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Energomontaż Południe

Key points

Investment story. Energomontaż Południe is the only contractor in our coverage with high exposure to the constructions for the power sector, i.e. the segment with probably the most attractive LT outlook within the construction industry at the moment. We expect that thanks to the cooperation with PBG (which has excellent market recognition and will shortly become the main shareholder of EP) and planned acquisitions, EP may become one of the key players executing investments in the power sector in Poland, which should help the Company to boost its sales and profits in the following years. In the shorter horizon, we expect the Company to further improve its backlog thanks to well-developed position in Germany, where the investment program is running. Furthermore, we expect EP to finally capitalize on housing activity this year, given the upcoming revival in the residential construction market.

What to expect in 4Q09E. Despite predicted yoy increase of EP's quarterly sales (which we expect to rise by approx. 60% yoy), and one-off gain (from leasing out of the property in Piotrków Trybunalski) likely to help the Company's quarterly operating profit with c. PLN 3.5 million, we forecast >30% yoy contraction of quarterly operating and net profits. We see the reasons for such development in (i) poor performance of Amontex suffering from poor demand on steel structures (we expect Amontex to show net profit close to zero in 2009), and (ii) high base effect (EBIT margin reached probably its peak in the base quarter of 4Q08).

Mid-term earnings momentum. We forecast c. 40% yoy rise at bottom line level in 2010, driven by (i) well developed contract portfolio, (ii) sale of flats in Osiedle Książęce project (we expect profits from residential development activity to boost EP's operating profit by c. PLN 4 million in 2010), and (iii) positive contribution from leasing of the Legnicka Park Popowice office project (the office space is likely to be finally fully leased out by EP starting from 2Q10).

Financial forecasts. We decrease our EBIT and NP forecast for 2009 by 17% and 20%, respectively, on the back of lower than previously projected quarterly posting for 4Q09E (lower than originally envisaged results of Amontex). We also moderately decrease our EBIT forecast for the following years (by c. 10%-16%) with NP projection remaining broadly intact (the Company is likely to recognize costs related to leasing of the Legnicka Park Popowice office project above the operating profit level (we accounted for these costs below EBIT line before)).

Risks to financial forecasts. Balanced. The upside to our financial forecast pertains to residential development business

Sector: Construction
 Fundamental rating: Hold (→)
 Market relative: Overweight (→)
 Price: PLN 4.42
 12M EFV: PLN 4.5 (→)

Market Cap.: US\$ 73 m
 Reuters code: EMPD.WA
 Av. daily turnover: US\$ 0.1 m
 Free float: 60%
 12M range: PLN 2.40-5.50

Guide to adjusted profits

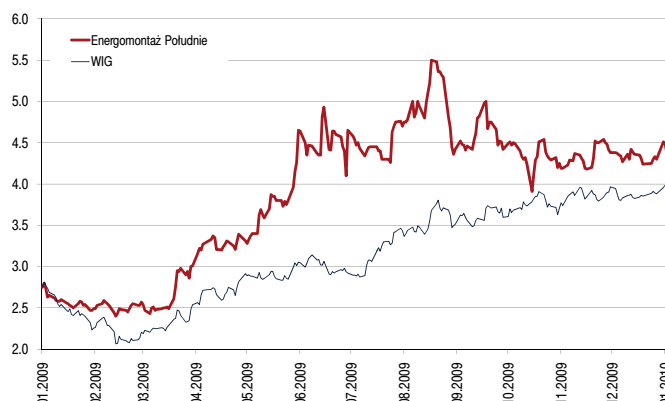
No factors necessitating adjustments.

Key data

IFRS consolidated		2008	2009E	2010E	2011E
Sales	PLN m	239.8	302.1	419.2	503.8
EBITDA	PLN m	29.8	29.3	30.6	35.3
EBIT	PLN m	25.3	24.1	24.5	28.4
Net profit	PLN m	15.6	13.4	18.6	23.6
EPS	PLN	0.33	0.28	0.26	0.33
EPS yoy chng	%	16	-16	-6	27
Net debt	PLN m	63.2	50.7	-35.1	-46.3
P/E	x	13.3	15.7	16.7	13.1
P/CE	x	10.3	11.3	12.5	10.2
EV/EBITDA	x	9.1	8.9	9.0	7.5
EV/EBIT	x	10.7	10.9	11.2	9.3
EV/Sales	x	1.1	0.9	0.7	0.5
Gross dividend yield	%	2.1	2.7	1.6	2.2
No. of shares (eop)	m	47.5	48.4	71.0	71.0

Source: Company, DM IDMSA estimates

Stock performance



Source: ISI

Upcoming events

1. Release of 4Q09 financial results: February-March 2010

Catalysts

1. Efficient expansion on the German market
2. Signing large contracts in the power segment
3. Synergies with PBG
4. Pick up in volume of flats sold
5. Growing prices of dwellings

Risk factors

1. Inefficient expansion on the German market
2. Delays in the start of the investments in the power sector in Poland
3. Prolonging slowdown (which may lower demand on steel structures)
4. Possible lack of expected synergies with PBG
5. Upturn in construction material prices and subcontracting costs

(the sale of flats may go faster than we predict), while the downside involves manufacturing of steel structures (which may still suffer from weak demand).

Valuation. Following the downward revision of our financial forecast, valuation horizon forward shift and lower than previously envisaged net debt in 2010E (we introduce into our financial forecast cash in-flow from sale of flats under the Osiedle Książęce project) we maintain our 12M EFV at PLN 4.50 per share.

Ratings and action. With the share market price resting close to our 12M EFV, we maintain our LT fundamental Hold recommendation for EP equities. Given likely award of new large 'power' contracts, we also maintain our ST market-relative Overweight bias intact.