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# Energomontaż Południe

## Investment opinion

Despite lack of meaningful contracts on the domestic market, Energomontaż Południe (EP) positively surprised with its smooth foreign expansion and dynamically increased its core business contract portfolio in the past few months (current backlog covers 95% of our FY09 sales forecast). Such development (growing share of EUR-denominated contracts in the portfolio) should be favorable for the Company's profits given current FX environment. This coupled with better yoy quality of the backlog and the production division being finally in the black opens the room for yoy profits improvement in the following years, we believe. Furthermore, we see upside risk to our current (already upgraded) financial forecast and EFV assessment for EP as the Company should capitalize on the pick-up in volumes of new homes sold which sooner or later will materialize.

## Backlog issues

The current backlog of EP stands at PLN 410 million, of which PLN 295 million falls on 2009. The Company has recently positively surprised with its smooth foreign expansion; as a result over 60% of the Company's contract portfolio are the export contracts (in 2008 it was <50%). Specifically, EP is capitalizing on a huge investment program in power capacity enhancement in Germany being implemented at the moment (in order to reduce emission of CO<sub>2</sub>). The program in question should last till 2020 and constitutes an alternative for poor investments in the power sector on the home Polish turf, the way we see it.

## Financial forecast update

▲ **Results improvement.** The Company should improve, we believe, its results in the following years, with the following arguments supporting this rationale: (i) dynamically improving backlog of high margin contracts thanks to smooth foreign expansion, (ii) improving management of large projects (which used to be a weakness of EP before the new team of project managers joined the Company in 1H08), and (iii) increasing profitability of the production division (which reached BEP in 2H08). Furthermore, positive impact on the Company's numbers should be exerted by decreasing construction costs as well as relatively weak Zloty (the Company only partially hedges its FX exposure). We expect all the above positive developments to shine from EP's financial results from 2Q09E onwards.

▲ **Forecasts upgraded.** Having said the above, we revise upward our financial forecast for EP (for details please refer to *Figure 1* on the next page). We increase our sales forecast for 2009 by 14% to PLN 311.1 million (from PLN 272.3 million

**Sector:** Construction  
**Fundamental rating:** Buy (↑)  
**Market relative:** Overweight (↑)  
**Price:** PLN 3.01  
**12M EFV:** PLN 5.0 (↑)

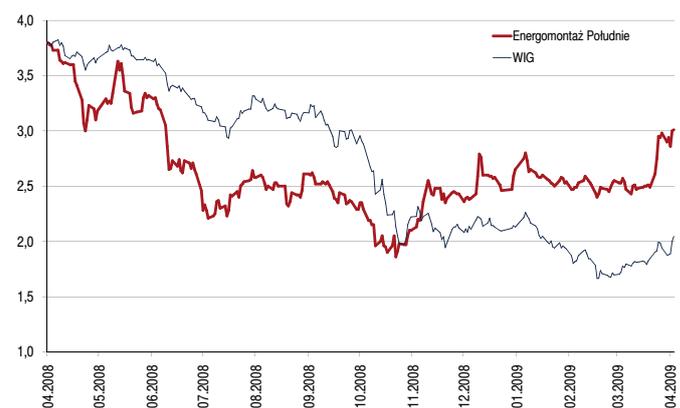
**Market Cap.:** US\$ 43 m  
**Reuters code:** EMPD.WA  
**Av. daily turnover:** US\$ 0.01 m  
**Free float:** 63%  
**12M range:** PLN 1.86-3.64

### Key data

IFRS consolidated		2008	2009E	2010E	2011E
Sales	PLN m	239.8	311.1	331.4	367.8
EBITDA	PLN m	29.8	36.3	37.9	38.8
EBIT	PLN m	25.3	31.4	32.4	32.6
Net profit	PLN m	15.6	16.8	19.6	22.0
EPS	PLN	0.33	0.35	0.41	0.46
EPS yoy chng	%	16	7	17	12
Net debt	PLN m	63.2	38.0	49.2	49.8
P/E	x	9.2	8.5	7.3	6.5
P/CE	x	7.2	6.7	5.8	5.2
EV/EBITDA	x	7.0	5.1	5.1	5.0
EV/EBIT	x	8.3	5.9	6.0	6.0
EV/Sales	x	0.9	0.6	0.6	0.5
Gross dividend yield	%	3.0	4.0	4.3	5.1
No. of shares (eop)	ths.	47,544	47,544	47,544	47,544

