4 September 2009

Periodic Report

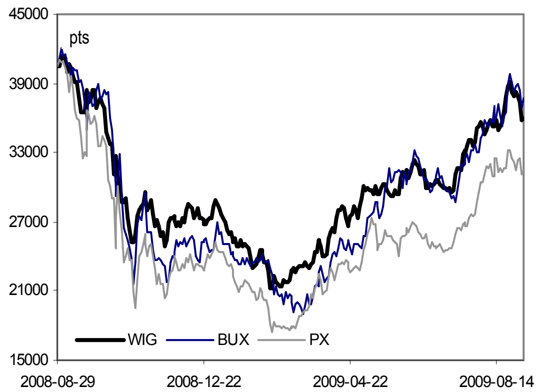
Monthly Report

September 2009

Equity Market
Macroeconomics

WIG	**36 009**
Average 2009E P/E	14.0
Average 2010E P/E	13.5
Avg daily trading volume	PLN 1 321m

WIG vs. indices in the region



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Equity market

Leading indicators and brighter “hard” data reflect a stronger economic momentum which may drive the WIG20 index to 2 500–2 700 pts before the year is over. After a few-month market rally, investors are looking to cash in, contributing to a near-term volatility. That said, we maintain that investors should take advantage of any price correction, including the one we are seeing today, to increase equity positions.

Company News

Banks. The ROA generated by publicly-traded banks (FY09 average ROA estimate is 1.1%) does not reflect their true potential. Within the next few years, the average return will increase to 1.9%, justifying a sector valuation of 2xBV (current valuation is 1.6x09E BV). Tightened lending and a stronger zloty minimize the possibility of an increase in costs of financing. We are bullish on banks, and we recommend increasing positions in the sector on any weakness.

Gas & Oil. We removed our sell rating from PGNiG stock after a recent decline in value, but our preferred picks are still PKN Orlen and Lotos (even after a downgrade to accumulate following a value gain). We remain bearish on CEZ.

Telecommunications. With a threat of a functional split no longer looming, TPSA is expected to reduce expenses and report an earnings improvement in H209. We would choose the stock over Netia.

Media. The price downslide observed in recent days prompted rating upgrades for Agora and TVN. Cyfrowy Polsat faces a fierce battle for subscribers against rival DTH platform ‘n’.

IT. Our favorite IT pick is Asseco Poland, which reported solid second-quarter results and which, so far, is resisting downward pressure on margins. We have buy ratings on hardware distributors AB (which is trading at attractive levels at the moment), and Asbis. We recommend holding Action and Komputronik.

Metals. Seasonal inventory rebuilding in H209 will pull LME copper prices down, and KGHM shares will follow.

Construction. We remain overweight on the construction sector, which faces major infrastructure contract awards totaling PLN 8.9bn, and a rebound in housing, in coming months.

Real-Estate Developers. Because our predictions for the real-estate industry have not held up, we are suspending ratings and financial forecasts for real-estate developers until a new sector update scheduled for release next week.

Retail. Emperia reported strong second-quarter earnings and overshot our price target, prompting a downgrade to hold. We can see no more upside potential in Eurocash, either.

Ratings. We are upgrading our ratings on the following stocks as of the date of this Monthly Report: Agora (Accumulate), Police (Hold), Rafako (Buy), TVN (Accumulate), Unibep (Accumulate); and we are downgrading Emperia Holding (Hold), Erbud (Hold), Lotos (Accumulate), Polimex Mostostal (Accumulate), and Ulma Construccion Polska (Hold). We are temporarily suspending ratings for Dom Development, J.W. Construction, and Polnord.

BRE Bank Securities does not rule out offering brokerage services to an issuer of securities being the subject of a recommendation. Information concerning a conflict of interest arising in connection with issuing a recommendation (should such a conflict exist) is located on the final page of this report.

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Equity market

As predicted, August brought an array of brighter "hard" economic data for Poland and other developed countries, giving rise to a first series of upward GDP revisions. Consumer confidence readings in particular provided reason for optimism, fueling hope of a sustained recovery. In addition, Polish as well as US and European companies reported very decent, better than expected second-quarter earnings. Latest leading indicators also keep confirming an upward trend in the global economy, and future months should witness further improvement in manufacturing and services, as well as in consumer demand. We are far from being over-enthusiastic about the prospects for next year, but we believe that bullish trends will continue to buoy equity markets at least throughout 2009, driving the WIG20 index to 2500-2700 pts before the year is over. After a few months of growth, investors are looking to cash in on their investments, contributing to a near-term volatility. The WSE is also poised for two upcoming major secondary offerings by PKO BP and PGNiG. That said, we stand by our advice that investors should take advantage of any correction, including the one we are seeing today, to increase equity positions. Some investors are betting on a "double bottom" scenario for the economy, including a stock market downturn, but we do not expect these prognoses to be discounted by financial markets – at least not within the next few months.

Many investors are worried about the waning effects of stimulus packages, and point to the falling Shanghai index as an example (note, however, that the index has undergone an uninterrupted 160% surge since November 2008, suggesting that the current downturn is a reflection of profit-taking rather than an economic slump). What is more, if problems within the financial system should reemerge, central banks are sure to continue to provide "unlimited" assistance after learning their lesson from the domino effect of the LB bankruptcy – a prediction which has been reinforced by statements from different governments, including the Chinese government. We would bet that, after already pumping billions of dollars into its economy, the USA will have no major problem pumping in some more, as the FED remembers what happened in the 1930s (cutbacks in government aid in 1936 caused a rapid collapse in the economy in the following year).

Latest leading indicators confirm a recovery in the global economy, and "hard" data in the months ahead should exceed expectations. In August, Manufacturing PMI increased to 54 pts in China, to 48.2 pts in the euro zone, and to 49.2 pts in Germany. The Polish manufacturing PMI sub-index went over 50 pts to 51.9 pts, heralding a strong (probably stronger than forecasted) momentum for the second half of the year. The US Manufacturing ISM surprised by surging to 52.9 pts (over 70% of surveyed executives reported increases in current production). Equally importantly, the ISM confirmed a pickup in durable goods orders which increased 4.9% m/m in July. More good news is also coming from the housing industry, which has a significant multiplier effect on the economy. But the highlight of August data was the US Conference Board Consumer Confidence Index. Without consumers, an economic recovery would be short lived and would basically just influence inventory cycles, and miss the job market which is crucial to long-term growth. The Conference Board index increased to 54.1 pts in August from 47.4 pts in July (its first upward move in months, which, if repeated in subsequent periods, will provide a strong signal to equity markets).

Corporate Earnings In Q209

Without being a spectacular success, the second-quarter earnings season exceeded expectations. The construction industry had a particularly good second quarter, reporting sustained profit margins on existing contracts, and better-than-predicted new-business acquisition rates. This goes both for infrastructure developers, and for building construction firms which were supposed to have had a dismal quarter according to analyst predictions. In the months ahead, builders can look forward to major road-building opportunities, and a rebound in housing (contrary to earlier forecasts, home developers are successfully unloading their housing stocks). Banks also reported better-than-expected results, most notably strong trading-income figures and lower-than-expected loan-loss reserves. Small banks especially benefitted from an appreciating zloty and improved interbank liquidity. Going forward, interest margins are also expected to pick up traction. The Q209 results reported by oil refiners were not as bad as thought, and coming months should bring a gradual expansion in crack spreads. Media companies booked significant reductions in operating expenses, as they braced themselves for the last weak quarter of the year before a pickup in Q409. Among large caps, TPSA and PGNiG disappointed with their second-quarter performance, but both face an improvement in H209. Manufacturer earnings sent a mixed message, but all companies are seeing their sales volumes grow by the month, and their prospects should not be affected by an appreciating zloty (not long ago, manufacturers operated amid PLN/EUR exchange rates approximating 3.5-3.3). The message sent by the Q209 results of the FMCG industry was also ambiguous; on the one hand, wholesalers increased revenues by slowing down expansion, and, on the other hand, retailers were affected by the year-on-year decline in consumption observed in Q209, combined with higher euro rental rates. But if the latest retail-sales statistics, indicating a 5.7% y/y increase in July, are confirmed, FMCG companies can look forward to a good second half of the year, and in particular to strong sales in the fourth quarter.

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H1 2009 Earnings by Industry*

	Y/Y Growth			H1 2009 Margins		H1 2008 Margins		No. of
	Revenues	EBIT	Net Profit	EBIT	Net Profit	EBIT	Net Profit	companies
All								324
Construction	1.21%	15.17%	19.62%	6.87%	4.81%	6.03%	4.07%	36
Retail & Wholesale	8.60%	-28.13%	-56.19%	1.88%	0.77%	2.84%	1.91%	43
clothing	22.82%	-62.88%	-80.72%	2.80%	1.05%	9.27%	6.72%	10
computer hardware	-27.78%	-	-	-1.11%	-4.02%	1.29%	0.91%	5
steel	-10.95%	-	-	-0.35%	-1.69%	6.70%	4.80%	3
FMCG	17.10%	0.84%	-21.52%	1.79%	1.01%	2.07%	1.50%	8
pharmaceuticals	10.11%	14.34%	9.20%	1.51%	0.90%	1.46%	0.90%	4
Media	5.71%	-14.41%	-41.69%	20.21%	11.02%	24.96%	19.98%	8
IT	-4.12%	-26.58%	-74.55%	5.35%	2.83%	6.99%	10.68%	28
Property Developers	18.89%	-6.24%	-67.42%	34.28%	9.83%	43.47%	35.88%	12
Manufacturers	-6.86%	-52.21%	-69.13%	5.86%	3.10%	11.43%	9.37%	124
interior furnishings, fixtures & fittings	-8.53%	-9.94%	-	8.15%	-2.93%	8.28%	4.74%	13
electro-mechanical industry	6.66%	7.72%	-22.01%	8.89%	3.39%	8.80%	4.64%	27
food	10.86%	-11.25%	-48.81%	7.21%	2.93%	9.01%	6.35%	17
chemicals	-21.38%	-82.38%	-	1.96%	-0.73%	8.76%	6.18%	18
fuels	-3.90%	-	-	-4.04%	-4.23%	10.24%	10.10%	3
metal processing	-18.22%	-24.30%	-25.54%	19.42%	16.03%	20.98%	17.60%	16
Telecommunications	-1.56%	-38.74%	-55.97%	12.00%	7.50%	19.29%	16.78%	8
Services	12.37%	-44.81%	-73.33%	3.59%	1.25%	7.31%	5.25%	30

*Source: BRE Bank Securities based on company reports, * sum of company earnings for each branch of industry*

Macroeconomics

Polish GDP up 1.1% in Q209

Poland's GDP increased 1.1% year-on-year in Q209, in line with our predictions and more than forecasted by analysts' consensus (0.5-0.6%). Adjusted for seasonal factors, Q209 GDP growth figured to 0.5% Q/Q vs. 0.3% recorded in Q109, evidencing a shift in the Polish economy's momentum. The acceleration in our economy goes hand in hand with the improved indicators seen by our key trade partners, Germany and France. The GDP decomposition was also in line with expectations. Y/Y personal consumption growth slowed to 1.9% from 3.3% in Q109, and investment growth was a negative 2.9% compared to a positive 1.2% recorded in Q109. Like in the first quarter, a key driver of Polish economic growth in the second quarter were net exports, whose net contribution to GDP increased from 1.9 to 3.1 ppts. Further, the negative contribution of inventory changes was reduced to -2.7% from -4.8% in Q109. On the supply side, a slight Y/Y acceleration (the downslide slowed from -5.9% to -5.1%) in the gross value added of production was recorded in Q209, paired with faster growth in construction (an increase from 3.4% Y/Y to 4.5%). Market services slowed from 3.1% to 2.8% Y/Y. Non-market services decelerated even more, probably due to budget cuts and a slowdown in salaries (since non-market services do not have market prices, they are estimated at cost, a major part of which are salaries). Interestingly, a considerable Y/Y acceleration from 0.3% to 3.3% was recorded in transportation, which can serve as a barometer heralding a recovery for the entire economy. We expect the uptrend to continue in coming months, as evidenced by July data and economic indicators (employment, salaries, transport indicators). Summing up, the effect of the ongoing steadying in the job market could be that the Q209 consumption data will be the lowest in this economic cycle. However, negative investment growth could continue throughout the rest of the year. We expect continued improvement in industry data in Q309, at the expense of a lower contribution of next exports. A global rebuilding should improve inventory contribution to GDP growth. Our third-quarter projections as of today are that economic growth will be similar to, or faster than the growth rate recorded in the second quarter.

Retail Sales

Retail sales increased by 5.7% y/y in July (in nominal terms) compared to 0.9% in June, which was far ahead the market consensus (+0.7%) and our forecast (+1.3%). In real terms, this represents a 3.6% increase, which is the first instance of growth in six months. While the expectations were exceeded primarily due to food sales (+11.9% y/y vs. +2.7% y/y a month ago), activity in durable goods (cars, clothing, shoes) increased as well, or was at least stable (furniture, home entertainment equipment and appliances). After reaching stability in the early months of the year, retail sales excluding food and fuel (an indicator which reflects the part of household demand that is the most dependent on the economic cycle) saw considerable increases in June and July (4.5% and 7.7%, respectively); an upwards trend is gradually shaping. The outlook for retail sales has significantly improved in the past few months. As hard data come in, the consumers' growing optimism gets reaffirmed. It appears that consumers have been reducing their spending to a much smaller extent than hitherto expected (which can also be seen in the growth of VAT revenues, where a clear trend reversal took place in July, as well as the cautious statements coming from the Finance Ministry suggesting that in H2'09 national budget revenues may exceed the plan). Thus, it is possible that retail consumption growth bottomed out in Q2 already. To sum up, the risk that our forecast of 1% growth in 2009 will be exceeded is increasing thanks to the more stable consumer demand, the July data on construction output, which give reasons to be optimistic about investment growth, and the expected revival on the supply side in the second half of the year. Our predictions are further supported by increasingly favorable factory orders, which fell 13.9% y/y in July after a 28.2% plunge in June (because of long lead times, higher factory orders are consistent with the increased salaries of factory workers which reflect recovering production activity, and relatively weak readings of output sales).

Industrial Production

In July, industrial production declined by 4.6% y/y vs. 4.5% y/y in June. Year-on-year, production decreased in 23 out of the 34 sectors, while month-on-month data indicated growth in 11 sectors. The seasonally adjusted data indicate a slightly more moderate decline of 5.3% y/y (vs. -5.6% y/y a month ago). The slower-than-expected production growth is mostly a consequence of a declining car output (with the impact of the German version of the "Cash for clunkers" program abating), reduced mining output, and the lack of improvement in those sectors where the demand is highly correlated with the global economic cycle. The hard data are not yet indicative of a significant trend reversal in industrial production. The data are in a sharp contrast with earlier leading indicators, including PMI (the main component of production sales), which suggested a considerable improvement in the demand side of the economy in July. Nonetheless, an improvement or stabilization on the demand side is still possible. Such improvement would have to be driven by an economic revival in Germany and an ensuing revival in demand for Polish goods and capital. Clear signals of improvement have appeared, quite unexpectedly, in construction (+10.7% y/y vs. 3.6% y/y in the past seven months), both in housing and infrastructure (in the latter case, a factor of importance might be that summer is traditionally the time when road maintenance work is being carried out). Regardless of the reasons behind the improvement, this is a good harbinger for third-quarter investment. Year-on-year growth in producer prices declined from 4.1% a month ago to 3.0%. Month-on-month, prices declined by 1.3%, including 1.5% in manufacturing. Producer prices, excluding energy carriers (coke and petroleum refining products) declined by 1.2%, which appears to be a record-high result in the recent times. The earlier growth in producer prices was unsustainable due to a decline in raw material prices and the appreciation of the zloty (primarily vs. the USD). Leading indicators suggest that the disinflation in core manufacturing prices (excluding energy) is continuing. Headline inflation data will be volatile, however, due to unstable crude oil prices and the F/X market, which remains wobbly. We would also like to point out the discrepancy between the PPI and the CPI data.

Salaries, Unemployment Rate

In July, salary growth in the enterprise sector increased from 2.0% y/y to 3.9% y/y, which is somewhat surprising, as it strongly diverges from the downward trend observed in recent months. It appears, however, that this trend was largely a consequence of the lack of bonuses and the fact that some employers, rather than lay their workers off, forced them to take vacation on reduced remuneration. Employment in the enterprise sector contracted by 2.2% y/y, in line with market consensus. Layoffs, however, appear to be losing their momentum: in July, 7,000 people lost their jobs (net), vs. 12,000 in June and 16,000 in May. While this might be partially due to seasonal effects (in particular employment in retail and construction), the aggregate data are in line with sentiment indicators, which means that they appear to signal a more lasting trend. Another factor which is probably helping employment are governmental programs. We expect these trends to continue in the coming months.

Government Deficit

The Polish budget gap narrowed to PLN 15.04 billion in July from PLN 16.94 billion in June. July revenues amounted to PLN 160.03bn (52.8% of the budget plan). After a PLN 5.5 billion drop in tax revenues between January and July, the downturn seems to have slowed down. Tax and non-tax inflows to the government budget amounted to PLN 20.8bn in July alone, slightly exceeding the revenues recorded in the same month a year ago, thanks mainly to an improved utilization of EU funds (which totaled PLN 4.9bn in July). EU fund usage since January stands at 77%. VAT and personal income tax revenues edged up to PLN 9.5bn in July from PLN 9.0bn a year ago, while corporate tax revenues displayed a significant drop. Aggregate government expenses totaled PLN 175bn by the end of July, representing 54% of budgeted expenditure (we mean the original budget; January-July expenditure as percentage of the revised budget stood at 58%), and were significantly higher than a year ago. It looks like Polish ministries are not putting off spending until the last moment this year (maybe because they are concerned about possible future cutbacks by the Prime Minister).

Inflation

In July, the annual inflation rate increased to 3.6% vs. 3.5% in June. Thus, inflation once again exceeded the NBP’s target. What is striking is the systematic m/m increase in prices in the "core" categories of the inflation basket. In June, further growth was observed in the category of "housing expenses" (0.3% m/m). July was also another month of sharp price increases in the “restaurants and hotels” category (0.4% m/m), and prices in the category "recreation and culture" once again increased by 0.4% m/m. Core inflation was driven further up by increased prices of tobacco products (7% m/m). According to our estimates, core inflation excluding food and energy prices increased to 2.9-3.0% y/y in July vs. 2.7% in June. For August, we predict that CPI was flat from, or slightly higher than in July. We believe that the core inflation rate will be declining very slowly, too slowly to call disinflationary policies a success. Strong base effects from Q1 2009 might bring inflation down to ca. 1.5% y/y in early 2010, but the considerable inertia of inflationary expectations and the economic revival might quite quickly lead to an inflationary spike; therefore, we are more and more pessimistic in our medium-term expectations in this respect.

Current-Account Balance

In June, we once again saw a current account surplus (EUR 459m vs. EUR 284m a month earlier). The resulting current account balance in H1'09 was EUR 1153m. In terms of individual components, the picture was as follows: a slight deficit in the balance of trade in goods (EUR -26m vs. +EUR 5m a month ago), positive net transfers (EUR 589m), positive balance of trade in services (EUR 363m, mostly transportation services) and negative net factor income (-EUR 467m). We are expecting, above all, further improvement in exports; this tendency will be supported in the upcoming months by the currently-observed revival in the German economy (in contrast to H1'09, when the decisive factor was the cost-competitiveness of Polish exports, H2'09 will be impacted by the faster growth of intracorporate trade, which will follow the economic cycle of the European countries). In Q2’09, net exports estimated based on NBP data (whose trend has been practically identical with the national-accounts-based estimates of the Central Statistical Office) showed a surplus in excess of PLN 3bn. As a result, the positive contribution of net exports to the GDP may be even higher than in Q1'09 - we estimate it at ca. 3-4bps.

Current ratings by BRE Bank Securities

Company	Rating	Target Price	Rating Date
AB	Buy	15.13	2009-08-06
ACTION	Hold	12.30	2009-07-03
AGORA	Accumulate	24.10	2009-09-04
ASBIS	Buy	3.45	2009-08-14
ASSECO POLAND	Buy	72.60	2009-09-02
BUDIMEX	Accumulate	74.00	2009-08-14
BZWBK	Buy	152.10	2009-08-24
CEZ	Reduce	140.60	2009-08-18
CIECH	Hold	31.80	2009-08-05
CYFROWY POLSAT	Hold	14.55	2009-05-29
DOM DEVELOPMENT	Suspended		2009-09-04
ELEKTROBUDOWA	Hold	170.80	2009-08-14
EMPERIA HOLDING	Hold	70.30	2009-09-04
ERBUD	Hold	49.30	2009-09-04
EUROCASH	Hold	9.90	2009-05-06
HANDLOWY	Reduce	59.50	2009-08-24
ING BSK	Accumulate	663.60	2009-08-24
J.W. CONSTRUCTION	Suspended		2009-09-04
KĘTY	Buy	109.40	2008-08-04
KGHM	Reduce	73.00	2009-08-14
KOMPUTRONIK	Hold	10.48	2009-05-29
KREDYT BANK	Buy	11.76	2009-08-24
LOTOS	Accumulate	26.40	2009-09-04
LW BOGDANKA	Hold	68.00	2009-09-03
MILLENNIUM	Hold	5.30	2009-08-24
MONDI	Hold	56.00	2009-09-03
MOSTOSTAL WARSZAWA	Accumulate	79.40	2009-08-14
NETIA	Hold	4.10	2009-08-06
NOBLE BANK	Suspended		2009-01-29
PBG	Hold	224.40	2009-08-14
PEKAO	Accumulate	154.40	2009-08-24
PGNiG	Hold	3.67	2009-09-03
PKN ORLEN	Buy	40.10	2009-06-02
PKO BP	Hold	35.60	2009-08-24
POLICE	Hold	5.90	2009-09-04
POLIMEX MOSTOSTAL	Accumulate	4.40	2009-09-04
POLNORD	Suspended		2009-09-04
RAFAKO	Buy	11.60	2009-09-04
SYGNITY	Suspended		2009-08-21
TELEKOMUNIKACJA POLSKA	Buy	19.40	2009-07-31
TRAKCJA POLSKA	Buy	4.80	2009-08-14
TVN	Accumulate	16.00	2009-09-04
ULMA CONSTRUCCION POLSKA	Hold	58.80	2009-09-04
UNIBEP	Accumulate	6.10	2009-09-04
WSiP	Hold	17.20	2009-09-03
ZA PUŁAWY	Hold	82.70	2009-05-28

Ratings issued in the past month

Company	New Rating	Old Rating	Target Price	Rating Date
AB	Buy	Buy	15.13	2009-08-06
AGORA	Hold	Buy	24.10	2009-08-25
ASBIS	Buy	Buy	3.45	2009-08-14
ASSECO POLAND	Buy	Buy	72.60	2009-09-02
BUDIMEX	Accumulate	Hold	74.00	2009-08-14
BZWBK	Buy	Reduce	152.10	2009-08-24
CEZ	Reduce		140.60	2009-08-18
CIECH	Hold	Accumulate	31.80	2009-08-05
ELEKTROBUDOWA	Hold	Hold	170.80	2009-08-14
ERBUD	Accumulate	Suspended	49.30	2009-08-14
HANDLOWY	Reduce	Sell	59.50	2009-08-24
ING BSK	Accumulate	Sell	663.60	2009-08-24
KGHM	Reduce	Reduce	73.00	2009-08-14
KREDYT BANK	Buy	Sell	11.76	2009-08-24
LW BOGDANKA	Hold	Hold	68.00	2009-09-03
MILLENNIUM	Hold	Sell	5.30	2009-08-24
MONDI	Hold	Accumulate	56.00	2009-09-03
MOSTOSTAL WARSZAWA	Accumulate	Accumulate	79.40	2009-08-14
NETIA	Hold	Hold	4.10	2009-08-06
PBG	Hold	Reduce	224.40	2009-08-14
PEKAO	Accumulate	Hold	154.40	2009-08-24
PGNiG	Hold	Sell	3.67	2009-09-03
PKO BP	Hold	Hold	35.60	2009-08-24
POLICE	Reduce	Sell	5.90	2009-08-28
POLIMEX MOSTOSTAL	Buy	Accumulate	4.40	2009-08-14
RAFAKO	Accumulate	Suspended	11.60	2009-08-14
SYGNITY	Suspended	Buy		2009-08-21
TRAKCJA POLSKA	Buy	Buy	4.80	2009-08-14
TVN	Hold	Hold	16.00	2009-08-25
ULMA CONSTRUCCION PL	Accumulate	Suspended	58.80	2009-08-14
UNIBEP	Hold	Hold	6.10	2009-08-14
WSiP	Hold	Buy	17.20	2009-09-03

Stocks rerated as of 4 September 2009

Company	New Rating	Old Rating	Target Price	Rating Date
AGORA	Accumulate	Hold	24.10	2009-09-04
DOM DEVELOPMENT	Suspended	Sell	24.10	2009-09-04
EMPERIA HOLDING	Hold	Buy	70.30	2009-09-04
ERBUD	Hold	Accumulate	49.30	2009-09-04
J.W. CONSTRUCTION	Suspended	Reduce	9.70	2009-09-04
LOTOS	Accumulate	Buy	26.40	2009-09-04
POLICE	Hold	Reduce	5.90	2009-09-04
POLIMEX MOSTOSTAL	Accumulate	Buy	4.40	2009-09-04
POLNORD	Suspended	Accumulate	35.20	2009-09-04
RAFAKO	Buy	Accumulate	11.60	2009-09-04
TVN	Accumulate	Hold	16.00	2009-09-04
ULMA CONSTRUCCION PL	Hold	Accumulate	58.80	2009-09-04
UNIBEP	Accumulate	Hold	6.10	2009-09-04

Ratings Statistics

	All					For clients of BRE Bank Securities				
Statistics	Sell	Reduce	Hold	Accumulate	Buy	Sell	Reduce	Hold	Accumulate	Buy
count	0	2	20	9	10	0	0	8	5	1
% of total	0.0%	4.9%	48.8%	22.0%	24.4%	0.0%	0.0%	57.1%	35.7%	7.1%

Financial Sector

Pengab up 4pts, reaching 22.9pts

The Pengab index gauging sentiment within the banking industry increased by 4pts to 22.9pts in August. The aggregate assessment of the current situation improved by 1.2pts m/m to 16.0pts, while the future outlook assessment went up by 6.8pts to 29.8pts. A slight increase in zloty deposits was observed, while demand for FCY deposits appears to have decelerated. An improvement is expected in the market for zloty deposits and FCY term deposits. At the same time, business is slower for zloty consumer and mortgage loans and for business loans under EUR 1m. Bankers expect an improvement in mortgages and corporate loans, as well as in FCY loans. Pengab rose for the third month in a row. This time, the starting point is quite low, but we believe that if another increase is recorded in September, we might witness a long-term trend reversal on Pengab. 22.9pts is 14pts below the July 2008 reading, but 11.5pts above the minimum recorded in March 2009 and 7pts above the October 2008 reading. We are gradually reaching a low-level equilibrium.

New Tier I regulations

The Polish Financial Supervision Authority (KNF) plans to pass a resolution to allow banks to increase their Tier I capitals by adding convertible– or long-term (10-30-year) bonds. The bonds can be nominated in zlotys, euros, US dollars, and Swiss francs. The KNF stressed that the current equity position of Polish banks does not carry any direct threat to the condition of Poland’s financial system. Earlier concerns about their equity standing have proven unfounded. The barrier which hampers bank asset growth is shifting toward financing sources, and has increasingly less to do with equity levels.

Liquidity returns to interbank market

Financial institutions are increasingly willing to lend to each other for three months or even as long as a year. Dealers point out that the most liquid segment of the market are 3M loans, although there are few such transactions. The key reason given for these developments is the recent cut in the loan-loss reserve requirement. This does not mean, however, that banks will cease to strive for client deposits. For one-day loans, volumes are approaching those from before the crisis (PLN 5bn per day on average in July). For longer-term transactions, volumes are estimated at ca. PLN 2bn per day, i.e. they are at least twice as low as last year. According to dealers, there will be no improvement until the banks raise the limits they have for the interbank market, which will take time. Polish banks frequently have to abide by limits imposed by the policies of their international parents. Once there is improvement in international markets, the Polish interbank market will follow.

Survey on lending policies in H209

According to a survey by the NBP, banks tightened their lending criteria in Q2 2009. The credit committee chairs surveyed said that they expected credit requirements to be even more stringent in Q309 across all business segments (corporate and retail), which will coincide with an increase in demand. This suggests slow growth in the loan portfolio of the Polish bank industry.

M3 money supply

In July, M3 increased by 11.7% y/y. Total deposits increased by 12.8% y/y, after 15.9% y/y growth seen in June. Retail deposits increased by 22% y/y, vs. 25% y/y at the end of June, and corporate deposits by 3% y/y vs. 7% y/y. Social Security Fund deposits are still shrinking year-on-year (-30%). Compared to June, total deposits decreased by PLN 5.5bn (nonmonetary financial institutions PLN 2.8bn, corporations PLN 3bn). Retail deposits were flat m/m, for the first time in a long while, probably due to a stronger zloty, savings reallocations to equities, and salary trends. YTD, the total deposit portfolio increased by 3.5%, with retail deposits growing at 10%, corporate deposits shrinking by 3%, non-MFI funds contracting by 11% and local government funds increasing by 18%. Total loans increased by 28% y/y (vs. 27% y/y in June). Compared to the previous month, the loan portfolio contracted by PLN 12.7bn, which is an effect of the revaluation of F/X loans due to the appreciation of the PLN (by 7.5% vs. the CHF and 6.7% vs. EUR). The retail loan portfolio increased by 32% y/y, after the 36% y/y growth seen a month earlier. Month on month, the portfolio contracted by over PLN 7bn. Based on the data for June, the impact of the revaluation of F/X loans, due to the 7.5% appreciation of the zloty vs. the Swiss franc, was nearly PLN 11bn (nearly PLN 12bn in the entire segment). Thus, the banks have continued to lend, and they are also benefiting from the appreciation of the zloty. Corporate loans increased by 11% y/y, vs. 15% y/y in June. Compared to the end of June, they shrank by almost PLN 4bn. We estimate the impact of F/X loan revaluation at slightly less than PLN 4bn; thus, corporate loans have continued to shrink. YTD, total loans increased by 3.4% (6% for retail loans, -0.8% for corporate loans and slightly under 5% for other loans, that last category having been driven by the mounting debt of local governments). The loans/ deposits ratio was 114% from 115% a month earlier. This is what we expected for volumes. We are forecasting a 4.5% increase in total loans by the end of the year (assuming CHF/PLN exchange rate of 2.61), with a 5,8% y/y increase in deposits (driven by households). We believe we should not expect the supply of credit to expand significantly in the upcoming months; at the same time, the pressure on deposits will be increasing.

Shrinking yields on short-term deposits

According to financial intermediary Expander, the average APR on 12-month deposits hovers around 4.73%, while the APRs on three-month deposits have slid to 4.32%. Bank rates are stabilizing, and deposit interest rates are higher than market rates, although they have significantly contracted in the last few months. Summing up, bank interest margins are bound to decline, but they will stay ahead of the margins observed in 4Q08 through 2Q09.

KNF predicts provision reversals

The Financial Supervision Authority (KNF) believes that Polish banks took a fairly conservative approach to risk assessment when creating provisions; thus, if the macroeconomic situation improves, some of these charges might be reversed. Mr. Stopczyński of the KNF believes this could happen before the end of 2009. A part of loan-loss provisions created during a slowdown always gets reversed. We doubt banks will be that optimistic in their approach to provisioning this year, for fear of what might happen next year.

Credit Information Bureau issued 1.48m reports in July 2009 (+6.8% y/y)

In H109, 8.46m credit reports were issued by the Credit Information Bureau (BIK), 15.2% more than in the same period a year ago, including 4.16m in Q1 (+21.1% y/y) and 4.3m in Q2 (+10% y/y). The data indicate a slowdown vs. H108, but this may be due to the fact that July is a summer vacation month. The reliability of the data is limited considering that borrowers usually apply for loans with several banks, and that the banks often run checks on their borrowers without outside help.

Mortgage loans

In July, the retail mortgage portfolio contracted to PLN 207bn from PLN 215bn a month earlier. Zloty mortgages expanded from PLN 69.4bn to PLN 71.2bn (by PLN 1.9bn, cf. +PLN 1.6bn in June). The contraction in the portfolio was driven by the appreciation of the zloty by 7.5% during the month, the effect of which we estimate at nearly PLN 11bn. This means that at a constant exchange rate, the portfolio expanded by PLN 2.5bn, which entails new loans of ca. PLN 3.5bn. This is in line with the recent data from the Polish Banks Union (PLN 20.2bn new mortgages between January and July). We are reiterating our forecast of PLN 30–35bn in new mortgages in 2009. We are pleased with the reduction in F/X retail mortgage debt.

July home loan sales at PLN 3.3bn

Mr. Michał Wydra, the secretary to the Mortgage Committee of the Polish Banks Union (ZBP), said that according to preliminary data banks had extended a total of 100,000 mortgages through the end of July, for a total of ca. PLN 20.2bn. The data suggest that the mortgage market is reaching stability. Since the start of the year, the average monthly sales have been PLN 2.9bn, and the number is pulled down by the weak initial months. For several months now, new mortgages have been stable at ca. PLN 3bn. We expect this year's total to be PLN 30–35bn (i.e. we have increased our previous forecast of PLN 25-30bn due to the observed improvement). This nonetheless still indicates a considerable y/y drop in new mortgage production. The FY2008 total for mortgages was PLN 60bn.

Subsidized mortgages at PLN 519m in August

2,929 people were granted subsidized home loans in August. In July, subsidized lending amounted to PLN 605.4m. Since January, close to 19 thousand loans totaling PLN 3.2bn have been extended by fourteen banks under the government's *Rodzina na swoim* program. The August decline in subsidized lending volumes might have been a seasonal effect. As for overall mortgage lending, we expect Polish banks to extend PLN 30-35bn-worth of home loans by the end of the year. H1 2009 lending amounted to PLN 16.8bn, and July mortgages totaled PLN 3.3bn. We do not predict a major pickup in H209 (sales at an estimated PLN 14-19bn).

