

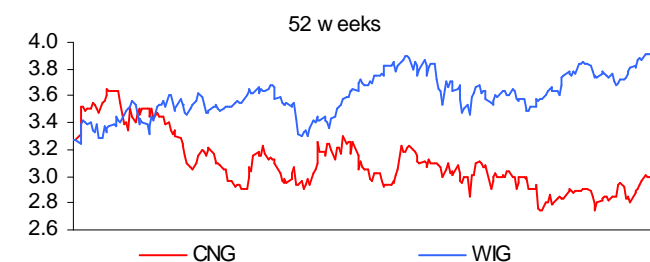
## Company Report – Construction Materials – Poland – September 21, 2010

# CNG

 from Accumulate to Buy

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PLN mn	2009	2010e	2011e	2012e
Net sales	165.5	167.0	180.8	199.4
EBITDA	25.1	29.7	38.7	44.8
EBIT	6.7	11.3	20.4	26.4
Net result after min.	5.2	7.5	14.2	19.5
EPS (PLN)	0.09	0.13	0.25	0.34
CEPS (PLN)	0.35	0.45	0.57	0.67
BVPS (PLN)	3.49	3.57	3.71	3.81
Div./share (PLN)	0.00	0.10	0.25	0.34
EV/EBITDA (x)	9.8	7.8	5.6	4.8
P/E (x)	31.5	22.8	11.9	8.7
P/CE (x)	8.4	6.6	5.2	4.5
Dividend Yield	0.0%	3.5%	8.4%	11.5%



Performance	12M	6M	3M	1M
in PLN	-8.9%	-4.2%	-2.0%	4.9%
in EUR	-5.3%	-6.5%	1.1%	4.9%

Share price (PLN)	2.98	Reuters	CERM.WA	Free float	81.0%
Number of shares (mn)	57.0	Bloomberg	CNG PW	Shareholders	V. Piotrowski (CEO) (19.0%)
Market capitalization (PLN mn / EUR mn)	170 / 43	Div. Ex-date			
Enterprise value (PLN mn / EUR mn)	231 / 58	<b>Target price</b>	<b>3.9</b>	Homepage:	www.nowa-gala.pl

## Rebound in demand to boost performance

- We have a Buy recommendation on Ceramika Nowa Gala (CNG) shares, with a target price of PLN 3.9 (up from PLN 3.85).
- The company offers exposure to the recovery of the construction materials market in Poland (ceramic tiles). Its operating leverage is unharmed and set to boost profits as soon as volumes take off.
- In 2009, volumes slumped by 15% y/y to just 6.4mn m2 of tiles, and capacity utilization dropped to below 70%. Consequently, the gross margin declined to 24.2%, from 32.9% in 2008. In our opinion, the gross margin will return to the 32-33% range during the rebound.
- Management kept a lid on SG&A (down 9% y/y) and debt, which is an optimistic sign for the future. Moreover, the company purchased 9.7% of its own shares. These can be used for acquisitions in the long run or simply redeemed.
- CNG is in talks to acquire a brownfield project in Moldova with annual capacities of 3.7mn m2 of tiles. CNG is to invest EUR 3.3mn in the project's equity.

