WBK BROKERAGE

Energomontaż Południe

Under PBG's wings

PBG won the battle for a controlling stake in Energomontaż Południe (EPD). Thanks to its successful call, PBG became the strategic investor in the company, which has created new development opportunities for Energomontaż (EPD is well positioned to become PBG's main subcontractor in the execution of large power construction sector contracts). Although we forecast superior profit momentum for EPD in the coming years, we see a significant downside risk to our projections due to the possibility of further delays in awarding large power construction contracts in Poland. Furthermore, we expect unsatisfactory 2Q11 and FY2011 results, which might come as a negative surprise and worsen sentiment towards the stock. On top of this we expect the company to face difficulties unlocking funds frozen in its real-estate assets, which is a downside risk for our 12M fair value assessment. With a fundamental downside we initiate our coverage of EPD with an LT fundamental Sell rating setting 12M TP at PLN 3.56 per share.

PBG is set to take part in the most important tender procedures currently pending in the Polish power construction sector. In our opinion, every contract won by PBG may directly translate into a new contract for EPD. PBG is well positioned to win at least one large contract in the power sector, which might materialize in 2H2011/2012. Should this happen, our estimates suggest that investors will see a rapid development of EPD's order books. We forecast a net profit of PLN 23.4 million in 2013 vs. a net loss in 2010, and also expect net profits during 2012–15 with a CAGR at 31%. Note, however, that power sector tenders have already been subject to many years of delays and, in our opinion, further delays should be expected (uncertainty regarding free CO2 certificates), which constitutes an important downside risk to our projections. Furthermore, the company's capacity constraints might be the main obstacle for rapid profit development.

According to our estimates, PLN 120 million (PLN 1.7 per share) is frozen in the company's real estate assets. We account for the value of these assets in our fair value assessment of EPD, but the company is facing difficulties unlocking these funds, which constitutes a downside risk to out target price for EPD. Note for example marginal pre-sale volumes related to a residential project in Katowice over the past couple of quarters.

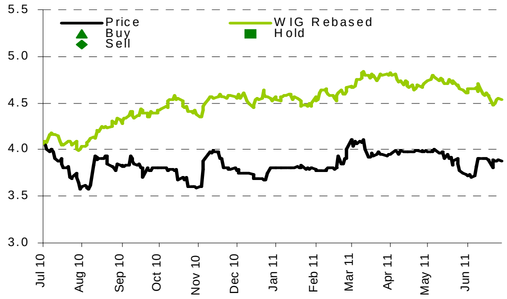
In our opinion, neither the company's 2Q11 nor its FY2011 results will satisfy investors – which are another factors that may spoil sentiment toward the stock. Note that EPD trades at a P/E multiple for 2011 of >20, which is well above the average for the sector.

Energomontaż Południe; Financial summary
PLN in millions, unless otherwise stated

	2009	2010	2011E	2012E	2013E
Revenues	274.2	338.1	364.9	401.9	456.3
EBITDA	2.5	-7.2	34.6	43.7	47.7
EBIT	-4.2	-17.2	24.6	33.2	36.7
Net profit	-13.4	-4.9	12.2	20.4	23.4
EPS	-0.28	-0.07	0.17	0.29	0.33
P/E (x)	Negative	Negative	22.0	13.2	11.5
EV/EBITDA (x)	127.8	Negative	10.3	7.5	7.1

Source: Company data, DM BZ WBK estimates

Recommendation	Sell
Price (PLN, 26 July 2011)	3.79
Target price (PLN, 12-month)	3.56
Market cap. (PLN m)	269
Free float (%)	35.2
Number of shares (m)	71.0
EURPLN	4.00
USDPLN	2.76



The chart measures performance against the WIG index. On 26/07/2011, the WIG index closed at 47,186.

Main shareholders	
PBG SA	64.84%
Pioneer Pekao Investment Management	5.06%
Other	30,10%

Company description

Energomontaż Południe is a pure power sector contractor (renovation of heat and power units, installation of new power generating capacity) with over 50 years of market experience. It is also a manufacturer of steel structures (through its division located in Bedzin and Amontex – a 100% subsidiary), which enables the company to provide comprehensive services. Exports generates 37% of its sales and its key foreign market is Germany.

Stock triggers

1. Participation in large power contracts. Strategic investor, PBG, is tendering for large power contracts (e.g. power units in Opole worth c. PLN 10bn).
2. Increase in sales volumes (c. 200 completed and ready to be handed over dwellings; disposal of all homes might generate cash of >PLN 60m.
3. Disposal of office building in Wrocław with an estimated value of c. PLN 40–50m.
4. Disposal of other real-estate assets (land plots with an estimated total value of PLN 13m).
5. Probable acquisition of entity specialising in building waste incineration plants (depending on the transaction price).

Risk factors

1. No-frills 2Q11E results.
2. Unsatisfactory FY2011 profits.
3. Delays to start of investment program in the power sector in Poland.
4. Slow disposal of real estate assets.
5. Amontex continues weak performing this year.
6. Capacity constraints.
7. High dependence on one investor (sales for Alstom generated c. 41% of 2010 sales).
8. Management of large contracts.

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Investment story and recommendation

PBG's victory in the battle for a controlling stake in EPD. The battle for a controlling stake in EPD is over (PBG and the Gasinowicz family have been striving to gain control of EPD for several quarters). On the back of its successful call, PBG became EPD's strategic investor holding 64.8% of its equity.

Link with PBG means great opportunities for order development. Energomontaż is a contractor 100% focussed on the power sector. Its capital marriage with PBG has created great opportunities for order book development. In our opinion, the signing of a single large power contract by PBG may directly translate into new contracts for EPD, since Energomontaż is PBG's only division currently focussing on the power sector.

