

16 March 2010

Special comment

**Building Materials**

Poland

Centrum Klima

Buy

CKLM.WA; CKL.PW

(Reiterated)

Maciej Stokłosa
 (48 22) 697 47 41
 maciej.stoklosa@dibre.com.pl

Q1 2010 Results Fall Somewhat Short

Current price: PLN 12.5. Target price: 15.1

Centrum Klima (CKL) reported slightly weaker-than-expected Q1 2010 results, particularly in terms of profit margins which were kept low by a lag between raw-material (steel) and end-product price prices, ranging between one and three months depending on the customer. We expect this effect to diminish in Q2, and disappear by Q3. We were impressed with CKL's ability to maintain steady revenues during a period when the aggregate construction output was down 10.8% y/y. We consider this a sign that, once the building industry recovers, the company's will be reporting stronger-than-expected revenue growth. The lower-than-forecasted first-quarter figures did not prompt revisions in our full-year estimates for CKL. The company wants to spend PLN 10m on acquisitions aimed at expanding the distribution network, expected to be priced at double-digit discounts. The first takeover could take place in Q3 2010. We are reiterating a buy rating on CKL.

Centum Klima's first-quarter revenue was only 2% lower than expected and virtually the same as in Q1 2009. In the mean time, the overall construction output in Poland was down 10.8%, depressing the first-quarter revenues of many other companies that cater to the building industry (e.g. ES System). The reason behind the slight shortage in CKL's reported revenue was the segment of Distribution (PLN 12.3m reported vs. PLN 12.7m forecasted), since the Production segment booked in-line revenues of PLN 4.7m. The gross profit fell short of expectations at PLN 4.2m (gross margin was 24.9% vs. our estimate of 26.2% and 27.8% reported in Q109), but we do not know which segment was responsible for this gap since CKL did not provide a segmental breakdown.

SG&A expenses amounted to PLN 2.92m (in line), other net operating expenses were PLN 0.17m (vs. PLN 0.04m forecasted), and other financial income totaled PLN 0.11m (we expected PLN 0.13m). After an in-line tax, the Q1 2010 bottom line missed the mark by 7.8%.

Reported vs. forecasted Q1 2010 results

(PLN m)	Q1 2010	Q1 2010F	differ.	Q1 2009	change
Revenues	17.05	17.40	-2.00%	17.06	-0.04%
Gross profit	4.25	4.56	-6.77%	4.74	-10.40%
Gross margin	24.9%	26.2%	-	27.8%	-
EBIT	1.50	1.62	-7.15%	2.02	-25.67%
EBIT margin	8.8%	9.3%	-	11.8%	-
Pre-tax income	1.61	1.74	-7.39%	1.55	4.20%
Net income	1.30	1.41	-7.83%	1.26	3.25%
Net margin	7.6%	8.1%	-	7.4%	-

Source: BRE Bank Securities, Centrum Klima

Acquisition Plans

Centrum Klima is looking for acquisition targets among other distributors based in other regions of Poland, with a view to expanding its reach. The M&A budget is PLN 10m, and the company expects the deals to be made at double-digit discounts. We think that this is a smart plan and a good use of CKL's liquidity surplus. Moreover, price discounts could add to the company's stock value.

Production Expands According To Plan

CKL is expanding its production capacity in line with our predictions. In Q1 2010, the company added a second shift at its facilities, and recorded an increase in sheet-metal plate usage (+11% q/q and 37.6% y/y). Further, sales of CKL's own products were 5.8% higher than in Q409 and 21.5% higher than in the first quarter of 2009. Last but not least, the company has seen a three-fold surge in orders from Western European customers.



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.klischcz@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

"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 (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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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%

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