

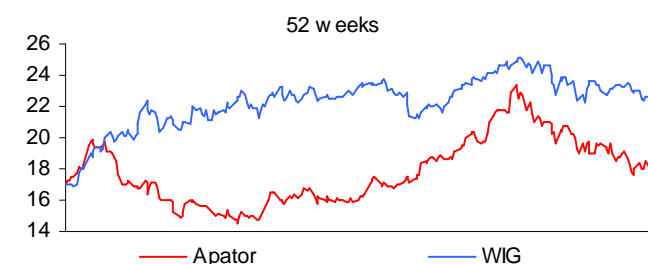
Company Report – Other Utility Services – Poland – July 7, 2010

Apator

 from Reduce to Accumulate

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PLN mn	2009	2010e	2011e	2012e
Net sales	367.6	386.6	415.9	445.9
EBITDA	66.1	65.6	70.8	77.3
EBIT	50.9	50.5	55.5	61.9
Net result after min.	30.0	52.8	42.9	48.5
EPS (PLN)	0.85	1.50	1.22	1.38
CEPS (PLN)	1.28	1.93	1.66	1.82
BVPS (PLN)	5.02	6.02	6.11	6.58
Div./share (PLN)	0.50	1.13	0.92	1.04
EV/EBITDA (x)	9.2	9.9	9.4	8.5
P/E (x)	18.7	11.9	14.7	13.0
P/CE (x)	12.5	9.3	10.8	9.8
Dividend Yield	3.2%	6.3%	5.1%	5.8%



Performance	12M	6M	3M	1M
in PLN	3.3%	9.9%	-17.4%	-8.9%
in EUR	9.4%	9.2%	-22.9%	-7.3%

Share price (PLN)	17.91	Reuters	APOR.WA	Free float	81.2%
Number of shares (mn)	35.1	Bloomberg	APT PW	Shareholders	Apator Mining (15.6%)
Market capitalization (PLN mn / EUR mn)	629 / 153	Div. Ex-date	05/07/10		Mr. Mariusz Lewnicki (5.7%)
Enterprise value (PLN mn / EUR mn)	650 / 158	Target price	20.3	Homepage:	www.apator.com.pl

Optimizing the business

- Since our last report on Apator, in which we had a Reduce recommendation, the stock price has fallen by about 15%, significantly underperforming vs the WIG index. We do not expect anything to significantly alter the valuation of this quite defensive and stable stock. For this reason, we only slightly increase our target price (from PLN 20 to PLN 20.3) and upgrade our recommendation to Accumulate due to recent price reduction.
- The recent weakness in the domestic currency is basically good for Apator as the company generates almost 30% of sales from exports. Additionally, the group faces competition from importers. However, in the short run (2010), this effect will be neutral due to the full hedging (remnants of the toxic FX options converted into ordinary FX hedging).
- The company recently sold a stake of 1mn of own shares (out of total own shares of 6.6mn). This action will boost the group's results by about PLN 17mn at financial net level in 2Q 2010. The fate of the remaining shares is still undecided. We treat them as assets for sale, but we do not deduct the potential tax due, as we assume these shares will be redeemed at some point.
- The cash acquired from the sale of the stake could be used to carry out investments thus freeing up the value hidden in the real estate held by the group. The group wants to move its production facility from the city of Torun to the nearby special economic zone, which would offer tax relief. In this case, the attractive real estate in Torun could be sold. In the subsequent years, production facilities from other regions could be also moved (Poznan and Swidnica). However, the plan is not yet definite – we assume that the net value of the real estate (which could be cashed in without risking the continuity of the business) amounts to about PLN 25mn (PLN 0.7 per share).