Source: Company, DM IDMSA estimates

### Stock performance



Source: www.money.pl

## Upcoming events

1. Release of 1Q09 results: May 14, 2009

### Catalysts

1. Efficient expansion on the German market
2. Signing large contracts in the power segment
3. Synergies with Amontex

### Risk factors

1. Delays in the start of the investments in the power sector in Poland
2. Falling prices of dwellings may entail fall of land prices
3. Possible lack of expected synergies with Amontex

previously). Currently the backlog falling on 2009 covers 95% of our FY09 sales projection. We also increase our assumptions concerning the margins for this year and beyond (we forecast the gross profit on sales margin at 15.9% in 2009 vs. 12.3% before). Consequently, we raise our EBIT projection for 2009 to PLN 31.4 million (from PLN 20.9 million) and for 2010 to PLN 32.4 million (from PLN 22.9 million previously). Our current NP forecast for 2009 and 2010 stands at, respectively, PLN 16.8 million (versus PLN 13.9 million previously) and PLN 19.6 million (up from PLN 15.2 million before).

Fig. 1 Energomontaż Południe; Changes in IDM's forecast

IFRS consolidated PLN m	2009E			2010E			2011E		
	current	previous	change	current	previous	change	current	previous	change
Sales	311.1	272.3	14%	331.4	296.8	12%	367.8	332.4	11%
EBIT	31.4	20.9	50%	32.4	22.9	41%	32.6	26.0	25%
NP	16.8	13.9	21%	19.6	15.2	29%	22.0	18.2	21%

Source: DM IDMSA estimates

Fig. 2 Energomontaż Południe; 1Q09 results' forecast

IFRS consolidated PLN m			yoy change	Full year numbers		yoy change	realization of the FY figures in 1Q	
	1Q09E	1Q08		2009E	2008		2009E	2008
	Sales	46.5	36.2	28%	311.1	239.8	30%	15%
Gross profit on sales	8.4	4.1	105%	49.5	37.1	34%	17%	11%
Gross profit on sales margin	18.0%	11.3%	-	15.9%	11.9%	-	-	-
EBIT	3.7	2.4	53%	31.4	25.3	24%	12%	9%
EBIT margin	7.9%	6.6%	-	10.1%	8.1%	-	-	-
Pre-tax profit	0.8	2.9	-71%	23.9	19.8	21%	3%	14%
Pre-tax margin	1.8%	7.9%	-	7.7%	6.4%	-	-	-
Net profit	0.6	0.5	7%	16.8	15.6	7%	3%	3%
Net margin	1.2%	1.5%	-	5.4%	5.0%	-	-	-

Source: Company, DM IDMSA estimates

▲ **Residential construction business – a conditional upside to our forecast.** We see an upside risk to our current financial forecast for EP. Specifically, in our forecast we do not include any profits from the residential construction business while the Company may show profits from this activity in case of a pick up in volumes of new homes sold (by the end of 2009 EP should complete the residential project in Katowice encompassing net sellable area of app. 14,000 sq m).

▲ **Declining net debt.** EP reduced its net debt in 1Q09 (from PLN 63.2 million at the 2008-end) which should be positively perceived by the investors, in our view. Please note that on the back of the lease-out agreement (with ING Lease) for the office space of Legnicka Park Popowice, EP cashed in c. PLN 55 million in the first quarter of 2009. Such development should more than offset envisaged higher NWC needs this year, the way we see it.

We envisage material yoy improvement of the Company's gross profit on sales margin in 1Q09 (18% vs. 11.3% last year), due to aforementioned positive impact of relatively cheap Zloty in the last quarter. Such development should translate into >100% yoy increase of the Company's gross profit on sales, we believe.

We forecast, however, 'only' 53% yoy increase of the Company's operating profit in 1Q09, with the expanding base of SG&A costs constituting the main drag (consolidation of Amontex beginning from 3Q08). Higher yoy financial costs (envisaged FX loss on forwards of app. PLN -3.5 million) may result in flattish yoy quarterly NP, the way we see it.

Despite flattish yoy bottom line for 1Q09E, the market may feel pleased with strong operating showing of EP. Please also note that starting from 2Q09E onwards we expect the improvement at the EBIT level to be also seen at the bottom line (due to lower net debt).

### Quarterly results corner; 1Q09E preview

EP will release its 1Q09 financial results on May 14. As far the Company's quarterly top line is concerned, we forecast healthy yoy growth (28%) – driven by continuously improving contract portfolio (mostly EUR-denominated contracts).

