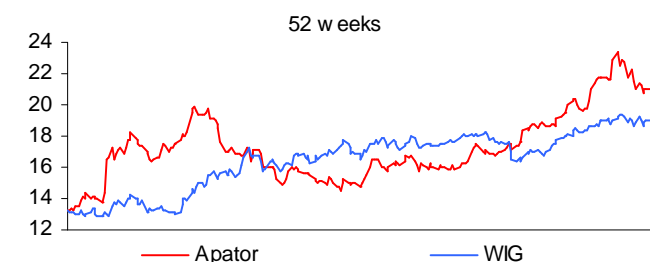


## Company Report – Other Utility Services – Poland – May 6, 2010

# Apator from Accumulate to Reduce

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PLN mn	2009	2010e	2011e	2012e
Net sales	367.6	386.6	415.9	445.5
EBITDA	66.1	65.6	70.0	75.2
EBIT	50.9	50.5	54.7	59.7
Net result after min.	30.0	40.0	41.8	46.5
EPS (PLN)	0.85	1.14	1.19	1.32
CEPS (PLN)	1.28	1.57	1.63	1.76
BVPS (PLN)	5.02	5.66	5.99	6.42
Div./share (PLN)	0.50	0.85	0.89	0.99
EV/EBITDA (x)	9.2	11.7	11.1	10.2
P/E (x)	18.7	18.4	17.6	15.8
P/CE (x)	12.5	13.3	12.9	11.9
Dividend Yield	3.2%	4.1%	4.3%	4.7%



Performance	12M	6M	3M	1M
in PLN	58.5%	39.5%	19.5%	-3.6%
in EUR	73.0%	48.3%	21.6%	-7.4%

Share price (PLN)	20.92	Reuters	APOR.WA	Free float	75.5%
Number of shares (mn)	35.1	Bloomberg	APT PW	Shareholders	Apator Mining (18.8%)
Market capitalization (PLN mn / EUR mn)	735 / 184	Div. Ex-date	25/06/09		Mr. Mariusz Lewnicki (5.7%)
Enterprise value (PLN mn / EUR mn)	769 / 192	Target price	20.0	Homepage:	www.apator.com.pl

## All systems ready. Business: stable. Valuation: high.

- Since our last report, the stock price of Apator has increased by 45%. This fact significantly changes our view on the company, which we had regarded as an attractively valued defensive stock. At the current ratios, we would prefer a more cyclical stock. We therefore downgrade our recommendation to Reduce and set our target price at PLN 20.0 per share..
- The 2009 results were burdened by FX option losses of PLN 9mn (on the pre-tax level). This year, this effect should be reversed – we expect PLN 4mn in FX gains. Despite these extraordinary profits, we believe that the task of fulfilling the FY10 forecast (assuming PLN 400mn in sales and net profit of PLN 40mn) will not be easy.
- The profitability of Apator should be hindered by the strengthening PLN (we expect export sales to significantly exceed 30% of total sales this year) and increasing cost of materials (copper is 30% more expensive y/y). With the expected recovery in Poland, these problems may be magnified, as Apator is also quite vulnerable to a wage increase (labor costs exceed 30% of total costs).
- Despite the quite stable demand side for Apator's business, there are some significant options for growth for the company. The potential upside could be generated by e.g. success in attaining a greater share in foreign markets. Announcements on the implementation in Poland of remote-read energy meter systems (unfortunately with no deadlines or details) give hope for the development of the segment in the future. In our opinion, this is too little to justify a positive recommendation at the moment.

### Investment story

#### Changes in valuation

Since our last report, we have made several changes to our valuation, which increased the target price from PLN 16 to PLN 20. We have slightly increased our EPS forecast (by 6% for 2010, flat in 2011), due to the quite decent results expected for 1Q10. The risk-free rate has decreased from 6.2% to 5.6%. Additionally, according to the company, the most probable scenario for the 18.8% stake of own shares is now redemption. Earlier, we assumed the sale of these shares, which lowered the value of the stake by the amount due in tax. We also assigned a value of PLN 20mn to the real estate project that could be undertaken in Poznan and/or Torun.

