

# Hydrobudowa Polska

112/2009/RP (225) October 13, 2009

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Sector: Construction  
Fundamental rating: Sell (↓)  
Market relative: Underweight (↓)  
Price: PLN 4.08  
12M EFV: PLN 3.39 (↓)

Market Cap.: US\$ 301 m  
Reuters code: HBWLWA  
Av. daily turnover: US\$ 0.21 m  
Free float: 39%  
12M range: PLN 4.08-6.47

Quarterly  
Results Preview

## Investment story & recommendation

We have cut our financial forecasts for HBP. Although the Company's current contract portfolio is large, its quality seems poor as it was boosted in the times of tight competition and price war among contractors. We expect margins on stadium contracts (the Company's flagship projects, constituting as much as 40% of HBP's total backlog) to be lower than we previously envisaged, hence we forecast yoy slump in the Company's operating and net profits in 2010 (as opposed to previous projections of operating profit growth and only a slight decrease in the bottom line). Furthermore, we believe that that HBP may face problems with further improvement of its contract portfolio (given its high exposure to environmental-protection-related construction, a segment characterised by increasing competition and delay in investments), which in our view materially lowers the visibility of both the Company's sales and profits after 2010. We are downgrading our LT fundamental rating for HBP to Sell (from Hold previously), with an approx. 17% fundamental downside to our lowered 12M EFV of PLN 3.39 per share. We are also downgrading our ST market-relative bias to Underweight (from Neutral), given the no-frills results for 3Q09E.

## Quarterly earnings corner; 3Q09E preview

Hydrobudowa Polska will release its 3Q09 results on November 16. On the back of a strong backlog, we forecast impressive 45% yoy growth in the Company's quarterly sales (for details please refer to Figure 1). However, we expect yoy advance of only 18% on operating profit in 3Q09 (despite the predicted approx. PLN 3 million of other operating income from provision reversal).

Fig. 1 Hydrobudowa Polska; 3Q09 results' forecast

IFRS consolidated PLN m	3Q09E		3Q08		yoy change		1-3Q09E		1-3Q08		yoy change	
	3Q09E	3Q08	change	1-3Q09E	1-3Q08	change	2009E	2008	2009E	2008	change	2008
Sales	453.7	312.9	45%	1,004.6	833.9	20%						
EBIT	33.1	28.0	18%	74.4	61.9	20%						
EBIT margin	7.3%	8.9%	-	7.4%	7.4%	-						
Pre-tax profit	28.1	29.1	-4%	68.1	57.4	19%						
Pre-tax margin	6.2%	9.3%	-	6.8%	6.9%	-						
Net profit	24.4	25.1	-3%	68.7	55.1	25%						
Net margin	5.4%	8.0%	-	6.8%	6.6%	-						
<b>Realization of the FY figures in 3Q: FY figures in 1-3Q:</b>												
				2009E	2008		2009E	2008		2008		
Sales				26%	26%		57%	68%				
EBIT				27%	46%		60%	102%				
Pre-tax profit				26%	48%		64%	91%				
Net profit				24%	39%		69%	85%				

