BRE Bank Securities

RESEARCH REPORT
Jelfa

Pharmaceutical Manufacturers

ISSN 1508-308X

Warsaw, 18.02.04

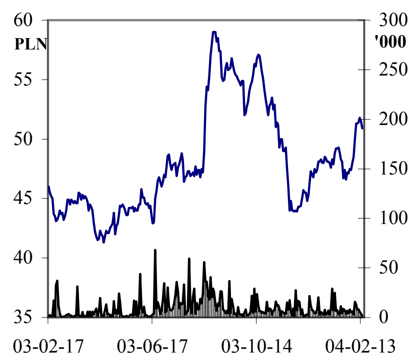
Spectacular quarterly results will be difficult to repeat in the near future

Jelfa's financial results for 4Q 2003 are very good. The company noted an approximate 25% growth in sales, particularly in exports, but in domestic sales as well. This growth was accompanied by an increase in the gross margin on sales due to the higher share of exports in total sales as well as to cost cutting measures undertaken by the company. As a result, Jelfa more than compensated for the high rate at which selling costs grew. Operating, gross and net profits generated in 4Q were the highest noted by the company during the entire year.

In our opinion, Jelfa's performance in 2004 will fall way short of results noted in 2003. Although we expect sales and the gross margin on sales to be higher this year than those noted in 2003, selling costs will increase to such an extent, that the company will report lower results. We believe the company's current situation can be compared to that of Polfa Kutno in 2000. Moreover, we expect that, just as was the case in regard to Polfa Kutno, Jelfa's results will show a significant dynamics of growth next year and net profit will return to the level noted in 2003. Our forecasts do not include acquisitions of new products or contract manufacturing, which could boost results.

We are downgrading our investment recommendation for Jelfa shares to hold. In our opinion, this will be a difficult year for the company as it continues cost restructuring and adjusting the product portfolio. Due to its significant investment needs (outlays will amount to approximately PLN 60 mn this year), Jelfa will close the majority of its financial investments and borrow additional funds.

Based on the DCF model, fair value of one Jelfa share amounts to PLN 57.5. This is a long-term valuation. However, in the short-term, Jelfa's shares will be listed below the level resulting from the DCF valuation due to the company's weaker performance forecast by us. A comparative valuation also provides no basis for a growth in the share price.



Recommendation	HOLD
Price	**51,9**
Valuation	**48,0**

Basic Data	
No. of shares ('000)	6 800
Free float	39%
Market cap (PLN '000)	352 920

Shareholder Structure	
State Treasury	29,9%
Grupa PZU	16,7%
Commercial Union Polska	7,9%
Nationale Nederlanden Polska	6,2%
Others	39,4%

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	Sales (PLN mn)	EBIT (PLN mn)	Net profit (PLN mn)	Cash earn. (PLN mn)	Price (PLN)	EPS (PLN)	P/E	BVPS (PLN)	P/BV	CEPS (PLN)	P/CE	EV/EBDIT
2001	243,2	26,2	30,7	58,0	51,9	4,5	11,5	49,8	1,0	8,5	6,1	6,2
2002	247,7	33,7	26,3	58,9	51,9	3,9	13,4	50,9	1,0	8,7	6,0	5,2
2003F	253,6	30,2	21,7	46,2	51,9	3,2	16,3	51,0	1,0	6,8	7,6	6,3
2004F	271,0	14,6	10,4	39,7	51,9	1,5	33,9	52,5	1,0	5,8	8,9	7,9
2005F	291,7	25,3	20,1	51,6	51,9	3,0	17,6	55,5	0,9	7,6	6,8	5,9

NOTE: F - BRE Bank Securities forecast

BRE Bank Securities does not rule out offering brokerage services to an issuer of securities being the subject of a recommendation. Information concerning a conflict of interest arising in connection with issuing a recommendation (should such a conflict exist) is located on the final page of this report.

