

1/2009/RP (6) January 9, 2009

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Energomontaż Południe

Quarterly results corner; 4Q08E preview

We expect weaker yoy 4Q08 financial posting at Energomontaż Południe (for details please refer to *Figure 1*). We believe, however, that the yoy comparison of the Company's quarterly results might be distorted, due to extremely high base and envisaged one-off losses in 4Q08. Consequently, if the Company releases its quarterly numbers close to our predictions, the market should not be negatively surprised, in our view.

We forecast the Company's quarterly sales at PLN 73.9 million vs. PLN 124.2 million in 4Q07, which is by -40% lower yoy. Please note, however, that the only driver of the Company's 4Q08E sales are the construction & installation services to the power sector (core business of EP), while in 4Q07 over 60% of its top line (c. PLN 47 million) was generated by the residential construction business, a non-core activity suspended by EP in the mid of 2008.

Following envisaged lower yoy sales, we expect decrease of the Company's profits. We forecast operating profit at PLN 16 million in 4Q08 (-4% yoy decline) of which c. PLN 14.2 million should be recorded on envisaged revaluation (one-off transaction) of the office space of Legnicka Park Popowice project. At the bottom line, however, we expect 50% yoy NP decrease, due to: (i) higher yoy financial costs (higher yoy net debt of EP) and (ii) c. PLN -4 million of envisaged one-off losses (non-cash) on FX hedging (standard forward), due to material qoq appreciation of EUR vs. PLN in 4Q08.

Summing up, we expect much weaker yoy 4Q08 results of EP. As the high base and a non-cash losses should constitute the main reason for such development, the market reaction to such financial posting should be rather neutral, we believe.

Fig. 1 Energomontaż Południe; 4Q08 results forecast

IFRS consolidated PLN m	yoy realization of the		yoy change	FY figures in 4Q	
	4Q08E	4Q07		2008E	2007
Sales	73.9	124.2	-40%	30%	53%
EBIT	16.0	16.6	-4%	54%	152%
EBIT margin	21.6%	13.4%	-	-	-
Pre-tax profit	10.6	20.6	-49%	48%	124%
Pre-tax margin	14.4%	16.6%	-	-	-
Net profit	8.5	17.2	-50%	59%	138%
Net margin	11.6%	13.8%	-	-	-

Source: Company, DM IDMSA estimates

Sector: Construction
Fundamental rating: Hold (→)
Market relative: Neutral (→)
Price: PLN 2.65
12M EFV: PLN 4.0 (↑)

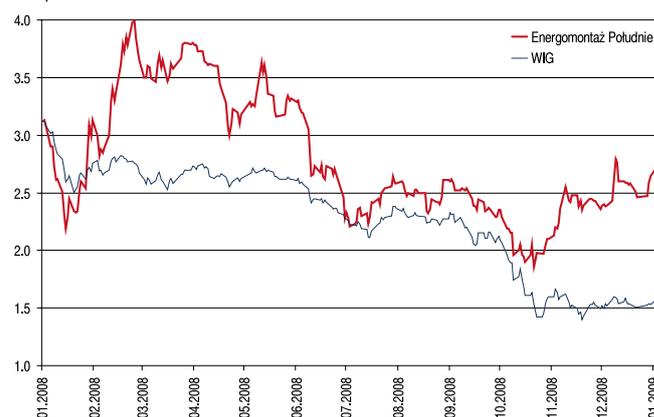
Market Cap.: US\$ 43 m
Reuters code: EMPD.WA
Av. daily turnover: US\$ 0.01 m
Free float: 61%
12M range: PLN 1.86-3.99

Key data

IFRS consolidated		2008E	2009E	2010E	2011E
Sales	PLN m	249.9	272.3	296.8	332.4
EBITDA	PLN m	33.8	25.8	28.1	31.5
EBIT	PLN m	29.3	20.9	22.9	26.0
Net profit	PLN m	14.6	13.9	15.2	18.2
EPS	PLN	0.31	0.29	0.32	0.38
EPS yoy chng	%	8	-5	10	20
Net debt	PLN m	88.8	34.4	33.5	33.1
P/E	x	8.6	9.1	8.3	6.9
P/CE	x	6.7	6.8	6.3	5.4
EV/EBITDA	x	6.4	6.3	5.8	5.1
EV/EBIT	x	7.4	7.8	7.1	6.2
EV/Sales	x	0.9	0.6	0.5	0.5
Gross dividend yield	%	3.5	4.4	4.0	4.4
No. of shares (eop)	ths.	47,544	47,544	47,544	47,544

