Company Report

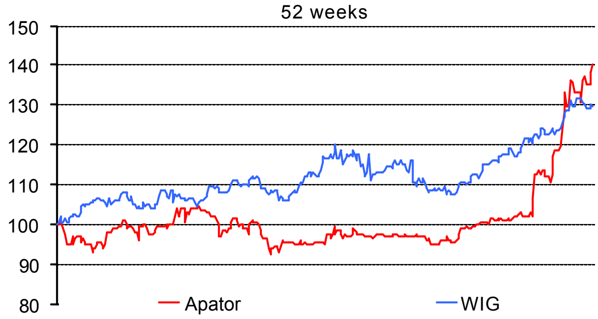
Apator

Buy

Poland, Electrical equipment

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

PLN mn	2004	2005e	2006e	2007e
Net sales	200.9	269.6	289.9	304.4
EBITDA	54.7	58.4	66.0	70.8
EBIT	44.4	42.1	46.7	48.8
Net profit	36.8	44.1	42.9	44.8
EPS (PLN)	11.45	13.76	13.37	13.97
CEPS (PLN)	16.00	19.02	19.38	20.83
BVPS (PLN)	28.86	43.26	51.62	55.57
Div/share (PLN)	4.00	5.00	10.00	10.50
EV/EBITDA (x)	7.6	7.0	5.8	5.2
P/E (x)	11.5	9.6	9.9	9.5
P/CE (x)	8.3	6.9	6.8	6.3
Dividend yield	3.0%	3.8%	7.6%	8.0%



Performance	12M	6M	3M	1M
in PLN	40.4%	48.0%	44.4%	25.1%
in EUR	55.8%	46.9%	49.4%	27.7%

Share price (PLN)	132.0	Reuters	APOR.WA	Free float	37.6%
Number of shares (mn)	3.2	Bloomberg	APT PW	Shareholders	Apator Mining(18.7%)
Market capitalization (PLN mn / EUR mn)	423.5 / 105.4	Div. ex-date	28/06/05		Other shareholders > 5% (21.88%)
Enterprise value (PLN mn /EUR mn)	406.1 / 101.1	Price target	171	Homepage:	www.apator.torun.pl

Higher margins boost valuation

- **Apator posted very strong 2Q05 results, beating our expectations regarding earnings. The top line was in line with our forecast (PLN 66.7mn in 2Q05, PLN 120mn in 1H05). COGS grew slower than revenues, leading to EBIT of PLN 11.4mn in 2Q, up 19% y/y. However, the bottom line was supported by a positive one-off (+PLN 3.3mn) and amounted to PLN 14mn - still PLN 4mn above our estimate.**

- **Due to improvement in the operating margin (17%, vs. 16.6% in 2Q04), we have raised our annual EBIT forecast by PLN 7mn. The outlook on profitability in the coming years is also more optimistic. As we anticipate higher EBIT in the future, we have set our new price target at PLN 171. This offers 30% upside over the current price.**

- **The company still has some potential to cut costs, as the expected reduction in employment has not yet happened. The sale of three Pafal subsidiaries is expected in 2H. Our original assumptions regarding the target headcount are unchanged.**

- **The external environment continues to support Apator. Demand remains strong, both in the metering equipment and switchgear segments. One positive surprise came from the very strong performance of Apator Mining, a manufacturer of explosion-proof equipment for the coalmining industry.**

- **The growth rate of exports may be quicker than we originally assumed, as Apator is looking for an acquisition in the German metering equipment market. However, as the company has not revealed any details, we do not assume an enlargement of the capital group in our new model.**