### Valuation

Update of our financial forecast for the Company results in a material (25%) increase of our 12M EFV for EP to PLN 5.0 per share (from PLN 4.0 previously).

Fig. 3 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 (PLN)	Value of land as % of dwelling price	Average land price (PLN/meter)	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
<b>Total</b>						<b>40.3</b>

Source: DM IDMSA estimates

Fig. 4 Energomontaż Południe; DCF valuation of construction business

PLN m	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	>2019E
Sales	311.1	331.4	367.8	413.5	465.0	510.7	552.1	575.7	599.3	624.0	649.7	
yoy change	30%	7%	11%	12%	12%	10%	8%	4%	4%	4%	4%	
EBIT margin	10.1%	9.8%	8.9%	8.0%	7.4%	7.3%	6.9%	6.4%	6.2%	6.1%	6.1%	
EBIT	31.4	32.4	32.6	33.2	34.3	37.3	37.9	36.7	36.9	38.2	39.5	
yoy change	24%	3%	1%	2%	3%	9%	2%	-3%	1%	3%	3%	
Effective cash tax rate (T)	30%	30%	23%	19%	19%	19%	19%	19%	19%	19%	19%	
EBIT * (1-T)	22.0	22.7	25.1	26.9	27.8	30.2	30.7	29.7	29.9	30.9	32.0	
yoy change	11%	3%	11%	7%	3%	9%	2%	-3%	1%	3%	3%	
EBITDA	36.3	37.9	38.8	40.0	41.4	44.8	44.2	40.5	41.0	43.0	45.2	
yoy change	22%	5%	2%	3%	4%	8%	-1%	-8%	1%	5%	5%	
EBITDA margin	11.7%	11.4%	10.6%	9.7%	8.9%	8.8%	8.0%	7.0%	6.8%	6.9%	7.0%	
Depreciation	4.9	5.6	6.2	6.8	7.1	7.5	6.3	3.8	4.0	4.9	5.8	
EBIT * (1-T) + D	26.9	28.2	31.3	33.7	34.9	37.7	37.0	33.5	33.9	35.8	37.7	
yoy change	11%	5%	11%	7%	4%	8%	-2%	-9%	1%	5%	5%	
Capex	-13.0	-13.6	-14.2	-7.0	-7.6	-8.0	-8.4	-7.0	-4.2	-29.3	-5.9	
Change in WC	-17.8	-15.2	-4.8	-10.0	-11.9	-12.0	-11.9	-4.0	-4.2	-4.6	-4.7	
<b>Free cash flow</b>	<b>-3.9</b>	<b>-0.6</b>	<b>12.3</b>	<b>16.7</b>	<b>15.4</b>	<b>17.7</b>	<b>16.7</b>	<b>22.4</b>	<b>25.5</b>	<b>2.0</b>	<b>27.0</b>	
<b>Cost of equity</b>												
Risk free rate (nominal)	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	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%
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
Beta adjusted for leverage	1.21	1.23	1.24	1.24	1.23	1.20	1.19	1.18	1.19	1.17	1.15	1.15
<b>Required rate of return</b>	<b>11.4%</b>	<b>11.5%</b>	<b>11.6%</b>	<b>11.6%</b>	<b>11.5%</b>	<b>11.4%</b>	<b>11.4%</b>	<b>11.3%</b>	<b>11.3%</b>	<b>11.3%</b>	<b>11.2%</b>	<b>10.2%</b>
<b>Cost of debt</b>												
Cost of debt (pre-tax)	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	30%	30%	23%	19%	19%	19%	19%	19%	19%	19%	19%	19%
<b>After-tax cost of debt</b>	<b>5.0%</b>	<b>4.6%</b>	<b>4.6%</b>	<b>4.9%</b>								
<b>WACC</b>												
Weight of debt	23%	25%	24%	23%	22%	20%	19%	18%	19%	18%	16%	16%
Weight of equity	77%	75%	76%	77%	78%	80%	81%	82%	81%	82%	84%	84%
Cost of equity	11.4%	11.5%	11.6%	11.6%	11.5%	11.4%	11.4%	11.3%	11.3%	11.3%	11.2%	10.2%
After-tax cost of debt	5.0%	4.6%	4.6%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%
<b>WACC</b>	<b>10.0%</b>	<b>9.8%</b>	<b>9.9%</b>	<b>10.0%</b>	<b>10.1%</b>	<b>10.1%</b>	<b>10.1%</b>	<b>10.1%</b>	<b>10.1%</b>	<b>10.1%</b>	<b>10.2%</b>	<b>9.3%</b>
Discount multiple	1.00	1.07	1.18	1.30	1.43	1.57	1.73	1.91	2.10	2.31	2.55	
Discount factor	1.00	0.93	0.85	0.77	0.70	0.64	0.58	0.52	0.48	0.43	0.39	
<b>PV of free cash flow</b>		<b>-0.6</b>	<b>10.4</b>	<b>12.8</b>	<b>10.8</b>	<b>11.3</b>	<b>9.6</b>	<b>11.8</b>	<b>12.1</b>	<b>0.8</b>	<b>10.6</b>	
Sum of FCFs PVs												89.7
Weight of debt in the residual period												16%
Weight of equity in the residual period												84%
Average cost of equity in the definite period												11.4%
Average WACC in the definite period												10.1%
WACC in the residual period												9.3%
Residual growth of FCFs, base-case scenario												2.0%
Residual value												375.7
Present value of the residual value												147.3
<b>EV of EP's construction business</b>												<b>237.0</b>

