

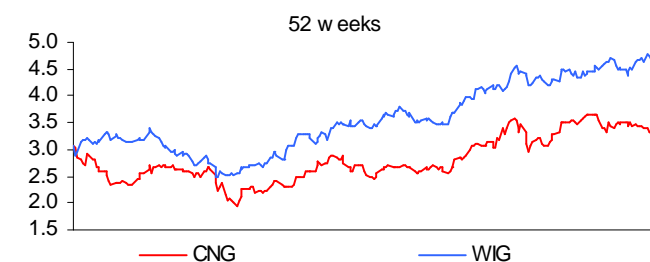
Company Report – Construction Materials – Poland – November 23, 2009

CNG

from Buy to Accumulate

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PLN mn	2008	2009e	2010e	2011e
Net sales	192.0	170.5	177.4	195.4
EBITDA	47.1	34.9	39.7	48.0
EBIT	28.0	16.9	21.2	29.3
Net result after min.	21.0	11.4	13.1	20.6
EPS (PLN)	0.37	0.21	0.25	0.39
CEPS (PLN)	0.80	0.57	0.60	0.74
BVPS (PLN)	3.49	3.89	3.97	4.16
Div./share (PLN)	0.00	0.16	0.18	0.36
EV/EBITDA (x)	4.8	7.2	6.0	4.8
P/E (x)	6.9	16.2	13.5	8.6
P/CE (x)	3.2	5.9	5.6	4.5
Dividend Yield	0.0%	4.8%	5.5%	10.8%



Performance	12M	6M	3M	1M
in PLN	9.8%	24.1%	-1.2%	-1.2%
in EUR	1.4%	31.1%	-0.4%	-0.3%

Share price (PLN)	3.35	Reuters	CERM.WA	Free float	81.0%
Number of shares (mn)	57.0	Bloomberg	CNG PW	Shareholders	V. Piotrowski (CEO) (19.0%)
Market capitalization (PLN mn / EUR mn)	191 / 46	Div. Ex-date	12/06/08		Millennium TFI (9.98%)
Enterprise value (PLN mn / EUR mn)	252 / 61	Target price	3.9	Homepage:	www.nowa-gala.pl

Still some upside left

- We have an Accumulate recommendation on the stock with a target price of PLN 3.85. Recovery of the tile market and operating leverage will drive the profit in the coming years.
- In 2009, the domestic market declined by 4% y/y, while exports collapsed by 46% y/y. This depressed the gross margin on sales by 4pp. However, nothing structural changed in the company's business and the margin will rebound along with the volumes.
- Management kept a lid on SG&A and debt, which is an optimistic sign for the future. Moreover, the company purchased 7.4% of its own shares. These can be used for acquisitions in the long run or simply redeemed.

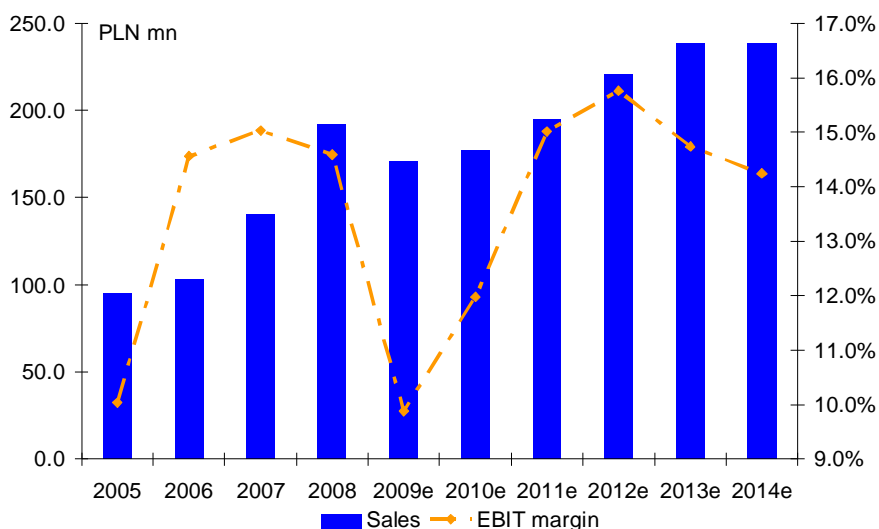
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Investment story

The rationale behind our Accumulate recommendation is as follows:

