

February 26, 2014

Europe | Poland | Lighting Equipment

DR. KALLIWODA
RESEARCH GmbH

Initiating Coverage

BUY

Price target: PLN 5.20

Overview

Industry:	Lighting Equipment
Country:	Poland
ISIN:	PLLUG0000010
Reuters:	LUG.WA
Bloomberg:	LUG.PW
Website:	www.lug.com.pl

Last price:		3.70
	High	Low
Price 52 weeks:	3.77	2.88
Market cap. (PLNm)		26.63
No of shares (m)		7.20
Average volume (shares)		2,996

Shareholders

Ryszard Wtorkowski	37.10%
OPERA TF S.A.	18.34%
Iwona Wtorkowska	15.56%
Bio-Med Investors S.A.	5.50%
Free float	23.50%

Performance

4 weeks	12.46%
13 weeks	5.71%
26 weeks	9.79%
52 weeks	25.00%
YTD	14.20%

Dividend

	in PLN	in %
2010	0.00	0.00%
2011	0.00	0.00%
2012	0.01	0.27%
2013E	0.01	0.27%

Analysts

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LUG S.A.

LED and foreign markets should drive growth

- LUG S.A. is a family-owned business, which was founded in 1989 by the Wtorkowski family. Today, the company is the leading producer of high-quality lighting fittings in Poland, with strongly growing export sales that in 2013 amounted to 56.0% of total yearly revenues. The focus on technologically-advanced, quality products that are developed by the in-house design team, is what differentiates the company from most of its local competitors.
- Over the last years, LUG has proven that on the one hand it is able to continuously innovate and grow its business, but on the other remain profitable and cash flow positive, even if market conditions are difficult. Today, the company offers >600 different lighting fittings for industrial, commercial and retail customers, who are located in Europe, Asia, the Middle and East and South America. The company continues to expand into foreign markets, where it is able to benefit from (a) its attractive pricing and (b) good growth prospects. In our opinion, alongside the entry into the c. USD 55bn LED segment (2011 estimate by McKinsey), this should drive its growth in the coming years.
- In 2013, LUG generated total revenues of PLN 102.8m, which corresponded to a 0.8% increase y-o-y. As some larger projects had been postponed to 2014, but associated costs already incurred in 2013, both EBIT (-9.8% to PLN 2.6m) and net income (-50.4% to PLN 1.5m) declined y-o-y. Between January and December 2013, LUG generated an operating cash flow of PLN 5.6m and a FCF yield of 8.3%.
- We initiate coverage of LUG with a 12-months price target of PLN 5.20 (80% DCF, 20% peer group), which corresponds to an upside of 40.5% at current level. During our recent company visit we have confirmed our view that LUG is a very solid business, with a management that has a clear vision. In addition, based on our conservative estimates the stock currently trades at very attractive multiples. The main risks, which we see, are (1) costs relating to the new production facility in Nowy Kisielin and (2) weaker than expected development of the economy and the construction sector.

in PLNm	2011	2012	2013	2014E	2015E	2016E
Net sales	94.53	101.96	102.76	108.92	118.18	134.73
EBITDA	9.16	6.17	5.76	5.99	6.74	9.70
EBIT	5.94	2.89	2.61	2.51	2.95	5.39
Net income	3.67	3.05	1.51	1.38	1.78	4.26
EPS	0.02	0.42	0.21	0.19	0.25	0.59
Tangible BVPS	0.20	5.31	5.52	5.71	5.96	6.37

RoE	10.44%	8.11%	3.88%	3.40%	4.24%	9.60%
EBIT margin	6.28%	2.84%	2.54%	2.30%	2.50%	4.00%
P/E	185.00x	8.74x	17.62x	19.36x	14.95x	6.25x
P/Tangible BVPS	18.35x	0.70x	0.67x	0.65x	0.62x	0.58x
EV/EBITDA	4.23x	6.29x	6.73x	6.47x	5.76x	4.00x

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1 Company profile

LUG S.A., which is based in Zielona Gora (c. 180 km from the German border), develops and manufactures lighting fittings for the public, industrial, infrastructure and commercial sector as well as retail clients. The company offers >600 different products, which are developed in-house. LUG has been listed in the NewConnect segment of the Warsaw Stock Exchange since 2007 and currently has 394 employees (31 December 2013).

2 SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> - Leading provider of high-quality lighting fittings in Poland; - Focus on latest technology and sophisticated design allows to generate higher margins - Most of LUG's clients are from the sectors infrastructure, industrial and public; in most countries, where LUG operates, the need for modernisation is high in these areas - Strong and quickly expanding export sales; LUG currently sells its products to 50 countries in Europe, Asia, North Africa, Middle East and South America; has local offices in Germany, Ukraine, UAE, UK, France and Brasil - LUG has been profitable in 7 of the last 8 years; since 2005, it has always generated positive operating cash flows; at the same time sales CAGR equaled 16.5% - LUG is a family-owned business with the Wtorkowski family currently owning 52.7% of the shares - Location in an special economic zone saves LUG PLN 14m in taxes until 2014 - Investor Relations is one of the best in the NewConnect segment - Despite high investments, net gearing totalled 30.6% at the end of December 2013 	<ul style="list-style-type: none"> - Compared to its major international competitors Philips and Zumtobel, LUG is a small company with limited financial capabilities - Listing in the NewConnect segment of the WSE, which is illiquid and intransparent - High CAPEX until 2015 relating to the new production facility in Nowy Kisielin - LUG has missed its primary guidance in the last two years
Opportunities	Threats
<ul style="list-style-type: none"> - Higher production capacity after completion of new production facility in 2015 - New products, especially components targeting the LED segment, which according to McKinsey is forecast to reach EUR 83bn by 2020 (2011: EUR 55bn) - Solid growth in Poland due to recovering economy, still high need for modernisation and steady inflow of EU funds - Expansion into new markets, where LUG can either win due to its attractive pricing or growth prospects are highly interesting due to booming construction sectors and high need for modernisation - Change to the more liquid main market of the Warsaw Stock Exchange, which would bring the stock on the radar of more institutional investors - After 2015, yearly dividend payout ratios of c. 30% should be possible in our opinion (KRe) 	<ul style="list-style-type: none"> - Intensifying competition - Risks relating to the economic cycle and the condition of the construction sector, on which LUG's business depends - Loss of key employees - Currency risks as LUG generates c. 50% of its sales abroad however are reduced through hedging and material purchases abroad - Risks relating to global expansion e.g. wrong estimation of market potential - Risks relating to seasonality, with Q3 and Q4 usually being the best in terms of sales

3 Valuation

In order to account for current market valuations, we have valued LUG by using a weighted average of our DCF model (80%) and peer group (20%). Our 12-months price target for LUG's stock equals PLN 5.20, which implies an upside of 40.5% at present.

