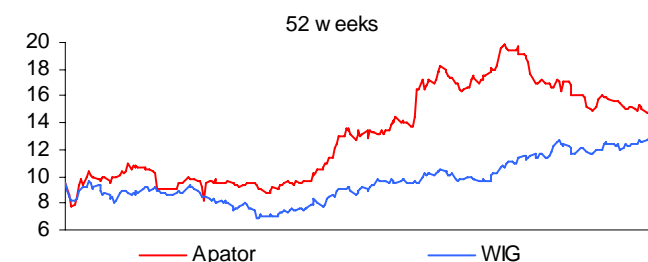


Company Report – Other Utility Services – Poland – October 23, 2009

Apator from Hold to Accumulate

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PLN mn	2008	2009e	2010e	2011e
Net sales	356.2	355.9	376.5	400.8
EBITDA	70.5	65.0	66.5	71.6
EBIT	56.5	49.4	51.0	56.0
Net result after min.	21.3	31.0	37.1	42.5
EPS (PLN)	0.60	0.89	1.06	1.21
CEPS (PLN)	1.24	1.33	1.50	1.66
BVPS (PLN)	4.58	5.04	5.56	5.98
Div./share (PLN)	0.35	0.54	0.80	1.09
EV/EBITDA (x)	5.8	8.6	8.2	7.7
P/E (x)	15.7	16.3	13.7	11.9
P/CE (x)	7.6	10.9	9.6	8.7
Dividend Yield	3.7%	3.7%	5.5%	7.5%



Performance	12M	6M	3M	1M
in PLN	53.4%	10.4%	-26.4%	-9.5%
in EUR	34.3%	16.8%	-24.5%	-9.4%

Share price (PLN)	14.50	Reuters	APOR.WA	Free float	81.3%
Number of shares (mn)	35.3	Bloomberg	APT PW	Shareholders	Apator Mining (18.7%)
Market capitalization (PLN mn / EUR mn)	512 / 123	Div. Ex-date	09/07/08		Pioneer IM (8.5%)
Enterprise value (PLN mn / EUR mn)	558 / 134	Target price	16.0	Homepage:	www.apator.com.pl

Breaking out of downturn

- Apator's supposedly shock-proof business model turned out to be somewhat sensitive to the ongoing economic downturn. However, this does not change the long-term story for the stock. Taking advantage of the recent price drop, we upgrade our recommendation to Accumulate and set our target price at PLN 16.0 (down from PLN 18.5).
- In the short term, we expect some burden on the stock price, as the company is under pressure from the weak macro environment. We expect sales for FY 09 to be about 10% weaker than we originally expected. This is the effect of export market weakness and lower sales of watt-hour meters and switching gear. The company will not be able to fulfill its current FY 09 forecast (sales of PLN 380mn, net profit of PLN 40mn). In our opinion, this may be the right moment to show interest in Apator shares, as the long-term story remains untouched and the business should start to recover already in 1Q10.
- The FY09 result will be burdened with the FX option losses (posted in 1Q09) and weaker sales, but should benefit from the quite strong gross margin (mainly due to the strong EUR/PLN). We expect a recovery of sales already in 1Q10, no FX burden and a slight deterioration of the gross margin for next year. In our forecast, we do not include any potential milestone export contracts (e.g. Indonesia, Egypt).
- As in previous reports, we treat the 18.7% own share stake as an asset for sale. We calculate the value of this asset with a discount to the current market price and deduct the tax due (which would have to be paid in the case of a sale).

Valuation

We employed a DCF valuation tool to estimate the fair value of the company. The DCF is based on our forecasts for 2010-13. 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 16.0 per share, which in our opinion reflects the value of the firm in a proper way. The peer comparison shows that Apator shares are traded with a discount to its international peers.

