

6 February 2013

Periodic Report



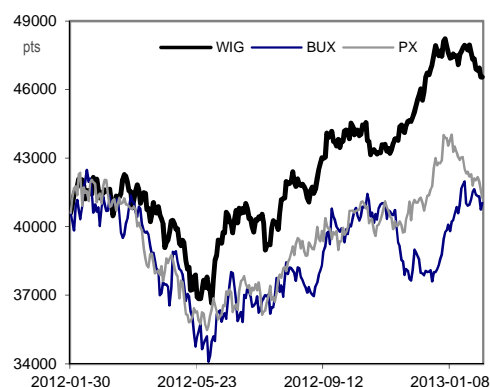
BRE Bank Securities



Equity Market Macroeconomics

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

Monthly Report

February 2013

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).

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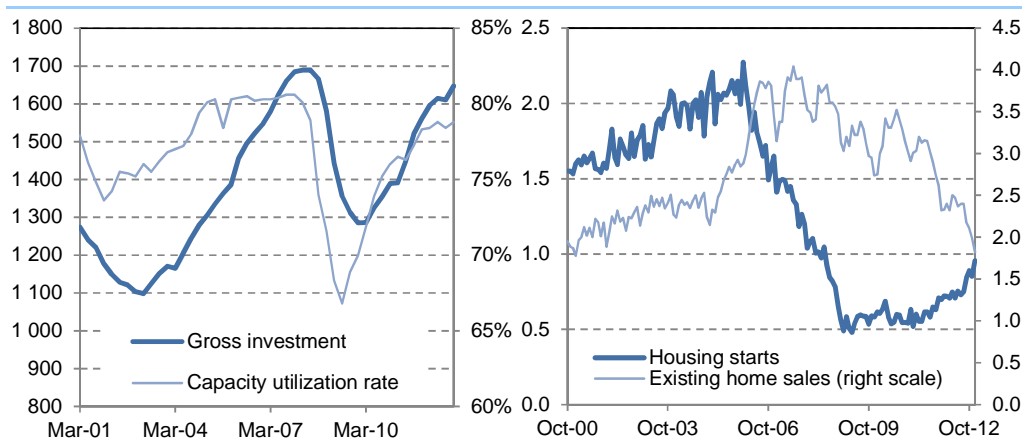
Equity Market

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

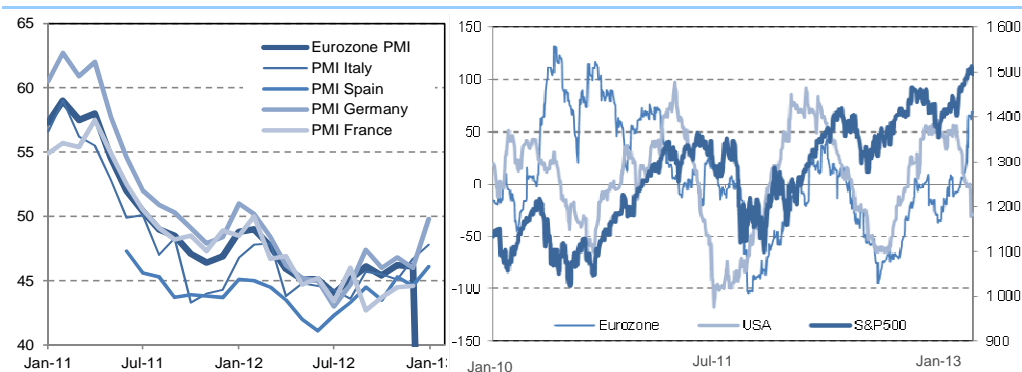
US property market generated the best results across sectors and it is now booming. The number of new housings starts increased to 0.95m (+37% y/y). This was led by a drastic plunge of houses available for sale (below 2 m) and growing property prices. This translates ever more markedly into growing employment 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)

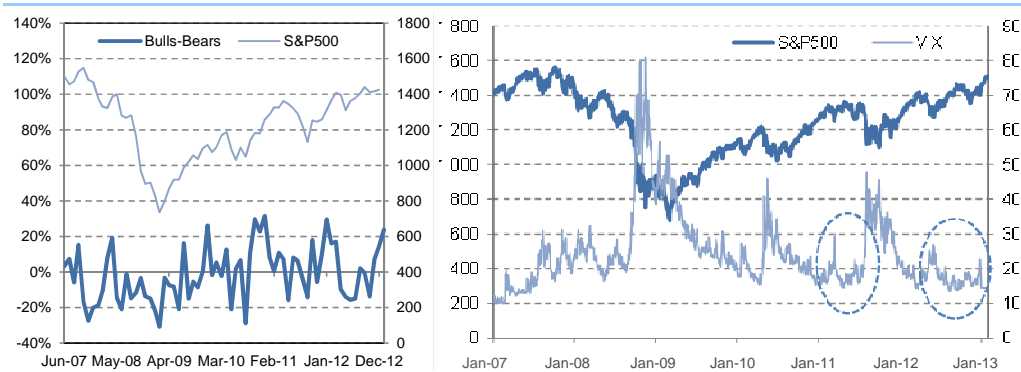


Source: Bloomberg

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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Macroeconomics

Polish GDP in 2012

Poland's GDP rose by 2.0% y/y in 2012 after an increase of 4.3% in 2011. Private consumption edged up just 0.5% compared to 2.5% growth recorded in 2011. Investment rose by 0.6% y/y. The annual data allow for an approximation of Q4 2012 GDP growth which we estimate at 0.9% over Q4 2011, implying zero growth relative to Q3 2012. The composition of the Q4 GDP change was somewhat of a surprise. It looks like consumption fell by more than 1% y/y after an uptick of 0.1% Q3 – the first decline in recorded history. This puts an end to the belief that consumption is incapable of falling – the decline reflects the uselessness of forecasts based on historical comparisons during current times of slowdown (which may even be considered a recession, in our view). Further, an investment decline of just ca. 1% y/y after a 1.5% fall in Q3 was a welcome surprise in Q4. Note that the investment data are in a stark contrast to the steep downward trajectory of investment loans and the data on production of durable goods (investment goods) and construction. On the supply side, we must point out the declining added value of trade (by over 2% y/y – one of the steepest drops in history).

We are not modifying our forecast for GDP contraction in H1 2013 after the publication of the 2012 data which imply that the situation of Polish consumers is set to worsen in the months ahead as jobs and salaries are cut. Therefore it is rather unreasonable to expect a sudden acceleration in consumption. Q1 2013 will also see an inflated year-ago base for investment and construction which will lead to private investment falling by ca. 5% y/y. Further, we expect a reduction in the positive contribution of net exports, and a negative base for inventories. Summing up, GDP is highly unlikely to show any growth in the quarters ahead, even if calculated purely arithmetically.

Retail sales

Retail sales fell 2.5% in December 2012 relative to the same month a year earlier (analysts' consensus projected 1.4% growth, and we expected a decline of 1.1%). The dip marks the second sharpest decline in history after April 2010 when sales declines were exacerbated by a late timing of Easter and the aftermath of the Presidential plane crash. In real terms, sales were down 3.6%. Downward momentum was recorded in all categories except newspapers and books (where the yoy pace of the downturn decelerated to 17.4% from 21%). In nominal terms, sales increased in only five of the nine categories, but there is no point going into details. Retail sales excluding food and energy were down 2.3%, and retail sales ex. food, energy and cars were 1.0% lower than in December 2011. To us, this means that any theories that will no doubt arise in the coming days about an incidental slowdown in sales can already be dismissed today. It is true that the slump can be partly attributed to working day differences, but definitely not to the full, near-5%, extent. A drop in retail sales in the month of the Christmas holidays also tells us something about personal income trends in Poland.

After the savings rate almost hit zero, consumers have been forced to spend their current income which is already decreasing compared to a year ago, and which falling inflation is not likely to boost more than to a point of flat year-on-year movement. Moreover, if Poland keeps losing jobs going forward, the economic rebound projected for the second half of 2013 may not happen. We believe that Polish consumption (estimated using national accounts data) shrank in Q4 2012, and that it will continue to expand at a pace of more or less zero in the first half of 2013. The message sent by the retail sales data is consistent with the other economic indicators reported in January. The overall message is sure to deliver rate cuts during the February Monetary Council meeting. Subsequent policy moves will depend on macroeconomic factors (weak real economy, falling inflation) and possible reshuffling within the Council (Council Member Winiński faces a defamation trial on 13 February). The January meeting minutes show that the MPC's rationale on certain aspects (consumption, investment) is getting close to our baseline scenario. The minutes were rather dovish, and the tone was determined by statements that further rate cuts can cause an escalation of imbalances within the Polish economy.

Industrial production

Polish industrial production fell 10.6% y/y in December after an 0.8% decline in November. After adjustments for seasonal factors, annual growth decelerated to -5.1% from -1.9% in November. Most probably the decline was in part attributable to differences in December working days (December 24th and 31st cannot really be treated as full working days), and also to a steeper plunge in the processing sector. Although some analysts may consider this statement as contradictory to PMI readings, we stand by our opinion – the correlation between PMI and production has considerably weakened. Production volumes contracted in 30 out of 34 sub-sectors. The exports sections are not in any way favored as the drivers of the fall – they are mixed, and the drop in production of non-metallic materials reminds us of the domestic construction sector, whereas cars, computers, machines and equipment (also

precision equipment), and metals, evoke also investment demand other than in construction. We believe that the production will continue to fall in the following months, although the effect of working days (+1 y/y) will slightly improve the annual ratio. The months ahead will also see positive base effects. The situation on the job market suggests that the second wave of the cooling in the manufacturing industry (usually plunging employment goes in line with investment demand, also demand for capital) will allow to overcome it and maintain the growth of industrial production below zero. Construction output plunged 24.8% y/y in December, marking one of the deepest annual drops in history – a similar downturn was reported in February and March 2003 and in February 2010. Obviously such a major downfall is in large part a consequence of unfavorable combination of working days, however the structural component is indeed negative. The following months will not bring fundamental improvement in the construction sector. The residential sector shows very feeble activity, as demonstrated by the data on housing starts, and any support from public infrastructural investments should not be expected for now (low number of new tenders announced in the previous months)

Inflation

In December, the annual inflation rate fell to 2.4% from 2.8% in November, undershooting the NBP's inflation target of 2.5%. The only category which saw some, albeit seasonal growth, was food (+0.8% m/m). Otherwise, prices fell across many other categories including clothes and footwear, fuel, transportation, and entertainment. Prices of home maintenance remained steady. Core inflation excluding food and energy decelerated to 1.4%. Summing up, Poland seems to be in rapid disinflation which underscores the deceleration in internal demand, but which contrasts with the concerns raised by the Monetary Council that core inflation is falling too sluggishly. We expect the inflation rate to continue falling in the months ahead. The January inflation rate will be below 2%, followed by further contraction ending below the NBP's floor at the end of June. Core inflation is poised for a continuous deceleration throughout 2013. According to our model, which is based on delayed recovery in personal consumption and exchange rates, indicates that core inflation will end up well below 1% by the end of December 2013 (even if the EUR/PLN exchange rate weakens to 4.25). In this environment, additionally exacerbated by weak data from the real economy, the Monetary Council is unlikely to pause in February. We anticipate further rate cuts in February and further easing down to 3.25%.

Job market

Employment in the corporate sector fell by 0.5% y/y in December (vs. a consensus forecast of a 0.4% decline). We anticipated a 0.3% decrease based on seasonal anomalies observed in November (downsizing in some sub-sectors). The latest job data imply that what we considered to be a seasonal factor was in fact the beginning of a new, downward trend that will yield further year-to-year declines in employment (January is in a way a special month due to the effects related to a change of sample). Salaries in the corporate sector rose by 2.4% in December (consensus: +2.1%, our forecast: +1.1%). The breakdown of changes in salaries by sector is not currently known and therefore it would be difficult to pass judgment on the reasons why they slightly diverged from forecasts. The new employment figures, combined with the 2.4% inflation rate recorded in December, mean that real salary growth amounted to zero, marking the fifteenth consecutive month of zero growth – the longest such series in the history of this category. The nominal payroll budget expanded by 1.9%, and the real budget shrank by 0.5% y/y – both cases confirm the negative trends observed in the last several months. Therefore, even falling inflation is not able to maintain real wages “above water.”

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										
BZ WBK	Accumulate	2012-12-10	239.00	270.00	260.00	3.8%	13.7	16.9		
GETIN NOBLE BANK	Accumulate	2012-12-10	1.73	1.90	1.85	2.7%	11.6	14.1		
HANDLOWY	Hold	2012-12-10	97.50	96.00	94.50	1.6%	13.1	15.7		
ING BSK	Accumulate	2013-02-06	88.60	93.00	88.60	5.0%	14.0	14.7		
MILLENNIUM	Accumulate	2012-12-10	4.34	4.80	4.65	3.2%	11.9	16.0		
PEKAO	Accumulate	2013-02-06	159.00	170.00	159.00	6.9%	14.4	16.3		
PKO BP	Buy	2013-02-06	34.59	40.00	34.59	15.6%	11.6	13.9		
Insurance										
PZU	Accumulate	2013-02-06	402.50	435.00	402.50	8.1%	9.5	12.1		
Financial services										
KRUK	Accumulate	2013-02-06	49.60	51.50	49.60	3.8%	10.8	9.8		
Fuels, chemicals										
CIECH	Buy	2012-12-10	22.42	28.30	21.57	31.2%	-	10.3	42.7	4.9
LOTOS	Hold	2013-02-06	39.50	37.40	39.50	-5.3%	9.2	8.3	13.5	8.0
MOL	Hold	2012-12-06	260.00	254.57	262.50	-3.0%	10.4	12.3	6.0	5.8
PGNIG	Hold	2012-12-05	4.46	4.25	5.70	-25.4%	11.6	13.5	7.6	6.7
PKN ORLEN	Hold	2013-01-07	51.30	50.00	48.65	2.8%	8.8	10.3	5.8	6.4
POLICE	Reduce	2012-12-10	12.05	10.90	13.00	-16.2%	7.2	11.3	4.5	5.4
ZA PULAWY	Hold	2012-12-10	135.60	123.40	129.70	-4.9%	9.4	14.1	5.1	6.7
Power Utilities										
CEZ	Hold	2012-11-30	109.00	109.20	100.70	8.4%	8.2	8.3	6.1	6.2
ENEA	Accumulate	2012-11-30	15.80	17.55	15.20	15.5%	8.9	11.9	2.9	4.2
PGE	Hold	2012-11-30	17.85	18.10	17.21	5.2%	7.3	11.5	3.4	4.9
TAURON	Buy	2012-11-30	4.40	6.16	4.40	40.0%	5.1	8.0	3.4	4.6
Telecommunications										
NETIA	Accumulate	2012-12-10	4.89	5.40	4.53	19.2%	46.9	43.4	3.7	3.4
TPSA	Accumulate	2012-11-26	11.94	13.30	11.65	14.2%	17.4	23.6	4.1	4.4
Media										
AGORA	Hold	2012-12-10	9.99	10.30	9.00	14.4%	-	-	4.8	5.6
CINEMA CITY	Accumulate	2012-12-10	34.02	36.50	27.10	34.7%	14.4	12.2	7.0	5.9
CYFROWY POLSAT	Hold	2012-12-10	15.40	15.60	16.97	-8.1%	11.6	14.0	7.8	8.2
TVN	Accumulate	2012-12-10	8.80	10.30	8.99	14.6%	-	16.7	10.2	10.5
IT										
AB	Suspended	2013-02-05	23.50	-	22.83	-	-	-	-	-
ACTION	Suspended	2013-02-05	29.70	-	29.00	-	-	-	-	-
ASBIS	Suspended	2013-02-05	3.21	-	3.19	-	-	-	-	-
ASSECO POLAND	Hold	2012-12-10	43.20	43.70	44.55	-1.9%	9.4	9.6	6.4	6.3
COMARCH	Reduce	2012-12-10	72.50	65.20	90.45	-27.9%	26.7	30.2	8.6	8.6
SYGNITY	Suspended	2013-02-05	16.80	-	16.37	-	-	-	-	-
Mining & Metals										
JSW	Accumulate	2012-12-04	87.80	104.00	91.00	14.3%	10.9	19.9	3.8	5.0
KGHM	Accumulate	2013-01-07	193.50	204.00	188.40	8.3%	7.0	7.7	4.4	4.5
LW BOGDANKA	Accumulate	2012-12-04	134.00	143.80	135.00	6.5%	14.4	13.0	6.6	6.0
Manufacturers										
ALCHEMIA	Hold	2012-12-10	4.95	5.1	4.93	3.4%	24.4	12.9	10.4	7.4
ASTARTA	Buy	2012-12-10	57.45	76.9	63.50	21.1%	5.1	3.8	5.5	4.3
BORYSZEW	Hold	2012-12-10	0.53	0.56	0.55	1.8%	9.2	16.6	6.6	9.0
FAMUR	Reduce	2012-12-10	4.80	4.2	4.60	-8.7%	7.7	15.4	4.4	6.5
IMPEXMETAL	Buy	2012-12-10	3.14	4.2	3.51	19.7%	5.6	11.6	5.3	6.9
KERNEL	Accumulate	2013-01-21	62.90	67.4	66.00	2.1%	8.2	7.1	7.3	6.3
KĘTY	Reduce	2012-12-10	147.60	126.7	140.30	-9.7%	10.8	15.9	6.6	7.8
KOPEX	Reduce	2012-12-10	17.40	16.2	15.84	2.3%	12.3	13.3	6.2	6.6
ROVESE	Hold	2012-12-10	1.59	1.4	1.31	14.5%	-	11.0	6.6	5.6
Construction										
BUDIMEX	Hold	2012-12-10	69.80	66.80	64.00	4.4%	14.6	11.7	4.4	5.6
ELEKTROBUDOWA	Reduce	2013-02-06	142.00	121.20	142.00	-14.6%	18.2	16.9	12.4	11.0
ERBUD	Buy	2012-12-10	16.42	19.20	13.90	38.1%	10.3	9.0	5.4	4.8
MOSTOSTAL WAR.	Hold	2012-12-10	12.00	12.30	15.20	-19.1%	-	95.6	-	8.5
PBG	Suspended	2012-06-05	14.63	-	5.52	-	-	-	-	-
POLIMEX MOSTOSTAL	Suspended	2012-07-18	0.69	-	0.55	-	-	-	-	-
RAFAKO	Hold	2012-12-10	8.83	9.20	8.35	10.2%	12.3	11.5	10.1	7.5
TRAKCJA TILTRA	Suspended	2011-12-19	1.10	-	0.64	-	-	-	-	-
ULMA CP	Accumulate	2013-02-06	54.00	56.20	54.00	4.1%	14.1	439.8	3.0	4.1
UNIBEP	Buy	2012-12-10	4.80	6.80	6.01	13.1%	12.0	10.8	7.8	7.8
ZUE	Hold	2013-01-07	6.47	6.60	6.27	5.3%	13.1	12.2	9.3	5.8
Property Developers										
BBI DEVELOPMENT	Accumulate	2012-12-10	0.39	0.42	0.38	10.5%	129.6	43.9	45.0	53.9
DOM DEVELOPMENT	Sell	2012-12-10	35.65	27.80	32.21	-13.7%	7.7	10.9	6.3	8.3
ECHO	Accumulate	2012-12-10	5.19	5.80	5.35	8.4%	18.2	14.6	23.1	16.9
GTC	Hold	2012-11-06	8.27	8.30	8.42	-1.4%	-	38.5	47.2	20.3
J.W.C.	Reduce	2012-08-01	4.22	4.00	4.27	-6.3%	12.0	12.4	15.4	16.7
PA NOVA	Buy	2012-09-11	15.49	22.90	18.41	24.4%	10.1	8.2	16.0	9.6
POLNORD	Hold	2012-12-10	10.69	11.10	10.38	6.9%	15.4	22.3	6.4	16.2
ROBYG	Hold	2012-12-10	1.48	1.45	1.50	-3.3%	11.7	13.0	11.3	12.2

Ratings issued in the past month

Company	Rating	Previous rating	Target Price	Rating day
AB	Suspended	Accumulate		2013-02-05
ACTION	Suspended	Accumulate		2013-02-05
ASBIS	Suspended	Hold		2013-02-05
KERNEL	Accumulate	Reduce	67.40	2013-01-21
KGHM	Accumulate	Buy	204.00	2013-01-07
LOTOS	Reduce	Hold	37.40	2013-01-07
PKN ORLEN	Hold	Buy	50.00	2013-01-07
PZU	Hold	Accumulate	435.00	2013-01-07
SYGNITY	Suspended	Accumulate		2013-02-05
ZUE	Hold	Accumulate	6.60	2013-01-07

Ratings changed as of 6 February 2013

Company	Rating	Previous rating	Target Price	Rating day
ELEKTROBUDOWA	Reduce	Hold	121.20	2013-02-06
ING BSK	Accumulate	Hold	93.00	2013-02-06
KRUK	Accumulate	Buy	51.50	2013-02-06
LOTOS	Hold	Reduce	37.40	2013-02-06
PEKAO	Accumulate	Hold	170.00	2013-02-06
PKO BP	Buy	Accumulate	40.00	2013-02-06
PZU	Accumulate	Hold	435.00	2013-02-06
ULMA CP	Accumulate	Buy	56.20	2013-02-06

Ratings Statistics

All						For issuers who are clients of BRE Bank Securities				
Statistics	Sell	Reduce	Hold	Accumulate	Buy	Sell	Reduce	Hold	Accumulate	Buy
count	1	8	22	18	7	0	1	12	11	6
as % of total	1.8%	14.3%	39.3%	32.1%	12.5%	0.0%	3.3%	40.0%	36.7%	20.0%

Banks

Post December 2012 banking sector results

Poland's Central Bank quoted post December 2012 banking industry results. Monthly net profit came in at PLN 1 347m representing 7% y/y increase and 3% m/m decline. Better y/y results were driven mainly by reserves falling by 46% to PLN 522m, the lowest result since September 2011 (!). As a consequence, contrary to expectations and seasonal trends, loan-loss reserves did not increase in the previous month. On the other hand, lower m/m net profit was driven by 33% decline in the trade income. In FY 2012 the banking sector earned a total of PLN 16 244 m net profit, 3% more than in 2011. Implied Q4 2012 result amounted to PLN 4 140m marking 9% y/y growth and 4% q/q growth. Improvement on Q/Q net profit was driven by: 1) reserves falling by 4% and 2) trading income growing by 11%. Note that although the fee income was flat q/q, the interest income fell by 5% q/q. The total profit of four banks trading on WSE that quoted their Q4 results (BZW, MIL, KRB and NDA) implies 19% q/q growth and 62% y/y growth. This means that they generated 17.0% profits of the whole sector compared to 14.9% in Q3 2012, 14.1% in Q2 2012 and 12.9% in Q1 2012. It also implies that the remaining banks increased their aggregate net profit by 2% q/q and y/y.

Poland's Central Bank quoted December 2012 statistics for deposits and loans

Total deposits fell slightly by 0.1% m/m (+5.9% y/y) following a drastic surge in November. This was driven by a major outflow of the savings of nonmonetary financial institutions (-12.3% m/m, but +23.1% y/y). Both corporate and retail deposits increased m/m, by 4.5% (-7.5% y/y) and 1.9% (+7.8% y/y), respectively. Note that savings of both corporations and non-monetary financial institutions show seasonal trends at the year's end growing m/m and falling m/m, respectively.

Relative to loans, they dropped slightly by 0.4% m/m (+1.3% y/y), driven both by depreciation of zloty (by 0.6% m/m to CHF, by 0.4% m/m to EUR and by 1.9% m/m to USD) and shrinking corporate loans. M/M growth adjusted for F/X effects was -0.6% m/m and 3.5% y/y. Corporate loans contracted by 2.0% m/m (+2.1% y/y and 4.0% y/y adjusted for F/X effect), which may be partly attributable to seasonal effect (repaying short-term loans at the year's end), and partly to the slowing economy. Retail loans fell only by 0.4% m/m (+0.1% y/y and 3.7% y/y adjusted for F/X effect). Among retail loans, non-mortgages dropped by 0.9% m/m (-0.8% y/y, -0.3% y/y after adjustments for F/X rate changes), and mortgages fell by 0.1% m/m (+0.8% y/y, +6.3% y/y after adjustment for F/X rate changes). Eliminating F/X change effects the driving force behind mortgage loans will still be loans extended in polish zloty (44.7% of all mortgage loans) which grew by 1.2% m/m (+18.2% y/y). Since January 2012 we have been seeing a continuing m/m decline in foreign currency loans (adjusted for F/X effects) driven by lack of new sales and natural amortization of the portfolio.

With deposits growing at a faster rate than loans on a month-to-month basis, the bank sector's loans/deposits ratio improved by 0.3ppts to 100.9% m/m.

Post December 2012 quality of loans

The share of NPL/Loans grew by 4 bps to 8.6% m/m. The quality of corporate loans deteriorated further falling drastically in December by 49 bps m/m to 13.1%, which in our opinion is related to the construction sector. The trend was visible especially in case of SMEs. The quality of retail loans improved slightly by 6bps m/m to 7.5% thanks to lower rate for non-mortgage loans (-19bps m/m to 14.6%). NPLs share in mortgage loans amounts to 2.8%, +6bps. m/m.

KNF amended M and D recommendations

Financial Supervision Authority (KNF) informed it had issued recommendation M regarding the management of operating risk in banks and recommendation D regarding the management of information technology and safety of telematics environment on banks. Recommendation M is supposed to raise the consciousness about the operating risk, its significance and nature as well as help to shape corporate culture forming a basis for developing optimal mechanism of operating risk management, both in separate organizational unit and integrated approach to this risk in the whole bank. The Board expects that the majority of recommendations will be implemented before 30 June 2013. As for recommendation D the new version introduces stipulations on data management (including quality management), the rules of cooperation between business and technical areas, management information system of information technology and telematics safety areas and the so-called cloud computing. KNF is expecting that recommendations will enter into force no later than 31 December 2014.