Banks are willing to grant more mortgages, but at higher prices

According to Expander, the average interest rate on new PLN loans is currently 7.27%. The median margin has been steady over the past five months at 2.8% (for a 30Y PLN 300,000 loan, with a 25% downpayment). The banks are unwilling, however, to cut mortgage prices. The median required LTV was 100% for both PLN and CHF loans (up from 95% a month earlier), and 95% for the EUR. At the same time, the banks have tightened their creditworthiness assessment policies. In August, a family of four with a monthly net income of PLN 3,500 was eligible for a mortgage of PLN 195,000, vs. PLN 201,000 a month earlier. We do not believe that a revival in mortgage lending is possible before 2010.

NPLs

The NPL portfolio expanded by PLN 820m in July, marking its lowest monthly increase since the start of the year (average monthly increase in H109 was PLN 2.24bn). Retail NPLs increased by PLN 1bn, while corporate NPLs fell by PLN 200m. The ratio of NPLs to total loans increased to 6.6% from 6.3% a month earlier (4.5% for households and 10.2% for businesses, vs. 4.2% and 10.1%, respectively). The undertone of this data is slightly optimistic, and the appreciation in the zloty was surely not without impact here. We welcome the reduction in corporate defaults, although we do not believe this means the costs of risk will decline in Q309 as data are not fully comparable across Polish and international accounting standards. The increase in the NPL ratios is a consequence of the revaluation of the loan portfolios following the appreciation of the zloty. NPLs are still accelerating (increase by 72% y/y in July, after 69% y/y in June), but this is a consequence of low base. We are expecting NPL growth to peak in late Q309 or early Q409.

KNF predicts more bad debt

The KNF estimates that the share of non-performing consumer- and corporate loans in total loans may increase to as much as 14% by the end of the year (the optimistic forecast is an increase from 10% now to 12% in December). According to the latest NBP data, the ratio of the bank industry’s NPLs to gross loans as at 31 July stood at 6.6%, including 10.2% for corporate loans and 4.5% for retail loans. A major reason for the low retail NPL/Loans ratio are mortgages. Our own estimations suggest that the overall NPL/Loans ratio of the Polish bank sector will increase to 7.8% by the end of 2009, including a surge to nearly 14% in corporate NPLs.

Loan defaults on the rise

Over 12% of Polish borrowers are 60 days and longer in default on their installment-plan payments, according to a report by Infomonitor BIG. Loan defaults have increased 3 ppts in the last nine months. Cash loans that are 2 months or more overdue account for 11.5% of the cash-loan total. Infomonitor experts think that these numbers are actually 4 ppts higher given that not all institutions release updated data. Of a total of 1.6 million of defaulting installment plans and cash loans, over 1 million are nearly 180 days overdue. The total amount outstanding on these facilities is PLN 7.5bn, including PLN 6.8bn in loans that are 180 days or more past due. We expect consumer credit risks to remain high going forward. However, given that defaults increased by 3 ppts over three quarters, assuming that 100% of these loans are covered by reserves (in reality, banks will be able to recover a portion of the outstanding balances), the annualized cost of risk amounts to 4% of the cash-loan portfolio. All banks recognize loan-loss reserves against installment plans.

KNF, BIK to audit bank loan quality

A joint audit by the Polish Financial Supervision Authority (KNF) and the Polish Credit Bureau (BIK) is designed to assess current and future credit risks. The KNF is particularly interested in excessive consumer debt (the supervisor sent a letter to the banks in May concerning that issue). The market overview will be based, among others, on the BIK’s credit database, which includes information on over 64 million credit accounts of 23 million consumers, and which can be analyzed by types of credit (car loans, home loans, etc.). We predict that the ratio of bad debt to total loans will exceed 7.8% by December 2009, and increase to 10% by December 2010. We applaud the KNF for taking steps to analyze credit risks. The outcome of the study will be a good basis to make market projections.

Leasing reaches an equilibrium

Through the end of July, leasing companies extended financing for a total of PLN 13bn (vs. PLN 19bn a year ago). An equilibrium has been reached in the recent months, with monthly leasing at PLN 1.5bn or more. Industry representatives say that the situation is gradually improving, and they believe the quality of the portfolio is not deteriorating. Forecasts for 2009 foresee a ca. 30% drop in volumes (i.e. by over PLN 23bn). Next year, we do not expect the value of leasing to contract. Signs of deterioration in the industry could first be observed in Q408, just as in the case of corporate lending.

Fortis breaks industry record with H109 loss

Fortis Bank Polska reported a PLN 231.9m net loss in H109 vs. a PLN 122.9m profit a year earlier. Revenues dropped 54% to PLN 165.1m. In Q309, the bank expects a decrease in loan-loss reserves from a level of PLN 242m recognized in Q209 (H109 reserves totaled PLN 255.7m). 80% of the charges pertained to corporate loans. The first-half bottom line was further affected by fair-value adjustments to customer option transactions (-PLN 60.8m), and fair-value losses incurred on option contracts entered into by the bank (-PLN 72.6m), which depressed revenues. H109 interest income fell 2% vs. H108 to PLN 179.1m. Fee income plunged 39% to PLN 60.4m due to fewer derivatives transactions and slower lending.

BOŚ posts a loss in Q2 2009

In H109, BOŚ Bank recorded a net loss of PLN 1.96m (-94.4% y/y), including a PLN 4.9m loss in Q2. Consolidated interest income amounted to PLN 118.98m (vs. PLN 112.16m a year earlier), with fee income at PLN 45.46m (vs. PLN 42.94m a year ago). On a standalone basis, BOŚ recorded a PLN 4.69m net loss in H109 and a PLN 9.4m net loss in Q209. Earnings were negatively affected by credit risk charges and outstanding loans to Ukrainian and Icelandic banks. Net charge-offs on loans amounted to nearly PLN 20m in the second quarter, and nearly PLN 43m in H109. Earnings were weak not just because of the high cost of risk, but also due to growing expenses (+21% y/y). Other banks prepared for the slowdown through a very quick implementation of cost optimization measures. The cost/income ratio of BOŚ was 79% (and a staggering 87% in Q209 alone).

BGŻ: net income in H109 at PLN 21.7m

BGŻ reported a PLN 21.7m net profit in H109 Earnings were impacted by provisions, impairment charges, and network expansion expenses. Pre-tax income was PLN 28.2m. After Q109, net income stood at PLN 1.3m. BGŻ's CEO said that H109 profit strongly diverges from the Bank's expectations; while fee income improved, interest income shrank considerably due to fierce competition for deposits. Fee income was PLN 116.3m (vs. PLN 110.3m a year ago, +5% y/y), and interest income PLN 206.1m (vs. PLN 317.9m). All in all, income from banking operations declined by 5% y/y to PLN 464.4m. NPLs amounted to 5% of loans. At the end of June, equity was PLN 2.2bn, and the capital adequacy ratio was 11.4%. Due to network expansion (38 new branches were opened between January and June), operating expenses increased by 2%, to PLN 337.7m. All Polish banks report year-on-year decrease in earnings, and an will not come before Q409 (low base effect). Revenues will continue to be under pressure due to lower volumes and lower margins.

Net income of Raiffeisen Bank Polska falls 67.2% y/y in H1 2009, to PLN 51.8m

In H109, Raiffeisen Bank Polska recorded a net profit of PLN 51.8m (-67.2% y/y). The main problem was the need to create asset impairment provisions in the amount of PLN 122.7m, i.e. basically the same amount as in H208. Another factor, albeit a less important one, was the high cost of financing. The Bank was able to cut its operating expenses by 5.7% y/y. At the end of June, deposits totaled PLN 16.28bn (+12.7% y/y), with loans at PLN 16.48bn (+13.2% y/y). Equity amounted to PLN 2.35bn, with assets at PLN 22.69bn (+19.6%). The capital adequacy ratio stood at 13.28%. The Banks focuses on the corporate segment, and it is active in the market for client derivatives. Its earnings are line with trends observed in the market.

KNF recommends no dividends next year either

KNF Chairman Mr. Stanisław Kluza would prefer Polish banks to retain FY2009 profits rather than pay dividends, so that they can grow safely and take part in acquisitions when the economic tides have turned. At the end of June, the banks' aggregate capital adequacy ratio stood at 12.5% vs. 11.2% at the end of Q109. Mr. Kluza said he did not expect any banks to be unable to meet the legally required 8% at the end of 2009. Mr. Kluza added that in 2010 and 2011 we might see mergers and acquisitions that will reshape the Polish banking sector. He also pointed out that several banks could take advantage of a turnaround program to improve their efficiency. We believe there are banks on the WSE that should resume dividend payments next year. One such case is certainly Bank Handlowy, whose capital adequacy ratio amounts to 13.5% (Tier 1). The increase in the Polish bank industry's CAR in Q2'09 vs. Q1'09 was due to several factors: recognition of retained FY2008 profits on the books, appreciation of the zloty, and optimization of risk-weighted assets (careful lending policies, lower scale of off–balance sheet items - reduction in client derivatives etc.). We believe that the reduction in risk-weighted assets will continue through the end of the year, and we should not expect them to expand rapidly next year.

BGK launches mortgage payment subsidies for the unemployed

In August, the government-owned BGK bank awarded the first mortgage subsidy aimed at helping the unemployed. The beneficiary was able to handle all formalities within 8 business days. Subsidies are available to people who have mortgages to pay and who have lost their jobs after 1 July 2008. The maximum monthly payment is PLN 1,200, and the maximum funding period is 12 months. After a two-year grace period, the zero-interest government credit has to be repaid over a period of 8 years. Applications can be filed through the end of 2009. We believe few people will use this aid. It is perhaps significant that so far only one person has. We are pleased with the fact that the subsidy system is operational, but also that interest in the program is low, as this may indicate that the actual financial condition of bank clients is better than thought.

NBP wants to support cooperative banks

The NBP might help cooperative banks by buying their bonds, which are taken into consideration in the calculation of equity (and higher equity makes it possible to increase lending) or by granting subordinated loans (also counted towards equity). The state-owned BGK may support cooperative banks in a similar manner. The NBP wants to find a remedy for the decline in corporate lending at commercial banks. Commercial banks will start to lend more as well, when the price of credit risk decreases and there is a lasting improvement in the market for deposits. For now, banks are maintaining an additional liquidity buffer.

BPH – Q209 results

BPH recorded a net loss of PLN 52m in Q209, which was more than the PLN 34m loss recorded in Q109, and which was driven by falling revenue (by 9%, due to a decline in trading income by PLN 42m), downsizing reserves (PLN 30m vs. PLN 32m in Q109) and mounting costs of credit risk (1.3% of net loans vs. 73bps a quarter earlier). Interest income stopped falling and was flat. At the expense of some of its retail deposits (-3% q/q), the Bank reduced costs of financing and recorded a slight improvement it its net interest margin, which nonetheless still remains far below last year's levels. Fee income was very good, increasing by PLN 19m q/q driven by fees and commissions on loans (PLN 9m), domestic payments (almost PLN 5.5m), and other fees (nearly PLN 3m). Deposits contracted by PLN 300m, mostly due to consumer term deposits which account for nearly 90% of the Bank's total deposits. The Bank reduced pricing on deposits in Q209. BPH is still an active lender; its loan portfolio expanded by 3% y/y. Despite the PLN 86m total loss after H109, the Bank's capital adequacy ratio is at a very safe 11.8%. Equity fell to PLN 1.56bn. After it optimizes its costs and improves revenues, the Bank has a chance to get back into the black.

BPH – Change in corporate image coming in Q409

BPH and GE Money Bank Polska revealed their new logo. They are planning to make full use of the new corporate image as soon as the merger takes place in Q409. Signs will start to be replaced at BPH branches in October, and at GEMB branches, after the legal merger takes place. The name of the new bank will be BPH. The change of corporate colors will not influence BPH's strategy, as the costs of the change have been taken into account from the very start. The key issue is not the merger itself, but the change in BPH ownership. Its current logo contains elements typical for HVB, its previous strategic investor.

Getin Holding: Q209 results

Getin Holding's (GTN) 2009 second-quarter net income of PLN 80m was ahead of the consensus estimate of PLN 68m, thanks mainly to lower-than-expected loan loss reserves. Total income fell 10% short of the consensus estimate (as published by *Parkiet*), with interest income falling 18% short. Expenses were in line with expectations. GTN's ratio of loans to deposits decreased to 94% from 98% in Q109. Costs of risk at 2.8% of overage net loans were slightly lower than in the preceding quarter (4.2% of loans). Loan-loss reserves were 19% smaller than expected after reductions across all business lines. Loans expanded to PLN 24.6 billion from PLN 24.3 billion in Q109, fueled mainly by corporate loans which achieved an unmatched quarter-on-quarter growth of 21%. At flat exchange rates, the portfolio of mortgage loans increased thanks to the efforts of Noble Bank. The portfolios of car loans and consumer loans edged up by 3% and 1% q/q respectively. Summing up, the higher-than-expected net income was of lower-than-expected quality as income from consumer lines fell versus Q109

Getin Holding eyes profits from international operations

Getin Holding hopes to keep generating profits from international operations. According to CEO Mr. Rosiński, loan payments in the Ukraine are better than expected, though the local operations do report loan losses. Russian and Belarusian markets are steady. The GH leasing operations in Russia are doing well, and the bout of bad-debt write-downs at Ukraine's Plus Bank is over without a need for a capital injection. In H109, Getin Holding recorded a PLN 15.3m loss on international operations, caused mainly by Plus Bank which reported a PLN 20.88m net loss. Plus Bank's product distributor Akord Plus generated a net loss of PLN 2.2m, and Ukrainian subsidiaries Gwarant Plus and Carcade Plus reported losses of PLN 3.5m and PLN 0.88m respectively. The losses on international operations do not greatly affect the financial results of the GH Group.

Getin Holding hopes for stronger interest income in H209

Getin Holding hopes to improve its interest margin and interest income in H209 by reducing costs of financing and stepping up lending efforts. These plans are in line with our predictions for the bank industry. We think that Q209 was the worst in terms of interest margins, and that a very slow pickup can be expected in future quarters.

Getin Holding – Purchase of shares in Fiolet

Getin Holding announced that it had bought 39,900 common shares of Fiolet-Powszechny Dom Kredytowy S.A. (PDK), with a nominal value of PLN 100 each. The total price was PLN 3.99m. GTN executed its call option for PDK shares under an agreement signed on 20 August 2008. Before the transaction, GTN owned 141,837 shares of PDK (25.6%); now, it controls 181,737 shares (32.8%). The deal did not change our outlook on Getin Holding.

Getin Holding, Noble Bank – Noble Securities sold to Noble Bank

Getin Holding signed an agreement for the conditional sale of a 79.76% stake (82.73% in votes) in Noble Securities (formerly DM Polonia Net) to Noble Bank for PLN 11.93m (2.8m shares at PLN 4.28 apiece). The transaction will be finalized if the Financial Supervision Authority (KNF) does not object, and if Noble Securities Supervisory Board approves it. The KNF has already been informed about the transaction. GTN also reached an agreement with Messrs. J. Augustyniak, M. Kuhn, and K. Spyra, which will amend the agreement of June 30, 2008 granting the three investors a call option for Noble Securities shares (10%, 5% and 5%, respectively). All financial operations are being centered around the new entity that will emerge from the merger of Noble Bank and Getin Bank.

Noble Bank – Q209 results

Noble Bank posted a flat quarter-on-quarter Q2 net income of PLN 41m. Operating income was 19% lower than in Q109. Revenues shrank considerably, due to negative interest income on the one hand, and a loss on financial operations on the other (-PLN 18m vs. -PLN 3m); in addition, F/X gains were much lower (PLN 2m vs. PLN 12m a quarter earlier). At the same time, expenses declined by 4% q/q. The Bank released provisions in the amount of PLN 4bn, while in Q109 it created provisions amounting to PLN 8m. The strongest line in NB's earnings was fee income, which at PLN 129m represents an 18% q/q increase, thanks to the increase in revenue from financial brokerage. Interest income remained largely flat vs. Q109, after loan pricing was revised in line with changes in market rates. The cost of financing is still on the rise (due to fixed interest rates in deposits offered several months ago and the cost of refinancing of F/X loans). Volumes increased by 10% q/q, which suggests the bank is an active lender (in Q2 2009, the zloty appreciated vs. the CHF), new deposit volumes increased as well. The ratio of loans to deposits remained 91%. In the ensuing quarters, interest income will be of crucial importance, as will attempts to lower the cost of financing.

Noble Bank – Special Shareholders Meeting

The Bank called a special meeting of shareholders for 9 September, whose agenda includes new Supervisory Board member appointments.

BZ WBK (Buy)

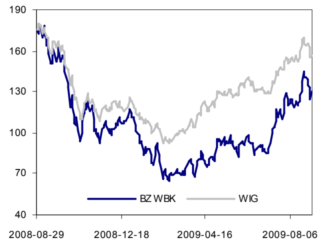
Current price: PLN 130.1 Target price: PLN 152.1

Analyst: Marta Jeżewska
Last Recommendation: 2009-08-24

(PLN m)	2007	2008	change	2009F	change	2010F	change
Net interest income	1 286.7	1 635.1	27.1%	1 449.4	-11.4%	1 500.4	3.5%
Interest margin	3.5%	3.3%		2.5%		2.6%	
Revenue f/banking oper.	2 940.6	3 190.0	8.5%	3 096.4	-2.9%	3 166.8	2.3%
Operating income*	1 395.2	1 575.9	13.0%	1 488.8	-5.5%	1 518.7	2.0%
Pre-tax income	1 391.4	1 211.4	-12.9%	866.5	-28.5%	986.5	13.8%
Net income	954.7	855.4	-10.4%	646.5	-24.4%	730.5	13.0%
ROE	23.0%	18.4%		12.3%		12.2%	
P/E	9.9	11.1		14.7		13.0	
P/BV	2.2	1.9		1.7		1.5	
D/PS	6.0	3.0		0.0		0.0	
Dyield (%)	4.6	2.3		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	73.0
MC (current price)	9 492.1
Free float	29.5%
Price change: 1 month	*8.9%*
Price change: 6 month	*83.4%*
Price change: 12 month	*-27.3%*
Max (52 week)	179.0
Min (52 week)	64.5

** before provisions*



BZ WBK's strong H109 earnings (PLN 377m net income) were a good start into a slower period. Expectations of high provisions recognized against property loans appear overly conservative as the sentiment in the property market improves (the outlook for mortgages is somewhat more optimistic and the situation in commercial property improving thanks to a stable macroeconomic situation and an appreciating zloty). Thanks to diversified revenue sources, operating income before provisions remains BZ WBK's main strength. We are upgrading our long-term forecasts for the bank in anticipation of an improvement in equity markets and higher interest margins. Our current target price suggests a valuation at twice the book value forecasted for year-end 2009. BZ WBK is trading at a 16% discount to Pekao and PKO BP, and we consider it the most attractive investment of all the WIG20 banks in our coverage universe. We recommend buying BZ WBK.

Q2 2009 results

BZ WBK's net income for the second quarter of 2009 exceeded our expectations at PLN 258m, thanks to two factors: slightly stronger revenues (especially trading income boosted by CIRS valuations, and fee income supported by equity trading and customer accounts), and lower loan-loss provisions. Interest income was in line at PLN 355m. As expected, assets shrunk in the second quarter as a result of a reduced credit supply, a stronger zloty, and other asset-streamlining efforts. Net interest margin was in line with expectations. As expected, Q209 expenses fell PLN 8m vs. Q109 and were flat against Q208, and included an impressive, PLN 21m (10%) Q/Q reduction in salary costs. In turn, non-payroll expenses surged PLN 13m vs. the first quarter, probably due to a media campaign promoting savings accounts. Payroll costs were trimmed thanks to various staff-management strategies. Once the economy recovers, BZ WBK will probably increase its employee headcount again. What raised our concern was a huge bad-debt portfolio (a Q/Q surge from 3.8% to 4.5% of total loans), mostly comprised of mortgage loans (whose share increased to 5.6% from 4% in Q109). The ratio of non-performing loans to reserves is down to 40%. All in all, BZ WBK reported very solid Q209 results, with the loan/deposit ratio down to 86% from 88% a quarter earlier, and a CAR of 11.56%.

No dividends next year

BZ WBK's CEO said that the bank was not going to pay dividends from FY2009 profits. BZ WBK wants to improve its market standing and play an active role in acquisitions should opportunities arise. We had assumed there would be no dividends. No CEO will shun an advantageous acquisition, but we do not think that the likelihood of such an opportunity is very high.

CEO expects stabilization of reserves

CEO Mr. Morawiecki predicts that BZ WBK's loan loss reserves in H209 will either be flat from, or lower than H109 reserves. This is good news, although we are aware that the economic environment can always shift again. Our financial forecasts for BZ WBK assume H209 reserve charges slightly higher than in H109 (PLN 339m vs. PLN 283m).

Corporate loan demand increases in H209

According to the CEO, banks should feel a pickup in loan demand from businesses, and record improved earnings results in H209. BZ WBK is already observing increasing demand for credit from SMEs as well as large corporations which are launching EU-funded infrastructure- and environmental projects. In our opinion, the demand growth will not be strong enough to boost loan volumes since it will be accompanied by old loan repayments. Added to this will be the still-stringent lending requirements. Summing up, we agree that bank revenues could increase in H209 depending on loan-loss reserves.

BZ WBK joins government subsidy program

BZ WBK may prove to be the cheapest provider of government-subsidized zloty mortgage loans. 12 other banks are already in the program, but their loans are expensive, with margins of up to 3%. BZ WBK's loans, in turn, are priced at 3M WIBOR plus 1.35%. This might indicate that banks are starting to cut loan pricing.

Handlowy (Reduce)

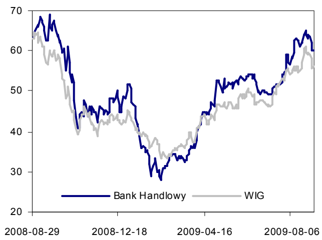
Current price: PLN 60.3 **Target price: PLN 59.5**

Analyst: Marta Jeżewska

Last Recommendation: 2009-08-24

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	1 204.4	1 365.8	13.4%	1 538.1	12.6%	1 493.2	-2.9%	Number of shares (m)	130.7
Interest margin	3.2%	3.4%		3.7%		3.7%		MC (current price)	7 878.8
Revenue f/banking oper.	2 447.1	2 312.8	-5.5%	2 390.0	3.3%	2 306.8	-3.5%	Free float	25.0%
Operating income*	990.3	909.6	-8.1%	1 006.4	10.6%	893.0	-11.3%		
Pre-tax income	1 034.2	759.2	-26.6%	460.5	-39.3%	514.8	11.8%		
Net income	824.2	600.4	-27.2%	356.9	-40.6%	411.8	15.4%		
ROE	15.0%	10.7%		6.1%		6.8%		Price change: 1 month	*6.1%*
P/E	9.6	13.1		22.1		19.1		Price change: 6 month	*84.5%*
P/BV	1.4	1.4		1.3		1.3		Price change: 12 month	*-8.2%*
D/PS	4.1	4.8		0.0		1.9		Max (52 week)	69.0
Dyield (%)	6.8	7.9		0.0		3.2		Min (52 week)	28.0

** before provisions*



We raised our FY2009 net-income estimate for Bank Handlowy to PLN 357m from PLN 327m, based on a revised revenue forecast of PLN 2.4bn (up from PLN 2.3bn) stemming from better-than-expected interest income and trading income figures (but also higher estimates of the cost of credit risk, at PLN 546m vs. PLN 483m previously). We also raised our long-term financial forecasts (post-2011) for the bank, taking into account the improvement in the macroeconomic environment and the bank's good market standing (liquid balance sheet, good equity levels). The best upside opportunity for Bank Handlowy's shares would come from high dividends. With its capital adequacy ratio at 13.5% (Tier 1), and the ongoing optimization of risk-weighted assets, the bank has excess equity. The return that the bank might attain at this equity level has been discounted at FY09 P/TCE (equity adjusted for goodwill) of 1.8. A more attractive investment is ING BSK, with a FY09 P/TCE ratio of 1.4. Both banks are liquid and both have adequate capital, but we expect much higher earnings from ING BSK (FY09 net income estimate at PLN 530m), which has a lower market cap. We are reiterating a reduce rating on Bank Handlowy.

Q1 2009 results

At PLN 71m, Q109 net income was in line with expectations. Risk charges were higher than expected (PLN 181m vs. PLN 137m), while expenses were lower. Payroll cost optimization and lower marketing expenditures allowed expenses to be cut by over PLN 20m during the quarter. Revenues were in line with expectations, with trading income as the only item to significantly exceed our forecast. Handlowy sold debt securities available for sale (PLN 15.4m), which boosted this line of revenues. Thanks to lower expenses, operating income before provisions exceeded our expectations. The capital adequacy ratio increased to 13.5% (from 11.2% after Q109), mostly due to the recognition of FY2008 profits in equity. The pro-forma CAR after Q109 with the FY2008 profit included was 13.2%. The increase is a consequence of the Bank's decreased level of activity.

Strategic investor divests consumer banking in 20 countries

Mr. Vikram Pandit, the CEO of Citigroup, said that the Group would divest its consumer banking arms in 20 countries, including many in Europe. A spokesperson for Bank Handlowy said, however, that Central and Eastern Europe, including Poland, was a priority market for Citi. The consumer banking division of Bank Handlowy is currently being expanded. We do no think that a divestiture of a part of Bank Handlowy can be rule dout.

Plan to cut C/I ratio to 50% in 2010 reiterated

Bank Handlowy hopes to see an improvement in its cost/income ratio in the upcoming quarters; it has reiterated the plan to reduce the ratio to ca. 50% towards the end of 2010. At present, the C/I ratio stands at 56% (-7pp vs. Q109). We believe the bank will find it difficult to achieve such an improvement in its efficiency without expanding its operations and without increasing its sales volumes. For now, the bank is reducing its assets, and better earnings results are a consequence of a y/y improvement in interest income (the bank did not need to take part in the war for deposits) and very good trading income. In the ensuing quarters, interest income will not increase so dramatically anymore, and we project a further decline in volumes. Trading income will remain strong in H209, but it will be difficult to replicate in 2010.

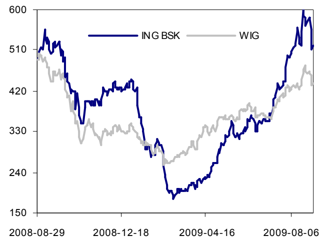
ING BSK (Accumulate)

Current price: PLN 520 **Target price: PLN 663.6**

Analyst: Marta Jeżewska
Last Recommendation: 2009-08-24

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	1 047.9	1 152.0	9.9%	1 397.2	21.3%	1 425.4	2.0%	Number of shares (m)	13.0
Interest margin	2.1%	1.9%		2.1%		2.1%		MC (current price)	6 765.2
Revenue f/banking oper.	2 008.5	2 060.5	2.6%	2 573.9	24.9%	2 607.5	1.3%	Free float	18.5%
Operating income*	640.2	580.4	-9.3%	1 101.3	89.7%	1 080.0	-1.9%		
Pre-tax income	787.0	563.1	-28.5%	668.2	18.7%	669.2	0.1%		
Net income	630.7	445.4	-29.4%	530.4	19.1%	531.2	0.1%		
ROE	16.6%	11.1%		11.8%		10.6%		Price change: 1 month	*5.3%*
P/E	10.7	15.2		12.8		12.7		Price change: 6 month	*165.3%*
P/BV	1.8	1.6		1.4		1.3		Price change: 12 month	*0.8%*
D/PS	27.9	11.7		0.0		0.0		Max (52 week)	600.0
Dyield (%)	5.4	2.3		0.0		0.0		Min (52 week)	182.1

** before provisions*



For FY2009, we are forecasting a net income of PLN 530m. We expect ING BSK to be the only Polish bank to show year-on-year earnings growth in 2009; if we adjust FY2008 earnings for a bond loss incurred in Q408, the FY2009 bottom line will display a year-on-year decrease by 22%, one of the least dramatic drops projected for all the banks in our coverage universe. We expect a 9% y/y improvement in revenues (excluding the Q408 bond write-down of PLN 290m). Growth will be driven by interest income (+21%). We see the following strong arguments suggesting that the net interest margin will increase on previous periods: (i) higher loan margins than seen during the previous period of prosperity, (ii) better asset structure thanks to a higher share of loans in interest-bearing assets, and a higher share of retail loans in total loans. If our FY2009 forecasts prove accurate, they entail a FY09 P/E of 12.8, which is the lowest level in the industry. With lower provisions in future years, the P/E multiple will plunge to an estimated FY11E level of 8. We are reiterating an accumulate rating o ING BSK.

Q2 2009 results

At PLN 183m, ING BSK's second-quarter net income was well ahead of our forecast (PLN 132m) and consensus estimates (PLN 120m). Indeed, ING BSK's Q209 showing was the strongest of all listed banks. The income for the period was supported by strong sales which yielded a 9% higher-than-expected interest income and an 8% higher fee income. The consensus estimate for interest income was PLN 325m. Trading income fell slightly short of expectations because of the high reserves that the bank raised against customer forward contracts (PLN 57m in Q209 vs. PLN 68m in Q109). Operating expenses were in line and under control (an under 1% Y/Y decline in H109). Operating income exceeded our estimate by 11%, fueled by strong sales which were up 8% versus Q208. So far, ING BSK is the only bank that managed to improve this year's second-quarter income from banking operations. The bank set aside just PLN 73m toward loan loss provisions (1% of loan portfolio), which were lower than in the quarter before (PLN 102m) and lower than our forecast (PLN 103m). The ratio of non-performing loans to total loans almost doubled in the first half of 2009, from 2.1% to 4.1% (NPLs were up from PLN 0.5bn to PLN 1bn). At the same time, net charge-offs amounted to PLN 176m, indicating good-quality collateral. Since ING BSK has the lowest ratio of NPLs to reserves, it might have drawn upon other general-risk reserves.

Fitch rating downgrade

Fitch cut its rating for ING BSK and the ING Group from "A+" to "A". Outlook is stable for ING BSK's rating, negative for that of the ING Group. The short term IDR of ING BSK was affirmed at "F1". The bank's individual rating and support rating were affirmed at "C" and "1", respectively. This reflects the situation of the strategic investor.

Q309 will be the last quarter with negative impact of client derivative provisions

ING BSK expects Q309 to be the last quarter when it will have to create provisions for client derivatives. We expect the impact of options to be smaller than in Q209, when they resulted in a PLN 46m charge against trading income and a similar expenses added to provisions (PLN 93m total).

Kredyt Bank (Buy)

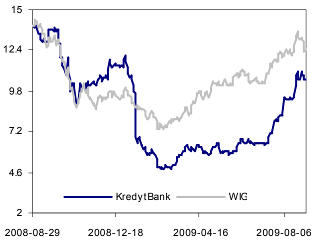
Current price: PLN 10.6 Target price: PLN 11.76

Analyst: Marta Jeżewska
Last Recommendation: 2009-08-24

(PLN m)	2007	2008	change	2009F	change	2010F	change
Net interest income	871.5	1 059.9	21.6%	1 055.8	-0.4%	1 094.4	3.7%
Interest margin	3.5%	3.2%		2.7%		2.6%	
Revenue f/banking oper.	1 360.2	1 585.9	16.6%	1 536.7	-3.1%	1 571.7	2.3%
Operating income*	468.1	531.3	13.5%	570.2	7.3%	603.9	5.9%
Pre-tax income	499.7	421.1	-15.7%	36.8	-91.3%	145.1	294.6%
Net income	388.3	324.9	-16.3%	29.4	-90.9%	116.0	294.6%
ROE	17.9%	13.2%		1.1%		4.2%	
P/E	7.4	8.8		97.5		24.7	
P/BV	1.3	1.1		1.1		1.0	
D/PS	0.4	0.5		0.0		0.0	
Dyield (%)	3.5	4.9		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	271.7
MC (current price)	2 868.7
Free float	9.4%
Price change: 1 month	*28.5%*
Price change: 6 month	*108.7%*
Price change: 12 month	*-24.5%*
Max (52 w eek)	14.0
Min (52 w eek)	4.8

** before provisions*



Kredyt Bank (KRB) reported a strong operating income for the first half of 2009 (+24% y/y) thanks to successful cost reductions (total costs were down 3% vs. H108). In spite of a year-on-year decline in the net interest margin (to 2.6% from 3.4%), the bank saw a 5% y/y increase in interest income fueled by growing assets (an expansion of the lending business boosted the asset base by 36%). KRB has a lot to make up for in terms of fee income (the profit margin on fee income was 0.8% vs. a weighted industry average of 1.6%). Strong operating performance led the bank to report a H109 net income. We predict that KRB's costs of risk will remain elevated throughout H209 and 2010, but their impact on profits will be offset by cost savings. We changed out investment outlook on the bank looking at the improving situation in the interbank market, slower growth of the loan portfolio, the potential to strengthen fee income, the subordinated loan from the strategic investor, and the steadying of the deposit market; all of these factors make KRB a safer investment (entailing much less liquidity risk). As the probability that KRB will report a FY2009 loss diminishes, we value the bank 1.2x BV, and set a new price target on its stock of PLN 11.76 a share. We recommend buying Kredyt Bank.

Q2 2009 results

At PLN 41m, net income was well ahead of our forecast (PLN 10m) and the consensus estimate (PLN 11m, *Parkiet*). This is a consequence of the much lower-than-expected costs (PLN 248m vs. PLN 264m in our forecast and PLN 263m in the consensus estimate) and lower credit risk charges (-PLN 89m vs. -PLN 115m we forecasted). The lower cost of risk is a consequence of the fact that there were no write-offs against corporate loans. As far as revenues are concerned, interest income surprised on the upside (PLN 269m vs. our forecast of PLN 253m and PLN 246m consensus). Income from banking operations undershot the forecast by 5%, however, due to the weaker trading income. We are pleased by the fact that the bank was able to record a profit for the first half of 2009 (PLN 4m), but we believe that its ability to stay in the black hinges on risk charges (especially in the corporate segment in the ensuing quarters). That said, strong profits will offset the impact of loan-loss provisions on equity.

Warta and Żagiel for sale?

