Warsaw, December 7, 2015

Poland: Equity Strategy 2016

Darkness before dawn

BZ WBK Brokerage

Santander Group

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2016 EQUITY STRATEGY AT A GLANCE

- **YE 2016E WIG20 target: 2,158**
- **YE 2016E mWIG40 target: 3,978**

WIG30

Positive		**Neutral**		**Negative**	
PKO BP	▲	BZ WBK	—	Handlowy	▼
Pekao	▲	PZU	—	KGHM	▼
mBank	▲	Lotos	—	JSW	▼
ING BSK	▲	Azoty	—	PGNiG	▼
Alior	▲	CCC	—	PGE	▼
PKN Orlen	▲	PKP Cargo	—	Enea	▼
Synthos	▲	GTC	—	Orange PL	▼
Tauron	▲	Kernel	—	LPP	▼
Energa	▲	Boryszew	—	Eurocash	▼
Asseco PL	▲				
CD Projekt	▲				
Cyfrowy Polsat	▲				

Sector calls

Positive		**Neutral**		**Negative**	
Banks	▲	Financials services	—	Clothing & Footwear	▼
Oil & Gas	▲	Chemicals	—	Utilities	▼
IT	▲	Telecom	—	Metals & Mining	▼
Media	▲	Industry	—	Pharmaceuticals	▼
Real Estate	▲	Housing developers	—		
Construction	▲	FMCG retail	—		
Video Games	▲	Healthcare	—		

Top picks:

- **WIG30: Alior, Asseco PL, CD Projekt, Cyfrowy Polsat, Energa, ING BSK, mBank, Pekao, PKN Orlen, PKO BP, Synthos and Tauron.**
- **AB, Ambra, Asseco SEE, Benefit Systems, Bytom, Ciech, Emperia, EuCO, Monnari , Paged, PCM, Polenergia and Trakcja.**

Please note that no recommendations (incl. Target Prices & valuations) were altered in this document.

SUMMARY 1/2

- **We are positive on Polish equities in 1H16**. We believe that a combination of positive domestic and global factors will lift Polish equities. In Poland, the macro environment should be stable. The dust should settle down once the new government changes managements of the state-owned names. The large caps already seem to have bad news priced-in. Globally, our positive outlook is predicated on the assumption that EM equities will bounce back after the FED's rate lift-off in mid-December. This should end the USD rally, we think. Though this scenario could only materialise if the U.S. monetary tightening cycle were to be orderly. The FED's use of words at its December meeting will also be important. A less orderly move or an unexpected spike in inflation in the U.S. in 2H16 would sent the EM spiralling. Investors' current positioning – crowded O/W of Europe, U/W of the U.S. and, most importantly, the strong contrarian indicator, namely the extreme underweight positioning of investors in EMs - supports our view. Finally, the divergence of monetary cycles on both sides of the Atlantic should do Poland no harm. In previous instances, European, particularly Germany equities typically outperformed the US ones. As Poland is more correlated with European market, this is another good omen.
- **Our roadmap** assumes an upward trajectory for all indices in 1H16 by, say, mid-May. A call on 2H16 is trickier than usual because volatility is likely to remain high and 'short-termism' rules among the equity investors. Most importantly, another (if not final) overhaul round of the pension fund system is scheduled for mid-2016. Depending on its form and outcome, it could be the 'black swan' of 2016. A transfer of the pension funds' equity holdings to a state-managed entity could trigger a significant sell-off in the mid/small cap space. This would be particularly acute for names with high pension fund participation and a diversified shareholder base. This is why we anticipate a correction in late spring/early summer. But we would hope that public to private transactions/de-listings, M&A and LBOs that would likely follow could lift the small/mid-cap indices back up towards the year-end.
- **Our YE16 price target for WIG20** is at 2,158 points (16% upside implied) while for mWIG40 at 3,775 points (6% upside). These are based on our bottom up models. On consensus TPs, respective upsides are similar for WIG20 (16%) and higher for mWIG40 (12%). Macro indicators, corporate earnings and share price performance remain decoupled so we are no longer providing an EPS/DPS based WIG30 target model or a macroeconomic regression-based model for the WIG20 index.
- **Valuation**. Our estimates place the WIG20 forward P/E at 13.7x (consensus: 11.2x) vs. 13.7x (13.9x) a year ago and close to its l-t average. A year ago, WIG20 P/E was +1STD above the mean. The y/y P/E compression contrasted with the 12% EPS contraction in 2015E. mWIG40 is trading at forward a P/E of 16.7x (consensus: 12.3x) above last year's 15.7x (14.7x) and also close its l-t average. A year ago WIG40 was trading at just off +1STD above the mean.
- **Re-rating potential**. If P/Es were to remain unchanged, the 5% index-weighted 2016E EPS contraction for WIG20 and 4% growth for mWIG40 would take indices down 5% and up 4%, respectively. Additionally, we think that the indices could re-rate. This is because 1) P/Es did not follow the big drop in the 10Y bonds (RFR) over the last two years, 2) inflation is set to rise in 2016E and higher inflation has historically been consistent with higher P/Es, 3) PEGs broke through the l-t uptrend and are easing and 4) fair P/E is close to the actual one, while historically both indices had for most of the time been trading at a slight premium to their fair values. Finally, Poland is valued at a discount to both its CEE peers, while the WIG20 P/E looks attractive in the EM context. What is more, it offers an attractive RFR-adjusted earning yield.
- **Equities vs. bonds**. The 'great rotation' still failed to materialise, but there was some 'rotation' in some markets. However, Polish equities remain exceptionally cheap compared with bonds, with the EY of WIG20 at 9.0% and DY of 4.3% against the current 10YR T-bond yield of 2.9%.

SUMMARY 2/2

- **Earnings' growth**. We estimate that the combined WIG20 earnings will be down 10% y/y in 2016E, while the index-weighted earnings adjusted for Tauron and PGE down 5%. This is will follow the 52% growth in 2015E (103%). We expect Tauron, LPP and Alior to report the strongest earnings' growth, while Orange, Energa and Enea will likely see their earnings' contracting the most. Combined earnings of consumer names are increase 35% y/y, those of financials by 4%. In contrast, O&G/Chemical and Metal & Mining are to post y/y drop in earnings. Looking further out, 2017E should bring virtually no growth in aggregated earnings of the WIG20 constituents (banks and consumer still up, but rest down y/y). Combined earnings of mWIG40 constituents are grow 7% in 2016E (4% index weighted) with CD Projekt, Hawe and PKP Cargo expected to report the strongest y/y contraction.
- **Demand/supply**. The imbalance is likely to stay. Pension funds will likely remain the net sellers of domestic equities (PLN 3.3bn net selling including exit from delisted companies vs. net PLN 1.6bn net buying 2014 overall) as their foreign investment cap is to rise to 30% from the current 20% starting on January 1, 2016. At the same time, mutual funds are unlikely to see major inflows into domestic equity funds unless the market enters a steady upward trajectory. Foreign inflows will probably also remain fickle (net inflows of EUR 1.8bn in 9M15 after EUR 2.3bn inflows in 2014 overall). The supply of shares (IPOs, ABBs, block placements) should rise if markets turn north.
- **Macro.** GDP growth was in a healthy 3-4% range throughout 2015, roughly in line with our economists' expectations. They expect a similar growth rate in 2016, driven by three engines: exports, investments and consumption. Deflation, which proved more stubborn in 2015 than had been expected, will probably be gone for good in 1Q16. 2016 should be a year of lower interest rates (new MPC in 1Q16) and a higher fiscal deficit (amendments to the 2015 and 2016 budgets). This policy-mix could offer domestic demand a short-term boost, but it would lead to bigger economic imbalances in the medium term (current account deficit and inflation).
- **Themes**. Starting from local punters, a lowered retirement age would mean incremental cash transfer out to ZUS totalling PLN 3.2bn in year one and PLN 2bn p.a. in subsequent years. This would make them structural net sellers of equities. If the worst case system's overhaul takes place, 22% Warsaw stock market's capitalisation (and 36% of WIG20's free float, 61% of mWIG40 and 44% of sWIG80) would be transferred to a state controlled entity(s). Other key themes to play in 2016 are: 1) further cut of interest rates (Magellan, Presco, Kruk, ZE PAK, Polenergia, Tauron, Cyfrowy Polsat, Orange Polska, Pelion, Echo Investment, Voxel and IT distributors provide best exposure, we think), 2) FX movements (should USD strengthen further position in O&G, global IT names like Asseco Poland or LiveChat and game developers), 3) rising food CPI (Eurocash and Emperia), 4) wage growth (bad for a long list of names starting from Pelion, Unibeb or Emperia), 5) PLN 500 subsidy per child (consumer names obviously), 6) retail tax (all usual suspects though Emperia and Gino Rossi could suffer relatively more), 7) lower gas prices (Grupa Azoty, Azoty Pulawy, Azoty Police, PKN and Lotos would benefit, PGNiG would suffer), 8) weather changes, e.g. the forecast warm 2016 winter and hot& humid 2016 overal (lots of implications for various stocks), 9) State's drive for more cash from dividends (PKN Orlen the main source of the incremental PLN 1bn dividends targeted?), and finally plays on investment cycle and new government's incentives (a long list of beneficiaries) and the good old story of EU funding
- **Sector calls**. **Overweight:** Banks, Oil&Gas, IT, Media, Real Estate, Construction, Video Games. **Underweight:** Metals & Mining, Utilities, Clothing & Footwear, Pharmaceuticals. **Neutral:** Financial services, Chemicals, Telecom, Industry, Housing developers, FMCG retail, Healthcare.
- **Top picks in WIG30: PKO BP, Pekao, mBank, ING, Alior, PKN Orlen, Synthos, Tauron, Energa, Asseco PL, CD Projekt, Cyfrowy Polsat.**
- **Small/mid-cap top picks**: **Ciech, Polenergia, Benefit Systems, Emperia, Paged, Trakcja, AB, Asseco SEE, PCM, Monnari, Bytom, EuCO, Ambra.**

BZ WBK MODEL PORTFOLIO: WIG30 – MOST/LEAST PREFERRED NAMES

Sector / Company	2016 view	Strategic comments
Financials		
PKO BP	▲	Not only is the cheapest on 2016 P/E (windfall capital gains on Visa) but offers solid DY of 6.1% in 2016E. And look at its share price chart!
Pekao	▲	As always trades at a premium to peers. Its strong capital ratios at times of capital buffers being introduced look particularly attractive to us. The bank is capable to significantly accelerate loan growth if it opts to and as a result capture a significant market share in the next year or two.
BZ WBK	–	Not covered
mBank	▲	Is cheap vs. peers on pretty much all counts. This is due to their high exposure to FX mortgages. But as we believe that the government will be pragmatic on the issue, we think they offer near-term upside.Key to watch would be whether the government would seek to compensate borrowers for past excessive FX spreads charged by banks. mBank had charged relatively hefty spreads and admittedly the damage could be significant.
ING BSK	▲	Is not super cheap admittedly, but it should pay a dividend in 2016E (DY of 2.8%) and more importantly it is the best play on the steepening yield curve. Also its retail fees are relatively low providing plenty of room for upward re-pricing. Finally, its capital needs will be addressed by the just announced Tier-2 issuance.
Handlowy	▼	Has mediocre, to say the least, earnings outlook, and is the most expensive on multiples. Its corporate fees look fat compared to competitors which may constrain its ability to pass the tax to corporate customers. Retail fees seem low in contrast and we make a leap of faith factoring a nearly 100% tax mitigation by YE18E. Sadly, it does not help earnings trajectory much.
Alior	▲	Alior offers a unique combination of best EPS growth in 2016E with a reasonable valuation. And there is potentially more valuation upside in store given the potential significant M&A related one-offs (badwill). The risk of the state interference through PZU (the to be 25% shareholder) is exaggerated we think and, if any, it seems more than priced in. The capital needs should in the short-term be addressed by acquisition(s) of cheap but well-funded small banks and RWA optimisation. Finally, with fast rotating loan book (c38% of the book matures in one year), odds of a high pass-through of the banking tax to customers are high.
PZU	–	Not covered
Metals & Mining		
KGHM	▼	KGHM will likely suffer not only from weak metal prices, but also from the most unfortunate timing of the Sierra Gorda launch. This investment kicked off in an environment of long-unseen low moly prices, triggering heavy quarterly losses. Last, but not least, the idea of scrapping the extraction tax no longer seems to be on the cards for 2016. The lack of no changes in metal price trends could quickly make KGHM resemble JSW, while the technical analysis suggests that a bear market rally in copper and silver is possible, which would certainly trigger a bear market rally in KGHM's share price in the coming months.
JSW	▼	The company cannot repay its outsdanding PLN1.1bn in bonds, and it will also run short of cash for wages in several months. We disbelieve in coking coal / coke recovery in 2016, and zloty strengthening could expose the company's short-term liquidity further. New issue of shares / convertible bonds, or acquistion by i.e. KGHM remain the only options.
Oil&Gas		
PKN Orlen	▲	We are Positive for PKN as we expect that strong downstream business, improved cash delivery and supportive FX markets should drive stock share price in 2016
PGNiG	▼	We are Negative on PGNiG as, despite the c26% share price drop in last month, progressive gas market liberalisation in Poland and expected cuts in regulated gaas prices and returns in distribution are likely to weigh on its earnings next year
Lotos	–	We have Neutral approach on Lotos. Even though the company should enjoy the strong macro in refining its exposure to USD-denominated debt and heavy capex outlays should weigh on its cash flows and dividend potential.
Chemicals		
Synthos	▲	Synthetic rubber market fundamentals remain bearish, while unplanned stoppages at Litvinov should trim company's profitability in 2016. However we strongly believe that decent DY at 6% should be supportive for company's share price at least in 1H16.
Azoty	–	The company is the most expensive chemical stock in our coverage universe on its P/E multiple for 2016, however Grupa Azoty should benefit from low gas prices next year. We thus are Neutral for the stock.

Sector / Company	2016 view	Strategic comments
Utilities		
PGE	▼	We see 2016 EBITDA down 21% on weak generation and a lack of positive one-offs. We do not rule out another round of heavy write-offs in 2016, and we are concerned that the largest Polish generation player will be most likely involved in value-destructive support for mines and potential construction of new fossil-fueled capacity. Investors should avoid lignite exposure, in our view.
Tauron	▲	Tauron's rapidly-growing net debt represents a mid-term threat, and a Treasury-dedicated single-digit dilutive share issue is still on the cards. We also modelled in a PLN1.5bn non-cash 4Q15E write-off, which is likely to be a short-term mood spoiler. However, we also expect strong support from the Operating Reserve Mechanism (ORM), a solid long-term distribution contribution, potential additional free CO2 certificates and likely capex / opex cuts, which should prevent any deeper share price erosion. We believe Tauron is least exposed to being forced to subsidise mines and is likely to team up with another Treasury-controlled company, PGNiG
Energa	▲	We expect Energa to suffer a 19% EBITDA decline in 2016E. We see no further fundamental drawbacks after that, but its exposure to regulatory decisions remains very high. We also we see a reasonable risk of the government cancelling Energa's current stable, high dividend for the sake of funding investment in construction at Ostroleka. This could undermine the company's long-term outlook
Enea	▼	The recent Bogdanka acquisition should keep the company's EBITDA flat y/y in 2016, but the accompanying burdens of new debt, the miner's provisions and minorities are likely to take ENEA's net debt to EBITDA to 3.0x as soon as 2016E. We strongly dislike the company's switch from variable coal costs to fixed ones. We see ENEA at risk of acquiring KHW and/or building a 1GW unit at Ostroleka
TMT		
Orange PL	▼	Core business remains under pressure, and new regulator no longer is willing to cancel mobile frequencies' tender - PLN3bn payment and Net Debt / EBITDA at 2.0x seem certain. We see no short-term upside to proposed DPS at PLN0.25 (DY 3.9%), while potential 2016 mergers at the Polish market may undermine Orange's business further.
Asseco PL	▲	We suggest to O/W Asseco Poland on expected earnings improvement. Company is a play for tenders in public segment co-financed by EU. On top of that, Asseco Poland generates stable and high FCF, which allows it to maintain its high dividend payout. In 2016, we expect a DPS of PLN3 (5.2% yield).
CD Projekt	▲	Company will be cashing in on the success of The Witcher 3, in 2016 company should generate over PLN100mn in net earnings. Sell-ins should exceed 10mn units. Compared to its Western peers company is trading with a discount.
Cyfrowy Polsat	▲	Cyfrowy Polsat remain our TMT top pick. In 2016 company should benefit from mobile ARPU stablilisation, also cost synergies should be visible, while debt refinancing should allow for material interest savings.
Consumers		
LPP	▼	LPP should struggle with a notable revival of sales due to the tough market environment, which should also prevent any price increases. On the same note, LPP will find it difficult to push further pressure on costs from the strong USD and rising wages onto the consumer. All of these is paired with PE16 at 29x, makes us assign an Underweight rating to the stock.
Eurocash	▼	Eurocash's surging share price in 2015 has made it expensive. Eurocash is currently trading with a FY'16 PE of 28x and an EV/EBITDA of 14x, which implies eye-striking premiums to its CEEMEA competitors. Eurocash also looks overvalued vs. Jeronimo Martins. This is unjustified, in our view.
CCC	–	We believe CCC's valuation to be more attractive following it recent share price correction vs. LPP, even though most of the risks for CCC's business performance are pretty much the same as for LPP.
Other		
PKP Cargo	–	We still believe the near-term railway cargo outlook to be uninspiring, though, in the long term we are positive on the stock. The investment cycle should bring in a revival of volumes in the aggregate and building material segments. Beyond that, expansion abroad should allow for client and contract diversification. What is important, there are some political risks involved, which might put PKP Cargo's share price under pressure.
GTC	–	Not covered
Kernel	–	Not covered
Boryszew	–	Not covered

DM BZ WBK MODEL PORTFOLIO: SECTOR AND STOCKS VIEWS

Sector	Sector view	Top picks	Top shorts	Sector comments
Banks	▲	Alior, PKO BP	GNB, BHW	Visibility of 2016E earnings has improved and valuations became attractive after the recent sell-off.
Financials services	–	EuCO, PCM	-	EuCO's DY outlook remains generous at 8.0% in 2016E and 9.5% in 2017E. There are three factors that underpin the improvement in the earnings outlook: 1) the value of the ongoing cases continues to rise 2) regulations concerning court proceedings are set to change next year in EuCO's favour; 3) cases that account for the bulk of its book tend to end in out-of-court settlements, resulting in cash circulation. And there is more good news in store, we think. The Romanian business should be consolidated in 2016 or 2017 at the latest. EuCocar, a new business line, should start in 2016E or 2017E and there is another one in the pipeline.PCM's valuation appears reasonable since, on our estimates, it trades at a 2015E P/E of 9x and YE15E P/Book 0.8x. A DY of nearly 10% is likely this year. And this is another attractive side of the stock, we reckon. Going forward, the focus will be on SMEs/micro-companies, further operating improvements in the service and remarketing segments and higher volumes of vehicles, all of which should drive earnings' growth.
Metals & Mining	▼	-	Bogdanka, JSW	We believe that ENEA's successful call for a 66% stake in Bogdanka effectively erased any fundamental appeal of the latter, not to mention its suddenly worse investability (FF, trading volume). With the Upper Silesian mines steadily getting support, room for Bogdanka's volumes may narrow (U/W). JSW has been in technical bankruptcy for several months now and we expect it to be split up, acquired or issue new shares ahead (U/W). Finally, KGHM will likely suffer not only from weak metal prices, but also from the most unfortunate timing of the Sierra Gorda launch. This investment kicked off in an environment of long-unseen low moly prices, triggering heavy quarterly losses. Last, but not least, the idea of scrapping the extraction tax no longer seems to be on the cards for 2016 (U/W).
Oil & Gas	▲	-	-	Maintaining oil market imbalance is expected to remain in place next year, thus European refiners should experience another good year in 2016E. Sector cash flows should be also supported by strong US$, capex discipline and potential divestments.
Chemicals	–	-	-	Chemical companies should benefit from maintaining favourable USD/EUR rate and low gas prices. In our opinion expected earnings expansion is rather priced in current companies valuations.
Utilities	▼	Polenergia, Tauron, Energa	PGE, ZE PAK	The fundamental recommendations suggest that double-digit upsides exist in case of Energa and Tauron, but our 2016 strategy is simple: investors should avoid the sector until the dust settles. Polish utilities currently face a perfect storm, and the worst scenario imaginable is rapidly becoming reality. Below we list the key risk factors for the segment and its participants: (1) substantial EBITDA / net profit erosion; (2) value-destructive mine acquisitions – already carried out and pending; (3) uncertainty over intra-sector mergers; (4) risk of being forced into construction of brand new fossil-fuelled capacity. And finally, as if all the above were not enough to weaken the sector for the foreseeable future, the Polish Energy Minister hinted in a press interview that utilities may not pay dividends if burdened with heavy investments. Stable dividend flow represents the foundation of investing in utilities, and putting a question mark over them brings into question their share prices. Aside from general risks, we suggest avoiding lignite-exposed names (PGE and ZE PAK), in light of the pressure on electricity prices in the medium term. On the other hand, the renewable-skewed & capex-free Polenergia should outperform polluters, representing a play on rising CO2 certificate prices.
Telecom	–	Cyfrowy Polsat, Midas	Orange Polska	We believe that 2016 should bring the long-awaited flattening-out of ARPU and therefore top-line stabilisation in mobile telephony. Also M&A activity should play an important role in the Polish telecom universe in the next few months.
IT	▲	Asseco Poland, Asseco SEE, AB	ABC Data	In our view the IT sector will benefit from an improving business environment and higher IT spending. We think that IT companies should also see higher backlog levels in 2H16 thanks to new, EU co-funded, major IT investments. Stable cash flows, dividends and proven business quality even in tough times should support valuations of the software companies. Among IT distributors we dislike ABC Data among expected poor results dynamics in 2016.
Media	▲	-	-	Relatively good macro environment should translate into further improvement of ad market. We think Internet ads will traditionally record best dynamics, we expect mid-single digit growth in TV ads.
Industry	–	Paged		We do not expect any breakthrough in FY16. With respect to the economic environment, we believe that export sales (our macro team forecasts +9.2% y/y) will remain an important catalyst of financial performance. High capacity utilisation is a separate issue. Investment projects are under way, but their impact on 2016 should be limited (bigger in 2H16 and FY17). Finally, the political risk affecting PFs AuM seems to be quite real.
Real Estate	▲	PHN	-	The valuation of Polish real estate developers has become relatively attractive. The median P/NAV of 0.56x offers a discount of approx. 39% to the median for the peer group (western developers). History would suggest that following the recent expansion, the valuation divergence between PL and foreign names should narrow.
Housing developers	–	-	-	We expect the 2016 volumes' growth to be accomapnied with a margin stabilisation or its drop for the residential developers. We believe, however, that the valuation of the largest developers is an unattractive entry point for investors at the moment.
Construction	▲	Trakcja, Unibep		The EU funds flow remians the key story for the sector. We expect EU funds to start taking effect this year (scheduled for 2014–2020), whereas the outlook for 2017-19E is even more optimistic for contractors, in our view, as EU funds' allocation should accelerate further. Moreover, sector liquidity is improving. On top of that, the current valuation of construction stocks is not very demanding in light of the expected healthy mid-term profit growth.
FMCG retail	–	Emperia, Ambra	Eurocash	The main trends that have been observed in the sector are set to continue next year with further market consolidation around the largest players. An industry should benefit from predicted rebound of food inflation, however it will be not equal for all players. On the other hand, there is a risk of retail tax likely to be introduced in 2016.
Clothing & Footwear	▼	Bytom, Monnari	LPP, Gino Rossi	We have an Underweight rating for the Clothing & Footwear industry in 2016 due to the sector's relatively high valuations and emerging risks, which should pressure both sales growth and costs.
Video Games	▲	CD Projekt, CI Games	-	2016 should be a rather calm year for CD Projekt, as the company plans no big releases or even announcements about Cyberpunk 2077. It will focus on the monetising proces of The Witcher 3. In contrast, CI Games will likely be a hot stock, as it plans to release the next installment of its most recognisable franchise – Sniper - in 3Q16.
Healthcare	–	Voxel	-	We maintain our Neutral stance on healthcare sector. We overweight Voxel as the company that handles well on poor diagnostics market and offers potential upside on M&A story.
Pharmaceuticals	▼	-	Neuca, Farmacol	Unattractive relative valuations of the pharmaceutical sector vs. the WIG index, sound performance in the previous year make us prone to put an Underweight stance on the sector.

DM BZ WBK MODEL PORTFOLIO: SMALL/MID-CAPS HIGH CONVICTION 2016 CALLS

Company	Market cap.	Rationale
Ciech	PLN4,522mn	We expect Ciech to continue to improve its earnings in 2016E due to favourable soda ash market environment, new soda capacities in Poland, low feedstock prices and the persistently strong US$ vs. EUR. We expect company's EBITDA for 2016E and 2017E to PLN865mn (prev. PLN655mn) and to PLN851mn (prev. PLN669mn), respectively. Ciech will also likely benefit from a refinancing of its existing high-yield debt. We expect Ciech's interest expenses to drop 75% (or PLN80mn), which should substantially raise the company's net profitability from 2016E onwards.
Polenergia	PLN1,176mn	1) Pure renewable player, with 147MW running in wind and 99MW under construction; some 1,000MW in new onshore windfarm sites ready for 1) development or 2) disposal; 2) The sole Polish utility with EBITDA set to rise in 2016 y/y, likely by 14% in conservative scenario; 3) no investment outlays if not for potential new windfarms - VERY HIGH OPCF vs. MINIMAL CAPEX implies high dividend capacity already in 2016; 4) New Renewable Law substantially trims supply of green certificates in Poland, likely trigering re-rating of green certificates' prices (currently at PLN100, in several years set to reach PLN200-220); 5) positive exposure to CO2 price - the higher certificate price, the better for pollution-free Polenergia.
Benefit Systems	PLN1,070mn	Company maintains 70-80k y/y growth in sport cards user base, holds unprecedented leader position in Poland an successfully expand its business model to new countries. Company reports strong earnings dynamics and generated decent CF.
Emperia	PLN863mn	Emperia's current market price values Stokrotka at c.2.4x monthly sales, which we believe to be too low when compared with the M&A transaction multiples on the FMCG market. Taking into account Emperia's other assets, namely its cash account at PLN90mn and PLN368mn for real estate, it significantly limits the downside in case the new tax turns out to be unfavourable, possibly shaving off c.10% of the company's EBITDA in the most pessimistic scenario.
Paged	PLN832mn	Paged is well-positioned to further increase its top-line in the coming years. Paged ultimately launched its entire MIRROR plywood line. We reckon, however, that the output in FY15 will be miniscule (5-8km3). The company will be able at one go to base its plywood production in c25% (starting from 2017 according to the company's guidance) on coniferous wood (so far only broadleaved). The furniture segment is being restructured which should finally lead to higher stabilization and predictability of the contribution to the consolidated financial figures. DTP and Europa Systems are perforoming well. The former might be sold soon as Paged discloed recently it had confirmed entering into negotiations with a potential acquirer (probably PRA Group) what might lead to a higher value per share. The latter should bring in approx. PLN82mn sales in FY15. Valuation is encouraging in our opinion.
Trakcja	PLN639mn	We expect 2017-18E should bring solid profit growth along with an expected rise in PKP PLK's spending on railway track construction. FY16E earnings are likely to be flat y/y; not only this would be a positive surprise for the market (a 'transition' year between the 'old' and the 'new' EU budgets year and temporary drop in profits is commonly expected) but also would make the company relatively cheap vs. peers. Finally, Trakcja may, we think, decide to pay a dividend from 2015E earnings, which should we warmly welcomed by investors.
AB	PLN567mn	The cheapest IT distributor on P/E and EV/EBITDA, the most conservative business model, lowest SG&A/sales, offers the best earnings dynamics in tyhe sector, has biggest exposure outside Poland.
Asseco SEE	PLN514mn	Strong results momentum, improving macro situation in the SEE countries. Moreover, the company could benefit from cash inflows from the EU's new budget perspective. Depending on the M&A activity, good cash generation and lower CAPEX in the upcoming quarters could allow for a higher dividend payout.
PCM	PLN403mn	PCM's valuation appears reasonable since, on our estimates, it trades at a 2015E P/E of 9x and YE15E P/Book 0.8x. A DY of nearly 10% is likely this year. And this is another attractive side of the stock, we reckon. Going forward, the focus will be on SMEs/micro-companies, further operating improvements in the service and remarketing segments and higher volumes of vehicles, all of which should drive earnings' growth.
Monnari	PLN416mn	Among the smaller names within the Clothing&Footwear sector, we prefer Monnari and Bytom, which should see further growth of demand for its products as well as selling space growth in 2016. Both names are attractively valued at 2016 earnings.
Bytom	PLN227mn	
EuCO	PLN257mn	EuCO's DY outlook remains generous at 8.0% in 2016E and 9.5% in 2017E. There are three factors that underpin the improvement in the earnings outlook: 1) the value of the ongoing cases continues to rise (PLN547mn in 3Q15, up 41% y/y) despite significant inflows from insurance companies (IC), 2) regulations concerning court proceedings are set to change next year in EuCO's favour; 3) cases that account for the bulk of its book tend to end in out-of-court settlements, resulting in cash circulation. And there is more good news in store, we think. The Romanian business should be consolidated in 2016 or 2017 at the latest. EuCocar, a new business line, should start in 2016E or 2017E and there is another one in the pipeline.
Ambra	PLN187mn	Ambra has relatively low valuation, that is EV/EBTIDA16 at c5.3x following the recent slide in the share price. Please note that Ambra generates a stable OCF (avg. conversion ratio at 0.8x), which, along with the limited CAPEX, makes it possible to deliver an attractive FcF yield (11.5% in 2008-14 on average). This allows Ambra to pay an attractive DY at c. 5%. The company had recently also reported an insider buying spree, which is a good omen, in our view.

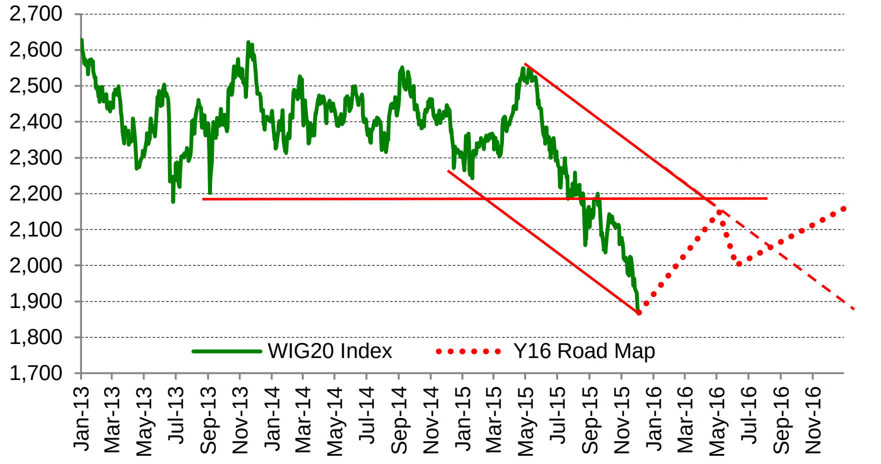
ROAD MAP:

- Rebound of equities post FED’s lift-off on Dec 15th
- Financials (bad news in the price) and commodity exporters should drive the rally
- The upward trajectory may terminate if negative news flow on new overhaul of pension funds intensifies (late spring?); preparatory activity (poison pills, LBOs) at private held companies starts
- Small/mid cap indices would underperform significantly; WIG30 should outperform in contrast to 2014
- Our bottom up YE16 target for WIG20 is at 2,158 points (16% upside), for mWIG40 it is at 3,775 points (6% upside)

ROAD MAP: UPWARD TRAJECTORY UNTIL LATE SPRING

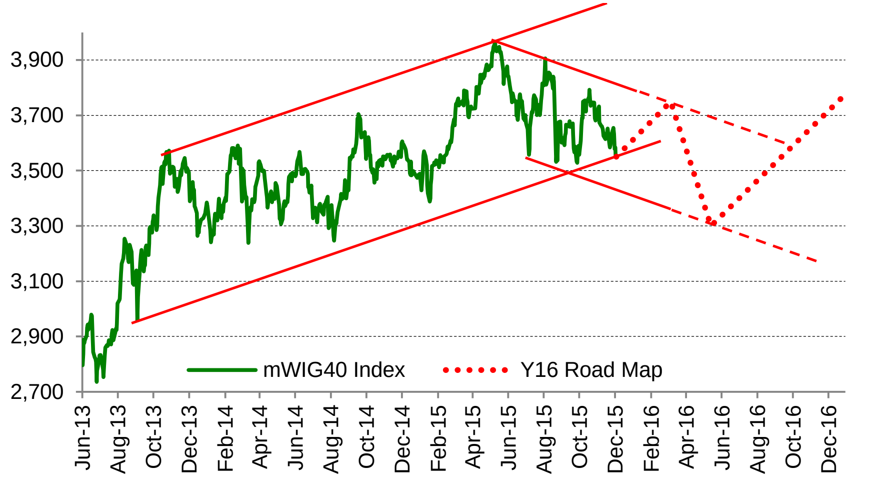
- We are assuming a rebound of equity indices post FED's lift-off; this should be driven by financials (bad news in the price) and commodity exporters (stabilising/weakening USD impact)
- Following the changes at helms of the largest State exposed names situation should return to normal in 1Q16
- News flow regarding another, perhaps final, overhaul of the 2nd pillar pension funds will be the key determinant of market's performance in 2H16; a consolidation of pension funds holdings in State's hands would hit mid-cap the most; WIG30 should be relatively less impacted as foreign strategic investor owned names (banks) and State owned companies dominate

WIG20: projected trajectory



Source: Bloomberg, DM BZ WBK Research

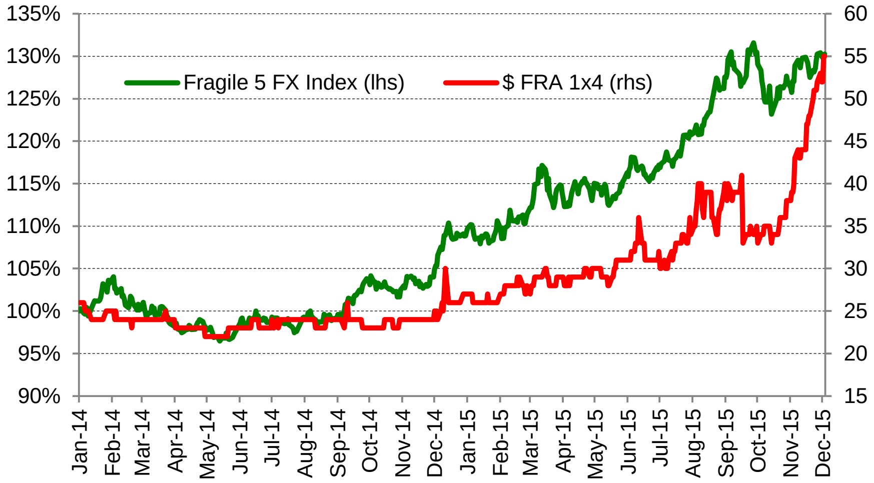
mWIG40: projected trajectory



Source: Bloomberg, DM BZ WBK Research

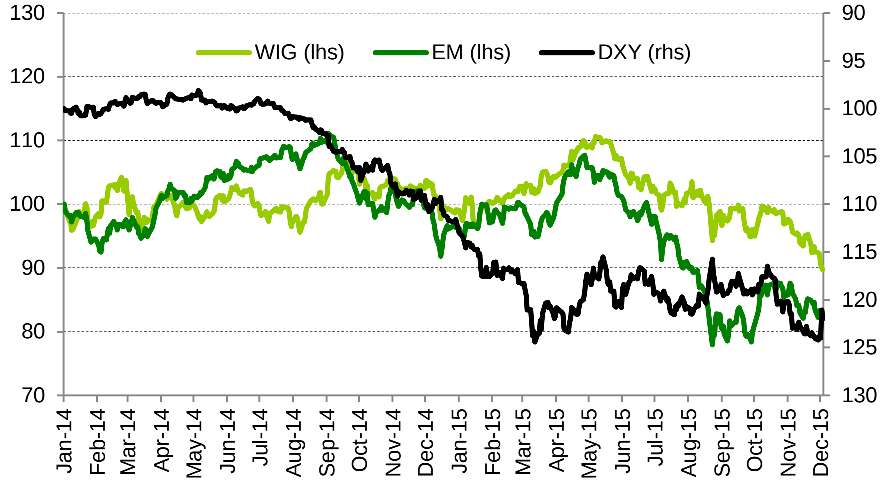
ROAD MAP: LIFT-OFF IS ALREADY PRICED IN

The lift-off is already priced into most EM FX and equities



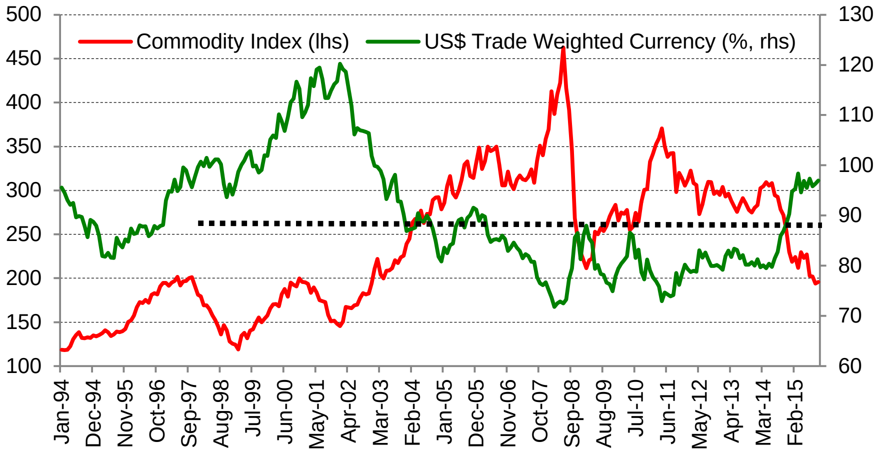
Source: Bloomberg, DM BZ WBK Research

EM and PL equities…



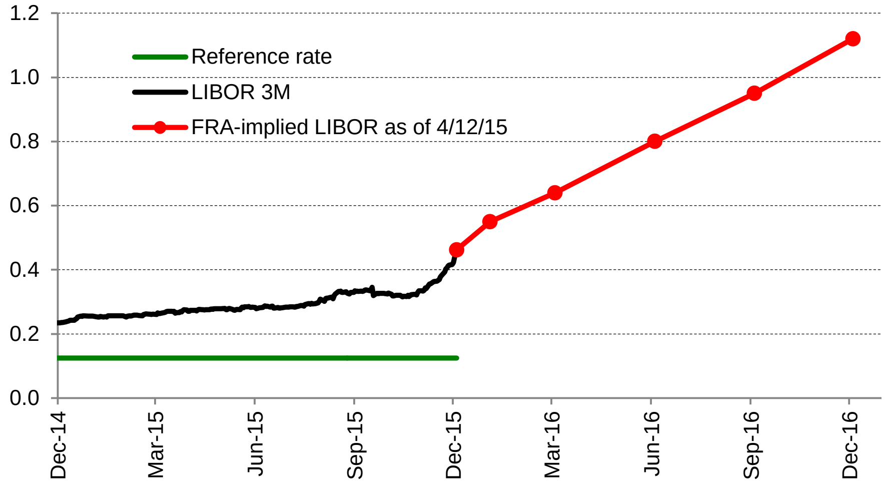
Source: Bloomberg, DM BZ WBK Research

…and commodities suffered from the strong USD



Source: Bloomberg, DM BZ WBK Research

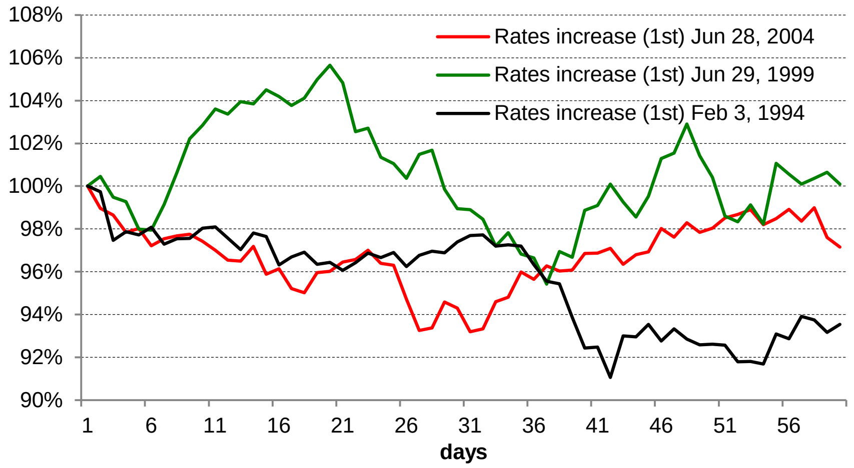
US market expects orderly tigtening



Source: Bloomberg, DM BZ WBK Research

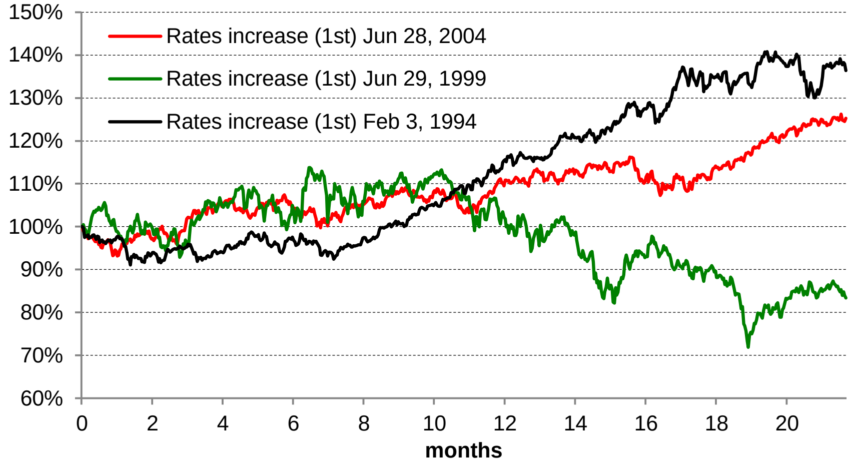
ROAD MAP: TIGHTENING MAY BRING A CORRECTION BUT IT SHOULD BE S-T

Correction typically follows the first rate hike…



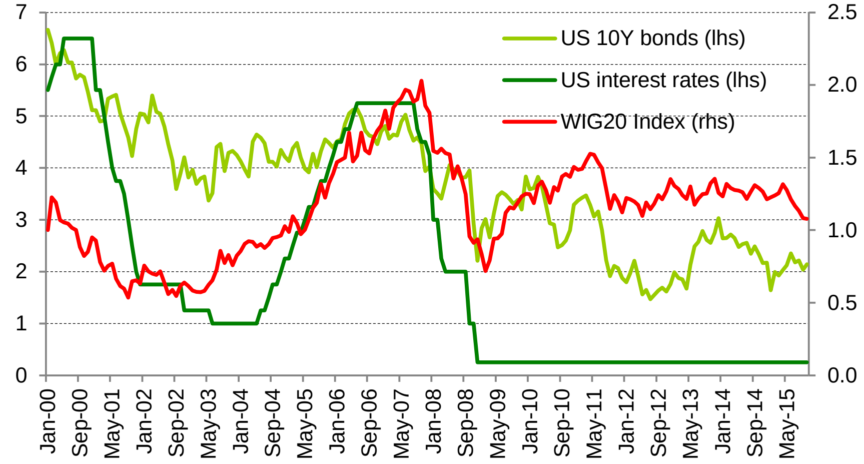
Source: Bloomberg, DM BZ WBK Research

…but it is typically short-lived



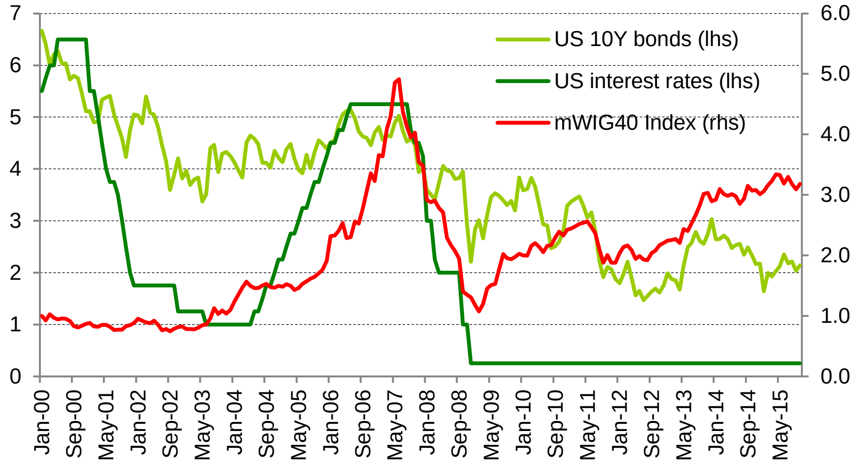
Source: Bloomberg, DM BZ WBK Research

Polish equities …



Source: Bloomberg, DM BZ WBK Research

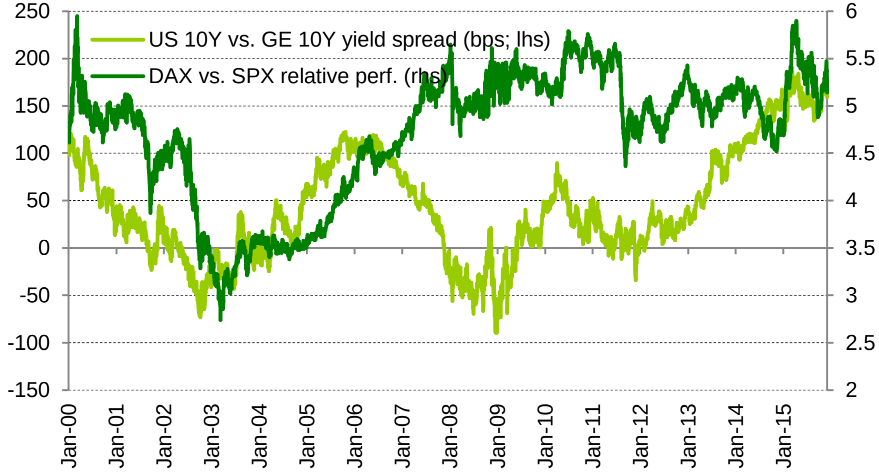
… are positively correlated with US rates



Source: Bloomberg, DM BZ WBK Research

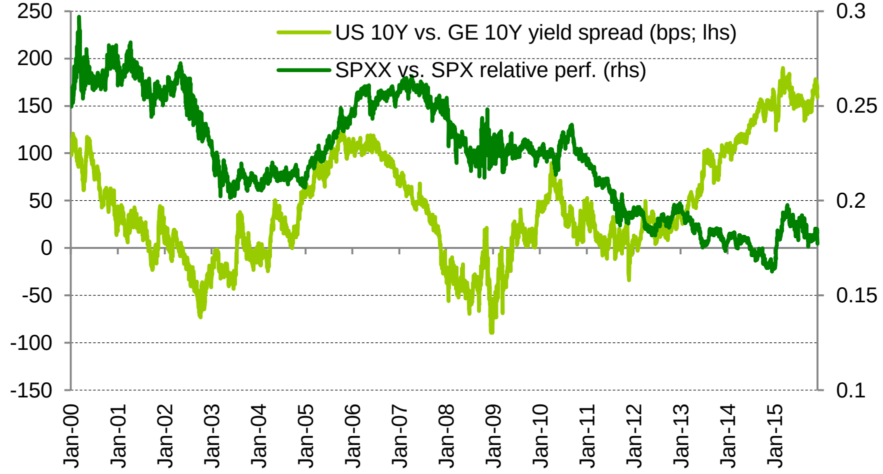
ROAD MAP: EU EQUITIES OUTPERFORM DURING HIGH % DIVERGENCE

European equities…



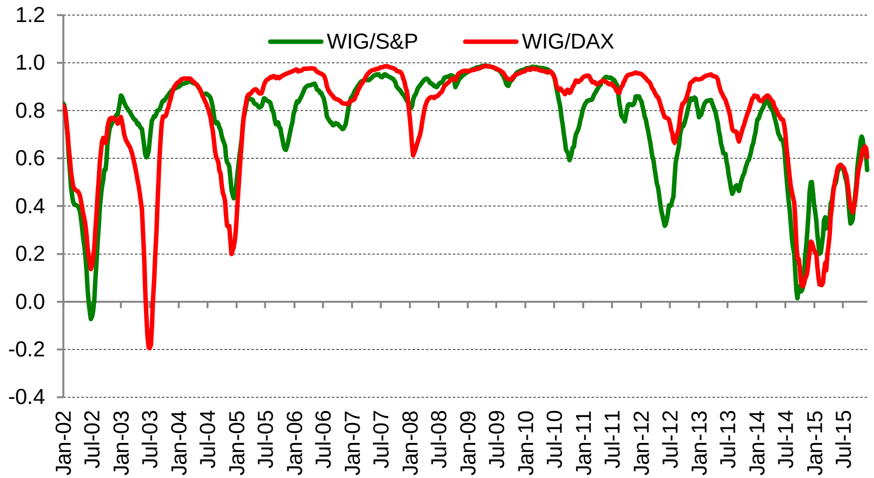
Source: Bloomberg, DM BZ WBK Research

…typically outperform US during period % rate divergence



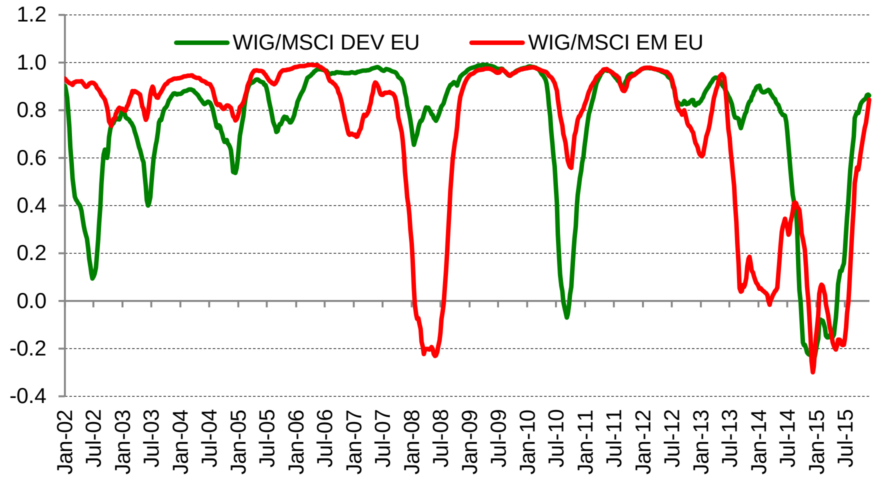
Source: Bloomberg, DM BZ WBK Research

WIG is more correlated with DAX than S&P



Source: Bloomberg, DM BZ WBK Research

Correlation with EMs tends to be variable



Source: Bloomberg, DM BZ WBK Research

ROAD MAP: BOTTOM UP YE16 TARGET FOR WIG20 @ 2,158

Bottom up YE16 price target for WIG20

Last price	1,868
Target index level (cons.)	**2,174**
Upside/downside	16.4%
Target index level (BZ WBK)*	**2,158**
Upside/downside	15.5%

*Source: Bloomberg, DM BZ WBK Research, * consensus TPs where BZ WBK does not have a valid price target*

Target prices for WIG20 constituents

Company	Last price (PLN)	Weight in index (%)	Price target (consensus)	Upside / downside	Price target (BZ WBK)*	Upside / downside
PKOBP	25.8	13.8	30.4	18%	31.0	20%
PZU	35.6	12.4	41.4	16%	*41.4*	16%
PKN ORLEN	66.3	12.8	71.2	7%	72.0	9%
PEKAO	139.8	11.4	158.3	13%	156.0	12%
PGE SA	13.4	6.5	16.3	22%	11.5	-14%
KGHM	66.5	5.7	96.0	44%	96.0	44%
PGNIG	5.0	5.1	5.8	15%	5.8	15%
LPP	6624.4	5.3	7111.0	7%	9211.4	39%
BZWBK	274.5	5.2	302.0	10%	*302.0*	10%
CYFRPLSAT	23.9	3.2	27.5	15%	32.0	34%
ORANGE POLSKA	6.5	2.6	7.1	11%	6.4	-1%
ASSECOPOL	57.2	2.7	66.6	16%	65.5	14%
EUROCASH	54.6	2.7	43.0	-21%	39.8	-27%
ALIOR BANK SA	65.3	2.2	90.3	38%	87.0	33%
MBANK SA	302.9	2.4	362.4	20%	346.0	14%
TAURONPE	2.6	1.7	3.3	26%	3.5	34%
ENERGA SA	12.0	1.5	18.4	53%	17.5	46%
ENEA	11.4	1.5	15.2	34%	12.0	6%
SYNTHOS	3.6	1.1	4.0	11%	4.5	24%
BOGDANKA	40.8	0.3	50.4	24%	27.9	-32%

*Source: Bloomberg, DM BZ WBK, *Bloomberg consensus estimates for companies where BZ WBK currently has no TP*

ROAD MAP: BOTTOM UP YE16 TARGET FOR WIG40 @ 3,775

Bottom up YE16 price target for mWIG40

Last price	3,550
Target index level (cons.)	**3,978**
Upside/downside	12.1%
Target index level (BZ WBK)*	**3,775**
Upside/downside	6.3%

*Source: Bloomberg, DM BZ WBK Research, * consensus TPs where BZ WBK does not have a valid price target*

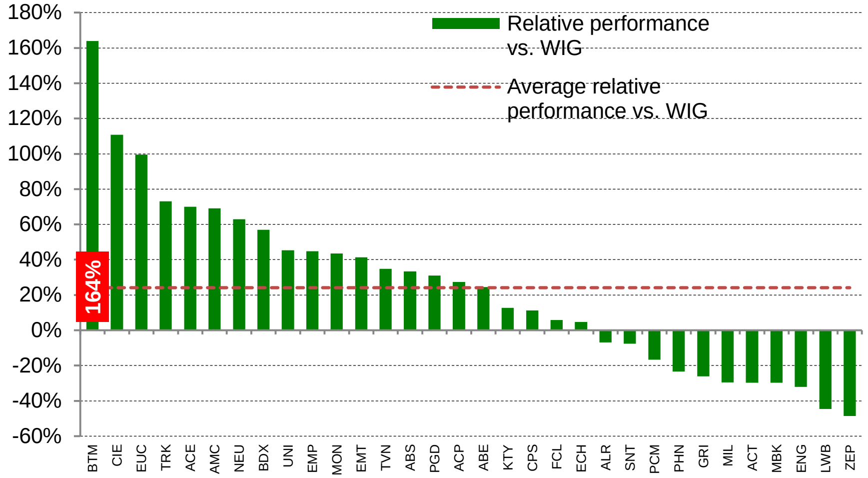
Target prices for mWIG40 constituents

Company	Last price (PLN)	Weight in index (%)	Price target (consensus)	Upside / downside	Price target (BZ WBK)*	Upside / downside
GRUPA AZOTY	106.4	7.5	100.1	-6%	52.5	-51%
INGBSK	114.0	6.4	129.9	14%	*139.0*	22%
CCC SA	146.5	6.1	169.8	16%	193.7	32%
MILLENNIUM	5.1	5.3	6.4	27%	5.8	15%
AMREST HOLDINGS	197.0	4.9	207.4	5%	*207.4*	5%
KRUK SA	181.7	4.8	195.7	8%	85.2	-53%
KETY	283.0	4.6	275.1	-3%	340.0	20%
LOTOS	28.4	4.3	31.7	12%	32.0	13%
KERNEL	47.5	4.0	54.3	14%	*54.3*	14%
HANDLOWY	68.0	3.8	88.2	30%	67.0	-1%
CIECH	85.8	3.8	88.2	3%	100.0	17%
BUDIMEX	202.5	3.7	203.7	1%	223.0	10%
INTERCARS	249.9	3.6	258.6	3%	*258.6*	3%
PKP CARGO SA	63.7	3.0	78.8	24%	75.9	19%
ECHO	6.7	2.8	6.9	3%	7.1	6%
CD PROJEKT RED	22.8	2.5	33.2	45%	29.0	27%
ORBIS	61.5	2.3	62.5	2%	*62.5*	2%
SANOK RUBBER	52.5	2.2	62.4	19%	*62.4*	19%
NETIA	5.3	2.1	6.2	17%	5.7	8%
GTC	7.4	2.0	6.7	-9%	*6.7*	-9%
WSE	38.6	1.8	44.9	16%	*44.9*	16%
FORTE	54.5	1.5	57.8	6%	59.8	10%
AMICA	170.9	1.5	188.4	10%	200.0	17%
APATOR	31.3	1.4	34.0	9%	36.5	17%
PCM	33.9	0.7	44.7	32%	52.5	55%
WAWEL	1017.0	1.3	1335.6	31%	*1335.6*	31%
EMPERIA	65.2	1.2	72.9	12%	84.6	30%
JSW	12.2	1.1	10.4	-14%	8.5	-30%
NEUCA	334.9	1.1	365.3	9%	403.0	20%
MEDICALG SA	243.2	1.1	268.6	10%	285.0	17%
GETIN NOBLE BANK	0.5	1.1	0.9	67%	0.5	-11%
STALPROD	306.0	1.0	290.0	-5%	*290.0*	-5%
COMARCH	106.5	0.9	142.0	33%	*142.0*	33%
GETIN	1.0	0.6	2.4	139%	*2.4*	139%
TRAKCJA	12.4	0.8	12.8	3%	14.0	13%
ZE PAK	9.8	0.4	12.2	24%	9.7	-1%
INTEGERPL	67.5	0.6	n.a.	n.a.	n.a.	n.a.
BIOTON	12.9	1.3	n.a.	n.a.	n.a.	n.a.
BORYSZEW	4.8	0.8	n.a.	n.a.	n.a.	n.a.
HAWE	0.8	0.1	n.a.	n.a.	n.a.	n.a.

*Source: Bloomberg, DM BZ WBK, *Bloomberg consensus estimates for companies where BZ WBK currently has no TP*

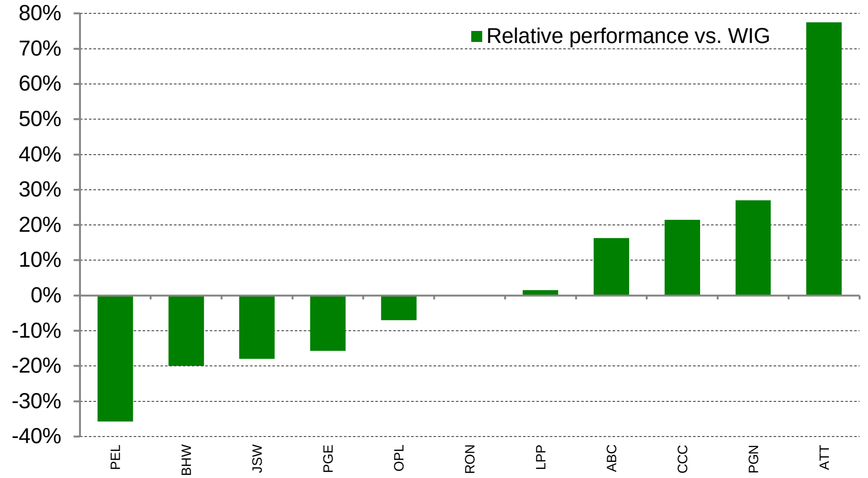
2015 CALLS IN A REAR VIEW 1/2

Top longs within sectors – performance ytd



Source: Bloomberg, DM BZ WBK Research

Top shorts within sectors – performance ytd

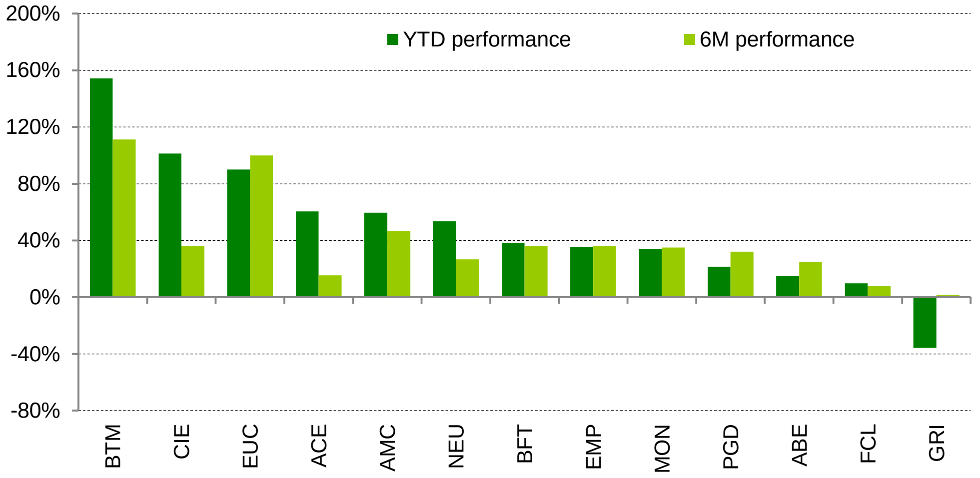


Source: Reuters, DM BZ WBK Research

Sector	Tactical position	Preferred stock	Relative performance vs. WIG* (%)	Least-preferred stock	Relative performance vs. WIG* (%)
Banks	*Overweight*	ALR	-6.8%	BHW	-20.0%
		MBK	-29.7%		
		MIL	-29.5%		
Metals & Mining	*Underweight*	LWB	-44.6%	JSW	-18.0%
Oil & Gas	*Neutral*			PGN	27.0%
Chemicals	*Underweight*	CIE	110.8%	ATT	77.5%
Utilities	*Overweight*	ENG	-32.1%	PGE	-15.7%
		ZEP	-48.6%		
TMT	*Neutral*	CPS	11.2%	OPL	-7.0%
		TVN	34.8%		
IT	*Overweight*	ABS	33.3%	ABC	16.3%
		ACT	-29.7%		
		ABE	24.5%		
		ACP	27.4%		
Industry	*Neutral*	AMC	69.0%		
		ACE	69.9%		
		EMT	41.4%		
		KTY	12.7%		
Wood	*Neutral*	PGD	31.0%		
Financials services	*Neutral*	EUC	99.6%		
		PCM	-16.7%		
Real Estate	*Overweight*	ECH	4.8%		
		PHN	-23.4%		
Housing Developers	*Neutral*			RON	0.1%
Construction	*Overweight*	TRK	73.0%		
		UNI	45.4%		
		BDX	56.9%		
FMCG Retail	*Neutral*	EMP	44.7%		
Clothing & Footwear	*Overweight*	BTM	163.9%	LPP	1.5%
		MON	43.5%	CCC	21.5%
		GRI	-26.2%		
Healthcare	*Neutral*	SNT	-7.6%		
Pharmaceuticals	*Overweight*	NEU	63.0%	PEL	-35.8%
		FCL	5.9%		

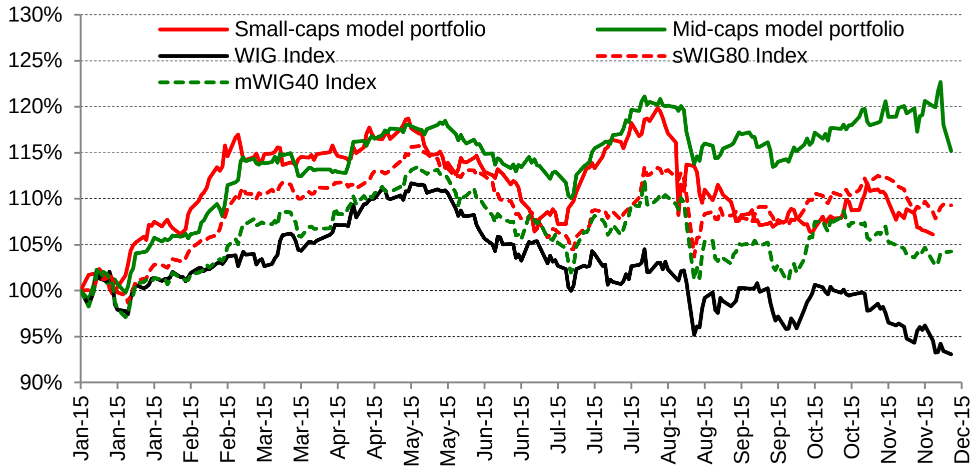
2015 CALLS IN A REAR VIEW 2/2

High conviction mid-cap calls – ytd and 1H15 performance



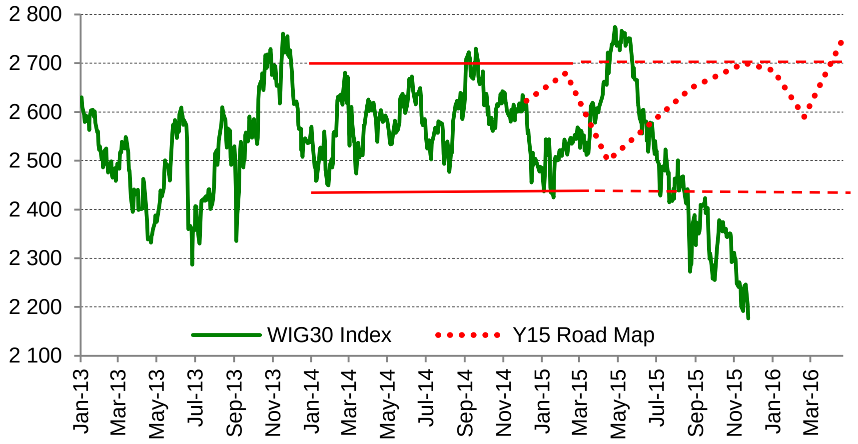
Source: Bloomberg, DM BZ WBK Research

Our small and mid-caps picks vs. indices



Source: Reuters, DM BZ WBK Research

Politics unexpectedly undermined performance of the majors



Source: Reuters, DM BZ WBK Research

EARNINGS OUTLOOK:

- WIG30 weighted 2016E earnings growth should be -5% y/y after +103% in 2015E
- 2017 should bring no growth
- Tauron, LPP and Alior should show best growth in reported earnings, Orange, Energa and Enea will be laggards
- Our WIG30 2016E earnings are 7% above consensus, those for 2017E are 3% higher
- Combined earnings of mWIG40 constituents are grow 7% in 2016E (4% index weighted) with CD Projekt, Hawe and PKP Cargo expected to report the strongest y/y contraction.

