8 March 2010

Update

BRE Bank Securities

Machinery
Poland

Kopex

KOPE.WA; KPX.PW

Reduce

(Reiterated)

Current price	**PLN 23.16**
Target price	**PLN 21.65**
Market cap	PLN 1.9bn
Free float	PLN 0.5bn
Avg daily trading volume (3M)	PLN 2.49m

Shareholder Structure

Krzysztof Jędrzejewski	60.41%
Aviva OFE Aviva BZ WBK S.A.	6.37%
BZ WBK AIB Asset Management	5.99%
Others	27.23%

Sector Outlook

As Polish coal producers face liquidity pressure and CAPEX cuts this year, and demand from international markets dwindles, competition between Polish mining-machine manufacturers is bound to increase, affecting profit margins. A pickup is not likely to commence until the second half of the year.

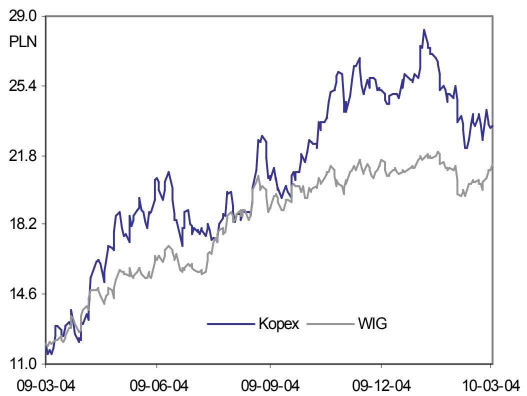
Company Profile

Kopex manufactures machinery and equipment for underground and surface mines, and offers specialist mining and construction solutions and modernization services. The company also trades in electricity, coal, liquid fuels, and coking coal.

Important Dates

30.04 - Consolidated FY2009 report
17.05 - Consolidated Q1 2010 report
31.08 - Consolidated H1 2010 report
15.11 - Consolidated Q3 2010 report

KPX vs. WIG



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Bleak Outlook for H1 2010

Kopex's 2009 fourth-quarter sales were 9.4% lower than in the same period a year earlier, and net profit (after a PLN 7.7m adjustment for goodwill arising on the acquisition of Waratah) showed a 45.9% drop from the year-ago figure. The prospects for the year ahead are even less rosy, with liquidity-strained Polish coal mines expected to slash their capital investment budgets, and require extended payment periods. A depressed domestic market, combined with weaker demand from international customers, will intensify competition between Polish mining-machine suppliers. This, paired with an expected order shortage experienced by Kopex's subsidiary machine manufacturer Tagor, and a continuing uncertainty over international contracts, prompted downward revisions in our 2010 financial forecasts for Kopex, and a warning that 2010 first-half results are liable to be disappointing. We are reiterating a reduce rating on Kopex, with a new price target lowered from PLN 21.66 to PLN 21.65 a share.

Outlook For 2010

Kopex is still in the dark about whether a PLN 95.2m order for mechanical mine-roof props will be confirmed by the Argentinean customer, implying that subsidiary Tagor has slim chances of filling up its contract pipeline. Moreover, a Macedonian customer has recently canceled a EUR 30m contract which was supposed to provide workload for Kopex's loss-making castings factories in Serbia. Kopex is still waiting for the results of a PLN 159.6m roof-prop tender in Australia (Westcliff + Gujarat), expected to be announced toward the end of the year, and is preparing to make a bid on a PLN 88.2m contract in Kosovo. The lack of business from international customers is forcing Kopex to step up competition in the home market, where it is playing against Famur, which has recently joined the race for lower-margin orders, and Glinik, which has slashed its asking prices in mine-roof-support tenders to save itself from insolvency. Heated competition is going to hurt the profits of all mining-machine manufacturers. The earnings outlook for the first quarter of Kopex's fiscal 2010 is shaped by the continued performance of a contract for China's Shenhua Ningxia Coal Industry Group, generating zero margins due to an underestimated budget, and the allocation of considerable resources toward preparations for delivery of a PLN 180.5m order to Jastrzębska Spółka Węglowa.