#### Own shares stake

Subsidiary Apator Mining owns an 18.8% stake in the Apator group. According to recent feedback from the company, the most likely scenario now is the redemption of these shares. Earlier, we assumed the sale of these shares, which lowered the value of the stake by the amount due in tax. We estimate the value of the stake at over PLN 130mn (PLN 3.8 per share) and show this value as non-operating assets in the DCF. The earlier assumption of offering the stake for sale would lower the value of the stake by over 16%. After the recent feedback from the company, we assume either the redemption of the stake or the utilization of these shares in a potential acquisition (not planned and less likely). In both cases, there is no tax burden.

#### Real estates for sale

The company has two quite attractive pieces of real estate in Poznan and Torun. To unearth their value, the company would have to execute the complicated logistics operation of moving its production capacities. The whole process is not easy to forecast, but with the expected recovery of the real estate market, its execution is increasingly probable. We adjust our model to reflect the rough/conservative average expected value that could be generated by the real estate maneuvers. According to our assumptions, this increases the value of non-core business assets by PLN 20mn (slightly over PLN 0.5 per share).

#### Core business – stable as always

We see no major changes in the expected core business performance. The company is experiencing the first signs of recovery, especially in foreign markets. On the other hand, negative trends are reappearing in the macro environment. The strengthening PLN in the longer run will be an increasing burden for Apator. The growth in the prices of copper and brass in PLN should amount to about 30% in 2010, which transfers into a cost increase of about PLN 5mn. In mid term, we expect some pressure to reappear on employment costs (Apator is very vulnerable to this factor, as this position exceeds a 30% share in total costs). The potential implementation of remote-read meter systems in Poland is rather a long-term story, which we reflect in the expected strong dynamics of sales of energy meters in 2011-13.

### Valuation

We employed a DCF valuation tool to estimate the fair value of the company. The DCF is based on our forecasts for 2010-14. We used a discount rate based on WACC and a terminal value based on perpetuity. The DCF led us to a fair value of PLN 20.0 per share, which in our opinion reflects the value of the firm in a proper way. We downgrade our recommendation from Accumulate to Reduce, indicating that valuation of Apator is quite demanding. We take into consideration that it is rather a defensive stock, while at this moment of the cycle we would rather prefer a more cyclical company. The peer comparison shows that Apator shares are traded with a slight premium to the peers (EV based ratios).

Our estimates are based on the following:

- We assume the redemption of the own share stake or utilization of the stake in a potential (but not planned or assumed) acquisition. This would allow the company to avoid the tax burden. We estimate the value of the stake at slightly over PLN 130mn.
- We assume that an average expected value of PLN 20mn could be realized from the real estate projects in Poznan and/or Torun.
- We assume that the restructuring of subsidiary PoWoGaz will continue.
- We assume the average growth of wages at 5% in 2010-14e.
- We assume the copper price in USD remaining at the current level.
- We assume the average EUR/PLN at the level of 3.9 in 2010 and 3.8 in 2011-14.
- The risk-free rate is set at 5.6%, equity premium at 6% (and 5.7% in perpetuity), debt premium at 2.5% and beta at 1.0 in the forecasted period.

## Company Report – Apator

### Valuation comparison

	P/E			EV/EBIT			EV/EBITDA		
	2010e	2011e	2012e	2010e	2011e	2012e	2010e	2011e	2012e
Nedap	16.4	11.7		12.9	9.5		8.0	6.6	
Radiall SA	high	71.2		74.9	22.4		10.3	7.7	
Schaffner Holding AG	15.9	9.7	7.8	13	7.9	6.3	9.1	6.1	5.0
Neways Electronics	16.7	8.6		13.7	8.5		8.6	5.9	
Itron	24.9	20.7	16.6	20.3	15.0	10.9	13.5	11.3	9.3
Vaisala Oyj	22.6	17.5	13.7	13.9	10.4	7.8	10.0	8.0	6.5
Phoenix Mecano AG	13.7	11.6	10.4	10.5	8.9	7.8	7.1	6.2	5.5
<b>Median total</b>	<b>16.5</b>	<b>11.6</b>	<b>12.1</b>	<b>13.3</b>	<b>9.2</b>	<b>7.8</b>	<b>8.9</b>	<b>6.4</b>	<b>6.0</b>
<b>Apator</b>	<b>20.5</b>	<b>15.4</b>	<b>14.7</b>	<b>10.1</b>	<b>9.3</b>	<b>8.5</b>	<b>7.8</b>	<b>7.3</b>	<b>6.8</b>
<i>Premium/discount</i>	<i>24%</i>	<i>32%</i>	<i>22%</i>	<i>-24%</i>	<i>2%</i>	<i>9%</i>	<i>-12%</i>	<i>14%</i>	<i>13%</i>
<b>Implied value</b>	<b>18.8</b>	<b>13.9</b>	<b>16.0</b>	<b>22.1</b>	<b>17.3</b>	<b>16.3</b>	<b>19.5</b>	<b>15.7</b>	<b>15.8</b>

