

17/2015/FU (119) August 4, 2015

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Sector: Consumer discretionary
Fundamental rating: Buy (→)
Market relative: Overweight (→)
Price: PLN 13.90
12M EFV: PLN 20.3 (↑)

Market Cap: US\$ 14 m
Bloomberg code: ETL PW
Av. daily turnover: US\$ 0.01 m
Free float: 40%
12M range: PLN 10.12-15.95

Eurotel

Investment story & recommendation

Eurotel is one of the leading mobile distributors with a strong market position (the largest authorised dealer of PTC and simultaneously one of the largest authorised dealers of P4). After the disposal of unprofitable Media System subsidiary the Company continues its efforts to gain higher diversification of its profit sources, offsetting the volatile environment of its core business on the back of developing Apple premium reseller shops network under the iDream brand.

After strong results in 1Q15, expecting further robust contribution of iDream subsidiary in the next quarters coupled with the awaited improved performance of the parent company and development of ViaMind subsidiary, we forecast Eurotel's 2015E EPS to increase by 58% yoy.

Seeing Eurotel's equities attractively priced (P/E <6x) and decidedly below our 12M EFV for the Company, we maintain our LT Buy fundamental rating intact. Expecting the Company's quarterly results in the coming quarters to show a strong yoy recovery we maintain our ST market-relative Overweight stance towards Eurotel's equities unchanged.

Financial forecast

Given the splendid 1Q15 results and our implicit forecasts for 2Q15 we make significant changes to our financial projections for Eurotel. Firstly, we upgrade our revenue forecasts given the strong sales of Apple products under the iDream project – realized in both retail (planned the 9th shop to be opened in 3Q15 in Łódź) and wholesale channels. Moreover, a minor positive impact is also exerted by the improving performance of ViaMind subsidiary.

Simultaneously our profits forecasts for Eurotel go upwards stemming from: (i) positive impact of developing the iDream project, (ii) higher contribution of ViaMind subsidiary, (iii) expected improving commissioning from PTC in 2H15 (on the back of sales network optimization and introduction of the new remuneration system, which already took place in June), (iv) positive impact of the MediaSystem disposal. Regarding the details of our forecasts changes, please refer to *Figure 1*.

Quarterly results corner; 2Q15 results' forecasts

Eurotel will publish its 2Q15 results on August 31. Given the strong results in 1Q15 we expect the Company's profits to show a further substantial yoy recovery.

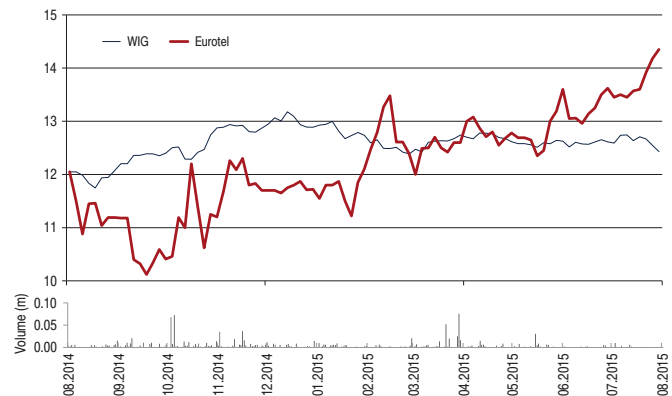
Guide to adjusted profits
No factors necessitating adjustments

Key data

IFRS, consolidated		2014	2015E	2016E	2017E
Sales	PLN m	164.6	254.0	265.8	258.8
EBITDA	PLN m	8.5	12.8	13.9	13.4
EBIT	PLN m	6.7	10.9	12.0	11.5
Net profit	PLN m	5.7	9.0	10.0	9.6
EPS	PLN	1.53	2.41	2.66	2.56
EPS yoy chg	%	11	58	10	-4
FCFF	PLN m	15.0	4.3	9.8	9.2
Net debt	PLN m	-15.2	-12.6	-16.8	-19.6
P/E	x	9.1	5.8	5.2	5.4
P/CE	x	6.9	4.8	4.4	4.5
EV/EBITDA	x	4.3	3.1	2.5	2.4
EV/EBIT	x	5.5	3.6	2.9	2.8
Gross dividend yield	%	0.0	14.4	11.5	12.6
DPS	PLN	0.00	2.00	1.59	1.76
No. of shares (eop)	m	3.7	3.7	3.7	3.7

Source: Company, DM BOŚ SA estimates

Stock performance



Source: Bloomberg

Upcoming events

1. Release of 1H15 financial results: August 31, 2015
2. Release of 3Q15 financial results: November 16, 2015

Catalysts

1. Development of iDream project
2. Development of P4's retail chain (number of Play's outlets managed by ViaMind subsidiary should gradually increase in 2015)
3. Acceleration of the MNO's post-paid subscriber base
4. Next acquisition(s) (they may improve diversification of the Company's operations and give exposure to attractive businesses)

Risk factors

1. Limited possibility of further organic growth due to high saturation of outlets managed by authorized dealers (apart from Play which has the fewest outlets)
2. High concentration of the parent company's net profit centre – profitability strictly depends on the postpaid division performance
3. High dependence on current co-operation terms with MNOs
4. Tighter co-operation among different outlet operators, which may marginalise distribution business

We expect the Company's top line to increase 78% yoy and reach PLN 61.9 million in 2Q15. Such a high yoy revenue growth should primarily stem from the developing of iDream project (the number of the Company's stores increased to 8 in 1Q15) including the wholesale sales. Secondly, the positive impact should be exerted by developing of ViaMind subsidiary coupled with expected revenue stabilization derived from the parent's company core business.

