CEE Equity Research

June 27, 2005

Company Report

Small/Mid -Cap

Research

Apator

Metering the growth

- Substantial acquisitions in 2004
- High restructuring potential in acquired companies
- Expected recovery in investments from 2005
- Change of strategy should result in higher margins
- Policy of stable dividend growth
- Attractive market multiples
- Price target at PLN 118.4, BUY

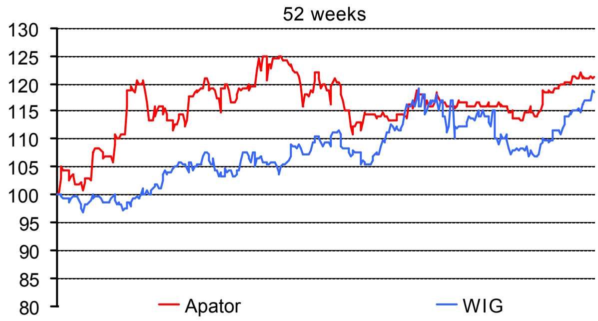
Apator

Poland, Electrical equipment

initiate coverage with Buy

Michal Majerski, +48 22 653 9352
michal.majerski@esp.pl

PLN mn	2004	2005e	2006e	2007e
Net sales	201	266	286	301
EBITDA	55	50	56	61
EBIT	45	35	39	41
Net profit	35	28	32	34
EPS (PLN)	10.9	8.7	10.0	10.5
CEPS (PLN)	15.4	13.4	15.4	16.7
BVPS (PLN)	27.0	31.5	36.5	39.5
Div/share (PLN)	4.0	5.0	7.5	7.9
EV/EBITDA (x)	5.5	6.2	5.3	4.8
P/E (x)	8.7	11.0	9.5	9.1
P/CE (x)	6.2	7.1	6.2	5.7
Dividend yield	4.2%	5.3%	7.9%	8.3%



Performance	12M	6M	3M	1M
in PLN	21.1%	1.9%	3.9%	1.8%
in EUR	37.0%	3.5%	7.0%	6.0%

Share price (PLN)	95.1	Reuters	APOR.WA	Free float	50.5%
Number of shares (mn)	3.2	Bloomberg	APT PW	Shareholders	Apator Mining(18.7%)
Market capitalization (PLN mn / EUR mn)	305.1 / 76.1	Div. ex-date	28/06/05		Other shareholders > 5% (21.82%)
Enterprise value (PLN mn /EUR mn)	308.6 / 76.9	Price target	118.4	Homepage:	www.apator.torun.pl

Metering the growth

- **Apator experienced impressive 89% y/y sales growth in 2004, a fact that seems to have been ignored by the market. Acquisitions were the main growth driver. The company created a capital group with an integrated offer of metering equipment for heat, electricity and gas. Three newly acquired companies should contribute over PLN 100mn in additional revenues per annum.**

- **Although the acquired companies increased sales, the profitability of the group declined. The restructuring of subsidiary companies will be the biggest challenge for Apator in 2005. The greatest restructuring potential is related to employment costs, as total group employment tripled in 2004.**

- **The macroeconomic environment seems to support organic growth. Apator offers investment goods, and the most important factor - investment outlays - is expected to accelerate in 2005.**

- **At the beginning of 2005, Apator announced a change in its strategy - the company has switched to a system approach for media metering, rather than selling a simple apparatus. Apator plans to promote its brand and expansion of exports.**

- **The company pays regular dividends. Apator is to pay out PLN 4.0 DPS from its 2004 net profit. For 2005, DPS is expected to grow to PLN 5.0.**

- **The company's market multiples look attractive. We forecast 2005 EV/ EBITDA at 6.2x and the PE ratio at 11x.**

- **We initiate coverage of Apator with a Buy recommendation, as the current market price offers 25% upside to our price target.**

Company overview

Apator is one of the leading companies in the electro-technical and electronics industries. It focuses on the manufacture and sale of low-voltage equipment for the industrial and utilities sectors. The company's two major product lines are consumption-metering equipment for energy media (electricity, gas and heat) and switchgear (including equipment for the mining industry to protect against electrical fires and explosions).

Strategy

Change in strategic focus ...

The long-term goal for Apator is the creation of a strong technological group, with a leading position in the metering and switchgear markets. The company intends to increase its sales volume and maintain cost advantages. The first goal is to be achieved through the introduction of new products, strengthening the company's distribution network and searching for niche markets. In the area of costs, the company still has plenty of reserves, especially in employment costs.

...towards supplying comple metering systems

Apator announced some significant changes to its strategy at the beginning of 2005. The company intends to switch to a system approach for media metering. This means that Apator will offer complex systems, including apparatus and services for metering and settlement of payment for energy media, rather than only the sale of basic equipment. We believe this change will provide higher margins and increase demand.

Another significant assumption the company makes is with regard to the development of exports. Apator's target is for export sales to constitute one third of total revenues (currently 13%). At present, the company exports mainly to post-Soviet countries. Last quarter's contract with E.ON was the first sign of growing demand from the European Union.

History

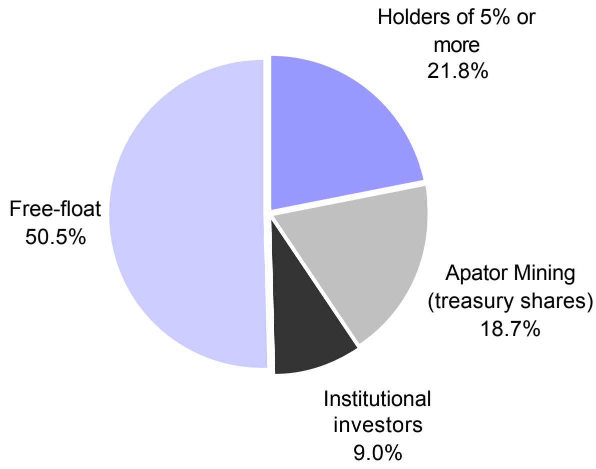
2004 dominated by takeovers

Apator was established in Torun in 1949 as a state-owned enterprise producing switchgear equipment, electrical distribution boards in metal casings, enclosures and control gear equipment for coalmines and the power industry. In the 1960s, power transformer substations and control-distribution equipment became significant products of the company's production program. These products were mainly exported to the Soviet Union. In the 1970s, Apator started to produce thyristor drive units. Apator broke certain technical barriers, and began to manufacture the family of DC thyristor drive units, the first firm in Poland to do so. The 1980s brought further development of electrical equipment for coal mining. On December 3, 1992, Apator was privatized, with employees becoming shareholders. Apator debuted on the WSE on April 24, 1997. 2004 was dominated by takeover activity, which enriched the group's product portfolio via the addition of gas and heat meters.