Source: Company, DM IDMSA estimates

Fig. 5 Energomontaż Południe; SOTP valuation

Asset	Valuation method	Value to the Company (PLN m)
Housing assets	Land value	40.3
Construction business	DCF FCFF	237.0
Cash and equivalents (2009 eop)		33.0
Interest-bearing debt (2009 eop)		71.0
<b>NAV</b>		<b>239.3</b>
<b>Value per share (PLN)</b>		<b>5.0</b>

Source: DM IDMSA estimates

### Recommendation

We upgrade our LT fundamental recommendation and market-relative bias for EP's equities to a Buy (from Hold) and an Overweight (from Neutral), due to: (i) material (66%) upside to our 12M EFV, (ii) expected healthy pace of results improvement in the coming quarters (secured by the German expansion) and years (on the back of local power sector investments launch in 2011E) and (iii) our conviction that EP constitutes a "forgotten" and out of favor company, which in case of its "re-discovery" by the market may present the investors with an appealing investment story.

## Financial statements (IFRS consolidated)

Fig. 6 Energomontaż Południe; Balance sheet

PLN m	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
<b>Fixed assets</b>	<b>107.4</b>	<b>115.5</b>	<b>123.6</b>	<b>131.6</b>	<b>131.8</b>	<b>132.2</b>	<b>132.7</b>	<b>134.9</b>	<b>138.1</b>	<b>138.3</b>	<b>162.7</b>	<b>162.9</b>
Intangibles	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Goodwill	26.6	26.6	26.6	26.6	26.6	26.6	26.6	26.6	26.6	26.6	26.6	26.6
Tangible fixed assets	49.0	57.1	65.2	73.2	73.4	73.8	74.3	76.5	79.7	79.9	79.5	79.7
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
LT investments	15.3	15.3	15.3	15.3	15.3	15.3	15.3	15.3	15.3	15.3	40.1	40.1
LT deferred assets	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7
Other	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
<b>Current assets</b>	<b>202.1</b>	<b>206.9</b>	<b>227.0</b>	<b>244.2</b>	<b>266.7</b>	<b>290.4</b>	<b>307.7</b>	<b>327.5</b>	<b>345.7</b>	<b>367.4</b>	<b>365.7</b>	<b>389.2</b>
Inventories	57.2	71.4	73.7	78.1	83.2	89.0	94.0	98.7	101.5	104.2	106.8	109.6
ST receivables	120.7	81.3	99.8	110.8	124.5	140.0	153.8	166.3	173.4	180.5	187.9	195.7
ST deferred assets	16.4	21.2	22.6	25.1	28.2	31.8	34.9	37.7	39.3	40.9	42.6	44.4
Cash & equivalents	7.8	33.0	30.8	30.2	30.7	29.6	25.0	24.8	31.5	41.8	28.3	39.5
Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total assets</b>	<b>309.5</b>	<b>322.4</b>	<b>350.6</b>	<b>375.7</b>	<b>398.5</b>	<b>422.6</b>	<b>440.4</b>	<b>462.3</b>	<b>483.8</b>	<b>505.7</b>	<b>528.4</b>	<b>552.0</b>
<b>Equity</b>	<b>112.1</b>	<b>123.1</b>	<b>136.5</b>	<b>151.3</b>	<b>165.2</b>	<b>179.9</b>	<b>196.9</b>	<b>213.6</b>	<b>229.2</b>	<b>245.5</b>	<b>262.7</b>	<b>280.6</b>
<b>Liabilities &amp; reserves</b>	<b>197.4</b>	<b>199.3</b>	<b>214.0</b>	<b>224.5</b>	<b>233.4</b>	<b>242.7</b>	<b>243.4</b>	<b>248.7</b>	<b>254.6</b>	<b>260.2</b>	<b>265.7</b>	<b>271.4</b>
Reserves	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
LT liabilities	33.2	33.1	33.1	33.1	33.1	33.1	33.1	33.1	33.1	33.1	33.1	33.1
Non-interest-bearing	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Interest-bearing	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
ST Liabilities	130.6	132.6	147.3	157.7	166.6	176.0	176.7	182.0	187.9	193.4	198.9	204.7
Non-interest-bearing	89.6	91.6	97.3	107.7	116.6	126.0	132.7	138.0	143.9	149.4	154.9	160.7
Interest-bearing	41.0	41.0	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
Deferred liabilities	22.6	22.6	22.6	22.6	22.6	22.6	22.6	22.6	22.6	22.6	22.6	22.6
<b>Total liabilities and equity</b>	<b>309.5</b>	<b>322.4</b>	<b>350.6</b>	<b>375.7</b>	<b>398.5</b>	<b>422.6</b>	<b>440.4</b>	<b>462.3</b>	<b>483.8</b>	<b>505.7</b>	<b>528.4</b>	<b>552.0</b>