## Company Report – CNG

### Investment story

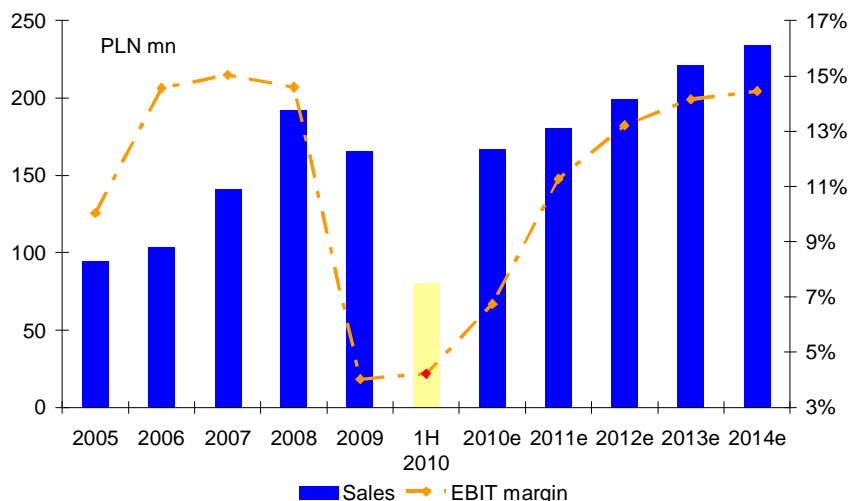
#### Classic operating leverage

The company is a classic example of an operating leverage business. The drop in volumes (down 15% y/y in 2009) hurt the gross margin, which slumped to 24.2% (from 32.9% in 2008). The mild recovery of volumes and prices in 2H10 and a steeper upturn in 2011 should bring profitability back to high levels.

#### Recovery to drive profits

The potential is still not priced in. In the next 2-3 years, the company can reach net profit of PLN 23mn and EBITDA of over PLN 50mn. In our view, this is not a question of 'if', but rather of 'when'. Regardless of the timing, we believe that there is a fundamentally-based upside.

### Results



Source: Erste Group Research

CNG is a simple business with pure exposure to the tile market (the fourth largest player in Poland with 9.2mn m2 installed capacity). It generates nice cash flow and has low debt. It has a cyclical product and significant leverage. Its long-term options to grow faster than the market and beyond its current capacities (which limit sales to PLN 220-230mn) are either acquisitions (own shares + debt) or new production lines.

#### Moldova on radar screen

The company is currently finalizing talks on the acquisition of a brownfield project in Moldova with target capacities of 3.7mn m2 of tiles. It can commence production within six months after a capital injection (implying late 2011 or early 2012). CNG is to invest EUR 3.3mn, acquiring a majority stake (slightly above 50%). The EBRD (European Bank for Reconstruction and Development) will probably acquire about 25%, while the remaining part will be kept by the initial local investors. The second pillar of financing will come from debt, which might amount to about EUR 12mn, also co-financed by the EBRD. Revenues from this project could amount to about PLN 50-70mn annually. The company intends to place most of its production in Romania (40%) and Ukraine (40%), while Moldovan demand should amount to 20% of installed capacity. Although the project in Moldova has additional risks (e.g. political), the equity investment by CNG is quite limited. Thus, we see this project as a chance for additional upside, as it has insignificant risk exposure and a high potential return. In the case of its success, it could account for over 20% of the company's top line.

### Valuation

Incorporating our assumptions, we employed a DCF valuation tool to estimate the target price for the company. The DCF is calculated using our forecasts for 2010-15e. We used a discount rate based on WACC and a terminal value based on perpetuity. The DCF led us to a 12-month target price of PLN 3.9 per share, which in our opinion accurately reflects the value of the company.

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Major assumptions:

- Average capacity utilization ratio at 90% in perpetuity
- Recovery as of 2011 (volumes up 8%), continuing in 2012 (volumes up 10%)
- Own shares will not be redeemed and are shown in DCF table under non-operating assets at cost of purchase
- Project in Moldova not included

We discount all free cash flow for the firm on December 31, 2010, and subtract the forecasted net debt. We then divide the equity value per number of shares. Afterwards, we compound this by the cost of equity (with the appropriate number of months). We thus arrive at a target price that represents our valuation of the stock price as it is expected to be 12 months into the future. We have also changed our assumption regarding the risk-free rate, which is now 5.4%. The perpetuity growth rate is set at 1.5%, equity premium at 6% and debt risk premium at 2.5%.

