

Energomontaż Południe

155/2010/RP (212) October 27, 2010

Analyst: Adrian Kyrzcz, a.kyrzcz@idmsa.pl, +48 (22) 489 94 74

Quarterly
Results Preview

Sector: Construction
Fundamental rating: Hold (↓)
Market relative: Overweight (→)
Price: PLN 3.81
12M EFV: PLN 4.20 (↓)

Market Cap.: US\$ 95 m
Reuters code: EMPD.WA
Av. daily turnover: US\$ 0.13 m
Free float: 53%
12M range: PLN 3.57-4.66

▲ **Investment opinion & recommendation.** We expect Energomontaż Południe (EPD) to deliver mixed news-flow going forward. On the one hand, we expect feeble 3Q10 results and we cannot preclude new share issue in the near future (in our opinion, such scenario is possible as soon as PBG decides to increase its engagement in EPD in order to achieve >50% equity holding), which both might be negatively perceived by the investors. On the other hand, following disappointing 2010E financial results, we forecast the Company to boost its profits next year, on the back of improving performance of Amontex and residential development division as well as awaited launch of delayed investment program in the power sector in Poland. Nonetheless, on the back of lowered 12M EFV (to PLN 4.20 per share) and such mixed outlook, we downgrade our LT fundamental recommendation for EPD's equities to a Hold (from Buy). We maintain, however, our ST market-relative Overweight bias, given approaching signing of new contracts enabling the Company to finally boost its backlog.

▲ **Weak 3Q10E results.** Energomontaż Południe is to release its 3Q10 financial results on November 15. We expect the numbers to be uninspiring, with much lower yoy profits (envisaged >40% yoy profits slide). However, following unsatisfactory postings in the previous quarters, such quarterly results should not constitute a major negative surprise for the investors community, we believe.

▲ **Decent sales accompanied by weak profits.** The well-developed backlog of EPD should enable the Company to boost its quarterly sales. Specifically, we forecast the Company's 3Q10 top line at PLN 98 million, marking a healthy 35% yoy increase. Such development, however, will be accompanied by projected yoy margin contraction resulting in decline of profits. Coming into the details, we forecast the Company's quarterly EBIT at only PLN 3.3 million, making massive 66% yoy tumble, due to: (i) high base effect (margin peak in 3Q09), (ii) lower yoy quality of EPD's backlog, and (iii) weaker qoq EUR/PLN rate (part of backlog is denominated in Euro). At the bottom line level, we forecast somewhat less severe yoy contraction (at 'only' -49% yoy), as we expect the Company to recognize net financial income in 3Q10 (versus net financial loss in the base quarter), chiefly due to gains on FX hedging (used in order to secure margins on export contracts).

▲ **What to expect in 4Q10?** We tentatively expect the Company to show decent results in 4Q10. Firstly, EPD has been rather conservatively recognizing margins on pending contracts so far, which is why some qoq margins rise in 4Q10 – i.e. when the completion of a number of contracts is scheduled

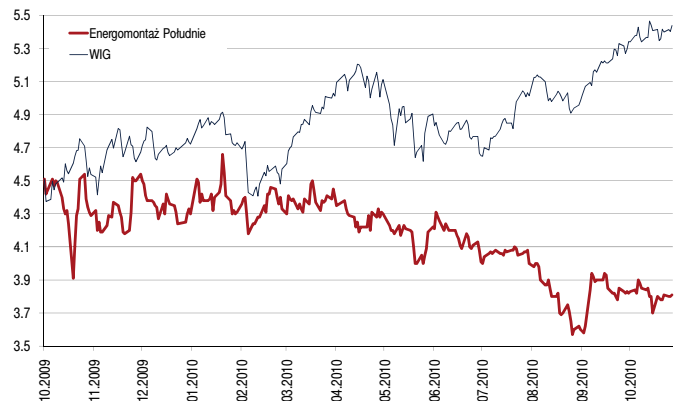
Guide to adjusted profits
No factors necessitating adjustments.

