28 May 2010

Update

BRE Bank Securities

Machinery
Poland

Kopex

KOPE.WA; KPX.PW

Hold

(Reiterated)

Current price	**PLN 18.79**
Target price	**PLN 18.46**
Market cap	PLN 1.4bn
Free float	PLN 0.4bn
Avg daily trading volume (3M)	PLN 1.92m

Shareholder Structure

Krzysztof Jędrzejewski	60.41%
Aviva OFE Aviva BZ WBK S.A.	5.09%
BZ WBK AIB Asset Management	5.98%
Others	28,52%

Sector Outlook

Demand for mining machinery is picking up, coming from Polish as well as foreign coal producers. In Poland, the key driver are necessary plant replacements. In case of foreign mines, the investment is aimed at capacity expansion and ensuring greater safety.

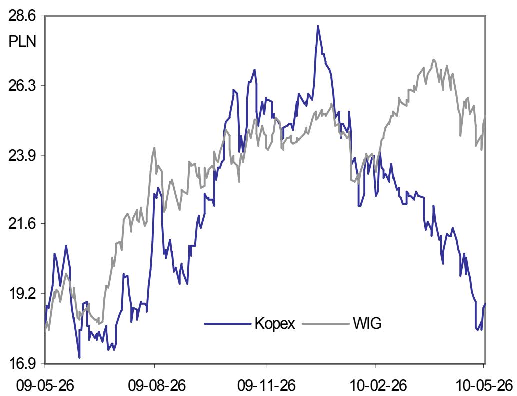
Company Profile

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

31.08 - Consolidated H1 2010 report
15.11 - Consolidated Q3 2010 report

KPX vs. WIG



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

Demand Outlook Improves

The liquidity of Polish coal mines is improving, led by increasing global prices of steam- and coking coal, and lower imports from Russia. As a result, we expect them to be more willing to invest in new machines to replace the old and less effective ones, and to gain access to new deposits. Capital investment will be additionally supported by the Polish government's PLN 400m subsidy program, which requires that the allocations be spent in 2010, and by improving export conditions buoyed by rising coal prices and higher sales volumes. For Kopex, we expect the second-quarter EBIT to still display a 28% decrease versus Q2 2009, but the third quarter should bring a 2% year-on-year rise in the operating profit. The main obstacles to earnings growth include the thin order book of subsidiary Tagor, and potential losses that could be incurred on termination of foreign-currency contracts hedging the risks related to an Argentinean order (the losses could reach PLN 10-15m). We are reiterating a hold rating for Kopex, and we are lowering our price target on the company's shares from PLN 21.49 to PLN 18.46.

Outlook For Forthcoming Quarters

Kopex's earnings in the next three quarters will be supported by a PLN 180.5m contract from coal producer JSW. Moreover, the company's steel and iron castings factories are expected to generate profits this year (marking an improvement from last year's loss of PLN 6-8m). The Serbian foundries finished restructuring in Q1 2010, and they have captured several orders from Brazil and Germany totaling EUR 8m. The Polish foundry "HSW Odlewnia" has also acquired a number of new orders, including from Kopex's recent acquisition Ryfama. The small order backlog of Tagor suggests that the company's production capacity will sit idle throughout Q3 2010. Demand for mechanical roof supports has decreased, as reflected in the 5-6 contract tenders expected this year compared to 9-11 awards seen in previous years. Another source of risk is a suspended order from an Argentinean customer for a PLN 95.2m turnkey longwall system which, if canceled, can generate losses between PLN 10m and 15m on terminated foreign-currency hedges.

(PLN m)	2008	2009	2010	2011F	2012F
Revenue	1 982.6	2 313.4	2 448.7	2 547.3	2 606.4
EBITDA	236.0	217.1	232.2	265.5	293.1
EBITDA margin	*8.8%*	*9.4%*	*9.5%*	*10.4%*	*11.2%*
EBIT	174.9	145.3	143.8	173.7	200.6
Net income	85.4	87.2	80.6	113.6	137.8
P/E	15.0	16.1	17.4	12.4	10.2
P/CE	8.7	8.8	8.3	6.8	6.1
P/BV	0.6	0.6	0.6	0.5	0.5
EV/EBITDA	7.1	8.4	7.7	6.4	5.6
DYield	0.0	0.0	0.0	0.0	4.9%

First-Quarter Results

In Q1'10, Kopex's sales increased by 6.9% y/y. The biggest increase, by the staggering 321.5%, was recorded for Coal Sales, thanks to the settlement of transactions involving KHW's coal bonds. Electricity Sales did equally well, thanks to the low temperatures observed during the first two months of the year. Mining Services also generated a double-digit y/y growth rate (+24.1% y/y), thanks to numerous contracts for mining construction. Note though that the contract for JSW, worth over PLN 180.5m, was not booked in the first quarter. Revenue in Underground Mining Machinery decreased by 18.9% y/y, due to the fact that fewer new contracts were acquired in Q3 and Q4 2009. Sales declined by 27.8% in Electronic and Electric Machinery, which was surely affected by the slump in foreign markets and the appreciation of the zloty. Castings still underperformed expectations, with revenue declining by 35.5% y/y.