Further delays to the award of large power contracts in Poland cannot be ruled out. The power sector in Poland is on the threshold of the largest investment program in its history – an estimated PLN 100–200bn is to be spent. After many years of delays, the tender procedures have been moving forward this year and the award of the first large contracts is scheduled for 2H2011/2012. PBG is taking part in all important tender procedures currently pending in the Polish power market (details in the sector section of this report), including for power units in Opole worth c. PLN 10 billion (PBG has submitted a preliminary offer), Kozienice (PLN 5–6 billion) and Stalowa Wola (PLN 2 billion). PBG seems likely to win at least one large power contract, which, coupled with EPD's well established position in Germany and the Netherlands (where investments are pending), should enable the company to boost its net profit to PLN 35.8 million in 2015, according to our forecast (forecast net profit CAGR for 2012–15 is 31%). However, the risk of further delays in the award of contracts remains significant, in our view, due to the uncertainty regarding the number of free CO2 certificates to be granted to Polish power and heat generating companies. This is why we see a significant downside risk to our profit projection. Note also that our margin assumptions may be too optimistic, which is another risk factor for our profit projections. Furthermore, capacity constraints (shortage of skilled workers) might be the main obstacle for the company's rapid profits development.

PLN 120 million frozen in real-estate assets. According to our estimates, PLN 120 million (PLN 1.7 per share) is frozen in the company's real-estate assets. If disposed of, these might enable EPD to pay-off (*ceteris paribus*) all of its interest-bearing debt. The question is whether the company will be able to unlock this value. EPD plans to sell dwellings in Katowice (c. 200 dwellings ready to be handed over), which, however, have been waiting for buyers already over the last couple of quarters. Furthermore, the company will probably dispose of land plots purchased a few years ago for residential purposes, although residential developers are not currently keen to expand their land portfolios since the *Rodzina na swoim* incentive program coming to an end and interest rates are rising reducing Poles' ability to buy flats. Possible delays in the disposal of real-estate assets constitute a downside risk to our target price for EPD.

Unsatisfactory 2Q11 and FY2011 financial results. We forecast that 2Q11 and FY2011 financial results will be unsatisfactory, which may create negative sentiment toward the stock. We forecast a net profit of PLN 12.2m in 2011, which would result in a P/E ration of more than 20 – well above the average for the sector.

Recommendation: Sell, TP PLN 3.56 per share. Our SOTP (sum of the parts) valuation for EPD's equity is PLN 214.7 million, which is 12M TP at PLN 3.56 per share. We valued the construction business and residential projects separately using standard

DCF FCFF approach, office building using a net operating income capitalization method and housing assets (land for residential purposes) through a calculation of land value. With a fundamental downside and the fact that the company currently trades at a double-digit premium to its peers, we initiate our coverage with a Sell rating.

Upside/downside risks. To sum up, the major risk factors to our projections and equity value assessment are: (i) possible further delays in awarding power contracts (investors have been delaying tender procedures); (ii) delays in the disposal of real-estate assets; (iii) lower than expected profitability for power contracts; and (iv) capacity constraints (the shortage of skilled workers might be the main obstacle to rapid profit development).

Company profile and business model

EPD is a contractor with 100% power sector exposure and long market experience. Energomontaż Południe is one of the few contractors in Poland with its core business in the power sector (95% of sales in 2010). The company specialises is the renovation and assembly of power installations such as boilers, turbines, steel stacks, air and flue gas ducts, steel structures, pipelines etc. The company takes advantage of its long market experience and its participation in the most complex projects. Over the last 50 years EPD has been involved in the assembly of more than 200 power generating units providing 15,000 MW, which constitutes c. 40% of Poland's power generating capacity.

Small- and medium-sized contracts dominate the portfolio. EPD has chiefly been involved in small and medium-sized contracts (each worth not more than few dozen hundred PLN million) rather than large projects due to its insufficient execution and financial potential. Smaller contracts are characterized by lower margins than large projects (greater competition), which are compensated for by the lower risks related to smaller contracts (shorter execution period = lower risk of unexpected negative developments – e.g. construction cost inflation).

Capital marriage with PBG has opened the door for large power projects. The company also participates in large contracts, but usually as a subcontractor. Here, its main client is Alstom Power (a global player), which was responsible for as much as 41% of EPD's total sales in 2010. The capital marriage with PBG has opened new opportunities for EPD to participate in large power projects since EPD is PBG's only exposure to the power sector at the moment.

Seeking business abroad and taking part in non-power contracts is the way to wait unless large investment in the Polish power sector begin. Heat and power generation companies are (directly or indirectly) EPD's major clients. The lack of investment in the Polish market in recent years has forced EPD to seek business abroad. Export contracts do not generate above-average margins, but they enable the company to develop sales until large investments in Poland begin. Export generated 37% of its total sales in 2010 and its key foreign markets were Germany and the Netherlands. In order to wait out the lean times in the power sector in Poland, EPD also took part in stadium building projects. Specifically, it was responsible for assembling the roof of the new stadium in Gdansk (the contract was responsible for c. 20% of total sales last year).

Foreign currency exposition hedged. The company has a hedging policy to protect its margins on foreign contracts against changes in FX rates (natural hedging and forwards). Appreciation (or depreciation) of the EUR vs. PLN has a generally positive (or negative) impact on gross profits on sales and EBIT (in the case of export contracts denominated in EUR), which is counterbalanced by an FX loss (or gain) on hedging impacting pre-tax profits and net profits. With respect to its hedging policy (or forwards) the only profit level that is comparable in time is net profit.

