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Special comment

**Construction**

Poland

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

Ulma

BAUA.WA; ULM.PW

Hold

(Reiterated)

Ulma Reports In-Line Q4 2009 Results

Current price: PLN 76.0; Target price PLN 82.2

On slightly higher-than-expected revenue and lower-than-expected COGS, Ulma's Q409 gross margin would have come ahead of expectations had it not been for high SG&A expenses and other operating expenses. In spite of an in-line EBIT, the EBITDA figure fell short of our estimate due to lower D&A expenses. All in all, the fourth-quarter results did not prompt any adjustments to our FY2010 forecasts: after a weak first quarter depressed by an extended winter season, Ulma's revenues and profits are expected show steady improvement in subsequent quarters of 2010. The improvement will be fueled mainly by orders for formwork used in infrastructure projects, such as bridges, overpasses, and tunnels, in which Ulma is the market leader next to Peri. Moreover, a revival in building construction should allow the company to increase rental prices in H2 2010 (the effects of the hikes will become noticeable in 2011). Unlike general contractors, Ulma's services are required early in the construction cycle, which means that it will continue growing profits in 2011. Ulma's shares display an 8% upside potential to our price target

Ulma's 2009 fourth-quarter revenue of PLN 49.7m was PLN 0.7m higher than expected, and COGS were PLN 0.3m lower, resulting in a gross profit PLN 1m ahead of expectations. SG&A expenses were higher than expected (PLN 4.4m vs. PLN 3.75m), as were other net operating expenses (PLN 0.66m vs. PLN 0.2m). After all this, an EBIT of PLN 4.1m fell PLN 0.1m short of our estimate.

One of the main reasons behind the differences in Ulma's reported results and our forecasts were depreciation and amortization expenses which amounted to PLN 18.2m, PLN 1.6m less than predicted (PLN 19.8m). Lower D&A expenses, combined with just slightly lower-than-expected COGS, drove other costs of sale PLN 1.3m above our estimate. If we had correctly predicted the Q409 D&A charges, our gross-profit estimate would have been PLN 9.7m (the actual figure was PLN 9.1m), and the EBIT estimate would have been PLN 5.8m (vs. an actual figure of PLN 4.1m). Other net financial expenses were PLN 3.1m (we expected PLN 2.9m), and the effective tax rate was 2% (we expected -6%), leading to a bottom-line profit PLN 0.4m below our estimate.

Our view on Ulma's Q4 2009 performance is neutral. We expect the company's future expenses to decrease noticeably after the launch of new distribution centers, and we predict that revenues will return on an upward trend in Q2 2010.

Q4 2009 actuals vs. forecasts

	Q4 2009	Q4 2009F	difference	Q4 2008	difference
Revenues	49.7	49.0	1.5%	53.5	-7.1%
Costs of goods sold	40.6	40.9	-0.7%	44.1	-8.0%
Gross profit	9.1	8.1	12.2%	9.4	-2.8%
EBIT	4.1	4.2	-3.3%	4.4	-8.4%
<i>EBIT margin</i>	10.0%	10.3%	-	10.0%	-
D&A expenses	18.2	19.8	-8.0%	16.7	9.1%
EBITDA	22.3	24.0	-7.2%	21.1	5.6%
<i>EBITDA margin</i>	44.8%	49.0%	-	39.4%	-
Pre-tax income	0.9	1.3	-27.3%	1.0	-5.5%
<i>Pre-tax margin</i>	2.3%	3.1%	-	2.2%	-
Net income	0.9	1.3	-32.7%	1.4	-34.6%
<i>Net margin</i>	2.2%	3.3%	-	3.1%	-

Source: Ulma Construction Polska, F - forecasts by BRE Bank Securities



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%
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