

April 3, 2014

Europe | Poland | Telecommunication

DR. KALLIWODA
RESEARCH GmbH

Update

BUY

Price target: PLN 5.80

Overview

Industry:	Telecommunication
Country:	Poland
ISIN:	PLVENTS00019
Reuters:	HWE.WA
Bloomberg:	HWE.PW
Website:	www.hawesa.pl

Last price:		3.11
	High	Low
Price 52 weeks:	4.24	2.27
Market cap. (PLNm)		333.51
No of shares (m)		107.24
Average volume (shares)		808,411

Shareholders

Trinitybay Investments Ltd	26.13%
Marek Falenta	7.73%
Free float	66.14%

Performance

4 weeks	2.98%
13 weeks	-11.90%
26 weeks	-17.94%
52 weeks	10.28%
YTD	-11.90%

Dividend

	in PLN	in %
2011	0.00	0.00%
2012	0.00	0.00%
2013E	0.00	0.00%
2014E	0.00	0.00%

HAWE S.A.

Strong 2013 results exceed our forecasts

- HAWE's 2013 results came in much stronger y-o-y and higher than we had expected. While sales were 62.2% higher y-o-y and 9.7% above our estimates, EBIT (+153.2% to PLN 61.1m; KRe: PLN 60.6m) and net income (+206.7% to PLN 51.9m; KRe: PLN 48.1m) were slightly better than we had previously forecast. The main reasons were significantly higher gross margins in the segments "Telecommunication services" and "Planning, construction and maintenance". Net profit could have been even higher if HAWE's 66% subsidiary Mediatel S.A. did not report a net loss of PLN 9.8m.
- In 2013, HAWE's operating cash flow developed in-line with profitability and increased from PLN 28m to PLN 44.8m. Also, it was positively affected by a cash inflow from working capital of PLN 55.6m, which stemmed from a write-down of trade receivables of subsidiary Mediatel (PLN 16m), and proceeds from the sale/leasing of teletechnical infrastructure. While cash flow from investing (PLN -26.2m vs. PLN -43m in 2012) was impacted by the purchase of 66% of the shares in Mediatel S.A. for PLN 11.8m, cash flow from financing reached PLN -7.2m (2012: PLN 1.5m) due to repayment of short-term debt. Between January and December 2013, HAWE generated a free cash flow of PLN 18.7m (FCF yield of 5.6%), while reducing net debt from PLN 151.6m to PLN 145.3m.
- In December 2013, HAWE made public that for financing of the "Fiber-To-The-Home (FTTH)" project, it was going to create a JV with the government institution "Polskie Inwestycje Rozwojowe (PIR)", which supports promising investment projects. In order to connect first 870k households, HAWE, which will control >50% in the JV, is supposed to contribute PLN 130m (total project costs PLN 560m) over the next 5 years, with PIR (PLN 127m), infrastructure providers and banks providing the rest.
- We have included HAWE's revenue guidance and the JV with PIR in our estimates, however our 12-months PT of PLN 5.80 (50% DCF, 50% peer group) remains unchanged. While we think the fiber leasing business will continue to develop well, we believe that in 2014 and 2015 HAWE's revenues will improve significantly mainly due to fiber-construction projects in the provinces of Warmia and Mazury and Podkarpackie. Also, we expect that Mediatel's wholesale telco business will return to profitability soon.

in PLNm	2011	2012	2013	2014E	2015E	2016E
Net sales	130.59	107.90	175.00	316.27	362.47	231.45
EBITDA	67.66	32.98	76.90	94.49	103.74	90.22
EBIT	59.20	24.14	61.14	74.32	83.37	67.82
Net income	49.62	16.91	51.86	58.54	65.90	53.77
EPS	0.47	0.16	0.48	0.55	0.61	0.50
Tangible BVPS	2.41	2.54	2.96	3.51	4.12	4.63
RoE	18.76%	5.79%	15.87%	15.32%	14.83%	10.66%
EBIT margin	45.34%	22.37%	34.94%	23.50%	23.00%	29.30%
P/E	6.62x	19.72x	6.43x	5.70x	5.06x	6.20x
P/Tangible BVPS	1.29x	1.23x	1.05x	0.89x	0.75x	0.67x
EV/EBITDA	7.08x	14.52x	6.23x	5.07x	4.62x	5.31x

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1 Company profile

HAWE, which is based in Warsaw, provides planning, construction and maintenance of telecommunication networks, fiber leasing, distribution of telecommunication equipment as well as wholesale voice and data services. The company's customers include fixed-line and mobile operators as well as cable TV providers. It owns c. 3,600 km (plus additional 480 km, which it leases) of fiber-optic lines and in the last years has constructed over 45,000 km of such lines for third parties. HAWE has been listed on the Warsaw Stock Exchange since 2007 and employs 207 people.

2 SWOT Analysis

Strengths

- Leading independent operator of network infrastructure in Poland; network currently has more than 4,000 km
- Unique competencies: network maintenance; planning and construction of over 45,000 km of fiber lines so far; telco services (fiber leasing; wholesale voice and data services)
- Leasing of fibers to telco operators guarantees stable cash flows over 10-20 years
- High entry barriers as network is impossible to replicate in the medium term and clients need at least 12 months to change their infrastructure operator
- Large experience in terms of consortiums with providers of telco services/solutions as well as co-operation with local authorities
- HAWE's interest-bearing debt is 100% long-term
- With an average daily trading volume of 808k shares, HAWE is one of the most liquid small and midcaps on the WSE
- CEO Krzysztof Witon was previously in charge of broadband networks at Poland's largest telco operator TPSA