Source: DM IDMSA estimates

Stock performance



Source: ISI

Upcoming events

1. Release of 4Q08 results: February 2009

Catalysts

1. Efficient expansion on the German market
2. Signing large contracts in the power segment
3. Buy-back to be supportive for the share price
4. Synergies with Amontex

Risk factors

1. Inefficient expansion on the German market
2. Delays in the start of the investments in the power sector in Poland
3. Prolonging slowdown (which may lower demand on steel structures)
4. Falling prices of dwellings may entail fall of land prices
5. Possible lack of expected synergies with Amontex

Event: Lease of the office space

In December 2008, EP signed a 10-year lease-out agreement (with ING Lease) for the office space of Legnicka Park Popowice project. Consequently, the Company is likely to cash in c. PLN 55 million, which should improve its current financial standing. Beginning from 2009, EP is likely to start paying

Fig. 2 Energomontaż Południe; Changes in IDM's financial forecast

IFRS consolidated PLN m	2008E			2009E			2010E		
	current	previous	change	current	previous	change	current	previous	change
Sales	249.9	249.9	0%	272.3	272.3	0%	296.8	296.8	0%
EBIT	29.3	18.1	62%	20.9	16.8	24%	22.9	18.8	22%
NP	14.6	9.8	48%	13.9	12.2	13%	15.2	12.5	22%

Source: DM IDMSA estimates

installments to the lease donor which is likely to increase its financial costs, while at the end of 2018 it is likely to buy the real estate back.

to the current level of LT Treasuries, our 12M EFV assessment of EP increases by 18% to PLN 4.0 per share (from PLN 3.40 previously); please refer to *Figure 3* regarding the details.

Financial forecast

We upgrade our EBIT and NP forecast for EP (for details please refer to *Figure 2*). The changes in our financial forecast in 2008E stem from expected revaluation of Legnicka Park Popowice in 4Q08, which should more than offset expected one-off losses on FX hedging. In 2009E and beyond, in turn, we include gains and costs related to renting of the office space.

Recommendation

Given the premium on 2010E multiples at which EP's equities trade vs. its peers, and due to lack of clear ST positive catalysts on the horizon, we keep both our LT fundamental Hold recommendation and ST market-relative Neutral bias for the Company's equities intact.

Valuation

As a result of aforementioned changes in our financial forecast and downward adjustment of the definite period risk-rate

Investment story

Energomontaż Południe (EP) is one of few construction companies in Poland focused on power sector construction with extensive experience and references in the most complex projects. As the power infrastructure in Poland requires immediate investment (otherwise the Polish economy will face electric power shortages), the outlook for the sector seems attractive. Please note, however, that on the back of power generation companies' investment schedules, the market growth should occur after 2010-2011; consequently, the short-to-mid term outlook for the sector seems rather mediocre and in the next three years, EP's results will be driven chiefly by power companies' rather slight renovation outlays. To develop its contract portfolio, EP plans to reinforce its foreign market presence. However, a smooth foreign expansion might be a challenge given the rather limited mobility of its execution potential, in our view.

Fig. 3 Energomontaż Południe; SOTP valuation

Asset	Valuation method	Value to the Company (PLN m)
Housing assets	Calculation of the land value	40.3
Construction business	DCF FCFF	189.0
Total	-	229.3
Cash and equivalents		38.6
Interest-bearing debt		73.0
NAV		194.9
Value per share		4.0

Source: DM IDMSA estimates

Fig. 4 Energomontaż Południe; Valuation of the Company's housing assets

Name of the project	Location	NSA (sq.m.)	Average price per sq m of sellable area	% of dwelling price as a cost of land	Average land price (PLN)	Value to the Company (PLN m)
Osiedle Książęca (Phase 2 and 3)	Katowice-Ligota	36,000	5,000	5%	250	9.0
Willa nad Potokiem	Katowice-Piotrowice	3,500	5,000	5%	250	0.9
Wójtowa Wieś	Opole	42,000				9.0
Osiedle Książęca (Phase 1)	Katowice-Ligota	14,000				21.4
Total (PLN m)						40.3