### Peer group comparison

	P/E			EV/EBIT			EV/EBITDA		
	2010e	2011e	2012e	2010e	2011e	2012e	2010e	2011e	2012e
<b>Median for</b>									
<b>DJ Eurostoxx Building Materials peer group</b>	12.4	11.8	10.1	11.6	10.2	8.8	7.3	6.5	5.8
<b>Ceramika Nowa Gala</b>	22.8	11.9	8.7	20.5	10.6	8.2	7.8	5.6	4.8
<i>Premium/discount</i>	84%	1%	-14%	77%	4%	-6%	7%	-14%	-18%
<b>Implied value</b>	1.6	2.9	3.5	1.5	2.8	3.3	3.0	3.6	3.8

Source: Factset, Erste Group Research

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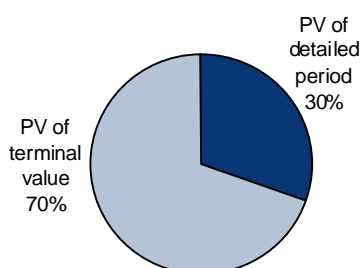
### WACC calculation

	2011e	2012e	2013e	2014e	2015e	2016e (TV)
Risk free rate	5.4%	5.4%	5.4%	5.4%	5.4%	5.0%
Equity risk premium	6.0%	6.0%	6.0%	6.0%	6.0%	5.7%
Beta	1.0	1.0	1.0	1.0	1.0	1.0
<b>Cost of equity</b>	<b>11.4%</b>	<b>11.4%</b>	<b>11.4%</b>	<b>11.4%</b>	<b>11.4%</b>	<b>10.7%</b>
Cost of debt	7.9%	7.9%	7.9%	7.9%	7.9%	7.5%
Effective tax rate	17.0%	17.0%	17.0%	17.0%	19.0%	19.0%
<b>After-tax cost of debt</b>	<b>6.6%</b>	<b>6.6%</b>	<b>6.6%</b>	<b>6.6%</b>	<b>6.4%</b>	<b>6.1%</b>
Equity weight	81%	82%	79%	78%	77%	80%
<b>WACC</b>	<b>10.5%</b>	<b>10.5%</b>	<b>10.4%</b>	<b>10.3%</b>	<b>10.3%</b>	<b>9.8%</b>

### DCF valuation

(PLN mn)	2011e	2012e	2013e	2014e	2015e	2016e (TV)
<i>Sales growth</i>	8.3%	10.3%	11.0%	5.9%	1.5%	1.5%
EBIT	20.4	26.4	31.3	33.9	34.1	30.6
<i>EBIT margin</i>	11.3%	13.2%	14.2%	14.5%	14.3%	12.7%
<i>Tax rate</i>	17.0%	17.0%	17.0%	17.0%	19.0%	19.0%
Taxes on EBIT	-3.5	-4.5	-5.3	-5.8	-6.5	-5.8
<b>NOPLAT</b>	<b>16.9</b>	<b>21.9</b>	<b>26.0</b>	<b>28.1</b>	<b>27.6</b>	<b>24.8</b>
+ Depreciation	18.3	18.5	19.1	19.9	20.8	20.0
<i>Capital expenditures / Depreciation</i>	43.6%	81.2%	100.0%	100.0%	100.0%	100.0%
+/- Change in working capital	-4.0	-7.6	-11.8	-7.3	-2.3	-1.0
<i>Chg. working capital / chg. Sales</i>	-28.9%	-41.0%	-53.5%	-55.3%	-64.2%	-27.9%
- Capital expenditures	-8.0	-15.0	-19.1	-19.9	-20.8	-20.0
<b>Free cash flow to the firm</b>	<b>23.3</b>	<b>17.7</b>	<b>14.2</b>	<b>20.9</b>	<b>25.3</b>	<b>23.8</b>
<i>Terminal value growth</i>						1.5%
Terminal value						291.6
Discounted free cash flow - Dec 31 2010	21.1	14.5	10.6	14.0	15.4	175.2
<b>Enterprise value - Dec 31 2010</b>	<b>250.8</b>					
Minorities	0.0					
Non-operating assets	15.9					
Net debt	60.7					
Other adjustments	0.0					
<b>Equity value - Dec 31 2010</b>	<b>206.0</b>					
Number of shares outstanding (mn)	57.0					
Cost of equity	11.4%					
<b>12M target price per share (PLN)</b>	<b>3.90</b>					
Current share price (PLN)	3.0					
<i>Up/Downside</i>	31.0%					

