

1 July 2013

Update



Manufacturers
Poland

Boryszew

Buy

BRS PW; BORY.WA

(Upgraded)

Current price	PLN 0.40
Target price	PLN 0.56
Market cap	PLN 0.9 bn
Free float	PLN 0.4 bn
Avg daily trading volume (3M)	PLN 23.20 m

Sector gains in value

Since the beginning of 2012, the market capitalization of major auto parts suppliers traded on stock markets all over the world has increased by 68.2%. US-based companies began on the upward path in mid-2012, and European companies followed suit at the beginning of 2013. The year-ago comparable base for car sales within the European Union will be the lowest in five years in H2 2013. Moreover, the latter half of the year is expected to bring an economic rebound which will mitigate the downturn in sales observed for the last five years. US and other European parts producers have outperformed Boryszew by 117% and 90%, respectively, since the beginning of 2012. Since we believe that their stocks will continue to trade up, the discounts that BST shares display relative to these companies will increase (8% discount on 2013E P/E, 16% discount on 2014E P/E). We are upgrading our investment rating for Boryszew from Hold to Buy, with the price target unchanged at PLN 0.56.

Shareholder Structure

Roman Karkosik	59.21%
Treasury stock	4.5%
Others	36.29%

Sector Outlook

Car sales in the European Union have been decreasing from month to month, raising investor concerns about the future revenues of auto parts suppliers. We see a possibility that the five-year downtrend will be reversed in 2013, restoring positive sentiment to the automotive sector. As for Boryszew's other market of non-ferrous metals, sales volumes have rebounded after a slump in H1'12.

Company Profile

Boryszew processes non-ferrous metals and their alloys, manufactures rubber pipes for the automotive sector, chemicals, polymers, building materials and bearings. Approximately 40% of all sales go to the construction industry, and the remainder to manufacturers. Approximately 50% of sales come from exports.

Important Dates

30.08 - H1 2013 report
14.11 - Q3 2013 report

BRS vs. WIG



A WIG30 stock?

Boryszew was removed from the WIG20 index during the quarterly revision on 21 June. However, it could easily be included in the "WIG30" index which is being considered by the Warsaw Stock Exchange.

Trading below real book value

Boryszew is currently trading at 1.1x P/B and 0.46x EV/Sales, showing respective discounts of 32% and 14% relative to foreign producers of automotive components. This shows us that the market is completely ignoring the positive outlook for earnings growth in the future that lies ahead of parts suppliers.

Boryszew may reengage in M&A activity in 2014-2016

After the bout of investments made in 2013, in the next three years, FCF/EV could increase to 13-16%, allowing Boryszew to resume M&A activity which has always been appreciated by investors in the past.

Auto sales in Europe

European sales of new cars in the period from January through May 2013 were 10.6% lower than last year. German producers continued to lead the bill (with VW posting 3.6% sales drop, Daimler +2.9%, BMW -1.4%), while French (PSA, Renault) and Italian (Fiat) auto makers fared less well.

Retirement of treasury stock and extension of buyback program

Boryszew retired 56.7 million treasury shares representing 2.5% of all outstanding shares on 24 June. At the same time, its shareholders decided to extend and allocate an extra PLN 93m to the buyback program.

(PLN m)	2011	2012	2013F	2014F	2015F
Revenue	4 332.8	4 881.2	4 913.5	5 031.9	5 077.4
EBITDA	351.0	243.9	361.8	325.8	336.6
EBITDA margin	8.1%	5.0%	7.4%	6.5%	6.6%
EBIT	253.3	134.3	251.8	210.6	219.5
Net profit	197.2	61.0	181.8	140.1	144.1
Net profit (ex minorities)	145.4	39.3	119.8	102.6	105.7
DYield	0.0%	0.0%	0.0%	0.0%	4.2%
P/E	6.2	23.0	7.3	8.6	8.3
P/E (adjusted*)	8.8	22.6	13.1	8.7	8.4
P/CE	3.7	6.1	3.8	4.0	3.9
P/B	1.2	1.4	1.1	1.0	0.9
EV/EBITDA	5.9	8.9	6.3	6.6	6.0
EV/EBITDA (adjusted*)	7.2	10.0	7.7	6.6	6.0

*Ex one-offs (PLN 65m property revaluation gain in 2013)

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List of abbreviations and ratios contained in the report:

EV – net debt + market value
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

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ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from –5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
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Previous ratings issued for Boryszew

Rating	Hold	Hold
Rating date	2012-10-18	2012-12-10
Price on rating day	0.58	0.53
WIG on rating day	44353.53	45538.45