Source: Company, DM IDMSA estimates

Fig. 7 Energomontaż Południe; Income statement

PLN m	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
<b>Sales</b>	<b>239.8</b>	<b>311.1</b>	<b>331.4</b>	<b>367.8</b>	<b>413.5</b>	<b>465.0</b>	<b>510.7</b>	<b>552.1</b>	<b>575.7</b>	<b>599.3</b>	<b>624.0</b>	<b>649.7</b>
<b>COGS</b>	<b>-202.7</b>	<b>-261.5</b>	<b>-281.2</b>	<b>-317.2</b>	<b>-360.3</b>	<b>-408.2</b>	<b>-449.9</b>	<b>-488.9</b>	<b>-512.5</b>	<b>-534.7</b>	<b>-556.8</b>	<b>-579.8</b>
<b>Gross profit on sales</b>	<b>37.1</b>	<b>49.5</b>	<b>50.2</b>	<b>50.6</b>	<b>53.1</b>	<b>56.8</b>	<b>60.8</b>	<b>63.1</b>	<b>63.2</b>	<b>64.6</b>	<b>67.2</b>	<b>69.8</b>
Selling costs	-1.0	-1.3	-1.3	-1.5	-1.7	-1.9	-2.1	-2.2	-2.3	-2.4	-2.5	-2.6
General administration costs	-15.5	-19.0	-19.6	-20.6	-22.3	-24.6	-25.5	-27.1	-28.2	-29.4	-30.6	-31.8
<b>Net profit on sales</b>	<b>20.6</b>	<b>29.3</b>	<b>29.3</b>	<b>28.5</b>	<b>29.1</b>	<b>30.2</b>	<b>33.2</b>	<b>33.9</b>	<b>32.7</b>	<b>32.8</b>	<b>34.1</b>	<b>35.4</b>
Other operating income	22.0	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	-17.4	-2.0	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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
<b>EBIT</b>	<b>25.3</b>	<b>31.4</b>	<b>32.4</b>	<b>32.6</b>	<b>33.2</b>	<b>34.3</b>	<b>37.3</b>	<b>37.9</b>	<b>36.7</b>	<b>36.9</b>	<b>38.2</b>	<b>39.5</b>
Financial income	7.9	4.1	4.2	4.4	2.4	2.5	2.4	2.4	2.6	2.9	2.9	2.9
Financial costs	-13.4	-11.5	-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
<b>Pre tax</b>	<b>19.8</b>	<b>24.0</b>	<b>28.0</b>	<b>28.5</b>	<b>27.2</b>	<b>28.3</b>	<b>31.5</b>	<b>32.3</b>	<b>31.2</b>	<b>31.7</b>	<b>32.9</b>	<b>34.3</b>
Income tax	-4.2	-7.2	-8.4	-6.6	-5.2	-5.4	-6.0	-6.1	-5.9	-6.0	-6.3	-6.5
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
<b>Net income</b>	<b>15.6</b>	<b>16.8</b>	<b>19.6</b>	<b>22.0</b>	<b>22.0</b>	<b>22.9</b>	<b>25.5</b>	<b>26.1</b>	<b>25.3</b>	<b>25.7</b>	<b>26.7</b>	<b>27.7</b>