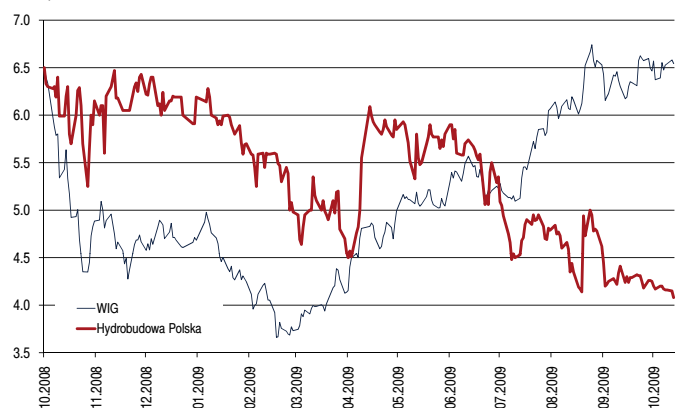
Source: Company, DM IDMSA estimates

## Key data

IFRS consolidated		2008	2009E	2010E	2011E
Sales	PLN m	1,225.5	1,775.3	1,996.2	2,204.1
EBITDA	PLN m	78.4	131.9	109.5	124.4
EBIT	PLN m	60.9	123.2	100.2	114.3
Net profit	PLN m	64.5	99.8	64.8	74.1
EPS	PLN m	0.31	0.48	0.31	0.35
EPS yoy chng	%	6	56	-35	14
Net debt	PLN m	230.9	398.9	399.8	396.7
P/E	x	13.3	8.6	13.3	11.6
P/CE	x	10.5	7.9	11.6	10.2
EV/EBITDA	x	13.9	9.5	11.5	10.1
EV/EBIT	x	17.9	10.2	12.6	11.0
EV/Sales	x	0.9	0.7	0.6	0.6
Gross dividend yield	%	0.0	0.0	0.0	0.0
No. of shares (eop)	ths.	210,558	210,558	210,558	210,558

Source: Company, DM IDMSA estimates

## Stock performance



Source: ISI

## Upcoming events

- 3Q09 results release: October 16, 2009

## Catalysts

- Signing new large environmental protection contracts co-financed by EU (e.g. waste incineration plant in Poznań and Kraków for the value of c. PLN 1.1 billion)
- Signing other specialist construction contracts

## Risk factors

- Prolonging administrative procedures may negatively affect smooth absorption of EU funds' inflow by investors (public sector)
- Management of stadium contracts

This is due to: (i) an increasing share of (low-margin) sales from stadium contracts in overall revenues, and (ii) a growing share of 'environmental protection' contracts signed in times when margins were declining due to a high level of competition between contractors. At the net profit level, we forecast the numbers to be by 3% lower yoy due to predicted higher yoy financial costs.

**Financial forecast**

We are materially reducing our expectations regarding the margins for HBP (low-margin contracts (stadiums) in the portfolio). Our operating profit forecast decreases by 23%-26% in 2010 and beyond, while our net profit forecast decreases by 27%-29% (please refer to *Figure 2* below).

**Valuation**

As a result of the aforementioned financial forecast downgrade, our DCF-derived 12M EFV for HBP decreases by 35% to PLN 3.39 per share (from PLN 5.20 previously).

*Fig. 2 Hydrobudowa Polska; Changes in IDM's forecast*

IFRS consolidated PLN m	2009E			2010E			2011E			2012E		
	current	previous	change	current	previous	change	current	previous	change	current	previous	change
Sales	1,775.3	1,775.3	0%	1,996.2	1,996.2	0%	2,204.1	2,204.1	0%	2,143.7	2,204.1	-3%
EBIT	123.2	123.2	0%	100.2	134.6	-26%	114.3	148.5	-23%	118.5	148.5	-20%
NP	99.8	99.8	0%	64.8	91.8	-29%	74.1	102.0	-27%	80.0	102.0	-22%