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- Own shares** After the recent sale of 1mn shares, the stake of own shares decreased from 18.8% to 15.6%. Since the shares sold were booked in the balance sheet at very low value, almost the entire value of the transaction would boost 2Q 2010 financial line (by PLN 17mn). The fate of the remaining shares is still uncertain. We treat this stake as an asset for sale – we estimate its value at PLN 107mn (PLN 3.05 per share) and show this value as non-operating assets in the DCF. We do not deduct the potential tax due as, in our opinion, the most probable scenario is a redemption of the stake or the utilization of these shares in a potential acquisition (less likely). In either case, there is no tax burden.
- Real estate for sale** The company owns two attractive pieces of real estate in Poznan and Torun. To unearth their value, the company would have to execute the complicated logistics operation of moving its production capacities. The whole process is not easy to forecast, but with the expected recovery of the real estate market, its execution is increasingly likely. The plan is to invest in the new production facility in the special economic zone (offering tax relief) near the city of Torun. First, the production facility in Torun would be moved (2H 2011) allowing the sale of the real estate in Torun (with a value of about PLN 30mn). In the subsequent years, Apator could move its production facilities from Swidnica and Poznan. Initially the venture is likely to be more or less cash neutral, but then thanks to economies of scale and tax relief some significant value could be generated. We do not illustrate Apator's exact plans regarding the real estate (as it is not 100% certain for now) in our model, but only assume that the value of about PLN 25mn (PLN 0.7 per share) could be generated in the process (previously we had assumed PLN 20mn).
- Core business – stable as always** We see no major changes in the expected core business performance. The company is experiencing the first signs of recovery, especially in foreign markets. The recent weakness of PLN will be positive for Apator in the longer run. The increase in the prices of copper and brass in PLN should amount to about 30% in 2010, which transfers into a cost increase of about PLN 5mn. In medium term, we expect some pressure to reappear on employment costs (Apator is very vulnerable to this factor, as this position exceeds a 30% share in total costs). The potential implementation of remote-read meter systems in Poland is more of a long-term story, which we reflect in the expected strong dynamics for energy meter sales in 2011-13.
- Buy-back program** On the last AGM the shareholders of Apator decided about the buy-back program. The company would be ready to buy up to 2.8% stake for up to PLN 18 per share (total value of PLN 18mn). The program would last till May 2011. The whole realization of the program is in our opinion improbable.
- Valuation** We employed a DCF valuation tool to estimate the fair value of the company. Our DCF is based on our forecasts for 2011-14. We used a discount rate based on WACC and a terminal value based on perpetuity. The DCF led us to a fair value of PLN 20.3 per share, which in our opinion accurately reflects the value of the company. The peer comparison shows that Apator shares are traded in line with peers.
- Our estimates are based on the following:
- We assume the redemption of the own share stake or utilization of the stake in a potential (but not planned or assumed) acquisition. This would allow the company to avoid the tax burden. We estimate the value of the stake at PLN 107mn.
 - We assume that an average expected additional value of PLN 25mn could be generated from the real estate project.
 - We assume that the restructuring of the PoWoGaz subsidiary will continue.
 - We assume the average growth of wages at 5% in 2010-14e.
 - We assume the copper price in USD remaining at current levels.
 - We assume the average EUR/PLN at the level of 4.0 in 2010 and 3.8 in 2011-14.
 - The risk-free rate is set at 5.8%, equity premium at 6% (and 5.7% in perpetuity), debt premium at 2.5% and beta at 1.0 in the forecasted period.

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Peers

	P/E		EV/EBIT*			EV/EBITDA*			
	2010e	2011e	2012e	2010e	2011e	2012e	2010e	2011e	
Nedap	12.8	11.1		10.0	8.8		6.6	6.0	
Radiall SA	high	69.1		high	high		10.0	7.5	
Schaffner Holding AG	15.6	11.2	9.5	11	8.1	6.8	7.9	6.2	5.4
Neways Electronics	14.2	7.4		12.3	7.5		7.7	5.2	
Itron	18.4	15.6	13.6	15.8	11.8	9.5	10.5	8.6	7.4
Vaisala Oyj	27.8	16.2	13.0	20.0	10.3	8.0	13.4	8.7	7.1
Phoenix Mecano AG	13.7	11.6	10.6	10.4	8.8	7.8	7.1	6.2	5.5
Median total	16.5	11.6	12.1	13.3	9.2	7.8	8.9	6.4	6.0
Apator*	11.9	14.7	13.0	10.2	9.3	8.3	7.8	7.3	6.6
<i>Premium/discount</i>	-28%	26%	7%	-24%	1%	6%	-12%	13%	11%
Implied value	24.9	14.2	16.7	22.4	17.8	17.1	19.8	16.2	16.5

