

24 March 2010

Special comment


**Construction**

Poland

**Maciej Stokłosa**  
(48 22) 697 47 41  
maciej.stoklosa@dibre.com.pl

# Unibep

UNBE.WA; UNI.PW

## Accumulate

(Reiterated)

### Solid Q409 Showing

**Current price: PLN 8.47; Target price PLN 7.52**

Unibep reported a stronger-than-expected gross profit for the fourth quarter of 2009, achieved on higher-than-expected sales profits generated by domestic construction operations (gross margin reported at 8.9% vs. our 7.7% estimate and a 3Q09 margin of 12.7%). An EBIT of PLN 12.0m topped our PLN 9.4m forecast. The bottom-line profit fell short of expectations (PLN 7.3m) at PLN 6.8m because of high financial expenses and tax charges. In spite of the solid fourth-quarter showing, Unibep's current share price already factors in its good future prospects, including housing-construction opportunities. The company's current valuation no longer shows a discount to the building sector at a FY10E P/E of 15.2. Moreover, if we adjust the expected 2010 earnings for profits generated from the real-estate business, the P/E ratio increases to 29. We may consider a downgrade of our investment rating on Unibep to account for the recent 29% rally on its share price.

Unibep reported in-line Q409 revenues and a higher-than-expected gross margin (11% vs. 9.2%). The gross margin was boosted by the company's Polish building operations, whose revenues also slightly exceeded our forecasts. We suspect that such strong revenue and margin figures were generated on old construction contracts.

After three quarters of very strong results (gross margin at 13.6%), the segment of road construction disappointed with a fourth-quarter negative margin of 8.5% caused by a shortage of orders. Exports produced a stellar gross margin of 62.4% on very low revenues, following settlements on completed Russian projects at higher-than-expected margins. "Other" operations also generated a tremendous gross margin of 51.7%, probably owed as well to end-of-year settlements.

Real-estate operations surprised on the upside, reporting a gross margin of 24% on a very weak revenue of PLN 31.9m. The most probable reason behind such robust profitability was the composition of the period's home-sales mix (more high-margin units in high-margin developments), combined with possible accounting movements in costs of sales and marketing. SG&A expenses were more or less in line at PLN 5.8m (we expected PLN 5.3m). An EBIT of PLN 12m beat our PLN 9.4m forecast. Unibep booked other financial income of PLN 0.4m in the quarter, versus our expected other operating expenses of PLN 0.25m. Because of large other net financial expenses (PLN 1.6m reported vs. PLN 0.4m forecasted), and a high tax charge (PLN 3.6m booked vs. PLN 1.7m predicted), the Q409 bottom-line fell considerably short of our estimate.

#### Reported vs. forecasted Q4 2009 results

(PLN m)	Q4 2009	Q4 2009F	differ.	Q4 2008	change
Revenue	158.5	161.3	-1.8%	101.8	55.7%
Gross profit	17.4	14.9	16.5%	16.0	8.8%
Gross margin	11.0%	9.2%	-	15.7%	-
EBIT	12.0	9.4	27.6%	5.5	116.7%
EBIT margin	7.6%	5.8%	-	5.4%	-
Pre-tax income	10.4	9.0	14.8%	9.1	14.5%
Pre-tax margin	6.5%	5.6%	-	8.9%	-
Net income	6.8	7.3	-7.3%	7.0	-2.6%
Net margin	4.3%	4.5%	-	6.8%	-