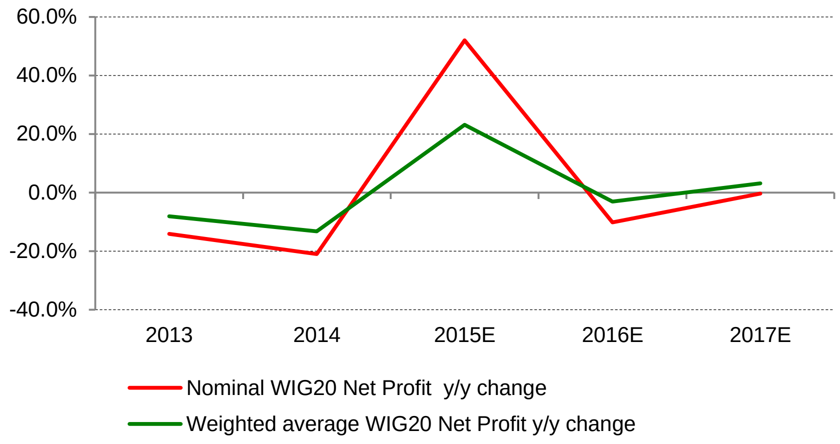
EARNINGS OUTLOOK: WIG20 2012-17E EARNINGS AT A GLANCE

					Net Profit							
Name	**Sector**	**2012**	**2013**	**y/y**	**2014**	**y/y**	**2015E**	**y/y**	**2016E**	**y/y**	**2017E**	**y/y**
PKO BP	Financials	3,739	3,230	*-13.6%*	3,254	*0.8%*	2,601	*-20.1%*	3,241	*24.6%*	3,151	*-2.8%*
PKN ORLEN	Oil&Gas/Chemicals	2,345	176	*-92.5%*	-5,811	*n.a.*	4,501	*n.a.*	3,865	*-14.1%*	3,480	*-10.0%*
PZU	Financials	3,397	3,366	*-0.9%*	3,101	*-7.9%*	2,524	*-18.6%*	2,625	*4.0%*	2,706	*3.1%*
PEKAO	Financials	2,943	2,785	*-5.4%*	2,715	*-2.5%*	2,268	*-16.5%*	2,186	*-3.6%*	2,389	*9.3%*
PGE	Utilities	3,644	3,954	*8.5%*	3,638	*-8.0%*	4,241	*16.6%*	2,926	*-31.0%*	2,446	*-16.4%*
KGHM	Metals&Mining	4,803	3,259	*-32.2%*	2,698	*-17.2%*	3,081	*14.2%*	3,006	*-2.4%*	2,875	*-4.4%*
LPP	Consumer	352	431	*22.3%*	480	*11.3%*	433	*-9.8%*	681	*57.3%*	836	*22.9%*
BZWBK	Financials	1,462	1,825	*24.8%*	1,981	*8.6%*	2,219	*12.0%*	2,052	*-7.5%*	2,316	*12.9%*
PGNIG	Oil&Gas/Chemicals	2,239	1,918	*-14.3%*	2,823	*47.2%*	3,025	*7.1%*	2,984	*-1.3%*	3,048	*2.1%*
CYFROWY POLSAT	TMT	598	525	*-12.2%*	283	*-46.2%*	1,333	*371.3%*	1,127	*-15.5%*	1,158	*2.8%*
ASSECO POLAND	TMT	371	306	*-17.3%*	358	*17.0%*	326	*-9.1%*	352	*7.9%*	357	*1.5%*
EUROCASH	Consumer	250	221	*-11.7%*	190	*-14.2%*	271	*43.0%*	266	*-1.9%*	293	*10.0%*
ORANGE POLSKA	TMT	855	275	*-67.8%*	520	*89.3%*	448	*-14.0%*	89	*-80.1%*	-64	*n.a.*
MBANK	Financials	1,197	1,206	*0.8%*	1,287	*6.7%*	1,320	*2.6%*	1,171	*-11.3%*	1,384	*18.2%*
ALIOR BANK	Financials	61	228	*271.9%*	312	*36.9%*	299	*-4.2%*	377	*26.2%*	470	*24.6%*
TAURON	Utilities	1,477	1,309	*-11.3%*	1,181	*-9.8%*	1,219	*3.2%*	650	*-46.7%*	648	*-0.3%*
ENEA	Utilities	700	716	*2.2%*	908	*26.9%*	1,062	*17.0%*	653	*-38.5%*	604	*-7.5%*
ENERGA	Utilities	440	789	*79.4%*	982	*24.5%*	919	*-6.4%*	520	*-43.3%*	548	*5.4%*
SYNTHOS	Oil&Gas/Chemicals	586	417	*-28.9%*	357	*-14.4%*	422	*18.3%*	472	*11.9%*	483	*2.3%*
BOGDANKA	Metals&Mining	289	329	*13.9%*	273	*-17.2%*	202	*-25.8%*	146	*-27.6%*	161	*9.7%*
Total WIG20 Index		**31,748**	**27,265**	***-14.1%***	**21,530**	***-21.0%***	**32,715**	***51.9%***	**29,390**	***-10.2%***	**29,289**	***-0.3%***
Weighted WIG20 Index		**2,427**	**1,982**	***-18.3%***	**1,189**	***-40.0%***	**2,413**	***103.0%***	**2,297**	***-4.8%***	**2,260**	***-1.6%***
Weighted P/E							**12.1**		**13.7**		**10.8**	

Source: Bloomberg, DM BZ WBK Research, Bloomberg consensus estimates used for companies where BZ WBK has no coverage/TP

EARNINGS OUTLOOK: WIG20 2012-17E EARNINGS BY SECTORS

Earnings growth expected to be negative in 2016E



Source: Bloomberg, DM BZ WBK Research

Nominal earnings by sectors (PLNmn)

		Net Profit										
Sector	**No. of const.**	**2012**	**2013**	**y/y**	**2014**	**y/y**	**2015E**	**y/y**	**2016E**	**y/y**	**2017E**	**y/y**
Financials	6	12,799	12,639	*-1.2%*	12,650	*0.1%*	11,231	*-11.2%*	11,652	*3.8%*	12,416	*6.6%*
TMT	3	1,824	1,107	*-39.3%*	1,162	*5.0%*	2,107	*81.3%*	1,567	*-25.6%*	1,451	*-7.4%*
Industrials	0	0	0	*n.a.*	0	*n.a.*	0	*n.a.*	0	*n.a.*	0	*n.a.*
Consumer	2	603	652	*8.2%*	669	*2.7%*	704	*5.1%*	947	*34.5%*	1,129	*19.2%*
Utilities	4	6,261	6,768	*8.1%*	6,709	*-0.9%*	7,442	*10.9%*	4,749	*-36.2%*	4,246	*-10.6%*
Construction	0	0	0	*n.a.*	0	*n.a.*	0	*n.a.*	0	*n.a.*	0	*n.a.*
Oil&Gas/Chemic	3	5,170	2,511	*-51.4%*	-2,631	*n.a.*	7,948	*n.a.*	7,322	*-7.9%*	7,012	*-4.2%*
Metals&Mining	2	5,092	3,588	*-29.5%*	2,971	*-17.2%*	3,284	*10.5%*	3,153	*-4.0%*	3,036	*-3.7%*
Total WIG20 Index		**31,748**	**27,265**	***-14.1%***	**21,530**	***-21.0%***	**32,715**	***51.9%***	**29,390**	***-10.2%***	**29,289**	***-0.3%***

Source: Bloomberg, DM BZ WBK Research

Index weighted sector earnings (PLNmn)

		Net Profit										
Sector	**WIG20 weight**	**2012**	**2013**	**y/y**	**2014**	**y/y**	**2015E**	**y/y**	**2016E**	**y/y**	**2017E**	**y/y**
Financials	47.5%	6,073	5,997	*-1.2%*	6,003	*0.1%*	5,329	*-11.2%*	5,529	*3.8%*	5,891	*6.6%*
TMT	8.5%	154	94	*-39.3%*	98	*5.0%*	178	*81.3%*	133	*-25.6%*	123	*-7.4%*
Industrials	0.0%	0	0	*n.a.*	0	*n.a.*	0	*n.a.*	0	*n.a.*	0	*n.a.*
Consumer	7.9%	48	52	*8.2%*	53	*2.7%*	56	*5.1%*	75	*34.5%*	90	*19.2%*
Utilities	11.2%	700	756	*8.1%*	750	*-0.9%*	832	*10.9%*	531	*-36.2%*	475	*-10.6%*
Construction	0.0%	0	0	*n.a.*	0	*n.a.*	0	*n.a.*	0	*n.a.*	0	*n.a.*
Oil&Gas/Chemic	19.0%	984	478	*-51.4%*	-501	*n.a.*	1,512	*n.a.*	1,393	*-7.9%*	1,334	*-4.2%*
Metals&Mining	5.9%	303	213	*-29.5%*	177	*-17.2%*	195	*10.5%*	187	*-4.0%*	180	*-3.7%*
Total WIG20 Index		**8,261**	**7,590**	***-8.1%***	**6,580**	***-13.3%***	**8,102**	***23.1%***	**7,848**	***-3.1%***	**8,093**	***3.1%***

Source: Bloomberg, DM BZ WBK Research

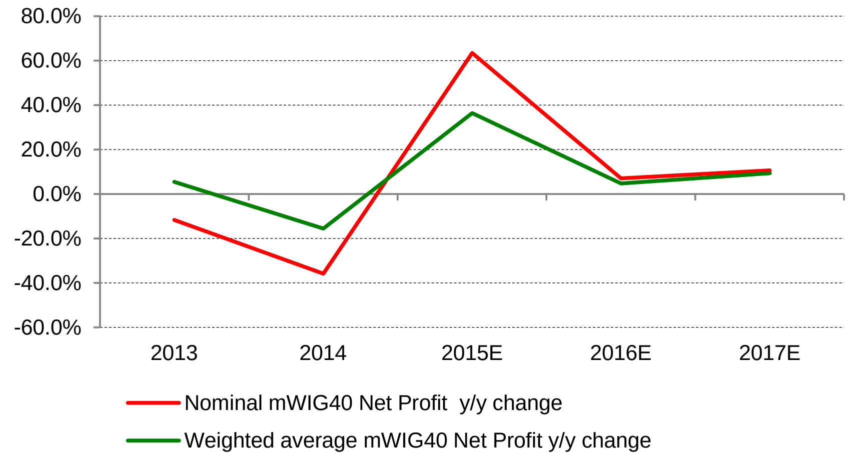
EARNINGS OUTLOOK: MWIG40 2012-17E EARNINGS AT A GLANCE

		Net Profit										
Name	**Sector**	**2012**	**2013**	**y/y**	**2014**	**y/y**	**2015E**	**y/y**	**2016E**	**y/y**	**2017E**	**y/y**
GRUPA AZOTY	Oil&Gas/Chemicals	294	680	*130.9%*	231	*-66.0%*	339	*46.6%*	468	*38.1%*	575	*22.9%*
ING BSK	Financials	832	962	*15.5%*	1,041	*8.2%*	1,050	*0.9%*	939	*-10.6%*	1,113	*18.5%*
CCC	Consumer	106	125	*17.8%*	206	*64.4%*	247	*19.8%*	286	*15.7%*	319	*11.6%*
MILLENNIUM	Financials	472	536	*13.5%*	651	*21.4%*	578	*-11.2%*	603	*4.3%*	719	*19.3%*
AMREST HOLDINGS	Consumer	92	64	*-31.1%*	57	*-10.3%*	130	*128.5%*	158	*21.3%*	189	*19.5%*
KRUK	Financials	81	97	*19.4%*	113	*16.9%*	124	*10.0%*	177	*42.4%*	215	*21.6%*
KETY	Industrials	117	154	*31.2%*	169	*9.9%*	202	*19.7%*	207	*2.4%*	206	*-0.6%*
LOTOS	Oil&Gas/Chemicals	928	39	*-95.8%*	-1,466	*n.a.*	911	*n.a.*	757	*-16.9%*	557	*-26.4%*
KERNEL	Consumer	129	-13	*n.a.*	134	*n.a.*	202	*50.9%*	201	*-0.5%*	207	*3.1%*
HANDLOWY	Financials	970	973	*0.3%*	947	*-2.6%*	605	*-36.2%*	502	*-17.0%*	579	*15.2%*
CIECH	Oil&Gas/Chemicals	-431	49	*n.a.*	167	*238.0%*	271	*62.0%*	479	*76.8%*	473	*-1.1%*
BUDIMEX	Construction	186	300	*61.6%*	192	*-36.1%*	209	*9.0%*	254	*21.3%*	278	*9.5%*
INTERCARS	Consumer	98	154	*56.6%*	181	*17.6%*	205	*13.8%*	229	*11.7%*	263	*14.5%*
PKP CARGO SA	Other	268	74	*-72.3%*	59	*-20.3%*	255	*332.8%*	207	*-19.0%*	271	*30.9%*
ECHO INVESTMENT	Construction	374	331	*-11.5%*	407	*22.8%*	93	*-77.0%*	128	*37.4%*	90	*-29.8%*
CD PROJEKT	TMT	28	15	*-48.4%*	5	*-64.1%*	346	*6530.8%*	101	*-70.9%*	40	*-60.4%*
SANOK RUBBER CO	Industrials	n.a.	67	*n.a.*	89	*32.9%*	94	*6.3%*	106	*12.3%*	111	*4.4%*
NETIA	TMT	-88	50	*n.a.*	175	*252.3%*	37	*-79.0%*	65	*77.0%*	39	*-40.0%*
GTC	Construction	-32	-76	*n.a.*	-150	*n.a.*	33	*n.a.*	55	*66.3%*	107	*95.8%*
WARSAW STOCK EX	Financials	110	111	*1.5%*	112	*1.0%*	128	*13.7%*	137	*7.4%*	142	*3.1%*
FORTE	Industrials	38	58	*52.4%*	75	*30.0%*	83	*10.6%*	92	*10.7%*	95	*3.7%*
AMICA	Industrials	46	89	*92.7%*	78	*-12.6%*	99	*27.2%*	113	*14.2%*	117	*2.9%*
APATOR	Industrials	95	68	*-28.2%*	86	*25.5%*	79	*-7.3%*	83	*4.7%*	85	*2.5%*
BIOTON	Consumer	51	-3	*n.a.*	4	*n.a.*	11	*173.6%*	31	*174.3%*	44	*41.9%*
WAWEL	Consumer	71	80	*12.2%*	79	*-0.8%*	101	*27.2%*	111	*10.0%*	118	*6.3%*
EMPERIA	Consumer	21	15	*-26.8%*	32	*109.5%*	33	*2.9%*	34	*4.1%*	35	*1.7%*
JSW	Metals&Mining	987	77	*-92.2%*	-660	*n.a.*	-845	*n.a.*	-581	*n.a.*	-513	*n.a.*
NEUCA	Consumer	66	85	*29.3%*	93	*9.0%*	103	*10.3%*	115	*11.8%*	123	*7.1%*
MEDICALGORITHMIC	TMT	7	11	*46.7%*	15	*33.6%*	27	*88.3%*	37	*34.4%*	45	*23.6%*
GETIN NOBLE BANK	Financials	256	400	*56.2%*	360	*-9.9%*	65	*-82.0%*	156	*140.8%*	167	*7.2%*
STALPROD	Industrials	85	56	*-34.7%*	102	*83.2%*	207	*103.3%*	252	*21.8%*	258	*2.6%*
COMARCH	TMT	40	24	*-39.2%*	n.a.	*n.a.*	67	*n.a.*	63	*-5.7%*	85	*34.6%*
TRAKCJA	Construction	-12	38	*n.a.*	50	*31.5%*	50	*1.6%*	51	*1.1%*	54	*6.9%*
PCM	Other	33	44	*33.1%*	63	*42.4%*	40	*-35.8%*	47	*17.4%*	53	*11.4%*
ZE PAK	Utilities	406	217	*-46.6%*	82	*-62.3%*	21	*-74.3%*	-12	*n.a.*	99	*n.a.*
HAWE	TMT	n.a.	n.a.	*n.a.*	48	*n.a.*	50	*4.6%*	38	*-23.7%*	41	*6.5%*
ORBIS	Consumer	n.a.	n.a.	*n.a.*	n.a.	*n.a.*	n.a.	*n.a.*	n.a.	*n.a.*	n.a.	*n.a.*
BORYSZEW	Industrials	n.a.	n.a.	*n.a.*	n.a.	*n.a.*	n.a.	*n.a.*	n.a.	*n.a.*	n.a.	*n.a.*
INTEGER.PL	Other	n.a.	n.a.	*n.a.*	n.a.	*n.a.*	n.a.	*n.a.*	n.a.	*n.a.*	n.a.	*n.a.*
GETIN	Financials	n.a.	n.a.	*n.a.*	n.a.	*n.a.*	n.a.	*n.a.*	n.a.	*n.a.*	n.a.	*n.a.*
Total mWIG40 Index		**6,727**	**5,948**	***-11.6%***	**3,824**	***-35.7%***	**6,250**	***63.5%***	**6,687**	***7.0%***	**7,396**	***10.6%***
Weighted mWIG40 Index		**238**	**248**	***4.6%***	**169**	***-31.8%***	**283**	***66.9%***	**293**	***3.6%***	**322**	***10.1%***
Weighted P/E							**20.9**		**16.7**		**16.1**	

Source: Bloomberg, DM BZ WBK Research, Bloomberg consensus estimates used for companies where BZ WBK has no coverage/TP

EARNINGS OUTLOOK: MWIG40 2012-17E EARNINGS BY SECTORS

Earnings will contract in 2016E and rebound thereafter



Source: Bloomberg, DM BZ WBK Research

Nominal earnings by sectors (PLNmn)

Sector	No. of const.	Net Profit 2012	2013	y/y	2014	y/y	2015E	y/y	2016E	y/y	2017E	y/y
Financials	7	2,721	3,078	*13.1%*	3,224	*4.8%*	2,549	*-20.9%*	2,514	*-1.4%*	2,934	*16.7%*
TMT	5	-12	99	*n.a.*	243	*144.0%*	527	*117.1%*	304	*-42.3%*	250	*-17.8%*
Industrials	7	381	491	*28.9%*	598	*21.7%*	765	*27.9%*	853	*11.5%*	872	*2.2%*
Consumer	9	635	506	*-20.2%*	785	*55.1%*	1,031	*31.3%*	1,164	*12.8%*	1,296	*11.3%*
Utilities	1	406	217	*-46.6%*	82	*-62.3%*	21	*-74.3%*	-12	*n.a.*	99	*n.a.*
Construction	4	516	593	*14.9%*	498	*-16.0%*	386	*-22.5%*	488	*26.4%*	529	*8.5%*
Oil&Gas/Chemic	3	792	768	*-2.9%*	-1,068	*n.a.*	1,520	*n.a.*	1,704	*12.1%*	1,606	*-5.7%*
Metals&Mining	1	987	77	*-92.2%*	-660	*n.a.*	-845	*n.a.*	-581	*n.a.*	-513	*n.a.*
Other	3	301	118	*-60.8%*	122	*3.1%*	296	*143.0%*	254	*-14.0%*	323	*27.3%*
Total mWIG40 Index		**6,727**	**5,948**	***-11.6%***	**3,824**	***-35.7%***	**6,250**	***63.5%***	**6,687**	***7.0%***	**7,396**	***10.6%***

Source: Bloomberg, DM BZ WBK Research

Index weighted sector earnings (PLNmn)

Sector	WIG40 weight	Net Profit 2012	2013	y/y	2014	y/y	2015E	y/y	2016E	y/y	2017E	y/y
Financials	23.8%	648	732	*13.1%*	767	*4.8%*	607	*-20.9%*	598	*-1.4%*	698	*16.7%*
TMT	6.6%	-1	7	*n.a.*	16	*144.0%*	35	*117.1%*	20	*-42.3%*	17	*-17.8%*
Industrials	13.0%	50	64	*28.9%*	78	*21.7%*	99	*27.9%*	111	*11.5%*	113	*2.2%*
Consumer	25.8%	164	131	*-20.2%*	203	*55.1%*	266	*31.3%*	301	*12.8%*	335	*11.3%*
Utilities	0.4%	2	1	*-46.6%*	0	*-62.3%*	0	*-74.3%*	0	*n.a.*	0	*n.a.*
Construction	9.3%	48	55	*14.9%*	46	*-16.0%*	36	*-22.5%*	45	*26.4%*	49	*8.5%*
Oil&Gas/Chemic	15.6%	124	120	*-2.9%*	-167	*n.a.*	237	*n.a.*	266	*12.1%*	251	*-5.7%*
Metals&Mining	1.1%	11	1	*-92.2%*	-7	*n.a.*	-9	*n.a.*	-6	*n.a.*	-6	*n.a.*
Other	4.3%	13	5	*-60.8%*	5	*3.1%*	13	*143.0%*	11	*-14.0%*	14	*27.3%*
Total mWIG40 Index		**1,057**	**1,115**	***5.5%***	**942**	***-15.6%***	**1,284**	***36.4%***	**1,346**	***4.8%***	**1,471**	***9.3%***

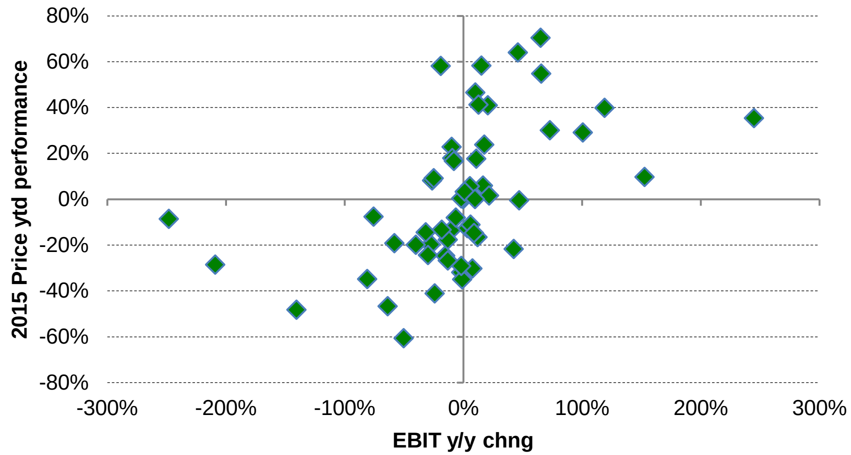
Source: Bloomberg, DM BZ WBK Research

TOP DOWN EARNINGS TRENDS:

- WIG20 2016/17E consensus EPS expectations remain in a donwtrend
- LFL top line growth is sluggish for all major indices
- EBIT of WIG20 and sWIG80 remains in an uptrend
- Flattenning GDP growth outlook and the recent weakness of PMIs suggest downside risk to EPS in the near-term
- Performance of WIG20 and mWIG40 has in the past been only losely correlated with EPS or EBIT performance; however recently this correlation has tightened

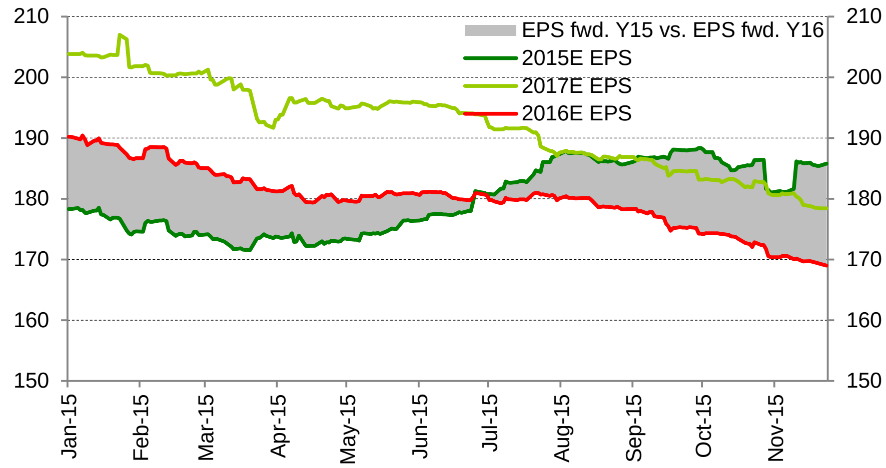
TOP DOWN EARNINGS TRENDS: TOP LINE FLATTISH, EBIT GRINDING UP

Share price performance remains loosely correlated with EBIT growth



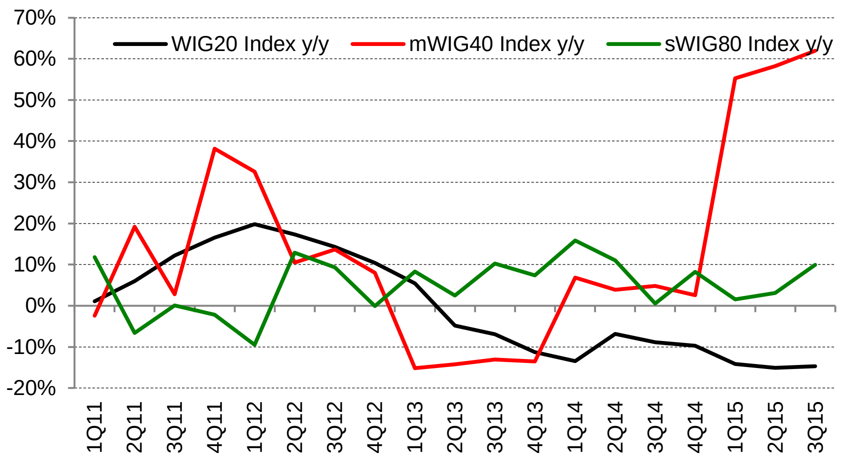
Source: Bloomberg, DM BZ WBK Research

WIG20 16/17E EPS expectations remain in a downtrend



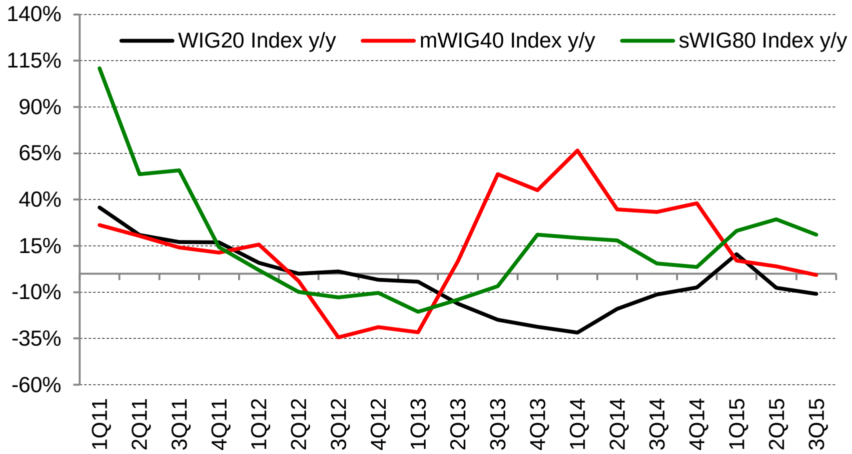
Source: Bloomberg, DM BZ WBK Research

Top line growth remains sluggish; CPS boosts mWIG*



*Source: Bloomberg, DM BZ WBK Research, * old composition of mWIG40*

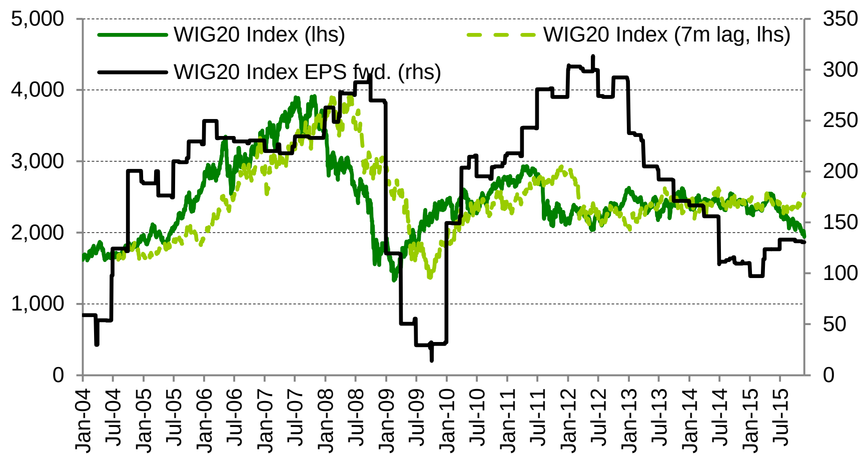
EBIT growth in an uptrend at WIG20 & sWIG80



Source: Bloomberg, DM BZ WBK Research

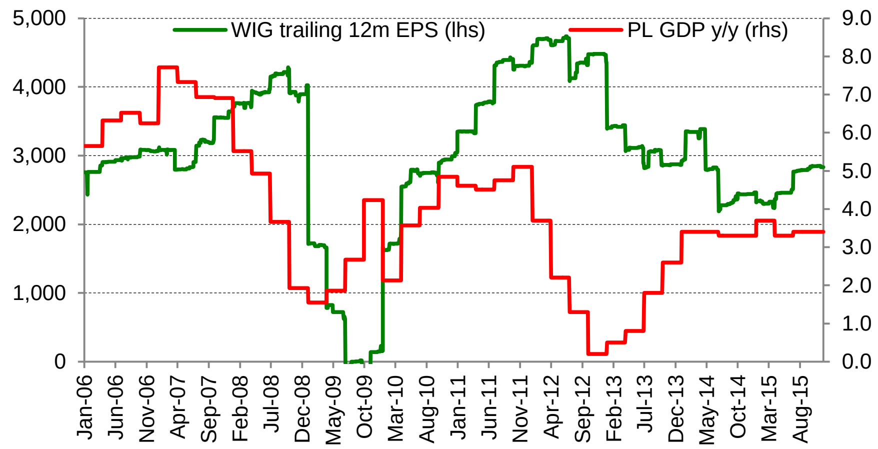
TOP DOWN EARNINGS TRENDS : DOWNSIDE RISKS EPS IN S-T?

Market expectations are lagging the index by c7 months



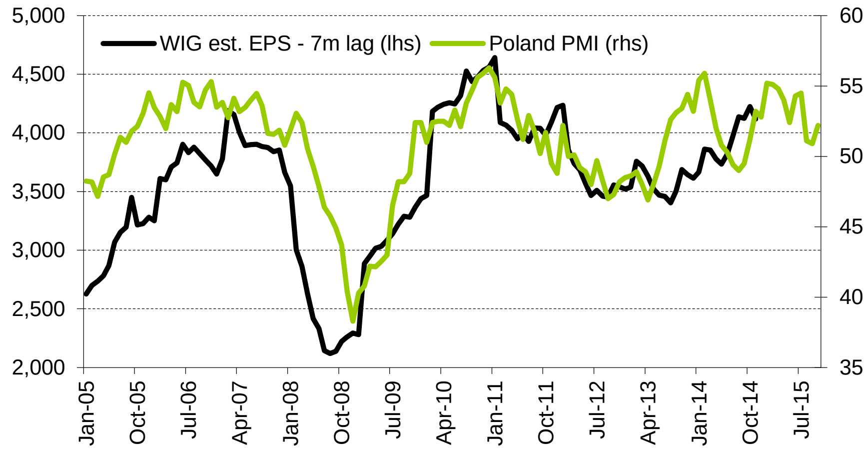
Source: Bloomberg, DM BZ WBK Research

Flattening GDP growth implies little upside for EPS



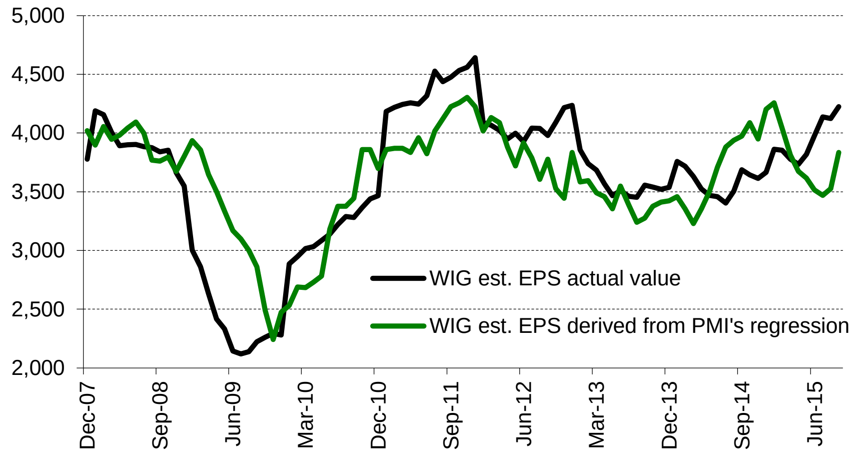
Source: Bloomberg, DM BZ WBK Research

PMIs…



Source: Bloomberg, DM BZ WBK Research

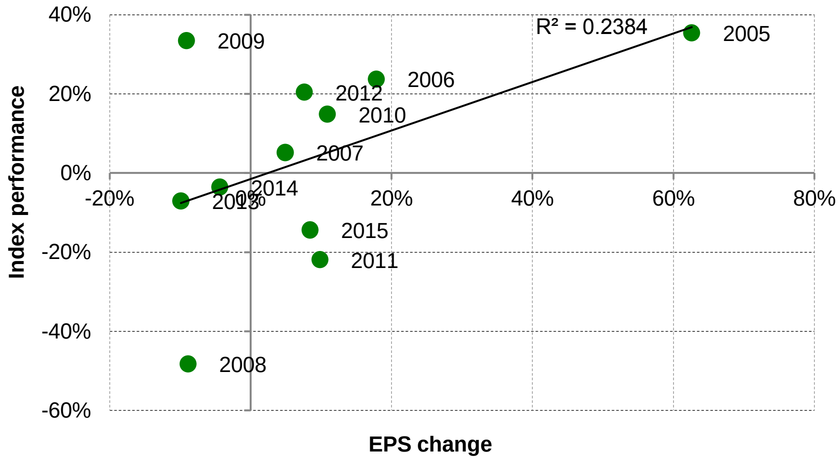
…imply 7% downside to current EPS expectations



Source: Bloomberg, DM BZ WBK Research

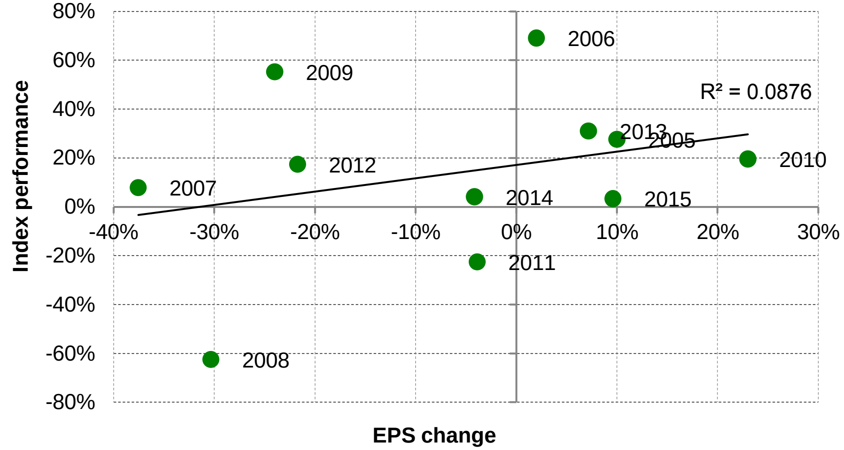
T-D EARNINGS TRENDS: EPS STARTS TO MATTER FOR SHARE PRICES

Performance of both WIG20…



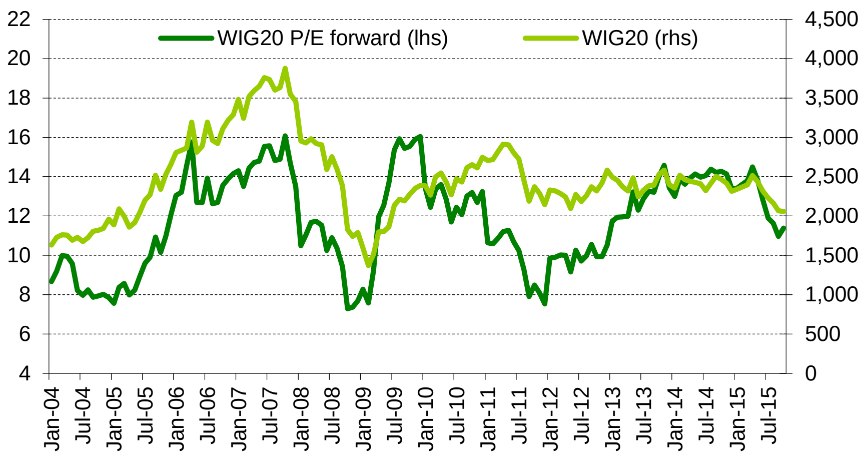
Source: Bloomberg, DM BZ WBK Research

…and mWIG40 had been loosely correlated with EPS growth



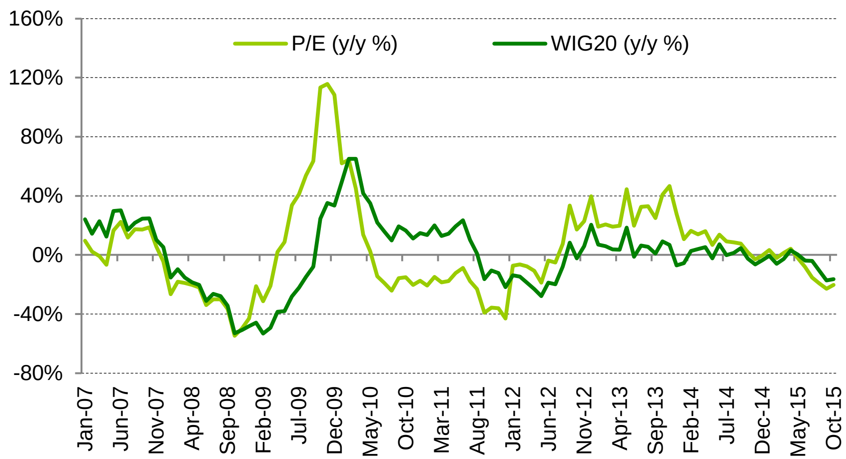
Source: Bloomberg, DM BZ WBK Research

…although it improved recently…



Source: Bloomberg, DM BZ WBK Research

…so that WIG20 became cheaper after the fall



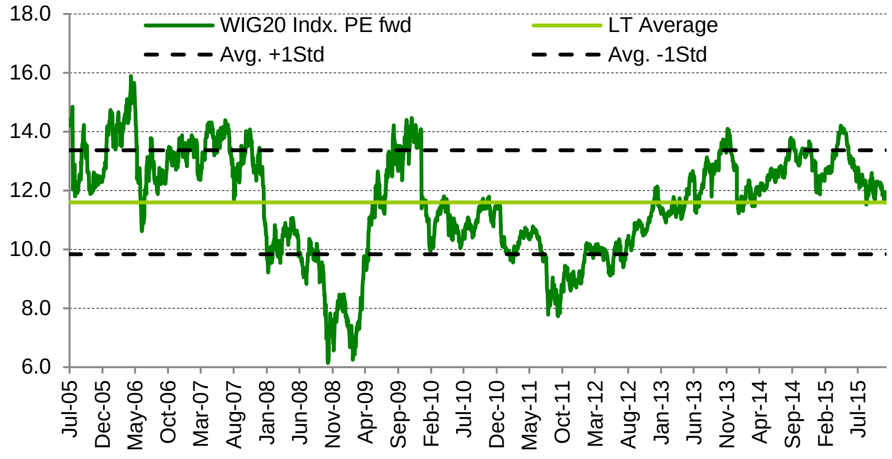
Source: Bloomberg, DM BZ WBK Research

VALUATION:

- WIG20 is trading at forward P/E of 11.2x, mWIG40 at 12.3x on consensus expectations; both metrics are close to their l-t averages
- There appears to be a re-rating potential:
  - Over the last two years P/Es have not followed the big drop in 10Y bonds (RFR)
  - Higher inflation has historically been consistent with higher P/Es
  - PEGs broke through l-t uptrend and are easing
  - Fair P/E is close to actual one
- Equities remain much cheaper than bonds with WIG20 offering DY of 4.3% vs. 10Y yield of 2.8% while equities' EY is at 9%
- Following significant performance divergence between CEE markets, Poland is at a slight discount to its neighbours
- In contrast to MSCI EM, WIG20 forward P/E is just off its l-t average and offers attractive RFR adjusted EY

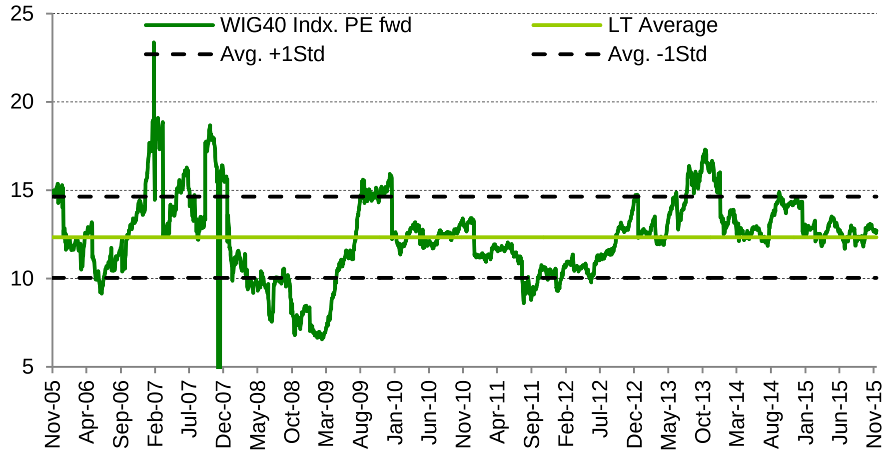
VALUATION: AT L-T AVERAGE

P/Es for WIG20…



Source: Bloomberg, DM BZ WBK Research

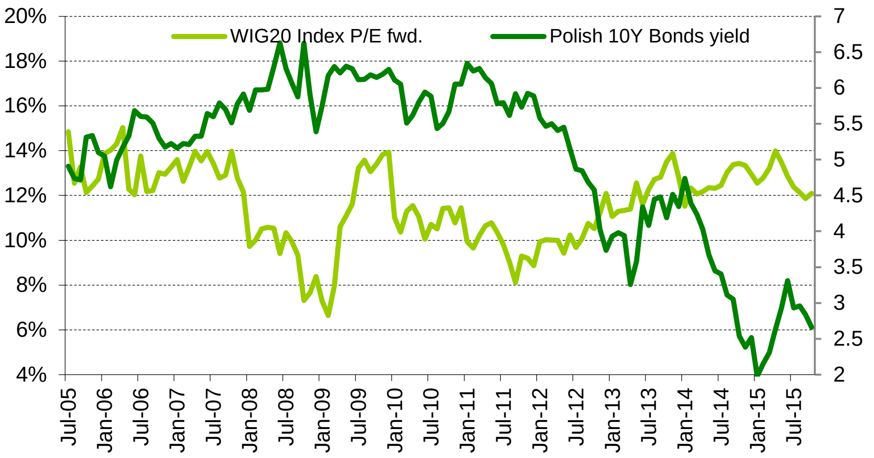
…and mWIG40 are close to their l-t averages



Source: Bloomberg, DM BZ WBK Research

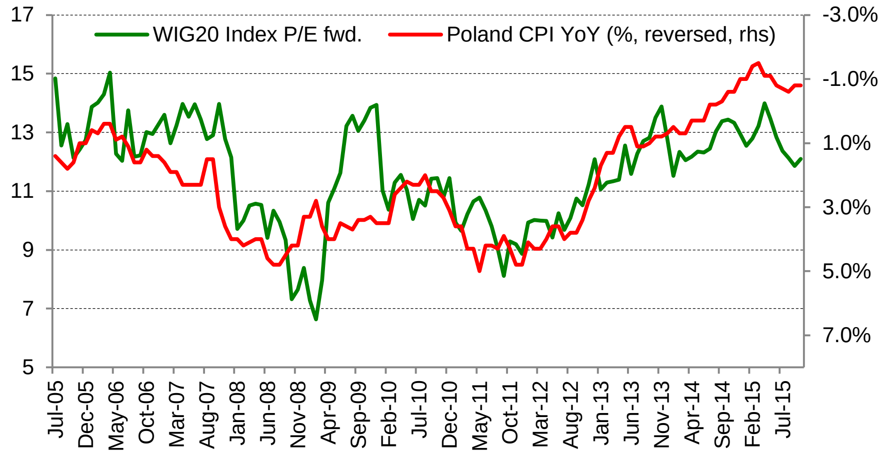
VALUATION: RE-RATING POTENTIAL?

The big drop in RFR has not been reflected in P/E



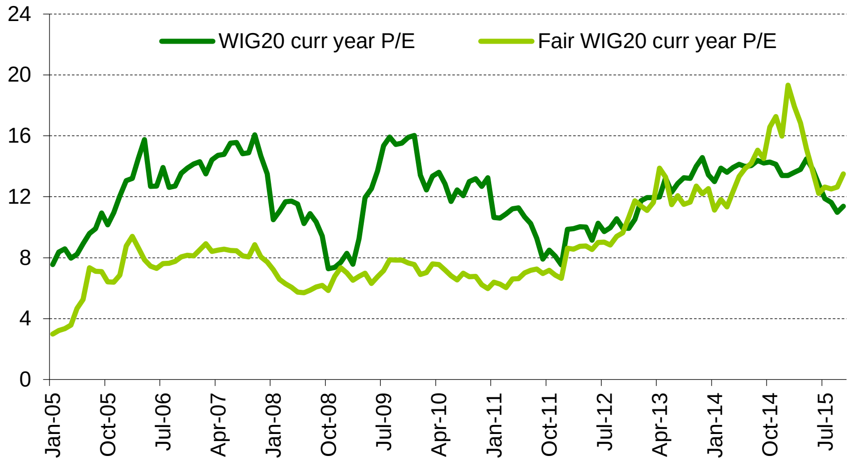
Source: Bloomberg, DM BZ WBK Research

Also inflation trends suggest room for P/E expansion



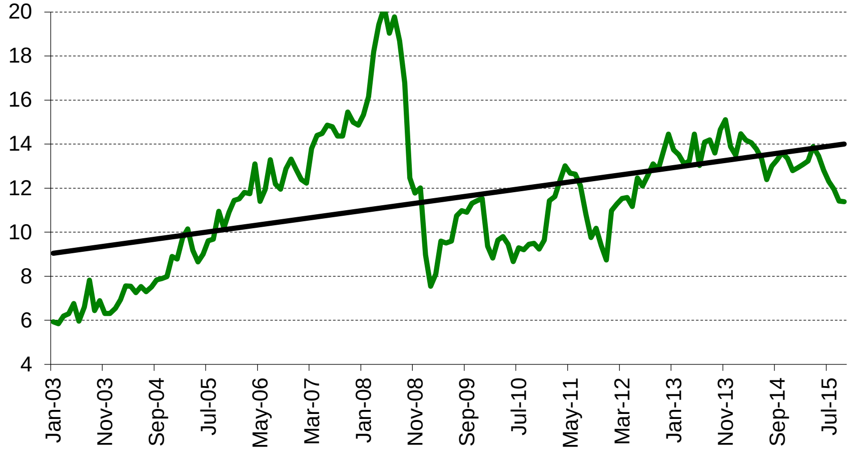
Source: Bloomberg, DM BZ WBK Research

Fair P/E is close to the actual one after period of divergence



Source: Reuters, DM BZ WBK Research

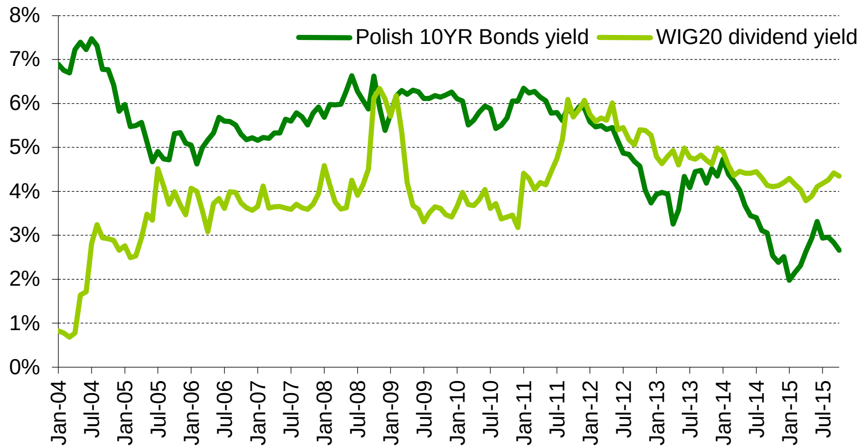
PEG continues to improve



Source: Reuters, DM BZ WBK Research

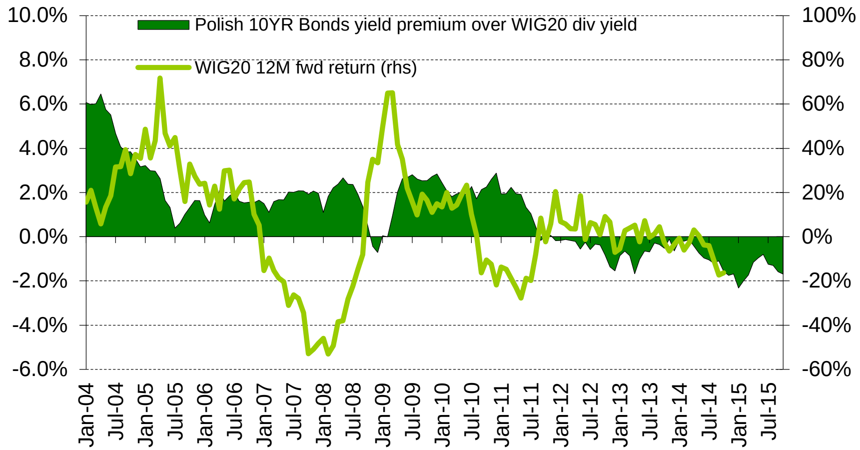
KEY THEMES: EQUITIES CONTINUE TO BE CHEAPER THAN BONDS

DY of WIG20 remains well above 10Y bond yield



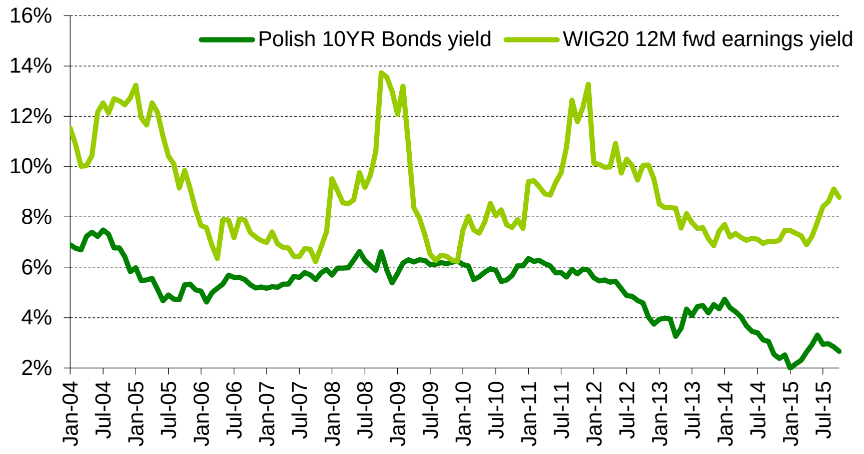
Source: Bloomberg, DM BZ WBK Research

This is consistent with positive returns from equities



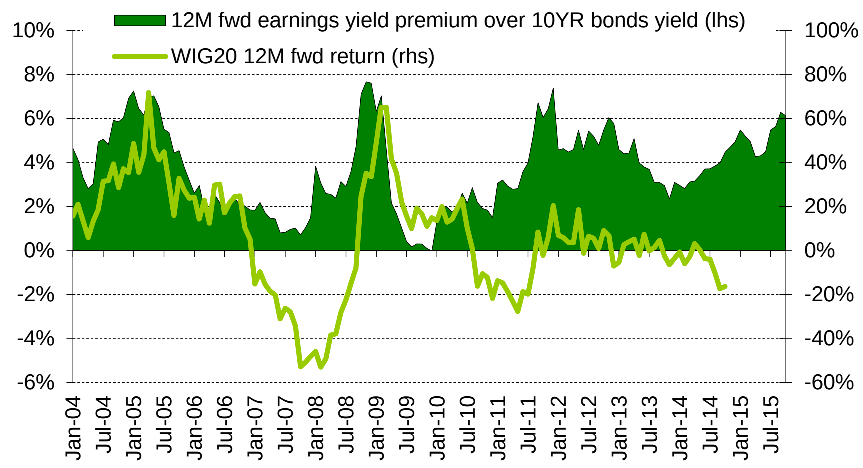
Source: Bloomberg, DM BZ WBK Research

Also EY is well above 10Y bond yield



Source: Reuters, DM BZ WBK Research

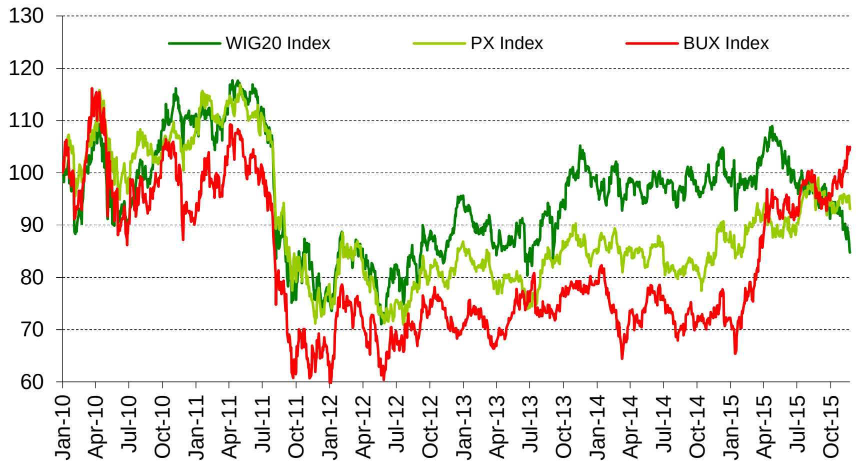
…which implies potential for significant performance



Source: Reuters, DM BZ WBK Research

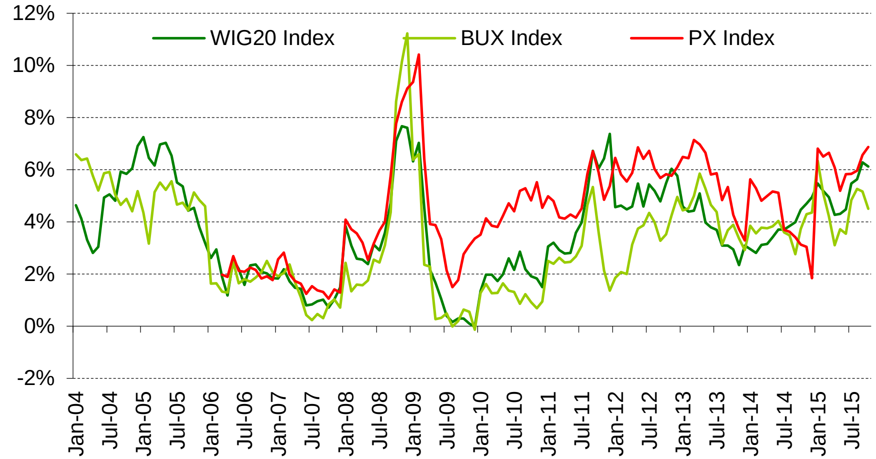
VALUATION: POLAND IS AT A SLIGHT DISCOUNT TO CEE PEERS

Unusual performance divergence of CEE markets



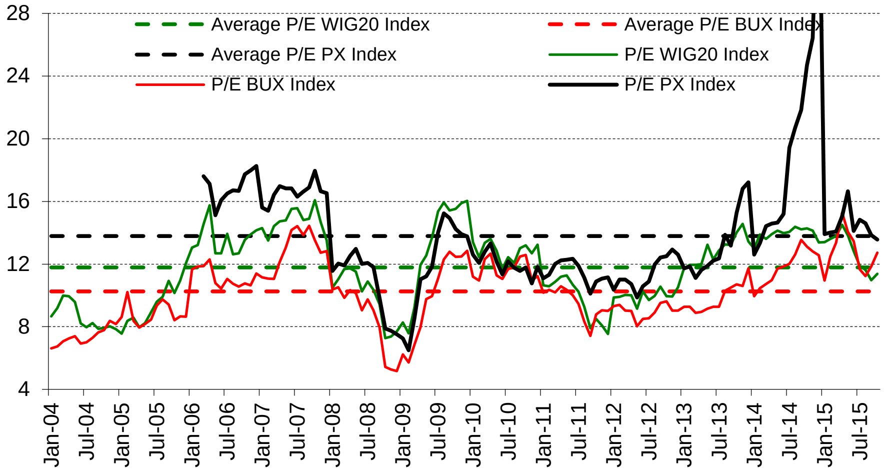
Source: Bloomberg, DM BZ WBK Research

PX moved from cheap to expensive in EY less RFR terms



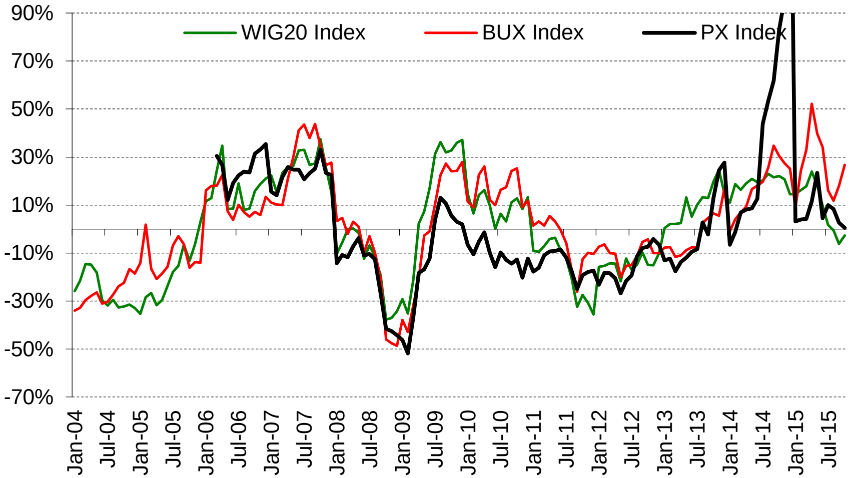
Source: Bloomberg, DM BZ WBK Research

P/E are generally nor far off from their l-t averages



Source: Bloomberg, DM BZ WBK Research

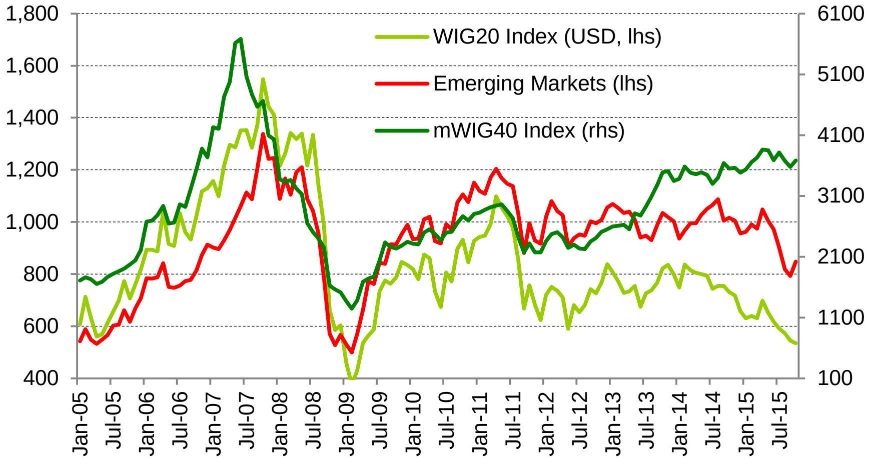
Poland is at a slight discount



Source: Bloomberg, DM BZ WBK Research

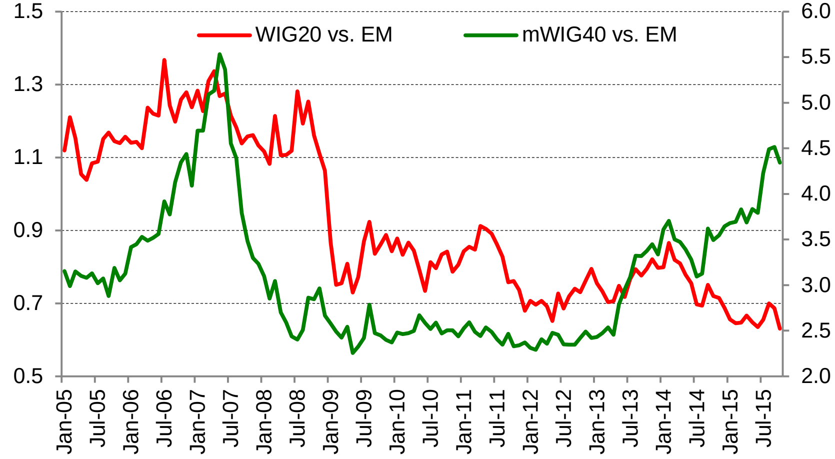
VALUATION: ATTRACTIVE IN EM CONTEXT

mWIG40 outpeformed EMs…



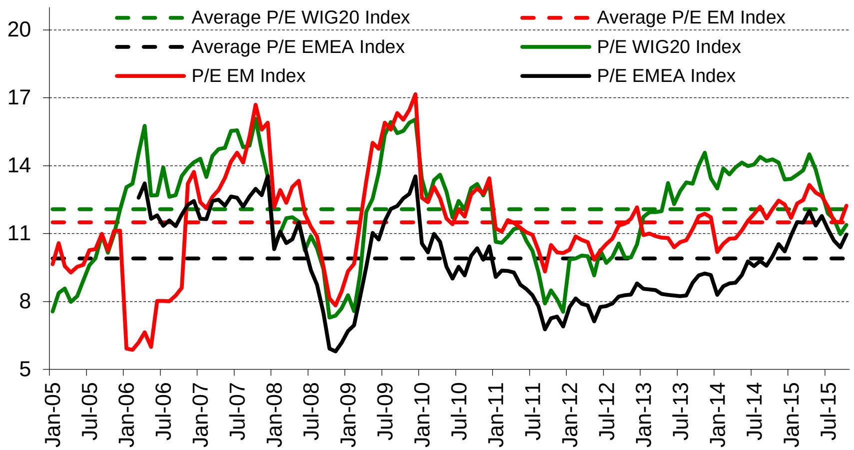
Source: Bloomberg, DM BZ WBK Research

…while WIG20 lagged in USD terms



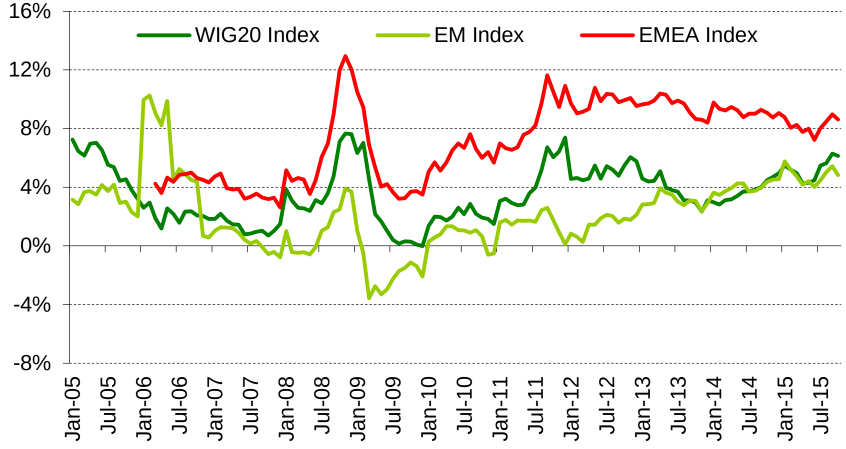
Source: Bloomberg, DM BZ WBK Research

WIG20 is the only index with P/E below l-t average



Source: Bloomberg, DM BZ WBK Research

…and offers reasonable EY (RFR adjusted)



Source: Bloomberg, DM BZ WBK Research

APPENDICES

WIG20: 2016/17E EARNINGS: BZ WBK VS CONSENSUS 1/2

		Net Profit								
		BZ WBK estimates			Bloomberg estimates			Deviation		
Name	**Sector**	**2015E**	**2016E**	**2017E**	**2015E**	**2016E**	**2017E**	**2015E**	**2016E**	**2017E**
PKO BP	Financials	2,601	3,241	3,151	2,750	2,853	3,379	-5.4%	13.6%	-6.7%
PKN ORLEN	Oil&Gas/Chemicals	4,501	3,865	3,480	4,503	3,865	3,421	0.0%	0.0%	1.7%
PZU	Financials	2,524	2,625	2,706	2,442	2,616	2,653	3.4%	0.4%	2.0%
PEKAO	Financials	2,268	2,186	2,389	2,428	2,409	2,648	-6.6%	-9.3%	-9.8%
PGE	Utilities	4,241	2,926	2,446	3,297	3,022	2,717	28.7%	-3.2%	-10.0%
KGHM	Metals&Mining	3,081	3,006	2,875	1,811	1,326	1,181	70.1%	n.a.	n.a.
LPP	Consumer	433	681	836	413	548	659	4.8%	24.2%	27.0%
BZWBK	Financials	2,219	2,052	2,316	2,101	1,993	2,310	5.6%	3.0%	0.2%
PGNIG	Oil&Gas/Chemicals	3,025	2,984	3,048	3,011	2,644	2,708	0.5%	12.9%	12.6%
CYFROWY POLSAT	TMT	1,333	1,127	1,158	1,009	1,118	1,341	32.2%	0.8%	-13.6%
ASSECO POLAND	TMT	326	352	357	344	386	401	-5.1%	-8.9%	-10.9%
EUROCASH	Consumer	271	266	293	226	280	328	20.0%	-4.9%	-10.6%
ORANGE POLSKA	TMT	448	89	-64	327	126	203	36.9%	-29.1%	-131.7%
MBANK	Financials	1,320	1,171	1,384	1,226	992	1,343	7.6%	18.0%	3.1%
ALIOR BANK	Financials	299	377	470	363	450	520	-17.6%	-16.1%	-9.7%
TAURON	Utilities	1,219	650	648	1,129	817	741	8.0%	-20.5%	-12.6%
ENEA	Utilities	1,062	653	604	973	649	647	9.2%	0.6%	-6.7%
ENERGA	Utilities	919	520	548	827	637	682	11.1%	-18.3%	-19.6%
SYNTHOS	Oil&Gas/Chemicals	422	472	483	373	438	518	13.2%	7.8%	-6.7%
BOGDANKA	Metals&Mining	202	146	161	181	99	140	11.8%	47.9%	14.8%
Total WIG20 Index		**32,715**	**29,390**	**29,289**	**29,732**	**27,265**	**28,537**	**10.0%**	**7.8%**	**2.6%**

Source: Bloomberg, DM BZ WBK Research

WIG20: 2016/17E EARNINGS: BZ WBK VS CONSENSUS 2/2

Net Profit

Sector	No. of const.	BZ WBK estimates 2015E	BZ WBK estimates 2016E	BZ WBK estimates 2017E	Bloomberg estimates 2015E	Bloomberg estimates 2016E	Bloomberg estimates 2017E	Deviation 2015E	Deviation 2016E	Deviation 2017E
Financials	6	11,231	11,652	12,416	11,310	11,312	12,852	-0.7%	3.0%	-3.4%
TMT	3	2,107	1,567	1,451	1,679	1,629	1,945	25.5%	-3.8%	-25.4%
Industrials	0	0	0	0	0	0	0	n.a.	n.a.	n.a.
Consumer	2	704	947	1,129	639	828	986	10.2%	14.4%	14.5%
Utilities	4	7,442	4,749	4,246	6,226	5,125	4,787	19.5%	-7.3%	-11.3%
Construction	0	0	0	0	0	0	0	n.a.	n.a.	n.a.
Oil&Gas/Chemic	3	7,948	7,322	7,012	7,887	6,947	6,647	0.8%	5.4%	5.5%
Metals&Mining	2	3,284	3,153	3,036	1,992	1,425	1,321	64.8%	121.2%	129.8%
Total WIG20 Index		**32,715**	**29,390**	**29,289**	**29,732**	**27,265**	**28,537**	**10.0%**	**7.8%**	**2.6%**

Source: Bloomberg, DM BZ WBK Research

Net Profit

Sector	WIG20 weight	BZ WBK estimates 2015E	BZ WBK estimates 2016E	BZ WBK estimates 2017E	Bloomberg estimates 2015E	Bloomberg estimates 2016E	Bloomberg estimates 2017E	Deviation 2015E	Deviation 2016E	Deviation 2017E
Financials	85.1%	9,554	9,913	10,562	9,621	9,624	10,934	-0.7%	3.0%	-3.4%
TMT	8.5%	178	133	123	142	138	165	25.5%	-3.8%	-25.4%
Industrials	0.0%	0	0	0	0	0	0	n.a.	n.a.	n.a.
Consumer	7.9%	56	75	90	51	66	78	10.2%	14.4%	14.5%
Utilities	11.2%	832	531	475	696	573	535	19.5%	-7.3%	-11.3%
Construction	0.0%	0	0	0	0	0	0	n.a.	n.a.	n.a.
Oil&Gas/Chemic	31.8%	2,530	2,330	2,232	2,510	2,211	2,115	0.8%	5.4%	5.5%
Metals&Mining	5.9%	195	187	180	118	85	79	64.8%	121.2%	129.8%
Total WIG20 Index		**13,345**	**13,169**	**13,662**	**13,139**	**12,696**	**13,906**	**1.6%**	**3.7%**	**-1.8%**

