa divestment has marginal impact on Ciech's value.

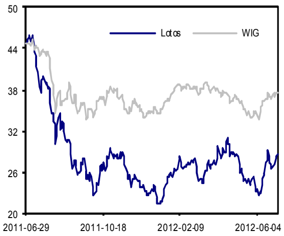
Lotos (Reduce)

Current price: PLN 28.5 **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	5.4	5.7		8.8		6.8	
P/CE	3.5	3.0		3.3		2.8	
P/BV	0.5	0.5		0.4		0.4	
EV/EBITDA	6.7	6.7		8.3		6.5	
Dyield (%)	0.0	0.0		0.0		2.3	

Basic data (PLN m)	
Number of shares (m)	129.9
MC (current price)	3 701.4
EV (current price)	11 201.1
Free float	46.8%
Price change: 1 month	*22.3%*
Price change: 6 month	*22.9%*
Price change: 12 month	*-37.3%*
Max (52 week)	45.8
Min (52 week)	21.3



In June, the Lotos stock made up for the ground lost in May, thanks primarily to improving sentiment and declining risk aversion among investors (at the end of Q1, the Company's debt amounted to 9.7x its LIFO EBITDA and 6.7x reported EBITDA), as well as thanks to the appreciation of the zloty (a PLN 0.1 increase in the value of the PLN vs. the USD shifts ca. PLN 200m from debt to market cap). The current improvements in refining macro should support Lotos's earnings, but as strong uncertainties continue to keep a hold over the market, we consider Orlen a better exposure to these tendencies, all the more so that it is cheaper on the basis of multiples adjusted for accounting artifacts. It should also be remembered that the consensus forecast foresees profits on the Yme project coming in 2013, which is highly unlikely. We reiterate our negative rating for Lotos.

What is the future for Yme project?

According to newspapers, Lotos should soon receive more detailed information from Talisman with respect to the timeline of the Yme project. We would not expect crude volumes from Yme to come in 2013, and this means consensus forecast will have to be revised down and Lotos will have to recognize further impairment charges, although most likely not quite in the amount that Talisman did in Q1 (PLN 0.4-0.5bn). We believe that Lotos's write-downs may be similar in scale to those recognized in Q4, i.e. PLN 240m. At the same time, we would like to point out that developments on the Yme project will affect Lotos's 2012 CAPEX (PLN 350m of the PLN 1bn budget was to be spent on the Yme project).

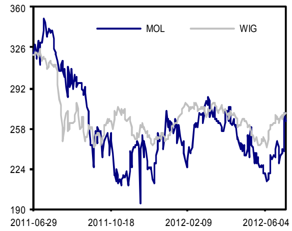
MOL (Reduce)

Current price: PLN 264.6 **Target price: PLN 208.19**

Analyst: Kamil Kliszcz
Last Recommendation: 2012-07-04

(HUF bn)	2010	2011	change	2012F	change	2013F	change
Revenues	4 299.7	5 343.2	24.3%	5 731.0	7.3%	5 296.9	-7.6%
EBITDA	526.0	603.0	14.6%	540.4	-10.4%	631.3	16.8%
EBITDA margin	*12.2%*	*11.3%*		*9.4%*		*11.9%*	
EBIT	245.5	253.2	3.1%	214.5	-15.3%	303.7	41.6%
Net profit	104.0	153.7	47.8%	140.9	-8.3%	180.7	28.3%
P/E	18.0	12.2		13.3		10.4	
P/CE	4.9	3.7		4.0		3.7	
P/BV	1.3	1.1		1.1		1.0	
EV/EBITDA	6.3	5.5		6.3		5.3	
Dyield (%)	0.0	0.0		2.4		3.4	

Basic data (PLN m)	
Number of shares (m)	104.5
MC (current price)	27 655.7
EV (current price)	50 188.6
Free float	31.3%
Price change: 1 month	*20.2%*
Price change: 6 month	*9.7%*
Price change: 12 month	*-17.5%*
Max (52 week)	350.0
Min (52 week)	194.4



In spite of plunging crude prices, the MOL stock was supported by improved market sentiment and speculation that the Hungarian government's negotiations with the EC and the IMF would come to a successful conclusion. We believe, however, that in the medium term crude oil price will be the main determinant of MOL's valuation and earnings, and if it remains at the current level (and we believe it is likely to remain under pressure due to increasing supply), it will be necessary to revise market consensus down. As a reminder, the backbone of MOL is the upstream segment (over 60% of the valuation and most of current earnings), and its sensitivity to crude oil prices is very high. The current improvements in the refining segment will surely not offset this possible decline, all the more so that under Hungary's new tax regime (which has eliminated the tax on revenues and increased the tax on profits), refineries will have to hand over 35% of their earnings to the taxman. Another risk is the prolonged inactivity of the international community with regard to the situation in Syria, which means that contrary to assumptions underlying the consensus scenario, revenues from the Syrian project will not come in 2013. Given all the above and the recent rally on the stock, we are downgrading it from hold to reduce.

Shares from OTP return to MOL, dividend decision

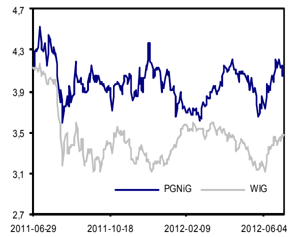
MOL announced that following the expiration of the swap agreement with OTP, 371,301 treasury shares had been returned to the Company. As a result, dividend amounted to HUF 454.54 per share. Dividend record day was 15 June, with payout following on 22 June. In our valuation, we have taken into account the shares that were subject to the swap agreement as treasury shares deducted from the total number of shares outstanding.

PGNiG (Reduce)

Current price: PLN 4.07 Target price: PLN 3.69

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

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	21 281.2	23 003.5	8.1%	26 649.4	15.8%	29 195.9	9.6%	Number of shares (m)	5 900.0
EBITDA	4 411.4	3 259.6	-26.1%	3 894.7	19.5%	6 676.7	71.4%	MC (current price)	24 013.0
EBITDA margin	*20.7%*	*14.2%*		*14.6%*		*22.9%*		EV (current price)	31 646.5
EBIT	2 886.7	1 685.5	-41.6%	1 740.0	3.2%	4 325.1	148.6%	Free float	27.4%
Net profit	2 453.7	1 626.8	-33.7%	967.6	-40.5%	2 899.7	199.7%		
P/E	9.8	14.8		24.8		8.3		Price change: 1 month	*7.1%*
P/CE	6.0	7.5		7.7		4.6		Price change: 6 month	*2.0%*
P/BV	1.0	1.0		1.0		0.9		Price change: 12 month	*-5.3%*
EV/EBITDA	5.6	8.4		8.1		4.6		Max (52 week)	4.5
Dyield (%)	0.5	2.9		2.1		2.0		Min (52 week)	3.6



Much to our surprise, market sentiment towards the PGNiG stock remains positive in spite of the falling crude oil prices (which will improve margins in the Trade&Storage segment only slightly, while making a major dent in the earnings and valuation of the upstream assets), and despite the increasing likelihood that gas prices for industrial customers will not be freed in 2013. The earnings outlook for the upcoming quarters is not very promising either, all the more so that the weak zloty results in highly negative margins on imported gas sales, despite the April hike in regulated tariffs. According to our preliminary estimates, hedging gains were very limited in the second quarter (ca. PLN 40m, not including the premium for out of the money options), and they will not prevent a loss in the Trade&Storage segment. We remain bearish on the stock.

PLN 2.5m bond issue

Book building has been completed for PGNiG's PLN 2.5bn bond issue. The bonds mature in five year, and they pay 6M WIBOR plus 1.25% margin. Given the current structure of the Company's balance sheet, this seems to be a satisfactory margin to pay.

Gas market deregulation update

A meeting was held in June between analysts and PGNiG representatives considering gas market deregulation in Poland (including progress so far and the outcome of PGNiG's recent consultations with the energy regulator URE and workshops with market players). As we expected, it seems now that PGNiG's Gas Deregulation Program is very unlikely to be implemented in 2013 (due to delays in legislative work and political concerns about the potential rise in prices). The regulator has proposed a temporary fix based on wholesale market animation by PGNiG aimed at developing a pricing benchmark. However, if this price does not turn out lower than the current tariff for industrial users, which will not be eliminated, there will be scant demand for such a product. Of course, it is possible that some entities will want to enter into one-year contracts in such a "deregulated" market in order to hedge against tariff increases, but we do not expect this to be a common phenomenon. It seems therefore that the deregulation process which the market has been expecting (some forecasts have factored in high profits from deregulation of the industrial segment already in 2013) will be delayed and implemented very gradually. In this context, we expect the 2013 consensus forecast for PGNiG to go down.

Gazprom expected to lower gas prices

According to reports and statements by Gazprom representatives, there is a chance that price negotiations between Gazprom and its European gas customers can end within a few weeks. Unfortunately, it is not unlikely that, like last year, PGNiG will be forced by the regulator to give any price concessions back to the public through a reduced price tariff. Therefore, we do not expect any major positive impact of such a scenario on the Company's earnings.

Gas tariff hike application

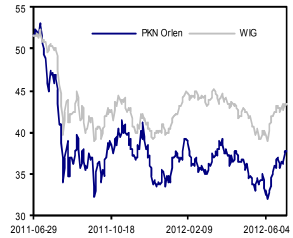
PGNiG is asking the energy regulator URE for a gas tariff hike. According to the Chairman of the URE, the factors that will be taken into consideration include the USD/PLN exchange rate and the price of crude oil, as well as the way the pricing dispute with Gazprom ends. The 9M moving average price of Brent crude, which determines the price of gas in the Yamal contract, has not changed significantly in Q1-Q3 2012 (the figures for the individual quarters were USD 113, USD 113.9 and USD 112, respectively), but, should today's prices persist, we can expect this benchmark to go down slightly in Q4'12 (towards USD 106, -5% q/q). The main reason for PGNiG's application is the USD/PLN exchange rate, which has gone up by 10% since the introduction of the current tariff. We can thus estimate that the Company is asking for a 5-10% increase in wholesale prices. We expect that the URE will protract the proceedings as it is used to, all the more so that Gazprom has declared that prices in the long term contract might be lowered. Q2 and Q3 see a seasonal reduction in gas sales, as a result of which the impact of the high unit loss on imported gas on PGNiG's EBIT is limited, but it should be remembered that the Company is also buying gas for storage in preparation for the winter season.

PKN Orlen (Hold)

Current price: PLN 37.8 **Target price: PLN 39**

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

(PLN m)	**2010**	**2011**	**change**	**2012F**	**change**	**2013F**	**change**	**Basic data (PLN m)**	
Revenues	83 547.4	106 973.1	28.0%	102 913.0	-3.8%	101 015.2	-1.8%	Number of shares (m)	427.7
EBITDA	5 545.7	4 446.4	-19.8%	4 001.2	-10.0%	4 369.7	9.2%	MC (current price)	16 167.4
EBITDA margin	*6.6%*	*4.2%*		*3.9%*		*4.3%*		EV (current price)	25 182.2
EBIT	3 123.0	2 066.5	-33.8%	1 545.6	-25.2%	1 883.6	21.9%	Free float	72.5%
Net profit	2 371.7	2 363.4	-0.4%	1 196.2	-49.4%	1 432.3	19.7%		
P/E	6.8	6.8		13.5		11.3		Price change: 1 month	*16.3%*
P/CE	3.4	3.4		4.4		4.1		Price change: 6 month	*7.2%*
P/BV	0.7	0.7		0.6		0.6		Price change: 12 month	*-27.3%*
EV/EBITDA	4.8	5.9		6.3		5.6		Max (52 week)	53.1
Dyield (%)	0.0	0.0		7.7		4.0		Min (52 week)	32.0



The very favorable refining macro supported the Orlen stock in June in spite of falling crude oil prices (in the past, the correlation between Orlen stock price and crude prices was very high). In our opinion, it will in fact be the cheaper crude that will guarantee a lasting improvement in refining through lower costs of internal use and lower negative cracks on heavy products. Needless to say, we can expect negative LIFO effects in the upcoming quarters (ca. PLN 500-600m in Q2 and as much as twice that in Q3 due to the possible drop in average price), but they should not overshadow very strong cash flows from operations. PKN Orlen is the most attractive gas & oil company covered by us.

Maintenance work concluded at Mazeikiu Nafta

Orlen announced that a maintenance downtime had been concluded at Mazeikiu Nafta. It lasted between 30 April and 6 June. The occasion was used for upgrades which should allow for a PLN 20m increase in annual EBITDA. Later this year, Orlen is planning major maintenance downtimes in Q3 (a monthly interruption in the work of the olefin and PX/PTA installations, with a negative impact on the earnings in the Petrochemical segment). As usual, the oil tar installation at the Płock refinery will also be shut down for a month.

Police (Hold)

Current price: PLN 9.9 **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	27.1	2.4		9.7		8.6	
P/CE	7.3	1.9		5.0		4.7	
P/BV	1.3	0.9		0.8		0.8	
EV/EBITDA	12.2	2.8		5.6		4.4	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	75.0
MC (current price)	742.5
EV (current price)	891.9
Free float	18.1%
Price change: 1 month	*22.2%*
Price change: 6 month	*0.8%*
Price change: 12 month	*-14.1%*
Max (52 week)	13.9
Min (52 week)	7.4

In June, the Police stock more than offset the ground lost in the very weak May, thanks to improved sentiment in the agro market (increase in grain prices and valuations of fertilizer producers worldwide), as well as due to speculation that ZA Tarnów, which is proposing a stock issue to its own shareholders, will want to buy out minority shareholders. As far as the latter issue is concerned, we believe it is very unlikely that ZAT's shareholders will support the Management's proposal to increase share capital. In turn, the mounting pressure on grain prices, exacerbated by the long drought in the USA, is an undeniable fact. This poses a risk for our skeptical scenario, whose main assumption was that record-high corn supply in America will significantly shift the global corn equilibrium. If there is no improvement in weather conditions in the next few weeks, we will have to revise our forecasts for the industry upwards.

USDA monthly report

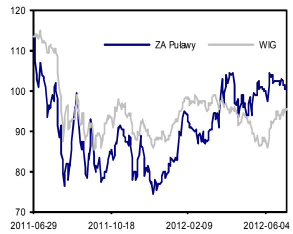
USDA has revised its grain inventory forecast for the 2012/2013 season. The forecast for corn was raised from 152.3 Mt to 155.7 Mt (the highest level since 2000) due to higher-than-expected harvest in China and Europe (the analysts' prediction was 151 Mt). In turn, the forecasts for wheat inventories were cut from 188 Mt to 185.8 Mt (vs. 185 Mt expected by analysts) due to Russia's harvest estimate being cut by 3 Mt. Should the USDA's predictions prove correct, the current situation in the grain market will not support high prices, but after the prolonged droughts in the USA the market has started to discount a reduction in supply forecasts in the Agency's July report. This poses a risk for our scenario of a reduction in grain prices, and weather situation in the next two weeks will be the decisive factor here. We still believe that there is a significant potential for a downward revision in USDA's demand forecasts in the case of corn, which seem very optimistic even when they are adjusted for ethanol use (+7.6% vs. +2.8% in the preceding season and +2.6% average for 2000-2011).

ZA Puławy (Hold)

Current price: PLN 100.4 **Target price: PLN 96.6**

Analyst: Kamil Kliszcz
Last Recommendation: 2012-07-04

(PLN m)	2010/11	2011/12F	change	2012/13F	change	2013/14F	change	Basic data (PLN m)	
Revenues	2 882.3	3 983.8	38.2%	3 373.5	-15.3%	3 594.3	6.5%	Number of shares (m)	19.1
EBITDA	413.6	835.0	101.9%	339.0	-59.4%	326.6	-3.6%	MC (current price)	1 919.1
EBITDA margin	*14.3%*	*21.0%*		*10.0%*		*9.1%*		EV (current price)	1 839.7
EBIT	327.6	714.7	118.1%	203.7	-71.5%	181.7	-10.8%	Free float	40.0%
Net profit	279.4	585.0	109.4%	175.1	-70.1%	171.6	-2.0%		
P/E	6.9	3.3		11.0		11.2		Price change: 1 month	*0.4%*
P/CE	5.3	2.7		6.2		6.1		Price change: 6 month	*25.7%*
P/BV	1.0	0.8		0.8		0.8		Price change: 12 month	*-3.2%*
EV/EBITDA	4.5	1.9		5.4		5.6		Max (52 week)	106.6
Dyield (%)	1.0	3.6		12.2		4.6		Min (52 week)	74.4



Synthos's tender offer 'kick-started' the ZAP stock, and it seems that little will change in this respect in the next few weeks. The key factor will be the Treasury's decision as to how to respond to the tender offer. If the Treasury does not decide to sell, the stock should go back to correlation with the usual determinants of its price, i.e. the agricultural market in the first place, which, contrary to our expectations, saw a major improvement in June due to unfavorable weather in the USA. If the drought there does not end in the next few days, there is a risk of further increase in corn and wheat prices, and therefore also of a revision in our forecasts for fertilizer producers. We are therefore upgrading our rating from reduce to hold.

USDA monthly report

USDA has revised its grain inventory forecast for the 2012/2013 season. The forecast for corn was raised from 152.3 Mt to 155.7 Mt (the highest level since 2000) due to higher-than-expected harvest in China and Europe (the analysts' prediction was 151 Mt). In turn, the forecasts for wheat inventories were cut from 188 Mt to 185.8 Mt (vs. 185 Mt expected by analysts) due to Russia's harvest estimate being cut by 3 Mt. Should the USDA's predictions prove correct, the current situation in the grain market will not support high prices, but after the prolonged droughts in the USA the market has started to discount a reduction in supply forecasts in the Agency's July report. This poses a risk for our scenario of a reduction in grain prices, and weather situation in the next two weeks will be the decisive factor here. We still believe that there is a significant potential for a downward revision in USDA's demand forecasts in the case of corn, which seem very optimistic even when they are adjusted for ethanol use (+7.6% vs. +2.8% in the preceding season and +2.6% average for 2000-2011).

Synthos makes PLN 102.5 per-share tender offer

Synthos has made a tender offer for 100% shares in Puławy. Shares can be tendered between 9 July and 7 August, although after July 20 the price offered will go down from PLN 102.50 per share to 98.77 per share. In order for the offer to be effective, 80% of all shares have to be tendered. Synthos will finance the acquisition with a 6-year investment loan from PKO BP (PLN 2bn, of which 30% is due by the end of they year, i.e. constitutes Synthos's own contribution). The price offered by Synthos implies a nearly 20% discount to Acron's bid for ZAT based on 2012 earnings and an over 10% premium based on 2013 earnings (P/E and EV/EBITDA). The comparison is not straightforward, however, due to ZAP's shifted fiscal year. The tender offer will take place during the harvest period, when the situation in the global grain market should clarify.

Power Utilities

Electricity demand falls 2.3% y/y in May

PSE estimates that electricity consumption in Poland was 2.3% lower in May 2012 than in the same month in 2011 (+0.2% m/m, +0.6% YTD). The decline in electricity consumption most likely reflects a slowdown in industry, including the mining industry, as well as a 1.3 degree y/y increase in average temperatures. With no exports (vs. 0.6 TWh in May 2011), overall electricity production fell by a staggering 6.4% y/y. Just as in the preceding months, hard-coal-fired plants saw the biggest plunges in output (-16%), as the fall in demand was exacerbated by the presence of the new unit at the Bełchatów PP (lignite-fired plants increased their output by 5.9%). Wind farms increased production by 71 GWh, i.e. they had little impact on the market despite the major increase in their installed capacity. To sum up, the electricity market is feeling the impact of the economic slowdown, which results in lower volumes that depress spot prices (-16% y/y). As far as generation is concerned, we expect Tauron to experience the biggest decline this year, as was already seen in Q1 data. It should be noted though that falling revenues are being offset by higher LTC compensation, and the Company is saving considerable volumes of emission credits for 2013. Thus, paradoxically, market weakness might in fact improve Tauron’s 2012-2013 earnings performance. As far as distribution is concerned, should consumption continue to slide in the following months, this year's targets for return on RAV may be at risk. With regard to 2013, weaker readings this year should prevent the regulator from adopting overly optimistic assumptions when determining 2009 tariffs, which is what happened in 2009.