Discounted Cash Flow method (DCF)

Discounted Cash Flow Model (Basis 02/2014)

in PLNm	Phase 1								
	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Net sales	108.92	118.18	134.73	145.51	155.69	165.03	173.28	180.22	185.62
(y-o-y change)	6.0%	8.5%	14.0%	8.0%	7.0%	6.0%	5.0%	4.0%	3.0%
Operating profit	2.51	2.95	5.39	6.98	8.72	9.07	9.34	9.52	9.62
(operating margin)	2.3%	2.5%	4.0%	4.8%	5.6%	5.5%	5.4%	5.3%	5.2%
NOPLAT	2.51	2.95	5.39	6.98	7.06	7.35	7.57	7.71	7.79
+ Depreciation & Amortization	3.49	3.78	4.31	4.66	4.98	5.28	5.55	5.77	5.94
= Net operating cash flow	5.99	6.74	9.70	11.64	12.04	12.63	13.11	13.48	13.73
- Total investments (Capex and WC)	-7.36	-7.31	-8.40	-7.48	-7.69	-7.89	-7.93	-7.87	-7.71
Capital expenditures	-6.06	-5.10	-4.62	-4.89	-5.21	-5.50	-5.75	-5.95	-6.11
Working capital	-1.30	-2.22	-3.78	-2.59	-2.48	-2.39	-2.18	-1.92	-1.60
= Free cash flow (FCF)	-1.37	-0.58	1.30	4.16	4.35	4.73	5.18	5.61	6.02
PV of FCFs	-1.25	-0.47	0.96	2.76	2.59	2.53	2.49	2.42	2.34

PV of FCFs in explicit period 14.36
 PV of FCFs in terminal period 30.91

Enterprise value (EV) 45.27

+ Net cash / - net debt (31 December 2013) -12.14

Shareholder value 33.13

Number of shares outstanding (m) 7.20

WACC 11.3%

Cost of equity 13.9%

Debt costs before tax 8.0%

Tax rate 19.0%

Debt costs after tax 6.5%

Equity ratio 65.0%

Debt ratio 35.0%

Fair value per share in PLN 4.60

Fair value per share in PLN (in 12 months) 5.12

Sensitivity Analysis		Terminal EBIT margin						
		2.3%	3.3%	4.3%	5.3%	6.3%	7.3%	8.3%
WACC	8.3%	3.61	5.85	8.09	10.32	12.56	14.80	17.03
	9.3%	2.82	4.55	6.29	8.02	9.76	11.49	13.23
	10.3%	2.22	3.61	4.99	6.37	7.75	9.13	10.51
	11.3%	1.76	2.88	4.00	5.12	6.24	7.36	8.49
	12.3%	1.38	2.31	3.23	4.16	5.08	6.00	6.93
	13.3%	1.07	1.84	2.61	3.38	4.16	4.93	5.70

Source: Dr. Kalliwoda Research GmbH

Peer Group Analysis

In our peer group analysis, we have used two kinds of peers: first, Zumtobel AG and OSRAM Licht AG, LUG's two main international competitors, and second, its Polish competitors ES-System S.A. and Lena Lighting S.A. In case of the Polish peers, we have only been able to use multiples based on historical 2012 figures as for both companies there are no current analyst' estimates available.

- (1) *Zumtobel AG*: Zumtobel, which is based in Dornbirn/Austria, is an Austrian company engaged in the provision of lighting solutions, luminaries, light management systems and lighting components for interior and exterior applications. Its Lighting segment provides luminaries, lighting management and lighting solutions for indoor and outdoor applications, and comprises the brands Zumtobel and Thorn, as well as original equipment manufacturer (OEM) brand Reiss. On the other hand, the Components segment is focused primarily on the development and marketing of control gear for conventional lighting components, light-emitting diodes (LED) converters and

LED/organic light-emitting diode (OLED) modules, lighting management systems and connection technology under the Tridonic brand. In fiscal-year 2012/13, Zumtobel had revenues of EUR 1.2bn.

- (2) *OSRAM Licht AG*: OSRAM, which is based in Munich/Germany, is a former label of Siemens AG. The company develops and manufactures lamps, lighting systems, electronic control gears, as well as complete luminaries, light management systems and lighting solutions. It offers various types of products, including Light Emitting Diodes (LED) and halogen technologies dedicated to both indoor and outdoor environments. In 2012/13, Osram generated revenues of EUR 5.3bn.
- (3) *ES-System S.A.*: Es-System SA, which is based in Krakow, is a Polish company that designs, manufactures and distributes lighting systems and luminaries. Its products are used for illuminating offices, commercial, public and industrial facilities, open spaces, railways, streets and parks. In 2012, ES-System generated sales of PLN 169.3m.
- (4) *Lena Lighting S.A.*: Lena Lighting SA, which is based in Sroda Wielkopolska, is a Polish manufacturer of lighting fittings. The company's offering comprises interior, machine, portable and exterior lighting, floodlighting as well as electro-technical articles, such as electronic transformers and extension leads. In addition, offers design software, Prometheus 3.0, which is used to design lighting in closed rooms. In 2012, Lena Lighting generated revenues of PLN 102.8m.