Source: DM IDMSA estimates

### Financial statements (IFRS consolidated)

Fig. 3 Hydrobudowa Polska; Balance sheet

PLN m	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
<b>Fixed assets</b>	<b>252.3</b>	<b>253.1</b>	<b>254.2</b>	<b>255.3</b>	<b>255.8</b>	<b>256.3</b>	<b>256.7</b>	<b>257.1</b>	<b>257.5</b>	<b>257.8</b>	<b>258.2</b>	<b>259.0</b>
Intangibles	2.2	2.3	2.6	3.0	3.2	3.5	3.6	3.8	3.8	3.9	3.8	3.8
Goodwill	37.2	37.2	37.2	37.2	37.2	37.2	37.2	37.2	37.2	37.2	37.2	37.2
Tangible fixed assets	160.6	161.3	162.0	162.8	163.0	163.3	163.5	163.8	164.1	164.4	164.8	165.7
LT receivables	9.7	9.7	9.7	9.7	9.7	9.7	9.7	9.7	9.7	9.7	9.7	9.7
LT investments	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2
LT deferred assets	37.4	37.4	37.4	37.4	37.4	37.4	37.4	37.4	37.4	37.4	37.4	37.4
Others	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>Current assets</b>	<b>957.4</b>	<b>1,239.7</b>	<b>1,400.6</b>	<b>1,525.0</b>	<b>1,510.7</b>	<b>1,520.4</b>	<b>1,511.6</b>	<b>1,524.7</b>	<b>1,537.8</b>	<b>1,557.8</b>	<b>1,578.4</b>	<b>1,619.5</b>
Inventories	12.3	79.8	91.3	100.6	97.4	96.2	95.3	96.9	98.4	100.4	102.6	104.8
ST receivables	857.3	1,109.6	1,247.6	1,377.5	1,339.8	1,325.1	1,293.0	1,315.7	1,337.3	1,366.7	1,397.1	1,428.7
ST deferred assets	12.6	18.3	20.5	22.7	22.0	21.8	21.6	22.0	22.4	22.8	23.4	23.9
Cash&equivalents	74.3	31.1	40.2	23.3	50.4	76.3	100.7	89.3	78.8	66.9	54.4	61.2
Other assets	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
<b>Total assets</b>	<b>1,209.8</b>	<b>1,492.8</b>	<b>1,654.8</b>	<b>1,780.3</b>	<b>1,766.5</b>	<b>1,776.6</b>	<b>1,768.3</b>	<b>1,781.9</b>	<b>1,795.3</b>	<b>1,815.6</b>	<b>1,836.5</b>	<b>1,878.6</b>
<b>Equity</b>	<b>228.8</b>	<b>329.1</b>	<b>393.9</b>	<b>468.0</b>	<b>548.0</b>	<b>567.4</b>	<b>586.1</b>	<b>607.6</b>	<b>629.3</b>	<b>654.6</b>	<b>678.6</b>	<b>703.3</b>
<b>Liabilities &amp; reserves</b>	<b>980.9</b>	<b>1,163.7</b>	<b>1,260.9</b>	<b>1,312.3</b>	<b>1,218.5</b>	<b>1,209.2</b>	<b>1,182.2</b>	<b>1,174.3</b>	<b>1,166.0</b>	<b>1,161.1</b>	<b>1,157.9</b>	<b>1,175.3</b>
<b>Reserves</b>	<b>10.8</b>	<b>15.6</b>	<b>17.6</b>	<b>19.4</b>	<b>18.9</b>	<b>18.7</b>	<b>18.5</b>	<b>18.9</b>	<b>19.2</b>	<b>19.6</b>	<b>20.0</b>	<b>20.5</b>
LT liabilities	95.0	90.2	170.2	170.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2	160.2
Non-interest-bearing	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2
Interest-bearing	84.8	80.0	160.0	160.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0
ST Liabilities	870.0	1,050.4	1,064.7	1,113.4	1,030.3	1,021.4	994.6	986.2	977.5	971.9	968.1	984.9
Non-interest-bearing	488.9	700.4	784.7	853.4	830.3	821.4	814.6	826.2	837.5	851.9	868.1	884.9
Interest-bearing	381.1	350.0	280.0	260.0	200.0	200.0	180.0	160.0	140.0	120.0	100.0	100.0
Deferred liabilities	5.2	7.5	8.4	9.3	9.0	8.9	8.8	9.0	9.1	9.3	9.6	9.8
<b>Total liabilities and equity</b>	<b>1,209.8</b>	<b>1,492.8</b>	<b>1,654.8</b>	<b>1,780.3</b>	<b>1,766.5</b>	<b>1,776.6</b>	<b>1,768.3</b>	<b>1,781.9</b>	<b>1,795.3</b>	<b>1,815.6</b>	<b>1,836.5</b>	<b>1,878.6</b>