Source: Company, DM IDMSA estimates

Fig. 5 Energomontaż Południe; DCF valuation of construction business

PLN m	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	>2019E
Sales	249.9	272.3	296.8	332.4	379.1	432.7	494.0	534.1	557.1	580.0	604.0	628.9	
yoy change	8%	9%	9%	12%	14%	14%	14%	8%	4%	4%	4%	4%	
EBIT margin	11.7%	7.7%	7.7%	7.8%	8.1%	7.8%	7.7%	7.2%	6.7%	6.5%	6.5%	6.4%	
EBIT	29.3	20.9	22.9	26.0	30.7	33.6	37.9	38.6	37.6	37.8	39.1	40.5	
yoy change	168%	-29%	10%	14%	18%	10%	13%	2%	-3%	1%	3%	3%	
Effective cash tax rate (T)	22%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	
EBIT * (1-T)	22.9	16.9	18.5	21.1	24.8	27.2	30.7	31.3	30.4	30.6	31.7	32.8	
yoy change	179%	-26%	10%	14%	18%	10%	13%	2%	-3%	1%	3%	3%	
EBITDA	33.8	25.8	28.1	31.5	36.5	39.8	44.4	45.5	42.1	41.2	43.3	45.5	
yoy change	124%	-24%	9%	12%	16%	9%	12%	3%	-7%	-2%	5%	5%	
EBITDA margin	13.5%	9.5%	9.5%	9.5%	9.6%	9.2%	9.0%	8.5%	7.6%	7.1%	7.2%	7.2%	
Depreciation	4.5	4.9	5.2	5.5	5.9	6.2	6.5	6.9	4.5	3.4	4.2	5.1	
EBIT * (1-T) + D	27.3	21.8	23.7	26.6	30.7	33.4	37.2	38.1	35.0	34.0	35.9	37.8	
yoy change	121%	-20%	9%	12%	15%	9%	11%	3%	-8%	-3%	6%	5%	
Capex	-31.4	-5.6	-6.1	-6.7	-6.2	-6.6	-6.9	-7.3	-7.7	-5.1	-28.5	-5.2	
Change in WC	-23.3	-10.3	-10.4	-14.0	-18.7	-21.1	-23.4	-15.3	-8.7	-8.8	-9.1	-9.5	
Free cash flow	-27.4	5.9	7.3	5.9	5.8	5.7	6.8	15.6	18.5	20.2	-1.8	23.1	
Cost of equity													
Risk free rate (nominal)	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.0%
Equity risk premium	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Unlevered beta	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Beta adjusted for the level of Company's leverage	1.82	1.32	1.33	1.31	1.29	1.27	1.23	1.21	1.20	1.21	1.20	1.17	1.17
Required rate of return	13.7%	11.5%	11.5%	11.4%	11.3%	11.2%	11.1%	11.0%	11.0%	11.0%	10.9%	10.8%	10.3%
Cost of debt													
Cost of debt (pre-tax)	7.4%	7.2%	6.5%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Effective tax rate	22%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
After-tax cost of debt	5.8%	5.8%	5.3%	4.9%	4.9%								
WACC													
Weight of debt	51%	28%	29%	28%	26%	25%	22%	21%	20%	20%	19%	17%	17%
Weight of equity	49%	72%	71%	72%	74%	75%	78%	79%	80%	80%	81%	83%	83%
Cost of equity	13.7%	11.5%	11.5%	11.4%	11.3%	11.2%	11.1%	11.0%	11.0%	11.0%	10.9%	10.8%	10.3%
After-tax cost of debt	5.8%	5.8%	5.3%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%
WACC	9.6%	9.9%	9.7%	9.6%	9.6%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.8%	9.3%
Discount multiple	1.00	1.00	1.09	1.20	1.31	1.44	1.58	1.73	1.90	2.09	2.29	2.52	
Discount factor	1.00	1.00	0.91	0.83	0.76	0.69	0.63	0.58	0.53	0.48	0.44	0.40	
PV of free cash flow (PLN m)			6.7	4.9	4.4	4.0	4.3	9.0	9.7	9.7	-0.8	9.2	
Sum of FCFFs PVs (PLN m)													61.1
Weight of debt in the residual period													17%
Weight of equity in the residual period													83%
Average cost of equity in the definite period													11.3%
Average WACC in the definite period													9.8%
WACC in the residual period													9.3%
Residual growth of FCFFs, base-case scenario													2.0%
Residual value (PLN m)													321.5
Present value of the residual value (PLN m)													127.8
EV of EP's construction business (PLN m)													189.0