Company	EV/EBITDA		EV/EBIT		P/E		P/BVPS	EBITDA margin	Net gearing
	2014E	2015E	2014E	2015E	2014E	2015E	Latest	2013	Latest
Zumtobel AG (EUR)	8.16	7.49	16.10	14.39	21.33	17.42	2.26	7.99%	36.80%
OSRAM Licht AG (EUR)	6.14	5.77	n.a.	9.75	16.66	15.09	2.33	11.54%	-10.96%
Median	7.15	6.63	16.10	12.07	18.99	16.26	2.29	9.76%	12.92%
LUG S.A. (PLN)	6.47	5.76	15.48	13.12	19.36	14.95	0.67	5.60%	30.55%
<i>Premium/Discount</i>	-9.49%	-13.15%	-3.84%	8.74%	1.92%	-8.02%	-70.74%		
Fair value LUG (PLN)	3.94								

Company	EV/EBITDA	EV/EBIT	P/E	P/BVPS	EBITDA margin	Net gearing
	2012	2012	2012	Latest	2012	Latest
Lena Lighting S.A. (PLN)	7.42	10.41	13.86	1.42	15.06%	-8.66%
ES-System S.A. (PLN)	10.07	0.65	36.46	1.03	8.11%	-10.90%
Median	8.75	5.53	25.16	1.23	11.59%	-9.78%
LUG S.A. (PLN)	6.29	13.40	8.74	0.67	6.05%	30.55%
<i>Premium/Discount</i>	-28.15%	142.47%	-65.27%	-45.32%		
Fair value LUG (PLN)	5.94					

Source: Dr. Kalliwoda Research GmbH, Thomson Reuters Knowledge

Similar to the DCF model, our peer group analysis indicates a significant undervaluation of LUG at present. The average peer group based fair value equals PLN 4.94.

Price target calculation

Valuation method	Fair value	Weight
DCF model	4.60	80%
Peer group analysis	4.94	20%
Weighted average (present value)	4.67	
In 12-months (PV * (1+WACC))	5.20	

Source: Dr. Kalliwoda Research GmbH

4 Fiscal-year 2013 results and outlook**Revenues**

In 2013, LUG generated net sales of PLN 102.8m, which were 0.8% higher y-o-y and in-line with the revised guidance. While due to weak economic growth and project postponements of PLN 5m domestic sales went down by 11.2% y-o-y to PLN 45.5m, export revenues grew by 12.8% to PLN 57.3m.

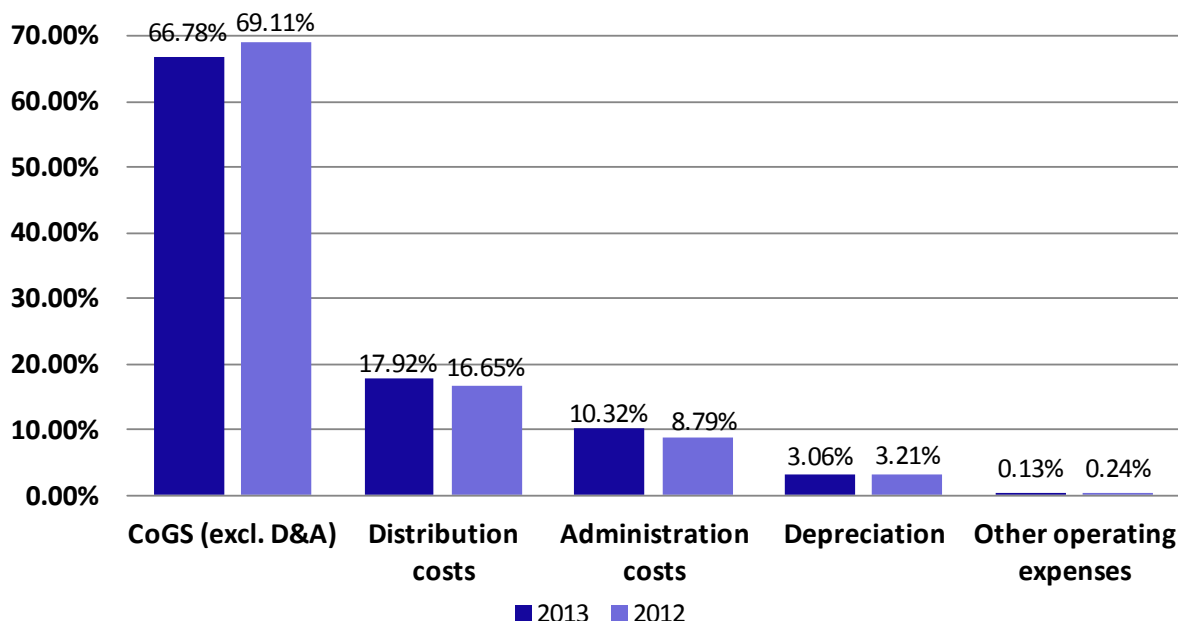
2013 results compared to guidance and previous year

2013 results vs. guidance and previous year					
in PLNm	2013	2013 guid.	2012	2013 vs. 2013 guid.	2013 vs. 2012
Net sales	102.76	103.10	101.96	-0.3%	0.8%
EBITDA	5.76	5.76	6.17	0.0%	-6.7%
EBITDA margin	5.6%	5.6%	6.0%		
EBIT	2.61	2.59	2.89	1.0%	-9.8%
EBIT margin	2.5%	2.5%	2.8%		
Net income	1.51	1.40	3.05	8.0%	-50.4%
Net margin	1.5%	1.4%	3.0%		

Source: Company information, Dr. Kalliwoda Research GmbH

Profitability

Share in total sales 2013 vs. 2012



Source: Company information, Dr. Kalliwoda Research GmbH

In 2013, LUG's EBIT and net income went down y-o-y, but were higher than company guidance. The operating income decreased by 9.8% to PLN 2.6m, which resulted from a higher share of distribution and administration costs associated with new projects that had been postponed to 2014. Net income, which went down by 50.4% to PLN 1.5m, was additionally negatively affected by much higher interest expenses (PLN -1.1m vs. PLN 18k in 2012).