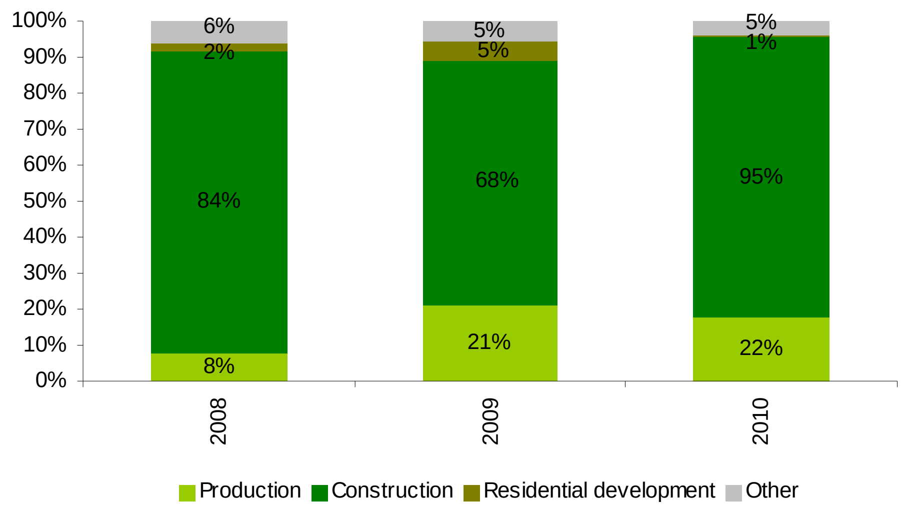
Manufacture of steel structure enables the provision of complex services. EPD's second business is the manufacture of steel structures, which generated 22% of its sales last years. This activity is run by its division in Bedzin and its 100% subsidiary Amontex and enables EPD to provide complex services and initialize margins (steel structures are used in construction contracts).

Residential construction is a non-core part of the business. The company's third source of revenues is the sale of condominiums. In 2010 the company completed a housing project in Katowice (Osiedle Ksiazece) with 220 dwellings, but only c. 20 homes have been sold so far (in 2010 revenues for this segment were only PLN 2.7 million). The plot in Katowice would enable the company to launch two more stages of the project, yet given its current strategy (focus on core business; details in the following sections), we expect the land to be disposed. Note that the company also owns plots in the vicinity of Opole and Katowice Piotrowice, which were acquired a few years ago for residential purpose, and their disposal cannot be ruled out as well.

Office building. EPD is also the owner of the Legnicka Park office building located near the city centre of Wrocław. The project has a net rentable area of c. 8 ths. sq.m. and generates a net operating income of around PLN 4 million annually (95% of the office space is leased). The building was the subject of lease back agreement.

Margins. The average gross profit on sales margin for power contracts ranges from 8 to 12% depending on contract size and complexity.

Fig. 1. Energomontaż Południe; Sales breakdown
In %



Source: Company

Strategy

Organic growth and M&As. EPD is adopting a mingled strategy of organic growth and acquisitions. The last take over completed by EPD was in 2008 when Amontex, which specialises in steel structure manufacturing, joined the group. In 2010 the company revealed acquisition plans aimed at strengthening its execution potential, but the plan was later abandoned (probably due to differing price expectations). This year the possible acquisition of a small entity with experience in the construction of waste incineration plants has been revealed, thanks to which EPD would enter a new market segment. No details, however, have been revealed.

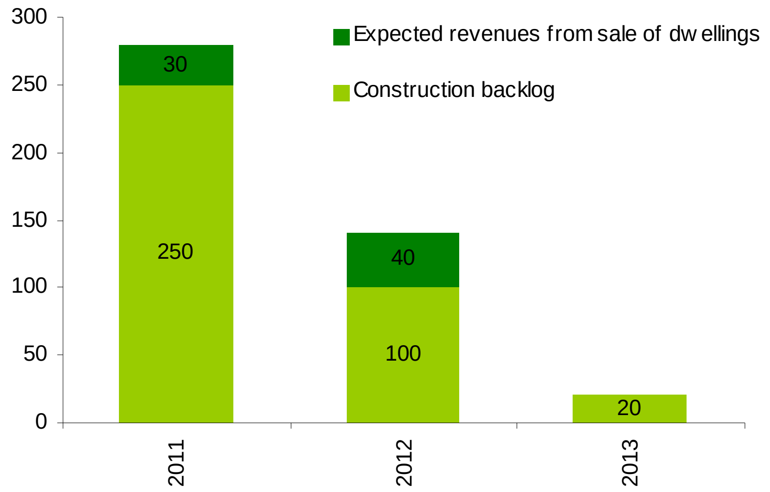
From small to large and high-margin projects. The coming years should bring important changes in the formation of the Polish power market. Small- and medium-sized contracts for renovation works will be overshadowed by projects with high individual values for the design and construction of new power generating capacity. The Company seems well established to act as a subcontractor.

Focus on core business. The CEO of EPD has declared a focus on the company's core business, which leads us to believe that new residential projects will not be launched. In accordance with this strategy, the company may dispose of its office building in Wrocław and plots for residential construction in Opole and Katowice.

Order book issues

EPD's order book as of the release of its 1Q11 results was c. PLN 370 million, of which foreign contracts were EUR 74.2 million. Items for 2011 total PLN 250 million, PLN 100 million for 2012 and PLN 20 million for 2013. With the signing of its most recent contract with Hitachi, the company announced that its on order book has increased to PLN 415.9 million.

Fig. 2. Energomontaż Południe; Orders as of the release of 1Q10 results
In PLN m



Source: Company

Generally, we expect an improving market environment for power contractors as the long-awaited investments in power generating capacity finally see the light of day (details in the sector section of this report). The most advanced tender procedure relates to the contract for the construction of power units at Opole power plant (PLN 8–10bn), but the delayed start to investments should have brought home to investors that further delays cannot be excluded. It is true that EPD is not in the fight for large power contracts, but it should participate in the construction process as a subcontractor for PBG. It must be said, however, that the first significant profits from these large projects may not appear in EPD's P&L account no sooner than 2013. There are still other possibilities in Germany and the Netherlands (here a renovation program for power units is pending), where the company holds a well-established market position.

Management outlook

Mr. Radosław Kamiński, the vice-CEO of EPD, has announced that the company's sales should reach PLN 350 million in 2011 (4% up y/y), of which PLN 320 million should come from construction and PLN 30 million from the sale of dwellings. The net profit margin may rise to 5% (this level had been proclaimed as 'real' by the CEO), implying a net profit of PLN 17.5 million (vs. a net loss of PLN 4.9m in 2010). In 2012, the CEO expects revenues to show y/y growth greater than in 2011, helped by c. PLN 40 million from the sale of dwellings.