Source: Factset, Erste Group Research

*EV adjusted for the value of own shares stake

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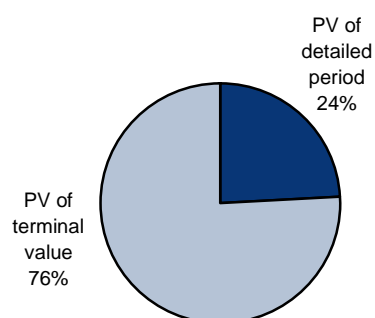
WACC calculation

	2010e	2011e	2012e	2013e	2014e	2015e (TV)
Risk free rate	5.8%	5.8%	5.8%	5.8%	5.8%	5.0%
Equity risk premium	6.0%	6.0%	6.0%	6.0%	6.0%	5.7%
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	11.6%	11.6%	11.6%	11.6%	11.6%	10.7%
Cost of debt	8.3%	8.3%	8.3%	8.3%	8.3%	7.5%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
After-tax cost of debt	6.7%	6.7%	6.7%	6.7%	6.7%	6.1%
Equity weight	90%	85%	89%	92%	91%	85%
WACC	11.1%	10.9%	11.1%	11.2%	11.2%	10.0%

DCF valuation

(PLN mn)	2010e	2011e	2012e	2013e	2014e	2015e (TV)
<i>Sales growth</i>	8.5%	7.6%	7.2%	4.9%	4.9%	1.5%
EBIT	50.5	55.5	61.9	65.0	69.4	70.4
<i>EBIT margin</i>	13.1%	13.3%	13.9%	13.9%	14.1%	14.1%
<i>Tax rate</i>	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Taxes on EBIT	-9.6	-10.5	-11.8	-12.3	-13.2	-13.4
NOPLAT	40.9	44.9	50.1	52.6	56.2	57.1
+ Depreciation	15.1	15.3	15.4	15.6	15.7	15.7
<i>Capital expenditures / Depreciation</i>	108.3%	107.2%	106.2%	105.9%	105.1%	100.0%
+/- Change in working capital	-2.0	-6.3	-6.3	-5.4	-5.5	-1.8
<i>Chg. working capital / chg. Sales</i>	-6.4%	-21.5%	-21.0%	-24.7%	-24.1%	-24.1%
- Capital expenditures	-16.4	-16.4	-16.4	-16.5	-16.5	-16.5
Free cash flow to the firm	37.690	37.512	42.872	46.354	49.875	54.43
<i>Terminal value growth</i>						1.5%
Terminal value						653.6
Discounted free cash flow - Dec 31 2010	0.000	33.833	34.815	33.841	32.746	422.6
Enterprise value - Dec 31 2010	557.8					
Minorities	0.0					
Non-operating assets	132.5					
Net debt	17.0					
Other adjustments	0.0					
Equity value - Dec 31 2010	673.4					
Number of shares outstanding (mn)	35.1					
Cost of equity	11.6%					
12M target price per share (PLN)	20.3					
Current share price (PLN)	17.9					
<i>Up/Downside</i>	13.4%					

Enterprise value breakdown



Sensitivity (per share)