Source: Factset, Erste Group Research

\*EV adjusted for the value of own shares stake

## Company Report – Apator

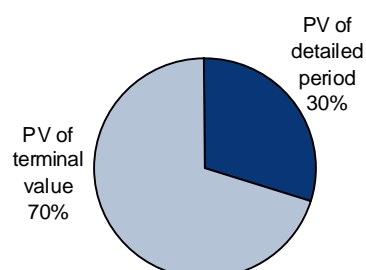
### WACC calculation

	2010e	2011e	2012e	2013e	2014e	2015e (TV)
Risk free rate	5.6%	5.6%	5.6%	5.6%	5.6%	5.0%
Equity risk premium	6.0%	6.0%	6.0%	6.0%	6.0%	5.7%
Beta	1.0	1.0	1.0	1.0	1.0	1.0
<b>Cost of equity</b>	<b>11.6%</b>	<b>11.6%</b>	<b>11.6%</b>	<b>11.6%</b>	<b>11.6%</b>	<b>10.7%</b>
Cost of debt	8.1%	8.1%	8.1%	8.1%	8.1%	7.5%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
<b>After-tax cost of debt</b>	<b>6.6%</b>	<b>6.6%</b>	<b>6.6%</b>	<b>6.6%</b>	<b>6.6%</b>	<b>6.1%</b>
Equity weight	85%	83%	86%	89%	88%	85%
<b>WACC</b>	<b>10.8%</b>	<b>10.7%</b>	<b>10.9%</b>	<b>11.0%</b>	<b>11.0%</b>	<b>10.0%</b>

### DCF valuation

(PLN mn)	2010e	2011e	2012e	2013e	2014e	2015e (TV)
<i>Sales growth</i>	8.5%	7.6%	7.1%	4.8%	4.8%	1.5%
EBIT	50.5	54.7	59.7	61.6	64.7	65.6
<i>EBIT margin</i>	13.1%	13.1%	13.4%	13.2%	13.2%	13.2%
<i>Tax rate</i>	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Taxes on EBIT	-9.6	-10.4	-11.3	-11.7	-12.3	-12.5
<b>NOPLAT</b>	<b>40.9</b>	<b>44.3</b>	<b>48.4</b>	<b>49.9</b>	<b>52.4</b>	<b>53.2</b>
+ Depreciation	15.1	15.3	15.4	15.6	15.7	15.7
<i>Capital expenditures / Depreciation</i>	108.3%	107.2%	106.2%	105.9%	105.1%	100.0%
+/- Change in working capital	-2.0	-7.3	-7.3	-5.5	-5.7	-1.8
<i>Chg. working capital / chg. Sales</i>	-6.4%	-24.7%	-24.8%	-25.8%	-25.2%	-25.2%
- Capital expenditures	-16.4	-16.4	-16.4	-16.5	-16.5	-16.5
<b>Free cash flow to the firm</b>	<b>37.690</b>	<b>35.912</b>	<b>40.087</b>	<b>43.449</b>	<b>45.904</b>	<b>50.56</b>
<i>Terminal value growth</i>						1.5%
Terminal value						602.5
Discounted free cash flow - Dec 31 2009	34.010	29.266	29.461	28.760	27.381	354.1
<b>Enterprise value - Dec 31 2009</b>	<b>503.0</b>					
Minorities	0.0					
Non-operating assets	153.3					
Net debt	49.0					
Other adjustments	0.0					
<b>Equity value - Dec 31 2009</b>	<b>607.3</b>					
Number of shares outstanding (mn)	35.1					
Cost of equity	11.6%					
<b>12M target price per share (PLN)</b>	<b>20.0</b>					
Current share price (PLN)	20.9					
<i>Up/Downside</i>	-4.2%					