Source: Company, DM IDMSA estimates

Fig. 4 Hydrobudowa Polska; Income statement

PLN m	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
<b>Sales</b>	<b>1,225.5</b>	<b>1,775.3</b>	<b>1,996.2</b>	<b>2,204.1</b>	<b>2,143.7</b>	<b>2,120.2</b>	<b>2,102.5</b>	<b>2,139.3</b>	<b>2,174.5</b>	<b>2,222.3</b>	<b>2,271.8</b>	<b>2,323.0</b>
<b>COGS</b>	<b>-1,103.5</b>	<b>-1,596.4</b>	<b>-1,825.2</b>	<b>-2,011.5</b>	<b>-1,949.0</b>	<b>-1,924.8</b>	<b>-1,906.2</b>	<b>-1,937.8</b>	<b>-1,968.3</b>	<b>-2,007.6</b>	<b>-2,051.5</b>	<b>-2,097.0</b>
<b>Gross profit on sales</b>	<b>122.0</b>	<b>178.9</b>	<b>171.1</b>	<b>192.5</b>	<b>194.7</b>	<b>195.3</b>	<b>196.3</b>	<b>201.5</b>	<b>206.2</b>	<b>214.7</b>	<b>220.3</b>	<b>226.1</b>
General administration costs	-49.1	-65.8	-70.8	-78.2	-76.2	-75.4	-74.9	-76.3	-77.6	-79.4	-81.2	-83.0
<b>Net profit on sales</b>	<b>72.9</b>	<b>113.1</b>	<b>100.2</b>	<b>114.3</b>	<b>118.5</b>	<b>119.9</b>	<b>121.4</b>	<b>125.2</b>	<b>128.6</b>	<b>135.4</b>	<b>139.1</b>	<b>143.0</b>
Other operating income	14.3	15.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other operating costs	-26.3	-5.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>60.9</b>	<b>123.2</b>	<b>100.2</b>	<b>114.3</b>	<b>118.5</b>	<b>119.9</b>	<b>121.4</b>	<b>125.2</b>	<b>128.6</b>	<b>135.4</b>	<b>139.1</b>	<b>143.0</b>
Financial income	27.6	9.7	6.1	5.5	5.7	6.3	6.8	7.1	7.1	7.1	7.1	7.2
Financial costs	-25.4	-26.8	-26.1	-28.0	-25.0	-22.8	-22.1	-20.8	-19.5	-18.2	-16.9	-16.3
<b>Pre tax income</b>	<b>63.1</b>	<b>106.1</b>	<b>80.2</b>	<b>91.9</b>	<b>99.2</b>	<b>103.4</b>	<b>106.0</b>	<b>111.5</b>	<b>116.1</b>	<b>124.2</b>	<b>129.3</b>	<b>134.0</b>
Income tax	2.4	-5.6	-15.2	-17.5	-18.9	-19.6	-20.1	-21.2	-22.1	-23.6	-24.6	-25.5
Minority interest in net income	-1.1	-0.2	-0.2	-0.3	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5	-0.6	-0.6
<b>Net income</b>	<b>64.5</b>	<b>99.8</b>	<b>64.8</b>	<b>74.1</b>	<b>80.0</b>	<b>83.4</b>	<b>85.5</b>	<b>89.8</b>	<b>93.6</b>	<b>100.1</b>	<b>104.2</b>	<b>107.9</b>

Source: Company, DM IDMSA estimates

Fig. 5 Hydrobudowa Polska; Cash flow

PLN m	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Gross income (loss)	63.1	106.1	80.2	91.9	99.2	103.4	106.0	111.5	116.1	124.2	129.3	134.0
Depreciation and amortization	17.5	8.8	9.2	10.1	11.0	12.0	13.1	14.2	15.4	16.7	18.2	19.7
NWC change:	-244.5	-108.4	-65.2	-70.5	17.8	7.0	26.1	-12.6	-11.9	-16.9	-16.4	-17.0
Change in inventories	2.3	-67.5	-11.4	-9.3	3.1	1.2	0.9	-1.6	-1.5	-2.0	-2.2	-2.3
Change in receivables	-267.2	-252.3	-138.1	-129.9	37.7	14.7	32.1	-22.6	-21.7	-29.4	-30.4	-31.5
Change in payables	20.4	211.4	84.3	68.7	-23.0	-8.9	-6.9	11.6	11.3	14.5	16.2	16.8
Other	-28.8	13.9	10.7	10.3	5.1	1.7	0.1	-2.2	-4.2	-6.9	-9.0	-10.5
<b>Operating cash flow</b>	<b>-192.8</b>	<b>20.4</b>	<b>35.0</b>	<b>41.8</b>	<b>133.1</b>	<b>124.1</b>	<b>145.4</b>	<b>110.9</b>	<b>115.4</b>	<b>117.2</b>	<b>122.0</b>	<b>126.2</b>
Capital expenditures	-45.0	-9.5	-10.3	-11.2	-11.5	-12.5	-13.5	-14.6	-15.8	-17.1	-18.5	-20.6
Other	0.1	2.8	0.5	0.5	0.6	1.0	1.3	1.4	1.3	1.1	0.9	0.9
<b>Investing cash flow</b>	<b>-44.9</b>	<b>-6.7</b>	<b>-9.8</b>	<b>-10.8</b>	<b>-11.0</b>	<b>-11.5</b>	<b>-12.2</b>	<b>-13.2</b>	<b>-14.5</b>	<b>-16.0</b>	<b>-17.6</b>	<b>-19.8</b>
Change in interest-bearing debt	-14.6	-35.8	10.0	-20.0	-70.0	0.0	-20.0	-20.0	-20.0	-20.0	-20.0	0.0
Dividends payment	0.0	0.0	0.0	0.0	0.0	-64.0	-66.7	-68.4	-71.8	-74.9	-80.1	-83.3
Interest	-26.1	-26.8	-26.1	-28.0	-25.0	-22.8	-22.1	-20.8	-19.5	-18.2	-16.9	-16.3
Other	313.5	5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Financing cash flow</b>	<b>272.8</b>	<b>-56.9</b>	<b>-16.1</b>	<b>-48.0</b>	<b>-95.0</b>	<b>-86.7</b>	<b>-108.8</b>	<b>-109.2</b>	<b>-111.3</b>	<b>-113.1</b>	<b>-117.0</b>	<b>-99.6</b>
<b>Total cash flow</b>	<b>30.4</b>	<b>-43.1</b>	<b>9.1</b>	<b>-16.9</b>	<b>27.1</b>	<b>25.9</b>	<b>24.4</b>	<b>-11.4</b>	<b>-10.5</b>	<b>-11.9</b>	<b>-12.5</b>	<b>6.8</b>