Balance Sheet and Cash Flow

As of 31 December 2013, LUG had equity of PLN 39.7m, which corresponded to a ratio of 47.8%. In 2013, total assets increased from PLN 77.5m last year to PLN 83.1m, which in our opinion mainly stemmed from (1) higher inventories (PLN 24.9m vs. PLN 21.5m) (2) a loan for the 100% subsidiary in Brasil of PLN 1.2m and (3) higher long-term financial debt (PLN 7.6m vs. PLN 2.9m in 2012).

At the end of December 2013, LUG had interest-bearing debt of PLN 15.8m, thereof 52% short-term. With liquid funds of PLN 3.6m, net debt equaled PLN 12.1m and the net gearing 30.6%.

In 2013, LUG generated an operating cash flow of PLN 5.6m compared to PLN 3.9m last year. The reason was a cash inflow from working capital of PLN 1.1m (2012: cash outflow of PLN 2.7m). Due to investments into the Brazilian and the new UK subsidiary cash flow from investing increased from PLN -2.1m to PLN -3.6m. In total, LUG's cash position grew by PLN 2.4m since January 2013.

Outlook

In our opinion, LUG is currently one of the most interesting companies in the NewConnect segment of the WSE. We believe that it is a “deep value play” as it combines both an attractive valuation and solid financials. We have valued LUG with a DCF model and an average of two peer groups, an international and a Polish one. Our weighted average of both methods (80% DCF, 20% peer group) derives a 12-months price target for the stock of PLN 5.20, which implies an upside of 40.5% at present. Based on our estimates, LUG is currently valued with an EV/EBITDA 2014E of 6.5x and P/Tangible BVPS of just 0.7x.

We have based our valuation model of LUG on two assumption: (1) in 2014 and 2015 results will likely be impacted by costs associated with the investments in the new production facility in Nowy Kisielin, which should generate first revenues in 2016 and (2) an increasing share of export sales, especially to markets such as Russia, Brasil, the Middle East and East Asia, where the construction sector is growing quickly and there is high need for modernization of lighting equipment. In terms of LUG’s local market Poland, we believe that this and the next year business conditions will improve for the company as the economy recovers and so does the construction sector. Also, given the inflow of EU money we expect that there will be more infrastructure projects announced in the next years and with its high-end products LUG should be in a good position to win the respective tenders.

Our growth estimate for the top line are 6-8.5% in 2014 & 2015 and 14% in 2016 (CAGR 13-16E of 9.4% vs. company guidance of 11-14%) as the new plant starts production. The export share should increase from 51% in 2013 to 75% in the long run. In terms of EBIT margins, we expect that in 2014 and 2015 they will amount to 2.3-2.5%, but in the longer term increase to >5% due to sophisticated LED-related products and more efficient production and distribution. Due to the investments in the new plant we believe that the free cash flow will be negative only in 2014 and 2015, but positive afterwards, which should allow LUG to pay out 30% of its yearly net income to its shareholders on a regular basis (company plans to pay out 5% of its average yearly market cap in the long run).

Our forecasts

Our estimates 2014E-2016E			
in PLNm	2014E	2015E	2016E
Net sales	108.92	118.18	134.73
EBITDA	5.99	6.74	9.70
EBITDA margin	5.5%	5.7%	7.2%
EBIT	2.51	2.95	5.39
EBIT margin	2.3%	2.5%	4.0%
Net income	1.38	1.78	4.26
Net margin	1.3%	1.5%	3.2%

Source: Dr. Kalliwoda Research GmbH

Quarterly results and estimates 2011-Q1/14E

in PLNm	Q1/11	Q2/11	Q3/11	Q4/11	2011	Q1/12	Q2/12	Q3/12	Q4/12	2012
Net sales	20.88	21.16	22.78	29.71	94.53	19.21	24.45	26.81	31.50	101.96
<i>y-o-y change</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	21.2%	-8.0%	15.6%	17.7%	6.0%	7.9%
EBITDA	1.30	1.57	2.84	3.45	9.16	1.37	1.68	2.00	1.13	6.17
<i>EBITDA margin</i>	6.2%	7.4%	12.4%	11.6%	9.7%	7.1%	6.9%	7.4%	3.6%	6.0%
EBIT	0.46	0.81	2.09	2.58	5.94	0.50	0.92	1.17	0.31	2.89
<i>EBIT margin</i>	2.2%	3.8%	9.2%	8.7%	6.3%	2.6%	3.7%	4.4%	1.0%	2.8%
Net income	0.20	0.60	1.55	1.31	3.67	0.30	0.84	1.55	0.35	3.05
<i>Net margin</i>	1.0%	2.9%	6.8%	4.4%	3.9%	1.6%	3.4%	5.8%	1.1%	3.0%

in PLNm	Q1/13	Q2/13	Q3/13	Q4/13	2013	Q1/14E
Net sales	22.25	23.74	25.93	30.85	102.76	23.20
<i>y-o-y change</i>	15.8%	-2.9%	-3.3%	-2.1%	0.8%	4.3%
EBITDA	1.44	1.04	1.68	1.61	5.76	1.60
<i>EBITDA margin</i>	6.5%	4.4%	6.5%	5.2%	5.6%	6.9%
EBIT	0.66	0.30	0.85	0.80	2.61	0.80
<i>EBIT margin</i>	3.0%	1.2%	3.3%	2.6%	2.5%	3.4%
Net income	0.33	0.23	0.58	0.37	1.51	0.50
<i>Net margin</i>	1.5%	1.0%	2.2%	1.2%	1.5%	2.2%