Opportunities

- Further expansion and better monetisation of Poland-wide fibre-optic network; value-accretive acquisitions
- Large multi-billion PLN public contracts, which are co-financed by the EU; Government wants all Poles to have access to broadband with min. 30 Mbps by 2020
- FTTH project, which will need significant CAPEX, however on the other hand should generate gross margins of 75% from 2016 (KRe)
- Cisco Systems estimates that IP traffic in the CEE will increase from 1.2 exabyte per month in 2011 to 6 in 2016; main reason are higher data volumes due to mobile technology LTE, IPTV and online video & games
- EU plans to expand the sewerage system in Poland by 80% to 220k km by 2015 and government regulation that all new buildings have to have fiber-optic infrastructure will spur the growth of HAWE's market
- Poland has a highly attractive geographic location as a data transit country between the West and the East; HAWE wants to benefit from international data traffic and therefore plans to improve its links with fibre-optic networks from neighbouring countries
- HAWE's large asset base as well as attractive business model and valuation make the company an interesting takeover target for financial and strategic investors
- HAWE's business model allows for payment of high dividends in the long run

Weaknesses

- HAWE only has clients from the telco industry
- Its business requires high CAPEX
- Large chunk (c. 26%) of sales depends on public contracts
- 2012 results were far below HAWE's original guidance (Sales = PLN 270m; EBITDA = PLN 137.5m; Net income = PLN 101m) due to delays of investments by local governments and telco operators

Threats

- Intensifying competition
- Increasing costs associated with construction and upgrades of network infrastructure
- Risk associated with wrong estimation of leasing values relating to network infrastructure
- Risks relating to delays of permits, which can negatively affect HAWE's construction segment
- Liquidity risks relating to investments into network infrastructure and acquisitions
- Loss of key employees
- Dilution risk if HAWE was to issue new shares in order to take over a larger competitor

3 Valuation

In order to account for current market valuations, we have valued HAWE by using a weighted average of our DCF model (50%) and peer group (50%). Our 12-months price target for the stock equals PLN 5.80, which implies an upside potential of 86.6% at current level.

Discounted Cash Flow method (DCF)

Discounted Cash Flow Model (Basis 4/2014)

in PLNm	Phase 1								
	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Net sales	316.27	362.47	231.45	264.80	314.54	366.10	408.00	452.53	481.56
(y-o-y change)	80.7%	14.6%	-36.1%	14.4%	18.8%	16.4%	11.4%	10.9%	6.4%
Operating profit	74.32	83.37	67.82	75.78	87.88	99.80	108.45	117.21	121.45
(operating margin)	23.5%	23.0%	29.3%	28.6%	27.9%	27.3%	26.6%	25.9%	25.2%
NOPLAT	60.20	67.53	54.93	61.39	71.18	80.84	87.84	94.94	98.37
+ Depreciation & Amortization	20.17	20.37	22.41	34.28	51.43	72.00	89.99	107.99	118.79
= Net operating cash flow	80.37	87.90	77.34	95.67	122.61	152.83	177.84	202.93	217.17
- Total investments (Capex and WC)	-60.96	-67.42	-49.14	-200.16	-236.43	-194.73	-113.11	-129.77	-128.94
Capital expenditures	-25.08	-70.28	-122.32	-184.19	-211.34	-171.91	-99.90	-117.90	-128.70
Working capital	-35.88	2.86	73.18	-15.97	-25.10	-22.82	-13.20	-11.86	-0.23
= Free cash flow (FCF)	19.41	20.48	28.20	-104.50	-113.82	-41.89	64.73	73.17	88.23
PV of FCFs	18.19	17.59	22.20	-75.40	-75.28	-25.40	35.97	37.27	82.38

PV of FCFs in explicit period	37.52
PV of FCFs in terminal period	696.71
Enterprise value (EV)	734.22
+ Net cash / - net debt (31 December 2013)	-145.32
Shareholder value	588.91
Number of shares outstanding (m)	107.24

WACC	9.1%
Cost of equity	10.2%
Debt costs before tax	8.0%
Tax rate	19.0%
Debt costs after tax	6.5%
Equity ratio	70.0%
Debt ratio	30.0%
Fair value per share in PLN	5.49
Fair value per share in PLN (in 12 months)	5.99

Sensitivity Analysis		Terminal EBIT margin						
		22.2%	23.2%	24.2%	25.2%	26.2%	27.2%	28.2%
WACC	6.1%	14.54	15.33	16.11	16.90	17.69	18.47	19.26
	7.1%	9.78	10.33	10.88	11.42	11.97	12.52	13.07
	8.1%	6.93	7.34	7.74	8.15	8.56	8.96	9.37
	9.1%	5.05	5.37	5.68	5.99	6.30	6.62	6.93
	10.1%	3.73	3.98	4.23	4.48	4.72	4.97	5.22
	11.1%	2.76	2.96	3.16	3.36	3.56	3.76	3.96

Source: Dr. Kalliwoda Research GmbH

Peer Group Analysis

Our peer group comprises seven operators of telecommunication infrastructure from Poland, France, Russia, Hungary and the Czech Republic:

