

Company Report

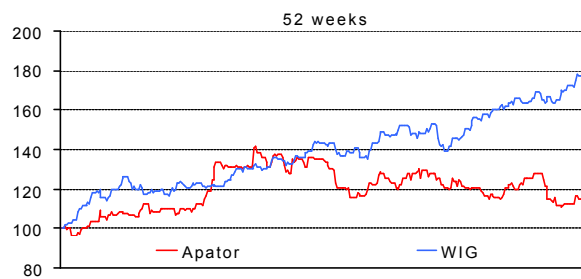
Apator

Poland, Electrical equipment

Hold

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PLN mn	2006	2007e	2008e	2009e
Net sales	288.9	321.1	357.1	391.4
EBITDA	55.5	61.3	66.6	71.5
EBIT	42.8	47.6	52.5	57.2
Net profit	37.6	38.1	42.3	46.0
EPS (PLN)	1.0	1.2	1.5	1.6
CEPS (PLN)	1.4	1.6	2.0	2.1
BVPS (PLN)	3.9	5.2	5.3	5.5
Div/share (PLN)	0.8	1.3	1.5	1.6
EV/EBITDA (x)	14.2	10.3	9.5	8.8
P/E (x)	21.5	18.7	15.1	13.9
P/CE (x)	15.8	13.8	11.3	10.6
Dividend yield	3.6%	6.0%	6.6%	7.2%



Performance	12M	6M	3M	1M
in PLN	16.8%	-12.5%	-6.4%	1.4%
in EUR	23.9%	-13.3%	-4.4%	-0.2%

Share price (PLN)	22.3	Reuters	APOR.WA	Free float	81.3%
Number of shares (mn)	28.7	Bloomberg	APT PW	Shareholders	Apator Mining(18.7%)
Market capitalization (PLN mn / EUR mn)	639.8 / 167.0	Div. ex-date	06/27/06	Other shareholders > 5%	(21.88%)
Enterprise value (PLN mn / EUR mn)	631.6 / 164.9	Target price	23.3	Homepage:	www.apator.torun.pl

Switch to export

- We have revised our view on Apator, our report reflects the struggle with margins on one hand and foreign expansion on the other hand, but we are keeping a sharp eye out for possible acquisitions. The outcome should be known in 2H07.
- Apator aims to expand via increasing its export sales (mainly of switching gear and gas meters). We expect the sales of the company to increase organically to almost PLN 400mn (from PLN 299mn in 2006) in three years' time.
- Several factors, such as an increasing share of exports and the cost of materials and labor should cause a deterioration of gross margins over time, although this could be partly offset by increasing workforce effectiveness and scale effects.
- We have taken into consideration Apator Mining's 18.7% stake in Apator. This is significant asset of Apator, which was not taken into consideration in our earlier reports. These shares would be used in the case of new acquisitions, or be redeemed. Since we did not assume any takeover in the model, we assumed redemption of the shares in mid-2007.
- We believe that Apator can increase its value via acquisitions (especially completing its meter offer) or entering new greenfield projects. However, since these have not been decided on yet, we have not included them in our model. We believe that one very significant chance would be the development of the market of remotely-read and integrated meter systems. However, this is something for the future.
- Our target price is PLN 23.3. We have a Hold recommendation on the stock.