Our estimates are based on the following:

- We assume the restructuring of subsidiary PoWoGaz will continue.
- We do not assume the bankruptcy of Metron (a PoWoGaz competitor).
- We do not assume the sale of real estate in Poznan or Torun.
- We do not assume the realization of the big contract in Indonesia by Apator.
- We treat the own share stake as an asset for sale.
- We assume the average growth of wages at 5% in 2009-13e.
- We assume the copper price in USD remaining at the current level.
- We assume the average EUR/PLN at 4.4 in 2009 and 4.0 in 2010.
- The risk-free rate is set at 6.2%, equity premium at 6% (and 5.7% in perpetuity), debt premium at 2.5% and beta at 1.0 in the forecasted period.

Peer group valuation

		P/E			EV/EBIT			EV/EBITDA		
		2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e
Nedap	high	20.5	16.1	27.4	15.7	12.9	11.5	8.7	7.7	
Radiall SA		38.4	46.0	20.2	99.5	15.6	7.9	7.9	5.1	3.9
Schaffner Holding AG	high	19.4	10.1	high	15.5	8.5	28.4	9.8	6.4	
Neways Electronics		6.0	4.4		9.0	6.3		4.9	3.4	
Itron		26.3	18.2	16.9	23.6	13.7	9.7	13.6	9.4	7.2
Vaisala Oyj		25.6	16.2	14.0	14.1	9.2	7.9	10.4	7.4	6.5
Phoenix Mecano AG		40.9	15.7	10.0	29.1	11.3	7.5	9.5	6.4	5.0
Median total		38.4	18.2	15.0	27.4	13.7	8.2	10.4	7.4	6.5
Apator		16.3	13.7	11.9	10.8	10.3	9.4	8.2	7.9	7.4
<i>Premium/discount</i>		<i>-57%</i>	<i>-25%</i>	<i>-21%</i>	<i>-61%</i>	<i>-25%</i>	<i>15%</i>	<i>-21%</i>	<i>7%</i>	<i>14%</i>
Implied value		33.8	19.1	18.1	39.2	20.6	13.9	20.1	14.9	14.0

Source: Factset, Erste Group Research

*EV adjusted for the value of own shares stake

Company Report – Apator

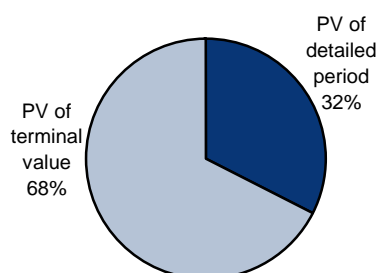
WACC calculation

	2009e	2010e	2011e	2012e	2013e	2014e (TV)
Risk free rate	6.2%	6.2%	6.2%	6.2%	6.2%	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
Cost of equity	12.2%	12.2%	12.2%	12.2%	12.2%	10.7%
Cost of debt	8.7%	8.7%	8.7%	8.7%	8.7%	7.5%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
After-tax cost of debt	7.0%	7.0%	7.0%	7.0%	7.0%	6.1%
Equity weight	77%	82%	82%	83%	84%	85%
WACC	11.0%	11.3%	11.3%	11.3%	11.4%	10.0%

DCF valuation

(PLN mn)	2009e	2010e	2011e	2012e	2013e	2014e (TV)
<i>Sales growth</i>	-0.1%	5.8%	6.5%	4.5%	4.2%	1.5%
EBIT	49.4	51.0	56.0	58.1	60.4	63.6
<i>EBIT margin</i>	13.9%	13.5%	14.0%	13.9%	13.8%	14.3%
<i>Tax rate</i>	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Taxes on EBIT	-9.4	-9.7	-10.6	-11.0	-11.5	-12.1
NOPLAT	40.0	41.3	45.3	47.1	49.0	51.5
+ Depreciation	15.6	15.5	15.7	15.8	15.9	15.9
<i>Capital expenditures / Depreciation</i>	92.3%	105.5%	104.6%	103.9%	103.8%	100.0%
+/- Change in working capital	6.5	-5.5	-5.8	-4.6	-4.5	-1.7
<i>Chg. working capital / chg. Sales</i>	-2330.6%	-26.6%	-23.8%	-25.4%	-25.2%	-25.2%
- Capital expenditures	-14.4	-16.4	-16.4	-16.4	-16.5	-16.5
Free cash flow to the firm	47.691	34.974	38.818	41.887	43.868	49.22
<i>Terminal value growth</i>						1.5%
Terminal value						551.4
<i>Discount factor</i>		0.90	0.81	0.73	0.65	0.59
Discounted free cash flow - Dec 31 2009		31.427	31.343	30.379	28.567	354.0
Enterprise value - Dec 31 2009	475.7					
Minorities	0.0					
Non-operating assets	78.6					
Net debt	48.5					
Other adjustments	0.0					
Equity value - Dec 31 2009	505.8					
Number of shares outstanding (mn)	35.3					
Cost of equity	12.2%					
12M target price per share (PLN)	15.7					
Current share price (PLN)	14.5					
<i>Up/Downside</i>	8.5%					

