

Company Report

Duda

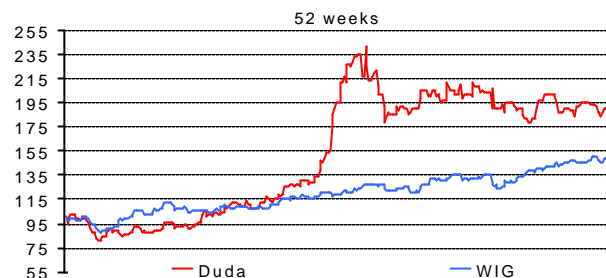
Poland, Food & Beverages

upgrade to accumulate

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PLN mn	2006	2007e	2008e	2009e
Net sales	1,041.2	1,619.3	2,101.3	2,226.0
EBITDA	83.1	112.1	154.3	168.7
EBIT	63.5	84.8	118.8	132.2
Net profit	50.4	63.0	87.8	96.3
EPS (PLN)*	1.05	0.74	0.90	0.99
CEPS (PLN)*	1.45	1.07	1.27	1.37
BVPS (PLN)*	5.55	4.80	5.68	5.77
Div/share (PLN)	0.00	0.00	0.00	0.90
EV/EBITDA (x)*	10.1	13.9	10.1	9.2
P/E (x)*	12.5	17.6	14.5	13.2
P/CE (x)*	9.0	12.3	10.3	9.6
Dividend yield	0.0%	0.0%	0.0%	6.9%



Performance	12M	6M	3M	1M
in PLN	89.3%	-3.5%	-9.1%	-0.9%
in EUR	98.5%	-3.0%	-6.5%	-0.3%

Share price (PLN)	13.1	Reuters	DUDA.WA	Free float	75.0%
Number of shares (mn)*	96.8	Bloomberg	DUD PW	Shareholders	Duda family (25%)
Market capitalization (PLN mn / EUR mn)	1,267.1 / 334.1	Div. ex-date	-		
Enterprise value (PLN mn / EUR mn)	1,554.9 / 409.9	Target price	15.7	Homepage:	www.zmduda.pl

Ukraine - fertile soil for growth

- Duda reported 1Q07 results that are consistent with our FY07 forecast on the operating level. The recent takeover and ambitious strategy towards Ukraine prompt us to revise our growth estimates upwards, in contrast with the delay in the consolidation of Biernacki. Given these factors, we set our 12M target price at PLN 15.7. Combined with the recent easing of the share price, this results in an upgrade of our recommendation to Accumulate.
- We adjusted the bottom line for 2007 and for 2008. This stems from the stronger other operating result this year, higher sales next year and greater financial costs in both years. The latter two issues are due to the updated development scenario for Ukraine.
- Duda enjoys solid growth of demand for meat in Poland. However, the main driver remains acquisitions. Apart from Stol Polski, we expect to see the purchase of distribution companies in Poland, finalization of the Biernacki takeover and the acquisitions of another meat concern in Ukraine and several pig farms in 2007/2008. Total capex is anticipated at PLN 250-300mn.
- The largest upside potential is seen in the Ukrainian arm. We forecast revenue growth from PLN 50mn this year to PLN 200mn in 2008. This is to be accomplished via a new acquisition of a local meat company plus increased exposure to agriculture through buying pig farms and land.
- Duda is facing a tough challenge this year - to smoothly integrate its business model with acquired entities, while restructuring the new assets. Recent delays (biofuels, Biernacki) show that this is the most significant risk factor, which we are keeping a sharp eye on. Nonetheless, we assume a successful margin lift as of 2008.

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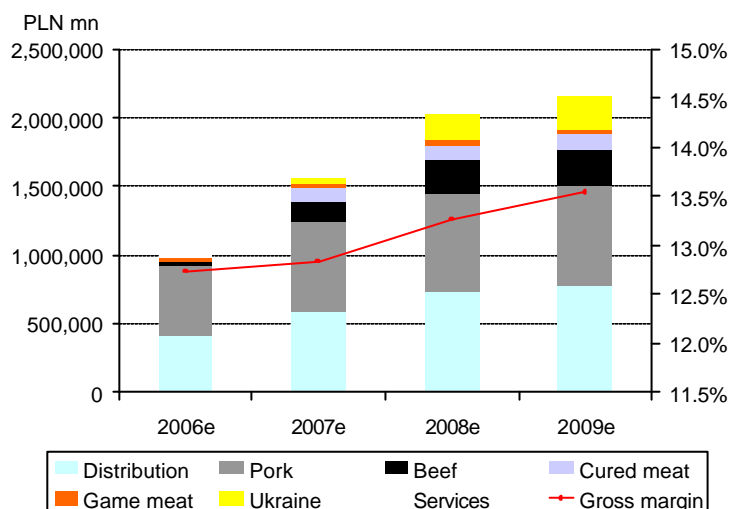
Financials