Key data

IFRS consolidated		2009	2010E	2011E	2012E
Sales	PLN m	275.7	356.4	382.8	423.6
EBITDA	PLN m	30.2	26.8	34.6	40.4
EBIT	PLN m	23.5	17.9	22.6	26.2
Net profit	PLN m	14.3	11.7	16.7	20.1
EPS	PLN	0.30	0.16	0.24	0.28
EPS yoy chng	%	-10	-44	43	20
Net debt	PLN m	65.6	37.0	-3.0	-27.7
P/E	x	12.9	23.1	16.2	13.4
P/CE	x	8.8	13.2	9.4	7.9
EV/EBITDA	x	8.3	11.5	7.7	6.0
EV/EBIT	x	10.6	17.2	11.8	9.3
EV/Sales	x	0.9	0.9	0.7	0.6
Gross dividend yield	%	2.8	0.0	1.6	2.3
No. of shares (eop)	m	48.4	71.0	71.0	71.0

Source: Company, DM IDMSA estimates

Stock performance



Source: ISI

Upcoming events

1. Release of 3Q10 financial results: November 15, 2010

Catalysts

1. Efficient expansion on the German market
2. Signing large contracts in the power segment (e.g. worth c. PLN 5 billion power unit in Koźnice)
3. Synergies with PBG
4. Pick up in volume of flats sold
5. Growing prices of dwellings
6. Growing demand on steel structures

Risk factors

1. Inefficient expansion on the German market
2. Delays in the start of the investments in the power sector in Poland
3. Possible lack of expected synergies with PBG
4. Upturn in construction material prices and subcontracting costs
5. Prolonging stagnation in a steel structures market

– should be expected. Secondly, we expect Amontex to stay above the water mark. Finally, we expect a bit more favorable sales-mix in the next quarter, as the Company should finally start handing over flats (c. 14 units which have been already pre-sold are likely to be handed over in 4Q10).

▲ **Financial forecasts – revised down.** On the back of delayed launch of investment program in the power sector in Poland and weak volumes of homes pre-sold this year, we cut our sales and profits projection for Energomontaż (regarding the details please refer to *Figure 2*).

Following disappointing 2010E results, we forecast the Company to enhance its performance in the following years. The projected FY11 profits increase should stem from improving performance of Amontex and residential development division. Next year

should be also rich in new large power contracts in Poland (the awaited tenders for contracts in the power sector should be finally concluded), which is why we forecast rise in profits also beyond 2011.

▲ **12M EFV – downgraded.** On the back of aforementioned downward changes in our financial forecast for the Company, we downgrade our 12M EFV assessment of EPD's equities (by 14%) to PLN 4.20 per share.

Fig. 1 Energomontaż Południe; 3Q10 and 1-3Q10 results' forecast

IFRS consolidated PLN m			yoy		yoy		Realisation of FY		Realisation of FY	
	3Q10E	3Q09	change	1-3Q10E	1-3Q09	change	figures in 3Q:	2009	figures in 1-3Q:	2009
Sales	98.0	72.7	35%	246.0	194.1	27%	27%	26%	69%	70%
Gross profit on sales	8.8	14.1	-38%	20.9	31.2	-33%	24%	36%	56%	79%
Gross profit on sales margin	9.0%	19.4%	-	8.5%	16.1%	-	-	-	-	-
EBIT	3.3	9.8	-66%	8.3	15.9	-48%	19%	42%	46%	68%
EBIT margin	3.4%	13.4%	-	3.4%	8.2%	-	-	-	-	-
Pre-tax profit	4.3	9.6	-55%	6.4	12.9	-51%	29%	55%	42%	74%
Pre-tax margin	4.4%	13.2%	-	2.6%	6.7%	-	-	-	-	-
Net profit	3.5	6.8	-49%	5.6	9.2	-40%	30%	48%	48%	65%
Net margin	3.6%	9.4%	-	2.3%	4.8%	-	-	-	-	-