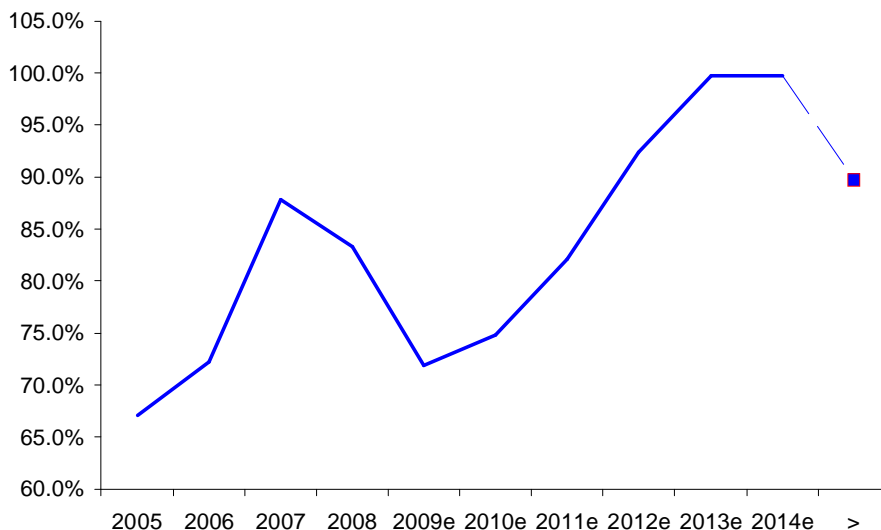
- The company is a classic example of an operating leverage business. The drop in volumes hurt gross margins. The mild recovery of volumes in 2010 and steeper upturn in 2011 will bring profitability back to high levels.
- The potential is still not priced in. In the next 2-3 years, the company can reach net profit of PLN 25mn and EBITDA of PLN 54mn.

Results



Source: Erste Group Research

Capacity utilization



Source: Erste Group Research

CNG is a simple business with pure exposure to the tile market (the fourth largest player in Poland with 9.2mn m² of installed capacity). It generates nice cash flows and has low debt. It has a cyclical product and significant leverage. Its long-term options to grow faster than the market and beyond its current capacities (which limit sales to PLN 220-230mn) are either acquisitions (own shares + debt) or new production lines.

Valuation

Incorporating our assumptions, we employed a DCF valuation tool to estimate the target price for the company. The DCF is calculated using our forecasts for 2010-15e. We used a discount rate based on WACC and a terminal value based on perpetuity. The DCF led us to a 12-month target price of PLN 3.85 per share, which in our opinion accurately reflects the value of the company.

Major assumptions:

- Average capacity utilization ratio at 90% in perpetuity
- Recovery as of 2010 (volumes up 4%), continuing in 2011 (volumes up 9%)
- Own shares will not be redeemed and are shown in the DCF table under non-operating assets at cost of purchase

We discount all free cash flows for the firm on December 31, 2009, and subtract the net debt. We then divide the equity value per number of shares. Afterwards, we compound this by the cost of equity (with the appropriate number of months). We thus arrive at a target price that represents our valuation of the stock price as it is expected to be 12 months into the future. We have also changed our assumption regarding the risk-free rate, which is now 6.2%. The perpetuity growth rate is set at 1.5%, equity premium at 6% and debt risk premium at 2.5%.

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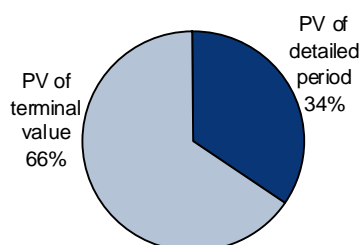
WACC calculation

	2010e	2011e	2012e	2013e	2014e	2015e (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	17.0%	17.0%	17.0%	17.0%	17.0%	19.0%
After-tax cost of debt	7.2%	7.2%	7.2%	7.2%	7.2%	6.1%
Equity weight	77%	80%	79%	77%	77%	80%
WACC	11.0%	11.2%	11.2%	11.1%	11.0%	9.8%