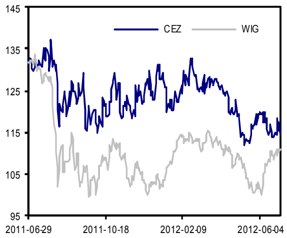
CEZ (Hold)

Current price: PLN 114.2 **Target price: PLN 117.5**

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	7.9	9.1		8.5		8.3	
P/CE	5.2	5.6		5.3		5.2	
P/BV	1.7	1.6		1.5		1.4	
EV/EBITDA	5.8	6.2		6.2		6.3	
Dyield (%)	7.6	7.2		6.2		6.5	

Basic data (PLN m)	
Number of shares (m)	538.0
MC (current price)	61 438.4
EV (current price)	91 694.0
Free float	29.3%
Price change: 1 month	*-4.3%*
Price change: 6 month	*-12.0%*
Price change: 12 month	*-13.7%*
Max (52 week)	137.0
Min (52 week)	111.8



Reports that CEZ might sell two coal-fired plants for a good price and dividend payment failed to provide enough support to the stock, which underperformed the broad market in June. In the preceding months, however, CEZ had resisted fairly well the broad negative sentiment to the industry, which is why we do not consider the current price of the stock an opportunity to buy, all the more so that Polish utilities seem more attractive. In this context, we reiterate our neutral rating for the stock.

Shareholders approve dividend proposal

CEZ's shareholders approved the Management's CZK 45 per-share dividend proposal. The day of record was set for 2 July.

CEZ might sell coal-fired plants

CEZ reached an agreement with the European Commission, agreeing to sell one coal-fired plant in order to avoid excessive market concentration. Earlier, newspapers reported that the owner of Czech Coal (a lignite producer that supplies CEZ with fuel) had made a bid for the Poceradý and Chvatelice plants, and that the value of this bid could reach CZK 20bn (CZK 37 per share). Thus, the value of the assets that may be subject to divestment is not significant relative to the size of CEZ.

CEZ finalizes Energotrans acquisition

Upon receipt of antitrust clearance, CEZ finalized the acquisition of Energotrans, which owns the lignite fired Melnik CHP plant (352 MW) that supplies heat to Prague. Since the earlier acquisition of Prazska Teplarenska (PT) was blocked, the payment will be partly covered with CZK 11.9bn that CEZ paid for a 48.7% stake in PT in 2009. The full price for Energotrans was not disclosed, but given that its net income is ca. CZK 1.2-1.5bn per year, the extra payment over CZK 11.9bn should not be material. The earnings of Energotrans were supposed to be consolidated starting in Q2, i.e. the delay is less than a quarter.

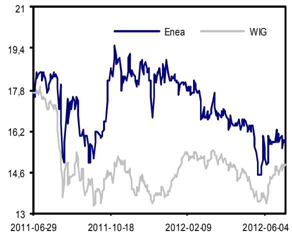
Enea (Accumulate)

Current price: PLN 15.88 **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	11.0	8.7		7.9		7.7	
P/CE	5.4	4.6		4.6		4.3	
P/BV	0.7	0.7		0.6		0.6	
EV/EBITDA	3.1	3.0		3.1		3.5	
Dyield (%)	2.4	2.6		3.0		0.0	

Basic data (PLN m)	
Number of shares (m)	441.4
MC (current price)	7 010.1
EV (current price)	5 415.3
Free float	21.8%
Price change: 1 month	*2.5%*
Price change: 6 month	*-15.5%*
Price change: 12 month	*-14.1%*
Max (52 week)	19.5
Min (52 week)	14.5



June was another weak month for the ENEA stock, which has in fact offered the worst rate of return in the industry year to date. In addition to negative sentiment towards power utilities, ENEA was surely not helped by the practical irrevocability of the decision to build a new unit at the Kozienice PP (in the case of Tauron and PGE, the market has been speculating that investment decisions may be postponed) and the expensive wind farm acquisition finalized in Q1. In the upcoming months, we can hardly expect any price-boosting factors (apart from the low valuation), and, as declared by the Treasury, the privatization process will not be launched until next year, when the Kozienice project has physically commenced. In this context, while we reiterate our positive rating, we consider Tauron and PGE more interesting alternatives.

PLN 4bn bond program

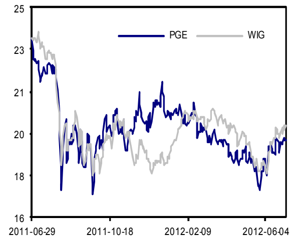
ENEA signed an agreement with five banks (PKO, Pekao, BZ WBK, Handlowy, Nordea) concerning a bond program capped at PLN 4bn. Unsecured bonds will be issued in multiple series not smaller than PLN 100m each. The program will last 10 years, expiring on 15 June 2022, and bonds can be issued through 2017. The funds obtained will be used to finance a new coal-fired unit at Kozienice power plant, whose net cost is estimated at PLN 5.2bn.

PGE (Buy)

Current price: PLN 19.3 **Target price: PLN 23.07**

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

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	20 476.5	28 111.4	37.3%	30 022.9	6.8%	32 033.3	6.7%	Number of shares (m)	1 869.8
EBITDA	6 840.5	6 855.0	0.2%	8 338.1	21.6%	7 896.2	-5.3%	MC (current price)	36 086.8
EBITDA margin	*33.4%*	*24.4%*		*27.8%*		*24.6%*		EV (current price)	35 437.9
EBIT	4 185.3	4 144.5	-1.0%	5 587.4	34.8%	5 114.4	-8.5%	Free float	30.7%
Net profit	3 014.1	4 935.4	63.7%	4 459.1	-9.7%	3 931.7	-11.8%		
P/E	12.0	7.3		8.1		9.2		Price change: 1 month	*4.3%*
P/CE	6.4	4.7		5.0		5.4		Price change: 6 month	*-9.8%*
P/BV	1.0	0.9		0.8		0.8		Price change: 12 month	*-15.0%*
EV/EBITDA	5.4	4.7		4.3		5.0		Max (52 week)	22.8
Dyield (%)	4.4	3.4		8.2		6.2		Min (52 week)	17.0



PGE is still under pressure of low energy prices for 2013, since, being the country's biggest producer with a high degree of vertical integration (lignite mines) it is set to loose the most in relative terms in such an environment (with its mining costs fixed, it cannot hope to benefit from global coal price declines). In a shorter term, the stock should be supported by dividend (9.5% yield, with record day on 22 August) and low valuation multiples relative to CEZ. We reiterate our positive rating.

Court victory on long-term contract compensation

The competition court has ruled in favor of PGE on long-term contract compensation for ZE Dolna Odra in 2009 (PLN 93m). It is the first ruling on LTC compensation for 2009 and it should be remembered that it is a first-instance ruling. The energy regulator URE will surely appeal, as it did in the disputes concerning 2008 compensation.

PGE will not appeal Energa decision

PGE will not appeal the court's decision that blocked its takeover of Energa. The agreement with the State Treasury was terminated. An expected development that has put this issue finally to rest.

Nuclear technology tender will be delayed

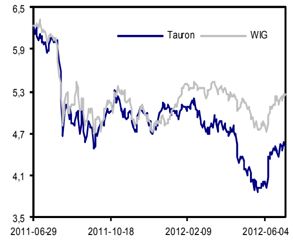
The CEO of PGE said that the tender to pick the technology to be used in the prospective nuclear power plant will be delayed due to work on the project financing model, as the choice of the model may have a significant impact on the choice of the winning bid. As a reminder, final decisions on the launch of the construction of nuclear units will not come until 2-3 years from now, and the first power plant will be ready approximately in 2025.

Tauron (Buy)

Current price: PLN 4.5 **Target price: PLN 7.13**

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

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	15 428.9	20 755.2	34.5%	25 380.5	22.3%	26 769.3	5.5%	Number of shares (m)	1 752.5
EBITDA	2 758.0	3 023.0	9.6%	3 606.6	19.3%	3 579.5	-0.8%	MC (current price)	7 886.5
EBITDA margin	*17.9%*	*14.6%*		*14.2%*		*13.4%*		EV (current price)	13 087.9
EBIT	1 399.3	1 611.5	15.2%	1 999.6	24.1%	1 725.0	-13.7%	Free float	59.6%
Net profit	858.7	1 220.0	42.1%	1 356.8	11.2%	1 039.3	-23.4%		
P/E	9.2	6.5		5.8		7.6		Price change: 1 month	*13.1%*
P/CE	3.6	3.0		2.7		2.7		Price change: 6 month	*-12.3%*
P/BV	0.5	0.5		0.5		0.5		Price change: 12 month	*-27.5%*
EV/EBITDA	3.0	4.1		3.6		4.1		Max (52 week)	6.2
Dyield (%)	0.1	3.3		4.9		3.4		Min (52 week)	3.9



After a few weak months, the Tauron stock outperformed the broad market in June, aided presumably by the high dividend, although the market was also swinging back after the earlier excessive declines, which were very much out of synch with the general weakness of the power industry in Europe. Meanwhile, contrary to the popular opinion, we believe Tauron may prove to be the safest power utility in the current situation, as generation accounts for a low share of its EBITDA, it has saved a considerable volume of emission credits this year, and its earnings are dominated by stable segments (distribution, heat). We consider the market consensus for 2012-2013 overly conservative. We are reiterating a buy rating.

Fitch reaffirms ratings

Fitch has reaffirmed Tauron's PLN and F/X issuer default rating at 'BBB' with stable outlook. The agency's analysts have noted that the Company is in the process of securing external financing. Tauron is planning to expand its bond program and to secure long-term financing from the EIB, which should cover its CAPEX over the next 18-24 months.

Telecommunications

EC sues Poland over noncompliance with telecom rules

The European Commission is asking the European Court of Justice to fine five Member States, Poland, the Netherlands, Belgium, and Portugal, for failure to implement new telecom rules by the appointed deadline. The rules in question include one-day number porting and privacy requirements. The fine faced by Poland is EUR 112 thousand per day. The Court of Justice will take time to give a ruling, moreover, the potential penalties will be charged from governments rather than telecoms. The implementation of one-day number porting regulations should not be a problem for the telecom market because these rules are already mostly applied in day to day practice. The privacy protection requirements may be more costly to implement, but the major Polish telecoms can easily handle these costs.

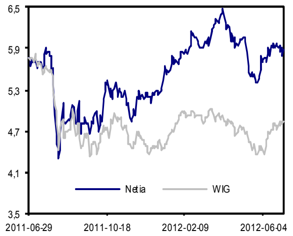
Netia (Hold)

Current price: PLN 5.87 **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	8.7	9.2		19.2		15.8	
P/CE	4.0	4.1		4.3		4.2	
P/BV	1.0	0.9		1.0		1.0	
EV/EBITDA	3.3	4.6		4.8		4.5	
Dyield (%)	0.0	2.7		11.1		5.3	

Basic data (PLN m)	
Number of shares (m)	389.3
MC (current price)	2 285.4
EV (current price)	2 822.1
Free float	55.0%
Price change: 1 month	*2.8%*
Price change: 6 month	*11.4%*
Price change: 12 month	*2.6%*
Max (52 week)	6.5
Min (52 week)	4.3



Netia remains active in the area of acquisitions through its involvement in the negotiations for TK Telekom, but we believe there are more determined counter-bidders (a consortium of IT Polpager and Hawe), and TK Telekom is anyway unlikely to bring synergy effects comparable to those offered by Dialog and Crowley due to its more rigid employment structure. The plans to continue treasury share buyback will help stabilize the stock price, but operating data will be of greater importance. We expect that the number of broadband users will fail to increase significantly and the number of voice users will fall, preventing the stock from traveling further north. We are reiterating a hold rating.

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.

Intercompany bond transactions

Netia issued six non-negotiable bonds with nominal value of PLN 50m each to Telefonia Dialog. The objective of the issue is to enable Netia to take over elements of telecom infrastructure owned by Telefonia Dialog. A technicality that reflects post-acquisition rearrangements within the Group.

CEO on Netia's financials

CEO Godlewski has given an interview. The main takeaways can be summarized as follows: 1) Netia can launch the third PLN 50m installment of its share buyback program in the third or fourth quarter; 2) Netia is considering a bond issue as an alternative to a bank loan as a source of financing for acquisitions or dividends; for the moment, talks with banks are still ongoing, and the decision should come in the latter half of the year; 3) Netia intends to increase financial leverage, with debt/EBITDA of 1.5x considered the optimal level, and 2.5x as the cap; 4) Netia is still hoping that PGE will eventually decide to sell Exatel after all. The continuing buyback will provide support to Netia's stock price. If the company decides to make a bond issue, the buyback can be expected to go on (it faces strong competition from Hawe and IT Polpager in the bid to acquire TK Telekom). In the long term, however, Netia's value will be determined by the trends taking place in the markets for fixed-line telephony and broadband Internet. Without a pickup in these markets, a buyback can only provide a temporary boost to the stock price.

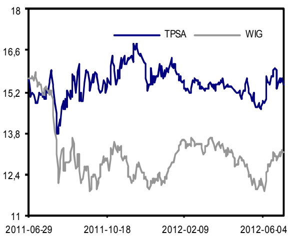
TP SA (Hold)

Current price: PLN 15.48 **Target price: PLN 15.9**

Analyst: Piotr Grzybowski

Last Recommendation: 2012-01-23

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	15 715.0	14 922.0	-5.0%	14 529.6	-2.6%	14 537.3	0.1%	Number of shares (m)	1 335.6
EBITDA	4 700.0	5 984.0	27.3%	5 456.8	-8.8%	5 485.7	0.5%	MC (current price)	20 675.8
EBITDA margin	*29.9%*	*40.1%*		*37.6%*		*37.7%*		EV (current price)	24 616.3
EBIT	908.0	2 217.0	144.2%	1 849.3	-16.6%	2 016.8	9.1%	Free float	45.0%
Net profit	177.3	1 917.0	981.2%	1 199.0	-37.5%	1 347.6	12.4%		
P/E	116.6	10.8		17.2		15.3		Price change: 1 month	*4.5%*
P/CE	5.2	3.6		4.3		4.3		Price change: 6 month	*-4.2%*
P/BV	1.4	1.5		1.6		1.6		Price change: 12 month	*1.9%*
EV/EBITDA	5.2	4.0		4.5		4.3		Max (52 week)	16.9
Dyield (%)	9.7	13.6		9.7		7.8		Min (52 week)	13.8



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.

Media

PwC on media and entertainment

PricewaterhouseCoopers expects the Polish online advertising market to grow at 17% on average in 2012-2016, overtaking the TV segment at the end of the period in terms of market shares. Meanwhile, the value of the print media segment (consumer spending and advertising) is expected to fall by USD 37m to USD 275m. We believe the future belongs to the internet and it will eventually overtake television as Poland's most popular advertising medium. A five-year timeline seems overly optimistic, however, given that the TV market is currently 2.5x bigger than the online segment. As for the print media segment, we expect PwC's prediction to come true already in 2012, which would mean that it would be the last year when the value of the segment is shrinking.

ZenithOptimedia on Polish advertising market outlook

ZenithOptimedia expects advertising expenditure in Poland to fall 0.7% in 2012 - a downward revision from an earlier forecast of 1.9% growth. The net value of the advertising market is expected to reach PLN 7.09bn. The only sectors expected to enjoy an increase in ad expenditure will be radio, cinema, and the Internet, with growth projected at a respective 2.5%, 3.7%, and 11.5%. Outdoor adspend is expected to shrink 2.6%, and TV adspend will decline 0.4%. Despite some improvement expected in the fourth quarter, we agree that the Polish advertising market is having a weak year in 2012.

Agora (Buy)

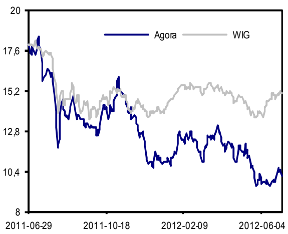
Current price: PLN 10.09 **Target price: PLN 15.3**

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	7.1	12.2		17.0		15.3	
P/CE	3.3	3.8		4.3		4.1	
P/BV	0.4	0.4		0.4		0.4	
EV/EBITDA	2.7	2.9		3.0		2.8	
Dyield (%)	5.0	5.0		5.0		5.0	

Basic data (PLN m)	
Number of shares (m)	50.9
MC (current price)	514.0
EV (current price)	395.4
Free float	73.2%
Price change: 1 month	*0.9%*
Price change: 6 month	*-9.1%*
Price change: 12 month	*-41.9%*
Max (52 week)	18.4
Min (52 week)	9.5



The shareholders of Agora approved a PLN 1.0 per-share dividend payout, which implies a very attractive yield of 9.7%, one of the highest yields currently available. Since the Company will still have net cash after the payout, this constitutes a major investment asset in spite of the unfavorable economic environment, i.e. a sharp drop in adspend in Q2. We believe that the advertising market is unlikely to show FY growth after a weak first half of the year. However, Agora's PLN 400m seems attractive even under this unfavorable scenario. We are reiterating a buy rating.

Agora to open 11 cinemas by end of 2013

Agora wants to open 11 cinemas in Białystok, Siedlce, Bełchatów, Bydgoszcz, Gdynia, Kalisz, Kędzierzyn-Koźle, Nowy Sącz, Rzeszów, Szczecin, and Tczew, by the end of 2013. The expansion into cinema operation marks a step toward revenue diversification for Agora. We believe cinemas are a potentially successful business for the company reducing its dependence on advertising and displaying less sensitivity to economic trends than the advertising-driven business of magazine publishing.

Newspaper circulation in April

In April, total paid circulation of Agora's *Gazeta Wyborcza* daily averaged 265,433 copies per day, marking a 17.7% y/y decline from the preceding year. *Dziennik Gazeta Prawna*, a joint venture of Infor and Axel Springer Polska, saw its total paid circulation fall by 14.6% y/y to 84,009 copies, and the tabloid *Fakt* recorded an increase by 3.4% y/y to 409,572 copies. The *Super Express* tabloid saw a 9.4% decrease to 165,469 copies, while total paid circulation of *Rzeczpospolita* amounted to 107,312 copies per day, which entails a 20.3% y/y drop. Another weak month for broadsheets. Tabloids seem to be doing much better.

Agora opens new cinema

Agora has opened a new Helios cinema, the 28th in the chain, in Tczew. The company is planning to open four more locations in Kędzierzyn-Koźle, Bełchatów, Rzeszówi, and Szczecin, by the end of the year. The six openings scheduled for 2013 are Bydgoszcz, Gdynia, Kalisz, Nowy Sącz, Białystok, and Siedlce. Expansion in the cinema segment reduced Agora's dependence on advertising revenues. However, the full effects of the expansion will not start to be visible until next year.

Shareholders approve dividend payout

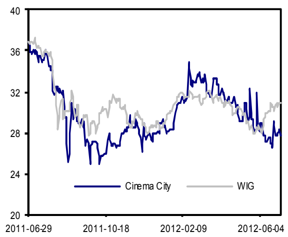
Agora's shareholders approved a PLN 1 per share dividend payout. The record day is July 16th, payout scheduled for August 3rd. In line with the motions submitted to the AGM, and therefore not a surprise for investors. The 10.3% yield is the WSE's highest.

Cinema City (Hold)

Current price: PLN 27.56 **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)	1 411.1
EBITDA margin	*24.0%*	*18.7%*		*20.9%*		*21.5%*		EV (current price)	1 553.0
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	11.1	16.1		11.6		9.5		Price change: 1 month	*-1.6%*
P/CE	6.7	7.3		6.3		5.6		Price change: 6 month	*-1.6%*
P/BV	1.6	1.4		1.2		1.2		Price change: 12 month	*-22.7%*
EV/EBITDA	6.4	7.6		6.0		5.1		Max (52 week)	36.2
Dyield (%)	0.0	0.0		0.0		18.1		Min (52 week)	25.0



The Euro 2012 soccer championship had a very negative effect on cinema attendance, which amounted to just 120 thousand during the worst weekend. Viewers should flock back to cinemas in July, but we believe there few reasons to believe that there will be a lasting improvement in attendance. The key question now is how successful Cinema City is going to be about replacing its 'Orange Wednesday' promotions with other campaigns (one was launched in April), and how the restructuring of Palace Cinema theaters is going to proceed. We are reiterating a hold rating.