- (1) *ATM S.A.*: ATM S.A., which is based in Warsaw, is a telecommunication operator and leading provider of colocation (data center) services in Poland. The company is also one of the leading providers of data center services in Central and Eastern Europe. As a telco operator, it offers among others broadband data transmission services and Internet access for companies and institutions. ATM's telco infrastructure comprises: three modern data centers with a total space of 8,300 sqm and 42 MW power supply as well as a Poland-wide network with fiber-optic backbone and 8 MANs. It provides its services under the brands of ATMAN and Thinx Poland. ATM S.A. has been listed on the WSE since 2004 and employs c. 180 people. In 2013, the company had revenues of PLN 131m.
- (2) *Alcatel-Lucent SA*: Alcatel Lucent SA, which is based in Paris, provides solutions used by service providers, business customers and public administration to offer voice, data, and video services to their own customers. The company operates in three business segments: Networks, Software, Services and Solutions as well as Enterprise. In Poland, Alcatel-Lucent does not own a fiber-optic network, however constructs them and delivers components. In fiscal-year 2013, the company had revenues of EUR 14.4bn.
- (3) *Rostelekom OAO*: Rostelekom OAO, which is based in Moscow, is a Russian telecommunication operator. Throughout Russia, Rostelekom renders domestic long-distance (DLD) and international long-distance (ILD) telecommunication, mobile voice and data, broadband Internet access and pay TV services. It has approximately 500,000 km of backbone infrastructure and provides access to 35m subscribers. In fiscal-year 2012, Rostelekom generated total revenues of RUB 321.3bn.
- (4) *Magyar Telekom*: Magyar Telekom, which is based in Budapest, provides telecommunication services in Hungary. The company offers voice and data communication services e.g. Digifon, voice mail, televoting, ISDN, high-speed data communication, line lease, Internet access, audio and video transmission as well as cable TV. For fiscal-year 2013, Magyar Telekom reported sales of HUF 637.5bn.
- (5) *Telefonica Czech Republic as*: Telefonica Czech Republic as, which is based in Prague, is a Czech provider of integrated telecommunication services. The company's business is divided into two segments: Fixed and Mobile. Additionally, it provides data services and consultancy, lines lease and real-time mobile payment services. In fiscal-year 2013, Telefonica Czech Republic generated sales of CZK 47.9bn.

- (6) *Orange Polska S.A.*: Orange Polska (previously TPSA), which is based in Warsaw and majority-owned by French Orange S.A., is the national telco operator in Poland. The company offers such services as fixed-line and mobile telephony, Integrated Services Digital Network (ISDN), broadband and mobile Internet access as well as TV and Voice over Internet Protocol (VoIP). It also provides leased lines, data transmission and sells telecommunication equipment. Its fiber-optic network is the largest in Poland and covers 80,000 km. In fiscal-year 2013, Orange Polska had revenues of PLN 12.9bn.
- (7) *Netia S.A.*: Netia, which is based in Warsaw, is the leading alternative telco operator in Poland. The company uses third-party networks, but also operates an own one. Its services include fixed-line voice telephone services, Integrated Services Digital Network (ISDN), Voice over Internet Protocol (VoIP), voice mail, mobile and fixed-accessible Internet as well as leased lines. Its fiber-optic network covers 12,500 km. In 2013, Netia had sales of PLN 1.9bn.

HAWE's most important non-listed competitors are:

- (1) *GTS Energies*: GTS Central Europe (GTS CE) is the largest alternative communication carrier in the CEE region with currently c. 40,000 business customers. GTS CE delivers end-to-end Internet access, data transfer and fixed telephony services for business customers in the Czech Republic, Slovakia, Hungary, Romania and Poland. GTS CE is owned by a consortium of private equity funds, which includes Columbia Capital, M/C Venture Partners, Innova Capital, HarbourVest Partners, Oak Investment Partners and Bessemer Venture Partners.
- (2) *Exatel*: Exatel, which is part of the listed PGE Group, is one of the leading alternative telecommunication operators. Its service offer includes data transmission, line lease, voice services, Internet services, as well as hosting and colocation. Exatel has more than 1,500 customers in Poland, which include telecommunication operators as well as large and medium-sized enterprises from various sectors such as finance and power engineering. The company manages the second largest telecommunication network in Poland with a total length of more than 20,000 km optic fibers (along the power grid) covering 400 cities and links to 80 domestic and 60 foreign operators allowing data transmission all over Central Europe.
- (3) *TK Telekom*: With a countrywide copper and fiber-optic network of almost 30,000 km (thereof c. 6,000 km fibers along railway tracks), TK Telekom is among the largest backbone network operators in Poland. The company offers data transmission, line lease, Internet access and voice services, satisfying the needs of telecommunication operators, public administration and business customers. The owners of TK Telekom are the Polish State Treasury and the state-owned Polish railway operator PKP S.A.

Company	EV/EBITDA		EV/EBIT		P/BVPS	EBITDA margin	Net gearing
	2014E	2015E	2014E	2015E	Latest	2013	Latest
ATM S.A. (PLN)	8.95	7.66	16.37	13.63	1.73	35.31%	37.75%
Alcatel-Lucent SA (EUR)	6.74	5.32	13.32	8.35	2.90	12.50%	18.31%
Rostelekom OAO (RUB)	4.04	3.71	9.00	8.26	1.08	37.80%	94.09%
Magyar Telekom (HUF)	4.38	4.40	11.24	11.33	0.73	25.60%	99.06%
Telefonica Czech Republic as (CZK)	5.09	5.19	12.87	12.50	1.69	38.60%	-10.94%
Orange Polska S.A. (PLN)	4.64	4.81	20.12	20.21	1.07	34.00%	34.59%
Netia S.A. (PLN)	4.19	4.45	23.83	19.91	0.80	28.90%	13.19%
Median	4.64	4.81	13.32	12.50	1.08	34.00%	34.59%
HAWE S.A. (PLN)	5.07	4.62	6.44	5.74	0.97	30.56%	42.28%
<i>Premium/Discount</i>	9.27%	-4.10%	-51.63%	-54.06%	-10.40%		
Fair value HAWE S.A. (PLN)	5.15						

Source: Dr. Kalliwoda Research GmbH, Thomson Reuters Knowledge

According to our peer group, HAWE currently trades at a significant discount to its peers. The peer-group-based fair value equals PLN 5.15.

