

Company Report

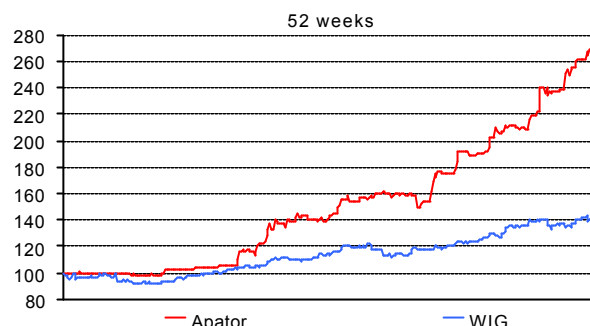
Apator

Poland, Electrical equipment

from Buy to Accumulate

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PLN mn	2004	2005p	2006e	2007e
Net sales	200.9	289.3	304.5	319.7
EBITDA	56.0	53.7	68.5	73.1
EBIT	45.8	40.1	53.7	56.9
Net profit	39.8	44.3	43.6	46.2
EPS (PLN)	12.4	13.8	13.6	14.4
CEPS (PLN)	16.3	18.5	18.2	19.4
BVPS (PLN)	26.1	37.0	40.7	47.1
Div/share (PLN)	4.0	7.0	8.0	10.0
EV/EBITDA (x)	12.9	13.6	10.4	9.5
P/E (x)	18.3	16.5	16.8	15.8
P/CE (x)	14.0	12.3	12.5	11.7
Dividend yield	1.8%	3.1%	3.5%	4.4%



Performance	12M	6M	3M	1M
in PLN	148.6%	73.7%	29.6%	4.8%
in EUR	151.7%	74.8%	29.0%	2.9%

Share price (PLN)	227.5	Reuters	APOR.WA	Free float	44.0%
Number of shares (mn)	3.2	Bloomberg	APT PW	Shareholders	Apator Mining(18.7%)
Market capitalization (PLN mn / EUR mn)	729.9 / 187.4	Div. ex-date	12/02/05	Other shareholders > 5% (21.88%)	
Enterprise value (PLN mn /EUR mn)	712.7 / 182.9	Target price	257	Homepage:	www.apator.torun.pl

Deceleration after robust 2005 dynamics

- We have decided to downgrade Apator from Buy to Accumulate, as the stock has grown 140% since our first Buy recommendation. We do not see any significant risk factors for Apator, which should continue to present good figures. However, the period of robust growth is likely behind the company. Therefore, we have set a new price target at PLN 257 per share. In the short term, we do not foresee any trigger for us to raise our price target again.
- The high dynamics of the top line are unrepeatable in 2006, as the 2005 growth was mainly driven by large-scale acquisitions. The company does not plan as aggressive a takeover policy in the near future, so we assume that Apator will develop organically. Organic growth is limited to the rate of the market, in which the company has a very high share.
- The company is focusing on its development of exports. The share of exports in revenues grew to 18% in 2005. Apator intends to establish footholds for expansion in Germany (via acquisition) and in Hungary (with a newly established trading subsidiary). We expect export revenues to continue to grow at a double-digit rate. On the domestic market, the situation remains favorable, with strong demand for investment goods.
- We still see some restructuring potential in the capital group, especially with regard to a staff reduction at Pafal. Thus, we expect the bottom line to grow more quickly than revenues. Margin improvement should be supported by further product development - especially introducing new metering systems for gas and heat.
- The company raised its dividend proposals. We agree with management that Apator generates enough cash to distribute a nice yield to shareholders. Another good idea is the 1:11 share split, which will increase the liquidity of the stock.

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Investment story

2005 figures not as bad as first thought

Our first impression of the preliminary 2005 figures was characterized by a slight disappointment, despite the fact that the company fulfilled management's official forecast. After deeper analysis, we see the results in a more positive light, due to some one-offs in 2004 and the fact that the results excluded some discontinued activity. In 2004, Apator earned net PLN 16.8mn on the other operating level from the sale of real estate. After excluding these items, adjusted EBIT grew by 36% y/y, while the operating margin decreased by only 0.6pp, due to the necessity of restructuring the group. The discontinued activity was the production of control panels for Italian company Riello, which decided to end its cooperation with Apator this year. This activity contributed PLN 10-12mn in revenues per annum and was profitable.

