

CEE Morning Note

8 November 2004

Contents

Company / Sector	Comment	Recommendation	Price (at close)	Target price
Richter	Richter out of USD/HUF hedging deals in 2005	Hold	HUF 22,800	HUF 23,850
Netia	3Q results due out after session	Hold	PLN 4.19	PLN 4.30
Agora	Growth remains our priority	Hold	PLN 50.40	PLN 56.00
Softbank	Quarterly results beat the street estimates	Sell	PLN 23.80	PLN 19.60
CT, KB, CEZ	Included in the Dow Jones STOXX EU Enlarged 15 index	-	-	-
CEZ	Today is the deadline for improved bids for distributors	Under review	CZK 286	-
Zentiva	Repeated plans to expand in Russia and Poland	Buy	CZK 644	CZK 633

Changes in recommendation

Company	From	To
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Changes in EPS forecast

Company	From		To	
	2004E	2005E	2004E	2005E

Key figures

(at close)	Price	1D	1M	12M	Vol (€ m)
CE TOP 20	147.0	1.3%	3.7%	31.6%	247
WIG20	1,811	-0.8%	-0.7%	15.2%	81.8
BUX	13,620	1.6%	5.1%	40.2%	73.1
PX-50	940.9	0.5%	6.4%	46.4%	92.1
Zentiva	CZK 644.0	0.6%	11.7%	n.a.	92.1
MOL	HUF 11,730	6.4%	9.7%	79.2%	38.9
CEZ	CZK 285.8	0.8%	7.3%	99.3%	33.1
KGHM	PLN 30.30	-9.0%	-19.0%	19.8%	30.4
Komercni B	CZK 3,253	2.1%	12.1%	32.9%	28.5
Pekao	PLN 128.5	2.0%	7.5%	13.7%	20.2
Richter	HUF 22,800	-2.6%	-3.8%	-9.7%	14.8
TPSA	PLN 16.60	0.6%	6.1%	16.5%	11.7
OTP	HUF 4,950	1.0%	11.3%	73.1%	10.6
Unipetrol	CZK 90.74	-0.3%	4.1%	49.5%	8.6
Exchange Rates					
PLN/EUR	4.273	-0.8%	-1.5%	-6.1%	
HUF/EUR	245.6	0.0%	0.0%	-4.6%	
CZK/EUR	31.46	0.1%	0.4%	-1.3%	
Govt Bond Yields					
Pol govt 6 10	6.83%	-12 bps	-3 bps	-8 bps	
Hu govt 7.5 11	8.42%	-10 bps	-46 bps	56 bps	
Cz govt 6.55 11	4.39%	-4 bps	-29 bps	-12 bps	

Calendar

Date	Event
Poland	
08.11.04	Netia - 3Q04 report
10.11.04	Prokom - 3Q04 report
12.11.04	Stalexport – 3Q04 consolidated report
15.11.04	Computerland – 3Q report
	PKN Orlen– 3Q report
	CPI (October)
Hungary	
08.11.04	Trade balance (September)
09.11.04	OTP: 3Q interim report
09.11.04	Demasz: 3Q interim report
11.11.04	Matav 3Q interim report
11.11.04	Egis 3Q interim report
11.11.04	FHB: 3Q interim report
12.11.04	MOL: 3Q interim report
Czech Republic	
08.11.04	Unemployment (October)
08.11.04	CPI (October)
08.11.04	CEZ : deadline for Romanian distrib. revised bids
09.11.04	Unipetrol : consolidated CAS 9M04 results
12.11.04	Erste Bank : consolidated 9M04 IFRS results

Source: Bloomberg

Market commentary

Poland

WIG20: 1,811 (-0.8%)
Turnover: EUR 81.8m

Warsaw equity market closed 0.8% lower on very high volume of EUR 82m compared to EUR 38 a day before. The market was driven down mainly by 3Q results flowing to the market. KGHM fell 9% on record high turnover of EUR 30m, constituting 37% of the WIG20 activity after the company posted very disappointing results. Negative surprise on 3Q04 results triggered a sell off on Debica (-7.5%) and Orbis (-2.6%). On the other hand Agora was the best WIG20 performer rising by 2.7% after 3Q results turned out to be surprising on a positive side. Pekao was the second most actively traded stock with turnover constituting 25% of the total. Pekao rose by 2% and together with other banks, BRE (+1.8%) and BPHPBK (0.4%) outperformed the WIG20 index.