KNF critical about policy-deposits

Vice CEO of KNF said in an interview for TVN CNBC that one of the consequences of introducing recommendation M (concerning the management of operating risk in banks) will be the withdrawal of policy-deposits based on a construction of fake insurance. In his opinion this kind of insurance serves exclusively a short-term preferential tax system. Policy-deposits that

will stay are those that insure against real risk, so that if risk arises the insured person may effectively execute the policy. KNF is expecting that the recommendations will be implemented no later than 30 June 2013 (except for point 17.3).

Alior Bank

Potential buyers

Puls Biznesu daily paper suggests that Erste Bank, Intensa Sanpaolo or Sberbank could potentially acquire Carlo Tassara's shares in Alior Bank (34%). In our opinion Sberbank is not likely to receive the approval of Financial Supervision Authority (KNF) for the acquisition of Alior Bank. Intensa Sanpaolo was mentioned numerous times as a potential buyer of Polish banks put up for sale but never succeeded. Erste Bank has been mentioned for the first time, the Bank was not active in Poland although it operates extensively in Central East Europe. As a reminder, Wojciech Kwaśniak said in an interview that Asian banks are interested in Polish market.

Financial Supervision Authority poses restrictions on new Alior's investor

According to today's *Parkiet* daily paper Financial Supervision Authority (KNF) posed new restrictions on a new investor who would buy shares of Alior Bank from Carlo Tassara. The newspaper claims that the potential investor will have to come from a country whose ratings are not lower than Poland's, and in addition this institution may not have lower ratings than Alior Bank. As a consequence, Sberbank may not qualify.



BZ WBK (Accumulate)

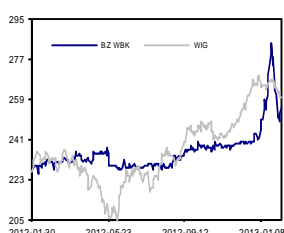
Current price: PLN 260 Target price: PLN 270

Analyst: Iza Rokicka

Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Net interest income	2 949.9	3 218.7	9.1%	3 089.4	-4.0%	3 089.0	0.0%	Number of shares (m)	93.5
Interest margin	3.1%	3.2%		3.0%		3.0%		MC (current price)	24 321.7
Revenue f/banking oper.	5 079.5	5 319.4	4.7%	5 579.8	4.9%	5 288.1	-5.2%	Free float	8.7%
Operating income*	2 476.9	2 524.3	1.9%	2 925.0	15.9%	2 709.3	-7.4%		
Pre-tax income	1 591.9	1 973.6	24.0%	2 278.0	15.4%	1 855.7	-18.5%		
Net income	1 160.2	1 511.6	30.3%	1 769.9	17.1%	1 440.6	-18.6%		
ROE	12.9%	15.2%		15.5%		11.4%		Price change: 1 month	4.1%
P/E	21.0	16.1		13.7		16.9		Price change: 6 month	12.1%
P/BV	2.6	2.3		2.0		1.9		Price change: 12 month	11.4%
DPS	3.1	7.3		6.2		7.2		Max (52 w week)	283.9
Dyield (%)	1.2	2.8		2.4		2.8		Min (52 w week)	224.9

* before provisions



Although very strong Q4 2012 net profit was attributable mainly to proceeds from bonds, we would also like to stress very strong operating results, especially on the side of core revenue. BZ WBK updated its mid-term strategy which takes into account a merger with Kredyt Bank. Currently expected revenue and cost synergies are higher than both our assumptions and the Company's guidance presented in 2012. Therefore we consider our 2013 net profit forecast (PLN 1.4bn) for the merged bank as conservative. We also believe that the growth of 2014 BZ WBK's net profit will be higher than sector average thanks to visible post-merger synergies. We reiterate our accumulate recommendation.

Q4 2012 results: positive surprise thanks to proceeds from bonds

BZ WBK reported its Q4 2012 net profit at PLN 405m (+104% y/y and 21% q/q) beating market consensus by 20% (PLN 338m) and our forecast by 16% (PLN 348m). Such a strong result was possible thanks to the fact that the Bank cashed out proceeds from bonds, even despite growing reserves. Proceeds from bonds generated PLN 131m vs. PLN 17m a quarter before and PLN 120m expected by us. Note that despite this effect capital on the updated valuation of securities rose by PLN 123 q/q to PLN 403m.

Interest income rose by 2% q/q and 6% y/y to PLN 592m. This means that the interest margin increased by 5bps q/q to 3.95% despite falling market interest rates. BZ WBK significantly improved its loans margin driven both by changing asset structure (growing share of high-margin cash loans and loans for SMEs), renegotiating margins for selected corporate exposures and a delayed transfer of falling market interest rates onto loan interests. In line with our expectations deposit margins fell drastically as a result of lower market interest rates. Fee income showed a 5% Q/Q increase to PLN 365m. Thanks mainly to revenue from loans (+34% q/q; The Board stressed it renegotiated loan agreements with three entities in December and generated additional revenue) and asset management (+10% q/q; increase in the average assets and average margin). Trading income amounted to PLN 169 m, +197% q/q, and 209% y/y. thanks to gains on the sale of bonds available for sale and accumulated in equity which generated PLN 131m revenue vs. PLN 17m in Q3 2012, PLN 1m in Q4 2011 and PLN 120m forecasted by us.

Operating expenses increased 3% Q/Q to PLN 455m, below our expectations. Payroll costs grew by 5% q/q, which was driven by premiums and bonuses. The Bank continues its policy and does not fulfill vacancies after voluntary redundancies. Non-payroll expenses rose just slightly, by 1% q/q. Although loan loss reserves rose by 335 q/q to PLN 160m the growth was lower than anticipated. The cost of risk amounted to 161bps (+39bps q/q) in Q4 2012 and 129bps in FY 2012 (+25bps y/y). Loan-loss reserves in corporate sector were higher than anticipated (+153% q/q to PLN 93m) driven by greater reserves created for exposures to the construction sector (in our opinion mainly to PBG). Reserves in the retail sector fell by 12% q/q to PLN 75m.

The bottom line of Kredyt Bank in Q4 2012 amounted to PLN 107m

BZ WBK reported unaudited Q4 2012 results of Kredyt Bank. The bottom line came in at PLN 107m marking a 140% growth y/y, but 3% decline q/q. The result topped our forecast by 15% (PLN 93m) thanks to a better than expected trading income (including the proceeds from selling bond portfolio) and lower than expected loan-loss reserves. As we expected Q4 2012 results again recognized tax asset written-off in Q2 2012 amounting to PLN 15.6m, which positively impacted the effective tax rate.

As reported, the interest income (excluding swaps) dropped by 9% q/q to PLN 187m on. The drop is attributable to inflated Q3 2012 base when the Bank was repaid restricted interests amounting to PLN 29m (more than we expected following the publication of Q3 2012 results).

Therefore, the interest income grew by 5% q/q on adjusted base. Fee income showed a 7% q/q increase to PLN 88m. This was possible thanks to higher revenues from loans (+13% q/q) and guarantees (+29% q/q). Reported trade income came in at PLN 119m rising by 115% y/y, but falling by 3% q/q. The result recognizes PLN 48m swap points (flat q/q) and PLN 25m proceeds from bond portfolio sales (-18% q/q). Other trade income amounted to PLN 46m showing 6% growth q/q.

Operating expenses increased seasonally by 3% Q/Q to PLN 234m due to higher non-payroll costs which grew by 7% q/q. Payroll costs dropped by 1% q/q owing to further jobs reductions, -2% q/q and -7% y/y. Reserves fell by 12% q/q to PLN 48m. As a result, cost of risk amounted to 66bps (-7bps q/q) and 57 bps in FY 2012 (-13 bps y/y).

COE announces the net profit will grow in 2013

The CEO of BZ WBK – Mateusz Morawiecki - says the net profit will grow in 2013 (for BZ WBK before the merger with Kredyt Bank). The CEO predicts a limited pressure on deposit margins, growing fee income from investment funds and further decline of operating costs. We have assumed in our current forecasts for BZ WBK (before the merger with Kredyt Bank) that the bottom line will come in at PLN 1 106m which implies 23% drop y/y. In the perspective of Q4 2012 results our forecasts are conservative, however our macroeconomic scenario for this year is even bleaker.

Cost of risk in 2013 between 120-140 bps

The CEO of BZ WBK Mateusz Morawiecki informed that the cost of risk for BZ WBK (before the merger with Kredyt Bank) will come in at 120-140 bps in 2013 vs. 129 bps in 2012. We have assumed in our forecast for BZ WBK (before the merger with Kredyt Bank) that the cost of risk would come in at 135 bps.

In 2013 loan portfolio of BZ WBK will outpace the sector

The CEO of BZ WBK Mateusz Morawiecki informed that in 2013 the Bank will aim at expanding its loan portfolio more intensively than the sector average. Given that the market grows by 5% y/y, BZ WBK would grow by ca. 9% y/y. Loans extended to SMEs, medium corporations and consumer loans will be the main drivers behind the growth. We have expected in our forecasts for BZ WBK (before the merger with Kredyt Bank) that the loan portfolio would increase by 1% y/y in 2013.

BZ WBK hopes for higher post-merger revenue synergies

The CEO of BZ WBK – Mateusz Morawiecki – said that the bank will exceed the expected post-merger revenue synergies announced in February 2012 (PLN 114m in 2015) and achieve it sooner than planned. The CEO expects even PLN 150m synergy revenue. Our forecasts for the merged bank assume PLN 100m revenue synergy in 2015.

Job cuts should come from voluntary redundancies in 2013

The CEO of BZ WBK, Mateusz Morawiecki, said that the Bank is expecting to downsize by 800 employees within the so-called voluntary redundancy scheme. If this plan materializes, the CEO will not implement any additional job cuts programs.

Dividend may reach 50% profit

Eamonn Crowley, the CFO of the Bank said in an interview for PAP that the Board would present its recommendation on 2012 dividend between February and March. Dividend may reach 50% profit. No impact on the stock, news in line with expectations.

Rebranding expected in September

The CEO of BZ WBK, Mateusz Morawiecki, says that the rebranding is expected in September 2013. Operating merger should take place in 2014. The process of merging IT systems is now under way and the vast majority of systems come from BZ WBK, which will accelerate the whole process.

Post registration ownership changes

BZ WBK informed that following the registration of shares on 4 January 2012, Santander reduced its share in equity by 19.04bps to 75.19%, and KBC will appear among the shareholders with 16.17% stake.

Fitch confirms ratings for BZ WBK

Rating agency Fitch confirmed long-term BBB rating with stable outlook for BZ WBK and withdrew ratings for Kredyt Bank. The agency said that the lending profile of the new merged bank will be similar to the one BZ WBK had before the merger.



Getin Noble Bank (Accumulate)

Current price: PLN 1.85 Target price: PLN 1.9

Analyst: Iza Rokicka

Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Net interest income	1 052.5	1 369.4	30.1%	1 329.6	-2.9%	1 270.0	-4.5%	Number of shares (m)	2 245.5
Interest margin	2.8%	2.8%		2.4%		2.2%		MC (current price)	4 154.2
Revenue f/banking oper.	2 253.0	2 411.2	7.0%	2 182.4	-9.5%	2 182.7	0.0%	Free float	44.3%
Operating income*	1 524.3	2 113.0	38.6%	1 463.2	-30.8%	1 377.5	-5.9%		
Pre-tax income	467.0	903.4	93.4%	461.5	-48.9%	444.7	-3.6%		
Net income	450.1	778.0	72.8%	375.0	-51.8%	348.2	-7.1%		
ROE	14.6%	21.4%		8.7%		7.2%		Price change: 1 month	2.2%
P/E	9.2	5.3		13.1		14.1		Price change: 6 month	9.0%
P/BV	1.3	1.0		1.1		1.0		Price change: 12 month	-7.6%
DPS	0.0	0.0		0.0		0.0		Max (52 w week)	2.1
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 w week)	1.3

* before provisions



Although most of our upside potential for 9-month target price of PLN 1.9 per share has materialized, we are upholding our accumulate rating. At PLN 348m net profit forecasted for 2013 Getin Noble Bank is still valued on relatively undemanding 14.1 P/E and 0.98 P/B. Nevertheless we may not rule out that in H1 2013 the stock price may be subject to fluctuations caused by uncertainty as to its short-term financial results. We are still of the opinion that in longer investment horizon and assuming a positive market scenario investing in Getin Noble Bank may turn out to be the most lucrative option.

Q4 2012 sales results

Getin Noble Bank's associate Open Finance posted sales results for Q4 2012. The value of sales is as follows:

- mortgage loans fell by 37% y/y and 24% q/q to PLN 1 222m.
- ready saving products declined by 50% y/y and 36% q/q to PLN 18m.
- deposits fell by 25% y/y, (but rose by 6% q/q) to PLN 1 435m,
- one-off investment plans rose by 296% y/y and 120% q/q to PLN 313m and
- properties sold by the group rose by 11% y/y (shrank by 19% q/q) to PLN 666m.

In our opinion these results are poor. Note that even the expected growth in mortgage loans was not able to retain flat q/q sales due to the expiry of the government subsidized loans program *Rodzina na Swoim*. We believe that based on the current result we may expect further q/q decline in the fee income of Getin Noble Bank.

Financial Supervision authority agrees for the acquisition of DnB Nord

Financial Supervision Authority (KNF) agreed on a session held on 29 January 2013 for an acquisition of banking operations of DnB Nord bank by Getin Noble Bank. Let us remind the parameters of the transaction announced in October 2012: Getin Noble Bank informed it had signed a preliminary conditional agreement for the purchase of the banking operations of DnB Nord bank including 39 branches with their banking operations and their 260 employees, loans issued to housing cooperatives (PLN 700m), SMEs (ca. PLN 200m), retail customers (non-mortgage loans totaling PLN 13m), as well as deposits (which may have a higher value than loans) and bank accounts (ca. 35,000). As of the end of May 2012 the collective value of the liabilities form gross loans reached PLN 975.5 m (less than 10% of all DnB Nord loans at the end of 2011). Assuming Getin will accept 100% of the above mentioned assets and liabilities (less relevant premiums and discounts) the purchase price should equal ca. PLN 5m.

Getin Noble Bank is one step closer to acquire part of DnB Nord's assets

The chairman of the antitrust authority UOKiK has approved the acquisition of DnB Nord's assets. In addition, Getin received a decision from the Ministry of Finance concerning an appropriate interpretation of the tax law regarding civil law transaction tax base.

KNF approves the CEO of Getin Noble Bank

On a session held on 29 January 2013 KNF agreed to appoint Krzysztof Rosiński for the position of the CEO of Getin Noble Bank.



Handlowy (Hold)

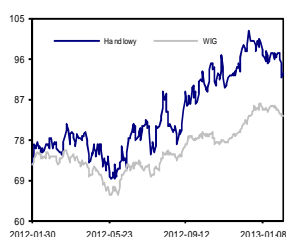
Current price: PLN 94.5 Target price: PLN 96

Analyst: Iza Rokicka

Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Net interest income	1 498.8	1 434.4	-4.3%	1 493.0	4.1%	1 446.7	-3.1%	Number of shares (m)	130.7
Interest margin	4.0%	3.6%		3.6%		3.5%		MC (current price)	12 347.3
Revenue f/banking oper.	2 564.8	2 416.3	-5.8%	2 737.7	13.3%	2 461.4	-10.1%	Free float	25.0%
Operating income*	1 184.4	996.6	-15.9%	1 263.1	26.7%	1 086.0	-14.0%		
Pre-tax income	942.6	921.5	-2.2%	1 186.0	28.7%	981.7	-17.2%		
Net income	754.8	736.4	-2.4%	946.0	28.5%	785.3	-17.0%		
ROE	11.9%	11.4%		13.9%		10.9%		Price change: 1 month	-5.5%
P/E	16.4	16.8		13.1		15.7		Price change: 6 month	11.4%
P/BV	1.9	1.9		1.7		1.7		Price change: 12 month	21.0%
DPS	3.8	5.7		2.8		5.5		Max (52 week)	102.0
Dyield (%)	4.0	6.1		2.9		5.8		Min (52 week)	69.4

* before provisions



We are forecasting that in Q4 2012 Handlowy will again report high net profit of PLN 220m (+1% y/y, but -12% q/q). Similarly to the previous quarters of 2012 we are expecting high proceeds from bond sales which should amount to PLN 60m in Q4 2012 (-39% q/q), and in FY 2012 to PLN 277m (10% of total revenue). However, following record results in 2012 we are expecting a drastic plunge of the net profit in 2013 (as for a bank with defensive balance sheet) by 17% to PLN 785m. This will be driven by considerably lower than expected proceeds from bonds. As a consequence Handlowy is trading at an unattractive 15.7x P/E ratio. Although the bank offers attractive dividend yield - 5.8% (PLN 5.5 a share), in our opinion PZU is a more interesting option for investments as it offers a higher dividend and is trading at a lower P/E ratio.



ING BSK (Accumulate)

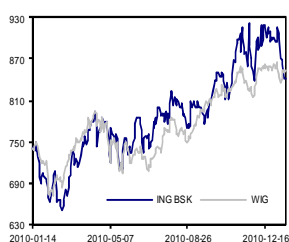
Current price: PLN 88.6 Target price: PLN 93

Analyst: Iza Rokicka

Last Recommendation: 2013-02-06

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Net interest income	1 627.6	1 851.5	13.8%	2 047.2	10.6%	2 060.2	0.6%	Number of shares (m)	130.1
Interest margin	2.6%	2.8%		2.8%		2.7%		MC (current price)	11 526.9
Revenue f/banking oper.	2 682.5	2 895.5	7.9%	3 153.5	8.9%	3 134.6	-0.6%	Free float	25.0%
Operating income*	1 096.5	1 248.7	13.9%	1 340.4	7.3%	1 330.4	-0.7%		
Pre-tax income	934.1	1 117.5	19.6%	1 007.3	-9.9%	978.4	-2.9%		
Net income	753.1	880.1	16.9%	824.4	-6.3%	782.7	-5.1%		
ROE	14.3%	14.6%		11.8%		9.8%		Price change: 1 month	0.4%
P/E	15.3	13.1		14.0		14.7		Price change: 6 month	20.8%
P/BV	2.0	1.8		1.5		1.4		Price change: 12 month	8.4%
DPS	0.0	1.5		0.0		0.0		Max (52 w week)	91.2
Dyield (%)	0.0	1.7		0.0		0.0		Min (52 w week)	73.9

* before provisions



Because our PLN 93.0 per-share target on the ING BSK stock suggests 5% upside potential, we are upgrading our rating from hold to accumulate. Note that Q4 2012 results may be mostly influenced by gains on the valuation update of bonds available for sale, which may reach PLN 500m. If the Bank decides for even a partial cash out in 2013, ING BSK could improve its y/y net profit, which would be a very attractive result compared to the expectations for the sector. In our net income forecasts for 2013 (-5% y/y to PLN 783m), which do not take into account potential gains from the sale of bond portfolio, the Bank is trading at 14.7 P/E, with 5% discount to the sector average.

Fitch affirms ING BSK ratings

Fitch has reaffirmed ING BSK's long-term Issuer Default Rating (IDR) at A with a stable outlook, short-term IDR at 1, viability rating at BBB+, and support rating at 1. Reaffirmed ratings of Fitch confirm that ING BSK is very likely to obtain support from its main shareholder – a Dutch ING Bank NV.



Millennium (Accumulate)

Current price: PLN 4.65 Target price: PLN 4.8

Analyst: Iza Rokicka

Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Net interest income	1 009.8	1 190.8	17.9%	1 227.3	3.1%	1 103.8	-10.1%	Number of shares (m)	1 213.1
Interest margin	2.2%	2.4%		2.4%		2.0%		MC (current price)	5 641.0
Revenue f/banking oper.	1 714.4	1 901.7	10.9%	1 951.1	2.6%	1 812.7	-7.1%	Free float	34.5%
Operating income*	633.0	765.6	20.9%	831.8	8.6%	698.6	-16.0%		
Pre-tax income	407.8	591.1	44.9%	596.0	0.8%	442.1	-25.8%		
Net income	326.0	466.5	43.1%	472.2	1.2%	353.7	-25.1%		
ROE	9.5%	10.8%		10.0%		7.1%		Price change: 1 month	-2.4%
P/E	17.3	12.1		11.9		16.0		Price change: 6 month	21.2%
P/BV	1.4	1.2		1.2		1.1		Price change: 12 month	9.7%
DPS	0.0	0.1		0.0		0.0		Max (52 w week)	5.2
Dyield (%)	0.0	2.2		0.0		0.0		Min (52 w week)	3.2

* before provisions



In January the price of Millennium's stock was subject to major fluctuations, which in our opinion were driven by market speculations concerning a potential sale of the bank by BCP. Although most of our upside potential for 9-month target price of PLN 4.80 per share materialized, we are upholding our accumulate rating. Since M&A is not our base scenario, we would like to point to other investment aspects. In our opinion the most important factor is the vulnerability to changing F/X rate, namely to positive correlation of the stock price to PLN appreciating to EUR and EUR to CHF. Our FY2013 net income estimate for the Bank amounting to PLN 354m (-25% y/y) seems conservative compared to the ambitions of the Board which would like to improve its y/y result. Finally, we are assuming a drastic rebound of profits in 2014 driven by continuing economic revival.

Q4 2012 results: very high trading income

Q4 2012 net profit came in at PLN 126m (+1% q/q and y/y). Net income was 5-6% above our forecast and market consensus (PLN 119m) thanks to a higher than expected trading income. As a result in FY 2012 the Bank generated net profit at PLN 472m, +1% y/y. Q4 2012 results were influenced by three transactions that are rather unlikely to repeat: PLN 16.5m revenue from the sale of bonds classified as available for sale, 2) PLN 13m revenue from trading on the interests of derivatives and 3) PLN 13m released reserves related to the sale of NPL's portfolio (which also resulted in higher effective tax rate).

The interest income (including swaps) fell by 1% q/q to PLN 308m, which is a satisfactory result given a drastic fall of market interest rates. Interest margin dropped by 5bps. q/q to 2.40%. As predicted, fee income increased 1% to PLN 133m compared to the preceding quarter. Drastic plunge of insurance revenue (-28% q/q driven by inflated Q3 margin) was compensated by 32% q/q increase in revenue from the distribution of external investment-savings products. Trading income was strong at PLN 73m (+69% q/q). This was possible thanks to gains on trading: PLN 16.5m revenue from the sale of bonds classified as available for sale and gains on derivatives (ca. PLN 13m). Moreover, there was a 7% q/q increase to PLN 44m in FX gains.

Operating expenses were slightly higher than expected rising by 3% q/q to PLN 285m. The growth was driven by 10% higher non-payroll expenses caused by growing marketing costs. As expected, reserves went up by 13% q/q to PLN 67m. The Board informed at a conference that the bank sold NPL's portfolio worth PLN 68.5m in the balance sheet releasing PLN 13m. As a consequence charge-offs in the retail segment fell by 43% q/q to PLN 13.5m. In Q4 2012 Millennium reported 51% q/q increase (to PLN 53.8m) of charge-offs made against corporate loans. The Board informed that over 50% of this amount was spent on additional reserves for exposures to the construction sector (mostly PBG, in our opinion).

Board aims for higher 2013 y/y net profit

The CEO of Millennium Bogusław Kot said it expected the net profit to improve in 2013 y/y. The details of this declaration were announced by during the post-earnings conference. The Board aimed at decreasing reserves y/y. In 2012 Millennium was negatively surprised by the situation in construction sector (in our view, mostly in PBG). Currently, the bank sees no problems in any of its loan portfolios. The Board added that more than half of the write-offs in corporate sector in 2012 (at least PLN 81m) was driven by unexpected one-offs that should not repeat in 2013. As for operating expenses the Board would still like to keep them under control so they will be flat or will grow below y/y inflation. Our forecasts assume flat operating costs y/y, reserves growth by 8% y/y (the cost of risk at 5bps y/y to 63bps) and 7% decline in total revenue y/y. As a consequence we are forecasting 25% y/y decline in the net profit. Although our forecasts should be considered conservative, y/y growth in net profit is still a very ambitious goal.

New CEO to be appointed in April

The CEO of Millennium Bogusław Kot said that the Bank may inform about appointing new CEO in April. News without impact on stock performance. Bank Millennium announced in April 2012 that Bogusław Kot would be replaced as CEO by June 2013 and would join the Supervisory Board.

Millennium may be put on sale again – press

Rzeczpospolita daily paper suggests that Millennium may be again put on sale by BCP. According the newspaper BCP will soon repay the government loan. Selling Polish assets is one of the scenarios for gaining funds. The paper reckons PKO BP could be one of the potential buyers. Note that BCP has already put Millennium on sale before. This was in late July 2011 when the Bank was trading at estimated 2012 P/BV ratio of 1,3x (and a share price of PLN 5.33). In November 2011, BCP announced it was looking at three non-binding bids which, it said, did not include PKO BP. At that time Millennium was trading at PLN 4.3 a share. Which implied 2012 P/BV ratio at 1,1 and the process of sale was not continued. Millennium is currently trading at a 2012 P/BV of 1,17 and 2013 P/BV at 1,10.

BCP denies sale of Millennium

Following yesterday's press news suggesting that BCP was considering putting Millennium up for sale again, the spokesman for BCP informed that the Portuguese bank was not planning this scenario in order to finance EUR 3bn government help.

Millennium rolled-over credit line with BCP by another year

Millennium informed it had extended stand-by facility credit line agreement concluded with BCP until 31 January 2014. The agreement was concluded in 2009, and it serves to manage liquidity, in our view.