According to business daily *Parkiet*, KBC is preparing a list of assets for divestment so as to be able to repay the loans received from the Belgian government as due, before the European Commission deems them to have been unlawful aid. The paper claimed that an internal valuation pegs the value of the insurance operations of Warta at PLN 1 billion. A similar estimation (PLN 1.1–1.2bn not including portfolio quality risks) was made by Vienna Capital Partners. The list of non-core assets may also include Żagiel, a wholly-owned subsidiary of Kredyt Bank which Vienna Capital Partners estimates at PLN 1.7bn minus portfolio risks. Warta's valuation is equal to its book value, which stood at PLN 1.1bn at December 2008 (the non-life insurer TUiR Warta had a 2008 ROE of 6.8%). Kredyt Bank is valued at PLN 10.8 a share, and its market cap amounts to PLN 2.9bn. The Żagiel valuation seems inflated. Even if we assume that a quarter of Żagiel's loan portfolio (which stood at PLN 2.8bn at 30 June) are nonperforming loans, its value would approximate PLN 1 billion. Based on these estimates, a valuation of Kredyt Bank of 1.1 x FY09E BV seems justified. Warta's life insurance arm TUnŻ Warta will reportedly remain in Poland. *Parkiet*'s speculation leads us to believe that Kredyt Bank may also be put up for sale.

Higher provisions, higher efficiency

Kredyt Bank announced it had started a review of the sales profitability and effectiveness of its branch network, in hopes of improving its cost/income ratio from 64% at Q209 below 60% - a level which will not be achieved this year. The first effects are expected towards the end of next year. At the same time, the bank expects to set aside higher provisions against corporate and consumer loans in the upcoming quarters. The very good earnings recorded in Q2 2009 may be difficult to replicate in the following quarters, if consumer loan provisions increase further, and the bank is unable to recover corporate NPLs as efficiently as in Q2 2009.

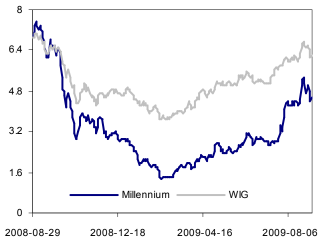
Millennium (Hold)

Current price: PLN 4.6 **Target price: PLN 5.3**

Analyst: Marta Jeżewska
Last Recommendation: 2009-08-24

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	819.9	1 181.3	44.1%	627.1	-46.9%	918.2	46.4%	Number of shares (m)	849.2
Interest margin	3.0%	3.0%		1.4%		2.0%		MC (current price)	3 863.8
Revenue f/banking oper.	1 648.2	1 827.5	10.9%	1 411.8	-22.7%	1 655.4	17.3%	Free float	34.5%
Operating income*	651.1	657.0	0.9%	391.8	-40.4%	653.4	66.8%		
Pre-tax income	584.6	521.8	-10.7%	51.5	-90.1%	296.5	475.6%		
Net income	461.6	413.5	-10.4%	41.7	-89.9%	240.2	475.6%		
ROE	19.5%	15.5%		1.5%		8.1%		Price change: 1 month	*8.3%*
P/E	8.4	9.3		92.6		16.1		Price change: 6 month	*167.6%*
P/BV	1.5	1.4		1.4		1.2		Price change: 12 month	*-39.7%*
D/PS	0.2	0.2		0.0		0.0		Max (52 week)	7.6
Dyield (%)	3.7	4.2		0.0		0.0		Min (52 week)	1.4

** before provisions*



Bank Millennium stands to be one of the biggest beneficiaries of the expected recovery in the financing market next year. Thanks to lower costs of mortgage refinancing, the end of the deposit war between Polish banks, and a gradual widening in loan margins, the bank will be rebuilding its profit margins in coming quarters, and strengthening interest income in 2010. Like Kredyt Bank, Millennium took very aggressive asset-expansion and volume-building measures last year (FY05/08 CAGR at 29%). The loans acquired during that time were not highly profitable, however, the current returns that the bank achieves on its assets (a meager 0.1%) do not reflect their full potential. As concerns over possible credit losses abate, and the interbank market calms down, Millennium is looking forward to stronger ROA performance in future years. On a flat asset base, an increase in ROA to 0.8% implies a net income of PLN 380m, and a P/E of just under 10. We are reiterating a hold rating on Millennium.

Pekao (Accumulate)

Current price: PLN 142 Target price: PLN 154.4

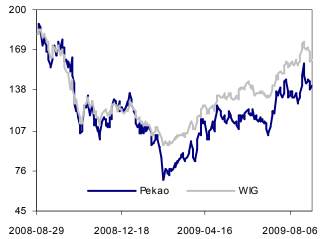
Analyst: Marta Jeżewska

Last Recommendation: 2009-08-24

(PLN m)	2007	2008	change	2009F	change	2010F	change
Net interest income	4 323.0	4 509.5	4.3%	3 799.1	-15.8%	4 214.0	10.9%
Interest margin	3.6%	3.5%		2.9%		3.1%	
Revenue f/banking oper.	8 314.2	7 578.2	-8.9%	7 130.7	-5.9%	7 616.2	6.8%
Operating income*	4 509.5	4 535.0	0.6%	3 475.4	-23.4%	3 903.8	12.3%
Pre-tax income	4 342.4	4 346.0	0.1%	2 860.5	-34.2%	3 295.3	15.2%
Net income	3 547.2	3 528.0	-0.5%	2 304.0	-34.7%	2 656.2	15.3%
ROE	23.1%	23.0%		13.5%		14.0%	
P/E	10.5	10.5		16.2		14.0	
P/BV	2.5	2.3		2.0		1.9	
D/PS	9.0	9.6		0.0		4.4	
Dyield (%)	6.3	6.8		0.0		3.1	

Basic data (PLN m)	
Number of shares (m)	262.2
MC (current price)	37 234.2
Free float	36.7%
Price change: 1 month	*6.7%*
Price change: 6 month	*66.1%*
Price change: 12 month	*-23.5%*
Max (52 w eek)	185.5
Min (52 w eek)	67.9

** before provisions*



We raised our 2009 net-income estimate for Pekao from PLN 1.6 billion to 2.3 billion to account for a higher-than-expected trading income and lower-than-expected loan charge-offs reported in H109. In the second half of the year, costs of risk are likely to increase (from their below-average levels), while the potential to generate stronger-than-average trading income will decline. However, Pekao's liquid balance sheet (loans/deposits at 88%), a CAR of 13.07% (Tier I), and capacity to reduce financing costs (as the second largest consumer bank and the number one corporate bank), will support its equity value going forward. In the quarters ahead, the bank's biggest growth potential lies in its equity-market operations (Pekao owns leading investment funds), which are expected to drive fee income. Pekao is a more attractive alternative to PKO BP, which is planning an SPO still this year. We recommend accumulating the stock.

Q2 2009 results

At PLN 613m, Q209 net income was much higher than expected thanks to strong revenues. Contrary to our expectations, interest income improved q/q thanks to a higher net interest margin (which showed a rapid increase by 16bps in such a short timeframe). We expected the NIM to decline slightly vs. Q109, in line with sector-wide trends. Fee income exceeded expectations, improving q/q. This may be a consequence of higher service fees being charged for retail accounts (in Q209, the bank changed the terms under which these fees are calculated, in a way which in our view led to an effective increase), as well as the improved situation in equity markets. We had expected that the latter would be eaten up by reduction in the number of transactions and lower sales. The bank's trading income also improved as a result of the advantageous situation in financial markets and the sale of a portfolio of assets (PLN 50m). Thus, despite the Q109 one-off (property sale to BPH), trading income remained very high. Operating expenses remained in check, with small q/q growth, justifiable in the light of the higher revenues. Costs of credit risk edged up to 72 bps, and were lower than our expected 80 bps. The bank's capital adequacy ratio is strong at 13.7%. It improved sharply thanks to the shareholder's decision to retain the FY2008 profit in its entirety and the 4% q/q decline in assets, which was caused, among other factors, by the 5% q/q decline in loans.

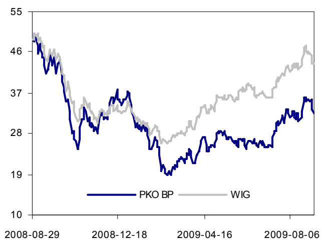
PKO BP (Hold)

Current price: PLN 32.3 **Target price: PLN 35.6**

Analyst: Marta Jeżewska
Last Recommendation: 2009-08-24

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	4 646.6	6 127.3	31.9%	4 835.6	-21.1%	5 490.1	13.5%	Number of shares (m)	1 300.0
Interest margin	4.4%	5.0%		3.2%		3.3%		MC (current price)	41 990.0
Revenue f/banking oper.	7 444.7	9 096.7	22.2%	8 387.0	-7.8%	9 018.7	7.5%	Free float	48.8%
Operating income*	3 661.5	5 092.1	39.1%	4 156.1	-18.4%	4 785.2	15.1%		
Pre-tax income	3 609.2	3 977.3	10.2%	2 587.6	-34.9%	3 069.6	18.6%		
Net income	2 903.6	3 120.7	7.5%	2 088.6	-33.1%	2 480.5	18.8%		
ROE	26.4%	24.1%		12.5%		12.4%		Price change: 1 month	*2.2%*
P/E	11.1	10.4		20.1		16.9		Price change: 6 month	*48.8%*
P/BV	2.7	2.3		2.1		2.0		Price change: 12 month	*-34.1%*
D/PS	1.0	1.1		1.5		1.2		Max (52 week)	49.0
Dyield (%)	3.0	3.4		4.6		3.6		Min (52 week)	18.9

** before provisions*



A capital adequacy ratio of 12.1% at 30 March, a leading position in sales of consumer banking services, and an unmatched success in capturing market share in retail deposits, are already factored in PKO BP's market value. We believe that the foundations upon which PKO BP is building its market presence are solid and durable, and that even a materialization of the worst industry projections would not threaten the bank's equity position (to eat PKO BP's total operating income before provisions, loan write-offs would have to reach 4%). PKO BP has an upcoming stock offering which will negatively affect its equity value. The bank's goal is to earn PLN 5 billion on up to 300 million shares (these numbers are included in our financial forecasts for PKO BP). PKO BP's stakes in main stock indexes are reaching their limits, meaning that the post-SPO free float is not going to push them any further Another concern is the offering price. We think that investors will expect a discount to the market price, especially at a time when PKO BP is still running without a CEO. We would welcome any news of a postponement or complete abandonment of the SPO plans. We are convinced given the outlook for the Polish bank sector that PKO BP can continue to grow without the extra capital. We are reiterating a hold rating.

Q2 2009 results

At PLN 610m, net income beat our expectations by 30% thanks to a reduction in expenses to PLN 994m (by 8% q/q and 6.4% y/y). Revenues were slightly above our expectations, by and large thanks to the positive surprise in fee income (PLN 622m vs. our forecast of PLN 588m and PLN 550m earned in Q109). It is a consequence of the recent hike of transaction fees at the bank. Interest and trading incomes were by and large in line with our expectations. Other operating income also generated a positive surprise (PLN 110m vs. PLN 46m in Q109). Credit risk charges remained high (PLN 390m vs. PLN 374m in Q109), in line with our projections (1.5% of net loans). The capital adequacy ratio stood at 11.21%, and the loans/deposits ratio was 94% (vs. 97% in Q109). The bank adjusted its new lending to the growth of its deposit base. We believe this approach will continue in the ensuing quarters. We consider these earnings solid. We are pleased with the savings, achieved through quite radical downsizing.

Supervisory Board changes

PKO BP shareholders made significant changes in the bank's Supervisory Board (SB) during an August 31st special meeting. Former member Cezary Balasiński was appointed the SB Chair. New members: Mirosław Czekaj, Ireneusz Fąfara, Alojzy Zbigniew Nowak, and Tomasz Zganiacz replaced resigning members: Jacek Gdański and Chairwoman Marzena Piszczek, and dismissed members: Jerzy Stachowicz and Ryszard Wierzba. Shareholders also voted in favor of postponing the date of record in an upcoming SPO to October 6th. The prospectus covering the secondary offering of up to 300 million shares (to be traded cum rights) was filed with the KNF on September 1st. PKO BP is in the process of interviewing CEO and VP candidates. If the CEO office is given to an outsider, he or she will have to sign a prospectus and OK an SPO which was prepared without his/her involvement.

PKO BP planning Kredobank capital injection

PKO BP and a "serious international institution" are discussing a possible subordinated loan that would serve to inject capital into Kredobank. In H109, Kredobank had a net loss PLN 125.6m, with provisions amounting to PLN 179.6m. The gross loan portfolio was PLN 2.1bn, with deposits at PLN 1bn. In H109, Kredobank repaid subordinated loans from PKO BP in the amount of USD 38m; it also partially repaid the loan it had received in November 2008 (USD 65m). At the end of H109, the bank's equity stood at PLN 350.5m. The Ukrainian investment is increasingly costly. All in all, the value of Kredobank's gross loans amounts to PLN 2/share, which should be adjusted for existing provisions and the tax shield. The impact on the valuation of PKO BP is minor given the scale of its operations, but an alternative investment would generate a higher return.

New retail loan volumes

PKO BP announced that in July it had extended mortgages for a total of PLN 1bn. Q209 mortgage sales totaled PLN 2.7bn, which was 80% more than in the quarter before (PLN 1.5bn). The bank remains an active lender in the area of cash loans, with new production not lower than last year's levels. Cash loans are mostly targeted to the bank's existing clients. Through the end of the year, the bank might achieve a 30–35% share in new mortgages (we forecast the industry's total at PLN 30-35bn). The bank's loan supply will mirror its achievements in deposit acquisition; an important question is also what its clients will do when their term deposits mature.

Interest margins expected to be steady

PKO BP estimates its net interest margin at 3.4% in Q209, vs. 3.8% in Q109 and 5% in Q208. In H109, NIM was 3.5%. The bank expects similar levels in H209.

Gas & Oil, Chemicals

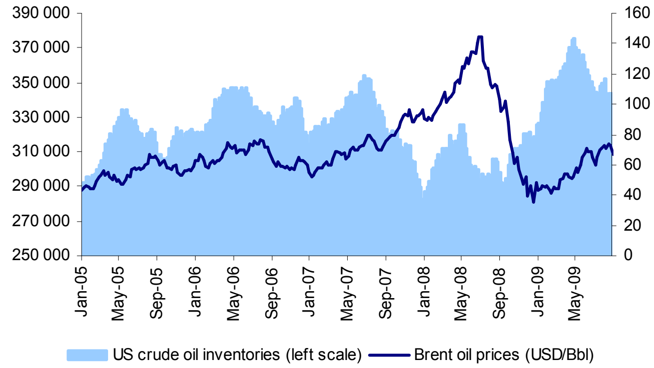
Guiding principles of strategic reserve laws to come in September

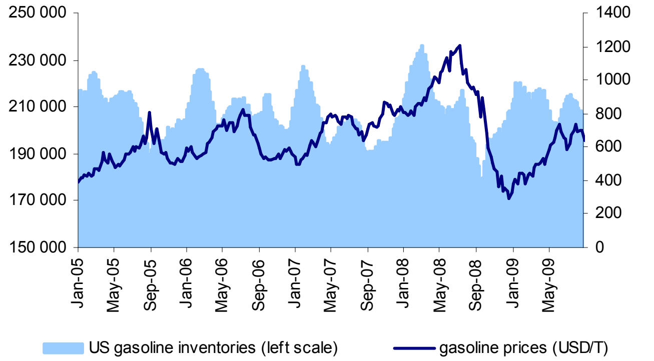
The Department of Gas and Oil at the Ministry of the Economy announced that most likely by the end of September the Ministry will prepare the guiding principles for the bill on the financing of crude oil and fuel reserves. The mandatory stockpiles, currently kept by the refiners, are to be taken over by a new state agency, in one move or gradually over several years. The companies would only have to pay fees for the creation and maintenance of these reserves. We would like to point out, however, that everything suggests that inventories will in fact be purchased from Lotos and Orlen, whether at once or in several steps, which will significantly improve their balance sheets. As a reminder, most of the mandatory reserves are not depleted nor replenished, and they were amassed at lower crude oil prices; thus, their purchase by the state would not only reduce the companies' debt, but also bring them cash.

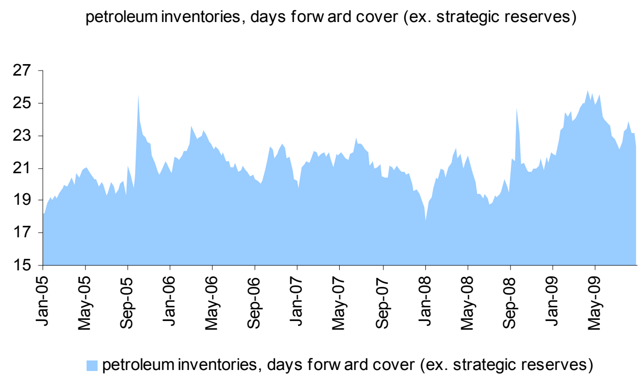
USA: lower refinery production, gasoline inventories

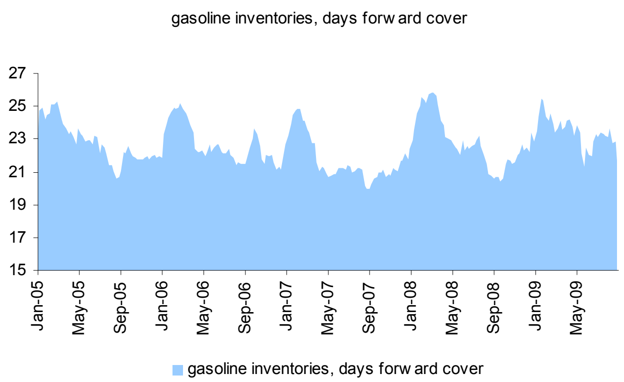
Continued capacity utilization cutbacks in August led to a decline in the average US refinery CUR by 1.2 ppts in August. Seasonally strong gasoline demand led to depletion in inventories by nearly 8MMBbl (-3.7%). Oil inventories also decreased by 6 million barrels, or 1.8%, as a result of a 4.3% drop in average daily imports. The downward trend in middle-distillate usage remained strong at 20% y/y. The August inventory data were accompanied by continued speculative increases in oil prices which affected refining margins.

US petroleum, gasoline inventories









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

CEZ (Reduce)

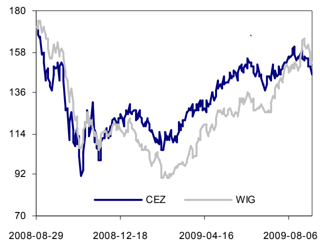
Current price: PLN 146.2 **Target price: PLN 140.6**

Analyst: Kamil Kliszcz

Last Recommendation: 2009-08-18

(CZK m)	2007	2008	change	2009F	change	2010F	change
Revenues	174 563.0	181 638.0	4.1%	184 029.2	1.3%	181 819.4	-1.2%
EBITDA	72 469.0	87 253.0	20.4%	89 223.6	2.3%	86 657.0	-2.9%
EBITDA margin	*41.5%*	*48.0%*		*48.5%*		*47.7%*	
EBIT	50 303.0	65 163.0	29.5%	65 984.7	1.3%	61 535.3	-6.7%
Net profit	41 555.0	46 510.0	11.9%	50 343.4	8.2%	47 079.2	-6.5%
P/E	11.8	11.5		9.7		10.4	
P/CE	7.7	7.8		6.6		6.8	
P/BV	2.9	3.1		2.5		2.3	
EV/EBITDA	7.8	7.3		6.9		7.3	
Dyield (%)	2.2	4.4		5.5		6.0	

Basic data (PLN m)	
Number of shares (m)	538.0
MC (current price)	78 654.1
EV (current price)	99 969.5
Free float	29.3%
Price change: 1 month	*-5.1%*
Price change: 6 month	*27.1%*
Price change: 12 month	*-10.7%*
Max (52 week)	171.0
Min (52 week)	91.5



CEZ is trading at an over-10-15% premium to European peers which stems from its history of sustained earnings growth. In our opinion, the convergence of Czech electricity prices – a process which was one of the main reasons behind CEZ's financial success – has been achieved, and our financial forecasts for future years suggest a hiatus in the consolidated EBITDA (further, a higher CAPEX budget implies a low FCF/EV ratio of 3% over the next three years). For these reasons, paired with the fact that investors are likely to turn their attention toward upcoming energy IPOs in Poland, which will be marketed as growth stories similar to CEZ's during its market debut a few years ago, the trading premium is bound to shrink over time. Another factor which may affect the utility's equity performance may be a possible divestment but the Czech Finance Ministry, similar to the budget-saving cash-outs currently observed in Poland. We are reiterating a reduce rating on CEZ.

EIB loan

CEZ took out a EUR 200m loan with the European Investment Bank to finance the renovation and expansion of its Czech power-distribution network. The 2009-2011 Czech upgrade CAPEX is about EUR 1.2 billion.

Ciech (Hold)

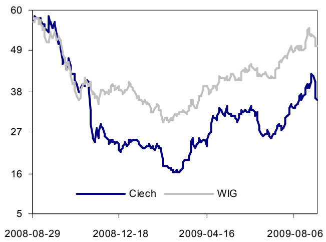
Current price: PLN 36 **Target price: PLN 31.8**

Analyst: Kamil Kliszcz

Last Recommendation: 2009-08-05

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	3 415.0	3 781.3	10.7%	3 795.4	0.4%	3 861.9	1.8%
EBITDA	222.3	459.7	106.8%	476.8	3.7%	514.8	8.0%
EBITDA margin	*6.5%*	*12.2%*		*12.6%*		*13.3%*	
EBIT	43.0	256.4	496.6%	228.5	-10.9%	261.0	14.2%
Net profit	-31.7	44.5		70.4	58.3%	99.5	41.4%
P/E		22.7		14.3		10.1	
P/CE	6.8	4.1		3.2		2.9	
P/BV	0.9	1.2		1.1		1.0	
EV/EBITDA	9.9	5.8		5.6		5.4	
Dyield (%)	5.8	5.8		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	28.0
MC (current price)	1 008.0
EV (current price)	2 691.5
Free float	35.6%
Price change: 1 month	*6.5%*
Price change: 6 month	*118.3%*
Price change: 12 month	*-37.8%*
Max (52 week)	58.3
Min (52 week)	16.4



The discrepancy between Ciech's reported second-quarter results and what had been promised earlier by CEO Kunicki sent the company's stock tumbling down off its high August levels. The downtrend may continue for awhile longer since we do not expect any major positive developments from the company in the near future. We are reiterating a neutral rating on Ciech at current price levels, but we keep in mind that the stock is the most interesting recovery play in the Polish chemical sector.

Strong EBIT boosted by reserve reversals

Ciech reported a Q209 EBIT well ahead of expectations, however, the strong result was owed mainly thanks to reserve reversals (environmental allowances recognized by Zachem, Organika, and Soda Deutschland, and the privatization charge of US Govora) which enabled the company to recognize an "other" operating gain of PLN 84m. This means that the adjusted Q209 EBIT is actually much weaker than predicted (a PLN 12m loss vs. an expected PLN 47.5m profit). The biggest disappointment in the period was the Soda Division, which generated an adjusted EBIT of PLN 36m vs. expected PLN 48m. The Organic Division also fell short of expectations with an EBIT loss of PLN 32m, higher than our estimated PLN 11.8m, showing a quarter-on-quarter deterioration in spite of higher TDI production, and raising concerns about future quarterly results in light of the increasing prices of petrochemical feedstock. Finally, the Agro Division undercut expectations with an EBIT loss of PLN 16m vis-á-vis an expected profit of PLN 7.8m, probably stemming from inventory liquidation below cost (as reflected in the substantial quarter-on-quarter inventory shrinkage by PLN 74m). Ciech's financial operations resulted in a PLN 62m loss (we predicted a smaller charge of PLN 30m), probably resulting from another reclassification of option transactions for hedge accounting (the company only disclosed a loss on a loan granted to a German subsidiary and interest expenses). On the upside, Ciech's Q209 accounts show a reduction in debt by PLN 122m to PLN 1.6bn, achieved thanks to strong operating cash flows totaling PLN 141m (an effect of a nearly PLN 150m reduction in inventories and receivables).

Agreement on Sarzyna loan

Ciech announced that it had signed an appendix to its 2006 loan agreement with a consortium of banks comprising Pekao, Bank Handlowy and Millennium, which provided financing for the purchase of shares in Organika-Sarzyna. In 2008, the company broke the covenants of this loan and it was forced to move it to short-term liabilities. The appendix establishes additional collateral (shares in Soda Mątwy and Organika-Sarzyna) and it restricts Ciech's dividend options. The value of the loan is PLN 170m, and it is due in December 2014.

Ciech to buy German power plant assets

According to reports, Ciech's German subsidiary is obligated to buy a EUR 32m stake in the combined-cycle plant which is currently supplying energy and heat to the local soda factory, by 2014. The plant is currently owned by financial investors, and supplies to Soda Deutschland pursuant to a long-term contract. Earlier statements by Ciech's Management suggested that the buyout of the German assets would be temporary since the CHP would later be spun off as a separate business. Hence, the EUR 32m price is not a defining factor in the assessment of the transaction; what is important is the net effect of the buyout and spin-off, combined with a new long-term power-supply contract. And we think that the net effect will be favorable to the German company.

Strong interest in the privatization of Ciech, ZAT and ZAK

According to the Ministry of the Treasury, there is strong interest in the privatization of Ciech, ZAT and ZAK. So far, a dozen or so investors, both foreign and domestic, received memoranda detailing the offers. One of the companies that want to be involved is PCC. Success of the offer would be excellent news for Ciech. Concrete offers must be made by 15 September.

Appendix to loan agreements

Ciech and its subsidiaries issued a promise to all the banks that provide them with financing that they would not make any decisions that could affect the credit standing of the company (new pledges on assets, acquisitions, mergers or increase in debt). In return, the banks decided to keep the status quo as far as the loan agreements are concerned through 30 October. This applies also to Commerzbank, to which Ciech’s German subsidiary owes EUR 75m. The agreements are a part of Ciech’s debt restructuring efforts which are expected to be completed in late September or early October.

Ciech calls special general meeting

Ciech called a special meeting of shareholders for 14 September to approve changes in the Supervisory Board and the company's bylaws. The changes in the bylaws will be cosmetic, and their purpose is to ensure compliance with the Polish Commercial Companies Code (KSH).

Lotos (Accumulate)

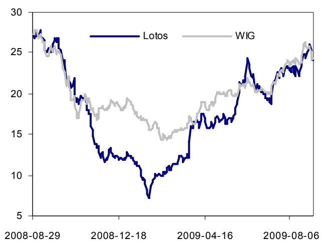
Current price: PLN 24.2 **Target price: PLN 26.4**

Analyst: Kamil Kliszcz

Last Recommendation: 2009-09-04

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	13 125.1	16 294.7	24.1%	12 469.8	-23.5%	19 029.4	52.6%
EBITDA	1 019.9	169.2	-83.4%	746.0	340.9%	1 154.7	54.8%
EBITDA margin	*7.8%*	*1.0%*		*6.0%*		*6.1%*	
EBIT	713.7	-145.8		339.9		494.2	45.4%
Net profit	777.2	-453.9		335.5		452.2	34.8%
P/E	3.5			8.2		6.1	
P/CE	2.5			3.7		2.5	
P/BV	0.5	0.5		0.5		0.4	
EV/EBITDA	3.5	37.5		11.0		8.6	
Dyield (%)	1.5	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	113.7
MC (current price)	2 749.3
EV (current price)	8 238.2
Free float	41.2%
Price change: 1 month	*6.1%*
Price change: 6 month	*110.8%*
Price change: 12 month	*-10.4%*
Max (52 week)	27.8
Min (52 week)	7.3



Lotos shares have rallied over 30% since our last rating, realizing much of their upside potential, and we are downgrading the stock to accumulate. In coming months, we will be looking forward to the adoption of new regulations governing strategic fuel reserves. The passing of these laws, which will not only enable Lotos to liquidate the reserves maintained to date, but will also release it from the obligation to keep such reserves in the future, will positively influence Lotos's value. What is more, we expect an improvement in the company's crack spreads once oil prices stabilize.

Q209: inventory revaluation, high finance gains

Lotos reported better-than-expected net profit and EBIT results for Q209. EBIT amounted to PLN 151m, and was constituted by a PLN 176m EBIT generated by the Refining segment (we expected PLN 130m). The LIFO effect was in line (PLN 239m vs. PLN 240m), and the adjusted EBIT loss of the Refining segment was lower than our forecasted PLN 110m at PLN 63m, possibly due to lower-than-estimated costs of the scheduled maintenance ended in April. The Upstream segment's Q209 EBIT of PLN 10m marked a considerable year-on-year drop from PLN 88m (adjusted for the changed accounting approach to this data introduced in Q109, the EBIT would show a PLN 9m loss vs. our expected PLN 4m profit). Such weak performance was a consequence of a weak refinery output produced by Petrobaltic (mining output was 57.6KT, compared to a refinery output of just 0.3KT). The EBIT loss from other operations increased to PLN 16m from PLN 5m in Q208. Lotos posted a finance gain of PLN 763m (in line with our forecasted PLN 750m), owed to FCY credit revaluations (PLN 496m gain vs. forecasted PLN 427m), PLN 179m FX risk hedging gains (incl. PLN 58m vs. our expected PLN 220m from closed hedging positions), PLN 80m interest-rate hedging gains (we expected PLN 60m), and a PLN 32m crack-spread risk hedging charge (we expected a zero impact). Lotos's open EUR/USD hedging positions for the third quarter amount to EUR 246m (vs. EUR 347m in the quarter before), and USD/PLN hedges are a negative USD 62m (vs. - USD 293m before).

Treasury to sell 12% stake in Lotos outside the stock market?

Deputy Minister of the Treasury confirmed earlier declarations that the 12.4% stake in Lotos that the Treasury obtained in exchange for its minority stake in Petrobaltic will be sold before the end of the year, but most likely to a selected investor rather than through the stock market.

Acquisition of employee shares at Jasło and Czechowice in 2010

According to CEO Paweł Olechnowicz, Lotos will buy the shares granted years ago to the employees of the predecessors of its Jasło and Czechowice refineries. The price of the shares will be calculated based on the value of their last in-kind contribution by the State Treasury rather than the market value. This would entail PLN 4m for the Jasło stock and PLN 8m for the Czechowice stock. These amounts are negligible for the Group.

Subsidiary troubles

Energobaltic, owner of a gas-fired combined-cycle plant in Władysławowo which receives natural gas supplies via an undersea pipeline from the drilling platform of its 32.16% owner Petrobaltic, is deep in debt. But the company has a good chance of settling with its creditors, who include Petrobaltic, SPV (co-owner of the CCGT), and BOŚ Bank. Lotos wrote off the entire value of its equity in Energobaltic, and a PLN 23m loan granted to the company. In 2008, Energobaltic generated a PLN 9m net loss on a revenue of just under PLN 27m.

CEO says savings targets will be met

According to the CEO, this year's savings stemming from the anti-crisis package may exceed the planned PLN 390m, reaching perhaps PLN 450m (this amount includes both operating and investment-related expenses). By the end of the year, the company will, however, carry out analyses concerning the possibility of reopening some investment projects in 2010. Due to the crisis, the 1 million-ton domestic output target is unlikely to be met, but in early 2010, we will see the first effects of the '10+' CAPEX program. Our model conservatively assumes that the 1MMT output level will be reached with a one-year delay vs. the Management's declarations (2014). The increase in savings will most likely be attained through a reduction in investment outlays, which means it should have no impact on EBIT.

Cooperation with ExxonMobil

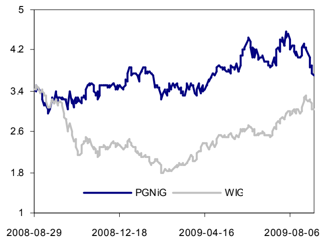
Lotos signed an agreement expanding its cooperation with ExxonMobil under the international Lotos/Esso customer card program. Starting in September, Lotos will become the sole representative of the program in the Baltic states. It will start serving transportation companies in the region and acquiring new customers. 300 companies are currently enrolled; in the first stage, Lotos will take over several dozen. In H109, Lotos's fuel sales to transportation fleet operators increased by 62% y/y. Lotos is developing this sales channel so as to prepare the market for additional volumes that will come thanks to the '10+' program.

PGNiG (Hold)

Current price: PLN 3.7	Target price: PLN 3.67	Analyst: Kamil Kliszcz	
		Last Recommendation:	2009-09-03

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	16 652.1	18 432.0	10.7%	18 448.2	0.1%	18 649.8	1.1%
EBITDA	2 291.3	2 264.9	-1.2%	2 760.8	21.9%	3 707.2	34.3%
EBITDA margin	*13.8%*	*12.3%*		*15.0%*		*19.9%*	
EBIT	861.0	839.9	-2.4%	1 194.7	42.2%	1 938.4	62.2%
Net profit	915.0	904.6	-1.1%	1 043.3	15.3%	1 560.3	49.5%
P/E	23.9	24.2		21.0		14.0	
P/CE	9.3	9.4		8.4		6.6	
P/BV	1.0	1.1		1.0		1.0	
EV/EBITDA	8.9	9.4		8.3		6.0	
Dyield (%)	4.6	5.1		2.4		2.4	

Basic data (PLN m)	
Number of shares (m)	5 900.0
MC (current price)	21 889.0
EV (current price)	22 817.8
Free float	15.3%
Price change: 1 month	*-12.1%*
Price change: 6 month	*8.5%*
Price change: 12 month	*7.8%*
Max (52 week)	4.6
Min (52 week)	3.0



PGNiG's weak Q209 results added to the equally weak Q109 earnings. In spite of strong profits expected in H209, the H109 losses affected the feasibility of the full-year earnings targets which are driving the company's share price at the moment. We predict that the surge in capital expenses expected in the next few years, which will not be offset by an equally strong increase in EBITDA, suggesting a future deterioration in the key EV/EBITDA ratio used to measure the company's value against peers. In the near term, investors are waiting for a revision in PGNiG's stake in the WIG20 index on September 18th, following exclusion of employee stock from the free float. We upgraded PGNiG to hold after a recent price decline.

Q209: an all-out disappointment

PGNiG's 2009 second-quarter results showed a disappointing PLN 222m EBIT loss versus our expected profit of PLN 210m and an analysts' consensus of PLN 198m. Virtually all of PGNiG's lines reported lower-than-expected results, but the most dismal performance was displayed by Exploration and Production, which generated an EBIT loss of PLN 16m (we predicted a positive EBIT of PLN 250m; Q208 EBIT was PLN 255m). The company blames the poor E&P results on a PLN 162m impairment charge against mine assets, and a PLN 74m Q/Q drop in exploration revenues. Trade & Storage also reported an EBIT loss of PLN 99m (which was a smaller disappointment vs. our expected loss of PLN 62m) due to losses generated on gas imports. The EBIT loss of the Distribution segment came in at PLN 92m (vs. our expected profit of PLN 24m and a PLN 14m loss in Q208), and was caused by a 14% (we forecasted 7%) shrinkage in distribution volumes, and a one-time PLN 40m distribution to employees. PGNiG recorded a PLN 80m finance gain in Q209, thanks mainly to a PLN 79m reversal of an allowance against a loan granted to EuropolGaz. All told, PGNiG ended the first half of 2009 with a net loss of PLN 493m, suggesting that, no matter how strong (even if EBIT exceeds PLN 1bn in Q4 thanks to a strong zloty), H209 results will not be able to justify PGNiG's current market value. Note further that the gas giant booked a net debt in Q209.

