

19 July 2013

Update



Construction
Poland

FY13E P/E 14.8x
FY13E EV/EBITDA 7.7x
WIG-Construction Index 1820

Construction

Value Lies in Industry Leaders

Investors' sentiment to the Polish construction sector became even more polarized than before in H1 2013, as reflected in the fact that stocks such as Budimex, Elektrobudowa, Erbud, and Unibep have gained 40% on average since the beginning of the year, while the shares of companies whose last chance to get out of debt are potential future contracts from the power industry (Polimex-Mostostal, Mostostal Warszawa, Rafako) plummeted 57%. We would avoid the latter category of firms which face a wide range of risks including 1) further deterioration of cash position, 2) partial debt conversion leading to dilution of minority shareholders, 3) problems with new order acquisition, and 4) possible inability to handle multi-billion-zloty power plant contracts. In turn, we remain bullish on builders who are not heavily indebted and who can capitalize on the financial woes of their competition even as construction activity slows down. Accordingly, we are upgrading our investment rating for Budimex from Hold to Accumulate to reflect the expected acceleration in revenues generated from road contracts, and continuation of a generous dividend policy. We are also upgrading Elektrobudowa which is poised for an earnings rebound thanks to new major power engineering contracts. We stand by our positive ratings for Erbud and Unibep whose established reputations as reliable contractors have helped them to build up order backlogs in Q2 2013 amid a general downtrend in construction orders.

(PLN)	Target Price	Rating
Budimex	105.4	Accumulate
Elektrobudowa	150.5	Accumulate
Erbud	24.7	Buy
Unibep	8.6	Buy

(PLN)	Current price*	Target Price	Upside/Downside
Budimex	94.0	105.4	12%
Elektrobudowa	137.7	150.5	9%
Erbud	20.4	24.7	21%
Unibep	7.1	8.6	21%

* closing prices as of 18 July 2013

Strong backlogs

The second quarter of 2013 was a successful period in terms of backlog-building for all of the four companies in our coverage. Unibep and Elektrobudowa both accumulated the largest backlogs in history.

Profit margins set for 2014 recovery

Profit margins in the building industry have been falling for the last four years, and they are likely to continue shrinking going forward as construction activity slows down and competition heats up. However, none of the four companies covered here have to engage in a price war as all have ample backlogs. Moreover, high costs of building materials, which were one of the main causes behind the margin shrinkage observed in 2010 and 2011, are no longer an issue. All this, combined with reduced competition after the recent string of bankruptcies, and with the impending recovery in building activity, should prompt a recovery in margins next year.

Infrastructure

The 21 tenders for expressways called in June will start generating profits for the winning bidders in H1 2014. Poland's road authority GDDKiA is planning to invite bids for contracts totaling PLN 36bn this year. Budimex is the only WSE-listed general contractor who has managed to maintain a safe cash balance and retain its skilled road engineers and workers.

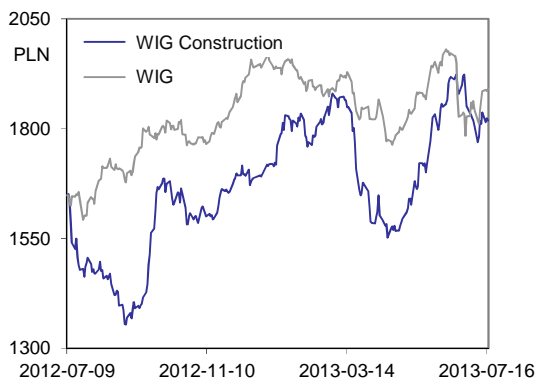
Building construction

Budimex, Erbud, and Unibep have all reported a solid influx of new orders for building construction in recent months. Contract opportunities in the commercial property market have been steady, and housing orders are expected to increase in 2014.

Power engineering

The opportunities expected to arise from the Polish power industry's planned capacity-building projects will benefit mostly subcontractors and general contractors who do not yet have any major power engineering assignments in their pipelines (Elektrobudowa, Mostostal Zabrze).