Source: Unibep, F - forecasta by BRE Bank Securities

**Reported vs. forecasted Q409 results by business segment**

(PLN m)	Reported revenue	Reported gross profit	Reported gross margin	Forecasted revenue	Forecasted gross profit	Forecasted gross margin
<b>Q4 2009</b>						
Domestic building construction	108.8	9.6	8.9%	90.0	6.9	7.7%
Road construction	11.8	-1.0	-8.5%	15.0	1.2	7.8%
International construction	3.7	2.3	62.4%	5.0	0.2	3.0%
Real-estate development	31.9	7.7	24.1%	45.0	7.0	15.5%
Other	2.3	1.2	51.7%	6.3	-0.3	-5.0%
Adjustments	0.0	-2.5		161.3	14.9	
<b>3Q 2009</b>						
Domestic building construction	154.3	19.7	12.7%			
Road construction	17.6	2.4	13.6%			
International construction	45.4	4.2	9.3%			
Real-estate development	16.2	2.1	13.0%			
Other	0.8	-2.9	-340.1%			
Adjustments	0.0	0.1	-			

Source: Unibep, BRE Bank Securities



Michał Marczak tel. (+48 22) 697 47 38  
Managing Director  
Head of Research  
[michal.marczak@dibre.com.pl](mailto:michal.marczak@dibre.com.pl)  
Strategy, Telco, Mining, Metals, Media

#### Research Department:

Marta Jeżewska tel. (+48 22) 697 47 37  
Deputy Director  
[marta.jezewska@dibre.com.pl](mailto:marta.jezewska@dibre.com.pl)  
Banks

#### Analysts:

Kamil Kliszcz tel. (+48 22) 697 47 06  
[kamil.kliszcz@dibre.com.pl](mailto:kamil.kliszcz@dibre.com.pl)  
Fuels, Chemicals, Energy, Retail

Piotr Grzybowski tel. (+48 22) 697 47 17  
[piotr.grzybowski@dibre.com.pl](mailto:piotr.grzybowski@dibre.com.pl)  
IT, Media

Maciej Stokłosa tel. (+48 22) 697 47 41  
[maciej.stoklosa@dibre.com.pl](mailto:maciej.stoklosa@dibre.com.pl)  
Construction, Real-Estate Developers

Jakub Szkopek tel. (+48 22) 697 47 40  
[jakub.szkopek@dibre.com.pl](mailto:jakub.szkopek@dibre.com.pl)  
Manufacturers

#### Sales and Trading:

Piotr Dudziński tel. (+48 22) 697 48 22  
Director  
[piotr.dudzinski@dibre.com.pl](mailto:piotr.dudzinski@dibre.com.pl)

Marzena Łempicka-Wilim tel. (+48 22) 697 48 95  
Deputy Director  
[marzena.lempicka@dibre.com.pl](mailto:marzena.lempicka@dibre.com.pl)

#### Traders:

Emil Onyszczyk tel. (+48 22) 697 49 63  
[emil.onyszczyk@dibre.com.pl](mailto:emil.onyszczyk@dibre.com.pl)

Grzegorz Stępień tel. (+48 22) 697 48 62  
[grzegorz.stepien@dibre.com.pl](mailto:grzegorz.stepien@dibre.com.pl)

Tomasz Dudź tel. (+48 22) 697 49 68  
[tomasz.dudz@dibre.com.pl](mailto:tomasz.dudz@dibre.com.pl)

Michał Jakubowski tel. (+48 22) 697 47 44  
[michal.jakubowski@dibre.com.pl](mailto:michal.jakubowski@dibre.com.pl)

Tomasz Jakubiec tel. (+48 22) 697 47 31  
[tomasz.jakubiec@dibre.com.pl](mailto:tomasz.jakubiec@dibre.com.pl)

Grzegorz Strublewski tel. (+48 22) 697 48 76  
[grzegorz.strublewski@dibre.com.pl](mailto:grzegorz.strublewski@dibre.com.pl)

#### "Private Broker"

Jacek Szczepański tel. (+48 22) 697 48 26  
Director  
[jacek.szczepanski@dibre.com.pl](mailto:jacek.szczepanski@dibre.com.pl)

Paweł Szczepanik tel. (+48 22) 697 49 47  
Sales  
[pawel.szczepanik@dibre.com.pl](mailto:pawel.szczepanik@dibre.com.pl)