Jelfa results for 4Q 2003

The final quarter of 2003 was a very good one for Jelfa. Earlier quarters of the year showed that the company has problems with sales, particularly on the Polish market, while growing administrative and selling costs limited profits. In 4Q, Jelfa demonstrated that it is able to mobilise sales, both domestic (19% growth) and foreign (54%); hence the approximate 25% growth in total sales relative to the analogous period of 2002. The growth in sales was accompanied by a growth in the gross margin on sales, which in 4Q amounted to 46.8%, while in previous quarters of 2003 it was an average of 3 pp. lower. The increase in the margin is connected with the increase in export sales as well as with cost restructuring conducted by the company, and we believe this is a sustainable trend.

Core data for Jelfa in quarterly terms (PLN mn)

	4Q 2002	**4Q 2003**	Dynamics	4Q 2003 BRE Bank forecast
Net sales revenues	68.8	**86.0**	25%	85.7
Operating profit	2.0	**10.9**	436%	8.1
Gross profit	2.5	**10.5**	324%	7.6
Net profit	-1.3	**8.8**	-	6.5

Source: BRE Bank Securities

The strategy of increasing the number of company trade representatives certainly contributed to the jump in domestic sales. The company almost doubled the number of employees in the trade department during 2003 (from 80 to about 150). Considering the fact that they were employed in 3Q, the initial results of their efforts could impact the level of 4Q revenues. The traditional increased 4Q demand from pharmaceutical wholesalers, which build inventories at the end of the year due to higher discounts, was no doubt another factor contributing to the increase in sales.

It should be pointed out that sales in USD dominate in export revenues (sales in EUR do not exceed 10% of exports). Therefore, the growth in export sales is due more to the growth in the quantity of sold medicines than to the effect of a change in their prices. Due to the appreciation of the currency, changes in medicine prices have a smaller significance.

The significant growth in sales as well as the gross margin also had an influence on profit levels. Despite rapidly growing selling costs (22% higher in 2003 than in 2002), which is connected with building a sales network, new hires as well as increasing expenditures on promotion, Jelfa's profits on the operating, gross and net levels were significantly higher than we expected. Without a doubt, 4Q was the best quarter of the year for Jelfa. We believe that the company will not be able to repeat such results before 4Q 2004.

Jelfa against the background of Polfa Kutno

A comparison of the two publicly traded pharmaceutical manufacturers, Jelfa and Polfa Kutno, places the former in a less favourable light. Polfa, which has already successfully restructured, reduced employment, conducted new acquisitions, expanded the sales network as well as achieved much higher sales dynamics and better results than Jelfa, in which the process of restructuring is just now being conducted.

Basic financial data of Jelfa and Polfa Kutno for 2003

	Jelfa	PK
Dynamics of sales	2%	15%
Gross margin on sales	45%	65%
Operating margin	12%	19%
Net margin	9%	13%

Source: BRE Bank Securities

Jelfa's strategy

Jelfa has taken steps aimed at improving the company's position on the market, as well as enabling the company to achieve higher financial results. The company's strategy, announced in December 2003, shows that the road to achieving a better market position is development of the product portfolio as well as the company's selling power. The example of Polfa proves that the chosen strategy, which covers 2003-2008, is a good one. Jelfa's strategic goals for 2008 are presented below.

Assumptions from the strategic plan of Jelfa

	2002	2008	CAGR
Share in retail market	1.52%	2.7%	
Position on retail market	23	10	
Domestic sales (PLN mn)	198	435	14%
Export sales (PLN mn)	49	186	25%
Share of exports in total sales	19.8%	30.0%	
Net profit margin on sales	41.9%	56.0%	
Marketing and sales costs	18.5%	29.0%	
Operating profit margin	13.6%	20.0%	
Net profit margin	10.6%	15.0%	

Source: BRE Bank Securities

The company has set high goals for itself. Jelfa wants to increase domestic sales approximately 14% annually. Considering the fact that in 2003 sales were only 2% higher than in 2002, **the average growth in sales during 2004-2008 should amount to about 17%.** This significantly exceeds assumptions for the entire market (generally 6-9%). This growth is to be achieved through:

- **Expanding network of trade representatives**; the effect of their employment will be particularly evident in the first two years of the discussed period,
- **Growth in export sales**; Jelfa's experience to date in this area indicates the chances are good for further export growth,
- **Introduction of new company products**; one obstacle in this regard could be the long registration process, however the company has already applied to register approximately 40 new preparations, of which several may gain approval this year,
- **Acquisitions of new medicines**, for which Jelfa plans expenditures of up to PLN 100 mn; the company lacks experience in this field; moreover it is very difficult to estimate the price and revenues that Jelfa could obtain from potential acquisitions; therefore we do not include this in our forecasts.