Shareholders

Apator does not have a strategic investor. Most shareholders are private individuals, as well as current and former members of the supervisory board. 23% of shares are preferred, with a 1:4 ratio in terms of votes. Subsidiary Apator Mining holds an 18.7% stake in the mother company, as a buffer against a hostile takeover. Improving financial results have attracted financial institutions, which together control 9% of the company. Apator offers over 50% free float, which is currently valued at PLN 150mn.

Shareholder structure



Source: Apator

Structure of capital group

With the incorporation of last year's acquisitions, the structure of the firm's capital is being rebuilt. Several competence centers responsible for key product lines are to be separated as follows:

Apator SA - the dominant entity; besides controlling and managing functions, Apator SA concentrates on the production and sale of metering equipment (pre-paid meters, heat meters, systems) and switchgear. Apator SA remains the largest company in the group, contributing 47% of consolidated revenues in 2004.

Complementary offer to existing product lines

PAFAL - manufacturer of meters and apparatus for electrical energy and power measurements; the biggest acquisition in 2004. PAFAL has its own capital group, including PAFAL-FORM (100%), PRASMET (100%) and Energo-Instal (97%). The restructuring plan for PAFAL assumes the disposal of all of these companies. Previous subsidiary GALPAF was already sold in 2004, with the remaining three companies to be sold in 2005. Apator controls 98.10% of PAFAL and has consolidated its results since 2Q04, during which PAFAL contributed PLN 66.3mn in revenues to the Apator group. PAFAL's product portfolio includes electromechanical electricity meters, electronic electricity meters and time switches used for controlling electrical devices. Meters from PAFAL are credit-type, which makes them complementary to the pre-paid meters produced by Apator SA.

Apator Mining (previously Apator Service) – producer of explosion-proof equipment for the mining industry. The company was established in 1995 and is situated in Katowice, capital of the coal-mining area of Upper Silesia. In addition to its core business, Apator Mining is responsible for the distribution of other group products in this region. The company also offers maintenance services for coalmines. Apator controls 97.2% of Apator Mining.

Apator KFAP - established on the basis of acquired heat meter manufacturer KFAP (from Krakow). KFAP was a direct competitor of Apator on the heat meter market, with a similar market share (valued at approximately PLN 8mn per annum). KFAP was acquired in November 2004, so the majority of its results are to be consolidated from this year. The price for the 100% stake was PLN 2.7mn.

Metrix - producer of gas meters (from Tczew). From November 2004 till June 2005, Apator purchased a 98.4% stake in Metrix for PLN 13.8mn. Metrix has a 40% market share in gas meters. We estimate the company's annual sales at close to PLN 30mn.

Apator Control – producer of AC/DC drive gears for industrials; 100% controlled by Apator.

Apator Elektro – Moscow-based subsidiary responsible for trading activity of group's products in Russia. Apator controls 50% of Apator Elektro.

Focus on small - cheap acquisition targets

At present, the only media not serviced by Apator is water. The company plans to make an acquisition in this segment this year. The takeover will depend on the attractiveness of potential targets. Apator's acquisition strategy assumes the purchase of relatively small companies in weak financial condition (usually state-owned), which, after restructuring, could complete the group's product portfolio. Such tactics allow for purchases at attractive prices. The 2004 acquisitions seem to confirm the effectiveness of this strategy.

Acquisitions

Company	PAFAL	KFAP	Metrix
Apator's stake	98.10%	100.00%	98.39%
Product	electricity meters	heat meters	gas meters
2004 sales (PLN mn)	78.00	7.20	30.00
Price (PLN mn)	22.43	2.69	13.76
2004 EV/S	0.29	0.37	0.47

Source: Apator, Erste Bank

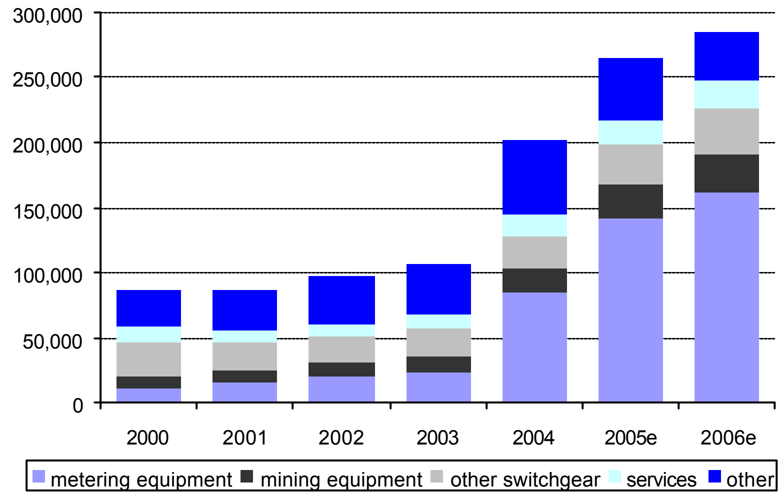
The acquired companies' 2004 EV/Sales ratios of up to 0.5x are in our opinion very attractive, especially in comparison with Apator's (1.5x). These companies have a low level of debt; only PAFAL had PLN 6.7mn in bank loans in its end- 2004 balance sheet.

Sales breakdown

Services to increase weight in sales

As mentioned above, the two main product groups are metering equipment and switchgear. In 2004, these accounted for 42% and 22% of revenues, respectively. Services became the third most developed segment. The system approach should increase the importance of associated services in the near future.