Source: Company, DM IDMSA estimates

Financial statements (IFRS consolidated)

Fig. 6 Energomontaż Południe; Balance sheet

PLN m	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Fixed assets	49.7	130.8	76.5	77.3	78.5	78.9	79.3	79.7	80.1	83.2	84.9	109.2	109.4
Intangibles	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Goodwill	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Tangible fixed assets	34.8	101.7	47.4	48.3	49.5	49.8	50.2	50.6	51.0	54.2	55.9	55.4	55.6
LT receivables	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
LT investments	12.6	26.8	26.8	26.8	26.8	26.8	26.8	26.8	26.8	26.8	26.8	51.5	51.5
LT deferred assets	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current assets	144.1	187.7	218.7	242.3	265.4	293.6	326.2	358.8	390.0	411.7	435.1	437.0	464.0
Inventories	45.7	49.4	55.9	60.5	67.2	75.7	86.0	97.8	105.8	110.7	115.3	119.9	124.6
ST receivables	58.1	100.0	108.9	118.8	133.0	151.7	173.1	197.6	213.7	222.9	232.0	241.6	251.6
ST deferred assets	3.6	12.7	13.8	15.1	16.9	19.3	22.0	25.1	27.2	28.3	29.5	30.7	32.0
Cash&equivalents	35.3	24.2	38.6	46.5	46.9	45.5	43.7	36.9	41.9	48.4	56.9	43.4	54.4
Other assets	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Total assets	193.8	318.5	295.2	319.6	343.9	372.4	405.5	438.5	470.1	494.9	520.1	546.2	573.4
Equity	91.4	101.6	110.1	120.1	132.7	146.3	161.5	179.3	196.7	213.0	230.0	247.9	266.6
Liabilities & reserves	102.4	216.9	185.1	199.5	211.3	226.2	244.0	259.2	273.4	281.9	290.0	298.3	306.9
Reserves	11.1	11.9	13.0	14.2	15.9	18.1	20.7	23.6	25.5	26.6	27.7	28.8	30.0
LT liabilities	7.4	72.7	32.7	32.7	32.7	32.7	32.7	32.7	32.7	32.7	32.7	32.7	32.7
Non-interest-bearing	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Interest-bearing	4.7	70.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
ST Liabilities	60.1	110.3	115.5	126.6	133.5	142.1	152.6	159.5	168.3	173.6	178.7	183.7	188.9
Non-interest-bearing	45.1	67.3	72.5	76.6	83.5	92.1	102.6	115.5	124.3	129.6	134.7	139.7	144.9
Interest-bearing	15.0	43.0	43.0	50.0	50.0	50.0	50.0	44.0	44.0	44.0	44.0	44.0	44.0
Reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred liabilities	23.8	22.0	23.9	26.1	29.2	33.3	38.0	43.4	46.9	49.0	51.0	53.1	55.3
Total liabilities and equity	193.8	318.5	295.2	319.6	343.9	372.4	405.5	438.5	470.1	494.9	520.1	546.2	573.4