Source: Bloomberg, DM BZ WBK Research

MWIG40: 2016/17E EARNINGS: BZ WBK VS CONSENSUS 1/2

		Net Profit								
		BZ WBK estimates			Bloomberg estimates			Deviation		
Name	Sector	2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E
GRUPA AZOTY	Oil&Gas/Chemicals	339	468	575	592	705	638	-42.6%	-33.6%	-9.8%
ING BSK	Financials	1,050	939	1,113	1,147	982	1,192	-8.4%	-4.3%	-6.7%
CCC	Consumer	247	286	319	264	314	348	-6.4%	-9.1%	-8.4%
MILLENNIUM	Financials	578	603	719	648	563	710	-10.8%	7.1%	1.3%
AMREST HOLDINGS	Consumer	130	158	189	131	158	196	-0.6%	0.2%	-3.5%
KRUK	Financials	124	177	215	186	211	212	-33.1%	-16.1%	1.8%
KETY	Industrials	202	207	206	202	203	215	0.0%	2.1%	-4.2%
LOTOS	Oil&Gas/Chemicals	911	757	557	578	686	611	57.5%	10.3%	-8.8%
KERNEL	Consumer	202	201	207	190	206	210	6.2%	-2.3%	-1.2%
HANDLOWY	Financials	605	502	579	686	670	761	-11.8%	-25.1%	-24.0%
CIECH	Oil&Gas/Chemicals	271	479	473	198	369	383	36.7%	29.7%	23.6%
BUDIMEX	Construction	209	254	278	208	254	293	0.6%	-0.1%	-5.2%
INTERCARS	Consumer	205	229	263	205	229	263	0.2%	0.1%	0.0%
PKP CARGO SA	Other	255	207	271	223	235	267	14.5%	-12.0%	1.4%
ECHO INVESTMENT	Construction	93	128	90	102	148	178	-8.4%	-13.2%	-49.4%
CD PROJEKT	TMT	346	101	40	507	141	42	-31.8%	-28.3%	-5.8%
SANOK RUBBER	Industrials	94	106	111	94	106	113	0	0	0
NETIA	TMT	37	65	39	18	51	71	103.1%	27.6%	-45.0%
GTC	Construction	33	55	107	33	60	118	-1.9%	-8.7%	-9.1%
WSE	Financials	128	137	142	125	135	138	2.2%	1.7%	2.9%
FORTE	Industrials	83	92	95	83	101	106	0.0%	-8.6%	-10.0%
AMICA	Industrials	99	113	117	94	100	108	6.1%	13.5%	8.2%
APATOR	Industrials	79	83	85	75	81	85	5.9%	2.3%	0.4%
BIOTON	Consumer	11	31	44	11	31	44	0.0%	0.0%	0.0%
WAWEL	Consumer	101	111	118	101	112	121	-0.8%	-0.9%	-2.5%
EMPERIA	Consumer	33	34	35	47	50	50	-29.5%	-31.7%	-31.1%
JSW	Metals&Mining	-845	-581	-513	-935	-679	-432	-9.6%	-14.5%	18.9%
NEUCA	Consumer	103	115	123	101	113	122	1.7%	1.6%	0.8%
MEDICALGORITHMIC	TMT	27	37	45	26	36	46	6.6%	2.5%	-0.2%
GETIN NOBLE BANK	Financials	65	156	167	289	226	298	-77.6%	-31.1%	-44.0%
STALPROD	Industrials	207	252	258	216	279	267	-4.3%	-9.8%	-3.2%
COMARCH	TMT	67	63	85	68	63	85	-1.5%	0.0%	0.0%
TRAKCJA	Construction	50	51	54	51	45	53	-0.6%	12.5%	2.7%
PCM	Other	40	47	53	42	47	48	-5.0%	0	0
ZE PAK	Utilities	21	-12	99	98	85	123	-78.4%	-114.7%	-19.4%
HAWE	TMT	50	38	41	50	38	41	0.0%	0.0%	0.0%
ORBIS	Consumer	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
BORYSZEW	Industrials	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
INTEGER.PL	Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
GETIN	Financials	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total mWIG40 Index		**6,250**	**6,687**	**7,396**	**6,751**	**7,150**	**8,120**	**-7.4%**	**-6.5%**	**-8.9%**

Source: Bloomberg, DM BZ WBK Research

MWIG40: 2016/17E EARNINGS: BZ WBK VS CONSENSUS 2/2

Net Profit

Sector	No. of const.	BZ WBK estimates 2015E	2016E	2017E	Bloomberg estimates 2015E	2016E	2017E	Deviation 2015E	2016E	2017E
Financials	7	2,549	2,514	2,934	3,080	2,787	3,310	-17.2%	-9.8%	-11.4%
TMT	5	527	304	250	668	329	284	-21.2%	-7.6%	-12.1%
Industrials	7	765	853	872	764	869	893	0.1%	-1.9%	-2.4%
Consumer	9	1,031	1,164	1,296	1,050	1,212	1,352	-1.7%	-3.9%	-4.2%
Utilities	1	21	-12	99	98	85	123	-78.4%	n.a.	-19.4%
Construction	4	386	488	529	394	507	642	-2.1%	-3.8%	-17.5%
Oil&Gas/Chemic	3	1,520	1,704	1,606	1,368	1,760	1,632	11.2%	-3.2%	-1.6%
Metals&Mining	1	-845	-581	-513	-935	-679	-432	-9.6%	-14.5%	18.9%
Other	3	296	254	323	265	282	315	11.4%	-9.8%	2.7%
Total mWIG40 Index		**6,250**	**6,687**	**7,396**	**6,751**	**7,150**	**8,120**	**-7.4%**	**-6.5%**	**-8.9%**

Source: Bloomberg, DM BZ WBK Research

Net Profit

Sector	WIG30 weight	BZ WBK estimates 2015E	2016E	2017E	Bloomberg estimates 2015E	2016E	2017E	Deviation 2015E	2016E	2017E
Financials	23.8%	607	598	698	733	663	788	-17.2%	-9.8%	-11.4%
TMT	6.6%	35	20	17	44	22	19	-21.2%	-7.6%	-12.1%
Industrials	13.0%	99	111	113	99	113	116	0.1%	-1.9%	-2.4%
Consumer	25.8%	266	301	335	271	313	349	-1.7%	-3.9%	-4.2%
Utilities	0.4%	0	0	0	0	0	1	-78.4%	n.a.	-19.4%
Construction	9.3%	36	45	49	36	47	59	-2.1%	-3.8%	-17.5%
Oil&Gas/Chemic	15.6%	237	266	251	214	275	255	11.2%	-3.2%	-1.6%
Metals&Mining	1.1%	-9	-6	-6	-10	-8	-5	-9.6%	-14.5%	18.9%
Other	4.3%	13	11	14	11	12	14	11.4%	-9.8%	2.7%
Total mWIG40 Index		**1,284**	**1,346**	**1,471**	**1,399**	**1,438**	**1,596**	**-8.2%**	**-6.4%**	**-7.8%**

Source: Bloomberg, DM BZ WBK Research

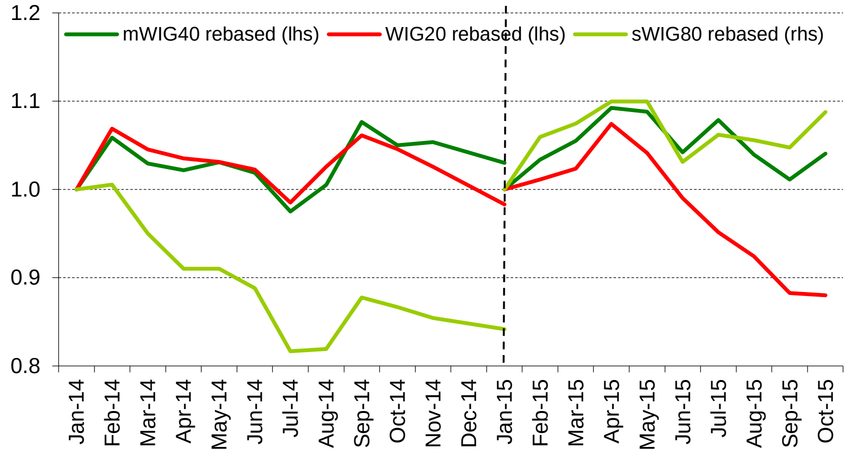
SECTORS: YTD PERFORMANCE 1/2

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	YTD
WIG	-14%	-2%	44%	22%	37%	33%	12%	-51%	46%	19%	-19%	**26%**	8%	0%	-7%
WIG 20	-25%	**-9%**	**33%**	**18%**	**39%**	**15%**	**8%**	**-49%**	**32%**	15%	**-19%**	20%	**-7%**	-3%	-17%
mWIG 40	**5%**	-9%	35%	32%	30%	60%	10%	**-62%**	56%	**20%**	-24%	**17%**	30%	**5%**	**4%**
sWIG 80	**-33%**	**-23%**	**105%**	**68%**	**16%**	**120%**	**27%**	-57%	**59%**	**10%**	**-31%**	23%	**37%**	**-16%**	**11%**
Banks	**16%**	12%	**8%**	**31%**	33%	44%	12%	-45%	34%	18%	-17%	23%	21%	-1%	-26%
IT	-31%	-13%	36%	**-7%**	**3%**	24%	-1%	-48%	36%	-5%	-16%	4%	22%	3%	19%
Construction	-11%	-11%	35%	25%	**66%**	**124%**	11%	-49%	15%	7%	**-56%**	**-31%**	31%	-4%	48%
Food	-4%	**46%**	**49%**	23%	9%	48%	**-10%**	-59%	**123%**	48%	-27%	5%	-12%	-23%	38%
Telecom	**-61%**	**-31%**	26%	27%	24%	2%	0%	**-14%**	**2%**	13%	**7%**	-21%	-10%	-6%	-12%
Media	n.a.	n.a.	n.a.	n.a.	41%	**-1%**	**22%**	-47%	16%	26%	-34%	8%	**31%**	13%	16%
Oil & Gas	n.a.	n.a.	n.a.	n.a.	n.a.	-17%	14%	-48%	27%	26%	-17%	39%	-10%	5%	36%
Developers	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	**-74%**	120%	**-6%**	-51%	10%	2%	-10%	13%
Chemicals	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	72%	**61%**	6%	58%	21%	-3%	46%
Energy	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-11%	-3%	-7%	**22%**	**-28%**
Ukraine	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-32%	-9%	-24%	**-51%**	**61%**
Basic materials	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-23%	**79%**	**-33%**	-13%	-35%

Source: Reuters, DM BZ WBK Research

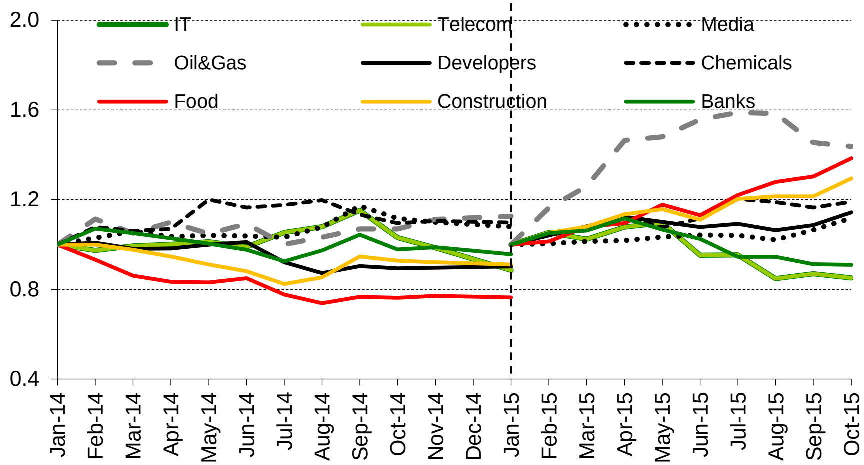
SECTORS: YTD PERFORMANCE 2/2

2015 brought a change of fortune for sWIG80



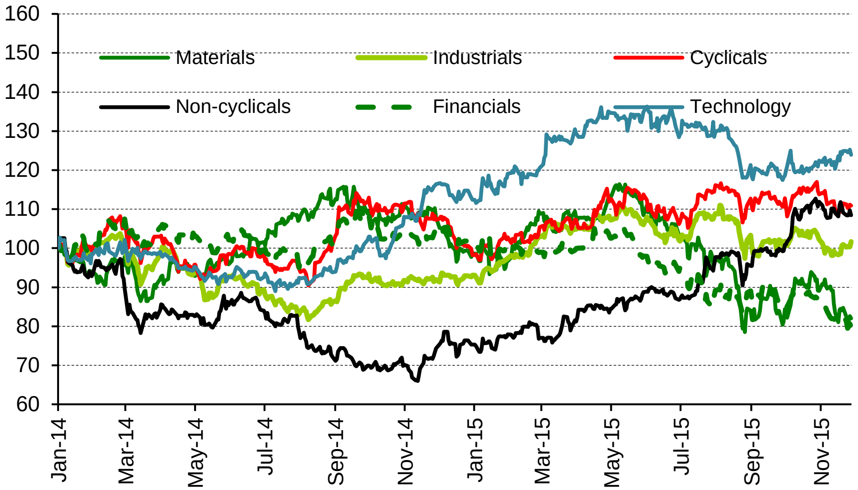
Source: Reuters, DM BZ WBK Research

…food, construction and banks



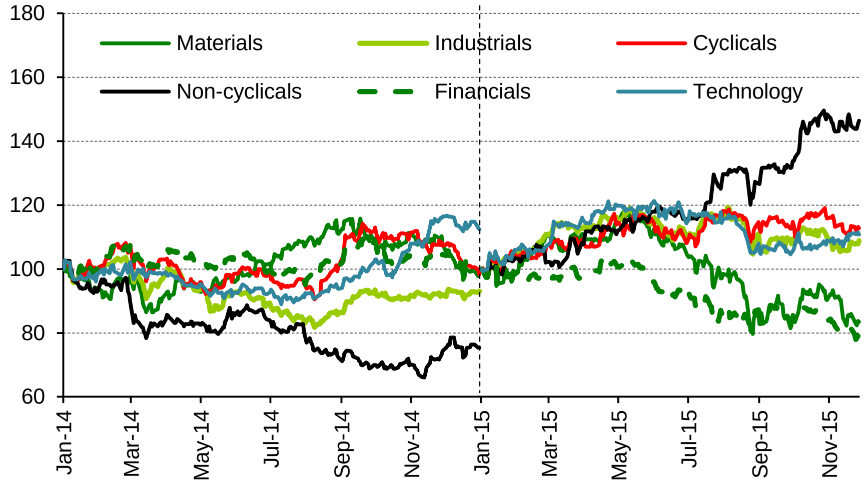
Source: Bloomberg, DM BZ WBK Research

Non-cyclicals underperformed 2015



Source: Reuters, DM BZ WBK Research

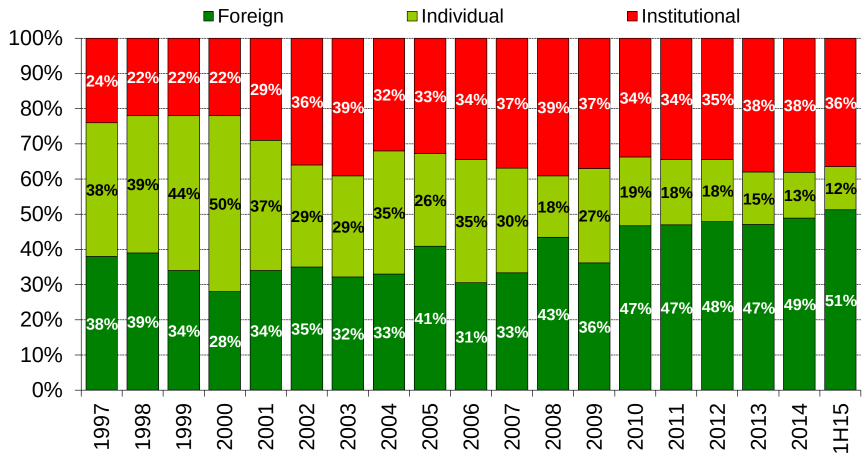
Non-cyclicals were best perfomers ytd, materials/banks the worst



Source: Reuters, DM BZ WBK Research

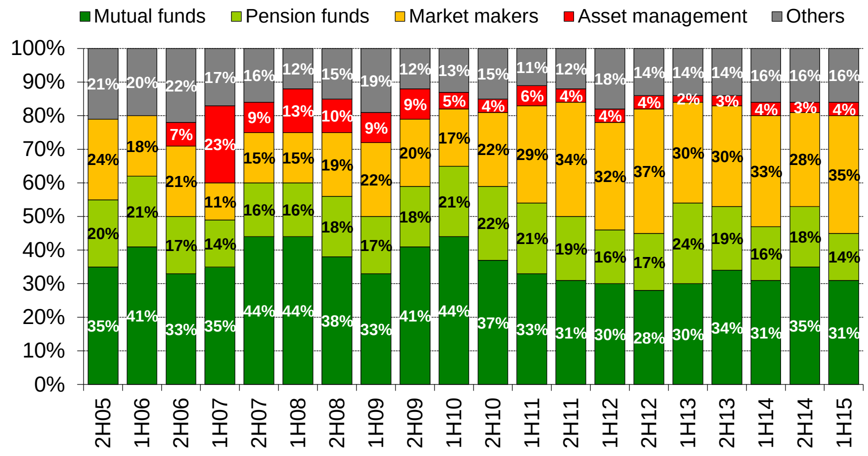
WSE TRADING STATS

Key investor groups' share in volume of equities traded



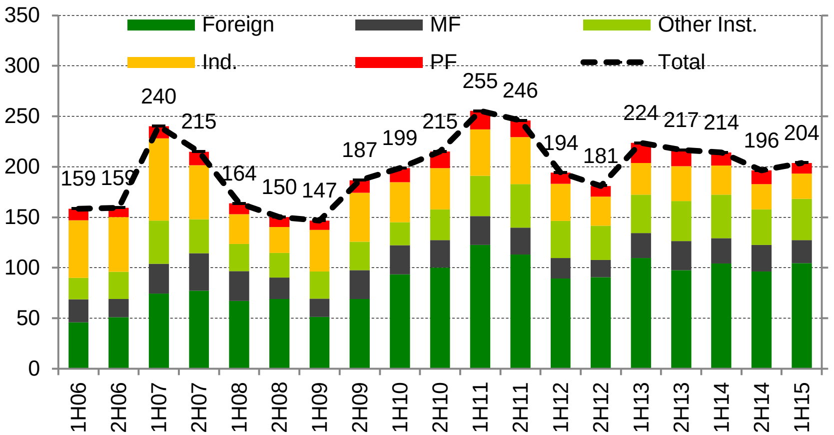
Source: WSE, DM BZ WBK Research

Share of main Polish investors in equities' volumes



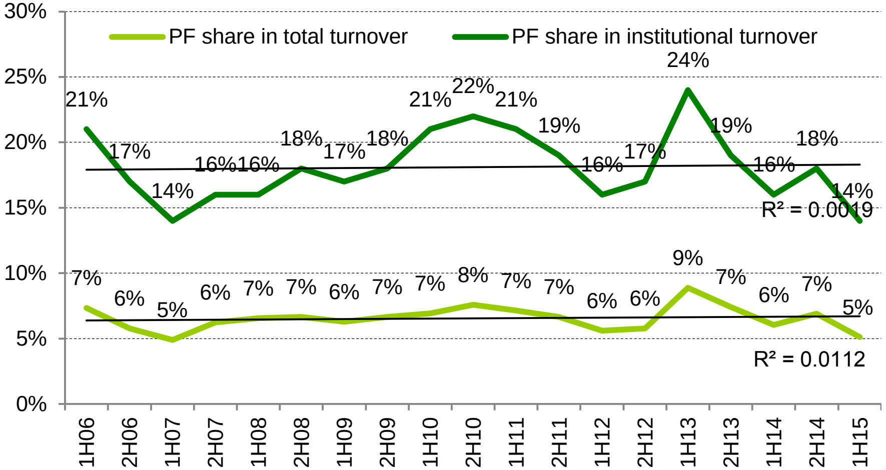
Source: WSE, DM BZ WBK Research

Warsaw stock market – volumes



Source: WSE, DM BZ WBK Research

Pension funds' share in turnover



Source: WSE, DM BZ WBK Research

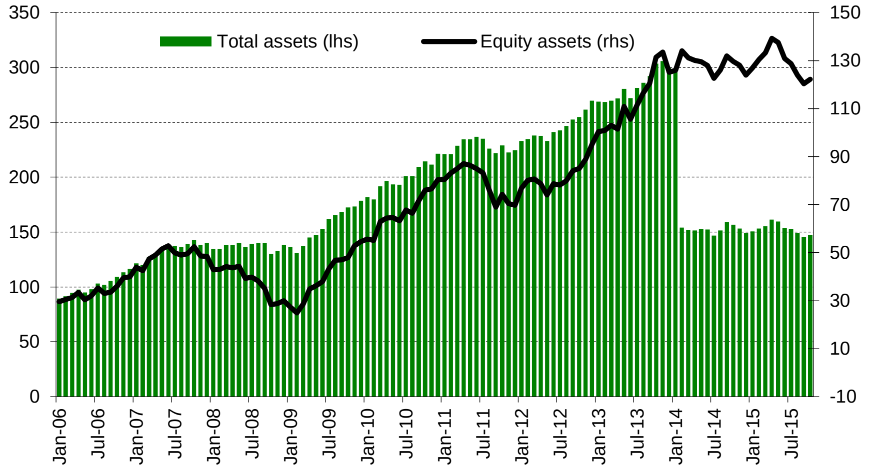
LOCAL LIQUIDITY:

- **Lowered retirement age would mean incremental cash transfer out to ZUS totalling PLN 3.2bn in year one and PLN 2bn p.a. in subsequent years. This would make them structural net sellers of equities.**
- **If the worst case system overhaul takes place, a significant part of Warsaw stock market cap (36% of WIG20's free float, 61% of mWIG40 and 44% of sWIG80) would be transferred to a state controlled entity(s).**

PENSION FUNDS: OVERVIEW 1/2

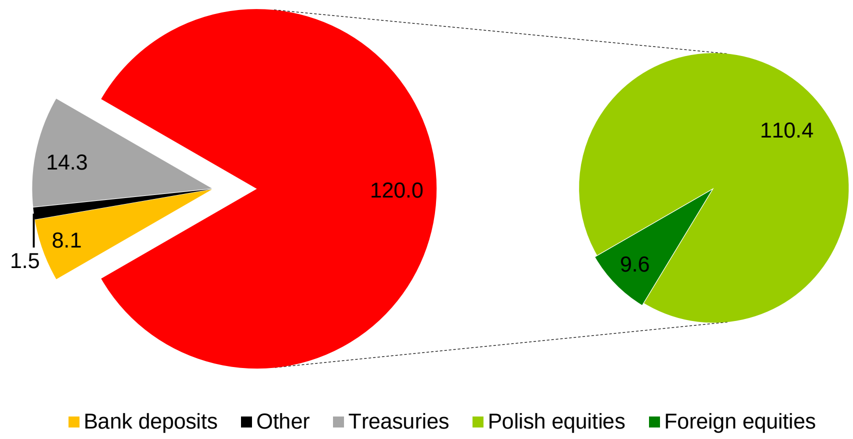
- Pension funds' (PFs) AuM stood at almost PLN148bn at the end of Oct15 (-5.9% y/y). The y/y decline was caused by a nearly PLN 7bn drop in the value of equties to cPLN120bn.
- On our estimates, ytd PFs purchased equities worth PLN1.6bn (PLN2.8bn in same period last year). In 2015, however, the figures are depressed by disposal of securities under tender offers (GCH, TVN, LWB) which influenced the net purchase/disposal balance. Nevertheless, our estimates suggest PLN4.8bn purchase of foreign stocks in the period (PLN1.8bn in 10M14).
- Expansion abroad translated into an increase of the foreign equities allocation in the total investment portfolio (7% at the end of October vs. c4% at YE14). When a new methodology based on the currency given stock is applied (foreign securities definition changed in 2014), the allocation of foreign securities stood at 11% at the end of Oct'15 (approx. 7% at YE14).

PFs' AuMs (PLNbn)



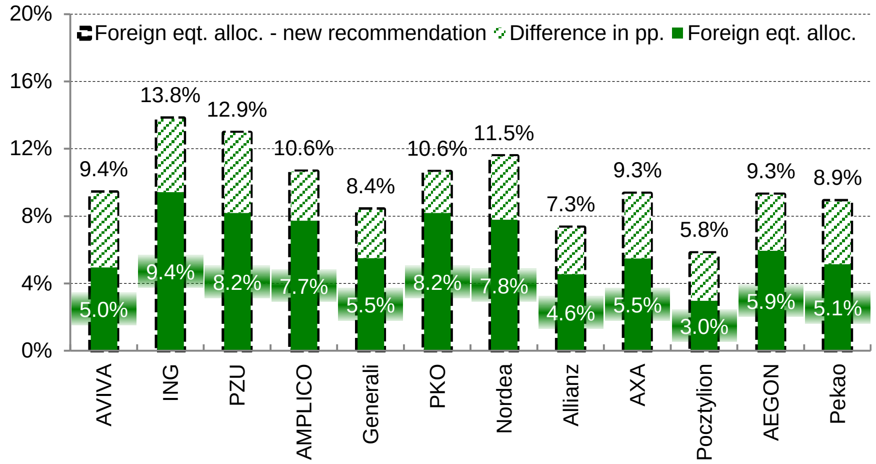
Source: Bloomberg, DM BZ WBK Research

PFs' portfolio structure at the end of Oct 15



Source: Bloomberg, DM BZ WBK Research

Share of foreign equities in investment portfolio (Oct 15)

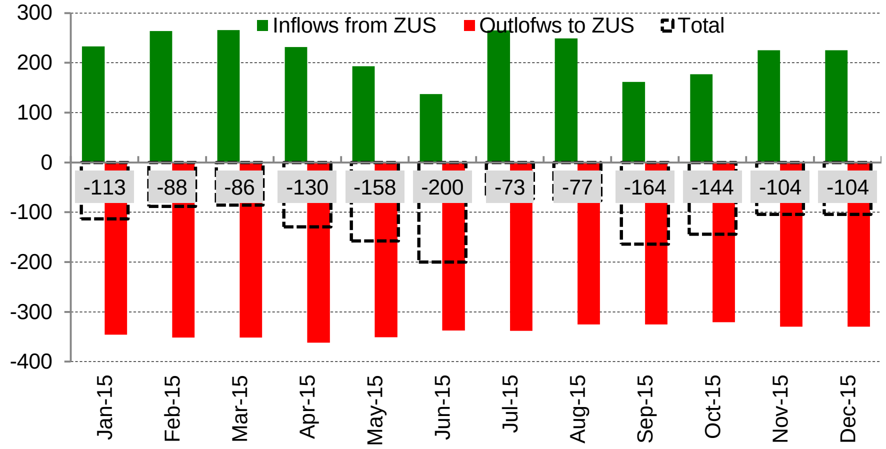


Source: Bloomberg, BZ WBK Brokerage

PENSION FUNDS: OVERVIEW 2/2

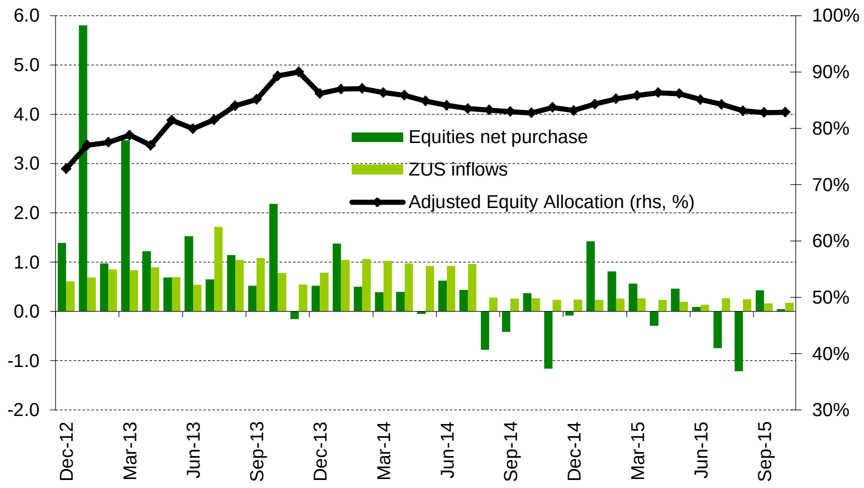
- In 2015, the net 'cash in' should total cPLN2bn. The amount comprises of transfers to ZUS (cPLN4bn), transfers from ZUS (PLN 2.6bn) and dividends (cPLN3.2bn).
- During 2010-13 average annual cash inflows including dividends stood at PLN17.6bn and the vast majority (78% on average) had been invested into equities, we estimate. The 2014 was a turning point due a decrease of inflows from ZUS and monthly pre-retirement cash payments at cPLN340mn following the amendment of the retirement act.

PFs monthly transfers to ZUS



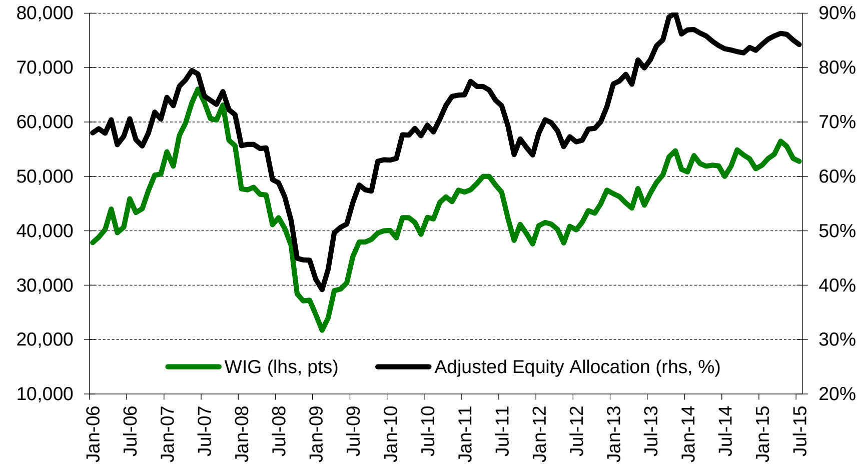
Source: Bloomberg, DM BZ WBK Research

Equity purchases vs. cash received (PLNbn)



Source: Bloomberg, DM BZ WBK Research

Equity allocation vs. WIG

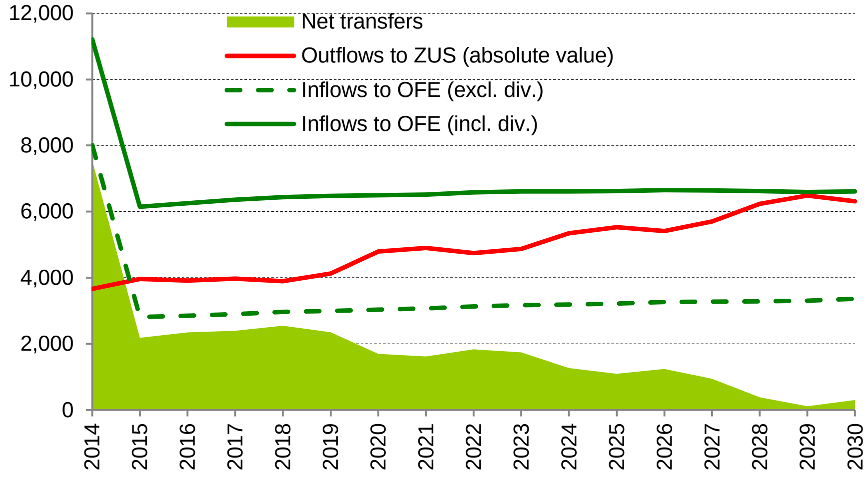


Source: Bloomberg, DM BZ WBK Research

PENSION FUNDS: NEW LEGISLATIVE INITIATIVES 1/2

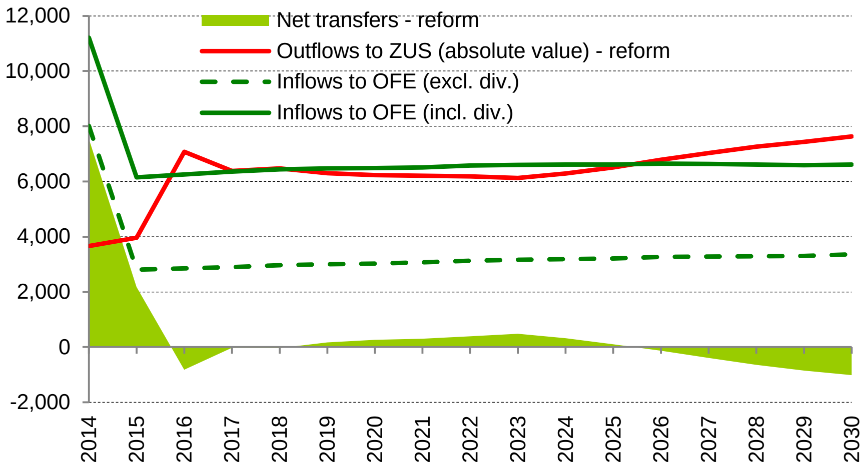
- The ruling government introduced a new retirement act that would decrease the retirement age for women to 60 years (currently targeted retirement age at 65 years) and 65 years for men (currently targeted retirement age at 67 years). On our estimates, this would significantly increase the net cash transfers to the PFs (**net monthly outflows to ZUS might increase to cPLN360mn from PLN120mn currently).**
- Assuming the introduction of the new regulation in 2016, incremental transfers to ZUS should total PLN3.2bn in 2016 and PLN2bn per annum in 2017-20 period. The 2016 figure is inflated by a one-off (to higher number of people covered by the 10 years pre-retirement transfers)
- We also point out that a new transfer window is opening in 2016, what might also provide an excuse for another, perhaps final overhaul of the pension system.

Net cash in was supposed to remain in place…



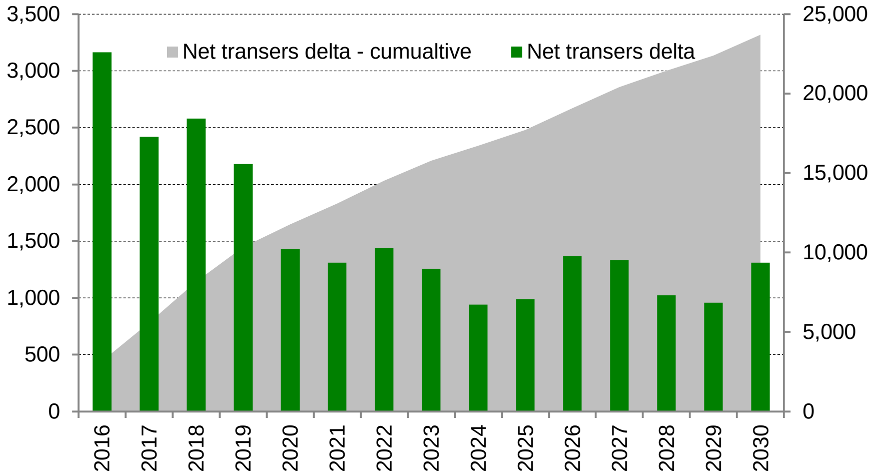
Source: Bloomberg, DM BZ WBK Research

…but the new regulation might change the situation…



Source: Bloomberg, DM BZ WBK Research

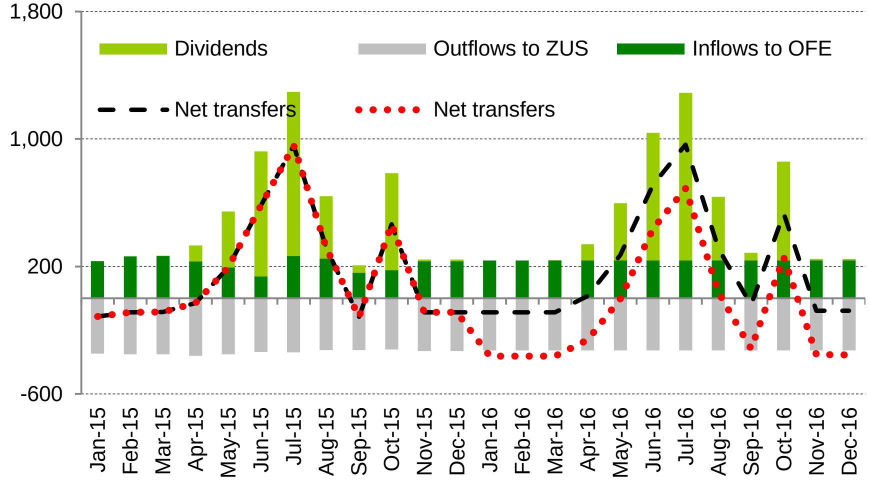
…significantly (cum. inflows lower by PLN11bn till 2020)



Source: Bloomberg, DM BZ WBK Research

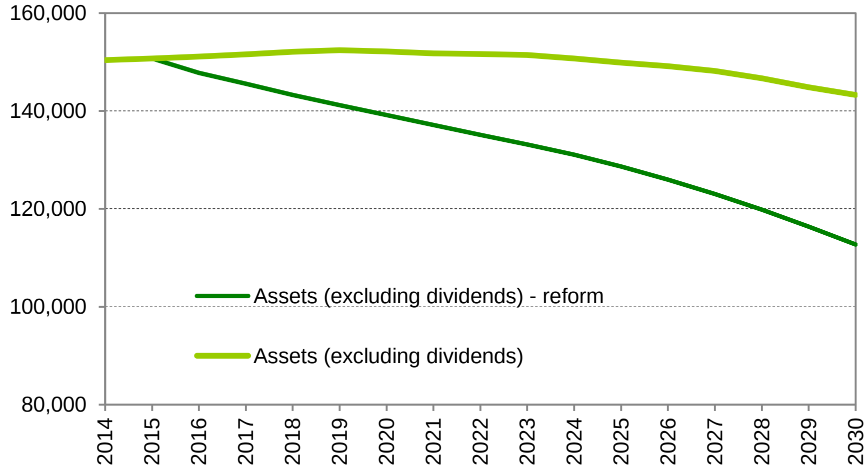
PENSION FUNDS: NEW LEGISLATIVE INITIATIVES 2/2

Dividends should bring some relief…



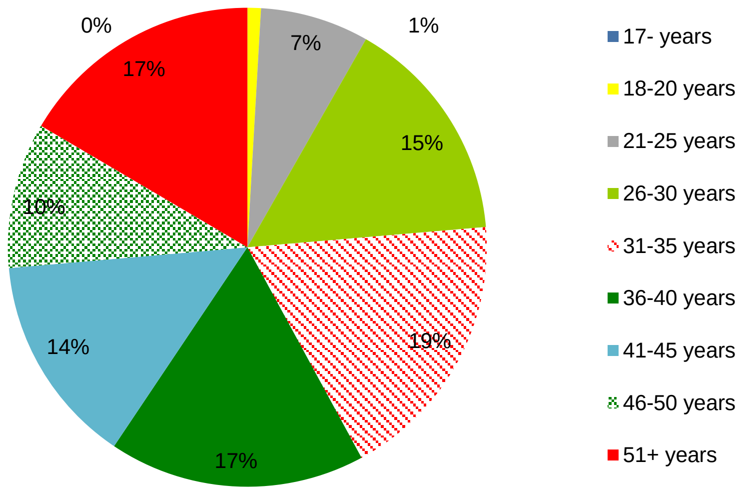
Source: Bloomberg, DM BZ WBK Research

…but the problem is somewhere else.



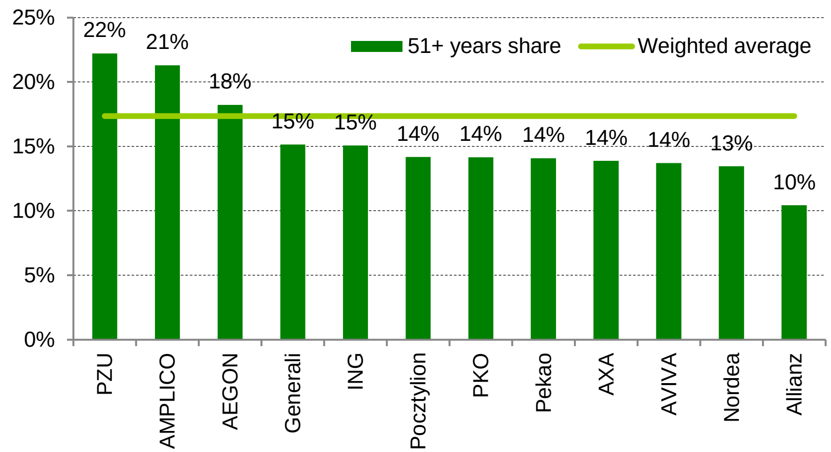
Source: Bloomberg, DM BZ WBK Research

51+ age group account for 17% of current PFs members…



Source: Bloomberg, DM BZ WBK Research

…though the situation varies across PFs

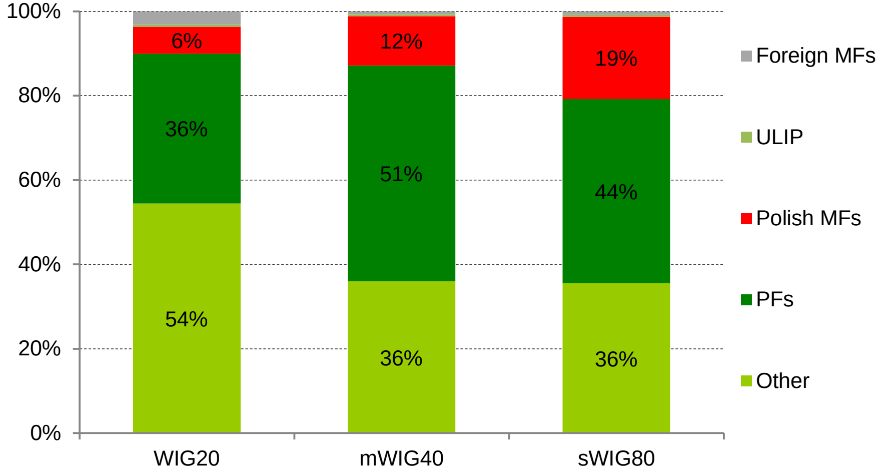


Source: Bloomberg, DM BZ WBK Research

PENSION FUNDS: HOLDINGS 1/2

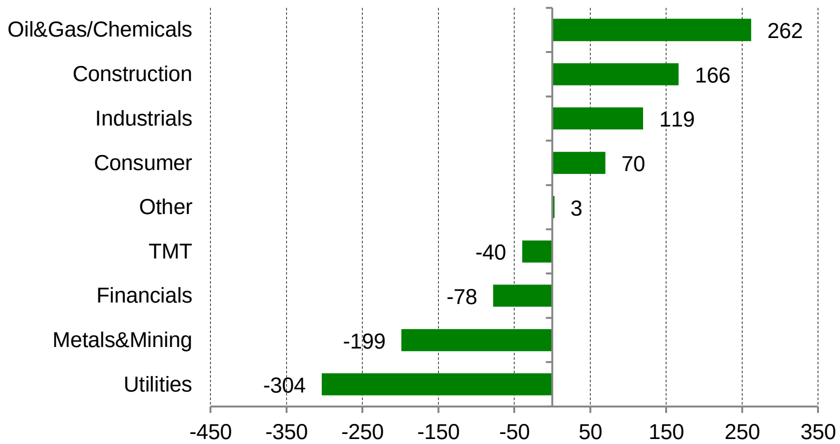
- Another (if not final) overhaul round of the pension fund system is scheduled for mid-2016.
- Depending on its form and outcome, it could be the ‘black swan’ of 2016.
- A transfer of the pension funds’ equity holdings to a state-managed entity could trigger a significant sell-off in the mid/small cap space. This would be particularly acute for names with high pension fund participation and a diversified shareholder base

PFs’ share in free-float



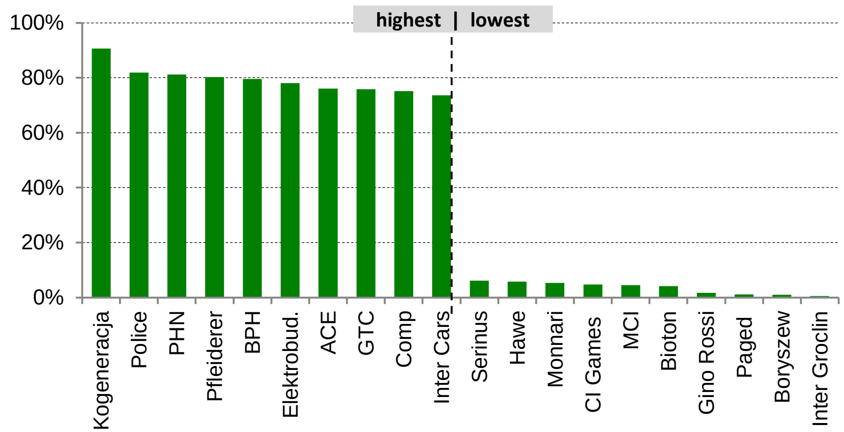
Source: Bloomberg, DM BZ WBK Research

PFs sector positioning vs WIG



Source: Bloomberg, DM BZ WBK Research

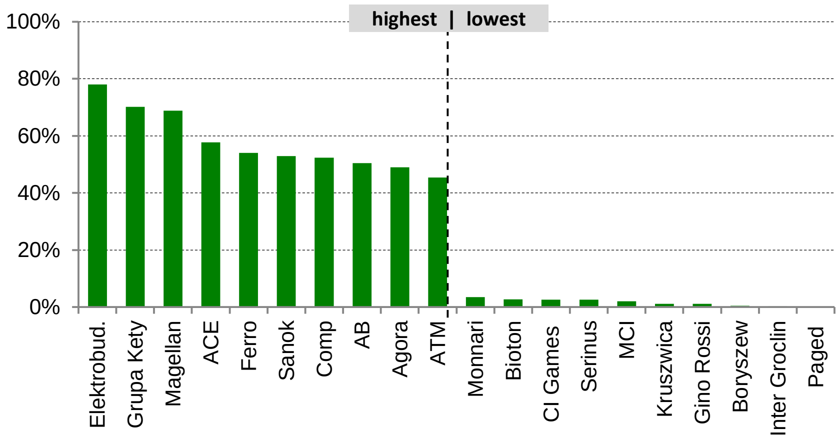
PF’s top holdings (% of free float)



Source: Bloomberg, DM BZ WBK Research

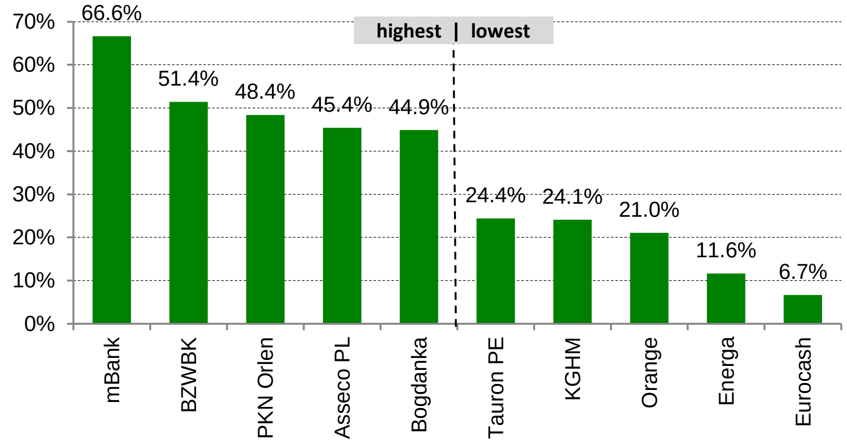
PENSION FUNDS: HOLDINGS 2/2

PFs' top holdings (% of market cap)



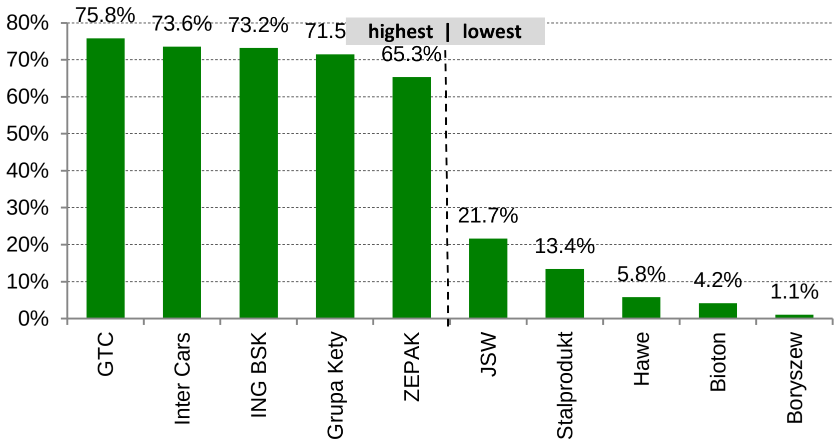
Source: Bloomberg, DM BZ WBK Research

PF top holding in WIG20



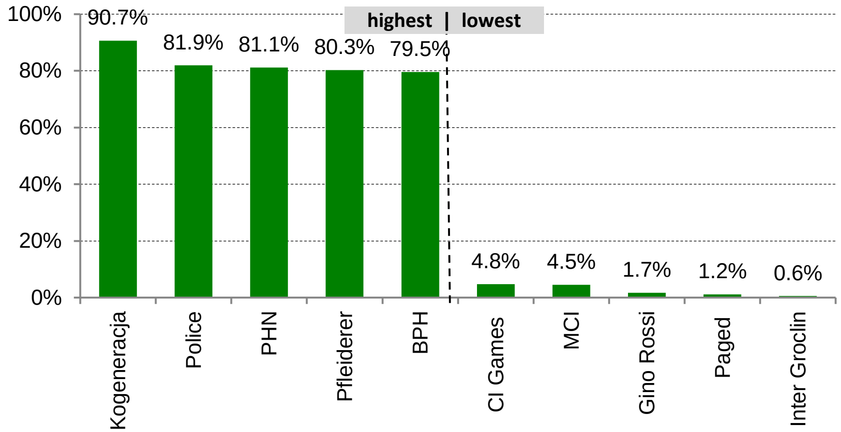
Source: Bloomberg, DM BZ WBK Research

PF's top holdings in WIG40



Source: Bloomberg, DM BZ WBK Research

PF top holdings in WIG80



Source: Bloomberg, DM BZ WBK Research

LOCAL LIQUIDITY:

- **Lowered retirement age would mean incremental cash transfer out to ZUS totalling PLN 3.2bn in year one and PLN 2bn p.a. in subsequent years. This would make them structural net sellers of equities.**
- **If the worst case system overhaul takes place, 22% Warsaw stock market's capitalisation (or 36% of WIG20's free float, 61% of mWIG40 and 44% of sWIG80) would be transferred to a state controlled entity(s).**

KEY THEMES: MUTUAL FUNDS

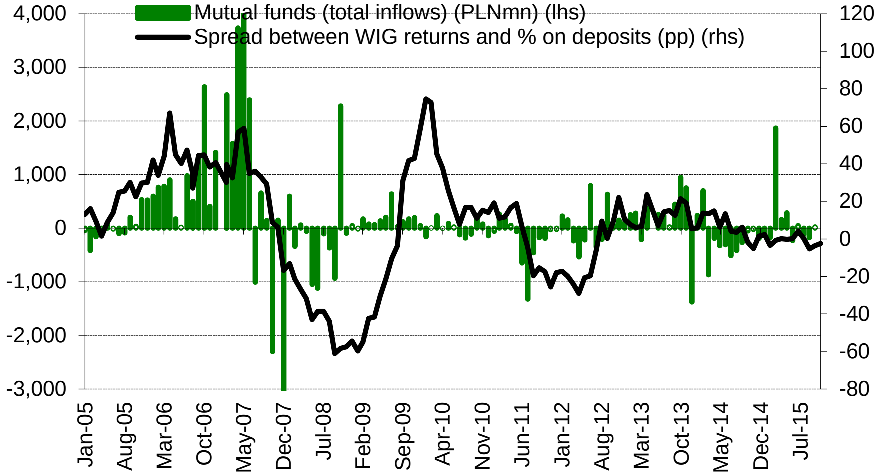
- Year to date mutual funds recorded solid inflows (PLN 1.5bn) which, however, are attributable chiefly to an extraordinary PLN1.5bn upsurge of AuM in March. Adjusted for the one-off, net inflows were close to null what is still a way above PLN2.3bn outflows in 2014. Inflows to foreign equities funds stood at PLN2.5bn. In contrast to to 2014, investors withdrew money form Polish bonds dedicated funds. Money markes funds suffered saw inflows easing as well.
- Inflows into mutual funds are correlated with relative attractiveness of equity returns versus interest earned on banking deposits.
- Like at the turn of 2014/15, our estimates suggest that *ceteris paribus* the spread between 12-month performance of WIG and interest on deposits may not improve much going further which puts inflows into domestic equity funds at risk.

Net inflows (PLNmn)

Fund category	2010	2011	2012	2013	2014	10M15
Polish equities	87	-2,619	452	2,088	-2,226	1,549
Foreign equities	853	-195	-414	1,246	1,212	2,551
Polish bonds	2,446	2,651	15,638	-2,963	5,220	-1,592
Money market	5,856	2,234	-3,250	7,781	7,433	2,838
Other	3,315	-1,348	2,285	12,092	-1,014	3,103
Total	**12,558**	**724**	**14,712**	**20,244**	**10,625**	**8,449**
Net estimated equities purchase	595	-3,973	-2,276	3,814	-1,844	3,109

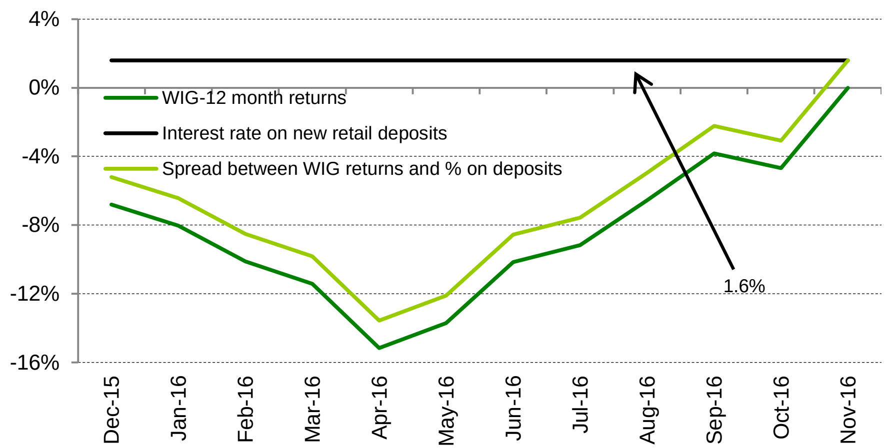
Source: DM BZ WBK Research

Correlation between inflows into equity funds and returns/deposits



Source: Bloomberg, DM BZ WBK Research

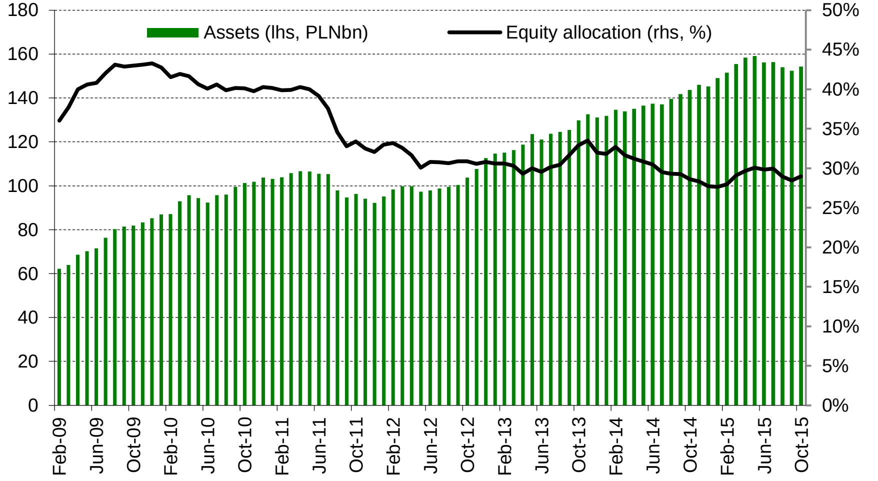
Spread between 12-month return of WIG and banking deposits



Source: Bloomberg, DM BZ WBK Research

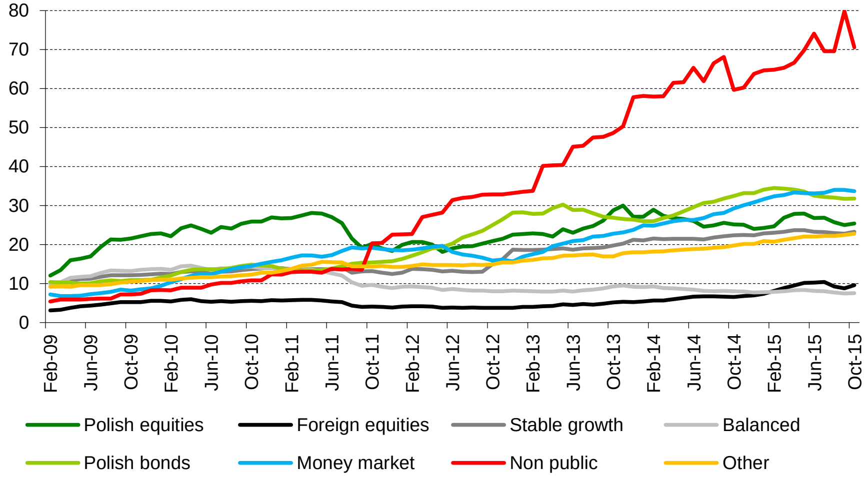
KEY THEMES: MUTUAL FUNDS AT A GLANCE

Assets and equity allocation (excluding non-public funds)



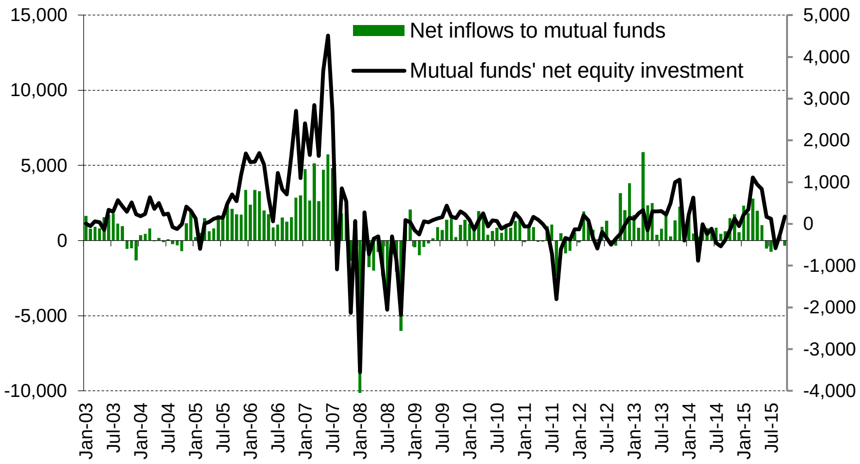
Source: IZFiA, DM BZ WBK Research

Assets of main mutual funds categories (PLNbn)



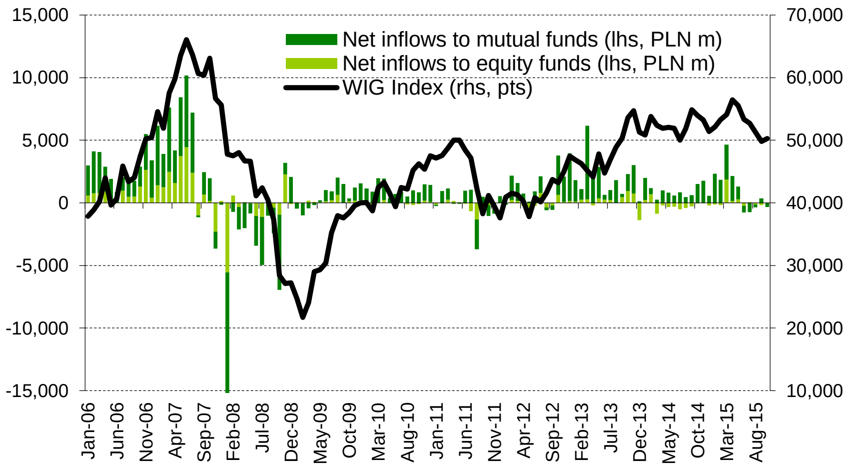
Source: IZFiA, DM BZ WBK Research

Net inflows vs. equity investments (PLNmn)



Source: IZFiA, DM BZ WBK Research

Net inflows (PLNmn) vs. WIG



Source: IZFiA, DM BZ WBK Research

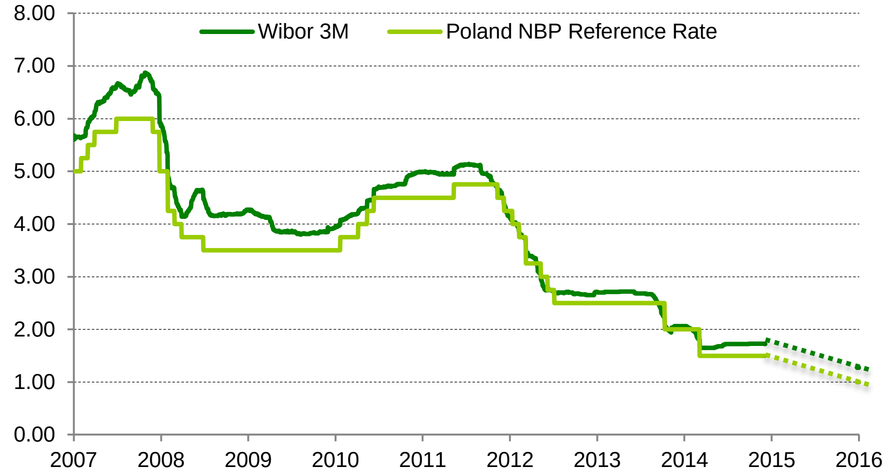
KEY THEMES FOR 2016:

- A further cut of interest rates (play via Magellan, Presco, Kruk, ZE PAK, Polenergia, Tauron, Cyfrowy Polsat, Orange Polska, Pelion, Echo Investment, Voxel and IT distributors)
- FX movements (should USD strengthen further position in O&G, global IT names like Asseco Poland or LiveChat and game developers)
- Rising food CPI (Eurocash and Emperia),
- Wage growth (bad for a long list of names starting from Pelion, Unibeb or Emperia)
- PLN 500 subsidy per child (consumer names obviously)
- Retail tax (all usual suspects though Emperia and Gino Rossi could suffer relatively more)
- Lower gas prices (Grupa Azoty, Azoty Pulawy, Azoty Police, PKN and Lotos would benefit, PGNiG would suffer)
- Weather changes, e.g. the forecast warm 2016 winter and hot& humid 2016 overal (lots of implications for various stocks),
- State's drive for more cash from dividends (PKN Orlen the main source of the incremental PLN 1bn dividends targeted?), and finally
- Plays on investment cycle and new government's incentives (a long list of beneficiaries) and the good old story of EU funding

KEY THEMES: INTEREST RATES

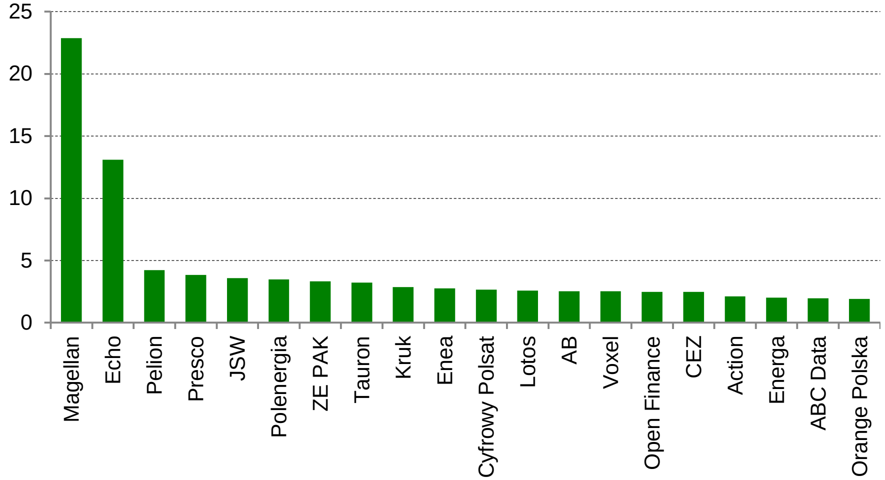
- Our macro team assumes a 50bp cut in interest rates in 2016 and sees WIBOR3M at 1.27% at YE16E.
- Within our coverage potential winners of lower interest costs would be:
  - most levered stocks
  - stocks with highest financial costs/EBIT.
- Major potential beneficiaries of lower interest rate would be financial companies (**Magellan, Presco, Kruk**), utilities (**ZE PAK, Polenergia, Tauron**), telecoms (Cyfrowy Polsat, Orange Polska) as well as some other names like **Pelion, Echo Investment, Voxel and IT distributors.**

WIBOR3M and reference rate



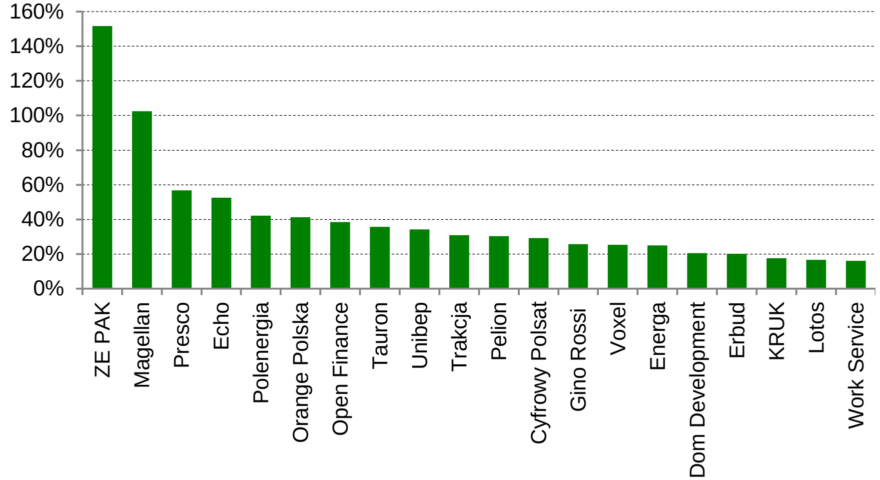
Source: Bloomberg, DM BZ WBK Research

Companies with highest net debt/EBITDA



Source: Bloomberg, DM BZ WBK Research

Companies with highest interest cost/EBIT

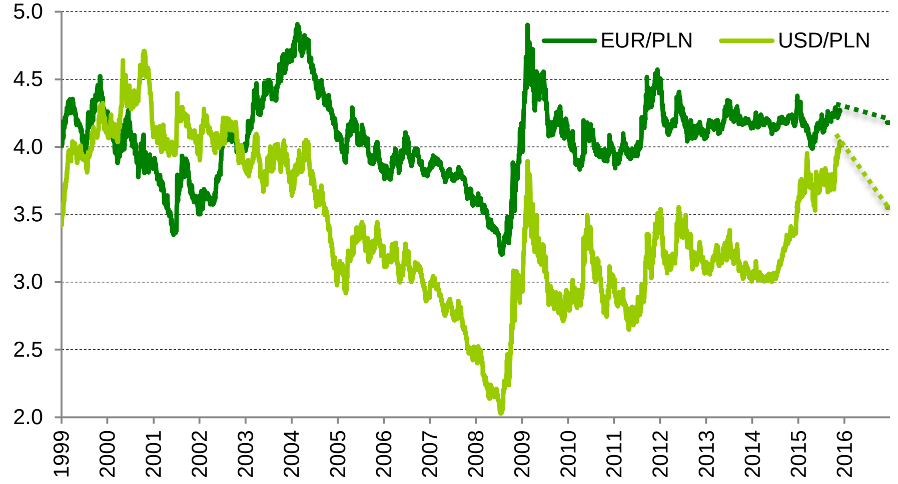


Source: Bloomberg, DM BZ WBK Research

KEY THEMES: FX EXPOSURE 1/4

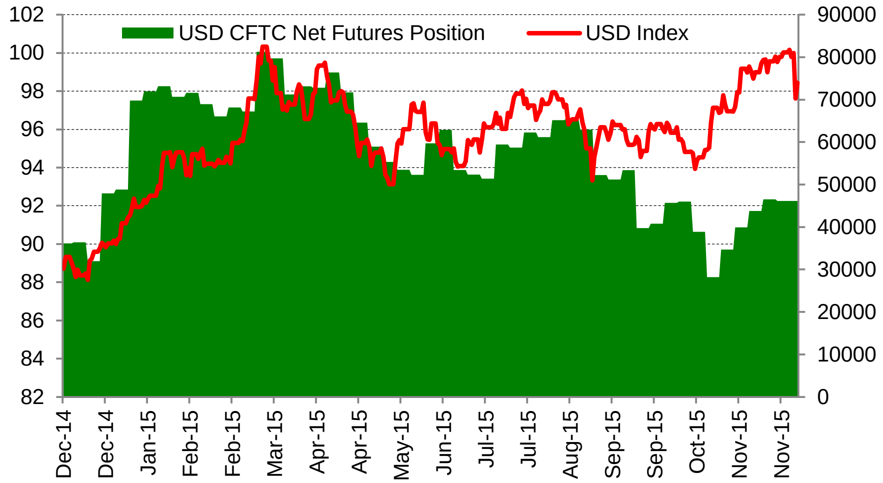
- Our macro team sees USDPLN at 3.55 and EURPLN at 4.18 at YE16.
- This implies significant weakening of USD vs. PLN from current level and flat EURPLN in the coming year.
- The prospect of a December interest hike by the FED is USD positive. However, the currency has already strengthened significantly since mid-October.
- Moreover, 2Y interest rate swaps suggest that the market expects 100pb higher rates in US than in Eurozone; this would be supportive for the USD.
- Additionally, long the USD appears to be a crowded call. This may limit further gains if the Fed hikes.
- Finally, the period of USD strength is almost five-year long

USDPLN and EURPLN performance and BZ WBK fcast



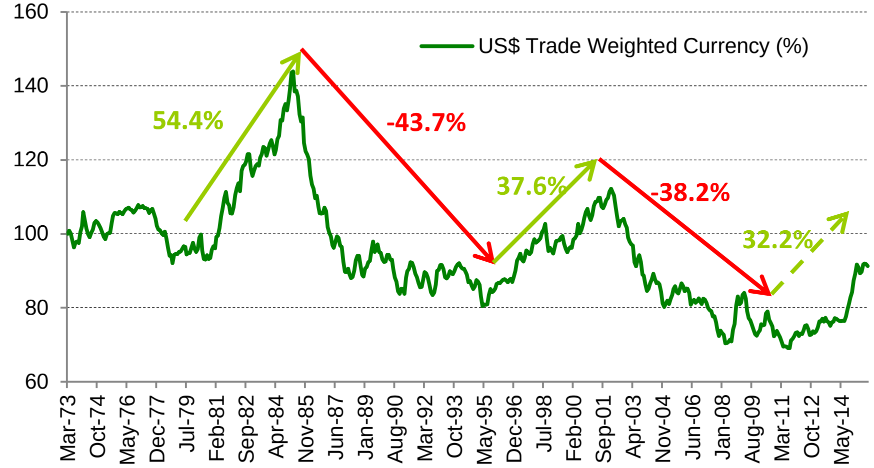
Source: Bloomberg, DM BZ WBK Research

The speculative market is long the USD



Source: Bloomberg, DM BZ WBK Research

Period of strong USD already last for almost five years

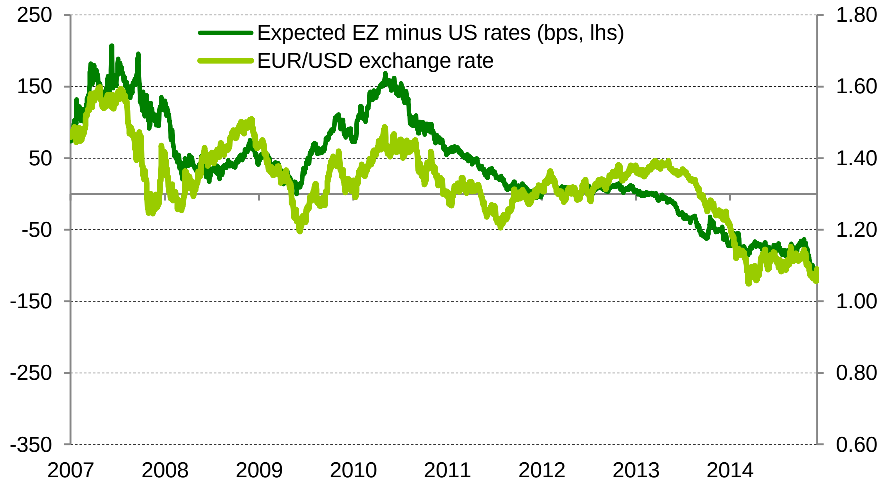


Source: Bloomberg, DM BZ WBK Research

KEY THEMES: FX EXPOSURE 2/4

- **Sectors/stocks to play if USD strengthens further early 2016 are**:
  - Oil & Gas sector
  - IT companies with global exposure (especially Asseco Poland, LiveChat, Medicalgorithmics)
  - game developers
- Stronger USD would also provide relief to the mining sector (copper and coke prices lined to USD)
- On the other hand, **the expected PLN strenghtening vs. USD** would be **favourable for chemical/petrochemical names as well as and clothing and shoe retailers as most have that have USD-linked costs**.
- We expect stable/slightly weakening EURPLN across the upcoming year, but we present a list of beneficiaries and losers in case EUR weakening would be larger than expected.

