6 February 2013

Periodic Report

BRE Bank Securities

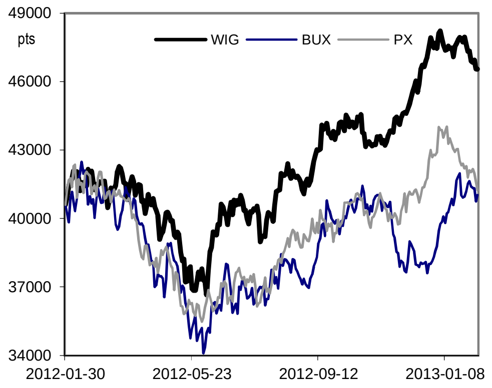
Equity Market
Macroeconomics

Monthly Report

February 2013

WIG	**46,674**
Average 2013E P/E	12.4
Average 2014E P/E	11.0
Avg daily trading volume	PLN 822m

WIG vs. indices in the region



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Macroeconomics
BRE Bank Economists

Equity Market

February is bringing a higher likelihood of a profit-taking correction in the US as evidenced, among others, by the bullish attitudes of investors. In Poland, we do not anticipate a major downward correction on the WSE, and we would view any market weakness as an opportunity to buy stocks for a longer term.

Company Outlook

Financial Industry. The focus of investors in the weeks ahead is on earnings, and, judging by the recent central bank report on the Q4 2012 performance of the bank sector, we can expect at least decent showings from most banks. Our top picks are PKO, BSK, BZW, and PEO.

Gas & Oil. Refining margins are showing signs of a rebound, supported by "bullish" inventory data, providing a catalyst for oil stocks, particularly PKN Orlen which is also benefitting from a favorable macroeconomic environment in its petrochemical business.

Power Utilities. The slump observed in the prices of emission allowances and electricity will weigh heavily on CEZ and PGE. Against this backdrop, Tauron remains our top sector pick.

Mining & Metals. We remain bullish in the medium term on all of the resource companies in our coverage. The seasonal inventory draws expected in March should provide support to copper prices, and hence to KGHM's stock performance.

Manufacturers. The Q4 2012 earnings season is shaping up well for Apator (a sell opportunity), Ergis, Fasing, Kernel, Relpol, and SecoWarwick. In turn, weak profits are expected to be reported by Alchemia, Boryszew, Cognor, ES-System, Impexmetal, Orzeł Biały, Libet, Kopex, PGO, Ropczyce, Rovese, and Zamet Industry.

Construction. We stand by our positive view of small and mid-sized construction companies. We would particularly pay attention to stocks not included in market indices. Our view on large builders is neutral.

Real-Estate Developers. We expect strong Q4 showings from Echo and P.A. Nova who also rank among the developers with the strongest fundamentals. After a successful Q4 2012, the first half of 2013 is set for a slowdown.

Ratings. As of the date of this Monthly report, we are upgrading our investment ratings for ING BSK (Accumulate), Lotos (hold), Pekao (Accumulate), PKO BP (Buy), and PZU (Accumulate), and we are downgrading Elektrobudowa (Reduce), Kruk (Accumulate), and Ulma CP (Accumulate).