Sales structure by value (PLN ´000)



Source: Apator, Erste Bank

System-based solution offers great benefits

Apator's engineers developed the unique LEW metering system for metering consumption, readout and settlement of payments for electricity. The system consists of a meter (based on a license from South Africa's Plessey Tellumat), vending software and an encryption card. The software and card are installed in a PC computer, and together they form the vending station. The systems are dedicated to both individual and corporate costumers, and enable servicing with the use of modern technology such as the Internet, GPRS, radio transmission, etc. The systems offer several advantages over traditional meters, both for the utilities and end-users. Advantages for the utilities include the possibility of getting back overdue payments, lack of costs related to the reading of meters, and no longer having to switch electricity off/on in the case of overdue payment (which is expensive). Benefits for end-users include simplifying the process of purchasing energy (users may purchase energy via phone or the Internet without leaving home), protection against the consumption of electricity by unauthorized persons, the possibility of purchasing electricity at any time and in the required volume, the possibility of purchasing electricity at a discount, reducing the number of visits by an attendant and the possibility of proportional payment of debts accrued during the operation of the credit meter. LEW systems have been granted several certificates and prizes at international industrial fairs. In our opinion, the LEW system may be an export hit on European Union markets. Aside from electricity systems, Apator offers the multi-energy systems DATAPAF, INKAL, FLAT and RECKON.

The fastest growing segment is metering equipment. This segment consists of meters, systems, gauges and switches. In addition to acquisitions, Apator is developing and promoting very promising products, including pre-paid electricity meters and systems. In Torun, Apator has a team of 70 highly skilled employees that are responsible for the constant development of this segment.

The sale of switchgear is divided into many sub-segments, with mining equipment the largest. Aside from explosion-proof equipment for the mining industry, Apator also produces disconnectors, distributors, transformers and many other products.

The "others" group includes AC/DC drive gears, control panels, applications, spare parts and materials.

For the coming year, we expect the fastest development to continue in the metering equipment segment. Apator is gradually dropping products not classified into any of the main groups. In 2004, the company stopped the production and sale of office furniture, metal boxes and packages.

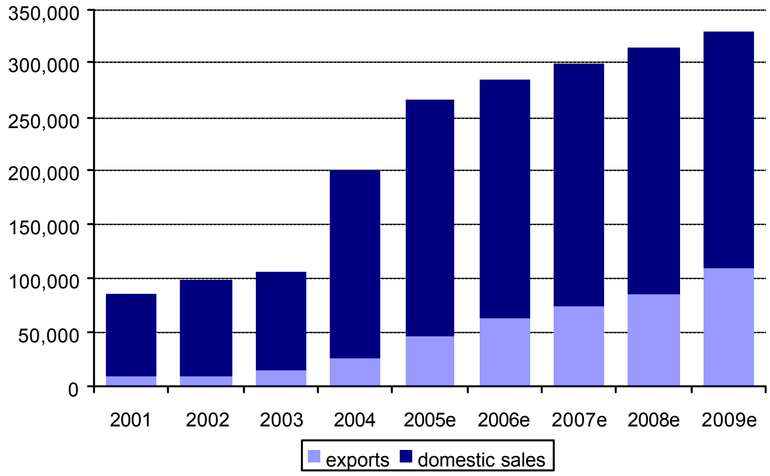
Exports

Apator considers exports to be a fundamental part of its strategy. To date, Apator has mainly exported its products eastward, via subsidiary Apator Elektro. After receiving certain certificates (PTB for metering equipment, VDE for switchgear), Apator intends to enter the European Union market. Other target markets are Serbia & Montenegro, Bulgaria and the near East.

Exports to gain importance

Exports contributed PLN 25.86mn in revenues in 2004. The group's biggest exporters were Apator SA (PLN 10.5mn) and PAFAL (PLN 14.9mn). The export of switchgear was concentrated on the Russian market, while energy meters were mainly sent to Germany. In our opinion, the greatest potential is in the EU, especially with Germany interested in pre-paid energy meters. We expect 2005 exports to amount to PLN 47mn, accounting for 17.5% of total revenues. This would bring the company closer to its target export/domestic sales share structure (30/70%).

Sales breakdown (domestic vs export, PLN '000)



Source: Apator, Erste Bank

Restructuring process

Average employment costs grew

We expect Apator to finally take over some target companies and present higher group profitability this year. We believe that effective management of human resources is the key to restoring the profitability of subsidiary companies. At the end of 2003, the group hired a total of 569 people; with the purchase of PAFAL, KFAP and Metrix, employment was raised to 1,843 people. This caused an increase in the average employment cost per employee, from PLN 43,000 to PLN 47,000. Average worker productivity declined from PLN 185,000 to PLN 183,000.

Cleaning up acquisitions...

In our opinion, the deepest cut is necessary at the PAFAL group. Fortunately, this can happen through the sale of entire subsidiaries. Therefore, Apator will not face high costs related to severance payments for fired employees. The average productivity of the PAFAL group in 2004 was PLN 84,200 per employee; for KFAP, this figure was PLN 114,000, while Metrix employees each contributed PLN 124,000. A comparison with the average productivity for Apator SA (PLN 209,000) shows how deep cuts are necessary. We have assumed that the target for the newly acquired companies is average productivity of PLN 200,000. This implies a reduction of the staff to 442 people in the PAFAL group, 40 at KFAP and 140 at Metrix.

...and creation of group synergies

Possible synergies could be achieved in the areas of collective purchase of materials, energy and external services. Taxes should be lowered through the sale of unneeded assets. We expect consolidation and an increase of efficiency of the sales structure. Savings in administration costs are possible through the reduction of posts on the supervisory boards of acquired companies. Apator also intends to introduce a control and motivational system for staff throughout the group.

Employment

PLN '000	2003	2004	2005e
Total revuenues	**106,000**	**200,419**	**266,447**
Annual revenue per employee	**185**	**183**	**183**
Apator S.A.	176	209	205
PAFAL Group		84	200
KFAP		114	200
Metrix			200
Total no. of employees	**579**	**1,618**	**1,289**
Apator S.A.	420	479	479
Apator Control	48	53	53
Apator Mining	111	125	125
Pafal Group		891	442
KFAP		70	40
Metrix			150
Total employment costs	**24,733**	**51,165**	**55,421**
average emploment cost per employee	**43.09**	**46.58**	**43.00**

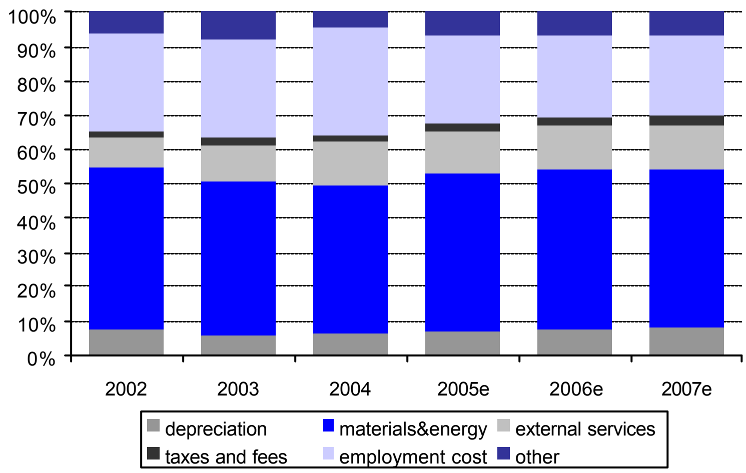
Source: Apator, Erste Bank

According to our calculations, after the staff reduction, the relationship of employment costs to revenues will decrease from 25.5% to 20.8%. For 2006-2010, we assume a constant number of employees and an increase in average wages at the rate of inflation.