Source: Company, DM IDMSA estimates

Fig. 8 Energomontaż Południe; Cash flow

PLN m	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Net income (loss)	15.6	16.8	19.6	22.0	22.0	22.9	25.5	26.1	25.3	25.7	26.7	27.7
Depreciation and amortization	4.6	4.9	5.6	6.2	6.8	7.1	7.5	6.3	3.8	4.0	4.9	5.8
NWC change:	-28.9	-17.8	-15.2	-4.8	-10.0	-11.9	-12.0	-11.9	-4.0	-4.2	-4.6	-4.7
Change in inventories	-11.5	-14.2	-2.4	-4.3	-5.2	-5.7	-5.0	-4.7	-2.8	-2.7	-2.7	-2.8
Change in receivables	-62.7	-5.5	-18.6	-10.9	-13.8	-15.5	-13.8	-12.5	-7.1	-7.1	-7.4	-7.7
Change in payables	45.3	1.9	5.7	10.4	8.9	9.3	6.8	5.3	5.9	5.6	5.5	5.8
Other	-57.2	42.6	0.8	-0.6	0.8	0.4	0.7	0.9	2.0	1.7	1.7	1.7
<b>Operating cash flow</b>	<b>-65.9</b>	<b>46.4</b>	<b>10.7</b>	<b>22.8</b>	<b>19.5</b>	<b>18.5</b>	<b>21.7</b>	<b>21.4</b>	<b>27.0</b>	<b>27.2</b>	<b>28.7</b>	<b>30.4</b>
Capital expenditures	-16.4	-13.0	-13.6	-14.2	-7.0	-7.6	-8.0	-8.4	-7.0	-4.2	-29.3	-5.9
Other	1.6	2.7	2.8	2.9	0.9	0.9	0.8	0.7	0.8	1.1	1.1	1.0
<b>Investing cash flow</b>	<b>-14.8</b>	<b>-10.3</b>	<b>-10.8</b>	<b>-11.3</b>	<b>-6.1</b>	<b>-6.7</b>	<b>-7.2</b>	<b>-7.7</b>	<b>-6.2</b>	<b>-3.1</b>	<b>-28.2</b>	<b>-4.9</b>
Change in interest-bearing debt	51.3	0.0	9.0	0.0	0.0	0.0	-6.0	0.0	0.0	0.0	0.0	0.0
Dividends payment	-4.3	-5.8	-6.2	-7.3	-8.1	-8.2	-8.5	-9.4	-9.7	-9.3	-9.5	-9.9
Interest	-1.2	-5.1	-4.9	-4.8	-4.8	-4.8	-4.6	-4.4	-4.4	-4.4	-4.4	-4.4
Other	7.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Financing cash flow</b>	<b>53.2</b>	<b>-10.9</b>	<b>-2.1</b>	<b>-12.1</b>	<b>-12.9</b>	<b>-13.0</b>	<b>-19.1</b>	<b>-13.9</b>	<b>-14.1</b>	<b>-13.8</b>	<b>-13.9</b>	<b>-14.3</b>
<b>Total cash flow</b>	<b>-27.5</b>	<b>25.2</b>	<b>-2.2</b>	<b>-0.6</b>	<b>0.5</b>	<b>-1.1</b>	<b>-4.6</b>	<b>-0.2</b>	<b>6.7</b>	<b>10.3</b>	<b>-13.5</b>	<b>11.2</b>