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Hungary

BUX: 13,620 (+1.6%)
Turnover: EUR 73.1m

The BUX smashed all previous record highs on massive volume at the end of last week. MOL (+6.4%) was the most active stock, accounting for more than 50% of total turnover. The oil stock was also the best performer after announcing the sale of the gas business. On the other side, Richter (-2.6%) tumbled after 3Q profit came practically in-line with expectations. The market is anxious about how the strengthening US dollar will impact Richter, as the company is only hedged until the end of 2004 and has no hedge deals at all for 2005. Matáv (-0.2%) also closed in the red on average volume, while OTP managed 1.0% gains on foreign buying ahead of 3Q results, which we expect to be extremely good.

After the market close on Friday the Finance Ministry announced the October state budget deficit at HUF 44.4bn versus the market expectation of HUF 51bn. The ten-month shortfall widened to HUF 1,328bn, which is still below the HUF 1,335bn annual target. We consider the news as neutral since the figure came within a whisker of expectations.

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Czech Republic

PX50: 940.9 (0.8%)
Turnover: EUR 91.1m

The PX-50 index gained 0.86% on Friday. Philip Morris was well bid after upbeat comments from its parent company, adding 4.30% as a result. Komerční banka continued its upward trend after breaking through the CZK 3,200 level - we expect further moves on the upside. Český Telecom continues to trade in a tight range; its volume fell versus its long-term average as investors expect further privatisation-related news flows. This week we will be affected by news related to the IPO of the largest Polish lender PKO BP. Volume in the SPAD reached USD 71.40m.

The CPI and unemployment rate figures for October are to be released at 9:00am today. Patria expects the CPI to rise 0.3% m-o-m and 3.2% y-o-y (compared to -0.8% m-o-m and +3.0% y-o-y in September) and an unemployment rate of 9.8% (compared to 10.1% in September). Our forecasts are in line with the market consensus.

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Poland

Netia

NTIA.WA / NET PW

3Q results due out after session

Hold

Rating unchanged

 Telecommunication
Poland

Netia, Poland's largest alternative provider of fixed-line telecommunications services, will release its 2004 third quarter financial results after the close of the Warsaw Stock Exchange on Monday, November 8, 2004. On the following day, Tuesday, November 9, Wojciech Madalski and Kent Holding will host a conference call at 4:30 PM (CET) / 3:30 PM (UK) / 10:30 AM (EASTERN) to review the results.

Current price	PLN 4.19
Target price	PLN 4.30
Market cap	EUR 336m
Free float	81.0%

The consensus estimate for operating profit stands at PLN 20m, reflecting steady improvement in operating profitability, on sales revenues of PLN 225m, a healthy 26% rise on previous year. Net profit, strongly influenced by non-cash f/x gains, is anticipated to arrive at PLN 31m. Our own forecast falls in line with consensus with regard to operating performance, while being somewhat higher on the net profit line.

	EPS* (PLN)	P/E
FY03	-2.2	<0
FY04E	0.3	14.4
FY05E	0.3	13.1

*Unadjusted figures

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Agora

AGOD.WA / AGO PW

Growth remains our priority

Hold

Rating unchanged

 Media & Photography
Poland

Commenting on the better-than-expected 3Q results Mrs. Rapaczynska, Agora's CEO said that advertising market was strong thanks in particular to telecommunication ad spending and Olympics, with the radio and newspaper divisions doing exceptionally well. Production costs were lower thanks to cheaper imported paper and smaller payroll. She said she is optimistic with regard to newspaper segment prospects in 4Q and beyond, where Agora will be maintaining a growing scale of Gazeta Wyborcza. She gave no further indication about the company strategy in the newspaper business, especially with regard to any ground work for new newspaper project. She stressed however, that growth remains Agora's priority in the context of a dividend policy.

Current price	PLN 50.4
Target price	PLN 56.0
Market cap	EUR 666m
Free float	70%

We keep unchanged our PLN 56 fair value estimate on Agora after company's 3Q data release.

	EPS* (PLN)	P/E
FY03	0.04	757.5
FY04E	1.22	24.8
FY05E	1.70	17.8

*Unadjusted figures

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Poland

Softbank

SOBK.WA / SFT PW

Software & Computer Services
Poland

Current price PLN 24.5

Target price PLN 19.60

Market cap EUR 120m

Free float 75%

EPS* (PLN) P/E

FY03 0.1 222.7

FY04 0.6 43.8

FY05E 0.8 31.0

*Unadjusted figures

Quarterly results beat the street estimates

Sell

Rating unchanged

Softbank released its 3Q04 results surprising the market on a positive side. With the 82% revenue growth y-o-y and SG&A costs up only by 14% the group improved EBIT margin from (-4.9%) to 11.6% y-o-y. We expect a positive reaction to the report.