Abbreviated income statement for Q1 2010

(PLN m)	2008	2009	Change	Q1 2009	Q1 2010	Change
Sales revenue	1 982.6	2 313.4	16.7%	592.9	633.6	6.9%
Mining Services	189.7	202.4	6.7%	43.9	54.4	24.1%
Underground Mining Machinery	603.5	818.2	35.6%	246.6	199.9	-18.9%
Opencast Mining Machinery	84.9	56.1	-33.9%	14.6	14.8	1.1%
Manufacturing Machinery	50.3	44.5	-11.4%	8.4	3.8	-55.3%
Electric and Electronic Equipment	245.8	252.8	2.8%	58.4	42.1	-27.8%
Electricity Sales	523.6	733.9	40.2%	167.8	224.3	33.7%
Coal Sales	59.9	40.8	-31.8%	13.3	56.2	321.5%
Metal Castings	26.2	13.7	-47.9%	3.6	2.3	-35.5%
Other	198.8	150.9	-24.1%	36.3	35.7	-1.6%
EBIT	169.9	145.3	-14.4%	58.6	23.4	-60.0%
EBIT margin	*8.6%*	*6.3%*	-	*9.9%*	*3.7%*	-
EBITDA	231.0	217.1	-6.0%	76.2	43.9	-42.4%
EBITDA margin	*11.6%*	*9.4%*	-	*12.9%*	*6.9%*	-
Net income	85.4	87.2	2.1%	35.4	8.9	-75.0%

Source: BRE Bank Securities

Underground Mining Machinery posted the highest gross margin (34.2%, +11.4pp), aided by the settlement of a contract for the sale of powered roof supports to a Chinese buyer. Cash flows stemming from this contract were hedged by currency futures, but losses on derivatives are booked in other operating expenses. The Management previously said that the remaining part of the contract, attributable to Q1'10, would carry a zero gross margin. Adjusted for hedging, the segment's gross margin would figure to 22.8%. The decline in sales in Electric and Electronic equipment had a negative impact on the segment's gross margin, which fell by 6.2pp to 28.2%. In Electricity Sales, the gross margin declined by 5.1% to 2%, due to the reduced volatility of wholesale energy prices. Coal Sales generated a small 1.6% gross margin, which had to do with the settlement of KHW's coal bonds. The gain on coupon settlement is booked in financial income. Metal Castings, despite very weak revenues, generated a gross margin of 2.1%.

All in all, operating profit was PLN 23.4m, which is 60% less than in Q1'09, which, in addition to lower profitability of Electricity Sales and Electric and Electronic Equipment, was a result of selling costs being 81.6% y/y higher, to a certain extent due to transactional costs related to the Chinese contract (transportation, customs, PLN 9m).

The bottom line figured to PLN 8.9m (-75% y/y), after F/X losses of PLN 8.0m.

These earnings are weak, which is something we warned investors about prior to their publication.

Outlook for the Following Quarters

In the following quarters, the Company promises to improve its operating earnings thanks to the currently ongoing restructuring process at Tagor and at Serbian foundries (in 2009, the total loss of the Metal Castings segment was PLN 6-8m). In the coming quarters, Kopex will be booking earnings from the contract for JSW (22-55% gross margin). In addition, the Company was able to fill the order backlog of the Stalowa Wola foundry, which will also manufacture for Ryfama, which is currently being taken over by Kopex. The Serbian foundries also managed to get several contracts for supplies to Germany and Brazil, for a total of EUR 8m. Given last year's PLN 6-8m loss, even a small profit this year will surely boost consolidated earnings. The

Management is also hoping to successfully conclude advanced negotiations concerning contracts in Australia (in July, a PLN 70m contract for roof supports for Westcliff will be awarded - the shortlist includes Kopex and Bucyrus) as well as to obtain further Chinese orders for longwall shearers. Their Asian manufacturers still lack the requisite know-how and experience, which increases Kopex's chances especially when it cooperates with local partners. Each coming quarter should be better for the Company. We expect a much higher EBIT in Q2 2010 (+39.7% q/q). Still, the comparable base for last year remains high, which will make it difficult to match last year's performance; we expect a 28.0% y/y drop. We do expect an improvement in the third quarter, with EBIT increasing 2% y/y and net profit 17.2% y/y.

Forecasted earnings by segment

(PLN m)	Q1 10	Q2 10F	Q3 10F	Q4 10F	2010F	2011F
Sales revenue	633.6	590.7	580.3	644.1	2 448.7	2 547.3
Y/Y change	6.9%	14.2%	-3.8%	7.3%	5.8%	4.0%
COGS	532.1	505.3	486.9	534.9	2 059.3	2 145.1
Gross profit	101.5	85.4	93.4	109.2	389.4	402.2
Gross margin	16.0%	14.5%	16.1%	16.9%	15.9%	15.8%
Other operating income	9.7	0.5	0.5	0.2	10.9	3.5
Selling costs	17.1	9.0	8.9	12.2	47.2	48.6
G&A expenses	42.7	43.3	43.8	49.2	179.0	183.5
Other operating expenses	27.9	1.5	0.5	0.5	30.4	0.0
Operating profit	23.4	32.1	40.8	47.5	143.8	173.7
Y/Y change	-60.0%	-28.0%	2.0%	330.9%	-1.1%	20.8%
Financial income	7.6	0.2	0.2	-0.3	7.7	9.5
Financial expenses	18.0	8.5	8.5	8.5	43.4	34.3
Gross profit	13.0	23.8	32.5	38.8	108.1	148.8
Tax	3.2	4.5	6.2	6.7	20.5	28.3
Net income	9.7	19.3	26.3	32.1	87.6	120.6
Minority profit/loss	0.8	1.5	1.9	2.8	7.0	7.0
Profit attributable to shareholders of the parent	8.9	17.8	24.4	29.4	80.6	113.6
Y/Y change	-75.0%	9.3%	17.2%	42.7%	-7.6%	40.9%