A growth in selling and marketing costs will be the price the company will pay for aggressively acquiring market share. The management board believes that the relation of these costs to sales will increase from approximately 20% in 2003 to 29%. Therefore, despite the fact that revenues should already reflect the effects of the introduced changes, Jelfa's profit this year will probably be much lower than in 2003.

2004 for Jelfa will be similar to 2000 for Polfa Kutno

As mentioned above, Jelfa will implement a strategy largely similar to the strategy Polfa Kutno has already employed. This process could proceed more slowly for Jelfa due to the significantly broader scope of production. Nevertheless, cost trends in both companies should be similar. We believe that 2004 for Jelfa could be comparable to 2000 for Polfa Kutno: growth in gross margin, growth in selling costs, drop in profits (in 2000, Polfa actually noted a loss in the segment of medicines).

Comparison of basic items of the profit and loss accounts in Jelfa and Polfa Kutno in relation to revenues

JELFA	2001	2002	2003	2004	2005	2006	2007
Gross profit on sales	46%	42%	45%	45%	48%	49%	51%
Selling costs	19%	19%	22%	28%	28%	28%	28%
Administrative costs	14%	10%	10%	10%	10%	9%	9%
Operating result	11%	14%	12%	5%	9%	11%	13%
POLFA KUTNO	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Gross profit on sales	34%	40%	42%	47%	63%	63%	65%
Selling costs	8%	10%	14%	24%	32%	37%	37%
Administrative costs	16%	17%	14%	17%	12%	9%	9%
Operating result	10%	11%	13%	9%	16%	19%	19%

Source: BRE Bank Securities

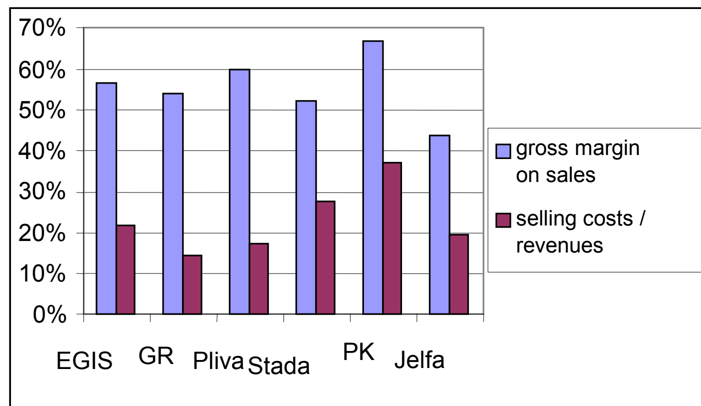
In the initial years of restructuring, the level of gross margin on sales in both companies was similar (42-44%). Moreover, Jelfa bore relatively higher selling costs than Polfa Kutno in the comparable period. In 2000, the turning point for Polfa, with an approximate 18% growth in sales, the company noted an increase in the margin on sales. Changes in the product portfolio, including the introduction of licensed medicines for sale, contributed to this growth. This will also be the case for Jelfa. The dynamic of sales in 2004 will be higher than in the last two years (we forecast 7%). This does not include the acquisition of new products or launching contract manufacturing. Should Jelfa be successful in either of these ventures, revenues will be respectively higher. According to company representatives, registering the purchased license for a cardiological drug and launching contract manufacturing will be possible this year.

Margin on sales

Changes in the portfolio as well as cost savings generated by the company will increase the margin on sales. However, we do not expect the margin to grow to the extent noted in the case of Polfa Kutno. It will be recalled that this company reduced the production of drugs other than for human consumption from year to year, which explains the considerable changes in the margin. Jelfa, on the other hand, is maintaining all segments of production. In order to increase the gross margin realised on products, which are already in Jelfa's portfolio, sales prices could be increased (very difficult to implement, and in the case of refundable medicines accounting for approximately 45% of Jelfa's sales, it is virtually impossible), or costs limited.

