

12 May 2009 | 7 pages

# Hydrobudowa Polska SA (HBWL.WA)

## Uninspiring 1Q09 Numbers

- 1Q09 Numbers** — Hydrobudowa Polska reported 1Q09 results with ZI 209.4m in revenues (+2.6% y-o-y), ZI 14.9m EBIT (-3.2% y-o-y) and ZI 7.1m net profit (+13.9% y-o-y), exceeding our forecasts on EBIT level but below our forecasts on net profit level. We note the company achieved a very healthy 12.0% gross margin on sales and 7.1% EBIT margin. EBIT number was significantly decreased by negative balance of financial gains by ZI 11.3m and increased by ZI 3.3m from tax shield.
- Weak Operating Cash Flow and Balance Sheet** — Hydrobudowa Polska reported negative operating cash flow of ZI 65.5m. We don't expect positive cash flow in the near future. The company's net debt increased to ZI 580m. We don't expect the reversal of this trend in the next quarters.
- Overall Impression** — We believe the company's results are uninspiring at best.

<b>Hold/Low Risk</b>	<b>ZL</b>
Price (11 May 09)	ZL5.33
Target price	ZL5.35
Expected share price return	0.4%
Expected dividend yield	0.0%
<b>Expected total return</b>	<b>0.4%</b>
Market Cap	ZL1,122M US\$347M

### Price Performance (RIC: HBWL.WA, BB: HBP PW)



### Hydrobudowa Polska SA (PLN)

Year to 31 Dec	2006A	2007A	2008E	2009E	2010E
Sales (ZLM)	265.4	571.5	1,217.9	1,648.0	1,868.0
Net Income (ZLM)	10.6	31.7	46.4	114.8	94.7
Diluted EPS (ZL)	0.08	0.23	0.22	0.55	0.45
Diluted EPS (Old) (ZL)	0.08	0.23	0.22	0.55	0.45
PE (x)	69.4	23.1	24.1	9.7	11.8
EV/EBITDA (x)	na	32.9	16.5	8.3	8.6
DPS (ZL)	0.00	0.00	0.00	0.00	0.27
Net Div Yield (%)	0.0	0.0	0.0	0.0	5.1

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See Appendix A-1 for Analyst Certification and important disclosures.

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<sup>1</sup>Dom Maklerski Banku Handlowego SA

Figure 1. Hydrobudowa Polska – 1Q09 numbers.

	1Q09	1Q08	% difference	4Q08	% difference	Citi forecast	% difference
Revenues	<b>209,44</b>	204,12	2,61%	384,00	-45,46%	195,00	7,41%
EBIT	<b>14,90</b>	15,39	-3,20%	-6,40	-332,77%	8,60	73,22%
Net profit	<b>7,13</b>	6,26	13,91%	6,00	18,85%	9,60	-25,72%

Source: Company reports and Citi Investment Research and Analysis

Figure 2. Hydrobudowa Polska – 1Q09 numbers.

	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	chg yoy	chg qoq
<b>Revenues</b>	<b>0,0</b>	<b>133,0</b>	<b>194,6</b>	<b>383,0</b>	<b>204,1</b>	<b>208,4</b>	<b>312,9</b>	<b>384,0</b>	<b>209,4</b>	<b>3%</b>	<b>-45%</b>
Margins on sales	-	14,4%	3,6%	14,5%	11,7%	13,7%	12,2%	6,9%	12,0%		
<b>Gross profit on sales</b>	<b>0,0</b>	<b>19,2</b>	<b>7,1</b>	<b>55,6</b>	<b>23,8</b>	<b>28,5</b>	<b>38,2</b>	<b>26,6</b>	<b>25,1</b>	<b>5%</b>	<b>-6%</b>
Cost of Sales & General Administration	0,0	-5,2	-9,3	-10,2	-9,9	-6,9	-12,0	-18,2	-12,2	23%	-33%
<b>Profit on sales</b>	<b>0,0</b>	<b>14,0</b>	<b>-2,2</b>	<b>45,4</b>	<b>13,9</b>	<b>21,6</b>	<b>26,3</b>	<b>8,4</b>	<b>12,9</b>		
Other operating, net	0,0	3,9	4,2	-4,9	1,5	-1,6	1,7	-14,8	2,0		
<b>Operating profit</b>	<b>0,0</b>	<b>17,9</b>	<b>2,0</b>	<b>40,5</b>	<b>15,4</b>	<b>20,0</b>	<b>28,0</b>	<b>-6,4</b>	<b>14,9</b>	<b>-3%</b>	<b>-332%</b>
Financial income / (expense), net	0,0	-0,1	-4,7	-9,5	-6,3	0,4	1,2	7,4	-11,2		
Share in profits of associates	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0		
<b>Profit before tax</b>	<b>0,0</b>	<b>17,8</b>	<b>-2,8</b>	<b>31,0</b>	<b>9,1</b>	<b>20,4</b>	<b>29,1</b>	<b>1,0</b>	<b>3,7</b>	<b>-60%</b>	<b>278%</b>
Income tax expense.	0,0	2,2	-2,7	-6,0	-2,9	-4,5	-4,0	5,1	3,4		
Minorities	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	-0,1		
<b>Net profit</b>	<b>0,0</b>	<b>20,0</b>	<b>-5,5</b>	<b>24,9</b>	<b>6,3</b>	<b>15,8</b>	<b>25,1</b>	<b>6,0</b>	<b>7,0</b>	<b>12%</b>	<b>17%</b>