(PLN m)	2007	2008	2009F	2010F	2011F
Revenue	1 290.2	1 982,6	2 313,4	2 429,0	2 572,2
EBITDA	148,0	236,0	237,6	259,6	285,8
EBITDA margin	*11,5%*	*11,9%*	*10,3%*	*10,7%*	*11,1%*
EBIT	105,7	174,9	154,1	171,2	195,0
Net income	500,7	90,3	92,8	109,2	131,1
P/E	3,1	17,4	18,6	15,8	13,2
P/CE	2,9	10,4	9,8	8,8	7,8
P/BV	0,8	0,8	0,8	0,7	0,7
EV/EBITDA	11,6	8,2	9,0	8,0	6,9
DYield	0,0	0,0	0,0	0,0	0.0

2009 Q4 results

Kopex's revenue in the fourth quarter of 2009 was 9.4% lower than a year earlier and 0.5% lower than in Q3 2009. The biggest, 52.8% year-on-year increase was recorded in sales of industrial machinery (which displayed a 10.4% decline vs. Q309), and sales of electrical power which demonstrated a 29.1% surge vs. Q4 2008 and a 22.0% increase vs. Q3 2009. On a less positive note, drops were recorded in sales of opencast mining machinery (a 9.1% q/q rise and a 44.2% y/y drop due to a shortage of orders), mining services (-39.9% y/y, -5.1 q/q – an effect of preparations for a big job for Jastrzębska Spółka Węglowa), and castings (-38.2% y/y, -11.2% q/q). Kopex also reported weaker sales of underground mining machinery (-13.0% y/y, 26.4% q/q) due to more intense price competition from rivals Famur and Glinik. A 21.8% quarter-on-quarter increase in sales of electrical and electronic equipment surprised on the upside. The Q409 gross margin fell to 10.8% from the 17.3% average recorded in the nine months ended 30 September 2009, led by a shrinkage in the segments of manufacturing machinery (from 8.6% in 1-3Q09 to -12.3% in 4Q09), castings (a plunge from 2.6% in 1-3Q09 to -31.4% in 4Q09), and underground mining machinery (a drop from 25.1% in 1-3Q09 to 12.0%). The gross margin contraction in the segments of manufacturing- and underground mining machinery was caused by lower sales volumes and an underestimated budget of a contract from Shenhua Ningxia Coal Industry Group. Kopex's subsidiary Tagor miscalculated the prices of steel sheets and outsourced a major portion of the contract work, driving up the costs, and adding a PLN 6m net loss to the consolidated Q4 2009 bottom line. Another of Kopex's machine suppliers, ZZM, also experienced a profit shrinkage from PLN 30m in the first three quarters to PLN 4m in the fourth quarter, suggesting a deteriorating profitability of mine orders. The segment of mining services reported a gross margin drop from a nine-month average of 13.6% to 4.6% in Q4 2009 because of plant and materials purchases for purposes of a major mine-shaft construction contract for Jastrzębska Spółka Węglowa.

Summary of Q4 2009 results

(PLN m)	2008	2009	change	4Q2008	4Q2009	change
Revenue	1 982.6	2 313.4	16.7%	662.8	600.3	-9.4%
Mining services	189.7	202.4	6.7%	85.0	51.1	-39.9%
Underground mining machinery	603.5	818.2	35.6%	212.0	184.4	-13.0%
Opencast mining machinery	84.9	56.1	-33.9%	26.0	14.5	-44.2%
Manufacturing machinery	50.3	44.5	-11.4%	9.1	13.9	52.8%
Electric and electronic equipment	245.8	252.8	2.8%	73.3	72.0	-1.8%
Electricity sales	523.6	733.9	40.2%	157.7	203.5	29.1%
Coal sales	59.9	40.8	-31.8%	20.3	16.1	-20.7%
Castings	26.2	13.7	-47.9%	4.8	3.0	-38.2%
Other	198.8	150.9	-24.1%	74.6	41.7	-44.0%
EBIT	174.9	154.1	-11.9%	62.8	11.0	-82.5%
EBIT margin	*8.8%*	*6.7%*	-	*9.5%*	*1.8%*	-
EBITDA	236.0	237.6	0.7%	92.5	29.9	-67.7%
EBITDA margin	*11.9%*	*10.3%*	-	*14.0%*	*5.0%*	-
Net income	90.3	92.8	2.8%	26.5	21.8	-17.8%

Source: BRE Bank Securities

A Q409 EBIT of PLN 11.0m was a whopping 82.5% lower than in the same period a year earlier. The EBIT margin shrunk to 1.8% from 9.5% in Q408, and EBITDA fell 67.7%. Net income was reported at PLN 21.8m, but, after adjustment for a one-time PLN 7.5m gain earned on the acquisition of Waratah, the bottom-line figure was 45.9% lower than in the same period a year earlier.