Source: BRE Bank Securities

Threats

The main risk for the Company's earnings in the coming quarters is lack of orders for its subsidiary Tagor (FY 2008: PLN 324.6m in revenue, PLN 22.2m in net profit; FY 2009: PLN 390m in revenues and PLN 9.5m in net profit). In Q2'10, the Company is completing a roof support for a Polish buyer, which is the last material order it currently has except for a suspended contract in Argentina (PLN 95.2m). Since the start of the year, only one tender for a powered roof support has been held in Poland (won by Famur's subsidiary Fazos). This should be compared to the past average of 9-11 tenders per year. The suspended contract for an integrated longwall system for an Argentinean buyer (roof supports, armored face conveyors, shearer) is being hedged with F/X futures since the start of 2009. In the recent months, the buyer called further tenders for longwall systems, which makes it more likely that Kopex's contract will be resumed. Should the buyer not get the promised governmental subsidy, however, Kopex would be forced to terminate its F/X contracts, losing between PLN 10-15m, depending on the current exchange rate. Another risk concerns the restructuring process at Tagor. The CEO said that its costs could reach several million zloty.

Situation In the Domestic Market

It seems that 2010 will not be as bleak a year for the Polish coal industry as we thought. First of all, coal imports from Russia are expected to total between 6 and 8 million tons – a revision from earlier projections of 10.5MT – representing volumes equivalent to Poland's exports. The reason is that coal purchases from Russia and ARA ports are no longer cheaper at PLN 300 a ton including freight, compared to a first-quarter per-ton average of PLN 278.5 for Polish coal. Domestic miners kept about 5.6MT of unsold coal stockpiles at 31 March, but the recent price trends offer hope that these stocks can be liquidated in the future. Some experts say that the lower imports from Russia are a result of the country's increased exports to India and China, where demand is great.

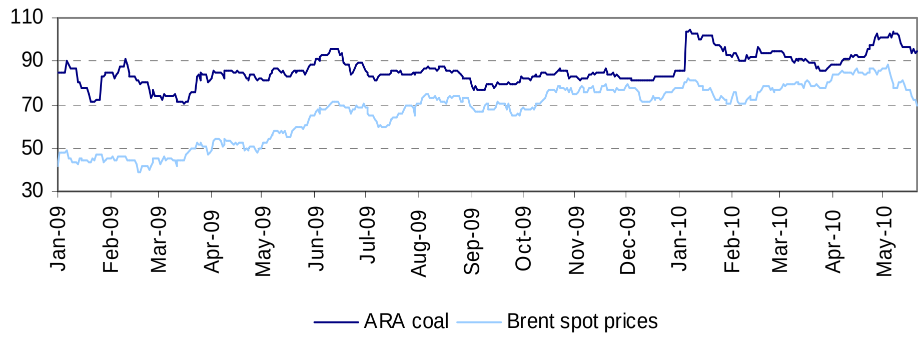
In the first quarter of 2010, steam-coal sales were 2.5% higher than in the same period a year ago, while the mining output was 1.9% lower. Stronger sales support the liquidity, and hence also the investment capacity, of Polish coal producers. As a result, manufacturers of mining machinery can look forward to new orders. Another positive development is the increasing willingness of financial firms to enter into leasing deals (to date, producers had to shoulder all the risks entailed in such transactions). Moreover, the CAPEX budgets of Polish coal mines have been reinforced by a PLN 400m government-aid program, expected to enter into force in June. Mines can apply to obtain 30% funding for projects started in 2010, and the funds have to be spent this year. Examples of eligible projects include heading development, plant purchases, air-conditioning installations, shaft modernization and deepening, and coal-processing plant upgrades.

The main rival of Famur and Kopex, Glinik, is facing bankruptcy. Its liquidity has been undermined by defaulting customers, and the general cash shortage is causing problems with creditors, including utility providers who have been cutting the company off, causing production line downtime. If Glinik does not find an investor soon, it is very likely to go out of business, leaving more market to Famur and Kopex, both of which have been struggling to fill up their H2 2010 order backlogs. We do not think that an investment in Glinik would be a good idea for either company.

Situation In International Markets

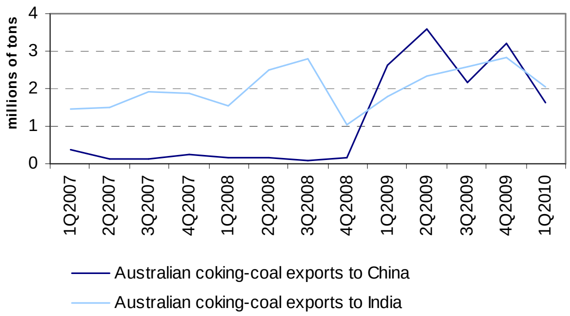
Coal prices usually follow oil prices, suggesting a possible downslide in the near term, however, in the long term, they are expected to ride high on the back of huge demand from China and India. Moreover, a rapid rally has been observed recently in the prices of coking coal worldwide, including in China where its prices were almost 25% higher in Q1 2010 than in thee same period a year ago. These trends should encourage world miners with high operating leverages to increase production, including from new sites, necessitating replacements of obsolete machinery with new, more effective units.