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Investment story

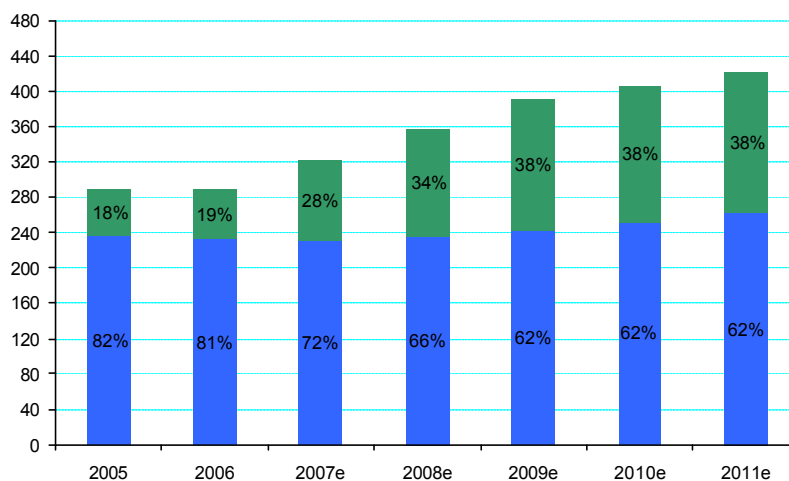
Expansion, despite tough environment

Apator's recent results have been under pressure from growing copper prices and the increasing cost of labor. However, in terms of the top line, the situation is positive and stable, despite the continuing chaos and structural changes in the energy segment. The gas meter business is hampered by a cyclical drop in orders. The downturn in the mining segment has also had an impact on the company's results. On the other hand, business is going well for Kfap (heat meters), Apator Control (switching gear) and - especially - at Pafal (inductive meters). Apator is nevertheless continuing to expand its business. The company aims to increase its activity outside Poland and is seeking demand for its products in foreign markets.

Exports set to soar

Due to the temporarily weaker domestic demand, the company aims to enhance its sales via exports. We expect exports to see an increased share in the company's sales. The most significant dynamics should appear in Metrix (with increasing exports, mainly to the Netherlands) and switching gear (increasing exports to Russia, Turkey and Balkan countries).

Domestic and export sales (PLN mn)



Source: Apator, Erste Bank estimates

The expansion on foreign markets should strengthen the top line very significantly. We expect Apator to reach nearly PLN 400mn in sales in 2009, due exclusively to organic growth. We expect foreign expansion to be successful in terms of volume, however the result will be negatively influenced by lower margins.

Struggle for margins

We expect Apator's margins to be driven in opposite directions, due to several factors.

■ The most important is the increasing share of exports. First of all, when entering new markets, Apator has to bear some initial costs and accept lower margins in its fight for market share. Secondly, the prices of products offered by Apator are currently higher in Poland than in foreign markets (we estimate the margins realized by Apator in foreign markets at about 80% of domestic margins). The effect of the growing share of exports should negatively influence the gross margin. In addition, an effect from the steady convergence of domestic prices to foreign ones can be expected.

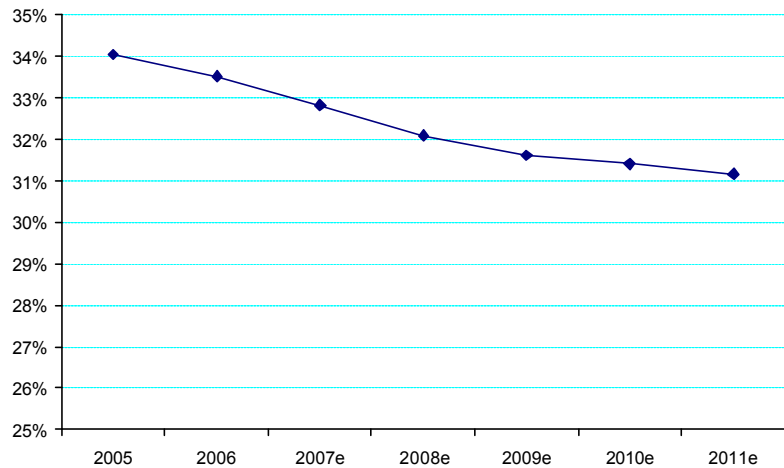
■ In our cost model, we assume the price of copper and brass remaining stable. We estimate that the share of copper and brass costs should amount to 10.5% of total costs.

■ We expect a significant increase in the cost of labor (which plays a very significant role in total costs, amounting to 35%).

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- On the other hand, the company should succeed in increasing its effectiveness in terms of labor costs.
- We also expect export prices to improve slightly after the initially tough period of fighting for market shares.
- Overall, we expect the final effect on margins to be slightly negative.