The CEO has said that EPD may pay out all of its interest bearing debt within the next 2 years (net debt at the end of 2010 was PLN 116.7 million), which might be achievable through the disposal of the office building in Wroclaw and the sale of dwellings at the project in Katowice. Both sources should generate a cash inflow of up to PLN 125 million.

Financial corner

2010 result review. 2010 was a troublesome year for EPD as positive development in its top line (sales grew by 23% to PLN 338.1 million) were overshadowed by a bottom line in the red (PLN -4.9 million). This was due to high margin pressure stemming from an insufficient supply of contracts at home and delays to projects in Germany. Margin pressures also included: (i) a loss making (and already completed) contract for the assembly the roof for the new stadium in Gdańsk (a contract worth PLN 93 million generated a net loss of PLN -17.5 million); and (ii) a loss in the subsidiary responsible for steel structure manufacturing - Amontex (PLN -7.5 million). The reason for the loss relating to the stadium project in Gdańsk building were the additional costs that the company had to incur in order to complete the contract on time. Martifer, a subcontractor, was thrown off the building side, allegedly due to delays (Martifer is currently suing EPD for compensation of PLN 90 million).

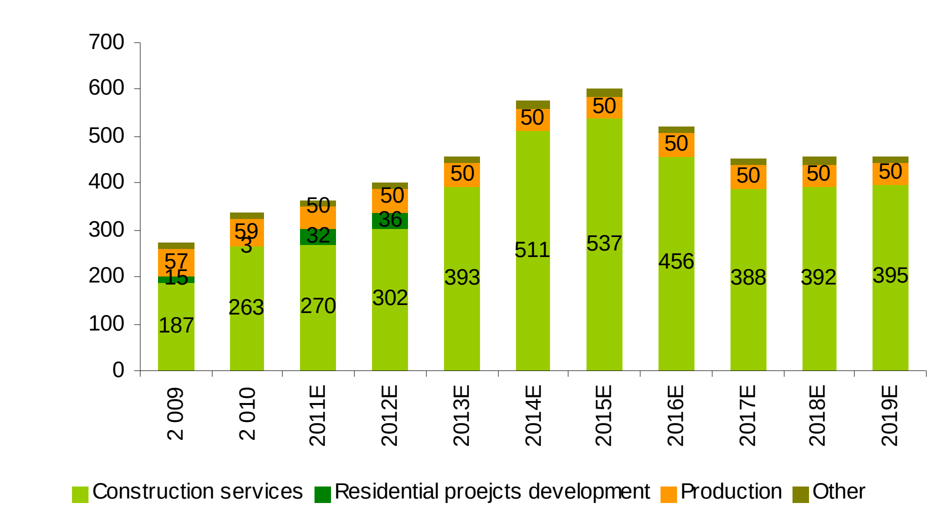
2010's financials were affected by one-off gains and losses. Net other operating costs were PLN -10.7 million, of which the greatest one-off position was the devaluation of the office building in Wrocław (PLN -7.2 million). Net financial income was PLN 13.8 million, of which PLN 15.4 million was from revaluation of its stake in CK-Modus, which was running residential development services (it was incorporated into the parent company at the end of 2010).

Sales forecast. We forecast consolidated sales of PLN 364.9 million for EPD in 2011 (8% up y/y), including PLN 30 million from the sale of dwellings in Katowice (Osiedle Ksiazece), which is slightly above management guidance. In 2012, we forecast a 10% y/y growth to PLN 401.9 million, of which PLN 40 million will be from the sale of dwellings. Between 2013 and 2015, we expect sharp a revenue development, which is attributed to our assumption that expected larger power contracts will come into execution (we forecast a CAGR of 14% for 2013–15 revenues).

Profits forecast. We forecast EPD's profits to leave negative territory this year. We expect a margin rebound and, consequently, a net FY2011 profit of PLN 12.2 million, on the back of the completed loss making stadium project in Gdańsk in 2010, and envisaged improving performance for Amontex (completed restructuring). In the coming years we expect some margin expansion along with a growing share of single high value contracts (higher margin projects) in EPD's total revenues. Along with our forecast for growing sales in coming years, we also forecast gradually improving profits. Our net profit forecast is PLN 35.8 million for 2015 – a CAGR at 30.8% for 2012–15E. Note that in our profit projection we account for net other operating income of PLN 4 million annually, relating to the office building (leasing agreements).

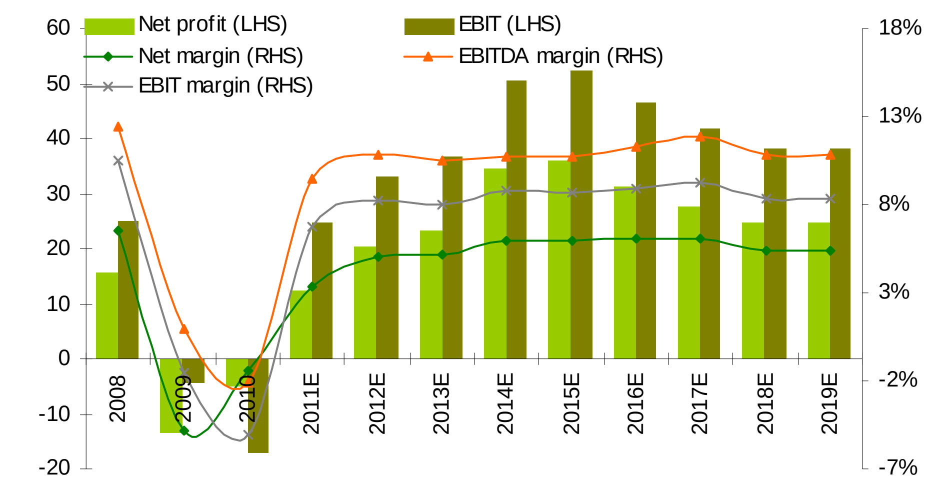
CAPEX. Capital expenditure was PLN 27.4 million in 2010, of which the largest part was earmarked for enhancing manufacturing capacity at the facility in Bedzin. We assume expenditures of c. PLN 15–20 million annually on new equipment over the course of the next few years. Starting from 2015, we expect expenditures at a level close to projected depreciation.

