

6 July 2010

Update


Metals
Poland

Current price	PLN 103.00
Target price	PLN 104.71
Market cap	PLN 1.0bn
Free float	PLN 0.6bn
Avg daily trading volume (3M)	PLN 2.57m

Shareholder Structure

ING OFE	17.76%
PZU Złota Jesień	7.59%
Aviva OFE	10.15%
Raiffeisen Zentralbank Osterreich AG	5.74%
Others	58.76%

Sector Outlook

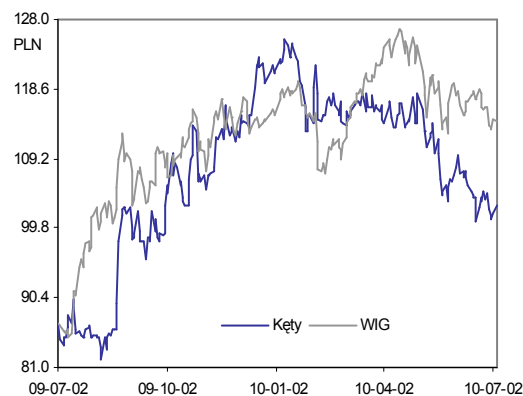
In a weak market, aluminum profile manufacturers cannot easily transfer the premium charged by ingot makers onto the final product. The lower demand is a consequence of the limited number of orders from the automotive and construction industries. The situation is gradually improving, but the following year will be only a little better for the sector.

Company Profile

Kęty's business is divided into five segments: manufacture of aluminum systems, manufacture of extruded products, manufacture of flexible packaging, building services, and manufacture of building accessories. The core focus of the company's operations is production and sales of aluminum profiles for retail customers, construction firms and car makers.

Important Dates

14.07 - Dividend record day (DY = 3.9%)
12.08 - Consolidated H1'10 report
27.10 - Consolidated Q3'10 report

Grupa Kęty vs. WIG

Jakub Szkopek

(48 22) 697 47 40

jakub.szkopek@dibre.com.pl

www.dibre.com.pl

Grupa Kęty

KETY.WA; KTY.PW

Hold

(Reiterated)

Targets Are Out of Reach

Kęty's earnings for Q2'10 show that the Company was unable to make up for the drop in sales of construction-related segments (accessories, services, aluminum systems) it had experienced in the first quarter. After Q2'10, the Company has produced PLN 35.9% of the Management's FY10 EBIT target and 38.1% of the net profit target; in 2001-2010, in the first half of the year the Company was able to generate 49.7% of its FY EBIT and 52% of its FY net profit on average. Therefore, we believe Kęty will be hard-pressed to meet the Management's EBIT and net profit targets of PLN 117.6m and PLN 81.5m, respectively, all the more so that they entail Q3-Q4 growth rates of 10.6% y/y and 29.1% y/y, respectively. The current macroeconomic climate will not help: fewer residential projects are being carried out (-0.4% y/y for homes under construction in Jan-May 2010), and the same is true of office buildings (new office space in Warsaw is expected to decrease by 28.9% y/y in 2010) and shopping malls (most of those whose construction started in 2007-2008 were completed in H2 2009, and very few new projects have been launched since). The situation in the automotive industry is not helping either (a 1% y/y drop in new car sales in Europe in Jan-May 2010 - and it should be remembered that sales were weak in early 2009). Further, the Company's earnings are being hurt by the rising price of aluminum as expressed in the zloty (+10.7 vs. the Management's expectations, +27.9% y/y). One factor that improves Kęty's attractiveness is the dividend it is going to pay (DY = 3.9%, day of record is 14 July). We recommend holding the stock and we reduce our price target from PLN 120.36 to PLN 104.71 per share.

Strong Competition, Reduced Demand

In Jan-May 2010, Kęty's output of aluminum flat bars, wire rods, rods and profiles was 15.3% lower than the year before. External sales of extruded products increased from 5.6 kt in Q2'09 to 5.9 kt in Q2'10, which could suggest an increase in the Group's market shares. That said, competition in the sector remains high, which has a particularly negative impact on aluminum systems, where the demand has clearly declined since last year.

(PLN m)	2008	2009	2010F	2011F	2012F
Revenues	1 170.8	1 111.0	1 135.8	1 143.8	1 171.6
EBITDA	188.4	189.0	171.7	180.4	195.7
<i>EBITDA margin</i>	16.1%	17.0%	15.1%	15.8%	16.7%
EBIT	126.7	124.9	104.0	109.7	122.2
Net income	61.2	70.6	72.2	78.0	88.9
DYield	4.4%	0.0%	3.9%	4.2%	5.3%
P/E	15.5	13.5	13.2	12.2	10.7
P/CE	7.7	7.1	6.8	6.4	5.9
P/BV	1.3	1.2	1.1	1.0	1.0
EV/EBITDA	7.0	6.1	6.9	6.4	5.8