Gross margin estimation



Source: Apator, Erste Bank estimates

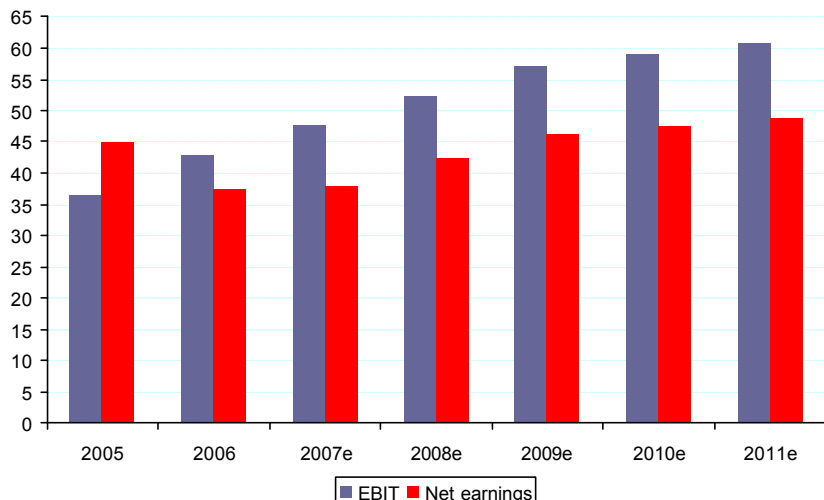
Possible sale of real estate

We have not taken into consideration the possible sale of real estate. The company is considering selling part of its plot in Torun (on which the production facility is located). This would force the company to move the production facility. Such a move could have a very significant positive effect on the net profit for 2007 or 2008 (amounting to more than PLN 20mn). However, the net cash flow effect would be much smaller, due to the investments needed to move the production. In order to avoid the temporary shut-down of production, the investments and process of moving production should be launched before selling the real estate.

Forecast for 2007 should be met, dividend promised

The two major factors - increasing export sales and tightening gross margins - should result in steady improvement of Apator's EBIT and net result.

EBIT and net profit estimations (PLN mn)



Source: Apator, Erste Bank estimates

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The company also declared that it aims to keep at least a 75% dividend payout ratio (out of net profit). Apator is known for its reliability in terms of paying a dividend. We expect high dividend yields of 3.6% for 2006 and even 6.0% for 2007 (assuming a share redemption and no new significant investments). The company usually makes an advance payment of part of the dividend (PLN 0.34 per share already paid out in December 2006 as a part of dividend for 2006). The exact total amount of the dividend will be set on the AGM in June (we expect DPS of PLN 0.8 per share).

Own shares

Subsidiary Apator Mining (99.7% owned by the group) owns 6.6mn Apator shares (an 18.7% stake). These shares were purchased as a shield against a hostile takeover in 2004. This occurred before the introduction of a law forbidding the purchase of own shares (other than in a buyback). The company has two possible ways of dealing with this situation. The first is to simply redeem these shares. The second would assume making use of the Apator Mining stake in the case of strengthening the group with a new acquisition. This could happen through a share exchange program with an acquired company, or simply as a financial asset available for sale. Although we see a very significant chance for Apator to strengthen its group with new entities, we do not take this into consideration yet. Therefore, we assume a share redemption in mid-2007. In our previous report, the stake of Apator Mining was not taken into consideration. However, we think it is a very significant factor for the firm's valuation and should be implemented in the model.

Future prospects

In its strategy release, Apator announced that it aims to reach PLN 500mn in revenues in three years' time. We believe that this plan is realistic, if assuming additional growth via acquisitions and greenfield projects. We hope that Apator will build value via acquisitions. The most probable targets are entities from the water-meter segment. This would allow the group to complete its meter offer. We believe that Apator is an experienced, well organized company with good management, and that it should be successful in increasing the effectiveness of any acquired entities. As for greenfield projects, none have been specified yet. We also hope for development in remotely-read meters. Next year, the company will increase its activity in this segment, but it will still only be on the scale of a pilot program. We think that integrated metering systems with remote access will definitely gain popularity in the future. However, the prospects (other than via organic growth) described above are still uncertain, and we do not include them yet in our model. We thus have a Hold recommendation on the stock.

Valuation

We employed a DCF valuation tool to estimate the fair value of the company. The DCF is based on our forecasts for the years 2007-11. 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 23.2 per share, which in our opinion reflects the value of the firm in a proper way. The peer comparison shows that Apator shares are traded with a very slight premium, which is justified in light of option for acquisitions. We downgraded our recommendation to Hold, as we regard the environment for Apator as tough in terms of organic growth. We recommend waiting for specific plans for acquisitions or new projects that are not currently taken into consideration in the model. Our estimates are based on the following assumptions:

- We assume the top line reaching PLN 391mn in 2009.
- We assume export sales reaching 38% of overall sales in 2009.
- The risk-free rate is set at 5.2%, equity premium at 5%, debt premium at 1.5% and beta at 0.72 in forecasted period (and 1.0 beyond 2011).
- The terminal growth rate is unchanged and set at 2%.

