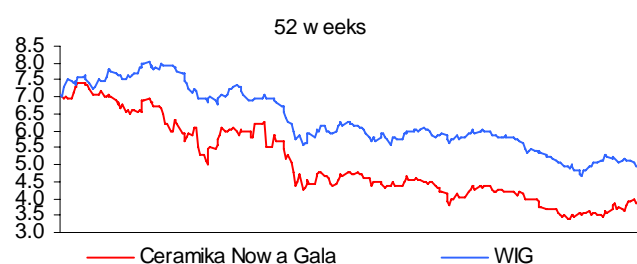


Company Report – Construction Materials – Poland – August 22, 2008

Ceramika Nowa Gala Buy

Artur Iwanski, +48 22 538 62 53 artur.iwanski@erstebank.net

PLN mn	2007	2008e	2009e	2010e
Net sales	141.03	210.61	221.70	232.62
EBITDA	34.45	54.07	56.02	58.43
EBIT	21.20	34.50	35.10	37.04
Net result after min.	14.98	22.86	25.30	27.55
EPS (PLN)	0.32	0.41	0.46	0.50
CEPS (PLN)	0.62	0.75	0.83	0.88
BVPS (PLN)	3.37	3.67	3.71	3.75
Div./share (PLN)	0.10	0.41	0.46	0.50
EV/EBITDA (x)	11.1	5.2	4.8	4.4
P/E (x)	17.5	9.6	8.6	7.9
P/CE (x)	8.8	5.2	4.7	4.4
Dividend Yield	1.8%	10.5%	11.8%	12.8%



Performance	12M	6M	3M	1M
in PLN	-44.9%	-18.1%	-8.5%	8.3%
in EUR	-36.1%	-11.4%	-6.3%	5.3%

Share price (PLN)	3.90	Reuters	CERM.WA	Free float	81.0%
Number of shares (mn)	57.0	Bloomberg	CGN PW	Shareholders	V. Piotrowski (CEO) (19.0%)
Market capitalization (PLN mn / EUR mn)	222 / 67	Div. Ex-date	12/06/08		
Enterprise value (PLN mn / EUR mn)	279 / 84	Target price	6.0	Homepage:	www.nowa-gala.pl

Strong Tiles

- We maintain our Buy recommendation and target price of PLN 6.0 per share. In our view, the company is a very cheap exposure to the construction materials market in Poland. CNG has a low level of debt and generates robust cash flows that will most likely be paid out to shareholders. This year, the dividend yield amounted to 2.8% and CNG will buy back 2.6% of total shares. There is potential to double this next year
- The construction market in Poland should remain buoyant for the next several years, with double-digit growth dynamics. Tiles, especially those produced by the company for commercial clients, should also shine, with expected high single-digit growth.
- The main risk is a slowdown in Poland, which would depress demand for construction materials.
- Although we believe that the company's margins are sustainable and that the nearly full capacity utilization leaves little room for net profit expansion, the strength of CNG is in its hefty cash flows - they will either be paid out (potential yield >10%) or invested, paving the way for faster growth.
- Although the company's management seems to be at a crossroads (with a strategic decision on further investments or a payout to be made), we think that, one way or another, CNG will become an attractive investment, especially as the company enjoys a tailwind from the tile market.

Investment story

CNG is a very cheap company and generates handsome cash flows (12% CF yield). It operates in a robust domestic tile market and has a low level of debt (1.1x EBITDA).