- **We maintain our Buy recommendation on the stock.**

Investment story

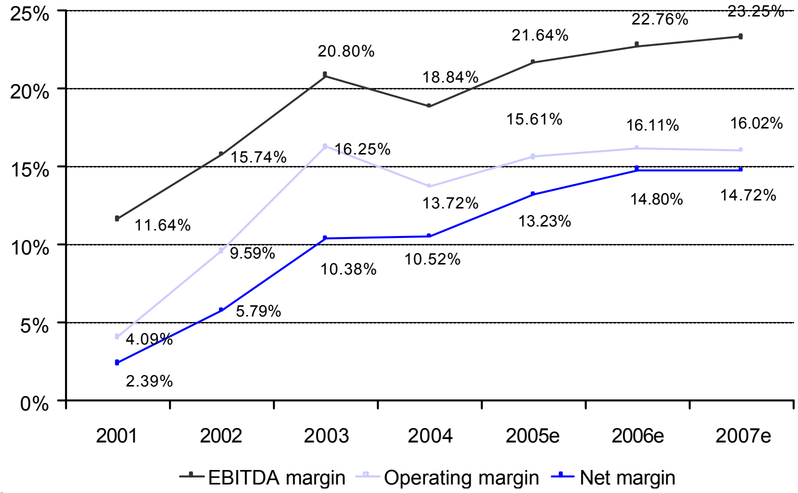
Higher margins lead to higher valuation

Apator's 2Q05 results presented us with a positive surprise. We had expected a recovery of margins to come in 2H of the year, but the company managed to make improvements in 2Q. The most positive aspect is the growth of the operating margin to 17%, which means that the restructuring process at the acquired companies is going well. As a consequence, we have raised our forecast for consolidated 2005 EBIT from PLN 35mn to PLN 42mn. Our new estimates for the following years are also higher. As a result, our price target jumped from PLN 118.4 to PLN 171.

More room for improvement in 2H

We see potential for further improvement of the company's results in the second half of the year. Management has stated its intention to dispose of the needless subsidiaries of acquired company Pafal. The first, Prasmet, is expected to be sold in August, with the other ones to go during 2H05. We maintain our optimism regarding potential savings from the staff reduction and an acceleration of exports. Apator benefited mainly from the domestic market in 1H05 (export revenues amounted to PLN 19.75mn, 16.47% of total sales). We have cleared the margins of one-off items (profit from the sale of real estate in 2004 and negative goodwill in 2005) in the chart below.

Margins development

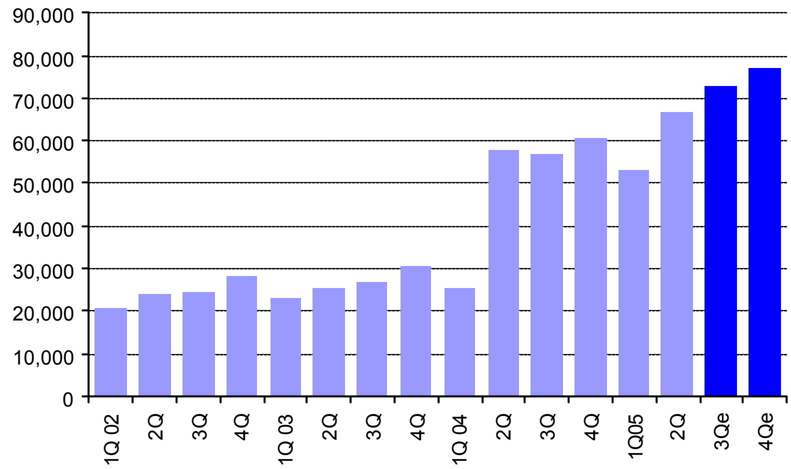


Source: Erste Bank

Macro environment remains favorable

External factors are still working in Apator's favor. Demand for investment goods in the energy sector remains strong. Furthermore, coalmining companies continue to enjoy good financial situations; Apator Mining contributed PLN 16.5mn of sales in 1H05, vs. PLN 10mn in 1H04. One negative factor in 1H was the consolidation of energy plants, which destabilized the purchase policy. This factor should disappear in 2H, which is also usually better, due to seasonality.