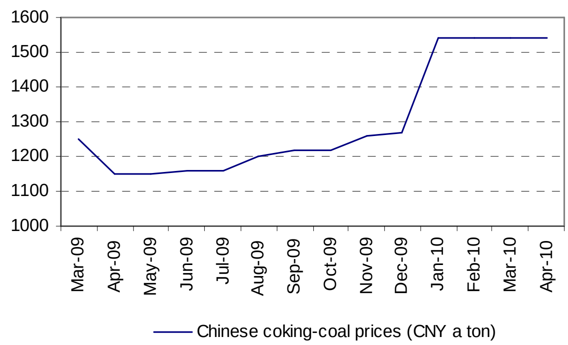
ARA coal prices vs. Brent crude spot prices (USD per ton/barrel)



Source: BRE Bank Securities, Bloomberg

Australian coking-coal exports to China and India, prices in China





Source: BRE Bank Securities, Bloomberg

World producers were forced to cut capital investment after the dramatic coal-price drop in 2008, and in the wake of global economic uncertainty. The cutbacks were most severe in the USA, where the financial crisis originated, and in Mexico, Thailand, and Indonesia. Countries like China, India, and Australia, were less affected. We analyzed the capital expenses of selected miners from leading coal-producing countries, and reached the conclusion that their budgets will increase by a combined 9.2% in 2010 and a further 8.8% in 2011. In subsequent years, the expenses could be even higher as the coal industry achieves stability, and as global demand for energy continues to rise.

CAPEX forecasts for leading global coal producers (USD m)

Country	Company	2009	2010F	2011F
Australia	BHP BILLITON PLC*	2 426.8	2 390.0	2 806.6
Australia	COAL & ALLIED INDUSTRIES LTD	134.3	180.9	559.1
Australia	MACARTHUR COAL LTD	62.2	62.5	101.8
Australia	WHITEHAVEN COAL LTD	115.7	221.2	173.6
China	SHANXI LU`AN ENVIRONMENTAL-A	291.1	368.2	393.8
China	CHINA COAL ENERGY CO-H	1 557.6	1 563.6	1 374.2
China	SHANXI XISHAN COAL & ELEC-A	369.0	391.5	363.1
Indonesia	BUMI RESOURCES TBK PT	376.4	400.9	381.9
Indonesia	BAYAN RESOURCES GROUP	46.7	62.9	73.8
Mexico	GRUPO MEXICO SAB DE CV-SER B*	214.8	380.8	424.9
USA	ALPHA NATURAL RESOURCES INC	263.1	369.7	351.7
USA	WALTER ENERGY INC	87.6	115.2	125.3
USA	ARCH COAL INC	295.9	299.3	314.6
USA	MASSEY ENERGY CO	287.4	322.2	314.4
Total		**6 528.5**	**7 128.9**	**7 758.8**
change			9.2%	8.8%

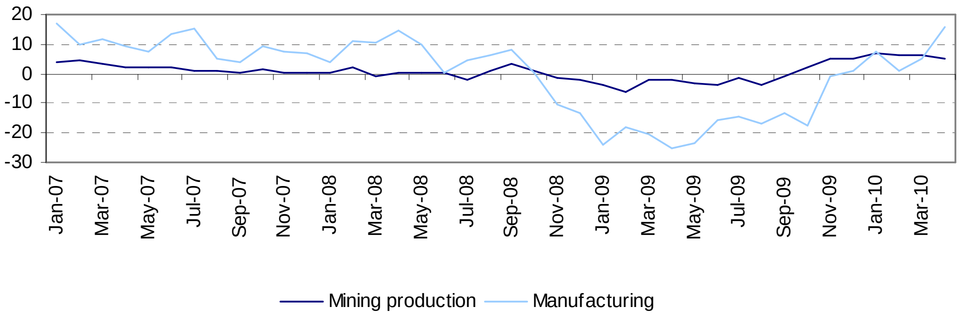
**coal-mine CAPEX*
Source: BRE Bank Securities, Bloomberg

The resulting increase in orders will be an opportunity to drum up business for Polish manufacturers of mining machinery. Between Famur and Kopex, the latter is better prepared to successfully compete for international contracts, but the former can offer better deals to the more price-oriented customer.

Recovery In Russian Market

The Russian mining industry has been showing signs of a recovery from a long recession since late 2009. Coal sales have been buoyed by big purchases by China and India, as well as by improved local demand. This gives rise to expectations of increased capital investment by Russian miners, whose plant replacement needs are much greater than those of Polish mines. The problem from the standpoint of Polish machinery suppliers is that the prospective opportunities could be snatched by competition from China, who are greatly supported by their government, and can therefore offer buyers incentives such as Chinese-government-backed investment loans with maturities extending over ten years, and deferred payment plans – options that are not available to our producers. Another issue is local protectionism, whereby Russian suppliers are favored over foreign companies even though their machines are lower quality. One of such protectionist practices are tax breaks for mines that buy their equipment locally. Having said that, we believe that these obstacles will be mitigated by rising demand.

