

Kety

15 June 2010

Lofty goals

Metals - aluminium
Current price PLN 105.0*

Hold
Poland
Fair value PLN 113.0

Rating maintained

Performance over	1M	3M	12M
Absolute %	-5.3	-11.7	+38.0
Rel. WIG20 %	-5.1	-11.4	+16.1
12M Hi/Lo	PLN 125.4 / 72.75		
Reuters	KETY.WA		
Bloomberg	KTY.PW		
Market Cap	€ 236m		
Next corporate event			
Mgmt. guidance on 2Q10 results – end of June			
PLN / €	4.10		

FY/e 31.12, PLN m	2009	2010F	2011F	2012F
Sales	1,111.0	1,172.1	1,272.0	1,359.4
EBITDA	189.0	189.2	207.2	219.8
EBIT	124.9	119.6	135.9	145.3
Net profit	70.6	78.3	96.1	105.4
EPS (PLN)	7.7	8.5	10.4	11.4
P/E (x)	13.7	12.4	10.1	9.2
DPS (PLN)	0.0	4.0	4.0	5.7
Yield (%)	0.0%	3.8%	3.8%	5.5%
EV/EBITDA (x)	6.1	6.3	5.6	5.2

Source: Kety, KBC Securities

Priced as of COB 15/06/10

A less favourable currency outlook and relatively weak outlook for Kety's 1H10 results have prompted a cut in our net profit forecast by 9.3% to PLN 78.3m (+11.0% y/y) for 2010. Our forecast is 7.8% below the consensus estimate, which we believe is outdated. We have also lowered our net profit expectation by 2.0% to PLN 96.1m (+22.6% y/y) for 2011 and 3.6% to PLN 105.4m (+9.7% y/y) for 2012. Our fair value has fallen 3.4% to PLN 113.0 per share, implying 7.6% upside. After the recent price decline we reiterate our Hold rating on the stock.

Hold – rating maintained

- **Weak outlook for 2Q10 due to flooding and weak PLN:** Kety's management is scheduled to publish its estimates for the firm's 2Q10 results by the end of June. We forecast the net profit at PLN 14.9m in 2Q10, down 27.6% y/y on the back of lower operating margins and the negative revaluation of €- and US\$-denominated loans. Our net profit estimate of PLN 78.3m for full-year 2010 is 4% below the management's guidance due to slightly lower revenues and a less favourable currency outlook.
- **Demand recovering:** We expect demand to gradually re-emerge in various segments such as extruded products and aluminium systems. We expect sales of extruded products to rise 18.5% y/y in 2010, although this comes after a sharp 22.5% y/y decline in 2009. However, our sales forecast for 2011 is only 3.2% above the 2008 level and is still 20.9% below the 2007 level. The aluminium segment is set to grow at a more modest pace of 5.8% y/y in 2010, muted by sharp competition and the still relatively small number of construction projects in comparison to 2008 and 2007.
- **Ambitious new strategy:** While Kety devoted 2009 to restructuring (i.e. optimizing export exposure, disposing of redundant assets, staff cuts), the firm has started to implement a new strategy in the current year. The company aims to achieve revenues of PLN 1.9bn and EBITDA of PLN 325m in 2015. We view these goals as ambitious: they will only be achievable if there is a sharp rebound in automotive and construction-related segments in Poland and Western Europe and only if currency conditions are favourable.
- **Lower leverage and stable dividends over the longer term:** Despite the small hike in financial leverage in 2010 on the back of high capital expenditures (PLN 116m), financial leverage should fall to a net debt-to-EBITDA ratio of 0.89x in 2011 and 0.76x in 2012 versus 1.14x in 2010 and 1.02x in 2009. We expect Kety to sustain a dividend per share of PLN 4.00 in 2010 and 2011, which implies a yield of 3.7%.
- **Fairly valued:** Kety's stock price has fallen 11% in the past three months, outperforming the WIG20 index by 12%. The recent fall has narrowed the company's discount to international peers and, on a 2011F EV/EBITDA of 5.6x, Kety now trades broadly in line with the sector average.

Important Polish Disclosure

Belgian Banking and Finance Commission is exercising the Supervision over KBC Securities NV Branch in Poland.

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The definitions of terms applied in the publication:

EBITDA = EBIT + amortization and depreciation EPS = Net profit / No of shares outstanding

DPS = Dividend per Share

NBV per share = Net Book Value / No of shares outstanding

EBITDA margin = EBITDA / Revenue

EBIT margin = EBIT / Revenue

CFPS = Cash flow / No of shares outstanding

Net Financial Debt = Financial debt – Cash equivalents

ROE = Net profit / Average Equity

EV = Market Capitalization + Net Financial Debt

P/E = Stock Price / EPS

P/CF = Stock Price / (Net Profit + amortization and depreciation)

P/BV = Stock Price / NBV per share

P/S = Market Capitalization / Revenue

Gross Dividend Yield = Dividend per share / Stock

The list of recommendations concerning Kety issued by KBC Securities NV Branch in Poland during the last 6 months

	Valuation	Market price	Recommendation	The date of issuing
Kety	145.0	115.5	Buy	9 May 2008
Kety	87.6	81.0	Hold	5 August 2008
Kety	64.3	72.8	Sell	17 December 2008
Kety	77.0	73.0	Hold	19 June 2009
Kety	113.0	99.1	Buy	28 September 2009
Kety	117.0	121.9	Hold	17 December 2009
Kety	113.0	104.9	Hold	15 June 2010

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During the last quarter KBC Securities NV Branch in Warsaw issued 44 recommendations:

22 BUY	50%
16 HOLD	36%
6 SELL	14%

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