Acquisition

On February 19th, Kopex signed three agreements concerning the acquisition of mining-machine manufacturer Ryfama. The agreements cover 1 402 007 shares representing 89.87% of Ryfama's equity. Two of the three agreements are subject to approval by anti-trust authority the UOKIK. Ryfama has a 115-year track record in delivering conveyor systems to Polish mines as well as to coal producers in the Czech Republic and Russia. The acquisition is considered a long-term investment which will be financed with Kopex's own cash resources and proceeds from a C stock offering. The company expects that synergy effects achieved on the merger will drive Ryfama's net profit margin to 10%, though we do not think that this will be possible earlier than in 2012 considering a weaker demand and increased competition in the company's markets. Kopex will probably start consolidating Ryfama's earnings in Q3 2010.

In 2008, Ryfama generated PLN 249.5m in sales, a PLN 4.8m net loss, and a PLN 9.4m operating profit. The company's liquidity that year was affected by losses on foreign-exchange options, and financial expenses which reached PLN 20.9m. 2008 net debt stood at PLN 13.2m, and accounts payable totaled PLN 88.4m (56.6% of the balance-sheet total). According to preliminary estimates, 2009 revenues were lower at ca. PLN 190m, and the bottom line approximated zero. Ryfama had PLN 14m in bank debt at December 2009.

Ryfama's 2007, 2008, and 2009 earnings results

(PLN m)	2007	2008	2009F
Revenue	189.5	249.5	190.0
Change	-	31.6%	-23.8%
EBIT	11.51	9.4	
EBIT margin	*6.1%*	*3.8%*	
EBITDA	20.393	13.243	
EBITDA margin	*10.8%*	*5.3%*	
Net income	8.6	-4.8	
Net debt	14.8	23.7	21.0

Source: BRE Bank Securities

Ryfama's biggest problem seems to be trade payables which, in 2008, accounted for 56.6% of the balance-sheet total. According to Kopex, a major portion of these amounts are owed to Ryfama's main shareholder Gwarant, and are liable to decrease in the future.

The price of the 90% stake in Ryfama is rumored to be between PLN 60m and PLN 80m. To calculate the profitability of the investment, we compared the EV/EBITDA ratios of Kopex and Ryfama. Our estimates are based on EBIT margin assumptions of 4.5% in 2009, 3.8% in 2008, and 6.1% in 2007 (which was a year of record capital investment in the mining industry), and D&A expenses of PLN 3.8m in 2008 and 2009.

EV/EBITDA Analysis

	2008					2009F				
Cost of 89.87% stake in Ryfama (PLN m)	**60**	**65**	**70**	**75**	**80**	**60**	**65**	**70**	**75**	**80**
Multiples ex trade payables										
Minority interests (PLN m)	6.1	6.6	7.1	7.6	8.1	6.1	6.6	7.1	7.6	8.1
EV/EBITDA (Ryfama)	6.8	7.2	7.6	8.0	8.4	7.1	7.5	7.9	8.4	8.8
EV/EBITDA (Kopex)	8.2	8.2	8.2	8.2	8.2	9.0	9.0	9.0	9.0	9.0
Multiples incl. trade payables										
EV/EBITDA (Ryfama)	6.6	7.0	7.4	7.8	8.3	8.7	9.2	9.6	10.0	10.5
EV/EBITDA (Kopex)	8.2	8.2	8.2	8.2	8.2	9.0	9.0	9.0	9.0	9.0

Source: BRE Bank Securities

When analyzed without the trade accounts payable, the cost of the 90% interest in Ryfama in 2008 and 2009 would have to be no more than PLN 80m for the acquisition to be profitable. If we factor in the accounts-payable, analyzed on a comparable basis to Kopex's turnover cycle, the threshold at which the acquisition is neutral to shareholders' value decreases to PLN 60m in 2009 and PLN 75m in 2008. We assumed that Ryfama's trade payables in 2009 were 80% of the amount reported at December 2008. For purposes of the comparison, we excluded the accounts payable of the electricity and coal sales segments from Kopex's trade-creditor accounts. The assumptions we used to value Ryfama were slightly skewed in Kopex's favor.

According to Kopex, as member of the Gwarant group of companies, Ryfama returned a portion of its annual profits to the parent company, and it is able to report much better results in the future as an independent entity.

The acquisition of Rymafa will probably solve the idle capacity problem of Kopex's castings factory in Stalowa Wola. The foundry's capacity is 200 tons, while Ryfama uses about 300 tons of castings per month. We predict that the foundry will be able to start producing for Ryfama in the second half of 2010.