		Terminal value EBIT margin				
		13.1%	13.6%	14.1%	14.6%	15.1%
WACC	9.0%	20.9	21.5	22.0	22.5	23.1
	9.5%	20.1	20.6	21.1	21.6	22.1
	10.0%	19.3	19.8	20.3	20.8	21.2
	10.5%	18.7	19.1	19.6	20.0	20.5
	11.0%	18.1	18.5	18.9	19.4	19.8
		Terminal value growth				
		0.5%	1.0%	1.5%	2.0%	2.5%
WACC	9.0%	20.3	21.1	22.0	23.0	24.2
	9.5%	19.6	20.3	21.1	22.0	23.0
	10.0%	18.9	19.6	20.3	21.1	22.0
	10.5%	18.4	18.9	19.6	20.3	21.1
	11.0%	17.9	18.4	18.9	19.6	20.3

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Income Statement	2007	2008	2009	2010e	2011e	2012e
(IAS, PLN mn, 31/12)	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011	31/12/2012
Net sales	311.35	356.19	367.65	386.60	415.94	445.94
Cost of goods sold	-213.42	-237.93	-239.54	-255.83	-273.10	-290.36
Gross profit	97.93	118.26	128.11	130.77	142.84	155.57
SG&A	-56.89	-70.05	-78.69	-80.82	-87.37	-93.67
Other operating revenues	1.78	8.30	1.48	0.55	0.00	0.00
Other operating expenses	0.00	0.00	0.00	0.00	0.00	0.00
EBITDA	55.62	70.46	66.12	65.64	70.78	77.35
Depreciation/amortization	-12.81	-13.94	-15.23	-15.14	-15.30	-15.44
EBIT	42.82	56.51	50.89	50.50	55.48	61.91
Financial result	0.62	-27.48	-11.51	17.18	-1.47	-2.01
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	43.44	29.03	39.39	67.68	54.00	59.90
Income taxes	-8.77	-5.97	-8.11	-12.86	-10.26	-11.38
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	-0.02	-1.73	-1.25	-2.03	-0.86	0.00
Net result after minorities	34.66	21.33	30.03	52.79	42.88	48.52
Balance Sheet	2007	2008	2009	2010e	2011e	2012e
(IAS, PLN mn, 31/12)						
Intangible assets	2.90	41.89	44.08	44.05	55.04	55.02
Tangible assets	72.15	101.87	97.46	98.80	99.91	100.88
Financial assets	8.79	15.30	11.60	11.60	11.60	11.60
Total fixed assets	83.83	159.05	153.13	154.45	166.55	167.51
Inventories	38.41	53.24	54.35	57.45	61.33	65.20
Receivables and other current assets	60.56	76.45	71.40	77.74	82.81	87.89
Other assets	1.50	2.95	3.47	3.47	3.47	3.47
Cash and cash equivalents	11.32	20.60	15.37	5.80	6.24	6.69
Total current assets	111.78	153.24	144.59	144.46	153.84	163.25
TOTAL ASSETS	195.61	312.29	297.72	298.91	320.39	330.76
Shareholders'equity	154.35	161.46	176.28	211.35	214.64	231.00
Minorities	0.08	2.42	3.88	3.88	3.88	3.88
Hybrid capital and other reserves	0.00	0.00	0.00	0.00	0.00	0.00
Pension and other LT personnel accruals	0.00	0.00	0.00	0.00	0.00	0.00
LT provisions	9.41	18.06	17.70	17.70	17.70	17.70
Interest-bearing LT debts	0.02	40.85	27.31	10.58	17.43	13.40
Other LT liabilities	0.00	0.00	0.00	0.00	0.00	0.00
Total long-term liabilities	0.02	40.85	27.31	10.58	17.43	13.40
Interest-bearing ST debts	5.15	50.11	37.05	12.98	21.38	16.44
Other ST liabilities	26.61	39.40	35.51	42.41	45.37	48.35
Total short-term liabilities	31.75	89.19	72.55	55.38	66.74	64.77
TOTAL LIAB. , EQUITY	195.61	312.29	297.72	298.91	320.39	330.76
Cash Flow Statement	2007	2008	2009	2010e	2011e	2012e
(IAS, PLN mn, 31/12)						
Cash flow from operating activities	33.16	53.02	34.58	48.16	53.66	59.99
Cash flow from investing activities	-8.92	-81.86	-19.87	-16.40	-27.40	-16.40
Cash flow from financing activities	-22.90	38.12	-19.93	-41.33	-25.82	-43.14
CHANGE IN CASH , CASH EQU.	1.34	9.28	-5.23	-9.57	0.44	0.45
Margins & Ratios	2007	2008	2009	2010e	2011e	2012e
Sales growth	7.8%	14.4%	3.2%	5.2%	7.6%	7.2%
EBITDA margin	17.9%	19.8%	18.0%	17.0%	17.0%	17.3%
EBIT margin	13.8%	15.9%	13.8%	13.1%	13.3%	13.9%
Net profit margin	11.1%	6.5%	8.5%	14.2%	10.5%	10.9%
ROE	23.6%	13.5%	17.8%	27.2%	20.1%	21.8%
ROCE	22.3%	21.9%	16.2%	16.4%	17.3%	18.4%
Equity ratio	78.9%	52.5%	60.5%	72.0%	68.2%	71.0%
Net debt	-6.1	70.4	49.0	17.8	32.6	23.2
Working capital	78.5	61.1	68.6	85.6	83.6	95.0
Capital employed	157.7	252.3	246.8	250.7	268.8	275.7
Inventory turnover	5.6	5.2	4.5	4.6	4.6	4.6