Management on H209 outlook

PGNiG's VP Mr. Hinc announced that, to advance its ongoing investment program, PGNiG is planning to offer PLN 4.5bn-worth of bonds to Polish and international investors. He added that PGNiG expects to declare a consolidated profit for FY2009. Our forecasted 2009-2012 CAPEX for PGNiG is ca. PLN 12 billion. The company also has available PLN 3bn in unused credit lines. Note that PGNiG reported a net debt (PLN 143m) in Q209 for the first time since its market debut, and we think that the debt is going to increase going forward. A full-year profit announcement is irrelevant to PGNiG's share value which already factors in expectations of a bottom-line profit higher than PLN 1.5bn - a target which seems unlikely given that the gas utility reported a PLN 0.5bn loss in H109.

State Treasury's dividend specifics

PGNiG reported that the value of the transmission assets to be handed over to the State Treasury as an in-kind dividend amounts to PLN 382m. This means that the Treasury will additionally receive PLN 6m in cash.

Odolanów denitrogenation plant to increase throughput

PGNiG announced that gas production at the Odolanów denitrogenation plant will increase to 0.94bn m3 this year from 0.88bn m3 last year. In addition, the company is planning to increase LNG and helium output. Given the scale of revenue from helium production (PLN 28m), an increase in its output will not have a significant impact on PGNiG's. The increase in output at Odolanów will probably fail to visibly improve PGNiG's earnings as well, all the more so that it is unlikely to result in a net increase in gas production (in H109, the company saw a y/y decline in gas extraction).

Grodzisk denitrogenation unit up and running

PGNiG is making a test run of a new denitrogenation unit in Grodzisk Wielkopolski, which is expected to process up to 640 million cubic meters of natural gas (and yield 467m m3 of high-methane gas) a year, as well as to produce liquefied gas and helium. This is an addition to PGNiG's existing nitrogen-removal plant in Odolanów with an annual capacity of 0.94 billion cubic meters. It is unknown as yet when the new plant is expected to reach full capacity. In its new gas tariff, PGNiG reduced the spread on nitrogen gas and high-methane gas prices, although nitrogen removal is still profitable. Given the calorific values and the unit prices of the energy contained in the different types of natural gas, we estimate that, at full capacity, the new plant can generate an additional revenue of PLN 30-40m each year.

Power-generation investment

PGNiG is involved in negotiations concerning the acquisition of several small gas- and steam powered CHPs, with capacity of 10-20 MW each. The projects require quick replacement of out-of-date installations. The company could also enter into strategic alliances with the owners of these plants. At present, negotiations are ongoing concerning one CHP that provides power and heat to a city and two that operate within industrial facilities. We believe gas-powered energy generation is the way to go for PGNiG. The projects in question, however, are too small to significantly affect the company.

Investment and drilling plans

PGNiG and an external partner teamed up to build the first commercial gas storage near Szczecin which will service the future LNG terminal. Construction could start in 2-3 year, and end in 2014-15. Further, PGNiG's VP Waldemar Wójcik revealed that drilling in the Norwegian gas wells will start in Q4 2011, with the initial gas output estimated at 0.5 billion cubic meters a year (this is the volume attributable to PGNiG). Finally, the utility has started prospecting gas fields in Libya, for which its has high hopes.

Russia promises gas supplies

During his visit to Poland, Russian President Vladimir Putin said that Gazprom may agree to supply additional gas volumes to Poland to replace lost supplies from RUE, provided that Gazprom and PGNiG buy out the minority interests of Gas Trading in EuRoPolGaz to restore a 50/50 ownership split. If the minority buyout pans out, PGNiG stands to benefit from increased gas sales (by 0.7-1bn cubic meters) and a PLN 110-160m boost to EBIT.

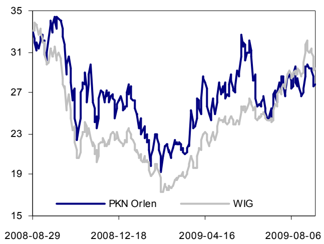
PKN Orlen (Buy)

Current price: PLN 27.8 **Target price: PLN 40.1**

Analyst: Kamil Kliszcz
Last Recommendation: 2009-06-02

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	63 793.0	79 535.2	24.7%	65 818.5	-17.2%	74 645.2	13.4%
EBITDA	5 035.3	887.6	-82.4%	4 855.3	447.0%	5 027.6	3.5%
EBITDA margin	*7.9%*	*1.1%*		*7.4%*		*6.7%*	
EBIT	2 603.9	-1 603.8		2 164.5		2 294.6	6.0%
Net profit	2 412.4	-2 505.7		1 608.7		1 774.1	10.3%
P/E	4.9			7.4		6.7	
P/CE	2.5			2.8		2.6	
P/BV	0.6	0.7		0.6		0.6	
EV/EBITDA	4.6	30.6		5.9		5.9	
Dyield (%)	0.0	5.8		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	427.7
MC (current price)	11 868.9
EV (current price)	28 618.6
Free float	67.3%
Price change: 1 month	*1.3%*
Price change: 6 month	*26.5%*
Price change: 12 month	*-10.8%*
Max (52 week)	34.5
Min (52 week)	19.3



PKN shares underperformed the WIG20 index for another month in a row in August (rising just 2.7% vs. a 3.5% gain on the index), probably because of investor concerns over lower refining margins and Urals/Brent differentials. The downtime on HOG and hydrocracking units scheduled for Q309 did little to help raise the company's value. Going forward, near-term value drivers may include advancing divestitures (Polkomtel, Anwil) and new strategic-reserve laws which the Ministry of the Economy says may be passed in early October. The most crucial factor, however, is the macroeconomic environment, which, at the moment, offers favorable petrochemical margins, and a promise of improved refining margins which hinges on whether oil prices stabilize. Assuming that they will, we are reiterating a buy rating on PKN Orlen.

Q209: ahead of guidance, high operating CF

PKN Orlen's 2009 second-quarter EBIT exceeded the company's own estimates (PLN 600-650m) by reaching PLN 661m. The same goes for bottom-line profit which came in at PLN 1.2bn, ahead of the PLN 1bn guidance. We were most impressed by PKN's operating cash inflows of PLN 1.9bn generated amid rising oil prices (working capital amounted to PLN +0.8bn due to higher liabilities); combined with FCY debt translation (a PLN 1bn credit on the balance sheet, income statement discloses EUR debt revaluation gains of PLN 351m), this allowed for a reduction in net debt from PLN 14.3bn to PLN 13.3bn in spite of a PLN 1bn payment for a minority interest in Mazeikiu Nafta. The Refining segment generated an EBIT of PLN 770m vs. our forecasted PLN 831m and the PLN 1.5bn booked in Q208. The year-on-year reduction in operating profit was due to deteriorated macroeconomic conditions (a PLN 400m loss on margins and the Urals-Brent spread was somewhat offset by a higher USD/PLN exchange rate), and lower volumes (PLN -350m). The costs of unscheduled downtime at the Płock refinery and Unipetrol were estimated at PLN 76m (including a PLN 80m impairment gain). The LIFO effect was PLN 928m (incl. PLN 890m attributed to Refining) vs. PLN 859m a year earlier. Adjusted for the one-offs, the Refining segment's LIFO EBIT figures to PLN -52m, which is in line with expectations and around break even point. Such a strong improvement was achieved thanks to higher fuel margins generated by the PKN service stations (PLN 70m y/y increase driven mainly by Czech and German pumps), and higher non-fuel margins (+PLN 30m) generated in spite of slightly increased costs (a PLN 22m charge against EBIT). The Petrochemical segment did much worse than expected, posting an EBIT loss of PLN 172m, higher than our forecasted PLN -62m and the PLN 120m profit recorded in Q208. The reason behind this deterioration was a PLN 200m shrinkage in margins and a PLN 50m shrinkage in volumes as a result of, among others, unscheduled downtime at the olefin plant (-PLN 64m). Anwil booked an EBIT of just PLN 8m, short of our forecasted PLN 45m (an effect of reduced ethylene deliveries from Płock, resulting in a lower PVC output). Unattributed expenses were in line at PLN 160m (we forecasted PLN 150m). PKN posted a finance gain of PLN 619m in Q209, well ahead of our estimated PLN 214m, resulting from positive FX differences influencing financial operations other than the EUR debt revaluation (+PLN 351m vs. PLN 300m forecasted).

PKN schedules downtime for 3Q

PKN Orlen's third-quarter maintenance plan includes a 30-day downtime on hydrocracking and HOG units and a 25-day shutdown of one of the HON units. The downtime means additional charges against Q309 profits which will range between PLN 150m and 200m depending on lost margins. PKN Orlen did not disclose during which month the maintenance was scheduled to take place, but July and August would have been best from the standpoint of margins and spreads.

Unipetrol not for sale, divestments elsewhere

Orlen denied the claims by Czech newspapers that it was engaged in negotiations concerning the sale of Unipetrol to a Russian company or to the Czech government. Indeed, such speculations have hit the market in August. It seems very unlikely though that Orlen should want to divest its core assets. Meanwhile, Orlen is selling 12 fuel stations as well as storage facilities at an asking price of nearly PLN 100m, as per the shareholders' decisions. In addition, Orlen wants to sell and lease back 1000 cisterns currently owned by its subsidiary Koltrans (which is earmarked for sale as a whole, but in several years). Proceeds from this divestment are estimated at PLN 300m.

Advance dividends?

According to newspapers, Orlen was is thinking about proposing an advance dividend payout by Polkomtel after Q309 results, and before the refiner sells its stake in the telecom. Polkomtel shareholders might consider such a move after Q3 earnings are in. Orlen has not consulted this idea with the other shareholders, but they appear skeptical. Such a move would surely delay Polkomtel's sale.

Mazeikiu Nafta schedules downtime

PKN Orlen’s refinery in Mazeikiai is planning a six-week upgrade downtime in the fall of 2010. There has been no official downtime announcement yet, so we do not know what kind of upgrades Mazeikiu Nafta is planning. Earlier, PKN had announced that it was dropping plans to install a hydrocracking unit at the Lithuanian refinery due to the crisis, and it is possible that it is this installation that was moved from 2009 to 2010.

Police (Hold)

Current price: PLN 6.1 **Target price: PLN 5.9**

Analyst: Kamil Kliszcz

Last Recommendation: 2009-09-04

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	1 824.2	2 403.6	31.8%	1 581.4	-34.2%	1 441.6	-8.8%
EBITDA	235.1	230.1	-2.1%	-184.7		110.5	
EBITDA margin	*12.9%*	*9.6%*		*-11.7%*		*7.7%*	
EBIT	187.5	164.0	-12.5%	-264.8		25.5	
Net profit	204.0	28.7	-85.9%	-248.1		8.9	
P/E	2.2	15.9				51.5	
P/CE	1.8	4.8				4.9	
P/BV	0.5	0.5		0.6		0.6	
EV/EBITDA	1.3	2.0				5.5	
Dyield (%)	7.1	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	75.0
MC (current price)	456.8
EV (current price)	717.3
Free float	26.2%
Price change: 1 month	*-11.4%*
Price change: 6 month	*30.7%*
Price change: 12 month	*-65.9%*
Max (52 week)	17.9
Min (52 week)	4.2

It seems that the dismal second quarter marked the end of a prolonged slump for ZCH Police (PCE). Going forward, we expect the company to gradually reduce losses, and break even some time in early 2010. At the moment, a more rapid improvement is hampered by unfavorable market conditions (heated competition in the local market, an expected shrinkage in margins achievable on urea, a strong zloty supporting competitive imports). That is why we predict a slow recovery in PCE's revenues and margins, which, in 2010 and 2011, will still be weaker than in 2007 and 2008. Aside from a sluggish earnings outlook, PCE's stock performance could be affected by an expected increase in debt at the end of the year, resulting from FX option loss financing, and repayment of overdue supplier- and other bills that have mounted up in past months. However, we think that all these factors are already discounted in PCE's share value, which does not seem to hold any more downside potential, prompting an upgrade to hold.

Q209: Short of expectations

In Q209, ZCH Police surprised practically at all levels of the income statement. The weaker-than-expected revenue was above all a consequence of weak sales volumes of NP and NPK fertilizers, despite promotions offered in the domestic market. The gross margin was negative, and plunged to -12% from -5.3% in Q109, indicating the company's desperation to maintain liquidity by selling off inventories below cost as fertilizer prices decrease. At the operating level, the loss was further exacerbated by one-off asset impairment charges of PLN 44m. All told, ZCH Police reported a second-quarter net loss of PLN 53m, which would have been higher if not for PLN 38m hedging gains and a PLN 28m deferred-tax asset. Cash flows from operating activities amounted to -PLN 112m in Q209, as some overdue payments had to be made. Taking advantage of its existing credit lines, the company increased its net debt to PLN 51.8m. This amount should be augmented by outstanding past-due trade liabilities to suppliers (PLN 125m), public liabilities (PLN 54m) and the current hedging loss (estimated at PLN 90m at EUR/PLN of 4.11). With these items added in, Police's total debt increases to PLN 320m.

Additional collateral for PKO BP

ZCH Police placed additional pledges on its properties and machines used as collateral against a PLN 70m loan received from PKO BP. We are still awaiting a revolving loan of PLN 150m, which will allow the company to continue operations and buy feedstock materials. We believe the market has already priced in this loan, but at the same time it ignores the increase in Police's total debt at the end of the year.

Interview with VP in charge of strategy

According to Mr. Tomasz Zieliński, the VP in charge of strategy, the planned restructuring of the ZCH Police Group should bring proceeds of a dozen or so million zlotys in 2009 and a further PLN 90m in 2010. The funds could come from the sale of subsidiaries, in particular those that focus on transportation and construction and maintenance work. Some of them could be floated on the New Connect market. ZH Police is hoping to team up with other companies for some projects. The Management is currently updating the company's growth strategy. Despite the tough situation of the company, its investment plans may be upheld, thanks mostly to EU subsidies. Divesting subsidiaries is the way to go for Police, although the key question is what prices is can get. The three construction and maintenance companies earmarked for divestment had an aggregate revenue of PLN 224m in 2008, with net income of PLN 13.2m. The transportation subsidiary Transtech generated a revenue of PLN 34m and a net income of PLN 0.8m. We would like to point out that most of these companies' business is work for Police, which means that selling them will lower the consolidated income.

Price war in fertilizers

Foreign fertilizer producers have intensified the price war against Polish companies. Particular pressure on prices is coming from Yara as well as imports from the Czech Republic and Hungary. Important factors responsible for this situation are the strong zloty and the relatively high prices of gas in Poland. We believe that, contrary to the expectations of Polish producers, they will not be able to reestablish the prices seen before the June cuts in the fall season. For now, ZAP and ZAK say that they are not planning to cut prices and that they want to compete for customers on payment terms rather than on prices. If the zloty does not depreciate, however, they may have to do so. At present, the average cost of gas paid by Yara in Europe is ca. USD 220-240 per 1000 m3, while the Polish producers have to pay in excess of USD 300 per 1000 m3. In consequence, not only are they losing their export markets, but their position in Poland is being undermined as well.

Management expects to break even in December

In the upcoming quarters, the Management of ZCH Police is hoping to reduce operating losses vs. H109. The company expects a positive EBIT in December and earnings improvement in 2010. A preliminary decision was made to shut down one out of two ammonia production lines and 2 out of 6 NPK lines, as they appear to be persistently unprofitable. After cost reduction has been carried out, Police will focus on the domestic market. Breaking even in the final days of the year is a possible albeit a fairly ambitious goal in the current circumstances. The intensification of competition in the domestic market, the appreciation of the zloty and the expected decline in the return on the sales of urea (which has been the only product to generate a positive margin in the recent quarters) – all these factors surely constitute a considerable challenge. The decision to permanently shut down some production lines comes as a surprise (especially in the case of ammonia as an expansion of the urea line by 200,000 tons was being planned quite recently). This means that the current cost-cutting will not cause earnings to surge once prosperity returns, as they involve capacity reductions.

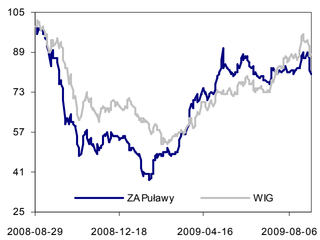
ZA Puławy (Hold)

Current price: PLN 80.5 **Target price: PLN 82.7**

Analyst: Kamil Kliszcz
Last Recommendation: 2009-05-28

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	2 503.5	2 413.0	-3.6%	2 148.2	-11.0%	2 370.4	10.3%
EBITDA	432.8	471.1	8.9%	173.8	-63.1%	234.7	35.1%
EBITDA margin	*17.3%*	*19.5%*		*8.1%*		*9.9%*	
EBIT	358.7	402.9	12.3%	102.7	-74.5%	156.0	51.8%
Net profit	330.8	259.7	-21.5%	127.7	-50.8%	143.8	12.6%
P/E	4.7	5.9		12.1		10.7	
P/CE	3.8	4.7		7.7		6.9	
P/BV	1.0	0.9		0.9		0.8	
EV/EBITDA	2.4	1.7		6.2		5.0	
Dyield (%)	2.1	5.3		5.1		2.5	

Basic data (PLN m)	
Number of shares (m)	19.1
MC (current price)	1 538.8
EV (current price)	1 078.4
Free float	29.2%
Price change: 1 month	*-0.5%*
Price change: 6 month	*63.3%*
Price change: 12 month	*-18.7%*
Max (52 week)	99.0
Min (52 week)	38.1



ZAP shares underperformed the WIG index in August (rising 6.5% vs. a 7.6% gain on the WIG), among others because of a second-quarter earnings warning. Indeed, ZAP's earnings figures for the last quarter of its business year fell far short of expectations after being weighed down by one-time payroll charges. The adjusted results suggest margin deterioration in coming quarters. Falling fertilizer prices, accompanied by steady prices of natural gas and other feedstock, and combined with the unfavorable situation of the melamine line, will prevent ZAP from breaking even in the next six months. The only value driver that we can see in the near future is an expected high dividend payout (as high as PLN 20+ a share), which will be voted on during a September general meeting. Until then, we remain neutral on ZAP.

One-time charges weigh on fiscal Q4 results

ZAP's earnings results for the fourth quarter of fiscal year 2008/09 fell short of expectations, due mainly to an additional retirement-benefit allowance which brought other operating expenses PLN 17m ahead of our estimate. The reported quarterly results were generally in line with ZAP's preliminary estimates issued in August, except for revenues which turned out lower than the company's forecasted PLN 700-800m. A breakdown by product line shows higher-than-expected sales of ammonium nitrate (+PLN 31m) and lower-than-expected sales of urea (-PLN 13.1m) and melamine (-PLN 13.6m). Q4 2008/09 expenses on raw materials and utilities exceeded expectations, but the company did not provide a detailed breakdown. After all this, the fourth-quarter EBIT fell over PLN 10m short of our estimate. The difference between the actual and forecasted net profit was even greater due to lower-than-expected finance gains (PLN 34m vs. PLN 47m). Interest income (PLN 8.5m) and hedging gains (PLN 39m) were in line, but we had not predicted a PLN 13m reversal of prior period's FX gains.
Another low point of the Q4 2008/09 results were strong negative operating cash flows (PLN 80m) stemming from increased inventories (PLN 40m), and reduced debt (PLN 109m) resulting from closed FX options (the option debt fell by PLN 110m, in part thanks to a stronger zloty). After factoring in PLN 56m capital expenses, ZAP's net cash shrunk to PLN 581m. After adjustment for outstanding hedging debt (PLN 33m), cash at the end of FY2008/09 amounts to PLN 548m, i.e. more than PLN 28 per share.

Proposed dividends: PLN 2.55 per share

The Management recommended to the Supervisory Board that dividends for FY2008/09 be paid in the amount of PLN 48.7m, i.e. PLN 2.55 per share (the proposed payout ratio is just 25%). We believe a much higher payout is possible, and in the context of privatization, which is scheduled for next year, the Treasury may request that supplementary capital be used for dividends as well. At the end of the last quarter of 2008/09, ZAP had ca. PLN 548m in net cash, i.e. over PLN 28 per share (adjusted for hedging liabilities).

Price war in fertilizers

Foreign fertilizer producers have intensified the price war against Polish companies. Particular pressure on prices is coming from Yara as well as imports from the Czech Republic and Hungary. Important factors responsible for this situation are the strong zloty and the relatively high prices of gas in Poland. We believe that, contrary to the expectations of Polish producers, they will not be able to reestablish prices to levels seen before the June cuts in the fall season. For now, ZAP and ZAK say that they are not planning to cut prices, and that they want to compete for customers on payment terms rather than on prices. If the zloty does not depreciate, however, they may have to do so. At present, the average cost of gas paid by Yara in Europe is ca. USD 220-240 per 1000 m3, while the Polish producers have to pay in excess of USD 300 per 1000 m3. In consequence, not only are they losing their exports markets, but their position in Poland is being undermined as well.

Coal Mining

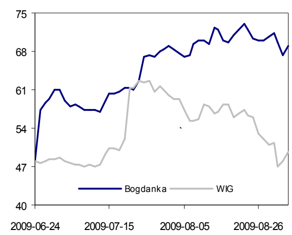
LW Bogdanka (Hold)

Current price: PLN 68.9 **Target price: PLN 68**

Analyst: Michał Marczak
Last Recommendation: 2009-09-03

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	862.5	1 033.3	19.8%	1 163.0	12.6%	1 184.0	1.8%
EBITDA	243.4	339.6	39.5%	385.9	13.6%	377.9	-2.1%
EBITDA margin	*28.2%*	*32.9%*		*33.2%*		*31.9%*	
EBIT	121.4	203.5	67.7%	236.3	16.2%	189.1	-20.0%
Net profit	94.1	156.0	65.8%	184.1	18.0%	141.9	-22.9%
P/E	16.8	10.2		12.7		16.5	
P/CE	7.3	5.4		7.0		7.1	
P/BV	1.7	1.4		1.4		1.3	
EV/EBITDA	6.6	4.7		5.6		6.4	
Dyield (%)	3.2	0.4		3.8		0.8	

Basic data (PLN m)	
Number of shares (m)	34.0
MC (current price)	2 343.5
EV (current price)	2 167.3
Free float	33.0%
Price change: 1 month	*2.8%*
Price change: 6 month	
Price change: 12 month	
Max (52 week)	73.0
Min (52 week)	48.0



LW Bogdanka (LWB) generated a 2009 first-half EBITDA of PLN 173.7m, and reported a profit of PLN 82.5m. The bottom line was weighed down by a one-time PLN 36m charge resulting from employee bonuses. In the second half of the year, the key growth driver will be sales volumes. The first-half results were generated on coal sales totaling 2.32 million tons. Considering LWB's reiterated full-year volume target of 5.3MMT, July and August sales must have amounted to 1MMT each. This means that, even as expenses increase on continuing mine investment projects, while coal prices decline (-4.5%), a sales volume higher by 1 MMT, paired with a lack of one-time charges, will enable LWB to report H1/H2 earnings growth in the second half of 2009. At the current price level, we are reiterating a hold rating on LW Bogdanka, and we are raising our price target by 5.4% to PLN 68 a share.

H1 results and H2 outlook

LW Bogdanka produced 2.48MMT and sold 2.32MMT of coal in the first half of 2009. At an average selling price of PLN 215/T, and an estimated unit cost of PLN 155/T, the company earned a gross profit of PLN 60 on each ton of coal sold. Going forward, the unit cost is expected to increase to PLN 168/T due to higher production expenses (intensified drilling, higher costs of materials, ongoing work on the 'Stefanów' coal field). At the same time, prices of coal will decrease to an average PLN 204/T. This means that the per-ton gross profit may drop to PLN 36, but, on target sales volumes of 3MMT, the H109 EBITDA of LWB's mining operations should reach PLN 190m. Other operations, coupled with interest earned on the PLN 523m IPO gain, should ensure fulfillment our full-year earnings forecast (after a revision in predicted coal sales upward from 5.15MMT to 5.3MMT in 2009, and downward from 5.8MMT to 5.5MMT in 2010).

LWB faces more challenges in 2010

We expect LW Bogdanka to report a 20% year-on-year decline in 2010 net profit as a consequence of increased CAPEX (Stefanów field) which will bring the unit cost of production up 3% to PLN 174/T, while coal prices are expected to hover around an average PLN 205/T. The outlook for 2011 is much more buoyant as that is when LW Bogdanka's coal production will surge 30% after the launch of the first longwall panel in the Stefanów field.

Telecommunications

Polkomtel for sale

Following in the footsteps of PKN Orlen, PGE decided to put up for sale its interests in mobile telecom operator Polkomtel. The first step will be to choose a divestment advisor. Polkomtel's current shareholders are PGE with a 21.85% interest, PKN Orlen, KGHM and Vodafone with 24.4% stakes each, and Węglokoks with 4.98%. Since the other shareholders all have rights of first refusal, PGE's move practically forces them, and in particular KGHM, to sell too, unless they are willing to accept a role as minority shareholders and lose the prospect of earning a control premium from the most likely buyer, Vodafone. We do not think that KGHM wants to further increase its stake in Polkomtel to match Vodafone's. If Polkomtel's shareholders chose to unload their interests through the stock market, they need Vodafone's permission. This option could actually prove favorable for the telecom giant – it would avoid having to buy out all the other shareholders, and instead take control over Polkomtel by acquiring shares from the market. Competition from a new listed telecom with an estimated value of PLN 15-17bn would put pressure on TPSA stock. The PGE move is good news for PKN Orlen's and KGHM's shareholders.

Polkomtel enters TPSA's market

Polkomtel purchased a 100% stake in Nordisk Polska (NP) from Mr. Roman Karkosik and NFI Midas for PLN 11.8m. NP has a 410MHz frequency reserved, which allows the use of the CDMA technology. Until now, TPSA has been the only bigger operator using CDMA (broadband internet access in areas with lower service penetration). We believe Polkomtel is so far behind as far as CDMA infrastructure is concerned that it will constitute no threat to TPSA in the next six months. Problems might start in mid-2010. Bad news for TPSA but with limited impact on valuation (TPSA has 34,000 CDMA subscribers, which is 1.6% of the total for ADSL+CDMA).

Lower MTRs affect distributors

Polkomtel proposed new business terms to the distributors of its pre-paid cards, which some of the distributors rejected. Polkomtel terminated the old distribution agreements, therefore, unless a deal is reached in September, top-up terminals at some outlets will stop offering Polkomtel minutes. Polkomtel claims that the new agreements were approved by the biggest distributors; in addition, it is negotiating with new retailers that accept its terms and could replace the old ones. The operators are in search for savings after their earnings worsened as a consequence of a price war in the prepaid segment. Polkomtel is not alone in its actions; Centertel has terminated its agreement with newsstand operator Ruch earlier this week. The negotiations are certainly tense, as a lot of money is at stake. All in all, however, we do expect an agreement to be reached. The distributors will suffer the most, as the operators have already incurred losses stemming from the lower prices.

P4 posts huge H109 loss

P4 (operator of the "Play" mobile service) posted a net loss of a whopping PLN 326m for the first half of 2009 versus a FY2008 loss of PLN 835m. In Q1 2010, Play is scheduled to make the first payment on a EUR 540m loan from China Development Bank, which entails an additional PLN 150m in interest charges. On a more positive note, the operator deserves praise for being close to reaching its 3 million subscriber target. Even so, we think that the gradual elimination of MTR asymmetry, combined with a dwindling balance sheet, will probably accelerate the decision to sell P4. If the mobile carrier fails to build its own infrastructure on time (there is no information on the progress), it will not be able to compete with the three incumbents. And this is probable given at the company's recent earnings performance and tight access to credit. We stand by the opinion formed when P4 was just entering the market: the challenge is not to build a large subscriber base, but to achieve desired ROI. And we still have doubts whether P4 is up to that challenge. What is more, the operator is running out of money to continue its price war with the "big three" of GSM networks, which will obviously make them very happy.

CenterNet / Mobyland alliance

NFI Midas (a fund controlled by Polish entrepreneur and owner of CenterNet Ryszard Karkosik) signed a memorandum of understanding with Mobyland (controlled by another leading entrepreneur, Zygmunt Solorz) concerning a possible merger and joint utilization of the mobile telephony networks of the two companies, with an aim of forming one mobile operator offering a 4G (LTE) network. While the two operators are making a step in the right direction, they are too small a player to compete with existing mobile providers.

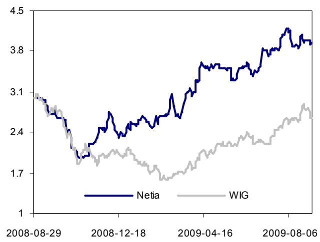
Netia (Hold)

Current price: PLN 4 **Target price: PLN 4.1**

Analyst: Michał Marczak
Last Recommendation: 2009-08-06

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	838.0	1 112.4	32.7%	1 487.6	33.7%	1 524.0	2.4%
EBITDA	170.7	170.6	0.0%	274.1	60.6%	287.1	4.7%
EBITDA margin	*20.4%*	*15.3%*		*18.4%*		*18.8%*	
EBIT	-103.8	-99.7	-4.0%	-15.7	-84.3%	1.3	
Net profit	-268.9	230.6		-22.7		8.9	
P/E		6.7				173.1	
P/CE	272.6	3.1		5.8		5.2	
P/BV	0.9	0.8		0.8		0.8	
EV/EBITDA	9.2	7.9		5.0		4.6	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	389.2
MC (current price)	1 537.2
EV (current price)	1 374.1
Free float	100.0%
Price change: 1 month	*-4.4%*
Price change: 6 month	*46.3%*
Price change: 12 month	*32.1%*
Max (52 week)	4.2
Min (52 week)	2.0



Netia's earnings for Q2 2009 came in line with our expectations. We are now facing the last quarter when Netia will be able to boast fast revenue growth due to a low-base effect connected with the acquisition of Tele2 Polska. Netia's retail segments of focus - broadband internet access and WLR – will be getting tougher and tougher due to competition (mostly from mobile telephony) and to market saturation. The company has kept the high 63% share of the BSA market, while its share of the WLR market is 65% (a decline by 10ppts y/y). In the upcoming years, the road to EBITDA improvement will lead through cost cutting; we are pleased with what the Management are doing in this respect (downsizing). We would like to point out that, based on our forecasts, the company's FCF/EV ratio will not exceed 10% before 2011; in the case of TPSA, it is already above 14%. We are reiterating a hold rating on Netia.

Q209 results

In Q2 2009, Netia recorded a revenue of PLN 373m (-0.5% q/q, our forecast PLN 379m), an EBITDA of PLN 69.4m (our forecast of PLN 55m), and a net loss of PLN 14.5m (our forecast - PLN 15.1m). The better operating earnings are by and large a consequence of lower costs of the cost-cutting program "profit", which was to cost the company PLN 25m in FY2009; we expected (based on the Management's earlier declarations) that costs would be at the highest level in Q209, at PLN 17m (in actuality, PLN 4.3m was reported). The weaker bottom line, compared to the positive surprise at the EBITDA level, stems from losses on cash flow hedges (-PLN 6.3m).

FY09 guidance revision

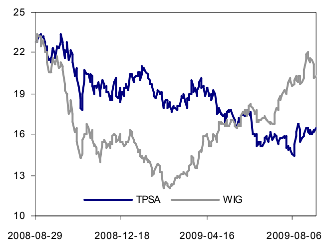
Netia increased its EBITDA target from PLN 265m to PLN 275m following the publication of the Q209 data. It is now assuming that the number of broadband subscribers will reach 510,000 (vs. 525,000) and voice subscribers, 1.2m (vs. 1.15m). Due to the earlier divestment of transmission assets to P4, the FY revenue will amount to PLN 1.5bn (vs. PLN 1.52bn). It should be remembered that the lower expenses are also a consequence of the slower growth of the subscriber base (cost of acquisition – investment in future revenue).

TP SA (Buy)

Current price: PLN 16.4 **Target price: PLN 19.4**

Analyst: Michał Marczak
Last Recommendation: 2009-07-31

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	18 244.0	18 165.0	-0.4%	16 964.6	-6.6%	16 477.4	-2.9%	Number of shares (m)	1 335.6
EBITDA	7 721.0	7 630.0	-1.2%	6 627.2	-13.1%	6 667.1	0.6%	MC (current price)	21 904.6
EBITDA margin	*42.3%*	*42.0%*		*39.1%*		*40.5%*		EV (current price)	27 121.6
EBIT	3 282.0	3 313.0	0.9%	2 412.5	-27.2%	2 586.3	7.2%	Free float	46.0%
Net profit	2 273.0	2 188.0	-3.7%	1 583.1	-27.6%	1 826.8	15.4%		
P/E	10.1	10.3		13.8		12.0		Price change: 1 month	*13.1%*
P/CE	3.4	3.5		3.8		3.7		Price change: 6 month	*-9.0%*
P/BV	1.3	1.3		1.3		1.3		Price change: 12 month	*-29.3%*
EV/EBITDA	3.7	3.7		4.1		3.8		Max (52 week)	23.5
Dyield (%)	11.6	10.4		9.1		8.7		Min (52 week)	14.4



The second quarter of 2009 exhausted the bad-news pool of TPSA. August brought the UKE's pivotal decision to shelf plans of a functional split of the telecom. The appreciation of the zloty vs. the euro and the dollar will lower international interconnection rates as well as equipment purchase costs (which increased by PLN 200m in H1 2009) and some of the office space rental expenses. The UKE's efforts to minimize asymmetry in mobile termination rates will restrict the competitive advantage of Play. The last risk factor still threatening TPSA is its dispute with DPTG, which is demanding damages of EUR 840m. We consider this claim an element of DPTG's litigation strategy; in reality, the final amount of damages should not exceed EUR 100m (a decision is expected in Q4 2009). We are reiterating a positive investment rating on TPSA.