Price target calculation

Valuation method	Fair value	Weight
DCF model	5.49	50%
Peer group analysis	5.15	50%
Weighted average (present value)	5.32	
In 12-months (PV * (1+WACC))	5.80	

Source: Dr. Kalliwoda Research GmbH

4 Fiscal-year 2013 results and outlook

Revenues

In 2013, HAWE generated total sales of PLN 175m, which were both above last year and our forecasts. With +54.8% y-o-y to PLN 127.7m and +100.9% to PLN 44.8m respectively, both “Telecommunication services” and “Planning, construction and maintenance” segments contributed to the growth. We estimate that Mediatel, in which HAWE acquired 66% in October 2013, generated PLN 4.2m of telco revenues.

In the “Telecommunication services” segment, the significant improvement y-o-y stemmed from much higher proceeds from fiber leasing (+46.4% y-o-y) and sales of teletechnical infrastructure (+104.6% y-o-y), while in “Planning, construction and maintenance” revenues were impacted by new contracts e.g. in the Lubuskie province (KRe: PLN 18.5m from a total of PLN 19.5m) and the city of Zabrze (KRe: PLN 2.9m from a total of PLN 17.9m).

2013 results vs. our estimates and previous year

2013 vs. previous year and our estimates

in PLNm	2013	2013E	2012	2013 vs. 2013E	2013 vs. 2012
Net sales	175.00	159.50	107.90	9.7%	62.2%
EBITDA	76.90	71.46	32.98	7.6%	133.2%
EBITDA margin	43.9%	44.8%	30.6%		
EBIT	61.14	60.61	24.14	0.9%	153.2%
EBIT margin	34.9%	38.0%	22.4%		
Net income	51.86	48.12	16.91	7.8%	206.7%
Net margin	29.6%	30.2%	15.7%		

Source: Company information, Dr. Kalliwoda Research GmbH

Sales and gross margin split 2013 vs. 2012

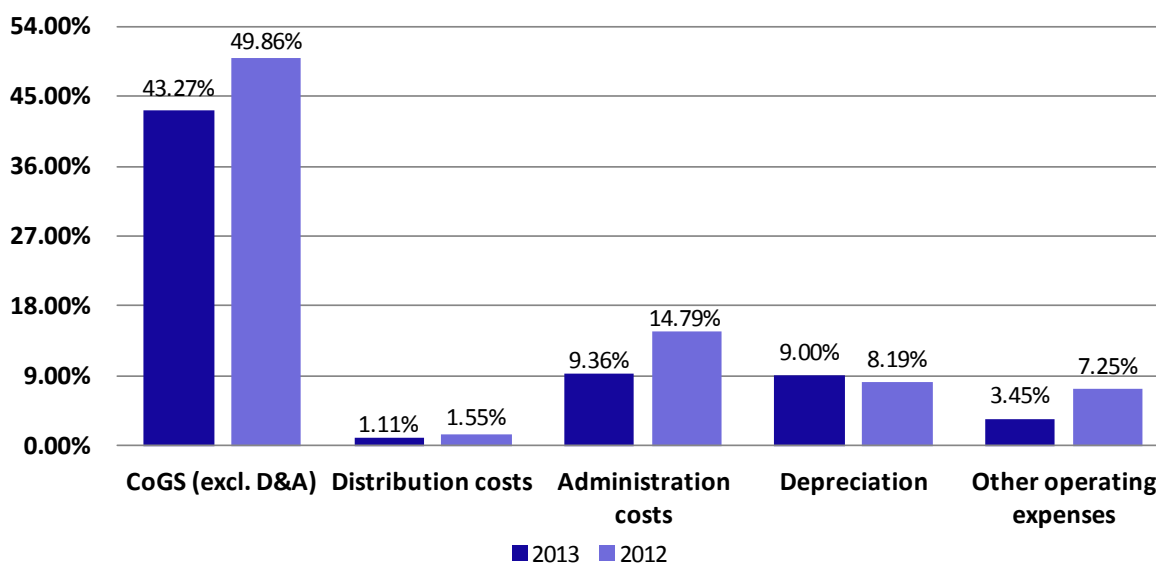
Sales and Gross margins according to segments 2013 vs. 2012

	2013	2012		2013	2012
Telecommunication services			Others		
Sales PLNm	127.71	82.50	Sales PLNm	2.53	3.13
Share of total sales	73.0%	76.5%	Share of total sales	1.4%	2.9%
Gross margin	61.8%	58.0%	Gross margin	4.8%	31.0%
Planning, construction and maintenance			Group		
Sales PLNm	44.76	22.28	Total sales	175.00	107.90
Share of total sales	25.6%	20.6%	change y-o-y	62.2%	
Gross margin	9.9%	-15.8%			

Source: Company information, Dr. Kalliwoda Research GmbH

Profitability

Share in total sales 2013 vs. 2012



Source: Company information, Dr. Kalliwoda Research GmbH

In 2013, HAWE's profitability increased dynamically and also exceeded our expectations. EBIT improved by 153.2% to PLN 61.1m and net income by 206.7% to PLN 51.9m. The reasons were a significantly higher gross margin in "Planning, construction and maintenance" (in 2012, the segment was loss-making due to restructuring) as well as a lower share of especially administration and other operating expenses.

Balance Sheet and Cash Flow

As of 31 December 2013, HAWE had equity of PLN 352.9m (BVPS = PLN 3.29) and interest-bearing debt of PLN 180m, thereof 80.5% long-term. In 2013, the company generated an operating cash flow of PLN 44.8m (2012: PLN 28m), which improved due to (1) higher net profit (2) a cash inflow from working capital of PLN 55.6m resulting from a write-down of receivables and (3) higher proceeds from sales/leases of teletechnical infrastructure. While cash outflow from investing amounted to PLN -26.2m (2012: PLN -43m) mainly due to the acquisition of Mediatel, cash flow from financing equaled PLN -7.2m (2012: PLN 1.5m) resulting from repayment of short-term debt. Between January and December 2013, HAWE's cash position increased by PLN 11.5m to PLN 25.6m. Net gearing was 41.2% and thus below 2012 (50.5%).