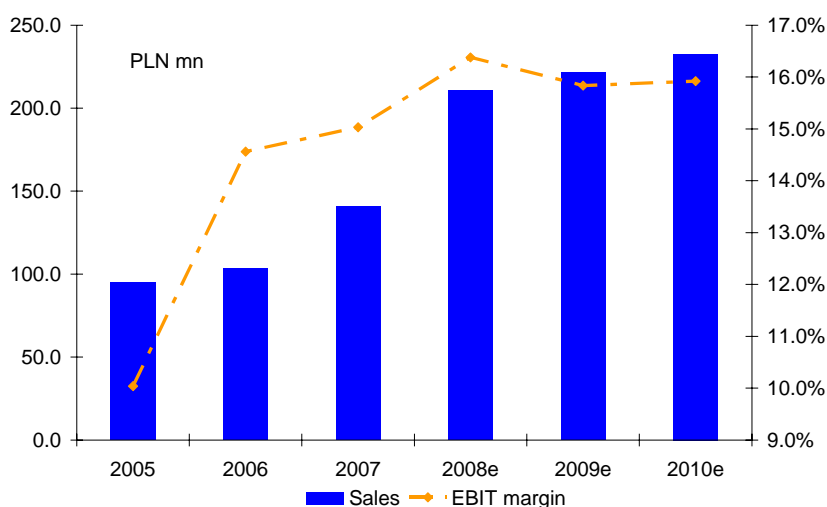
The main risk for the company is a slowdown in Poland and consequent drop in demand for renovations and construction. However, even with lower dynamics, we think that the tile market in Poland is mature enough that the margins are sustainable (EBIT margin around 16% for CNG). Additionally, CNG has almost 100% capacity utilization and its results are not dependent on rapid market growth (which is obviously helpful to pass cost inflation onto clients).

Secondly, there is uncertainty as to whether CNG is a growth or dividend stock. The momentum after the Ceramika Gres acquisition is still very strong, but it is clear that the tempo will decelerate next year. Cash flows are robust, but have not been paid out in full this year (the dividend yield amounted to 2.8% and CNG will buy back 2.6% of total shares).

In our opinion, CNG is at a crossroads. It generates cash that could be used for investment (organic or acquisition). However, if nothing interesting comes onto the company's radar screen in the next several months, it will pay out >10% (buyback + dividend) next year.

CNG's good market exposure, healthy balance sheet and nice cash dilemma prompt us to maintain our Buy recommendation, with a 12M target price of PLN 6.0 per share.

Sales



Source: CNG, Erste Group Research

Valuation

We employed a DCF valuation tool to estimate the fair value of the company. The DCF is based on our forecasts for the years 2008-12. We used a discount rate based on WACC and a terminal value based on perpetuity. The DCF led us to a fair value of PLN 6.0 per share for Ceramika Nowa Gala, which in our opinion reflects the value of the firm in a proper way. The peer comparison has limited reliability, as the available peer group does not enjoy comparable growth prospects; in our opinion, the DCF valuation better reflects the true value of Ceramika Nowa Gala.

We based our valuation on the following main assumptions:

- Capacities will be filled and the company will produce 9.5mn m² of tile
- Prices will grow at a CAGR 07-10 of 3%
- Labor costs will grow by 6% p.a.
- The company will finalize its buyback by the end of 2008 of 1.5mn shares at an average price of PLN 3.8 per share
- The risk-free rate is 6.3%; equity premium 5%; debt premium 1.5%; beta 1.0
- The terminal growth rate is 1.0%

WACC

	2008e	2009e	2010e	2011e	2012e	beyond 2012e
WACC	10.1%	10.3%	10.5%	10.5%	10.5%	9.1%
Equity cost	11.3%	11.3%	11.3%	11.3%	11.3%	10.0%
Debt cost	6.5%	6.5%	6.5%	6.5%	6.5%	5.3%
Equity weighting	76.1%	79.1%	82.6%	84.0%	83.5%	80.0%
Debt weighting	23.9%	20.9%	17.4%	16.0%	16.5%	20.0%
Risk free rate	6.3%	6.3%	6.3%	6.3%	6.3%	5.0%
Equity risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Debt premium	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Tax rate	17.0%	17.0%	17.0%	17.0%	17.0%	19.0%