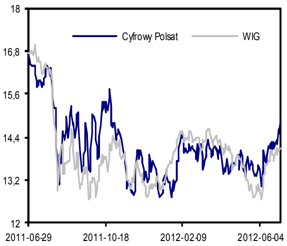
Cyfrowy Polsat (Hold)

Current price: PLN 14.76 **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	15.3	32.2		13.1		12.5	
P/CE	11.7	15.4		9.1		8.5	
P/BV	9.3	2.7		2.4		2.2	
EV/EBITDA	15.6	10.0		8.3		7.8	
Dyield (%)	3.9	0.0		0.0		3.8	

Basic data (PLN m)	
Number of shares (m)	348.4
MC (current price)	5 141.7
EV (current price)	7 107.5
Free float	51.5%
Price change: 1 month	*9.6%*
Price change: 6 month	*14.1%*
Price change: 12 month	*-9.8%*
Max (52 week)	16.4
Min (52 week)	12.7



We reiterate the view that the problems that the entire TV advertising industry is facing will gradually start being reflected in the earnings of CPL's broadcasting segment. In addition, the expanding reach of digital terrestrial television will increase pressure on margins in the MiniMax package in the pay TV segment. On the other hand, the pay TV business should benefit from increasing sales of the multiroom service, which makes it possible to significantly improve ARPU without incurring major expenses. We are reiterating a hold rating.

TV ratings for May

In May, TVN's 24h ratings were flat at 15.7%, as were Polsat's at 14.9%. Public television channels lost viewers, with the ratings of TVP1 falling from 18.1% to 14.7%, and TVP2's from 13.8% to 12.5%. The TVN Group as a whole saw its ratings go up from 21.4% to 22.3%, the Polsat Group from 18.6% to 19.1%, while the public television experienced a drop from 37.9% to 33.0%.

In the commercial demographic (16-49 years of age), Polsat saw its 24h ratings fall from 16.8% to 16.5%, while the ratings of the TVN channel decreased from 17.5% to 16.6%, TVP1 saw its ratings fall from 13.8% to 11.0%, and TVP2 from 12.3% to 10.7%. Network-wide figures were 23.5% vs. 23.1% in May 2011 for TVN, 21.0% vs. 20.8% for Polsat, and a drop from 30.1% to 25.8% for public broadcasters. May saw TVN's and Polsat's ratings level off and TVP's plunge further. It is worth noting that thematic channels not belonging to the three big networks have already captured a 25% share of overall audience, a nearly 30% audience share in the commercial demographic (16-49 years of age) and over 33% audience share in the target demographic (16-49 years of age, city dwellers). In our opinion, this will have an impact on the advertisers' budget allocation decisions, with negative consequences for CPL and TVN alike.

Mobile digital TV launched

Cyfrowy Polsat has announced the launch of a mobile digital TV service. The Company expects the project to break even within 3-5 years. Judging by Western Europe, where mobile TV remains a tiny niche, we stand by our view that it will not have a material impact on Cyfrowy Polsat's earnings.

Agreement with Vectra

Cyfrowy Polsat has signed an agreement with Vectra, pursuant to which the cable operator will start distributing 9 thematic Polsat channels on 1 October: Polsat HD, Polsat 2, Polsat News, Polsat Sport News, Polsat Sport SD, Polsat Sport HD, Polsat Sport Extra SD, Polsat Sport Extra HD and Polsat Cafe. Good news. Vectra has nearly 790 thou. subscribers. Thanks to expanded reach, TV Polsat will increase advertising revenues, as well as get licensing fees for the distribution of the channels. Note, however, that these positive effects are more limited than Vectra's total subscriber base figure suggests. Only 400 thou. of them have digital TV, and the others will not be able to receive 3 out of 9 channels covered by the agreement. Moreover, Polsat Sport News will be distributed free of charge as it will be also available from the DTT multiplex.

TVN (Accumulate)

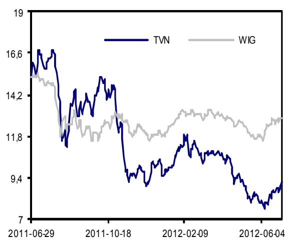
Current price: PLN 9.09 **Target price: PLN 10.2**

Analyst: Piotr Grzybowski

Last Recommendation: 2012-06-05

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	2 490.7	2 466.1	-1.0%	2 779.8	12.7%	2 920.9	5.1%
EBITDA	610.7	659.8	8.0%	713.8	8.2%	772.9	8.3%
EBITDA margin	*24.5%*	*26.8%*		*25.7%*		*26.5%*	
EBIT	363.8	432.7	18.9%	456.9	5.6%	529.3	15.9%
Net profit	42.8	-317.4		293.5		309.9	5.6%
P/E	72.6			10.6		10.0	
P/CE	10.7			5.6		5.6	
P/BV	2.5	2.9		2.3		2.0	
EV/EBITDA	8.9	8.5		7.5		6.7	
Dyield (%)	3.4	0.0		0.0		2.8	

Basic data (PLN m)	
Number of shares (m)	341.9
MC (current price)	3 107.7
EV (current price)	5 365.6
Free float	43.7%
Price change: 1 month	*15.1%*
Price change: 6 month	*-12.3%*
Price change: 12 month	*-42.4%*
Max (52 week)	16.7
Min (52 week)	7.6



In June, TVN announced it was selling a 75% stake in Onet for a price that entails a PLN 1275m valuation for the subsidiary as a whole. Although we consider Onet a key asset within the Group, and one with the best outlook for growth and ability to create synergies with other segments, this price seems to include a premium vs. fair value and the lost synergies. Given the added value created in this transaction, and valuing Onet on the basis of the transaction price, TVN is trading at a ca. 10% discount to peers on 2012 EV/ EBITDA. Moreover, selling Onet will allow TVN to reduce debt, which might convince Canal+ to increase its direct and indirect interest in TVN. The recent information on ITI's sale of the Pascal publishing house and on efforts to find an investor for the Legia soccer club seem to make it more likely that TVN will be sold as well. Canal+ would then pay a premium. We believe that in the short term such considerations will outweigh the uncertain economic environment (weak advertising market). We are reiterating an accumulate rating on TVN.

TV ratings for May

In May, TVN's 24h ratings were flat at 15.7%, as were Polsat's at 14.9%. Public television channels lost viewers, with the ratings of TVP1 falling from 18.1% to 14.7%, and TVP2's from 13.8% to 12.5%. The TVN Group as a whole saw its ratings go up from 21.4% to 22.3%, the Polsat Group from 18.6% to 19.1%, while the public television experienced a drop from 37.9% to 33.0%.

In the commercial demographic (16-49 years of age), Polsat saw its 24h ratings fall from 16.8% to 16.5%, while the ratings of the TVN channel decreased from 17.5% to 16.6%, TVP1 saw its ratings fall from 13.8% to 11.0%, and TVP2 from 12.3% to 10.7%. Network-wide figures were 23.5% vs. 23.1% in May 2011 for TVN, 21.0% vs. 20.8% for Polsat, and a drop from 30.1% to 25.8% for public broadcasters. May saw TVN's and Polsat's ratings level off and TVP's plunge further. It is worth noting that thematic channels not belonging to the three big networks have already captured a 25% share of overall audience, a nearly 30% audience share in the commercial demographic (16-49 years of age) and over 33% audience share in the target demographic (16-49 years of age, city dwellers). In our opinion, this will have an impact on the advertisers' budget allocation decisions, with negative consequences for CPL and TVN alike.

TVN sells 75% stake in Onet

TVN announced that it had sold a 75.95% stake in Onet to Ringier Axel Springer (RAS) for PLN 968.75m, which implies a ca. PLN 1275m valuation for the whole company. The shares will be sold to an SPV set up by RAS.TVN will contribute the remaining shares to the SPV in exchange for a 25% stake in it. The price may be increased by no more than PLN 37.5m depending on the future earnings of the portal. We consider the price attractive, as it is much above the figure that appeared in earlier speculation (PLN 900-950m for 100% stake). The sale will allow TVN to repay a portion of its EUR 768m debt. Note that 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.

IT

Bids revealed in Finance Ministry e-tax tender

Five bids were submitted in a tender held by the Polish Finance Ministry for development, implementation, and maintenance of an e-tax system. The lowest bid of PLN 215m (gross) was made by SKG SA, followed by Sygnity (PLN 232m), Asseco Poland (PLN 261m), and Comarch (PLN 267m). The bids were evaluated based on price (assigned a weight of 40), architectural concept (30), and feasibility (30). Since the non-price scores have a combined weight of 60 in the final decision, the lowest bidder does not necessarily have to be the winner. Nevertheless, SKG and Sygnity seem to be in the running to get the contract. Asseco Poland's quote is 12.5% higher than Sygnity and about 21.4% higher than SKG's. SKG offers a wide range of solutions for managing customs duties, logistics, and transportation. which makes it a serious rival to WSE-listed companies in government tenders.

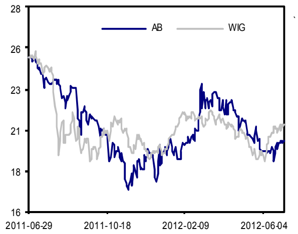
AB (Hold)

Analyst: Piotr Grzybowski

Current price: PLN 20.1 **Target price: PLN 22.5** **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	6.3	8.0		7.5		6.7	
P/CE	5.4	6.6		6.2		5.6	
P/BV	1.0	0.9		0.8		0.7	
EV/EBITDA	6.9	6.6		6.1		5.6	
Dyield (%)	1.6	1.2		1.3		1.5	

Basic data (PLN m)	
Number of shares (m)	16.1
MC (current price)	324.6
EV (current price)	446.5
Free float	38.9%
Price change: 1 month	*3.0%*
Price change: 6 month	*7.3%*
Price change: 12 month	*-19.6%*
Max (52 week)	25.0
Min (52 week)	17.3



AB is the cheapest Polish IT distributor. We believe, however, that as a result of progressing market concentration, the biggest players will no longer see their revenues grow at several dozen percent. Instead, their growth rates will gradually decline towards market-wide growth rate. Such a trend combined with continued pressure on margins and uncertain market situation (as consumers get weaker, the value of the market may fall) could make the distributors' situation more difficult. Given the above, as well as the fact that the stock is not trading at a significant premium to foreign distributors, we are reiterating a hold rating.

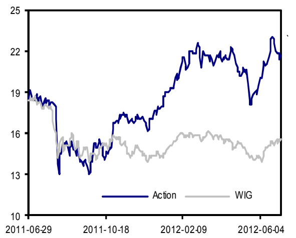
Action (Reduce)

Analyst: Piotr Grzybowski

Current price: PLN 21.6 **Target price: PLN 17.3** **Last Recommendation: 2012-03-05**

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	2 105.9	2 804.8	33.2%	2 787.6	-0.6%	3 008.8	7.9%
EBITDA	46.2	68.8	48.9%	64.0	-7.0%	66.8	4.5%
EBITDA margin	*2.2%*	*2.5%*		*2.3%*		*2.2%*	
EBIT	34.6	57.3	65.9%	52.0	-9.3%	54.7	5.2%
Net profit	25.8	42.4	64.5%	37.9	-10.7%	40.9	7.9%
P/E	14.2	8.6		9.7		9.0	
P/CE	9.8	6.8		7.3		6.9	
P/BV	1.9	1.7		1.5		1.3	
EV/EBITDA	9.5	6.5		6.8		6.3	
Dyield (%)	3.8	3.9		2.2		2.1	

Basic data (PLN m)	
Number of shares (m)	17.0
MC (current price)	366.3
EV (current price)	433.5
Free float	36.8%
Price change: 1 month	*7.7%*
Price change: 6 month	*21.7%*
Price change: 12 month	*15.9%*
Max (52 week)	23.0
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. We believe, however, that market environment will gradually reduce the Company's growth rates while pressure on gross margins will remain. Action is trading at a premium to foreign distributors, and this premium will cease to be warranted when growth slows down. We are reiterating a reduce rating on the stock.

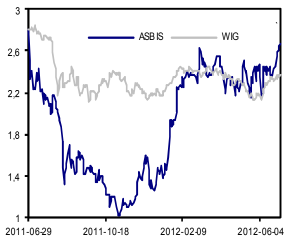
ASBIS (Hold)

Current price: PLN 2.66 **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	46.7	8.2		8.5		7.4	
P/CE	11.3	5.3		5.3		4.9	
P/BV	0.5	0.5		0.4		0.4	
EV/EBITDA	6.9	4.1		5.0		5.0	
Dyield (%)	0.0	7.3		7.1		8.1	

Basic data (PLN m)	
Number of shares (m)	55.5
MC (current price)	147.6
EV (current price)	291.4
Free float	65.4%
Price change: 1 month	*8.1%*
Price change: 6 month	*82.2%*
Price change: 12 month	*10.8%*
Max (52 week)	2.7
Min (52 week)	1.0



ASBIS is the cheapest IT distributor, trading at 8.5x 2012 P/E and 5.0x 2012 EV/EBITDA. We believe, however, that a discount vs. peers is justified by its large exposure to the Ukrainian, Belarusian and Russian markets, which are much more sensitive to the global economic situation. We expect that in the upcoming quarters the impact of higher prices of hard drives will wane, which means that the Company's margins may shrink somewhat. We are reiterating a hold rating.

Acquisition of ASBIS Close Joint-Stock Company

ASBIS announced it had acquired a 30% stake in ASBIS Close Joint-Stock Company for USD 270 thou. Prior to the move, it had had a 66.6% stake in it. Moreover, a subsidiary of ASBIS acquired a 3.33% stake in the company for an undisclosed amount. As a result, ASBIS currently owns a 100% stake in ASBIS Close. As long as the price paid by ASBIS's subsidiary for the 3.33% stake is consistent with the price paid by ASBIS itself for the 30% stake, this transaction can be deemed negligible.

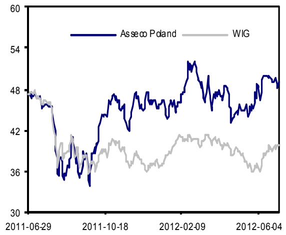
Asseco Poland (Buy)

Current price: PLN 49 **Target price: PLN 62.8**

Analyst: Piotr Grzybowski

Last Recommendation: 2011-05-27

(PLN m)	**2010**	**2011**	**change**	**2012F**	**change**	**2013F**	**change**	**Basic data (PLN m)**	
Revenues	3 237.7	4 641.3	43.4%	4 862.1	4.8%	5 117.8	5.3%	Number of shares (m)	77.6
EBITDA	695.0	812.5	16.9%	844.3	3.9%	873.7	3.5%	MC (current price)	3 800.7
EBITDA margin	*21.5%*	*17.5%*		*17.4%*		*17.1%*		EV (current price)	4 537.4
EBIT	569.0	660.0	16.0%	688.6	4.3%	715.3	3.9%	Free float	66.8%
Net profit	415.1	389.3	-6.2%	421.2	8.2%	450.3	6.9%		
P/E	9.2	9.8		9.0		8.4		Price change: 1 month	*1.3%*
P/CE	7.0	7.0		6.6		6.2		Price change: 6 month	*7.6%*
P/BV	0.7	0.6		0.6		0.5		Price change: 12 month	*4.8%*
EV/EBITDA	6.7	5.8		5.4		4.9		Max (52 week)	52.0
Dyield (%)	3.0	3.7		3.3		3.6		Min (52 week)	33.8



In June, PZU picked Guidewire as its new IT system supplier, which means that within a few years Asseco Poland will lose the contract for the maintenance of the Insurer system, which has been responsible for a considerable portion of its revenues and earnings. On the other hand, the Company signed an e-healthcare contract, and work on the order can start this year. In the near future we will publish a research update to take into account the dent in Asseco's revenues stemming from PZU's decision to pick Guidewire. In the meantime, we are reiterating a buy rating.

Asseco wins PLN 18.8m contract

Asseco Poland signed a PLN 18.8m contract for delivery of hardware and software needed to implement e-administration in the lubelskie voivodeship. The contract is a small addition to Asseco's order backlog.

e-Healthcare contracts signed

The Centre for Healthcare Informatics (CSIOZ) has signed 'e-Healthcare' contracts with a consortium of Asseco Poland and Kamsoft and with Sygnity. The value of the former contract is ca. PLN 160.0m gross, and of the latter, ca. PLN 80.0m gross. Asseco Poland and Sygnity won their respective contracts back in the fall, but the European Commission withheld funding due to irregularities discovered by the Public Procurement Office. They were finally signed because the Ministry of Finance decided to assume responsibility for their financing.

Tender offer for Sygnity extended through 9 July

Asseco Poland has extended the tender offer for the Sygnity stock through 9 July. The Company is still awaiting antitrust clearance for the takeover. There were reports that the antitrust proceedings had not been completed and that the regulator had more questions to Asseco Poland. Therefore, this extension was expected.

Acquisition of 60% stake in SKG

Asseco Poland has acquired a 60% stake in SKG S.A. for PLN 8.7m. The payment will be made in three installments. The initial one, constituting 80% of the total (PLN 7.02m), is due upon contract execution, while the two remaining ones in the amount PLN 0.84m each are due after earnings targets for 2012 and 2013 have been reached. In addition, Asseco Poland has the option to acquire the remaining 40% of shares in SKG in 2018. In this case, the price will depend on SKG's earnings for 2014-2017. It seems that this move was prompted by the fact that SKG had submitted the lowest bid for the 'e-Tax' project, and that it seems to be well positioned in the race for other projects sponsored by the Finance Ministry ('e-Tax Returns' and 'e-Customs'). The transaction can be seen as a benchmark for Asseco's tender offer for Sygnity, which will be involved in 'e-Healthcare' contracts, and which submitted the second-lowest bid for the 'e-Tax' project.

PZU's awards contract to Guidewire

PZU awarded the contract for a new IT system to a consortium of Guidewire and Ernst&Young and rejected a competing bid by Asseco Poland and Sapiens International. This is not good news for Asseco. Not only will it not get a new contract and the related revenue, but it will also lose the contract for the maintenance of PZU's old system, Insurer.

ComArch (Reduce)

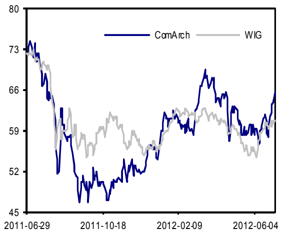
Current price: PLN 65.5 **Target price: PLN 45.9**

Analyst: Piotr Grzybowski

Last Recommendation: 2011-10-13

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	761.4	784.6	3.1%	825.3	5.2%	877.5	6.3%
EBITDA	64.4	81.3	26.2%	64.8	-20.3%	70.9	9.4%
EBITDA margin	*8.5%*	*10.4%*		*7.9%*		*8.1%*	
EBIT	24.8	39.6	59.7%	28.3	-28.7%	34.8	23.0%
Net profit	43.7	37.5	-14.3%	32.1	-14.4%	34.5	7.6%
P/E	12.1	14.1		16.4		15.3	
P/CE	6.3	6.7		7.7		7.5	
P/BV	0.9	0.9		0.9		0.8	
EV/EBITDA	6.7	6.0		7.4		6.5	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	8.1
MC (current price)	527.4
EV (current price)	476.7
Free float	38.1%
Price change: 1 month	*12.3%*
Price change: 6 month	*17.2%*
Price change: 12 month	*-11.7%*
Max (52 week)	74.2
Min (52 week)	46.7



Comarch remains the priciest IT stock in our coverage. Completely unexpectedly, the company announced in June that it was paying PLN 1.5 dividend (2.3% DY) to its shareholders. Other major developments of the past month included awards of a PLN 78.9m contract by Tauron Dystrybucja and a PLN 68.1m contract by the Defense Ministry. Unfortunately, since the former contract is a long-term one where the fee is shared between consortium members, and the latter contract is a low-margin one, they will not have a material impact on Comarch's financial standing. At the same the, Comarch's earnings going forward will be weighed down by its diagnostics lab and the relegation of its sponsee, the Cracovia FC, to the second league. We are reiterating a reduce rating on CMR.

Comarch&co land PLN 78m contract

A consortium of Comarch and Apator Rector signed a PLN 78.89m (net) contract with Tauron Dystrybucja for delivery, implementation and maintenance of a Network Inventory Management System. The contract has a term of 96 months commencing on July 2nd, 2012, with the implementation phase scheduled to last three years followed by a five-year maintenance phase. Comarch estimates its net revenue from the contract at PLN 20m, with PLN 39.3m going to Apator Rector. Due to its small stake in the consortium, Comarch's share of the fee for the first three years of the contract term represents only 2.4% of our 2012 revenue forecast.

Comarch to pay PLN 1.5 dividend

Comarch's shareholders approved PLN 1.5-a-share (PLN 12.08m total) dividend payout. The vote makes a welcome change from prior years when Comarch tended to retain its annual earnings in the company. The dividend is not high (representing a yield of 2.6%), but it is still likely to be welcome by investors.