Outlook

Due to HAWE's revenue guidance (>PLN 300m in 2014 and 2015) we have adjusted our estimates, however left the 12-months PT (50% DCF, 50% peer group) of PLN 5.80 unchanged. Given EV/EBITDA 2014E and P/E 2014E of 5.1x, respectively 5.7x, the stock is a very attractive investment opportunity at present.

In our opinion, results in 2014 will improve further, albeit at lower margins as the top-line growth will be driven by the segment "Planning, construction and maintenance", which is set to benefit especially from the contracts in the provinces Warmia and Mazury (PLN 330m in 2014-2016, thereof PLN 115.5m for HAWE) and Podkarpackie (PLN 300m in 2014-2015, thereof PLN 105m for HAWE). While the whole "Telecommunication services" segment should continue to perform well, we expect a recovery of results at the newly acquired subsidiary Mediatel S.A., which in 2012 generated sales of PLN 54.7m, a gross profit of PLN 5.2m and an EBITDA of PLN 4.4m. HAWE's management plan to move all their telco assets to Mediatel in a shares-for-assets deal, which would leave the company with a 100% share in the subsidiary. However, in order to raise funds for the planned "Fiber-to-the-Home (FTTH)" project and maintain the subsidiary on the stock exchange, management plan to sell 15-20% of Mediatel shares afterwards. As construction of first FTTH access points is scheduled for Q1/15, we believe that the whole process will be finalized by the end of 2014. In our model, we have assumed that first revenues will be generated in 2016, with an ARPU of PLN 35 and gross margin of 75%.

FTTH is a project, which could yield high returns in the long run, but in the first few years will lead to significant costs as last-mile-investments are very expensive. However, as HAWE plans to share the associated costs with partners, it has signed a letter-of-intent together with "Polskie Inwestycje Rozwojowe (PIR)", a government entity, which supports promising long-term investment projects. Both parties plan to create a joint-venture in order to build 870k of FTTH connections between 2015 and 2019 for c. PLN 560m (c. PLN 643k per connection). HAWE, which is going to take over 51% in the JV, wants to commit PLN 130m, PIR will invest PLN 127m, with the rest coming from providers of telco equipment and banks. The company plans to operate the FTTH network, which according to its strategy is going to cover 1.2m households Poland-wide by 2024, initially in a "partner model" (parts of the network will be leased to telco partners), but later focus on an "open model", which would make the network available to different telco providers. HAWE is already in discussions with fixed-line, mobile and cable TV operators regarding a potential co-operation in this regard.

Sales split according to segments 2014E-16E

Sales split 2014E-2016E			
in PLNm	2014E	2015E	2016E
Telecommunication services	128.98	133.50	137.50
(% of sales)	40.8%	36.8%	59.4%
Gross margin	74.0%	72.0%	70.0%
<i>thereof: Sale and leasing of dark fibres</i>	59.1%	60.1%	61.1%
<i>thereof: Sale of teletechnical infrastructure</i>	21.1%	19.7%	18.3%
<i>thereof: Data transfer</i>	4.0%	4.2%	4.4%
<i>thereof: Maintenance, colocation, Internet access</i>	15.9%	16.1%	16.3%
Planning, construction and maintenance	130.00	170.00	20.00
(% of sales)	41.1%	46.9%	8.6%
Gross margin	15.0%	14.9%	14.8%
<i>Zabrze</i>	15.00	0.00	0.00
<i>Boleslawiec</i>	0.00	0.00	0.00
<i>Lubuskie province</i>	1.00	0.00	0.00
<i>Warmia & Mazury province (PLN 330m; HAWE's share 35%)</i>	28.90	41.70	0.00
<i>Podkarpackie province (PLN 300m; HAWE's share 35%)</i>	40.80	27.20	0.00
<i>Zawiercie</i>	0.00	0.00	0.00
<i>Lubin</i>	5.50	0.00	0.00
<i>Sale of third duct, maintenance, contracts with private clients</i>	38.80	101.10	20.00
FTTH	0.00	0.00	13.23
(% of sales)	0.0%	0.0%	5.7%
Gross margin	75.0%	75.0%	75.0%
<i>Number of FTTH connections (in k)</i>	0.00	0.00	75.00
<i>thereof: active ones (%)</i>	0.0%	40.0%	42.0%
<i>thereof: active ones (in k)</i>	0.00	0.00	31.50
<i>ARPU (in PLN)</i>	35.00	35.00	35.00
Mediatel	54.70	56.35	58.04
(% of sales)	17.3%	15.5%	25.1%
Gross margin	9.6%	9.7%	9.8%
Others	2.58	2.63	2.69
(% of sales)	0.8%	0.7%	1.2%
Total revenues	316.27	362.47	231.45
(change y-o-y)	62.2%	80.7%	14.6%

Source: Dr. Kalliwoda Research GmbH

Changes to our forecasts

Our estimates 2014E-2016E						
in PLNm	2014E		2015E		2016E	
	new	old	new	old	new	old
Net sales	316.27	403.92	362.47	414.53	231.45	214.46
EBITDA	94.49	106.31	103.74	107.30	90.22	76.25
EBITDA margin	29.9%	26.3%	28.6%	25.9%	39.0%	35.6%
EBIT	74.32	94.92	83.37	95.34	67.82	63.69
EBIT margin	23.5%	23.5%	23.0%	23.0%	29.3%	29.7%
Net income	58.54	76.08	65.90	76.56	53.77	51.21
Net margin	18.5%	18.8%	18.2%	18.5%	23.2%	23.9%

