

19 March 2010

Special comment



Home appliances

Poland

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

# Amica

AMIW.WA; AMC.PW

## Opportunity for Higher Margins

**Current price: PLN 39.30**

The sale of clothes washer and refrigerator factories to Samsung, scheduled for the end of March, is an opportunity to reach a higher level of profitability. The Company was unable to increase washer and refrigerator sales volumes to a level that would guarantee appropriate capacity utilization and a satisfactory return on this business, due high depreciation charges (39.4% of total, due to the size of production halls and the fact that technologically advanced equipment is used in them). Amica will get PLN 204.5m for the factories. It will continue to sell washers and refrigerators under its own brand. Until March 2011, Samsung will continue to supply it with these appliances (200-250k per year, at pre-agreed prices). Afterwards, Amica will decide whether to agree to new prices proposed by Samsung, find a new contractor or perhaps outsource production to Turkey or another country with cheap labor force. The Company might also cooperate with Samsung with respect to cookers and ovens. Amica will use the proceeds of the sale to repay a big portion of its debt (reducing it from PLN 258m now to PLN 77m at the end of 2010), improve foreign distribution channels and possibly cooker and oven production capacity. Its investment budget for 2010 will not exceed last year's, however (PLN 25m). The CEO said that 962,227 shares, representing 11% of the total stock, will be cancelled this year. In addition, a dividend payment from FY 2010 profits is a possibility and the Company is going to sell two properties for PLN 56m (at close to book value). According to our estimates, Amica is currently trading at a FY11 P/E of 7.9 and EV/EBITDA of 4.3. Its current market cap is PLN 343.4m.

### Fourth-Quarter Results

In the fourth quarter of 2009, sales were 20% higher than in Q4'08, reaching PLN 371.0m. In FY 2009, sales increased the fastest in the case of washers (+69.6% y/y), which was attained despite the decline in demand (overall, the market for washers, refrigerators and small appliances increased by a mere 0.8% y/y). Demand in Poland increased the most for built-in appliances, including dishwashers (+11.1% y/y), cookers (+10.4% y/y), refrigerators (+5% y/y) and oven hoods (+0.9% y/y). The situation was not as good for freestanding cookers (-13.0% y/y), washers (-1.4% y/y) and refrigerators (-2.6% y/y). High washer and refrigerator sales allowed Amica to attain a 14.5% market share in large household appliances. Cookers performed the worst as far as sales growth is concerned (-11.5% y/y) but still outperformed the market, which allowed Amica to increase its market share in the segment by 4pp. Most exports went to Western European countries (PLN 50.6m more than in 2008). Sales to Northern Europe increased as well (+PLN 22.7m), as did exports to Southern Europe and the UK (by PLN 28m). In this geographical segment, sales to the UK stand out (+130% y/y). The eastern market looked the worst (-PLN 88m due to the deep crisis in Russia and Ukraine as well as the depreciation of their currencies). In FY 2009, the Company introduced a number of cost-cutting measures, in particular in payroll, marketing and administrative expenses. All in all, SG&A expenses fell by PLN 3.8m, which boosted operating return by 0.9pp. At the finance level, the Company recognized hedging losses of PLN 17m due to lower-than-expected exports. The bottom line figured to PLN 5.2m (+58.4% y/y).

### Abbreviated income statement for Q4 2009

(PLN m)	Q4 2008	Q4 2009	Change	2008	2009	Change
Revenues	309.3	371.0	20.0%	1 236.5	1 316.8	6.5%
Cookers				726.4	643.0	-11.5%
Refrigerators				166.9	171.6	2.8%
Washers				76.5	129.7	69.6%
Small appliances				204.6	314.8	53.9%
Materials and services				62.0	57.8	-6.9%
EBIT	3.1	16.6	429.7%	28.0	41.9	49.7%
EBIT margin	1.0%	4.5%		2.3%	3.2%	
EBITDA	16.5	26.8	62.6%	71.0	82.9	16.8%
EBITDA margin	5.3%	7.2%		5.7%	6.3%	
Net income	-10.8	6.0		3.3	5.2	58.4%

Source: BRE Bank Securities

The most profitable segment in 2009 were cookers and ovens, with gross margins of 25.7%. Washers and refrigerators continued to generate losses due to unsatisfactory volumes. Another problem was the high depreciation (large production

Dom Inwestycyjny BRE Banku nie wyklucza złożenia emitentowi papierów wartościowych, będących przedmiotem rekomendacji oferty świadczenia usług maklerskich. Informacje o konflikcie interesów powstałym w związku ze sporządzeniem rekomendacji (o ile występuje) znajdują się na ostatniej stronie niniejszego komentarza.

halls, very modern machinery). A high gross margin was also attained in the small appliances segment (18.8%).