Source: Erste Group Research

DCF valuation

PLN mn	2008e	2009e	2010e	2011e	2012e	beyond 2012e
EBIT	34.5	35.1	37.0	38.8	39.0	39.4
Tax rate	17%	17%	17%	17%	17%	19%
Tax on EBIT	5.9	6.0	6.3	6.6	6.6	7.5
NOPLAT	28.6	29.1	30.7	32.2	32.4	31.9
Depreciation	-19.6	-20.9	-21.4	-21.9	-22.9	-20.0
Capital expenditures	-15.0	-8.0	-8.0	-15.0	-20.0	-20.0
Change in working capital	9.1	5.4	4.7	4.7	4.3	1.3
Free cash flow	24.1	36.7	39.4	34.4	30.9	30.6
Terminal value						380.3
Value of FCF at 31.12.2008		33.2	32.4	25.5	20.8	
Sum of DFCF	111.9					
Discounted terminal value	255.6					
Enterprise value at 31.12.2008	367.5					
Non-operating assets	4.2					
Net debt at 31.12.2008	62.0					
Fair value at 31.12.2008	309.7					
Number of shares	55.5					
Fair value per share at 31.12.2008	5.6					
Cost of equity	11%					
Target Price	6.0					
Stock price	3.9					
Premium/discount	53%					

Source: Erste Group Research

Company Report – Ceramika Nowa Gala

Peer group comparison

PLN mn	P/E			EV/Sales			EV/EBITDA			Valuation		
	2008e	2009e	2010e	2008e	2009e	2010e	2008e	2009e	2010e	2008e	2009e	2010e
Implied fair value	218.3	213.8	284.4	159.2	173.0	312.5	221.3	243.3	330.4			
Number of shares	55.5	55.5	55.5	55.5	55.5	55.5	55.5	55.5	55.5	3.6	3.8	5.6
Implied fair value per share (PLN)	3.9	3.8	5.1	2.9	3.1	5.6	4.0	4.4	5.9			
12M Target price										4.0	4.2	6.1
Ceramika Nowa Gala	9.6	8.6	7.9	1.3	1.2	1.1	5.2	4.8	4.4			
Median for peer group	9.6	8.5	10.3	1.1	1.1	1.6	5.2	5.5	6.7			
Geberit AG	14.5	13.9	13.0	2.5	2.3	2.2	9.7	9.0	8.3			
Ricchetti	9.6	7.4		0.6	0.6		5.1	4.4				
Wienerberger	8.4	8.5	7.6	1.1	1.1	1.0	5.2	5.5	5.1			

