



Manufacturers

Poland

Impexmetal

Buy

IPX PW; IMME.WA

(Reiterated)

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Results for Q2 2011

Current price: PLN 3.97; Target price: PLN 6.3

Impexmetal's Q2'11 sales amounted to PLN 740.7m, 16.7% more than we expected. Sales volumes amounted to 47.9 kt (+3.9% y/y). In spite of high copper prices, WM Dziedzice and Hutmen both recorded sales ahead of our expectations (by 49.4% and 15.7%, respectively). The operating profit amounted to PLN 49.6m, beating our expectations by 50.9%. Among subsidiaries, there was a clear surprise in the copper segment (with an EBIT of PLN 6.6m vs. PLN 0.4m expected) and at Baterpol (PLN 13.4m vs. PLN 7.5m expected). The bottom line amounted to PLN 34.4m, beating our expectations by 51.5%. After the first half of the year, our revenue forecast has been met at 55.3%, our EBITDA projection at 57.6% and our net profit forecast at 63.5%. Speaking at a press conference, CEO Szeliga said that even if the situation in the market were to deteriorate in the second half of the year, a net profit in excess of PLN 90m should be easily attainable (our forecast is PLN 103.4m). At the current share price, Impexmetal is trading at a P/E of 7.7 and EV/EBITDA of 5.7, with a 10.5% discount to peers on the former. The Company is cheaper than Kęty (9.0 P/E), has a lower net debt / EBITDA ratio (1.66x vs. Kęty's 1.76x) and higher barriers to entry (a rolling mill is an investment of several hundred million zloty vs. several million zloty for a simple press). It is also worth noting that Impexmetal generated strong operating cash flows in Q2'11 (PLN 47.8m). For comparison, in Q2'11 Kęty generated negative cash flows from operations (-PLN 5m). Due to the recent depreciation, the Management has decided to launch the buyback program, which was approved in February and which is capped at 20% of equity and has a price range of PLN 2-8 per share. The first tranche encompasses 500k shares. The Company is currently trading with a 59% upside to our target price. We are reiterating a buy rating.

Sales revenues amounted to PLN 740.7m in Q2'11, i.e. 16.7% more than we had expected. The following companies saw higher-than-forecasted revenues: WM Dziedzice (+49.4% vs. our forecast, +18.5% for volumes), F&T Polska (+27.3% vs. our forecast), Hutmen (+15.7% vs. our forecast, +8.6% for volumes) and Baterpol (+14.1% vs. our forecast, +6.4% for volumes). Sales decreased slightly only at Huta Aluminium Konin (-0.3% y/y, -3.9% for volumes). It is worth noting that despite the rapid increase in copper prices on global exchanges, both Hutmen and WM Dziedzice managed to increase sales volumes. Even though the low season for lead sales began in Q2'11, Baterpol's volumes declined by just 1.2% vs. Q1'11. The difference between the sales volumes of aluminum sheets in Q1'11 and Q2'11 was slight at -3.4%.

The operating profit amounted to PLN 49.6m, beating our expectations by 50.9%. Baterpol's EBIT was clearly stronger than we expected (PLN 13.4m, +78.7% vs. our forecast). It managed to record a 12.9% q/q improvement despite a 1.2% q/q decline in volumes. Copper processors recorded very satisfactory earnings, with Hutmen posting an EBIT of PLN 2.8m (vs. our PLN 0.5m forecast) and WM Dziedzice PLN 3.8m (vs. our -PLN 0.1m forecast). In H1 as a whole, Hutmen saw its processing margin increase by 24% y/y, and its technical processing costs fall by 7% y/y. In the case of WM Dziedzice, profitability increased in the first half of the year thanks to declining material prices and rising sales margins. HA Konin recorded standalone earnings of PLN 32.4m, thanks in part to dividends from its subsidiaries (PLN 12.9m). Had it not been for dividends, its standalone EBIT would have amounted to PLN 19.5m vs. our PLN 19.0m forecast.

Other operations generated an income of PLN 1.1m, and financing expenses amounted to PLN 2.9m (including -PLN 1.4m in net interest expenses and -PLN 0.2m in foreign-exchange losses).

The net profit amounted to PLN 34.4m, beating our expectations by 51.5%. Minority losses amounted to -PLN 0.15m, and the loss on discontinued activities was -PLN 3.6m.