We forecast Eurotel's 2Q15 profits to show a strong yoy recovery on the back of: (i) larger contribution of developing of the iDream project, (ii) improved yoy performance of ViaMind, and (iii) improved commissioning from PTC. Moreover, the positive yoy impact should be reinforced by deconsolidation of unprofitable MediaSystem (disposed in 4Q14). We forecast Eurotel's consolidated EBITDA to increase 87% yoy and reach PLN 3.3 million. Expecting roughly flat yoy D&A charges we

forecast the Company's EBIT to increase 131% yoy and arrive at PLN 2.8 million. Consequently, we forecast Eurotel's consolidated net profit to increase 119% yoy and reach PLN 2.2 million. Regarding the details of our quarterly forecasts for the Company, please refer to *Figure 2*.

Valuation

On the back of: (i) changes of our financial forecasts, and (ii) valuation horizon forward shift, our DCF-derived valuation for Eurotel stands at PLN 21.3 per share (up 21% vs. our previous assessment). The comparison to a domestic peer (Tell) results in Eurotel's implied share value of PLN 19.4 (up 51% vs. our previous assessment). Our ultimate 12M EFV per Eurotel's share – representing a 50%-50% mix of the outcomes of the DCF and peer-relative exercises – increases to PLN 20.3 per share (up 40% from PLN 14.5 previously).

Fig. 1 Eurotel; Changes in BOS's forecast

IFRS consolidated (PLN m)	2015E			2016E			2017E		
	current	previous	change	current	previous	change	current	previous	change
Sales	254.0	164.1	55%	265.8	165.4	61%	258.8	166.6	55%
EBITDA	12.8	10.5	22%	13.9	10.3	35%	13.4	10.0	34%
EBIT	10.9	8.6	27%	12.0	8.7	39%	11.5	8.4	37%
Net profit	9.0	7.1	28%	10.0	7.2	38%	9.6	7.1	36%
Net debt	-12.6	-10.9	n.m.	-16.8	-14.8	n.m.	-19.6	-18.1	n.m.

Source: DM BOS SA estimates

Fig. 2 Eurotel; 2Q15 results' forecast

IFRS consolidated (PLN m)	yoy		yoy		Realization of the full-year figures in 2Q:		Realization of the full-year figures in 1H:			
	2Q15E	2Q14	chg	1H15E	1H14	chg	2015E	2014	2015E	2014
Sales	61.9	34.8	78%	130.9	65.1	101%	24%	25%	52%	47%
EBITDA	3.3	1.7	87%	7.4	2.7	176%	26%	21%	58%	33%
EBITDA margin	5.3%	5.0%	-	5.6%	4.1%	-	-	-	-	-
EBIT	2.8	1.2	131%	6.4	1.7	287%	26%	18%	59%	24%
EBIT margin	4.5%	3.5%	-	4.9%	2.6%	-	-	-	-	-
Pre-tax profit	2.7	1.2	116%	6.2	1.7	271%	24%	18%	55%	24%
Pre-tax margin	4.3%	3.6%	-	4.7%	2.6%	-	-	-	-	-
Net profit	2.2	1.0	119%	4.8	1.4	233%	24%	19%	53%	28%
Net profit margin	3.5%	2.8%	-	3.7%	2.2%	-	-	-	-	-

Source: Company, DM BOS SA estimates

Fig. 3 Eurotel; DCF model

	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	>2025E
Cost of equity												
Risk free rate	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Equity market premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Unlevered beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Leveraged beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Required rate of return	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
Cost of debt												
Pre-tax cost of debt	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
After-tax cost of debt	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
WACC												
Equity share	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Debt share	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Cost of equity	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
After-tax cost of debt	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
WACC	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
Financial forecasts (PLN m)												
Sales	254.0	265.8	258.8	257.1	255.3	253.6	252.1	250.5	249.0	247.6	246.1	
yoy change	54%	5%	-3%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	
EBIT	10.9	12.0	11.5	10.8	10.0	9.3	8.6	7.9	7.2	6.5	5.7	
yoy change	62%	10%	-4%	-6%	-7%	-7%	-8%	-8%	-9%	-10%	-11%	
NOPLAT	8.8	9.7	9.3	8.7	8.1	7.5	7.0	6.4	5.8	5.2	4.7	
yoy change	66%	10%	-4%	-6%	-7%	-7%	-8%	-8%	-9%	-10%	-11%	
D&A	1.9	1.9	1.9	1.9	1.9	2.0	2.0	2.1	2.1	2.2	2.3	
NWC change	-4.6	0.1	0.0	-0.2	-0.2	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	
Capex	-1.9	-1.9	-2.1	-2.1	-2.1	-2.2	-2.3	-2.4	-2.5	-2.6	-2.7	
FCFF	4.3	9.8	9.2	8.4	7.8	7.1	6.6	5.9	5.3	4.7	4.1	
PV of FCFF	-	9.5	8.1	6.8	5.7	4.8	4.1	3.3	2.7	2.2	1.8	