Source: Company, DM IDMSA estimates

Fig. 2 Energomontaż Południe; Changes in IDM's forecasts

IFRS consolidated PLN m	2010E			2011E			2012E			2013E		
	current	previous	change	current	previous	change	current	previous	change	current	previous	change
Sales	356.4	419.2	-15%	382.8	503.8	-24%	423.6	484.7	-13%	428.0	537.8	-20%
EBIT	17.9	24.5	-27%	22.6	28.4	-21%	26.2	28.3	-7%	28.4	35.4	-20%
NP	11.7	18.6	-37%	16.7	23.6	-29%	20.1	23.5	-14%	21.5	25.1	-14%

Source: 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 = $\text{accrual sales corrected for the change in A/R}$

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 = $\text{fees\&commissions} + \text{result on financial operations (trading gains)} + \text{FX gains}$

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)	
Energomontaż Południe									
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	-	06.07.2009	52%	33%	3.01	5.00	↑
-	→	-	05.04.2009	-	-	-	3.01	5.00	→
-	→	-	15.05.2009	-	-	-	3.59	5.00	→
-	→	-	17.05.2009	-	-	-	3.59	5.00	→
-	→	-	08.06.2009	-	-	-	4.50	5.00	→
Hold	↓	06.07.2009	-	28.04.2010	-4%	-33%	4.58	4.50	↓
-	→	-	08.07.2009	-	-	-	4.47	4.50	→
-	→	-	02.08.2009	-	-	-	4.75	4.50	→
-	→	-	31.08.2009	-	-	-	4.81	4.50	→
-	→	-	12.10.2009	-	-	-	4.40	4.50	→
-	→	-	05.11.2009	-	-	-	4.19	4.50	→
-	→	-	14.12.2009	-	-	-	4.36	4.50	→
-	→	-	07.01.2010	-	-	-	4.42	4.50	→
-	→	-	03.02.2010	-	-	-	4.40	4.50	→
-	→	-	17.02.2010	-	-	-	4.42	4.50	→
-	→	-	01.03.2010	-	-	-	4.30	4.50	→
-	→	-	29.03.2010	-	-	-	4.39	4.50	→
Buy	↑	28.04.2010	-	27.10.2010	-11%	-18%	4.28	4.86	↑
-	→	-	17.05.2010	-	-	-	4.20	4.86	→
-	→	-	14.06.2010	-	-	-	4.20	4.86	→
-	→	-	19.07.2010	-	-	-	4.08	4.86	→
-	→	-	21.07.2010	-	-	-	4.10	4.86	→
-	→	-	31.08.2010	-	-	-	3.60	4.86	→
-	→	-	12.10.2010	-	-	-	3.85	4.86	→
Hold	→	27.10.2010	-	Not later than 27.10.2011	-	-	3.81	4.20	↓

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	-	03.04.2009	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	-	31.08.2009	3.01	37%
-	→	-	05.04.2009	-	3.01	-
-	→	-	15.05.2009	-	3.59	-
-	→	-	17.05.2009	-	3.59	-
-	→	-	08.06.2009	-	4.50	-
-	→	-	06.07.2009	-	4.58	-
-	→	-	08.07.2009	-	4.47	-
-	→	-	02.08.2009	-	4.75	-
Neutral	↓	31.08.2009	-	05.11.2009	4.81	-15%
-	→	-	12.10.2009	-	4.40	-
Overweight	↑	05.11.2009	-	17.02.2010	4.19	0%
-	→	-	14.12.2009	-	4.36	-
-	→	-	07.01.2010	-	4.42	-
-	→	-	03.02.2010	-	4.40	-
Neutral	↓	17.02.2010	-	14.06.2010	4.42	-10%
-	→	-	01.03.2010	-	4.30	-
-	→	-	29.03.2010	-	4.39	-
-	→	-	28.04.2010	-	4.28	-
-	→	-	17.05.2010	-	4.20	-
Overweight	↑	14.06.2010	-	Not later than 14.06.2011	4.20	-19%
-	→	-	19.07.2010	-	4.08	-
-	→	-	21.07.2010	-	4.10	-
-	→	-	31.08.2010	-	3.60	-
-	→	-	12.10.2010	-	3.85	-
-	→	-	27.10.2010	-	3.81	-