Jelfa will certainly take advantage of every opportunity to lower costs, such as: renegotiating contracts with suppliers and better utilising raw materials. Introducing new medicines for sale, which is however a long process, has the greatest potential to increase the margin. In our opinion, without the acquisition of new medicines, Jelfa can increase the realised gross margin to approximately 50-51%. Furthermore, sales of medicines originating from new acquisitions should push the margin up to at least 60%. Firms, in which sales of generic medicines dominate, generally achieve margins of 50-60%.

Level of gross margin as well as relation of selling costs to revenues in selected companies (2003)



GR – Gedeon Richter
Source: BRE Bank Securities

In 2002, costs of materials and energy accounted for 50.6% of manufacturing costs. Approximately half of these costs are costs borne in PLN, the remainder in USD and EUR in a relation of 2:1. Considering changes in exchange rates in 2003, manufacturing costs should increase approximately 1.5%. Jelfa reduced these costs 2.5% in this period, precisely due to implemented savings measures.

Selling costs

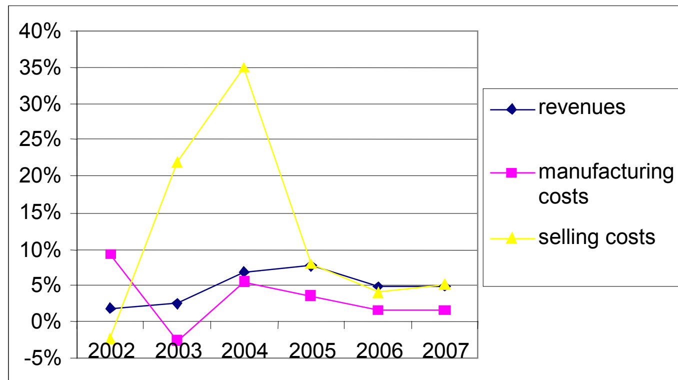
The employment of new specialists in the company's trade structures, promotional and marketing campaigns and conducting symposia for physicians and pharmacologists all contribute to increasing revenues, but also to increasing selling costs. Bearing the costs of the expanded sales department for an entire year will alone increase selling costs several million PLN.

The relation of selling costs to revenues in Polfa Kutno is currently about 37%. This is the highest level among analysed pharmaceutical firms. But Polfa also achieves the highest gross margin on sales within this group. Companies with lower margins cannot afford to note selling costs of almost 40% of sales. As a result, we assume that Jelfa's selling costs will reach a level of up to 28%. We point out that the company itself assumes these costs will be 29% in 2008. In our opinion, expenditures on sales and marketing could reach this level together with an increase in the gross margin to the planned 56%. We do not include this in our forecasts, but we also do not include the acquisition of new products.

Forecast of results

In our forecasts for the company, we included a gradual growth in sales revenues as well as a growth in the gross margin and administrative costs. Jelfa does not fully use its production capacity. Therefore, acquisitions of new products as well as (at least until an increase in demand occurs for the products sold by Jelfa) contract manufacturing are significant opportunities for the company, but they are not included in our forecasts. Contract manufacturing may not itself generate such a high margin as would be possible to achieve through introducing company products or product acquisitions, but it will increase the company's operating leverage.

Prospective dynamic of revenues, manufacturing costs and selling costs

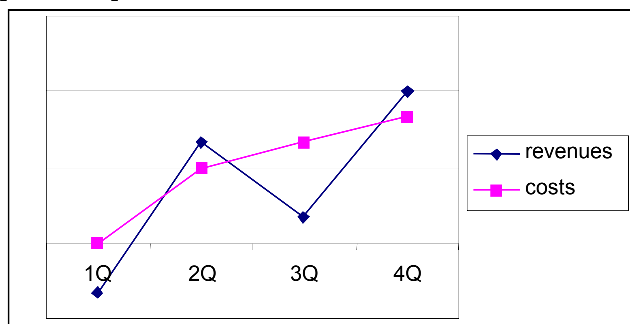


Source: BRE Bank Securities

Moreover, we assumed that in order to conduct planned investments in 2004 (expenditures on the tablet production department alone amount to more than PLN 50 mn) the company will close the majority of its financial investments and borrow approximately PLN 15 mn. Due to investment needs, we do not envision the payment of a dividend, although we do acknowledge the payment of a dividend from 2003 profit is likely (the company's owners will most likely demand a payment). Should the owners adopt the relevant resolution, the dividend will amount to approximately PLN 1-1.5 per share.