Pekao (Accumulate)

Current price: PLN 159 Target price: PLN 170

Analyst: Iza Rokicka

Last Recommendation: 2013-02-06

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Net interest income	4 103.7	4 557.9	11.1%	4 784.3	5.0%	4 772.5	-0.2%	Number of shares (m)	262.4
Interest margin	3.1%	3.2%		3.2%		3.1%		MC (current price)	41 718.9
Revenue f/banking oper.	7 196.9	7 661.4	6.5%	7 773.4	1.5%	7 553.2	-2.8%	Free float	40.8%
Operating income*	3 614.0	4 056.4	12.2%	4 230.9	4.3%	3 972.0	-6.1%		
Pre-tax income	3 101.5	3 592.9	15.8%	3 614.6	0.6%	3 180.8	-12.0%		
Net income	2 525.2	2 899.4	14.8%	2 900.7	0.0%	2 567.0	-11.5%		
ROE	13.1%	14.0%		13.1%		11.1%		Price change: 1 month	-5.0%
P/E	16.5	14.4		14.4		16.3		Price change: 6 month	4.8%
P/BV	2.1	2.0		1.8		1.8		Price change: 12 month	-1.2%
DPS	2.9	6.8		5.4		8.3		Max (52 week)	170.5
Dyield (%)	1.8	4.3		3.4		5.2		Min (52 week)	130.2

* before provisions



Following 9% decrease in Pekao's shares driven by the sale of a 9% stake by UniCredit, we are upgrading our recommendation from Hold to Accumulate. Our current 9M target price at PLN 170 implies 7% upside potential. Although the Bank is trading at unattractive 2013 P/E at 16.3, we would like to point to a very strong balance sheet, namely high solvency ratio and low loans/deposit ratio, which, in our opinion, allows to give a relative premium. Note that 2012 dividend yield comes in at an attractive 5.2%. Note also technical aspects, while Handlowy may fall out of WIG 20, the weight of Pekao has risen.

UniCredit sells 9.1% stake in Pekao, reducing equity share to 50.1%

On 29 January UniCredit sold 23.9m shares of Pekao (9.1%) in the process of accelerated book-building at PLN 156 per share (6% below the closing price). The transaction amounted to PLN 3.7bn. As a result UniCredit reduced its share in Pekao's equity to 50.1%. UniCredit committed itself not to sell Pekao's shares for 1 year after the transaction. The proceeds will be used to finance organic growth of the Group in CEE region. UniCredit assures that investment in Pekao is of a strategic nature. Local media report that about half of shares were sold to foreign investors and 10% to the US and Asian investors. When it comes to Polish investors, OFE bought the largest portion of shares for ca. PLN 1.3-1.5bn, about 40% of the transaction. Both the transaction itself and its timing came as a surprise to the market as on 23 January the Treasury and BGK sold 12.25% equity of PKO BP (PLN 5.2bn).

Fitch affirms ratings

Pekao says Fitch reaffirms current ratings for the Bank. Long-term issuer default rating in foreign currency is set at 'A' with stable outlook, short-term IDR rating in foreign currency comes in at F2, viability rating at 'a', and support rating 't 2'.



PKO BP (Buy)

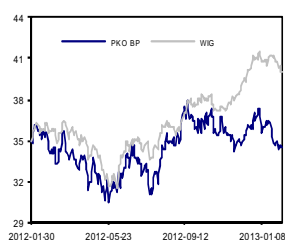
Current price: PLN 34.59 Target price: PLN 40

Analyst: Iza Rokicka

Last Recommendation: 2013-02-06

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Net interest income	6 516.2	7 609.1	16.8%	7 989.3	5.0%	7 413.1	-7.2%	Number of shares (m)	1 250.0
Interest margin	4.0%	4.2%		4.2%		3.8%		MC (current price)	43 237.5
Revenue f/banking oper.	10 021.9	10 999.8	9.8%	11 428.2	3.9%	10 614.5	-7.1%	Free float	68.6%
Operating income*	5 948.4	6 731.0	13.2%	7 010.0	4.1%	6 100.4	-13.0%		
Pre-tax income	4 079.2	4 780.9	17.2%	4 661.0	-2.5%	3 884.0	-16.7%		
Net income	3 216.9	3 807.2	18.4%	3 729.8	-2.0%	3 108.3	-16.7%		
ROE	15.4%	17.2%		15.7%		12.3%		Price change: 1 month	-4.3%
P/E	13.4	11.4		11.6		13.9		Price change: 6 month	2.8%
P/BV	2.0	1.9		1.8		1.7		Price change: 12 month	-4.1%
DPS	1.9	2.0		1.3		1.5		Max (52 week)	38.0
Dyield (%)	5.5	5.7		3.7		4.3		Min (52 week)	30.5

* before provisions



Following the sale of 12% equity of PKO BP by the Treasury and BGK, and postponement of share supply by at least 6 months, we have upgraded our recommendation to Buy from Accumulate. Although we assume that the Monetary Policy Council (RPP) is only half way into interest rate cuts and interest margins of PKO BP are most vulnerable to changing market interest rates out of all the banks covered by us, we believe that current valuation is attractive. Despite our conservative 2013 net profit forecast at PLN 3.1bn, the Bank is trading at 13.9 P/E, with 11% discount to the sector average. In our opinion the market will start to focus more on the expected upward potential in 2014 and less on unfavorable macroeconomic environment of H1 2013. We are forecasting that the net earnings of PKO BP will rebound by 14% y/y beating the sector average in 2014.

2012 net profit stable y/y – CEO

The CEO of PKO BP said in an interview for TVN CNBC that 2012 net profit will be comparable to 2011 figures when it amounted to PLN 3.8bn. Our forecasts for 2012 foresee a net profit of PLN 2% y/y, which entails PLN 3.7bn reduction. This implies a fourth-quarter net income of PLN 855m (-10% y/y, -7% q/q).

PKO BP may be interested in acquiring a local bank – CEO

The CEO of PKO BP said in an interview for TVN CNBC that the bank may be interested in acquiring a local bank that will be put on sale by a foreign parent company. Market share of such a bank could reach even 7-8%. In our view this statement may be related to the update of mid-term strategy of the bank which will be presented when Q4 2012 results are published. Note that representatives of the bank have mentioned such scenarios before. Out of all the banks covered by us Millennium may be the one to qualify.

PKO BP will pay dividends for 2012

The CEO of PKO BP said in an interview for TVN CNBC that the Bank will pay dividends for 2012, however the amount would depend on the demand for organic growth and acquisition processes. The Board will present its recommendation on 2012 dividend in April when the Bank announces its Q1 2013 results. We have assumed in our forecast that dividend for 2012 will amount to 50%, namely PLN 1.49 a share implying a dividend rate at 4.3%. Note that according to the recommendation of Financial Supervision Authority (KNF) the dividend could reach even 75% of the 2012 net profit.

PKO BP sold PLN 2.44bn mortgages in Q4 2012

Wojciech Werochowski, the CEO of the retail banking of PKO BP said that in Q4 2012 sales of mortgage loans amounted to PLN 2.44bn (PLN 911m in October, PLN 777.2m in November and PLN 758.5m in December), +28% q/q and +36% y/y. This means that In 2012, PKO BP extended PLN 7.6bn worth of mortgage loans (-16% y/y). The goal for 2013 is to maintain high shares in new sales at ca. 28%. On the other hand Werochowski stressed that this may represent the lack of new production y/y. He believes the final result would depend on market situation. Our 2013 mortgage loans forecast assumes ca. 10% decline in 2013.

PKO BP reportedly makes another offer on Bank Pocztowy

According to the DGP newspaper, PKO BP has made another offer to the Polish Post Office concerning its potential strategic alliance with Bank Pocztowy. The paper says the new idea is for PKO BP to gradually acquire control over Bank Pocztowy (BP). In the first stage, PKO BP would buy a 25% stake in BP, resulting in equal equity interests held by PKO BP and the Post Office. DGP believes such an arrangement would satisfy the Post Office's ambitions which

include sale of BP's banking services at its locations, while giving PKO BP real influence over the way BP is managed. The paper has not made a guess about how much PKO BP would be willing to pay for a 25% stake in BP. Earlier, PKO BP was offering PLN 240m for a 75% stake.

PKO BP is looking for a strategic partner for eService

According to today's *Puls Biznesu* newspaper, PKO BP has begun to look for a strategic partner for eService – a company that performs settlements for the Bank processing information on payments, manages the acceptance process for cards and renders services based on POS terminals). According to the paper there are 8 companies interested in the investment, including Global Payments, WorldPay, EVO Payments and Six Payments. Allegedly, PKO BP is not interested in selling 100% of the entity and would like to win a strategic partner to create a joint venture maintaining minority interests (between 33% and 49%). According to the paper the valuation of eService should amount to even PLN 500m. Due diligence process is set for commencement in February and the transaction should be finalized in Q1 2013. As of the end of 2011 the value of treasury shares of eService amounted to PLN 86.9m, after 9M 2012 the Company generated PLN 17.9m net profit, +12.6% y/y. The value of investment in PKO BP in eService on a standalone financial statement equals PLN 55.5m. We are estimating that in case of selling or revaluing shares with price of reference at PLN 500m, PKO BP could generate even ca. PLN 330m net profit (ca. PLN 0.26 per share) on this transaction. Although the market has been expecting at least partial sale of eService we believe that forecasts and valuation do not take into account potential profits on the transaction.

The Treasury and BGK sold a total of 12% shares at PLN 34.25 a share

The Treasury and BGK sold 153.1m shares of PKO BP (12.25% of equity), including 25m owned directly by the Treasury and 125.1m owned by BGK, as part of the book building process concluded on 23 January. The selling price was set at PLN 34.25 per share, 3% below the closing price from a day before and 5% above the price achieved in July 2012 in the previous book-building process. According to the Deputy Minister of Treasury, proceeds from the sale of shares by BGK (PLN 4.3bn) will be directed to the governmental initiative Inwestycje Polskie, and the part sold by the Treasury (PLN 0.9bn) will constitute revenue from privatization for 2013. The Treasury undertook not to sell its shares (lock-up) for 180 days following the transaction. As a result the Treasury reduced its share in PKO BP's equity to 31.4% and currently holds shares only directly.

KNF authorizes new Board member

KNF has authorized the appointment of Piotr Mazur to the Management Board of PKO BP. Mr. Mazur's role is Head of risk and debt recovery.

PKO BP secures EUR 150m loan from EIB

European Investment Bank informed it had extended EUR 150m loan to PKO BP for financing small and medium self-government projects. It is the third loan that PKO BP received from EIB. The total value of all loans amounted to EUR 466m.

PKO BP on 2013 outlook

PKO BP's Managing Director Paweł Borys says the Bank intends to focus on defending its market share this year. He expects slow growth in loan and deposit volumes in 2013 at an annual rate of 0-3%. Moreover, he anticipates a 10-15% in the bank's sector's income this year, combined with increasing costs of risk. He is expecting that loan-loss reserves in corporate segment would be more risky than in retail segment.

Insurance



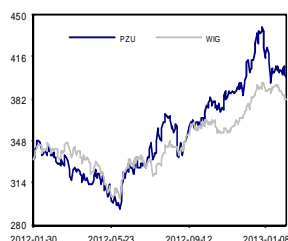
PZU (Accumulate)

Current price: PLN 402.5 Target price: PLN 435

Analyst: Iza Rokicka

Last Recommendation: 2013-02-06

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Gross written premium:	14 541.0	15 279.3	5.1%	16 155.3	5.7%	16 545.2	2.4%	Number of shares (m)	86.4
property insurance	8 028.5	8 527.5	6.2%	8 679.5	1.8%	8 813.4	1.5%	MC (current price)	34 756.8
life insurance	6 512.5	6 751.8	3.7%	6 751.8	0.0%	7 475.7	10.7%	Free float	64.8%
Technical profit	17 066.7	16 491.2	-3.4%	19 365.0	17.4%	19 121.1	-1.3%		
Pre-tax income	3 029.4	2 907.6	-4.0%	4 506.2	55.0%	3 518.7	-21.9%		
Net income	2 439.2	2 345.4	-3.8%	3 661.0	56.1%	2 862.9	-21.8%		
ROE	20.3%	18.3%		26.8%		19.4%		Price change: 1 month	-3.8%
P/E	14.2	14.8		9.5		12.1		Price change: 6 month	10.2%
P/BV	2.7	2.7		2.4		2.3		Price change: 12 month	16.4%
DPS	22.4	26.0		33.2		30.6		Max (52 week)	440.0
Dyield (%)	5.6	6.5		8.2		7.6		Min (52 week)	292.1



As PZU stock price fell by 7% in January we are upgrading our recommendation from Hold to Accumulate. In our opinion dividend represents the most attractive aspect of investing in PZU. Although in Q4 2012 the Company may make adjustments to technical-insurance reserves, we are expecting that this will not generate losses on standalone earnings of PZU SA, and as a consequence the Company will pay out at least PLN 26 a share dividend. At the current price level this implies 6.5% dividend yield. When it comes to 2014 forecasts we still believe that the behavior of financial markets, especially Poland's Treasury debt market poses the biggest risk. Assuming that investment rate will fall from 6.5% in 2012 to 5.0% in 2013 we are anticipating 22% reduction in the net profit to PLN 2.9bn. Despite a pressure on the net profit, we believe that 2013 dividend may rise by 28% y/y to PLN 33.2 implying dividend yield at 8.2%.

PZU eyes lower Q4 profit

CEO Andrzej Klesyk said in an interview that PZU's Q4 2012 net profit was going to be lower than the PLN 1123m posted in Q3. He added that the Company was reviewing provisions to see whether they need to be raised.

PZU mulls consolidation of Ukrainian market

Quoting Andrzej Klesyk, today's *Puls Biznesu* daily paper reports that PZU mulls consolidation of the insurance market in Ukraine. The CEO admits that the Company has not undertaken any actions in this respect so far. Although the net profit of PZU Ukraina amounted to UAH 5m in 2012 (PLN 1.9m), technical income remained negative. PZU believes this is because the scale of operations is limited (unfavorable relation between administrative costs and earnings from insurance operations). There are currently 500 insurance companies operating in Ukraine, and PZU Ukraina is in the group of ten largest.

Management Board appointment

Parkiet daily paper informed that Barbara Smalska was appointed Member of Board in PZU Życie replacing Witold Jaworski who left for Allianz at the end of December. Smalska has worked for PZU since 2008. Recently she was head of Product Management Department in one of PZU's companies and earlier she held the position of managing director for marketing and individual products in PZU and PZU Życie.

Financial services



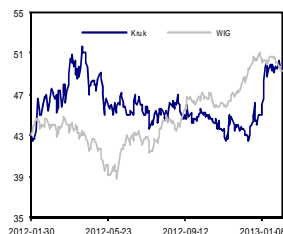
KRUK (Accumulate)

Current price: PLN 49.6 Target price: PLN 51.5

Analyst: Iza Rokicka

Last Recommendation: 2013-02-06

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Income	164.3	274.0	66.8%	336.3	22.7%	362.3	7.7%	Number of shares (m)	17.1
Debt purchases	118.1	230.4	95.1%	298.6	29.6%	321.1	7.5%	MC (current price)	848.7
Collection	44.1	41.0	-7.0%	31.4	-23.4%	29.7	-5.4%	Free float	59.5%
Indirect margin	74.7	143.7	92.2%	193.1	34.4%	204.7	6.0%		
Pre-tax income	35.6	68.5	92.5%	83.8	22.3%	99.7	18.9%		
Net income	36.1	66.2	83.5%	78.0	17.8%	86.7	11.2%		
ROE	31.6%	35.9%		28.3%		24.3%		Price change: 1 month	10.1%
P/E	21.0	12.7		10.9		9.9		Price change: 6 month	10.1%
P/BV	5.8	3.5		2.7		2.1		Price change: 12 month	16.3%
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)	42.5



Since the price of Kruk's stock increased by 14% in January we are downgrading our recommendation from Buy to Accumulate. We believe our PLN 86.7m net profit forecast, (+11% y/y) is realistic, especially that it accounts for the risk of gradual increase of effective tax rate (to 7% in 2013 from 3.1% in 2012). Nevertheless we believe this result is impressive compared to other companies from the banking sector covered by us. On our net profit forecast Kruk is still trading at an attractive 9.9 P/E ratio, with 19% discount to foreign peer companies.

In Q4 2012 Kruk spent PLN 120m on debt portfolios

Kruk informed that in Q4 2012 it spent PLN 120m (+29% q/q, but -15% y/y) on purchasing debt with nominal value of PLN 1 075m (+29% q/q, but -15% y/y). This means that the average price amounted to 11.2% vs. 8.6% in FY 2012. Our FY 2012 forecast implies that the value of investment in Q4 equals PLN 96m. The result posted by the Company is higher by 13%, which is positive news in the context of 2013-2014 earnings.

Fuels, Chemicals

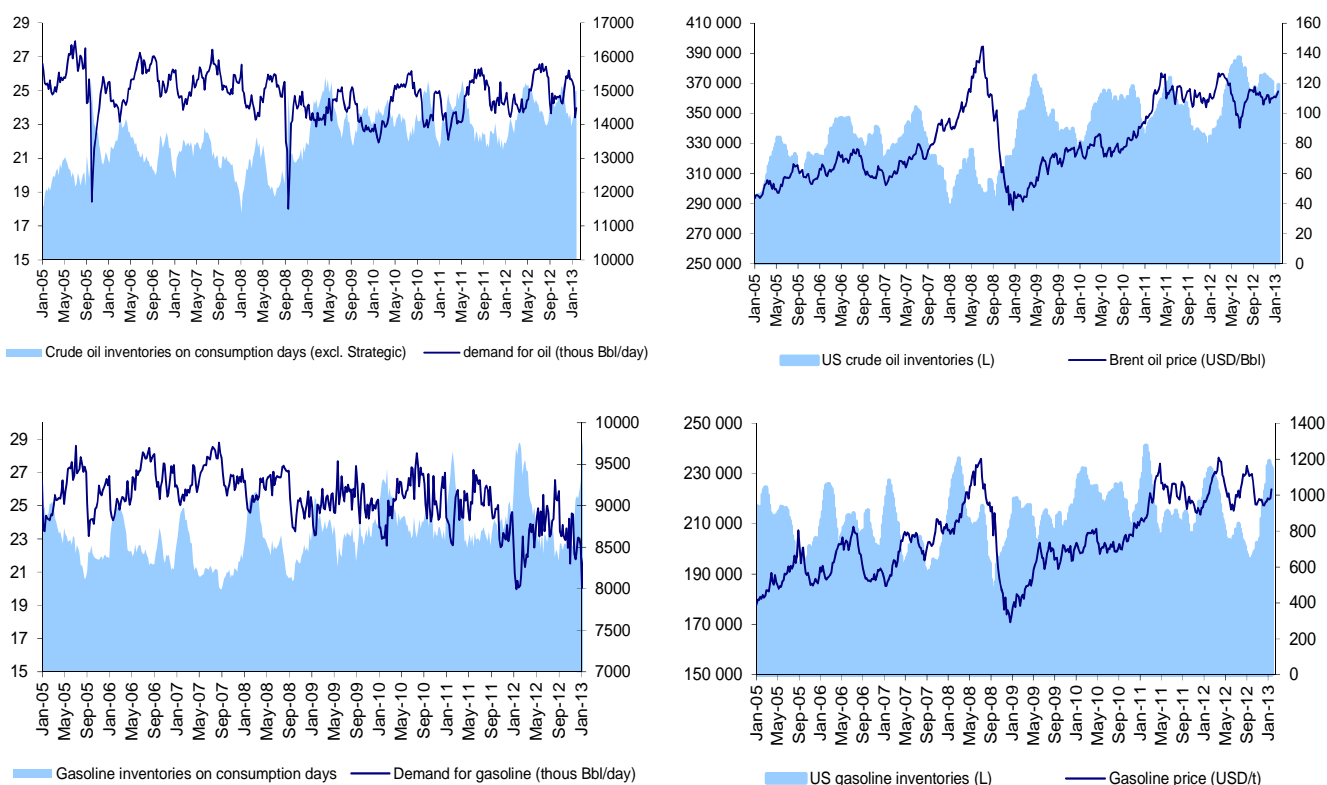
US oil inventories on the rise, high demand on gasoline

US crude oil went up again by 9.1 m barrels (2.5%) due to declining activity of refineries (CUR returned to normal seasonal level from above 90%) combined with a continuing production increase in production from local deposits and stable imports. Increased fuel inventories observed in January (gasoline by 2.9%, middle distillates by 5.3%) fits within the pattern of traditional reserve buildup this part of the year, however at the end of month (when refineries went back to 84-85% production) we observed declining reserves, which may excused with improving demand. Note that gasoline consumption was higher by 3% in January 2013 compared to the same period a year ago, which is in line with our scenario assuming that refining margins would rebound strongly in the early spring in the environment of seasonally tightening balance of demand and supply, especially that gasoline reserves are close to the previous year's figures and there are plans for further refineries shutdowns and downtimes. Which were rather limited in the previous weeks. Note that middle distillates inventories are below the previous year's levels both in the USA and Europe.

Very strong petrochemical results

Recent weeks have brought a continuing growth in petrochemical margins across almost all product categories, which is especially significant for polyolefins, which faced a particularly hard period in the last year (therefore a disproportion between the results of Orlen, Unipetrol and MOL). Higher manufacturing profitability is led first by tight supply-demand relations after previous shutdowns of installations and second rather intensive plans of downtimes. According to HIS data in the next 6 months temporary shutdowns will amount to 2.9m tons of production capacity, and 0.9m tons capacity cracker belonging to Shell will suspend production still in this quarter. Capacity shortages will peak in Q2 when 4 installations will be switched off including the 2 biggest on continent. Margins were additionally bolstered by a failure in a French plant INEOS (745 thousand tons), which will resume operations in February. On the demand side the situation is improving due to a drastic revival in China, and this effect is supported by low reserves related to the fact that customers are preparing for a slowdown. From the perspective of petrochemical producers relatively cheaper raw material (naphtha) was also of a major importance and it was related to olefins production downtimes.

US oil and gasoline inventories



Source: BRE Bank Securities based on DoE data



Ciech (Buy)

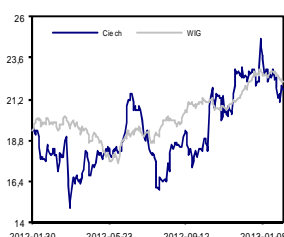
Current price: PLN 24.34

Target price: PLN 28.3

Analyst: Kamil Kliszczyk

Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	3 960.3	4 174.5	5.4%	4 454.9	6.7%	3 720.8	-16.5%	Number of shares (m)	52.7
EBITDA	384.7	340.8	-11.4%	59.6	-82.5%	465.1	680.7%	MC (current price)	1 282.7
EBITDA margin	9.7%	8.2%		1.3%		12.5%		EV (current price)	2 687.4
EBIT	146.9	118.7	-19.2%	-181.4		236.5		Free float	37.8%
Net profit	24.3	1.5	-93.8%	-366.8		110.5			
P/E	28.0	851.7				11.6		Price change: 1 month	-8.1%
P/CE	2.6	5.7				3.8		Price change: 6 month	32.1%
P/BV	0.8	1.0		1.4		1.2		Price change: 12 month	14.1%
EV/EBITDA	5.6	6.9		45.1		5.2		Max (52 w week)	24.7
Dyiel (%)	0.0	0.0		0.0		0.0		Min (52 w week)	14.9



Multiple claims from Air Product markedly depressed sentiment for Ciech shares, even though it seems that the dispute is likely to be resolved positively. Share prices could be additionally depressed by the expected weaker Q4 results when Ciech will probably create reserves related to guarantees for Zachem and other book operations which generate costs. We reiterate our positive recommendation as we believe that in the core soda business tendencies remain favorable and the recent information about Alwernia may again raise speculations regarding further disinvestments, including the sale of Sarzyna that could generate even PLN 350-400m.

Preliminary sale agreement

Ciech signed a preliminary agreement with Kermas to sell USD 13.4m shares of Alwernia. The transaction will be finalized if the anti-trust authority passes the consent and PLN 14.2m loan extended by Ciech is paid back. The total transaction value (EV) may amount to PLN 55.6m, which would imply EV/EBITDA at an attractive 7.4.

Another lawsuit filed by Air Products

Air Products filed an arbitration suit to International Chamber of Commerce against Zachem considering the termination of amine contract. The Company seeks USD 98.6m and additional damage of undefined amount. Ciech received a lawsuit from Air Products from the US district court in Pennsylvania regarding the accountability of Ciech for the damages it inflicted to Air Products. The American concern believes that Ciech was conducting deceitful actions in order to achieve price discounts and interfered illegally in the contractual relations between Zachem and Air Product. Damages are estimated at USD 16m (discounts) and USD 98m (lost profits). Ciech considers the lawsuit utterly ungrounded and is intending to raise objections concerning the lack of jurisdiction of the US court. Having secured its claims in a Polish court Air Products is now demanding damages in arbitration and is also planning to include Ciech in the litigation, which was not previously engaged in the contract with Zachem. We still believe that the information available in the case is in favor of Zachem. In addition, even if the case is lost there is little chance for a return to Ciech. What may pose a risk, though, is litigation against parent company of the Polish concern as it will keep depressing shares price until the case is resolved (problems for potential privatization process). A positive scenario would materialize if the claim of Air Products is rejected on formal grounds in the first hearing at the US court (the jurisdiction of a state court should not hear a commercial case), however whether this happens is unknown today.