### Return by segment in 2009

(PLN m)	Cookers	Refrigerators	Washers	Other	Materials and services
Gross profit	165.0	-4.7	-8.6	59.2	7.8
Gross profit margin	25.7%	-2.7%	-6.6%	18.8%	13.5%
Amortization and depreciation	7.7	14.4	10.4		

Source: BRE Bank Securities

### Sale of washer and refrigerator factories

The Company signed an agreement for the sale of its washer and refrigerator factories to Samsung Electronics Poland Manufacturing for PLN 204.5m (book value: PLN 203.4m). In addition, the buyer will buy the factories' inventories at book value (PLN 30-40m). Samsung will manufacture washers and refrigerators for Amica at pre-agreed prices through the end of March 2011 (200-250k). In August 2010, the parties will negotiate the conditions for further cooperation in this respect. If, however, Samsung's financial expectations turn out to be overly high, Amica might move production to Turkey or another European country. At present, the Management is studying such a solution. It has promised that the quality of the equipment will not suffer due to outsourcing. We can expect costs to decrease thanks to Samsung's experience and the likely increase in capacity utilization at the plants it is taking over. The Management hopes that the transaction will allow it to increase the return on net sales in these segments by up to 15%, though reaching this level will take time. Samsung, for its part, is taking over factories with underutilized capacity, which will continue to produce for the seller (which provides an additional guarantee of the quality of the purchased plant). Shareholders of Amica have already approved the transaction. The Management does not preclude further cooperation with Samsung, all the more so that its experience with cookers — a kitchen appliance of crucial importance — may be of help to Samsung in the expansion of its own product offer. If both parties were to benefit from it, Amica's products could be positioned alongside Samsung's.

The sale of the plants will lower expenses starting in April, with depreciation declining by PLN 24.8m. It will, however, generate one-off expenses, estimated at PLN 17-20m. The Company is planning to use the PLN 204.5m cash it will receive for the plants to pay off a considerable portion of its debt. The Management forecasts the Company's debt at the end of 2010 at PLN 77m (net debt = PLN 40m). In the coming years, this will lead to a reduction in interest payments. The Company is also planning to use these funds to further develop sales channels for exports and for future expansion of its cooker and oven plant in Wronki (ca. PLN 30-50m). When the latter project is pursued depends on how fast demand will recover in Central and Eastern Europe. At present, the plant produces 2800 appliances per day, and full capacity is estimated at 3400. FY 2010 CAPEX will be close to its level from the recent years.

### Share Cancellation, Dividends

The Management is going to cancel 962,227 treasury shares (11% of the total stock). The previous share cancellation resolution (236,786) will be voided and all treasury shares held will be cancelled. A dividend payment for 2010 is a possibility. The decision will come after the publication of the 2010-2012 strategy.

### Property Earmarked for Sale

The Company is planning to sell two properties not used for operations. One of them is the Panorama shopping mall in Gorzów Wielkopolski. The mall, and the entity that controls it, were bought in a bailiff auction in exchange for unpaid debt. The market value of the property is ca. PLN 50m, the same as in Amica's book. Minor investment (PLN 3-4m) to boost the value of the property is a possibility (at present, there are vacancies in the mall). The other property for sale is a boiler house in Wronki (PLN 4.2m book value, could be sold for ca. PLN 6m).

### Earnings Forecast

We have based our earnings forecast for 2010 and 2011 on the following assumptions:

- 5% revenue growth in 2010 and 3% in 2009;
- depreciation will fall after 1 April 2010 from PLN 41.0m (2009) to PLN 16.2m;
- selling costs will increase by PLN 10m in 2010 (delayed promotional expenses);
- we expect additional operating expenses of PLN 20m in 2010 due to the sale of factories to Samsung (PLN 6m in the income statement);
- between April 2010 and December 2011, the Company will sell washers and refrigerators on terms that will allow the two segments to generate gross margins of 0% (vs. -2.7% and -6.6%, respectively);
- debt will fall from PLN 258m in 2009 to PLN 77m in 2010 and PLN 40m in 2011;
- in 2010, the Company will cancel 962,277 shares.