Outlook For 2010

2010 is looking tough for Kopex. Weak earnings and competition from cheaper coal from Russia are going to curb capital investment at Polish mines. Combined with weaker demand from neighboring countries and reduced spending by the mining industry across the globe, this will intensify local competition between machine suppliers. Another factor keeping prices low will be cheap machinery offered by troubled producers struggling to stay afloat (Glinik). Kopex's main rival Famur also has to step up contract acquisition efforts in order to cover fixed costs. Mines in former Soviet countries have huge machinery and plant replacement needs, but they are postponing purchases for lack of funds. The same applies to developing countries like Mexico, Argentina, or Indonesia. Chinese mines satisfy their huge demand for machines and equipment internally, and the only way for an outsider to get a contract in China is to form a consortium with a local partner. In spite of limited outside competition, Chinese suppliers have also been experiencing downward pressure on prices, in particular when it comes to mechanical roof supports, and less so in longwall mining equipment with which Kopex wants to increase market share there. In Australia, Kopex is still working on gaining recognition among prospective customers, moreover, demand there is mostly for very powerful machines. In light of diminished opportunities from abroad, the company has to focus on capturing business at home, with implications for profitability.

As the fate of a contract for an Argentinean customer remains uncertain, this year's capacity utilization by Kopex's subsidiary Tagor might be lower than expected. The company is bidding for a PLN 159.6m contract for delivery of mechanical roof supports to Australia, the winner of which is expected to be announced in the first half of the year A EUR 30m order from Macedonia has recently been annulled, and the customer will be holding a new tender. A new opportunity from the Balkans comes from Kosovo (PLN 88.2m), but the tender procedure is still in early stages. The Balkan market for opencast mining machines is dominated by German suppliers offering low prices.

In Poland, Kopex is preparing to deliver a major shaft-construction order for Jastrzębska Spółka Węglowa. This is the first such a large-scale contract in many years, and it requires a lot of preparation, which means that its contribution to gross profit margins in the first half of the year will be small. The acquisition of Ryfama is not expected to generate noticeable synergy effects until 2011. Moreover, Kopex has temporarily shelved its biogas-plant project to minimize the expansion of debt in light of the planned acquisition of Remag.

Weak 2009 fourth-quarter earnings, dwindling demand in the local market, and lower-than-expected margins generated on the Shenhua Ningxia contract, prompted downward revisions in our 2010 financial forecasts for Kopex. We expect revenues to be 8.6% higher than in 2009 at PLN 2,429.0m, and we predict an operating profit of PLN 171.2m and a net profit of PLN 109.2m. We expect sales revenues to remain solid this year, thanks to a full backlog of orders for mining services (a 29.1% increase vs. 2009). Sales of electric power are expected to show a 5% y/y decline. Revenues from sales of underground mining machines will expand by an estimated 11.2%, but the gross margin on this business will contract from 22.2% in 2009 to 20.0% in 2010. EBITDA is expected to increase this year thanks to a stronger profitability of the segment of mining services, and higher amortization expenses. The first half of 2010 is liable to be disappointing.

Valuation

Based on DCF analysis and relative valuation, we set the nine-month price target on Kopex at PLN 21.65 per share.

	Weight	Price
Relative Valuation (PLN)	50%	20.35
DCF Analysis (PLN)	50%	19.67
	price	20.01
	9M target price	21.65

Relative Valuation

We compared Kopex with the world's leading producers of underground and opencast mining machinery. Since the firms making up the peer group are well-established and widely recognized brands, we attached a 20% discount to Kopex's valuation.

	2008 P/E	2009 P/E	2010F P/E	2011F P/E	2012F P/E	2008 EV/EBITDA	2009 EV/EBITDA	2010F EV/EBITDA	2011F EV/EBITDA	2012F EV/EBITDA
ATLAS COPCO	14.0	20.2	17.4	14.6	12.8	8.7	12.1	10.7	9.2	8.4
BUCYRUS	20.6	16.5	16.1	13.2	10.8	11.9	9.9	8.8	7.3	6.2
EMECO HOLDINGS	6.1	7.4	9.7	7.0	6.1	3.4	3.5	4.0	3.5	3.2
FAMUR	21.2	20.1	23.2	16.6	10.3	6.8	10.0	11.8	9.1	6.3
INDUSTREA	8.0	8.0	8.0	7.0	5.7	7.4	6.0	5.1	4.6	4.4
JOY GLOBAL	16.3	13.0	17.8	14.3	12.0	9.1	7.5	9.9	8.3	7.2
SANDVIK	12.0	-	23.8	13.9	10.7	7.7	33.6	10.9	8.3	7.0
Maximum	21.2	20.2	23.8	16.6	12.8	11.9	33.6	11.8	9.2	8.4
Minimum	6.1	7.4	8.0	7.0	5.7	3.4	3.5	4.0	3.5	3.2
Median	**14.0**	**14.7**	**17.4**	**13.9**	**10.7**	**7.7**	**9.9**	**9.9**	**8.3**	**6.3**
Kopex	17.4	18.6	15.8	13.2	11.7	8.2	9.0	8.0	6.9	6.3
Premium (discount)	19.9%	-32.1%	-9.8%	5.3%	8.5%	-11.6%	-8.9%	-27.6%	-22.0%	0.0%
Implied price										
Median	14.0	14.7	17.4	13.9	10.7	7.7	9.9	9.9	8.3	6.3
Discount			20%	20%	20%			20%	20%	120%
Multiple weight					50.0%					50.0%
Year weight			33.3%	33.3%	33.3%			33.3%	33.3%	33.3%
Value per share	20.35									