Source: Dr. Kalliwoda Research GmbH

Quarterly results and estimates 2011-2014E

in PLNm	Q1/11	Q2/11	Q3/11	Q4/11	2011	Q1/12	Q2/12	Q3/12	Q4/12	2012
Net sales	21.97	19.00	13.44	76.18	130.59	27.43	32.57	12.22	35.68	107.90
<i>y-o-y change</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	24.8%	71.5%	-9.1%	-53.2%	-17.4%
EBITDA	13.86	3.29	3.64	46.86	67.66	13.52	11.61	1.57	6.28	32.98
<i>EBITDA margin</i>	63.1%	17.3%	27.1%	61.5%	51.8%	49.3%	35.6%	12.8%	17.6%	30.6%
EBIT	11.90	1.31	1.57	44.44	59.20	11.33	9.45	-0.72	4.07	24.14
<i>EBIT margin</i>	54.1%	6.9%	11.7%	58.3%	45.3%	41.3%	29.0%	-5.9%	11.4%	22.4%
Net income	10.42	0.27	0.72	38.21	49.62	8.88	5.75	0.70	1.58	16.91
<i>Net margin</i>	47.4%	1.4%	5.3%	50.2%	38.0%	32.4%	17.6%	5.8%	4.4%	15.7%

in PLNm	Q1/13	Q2/13	Q3/13	Q4/13	2013	Q1/14E	Q2/14E	Q3/14E	Q4/14E	2014E
Net sales	48.75	33.48	38.56	54.22	175.00	76.00	68.00	78.00	94.27	316.27
<i>y-o-y change</i>	77.7%	2.8%	215.5%	52.0%	62.2%	55.9%	103.1%	102.3%	73.9%	16.4%
EBITDA	31.94	20.40	6.61	17.95	76.90	37.00	26.60	8.90	21.99	94.49
<i>EBITDA margin</i>	65.5%	60.9%	17.1%	33.1%	43.9%	48.7%	39.1%	11.4%	23.3%	29.9%
EBIT	29.31	15.23	2.69	13.92	61.14	32.20	21.50	4.20	16.42	74.32
<i>EBIT margin</i>	60.1%	45.5%	7.0%	25.7%	34.9%	42.4%	31.6%	5.4%	17.4%	23.5%
Net income	25.20	14.31	2.57	9.79	51.86	27.20	18.10	2.70	10.54	58.54
<i>Net margin</i>	51.7%	42.8%	6.7%	18.1%	29.6%	35.8%	26.6%	3.5%	11.2%	18.5%

Source: Company information, Dr. Kalliwoda Research GmbH

5 Profit and loss statement

Profit and loss statement - HAWE						
in PLNm	Fiscal year					
	2011	2012	2013	2014E	2015E	2016E
Revenues	130.59	107.90	175.00	316.27	362.47	231.45
<i>Cost of goods sold</i>	-42.48	-53.80	-75.72	-196.08	-235.58	-116.65
Gross profit	88.11	54.11	99.28	120.18	126.90	114.80
<i>Other operating income</i>	1.57	4.33	1.98	2.02	2.06	2.10
<i>Distribution costs</i>	-1.83	-1.67	-1.94	-2.04	-2.14	-2.25
<i>Administration costs</i>	-14.56	-15.96	-16.38	-17.20	-18.06	-18.96
<i>Other operating expenses</i>	-5.62	-7.83	-6.04	-8.47	-5.01	-5.47
EBITDA	67.66	32.98	76.90	94.49	103.74	90.22
<i>Depreciation</i>	-8.45	-8.83	-15.76	-20.17	-20.37	-22.41
Operating income	59.20	24.14	61.14	74.32	83.37	67.82
<i>Net financial result</i>	0.52	-1.98	1.77	-1.00	-0.82	-0.46
EBT	59.72	22.16	62.91	73.32	82.55	67.36
<i>Income taxes</i>	-10.10	-5.25	-11.78	-13.93	-15.68	-12.80
Net income / loss	49.62	16.91	51.86	58.54	65.90	53.77
<i>EPS</i>	0.47	0.16	0.48	0.55	0.61	0.50
<i>DPS</i>	0.00	0.00	0.00	0.00	0.00	0.00
Change y-o-y						
<i>Revenues</i>	n.a	-17.37%	62.18%	80.72%	14.61%	-36.15%
<i>Cost of goods sold</i>	n.a	26.64%	40.76%	158.95%	20.14%	-50.48%
<i>Gross profit</i>	n.a	-38.59%	83.48%	21.06%	5.59%	-9.53%
<i>Other operating income</i>	n.a	176.01%	-54.31%	2.00%	2.00%	2.00%
<i>Distribution costs</i>	n.a	-8.83%	16.03%	5.00%	5.00%	5.00%
<i>Administration costs</i>	n.a	9.56%	2.66%	5.00%	5.00%	5.00%
<i>Other operating expenses</i>	n.a	39.19%	-22.88%	40.30%	-40.79%	9.08%
<i>EBITDA</i>	n.a	-51.26%	133.19%	22.88%	9.79%	-13.03%
<i>Depreciation</i>	n.a	4.50%	78.39%	28.00%	1.00%	10.00%
<i>Operating income</i>	n.a	-59.22%	153.24%	21.56%	12.17%	-18.66%
<i>Net financial result</i>	n.a	-485.05%	-189.21%	-156.53%	-18.00%	-43.90%
<i>EBT</i>	n.a	-62.89%	183.89%	16.55%	12.58%	-18.41%
<i>Income taxes</i>	n.a	n.a	124.31%	18.25%	12.58%	-18.41%
<i>Net income / loss</i>	n.a	-65.92%	206.72%	12.87%	12.58%	-18.41%
<i>EPS</i>	n.a	n.a	206.72%	12.87%	12.58%	-18.41%
Share in total sales						
<i>Revenues</i>	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<i>Cost of goods sold</i>	-32.53 %	-49.86 %	-43.27 %	-62.00 %	-64.99 %	-50.40 %
<i>Gross profit</i>	67.47 %	50.14 %	56.73 %	38.00 %	35.01 %	49.60 %
<i>Other operating income</i>	1.20 %	4.01 %	1.13 %	0.64 %	0.57 %	0.91 %
<i>Distribution costs</i>	-1.40 %	-1.55 %	-1.11 %	-0.64 %	-0.59 %	-0.97 %
<i>Administration costs</i>	-11.15 %	-14.79 %	-9.36 %	-5.44 %	-4.98 %	-8.19 %
<i>Other operating expenses</i>	-4.31 %	-7.25 %	-3.45 %	-2.68 %	-1.38 %	-2.36 %
<i>EBITDA</i>	51.81 %	30.56 %	43.94 %	29.88 %	28.62 %	38.98 %
<i>Depreciation</i>	-6.47 %	-8.19 %	-9.00 %	-6.38 %	-5.62 %	-9.68 %
<i>Operating income</i>	45.34 %	22.37 %	34.94 %	23.50 %	23.00 %	29.30 %
<i>Net financial result</i>	0.39 %	-1.84 %	1.01 %	-0.32 %	-0.23 %	-0.20 %
<i>EBT</i>	45.73 %	20.54 %	35.95 %	23.18 %	22.77 %	29.10 %
<i>Income taxes</i>	-7.74 %	-4.87 %	-6.73 %	-4.40 %	-4.33 %	-5.53 %
<i>Net income / loss</i>	37.99 %	15.67 %	29.63 %	18.51 %	18.18 %	23.23 %