WIG Construction vs. WIG



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	P/E			EV/EBITDA		
	2013E	2014E	2015E	2013E	2014E	2015E
Budimex	14.7	14.9	10.5	6.5	7.0	5.0
Elektrobudowa	16.5	11.6	10.1	10.0	7.4	6.5
Erbud	14.1	11.8	9.8	5.3	4.3	3.7
Unibep	14.0	12.2	9.4	9.2	8.1	6.5

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Update



Construction
Poland

Current price **PLN 94.0**
Target price **PLN 105.4**
 Market cap PLN 2.40bn
 Free float PLN 0.65bn
 Avg daily trading volume (3M) PLN 3.24m

Shareholder Structure

Ferrovial	59.06%
PZU OFE	8.83%
AVIVA OFE	5.11%
Others	27.00%

Company Profile

Budimex specializes in road development and construction of residential, commercial, and public buildings. It acts as project manager in large infrastructure projects as well as being active in real-estate development.

Important dates

30.08 - H1 2013 report
 23.10 - Q3 2013 report

Budimex Accumulate

BDX PW; BMXP.WA

(Upgraded)

Roadbuilders Being Dealt a New Hand

The new contract opportunities offered by Poland's road authority GDDKiA in June can start generating revenues for Budimex as soon as in the first half of 2014, reducing the risk of an earnings slump next year and driving a revenue and profit rebound in 2015. Budimex is the undisputed leader of the Polish infrastructure market thanks to its proven track record and a strong cash position. Unlike many other Polish and international construction firms which were forced to dramatically downsize their road-building operations, Budimex has been able to retain its skilled workforce and thus remain ready for the inevitable recovery in infrastructure investment. Whether our optimistic projections for Budimex are accurate will become clear once the first winners of the June road tenders are announced in Q4 2013. We believe reduced competition supports the Company's chances in many of the bids. The total value of the infrastructure funding that Poland is set to receive under the EU's 2014-2020 budget is roughly EUR 10 billion. We believe Budimex will be one of the main beneficiaries of this funding, and so we are upgrading our investment rating for the Company's stock from Hold to Accumulate with the price target raised from PLN 66.8 to PLN 105.4 per share.

Growing order backlog

Budimex added two major infrastructure contracts (one for a motorway stretch and the other for an urban rail line), as well as a number of building contracts, to its order backlog in Q2 2013. We estimate the total value of orders acquired in the first half of the year at over PLN 2.0 billion, more than double the PLN 0.9bn reported in the same period last year.

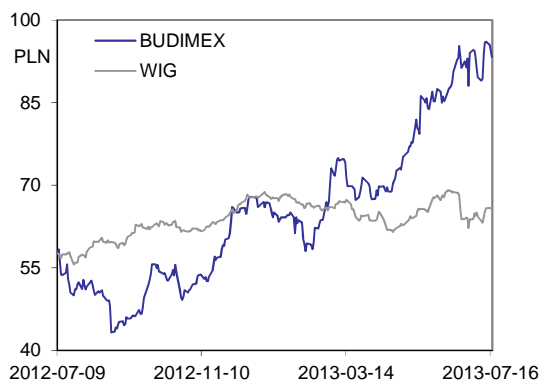
Successful general construction

Building construction orders accounted for 36% (PLN 1.7bn) of Budimex's backlog at 31 March 2013. Most of the orders came from private-sector customers who do not necessarily always seek out the cheapest contractors. The building construction segment is set for continued strong growth in the future.

High cash position guarantees dividends

We expect Budimex to have increased its cash position by the end of June from the PLN 758m net cash reported at 31 March, and we believe the cash balance will reach PLN 900m by the end of the year. A further boost to the Company's cash flows will be provided by advances on the road contracts it is currently bidding for. We assume Budimex will be paying out 80% of its annual earnings as dividends to shareholders in the coming years (DYield(2014)=5.4%), but we see potential for 100% payouts if our expectations as to future cash flows come true (DYield(2014)=6.8%).