DCF valuation

(PLN mn)	2010e	2011e	2012e	2013e	2014e	2015e (TV)
<i>Sales growth</i>	4.0%	10.1%	12.9%	8.1%	0.1%	1.5%
EBIT	21.2	29.3	34.8	35.2	34.0	31.4
<i>EBIT margin</i>	12.0%	15.0%	15.8%	14.7%	14.2%	13.0%
<i>Tax rate</i>	17.0%	17.0%	17.0%	17.0%	17.0%	19.0%
Taxes on EBIT	-3.6	-5.0	-5.9	-6.0	-5.8	-6.0
NOPLAT	17.6	24.4	28.9	29.2	28.2	25.5
+ Depreciation	18.5	18.6	19.0	19.6	20.4	20.0
<i>Capital expenditures / Depreciation</i>	43.3%	64.5%	78.9%	100.0%	100.0%	100.0%
+/- Change in working capital	-2.0	-6.2	-11.0	-7.7	-0.9	-1.4
<i>Chg. working capital / chg. Sales</i>	-29.6%	-34.4%	-43.6%	-43.2%	-305.2%	-39.9%
- Capital expenditures	-8.0	-12.0	-15.0	-19.6	-20.4	-20.0
Free cash flow to the firm	26.1	24.8	21.9	21.4	27.4	24.0
<i>Terminal value growth</i>						1.5%
Terminal value						294.6
Discounted free cash flow - Dec 31 2009	23.5	20.1	15.9	14.1	16.2	171.5
Enterprise value - Dec 31 2009	261.2				89.7	
Minorities	0.0					
Non-operating assets	12.0					
Net debt	74.7					
Other adjustments	0.0					
Equity value - Dec 31 2009	198.5					
Number of shares outstanding (mn)	57.0					
Cost of equity	12.2%					
12M target price per share (PLN)	3.85					
Current share price (PLN)	3.3					
<i>Up/Downside</i>	15.4%					

Enterprise value breakdown



Source: Erste Group Research

Sensitivity (per share)

		Terminal value EBIT margin				
		12.0%	12.5%	13.0%	13.5%	14.0%
WACC	8.8%	4.0	4.2	4.3	4.5	4.6
	9.3%	3.8	3.9	4.1	4.2	4.4
	9.8%	3.6	3.7	3.9	4.0	4.1
	10.3%	3.4	3.5	3.7	3.8	3.9
	10.8%	3.3	3.4	3.5	3.6	3.7
		Terminal value growth				
		0.5%	1.0%	1.5%	2.0%	2.5%
WACC	8.8%	3.8	4.0	4.3	4.6	5.0
	9.3%	3.6	3.8	4.1	4.3	4.6
	9.8%	3.5	3.6	3.9	4.1	4.4
	10.3%	3.3	3.5	3.7	3.9	4.1
	10.8%	3.2	3.3	3.5	3.7	3.9

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Peer group comparison

	P/E			P/BV			EV/EBITDA		
	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e
Median for DJ Eurostoxx Building Materials peer group	15.0	14.1	12.2	1.1	1.2	1.1	8.8	7.5	6.8
Ceramika Nowa Gala	16.2	13.5	8.6	0.9	0.8	0.8	7.2	6.0	4.8
Cersanit	n.m.	23.3	12.1	2.1	2.0	1.7	11.7	9.8	7.0
<i>Premium/discount</i>	7%	-5%	-30%	-25%	-27%	-24%	-18%	-19%	-29%
Implied value	3.0	3.3	4.4	2.0	2.2	2.2	4.0	3.8	4.3