Source: Factset, Erste Group Research

Company Report – Ceramika Nowa Gala

Income Statement	2005	2006	2007	2008e	2009e	2010e
(IAS, PLN mn, 31/12)	31/12/2005	31/12/2006	31/12/2007	31/12/2008	31/12/2009	31/12/2010
Net sales	95.08	103.45	141.03	210.61	221.70	232.62
Cost of goods sold	-62.30	-68.80	-93.64	-139.26	-147.80	-154.88
Gross profit	32.78	34.66	47.39	71.36	73.90	77.75
SG&A	-22.27	-21.12	-24.68	-36.86	-38.80	-40.71
Other operating revenues	0.00	0.00	0.00	0.00	0.00	0.00
Other operating expenses	-0.97	1.53	-1.51	0.00	0.00	0.00
EBITDA	20.47	26.02	34.45	54.07	56.02	58.43
Depreciation/amortization	-10.92	-10.95	-13.25	-19.57	-20.92	-21.40
EBIT	9.55	15.07	21.20	34.50	35.10	37.04
Financial result	-1.92	-3.10	-4.25	-6.96	-4.62	-3.84
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	7.63	11.97	16.95	27.54	30.48	33.20
Income taxes	-2.86	-2.26	-1.97	-4.68	-5.18	-5.64
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	4.77	9.71	14.98	22.86	25.30	27.55
Balance Sheet	2005	2006	2007	2008e	2009e	2010e
(IAS, PLN mn, 31/12)						
Intangible assets	0.97	1.01	17.78	17.79	17.80	17.81
Tangible assets	105.58	99.74	160.72	156.16	143.24	129.84
Financial assets	3.01	5.80	9.33	9.28	9.52	9.76
Total fixed assets	109.55	106.55	187.83	183.23	170.57	157.42
Inventories	32.64	36.03	56.38	62.67	66.51	69.69
Receivables and other current assets	29.05	29.77	44.62	49.28	51.88	54.43
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	3.71	6.34	6.99	2.11	2.22	2.33
Total current assets	65.39	72.13	107.98	114.06	120.60	126.46
TOTAL ASSETS	174.95	178.68	295.82	297.28	291.17	283.87
Shareholders'equity	109.55	118.27	192.38	203.84	206.28	208.53
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	8.10	8.91	10.38	10.41	10.44	10.47
Interest-bearing LT debts	27.50	31.02	39.64	33.51	28.50	22.97
Other LT liabilities	0.00	0.00	0.00	0.00	0.00	0.00
Total long-term liabilities	27.50	31.02	39.64	33.51	28.50	22.97
Interest-bearing ST debts	14.25	8.94	36.17	30.58	26.00	20.96
Other ST liabilities	15.54	11.53	17.25	18.96	19.95	20.94
Total short-term liabilities	29.79	20.47	53.42	49.53	45.96	41.90
TOTAL LIAB. , EQUITY	174.95	178.68	295.81	297.28	291.17	283.87
Cash Flow Statement	2005	2006	2007	2008e	2009e	2010e
(IAS, PLN mn, 31/12)						
Cash flow from operating activities	8.43	12.21	21.70	38.81	45.48	48.11
Cash flow from investing activities	-14.47	-4.15	-59.09	-15.11	-8.30	-8.29
Cash flow from financing activities	-6.44	-5.49	38.04	-28.58	-37.07	-39.70
CHANGE IN CASH , CASH EQU.	-12.43	2.63	0.65	-4.88	0.11	0.11
Margins & Ratios	2005	2006	2007	2008e	2009e	2010e
Sales growth	8.7%	8.8%	36.3%	49.3%	5.3%	4.9%
EBITDA margin	21.5%	25.1%	24.4%	25.7%	25.3%	25.1%
EBIT margin	10.0%	14.6%	15.0%	16.4%	15.8%	15.9%
Net profit margin	5.0%	9.4%	10.6%	10.9%	11.4%	11.8%
ROE	4.6%	8.5%	9.6%	11.5%	12.3%	13.3%
ROCE	3.3%	6.1%	6.9%	8.3%	9.3%	10.4%
Equity ratio	62.6%	66.2%	65.0%	68.6%	70.8%	73.5%
Net debt	38.0	33.6	68.8	62.0	52.3	41.6
Working capital	35.6	51.7	54.6	64.5	74.6	84.6
Capital employed	155.7	160.8	271.6	276.2	269.0	260.6
Inventory turnover	2.2	2.0	2.0	2.3	2.3	2.3