**Estimated impact of the sale of washer and refrigerator plants on Amica's results in 2009, 2010 and 2011**

<b>(PLN m)</b>	<b>2009</b>	<b>2010F</b>	<b>2011F</b>
Revenues	1316.8	1382.7	1424.1
Gross profit	306.1	318.0	337.5
<i>Gross profit margin</i>	23.2%	23.0%	23.7%
G&A expenses	148.3	149.0	150.0
Selling expenses	118.5	130.0	130.0
Other operating income and expenses	-2.6	-9.0	-5.0
EBIT	41.9	30.0	52.5
<i>EBIT margin</i>	3.2%	2.2%	3.7%
Other finance income and expenses	-31.7	-8.7	-4.6
Inc. interest expense	24.4	7.7	3.6
Pre-tax profit	10.2	24.2	47.9
Net income	5.2	19.6	38.8
Debt	258.0	77.0	40.0
Cash	44.6	50.0	50.0
Net debt	213.4	27.0	-10.0
Amortization and depreciation	41.0	16.2	16.2
<b>Price</b>	<b>39.3</b>	<b>39.3</b>	<b>39.3</b>
Number of shares	8.7	7.8	7.8
EPS	0.6	2.5	5.0
P/E	66.5	15.6	7.9
EV/EBITDA	6.7	7.2	4.3
P/E (post divestment)	66.5	14.5	7.6
EV/EBITDA (post divestment)	6.0	6.0	3.5

Source: BRE Bank Securities

Michał Marczak tel. (+48 22) 697 47 38  
Managing Director  
Head of Research  
[michal.marczak@dibre.com.pl](mailto: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](mailto:marta.jezewska@dibre.com.pl)  
Banks

**Analysts:**

Kamil Kliszcz tel. (+48 22) 697 47 06  
[kamil.klischcz@dibre.com.pl](mailto:kamil.klischcz@dibre.com.pl)  
Fuels, Chemicals, Energy, Retail

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

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

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

**Sales and Trading:**

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

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

**Traders:**

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

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

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

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

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

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

**"Private Broker"**

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

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

Dom Inwestycyjny  
BRE Banku S.A.  
ul. Wspólna 47/49  
00-950 Warszawa  
[www.dibre.com.pl](http://www.dibre.com.pl)

**List of abbreviations and ratios contained in the report.**

**EV** – net debt + market value (EV – economic value)

**EBIT** – Earnings Before Interest and Taxes

**EBITDA** – EBIT + Depreciation and Amortisation

**PBA** – Profit on Banking Activity

**P/CE** – price to earnings with amortisation

**MC/S** – market capitalisation to sales

**EBIT/EV** – operating profit to economic value

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

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

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

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

**EBITDA margin** – EBITDA/Sales

**Recommendations of BRE Bank Securities S.A.**

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.

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.

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.

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.

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.

BRE Bank Securities S.A., its shareholders and employees may hold long or short positions in the issuers' shares or other financial instruments related to the issuers' 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.

The activity of BRE Bank Securities S.A. is subject to the supervision of the Polish Financial Supervision Commission.

BRE Bank Securities S.A. serves as animator in relation to the shares of the following companies: Certyfikaty Skarbiec Nieruchomości, Erbud, Es-System, LW Bogdanka, Macrologic, Magellan, Mieszko, Mondí, Nepentes, Pemug, Polimex-Mostostal, Torfarm.

BRE Bank Securities S.A. receives remuneration from issuers for services rendered to the following companies: Agora, Ambra, Arkus, Bakalland, BRE Bank, Deutsche Bank, DZ Bank Polska, Elektrobudowa, Elzab, Ergoapaparatura, Erbud, Es-System, Farmacol, Ferrum, Fortis Bank, GTC, Interagroclin Auto, Koelner, Komputronik, LW Bogdanka, Magellan, Mennica, Mercor, Mieszko, Mostostal Warszawa, Nepentes, Odratrans, Pemug, PGF, PGNiG, Polimex-Mostostal, Polmos Lublin, Polnord, Prokom Software, Seco Warwick, Sfinks, Sokołów, Sygnity, Techmex, Torfarm, Unibep, WSiP, ZA Puławy.

In the last 12 months BRE Bank Securities S.A. has been an offering agent of the issuer's shares in a public offering for the following companies: Centrum Klimat, LW Bogdanka.

Asseco Poland provides IT services to BRE Bank Securities.

Individuals who did not participate in the preparation of recommendations, but had or could have had access to recommendations prior to their 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 recommendations.

**Strong and weak points of valuation methods used in recommendations:**

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

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