Source: Company, DM IDMSA estimates

Fig. 6 Hydrobudowa Polska; Ratios

	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Sales growth (yoy)	114%	45%	12%	10%	-3%	-1%	-1%	2%	2%	2%	2%	2%
Gross profit growth (yoy)	126%	47%	-4%	13%	1%	0%	0%	3%	2%	4%	3%	3%
EBITDA growth (yoy)	94%	68%	-17%	14%	4%	2%	2%	4%	3%	6%	3%	3%
Operating profit growth (yoy)	73%	102%	-19%	14%	4%	1%	1%	3%	3%	5%	3%	3%
Net income growth (yoy)	60%	56%	-35%	14%	8%	4%	3%	5%	4%	7%	4%	4%
A/R turnover days	191	202	216	217	231	229	227	223	223	222	222	222
Inventory turnover days	3	11	17	17	19	18	18	18	18	18	18	18
A/P turnover days	96	110	126	128	137	135	135	133	133	133	133	133
Cash cycle days	98	102	107	106	113	112	110	107	107	107	107	107
NWC/Sales	30%	27%	27%	28%	28%	28%	27%	27%	27%	27%	27%	27%
Gross margin	10.0%	10.1%	8.6%	8.7%	9.1%	9.2%	9.3%	9.4%	9.5%	9.7%	9.7%	9.7%
EBITDA margin	6.4%	7.4%	5.5%	5.6%	6.0%	6.2%	6.4%	6.5%	6.6%	6.8%	6.9%	7.0%
EBIT margin	5.0%	6.9%	5.0%	5.2%	5.5%	5.7%	5.8%	5.9%	5.9%	6.1%	6.1%	6.2%
Pre-tax margin	5.1%	6.0%	4.0%	4.2%	4.6%	4.9%	5.0%	5.2%	5.3%	5.6%	5.7%	5.8%
Net margin	5.3%	5.6%	3.2%	3.4%	3.7%	3.9%	4.1%	4.2%	4.3%	4.5%	4.6%	4.6%
ROE	35.0%	35.9%	17.9%	17.2%	15.7%	14.9%	14.8%	15.0%	15.1%	15.6%	15.6%	15.6%
ROA	7.2%	7.4%	4.1%	4.3%	4.5%	4.7%	4.8%	5.1%	5.2%	5.5%	5.7%	5.8%
Current ratio	1.1	1.2	1.3	1.4	1.5	1.5	1.5	1.5	1.6	1.6	1.6	1.6
Quick ratio	1.1	1.1	1.2	1.3	1.4	1.4	1.4	1.4	1.5	1.5	1.5	1.5

Source: Company, DM IDMSA estimates

## BASIC DEFINITIONS

**A/R turnover** (in days) =  $365/(\text{sales}/\text{average A/R})$

**Inventory turnover** (in days) =  $365/(\text{COGS}/\text{average inventory})$

**A/P turnover** (in days) =  $365/(\text{COGS}/\text{average A/P})$

**Current ratio** =  $(\text{current assets} - \text{ST deferred assets})/\text{current liabilities}$

**Quick ratio** =  $(\text{current assets} - \text{ST deferred assets} - \text{inventory})/\text{current liabilities}$

**Interest coverage** =  $(\text{pre-tax profit before extraordinary items} + \text{interest payable})/\text{interest payable}$