Fig. 3. Energomontaż Południe; Sales breakdown
In PLN m



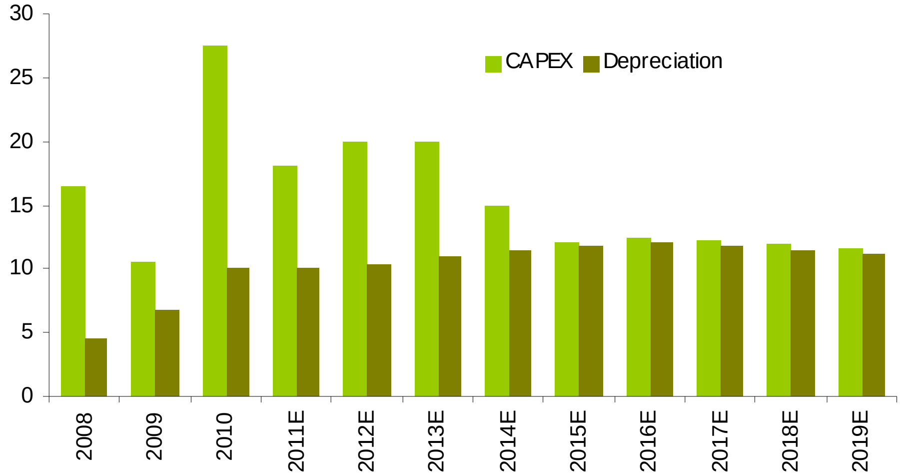
Source: Company, BZ WBK estimates

Fig. 4. Energomontaż Południe; Margins and profits (PLN m)



Source: Company, BZ WBK estimates

Fig. 5. Energomontaż Południe; CAPEX and depreciation
In PLN m



Source: Company, BZ WBK estimates

1Q2011 results review

Growing sales. Consolidated sales grew y/y by an impressive 45% in 1Q11 to PLN 75.8m. Amontex generated sales of PLN 8.3m, of which the greatest part (PLN 7.3m) came from its parent company and did not, therefore, impact consolidated profits.

Operating profit vs. operating loss last year. EPD delivered a quarterly operating profit of PLN 2.7m vs. an operating loss last year. This was due to much higher y/y gross profit on sales margin (8.3% in 1Q11 vs. 3.0% in 1Q10). Note, however, that the operating profit level does not account for the impact of hedging transactions. Note, that low margins in the base quarter were attributable to significant PLN vs. EUR appreciation, which affected margins on foreign contracts.

Pre-tax profit lower y/y. Pre-tax profit is a comparable profit level since it includes the impact of hedging policies. Pre-tax profit in 1Q11 was down y/y (PLN 0.9m vs. PLN 1.8m), mostly due to losses on FX transactions (of PLN 1.1m in 1Q11) vs. an FX gain in 1Q10.

Net profit. Net profit increased from PLN 0.5m to PLN 1.4m, thanks to a differed tax asset of PLN 0.5m in 1Q11 vs. tax of PLN 1.4m in the base quarter.

Positive operating cash flow. Operating cash flow was PLN 14.8 million in 1Q11 vs. PLN -27.3m a year ago.

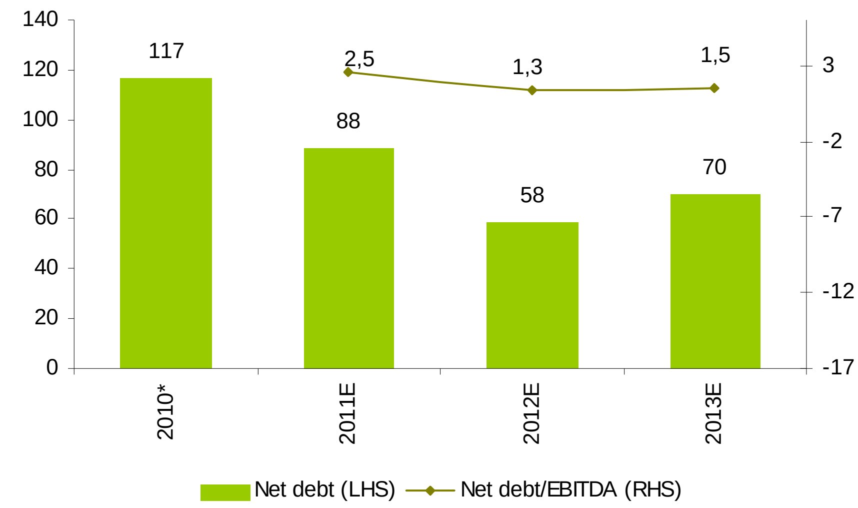
Fig. 6. Energomontaż Południe; 1Q11 financial results

IFRS consolidated (PLN m)	1Q11	1Q10	y/y change
Sales	75.8	52.4	44.6%
EBIT	2.7	-3.3	n.m.
EBIT margin	*3.54%*	*-6.33%*	-
Net profit	1.4	0.5	n.m.
Net profit margin	*1.83%*	*0.88%*	-

Source: Company

Gearing. The possible disposal of real estate assets (completed dwellings in Katowice, land in Opole and Katowice, office building in Wrocław) might enable Energomontaż to get rid of (*ceteris paribus*) all of its interest bearing debt, which, at the end of 2010, was PLN 116.7m. Note that in our financial projections we account for a cash inflow from the sale of dwellings (PLN 60 million) in 2011 and 2012, but we do not account for possible inflows from the disposal of office building and housing assets (plots for residential purposes) since the timing of possible transaction is unknown. These may generate an additional PLN 60 million, according to our estimates. Note, however, we account for the NAV of both assets in our equity value assessment of the company.