Sales quarterly (PLN ´000)



Source: Apator, Erste Bank

Change of accounting standards created positive one-off

We have adjusted our model to comply with International Accounting Standards. The most significant change is with regard to negative goodwill on the consolidation of subsidiary companies. This factor raises the bottom line by over PLN 10mn. However, this is accounted for on the financial level and is non-cash, so it does not influence the valuation of the company. We now expect the 2005 bottom line to come in at PLN 44.1mn, including one-offs (PLN 35.6mn excluding them), whereas our original forecast assumed PLN 27mn in net profit. We do not expect this extraordinary item to repeat in 2H05. Thus, the 2006 bottom line should drop y/y.

Takeover activity not finished

After the consolidation of the domestic metering equipment market, Apator now intends to expand abroad. Two new targets are in Germany - one is a small manufacturer of pre-paid electricity meters, while the second focuses on gas meters. Apator is currently performing due diligence at one of the German-based companies. A decision should be made in the next few weeks. Although we see this as another opportunity for Apator to increase exports, we have not included this in our model.

Changes of assumptions

PLN mn	**2004**	**old 2005**	**new 2005**	**old 2006**	**new 2006**
Revenues dynamics	89.6%	32.6%	**34.2%**	7.5%	**7.5%**
EBITDA margin	*27.3%*	*18.7%*	***21.7%***	*18.1%*	***22.8%***
EBIT margin	*22.2%*	*13.0%*	***15.6%***	*12.1%*	***16.1%***
Net margin	*17.4%*	*10.4%*	***16.4%***	*11.2%*	***14.8%***
CAPEX	42.1	15.0	**39.3**	17.0	**19.1**
Depreciation	10.3	15.2	**16.3**	17.3	**19.3**
CPI	4.4%	3.1%	**1.9%**	2.5%	**1.8%**
Employment cost	51.2	55.4	**54.9**	56.8	**53.4**
Selling cost	12.2	20.6	**16.2**	22.1	**17.4**
Administration cost	27.1	33.3	**34.2**	32.9	**33.4**

Source: Erste Bank

Valuation and recommendation

Valuation summary

	Value of the company (PLNmn)	Number of shares (mn)	Fair value per share (PLN)
DCF 2005e	**548.59**	**3.209**	**170.98**
Market multiples 2005e	**518.27**	**3.209**	**161.51**
Market multiples 2006e	**479.14**	**3.209**	**149.31**
P/E 2005e	799.12	3.209	249.02
P/E 2006e	723.28	3.209	225.39
EV/Sales 2005e	220.62	3.209	68.75
EV/Sales 2006e	223.51	3.209	69.65
EV/EBITDA 2005e	535.08	3.209	166.75
EV/EBITDA 2006e	490.64	3.209	152.89

Source: Erste Bank

DCF suggests PLN 171 per share

We continue to set our price target based on the DCF model. Our revised model suggests a fair value of PLN 171. We have increased the risk-free rate to 4.97%. Our new model assumes higher capex and depreciation. 2005 capex will exceed depreciation, due to the purchase of stakes in Metrix in 1H05. For the following years, depreciation should exceed capex, in line with depreciation write-offs.

WACC

	2005e	2006e	2007e	2008e	2009e	2010e	beyond 2010
WACC	**8.46%**	**8.55%**	**8.57%**	**8.59%**	**8.61%**	**8.76%**	**8.79%**
Equity cost	9.97%	9.97%	9.97%	9.97%	9.97%	9.97%	10.00%
Debt cost	5.24%	5.24%	5.24%	5.24%	5.24%	5.24%	5.27%
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	4.97%	4.97%	4.97%	4.97%	4.97%	4.97%	5.00%
Equity risk premium	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Beta	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Debt premium	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%