Lotos (Hold)

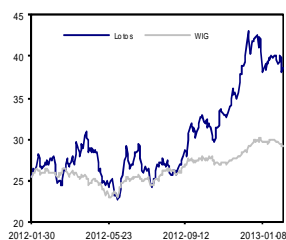
Current price: PLN 40.6

Target price: PLN 37.4

Analyst: Kamil Kliszcz

Last Recommendation: 2013-02-06

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	19 662.8	29 259.6	48.8%	34 246.4	17.0%	30 422.1	-11.2%	Number of shares (m)	129.9
EBITDA	1 451.3	1 693.4	16.7%	903.9	-46.6%	1 376.9	52.3%	MC (current price)	5 272.9
EBITDA margin	7.4%	5.8%		2.6%		4.5%		EV (current price)	12 308.1
EBIT	1 061.4	1 084.8	2.2%	251.6	-76.8%	746.7	196.8%	Free float	46.8%
Net profit	679.2	649.0	-4.4%	554.6	-14.5%	616.1	11.1%		
P/E	7.8	8.1		9.5		8.6		Price change: 1 month	0.1%
P/CE	4.9	4.2		4.4		4.2		Price change: 6 month	42.4%
P/BV	0.7	0.7		0.6		0.6		Price change: 12 month	47.8%
EV/EBITDA	7.7	7.4		13.6		8.1		Max (52 week)	43.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	22.7



Stock of Lotos showed a correction in January and we are closing our negative recommendation since the divergence from our target price was only slight. Another strong argument for a rating upgrade is an improvement in macroeconomic conditions in the refining sector, which may already signal the expected seasonal margin growth in the context of rebounding demand (growing gasoline consumption in the US by 3% y/y) combined with stable demand and similar or lower inventories y/y. Nevertheless we believe that due to a high debt ratio, lack of exposure to growing petrochemical segment and significantly higher valuation (20% premium on EV/EBITDA LIFO), shares of PKN Orlen remain a better option.



MOL (Hold)

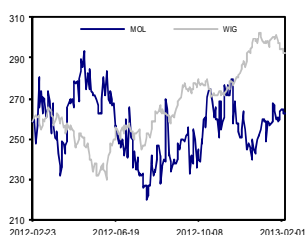
Current price: PLN 255

Target price: PLN 254.57

Analyst: Kamil Kliszczyński

Last Recommendation: 2012-12-06

(HUF bn)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	4 299.7	5 343.2	24.3%	5 493.2	2.8%	5 521.3	0.5%	Number of shares (m)	104.5
EBITDA	526.0	603.0	14.6%	548.1	-9.1%	575.7	5.0%	MC (current price)	26 652.4
EBITDA margin	12.2%	11.3%		10.0%		10.4%		EV (current price)	45 673.8
EBIT	245.5	253.2	3.1%	235.9	-6.8%	264.0	11.9%	Free float	31.3%
Net profit	104.0	153.7	47.8%	187.3	21.9%	158.1	-15.6%		
P/E	18.2	12.3		10.1		12.0		Price change: 1 month	1.0%
P/CE	4.9	3.8		3.8		4.0		Price change: 6 month	13.4%
P/BV	1.3	1.1		1.1		1.1		Price change: 12 month	
EV/EBITDA	6.3	5.6		5.9		5.7		Max (52 w week)	293.1
Dyield (%)	0.0	0.0		2.4		4.2		Min (52 w week)	220.0



Following a weak previous year the beginning of 2013 is relatively good for the shareholders of MOL as MOL's stock grew by ca. 5% driven by more expensive oil. In our opinion oil prices were bolstered mainly by geopolitical factors (unrest in the Middle East) and a decision by OPEC to cut production, so they may have short-lasting impact on the market. We reiterate our neutral recommendation for MOL shares as in our view pressure on demand will effectively prevent oil prices from growing further. We are expecting some positive trends in refining and petrochemical sectors to which MOL is less exposed than its Polish competitors.



PGNiG (Hold)

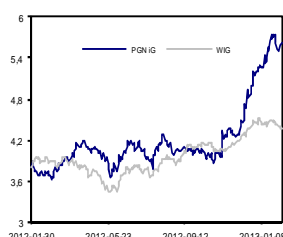
Current price: PLN 5.28

Target price: PLN 4.25

Analyst: Kamil Kliszczyk

Last Recommendation: 2012-12-05

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	21 281.2	23 003.5	8.1%	26 242.4	14.1%	27 620.1	5.2%	Number of shares (m)	5 900.0
EBITDA	4 411.4	3 259.6	-26.1%	5 327.7	63.4%	5 835.4	9.5%	MC (current price)	31 152.0
EBITDA margin	20.7%	14.2%		20.3%		21.1%		EV (current price)	38 153.7
EBIT	2 886.7	1 685.5	-41.6%	3 323.0	97.1%	3 332.4	0.3%	Free float	27.4%
Net profit	2 453.7	1 626.8	-33.7%	2 886.7	77.5%	2 499.7	-13.4%		
P/E	12.7	19.1		10.8		12.5		Price change: 1 month	6.5%
P/CE	7.8	9.7		6.4		6.2		Price change: 6 month	35.5%
P/BV	1.3	1.3		1.1		1.1		Price change: 12 month	48.4%
EV/EBITDA	7.3	10.6		7.2		6.3		Max (52 w week)	5.8
Dyield (%)	0.4	2.2		0.0		2.8		Min (52 w week)	3.6



In January shares of PGNiG continued to reflect positive tendencies which are probably a by-product of improved sentiment related to the annexed Yamal contract, especially that we will soon see Q4 results which will recognize a high compensation announced before. The market has ignored even disturbing news on failures on a key shale gas concession Lubocino. We will soon update our valuation and refer to the YTD forecasts, (we see a potential for upward revision related to the expected expenditure cuts and lower costs of production in Norway) therefore despite a higher stock price we are reiterating neutral recommendation.

Problems with fracking on Lubocino well

According to PAP quoting two geologists PGNiG has problems with fracking on Lubocino well, although so far the reasons are unknown. From 4 January Halliburton has undertaken 4 fracking attempts which all failed. PGNiG confirmed that due to specific geological conditions on some stages of works the outcome turned out to be different than originally assumed. Therefore the timeline of works has been extended. Preparations to another stage of works are now in process. Modifications and changes are now introduced to the project in order to achieve optimal results. It is unknown at this stage whether the problems stem from geology or rather technological mistakes committed at fracking on horizontal well. Nevertheless if negative results repeat on the flagship well, which has so far been presented as the most far-reaching it would be a very negative signal in the whole process of shale gas exploration.

Q4 operating data

In Q4 PGNiG sold 4.2bn m3 gas (we expected 4.0bn m3) with own production amounting to 1.1bn m3 (in line with our forecast) and imports at 3.1bn m3, 2.6bn m3 of which came from the East. Crude oil sales reached 132 thousand tons (our forecast at 130 thousand tons). The results do not diverge significantly from our forecasts, therefore the news will have no impact on the stock, especially that in Q4 will see a compensation from Gazprom that may complicate the interpretation of current results.

CEO leaves for Norway

Member of Board in PGNiG responsible for finances Sławomir Hinc, resigned unexpectedly from the position to assume the function of CEO of PGNiG Norway (as of 1 April). The Company reports that that the new position will allow for smooth implementation of consolidation processes on international markets, cost optimization and intensifying the actions aimed at increasing the production of natural gas and crude oil.

Minister of the Treasury on gas production in Opalin

Speaking at a Forbes Energy conference minister of the Treasury Budzanowski said that the production of gas from Opalino deposit may be launched in 2015, as PGNiG came across conventional gas in a diagonal well where it was looking for shale gas. PGNiG never quoted the details concerning this well, however taking into account it was a preliminary stage of exploration (one well without fracking and taking a core sample) and negative news from Lubocino well (until recently this was a flagship shale gas project with production launch scheduled for 2014-2015) investors will be rather conservative towards similar announcements.



PKN Orlen (Hold)

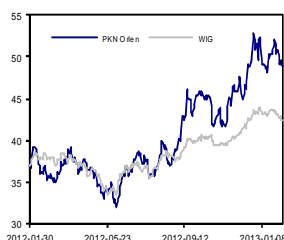
Current price: PLN 51.3

Target price: PLN 50

Analyst: Kamil Kliszcz

Last Recommendation: 2013-01-07

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	83 547.4	106 973.1	28.0%	120 101.6	12.3%	119 350.2	-0.6%	Number of shares (m)	427.7
EBITDA	5 545.7	4 446.4	-19.8%	4 284.5	-3.6%	4 505.0	5.1%	MC (current price)	21 941.5
EBITDA margin	6.6%	4.2%		3.6%		3.8%		EV (current price)	30 531.1
EBIT	3 123.0	2 066.5	-33.8%	2 024.4	-2.0%	2 318.0	14.5%	Free float	72.5%
Net profit	2 371.7	2 363.4	-0.4%	2 344.6	-0.8%	2 019.5	-13.9%		
P/E	9.3	9.3		9.4		10.9		Price change: 1 month	-1.7%
P/CE	4.6	4.6		4.8		5.2		Price change: 6 month	27.7%
P/BV	1.0	0.9		0.8		0.8		Price change: 12 month	25.6%
EV/EBITDA	5.8	7.2		7.1		6.6		Max (52 w week)	53.0
Dyield (%)	0.0	0.0		0.0		7.4		Min (52 w week)	32.0



Asset write-offs and weaker cash-flow in Q4 depressed Orlen's stock in January, however these factors should have a short-term effect, similarly to declining refining margins. Manufacturing profitability has notably improved and low reserves of gasoline make our positive scenario for the sector more probable. Orlen may be additionally supported by petrochemical segment which is now reporting very high profits (high demand and a series of downtimes in Europe). We are still awaiting the sentence in the arbitration regarding a compensation from Yukos. We are reiterating our neutral recommendation for Orlen, however we see some potential for upward revision of forecasts and valuation (petrochemicals).

Q4'2012 results

In a full Q4 report we have identified some negative differences relative to preliminary data published a week before, however they result mostly from the fact that figures were rounded up 'trading statement'. Final assets write-offs in Ceska Rafinerska (Unipetrol) reached PLN 688m, adjusted EBIT LIFO came in at PLN 463m (Orlen informed about PLN 0.5bn). Based on the comparison of the balance of other operations quoted in the preliminary report we have estimated that additional negative one-offs could reach PLN 150m. The full report indicates that retail segment (balance sheet reserves) account for PLN 73m and after adjustments this sector will show higher than expected by us EBIT. Other costs were recognized in unattributed positions which reached PLN 228m and were much higher than forecasted by us (PLN 10m costs from upstream operations). Refining sector generated weaker than estimated results (adjusted EBIT LIFO of PLN 300m vs. expected PLN 410m), where most probably the end of the year and poorer results of Unipetrol were decisive factors. In line with our expectations petrochemical sector generated a very good result, which gives hopes for the next quarter in the context of further margin growth, both in olefins, PTA and polyolefins. Financial operations did not show any surprises and positive F/X effects on foreign currency liabilities reached PLN 135m (forecasted PLN 110m). The net profit was supported with a tax shield and exclusion of a loss on Unipetrol's minority interests.

Disappointing cash flows

Operating cash flows turned out very weak in Q4 2012 results reaching only PLN 380m despite the sale of another obligatory stock tranche (PLN 1.2bn transaction has to be reduced by PLN 272m lending taken to cover VAT for a target company RBS). With more activity on factoring (PLN 1.4bn) and releasing cash from stocks the Company decided to mitigate this effect by reducing trade credits in oil payments as accounts payable dropped by a staggering PLN 3.3bn (long-term loans expiring in December were also significant in this respect). At the level of investment operations there was an outflow of PLN 0.4bn spent on emission allowances (sold in a fixed term transaction in the previous year) and buying shares in Petrolet. As a result the total CAPEX reached PLN 1.3bn and the net debt of the Group rose to PLN 6.7bn as of the end of December.



Police (Reduce)

Current price: PLN 12.8

Target price: PLN 10.9

Analyst: Kamil Kliszczyński

Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	2 022.6	2 765.6	36.7%	3 137.4	13.4%	2 928.8	-6.7%	Number of shares (m)	75.0
EBITDA	103.7	336.3	224.3%	244.0	-27.4%	181.2	-25.7%	MC (current price)	960.0
EBITDA margin	5.1%	12.2%		7.8%		6.2%		EV (current price)	1 075.2
EBIT	29.4	257.7	777.9%	163.2	-36.7%	101.5	-37.8%	Free float	18.1%
Net profit	27.4	311.9	1036.9%	136.3	-56.3%	86.0	-36.9%		
P/E	35.0	3.1		7.0		11.2		Price change: 1 month	2.3%
P/CE	9.4	2.5		4.4		5.8		Price change: 6 month	10.7%
P/BV	1.7	1.1		1.0		0.9		Price change: 12 month	26.5%
EV/EBITDA	11.5	3.4		4.4		5.3		Max (52 w week)	14.0
Dyiel (%)	0.0	0.0		0.0		0.0		Min (52 w week)	7.4



The price of ZCH Police's stock rose despite negative tendencies observed both in the segments of titanium white and ammonia and DAP. It seems that the market has already begun to discount for a possible call from Azoty Tarnow to ZAP. The current minimum price amounts to PLN 12.1. In our opinion Azoty may linger over announcing a call anticipating a deterioration of Police's results and hoping for a more attractive price. We remain bearish on Police.

Grain market

January saw a slight rebound in corn prices on the US market (+4.8%) driven by the downgrade of corn forecast by USDA. In its monthly report The USDA estimated that although in 2012/13 the crops should be 3.2m tons higher than previously expected, higher consumption (+5.6m tons), especially in the US, will easily manage to neutralize this effect. As for wheat the data published by USDA turned out to be neutral for the stock price and in Europe closing prices in January were comparable to December prices for both categories. Investors are slowly beginning to discount the possible lack of natural catastrophes this season, which can significantly translate into the level of supply for grains in 2013/14. If record corn sowing in the US repeats, the crops are not damaged by drought and currently forecasted wheat production growth in the EU materializes (increase of wheat sowing by 4.8% and production growth by 9.2% anticipated by Strategie Grains) then the global inventories of grain may be significantly rebuilt. Another argument supporting this forecast may be provided by expected 10m t growth of Russian crops.



ZA Puławy (Hold)

Current price: PLN 137.4

Target price: PLN 123.4

Analyst: Kamil Kliszczyk

Last Recommendation: 2012-12-10

(PLN m)	2010/11	2011/12F	change	2012/13F	change	2013/14F	change	Basic data (PLN m)	
Revenues	2 882.3	3 948.3	37.0%	3 682.5	-6.7%	3 592.1	-2.5%	Number of shares (m)	19.1
EBITDA	413.6	778.5	88.2%	435.8	-44.0%	336.4	-22.8%	MC (current price)	2 626.4
EBITDA margin	14.3%	19.7%		11.8%		9.4%		EV (current price)	2 383.1
EBIT	327.6	664.0	102.7%	301.1	-54.7%	187.0	-37.9%	Free float	40.0%
Net profit	279.4	600.5	115.0%	263.4	-56.1%	176.1	-33.1%		
P/E	9.4	4.4		10.0		14.9		Price change: 1 month	-3.4%
P/CE	7.2	3.7		6.6		8.1		Price change: 6 month	15.7%
P/BV	1.4	1.1		1.1		1.1		Price change: 12 month	36.3%
EV/EBITDA	6.2	2.7		5.5		7.2		Max (52 w eek)	144.1
Dyield (%)	0.7	2.7		8.4		5.0		Min (52 w eek)	86.6



ZAP stock price was significantly depressed after the expiration of the ZA Tarnów tender offer. So far the environment for the Company has not drastically changed, on the one hand it was improved by increasing prices on the melamine market, on the other the results were depressed by caprolactam, where margins dropped below 2008 minimum level. We have been witnessing a stable situation in the fertilizer market, although negative tendencies in grain prices may infect H2 results. In the forthcoming weeks shareholders will focus on a decision of ZAT concerning another tender offer. The minimum price required by law amounts to PLN 132. We remain neutral on ZAP.

ZATarnów call result

Following a call terminating on 10 January Azoty Tarnów increased its share in ZAP's equity from 10.3% to 83.7%, which means that apart from the Treasury about 58% shareholders of Puławy responded positively to share swap proposal. The Board of ZAT said that it would announce a call for the remaining stock of ZAP without delay and that it decided to reduce subscription limit to 66%. Currently the average of ZAP stock price for the last 3 and 6 months amounted to PLN 132 and PLN 125, respectively.

Grain market

January marked a slight rebound in corn prices on the US market (+4.8%) driven by the downgrade of corn forecast by USDA. In its monthly report The USDA estimated that although in 2012/13 the crops should be 3.2m tons higher than previously expected, higher consumption (+5.6m tons), especially in the US, will easily manage to neutralize this effect. As for wheat the data published by USDA turned out to be neutral for the stock price and in Europe closing prices in January were comparable to December prices for both categories. Investors are slowly beginning to discount the possible lack of natural catastrophes this season, which can significantly translate into the level of supply for grains in 2013/14. If record corn sowing in the US repeats, the crops are not damaged by drought and currently forecasted wheat production growth in the EU materializes (increase of wheat sowing by 4.8% and production growth by 9.2% anticipated by Strategie Grains) then the global inventories of grain may be significantly rebuilt. Another argument supporting this forecast may be provided by expected 10m t growth of Russian crops.

Power Utilities

Electricity consumption falls by 0.88% y/y in December

In December electricity consumption fell by 0.88% y/y, much better result than the one reported in November (-2.9%), however we should consider that the weather conditions differed significantly in these two months. On average, November temperatures were higher by 3.4 degrees y/y, while December temperatures were lower by 5 degrees greatly impacting the electricity consumption. The December electricity exports were only slightly lower y/y implying also a smaller decline of general production compared to the previous month. Hard coal-fired plants reported a 2.8% growth y/y. Plants running on brown coal saw 8.6% decline driven by works conducted in Turów power plant and inflated base in Bełchatów plant in 2011 (then only 1 unit was undergoing major repairs vs. 2 units at the moment).



CEZ (Hold)

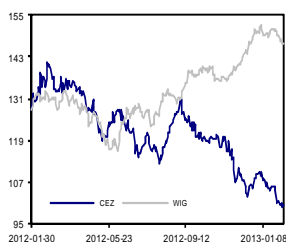
Current price: PLN 110

Target price: PLN 109.2

Analyst: Kamil Kliszcz

Last Recommendation: 2012-11-30

(CZK m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	198 848.0	209 761.0	5.5%	204 201.0	-2.7%	190 910.3	-6.5%	Number of shares (m)	538.0
EBITDA	88 848.0	87 312.0	-1.7%	85 340.4	-2.3%	83 322.7	-2.4%	MC (current price)	59 178.9
EBITDA margin	44.7%	41.6%		41.8%		43.6%		EV (current price)	89 433.0
EBIT	64 788.0	61 542.0	-5.0%	58 345.2	-5.2%	55 532.7	-4.8%	Free float	29.3%
Net profit	47 051.0	40 756.0	-13.4%	40 720.6	-0.1%	40 045.6	-1.7%		
P/E	7.7	8.9		8.9		9.1		Price change: 1 month	-6.6%
P/CE	5.1	5.5		5.4		5.3		Price change: 6 month	-11.5%
P/BV	1.6	1.6		1.5		1.4		Price change: 12 month	-22.9%
EV/EBITDA	5.7	6.1		6.4		6.5		Max (52 w week)	141.5
Dyiel (%)	7.8	7.3		6.7		6.7		Min (52 w week)	100.0



Negative tendencies in CEZ stock price continued throughout January, which was directly related to the fact that the EP Energy Committee failed to decide on transferring part of CO2 emission allowances to auctions held in the following years. As most of the EU member states voiced their objections to this proposal, prices of certificates plunged and energy prices also dropped getting close to EUR 40/MWh. The above mentioned situation affects CEZ through natural correlation with CO2 (low emission rate) and possible decline in earnings, which may become reality still this year as a result of fewer hedging transaction (the Company retained a greater open position as it was uncertain about coal supplies from Czech Coal). Note that CEZ secured 20 million tons of CO2 allowances at EUR 15/t. If current prices persist 2014 forecast may be downgraded and therefore we reiterate neutral recommendation for CEZ despite recently falling stock prices.

CEZ may participate in privatization of Energa

The CEO of CEZ Polska stressed that Polish market is crucial for the Company and CEZ is planning to increase its exposure through the development of wind farms. The Company may also take part in the privatization of Energa, which would allow to expand its operations with distribution. However, nothing has been decided yet and the construction of a nuclear plant in Czech Republic remains a priority. Privatization of Energa performed by a strategic investor would mean lack of a major supply of energy shares on the WSE. The evaluation of such an acquisition would surely depend on the price offered.



Enea (Accumulate)

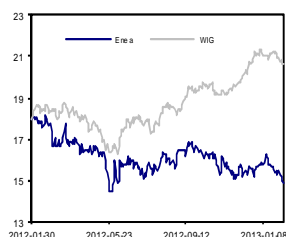
Current price: PLN 15.89

Target price: PLN 17.55

Analyst: Kamil Kliszcz

Last Recommendation: 2012-11-30

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	7 836.9	9 688.9	23.6%	9 953.7	2.7%	9 721.8	-2.3%	Number of shares (m)	441.4
EBITDA	1 364.6	1 555.8	14.0%	1 664.2	7.0%	1 479.4	-11.1%	MC (current price)	7 014.5
EBITDA margin	17.4%	16.1%		16.7%		15.2%		EV (current price)	5 160.9
EBIT	712.0	844.2	18.6%	867.3	2.7%	670.4	-22.7%	Free float	29.9%
Net profit	639.3	793.3	24.1%	750.6	-5.4%	566.1	-24.6%		
P/E	11.0	8.8		9.3		12.4		Price change: 1 month	-6.1%
P/CE	5.4	4.7		4.5		5.1		Price change: 6 month	-7.7%
P/BV	0.7	0.7		0.6		0.6		Price change: 12 month	-17.8%
EV/EBITDA	3.1	3.0		3.1		4.4		Max (52 week)	18.2
Dyield (%)	2.4	2.8		3.0		3.2		Min (52 week)	14.5



The price of Enea stock corresponds to the general tendencies observed across the sector and expected weaker Q4 results may additionally depress it (we are anticipating greater reserves as the Company did not create them in the previous quarters). In the short term, positive profile of Enea may be of a little importance if current macroeconomic conditions are taken into account (high share of distribution vs. production). Nevertheless, we are reiterating positive recommendation, especially that H2 results may be supported by the possibility of privatization and the Company is valued below its own RAV.



PGE (Hold)

Current price: PLN 19.16

Target price: PLN 18.1

Analyst: Kamil Kliszcz

Last Recommendation: 2012-11-30

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	20 471.4	28 111.4	37.3%	29 302.2	4.2%	27 506.6	-6.1%	Number of shares (m)	1 869.8
EBITDA	6 804.4	6 855.0	0.7%	8 340.2	21.7%	6 197.2	-25.7%	MC (current price)	35 825.1
EBITDA margin	33.2%	24.4%		28.5%		22.5%		EV (current price)	32 355.3
EBIT	4 149.2	4 144.5	-0.1%	5 424.5	30.9%	3 360.2	-38.1%	Free float	38.1%
Net profit	2 990.3	4 936.1	65.1%	4 429.0	-10.3%	2 803.7	-36.7%		
P/E	12.0	7.3		8.1		12.8		Price change: 1 month	-11.7%
P/CE	6.3	4.7		4.9		6.4		Price change: 6 month	-11.5%
P/BV	1.0	0.9		0.9		0.8		Price change: 12 month	-14.8%
EV/EBITDA	5.4	4.7		3.9		5.5		Max (52 w week)	20.9
Dyield (%)	4.4	3.9		9.6		6.2		Min (52 w week)	16.9



PGE's stock price reflects negative tendencies observed across the sector, however we do see a potential that prices will diversify given the current macroeconomic conditions (further decrease of energy prices and emission allowances). PGE will show the weakest results next to CEZ as it will be most affected by the tough situation on energy market. We still believe that 2013 earnings consensus is over ambitious (we estimate the potential of decline at 10%). In the perspective of several months stock price may be supported by high dividend yield, however another portion of ESP's shares supplies may not be ruled out. We reiterate neutral recommendation on PGE, and we recommend underweighting the stock relative to Tauron and Enea.

PGE wins litigation for long-term credits

The Court of appeals in Warsaw dismissed an appeal of the energy regulator (URE) concerning the amount of corrected compensations of LTC for ZEDO for 2009. The disputed compensation amounted to PLN 93m. The ruling is binding, however the URE may still appeal. The disputed LTC compensations are worth a total of PLN 673m. The ruling should allow PGE to recognize PLN 93m in the financial results.

Starting cooperation with RWE

PGE signed a memorandum of understanding with RWE regarding cooperation for the development of power utilities in Poland. The cooperation of capital group PGE and RWE AG will focus on the following three areas: Developing engineering solutions for electrical energy supply systems, research and development programs in core technological areas, knowledge exchange for training and improving skills of the staff.



Tauron (Buy)

Current price: PLN 4.93

Target price: PLN 6.16

Analyst: Kamil Kliszczyk

Last Recommendation: 2012-11-30

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	15 428.9	20 755.2	34.5%	25 336.2	22.1%	24 326.9	-4.0%	Number of shares (m)	1 752.5
EBITDA	2 758.0	3 022.6	9.6%	3 863.7	27.8%	3 324.9	-13.9%	MC (current price)	8 640.1
EBITDA margin	17.9%	14.6%		15.2%		13.7%		EV (current price)	14 183.7
EBIT	1 399.3	1 611.5	15.2%	2 219.9	37.8%	1 560.9	-29.7%	Free float	54.5%
Net profit	858.7	1 220.0	42.1%	1 508.3	23.6%	966.6	-35.9%		
P/E	10.1	7.1		5.7		8.9		Price change: 1 month	-9.6%
P/CE	3.9	3.3		2.7		3.2		Price change: 6 month	-5.4%
P/BV	0.6	0.6		0.5		0.5		Price change: 12 month	-18.5%
EV/EBITDA	3.3	4.3		3.7		4.9		Max (52 w week)	5.6
Dyiel (%)	0.1	3.0		6.3		6.1		Min (52 w week)	4.1



Despite a promising beginning of the year Tauron closed January with losses and is still unable to sever its correlation with PGE although it is definitely less exposed to negative tendencies across the sector (falling energy and emission allowance prices). Note that in 2013 the Company will generate over 80% of its EBITDA on regulated distribution and heat and sales segments. As for sales we are expecting a major improvement compared to still successful 2012 driven by falling prices of energy and certificates of origin combined, combined with steady household tariff prices. Q4 results should show a continuation of positive FY 2012 tendencies and Q1 2013 will provide a clear argument for upgrading low consensus. We are reiterating a buy rating.