Fig. 7. Energomontaż Południe; Net debt (PLN m) and net debt to EBITDA ratio



*Source: Company, BZ WBK estimates * negative EBITDA in 2010*

Valuation

DCF valuation

EPD's business is composed of construction activity and real estate assets, hence our assessment of the company's equity value is based on the SOTP (sum-of the parts) method. We have separately valued: (i) the construction business and housing project in Katowice (standard DCF-method); (ii) the office building in Wrocław (net operating income capitalization); and (iii) housing assets in Opole and Katowice Piotrowice (calculation of land value).

Our DCF-derived valuation of the construction business and housing project was based on the following prime assumptions: (i) residual growth of FCFF's at 0.5%; (ii) unlevered beta at 1.0; (iii) equity risk premium of 5%; and (iv) hefty FCFF's in 2011 and 2012 resulting from the expected disposal of dwellings in Katowice. The remaining assumptions regarding financial forecast are in earlier sections of this report.

Our valuation of the office building was based on the following assumptions: (i) NRA of 8 ths. sq. m; (ii) vacancy rate of 5%; (iii) NOI at PLN 4 million annually; (iv) yield implied at 8.25%; and (iv) possible disposal of the project in 2012.

We valued the housing projects (plots for residential purposes) by calculating the land value. We assumed that the value of 1 sq. m of land is equal to 5% of the estimated price of 1sq. m. of completed dwelling.

Our SOTP equity value assessment for EPD is PLN 3.56 per share.

Fig. 8. Energomontaż Południe; SOTP valuation
PLN in millions, unless otherwise stated

Asset	Valuation method	Value to the Company	Total value to the Company	Cash and equivalents (2010 eop)	Interest-bearing debt (2010 eop)	Equity value	Equity value per share (PLN)	Current value of the equity value (PLN)	12M Target Price (PLN)
Construction business and residential project in Katowice	DCF FCFF	274.8	331.4	13.6	130.3	214.7	3.02	3.21	**3.56**
Housing assets	Calculation of the land value	13.4							
Office building in Wroclaw	NOI capitalization	43.2							

Source: Company data, DM BZ WBK estimates

Fig. 9. Energomontaż Południe; DCF valuation of construction business and housing project in Katowice
PLN in millions, unless otherwise stated

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Sales	**364.9**	**401.9**	**456.3**	**574.2**	**599.8**	**519.3**	**450.9**	**454.8**	**458.7**
Adj EBIT margin*	5.7%	7.3%	7.2%	8.1%	8.0%	8.2%	8.4%	7.5%	7.5%
Adj EBIT*	20.6	29.2	32.7	46.4	48.2	42.5	37.7	34.0	34.3
Cash taxes on EBIT	4.5	5.6	6.2	8.8	9.2	8.1	7.2	6.5	6.5
NOPLAT	**16.1**	**23.7**	**26.5**	**37.6**	**39.1**	**34.4**	**30.5**	**27.6**	**27.7**
EBITDA*	30.6	39.7	43.7	57.8	60.0	54.6	49.5	45.5	45.5
EBITDA margin*	8.4%	9.9%	9.6%	10.1%	10.0%	10.5%	11.0%	10.0%	9.9%
Depreciation	10.0	10.4	10.9	11.4	11.8	12.1	11.8	11.5	11.2
NOPLAT+ Depreciation	**26.1**	**34.1**	**37.5**	**49.0**	**50.9**	**46.5**	**42.3**	**39.1**	**39.0**
Capex	**-18.0**	**-20.0**	**-20.0**	**-15.0**	**-12.2**	**-12.5**	**-12.2**	**-11.9**	**-11.5**
Change in WC	24.2	19.1	-5.9	-21.0	-4.4	13.9	11.8	0.1	-0.7
Equity issue proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow	**32.3**	**33.2**	**11.6**	**13.0**	**34.3**	**47.9**	**41.9**	**27.3**	**26.7**
Risk free rate (nominal)	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Equity risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta unlevered	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Beta levered	1.23	1.21	1.21	1.18	1.18	1.18	1.18	1.19	1.18
Cost of equity	**12.1%**	**12.1%**	**12.0%**	**11.9%**	**11.9%**	**11.9%**	**11.9%**	**11.9%**	**11.9%**
Cost of debt (Pre-Tax)	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Effective tax rate	22%	19%	19%	19%	19%	19%	19%	19%	19%
After-tax cost of debt	5.9%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%
Weight of debt	23%	21%	20%	18%	18%	18%	19%	19%	18%
Weight of equity	77%	79%	80%	82%	82%	82%	81%	81%	82%
WACC	**10.7%**	**10.8%**	**10.8%**	**10.8%**	**10.8%**	**10.8%**	**10.8%**	**10.8%**	**10.8%**
Discount multiple	1.11	1.23	1.36	1.51	1.67	1.85	2.05	2.27	2.52
Discount factor	0.90	0.82	0.74	0.66	0.60	0.54	0.49	0.44	0.40
PV of free cash flow	**29.2**	**27.1**	**8.5**	**8.6**	**20.5**	**25.9**	**20.4**	**12.0**	**10.6**
Sum of FCFFs PVs	162.8								
Risk free rate in the residual period	5%								
WACC in the residual period	10.0%								
Residual growth of FCFFs, base-case scenario	0.5%								
Residual value	**282.2**								
Present value of the residual value	111.9								
Dividends	0.0								
Value of EPD's EV	274.8								

** EBIT and EBITDA were adjusted for envisaged net operating income of PLN 4.0 million annually relating to the office building*
Source: Company data, DM BZ WBK estimates

Fig. 10. Energomontaż Południe; Value assessment of EPD's office project

Name of the project	Location	Describtion	Net rentable area (sq.m.)	Vacancy rate implied	Yearly Net Operating Income (PLN m)	Yield implied	Property value implied (PLN m)	Property value (as of January 2010 in PLN m)
Legnicka Park Popowice	Wrocław	Office space	8,000	5%	4.0	8.25%	48.3	43.2