Source: DMBOS SA estimates

Fig. 4 Eurotel; DCF summary

(PLN m)	
FCFF residual growth	-1.0%
WACC in residual period	9.5%
Residual value	38.6
PV of residual value	18.1
PV of FCFF	49.0
EV	67.1
Net debt	-12.6
Dividends	0.0
Equity value	79.7
Number of shares (million)	3.7
12M EFV per share (PLN)	21.3

Source: Bloomberg, DMBOS SA estimates

Fig. 6 Eurotel; Weighted average overall valuation

	DCF	Local peer-relative
Weights	50%	50%
Valuation (PLN per share)	21.3	19.4
Weighted average overall valuation (PLN per share)		20.3

Source: DMBOS SA estimates

Fig. 5 Eurotel; Sensitivity to residual growth and WACC

FCFF residual growth	Residual WACC				
	9.1%	9.3%	9.5%	9.7%	9.9%
-2.0%	21.0	20.9	20.8	20.7	20.7
-1.5%	21.2	21.1	21.0	20.9	20.9
-1.0%	21.5	21.4	21.3	21.2	21.1
-0.5%	24.8	24.6	24.5	24.3	24.2
0.0%	22.1	22.0	21.8	21.7	21.6

Source: DMBOS SA estimates

Fig. 7 Eurotel: Local peer-relative valuation

Company	P/E			EV/EBITDA			EV/EBIT			P/CE		
	2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E
Tell	8.4	7.1	6.6	5.3	4.4	3.9	6.6	5.2	4.6	6.2	5.6	5.3
Eurotel	5.7	5.1	5.3	3.0	2.5	2.4	3.6	2.9	2.8	4.7	4.3	4.5
Eurotel's premium (discount) to Tell	-32%	-28%	-19%	-43%	-43%	-40%	-46%	-44%	-39%	-24%	-22%	-16%
Implied Eurotel's share price (PLN)	20.3	19.0	16.9	21.5	20.6	19.3	22.5	21.0	19.2	18.0	17.6	16.3
Average implied Eurotel's share price (PLN)	19.4											

Multiples priced as of the close of August 3, 2015.

Source: Bloomberg, DM BÓŚ SA estimates

Financial statements (IFRS consolidated)

Fig. 8 Eurotel; Balance Sheet

PLN m	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Fixed assets	28.3	33.5	33.0	33.3	33.3	33.5	33.7	33.9	34.1	34.4	34.7	35.0	35.3	35.7
Goodwill of associated entity	3.0	3.2	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Intangible fixed assets	0.4	0.5	0.3	0.6	0.8	1.1	1.3	1.6	1.8	2.0	2.2	2.4	2.5	2.7
Goodwill	20.5	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0
Tangible fixed assets	3.8	8.3	8.2	7.8	7.6	7.5	7.4	7.4	7.4	7.5	7.6	7.8	7.9	8.2
LT Receivables	0.1	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
LT Investments	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LT Deferred assets	0.2	0.2	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Current assets	42.4	42.5	47.7	63.4	69.9	71.3	73.4	75.2	76.7	78.4	79.6	80.6	81.4	82.0
Inventories	7.1	10.1	10.5	17.1	17.9	17.4	17.3	17.2	17.1	17.0	16.9	16.8	16.7	16.6
Assets for sale	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ST Receivables	29.8	28.7	21.5	33.2	34.7	33.8	33.5	33.3	33.1	32.9	32.7	32.5	32.3	32.1
ST Investments	5.3	3.4	15.5	12.8	17.0	19.8	22.2	24.4	26.2	28.2	29.8	31.1	32.2	33.0
- Cash	4.6	3.4	15.4	12.8	17.0	19.8	22.2	24.3	26.2	28.2	29.7	31.0	32.1	33.0
- Other	0.8	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
ST Deferred assets	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Assets	70.6	76.0	80.7	96.7	103.2	104.8	107.1	109.0	110.8	112.7	114.3	115.6	116.8	117.7
Equity	39.2	38.4	40.0	41.5	45.6	48.6	51.3	53.8	56.2	58.5	60.6	62.5	64.1	65.6
Minority interest	1.5	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities and reserves	29.9	37.3	40.7	55.1	57.7	56.2	55.8	55.2	54.6	54.2	53.7	53.1	52.6	52.1
Reserves	0.7	0.7	1.3	2.0	2.1	2.1	2.0	1.9	1.9	1.8	1.8	1.7	1.7	1.6
LT liabilities	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
- Non-interest-bearing	0.2	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
- Interest-bearing	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ST liabilities	28.9	36.5	39.2	52.9	55.4	54.0	53.6	53.1	52.6	52.2	51.7	51.2	50.8	50.3
- Non-interest-bearing	28.7	32.5	39.0	52.8	55.2	53.8	53.3	52.8	52.3	51.9	51.4	50.9	50.5	50.0
- Interest-bearing	0.2	4.0	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders equity and liabilities	70.6	76.0	80.7	96.7	103.2	104.8	107.1	109.0	110.8	112.7	114.3	115.6	116.8	117.7
Ratios:														
Debt/Equity	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net WC/Total assets	0.1	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current ratio	1.5	1.2	1.2	1.2	1.3	1.3	1.4	1.4	1.5	1.5	1.5	1.6	1.6	1.6
Quick ratio	1.2	0.9	0.9	0.9	0.9	1.0	1.0	1.1	1.1	1.2	1.2	1.2	1.3	1.3
Sales / Total assets	1.9	1.9	2.1	2.9	2.7	2.5	2.4	2.4	2.3	2.3	2.2	2.2	2.1	2.1
NWC/Sales	6%	5%	-4%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Sales/ Fixed assets	4.7	4.4	4.9	7.7	8.0	7.7	7.7	7.6	7.5	7.4	7.3	7.2	7.0	6.9
Inventory turnover (days)	28	35	34	30	36	37	37	37	37	37	37	37	36	36
Average receivable turnover (days)	78	78	56	39	47	48	48	48	48	48	48	48	48	48
Average accounts payable period (days)	117	125	119	99	111	115	114	113	113	112	112	111	111	110
Cash conversion cycle (days)	-11	-12	-29	-30	-28	-29	-29	-29	-28	-28	-27	-27	-26	-26
ROA	11.3%	7.1%	7.3%	10.2%	10.0%	9.2%	8.5%	7.9%	7.2%	6.8%	6.2%	5.7%	5.2%	4.6%
ROE	13.4%	8.9%	9.7%	14.7%	15.0%	13.5%	12.0%	10.7%	9.6%	8.8%	7.9%	7.1%	6.3%	5.6%

