

METKA

Sector: Industrials
Date: Feb 05, 2010

Rating: **Top Pick**

Target price: €13.80

Last price: €9.80

ATHEX composite: 1,951.70

Prices as of the closing on Feb 04, 2010

Expanding its international profile

■ METKA added another €0.5bn to its international order-book

The company announced the agreement with OMV's subsidiary in Turkey (Borascos) that provisions the construction of a new 870MW power plant. The project adds ca. €480m to METKA's order-book, increases the backlog to €2.1bn and will support a strong growth momentum between 2010-2013.

■ Fine-tuning our 2010-2011 estimates for METKA

METKA manages to replace PPC's project with the new project in Turkey having an almost neutral effect on the sales and EBITDA for 2010-2011. We have adjusted our estimates taking into consideration 1) the new project in Turkey and 2) sale of Megalopolis project with an estimated ca. €40m capital gain in 2010. The positive impact from the capital gain in 2010E is not expected to be paid as dividend; dividend payout adjusted accordingly.

■ Valuation impact of ca. 80eurocents per share from the new contract

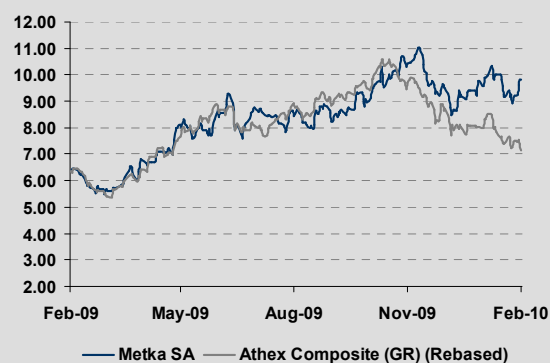
OMV's project in Turkey will generate cashflows for METKA throughout 2010-2013E. Using EBITDA margin of 18%, WACC at 10% and W/C at 18% of sales the project's DCF adds ca. 80eurocents to our valuation of METKA.

■ Backlog back to €2.1bn / 82% refers to international projects

We consider the newsflow of high strategic importance considering its timing since it: 1) strengthens the earnings growth momentum despite the Greek equities outlook, 2) diversifies the company's country exposure and 3) proves the strong relationship of the group with global utilities. We see positively Metka's low exposure on domestic project with international order-book representing 82% of backlog today.

■ Upgrade to Top Pick; new target price at €13.8/share

We have increased our target price for METKA to €13.8 per share taking into consideration the inclusion of the new project and the sale of Megalopolis. METKA is now included in our top picks list for the Greek market since it offers: 1) highly visible cashflows and growth momentum up to 2012E, 2) investment case neutral to the challenging domestic macro outlook whilst it 3) has room for further catalysts ahead. In addition, METKA's valuation is also supportive since it trades with a material discount to the global industrial groups.



Company data

Reuters: MTKr.AT	Bloomberg: METTK GA
52wk. Price range	€11.02 / €5.50
Market Cap	€509.1m
No. of shares	52.0m
Free float	44% / €224.0m
Av. Daily volume (12m)	0.06m

Stock returns (%)

	1m	3m	12m
Absolute	2.2%	-5.9%	53.6%
Relative (ATHEX)	13.1%	20.6%	41.7%

Corporate actions / events

Q409 results on March, 2010

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(EUR m)	2008	2009E	2010E	2011E
Sales	381.5	355.0	669.7	851.1
EBITDA	66.9	61.4	107.4	134.9
Margin (%)	17.5%	17.3%	16.0%	15.8%
EBIT	61.5	56.6	100.9	127.6
Net income	41.4	38.6	96.3	87.6
EPS (€)	0.80	0.74	1.85	1.69
DPS (€)	0.40	0.40	0.70	0.70
FCF	23.5	54.8	-71.0	82.1

	2008	2009E	2010E	2011E
P/E (x)	12.3x	13.2x	5.3x	5.8x
EV / EBITDA (x)	7.8x	7.9x	5.1x	3.8x
P/CF (x)	20.1x	9.0x	-7.7x	5.8x
N.Debt/EBITDA (x)	-0.1x	-0.6x	0.2x	-0.1x
EV/IC (x)	2.4x	2.7x	1.7x	1.6x
FCF yield (%)	4.6%	10.8%	-13.9%	16.1%
Dividend yield (%)	4.1%	4.1%	7.1%	7.1%
ROIC (%)	19.1%	21.5%	30.6%	26.7%