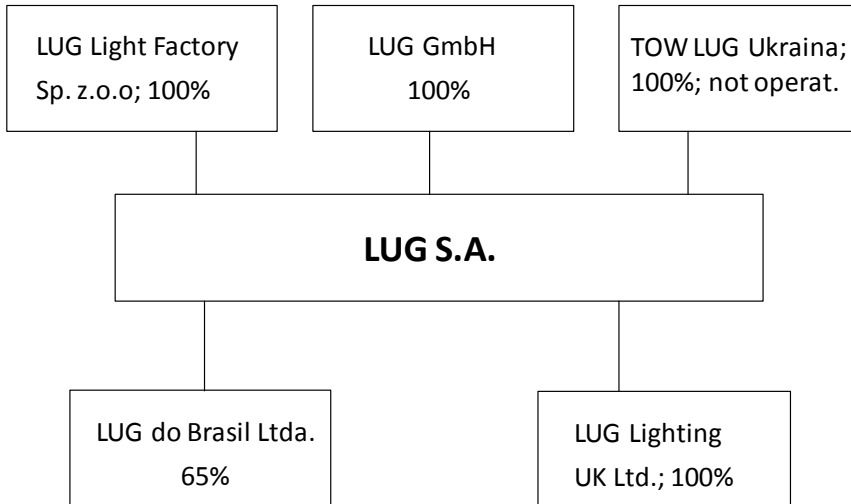
Source: Company information, Dr. Kalliwoda Research GmbH

5 Business model

LUG S.A., which is based in Zielona Gora, was founded in 1989 by its current CEO and largest shareholder Mr Ryszard Wtorkowski and his wife Iwona, who now heads the Supervisory Board. Today, the company offers more than 600 professional lighting fittings, which are developed by the in-house design team and sold to c. 50 countries worldwide. With its sophisticated products, which meet highest technological and ecological standards, LUG targets the premium segment of its market, which makes it unique in Poland. In the last years, the company has been gradually increasing its sales activities outside Poland in order to fully exploit its cost advantage compared to large international players such as Zumtobel, OSRAM, Philips or General Electric. Its primary distribution channels are own sales offices and specialized electro wholesalers.

LUG, which was originally a partnership, changed its legal status to a joint-stock company in 2007 and was listed in the same year in the NewConnect segment of the Warsaw Stock Exchange. We believe that as soon as it fulfills the requirements (e.g. market cap of at least EUR 12m), the company will change to the more liquid main market of the WSE. At the end of December 2013, LUG had 394 employees.

Company structure



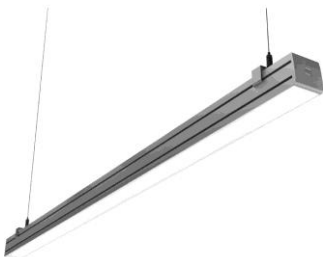
Source: Company information, Dr. Kalliwoda Research GmbH

Products

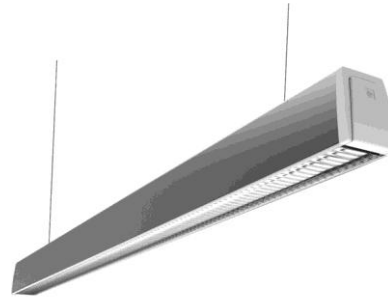
LUG offers state-of-the-art professional luminaires and interior lighting systems, which are characterized by high energy efficiency. The company conducts all the R&D work itself (KRe: share of R&D expenses equals c. 7% of yearly sales) and manufactures the products in its own plant in Western Poland.

Below are examples of LUG's products:

LED luminaires



Decorative luminaires



Spotlights



Downlight luminaires



Glass and plaster luminaires**Indirect light luminaires****Louver & recessed luminaires****Clean room lighting****Quick assembly lines****Industrial luminaires****Plafonds****Emergency lighting**

Floodlights



Street and area lighting



Outdoor architectonic luminaires



Design brand FlashDQ



Design brand FlashDQ



Projects

In the last years, LUG has realized a large number of projects for different private and public clients from around the world. Below are project examples from different areas:

Catholic University Nijmegen



Web Lizing Moscow



Street Lighting Italy



Dubai Industrial Center



Hala Stulecia Sports hall Wroclaw



Al Kobra Hall Tripolis



Shopping Center Tallinn



Fiat Production Facility Bielsko-Biala



6 Market environment

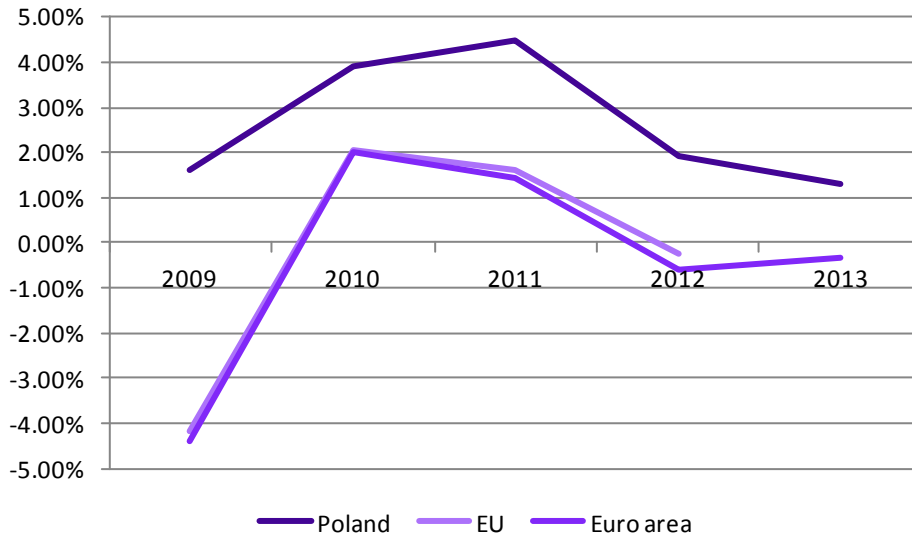
According to for example McKinsey, the segments for lighting fitting, sources and controls are mainly driven by new installations, which are directly correlated with investment activity and GDP growth. The growth triggers for these segments are in our view: expanding construction markets, growing efficiency and investments in latest technology.

GDP growth and development of construction spending

In the last years, the economy in the EU has been impacted by the global financial crisis and the debt crisis, which has particularly hit countries such as Greece, Spain, Portugal and Italy. Due to its implications on unemployment and the bank's loans policy this has had a profound negative effect on the construction industry, which in the EU has been declining since 2009. During this time, Poland performed much better, however both GDP growth and construction spending have been declining since 2012, which in our opinion has mostly stemmed from the expiration of a government support scheme for families, which want to buy a property for themselves ("Rodzina na Swoim").