Source: BRE Bank Securities

A comparison of forecasted P/E and EV/EBITDA multiples showed that Kopex is valued higher than its peers on FY2011 and FY2012 P/E ratios, but lower on FY2010 P/E. The company's forward EV/EBITDA ratios are lower than peer averages in all valuation years.
The peer group is composed of Atlas Coco AB, supplier of mining structures and tools, Bucyrus INC., delivering comprehensive mining solutions, EMECO Holdings LTD, provider of opencast mining equipment, Famur, Kopex's main rival in the home market, Industrea LTD, marketing mining machinery in China and Australia, which also operates in paper production and supply of automated manufacturing solutions, Joy Globay Inc, offering services and solutions to both underground and surface mines, and Sandvik AB, delivering solutions to metal manufacturers and the mining industry.

DCF Analysis

DCF model assumptions

- Risk-free rate = 6.05% (10Y T-bond yield).
- Expected FCF rate growth after FY2018 = 2.5%.
- Beta = 1.0.
- We assume that Kopex will start paying dividends in 2012.
- The valuation is based on net debt as at year-end 2009.
- Future revenues are discounted to their present value as at March 2010.
- The valuation does not take into account the acquisition of Ryfama, or the potential acquisition of Remag.
- The valuation also does not include the PLN 110.8m compensation claims of Famur.
- We predict that Kopex will generate higher profit margins on mining services, and lower margins on mining machinery and electricity sales, in 2010. The gross margin on casting sales is expected to be in the positive territory.

Gross margin forecasts by business segment

	1-3Q2009	4Q2009F	2009	2010F	2011F	2012F	2013F	2014F	2015F
Mining services	13.6%	4.6%	11.4%	20.5%	21.0%	22.0%	23.0%	23.0%	23.0%
Underground mining machinery	25.1%	12.0%	22.2%	20.0%	21.0%	21.5%	21.5%	21.5%	21.5%
Opencast mining machinery	21.6%	22.5%	21.9%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Manufacturing machinery	8.6%	-12.3%	2.1%	8.0%	13.0%	15.0%	15.0%	15.0%	15.0%
Electric and electronic equipment	34.8%	33.3%	34.4%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%
Electricity sales	4.2%	3.8%	4.1%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Coal sales	8.5%	4.8%	7.1%	7.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Castings	2.6%	-31.4%	-4.8%	2.0%	10.0%	15.5%	15.5%	15.5%	15.5%
Other	15.5%	17.2%	16.0%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%
Total	**17.3%**	**10.8%**	**15.6%**	**15.7%**	**16.0%**	**16.5%**	**16.2%**	**16.2%**	**16.3%**

Source: BRE Bank Securities

DCF Valuation Model

(PLN m)	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	+
Revenue	**2 429.0**	**2 572.2**	**2 630.4**	**2 769.7**	**2 856.6**	**2 921.8**	**2 989.3**	**3 085.9**	**3 194.8**	**3 273.6**	**3 354.5**
change	5.0%	5.9%	2.3%	5.3%	3.1%	2.3%	2.3%	3.2%	3.5%	2.5%	2.5%
EBITDA	**259.6**	**285.8**	**304.8**	**318.4**	**328.3**	**338.2**	**348.3**	**359.2**	**369.8**	**380.0**	**387.6**
EBITDA margin	10.7%	11.1%	11.6%	11.5%	11.5%	11.6%	11.7%	11.6%	11.6%	11.6%	11.6%
D&A expenses	88.4	90.8	92.8	93.2	93.6	94.0	94.4	94.8	95.2	95.5	95.9
EBIT	**171.2**	**195.0**	**212.0**	**225.1**	**234.7**	**244.1**	**253.8**	**264.5**	**274.6**	**284.5**	**291.7**
EBIT margin	7.0%	7.6%	8.1%	8.1%	8.2%	8.4%	8.5%	8.6%	8.6%	8.7%	8.7%
EBITDA	32.5	37.0	40.3	42.8	44.6	46.4	48.2	50.2	52.2	54.1	55.4
NOPLAT	**138.7**	**157.9**	**171.7**	**182.4**	**190.1**	**197.7**	**205.6**	**214.2**	**222.4**	**230.4**	**236.3**
CAPEX	-128.8	-99.1	-101.2	-101.7	-101.5	-101.4	-101.8	-102.3	-102.7	-103.1	-95.9
Working capital	-17.7	-31.5	-5.9	-30.2	-13.3	-6.3	-6.4	-14.4	-17.2	-8.0	-8.6
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	**80.5**	**118.1**	**157.5**	**143.7**	**168.9**	**184.2**	**191.8**	**192.4**	**197.7**	**214.9**	**227.7**
WACC	10.3%	10.6%	10.7%	10.8%	10.9%	11.0%	11.1%	11.1%	11.1%	11.1%	11.1%
discount factor	0.92	0.83	0.75	0.67	0.61	0.54	0.49	0.44	0.40	0.36	0.32
PV FCF	74.2	98.3	117.9	96.9	102.5	100.3	93.7	84.6	78.3	76.6	73.1