2004-2006 results

PLN '000	2004	2005p	2006e
Total sales	200,948	289,284	304,538
<i>y/y dynamics</i>	89.6%	44.0%	5.3%
Sales from continued activity *	190,672	277,698	304,538
<i>y/y dynamics</i>	79.9%	45.6%	9.7%
EBIT	45,846	40,067	53,687
<i>Reported operating margin</i>	22.8%	13.9%	17.6%
EBIT from continued activity	43,603	36,490	53,687
One-offs **	16,829	0	0
EBIT from continued activity excluding one-offs	26,774	36,490	53,687
<i>y/y dynamics</i>		36%	47%
<i>Adjusted operating margin</i>	13.3%	12.6%	17.6%
Net profit	39,830	44,305	43,573
<i>Reported net margin</i>	19.8%	15.3%	14.3%
Net profit from continued activity	38,013	41,408	43,573
One-offs ***	4,102	12,335	0
Net profit from continued activity excluding one-offs	33,911	29,073	43,573
<i>y/y dynamics</i>		-14%	50%
<i>Adjusted net margin</i>	16.9%	10.0%	14.3%
Reported EPS ****	12.4	13.8	13.6
Adjusted EPS ****	10.6	9.1	13.6

*) discontinued activity was production and sale of control panels for Riello (Italy)

**) sale of real estate in Torun in 2004

***) negative goodwill on consolidation of Metrix

****) both calculations assume 3.209mn shares

(we do not exclude 0.6mn own shares held by Apator Mining)

Source: Apator, Erste Bank

Still some room for improvement in 2006

For 2006, management predicts PLN 300mn in revenue and PLN 41mn on the bottom line. For the first time, the company released expectations of gross earnings after S&A costs: PLN 50mn for 2006. At first sight, this figure is again disappointing, due to the decline in net profit. However, we would like to underline that the 2005 net profit was boosted by PLN 12.3mn in negative goodwill from the consolidation of Metrix. Comparing the 2006 forecast to the pure 2005 results from continued activity, we see nice growth. Our forecast is slightly above management's expectations, but the company has been rather conservative in the last few years, raising its forecasts several times.

We see room for improvement on the cost side, due to the planned reduction of headcount - especially in the Pafal group. The company did not release full 2005 results,

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but we estimate annual employment costs at approximately PLN 55mn. For 2006, we expect Apator to cut this to PLN 46mn via a 22% reduction of total headcount.

Employment

PLN '000	2005	2006e
Total no. of employees (Apator Group)	1846	1,438
Apator S.A.	476	469
Pafal Group	888	479
Metrix, Apator Mining, Apator Control & KFAP	482	490

Source: Apator

Valuation and recommendation

**Top line
expectations
maintained**

We decided against changing our previous revenue assumptions. We prefer to be conservative until the 1Q06 results are released, as this data should show the organic growth rate for both domestic and export sales. We expect some slowdown of revenues from the switchgear segment, as the coalmining companies presented much worse results in 2005 than a year ago. These companies are the main recipients of Apator's switchgear; as their earnings have decreased, they might be less likely to invest. However, this should be counterbalanced by higher growth of metering equipment, as the company successfully implements metering systems for all covered media (and not just electricity, as has been the case so far). We have also reduced the planned depreciation rate and, consequently, maintenance capex.

For our WACC calculation, we changed the risk-free rate to 4.6%, following the change of yield on 5Y Treasury bills. Other assumptions remain unchanged. We raised expected effective tax rate back to nominal 19%, as in our opinion 14% effective tax rate in 2005 was effect of negative goodwill and will be not repeated in coming years.

WACC

	2006e	2007e	2008e	2009e	2010e	2011e	beyond 2011
WACC	8.27%	8.36%	8.41%	8.44%	8.45%	8.47%	8.85%
Equity cost	9.60%	9.60%	9.60%	9.60%	9.60%	9.60%	10.00%
Debt cost	4.94%	4.94%	4.94%	4.94%	4.94%	4.94%	5.27%
Equity weighting	71.4%	73.4%	74.5%	75.1%	75.3%	75.7%	75.7%
Debt weighting	28.6%	26.6%	25.5%	24.9%	24.7%	24.3%	24.3%
Risk free rate	4.60%	4.60%	4.60%	4.60%	4.60%	4.60%	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

Our new DCF-based price target amounts to PLN 257 per share. As this offers 13% upside, we recommend accumulating the stock. With its stable financial situation and attractive dividend policy, Apator should outperform the market during correction periods. In the long run, we cannot rule out a scenario in which a sector investor takes an interest in Apator. However, the 19% of own shares held in Apator Mining would make any takeover more difficult.