Q2 2010 Earnings Forecast

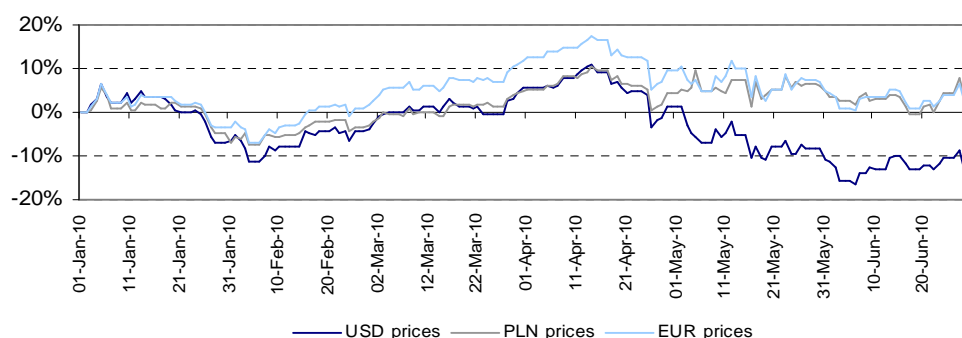
Kęty expects to generate sales of PLN 285m in Q2 2010, marking a 15% increase from Q1 and a 2.5% increase from Q2 2009. A quarter-on-quarter volume expansion was seen across all revenue lines, with sales surging most (+40-50%) in the segments of Building Services and Building Accessories, and rising by just several percent in the Flexible Packaging Segment. The acceleration in sales of building services and products was owed to finishing jobs postponed from the first quarter (construction services saw a 14.8% y/y drop in Q1 2010, followed by a 2.2% rebound in April and May). The segment of Extruded Products had a successful quarter, with sales at 5.9 thousand tons compared to 5.6KT in the same period a year ago. On a less positive note, the Aluminum Systems Segment saw a drop in sales caused by a slowdown in orders from the construction industry. Kęty estimates the Q2 EBIT at PLN 26-27m, 24% less than in Q2 2009, as a consequence of hedging effects. The adjusted EBIT is PLN 28-29m compared to PLN 28.1m posted a year earlier. Second-quarter financial losses are expected to approximate PLN 7m, and they will comprise interest expenses, debt revaluations (which we estimate at PLN -8.5m), and positive effects of the hedging contracts settled in the quarter. All in all, it looks like Kęty is going to fall short of our Q2 estimates, putting into question our financial forecasts for the full year.

Macroeconomic Environment

Apparent Decline In Aluminum Prices

The downtrend in the dollar prices of aluminum observed since the beginning of the year is not translating into a similar decline in euro and zloty prices. USD prices have retreated 12.6% since January, meanwhile, EUR and PLN prices have risen by 2.2% and 2.9% respectively. In March and April, YTD euro prices grew at a pace 5% higher than zloty prices, but these trends have since shifted to the slight disadvantage of Polish producers of aluminum extrusions. If the zloty accelerates its depreciation versus the dollar more than relative to the euro, this will further affect the competitiveness of domestic aluminum products.

YTD trends in USD, PLN, EUR prices (%)

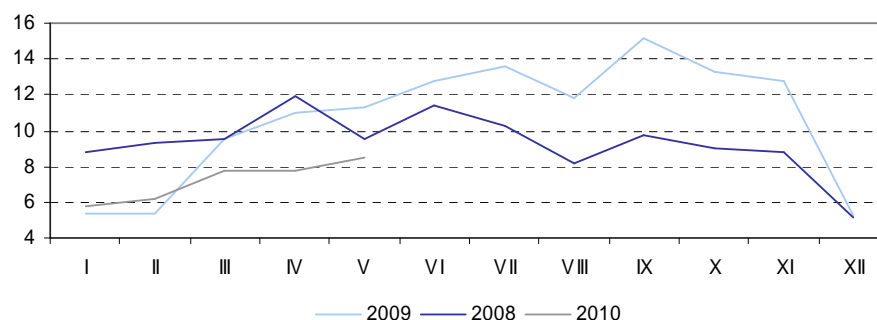


Source: BRE Bank Securities

Situation In Aluminum Systems

Production of aluminum bar, rod, and shape, has fallen below 2008 and 2009 levels. Volumes in the first quarter of 2010 were 2.5% lower than in the same period a year ago, and April and May saw a further year-on-year drop by a whopping 26.9%.

Domestic output of aluminum extrusions in 2008-2010 (thousand of tons)



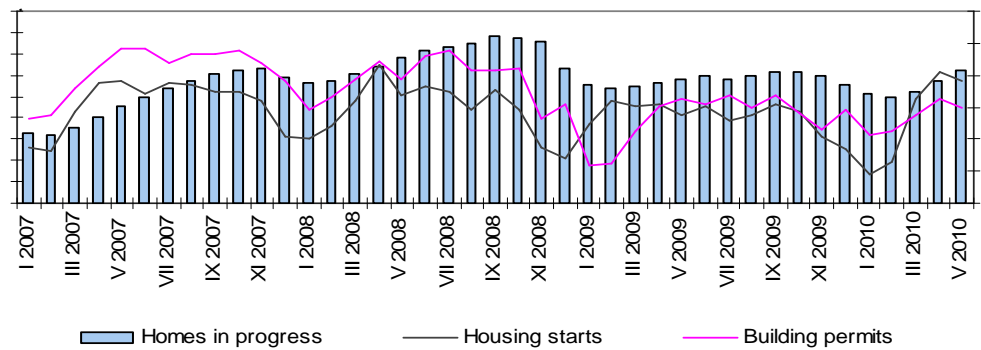
Source: BRE Bank Securities

Such a dramatic slowdown is an effect of intense competition from Western European producers on the one hand, and lower demand from the construction industry (which accounts for about 55% of Kęty's sales) and automakers (7% of revenues) on the other hand.

Housing

The number of building permits issued in 2009 was 30.9% lower than in 2008, resulting in a 6.7% decline in housing starts. This year, the number of permits issued in the first quarter was 50.7% higher than in the same period a year ago, and April and May housing starts increased by 34.9% as a result. At the same time, however, the first two months of the second quarter brought a 0.9% y/y decline in building permits. As a result, ongoing housing projects in Poland are still fewer than in 2008 and 2009 (by 2.1% and 0.4% respectively), and a major acceleration cannot be expected any time soon judging based on building permits.