PLN 15m fine

Polish telecoms regulator the UKE imposed a PLN 15m fine on TPSA for default on its obligation to ensure access to its cable ducts, based on a 2008-9 audit which found over 4.8 thousand violations. The UKE stressed that the cable-duct infrastructure is crucial for every telecom operator, and that its construction consumes a substantial portion of the investment resources of prospective new players. What is more, since it is virtually impossible to build new infrastructures in large cities, alternative operators have no access to fiber-optic and cable networks. There is no doubt that TPSA has been abusing its dominant operator status, blocking access to its infrastructure. But a PLN 15m fine is too small to influence the company's valuation. We are reiterating a positive rating on TPSA.

Favorable ruling

The Supreme Administrative Court repealed a decision by the UKE which had rejected TPSA's request for funding of access to the universal service (incl. phone booth maintenance, mandatory subscriber additions, discounts for disabled users, the phone directory, and telephone books). As a result, TPSA will receive a PLN 140m compensation from alternative operators who generated revenues over PLN 4m last year. The altnet contributions cannot exceed 1% of their annual revenues. The exact amounts will be determined by the UKE. TPSA's compensation request, filed in June 2007, concerned the period of May-December 2006, was turned down by the UKE which claimed that the incumbent was not able to prove that the universal service requirement had caused it to incur losses. It is hard to tell at this point how much universal-service funding (which TPSA is entitled to according to EU directives) TPSA will actually get. But it is clear that the operator will book extra gains not factored in analyst projections, while altnets will post additional expenses. (an estimated PLN 15m a year in case of Netia).

TPSA in the clear

As expected, telecom regulator the UKE agreed to suspend the functional-separation process for 1.5 years. If TPSA adheres to the terms of the settlement during that time, the split plans will be dropped altogether. By the end of August, TPSA and altnet teams working under the supervision of the UKE will develop draft agreements laying down the terms of their mutual cooperation. We predicted a favorable resolution of the UKE / TPSA row all along. In a longer term, it will have a positive influence on the entire telecommunications market. We are reiterating a positive investment rating on TPSA.

Treasury considers selling minority TPSA interest

The Ministry of the State Treasury will consider selling its 4.15% stake in TPSA when the per-share price rises above the six-month average, to PLN 19.3. We predict that France Telecom will be the first in line to buy the stake. The Treasury's desired price (PLN 19.3) is close to our target on the telecom (PLN 19.4).

Media

H1’09 in advertising according to Starlink

According to Starlink, the advertising market shrank by 11.4% in the first six months of 2009. The only segment to record growth was online advertising, where expenditure increased from PLN 384.0m to PLN 424.3m, i.e. by 10.2%. Revenues shrank the fastest at daily newspapers (by over 20%) and magazines (-15.5%). Television and radio did fairly poorly as well, with expenditure contracting by 12.8% and 13%, respectively. Outdoor advertising shrank by 11.2%. The data for H109 confirm our view that we will see an approximately 12% decline of the advertising market as a whole in 2009. After a fairly good Q1 and a very week Q2, we should now see two quarters with growth trends somewhere in between.

TV Puls not for PMPG?

The Management of TV Puls announced that it was not going to continue negotiations with PMPG concerning PMPG's purchase of a controlling stake in TV Puls. PMPG maintains it remains interested in TV Puls and could renew its bid in the future.

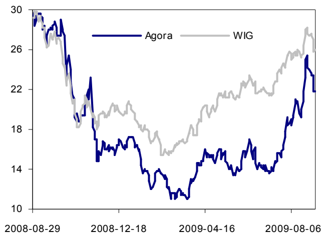
Agora (Accumulate)

Current price: PLN 21.9 **Target price: PLN 24.1**

Analyst: Piotr Grzybowski
Last Recommendation: 2009-09-04

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	1 272.3	1 277.7	0.4%	1 138.0	-10.9%	1 148.3	0.9%
EBITDA	198.6	128.4	-35.3%	125.3	-2.4%	158.1	26.2%
EBITDA margin	*15.6%*	*10.0%*		*11.0%*		*13.8%*	
EBIT	120.3	44.6	-62.9%	41.1	-7.9%	73.6	79.1%
Net profit	100.3	23.4	-76.7%	33.9	44.9%	61.9	82.6%
P/E	12.0	51.4		33.8		18.5	
P/CE	6.7	11.2		9.7		7.8	
P/BV	1.0	1.0		1.0		0.9	
EV/EBITDA	5.1	8.5		8.3		6.1	
Dyield (%)	1.5	0.0		1.5		2.7	

Basic data (PLN m)	
Number of shares (m)	52.4
MC (current price)	1 147.3
EV (current price)	1 044.5
Free float	64.1%
Price change: 1 month	*18.3%*
Price change: 6 month	*82.3%*
Price change: 12 month	*-24.8%*
Max (52 week)	29.7
Min (52 week)	11.0



Agora shares have taken a plunge recently, backing 14% off their highs. Amid a weak advertising market this year and next, Agora is expected to experience earnings growth supported by reduced payroll expenses and favorable euro trends. Although Agora shares display a rather demanding valuation on the P/E multiple, they show a significant discount to average EV/EBITDA, which cannot be ignored considering the company's consistent dividend and buyback policy. We are upgrading our rating to accumulate.

Agora surprises analysts with second-quarter results

Agora's reported earnings figures for Q209 exceeded both our forecasts and consensus estimates. Total revenues amounted to PLN 297.8m vs. our PLN 284.9m estimate, and advertising revenues were down just 25.2% instead of our projected 28%. Sales of book series were very successful at PLN 29.2m, compared to PLN 10.9m in Q208 and our estimate of PLN 24.0m. Utility and materials expenses surged by a stronger-than-expected 25.7%, while payroll expenses were down 14% from the same period a year ago (we expected a 4% decline). The second-quarter EBIT amounted to PLN 14.9m, marking a drop from PLN 30.2m posted in Q208. Without any impact of finance operations, the Q209 bottom-line profit came in at PLN 12.2m.
All in all, Agora had quite a successful second quarter. Downsizing is going faster had expected (we expected intensified job cuts in the third and fourth quarter), supporting payroll savings. A smaller-than-expected decrease in advertising revenues suggests a potential for upward revisions in our full-year estimates. We are reiterating our positive outlook on Agora.

Newspaper sales in June

Sales of *Gazeta Wyborcza* declined by 2.3% y/y, sales of *Dziennik* increased 1.0%, and sales of *Rzeczpospolita* fell 13.4% in June. The sales of *Gazeta Prawna*, with which *Dziennik* will be merged, declined by 6.4%. Our forecasts assumed conservatively that the deeper decline in *Gazeta Wyborcza* sales in May was a consequence of price hikes, and that it would persist into the following months. The slower decline in June, especially if it is to persist through the end of the year, constitutes a potential upside vs. our forecasts.

UOKiK approves *Gazeta Prawna - Dziennik* merger

The competition watchdog UOKiK allowed Axel Springer and Infor Biznes to merge their newspapers. Axel Springer will acquire a 49% stake in Infor Biznes in exchange for *Dziennik's* assets. We still lack information as to what the new paper will be like, but we reiterate the view that, unlike *Dziennik*, it will mostly compete with *Rzeczpospolita* rather than with *Gazeta Wyborcza*. The change will thus relieve some of the competitive pressure on Agora, and enable it to reduce promotional expenses or increase the cover price of *Gazeta Wyborcza*.

Acquisition rumors

According to *Parkiet* business daily, Agora is eyeing the acquisition of Ukrainian media holding KP Media. The rumored price is $15m. At current market prices, KP Media, which is traded on the Ukrainian Stock Exchange, is estimated to be worth $30m. Last year, it generated ca. $20m in sales. Expansion into the Ukraine is not a good idea. Agora still has a lot of "cleaning up" to do within its own organization, and it does not need the extra burden. What is more, advertising expenditure in the Ukraine is slumping, and is expected to continue falling in the next 2-3 years.

Agora takes advantage of crisis to make acquisitions

Agora's Management believe that the economic crisis can be leveraged to make several media acquisitions. Agora's CEO Mr. Niemczycki revealed that he would be most interested in Polish media firms, and as good as denied the rumored acquisition of Ukraine's KP Media. Investors still remember the pricey and as-yet unprofitable investment in trader.com, and that is why they respond nervously to any new M&A rumors. We agree that Agora can afford to make an attractive acquisition, as shown by purchases made by outdoor subsidiary AMS and the magazine arm during the previous advertising slump.

Agora loses unfair competition claim

The Warsaw Appeals Court dismissed Agora's claim that the job-search Website praca.pl creates unfair competition to Agora's job site gazetapraca.pl. Agora's objections included the fact that a Web user who typed in the following address with an extra dot: www.gazeta.praca.pl, was taken to the praca.pl site instead of gazetapraca.pl. The lost case merely maintains the status quo in Agora's competitive environment, and has no influence on its share price.

Spring cleaning at *Dziennik*

Infor, the new owner of daily newspaper *Dziennik*, wants to lay off 33 employees and change the salary terms for the rest. Further, the Holding is closing down the local Warsaw supplement and the *Wall Street Journal Polska* business supplement to *Dziennik*. Infor's efforts are aimed at merging the old *Dziennik* with its own business daily *Gazeta Prawna*.

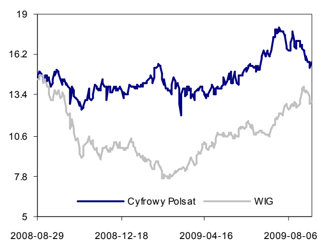
Cyfrowy Polsat (Hold)

Current price: PLN 15.7 **Target price: PLN 14.55**

Analyst: Piotr Grzybowski

Last Recommendation: 2009-05-29

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	796.7	1 136.3	42.6%	1 351.4	18.9%	1 446.0	7.0%	Number of shares (m)	268.3
EBITDA	165.9	347.8	109.6%	389.9	12.1%	491.9	26.2%	MC (current price)	4 218.1
EBITDA margin	*20.8%*	*30.6%*		*28.9%*		*34.0%*		EV (current price)	3 927.4
EBIT	145.1	324.3	123.4%	361.0	11.3%	462.2	28.0%	Free float	31.8%
Net profit	113.4	269.8	137.8%	296.2	9.8%	381.5	28.8%		
P/E	37.2	15.6		14.2		11.1		Price change: 1 month	*-4.7%*
P/CE	31.4	14.4		13.0		10.3		Price change: 6 month	*13.0%*
P/BV	69.0	14.2		10.2		7.0		Price change: 12 month	*5.4%*
EV/EBITDA	24.6	11.6		10.1		7.8		Max (52 week)	18.1
Dyield (%)	0.0	0.9		4.2		4.6		Min (52 week)	12.0



FX trends are slowly shifting towards being more favorable for Cyfrowy Polsat. On the downside, we are concerned about the slowdown in the pay-TV market and the advertising blitz scheduled for the fall by rival ITI Neovision. We are reiterating a hold rating on Cyfrowy Polsat.

Signs of saturation in the Premium segment

Cyfrowy Polsat's Q209 earnings undershot our expectations and the market consensus. One striking issue is the structure of net subscriber additions. Only 61,000 subscribers were added in the "Family" packages, vs. 42,000 for the "Mini" packages. We do not know the sales results of Cyfra+, but, given that the number of subscribers of TVN's 'n' platform increased by ca. 8,000 (exclusive of the prepaid service, which saw net adds of 53,000), we can venture to say that the premium segment is saturated for now, and that subscriptions are unlikely to grow until the economy reaches an equilibrium.

This pattern of subscriber additions led to lower-than-forecasted revenues from subscription fees (-PLN 10.0m vs. our forecast). An adjustment in the value of set-top boxes manufactured by CP, which is included in revenues, was also lower than forecasted (-PLN 3m). As a result, sales amounted to PLN 322.8m rather than PLN 335.8m we expected.

As far as operating costs, the different structure of newly-added subscribers led to lower-than-projected licensing expenses (-PLN 9.0m vs. our forecast). Marketing and distribution expenses, in turn, were much higher than forecasted (PLN 61.1m vs. 52m). This discrepancy was primarily a consequence of the PLN 8.7m increase in the call center expenditures due to the introduction of a loyalty program, which was a reaction to the increase in churn to 10.8% over the past 12 months from 8.0% a year ago. We would like to point out once again that, given the meager subscriber growth seen by competitors, the increase in churn is most likely a consequence of market saturation.

As a result of these developments, operating profit was PLN 68.2m vs. PLN 99.4m a year ago.

Roughly speaking, CP saw neither F/X gains nor losses (inclusive of the valuation of open and closed forward contracts). Net income was thus PLN 58.1m vs. PLN 79.8m a year ago and PLN 65.4m in our forecasts. The key reason for the weakness of these results is the high exchange rate of the dollar and the euro, which inflates licensing expenses. In H209, the F/X environment should be more favorable for the company.

What is worrying are the signals that the premium segment is saturated, at least for now. The changes that are taking place at TVN might pose another threat to CP: management reshuffle and the increase in capital outlays for 'n' clearly indicate that a massive promotional campaign is coming towards the end of the year.

Solorz-Żak has no intention of reducing interests in CP

Zygmunt Solorz-Żak is not planning to reduce his interests in Cyfrowy Polsat, but he is focusing on developing his other ventures at the moment. These include the telecommunications infrastructure of the recently acquired Sferia, in which Mr. Solorz-Żak wants to invest PLN 100m more this year so as to be able to eventually compete for Internet subscribers.

UOKiK's proceedings

The Management was notified that the competition watchdog UOKiK had launched an investigation into CP's possible violation of consumer interests through the use of illegal clauses in the terms and conditions of service. One example is a clause stating that changes in the channel lineup do not constitute a change in the terms and conditions (if they did, customers would be entitled to terminate the service agreement). CP, in cooperation with UOKiK and the regulator UKE, has been working on this issue for several months. New terms and conditions will be implemented soon. According to the law, the President of the UOKiK can impose a fine on the Company, not exceeding 10% of its revenue in the previous fiscal year.

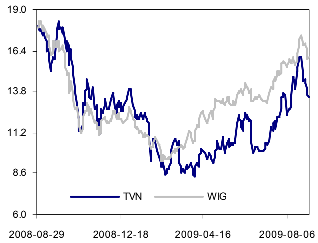
TVN (Accumulate)

Current price: PLN 13.4 **Target price: PLN 16**

Analyst: Piotr Grzybowski
Last Recommendation: 2009-09-04

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	1 554.7	1 897.3	22.0%	2 163.3	14.0%	2 451.5	13.3%
EBITDA	552.6	711.4	28.7%	627.1	-11.8%	631.2	0.7%
EBITDA margin	*35.5%*	*37.5%*		*29.0%*		*25.7%*	
EBIT	480.5	631.9	31.5%	463.8	-26.6%	406.2	-12.4%
Net profit	241.8	363.7	50.4%	321.4	-11.6%	267.6	-16.7%
P/E	19.2	12.9		14.4		17.3	
P/CE	14.8	10.6		9.6		9.4	
P/BV	3.3	2.8		2.6		2.5	
EV/EBITDA	9.7	8.0		10.9		10.9	
Dyield (%)	2.8	2.6		4.3		3.5	

Basic data (PLN m)	
Number of shares (m)	346.4
MC (current price)	4 642.1
EV (current price)	6 860.1
Free float	38.4%
Price change: 1 month	*8.5%*
Price change: 6 month	*28.4%*
Price change: 12 month	*-24.0%*
Max (52 week)	18.3
Min (52 week)	8.4



TVN shares lost over 16% of their value in a matter of one week, prompting an upgrade to accumulate. The main risk factors related to investment in TVN include unexpected changes in the organizational structure and unreasonably large investment in the DTH television provider 'n' (which is at least partly priced in).

TVN wows analysts with second-quarter results

The Q209 earnings figures posted by TVN were far ahead of our forecasts as well a consensus estimates. The biggest surprise was a huge reduction in operating expenses. Advertising revenues contracted by 17.3% versus our expected 18%. Sales of programming licenses, and revenues generated by the new-generation DTH platform 'n' were weaker than expected. These differences were probably a result of underestimated intercompany eliminations. All told, second-quarter revenues fell ca. PLN 40m short of our estimate.

We cannot pinpoint the exact reason behind the enormous cutbacks because of incomparable data. We certainly cannot credit this to the 'n' platform, which reported an EBITDA loss of PLN 24.0m (less than our expected PLN 27m). TVN generated impressive payroll savings thanks to a quarter-on-quarter drop in salary expenses, unaffected by the spring season and the three-month consolidation of ITI Neovision. Amortization and depreciation expenses on own TV productions seem very low as well, which was partly owed to an early launch of the summer repeats season. All in all, considering our understated estimates of consolidation effects and TVN's higher-than-expected D&A expenses (PLN 52m vs. PLN 42m), the company must have cut expenses by at least PLN 50m.

The Q209 EBIT approximated PLN 138.6m, far exceeding our estimate of PLN 94m.

As expected, TVN reported finance gains over PLN 30m as a result of adjustments in foreign-currency debt (senior notes, the payables of ITI Neovision, a conditional payment due to ITI). After taxes and minority interests, the second-quarter net income came in at PLN 148m.

Strong second-quarter results suggest that upward revisions in our full-year financial forecasts and target price estimate are in order.

Ratings in July

According to AGB Nielsen, TVN's ratings declined from 13.7% a year ago to 12.8% in July. TVP1's audience shrank from 21.9% to 19.4%, TVP2's viewership fell from 15.6% to 14.3%. and Polsat's viewership decreased from 15.3% to 14.2%. The audience of the entire TVN Group shrank from 20.4% to 19.3%, and the target audience share of the TVN channel dropped from 17.2% to 15.4%. TVN7 saw its target demographic ratings shrink dramatically too, from 3.5% to 2.2%. The viewership of the TVN channel is on decline which, however, was slower than recorded by main rivals in July. This is because all the stations launched reruns last month, which means that they no longer had the edge over TVN in terms of programming, though the presence of new stations in the measuring panel was still an issue. The current trends are still worrying, especially now, when most of the advertising time is sold based on rating points.

Point Group signs financing memorandum with TV Puls

Media holding PM Point Group (PMPG) signed a memorandum of understanding with advertising agency Media SKOK, which undertook to lend financing to PMPG to take over TV Puls. PMPG is also negotiating loans with other finance providers. Execution of a financing agreement depends on the outcomes of the holding's negotiations with TV Puls shareholders, and on audit findings. There is little doubt that TV Puls is about to become a member of the PMPG holding. We doubt that the new owner has equally aggressive plans for TV Puls as its former owner News Corp. Rather, PMPG's goal, we guess, is to acquire a 1%-2% reach based on content provided by its magazines (*Machina*, *Film*). In short, the new TV Puls will be no competition for TVP, Polsat, or TVN.

TVN expects stronger ad revenue in H209

According to TVN's programming director Edward Miszczak, the broadcaster is prepared to launch its hit fall schedule on which it spared no expenses. TVN believes that advertising revenues will rebound in the second half of the year, and eliminate the need to cut programming expenses. We agree that ad revenues will probably fall at a much slower rate in H2, but they are not likely to show much improvement vs. H1. The policy of no content savings is a smart one from the standpoint of the broadcaster's long-term interests (maintaining the competitive advantage and high entry barriers), but it will take some toll on earnings.

Commercial time at 10% off

TVN's advertising prices in September are an average 10% lower than a year ago. Public broadcaster TVP launched ad sales a week ago, with average prices on a level with last year's and prime time prices up 4%.

August viewership numbers

The TVN Group's flagship TVN channel saw continued deterioration in viewer numbers in August, recording a y/y audience share decline from 13.0% do 12.5%. Polsat was the only one of the four leading TV broadcasters to maintain flat year-on-year growth (14.3%). Public channels TVP1 and TVP2 lost even more market share than TVN. The TVN Group's specialty channels did quite well in August, in particular TVN7 which saw an increase in audience share from 1.6% to 2.2%, keeping the Group's overall viewership from falling more than 0.1% (from 19.0% to 18.9%). TVN's target audience share dropped from 16.3% to 15.4% in August. Other channels lost much more viewers.

WSiP (Hold)

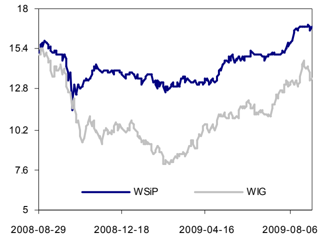
Current price: PLN 16.9 **Target price: PLN 17.2**

Analyst: Piotr Grzybowski

Last Recommendation: 2009-09-03

(PLN m)	**2007**	**2008**	**change**	**2009F**	**change**	**2010F**	**change**
Revenues	224.9	198.2	-11.9%	196.2	-1.0%	198.2	1.0%
EBITDA	34.6	50.0	44.5%	41.2	-17.6%	42.7	3.6%
EBITDA margin	*15.4%*	*25.2%*		*21.0%*		*21.5%*	
EBIT	29.8	46.3	55.1%	37.2	-19.7%	38.6	3.8%
Net profit	49.2	39.1	-20.5%	30.5	-22.1%	32.0	5.2%
P/E	9.1	10.7		13.7		13.1	
P/CE	8.3	9.8		12.1		11.6	
P/BV	3.7	3.8		4.1		4.0	
EV/EBITDA	10.9	7.8		9.2		8.9	
Dyield (%)	6.3	10.7		9.3		7.3	

Basic data (PLN m)	
Number of shares (m)	24.8
MC (current price)	418.2
EV (current price)	380.1
Free float	0.0%
Price change: 1 month	*8.3%*
Price change: 6 month	*30.4%*
Price change: 12 month	*6.6%*
Max (52 week)	17.0
Min (52 week)	11.5



WSiP reported relatively weak results for the second quarter of 2009, affected mostly by an early promotional campaign. According to the Management, a first-half loss had been planned and budgeted for, and it will be offset with increased sales expected in the third quarter. That is why the publisher reiterated its standalone full-year net-income estimate at PLN 30.0m. Our more conservative forecast of the consolidated bottom line is PLN 30.5m including PLN 1.5m profit expected from subsidiary Zielona Sowa. We are reiterating a hold rating on WSiP.

Q2 2009 results

WSiP's Q2 2009 results can be considered decent, the lowest point being advance expenses incurred on early textbook promotion. Revenues surged 18.9% compared to Q2 2008, but the gross margin shrunk from 65.7% to 59.6%.

SG&A expenses almost doubled from PLN 16.8m to PLN 32.7m, about PLN 6m of which was incurred earlier than usual as WSiP advertised its textbooks following their early approval by the Ministry of Education. Weighed down by increased expenses, Q209 EBIT fell from PLN 17.6m a year earlier to PLN 4.2m. Financial operations brought about a PLN 0.3m loss vis-á-vis a PLN 0.3m gain posted a year ago, due mainly to a lower cash position. Thanks to a PLN 1m tax refund, WSiP was able to declare a second-quarter net profit of PLN 5m, marking a deterioration from PLN 17.2m reported in Q2 2008.

IT Sector

Asseco Slovakia

EUR 34.5m contract backlog

Asseco Slovakia has accumulated a H209 order backlog worth EUR 34.45m. Further, ongoing contracts nearing completion amount to EUR 16.61m. This year’s backlog represents about 60% of last year’s H2 revenue of ca. EUR 85m.

Acquisition plans

According to the CEO, Asseco Slovakia is negotiating five acquisitions in Hungary, Austria, and Slovakia. A priority takeover of a Hungarian firm is going to be completed this year. Asseco had targeted Hungarian, Austrian, and Slovakian companies last year, but had to suspend its plans due to the crisis which made it impossible to assess the values of these firms.

Comarch

Acquisition of SoftM Polska

Comarch purchased a 100% stake in SoftM Polska for PLN 298,300. The transaction was based on the prior agreement for the purchase of shares in SoftM Software und Beratung. Comarch wants to impose a geographical structure on the competences of its individual subsidiaries.

Dismal H109 results

According to a preliminary report published by Comarch, SoftM generated a EUR 6.3m operating loss and a EUR 5.4m net loss in the first half of 2009, including first-quarter losses of EUR 1.6m and EUR 1.3m respectively. SoftM's weak earnings results will add to the first-half loss of Comarch, estimated at PLN 18m-20m.

New contract

Comarch was selected as the lowest bidder to deliver PLN 33.77m-worth of office software and licenses to Poland’s gas giant PGNiG. The order includes perpetual license for 6,038 users of Microsoft Office Professional Plus software or its equivalent, MS Windows system updates, and a connection of 6,038 users to Microsoft server systems used by PGNiG. The selection of Comarch as the lowest bidder had been announcement back in July.

NTT System

20% job cuts

The CEO of computer hardware producer NTT System revealed that PC sales volumes fell 50% in the first half of the year because of a lack of government orders. To offset this drop, the company has to continue to cut costs, and will be forced to lay off 20% of its employees. The savings plan will also cover logistics, marketing, and suppliers.

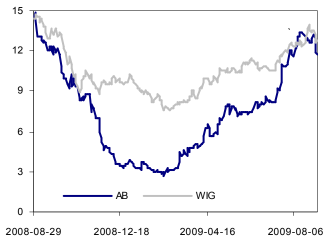
AB (Buy)

Current price: PLN 11.8 **Target price: PLN 15.13**

Analyst: Piotr Grzybowski
Last Recommendation: 2009-08-06

(PLN m)	2007/08	2008/09F	change	2009/10F	change	2010/11F	change
Revenues	3 012.2	2 929.5	-2.7%	2 788.9	-4.8%	2 866.7	2.8%
EBITDA	39.5	88.4	123.9%	40.5	-54.2%	52.0	28.5%
EBITDA margin	*1.3%*	*3.0%*		*1.5%*		*1.8%*	
EBIT	35.2	83.1	136.0%	35.0	-57.8%	46.5	32.7%
Net profit	16.1	27.7	72.3%	20.0	-27.7%	23.8	18.7%
P/E	11.7	6.8		9.4		7.9	
P/CE	9.2	5.7		7.4		6.4	
P/BV	0.9	0.8		0.8		0.7	
EV/EBITDA	9.8	4.4		9.0		6.8	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	16.0
MC (current price)	187.7
EV (current price)	363.2
Free float	41.9%
Price change: 1 month	*1.9%*
Price change: 6 month	*166.9%*
Price change: 12 month	*-9.8%*
Max (52 week)	13.4
Min (52 week)	2.7



AB's Q209 results were lower than expected but better than last year's figures. The company has finally managed to considerably reduce working capital and bring net debt down to PLN 96m. AB shares experienced a significant, undeserved downturn recently, and we are reiterating a buy rating on the stock.

Better than last year

AB posted weaker-than-expected results for its fiscal fourth quarter, but saw an improvement compared to last year. The main reason behind lower-than-expected earnings was the Czech subsidiary AT Computers. AB's standalone results are solid and higher than we predicted.

Consolidated Q4 2008/09 sales fell 12.4% to PLN 475.5m. Again, this was the fault of ATC because AB alone saw a slight, 0.5% increase to PLN 323.2m. The consolidated gross margin decreased to 4.4%, also because of ATC (although AB's standalone margin was also modest at 5.1%). Our consolidated gross-margin estimate was 6.6%.

SG&A expenses were the lowest since the acquisition of ATC toward the end of 2007, at PLN 16.1m.

"Other" financial operations resulted in a PLN 2.7m lo9ss, smaller than our predicted PLN 5.5m. The consolidated EBIT amounted to PLN 3.0m (standalone EBIT was PLN 4.1m) vs. our expected PLN 7.5m.

AB reported a finance loss of PLN 0.8m stemming from negative FX differences, vs. our estimate of PLN 4.9m.

Consolidated pre-tax income came in at PLN 22m vs. PLN 2.5m forecasted, but a high effective tax rate (534% vs. 21% expected) brought bottom-line income down to just PLN 1.0m, short of our predicted PLN 2.0m.

Generally speaking, AB's Q4 2008/09 profits were weighed down by negative FX trends which affected gross margins but led to lower-than-expected losses on financial operations (and had no impact on net income). For the current fiscal year, we expect similar earnings trends, with a lower EBIT and a flat net income.

As for ATC, we estimated that its Q4 2008/09 sales fell by over 30%, bringing down the profit margin, although this was partly offset by lower COGS.

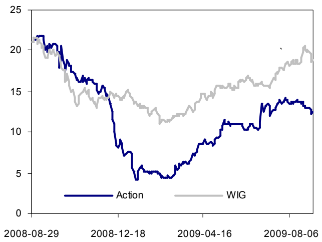
Action (Hold)

Current price: PLN 12.4 **Target price: PLN 12.3**

Analyst: Piotr Grzybowski
Last Recommendation: 2009-07-03

(PLN m)	2006/07	2007/08	change	2008/09F	change	2010F	change
Revenues	1 797.5	2 343.4	30.4%	3 320.6	41.7%	2 489.8	-25.0%
EBITDA	37.7	66.3	75.8%	59.3	-10.5%	50.5	-14.9%
EBITDA margin	*2.1%*	*2.8%*		*1.8%*		*2.0%*	
EBIT	30.4	58.3	91.9%	46.3	-20.6%	41.5	-10.4%
Net profit	22.0	33.8	53.4%	25.6	-24.4%	24.3	-4.8%
P/E	9.3	6.3		8.4		8.8	
P/CE	7.0	5.1		5.6		6.4	
P/BV	1.4	1.2		1.2		1.0	
EV/EBITDA	7.2	5.5		5.5		6.9	
Dyield (%)	0.0	2.1		11.1		2.4	

Basic data (PLN m)	
Number of shares (m)	17.2
MC (current price)	214.3
EV (current price)	325.2
Free float	35.9%
Price change: 1 month	*-8.1%*
Price change: 6 month	*130.4%*
Price change: 12 month	*-41.6%*
Max (52 week)	21.9
Min (52 week)	4.1



Action's earnings report for the fourth business quarter, slated for release in mid September, is not likely to beat expectations. We remain neutral on the company,

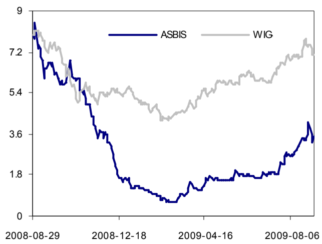
ASBIS (Buy)

Current price: PLN 3.5 **Target price: PLN 3.45**

Analyst: Piotr Grzybowski
Last Recommendation: 2009-08-14

(USD m)	2007	2008	change	2009F	change	2010F	change
Revenues	1 397.3	1 495.3	7.0%	1 157.0	-22.6%	1 275.0	10.2%
EBITDA	27.6	18.2	-34.2%	9.6	-47.4%	17.3	80.8%
EBITDA margin	*2.0%*	*1.2%*		*0.8%*		*1.4%*	
EBIT	25.7	15.3	-40.4%	6.7	-56.4%	14.4	115.0%
Net profit	18.7	4.0	-78.5%	-0.4		6.5	
P/E	3.6	16.6				10.2	
P/CE	3.2	9.8		26.9		7.1	
P/BV	0.7	0.7		0.7		0.7	
EV/EBITDA	2.3	4.7		7.8		4.6	
Dyield (%)	3.9	13.5		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	55.5
MC (current price)	193.1
EV (current price)	216.0
Free float	34.2%
Price change: 1 month	*31.3%*
Price change: 6 month	*364.0%*
Price change: 12 month	*-56.3%*
Max (52 week)	8.0
Min (52 week)	0.6



Earnings improved considerably in Q209 vs. Q109, but Asbis remains in the red. We believe positive earnings trends will continue in H209, and the company will be able to cover most of the loss incurred in H109. The improvement will be driven by a slower sales shrinkage (due to the weakening of the USD vs. CEE currencies and an improvement in the macroeconomic situation of some of the local markets) and wider margins achieved thanks to F/X hedges and cost cuts. We are reiterating a buy rating.

Asbis posts small Q209 loss

Asbis's Q209 net income was slightly below expectations, while operating profit missed estimates by a wide margin. This was due to two reasons: first, lower-than-expected sales ($231.3m vs. $344.7m a year earlier and our estimate of $251.6m), which proved especially weak in Asbis's new Middle-Eastern and African markets. Sales to former USSR countries were slightly ahead, and sales to Western European countries were in line. As predicted, Asbis rebuilt its gross margin in the second quarter (5.1% vs. 3.0% in Q109, in line with our estimate). The second factor which affected profits were higher-than-expected SG&A expenses ($11.5m reported vs. $10.8m forecasted). Asbis posted a finance loss of $1.0m vis-a-vis our estimated $1.9m (an effect of high interest income in the amount of $0.63m). Finally, a $0.4m tax refund pushed the quarter's bottom line down to a $0.3m loss vs. our expected $0.2m profit.

Although short of expectations, Asbis's Q209 results were decent, with an improved gross margin and a reduced bottom-line loss. The company is going to improve further in H209 thanks to hedges against FX risks and a recovering Russian market.

Asseco Poland (Buy)

Current price: PLN 60 Target price: PLN 72.6

Analyst: Piotr Grzybowski
Last Recommendation: 2009-09-02

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	1 282.4	2 786.6	117.3%	3 023.5	8.5%	3 193.7	5.6%
EBITDA	274.5	591.8	115.6%	643.5	8.7%	681.7	5.9%
EBITDA margin	*21.4%*	*21.2%*		*21.3%*		*21.3%*	
EBIT	236.7	494.3	108.9%	538.3	8.9%	574.9	6.8%
Net profit	161.0	321.6	99.7%	349.0	8.5%	366.8	5.1%
P/E	28.9	14.5		13.3		12.7	
P/CE	23.4	11.1		10.2		9.8	
P/BV	2.2	1.2		1.1		1.0	
EV/EBITDA	17.8	8.1		7.7		7.0	
Dyield (%)	0.6	1.7		2.2		2.4	

Basic data (PLN m)	
Number of shares (m)	77.6
MC (current price)	4 653.9
EV (current price)	4 974.4
Free float	55.1%
Price change: 1 month	*3.8%*
Price change: 6 month	*30.4%*
Price change: 12 month	*-11.8%*
Max (52 week)	68.0
Min (52 week)	40.0

Asseco Poland (ACP) reported better-than-expected second quarter results, the highlight of which was a strong gross margin. An improvement observed both at the parent company and the ACP subsidiaries quashed earlier concerns about margin losses as a result of a general industry slowdown and cost cuts by customers, especially government agencies. In fact, the subsidiaries recorded a stronger expansion in gross margin that the parent itself. We recommend buying Asseco.

Ahead of expectations

Asseco Poland reported good second-quarter results. Revenues slid 6.2% to PLN 707.3m, but this decline was offset by an increase in gross profit from 32.0% in Q208 to 36.7% in Q209. By business segment, bank services recorded the biggest, 16.7% drop in sales to PLN 249.5m, and public-sector services saw a 11.6% y/y drop to PLN 198.5m, while enterprise services increased 13.1% to PLN 259.2m.