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I. METKA is now included in our Top Picks list

We have re-assessed our valuation for METKA taking into consideration the sale of Megalopolis project as well as the inclusion of the €0.5bn new project in Turkey. Our target price is increased to €13.8 per share vs. €12.6 previously. We are now including METKA in our top-picks list on the back of 1) high visibility on improving earnings outlook, 2) very attractive valuation and 3) straight forward and highly defensive case within our Greek universe. We think that METKA will continue being a clear outperformer vs. the market being totally neutral to the domestic macro outlook.

▪ New target price at €13.8 vs. €12.6 per share previously

KAPPA SECURITIES: METKA VALUATION SUMMARY

Old Target Price	12.6
Target Price	13.8
	<i>upgrade</i> 10%

Implying valuation on TP

	2009E	2010E	2011E
P/E (x) - adj.	18.6x	10.8x	8.2x
vs. peers	56.8%	-17.7%	-30.8%
EV/EBITDA (x)	11.4x	7.0x	5.3x
vs. peers	94.0%	11.8%	-1.5%

source: JCF consensus, Kappa Securities

We have adjusted our valuation on METKA taking into consideration the valuation impact from 1) the sale of 90% in the construction part of Megalopolis to Terna and 2) the new project in Turkey. In addition, we have fine-tuned our estimates for slightly slower execution in Syria.

Our new target price using a SOTP valuation stands at €13.8 per share; 10% higher compared to our previous. On our target price METKA is valued at 10.8x (adjusted for one-off capital gain) the P/E and 7.0x the EV/EBITDA of 2010E.

METKA SOTP VALUATION SUMMARY

Methodology	(EUR m)		(%)	
	EV	/ share	as of EV	
Existing backlog	DCF	307	5.9	42.7%
Megalopolis (sale of ETADE)	DCF	32	0.6	4.4%
Prospect EPC backlog	DCF	50	1.0	7.0%
Subsidiaries - @ 5x EV/EBITDA	multiples	26	0.5	3.6%
Residual value	DCF	267	5.1	37.2%
Total METKA EV		682	13.1	94.9%
Net cash / (Net debt) - 2009E		37	0.7	5.1%
Total fair equity value		719		0.0%
	Number of shares (m)	52.0		
KAPPA SEC Target Price		13.8		
				41.2%

Source: Kappa Securities Research



We have upgraded our rating on METKA including the stock in our Top Pick list for Greece on the back of:

- **High visibility upon strong CF generation up to 2012:** METKA runs an EPC backlog on signed and running projects of ca. €2.1bn that will be executed up to the end of 2012. This will generate cumulative FCF of ca. €390m which represents more than 50% of our valuation.
- **Improving earnings momentum:** The execution of METKA's backlog will feed an attractive earnings growth profile with sales, EBITDA and EPS CaGR between 2009-2012E at 27%, 22% and 24% respectively.
- **Investment case is neutral to the domestic macro outlook:** Following the sale of the construction part (90%) of PPC's Megalopolis project to Terna and the inclusion of the OMV's project in Turkey in Metka's backlog, the international order-book of the company represents ca. 82% of the total. We see positively the international diversification of the company at present and we think this will be a major driver for the neutralization of the investment case to the challenging domestic macro outlook.
- **Room for further positive catalysts ahead:** In addition to the existing backlog Metka bids for EPC projects of additional €2.5bn. Given the track-record and improving relationship with global utilities we expect Metka to continue providing us with valuation catalysts going forward.
- **Appealing valuation:** Metka trades with a material discount to our target price and its peers despite its 1) quality balance sheet, 2) execution track-record and 3) straight forward business. On our dividend payout scenario, Metka will have the potential to distribute dividends or capital returns in excess of €400m in the next four years; ca. €7.7 per share.

▪ Metka is still trading very attractively compared to its peers

METKA is trading with a material discount to our universe of global industrial groups both on P/E and EV/EBITDA terms. Even on our target price the company maintains a material discount, which we believe is not justified by its returns or risks related to its business. Although a direct peers comparison on Metka is not meaningful we anticipate that the relative approach amplifies our positive view on the valuation of the stock.