Tauron unveils savings scheme for 2013-15

Tauron presented a savings scheme that is supposed to yield cost cuts by PLN 864m in 2013-2015, and the reduction of PLN 239m will already be recognized in 2013. These savings will increase further in 2014 and 2015 by PLN 291m and 334m, respectively. Savings will focus mostly on the distribution segment (PLN 416m) and production (PLN 377m). The Board proposed the initiatives that are supposed to generate savings. It is significant that 2013 will already see cost cuts of PLN 239m. We have only assumed in our forecasts PLN 100m cost reduction due to the lack of reserves for voluntary redundancy charges. We generally believe that the 2013 forecasts underestimate the potential of cost reductions in Tauron.

Offer for a new unit in Jaworzno power plant chosen

The Board of Tauron chose a contractor of a new unit in Jaworzno power plant. The Ordering Commission dismissed 3 out of 4 offers placed as they did not meet the requirements. Rafako and Mostostal Warszawa won the bid offering net price of PLN 4.4bn, EUR 1.25m for 1 MW. The offer placed by Rafako and Mostostal was PLN 400m more expensive than the cheapest Chinese offer. In addition, some of the investors could only count on the withdrawal of Tauron from the project. We have assumed this investment in our model estimating that the total CAPEX (including associated costs) would come in at PLN 5bn. We believe that cost assumptions included in the model may be reduced. Note that given the current CO2 prices, coal provides the most attractive financial parameters when it comes to production units.

Mining & Metals



JSW (Accumulate)

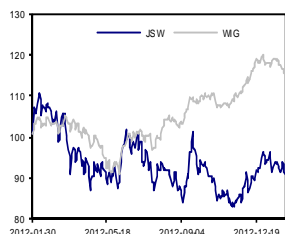
Current price: PLN 95.8

Target price: PLN 104

Analyst: Michał Marczak

Last Recommendation: 2012-12-04

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	7 288.9	9 376.8	28.6%	8 938.4	-4.7%	7 895.1	-11.7%	Number of shares (m)	119.2
EBITDA	2 770.5	3 576.9	29.1%	2 346.2	-34.4%	1 825.1	-22.2%	MC (current price)	11 420.1
EBITDA margin	38.0%	38.1%		26.2%		23.1%		EV (current price)	9 452.0
EBIT	1 946.9	2 732.6	40.4%	1 303.9	-52.3%	740.8	-43.2%	Free float	33.0%
Net profit	1 454.2	2 086.6	43.5%	995.2	-52.3%	545.5	-45.2%		
P/E	7.2	5.0		11.5		20.9		Price change: 1 month	-4.8%
P/CE	4.6	3.6		5.6		7.0		Price change: 6 month	-2.7%
P/BV	1.7	1.2		1.3		1.3		Price change: 12 month	-14.4%
EV/EBITDA	3.2	2.4		4.0		5.4		Max (52 w week)	110.6
Dyiel (%)	1.3	2.6		5.6		2.7		Min (52 w week)	82.8



Low steel prices keep putting a damper on coking coal prices, causing the profit margins earned by steel processors to plummet to the levels last seen during the 2008/09 crisis. However, some producers (ArcelorMittal, JSW Metals) have made the first price hikes to reflect the increasing costs of iron ore. These trends are likely to continue at least into Q2 2013, with coking coal prices not expected to exceed USD 200/t at any point during the coming year. At the same time, prices of thermal coal are set for a 2013 downtrend, hurting JSW which in 2012 successfully sold large coal volumes at high spot prices. JSW has net cash of PLN 2.2bn, meaning that it can either offer high dividends to its shareholders (who include the State Treasury which may need extra income next year to fill budget holes created by decelerated GDP), or be made to invest in one of the two coal holdings earmarked for privatization by the government. Looking at current WSE stock quotes, JSW continues to offer the best exposure to the expected economic rebound in China (where monthly PMI is showing gains again). We are reiterating an accumulate rating on JSW, with the price target at PLN 104.

CEO on Q4 2012, 2013 outlook

The CEO of JSW notices first signs of revival – 'Australian mines are starting to raise prices, some of US mines may close down.' In addition, robust demand for iron ore in China will prompt growing demand for coke – necessary for the production of blast-furnace steel. Q4 2012 was better than anticipated in terms of earnings results. In 2013, JSW will produce 13.5m tons of coal, from 2015 the Company is expecting its output to grow to 14m tons annually. The CEO confirmed that in Q4 JSW reported a loss, but did not quote any details. We are anticipating that Q2 2013 will see coking coal prices rise to USD 180/t from USD 170t in Q4 2012 and Q1 2013.

NWR expects weaker 2013 outlook

New World Resources produced 11.2 million tons of coal (with sales at 10mmt), and 680,000 tons of coke (with sales of 555kt) in 2012. For 2013, the Company predicts lower coal output of 10-11mmt, combined with higher coke volumes of an estimated 800,000 t. Further, NWR expects a slump in coal prices, particularly thermal coal (its Czech units are storing about 1mmt of excess coal inventories). To offset falling prices, the coal miner is focusing on cost reductions, and cutting back capital expenditure by 30 to 50 percent. In other news, Moody's has downgraded NWR's B1 credit rating outlook from positive to stable, and S&P has issued a B rating for the planned EUR 275m bond issue (with maturity set for 2021). NWR's thermal coal pricing policy is different from what is observed at Polish mines - the Company's benchmark are ARA prices which in 2012 were higher than Polish prices (forward contracts). In Q3 2012, NWR's average thermal coal sales price was PLN 306/t, compared to Polish sales prices of PLN 260-270/t. A higher comparable base means NWR may be poised for a more severe price slump this year.

New deposits, no bonds?

Four years after JSW had been granted a license for the exploration of the Bzie Debina 2 – Zachod coal deposit, the Company managed to produce the first batch of high-quality coking coal. The deposit holds 322 million tons of coal, the launch of commercial production is scheduled for 2017. As reported by Bloomberg, JSW is no longer interested in obtaining ratings for the bonds it was supposed to issue. As opposed to New World Resources JSW has access to numerous deposits located close to the ones explored today and in lower layers. The current level of output will last for at least 70 years. BD2-Z serves as a good example. The fact that JSW will no longer apply for ratings reduces the speculation regarding its borrowing needs – potentially to acquire KHW. This is good news as it increases the chances of dividend.



KGHM (Accumulate)

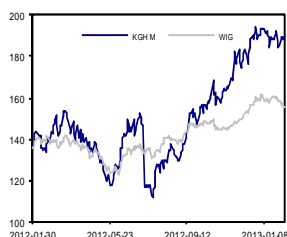
Current price: PLN 193.5

Target price: PLN 204

Analyst: Michał Marczak

Last Recommendation: 2013-01-07

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	16 766.5	22 107.2	31.9%	26 699.9	20.8%	25 631.6	-4.0%	Number of shares (m)	200.0
EBITDA	6 262.4	13 997.8	123.5%	8 639.0	-38.3%	8 167.5	-5.5%	MC (current price)	38 700.0
EBITDA margin	37.4%	63.3%		32.4%		31.9%		EV (current price)	38 697.1
EBIT	5 506.3	13 153.6	138.9%	7 204.5	-45.2%	6 580.5	-8.7%	Free float	68.0%
Net profit	4 645.7	11 004.4	136.9%	5 349.7	-51.4%	4 864.6	-9.1%		
P/E	8.3	3.5		7.2		8.0		Price change: 1 month	-1.8%
P/CE	7.2	3.3		5.7		6.0		Price change: 6 month	46.5%
P/BV	2.6	1.7		1.7		1.5		Price change: 12 month	31.8%
EV/EBITDA	5.7	1.8		4.5		4.6		Max (52 w week)	194.5
Dyiel (%)	1.6	7.7		14.6		5.2		Min (52 w week)	111.4



Copper continues to trade at high prices (USD 7600/t) despite an expansion in global monthly inventories by 50,000 tons (led exclusively by the US). If normal seasonal patterns hold, copper stocks should start decreasing again in March, providing support to prices. We are reiterating an accumulate rating on KGH.

KGHM will deliver silver to HSBC

KGHM concluded an agreement with HSBC Bank USA, London Branch for the sale of silver in 2013. The agreement is worth PLN 1.67bn (calculated based on the current price of silver). The total estimated value of the agreements signed between KGHM and HSBC in the last 12 months amounts to PLN 3.65bn. From the point of view of KGHM, only two factors really count: production volumes and sales prices. Whether the silver is bought by a bank or an industrial company is of no relevance. The price in HSBC contract was determined by the price of silver on the global market on the day when part of the transaction was finalized.

KGHM goes to Kazakhstan

KGHM has submitted a non-binding bid for an exploration license in Karaganda, Kazakhstan. Assuming the license is granted (within a few months), the prospecting costs will go into tens of millions of dollars, over a period of 2-4 years. If KGHM wants to aspire to be a global producer, it has to look for either new copper deposits, or acquire existing projects, typically at a higher cost. Kazakhstan has 493 known fields which contain 1225 kinds of minerals. It ranks the first in the world in known zinc, wolfram, and barite resources, second in silver, lead, and chrome iron, third in copper and fluorite, fourth in molybdenum, and sixth in gold. The risks entailed in E&P operations there are mainly of political nature. We believe the Kazakh exploration license is a step in the right direction.

Copper production launched in Mongolia's Oyu Tolgoi field

Turquoise Hill Resources has produced the first ton of copper and gold from the Oyu Tolgoi deposit in Mongolia. The operation is expected to achieve full capacity in 3-5 months. In the first ten years, Oyu Tolgoi is expected to produce 0.55 million tons of copper, 90 tons of silver, and 2 tons of gold annually, followed by an increase to 0.77mmt of copper and 3.1 tons of gold. The mine will be supplying its output to Chinese smelters located in Mongolia and Northern China. THR is still in discussions with the Mongolian government over the division of profits (it is proposing a 65/35 split, but the government is pushing for a 50/50 arrangement). Nevertheless, it is now an undeniable fact that the world has gained a new huge copper resource.



LW Bogdanka (Accumulate)

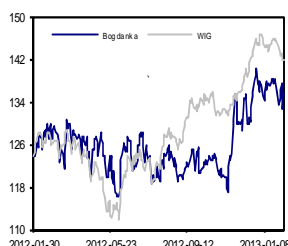
Current price: PLN 135

Target price: PLN 143.8

Analyst: Michał Marczak

Last Recommendation: 2012-12-04

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	1 230.4	1 301.3	5.8%	1 885.7	44.9%	2 025.6	7.4%	Number of shares (m)	34.0
EBITDA	414.5	450.6	8.7%	736.0	63.3%	817.3	11.0%	MC (current price)	4 591.8
EBITDA margin	33.7%	34.6%		39.0%		40.3%		EV (current price)	4 888.8
EBIT	276.5	265.7	-3.9%	417.8	57.2%	473.1	13.2%	Free float	33.0%
Net profit	230.4	221.2	-4.0%	318.7	44.1%	354.6	11.2%		
P/E	19.9	20.8		14.4		13.0		Price change: 1 month	0.1%
P/CE	12.5	11.3		7.2		6.6		Price change: 6 month	10.1%
P/BV	2.3	2.2		2.0		1.8		Price change: 12 month	7.5%
EV/EBITDA	10.6	10.4		6.6		6.0		Max (52 w week)	140.4
Dyiel (%)	0.0	1.0		3.0		3.5		Min (52 w week)	116.2



Looking at LW Bogdanka's poor production figures for Q4 2012, we can guess that the quarterly profits are more than likely to be a disappointment as well, especially considering that the fourth quarter is typically when the Company sets aside additional payroll allowances. This means that the annual FY2012 net profit may just approximate the figure posted after Q3 2012, which would mean a downward adjustment of ca. PLN 50m to our bottom-line estimate. LWB's long-term outlook, however, remains unchanged. For 2013, we assume the Company can achieve the 9mmt production target, and we expect a 3% decrease in coal prices

LWB reports lower-than-expected 2012 coal output

LWB confirmed its 8mmt output estimate for 2012 after the third-quarter earnings announcement, but later reports suggested it may miss this target. In the end, the annual volume of commercial coal did indeed miss the mark at 7.785mmt (6.07mmt after Q3) due to challenging geological conditions. The production target for 2013 is 9 million tons.

Thermal coal prices

Global prices of thermal coal remained more or less steady throughout January, declining 3-4% m/m in Europe and rising 1% in Asia. A ton of coal at ARA ports was priced at USD 86, while Russian coal shipped from Baltic ports cost USD 82/t, marking a continuing expansion of the gap between European and Asian prices (Australian coal at Newcastle was sold at USD 96/t).

Manufacturers

Polish manufacturing in December

Manufacturing in Poland shrunk by 10.6% in December 2012 relative to the same month in 2011. Annual growth rates in preceding months amounted to -0.8% in November, +4.6% in October, 5.2% in September, +0.5% in August, +5.2% in July, +1.2% in June, +4.6% in May, +2.9% in April, +0.7% in March, +4.6% in February, and +9.0% in January. Year-on-year increases were recorded in four out of the thirty-four sub-sectors, with eighteen sub-sectors demonstrating expansion from November and twenty-three sub-sectors increasing production relative to October.

The strongest contraction in output was recorded in the sectors of other non-metallic mineral products (down 25.0% y/y in an acceleration of a downward trend), furniture (down 22.6% in a continuation of a downward trend), motor vehicles and trailers (continued y/y decline of 22.2%), computer hardware, electronics, and optical devices (down 19.3% y/y in a continuation of a downward trend), rubber and plastic products (-11.8% in a continuation of a downtrend), coke and refined oil products (-10.6%, marking a downward shift relative to November), chemicals (-8.1%), and food (-4.7%, marking a reversal of the November uptrend).

In turn, year-on-year growth was recorded in the manufacture of other transportation equipment (+32.7%) and utilities (+4.2%). All in all, the picture painted by the aggregate industry data as well as the readings for the individual sectors paint a bleak picture for the Polish manufacturing industry. The general downtrend was exacerbated in December by two fewer working days and unfavorable weather conditions. January 2013 has more working days than January 2012, but this may not be enough to bring annual manufacturing growth into the positive territory.

Leading indicators

Leading indicators for manufacturing industries worldwide remain weak. Eurozone PMI remained below 50pts again in January at 47.9 points, with Germany's Manufacturing PMI up to 49.8pts from 46.0pts in December. PMI Poland was below 50pts in November and December 2011, but rebounded over this mark in the first three months of 2012, to drop back below 50pts in April, with the January 2013 index rising to 48.6pts from 48.5pts in November. The months ahead could bring a small rebound in PMI data following implementation of fiscal stabilization packages by ECB and FED. However, the earnings results of manufacturing companies are poised to remain weak.

Investing ideas

Our top buy picks in the manufacturing sector include smaller companies like Amica, AC SA, Bumech, Fasing, Impexmetal, Mercor, Orzeł Biały, Selena, Relpol, and Zetkama. Among Ukrainian stocks, we would consider the most undervalued grain producers like Agroton, Astarta, and KSG Agro.

Q4 2012 in the manufacturing sector

We expect strong Q4 2012 announcements from Apator (a sell opportunity), Ergis, Fasing, Kernel, Relpol, and Seco Warwick (whose Q4 profits will show growth from a low year-ago base).

In turn, year-on-year slowdown in profits will be reported by Alchemia (which posted one-time gains in Q4'11), Boryszew, Cognor (which experienced falling demand for steel and weak margin on steel scrap processing), ES-System (a slump in the lighting industry), Impexmetal (a high Q4'11 base), Orzeł Biały (in case of which a weak Q4 showing is a buy opportunity ahead of Q2'12 rebound), Libet (high Q4'11 base), Kopex, PGO (a sell opportunity), Ropczyce (falling demand from the metallurgical industry), Rovese, and Zamet Industry (which posted one-time gains in Q4'11).

Recommended portfolio allocations

Company	Portfolio	Price (PLN)	P/E			EV/EBITDA			DY			2012 Net debt / EBITDA
			2011	2012	2013	2011	2012	2013	2011	2012	2013	
AC Auto Gaz	Overweight	26.50	10.9	10.1	10.4	7.6	7.5	7.1	0.0%	9.1%	7.9%	-0.2
ACE	Marketweight	7.05	17.4	15.8	11.5	3.4	5.1	4.4	4%	3%	3%	0.7
Amica	Overweight	62.00	6.1	10.2	12.1	7.7	5.9	6.0	4.8%	0.0%	0.0%	1.1
Aparator	Underweight	32.50	24.0	11.5	15.5	13.6	9.4	10.1	1.1%	3.3%	4.2%	0.4
Berling	Underweight	6.95	9.0	11.7	12.7	9.2	7.1	7.6	1.3%	2.9%	4.3%	-1.4
Bumech	Overweight	6.30	4.7	7.5	6.4	3.7	3.8	3.0	0.0%	0.0%	0.0%	2.2
Ergis Eurofilms	Marketweight	3.11	823.1	13.8	13.9	6.7	7.2	6.1	0.0%	0.0%	0.7%	4.0
ES System	Underweight	2.88	10.6	80.9	35.1	5.0	10.9	10.5	3.5%	3.5%	0.5%	-1.4
Fasing	Overweight	23.50	6.7	4.9	5.3	4.5	3.1	3.1	0.9%	2.6%	4.3%	0.9
Ferro	Marketweight	6.34	6.6	7.9	8.5	7.4	8.4	8.4	0.0%	4.7%	0.0%	4.0
Forte	Underweight	15.00	9.2	11.6	14.0	6.8	7.5	7.8	5.0%	5.0%	5.0%	1.4
Libet	Underweight	2.16	3.4	28.6	13.0	3.0	7.0	6.0	32.9%	18.5%	3.5%	3.3
Mercor	Overweight	15.20	11.2	-5.9	8.3	8.6	7.1	6.8	0.0%	0.0%	0.0%	2.3
Orzeł Biały	Overweight	16.90	7.8	24.0	10.1	5.1	8.9	5.6	3.6%	4.4%	1.7%	-0.5
Patentus	Underweight	1.72	12.9	6.6	18.4	9.9	5.1	5.6	0.0%	0.0%	0.0%	2.6
Polska Grupa Odlewnicza	Underweight	2.10	10.1	8.8	16.5	5.6	5.3	8.0	0.0%	0.0%	3.4%	0.0
Pozbud	Marketweight	3.59	9.4	11.9	12.3	7.0	9.3	8.0	0.0%	1.4%	2.5%	2.1
Relpol	Overweight	8.76	12.3	7.2	6.9	6.2	4.7	4.4	0.0%	0.0%	2.4%	0.0
Seco Warwick	Marketweight	43.42	29.2	11.6	10.5	13.6	7.0	6.8	0.0%	0.0%	0.0%	-0.4
Selena FM	Overweight	9.16	10.0	46.1	8.1	11.8	6.6	4.9	0.0%	0.0%	0.0%	2.9
Zamet Industry	Marketweight	2.79	11.0	9.6	11.7	8.0	7.0	7.8	0.0%	13.6%	5.6%	0.1
Zetkama	Overweight	43.20	8.0	9.0	10.7	6.4	6.1	6.9	0.0%	2.3%	3.8%	1.2
ZM Ropczyce	Marketweight	15.48	17.1	7.7	10.4	9.2	5.7	6.3	0.0%	0.0%	0.0%	2.7

Source: BRE Bank Securities



Alchemia (Hold)

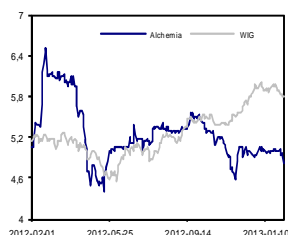
Current price: PLN 5.04

Target price: PLN 5.1

Analyst: Jakub Szkopek

Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	670.6	1 156.0	72.4%	1 134.6	-1.9%	1 209.7	6.6%	Number of shares (m)	207.0
EBITDA	47.6	194.3	308.2%	110.0	-43.4%	146.0	32.7%	MC (current price)	1 043.3
EBITDA margin	7.1%	16.8%		9.7%		12.1%		EV (current price)	1 162.3
EBIT	22.3	141.7	536.4%	68.8	-51.4%	105.5	53.4%	Free float	17.5%
Net profit	14.7	118.3	704.3%	41.8	-64.7%	79.3	89.7%		
P/E	70.9	8.8		25.0		13.2		Price change: 1 month	
P/CE	26.0	6.1		12.6		8.7		Price change: 6 month	
P/BV	2.0	1.7		1.7		1.5		Price change: 12 month	
EV/EBITDA	25.0	5.7		10.6		7.5		Max (52 w eek)	
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 w eek)	



Alchemia's quarterly earnings results are expected to show year-on-year contraction through Q2 2013 from high year-ago bases. Starting in H2 2013, in addition to stronger demand, Alchemia's profits will be supported by the first effects of consolidation, transfer of higher steel costs onto end customers, and rising sales volumes. We would take advantage of any price weakness in H2 2012 following disappointing earnings announcements to buy the Company's shares ahead of an upcoming rebound driven by planned investment by gas and oil exploration and transportation firms, power producers, and chemical plants. Moreover, Alchemia sells over 30% of its output in Western Europe which is poised for a possible recovery in PMI readings. Alchemia is scheduled to announce Q4 2012 earnings on February 27th. We are reiterating a hold rating on ALC.

VP steps down

Vice-President of the Management Board Marek Sarafin resigned as of 31 January 2013. He had been VP in charge of growth from October 2012.

Insider transactions

Ms. Grażyna Karkosik purchased 200,000 shares in Alchemia, increasing her equity interests from 10.04% to 10.14%.

TMK reports Q4 operating data

TMK, Russia's leading producer of seamless steel pipes, reported 5.4% y/y and 2.1% q/q expansion in Q4 2012 sales volumes. The Company managed to maintain its leading position and increase market share in the Russian market in spite of falling demand. In the US market, sales decreased 4% due to fewer new orders from buyers who opted instead for inventory draws. European sales showed the strongest deterioration in Q4 due to an early onset of winter weather combined with decreasing orders from auto makers and the manufacturing industry as a whole, as well as power producers.



Astarta (Buy)

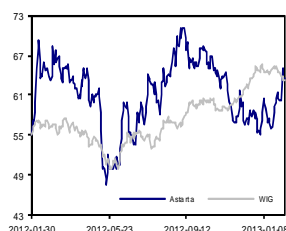
Current price: PLN 58.5

Target price: PLN 76.9

Analyst: Jakub Szkopek

Last Recommendation: 2012-12-10

(UAH m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	2 328.2	3 385.5	45.4%	4 212.6	24.4%	4 189.2	-0.6%	Number of shares (m)	25.0
EBITDA	1 051.4	1 236.0	17.6%	1 239.3	0.3%	1 512.9	22.1%	MC (current price)	1 462.5
EBITDA margin	45.2%	36.5%		29.4%		36.1%		EV (current price)	2 473.2
EBIT	911.7	1 041.1	14.2%	1 025.3	-1.5%	1 288.8	25.7%	Free float	32.0%
Net profit	834.9	976.1	16.9%	814.0	-16.6%	1 086.3	33.5%		
P/E	4.6	3.9		4.7		3.5		Price change: 1 month	5.0%
P/CE	3.9	3.3		3.7		2.9		Price change: 6 month	0.8%
P/BV	1.7	1.2		1.0		0.8		Price change: 12 month	8.7%
EV/EBITDA	4.8	4.8		5.2		4.1		Max (52 w week)	71.0
Dyiel (%)	0.0	0.0		0.0		0.0		Min (52 w week)	47.5

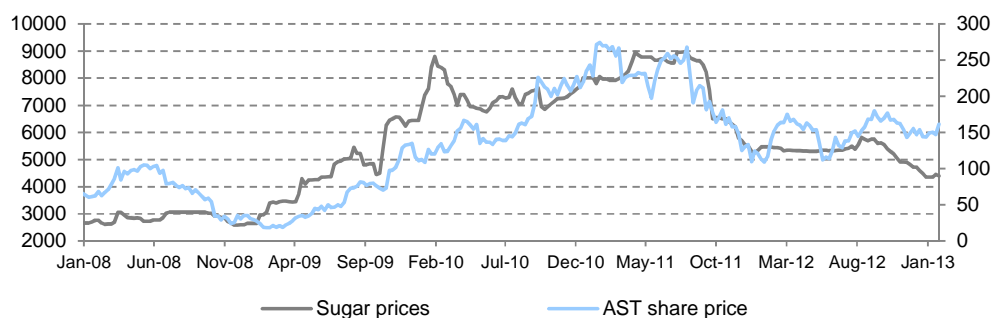


At the end of 2012, sugar prices in the Ukraine plummeted to levels about 16% below production costs. A 9% decrease in sugar output projected for the 2012/2013 is expected to bring the ratio of sugar inventories to usage down to 5-10% from 18.4% in the 2011/2012 season, resulting in a rebound in local prices which are expected to hit a high of UAH 6500/t eventually in 2013. Further, in the 2013/2014 season, sugar supply will decrease due to discontinuation of production by companies like Kernel and Sintal. Ukrainian producers expect contraction by over 20% in Ukraine's sugar beet growing areas in the 2012/2013 season. Astarta is scheduled to announce Q4 and FY2012 earnings on April 15th. We are reiterating a buy rating for AST.

Sugar prices under pressure during sugar harvest

Ukrainian sugar prices remained under pressure toward the end of 2012 due to high production volumes. Later this year, however, prices are expected to return on an upward path, reaching UAH 6500/t in the course of the year. Meanwhile, December prices averaged UAH 4500/t, trading 16% below our estimated production costs, indicating sales losses for most Ukrainian players except Astarta.