Contract with Ministry of National Defense

A consortium comprising Comarch and Fujitsu Technology Solutions signed an agreement with the Ministry of National Defense for the supply of Microsoft software licenses. The total value of the contract is EUR 15.9m, or PLN 68.1m, and its timeline is 48 months. The value of the contract is big relative to Comarch's order backlog. However, Comarch will be a part of a consortium (with a minority stake, we expect), which means that the actual impact on its revenues will be significantly smaller than the figure quoted. Moreover, the consortium will be supplying third-party software, which means that it will only get a distributor's margin.

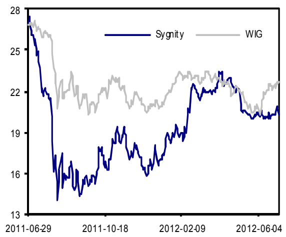
Sygnity (Hold)

Current price: PLN 20.35 **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		29.6		14.1		10.0	
P/CE		10.3		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)	241.9
EV (current price)	252.8
Free float	77.4%
Price change: 1 month	*-0.2%*
Price change: 6 month	*19.7%*
Price change: 12 month	*-22.9%*
Max (52 week)	26.4
Min (52 week)	14.0



The extension of Asseco Poland's tender offer until July 9th will be the single most influential factor shaping Sygnity's performance in the coming month. Asseco is offering PLN 21 per share, which, we feel, may not be enough to achieve the desired 100% stake in Sygnity, nevertheless, the 10% raise in the offer price relative to the original bid increases the chances acquiring a majority stake. Moving on to other June developments, Sygnity finally signed PLN 80m (gross) e-health contract last month, and it submitted the second-lowest bid (PLN 232m) for an e-tax contract. We are reiterating a hold rating on SGN.

e-Healthcare contracts signed

The Centre for Healthcare Information Systems (CSIOZ) has signed "e-Healthcare" contracts with a consortium of Asseco Poland and Kamsoft, and with Sygnity. The value of the former contract is ca. PLN 160.0m gross, and of the latter, ca. PLN 80.0m gross. Asseco Poland and Sygnity won their respective contracts back in the fall, but the European Commission withheld funding due to irregularities discovered by the Public Procurement Office. The Ministry of Finance decided to assume responsibility for the financing of these contracts at least until EC funding is resumed.

Sygnity wins contract bid

The Ministry of Labor and Social Policy picked Sygnity's PLN 19.7m (gross) bid for the development and implementation of the National Social Security IT System. The net value of the contract amounts to ca. 3.2% of our consolidated revenue forecast for 2012.

PLN 370m backlog for 2012

Sygnity's representatives revealed that the company's current order backlog amounted to PLN 370m, which is on a par with the figure recorded at this stage last year. At the time of the publication of the Q1 2012 earnings report back in May, the backlog was contracting on a y/y basis. One source of improvement has certainly been the signing of a PLN 80m gross e-Healthcare contract (although only a minor portion of this amount counts towards 2012 revenues). Some customers have withheld orders until the ownership situation at Sygnity clarifies, which is why we would expect faster backlog growth upon conclusion of Asseco Poland's tender offer.

Tender offer for Sygnity extended through 9 July

Asseco Poland has extended the tender offer for the Sygnity stock through 9 July. The Company is still awaiting antitrust clearance for the takeover.

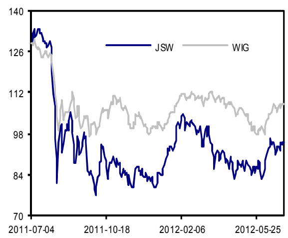
Mining & Metals

JSW (Buy)

Current price: PLN 100.6 **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)	11 992.3
EBITDA margin	*38.0%*	*38.1%*		*32.5%*		*30.3%*		EV (current price)	9 674.4
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	7.5	5.2		8.1		10.0		Price change: 1 month	*13.9%*
P/CE	4.8	3.7		5.0		5.4		Price change: 6 month	*13.0%*
P/BV	1.8	1.3		1.3		1.2		Price change: 12 month	*-26.0%*
EV/EBITDA	3.4	2.5		3.5		3.8		Max (52 week)	133.9
Dyield (%)	1.2	2.5		5.2		3.7		Min (52 week)	77.0



According to a study by the Australian government's research agency, global imports of coking coal are projected to increase 70% to 464 million tonnes between 2010 and 2025, growing at an average annual rate of 3.6%. The bulk of the demand is coming from India and China. China's Dalian Commodity Exchange is set to launch coking coal futures at the end of July, allowing producers to hedge against price falls on the one hand, and triggering demand from investment funds on the other hand. Other commodity exchanges should soon follow suit. China's demand for steel remains low as local smelters, which have been experiencing shrinking margins (due to an increase in the prices of coking coal for delivery in Q3), are starting to scale back production and shelve investment plans. This raises the question of whether the Chinese government is going to deploy more aggressive measures to stimulate the economy. Looking at the global economic situation, and given China's falling inflation (expected to drop to 2% over the summer), we reckon it is. With commodity stocks trading at the levels they are, we say JSW provides the perfect opportunity to buy into the China play, and we recommend buying the stock.

ArcelorMittal doing maintenance work

ArcelorMittal will switch off two furnaces for maintenance work (in Gijon, Spain, 2.2mmt, and in Dunkirk). As a result, total production capacity will shrink by 700kt. With steel prices falling, we can expect further capacity shutdowns in Europe. The good news is that this will not include steel and coking plants supplied by JSW.

Steel in China

According to the National Bureau of Statistics, China's steel output rose 2.5% y/y in May, reaching 61.23mmt. At the same time, however, average daily output fell to 1.98mmt from 2.02mmt in April. Demand from the construction sector remains weak while supply is rising, which results in further price cuts. Baosteel, one of China's biggest producers, was among the first to cut July prices by USD 31/t. Other producers are expected to follow suit. At the LME, the price of steel has reached a 2.5-year low of under USD 400/t. That steel output in China is high is also confirmed by iron ore imports data (63.84mmt in May, a 3-month high). The 7% q/q increase in Q3 coking coal prices which Anglo American has negotiated with South Korean steel mills will dent steel producers' margins as it becomes a benchmark for others. This means that, barring a demand revival in China stemming from a fiscal or monetary stimulus, the amassed stockpiles will continue to depress steel prices, which will eventually lead to lower output and, consequently, lower coal prices. According to China's National Development and Reform Commission, the profits of the local steel smelters halved in the first four month of 2012 relative to the same period in 2011, with the margins of large and mid-sized facilities hovering around 0.1%. As inflation falls in China (3% y/y), the likelihood of a more aggressive economic stimulus program in China increases.

Contract with Arcelor Mittal

JSW and ArcelorMittal Poland signed a memorandum of understanding on July 2nd to extend their partnership in coking coal, coke oven gas, and coke supplies, and expand the scope of blast furnace gas deliveries. The memorandum does not specify the delivery volumes which will be subject to further negotiations between the two companies.

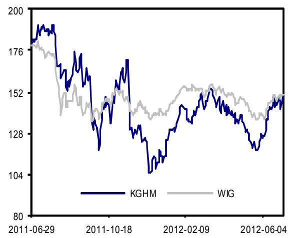
KGHM (Hold)

Current price: PLN 150 **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	6.6	2.6		7.1		11.7	
P/CE	5.8	2.5		6.1		9.0	
P/BV	2.1	1.3		1.3		1.2	
EV/EBITDA	4.4	1.2		2.5		3.3	
Dyield (%)	2.0	9.9		13.3		5.0	

Basic data (PLN m)	
Number of shares (m)	200.0
MC (current price)	30 000.0
EV (current price)	19 915.3
Free float	68.0%
Price change: 1 month	*19.5%*
Price change: 6 month	*30.4%*
Price change: 12 month	*-17.4%*
Max (52 week)	191.0
Min (52 week)	104.6



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. LME copper prices increased to USD 7800 a tonne at the end of June, with PLN/USD at 3.33. The July 16th record date for KGHM's super-dividend (DY=18.9%) is going to drive the company's stock performance in the coming days. After the record date, the stock should return to the "nominally low" levels which usually attracts investors. We maintain that KGHM is a good pick for the rallies we are expecting this summer.

Dividend in line with ministerial declarations

KGHM's shareholders approved a PLN 5.67bn dividend payout (PLN 28.34 per share). The record day is July 16th, and the payout will take place in two installments: PLN 3.4bn or PLN 17.00 per share on 26 August, followed by PLN 2.268bn or PLN 11.34 per share on 16 November. The dividend will be higher than we expected (PLN 4bn), but in line with recent declarations from the Ministry of State Treasury. We believe the very strong recent rallies on KGHM stock were caused by investors betting on a high dividend.

Copper inventories on the rise

Copper inventories monitored by LME, SHP, and Comex increased over the last three weeks after a period of draws lasting from mid-February. The stocks are currently at 448,000 tonnes (LME: 255kt, SHP: 139.4kt, COMEX: 54kt), which is 190kt less than at the same time a year ago. A geographic analysis shows that the biggest stockpiles have been accumulated in Asia (250kt), Europe (130kt), and the USA (67kt). Over the last six months, copper stocks shrunk in Asia and the USA, and rose in Europe. We estimate that, combined, the exchange-monitored inventories and producer stocks can last for about 3.5 weeks – a historically low level. Demand for copper is typically lower in the summer months, while production is seasonally higher, which should result in continuing inventory builds in the coming months. Demand is expected to rebound (and remain high through to the end of the year) in September.

Minor changes at Management Board

As expected, the Supervisory Board has reappointed Herbert Wirth to the post of CEO. Włodzimierz Kiciński, formerly the CEO of Nordea, has replaced Maciej Tybura as CFO. Management Board members in charge of production (Wojciech Kędzia) and investment and development (Dorota Włoch) have been reappointed as well. The former CEO of GTS Energis Adam Sawicki will be in charge of corporate issues. Investors had a very high opinion of KGHM's Management Board, and they should welcome the Supervisory Board's decision to reappoint most of its members. Investors will now focus on the AGM and dividend (the State Treasury wants PLN 28 per-share) and on the consequences of the EU summit (KGHM has a high beta). It is also worth noting that better data have been coming from the US property market.

Alliance with Virginia Mines

Virginia Mines and KGHM International have launched a strategic alliance that will see them cooperate on geological and production efforts in North Quebec. The companies will look for copper and nickel mineralization. The work will be done on a 50-50 basis with Virginia being the operator. The first phase of the work will have a budget of USD 140 thousand. This is the right direction to go (all the big companies are looking for new resources), although the scale of the work as announced is small and has no impact on valuation.

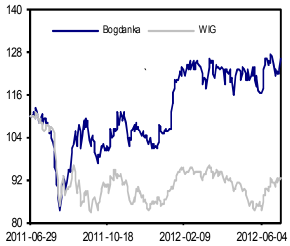
LW Bogdanka (Hold)

Current price: PLN 126 **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	18.6	19.4		14.4		9.2	
P/CE	11.6	10.6		6.9		5.2	
P/BV	2.2	2.0		1.8		1.6	
EV/EBITDA	9.8	10.1		6.5		4.5	
Dyield (%)	0.0	1.1		1.6		2.1	

Basic data (PLN m)	
Number of shares (m)	34.0
MC (current price)	4 285.6
EV (current price)	4 703.4
Free float	33.0%
Price change: 1 month	*8.4%*
Price change: 6 month	*17.3%*
Price change: 12 month	*14.3%*
Max (52 week)	127.4
Min (52 week)	83.2



LWB seems to us the least attractive commodity play for the short term. Prices of steam coal as quoted at ARA ports are down to USD 87 a tonne, and Russian coal is trading at USD 77/t (9.5 million out of the total 14mmt of coal imported to Poland in 2011 came from Russia). China ports are overflowing with thermal coal, and imports from the USA are on the rise. If coal 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.

Thermal coal price trends, situation in China

As prices of crude oil fall and Chinese coal stockpiles remain high, prices of thermal coal continue to be under pressure. ARA quotes are hovering around USD 87/t, and Russian coal shipped from Baltic ports is down to USD 77.8/t (-USD 2.8 m/m). Sluggish demand from China (which accounts for about a half of global demand), falling consumption in the USA, combined with increasing production in China as well as coal-exporting countries like Indonesia, Australia, USA, and Mongolia, are contributing to fast inventory builds. Coal stocks at China's largest shipping port of Qinhuangdao are the highest in history at 9.5mmt. Other ports in the country are also running out of storage space. It is estimated that Chinese coal imports will increase to 250mmt in 2012 from 170mmt in 2011. China used 3.7 billion tonnes of coal last year, of which 3.52 million tonnes were supplied by local mines.

Second-quarter coal output

LWB produced 656.4 thousand tonnes of commercial coal in June, representing steady output relative to May (654.6kt) and April (683.38kt). The total volume of coal mined in the second quarter of 2012 amounted to 1.994 million, which was 8.5% less than in the first quarter and about 2.05mmt less than we had anticipated.

Manufacturers

May manufacturing data, investing ideas

Manufacturing growth in Poland accelerated to 4.6% in May relative to the same month in 2011 (and 4.5% from April). Growth rates in preceding months amounted to 2.9% in April, 0.7% in March, 4.6% in February, and 9.0% in January. Year-on-year increases in output were recorded in 23 out of the 34 subsectors (one subsector also saw expansion relative to April). The most robust of these were chemicals (a 15.3% y/y increase after a slowdown), electrical equipment (+12.5% in a rising trend), food (a 12.2% increase, most likely driven by the Euro2012 soccer cup), oil refining (+9.6% y/y), printing and copying (+9.5% y/y), and metal products (+8.8%). In turn, year-on-year declines were recorded by furniture makers (-10.3% in a downward trend), coal miners (-9.8% y/y, marking an improvement from April), auto makers (-7.2% y/y in a downward trend), and pharmaceutical companies (-6.6%, marking an improvement from April), and non-metallic mineral products (-4.4%). Again, the strongest momentum was enjoyed by export-oriented industries, except for furniture makers who scaled back output for the third month in a row. We would like to bring your attention to the robust momentum enjoyed in the last few months by machine manufacturers and metal processors.

Leading indicators for the manufacturing industry suggest a bleak outlook for the future. Eurozone PMI fell to 45.1pts again in June (its lowest level since June 2009), and Germany's PMI hit 45 points (its lowest level since July 2009). PMI Poland was below 50pts in November and December 2011, but rebounded over this mark in the first three months of 2012, only to fall back below 50pts again in April and drop further to 48.0pts in June. 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. With this in mind, we would recommend investors start thinking about cashing in some of their positions in companies that built their order backlogs in late 2011 and Q1’12 when exchange rates were more favorable. The second-quarter earnings season would be a good time to sell. Examples of companies expected to experience Q2-driven rallies include late-cycle businesses like Zamet Industry (with 2012E P/E at 9.2 and EV/EBITDA at 6.3) and Zetkama (8.9 P/E, 5.7 EV/EBITDA). Note also that the year-ago base for measuring growth will increase in H2 2012 in case of these companies. A disappointing Q2’12 showing, in turn, is expected to be made by the battery recycler Orzeł Biały, which faces an increase in the costs of used battery inputs (the costs are increasing out of step with lead prices, resulting in lower profit margins).

Among the companies in our coverage, out top picks are the metal producer Impexmetal and the metal processor Kęty. Moreover, we would take a closer look at AC SA (8.2 P/E; 6.2 EV/EBITDA) which is benefitting from the economic cooling. AC is a manufacturer of LPG autogas systems which can help Polish drivers save on fuel after the recent hike in the diesel excise tax. Combined with high fuel prices and decreasing personal income, this means that demand for autogas systems may well soon return to the levels last seen in 2007-2008. We would also consider Berling (10.1 P/E; 6.4 EV/EBITDA), a distributor of cooling equipment, which benefits from the zloty’s appreciation relative to the euro and the dollar.

Astarta (Hold)

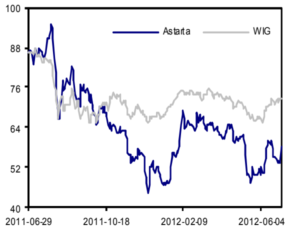
Current price: PLN 58.4 **Target price: PLN 56.1**

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	4.2	3.5		4.2		3.4	
P/CE	3.6	3.0		3.4		2.8	
P/BV	1.6	1.1		0.9		0.7	
EV/EBITDA	4.5	4.5		4.8		3.9	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	25.0
MC (current price)	1 460.0
EV (current price)	2 457.7
Free float	32.0%
Price change: 1 month	*16.8%*
Price change: 6 month	*14.3%*
Price change: 12 month	*-32.5%*
Max (52 week)	94.9
Min (52 week)	44.4



After a plunge led by weak first-quarter results, Astarta's share price is back at levels that accurately reflect the trends in the Ukrainian prices of sugar which are currently 39% lower than in the same period in 2011 (milk prices are down 18% 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 deceleration ahead of the October elections in the Ukraine, 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 reiterating a hold rating on AST.

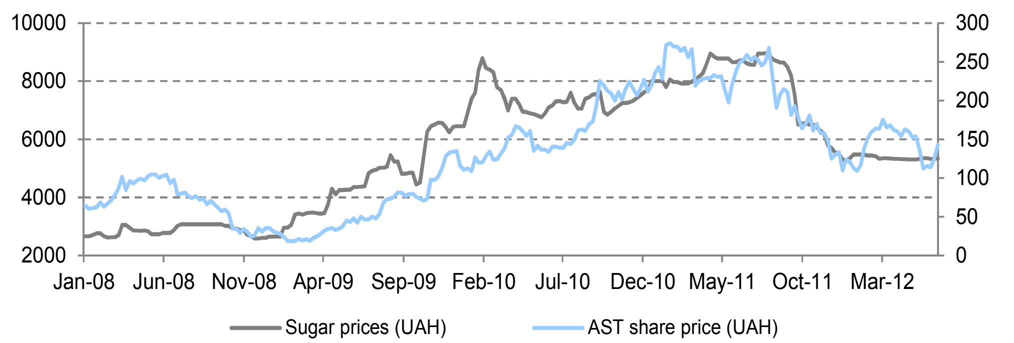
Astarta to invest in soybean oil pressing plants

Astarta has announced a plan to build a soybean oil crushing plant which would become operational in 2013. The CAPEX is estimated at USD 35m. The plant's capacity would be for 220kt of soybean per year, which entails a cost of USD 16m per 100kt of capacity, a figure that is in line with the assumptions previously made by Vioil and Creative Group. Astarta expects that in 2015 revenues from soybean oil production will account for 15% of its total sales. 60% of the soybean that will be used by the plant is to come from Astarta's own production. According to our estimates, in 2011 Astarta produced 73kt of soybean. In order for it to provide 60% of the soybean used by the new plant, the share of cropland assigned to soybean would have to grow from today's 16% to 23%, assuming no increase in overall crop area. The soybean crushing plant seems to be an interesting project, as it will help Astarta diversify its revenues while enabling it to process the soybean it produces, as well as obtain soybean meal to be used for fodder (meal is the byproduct of crushing).

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	Basic data (PLN m)	
Revenues	3 134.8	4 332.8	38.2%	4 618.0	6.6%	4 681.0	1.4%	Number of shares (m)	2 256.7
EBITDA	268.3	351.0	30.8%	304.1	-13.4%	301.3	-0.9%	MC (current price)	1 354.0
EBITDA margin	*8.6%*	*8.1%*		*6.6%*		*6.4%*		EV (current price)	2 359.7
EBIT	188.1	253.3	34.7%	199.8	-21.1%	199.4	-0.2%	Free float	36.2%
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		Price change: 1 month	*1.7%*
P/CE	3.9	5.6		7.0		6.9		Price change: 6 month	*-13.0%*
P/BV	1.1	1.6		1.4		1.3		Price change: 12 month	*-35.5%*
EV/EBITDA	6.5	6.9		7.8		7.4		Max (52 week)	1.0
Dyield (%)	0.0	0.0		0.0		2.8		Min (52 week)	0.4

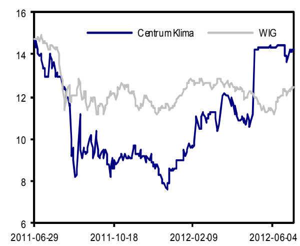
Since its inclusion in the WIG20 index on March 16th, Boryszew's stock has lost over 25% of its value, vastly underperforming the index which edged down 3% during the same period. We reckon the company is poised for a rebound after such a deep plunge, supported by an expected increase in the WIG20. Between January and April 2012, Boryszew's main customer VW Europe sold 1.9% fewer cars than in the same period a year ago (VW's global sales were up 8.4%). Daimler reported a 2.0% increase in sales, and BMW experienced a downtick of 0.6%. 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 reiterating a hold rating on BST.