### Enterprise value breakdown



Source: Factset, Erste Group Research

### Sensitivity (per share)

		Terminal value EBIT margin				
		11.7%	12.2%	12.7%	13.2%	13.7%
WACC	8.8%	4.0	4.2	4.4	4.5	4.7
	9.3%	3.8	4.0	4.1	4.3	4.4
	9.8%	3.6	3.8	<b>3.9</b>	4.0	4.2
	10.3%	3.5	3.6	3.7	3.8	4.0
	10.8%	3.3	3.4	3.5	3.7	3.8
		Terminal value growth				
		0.5%	1.0%	1.5%	2.0%	2.5%
WACC	8.8%	3.9	4.1	4.4	4.7	5.0
	9.3%	3.7	3.9	4.1	4.4	4.7
	9.8%	3.5	3.7	<b>3.9</b>	4.1	4.4
	10.3%	3.4	3.5	3.7	3.9	4.2
	10.8%	3.2	3.4	3.5	3.7	3.9

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<b>Income Statement</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>
(IAS, PLN mn, 31/12)	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011	31/12/2012
<b>Net sales</b>	<b>141.03</b>	<b>191.98</b>	<b>165.51</b>	<b>167.04</b>	<b>180.84</b>	<b>199.39</b>
Cost of goods sold	-93.64	-128.78	-125.45	-121.74	-126.10	-135.16
<b>Gross profit</b>	<b>47.39</b>	<b>63.21</b>	<b>40.06</b>	<b>45.30</b>	<b>54.74</b>	<b>64.24</b>
SG&A	-24.68	-34.03	-31.01	-33.74	-34.36	-37.89
Other operating revenues	0.00	0.00	0.00	0.00	0.00	0.00
Other operating expenses	-1.51	-1.16	-2.38	-0.30	0.00	0.00
<b>EBITDA</b>	<b>34.45</b>	<b>47.12</b>	<b>25.08</b>	<b>29.68</b>	<b>38.72</b>	<b>44.82</b>
Depreciation/amortization	-13.25	-19.11	-18.41	-18.42	-18.34	-18.47
<b>EBIT</b>	<b>21.20</b>	<b>28.01</b>	<b>6.67</b>	<b>11.26</b>	<b>20.38</b>	<b>26.35</b>
Financial result	-4.25	-3.59	-1.80	-2.50	-3.21	-2.80
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
<b>EBT</b>	<b>16.95</b>	<b>24.43</b>	<b>4.88</b>	<b>8.77</b>	<b>17.17</b>	<b>23.55</b>
Income taxes	-1.97	-3.40	0.37	-1.32	-2.92	-4.00
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
<b>Net result after minorities</b>	<b>14.98</b>	<b>21.03</b>	<b>5.24</b>	<b>7.45</b>	<b>14.25</b>	<b>19.55</b>
<b>Balance Sheet</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>
(IAS, PLN mn, 31/12)						
Intangible assets	17.78	28.43	28.00	27.34	27.35	27.36
Tangible assets	160.72	152.72	144.43	131.01	120.67	117.19
Financial assets	9.33	10.45	11.10	10.99	11.47	12.12
<b>Total fixed assets</b>	<b>187.83</b>	<b>191.59</b>	<b>183.52</b>	<b>169.34</b>	<b>159.49</b>	<b>156.67</b>
Inventories	56.38	74.86	76.91	75.48	76.92	81.10
Receivables and other current assets	44.62	50.75	48.60	50.59	54.77	60.39