KAPPA SECURITIES - GLOBAL METKA PEERS

Company	Mkt. Cap (EUR m)	P/E (x)			EV/EBITDA (x)			Performance (%)	
		2009E	2010E	2011E	2009E	2010E	2011E	1m	3m
Alstom SA	14,328.4	11.8x	12.3x	12.3x	5.9x	6.5x	6.0x	1.0%	4.1%
Ansaldo STS SpA	1,447.0	17.5x	15.4x	13.9x	7.6x	7.3x	6.4x	8.7%	12.5%
Fluor Corp.	6,020.5	12.6x	13.6x	12.3x	4.6x	4.8x	4.3x	7.1%	10.3%
Foster Wheeler AG	2,691.4	10.5x	11.3x	10.2x	5.8x	5.4x	4.4x	3.3%	4.7%
Jacobs Engineering Group	3,364.0	12.1x	16.0x	13.9x	5.3x	6.7x	5.4x	3.0%	-7.7%
Tecnicas Reunidas SA	2,333.1	16.2x	14.0x	12.3x	10.0x	8.5x	7.2x	4.0%	18.3%
Median, METKA peers		12.3x	13.8x	12.3x	5.9x	6.6x	5.7x	3.6%	7.5%
METKA	509.1	13.2x	4.9x	5.4x	7.9x	4.8x	3.7x	0.4%	-4.8%
<i>Premium / (discount) (%)</i>		7.1%	-64.2%	-56.4%	35.7%	-26.5%	-35.6%	-3.2%	-12.3%

source: JCF consensus, Kappa Securities Estimates



II. Fine-tuning our estimates for new €0.5bn project in Turkey and . . .

We have removed the EPC contract of Megalopolis (PPC) from Metka's order-book and we have included the execution of the new €480m project in Turkey (OMV) in our estimates. We have also included the capital gain from the sale of Megalopolis (subsidiary ETADE) in 2010E whilst the cash inflow is expected to take place in 2011E. Finally, we have taken into consideration slightly smoother execution in Syria. The replacement of the Megalopolis project with the new project in Turkey has an almost neutral impact on our estimates.

▪ . . . the sale of Megalopolis EPC contract / capital gain

METKA: Summary consolidated profit & loss (€ m)						
	2010E			2011E		
	OLD	NEW	% chg	OLD	NEW	% chg
EPC business	637	635	-0.4%	841	819	-2.7%
Defence & Infrastructure	35	35	0.0%	32	32	0.0%
Sales	672	670	-0.3%	873	851	-2.6%
% chg y-o-y	89.3%	88.7%		30.0%	27.1%	
EPC business	125	121	-2.7%	162	155	-4.1%
Defence & Infrastructure	4	4	0.0%	3	3	0.0%
Others & Eliminations	-20	-18		-26	-24	
EBITDA	109	107	-1.6%	139	135	-3.2%
% chg y-o-y	77.9%	75.0%		27.7%	25.6%	
EBITDA margin (%)	16.2%	16.0%		16.0%	15.8%	
Depreciation	-7	-7		-7	-7	
EBIT	103	101	-1.7%	132	128	-3.3%
% chg y-o-y	81.5%	78.4%		28.5%	26.4%	
EBIT margin (%)	15.3%	15.1%		15.1%	15.0%	
Net financials	0	40		-1	-1	
Extraordinary items						
Tax provision	-27	-37		-33	-32	
Effective tax rate (%)	26.0%	26.0%		25.0%	25.0%	
Minorities	-6	-8		-7	-7	
Net Income	71	96	36.6%	91	88	-3.8%
% chg y-o-y	82.9%	149.8%		29.2%	-9.0%	
Net margin (%)	10.5%	14.4%		10.4%	10.3%	
EPS (€)	1.36	1.85		1.75	1.69	
% chg y-o-y	82.9%	149.8%		29.2%	-9.0%	
DPS (€)	0.68	0.70	3.1%	0.88	0.70	-20.2%
Dividend payout (%)	50%	38%		50%	41%	

Source: Kappa Securities Research

Our updated estimates take into account 3 events vs. our most recent update: 1) new project in Turkey, 2) sale of Megalopolis project, 3) slightly slower execution on backlog of specific projects (i.e. Syria).