Centrum Klima (Suspended)

Current price: PLN 14.21 Target price: -

Analyst: Jakub Szkopek
Last Recommendation: 2012-07-04

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	84.5	93.2	10.3%	102.8	10.2%	105.9	3.0%	Number of shares (m)	8.5
EBITDA	10.3	13.5	31.8%	15.4	13.8%	15.9	2.9%	MC (current price)	121.0
EBITDA margin	*12.2%*	*14.5%*		*15.0%*		*15.0%*		EV (current price)	122.9
EBIT	7.9	10.4	31.4%	11.9	14.9%	12.4	4.1%	Free float	33.8%
Net profit	6.6	8.1	21.8%	9.3	14.9%	9.9	6.5%		
P/E	18.2	14.9		13.0		12.2		Price change: 1 month	*-0.9%*
P/CE	13.4	10.7		9.5		9.1		Price change: 6 month	*80.2%*
P/BV	1.8	1.7		1.6		1.5		Price change: 12 month	*0.1%*
EV/EBITDA	12.2	8.9		8.0		7.6		Max (52 week)	14.4
Dyield (%)	3.2	3.2		3.5		4.6		Min (52 week)	7.6



After purchasing a 51.8% stake in Centrum Klima from the controlling shareholders Marek Perendyk and Wojciech Jakrzewski, Lindab AB conducted a tender offer to acquire the remaining shares, and it currently holds a 96.7% interest in the company according to the latest data. Lindab intends to delist CKL from the Warsaw Stock Exchange in Q3 2012. The successful tender offer considerably reduced the free float. In light of the upcoming delisting, we are terminating coverage of Centrum Klima.

Centrum Klima to be delisted in Q3'12

Lindab, which controls a 96.7% stake in Centrum Klima following a successful tender offer, has confirmed that it is planning to delist the company from the WSE, most likely in Q3'12.

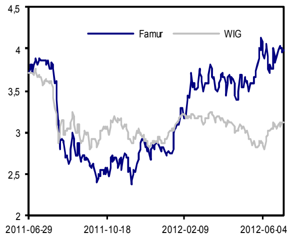
Famur (Reduce)

Current price: PLN 3.99 **Target price: PLN 3.6**

Analyst: Jakub Szkopek

Last Recommendation: 2012-06-05

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	635.9	922.6	45.1%	936.4	1.5%	967.2	3.3%	Number of shares (m)	481.5
EBITDA	115.8	262.0	126.2%	274.5	4.8%	273.3	-0.4%	MC (current price)	1 921.2
EBITDA margin	*18.2%*	*28.4%*		*29.3%*		*28.3%*		EV (current price)	2 151.5
EBIT	83.1	154.2	85.6%	186.1	20.7%	186.5	0.2%	Free float	10.9%
Net profit	73.4	95.2	29.8%	138.5	45.4%	142.2	2.7%		
P/E	26.2	20.2		13.9		13.5		Price change: 1 month	*-2.4%*
P/CE	18.1	9.5		8.5		8.4		Price change: 6 month	*42.0%*
P/BV	3.3	3.1		2.6		2.3		Price change: 12 month	*5.0%*
EV/EBITDA	17.7	8.1		7.8		7.9		Max (52 week)	4.1
Dyield (%)	0.0	4.0		0.0		3.6		Min (52 week)	2.4



With Russian coal shipped from Baltic ports trading 14% lower than Polish coal, Poland's coal producers face increased competition, leading to possible inventory buildups and the need to cut back capital investment. Reduced customer budgets mean weaker profits for suppliers of coal equipment in 2013. Based on our 2012 earnings estimates, Famur is trading at a 40% premium to the average sector P/E and a 29% premium on EV/EBITDA. After a 42% rally since the beginning of the year, we believe now is a good time to cash in on FMF positions, and we are reiterating a reduce rating on the stock.

Contract value increase

Famur announced that it had signed an appendix to a contract with a Russian client which increased its consideration by EUR 1.1m to EUR 11.8m (PLN 50.3m). As a result, the contract, under which Famur will supply 127 sections of powered roof supports, has exceeded the threshold of a material contract. The deadline is 5.5 months after an advance payment expected to be received in late August or early September 2012. The original contract had been signed on 20 March 2012.

Famur lands major contract

Famur is going to deliver longwall system components to JSC ArcelorMittal Temirtau, Kazakhstan, for a fee of EUR 21.4m (PLN 91.1m). The deadline is 5.5 months from the contract date. The contract makes a considerable addition to Famur's H2 2012 order pipeline.

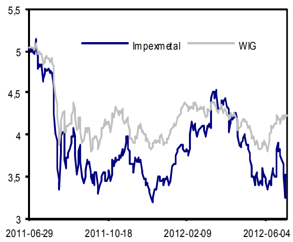
Impexmetal (Buy)

Current price: PLN 3.5 **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	9.7	7.0		8.7		7.4	
P/CE	5.4	4.5		5.3		4.8	
P/BV	0.9	0.8		0.7		0.7	
EV/EBITDA	7.0	5.5		5.9		5.0	
Dyield (%)	0.0	5.7		0.0		8.0	

Basic data (PLN m)	
Number of shares (m)	200.0
MC (current price)	700.0
EV (current price)	994.7
Free float	38.0%
Price change: 1 month	*0.6%*
Price change: 6 month	*1.2%*
Price change: 12 month	*-30.1%*
Max (52 week)	5.1
Min (52 week)	3.2



Impexmetal is reporting continuing expansion in volumes and margins generated on the core line of rolled aluminum products (which contribute 60-65% of the total EBITDA). Impexmetal's international rival Alcoa reported a record Q1'12 per-tonne EBITDA, and Novelis saw quarter-on-quarter expansion in its EBITDA as well. We expect to see similarly strong results from Impexmetal in Q2 2012, and we believe the company can achieve its PLN 80m annual net earnings target in 2012. We are reiterating a buy rating on IPX.

CEO interview

In an interview for *Parkiet*, CEO Piotr Szeliga said that the situation in the metal industry was gradually improving. While second-quarter output was weighed down by technical problems that affected a rolling mill at the Konin facility in late March in early April, capacity utilization has rebounded since.

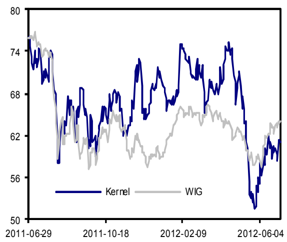
Kernel (Hold)

Current price: PLN 60.9 **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	8.8	6.4		5.6		4.9	
P/CE	7.7	5.6		4.6		4.1	
P/BV	2.2	1.5		1.2		1.0	
EV/EBITDA	7.5	5.1		4.2		3.7	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	79.7
MC (current price)	4 852.7
EV (current price)	5 221.5
Free float	43.6%
Price change: 1 month	*10.6%*
Price change: 6 month	*-14.9%*
Price change: 12 month	*-16.8%*
Max (52 week)	75.3
Min (52 week)	51.5



After experiencing 30% year-on-year shrinkage in EBITDA and a 52% drop in net profit in fiscal 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 last 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 the first three quarters of FY'11/12 was a negative USD 151m, with Q3 OCF at USD -96m. We are working on an update to our financial forecasts for Kernel.

Astarta to invest in soybean oil pressing plants

Astarta has announced a plan to build a soybean oil crushing plant which would become operational in 2013. The CAPEX is estimated at USD 35m. The plant's capacity would be for 220kt of soybean per year, which entails a cost of USD 16m per 100kt of capacity, a figure that is in line with the assumptions previously made by Vioil and Creative Group. The low cost is bad news for Kernel. Assuming that the costs of a sunflower crushing plant are in the same range, the total CAPEX that would allow Astarta to build sunflower oil production capacity comparable to Kernel's is just USD 560m (PLN 2.0bn). Meanwhile, Kernel's current market cap is PLN 4.7bn.

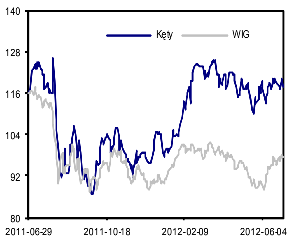
Kęty (Accumulate)

Current price: PLN 118 **Target price: PLN 136.7**

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

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	1 210.5	1 503.9	24.2%	1 481.8	-1.5%	1 533.3	3.5%
EBITDA	181.6	221.8	22.1%	225.1	1.5%	231.0	2.6%
EBITDA margin	*15.0%*	*14.7%*		*15.2%*		*15.1%*	
EBIT	118.0	151.2	28.2%	150.5	-0.5%	155.8	3.5%
Net profit	89.7	103.5	15.4%	111.5	7.8%	116.3	4.3%
P/E	12.1	10.5		9.8		9.4	
P/CE	7.1	6.3		5.8		5.7	
P/BV	1.2	1.1		1.1		1.0	
EV/EBITDA	7.5	6.3		6.1		5.8	
Dyield (%)	3.4	3.4		4.2		6.1	

Basic data (PLN m)	
Number of shares (m)	9.2
MC (current price)	1 088.6
EV (current price)	1 373.0
Free float	59.4%
Price change: 1 month	*-1.3%*
Price change: 6 month	*13.7%*
Price change: 12 month	*-3.7%*
Max (52 week)	126.0
Min (52 week)	86.6



As predicted, Kęty's 2012 second-quarter guidance indicates year-on-year expansion in revenues by 5% to 8%, and increasing EBITDA (+4-8% y/y) and net profit (+4% y/y). Despite an ambitious (PLN 146.6m) capital investment program, the company's net debt rose by only PLN 34m in the quarter, confirming a strong cash flow generated in the period. 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 issues second-quarter guidance

Kęty estimates its Q2 2012 revenue at PLN 385-396 million, representing an increase between 5% and 8% from the same period in 2011. Revenues are expected to show the strongest growth in the segments of Building Services (+13% y/y), Aluminum Systems (+19% y/y), Building Accessories (+5% y/y), and Flexible Packaging (+5% y/y). Sales of extruded products have remained flat relative to the year-ago levels. The quarterly EBIT is expected to fall in the range of PLN 41-43m (marking year-on-year change by -1% to +3%), and EBITDA is estimated at PLN 61-63m (after rising between 4% and 8%). Net profit will approximate PLN 32m after year-on-year expansion by an estimated 4%. The results of financing operations will be negatively impacted by revaluation losses totaling PLN 4m on foreign currency-denominated loans (a consequence of a weaker zloty). Kęty is observing steady demand for its products, and it has not noticed any signs of a possible stronger rebound in the months ahead. The company has reiterated its FY2012 full-year guidance. and it will have delivered 49% of the annual EBITDA target and 55% of the net earnings target by the end of the first half of the year. Kęty's net debt has increased from PLN 216m as of 31 March to an estimated PLN 250m at 30 June 2012. The second-quarter guidance confirms that Kęty continues to enjoy an upward momentum. The quarter-on-quarter PLN 34m increase in net debt is a result of the company's ongoing investments (expected to amount to PLN 146.6m by the end of the year). Note that the first half of the year is typically slower for Kęty's business which is aligned with the timing of finishing works typically performed in the construction industry. Assuming a seasonal acceleration in the second half, we believe Kęty can achieve its full-year earnings guidance.

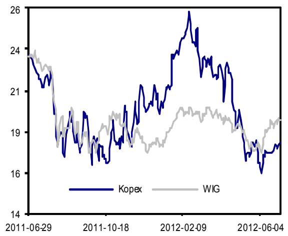
Kopex (Suspended)

Current price: PLN 18.15 **Target price: -**

Analyst: Jakub Szkopek
Last Recommendation: 2012-05-07

(PLN m)	**2010**	**2011**	**change**	**2012F**	**change**	**2013F**	**change**
Revenues	2 365.2	2 126.3	-10.1%	2 073.7	-2.5%	2 132.2	2.8%
EBITDA	184.6	274.7	48.8%	335.6	22.2%	332.4	-0.9%
EBITDA margin	*7.8%*	*12.9%*		*16.2%*		*15.6%*	
EBIT	100.1	172.0	71.9%	231.5	34.6%	223.6	-3.4%
Net profit	33.3	153.5	361.6%	162.9	6.1%	158.3	-2.9%
P/E	40.6	8.8		8.3		8.5	
P/CE	11.5	5.3		5.1		5.1	
P/BV	0.6	0.5		0.5		0.5	
EV/EBITDA	10.3	7.2		5.5		5.3	
Dyield (%)	0.0	0.0		0.0		5.9	

Basic data (PLN m)	
Number of shares (m)	74.3
MC (current price)	1 349.1
EV (current price)	1 852.7
Free float	28.3%
Price change: 1 month	*6.8%*
Price change: 6 month	*-10.2%*
Price change: 12 month	*-21.5%*
Max (52 week)	25.8
Min (52 week)	16.4



With Russian coal shipped from Baltic ports trading 14% lower than Polish coal, Poland's coal producers face increased competition, leading to possible inventory buildups and the need to cut back capital investment. Reduced customer budgets mean weaker profits for suppliers of coal equipment in 2013. Kopex is expected to report strong results for Q2 2012, which should give a boost to its stock. We are working on an update to our financial forecasts and valuation for Kopex.

CEO steps down

Kopex announced that CEO Krzysztof Jędrzejewski had tendered in his resignation, because he intends to stand for Supervisory Board membership. Mr. Jędrzejewski, who is the main shareholder in Kopex, did suggest before that his holding the CEO post was temporary. He is replaced by Andrzej Jagiełło, formerly CEO of the Polish branch of Sandvik. The newspaper adds that the new CEO's main task will be to strengthen Kopex's exports division.

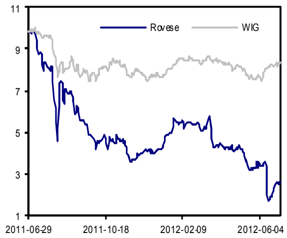
Rovese (Suspended)

Current price: PLN 2.56 Target price: -

Analyst: Jakub Szkopek
Last Recommendation: 2012-06-14

(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	5.4	7.9		6.1		5.5	
P/CE	2.6	3.4		3.0		2.9	
P/BV	0.4	0.4		0.4		0.4	
EV/EBITDA	5.5	6.1		4.3		3.7	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	270.5
MC (current price)	692.4
EV (current price)	1 287.8
Free float	29.2%
Price change: 1 month	*-25.6%*
Price change: 6 month	*-39.3%*
Price change: 12 month	*-73.7%*
Max (52 week)	9.9
Min (52 week)	1.7



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. Further, Rovese is vulnerable to additional risks stemming from a PLN 524m acquisition of production assets from its main shareholder. The purchases will be financed with the proceeds of a stock issue designed to consist of between 205.7 and 811.4 million shares (adding to the 270.5 million already outstanding). Assuming Rovese's goal is to raise PLN 524m, the issue price would fall in the range of PLN 0.65 to PLN 1.29 per share. The issue has to be approved by a three-fourths majority in a shareholder vote scheduled for July 20th. Among Rovese's shareholders are the pension funds Aviva OFE and ING OFE, holding a combined equity stake of 22.18%, making for a voting stake of 29.08%. Assuming nothing changes by the July 20th General Meeting, we think these two funds will be aiming to block the stock issue and the acquisitions, resulting in speculation that the beating that Rovese's stock took after these acquisitions were announced may have been unfounded.

Rovese buys assets, plans stock issue

Rovese signed an agreement regarding acquisition a number of companies directly from its main shareholder Michał Sołowow for a combined price of PLN 524m. The companies include Pilkington's Manufacturing (a UK-based company priced at PLN 6m), Miessen Keramik (a German ceramic tile manufacturer valued at PLN 87m), ZAO Syzranska Keramika (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 Keramika 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 agreement's entry into force is obtainment of financing through a 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 would fall in the range of PLN 0.65 to PLN 1.29 (a cheap SPO).

Main shareholder Michał Sołowow on upcoming acquisitions

In an interview for TVN CNBC, Rovese's main shareholder Michał Sołowow said that he was going to exercise all his rights in the upcoming I–stock offering. Mr. Sołowow, who is also a shareholder in Rovese's shareholder Synthos, added that Synthos was not going to finance Rovese's planned takeover of several ceramic producers. The offer price is likely to show a discount to market price. According to Mr. Sołowow, the takeover will not have a major impact on consolidated revenues, because some of the companies that will be bought have been distributing or selling their products to Rovese. The margin, however, is expected to go up. In another interview, Mr. Sołowow said that he considered the prices of the assets he was selling to Rovese to be attractive. He believes the Russian companies are easy to sell and can help eliminate an aggressive competitor from the market. Prior to price negotiations, Rovese's Management Board valued the assets being acquired using income and replacement methods. Mr. Sołowow said Rovese had always used a consistent and reliable disclosure policy, but in this case he saw no need for making the specifics of the asset acquisitions public. The terms of the acquisitions will be put to a shareholder vote at the next General Meeting.

Union of Individual Investors wants more information on acquisition plans

According to *Parkiet*, the Union of Individual Investors has sent a letter to Rovese, with a copy to the Financial Supervision Authority, in which it demands detailed information on the acquisitions from the main shareholder Michał Sołowow. According to the Union, Rovese failed to meet legal disclosure requirements, and the situation has resulted in unequal access to information (Mr. Sołowow knows all about the companies to be bought, while other shareholders know only as much as he has chosen to disclose). The Union wants immediate disclosure of such data as the financial statements of the companies to be taken over, their valuations, and any benefits stemming from the transactions. Otherwise, it will litigate, which might include asking the court to declare stock offering resolutions illegal.

Rovese reveals value of acquisitions

Rovese revealed that the value of the assets being taken over from its main shareholder was calculated based on enterprise value of PLN 834.6m and market capitalization of PLN 577.2m. The valuation was made using the replacement cost method, including costs incurred toward working capital and construction of production facilities. The net debt of the companies being acquired amounted to PLN 187.3m as of 31 May 2012. Based on financial projections for 2013, the companies are valued at 7.6 EV/EBITDA. After adjustment for the acquisition price, the EV/EBITDA ratio is 6.5 (or 7.1 after taking into account capex needed to finish ongoing projects). On our 2013 forecasts from December 2011, Rovese is trading at 3.7 EV/EBITDA. The ratio of debt to 2013E EBITDA of the companies being acquired is 1.7x. Since Rovese has not disclosed the financial statements of the acquisitions, its projections are impossible to verify. Using the ratios applied in the replacement cost valuation of the companies being acquired, based on Rovese's current production capacity(66 million square meters of tile and 6.5 units of sanitaryware annually), the replacement value of the whole Group can be estimated at PLN 2559m. If we add to this a 10% acquisition premium, this value increases to PLN 2815m. After adding working capital as of 31 March (PLN 693.3m), we arrive at an enterprise value for Rovese of PLN 3508m, and a market cap of PLN 2768m. Rovese's current enterprise value is PLN 1.4bn, and its market cap is PLN 0.7bn.

Building materials pricing trends in May

In May, prices of ceramic tiles and kitchen and bathroom equipment as quoted by the building materials wholesaler PSB showed an increase of 0.9% relative to April. PSB recorded a 7.6% y/y in monthly sales in May, and an 11% increase on a year-to-date basis.

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

Jul 2011	Aug 2011	Sep 2011	Oct 2011	Nov 2011	Dec 2011	Jan 2012	Feb 2012	Mar 2012	Apr 2012	May 2012
1.1%	-0.1%	0.6%	0.3%	0.3%	0.0%	1.3%	1.1%	0.0%	0.0%	0.9%

Source: PSB

Construction

Polish construction in May
Polish construction output was up 6.2% y/y and 23.7% m/m in May 2012. The seasonally adjusted growth rates were +7.2% and +0.3%, respectively.

Budimex CEO speaks on industry troubles
According to the CEO of Budimex, the construction industry's current difficulties stem from tight competition and rising construction costs. The market will recover when half of the current players, who have been making unrealistically priced contract bids, go bust. In addition, legal changes are necessary so that price is no longer the only criterion in public contracts. Companies serving the private sector are faring better as construction costs have increased less for buildings than for roads. Moreover, private investors are more willing to cover costs of extra work.

Road Construction

Dragados wins court case against GDDKiA
Dragados, the owner of Pol-Aqua, won a court case against the national road authority GDDKiA. The court has ordered GDDKiA to resume the suspended competitive bid process for construction of a stretch of the S7 expressway. After Dragados was confirmed to have submitted the lowest bid of PLN 677m, the GDDKiA suspended the process in July 2011 due to budget cuts. GDDKiA has no more avenues of appeal, and by now Dragados's bid remains the only valid one in the process.