BDX vs. WIG



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(PLN m)	2011	2012	2013F	2014F	2015F
Revenue	5 516.5	6 077.7	5 027.0	4 837.2	5 735.2
EBITDA	165.0	233.1	224.4	217.9	299.7
EBITDA margin	3.0%	3.8%	4.5%	4.5%	5.2%
EBIT	134.7	182.4	195.9	186.7	267.7
Net profit	75.6	186.0	163.0	161.4	228.4
P/E	31.7	12.9	14.7	14.9	10.5
P/CE	22.7	10.1	12.5	12.5	9.2
P/B	4.6	5.5	5.0	4.7	3.9
EV/EBITDA	4.5	5.0	6.5	7.0	5.0
DYield	9.7%	11.7%	4.7%	5.4%	5.4%

**Construction**

Poland

Current price	PLN 137.7
Target price	PLN 150.5
Market cap	PLN 0.65bn
Free float	PLN 0.24bn
Avg daily trading volume (3M)	PLN 0.62m

Shareholder Structure

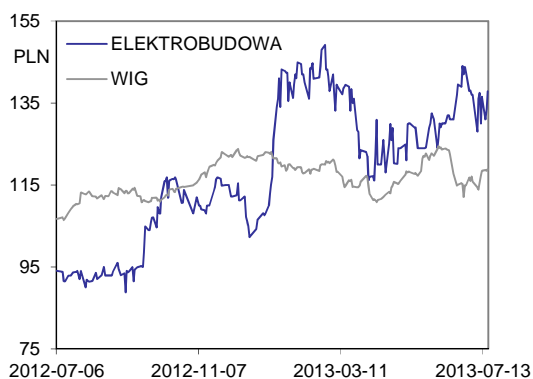
AVIVA OFE	15.19%
ING OFE	9.95%
Generali OFE	9.82%
AXA OFE	9.41%
Amplico OFE	6.10%
PZU OFE	6.06%
PKO OFE	6.00%
Others	37.47%

Company Profile

Elektrobudowa provides manufacturing and assembly services for energy, petrochemical and upstream industries. It produces medium and low voltage power devices and operates in the EU, EEC and Saudi Arabia.

Important dates

31.08 - H1'13 report
14.11 - Q3 2013 report

ELB vs. WIG**Piotr Zybała**

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Elektrobudowa Accumulate

ELB.PW; ELB.WA

(Upgraded)

High-Margin Contracts

In H1 2013 Elektrobudowa signed contracts on an unprecedented scale. Two new contracts with PSE (PLN 439m) and an agreement with Tauron for a new plant in CHP Tychy (PLN 592m) will drastically boost revenue already in 2014. New tenders were characterized by a surprisingly low competition, therefore we are expecting new contracts to generate solid margins (5-10% EBIT) Elektrobudowa is about to launch high CAPEX on the upgrade and development of power transmission infrastructure. Starting from 2014 investments of PSE will consistently exceed PLN 2bn/year (a total of PLN 23bn by the end of 2025), while they amounted to PLN 500-700m in the previous years. Production segment will bring similar results. Although estimated CAPEX on new power plants according to the Polish government are falling down, Polish energy sector will not avoid high costs. However it remains unknown when it will have to incur them. Aware of the fact that major subcontracting orders related to the development of major power plants will appear as late as in 2015, the Board of Elektrobudowa expanded to the area of smaller production plants (50-100 MW), which run a much smaller risk and have potentially equally attractive margins. New contracts of Elektrobudowa secure the situation of the Company for at least 2014 and 2015. In our opinion, a well-thought development strategy and lack of debt will allow Elektrobudowa to take advantage of growing energy market also in subsequent years, therefore we are upgrading our rating for Elektrobudowa from Hold to Accumulate. Our new target price is PLN 150.5 PLN (up from PLN 121.2 previously).

The nature of new contracts

Contracts signed with PSE and Tauron are long term ones and they are scheduled for completion in 3.-4.5 years. The highest revenues are expected in 2014-2015 (ca. 380m PLN /year) The forecasted margin is 5% and it may positively surprise in the future.