	3Q 03	2Q 04	3Q 04	Chg y-o-y	1-3Q 03	1-3Q 04	Chg	FY 04E*	1-3Q as % of FY 04E*
Sales	51 838	87 724	94 424	82%	199 696	259 423	30%	450 800	58%
EBIT	-3 347	3 064	11 614		-6 338	12 326		22 600	55%
Pre Tax Profit	-3 506	-5 545	12 292		-4 069	9 275		16 200	57%
Net Profit	-4 622	-4 848	12 314		-7 932	10 309		11 700	88%

consolidated data, PAS, PLN thousand; *)IDM KB estimates

	3Q 04 Consensus	Reported/ Consensus	3Q 04E*	Reported/ 3Q 04E*
Sales	82 800	14%	84 801	11%
EBIT	3 840	202%	2 817	312%
Pre Tax Profit	n/a	n/a	8 229	49%
Net Profit	5 400	128%	5 930	108%

consolidated data, PAS, PLN thousand; *)IDM KB estimates

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Hungary

Richter

GDRB.BU / RICHT HB

Pharmaceuticals

Hungary

Current price HUF 22,800
Target price HUF 23,850
Market cap EUR 1,728m
Free float 75%

	EPS* (HUF)	P/E
FY03	1,807	12.6
FY04E	1,822	12.5
FY05E	2,037	11.2

*Unadjusted figures

Richter out of USD/HUF hedging deals in 2005

Hold

Unchanged

Richter maintained on Friday that it had no currency hedging deals for 2005. The company expects the USD/HUF cross-rate to reverse after sinking heavily since the beginning of this year. The company therefore decided to stop forward-selling its expected USD revenue for the next 6–12 months. CEO Mr Erik Bogsch said that as a result of the change in hedging policy, Richter's profits would be more vulnerable to cross-rate movements next year. He added that the appreciation of the forint was "intolerable" and would hurt the Hungarian economy and exporting companies. In our view Richter's expectation for USD strengthening and HUF weakening could be considered as cross-rate speculation, and thus the market reaction should be negative.

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Czech Republic

CEZ

CEZSp.PR / CEZ CD

Utilities
Czech Republic

Current price CZK 286
Target price
Market cap EUR 5,383m
Free float 32%

	EPS* (CZK)	P/E
FY03	10.0	28.5
FY04E	9.2	31.2
FY05E	11.5	24.8

*Unadjusted figures

Today is the deadline for improved bids for distributors

Under review

Today is the deadline for submitting improved bids for the two Romanian distributors (Electrica Oltenia and Electrica Moldova) according to the CEZ spokesman. CEZ and E.ON were the only two companies to submit a final bid by the October 18 deadline. Based on the limited information available, we would be comfortable with a combined bid by CEZ not significantly exceeding EUR 100m (specifically, EUR 40m for E. Moldova and EUR 60m for E. Oltenia). Neutral until size of the new bid is known. Source: Reuters, CTK

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Zentiva

ZNTV.spPR / ZEN CD

Pharmas
Czech Republic

Current price CZK 644
Target price CZK 663
Market cap EUR 781m
Free float 32%

	EPS* (CZK)	P/E
FY03	36.9	17.5
FY04E	36.9	17.4
FY05E	44.7	14.4

*Unadjusted figures

CEO repeated plans to expand in Russia and Poland

Buy

Rating unchanged

CEO J. Michal repeated that the company plans to expand its operations in Poland and Russia by either acquiring an existing company or by hiring more staff. Neutral. Source: Bloomberg

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Czech Republic

CT, CEZ and KB included in the Dow Jones STOXX EU Enlarged 15 index

Cesky Telecom, CEZ, Komerční Banka shares were included in the newly launched Dow Jones STOXX EU Enlarged 15 index. Cesky Telecom, with a share of 9.4%, ranks fourth in the index. CEZ entered with a weighting of 8.8% and KB was included with a weighting of 7.5%. The key elements considered in the ranking were market capitalization, revenues and net profit. Positive. Source: CTK, Bloomberg

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