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	6.99	7.62	3.32	1.67	1.81	1.99
<b>Total current assets</b>	<b>107.98</b>	<b>133.23</b>	<b>128.83</b>	<b>127.74</b>	<b>133.50</b>	<b>143.48</b>
<b>TOTAL ASSETS</b>	<b>295.82</b>	<b>324.82</b>	<b>312.35</b>	<b>297.08</b>	<b>292.98</b>	<b>300.15</b>
<b>Shareholders' equity</b>	<b>192.38</b>	<b>198.97</b>	<b>198.94</b>	<b>203.47</b>	<b>211.75</b>	<b>217.05</b>
<b>Minorities</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Hybrid capital and other reserves</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Pension and other LT personnel accruals	0.00	0.00	0.00	0.00	0.00	0.00
LT provisions	10.38	15.87	11.97	11.99	12.01	12.03
Interest-bearing LT debts	39.64	53.50	7.26	20.59	15.98	15.89
Other LT liabilities	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total long-term liabilities</b>	<b>39.64</b>	<b>53.50</b>	<b>7.26</b>	<b>20.59</b>	<b>15.98</b>	<b>15.89</b>
Interest-bearing ST debts	36.17	34.19	75.74	41.81	32.44	32.25
Other ST liabilities	17.25	22.30	18.44	19.21	20.80	22.93
<b>Total short-term liabilities</b>	<b>53.42</b>	<b>56.48</b>	<b>94.18</b>	<b>61.02</b>	<b>53.24</b>	<b>55.19</b>
<b>TOTAL LIAB. , EQUITY</b>	<b>295.81</b>	<b>324.82</b>	<b>312.35</b>	<b>297.08</b>	<b>292.98</b>	<b>300.15</b>
<b>Cash Flow Statement</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>
(IAS, PLN mn, 31/12)						
Cash flow from operating activities	21.70	26.88	19.02	26.10	28.62	30.43
Cash flow from investing activities	-59.09	-17.46	-9.59	-5.00	-8.00	-15.00
Cash flow from financing activities	38.04	-8.93	-13.64	-22.75	-20.48	-15.25
<b>CHANGE IN CASH , CASH EQU.</b>	<b>0.65</b>	<b>0.63</b>	<b>-4.30</b>	<b>-1.65</b>	<b>0.14</b>	<b>0.19</b>
<b>Margins &amp; Ratios</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>
Sales growth	36.3%	36.1%	-13.8%	0.9%	8.3%	10.3%
EBITDA margin	24.4%	24.5%	15.2%	17.8%	21.4%	22.5%
EBIT margin	15.0%	14.6%	4.0%	6.7%	11.3%	13.2%
Net profit margin	10.6%	11.0%	3.2%	4.5%	7.9%	9.8%
ROE	9.6%	10.7%	2.6%	3.7%	6.9%	9.1%
ROCE	6.9%	7.4%	1.8%	2.6%	5.2%	7.2%
Equity ratio	65.0%	61.3%	63.7%	68.5%	72.3%	72.3%
Net debt	68.8	80.1	79.7	60.7	46.6	46.1
Working capital	54.6	76.7	34.6	66.7	80.3	88.3
Capital employed	271.6	294.9	290.6	276.2	270.4	275.2
Inventory turnover	2.0	2.0	1.7	1.6	1.7	1.7