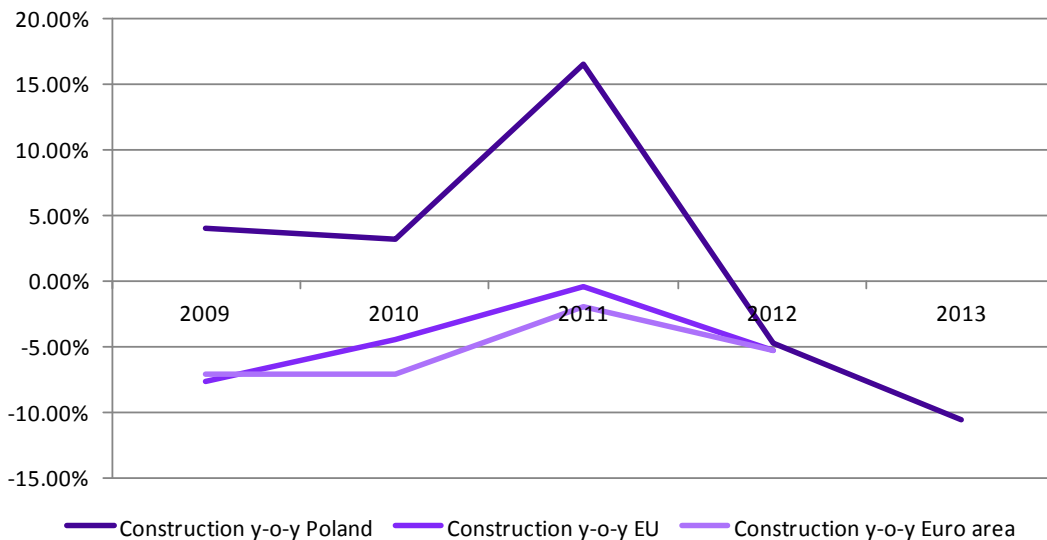
We believe that in the coming years construction spending both in the EU and in Poland will develop better than in the recent past. In the whole EU, we think that a positive factor will be an economic recovery, while the construction sector in Poland should benefit from a still large need for investments into modern housing and infrastructure, which should additionally be positively impacted by a steady inflow of EU funds.

GDP growth in Poland and EU, 2009-2013



Source: Statista.de, Eurostat, Dr. Kalliwoda Research GmbH

Construction spending in EU and Poland, 2009-2013



Source: Eurostat, Dr. Kalliwoda Research GmbH

The lighting sector

According to McKinsey, the general lighting market, which makes up >75% of the total sector, was worth more than EUR 55bn in 2011. By 2016, the market is expected to grow to EUR 72bn and by 2020 to EUR 83bn, the reason being the fast transition to LED, which is supported by massive price declines and government regulations in favor of more energy-efficient light sources. The share of LED is forecast to grow from 1% (light sources) and 4% (luminaires) in 2011 to 52% respectively 63% in 2020. Asia will likely be the leader when it comes to adoption of LED technology and by 2020 is expected to account for c. 45% of the global lighting market.

Based on data from LUG' competitor ES-System for 2011, we believe that the market for lighting fittings in Poland is worth c. PLN 2.1bn, or 60% of the total lighting market (PLN 3.5bn). While there are several hundred small players, which target private households, LUG operates in the much smaller segment for professional lighting technology. The companies from this area do not just produce lighting fittings, but also plan and prepare complete projects.