Source: Company data, Erste Group estimates

Contacts

Group Research

Head of Group Research

Friedrich Mostböck, CEFA +43 (0)5 0100 - 11902

CEE Equity Research

Co-Head: Günther Artner, CFA +43 (0)5 0100 - 11523

Co-Head: Henning Eßkuchen +43 (0)5 0100 - 19634

Günter Hohberger (Banks) +43 (0)5 0100 - 17354

Franz Hörl, CFA (Steel, Construction) +43 (0)5 0100 - 18506

Gernot Jany (Banks, Real Estate) +43 (0)5 0100 - 11903

Daniel Lion (IT) +43 (0)5 0100 - 17420

Martina Valenta, MBA (Transp., Paper) +43 (0)5 0100 - 11913

Christoph Schultes, CIAA (Ins., Util.) +43 (0)5 0100 - 16314

Thomas Unger (Telecom) +43 (0)5 0100 - 17344

Vladimira Urbankova (Pharma) +43 (0)5 0100 - 17343

Gerald Walek, CFA (Machinery) +43 (0)5 0100 - 16360

International Equities

Hans Engel (Market strategist) +43 (0)5 0100 - 19835

Ronald Stöferle (Asia) +43 (0)5 0100-11723

Jürgen Rene Ulamec, CEFA (Europe) +43 (0)5 0100 - 16574

Macro/Fixed Income Research

Head: Gudrun Egger (Euroland) +43 (0)5 0100 - 11909

Alihan Karadagoglu (Corporates) +43 (0)5 0100 - 19633

Rainer Singer (US) +43 (0)5 0100 - 11185

Elena Statelov, CIAA (Corporates) +43 (0)5 0100 - 19641

Mildred Hager (SW, Japan) +43 (0)5 0100 - 17331

Macro/Fixed Income Research CEE

Co-Head CEE: Juraj Kotian (Macro/FI) +43 (0)5 0100 - 17357

Co-Head CEE: Rainer Singer (Macro/FI) +43 (0)5 0100 - 11185

Editor Research CEE

Brett Aarons +420 223 005 904

Research, Croatia/Serbia

Head: Maden Dodig +381 11 22 00 866

Damir Cukman (Equity) +385 62 37 28 12

Ivan Gojnic (Equity) +381 11 22 00 852

Alen Kovac (Fixed income) +385 62 37 13 83

Uros Mladenovic (Equity) +381 11 22 00 872

Davor Spoljar (Equity) +385 (62) 372 825

Research, Czech Republic

Head: David Navratil (Fixed income) +420 224 995 439

Petr Bartek (Equity) +420 224 995 227

Maria Hermanova (Fixed income) +420 224 995 232

Lenka Slamova (Equity) +420 224 995 289

Radim Kramule (Equity) +420 224 995 213

Martin Lobotka (Fixed income) +420 224 995 192

Lubos Mokras (Fixed income) +420 224 995 456

David Navratil (Fixed income) +420 224 995 439

Jakub Zidon (Equity) +420 224 995 340

Research, Hungary

Head: József Miró (Equity) +361 235-5131

Zoltan Arokszállasi (Equity) +361 235-5135

György Zalányi (Equity) +361 235-5134

Gergely Gabler (Equity) +361 253-5133

Orsolya Nyeste (Fixed income) +361 373-2830

Research, Poland

Head: Artur Iwanski (Equity) +48 22 3306253

Magda Jagodzinska (Equity) +48 22 3306250

Marcelina Hawryluk (Equity) +48 22 3306255

Tomasz Kasowicz (Equity) +48 22 3306251

Piotr Lopaciuk (Equity) +48 22 3306252

Marek Czachor (Equity) +48 22 3306254

Treasury - Erste Bank Vienna

Sales Retail & Sparkassen

Head: Manfred Neuwirth +43 (0)5 0100 - 84250

Equity Retail Sales

Head: Kurt Gerhold +43 (0)5 0100 - 84232

Domestic Sales Fixed Income

Head: Thomas Schaufler +43 (0)5 0100 - 84225

Treasury Domestic Sales

Head: Gottfried Huscava +43 (0)5 0100 - 84130

Corporate Desk

Head: Leopold Sokolicek +43 (0)5 0100 - 84601

Alexandra Blach +43 (0)5 0100 - 84141

Markus Pistracher +43 (0)5 0100 - 84100

Research Romania

Head: Lucian Claudiu Anghel +4021 312 6773