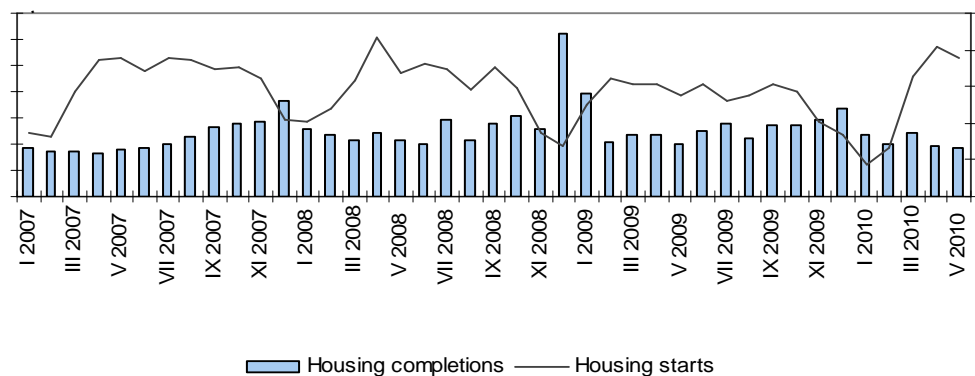
2007-2010 housing starts and building permits (right scale) vs. ongoing housing projects (left scale) (thousands of units)



Source: BRE Bank Securities

An increase in housing starts brings about an increase in home deliveries on average two years later, meaning that the building slowdown of 2009 is going to result in fewer housing completions in 2010 and 2011, which in turn means less demand for finishing services. An increase in completions, and hence an upswing in demand for finishing work, is expected to occur in 2011 and 2012.

2007-2010 housing completions (left scale) vs. housing starts (right scale)

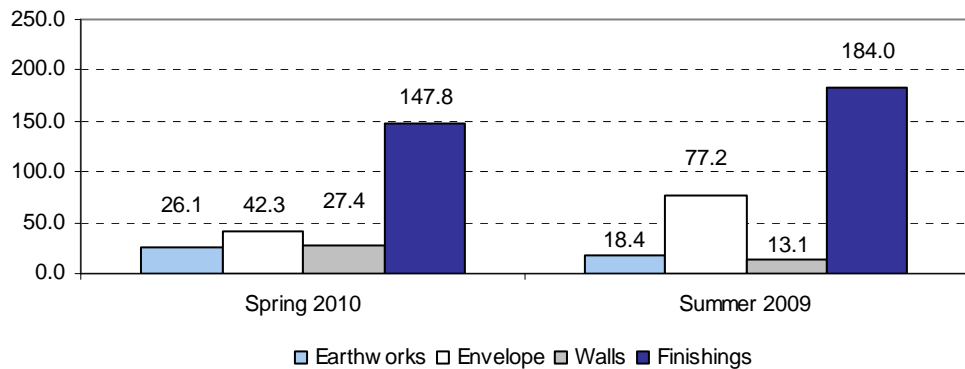


Source: BRE Bank Securities

Office Construction

Office take-up slowed in the wake of the financial crisis, leading to a drop in rental rates (from over EUR 35 to EUR 22 per square meter in Warsaw in 2009) and a decrease in new projects. The situation was further aggravated by tight access to bank credit which forced firms to come up with their own financing for office projects. According to analysts' projections, developers will deliver about 192,000 square meters of offices in Warsaw this year, compared to over 270,000 sqm last year. For next year, firms declare that they are planning to deliver 300,000 sqm, but analysts believe 190,000-200,000 to be a more realistic figure.

Office projects in Warsaw by building stages (thousands of square meters)



Source: BRE Bank Securities, DTZ

Compared to summer 2009, 16.8% less office space was being developed in Warsaw in spring 2010 due to fewer 2009 project starts. The slowdown is going to affect demand for exterior and interior finishings in the second half of the year.

Only half of the projects scheduled for delivery in 2010 are underway at the moment in Poland, suggesting a 50% year-on-year drop in the supply of new office space. Forecasts for next year are more optimistic, but still a far cry from the levels seen in 2009.

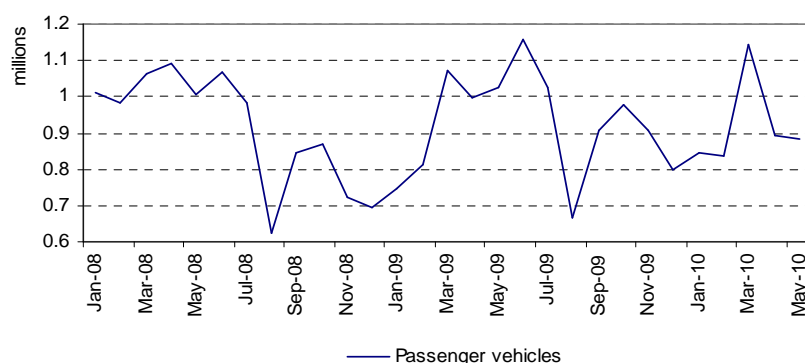
Commercial Developments

Polish developers completed a record 900,000 square meters of retail spaces in 2009, including 57% in the second half of the year. The number of project starts during that year was much lower, suggesting fewer completions in 2010. As far as the future is concerned, demand for new commercial spaces is the highest in Warsaw, where the take-up ratio is close to 100%, while other mid-sized and large cities are experiencing declining take-up (Tricity 3.4%, Krakow 2.4%) and a decrease in rental rates.

Car Sales

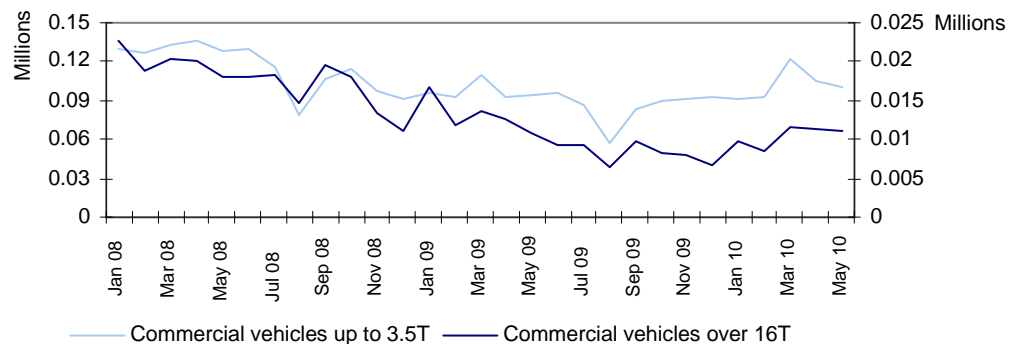
At 31 March 2010, eight EU countries continued to subsidize their auto industries, while the bailout schemes in five other countries (including Germany and UK) had already expired. Even so, new car sales in Europe between January and May were 1% lower than in the same period a year ago. As bailout programs continue to expire, auto sales are likely to continue falling going forward, underpinned by dwindling consumer confidence battered by the fiscal problems of some EU countries. And lower consumer spending on new vehicles will in turn curb demand for auto parts.