Manufacturing and mining production trends in Russia



Source: BRE Bank Securities, Bloomberg

Valuation

We have valued Kopex using a DCF model and relative valuation. We estimate the 9-month target price at PLN 18.46 per share.

	Weight	Price
Relative Valuation (PLN)	40%	14.92
DCF Analysis (PLN)	60%	18.54
	Price	17.10
	9M target price	**18.46**

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 to account for the premium that the peer group valuations carry.

Relative 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 AB-A SHS	14.0	20.3	13.8	11.6	10.0	8.7	12.1	10.4	8.9	8.1
BUCYRUS INTERNATIONAL INC	16.1	12.9	13.4	10.1	8.3	12.1	10.4	8.4	6.7	5.7
EMECO HOLDINGS LTD	4.4	5.3	7.2	5.0	4.4	2.9	2.9	3.4	2.9	2.7
FAMUR SA	16.3	16.6	21.9	12.0	9.2	5.3	7.9	11.3	6.3	5.1
INDUSTREA LTD	6.6	6.6	6.7	5.3	4.6	6.5	5.3	4.6	4.0	3.7
JOY GLOBAL INC	15.0	11.9	16.2	12.9	10.7	8.4	7.0	9.1	7.4	6.3
SANDVIK AB	12.9	-	19.6	13.0	10.2	8.1	35.3	10.1	7.8	6.8
Maximum	16.3	20.3	21.9	13.0	10.7	12.1	35.3	11.3	8.9	8.1
Minimum	4.4	5.3	6.7	5.0	4.4	2.9	2.9	3.4	2.9	2.7
Median	**14.0**	**12.4**	**13.8**	**11.6**	**9.2**	**8.1**	**7.9**	**9.1**	**6.7**	**5.7**
Kopex	15.0	16.1	17.4	12.4	10.2	7.1	8.4	7.7	6.4	5.6
Premium (discount)	6.2%	-29.5%	20.7%	-6.5%	10.0%	15.7%	12.8%	-23.7%	-6.8%	-2.3%
Implied value										
Median	14.0	12.4	13.8	11.6	9.2	8.1	7.9	9.1	6.7	5.7
Discount			20%	20%	20%			20%	20%	20%
Multiple weight				50%					50%	
Year weight			10%	50%	40%			10%	50%	40%
Equity value per share	14.92									

Source: BRE Bank Securities

A comparison of forecasted P/E and EV/EBITDA multiples showed that Kopex is valued higher than its peers on FY10 and FY12 P/E ratios, but lower on FY11 P/E. The company's forward EV/EBITDA ratios are lower than peer averages in all valuation years.
The per group is composed of Atlas Coco AB, Bucyrus INC, EMECO Holdings LTD, Famur, Industrea LTD, Joy Globay Inc, and Sandvik AB. Atlas Copco supplies coal mines with constructions and tools, including power tools. Its core products are electrical and pneumatic tools and mining constructions. Bucyrus delivers comprehensive mining solutions. Emeco is a provider of opencast mining equipment. Famur is Kopex's main rival in the home market, which specializes in mining equipment, lifting and loading equipment and metal casts. Joy Global offers services and solutions to both underground and opencast mines. Industrea markets mining machinery in China and Australia, but is also involved in paper production and supply of automated manufacturing solutions. Sandvik offers solutions to metal manufacturers and the mining industry.

DCF analysis

Model Assumptions

- Risk-free rate = 5.79% (based on yields on 10Y T-bonds).
- FCF growth rate after FY 2018 = 2.5%.
- Beta = 1.0.
- We assume that Kopex will pay dividends starting with profits for FY 2011.
- The valuation is based on net debt as at year-end 2009.
- Future revenues are discounted to their present value as at 1 June 2010.
- The valuation does not take into account the acquisition of Ryfama, which is subject to approval by the competition watchdog UOKiK.
- The valuation also does not include the PLN 110.8m compensation claims of Famur.
- We expect the market for mining machinery to revive in H2 2010, which should enable the Company to win new contracts for 2010 and 2011.
- We expect the PLN 180.5m contract from JSW for shaft construction and renovation at the "Zofiówka" mine will be recognized in the books starting in Q2 2010.
- In Q2 2010 we expect PLN 1m in operating expenses stemming from the restructuring of Tagor.