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DCF

PLN '000	2006e	2007e	2008e	2009e	2010e	2011e	beyond 2011e
EBIT	53,687	56,902	60,326	63,905	67,630	71,623	73,055
Tax rate	19%	19%	19%	19%	19%	19%	19%
Tax on EBIT	-10,201	-10,811	-11,462	-12,142	-12,850	-13,608	-13,880
NOPLAT	43,487	46,091	48,864	51,763	54,781	58,014	59,175
Depreciation	14,857	16,215	17,684	19,279	21,019	22,895	
Capital expenditures	-15,900	-17,100	-18,500	-20,000	-21,800	-23,000	
Change in working capital	-2,634	-2,917	-3,113	-3,256	-3,423	-3,645	
Free cash flow	39,810	42,289	44,936	47,787	50,577	54,265	59,175
Terminal value							864,178
PV of FCF	36,770	36,046	35,330	34,648	33,814	33,448	
Sum of PV of FCF	210,056						
PV of terminal value	532,663						
Enterprise value	742,718						
Non-operating assets	0						
Net debt at 31.12.2005	1,501						
Fair value at 31.12.2005	741,217						
Number of shares	3,209						
Fair value per share	231						
Cost of equity		9.60%					
Target price		257					
Stock price		228					
Premium/discount		13%					

Source: Erste Bank

We have added some new peers to our comparison table. For example, America's Itron has a very similar business to Apator's (separated from other activities). However, it operates in a different market. In terms of the 2006 PE ratio, Apator is traded with some discount to its peer group. However, from 2007 onwards, the company's profits will grow more slowly than its competitors, hurting its attractiveness. On the other ratios, Apator is traded with a large premium. We believe that Apator stock deserves this premium, due to the firm's excellent profitability.

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Market multiples

	P/E	P/E	P/E	EV/Sales	EV/Sales	EV/Sales	EV/EBITDA	EV/EBITDA	EV/EBITDA	Valuation	Valuation	Valuation
	2005e	2006e	2007e	2005e	2006e	2007e	2005e	2006e	2007e	2005e	2006e	2007e
Implied fair value (PLN mn)	964.7	756.0	646.0	271.7	315.7	339.1	547.4	585.2	558.4			
Number of shares (mn)	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2			
Implied fair value per share	300.6	235.6	201.3	84.7	98.4	105.7	170.6	182.4	174.0	185.3	172.1	160.3
	P/E	P/E	P/E	EV/Sales	EV/Sales	EV/Sales	EV/EBITDA	EV/EBITDA	EV/EBITDA	EBITDA	EBITDA	EBITDA
	2005e	2006e	2007e	2005e	2006e	2007e	2005e	2006e	2007e	margin	margin	margin
median for peer group	21.23	17.35	13.86	0.94	0.98	0.95	10.32	8.29	7.17	11.76%	13.45%	14.72%
Nedap	23.56	19.60	16.26	1.68	1.69	1.49	10.41	9.87	8.57	16.12%	17.10%	17.45%
Radiall SA	22.15	15.89	14.10	0.79	0.78	0.69	7.94	6.25	4.87	9.95%	12.49%	14.22%
Be Semiconductor Industr.		18.9	12.9	0.9	0.8	0.8	29.4	6.7	7.0	3.12%	11.82%	10.77%
Dialog Semiconductor	43.24	19.07	14.38	0.70	0.52	0.44	6.32	3.90	3.00	11.09%	13.45%	14.62%
Schaffner Holding AG	403.32	20.34	13.84	0.93	0.85	0.75	15.38	9.33	7.21	6.08%	9.06%	10.34%
Paragon AG	21.23	21.13										
Dr Hoenle AG	20.00	15.38	12.35									
Sword Group SA	22.46	16.54	14.27	2.24	1.84	1.58	12.52	10.67	9.12	17.90%	17.23%	17.29%
Oxford Instruments	53.13	27.70	17.31	0.70	0.70	0.70	15.99	10.79	8.22	4.40%	6.52%	8.47%
ElEn	17.28	10.04	7.15									
Neways Electronics	15.39	11.80	9.32	0.39			5.69			6.94%		
Itron	32.67	29.46	25.23									
Saia Burgess Electronics HI	18.94	17.35	16.25	1.13	1.05	1.00	9.07	7.89	7.77	12.44%	13.27%	12.83%
Vaisala Oyj	19.29	20.14	18.69	1.83	1.96	1.76	9.30	9.84	8.92	19.72%	19.95%	19.76%
Faiveley SA	14.21	12.12	11.19	0.88	0.81		6.33	5.64		13.91%	14.34%	
Perlos Oyj	41.98	14.05	8.01	0.95	0.70	0.63	10.03	5.65	4.25	9.52%	12.44%	14.83%
SAES Getters SpA	22.72	21.78	20.18									
Phoenix Mecano AG		13.53	11.77	0.81	0.98	0.91	10.60	6.78	5.96	7.63%	14.46%	15.28%
Elektrobit Group Oyj	15.67	18.92	15.67	1.00	1.22	1.08	5.89	9.16	7.12	16.94%	13.35%	15.14%
E2V Technologies Plc	16.49	13.85	12.14	1.51	1.44	1.25	8.07	7.27	6.03	18.67%	19.80%	20.65%
HF Company SA	21.77	13.50	13.88	1.53	1.20	1.10	11.71	8.29	8.06	13.07%	14.47%	13.66%
Metrologic Group	19.71	21.39	16.87	6.32	5.18	4.25	11.47	9.61	7.23	55.16%	53.90%	58.80%
Partner Tech	25.47	13.59	11.11	0.79	0.67	0.60	11.90	8.58	6.97	6.65%	7.83%	8.61%