Another contract from PSE

In April Elektrobudowa placed the lowest offer in the tender for the construction of 400kV Pelplin-Grudziądz line. The offer is over 25% higher than the budget of the contractor and slightly lower than the one placed by the competitor. If the offer submitted by Elektrobudowa wins, the Company should exceed 60m net profit already in 2014.

Elektrobudowa unlikely to exceed the Board's 2013 guidance

The Company is forecasting PLN 1014m revenue and PLN 41.6m net profit in 2013. However, we are expecting these results to be lower. New contracts will only slightly contribute to 2013 results. Industrial segment may cause some disappointments as it lacks new orders and is infected with low margins. The Board appointed a new person responsible for the industrial segment on 1 July.

(PLN m)	2011	2012	2013F	2014F	2015F
Revenue	945.2	1029.4	1033.5	1355.7	1567.1
EBITDA	61.6	55.2	60.3	82.9	93.9
EBITDA margin	6.5%	5.4%	5.8%	6.1%	6.0%
EBIT	49.3	43.0	46.2	68.1	78.5
Net profit	37.9	39.5	39.6	56.2	64.6
P/E	17.2	16.5	16.5	11.6	10.1
P/CE	13.0	12.6	12.2	9.2	8.2
P/B	2.0	1.9	1.7	1.6	1.4
EV/EBITDA	10.0	11.2	10.0	7.4	6.5
DYield	4.4%	2.9%	1.5%	1.8%	4.3%

**Construction**

Poland

Current price PLN 20.4**Target price** PLN 24.7

Market cap PLN 0.26bn

Free float PLN 0.05bn

Avg daily trading volume (3M) PLN 0.13m

Shareholder Structure

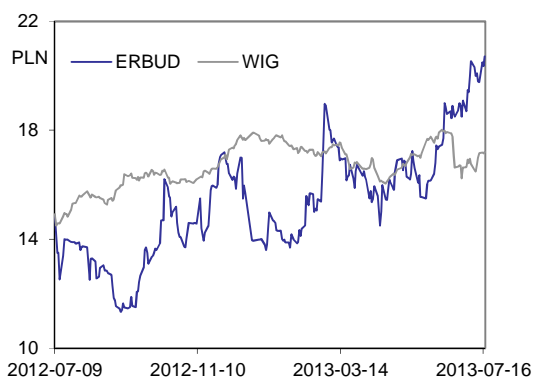
Wolff & Muller	32.76%
Juladal Investment Limited	22.47%
ING OFE	10.02%
AVIVA OFE BZ WBK	9.33%
Dariusz Grzeszczak	6.10%
Others	19.32%

Company Profile

Erbud is a general contractor offering construction of residential, commercial and public buildings. It also holds majority interests in road engineering companies, a real-estate developer, and power engineering operations.

Important dates

27.08 - H1 2013 report
14.11 - Q3 2013 report

ERB vs. WIG**Piotr Zybala**

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Erbud

ERB PW; ERB.WA

Buy

(Reiterated)

Aiming for Better Margins

Erbud has accumulated a very solid order backlog expected to have reached about PLN 1500 million as of 30 June, a level similar to that reported last year. Erbud's main priority, which is reflected in our financial forecasts, is to maximize the profitability of contracts even at the expense of lower revenues in the future. We consider this a smart strategy given the Company's current scale. Note that if Erbud's actual 2014-2015 EBIT margins were to exceed our forecast by just 1 percentage point, we would have to raise our net earnings projections for these years by 40-50%. The 2012 EBIT margin was 2.9ppts lower than the average for 2004-2009. Future margins will be supported by more accurate contract budgeting processes implemented to avoid losses like the ones incurred in past years. Also driving profitability going forward will be external factors including less intense competition, Erbud's good reputation among customers, and the expected investment rebound in roads, the power industry, and housing, coming in 2014. We are raising our price target for Erbud from PLN 19.2 to PLN 24.7 per share, and we are reiterating a Buy rating on the stock.