Source: Company data, Erste Group estimates

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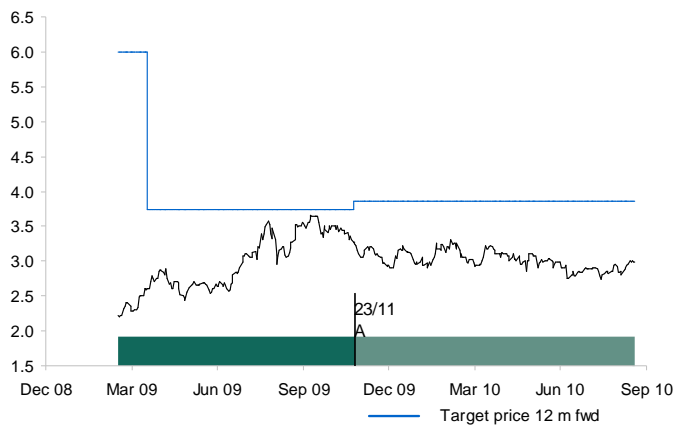
### Group Institutional & Retail Sales

<b>Institutional Equity Sales Vienna</b>	
Head: Brigitte Zeitlberger-Schmid	+43 (0)5 0100 - 83123
<b>Cash Equity Sales</b>	
Hind Al Jassani	+43 (0)5 0100 - 83111
Werner Fuerst	+43 (0)5 0100 - 83121
Josef Kerekes	+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
<b>Derivative Sales</b>	
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 Pfungstl	+43 (0)5 0100 - 83171
Roman Rafeiner	+43 (0)5 0100 - 83172
<b>Institutional Equity Sales London</b>	
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Dieter Benesch	+44 20 7623 - 4154
Neil Owen	+44 20 7623 - 4154
Declan Wooloughan	+44 20 7623 - 4154
<b>Institutional Equity Sales Croatia</b>	
Damir Eror (Equity)	+38 562 37 28 13
Zeljka Kajkut (Equity)	+38 562 37 28 11
<b>Institutional Sales Czech Republic</b>	
Michal Brezna (Equity)	+420 224 995-523
Ondrej Cech (Fixed income)	+420 224 995-577
Michal Rizek	+420 224 995-53
Jiri Smehlik (Equity)	+420 224 995-510
Pavel Zdichynec (Fixed income)	+420 224 995-590
<b>Institutional Sales Hungary</b>	
Gregor Glatzer (Equity)	+361 235-5144
Krisztián Kandik (Equity)	+361 235-5140
Norbert Siklosi (Fixed income)	+361 235-5842
<b>Institutional Equity Sales Poland</b>	
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
<b>Institutional Equity Sales Slovakia</b>	
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Andrea Slesarova (Client sales)	+48 62 56 27
<b>Saving Banks &amp; Sales Retail</b>	
Head: Thomas Schaufler	+43 (0)5 0100 - 84225
<b>Equity Retail Sales</b>	
Head: Kurt Gerhold	+43 (0)5 0100 - 84232
<b>Fixed Income &amp; Certificate Sales</b>	
Head: Thomas Schaufler	+43 (0)5 0100 - 84225
<b>Treasury Domestic Sales</b>	
Head: Markus Kaller	+43 (0)5 0100 - 84239
<b>Corporate Sales AT</b>	
Head: Christian Skopek	+43 (0)5 0100 - 84146
Mag. Martina Kranzl	+43 (0)5 0100 - 84147
Karin Rattay	+43 (0)5 0100 - 84112
Mag. Markus Pistracher	+43 (0)5 0100 - 84152
Günther Gneiss	+43 (0)5 0100 - 84145
Jürgen Flassak, MA	+43 (0)5 0100 - 84141
Antonius Burger-Scheidlin, MBA	+43 (0)5 0100 - 84624
<b>Fixed Income Institutional Desk</b>	
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Head Germany: Ingo Lusch	+43 (0)5 0100 - 84111
<b>Fixed Income International &amp; High End Sales Vienna</b>	
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U. Inhofner/ P. Zagan/ C. Mitu	+43 (0)5 100 - 84254
<b>Fixed Income International Sales London</b>	
Antony Brown	+44 20 7623 4159

# Company Report – CNG

## CNG

## Rating history



Date	Rating	Price	Target Price
23. Nov 09	Accumulate	3.28	3.85
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

CNG

## Important Disclosures

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- (3) Within the past year, Erste Group and/or its affiliates have managed or co-managed a public offering for the covered company.
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- (5) Erste Group and/or its affiliate(s) have other significant financial interests in relation to the covered company.

### Erste Group rating definitions

<b>Buy</b>	> +20% to target price
<b>Accumulate</b>	+10% < target price < +20%
<b>Hold</b>	0% < target price < +10%
<b>Reduce</b>	-10% < target price < 0%
<b>Sell</b>	< -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.

### Distribution of ratings

Recommendation	Coverage universe		Inv. banking-relationship	
	No.	in %	No.	in %
Buy	39	25.0	9	64.3
Accumulate	40	25.6	2	14.3
Hold	45	28.8	2	14.3
Reduce	12	7.7	0	0.0
Sell	10	6.4	0	0.0
N.R./UND.REV./RESTR.	10	6.4	1	7.1
<b>Total</b>	<b>156</b>	<b>100.0</b>	<b>14</b>	<b>100.0</b>

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