Atrem

Atrem’s claims against PBG
According to reports, PBG owes Atrem PLN 28m. Most of these claims have been reported to the project owners. Atrem’s subsidiary Contrast signed an annex to a 2009 contract with PBG on May 31st extending the scope of works to be performed on the site of the underground gas storage PMG Wierzchowice. Atrem's fee was raised by PLN 6.2m to PLN 32.7m.

Energomontaż Południe

Shareholder wants EGM on capital increase
On motion of the shareholder Superkonstelacja Ltd, EPD has called a General Meeting for July 18th to vote on either a stock issue with rights, an issue without rights, or a convertible bond issue. The shareholder argues that Energomontaż is facing the risk of losing liquidity if its loans are called in. Superkonstelacja is vowing to participate in the capital increase, in proportion to its current holding or beyond.

Energomontaż to renege on PBG loan guarantees
Energomontaż Południe (EPD) provided guarantees for PBG's bank loans toward the end of 2011, which means it is liable for a portion of its parent company's debt. EPD has stated recently that it intended to contest the validity of these guarantees based on some technical errors allegedly made by the bank.

Lenders terminate EPD's credit arrangements
BNP Paribas has called in a loan extended to Energomontaż Południe. The company owes the bank ca. PLN 8.7m. The bank cited BGŻ's earlier decision to terminate the EPD's loans as well as the guarantees that EPD issued for PBG's bonds. Bank Pekao and BRE Bank as well have terminated Energomontaż Południe's credit facilities totaling PLN 24m and EUR 1.0m. Finally, ING has terminated EPD’s lease agreement.

Instal Kraków

PLN 18.45m land purchase
Instal Kraków purchased a 2-hectare land lot from Budostal-8 for PLN 18.45m. The property houses a non-residential building with a floor area of 7133 square meters, and it is located next to Instal’s residential development “Nowy Przewóz.”

Mirbud

Shareholders approve dividend
Mirbud’s shareholders approved payment of PLN 7.5m dividends (PLN 0.1/share, yield: 8.2%). The record date is September 20th, and the payout is scheduled for December 6th.

Mostostal Płock

MSP secures credit extension

Mostostal Płock signed an agreement with Pekao extending the term of its PLN 25m guarantee lines until June 30th, 2013.

Mostostal Zabrze

MSZ publishes 2012 first-half earnings estimates

Mostostal Zabrze expects its net profit for the first half of 2012 to be higher than last year's profit of PLN 20.8m. Whole-year earnings will depend on the outcomes of three ongoing contract disputes, and on the effectiveness of the company's debt collection case against Reliz which is overdue with payment of court-awarded compensation. The bankruptcy of the subsidiary PRDiM will have a marginal impact on MSZ. Mostostal Zabrze is launching a savings program which includes subsidiary mergers. Its 2012 CAPEX is estimated at PLN 20m.

Order backlog

MSZ has accumulated an order backlog upwards of PLN 850m. Most of the contracts are scheduled for delivery in 2012. Most of the MSZ Group companies are operating at over 70% of capacity. The Group is currently bidding for new orders exceeding PLN 750m, including in power engineering, environmental engineering, metallurgy, chemical plant engineering, and petrochemicals. Moreover, MSZ wants to expand its presence in the UK, South Africa, and Russia.

Subsidiary liquidation

A court in Opole has ordered Mostostal Zabrze's (MSZ) subsidiary PRDiM into liquidation. The implications for MSZ include: a) loss of about PLN 200m in annual revenues; b) deconsolidation of PLN 30-40m of net debt; c) a small loss (PRDiM's equity cannot have been big); and d) a better earnings outlook for 2013.

Contract settlement

Mostostal Zabrze and GDF Suez, owner of the Połaniec power plant for which the company built a biomass power unit, reached an agreement on the terms on which the contract will be settled. Specifically, GDF Suez agreed to reimburse MSZ for the extra costs incurred on the project, and to drop any other claims.

PBG

PBG files for bankruptcy protection

PBG and its subsidiaries Hydrobudowa and Aprivia filed for bankruptcy protection A court in Poznań has approved administration bankruptcy for PBG and Hydrobudowa. As for Aprivia, for now, the court has appointed a temporary trustee while it is preparing a ruling. Hydrobudowa and PBG’s creditors have three months to register their claims. The court allowed the two companies to retain their own Management.

PBG subsidiaries move to be put into administration

PBG subsidiaries: Metorex, Avatia, PBG Energia, PBG Technologia, KWG, Dromost, PRID, and Strateg Capital, have filed to be put into administration due to guarantees issued for PBG's loans. The three major PBG Group members: PBG, Hydrobudowa, and Aprvia, are these companies' biggest debtors.

PBG's settlement proposals

PBG and Hydrobudowa (but not Aprivia) filed preliminary proposals to creditors. The proposals outline two possible options: A. a 31% debt haircut for PBG and a 56% haircut for Hydrobudowa, or B. a 19% haircut for PBG and a 51% haircut for Hydrobudowa, combined with conversion of 12% of PBG's debt into equity at PLN 40 per share, and conversion of 5% of Hydrobudowa's debt into equity at PLN 1 per share. A spokesman for the Circuit Court in Poznań revealed that PBG's bankruptcy filing lists the Group's outstanding dues as follows: 1.5 thousand creditors are claiming a total of PLN 1.46bn from PBG in unpaid compensation, 18 thousand entities have claims totaling PLN 1.23bn against Hydrobudowa, and 500 entities are claiming PLN 234m from Aprivia.

New CEO on next course of action

The first order of business for the new CEO of PBG and Rafako, Mr. Różacki, is to reevaluate all of PBG’s assets. PBG is going to compile a list of all of its creditors by mid-September, and then proceed to negotiate the debts PBG has applied for financial aid with the Agency for Industrial Development (ARP).

Banks terminate credit arrangements
HSBC, BGŻ, ING, PBP, Pekao, Raiffeisen, Nordea, and BZ WBK terminated PBG's loan agreements, while Bank Pekao and Millennium terminated performance bond agreements with PBG and Hydrobudowa. Moreover, Bank Idea TFI, PTE Amplico, Opera TFI, SGB-Bank, KBC TFI, PKO TFI, Pioneer TFI, Benefia TU, and Union TFI are demanding immediate redemption of bonds.

Bank acquires 24% voting stake in Hydrobudowa
Polski Bank Przedsiębiorczości has gained a 24% voting stake in Hydrobudowa by exercising the pledge of securities issued by PBG back in 2011 to serve as loan collateral. PBP decided to call the pledge and act on the voting powers of attorney given to it by PBG so as to prevent PBG from making decisions that could negatively affect the value of the collateral.

Rating downgrade
Moody’s has downgraded PBG from LD to D and from Caa1 to Ca. According to its analysts, the average PBG creditor will not get back more than 65% of their funds. There is also a risk of the creditors not agreeing to settle. However, if PBG ordered into liquidation, the average recovery ratio may go down further. In related news, S&P has cut PBG’s rating from SD to D,

Situation update
PBG is implementing measures aimed at ensuring the continuity of contracts. The company's spokeswoman says a court ban is in place against debt recoveries against PBG's assets. PBG has reportedly committed to selling some of its real-estate assets, but the prospective buyers will probably want to wait until it is officially put into administration before finalizing the deals. We will be following future developments at PBG.

Misleading reports on situation on A1 motorway site
Newspapers reported in June that SRB, PBG’s Irish consortium partner on two stretches of the A1 motorway, staged a walkout from the sites. In response, SRB issued a statement saying that the stoppage was a temporary one, necessitated by the need to reorganize work on the sites. Nevertheless, the national road authority GDDKiA has called on SRB to resume works on pain of contract termination.

Contract status
After the bankruptcy filing, Hydrobudowa’s responsibilities in a sewage treatment plant project in Warsaw were taken over by the consortium member PRG Metro (member of PBG Group). The plant is expected to be completed by September. As for the "Trasa Słowackiego” road contract, Hydrobudowa’s subcontractors have reported the company to the Central Anti-Corruption Bureau, claiming that it used the money that should have been used to pay their fees to settle the debts of Rafako.

National Stadium money feud
NCS, the owner of the National Soccer Stadium in Warsaw, is demanding that the stadium's contractor, a consortium involving PBG and Hydrobudowa, pay PLN 308.8m in damages for delays. The damages sought by NCS are equivalent to 25% of the total value of the stadium contract. PBG says the claims are false. Its subcontractors are threatening to block entry to the stadium if they are not paid soon. At the same time, the Hydrobudowa consortium is demanding that NCS pay it PLN 120m in fees for additional work on the National Stadium. In addition, the consortium expects the NCS to cover its costs stemming from the project's delayed schedule. Total claims exceed PLN 400m. The failure to reach a final settlement on the National Stadium contract was one of the reasons for PBG’s bankruptcy filing.

Prochem

PLN 17.7m contract
Prochem is going to deliver technical infrastructure to salt miner IKS Solino for a fee of PLN 17.7m.

Prochem sells assets to subsidiary
Prochem sold 25.45% of the 56.7% interests held in Elektromontaż Kraków to its wholly-owned subsidiary Prochem Inwestycje. At the same time, Elektromontaż retired treasury shares, resulting in the Prochem Group’s stake rising to 67.6%.

Remak

PLN 5.7m contract extension
Remak signed an annex to a contract with Alstom for construction of power plants in Eemshaven, the Netherlands, extending the scope of work and raising the fee by EUR 1.3m or PLN 5.7m.

Tesgas

Impact of PBG's bankruptcy
Tesgas has outstanding invoices receivable from PBG, but it has refrained from initiating a collection procedure against its long-term customer. The outstanding unreported fees exceed PLN 12m. If PBG is put into administration, they will probably be reduced and postponed.

Trakcja Tiltra

CEO steps down
CEO Maciej Radziwiłł has tendered his resignation, but he is staying with Trakcja-Tiltra as Chairman of the Supervisory Board. The acting CEO is VP Roman Przybył.

Poldim's liquidation becomes official
Courts issued binding rulings putting Trakcja-Tiltra's subsidiary Poldim into liquidation and dismissing the liquidation filing of another subsidiary Silentio due to the fact that its assets were not sufficient to cover the costs of the proceedings. Further, the shareholders of Lithold AB, formerly Tiltra Group AB, decided to put the company into liquidation. Lithold AB holds a 77% stake in Silentio, the bankrupt owner of Poldim. Tiltra Group AB owns 0.48% of Kauno Tiltai, and the stake is worth about PLN 0.5-0.6m.

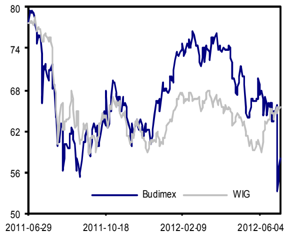
Budimex (Accumulate)

Current price: PLN 58.1 **Target price: PLN 87.1**

Analyst: Maciej Stokłosa
Last Recommendation: 2012-02-27

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	4 430.3	5 516.7	24.5%	5 648.5	2.4%	4 738.8	-16.1%
EBITDA	352.6	340.6	-3.4%	294.1	-13.7%	257.3	-12.5%
EBITDA margin	*8.0%*	*6.2%*		*5.2%*		*5.4%*	
EBIT	331.4	319.4	-3.6%	265.4	-16.9%	228.2	-14.0%
Net profit	267.4	260.9	-2.4%	236.4	-9.4%	190.4	-19.5%
P/E	5.5	5.7		6.3		7.8	
P/CE	5.1	5.3		5.6		6.8	
P/BV	2.2	2.1		2.2		2.1	
EV/EBITDA				1.7		4.4	
Dyield (%)	11.7	15.6		17.9		11.2	

Basic data (PLN m)	
Number of shares (m)	25.5
MC (current price)	1 483.3
EV (current price)	512.9
Free float	35.3%
Price change: 1 month	*-15.4%*
Price change: 6 month	*-12.2%*
Price change: 12 month	*-26.6%*
Max (52 week)	79.5
Min (52 week)	53.3



Budimex made a write-down of its investment in PNI in the amount of PLN 182.3m (PLN 7.1/share). As a result, it reduced the value of its equity (the write-down was made against goodwill on acquisition), but it has gained more certainty with respect to PNI's financial performance going forward. We suspect that Budimex took a conservative approach when calculating the write down. Because PNI's 2012 profits will be weighed down by severance costs totaling PLN 20-30m, the annual earnings of Budimex may fall slightly short of PLN 200m. Even so, we still view the company as an attractive investment. The second quarter is a peak demand period for working capital, which means that Budimex's net cash is likely to decrease to a little over PLN 300m by the end of the second quarter. A rebound should follow in H2 2012. The financial woes of other road developers are Budimex's gain. The Polish road industry is poised for major job cuts in H2 2012 (about 40 thousand people will be laid off). The reduced capacities, combined with the slew of bankruptcies seen lately in the sector, and the expected retreat of foreign companies from Poland, lead us to believe that the supply of road-construction services is about to shrink by 30-40%. Budimex will not avoid capacity cutbacks as well, however, its backlog of for delivery in 2013 exceeds PLN 1 billion. We are reiterating an accumulate rating on BDX.

Budimex recognizes impairment loss on PNI investment

Budimex recognized a PLN 182.3m loss on its investment in the railroad repair company PNI resulting from losses incurred on contracts signed prior to its acquisition. The loss will be written off against prior years' gains, resulting in a reduction in goodwill by PLN 180.0m. PNI was acquired in November 2011 for PLN 225m. The company's capital was raised by PLN 40m, and these funds will be used toward working capital. In other news, Budimex is planning a restructuring exercise alongside the planned downsizing.

Budimex wins PLN 167.8m contract tender

PUHP Lech has picked the bid submitted by a consortium of Budimex, Keppel Seghers and Cespa for the construction of a waste incineration plant in Białystok. The fee is PLN 333m, with PLN 167.8m attributable to Budimex (2.8% of revenues forecasted for 2012). The deadline is December 2015. The winning consortium did not submit the lowest bid, but one that defeated others on technical parameters. The bid by Astaldi and Termomecanica was worth PLN 294m and scored 89.55pts, Rafako's price was PLN 323.3m (87.72pts), while Polimex and Fisia Babckock bid at PLN 429.82m (75.92pts).

Budimex makes lowest contract bid

Budimex made the lowest bid for a contract for construction of a bypass around Stawiski (PLN 99.8m, ca. 2% of 2012 forecasted revenues). The contract term in 15 months. Seventeen bids were submitted, of which one was rejected. A similar tender for another location attracted fifteen bids.

Budimex secures credit extension

Bank Millennium has granted Budimex a one-year extension until 29 May 2013 on a credit line.

Budimex rejected as A4 subcontractor

Budimex offered to work as subcontractor to Radko and Hydrobudowa Polska, the two troubled companies building several stretches of the A4 motorway, but was rejected by the national road authority GDDKiA which felt the company's services were too expensive.

Elektrobudowa (Hold)

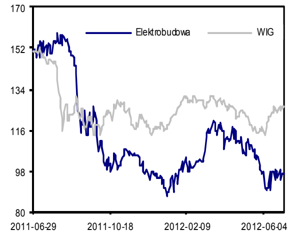
Current price: PLN 96.5 **Target price: PLN 112.4**

Analyst: Maciej Stokłosa

Last Recommendation: 2012-03-05

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	786.7	945.2	20.1%	961.9	1.8%	1 087.8	13.1%
EBITDA	64.0	61.6	-3.7%	65.0	5.6%	76.2	17.2%
EBITDA margin	*8.1%*	*6.5%*		*6.8%*		*7.0%*	
EBIT	53.1	49.3	-7.1%	53.4	8.5%	64.0	19.7%
Net profit	45.1	37.9	-15.8%	45.7	20.6%	54.6	19.4%
P/E	10.2	12.1		10.0		8.4	
P/CE	8.2	9.1		8.0		6.9	
P/BV	1.4	1.4		1.3		1.1	
EV/EBITDA	6.4	6.8		6.2		5.2	
Dyield (%)	3.6	6.2		3.0		3.6	

Basic data (PLN m)	
Number of shares (m)	4.7
MC (current price)	458.1
EV (current price)	404.3
Free float	42.4%
Price change: 1 month	*-1.5%*
Price change: 6 month	*4.9%*
Price change: 12 month	*-35.7%*
Max (52 w eek)	158.8
Min (52 w eek)	87.0



Though lower than expected, Elektrobudowa's Q1 2012 results were better than the average in the sector, and 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 = 10.0). 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, and Erbud, 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 case of a shift in investor confidence. We a reiterating a neutral rating on the stock.

Elektrobudowa reiterates 2012 budget

Elektrobudowa is confident that it can achieve its target order volumes this year, and deliver the earnings targets. The company is negotiating a major contract with PKN Orlen.

PLN 900m order backlog

Elektrobudowa's order backlog is currently worth PLN 900m. The company is focusing on new industrial and foreign contracts. Margins keep falling, however, and the CEO does not expect a major improvement in the next two years.

PBG bankruptcy no threat to Elektrobudowa

Elektrobudowa and Qumak Sekom have reported the whole of their claims under the National Stadium contract to the stadium's owner, NCS. What is more, the third member of the PBG/ Hydrobudowa consortium that built the stadium was Alpine Bau, which is required to take over responsibility for any outstanding accounts if the other members are unable to satisfy such claims. Failing that, the subcontractors can apply to NCS which must pay invoices issued by registered subcontractors.

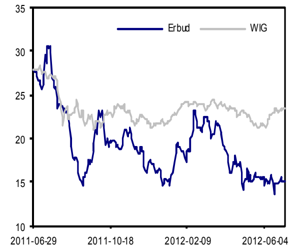
Erbud (Buy)

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	Basic data (PLN m)	
Revenues	1 103.9	1 497.5	35.7%	1 176.0	-21.5%	1 144.0	-2.7%	Number of shares (m)	12.6
EBITDA	29.0	-4.7		45.5		46.7	2.6%	MC (current price)	188.2
EBITDA margin	*2.6%*	*-0.3%*		*3.9%*		*4.1%*		EV (current price)	192.2
EBIT	20.9	-12.6		38.7		38.2	-1.3%	Free float	19.5%
Net profit	12.1	-21.4		27.0		27.7	2.5%		
P/E	15.6			7.0		6.8		Price change: 1 month	*-3.4%*
P/CE	9.3			5.6		5.2		Price change: 6 month	*2.2%*
P/BV	0.8	0.9		0.8		0.7		Price change: 12 month	*-45.7%*
EV/EBITDA	3.1			4.2		3.6		Max (52 week)	30.5
Dyield (%)	3.3	0.1		0.0		2.9		Min (52 week)	13.7



Erbud continued to gain momentum in the second quarter of 2012, and we expect it to post a net profit of PLN 5-6m for the period. Erbud's solid order backlog and healthy liquidity make it stand out within the liquidity-strapped industry, and increase the confidence of current and potential customers in its ability to deliver contracts on time. Erbud's customers hail primarily from the private sector, which is an advantage. We expect to company to continue growing its profits in H2 2012, among others thanks to falling costs of construction which to date have been kept high by a large supply of contracts (a 29% increase between January and February). We are reiterating a buy rating on ERB.

Erbud lands PLN 101.9m contracts

Erbud signed two contracts with total value of PLN 101.9m (8.7% of revenues forecasted for 2012). One of them, with Ace 1, is for the construction of a shopping mall in Inowrocław called "Galeria Solna." The fee is PLN 77.4m, and the deadline falls in March 2013. The other contract, with MGB Garden Square Blok D, is for construction work on a hospital in Belgium. The fee is EUR 5.7m, and the deadline falls in May 2013.

Erbud commences residential contract

Erbud has been asked to commence construction of a residential complex in Wrocław by the project owner.

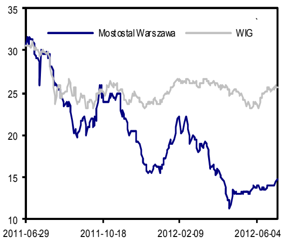
Mostostal Warszawa (Buy)

Current price: PLN 14.68 **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	4.7			7.6		5.6	
P/CE	3.0			3.6		3.1	
P/BV	0.6	0.8		0.6		0.6	
EV/EBITDA				2.7		2.0	
Dyield (%)	12.2	4.2		0.0		4.0	

Basic data (PLN m)	
Number of shares (m)	20.0
MC (current price)	293.6
EV (current price)	269.0
Free float	23.8%
Price change: 1 month	*6.4%*
Price change: 6 month	*-10.5%*
Price change: 12 month	*-52.2%*
Max (52 week)	31.5
Min (52 week)	11.3



Mostostal Warszawa is gradually coming out of the recent slump. As the company completes major road contracts, its profitability and debt are set to start improving as soon as in H2 2012. MSW is planning to downsize its workforce in light of a much smaller backlog of road contracts scheduled for 2013 (ca. PLN 40m compared to 2012 revenues of PLN 600m). We estimate the value of the entire 2013 backlog roughly at PLN 1.75 billion, equivalent to about 62% of our revenue forecast for next year. MSW's revenue structure is set to change in the coming years, with power plant contracts outweighing infrastructure projects. As a result, the company should see improving profitability and enjoy more confidence among investors. We are reiterating a buy rating on MSW.