Costs and margins

We expect some changes in the cost structure. Aside from a drop of employment costs, another factor determining margins will be depreciation. We expect depreciation charges to increase, due to the acquisition of new assets. We are rather conservative regarding material and energy costs.

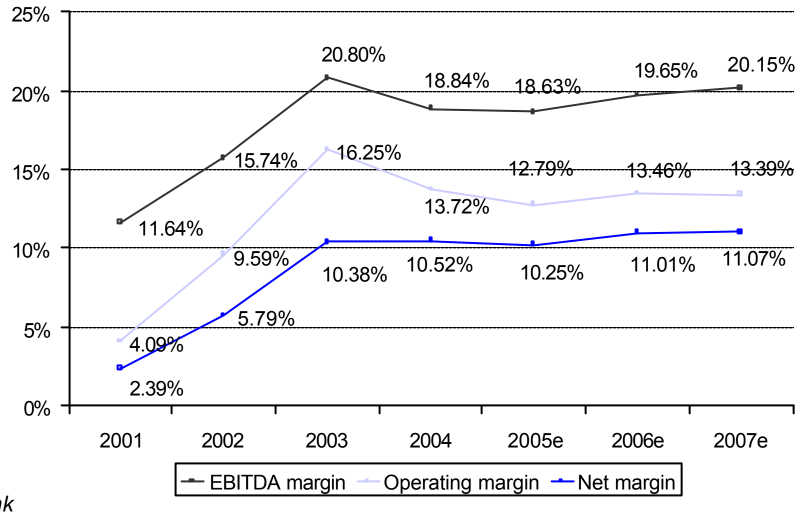
Costs structure



Source: Apator, Erste Bank

We believe that Apator will systematically improve its margins. The reduction of costs and concentration on more profitable products should result in growing margins at all levels. For 2004, we have cleared a one-off event (the sale of real estate) from the P&L account. The 2005 operating margin will suffer slightly from potential restructuring costs. However, the company should start to benefit fully from these moves in 2006.

Margins development



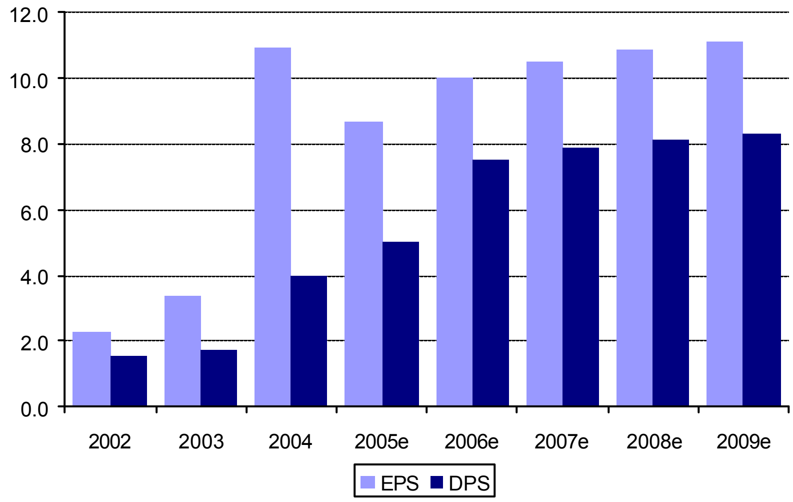
Source: Erste Bank

Dividend policy

Stable dividend policy expected to be maintained

Apator has a regular dividend policy. Apator will pay a total of PLN 4.0 per share from its 2004 net profit. For 2005, management initially declared a DPS of PLN 5.0. We believe that this favorable dividend policy will continue, as a majority of shareholders (members of the board and financial institutions) are likely to support it. The future dividend payout ratio will depend on the group's investment policy. We do not expect any significant investments (in money terms), and thus assume an increase of the payout ratio to 75%. Most targets should be rather cheap as previously mentioned.

Dividend policy (PLN per share)



Source: Apator, Erste Bank

1Q results purely driven by acquisitions

1Q05 results

The first quarter is usually the weakest for the investment goods sector. Apator's 1Q05 data is only partly comparable with 1Q04, since the company only started to consolidate PAFAL in 2Q04. The improvement on the top line (+108.9% y/y) was thanks mainly to the consolidation of the acquired companies. Organic growth was limited to the disappointing dynamics of investments. The 123% cost growth indicates that the restructuring process is not yet at an advanced stage. The combination of these factors resulted in a decrease of the gross margin.

At the operating level, the 1Q04 result was impacted by profit form the sale of real estate. Despite this sale, the 1Q05 operating margin was still lower (14.3%, vs. 16.6% in 1Q04, after the removal of the one-off item).

An opposite situation occurred on the financial level. In 1Q05, a positive one-off item came in the form of negative goodwill from the consolidation of Metrix (PLN 6.8mn). After excluding this item, the bottom line came in at PLN 5.9mn, which implies an 11% net margin.

Our forecast is based on Polish Accounting Standards, which are not affected by the extraordinary profit from negative goodwill resulting from consolidation. However, since the beginning of 2005, Polish companies have been obliged to present financial statements in compliance with IAS 2005. Therefore, the bottom line would be overstated by PLN 5.9mn, which could force management to upgrade its annual forecast.