Enterprise value breakdown



Sensitivity (per share)

		Terminal value EBIT margin				
		12.8%	13.3%	13.8%	14.3%	14.8%
WAC	9.0%	16.5	17.0	17.4	17.9	18.4
	9.5%	15.7	16.2	16.6	17.1	17.5
	10.0%	15.1	15.5	16.0	16.4	16.8
	10.5%	14.5	14.9	15.3	15.7	16.1
	11.0%	14.0	14.4	14.8	15.2	15.5
		Terminal value growth				
		0.5%	1.0%	1.5%	2.0%	2.5%
WAC	9.0%	16.0	16.6	17.4	18.3	19.4
	9.5%	15.3	16.0	16.6	17.4	18.3
	10.0%	14.8	15.3	16.0	16.6	17.4
	10.5%	14.3	14.8	15.3	16.0	16.6
	11.0%	13.8	14.3	14.8	15.3	16.0

Company Report – Apator

Income Statement	2006	2007	2008	2009e	2010e	2011e
(IAS, PLN mn, 31/12)	31/12/2006	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011
Net sales	288.90	311.35	356.19	355.91	376.46	400.78
Cost of goods sold	-192.07	-213.42	-237.93	-228.77	-244.32	-257.58
Gross profit	96.84	97.93	118.26	127.15	132.14	143.20
SG&A	-55.34	-56.89	-70.05	-78.53	-81.56	-87.23
Other operating revenues	1.29	1.78	8.30	0.80	0.40	0.00
Other operating expenses	0.00	0.00	0.00	0.00	0.00	0.00
EBITDA	55.40	55.62	70.46	65.01	66.52	71.65
Depreciation/amortization	-12.61	-12.81	-13.94	-15.60	-15.54	-15.68
EBIT	42.79	42.82	56.51	49.41	50.98	55.97
Financial result	0.51	0.62	-27.48	-9.61	-2.81	-2.47
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	43.29	43.44	29.03	39.81	48.17	53.50
Income taxes	-6.64	-8.77	-5.97	-7.56	-9.15	-10.17
Result from discontinued operations	0.99	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	-0.09	-0.02	-1.73	-1.19	-1.93	-0.86
Net result after minorities	37.56	34.66	21.33	31.05	37.09	42.48
Balance Sheet	2006	2007	2008	2009e	2010e	2011e
(IAS, PLN mn, 31/12)						
Intangible assets	4.13	2.90	41.89	41.54	41.65	52.72
Tangible assets	72.25	72.15	101.87	101.02	101.77	102.42
Financial assets	9.51	8.79	15.30	15.30	15.30	15.30
Total fixed assets	85.88	83.83	159.05	157.86	158.72	170.44
Inventories	37.85	38.41	53.24	52.62	56.19	59.24
Receivables and other current assets	58.51	60.56	76.45	70.47	74.54	79.35
Other assets	1.25	1.50	2.95	2.95	2.95	2.95
Cash and cash equivalents	9.97	11.32	20.60	5.34	5.65	6.01
Total current assets	107.58	111.78	153.24	131.38	139.33	147.56
TOTAL ASSETS	193.46	195.61	312.29	289.23	298.05	318.00
Shareholders' equity	138.87	154.35	161.46	176.41	194.56	209.23
Minorities	0.43	0.08	2.42	2.42	2.42	2.42