DCF Valuation Model

(PLN m)	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	+
Sales revenue	**2 448.7**	**2 547.3**	**2 606.4**	**2 751.5**	**2 838.6**	**2 901.6**	**2 966.7**	**3 063.8**	**3 174.2**	**3 252.7**	**3 333.3**
Change	5.8%	4.0%	2.3%	5.6%	3.2%	2.2%	2.2%	3.3%	3.6%	2.5%	2.5%
EBITDA	**232.2**	**265.5**	**293.1**	**303.7**	**312.5**	**321.0**	**329.7**	**339.4**	**348.3**	**357.2**	**355.5**
EBITDA margin	9.5%	10.4%	11.2%	11.0%	11.0%	11.1%	11.1%	11.1%	11.0%	11.0%	10.7%
D&A expenses	88.4	91.8	92.6	93.0	93.4	93.8	94.2	94.5	94.9	95.3	95.6
EBIT	**143.8**	**173.7**	**200.6**	**210.7**	**219.1**	**227.2**	**235.5**	**244.9**	**253.4**	**262.0**	**259.9**
EBIT margin	5.9%	6.8%	7.7%	7.7%	7.7%	7.8%	7.9%	8.0%	8.0%	8.1%	7.8%
Tax on EBIT	27.3	33.0	38.1	40.0	41.6	43.2	44.7	46.5	48.1	49.8	49.4
NOPLAT	**116.5**	**140.7**	**162.5**	**170.7**	**177.5**	**184.0**	**190.8**	**198.4**	**205.2**	**212.2**	**210.5**
CAPEX	-103.8	-100.1	-100.9	-101.4	-101.2	-101.1	-101.5	-102.0	-102.4	-102.8	-95.6
Working capital	-31.1	-20.0	-8.5	-35.6	-16.2	-8.1	-8.4	-17.7	-21.1	-10.9	-11.6
Other	-9.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	**60.9**	**112.4**	**145.7**	**126.6**	**153.4**	**168.6**	**175.0**	**173.2**	**176.7**	**193.8**	**198.9**
WACC	9.9%	10.1%	10.3%	10.3%	10.4%	10.4%	10.5%	10.5%	10.5%	10.6%	10.7%
discount factor	0.95	0.86	0.78	0.70	0.64	0.57	0.52	0.47	0.42	0.38	0.34
PV FCF	57.6	96.5	113.1	89.1	97.6	96.8	90.7	81.1	74.8	73.8	68.0

WACC	9.89%	10.11%	10.27%	10.31%	10.37%	10.44%	10.49%	10.52%	10.54%	10.59%	10.67%
Cost of debt	7.29%	7.29%	7.29%	7.29%	7.29%	7.29%	7.29%	7.29%	7.29%	7.29%	7.29%
Risk-free rate	5.79%	5.79%	5.79%	5.79%	5.79%	5.79%	5.79%	5.79%	5.79%	5.79%	5.79%
Risk premium	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Effective tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Net debt / EV	18.5%	13.9%	10.7%	9.9%	8.6%	7.2%	6.1%	5.6%	5.2%	4.1%	2.5%
Cost of equity	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%
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	2 433.7
Present value of the terminal value (PV TV)	927.2
Present value of FCF in the forecast horizon	871.2
Enterprise value (EV)	1 798.4
Net debt	360.8
Other non-operating assets	0.0
Minority interests	59.2
Equity value	1 378.4
Number of shares (millions)	74.3
Equity value per share (PLN)	**18.54**
Cost of equity (9M)	8.0%
Target price	**20.03**
EV/EBITDA for the target price	8.0
P/E('10) for the target price	18.5
TV to EV	51.6%

Sensitivity analysis

	FCF growth in perpetuity				
	0.0%	1.5%	2.5%	3.0%	5.0%
WACC +1.0pp	14.65	15.93	17.01	17.65	21.14
WACC +0.5pp	15.71	17.17	18.43	19.17	23.35
WACC	16.87	18.56	**20.03**	20.90	25.96
WACC -0.5pp	18.15	20.10	21.83	22.88	29.07
WACC 1.0PP	19.56	21.84	23.89	25.15	32.85

Income Statement

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F
Sales revenue	**1 290.2**	**1 982.6**	**2 313.4**	**2 448.7**	**2 547.3**	**2 606.4**	**2 751.5**	**2 838.6**	**2 901.6**
Change	54.8%	53.7%	16.7%	5.8%	4.0%	2.3%	5.6%	3.2%	2.2%
Mining services	127.7	189.7	202.4	257.1	272.5	280.7	289.1	297.8	306.7
Underground mining machinery	639.2	603.5	818.2	781.4	836.1	861.2	887.0	913.7	941.1
Opencast mining machinery	54.3	84.9	56.1	56.6	57.2	57.8	58.3	58.9	59.5
Manufacturing machinery	38.4	50.3	44.5	45.8	48.1	50.1	51.6	53.1	54.7
Electric and electronic machinery	34.4	245.8	252.8	240.2	252.2	262.3	270.1	278.2	286.6
Electricity sales	196.3	523.6	733.9	788.5	870.2	879.1	975.8	1 013.1	1 024.8
Coal sales	47.5	59.9	40.8	114.4	42.9	44.2	45.5	46.9	48.3
Metal Casting	11.1	26.2	13.7	19.8	21.0	21.8	22.5	23.2	23.9
COGS	**1 076.9**	**1 638.8**	**1 954.6**	**2 059.3**	**2 145.1**	**2 171.9**	**2 302.4**	**2 376.4**	**2 426.7**
G&A expenses	94.8	152.9	173.9	179.0	183.5	187.9	191.7	195.5	199.4
Selling costs	44.1	30.5	44.9	47.2	48.6	49.5	50.2	51.0	51.8
Other net operating income	31.3	9.4	5.3	-19.5	3.5	3.5	3.5	3.5	3.5
EBIT	**105.7**	**174.9**	**145.3**	**143.8**	**173.7**	**200.6**	**210.7**	**219.1**	**227.2**
Change	20.7%	65.4%	-16.9%	-1.1%	20.8%	15.5%	5.1%	4.0%	3.7%
EBIT margin	8.2%	8.8%	6.3%	5.9%	6.8%	7.7%	7.7%	7.7%	7.8%
Profit/loss on financial activity	528.8	-40.3	-43.5	-35.7	-24.8	-21.7	-20.2	-19.5	-18.5
Extraordinary gains/losses	0.0	0.0	-7.4	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
Gross profit	**634.5**	**129.8**	**109.7**	**108.1**	**148.8**	**178.8**	**190.5**	**199.6**	**208.6**
Tax	118.5	30.2	12.7	20.5	28.3	34.0	36.2	37.9	39.6
Minority interests	-16.1	-14.3	9.4	7.0	7.0	7.0	7.0	7.0	7.0
Net income	**500.7**	**85.4**	**87.2**	**80.6**	**113.6**	**137.8**	**147.3**	**154.7**	**162.0**
Change	679.0%	-82.9%	2.1%	-7.6%	40.9%	21.4%	6.9%	5.0%	4.7%
Margin	38.8%	4.3%	3.8%	3.3%	4.5%	5.3%	5.4%	5.5%	5.6%