7 Profit and loss statement

Profit and loss statement - LUG						
in PLNm	Fiscal year					
	2011	2012	2013	2014E	2015E	2016E
Revenues	94.53	101.96	102.76	108.92	118.18	134.73
<i>Cost of goods sold</i>	-63.63	-70.47	-68.62	-72.87	-79.01	-88.31
Gross profit	30.90	31.50	34.14	36.05	39.18	46.41
<i>Other operating income</i>	0.83	0.86	0.77	0.78	0.80	0.81
<i>Distribution costs</i>	-13.77	-16.98	-18.41	-19.41	-20.94	-23.74
<i>Administration costs</i>	-8.38	-8.96	-10.60	-11.13	-11.95	-13.49
<i>Other operating expenses</i>	-0.42	-0.25	-0.14	-0.31	-0.34	-0.30
EBITDA	9.16	6.17	5.76	5.99	6.74	9.70
<i>Depreciation</i>	-3.23	-3.28	-3.15	-3.49	-3.78	-4.31
Operating income	5.94	2.89	2.61	2.51	2.95	5.39
<i>Net financial result</i>	-2.12	0.02	-1.10	-1.15	-1.20	-1.19
EBT	3.82	2.91	1.51	1.36	1.75	4.20
<i>Income taxes</i>	-0.15	0.09	0.00	0.00	0.00	0.00
Net income / loss	3.67	3.05	1.51	1.38	1.78	4.26
<i>EPS</i>	0.02	0.42	0.21	0.19	0.25	0.59
<i>DPS</i>	0.00	0.01	0.01	0.01	0.01	0.18
Change y-o-y						
<i>Revenues</i>	n.a	7.87%	0.78%	6.00%	8.50%	14.00%
<i>Cost of goods sold</i>	n.a	10.75%	-2.63%	6.20%	8.42%	11.78%
<i>Gross profit</i>	n.a	1.93%	8.39%	5.60%	8.66%	18.47%
<i>Other operating income</i>	n.a	3.11%	-10.71%	2.00%	2.00%	2.00%
<i>Distribution costs</i>	n.a	23.25%	8.47%	5.41%	7.89%	13.36%
<i>Administration costs</i>	n.a	6.97%	18.25%	4.97%	7.44%	12.87%
<i>Other operating expenses</i>	n.a	-40.76%	-44.41%	124.14%	11.14%	-13.82%
<i>EBITDA</i>	n.a	-32.66%	-6.67%	4.05%	12.45%	44.00%
<i>Depreciation</i>	n.a	1.56%	-3.94%	10.79%	8.50%	14.00%
<i>Operating income</i>	n.a	-51.25%	-9.76%	-4.06%	17.93%	82.40%
<i>Net financial result</i>	n.a	-100.85%	-6229.54%	4.55%	4.35%	-0.83%
<i>EBT</i>	n.a	-23.68%	-48.08%	-10.33%	29.46%	139.30%
<i>Income taxes</i>	n.a	n.a	-100.00%	n.a	n.a	n.a
<i>Net income / loss</i>	n.a	-16.91%	-50.40%	-8.99%	29.46%	139.30%
<i>EPS</i>	n.a	2017.03%	-50.40%	-8.99%	29.46%	139.30%
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>	-67.31 %	-69.11 %	-66.78 %	-66.90 %	-66.85 %	-65.55 %
<i>Gross profit</i>	32.69 %	30.89 %	33.22 %	33.10 %	33.15 %	34.45 %
<i>Other operating income</i>	0.88 %	0.84 %	0.75 %	0.72 %	0.68 %	0.60 %
<i>Distribution costs</i>	-14.57 %	-16.65 %	-17.92 %	-17.82 %	-17.72 %	-17.62 %
<i>Administration costs</i>	-8.87 %	-8.79 %	-10.32 %	-10.22 %	-10.12 %	-10.02 %
<i>Other operating expenses</i>	-0.44 %	-0.24 %	-0.13 %	-0.28 %	-0.29 %	-0.22 %
<i>EBITDA</i>	9.69 %	6.05 %	5.60 %	5.50 %	5.70 %	7.20 %
<i>Depreciation</i>	-3.41 %	-3.21 %	-3.06 %	-3.20 %	-3.20 %	-3.20 %
<i>Operating income</i>	6.28 %	2.84 %	2.54 %	2.30 %	2.50 %	4.00 %
<i>Net financial result</i>	-2.24 %	0.02 %	-1.07 %	-1.06 %	-1.02 %	-0.88 %
<i>EBT</i>	4.04 %	2.86 %	1.47 %	1.24 %	1.48 %	3.12 %
<i>Income taxes</i>	-0.16 %	0.09 %	0.00 %	0.00 %	0.00 %	0.00 %
<i>Net income / loss</i>	3.88 %	2.99 %	1.47 %	1.26 %	1.51 %	3.16 %

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8 Balance sheet

Balance sheet - LUG						
in PLNm	Fiscal year					
	2011	2012	2013	2014E	2015E	2016E
Assets						
Cash and equivalents	1.10	1.32	3.64	4.37	1.54	0.34
Short-term financial assets	1.27	0.00	0.00	0.00	0.00	0.00
Inventories	18.38	21.46	24.90	25.84	27.37	29.87
Trade accounts and notes receivables	21.40	21.44	18.86	19.99	21.69	24.73
Other current assets	1.17	2.96	4.54	4.82	5.23	5.96
Current assets, total	43.32	47.20	51.94	55.02	55.82	60.90
Property, plant and equipment	29.42	28.56	28.47	30.97	32.17	32.27
Other intangible assets	1.26	1.50	1.29	1.37	1.49	1.70
Goodwill	0.00	0.00	0.00	0.00	0.00	0.00
Other long-term assets	0.00	0.00	1.23	0.00	0.00	0.00
Deferred tax assets	0.44	0.20	0.14	0.00	0.00	0.00
Non-current assets, total	31.12	30.26	31.13	32.34	33.66	33.96
Total assets	74.45	77.46	83.07	87.36	89.48	94.86
Liabilities						
Trade payables	19.00	20.17	22.66	23.27	24.36	26.26
Other short-term liabilities	2.91	3.06	2.86	3.27	3.55	4.04
Short-term financial debt	9.01	11.24	7.97	7.77	7.57	7.37
Pension provision	0.16	0.16	0.23	0.00	0.00	0.00
Provisions	0.18	0.72	1.23	1.31	1.42	1.62
Current liabilities, total	31.26	35.35	34.95	35.61	36.89	39.29
Long-term financial debt	4.73	2.91	7.58	10.00	9.00	8.90
Pension provision	0.05	0.07	0.00	0.08	0.09	0.10
Other long-term liabilities	0.95	0.75	0.53	0.57	0.61	0.70
Deferred tax liabilities	0.48	0.15	0.28	0.00	0.00	0.00
Long-term liabilities, total	6.21	3.89	8.39	10.64	9.70	9.70
Total liabilities	37.48	39.23	43.34	46.26	46.59	48.99
Shareholders equity, total	36.97	38.22	39.73	41.11	42.89	45.87
Minority interests	0.00	0.00	0.00	0.00	0.00	0.00
Total liabilities and equity	74.45	77.46	83.07	87.36	89.48	94.86