Source: JCF, Erste Bank

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Income Statement (IAS, PLN mn, 31/12)	2003	2004	2005p	2006e	2007e
Sales revenues	106.0	200.9	289.3	304.5	319.7
Cost of goods sold	-64.7	-131.2	-191.8	-192.1	-202.7
Gross profit	41.4	69.7	97.5	112.4	117.0
SG&A	-23.0	-39.2	-54.6	-55.4	-56.6
Other operating revenues	4.0	23.8	2.6	2.3	2.4
Other operating expenses	-5.0	-8.5	-5.5	-5.7	-5.9
EBITDA	22.3	56.0	53.7	68.5	73.1
Depreciation	-5.0	-10.1	-13.6	-14.9	-16.2
EBIT	17.3	45.8	40.1	53.7	56.9
Financial result	-1.2	-0.6	-0.4	0.6	0.7
EBT	16.0	45.2	39.6	54.3	57.6
Tax expenses	-4.8	-9.2	-7.2	-10.3	-10.9
Extraordinary result	-0.2	4.1	12.3	0.0	0.0
Minority interests	-0.1	-0.3	-0.4	-0.4	-0.5
Net result after minorities	11.0	39.8	44.3	43.6	46.2
Balance Sheet (IAS, PLN mn, 31/12)	2003	2004	2005p	2006e	2007e
Intangible assets	0.8	4.7	4.0	4.1	4.0
Tangible assets	28.4	50.0	64.6	55.6	56.5
Financial assets	1.7	9.1	5.6	5.6	5.6
Total fixed assets	30.9	63.8	74.3	65.3	66.2
Inventories	12.9	20.7	30.5	30.6	32.3
Receivables and other current assets	27.8	41.6	64.9	68.3	71.7
Other assets	2.3	2.2	1.3	1.3	1.3
Cash and cash equivalents	7.0	13.0	15.5	17.2	34.3
Total current assets	50.0	77.5	112.2	117.4	139.6
TOTAL ASSETS	80.9	141.3	186.5	182.7	205.8
Shareholders' equity	57.1	83.9	118.7	130.5	151.0
Minorities	0.5	8.8	2.0	2.6	3.0
Other reserves	0.0	0.0	0.0	0.0	0.0
Interest-bearing LT debts	0.0	0.1	0.2	0.0	0.0
Other LT liabilities	4.5	6.7	8.2	8.2	8.2
Total long-term liabilities	4.5	6.8	8.4	8.2	8.2
Interest-bearing ST debts	0.4	7.4	16.8	0.0	0.0
Other ST liabilities	18.4	34.4	40.5	41.4	43.5
Total short-term liabilities	18.9	41.8	57.4	41.4	43.5
TOTAL LIAB. & EQUITY	80.9	141.3	186.5	182.7	205.8
Cash Flow Statement (IAS, PLN mn, 31/12)	2003	2004	2005p	2006e	2007e
Cash flow from operating activities	13.7	36.1	29.7	57.1	59.9
Cash flow from investing activities	-4.5	-12.2	-19.3	-15.9	-17.1
Cash flow from financing activities	-6.5	-19.1	-4.1	-39.3	-25.7
CHANGE IN CASH & CASH EQU.	2.7	4.8	6.2	1.9	17.1
Margins & Ratios	2003	2004	2005p	2006e	2007e
Sales growth	9.3%	89.6%	44.0%	5.3%	5.0%
EBITDA margin	21.0%	27.8%	18.6%	22.5%	22.9%
EBIT margin	16.3%	22.8%	13.9%	17.6%	17.8%
Net profit margin	10.4%	19.8%	15.3%	14.3%	14.4%
ROE	21.9%	56.5%	43.7%	35.0%	32.8%
ROCE	21.7%	54.4%	40.2%	34.2%	36.6%
Equity ratio	71.2%	65.6%	64.7%	72.9%	74.8%
Net debt	-6.5	-5.5	1.5	-17.2	-34.3
Working capital	29.0	33.6	54.1	75.3	95.3
Capital employed	55.5	93.9	130.5	124.1	127.9
Inventory turnover	5.1	7.8	7.5	6.3	6.5

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Company Report

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Company	Disclosure	Comment
Aparator	--	--

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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