Adjusting for those: 1) we see METKA successfully replacing the business generated from Megalopolis with new international business, 2) we have added a ca. €40m capital gain from the sale of ETADE in 2010E (acquisition price minus ETADE net worth), 3) we have assumed dividend payout down to ca. 40%.



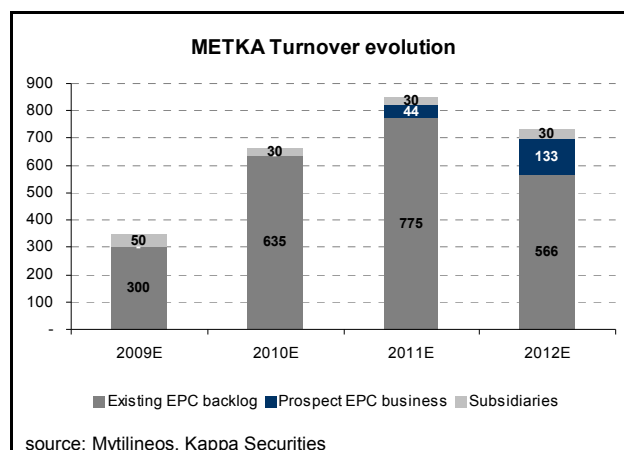
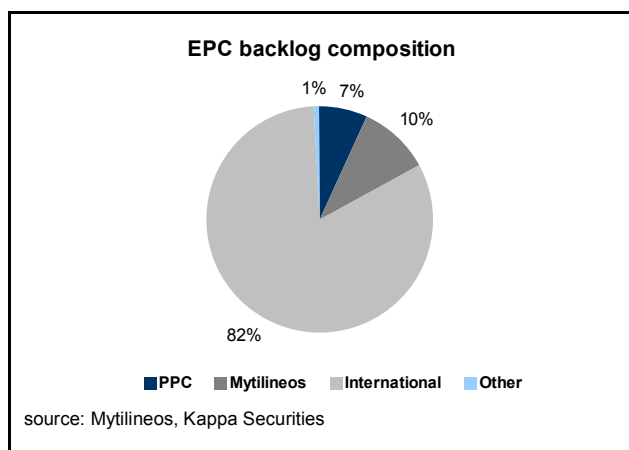
▪ Turkey drives backlog back to €2.1bn; 82% is international business

METKA Sales evolution						
(amounts in € m)	2009E	2010E	2011E	2012E	2013E	2014E
I. EPC Backlog	297	635	775	566	135	0
PEEGT	0	50	220	250	130	0
PPC Megalopoli	0	10	13	23	5	0
OMV / SAMSUN	0	168	165	143	0	0
RWE	0	100	200	150	0	0
Korinthos Power	100	100	85	0	0	0
OMV (Petrom)	58	100	50	0	0	0
PPC - Aliveri	20	55	30	0	0	0
Endesa Hellas - St. Nicholas	56	30	0	0	0	0
Scrapping	20	10	10	0	0	0
PPC - Aliveri	29	3	0	0	0	0
PPC - Ilarion	14	9	2	0	0	0
II. Prospect EPC backlog	0	0	44	133	311	400
III. Others	58	35	32	32	30	30
METKA total sales	355	670	851	731	476	430
y-o-y % chg		88.7%	27.1%	-14.1%	-34.9%	-9.7%
EBITDA margin (%)	17.3%	16.0%	15.8%	15.4%	14.2%	13.0%

Source: Kappa Securities Research

Metka provided us with a new catalyst for the investment case with its announcement of a new project in Turkey. We consider the newsflow of high strategic importance considering its timing since it: 1) strengthens the earnings growth momentum despite the Greek equities outlook, 2) diversifies the company's country exposure and 3) proves the strong relationship of the group with global utilities.