Distribution of IDM's current recommendations

	Buy	Hold	Sell	Suspended	Under revision
Numbers	21	30	17	1	0
Percentage	30%	43%	25%	1%	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	1	1	1	0
Percentage	40%	20%	20%	20%	0%

Distribution of IDM's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	21	30	17	1	0
Percentage	30%	43%	25%	1%	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	2	0	2	1	0
Percentage	40%	0%	40%	20%	0%

Institutional sales

Marcin Kozerski

tel.: +48 (22) 489 94 12
m.kozerski@idmsa.pl

Bartłomiej Chorzępa

tel.: +48 (22) 489 94 11
b.chorzepa@idmsa.pl

Research

Sobiesław Pająk, CFA

(IT, Media, Equity strategy)

tel.: +48 (22) 489 94 70
s.pajak@idmsa.pl

Sylwia Jaśkiewicz, CFA

(Construction materials, Retail, Mid-caps)

tel.: +48 (22) 489 94 78
s.jaskiewicz@idmsa.pl

Maciej Wewiórski

(Commodities, Construction, Real estate)

tel.: +48 (22) 489 94 62
m.wewiorski@idmsa.pl

Michał Sobolewski, CFA

(Banks)

tel.: +48 (22) 489 94 77
m.sobolewski@idmsa.pl

Jakub Viscardi

(Telco, Retail)

tel.: +48 (22) 489 94 69
j.viscardi@idmsa.pl

Adrian Kyrzczak

(Construction)

tel.: +48 (22) 489 94 74
a.kyrzczak@idmsa.pl

Łukasz Prokopiuk

(Chemicals)

tel.: +48 (22) 489 94 72
l.prokopiuk@idmsa.pl

Marek Kaźmierczak

(Associate)

tel.: +48 (22) 489 94 64
m.kazmierczak@idmsa.pl

This report is for information purposes only. Neither the information nor the opinions expressed in the report constitute a solicitation or an offer to buy or sell any securities referred herein. The opinions expressed in the report reflect independent, current judgement of DM IDM S.A. Securities. This report was prepared with due diligence and scrutiny. The information used in the report is based on all public sources such as press and branch publications, company's financial statements, current and periodic reports, as well as meetings and telephone conversations with company's representatives prior to the date of report's release. We believe the above mentioned sources of information to be reliable, however we do not guarantee their accuracy and completeness. All estimates and opinions included in the report represent our judgment as of the date of the issue. The legal entity supervising DM IDM S.A. is Financial Supervision Commission in Warsaw (KNF in Polish abbreviation).

IDM does not take any responsibility for decisions taken on the basis of this report and opinions stated in it. Investors bear all responsibility for investment decisions taken on the basis of the contents of this report. The report is intended exclusively for private use of investors – customers of IDM. No part or excerpt of the report may be redistributed, reproduced or conveyed in any manner or form written or oral without the prior written consent of IDM. This report is released to customers the moment it is issued and the whole report is made available to the public one month after the issuance.

The analyst(s) responsible for covering the securities in this report receives compensation based upon the overall profitability of IDM which includes profits derived from investment banking activities, although the analyst compensation is not directly related thereto.

IDM releases analytical reports via mail or electronic mail to selected clients (professional clients).

During the last 12 months DM IDM S.A. was or has been the market maker for the stock of Energomontaż Południe S.A. and received a fee by virtue of this.

Apart from mentioned above, there are no ties of any kind between DM IDM S.A., the analyst/analysts involved in the preparation of the report and his/her relatives and the company/companies analyzed in this publication, especially in the form of: i) offering of financial instruments in the primary market or/and Initial Public Offer within 12 months preceding the issue of this report, ii) purchasing and selling of financial instruments for own account due to tasks connected with organization of the regulated market, iii) purchasing and selling of financial instruments due to underwriting agreements and iv) the role of a market maker for securities analysed by IDM. The analysed company/companies does/do not possess DM IDM S.A. shares.

IDM has not signed with the company/companies any contracts for recommendation writing. Investors should assume that DM IDM S.A. is seeking or will seek business relationships with the company/companies described in this report. No excerpts from this research report were shown to the analyzed company/companies before the distribution of the report to clients.