EURUSD exchange rate & expected interest rates



Source: Bloomberg, DM BZ WBK Research

Sectors/names most/least impacted by strong USD

Sector	Name	Positive	Negative	Comment
Chemicals/Petrochemical	all players		+	Strong USD inflates input costs
Upstream**	all players	+		Higher revenues in lc
Refining	all players	+		Improves refining margins in lc
Clothing & shoe retail***	all players		+	Strong USD inflates COGS
Metals&Mining	KGHM; JSW	+		Strong USD boosts top line and earnings; still, strong USD commonly has got negative impact on metals' prices
Telecommunications	Cyfrowy Polsat		+	USD denominated bonds (lower cost of funding)
IT	Asseco Poland	+		Over a dozen % of revenues generated in USD, exposure through Israeli companies
Video Games	all players	+		40-60% of revenues in USD

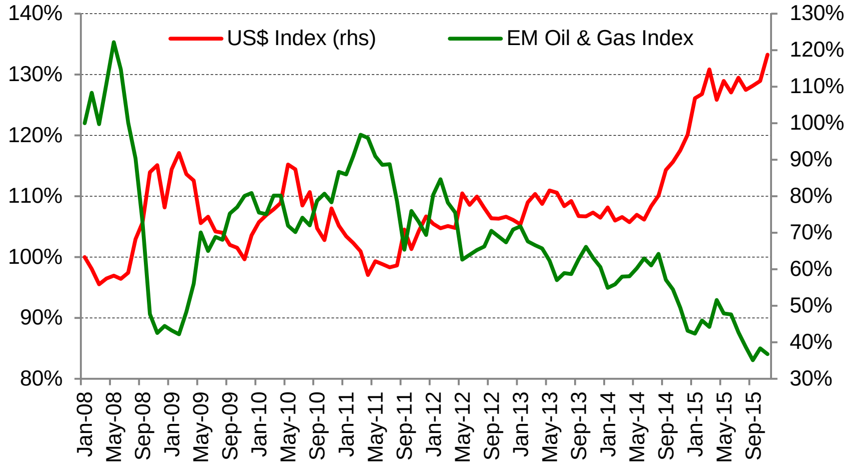
*Source: Company data, DM BZ WBK Research, * except of Ciech, ** except upstream companies reporting in USD (Serinus), ***except of Gino Rossi*

Sectors/names most/least impacted by weak EUR

Sector	Name	Positive	Negative	Comment
Oil&Gas	PKN		+	Weak EUR to PLN could weigh on product/feedstock margins generated on petrochemical products
Chemicals	SNS, CIE, ATT, ZAP, PCE		+	Polish chemical companies are export-oriented, thus weak EUR vs. PLN should weigh on its export sales
Telecommunications	Cyfrowy Polsat	+		EUR denominated bonds (lower cost of funding), lower rental and programming costs
Construction	Unibep, Erbud, Trakcja		+	Slightly negative as a part of revenues in EUR-denominated
Real-Estate	all names		+	Revenues and part of debt are EUR denominated, but net impact is negative
Utilites	All names	+		Weaker EUR lowers burden of CO2 dues; it also lowers total cost of new generation units (comonly EUR-priced)
Clothing & shoe retail	all names		+	Strong USD inflates rents

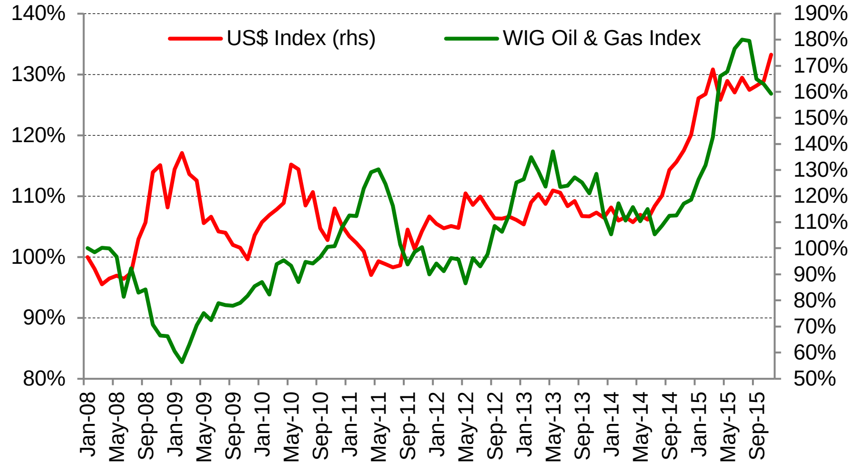
Source: Bloomberg, DM BZ WBK Research

O&G names in EMs are closely correlated with the USD…



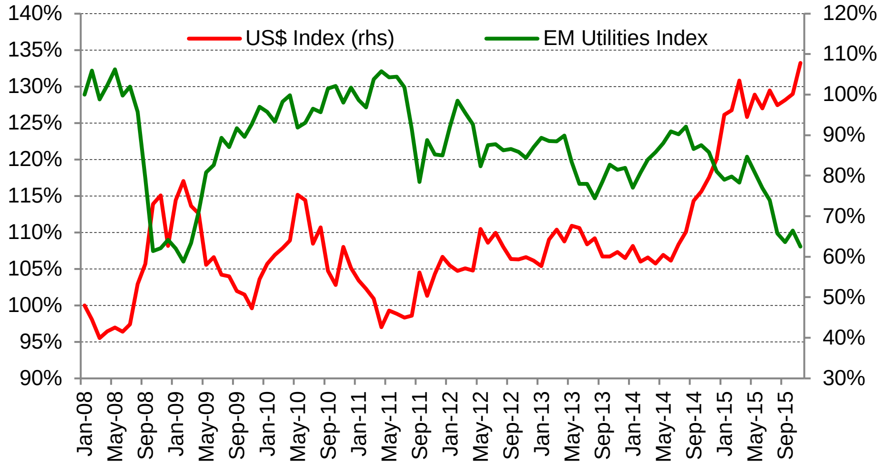
Source: Bloomberg, DM BZ WBK Research

…but Poland's O&G recently shows much higher correlation



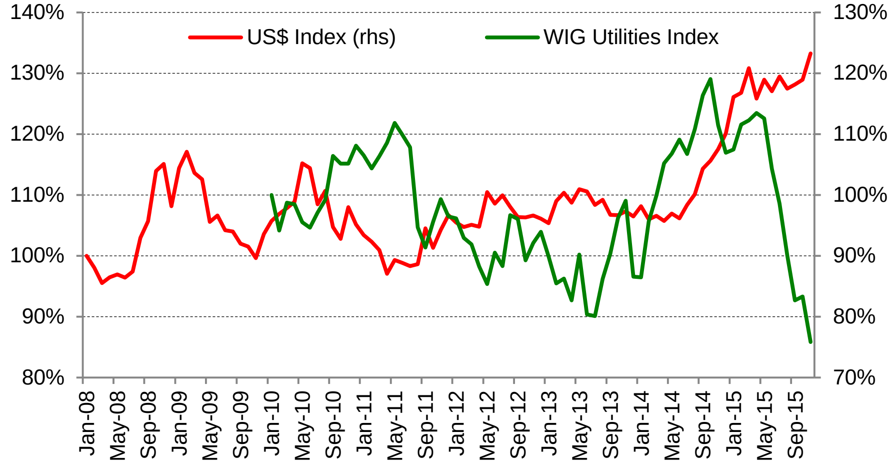
Source: Bloomberg, DM BZ WBK Research

EM utilities are also closely correlated to the USD…



Source: Bloomberg, DM BZ WBK Research

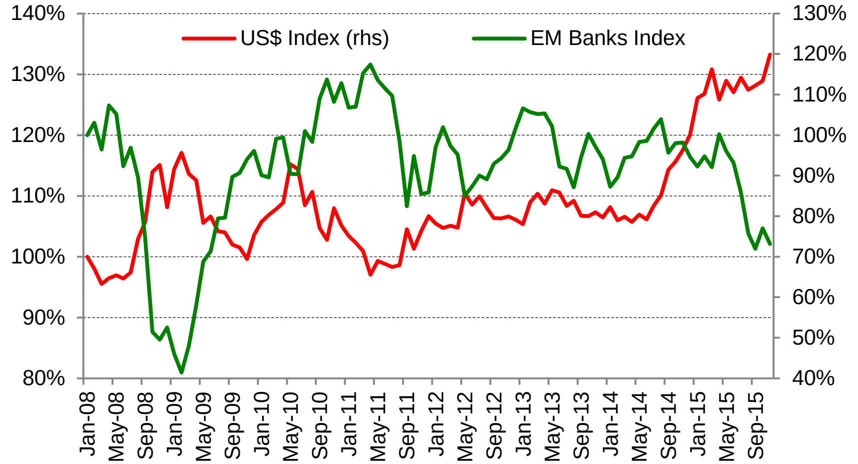
…but local factors led to a strong decorelated of Polish names



Source: Bloomberg, DM BZ WBK Research

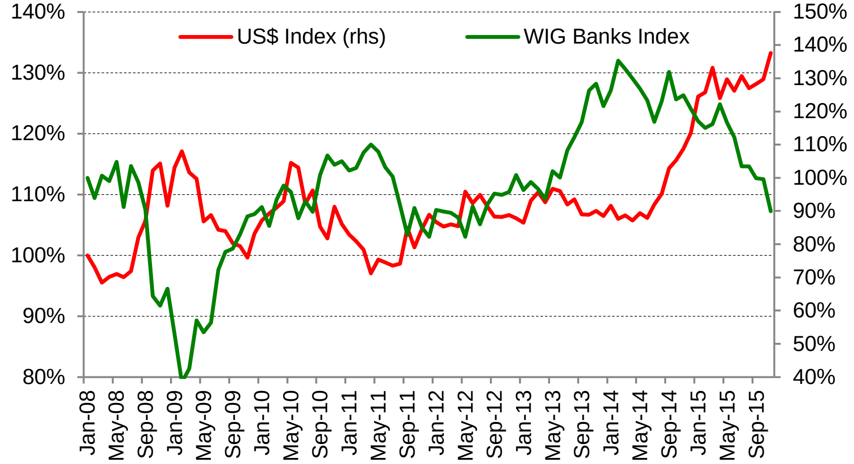
KEY THEMES: FX EXPOSURE 4/4

EM Banks are closely correlated…



Source: Bloomberg, DM BZ WBK Research

…as are the Polish banks

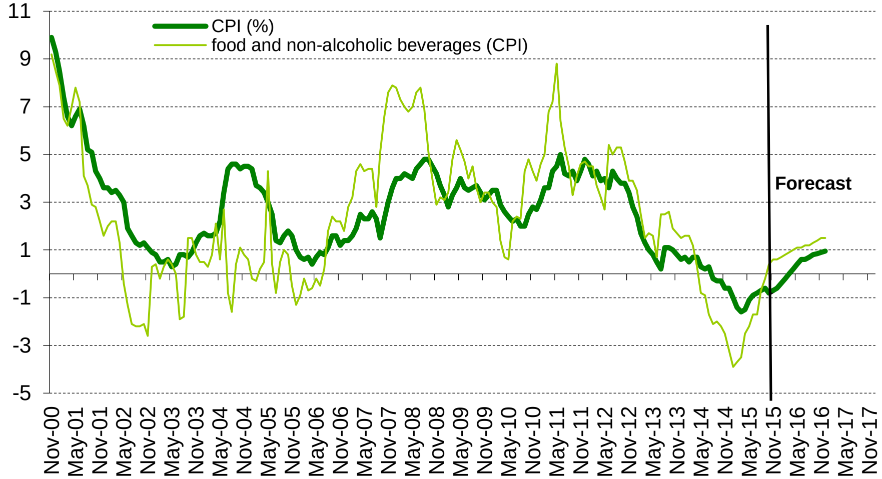


Source: Bloomberg, DM BZ WBK Research

KEY THEMES: RISING FOOD CPI = BOOST TO FMCG'S NAMES LFL GROWTH

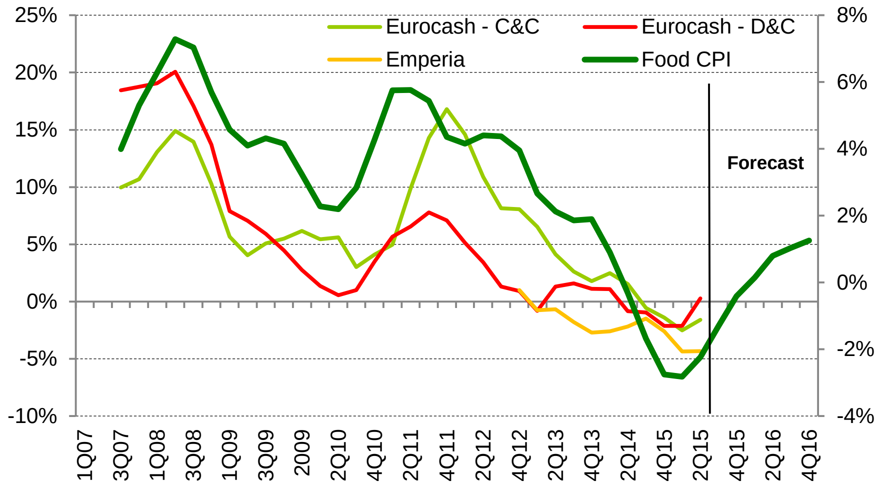
- Food inflation in Poland is set to continue to rise from the record low 3.9% (deflation) in January 2015.
- According to our macro team's estimates, food inflation in Poland is likely to rise to 1.5% at YE16E on growth in purchasing power. Inflation should be additionally boosted by a gradual rise of soft commodity prices. Also, the new government-proposed retail tax might further fuel food CPI as the FMCG industry is likely to push the tax burden onto retail food prices.
- There is evidence of a notable correlation between food CPI and same-store sales of FMCG retailers in the past years. We expect the projected rise of food CPI to have a positive impact on the LfL sales growth in **Eurocash and Emperia.**

CPI and food CPI in 2016E



Source: CSO, DM BZ WBK Research, BZWBK Macro Team

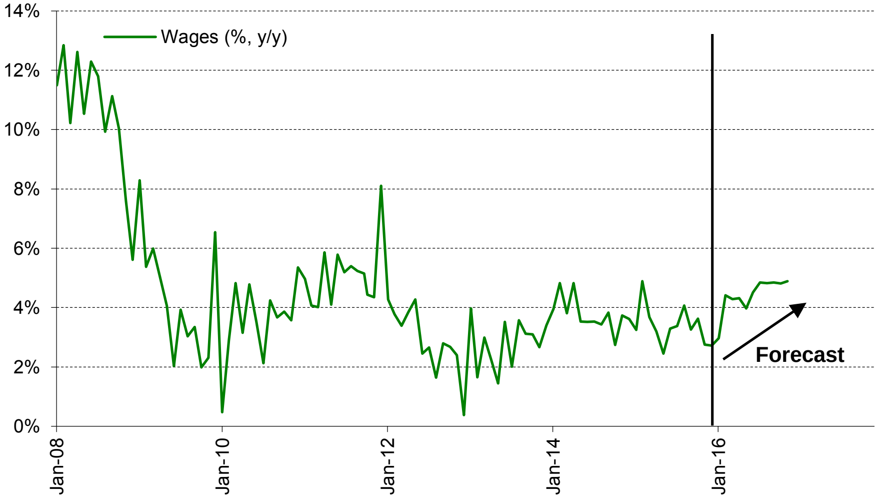
Food CPI vs. Eurocash and Emperia's LfL growth (3M avg.)



Source: CSO, DM BZ WBK Research, BZWBK Macro Team

KEY THEMES: WAGES GROWTH = RISING PRESSURE ON OPEX

Wages set to grow by 5% y/y in 2016E



Source: CSO, DM BZ WBK Research

5% wage growth impact on EBITDA – the most affected names

	as % of total costs	negative impact on EBITDA15
Pelion	5%	20%
Unibep	8%	17%
Emperia	13%	16%
Erbud	10%	16%
Asseco Poland	51%	16%
Asseco SEE	40%	12%
Wojas	24%	11%
Gino Rossi	20%	11%
Budimex	14%	11%
Wielton	14%	11%
PKP Cargo	35%	10%
Open Finance	33%	10%
Trakcja	12%	9%
Voxel	23%	9%

Source: DM BZ WBK Research

5% wage growth impact on EBITDA – the least affected names

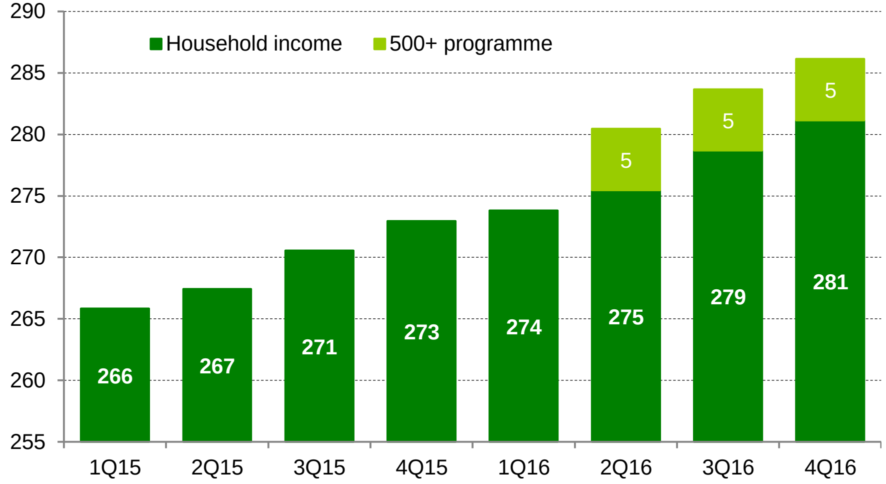
	as % of total costs	negative impact on EBITDA15
Ciech	12%	2%
MOL (HUFbn)	5%	2%
Magellan	48%	1%
MW Trade	67%	1%
Uniwheels	18%	1%
Medicalgorithmics	34%	1%
CEZ	11%	1%
Synthos	4%	1%
OMV (EURmn)	4%	1%
Lotos	2%	1%
Echo	13%	1%
PEP	2%	1%
PKN Orlen	3%	1%
Cyfrowy Polsat	6%	1%

Source: DM BZ WBK Research

KEY THEMES: PLN500 SUBSIDY PER CHILD = BOOST TO HOUSEHOLD INCOME

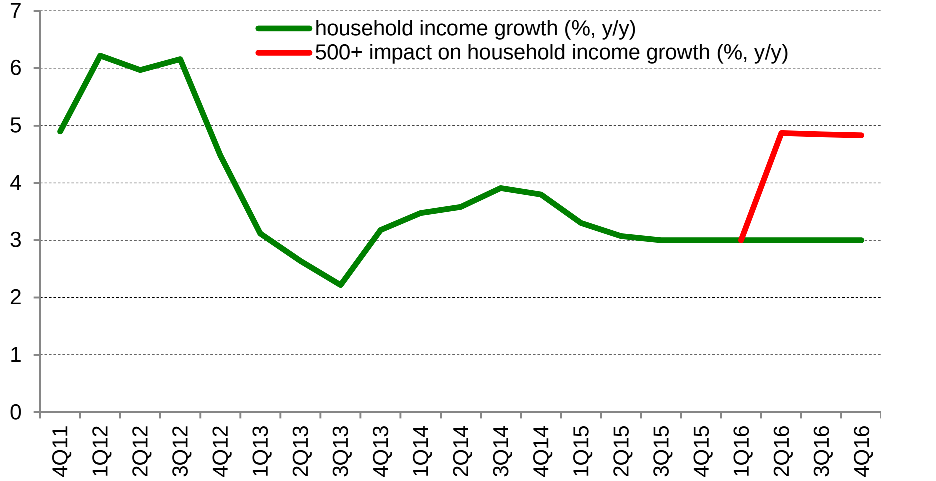
- The programme is set to begin on April 1, 2016 and cover roughly 3.7mn children up to 18 years of age.
- Income criteria: equal or less than PLN800 per person per month for the first child, PLN1.2k for a disabled child. No income criteria for the second and more children.
- The programme is likely to cost the government budget almost c.PLN20bn annually. It should boost consumption, but raise debt and weaken GDP growth in the long term.
- The programme is to substitute the current child benefit programmes (PLN77-115) and tax allowances (PLN1,112).
- According to our calculations, the ‚500+' programme might add PLN5bn or 1.8% per quarter to household income levels, boosting the y/y growth from the projected 3.0% to 4.9%. This might affect final consumption levels, assuming no extra growth in the savings rate, which oscillates at 3.2% as of 2Q15.

‚500+' programme as % of total household income



Source: CSO, DM BZ WBK Research, BZWBK Macro Team

‚500+' programme's impact on household income growth y/y*



*Source: CSO, DM BZ WBK Research, BZWBK Macro Team *assuming 3% y/y growth of household income in 2016E*

KEY THEMES: RETAIL TAX = RISK FOR PROFITS

- The PiS government's retail tax proposal is likely to materialise in 2016. Initial consultations with the industry's representatives led to the conclusion that the final shape of the tax would be discussed further and that its implementation was planned some time in 2016. More talks are to be held in December, with the tax's final shape to depend on the consensus reached.

- Forum Polskiego Handlu, a cluster of Polish retailers, recently presented an amendment to the early draft proposed by PiS. It proposes four tax thresholds, which are presented in the table below. The amendment does not include the criterion of store size, initially set at >250sqm, and, additionally, assumes the new tax would should be imposed on all retail stores (own and franchising), including e-commerce.

- We expect that the final legislation will be less harmful for supermarkets than it currently seems. With regards to the impact of new tax on strategic powers flow within the industry, we expect that the largest companies (Biedronka, Eurocash etc) are likely to push the tax burden mainly onto producers rather than consumers. Producers will have to rise prices for the companies with weaker negotiation power to finance cuts for the largest, mainly traditional retailers. When the history turns the full cycle, the largest names will probably emerge as winners as the consolidation of the market is likely to accelerate at the cost of small format retail. The higher tax the largest will pay, the higher price pressure on producers, which will affect mainly small format retail.

- **Emperia and Gino Rossi** seem the most vulnerable to the potential tax with c10% and 9% potential 2016E EBITDA loss respectively. In contrast, **Farmacol and LPP** seem the least exposed with c2% potential EBITDA loss each.

Proposed retail tax thresholds by Forum Polskiego Handlu

Annual revenues	Tax thresholds
PLN0-12mn	0.1% of annual revenues
PLN12mn-5.0bn	· 0.1% of revenues up to PLN12mn, · 0.5% of revenues between PLN12mn to PLN5bn.
PLN5bn-10bn	· 0.1% of revenues up to PLN12mn, · 0.5% of revenues between PLN12mn to PLN5bn, · 2.0% of revenues between PLN5bn to PLN10bn.
> PLN10bn	· 0.1% of revenues up to PLN12mn, · 0.5% of revenues between PLN12mn to PLN5bn, · 2.0% of revenues between PLN5bn to PLN10bn, · 4.0% of revenues above PLN10bn.

Source: DM BZ WBK Research, Forum Polskiego Handlu

Potential impact of retail tax on retailers' profits*

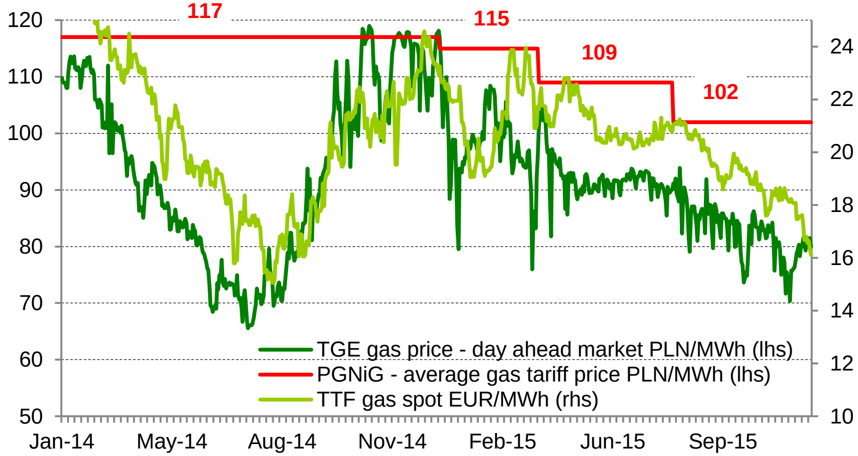
Company	est. tax	sales16E**	est. impact on EBITDA16
Emperia	10	2,000	9.9%
Gino Rossi	2	345	9.3%
Eurocash ***	38		7.2%
o/w Cash&carry	*5*	*4,687*	
o/w D.C.	*10*	*2,103*	
o/w Tradis	*23*	*4,559*	
Pelion	11	2,200	6.8%
Wojas	1	239	6.7%
Bytom	1	162	3.8%
Monnari	1	249	3.1%
CCC	9	1,800	2.5%
LPP	18	3,550	2.1%
Farmacol	2	500	1.8%

*Source: DM BZ WBK Research, * ceteris paribus, which means that the final amount is likely to be lower, **taxable retail sales, *** wholesale sales not directly impacted by the tax, est. tax is a rough calculation of the amount potentially paid by Eurocash's clients. We assumed that Eurocash is likely to cover retail tax by lower prices.*

KEY THEMES: LOWER GAS PRICES = SUBSTANTIAL COST SAVINGS

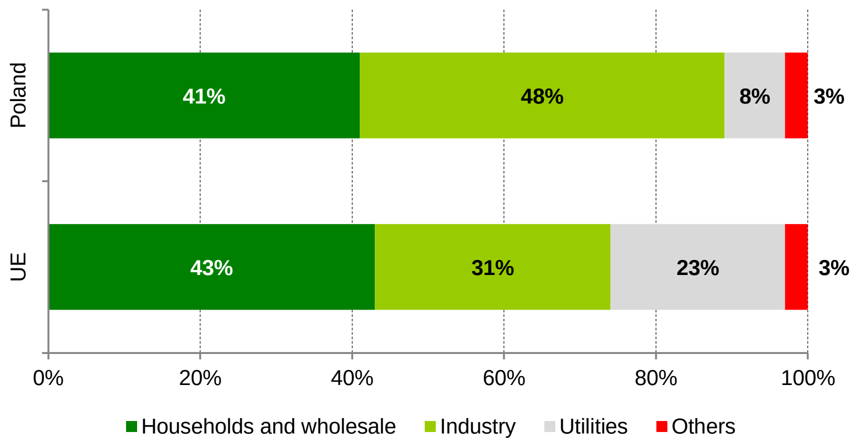
- Gas market liberalisation in Poland will tighten the competition and will lead to a further drop in gas prices.
- Polish gas consumption equals **16.3Bcm** annually, which is an equivalent of **PLN158bn** at average gas price of **PLN108/MWh**.
- An expected 15% lower gas prices (on average) in 2016 means a **PLN24bn** savings for the whole Polish economy. The impact of lower gas prices for households is estimated at **PLN5bn**.
- In our coverage universe, **Grupa Azoty, Azoty Pulawy, Azoty Police, PKN** and **Lotos** are key beneficiaries of liberalisation of the gas markets in Poland.
- The gas market liberalisation will diminish **PGNiG's** market share and earnings on gas trading.

Gas prices in Poland follow European gas-hub prices



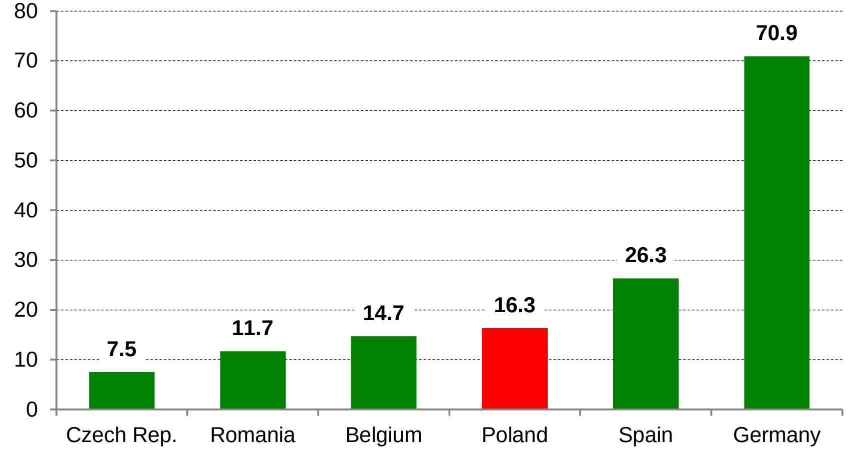
Source: PGNiG, DM BZ WBK Research

Structure of gas consumption in Poland and the EU



Source: PGNiG, DM BZ WBK Research

Demand for gas in selected European countries in 2014 (Bcm)



Source: PGNiG, DM BZ WBK Research

KEY THEMES: WARM 2016 WINTER, HOT & HUMID ENTIRE 2016?

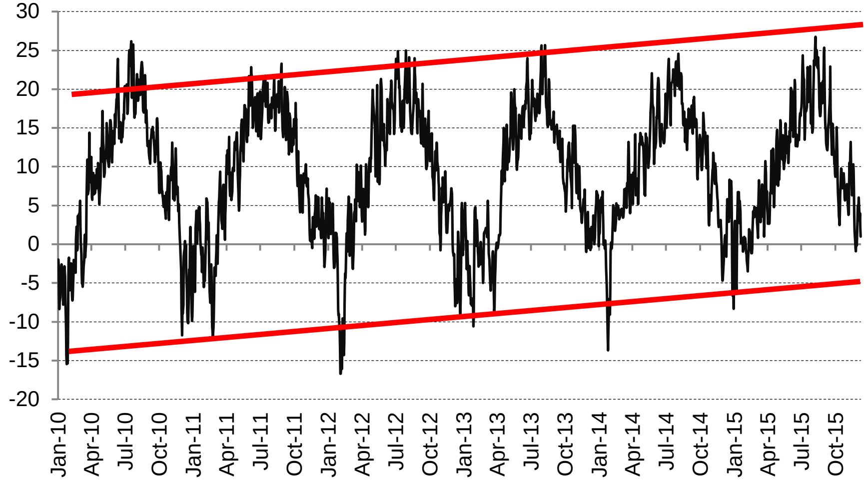
- Mid- and long-term forecasts point to likelihood of exceptionally warm winter. For the entire 2016, weather forecasts suggest another season of high temperatures and high humidity. Potential implications for industry sectors are as follows:
- <u>Mining & utilities</u>: **Strong negative for mining segment** (LWB, ENA, JSW), **indirectly strong negative to the entire utility** sector via (1) coal oversupply and (2) higher future subsidies to mining
- <u>Oil & Gas</u>: **negative impact** of warm winter on gas consumption
- <u>Construction</u>: hot 4Q15 / 1Q16 and hot 2016 is **positive to the sector, but the anticipated heavy rainfall may represent drawback**
- <u>Clothing</u>: **mixed – heavy rainfall is positive**, but (1) **lack of cold winter and (2) very hot summer are negative**
- <u>Shoes</u>: **positive**, high rainfall boosts shoes' sales
- <u>Benefit Systems</u>: **warm winter negative, hot summer positive**

Winter forecasts point at abnormally high temperatures

Month	Excerpts from the mid-term weather forecast*
December 2015	The first month of winter should be much more like autumn than winter. We will experience snow cover, but it will most likely not last long, with **rain prevailing** and **temperatures above zero Celsius**.
January 2016	If forecasts of the global models prove correct, **we may experience the warmest or one of the warmest Januaries** in the history of Polish meteorology.
February 2016	This will be **month of greatest weather anomalies. We should expect abnormally high temperatures**, in strong contrast to past seasonal patterns. In the south, the daytime temperature might rise to above 15 Celsius.

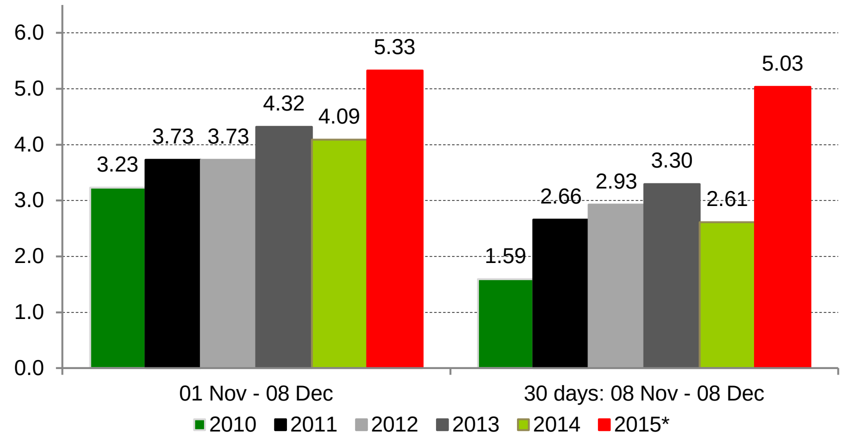
Source: www.twojapogoda.pl, DM BZ WBK Research

Climate is changing (avg. daily temp in Poland)



Source: Bloomberg, DM BZ WBK Research

2015 Nov-Dec temperature averages do not lie

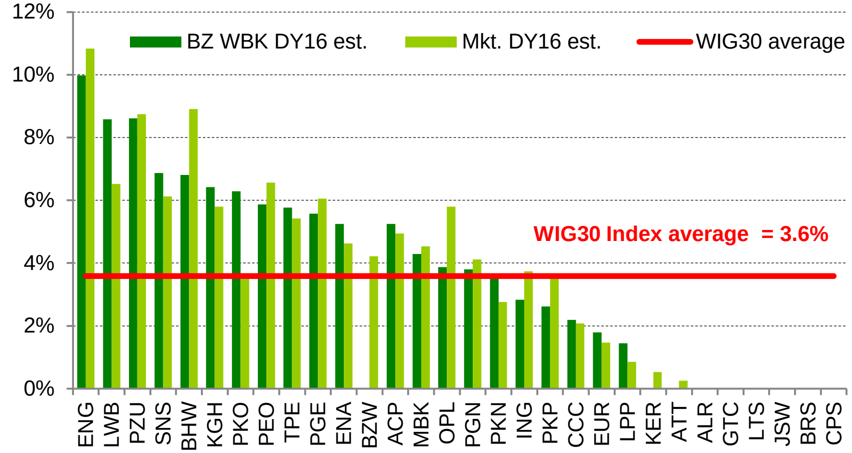


Source: Bloomberg, DM BZ WBK Research

KEY THEMES: DY PLAYS

- Poor equity market performance ytd and low bond yields should continue to support high DY names, especially in 1H16.
- On our estimates, WIG30's 2016E DY is equal to 3.6%.
- **Energa, Bogdanka, PZU, Synthos, Handlowy, KGHM, PKO, Pekao, Tauron, PGE and Enea** offer DY above 5%.
- Azoty, Alior, GTC, Kernel, Lotos, JSW, Boryszew and Cyfrowy Polsat will most likely not pay dividends.
- Outside WIG30, the highest dividend payers on BZ WBK estimates are: **ABC Data, PCM, Skarbiec, Euco, Netia, MW Trade and Action**
- **KEY FOCUS:** State Treasury will seek for PLN1bn more dividend income in 2016.

WIG30: DY in 2016E



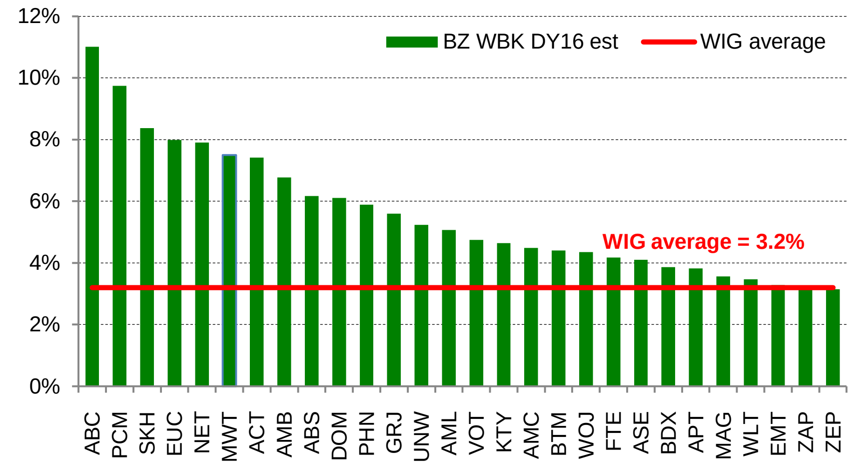
Source: Bloomberg, DM BZ WBK Research

State Treasury: dividend income from key listed holdings

PLNmn	2014	2015	2016E
PKO BP	294	0	598
PZU	517	1 428	933
PKN	170	194	279
Lotos	0	0	0
PGNiG	641	854	794
GPW	18	35	37
KGHM	320	256	273
PGE	1 201	852	813
TPE	100	79	79
ENG	265	382	318
ENA	129	107	135
PKP	45	36	25
Total	**3 700**	**4 224**	**4 284**

Source: Bloomberg, DM BZ WBK Research

Non-WIG30: 2016E DY > 3%

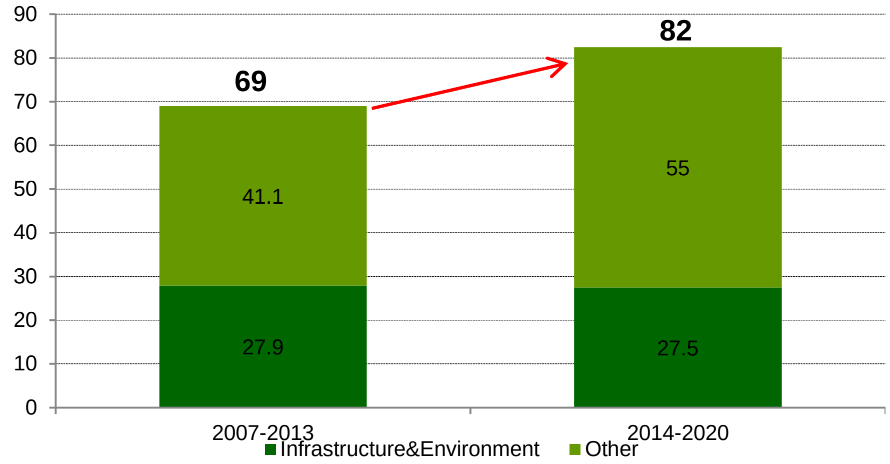


Source: Bloomberg, DM BZ WBK Research

KEY THEMES: EU FUNDING SHOULD PROVIDE INVESTMENT BOOST (1/2)

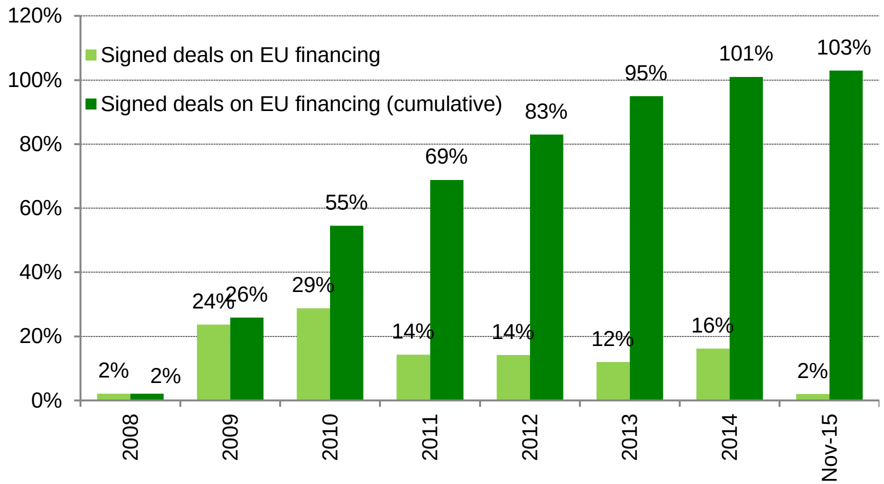
- Poland is to receive EUR82bn in co-funding from the EU in 2014-2020, 19% more than the EUR69bn in 2007-2013.
- Approximately EUR28bn of this amount is to be spent on infrastructure, broadly the same as in 2007-2013.
- So far, 2007-2013 funds have been fully absorbed. Almost 55% of the funds were already allocated in the first three years of the 2007-13 perspective.
- However, cash transfers are lagging behind because 92% of the cash has so far been transferred to the funds' beneficiaries, of which only 16% in the first three years.
- Poland has already allocated c5% of EU2015-20 funds, and c4% of cash had been transfered to funds beneficiaries.

EU funds for Poland in 2007-2013 and 2014-2020



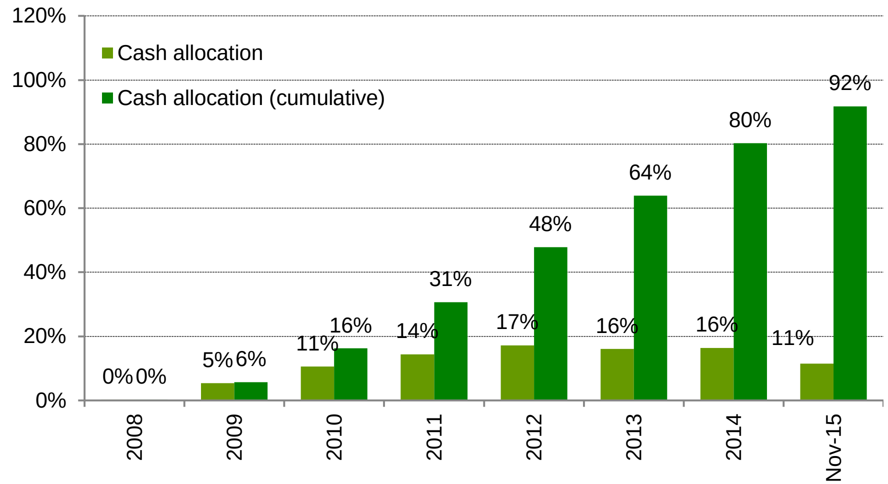
Source: Ministry of Infrastructure and Development, DM BZ WBK Research

Timeline of 2007-2013 EU funds utilisation



Source: Ministry of Infrastructure and Development, DM BZ WBK Research

Cash transfers of 2007-2013 EU funds

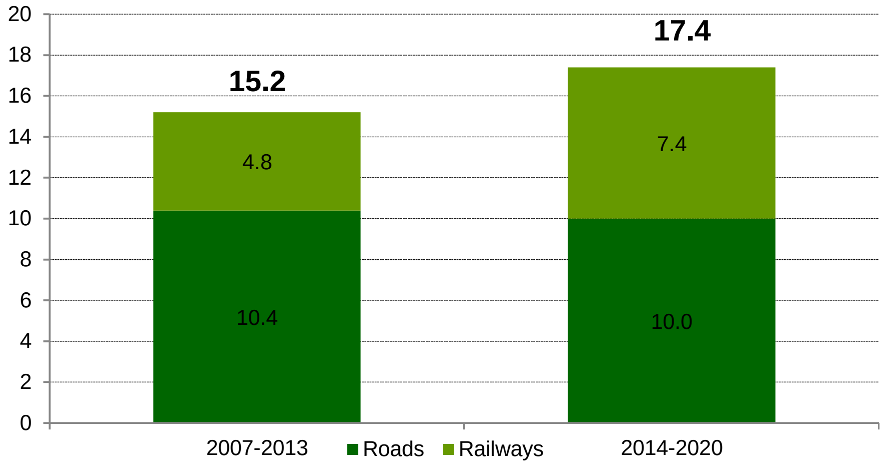


Source: Ministry of Infrastructure and Development, DM BZ WBK Research

KEY THEMES: EU FUNDING SHOULD PROVIDE INVESTMENT BOOST (2/2)

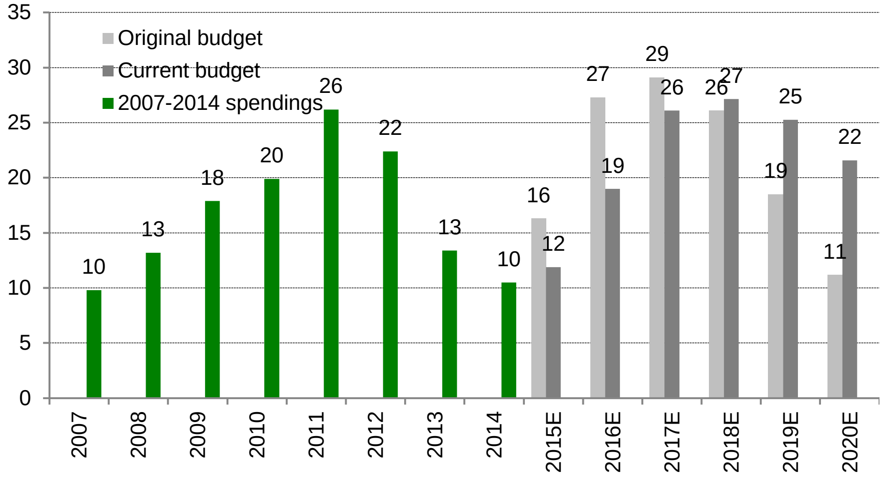
- In 2014-20, spending on transport should rise 14% to EUR17.4bn (from EUR15.2bn allocated in 2007-13).
- Of this, EUR7.4bn should be earmarked on **railway construction**, which would be **54% more than in 2007-13**.
- Spending on roads and railways construction may rise at a healthy 2015E-18E CAGR at 21% and 26% respectively.
- According to tentative projections, the spending should accumulate in years 2017-19E.

EU funds for Poland in 2007-2013 and 2014-2020



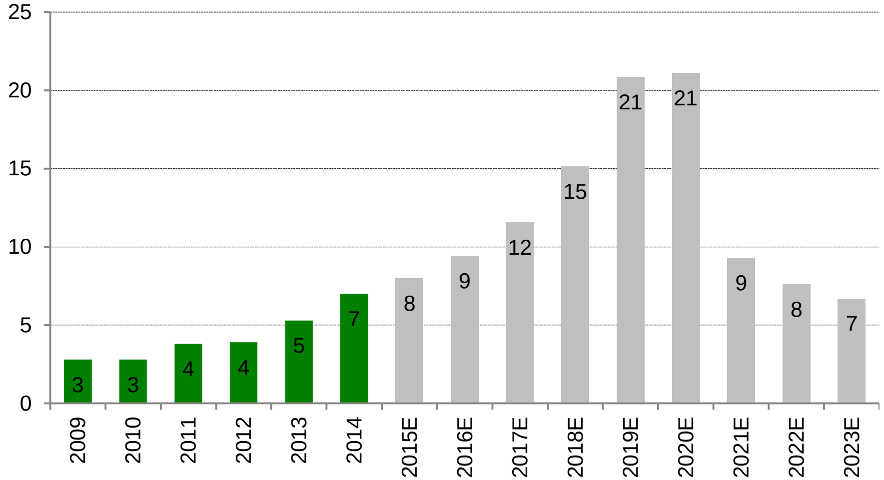
Source: Ministry of Infrastructure and Development, DM BZ WBK Research

Expected GDDKiAs spending on road construction



Source: GDDKiA, DM BZ WBK Research

Expected PKP PLKs spending on railroads construction

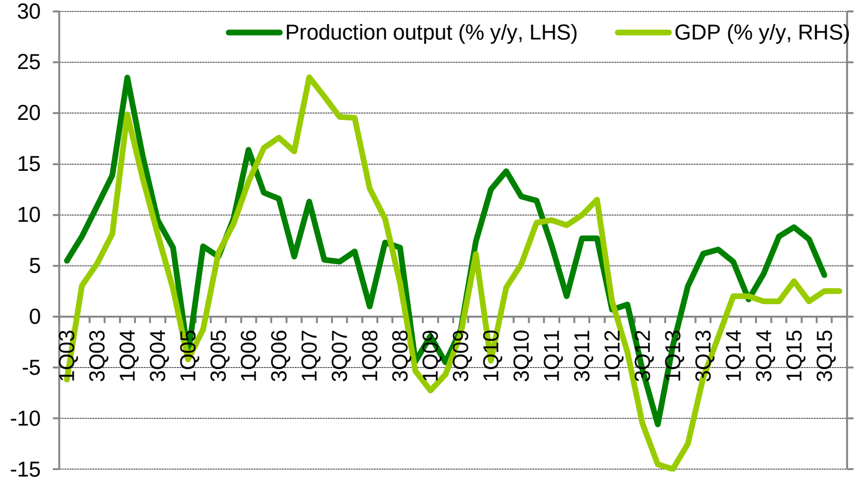


Source: GDDKiA, DM BZ WBK Research

KEY THEMES: INVESTMENT CYCLE (1/2)

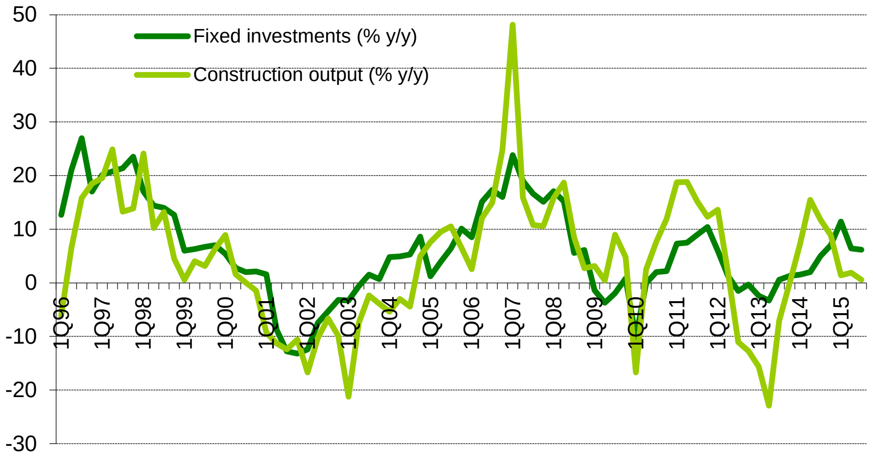
- The new government has outlined few pro-investment initiatives, including:
  - CIT reduction for small & medium enterprises (cut to 15% from 19% currently)
  - Accelerated (and doubled) depreciation of some capex
  - Preference of Polish enterprises in implementation of public investments.
- As past trends suggest, the investment/economic growth is directly helping the 1) construction output, 2) production output, 3) residential developments, 4) corporate loans originations, and 5) retail sales.
- Stocks offering exposure to investment cycle: **Amica, Apator, Asseco Poland, Elemental Holding, all construction (incl. Unibep, Erbud, Budimex, Trakcja), ING BSK, Kęty, mBank, PKP Cargo, Pekao, and Handlowy.**

Production output and GDP growth



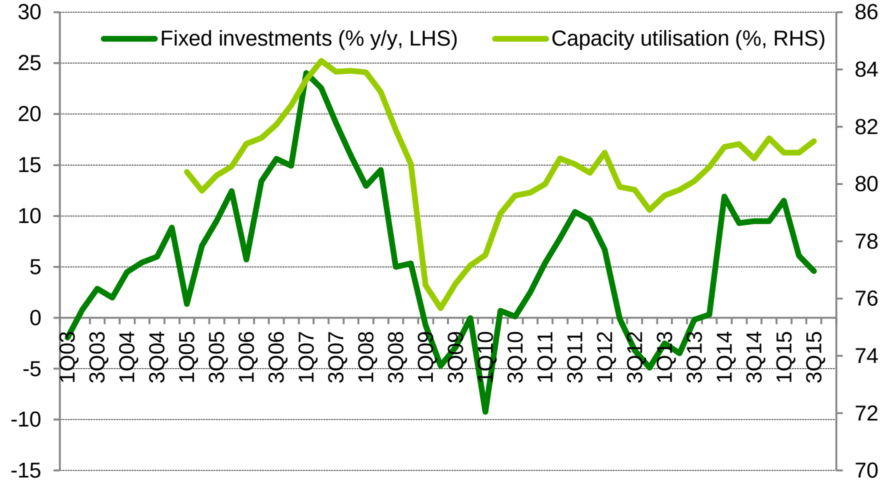
Source: Bloomberg, CSO, DM BZ WBK Research

Rising investments are highly correlated with constr. output



Source: Bloomberg, CSO, DM BZ WBK Research

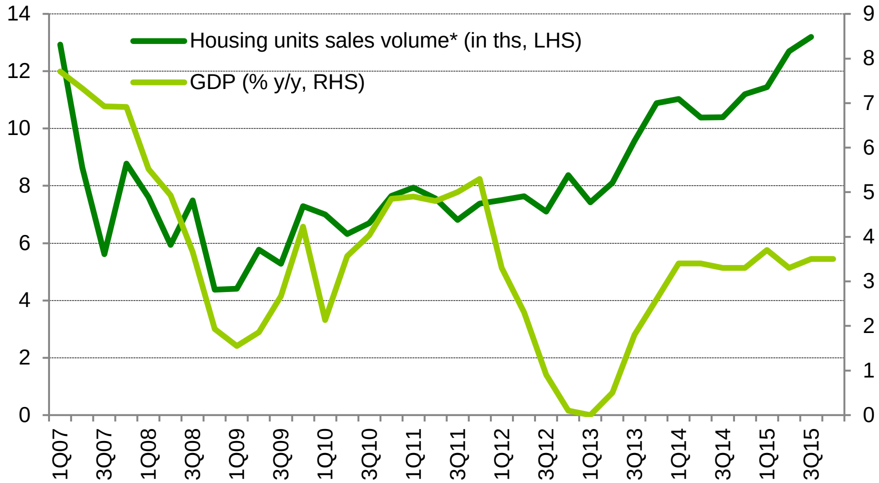
Growing capacity utilization supports new investments



Source: Bloomberg, CSO, DM BZ WBK Research

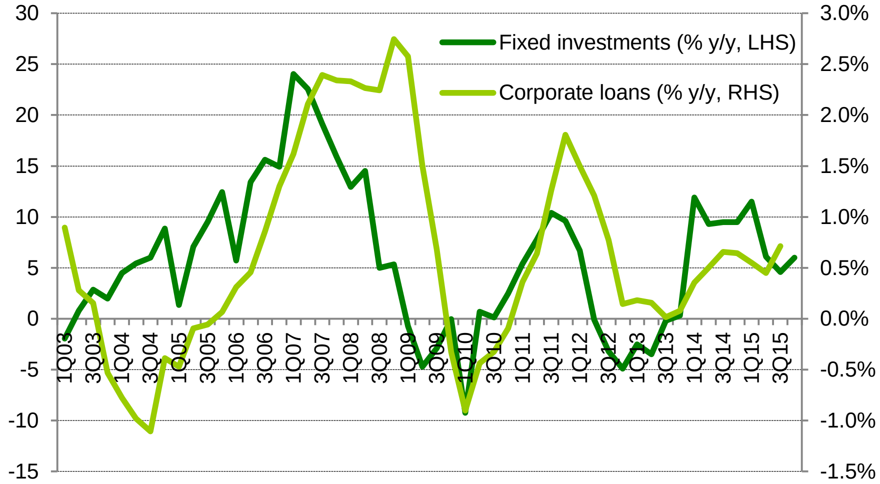
KEY THEMES: INVESTMENT CYCLE (2/2)

Growth in apartment sales volume outpaced this of GDP



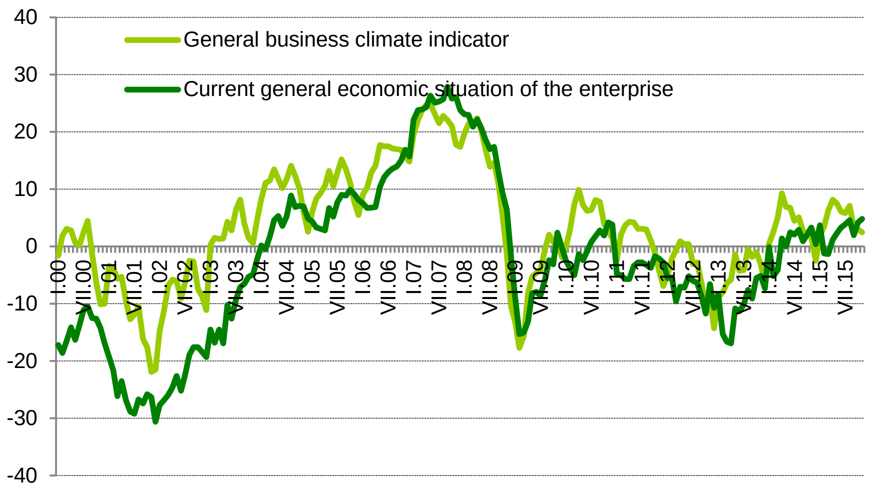
*Source: REAS, CSO, DM BZ WBK Research, *six largest agglomerations*

Correlation between fixed investments and corp. loans



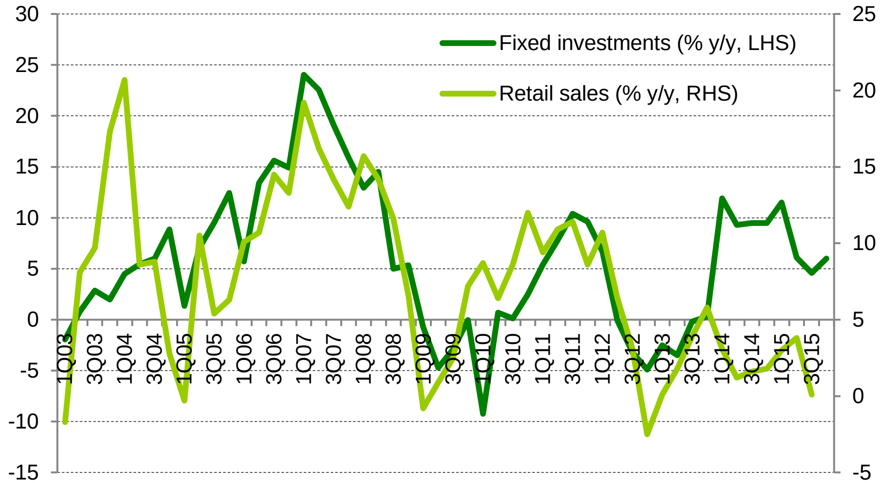
Source: Bloomberg, CSO, DM BZ WBK Research

Improving business climate indicators



Source: Bloomberg, CSO, DM BZ WBK Research

Correlation between fixed investments and retail sales

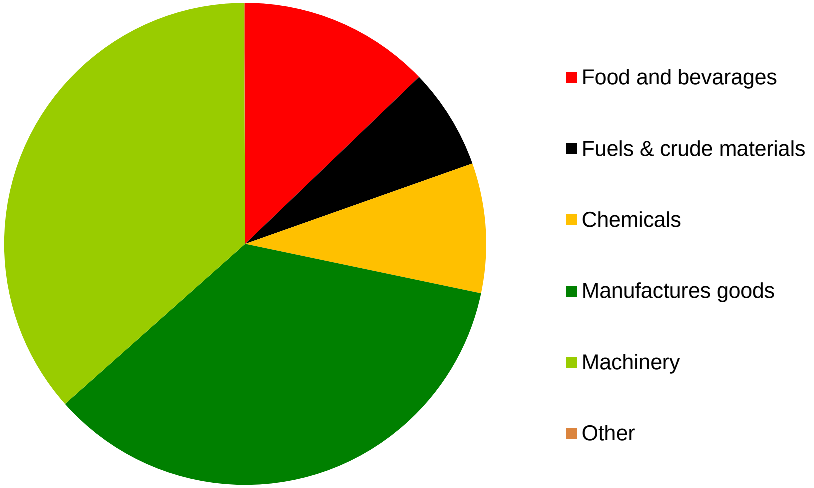


Source: Bloomberg, CSO, DM BZ WBK Research

EXPORT: OVERVIEW

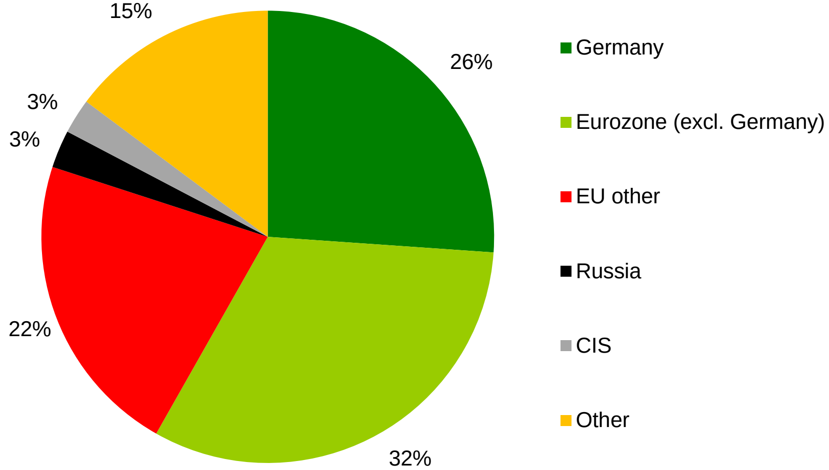
- The key drivers of the Polish export success story thus far were .(1) price competitiveness (relatively low labour costs), 2) satisfactory quality and (3) presence in the EU.
- High capex of Polish producers resulted in higher productivity which additionally increased Poles' competitive position leading to a significant improvement of Polish industrials.
- Another factor that worked in favour of Polish exporters was the strong USD that narrowed the relative advantage gap of Chinese manufacturers and boosted foreign sales.
- The export mix is shifting gradually towards more processed goods with share of commodities and food falling. This bodes well for the future as more innovative and higher profitable production is being sold to Polish foreign contractors.
- Further out export sales growth may be triggered by opening up of new markets, e.g. Transatlantic Trade and Investment Partnership (TTIP). This is, however, not going to be the case in 2016.

Export mix by products…



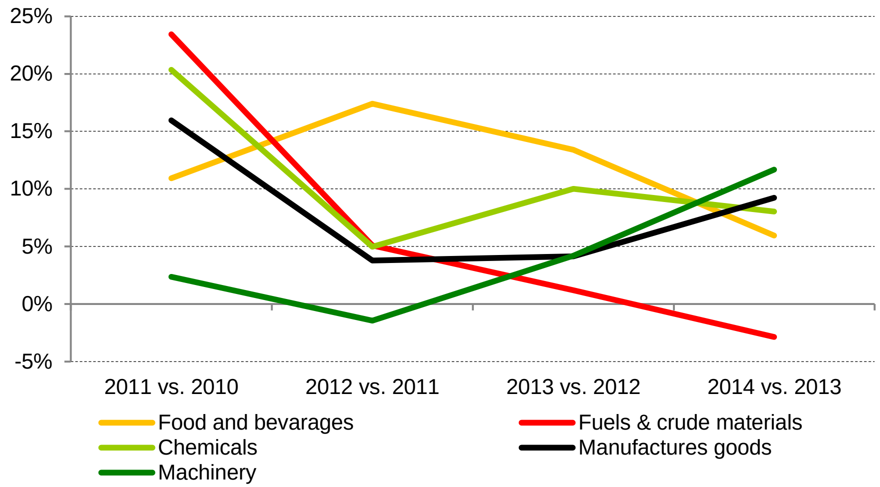
Source: Eurostat, DM BZ WBK Research

Geographical split of PL exports



Source: Eurostat, data for 1H15, DM BZ WBK Research

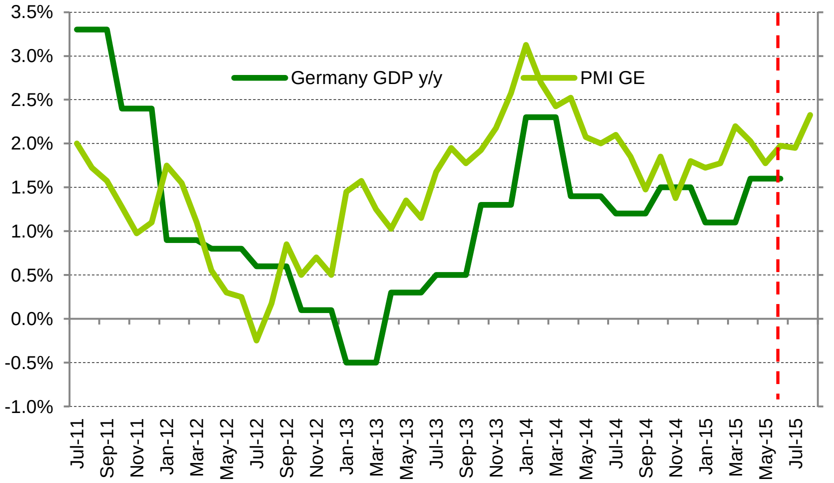
…has been steadily improving



Source: Bloomberg, DM BZ WBK Research

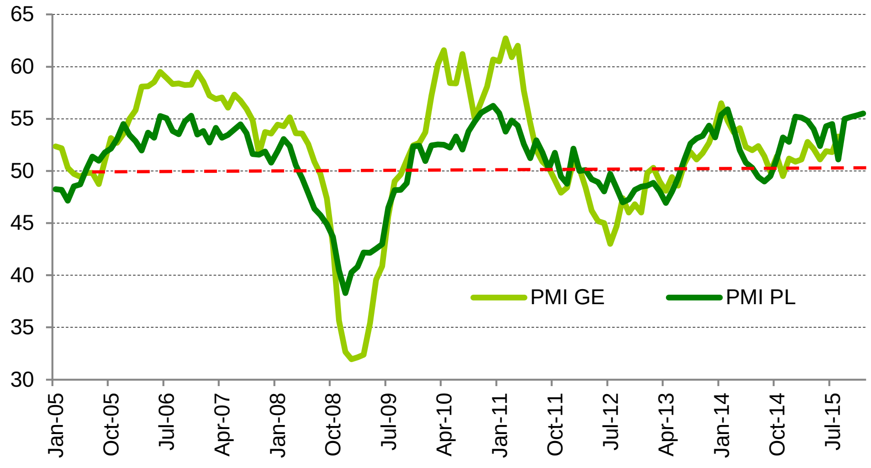
EXPORT: DEPENDENT ON ECONOMIC ENVIRONMENT

PMIs works as a leading GDP change indicator…



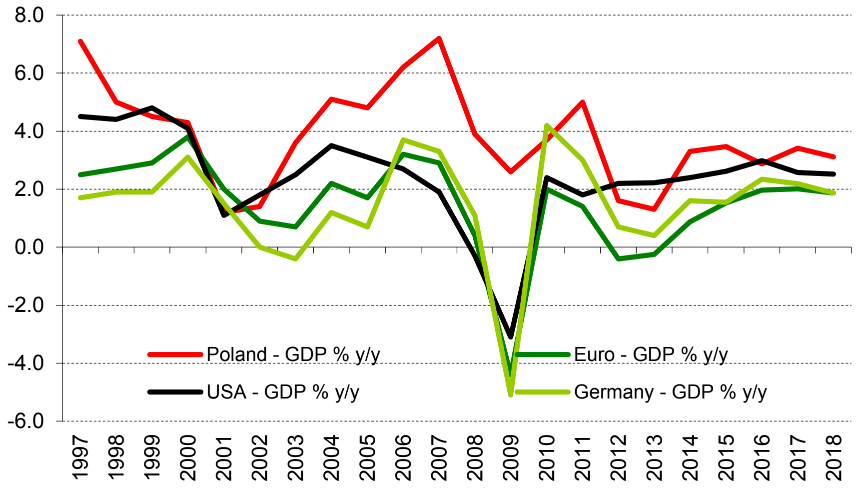
Source: Bloomberg, DM BZ WBK Research

…Poland is highly dependent on Germany…



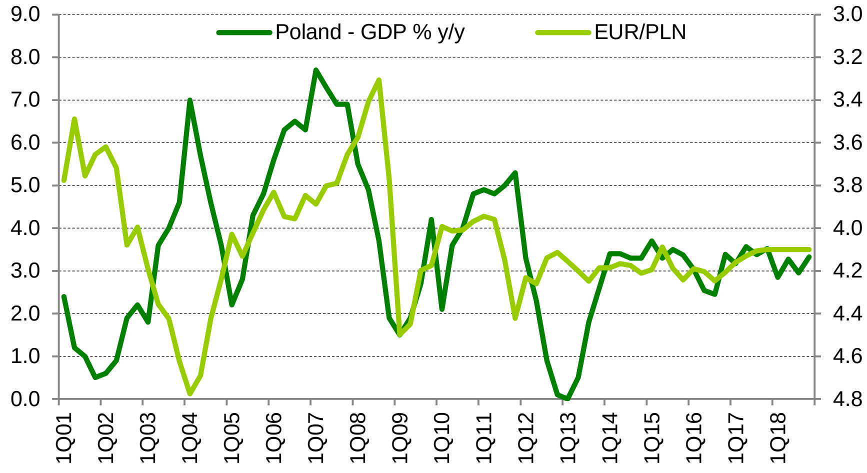
Source: Bloomberg, DM BZ WBK Research

…but the global downturn in 2008 proved it can play alone.