MSW plans layoffs

By January 2013, Mostostal Warszawa is planning to lay off 450 employees at most out of the 1840 currently employed by the parent company. The downsizing is aimed at adjusting MSW's capacity to the upcoming slowdown in orders, particularly in the road construction business. We estimate the cost of the layoffs at roughly PLN 5-6m. The impending cutbacks in Poland's infrastructure development makes downsizing unavoidable. MSW's road revenues in 2009 and 2010 approximated PLN 1 billion, but this year's revenue will be closer to PLN 0.6bn, and the order backlog for 2013 is currently a mere PLN 40m.

Performance bond call?

A June article in the *Puls Biznesu* newspaper claimed that the national road authority GDDKiA had called a performance bond provided by the contractors of the stretch of the A4 motorway running from central to east Rzeszów: Mostostal Warszawa and Acciona. The reasons for the call, or the amount called, were not disclosed.

Polimex Mostostal (Buy)

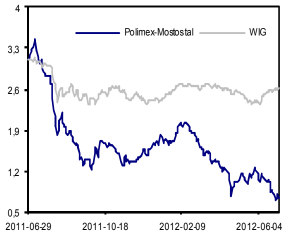
Current price: PLN 0.73 **Target price: PLN 2.01**

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	3.1	3.4		3.7		3.5	
P/CE	1.7	1.7		1.9		1.8	
P/BV		0.2		0.2		0.2	
EV/EBITDA	2.8	4.2		4.0		3.6	
Dyield (%)	5.4	5.3		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	508.0
MC (current price)	370.8
EV (current price)	1 147.6
Free float	75.1%
Price change: 1 month	*-36.0%*
Price change: 6 month	*-57.3%*
Price change: 12 month	*-77.4%*
Max (52 week)	3.4
Min (52 week)	0.7



While much better than PBG's, the financial situation of Polimex is not exactly comfortable. In our opinion, a company this size should have about PLN 300-400m in credit lines available at its disposal, meanwhile, Polimex has used up all of its facilities. As a result, it is overdue on some subcontractor payments, but the delays do not exceed 1 month. Polimex will see falling amounts of cash tied up in working capital going forward, but at the same time it has to redeem at least a portion of the bonds maturing in the coming months. The company plans to pay off the July tranche (PLN 100m) from internal resources, and use proceeds from asset sales for the October tranche (PLN 194.5m). The risks faced by Polimex should be partly offset by two major developments expected in July: the signing of a large power plant contract upon which the company should receive a PLN 250-260m advance, and a possible rollover of the PLN 100m July bonds. Another welcome development would be if Polimex were targeted for acquisition by a foreign player who would appreciate the value of its business when it comes to power plant, chemical plant, and manufacturing construction. One additional risk factor is the dispute with the national road authority GDDKiA over motorway contract payments. We are reiterating a buy rating on PXM.

Polimex sells properties

Polimex expects to sell properties worth PLN 30m soon. Two deals, including one over PLN 10m, are already finalized, and one more should have been completed by the end of June. Moreover, Polimex is in talks with prospective buyers of the subsidiaries Sefako and Torpol.

Balance-sheet situation

Polimex says it has secured a portion of the cash needed to redeem the PLN 100m bonds maturing in July. At the same time, the company is negotiating rollover with the bondholders. According to CEO Jaskóła, the priority is to secure additional financing and alleviate investor concerns. Polimex is not planning a stock issue, and it would be open to offers from an industry investor. Polimex is expecting news of dismissal of the appeal against it winning the Kozienice power plant contract, following which it will be able to finally sign the contract and receive a PLN 270m advance fee in July. Polimex's overdue payables match overdue receivables.

PXM secures credit extension

Deutsche Bank has agreed to extend Polimex's PLN 100m credit line until March 29th, 2013. Similarly, Bank BGŻ agreed to extend a PLN 78.5m credit line used to issue guarantees and letters of credit until May 31st, 2013.

Polimex wins PLN 1.04bn railroad contract

A consortium involving Torpol, Polimex, and Intercor, has been selected by PKP PLK to design and build the Polish stretch of the Rail Baltica route. The consortium offered a net price of PLN 1.3bn, of which PLN 1.04bn is due to Polimex (representing 21% of the company's 2011 revenue). The winning consortium defeated three lower bidders, including Porr which offered PLN 1.2bn. The most expensive bidders included Trakcja-Tiltra (PLN 1.48bn), Budimex with PNI (PLN 1.79bn), and ZUE &co (PLN 1.87bn). The Rail Baltica contract entails high risk of delays due to short deadlines.

Polimex wins PLN 268m contract

Gaz-System selected a consortium of ZRUG Poznań and Polimex Mostostal to build a gas pipeline running from Szczecin to Lwówek. The consortium offered a fee upwards of PLN 268m. We do not know what Polimex's stake is.

New Management Board appointments

Polimex has gained a new CFO in Mr. Robert Bednarski, formerly in charge of finance at companies like Boryszew, Ciech, and PKN Orlen. The new COO is Mr. Robert Oppenheim, formerly serving as an executive involved in the restructuring of Dromex, Strabag Polska, and Hydrobudowa 9. Mr. Oppenheim also has experience with mergers and acquisitions.

Shareholders deny discharge to Management Board

Shareholders representing 28% of Polimex's share capital blocked the grant of discharge to the company's Management Board for their duties in 2011 through a large number of abstentions. Legally, the Management Board can carry on even without a shareholder discharge.

CEO on potential new business

Polimex's CEO expects the contract for construction of a power plant in Kozienice to be finally signed in July or August. Meanwhile, Polimex is bidding for two stadium contracts in Saudi Arabia with budgets of USD 100m each, and it is looking to Kazakhstan and Belarus as potentially lucrative new markets. Finally, the company is hoping to be able to finish a paused contract in Libya.

Rafako (Accumulate)

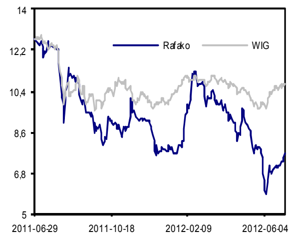
Current price: PLN 7.67 **Target price: PLN 11**

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	12.2	9.2		8.2		7.0	
P/CE	9.6	7.5		6.5		5.6	
P/BV	1.3	1.3		1.1		1.0	
EV/EBITDA	4.7	6.4		5.0		3.7	
Dyield (%)	3.9	7.4		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	69.6
MC (current price)	533.8
EV (current price)	533.0
Free float	21.5%
Price change: 1 month	*18.0%*
Price change: 6 month	*-2.0%*
Price change: 12 month	*-38.7%*
Max (52 week)	12.6
Min (52 week)	5.9



Rafako is not affected by the situation of PBG. The losses it could potentially suffer are limited to the value of the guarantees that the subsidiary Energomontaż Południe issued to the bankrupt parent, and a secured loan extended to Hydrobudowa. If PBG is put into liquidation, Rafako will be sold to an industry investor. If PBG is put into administration, Rafako will the only member of the Group capable of capturing contracts. What is of most interest to us is what will happen with PBG's high-margin gas and oil engineering capacity. One solution would be to transfer it to Rafako, thus considerably boosting the company's value. Another option would be to form a special-purpose vehicle. Anyway, Rafako's core business of power plant construction remains stable and poised for future growth. We are reiterating an accumulate rating on RFK.

PLN 242m contract

Rafako is going to deliver a denitrogenation plant to the Połaniec power station. The delivery will be made in six stages ending in 2017. Rafako's fee is PLN 242m, representing 14.6% of the forecasted 2012 revenue.

PLN 93.5m contract

Rafako signed a contract for boiler pressure parts upgrades in seven power plants operated by Elektrownia Połaniec (GDF Suez). The contract has a value of PLN 93.5m, representing 5.6% of Rafako's expected 2012 revenue. The deadline is December 2014.

Rafako files PLN 400m arbitration case against Alstom

Rafako has filed a case against Alstom Power Systems and Alstom Power with the ICC International Court of Arbitration in Paris. The Polish company is claiming Alstom owes it PLN 374.0m and EUR 4.3m in wrongfully cashed bank guarantees (PLN 118.1m), reimbursement for fees charged by Bank BGZ (PLN 0.3m), outstanding invoices (PLN 108.3m), and other claims.

Financial performance of Chinese operations

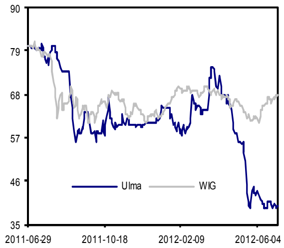
In 1994, Rafako established a joint-venture called Sanbei-Rafako in China in which it holds a 26.2% stake. Sanbei-Rafako manufactures small boilers for heat and power plants and hospitals, as well as wind farm towers. The company underwent restructuring. In 2011, it generated PLN 154m revenue and PLN 1.1m net profit (at current CNY/PLN exchange rates), marking deterioration from preceding years caused by fierce competition in wind farm towers, and plant relocation costs. Rafako values its investment in Sanbai-Rafako at zero.

Ulma Construccion Polska (Accumulate)

Analyst: Maciej Stokłosa

Current price: PLN 39.5 **Target price: PLN 69.3** **Last Recommendation: 2012-05-07**

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	215.4	294.5	36.7%	265.1	-10.0%	245.0	-7.6%	Number of shares (m)	5.3
EBITDA	104.2	155.6	49.3%	116.2	-25.3%	94.4	-18.8%	MC (current price)	207.6
EBITDA margin	*48.4%*	*52.8%*		*43.8%*		*38.5%*		EV (current price)	278.8
EBIT	27.3	72.5	165.3%	43.6	-39.9%	23.0	-47.3%	Free float	15.2%
Net profit	10.2	49.3	382.3%	28.7	-41.8%	14.4	-49.9%		
P/E	20.3	4.2		7.2		14.4		Price change: 1 month	*-9.2%*
P/CE	2.4	1.6		2.0		2.4		Price change: 6 month	*-36.3%*
P/BV	0.8	0.7		0.6		0.6		Price change: 12 month	*-50.8%*
EV/EBITDA	4.0	2.1		2.4		2.5		Max (52 week)	80.5
Dyield (%)	0.0	0.0		6.7		4.2		Min (52 week)	38.9



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.., Ulma is currently trading at a 2011 discount to book value which is grossly understated through a very conservative accounting policy. The company may incur losses on unpaid bills owed by the bankrupt PBG, but these losses will be inconsiderable. We are reiterating an accumulate rating on ULM.

Shareholders approve dividend

Ulma's shareholders approved payment of PLN 31.3m dividends (PLN 3.81/share, yield: 9.3%). After an earlier advance payout of PLN 1.15 per share, the remaining payment will be PLN 2.66/ share (yield: 6.5%). The date of record is August 21st, and the payout is scheduled for September 10th, 2012.

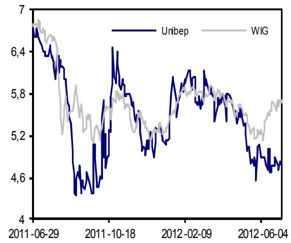
Unibep (Buy)

Current price: PLN 4.9 **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	7.9		6.2		6.0	
P/CE	5.8	6.3		5.0		4.9	
P/BV	1.2	1.1		0.9		0.8	
EV/EBITDA	5.0	5.3		5.9		3.2	
Dyield (%)	2.0	2.4		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	33.9
MC (current price)	166.2
EV (current price)	259.7
Free float	27.6%
Price change: 1 month	*-2.0%*
Price change: 6 month	*-10.2%*
Price change: 12 month	*-27.6%*
Max (52 week)	6.7
Min (52 week)	4.4



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 reasons 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 road construction business will incur a small loss this year (the company takes on mainly small contracts, primarily from commercial customers). The company is hoping for improvement in 2013, supported by lower construction costs. We believe this is feasible provided that Unibep secures financing for two residential and one commercial real estate project. If financing is not secured, 2013 profits will be lower, but at the same time net debt will be reduced to zero. If it is, the reverse will occur. The 2013 order backlog is already 70% full. We are reiterating a buy rating on UNI.

Unibep considers, then scraps investment in ABM Solid

Unibep and ABM Solid signed a memorandum of understanding concerning cooperation in industrial, environmental, and power plant construction. After two weeks of considerations, Unibep decided not to invest in the company after all. Unable to continue as a going concern, ABM Solid filed for bankruptcy administration.

Unibep, ABM, win PLN 185m contract

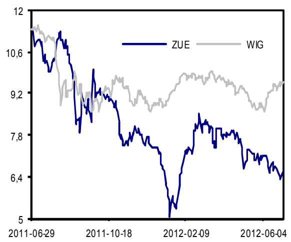
Unibep and ABM Solid won a contract for construction of a shopping center and a water park in Cherepovets, Russia. The fee is EUR 43m or PLN 185m, representing 20.1% of the 2011 revenue of Unibep. The contract is expected to be signed within weeks.

ZUE (Buy)

Current price: PLN 6.58 **Target price: PLN 9.2**

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

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	392.4	583.0	48.6%	594.7	2.0%	594.7	0.0%	Number of shares (m)	22.0
EBITDA	32.4	36.1	11.4%	36.7	1.9%	36.3	-1.3%	MC (current price)	144.8
EBITDA margin	*8.2%*	*6.2%*		*6.2%*		*6.1%*		EV (current price)	133.5
EBIT	25.6	28.2	10.1%	27.2	-3.6%	26.6	-2.2%	Free float	22.2%
Net profit	16.8	21.2	26.2%	19.9	-6.3%	20.2	1.8%		
P/E	6.3	6.8		7.3		7.2		Price change: 1 month	*-7.2%*
P/CE	4.5	5.0		4.9		4.8		Price change: 6 month	*-3.2%*
P/BV	0.6	0.8		0.7		0.7		Price change: 12 month	*-39.1%*
EV/EBITDA	3.9	5.1		3.6		3.2		Max (52 week)	11.3
Dyield (%)	1.1	0.0		0.0		0.0		Min (52 week)	5.1



ZUE generated its best first-quarter results in history in Q1 2012, but the full-year profits may not show any improvement from 2011. In fact, we anticipate a shrinkage in net earnings to the tune of 20-25%. ZUE's net debt increased to about PLN 60m in Q2 2012 due to a capital-intensive tramway contract. A considerable reduction in debt is expected in 2013, after completion of a major project. ZUE's 2013 order backlog is currently worth PLN 350-400m, but it is likely to continue expanding as new contract opportunities come on line. Polish railroads have PLN 10bn left in unused EU finding, and the European Commission has agreed that this money can be allocated to a number of small design-and-build projects which are typically awarded to companies with proven track records and their own design studios. Competition for these types of contracts is less intense, with 5-6 companies vying for each project. We are reiterating a buy rating on ZUE.

PLN 33.1m contract

ZUE signed a contract with the infrastructure and transportation department of Krakow for maintenance of the city's tramways. The contract has a value of PLN 33.1m, representing 5.8% of ZUE's expected 2012 revenue. It expires in April 2015.

Property Developers

Residential Developers

Housing sales on decline in Poland

According to March and April data compiled by Metrohouse, it takes 122 days on average today to sell an existing home, which is two weeks longer than at the beginning of the year and nearly 40 days longer than in October 2011. Smaller flats are the best-sellers. Only one in ten sales transactions are for a dwelling larger than 70 square meters. Existing homes are in increasing competition with new homes after the price declines observed since January. Last year's changes in the government's mortgage subsidies dealt a severe blow to the existing home market.

Land prices fall across Poland, stabilize in Warsaw

According to research by Colliers International, sales prices of land properties are on a downward trend in most Polish cities. Compared to the same period in 2011, per-square-meter prices were 25% lower in Krakow, 23% lower in Poznań, and 22% lower in Łódź. The steepest drops in office-zoned land were recorded in Katowice (27%) and Wrocław (26%). In Warsaw, residential land prices remained flat in the central districts, while prices in more remote locations increased 6%. Office land prices were down 8%. Warsaw accounted for 80% to 85% of all the transactions completed in the period. Since most of the land transactions in the last six months took place in Warsaw, where prices remained steady, the land market should not be putting downward pressure on home prices. in the coming months.

Rank Progress

Share buyback

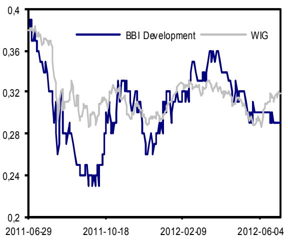
Rank Progress commenced a PLN 50m share buyback program on June 6th.

BBI Development (Accumulate)

Current price: PLN 0.29 **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)	151.7
EBITDA margin	*42.5%*	*37.2%*		*20.8%*		*24.0%*		EV (current price)	371.4
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	12.7	10.6		316.9		34.4		Price change: 1 month	*-3.3%*
P/CE	12.5	10.5		216.7		32.7		Price change: 6 month	*3.6%*
P/BV	0.6	0.6		0.6		0.6		Price change: 12 month	*-25.6%*
EV/EBITDA	8.7	13.7		30.6		48.3		Max (52 week)	0.4
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	0.2



BBI Development's status as a defensive stock was confirmed during the bear market of March through May, as well as the bull market of June when the stock underperformed. BBI's fundamental value is higher than indicated by its market value, unfortunately, there is no event in the company's near future right now that could help reveal its true value. The eventual sale of the Plac Unii development will be one such catalyst, but this is not likely to happen earlier than in 2013. Investors tend not to get excited about BBI's new projects, but they will once the cash comes in from the sale of Plac Unii. Meanwhile, BBI is focused on clearing the formalities needed to move forward with new projects. We are reiterating an accumulate rating on BBI.

BBI secures zoning permit for "Nowy Sezam" project

BBI has obtained a final zoning permit for its "Nowy Sezam" project in central Warsaw. Before construction commences some time in the second half of 2013, the company still has to finish the designs and secure a building permit and financing for the project. The zoning permit gives credibility to the Nowy Sezam development schedule (it has been two years since BBI signed the agreement for the acquisition of the site).

Dom Development (Hold)

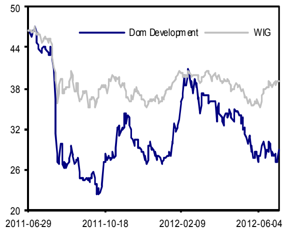
Current price: PLN 28.8 **Target price: PLN 31.4**

Analyst: Piotr Zybała

Last Recommendation: 2012-01-23

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	513.7	584.3	13.7%	797.4	36.5%	642.5	-19.4%
EBITDA	61.4	105.7	72.0%	105.9	0.2%	65.2	-38.4%
EBITDA margin	*12.0%*	*18.1%*		*13.3%*		*10.1%*	
EBIT	59.1	103.2	74.8%	103.4	0.2%	62.8	-39.3%
Net profit	40.4	82.7	104.6%	85.4	3.3%	52.0	-39.2%
P/E	17.5	8.6		8.3		13.6	
P/CE	16.5	8.3		8.0		13.0	
P/BV	0.9	0.8		0.8		0.8	
EV/EBITDA	12.2	7.7		6.7		12.3	
Dyield (%)	2.8	3.1		6.0		9.7	

Basic data (PLN m)	
Number of shares (m)	24.6
MC (current price)	707.3
EV (current price)	708.4
Free float	26.6%
Price change: 1 month	*6.6%*
Price change: 6 month	*2.6%*
Price change: 12 month	*-36.8%*
Max (52 week)	47.0
Min (52 week)	22.4



As a residential developer, Dom Development is being affected by a weak housing market. Home sales are expected to decelerate in the second half of 2012, and fall even further in 2013 after the "Rodzina na Swoim" housing subsidy program comes to an end. After a dividend cutoff (PLN 1.50), DOM stock ended June with a small and underwhelming gain in a strong market. The shares are trading low, but they have little potential for a rebound in the current market environment unless DOM reports an increase in sales in Q2. We are reiterating a hold rating on DOM.