Potential to beat forecasts

We must point out that our financial forecasts for Erbud do not take into account the positive effects of new EU funding on the future availability of contract opportunities, nor do they consider the prospective orders that may be acquired by Erbud's 94%-owned wind farm developer PBDI. Further, the order book secured to date by Erbud's power engineering business is 2.5 times thicker than a year ago, and the real-estate business is expected to experience an uptick in profits in 2015.

Commercial real estate project

Our financial projections for Erbud's real-estate segment do not take into account the commercial project in Poznań in which the subsidiary Budlex is a 50% partner since 2010. We believe the project can fetch profits over PLN 10m.

Legal risks

Erbud is adamant that it is not responsible for the damage to the runway which it had built jointly with subcontractors, and which kept the Modlin airport closed until 3 July. If the case goes to court, it will take several years to resolve. We do not allow for any further charges related to the Modlin airport dispute in our financial forecasts, but we do subtract the runway repair costs incurred so far from our valuation of Erbud (PLN 12.5m total, PLN 1.0/share).

(PLN m)	2011	2012	2013F	2014F	2015F
Revenue	1 527.8	1 384.5	1 334.5	1 302.0	1 358.1
EBITDA	-4.5	36.9	37.3	41.6	47.2
EBITDA margin	-0.3%	2.7%	2.8%	3.2%	3.5%
EBIT	-12.3	29.4	29.6	33.3	38.9
Net profit	-20.4	17.2	18.3	22.0	26.4
P/E	-	15.0	14.1	11.8	9.8
P/CE	-	10.4	10.0	8.5	7.4
P/B	1.2	1.1	1.0	0.9	0.9
EV/EBITDA	-	4.6	5.3	4.3	3.7
DYield	0.1%	0.0%	0.0%	1.4%	4.3%

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BRE Bank Securities

**Construction**

Poland

Current price	PLN 7.0
Target price	PLN 8.6
Market cap	PLN 0.24bn
Free float	PLN 0.07bn
Avg daily trading volume (3M)	PLN 0.17m

Shareholder Structure

Zofia Mikołuszko	26.85%
Beata Maria Skowrońska	17.70%
Zofia Iwona Stajkowska	17.55%
AVIVA OFE BZ WBK	9.91%

Others 27.99%

Company Profile

Unibep is a general contractor specializing in building construction and operating in Poland (residential and office buildings, shopping centers, hotels) and Russia. It is also involved in road construction, real estate development and it manufactures prefabricated homes.

Important Dates

30.08 - H1 2013 report
14.11 - Q3 2013 report

Unibep

UNI PW; UNIP.WA

Buy

(Upgraded)

Resistant to Ailments of Construction Sector

In Q2 Unibep performed exceptionally well when it comes to obtaining new contracts. The value of contracts reported by the Company amounted to PLN 344m, which represented 40% of its last year revenues. The current backlog of Unibep fully corresponds to our 2013 income forecasts and in covers our 2014 forecasts in 70%, therefore 26% growth expected by us in 2013 and 8% growth in 2014 do not seem to be over-ambitious even when we consider the downward trend in the Polish construction sector. Fierce competition across virtually all sectors calls for conservative approach when forecasting future margins, a thing which is reflected in our forecasts. When it comes to the building construction segment we are expecting the long-term margins to amount to 6.0%. This represents a 50% drop in margins compared to the record years 2008-2009, but a 16% growth relative to 2012. Note also that the situation of Unibep is very attractive. The Company has 1) a record large order backlog, 2) increasingly strong situation on the market resulting from ailing competitors and more experience in foreign markets, 3) the level of cash unseen for the last several quarters. Given all the above we believe that Unibep will surprise positively in the following quarters, both when it comes to revenues and margins. We are upgrading our investment rating for Unibep from Accumulate to Buy, with the price target set at PLN 8.60 (PLN 6.80 before).