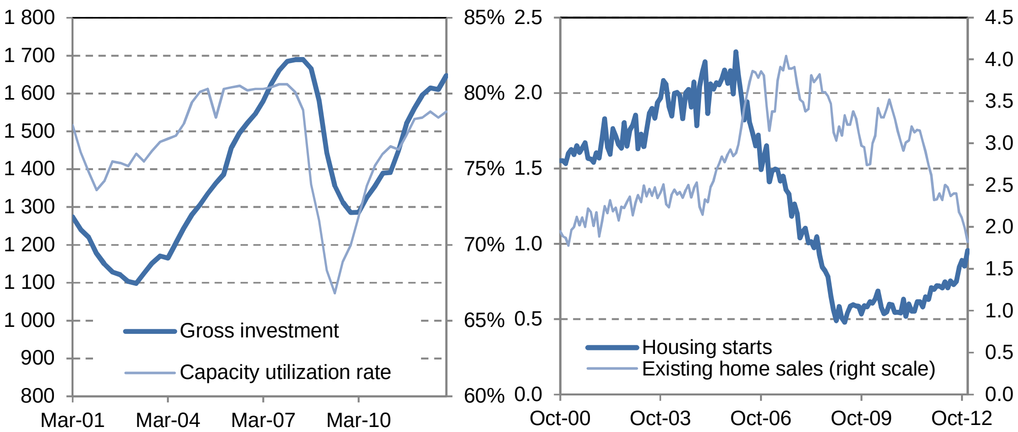
Equity Market

Following a booming December January brought some cooling on the WSE, which was anticipated by us in our monthly strategy. Very strong figures from the US market came as a surprise to us (S&P500 +5%) as the question of fiscal cliff and debt ceiling remains unresolved. Investors were supported by good Q4 results and good macroeconomic data from property, job and ISM markets. Investors did not react to rather weak results in consumer segment and Q4 GDP data (partly explained by a sharp reduction in expenditures for defense sector). Paradoxically, the US financial markets are enjoying a positive mix. Part of the data confirms that the economy is in the lasting upward trend, which encourages to buy shares and sell securities. Disappointing data that accompany improved figures allow to expect that FED will not withdraw prematurely from monetary stimulation, which would lead to discounts on markets, at least in the short-term. In Europe the situation seems to remain stable. In the context of Polish economy, growing leading indicators (PMI, IFO, ZEW) in Germany should be treated as a positive sign. Note that the current slowdown in Poland affects also internal market and only when it rebounds will it allow to generate a stronger growth stimulus. Recent events and macroeconomic data allow investors to maintain positive sentiment, which will whet their appetite for risky assets at the expense of outflowing capital from securities on core markets. February will probably see an adjustment to profit taking in the US, which is implied by high level of investors' optimism (such a level of indicators usually implied several weeks of falling indexes). We are not expecting a major discount on WSE (part of it was observed in January like in the case of other emerging markets). The period of weakening on the market should serve as a convenient moment to buy shares in the longer term.

US in a lasting upward trend

Macroeconomic data reported in January (both leading indicators and hard data) from the US confirmed a continuing economic revival. Growing macro aggregates are seen both in the industrial manufacturing (orders for durable goods rose by 4.6% in December) construction and job market (data on new job places surged in November and December). The backlog for durable goods reached a record peak unseen since 2008, and it is worth noting that the data reflect the period when entrepreneurs did not know how talks concerning the fiscal cliff would finalize in 2013 (a lot of uncertainty and risk of failure). High order backlogs imply further improvement of data on industrial production, which were not astonishing in December (+0.3% m/m). It should be stressed that capacity utilization in industry is currently at the level of 78.8%. Following growing orders for industry further growth in industrial production will translate into higher capacity utilization and even more pressure on investment growth.

Production capacity utilization in industry USA (L) and the number of new housing starts compared to houses available for sale (R)



Source: Bloomberg

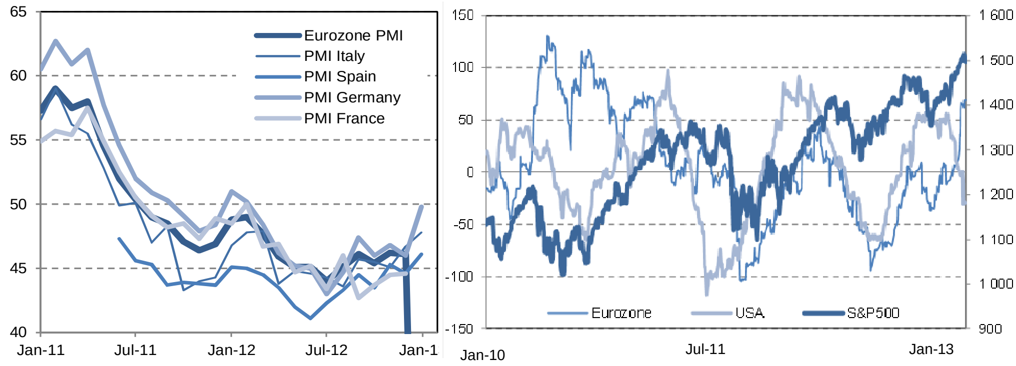
US property market generated the best results across sectors and it is now booming. The number of new housings starts increased to 0.95m (+37% y/y). This was led by a drastic plunge of houses available for sale (below 2 m) and growing property prices. This translates ever more markedly into growing employment in the sector (+91% y/y). It will also revive industrial manufacturing (positive correlation, with the exception of 2007-2009 recession, the property market served as a 'stepping stone' to start another upward cycle).

Therefore, may FED withdraw from an earlier monetary stimulation (zero interest rates, buying MBS and treasury bonds for a total of USD 85bn a month)? This scenario would be negative for financial markets, at least in the short term. The recent FOMC report stressed that unemployment rate is still too high (7.9%) and inflation does not constitute any problem at the moment (it is even too low). It seems that despite another stage of economic revival FED is not yet raising the topic of strategy change. We should remember that upcoming Q1 data will influence growing taxes. Even today consumer confidence is definitely weaker, which is best reflected by declining Conference Board index (58.6 points – 8.1 points m/m).

Data from Europe surprised positively

Macroeconomic data published over the last several weeks were mostly better than expected by investors. This is nicely illustrated by Citibank's surprise indices (graph below). This does not mean, however, that the problems of the Eurozone are over (deleveraging enterprises, households and banks, reducing fiscal imbalances), it rather shows a continuing stabilization (it would be enough for share prices to rise). Stable business environment in Europe created by ECB is beginning to bolster the economy, which is reflected by increasing leading indicators. In most of the countries (with the negative exception of France) indices have been growing for the last three months. In Germany the value of PMI Manufacturing drew close to 50 points (49.8 vs. 46.0 in December), IFO and ZEW have also shown strong results. PMI in Germany implies that after a 10 month downward trend industrial production rose slightly in January, new order backlog ceases to shrink and demand from Asia persists. Revival in Germany, although still rather weak, should mean that Q4 2012 will be the only period to mark GDP fall (Q1 2013 will see a minimal growth).