Source: Company data, DM BZ WBK estimates

Fig. 11. Energomontaż Południe; Value assessment of EPD'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/meter)	Value to the Company (PLN m)
Osiedle Książęce (Phase 2 and 3)	Katowice-Ligota	31400	4500	5%	225	7.1
Willa nad Potokiem	Katowice-Piotrowice	3500	3800	5%	190	0.7
Wójtowa Wieś	Opole	42000	2700	5%	135	5.7
Total						**13.4**

Source: Company data, DM BZ WBK estimates

Fig. 12. Energomontaż Południe; Peer relative comparison

	P/E			EV/EBIT			EV/EBITDA		
Company	**2011E**	**2012E**	**2013E**	**2011E**	**2012E**	**2013E**	**2011E**	**2012E**	**2013E**
Hydrobudowa Polska	7.6	8.0	7.9	9.2	6.7	6.8	7.2	4.9	4.7
Polimex-Mostostal	13.0	10.7	8.7	10.9	9.4	8.0	10.9	9.4	8.0
Budimex	8.3	11.2	14.3	1.1	4.9	8.5	1.1	4.5	7.5
Trakcja Polska	8.8	6.9	6.2	1.1	4.9	8.5	6.7	4.8	4.3
Average	**9.4**	**9.2**	**9.3**	**5.6**	**6.5**	**7.9**	**6.5**	**5.9**	**6.1**
Energomontaż Południe	22.0	13.2	11.5	14.5	9.9	9.2	10.3	7.5	7.1
Premium/discount	133%	43%	24%	159%	51%	16%	60%	27%	16%
EPD's implied share price (PLN)	1.6	2.6	3.1	0.7	2.2	3.1	1.9	2.8	3.1
Average implied share price of Energomontaż Południe (PLN)					**2.4**				

Source: DM BZ WBK estimates

Financial statements and forecasts

Fig. 13. Energomontaż Południe; Income statement forecasts
PLN in millions, unless otherwise stated

	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E
Sales	**274.2**	**338.1**	**364.9**	**401.9**	**456.3**	**574.2**	**599.8**	**519.3**
COGS	**-236.1**	**-323.6**	**-321.6**	**-347.7**	**-395.2**	**-493.9**	**-516.2**	**-446.1**
Gross profit on sales	**38.1**	**14.5**	**43.3**	**54.2**	**61.0**	**80.3**	**83.6**	**73.2**
Selling costs	-0.2	-0.5	-1.5	-1.6	-1.8	-2.3	-2.4	-2.1
General administration costs	-17.9	-20.5	-21.2	-23.3	-26.5	-31.6	-33.0	-28.6
Net profit on sales	**20.1**	**-6.5**	**20.6**	**29.2**	**32.7**	**46.4**	**48.2**	**42.5**
Other operating income	12.5	14.0	4.0	4.0	4.0	4.0	4.0	4.0
Other operating costs	-36.8	-24.6	0.0	0.0	0.0	0.0	0.0	0.0
Gain (loss) on FX transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	**-4.2**	**-17.2**	**24.6**	**33.2**	**36.7**	**50.4**	**52.2**	**46.5**
Financial income	9.5	24.5	0.8	1.7	2.0	1.4	1.0	1.1
Financial costs	-15.5	-10.7	-9.8	-9.8	-9.8	-9.4	-9.0	-9.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre tax	**-10.2**	**-3.4**	**15.7**	**25.2**	**28.9**	**42.5**	**44.3**	**38.6**
Income tax	-3.2	-1.5	-3.5	-4.8	-5.5	-8.1	-8.4	-7.3
Minority interest in net income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	**-13.4**	**-4.9**	**12.2**	**20.4**	**23.4**	**34.4**	**35.8**	**31.3**

Source: Company data, DM BZ WBK estimates

Fig. 14. Energomontaż Południe; Ratios
PLN in millions, unless otherwise stated

	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E
Sales growth (y/y)	14%	23%	8%	10%	14%	26%	4%	-13%
Gross profit growth (y/y)	3%	-62%	199%	25%	13%	32%	4%	-13%
EBITDA growth (y/y)	-92%	n.m.	n.m.	26%	9%	30%	4%	-8%
Operating profit growth (y/y)	-117%	n.m.	n.m.	35%	11%	37%	4%	-11%
Net income growth (y/y)	-186%	n.m.	n.m.	66%	15%	47%	4%	-13%
A/R turnover days	201	158	117	116	115	109	119	131
Inventory turnover days	96	89	83	48	34	32	35	39
A/P turnover days	137	108	98	95	96	93	102	112
Cash cycle	159	140	103	69	52	48	53	58
NWC/Sales	51%	34%	25%	18%	17%	17%	17%	17%
Gross margin	13.9%	4.3%	11.9%	13.5%	13.4%	14.0%	13.9%	14.1%
EBITDA margin	0.9%	-2.1%	9.5%	10.9%	10.4%	10.8%	10.7%	11.3%
EBIT margin	-1.5%	-5.1%	6.8%	8.3%	8.1%	8.8%	8.7%	9.0%
Pretax margin	-3.7%	-1.0%	4.3%	6.3%	6.3%	7.4%	7.4%	7.4%
Net margin	-4.9%	-1.5%	3.4%	5.1%	5.1%	6.0%	6.0%	6.0%
ROE	-9.5%	-3.0%	7.3%	11.0%	11.9%	16.9%	17.1%	15.0%
ROA	-3.4%	-1.1%	2.9%	4.6%	5.0%	7.0%	7.0%	6.3%
Current ratio	1.7	1.6	1.6	1.7	1.6	1.5	1.5	1.6
Quick ratio	1.3	1.0	1.3	1.4	1.3	1.3	1.3	1.3

Source: Company data, DM BZ WBK estimates

Fig. 15. Energomontaż Południe; Balance sheet forecast
PLN in millions, unless otherwise stated