### Enterprise value breakdown



Source: Erste Group Research, Factset

### Sensitivity (per share)

		Terminal value EBIT margin				
		12.2%	12.7%	13.2%	13.7%	14.2%
<b>WACC</b>	9.0%	20.5	21.1	21.6	22.1	22.7
	9.5%	19.8	20.3	20.8	21.3	21.8
	10.0%	19.1	19.6	<b>20.0</b>	20.5	21.0
	10.5%	18.5	19.0	19.4	19.8	20.3
	11.0%	18.0	18.4	18.8	19.2	19.6
		Terminal value growth				
		0.5%	1.0%	1.5%	2.0%	2.5%
<b>WACC</b>	9.0%	20.0	20.8	21.6	22.5	23.6
	9.5%	19.4	20.0	20.8	21.6	22.5
	10.0%	18.8	19.4	<b>20.0</b>	20.8	21.6
	10.5%	18.3	18.8	19.4	20.0	20.8
	11.0%	17.8	18.3	18.8	19.4	20.0

## Company Report – Apator

<b>Income Statement</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>
(IAS, PLN mn, 31/12)	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011	31/12/2012
<b>Net sales</b>	<b>311.35</b>	<b>356.19</b>	<b>367.65</b>	<b>386.60</b>	<b>415.94</b>	<b>445.53</b>
Cost of goods sold	-213.42	-237.93	-239.54	-255.83	-273.92	-292.23
<b>Gross profit</b>	<b>97.93</b>	<b>118.26</b>	<b>128.11</b>	<b>130.77</b>	<b>142.02</b>	<b>153.30</b>
SG&A	-56.89	-70.05	-78.69	-80.82	-87.37	-93.58
Other operating revenues	1.78	8.30	1.48	0.55	0.00	0.00
Other operating expenses	0.00	0.00	0.00	0.00	0.00	0.00
<b>EBITDA</b>	<b>55.62</b>	<b>70.46</b>	<b>66.12</b>	<b>65.64</b>	<b>69.95</b>	<b>75.16</b>
Depreciation/amortization	-12.81	-13.94	-15.23	-15.14	-15.30	-15.44
<b>EBIT</b>	<b>42.82</b>	<b>56.51</b>	<b>50.89</b>	<b>50.50</b>	<b>54.65</b>	<b>59.72</b>
Financial result	0.62	-27.48	-11.51	0.77	-2.02	-2.36
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
<b>EBT</b>	<b>43.44</b>	<b>29.03</b>	<b>39.39</b>	<b>51.27</b>	<b>52.64</b>	<b>57.36</b>
Income taxes	-8.77	-5.97	-8.11	-9.74	-10.00	-10.90
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	-0.02	-1.73	-1.25	-1.54	-0.84	0.00
<b>Net result after minorities</b>	<b>34.66</b>	<b>21.33</b>	<b>30.03</b>	<b>39.99</b>	<b>41.79</b>	<b>46.46</b>
<b>Balance Sheet</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>
(IAS, PLN mn, 31/12)						
Intangible assets	2.90	41.89	44.08	44.05	55.04	55.02
Tangible assets	72.15	101.87	97.46	98.80	99.91	100.88
Financial assets	8.79	15.30	11.60	11.60	11.60	11.60
<b>Total fixed assets</b>	<b>83.83</b>	<b>159.05</b>	<b>153.13</b>	<b>154.45</b>	<b>166.55</b>	<b>167.51</b>
Inventories	38.41	53.24	54.35	57.45	61.51	65.62
Receivables and other current assets	60.56	76.45	71.40	77.74	83.64	89.59
Other assets	1.50	2.95	3.47	3.47	3.47	3.47
Cash and cash equivalents	11.32	20.60	15.37	5.80	6.24	6.68
<b>Total current assets</b>	<b>111.78</b>	<b>153.24</b>	<b>144.59</b>	<b>144.46</b>	<b>154.86</b>	<b>165.37</b>
<b>TOTAL ASSETS</b>	<b>195.61</b>	<b>312.29</b>	<b>297.72</b>	<b>298.91</b>	<b>321.41</b>	<b>332.87</b>
<b>Shareholders' equity</b>	<b>154.35</b>	<b>161.46</b>	<b>176.28</b>	<b>198.55</b>	<b>210.35</b>	<b>225.47</b>
<b>Minorities</b>	<b>0.08</b>	<b>2.42</b>	<b>3.88</b>	<b>3.88</b>	<b>3.88</b>	<b>3.88</b>
<b>Hybrid capital and other reserves</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Pension and other LT personnel accruals	0.00	0.00	0.00	0.00	0.00	0.00
LT provisions	9.41	18.06	17.70	17.70	17.70	17.70
Interest-bearing LT debts	0.02	40.85	27.31	16.33	19.77	16.74
Other LT liabilities	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total long-term liabilities</b>	<b>0.02</b>	<b>40.85</b>	<b>27.31</b>	<b>16.33</b>	<b>19.77</b>	<b>16.74</b>
Interest-bearing ST debts	5.15	50.11	37.05	20.03	24.25	20.53
Other ST liabilities	26.61	39.40	35.51	42.41	45.47	48.56
<b>Total short-term liabilities</b>	<b>31.75</b>	<b>89.19</b>	<b>72.55</b>	<b>62.43</b>	<b>69.70</b>	<b>69.08</b>
<b>TOTAL LIAB. , EQUITY</b>	<b>195.61</b>	<b>312.29</b>	<b>297.72</b>	<b>298.91</b>	<b>321.41</b>	<b>332.87</b>
<b>Cash Flow Statement</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>
(IAS, PLN mn, 31/12)						
Cash flow from operating activities	33.16	53.02	34.58	51.77	52.20	57.29
Cash flow from investing activities	-8.92	-81.86	-19.87	-16.40	-27.40	-16.40
Cash flow from financing activities	-22.90	38.12	-19.93	-44.94	-24.36	-40.45
<b>CHANGE IN CASH , CASH EQU.</b>	<b>1.34</b>	<b>9.28</b>	<b>-5.23</b>	<b>-9.57</b>	<b>0.44</b>	<b>0.44</b>
<b>Margins &amp; Ratios</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>
Sales growth	7.8%	14.4%	3.2%	5.2%	7.6%	7.1%
EBITDA margin	17.9%	19.8%	18.0%	17.0%	16.8%	16.9%
EBIT margin	13.8%	15.9%	13.8%	13.1%	13.1%	13.4%
Net profit margin	11.1%	6.5%	8.5%	10.7%	10.3%	10.4%
ROE	23.6%	13.5%	17.8%	21.3%	20.4%	21.3%
ROCE	22.3%	21.9%	16.2%	16.4%	17.0%	17.7%
Equity ratio	78.9%	52.5%	60.5%	67.7%	66.7%	68.9%
Net debt	-6.1	70.4	49.0	30.6	37.8	30.6
Working capital	78.5	61.1	68.6	78.6	81.7	92.8
Capital employed	157.7	252.3	246.8	250.7	269.7	277.6
Inventory turnover	5.6	5.2	4.5	4.6	4.6	4.6