We anticipate Duda posting PLN 1.6bn in revenue for 2007 (up 55%), bolstered by the consolidation of Stol Polski (as of March 1, 2007) and Biernacki (as of June 1, 2007). The organic growth rate is foreseen at 8.5%. For 2008, we envisage a 25% jump in the top line to PLN 2bn, underpinned by accelerating Ukraine (accounting for 20% of sales), acquisitions and greenfield projects in the distribution segment, as well as the consolidation of Stol Polski and Biernacki (adding approximately 150mn) for the remaining months of the year (these are not yet included in 2007). Organic growth is foreseen at 3.8%.

The 2007 gross margin is envisaged at 12.8% and we expect it to climb to 13.3% next year. The profitability lift arises from the restructuring of Stol Polski and Biernacki, improved efficiency of the Ukrainian business and synergy effects (joining forces of Makton and Stol Polski, increased share of pigs slaughtered at Duda-owned farms).

The profitability improvement will also get a hand from a shift of the product mix (plotted on the following graph). Most importantly, Duda has entered the high-margin game meat segment and benefits from brisk growth in Ukraine.

Sales and margins



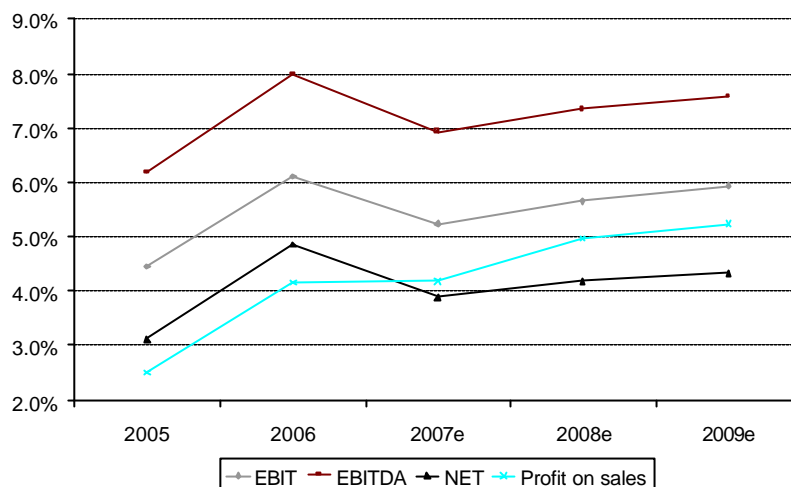
Source: Duda, Erste Bank estimates

2007 EBIT is foreseen at PLN 84mn, up 32% y/y. This figure is hindered by ballooning SG&A (+57% y/y), due to the considerably increased scale of Duda's distribution business. A PLN 7mn one-off item from 1Q07 also propped up this figure. For 2008, EBIT is anticipated at PLN 119mn (up 41%), propelled by a decline in overhead dynamics and better production profitability.

Net profit is expected to grow to PLN 63mn (+25%) this year and to PLN 88mn (+39%) in 2008. This should stem primarily from improvements in operating performance.

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EBIT, EBITDA, NET



Source: Duda, Erste Bank estimates

Consolidation risk

We have included acquisitions that are planned or intended by the company to be carried out in the next 12 months. Even though the likelihood of a negative scenario is low, we would like to emphasize the material risk of a failure of one or more takeovers. Below we present a table showing the downside impact from any delay or complete halt to particular plans.

Value sensitivity to assumed acquisitions

Acquisition	CAPEX	Downside impact per Duda share
Biernacki meat company	PLN 95mn	2.0
acquisitions in Ukraine	PLN 80mn	1.5

Source: Erste Bank

Given the company's ambitious expansion strategy, we do not regard a potential failure risk as a long-term threat. On the contrary, we believe that, in such a case, Duda would seek alternative targets offering similar growth opportunities.

Valuation

We employed a DCF model as our valuation tool to estimate the fair value of the company. The DCF is based on our forecasts for the years 2006-12. We used a discount rate based on WACC and a terminal value based on perpetuity. We discount all free cash flows for the firm on December 31, 2006 and subtract the forecasted net debt as of December 31, 2006. We then divide the equity value per number of shares. Afterwards, we compound this by the cost of equity (with the appropriate number of months). We thus arrive at a target price that represents our valuation of the stock price as it is expected to be 12 months into the future. The DCF led us to a target price of PLN 15.7 per share. The peer comparison indicates that Duda is currently traded at a 6% premium based on 2008 multiples, which we believe is justified, given the company's growth prospects.