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



Source: BRE Bank Securities, Bloomberg, Agroperspectiva



Boryszew (Hold)

Current price: PLN 0.59

Target price: PLN 0.56

Analyst: Jakub Szkopek

Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	3 134.8	4 332.8	38.2%	4 649.0	7.3%	4 613.7	-0.8%	Number of shares (m)	2 256.7
EBITDA	180.4	351.0	94.5%	380.2	8.3%	276.6	-27.2%	MC (current price)	1 331.5
EBITDA margin	5.8%	8.1%		8.2%		6.0%		EV (current price)	2 591.4
EBIT	100.2	253.3	152.8%	276.7	9.2%	165.3	-40.2%	Free float	42.9%
Net profit	5.2	145.4	2712.9%	134.3	-7.6%	74.6	-44.4%		
P/E	128.8	9.2		9.9		17.8		Price change: 1 month	-6.8%
P/CE	7.8	5.5		5.6		7.2		Price change: 6 month	5.8%
P/BV	1.2	1.8		1.6		1.4		Price change: 12 month	-27.6%
EV/EBITDA	9.6	7.1		6.8		9.4		Max (52 w week)	0.9
Dyiel (%)	0.0	0.0		0.0		0.0		Min (52 w week)	0.5



Sales of passenger car sales in the European Union plummeted 10% in 2012, with average sales during the year hitting five-year lows. From the record-low 2012 base, we believe auto sales are set for stabilization and possibly a rebound in 2013, in line with the expected global economic recovery. As for Boryszew, 2013 will see completion of old low-margin contracts, combined with deliveries of new, more lucrative orders. Despite an expected expansion in margins generated by the automotive segment, Boryszew is trading at 16.6x 2013E P/E and 9.0x EV/EBITDA, showing premiums of 106% and 140%, respectively, to European auto parts suppliers (Autoliv, Faurecia, Plastic Omnium, Polytec, Valeo). At this level, the value premiums hardly make BST an attractive investment even assuming it is set for solid earnings growth. Note also that Boryszew is among the stocks that are most likely to leave the WIG20 index after the February 8th revision. Boryszew is scheduled to announce Q4 2012 earnings on February 28th. We are reiterating a hold rating on BST.

Boryszew cancels FY2012 guidance

Boryszew announced that it was revoking its FY2012 financial guidance because of a failure by its subsidiary which owns a land property at Łucka street in Warsaw to recognize valuation gains on the property due to a delay in the issuance of a building permit. The valuation gain was a major contributing factor behind last year's earnings outlook. Boryszew is not going to publish revised earnings estimates for 2012. In our December 10th research update, we had predicted that Boryszew's net profit for 2012 would receive a boost of PLN 120m from one-time events, including a PLN 65m gain on fair value revaluation of the Łucka property.

Boryszew reportedly eyeing Montenegrin aluminum smelter

Representatives of Impexmetal and Boryszew reportedly visited Montenegro in January, at the invitation of the local government, to look into the production facilities of the Aluminijuma Podgorica aluminum smelter. The Polish companies are allegedly interested in the smelter's bauxite resources which can be processed into aluminum. At this stage, the trip must have only been for reconnaissance. Impexmetal has talked in the past about possible plans to partner up with metal producers in Eastern Europe or the Balkans, but it did not mention any acquisitions.



Famur (Reduce)

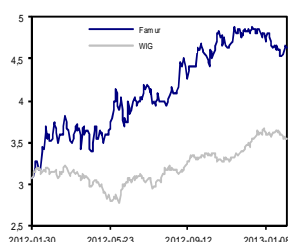
Current price: PLN 4.8

Target price: PLN 4.2

Analyst: Jakub Szkopek

Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	635.9	922.6	45.1%	1 525.0	65.3%	1 134.0	-25.6%	Number of shares (m)	481.5
EBITDA	115.8	262.0	126.2%	506.5	93.3%	316.6	-37.5%	MC (current price)	2 311.2
EBITDA margin	18.2%	28.4%		33.2%		27.9%		EV (current price)	2 311.4
EBIT	83.1	154.2	85.6%	382.2	147.8%	192.2	-49.7%	Free float	16.8%
Net profit	73.4	95.2	29.8%	286.6	200.9%	143.8	-49.8%		
P/E	31.5	24.3		8.1		16.1		Price change: 1 month	-1.3%
P/CE	21.8	11.4		5.6		8.6		Price change: 6 month	16.0%
P/BV	4.0	3.8		2.6		2.3		Price change: 12 month	45.5%
EV/EBITDA	19.7	9.6		4.6		6.8		Max (52 w week)	4.9
Dyield (%)	0.0	3.3		0.0		5.0		Min (52 w week)	3.2



Polish mines are forced to hold capital investment due to falling output (-9.8% y/y in 1-3Q'12), record-high stockpiles of thermal coal (7.0mmt at the end of 3Q'12), and increasing production costs. As a result, Famur faces a continuing downtrend in new orders which will weigh on 2013 profits. The earnings shrinkage expected this year will be exacerbated by base effects stemming from the high profits posted in 2012 (over PLN 50m per quarter in the first three quarters). The one development that could prop up Famur's share price in the near term is if the Company wins more damages from Kopex. Famur is scheduled to announce Q4 2012 earnings on March 1st. We are reiterating a reduce rating on FMF.

Coal industry cuts back investment

According to newspaper reports, a weak coal market is forcing Polish mines to cut back investment by an estimated PLN 0.5bn (0r 15%) to about PLN 3.1bn in 2013. The cuts are going to affect equipment suppliers like Kopex and Famur. We agree that suppliers of mining equipment will see a decrease in orders from domestic as well as foreign customers this year.

Famur lands PLN 50.2m contract

Famur signed a contract for delivery of 177 mechanical roof support units to the coal miner PKW with a net value of PLN 50.2m. Most of the supports will be delivered in Q2 2013. In Q1 2012, Famur signed new contracts with a total value of PLN 669m.

Caterpillar announces Q4 2012 results

Caterpillar generated sales of USD 16.1 billion in Q4 2012, marking a decrease of 7% from Q4 2011, with sales to resource industries up 14% to USD 5.8bn. In 2013, the Company expects to generate sales of USD 60-68bn (2012 sales amounted to USD 65.9bn), and earnings per share of USD 7-9 (2012 EPS was USD 8.48). Revenues in the Resource Industries segment are expected to decline this year due to capital expenditure cutbacks by mining customers.

TDJ eyes acquisition

TDJ, the controlling shareholder of Famur, PGO, and Zamet Industry, submitted the only bid for the acquisition of the State Treasury's 90.58% stake H. Cegielski (HCP), a Poznań-based manufacturer of engines and turbines for industrial applications. Looking at TDJ's past M&A activity, the standard procedure is that TDJ takes over a company, restructures it, and transfers it to one of its other subsidiaries. In case of HCP, the greatest potential for synergies would be achieved in conjunction with its castings supplier PGO. If the acquisition goes ahead, we assume TDJ will want to collect dividends from its subsidiaries as a way of raising necessary financing (if the price is high, TDJ may even want to sell some of its current other holdings). The highest payout can be had from PGO which had a net cash position of PLN 1.8m at the end of 2012 (and which generated a combined net profit of PLN 43m for 2011 and 2012, the distribution of which would bring the 2013 debt/EBITDA ratio up to 1.7x; DY would be 21%). In January, PGO took out a PLN 26.2m loan. Collection of a large dividend from Famur is less likely given its international expansion plans. As for Zamet Industry, after a PLN 19.2m payout in 2012, dividend yield in 2013 can be 5-7%.



Impexmetal (Buy)

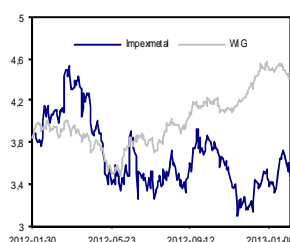
Current price: PLN 3.47

Target price: PLN 4.2

Analyst: Jakub Szkopek

Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	2 417.6	2 806.1	16.1%	2 602.1	-7.3%	2 577.8	-0.9%	Number of shares (m)	200.0
EBITDA	166.9	202.0	21.0%	212.1	5.0%	153.1	-27.8%	MC (current price)	694.0
EBITDA margin	6.9%	7.2%		8.1%		5.9%		EV (current price)	1 119.1
EBIT	105.5	142.0	34.6%	154.2	8.5%	93.3	-39.5%	Free float	37.3%
Net profit	76.8	104.6	36.2%	125.1	19.6%	60.4	-51.7%		
P/E	9.0	6.6		5.5		11.5		Price change: 1 month	1.7%
P/CE	5.0	4.2		3.8		5.8		Price change: 6 month	0.9%
P/BV	0.8	0.8		0.7		0.7		Price change: 12 month	-10.1%
EV/EBITDA	6.7	5.5		5.3		6.8		Max (52 w week)	4.5
Dyiel (%)	0.0	5.8		0.0		0.0		Min (52 w week)	3.1



Impexmetal's aluminum processing unit HAK has secured orders for over 90% of this year's output, and its current capacity utilization rates are on the rise, increasing from 88.2% in Q1 2012 to 86.7% in Q2 and 91.1% in Q3. Other factors expected to support the 2013 earnings of Impexmetal will include a 3.3% decline in gas costs and a 9.0% drop in power costs, as well as increasing prices of aluminum which will force price reductions by feedstock suppliers (who are currently generating margins of USD 280/t - the highest since 2007), resulting in margin expansion for aluminum processors. Further, Impexmetal sells over 40% of its output in EU markets, so an upward shift expected to occur in the leading indicators for European manufacturing should give a boost to its stock value. Impexmetal is scheduled to announce Q4 2012 earnings on February 21st. We are reiterating a buy rating for IPX.

Alcoa announces 2012 Q4 results

Like in the preceding quarters, Alcoa's downstream business did better in Q4 than the upstream business. The segment of rolled products, which is also the business of Poland's Impexmetal, reported record EBITDA per metric ton of USD 344 (up 53.1% y/y), on 6.7% higher sales volumes. Alcoa is seeing strong sales of rolled products to the aviation and auto industries, while sales to North American and European manufacturing customers remain flat. For 2013, Alcoa expects a 13.5% increase in sales of flat-rolled products (at 6.1% higher average aluminum prices).

Boryszew reportedly eyeing Montenegrin aluminum smelter

Representatives of Impexmetal and Boryszew reportedly visited Montenegro in January, at the invitation of the local government, to look into the production facilities of the Aluminijuma Podgorica aluminum smelter. The Polish companies are allegedly interested in the smelter's bauxite resources which can be processed into aluminum. At this stage, the trip must have only been for reconnaissance. Impexmetal has talked in the past about possible plans to partner up with metal producers in Eastern Europe or the Balkans, but it did not mention any acquisitions.

Impexmetal signs two-year sales contract with Valeo

Impexmetal signed a two-year contract for delivery of aluminum products with Valeo. The value of the contract is an estimated PLN 256m (PLN 128m a year).



Kernel (Accumulate)

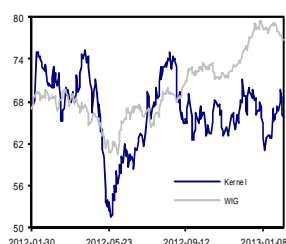
Current price: PLN 65.65

Target price: PLN 67.4

Analyst: Jakub Szkopek

Last Recommendation: 2013-01-21

(USD m)	2009/10	2010/11	change	2011/12	change	2012/13F	change	Basic data (PLN m)	
Revenues	1 020.5	1 899.1	86.1%	2 157.4	13.6%	2 732.9	26.7%	Number of shares (m)	79.7
EBITDA	190.0	309.6	62.9%	322.0	4.0%	382.1	18.7%	MC (current price)	5 231.2
EBITDA margin	18.6%	16.3%		14.9%		14.0%		EV (current price)	5 937.6
EBIT	167.5	277.3	65.5%	256.5	-7.5%	300.4	17.1%	Free float	61.8%
Net profit	152.0	226.3	48.9%	206.7	-8.6%	239.6	15.9%		
P/E	10.2	7.5		8.2		7.0		Price change: 1 month	1.3%
P/CE	8.9	6.5		6.2		5.3		Price change: 6 month	-7.5%
P/BV	2.6	1.7		1.4		1.2		Price change: 12 month	-3.7%
EV/EBITDA	8.7	5.9		6.0		5.1		Max (52 w week)	75.3
Dyiel (%)	0.0	0.0		0.0		0.0		Min (52 w week)	51.5



Kernel reported a 66.4% surge in bulk oil sales and a 82.1% increase in grain sales in the second quarter of fiscal 2013 (the fourth quarter of calendar 2012) as a result of an early kickoff of the sunflower crushing season combined with high grain prices which are driving inventory sell-offs by Ukrainian farmers. Also supporting sales is the Ukrainian government's policy of maximizing crop export volumes as a way of improving the balance of payments through increased inflows of foreign currencies. In our opinion, the high quarterly sales volumes offset the margin contraction recorded by Kernel's business units, resulting in a 21% year-on-year increase in quarterly EBITDA and a 28% increase in net profit. The achievement of a major portion of the full-year earnings guidance in the first half of the year (the highest delivery ratio in the last three years) is likely to encourage Kernel's Management Board to raise the guidance either after the second, or the third-quarter earnings announcement. Kernel is scheduled to announce Q4 2012 earnings on February 28th. We are reiterating an accumulate rating on KER.

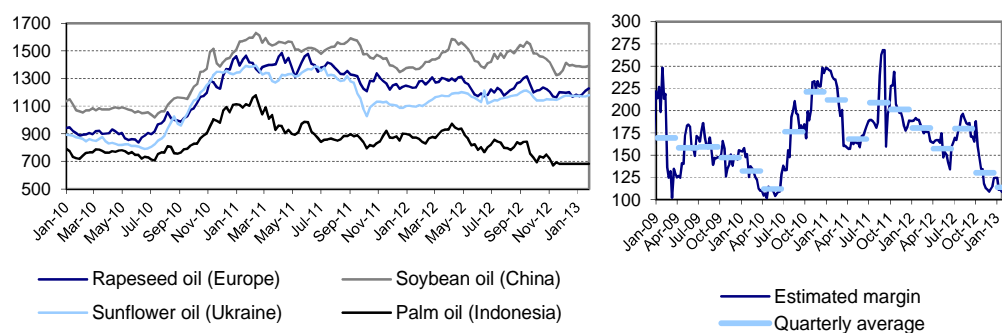
Kernel reports fiscal Q2 2013 operating data

Kernel reported that its grain sales volumes increased by a whopping 82.1% to 1.1 million tons in the second quarter of fiscal 2013 (calendar Q4 2012), and bulk oil volumes surged 66.4% to 0.38mmt, relative to the same quarter the year before. The soaring grain volumes stemmed from an acceleration of sales ahead of an expected ban on wheat exports, combined with higher global prices of grain which drove farmers to sell their inventories. In case of bulk oil, the volume expansion was a result of an early kickoff of the sunflower crushing season, supported by high seed stockpiles accumulated during the last harvest. Further, Kernel saw a 161.6% increase to 1.2mmt in the volumes of crops shipped through its export terminals in Ilyichevsk and Taman. Sales of bottled sunflower oil fell 28.2% in fiscal Q2 2013 as exports of bulk oil soared. The second quarter marked a record in Kernel's history. We estimate the consolidated quarterly revenue at USD 989.3m (up 66.4% y/y), EBITDA at USD 125.3m (+20.9%), and net profit at USD 83.4m (+28.0%). After the first half, the full-year forecast will be fulfilled in 63% for sales, 57% for EBITDA and 56% for the net profit. This compares to average forecast delivery ratios of 48% for revenues, 46% for EBITDA, and 47% for net profit, recorded in the last three years. We think the successful results for the first half of fiscal 2013 may prompt upward revisions to Kernel's full-year estimates,

Sunflower seed crushing margins shrink in Q3

Kernel's sunflower seed crushing margins shrunk to USD 125/t at the end of October, hitting their lowest levels since Q2'10. In Q4, the margin average was USD 131/t (-35% y/y), which compares to averages of USD 180/t in Q3 (-14% y/y); USD 157/t in Q2 (-7% y/y), and USD 180/t in Q1 (-15% y/y). The tightening stems from a decrease in sunflower oil prices across the world (on large supply from Argentina), combined with an increase in Ukrainian seed prices spurred by a lower harvest.

Kernel's sunflower oil margins (USD/t)



Source: BRE Bank Securities, Bloomberg, Agroperspectiva



Kęty (Reduce)

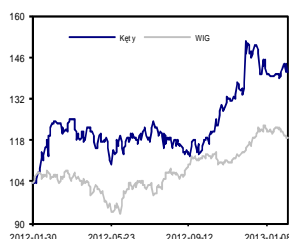
Current price: PLN 142.2

Target price: PLN 126.7

Analyst: Jakub Szkopek

Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	1 210.5	1 489.7	23.1%	1 572.8	5.6%	1 494.0	-5.0%	Number of shares (m)	9.2
EBITDA	185.3	221.6	19.6%	231.1	4.3%	195.9	-15.2%	MC (current price)	1 311.9
EBITDA margin	15.3%	14.9%		14.7%		13.1%		EV (current price)	1 534.0
EBIT	118.0	151.1	28.1%	152.2	0.8%	110.9	-27.1%	Free float	59.4%
Net profit	89.7	114.2	27.4%	119.9	4.9%	81.6	-31.9%		
P/E	14.6	11.5		10.9		16.1		Price change: 1 month	0.1%
P/CE	8.4	7.1		6.6		7.9		Price change: 6 month	17.3%
P/BV	1.5	1.4		1.3		1.3		Price change: 12 month	36.2%
EV/EBITDA	8.5	6.9		6.6		7.9		Max (52 w week)	151.1
Dyield (%)	2.8	2.8		3.5		6.4		Min (52 w week)	103.2



Consensus forecasts put Kęty's 2013 sales at PLN 1540.5m (8.5% less than the Company's own target), EBITDA at PLN 215.6m (3.1% below the guidance), and net profit at PLN 97.9m (6.3% below the guidance). Compared to our forecasts, the Company's revenue guidance is 12.7% higher, EBITDA is 13.6% higher, and net profit is 28.0% higher. In our view, the sales volume growth projected by Kęty in 2013 is an ambitious assumption, especially considering that the 2013 first-half results will be measured against a high year-ago base. At the current price level, based on the new guidance, Kęty is trading at 2013E P/E of 12.4 and EV/EBITDA of 6.8. The slowdown is expected to continue into H1 2013, led by reduced building activity (resulting in higher competition and contracting margins) and the zloty's appreciation relative to the euro (resulting in reduced profits on sales to Western Europe). We are reiterating a reduce rating on KTY.

Alcoa announces 2012 Q4 results

Alcoa reported Q4 2012 income from continuing operations of USD 0.06 per share, meeting analysts' expectations. Like in the preceding quarters, Alcoa's downstream business did better in Q4 than the upstream business. In the segment of engineered products and solutions (the business of Grupa Kęty), Q4 2012 EBITDA margin came in at a record 17.7% (+1.5% y/y). The segment is generating strong sales to the aviation industry, while demand from the European construction industry is dampening and sales to European and North American auto industries remain flat. The 2013 outlook for the engineered products segment is shaped by a 1-4% contraction expected in the European auto market, 6-10% shrinkage in the truck market, and a 4-6% decrease in the construction market, combined with 2-3% expansion in the packaging market.

Kęty announces FY2013 guidance

Kęty expects FY2013 revenue to be PLN 1683m (representing an increase of 7% from 2012). EBITDA is projected to come in at PLN 222.5m (-2% y/y), EBIT is estimated at PLN 140.8m (-4% y/y), and net profit is pegged at PLN 104.5m (-11% y/y). Capital expenditure is set at PLN 140.5m (vs. PLN 100.5m in 2012), including PLN 48.3m moved forward from projects originally scheduled for completion in 2012. In light of persisting global market uncertainties, Kęty will be aiming for a repeat of the 2012 earnings results in 2013. By operating segment, 2013 sales are projected at PLN 659m (+12% y/y) in Extruded Products and PLN 602m (+6% y/y) in Aluminum Systems, while the other segments are expected to generate flat revenue growth. The main factors shaping this year's results will include increasing sales volumes, improving effectiveness, higher costs of production (labor, D&A, services), and decreasing sales prices. Consensus forecasts put Kęty's 2013 sales at PLN 1540.5m (8.5% less than the Company's target), EBITDA at PLN 215.6m (3.1% below the guidance), and net profit at PLN 97.9m (6.3% below the guidance). Compared to our forecasts, the Company's revenue guidance is 12.7% higher, EBITDA is 13.6% higher, and net profit is 28.0% higher. In our view, the sales volume growth projected by Kęty in 2013 is an ambitious assumption, especially considering that the 2013 first-half results will be measured against a high year-ago base. At the current price level, based on the new guidance, Kęty is trading at 2013E P/E of 12.4 and EV/EBITDA of 6.8.



Kopex (Reduce)

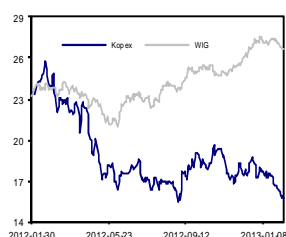
Current price: PLN 17.7

Target price: PLN 16.2

Analyst: Jakub Szkopek

Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	2 365.2	2 126.3	-10.1%	2 031.3	-4.5%	1 809.9	-10.9%	Number of shares (m)	74.3
EBITDA	184.6	274.7	48.8%	287.2	4.5%	251.3	-12.5%	MC (current price)	1 315.7
EBITDA margin	7.8%	12.9%		14.1%		13.9%		EV (current price)	1 913.9
EBIT	100.1	172.0	71.9%	176.1	2.4%	142.5	-19.1%	Free float	25.9%
Net profit	33.3	153.5	361.6%	95.7	-37.6%	88.8	-7.2%		
P/E	39.6	8.6		13.7		14.8		Price change: 1 month	-11.3%
P/CE	11.2	5.1		6.4		6.7		Price change: 6 month	-8.0%
P/BV	0.6	0.5		0.5		0.5		Price change: 12 month	-32.9%
EV/EBITDA	10.1	7.1		6.7		7.2		Max (52 w week)	25.8
Dyield (%)	0.0	0.0		0.0		3.4		Min (52 w week)	15.5



Polish mines are forced to hold capital investment due to falling output (-9.8% y/y in 1-3Q'12), record-high stockpiles of thermal coal (7.0mmt at the end of 3Q'12), and increasing production costs. As a result, Kopex faces a continuing downtrend in new orders which will weigh on 2013 profits. Moreover, the Company faces the impending economic slowdown with net debt 80% higher than ahead of the previous slowdown. Meanwhile, its customers in the Upper Silesian coal basin ran up record levels of accounts payable in Q3 2012 (16% higher than the four-year average), which means their equipment suppliers, including Kopex, are set for deterioration in liquidity. Given the bleak 2013 outlook, we would take advantage of any share price increase to sell Kopex shares, especially if the Company loses two of its remaining court cases against Famur. Kopex is scheduled to announce Q4 2012 earnings on March 1st. While we are reiterating a reduce rating on KPX.

Coal industry cuts back investment

According to newspaper reports, a weak coal market is forcing Polish mines to cut back investment by an estimated PLN 0.5bn (Or 15%) to about PLN 3.1bn in 2013. The cuts are going to affect equipment suppliers like Kopex and Famur. We agree that suppliers of mining equipment will see a decrease in orders from domestic as well as foreign customers this year.

Caterpillar announces Q4 2012 results

Caterpillar generated sales of USD 16.1 billion in Q4 2012, marking a decrease of 7% from Q4 2011, with sales to resource industries up 14% to USD 5.8bn. In 2013, the Company expects to generate sales of USD 60-68bn (2012 sales amounted to USD 65.9bn), and earnings per share of USD 7-9 (2012 EPS was USD 8.48). Revenues in the Resource Industries segment are expected to decline this year due to capital expenditure cutbacks by mining customers.



Rovese (Hold)

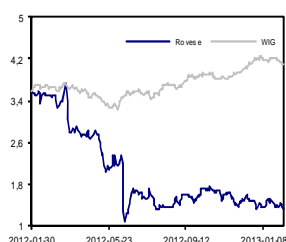
Current price: PLN 1.37

Target price: PLN 1.5

Analyst: Jakub Szkopek

Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	1 531.5	1 638.2	7.0%	1 739.2	6.2%	2 310.4	32.8%	Number of shares (m)	811.4
EBITDA	253.5	250.7	-1.1%	193.4	-22.8%	302.0	56.1%	MC (current price)	1 111.7
EBITDA margin	16.6%	15.3%		11.1%		13.1%		EV (current price)	1 317.4
EBIT	142.0	135.8	-4.4%	75.7	-44.2%	158.5	109.4%	Free float	
Net profit	103.0	87.8	-14.8%	-1.3		96.9			
P/E	2.9	4.2				11.5		Price change: 1 month	-2.9%
P/CE	1.4	1.8		9.6		4.6		Price change: 6 month	-0.7%
P/BV	0.2	0.2		0.5		0.5		Price change: 12 month	-62.4%
EV/EBITDA	4.5	4.9		6.8		5.8		Max (52 w week)	3.8
Dyiel (%)	0.0	0.0		0.0		0.0		Min (52 w week)	1.1



After a less-than-impressive third quarter, we expect Rovese to post equally disappointing results for the fourth quarter of 2012, including falling volumes and low profit margins stemming from inventory sell-offs at near cost. The 2013 outlook for the Polish market of ceramic tiles and fittings is bleak. In Q1 2013, Rovese is scheduled to present revised estimates concerning the companies it is expected to acquire from its main shareholder. If these estimates differ from the original projections, this may send the Company's share price falling. Rovese is scheduled to announce Q4 and FY2012 earnings on March 21st. We are reiterating a hold rating on RSE.