The accumulation of increased costs this year could result in Jelfa noting a loss in some quarters. In our opinion, the third quarter of the year, when sales traditionally slump, could be particularly difficult. As Jelfa intends to employ about 40 trade representatives in 2Q 2004, the growth in costs will also be evident in the third quarter of the year.

Prospective dynamics of revenues and costs in individual quarters of 2004 relative to the previous quarter



Source: BRE Bank Securities

The growth in revenues that we forecast for 2004 will be substantially lower in comparison to the growth in Jelfa's costs. As a result, profit will fall more than 50% in relation to the current year. In the subsequent year, the dynamic of cost growth will be substantially lower while revenues will increase at a similar rate. In 2005, the company's net profit should be similar to that noted in 2003 and if the company is successful in acquiring products, the net result could be even higher.

Our analysis does not include the outcome of Jelfa's dispute with Raiffeisen Bank Polska. This dispute involves Jelfa seeking compensation for the failure of Raiffeisen Centrobank SA in Warsaw to exercise due diligence when offering debt notes of the company Universal SA in 1998. Jelfa is demanding compensation of PLN 11.8 mn in damages, which together with interest totals approximately PLN 20 mn. A ruling in Jelfa's favour will have a positive impact on company results. The Court of Appeals has sent the case back to the Regional Court in Warsaw. It is unlikely the case will be resolved this year.

Valuation

Based on the DCF model, fair value of one Jelfa share is PLN 57.5. The current market price is somewhat lower, amounting to PLN 50.8.

	2004F	2005F	2006F	2007F	2008F	2009-2012F	2013F	>2013F
revenues	271 001	291 694	305 961	321 210	334 019	…	383 132	
change	7%	8%	5%	5%	4%		3%	
EBIT margin	5%	9%	11%	13%	14%		16%	
EBIT	14 558	25 293	33 292	41 160	46 986		60 299	
tax rate	19%	19%	19%	19%	19%		19%	
taxes	2 766	4 806	6 326	7 820	8 927		11 457	
NOPLAT	11 792	20 487	26 967	33 340	38 059		48 842	
amortisation	29 275	31 500	30 655	30 532	30 474		28 319	
capital investments	(60 000)	(35 000)	(18 000)	(18 000)	(18 000)		(23 000)	
change in working capital	8 732	(4 863)	(3 353)	(3 583)	(3 010)		(2 616)	
FCF	(10 201)	12 124	36 269	42 288	47 522		51 545	568 598
risk free rate	7.1%	7.1%	7.1%	7.1%	7.1%		7.1%	
risk premium	5.0%	5.0%	5.0%	5.0%	5.0%		5.0%	
cost of capital	12.1%	12.1%	12.1%	12.1%	12.1%		12.1%	
debt / EV	0							
WACC	12.1%	12.1%	12.1%	12.1%	12.1%		12.1%	
discount ratio	0.89	0.80	0.71	0.63	0.56		0.32	
DCF	(9 100)	9 648	25 747	26 779	26 845		17 149	181 447
DCF + discounted terminal value (PLN '000)	368 997							
net debt (PLN 000)	(22 036)							
goodwill (PLN 000)	391 033							
number of shares (000)	6 800							
price (PLN)	57.5							

Source: BRE Bank Securities

HYPERLINKHYPERLINK

Jelfa is currently listed below the average for selected sector firms. However, our expectations concerning the company's results in 2004 do not provide a basis for a growth in the share price.