SG&A expenses increased from PLN 120.9m to PLN 124.5m (we expected a surge to PLN 130.1m), resulting in a EBIT of PLN 137.9m (up from PLN 120.6m in Q208 and ahead of our PLN 127.7m estimate). The company was not able match last year's impressive PLN 26m gain on FX differences in Q209, reporting a finance loss resulting from negative FX differences and a subsidiary's share dilution which produced a PLN 12m charge. Thanks to a low effective tax rate (8.8%) and lower-than-expected minority interests, Asseco declared a Q209 net profit of PLN 101.4m, exceeding our PLN 93.4m estimate.

All in all, Asseco Poland had a good second quarter. A strong gross margin evidences the company's ability to improve profitability amid an slumping market. It is worth noting that the margin improvement was recorded both by the parent (which expanded its gross margin from 46.6% to 49.0%), and the subsidiaries (an increase from 25.1% to 30.6%). We will probably revise our full-year forecasts for Asseco Poland upwards to account for the strong second-quarter showing. We maintain a positive view on the company.

Danish acquisition

Asseco reported that it had acquired a 51.65% stake in Danish company IT Practice. The total costs of the acquisition are not expected to exceed DKK 73.7m (PLN 40.64m). The first payment of DKK 59.9m (PLN 33.0m) is due on the day of execution of the merger agreement, and the second payment of DKK 23.8m is payable after IT Practice's FY2010 earnings announcement, and is conditioned on the company posting annual profits of at least DKK 35.2m (PLN 19.4m) in 2009 and 2010. Asseco further purchased an option to buy a further 3.35% of IT Practice's shares between 20 December and 31 January 2010. Asseco had spoken earlier about its plans to acquire the Danish company. The terms of the purchase seem attractive. Based on FY2008 earnings (DKK 17.8m), the acquisition price including the second conditional payment implies a P/E of 8.0 – a level which creates value for Asseco shareholders. The profit requirement which is the prerequisite for the second payment assures that IT Practice will keep earnings high during a tough period.

Contract for ABG

Asseco's subsidiary ABG signed a contract with the Office for Official Publications of the European Communities (publications Office) for development and expansion of the EU's CORDIS system. The one-year contract has an option to renew for three consecutive one-year periods. The budget for the potential four-year project is EUR 1.6-2.8m. The contract is an insignificant contribution to the earnings of both ABG and Asseco Poland.

Komputronik (Hold)

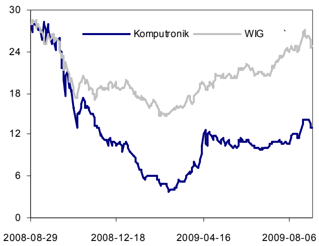
Current price: PLN 12.9 **Target price: PLN 10.48**

Analyst: Piotr Grzybowski

Last Recommendation: 2009-05-29

(PLN m)	**2007**	**2008**	**change**	**2009F**	**change**	**2010F**	**change**
Revenues	519.3	757.9	45.9%	848.0	11.9%	980.8	15.7%
EBITDA	12.1	10.8	-10.5%	9.8	-9.5%	15.2	56.1%
EBITDA margin	*2.3%*	*1.4%*		*1.2%*		*1.6%*	
EBIT	13.5	10.2	-24.4%	4.9	-52.0%	16.4	234.7%
Net profit	10.3	5.6	-45.4%	4.1	-27.5%	9.5	131.9%
P/E	9.3	18.7		25.8		11.1	
P/CE	7.9	9.8		10.8		6.9	
P/BV	1.1	0.8		0.8		0.7	
EV/EBITDA	5.3	11.4		16.8		11.1	
Dyield (%)	0.5	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	8.2
MC (current price)	105.3
EV (current price)	164.2
Free float	25.2%
Price change: 1 month	*19.0%*
Price change: 6 month	*195.4%*
Price change: 12 month	*-53.9%*
Max (52 week)	28.2
Min (52 week)	3.8



Second-quarter results clearly showed that Komputronik still has much to do when it comes to the restructuring of Karen and adjusting its sales network to a changed market. On the upside, the quarterly figures also showed some positive trends like better gross margins, and a stronger zloty which will help reduce office rental costs. A true rebound, however, is a matter of a distant future for Komputronik. We are reiterating a hold rating on the company.

Disappointing performance

Komputronik reported dismal second-quarter results. Revenues were in line at PLN 171.8m after a 7.4% increase from Q208. Gross profit amounted to PLN 23.8m, and profitability increased compared to preceding quarters. The consolidated Q209 gross margin was 13.9%, its highest level in a year, and this improvement was partly owed to Karen whose gross margin increased to 10.0% from 8.3% in Q109.

However, expanded gross margins were offset by high SG&A expenses which increased from PLN 20.3m in Q208 to PLN 26.5m as a result of high euro exchange rates which affect property rental fees, and due to recognition of management incentive costs in the amount of PLN 1.4m.

“Other operations” generated a PLN 1.1m gain which included a ca. PLN 1.0m reversal of a Q109 loss posted by KEN TI, which was later excluded from consolidation. Q209 EBIT loss exceeded expectations (PLN 1.3m) at PLN 1.5m and marked a huge drop from a PLN 3.0m operating profit posted a year earlier.

A finance loss of PLN 2.4m was higher than our forecasted PLN 0.4m. According to the quarterly report, the finance loss stemmed mostly from CIRS transactions entered into in Q109 by KEN TI. All told, Komputronik ended Q209 with a net loss of PLN 3.5m vs. our expected PLN 0.5m and a net income of PLN 0.7m declared in Q208.

Sygnity (Suspended)

Current price: PLN 15 **Target price: -**

Analyst: Piotr Grzybowski
Last Recommendation: 2009-08-21

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	1 201.9	995.7	-17.2%	838.2	-15.8%	877.7	4.7%
EBITDA	-16.3	56.6		51.1	-9.6%	49.6	-3.0%
EBITDA margin	*-1.4%*	*5.7%*		*6.1%*		*5.7%*	
EBIT	-72.0	11.5		12.1	5.3%	12.8	5.1%
Net profit	-65.6	-1.5	-97.7%	4.3		8.1	90.1%
P/E				41.6		21.9	
P/CE		4.1		4.1		4.0	
P/BV	0.5	0.5		0.5		0.5	
EV/EBITDA		3.4		2.7		2.6	
Dyield (%)	11.5	-0.3		0.7		1.4	

Basic data (PLN m)	
Number of shares (m)	11.9
MC (current price)	177.9
EV (current price)	137.2
Free float	64.5%
Price change: 1 month	*-11.4%*
Price change: 6 month	*-11.9%*
Price change: 12 month	*-35.2%*
Max (52 week)	26.9
Min (52 week)	14.4

We temporarily suspended coverage of Sygnity after its Q209 earnings warning. Look for a new update on the company in coming weeks.

A look at Q209 results

In keeping with an earlier earnings warning, Sygnity's H209 announcement missed expectations. Revenues amounted to PLN 141.1m. Sygnity recognized total charges of PLN 67m, including PLN 32m in non-cash adjustments in the values of inventories and accounts receivable and a PLN 35m allowance against potential damages which the company might actually have to pay in the future. The H109 EBIT loss totaled PLN 85.4m, and the bottom-line loss came in at PLN 75.4m.

Sygnity's cash position comprises bond debt, borrowings totaling PLN 95m, and ca. PLN 40m in cash, figuring to a net debt of approximately PLN 55m (not including a PLN 6m gain from the sale of KPG and other divestment and property-sale gains) which should add about PLN 10m to the cash base). Assuming that Sygnity will have to pay the total of the damages covered by the PLN 35m reserve, its net debt will increase to PLN 80m.

Sygnity's first-half report includes a very general description of planned cost-cutting efforts expected to generate "several million zlotys" in savings this year.

All in all, the reported H109 results were not quite as bad as suggested in the warning. Sygnity's future financial position depends on the good will of its lenders and bond holders. If the creditors agree to make concessions, the company should have no problem servicing its debts.

EUR 7.15m contract

Sygnity won a tender held by the Office for Geodetic and Cartographic records in Łódź for delivery of a database to feed Łódź's terrain information system. The fee is EUR 7.15m without VAT and PLN 28m gross. The deadline is in December 2011. Sygnity's total order backlog is approximately PLN 600m.

Metals

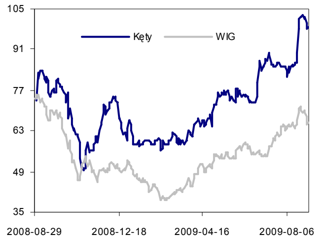
Kęty (Buy)

Current price: PLN 98.5 **Target price: PLN 109.4**

Analyst: Michał Marczak
Last Recommendation: 2008-08-04

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	1 253.0	1 183.5	-5.5%	982.3	-17.0%	1 139.5	16.0%
EBITDA	194.0	190.2	-2.0%	170.3	-10.5%	181.7	6.7%
EBITDA margin	*15.5%*	*16.1%*		*17.3%*		*15.9%*	
EBIT	141.9	128.3	-9.5%	108.1	-15.8%	119.6	10.7%
Net profit	97.8	63.4	-35.2%	64.4	1.7%	77.3	19.9%
P/E	9.3	14.3		14.1		11.8	
P/CE	6.1	7.3		7.2		6.5	
P/BV	1.3	1.3		1.1		1.0	
EV/EBITDA	6.5	6.7		7.1		6.4	
Dyield (%)	4.1	4.6		4.7		4.9	

Basic data (PLN m)	
Number of shares (m)	9.2
MC (current price)	908.7
EV (current price)	1 213.8
Free float	46.0%
Price change: 1 month	*15.9%*
Price change: 6 month	*61.9%*
Price change: 12 month	*19.1%*
Max (52 week)	102.6
Min (52 week)	49.5



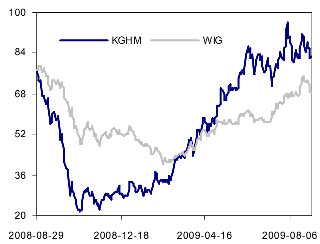
We are reiterating our positive outlook on Kęty, which is benefitting from the economic momentum and a weak zloty, and records a growing number of orders. We expect second-quarter results to validate the company's full-year bottom-line income target of PLN 62m. The company is willing to sell its flexible-packaging business for the right price, and we believe it can get more than would follow from the current market cap (packaging manufacturers are valued at higher multiples than aluminum manufacturers). The sale could take place in 2010.

KGHM (Reduce)

Current price: PLN 83 Target price: PLN 73

Analyst: Michał Marczak
Last Recommendation: 2009-08-14

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	12 183.0	11 302.9	-7.2%	10 231.8	-9.5%	10 212.6	-0.2%	Number of shares (m)	200.0
EBITDA	5 034.0	4 077.7	-19.0%	3 283.4	-19.5%	2 514.8	-23.4%	MC (current price)	16 600.0
EBITDA margin	*41.3%*	*36.1%*		*32.1%*		*24.6%*		EV (current price)	15 786.9
EBIT	4 682.0	3 596.4	-23.2%	2 744.9	-23.7%	1 974.1	-28.1%	Free float	36.0%
Net profit	3 799.0	2 910.4	-23.4%	2 285.6	-21.5%	1 839.5	-19.5%		
P/E	4.4	5.7		7.3		9.0		Price change: 1 month	*-7.8%*
P/CE	4.0	4.9		5.9		7.0		Price change: 6 month	*88.2%*
P/BV	1.9	1.6		1.6		1.4		Price change: 12 month	*14.3%*
EV/EBITDA	2.8	3.6		4.8		6.0		Max (52 week)	95.8
Dyield (%)	20.5	10.8		14.1		5.5		Min (52 week)	21.4



KGHM's earnings results for the second quarter of 2009 were in line with expectations. A PLN 845m bottom-line profit was largely owed to dividend gains from Polkomtel and other subsidiaries (PLN 341m), and hedging gains (PLN 131m). The recent recovery in commodity prices is going to fuel KGHM's future quarterly earnings, prompting an upward revision in our 2009 earnings estimate from PLN 2 billion to PLN 2.29 billion, and an increase in the price target. Note that the company entered into hedging contracts in Q209, securing prices of 108,000 tons of expected H2 2009 copper sales, and 39,000 tons of 2010 sales. As a result, the producer is not able to fully participate in the LME price upturn – a fact which, we believe, is factored in the share price. Keeping in mind the dubious accuracy of LME price predictions, we venture a guess that copper prices are going to back off their high levels in a few months, with implications for KGHM's equity value. Hence, we are reiterating a reduce rating on the company, with a new target price of PLN 73 / share.

Unions initiate labor dispute

KGHM's two largest worker unions are protesting against divestment of the company's shares by the State Treasury. They are demanding 10-year employment guarantees, maintenance in force of the collective bargaining agreement, and annual salary adjustments for inflation. We have written many times before about KGHM's workers' determination to cash in on the Treasury's divestment plan. We agree with the company's Management that a 10% stake sale is not grounds enough for a labor dispute. The union threats do not pose any real risk unless the miners decide to stop production, which is already expected to be lower than a year ago. We think that the dispute will probably be resolved through a payment of PLN 100-150m in extra bonuses.

Disappointing budget adjustments

KGHM's Supervisory Board approved a revised 2009 budget with the revenue estimate raised 7% to PLN 9.662bn, and the net income target increased 2% to PLN 1.95bn, The expected 2009 copper output rose 1% to 500.9KT, including 87.3%KT of recycled copper. The estimated use of copper scrap was raised by 7.8%, suggesting that the output generating full mining margins will be slightly lower than projected before (-1.3KT). The planned production of silver was increased 3% to 1.203KT. Further, the company made upward revisions in the expected average annual prices of its products, from $3 800/T to $4 500/T for copper, and from $12.6/troz to $13/troz for silver, and lowered the USD/PLN exchange rate from 3.25 to 3.10. As a result, KGHM increased the forecasted unit cost of production from PLN 10 659/T to PLN 11 160/T (+4.7%). As a consequence of a dividend payout exceeding the Management's expectations, the M&A budget was slashed 39.3% to PLN 369m, while CAPEX was reiterated at PLN 1.235bn. At the same time, KGHM says that is going to review the budget again after Q309 results to account for volatile USD/PLN exchange rates. Two issues emerge from the budget analysis: the confirmation that hedging contracts will depress earnings below the levels projected based on current LME prices, and the assumption by the company of an annual average copper price of $4.5K/T, equivalent to the average for the past eight months ($6K/T). This seems an overly conservative assumption to us, although we maintain that copper prices will come under pressure from increasing production in the next few months, combined with reduced demand from China (SRB). The average copper price that we based our own financial estimates is PLN $4 900/T, suggesting a FY09 net-income estimate of PLN 2.285bn. Next time, we expect the earnings targets to be revised upwards.

Government decides to sell 10% of KGHM

The State Treasury made up its mind to sell a 10% stake in KGHM. In response, the company's workers announced that they were preparing to stage another protest, including a general strike. The sale is such a long time away that its effect of its announcement on KGHM’s stock performance will not last.

Construction

Construction growth in July

According to official GUS statistics, construction output in July was 10.7% higher than a year earlier and 5.5% higher than in June. Seasonally adjusted output growth figured to 8.1% and 5.2% respectively.

Road Construction

Road prices slide below budget

Road builder Strabag won a contract to build a stretch of the S19 expressway including two bypass roads, after making a bid of PLN 169.3m, accounting for 54% of the budgeted amount of PLN 314.6m. A Strabag executive explained that the company was not trying to deliberately undercut prices, but that it took advantage of its track record, high liquidity, and the fact that it owns quarries and bitumen emulsion factories, to adjust prices to market reality. In another bypass road tender, the lowest bidder, Bilfinger Berger, made a PLN 0.92bn bid which accounted for 54% of the PLN 1.7bn budget . The builder says that the quote included its own profit margin.

GDDKiA makes PLN 4bn savings

National authority the GDDKiA announced contract tenders totaling PLN 10.5bn since the start of the year, and received quotes PLN 4bn lower than budgeted. According to the Polish Association of Construction Industry Employers, prices of building services have dropped 40% since January, and are likely to continue falling going forward, among others because of weak demand.

Major players seek minor deals

Three major builders: Strabag, Polimex Mostostal, and Skanska, admitted that they were either going to bid, or had been bidding for small local-road contracts.

A2 award: Tłuste-Konotopa stretch

A 17.6km stretch of the A2 (Wiskitki-Tłuste) was awarded to a consortium of Strabag and Mota-Engil, which offered PLN 643.8m (EUR 8.9/km). This is 64.0% less than the GDDKiA's budget of PLN 1004.5m (EUR 13.9/km). The next lowest bid, submitted by a consortium of PBG, Aprivia, SRB Civil Engineering, Hydrobudowa Polska, and Henpol, was 1.5% higher.

A2 award: Nieborów-Wiskitki stretch

A 20km stretch of the A2 (Nieborów-Wiskitki) was awarded to a consortium of China Overseas Engineering Group, Shanghai Construction, China Railway Tunnel Group, and Decoma, which offered PLN 534.5m (EUR 6.5/km). This is 46.4% less than the GDDKiA's budget of PLN 1170.7m (EUR 14.3/km). The next lowest bid, submitted by a consortium of PBG, Aprivia, SRB Civil Engineering, Hydrobudowa Polska, and Henpol, was 22.9% higher.

A2 award: Stryków-Łyszkowice stretch

A 20km stretch of the A2 (Stryków-Łyszkowice) was awarded to a consortium of China Overseas Engineering Group, Shanghai Construction, China Railway Tunnel Group, and Decoma, which offered PLN 754.6m (EUR 6.3/km). This is 42% less than the GDDKiA's budget of PLN 1790.0m (EUR 15.0/km). The next lowest bid, submitted by a consortium of PBG, Aprivia, SRB Civil Engineering, Hydrobudowa Polska, and Henpol, was 28% higher.

Railroad Construction

Bilfinger Berger makes best bid on rail connection to Warsaw airport

A consortium led by Bilfinger Berger Polska made the best bid on a contract to build a railroad connection to the Chopin airport in Warsaw. The bid was PLN 192m net and PLN 234m gross. Rejected counter-bidders included WSE-listed Hydrobudowa Polska, Trakcja Polska, Mostostal Warszawa, and Budimex Dromex.

Elektrotim

Bleak 2010 outlook

After a good second quarter, Elektrotim's Management expect an equally good third quarter, but subsequent periods are a reason for much concern. The company is experiencing a decline in demand and margins which will affect future operating profits. The outlook for 2010 is very gloomy.

Energomontaż Południe

Energomontaż Południe readies a stock offering

Energomontaż Południe (EPD) is preparing two stock offerings, one to be placed directly to PBG, which expressed an interest in purchasing a 25% stake in the engineering firm at PLN 3.4-3.5 a share. If negotiations with PBG fail, the shares will be offered to financial institutions. PBG is set to start a due diligence audit of EPD this week. The equity-raising resolutions, as well as resolutions implementing a new management incentive plan, will be voted on during a special shareholders' meeting on September 4th. At the beginning of July, EPD's CEO projected that the company may post a standalone H109 net income in excess of PLN 9m (including dividend gains), on a revenue of PLN 120m. The actual results matched these predictions.

CEO promises new contracts

EPD's CEO says that, in spite of an expected slowdown in H209, the company will deliver its full-year consolidated-sales target of PLN 300m. Big opportunities lie in international markets, and EPD wants to increase the share of exports in total revenues from 30% in 2009 to at least 50% in 2010, by competing for orders from power plants in Germany, the Netherlands, and Switzerland. This year, EPD still expects to capture between PLN 100m and 200m-worth of new contracts.

Energopol Południe

Energopol lands big contracts

Energopol signed four environmental-engineering contracts worth a total PLN 83.3m (96% of market cap, 94% of 2008 revenue). The company's boosted contract backlog is worth PLN 120 million and is mainly comprised of environmental engineering orders. Energopol's CEO believes that 2009 sales will be stronger than last year.

Mostostal Płock

Second-quarter results

According to Mostostal Płock's (MSP) first-half results, Q2 2009 revenue amounted to PLN 36.8m, gross profit was PLN 8.4m (gross margin at 22.8%), EBIT was PLN 6.8m (EBIT margin at 18.4%), and net profit came in at PLN 8m (net margin at 21.8%). These strong results were boosted by damages received from Bilfinger Berger which added PLN 3.6m to revenue and PLN 2.1m to interest income. Adjusted for this one-off, Q209 revenue figures to PLN 33.3m, gross profit is PLN 4.8m (gross margin at 14.5%), EBIT is PLN 3.2m (EBIT margin at 9.7%), and net income is closer to PLN 3.4m (net margin at 10.35%). MSP's CEO hopes that 2009 earnings will be at least on a level with last year's. The company has not been affected by the crisis, and the outlook of H209 is good, even though the chances for the acquisition of a lucrative order like the recent PLN 83m contract from oil pipeline operator PERN are slim (on the upside, PERN has more investment scheduled for 2010). As the upgrade programs of Polish refineries come to an end, MSP plans to look for opportunities abroad, in stadium deals, and among power plants.

Mostostal Zabrze

PLN 59.2m contract

Mostostal Zabrze signed a PLN 59.2m contract to design and build a biomass furnace for a power plant in Szczecin. The amount is 5.4% of the PLN 1.1bn revenues we project for the company in FY2009. The deadline is in October 2011.

PLN 70m roofing contract

A consortium involving Mostostal Zabrze signed a contract to provide a roof system for the National Stadium in Warsaw, for a fee of PLN 70m (6.4% of the 2009 revenue estimate of PLN 1.1bn). The contract has a deadline in April 2011.

Q209 results

In the second quarter of 2009, Mostostal Zabrze (MSZ) generated a revenue of PLN 264.3m, a gross profit of PLN 25.8m (gross margin at 9.8%, down from 15% in Q109), an operating profit of PLN 12.45m (EBIT margin at 4.7%) and a bottom-line profit of PLN 11.2m (net margin at 4.3%). The quarter-on-quarter drop in margins was explained with increased competition putting downward pressure on service prices. CEO Mr. Juchniewicz is confident that MSZ can deliver PLN 1 billion in sales this year.

Naftobudowa

Q209 Results

Naftobudowa reported a Q209 revenue of PLN 56.3m (+6.7% y/y), a gross profit of PLN 9.7m (gross margin at 17.3%), and booked low general expenses. EBIT amounted to PLN 6.96m (EBIT margin at 12.4% vs. 9.6% in Q109). Other net finance losses were high at PLN 7.6m, and included PLN 3.25m in FX losses, and PLN 4.1m charges incurred on the settlement of financial instruments. As a consequence, Naftobudowa booked a second-quarter net loss of PLN 1.3m.

Pol-Aqua

PLN 84.5m contract

A consortium including Pol-Aqua won a contract to build sewers in Poznań from Aquanet. The fee is PLN 84.5m (5.9% of 2009 revenue estimate of PLN 1.4bn).

2009 sales to exceed PLN 1.5bn

Pol-Aqua expects to generate over PLN 1.5 billion in sales in 2009. The company has accumulated a contract backlog of PLN 1.7bn, and is competing for PLN 16bn-worth of new contracts. The third and fourth quarters will witness a seasonal upswing in revenues.

Projprzem

Q2 2009 outlook

By line of business, the segment of loading platforms is struggling due to a shortage in orders. The segment of industrial services has recently managed to capture just a few minor jobs. In turn, the segment of steel structures is doing very well, and may fetch a revenue as high as PLN 70m this year. Finally, Projprzem is set to complete a real-estate project in the third quarter, and book around fifteen million zlotys in the period’s accounts.

Remak

Q209 results

Remak’s second-quarter revenue amounted to PLN 70.9m, gross profit was PLN 8.5m (gross margin at 12.1%), operating profit stood at PLN 5.0m (EBIT margin at 7.1%), and net profit came in at PLN 2.86m. The company recognized PLN 1.05m FX losses under “other net finance expenses”.

Remak expects sustained profitability in H209

Remak expects to generate good gross margins in H209 on lower revenues. Overall earnings will be influenced by FX trends. Remak’s CEO estimates that, depending on the value of the zloty, 2009 profit might not exceed PLN 10m. The company is expected to continue improving sales and profits in coming years, in Poland as well as in new international markets. At the moment, Remak generates 80.5% of revenues from international contracts. The company is in the process of filling up its 2010 backlog.

Żurawie Wieżowe

Merger details

The merger between Żurawie Wieżowe (ZUR) and Gastel is set for completion by 31 January 2010. The merged company will have a rental fleet of 250 cranes. As the acquiring company, ZUR is going to issue shares to Gastel’s owners (the stock swap ratio is 1371 ZUR shares for every 100 shares of Gastel, suggesting a 54.5% acquisition). The two companies want to file a merger plan by 20 October, after completing due-diligence audits. ZUR generated a revenue of PLN 12m and a net profit of PLN 1.6m in H109, while Gastel reported a PLN 37m topline and a bottom-line profit in excess of PLN 3m.

Budimex (Accumulate)

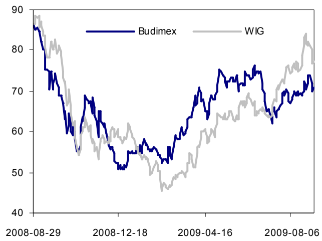
Current price: PLN 70.9 **Target price: PLN 74**

Analyst: Maciej Stokłosa

Last Recommendation: 2009-08-14

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	3 075.9	3 350.0	8.9%	3 451.0	3.0%	4 154.7	20.4%
EBITDA	51.7	134.2	159.8%	219.8	63.8%	168.8	-23.2%
EBITDA margin	*1.7%*	*4.0%*		*6.4%*		*4.1%*	
EBIT	28.0	112.2	300.1%	196.9	75.5%	160.3	-18.6%
Net profit	15.1	104.7	595.1%	157.8	50.6%	134.6	-14.7%
P/E	120.1	17.3		11.5		13.5	
P/CE	46.8	14.3		10.0		12.7	
P/BV	3.4	2.8		2.8		2.3	
EV/EBITDA	30.4	11.0		8.4		9.4	
Dyield (%)	0.0	0.0		8.2		0.0	

Basic data (PLN m)	
Number of shares (m)	25.5
MC (current price)	1 810.1
EV (current price)	1 843.9
Free float	26.7%
Price change: 1 month	*5.8%*
Price change: 6 month	*22.3%*
Price change: 12 month	*-17.1%*
Max (52 week)	85.5
Min (52 week)	50.7



Budimex has the largest pipeline of road construction orders of all listed builders. After completing a number of long-term construction contracts, the company is expected to report record earnings this year, and next year, when revenues of ca. PLN 900m will be booked on orders captured before 2009. The Ministry of Infrastructure promises to launch most of the planned motorway tenders this year, with a flurry of awards expected in the second halves of 2009 and 2010. Of the PLN 8.9 billion-worth of awards scheduled for H2 2009, assuming that 10 bidders on average compete for each, Budimex has good chances of capturing about PLN 890m-worth of work. The 2010 order backlog accounts for 70% of expected revenue (excluding real-estate development, steel structures, and other lines). Budimex reported very good results for Q209, with a robust gross margin. Subsequent quarters will bring stronger revenues and less impressive gross margins. We are reiterating an accumulate rating on Budimex.

Q209 results

The Q209 gross margin came in at 17.2%, well ahead of our expected 10.4%, and, unlike the huge Q109 margin, it was not owed to reserve reversals (contract reserves increased by PLN 5.4m in Q209). SG&A expenses amounted to PLN 36.2m vs. estimated PLN 35.4m. On the downside, Budimex recorded huge other net operating losses totaling PLN 74.6m (we expected PLN 7.5m). Losses resulting from revaluation of derivatives amounted to PLN 26.9m (we expected PLN 23.0m). Because of such substantial losses and charges, Budimex's Q209 EBIT fell 20.6% short of our estimate. Other net finance gains amounted to PLN 1.1m, PLN 3.1m more than we predicted. Minority earnings of PLN 0.15m were also PLN 1m higher than expected. The effective tax rate was high at 29.2%. All told, Budimex booked a Q209 net profit of PLN 37.1m, missing our estimate by nearly 24%. In spite of a weaker-than-expected net profit, we like Budimex's performance in the second quarter of 2009. If it had not been for large charges and losses, the bottom-line profit would be close to PLN 95m. What is more, Budimex saw a reversal in its cash flow trends in Q209, generating a PLN 162.3m inflow in operating cash. Going forward, the cash position will probably decline gradually as the company finishes existing contracts.

PLN 110.4m contract

The GDDKiA hired Budimex to build a bypass road around Mrągowo. The PLN 110.4m contract accounts for 3.2% of the company's 2009 revenue estimate and has an 18-month deadline. Invoices will be payable within 49 days from receipt.

PLN 51.4m contract

Budimex and consortium partner Wakoz received an order for renovation of a football stadium in Gdynia. Budimex's fee is PLN 51.4m (1.5% of estimated 2009 revenue).

PLN 137m contract opportunity

Budimex signed a memorandum of understanding with Ikea Centre Poland concerning construction of a shopping complex in Poznań. The future contract is worth PLN 137m (4% of estimated 2009 revenue),

New-old conditional residential contract (PLN 64.75m)

Budimex signed an agreement for the construction of a residential and service complex with an underground garage within the Maraton office and service center in Poznań. The contract does not encompass underground work and foundations, which are already in place pursuant to a prior agreement dated 2 June 2008 (PLN 89.1m). The value of the contract is PLN 64.75m (1.9% of revenues forecasted for FY2009). The new contract is a conditional one. It will come into force if the investor (Restaura Maraton Gardens) confirms within 60 days that it has received a bank loan. The timeline for the work is August 2009 - September 2010.

Budimex wins motorway bid

National road authority the GDDKiA rejected a PLN 330.6m (gross) bid made by a consortium of PBG, Hydrobudowa, and SRB Civil Engineering on a contract to build a 7.1km stretch (Tłuste–Konotopa) of the A2 motorway, choosing a 28.7% more expensive offer (PLN 425.5m gross) submitted by a consortium of Budimex and Ferrovial. The GDDKiA explained that the reason for the rejection of PBG's cheaper bid was that it exceeded the 5% limit set on the share of costs in the total project value. The rejected bidders have 10 days to appeal the award, then the GDDKiA has 10 days to review the protests, after which dissatisfied parties can appeal to the National Appeals Chamber. The net value of the Budimex / Ferrovial bid is PLN 348.8m (10.1% of FY09 revenue estimate).

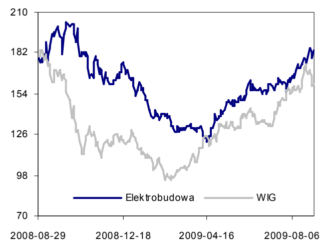
Elektrobudowa (Hold)

Current price: PLN 184 **Target price: PLN 170.8**

Analyst: Maciej Stokłosa
Last Recommendation: 2009-08-14

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	679.6	811.0	19.3%	819.9	1.1%	800.9	-2.3%
EBITDA	49.6	79.0	59.3%	71.1	-10.1%	60.4	-15.0%
EBITDA margin	*7.3%*	*9.7%*		*8.7%*		*7.5%*	
EBIT	44.2	71.3	61.1%	61.6	-13.6%	50.7	-17.6%
Net profit	34.7	60.3	73.7%	52.5	-12.9%	47.4	-9.7%
P/E	22.4	14.5		16.6		18.4	
P/CE	19.4	12.8		14.1		15.3	
P/BV	7.0	3.5		3.1		2.8	
EV/EBITDA	15.7	10.0		11.3		12.8	
Dyield (%)	1.1	1.4		2.0		1.8	

Basic data (PLN m)	
Number of shares (m)	4.7
MC (current price)	873.6
EV (current price)	803.7
Free float	39.1%
Price change: 1 month	*13.6%*
Price change: 6 month	*40.6%*
Price change: 12 month	*2.9%*
Max (52 week)	202.5
Min (52 week)	121.0



Elektrobudowa's Q2 2009 results were well ahead of expectations, and we think that the company may exceed our full-year net-income estimate on lower-than-predicted revenues. The main EBIT driver in the second quarter were the segments of Power Generation and Power Distribution, which benefitted from major contract completions, low costs, and favorable FX trends. Going forward, Elektrobudowa faces profitability and revenue erosion on switchgear sales and services targeted to manufacturers and power distribution companies. This, combined with its relatively high valuation, leads to a neutral outlook on the company. To improve its earnings prospects for coming quarters, Elektrobudowa should actively vie for new business in its most lucrative lines. The company is competing against nine bidders in the tender for the national soccer stadium, and is expected to face 3-4 competitors in a future tender for the second line of the Warsaw metro. International opportunities that may boost future profits include orders from Scandinavian nuclear power plants.

Q209 results

Elektrobudowa's Q209 revenue came in line with expectations, while the gross margin was better than predicted at 15.9% (we expected 10.6%). SG&A expenses amounted to PLN 3.75m vs. estimated PLN 4.8m, and "other" operating expenses of PLN 5.1m exceeded our estimate of PLN 1.5m. H109 "other" net operating expenses (PLN 1.9m) were shaped by impairment charges (PLN 4.7m), interest income from late payments (PLN 1.3m), and FX operations (PLN 2.5m). Q209 EBIT amounted to PLN 20m, and was 30% higher than our estimate and 22.5% higher than the consensus estimate. "Other" finance expenses amounted to PLN 0.45m, and included a PLN 1m contribution by subsidiaries. Pre-tax income came in at PLN 21.4m, 40.6% ahead of our estimate. After an effective tax rate of 27.3%, Q209 net income totaled PLN 15.5m (26% ahead of our estimate and 19.4% ahead of consensus).

Elektrobudowa may exceed FY09 targets

According to CEO Mr. Faltynowicz, Elektrobudowa (ELB) will probably exceed its FY09 earnings targets which, however, will not be revised for now. This year's revenues are expected to reach PLN 806m, and bottom-line income is estimated at PLN 48m. ELB is looking to fill next year's order backlog. The strong sales momentum will continue in 2010. The company hopes to seize more opportunities abroad, and to increase the value of international contracts from PLN 71m this year to PLN 99m. The international opportunities come from nuclear power plant projects in Belarus, Sweden, and from Finland where the company hopes to extend its existing contract for delivery of electrical wiring to the Olkiluoto 3 nuclear plant (the original contract value is EUR 33.6m). Opportunities at home can be found in infrastructure projects and railroad track modernization orders (stadiums, Warsaw metro). Finally, Elektrobudowa plans to increase sales of automation solutions to PLN 100m in 2012.