Source: Erste Bank

DCF

PLN '000	2005e	2006e	2007e	2008e	2009e	2010e	beyond 2010
EBIT	**42,092**	**46,693**	**48,765**	**50,513**	**51,798**	**52,431**	**52,431**
Tax rate	19%	19%	19%	19%	19%	19%	19%
Tax on EBIT	-7,997	-8,872	-9,265	-9,597	-9,842	-9,962	-9,962
NOPLAT	**34,095**	**37,821**	**39,500**	**40,915**	**41,957**	**42,469**	**42,469**
Depreciation	-16,270	-19,286	-22,003	-25,322	-29,378	-34,379	
Capital expenditures	-39,300	-19,100	-22,200	-25,200	-29,400	-34,200	
Change in working capital	-22,368	-4,193	-3,023	-3,169	-3,367	-3,570	
Free cash flow	**-11,304**	**33,814**	**36,280**	**37,869**	**38,567**	**39,078**	**42,469**
Terminal value							**625,168**
PV of FCF	-10,969	30,228	29,871	28,713	26,925	25,083	
Sum of PV of FCF	129,851						
PV of terminal value	401,276						
Enterprise value	**531,127**						
Non-operating assets	0						
Net debt	-17,460						
Fair value	**548,587**						
Number of shares	3,209						
Fair value per share	**171.0**						
Stock price	132						
Premium/discount	29.5%						

Source: Erste Bank

Market multiples

Peer group also shows upside potential

The peer valuation also suggests upside potential. However, the peer valuation is still below the DCF-based valuation. Apator still looks very attractive on the PE ratio, but worse on EV/S. The average valuation for 2005 ratios jumped from PLN 108.2 to PLN 161.5. For 2006, the multiples valuation grew from PLN 110.8 to PLN 149.3. In the sector context, Apator impresses with its outstanding EBITDA margin.

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	799,118.1	723,275.6	220,618.0	223,508.0	535,084.8	490,636.9		
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	249.0	225.4	68.7	69.7	166.7	152.9	**161.51**	**149.31**

	P/E 2005e	P/E 2006e	EV/Sales 2005e	EV/Sales 2006e	EV/EBITDA 2005e	EV/EBITDA 2006e	EBITDA margin 2005e	EBITDA margin 2006e
Median for peer group	**18.11**	**16.86**	**0.75**	**0.62**	**8.87**	**6.79**	**11.48%**	**13.47%**
Nedap	19.2	16.1	1.6	1.4	8.5	7.8	17.04%	16.66%
Radiall	19.00	16.86	0.65	0.58	6.46	4.95	11.83%	12.54%
Be Semiconductor Industr.	n.a.	16.74	0.87	0.67	31.58	6.02	11.13%	13.73%
Dialog Semiconductor	n.a.	33.38	0.62	0.54	8.19	4.99	10.84%	13.21%
Schaffner Holding	n.a.	20.73	0.86	0.79	15.69	10.33	8.65%	9.93%
Paragon AG	17.21	17.58						
Dr Hoenle AG	17.02	11.49					19.16%	20.49%
Sword Group	16.24	13.73	1.57	1.34	9.21	7.57	16.67%	n.a.
Oxford Intruments	29.39	18.91	0.48	0.44	11.39	7.93	5.59%	n.a.
El.En	25.55	18.61					14.53%	15.75%
Neways Electronics	10.48	6.77	0.39	0.33	4.34	3.59	9.19%	8.80%

Source: JCF, Erste Bank

Company Report

Income Statement (IAS, PLN mn, 31/12)	2003	2004	2005e	2006e	2007e
Sales revenues	**106.0**	**200.9**	**269.6**	**289.9**	**304.4**
Cost of goods sold	-64.7	-131.6	-179.7	-195.2	-206.7
Gross profit	**41.4**	**69.4**	**89.9**	**94.7**	**97.7**
SG&A	-23.0	-39.3	-50.4	-50.7	-51.7
Other operating revenues	4.0	22.8	9.5	10.2	10.7
Other operating expenses	-5.0	-8.5	-6.9	-7.5	-7.9
EBITDA	**22.3**	**54.7**	**58.4**	**66.0**	**70.8**
Depreciation	-5.0	-10.3	-16.3	-19.3	-22.0
EBIT	**17.3**	**44.4**	**42.1**	**46.7**	**48.8**
Financial result	-1.2	-0.4	2.4	6.7	7.1
EBT	**16.0**	**44.0**	**44.4**	**53.4**	**55.8**
Tax expenses	-4.8	-7.3	-10.4	-10.2	-10.6
Extraordinary result	-0.2	0.0	10.5	0.0	0.0
Minority interests	-0.1	0.0	-0.4	-0.4	-0.4
Net result after minorities	**11.0**	**36.8**	**44.1**	**42.9**	**44.8**