Source: Company reports and Citi Investment Research and Analysis

# Hydrobudowa Polska SA

## Company description

Hydrobudowa Polska specialises in environmental protection facilities and hydro engineering in Poland, segments that look set to boom. Following the capital infusion from the recent SPO, the company will enter new niche segments. The acquisition of PRG Metro is a first step in this direction. In 4Q08 Hydrobudowa Polska acquired Hydrobudowa 9 from parent company PBG.

## Investment strategy

We rate the stock Hold/Low Risk (2L). We consider Hydrobudowa Polska to be among the companies best-positioned to benefit from the positive trends in the Polish construction sector. Expected large investment in the key sectors to which it is exposed (i.e. environmental protection facilities and hydro engineering), financed mainly by EU funds, should benefit the company. However, strong competition in the construction market may drive down margins.

## Valuation

Our target price of ZI 5.35 is based on our DCF model, which we believe reflects the long-term growth potential that the company can exhibit. We assume a WACC of 11.0% and terminal growth rate of 2.0%.

## Risks

We rate Hydrobudowa Polska Low Risk. Our risk rating on the stock is derived after consideration of several risk factors, including an assessment of industry-specific risk, financial risk and management risk. In particular, we would highlight the company's healthy balance sheet, increasing levels of diversification and exposure to market segments with strong growth prospects. The most important upside/downside risks to our target price are: the extent of construction industry growth in coming years, the schedule of EU funds flow, the direction of raw material prices and currency risk.

# Appendix A-1

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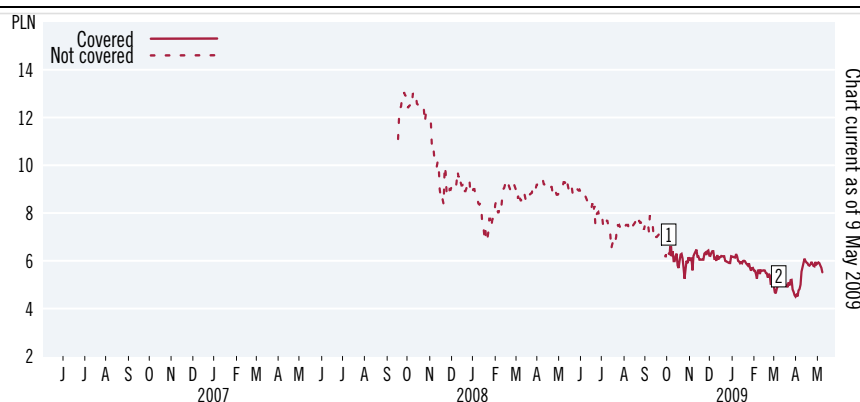
### Hydrobudowa Polska SA (HBWL.WA)

#### Ratings and Target Price History

#### Fundamental Research

Analyst: Piotr Zielonka, CFA

Covered since October 4 2008



	Date	Rating	Target Price	Closing Price
[1]	3-Oct-08	*1L	*8.00	6.30

	Date	Rating	Target Price	Closing Price
[2]	9-Mar-09	*2L	*5.35	5.00

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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