Passenger vehicle sales in Europe (2008-2010)



Source: BRE Bank Securities

The situation in commercial vehicles up to 3.5 tons is somewhat better, with sales up 10.5% y/y in March after a downturn in late 2009. Compared to the same period in 2008, however, light truck sales are 21.8% lower. Sales of vehicles with load capacity over 16T have not recovered from their early-2010 local low which is 47.8% less than in the period between January and May 2008 and 20.6% less than in the same period in 2009.

**Commercial vehicle sales in Europe (2004-2010)**

Source: BRE Bank Securities

2010 Earnings May Fall Short of Guidance

Kęty delivered 35.9% of its full-year EBIT target, and 38.1% of its bottom-line target, in the first half of 2010. This compared to historical averages of 49.7% and 51.0% respectively (with the exception of 2009, when the zloty's appreciation versus the dollar and the euro had a positive impact on H2 debt revaluations, and aluminum prices were over 20% lower in zloty terms than they are today). The delivery rates are low, and they may not recover strongly enough in the next two quarters as aluminum remains expensive, construction projects slow down, and competition remains intense at home as well as in international markets.

First-half earnings guidance delivery rates

Delivery	1H2001	1H2002	1H2003	1H2004	1H2005	1H2006	1H2007	1H2008	1H2009	1H2010F
EBIT	60.8%	39.4%	48.6%	54.2%	51.1%	48.5%	39.6%	52.2%	52.9%	35.9%
Net income	70.6%	45.2%	47.7%	56.0%	51.4%	49.7%	43.3%	62.7%	32.9%	38.10%

Source: BRE Bank Securities

Kęty's 2010 earnings guidance is based on an assumption of zloty aluminum prices 10.7% lower than they are today, and 13.3% lower euro prices. The annual inflation rate is slightly lower than assumed (2.1% vs. 2.4%), debt service costs are in line (5.53% vs. 5.5%), and the year-on-year rate of natural-gas price growth is 0.8% vs. Kęty's forecast of 5%.

Kęty's 2010 forecast vs. actual figures

Kęty's forecasts	Actual YTD average	Status at 30 June
Aluminum prices	\$2000/T	\$2133/T
Aluminum prices (PLN)	PLN 5800/T	PLN 6420/T
Aluminum prices (EUR)	EUR 1418/T	EUR 1606/T
Annual inflation rate	2.4%	2.1%**
Cost of credit	5.5%	5.53%***
USD/PLN	2.90 PLN	3.02 PLN
EUR/PLN	4.10 PLN	4.00 PLN
EUR/USD	1.41	1.33 PLN
Aluminum duty	3.0%	3%
Increase in gas prices	5.0%	0.8%*

*A ratio of tariff prices as of 9 June and the average 2009 tariff

**As per GUS data at 31 May 2010

***Estimated at Euribor 0.72%, Wibor 3.75%, Libor 0.36%

Source: BRE Bank Securities

Even though zloty prices of aluminum are higher than Kęty assumed in its guidance, the company's first-quarter sales were only 1% higher than in the same period a year ago. After a weak first half of the year, to deliver the full-year sales target, the company has to increase sales at a year-on-year rate of 10.6%, and grow EBIT by 29.1%, in the third and fourth quarters each - objectives that are unattainable in our view given the current macroeconomic conditions, prompting downward revisions in our financial forecasts for Kęty.



Valuation

We have valued Kęty using a DCF model and relative valuation. Our 9M target price estimate is PLN 104.71 per share.

	Weight	Price
Relative valuation (PLN)	50%	97.00
DCF analysis (PLN)	50%	96.77
	Price	96.89
	9M Target Price	104.71

In our relative valuation, we compared Kęty to foreign manufacturers of aluminum profiles and flexible packaging.

Relative Valuation

	Country	2009 P/E	2010F P/E	2011F P/E	2012F P/E	2009 EV/ EBITDA	2010F EV/ EBITDA	2011F EV/ EBITDA	2012F EV/ EBITDA	
ALCOA	USA	-	16.5	9.1	7.7	29.7	7.7	6.0	5.4	
AMCOR	Australia	15.9	17.7	13.0	10.9	8.1	7.2	5.2	4.7	
MIDAS HOLDINGS	Singapore	22.6	17.4	12.4	11.2	15.4	11.5	8.4	7.6	
NIPPON LIGHT METAL	Japan	-	12.3	14.2	9.0	-	8.2	7.2	6.1	
NORSK HYDRO	Norway	-	16.6	9.2	7.5	20.1	6.6	4.5	4.2	
PROFILGRUPPEN	Sweden	-	16.4	8.5	6.7	15.3	6.6	5.1	4.6	
REXAM	UK	11.5	10.3	9.0	8.2	6.7	6.3	5.8	5.5	
VIOHALCO	Greece	-	-	19.4	8.8	12.9	16.1	8.4	6.2	
VSMPO-AVISMA	Russia	15.8	18.7	13.5	8.0	6.9	7.5	6.2	4.8	
Maximum		22.6	18.7	19.4	11.2	29.7	16.1	8.4	7.6	
Minimum		11.5	10.3	8.5	6.7	6.7	6.3	4.5	4.2	
Median		15.9	16.5	12.4	8.2	14.1	7.5	6.0	5.4	
Kęty		13.5	13.2	12.2	10.7	6.1	6.9	6.4	5.8	
Premium (discount)		-15.2%	-31.3%	-1.8%	31.0%	-61.6%	-9.5%	7.8%	6.9%	
Implied price										
Median		15.9	16.5	12.4	8.2	14.1	7.5	6.0	5.4	
Discount		0%	0%	0%	0%	0%	0%	0%	0%	
Multiple weight			50%				50%			
Year weight		0%	10%	40%	50%	0%	10%	40%	50%	
Equity value per share (PLN)		97.00								