1Q05 Results

PLNmn, consolidated IAS	1Q 2004	1Q 2005	*y/y*
Revenue	**25.5**	**53.2**	***108.9%***
Cost	-15.7	-35.0	*123.1%*
Gross earnings	9.8	18.2	*86.1%*
gross margin	*38.4%*	*34.2%*	
S&A cost	-5.2	-11.6	*123.5%*
other operating, net	3.6	1.0	*-72.0%*
EBITDA	9.5	11.5	*21.5%*
EBITDA margin	*37.2%*	*21.6%*	
EBIT	**8.2**	**7.6**	***-7.5%***
EBIT margin	*32.3%*	*14.3%*	
financial operations, net	0.1	0.0	*-143%*
Pre-tax earnings	8.3	14.4	*73.2%*
corporate income tax	-1.6	-1.5	*-7%*
other	0.0	-0.2	*991%*
Net earnings	**6.7**	**12.7**	***89.2%***
net margin	*26.4%*	*23.9%*	
EPS (PLN)	**1.99**	**3.96**	**98.7%**

Source: Apator

The general conclusion reached after an analysis of Apator's 1Q05 figures is that the group's profitability suffered due to the acquisitions. Shareholders will have to wait a few months to see margins returning to their normal level.

Market overview

Major costumers

Pushing pre-paid systems

The biggest costumers for pre-paid energy meters are energy distributors and producers: GZE, Enea, Energa, Enion, ZE Lodz. The company is still looking for non-industrial applications for its metering systems, like campuses, camping areas, employee hotels and office centers. Apator is also trying to popularize prepayment services for private individuals by offering comfortable payment systems. Pre-paid cards are already available in supermarkets. Settlement via the Internet, phone or SMS is also provided.

The most important recipients of heat meters are Onninen, Wodmiar, Hydrosolar, Insbud Wybrzeze and BIM PLUS.

In the switchgear segment, major clients are electro-mechanical wholesale networks like El-Centrum, Mors, Tim and Sonepare. The second target group includes producers of specialized equipment for the energy sector, such as ZPUE, Elmat, Emiter, Incobex and Elektrobudowa.

Sound relationship with biggest mining companies

In the explosion-proof equipment segment, Apator has established excellent relationships with the biggest and most profitable companies in the Polish mining industry (Kompania Weglowa, Katowicki Holding Weglowy and Jastrzebska Spolka Weglowa). Kompania Weglowa is the biggest hard coal exploring company in Europe. It consists of 24 coalmines with annual revenues of PLN 12.2bn and net profit of PLN 430mn (2004). Annual sales volume amounts to 50mn tons of hard coal. Katowicki Holding Weglowy is the second largest hard coal producer, consolidating nine coalmines. Annual revenues in 2004 came in at PLN 3.21bn, with net profit at PLN 138.7mn. The holding sold 17.8mn tons of hard coal last year. JSW is the largest Polish producer of coking coal. However, Apator's prospects in the entire coal mining industry are modest at present. Apator services the strongest entities that have been successfully restructured, and which are now able to begin the investment phase.

Market share

Market share dominant

Apator has a very high domestic market share in all segments in which it is active. The electricity meter market is divided into pre-paid meters (in which Apator enjoys a 90% market share) and credit meters (in which the group has a 62-65% market share). After the acquisition of KFAP, the group's market share in heat meters rose to 50%. Due to the acquisition of Metrix, the group entered the gas meter market with a 45% share.

The switchgear market is strongly diversified; depending on the product in question, Apator's market share varies from 40% to 80%. The highest share is in the segment of switchgear for the mining industry.

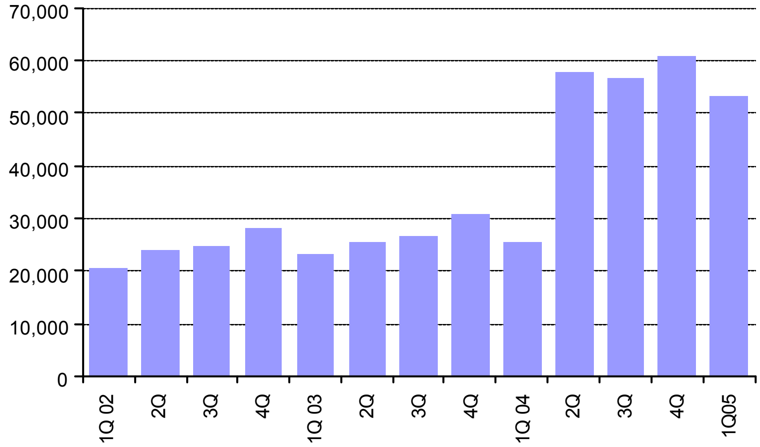
Potential seen mostly in exports

As the market share for all products is very high, we think that the growth potential on the domestic market is limited, and that the company will have a problem outperforming the market's growth rate. Such a development would be in line with management's intention to strengthen exports.

Seasonality

The first quarter is usually the weakest for investment goods. Apator's experience confirms this rule, as its first quarter is always the worst of the year, with each subsequent quarter showing superior performance. Demand was slightly restrained in 1Q05, due to the consolidation process underway among energy companies. We expect higher demand in the coming quarters.

Quarterly sales (PLN ´000)



Source: Apator, Erste Bank

Main competitors

Apator's main competitors are foreign giants Siemens, Actaris-Schlumberger, Landis+Gyr, Elster and Kelma, as well as smaller domestic companies like Iskra and Elektromet. Unfortunately, none of these competitors is a public company, so we cannot compare them on market multiples.

Growth determinants

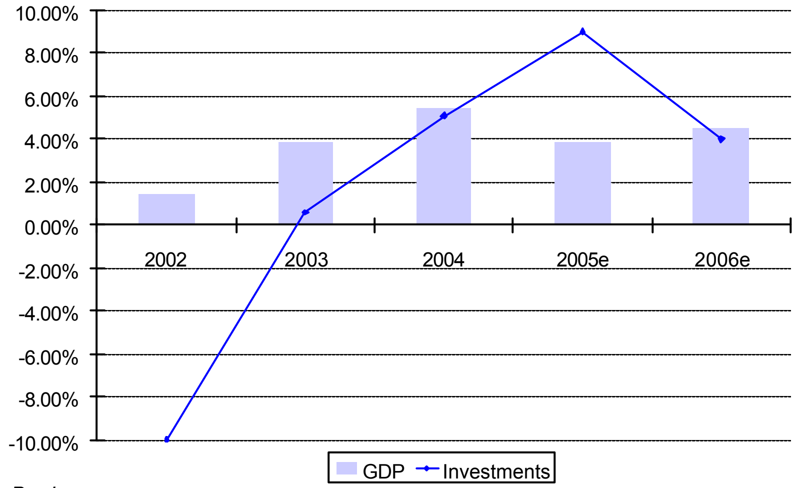
As Apator produces investment goods, its revenues are correlated with investment outlays in industry (especially in the energy and coal mining industries). Demand for Apator's products is dependent on the financial condition of companies focused on the construction of energy plants, energy producers and distributors, industrial companies, mining companies, wholesalers of electro-mechanicals and real estate developers.