Rovese finalizes acquisition of Meissen Keramik, Pilkington's Manufacturing, OOO Pilkington's East and OOO Opoczno RUS

Rovese signed the final agreements concerning acquisition of interests in Meissen Keramik, Pilkington's Manufacturing, OOO Pilkington's East, and OOO Opoczno RUS after satisfying the condition of securing financing for the deal through a stock issue.

Prices of building materials in December

In December, prices of ceramic tiles and kitchen and bathroom equipment as quoted by the wholesaler PSB remained steady, with the average quarterly Q4 price up 5.6% relative to the same period in 2011. PSB saw a 31% y/y and 45% m/m plunge in December sales, but its full-year sales showed 1% expansion from 2011. The falling monthly sales can be attributed to unfavorable weather, specifically heavy snowfall.

Month-on-month changes in prices of ceramic tiles and bathroom and

Dec'11	Jan'12	Feb'12	Mar'12	Apr'12	May'12	Jun'12	Jul'12	Aug'12	Sep'12	Oct'12	Nov'12	Dec'12
0.0%	1.3%	1.1%	0.0%	0.0%	0.9%	0.0%	0.0%	0.6%	0.8%	0.7%	0.0%	0.0%

Source: PSB

Construction

Polish construction in December

Polish construction output was down 24.8% y/y but up 11.6% m/m in December 2012. Adjusted for seasonal factors, construction was down 21.5% from December 2011 and 10.1% from November 2012.

PGE surprised by high bids for the construction of new power plant in Turów

In a tender for the construction of a new power plant in Turów, held by the power producer PGE, Alstom offered PLN 4.72bn, and a consortium of Hitachi and Budimex submitted a gross bid of PLN 4.97bn, translating to respective per-megawatt hour prices of EUR 2.55m and EUR 2.68bn. This is much more than PGE's own estimate of PLN 2.5bn total and EUR 1.35m/MW, giving rise to the risk that the utility will back out of the project.

Major power plant contract to be awarded in Q1

Polenergia Holdings, the energy arm of Kulczyk Investments, is negotiating the terms of a potential contract for construction of two power-generating plants with a combined capacity of ca. 2000 MW with four bidders: Alstom, Siemens, Shanghai Electric Group, and Polimex. Polenergia is expected to announce the winner by the end of March 2013. Alstom and Shanghai Electric are willing to co-finance the project.

EU holds funding for three Polish roads

The European Commission has withheld PLN 3.5bn in funding for three road infrastructure projects pending an investigation into possible price fixing practices by the contractors. If these accusations are confirmed, Poland will be forced to withdraw the funding applications concerning the affected projects.

National Road Fund may hit liquidity bump in May

According to some news outlets, Poland's National Road Fund faces a liquidity shortage in May due to the suspension of the PLN 3.5bn funding allocation by the European Commission.

Energomontaż Południe

EPD goes into administration

A District Court in Katowice has agreed to put Energomontaż Południe into administration. The Company is proposing to pay back 61% of all creditor claims over PLN 100,000 as part of the settlement agreement.

Mostostal Płock

CEO on 2012, 2013 outlook

The CEO of Mostostal Płock (MSP) says the Company will post revenue of about PLN 140m, and a net profit, for 2012. MSW has accumulated a 2013 order backlog of PLN 49-56m. The Company has not decided yet on whether to pay dividends from 2012 profits.

PBG

Debt restructuring update

A PBG creditor was quoted by the *Parkiet* business daily as saying that most of the Company's creditors are pushing for a conversion of 80-100% of the debt into equity at PLN 1 a share, conditioned upon removal of the lien placed on the shares of Rafako. According to estimates by PWC, conversion of 80% of PBG's debt to equity would allow the creditors to recover 60-70% of the nominal value of their claims by 2016-2017. Liquidation of PBG would leave the creditors with just 20% of their claims.

Polimex Mostostal

First months of 2013 will mark losses

The CEO of Polimex says that first months of 2013 will see operating losses driven by seasonal effects. It may not be ruled out that in Q4 2012 the Company will create reserves for construction contracts. The solvency of the Company will stabilize in Q2 2013 – when overdue payables (the CEO does not want to comment on the exact amount) are settled. As of 30 September 2012, Polimex's order backlog amounted to PLN 12.76bn, of which 54.6% were power engineering contracts. The Company's Management wants power engineering to eventually constitute 40% of the order backlog.

Polimex backs out of PLN 34.5m contract

Polimex terminated a PLN 34.5m contract for the construction of a waste management facility signed with the municipality of Świecie after the municipality failed to provide payment guarantees.

Tesgas**Tesgas presents 2013 outlook**

Tesgas expects to generate revenue of PLN 70m in 2013, and it will be happy if it can end the year in the black. The Company has accumulated a 2013 order backlog of ca. PLN 30m, which is comparable to the backlog reported a year ago. The recent sale of a loss-making subsidiary with negative equity is going to have a positive impact on Q4 2012 results.

Trakcja-Tiltra**Trakcja-Tiltra fills up 2013 / 2014 order backlog**

Trakcja-Tiltra (TRK) has accumulated a total order backlog of PLN 3.4bn, enough to secure delivery of nearly all of the revenues forecasted in 2013, and a major portion of the topline projected for 2014. In an increasingly competitive marketplace, TRK may eventually be forced to revisit its policy of not taking on low-margin contracts. The Company is considering booking losses stemming from the bankruptcy of PNI against 2012 earnings. As of 31 December 2012, it had debt totaling PLN 279.9m.

PLN 112.5m contract

Trakcja-Tiltra's subsidiary Kauno Tiltai signed a contract for the construction of road E85 in Lithuania (Vilnius-Kaunas-Klaipeda) for a fee of PLN 112.5m, representing 8.5% of expected 2012 revenue of the Trakcja-Tiltra Group.



Budimex (Hold)

Current price: PLN 70.9

Target price: PLN 66.8

Analyst: Maciej Stokłosa

Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	4 430.3	5 516.7	24.5%	5 975.7	8.3%	4 345.3	-27.3%	Number of shares (m)	25.5
EBITDA	352.6	349.8	-0.8%	187.8	-46.3%	204.7	9.0%	MC (current price)	1 810.1
EBITDA margin	8.0%	6.3%		3.1%		4.7%		EV (current price)	993.9
EBIT	331.4	319.4	-3.6%	150.0	-53.0%	166.0	10.7%	Free float	30.9%
Net profit	267.4	260.9	-2.4%	112.0	-57.1%	139.3	24.3%		
P/E	6.8	6.9		16.2		13.0		Price change: 1 month	-9.3%
P/CE	6.3	6.2		12.1		10.2		Price change: 6 month	15.0%
P/BV	2.7	2.5		5.0		3.6		Price change: 12 month	-24.0%
EV/EBITDA		0.5		5.3		6.4		Max (52 w week)	88.4
Dyield (%)	9.6	12.8		15.5		0.0		Min (52 w week)	45.9



We expect a strong fourth quarter showing from Budimex, with net profit close to PLN 80m and net cash upwards of PLN 1 billion, owing to contract advances. As for 2013, we are confident Budimex will continue reporting good profits thanks to the provisions set aside in past years as part of a cautious approach to contract valuation. The outlook for 2014 is clouded by more uncertainty. Budimex has secured only PLN 1.1bn-worth of orders for delivery in 2014 so far, and how much more business it can acquire going forward depends on a swift passing of the new 2014-20 EU budget and the subsequent fund allocations. If the processes take too long, the Company may have trouble securing enough business for 2014 to generate significant profits. We do not expect major downsizing at Budimex ahead of the possible 2014 slowdown – we think the Company will want to retain skilled workforce for the subsequent recovery. Budimex's backlog is likely to keep shrinking until the new EU budget is passed, possibly landing below PLN 4.5bn at the end of Q2 2013 (not including PNI). We are reiterating a neutral rating on BDX.

CEO on 2013 margins

CEO Blocher is expecting that in 2013 net margins will come in at 3-4%, with margins in the commercial segment reaching 12%. The Company will launch 3-4 developing projects this year, including 500-700 flats. Budimex would like to bridge the market gap left by PBG by winning gas or energy contracts. In 2013 the Company is not planning downsizing or wage reductions.

Strong Q4 2012 home sales

In Q4 2012 Budimex signed preliminary contracts for the sale of 193 flats (adding to a total of 515 in 2012, which compares to 682 pre-sales agreements signed in 2011). Sales finalized in the quarter amounted to 363 units.

Budimex wins PLN 149.6m bid

The Polish road authority GDDKiA chose Budimex to continue construction of the A4 motorway based on a bid of PLN 149.6m, representing 2.5% of the Company's expected 2012 revenue. Budimex won against three other bidders and the runners up were 17.7%, 21.5%, and 23.1% more expensive. The low price offered by Budimex may be attributed to the fact that the Company is also constructing a neighboring stretch of the same motorway.

Budimex secures overdraft facility

Budimex has secured a PLN 50m overdraft facility with Bank Handlowy.



Elektrobudowa (Reduce)

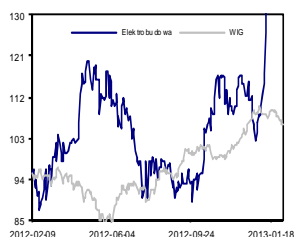
Current price: PLN 108

Target price: PLN 121.2

Analyst: Maciej Stokłosa

Last Recommendation: 2013-02-06

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	786.7	945.2	20.1%	1 008.2	6.7%	1 124.0	11.5%	Number of shares (m)	4.7
EBITDA	64.0	61.6	-3.7%	52.9	-14.1%	59.5	12.5%	MC (current price)	512.7
EBITDA margin	8.1%	6.5%		5.2%		5.3%		EV (current price)	494.3
EBIT	53.1	49.3	-7.1%	41.3	-16.2%	47.3	14.5%	Free float	43.5%
Net profit	45.1	38.1	-15.5%	37.1	-2.8%	39.8	7.4%		
P/E	11.4	13.4		13.8		12.9		Price change: 1 month	31.5%
P/CE	9.2	10.2		10.5		9.9		Price change: 6 month	53.7%
P/BV	1.6	1.6		1.5		1.4		Price change: 12 month	
EV/EBITDA	6.9	7.7		9.3		8.3		Max (52 week)	144.9
Dyiel (%)	3.2	5.6		3.7		2.3		Min (52 week)	87.0



Elektrobudowa has a very positive outlook ahead provided by planned investment in power transmission infrastructure and generation capacity. However, these opportunities will not start to materialize before 2014, with the bulk of the projects expected to gather steam in 2015-2016. In the mean time, Elektrobudowa faces a temporary slowdown in 2013 as margins in the construction sector continue to be under pressure. As for 2012 fourth-quarter results, we expect a solid showing which, however, will not bring the whole-year earnings much above the Company's guidance. Elektrobudowa is holding off the announcement of its FY2013 guidance until March due to an uncertain market outlook. After the recent price increase, ELB stock is trading at expensive multiples of 2013E P/E of 16.9, EV/EBITDA of 11, and EV/S of 0.58, which make it less attractive than a number of smaller companies with less liquidity, lower multiples, and equally buoyant prospects. We are downgrading ELB from hold to reduce.

Elektrobudowa wins PLN 439.3m contracts

Elektrobudowa was selected by the Polish Transmission System Operator PSE to perform extensions and upgrades on a 220/110 kV substation in Skawina (based on a bid of PLN 224.3m), and a substation in Byczyna (PLN 215m). The combined value of the two contracts is PLN 439.3m, representing 43.6% of the Company's expected 2012 revenue.



Erbud (Buy)

Current price: PLN 14.01

Target price: PLN 19.2

Analyst: Maciej Stokłosa

Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	1 108.1	1 527.8	37.9%	1 213.7	-20.6%	1 126.2	-7.2%	Number of shares (m)	12.6
EBITDA	33.0	-4.5		35.5		36.8	3.6%	MC (current price)	176.1
EBITDA margin	3.0%	-0.3%		2.9%		3.3%		EV (current price)	193.6
EBIT	24.9	-12.3		27.7		28.9	4.2%	Free float	19.3%
Net profit	15.2	-20.4		16.9		19.4	14.8%		
P/E	11.6			10.4		9.1		Price change: 1 month	-0.8%
P/CE	7.6			7.1		6.4		Price change: 6 month	0.4%
P/BV	0.7	0.8		0.7		0.7		Price change: 12 month	-19.6%
EV/EBITDA	1.9			5.4		4.8		Max (52 w week)	23.2
Dyield (%)	3.6	0.2		0.0		1.9		Min (52 w week)	11.3



The Modlin airport runway damage problem has turned out to be more of a headache for Erbud than we would have thought, but it is not going to prevent the Company from delivering our financial forecasts in FY2012 even despite a small allowance which we expect to see expensed against Q4 profits. The reasons why the Modlin runway is cracking are being investigated by independent experts, and the findings are expected in a few weeks. Erbud suspects that the culprit is the chemicals mixed used to deice the runway. Erbud's Q4 2012 announcement may show a positive net cash balance. The Company is poised to sign new contracts totaling PLN 200-plus million soon. We are reiterating a buy rating on ERB.

Modlin airport remains closed

Building authorities decided to keep the Modlin airport closed as the runway is still susceptible to cracking and has to be resurfaced. We estimate the costs at PLN 5m. The unsuccessful repairs performed to date cost PLN 0.5m. The runway should be reopened by April. The Modlin airport is claiming PLN 0.9m in compensation for lost profits from Erbud. Erbud says the claim is not valid under the original contract.



Mostostal Warszawa (Hold)

Current price: PLN 13.8

Target price: PLN 12.3

Analyst: Maciej Stokłosa

Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	2 570.4	3 396.3	32.1%	3 352.4	-1.3%	2 207.9	-34.1%	Number of shares (m)	20.0
EBITDA	119.7	-104.7		-53.4	-48.9%	57.3		MC (current price)	276.0
EBITDA margin	4.7%	-3.1%		-1.6%		2.6%		EV (current price)	582.1
EBIT	84.3	-144.8		-89.4	-38.3%	21.2		Free float	27.7%
Net profit	62.5	-124.5		-87.3	-29.9%	3.2			
P/E	4.4					86.8		Price change: 1 month	10.1%
P/CE	2.8					7.0		Price change: 6 month	8.6%
P/BV	0.5	0.7		0.9		0.8		Price change: 12 month	-20.0%
EV/EBITDA						8.0		Max (52 w week)	22.2
Dyiel (%)	13.0	4.5		0.0		0.0		Min (52 w week)	11.3



MSW's strong January performance can no doubt be partly attributed to its selection by Tauron to be the general contractor (jointly with Rafako) in a power plant project located in Jaworzno. In certain respects, MSW's situation is the opposite of the situation of rival Budimex. Budimex is expected to report strong financial results for Q4 2012 (PLN 80m net profit and over PLN 1bn net cash), but its outlook for 2014 is uncertain due to a small order backlog (PLN 1.1bn) and possible delays in the adoption of the new 2014-20 EU budget. In turn, MSW's Q4 results will be weak (with a net loss over PLN 50m and an only marginally improved balance sheet), but its outlook for 2014 is strong (the Jaworzno contract will drive the value of the 2014 backlog up to PLN 1.4-1.5bn). We are reiterating a hold rating on MSW even though its stock price has overshot our target.

MSW wins power plant bid

Tauron selected Rafako and Mostostal Warszawa to build a power plant in Jaworzno based on a bid of PLN 4.4bn. Rafako's share in the fee is 60-70% (PLN 2.6-3.1bn, equivalent to 201-234% of expected 2012 revenue), and MSW's share is 30-40% (PLN 1.3-1.8bn, representing 39-52% of expected 2012 revenue). The consortium won against a cheaper bid by Covec (PLN 4.0bn), and underbid SNC Lavalin (PLN 4.8bn) and Alstom (PLN 4.85bn).

MSW reduces costs

Mostostal Warszawa has reported generating savings of an estimated PLN 45m to date as a result of reductions in its administrative expenses. The Company expects to save even more going forward through centralized purchases and more efficient construction operations. The costs of the restructuring exercise are estimated at PLN 7m. MSW has developed a financing strategy for the years 2013-15.

PLN 48.7m contract

Mostostal Warszawa signed a contract for reformation of the Elbląski channel for a fee of PLN 48.7m representing 1.6% of its expected 2012 revenue. In related news, MSW submitted the second-lowest bid for the construction of an entertainment venue in Toruń, offering PLN 128.4m net. The sole counter-bidder, Aldesa is offering PLN 124.4m. Unfortunately, both bids are higher than budgeted by the project owner.



Rafako (Hold)

Current price: PLN 8.42

Target price: PLN 9.2

Analyst: Maciej Stokłosa

Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	1 188.1	1 118.5	-5.9%	1 314.8	17.6%	1 229.3	-6.5%	Number of shares (m)	69.6
EBITDA	72.1	77.0	6.8%	70.0	-9.1%	86.3	23.3%	MC (current price)	586.0
EBITDA margin	6.1%	6.9%		5.3%		7.0%		EV (current price)	714.2
EBIT	60.2	64.3	6.9%	52.4	-18.6%	73.5	40.5%	Free float	26.8%
Net profit	43.6	58.4	34.0%	47.1	-19.4%	50.4	7.0%		
P/E	13.4	10.0		12.4		11.6		Price change: 1 month	-1.8%
P/CE	10.6	8.2		9.1		9.3		Price change: 6 month	0.6%
P/BV	1.5	1.4		1.3		1.2		Price change: 12 month	1.8%
EV/EBITDA	5.5	7.2		10.2		7.6		Max (52 w week)	11.3
Dyield (%)	3.6	6.8		0.0		0.0		Min (52 w week)	5.9



Rafako's value is dependent on many variables. The developments that could add to the value, and improve the balance sheet, include resolution of the dispute with Alstom, successful recovery of compensation from PBG, and enforcement of the collateral securing a defaulting loan extended to Hydrobudowa. Combined, the resolution of these issues could bring in as much as PLN 400m in cash. In a less optimistic scenario, the cash inflows will be much smaller and/or delayed, and Rafako will have to write off a large portion of accounts receivable. Rafako has recently won a bid for the construction of a power plant jointly with Mostostal Warszawa. The Company is waiting for a decision on whether its other prospective customer, PGE, will go ahead with a power plant project in Opole, which means Rafako, as leader of the general contractor consortium, has not yet been able to replace the cash deposit placed as performance bond for the project with a bank guarantee. Corporate transparency remains a problem at Rafako after last year's conflict between the old Board and the main shareholder, PBG. We are reiterating a neutral rating on RFK.

Rafako wins power plant bid

Tauron selected Rafako and Mostostal Warszawa to build a power plant in Jaworzno based on a bid of PLN 4.4bn. Rafako's share in the fee is 60-70% (PLN 2.6-3.1bn, equivalent to 201-234% of expected 2012 revenue), and MSW's share is 30-40% (PLN 1.3-1.8bn, representing 39-52% of expected 2012 revenue). The consortium won against a cheaper bid by Covec (PLN 4.0bn), and underbid SNC Lavalin (PLN 4.8bn) and Alstom (PLN 4.85bn).

Lien on Rafako shares to be released

Adaptorinvest issued a statement saying that it agreed to a removal of the lien placed on Rafako shares.



Ulma Construcción Polska (Accumulate)

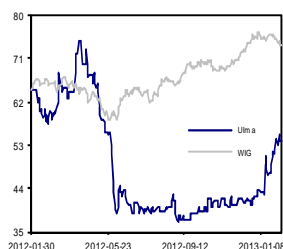
Analyst: Maciej Stokłosa

Current price: PLN 43.31

Target price: PLN 56.2

Last Recommendation: 2013-02-06

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	215.4	294.5	36.7%	256.5	-12.9%	224.2	-12.6%	Number of shares (m)	5.3
EBITDA	104.2	155.6	49.3%	114.9	-26.1%	76.0	-33.8%	MC (current price)	227.6
EBITDA margin	48.4%	52.8%		44.8%		33.9%		EV (current price)	286.3
EBIT	27.3	72.5	165.3%	33.3	-54.0%	4.7	-86.0%	Free float	15.8%
Net profit	10.2	49.3	382.3%	20.1	-59.2%	0.6	-96.8%		
P/E	22.2	4.6		11.3		352.7		Price change: 1 month	24.7%
P/CE	2.6	1.7		2.2		3.2		Price change: 6 month	37.4%
P/BV	0.8	0.7		0.7		0.7		Price change: 12 month	-16.1%
EV/EBITDA	4.1	2.3		2.5		3.3		Max (52 w week)	74.8
Dyield (%)	0.0	3.6		6.1		2.7		Min (52 w week)	37.2



Ulma generates significant cash flows which can be distributed as dividends. Based on our conservative forecasts, which assume a zero profit in 2013, the Company is trading at 2013E EV/EBITDA of 4.1. The 2013 slowdown is already priced in. As for Ulma's prospects in 2014 and 2015, they depend on the timely approval of the new EU budget, and successful acquisition of rental formwork contracts from power plants. Depending on when it is passed, the new EU budget will start driving building activity in Poland either in 2014 or 2015. The business opportunities stemming from the planned power plant contracts can be estimated at PLN 80-90m in case of Ulma, whose only real competition here is Peri. Ulma continues to be traded at a discount to book value. The market value of its assets is higher than their book value (the Company allows very short depreciation periods). We are downgrading ULM from buy to accumulate to reflect a recent price increase.



Unibep (Buy)

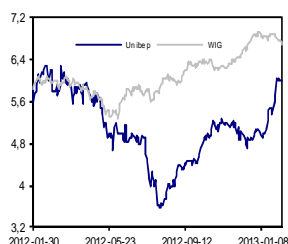
Current price: PLN 4.95

Target price: PLN 6.8

Analyst: Maciej Stokłosa

Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	657.9	939.4	42.8%	876.2	-6.7%	936.5	6.9%	Number of shares (m)	33.9
EBITDA	35.7	39.0	9.3%	29.3	-24.9%	29.3	0.0%	MC (current price)	167.9
EBITDA margin	5.4%	4.2%		3.3%		3.1%		EV (current price)	193.1
EBIT	29.8	33.8	13.5%	24.0	-28.8%	24.0	-0.2%	Free float	27.8%
Net profit	22.7	21.1	-6.9%	17.0	-19.4%	18.8	10.6%		
P/E	7.4	8.0		9.9		8.9		Price change: 1 month	21.4%
P/CE	5.9	6.4		7.5		7.0		Price change: 6 month	63.8%
P/BV	1.2	1.1		1.0		0.9		Price change: 12 month	3.6%
EV/EBITDA	5.4	4.9		6.6		6.5		Max (52 w week)	6.3
Dyield (%)	2.0	2.4		0.0		0.0		Min (52 w week)	3.6



In 2013, Unibep may see expansion in margins provided construction costs decline. As for revenues, a 2013 order backlog of PLN 793m accumulated so far ensures Unibep will meet our forecasts. The prefab home unit has also built a thick order book of PLN 101m for next year (after 2012 revenue estimated at PLN 78m). Unibep's outlook for 2013 and 2014 also depends on successful procurement of financing for new real-estate projects (two residential projects which are factored in our forecasts and one commercial project which is not). The more projects the Company launches, the stronger its earnings prospects, but also the higher its debt. Looking at its large order backlog, low-risk contracts, and solid earnings, Unibep is an attractive investment pick in our view (the Company's EV/EBITDA ratio is amplified by the debt financing the real-estate business (counted twice, once as cost and once as EV). We are reiterating a buy rating on UNI.

PLN 36m road contract

Unibep is going to expand roads #645 and #648 in the podlaskie voivodeship for a fee of PLN 36m, representing 3.8% of its expected 2012 revenue.



ZUE (Hold)

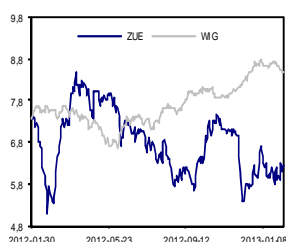
Current price: PLN 6.47

Target price: PLN 6.6

Analyst: Maciej Stokłosa

Last Recommendation: 2013-01-07

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	392.4	525.3	33.9%	496.2	-5.5%	482.7	-2.7%	Number of shares (m)	22.0
EBITDA	32.4	35.6	9.9%	21.5	-39.7%	24.3	13.4%	MC (current price)	142.3
EBITDA margin	8.2%	6.8%		4.3%		5.0%		EV (current price)	204.9
EBIT	25.6	28.7	12.0%	13.9	-51.5%	16.7	20.0%	Free float	22.2%
Net profit	16.8	21.3	26.5%	10.5	-50.4%	11.3	7.3%		
P/E	6.2	6.7		13.5		12.6		Price change: 1 month	-3.1%
P/CE	4.4	5.1		7.9		7.5		Price change: 6 month	-2.2%
P/BV	0.7	0.8		0.8		0.7		Price change: 12 month	-14.8%
EV/EBITDA	3.9	4.4		9.5		6.0		Max (52 w week)	8.5
Dyield (%)	1.1	0.0		0.0		0.0		Min (52 w week)	5.1



After a strong first half of the year, ZUE posted disappointing results for Q3 2012. Fourth-quarter profits are also expected to show year-on-year drops. For 2013, however, we expect ZUE to post steady results thanks to lower costs. ZUE has accumulated a 2013 order backlog of PLN 300m so far. It submitted the lowest bids on two large contracts (worth PLN 357.4m and PLN 490.1m), and the signing of at least one of these contracts will be enough to ensure strong 2013 revenues. We are reiterating a neutral rating on ZUE.

PLN 42.0m contract

ZUE received an order from the national railroad operator PKP PLK for modernization of a train station along the Warsaw-Krakow route for a fee of PLN 42.0m, representing 8.7% of the expected 2013 revenue. The contract is due in 2013.

PLN 26.3m contract

ZUE is going to modernize tram lines in Sosnowiec for a fee of PLN 26.3m, representing 5.3% of its expected 2012 revenue.