Hybrid capital and other reserves	0.00	0.00	0.00	0.00	0.00	0.00
Pension and other LT personnel accruals	0.00	0.00	0.00	0.00	0.00	0.00
Other LT provisions	9.96	9.41	18.06	18.06	18.06	18.06
Interest-bearing LT debts	0.01	0.02	40.85	24.16	18.85	20.18
Other LT liabilities	0.00	0.00	0.00	0.00	0.00	0.00
Total long-term liabilities	0.01	0.02	40.85	24.16	18.85	20.18
Interest-bearing ST debts	9.38	5.15	50.11	29.64	23.12	24.76
Other ST liabilities	34.82	26.61	39.40	38.54	41.03	43.35
Total short-term liabilities	44.15	31.75	89.19	67.86	63.83	67.79
TOTAL LIAB. , EQUITY	193.46	195.61	312.29	289.23	298.05	318.00
Cash Flow Statement	2006	2007	2008	2009e	2010e	2011e
(IAS, PLN mn, 31/12)						
Cash flow from operating activities	42.13	33.16	53.02	61.97	50.28	55.09
Cash flow from investing activities	-17.15	-8.92	-81.86	-14.40	-16.40	-27.40
Cash flow from financing activities	-30.32	-22.90	38.12	-62.82	-33.57	-27.32
CHANGE IN CASH , CASH EQU.	-5.33	1.34	9.28	-15.26	0.31	0.36
Margins & Ratios	2006	2007	2008	2009e	2010e	2011e
Sales growth	4.4%	7.8%	14.4%	-0.1%	5.8%	6.5%
EBITDA margin	19.2%	17.9%	19.8%	18.3%	17.7%	17.9%
EBIT margin	14.8%	13.8%	15.9%	13.9%	13.5%	14.0%
Net profit margin	12.7%	11.1%	6.5%	9.1%	10.4%	10.8%
ROE	29.4%	23.6%	13.5%	18.4%	20.0%	21.0%
ROCE	26.0%	22.3%	21.9%	16.1%	16.6%	17.4%
Equity ratio	72.0%	78.9%	52.5%	61.8%	66.1%	66.6%
Net debt	-0.6	-6.1	70.4	48.5	36.3	38.9
Working capital	62.2	78.5	61.1	60.6	72.5	76.8
Capital employed	148.7	157.7	252.3	245.4	251.4	268.6
Inventory turnover	5.6	5.6	5.2	4.3	4.5	4.5

Source: Company data, Erste Group estimates

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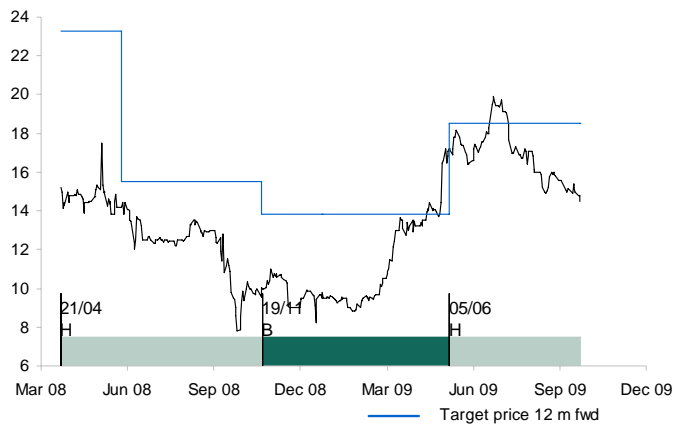
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Company Report – Apator

Apator



Rating history

Date	Rating	Price	Target Price
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

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.

Distribution of ratings

Recommendation	Coverage universe		Inv. banking-relationship	
	No.	in %	No.	in %
Buy	22	16.9	6	46.2
Accumulate	31	23.8	3	23.1
Hold	41	31.5	1	7.7
Reduce	14	10.8	3	23.1
Sell	10	7.7	0	0.0
N.R./UND.REV./RESTR.	12	9.2	0	0.0
Total	130	100.0	13	100.0

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