Source: Company, DM BÓŚ SA estimates

Fig. 9 Eurotel; Income Statement

PLN m	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Net sales	127.4	137.2	164.6	254.0	265.8	258.8	257.1	255.3	253.6	252.1	250.5	249.0	247.6	246.1
Cost of operating activities	-86.9	-89.2	-109.7	-169.5	-177.6	-173.0	-172.2	-171.2	-170.3	-169.6	-168.8	-168.0	-167.3	-166.6
Gross profit on sales	40.5	48.0	54.9	84.5	88.3	85.7	84.9	84.1	83.3	82.5	81.7	81.0	80.3	79.6
Selling costs	-25.2	-35.7	-42.6	-65.2	-67.5	-65.8	-65.7	-65.6	-65.5	-65.5	-65.4	-65.4	-65.4	-65.4
General administration costs	-4.5	-5.8	-5.2	-8.0	-8.2	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0
Profit on sales	10.8	6.4	7.0	11.3	12.5	11.9	11.2	10.5	9.8	9.0	8.3	7.6	6.9	6.2
Other operating income	0.6	1.3	0.8	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.1	1.1	1.1
Other operating costs	-1.1	-0.8	-1.0	-1.6	-1.7	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6
EBIT	10.4	6.9	6.7	10.9	12.0	11.5	10.8	10.0	9.3	8.6	7.9	7.2	6.5	5.7
Financial income	0.4	0.3	0.7	0.3	0.3	0.4	0.4	0.5	0.5	0.8	0.9	0.9	0.9	1.0
Financial costs	-0.1	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	10.7	6.9	7.2	11.2	12.3	11.9	11.2	10.5	9.8	9.4	8.7	8.1	7.4	6.7
Income tax	-2.2	-1.4	-1.5	-2.1	-2.3	-2.3	-2.1	-2.0	-1.9	-1.8	-1.7	-1.5	-1.4	-1.3
Minorities	-0.7	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit attributable to owners	7.7	5.2	5.7	9.0	10.0	9.6	9.1	8.5	8.0	7.6	7.1	6.5	6.0	5.4
EBITDA	11.2	8.1	8.5	12.8	13.9	13.4	12.7	12.0	11.3	10.6	10.0	9.3	8.7	8.0
Margins:														
Gross profit on sales	31.8%	35.0%	33.3%	33.3%	33.2%	33.1%	33.0%	32.9%	32.8%	32.7%	32.6%	32.5%	32.4%	32.3%
Profit on sales	8.5%	4.7%	4.3%	4.5%	4.7%	4.6%	4.4%	4.1%	3.9%	3.6%	3.3%	3.1%	2.8%	2.5%
EBITDA margin	8.8%	5.9%	5.2%	5.0%	5.2%	5.2%	4.9%	4.7%	4.5%	4.2%	4.0%	3.7%	3.5%	3.3%
EBIT margin	8.2%	5.0%	4.1%	4.3%	4.5%	4.4%	4.2%	3.9%	3.7%	3.4%	3.1%	2.9%	2.6%	2.3%
Pre-tax profit margin	8.4%	5.0%	4.4%	4.4%	4.6%	4.6%	4.3%	4.1%	3.9%	3.7%	3.5%	3.2%	3.0%	2.7%
Net profit margin	6.1%	3.8%	3.5%	3.6%	3.8%	3.7%	3.5%	3.3%	3.1%	3.0%	2.8%	2.6%	2.4%	2.2%
Nominal growth:														
Sales	12%	8%	20%	54%	5%	-3%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Profit on sales	2%	-40%	9%	61%	10%	-4%	-6%	-6%	-7%	-7%	-8%	-9%	-9%	-10%
EBITDA	9%	-27%	5%	50%	9%	-4%	-5%	-6%	-6%	-6%	-6%	-7%	-7%	-7%
EBIT	10%	-34%	-2%	62%	10%	-4%	-6%	-7%	-7%	-8%	-8%	-9%	-10%	-11%
Pre-tax profit	11%	-35%	4%	54%	10%	-4%	-6%	-6%	-7%	-4%	-7%	-8%	-8%	-9%
Net profit	7%	-33%	11%	58%	10%	-4%	-6%	-6%	-7%	-4%	-7%	-8%	-8%	-9%

