

NWR

24 June 2010

Appealing valuation

Mining
Czech Republic

Performance over	1M	3M	12M
Absolute	10%	14%	162%
Rel to GDUWMMIN index	-3%	11%	74%
12M Lo/Hi	CZK 78.2/285.5		
Reuters	NWR.S.PR		
Bloomberg	NWR CP		
Market cap	US\$ 2,965m		
Next corporate event	1H10 results on 26 August 2010		

Current price* CZK 233.2

Buy
Fair value CZK 280.3

Rating upgraded

IFRS cons. FY/e 31.12	2009A	2010F	2011F	2012F
Sales (€ m)	1,117	1,641	1,808	1,879
EBITDA (€ m)	183	551	652	650
EBIT (€ m)	10	383	484	471
Net income (€ m)	-62	249	341	347
EPS (€)	-0.23	0.94	1.29	1.32
DPS (€)	0.00	0.47	0.65	0.66
P/E* (x)	-40.2	9.6	7.0	6.9
Yield* (%)	0.0%	5.0%	6.9%	7.0%
EV/EBITDA* (x)	13.1	5.6	4.9	5.1

Source: KBC Securities

*Price at COB on 22 June 2010

We upgrade our rating on NWR from Hold to Buy, after an 18% drop in the share price since our last report in April 2010. We expect the stock to benefit from improvement in commodity prices following China's decision to restore the crawling peg for the Chinese yuan (CNY). Another important driver is the company's final (positive) decision regarding Debiensko project, which should support future volume growth. Our earnings estimates are unchanged at € 249m (versus a loss of € 62m) for 2010 and € 341m (+36.9%) for 2011. However, an adjustment to our risk-free rate assumption has lifted our fair value estimate by 1.4% to € 280.3 per share, which implies 20.2% upside.

Upgraded to Buy

- **Stronger CNY favours coking coal:** China's recent decision to relax the CNY peg could increase domestic buying power. Though CNY appreciation is expected to be gradual, we believe, it could give a boost to commodity prices (i.e. coking coal) over the medium to long term.
- **New pricing policy offers higher exposure to market movements:** With the new pricing policy – i.e. 80% of volumes tied to the Japanese fiscal year (JFY) benchmark – NWR is better positioned to profit from a rise in coal prices. We acknowledge, however, that the firm's geographical location and dependence on local buyers puts a cap on potential price appreciation.
- **High unit mining costs set to decline:** The introduction of new longwall equipment and the expected completion of COP 2010 should allow NWR to cut its cash mining costs from € 74/t in 2009 to € 68/t by 2012. However, the firm's unit mining cost is still above the average of international peers, resulting in high operating leverage.
- **Debiensko project to boost value:** We expect the output from the Debiensko mine to come on stream in 2016 and add 14% to existing production. Due to the high quality of coking coal, similar mining conditions and the geographical proximity to NWR's existing mining operations, we expect the return on the project to be above 15%, enhancing NWR's profitability.
- **Appealing valuation:** On a 2010F EV/EBITDA of 5.6x, NWR trades at a discount (13.9%) to the sector average of 6.6x. In our view, NWR should trade in-line with its peers given its new pricing structure and relatively favourable growth prospects.

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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

List of recommendations concerning NWR issued by KBC Securities during the last 12 months

	Valuation (CZK)	Market price (CZK)	Recommendation	Date of issue
NWR	208.8	167.0	Buy	11 Sept. 2009
NWR	276.5	275.9	Hold	15 April 2010
NWR	280.3	233.2	Buy	24 June 2010

The recommendations and estimates relating to market values published by KBC Securities Hungarian Branch Office shall be valid for 12 months or until modified. We intend to update the recommendations quarterly.

KBC Securities Hungarian Branch Office applied the following assessment methods to compile this investment recommendation: discounted cash flow (DCF), sector comparison and sum of the parts (SOTP). One advantage of using DCF is that future financial profits are also calculated. On the other hand, one disadvantage of the DCF model is that predictions relating to future financial performance are greatly influenced by the analyst's opinion. Sector comparison is more independent of the analyst's opinion but it is usually based on current financial results that might differ from future performance. Analysis based on the sum of the parts (SOTP) is advantageous inasmuch as it can be used to compare assessments in cases when the company to be assessed has significant fixed assets and reserves; on the other hand, the method will not take into consideration either short-term or long-term growth potential.

Interpretation of the recommendation:

BUY – total return is expected to appreciate 10% or more **HOLD** – total return is expected to be between 10% and -10% **SELL** – total return is expected to depreciate 10% or more

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