Source: Company, DM IDMSA estimates

Fig. 7 Energomontaż Południe; Income statement

PLN m	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Sales	232.3	249.9	272.3	296.8	332.4	379.1	432.7	494.0	534.1	557.1	580.0	604.0	628.9
COGS	-214.5	-217.6	-238.8	-260.4	-291.7	-331.9	-380.0	-435.3	-473.1	-496.1	-517.6	-539.1	-561.4
Gross profit on sales	17.8	32.3	33.5	36.4	40.7	47.2	52.6	58.7	60.9	61.0	62.4	64.9	67.5
Selling costs	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3
General administration costs	-9.2	-15.3	-16.6	-17.5	-18.6	-20.5	-22.9	-24.7	-26.2	-27.3	-28.4	-29.6	-30.8
Net profit on sales	8.5	16.9	16.8	18.8	21.9	26.6	29.5	33.8	34.6	33.5	33.8	35.0	36.4
Other operating income	14.1	1.2	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Other operating costs	-11.7	-3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	14.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	10.9	29.3	20.9	22.9	26.0	30.7	33.6	37.9	38.6	37.6	37.8	39.1	40.5
Financial income	9.7	4.2	4.4	4.5	4.9	2.9	2.9	2.8	2.9	3.1	3.4	3.3	3.3
Financial costs	-4.0	-11.2	-8.1	-8.6	-8.5	-8.5	-8.5	-8.3	-8.1	-8.1	-8.1	-8.1	-8.1
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	16.6	22.3	17.1	18.7	22.4	25.1	28.1	32.4	33.4	32.5	33.1	34.3	35.7
Income tax	-4.2	-7.7	-3.3	-3.6	-4.3	-4.8	-5.3	-6.2	-6.3	-6.2	-6.3	-6.5	-6.8
Minority interest in net income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	12.4	14.6	13.9	15.2	18.2	20.4	22.7	26.2	27.0	26.3	26.8	27.8	28.9

Source: Company, DM IDMSA estimates

Fig. 8 Energomontaż Południe; Cash flow

PLN m	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Net profit (loss)	12.4	14.6	13.9	15.2	18.2	20.4	22.7	26.2	27.0	26.3	26.8	27.8	28.9
Depreciation and amortization	4.2	4.5	4.9	5.2	5.5	5.9	6.2	6.5	6.9	4.5	3.4	4.2	5.1
NWC change:	-48.7	-63.3	-10.3	-10.4	-14.0	-18.7	-21.1	-23.4	-15.3	-8.7	-8.8	-9.1	-9.5
Change in inventories	-14.0	-43.7	-6.5	-4.6	-6.7	-8.6	-10.3	-11.8	-8.1	-4.9	-4.6	-4.6	-4.8
Change in receivables	-20.6	-41.9	-9.0	-9.8	-14.2	-18.7	-21.4	-24.5	-16.0	-9.2	-9.2	-9.6	-10.0
Change in payables	-14.1	22.2	5.2	4.1	6.9	8.6	10.5	12.9	8.8	5.3	5.0	5.0	5.2
Other	3.3	-21.2	60.6	4.0	4.4	7.4	8.0	8.6	6.7	5.0	4.8	5.0	5.1
Operating cash flow	-28.8	-65.5	69.1	14.0	14.1	14.9	15.8	17.9	25.3	27.2	26.2	27.9	29.6
Capital expenditures	-6.2	-31.4	-5.6	-6.1	-6.7	-6.2	-6.6	-6.9	-7.3	-7.7	-5.1	-28.5	-5.2
Other	14.3	1.8	3.0	3.1	3.4	1.4	1.3	1.2	1.2	1.4	1.6	1.5	1.5
Investing cash flow	8.0	-29.6	-2.6	-3.0	-3.3	-4.8	-5.2	-5.7	-6.1	-6.3	-3.5	-27.0	-3.8
Change in interest-bearing debt	8.7	93.3	-40.0	7.0	0.0	0.0	0.0	-6.0	0.0	0.0	0.0	0.0	0.0
Dividends payment	0.0	-4.4	-5.4	-5.1	-5.6	-6.7	-7.5	-8.4	-9.7	-10.0	-9.7	-9.9	-10.3
Interest	-0.5	-4.9	-6.7	-5.0	-4.8	-4.8	-4.8	-4.6	-4.4	-4.4	-4.4	-4.4	-4.4
Other	35.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing cash flow	44.0	84.0	-52.1	-3.1	-10.4	-11.5	-12.3	-19.0	-14.2	-14.4	-14.2	-14.4	-14.7
Total cash flow	23.3	-11.1	14.4	7.9	0.4	-1.4	-1.8	-6.8	5.0	6.4	8.5	-13.5	11.1