**Gross margin** =  $\text{gross profit on sales}/\text{sales}$

**EBITDA margin** =  $\text{EBITDA}/\text{sales}$

**EBIT margin** =  $\text{EBIT}/\text{sales}$

**Pre-tax margin** =  $\text{pre-tax profit}/\text{sales}$

**Net margin** =  $\text{net profit}/\text{sales}$

**ROE** =  $\text{net profit}/\text{average equity}$

**ROA** =  $(\text{net income} + \text{interest payable})/\text{average assets}$

**EV** =  $\text{market capitalization} + \text{interest bearing debt} - \text{cash and equivalents}$

**EPS** =  $\text{net profit}/\text{no. of shares outstanding}$

**CE** =  $\text{net profit} + \text{depreciation}$

**Dividend yield** (gross) =  $\text{pre-tax DPS}/\text{stock market price}$

**Cash sales** =  $\text{accrual sales corrected for the change in A/R}$

**Cash operating expenses** =  $\text{accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes}$

DM IDM S.A. generally values the covered non bank companies via two methods: comparative method and DCF method (discounted cash flows). The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the DCF method is its independence from the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Please note that we also resort to other valuation techniques (e.g. NAV-, DDM- or SOTP-based), should it prove appropriate in a given case.

## KEY TO INVESTMENT RANKINGS

This is a guide to expected price performance in absolute terms over the next 12 months:

**Buy** – fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;

**Hold** – either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;

**Sell** – fundamentally overvalued (12M EFV < current share price + 1-year cost of equity) + catalysts which should close the valuation gap identified.

This is a guide to expected relative price performance:

**Overweight** – expected to perform better than the benchmark (WIG) over the next quarter in relative terms

**Neutral** – expected to perform in line with the benchmark (WIG) over the next quarter in relative terms

**Underweight** – expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

The recommendation tracker presents the performance of DM IDMSA's recommendations. A recommendation expires on the day it is altered or on the day 12 months after its issuance, whichever comes first. Relative performance compares the rate of return on a given recommended stock in the period of the recommendation's validity (i.e. from the date of issuance to the date of alteration or – in case of maintained recommendations – from the date of issuance to the current date) in a relation to the rate of return on the benchmark in this time period. The WIG index constitutes the benchmark. For recommendations that expire by an alteration or are maintained, the ending values used to calculate their absolute and relative performance are: the stock closing price on the day the recommendation expires/ is maintained and the closing value of the benchmark on that date. For recommendations that expire via a passage of time, the ending values used to calculate their absolute and relative performance are: the average of the stock closing prices for the day the recommendation elapses and four directly preceding sessions and the average of the benchmark's closing values for the day the recommendation expires and four directly preceding sessions.

## Banks

**Net Interest Margin (NIM)** =  $\text{net interest income}/\text{average assets}$

**NIM Adjusted** =  $(\text{net interest income adjusted for SWAPs})/\text{average assets}$

**Non interest income** =  $\text{fees\&commissions} + \text{result on financial operations (trading gains)} + \text{FX gains}$

**Interest Spread** =  $(\text{interest income}/\text{average interest earning assets})/(\text{interest cost}/\text{average interest bearing liabilities})$

**Cost/Income** =  $(\text{general costs} + \text{depreciation} + \text{other operating costs})/(\text{profit on banking activity} + \text{other operating income})$

**ROE** =  $\text{net profit}/\text{average equity}$

**ROA** =  $\text{net income}/\text{average assets}$

**Non performing loans (NPL)** = loans in 'substandard', 'doubtful' and 'lost' categories

**NPL coverage ratio** =  $\text{loan loss provisions}/\text{NPL}$

**Net provision charge** =  $\text{provisions created} - \text{provisions released}$

DM IDM S.A. generally values the covered banks via two methods: comparative method and fundamental target fair P/E and target fair P/BV multiples method. The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the fundamental target fair P/E and target fair P/BV multiples method is its independence of the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation.

Assumptions used in valuation can change, influencing thereby the level of the valuation. Among the most important assumptions are: GDP growth, forecasted level of inflation, changes in interest rates and currency prices, employment level and change in wages, demand on the analysed company products, raw material prices, competition, standing of the main customers and suppliers, legislation changes, etc.

Changes in the environment of the analysed company are monitored by analysts involved in the preparation of the recommendation, estimated, incorporated in valuation and published in the recommendation whenever needed.