Source: Bloomberg, DM BZ WBK Research

Stable EURPLN supports the export business.

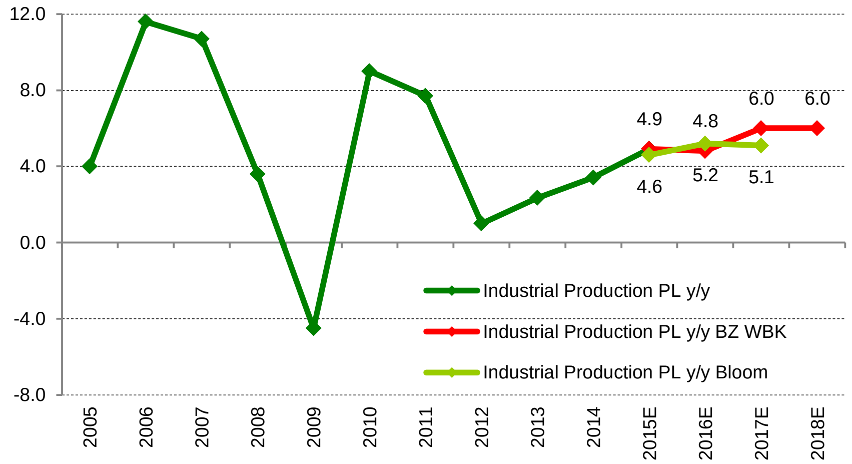


Source: Bloomberg, DM BZ WBK Research

EXPORT: NEAR-TERM OUTLOOK APPEARS SOLID

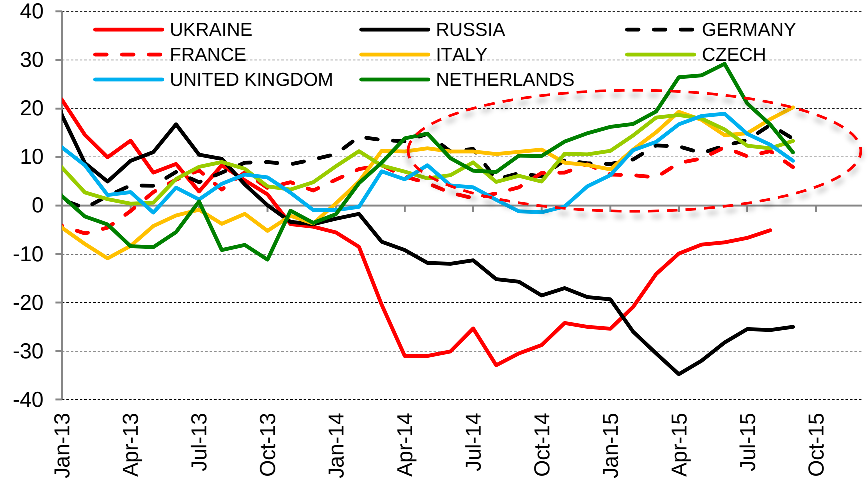
- Eurozone (75%) with a leading positon of Germany (26%) is the key recipient of Polish exports. Russia accounted for just 3% in 1H15.
- Export to Germany is driven by sales of the intermediate goods. Many orders come from the automotive industry.
- Dependence on the economic cycle is high, but though Poland's exports increased 40% in 2008-14 despite the economic downturn.
- The recent collapse in sales to Russia was mitigated by entry into new markets (e.g. Arab countries) and re-directing the sales to other key contractors.
- Export to the Ukraine rebounded significantly at the turn of 2014/15

Outlook for industrial production



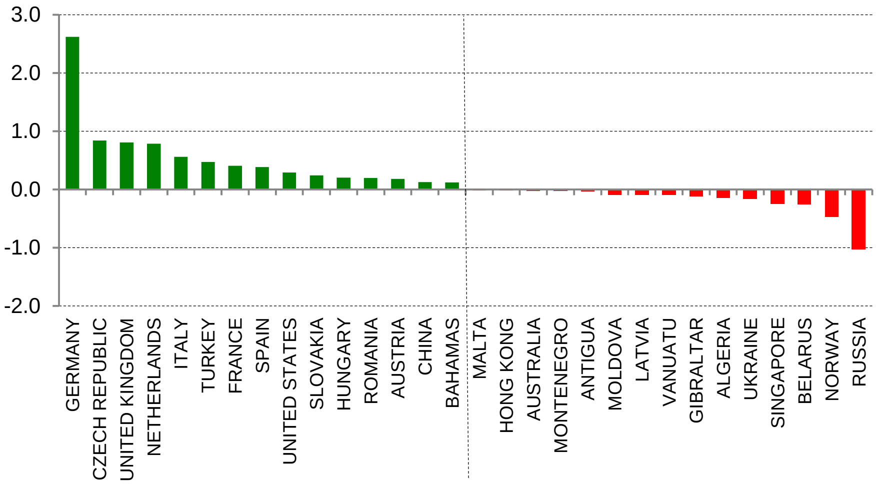
Source: Bloomberg, DM BZ WBK Research

Export to Ukraine is catching up…



Source: Bloomberg, DM BZ WBK Research

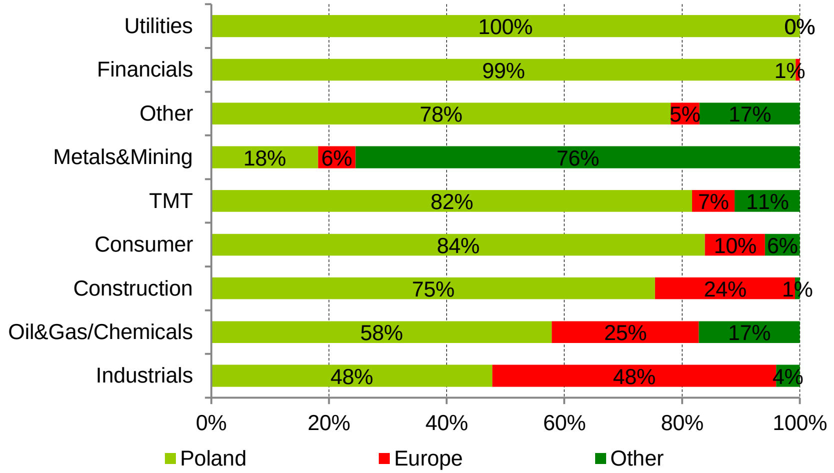
… exports to EU performs well (EURbn y/y; 1H15 vs. 1H14)



Source: Bloomberg, DM BZ WBK Research

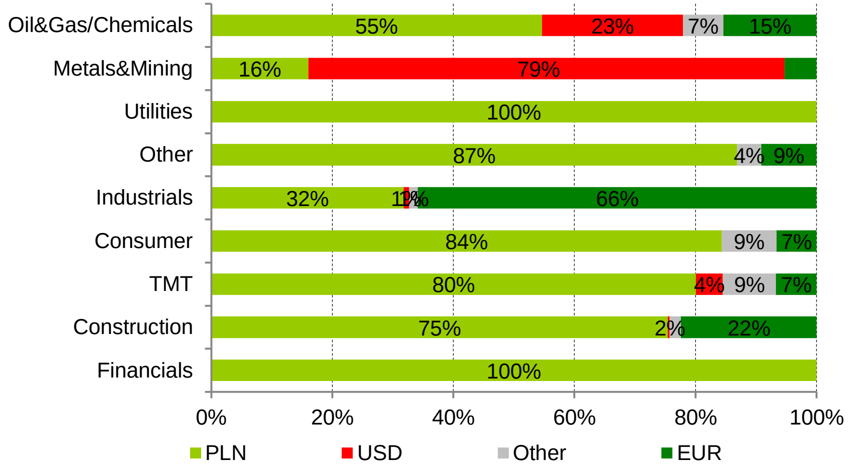
EXPORT: SECTOR POSITIONING

Share of export sales by sectors…



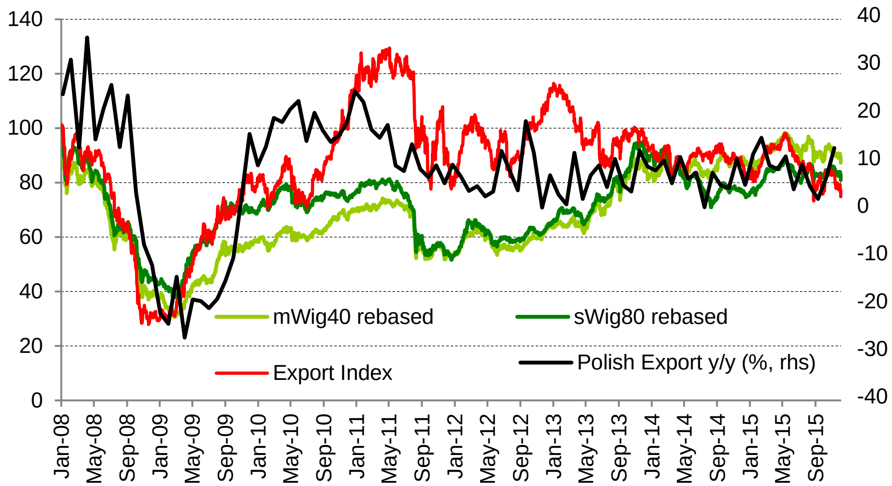
Source: Bloomberg, DM BZ WBK Research

….is not always indicative for the currency split.



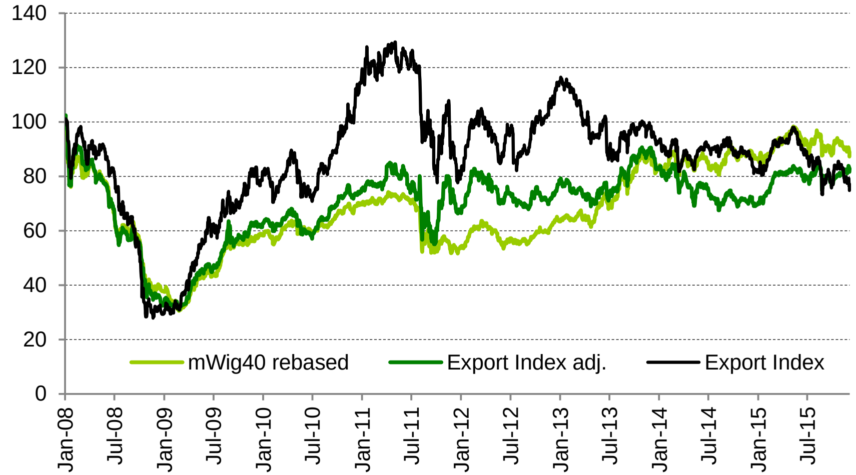
Source: Bloomberg, DM BZ WBK Research

Foreign sales drives the market perfomance of exporters…



Source: Bloomberg, DM BZ WBK Research

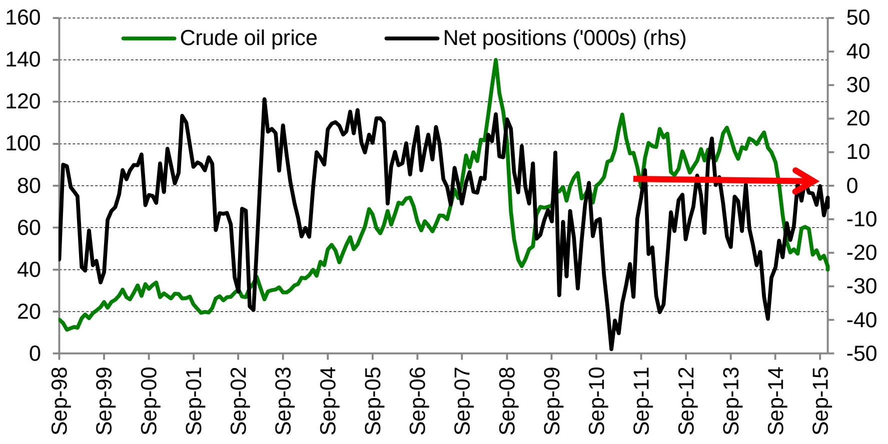
…though partly due to on large single names like KGHM.



Source: Bloomberg, DM BZ WBK Research

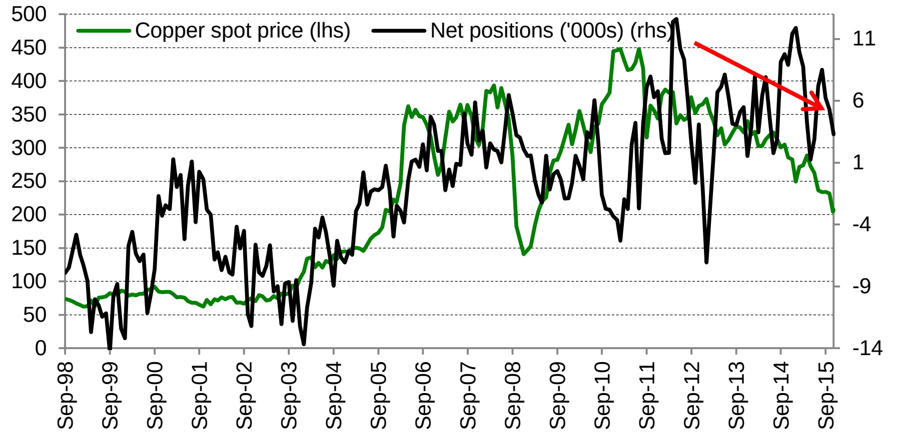
COMMODITY CORNER: DIVERGENCES IN SNAPSHOT

Crude spot price vs. net positions



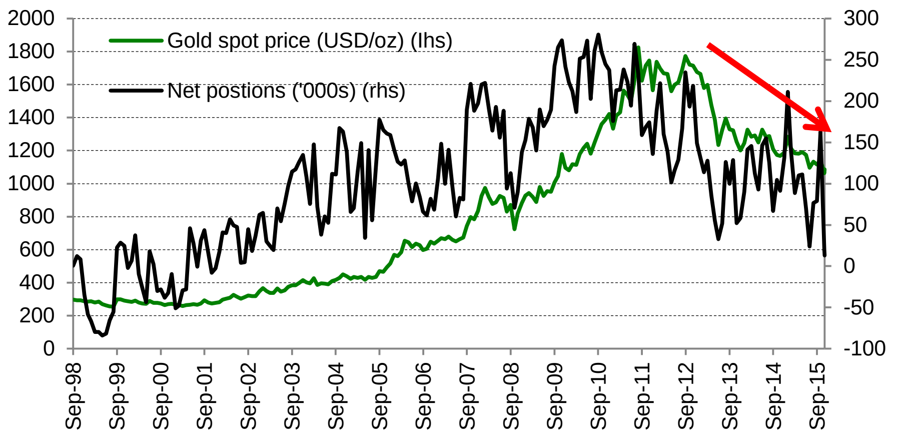
Source: Bloomberg, DM BZ WBK Research

Copper spot price vs. net positions



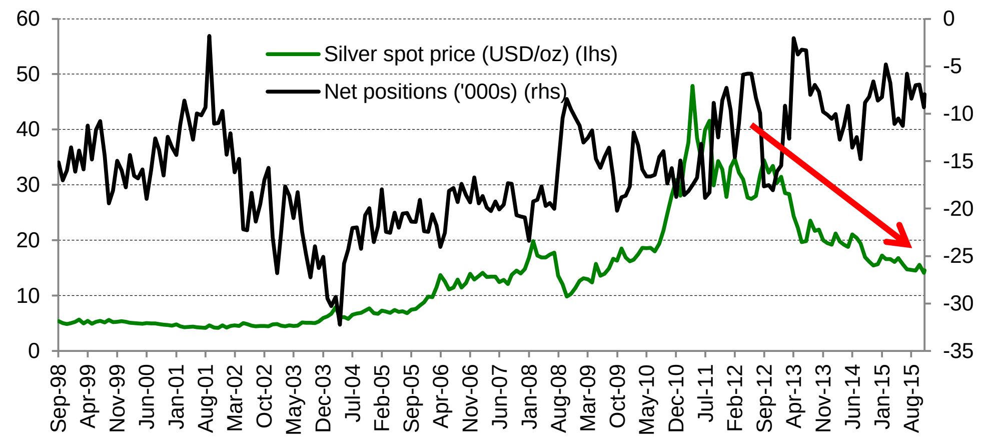
Source: Bloomberg, DM BZ WBK Research

Gold spot price vs. net positions



Source: Bloomberg, DM BZ WBK Research

Silver spot price vs. net positions

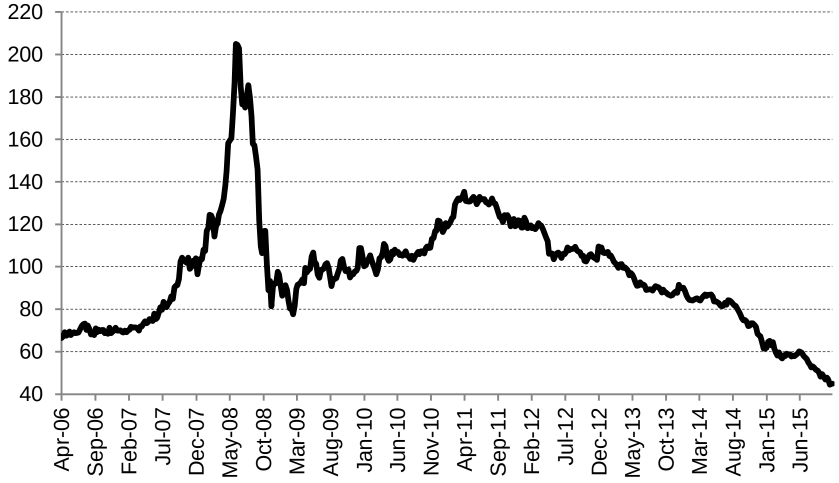


Source: Bloomberg, DM BZ WBK Research

COMMODITY CORNER: WEAK OUTLOOK FOR THERMAL COAL

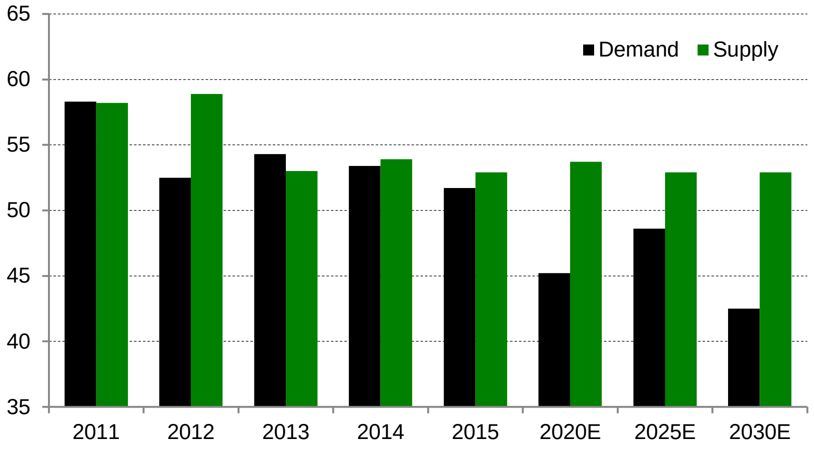
- The price of thermal coal, down trending for the fourth year in a row, is down 39% y/y and down 78% from its 2008 peak…
- …but the world's macroeconomic slowdown and availability of substantially cheaper gas validate this decline, in our view…
- …no to mention the EU's focus on environment protection – CO2 certificates undermine the economies of any thermal coal-fired generation unit.
- Poland's thermal coal-fired generation fleet is becoming obsolete…
- …and renewable technologies, future gas capacities and tomorrow's advanced technologies of electricity storage should all accelerate this trend.
- (1) Failure to shut down mines in the Upper Silesian region will trigger a **massive oversupply of local coal** at some 8mt p.a. in 2020E and (2) **lack of export ability** will **likely further depress local coal prices**

Thermal coal price, ARA (USD/t)



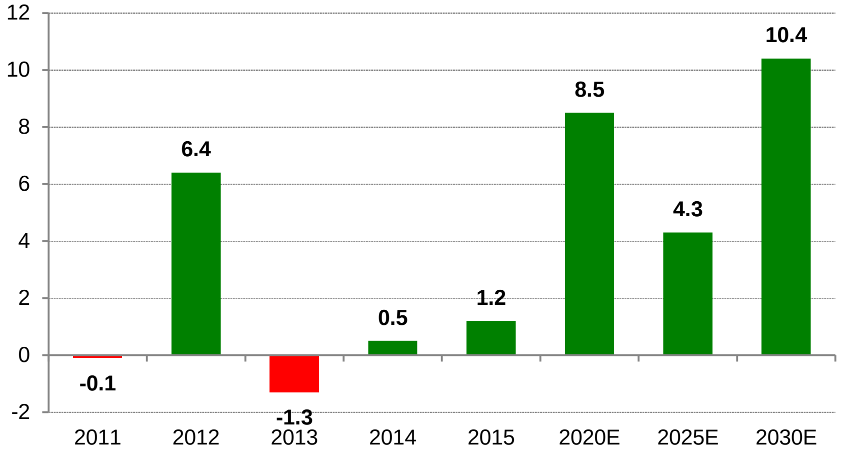
Source: Bloomberg, DM BZ WBK Research

Local Thermal Coal Supply & Demand (in mt)



Source: ENEA, DM BZ WBK Research

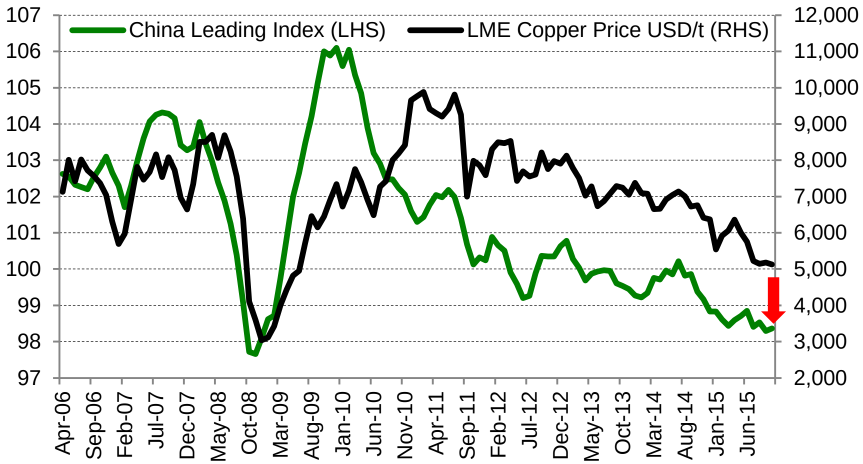
Local Thermal Coal Balance (in mt)



Source: ENEA, DM BZ WBK Research

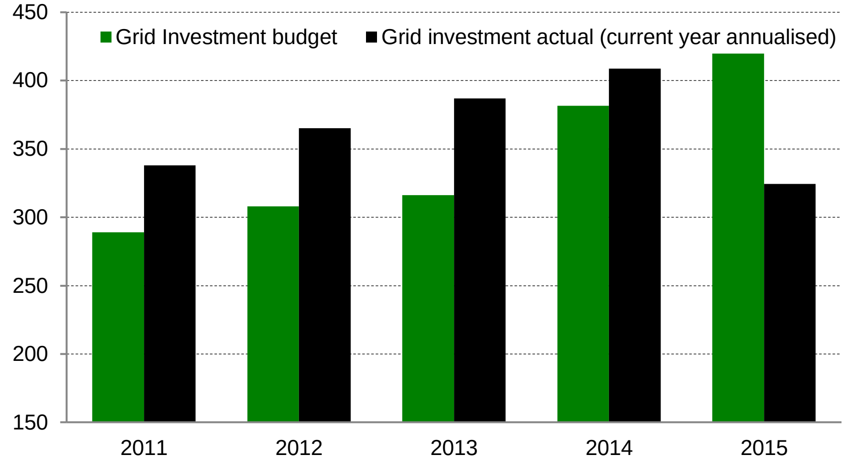
- China, the world's key copper consumer, is facing trouble with its GDP growth, which will have fallen to at least to 6.5%...
- …and the China Leading Indicator broke the 100 level in 2H2014, searching for new lows since then. In our view it suggests a continuous downside to copper price
- China's actual 2015 investments into its electric grid fell dramatically by some 25% y/y, substantially, underperforming the official budget for the first time in several years. Unfortunately, we do not have an outlook for copper's most important sector worldwide
- Copper ore grade continues its slide, down from 1.0% by 2003 to 0.65% in 2015. Codelco sees copper ore grade falling further to 0.6%. New projects aside, the falling grade is a natural erosion of copper production, thus supporting the copper price
- Short-term negative: Codelco officially announced that a reduction of copper output would be a last-resort decision, since mine closures are expensive and difficult. The same approach worldwide should trigger a prolonged copper price weakness

Copper price to follow Chinese slowdown?



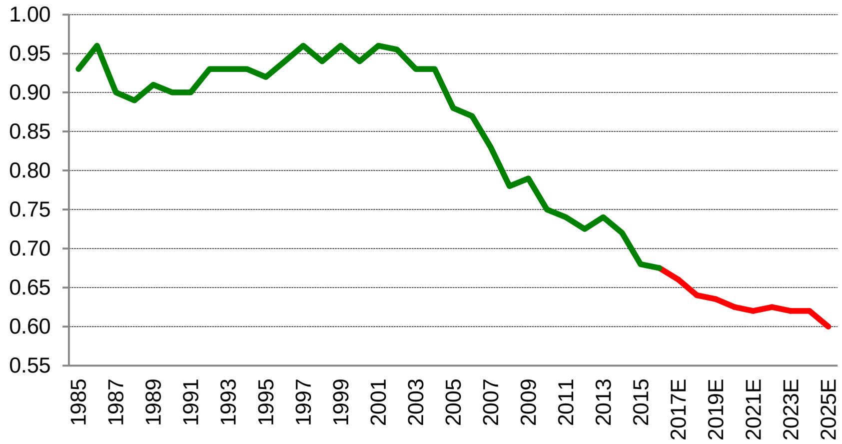
Source: Bloomberg, DM BZ WBK Research

China Power Grid Investments (in CNY bn)



Source: Antofagasta, DM BZ WBK Research

Copper Ore Grade on the slide (in %)



Source: Codelco, DM BZ WBK Research

COMMODITY CORNER: TECHNICAL ANALYSIS OF COPPER AND SILVER

Copper Futures monthly (USd/lb)

Source: Stooq.pl, BZWBK technical analyst, DM BZ WBK Research

Silver Futures monthly (USd/troz)

Source: Stooq.pl, BZWBK technical analyst, DM BZ WBK Research

View of technical analyst:

- Copper down 26.5% YTD and 55.4% from all time high
- Clear downtrend, with negative sequence of lower highs followed by lower lows
- Expected strong demand near upward trend line at USd193/lb
- **Bear market rally possible in coming months, with targets at USd249/lb orUSd267/lb**
- The **next strong support at USd150/lb**

View of technical analyst:

- Silver down 7% YTD and 71% from all-time high
- **Ending diagonal or wedge pattern sugests trend reversal in coming weeks**
- Near term resistances at USD15.15/troz or USD16.37/troz
- **Bear market rally should lift price to USD23/troz or USD25.15/troz**
- **Strong support levels at USD11.7/troz or USD8.4/troz**

COMMODITY CORNER: TECHNICAL ANALYSIS OF USDPLN AND BRENT

USDPLN exchange rate monthly

Source: Stooq.pl, BZWBK technical analyst, DM BZ WBK Research

View of technical analyst:

- USD/PLN up 12.1% YTD and up 96.6% from 2008 lows
- **Mid-term trend confirmed**
- **Look for some more upside with potential targets at 4,30-4,50 range…**
- …before substantial reversal
- **Near term support levels at 3,85 and 3,62**

ICE Brent Futures monthly (USD/bbl)

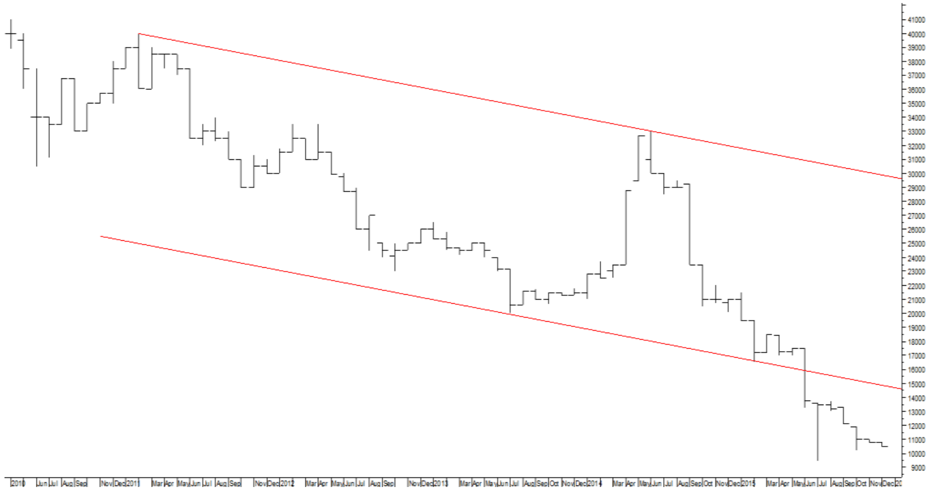
Source: Stooq.pl, BZWBK technical analyst, DM BZ WBK Research

View of technical analyst:

- Brent down 25% YTD or 71% from all-time high
- Currently trading slightly above August'15 low at USD42,23/bbl
- **More selling quite likely, with potential targets at 2008 lows at USD37.45/bbl or USD30/bbl…**
- …before stronger rebound (no clarity on timing)
- Resistances at USD54.05/bbl or USD69.58/bbl

COMMODITY CORNER: TECHNICAL ANALYSIS OF GOLD AND MOLYBDENUM

LME Molybdenum futures monthly (USD/t)



Source: Stooq.pl, BZWBK technical analyst, DM BZ WBK Research

Gold futures monthly (USD/troz)

Source: Stooq.pl, BZWBK technical analyst, DM BZ WBK Research

View of technical analyst:

- Molybdenum down 50% YTD and 74% from 2010 all-time high at USD41,000/t
- **Strong trend down and no signs of reversal as yet**
- Near term support at USD9,500/t or USD8,400/t
- Important resistances at USD13,700/t or USD14,850/t

View of technical analyst:

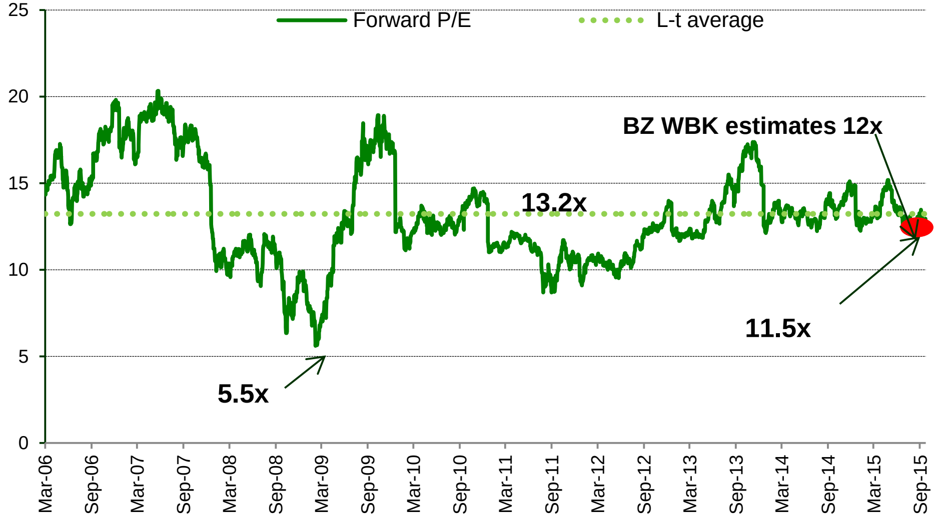
- Gold down 8.3% YTD and 43.5% from all-time high
- **Ending diagonal or wedge pattern suggests strong reversal to the upside**
- Near term resistances are at USD1,150/troz and USD1,191/troz
- **Bear market rally quite likely, with targets at USD1,433/troz or USD1,490/troz in coming months**
- Alternative support at USD1,031/troz or USD820/troz

SECTOR AND STOCK CALLS

BANKS: THE FOG IS LIFTING

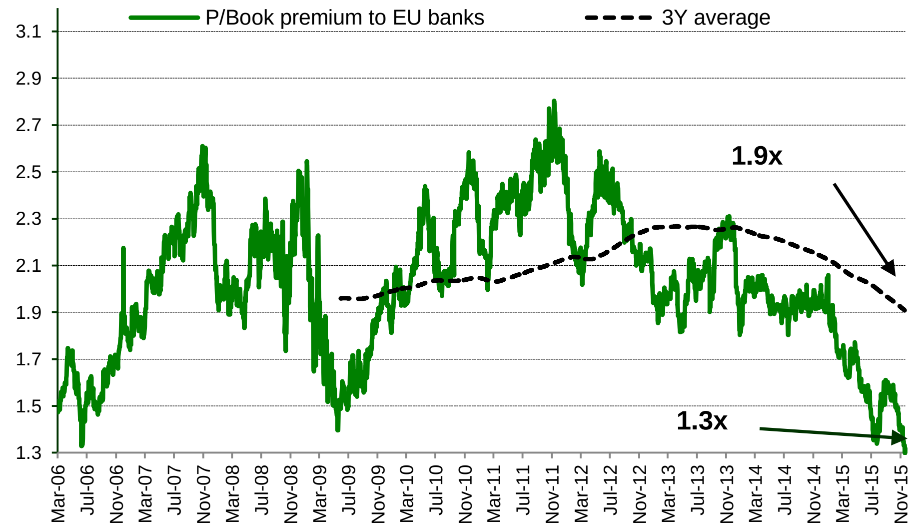
- **INVESTMENT CASE:** 2016 is shaping up to be another tough year for banks. On our sub-consensus estimates, the eight banks covered combined will report a 4% earnings growth (down 17% in 2015E) but this will largely be achieved owing to one-off gains on Visa. Alior and PKO BP should deliver a double digit y/y growth in 2016E. There appear to be upside risks to our 2016E EPS - faster-than-expected pass-through of tax to customers or bold cost initiatives. On our current assumptions banks will mitigate between 11% (Millennium) to 67% (Alior) of the bank levy in 2016E (38% to 93% in 2017E). And 2016 may not be a bad year from the share price perspective if the USD rally ends and if banks start discounting an earnings recovery in 2017E. Finally, WIG Banks never fell (and underperformed the broad Warsaw market) two years in a row.. For more details please refer to: separately published *Polish banks: The fog is lifting* **SECTOR OUTLOOK: OVERWEIGHT.**
- **VALUATION:** Valuations are becoming attractive. On our new 'all-in' 2016-17E earnings, average 2016E P/E of 11.5x is at the lowest level since 2012, while YE16E P/B of 1.1x has not been this low since 2011 (Fig 7). Valuation premiums to EU and EM peers (1.1x and 1.7x on P/E respectively, 1.3x and 1.3x on P/B) are the lowest since 2009 and 2013 respectively, while YE16 P/B multiples start to look reasonable from a ROE/COE perspective. Lastly, 2017E multiples are looking even more attractive with average P/E of 11.3x and P/B 1.0x.
- **MAIN THEMES**: 4Q15 earnings will be severely damaged by significant one-offs (and 2015E will likely be 'down year' with combined earnings down 17% y/y) but investors are likely to look to 2016 instead. Here, good news will also be scarce initially (introduction of bank tax, benchmark rate cut, negative news flow regarding dividends) but already 2Q16 should bring a turnaround in earnings (windfall profits from Visa),

WIG Bank's Forward P/E



Source: Bloomberg, DM BZ WBK Research

P/Book premium to EU Banks



Source: Bloomberg, DM BZ WBK Research

BANKS (O/W): TOP PICKS:ALIOR, PKO BP

- **SECTOR PICKS**: **Our preferred names are Alior (best EPS growth in 2016E, potential significant M&A related one-offs) and PKO BP (DY of 6.1%, 2016E of 10.3x). Handlowy, with its expensive multiples and GNB with its thin capital and 2016E EPS challenges are our least favourite names.** As for the remaining Buys, each has its charm, though perhaps appealing to different investors. ING BSK is not super cheap admittedly, but it should pay a dividend in 2016E (DY of 2.8%) and more importantly it is the best play on the steepening yield curve. mBank and Millennium are cheap vs. peers on pretty much all counts (Fig 9). This is due to their high exposure to FX mortgages. But as we believe that the government will be pragmatic on the issue, we think they offer near-term upside. Finally, Pekao as always trades at a premium to peers owing to quality management, strong capital ratios, solid DY (6.1% in 2016E) and finally good liquidity in its stock. Its strong capital ratios at times of capital buffers being introduced look particularly attractive to us. The bank is capable to significantly accelerate loan growth if it opts to and as a result capture a significant market share in the next year or two.

Valuation table

					P/E (x)			P/Book (x)			ROE (%)			Div. Yield (%)*		
	Rating	TP	Up(down)side	Last price	2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E
Alior Bank	Buy	87	32%	66	16.0	12.7	10.2	1.4	1.2	1.1	9.2	10.5	11.5	0.0	0.0	0.0
GNB	Sell	0.47	-13%	0.54	22.1	9.2	8.6	0.3	0.3	0.3	1.3	3.0	3.1	0.0	0.0	0.0
Handlowy	Sell	67	-2%	68	14.8	17.8	15.4	1.3	1.3	1.3	8.4	7.2	8.3	10.9	6.8	5.6
ING BSK	Buy	139	22%	114	14.1	15.8	13.3	1.4	1.4	1.3	10.1	8.8	9.9	3.5	2.8	2.5
mBank	Buy	346	17%	296	9.5	10.7	9.0	1.0	1.0	0.9	11.3	9.3	10.2	0.0	4.4	0.0
Millennium	Buy	5.8	17%	5.0	10.4	10.0	8.4	1.0	0.9	0.8	9.6	9.2	10.0	0.0	0.0	0.0
Pekao	Buy	156	16%	135	15.6	16.2	14.8	1.5	1.5	1.5	9.5	9.2	10.0	7.4	6.1	5.9
PKO BP	Buy	31	21%	26	12.3	9.8	10.1	1.1	1.0	1.0	9.1	10.6	9.7	0.0	6.4	3.0
Average					14.3	12.8	11.2	1.1	1.1	1.0	8.5	8.5	9.1	2.7	3.3	2.1
Market cap weighted average					13.5	14.3	12.4	1.3	1.2	1.2	9.8	9.0	9.8	2.9	3.7	2.5
Median					14.4	11.7	10.2	1.2	1.1	1.0	9.3	9.2	10.0	0.0	3.6	1.3
WIG Bank weighted					12.0	11.3	10.5	1.1	1.0	1.0	8.0	8.5	8.7	2.5	4.4	2.9

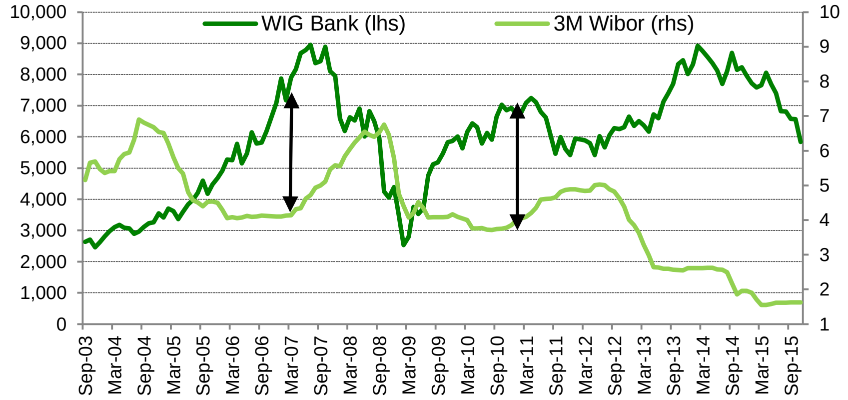
*Source: Bloomberg, DM BZ WBK Research, * paid in the given year*

Net profit in 2014-17E

	2014	y/y	2015E	y/y	2016E	y/y	2017E	y/y
Alior	312	37%	299	-4%	377	26%	470	25%
GNB	360	-10%	65	-82%	156	141%	167	7%
Handlowy	947	-3%	605	-36%	502	-17%	579	15%
ING BSK	1,041	8%	1,050	1%	939	-11%	1,113	18%
mBank	1,287	7%	1,320	3%	1,171	-11%	1,384	18%
Millennium	651	21%	578	-11%	603	4%	719	19%
Pekao	2,715	-3%	2,268	-16%	2,186	-4%	2,389	9%
PKO BP	3,254	1%	2,601	-20%	3,241	25%	3,151	-3%
Total	**10,566**	**2%**	**8,785**	**-17%**	**9,175**	**4%**	**9,971**	**9%**
Average		**7%**		**-20%**		**18%**		**13%**
Median		**2%**		**-16%**		**4%**		**15%**

Source: DM BZ WBK Research;

WIG Bank performance vs. interest rates

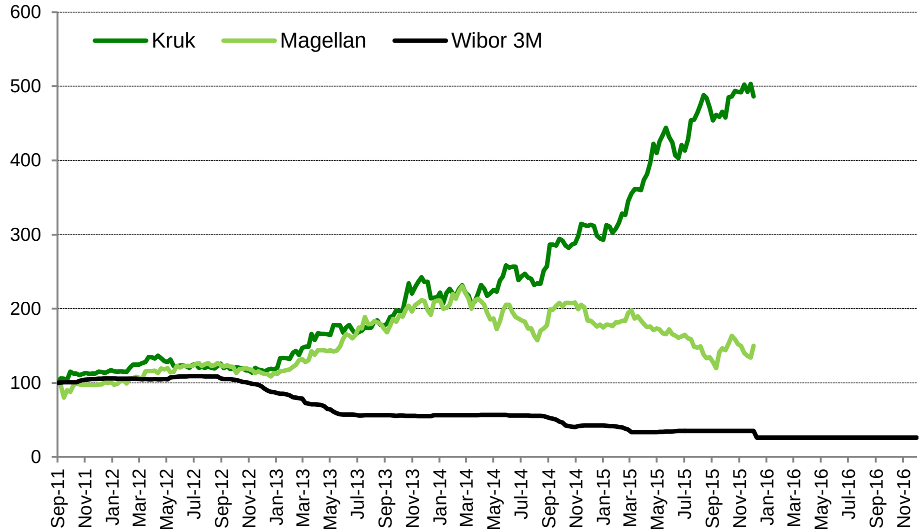


Source: Bloomberg, DM BZ WBK Research

FINANCIAL SERVICES (NEUTRAL): STEADY GROWTH

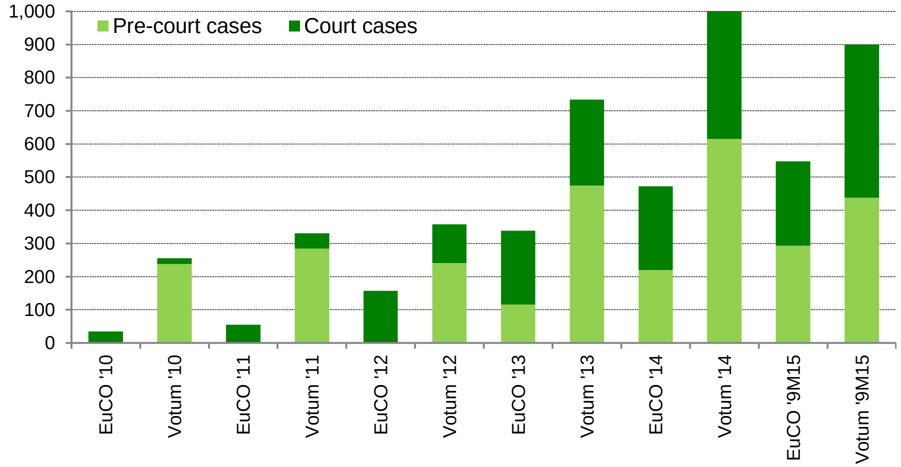
- **INVESTMENT CASE:** The financial service providers from our coverage come from a broad range of sub-sectors and, as such, are driven by various factors. We believe that the segment of compensation cases should outperform in 2016 again. Both **EuCo and Votum** have large portfolios of pre-court cases and we expect major insurance companies to pay record-high compensations in pre-court cases in 4Q15. We also believe that this trend will continue in 2015. We prefer EuCO over Votum next year due to its lower valuation ratio (2016E P/E of 8.5x and 2016E P/E of 7.9x vs. Votum's 9.1x and 8.0x, respectively) and higher potential for positive one-offs during the year. On a different note, there are high leverage companies, such as **Kruk** and **Magellan**, but we expect the rally on low interest rates to be over (50bp cut in 1Q/2Q16). **MW Trade** is insensitive to interest rate changes, but it pays dividends with a DY of c7.5%, same as **PCM**, so we expect this stock to be relatively attractive. Of the smaller banks, **BOS** needs a capital injection of c. PLN300-500mn for further growth. One of the scenarios assumes that a financial investor will make it. The **BPH** investment case is based on the conviction that GE (which currently holds 87% of the bank) will sell its stake to a new strategic investor by YE16. **Skarbiec** looks cheap and pays dividends, but its valuation is highly correlated to SF. Every 10bps gives PLN5 per share. Finally, we are neutral on **Open Finance**, despite its seemingly attractive 2016E P/E of 7.0x. There is a potentially significant risk that banks will cut margins or decrease volumes to financial intermediaries (mortgage and consumer loans contribute c50% of revenues to OF).

Magellan and Kruk vs. 3M WIBOR



Source: Bloomberg, DM BZ WBK Research

Value of court cases (PLNmn)



Source: Bloomberg, DM BZ WBK Research

FINANCIAL SERVICES (NEUTRAL): PCM & EUCO ARE OUR TOP PICKS

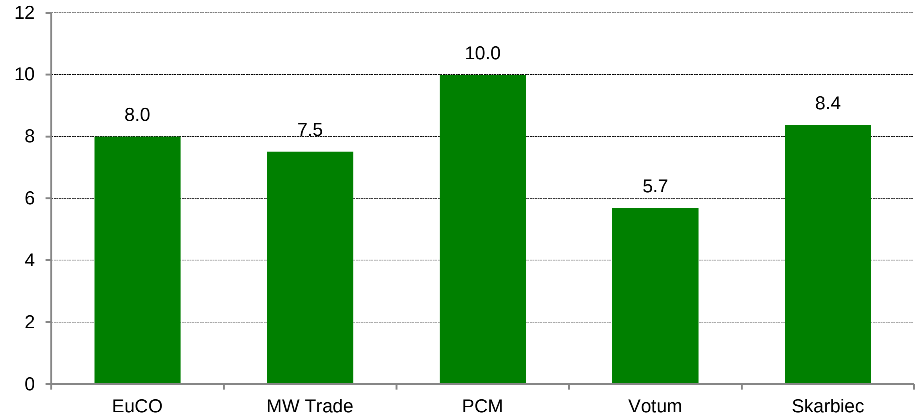
SECTOR PICKS: **EuCO** and **PCM** are our top picks for next year. **EuCO's** DY outlook remains generous at 8.0% in 2016E and 9.5% in 2017E. There are three factors that underpin the improvement in the earnings outlook: 1) the value of the ongoing cases continues to rise (PLN547mn in 3Q15, up 41% y/y) despite significant inflows from insurance companies (IC), 2) regulations concerning court proceedings are set to change next year in EuCO's favour; 3) cases that account for the bulk of its book tend to end in out-of-court settlements, resulting in cash circulation. And there is more good news in store, we think. The Romanian business should be consolidated in 2016 or 2017 at the latest. EuCocar, a new business line, should start in 2016E or 2017E and there is another one in the pipeline. **PCM's** valuation appears reasonable since, on our estimates, it trades at a 2015E P/E of 9x and YE15E P/Book 0.8x. A DY of nearly 10% is likely this year. And this is another attractive side of the stock, we reckon. Going forward, the focus will be on SMEs/micro-companies, further operating improvements in the service and remarketing segments and higher volumes of vehicles, all of which should drive earnings' growth.

Net profit in 2013-17E

	2013	2014	y/y	2015E	y/y	2016E	y/y	2017E	y/y
BOS	64	66	2%	13	-81%	46*	259%	69*	52%
BPH	192	112	-42%	26	-77%	21*	-18%	64*	199%
EuCO	10	15	49%	25	62%	29	19%	33	11%
Magellan	43	52	20%	53	2%	59	12%	69	17%
MW Trade	14	17	22%	20	18%	23	14%	25	11%
Open Finance	56	30	-47%	28	-7%	29	4%	30	4%
PRESCO	7	2	-72%	5	153%	6	21%	7	7%
PCM	44	63	42%	40	-36%	46	15%	52	14%
Skarbiec	10	29	181%	22	-25%	18	-17%	22	24%
VOTUM	5	10	87%	16	62%	21	34%	25	21%

*Source: Companies data, DM BZ WBK Research *ex- banking tax*

Dividend yield (%)



Source: Companies data, DM BZ WBK Research

Valuation table

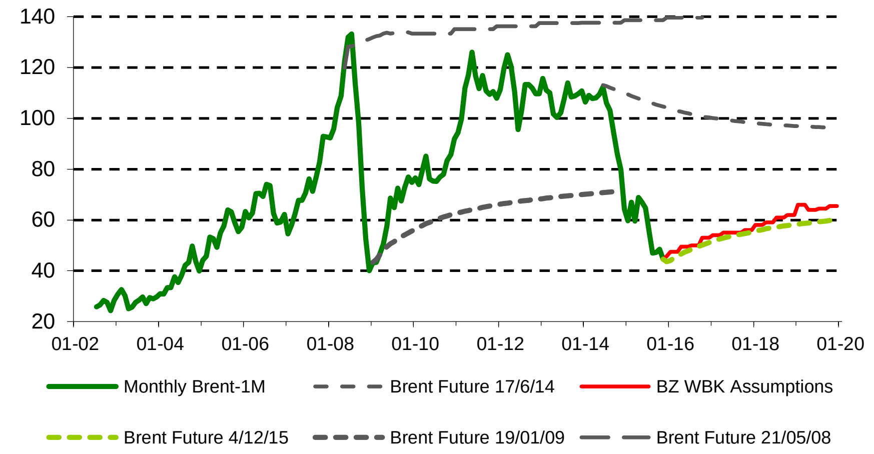
	Rating	TP (PLN)	Up(down)side	price (PLN)	P/E (x) 2015E	P/E (x) 2016E	P/E (x) 2017E	EV/EBITDA (x) 2015E	EV/EBITDA (x) 2016E	EV/EBITDA (x) 2017E	Div. Yield (%) 2015E	Div. Yield (%) 2016E	Div. Yield (%) 2017E	ROE (%) 2015E	ROE (%) 2016E	ROE (%) 2017E
BOS	Hold	24	28%	19	34.3	9.5	6.3	n.a.	n.a.	n.a.	0.0	0.0	0.0	0.8	2.8	4.1
BPH	Buy	45	49%	30	89	108	36	n.a.	n.a.	n.a.	0.0	0.0	0.0	0.5	0.4	1.2
EuCO	Buy	57	24%	46	10.4	8.7	7.9	7.9	6.6	5.4	5.9	8.0	9.5	52.3	50.7	49.2
Magellan	Buy	84	50%	56	7.0	6.3	5.4	27.7	28.7	n.a.	0.0	0.0	0.0	15.4	14.9	15.0
MW Trade	Buy	22	38%	16	6.6	5.8	5.3	30.8	28.7	27.9	7.5	8.5	9.5	25.8	25.8	25.2
Open Finance	Buy	5.9	117%	3	5.4	5.2	5.0	6.0	5.5	4.8	0.0	3.7	5.8	5.9	5.8	5.8
PRESCO	Sell	2.1	-68%	6	25.3	20.9	19.5	15.2	13.8	14.5	0.1	0.1	0.1	4.2	4.9	5.0
PCM	Buy	53	55%	34	10.0	8.7	7.7	n.a.	n.a.	n.a.	10.0	11.4	13.0	8.3	9.6	10.8
Skarbiec	Buy	56	78%	31	9.9	11.9	9.6	6.6	7.8	n.a.	8.4	10.4	10.5	19.2	23.8	23.4
Votum	Buy	26	63%	16	12.2	9.1	7.6	8.9	6.3	4.9	4.2	5.7	7.1	60.3	60.3	55.3
Average					20.9	18.9	11.0	14.8	13.6	11.5	3.3	4.4	5.0	19.7	20.1	17.7
Median					10.4	9.1	7.6	12.0	9.6	5.4	0.1	3.7	5.8	15.4	14.9	10.8

*Source: Bloomberg, DM BZ WBK Research, * paid in the given year*

OIL & GAS (O/W): DOWNSTREAM REMAINS KEY TO VALUE

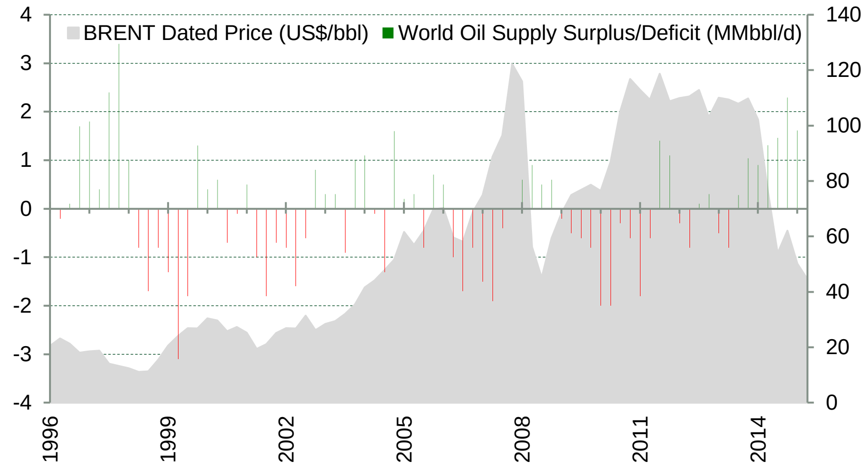
- **INVESTMENT CASE:** The continuing low oil price environment is driven by a fundamental oversupply, caused by new non-OPEC production combined with anaemic global demand. We expect the oil market imbalance to remain in place in 2016, although the growth in supply should ease going forward, mainly in non-OPEC regions as they respond to weak oil prices. We believe that in 2016 the cost base and cash management of the oil companies should evolve to allow oil & gas companies to function profitably at new-era oil price levels. European refiners should experience another good year in 2016E, helped by weak oil prices, continuing strong demand for gasoline and tightening competition between oil producers struggling for market share (widening Brent-Ural differential). The latter driver could provide structural support for CEE refiners in generating strong returns from oil processing, we think. Finally, weak local currencies in relation to USD should be another value booster for CEE oil & gas companies. **SECTOR OUTLOOK: OVERWEIGHT.**
- **VALUATION:** CEE oil & gas companies remain relatively cheap vs their pan-European peers in terms of P/E and EV/EBITDA, although the gap narrows in terms of EV/DACF ratio (typical for upstream-oriented names). The weak oil price environment should support downstream-oriented companies' (PKN and LOTOS) valuations in 2016E, while companies that are relatively more skewed to upstream (PGN) will have to divest assets and/or keep restructuring to bring in cash and offload capital commitments.
- **OIL PRICE ASSUMPTIONS:** Our new assumptions for Brent crude in 2015E, 2016E and 2017E are US$53/bbl (prev. US$54.5/bbl), US$50/bbl (prev. US$58/bbl) and US$55/bbl (prev. US$62/bbl), respectively. Our long-term assumption is US$65/bbl (prev. US$70/bbl).
- **MAIN THEMES:** We see five major triggers for the CEE oil & gas companies' share prices in 2016: (1) oil price development; (2) refining margins' strength; (3) widening light-heavy oil spreads; (4) progressive gas market liberalisation in Poland (PGN); and (5) the EUR/USD rate.

BZ WBK Brent oil long term view in US$/bbl



Source: Bloomberg, Santander , DM BZ WBK Research

World Oil Supply Surplus / Deficit vs. Brent oil Price



Source: Bloomberg, DM BZ WBK Research

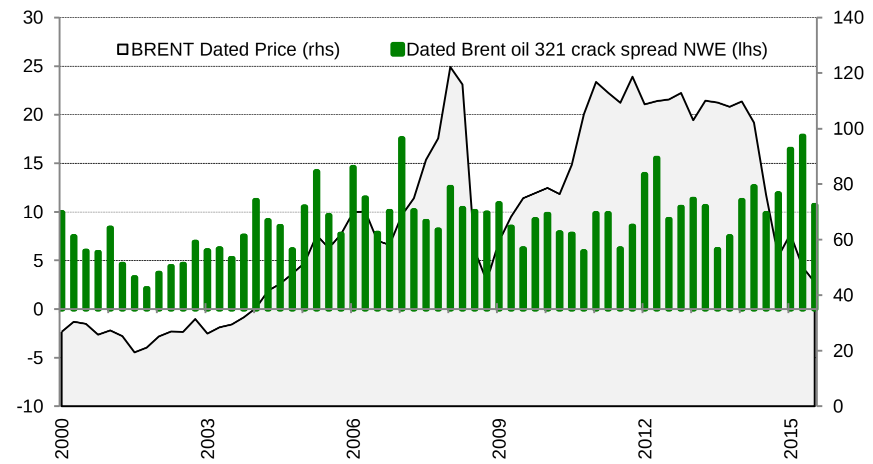
OIL&GAS (O/W): PKN IS OUR TOP PICK…

- **SECTOR TOP PICKS / SELLS:** We are Positive on **PKN (Hold, TP PLN72.0)** as we believe that strong downstream business, improved cash delivery and supportive FX markets should drive stock share price next year. We have Neutral approach on **LOTOS (Hold, TP PLN32.0)**. Even though the company should enjoy a strong refining macro environment, its exposure to USD-denominated debt is likely to limit its stock price, we think. Besides we point that LOTOS is in the middle of the capex-cycle, what should weigh on the dividend potential. We are Negative on **PGNiG (Sell, TP PLN5.77)** as, despite the recent share price drop (c26% in last month), progressive gas market liberalisation in Poland (lower margins on gas trading) and expected cuts in gas tariffs and WACC in the distribution business are likely to weigh on its earnings next year. **Our view on CEE oil&gas names:** we are positive on MOL and OMV. In our opinion MOL's downstream business should benefit from efficiency improvements, but we expect its upstream output targets to be trimmed in early 2016E, given delays in Kurdistan projects. We are also Positive on OMV for next year – despite the recent share price rally. We strongly believe that the maintenance of DPS at EUR1.25 (DY at c5.0%) should be a strong driver for the company's share price, at least in 1H16E.

Key Data, 4 December 2015

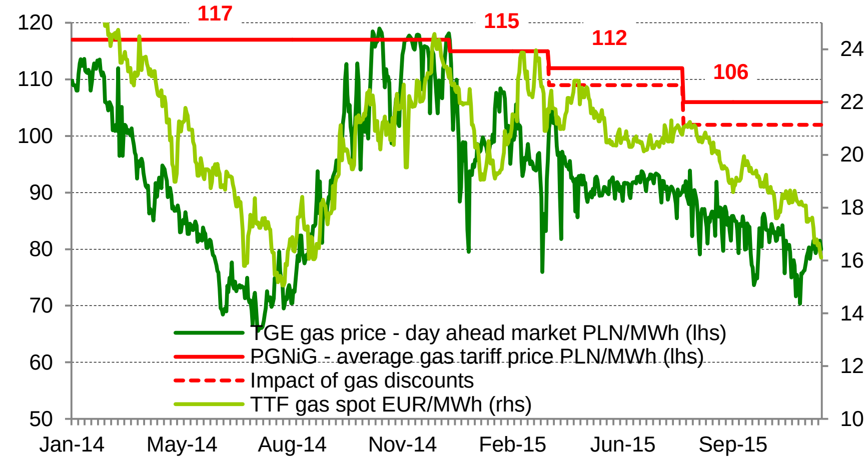
Company	Ticker	Currency	Market Price (local)	Mkt Cap (US$ mn)	New Rating	Old Rating	New TP (local)	Upside (%)	Old TP (local)	2016E EV/DACF (x)	2016E EV/EBITDA (x)	2016E Adj P/E (x)	2016E DY (%)
PKN	PKN PW	PLN	66.3	8.3	**HOLD**	**SELL**	72.0	9%	50.8	n/a	5.1	7.3	4.1
LOTOS	LTS PW	PLN	28.4	1.4	**HOLD**	**SELL**	32.0	13%	23.9	n/a	5.4	6.9	0.0
PGNiG	PGN PW	PLN	5.0	7.9	**SELL**	**HOLD**	5.77	15%	4.8	6.8	5.2	9.9	4.1
								Sector median*		**7.8**	**5.8**	**13.3**	**6.2**

NWE Brent 3-2-1 crack spread vs. Brent oil in US$/bbl



Source: Bloomberg, DM BZ WBK Research

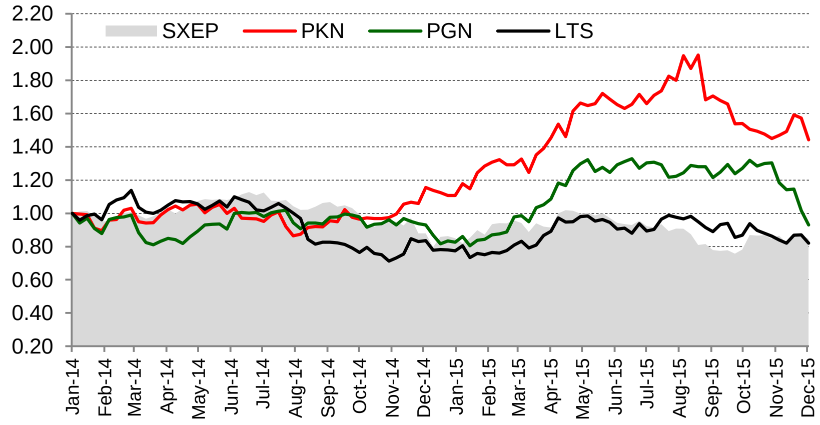
Polish TGE spot prices & PGNiG gas tariff vs. TTF spot



Source: PGNiG, Bloomberg, DM BZ WBK Research

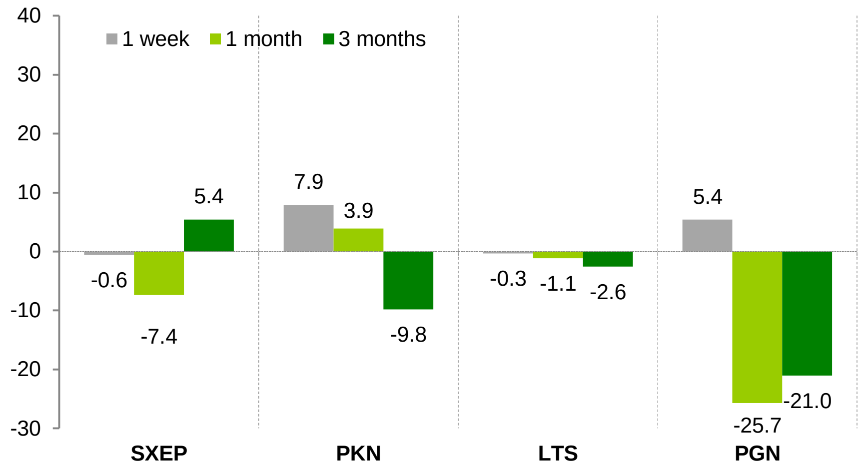
OIL&GAS (O/W): FORWARD P/E AND EV/EBITDA BELOW AVERAGE

SXEP Index vs. WSE listed major Oil & Gas stocks - rebased



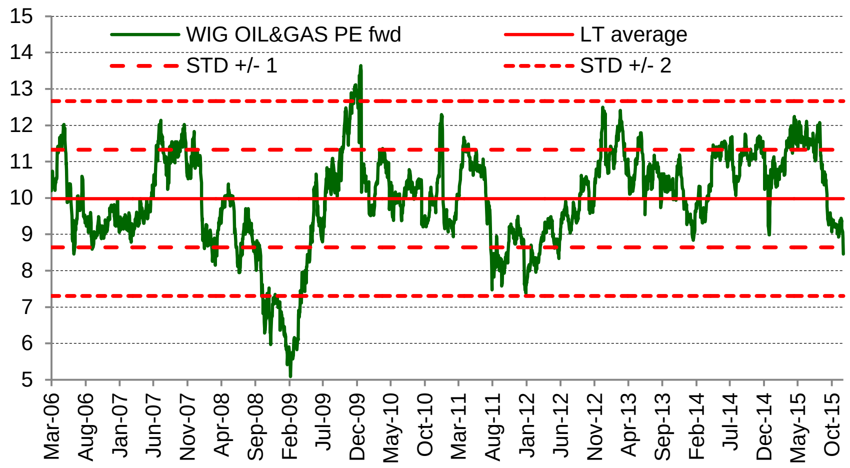
Source: Bloomberg, DM BZ WBK Research

Oil & Gas stocks – percentage change vs. SXEP Index



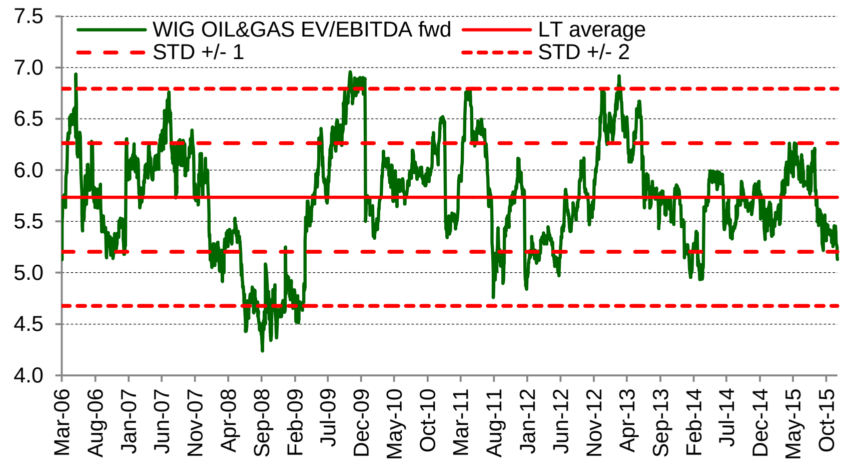
Source: Bloomberg, DM BZ WBK Research

WIG Oil & Gas Forward P/E



Source: Bloomberg, DM BZ WBK Research

WIG Oil & Gas Forward EV/EBITDA



Source: Bloomberg, DM BZ WBK Research

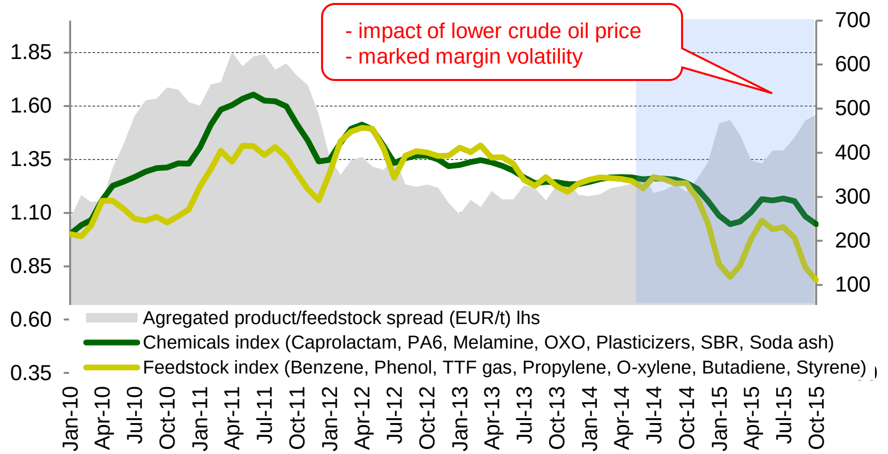
CHEMICALS (NEUTRAL): USD/EUR RATE AND GAS PRICE KEY TO VALUE

- **INVESTMENT CASE:** WIG Chemicals, up 48% YTD, significantly outperformed the WIG index (down 10% YTD) on strong share price performance of Ciech (up 101% YTD) and Grupa Azoty (up 68% YTD). Such strong performance of Ciech was caused by decent soda ash price rises and cheaper coal and coke quotations, while Grupa Azoty enjoyed lower gas prices. In our opinion, the chemical sector has some potential to improve its earnings next year. The strong US$ vs. EUR, persistently weak oil and gas prices should be supportive for the European chemical companies. However, we need to point out that the WSE-listed chemical companies have performed strongly YTD, though we do not expect all of them to enjoy a rise in their earnings. All in all, we are Neutral on the sector. **SECTOR OUTLOOK: NEUTRAL.**

- **VALUATION:** The sector's multiples are slightly lower compared with the beginning of the year, with the average P/E forward now at 14.5x on the Bloomberg consensus (vs. 15.9x end-2014). However, the sector's multiple still trades above its historical levels (l-t average is 10.7x). The multiples' expansion is not visible on the EV/EBITDA forward ratio either, which currently is at 7.4x on average compared to 7.3x at end-2013 (l-t average at 5.8x).

