

Ceramika Nowa Gala

4 May 2007

Acquisition priced in

Tilemaker		Current price	PLN 7.69*	Hold		
Poland		Fair Value	PLN 7.35	Rating upgraded		
Performance over	1m 3m 12m	FY/e 31.12, PLN m	2006	2007F	2008F	2009F
Absolute %	+24.2 +39.8 +50.8	Sales	103.5	152.6	207.4	218.4
Rel. WIG20 %	+19.2 +36.4 +33.0	Adj. EBITDA	23.9	36.0	48.5	50.7
12m Hi/Lo	PLN 7.72/4.30	Adj. EBIT	12.9	22.4	31.2	32.5
Reuters	CERM.WA	Adj. Net Profit	7.5	15.5	22.1	24.7
Bloomberg	CNG PW	Adj. EPS (PLN)	0.20	0.38	0.49	0.54
Market Cap	€77.6m	Adj. P/E	38.7	20.5	15.8	14.2
Next corporate event		DPS (PLN)	0.00	0.15	0.29	0.43
1Q07 report on 15 May		Yield (%)	0.0%	2.0%	3.8%	5.7%
PLN / €	3.77	Adj. EV/EBITDA (x)	13.7	10.1	7.9	7.4

Source: CNG, KBC Securities

*priced at close of business 02/05/2007

We are upgrading our rating on Ceramika Nowa Gala from Sell to Hold, after incorporating the acquisition of Ceramika Gres and better long-term growth prospects. We expect CNG to post good results for 1Q07 for the first time in many quarters. We expect net profit to come in at PLN 2.1m for 1Q07, up 129% y/y on an adjusted basis, mainly as a result of (i) high revenue growth, (ii) a better EBIT margin, and (iii) a lower effective tax rate. A significant improvement in sales, expected to come in at PLN 27.7m for 1Q07, up 36.1% y/y, in line with what the company already announced, comes, in our opinion, mainly from (i) the low base in 1Q06, when the tiles market was oversold, following a very good performance in 4Q05 (ii) a rebound in the tiles market with the construction boom finally reaching end customers, and (iii) a mild winter in 1Q07 versus very unfavourable weather conditions in 1Q06. We have revised upwards our sales estimates for CNG, following an expected rebound in the tiles industry, after two years of decline. However, incorporating higher cost expectations, in line with management guidance, we are now more cautious on the outlook for margin improvement. As a result, we have decreased our stand-alone net profit estimates by 6.4% to PLN 12.2m (+61.5% y/y) for 2007, 5.8% to PLN 14.3m (+17.1% y/y) for 2008, and by 2.4% to PLN 16.0m (+11.8% y/y) for 2009. Our stand-alone net profit forecast for 2007 is 8.4% below the management guidance of PLN 13.3m. After the inclusion of Ceramika Gres, expected to be consolidated for 5 months of 2007, we have increased our net profit estimates by 18.7% to PLN 15.5m (+104.9% y/y) for 2007, 46.0% to PLN 22.1m (+43.2% y/y) for 2008 and by 51.1% to PLN 24.7m (+11.6% y/y) for 2009. We have also increased terminal growth rate in our DCF model from 2% to 3% to account for potential future capacity expansion. As a result, we have increased our fair value estimate for CNG by 62.2% to PLN 7.35 per share, implying 4.4% downside.

Upgrade to Hold

- **Good 1Q07 results in the price...**: We expect CNG to post strong growth for 1Q07 but mainly due to a very low base. We believe, however, that the improvement will not be a surprise for the market, with the company already having announced 36% y/y growth of sales for 1Q07.
- **...as well as the CG acquisition**: Although we recognize the potential for benefits from the acquisition, mainly in the form of optimising production costs of cheap tiles, we see little growth potential or margin improvement at Ceramika Gres, due to its very high current capacity utilisation.
- **Discount warranted**: After a 58% price rally since acquisition plan announcement, on a 2007F P/E of 20.5x, CNG still trades at a 18% discount to its Polish industrial peer group. We believe such a discount is warranted, taking into account the two past years of earnings disappointments and acquisition risk.

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