Source: Factset, Erste Group Research

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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	103.45	141.03	191.98	170.55	177.37	195.36
Cost of goods sold	-68.80	-93.64	-128.78	-123.25	-124.20	-131.25
Gross profit	34.66	47.39	63.21	47.29	53.17	64.11
SG&A	-21.12	-24.68	-34.03	-30.29	-31.93	-34.77
Other operating revenues	0.00	0.00	0.00	0.00	0.00	0.00
Other operating expenses	1.53	-1.51	-1.16	-0.15	0.00	0.00
EBITDA	26.02	34.45	47.12	34.91	39.71	47.95
Depreciation/amortization	-10.95	-13.25	-19.11	-18.06	-18.47	-18.61
EBIT	15.07	21.20	28.01	16.86	21.24	29.34
Financial result	-3.10	-4.25	-3.59	-3.85	-5.42	-4.58
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	11.97	16.95	24.43	13.01	15.83	24.76
Income taxes	-2.26	-1.97	-3.40	-1.63	-2.69	-4.21
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	0.00	0.00	0.00	0.00	0.00	0.00
Net result after minorities	9.71	14.98	21.03	11.38	13.14	20.55
Balance Sheet	2006	2007	2008	2009e	2010e	2011e
(IAS, PLN mn, 31/12)						
Intangible assets	1.01	17.78	28.43	28.45	28.46	28.47
Tangible assets	99.74	160.72	152.72	145.67	135.20	128.58
Financial assets	5.80	9.33	10.45	10.50	10.72	11.30
Total fixed assets	106.55	187.83	191.59	184.62	174.38	168.35
Inventories	36.03	56.38	74.86	76.42	77.00	81.37
Receivables and other current assets	29.77	44.62	50.75	57.30	59.60	63.69
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	6.34	6.99	7.62	1.71	1.77	1.95
Total current assets	72.13	107.98	133.23	135.43	138.37	147.01
TOTAL ASSETS	178.68	295.82	324.82	320.05	312.75	315.36
Shareholders' equity	118.27	192.38	198.97	205.43	209.46	219.50
Minorities	0.00	0.00	0.00	0.00	0.00	0.00
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	8.91	10.38	15.87	17.73	17.75	17.77
Interest-bearing LT debts	31.02	39.64	53.50	26.07	21.92	18.64
Other LT liabilities	0.00	0.00	0.00	0.00	0.00	0.00
Total long-term liabilities	31.02	39.64	53.50	26.07	21.92	18.64
Interest-bearing ST debts	8.94	36.17	34.19	50.36	42.34	36.01
Other ST liabilities	11.53	17.25	22.30	20.47	21.28	23.44
Total short-term liabilities	20.47	53.42	56.48	70.83	63.63	59.46
TOTAL LIAB. , EQUITY	178.68	295.81	324.82	320.05	312.75	315.36
Cash Flow Statement	2006	2007	2008	2009e	2010e	2011e
(IAS, PLN mn, 31/12)						
Cash flow from operating activities	12.21	21.70	26.88	16.34	29.61	32.99
Cash flow from investing activities	-4.15	-59.09	-17.46	-11.00	-8.00	-12.00
Cash flow from financing activities	-5.49	38.04	-8.93	-11.26	-21.54	-20.81
CHANGE IN CASH , CASH EQU.	2.63	0.65	0.63	-5.91	0.07	0.18
Margins & Ratios	2006	2007	2008	2009e	2010e	2011e
Sales growth	8.8%	36.3%	36.1%	-11.2%	4.0%	10.1%
EBITDA margin	25.1%	24.4%	24.5%	20.5%	22.4%	24.5%
EBIT margin	14.6%	15.0%	14.6%	9.9%	12.0%	15.0%
Net profit margin	9.4%	10.6%	11.0%	6.7%	7.4%	10.5%
ROE	8.5%	9.6%	10.7%	5.6%	6.3%	9.6%
ROCE	6.1%	6.9%	7.4%	3.8%	4.5%	7.1%
Equity ratio	66.2%	65.0%	61.3%	64.2%	67.0%	69.6%
Net debt	33.6	68.8	80.1	74.7	62.5	52.7
Working capital	51.7	54.6	76.7	64.6	74.7	87.6
Capital employed	160.8	271.6	294.9	297.9	289.7	290.0
Inventory turnover	2.0	2.0	2.0	1.6	1.6	1.7

Source: Company data, Erste Group estimates

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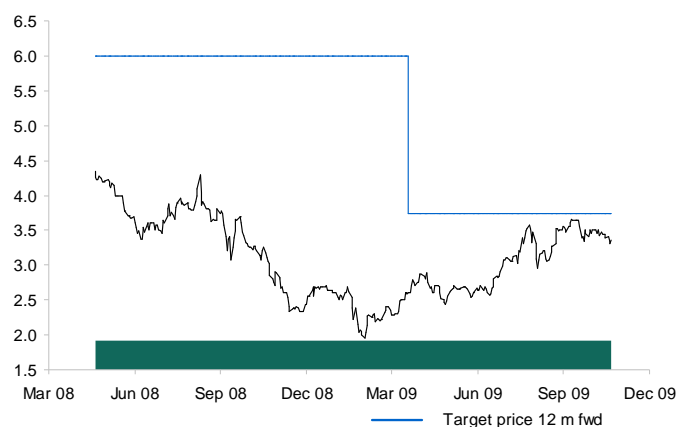
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Rating history

Date	Rating	Price	Target Price
26. Mar 08	Buy	4.60	6.00
01. Jun 07	Accumulate	6.60	9.10
02. May 05	Buy	4.64	8.10

Company

Disclosure

CNG

Important Disclosures

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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	23	17.6	8	66.7
Accumulate	28	21.4	1	8.3
Hold	41	31.3	2	16.7
Reduce	17	13.0	1	8.3
Sell	10	7.6	0	0.0
N.R./UND.REV./RESTR.	12	9.2	0	0.0
Total	131	100.0	12	100.0

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