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We based our calculations on the following main assumptions:

- Biernacki will be acquired and consolidated as of June 2007 for PLN 95mn.
- Duda's further expansion in distribution will add PLN 100mn in sales in the next three years. This will cost approximately PLN 40mn, including both acquisitions and/or greenfield.
- Sales in Ukraine will grow five-fold over the next three years to PLN 250mn via at least one significant acquisition and investment in pig farms (capex at PLN 80mn + PLN 50mn). More ambitious purchases or swifter expansion in Ukraine could offer the main growth triggers for our valuation in the future.
- The company will invest about PLN 40mn in pig farms in Poland, increasing the share of supply from own farms to 30% this year.
- The biofuel project is not included in our calculations. However, based on the company's guidance, a successful launch could have a significant positive impact on the company's value (+ PLN 4 to 6 per share).
- Risk-free rate 5%; equity premium 5%; debt premium 1.5%, beta 1.0.
- Terminal value growth 1.5%.

WACC

	2007e	2008e	2009e	2010e	2011e	2012e	beyond 2012e
WACC	8.2%	8.4%	8.4%	8.5%	8.5%	8.5%	8.4%
Equity cost	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	9.9%
Debt cost	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
Equity weighting	60.5%	63.8%	64.6%	65.8%	65.9%	65.9%	66.7%
Debt weighting	39.5%	36.2%	35.4%	34.2%	34.1%	34.1%	33.3%
Risk free rate	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.0%
Equity risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Debt premium	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%

Source: Erste Bank

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DCF

	2007e	2008e	2009e	2010e	2011e	2012e	beyond 2012e
EBIT	84,762	118,782	132,173	143,981	156,359	169,607	169,607
Tax rate	19%	19%	19%	19%	19%	19%	19%
Tax on EBIT	16,105	22,569	25,113	27,356	29,708	32,225	32,225
NOPLAT	68,657	96,213	107,060	116,625	126,650	137,382	137,382
Depreciation	32,901	35,517	36,507	37,607	39,796	42,112	
Capital expenditures	262,100	77,000	18,000	20,000	39,796	42,112	
Change in working capital	57,944	55,437	14,332	13,260	14,031	14,853	
Free cash flow	-218,487	-706	111,235	120,972	112,619	122,528	
Terminal value							
PV of FCF	-201,889	-602	87,477	87,703	75,267	75,487	
Sum of PV of FCF	123,444						
PV of terminal value	1,253,206						
Enterprise value	1,376,650.1						
Non-operating assets	0						
Net debt at 31.12.2006	48,495.26*						
Fair value at 31.12.2006	1,328,155						
Number of shares	96,800						
Fair value per share at 31.12.2006	13.7						
Cost of equity	10.1%						
Target Price	15.7						
Stock price	13.1						
Premium/discount	19%						

*adjusted for proceeds taken in recent capital increase

Source: Erste Bank

Peers

	2006e P/E	2007e P/E	2008e P/E	2006e EV/Sales	2007e EV/Sales	2008e EV/Sales	2006e EV/EBITDA	2007e EV/EBITDA	2008e EV/EBITDA	2006e Valuation	2007e Valuation	2008e Valuation
Implied fair value	1,129,487	1,101,761	1,219,617	542,991	836,749	1,065,227	597,134	745,864	994,716			
Number of shares	96,800	96,800	96,800	96,800	96,800	96,800	96,800	96,800	96,800	7.8	9.2	11.3
Implied fair value per share	11.7	11.4	12.6	5.6	8.6	11.0	6.2	7.7	10.3			
12 month target price										8.6	10.2	12.4
Median for int. peer group	22.4	17.5	13.9	0.6	0.5	0.5	7.8	7.1	6.8			
Ter Beke	17.84	17.65	14.93	0.5	0.5	0.5	7.1	5.8	5.3			
Hk Ruokatalo	22.39	16.22	12.75	0.7	0.5	0.4	9.3	7.9	6.8			
Cremonini SpA	29.51	22.52	19.70	0.4	0.4	0.4	6.7	6.8	6.4			
Devro International	15.14	14.50	13.89	1.5	1.4	1.3	7.8	7.1	7.0			
Atria Oyj	24.02	15.41	13.78	0.6	0.7	0.7	7.8	8.3	7.4			
Fleury Michon SA	18.90	17.48	15.80	0.6	0.5	0.5	6.0	5.5	4.9			
Sardus AB	39.42	18.72	12.69	0.7	0.8	0.7	10.0	9.4	7.8			