WACC	10.33%	10.55%	10.74%	10.82%	10.90%	10.98%	11.05%	11.05%	11.05%	11.05%	11.05%
Cost of debt	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Risk-free rate	6.05%	6.05%	6.05%	6.05%	6.05%	6.05%	6.05%	6.05%	6.05%	6.05%	6.05%
Risk premium	1.45%	1.45%	1.45%	1.45%	1.45%	1.45%	1.45%	1.45%	1.45%	1.45%	1.45%
Effective tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Net debt / EV	14.4%	10.0%	6.4%	4.6%	3.1%	1.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of Equity	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%
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	2.5%
Terminal value	2 662.0
Present value of the terminal value (PV TV)	949.5
Present value of FCF in the forecast horizon	923.4
Enterprise value (EV)	1 872.9
Net debt	351.0
Other non-operating assets	0.0
Minority interests	59.8
Enterprise value	1 462.0
Number of shares (millions)	74.3
Enterprise value per share (PLN)	**19.67**
Cost of equity (9M)	8.2%
Target Price	**21.28**

EV/EBITDA for the target price	7.4
P/E (FY10) for the target price	14.5
TV to EV	50.7%

Sensitivity Analysis

	FCF growth in perpetuity				
	0.0%	1.5%	2.5%	3.0%	5.0%
WACC +1.0ppt	15.83	17.11	18.18	18.81	22.20
WACC +0.5ppt	16.94	18.40	19.64	20.37	24.41
WACC	18.15	19.83	**21.28**	22.14	26.99
WACC -0.5ppt	19.49	21.43	23.12	24.14	30.03
WACC 1.0ppt	20.96	23.21	25.21	26.42	33.67