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6 Balance sheet

Balance sheet - HAWE						
in PLNm	Fiscal year					
	2011	2012	2013	2014E	2015E	2016E
Assets						
Cash and equivalents	27.59	14.10	25.61	34.44	12.50	87.94
Short-term financial assets	0.00	0.00	0.07	0.12	0.14	0.09
Inventories	3.31	3.58	2.06	5.33	6.41	3.17
Trade accounts and notes receivables	39.34	37.73	34.28	61.95	71.00	45.34
Teletechnical infrastructure	83.90	0.00	0.00	0.00	0.00	0.00
Other current assets	8.80	14.41	17.28	18.57	19.47	19.38
Current assets, total	162.94	69.82	79.29	120.42	109.53	155.91
Property, plant and equipment	12.88	11.49	8.83	8.73	8.63	8.53
Other intangible assets	0.88	0.76	2.03	2.04	2.05	2.06
Goodwill	28.64	28.64	35.13	35.13	35.13	35.13
Teletechnical infrastructure	129.16	239.16	295.81	300.81	350.81	450.81
Long-term trade receivables	155.56	188.46	188.01	244.89	244.42	146.81
Other financial assets	0.00	0.20	0.00	0.00	0.00	0.00
Deferred tax assets	0.00	0.00	0.00	0.00	0.00	0.00
Non-current assets, total	327.12	468.71	529.81	591.60	641.04	643.34
Total assets	490.06	538.53	609.10	712.02	750.57	799.26
Liabilities						
Trade payables	18.75	31.99	29.87	73.58	83.88	39.30
Other short-term liabilities	6.11	9.35	11.81	21.34	24.46	15.62
Short-term financial debt	31.38	162.37	33.33	0.00	0.00	0.00
Provisions	2.04	1.85	2.60	4.69	5.37	3.43
Current liabilities, total	58.28	205.56	77.60	99.61	113.72	58.35
Long-term financial debt	126.35	3.37	137.66	170.00	140.00	200.00
Provisions	0.04	0.04	0.04	0.08	0.09	0.06
Other long-term liabilities	0.31	0.31	0.34	0.61	0.70	0.44
Deferred tax liabilities	21.99	28.76	40.55	29.42	16.90	6.68
Long-term liabilities, total	148.68	32.48	178.59	200.11	157.69	207.19
Total liabilities	206.96	238.04	256.19	299.72	271.40	265.53
Shareholders equity, total	283.10	300.49	352.91	411.45	477.35	531.12
Minority interests	0.00	0.00	0.00	0.85	1.82	2.60
Total liabilities and equity	490.06	538.53	609.10	712.02	750.57	799.26