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Sensitivity of target price to terminal growth rate

	Terminal growth rate			
	0%	1%	2%	3%
Target price	19.7	21.3	23.3	26.0

Source: Erste Bank estimates

DCF valuation

PLN mn	2007e	2008e	2009e	2010e	2011e	beyond 2011
EBIT	47.6	52.5	57.2	58.9	60.6	60.6
tax rate	0.2	0.2	0.2	0.2	0.2	0.2
tax on EBIT	9.0	10.0	10.9	11.2	11.5	11.5
NOPLAT	38.6	42.5	46.3	47.7	49.1	49.1
Depreciation	13.7	14.1	14.3	14.7	15.2	15.2
Capital expenditures	-12.6	-11.0	-11.0	-12.0	-15.2	-15.2
Change in working capital	-3.6	-8.1	-7.7	-3.3	-3.5	
Free cash flow	36.1	37.5	42.0	47.0	45.6	49.1
Terminal value	642.5					
Value of FCF at 31.12.2006	33.2	31.8	32.7	33.7	30.0	
Sum of DFCF	161.4					
Discounted terminal value	423.4					
Enterprise value at 31.12.2006	584.8					
Non-operating assets	0					
Net debt at 31.12.2006	-0.6					
Fair value at 31.12.2006	585.4					
Number of shares (mn)	28.7					
Fair value per share at 31.12.2006	20.4					
Cost of equity	8.8%					
Target Price	23.3					
Stock price	22.30					
Premium/discount	4%					

Source: Erste Bank estimates

WACC

	2007e	2008e	2009e	2010e	2011e	beyond 2011
WACC	8.7%	8.7%	8.7%	8.7%	8.7%	9.8%
Equity cost	8.8%	8.8%	8.8%	8.8%	8.8%	10.0%
Debt cost	5.4%	5.4%	5.4%	5.4%	5.4%	5.3%
Equity weighting	98%	97%	97%	97%	96%	96%
Debt weighting	2%	3%	3%	3%	4%	4%
Risk free rate	5.2%	5.2%	5.2%	5.2%	5.2%	5.0%
Equity risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	0.72	0.72	0.72	0.72	0.72	1.00
Debt premium	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%

Source: Erste Bank estimates

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Peer group comparison

PLN mn	P/E			EV/Sales			EV/EBITDA			Valuation		
	2006	2007e	2008e	2006	2007e	2008e	2006	2007e	2008e	2006	2007e	2008e
Implied fair value	715	668	607	428	523	541	523	546	494			
Number of shares	29	29	29	29	29	29	29	29	29	19.3	20.2	19.1
Implied fair value per share	24.9	23.3	21.2	14.9	18.2	18.9	18.2	19.0	17.2			
12M Target Price										21.0	21.9	20.7
Median for international peer group	19.0	17.6	14.4	1.5	1.6	1.5	9.5	8.9	7.4			
APATOR	21.5	18.7	15.1	2.7	2.0	1.8	14.2	10.3	9.5			
Nedap	18.4	16.2	14.1	1.5	1.6	1.5	8.3	8.9	7.5			
Radiall SA	18.2	15.6	13.3	0.8	0.9	0.8	6.7	6.1	5.3			
Be Semiconductor Industr.	17.3	21.8	12.9	0.7	0.7	0.6	6.4	6.8	5.2			
Schaffner Holding AG	29.9	23.4	14.2	1.3	1.0	0.8	11.6	10.9	6.8			
Sword Group SA	21.7	20.7	17.2	2.3	2.1	1.8	13.9	12.6	10.8			
Oxford Instruments	32.6	27.8	19.9	0.8	0.9	0.8	11.0	11.8	9.5			
Vaisala Oyj	26.9	20.7	20.3	2.3	2.6	2.3	10.3	11.2	10.4			
SAES Getters SpA	20.0	16.7	15.0	3.2	2.7	2.5	7.9	5.3	4.8			
Phoenix Mecano AG	13.5	13.3	11.1	1.1	1.0	0.9	7.1	6.7	5.7			
E2V Technologies Plc	19.0	16.2	14.4	1.8	1.6	1.5	10.3	9.3	8.4			
Metrologic Group	18.2	17.6	15.9	5.4	5.0	4.2	9.5	8.8	7.4			