**LT fundamental recommendation tracker**

Recommendation		Issue date	Reiteration date	Expiry date	Performance	Relative performance	Price at issue/reiteration (PLN)	12M EFV (PLN)	
<b>Hydrobudowa Polska</b>									
Hold	-	01.07.2008	-	30.11.2008	-16%	25%	7.70	8.50	-
-	→	-	06.07.2008	-	-	-	7.40	8.40	↓
-	→	-	05.08.2008	-	-	-	7.50	8.40	→
-	→	-	31.08.2008	-	-	-	7.30	8.40	→
-	→	-	28.09.2008	-	-	-	7.00	8.40	→
-	→	-	13.10.2008	-	-	-	5.99	8.48	↑
-	→	-	29.10.2008	-	-	-	6.00	8.48	→
-	→	-	09.11.2008	-	-	-	6.20	8.53	↑
Buy	↑	30.11.2008	-	27.04.2009	-10%	-13%	6.43	8.53	→
-	→	-	11.01.2009	-	-	-	6.00	8.53	→
-	→	-	25.01.2009	-	-	-	5.80	8.53	→
-	→	-	08.02.2009	-	-	-	5.59	8.53	→
-	→	-	08.03.2009	-	-	-	4.95	8.53	→
-	→	-	05.04.2009	-	-	-	4.51	8.53	→
Hold	↓	27.04.2009	-	13.10.2009	-30%	-48%	5.79	6.14	↓
-	→	-	17.05.2009	-	-	-	5.50	6.14	→
-	→	-	08.06.2009	-	-	-	5.58	6.14	→
-	→	-	08.07.2009	-	-	-	4.48	6.14	→
-	→	-	02.08.2009	-	-	-	4.79	6.14	→
-	→	-	25.08.2009	-	-	-	4.95	5.20	↓
-	→	-	31.08.2009	-	-	-	4.62	5.20	→
-	→	-	12.10.2009	-	-	-	4.15	5.20	→
Sell	↓	13.10.2009	-	Not later than 13.10.2010	-	-	4.08	3.39	↓

**Market-relative recommendation tracker**

Relative recommendation		Issue date	Reiteration date	Expiry date	Price at issue/reiteration (PLN)	Relative performance
<b>Hydrobudowa Polska</b>						
Neutral	-	01.07.2008	-	29.10.2008	7.70	15%
-	→	-	06.07.2008	-	7.40	-
-	→	-	05.08.2008	-	7.50	-
-	→	-	31.08.2008	-	7.30	-
-	→	-	28.09.2008	-	7.00	-
-	→	-	13.10.2008	-	5.99	-
Overweight	↑	29.10.2008	-	25.01.2009	6.00	7%
-	→	-	09.11.2008	-	6.20	-
-	→	-	30.11.2008	-	6.43	-
-	→	-	11.01.2009	-	6.00	-
Neutral	↓	25.01.2009	-	13.10.2009	5.80	-54%
-	→	-	08.02.2009	-	5.59	-
-	→	-	08.03.2009	-	4.95	-
-	→	-	05.04.2009	-	4.51	-
-	→	-	27.04.2009	-	5.79	-
-	→	-	17.05.2009	-	5.50	-
-	→	-	08.06.2009	-	5.58	-
-	→	-	08.07.2009	-	4.48	-
-	→	-	02.08.2009	-	4.79	-
-	→	-	25.08.2009	-	4.95	-
-	→	-	31.08.2009	-	4.62	-
-	→	-	12.10.2009	-	4.15	-
Underweight	↓	13.10.2009	-	Not later than 13.10.2010	4.08	-

**Distribution of IDM's current recommendations**

	Buy	Hold	Sell	Suspended	Under revision
Numbers	15	31	16	1	0
Percentage	24%	49%	25%	2%	0%

**Distribution of IDM's current recommendations for companies that were within the last 12M IDM customers in investment banking**

	Buy	Hold	Sell	Suspended	Under revision
Numbers	2	3	1	1	0
Percentage	29%	43%	14%	14%	0%

**Distribution of IDM's current market relative recommended weightings**

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	23	21	18	1	0
Percentage	37%	33%	29%	2%	0%

**Distribution of IDM's current market relative recommended weightings for the companies that were within the last 12M IDM customers in investment banking**

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	3	2	1	1	0
Percentage	43%	29%	14%	14%	0%

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