Source: Company, DM IDMSA estimates

Fig. 9 Energomontaż Południe; Ratios

	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Sales growth (yoy)	3%	30%	7%	11%	12%	12%	10%	8%	4%	4%	4%	4%
Gross profit growth (yoy)	108%	34%	1%	1%	5%	7%	7%	4%	0%	2%	4%	4%
EBITDA growth (yoy)	98%	22%	5%	2%	3%	4%	8%	-1%	-8%	1%	5%	5%
Operating profit growth (yoy)	131%	24%	3%	1%	2%	3%	9%	2%	-3%	1%	3%	3%
Net income growth (yoy)	26%	7%	17%	12%	0%	4%	11%	3%	-3%	2%	4%	4%
A/R turnover days	136	118	100	105	104	104	105	106	108	108	108	108
Inventory turnover days	93	90	94	87	82	77	74	72	71	70	69	68
A/P turnover days	94	104	102	100	98	94	92	89	89	89	89	89
Cash cycle	134	104	92	92	88	86	87	88	90	89	87	86
NWC/Sales	35%	19%	22%	21%	21%	21%	22%	22%	22%	22%	22%	22%
Gross margin	15.5%	15.9%	15.1%	13.8%	12.9%	12.2%	11.9%	11.4%	11.0%	10.8%	10.8%	10.8%
EBITDA margin	12.4%	11.7%	11.4%	10.6%	9.7%	8.9%	8.8%	8.0%	7.0%	6.8%	6.9%	7.0%
EBIT margin	10.5%	10.1%	9.8%	8.9%	8.0%	7.4%	7.3%	6.9%	6.4%	6.2%	6.1%	6.1%
Pretax margin	8.3%	7.7%	8.5%	7.8%	6.6%	6.1%	6.2%	5.8%	5.4%	5.3%	5.3%	5.3%
Net margin	6.5%	5.4%	5.9%	6.0%	5.3%	4.9%	5.0%	4.7%	4.4%	4.3%	4.3%	4.3%
ROE	15.4%	14.3%	15.1%	15.3%	13.9%	13.3%	13.5%	12.7%	11.4%	10.8%	10.5%	10.2%
ROA	6.2%	5.3%	5.8%	6.0%	5.7%	5.6%	5.9%	5.8%	5.3%	5.2%	5.2%	5.1%
Current ratio	1.5	1.6	1.5	1.5	1.6	1.7	1.7	1.8	1.8	1.9	1.8	1.9
Quick ratio	1.1	1.0	1.0	1.1	1.1	1.1	1.2	1.3	1.3	1.4	1.3	1.4

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** =  $\text{gross profit} / \text{sales}$   
**EBITDA margin** =  $\text{EBITDA} / \text{sales}$   
**EBIT margin** =  $\text{EBIT} / \text{sales}$   
**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** =  $\text{accrual sales corrected for the change in A/R}$   
**Cash operating expenses** =  $\text{accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes}$

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.

## Banks

**Net Interest Margin (NIM)** =  $\text{net interest income} / \text{average assets}$   
**NIM Adjusted** =  $(\text{net interest income adjusted for SWAPs}) / \text{average assets}$   
**Non interest income** =  $\text{fees} + \text{commissions} + \text{result on financial operations (trading gains)} + \text{FX gains}$   
**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.

*LT fundamental recommendation tracker*

Recommendation		Issue date	Reiteration date	Expiry date	Performance	Relative performance	Price at issue/reiteration (PLN)	12M EFV (PLN)	
<b>Energomontaż Południe</b>									
Hold	-	01.12.2008	-	03.04.2009	28%	30%	2.36	3.40	-
-	-	-	09.01.2009	-	-	-	2.65	4.00	↑
-	→	-	11.01.2009	-	-	-	2.65	4.00	→
-	→	-	08.02.2009	-	-	-	2.53	4.00	→
-	→	-	08.03.2009	-	-	-	2.47	4.00	→
Buy	↑	03.04.2009	-	Not later than 03.04.2010	-	-	3.01	5.00	↑

*Market-relative recommendation tracker*

Relative recommendation		Issue date	Reiteration date	Expiry date	Price at issue/reiteration (PLN)	Relative performance
<b>Energomontaż Południe</b>						
Neutral	-	01.12.2008	-	Not later than 01.12.2009	2.36	30%
-	→	-	09.01.2009	-	2.65	-
-	→	-	11.01.2009	-	2.65	-
-	→	-	08.02.2009	-	2.53	-
-	→	-	08.03.2009	-	2.47	-
Overweight	↑	03.04.2009	-	Not later than 03.04.2010	3.01	-

*Distribution of IDM's current recommendations*

	Buy	Hold	Sell	Suspended	Under revision
Numbers	22	25	6	1	0
Percentage	41%	46%	11%	2%	0%

*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	21	16	16	1	0
Percentage	39%	30%	30%	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	0	4	1	1	0
Percentage	0%	67%	17%	17%	0%

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