Source: Erste Bank estimates

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Income Statement (IAS, PLN mn, 31/12)	2005	2006	2007e	2008e	2009e
Sales revenues	277.2	288.9	321.1	357.1	391.4
Cost of goods sold	-182.5	-192.1	-215.7	-242.5	-267.7
Gross profit	94.7	96.8	105.4	114.6	123.7
SG&A	-54.4	-55.3	-57.8	-61.8	-66.1
Other operating revenues	11.9	0.0	0.0	0.0	0.0
Other operating expenses	-15.2	1.3	0.0	-0.4	-0.4
EBITDA	50.4	55.5	61.3	66.6	71.5
Depreciation	-13.5	-12.7	-13.7	-14.1	-14.3
EBIT	37.0	42.8	47.6	52.5	57.2
Financial result	-0.4	0.5	-0.1	0.3	0.3
EBT	36.5	43.3	47.5	52.7	57.4
Tax expenses	-6.9	-6.6	-9.0	-10.0	-10.9
Extraordinary result	13.0	0.0	0.0	0.0	0.0
Minority interests	-0.4	-0.1	-0.4	-0.4	-0.5
Net result after minorities	45.1	37.6	38.1	42.3	46.0
Balance Sheet (IAS, PLN mn, 31/12)	2005	2006	2007e	2008e	2009e
Intangible assets	4.0	4.1	4.0	3.5	3.2
Tangible assets	64.5	72.2	71.3	68.7	65.7
Financial assets	6.4	9.5	9.5	9.5	9.5
Total fixed assets	74.9	85.9	84.8	81.7	78.3
Inventories	30.9	37.9	38.4	43.2	47.7
Receivables and other current assets	65.1	58.5	68.5	76.2	83.6
Other assets	1.3	1.2	1.2	1.2	1.2
Cash and cash equivalents	15.1	10.0	10.9	12.1	13.3
Total current assets	112.3	107.6	119.1	132.8	145.8
TOTAL ASSETS	187.2	193.5	203.9	214.5	224.1
Shareholders' equity	117.4	138.9	148.8	153.0	156.7
Minorities	2.0	0.4	0.4	0.4	0.4
Other reserves	0.0	0.0	0.0	0.0	0.0
Interest-bearing LT debts	0.0	0.0	0.0	0.0	0.0
Other LT liabilities	9.6	10.0	10.0	10.0	10.1
Total long-term liabilities	9.6	10.0	10.0	10.0	10.1
Interest-bearing ST debts	16.8	9.4	2.8	4.1	5.2
Other ST liabilities	41.3	34.8	41.9	46.9	51.7
Total short-term liabilities	58.1	44.2	44.7	51.1	56.9
TOTAL LIAB. & EQUITY	187.2	193.5	203.9	214.5	224.1
Cash Flow Statement (IAS, PLN mn, 31/12)	2005	2006	2007e	2008e	2009e
Cash flow from operating activities	29.7	42.1	48.4	48.7	53.1
Cash flow from investing activities	-19.2	-16.1	-12.6	-11.0	-11.0
Cash flow from financing activities	-4.3	-30.3	-34.8	-36.4	-40.9
CHANGE IN CASH & CASH EQU.	6.2	-4.3	0.9	1.2	1.2
Margins & Ratios	2005	2006	2007e	2008e	2009e
Sales growth	45.4%	4.2%	11.1%	11.2%	9.6%
EBITDA margin	18.2%	19.2%	19.1%	18.6%	18.3%
EBIT margin	13.3%	14.8%	14.8%	14.7%	14.6%
Net profit margin	16.3%	13.0%	11.9%	11.8%	11.8%
ROE	45.3%	29.3%	26.5%	28.0%	29.7%
ROCE	37.6%	26.2%	25.7%	27.9%	29.6%
Equity ratio	63.8%	72.0%	73.2%	71.5%	70.1%
Net debt	1.8	-0.6	-8.1	-8.0	-8.1
Capital employed	130.9	148.7	151.1	155.4	159.1
Inventory turnover	7.1	5.6	5.7	5.9	5.9

Source: Company data, Erste Bank estimates

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Rating history

Date	Product	Rating	Price	Target price
30. Aug 06	CR	from Buy to Accumulate	21.00	23.70

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Company	Disclosure	Comment
Aparator	4	--

Erste Bank 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.

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