KBC Securities

Flash

Ceramika Nowa Gala

29 October 2007

Improved outlook

Tilemaker			
Poland			
Performance over	**1m**	**3m**	**12m**
Absolute %	-9.5	-11.5	+36.0
Rel. WIG20 %	-13.9	-15.0	+11.8
12m Hi/Lo	PLN 7.70/3.72		
Reuters	CERM.WA		
Bloomberg	CNG PW		
Market Cap	€ 80.7m		
Next corporate event			
3Q07 report on 14 November			
PLN / €	3.65		

Current price PLN 6.20* **Buy**

Fair Value PLN 6.89 Rating upgraded

FY/e 31.12, PLN m	2006	2007F	2008F	2009F
Sales	101.8	152.6	231.6	255.5
Adj. EBITDA	23.9	34.0	54.3	60.1
Adj. EBIT	12.9	20.7	35.7	39.8
Adj. Net Profit	7.5	15.3	25.9	30.3
Adj. EPS (PLN)	0.16	0.30	0.45	0.53
Adj. P/E	38.1	20.5	13.6	11.7
DPS (PLN)	0.00	0.00	0.23	0.37
Yield (%)	0.0%	0.0%	3.7%	6.0%
Adj. EV/EBITDA (x)	13.5	10.7	7.4	6.4

Source: CNG, KBC Securities **priced at close of business 26/10/2007*

We have upgraded our rating on Ceramika Nowa Gala (CNG) from Hold to Buy, due to the good outlook for 3Q07 results and improved prospects for 2008-2009 earnings. We expect net profit at PLN 6.4m (+51.9% y/y) for 3Q07, mainly as a result of i) continued strong domestic demand, ii) a better EBIT margin on the back of improved product mix, and iii) the consolidation of Cermika Gres (CG) in September. We forecast 2H07 to be visibly better in terms of margins after the disappointing 1H07, primarily due to improved product mix. We have increased our stand-alone net profit estimates by 6.0% to PLN 12.9m (+33.0% y/y) for 2007. Our stand-alone net profit forecast for 2007 is in line with management guidance. As a result of better sales and margins outlook, coming mainly from improved product mix we have increased our stand-alone net profit estimates by 4.4% to PLN 14.9m (+15.5% y/y) for 2008, and by 4.3% to PLN 16.6m (+11.7% y/y) for 2009. We have also revised upwards our expectations for Ceramika Gres based on the strong 1H07 results and assuming a capacity increase in 2008. We have decreased our total reported net profit estimates for CNG by 0.9% to PLN 15.3m (+57.8% y/y) for 2007, due to one month delay in the CG consolidation. We have also increased our total net profit forecast 17.1% to PLN 25.9m (+69.2% y/y) for 2008 and 22.7% to PLN 30.3m (+16.9% y/y) for 2009. Our new fair value of PLN 6.89 per share, up 20%, implies 11% upside.

Upgrade to Buy

- **Good outlook for 3Q07 results:** We expect CNG to finally show some improvement in the product mix in 3Q07 resulting in the EBIT margin (18.3%) being much better than in the weak 1H07 (10.2%). We forecast net earnings to come in at PLN 6.4m (up 51.9% y/y), which includes PLN 5.4m from CNG (implying 28.6% like-for-like growth) and PLN 1m from CG which has been consolidated from September. Upon publishing 3Q07 results, we expect CNG to increase its annual guidance due to the acquisition of CG.
- **EPS growth expected at 50% in 2008:** We forecast EPS to grow 50.4% y/y in 2008, mainly as a result of the full-year consolidation of CG (with its better-than-previously-expected results) and an improvement in the product mix at CNG, resulting in higher margins. We expect 2m m2 capacity increase at CG in mid-2008, allowing for further growth.
- **New project in limbo:** Despite the management's earlier declarations, we do not expect CNG to present details of its new project to diversify its production to other construction materials in the near future.
- **Discount unwarranted:** On a 2008F P/E of 13.6x, CNG trades at a 11% discount to its Polish industrial peer group. We believe the discount is unwarranted, given an expected 33% 2007-2009F adjusted EPS CAGR.

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