We have based our relative valuation on the P/E and EV/EBITDA multiples. On the former, Kęty is trading with a discount in 2009, 2010 and 2011, but a premium in 2012. On the latter, Kęty is trading with a discount in 2009 and 2010 and a premium in 2011 and 2012. The peer group includes the following companies: Alcoa, Amcor, Midas Holdings, Nippon Light Metal, Norsk Hydro, Profilgruppen, Rexam, Viohalco and Vsmo-Avisma. Alcoa is an integrated manufacturer of alumina, aluminum and profiles, as well as aluminum packaging. Amcor is an international holding that manufactures cardboard boxes, aluminum and steel cans, plastic packages and glass jars. Midas Holdings is above all a manufacturer of polyethylene pipes, but also extruded aluminum products. Nippon Light Metal is an integrated manufacturer of aluminum products, which directs its output to construction companies and manufacturers of electronics. Norsk Hydro makes aluminum products for the automotive sector and the construction industry. Profilgruppen mines, processes and produces aluminum and aluminum products. It has customers from diverse industries, but the automotive industry plays a major role. Rexam produces and distributes packaging material to the makers of cosmetics,



foodstuffs, beverages and drugs. Viohalco makes copper and aluminum products through three subsidiaries: Viohalco, Hellenic Copper and Aluminum Industry SA. VSmpo-Avisma supplies components made of titanium, aluminum and steel.

DCF Analysis

Assumptions:

- Risk-free rate = 5.91% (10Y T-bond yield).
- Expected FCF rate growth after FY2019 = 3%.
- Beta = 1.0.
- We expect net debt to remain at the 2009 level
- We discount cash flows as of 1 July 2010
- We assume the Company will spend PLN 115.4m on investment in FY 2010 (PLN 147.0m inclusive of subsidies), and PLN 73m in 2011
- We have valued the Company's F/X loans at EUR/PLN and USD/PLN exchange rates of 4.00 and 3.1, respectively. The revaluation of Kęty's F/X loans entails finance costs of PLN 1.4m.

Assumptions on aluminum prices and USD/PLN exchange rate

Price of aluminum	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Aluminum, LME (USD)	2 292.2	1 499.2	2 060.9	2 122.7	2 197.0	2 273.9	2 353.4	2 435.8	2 521.1	2 609.3	2 700.6	2 795.2
Y/Y change	2.3%	-34.6%	37.5%	3.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Aluminum, LME (PLN)	5 522.3	4 671.7	6 110.4	6 230.8	6 384.4	6 541.8	6 703.0	6 868.2	7 073.1	7 284.0	7 501.3	7 725.0
Y/Y change	-10.9%	-15.4%	30.8%	2.0%	2.5%	2.5%	2.5%	2.5%	3.0%	3.0%	3.0%	3.0%
Average USD/PLN exchange rate	2.41	3.12	2.97	2.94	2.91	2.88	2.85	2.82	2.81	2.79	2.78	2.76
Y/Y change	-12.9%	29.3%	-4.9%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-0.5%	-0.5%	-0.5%	-0.5%



DCF Valuation Model

(PLN m)	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	+
Sales revenue	1 135.8	1 143.8	1 171.6	1 200.1	1 229.3	1 259.2	1 295.4	1 332.7	1 371.1	1 410.7	1 452.8
Change	2.2%	0.7%	2.4%	2.4%	2.4%	2.4%	2.9%	2.9%	2.9%	2.9%	3.0%
EBITDA	171.7	180.4	195.7	203.7	209.9	207.6	214.8	219.9	227.4	228.1	231.5
EBITDA margin	15.1%	15.8%	16.7%	17.0%	17.1%	16.5%	16.6%	16.5%	16.6%	16.2%	15.9%
D&A expenses	67.8	70.6	73.5	76.3	79.2	73.3	76.2	76.9	79.8	75.7	73.3
EBIT	104.0	109.7	122.2	127.4	130.7	134.3	138.6	143.0	147.6	152.4	158.2
EBIT margin	9.2%	9.6%	10.4%	10.6%	10.6%	10.7%	10.7%	10.7%	10.8%	10.8%	10.9%
EBIT after taxes	17.3	18.3	20.9	22.0	22.8	23.6	24.5	25.5	26.5	27.6	28.8
NOPLAT	86.7	91.4	101.3	105.3	107.9	110.7	114.1	117.5	121.1	124.8	129.3
CAPEX	-115.4	-73.0	-73.0	-73.1	-73.1	-73.1	-73.2	-73.2	-73.3	-73.3	-73.3
Working capital	-22.3	-8.2	-12.9	-13.4	-14.0	-14.6	-15.1	-15.7	-16.4	-17.0	-16.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	16.8	80.8	88.9	95.2	100.0	96.2	102.0	105.5	111.3	110.2	113.4
WACC	9.8%	9.9%	10.0%	10.1%	10.2%	10.3%	10.4%	10.5%	10.6%	10.7%	10.8%
Discount factor	0.95	0.87	0.79	0.71	0.65	0.58	0.53	0.47	0.42	0.38	0.34
PV FCF	16.0	70.1	70.0	67.9	64.5	56.2	53.7	49.9	47.2	41.9	38.5

