

Monday, May 18, 2009

Hydrobudowa

BUY

Hydrobudowa solid 1Q, upgrade to BUY

BBG Ticker	HBPP PW
Market Cap (USD mil)	349
Price	5.50
Price target	6.30
Upside	14.5%

Hydrobudowa reported 1Q results on Tuesday, suprising on the upside on both revenues and EBIT, but 13% below our expectations on the net profit line, despite the boost from a tax shield at Hydrobudowa 9.

PLN mil	1Q09	1Q08	YOY	Wood	% diff
Sales	209	204	2.6%	187	12%
EBIT	14.9	15.4	-3.5%	9.6	55%
Net profit	6.8	6.3	9.4%	7.9	-13%

Revenues grew a modest 3% yoy, with the hydro construction division showing a 20% yoy drop due to the harder winter this year than last. This was offset by the rapid growth infrastructure construction division, building sports stadia in Poznan and Gdansk (revenues up 388%) and stable revenues from fuel storage construction. The gross margin expanded to 12% from 11.7% in 1Q08, reflecting lower input costs on contracts signed in the 2007/08 boom. However, this was eroded by a 23% jump in G&A, bringing the EBIT margin down to 7.1% from 7.5% in 1Q08. Meanwhile, the bottom line was boosted by the tax shield from past losses at subsidiary Hydrobudowa 9, estimated to have contributed some PLN 3 mil.

Net debt jumped nearly 50% to PLN 580 mil, implying a net debt/equity ration of 345%. While this is related to necessary outlays on the large infrastructure contracts, we will keep a weather eye on net debt development as the year progresses.

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NEUTRAL

Decent gross margins and the advantage of the tax shield, translated into solid 1Q results which we expect to improve over 2009 and '10. On the back of these numbers we have revised up our full year forecasts: sales by 23%, EBIT and net profit up 9% each.

2009	Old	New	Ch.%	2010	Old	New	Ch.%
Sales	1402	1727	23%	Sales	1532	1889	23%
EBIT	141	154	9%	EBIT	164	172	5%
Net profit	108	117	9%	Net profit	128	127	0%

With 3 large stadium contracts to deliver in the next 2 years, we do not expect announcements of large new contracts in the coming weeks, although we are forecasting 15% more revenues in 2009e than management's conservative guidance of PLN 1500. That said, unlike the majority of our construction companies under coverage, we expect gross and operating margins to continue to expand in 2010 (to 11.9% and 9.1%) before falling back like peers thereafter. This is due to the improved profitability we expect to emerge later this year from the assimilation and restructuring of Hydrobudowa 9. This, despite the still high financing costs, should translate into EPS growth of 20% CAGR to 2011e. Our DCF forecast and peer comparison combine to give a new target price of PLN 6.30, up from PLN 5.68, representing 15% upside to the current share price. Upgrade to BUY.

Year	Sales □ (PLN mil)	EBITDA □ (PLN mil)	EBIT □ (PLN mil)	Net Profit □ (PLN mil)	EPS □ (PLN)	EPS growth □ (%)	P/E □ (x)	P/CE □ (x)	EV/EBITDA □ (x)	Div. Yield □ (%)
2011E	1,837	182	162	119	0.565	-6.67	9.73	8.19	7.23	0
2010E	1,889	192	172	127	0.605	8.70	9.09	7.74	7.82	0
2009E	1,727	173	154	117	0.557	70.2	9.88	8.66	9.35	0
2008	1,225	77.1	60.9	64.5	0.327	-7.69	16.8	13.4	20.1	0
2007	845	71.5	66.4	59.0	0.354	324	15.5	14.3	16.9	0
2006	265	9.90	5.93	10.3	0.084	N/A	65.8	10.6	81.1	0
2005	0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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