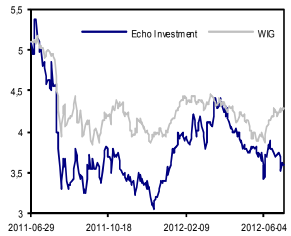
Echo Investment (Buy)

Current price: PLN 3.6 **Target price: PLN 4.7**

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

(PLN m)	2010	2011	change	2012F	change	2013F	change
Revenues	426.4	404.2	-5.2%	563.2	39.3%	595.7	5.8%
EBITDA	172.7	550.0	218.5%	407.7	-25.9%	168.1	-58.8%
EBITDA margin	*40.5%*	*136.1%*		*72.4%*		*28.2%*	
EBIT	168.7	545.8	223.6%	396.3	-27.4%	156.6	-60.5%
Net profit	147.7	164.0	11.0%	263.7	60.8%	146.0	-44.7%
P/E	10.2	9.2		5.7		10.4	
P/CE	10.0	9.0		5.5		9.6	
P/BV	0.8	0.7		0.6		0.6	
EV/EBITDA	18.6	6.4		9.5		27.0	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	420.0
MC (current price)	1 512.0
EV (current price)	3 862.2
Free float	36.8%
Price change: 1 month	*0.0%*
Price change: 6 month	*6.2%*
Price change: 12 month	*-27.3%*
Max (52 week)	5.4
Min (52 week)	3.1



After obtaining a loan to finance the construction of Aquarius Business House, Echo has financing secured for all of the projects scheduled for completion this year. The company is expected to generate positive news flow in Q4 2012 when these projects are finished. As for a more long-term outlook, we conservatively expect Echo to complete only two commercial projects in 2013. Its land bank allows for much more, but any projects set for completion next year would have to be started in Q3 2012. We are looking forward to news of new projects. We are reiterating a buy rating on ECH.

Echo gets financing for Aquarius Business House

Echo signed a PLN 93.4m loan agreement with Alior Bank. The funds will be used to finance and refinance the costs of construction of Stage 1 of the Aquarius Business House project in Wrocław. The interest will be based on 1M WIBOR plus the bank's margin, and the facility falls due on 30 September 2013. Echo has secured external financing for all four commercial projects that are scheduled for completion in 2012 or early 2013. In the case of shopping malls in Bełchatów, Szczecin and Łomża, the financing comes in the form of long term (6-16 years) EUR-denominated loans. We believe that the Aquarius Business House loan will also be converted into an EUR-denominated investment loan in the future. So far, Echo's efforts to secure external financing have been very successful.

Immofinanz fails to get building permit for Lublin mall

The Austrian company Immofinanz did not receive a building permit for the "Galeria Zamek" mall in Lublin. The project was scheduled for completion at the end of 2013. The local authorities argue their decision was motivated by intricacies of the construction law. Immofinanz has been attempting to obtain a revision of a building permit received in 2004, but it seems now it will have to launch all the formalities from scratch. At least seven companies, including Echo Investment, have plans at various stages of advancement to develop a shopping mall in Lublin. In all likelihood, not all of them will find renters. Echo is planning to launch its project in H1 2013, and to complete it in H2 2014. At this time, Lublin's per-capita commercial space is below the average for a city of its size (200-400 thou. inhabitants).

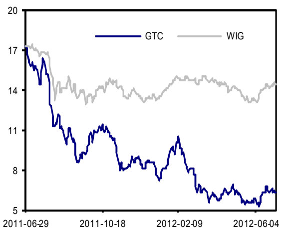
GTC (Buy)

Current price: PLN 6.31 **Target price: PLN 7.3**

Analyst: Piotr Zybała

Last Recommendation: 2012-06-14

(EUR m)	**2010**	**2011**	**change**	**2012F**	**change**	**2013F**	**change**	**Basic data (PLN m)**	
Revenues	169.0	153.7	-9.1%	152.1	-1.0%	159.3	4.8%	Number of shares (m)	319.4
EBITDA	111.1	-230.7		71.7		95.2	32.7%	MC (current price)	2 015.2
EBITDA margin	*65.8%*	*-150.1%*		*47.1%*		*59.7%*		EV (current price)	6 077.8
EBIT	110.6	-231.2		71.3		94.7	32.9%	Free float	58.8%
Net profit	41.9	-270.4		14.1		32.6	130.5%		
P/E	7.9			34.0		14.7		Price change: 1 month	*9.2%*
P/CE	7.8			33.0		14.5		Price change: 6 month	*-25.1%*
P/BV	0.3	0.4		0.6		0.5		Price change: 12 month	*-61.0%*
EV/EBITDA	14.0			20.2		15.0		Max (52 week)	16.4
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	5.2



GTC's June PLN 100m I stock issue was oversubscribed by 105.4 million shares. The stock-based deleveraging strategy is sound in our view. Firstly, the proceeds raised in the SPO will help establish a safer financing structure, and provide the company with cash needed to plan future projects. Secondly, GTC has trimmed down its building plans, leaving only the most profitable and the safest Warsaw-based projects in the pipeline. As a result, it positioned itself for NAV expansion at reduced financial risk. Thirdly, as its SG&A expenses and debt service costs decrease, while occupancy rates in commercial properties increase (the vacancy rate fell 4ppts in 2011), GTC will start generating more cash from its core operations in the future. We are reiterating a buy rating on GTC.

Extended SPO

GTC's Management Board decided to extend subscriptions for the company's I-stock shares. The revised timeline was 5-15 June 2012 rather than 5-14 June as had been stated in the prospectus approved by the Financial Supervision Authority. The timing of the milestones changed as follows: (i) allotment of shares acquired by rights holders and through additional subscriptions: from 25 June to 26 June; (ii) subscriptions for shares not acquired by rights holders and in additional subscriptions by entities invited by the Management Board: from 26-27 June to 27-28 June; (ii) allotment of these shares: from 27 June to 28 June and (iv) the listing of allotment certificates on the WSE: from ca. 3 July to ca. 4 July. Rights will be traded on the WSE as originally scheduled.

Main shareholder exercises rights

GTC's main shareholder, GTC Real Estate Holdings B.V., a subsidiary of Kardan N.V., exercised all its rights, placing subscriptions for ca. 27.75m shares, or 27.75% of the issue. This was in line with earlier declarations by Kardan.

GTC signs preliminary sale agreement for Platinium Business Park

GTC signed preliminary sale agreements with Allianz Real Estate for the five office buildings comprising the Platinium Business Park project. The combined sales price is EUR 173.4m subject to revisions. The final agreements will be signed following fulfillment of certain conditions precedent by 28 February 2013. This is another milestone in the Platinium BP sale process. Note that deal includes the "Platinium V" building completed last quarter – a fact factored in our financial forecasts for GTC. The price agreed by the two parties is EUR 8m higher than we had anticipated, suggesting higher valuation gains this year.

GTC allocates shares

GTC allocated 100,000,000 I shares on June 26th following subscriptions and payment for 203,196,786 shares. During the subscription period, investors submitted 3671 subscriptions for 97,822,615 shares of the main batch and 482 additional subscriptions for 105,374,171 shares. There was a reduction rate of 97.93%.

J.W. Construction (Hold)

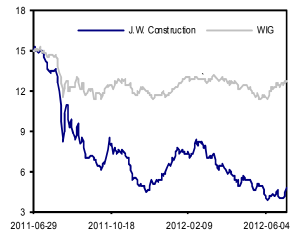
Current price: PLN 4.75 **Target price: PLN 6.1**

Analyst: Piotr Zybała

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	2.8	9.2		9.1		9.1	
P/CE	2.4	6.4		6.3		6.3	
P/BV	0.6	0.5		0.5		0.5	
EV/EBITDA	5.0	10.8		13.2		15.7	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	54.1
MC (current price)	256.8
EV (current price)	1 134.7
Free float	27.3%
Price change: 1 month	*15.6%*
Price change: 6 month	*-17.1%*
Price change: 12 month	*-68.2%*
Max (52 week)	15.0
Min (52 week)	3.9



JWC shares rallied in the first two trading sessions of July on a large trading volume, driven probably by asset sales reports. The fact that the company has not revealed any specifics makes it hard to assess the impact of such sales. The cash proceeds are equivalent to about 7% of net debt. Sales of non-core assets are a good move, but they are not sufficient to meet JWC's total cash needs. We would appreciate a more transparent information policy. Without an increase in home sales, JWC's upside potential remains limited, and the sales figures so far have been underwhelming. We are reiterating a hold rating on JWC.

Extension of preliminary contract with general contractor

Wroński Sp. j., the contractor selected to build JWC's residential complex in Gdynia, agreed to extend the deadline by which JWC has to obtain a building permit for at least one stage of the complex from 30 June 2012 to 31 December 2013. The extension means that JWC is having trouble obtaining the building permit, suggesting that the Gdynia project may be not be finished by Q3 2012.

JWC sells properties

JWC signed two preliminary property sales contracts with "J.W. Consulting Spółka z ograniczoną odpowiedzialnością J.W. 3 Spółka komandytowo - akcyjna" totaling PLN 54.6m gross (PLN 44.4m net). The bigger of the contracts (PLN 24.3m net) pertains to a property located in Sopot, housing two inns with a combined floor area of 2848 square meters. We know too little to tell whether the price JWC got for the land is attractive. What we do know is that one of the buildings was sold at PLN 8532 per square meter, but we do not know its book value. The company that bought the property was not consolidated into JWC's financial statements as of Q1 2012. We are guessing it is one of the many companies controlled by JWC's owner Mr. Wojciechowski. As long as the price was fair, the sale was a good move on the part of JWC, which has huge capital needs.

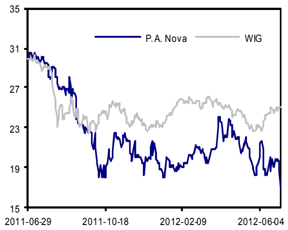
PA Nova (Buy)

Current price: PLN 17 | 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	8.4	8.0		9.5		5.3	
P/CE	7.6	7.1		8.1		4.9	
P/BV	0.7	0.7		0.6		0.6	
EV/EBITDA	8.9	7.9		12.9		6.8	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	10.0
MC (current price)	169.8
EV (current price)	382.2
Free float	39.4%
Price change: 1 month	*-15.0%*
Price change: 6 month	*-12.7%*
Price change: 12 month	*-44.3%*
Max (52 week)	30.5
Min (52 week)	17.0



PA Nova shares plunged to their lowest level in three years at the beginning of July despite a lack of any reasons therefor in the fundamentals. We believe PA Nova is capable of exceeding our conservative financial forecasts for 2012 and 2013, and we think it will post core net earnings upwards of PLN 30m in 2013 (5.5 P/E) and beyond. Further, the core profits will be supported by windfall gains from the sales of shopping centers which are carried at cost on the company's balance sheet. We are reiterating a buy rating on NVA.

PA Nova secures bank financing

PA Nova signed an agreement with BRE Bank for an investment loan capped at EUR 7m (equivalent to 70% of construction costs max) and a revolving loan of up to PLN 4.0m, designed to finance the construction and subsequent refinancing of a shopping center in Kluczbork. The BRE Bank deal means PA Nova now has financing in place for both of its ongoing shopping center projects.

Shareholders approve PLN 0.50 dividend

P.A. Nova's shareholders agreed to a PLN 0.50-a-share dividend payout. The date of record has been set at July 15th, and the payout is scheduled for July 25th. The dividend carries a yield of 2.6%. It is small because PA Nova needs capital to build a new shopping center next year. A bigger distribution may be enjoyed next year if the company sells the shopping centers in Kędzierzyn-Koźle and Kluczbork that are currently work in progress.

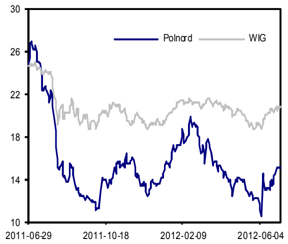
Polnord (Hold)

Analyst: Piotr Zybała

Current price: PLN 14.96 Target price: PLN 15.7

Last Recommendation: 2012-01-23

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	180.3	307.7	70.7%	266.6	-13.4%	303.8	14.0%	Number of shares (m)	23.8
EBITDA	50.4	86.2	70.9%	52.6	-39.0%	-4.2		MC (current price)	356.1
EBITDA margin	*28.0%*	*28.0%*		*19.7%*		*-1.4%*		EV (current price)	966.1
EBIT	48.1	84.1	74.6%	50.9	-39.5%	-5.9		Free float	55.0%
Net profit	51.6	61.5	19.2%	57.9	-5.9%	66.4	14.7%		
P/E	6.4	5.4		6.2		5.4		Price change: 1 month	*28.0%*
P/CE	6.2	5.2		6.0		5.2		Price change: 6 month	*10.8%*
P/BV	0.3	0.3		0.3		0.3		Price change: 12 month	*-44.3%*
EV/EBITDA	20.8	10.7		18.4				Max (52 week)	26.8
Dyield (%)	5.7	2.1		3.5		4.9		Min (52 week)	10.5



Over the past month, several developments have been disclosed that significantly reduced Polnord's financial risks. First, the company signed an agreement with SGB Bank concerning a PLN 60m 4Y bond issue, and it got a two year extension on its PLN 57m overdraft facility. Most importantly, however, Polnord signed a letter of intent for the sale of receivables from the City of Warsaw to Polski Bank Przesiębiorczości. In 2011, Polnord recovered PLN 102m cash by selling receivables. The target for 2012 is PLN 102m, and the letter of intent that was signed yesterday makes success in this respect very likely. Our forecasts and valuation take into account only ca. PLN 60m-worth of road receivables in 2012. So far, we have ignored the remaining portion of the compensation the company was aiming to get. Inclusive of these, Polnord may be able to get ca. PLN 250m in compensation for roads and infrastructure transferred to the city (the company estimates that these claims will take some 2-3 years to process). In this context, our valuation of Polnord is conservative. We are reiterating a hold rating on PND.

Dividend recommendation

Polnord's Supervisory Board has backed the Management Board's recommendation to distribute a portion of the 2011 net income as dividends to shareholders, the exact payout ratio to be decided by the shareholders. The Management Board's proposal was payment of PLN 10.5m or PLN 0.44 per share. When determining the payout ratio, the Supervisory Board recommends that the shareholders take into consideration the limitations imposed by the company's bond program and the cash needs necessitated by ongoing real estate projects. Given Polnord's financing needs, retention of the whole of the 2011 profits in the company would be the best choice for Polnord in our view. We think shareholders' approval depends on whether the land claims can be sold prior to the July 28th General Meeting.

Polnord plans new project in Warsaw

Polnord signed a partnership memorandum with Elektrim related to a joint project that the two companies are planning to develop in Warsaw's river port "Port Praski". The project will be a residential development with a floor area of 40,000 square meters, and an estimated selling value of PLN 320m. The former port is located close to Warsaw's downtown areas and next to a future metro station, and its location should attract many buyers. At this early stage, we are not taking the Port Praski project into account in our financial forecasts for Polnord.

Favorable court ruling

On June 6th, Polnord announced that it had won against an appeal filed by the City of Warsaw in the Supreme Court of Administration (NSA) which confirmed the legitimacy of the company's claims. The NSA ruling pertained to the claims sold to PBP, and it was followed by receipt of the first payment from the bank in the amount of PLN 101.5m. The size of the subsequent payments will depend on the amounts recovered by PBP from the City of Warsaw. The ruling also allowed Polnord to sign a memorandum of understanding concerning the sale of the next batch of claims with a nominal value of PLN 115m.

Bond program

Polnord has put in place a PLN 60m private bond offer program to be managed by SGB Bank which committed to acquiring all the bonds on the issue date. Polnord is planning to issue secured bearer bonds with 4-year maturities on 20 August 2012. The proceeds will be allocated toward early redemption of outstanding bonds totaling PLN 42.1m issued on 21 May 2010, with the remaining PLN 17.9m designated toward financing day-to-day operations. Polnord is expected to make one more bond issue this year to facilitate a rollover of debt maturing in Q4 2012. The two bond offers, combined with cash receipts from the sale of land receivables, will considerably reduce Polnord's credit exposure.

Polnord obtains credit extension

DZ Bank agreed to extend the term of Polnord's PLN 57m overdraft facility by two years until 31 May 2014, further improving the company's debt maturity structure after the launch of the PLN 60m bond issue. We expect more announcements concerning debt rollover in the coming weeks.

Polnord sells accounts receivable

Polnord signed a memorandum of understanding with Polski Bank Przedsiębiorczości (PBP) concerning the sale of accounts receivable from the City of Warsaw as compensation for 6.74 hectares of land properties transferred to the City. Polnord estimates the compensation at PLN 115m. The actual amount will be determined following a due diligence audit. Polnord and PBP agreed to sign the final agreement by July 15th. PBP will probably pay Polnord in installments, similarly to a similar deal made between the parties last year when the first installment was PLN 101.5m (46% of the nominal value of the amounts receivable). We expect a similar discount this time, and we think Polnord can look forward to receiving PLN 50-60m in cash in July.

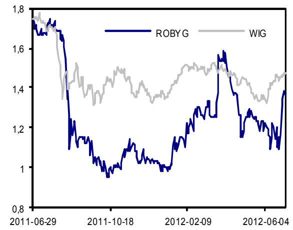
Robyg (Hold)

Current price: PLN 1.36 **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	9.4	10.0		8.3		11.6	
P/CE	9.2	9.8		8.2		11.3	
P/BV	0.7	0.8		0.8		0.8	
EV/EBITDA	13.8	42.1		8.6		11.8	
Dyield (%)	0.0	5.1		4.0		4.8	

Basic data (PLN m)	
Number of shares (m)	257.4
MC (current price)	350.1
EV (current price)	683.3
Free float	16.5%
Price change: 1 month	*12.4%*
Price change: 6 month	*34.7%*
Price change: 12 month	*-20.9%*
Max (52 week)	1.8
Min (52 week)	1.0



Robyg is one of the most successful residential developers in Poland, as evidenced by its strong sales figures, cash flows, and attractive land purchases. ROB stock performed relatively well in June. After PLN 0.12 dividend cutoff, it is steady relative to the previous month, hovering slightly below our target. Robyg is expected to release its second-quarter sales data this month. While a replay of the record first quarter (301 units) is unlikely, 250 units would be a good Q2 sales result mandating upward revisions to our 2013 forecasts. We are reiterating a hold rating on ROB.

Land purchase in Warsaw

Robyg has signed the final agreement for the purchase of a land lot in Warsaw's Bemowo district for PLN 14m. The land will be used to construct a 300-unit housing complex, and it is adjacent to Osiedle Kameralne, a project that is in construction phase right now. The preliminary agreement was signed last year, and the price has not changed since then. The project has been factored into our valuation of Robyg. Robyg took out a two-year PLN 8.4m loan with BZ WBK to refinance 60% of the net price the property.

PLN 30m bond issue

Robyg has issued three-year bonds totaling PLN 30m. The public bond offer has a value of PLN 20m, and it carries an interest rate of WIBOR 6M + 3.8%. It is secured with a mortgage on a land property in Wrocław. The private placement consists of unsecured bonds with a value of PLN 10m, carrying an interest rate of WIBOR 6M + 4.8%. Robyg has outstanding PLN 103m-worth of bonds maturing in Q4 2013. The latest issue is probably aimed at extending debt maturities.

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

CENTRUM KLIMA

rating	Buy	Suspended	Sell
rating day	2011-11-15	2012-05-07	2012-05-09
price on rating day	9.65	14.25	14.28
WIG on rating day	40235.00	39888.00	39268.41

CIECH

rating	Buy	Buy
rating day	2012-01-16	2012-05-15
price on rating day	17.35	17.70
WIG on rating day	37991.91	38500.68

MILLENNIUM

rating	Reduce	Sell	Hold
rating day	2012-01-19	2012-03-05	2012-06-05
price on rating day	3.82	4.34	3.42
WIG on rating day	39056.43	41639.72	37287.97

MOL

rating	Reduce	Hold
rating day	2012-04-19	2012-06-05
price on rating day	242.10	226.80
WIG on rating day	40526.80	37287.97

PEKAO

rating	Hold	Reduce	Hold
rating day	2011-11-04	2012-01-19	2012-06-05
price on rating day	153.00	145.90	136.00
WIG on rating day	41313.92	39056.43	37287.97

PKO BP

rating	Accumulate	Hold	Accumulate
rating day	2012-01-19	2012-03-05	2012-04-05
price on rating day	32.89	34.49	33.00
WIG on rating day	39056.43	41639.72	40754.08

PZU

rating	Hold	Accumulate
rating day	2011-11-18	2012-01-23
price on rating day	321.00	327.00
WIG on rating day	39797.19	39518.87

ZA PUŁAWY

rating	Reduce	Reduce
rating day	2012-04-05	2012-05-25
price on rating day	102.00	100.30
WIG on rating day	40754.08	36852.75

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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