Source: JFC, Erste Bank

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Income Statement (IAS, PLN mn, 31/12)	2005	2006	2007e	2008e	2009e
Sales revenues	870.0	1,041.2	1,619.3	2,101.3	2,226.0
Cost of goods sold	-765.4	-908.6	-1,411.5	-1,822.8	-1,924.6
Gross profit	104.6	132.6	207.8	278.5	301.3
SG&A	-82.7	-89.4	-140.0	-174.4	-184.8
Other operating, net	16.8	20.4	17.0	14.7	15.6
EBITDA	53.7	83.1	112.1	154.3	168.7
Depreciation	-15.0	-19.5	-27.3	-35.5	-36.5
EBIT	38.7	63.5	84.8	118.8	132.2
Financial result	-6.3	-2.9	-6.8	-10.3	-13.2
EBT	32.5	60.6	77.9	108.5	119.0
Tax expenses	-6.1	-9.4	-14.8	-20.6	-22.6
Extraordinary result	0.0	0.0	0.0	0.0	0.0
Minority interests	0.7	-0.7	-0.1	-0.1	-0.1
Net result after minorities	27.1	50.4	63.0	87.8	96.3
Balance Sheet (IAS, PLN mn, 31/12)	2005	2006	2007e	2008e	2009e
Intangible assets	90.5	89.9	89.9	89.9	89.9
Tangible assets	168.2	234.7	469.5	511.0	492.5
Financial assets	10.7	31.1	32.5	33.6	33.9
Total fixed assets	269.4	355.8	591.9	634.5	616.3
Inventories	58.9	72.8	112.9	145.8	154.0
Receivables and other current assets	119.9	131.6	186.2	241.7	256.0
Other assets	1.9	2.1	3.2	4.2	4.5
Cash and cash equivalents	16.9	32.5	16.2	21.0	22.3
Total current assets	197.5	239.0	318.6	412.7	436.7
TOTAL ASSETS	467.0	594.8	910.5	1,047.2	1,052.9
Shareholders' equity	206.7	267.7	464.2	552.4	560.9
Minorities	-0.3	0.9	1.0	1.1	1.2
Other reserves	0.0	0.0	0.0	0.0	0.0
Interest-bearing LT debts	103.0	138.9	182.4	188.7	184.9
Other LT liabilities	1.1	0.9	0.9	0.9	0.9
Total long-term liabilities	104.1	139.7	183.2	189.5	185.8
Interest-bearing ST debts	73.8	100.5	121.6	125.8	123.3
Other ST liabilities	82.7	86.0	140.4	178.4	181.8
Total short-term liabilities	156.5	186.5	262.0	304.2	305.1
TOTAL LIAB. & EQUITY	467.0	594.8	910.5	1,047.2	1,052.9
Cash Flow Statement (IAS, PLN mn, 31/12)	2005	2006	2007e	2008e	2009e
Cash flow from operating activities	-0.4	40.4	107.8	85.2	127.6
Cash flow from investing activities	-27.3	-78.2	-321.8	-77.0	-18.0
Cash flow from financing activities	30.5	53.5	197.6	-3.3	-108.3
CHANGE IN CASH & CASH EQU.	2.9	15.6	-16.3	4.8	1.2
Margins & Ratios	2005	2006	2007e	2008e	2009e
Sales growth	63.1%	19.7%	55.5%	29.8%	5.9%
EBITDA margin	6.2%	8.0%	6.9%	7.3%	7.6%
EBIT margin	4.5%	6.1%	5.2%	5.7%	5.9%
Net profit margin	3.1%	4.8%	3.9%	4.2%	4.3%
ROE	14.1%	21.3%	17.2%	17.3%	17.3%
ROCE	7.8%	12.1%	10.3%	11.0%	11.4%
Equity ratio	44.2%	45.2%	51.1%	52.9%	53.4%
Capital employed	367.4	476.3	753.8	847.8	848.9
Inventory turnover	14.2	13.8	15.2	14.1	12.8

Source: Company data, Erste Bank estimates

Company Report

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Company Report

Rating history

Date	Product	Rating	Price	Price target
4. Sep 06	CR	Buy	12,90	16,00
18. Jan 07	CR	Hold	13,90	14,30

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- (5) Erste Bank and/or its affiliate(s) have other significant financial interests in relation to the covered company.

Company	Disclosure	Comment
Duda	--	--

Erste Bank rating definitions

Buy	> +20% to target price
Accumulate	+10% < target price < +20%
Hold	0% < target price < +10%
Reduce	-10% < target price < 0%
Sell	< -10% to target price

Our target prices are established by determining the fair value of stocks, taking into account additional fundamental factors and news of relevance for the stock price (such as M&A activities, major forthcoming share deals, positive/negative share/sector sentiment, news) and refer to 12 months from now. All recommendations are to be understood relative to our current fundamental valuation of the stock. The recommendation does not indicate any relative performance of the stock vs. a regional or sector benchmark.

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