METKA reached an agreement with Borasco (subsidiary of OMV) that provisions the construction of a 870MW power plant in Turkey. The project will be executed jointly by METKA (€200m & \$172m) and its 100% Turkish subsidiary, Power Projects (€142m & \$11m), within 28.5 months. Following the sale of the Megalopolis CCGT (PPC) project to Terna, this project brings METKA's backlog again to €2.1bn whilst the international order-book now accounts for 82% of total. The project will impact positively METKA's sales and profits through 2010-2013 depending on the execution schedule. We have calculated a positive impact on METKA's valuation of ca. €0.8 per share.





TURKEY 2 CONSTRUCTION CONTRACT

Project details:

4 Feb, 2010 - Borasco (subsidiary of OMV) awards a 870MW CCGT contract to the consortium METKA & Power Projects

Details: refers to the construction of a power plant

Construction	€	\$
METKA	199.9	172.3
Power Projects	142.4	10.8

	2010E	2011E	2012E	2013E
€ / \$	1.40	1.35	1.35	1.35

Execution schedule	2010E	2011E	2012E	2013E
	35%	35%	30%	0%
METKA	114.5	113.2	98.3	-
Power Projects	53.2	52.0	45.1	-
Total construction work	167.7	165.1	143.4	-

Assumptions	
Budget - in EUR m	476.2
EBITDA margin (%)	18.0%
Mytilineos management fee (%)	3.0%
Tax rate (%)	23.0%
WACC (%)	10.0%
W/C as a % of Sales	18.0%

TURKEY 2 CONSTRUCTION VALUATION - DCF						
	2009	2010E	2011E	2012E	2013E	2014E
Prospect EPC backlog		167.7	165.1	143.4	-	-
EBITDA margin (%)		18.0%	18.0%	18.0%	18.0%	18.0%
EBITDA		30.2	29.7	25.8	-	-
Management fee (Metka part only)		(3.4)	(3.4)	(2.9)	-	-
EBITDA		26.8	26.3	22.9	-	-
tax		(6.2)	(6.1)	(5.3)	-	-
Δ in W/C		(30.2)	0.5	3.9	25.8	-
FCF to equity		-	(9.6)	20.7	21.5	25.8
	Discounting Factor	1.00	0.91	0.83	0.75	0.68
Discounted FCF		-	(8.7)	17.1	16.2	17.6
PV of FCF		42.2				
	no. of shares	52.0				
per share						0.8
Working capital			30.2	29.7	25.8	-
	as a % of sales		18%	18%	18%	18%

source: Kappa Securities Research



III. Financials

METKA: Summary consolidated profit & loss (€ m)							
	2005	2006	2007	2008	2009E	2010E	2011E
EPC business	165	212	196	297	300	635	819
Defence & Infrastructure	60	83	88	84	55	35	32
Others & Eliminations	-12	-1	0	0	0	0	0
Sales	213	294	284	381	355	670	851
<i>% chg y-o-y</i>		38.2%	-3.4%	34.2%	-6.9%	88.7%	27.1%
EPC business			40	62	62	121	155
Defence & Infrastructure			20	15	6	4	3
Others & Eliminations			-3	-10	-8	-18	-24
EBITDA	53	61	57	67	61	107	135
<i>% chg y-o-y</i>		15.7%	-6.1%	17.1%	-8.2%	75.0%	25.6%
<i>EBITDA margin (%)</i>	24.7%	20.7%	20.1%	17.5%	17.3%	16.0%	15.8%
Depreciation	-5	-5	-5	-5	-5	-7	-7
EBIT	48	56	52	62	57	101	128
<i>% chg y-o-y</i>		16.4%	-6.6%	17.9%	-8.1%	78.4%	26.4%
<i>EBIT margin (%)</i>	22.5%	19.0%	18.4%	16.1%	15.9%	15.1%	15.0%
Net financials	4	-1	-2	-4	0	40	-1
Extraordinary items							
Tax provision	-14	-14	-13	-13	-15	-37	-32
<i>Effective tax rate (%)</i>	26.5%	26.3%	26.1%	22.8%	26.0%	26.0%	25.0%
Minorities	-1	0	0	-3	-3	-8	-7
Net Income	37	41	37	41	39	96	88
<i>% chg y-o-y</i>		8.7%	-9.4%	12.6%	-6.9%	149.8%	-9.0%
<i>Net margin (%)</i>	17.6%	13.8%	12.9%	10.9%	10.9%	14.4%	10.3%
EPS (€)	0.72	0.78	0.71	0.80	0.74	1.85	1.69
<i>% chg y-o-y</i>		8.7%	-9.4%	12.6%	-6.9%	149.8%	-9.0%
DPS (€)	0.30	0.40	0.50	0.40	0.40	0.70	0.70
<i>Dividend payout (%)</i>	42%	51%	71%	50%	54%	38%	41%