Income Statement

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F	2014F
Revenue	**1 290.2**	**1 982.6**	**2 313.4**	**2 429.0**	**2 572.2**	**2 630.4**	**2 769.7**	**2 856.6**
change	54.8%	53.7%	16.7%	5.0%	5.9%	2.3%	5.3%	3.1%
Mining services	189.7	104.6	151.3	202.4	261.3	274.4	282.6	291.1
Underground mining machinery	603.5	391.4	633.8	818.2	909.9	946.3	974.7	1 003.9
Opencast mining machinery	84.9	58.9	41.6	56.1	56.3	56.9	57.5	58.1
Manufacturing machinery	50.3	41.1	30.6	44.5	42.3	44.4	45.7	47.1
Electric and electronic machinery	245.8	172.5	180.8	252.8	240.2	252.2	259.7	267.5
Electricity sales	523.6	365.9	530.4	733.9	715.1	789.2	797.3	885.0
Coal sales	59.9	39.6	24.8	40.8	42.9	45.0	46.4	47.8
Castings	26.2	21.5	10.7	13.7	13.8	14.5	14.9	15.4
COGS	**1 076.9**	**1 634.9**	**1 952.6**	**2 047.6**	**2 159.6**	**2 197.0**	**2 319.8**	**2 393.6**
SG&A expenses	94.8	152.9	172.6	175.5	180.4	183.1	185.9	188.6
Selling expenses	44.1	30.5	38.4	39.6	40.7	41.3	42.0	42.6
Other net operating income/loss	31.3	10.6	4.3	5.0	3.5	3.0	3.0	3.0
EBIT	**105.7**	**174.9**	**154.1**	**171.2**	**195.0**	**212.0**	**225.1**	**234.7**
change	20.7%	65.4%	-11.9%	11.1%	13.9%	8.7%	6.2%	4.2%
EBIT margin	8.2%	8.8%	6.7%	7.0%	7.6%	8.1%	8.1%	8.2%
Profit/loss on financial activity	528.8	-40.1	-41.8	-26.5	-23.2	-19.7	-17.5	-16.2
Extraordinary gains/losses	0.0	0.0	-7.5	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
Pre-tax income	**634.5**	**134.9**	**120.2**	**144.7**	**171.7**	**192.3**	**207.7**	**218.5**
Tax	118.5	30.4	17.8	27.5	32.6	36.5	39.5	41.5
Minority interests	-16.1	-14.3	9.5	8.0	8.0	8.0	8.0	8.0
Net income	**500.7**	**90.3**	**92.8**	**109.2**	**131.1**	**147.8**	**160.2**	**169.0**
change	679.0%	-82.0%	2.8%	17.7%	20.0%	12.7%	8.4%	5.5%
margin	38.8%	4.6%	4.0%	4.5%	5.1%	5.6%	5.8%	5.9%
D&A expenses	42.3	61.1	83.5	88.4	90.8	92.8	93.2	93.6
EBITDA	**148.0**	**236.0**	**237.6**	**259.6**	**285.8**	**304.8**	**318.4**	**328.3**
change	17.0%	59.5%	0.7%	9.3%	10.1%	6.7%	4.5%	3.1%
EBITDA margin	11.5%	11.9%	10.3%	10.7%	11.1%	11.6%	11.5%	11.5%
Shares at year-end (millions)	67.6	67.6	74.3	74.3	74.3	74.3	74.3	74.3
EPS	7.4	1.3	1.2	1.5	1.8	2.0	2.2	2.3
CEPS	8.0	2.2	2.4	2.7	3.0	3.2	3.4	3.5
ROAE	25.3%	4.4%	4.0%	4.5%	5.1%	5.6%	5.9%	6.1%
ROAA	19.2%	2.8%	2.8%	3.1%	3.6%	3.9%	4.1%	4.3%

Balance Sheet

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F	2014F
ASSETS	**2 601.9**	**3 232.9**	**3 373.3**	**3 513.6**	**3 681.4**	**3 782.3**	**3 882.3**	**3 950.0**
Fixed assets	**1 620.2**	**1 854.0**	**1 938.0**	**1 978.5**	**1 986.8**	**1 995.2**	**2 003.6**	**2 011.6**
Intangible assets	1 146.8	1 213.9	44.2	44.7	45.1	45.6	46.0	46.5
Property, plant and equipment	415.9	562.9	613.9	653.9	661.8	669.7	677.8	685.2
Enterprise value	0.0	0.0	1 195.5	1 195.5	1 195.5	1 195.5	1 195.5	1 195.5
Long-term receivables	3.7	1.5	12.1	12.1	12.1	12.1	12.1	12.1
Long-term investments	29.8	30.7	14.2	14.2	14.2	14.2	14.2	14.2
Long-term prepayments	24.1	45.0	58.0	58.0	58.0	58.0	58.0	58.0
Current assets	**981.7**	**1 378.9**	**1 435.3**	**1 535.2**	**1 694.7**	**1 787.2**	**1 878.7**	**1 938.4**
Inventories	332.2	514.3	478.1	492.4	514.0	520.0	541.8	552.9
Short-term receivables	441.8	499.1	502.0	517.1	541.4	547.1	569.5	580.5
Trade receivables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term investments	28.7	17.4	83.5	83.5	83.5	83.5	83.5	83.5
Cash	149.4	164.1	142.2	201.3	300.6	375.6	409.0	438.1
Short-term prepayments	29.6	183.9	229.5	241.0	255.2	261.0	274.8	283.4