Recovery in investment outlays expected

A recovery in investment outlays is widely expected this year. However, macro data for 1Q05 suggests that this might be delayed to the second half of the year. In 1Q05, investments grew by only 1% y/y. After a slump in investment outlays in 2001 and 2002 (according to the Central Statistical Office, y/y dynamics came in at –9.5% and –10%, respectively) and stagnation in 2003 (+0.6%), investments finally accelerated (+5.1%) in 2004. Manufacturers of electric equipment increased their revenues by 12% y/y.

For the current year, a majority of macroeconomists expects high growth of investment outlays (between 7 and 10% y/y). In the budget bill, the Polish finance minister assumes 10% growth in 2005 and 7% in 2006. Our forecast is slightly more conservative: 9% in 2005 and 4% in 2006. We expect a positive macro environment for producers of investment goods in the coming years. In our opinion, their revenues will grow faster than GDP.

Investments



Source: GUS, Erste Bank

The biggest contracts

Apator has recently signed a few big contracts with both domestic and foreign clients, demonstrating its potential. Apator Mining won a tender worth PLN 42.95mn to provide switchgear and services to Kompania Weglowa in 2005-2007. Another success came from PAFAL's PLN 22mn contract to provide electricity meters for Germany's E.ON.

Valuation and recommendation

Valuation based on two methods

We have valued Apator using two different methods: Discounted Cash Flows (DCF) and Peers comparison. Market multiples method is less reasonable in our opinion, as none of Apator's direct competitors is listed. We would also like to show the position of Apator in the European Electronic Components & Instruments sector.

Valuation summary

	value of the company (PLNmn)	number of shares (mn)	fair value per share (PLN)
DCF e2005	**379.92**	**3.209**	**118.4**
market multiples e2005	**347.06**	**3.209**	**108.2**
merket multiples e2006	**355.40**	**3.209**	**110.8**
P/E e2005	482.48	3.209	150.4
P/E e2006	472.58	3.209	147.3
EV/Sales e2005	191.78	3.209	59.8
EV/Sales e2006	184.38	3.209	57.5
EV/EBITDA e2005	366.92	3.209	114.3
EV/EBITDA e2006	409.24	3.209	127.5

Source: Erste Bank

WACC calculation

- 4.9% risk-free rate in the forecast period, equal to yields of Polish 5-year Treasury bonds. In perpetuity, we assume 5% risk-free rate (yield of 20-year Treasury bonds).
- 5% risk premium for equity and 1.5% for debt, as we regard Apator as a moderate risk company
- Beta equal to 1; however, Reuters estimates a lower beta for Apator (0.43)
- 19% CIT will be maintained throughout the entire forecast period and in perpetuity

WACC

	2005e	2006e	2007e	2008e	2009e	2010e	beyond 2010
WACC	**7.8%**	**8.1%**	**8.2%**	**8.2%**	**8.2%**	**8.4%**	**8.5%**
equity cost	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%	10.0%
debt cost	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.3%
equity weighting	56.3%	62.3%	63.9%	64.3%	64.8%	67.9%	67.9%
debt weighting	43.7%	37.7%	36.1%	35.7%	35.2%	32.1%	32.1%
risk free rate	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	5.0%
equity risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
beta	1.00	1.00	1.00	1.00	1.00	1.00	1.00
debt premium	1.5%	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%	19.0%

Source: Erste Bank

DCF

DCF yields PLN 118 per share

In our opinion DCF is the most proper method of valuation for industrial companies.Our DCF model implies a fair value per share of PLN 118.4.

Peer comparison

Peer comparison suggest PLN 109 per share

We compared Apator to the group of mid-size (market cap between USD 50-200mn) Electronic Components & Instruments manufacturers (classified by MSCI). This comparison is based on 2005/2006 forecasted PE, EV/Sales and EV/EBITDA ratios.

The comparison paints a mixed picture of the company. On the EV/Sales ratio, Apator is traded with a premium to its peers, despite its recent high sales growth. On PE and EV/EBITDA, Apator is traded with a discount, which confirms the DDM and DCF valuations. Market multiples suggest a fair value at PLN 109 per share.

DCF

PLN '000	2005e	2006e	2007e	2008e	2009e	2010e	beyond 2010
EBIT	**34,573**	**39,073**	**40,818**	**42,164**	**43,087**	**43,317**	**43,317**
tax rate	19%	19%	19%	19%	19%	19%	19%
tax on EBIT	-6,569	-7,424	-7,755	-8,011	-8,187	-8,230	-8,230
NOPLAT	**28,004**	**31,649**	**33,062**	**34,153**	**34,901**	**35,087**	**35,087**
depreciation	-15,187	-17,293	-19,867	-23,039	-26,924	-31,719	
capital expenditures	-15,000	-17,000	-20,000	-23,000	-26,500	-31,000	
change in working capital	-26,526	-5,867	-3,248	-3,453	-3,603	-3,835	
free cash flow	**1,665**	**26,075**	**29,681**	**30,739**	**31,721**	**31,970**	**35,087**
terminal value							**413,793**
PV of FCF	1,601	23,188	24,395	23,346	22,258	20,697	
sum of PV of FCF	115,485						
PV of terminal value	267,885						
enterprise value	**383,370**						
non-operating assets	0						
net debt	3,451						
fair value	**379,919**						
number of shares	3,209						
fair value per share	**118.41**						
stock price	95.1						
premium/discount	24.5%						

Source: Erste Bank

Price target set at PLN 118 per share

Conclusion

The two methods imply a fair value that is much higher than the current market price. We have set our price target based on DCF model (PLN 118.4) and recommend buying the stock, as it offers 25% upside potential.