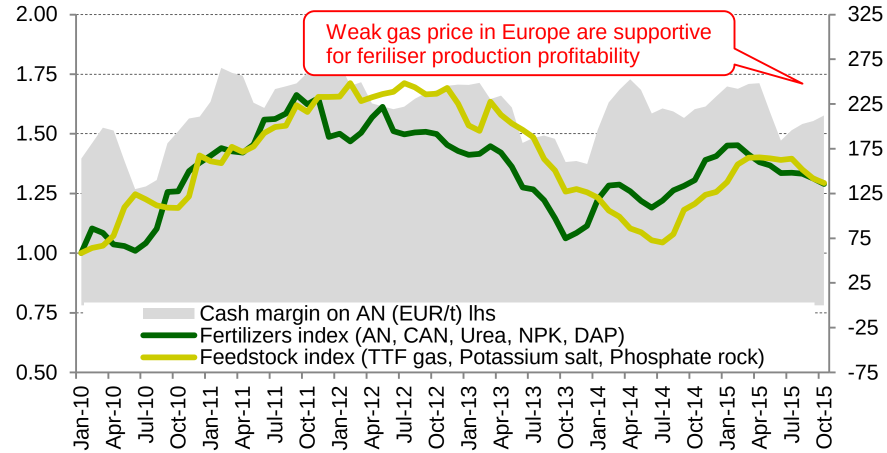
- **MAIN THEMES:** US$/EUR, crude oil and gas price developments will likely be the key drivers for the chemical companies next year. We would like to highlight that a strong US$/EUR is very supportive for the chemical companies as it protects the whole sector from overseas imports. In 2016, cheaper gas prices should offer Polish fertiliser producers relief throughout the year, but the persisting poor grain prices should keep a lid on their profitability growth. The synthetic rubber market fundamentals remain unchanged (bearish), while the re-start of Unipetrol's Litvinov plant will be crucial for Synthos in 2016. The European soda ash markets look fundamentally balanced and stable on recovering demand for glass. We expect a small rise in the soda ash prices in 2016 (up EUR3/t) and attractive coal and coke quotations.

Major chemicals & feedstock indices* – rebased



Source: Bloomberg, DM BZ WBK Research
**DM BZ WBK Research: major European benchmark product and input prices*

Major fertilizers & feedstock indices* - rebased



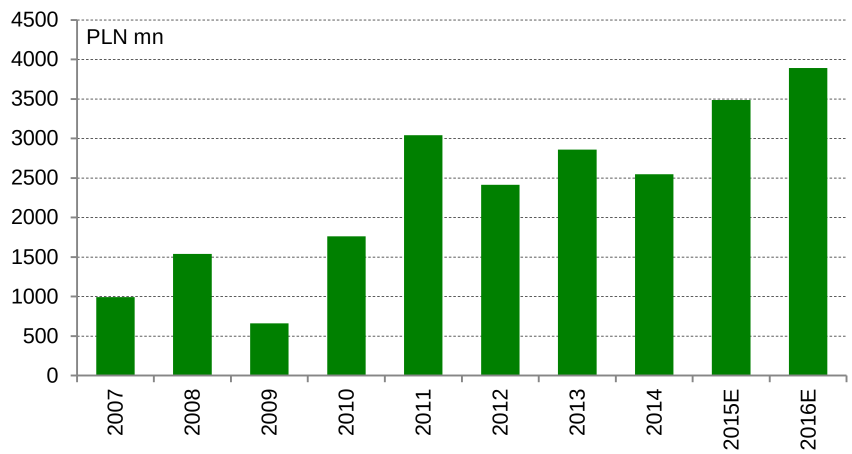
Source: Bloomberg, DM BZ WBK Research
**DM BZ WBK Research: major European benchmark product and input prices*

CHEMICALS (NEUTRAL): WE ARE POSITIVE ON CIECH AND PULAWY

- **SECTOR TOP PICKS / SELLS: Grupa Azoty (Sell, TP PLN52.5)** is the most expensive chemical stock in our coverage universe on its P/E multiple for 2016. However, our call on Grupa Azoty from last year (the stock was a top short in the sector) did not materialise with the cheaper gas prices proving supportive for its earnings. Since we expect gas prices to remain low next year, we change our rating of Grupa Azoty to Neutral. The lower gas prices should also support **Police (Sell, TP PLN16.3)** and **Pulawy (Buy, TP PLN211)**. We are, however, Positive only about Pulawy given its clean balance sheet, strong cash flows and low multiples. We are Neutral on Police at its current market price. We are Positive on **Synthos (Sell, TP PLN4.5)** due to its recent share price de-rating. We expect that the company's earnings will be under pressure in 2016E due to stoppages at the Litvinov plant (Unipetrol). However, we strongly believe that the expected decent dividend pay-out from the 2015E earnings (DY at c5%) should be the key driver for its share price in 1H16. **Ciech (Buy, TP PLN100) is our top pick among the chemical names**. The tight soda ash markets in Europe, the expected EUR3/t soda price rise and delays in the Turkish trona projects' ramp-up are the key factors behind our call. Ciech's bottom line should grow on lower debt costs.

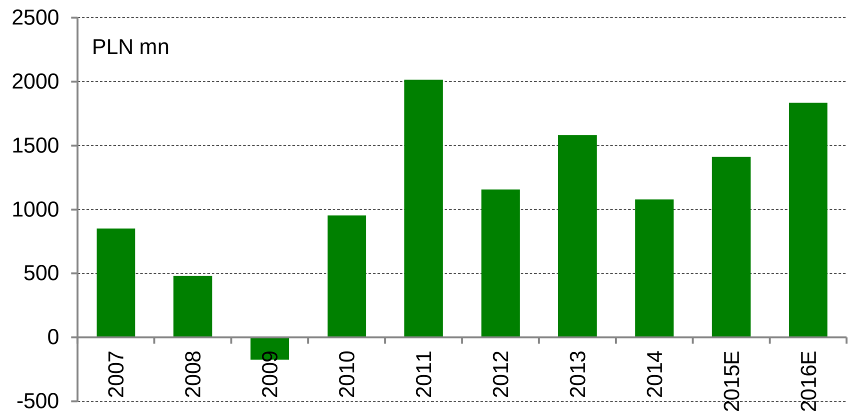
	Market Cap	P/E			EV/EBITDA			Stock Performance		
Company	(PLN bn)	2015E	2016E	2017E	2015E	2016E	2017E	1M	3M	YTD
SYNTHOS	4.8	12.9	10.9	9.4	8.7	7.3	6.2	-6%	-3%	-11%
GRUPA AZOTY	10.5	20.2	18.0	17.1	8.7	7.4	7.0	13%	18%	68%
AZOTY PULAWY	4.2	9.7	8.8	9.9	6.0	4.9	4.9	24%	31%	58%
AZOTY POLICE	2.0	16.3	12.9	12.3	8.7	7.2	6.9	13%	13%	47%
CIECH	4.5	19.9	12.3	12.1	8.4	7.4	7.3	7%	19%	101%
WIG CHEMICALS		**17.4**	**14.1**	**13.2**	**8.8**	**7.5**	**7.1**	**7%**	**14%**	**48%**
SX4P INDEX		**17.3**	**16.0**	**14.6**	**9.6**	**9.0**	**8.5**	**-5%**	**2%**	**6%**

Chemical sector EBITDA development 2007-2016E



Source: Bloomberg, DM BZ WBK Research

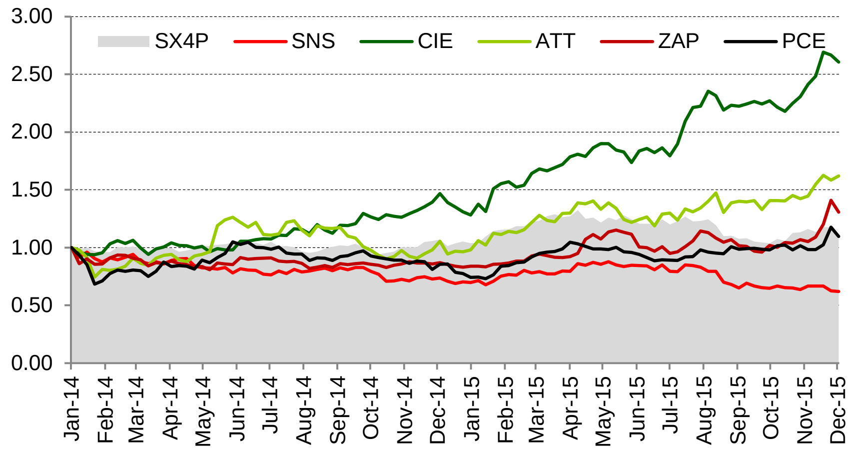
Chemical sector bottom line development 2007-2016E



Source: PGNiG, Bloomberg, DM BZ WBK Research

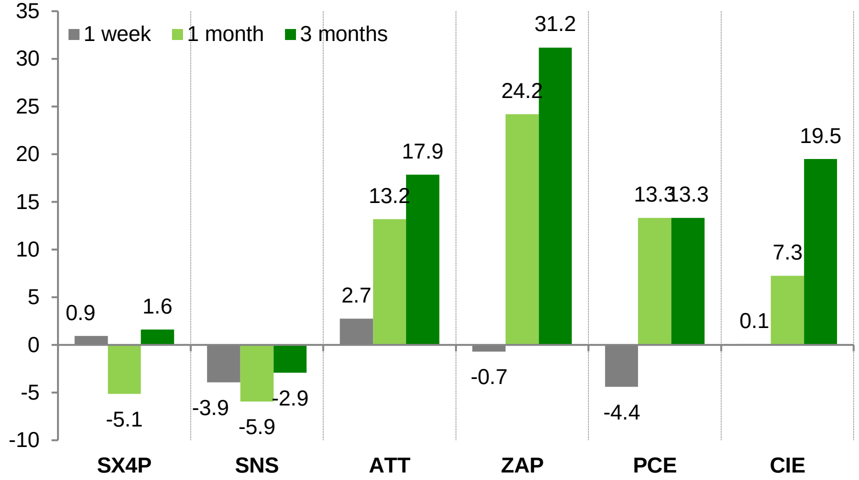
CHEMICALS (NEUTRAL): MARKED SECTOR RE-RATING YTD

SX4P Index vs. WSE listed major chemicals stocks - rebased



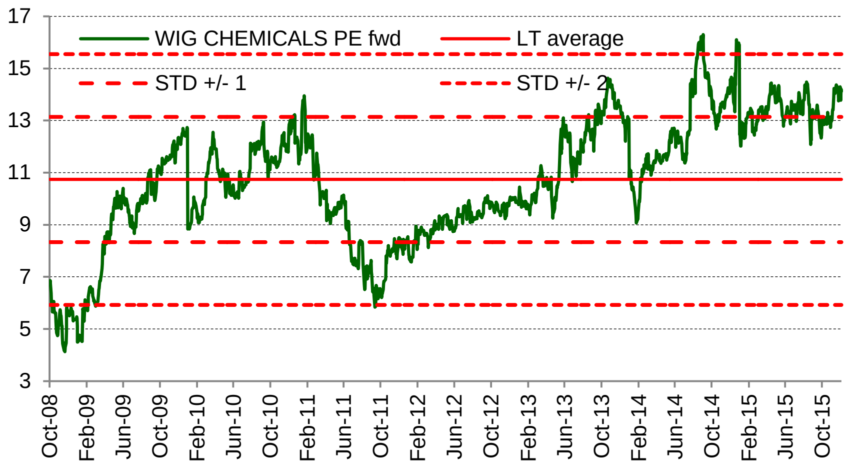
Source: Bloomberg, DM BZ WBK Research

Chemical stocks – percentage change vs. SX4P Index



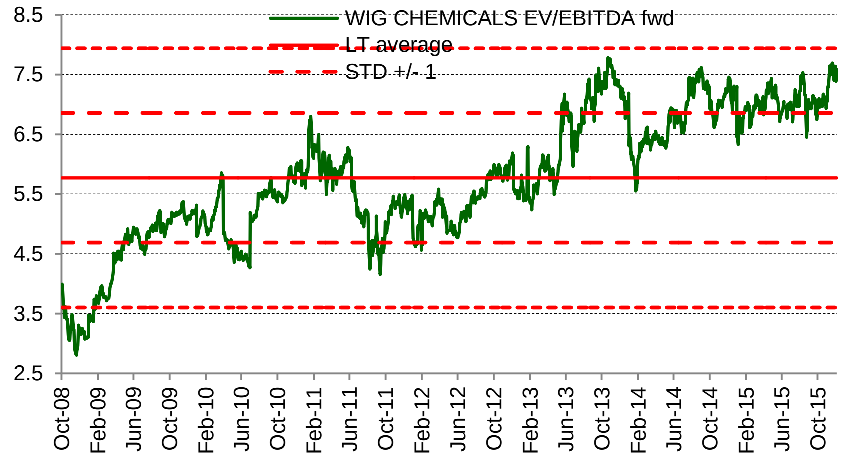
Source: Bloomberg, DM BZ WBK Research

WIG Chemicals Forward PE



Source: Bloomberg, DM BZ WBK Research

WIG Chemicals Forward EV/EBITDA



Source: Bloomberg, DM BZ WBK Research

UTILITIES (U/W): AVOID THE SECTOR UNTIL THE DUST SETTLES

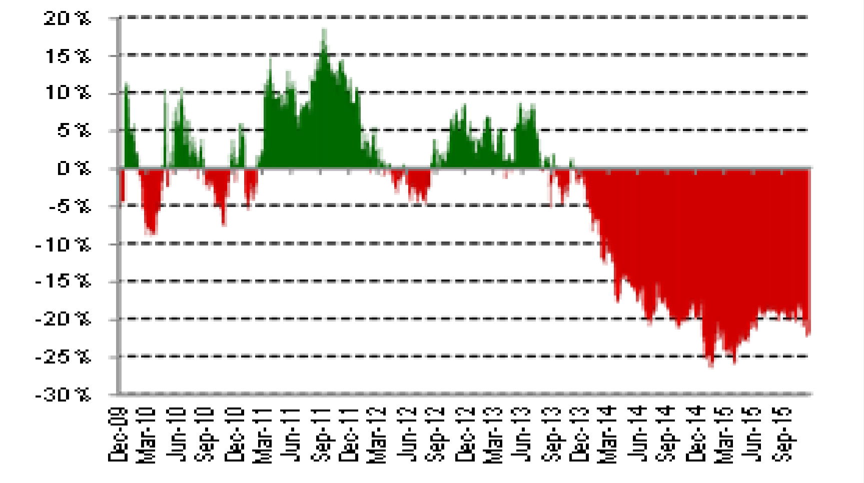
- **INVESTMENT CASE:** The fundamental recommendations suggest that double-digit upsides exist in case of Energa and Tauron, but our 2016 strategy is simple: investors should avoid the sector until the dust settles. Polish utilities currently face a perfect storm, and the worst scenario imaginable is rapidly becoming reality. Aside from general risks, we suggest avoiding lignite-exposed names (PGE), in light of the pressure on electricity prices in the medium term. **SECTOR OUTLOOK: Highly Cautious / Underweight, sector likely to be battered in 1H16.**
- **VALUATION:** The weighted per share valuation implies the highest upside for Polenergia (+50%), followed by Energa (+28%) and Tauron (+23%). We see 4% valuation upside in ENEA, while PGE and ZE PAK have downsides. However, because of the extremely high risk (mine subsidies, cancellation of dividend payments) highlighted recently by the politicians, we cut our recommendations by a notch across Treasury-controlled sector. In this light, Polenergia is our lone Buy, we have two Holds (Energa, Tauron), while PGE and ZE PAK remain a Sell.
- **MAIN THEMES:** Below we list the key risk factors for the segment and its participants: (1) substantial EBITDA / net profit erosion; (2) value-destructive mine acquisitions – already carried out and pending; (3) uncertainty over intra-sector mergers; (4) risk of being forced into construction of brand new fossil-fuelled capacity. And finally, as if all the above were not enough to weaken the sector for the foreseeable future, the Polish Energy Minister hinted in a press interview that utilities may not pay dividends if burdened with heavy investments. Stable dividend flow represents the foundation of investing in utilities, and putting a question mark over them brings into question their share prices.

EBITDA 2015-18E outlook – slide until 2017E [PLNmn]

	2015E	2016E	2017E	2018E
PGE	8,038	6,355	5,897	5,667
% y/y change	-1.0	-20.9	-7.2	-3.9
Tauron	3,652	3,080	3,252	3,167
% y/y change	-1.0	-15.7	5.6	-2.6
Energa	2,258	1,838	1,925	1,938
% y/y change	-2.1	-18.6	4.8	0.7
ENEA	2,228	2,233	2,220	2,247
% y/y change	16.4	0.2	-0.6	1.2

Source: DM BZ WBK Research

Polish vs. German electricity futures – substantial room to fall



Source: Bloomberg, DM BZ WBK Research

UTILITIES (U/W): UPSIDE IN REGULATED PLAYS, AVOID LIGNITE EXPOSURE

- **SECTOR PICKS:** First of all, we believe the world's thermal coal oversupply will keep coal price under pressure over 2016, thus negating any upside to 2017 electricity price futures. Moreover, we believe the price of CO2 certificates should remain on the rise – these two factors represent the worst possible environment for lignite fleet-based PGE and ZE PAK. ENEA lost its entire appeal with the acquisition of Bogdanka coal miner – the switch from variable into fixed costs in thermal coal down trending still remains a mystery to us. On top of that, the entire sector faces two very substantial investment risks of being forced into (1) new capacity investments and (2) mines' subsidies, both potentially eroding shareholder's value. Actually we believe that ENEA and Energa will jointly build a new 1,000MW Ostroleka brownfield unit, and more units may fall on shoulders of PGE. Dividend policies are at risk too – this it the most eye-striking in Energa, where we believe the market is discounting termination of the company's hefty dividend payout policy. One more year of low electricity price and high CO2 price would push ZE PAK to verge of bankruptcy, while Polenergia's lack of investment outlays (other than for the potential renewable auction) and 2016E decent EBITDA upside turn this stock into our key sector pick for 2016.

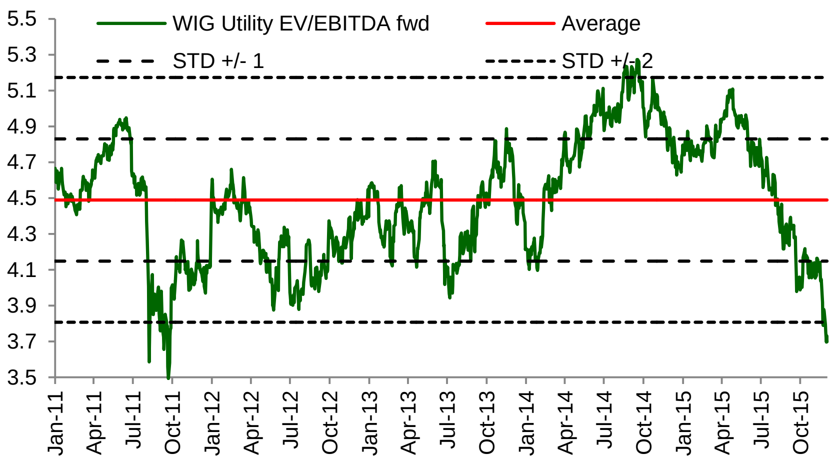
Valuation table

	TP	P/E (x)			EV/EBITDA (x)			Div. Yield (%)		
	(PLN)	2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E
PGE	13.4	n.a.	8.6	10.2	4.4	6.4	7.4	5.8%	5.6%	4.7%
Tauron	2.84	1209.6	7.7	7.7	4.4	6.5	6.8	5.3%	5.3%	5.2%
Energa	13.65	6.2	10.9	10.3	4.4	6.1	6.2	10.5%	8.9%	7.5%
ENEA	11.52	4.8	7.8	8.4	6.1	6.7	7.0	4.1%	5.2%	6.1%
POLENERGIA	27.49	19.5	12.9	14.8	8.8	9.2	11.8	0.0%	0.0%	3.9%
ZE PAK	9.8	23.6	n.a.	5.0	5.4	6.5	5.0	12.2%	3.2%	0.0%
EU peer groups										
Regulated		***14.6***	***14.6***	***14.0***	***10.2***	***10.1***	***9.9***	***5.0***	***5.2***	***5.3***
Minimum		*11.6*	*12.0*	*11.3*	*6.4*	*6.3*	*6.0*	*3.4*	*3.4*	*3.6*
Maximum		*17.8*	*18.1*	*17.2*	*15.8*	*14.6*	*14.0*	*6.4*	*6.5*	*6.4*
Dirty generation		***11.7***	***12.8***	***12.0***	***7.1***	***7.2***	***7.0***	***5.3***	***5.3***	***5.6***
Minimum		*5.9*	*8.2*	*8.4*	*5.2*	*5.4*	*4.9*	*2.7*	*1.3*	*2.3*
Maximum		*18.3*	*49.5*	*39.8*	*9.8*	*9.4*	*9.3*	*8.2*	*6.9*	*6.4*
Clean generation		***14.4***	***14.9***	***14.5***	***7.8***	***7.9***	***7.8***	***6.0***	***5.8***	***5.7***
Minimum		*6.6*	*7.6*	*8.2*	*4.1*	*4.3*	*4.3*	*2.8*	*2.2*	*2.2*
Maximum		*18.4*	*24.2*	*20.3*	*10.0*	*10.6*	*11.1*	*9.0*	*8.5*	*8.1*
Renewables		***28.3***	***24.9***	***22.4***	***9.4***	***9.0***	***8.4***	***1.4***	***1.6***	***2.0***
Minimum		*2.7*	*2.2*	*2.3*	*7.0*	*7.1*	*7.0*	*0.0*	*0.0*	*1.0*
Maximum		*40.1*	*31.9*	*27.9*	*9.7*	*9.5*	*9.0*	*2.6*	*2.6*	*22.2*

Source: Bloomberg, DM BZ WBK Research

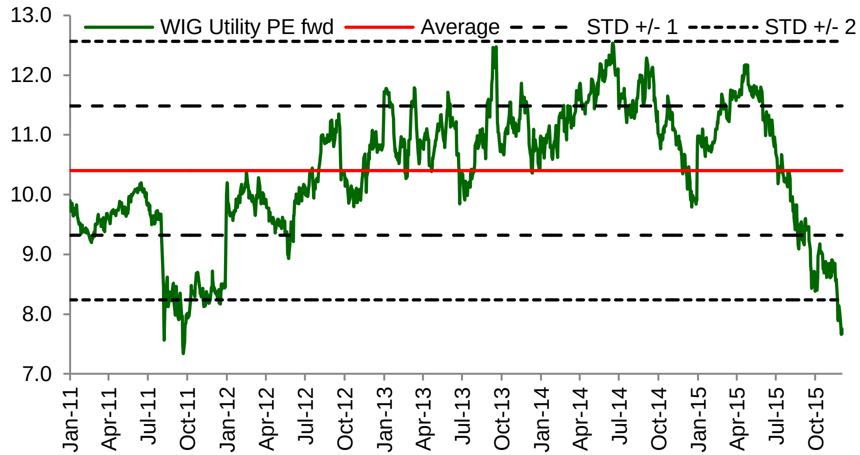
UTILITIES (U/W): OVERSOLD AT RATIOS, BUT FOR A VERY GOOD REASON

WIG Utility: Divergence vs. EV/EBITDA 1YR fwd



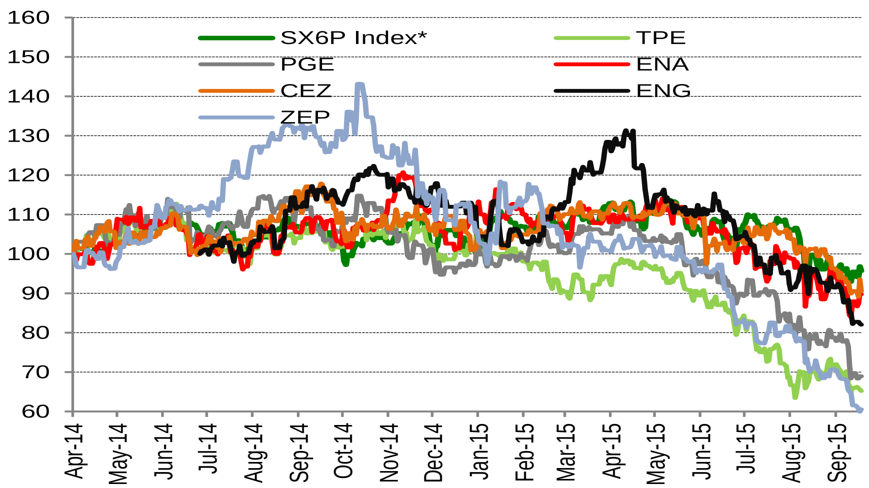
Source: Bloomberg, DM BZ WBK Research

WIG Utility: Divergence vs. P/E 1YR fwd



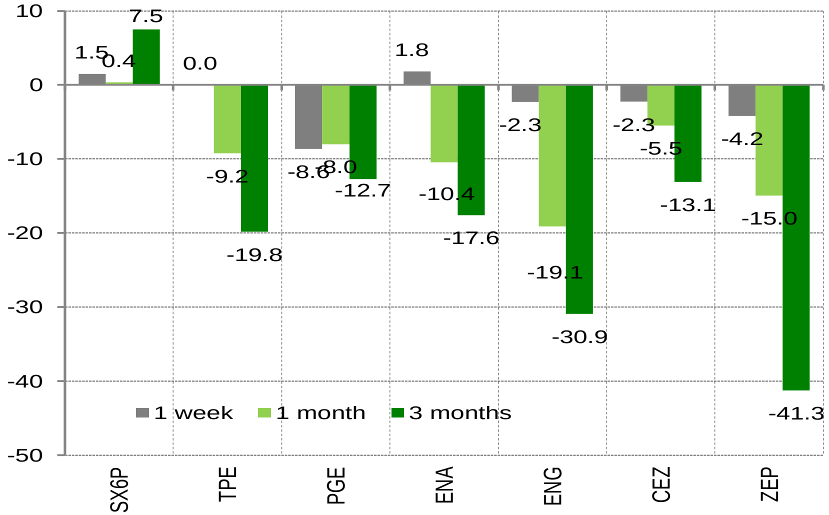
Source: Bloomberg, DM BZ WBK Research

Utility: Share price performace [rebased to 100]



Source: WSE, Bloomberg, DM BZ WBK Research

Utility: Share price changes [%]

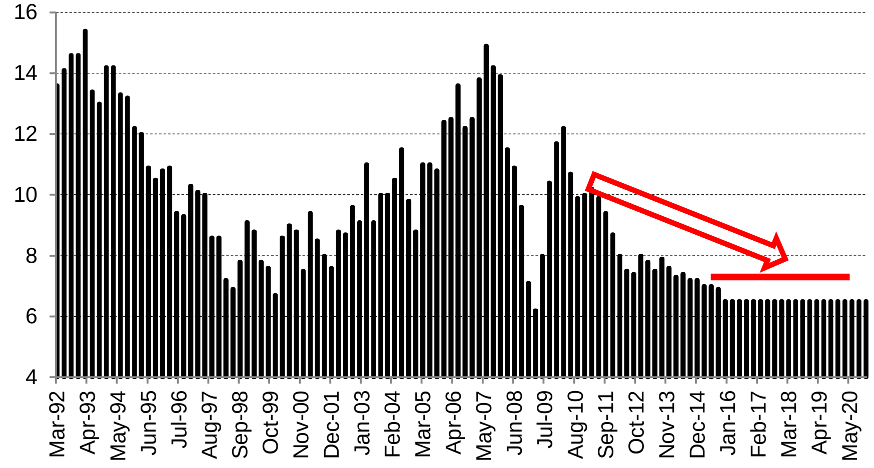


Source: WSE, Bloomberg, DM BZ WBK Research

METALS (U/W): 2016, ANOTHER YEAR OF WEAK INDUSTRIAL METALS?

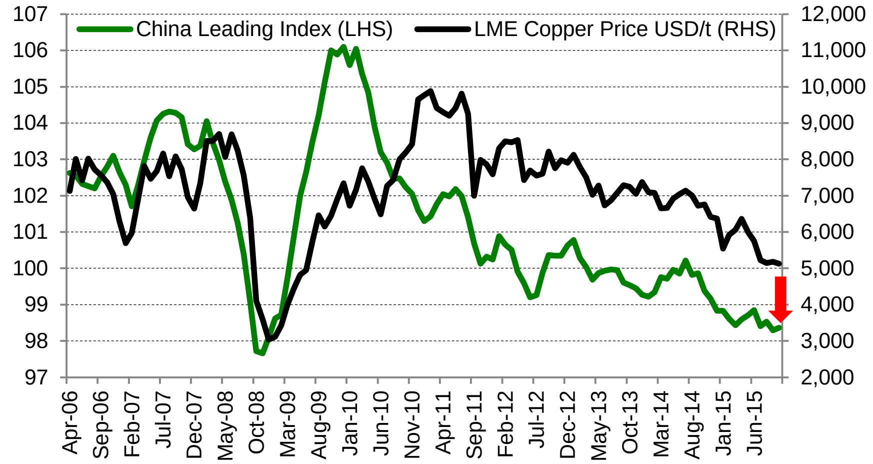
- **INVESTMENT CASE:** In December 2014, we predicted that 2015 would be a weak year for industrial metals and this call unfortunately turned out to be very correct. What is more, the main rationale behind our call – a slowdown of the Chinese economy – became even stronger: what was a risk of deceleration last year is a full-scale deterioration today. The Chinese PM points to 2016-20E GDP growth averaging at 6.5% and we continue to suspect that this might be overly optimistic. All of these factors substantially undermine the outlook for metals, coke and all-kind coal as a substantial share of global demand comes from China, which has also been building its own capacities. Technical analysis shows that an imminent bear market is possible in copper and silver, but we stick to our overall **SECTOR OUTLOOK: UNDERWEIGHT.**
- **VALUATION:** We believe that ENEA's successful call for a 66% stake in Bogdanka effectively erased any fundamental appeal of the latter, not to mention its suddenly worse investability (FF, trading volume). With the Upper Silesian mines steadily getting support, room for Bogdanka's volumes may narrow. JSW has been in technical bankruptcy for several months now and we expect it to be split up, acquired or issue new shares ahead. Finally, KGHM will likely suffer not only from weak metal prices, but also from the most unfortunate timing of the Sierra Gorda launch. This investment kicked off in an environment of long-unseen low moly prices, triggering heavy quarterly losses. Last, but not least, the idea of scrapping the extraction tax no longer seems to be on the cards for 2016.
- **MAIN THEMES:** Strong investments into the Chinese electric grid (responsible for a third of China's total copper demand) are boosting the copper price. Technical analysis suggests that a natural bear market rally in copper and silver could be likely soon, with the former potentially up to USD2.5/lb or USD3.0/lb. Sadly, macroeconomic indicators (such as, the Chinese Leading Indicator, U.S. and German indicators) suggest that the world may be slowing down, which would clearly be bad news for metals, coal and coke.

Chinese GDP growth, and forecasts (quarterly, in %)



Source: Bloomberg, DM BZ WBK Research

Copper price to follow Chinese slowdown?



Source: Bloomberg, DM BZ WBK Research

METALS (U/W): 2016, ANOTHER YEAR OF WEAK INDUSTRIAL METALS?

- **SECTOR PICKS:** We believe that the aforementioned successful bid of ENEA for the 66% stake in **Bogdanka (Sell, TP PLN28)** effectively erased any fundamental appeal of the latter, not to mention its suddenly worse investability (FF, trading volume). Azoty Pulawy had just slashed its mid-term coal purchases from Bogdanka by half and with the Upper Silesian mines steadily getting support either from the State or the State-run utilities, room for Bogdanka's volumes beyond +5mt may narrow. Finally, we would not be surprised to see (1) Bogdanka's NetFCF invested into the construction of a brand new thermal coal fired unit or (2) an adjustment of ENEA-Bogdanka coal trading terms from 2018 onwards – both these would erode the company's fundamental value significantly. **JSW (Sell, TP PLN8.50)** has been in technical bankruptcy for several months now (it failed to repay its PLN1.1bn bonds) and the management suggests that there could be a recovery in coking coal and coke in late 2016 at best. Nevertheless, JSW is running out of cash for salaries. We, therefore, believe the company will be either split up, acquired by a State-owned company (KGHM would be the best match) or it will have to issue new bonds / shares (potentially convertible bonds) ahead. Still, with the deep-out-cash option in place, JSW's share price will certainly be very volatile, offering very decent returns on every rumour of coke / coking coal recovering. Our core scenario for 2016 is based on flat zloty-denominated copper & silver prices (vs. current levels, implying a double-digit y/y erosion). However, the non-existing copper hedging, vanishing silver hedging and unfortunate USDPLN exchange rate hedging (at 4.0x) will all depress **KGHM (Sell, TP PLN96)** parent figures substantially. Finally, KGHM will suffer not only from weak metal prices, but also from the most unfortunate timing of its Sierra Gorda launch. This investment kicked off in an environment of long-unseen low moly prices, triggering heavy quarterly losses. Last, but not least, the government is no longer considering scrapping of the extraction tax in 2016, leaving no chances for a comparable bottom line y/y. We have no top picks in the sector: Bogdanka's share price will keep trending south, JSW's eye-striking not-so technical bankruptcy, while no changes in metal price trends could quickly make KGHM resemble JSW. Technical analysis shows that a bear market rally in copper and silver is possible, which would certainly trigger a bear market rally in KGHM's share price in the coming months.

Valuation table

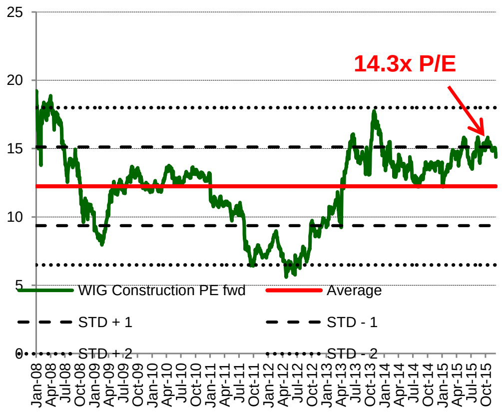
	TP	P/E (x)			EV/EBITDA (x)			P/CE (x)		
	(PLN)	2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E
Bogdanka	27.80	6.9	9.5	8.6	3.0	3.1	2.8	2.4	2.6	2.5
JSW	8.50	n.a.	n.a.	n.a.	7.1	5.3	5.3	3.2	2.3	2.1
Mines in Developed Markets		***21.0***	***17.1***	***7.9***	***6.3***	***8.2***	***5.5***	***2.2***	***2.5***	***1.8***
Minimum		*14.1*	*16.5*	*5.8*	*5.1*	*5.7*	*0.0*	*0.0*	*0.0*	*0.0*
Maximum		*610.0*	*43.9*	*8.6*	*17.7*	*20.7*	*19.3*	*7.5*	*19.4*	*6.7*
Mines in Emerging Markets		***6.7***	***7.6***	***7.6***	***4.8***	***8.6***	***6.0***	***4.5***	***4.3***	***5.1***
Minimum		*4.4*	*5.9*	*5.7*	*1.3*	*1.0*	*1.0*	*0.0*	*0.0*	*3.0*
Maximum		*28.8*	*13.3*	*11.5*	*21.0*	*128.8*	*19.3*	*14.2*	*13.1*	*10.9*
KGHM	96.00	4.3	4.4	4.6	3.4	4.0	3.7	2.9	3.0	2.9
Average		***14.4***	***14.1***	***10.3***	***7.6***	***6.9***	***5.8***	***5.8***	***5.6***	***5.0***
Minimum		*7.3*	*7.0*	*4.1*	*4.1*	*5.0*	*4.0*	*0.7*	*1.0*	*0.8*
Maximum		*93.7*	*300.9*	*16.1*	*19.4*	*13.3*	*10.6*	*13.9*	*12.4*	*12.1*

Source: Bloomberg, DM BZ WBK Research

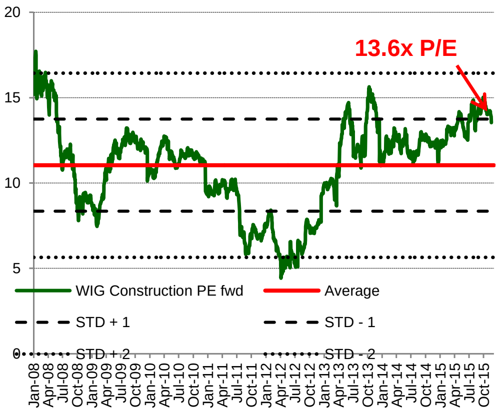
CONSTRUCTION (O/W): GAINING MOMENTUM

- **INVESTMENT CASE:** We maintain our positive stance on construction companies (as we did in our strategy for 2015). The EU funds flow remians the key story for the sector. We expect EU funds to start taking effect this year (scheduled for 2014–2020), whereas the outlook for 2017-19E is even more optimistic for contractors, in our view, as EU funds' allocation should accelerate further. We believe the supply of road and railway contracts should accelerate rapidly going forwad. Moreover, sector's liquidity is improving. On top of that, the current valuation of construction stocks is not very demanding in light of the expected healthy mid-term profit growth (2Y forward P/E estimate for WIG-Construction is 13.6x). **SECTOR OUTLOOK: OVERWEIGHT.**
- **MAIN THEMES:** The situation in the sector is improving. The CSO ratio that measures delays in payments has been gradually recovering. Capacity utilisation stabilised at a relatively high level of c. 80%, much above the 73% average of the last 15 years. The ratio measuring the expected employment level also remains in an uptrend. In our opinion, the coming quarters should bring further improvement in the performance of the construction business. Contractors have completed restructuring initiatives and reduced their cost base. The expected growth in investments should boost their backlog/sales and, thanks to operating leverage result in some margin and profit expansion. Potential pressure on margins in the mid term stemming from shortage of workforce, and recovery of construction costs is the key risk factor.
- **STOCK POSITIONING:** We definitely prefer companies that are 1) restructured and cash-generating, 2) have a high operating leverage, 3) offer exposure to investments in transport infrastructure, including railways and roads.

WIG Constr. P/E 1Y forwards

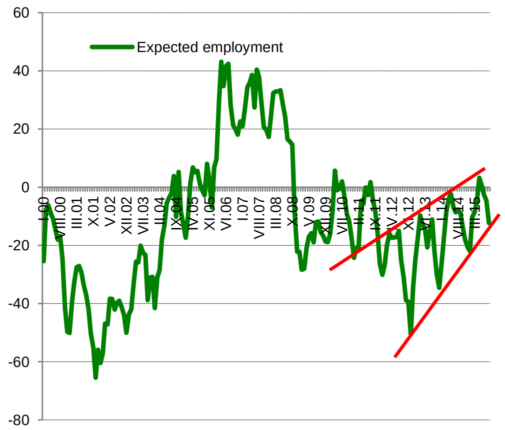


WIG Constr. P/E 2Y forwards

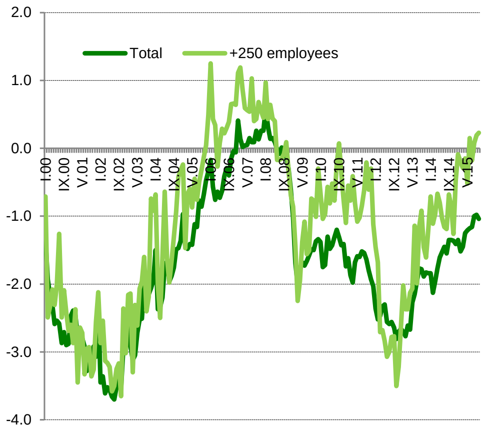


Source: REAS, Bloomberg, DM BZ WBK Research

Expected employment in sect.



Delay of payments indicator



Source: Bloomberg, CSO, DM BZ WBK Research

CONSTRUCTION (O/W): WE LIKE TRAKCJA AND UNIBEP

- **SECTOR PICKS: Trakcja** remains our top pick for the following reasons: 1) the growth in order backlog in 3Q15 reached an impressive 76% q/q while PLN700mn+ worth of contracts has been signed QTD; 2) FY16E earnings are likely to be flat y/y; not only this would be a positive surprise for the market (a ‘transition’ year between the ‘old’ and the ‘new’ EU budgets year and temporary drop in profits is commonly expected) but also would make the company relatively cheap vs. peers; 3) 2017-18E should bring solid profit growth along with an expected rise in PKP PLK’s spending on railway track construction; the expected 10% EPS CAGR in the period would push the P/E ratio into an even more attractive level, 4) we are positively surprised with Trakcja’s cash generation in 9M15, and in 2016 Trakcja should deliver good CF with respect to the envisaged lower NWC utilisation. Finally, Trakcja may, we think, decide to pay a dividend from 2015E earnings, which should we warmly welcomed by investors.

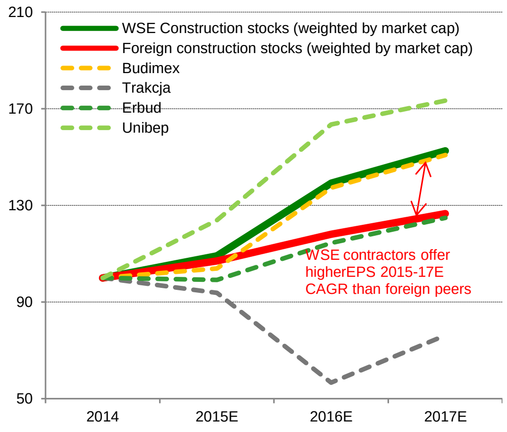
- We also like **Unibep**. We believe in Unibep’s gradual profit growth in 2015-2017E at a healthy CAGR of 18%, which we believe would be the fastest growth rate of covered WSE construction stocks. We also expect the company’s P/E 2017E to fall to a relatively attractive level of 10.6x. We expect steady growth in the general construction business. Unibep has become the ‘first choice’ contractor for many top residential developers thanks to its high-quality services in home-building. We think that the housing boom in Poland should further support the company’s backlog development and performance of the construction division. The company also managed to secure new contracts on the Eastern markets (conditional deals), which mitigates the risk of contracting export sales. We also expect a rapid profit improvement in the residential business, as we expect notary sales to peak in the coming two years thanks to a strong apartment sales volume.

WSE construction companies multiples

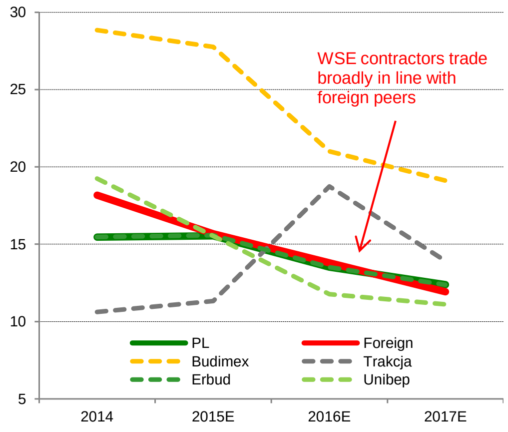
Company	Price	Currency	Market Cap (EURm)	P/E 2015E	P/E 2016E	P/E 2017E	EV/EBITDA 2015E	EV/EBITDA 2016E	EV/EBITDA 2017E
Budimex	210.90	PLN	1,200	24.47	19.30	16.75	11.89	9.30	8.47
Trakcja	12.00	PLN	148	13.03	18.31	14.14	7.20	7.68	6.87
Torpol	12.88	PLN	69	9.56	16.51	12.84	4.46	6.03	5.34
Erbud	26.20	PLN	78	12.82	11.21	10.12	6.40	6.11	5.89
Unibep	11.02	PLN	90	15.92	12.61	11.34	9.38	8.65	7.64
Elektrobudowa	136.00	PLN	150	13.07	12.06	11.83	7.81	7.35	7.17
Mostostal Zabrze	1.35	PLN	47	6.43	8.18	7.30	n.a.	n.a.	n.a.
Herkules	4.08	PLN	41	14.07	11.66	11.03	6.48	6.48	n.a.
Median				**13.1**	**12.3**	**11.6**	**7.2**	**7.3**	**7.0**

Source: Bloomberg, DM BZ WBK Research

EPS for listed contractors



P/E for listed contractors

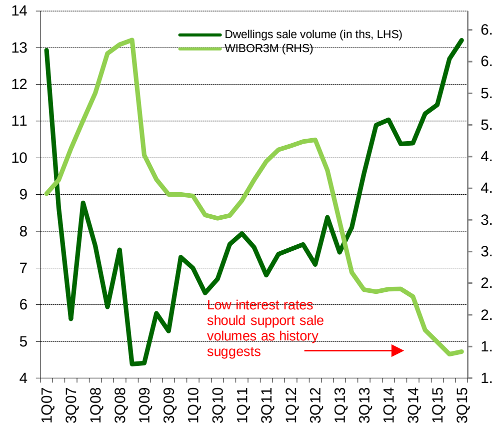


Source: Bloomberg, DM BZ WBK Research

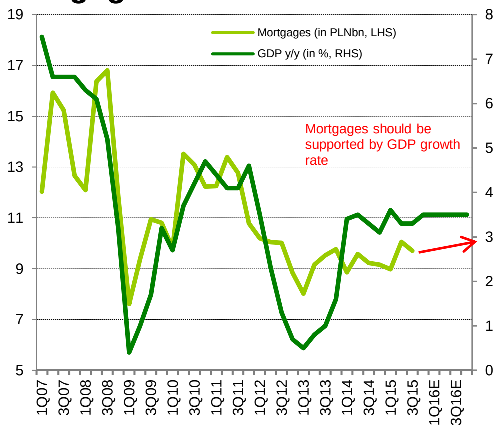
HOUSING DEVELOPERS (NEUTRAL): BOOMING BUT GROWTH PRICED IN

- **INVESTMENT CASE:** We are neutral on residential developers. On the one hand, we expect some further (but insignificant) growth in the overall apartment sale volumes in Poland in 2016. This should be helped by 1) a rebound in new mortgages thanks to some GDP growth rate expansion (as in the past) and 2) investment demand attracted by interest rates that should remain low. On the other hand, however, we expect some appreciation of construction costs (due to an accumulation in new residential developments) and a rise in the supply of apartments, which is likely to limit growth of apartment prices. In sum, volumes' growth should be accompanied with a margin stabilisation or its drop for the residential developers. Moreover, we believe that valuation of the largest RE names is an unattractive entry point for investors at the moment. **SECTOR OUTLOOK: NEUTRAL**.
- **VALUATION:** We continue to advise neutral positioning on covered residential developers (Dom Development and Ronson), as both are trading close to our estimates of their fair P/BVs and our Target Prices. Both remain Holds. The lack of upside potential seems to be an overwhelming issue for the whole sector, we note. On consensus estimates, only Atal (N/R), seem to be trading below its fair P/BV, derived from average 2015-17E consensus ROE and 7.8% cost of capital
- **MAIN THEMES:** We believe that growth in land prices and construction costs are the main risk factors for developers. Prices of apartments are stabilising/inching up, which may be a sign of margin contraction of the developers.

Homes sale volume and WIBOR

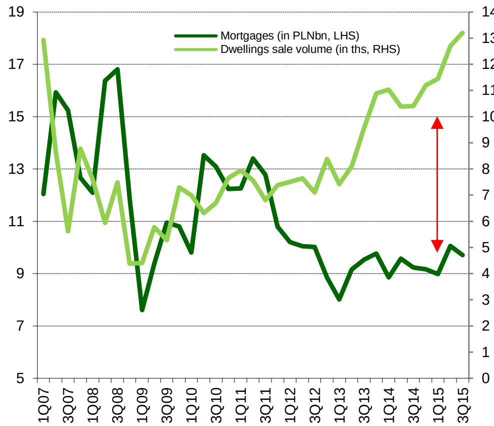


Mortgages and GDP

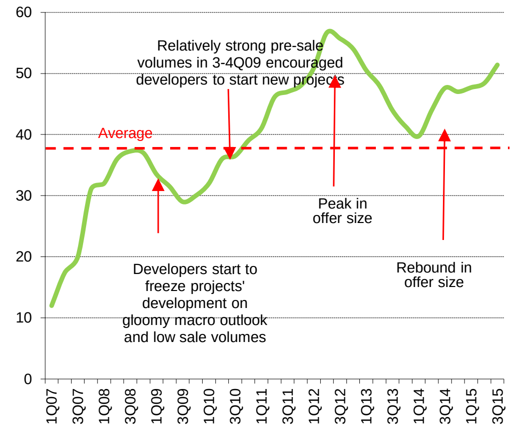


Source: REAS, Bloomberg, DM BZ WBK Research

Mortgages and sale volumes



Developers' offer size

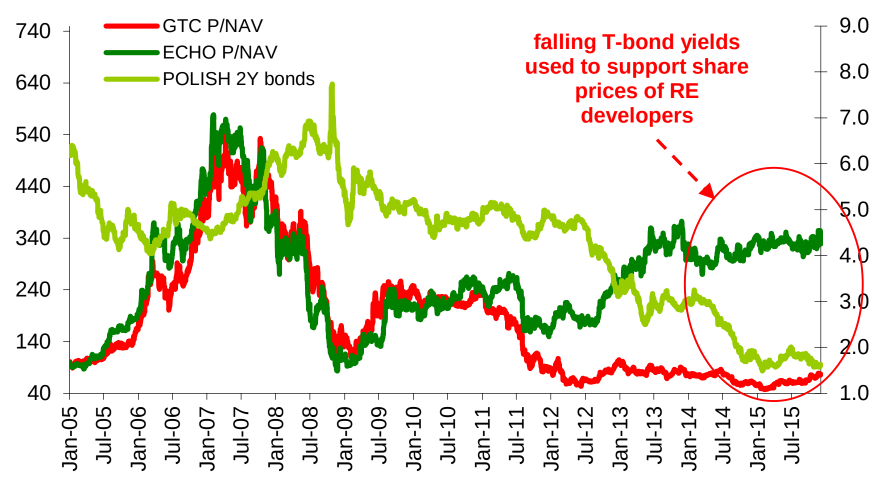


Source: REAS, Bloomberg, DM BZ WBK Research

REAL ESTATE (O/W): LOW T-BOND YIELDS TO SUPPORT STOCKS PERFORMANCE

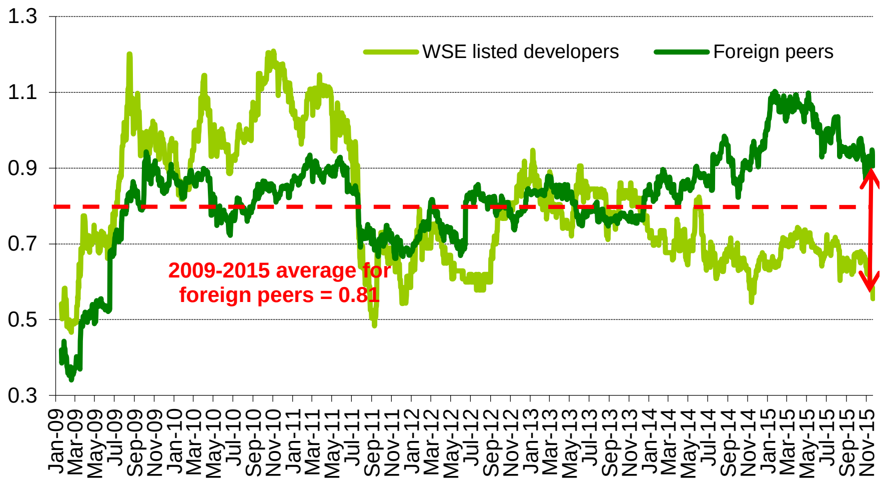
- **INVESTMENT CASE:** We are positive on real estate companies. Following the massive drop in 2Y T-bond yields, the spread between them and property yields remains wide. We believe that such an environment should support share prices of real estate developers, just as it tended to do in the past. This is because returns from the properties have become attractive for investment funds, which may simply decide to invest in such yielding properties, we think. Having said that, developers may cash-in on their developed projects more quickly (and invest the unlocked cash in new developments). Furthermore, the low cost of money is supportive for ROE generation, in light of the high leverage of RE names. Finally, valuations of the WSE developers have turned attractive compared with the foreign competitors. **SECTOR OUTLOOK: OVERWEIGHT**.
- **VALUATION:** The valuation of Polish real estate developers has become relatively attractive. The median P/NAV of 0.56x offers a discount of approx. 39% to the median for the peer group (western developers). History would suggest that following the recent expansion, the valuation divergence between PL and foreign names should narrow.
- **MAIN THEMES:** Developers are mainly concerned with the imbalance between demand for new office space and supply, which is resulting in pressure on rents and increases in vacancy rates. Furthermore, some regional markets have become quite highly saturated with modern retail and office space, which limits opportunities for capturing attractive returns on new developments.

GTC and Echo performance vs. 2Y Treasury bond yields



Source: Bloomberg, DM BZ WBK Research

P/NAV for WSE RE developers and foreign peers

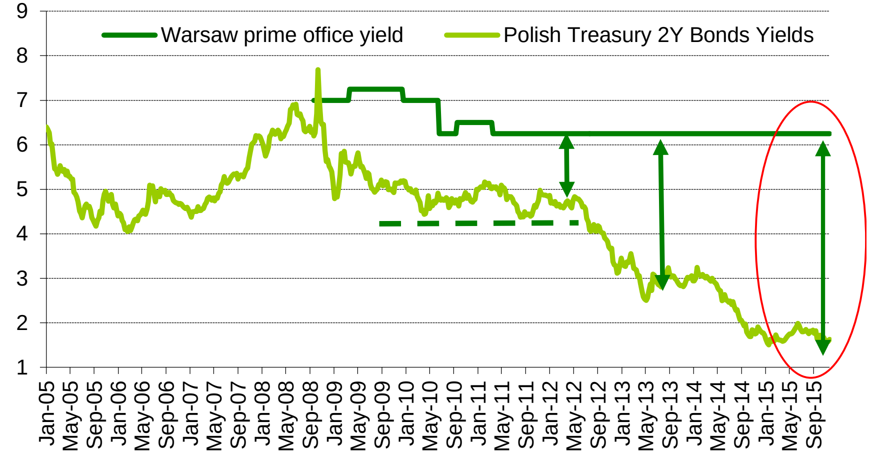


Source: Bloomberg, DM BZ WBK Research

REAL ESTATE (O/W): WE LIKE ECHO AND PHN

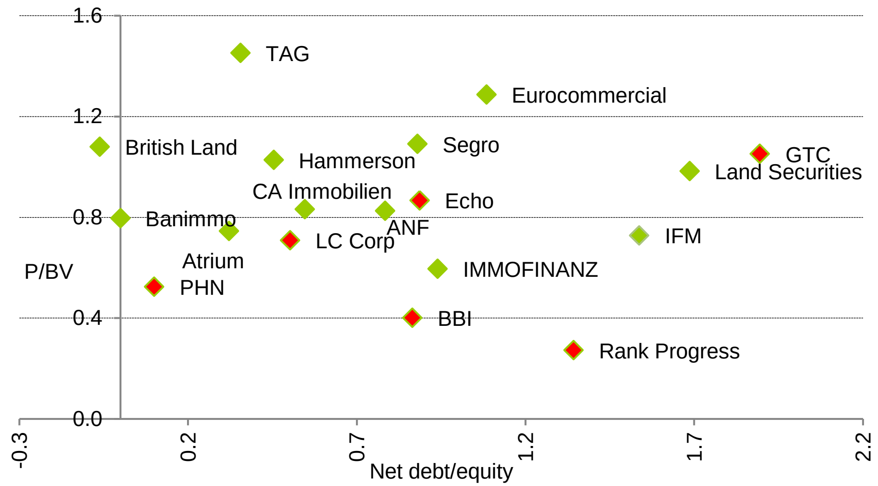
- **SECTOR PICKS:** Our coverage includes two real estate developers: Echo and PHN.
- We like **PHN** for its c. 48% discount to its NAV and the 15%/47% discount to its PL/western peers. Its recent asset disposal transactions at prices close to BV offered more credibility to the book value assessment. The company holds relatively low net debt. We also like PHN for its dividend profile (c. 4% yield in 2016E).
- We are neutral on **Echo**. The new strategic shareholder has still not annoucend its strategy for Echo. Moreover, the company is trading close to our fair value assessment. Finally, the company is trading at a premium to WSE peers average.

Spread between prime office and 2Y T-bond yields



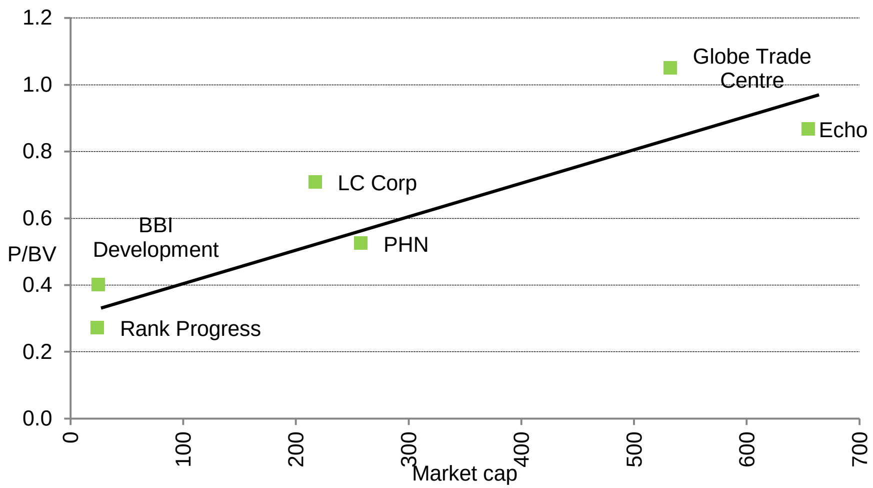
Source: Bloomberg, DM BZ WBK Research

Valuation matrix: P/BV vs. net debt/equity



Source: Bloomberg, DM BZ WBK Research

Valuation matrix: P/BV vs. market cap

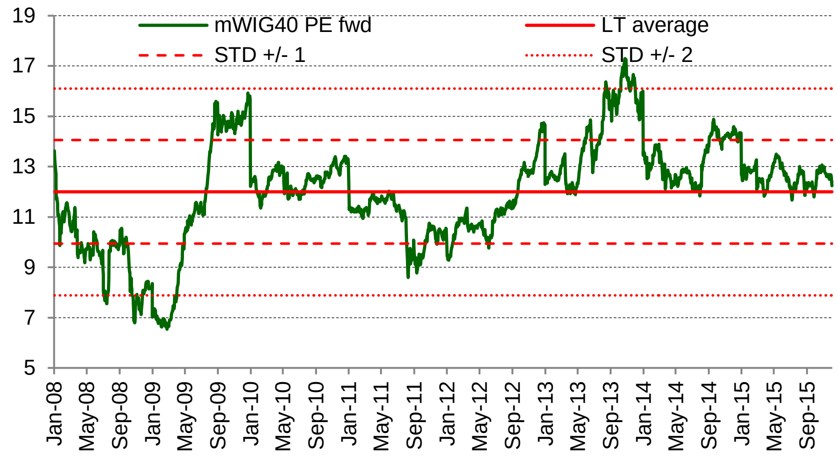


Source: Bloomberg, DM BZ WBK Research

INDUSTRIALS (NEUTRAL): AT THE CROSSROADS (1/3)

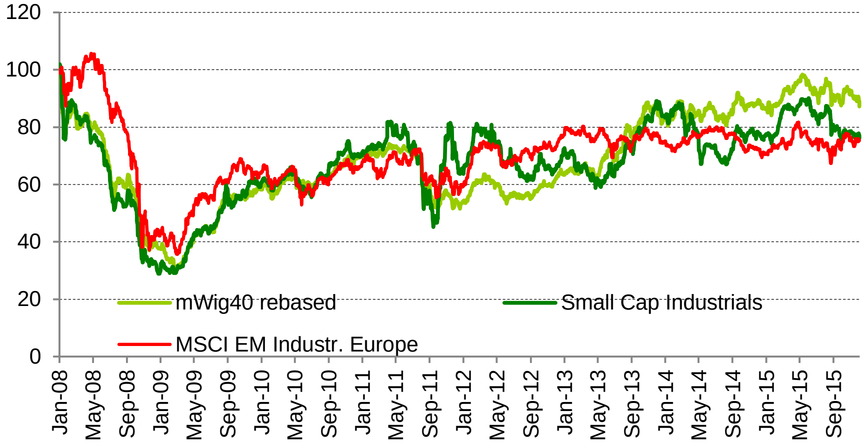
- **INVESTMENT CASE:** Based on our macro team's expectations and the Bloomberg consensus, Poland's industrial output should rise 4.7% y/y and 5.2% y/y, respectively, accompanied by a continuously stable GDP expansion (3.5% y/y). On the one hand, this points to a supportive market environment for further growth, but, on the other, (1) high capacity utilisation (already seen in 2015) and (2) being a step higher on the economic cycle might bring in potential risks. First, there is potential of higher pressure on wage growth, which would weaken margins. Second, the marginal effect of cost-efficiency projects might start to abate. All these, make us expect no breakthrough in 2016. That said, and additionally taking into consideration the heterogeneous sector names, we believe that stock picking will be crucial for another consecutive year (starting from 2014). Additionally, a potential amendment to the social insurance act might negatively affect the PFs cash position. All in all, we believe that a strategy based on U/W industrials with high PFs stakes in the shareholding and O/W names with geographically diversified sales might allow for a relatively better performance. **SECTOR OUTLOOK: NEUTRAL**
- **VALUATION:** Current valuations of mWIG40 and sWIG80 are near 2016 P/E at 12x and EV/EBITDA at 8x, which point to a discount to the international peers (MSCI EM Industrials at 2016 P/E at 13x, 2016 EV/EBITDA at 9x). The tracked companies trade at chiefly similar multiples to the one offered by the broad market (2016 P/E at 11.5x and EV/EBITDA at 8.2x).
- **MAIN THEMES:** With respect to the economic environment, we believe that export sales (our macro team forecasts +9.2% y/y) will remain an important catalyst of financial performance. High capacity utilisation is a separate issue. Investment projects are under way, but their impact on 2016 should be limited (bigger in 2H16 and FY17). Finally, the political risk affecting PFs AuM seems to be quite real.