Subsidiary merger

Elektrobudowa merged it subsidiaries Energotest-Energopomiar and Energoefekt with a view to strengthening its position in the automation market, and generating cost synergies.

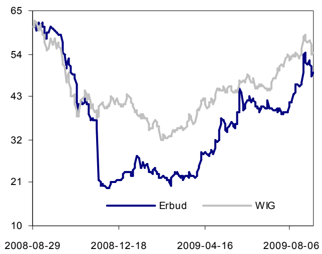
Erbud (Hold)

Current price: PLN 49 **Target price: PLN 49.3**

Analyst: Maciej Stokłosa
Last Recommendation: 2009-09-04

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	663.1	1 059.0	59.7%	900.0	-15.0%	1 090.0	21.1%
EBITDA	34.6	71.3	106.0%	55.9	-21.7%	56.3	0.8%
EBITDA margin	*5.2%*	*6.7%*		*6.2%*		*5.2%*	
EBIT	32.8	64.8	97.7%	49.5	-23.6%	49.9	0.8%
Net profit	31.8	10.4	-67.4%	40.5	289.6%	42.6	5.2%
P/E	19.3	59.3		15.2		14.5	
P/CE	18.3	36.4		13.1		12.6	
P/BV	3.2	3.1		2.5		2.2	
EV/EBITDA	15.8	8.5		9.2		8.9	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	12.6
MC (current price)	616.0
EV (current price)	512.6
Free float	21.0%
Price change: 1 month	*17.3%*
Price change: 6 month	*104.6%*
Price change: 12 month	*-18.3%*
Max (52 week)	62.0
Min (52 week)	19.9



Erbud's Management Board is doing a good job, and the company has achieved a high hit rate when competing for contracts to fill the 2009 pipeline. The 2010 backlog of orders for general-contracting services is worth PLN 520m, and represents over 69% of the expected annual revenue. Erbud's Management does not plan an aggressive campaign to acquire construction orders, but we think that established business relationships and the company's track record in private-sector building projects make it ideally positioned to capitalize on the expected rebound in the Polish housing market which will be a source of lucrative orders. Erbud reported good Q2 2009 results. We are downgrading the stock to hold to account for a recent rally and its relatively high valuation.

Q209 results

Erbud's reported Q209 revenue and gross profit results came close to our estimates. SG&A expenses were lower than expected at PLN 10.4m (we forecasted PLN 13.2m; Q109 SG&A were PLN 12.9m). Other expenses of PLN 1.2m were PLN 1m higher than we predicted, due mainly to impairment of receivables. After all this, Q209 operating profit exceeded our estimate by PLN 2.6m. Other net finance expenses were PLN 3m higher than predicted at PLN 3.5m, due mainly to reversals of positive FX differences recognized in Q1 2009 which caused pre-tax and net income to fall short of expectations. By segment, domestic general-contracting orders generated the strongest profit margins in Q2 2009 in spite of a lack of major completions (in Q109, when Erbud completed 7 major contracts, the gross margin amounted to 22.5%). International construction orders resulted in a quarter-on-quarter drop in revenues (from PLN 63m to PLN 48m) and gross margins (to 9.9% from 13.7%). The road construction business reported a strong increase in revenue (from PLN 5.8m reported in Q109), as did the real-estate business (Q109 revenue was PLN 12m) which, however, saw a shrinkage in the gross margin to 4.6% from 29.7% in Q109. Here, again, we think that the considerable deterioration in profitability was an accounting effect, and that Erbud's H1 2009 figures are a more reliable measure of the segment's performance (revenue at PLN 39.5m, gross margin at 12.2%).

CEO on second-quarter results

Erbud's CEO Mr. Zubelewicz says that the second-quarter drop in revenues was due to a slowdown in construction. In spite of this, the company reported higher margins owed to a strategy of taking on only short-term construction orders, as well as to international orders which generate higher margins. Erbud's contract portfolio is currently worth PLN 1.16bn, of which PLN 525m-worth of contracts are set for completion in 2009. The backlog of road orders amounted to PLN 88m at the end of August, and Erbud plans to double the share of road construction in its revenues in 1.5 years. What is more, the company is competing for a power-engineering order worth PLN 10-15m, and is talking to prospective consortium partners with whom it could bid for future orders from power plants. The company is bidding for more contracts totaling PLN 3.4bn, but has a policy of not accepting orders yielding gross margins below 5-6%. Analyzed by line of business, the 2009 portfolio is 40% commercial properties, 30% utility infrastructure contracts, 13%. housing and road development each, and just 4% power engineering. In the future, Erbud want to reduce the share of housing to 3% while growing other lines. most notably road construction which is expected to eventually generate 20-30% of total revenues.

PLN 42.8m road contract

A consortium of Erbud, PRM Mosty Łódź, and PRD, won a contract to design, expand, and reinforce a 12-kilometer stretch of national road #1. Erbud's stake in the fee is PLN 42.8m (5% of 2009 revenue estimate). The deadline is 30 months from launch.

New contract

Erbud received an order from Braaten+Pedersen for a multi-level parking garage which will be used by shoppers in the “Agora” shopping center in Bytom. The fee is PLN 39.5m, of which PLN 8m will be booked this year. Deadline is in October 2010.

New contract

Erbud signed a contract to build a shopping center called “Turzyn” in Szczecin. The fee is PLN 39.9m (4.4% of expected 2009 revenue), and the deadline is fifteen months from 15 September 2009. The 2009 revenue stream from the contract is estimated at PLN 10m.

PLN 10.2m contract, expansion into power engineering

Erbud’s CEO Mr. Grzeszczak announced that his company had landed a PLN 10.2m order to build the foundation of a flue-gas desulphurization plant (FGD) at a combined-cycle power station in Siekierki. This is the company’s first order from a Polish energy producer – to date, Erbud has completed similar jobs in France and Germany. Mr. Grzeszczak has high hopes for the power-engineering market, which is expected to contribute PLN 50m to the consolidated revenue for 2009. Erbud aims to bid for upcoming power-plant or waste-incineration contracts together with partners. Moreover, the company is looking for acquisition opportunities in the Polish power-engineering industry, namely companies that generate annual revenues around PLN 50m. Erbud’s order backlog is currently worth PLN 1.05bn (vs. PLN 750m a year ago), and is composed of high-margin contracts. In addition to seeking guaranteed profits, Erbud also shies away from long-term contracts in case of which margins may erode with time. Future gross margins on the order backlog are estimated at 5-6%, which is twice what the competition is making according to Mr. Grzeszczak.

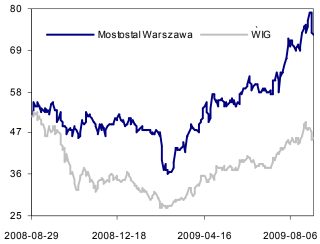
Mostostal Warszawa (Accumulate)

Current price: PLN 73.3 **Target price: PLN 79.4**

Analyst: Maciej Stokłosa
Last Recommendation: 2009-08-14

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	1 928.4	2 154.2	11.7%	2 711.1	25.8%	2 864.1	5.6%
EBITDA	78.5	136.3	73.7%	189.4	39.0%	158.8	-16.2%
EBITDA margin	*4.1%*	*6.3%*		*7.0%*		*5.5%*	
EBIT	58.9	113.4	92.6%	165.7	46.1%	134.7	-18.7%
Net profit	52.9	75.5	42.6%	112.8	49.3%	100.4	-11.0%
P/E	27.7	19.4		13.0		14.6	
P/CE	20.2	14.9		10.7		11.8	
P/BV	5.1	4.4		3.4		3.1	
EV/EBITDA	16.4	9.6		6.9		8.1	
Dyield (%)	0.1	0.0		2.6		3.8	

Basic data (PLN m)	
Number of shares (m)	20.0
MC (current price)	1 466.0
EV (current price)	1 301.6
Free float	18.7%
Price change: 1 month	*5.0%*
Price change: 6 month	*69.7%*
Price change: 12 month	*35.7%*
Max (52 week)	79.0
Min (52 week)	36.3



Mostostal Warszawa's (MSW) valuation multiples are on a par with Budimex's, suggesting that the discount of the former to the latter has disappeared. This is not entirely true – unlike MSW, Budimex's large cash base is built mostly from contract accounts receivable and payable. MSW has accumulated a 2009 order portfolio of PLN 3.6 billion, i.e. PLN 100m more than recorded in July 2008, suggesting continuing growth in 2010. As for future opportunities, we see them mostly in upcoming power-engineering and infrastructure-development contract awards (an expected PLN 8.9bn-worth of road contract awards by the end of the year). MSW reported better-than-expected earnings results for Q2 2009, thanks mainly to the strong performance of subsidiaries Mostostal Puławy, Mostostal Kielce, and Wrobis. We are reiterating an accumulate rating on MSW.

Q209 results

Mostostal Warszawa's second-quarter results exceeded our expectations and consensus estimates. While revenues fell 8.5% short of our estimate, the gross margin reached 13.1%, ahead of our predicted 10.0%. SG&A expenses amounted to PLN 23.3m (we expected PLN 22.8m). Other net operating expenses were PLN 2.5m higher than predicted at PLN 7.5m. The Q209 operating profit margin was 8.2% compared to our estimate of 5.9%. Other finance operations fell short of expectations, showing a cost of PLN 2.0m vs. our estimate of a PLN 4.8m gain (a PLN 6.8m difference). We suspect that the difference stemmed from FX losses and losses on derivatives valuations. At an in-line effective tax rate and minority interests, net income exceeded our estimate by 10% and topped the consensus estimate by 7.8%.

CEO interview

MSW's CEO Mr. Popiołek confirmed plans to increase 2009 revenues by 15%, and said that he was not expecting any major surprises in the Q209 results. He cautioned analysts not to judge construction firms based on just their quarterly performance. He admitted that there is some delay in the construction of the soccer stadium in Wrocław. MSW's ambition is to gain countrywide reach. The company's contract backlog stands at PLN 3.6bn.

MSW makes best bid

National road authority the GDDKiA rejected a PLN 706.6m (gross) bid made by a consortium of PBG, Hydrobudowa, and SRB Civil Engineering on a contract to build a 17km stretch (Łyszkowice–Nieborów) of the A2 motorway, choosing a 19.4% more expensive offer (PLN 843.6m gross) submitted by a consortium of Mostostal Warszawa, Acciona, and Polimex Mostostal. The GDDKiA explained that the reason for the rejection of PBG's cheaper bid was that it exceeded the 5% limit set on the share of costs in the total project value. The rejected bidders have 10 days to appeal the award, then the GDDKiA has 10 days to review the protests, after which dissatisfied parties can appeal to the National Appeals Chamber.

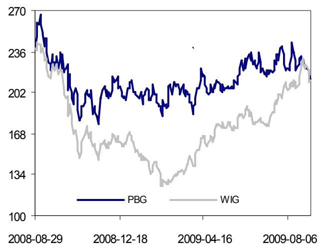
PBG (Hold)

Current price: PLN 213 **Target price: PLN 224.4**

Analyst: Maciej Stokłosa

Last Recommendation: 2009-08-14

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 376.8	2 089.3	51.8%	2 902.0	38.9%	3 457.4	19.1%	Number of shares (m)	13.4
EBITDA	138.2	270.3	95.6%	350.1	29.5%	377.7	7.9%	MC (current price)	2 860.6
EBITDA margin	*10.0%*	*12.9%*		*12.1%*		*10.9%*		EV (current price)	3 458.9
EBIT	109.4	223.4	104.3%	299.1	33.9%	326.5	9.1%	Free float	53.0%
Net profit	102.1	158.0	54.9%	202.5	28.1%	229.6	13.4%		
P/E	28.0	18.1		14.1		12.5		Price change: 1 month	*-4.2%*
P/CE	21.9	14.0		11.3		10.2		Price change: 6 month	*1.9%*
P/BV	3.8	1.0		0.9		0.9		Price change: 12 month	*-17.8%*
EV/EBITDA	23.2	13.7		9.9		7.9		Max (52 week)	266.0
Dyield (%)	0.1	0.0		0.0		0.0		Min (52 week)	175.3



PBG is an expensive investment in our view (FY09E P/E = 14.1). On the other hand, we do not expect major disappointments from the company in the near future. PBG was hired to build soccer stadiums which carry heightened technical risks, and can yield either higher- or lower-than-budgeted profits – it is too early to say. PBG's 2010 order backlog represents 89% of expected annual revenue (we do not take into account the 2010 road-development backlog, which is empty). Further, there has been a shift in PBG's margin sources. We predict that gas and oil engineering services will contribute 32.9% to 2009 revenues, 45.3% to 2010 revenues, and 47.4% to 2011 topline. This rising trend raises concerns over PBG's dependence on a single major customer, the gas utility PGNiG. Recently, PBG and its Irish partner made very low bids on two stretches of the A2 motorway, both of which were rejected. The company decided not to appeal, admitting that the consortium partner made errors when drafting the offers. We are reiterating a hold rating on PBG.

Q209 results

PBG's Q209 revenue fell almost 14% short of our estimate, probably because of a new accounting policy with respect to recognition of revenues derived from contracts performed as consortium member. Gross profit was lower than expected, but the gross margin was ahead at 14.5% vs. our estimated 13%. General expenses exceeded expectations by 8.2% at PLN 31.9m (we expected PLN 29.0m). Likewise other operating expenses, which amounted to PLN 12.9m vs. our forecast of PLN 8m which did not include a one-time PLN 5.7 gain from property revaluation. EBIT was boosted by one-time events, including revaluation of a site owned by Hydrobudowa 9 (PLN 8.6m), a PLN 5.7m property revaluation, impairment of receivables (PLN 3m), and insurance compensation (2.35m). The net effect was a PLN 9m addition to other net operating profits. The adjusted Q209 EBIT figures to PLN 58.8m. The difference between our net-income forecast and the reported figure stems from an overassessment of finance losses, which amounted to PLN 1.6m instead of our estimated PLN 13m. Other factors included FX gains and interest expenses. Minority interests and reported tax was higher than pour estimated PLN 14.9m at PLN 22.4m.

Hydrobudowa prepares to build soccer stadium

Hydrobudowa's CEO says that most of the work involved in the construction of THE soccer stadium in Poznań has been contracted out. The Poznań stadium is expected to yield a several-percent margin. Hydrobudowa also won two stadium deals in other cities, where it is still looking for subcontractors. While the price demands of some vendors are not in line with Hydrobudowa's budget, the CEO is certain that his company can fulfill this year's earnings targets. The two other stadiums will be built in Gdańsk (PLN 200m out of the total PLN 427.7m has been contracted out), and in Warsaw (where subcontractors have been secured for PLN 560m out of the total PLN 1.25bn).

Budimex wins motorway bid

National road authority the GDDKiA rejected a PLN 330.6m (gross) bid made by a consortium of PBG, Hydrobudowa, and SRB Civil Engineering on a contract to build a 7.1km stretch (Tłuste–Konotopa) of the A2 motorway, choosing a 28.7% more expensive offer (PLN 425.5m gross) submitted by a consortium of Budimex and Ferrovial. The GDDKiA explained that the reason for the rejection of PBG's cheaper bid was that it exceeded the 5% limit set on the share of costs in the total project value. The rejected bidders have 10 days to appeal the award, then the GDDKiA has 10 days to review the protests, after which dissatisfied parties can appeal to the National Appeals Chamber.

MSW makes best bid

National road authority the GDDKiA rejected a PLN 706.6m (gross) bid made by a consortium of PBG, Hydrobudowa, and SRB Civil Engineering on a contract to build a 17km stretch (Łyszkowice–Nieborów) of the A2 motorway, choosing a 19.4% more expensive offer (PLN 843.6m gross) submitted by a consortium of Mostostal Warszawa, Acciona, and Polimex Mostostal. The GDDKiA explained that the reason for the rejection of PBG's cheaper bid was that it exceeded the 5% limit set on the share of costs in the total project value. The rejected bidders have 10 days to appeal the award, then the GDDKiA has 10 days to review the protests, after which dissatisfied parties can appeal to the National Appeals Chamber.

Polimex Mostostal (Accumulate)

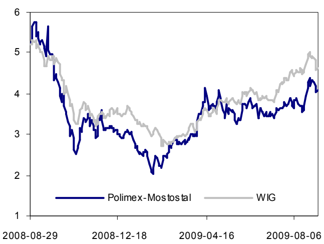
Current price: PLN 4.1 **Target price: PLN 4.4**

Analyst: Maciej Stokłosa

Last Recommendation: 2009-09-04

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	3 720.5	4 301.7	15.6%	4 909.0	14.1%	4 449.6	-9.4%
EBITDA	205.4	298.5	45.3%	335.6	12.4%	311.4	-7.2%
EBITDA margin	*5.5%*	*6.9%*		*6.8%*		*7.0%*	
EBIT	160.4	228.1	42.2%	254.4	11.5%	210.1	-17.4%
Net profit	100.1	120.1	20.0%	159.1	32.4%	138.4	-13.0%
P/E	19.6	16.3		12.3		14.2	
P/CE	13.5	10.3		8.2		8.2	
P/BV	2.0	1.9		1.6		1.4	
EV/EBITDA	11.9	8.5		7.7		7.7	
Dyield (%)	0.4	0.2		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	476.7
MC (current price)	1 959.4
EV (current price)	2 582.0
Free float	58.8%
Price change: 1 month	*12.3%*
Price change: 6 month	*47.8%*
Price change: 12 month	*-28.5%*
Max (52 w eek)	5.8
Min (52 w eek)	2.0



Polimex is attractively priced, trading on a FY09E P/E ratio of 12.3. According to our estimates, the company's 2010 order backlog stands currently at ca. PLN 2.5bn (excluding the almost-empty steel-frame backlog),; representing 67% of expected revenue. We believe that, compared to other companies in the sector, the nature of the Polimex Group minimizes risks of margin erosion. Power-plant construction and chemical engineering are dominated by subcontractors with short order backlogs, and competition in the segments is limited, due to the specialized nature of services provided. The road and track construction backlog for 2010 is by and large full. We like Polimex's plans to incorporate certain operations, thus boosting capacity so as to be able to take on large power-engineering orders in the future. We are reiterating a positive outlook on Polimex, but we are downgrading its stock to accumulate to account for a recent price rally.

Q209 results

Polimex's Q209 earnings were by in large in line with the consensus and below our expectations. Sales and gross profit came close to our projections (with discrepancies under 2.5%). SG&A expenses were higher than expected (PLN 65.6m, vs. PLN 56.5m forecasted, PLN 53.9m in Q109 and PLN 59.4m in Q408). SG&A expenses were in fact at a record-high level for the company, although it is possible that they are non-recurring. The operating profit was in line with market expectations. There was a discrepancy in finance income and expenses, as well as in subsidiary earnings. We estimated that there would be net finance losses in the amount of PLN 25.7m, due to FX losses of PLN 20.9m and derivative gains of PLN 8.9m. In actuality, the company recorded net finance gains of PLN 10.3m; FX losses amounted to PLN 15.9m, and derivative gains to PLN 9.9m. Effective tax rate was 24%, and profit attributable to minority shareholders PLN 4.1m (vs. PLN 6.3m we forecasted). Net income was PLN 38m, which was 13% higher than our forecasts and 22.8% higher than the consensus forecast. The discrepancy was, however, primarily a consequence of financing operations.

CEO expects y/y earnings improvement

CEO Jaskóła expects that Polimex will increase revenues by 10% this year, and boost the bottom-line profit by 15%. Next year, the company will not be aiming to set new sales records, but will focus on steady earnings growth. Mr. Jaskóła is hopeful that Polimex's net margin will increase at least 4% if the incorporation of the seven subsidiaries is successfully completed. Next year's slight slowdown in revenues and margins will be a consequence of a changed approach to accounting for consortium contracts. Polimex has accumulated a contract backlog of PLN 6.9bn, of which PLN 3bn-worth of contracts are set for completion in 2010, and PLN 1.2bn-worth are slated for 2011.

Polimex to merge with seven subsidiaries

Polimex plans to incorporate seven of its subsidiaries: Energomontaż Północ, Naftobudowa, ZRE Lublin, ZRE Kraków, EPE Rybnik, ECe Remont, and Naftoremont, by issuing its shares to the minority shareholders of these companies. According to CEO Mr. Jaskóła, Polimex's share capital will have to be increased by 11-13% to meet that purpose. He predicts that the exchange ratios will be known by December, and that the mergers could be completed in Q1 2010.

Repayment extension on PLN 120m worth of loans

Polimex extended the due date of two loans from Pekao S.A. – an overdraft facility of PLN 50m and a multi-currency credit line of PLN 70m. The company will also be able to get bank guarantees for a longer period and in a higher amount (PLN 120m rather than PLN 100m).

MSW makes best bid

National road authority the GDDKiA rejected a PLN 706.6m (gross) bid made by a consortium of PBG, Hydrobudowa, and SRB Civil Engineering on a contract to build a 17km stretch (Łyszkowice–Nieborów) of the A2 motorway, choosing a 19.4% more expensive offer (PLN 843.6m gross) submitted by a consortium of Mostostal Warszawa, Acciona, and Polimex Mostostal. The GDDKiA explained that the reason for the rejection of PBG's cheaper bid was that it exceeded the 5% limit set on the share of costs in the total project value. The rejected bidders have 10 days to appeal the award, then the GDDKiA has 10 days to review the protests, after which dissatisfied parties can appeal to the National Appeals Chamber.

Polimex makes best bid

LW Bogdanka selected Polimex as the best bidder for a contract to build a coal haulage system from one of its mines to a processing facility. The PLN 99.4m offer accounts for 2% of Polimex's forecasted 2009 revenue. The deadline will be 12 months from contract execution.

Rafako (Buy)

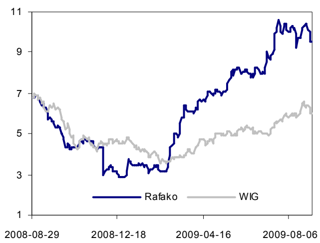
Current price: PLN 9.6 **Target price: PLN 11.6**

Analyst: Maciej Stokłosa

Last Recommendation: 2009-09-04

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	1 137.5	1 125.6	-1.1%	1 062.0	-5.6%	1 310.2	23.4%
EBITDA	35.1	76.1	116.8%	68.4	-10.2%	84.9	24.2%
EBITDA margin	*3.1%*	*6.8%*		*6.4%*		*6.5%*	
EBIT	22.1	60.8	175.6%	52.6	-13.5%	68.7	30.6%
Net profit	12.2	-11.6		37.5		55.8	48.7%
P/E	54.5			17.7		11.9	
P/CE	26.3	177.2		12.5		9.2	
P/BV	1.9	2.0		1.8		1.6	
EV/EBITDA	12.4	5.5		6.6		4.8	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	69.6
MC (current price)	664.7
EV (current price)	451.4
Free float	19.5%
Price change: 1 month	*-4.5%*
Price change: 6 month	*90.6%*
Price change: 12 month	*38.4%*
Max (52 week)	10.7
Min (52 week)	2.8



Including an almost-certain award of an FGD unit order by the Bełchatów Power Plant, Rafako's 2010 backlog is 83% full at PLN 1.09 billion. We maintain that providers of power-engineering solutions are poised to grow on the upcoming capacity-rebuilding cycle in the Polish energy industry (such massive capacity replacements were last seen in the 1970s). More contracts may be awarded in the nearer future, including one for a CHP worth PLN 400-500m. Except for these potential contracts, we do not expect important developments in 2009. Rafako should continue to report moderate gross profitability, due to its exceptionally conservative accounting policies. For now, Rafako is not planning to release any of the allowances created in Q4 2008 and Q1 2009, on account of crisis-related events (e.g. lack of orders), although it does not appear that the risks for which they were created will materialize. In addition, the company's accounting policy is very cautious; just as at Erbud, allowances are created for contracts, and an important part of profits is not recognized until the moment the contract is finally settled. This year, Rafako will not complete any major contracts. As a result, we are not expecting positive surprises in 2009 earnings. Rafako's Q2 2009 operating profit came in line with expectations, while bottom-line profit fell short because of one-time charges. We expect an improvement in 2010, without taking into consideration the release of the crisis-related allowances. We are upgrading Rafako to buy with a reiterated price target.

Q209 results

Rafako's Q209 revenue and gross profit were 6% ahead of estimates (the gross margin was in line at 10.9%). At PLN 14.8m, SG&A expenses were PLN 0.1m higher than predicted. Other operating expenses amounted to PLN 3.8m, exceeding our PLN 2.25m forecast because of a guarantee reserve of PLN 3.4m. Net income came in at PLN 10.9m, and was PLN 0.1m higher than expected. The results of Rafako's financial operations missed our expectations by a significant margin. We forecasted an "other" operating gain of PLN 4.7m, a PLN 7.6m gain on derivatives revaluations, and a PLN 3.15m FX loss. Meanwhile, Rafako reported a PLN 3.3m finance loss which stems from recognition of an PLN 8.7m reserve against potential bank claims. Adjusted for that reserve, Rafako's Q209 financial operations were in line with expectations (a PLN 7.9m gain on derivatives revaluation, and a PLN 6.4m FX loss offset by higher-than-expected interest income). The claim reserve resulted in a pre-tax income 50% below our estimate. Paired with a higher-than-expected effective tax rate, this brought bottom-line income well below our estimate.

Boiler overhaul order

Rafako received a PLN 79m order to modernize electrostatic precipitators in furnaces used by the PGE EB power plant in Bełchatów. Rafako scored 100 points, compared to 97.44 points awarded to a consortium of Balcke-Durr Polska, Balcke-Durr GmbH and Mostostal Puławy, and 95.95 pts given to Alstom Power, Alstom Power Sweden & ABM Solid. The other bids were not disclosed.

Speculation on potential investor continues

During a special meeting of Rafako shareholders, BZ WBK attempted to introduce its representative into the Supervisory Board, but was unsuccessful after the validity of the power of attorney granted its Asset Management clients was questioned. According to newspapers, BZ WBK's attempts to introduce a representative into the Supervisory Board might indicate that Rafako shares may be up for sale soon. The CEO of Rafako did not comment on these reports. PBG and Polimex Mostostal consider Rafako an interesting company, but they believe that ownership issues need to be clarified first. Foreign companies did not respond to the journalists' questions.

Trakcja Polska (Buy)

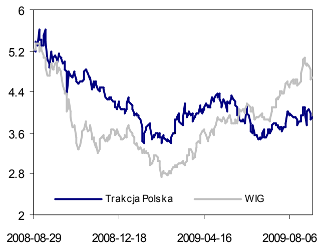
Current price: PLN 3.9 **Target price: PLN 4.8**

Analyst: Maciej Stokłosa

Last Recommendation: 2009-08-14

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	646.8	794.6	22.9%	879.4	10.7%	892.1	1.4%
EBITDA	35.6	60.9	71.0%	83.3	36.8%	66.8	-19.9%
EBITDA margin	*5.5%*	*7.7%*		*9.5%*		*7.5%*	
EBIT	29.6	53.0	79.3%	66.9	26.2%	50.6	-24.4%
Net profit	28.7	54.7	90.7%	64.6	18.2%	50.1	-22.5%
P/E	17.7	11.4		9.7		12.5	
P/CE	14.6	10.0		7.7		9.4	
P/BV	3.5	2.0		1.7		1.5	
EV/EBITDA	12.4	5.1		4.5		5.6	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	160.1
MC (current price)	626.0
EV (current price)	374.5
Free float	38.8%
Price change: 1 month	*-1.0%*
Price change: 6 month	*0.3%*
Price change: 12 month	*-26.5%*
Max (52 week)	5.6
Min (52 week)	3.4



Trakcja Polska (TRK) is valued at ca. PLN 630m, of which PLN 95m is net cash that could increase further to ca. PLN 140m when the company sells real-estate development assets held by PRK-7. We can therefore say that TRK's operations are valued at PLN 480m, which makes it the cheapest big construction company on the WSE relative to 2009 earnings. Of course, every rose has thorns – in the case of Trakcja Polska, the problem is the small backlog of contracts for 2010 (slightly over PLN 220m) which may, however, increase in the near future after a contract is signed with a value estimated by the Management at PLN 140m. Further deals, however, are a matter of a more distant future. Trakcja Polska is either bidding, or plans to bid, for two large track-building contracts estimated to be worth PLN 1 billion each. Just one of these awards would guarantee that TRK meets our 2010 earnings estimates and achieves our per-share price target. We are reiterating a buy rating on Trakcja Polska.

Ahead of expectations

The second-quarter operating profit of Trakcja Polska (TRK) exceeded our estimate by 5.9% and beat the consensus estimate by 20.1%. Revenues came close to our expectations, while the gross margin came in at 16.8%, ahead of our estimated 15.1%. Note that the Q209 revenue was depressed by derivatives revaluations which, in H1 2009, amounted to PLN 16.2m (in line with expectations). We forecasted the revenue impact of derivatives value adjustments at PLN 11.1m in Q209. Second-quarter SG&A expenses were PLN 0.7m higher than our forecast at PLN 7m. and other net operating expenses exceeded estimates by PLN 1.1m. Other net finance income of PLN 5.4m was well ahead of expectations (PLN 0.7m). The effective tax rate was in line, and the 27.6% higher than expected net income for Q2 2009 was owed mainly to finance gains. We want to point out the considerable decrease in H1 2009 net cash, including PLN 143m in operating cash outflows, and a PLN 70.8m outflow in investment cash (acquisition of interests in Eco-Wind Construction, purchase of track construction machinery). In future quarters, we expect cash inflows both from the construction business, and the real-estate business (home sales and completions by subsidiary PRK-7). The negative operating cash flows were probably a result of PKP PLK's payments to suppliers, as confirmed by a decrease by a staggering PLN 133m in Q109, and a decline by just PLN 10m in Q209.

CEO on H209 outlook

TRK's CEO Mr. Kozaczyński expects flat year-on-year sales and improved profits in coming quarters.

Ulma Construccion Polska (Hold)

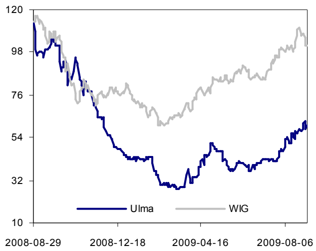
Current price: PLN 60 **Target price: PLN 58.8**

Analyst: Maciej Stokłosa

Last Recommendation: 2009-09-04

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	222.6	241.5	8.5%	182.3	-24.5%	198.0	8.6%
EBITDA	108.4	103.4	-4.7%	69.8	-32.4%	81.5	16.7%
EBITDA margin	*48.7%*	*42.8%*		*38.3%*		*41.2%*	
EBIT	66.6	40.9	-38.5%	17.8	-56.4%	29.4	64.5%
Net profit	50.9	25.9	-49.2%	4.7	-81.6%	15.8	233.2%
P/E	6.2	12.2		66.4		19.9	
P/CE	3.4	3.6		5.6		4.6	
P/BV	1.3	1.2		1.2		1.1	
EV/EBITDA	3.5	4.8		6.3		5.1	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	5.3
MC (current price)	315.3
EV (current price)	442.3
Free float	24.5%
Price change: 1 month	*22.6%*
Price change: 6 month	*104.1%*
Price change: 12 month	*-37.8%*
Max (52 week)	104.9
Min (52 week)	27.0



Ulma's earnings this year are under pressure from a slumping building-construction industry. The second half of the year is expected to bring an improvement, as infrastructural contracts enter the execution phase and costs are reduced thanks to the launch of logistics centers. In 2010, earnings improvement will be driven by an expected revival in building construction, as well as an increase in the number of road construction contracts. We expect that by the end of the year, contracts for the amount of PLN 8.9bn will have been awarded, and most tenders for motorway construction will have been opened. We believe the infrastructure segment, whose share in Ulma's revenues may amount to 30% this year as per the Management's plans, may be the driver of earnings improvement in 2010. An improvement is expected in particular in asset turnover. We conservatively do not assume that formwork rental prices will increase, as we believe this might not happen as early as next year. Ulma's weaker-than-expected Q2 2009 results were mainly a consequence of unfavorable weather conditions which caused delays in construction projects. Ulma is much cheaper than fellow rental-equipment provider Żurawie Wieżowe, while facing much better prospects. Even so, since the stock has overshot our price target, we are downgrading it to hold.

Q209 results

Ulma's Q2 2009 earnings were below our expectations. Revenues were PLN 1.4m lower than our expectations, while the costs of good sold were PLN 1m higher (we consider it 90% fixed and uncorrelated with revenues). SG&A expenses were PLN 4.7m, vs. PLN 4.1m we expected. Other operating expenses also exceed expectations (PLN 0.7m vs. PLN 0.4m). Other finance expenses were slightly lower than expected at PLN 2.8m vs. PLN 3.1m. All in all, the Q2 net loss amounted to PLN 2m (vs. an expected PLN 0.9m net profit). We would like to point out that the main factor behind the weak earnings were low revenues, which were due to lower formwork rental fees and lower asset turnover. According to the Management, one of the factors affecting Ulma's earnings were the floods in southern Poland, which resulted in delays on some construction contracts. One example is the contract for stadium construction in Wrocław, where Ulma provided formworks. According to the CEO of Mostostal Warszawa, there were delays which will be made up for in Q3 2009. We can expect that the delays in Q2 2009 will lead to higher-than-expected revenues in Q3 2009.

Improved H209 outlook

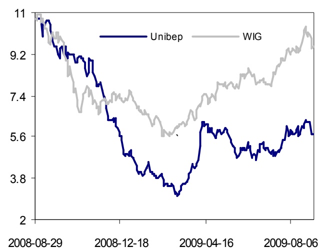
After a tough H109 marked by delays in construction projects in Poland and abroad, Ulma's CEO believes in a recovery in H209.

Unibep (Accumulate)

Current price: PLN 5.8 **Target price: PLN 6.1**

Analyst: Maciej Stokłosa
Last Recommendation: 2009-09-04

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	407.5	502.9	23.4%	542.5	7.9%	526.5	-3.0%	Number of shares (m)	33.9
EBITDA	16.7	33.4	99.6%	28.3	-15.4%	21.8	-22.7%	MC (current price)	195.1
EBITDA margin	*4.1%*	*6.6%*		*5.2%*		*4.1%*		EV (current price)	219.9
EBIT	15.8	31.8	101.3%	23.8	-25.0%	17.3	-27.2%	Free float	23.0%
Net profit	11.7	27.6	135.3%	18.1	-34.4%	15.5	-14.8%		
P/E	13.3	7.1		10.8		12.6		Price change: 1 month	*-0.2%*
P/CE	12.3	6.7		8.6		9.8		Price change: 6 month	*85.5%*
P/BV	9.5	1.9		1.6		1.4		Price change: 12 month	*-46.3%*
EV/EBITDA	8.5	4.1		7.8		7.1		Max (52 week)	10.8
Dyield (%)	0.3	0.0		0.0		0.0		Min (52 week)	3.0



Unibep captured four housing contracts totaling PLN 100m in August. The company's earnings in the next two quarters will be under pressure from contracts that were aggressively acquired earlier this year, but 2010 and 2011 results will be supported by home sales in the "Santorini" residential complex in Warsaw. Housing is one of Unibep's core lines of business, and the company stands to benefit from the housing boom expected in early 2010. We are upgrading our rating to accumulate.