D&A expenses	42.3	61.1	71.7	88.4	91.8	92.6	93.0	93.4	93.8
EBITDA	**148.0**	**236.0**	**217.1**	**232.2**	**265.5**	**293.1**	**303.7**	**312.5**	**321.0**
Change	17.0%	59.5%	-8.0%	7.0%	14.4%	10.4%	3.6%	2.9%	2.7%
EBITDA margin	11.5%	11.9%	9.4%	9.5%	10.4%	11.2%	11.0%	11.0%	11.1%

Shares at year-end (millions)	67.6	67.6	74.3	74.3	74.3	74.3	74.3	74.3	74.3
EPS	7.4	1.3	1.2	1.1	1.5	1.9	2.0	2.1	2.2
CEPS	8.0	2.2	2.1	2.3	2.8	3.1	3.2	3.3	3.4

ROAE	25.3%	4.1%	3.6%	3.2%	4.4%	5.1%	5.4%	5.6%	5.7%
ROAA	19.2%	2.6%	2.5%	2.3%	3.1%	3.6%	3.8%	3.9%	4.1%

Balance Sheet

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F
ASSETS	**2 601.9**	**3 228.0**	**3 447.9**	**3 559.1**	**3 696.9**	**3 783.2**	**3 867.1**	**3 928.0**	**3 978.4**
Fixed assets	**1 620.2**	**1 853.0**	**2 060.0**	**2 075.5**	**2 083.7**	**2 092.1**	**2 100.5**	**2 108.3**	**2 115.6**
Intangible assets	1 146.8	37.0	45.0	45.5	46.0	46.4	46.9	47.3	47.8
Property, plant and equipment	415.9	561.7	633.3	648.3	656.1	663.9	671.9	679.3	686.1
Equity value	0.0	1 176.9	1 195.5	1 195.5	1 195.5	1 195.5	1 195.5	1 195.5	1 195.5
Long-term receivables	3.7	15.7	110.7	110.7	110.7	110.7	110.7	110.7	110.7
Long-term investments	29.8	17.1	17.9	17.9	17.9	17.9	17.9	17.9	17.9
Long-term prepayments	24.1	45.2	57.5	57.5	57.5	57.5	57.5	57.5	57.5
Current assets	**981.7**	**1 365.0**	**1 387.9**	**1 483.6**	**1 613.2**	**1 691.1**	**1 766.6**	**1 819.6**	**1 862.8**
Inventories	332.2	510.4	475.6	494.0	506.4	512.6	535.5	546.6	552.7
Short-term receivables	441.8	497.6	474.8	497.9	512.9	519.7	543.4	555.2	562.0
Trade debtors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term investment	28.7	135.0	64.9	64.9	64.9	64.9	64.9	64.9	64.9
Cash	149.4	164.1	143.7	184.7	277.0	336.1	350.6	372.2	396.2
Short-term prepayments	29.6	184.9	228.8	242.1	251.9	257.7	272.1	280.7	286.9

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F
LIABILITIES	**2 601.9**	**3 228.0**	**3 447.9**	**3 559.1**	**3 696.9**	**3 783.2**	**3 867.1**	**3 928.0**	**3 978.4**
Equity	**1 976.6**	**2 095.0**	**2 397.4**	**2 485.0**	**2 605.5**	**2 681.5**	**2 740.0**	**2 785.7**	**2 825.1**
Share capital	67.6	67.6	74.3	74.3	74.3	74.3	74.3	74.3	74.3
Supplementary capital	1 412.4	1 848.7	2 083.6	2 083.6	2 083.6	2 083.6	2 083.6	2 083.6	2 083.6
Retained profits	-3.4	77.4	63.7	144.2	257.8	326.7	378.3	417.0	449.4
Minority interests	73.8	63.2	59.2	59.2	59.2	59.2	59.2	59.2	59.2
Long-term liabilities	**14.9**	**141.6**	**215.0**	**215.0**	**215.0**	**215.0**	**215.0**	**215.0**	**215.0**
Debt	14.9	136.8	206.1	206.1	206.1	206.1	206.1	206.1	206.1
Short-term liabilities	**451.6**	**855.4**	**670.5**	**692.3**	**708.2**	**717.7**	**741.0**	**755.0**	**765.2**
Trade creditors	249.5	445.0	372.2	393.9	409.8	419.3	442.6	456.6	466.8
Debt	202.1	323.9	298.4	298.4	298.4	298.4	298.4	298.4	298.4
Provisions for payables	79.4	85.4	73.6	73.6	73.6	73.6	73.6	73.6	73.6
Other	5.7	137.2	32.2	34.0	35.4	36.2	38.2	39.5	40.3