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7 Cash flow statement

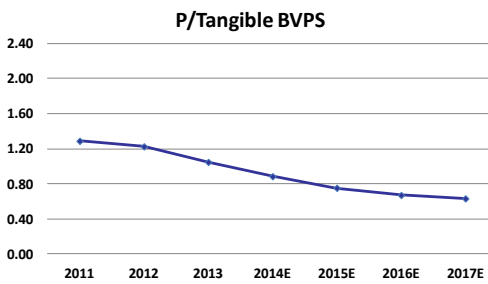
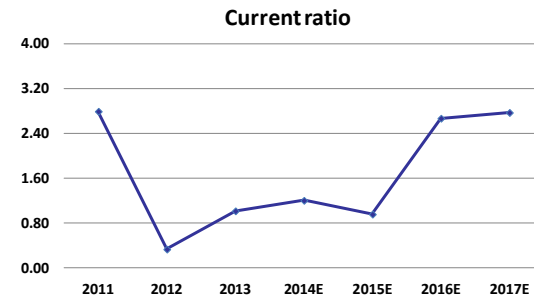
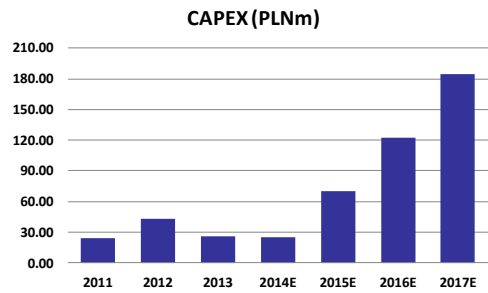
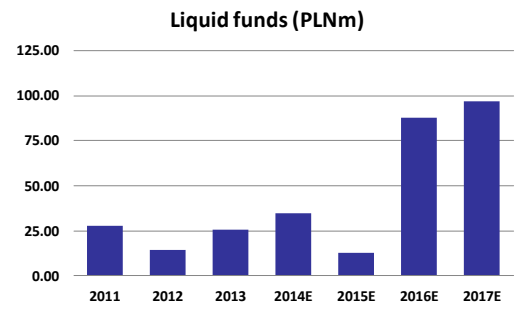
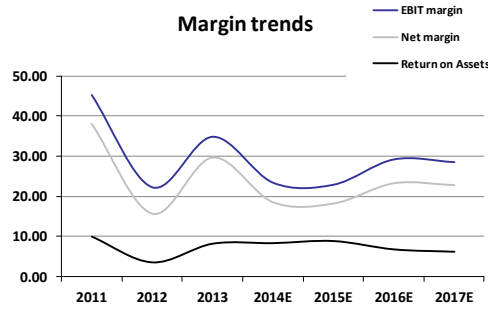
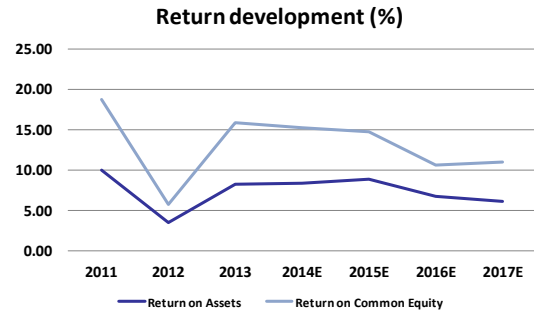
Cash flow statement - HAWE						
in PLNm	Fiscal year					
	2011	2012	2013	2014E	2015E	2016E
Net income / loss	49.62	16.91	51.86	58.54	65.90	53.77
Depreciation	8.45	8.83	15.76	20.17	20.37	22.41
Change of working capital	-71.91	-27.11	-55.61	-35.88	2.86	73.18
Others	18.65	29.36	32.83	-8.99	-11.82	-12.19
Net operating cash flow	4.82	27.99	44.84	33.83	77.31	137.17
Cash flow from investing	-24.07	-42.95	-26.16	-25.08	-70.28	-122.32
Free cash flow	-19.25	-14.96	18.68	8.76	7.03	14.85
Cash flow from financing	38.02	1.46	-7.17	0.08	-28.97	60.58
Change of cash	18.76	-13.50	11.51	8.84	-21.94	75.43
Cash at the beginning of the period	8.83	27.59	14.10	25.60	34.44	12.50
Cash at the end of the period	27.59	14.10	25.60	34.44	12.50	87.94

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8 Financial ratios

Fiscal year	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
Gross margin	67.47%	50.14%	56.73%	46.50%	35.01%	49.60%	51.22%	53.61%
EBITDA margin	51.81%	30.56%	43.94%	29.88%	28.62%	38.98%	41.57%	44.29%
EBIT margin	45.34%	22.37%	34.94%	23.50%	23.00%	29.30%	28.62%	27.94%
Net margin	37.99%	15.67%	29.63%	18.51%	18.18%	23.23%	22.76%	22.34%
Return on equity (ROE)	18.76%	5.79%	15.87%	15.32%	14.83%	10.66%	11.03%	12.14%
Return on assets (ROA)	10.02%	3.51%	8.22%	8.36%	8.89%	6.79%	6.19%	5.99%
Return on capital employed (ROCE)	11.39%	5.53%	9.35%	9.83%	10.60%	7.41%	6.71%	6.46%
Net debt (in PLNm)	130.13	151.63	145.32	135.44	127.36	111.97	252.96	400.96
Net gearing	45.97%	50.46%	41.18%	32.92%	26.68%	21.08%	45.07%	67.23%
Equity ratio	57.77%	55.80%	57.94%	57.79%	63.60%	66.45%	57.38%	50.93%
Current ratio	2.80	0.34	1.02	1.21	0.96	2.67	2.77	2.74
Quick ratio	1.15	0.25	0.77	0.97	0.73	2.28	2.37	2.31
Net interest cover	-114.96	12.17	-34.56	74.32	101.67	147.42	261.33	-585.88
Net debt/EBITDA	1.92	4.60	1.89	1.43	1.23	1.24	2.30	2.88
Tangible BVPS	2.41	2.54	2.96	3.51	4.12	4.63	4.91	5.23
CAPEX/Sales	21.85%	30.98%	44.29%	7.93%	19.39%	52.85%	69.56%	67.19%
Working capital/Sales	139.48%	187.98%	114.25%	74.57%	64.27%	69.04%	66.37%	63.86%
EV/Sales	3.67	4.44	2.74	1.51	1.32	2.07	1.81	1.52
EV/EBITDA	7.08	14.52	6.23	5.07	4.62	5.31	4.35	3.44
EV/EBIT	8.09	19.83	7.83	6.44	5.74	7.06	6.32	5.45
P/Tangible BVPS	1.29	1.23	1.05	0.89	0.75	0.67	0.63	0.59
P/E	6.62	19.72	6.43	5.70	5.06	6.20	5.53	4.75
P/FCF	-17.32	-22.30	17.86	38.09	47.44	22.46	-2.98	-2.93

Source: Company information, Dr. Kalliwoda Research GmbH



Source: Company information, Dr. Kalliwoda Research GmbH

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