Source: Company, DM BOS SA estimates

Fig. 10 Eurotel; Cash Flow

PLN m	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Operating Cash Flow	4.8	8.7	16.5	6.4	11.7	11.1	10.3	9.8	9.2	8.7	8.1	7.5	7.0	6.5
Net income (loss)	7.7	5.2	5.7	9.0	10.0	9.6	9.1	8.5	8.0	7.6	7.1	6.5	6.0	5.4
Minority interest in net income	0.7	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share in (income) losses of affiliates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation and amortization	0.8	1.3	1.8	1.9	1.9	1.9	1.9	1.9	2.0	2.0	2.1	2.1	2.2	2.3
Change in NWC:	-4.8	1.8	9.2	-4.6	0.1	0.0	-0.2	-0.2	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2
Change in inventories	-1.0	-3.1	-0.4	-6.5	-0.8	0.5	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Change in receivables	-5.1	0.9	6.6	-11.8	-1.6	0.9	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Change in payables	1.3	4.0	3.0	13.8	2.4	-1.4	-0.5	-0.5	-0.5	-0.4	-0.5	-0.5	-0.5	-0.5
Other	0.3	0.1	-0.3	0.1	-0.2	-0.4	-0.5	-0.5	-0.6	-0.8	-0.9	-1.0	-1.0	-1.0
Net funds from investing activities	-3.1	-6.9	-0.6	-1.9	-1.9	-2.1	-2.1	-2.1	-2.2	-2.3	-2.4	-2.5	-2.6	-2.7
Capital expenditures	-3.8	-6.9	-1.4	-1.9	-1.9	-2.1	-2.1	-2.1	-2.2	-2.3	-2.4	-2.5	-2.6	-2.7
Other	0.7	0.1	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net funds from financial activities	-6.0	-3.1	-3.8	-7.2	-5.7	-6.2	-5.8	-5.5	-5.1	-4.4	-4.2	-3.8	-3.4	-3.0
Equity issue proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in interest-bearing debt	-0.3	3.0	-3.7	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	-5.6	-6.0	0.0	-7.5	-6.0	-6.6	-6.3	-6.0	-5.6	-5.2	-5.0	-4.7	-4.3	-4.0
Interest	-0.1	-0.1	-0.1	0.3	0.3	0.4	0.4	0.5	0.5	0.8	0.9	0.9	0.9	1.0
Share buyback	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in cash	-4.4	-1.2	12.1	-2.7	4.2	2.8	2.4	2.1	1.9	2.0	1.5	1.3	1.1	0.9

Source: Company, DM BOS SA estimates

BASIC DEFINITIONS

A/R turnover (in days) = $365 / (\text{sales} / \text{average A/R})$
 Inventory turnover (in days) = $365 / (\text{COGS} / \text{average inventory})$
 A/P turnover (in days) = $365 / (\text{COGS} / \text{average A/P})$
 Current ratio = $(\text{current assets} - \text{ST deferred assets}) / \text{current liabilities}$
 Quick ratio = $(\text{current assets} - \text{ST deferred assets} - \text{inventory}) / \text{current liabilities}$
 Interest coverage = $(\text{pre-tax profit before extraordinary items} + \text{interest payable}) / \text{interest payable}$
 Gross margin = $\text{gross profit} / \text{sales}$
 EBITDA margin = $\text{EBITDA} / \text{sales}$
 EBIT margin = $\text{EBIT} / \text{sales}$
 Pre-tax margin = $\text{pre-tax profit} / \text{sales}$
 Net margin = $\text{net profit} / \text{sales}$
 ROE = $\text{net profit} / \text{average equity}$
 ROA = $(\text{net income} + \text{interest payable}) / \text{average assets}$
 EV = $\text{market capitalization} + \text{interest bearing debt} - \text{cash and equivalents}$
 EPS = $\text{net profit} / \text{no. of shares outstanding}$
 CE = $\text{net profit} + \text{depreciation}$
 Dividend yield (gross) = $\text{pre-tax DPS} / \text{stock market price}$
 Cash sales = $\text{accrual sales corrected for the change in A/R}$
 Cash operating expenses = $\text{accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes}$
 DM BOŚ S.A. generally values the covered non bank companies via two methods: comparative method and DCF method (discounted cash flows). The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the DCF method is its independence from the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Please note that we also resort to other valuation techniques (e.g. NAV-, DDM- or SOTP-based), should it prove appropriate in a given case.