Q209 results

Unibep reported in-line Q209 revenue which fell vs. Q208 on a smaller portfolio of domestic and international orders. The Q209 gross profit was in line, and the profit margin was higher than expected (9.9%) at 11.4%. The gross margin earned on domestic construction contracts increased by over 12%. Revenues from domestic general construction and road development totaled PLN 67m. Revenues from international contracts amounted to PLN 16.4m, and produced a margin of 11%. Real-estate development generated a revenue of just PLN 5.7m, and a margin in excess of 15%. SG&A expenses of PLN 4.9m were lower than our estimated PLN 5.35m, as were other expenses (PLN 0.11m vs. PLN 0.25m). As a result, EBIT exceeded expectations by 9.3%. Other finance expenses were reported at PLN 0.4m (we expected PLN 0.26m). Pre-tax income was 5.3% lower than predicted, as was the effective tax rate which stood at 14%. All told, net income was only 0.1% (PLN 3000) higher than we forecasted.

New contract opportunities

Unibep captured PLN 110m-worth of contracts in August. The company sold 60% of the homes comprising the "Santorini" residential development, but detached-home buyers are few and far between. The backlog of orders for prefab homes is PLN 10m. The company reiterated its Q209 revenue estimate at PLN 100m. One of the reasons behind the slowdown are international contracts, which were supposed to generate a revenue of PLN 100m, but will actually fetch just one half of this amount because of financing problems Several of the foreign orders were canceled.

Real Estate Development

Housing

Q309 home sales outlook

The VP of Gant revealed that his company sold 80 units (net) in July and August, marking a decline from preceding months. In turn, Dom Development believes that third-quarter sales will be as good as, or even better than second-quarter sales. J.W. Construction also expects at least flat quarter-on-quarter sales.

Developers reluctant to auction off housing stock

Colliers real-estate advisors want to organize property auctions in Poland, similar to practices seen in the USA, UK, and Canada. However, large publicly-traded real-estate developers are not interested, and remain convinced about the strength of their own sales policies, saying that an auction may be good for small, struggling players who are ready to sell below cost.

Will pricey homes become unaffordable?

Real-estate advisors REAS say that the real-estate boom which started in 2004 brought the ratio of average salary to home prices way down. An average Polish salary buys 0.49 square meters of living space in Warsaw, 0.47 sqm in Wrocław, 0.42 sqm in Krakow, 0.52 sqm in Poznań, 0.67 sqm in Łódź, and 0.83 sqm in Katowice. The smaller the city, the more favorable the ratio. For comparison, the average salary of a German or a Frenchman buys 2 sqm of living space, according to the Institute for Urban Development (IRM). What is worse, REAS believes that home prices are about to bottom out and start rising again. The IRM adds that the fact that developers are hesitant to start new projects means a housing shortage in the next two years. That is why housing prices are expected to outpace salaries in the future.

Commercial Real Estate

Commercial real-estate market expected to shrink 50%

According to a study by Cushman & Wakefield, EUR 24 billion-worth of commercial real-estate changed hands across Europe in the first half of the year. A year-on-year drop in the number of deals was recorded, but transaction values were slightly higher (Q2/Q1 = 2.5%). In Poland, the number of transactions was 165% higher than the average, but this was owed to just a handful of deals. Real-estate investors are still focusing on Western Europe, and demand is the strongest in countries like the UK, which have experienced the strongest price slippage.

Land

Warsaw fails to unload land

No one wants to buy land from the City of Warsaw, which means that the city's budget will receive PLN 150m less this year. According to real-estate advisor REAS, land prices will be the last to recover. At the moment, banks do not want to lend against bare land. It is impossible to tell how much the sites are worth since the market is "dead" and there is no basis for comparison. But we do know that, in determining land prices, the Warsaw authorities use professional appraisals based on rates taken from sales made during the real-estate boom, which cannot be changed for formal reasons.

Gant Development

Sales targets and new projects

Gant sold 391 homes by the end of July, out of the 700 it wants to sell this year. The developer sold 48 units in June, 43 in July, and 37 in August. Further, Gant is planning to start six new projects this year in Wrocław, Krakow, Poznań, and Warsaw.

LC Corp

Shareholders approve a buyback of 20m shares

Shareholders approved a buyback of 20m shares for up to PLN 30m within three years. The maximum price was set at PLN 1.5 per share.

Marvipol

Low prices drive off-plan sales

Marvipol was planning to launch a promotional campaign for its new residential project, "Villa Cavaletti", in the fall, but, even at this early stage, it has already managed to sell as many as 24 out of the 40 planned units. The reason behind this success were probably promotional discounts on the homes, which were offered at PLN 6000-7000 per square meter, which the company considers the lowest possible price for this location. Even at such low prices, Marvipol's VP says that it is possible to generate decent margins. Marvipol, which is currently finishing two residential projects in Warsaw (the "Melody Park" and "Villa Avanti"), is looking to expand its housing stock. and is preparing to start another residential development still this year, the first stage of which comprises 150 dwellings.

Marvipol to launch new office project

Marvipol was granted financing by Bank Pekao for about 60% of an office-building project. The financing agreement is to be signed by the end of October. The Pekao loan could approximate PLN 40m.

Ronson

Ronson on new projects and market conditions

Ronson plans to launch several development projects still this year, and hopes to post stronger earnings in H209 thanks to a larger number of home completions. The housing market is showing signs of a recovery thanks to better access to credit

"Imaginarium II" developments almost sold out

Ronson sold close to 80% (51 out of 65 available units) of the homes constituting its "Imaginarium II" project in Warsaw, and has just started to hand the keys to the buyers. To encourage prospects, the developer shaved 12% off on some of the remaining homes, bringing their prices as far down as PLN 9,560 per sqm. Construction of Imaginarium III (two buildings housing a combined 2 units) is scheduled to start still this year.

GTC

Subsidiary acquires credit

GTC subsidiary Rodamco CH1 was granted a refinancing loan by three German banks: Berlin-Hannoversche Hypothenkenbank AG, Westdeutsche ImmobilienBank AG, and Landesbank Berlin AG. The EUR 205m facility falls due on 15 December 2016, and carries an interest margin of 3M Euribor + 2.25%. Rodamco CH1 is the owner of the "Galeria Mokotów" shopping center in Warsaw.

Loan helps reduce interest expenses

GTC is expected to save on interest expenses thanks to a recent refinancing loan. The EUR 205m loan was taken out to refinance the operations of the Warsaw-based "Galeria Mokotów" (GM) shopping center, whose value was appraised at EUR 378m. At an interest rate of 3M EURIBOR + 2.25% (which compares to the old APR of 7.9%), annual interest expenses will approximate 3.6%-3.7%. The loan will be used to pay off the debts of GM, leaving EUR 120m to be invested in new developments. GTC's capex budget for 2009 is EUR 350m.

Q209 results

GTC's Q209 revenue amounted to EUR 38.3m (vs. a consensus estimate of EUR 36.2m), EBIT was EUR 17.8m (cons: EUR 12.9m), and the bottom line shows came a EUR 11.9m loss (cons: EUR 2.3m). The loss was caused by a property revaluation expense of EUR 28.7m.

Dom Development (Suspended)

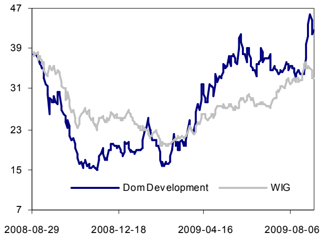
Current price: PLN 42.7 **Target price: -**

Analyst: Maciej Stokłosa

Last Recommendation: 2009-09-04

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	878.8	698.2	-20.6%	639.1	-8.5%	556.8	-12.9%
EBITDA	243.2	168.1	-30.9%	138.1	-17.8%	25.0	-81.9%
EBITDA margin	*27.7%*	*24.1%*		*21.6%*		*4.5%*	
EBIT	241.0	165.7	-31.2%	135.7	-18.1%	22.6	-83.3%
Net profit	200.6	136.9	-31.7%	121.1	-11.6%	33.0	-72.7%
P/E	5.2	7.7		8.7		31.8	
P/CE	5.2	7.5		8.5		29.6	
P/BV	1.5	1.5		1.3		1.3	
EV/EBITDA	4.3	7.9		7.6		26.6	
Dyield (%)	0.0	4.8		1.9		0.0	

Basic data (PLN m)	
Number of shares (m)	24.6
MC (current price)	1 048.7
EV (current price)	1 046.2
Free float	20.0%
Price change: 1 month	*20.0%*
Price change: 6 month	*108.9%*
Price change: 12 month	*12.4%*
Max (52 week)	45.7
Min (52 week)	14.8



Contrary to expectations, the summer vacation season did not affect home pre-sales, or heat up competition between developers. Listing prices remained steady and unaffected by cutthroat promotional offers. Even in a down market, the housing stocks of most real-estate firms are bound to gradually run thin, and spur a resurgence of new housing starts. We have temporarily suspended coverage of real-estate developers as we revise their future earnings prospects.

Q209 results

Except for revenues, Dom Development's (DOM) Q209 reported earnings figures fell short of expectations. The gross margin was low at 27% compared to our estimate of 34% and a Q1 margin of 37%. At PLN 16m, SG&A expenses were PLN 2.5m lower than predicted. DOM's second-quarter results were affected by a PLN 4.77m impairment charge on the value of land / work in progress, which we did not factor in our forecasts for the developer. Second-quarter EBIT missed our estimate by a substantial 22.3% (or 10.25% after adjustment for one-offs). Other differences between DOM's reported and forecasted Q209 earnings result from financial operations: we expected the company to post a finance gain of PLN 3.1m, and the reported figure was a PLN 2.4m loss. All in all, we maintain that the periodic earnings reports of property developers are of value only for purposes of periodic profit-margin comparisons.

Q309 sales prediction

CEO Mr. Zalewski reported that DOM had sold well over one hundred units in the second quarter, and that third-quarter sales should be equally strong in spite of the vacation season.

Off-plan home sales in Q209, earnings outlook

Dom Development sold 156 dwelling units net in Q209 (gross sales before cancellations amounted to 215 units), compared to 106 homes net and 126 units gross sold in Q109. The number of individual cancellations did not change much from the first quarter (23 in Q2 vs. 20 in Q1), but one investor cancelled a 43-unit bulk purchase. Q209 sales by type of dwelling included 108 affordable homes, 21 upmarket apartments, and 27 houses. According to the Management, all of DOM's developments generate profits, except for houses which tend to yield zero-to-negative margins. DOM plans to complete 1500 units (this year (Q1: 398, Q2: 470), but a portion of the revenues will be recognized in 2010. The units scheduled for completion in Q3 and Q4 are mostly affordable homes, which may affect DOM's financial results. On the upside, the developer expects to book operating cash inflows.

DOM ready for market rebound

DOM's Management see a pickup in real-state demand, and are convinced that the crisis is almost over. The recovery cannot be attributed to the still-tight bank lending policies. The recovery will probably not be rapid, but, if demand starts to climb, DOM is ready to launch new projects comprising 816 homes. The decision will be made in September. Financing is already in place for these projects, and they can go six months without external funding. DOM's current housing stock comprises about 970 units. Initially, the new projects will probably be sold at a discount, with prices rising as construction advances. The difference between the initial and final price can be as high as 15%. DOM's Management think that DOM can actually capitalize on the crisis thanks to the competition's limited access to credit. The developer has no plans to buy new land for now, and can wait until prices fall even more.

DOM postpones residential project in Warsaw

DOM delayed a planned residential project in Wrocław called "Oaza" by another three months. The developer will decide in September whether it is going to start any new projects this year. DD has still got about 900 homes on offer.

J.W. Construction (Suspended)

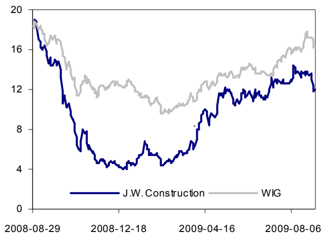
Current price: PLN 12 **Target price: -**

Analyst: Maciej Stokłosa

Last Recommendation: 2009-09-04

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	781.1	721.4	-7.6%	965.8	33.9%	845.1	-12.5%
EBITDA	211.9	158.5	-25.2%	253.3	59.8%	188.8	-25.5%
EBITDA margin	*27.1%*	*22.0%*		*26.2%*		*22.3%*	
EBIT	198.6	141.1	-28.9%	232.8	64.9%	167.8	-27.9%
Net profit	148.1	100.9	-31.9%	188.4	86.7%	150.0	-20.4%
P/E	4.3	6.5		3.5		4.4	
P/CE	3.9	5.6		3.1		3.8	
P/BV	1.2	2.5		1.5		1.1	
EV/EBITDA	5.4	8.1		4.2		3.2	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	54.7
MC (current price)	656.4
EV (current price)	1 051.9
Free float	18.0%
Price change: 1 month	*-5.7%*
Price change: 6 month	*116.2%*
Price change: 12 month	*-36.5%*
Max (52 w eek)	18.9
Min (52 w eek)	4.0



Contrary to expectations, the summer vacation season did not affect home pre-sales, or heat up competition between developers. Listing prices remained steady and unaffected by cutthroat promotional offers. Even in a down market, the housing stocks of most real-estate firms are bound to gradually run thin, and spur a resurgence of new housing starts. We have temporarily suspended coverage of real-estate developers as we revise their future earnings prospects.

Q209 results

J.W. Construction's (JWC) Q209 results fell short of analyst expectations, but the sole reason for this in our opinion was the fact that the developer completed fewer dwellings in the period. Revenues missed our estimate by 68.2%, but generated a higher margin. This seeming slump in sales should not be considered a sign of any real trend before considering the developments which contributed to the second-quarter revenue. SG&A expenses were lower than expected (PLN 12.25m) at PLN 9.8m, while other operating expenses were higher at PLN 1.7m (we predicted PLN 0.75m). Weak revenues affected operating profit, while other operating expenses were higher at PLN 1.7m (we predicted PLN 0.75m). Other net finance expenses of PLN 5.4m were PLN 0.77m higher than we forecasted. The effective tax rate was a -5% vs. our predicted 19%. It is worth noting that JWC's loan debt was reduced by PLN 25m compared to Q109, while the value of cash and other financial assets increased by PLN 28.8m. Further, to comply with IAS 18 requirements, the company adjusted its equity value as at year-end 2008, to PLN 325.7m, which is PLN 65.4m more than disclosed in Q1 2009.

JWC diversifies into commercial real estate

J.W. Construction issued a press release saying that it was going to diversify its business mix by developing commercial office space.

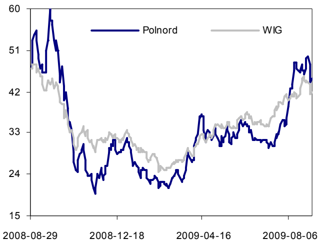
Polnord (Suspended)

Current price: PLN 45 Target price: -

Analyst: Maciej Stokłosa
Last Recommendation: 2009-09-04

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	131.5	391.1	197.4%	381.5	-2.4%	239.0	-37.4%
EBITDA	33.0	108.7	229.0%	112.9	3.9%	17.2	-84.8%
EBITDA margin	*25.1%*	*27.8%*		*29.6%*		*7.2%*	
EBIT	31.4	106.7	239.8%	110.9	3.9%	15.2	-86.3%
Net profit	25.1	77.8	210.2%	94.1	20.9%	12.1	-87.1%
P/E	25.3	10.5		10.0		77.6	
P/CE	23.8	10.2		9.8		66.6	
P/BV	0.8	0.9		0.9		0.9	
EV/EBITDA	28.0	12.9		12.2		65.5	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	20.9
MC (current price)	939.6
EV (current price)	1 379.8
Free float	36.0%
Price change: 1 month	*16.0%*
Price change: 6 month	*83.6%*
Price change: 12 month	*-17.5%*
Max (52 w eek)	59.8
Min (52 w eek)	19.8



Contrary to expectations, the summer vacation season did not affect home pre-sales, or heat up competition between developers. Listing prices remained steady and unaffected by cutthroat promotional offers. Even in a down market, the housing stocks of most real-estate firms are bound to gradually run thin, and spur a resurgence of new housing starts. We have temporarily suspended coverage of real-estate developers as we revise their future earnings prospects.

Q209 results

Polnord's higher-than-expected Q209 revenue were owed to one-time revenues and expenses related to a sale of a school site in Warsaw. The lot was sold in Q2 2009 below its book value, and was covered by a reserve recognized in 2008. According to information received from Polnord, the number of dwellings completed in Q209 was in line with our expectations, although we predict that the number of units completed as part of the "Ostoja Wilanów III" project might have been lower (the project was pre-sold by Fadesa in euros, and was hedged against FX risks when the euro started to appreciate against the zloty; the margin on the project is estimated at zero). Further, Polnord recognized ca. PLN 3.5m in revenue from a sale of office space in Russia. Finally, the developer's bonus related to the sale of the "Królewskie Przedmieście" development was adjusted downward by PLN 3.5m. The bonus is a sort of a success fee for a profitable management of the project, and is calculated as an equivalent of 50% of the surplus above an IRR of 20%. On a higher-than-expected revenue, Polnord generated an in-line gross profit (and a lower-than-expected gross margin). SG&A expenses were in line with expectations (PLN 15.5m). A higher-than-expected EBIT resulted from a PLN 2.5m higher-than-expected "other" operating income. Polnord reported an "other" finance loss of PLN 3.6m vs. our expected PLN 2m. So, the difference between actual and forecasted operating revenues is offset by the difference between actual and forecasted operating expenses, resulting in a minor difference between expected and reported pre-tax income. A lower-than-expected net income was due to a high effective tax rate (32.8% applied vs. 20% expected).

Sales results

Polnord sold 78 dwellings (gross) in Q109. After adjustment for 25 cancellations, first-quarter net sales amounted to 53 units. In Q2 2009, the company sold 164 units (131 units net after 33 cancellations). The company's objective is to sell 60-70 units per month.

Polnord launches new developments

Polnord executives believe that the housing downturn is almost over, and that it is time to start new projects financed with debt as well as own cash. In the fourth quarter, the developer plans to start a 160-unit residential complex with a total living area of 9600 sqm, set for completion in 2011. The standard of the flats is unknown. Further, Polnord wants to start new projects in Szczecin, Warsaw, and possibly also Olsztyn. The development in Szczecin comprises 700 dwellings, of which 70-80 units are to be completed in the first, PLN 60m stage. The Warsaw projects include a 7000 sqm, PLN 60m office building, and stage two of the "Kryształ Wilanowa" residential complex, scheduled to start in November, and estimated at PLN 150m. The Olsztyn project is still undecided.

CEO's rosy outlook

Ponord's ambition is to increase sales from 50 units to 60-70 units a month. The CEO reports a diminishing number of cancellations. Per-square-meter prices remain steady, and have been even lifted somewhat in some projects. Further, the developer is negotiating land purchases in Lublin, Gdańsk, and Katowice.

Polnord negotiates ownership of an inland island in Gdańsk

Gdańsk authorities gave Polnord an exclusive right to negotiate the terms of development of the northern headland of an island in the Motława river in Gdańsk, called Wyspa Spichrzów (Eng. "Granary Island"). The plan is to build a 50,000 square-meter residential/commercial complex there via a special-purpose vehicle formed jointly by the Gdańsk authorities and Polnord. The city would contribute the land, and Polnord would commit to building an amber museum and infrastructure (roads, utilities), and secure financing. The negotiation agenda provides that the terms of the partnership will be finalized by November, followed by execution of a preliminary agreement in the second half of that month. Polnord will have four months since execution to develop zoning plans a designs, and then Gdańsk will have two months to assess the project. The agreement will be signed within 14 days of design approval. Polnord estimates that the contract might be worth about PLN 0.5bn.

Joint office project

BOŚ Bank granted Polnord a 13-year PLN 42.5m loan to finance the construction of an office building in Warsaw's Wilanów district. Polnord awarded the construction contract (PLN 65m) to Pol-Aqua which, incidentally, is also the future sole tenant of the building.

Martinsa-Fadesa settles with creditors

A 54% majority of the creditors of Spanish property developer Martinsa Fadesa approved the company's debt-restructuring plan. The plan includes a division of an over-EUR 5bn loan into installments payable over years. Hopefully, the other creditors will accept it as well.

Retail

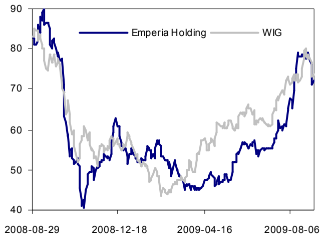
Emperia Holding (Hold)

Current price: PLN 72.3 Target price: PLN 70.3

Analyst: Kamil Kliszcz

Last Recommendation: 2009-09-04

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	4 479.6	5 263.1	17.5%	5 668.9	7.7%	6 046.3	6.7%	Number of shares (m)	15.1
EBITDA	176.2	152.3	-13.5%	194.2	27.5%	220.5	13.6%	MC (current price)	1 092.8
EBITDA margin	*3.9%*	*2.9%*		*3.4%*		*3.6%*		EV (current price)	1 368.9
EBIT	136.2	94.9	-30.3%	128.8	35.7%	142.2	10.4%	Free float	71.0%
Net profit	88.4	60.1	-32.0%	92.0	53.1%	102.4	11.2%		
P/E	12.4	18.2		11.9		10.7		Price change: 1 month	*6.4%*
P/CE	8.5	9.3		6.9		6.0		Price change: 6 month	*44.6%*
P/BV	1.6	1.5		1.4		1.3		Price change: 12 month	*-10.7%*
EV/EBITDA	6.9	9.0		7.1		6.2		Max (52 week)	90.0
Dyield (%)	2.4	1.2		2.3		3.4		Min (52 week)	40.5



Emperia shares rallied 26% in August on expectations of a turnaround after several quarters of disappointment. Indeed, the Q2 2009 earnings announcement did not disappoint. In our opinion, the second quarter can be considered to be a tipping point for Emperia's profitability and integration and expansion costs. In spite of this positive shift, we are downgrading Emperia to hold to account for the 34% increase in its share price since our last rating.

Strong earnings, improved wholesale margins

Emperia's Q209 EBITDA and net-income figures were far ahead of expectations. Sales revenues exceeded our estimate by 6% thanks to a slower decline in the sales generated by the Wholesale segment (the elimination of sub-wholesale operations led to a 6% y/y drop in Q109 sales, compared to a decrease of just 0.2% in Q209). Wholesale was also responsible for Emperia's stronger-than-expected EBITDA margin which stood at 3.1% (vs. 1.2% reported in Q109 and our estimated 2.4%), and which improved thanks to continuing reductions in costs related to internal integration and development of new distribution centers. The Retail segment lagged slightly behind, reporting faster year-on-year sales growth compared to Q109, and lower margins. Emperia's strong core earnings were further boosted by other operating results (a PLN 19.4m gain vs. our estimated PLN 14.8m) which included proceeds from a property sale (PLN 16.5m) and other fixed-asset divestments. As a result, Q209 EBIT exceeded our estimate by PLN 14m, or PLN 9.4m after adjustment for gains from "other" operations. A second-quarter bottom-line income of PLN 29m would have been higher if not for a PLN 4.2m loss on the divestment of subsidiary Arsenal charged against finance income. One low point of Emperia's Q209 report was a PLN 15m increase in net debt to PLN 314m which occurred in spite of sustained strong operating cash flows (PLN 21m in Q209 and PLN 18m in Q109), and because of a high CAPEX (PLN 43m in Q209). All in all, however, we liked Emperia's second-quarter performance which marked the beginning of a stronger period in terms of operating margins.

Eurocash (Hold)

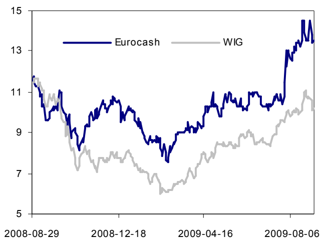
Current price: PLN 13.5 **Target price: PLN 9.9**

Analyst: Kamil Kliszcz

Last Recommendation: 2009-05-06

(PLN m)	**2007**	**2008**	**change**	**2009F**	**change**	**2010F**	**change**
Revenues	4 729.4	6 121.7	29.4%	7 399.4	20.9%	7 877.6	6.5%
EBITDA	121.9	158.4	30.0%	186.2	17.5%	205.5	10.4%
EBITDA margin	*2.6%*	*2.6%*		*2.5%*		*2.6%*	
EBIT	85.8	115.5	34.7%	127.3	10.2%	142.1	11.6%
Net profit	58.9	78.3	33.0%	105.1	34.3%	117.2	11.5%
P/E	29.3	22.5		16.8		15.0	
P/CE	18.2	14.5		10.7		9.7	
P/BV	7.4	6.2		4.7		4.0	
EV/EBITDA	13.7	10.6		8.7		7.4	
Dyield (%)	1.7	0.7		2.3		3.0	

Basic data (PLN m)	
Number of shares (m)	130.4
MC (current price)	1 761.0
EV (current price)	1 617.8
Free float	30.0%
Price change: 1 month	*7.1%*
Price change: 6 month	*50.5%*
Price change: 12 month	*19.5%*
Max (52 week)	14.5
Min (52 week)	7.6



For another consecutive month, Eurocash shares outperformed the WIG index in August, rallying 17.8% vs. a 7.6% gain on the WIG. However, Eurocash's valuation on FY09E EV/EBITDA is comparable to Emperia's. Even though the Eurocash stock has overshot our price target, why we are reiterating a neutral rating on the company until the next update.

Q209 in line with expectations

As usual, Eurocash's quarterly results came slightly ahead of expectations. Year-on-year revenue growth was slightly slower than in Q109 (due to a high base effect, full consolidation of McLane in Q208, and a stronger drop in KDWT's cigarette sales at 29% vs. 21% in Q109), but it was still strong at 9% thanks to continuing strong sales generated by the 'Delikatesy Centrum' chain (+32%) and McLane (+59%). EBIT and net income came in line with expectations. The EBITDA margin showed a substantial improvement vs. Q208 thanks to the restructuring of McLane (which grows revenues while keeping down costs), and a decreased contribution to total revenues of the low-margin sales of KDWT (profitability in 'traditional' wholesale fell from 4.5% in Q208 to 3.6% in Q209). Also worth noting are Eurocash's strong operating cash flows (PLN 135m) owed to an increased working capital (over-PLN 130m growth in accounts payable). As a result, Eurocash can report a H1 2009 net cash position of PLN 76m.

Preliminary acquisition agreement

Eurocash signed a preliminary agreement concerning a purchase for cash, by 31 March 2010 at the latest, of a 100% stake in a company called "Batna Sp. z o.o." The final agreement will be signed once Eurocash gets a green light from the competition watchdog UOKiK. Batna is a leading Warsaw-based FMCG wholesaler operating through three cash&carry outlets and by means of active distribution. Batna's 2008 revenue exceeded PLN 260m, and net profit amounted to PLN 6m. The acquisition will enable Eurocash to move into the Warsaw cash&carry market.

Others

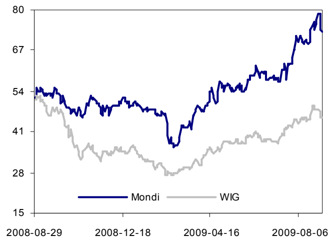
Mondi (Hold)

Current price: PLN 49 **Target price: PLN 56**

Analyst: Michał Marczak
Last Recommendation: 2009-09-03

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	1 610.4	1 406.3	-12.7%	1 274.3	-9.4%	1 674.1	31.4%
EBITDA	299.0	305.5	2.2%	217.1	-29.0%	400.4	84.5%
EBITDA margin	*18.6%*	*21.7%*		*17.0%*		*23.9%*	
EBIT	194.7	194.7	0.0%	97.1	-50.1%	207.1	113.2%
Net profit	246.2	141.2	-42.6%	64.1	-54.6%	145.4	126.7%
P/E	10.0	17.4		38.2		16.9	
P/CE	7.0	9.7		13.3		7.2	
P/BV	2.5	2.3		2.1		1.9	
EV/EBITDA	8.1	9.0		14.5		7.7	
Dyield (%)	11.0	0.0		0.0		0.5	

Basic data (PLN m)	
Number of shares (m)	50.0
MC (current price)	2 450.0
EV (current price)	3 153.7
Free float	19.0%
Price change: 1 month	*5.0%*
Price change: 6 month	*69.7%*
Price change: 12 month	*35.7%*
Max (52 week)	79.0
Min (52 week)	36.3



Mondi's (MSC) Q209 results were slightly ahead of expectations thanks to stronger sales volumes which increased 9% vs. Q208. Unfortunately, our expected upward shift in European paper prices has not come, prompting downward revisions in our 2009 and 2010 forecasts. We maintain that loss-making production is going to lead to capacity cutbacks across Europe in the near future, resulting in a rebound in paper prices still this year. As one of the cheapest producers in Europe, Mondi is well positioned to regain momentum amid a recovering economy. Improving production and consumption data will provide additional support for the future price growth. We want to point out that Mondi's first-half results were depressed by hedging losses totaling PLN 100m, and that its core business earnings were actually better than reported given the market conditions in the period (prices, FX rates). The situation will be reversed in H209, when we expect the company to post hedging gains paired with deteriorated earnings from core operations. We are reiterating a hold rating on MSC stock, and we are lowering our nine-month per-share price target by 3% to PLN 56. In the near term, Mondi's stock value may fall under pressure from an increased equity supply (2.5 million shares) by the State Treasury.

New machine

As scheduled, Mondi Świecie is planning a launch of a new paper machine in late Q3 / early Q4. The company disclosed that the cash cost of production for the machine will be an estimated EUR 150 per ton. After taking into account depreciation and the fact that testliner prices are currently at all-time low levels (at least half of all European production generates losses), the estimated per-ton revenue is approximately PLN 100, suggesting PLN 40m in additional annual profits on the planned output. In an optimistic scenario where paper prices rebound to their 2007 levels (EUR 460/T, with the zloty up to 3.7 vs. the euro), the new machine generates an annual gross profit of PLN 250m. Our more conservative scenario is EUR 350/T in 2011, with EUR/PLN at 4.05. An increase in paper prices will provide a significant operating and financial leverage.

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Latest ratings issued for companies rerated as of the date of this Monthly Report:

Agora

rating	Buy	Hold
rating date	2009-07-24	2009-08-25
price on rating date	15.85	25.00
WIG on rating date	33529.50	38744.26

Dom Development

rating	Hold	Sell	Sell
rating date	2009-03-25	2009-05-06	2009-06-15
price on rating date	23.00	32.45	38.99
WIG on rating date	24443.51	29777.06	32362.67

Emperia Holding

rating	Buy
rating date	2008-11-28
price on rating date	53.60
WIG on rating date	27543.48

Erbud

rating	Buy	Hold	Hold	Reduce	Suspended	Accumulate
rating date	2009-03-25	2009-05-06	2009-05-26	2009-06-04	2009-08-05	2009-08-14
price on rating date	22.40	32.00	35.60	44.00	40.49	46.20
WIG on rating date	24443.51	29777.06	29197.11	31030.61	35363.92	35998.12

J.W. Construction

rating	Buy	Hold	Reduce	Reduce
rating date	2009-03-25	2009-05-06	2009-06-04	2009-06-15
price on rating date	5.95	11.46	11.52	11.85
WIG on rating date	24443.51	29777.06	31030.61	32362.67

Lotos

rating	Buy	Buy
rating date	2009-03-09	2009-05-28
price on rating date	11.44	18.25
WIG on rating date	22948.51	29775.36

ZCH Police

rating	Hold	Sell	Reduce
rating date	2009-03-16	2009-06-04	2009-08-28
price on rating date	4.41	6.99	6.73
WIG on rating date	23176.70	31030.61	37837.39

Polimex Mostostal

rating	Buy	Hold	Accumulate	Buy
rating date	2009-03-05	2009-05-06	2009-05-25	2009-08-14
price on rating date	2.93	3.88	3.36	3.68
WIG on rating date	22719.61	29777.06	29399.62	35998.12

Polnord

rating	Buy	Accumulate	Hold	Hold	Accumulate
rating date	2009-03-25	2009-05-06	2009-06-04	2009-06-15	2009-07-03
price on rating date	25.40	32.85	34.75	35.00	31.15
WIG on rating date	24443.51	29777.06	31030.61	32362.67	30252.24

Rafako

rating	Buy	Buy	Accumulate	Accumulate	Buy	Suspended	Accumulate
rating date	2009-02-10	2009-03-06	2009-04-02	2009-04-08	2009-05-14	2009-08-05	2009-08-14
price on rating date	3.40	4.56	6.00	6.60	7.05	10.15	10.20
WIG on rating date	24470.22	22547.31	24145.69	26172.07	29495.23	35363.92	35998.12

TVN

rating	Buy	Hold	Reduce	Hold	Hold
rating date	2009-02-04	2009-06-04	2009-06-15	2009-07-01	2009-08-25
price on rating date	9.38	12.10	12.38	10.02	15.96
WIG on rating date	23009.76	31030.61	32362.67	30419.03	38744.26

Ulma Construccion Polska

rating	Hold	Accumulate	Hold	Suspended	Accumulate
rating date	2009-03-05	2009-05-26	2009-07-03	2009-08-05	2009-08-14
price on rating date	29.00	37.90	40.50	47.50	50.90
WIG on rating date	22719.61	29197.11	30252.24	35363.92	35998.12

Unibep

rating	Accumulate	Buy	Buy	Hold	Hold	Hold
rating date	2009-01-09	2009-02-03	2009-03-19	2009-05-06	2009-05-26	2009-08-14
price on rating date	4.69	4.12	3.59	5.87	5.10	5.90
WIG on rating date	28200.15	23908.36	22892.30	29777.06	29197.11	35998.12

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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HOLD – we expect that the rate of return from an investment will range from –5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
SELL – we expect that an investment will bear a loss greater than 15%
Recommendations are updated at least once every nine months.

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