Market ratios of Jelfa relative to other sector companies

	share price		2003			2004		
			P/E	MC/S	EV/EBITDA	P/E	MC/S	EV/EBITDA
Polfa Kutno	239.00	PLN	14.5	1.8	6.9	11.4	1.6	6.5
Stada	50.6	EUR	22.6	1.7	12.5	20.4	1.5	10.5
Gedeon Richter	23700	HUF	13.3	3.8	10.0	12.9	3.4	9.7
Pliva	505	HRK	38.1	1.4	5.4	34.3	1.3	4.9
EGIS	10300	HUF	14.3	1.0	5.9	10.8	1.1	6.6
average			20.6	1.9	8.1	17.9	1.8	7.7
Jelfa	51.90	PLN	16.3	1.4	6.3	33.9	1.3	7.9
discount/premium			-21%	-28%	-23%	89%	-26%	3%

Source: BRE Bank Securities

Jelfa's situation relative to Polish mid-caps is similar. Weak results forecast for 2004 lower the investment attractiveness of the company. Forecasts for 2005 are somewhat better but a direct comparison with Polfa Kutno shows that Polfa currently has greater growth potential than Jelfa. Therefore, we are downgrading our investment recommendation to hold, as we believe that 4Q

2003 was the last quarter in which Jelfa noted good results. We do not expect the company to perform as well until 4Q 2004. Moreover, we believe that subsequent results will have a negative impact on the company's share price.

Jelfa relative to Polish mid-caps

	Kęty	Polfa	Farmacol	Forte	Orbis	Echo	Relpol	Groclin	Lentex	average	Jelfa-resultant valuation	Jelfa
price (PLN)	**130.5**	**239**	**26.9**	**13.55**	**25.5**	**83.9**	**86.4**	**138**	**25.6**			**51.9**
P/E 2004	14.5	11.4	11.8	14.0	27.8	21.0	16.7	17.9	11.2	**16.2**	24.8	33.9
dyn EPS; end 2003 - end 2005 (CAGR)	21%	21%	18%	32%	2%	N/A	48%	18%	54%			-4%
P/E 2003	18.6	14.5	15.1	20.1	21.4	25.9	26.5	22.2	23.7			16.3
PEG	**0.90**	**0.70**	**0.85**	**0.64**	**9.41**	**N/A**	**0.55**	**1.22**	**0.44**			**-4.44**
P/E 2005	**12.8**	**10.0**	**10.9**	**11.6**	**20.5**	**N/A**	**12.1**	**15.9**	**9.9**	**13.0**	38.3	**17.6**
div yield - avg 2003 – 2004	2.0%	0.0%	0.0%	0.0%	1.7%	0.0%	0.0%	0.0%	5.1%			4.2%
EV/EBITDA 2004	9.4	6.5	8.5	6.5	9.7	13.9	8.3	11.6	4.6	**8.8**	57.4	7.9
EV/EBITDA 2005	8.3	5.4	7.7	5.7	8.2	N/A	7.3	10.3	4.1	**7.1**	62.1	5.9
ROIC 2004	16%	16%	13%	10%	4%	N/A	8%	15%	7%			3%
transparency (+/0/-)	+	+	-	0	+	0	0	0	0			+
business risk (+/0/-)	0	+	0	0	-	0	0	0	0			+
minority rights (+/0/-)	+	+	0	+	0	-	0	+	+			0
forecast realisation (+/0/-)	+	+	+	+	0	+	0	+	+			0

Balance Sheet (PLN '000)

	2001	2002	2003F	2004F	2005F	2006F
Fixed assets	225 599	95 493	93 825	93 255	85 935	78 601
Intangible fixed assets	4 482	315	645	875	765	650
Tangible fixed assets	214 525	91 797	90 272	89 472	82 262	75 043
Long-term accounts receivable	5 640	496	496	496	496	496
Long-term investments	952	1 012	539	539	539	539
Current assets	157 658	91 925	97 222	110 536	122 408	132 295
Inventories	32 745	37 855	40 227	45 083	47 522	48 312
Short-term accounts receivable	63 524	39 186	42 159	47 385	50 010	50 860
Short-term investments	37 608	1 556	1 556	1 556	1 556	1 556
Cash	23 781	13 328	13 280	16 512	23 320	31 567
Short-term interperiod settlements	4 479	338	338	338	338	338
Total assets	**189 388**	**187 756**	**191 385**	**204 129**	**208 681**	**211 234**
Shareholders' equity	338 353	346 297	346 636	357 035	377 125	404 076
Liabilities, of which:	47 372	45 714	56 040	72 735	69 804	61 231
credits and loans	0	0	0	15 000	10 000	0
trade liabilities	20 242	15 081	25 363	27 100	29 169	30 596
Interperiod settlements	2 011	1 283	1 689	1 689	1 689	1 689
Total liabilities	**189 388**	**187 756**	**191 385**	**204 129**	**208 681**	**211 234**
number of shares	6 800	6 800	6 800	6 800	6 800	6 800
BVPS	49.8	50.9	51.0	52.5	55.5	59.4