	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E
Fixed assets	**169.0**	**170.8**	**178.9**	**188.4**	**197.5**	**201.1**	**201.4**	**201.8**
Intangibles	1.4	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Goodwill	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tangible fixed assets	57.3	63.8	71.8	81.3	90.4	94.0	94.3	94.7
LT receivables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LT investments	94.0	92.4	92.4	92.4	92.4	92.4	92.4	92.4
LT deferred assets	14.3	12.7	12.7	12.7	12.7	12.7	12.7	12.7
Others	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Current assets	**302.9**	**244.4**	**248.0**	**267.9**	**278.9**	**304.0**	**311.4**	**286.6**
Inventories	67.3	90.4	56.7	34.3	39.0	48.7	50.9	44.0
ST receivables	180.5	112.8	121.8	134.1	152.3	191.7	200.2	173.3
ST deferred assets	32.7	24.5	24.5	24.5	24.5	24.5	24.5	24.5
Cash&equivalents	22.1	13.6	42.0	71.9	60.1	36.1	32.8	41.8
Other assets	0.3	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Total assets	**472.0**	**415.2**	**426.9**	**456.3**	**476.4**	**505.1**	**512.8**	**488.4**
Equity	**169.9**	**162.4**	**174.7**	**195.1**	**198.1**	**209.1**	**210.5**	**206.0**
Liabilities&reserves	**302.0**	**252.8**	**252.2**	**261.2**	**278.2**	**296.0**	**302.3**	**282.4**
Reserves	14.7	15.1	15.1	15.1	15.1	15.1	15.1	15.1
LT liabilities	91.9	64.4	64.4	64.4	64.4	64.4	64.4	64.4
Non-interest-bearing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest-bearing	91.9	64.4	64.4	64.4	64.4	64.4	64.4	64.4
ST Liabilities	176.6	153.1	152.6	161.6	178.6	196.3	202.6	182.7
Non-interest-bearing	107.9	87.2	86.6	95.6	112.6	140.7	147.0	127.1
Interest-bearing	68.8	65.9	65.9	65.9	65.9	55.6	55.6	55.6
Reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred liabilities	18.8	20.2	20.2	20.2	20.2	20.2	20.2	20.2
Total liabilities and equity	**472.0**	**415.2**	**426.9**	**456.3**	**476.4**	**505.1**	**512.8**	**488.4**

Source: Company data, DM BZ WBK estimates

Fig. 16. Energomontaż Południe; Cash flow forecast
PLN in millions, unless otherwise stated

	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E
Net profit	-13.4	-4.9	12.2	20.4	23.4	34.4	35.8	31.3
Depreciation and amortization	6.7	10.0	10.0	10.4	10.9	11.4	11.8	12.1
NWC change:	-106.5	24.1	24.2	19.1	-5.9	-21.0	-4.4	13.9
Change in inventories	-7.8	-38.5	33.7	22.4	-4.7	-9.7	-2.2	6.9
Change in receivables	-116.1	62.7	-8.9	-12.4	-18.2	-39.4	-8.5	26.9
Change in payables	17.3	-0.1	-0.6	9.0	17.0	28.0	6.3	-19.9
Other	89.6	-34.6	8.9	8.1	7.8	7.9	8.0	7.9
Operating cash flow	**-23.6**	**-5.4**	**55.4**	**58.0**	**36.3**	**32.7**	**51.2**	**65.1**
Capital expenditures	-10.6	-27.4	-18.0	-20.0	-20.0	-15.0	-12.2	-12.5
Other	70.4	0.0	0.8	1.7	2.0	1.4	1.0	1.1
Investing cash flow	**59.9**	**-27.4**	**-17.2**	**-18.3**	**-18.0**	**-13.6**	**-11.1**	**-11.4**
Change in interest-bearing debt	16.9	-28.5	0.0	0.0	0.0	-10.3	0.0	0.0
Dividends payment	-5.2	0.0	0.0	0.0	-20.4	-23.4	-34.4	-35.8
Interest	-7.6	-6.3	-9.8	-9.8	-9.8	-9.4	-9.0	-9.0
Other	-26.3	58.9	0.0	0.0	0.0	0.0	0.0	0.0
Financing cash flow	**-22.2**	**24.1**	**-9.8**	**-9.8**	**-30.2**	**-43.1**	**-43.4**	**-44.8**
Total cash flow	**14.1**	**-8.8**	**28.5**	**29.9**	**-11.9**	**-24.0**	**-3.3**	**8.9**

Source: Company data, DM BZ WBK estimates

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1) discounted cash flows ("DCF")
2) comparative.

The DCF valuation method is based on expected future discounted cash flows. One advantage of the DCF valuation method is that it takes into account all cash streams reaching Issuer and the cost of money over time. Some disadvantages of the DCF valuation method are that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
The comparative valuation method is based on the economic rule of "one price". Some advantages of the comparative valuation method are that the analyst need only estimate a small number of parameters; the valuation is based on current market conditions; the relatively large accessibility of indicators for companies being compared; and that there is an extensive knowledge of the comparative method among investors. Some disadvantages of valuation by the comparative method are the considerable sensitivity of the results of the valuation on the choice of companies to the comparative group; the method can lead to a simplification of the picture of the company which in turn can lead to omitting certain important factors (e.g. growth dynamics. extra-operational assets. corporate governance. the repeatability of results. differences in applied accounting standards); and the uncertainty of the effectiveness of a market valuation of companies being compared.

Explanations of special terminology used in the recommendation:
EBIT – earnings before interest and tax
EBITDA – earnings before interest. taxes. depreciation. and amortization
P/E – price-earnings ratio
EV – enterprise value (market capitalisation plus net debt)
PEG - P/E to growth ratio
EPS - earnings per share
CPI – consumer price index
WACC - weighted average cost of capital
CAGR – cumulative average annual growth
P/CE – price to cash earnings (net profit plus depreciation and amortisation) ratio

NOPAT – net operational profit after taxation
FCF - free cash flows
BV – book value
ROE – return on equity
P/BV – price-book value

Recommendation definitions:
Buy - indicates a stock's total return to exceed more than 15% over the next twelve months.
Hold - indicates a stock's total return to be in range of 0%-15% over the next twelve months.
Sell - indicates a stock's total return to be less than 0% over the next twelve months.

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