WACC	9.83%	9.93%	10.04%	10.13%	10.22%	10.29%	10.38%	10.48%	10.60%	10.71%	10.83%
Cost of debt	6.64%	6.64%	6.64%	6.64%	6.64%	6.64%	6.64%	6.64%	6.64%	6.64%	6.64%
Risk-free rate	5.91%	5.91%	5.91%	5.91%	5.91%	5.91%	5.91%	5.91%	5.91%	5.91%	5.91%
Risk premium	0.73%	0.73%	0.73%	0.73%	0.73%	0.73%	0.73%	0.73%	0.73%	0.73%	0.73%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Net debt / EV	19.6%	17.6%	15.7%	14.1%	12.4%	11.2%	9.6%	7.8%	5.6%	3.6%	1.5%
Cost of Equity	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

FCF growth after the forecast horizon	3.0%	Sensitivity analysis					
Terminal value	1 448.1	FCF growth in perpetuity					
Present value of the terminal value (PV TV)	550.8	0.0%	1.0%	3.0%	4.0%	5.0%	
Present value of FCF in the forecast horizon	537.5	WACC +1.0pp	76.55	80.17	89.87	96.58	105.26
Enterprise value (EV)	1 088.3	WACC +0.5pp	81.40	85.54	96.79	104.72	115.15
Net debt	195.5	WACC	86.71	91.46	104.59	114.03	126.72
Other non-operating assets	0.0	WACC -0.5pp	92.55	98.02	113.44	124.81	140.45
Minority interests	0.0	WACC 1.0PP	98.99	105.33	123.60	137.43	156.99
Equity value	892.8						
Number of shares (millions)	9.2						
Equity value per share (PLN)	96.8						
Cost of equity (9M)	8.1%						
Target Price	104.59						
EV/EBITDA for the target price	6.8						
P/E('10) for the target price	13.4						
TV to EV	50.6%						

**Income Statement**

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Sales revenue	1 253.5	1 170.8	1 111.0	1 135.8	1 143.8	1 171.6	1 200.1	1 229.3	1 259.2	1 295.4
Change	16.3%	-6.6%	-5.1%	2.2%	0.7%	2.4%	2.4%	2.4%	2.4%	2.9%
Flexible Packaging Segment	259.9	262.8	291.8	306.3	312.4	320.1	328.0	336.0	344.3	354.6
Extruded Products Segment	601.4	461.3	357.7	422.1	426.2	436.7	447.5	458.5	469.8	483.9
Aluminum Systems Segment	417.1	428.9	388.2	353.2	353.1	361.8	370.7	379.9	389.2	400.9
Building Accessories Segment	61.2	69.0	53.6	48.3	49.7	51.2	52.7	54.3	56.0	57.6
Building Services Segment	79.0	81.5	107.9	101.5	102.5	105.5	108.7	112.0	115.3	118.8
Other	42.6	55.8	55.7	52.0	52.0	52.0	52.0	52.0	52.0	52.0
Intercompany eliminations	-207.6	-188.4	-147.6	-147.7	-152.1	-155.8	-159.6	-163.5	-167.5	-172.3
COGS	1 139.6	1 040.5	974.4	1 024.2	1 023.1	1 043.9	1 069.4	1 099.7	1 121.6	1 155.7
EBIT	141.1	126.7	124.9	104.0	109.7	122.2	127.4	130.7	134.3	138.6
Change	28.7%	-10.2%	-1.4%	-16.7%	5.6%	11.4%	4.2%	2.6%	2.7%	3.2%
EBIT margin	11.3%	10.8%	11.2%	9.2%	9.6%	10.4%	10.6%	10.6%	10.7%	10.7%
Profit/loss on financial activity	-19.3	-55.5	-33.0	-14.5	-13.2	-12.3	-11.4	-10.7	-10.0	-9.4
Extraordinary gains/losses	0.0	0.0	0.0	-0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	121.8	71.2	91.9	89.4	96.6	110.0	116.0	120.0	124.2	129.2
Tax	23.5	9.9	21.1	17.0	18.3	20.9	22.0	22.8	23.6	24.5
Minority interests	0.3	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net income	98.0	61.2	70.6	72.2	78.0	88.9	93.7	97.1	100.4	104.4
Change	11.6%	-37.5%	15.4%	2.3%	8.0%	14.0%	5.4%	3.5%	3.5%	4.0%
Margin	7.8%	5.2%	6.4%	6.4%	6.8%	7.6%	7.8%	7.9%	8.0%	8.1%
D&A expenses	52.2	61.7	64.1	67.8	70.6	73.5	76.3	79.2	73.3	76.2
EBITDA	193.3	188.4	189.0	171.7	180.4	195.7	203.7	209.9	207.6	214.8
Change	25.4%	-2.6%	0.3%	-9.1%	5.0%	8.5%	4.1%	3.0%	-1.1%	3.5%
EBITDA margin	15.4%	16.1%	17.0%	15.1%	15.8%	16.7%	17.0%	17.1%	16.5%	16.6%
Shares at year-end (millions)	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2
EPS	10.6	6.6	7.7	7.8	8.5	9.6	10.2	10.5	10.9	11.3
CEPS	16.3	13.3	14.6	15.2	16.1	17.6	18.4	19.1	18.8	19.6
ROAE	13.8%	8.6%	8.8%	8.3%	8.6%	9.3%	9.5%	9.5%	9.5%	9.6%
ROAA	7.5%	4.7%	5.5%	5.3%	5.6%	6.2%	6.3%	6.4%	6.5%	6.6%