Profit and Loss Account (PLN '000)

	2001	2002	2003F	2004F	2005F	2006F
Net sales revenues	243 168	247 728	253 630	271 001	291 694	305 961
Costs of products sold	-131 735	-143 860	-139 998	-147 769	-153 097	-155 518
Gross profit (loss) on sales	111 433	103 868	113 632	123 232	138 597	150 443
GPM_	45.8%	41.9%	44.8%	45.5%	47.5%	49.2%
Selling costs	-47 291	-46 148	-56 255	-75 944	-82 020	-85 301
Administrative costs	-33 220	-24 075	-24 759	-27 730	-28 285	-28 850
Net profit (loss) on sales	30 922	33 645	32 618	19 558	28 293	36 292
NPM_	12.7%	13.6%	12.9%	7.2%	9.7%	11.9%
EBITDA	53 489	66 272	54 665	43 833	56 793	63 947
EBITDA margin	22.0%	26.8%	21.6%	16.2%	19.5%	20.9%
Other operating revenues/ costs	-4 731	23	-2 453	-5 000	-3 000	-3 000
EBIT	26 191	33 668	30 165	14 558	25 293	33 292
OPM_	10.8%	13.6%	11.9%	5.4%	8.7%	10.9%
Financial revenues/ costs	17 145	6 590	-651	-1 720	-490	-20
Profit (loss) on economic activity	43 336	40 258	29 514	12 838	24 803	33 273
Gross profit (loss)	43 530	40 270	29 514	12 838	24 803	33 273
GPM_	17.9%	16.3%	11.6%	4.7%	8.5%	10.9%
Income tax	-12 781	-13 959	-7 863	-2 439	-4 713	-6 322
Net profit (loss)	30 749	26 311	21 651	10 399	20 090	26 951
NPM_	12.6%	10.6%	8.5%	3.8%	6.9%	8.8%
number of shares	6 800	6 800	6 800	6 800	6 800	6 800
EPS	4.5	3.9	3.2	1.5	3.0	4.0

Cash Flow Statement (PLN '000)

	2001	2002	2003F	2004F	2005F	2006F
Cash flow from operating activity	**30 875**	**53 728**	**46 097**	**46 531**	**46 727**	**54 253**
Net profit (loss)	30 749	26 311	21 651	10 399	20 090	26 951
Amortisation	28 399	35 536	29 452	29 275	31 500	30 655
Changes in working capital	-28 273	-8 119	-5 006	6 857	-4 863	-3 353
Others	-19 277	-2 145	-5 286	-1 917	0	0
Cash flow from investment activity	**-5 048**	**-50 074**	**-23 520**	**-60 000**	**-35 000**	**-18 000**
Inflow	*1 077 457*	*349 951*	*201 876*	*0*	*0*	*0*
Outflow	*-1 082 505*	*-400 025*	*-225 396*	*-60 000*	*-35 000*	*-18 000*
Purchases of intangible and tangible fixed assets	-45 565	-61 893	-49 478	-40 000	-32 000	-12 000
For financial assets, of which:	-1 026 034	-336 806	-175 344	0	0	0
Other investment outlays	-10 906	-1 326	-574	0	0	0
Cash flow from financial activity	**-7 907**	**-18 373**	**-21 882**	**25 000**	**-5 000**	**-10 000**
Inflow	*208*	*0*	*0*	*25 000*	*0*	*0*
Credits and loans				15 000		
Outflow	*-8 115*	*-18 373*	*-21 882*	*0*	*-5 000*	*-10 000*
Dividend payment	-7 480	-14 960	-20 400	0	0	0
Credit and loan repayments					-5 000	-10 000
Net cash flow	17 920	-14 719	695	11 531	6 727	26 253
Cash at beginning of period	5 861	23 781	9 062	9 757	21 288	28 015
Cash at end of period	23 781	9 062	9 757	21 288	28 015	54 268