Balance Sheet (IAS, PLN mn, 31/12)	2003	2004	2005e	2006e	2007e
Intangible assets	0.8	4.7	4.6	4.4	4.5
Tangible assets	28.4	52.7	74.6	74.6	74.7
Financial assets	1.7	9.3	5.0	5.0	5.0
Total fixed assets	**30.9**	**66.7**	**84.2**	**84.0**	**84.2**
Inventories	12.9	20.7	39.5	42.9	45.5
Receivables and other current assets	27.8	46.0	59.3	63.8	67.0
Other assets	2.3	4.1	3.3	3.3	3.3
Cash and cash equivalents	7.0	13.4	17.5	42.5	53.0
Total current assets	**50.0**	**84.3**	**119.6**	**152.5**	**168.7**
TOTAL ASSETS	**80.9**	**151.0**	**203.9**	**236.6**	**253.0**
Shareholders' equity	**57.1**	**92.6**	**138.8**	**165.6**	**178.3**
Minorities	**0.5**	**7.6**	**11.4**	**13.6**	**14.7**
Other reserves	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Interest-bearing LT debts	0.0	0.1	0.0	0.0	0.0
Other LT liabilities	4.5	8.7	9.3	9.3	9.3
Total long-term liabilities	**4.5**	**8.8**	**9.3**	**9.3**	**9.3**
Interest-bearing ST debts	0.4	7.4	0.0	0.0	0.0
Other ST liabilities	18.4	34.6	44.3	47.9	50.6
Total short-term liabilities	**18.9**	**42.0**	**44.3**	**47.9**	**50.6**
TOTAL LIAB. & EQUITY	**80.9**	**153.0**	**203.9**	**236.6**	**253.0**

Cash Flow Statement (IAS, PLN mn, 31/12)	2003	2004	2005e	2006e	2007e
Cash flow from operating activities	13.7	37.3	69.3	60.2	64.8
Cash flow from investing activities	-4.5	-12.8	-39.3	-19.1	-22.2
Cash flow from financing activities	-6.5	-18.0	-23.5	-16.0	-32.2
CHANGE IN CASH & CASH EQU.	**2.7**	**6.5**	**6.5**	**25.0**	**10.5**

Margins & Ratios	2003	2004	2005e	2006e	2007e
Sales growth	9.3%	89.6%	34.2%	7.5%	5.0%
EBITDA margin	21.0%	27.2%	21.6%	22.8%	23.3%
EBIT margin	16.3%	22.1%	15.6%	16.1%	16.0%
Net profit margin	10.4%	18.3%	16.4%	14.8%	14.7%
ROE	21.9%	49.1%	38.2%	28.2%	26.1%
ROCE	21.7%	45.9%	34.8%	26.2%	26.7%
Equity ratio	71.2%	66.4%	73.7%	75.8%	76.3%
Net debt	-6.5	-5.9	-17.5	-42.5	-53.0
Working capital	29.0	38.4	72.2	101.4	114.9
Capital employed	55.5	103.0	142.1	146.1	149.3
Inventory turnover	5.1	7.8	6.0	4.7	4.7

Company Report

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
Andras Szalkai *(equity)*	+361 235-5134
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
Ana Milatovic	+43 (0)50 100-83131
Ernst Mosser	+43 (0)50 100-83132
Manfred Radinger	+43 (0)50 100-83121
Stefan Raidl	+43 (0)50 100-83113
Sales Derivatives	
Christian Luig	+43 (0)50 100-83181
Christian Klikovich	+43 (0)50 100-83162
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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