Reported vs. forecasted Q1 2011 results

(PLN m)	2Q2011F	difference	2Q2011	change	2Q2010	1H2011F	1H2011	change	2011F	2010	change
Revenue	635.0	16.7%	740.7	24.6%	594.6	1 354.4	1 460.1	7.8%	2 638.3	2 417.6	12.5%
EBITDA	46.7	38.2%	64.6	36.4%	47.3	98.8	116.6	18.1%	202.6	169.0	12.2%
margin	7.4%	-	8.7%	-	8.0%	7.3%	8.0%	-	7.0%	7.0%	-
EBIT	32.9	50.9%	49.6	55.6%	31.9	70.1	86.8	23.9%	147.4	107.5	21.8%
Pre-tax profit	28.0	66.6%	46.7	74.6%	26.7	65.6	84.3	28.5%	123.8	96.1	11.3%
Net profit	22.7	51.5%	34.4	81.4%	19.0	53.9	64.9	20.4%	103.4	76.9	16.6%

Source: BRE Bank Securities

Generally speaking, these earnings seem very strong, and we should also note strong cash flows from operations (PLN 47.8m) achieved despite a 3.9% y/y increase in overall sales volumes. For comparison, in Q2'11 Kęty generated -PLN 5m cash flows from operations.

Net debt at the end of the quarter figured to PLN 297m (prior to dividend payment). After Q2'11, taking into account dividend payment, the Company's debt amounts to 1.66 of its EBITDA (1.76 for Kęty).

Standalone sales of individual companies from the Group in Q2'11

(PLN m)	2Q11F	2Q11	differ.	2Q10	2Q11	change (y/y)	1Q11	2Q11	change (q/q)	1H10	1H11	change (y/y)
Impexmetal S.A.	251.7	250.9	-0.3%	236.5	250.9	6.1%	251.6	250.9	-0.3%	453.1	502.5	10.9%
Hutmen	97.7	113.1	15.7%	87.3	113.1	29.6%	115.7	113.1	-2.2%	164.9	228.8	38.8%
HMN Szopienice	0.0	1.8	-	1.5	1.8	-	1.6	1.8	12.5%	3.3	3.4	3.0%
WM Dziedzice	89.7	134.0	49.4%	83.2	134.0	61.1%	110.2	134.0	21.6%	173.8	244.2	40.5%
Baterpol	59.8	68.2	14.1%	58.2	68.2	17.2%	68.1	68.2	0.1%	123.7	136.3	10.2%
ZM Silesia	73.1	84.4	15.5%	68.5	84.4	23.2%	79.7	84.4	5.9%	129.2	164.1	27.0%
FŁT Polska	63.0	80.2	27.3%	61.1	80.2	31.3%	72.6	80.2	10.5%	113.4	152.8	34.7%

Source: BRE Bank Securities

Standalone operating earnings of individual companies from the Group in Q2'11

(PLN m)	2Q11F	2Q11	differ.	2Q10	2Q11	change (y/y)	1Q11	2Q11	change (q/q)	1H10	1H11	change (y/y)
Impexmetal S.A.	19.0	32.4	70.5%	15.1	32.4	114.6%	18.3	32.4	77.0%	29.5	50.7	71.9%
Hutmen	0.5	2.8	-	-1.3	2.8	-315.4%	0.4	2.8	-	-3.4	3.2	-
HMN Szopienice	-	-2.2	-	-1.4	-2.2	-	-	-2.2	-	-2.8	-2.2	-
WM Dziedzice	-0.1	3.8	-	0.3	3.8	-	1.2	3.8	216.7%	0.6	5.0	-
Baterpol	7.5	13.4	78.7%	2.9	13.4	362.1%	11.9	13.4	12.6%	13.0	25.3	94.6%
ZM Silesia	2.0	3.3	65.0%	11.3	3.3	-70.8%	0.1	3.3	-	9.8	3.4	-65.3%
FŁT Polska	4.0	4.9	22.5%	3.3	4.9	48.5%	4.5	4.9	8.9%	6.0	9.4	56.7%

Source: BRE Bank Securities

Standalone sales volumes of individual companies from the Group in Q2'11

('000 tons)	2Q11F	2Q11	differ.	2Q10	2Q11	change (y/y)	1Q11	2Q11	change (q/q)	1H10	1H11	change (y/y)
Impexmetal S.A.	20.5	19.7	-3.9%	20.0	19.7	-1.5%	20.4	19.7	-3.4%	38.6	40.1	3.9%
Hutmen	3.5	3.8	8.6%	3.6	3.8	5.6%	3.8	3.8	0.0%	7.0	7.6	8.6%
WM Dziedzice	5.4	6.4	18.5%	5.7	6.4	12.3%	6.1	6.4	4.9%	11.6	12.5	7.8%
Baterpol	7.8	8.3	6.4%	8.2	8.3	1.2%	8.4	8.3	-1.2%	17.0	16.7	-1.8%
ZM Silesia	8.8	9.7	10.2%	8.6	9.7	12.8%	8.8	9.7	10.2%	15.9	18.5	16.4%

Source: 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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