Selected ratios

	2002	2003F	2004F	2005F	2006F
	55.1%	54.5%	56.3%	58.3%	59.2%
gross profit margin on sales	41.9%	44.8%	45.5%	47.5%	49.2%
EBITDA margin	26.8%	21.6%	16.2%	19.5%	20.9%
net profit margin on sales	13.6%	12.9%	7.2%	9.7%	11.9%
operating margin	13.6%	11.9%	5.4%	8.7%	10.9%
gross margin	16.3%	11.6%	4.7%	8.5%	10.9%
net margin	10.6%	8.5%	3.8%	6.9%	8.8%
ROA	9.0%	7.6%	6.2%	2.8%	5.1%
ROE	7.9%	6.6%	5.2%	2.4%	4.4%
Activity ratios					
assets turnover ratio (x)	0.6	0.6	0.6	0.7	0.7
current assets turnover ratio (x)	1.7	2.0	2.2	2.3	2.1
inventories turnover ratio (days)	80.0	67.0	58.7	66.2	68.6
accounts receivable turnover ratio (days)	86.2	96.8	98.9	86.8	87.9
accounts payable turnover ratio (days)	44.2	52.0	63.9	66.2	69.2
Liquidity ratios					
working capital (PLN 000)	113 802	105 200	99 694	113 353	144 386
change in working capital (PLN 000)	-29 445	-29 445	-8 602	-5 506	13 659
current liquidity ratio (x)	4.1	2.8	2.6	2.8	3.3
quick liquidity ratio (x)	3.1	2.3	2.0	2.1	2.7
Financial structure ratios					
net debt (ND) (PLN 000)	-9 062	-9 757	-6 288	-18 015	-54 268
equity (E) (PLN 000)	352 920	352 920	352 920	352 920	352 920
EV (economic value = ND+E) (PLN 000)	343 858	343 163	346 632	334 905	298 652
EV/EBDIT	5.2	6.3	7.9	5.9	4.7
EBIT/EV	0.2	0.2	0.1	0.2	0.2
share price	51.9	51.9	51.9	51.9	51.9
P/BV	1.0	1.0	1.0	0.9	0.9
P/E	13.4	16.3	33.9	17.6	13.1
P/CE	6.0	7.6	8.9	6.8	6.1
P/OP	10.5	11.7	24.2	14.0	10.6
MC/S	1.4	1.4	1.3	1.2	1.2
EV/S	1.4	1.4	1.3	1.1	1.0

Previous recommendations issued for JELFA.

Recommendation	Accumulate	Hold
Date issued	2003-11-13	2003-08-26
Price on day of recommendation	50.00	59.00
WIG on day of recommendation	20401.72	21059.40

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List of abbreviations and ratios contained in the report.
EV *– net debt + market value (EV – economic value)*
EBIT *– Earnings Before Interest and Taxes*
EBITDA *– EBIT + Depreciation and Amortisation*
PBA *– Profit on Banking Activity*
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*

Recommendations of BRE Bank Securities:
A recommendation is valid for a period of 3-6 months, unless a subsequent recommendation is issued within this period.
BUY – we expect that the rate of return from an investment in a company's shares will be at least 15% higher than the WIG
ACCUMULATE – we expect that the rate of return from an investment in a company's shares will be 5%-15% higher than the WIG
HOLD – we expect that the rate of return from an investment in a company's shares will be within +/-5% in relation to the WIG
REDUCE – we expect that the rate of return from an investment in a company's shares will be 5%-15% lower than the WIG
SELL – we expect that the rate of return from an investment in a company's shares will be at least 15% lower in relation to the WIG

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DCF – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model
Multiple – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.