KEY TO INVESTMENT RANKINGS

This is a guide to expected price performance in absolute terms over the next 12 months:
 Buy – fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;
 Hold – either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;
 Sell – fundamentally overvalued (12M EFV < current share price + 1-year cost of equity) + catalysts which should close the valuation gap identified.
 This is a guide to expected relative price performance:
 Overweight – expected to perform better than the benchmark (WIG) over the next quarter in relative terms
 Neutral – expected to perform in line with the benchmark (WIG) over the next quarter in relative terms
 Underweight – expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

The recommendation tracker presents the performance of DM BOŚ S.A.'s recommendations. A recommendation expires on the day it is altered or on the day 12 months after its issuance, whichever comes first. Relative performance compares the rate of return on a given recommended stock in the period of the recommendation's validity (i.e. from the date of issuance to the date of alteration or – in case of maintained recommendations – from the date of issuance to the current date) in a relation to the rate of return on the benchmark in this time period. The WIG index constitutes the benchmark. For recommendations that expire by an alteration or are maintained, the ending values used to calculate their absolute and relative performance are: the stock closing price on the day the recommendation expires/ is maintained and the closing value of the benchmark on that date. For recommendations that expire via a passage of time, the ending values used to calculate their absolute and relative performance are: the average of the stock closing prices for the day the recommendation elapses and four directly preceding sessions and the average of the benchmark's closing values for the day the recommendation expires and four directly preceding sessions.

Distribution of DM BOŚ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision
Numbers	28	40	15	6	0
Percentage	31%	45%	17%	7%	0%

Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	28	31	24	6	0
Percentage	31%	35%	27%	7%	0%

Banks

Net Interest Margin (NIM) = $\text{net interest income} / \text{average assets}$
 NIM Adjusted = $(\text{net interest income adjusted for SWAPs}) / \text{average assets}$
 Non interest income = $\text{fees \& commissions} + \text{result on financial operations (trading gains)} + \text{FX gains}$
 Interest Spread = $(\text{interest income} / \text{average interest earning assets}) / (\text{interest cost} / \text{average interest bearing liabilities})$
 Cost/Income = $(\text{general costs} + \text{depreciation} + \text{other operating costs}) / (\text{profit on banking activity} + \text{other operating income})$
 ROE = $\text{net profit} / \text{average equity}$
 ROA = $\text{net income} / \text{average assets}$
 Non performing loans (NPL) = loans in 'substandard', 'doubtful' and 'lost' categories
 NPL coverage ratio = $\text{loan loss provisions} / \text{NPL}$
 Net provision charge = $\text{provisions created} - \text{provisions released}$

DM BOŚ S.A. generally values the covered banks via two methods: comparative method and fundamental target fair P/E and target fair P/BV multiples method. The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the fundamental target fair P/E and target fair P/BV multiples method is its independence of the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Assumptions used in valuation can change, influencing thereby the level of the valuation. Among the most important assumptions are: GDP growth, forecasted level of inflation, changes in interest rates and currency prices, employment level and change in wages, demand on the analysed company products, raw material prices, competition, standing of the main customers and suppliers, legislation changes, etc. Changes in the environment of the analysed company are monitored by analysts involved in the preparation of the recommendation, estimated, incorporated in valuation and published in the recommendation whenever needed.

Distribution of DM BOŚ's current recommendations for companies that were within the last 12 months DM BOŚ's or IDM's customers in investment banking

	Buy	Hold	Sell	Suspended	Under revision
Numbers	5	5	0	1	0
Percentage	45%	45%	0%	9%	0%

Distribution of DM BOŚ's current market relative recommended weightings for the companies that were within the last 12 months DM BOŚ's or IDM's customers in investment banking

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	4	4	2	1	0
Percentage	36%	36%	18%	9%	0%