Source: Kappa Securities Research

METKA: Summary group balance sheet (€ m)							
	2005	2006	2007	2008	2009E	2010E	2011E
Net Fixed Assets	87	76	81	74	70	69	67
Working capital	27	68	83	139	105	242	258
<i>Working capital as of sales</i>	13%	23%	29%	37%	30%	36%	30%
LT Assets	4	3	2	4	4	4	4
Capital Invested	117	148	166	217	180	315	329
Net Debt	-19	-3	-9	-6	-37	23	-15
LT Liabilities	36	28	36	66	41	41	41
Minorities	15	12	12	16	16	16	16
Provisions	0	0	0	0	0	0	0
Equity	86	111	127	143	160	236	287
Capital Employed	117	148	166	217	180	315	329
ROE (%)	43%	41%	31%	31%	25%	49%	34%
ROCE (%)	32%	31%	23%	22%	19%	39%	27%

Source: Kappa Securities Research



METKA: Summary group cash flow (€ m)							
	2005	2006	2007	2008	2009E	2010E	2011E
EBITDA	53	61	57	67	62	107	135
Tax paid	-11	-21	-7	-26	-15	-37	-32
Working capital change	35	-39	-4	-13	9	-137	-16
Other items	1	0	-2	-3	0	0	0
Operating Cash Flow	78	0	44	25	57	-66	87
Net Capex	-4	-4	-3	-2	-2	-5	-5
Free Cash Flow (FCF)	74	-4	41	23	55	-71	82
(Acquisitions) / Disposals	16	3	-7	2	0	0	0
Financial income	1	1	0	1	0	41	0
Financial expenses	0	0	-1	-3	-4	-9	-9
Dividends paid	-11	-16	-21	-26	-21	-21	-36
Net Debt reduction (increase)	1	2	10	-7	4	25	-10
Other	-70	0	0	0	0	0	0
Change in Cash	11	-15	22	-10	34	-35	27
FCF Yield (%)	15%	-1%	8%	5%	11%	-14%	16%

Source: Kappa Securities Research

METKA: Summary group ratio analysis							
	2005	2006	2007	2008	2009E	2010E	2011E
Profitability							
ROA	14.0%	18.0%	10.4%	12.4%	11.1%	17.9%	13.9%
ROE	34.5%	41.2%	30.9%	30.7%	25.5%	48.6%	33.5%
ROCE	31.8%	30.7%	23.5%	21.6%	19.4%	38.9%	27.2%
pre-tax ROCE	44.3%	41.4%	32.2%	30.3%	28.4%	56.9%	39.2%
Liquidity							
Current ratio	1.4x	1.9x	1.5x	2.3x	2.1x	1.9x	1.9x
Quick ratio	1.0x	1.5x	1.3x	2.1x	1.9x	1.6x	1.8x
Op. Cash flow ratio		0.0x	2.3x	2.0x	3.7x	-1.7x	2.9x
W/C management							
Avg. collection period	193	140	206	202	202	202	202
Avg. payment period	185	133	165	134	134	134	134
Asset turnover	0.8x	1.3x	0.8x	1.1x	1.0x	1.2x	1.3x
Inventory turnover	5.0x	9.6x	9.7x	19.3x	18.5x	25.3x	21.6x
Receivables turnover	1.9x	2.6x	1.8x	1.8x	1.7x	2.4x	2.0x
Debt							
Debt ratio	0.7x	0.5x	0.6x	0.6x	0.5x	0.6x	0.5x
Debt to equity ratio	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x
Times interest-earned ratio	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x
Net gearing	-0.2x	0.0x	-0.1x	0.0x	-0.2x	0.1x	-0.1x

Source: Kappa Securities Research



IMPORTANT DISCLOSURES

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04 November, 2009	Outperform	10.29	12.60
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