Market multiples

	P/E 2005e	P/E 2006e	EV/Sales 2005e	EV/Sales 2006e	EV/EBITDA 2005e	EV/EBITDA 2006e	Valuation 2005e	Valuation 2006e
implied fair value	482,476.5	472,579.8	191,777.3	184,383.6	366,922.9	409,237.5		
number of shares	3,209.0	3,209.0	3,209.0	3,209.0	3,209.0	3,209.0		
implied fair value per share	150.4	147.3	59.8	57.5	114.3	127.5	**108.15**	**110.75**

	P/E 2005e	P/E 2006e	EV/Sales 2005e	EV/Sales 2006e	EV/EBITDA 2005e	EV/EBITDA 2006e
median for peer group	**17.37**	**14.75**	**0.73**	**0.61**	**7.44**	**7.11**
Nedap	17.8	14.8	1.6	1.4	8.5	7.8
Radiall	18.86	14.07	0.65	0.58	6.57	4.69
Be Semiconductor Industr.		14.68	0.73	0.65	15.78	6.41
Dialog Semiconductor		40.48	0.52	0.46	6.56	5.01
Schaffner Holding	64.01	20.69	0.86	0.79	13.76	9.12
Paragon AG	16.53	16.88				
Dr Hoenle AG	16.70	11.71				
Sword Group	16.95	14.62	1.57	1.34	9.17	7.93
Oxford Intruments	19.95	18.83	0.45	0.50	7.44	8.90
El.En	25.51	19.67				
Comet	8.98	9.11	1.14		5.48	
Neways Electronics	9.94	6.75	0.36	0.31	4.33	3.58

Source: JCF, Erste Bank

Company Report

Income Statement (PAS, PLN mn, 31/12)	2003	2004	2005e	2006e	2007e
Sales revenues	**106.0**	**200.9**	**266.4**	**286.4**	**300.8**
Cost of goods sold	-64.7	-131.5	-173.6	-187.6	-197.2
Gross profit	**41.3**	**69.5**	**92.8**	**98.8**	**103.6**
SG&A	-23.0	-39.3	-53.9	-55.0	-57.8
Other operating revenues	4.0	22.8	8.2	8.8	9.3
Other operating expenses	-5.0	-8.5	-12.6	-13.5	-14.2
EBITDA	**22.2**	**54.8**	**49.8**	**56.4**	**60.7**
Depreciation	-5.0	-10.3	-15.2	-17.3	-19.9
EBIT	**17.2**	**44.5**	**34.6**	**39.1**	**40.8**
Financial result	-1.2	-0.5	-0.3	0.5	0.7
EBT	**16.0**	**44.0**	**34.3**	**39.6**	**41.5**
Tax expenses	-4.4	-9.1	-6.5	-7.5	-7.9
Extraordinary result	-0.1	0.0	0.0	0.0	0.0
Minority interests	-0.1	0.0	0.0	0.0	0.0
Net result after minorities	**11.4**	**35.0**	**27.8**	**32.0**	**33.6**

Balance Sheet (PAS, PLN mn, 31/12)	2003	2004	2005e	2006e	2007e
Intangible assets	0.8	4.6	4.7	4.4	4.5
Tangible assets	23.6	48.2	46.7	46.6	46.7
Financial assets	1.5	9.0	9.0	9.0	9.0
Total fixed assets	**25.9**	**61.8**	**60.4**	**60.1**	**60.2**
Inventories	12.9	20.7	36.5	39.4	41.5
Receivables and other current assets	27.8	46.1	68.3	73.4	77.1
Other assets	2.3	4.1	4.1	4.1	4.1
Cash and cash equivalents	7.0	13.5	10.3	10.8	15.4
Total current assets	**50.0**	**84.5**	**119.2**	**127.9**	**138.1**
TOTAL ASSETS	**75.9**	**146.2**	**179.6**	**187.9**	**198.4**
Shareholders' equity	**53.1**	**86.7**	**101.1**	**117.1**	**126.7**
Minorities	**0.5**	**7.7**	**9.0**	**10.4**	**11.3**
Other reserves	**0.0**	**0.0**	**2.0**	**2.0**	**2.0**
Interest-bearing LT debts	0.0	0.1	0.2	0.0	0.0
Other LT liabilities	3.5	7.8	7.8	7.8	7.8
Total long-term liabilities	**3.5**	**7.9**	**8.1**	**7.9**	**7.8**
Interest-bearing ST debts	0.4	7.4	13.5	2.4	0.0
Other ST liabilities	18.4	34.6	46.0	48.2	50.6
Total short-term liabilities	**18.9**	**42.0**	**59.5**	**50.6**	**50.6**
TOTAL LIAB. & EQUITY	**75.9**	**146.2**	**179.6**	**187.9**	**198.4**

Cash Flow Statement (PAS, PLN mn, 31/12)	2003	2004	2005e	2006e	2007e
Cash flow from operating activities	14.0	36.2	19.3	45.1	51.1
Cash flow from investing activities	-4.5	-10.9	-15.0	-17.0	-20.0
Cash flow from financing activities	-6.5	-19.0	-7.5	-27.5	-26.5
CHANGE IN CASH & CASH EQU.	**3.1**	**6.2**	**-3.2**	**0.6**	**4.6**

Margins & Ratios	2003	2004	2005e	2006e	2007e
Sales growth	9.3%	89.6%	32.6%	7.5%	5.0%
EBITDA margin	20.9%	27.3%	18.7%	19.7%	20.2%
EBIT margin	16.2%	22.1%	13.0%	13.6%	13.6%
Net profit margin	10.7%	17.4%	10.4%	11.2%	11.2%
ROE	23.5%	50.0%	29.6%	29.4%	27.6%
ROCE	23.4%	48.1%	25.3%	25.1%	25.3%
Equity ratio	70.6%	64.5%	61.3%	67.8%	69.5%
Net debt	-6.5	-6.0	3.5	-8.4	-15.4
Working capital	29.0	38.5	55.8	73.3	83.6
Capital employed	50.5	98.2	123.4	128.9	132.3
Inventory turnover	5.1	7.8	6.1	4.9	4.9