Source: Company data, Erste Group estimates

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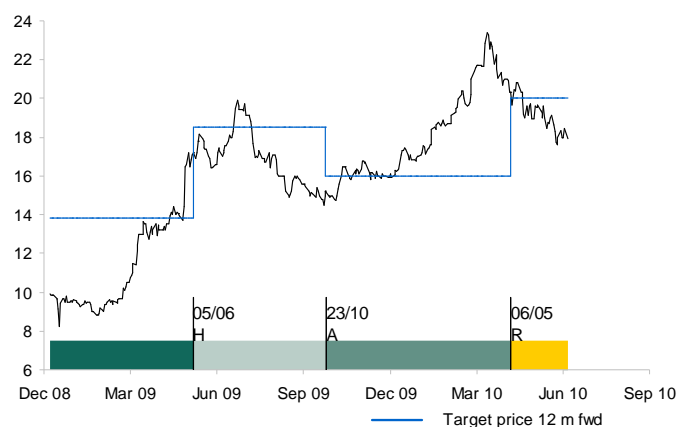
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Company Report – Apator

Apator



Rating history

Date	Rating	Price	Target Price
06. May 10	Reduce	20.35	20.00
23. Oct 09	Accumulate	15.20	16.00
05. Jun 09	Hold	17.20	18.50
19. Nov 08	Buy	10.01	13.80
13. Jun 07	Hold	22.20	23.30
10. Mar 06	Accumulate	19.41	23.36
27. Jun 05	Buy	8.73	10.76

Company

Disclosure

Apator

Important Disclosures

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Erste Group rating definitions

Buy	> +20% to target price
Accumulate	+10% < target price < +20%
Hold	0% < target price < +10%
Reduce	-10% < target price < 0%
Sell	< -10% to target price

Our target prices are established by determining the fair value of stocks, taking into account additional fundamental factors and news of relevance for the stock price (such as M&A activities, major forthcoming share deals, positive/negative share/sector sentiment, news) and refer to 12 months from now. All recommendations are to be understood relative to our current fundamental valuation of the stock. The recommendation does not indicate any relative performance of the stock vs. a regional or sector benchmark.

Distribution of ratings

Recommendation	Coverage universe		Inv. banking-relationship	
	No.	in %	No.	in %
Buy	37	24.2	9	64.3
Accumulate	38	24.8	2	14.3
Hold	43	28.1	2	14.3
Reduce	15	9.8	1	7.1
Sell	11	7.2	0	0.0
N.R./UND.REV./RESTR.	9	5.9	0	0.0
Total	153	100.0	14	100.0

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