Debt drops drastically at the beginning of the year

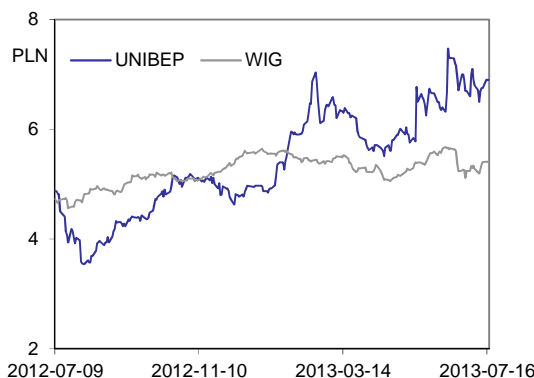
Having completed the project for BPS bank, Unibep closed Q1 with PLN 22m net cash. In Q2 the Company refinanced PLN 22m bonds, therefore most of the interests have over 1 year maturity.

Wola House project may generate PLN 1.4/share

Our forecasts still do not take into account an office building in the Warsaw district of Wola, which may bring ca. PLN 50m profit. The investment is likely to be launched still this year. The Company should obtain the building permit and secure financing still in Q3. The missing financing in the amount of PLN 30m is within the Company's reach.

Other assumptions for operating segments

For the last 4 years Unibep has been gathering experience in Norwegian market where it develops houses in module technology. 2014 should mark a definite increase in margins and the development of the Company will translate into revenues increasing to PLN 160m/year. In May and June alone Unibep signed contracts in Norway amounting to PLN 83m.

UNI vs. WIG**Piotr Zybala**

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(PLN m)	2011	2012	2013F	2014F	2015F
Revenue	939.4	837.8	1 057.0	1 143.2	1 211.6
EBITDA	39.0	25.8	31.6	35.7	42.9
EBITDA margin	4.2%	3.1%	3.0%	3.1%	3.5%
EBIT	33.8	20.2	26.0	30.0	37.1
Net profit	21.1	16.7	17.4	19.9	25.9
P/E	11.4	14.5	14.0	12.2	9.4
P/CE	9.2	10.9	10.6	9.5	7.7
P/B	1.5	1.4	1.3	1.2	1.1
EV/EBITDA	7.2	13.1	9.2	8.1	6.5
DYield	1.7%	1.7%	1.7%	1.8%	3.3%



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List of abbreviations and ratios contained in the report:

EV – net debt + market value

EBIT – Earnings Before Interest and Taxes

EBITDA – EBIT + Depreciation and Amortisation

P/CE – price to earnings with amortisation

MC/S – market capitalisation to sales

EBIT/EV – operating profit to economic value

P/E – (Price/Earnings) – price divided by annual net profit per share

ROE – (Return on Equity) – annual net profit divided by average equity

P/BV – (Price/Book Value) – price divided by book value per share

Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents

EBITDA margin – EBITDA/Sales

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A recommendation is valid for a period of 6-9 months, unless a subsequent recommendation is issued within this period.

Expected

returns from individual recommendations are as follows:

BUY – we expect that the rate of return from an investment will be at least 15%

ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%

HOLD – we expect that the rate of return from an investment will range from –5% to +5%

REDUCE – we expect that the rate of return from an investment will range from -5% to -15%

SELL – we expect that an investment will bear a loss greater than 15%

Recommendations are updated at least once every nine months.

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BRE Bank Securities acts as a market maker for Erbud.

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

**Previous ratings issued for Budimex**

Rating	Hold
Rating day	2012-12-10
Price on rating day	69,80
WIG on rating day	45538.45

Previous ratings issued for Elektrobudowa

Rating	Hold	Hold	Reduce	Hold
Rating day	2012-11-21	2012-12-10	2013-02-06	2013-04-08
Price on rating day	113.50	111.20	142.00	117.00
WIG on rating day	44438.93	44438.93	46674.78	44597.66

Previous issued for Erbud

Rating	Buy	Hold	Buy
Rating day	2012-12-10	2013-03-06	2013-06-05
Price on rating day	16.42	18.00	16.80
WIG on rating day	40594.36	46676.09	47620.68

Previous ratings issued for Unibep

Rating	Buy	Accumulate
Rating day	2012-12-10	2013-03-06
Price on rating day	4.80	6.69
WIG on rating day	40594.36	46676.09