Source: Company data, Erste Group estimates

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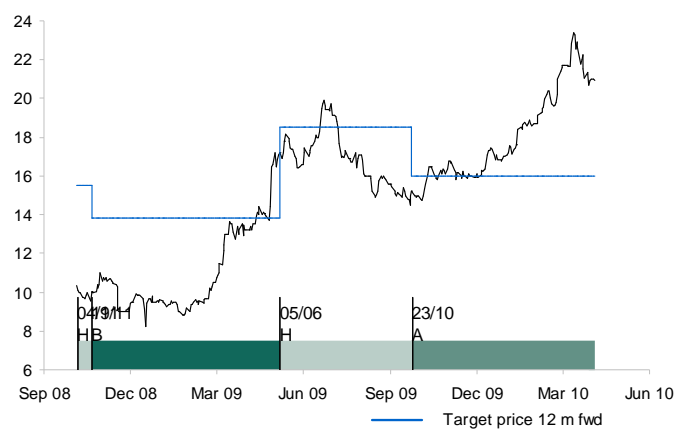
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## Company Report – Apator

### Apator



### Rating history

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

### Company

### Disclosure

Apator

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**Erste Group rating definitions**

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

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

**Distribution of ratings**

Recommendation	Coverage universe		Inv. banking-relationship	
	No.	in %	No.	in %
Buy	31	20.9	7	53.8
Accumulate	31	20.9	2	15.4
Hold	43	29.1	2	15.4
Reduce	20	13.5	2	15.4
Sell	11	7.4	0	0.0
N.R./UND.REV./RESTR.	12	8.1	0	0.0
<b>Total</b>	<b>148</b>	<b>100.0</b>	<b>13</b>	<b>100.0</b>

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