Dom Inwestycyjny  
BRE Banku S.A.  
ul. Wspólna 47/49  
00-950 Warszawa  
[www.dibre.com.pl](http://www.dibre.com.pl)

**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

**Recommendations of BRE Bank Securities S.A.**

A recommendation is valid for a period of 6-9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:

**BUY** – we expect that the rate of return from an investment will be at least 15%

**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.

The present report expresses the knowledge as well as opinions of the authors on day the report was prepared. The opinions and estimates contained herein constitute our best judgement at this date and time, and are subject to change without notice. The present report was prepared with due care and attention, observing principles of methodological correctness and objectivity, on the basis of sources available to the public, which BRE Bank Securities S.A. considers reliable, including information published by issuers, shares of which are subject to recommendations. However, BRE Bank Securities S.A., in no case, guarantees the accuracy and completeness of the report, in particular should sources on the basis of which the report was prepared prove to be inaccurate, incomplete or not fully consistent with the facts.

This document does not constitute an offer or invitation to subscribe for or purchase any financial instruments and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document nor any copy hereof is not to be distributed directly or indirectly in the United States, Australia, Canada or Japan.

Recommendations are based on essential data from the entire history of a company being the subject of a recommendation, with particular emphasis on the period since the previous recommendation.

Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible. BRE Bank Securities S.A. bears no responsibility for investment decisions taken on the basis of the present report or for any damages incurred as a result of investment decisions taken on the basis of the present report.

It is possible that BRE Bank Securities S.A. renders, will render or in the past has rendered services for companies and other entities mentioned in the present report.

BRE Bank Securities S.A., its shareholders and employees may hold long or short positions in the issuers' shares or other financial instruments related to the issuers' shares. BRE Bank Securities S.A., its affiliates and/or clients may conduct or may have conducted transactions for their own account or for account of another with respect to the financial instruments mentioned in this report or related investments before the recipient has received this report.

Copying or publishing the present report, in full or in part, or disseminating in any way information contained in the present report requires the prior written agreement of BRE Bank Securities S.A. Recommendations are addressed to all Clients of BRE Bank Securities S.A.

The activity of BRE Bank Securities S.A. is subject to the supervision of the Polish Financial Supervision Commission.

BRE Bank Securities S.A. serves as animator in relation to the shares of the following companies: Certyfikaty Skarbiec Nieruchomości, Erbud, Es-System, LW Bogdanka, Macrologic, Magellan, Mieszko, Mondy, Nepentes, Pemug, Polimex-Mostostal, Torfarm.

BRE Bank Securities S.A. receives remuneration from issuers for services rendered to the following companies: Agora, Ambra, Arkus, Bakalland, BRE Bank, Deutsche Bank, DZ Bank Polska, Elektrobudowa, Elzab, Energoaparatura, Energomontaż Pódnoc, Erbud, Es-System, Farmacol, Ferrum, Fortis Bank, GTC, Interagroclin Auto, Koelner, Komputronik, LW Bogdanka, Magellan, Mennica, Mercor, Mieszko, Mostostal Warszawa, Nepentes, Odratrans, Pemug, PGF, PGNiG, Polimex-Mostostal, Polmos Lublin, Polnord, Prokom Software, Seco Warwick, Sfinks, Sokółów, Sygnity, Techmex, Torfarm, Unibep, WSIP, ZA Puławy.

In the last 12 months BRE Bank Securities S.A. has been an offering agent of the issuer's shares in a public offering for the following companies: Centrum Klima, LW Bogdanka.

Asseco Poland provides IT services to BRE Bank Securities.

Individuals who did not participate in the preparation of recommendations, but had or could have had access to recommendations prior to their publication, are employees of BRE Bank Securities S.A. authorised to access the premises in which recommendations are prepared, other than the analysts mentioned as the authors of the present recommendations.

**Strong and weak points of valuation methods used in recommendations:**

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

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