PMI Manufacturing in selected Eurozone countries (L) and Economic surprise indices (Citibank) for US and Eurozone (R)



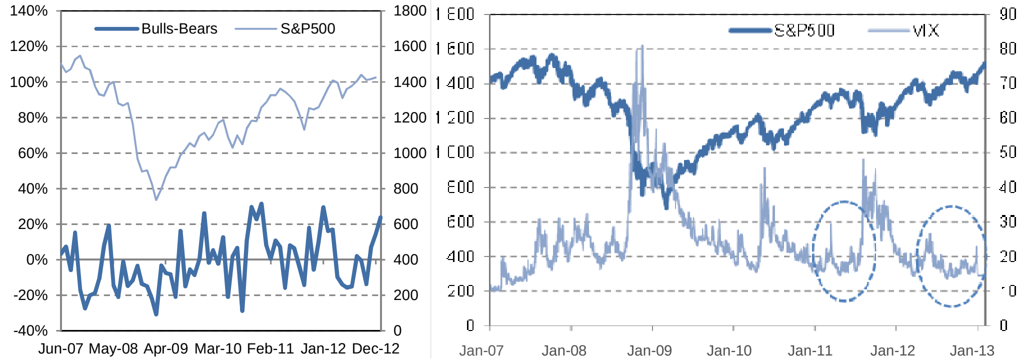
Source: Bloomberg

This also adds probability to a scenario which envisions that the weakest macroeconomic data in Poland will be Q1 2013. Depending on the scale of improvement in German economy expected in the following months, a robust revival will come to Poland in H2 2013. Today's scenario is rather bleak, as external markets recover sluggishly and internal demand is markedly waning. Weak data on retail sales, industrial production and job market (the expected second round effect) demonstrate that Poland's GDP growth may show negative figures at least in the first months of the year (more details in: Macroeconomics) .

Stock markets bullish

Note that the discrepancy between optimists (48%) and pessimists (24.3%) for S&P500 was rather wide. Historically, this is the level which served as a starting point for market correction. VIX for options on S&P500 dropped below 15 points. The correction could be driven directly by: Inflated macroeconomic expectations for Eurozone (negative surprises more probable), weaker macroeconomic data from the US resulting from increased taxes, resuming discussions on debt ceiling in the US).

Bulls vs. bears for S&P500 and VIX



Source: Bloomberg

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

Elektrobudowa

rating	Hold	Hold	Hold	Reduce
rating day	2012-08-06	2012-11-21	2012-12-10	2013-02-06
price on rating day	91,40	113.50	111.20	142.00
WIG on rating day	40594.36	44438.93	44438.93	46674.78

ING BSK

rating	Hold	Hold	Accumulate
rating day	2012-09-13	2012-12-10	2013-02-06
price on rating day	84.50	89.95	88.60
WIG on rating day	42982.12	45538.45	46674.78

Kruk

rating	Buy	Accumulate
rating day	2012-12-10	2013-02-06
price on rating day	43.02	49.60
WIG on rating day	45538.45	46674.78

Lotos

rating	Accumulate	Hold	Reduce	Hold
rating day	2012-09-27	2012-12-10	2013-01-07	2013-02-06
price on rating day	30.06	41.50	40.60	39.50
WIG on rating day	43462.14	45538.45	47888.16	46674.78

Pekao

rating	Hold	Reduce	Hold	Hold	Accumulate
rating day	2012-06-05	2012-07-04	2012-09-13	2012-12-10	2013-02-06
price on rating day	136.00	150.40	156.10	164.00	159.00
WIG on rating day	37287.97	40788.16	42982.12	45538.45	46674.78

PKO BP

rating	Hold	Hold	Accumulate	Buy
rating day	2012-07-04	2012-09-13	2012-12-10	2013-02-06
price on rating day	33.70	36.65	35.40	34.59
WIG on rating day	40788.16	42982.12	45538.45	46674.78

PZU

rating	Hold	Accumulate	Hold	Accumulate
rating day	2012-07-04	2012-12-04	2013-01-07	2013-02-06
price on rating day	327.00	397.00	423.00	402.50
WIG on rating day	40788.16	45293.43	47888.16	46674.78

ULMA CP

rating	Accumulate	Buy	Buy	Accumulate
rating day	2012-05-07	2012-08-06	2012-12-10	2013-02-06
price on rating day	55.75	39.30	41.98	54.00
WIG on rating day	39888.00	40594.36	40594.36	46674.78

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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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%
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