

19 March 2010

Special comment

**Construction**

Poland

# Trakcja Polska

TRKC.WA; TRK.PW

**Hold**

(Reiterated)

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## Strong Q409 Earnings Do Not Lift 2010 Outlook

**Current price: PLN 4.10; Target price PLN 4.20**

The 2009 fourth-quarter results of Trakcja Polska exceeded our expectations. On in-line revenues, the company generated a stronger-than-expected gross profit (a gross margin of 15.8% was ahead of our 12.8% estimate), built on a PLN 2.3m higher-than-expected gain on derivatives revaluations (booked under revenues), and PLN 3.2m higher-than-expected profit margins. Items further down the income statement were boosted by strong net financial income, a low effective tax rate, and minority-interest losses. The strong Q409 showing does not change our view on TRK as an investment: we expect delays in contract-award processes to lead to intense competition, and hence low contract profits. Our bleak outlook on the company's 2010 and 2011 earnings performance has been reinforced recently by a lost bid on the "LCS Ciechanów" contract for track repair and train stations renovations, awarded to ZUE (which offered 8% less than Trakcja). New tenders are not going to come on line before the second half of the year, and thin order books will force railroad engineering companies to keep prices low in the months ahead. We are reiterating a neutral rating on Trakcja Polska.

On in-line revenues, Trakcja Polska reported a PLN 5.5m higher-than-forecasted gross profit (a gross margin of 15.8 was ahead of our 12.8% estimate), The PLN 5.5m difference resulted from a PLN 2.3m higher-than-expected gain on derivatives revaluation, and PLN 3.2m higher-than-expected margins. After adjustment for the derivatives gains, the Q409 gross margin figures to 13.25% (ahead of our forecast of 11.5%). SG&A expenses amounted to PLN 9.8m, exceeding our PLN 7.8m estimate. EBIT came in at PLN 18.8m vs. our forecasted PLN 15.9m.

Other net operating expenses were PLN 0.8m (we expected PLN 0.3m), and other net financial gains totaled PLN 2.3m (we expected PLN 0.6m). The effective tax rate was 17.8%. The bottom-line profit received a PLN 1.5m boost from a loss attributable to minority interests, more specifically to Bahn Technik, a 50% subsidiary of Trakcja's 96.8% subsidiary PRKiI.

### Reported vs. forecasted Q4 2009 earnings

(PLN m)	Q4 2009	Q4 2009F	Difference	Consensus	Difference	Q4 2008	Change
Revenues	186.8	187.9	-0.6%	195.0	-4.2%	246.6	-24.2%
Gross profit	29.5	24.0	23.0%	-	-	15.6	89.4%
Gross margin	15.8%	12.8%	-	-	-	6.3%	-
EBIT	18.8	15.9	18.3%	14.4	30.9%	6.4	193.9%
EBIT margin	10.1%	8.5%	-	7.4%	-	2.6%	-
Pre-tax income	21.1	16.5	27.9%	-	-	17.9	17.8%
Pre-tax margin	11.3%	8.8%	-	-	-	7.3%	-
Net income	18.9	13.4	41.0%	12.5	50.8%	13.5	39.2%
Net margin	10.1%	7.1%	-	6.4%	-	5.5%	-

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



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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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**HOLD** – we expect that the rate of return from an investment will range from -5% to +5%  
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