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9 Cash flow statement

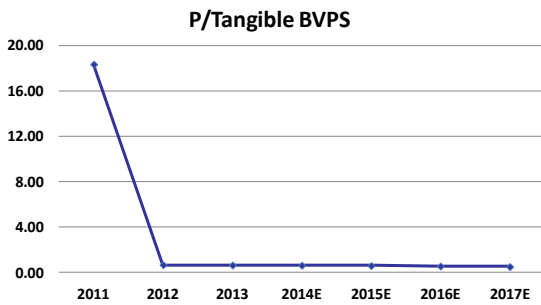
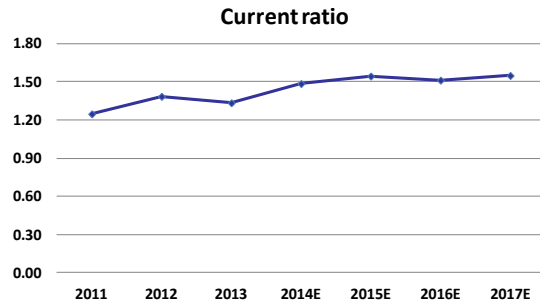
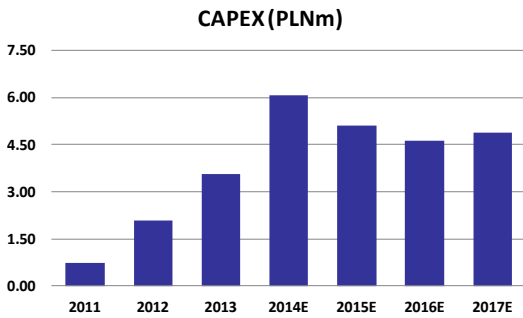
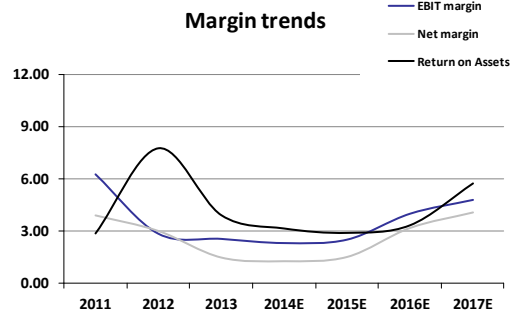
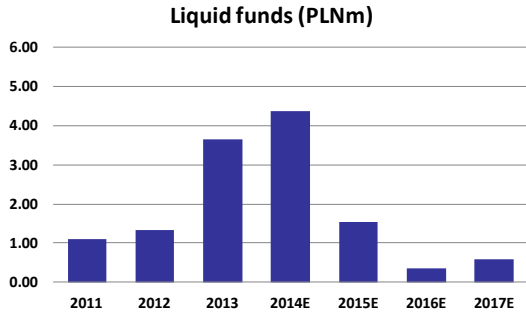
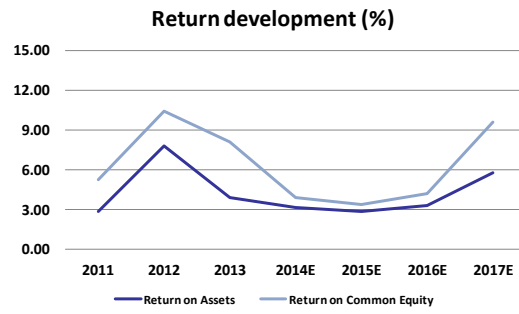
Cash flow statement - LUG						
in PLNm	Fiscal year					
	2011	2012	2013	2014E	2015E	2016E
Net income / loss	3.67	3.05	1.51	1.38	1.78	4.26
Depreciation	3.23	3.28	3.15	3.49	3.78	4.31
Change of working capital	-6.79	-2.74	1.08	-1.30	-2.22	-3.78
Others	2.00	-0.02	0.47	0.02	0.12	0.21
Net operating cash flow	2.11	3.85	5.58	3.58	3.46	5.00
Cash flow from investing	-0.74	-2.09	-3.55	-6.06	-5.10	-4.62
Free cash flow	1.37	1.76	2.03	-2.48	-1.63	0.38
Cash flow from financing	-2.62	-1.54	0.38	3.21	-1.20	-1.58
Change of cash	-1.25	0.22	2.40	0.73	-2.83	-1.20
Cash at the beginning of the period	1.35	1.10	1.24	3.64	4.37	1.54
Cash at the end of the period	1.10	1.32	3.64	4.37	1.54	0.34

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10 Financial ratios

Fiscal year	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
Gross margin	32.69%	30.89%	54.50%	46.50%	33.15%	34.45%	35.05%	35.65%
EBITDA margin	9.69%	6.05%	5.60%	5.50%	5.70%	7.20%	8.00%	8.80%
EBIT margin	6.28%	2.84%	2.54%	2.30%	2.50%	4.00%	4.80%	5.60%
Net margin	3.88%	2.99%	1.47%	1.26%	1.51%	3.16%	4.05%	4.00%
Return on equity (ROE)	10.44%	8.11%	3.88%	3.40%	4.24%	9.60%	12.29%	11.94%
Return on assets (ROA)	7.78%	3.91%	3.14%	2.89%	3.33%	5.75%	7.13%	7.12%
Return on capital employed (ROCE)	13.22%	7.09%	5.43%	4.84%	5.62%	9.70%	11.89%	11.25%
Net debt (in PLNm)	11.58	13.06	12.14	13.47	15.11	16.02	14.59	12.82
Net gearing	31.31%	34.18%	30.55%	32.78%	35.24%	34.93%	29.19%	23.59%
Equity ratio	49.66%	49.35%	47.83%	47.05%	47.93%	48.36%	50.45%	52.32%
Current ratio	1.39	1.34	1.49	1.55	1.51	1.55	1.61	1.69
Quick ratio	0.76	0.64	0.64	0.68	0.63	0.64	0.68	0.74
Net interest cover	2.80	-161.30	2.37	2.18	2.46	4.53	5.92	7.45
Net debt/EBITDA	1.26	2.12	2.11	2.25	2.24	1.65	1.25	0.94
Tangible BVPS	0.20	5.31	5.52	5.71	5.96	6.37	6.95	7.55
CAPEX/Sales	2.36%	2.60%	2.77%	5.57%	4.31%	3.43%	3.36%	3.35%
Working capital/Sales	19.14%	21.47%	21.65%	21.62%	21.80%	21.93%	22.08%	22.23%
EV/Sales	0.41	0.38	0.38	0.36	0.33	0.29	0.27	0.25
EV/EBITDA	4.23	6.29	6.73	6.47	5.76	4.00	3.33	2.83
EV/EBIT	6.53	13.40	14.85	15.48	13.12	7.19	5.55	4.45
P/Tangible BVPS	18.35	0.70	0.67	0.65	0.62	0.58	0.53	0.49
P/E	185.00	8.74	17.62	19.36	14.95	6.25	4.52	4.28
P/FCF	19.41	15.17	13.14	-10.73	-16.30	69.72	8.31	7.31

Source: Company information, Dr. Kalliwoda Research GmbH



Source: Company information, Dr. Kalliwoda Research GmbH

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