P/E forward is at its long term-average…



Source: Bloomberg, DM BZ WBK Research

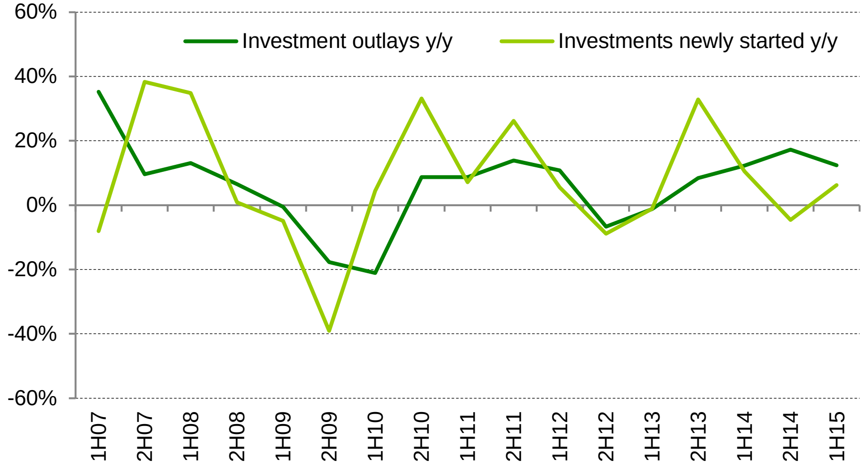
…but Polish industrials outperform their EM peers



Source: Bloomberg, DM BZ WBK Research

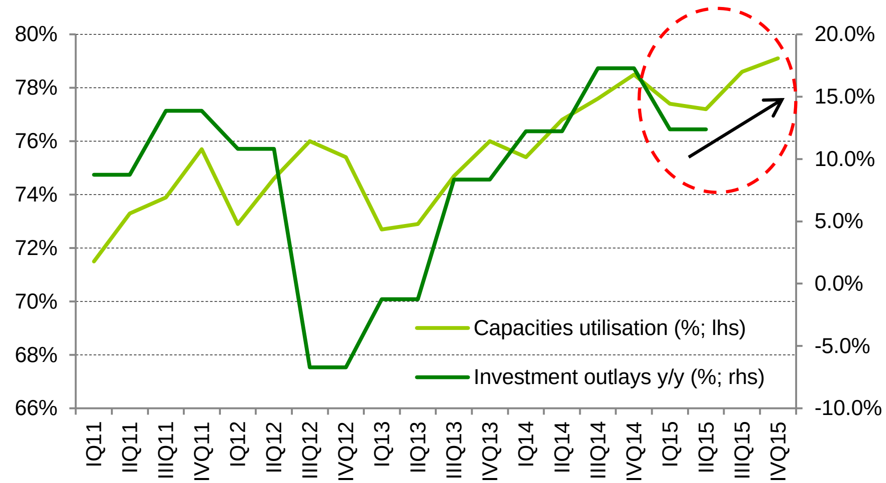
INDUSTRIALS (NEUTRAL): AT A CROSSROADS (2/3)

Investment projects are underway…



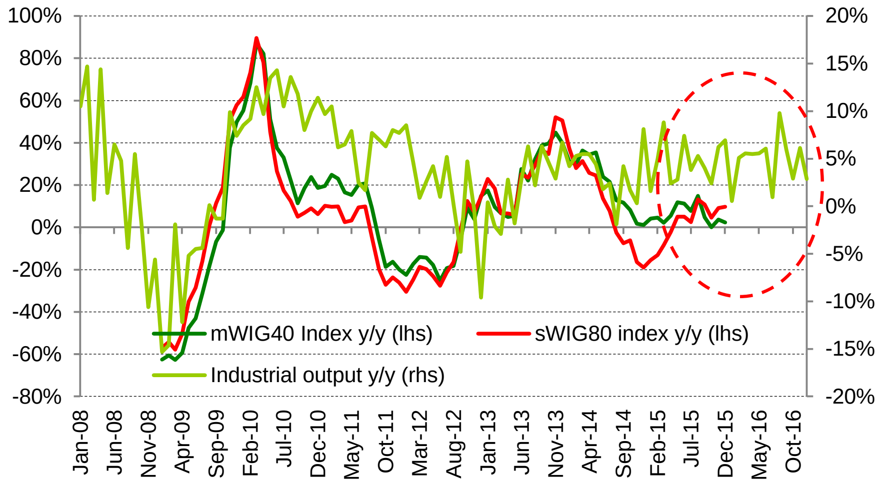
Source: Bloomberg, DM BZ WBK Research

…as companies might face lack of capacities



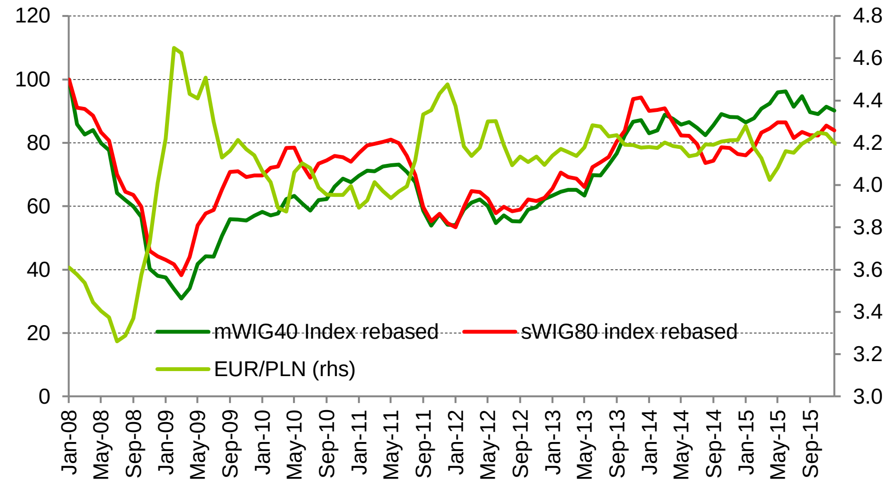
Source: Bloomberg, DM BZ WBK Research

Demand for industrials might push indices up…



Source: Bloomberg, Markit, DM BZ WBK Research

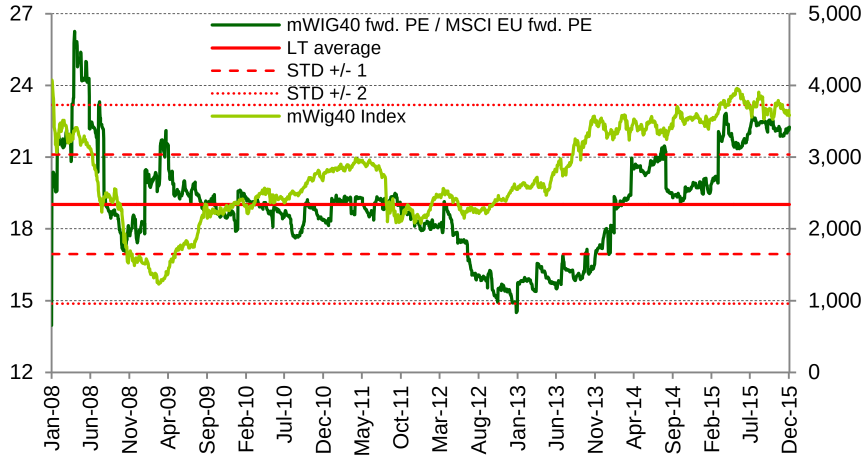
…as environment remains supportive



Source: Bloomberg, DM BZ WBK Research

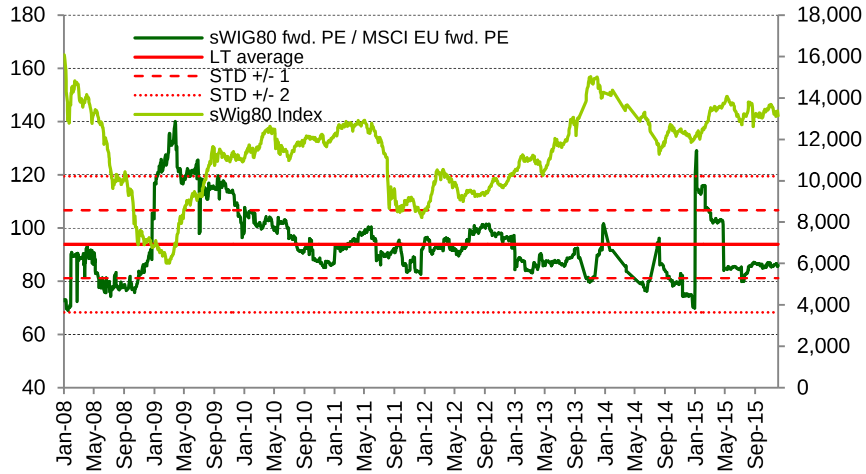
INDUSTRIALS (NEUTRAL): AT A CROSSROADS (3/3)

mWIG40 names outperform EM peers…



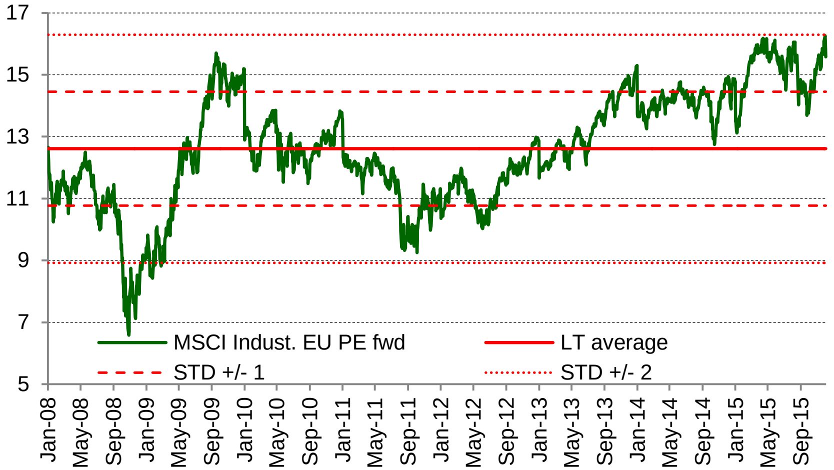
Source: Bloomberg, DM BZ WBK Research

…which is also the case of sWIG80 small caps.



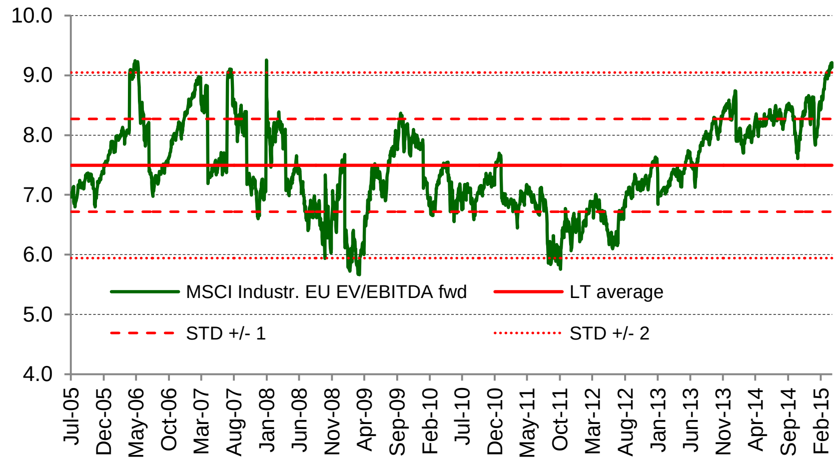
Source: Bloomberg, DM BZ WBK Research

MSCI Industrials Europe getting slightly expensive on P/E…



Source: Bloomberg, DM BZ WBK Research

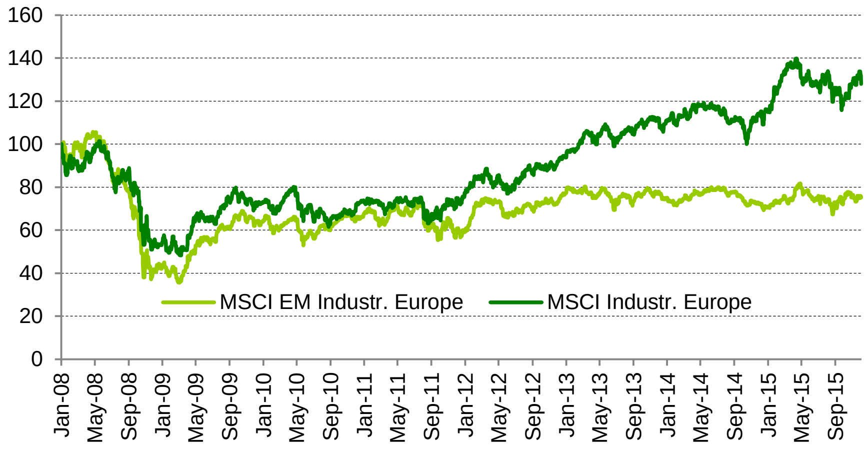
… as well as on EV/EBITDA.



Source: Bloomberg, DM BZ WBK Research

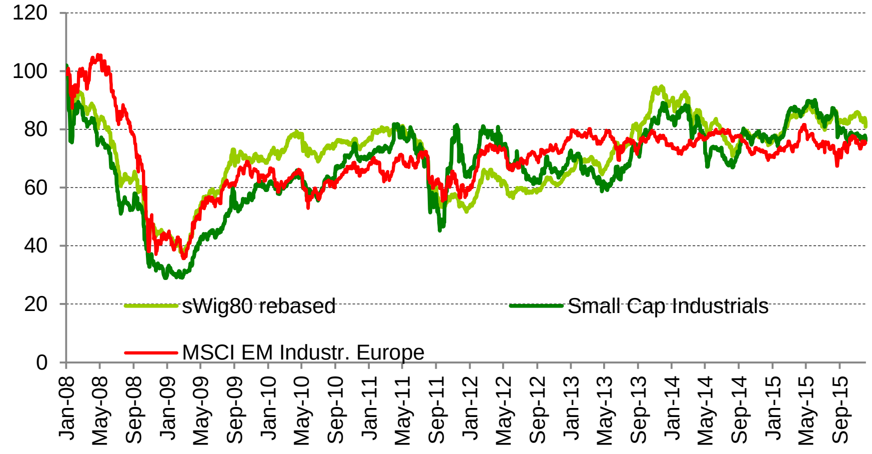
INDUSTRIALS (NEUTRAL): A GLANCE AT FOREIGN MARKETS

EM industrials underperfom not only Europe …



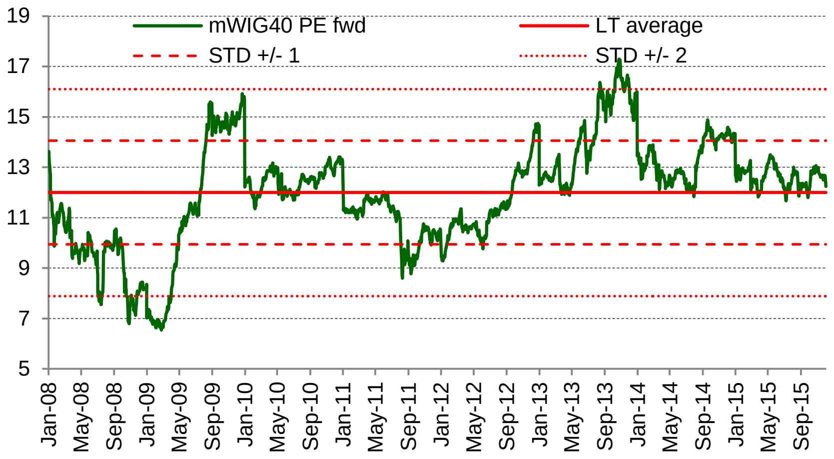
Source: Bloomberg, DM BZWBK Research

…but WSE-listed names as well



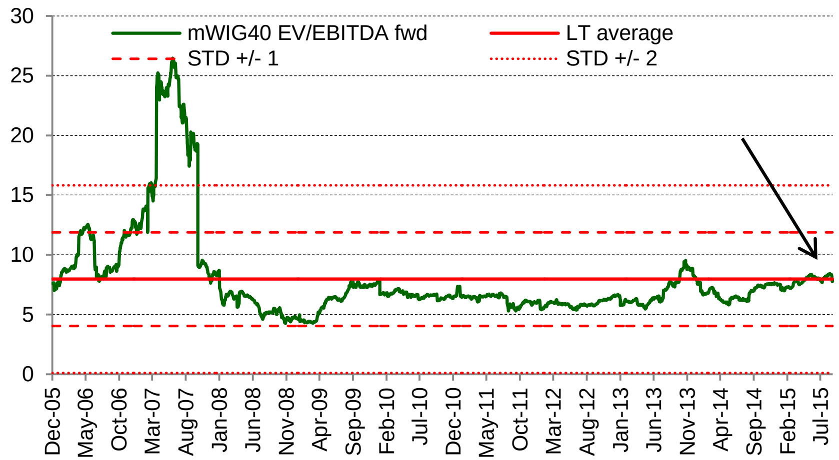
Source: Bloomberg, Markit, DM BZWBK Research

P/E valuation at average level, but 12.2 sounds reasonable…



Source: Bloomberg, DM BZWBK Research

…what is also the case of forward EV/EBITDA



Source: Bloomberg, BZ DM BZWBK Research

INDUSTRIALS: OUR SECTOR PICKS – PAGED

- **SECTOR PICKS:** We leave **Paged** (Buy, TP PLN68.3) as our top pick for another consecutive year (+21% performance in 2015). Paged ultimately launched its entire MIRROR plywood line, which should boost its plywood volumes. We expect 30 km3 in output for 2016. The furniture segment is being restructured, which should finally lead to higher stabilisation and predictability of its contribution to the consolidated financial figures. DTP and Europa Systems are performing well. The former might be sold soon, as Paged had recently confirmed it was already negotiating with a potential acquirer (probably PRA Group), which might lead to a higher value per share.

- **WORTH TRACKING: Amica** (Buy, TP PLN200) is another name that should outperform its peers in 2016, though its share price will probably rise much less compared to by +60% ytd in 2015. Following its recent purchase of British distributor CDA Group, the company plans to increase sales to PLN2.5bn in FY16 (of which approx. PLN100mn should be attributable to organic growth). Full synergies from the acquisition are expected from FY17 onwards (in FY16 we expect a neutral impact on profitability). Additionally, hedging should remain supportive in FY16 and other M&A projects cannot be ruled out. As far as **PKP Cargo** is concerned (Buy, TP PLN75.9), the investment story remains intact. We still believe the near-term railway cargo outlook to be uninspiring, though, in the long term we are positive on the stock. The investment cycle should bring in a revival of volumes in the aggregate and building material segments. Beyond that, expansion abroad should allow for client and contract diversification. What is important, there are some political risks involved, which might put PKP Cargo's share price under pressure. That is why we do not marked the company out as our sector pick.

- **OTHER COMMENTS: Uniwheels** (Buy, TP PLN144) should perform well as well, though, due to high capacity utilisation in FY15, it might turn out that solid y/y growth rates are difficult to obtain. **Alumetal** (Hold, TP PLN58.6) might be a similar case, though its financial performance could be additionally burdened by a lower y/y alloy-to-scrap ratio. **Grajewo** will remain Under Review for a while. With respect to **Forte** (Hold, TP PLN58.9), the mid-term outlook might be challenging due to the start of its 2016-21 investment plan. **Pekaes** (Hold, TP PLN14.3) should report business as usual. **Kety** (Hold, PLN30) should deliver slightly better EBITDA y/y (driven by FPS and ASS). Nevertheless, high stake of PFs in free float incline to intensification of a vigilance.

Valuation table

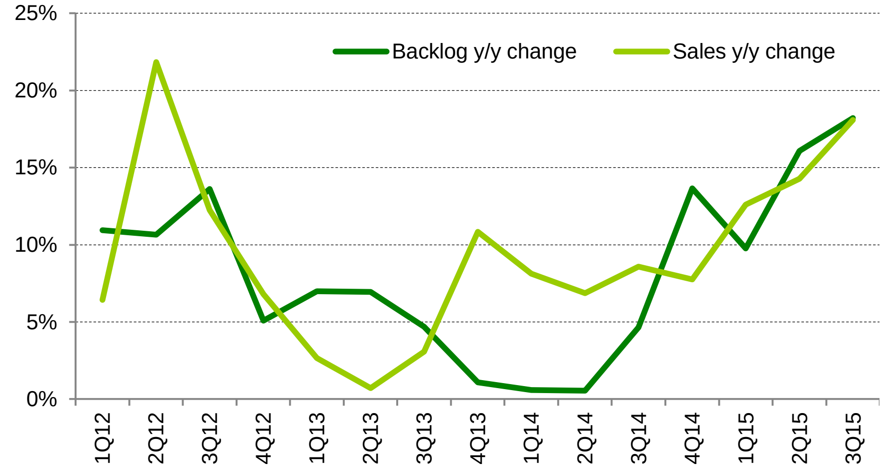
Company	Market Cap (PLN m)	Bloomberg cons. P/E			Bloomberg cons. EV/EBITDA			Stock Performance			BZWBK cons. P/E			BZWBK cons. EV/EBITDA		
		2015E	2016E	2017E	2015E	2016E	2017E	1M	3M	YTD	2015E	2016E	2017E	2015E	2016E	2017E
FORTE	1,315	15.4	13.1	12.4	11.0	9.4	8.9	-3%	4%	7%	15.7	14.2	13.6	11.1	10.0	9.6
GRAJEWO	1,240	10.6	10.2	9.8	6.3	6.0	5.9	-4%	4%	-22%	10.6	10.2	9.8	6.3	6.1	5.9
PAGED	832	10.8	9.5	8.5	5.5	4.9	4.6	0%	5%	21%	11.3	10.0	9.1	6.7	6.2	5.6
PKP CARGO SA	2,796	11.2	11.1	9.5	3.7	3.4	3.1	4%	-2%	-25%	11.2	13.8	10.6	6.2	4.7	4.1
PEKAES	392	17.4	17.7	16.9	8.4	7.9	7.3	-3%	7%	19%	18.4	19.3	17.3	8.6	8.4	7.9
AMICA	857	15.1	14.0	12.6	5.0	5.0	4.6	-5%	7%	55%	13.4	11.7	11.4	7.9	7.2	7.1
KETY	2,704	13.5	13.6	12.6	8.7	8.1	7.4	0%	-8%	-1%	13.5	13.2	13.2	9.3	8.9	7.9
UNIWHEELS AG	1,463	10.0	10.0	9.5	6.9	6.3	5.8	-1%	-5%	14%	9.5	10.6	10.6	6.7	6.7	6.5
ALUMETAL SA	733	10.3	10.6	8.8	7.7	7.6	6.4	-8%	-2%	6%	10.0	10.8	9.2	8.8	8.9	7.8
WIELTON	432	19.8	13.8	11.8	10.4	7.5	6.9	-8%	-12%	78%	14.4	10.6	6.3	10.5	8.2	7.7
APATOR	787	14.8	13.7	13.0	7.1	6.6	6.4	4%	-2%	-16%	13.1	12.5	12.2	9.2	8.7	8.5
ELEMENTAL HOLDING	713	16.9	14.1	12.1	18.5	15.8	13.3	-7%	-5%	31%	16.4	11.3	10.8	11.8	8.3	7.8
MEDIAN		**14.1**	**13.4**	**11.9**	**7.4**	**7.0**	**6.4**	**n.a.**	**n.a.**	**n.a.**	**13.2**	**11.5**	**10.7**	**8.7**	**8.2**	**7.8**
vs. mWIG40		*3%*	*9%*	*13%*	*-11%*	*-10%*	*-13%*	*n.a.*	*n.a.*	*n.a.*	*-4%*	*-7%*	*0%*	*4%*	*5%*	*6%*
vs. sWIG80		*-1%*	*15%*	*14%*	*-14%*	*-10%*	*-11%*	*n.a.*	*n.a.*	*n.a.*	*-7%*	*-1%*	*2%*	*2%*	*7%*	*10%*
vs. MSCI EM INDUSTRIALS		*-9%*	*-3%*	*-2%*	*-28%*	*-20%*	*-20%*	*n.a.*	*n.a.*	*n.a.*	*-15%*	*-16%*	*-12%*	*-15%*	*-6%*	*-2%*
AVERAGE		**13.8**	**12.6**	**11.5**	**8.3**	**7.4**	**6.7**	**n.a.**	**n.a.**	**n.a.**	**13.1**	**12.3**	**11.2**	**8.6**	**7.7**	**7.2**
mWIG40		13.7	12.2	10.6	8.4	7.8	7.3	-5%	-2%	1%	13.8	12.4	10.7	8.4	7.8	7.3
sWIG80		14.2	11.6	10.5	8.7	7.8	7.2	-5%	-2%	7%	14.2	11.6	10.5	8.6	7.7	7.1
MSCI EM INDUSTRIALS		15.6	13.8	12.2	10.3	8.8	8.0	-6%	2%	-14%	15.5	13.7	12.1	10.2	8.7	8.0

*Source: Bloomberg, DM BZ WBK Research, * Uncovered companies, multiples based on Bloomberg consensus*

IT (O/W): IMPROVEMENT SEEN IN 2H16, IT DISTRIBUTORS STILL WEAK

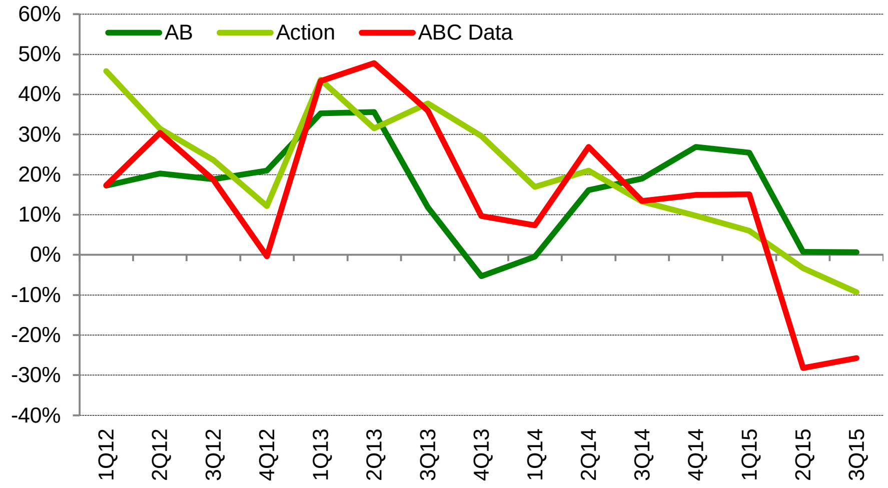
- **INVESTMENT CASE:** We maintain our positive stance on the IT sector for 2016. We believe that the IT sector will benefit from an improving business environment and higher IT spending. We think that IT companies should also see higher backlog levels in 2H16 thanks to new, EU co-funded, major IT investments. Stable cash flows, dividends and proven business quality even in tough times should support valuations of the software companies. We favour a more conservative approach to the IT distributors, however, because we think that their stock prices already include the impact from changes in the reverse VAT mechanism. AB should draw suport from its cheap valuation and superior business performance, while Action and ABC Data should enjoy a limited downside risk due to their potential high dividend payouts. **SECTOR OUTLOOK: POSITIVE.**
- **REVERSE VAT:** The new VAT regulations came into force in July, 2015, and already took a toll on Poland's IT distributors: each one of them suffered a double-digit revenue contraction mainly on export sales. As expected, ABC Data took the largest hit, though Action was also hurt. In its case, the higher the share of smartphone/tablet turnover, the bigger the risk of a revenue drop and, in turn, of the supply chain's rearrangement.
- **FUNDS FROM EU'S NEW PERSPECTIVE:** The EU's new budget perspective for 2014-2020 should be viewed as an opportunity for the Polish IT companies. We expect the first IT tenders co-financed with the EU's new budget funds to be launched in 2H16, but we see a risk that this may be subject to delays due to political changes in Poland. As the old EU budget perspective is practically over, the software companies could face a transition period between the EU's two budget perspectives, pushing their backlog and revenues from the public sector significantly lower y/y. In case of a rebound in the public sector, Asseco Poland would benefit the most since it has exposure to the public sector on the domestic market, in the CEE region and in South Eastern Europe through Asseco SEE.

Asseco Poland: Quarterly revenue and backlog change



Source: Company data

IT distributors: quarterly revenue dynamics comparison



Source: Company data

IT (O/W): ASSECO POLAND, ASSECO SEE AND AB ARE OUR TOP PICKS

- **SECTOR PICKS:** We believe that the IT software companies are an attractive investment for 2016. We think that the sector's results are bottoming out and should start recovering in 2H16. Funds from the EU's new perspective should support results of all the IT companies, though we believe that investors should for 2016 pick those companies that have a higher exposure in the public sector. Among the large caps, we suggest to O/W **Asseco Poland (Buy, TP PLN65.5)** because it delivers decent results (especially in 3Q15) despite the slowdown in the public sector mainly. It benefits, however, from the good performance of its Israeli companies. On top of that, Asseco Poland generates stable and high FCF, which allows it to maintain its high dividend payout. In 2016, we expect a DPS of PLN3 (5.2% yield). Among the smaller names, **Asseco South Eastern Europe (Buy, TP PLN12.1)** is our pick. Asseco SEE has been improving its earnings immensly in the last couple of quarters, mainly due to the improving macro situation in the South Eastern European countries, which is supportive of IT spending. Moreover, the company applied slight changes to its business model in the payment segment, which affected its margins positively. We think these are not one-off factors, which means that Asseco SEE's earnings growth should be sustained in the coming quarters. Moreover, the company could get another boost as the region's EU-member countries are likely to benefit from cash inflows from the EU's new budget perspective. Depending on the M&A activity, good cash generation and lower CAPEX in the upcoming quarters could allow for a higher dividend payout.
- In the universe of the IT distributors, we prefer **AB (Buy, TP PLN49.0),** the cheapest stock on P/E. AB also has the most conservative business model, which we believe offers the best earnings growth rates in 2016 with the biggest exposure outside Poland. AB is the only company that reported comparable y/y results in 3Q15 despite the tough market. The biggest disappointment of 2015, **Action (Buy, TP PLN44.6),** is far from returning to earnings seen in 2014, though we expect it to post decent 4Q15 results, while a solid dividend payout should support its share price in the mid-term. Also, the 2016 results of **ABC Data (Hold, TP PLN3.50)** should come in visibly lower y/y, but the company's better working capital management and largest use of factoring should allow for a decent DPS.

IT companies valuation table

	Market Cap	P/E			EV/EBITDA			Stock Performance		
Company	**(PLNmn)**	**2015E**	**2016E**	**2017E**	**2015E**	**2016E**	**2017E**	**1M**	**3M**	**YTD**
Asseco Poland	4813	14.7	13.6	13.4	7.5	7.5	7.5	1.8%	8.6%	13.7%
Asseco BS	551	16.7	16.8	16.3	9.7	9.8	9.5	0.7%	18.7%	21.0%
Asseco SEE	514	11.7	10.8	10.3	5.6	5.1	4.8	-2.0%	2.5%	19.3%
AB	567	8.5	7.7	7.2	7.1	6.5	5.9	4.6%	-6.4%	14.4%
Action	460	12.0	11.7	10.4	10.6	10.0	9.3	9.4%	2.5%	-39.8%
ABC Data	418	8.6	12.2	11.1	9.8	11.2	10.5	1.2%	31.0%	-1.8%

Source: Bloomberg, DM BZ WBK Research

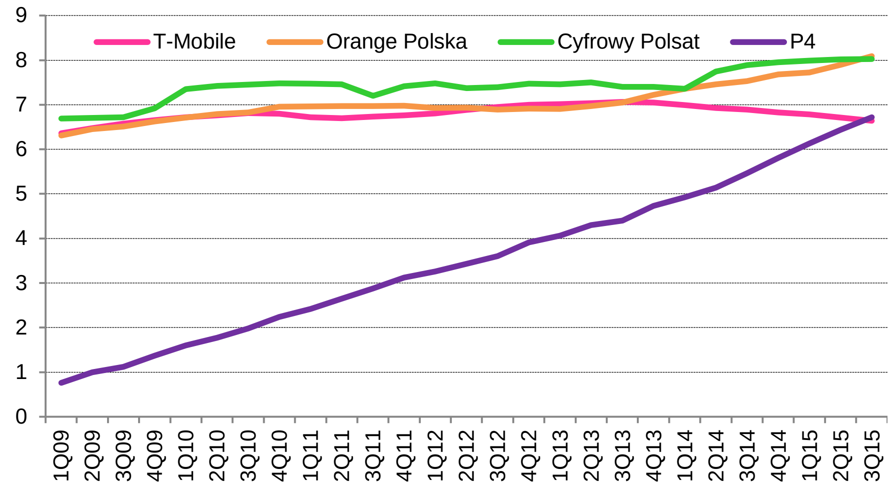
TMT (NEUTRAL): M&A STORY AND MARKET STABILISATION FOR TELCOS

- **INVESTMENT CASE:** As we expected, the LTE frequency auction was the major topic of 2015 in the telecom universe. For Orange Polska, which has to pay over PLN3bn for 2x5MHz bands, the LTE auction has meant that it had to cut its DPS to PLN0.25. Cyfrowy Polsat withdrew from the auction at an early stage and has so far not been directly affected by the auction. On the other hand, we believe that 2016 should bring the long-awaited flattening-out of ARPU in mobile telephony. Video game stocks performed very well in 2015, driven by the very good performance of the global peers and CD Projekt, which has achieved worldwide success with its latest release - *The Witcher 3*. In our 2016 strategy, we maintain our neutral stance on the sector. **SECTOR OUTLOOK: NEUTRAL**

- **MAIN THEMES:** M&A activity should play an important role in the Polish telecom universe in the next few months. Play's owners plan to sell their stake to a strategic/financial buyer or take the company public (IPO). Such an acquisition would be an interesting proxy for the other stocks, especially Cyfrowy Polsat. Deutsche Telekom may also make some decisions on the future of T-Mobile Polska, which has been recently underperforming all of its competitors. Finally, Netia and Midas may also become subjects of an M&A transaction. It is possible that Cyfrowy Polsat could take over Midas already shortly after the completion of its debt restructuring in February.

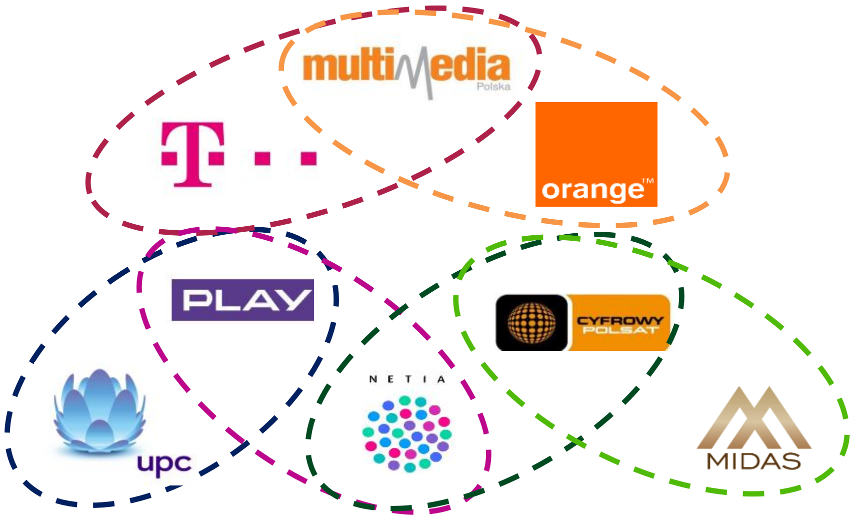
- **RELEASE CALENDAR:** 2016 should be a rather calm year for CD Projekt, as the company plans no big releases or even announcements about *Cyberpunk 2077*. It will focus on the monetising proces of *The Witcher 3*. In contrast, CI Games will likely be a hot stock, as it plans to release the next installment of its most recognisable franchise – *Sniper* - in 3Q16. The first enthusiastic previews point to quality improvement vs. the company's prior titles, which has certainly built up expectations. Meeting of these expectations will determine the stock's performance in the upcoming months.

Four mobile operators: post-paid subscriber's base (mn)



Source: Company data, Telepolis.pl ,DM BZ WBK Research

Who merges whom – potential 2016 M&A



Source: Company data, DM BZ WBK Research

BZ WBK Brokerage
Santander Group

TMT (NEUTRAL): CYFROWY POLSAT IS OUR SECTOR'S TOP PICK

- **SECTOR PICKS: Cyfrowy Polsat (Buy, TP PLN32.0)** remains our preferred name in the telco universe. The company had successfully refinanced all of its debt, which should allow for significant interest savings starting from 2016. We like Cyfrowy Polsat for its broadest multi-play offer on the market, high potential synergies and strong focus on deleveraging. However, we think that in 2016 Cyfrowy Polsat will likely decide to buy Midas from Mr. Zygmunt Solorz-Zak instead of paying a dividend. Due to the TV broadcasting segment's good performance and on-going restructuring after the merger with Polkomtel, we expect Cyfrowy Polsat to be able to reverse the negative EBITDA trend in 2016.
- The European Telco Index climbed to long-term highs in August 2015, posting growth of 25% in the January – August period, in theory offering an upside to all the Polish telco names (which are all trading at a discount). However, Orange's (Sell, TP PLN6.40) core business is under persistent competitive pressure, not to mention the Net Debt to EBITDA ratio growing for certain to some 2x, which will likely cut the company's DPS to PLN0.25 (DY 3.8%). Netia's (Hold, TP PLN5.80) key shareholders are struggling to sell it on favorable terms – maximisation of the EBITDA (via acquisitions) and minimisation of CAPEX should work for yet another year, in our view. Finally, exponential growth of data volumes keeps supporting Midas's (Buy, TP PLN0.82) valuation. We believe that Poland's telecoms may be hot with M&As this year – unless Orange acquires something or Netia will be finally acquired, almost any transaction mentioned on the slide on the right should have a strong negative impact on the OPL / NET fixed-skewed businesses. We still believe that MDS will be an acquisition target, with the price as the key question mark.
- In 2016, **CD Projekt (Hold, TP PLN29.0)** will likely be cashing in on the success of *The Witcher 3*. The game has become an unprecedented success, both in terms of sales and quality. *The Witcher 3* is a 'must-have' game on the next gen console, which in 2016, supported by two extension packs and a re-release as GOTY edition, should allow CD Projekt to generate over PLN100mn in net earnings. Sell-ins should exceed 10mn units. In March, the company is to announce its new strategy that should sched more light on the company's future projects. The upcoming months will be very important for **CI Games (Buy, TP PLN29.9)** valuation prospects. First, the release of *Sniper Ghost Warrior 3*, planned for 3Q16, is the biggest challenge for the company. CI Games seems to have learnt its lesson from a series of low quality and poorly selling games like *Alien Fear* and *Enemy Front* and its announcement of *Sniper: Ghost Warrior 3* shows that the company is back on the right path. The game attracted a much better critical response after its first showings on E3 and Gamescom. We also assume that its better quality will translate into higher sales vs. *Sniper 2*, while the higher price (USD59.99/EUR59.99), larger share of digital distribution and, finally, better profitability due to the company's own distribution office in the U.S. should all translate into record-high results in 2016E. According to the management's recent guidance, we should expect the release date of *Sniper 3* sometime in 3Q16, likely in September. Consequently, this short delay could affect CI Games' next AAA title *Lords of the Fallen 2* (we now expect its release in 2018E vs. 2017E in our previous report).

Telco and video games stocks valuation and performance

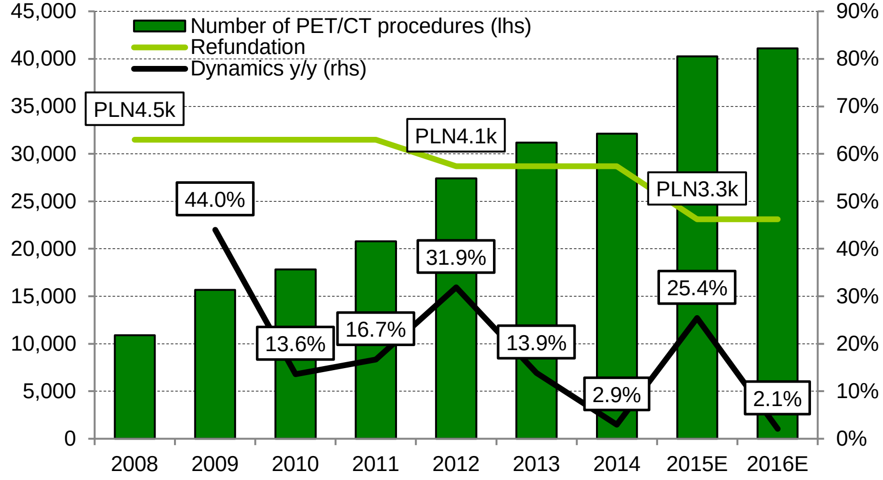
	Market Cap	P/E			EV/EBITDA			Stock Performance		
Company	**(PLNmn)**	**2015E**	**2016E**	**2017E**	**2015E**	**2016E**	**2017E**	**1M**	**3M**	**YTD**
Cyfrowy Polsat	15477	11.6	13.7	13.4	7.1	6.9	6.4	-4.3%	5.4%	3.0%
Orange Polska	8530	19.1	95.9	n.a.	4.3	4.3	4.3	-9.6%	-8.5%	-21.9%
Netia	1873	51.1	28.9	48.1	4.1	3.9	4.2	-2.2%	-1.3%	-3.6%
Midas	873	n.a.	n.a.	n.a.	n.a.	104.4	17.9	-4.8%	-4.8%	7.3%
CD Projekt	2184	6.3	22.0	55.6	4.3	14.9	42.6	-14.8%	-10.0%	37.7%
CI Games	303	n.a.	4.3	34.4	338.7	1.6	15.2	-10.0%	10.6%	180.3%

Source: Bloomberg, DM BZ WBK Research

HEALTHCARE (NEUTRAL): M&A STORY TO DOMINATE IN 2016

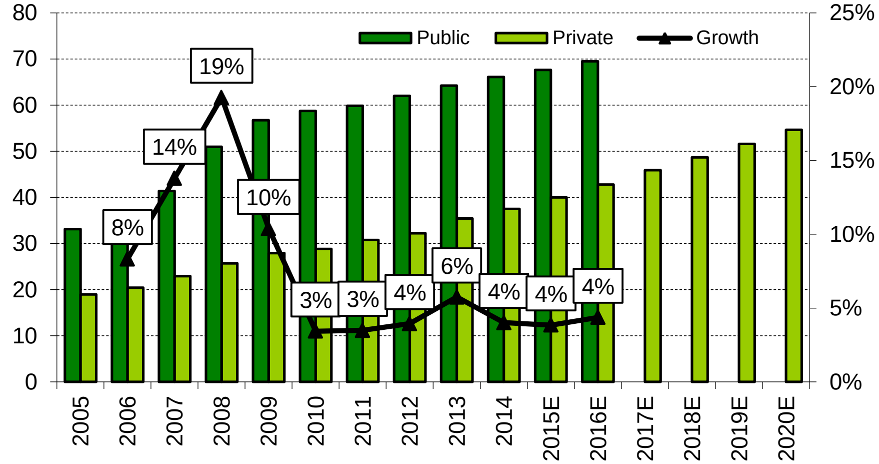
- **INVESTMENT CASE:** We maintain our neutral stance on the defensive healthcare sector for 2016. We believe that M&A activity will likely be the major growth driver for the sector in the coming months. The recently announced review of strategic options by Voxel's main shareholder may suggest that Voxel could soon have a new shareholder – a scenario that would be positive for the minority shareholders as well. We think that M&A activity could support the share price of Medicalgorithmics as well. The company signed a preliminary agreement to buy U.S. distributor Medi-Lynx. **SECTOR OUTLOOK: NEUTRAL.**
- **WEAK RADIOPHARMA MARKET:** New regulations in oncology and lower reimbursement for PET/CT diagnostics affected the radiopharmacy market negatively in 2015. The cut of reimbursement to PLN3.0-3.3k from PLN4.1k for one PET/CT procedure caused a similar, c30%, drop in the FDG dose price and a significant reduction of orders for advanced radiopharmaceuticals. Moreover, the so called 'oncology package' brought no growth in the number of procedures and, more importantly, caused PET/CT clinics to have problems with fulfilling their contracts with the NFZ health fund. For 2016, we do not expect any significant rise in the number of procedures as we do not expect new clinics to enter the system.

PET/CT market in Poland



Source: NFZ, DM BZ WBK Research

Public and private health care spendings (PLNbn)



Source: NFZ, PMR, DM BZ WBK Research

HEALTHCARE (NEUTRAL): WE FAVOUR VOXEL, MDG OVER SYNEKTIK

- **SECTOR PICKS:** For the last 12 months, **Voxel (Hold, TP PLN19.5)** has significantly outperformed its major competitor Synektik. It managed to secure contracts for two PET/CT clinics in Bialystok and Brzozow. This allowed Voxel to raise revenues, which, when coupled with lower SG&A, led to a significant EBITDA improvement. Moreover, Voxel offers further revenue upside – it is yet to sign contracts for PET/CT and Gamma Knife in Katowice. It is also finalizing a new PET/CT in Opole. The company trades at a 2016E and 2017E EV/EBITDA of 8.5x and 7.5x, which is undemanding, in our view. It trades at a discount to Synektik. The stock offers some upside in case of an M&A story and a positive scenario in PET/CT and Gamma Knife contracting.
- **Medicalgorithmics (Buy, TP PLN285)** announced plans to buy a U.S. company, Medi-Lynx, that sells and provides medical services using the Medicalgorithmics Pocket ECG hardware. The acquisition would improve the company's results (it generated US$32.7mn revenues and US$8.0mn net profit in 2H14 and 1H15). On top of that, we see Medicalgorithmics as a growth stock, selling its services on the basis of the attractive SaaS model. The company also has the potential to expand further geographically. What is more, it should also be able to take advantage of the strong USD at the beginning of 2016. Looking at the current valuation, excluding the impact of the potential acquisition, the company is trading at a 2016E and 2017E P/E of 23.1x and 18.7x, respectively, which is undemanding because the company offers some upside, in our view.
- **Synektik (Buy, TP PLN23.8)** was hit the hardest in 2015 as the FDG dose price fell c30% y/y, while volumes remained unchanged. This led to a c30% cut in revenues in Synektik's radiopharmacy segment. The segment's EBITDA will likely stand at PLN0.5mn in 2015E vs. nearly PLN7mn in 2013. Fortunately, the company signed several large contracts for shipments of diagnostic devices, which should at least partially offset the negative effect of the poor performance of radiopharma segment in 2015. In our opinion, adjustments to the oncology law, which should differentiate prices of different procedures, could boost the market for FDG. Moreover, there are still some PET/CT clinics that have no contract with NFZ. A new tender for medical procedures could include them in the system, which, in consequence, would lead to higher demand for FDG and be positive for Synektik. The company has so far been the least attractive in the sector, trading with a premium to Voxel. Finally, in 1/2Q16, the company's cardiac tracer should complete the first stage of clinical trials. The outcome of this process is likely to affect Synektik's valuation.

Health Care stocks valuation and performance

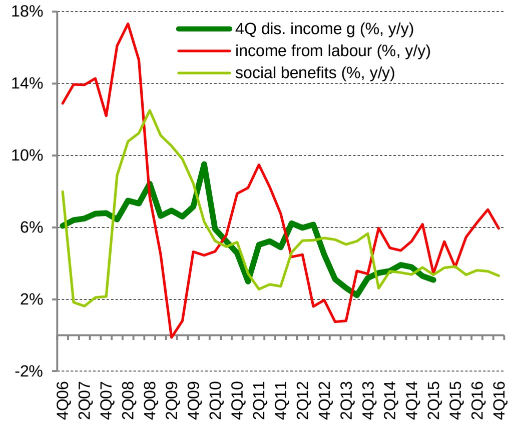
Company	Market Cap (PLNmn)	P/E 2015E	P/E 2016E	P/E 2017E	EV/EBITDA 2015E	EV/EBITDA 2016E	EV/EBITDA 2017E	Stock Performance 1M	Stock Performance 3M	Stock Performance YTD
Medicalgorithmics	857	42.8	29.4	20.5	33.1	22.3	15.2	6.0%	21.2%	31.2%
Voxel	192	17.2	17.6	14.9	7.9	7.3	6.3	-1.3%	5.8%	97.4%
Synektik	148	n.a.	44.9	34.4	33.3	14.5	11.8	8.3%	2.9%	-15.6%

Source: Bloomberg, DM BZ WBK Research

FMCG RETAIL (NEUTRAL): NEW TAX AHEAD

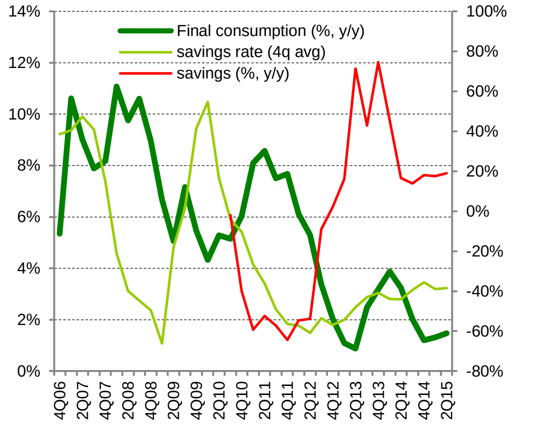
- **INVESTMENT CASE:** We are Neutral on the sector in the coming year. We assigned an Underweight rating to Eurocash and Overweight to Emperia and Ambra. We believe further consolidation around the sector's strongest (biggest) players is set to continue next year. The industry, though not equally, should also benefit from the expected rebound in food inflation. **SECTOR OUTLOOK: NEUTRAL.**
- **MAIN THEMES:** The industry faces risks related to a new retail tax that was proposed by the ruling party PiS. Following some initial talks with the industry's representatives, the final shape of the tax is to be discussed further. Its implementation is planned at some point in 2016. More talks will be held in December, with the implementation of the new tax and its final shape depending the consensus reached. Nonetheless, we expect the final version of the tax to be less harmful for supermarkets that had been initially expected. The new tax will certainly make its strategic mark within the industry though. We expect the largest players (Biedronka, Eurocash, etc) to shift the tax burden mainly onto the producers rather than consumers. The producers will, in turn, likely have to raise prices for companies that have a weaker negotiations position against the largest, mainly traditional, retail chains. Once this process turns a full cycle, the largest chains will probably come out the winners with the consolidation process likely accelerating at the cost of traditional retail. The higher the tax imposed on the biggest companies, the higher the price pressure on the producers. To compensate, the producers are then likely to raise their prices for the smaller retail shops. From the **macro perspective,** despite the higher labour income growth of c6-7% y/y in nominal terms (5% in real terms) and rise in social benefits by 3% y/y in 2016, the savings growth y/y should grow at a double-digit pace. In consequence, final consumption should grow c2-2.5% y/y.

Growth in disposable incomes (%)



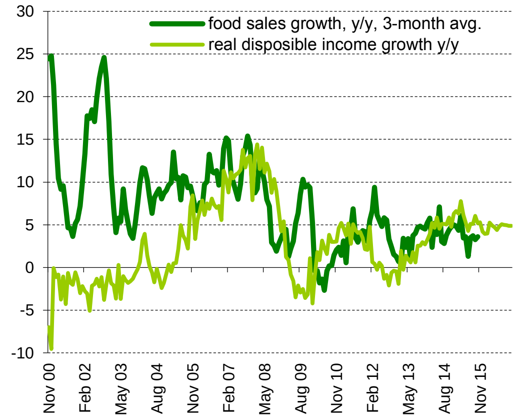
Source: CSO, DM BZ WBK Research

Final consumption vs. savings growth (%)



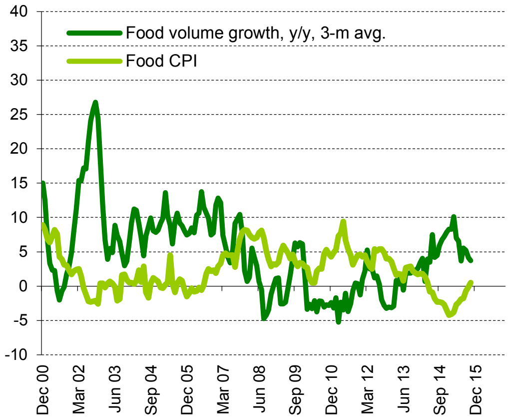
Source: CSO, DM BZ WBK Research

Real dis. income vs. food sales growth (%)



Source: CSO, DM BZ WBK Research

Food vol. growth vs. food CPI



Source: CSO, DM BZ WBK Research

FMCG RETAIL (NEUTRAL): O/W EMPERIA/AMBRA; U/W: EUROCASH

SECTOR PICKS: For 2016, we assigned an Underweight rating to **Eurocash (Hold, TP PLN35.2)** as the stock's surging share price in 2015 has made it expensive. Based on our estimates, which are close to market consensus, Eurocash is currently trading with a FY'16 PE of 28x and an EV/EBITDA of 14x, which implies eye-striking premiums to its CEEMEA competitors. Eurocash also looks overvalued vs. Jeronimo Martins since it is trading with a 32% and 40% premium on PE fwd. and EV/EBTIDA fwd., respectively. This is unjustified, in our view. We also assigned an **Overweight to Emperia (Buy, TP PLN81)** because Emperia's current market price values Stokrotka at c.2.4x monthly sales, which we believe to be too low when compared with the M&A transaction multiples on the FMCG market. Taking into account Emperia's other assets, namely its cash account at PLN90mn and PLN368mn for real estate, it significantly limits the downside in case the new tax turns out to be unfavourable, possibly shaving off c.10% of the company's EBITDA in the most pessimistic scenario. We also put **an Overweight call on Ambra (Buy, TP PLN12)** due to its relatively low valuation, that is EV/EBTIDA16 at c5.3x following the recent slide in the share price. Please note that Ambra generates a stable OCF (avg. conversion ratio at 0.8x), which, along with the limited CAPEX, makes it possible to deliver an attractive FcF yield (11.5% in 2008-14 on average). This allows Ambra to pay an attractive DY at c. 5%. The company had recently also reported an insider buying spree, which is a good omen, in our view.

FCMG sector – valuation multiples in 2015–17E

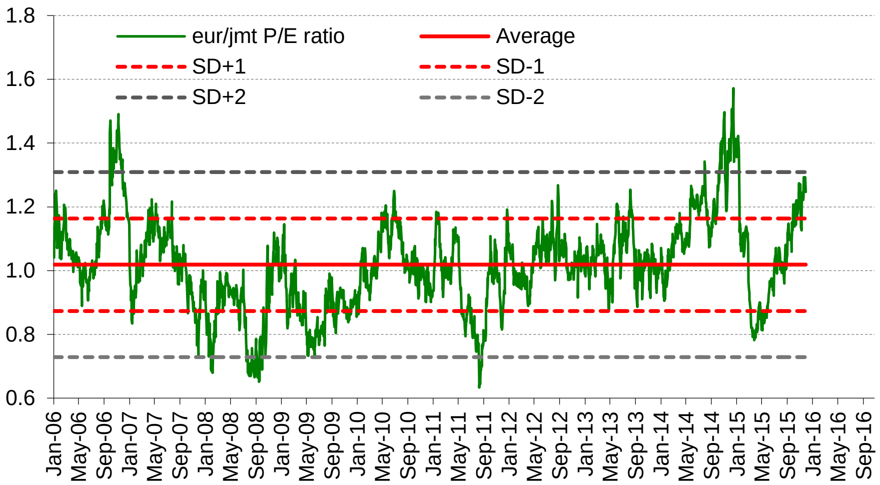
Market capitalization in PLNmn; 12-m TP and current price in PLN

					P/E			EV/EBITDA		
Name	**mkt. cap.**	**rating**	**12-m TP**	**curr. price**	**2015E**	**2016E**	**2017E**	**2015E**	**2016E**	**2017E**
CEEMEA					20.7	17.6	15.6	10.2	9.3	8.4
LatAm					19.0	16.3	14.4	9.2	7.6	6.9
wholesalers					28.1	22.2	19.3	10.9	10.4	9.8
Asia ex-Japan					22.8	29.9	26.9	11.8	10.1	9.5
Developed Europe					16.8	16.1	14.1	7.6	7.5	7.1
U.S.					18.0	19.1	17.5	6.8	7.1	7.6
Japan					30.5	26.3	22.5	9.8	9.3	8.9
Eurocash	7,427	Hold	35.2	53.5	32.1	27.8	20.1	14.7	13.7	5.9
Emperia	955	Buy	81.0	66.5	22.0	21.2	10.0	8.7	7.6	5.2
Ambra	189	Buy	12.0	7.5	10.3	11.8	11.1	5.7	5.3	4.8

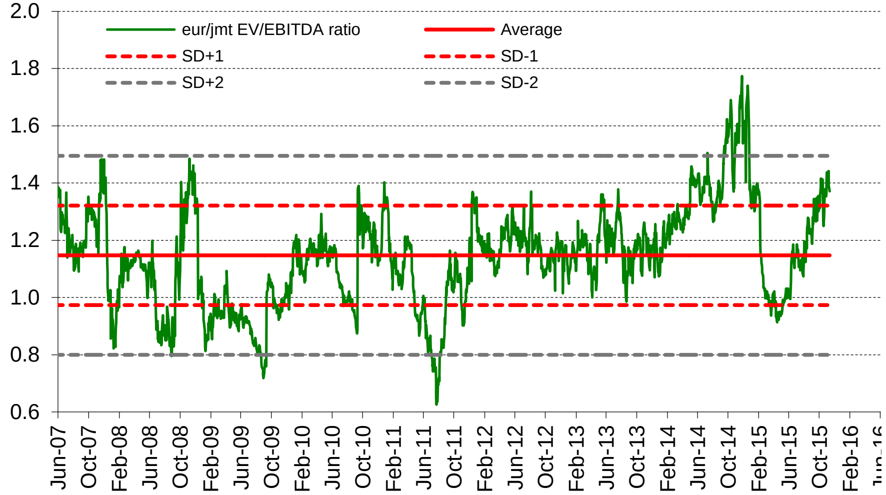
Source: Bloomberg , DM BZ WBK Research

POLISH FMCG: JERONIMO - LONG; EUROCASH - SHORT

Eurocash vs. Jeronimo is getting expensive on both PE fwd. and EV/EBITDA fwd.

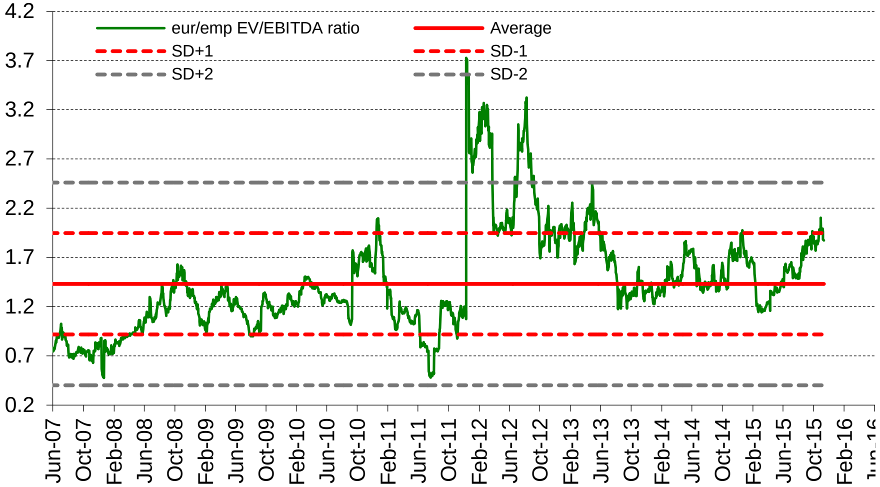


Source: Bloomberg, DM BZ WBK Research



Source: Bloomberg, DM BZ WBK Research

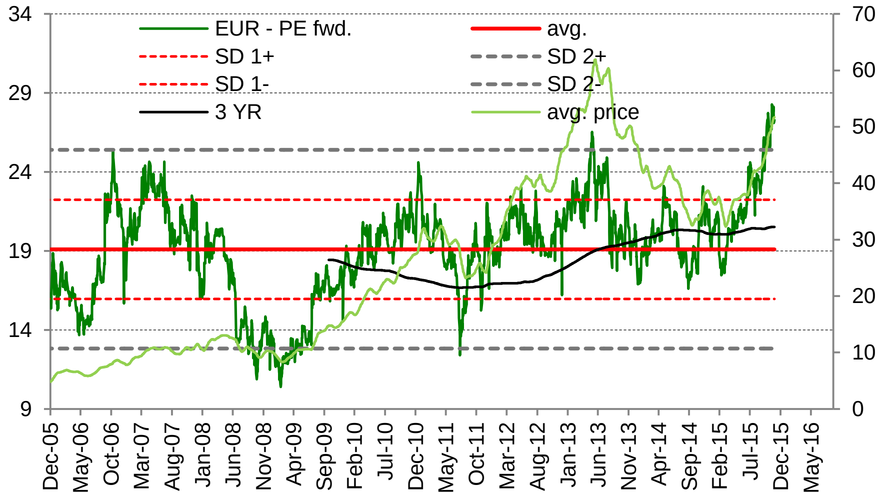
Emperia still looks cheap vs. Eurocash on 12M PE fwd.



Source: Bloomberg, DM BZ WBK Research

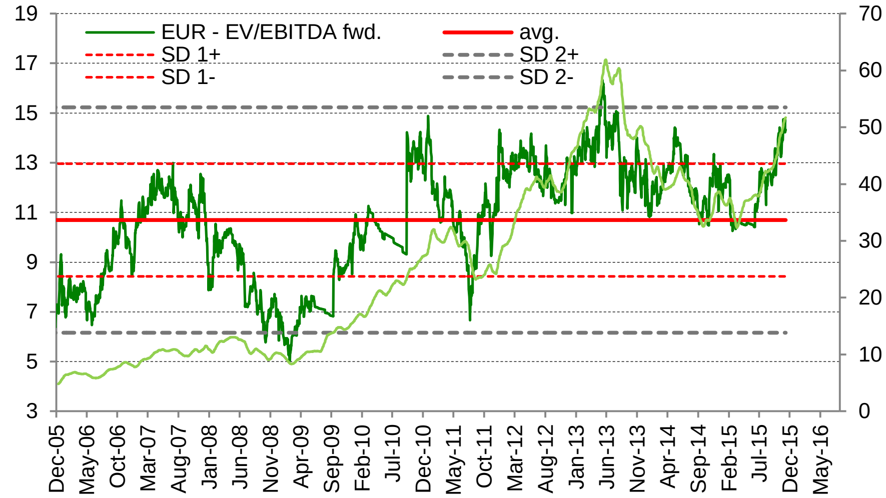
EUROCASH: UNDERWEIGHT

Eurocash is massively overpriced on 12M PE fwd.



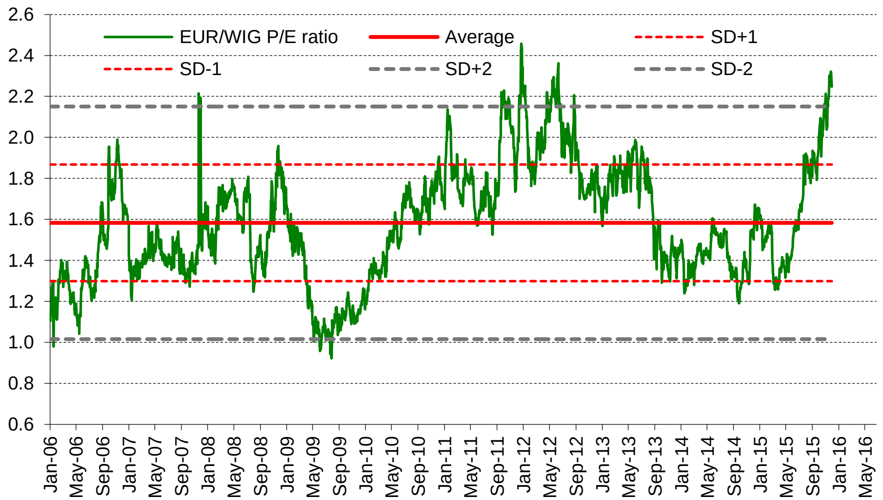
Source: Bloomberg, DM BZ WBK Research

Eurocash: 12M EV/EBITDA fwd. looks expensive



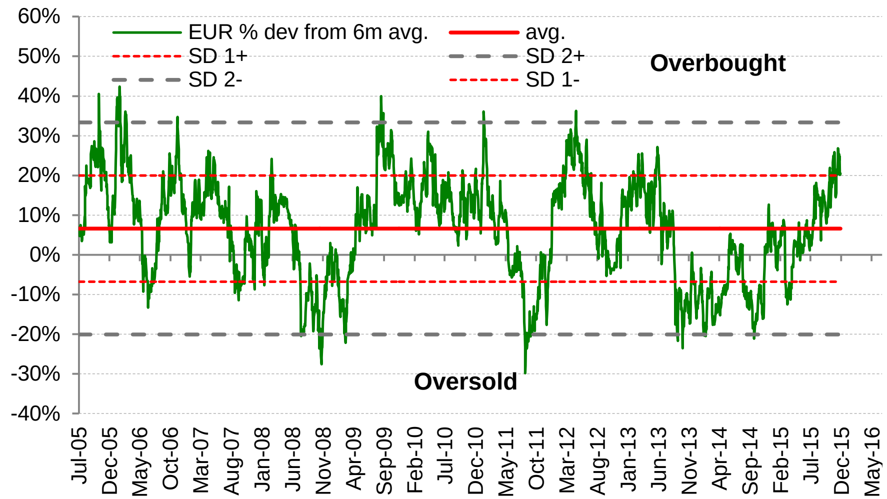
Source: Bloomberg, DM BZ WBK Research

Eurocash: 12M PE looks expensive vs. WIG index



Source: Bloomberg, DM BZ WBK Research

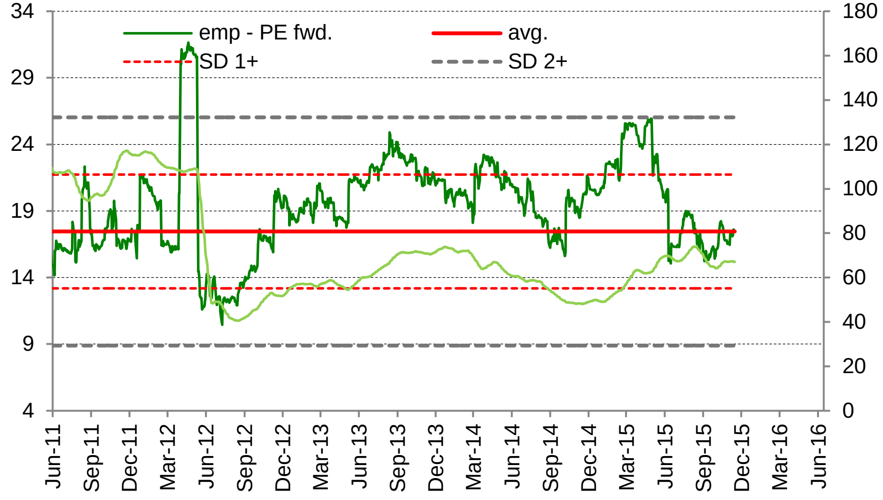
Eurocash: shares are overbought



Source: Bloomberg, DM BZ WBK Research

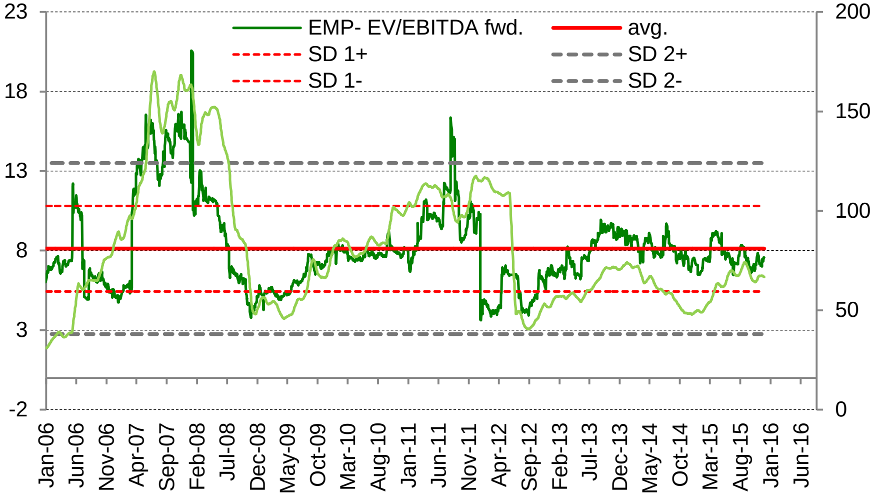
EMPERIA: OVERWEIGHT

Emperia: Neutral at 12M PE fwd., …



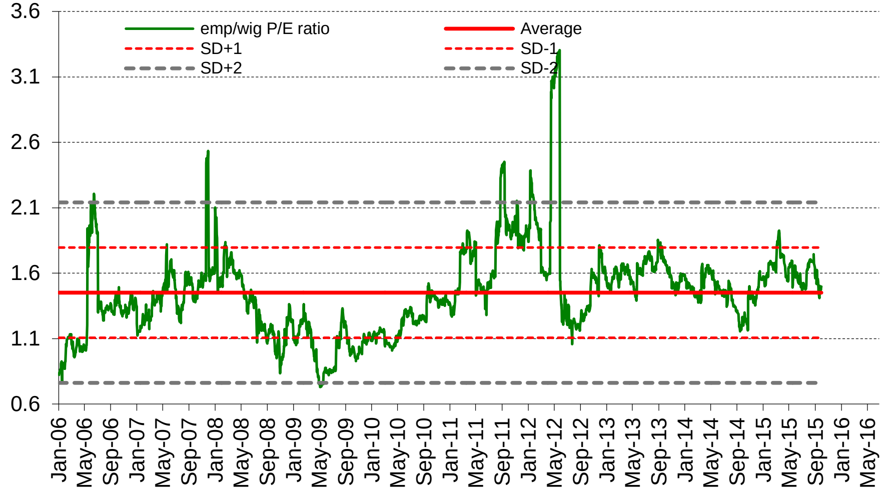
Source: Bloomberg, DM BZ WBK Research

… but 12M EV/EBTIDA fwd. below average



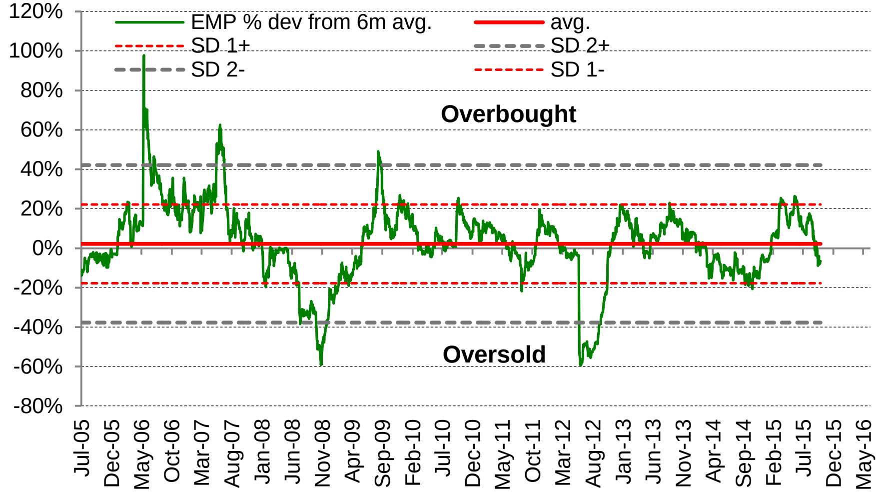
Source: Bloomberg, DM BZ WBK Research

Emperia: 12M PE fwd. vs. WIG index looks neutral



Source: Bloomberg, DM BZ WBK Research

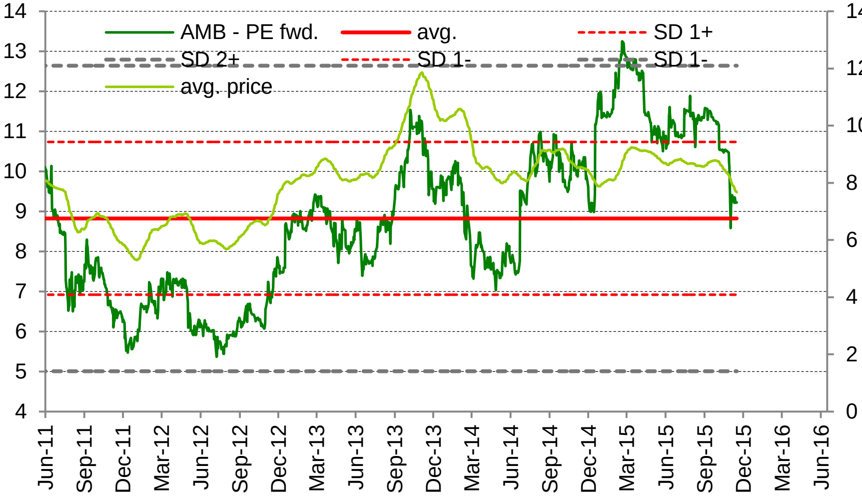
Emperia: shares are getting Oversold



Source: Bloomberg, DM BZ WBK Research

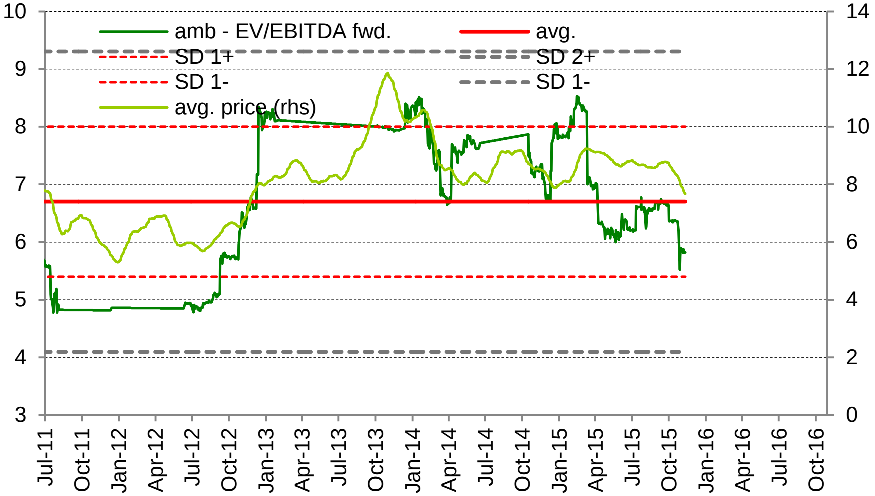
AMBRA: OVERWEIGHT

Ambra: 12M PE fwd. looks neutral



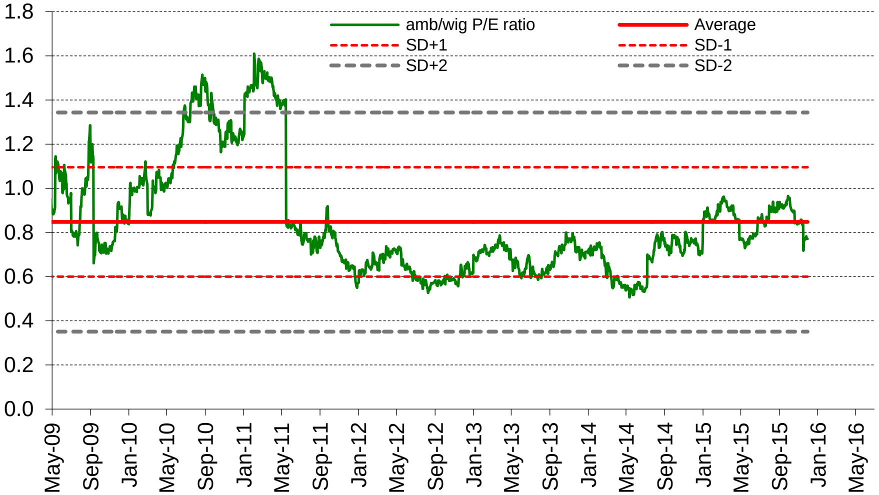
Source: Bloomberg, DM BZ WBK Research

Ambra: 12M EV/EBITDA fwd. looks cheap



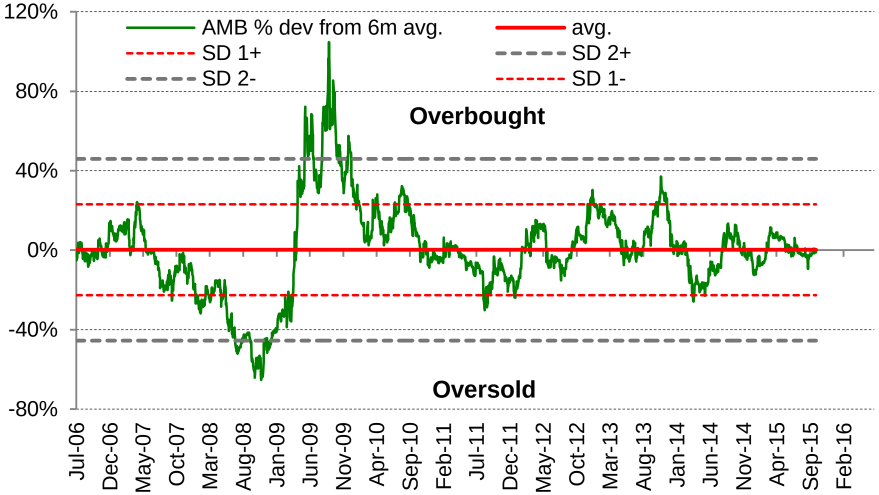
Source: Bloomberg, DM BZ WBK Research

Ambra: 12M PE fwd. vs. WIG index is getting cheap



Source: Bloomberg, DM BZ WBK Research

Ambra: shares are neither oversold nor overbought



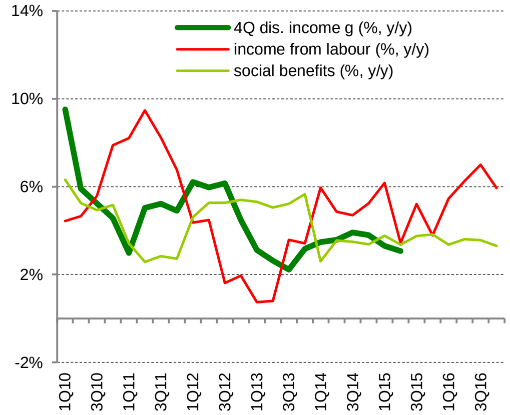
Source: Bloomberg, DM BZ WBK Research

CLOTHING & FOOTWEAR RETAIL (U/W): PRESSURE ON SALES & COST

- **INVESTMENT CASE:** We have an **Underweight** rating for the Clothing & Footwear industry in 2016 due to the sector's relatively high valuations and emerging risks, which should pressure both sales growth and costs. We believe that the 1) tough price competition in the sector due to the promotion-driven client and the lowest price gap between Inditex and competitors in history , 2) lower traffic in shopping malls due to the growing savings rate (which diminishes the positive effects of wage and employment growth), saturation of the market and rising popularity of e-commerce, 3) persistently strong USDPLN and 4) rising pressure on wages could all have a negative impact on the mass fashion clothing market. Combining these factors with the relatively high valuation of the sector causes us to have a rather negative view of the sector. We are still cautious on the industry leaders - LPP (Underweight) and CCC (Neutral), in light of the demanding valuations and risks in both cases. In our view, some of the smaller names continue to offer more acceptable valuations. **SECTOR OUTLOOK: UNDERWEIGHT.**

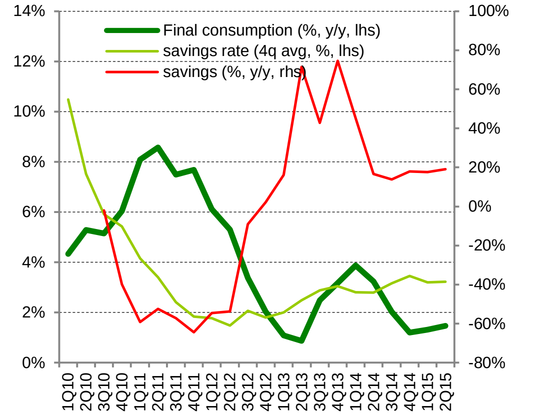
- **MAIN THEMES:** Investors should be focused on the tough competition on the mass fashion market, which is caused by 1) aggressive price policies of the strongest player (Inditex has the lowest price gap vs. competitors in history) and 2) the continuously promotion-driven client, accustomed to attractive discounts. All of these factors put pressure on the industry's sales growth, which is additionally hit by the growing trend to save. Moreover, the persistently strong USDPLN and rising pressure on wages also weigh on the industry's costs. All of these factors will likely diminish the possible positive effects of the government's additional measures, bigger social support, aimed at stimulating consumption.