Source: Company, DM IDMSA estimates

Fig. 9 Energomontaż Południe; Ratios

	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Sales growth (yoy)	82%	8%	9%	9%	12%	14%	14%	14%	8%	4%	4%	4%	4%
Gross profit growth (yoy)	177%	81%	4%	9%	12%	16%	11%	11%	4%	0%	2%	4%	4%
EBITDA growth (yoy)	n.m.	124%	-24%	9%	12%	16%	9%	12%	3%	-7%	-2%	5%	5%
Operating profit growth (yoy)	n.m.	168%	-29%	10%	14%	18%	10%	13%	2%	-3%	1%	3%	3%
Net income growth (yoy)	n.m.	17%	-5%	10%	20%	12%	12%	15%	3%	-3%	2%	4%	4%
A/R turnover days	75	115	140	140	138	137	137	137	141	143	143	143	143
Inventory turnover days	66	80	80	82	80	79	78	77	79	80	80	80	79
A/P turnover days	54	71	85	85	83	81	80	80	82	83	83	83	83
Cash cycle	87	124	135	137	136	135	135	134	137	140	140	139	139
NWC/Sales	24%	32%	33%	34%	34%	35%	36%	36%	36%	36%	36%	36%	36%
Gross margin	7.7%	12.9%	12.3%	12.3%	12.2%	12.5%	12.2%	11.9%	11.4%	11.0%	10.8%	10.7%	10.7%
EBITDA margin	6.5%	13.5%	9.5%	9.5%	9.5%	9.6%	9.2%	9.0%	8.5%	7.6%	7.1%	7.2%	7.2%
EBIT margin	4.7%	11.7%	7.7%	7.7%	7.8%	8.1%	7.8%	7.7%	7.2%	6.7%	6.5%	6.5%	6.4%
Pretax margin	7.1%	8.9%	6.3%	6.3%	6.7%	6.6%	6.5%	6.6%	6.2%	5.8%	5.7%	5.7%	5.7%
Net margin	5.4%	5.8%	5.1%	5.1%	5.5%	5.4%	5.3%	5.3%	5.1%	4.7%	4.6%	4.6%	4.6%
ROE	19.1%	15.1%	13.1%	13.2%	14.4%	14.6%	14.8%	15.4%	14.4%	12.9%	12.1%	11.6%	11.2%
ROA	7.6%	5.7%	4.5%	4.9%	5.5%	5.7%	5.8%	6.2%	6.0%	5.5%	5.3%	5.2%	5.2%
Current Ratio	2.4	1.7	1.9	1.9	2.0	2.1	2.1	2.2	2.3	2.4	2.4	2.4	2.5
Quick Ratio	1.6	1.3	1.4	1.4	1.5	1.5	1.6	1.6	1.7	1.7	1.8	1.7	1.8

Source: Company, DM IDMSA estimates

BASIC DEFINITIONS

A/R turnover (in days) = $365/(\text{sales}/\text{average A/R})$
Inventory turnover (in days) = $365/(\text{COGS}/\text{average inventory})$
A/P turnover (in days) = $365/(\text{COGS}/\text{average A/P})$
Current ratio = $(\text{current assets} - \text{ST deferred assets})/\text{current liabilities}$
Quick ratio = $(\text{current assets} - \text{ST deferred assets} - \text{inventory})/\text{current liabilities}$
Interest coverage = $(\text{pre-tax profit before extraordinary items} + \text{interest payable})/\text{interest payable}$
Gross margin = $\text{gross profit on sales}/\text{sales}$
EBITDA margin = $\text{EBITDA}/\text{sales}$
EBIT margin = EBIT/sales
Pre-tax margin = $\text{pre-tax profit}/\text{sales}$
Net margin = $\text{net profit}/\text{sales}$
ROE = $\text{net profit}/\text{average equity}$
ROA = $(\text{net income} + \text{interest payable})/\text{average assets}$
EV = $\text{market capitalization} + \text{interest bearing debt} - \text{cash and equivalents}$
EPS = $\text{net profit}/\text{no. of shares outstanding}$
CE = $\text{net profit} + \text{depreciation}$
Dividend yield (gross) = $\text{pre-tax DPS}/\text{stock market price}$
Cash sales = accrual sales corrected for the change in A/R
Cash operating expenses = accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes

DM IDM S.A. generally values the covered non bank companies via two methods: comparative method and DCF method (discounted cash flows). The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the DCF method is its independence from the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Please note that we also resort to other valuation techniques (e.g. NAV-, DDM- or SOTP-based), should it prove appropriate in a given case.