Contacts

Group Research

Head of Research	
Friedrich Mostböck, CEFA	+43 (0)50 100-11902
CEE Equity Research	
Co-Head: Günther Artner, CFA	+43 (0)50 100-11523
Co-Head: Henning Eßkuchen	+43 (0)50 100-19634
Ralf Burchert, CEFA	+43 (0)50 100-11903
Gudrun Egger, CEFA	+43 (0)50 100-11905
Brigitte Kellerer-Wendelin, CEFA	+43 (0)50 100-18506
Daniel Lion	+43 (0)50 100-17420
Tamás Pletser, CFA	+361 235-5133
Christoph Schultes	+43 (0)50 100-16314
Konrad Sveceny, CEFA	+43 (0)50 100-17354
Vladimira Urbankova	+4202 24 995 940
Robert Sobieraj	+48 22 653 93 77
International Equities	
Jürgen Rene Ulamec	+43 (0)50 100-16574
Alexander Sikora-Sickl	+43 (0)50 100-19835
International Fixed Income & Currencies	
Veronika Lammer (*Euroland,SW*)	+43 (0)50 100-11909
Veronika Posch (*Euroland, Corporates*)	+43 (0)50 100-19633
Rainer Singer (*US, Japan*)	+43 (0)50 100-11185
Elena Statelov (*Corporates*)	+43 (0)50 100-19641
Macro & Fixed Income Coordination CEE	
Rainer Singer	+43 (0)50 100-11185
Editor Research CEE	
Brett Aarons	+420 224 995 904
Research, Croatia	
Vilim Klemen *(equity)*	+385 62 37 28 12
Research, Czech Republic	
Head: Viktor Kotlan *(fixed income)*	+420 224 995-217
Jan Hajek, CFA *(equity)*	+420 224 995 324
Lubos Mokras *(fixed income)*	+420 224 995-456
David Navratil (*fixed income*)	+420 224 995-439
Miroslav Plojhar *(fixed income)*	+420 224 995-232
Libor Vinklat *(equity)*	+420 224 995-340
Research, Hungary	
József Miró *(equity)*	+361 235-5131
Orsolya Nyeste (*fixed income*)	+361 235-5130
Research, Poland	
Head: Michal Mierzwa *(equity)*	+48 22 653 93 53
Artur Iwanski *(equity)*	+48 22 653 93 55
Michal Majerski *(equity)*	+48 22 653 93 52
Research, Slovakia	
Head: Juraj Kotian *(fixed income)*	+421 2 59 574-139
Maria Feherova *(fixed income)*	+421 2 5957-4185

Institutional Equity Sales

Head of Sales Equities & Derivatives	
Brigitte Zeitlberger-Schmid	+43 (0)50 100-83123
Equity Sales Vienna XETRA & CEE	
Josef Breitegger	+43 (0)50 100-83122
Werner Girstmair	+43 (0)50 100-83114
Hind Jassani	+43 (0)50 100-83111
Christian Klikovich	+43 (0)50 100-83162
Ernst Mosser	+43 (0)50 100-83132
Manfred Radinger	+43 (0)50 100-83121
Stefan Raidl	+43 (0)50 100-83113
Manfred Sibrawa	+43 (0)50 100-83131
Sales Derivatives	
Christian Luig	+43 (0)50 100-83181
Armin Pfingstl	+43 (0)50 100-83171
Roman Rafeiner	+43 (0)50 100-83172
Thomas Schneidhofer	+43 (0)50 100-83182
Brigitta Weilinger	+43 (0)50 100-83151
Equity Sales, London	
Head: Dieter Benesch	+4420 7623-4154
Declan Wooloughan	+4420 7623-4154
Robert Szucsich	+4420 7623-4154
Sales, Croatia	
Zeljka Kajkut (*equity*)	+385 62 37 28 11
Sales, Czech Republic	
Michal Brezna (*equity*)	+420 224 995-523
Ondrej Cech *(fixed income)*	+420 224 995-577
Michal Rizek	+420 2 2499 5537
Jiri Smehlik (*equity*)	+420 224 995-510
Pavel Zdichynec *(fixed income)*	+420 224 995-590
Sales, Hungary	
Róbert Barlai (*fixed income*)	+361 235-5844
Gregor Glatzer (*equity*)	+361 235-5144
Krisztián Kandik (*equity*)	+361 235-5140
Zoltán Szabó (*fixed income*)	+361 235-5144
Sales, Poland	
Head: Andrzej Tabor	+4822 653-9339
Arkadiusz Jaskolski *(equity)*	+4822 653-9340
Lukasz Mitan *(equity)*	+4822 653-9323
Andrzej Sychowski *(equity)*	+4822 653-9364
Jacek Krysinski *(equity)*	+4822 653-9298
Sales, Slovakia	
Head: Dusan Svitek	+421 2 5050-5620
Rado Stopiak *(derivatives)*	+421 2 5050-5601
Andrea Slesarova *(client sales)*	+421 2 5050-5629

Treasury

Sales Retail & Sparkassen	
Head: Manfred Neuwirth	+43 (0)50100-84250
Domestic Sales Fixed Income	
Head: Thomas Schaufler	+43 (0)50100-83200
Treasury Domestic Sales	
Head: Gottfried Huscava	+43 (0)50100-84130
Corporate Desk	
Head: Leopold Sokolicek	+43 (0)50100-84601
Alexandra Blach	+43 (0)50100-84141
Roman Friesacher	+43 (0)50100-84143
Claudia Pongracz	+43 (0)50100-84145
Christian Skopek	+43 (0)50100-84146
Fixed Income Institutional Desk	
Head: Thomas Almen	+43 (0)50100-84323
Martina Fux	+43 (0)50100-84113
Michael Konczer	+43 (0)50100-84121
Ingo Lusch	+43 (0)50100-84111
Ulrich Inhofner	+43 (0)50100-84324
Gertrude Mlenek	+43 (0)50100-84915
Karin Rauscher	+43 (0)50100-84112

Erste Bank rating definitions	Low risk	High risk
Buy	> +15% to price target	> +20% to price target
Accumulate	+7.5% < price target < +15%	+10% < price target < +20%
Hold	+/- 7.5% to price target	+/- 10% to price target
Reduce	-15% < price target < -7.5%	-20% < price target < -10%
Sell	< -15% to price target	< -20% to price target

Our price targets are established by determining the fair value of stocks, taking into account additional fundamental factors and news of relevance to the stock price (such as M&A activities, major forthcoming share deals, positive/negative share/sector sentiment, news). The differentiation between "low risk" and "high risk" is necessary to facilitate stock-picking for the different client groups with different risk attitudes. 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. The classification as "low risk" or "high risk" may change over the course of time.

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