LT fundamental recommendation tracker

Recommendation		Issue date	Reiteration date	Expiry date	Performance	Relative performance	Price at issue/reiteration (PLN)	12M EFV (PLN)	
Eurotel									
Buy	-	29.11.2009	-	07.01.2010	12%	7%	12.79	15.30	-
-	→	-	14.12.2009	-	-	-	13.89	15.30	→
Hold	↓	07.01.2010	-	10.05.2010	24%	21%	14.35	15.30	→
-	→	-	03.02.2010	-	-	-	14.45	15.30	→
-	→	-	01.03.2010	-	-	-	15.49	15.30	→
-	→	-	29.03.2010	-	-	-	18.79	15.30	→
Sell	↓	10.05.2010	-	05.08.2010	-3%	-7%	17.75	16.40	↑
-	→	-	17.05.2010	-	-	-	17.80	16.40	→
-	→	-	06.06.2010	-	-	-	18.85	15.20	↓
-	→	-	14.06.2010	-	-	-	15.28	15.20	→
-	→	-	19.07.2010	-	-	-	15.15	15.20	→
Hold	↑	05.08.2010	-	02.01.2011	0%	-8%	15.95	15.90	↑
-	→	-	31.08.2010	-	-	-	15.48	15.90	→
-	→	-	12.10.2010	-	-	-	16.78	15.90	→
-	→	-	01.11.2010	-	-	-	16.55	15.90	→
-	→	-	15.11.2010	-	-	-	16.50	15.90	→
-	→	-	15.12.2010	-	-	-	15.68	15.90	→
Sell	↓	02.01.2011	-	09.06.2011	11%	6%	16.00	14.10	↓
-	→	-	18.01.2011	-	-	-	14.60	14.10	→
-	→	-	01.03.2011	-	-	-	15.39	14.10	→
-	→	-	24.03.2011	-	-	-	14.84	14.10	→
-	→	-	20.04.2011	-	-	-	15.44	14.10	→
-	→	-	16.05.2011	-	-	-	16.00	14.10	→
Hold	↑	09.06.2011	-	03.08.2011	-5%	5%	17.69	17.90	↑
-	→	-	16.06.2011	-	-	-	16.64	17.80	↓
-	→	-	20.06.2011	-	-	-	16.58	17.80	→
-	→	-	25.07.2011	-	-	-	15.50	17.90	↑
Buy	↑	03.08.2011	-	31.08.2011	-11%	-6%	15.34	17.90	→
Hold	↓	31.08.2011	-	02.09.2012	14%	16%	13.70	15.10	↓
-	→	-	03.10.2011	-	-	-	13.35	15.10	→
-	→	-	24.10.2011	-	-	-	13.36	15.10	→
-	→	-	14.11.2011	-	-	-	13.10	15.10	→
-	→	-	11.12.2011	-	-	-	13.12	15.10	→
-	→	-	01.01.2012	-	-	-	13.69	15.10	→
-	→	-	25.01.2012	-	-	-	14.70	15.10	→
-	→	-	29.02.2012	-	-	-	17.00	15.10	→
-	→	-	20.03.2012	-	-	-	16.59	15.10	→
-	→	-	15.04.2012	-	-	-	16.60	15.10	→
-	→	-	15.05.2012	-	-	-	16.86	15.10	→
-	→	-	16.05.2012	-	-	-	15.31	14.20	↓
-	→	-	21.06.2012	-	-	-	13.83	14.20	→
-	→	-	19.07.2012	-	-	-	13.94	14.20	→
Hold	→	02.09.2012	-	01.09.2013	60%	36%	14.15	14.20	→
-	→	-	10.10.2012	-	-	-	14.60	14.20	→
-	→	-	14.11.2012	-	-	-	14.45	14.20	→
-	→	-	13.12.2012	-	-	-	17.16	17.40	↑
-	→	-	23.01.2013	-	-	-	17.35	17.40	→
-	→	-	18.02.2013	-	-	-	17.06	17.40	→
-	→	-	21.03.2013	-	-	-	18.90	17.40	→
-	→	-	17.04.2013	-	-	-	18.60	17.40	→
-	→	-	15.05.2013	-	-	-	19.24	17.40	→
-	→	-	19.05.2013	-	-	-	17.08	15.80	↓
-	→	-	17.06.2013	-	-	-	17.10	15.80	→
-	→	-	25.07.2013	-	-	-	16.81	15.80	→
-	→	-	30.07.2013	-	-	-	17.30	18.90	↑
Hold	→	01.09.2013	-	17.02.2014	-34%	-40%	21.00	18.90	→
-	→	-	20.10.2013	-	-	-	20.00	18.90	→
-	→	-	29.10.2013	-	-	-	19.44	18.90	→
-	→	-	14.11.2013	-	-	-	19.93	18.90	→
-	→	-	12.12.2013	-	-	-	15.70	18.90	→
-	→	-	21.01.2014	-	-	-	13.67	18.90	→
Buy	↑	17.02.2014	-	23.03.2014	-5%	-3%	13.84	20.40	↑
Hold	↓	23.03.2014	-	14.12.2014	8%	8%	13.20	20.40	→
-	→	-	13.04.2014	-	-	-	13.95	20.40	→
-	→	-	15.05.2014	-	-	-	15.15	20.40	→
-	→	-	16.06.2014	-	-	-	12.15	20.40	→
-	→	-	20.07.2014	-	-	-	11.00	20.40	→
-	→	-	29.07.2014	-	-	-	9.83	11.30	↓
-	→	-	01.09.2014	-	-	-	11.39	11.30	→
-	→	-	14.10.2014	-	-	-	12.61	11.30	→
-	→	-	02.11.2014	-	-	-	12.87	11.30	→
-	→	-	14.11.2014	-	-	-	12.45	11.30	→
Buy	↑	14.12.2014	-	23.03.2015	18%	13%	14.24	16.50	↑
-	→	-	18.01.2015	-	-	-	14.99	15.50	↓
-	→	-	10.02.2015	-	-	-	14.10	15.50	→
Hold	↓	23.03.2015	-	15.05.2015	-13%	-17%	15.85	15.50	→
-	→	-	19.04.2015	-	-	-	14.20	15.50	→
Buy	↑	15.05.2015	-	Not later than 15.05.2016	8%	16%	13.79	15.50	→
-	→	-	17.05.2015	-	-	-	13.79	15.50	→
-	→	-	21.06.2015	-	-	-	14.80	15.50	→
-	→	-	30.06.2016	-	-	-	13.66	14.50	↓
-	→	-	16.07.2015	-	-	-	13.64	14.50	→
-	→	-	04.08.2015	-	-	-	13.90	20.30	↑

