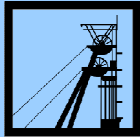


9 December 2010

Special Comment


Coal Miners

Poland

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LW Bogdanka

LWBP.WA; LWB.PW

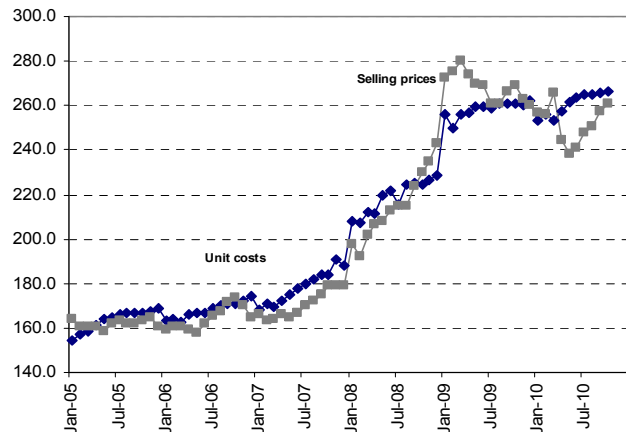
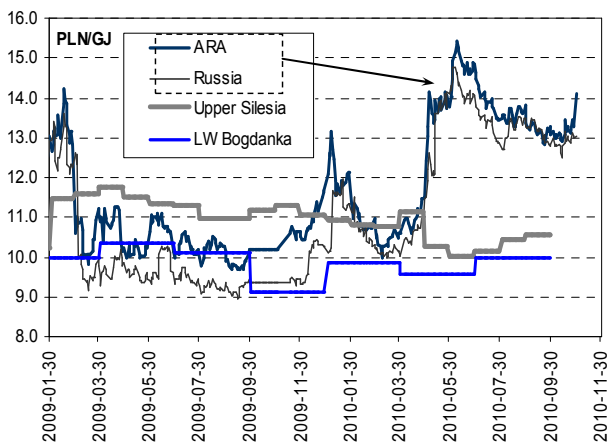
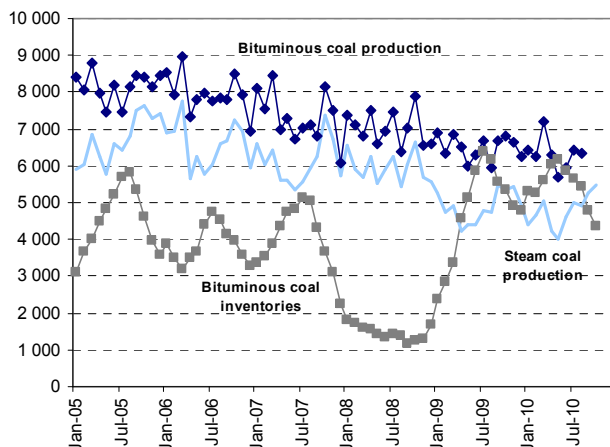
Buy

(Reiterated)

Coal Industry After October

Current price: PLN 107.0; Target price: PLN 125.9

October data released by the Polish Economy Ministry confirmed a robust outlook for local steam-coal producers, in particular LW Bogdanka. Following oil and other commodities, European prices of thermal coal (ARA ports, Russia) have risen over \$100 per ton which, after factoring in calorific values and freight to Polish power plants, translates into a cost of PLN 15 per gigajoule for European coal and PLN 14.3/GJ for Russian coal. For comparison, after continued growth in October (+1.4% m/m), prices of Polish coal reached PLN 261/T or PLN 10.8/GJ. The price gap between domestic and imported coal is widening while inventories decrease (October inventories were 4.34MT, marking a 1MT decline vs. October 2009) and local production slows down (October output was 4.8% or 256KT lower than a year earlier) – total coal production in the ten months to October 2010 was 5MT higher than in the corresponding period of 2009. In spite of rising prices, coal mines in the Upper Silesian basin are barely achieving break even. At the same time, in November and December, Polish power producers have reported problems securing sufficient coal supplies to satisfy demand. As production volumes continue to be reduced at the underinvested Silesian mines (further cuts are expected to be made in coming years), LW Bogdanka is the only major supplier in Poland to increase capacity. As a reminder, the company plans to increase output to 6.85MT in 2011 from 5.75MT in 2010. By 2014, annual production is expected to reach 11.5MT, representing 19% of the current volumes produced in Silesia. The faster the decrease in the Silesian output, the sooner a correlation will develop between Polish and European coal prices. We are reiterating a buy rating for LWB, with the price target at PLN 125.9 per share.

Steam coal prices per GJ (L); Steam-coal selling prices vs. unit costs of bituminous coal extraction (R)

Coal inventories and production in Poland (ex. LW Bogdanka and Silesia)


Source: Ministry of the Economy



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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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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.

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