Property Developers

Housing

Summary of Q4 2012 home sales

WSE-listed real-state developers, combined, sold 8% fewer homes in Q4 2012 than in Q4 2011, and 18% fewer than in Q3 2012. Calculated for the ten companies in our coverage, annual 2012 sales were down 13% from 2011. The only two companies that grew sales last year were Robyg and Ronson. Marvipol posted the biggest sales drop of 29%. For 2013, we anticipate flat sales of new homes by publicly-traded developers. Companies whose housing inventories include large new residential developments (Dom Development, JWC, Polnord) may see their sales grow this year, but falling profit margins make the real estate sector an unattractive destination for investors.

2012 home sales by developer

	Q4 12	Q4 11	Y/Y change	Q3 12Q/Q change	2012	2011	Pct. chg	
Dom Development	334	455	-27%	360	-7%	1 435	1 735	-17%
Robyg	297	236	26%	264	13%	1 113	1 019	9%
JWC**	306	297	3%	200	53%	853	1 029	-17%
Polnord	255	289	-12%	209	22%	907	1 083	-16%
Budimex Nieruchomości	193	132	46%	112	72%	515	682	-24%
Gant*	217	289	-25%	140	55%	778	925	-16%
InPro	70	118	-41%	108	-35%	356	426	-16%
Ronson	119	58	105%	94	27%	381	358	6%
Marvipol	86	175	-51%	94	-9%	355	503	-29%
Wikana	88	93	-5%	73	21%	326	335	-3%
Total	1 965	2 142	-8%	1 654	19%	7 019	8 095	-13%

Source: Companies, PAP; *sales before cancellations, ** sales before cancellations incl. Wronia project

REAS on Polish housing market in Q4 2012

According to the latest report by REAS, the slowdown in home sales anticipated this year will be somewhat mitigated by applications for subsidized mortgage loans submitted through 31 December 2012, which will be processed by banks for the next six months. Calculated for the six largest Polish cities, about 25% of the total home sales on average (the ratio goes up to over 50% for Gdańsk and Wrocław) generated in Q4 2012 involved subsidized loans. Nearly 6.7 thousand new flats were listed for sale during the quarter (up 5% q/q and down 8% y/y), and the number of finalized sales amounted to 8.4 thousand (+18% q/q, +14% y/y). New home inventory amounted to 54 thousand units at 31 December, marking a decline of 5% from the June peak. REAS predicts that housing developers will start feeling the impact of a lack of home subsidies in Q2 2013. Companies that find themselves the most strapped for cash will be forced to cut prices to ensure sufficient sales volumes. The Polish housing industry is probably set for consolidation. REAS believes a rebound in the housing market can occur in 2014 provided the economy regains momentum and the Polish government introduces new incentives for homebuyers.

Rank Progress

Rank Progress forms joint venture with Canadian partner

Rank Progress has formed a joint venture with Waste to Energy Canada Inc.(WtEC), Canadian provider of waste management solutions, created to engage in projects involving the development and management of power plants. The partners have identified eight possible locations for waste-to-energy plants, and they are planning to develop projects worth EUR 200m over a period of at least five years. Rank Progress estimates the payback period at 5-6 years not taking into account the planned electricity sales and possible EU subsidies. Rank Progress and WtEC are hoping to gain the backing of EDC, Canada's export credit agency. The JV is the next step in Rank Progress's expansion into a new market of waste management solutions. We have no way of determining whether the payback period estimated by the Company is feasible at this stage. The Polish waste management market is just starting to take off. The technology offered by WTEC is still unknown in our country.

TUP

TUP sells land

TUP Property signed a preliminary contract for the sale of a property in Zakroczym to Inter Cars. The price set for the 11.1874 hectare property is PLN 4.5m net. The final agreement is to be signed by 30 September 2013. As of 30 September 2012, the Zakroczym property had a book value of PLN 5.5m. The selling price is 18% lower. TUP is trading at P/B ratio of 0.20. The sale is a positive development.



BBI Development (Accumulate)

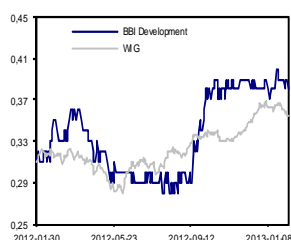
Current price: PLN 0.39

Target price: PLN 0.42

Analyst: Piotr Zybala

Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	67.1	69.6	3.7%	70.5	1.2%	90.3	28.1%	Number of shares (m)	523.1
EBITDA	28.5	24.6	-13.7%	9.1	-63.2%	10.4	15.1%	MC (current price)	204.0
EBITDA margin	42.5%	35.3%		12.8%		11.5%		EV (current price)	413.2
EBIT	28.4	24.4	-14.0%	8.7	-64.5%	10.0	15.7%	Free float	65.2%
Net profit	12.0	15.8	32.2%	1.5	-90.3%	4.5	195.5%		
P/E	17.1	12.9		133.0		45.0		Price change: 1 month	0.0%
P/CE	16.8	12.7		105.6		41.3		Price change: 6 month	31.0%
P/BV	0.9	0.8		0.8		0.8		Price change: 12 month	22.6%
EV/EBITDA	10.5	14.2		45.6		54.5		Max (52 w week)	0.4
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 w week)	0.3



BBD has been trading sideways in the PLN 0.37-0.39 range for the past four months, and we expect its price to remain in the lateral trend through February. Later this year, a catalyst for a rebound should be provided by the sale of the Plac Unii development, expected to generate free cash flow as high as PLN 180m. All of BBD's future projects are in attractive Warsaw locations. They are conditioned on obtainment of, first, financing, and, then, administrative permits. The sale of Plac Unii this year will clear the path for new projects and ensure their prompt implementation. We are reiterating an accumulate rating on BBD.

BBD secures occupancy permits for Szczecin flats

BBI Development has secured occupancy permits for two residential buildings in the "Małe Błonia" development in Szczecin. We are guessing the buildings make up the first stage of the "Małe Błonia" development. We had expected they would be partly recognized in Q4 2012 accounts, but the timing of the occupancy permits means the profits may be booked later. The "Małe Błonia" development has a marginal influence on BBD's earnings, generating single-digit margins.



Dom Development (Sell)

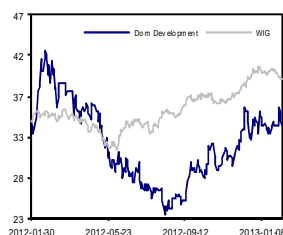
Current price: PLN 32.21

Target price: PLN 27.8

Analyst: Piotr Zybala

Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	513.7	584.3	13.7%	902.3	54.4%	745.5	-17.4%	Number of shares (m)	24.7
EBITDA	61.4	105.6	72.0%	130.6	23.6%	93.7	-28.3%	MC (current price)	796.1
EBITDA margin	12.0%	18.1%		14.5%		12.6%		EV (current price)	817.9
EBIT	59.1	103.2	74.7%	127.5	23.6%	90.6	-28.9%	Free float	26.6%
Net profit	40.4	82.7	104.5%	102.8	24.3%	73.1	-28.9%		
P/E	19.6	9.6		7.7		10.9		Price change: 1 month	-2.9%
P/CE	18.5	9.3		7.5		10.5		Price change: 6 month	29.1%
P/BV	1.0	0.9		0.9		0.9		Price change: 12 month	0.0%
EV/EBITDA	13.6	8.5		6.3		8.3		Max (52 week)	42.8
Dyield (%)	2.5	2.8		4.6		5.8		Min (52 week)	23.5



Now that we know the home sales figures for Q4 2012, we are able to tell with a high degree of certainty that Dom Development will not achieve our annual 2012 net profit forecast of PLN 102m. Delayed recognition of flat deliveries in the "Akropol" development will shave about PLN 10m off last year's bottom line, while adding to the profit for 2013. To fulfill our earnings estimates for FY2013, Dom Development has to keep prices at least at their current levels, and increase sales. Meanwhile, the sales decline recorded in Q4 2012 occurred during a period which, according to the real-estate advisers at REAS, was the best sales quarter of last year for housing developers. We are reiterating a sell rating on DOM.

DOM releases preliminary FY2012 estimates

Dom Development reported having sold 1436 flats net (after cancellations) in 2012 (including 334 in Q4) and completed deliveries of 1970 units to homebuyers (incl. 549 in Q4). The projects where the Company made the most deliveries, and which were the main drivers of Q4 2012 profits, included "Wilno" (121 deliveries), "Saska" (113), "Adria" (85), "Oaza" (in Wrocław) (57), "Akropol" (56), "Derby" (35), "Przy Ratuszu" (34), "Grzybowska" (7), and "Opera B" (1). As of 31 December 2012, Dom Development had a cash position of PLN 411m and total interest-bearing debt of PLN 430m, making for net interest-bearing debt of PLN 19m. Short-term debt amounted to PLN 33m, and long-term debt stood at PLN 397m.



Echo Investment (Accumulate)

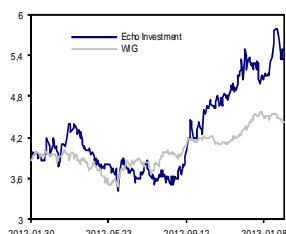
Current price: PLN 5.06

Target price: PLN 5.8

Analyst: Piotr Zybala

Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	426.4	406.9	-4.6%	550.9	35.4%	533.5	-3.2%	Number of shares (m)	412.7
EBITDA	172.7	547.2	216.9%	199.9	-63.5%	263.2	31.6%	MC (current price)	2 088.2
EBITDA margin	40.5%	134.5%		36.3%		49.3%		EV (current price)	4 495.6
EBIT	168.7	539.4	219.7%	195.6	-63.7%	257.6	31.7%	Free float	36.8%
Net profit	147.7	176.5	19.5%	121.0	-31.4%	150.9	24.7%		
P/E	14.4	12.0		17.3		13.8		Price change: 1 month	5.9%
P/CE	14.0	11.5		16.7		13.3		Price change: 6 month	44.2%
P/BV	1.1	1.0		1.0		0.9		Price change: 12 month	35.4%
EV/EBITDA	22.4	7.7		22.5		16.5		Max (52 week)	5.8
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	3.4



Echo Investment's stock has demonstrated strong performance since the beginning of the year ahead of what is expected to be a strong Q4 earnings announcement, scheduled for February 26th. We think the Company can exceed our conservative FY2012 net profit estimate of PLN 121m. Echo's profits for Q4 2012 as well as 2013 will be supported by gains from fair value adjustments on commercial real-estate projects. The PLN 200m bond issue which the Company completed in recent weeks bodes well for the success of its ambitious investment plans which will require much effectiveness in raising financing. We are reiterating an accumulate rating on ECH.

Ukrainian expansion plans

Echo is planning to commence construction of an office complex in Kiev, Ukraine, this spring, on a property with an estimated book value of PLN 70m which can be developed into over 100,000 sqm of office spaces. The project is not factored into our current forecasts for Echo, and it can potentially add to its value. To date, Echo was based exclusively in Poland.

PLN 200m bond issue

Echo Investment issued unsecured bonds worth PLN 200m maturing on 28 April 2017. Echo has a total of PLN 250m outstanding bonds to redeem this year. The new issue covers the Company's cash needs stemming from the maturing debt as well as ongoing real estate projects.



GTC (Hold)

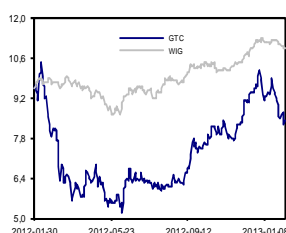
Current price: PLN 9.33

Target price: PLN 8.3

Analyst: Piotr Zybala

Last Recommendation: 2012-11-06

(EUR m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	169.0	153.7	-9.1%	152.1	-1.0%	155.6	2.3%	Number of shares (m)	319.4
EBITDA	111.1	-230.7		33.7		74.1	119.7%	MC (current price)	2 979.7
EBITDA margin	65.8%	-150.1%		22.2%		47.6%		EV (current price)	6 923.2
EBIT	110.6	-231.2		33.2		73.5	121.6%	Free float	58.8%
Net profit	41.9	-270.4		-14.6	-94.6%	16.7			
P/E	11.7					42.7		Price change: 1 month	-7.6%
P/CE	11.6					41.3		Price change: 6 month	39.5%
P/BV	0.5	0.7		0.9		0.8		Price change: 12 month	-9.4%
EV/EBITDA	15.5			49.2		21.2		Max (52 week)	10.4
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	5.2



GTC was among the worst WIG20 laggards in terms of stock performance in January, with its share price dropping back to November and December levels. GTC is currently trading at a price-to-book ratio of 0.80. As a developer with no ongoing projects and a property portfolio poised for more impairment losses, and one which generates operating cash flows that barely cover interest expenses, the Company deserves a discount of at least 20% to book value. GTC's next projects are two shopping centers in Warsaw, scheduled to commence in H2 2013 at the earliest. Until then, we remain neutral on GTC.

GTC fails to sell Romanian malls

GTC failed to sell three shopping malls in Romanian cities of Buzau, Piatra Neamt, and Suceava most likely due to an unsuccessful due diligence audit by the buyer. The divestments were supposed to further GTC's strategy focusing on large retail projects (the Romanian malls generate annual losses of EUR 3-4m).



J.W. Construction (Reduce)

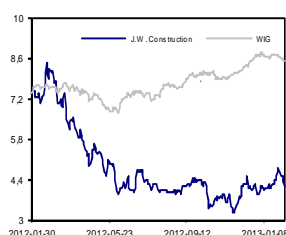
Current price: PLN 4.12

Target price: PLN 4

Analyst: Piotr Zybala

Last Recommendation: 2012-08-01

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	620.0	378.6	-38.9%	262.8	-30.6%	367.1	39.7%	Number of shares (m)	54.1
EBITDA	155.3	76.2	-51.0%	64.4	-15.4%	65.3	1.4%	MC (current price)	222.8
EBITDA margin	25.0%	20.1%		24.5%		17.8%		EV (current price)	982.1
EBIT	142.4	63.9	-55.2%	54.1	-15.3%	54.9	1.6%	Free float	27.3%
Net profit	92.0	31.3	-66.0%	19.2	-38.7%	18.7	-2.6%		
P/E	2.4	7.1		11.6		11.9		Price change: 1 month	1.2%
P/CE	2.1	5.1		7.5		7.7		Price change: 6 month	3.0%
P/BV	0.5	0.5		0.4		0.4		Price change: 12 month	-43.9%
EV/EBITDA	4.8	10.5		15.2		16.5		Max (52 week)	8.4
Dyiel (%)	0.0	0.0		0.0		0.0		Min (52 week)	3.3



JWC's stock price climbed steadily throughout January, probably in anticipation of the bond issue designed to facilitate redemption of existing debt of PLN 130m maturing in June, following which the price corrected at the beginning of February. The PLN 106m bond issue completed in late January has temporarily removed the risk of liquidity deterioration for JWC. The Company has yet to demonstrate its ability to secure financing for the real estate projects planned for the year ahead, and we suspect some delays are inevitable. We are reiterating a reduce rating on JWC.

Chairman on 2013 sales outlook

According to Supervisory Board Chairman Józef Wojciechowski, JWC will list for sale the first 153 flats in the Kasprzaka development this March. Construction of the second stage, consisting of 975 flats, is tentatively scheduled to start in the autumn. In addition to the Warsaw developments, JWC is also planning to offer flats in Katowice, and Gdynia this year. In Q4 2012, 25% of JWC's available-for-sale housing inventory was eligible for government mortgage subsidies. Mr. Wojciechowski does not see potential for continuing price reductions as costs of land, construction, and legal services remain steady. The building timeline outlined by Mr. Wojciechowski is consistent with earlier statements by JWC. As predicted, Q4 sales were boosted by government subsidies. Now that the subsidy program no longer exists, given the lack of potential to lower prices, JWC's sales this year are set to decelerate.

JWC extends bond maturity

JWC's Management Board has amended the terms of a PLN 95m bond issue by raising the interest rate of WIBOR 3M +3% by 0.75 ppt and extending the maturity from 27 April 2015 to 25 January 2016. The extension is part of JWC's efforts to improve the unfavorable maturity structure of its debt. We must point out that these measures unfortunately also entail additional costs. JWC is one of the most indebted companies in the real estate sector, and this is not likely to change in the course of the challenging year of 2013.

PLN 105.7m bond issue

JW Construction issued 1057 secured bonds with a total nominal value of PLN 105.7m, carrying rate of interest of WIBOR 3M plus margin, with maturity set for 25 January 2016. The purpose of the issue was to repay part of existing A bonds. The new bonds pay interest on a quarterly basis. They are secured with real estate including an office building in Warsaw, a hotel complex in Krynica-Zdrój, and land located near Ożarów Mazowiecki and in Konstancin-Jeziorna. After the latest issue, JWC still has to repay PLN 24m bonds maturing in June. JWC still has substantial debt levels, but with improved maturity structure.



PA Nova (Buy)

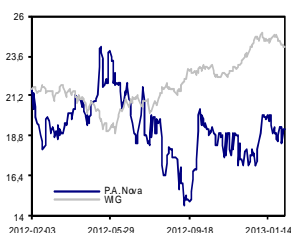
Current price: PLN 20

Target price: PLN 22.9

Analyst: Piotr Zybala

Last Recommendation: 2012-09-11

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	146.5	173.9	18.7%	182.7	5.1%	207.7	13.6%	Number of shares (m)	10.0
EBITDA	27.9	32.5	16.3%	25.7	-21.0%	42.6	66.0%	MC (current price)	199.7
EBITDA margin	19.1%	18.7%		14.1%		20.5%		EV (current price)	426.6
EBIT	25.7	29.7	15.3%	22.6	-24.0%	39.5	75.3%	Free float	39.4%
Net profit	20.2	21.2	4.9%	18.3	-13.6%	22.4	22.7%		
P/E	9.9	9.4		10.9		8.9		Price change: 1 month	-4.1%
P/CE	8.9	8.3		9.3		7.8		Price change: 6 month	-2.8%
P/BV	0.8	0.8		0.8		0.7		Price change: 12 month	
EV/EBITDA	9.9	8.8		16.6		10.0		Max (52 w week)	24.2
Dyiel (%)	0.0	0.0		2.5		0.0		Min (52 w week)	14.6



After a successful Q4 2012, PA Nova's net profit for the full fiscal 2012 should come close to our PLN 18.3m estimate (P/E = 10.1). The Company is set for continuous earnings growth in the years ahead. PA Nova signed a contract for the construction of industrial and storage facilities in January, expected to generate a pre-tax profit of ca. PLN 2m starting in 2014. By using leverage, the Company has reduced its own investment in the project to about PLN 10m. We are reiterating a buy rating on NVA.

PA Nova sells property

PA Nova signed a contract for construction and rental of industrial and storage facilities to Doosan Babcock Energy Polska Sp. z o.o. The construction deadline is 1 December 2013, and the lease term has been set at 15 years. PA Nova estimates the 15-year rental income at EUR 10,598,000 (PLN 43.6m). The contract, which is not factored into our financial forecasts for PA Nova, came as a welcome surprise. We are waiting to hear more details, including the estimated costs of construction, to make a more meaningful assessment of the deal.

PA Nova sells property

P.A. Nova sold a retail establishment and infrastructure developed by it to the Kaufland retail chain for a net price of PLN 23.0m. The sale is factored into our financial forecasts for P.A. Nova. We had thought the profits (ca. PLN 2m) would be recognized in Q4 2012, but they will probably be postponed to Q1 2013.



Polnord (Hold)

Current price: PLN 11.54

Target price: PLN 11.1

Analyst: Piotr Zybala

Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	180.3	289.1	60.4%	283.2	-2.1%	254.4	-10.2%	Number of shares (m)	25.6
EBITDA	50.4	78.5	55.7%	134.6	71.5%	50.4	-62.6%	MC (current price)	295.8
EBITDA margin	28.0%	27.2%		47.5%		19.8%		EV (current price)	885.4
EBIT	48.1	76.4	58.7%	133.0	74.2%	48.3	-63.7%	Free float	55.0%
Net profit	51.6	70.9	37.4%	17.2	-75.7%	11.9	-30.8%		
P/E	5.0	3.9		17.2		24.8		Price change: 1 month	-13.9%
P/CE	4.8	3.8		15.7		21.2		Price change: 6 month	-19.9%
P/BV	0.2	0.2		0.2		0.2		Price change: 12 month	-39.7%
EV/EBITDA	19.3	11.8		6.6		16.7		Max (52 w week)	19.9
Dyiel (%)	7.5	2.8		0.0		0.0		Min (52 w week)	10.0



After a short-lived, 15% spike early last month, Polnord's share price has returned to the level recorded at the end of last year, gaining no support from the PLN 65.5m bond issues completed in January which have significantly reduced liquidity risks. Today, the Company's debt structure is much more favorable than it was six months ago, and the obligations that fall due in the coming months should be met without problem. As far as profits are concerned, however, Polnord is not likely to offer any positive surprises to investors this year. We are reiterating a hold rating on PND.

Polnord delivers 368 flats in Q4 2012

Polnord delivered a total of 939 flats to homebuyers in 2012 (compared to 92123 in 2011), of which 39%, representing 368 units, were delivered in the fourth quarter. The actual deliveries slightly outnumber our projections (we had anticipated 909 deliveries in 2012 including 338 in Q4 2012). Nevertheless, assuming a lack of one-time events, the Company's earnings results for the past year should be more or less in line with our forecast (annual net profit at PLN 17.2m, Q4 ending with a net loss of PLN 4.8m).

Bond redemption and issue

Polnord repurchased early another batch of bonds with a combined nominal value of PLN 26.5m, issued on 22 January 2010, on 22 January 2013. Funding came from a 22 January issue of secured bonds with a total nominal value of PLN 26.5m, scheduled to mature on 22 January 2016. As predicted, between 16 and 22 January 2013, Polnord completed three bond issues with a total value of PLN 65.5m, aimed at repaying earlier issues. The Company still has PLN 40m bonds maturing on 30 April which we expect to be partly rolled over. The debt issues completed in H1 2013 should solve Polnord's liquidity issues for the rest of the year. We maintain that the Company is set for weak earnings in 2013 and 2014.



Robyg (Hold)

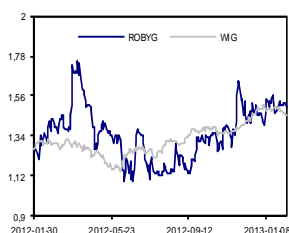
Current price: PLN 1.4

Target price: PLN 1.45

Analyst: Piotr Zybala

Last Recommendation: 2012-12-10

(PLN m)	2010	2011	change	2012F	change	2013F	change	Basic data (PLN m)	
Revenues	284.8	160.5	-43.7%	394.2	145.6%	441.7	12.1%	Number of shares (m)	257.9
EBITDA	47.6	11.6	-75.7%	68.6	492.1%	64.5	-5.9%	MC (current price)	361.1
EBITDA margin	16.7%	7.2%		17.4%		14.6%		EV (current price)	751.9
EBIT	46.9	10.7	-77.2%	67.5	531.7%	63.7	-5.6%	Free float	16.5%
Net profit	31.7	22.3	-29.6%	33.0	48.1%	29.9	-9.6%		
P/E	11.4	16.1		10.9		12.1		Price change: 1 month	1.4%
P/CE	11.1	15.5		10.6		11.8		Price change: 6 month	26.1%
P/BV	0.9	0.9		0.9		0.9		Price change: 12 month	20.0%
EV/EBITDA	15.1	64.8		11.0		11.8		Max (52 w week)	1.8
Dyield (%)	0.0	5.0		8.6		7.1		Min (52 w week)	1.1



Robyg was not able to save a dismal FY2012 earnings season in the fourth quarter, for which it is expected to post a net profit of about zero on home sales of a little over 200 units. The quarterly development margin will probably fall below 20%. Robyg completed a PLN 50m bond issue in January, aimed at repaying bonds maturing this year, and this should have slightly reduced its financing costs. Robyg's CEO said in a recent interview that the Company was considering paying dividend in the range of PLN 0.07-0.12 per share from last year's profits. We think a realistic DPS expectation is in the mid point of the range, i.e. at PLN 0.09-0.10, implying dividend yield of 6.0-6.7%). We remain neutral on ROB.

PLN 50m bond issue

Robyg issued G and H series bonds worth a total of PLN 50m, out of which PLN 40m bonds are secured. The proceeds will be spend on earlier redemption if A series bonds. The bonds of both series mature in Q1 2016. The Company is planning to introduce them into Catalyst. The issue change the structure of debt maturity into a more favorable one without impacting our recommendation and target price. We view Robyg's financial situation as safe.

Robyg obtains occupancy permits for two Gdańsk projects

Robyg has secured occupancy permits for three stages of two residential developments in Warsaw, one called "Lawendowe Wzgórze," and the other "Słoneczna Morena." Combined, these permits suggest potential for recognition of 142 flats in profits. Robyg currently has 600 flats in progress in Gdańsk, and it is planning to develop a further 300 units there in the future. We had expected Robyg would obtain the permits for the Gdańsk projects earlier, in Q4 2012. The delay means a portion of the revenues that we though would be recognized last quarter will be moved to 2013, resulting in a weak Q4 2012 profit (possibly a net loss).

Robyg secures PLN 14.95m credit

Robyg has secured a PLN 14.95m credit facility with Bank Millennium in order to finance current operations including a real-estate project to be developed by the subsidiary ROBYG Osiedle Królewskie in Warsaw's Wilanów district. The loan is due on 22 January 2014, and it carries a rate of interest of WIBOR 1M+margin.

CEO on dividend, Q4 2012 results

CEO Wojciech Okoński says Robyg's Management Board intends to recommend that this year's dividend be similar to the dividends paid in the last two years, i.e. somewhere in the range of PLN 0.07-0.12. Mr. Okoński added that Robyg's Q4 2012 earnings results would show slight deterioration from the preceding quarter. Robyg did not feel a slowdown in home demand in January despite a lack of borrowing incentives. The dividend range mentioned by the CEO is absolutely realistic given Robyg's cash resources. We were surprised to hear about the "slight" deterioration in Q4 profits as we expect a marked slowdown based on quarterly home sales data.

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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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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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