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F	2014F
LIABILITIES	**2 601.9**	**3 232.9**	**3 373.3**	**3 513.6**	**3 681.4**	**3 782.3**	**3 882.3**	**3 950.0**
Equity	**1 976.6**	**2 034.0**	**2 294.2**	**2 411.4**	**2 550.5**	**2 639.7**	**2 711.8**	**2 762.1**
Share capital	67.6	67.6	74.3	74.3	74.3	74.3	74.3	74.3
Capital reserve	1 412.4	1 866.4	2 082.1	2 082.1	2 082.1	2 082.1	2 082.1	2 082.1
Undistributed profits	-3.4	-10.6	15.3	124.5	255.6	336.9	401.0	443.2
Minority interests	73.8	63.2	59.8	59.8	59.8	59.8	59.8	59.8
Long-term liabilities	**14.9**	**141.6**	**233.2**	**233.2**	**233.2**	**233.2**	**233.2**	**233.2**
Debt	14.9	136.8	206.1	206.1	206.1	206.1	206.1	206.1
Short-term liabilities	**451.6**	**855.4**	**665.0**	**683.8**	**707.2**	**716.7**	**739.5**	**753.7**
Trade creditors	249.5	531.6	377.8	396.7	420.1	429.6	452.3	466.5
Debt	202.1	323.9	287.1	287.1	287.1	287.1	287.1	287.1
Provisions	79.4	89.3	35.8	35.8	35.8	35.8	35.8	35.8
Other	5.7	49.3	85.3	89.6	94.9	97.0	102.2	105.4
Debt	217.0	460.7	493.2	493.2	493.2	493.2	493.2	493.2
Net debt	67.6	296.5	351.0	291.9	192.6	117.6	84.1	55.1
(Net debt / Equity)	3.4%	14.6%	15.3%	12.1%	7.6%	4.5%	3.1%	2.0%
(Net debt / EBITDA)	0.5	1.3	1.5	1.1	0.7	0.4	0.3	0.2
BVPS	29.2	30.1	30.9	32.4	34.3	35.5	36.5	37.2

Cash Flows

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F	2014F
Cash flows from Operating Activities	**-266.0**	**52.8**	**-21.9**	**214.4**	**221.7**	**262.4**	**248.8**	**273.5**
Net income	500.7	90.3	92.8	109.2	131.1	147.8	160.2	169.0
D&A expenses	42.3	61.1	83.5	88.4	90.8	92.8	93.2	93.6
Working capital	-435.3	-45.5	-131.3	-17.7	-31.5	-5.9	-30.2	-13.3
Other	-373.8	-53.1	-66.9	34.5	31.2	27.7	25.5	24.2
Cash flows from investing activities	**395.70**	**-260.98**	**-209.98**	**-128.83**	**-99.13**	**-101.21**	**-101.71**	**-101.55**
CAPEX	-113.29	-157.76	-160.42	-128.83	-99.13	-101.21	-101.71	-101.55
Equity investments	508.99	-103.23	-49.56	0.00	0.00	0.00	0.00	0.00
Cash flows from financing activities	**-15.2**	**219.1**	**209.9**	**-26.5**	**-23.2**	**-86.2**	**-113.6**	**-142.9**
Debt	0.3	234.2	1.7	-33.5	-33.5	-33.5	-33.5	-33.5
Dividends/share buy-back	0.0	-0.4	154.5	0.0	0.0	-66.5	-96.1	-126.8
Other	-15.5	-14.7	53.8	7.0	10.3	13.9	16.1	17.4
Change in cash	**114.5**	**10.8**	**-22.0**	**59.1**	**99.3**	**75.0**	**33.4**	**29.1**
Cash at end of period	149.4	164.1	142.2	201.3	300.6	375.6	409.0	438.1
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0.9	1.3	1.7
FCF	-420.6	-0.5	-80.5	80.5	118.1	157.5	143.7	168.9
(CAPEX / Sales)	-8.8%	-8.0%	-6.9%	-5.3%	-3.9%	-3.8%	-3.7%	-3.6%

Market multiples

	2007	2008	2009	2010F	2011F	2012F	2013F	2014F
P/E	3.1	17.4	18.6	15.8	13.2	11.7	10.8	10.2
P/CE	2.9	10.4	9.8	8.8	7.8	7.2	6.8	6.6
P/BV	0.8	0.8	0.8	0.7	0.7	0.7	0.6	0.6
P/S	1.2	0.8	0.7	0.7	0.7	0.7	0.6	0.6
FCF/EV	-25.6%	0.0%	-3.9%	4.0%	6.1%	8.5%	7.9%	9.5%
EV/EBITDA	11.6	8.2	9.0	8.0	6.9	6.3	5.9	5.6
EV/EBIT	16.2	11.0	13.9	12.2	10.2	9.0	8.3	7.9
EV/S	1.3	1.0	0.9	0.9	0.8	0.7	0.7	0.6
DYield	0.00%	0.00%	0.00%	0.00%	0.00%	3.85%	5.56%	7.33%
Price (PLN)	23.26	23.26	23.26	23.26	23.26	23.26	23.26	23.26
Shares at year-end (millions)	67.6	67.6	74.3	74.3	74.3	74.3	74.3	74.3
MC (PLN m)	1 573.1	1 573.1	1 729.0	1 729.0	1 729.0	1 729.0	1 729.0	1 729.0
Equity attributable to minority shareholders (PLN m)	73.8	63.2	59.8	59.8	59.8	59.8	59.8	59.8
EV (PLN m)	1 714.5	1 932.8	2 139.8	2 080.8	1 981.4	1 906.4	1 873.0	1 843.9

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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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