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Special comment

**Construction**

Poland

Budimex

BMEX.WA; BDX.PW

Accumulate

(Reiterated)

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Q4 2009 Figures Depressed By Provisions (Again)

Current price: PLN 90.7; Target price PLN 82.5

After a preliminary earnings announcement in mid-February, Budimex has just released a full FY2009 report showing a PLN 62.4m increase in contract provisions made in Q4 2009. If it had not been for these charges, the quarter's EBIT would have been PLN 112.7m, and net profit would have amounted to PLN 98m. Moreover, Budimex reported a large cash position totaling PLN 1.13bn, in spite of the costs incurred on the acquisition of Budimex Nieruchomości. The Q409 operating cash flow was an impressive PLN 652.4m. The strong cash flows were in line with the company's earlier announcements about expected advance payments toward road contracts and reductions in accounts receivable. Budimex is not able to maintain such a huge cash hoard in the long term because its major portion are payments due to subcontractors and suppliers. Hence, we expect the company to report negative cash flows in future quarters, and that is why we are against the planned payout of 100% of 2010 earnings as dividends (PLN 173.7m total, yield = 7.7%) which, we believe, will significantly hamper the growth of its real-estate business. We are planning revisions to our financial forecasts for Budimex. Moreover, we might have to downgrade the stock from its current accumulate status after the recent rally ahead of our price target.

On in-line revenues, Budimex generated a lower-than-expected gross margin (12.4% expected vs. 9.4% reported) weighed down by PLN 62.4m provisions for potential contract losses (the adjusted gross margin figures to 17.4%). A Q409 earnings breakdown by business segment reveals a surprisingly strong gross margin generated by the real-estate business (48.7% reported vs. 26% forecasted), most probably owed to high-priced flat sales in the "Inflancka" project in Warsaw.

SG&A expenses amounted to PLN 37.6m, less than our PLN 47.3m estimate (and on a par with Q309 expenses of PLN 37.8m). The lack of seasonal quarter-on-quarter expansion in SG&A expenses was a surprise – we cannot rule out an error in our Q409 estimations based on the full-year report. In 3Q09, the company booked intercompany eliminations in the amount of PLN 4.5m under SG&A expenses.

A 2009 fourth-quarter net financial income of PLN 3.4m beat our forecast of PLN 0.5m expenses. Budimex incurred a PLN 10.3m loss on derivatives valuations (in line with our PLN 10.2m estimate).

A lower-than-expected EBIT figure was offset by stronger-than-expected other net financial income in the amount of PLN 13.7m (we predicted PLN 3.0m), achieved thanks to a lack of negative exchange differences (vs. our PLN 5.1m forecast), and to higher-than-expected interest income. The Q409 effective tax rate was 24.4%, and the bottom-line income came in at PLN 47.7m (we expected PLN 48.9m). All in all, Budimex made a solid Q4 2009 showing.

Q409 actuals vs. forecasts

(PLN m)	Q4 2009	Q4 2009F	difference	consensus estimates	difference	Q4 2009 ex provisions	Q4 2009F ex provisions	difference
Revenue	785.7	782.0	0.5%	851.0	-7.7%	785.7	782.0	0.5%
Gross profit	74.2	97.0	-23.4%	-	-	136.7	97.0	41.0%
Gross margin	9.4%	12.4%	-	-	-	17.4%	12.4%	-
EBIT	50.3	58.1	-13.4%	51.4	-2.1%	112.7	58.1	94.2%
EBIT margin	6.4%	7.4%	-	6.0%	-	14.3%	7.4%	-
Pre-tax income	63.2	61.1	3.5%	-	-	125.7	61.1	105.8%
Pre-tax margin	8.0%	7.8%	-	-	-	16.0%	7.8%	-
Net income	47.7	48.9	-2.4%	43.5	9.6%	98.3	48.9	101.1%
Net margin	6.1%	6.2%	-	5.1%	-	12.5%	6.2%	-

Source: Budimex, F - forecasts by BRE Bank Securities, Consensus estimates by PAP

**Q4 2009 earnings by business segment**

(thousands of zlotys)	Q4 2009F	Q4 2009
Construction		
Revenue	700 000	713 527
Gross profit	81 200	64 922
Gross margin	11.6%	9.1%
Real-Estate		
Revenue	50 000	32 068
Gross profit	13 000	15 609
Gross margin	26.0%	48.7%
Other		
Revenue	32 000	41 759
Gross profit	2 496	-6 293
Gross margin	7.8%	-15.1%

Source: Budimex, F - forecasts by BRE Bank Securities



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List of abbreviations and ratios contained in the report.

EV – net debt + market value (EV – economic value)
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
PBA – Profit on Banking Activity
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

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