Balance Sheet

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F
ASSETS	1 313.7	1 314.8	1 289.8	1 355.2	1 396.3	1 440.1	1 478.0	1 513.8	1 551.4	1 592.1
Fixed assets	847.0	859.2	820.5	903.9	907.9	910.4	910.8	909.1	914.0	917.1
Intangible assets	74.0	70.7	66.4	67.1	67.7	68.4	69.1	69.8	70.4	71.1
Property, plant and equipment	705.7	721.5	694.5	773.7	776.9	777.9	776.9	773.8	777.3	778.8
Goodwill	17.8	20.8	17.9	17.9	17.9	17.9	17.9	17.9	17.9	17.9
Long-term receivables	10.1	2.8	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Long-term investments	16.4	13.3	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5
Long-term prepayments	23.1	30.0	28.3	28.9	29.2	29.9	30.6	31.3	32.1	33.0
Current assets	466.7	455.7	469.3	451.3	488.4	529.7	567.2	604.8	637.4	675.0
Inventories	220.7	178.9	147.6	159.0	163.7	171.0	178.6	186.6	194.9	202.7
Short-term receivables	227.6	220.1	210.0	226.1	230.6	238.6	246.8	255.4	264.2	274.8
Trade debtors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term investments	0.7	7.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash	16.8	46.1	108.2	62.7	90.6	116.6	138.1	159.0	174.3	193.6
Short-term prepayments	0.9	2.6	3.4	3.5	3.5	3.6	3.7	3.8	3.9	4.0
LIABILITIES	1 313.7	1 314.8	1 289.8	1 355.2	1 396.3	1 440.1	1 478.0	1 513.8	1 551.4	1 592.1
Equity	708.2	714.6	801.2	870.5	910.5	951.0	985.7	1 018.1	1 052.3	1 088.7
Share capital	67.0	67.0	67.0	67.0	67.0	67.0	67.0	67.0	67.0	67.0
Supplementary capital	-5.9	-9.4	4.4	4.9	4.9	4.9	4.9	4.9	4.9	4.9
Retained earnings	658.2	677.9	748.5	783.8	822.1	860.3	891.8	920.4	950.0	981.1
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term liabilities	206.6	207.3	139.9	142.5	142.5	142.5	142.5	142.5	142.5	142.5
Debt	145.7	147.9	81.7	81.7	81.7	81.7	81.7	81.7	81.7	81.7
Short-term liabilities	398.9	392.9	333.0	326.3	327.4	330.2	333.1	336.1	339.1	342.9
Trade creditors	142.2	106.4	111.0	114.0	115.1	117.9	120.9	123.8	126.9	130.7
Debt	232.5	273.9	222.0	212.3	212.3	212.3	212.3	212.3	212.3	212.3
Reserves	1.8	1.2	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Other	61.6	49.5	14.3	14.7	14.8	15.1	15.5	15.9	16.2	16.7
Debt	378.2	421.8	303.7	294.0	294.0	294.0	294.0	294.0	294.0	294.0
Net debt	361.4	375.7	195.5	231.3	203.4	177.4	155.9	135.0	119.7	100.4
(Net debt / Equity)	51.0%	52.6%	24.4%	26.6%	22.3%	18.7%	15.8%	13.3%	11.4%	9.2%
(Net debt / EBITDA)	1.9	2.0	1.0	1.3	1.1	0.9	0.8	0.6	0.6	0.5
BVPS	76.8	77.5	86.8	94.4	98.7	103.1	106.8	110.4	114.1	118.0

**Cash Flows**

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Cash flows from operating activities	137.9	161.7	223.9	129.7	153.8	161.9	168.3	173.1	169.4	175.2
Net income	98.0	61.2	70.6	72.2	78.0	88.9	93.7	97.1	100.4	104.4
D&A expenses	52.2	61.7	64.1	67.8	70.6	73.5	76.3	79.2	73.3	76.2
Working capital	-40.4	19.1	48.7	-22.3	-8.2	-12.9	-13.4	-14.0	-14.6	-15.1
Other	28.2	19.7	40.5	11.9	13.4	12.4	11.6	10.9	10.2	9.6
Cash flows from investing activities	-177.55	-81.28	-50.21	-115.40	-73.00	-73.04	-73.07	-73.11	-73.15	-73.18
CAPEX	-1.95	3.30	-29.83	-115.40	-73.00	-73.04	-73.07	-73.11	-73.15	-73.18
Equity investments	-173.73	-80.51	7.72	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash flows from financing activities	27.1	-44.4	-111.6	-59.8	-52.9	-63.0	-73.7	-79.1	-80.9	-82.8
Debt	110.9	91.6	-118.1	-9.7	0.0	0.0	0.0	0.0	0.0	0.0
Dividends/buy-back	-36.9	-41.5	0.0	-36.9	-39.7	-50.7	-62.2	-68.4	-70.8	-73.3
Other	-46.9	-94.5	6.4	-13.1	-13.2	-12.3	-11.4	-10.7	-10.0	-9.4
Change in cash	-18.9	29.5	62.1	-45.5	27.9	25.9	21.5	20.9	15.4	19.2
Cash at end of period	16.8	46.1	108.2	62.7	90.6	116.6	138.1	159.0	174.3	193.6
DPS (PLN)	4.5	4.5	0.0	4.0	4.3	5.5	6.7	7.4	7.7	7.9
FCF	124.1	186.7	186.7	16.8	80.8	88.9	95.2	100.0	96.2	102.0
(CAPEX / Sales)	-0.2%	0.3%	-2.7%	-10.2%	-6.4%	-6.2%	-6.1%	-5.9%	-5.8%	-5.6%

Market multiples

	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F
P/E	9.7	15.5	13.5	13.2	12.2	10.7	10.1	9.8	9.5	9.1
P/CE	6.3	7.7	7.1	6.8	6.4	5.9	5.6	5.4	5.5	5.3
P/BV	1.3	1.3	1.2	1.1	1.0	1.0	1.0	0.9	0.9	0.9
P/S	0.7	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.7
FCF/EV	9.5%	14.1%	16.3%	1.4%	7.0%	7.9%	8.6%	9.2%	9.0%	9.7%
EV/EBITDA	6.8	7.0	6.1	6.9	6.4	5.8	5.4	5.2	5.2	4.9
EV/EBIT	9.3	10.5	9.2	11.4	10.5	9.2	8.7	8.3	8.0	7.6
EV/S	1.0	1.1	1.0	1.0	1.0	1.0	0.9	0.9	0.8	0.8
DYield	4.4%	4.4%	0.0%	3.9%	4.2%	5.3%	6.5%	7.2%	7.5%	7.7%
Price (PLN)	103.00	103.00	103.00	103.00	103.00	103.00	103.00	103.00	103.00	103.00
Shares at year-end (millions)	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2
MC (PLN m)	950.2	950.2	950.2	950.2	950.2	950.2	950.2	950.2	950.2	950.2
Equity attributable to minority shareholders (PLN m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV (PLN m)	1 311.7	1 325.9	1 145.8	1 181.5	1 153.6	1 127.7	1 106.2	1 085.3	1 069.9	1 050.7