*pre-June 2014 recommendations issued at DM IDMSA

Market-relative recommendation tracker

Relative recommendation		Issue date	Reiteration date	Expiry date	Price at issue/ reiteration (PLN)	Relative performance
Eurotel						
Neutral	-	29.11.2009	-	17.05.2010	12.79	32%
-	→	-	14.12.2009	-	13.89	-
-	→	-	07.01.2010	-	14.35	-
-	→	-	03.02.2010	-	14.45	-
-	→	-	01.03.2010	-	15.49	-
-	→	-	29.03.2010	-	18.79	-
-	→	-	10.05.2010	-	17.75	-
Underweight	↓	17.05.2010	-	05.08.2010	17.80	-8%
-	→	-	06.06.2010	-	18.85	-
-	→	-	14.06.2010	-	15.28	-
-	→	-	19.07.2010	-	15.15	-
Neutral	↑	05.08.2010	-	01.11.2010	15.95	-3%
-	→	-	31.08.2010	-	15.48	-
-	→	-	12.10.2010	-	16.78	-
Underweight	↓	01.11.2010	-	02.01.2011	16.55	-6%
-	→	-	15.11.2010	-	16.50	-
-	→	-	15.12.2010	-	15.68	-
Neutral	↑	02.01.2011	-	09.06.2011	16.00	6%
-	→	-	28.01.2011	-	14.60	-
-	→	-	01.03.2011	-	15.39	-
-	→	-	24.03.2011	-	14.84	-
-	→	-	20.04.2011	-	15.44	-
-	→	-	16.05.2011	-	16.00	-
Overweight	↑	09.06.2011	-	31.08.2011	17.69	0%
-	→	-	16.06.2011	-	16.64	-
-	→	-	20.06.2011	-	16.58	-
-	→	-	25.07.2011	-	15.50	-
-	→	-	03.08.2011	-	15.34	-
Neutral	↓	31.08.2011	-	01.01.2012	13.70	12%
-	→	-	03.10.2011	-	13.35	-
-	→	-	24.10.2011	-	13.36	-
-	→	-	14.11.2011	-	13.10	-
-	→	-	11.12.2011	-	13.12	-
Overweight	↑	01.01.2012	-	20.03.2012	13.69	10%
-	→	-	25.01.2012	-	14.70	-
-	→	-	29.02.2012	-	17.00	-
Neutral	↓	20.03.2012	-	13.12.2012	16.59	0%
-	→	-	15.04.2012	-	16.60	-
-	→	-	15.05.2012	-	16.86	-
-	→	-	16.05.2012	-	15.31	-
-	→	-	21.06.2012	-	13.83	-
-	→	-	19.07.2012	-	13.94	-
-	→	-	02.09.2012	-	14.15	-
-	→	-	10.10.2012	-	14.60	-
-	→	-	14.11.2012	-	14.45	-
Overweight	↑	13.12.2012	-	15.05.2013	17.16	13%
-	→	-	23.01.2013	-	17.35	-
-	→	-	18.02.2013	-	17.06	-
-	→	-	21.03.2013	-	18.90	-
-	→	-	17.04.2013	-	18.60	-
Neutral	↓	15.05.2013	-	01.09.2013	19.24	11%
-	→	-	19.05.2013	-	17.08	-
-	→	-	17.06.2013	-	17.10	-
-	→	-	25.07.2013	-	16.81	-
-	→	-	30.07.2013	-	17.30	-
Underweight	↓	01.09.2013	-	28.10.2013	21.00	-17%
-	→	-	20.10.2013	-	20.00	-
Neutral	↑	28.10.2013	-	14.11.2013	19.44	5%
Underweight	↓	14.11.2013	-	17.02.2014	19.93	-31%
-	→	-	12.12.2013	-	15.70	-
-	→	-	21.01.2014	-	13.67	-
Neutral	↑	17.02.2014	-	23.03.2014	13.84	-3%
Underweight	↓	23.03.2014	-	02.11.2014	13.20	-5%
-	→	-	13.04.2014	-	13.95	-
-	→	-	15.05.2014	-	15.15	-
-	→	-	16.06.2014	-	12.15	-
-	→	-	20.07.2014	-	11.00	-
-	→	-	29.07.2014	-	9.83	-
-	→	-	01.09.2014	-	11.39	-
-	→	-	14.10.2014	-	12.61	-
Neutral	↑	02.11.2014	-	14.11.2014	12.87	-2%
Overweight	↑	14.11.2014	-	23.03.2015	12.45	32%
-	→	-	14.12.2014	-	14.24	-
-	→	-	18.01.2015	-	14.99	-
-	→	-	10.02.2015	-	14.10	-
Neutral	↓	23.03.2015	-	15.05.2015	15.85	-17%
-	→	-	19.04.2015	-	14.20	-
Overweight	↑	15.05.2015	-	Not later than 15.05.2016	13.79	16%
-	→	-	17.05.2015	-	13.79	-
-	→	-	21.06.2015	-	14.80	-
-	→	-	30.06.2016	-	13.66	-
-	→	-	16.07.2015	-	13.64	-
-	→	-	04.08.2015	-	13.90	-

* pre-June 2014 recommendations issued at DM IDMSA

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