Mihai Caruntu (Equity) +4021 311 27 54

Dumitru Dulgheru (Fixed income) +4021 312 6773 1028

Melania Hancila (Fixed income) +40 2 1312 6773 - 1028

Cristian Mladin (Fixed income) +4021 312 6773 1028

Loredana Oancea (Equity) +4021 311 27 54

Eugen Sinca (Fixed income) +40 2 1312 6773 - 1028

Raluca Ungureanu (Equity) +402111 27 54

Research, Slovakia

Head: Juraj Barta (Fixed income) +421 2 59 57 4166

Michal Musak (Fixed income) +421 2 59 57 4512

Maria Valachyova (Fixed income) +421 2 59 57 4185

Research, Ukraine

Bazilevich Svitlana (Equity) +38 044 593 92 86

Victor Stefanyshyn (Equity) +38 044 593-1784

Maryan Zablotysky (Fixed Income) +38 044 593-9188

Institutional Sales

Head of Sales Equities & Derivatives

Michal Rizek +4420 7623-4154

Brigitte Zeitlberger-Schmid +43 (0)5 0100 - 83123

Equity Sales Vienna XETRA & CEE

Hind Al Jassani +43 (0)5 0100 - 83111

Werner Fuerst +43 (0)5 0100 - 83121

Josef Kerekcs +43 (0)5 0100 - 83125

Cormac Lyden +43 (0)5 0100 - 83127

Stefan Raidl +43 (0)5 0100 - 83113

Simone Rentschler +43 (0)5 0100 - 83124

Sales Derivatives

Christian Luig +43 (0)5 0100 - 83181

Manuel Kessler +43 (0)5 0100 - 83182

Sabine Kircher +43 (0)5 0100 - 83161

Christian Klikovich +43 (0)5 0100 - 83162

Armin Pflingstl +43 (0)5 0100 - 83171

Roman Rafeiner +43 (0)5 0100 - 83172

Equity Sales, London

Dieter Benesch +4420 7623-4154

Tatyana Dachyshyn +4420 7623 4154

Jarek Dudko, CFA +4420 7623 4154

Federica Gessi-Castelli +4420 7623-4154

Declan Wooloughan +4420 7623-4154

Sales, Croatia

Zeljka Kajkut (Equity) +385 62 37 28 11

Damir Eror (Equity) +385 62 37 28 13

Sales, Czech Republic

Michal Brezna (Equity) +420 224 995-523

Ondrej Cech (Fixed income) +420 224 995-577

Michal Rizek +420 2 2499 5537

Jiri Smehlik (Equity) +420 224 995-510

Pavel Zdichynec (Fixed income) +420 224 995-590

Sales, Hungary

Gregor Glatzer (Equity) +361 235-5144

Krisztián Kandik (Equity) +361 235-5140

Istvan Kovacs (Fixed income) +361 235-5846

Sales, Poland

Head: Andrzej Tabor +4822 330 62 03

Pawel Czuprynski (Equity) +4822 330 62 12

Lukasz Mitan (Equity) +4822 330 62 13

Jacek Kryszinski (Equity) +4822 330 62 18

Sales, Slovakia

Head: Dusan Svitek +421 2 5050-5620

Rado Stopiak (Derivatives) +421 2 5050-5601

Andrea Slesarova (Client sales) +421 2 5050-5629

Roman Friesacher +43 (0)5 0100 - 84143

Helmut Kirchner +43 (0)5 0100 - 84144

Christian Skopek +43 (0)5 0100 - 84146

Fixed Income Institutional Desk

Head: Thomas Almen +43 (0)5 0100 - 84323

Martina Fux +43 (0)5 0100 - 84113

Michael Konczer +43 (0)5 0100 - 84121

Ingo Lusch +43 (0)5 0100 - 84111

Lukas Linsbichler +43 (0)5 0100 - 84345

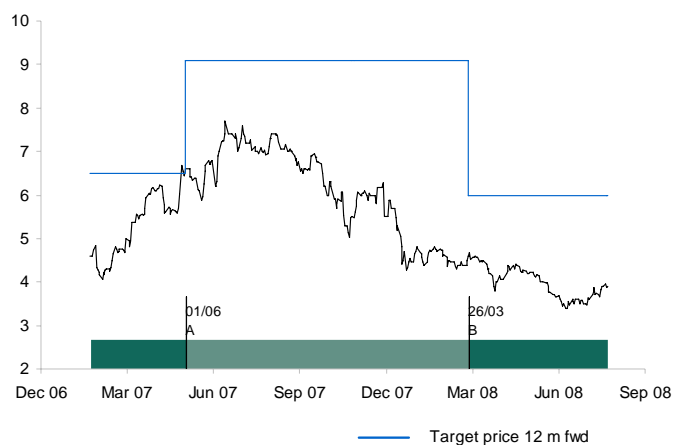
Karin Rauscher +43 (0)5 0100 - 84112

Michael Scmotz +43 (0)5 0100 - 84114

Company Report – Ceramika Nowa Gala

Ceramika Nowa Gala

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

Ceramika Nowa Gala

Important Disclosures

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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.

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Phone +43 (0)5 0100 - ext.**

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