Michał Marczak tel. (+48 22) 697 47 38
Managing Director
Head of Research
michal.marczak@dibre.com.pl
Strategy, Telco, Mining, Metals, Media

Research Department:

Marta Jeżewska tel. (+48 22) 697 47 37
Deputy Director
marta.jezewska@dibre.com.pl
Banks

Analysts:

Kamil Kliszcz tel. (+48 22) 697 47 06
kamil.kliszcz@dibre.com.pl
Fuels, Chemicals, Energy, Retail

Piotr Grzybowski tel. (+48 22) 697 47 17
piotr.grzybowski@dibre.com.pl
IT, Media

Maciej Stokłosa tel. (+48 22) 697 47 41
maciej.stoklosa@dibre.com.pl
Construction, Real-Estate Developers

Jakub Szkopek tel. (+48 22) 697 47 40
jakub.szkopek@dibre.com.pl
Manufacturers

Sales and Trading:

Piotr Dudziński tel. (+48 22) 697 48 22
Director
piotr.dudzinski@dibre.com.pl

Marzena Łempicka-Wilim tel. (+48 22) 697 48 95
Deputy Director
marzena.lempicka@dibre.com.pl

Traders:

Emil Onyszczyk tel. (+48 22) 697 49 63
emil.onyszczyk@dibre.com.pl

Grzegorz Stępień tel. (+48 22) 697 48 62
grzegorz.stepien@dibre.com.pl

Tomasz Dudź tel. (+48 22) 697 49 68
tomasz.dudz@dibre.com.pl

Michał Jakubowski tel. (+48 22) 697 47 44
michal.jakubowski@dibre.com.pl

Tomasz Jakubiec tel. (+48 22) 697 47 31
tomasz.jakubiec@dibre.com.pl

Grzegorz Strublewski tel. (+48 22) 697 48 76
grzegorz.strublewski@dibre.com.pl

Foreign Markets Unit:

Adam Prokop tel. (+48 22) 697 48 46
Foreign Markets Manager
adam.prokop@dibre.com.pl

Michał Roźmiej tel. (+48 22) 697 48 64
michal.rozmiej@dibre.com.pl

Jakub Słotkiewicz tel. (+48 22) 697 48 64
jakub.slotkiewicz@dibre.com.pl

Jacek Wrześniewski tel. (+48 22) 697 49 85
jacek.wrzesniewski@dibre.com.pl

"Private Broker"

Jacek Szczepański tel. (+48 22) 697 48 26
Director
jacek.szczepanski@dibre.com.pl

Paweł Szczepanik tel. (+48 22) 697 49 47
Sales
pawel.szczepanik@dibre.com.pl

Dom Inwestycyjny
BRE Banku S.A.
ul. Wspólna 47/49
00-950 Warszawa
www.dibre.com.pl

**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

Recommendations of BRE Bank Securities

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.

This document has been created and published by BRE Bank Securities S.A. The present report expresses the knowledge as well as opinions of the authors on day the report was prepared. The opinions and estimates contained herein constitute our best judgement at this date and time, and are subject to change without notice. The present report was prepared with due care and attention, observing principles of methodological correctness and objectivity, on the basis of sources available to the public, which BRE Bank Securities S.A. considers reliable, including information published by issuers, shares of which are subject to recommendations. However, BRE Bank Securities S.A., in no case, guarantees the accuracy and completeness of the report, in particular should sources on the basis of which the report was prepared prove to be inaccurate, incomplete or not fully consistent with the facts. BRE Bank Securities S.A. bears no responsibility for investment decisions taken on the basis of the present report or for any damages incurred as a result of investment decisions taken on the basis of the present report.

This document does not constitute an offer or invitation to subscribe for or purchase any financial instruments and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document nor any copy hereof is not to be distributed directly or indirectly in the United States, Australia, Canada or Japan.

Recommendations are based on essential data from the entire history of a company being the subject of a recommendation, with particular emphasis on the period since the previous recommendation. Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible.

It is possible that BRE Bank Securities S.A. renders, will render or in the past has rendered services for companies and other entities mentioned in the present report.

The present report was not transferred to the issuer prior to its publication.

BRE Bank Securities S.A., its shareholders and employees may hold long or short positions in the issuer's shares or other financial instruments related to the issuer's shares. BRE Bank Securities S.A., its affiliates and/or clients may conduct or may have conducted transactions for their own account or for account of another with respect to the financial instruments mentioned in this report or related investments before the recipient has received this report.

Copying or publishing the present report, in full or in part, or disseminating in any way information contained in the present report requires the prior written agreement of BRE Bank Securities S.A.

Recommendations are addressed to all Clients of BRE Bank Securities S.A. This report is not for distribution to third parties. The activity of BRE Bank Securities S.A. is subject to the supervision of the Polish Financial Supervision Commission.

Individuals who did not participate in the preparation of this recommendation, but had or could have had access to the recommendation prior to its publication, are employees of BRE Bank Securities S.A. authorised to access the premises in which recommendations are prepared, other than the analysts mentioned as the authors of the present recommendation.

Strong and weak points of valuation methods used in recommendations:

DCF – acknowledged as the most methodologically correct method of valuation; it is based in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.
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 Kety

Rating	Hold
Date issued	2010-02-24
Price on rating day	115.00
WIG on rating day	38533.89