KEY TO INVESTMENT RANKINGS

This is a guide to expected price performance in absolute terms over the next 12 months:

Buy – fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;
Hold – either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;
Sell – fundamentally overvalued (12M EFV < current share price + 1-year cost of equity) + catalysts which should close the valuation gap identified.

This is a guide to expected relative price performance:

Overweight – expected to perform better than the benchmark (WIG) over the next quarter in relative terms
Neutral – expected to perform in line with the benchmark (WIG) over the next quarter in relative terms
Underweight – expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

The recommendation tracker presents the performance of DM IDMSA's recommendations. A recommendation expires on the day it is altered or on the day 12 months after its issuance, whichever comes first. Relative performance compares the rate of return on a given recommended stock in the period of the recommendation's validity (i.e. from the date of issuance to the date of alteration or – in case of maintained recommendations – from the date of issuance to the current date) in a relation to the rate of return on the benchmark in this time period. The WIG index constitutes the benchmark. For recommendations that expire by an alteration or are maintained, the ending values used to calculate their absolute and relative performance are: the stock closing price on the day the recommendation expires/ is maintained and the closing value of the benchmark on that date. For recommendations that expire via a passage of time, the ending values used to calculate their absolute and relative performance are: the average of the stock closing prices for the day the recommendation elapses and four directly preceding sessions and the average of the benchmark's closing values for the day the recommendation expires and four directly preceding sessions.

LT fundamental recommendation tracker

Recommendation	Issue date	Reiteration date	Expiry date	Performance	Relative performance	Price at issue/reiteration (PLN)	12M EFV (PLN)
Energomontaż Południe							
Hold	01.12.2008	-	Not later than 01.12.2009	12%	8%	2.36	3.40
-	→	09.01.2009	-	-	-	2.65	4.00

Market-relative recommendation tracker

Relative recommendation	Issue date	Reiteration date	Expiry date	Price at issue/reiteration (PLN)	Relative performance
Energomontaż Południe					
Neutral	01.12.2008	-	Not later than 01.12.2009	2.36	8%
-	→	09.01.2009	-	2.65	-

Distribution of IDM's current recommendations

	Buy	Hold	Sell	Suspended	Under revision
Numbers	20	24	5	1	0
Percentage	40%	48%	10%	2%	0%

Banks

Net Interest Margin (NIM) = $\text{net interest income}/\text{average assets}$
NIM Adjusted = $(\text{net interest income adjusted for SWAPs})/\text{average assets}$
Net interest income = fees&commissions + result on financial operations (trading gains) + FX gains
Interest Spread = $(\text{interest income}/\text{average interest earning assets})/(\text{interest cost}/\text{average interest bearing liabilities})$
Cost/Income = $(\text{general costs} + \text{depreciation} + \text{other operating costs})/(\text{profit on banking activity} + \text{other operating income})$
ROE = $\text{net profit}/\text{average equity}$
ROA = $\text{net income}/\text{average assets}$
Non performing loans (NPL) = loans in 'substandard', 'doubtful' and 'lost' categories
NPL coverage ratio = $\text{loan loss provisions}/\text{NPL}$
Net provision charge = $\text{provisions created} - \text{provisions released}$

DM IDM S.A. generally values the covered banks via two methods: comparative method and fundamental target fair P/E and target fair P/BV multiples method. The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the fundamental target fair P/E and target fair P/BV multiples method is its independence of the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation.

Assumptions used in valuation can change, influencing thereby the level of the valuation. Among the most important assumptions are: GDP growth, forecasted level of inflation, changes in interest rates and currency prices, employment level and change in wages, demand on the analysed company products, raw material prices, competition, standing of the main customers and suppliers, legislation changes, etc.

Changes in the environment of the analysed company are monitored by analysts involved in the preparation of the recommendation, estimated, incorporated in valuation and published in the recommendation whenever needed.

Distribution of IDM's current recommendations for companies that were within the last 12M IDM customers in investment banking

	Buy	Hold	Sell	Suspended	Under revision
Numbers	2	3	0	1	0
Percentage	33%	50%	0%	17%	0%

Distribution of IDM's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	20	15	14	1	0
Percentage	40%	30%	28%	2%	0%

Distribution of IDM's current market relative recommended weightings for the companies that were within the last 12M IDM customers in investment banking

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	1	4	0	1	0
Percentage	17%	67%	0%	17%	0%

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