Growth in disposable incomes (%)



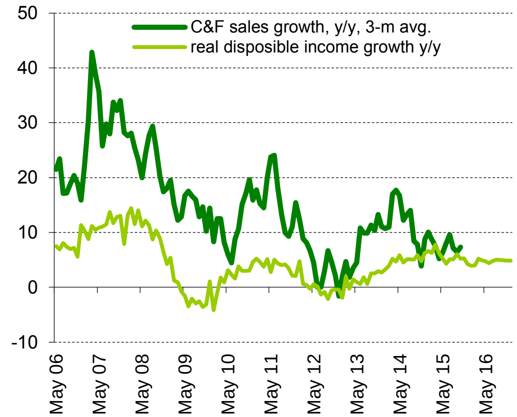
Source: CSO, DM BZ WBK Research

Final consumption vs. savings growth (%)



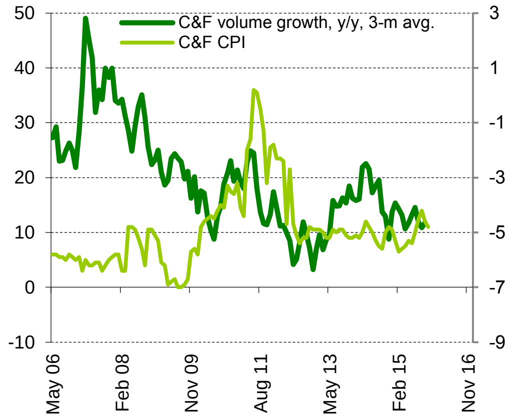
Source: CSO, DM BZ WBK Research

Real dis. income vs. clothing sales gr. (%)



Source: CSO, DM BZ WBK Research

Clothing vol. growth vs. clothing CPI



Source: CSO, DM BZ WBK Research

CLOTHING & FOOTWEAR RETAIL (U/W): DEMANDING VALUATION OF LEADERS

- **SECTOR PICKS:** We are still cautious about the industry leaders. We put **LPP (Buy, TP PLN9,211)** on Underweight and **CCC (Buy, TP PLN194)** on Neutral on the back of their demanding valuations in light of the persisting risks. With regards to LPP, the company should struggle with a notable revival of sales due to the tough market environment, which should also prevent any price increases. On the same note, LPP will find it difficult to push further pressure on COGS from the strong USD and rising wages onto the consumer. All of these should hamper a more significant rebound in the company's profits, which, paired with PE16 at 29x, makes us assign an Underweight rating to the stock. We believe CCC's valuation to be more attractive following it recent share price correction vs. LPP, though most of the risks for CCC's business performance are pretty much the same as for LPP. Among the smaller names, we favour **Monnari and Bytom** due to their attractive valuation, though we would rather avoid **Gino Rossi** in 2016 due to its high leverage.

Clothing&Footwear sector – valuation multiples

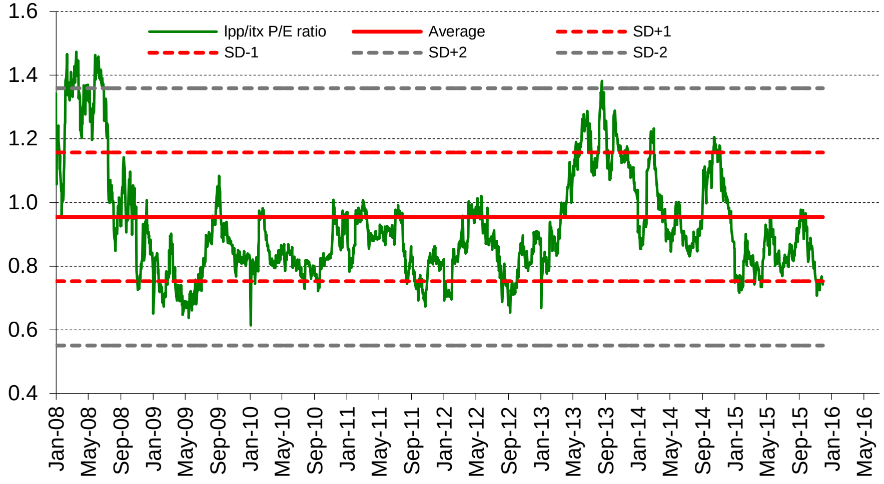
Market capitalization in PLNmn; 12-m TP and current price in PLN

						P/E			EV/EBITDA	
Name	**mkt. cap**	**rating**	**12-m TP**	**current price**	**2015E**	**2016E**	**2017E**	**2015E**	**2016E**	**2017E**
LPP	11,859	Buy	9,211	6,556	35.8	29.2	21.9	18.2	14.8	11.8
Monnari	409	Buy	27.8	13.4	16.1	13.4	12.3	8.0	6.9	6.1
Bytom	220	Buy	4.1	3.1	18.0	16.7	13.0	13.5	11.3	8.9
average					**23.3**	**19.8**	**15.7**	**13.2**	**11.0**	**8.9**
CCC	5,722	Buy	194	149	26.2	24.8	19.4	22.3	17.2	14.1
Wojas	80	Buy	10.8	6.4	14.8	14.3	12.7	8.6	8.0	7.4
Gino Rossi	90	Buy	4.5	1.8	35.7	22.8	19.5	10.6	8.4	7.3
average					**25.6**	**20.6**	**17.2**	**13.8**	**11.2**	**9.6**
Total - average					**24.4**	**20.2**	**16.5**	**13.5**	**11.1**	**9.3**

Source: Bloomberg, DM BZ WBK Research, Company data

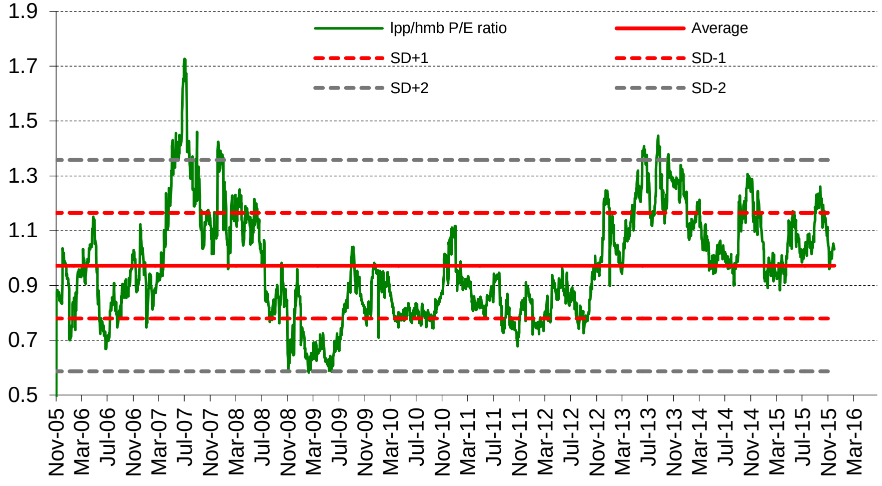
POLISH RETAIL: CCC – LONG; LPP - SHORT

LPP is getting cheap vs. Inditex on 12M PE fwd.



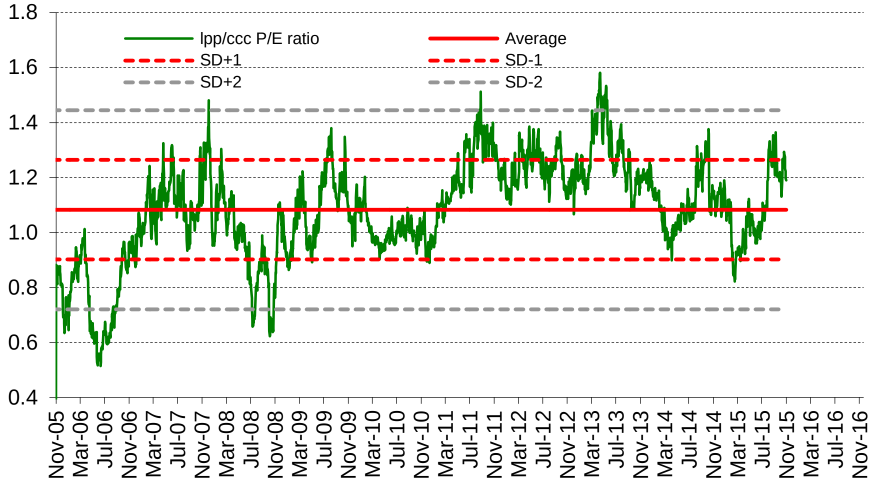
Source: Bloomberg, DM BZ WBK Research

LPP vs. H&M looks neutral on 12M PE fwd.



Source: Bloomberg, DM BZ WBK Research

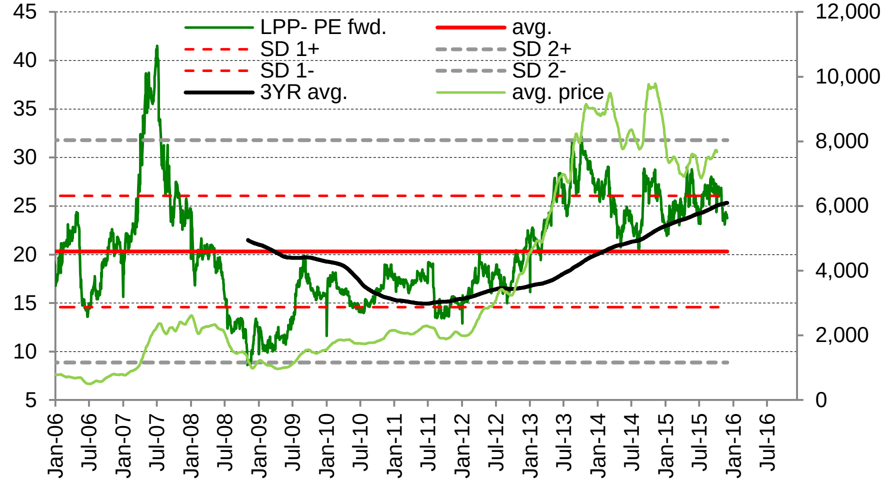
LPP looks expensive vs. CCC on PE fwd. following recent CCC's share price decline



Source: Bloomberg, DM BZ WBK Research

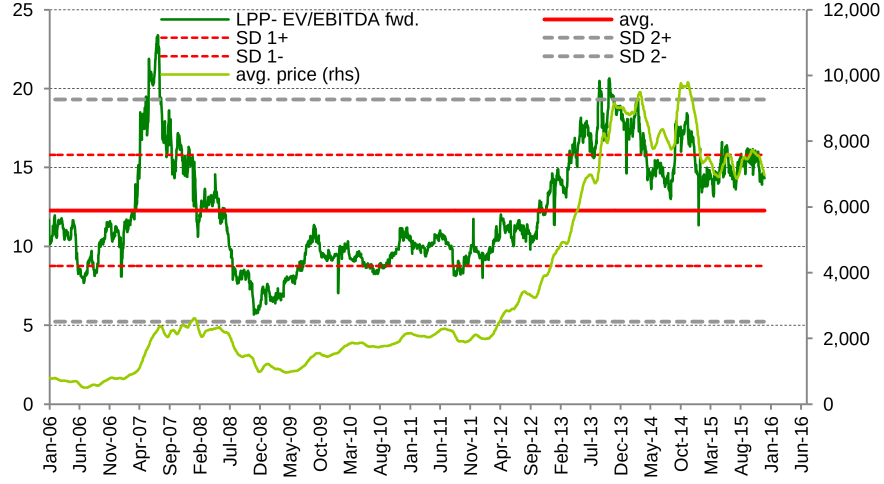
LPP: UNDERWEIGHT

LPP: 12M PE fwd. looks demanding



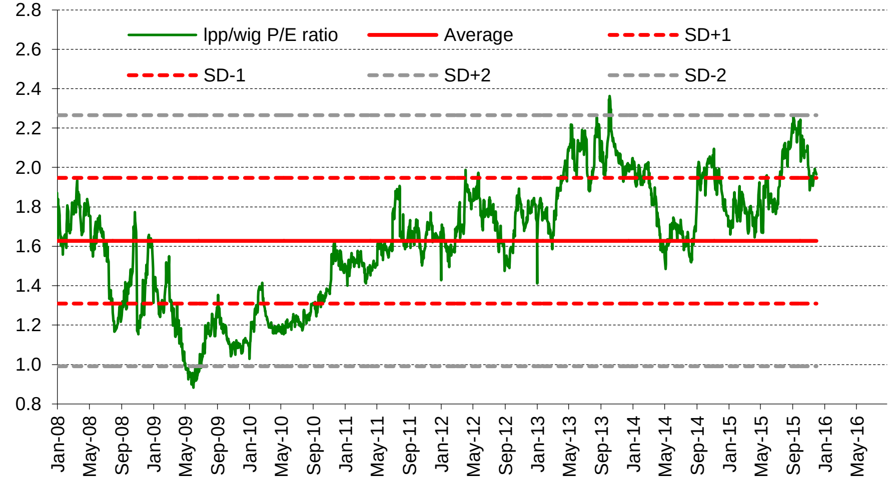
Source: Bloomberg, DM BZ WBK Research

LPP: 12M EV/EBITDA fwd. also looks demanding



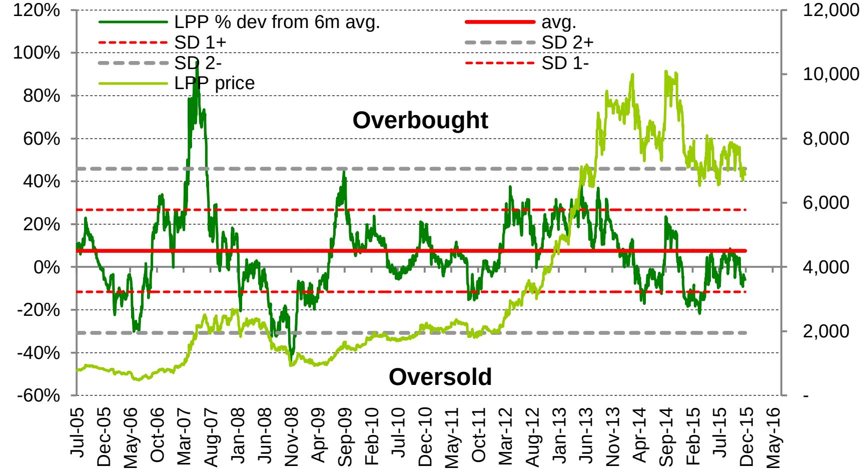
Source: Bloomberg, DM BZ WBK Research

LPP: 12M PE fwd. vs. WIG index still looks expensive



Source: Bloomberg, DM BZ WBK Research

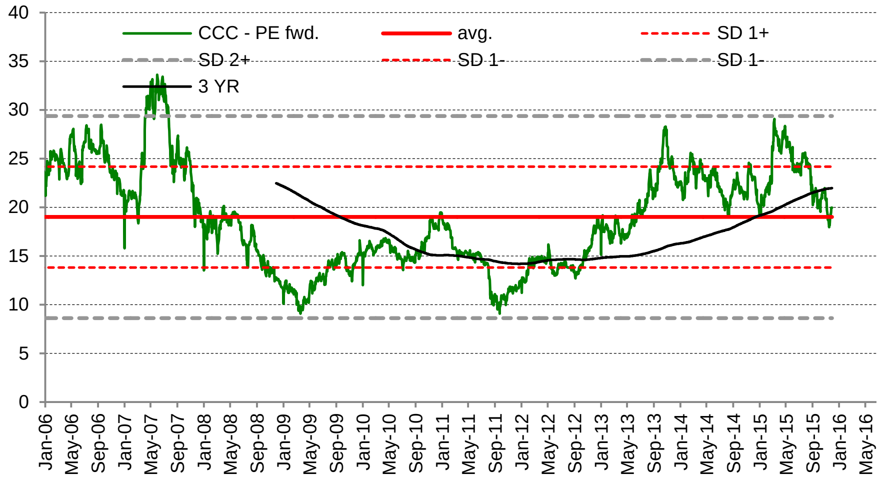
LPP' share price is getting Oversold



Source: Bloomberg, DM BZ WBK Research

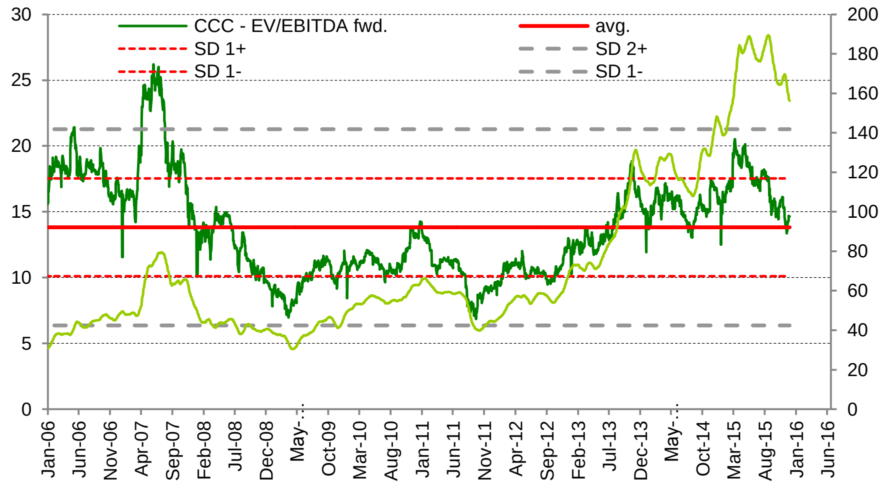
CCC: NEUTRAL

CCC: 12M PE fwd. looks neutral



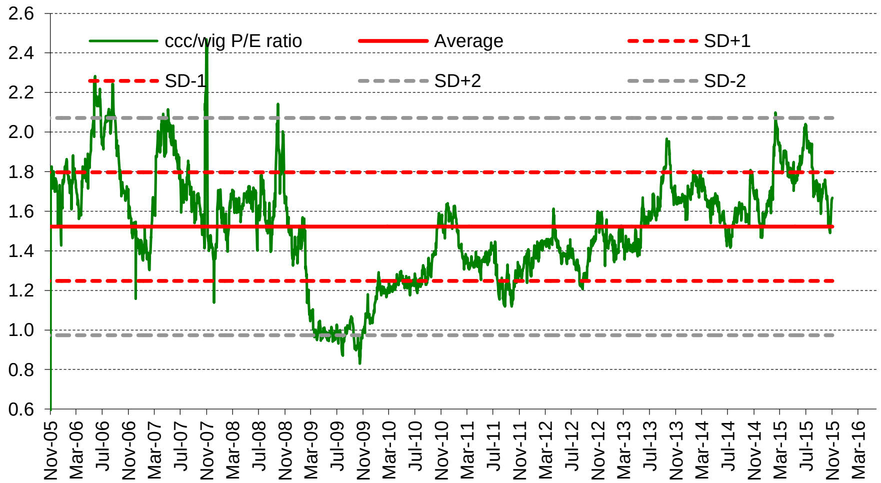
Source: Bloomberg, DM BZ WBK Research

CCC: 12M EV/EBITDA fwd. also looks neutral



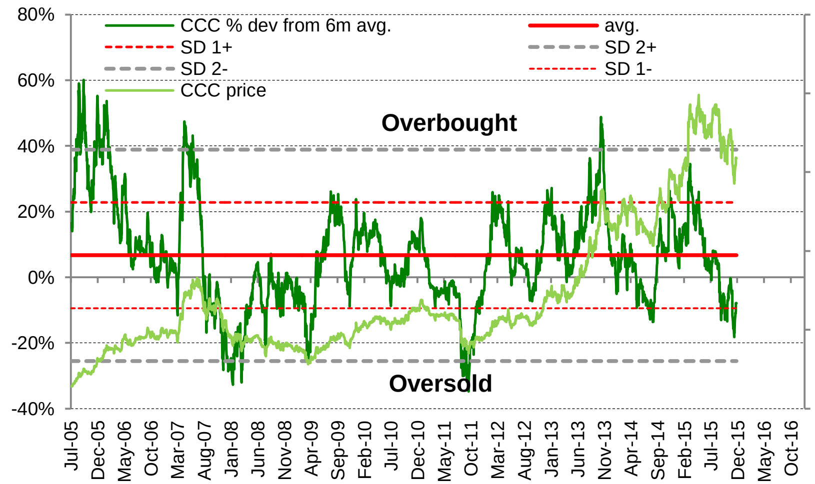
Source: Bloomberg, DM BZ WBK Research

CCC: 12M PE fwd. vs. WIG index is neutral



Source: Bloomberg, DM BZ WBK Research

CCC: shares went to Oversold territory

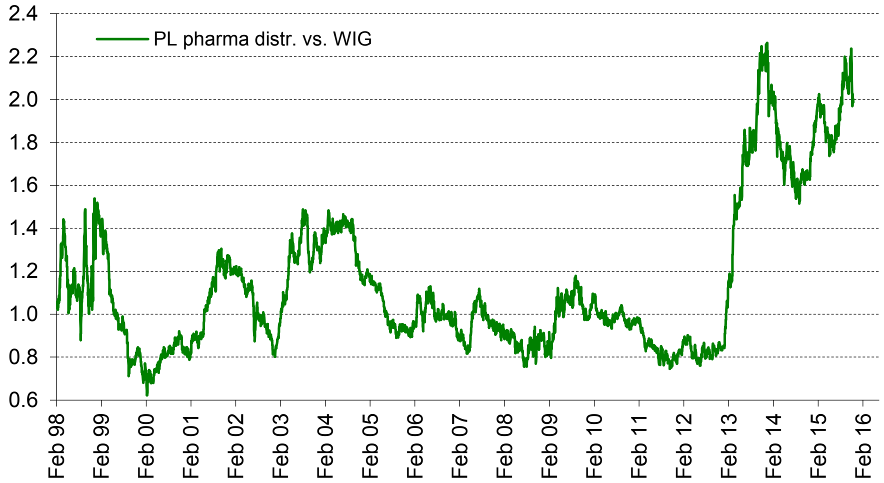


Source: Bloomberg, DM BZ WBK Research

PHARMA WHOLESALERS (U/W): Rich valuations in the sector

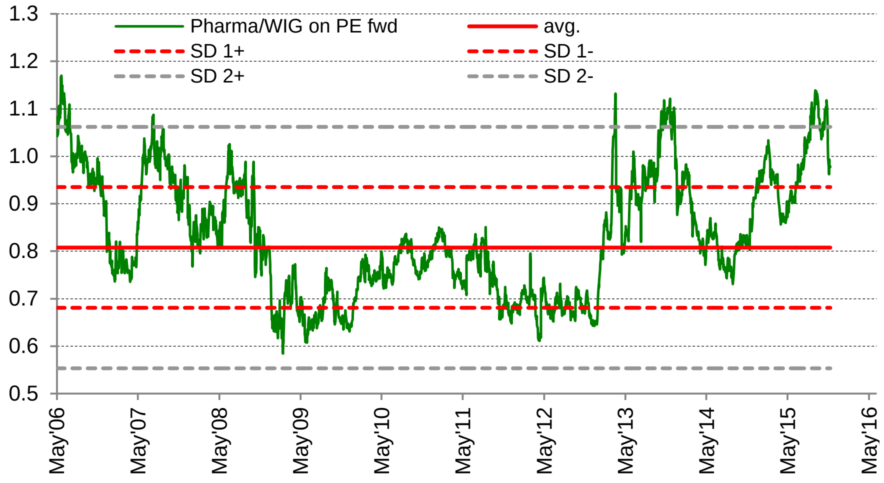
- **INVESTMENT CASE:** Taking into account the relatively unattractive valuations of the pharmaceutical wholesale sector vs. the WIG index, we decided to reverse our previous year's call to Underweight. The sector is now is trading in line with the WIG index vs. the historical avg. discount at 19%. We expect the pharmaceutical wholesale market to grow 4-5% y/y in 2016. The pharmaceutical wholesalers should grow slightly faster on their revenues, taking advantage of the smaller names, which are expected to shed their market share even further. In terms of earnings, we expect the pharmaceutical wholesalers to focus on operating efficiency (Farmacol), salvaging retail operations (Pelion with DoZ pharmacies and Drogeria Natura drugstores), as well as on new business development (Neuca), which should lead to growth of the sector's EBITDA (+8% y/y) and net profit (+10% y/y). **SECTOR OUTLOOK: UNDERWEIGHT.**
- **MAIN THEMES:** Investors should focus on the growth prospects of the wholesale drug market, as well as the various companies' attempts to improve their operating efficiency in 2016. Moreover, investors should pay attention to the performance of Neuca's new business initiatives, the panacea for further profit growth in light of the limited possibilities in pharma wholesale. Apart from the traditional risks related to overdue payments, we see a potential risk of goodwill write-offs in Pelion (PLN593mn), which look serious when we take into account the company's equity at PLN611mn and its high leverage (net debt/EBTIDA at c5x).

Pharma wholesale performance vs. WIG



Source: Bloomberg, DM BZ WBK Research

Pharma sector vs. WIG – relative valuation on PE forward



Source: Bloomberg, DM BZ WBK Research

PHARMA WHOLESALERS (U/W): Only Pelion is Neutral

- **SECTOR PICKS:** We regard **Neuca (Buy, TP PLN403) and Farmacol (Buy, TP PLN69) as Underweight** purely on their high valuations. Despite the stock's very poor quality, we have **Pelion as Neutral (Hold, TP PLN88)** mainly on the back of the recent share price pullback. Based on our forecasts for 2016, **Neuca** trades at a PE'16 of 15x, which implies a 50% premium to Pelion and a 20% premium to Farmacol. Neuca also trades in line with its fair PE, which we estimate at c.15x. Taking this into account, it will be hard for Neuca to replicate its excellent performance from 2015 (+52%). **Farmacol** trades at a PE'16 of 13x, which implies a 24% premium vs. Pelion and a 17% discount vs. Neuca. Please note, however, that Farmacol has a huge net cash position (PLN220mn), which makes its valuation on the EV/EBITDA much more attractive. On the other hand, the company does not pay dividends, which lowers the significance of its net cash position, in our view. **Pelion** trades at a PE'16 of 10x, i.e. at a 33% discount vs. Neuca and a 20% discount vs. Farmacol. We believe that such a discount should start to limit further falls, though investors should bear in mind the very low quality of Pelion and the looming risk of a massive goodwill write-off, which could leave it practically without any capital. The PE16 at 10x also remains above the fair level, which we currently estimate at c. 9.1x.

Polish pharmaceutical wholesalers: valuation multiples

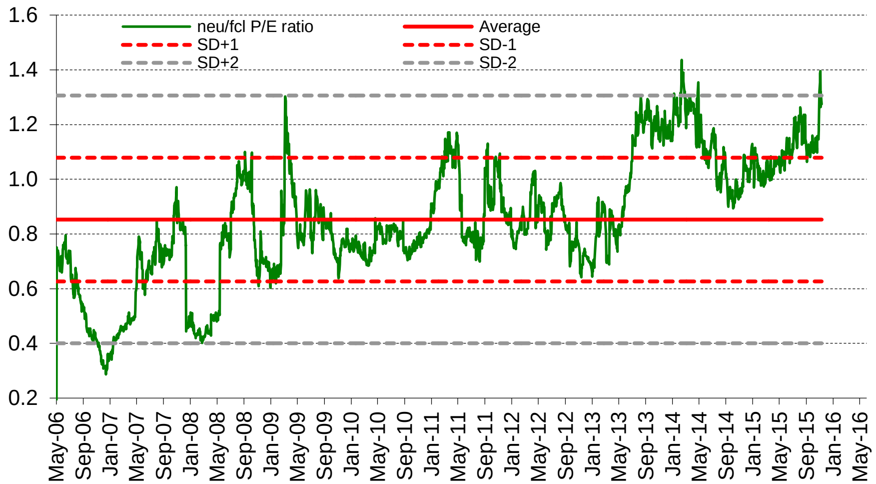
Market capitalization in PLNmn; 12-m TP and current price in PLN

						P/E			EV/EBITDA	
Company	**mkt. cap.**	**Rating**	**12-m TP**	**curr. price**	**2015E**	**2016E**	**2017E**	**2015E**	**2016E**	**2017E**
Farmacol	**1,289**	**Buy**	**66.0**	**56.0**	**12.8**	**12.6**	**14.6**	**9.0**	**7.9**	**7.9**
prem./(disc.) to Pelion					*3%*	*24%*	*56%*	*-11%*	*-16%*	*-12%*
prem./(disc.) to Neuca					*-24%*	*-17%*	*0%*	*-28%*	*-28%*	*-21%*
Neuca	**1,704**	**Buy**	**376.0**	**335.0**	**17.0**	**15.2**	**14.6**	**12.5**	**11.0**	**10.0**
prem./(disc.) to Pelion					*36%*	*50%*	*56%*	*24%*	*16%*	*11%*
prem./(disc.) to Farmacol					*32%*	*20%*	*0%*	*38%*	*38%*	*27%*
Pelion	**600**	**Hold**	**79.0**	**47.5**	**12.5**	**10.1**	**9.4**	**10.1**	**9.5**	**9.0**
prem./(disc.) to Farmacol					*-3%*	*-20%*	*-36%*	*12%*	*20%*	*14%*
prem./(disc.) to Neuca					*-27%*	*-33%*	*-36%*	*-19%*	*-14%*	*-10%*

Source: Bloomberg, DM BZ WBK Research

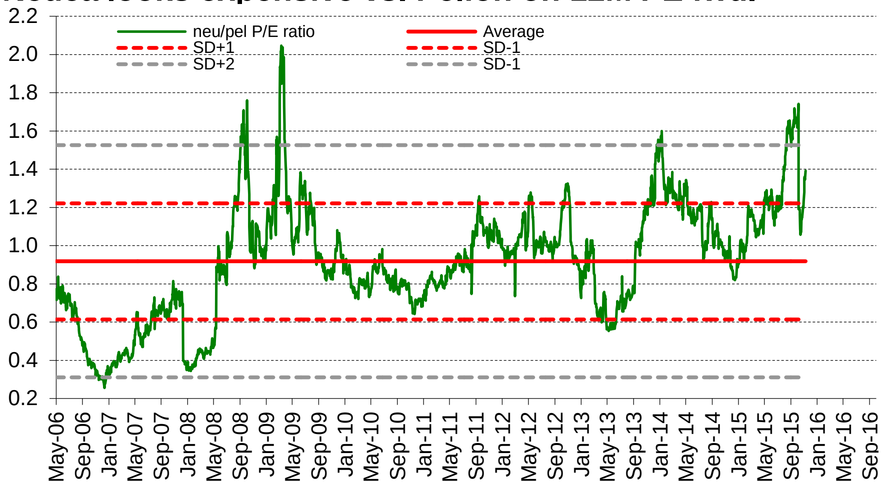
PHARMA WHOLESALERS: PAIR TRADES

Neuca looks expensive vs. Farmacol on 12M PE fwd.



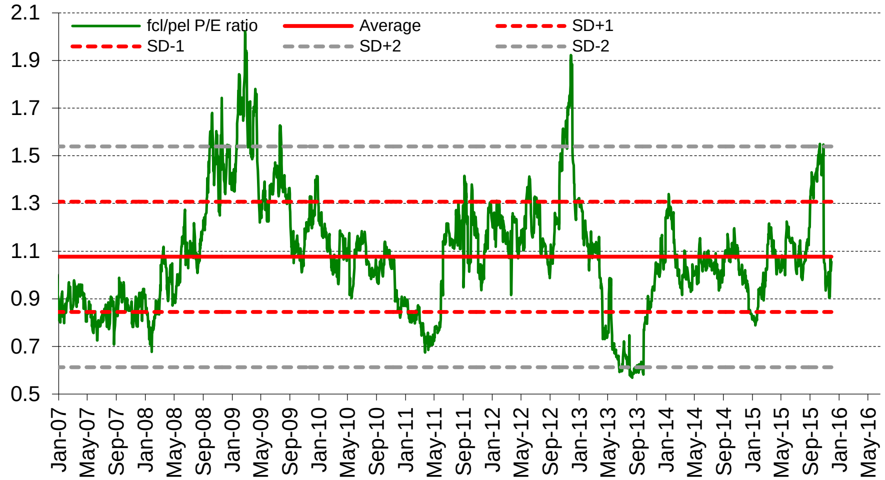
Source: Bloomberg, DM BZ WBK Research

Neuca looks expensive vs. Pelion on 12M PE fwd.



Source: Bloomberg, DM BZ WBK Research

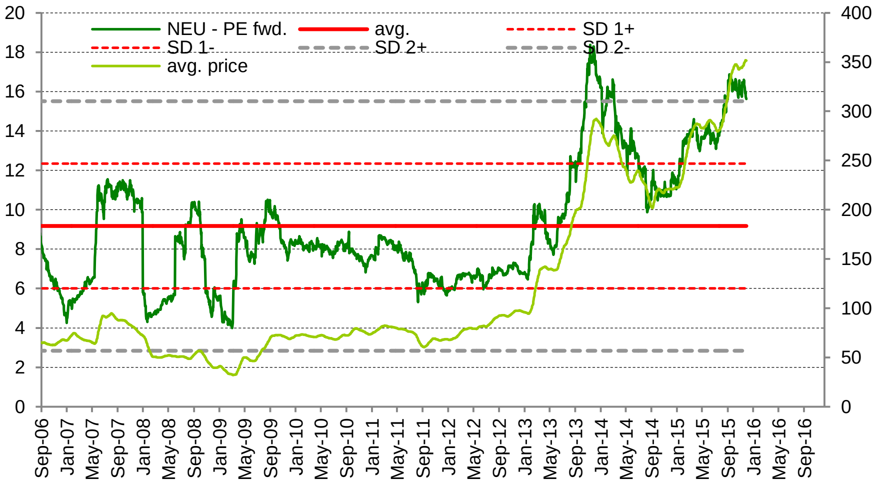
Farmacol is neutral vs. Pelion on 12M PE fwd.



Source: Bloomberg, DM BZ WBK Research

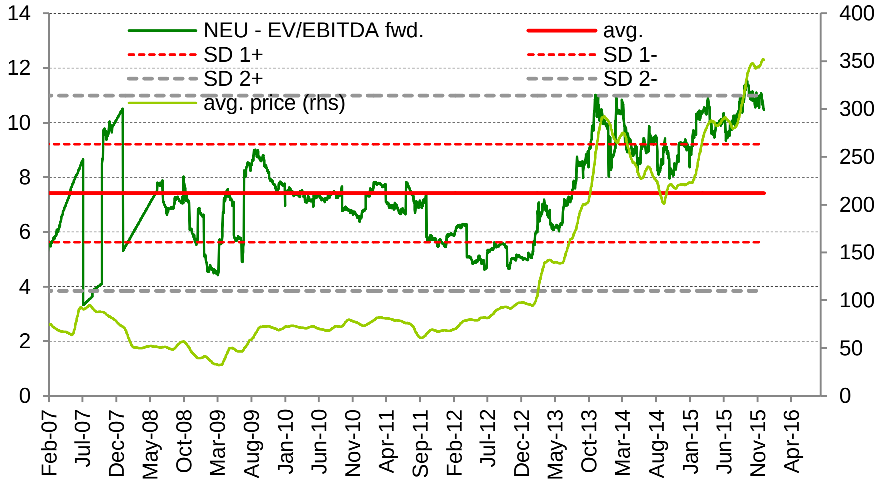
NEUCA: UNDERWEIGHT

Neuca is massively overpriced on 12M PE fwd. …



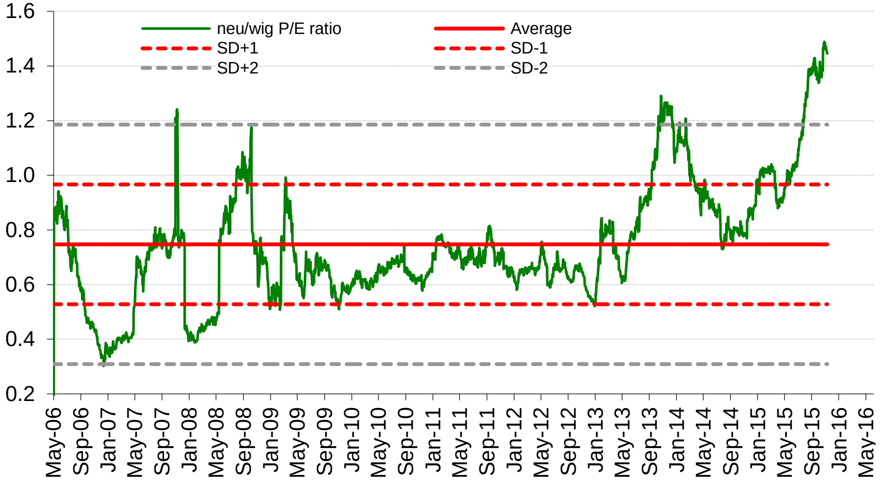
Source: Bloomberg, DM BZ WBK Research

… and 12M EV/EBITDA fwd.



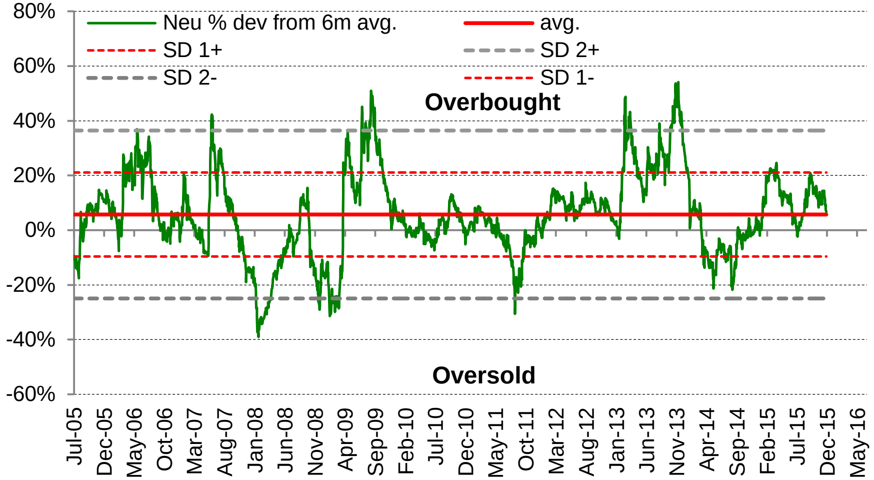
Source: Bloomberg, DM BZ WBK Research

Neuca looks extremely expensive vs. WIG index on 12M PE fwd.



Source: Bloomberg, DM BZ WBK Research

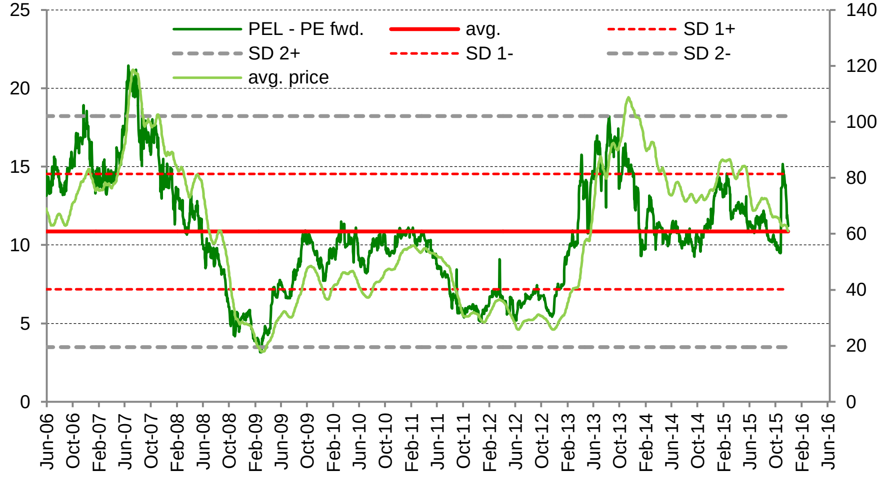
Neuca: shares are neither Overbought nor Oversold



Source: Bloomberg, DM BZ WBK Research

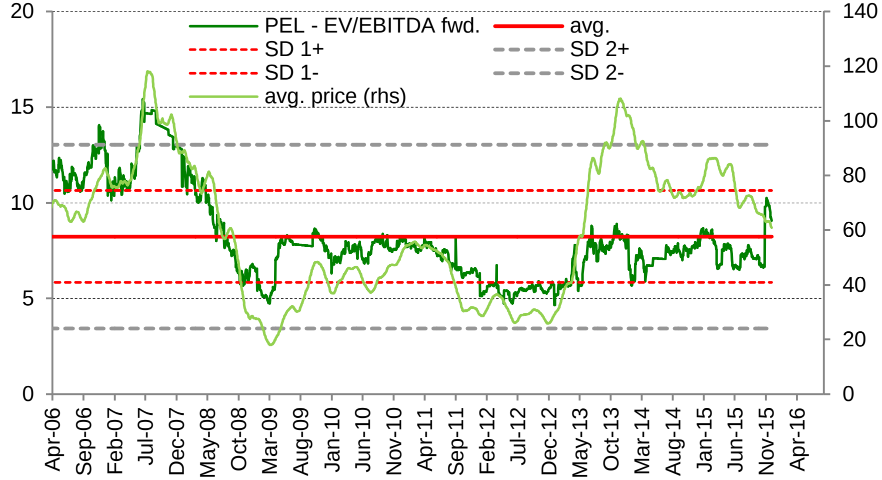
PELION: NEUTRAL

Pelion: 12M PE fwd. looks neutral



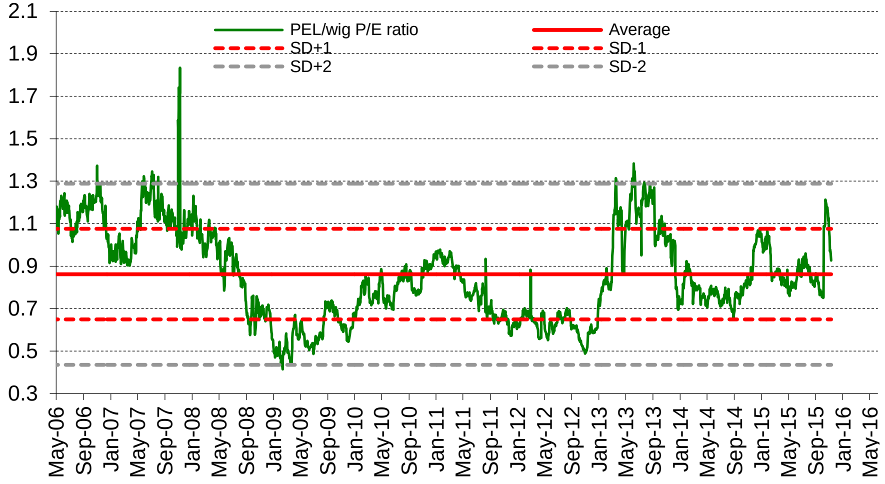
Source: Bloomberg, DM BZ WBK Research

Pelion: 12M EV/EBITDA fwd. looks neutral



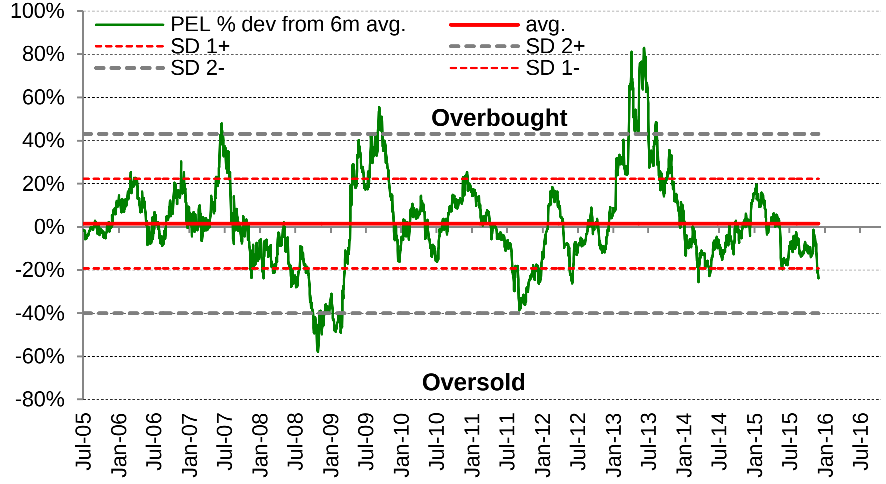
Source: Bloomberg, DM BZ WBK Research

Pelion: 12M PE fwd. vs. WIG index looks neutral



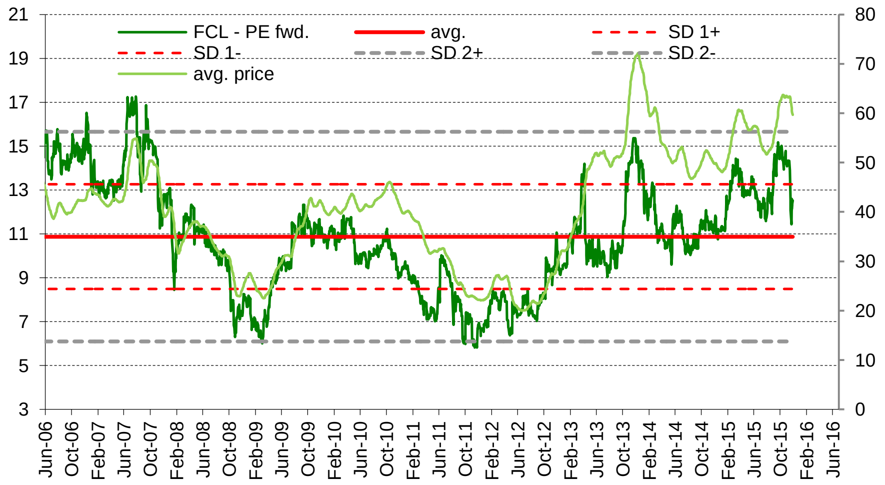
Source: Bloomberg, DM BZ WBK Research

Pelion: Shares are Oversold



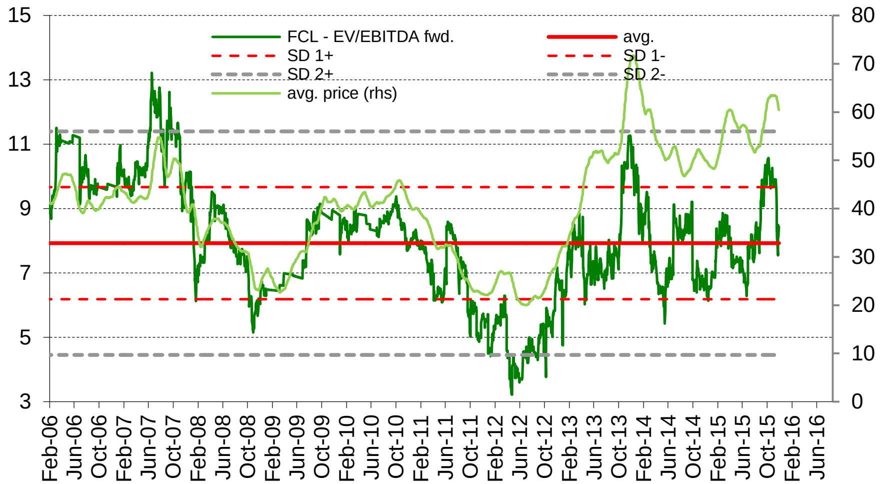
Source: Bloomberg, DM BZ WBK Research

Farmacol: 12M PE fwd. looks neutral



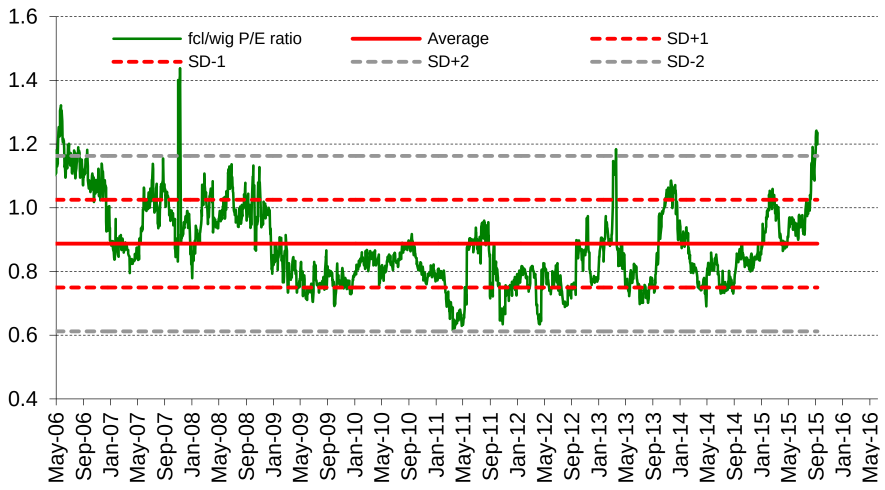
Source: Bloomberg, DM BZ WBK Research

Farmacol : 12M EV/EBITDA fwd. looks neutral



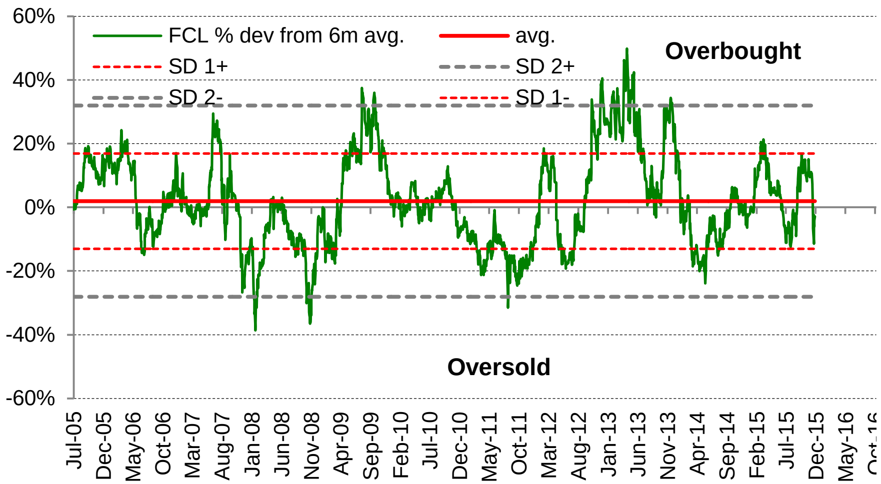
Source: Bloomberg, DM BZ WBK Research

Farmacol : 12M PE fwd. vs. WIG index looks expensive



Source: Bloomberg, DM BZ WBK Research

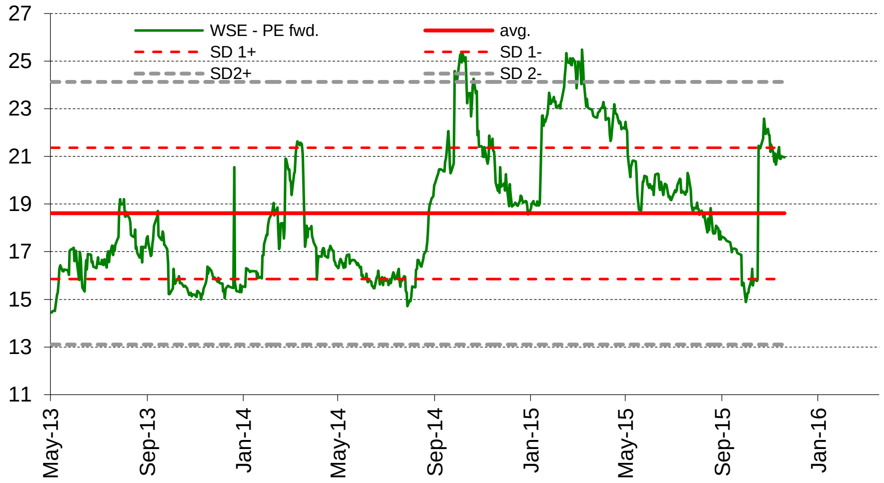
Farmacol : Shares are getting Oversold



Source: Bloomberg, DM BZ WBK Research

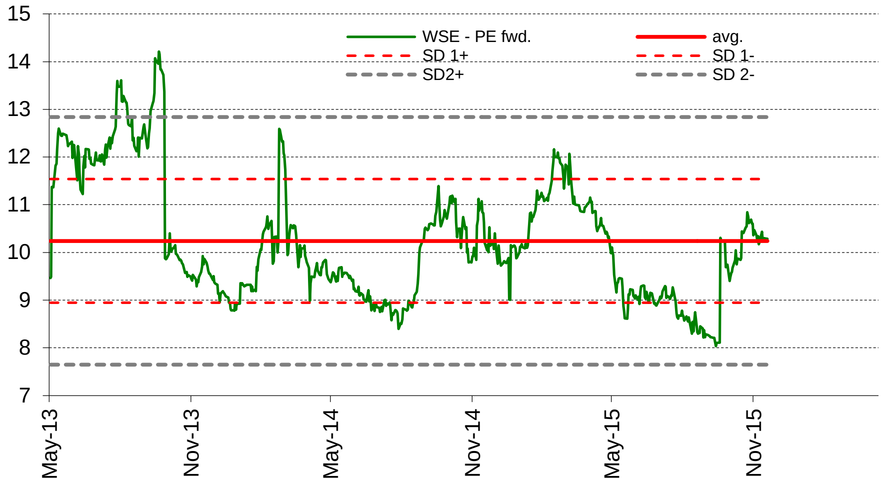
WORK SERVICE: UNDERWEIGHT

Work Service: 12M PE fwd. looks demanding



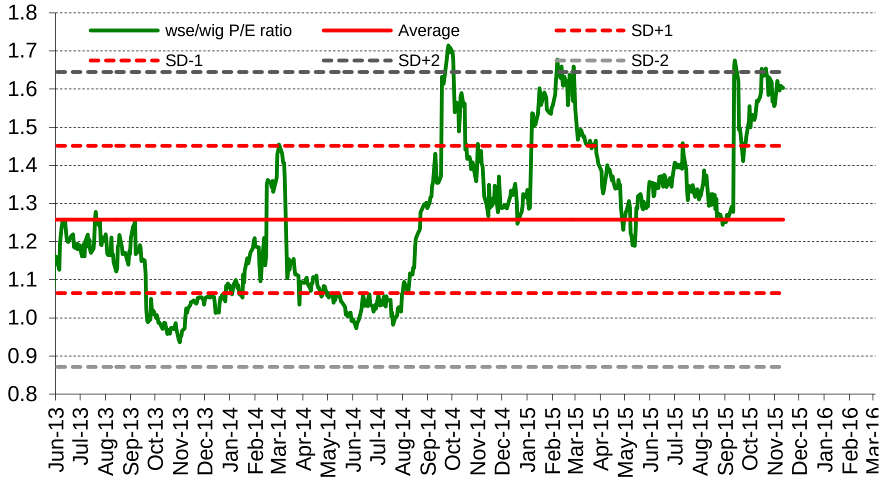
Source: Bloomberg, DM BZ WBK Research

Work Service : 12M EV/EBITDA fwd. looks neutral



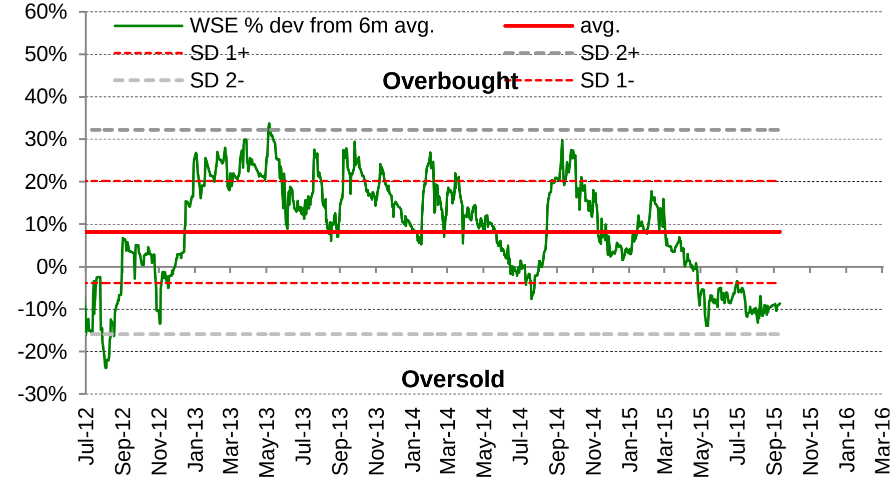
Source: Bloomberg, DM BZ WBK Research

Work Service : 12M PE fwd. vs. WIG index looks overvalued



Source: Bloomberg, DM BZ WBK Research

Work Service : Shares are Oversold



Source: Bloomberg, DM BZ WBK Research

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EBIT - earnings before interest and tax
EBITDA - earnings before interest, taxes, depreciation, and amortization
P/E - price-earnings ratio
EV - enterprise value (market capitalisation plus net debt)
PEG - P/E to growth ratio
EPS - earnings per share
CPI - consumer price index
WACC - weighted average cost of capital
CAGR - cumulative average annual growth
P/CE - price to cash earnings (net profit plus depreciation and amortisation) ratio
NOPAT - net operational profit after taxation
FCF - free cash flows
BV - book value
ROE - return on equity
P/BV - price-book value
Overweight/Underweight/Neutral - means that, according to the authors of this document, the stock price may perform better/worse/neutrally than the WIG20 index in a given month.

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Buy - indicates a stock's total return to exceed more than 15% over the next twelve months.
Hold - indicates a stock's total return to be in range of 0%-15% over the next twelve months.
Sell - indicates a stock's total return to be less than 0% over the next twelve months.

In preparing this document DM BZ WBK applied at least two of the following valuation methods:

1. discounted cash flows (DCF),
2. comparative,
3. mid-cycle,
4. dividend discount model (DDM),
5. residual income,
6. warranted equity method (WEV),
7. SOTP valuation,
8. liquidation value.

DISCLAIMER

The discounted cash flows (DCF) valuation method is based on expected future discounted cash flows. One advantage of the DCF valuation method is that it takes into account all cash streams reaching Issuer and the cost of money over time. Some disadvantages of the DCF valuation method are that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
The comparative valuation method is based on the economic rule of "one price". Some advantages of the comparative valuation method are that the analyst need only estimate a small number of parameters; the valuation is based on current market conditions; the relatively large accessibility of indicators for companies being compared; and that there is an extensive knowledge of the comparative method among investors. Some disadvantages of valuation by the comparative method are the considerable sensitivity of the results of the valuation on the choice of companies to the comparative group; the method can lead to a simplification of the picture of the company which in turn can lead to omitting certain important factors (e.g. growth dynamics, extra-operational assets, corporate governance, the repeatability of results, differences in applied accounting standards); and the uncertainty of the effectiveness of a market valuation of companies being compared.
The mid-cycle valuation is based on long-term averages for the two-year forward consensus P/E and EV/EBITDA multiples for the members of the peer group. The methodology is aimed calculating a fair, through the cycle value of cyclical stocks. Among its shortfalls is that at peaks and/or troughs of the cycle, the implied fair value may deviate substantially from the market's value of an analysed stock as well as the methods' reliance on the quality of external data (we use Bloomberg consensus here). Simplicity and average through-cycle value allowing to capture over as well as under-valuation of a given stock are the main advantages of this methodology.
The dividend discount model (DDM) valuation is based on the net present value of the future dividends that are expected to be paid out by the company. Some advantages of the DDM valuation method are that it takes into account real cash flows to equity-owners and that the methodology is used in respect to companies with long dividend payout history. Main disadvantage of the DDM valuation method is that dividend payouts are based on a large number of parameters and assumptions, including dividend payout ratio.
The residual income method is conceptually close to the discounted cash flows method (DCF) for non-financial stocks, the difference being that it is based on expected residual income (returns over COE) rather than expected future cash flows. One advantage of this valuation method is that it captures the excess of profit potentially available to shareholders and the cost of money over time. Main disadvantage of the valuation method is that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
The warranted equity method (WEV) is based on the formula P/BV = (two year forward ROE less sustainable growth rate)/(Cost of equity less sustainable growth rate) which allows estimating a fair value (FV) of a given stock in two years time. Subsequently the FV is discounted back to today. The main advantage of the WEV method is that it is a transparent one and based on relatively short term forecasts, hence substantially reducing the margin of forecasting error. The main disadvantage in our view is that the model is based on the principle that stock price should converge towards its fair value implied by company's ROE and COE.
The SOTP valuation - different assets of a company are being valued according to different valuation methods, and the sum of these valuations represents the final valuation of the company. SOTP valuation advantages / disadvantages are identical to advantages and disadvantages of the specific valuation methods used.
The Liquidation value method - liquidation value is the estimated amount of money that an asset or company could be quickly sold for, such as if it were to go out of business. Then, the estimated assets value is adjusted for liabilities and liquidation expenses. One advantage of this valuation method is its simplicity. This method does not account for intangible assets as goodwill, which is the main disadvantage.
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