Debt	217.0	460.7	504.5	504.5	504.5	504.5	504.5	504.5	504.5
Net debt	67.6	296.5	360.8	319.7	227.4	168.3	153.8	132.2	108.2
(Net debt / Equity)	3.4%	14.2%	15.0%	12.9%	8.7%	6.3%	5.6%	4.7%	3.8%
(Net debt / EBITDA)	0.5	1.3	1.7	1.4	0.9	0.6	0.5	0.4	0.3
BVPS	29.2	30.1	32.3	33.4	35.1	36.1	36.9	37.5	38.0

Cash Flows

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F
Cash flows from operating activities	**-266.0**	**52.8**	**34.0**	**171.5**	**217.2**	**250.7**	**231.9**	**258.4**	**273.2**
Net income	500.7	85.4	87.2	80.6	113.6	137.8	147.3	154.7	162.0
D&A expenses	42.3	61.1	71.7	88.4	91.8	92.6	93.0	93.4	93.8
Working capital	-435.3	-164.4	-148.0	-31.1	-20.0	-8.5	-35.6	-16.2	-8.1
Other	-373.8	70.7	23.1	33.6	31.8	28.7	27.2	26.5	25.5
Cash flows from investing activities	**395.70**	**-260.98**	**-203.86**	**-103.84**	**-100.05**	**-100.91**	**-101.41**	**-101.25**	**-101.07**
CAPEX	-113.29	-157.76	-169.97	-103.84	-100.05	-100.91	-101.41	-101.25	-101.07
Equity investments	508.99	-103.23	69.19	0.00	0.00	0.00	0.00	0.00	0.00
Cash flows from financing activities	**-15.2**	**219.1**	**150.9**	**-26.6**	**-24.8**	**-90.7**	**-116.0**	**-135.5**	**-148.1**
Debt	0.3	234.2	12.4	-34.3	-34.3	-34.3	-34.3	-34.3	-34.3
Dividends/share buy-back	0.0	-0.4	157.5	0.0	0.0	-68.9	-95.7	-116.0	-129.6
Other	-15.5	-14.7	-19.0	7.7	9.5	12.6	14.1	14.8	15.8
Change in cash	**114.5**	**10.8**	**-19.0**	**41.1**	**92.3**	**59.1**	**14.5**	**21.6**	**24.0**
Cash at end of period	149.4	164.1	143.7	184.7	277.0	336.1	350.6	372.2	396.2
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0.9	1.3	1.6	1.7
FCF	-420.6	-119.4	-122.4	60.9	112.4	145.7	126.6	153.4	168.6
(CAPEX / Sales)	-8.8%	-8.0%	-7.3%	-4.2%	-3.9%	-3.9%	-3.7%	-3.6%	-3.5%

Market multiples

	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F
P/E	2.6	15.0	16.1	17.4	12.4	10.2	9.5	9.1	8.7
P/CE	2.4	8.7	8.8	8.3	6.8	6.1	5.8	5.7	5.5
P/BV	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5
P/S	1.0	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5
FCF/EV	-31.3%	-7.6%	-6.9%	3.5%	6.9%	9.3%	8.1%	10.0%	11.1%
EV/EBITDA	9.6	7.1	8.4	7.7	6.4	5.6	5.3	5.1	4.9
EV/EBIT	13.4	9.6	12.6	12.4	9.7	8.1	7.7	7.3	6.9
EV/S	1.1	0.8	0.8	0.7	0.7	0.6	0.6	0.6	0.5
DYield	0.00%	0.00%	0.00%	0.00%	0.00%	4.91%	6.81%	8.26%	9.22%
Price (PLN)	18.90	18.90	18.90	18.90	18.90	18.90	18.90	18.90	18.90
Shares at year-end (millions)	67.6	67.6	74.3	74.3	74.3	74.3	74.3	74.3	74.3
MC (PLN m)	1 278.3	1 278.3	1 404.9	1 404.9	1 404.9	1 404.9	1 404.9	1 404.9	1 404.9
Equity attributable to minority shareholders (PLN m)	73.8	63.2	59.2	59.2	59.2	59.2	59.2	59.2	59.2
EV (PLN m)	1 419.6	1 637.9	1 824.8	1 783.8	1 691.5	1 632.4	1 617.9	1 596.3	1 572.3

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 Onyszczuk tel. (+48 22) 697 49 63
emil.onyszczuk@dibre.com.pl

Grzegorz Stępien 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 Rożmiej tel. (+48 22) 697 48 64
michal.rozmiej@dibre.com.pl

Jakub Słotkowicz tel. (+48 22) 697 48 64
jakub.slotkowicz@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.

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 Kopex

Rating	Reduce	Reduce	Hold
Date issued	2010-02-04	2010-03-08	2010-04-07
Price on rating day	25.35	23.26	22.50
WIG on rating day	40118.73	40354.28	43562.01