



Company:	Panevezio statybos trestas	
Country:	Lithuania	
Sector:	Industrials	
Industry:	Construction	
Ticker:	PTR1L	
Market Cap:	110,4	mLTL
Share price:	7,00	LTL
Free float	24,87%	
Risk level:	Medium	
Recommendation:	BUY	
Target price:	9,11	LTL

Multiples	2005	2006	2007	2008 F	2009 F	2010 F
Mcap, mLTL	228,9	245,4	255,1	114,5	114,5	114,5
P/E	26,6	17,2	8,8	6,1	13,0	20,2
P/BV	6,4	4,6	3,1	1,2	1,1	1,1
EV/EBITDA	0,0	12,6	5,8	3,7	6,4	8,1
EV/S	1,1	0,8	0,5	0,2	0,2	0,2
ROE	24,1%	26,5%	34,9%	19,0%	8,4%	5,2%
ROA	14,4%	6,0%	10,4%	6,8%	3,0%	1,9%
Dividend yield	0,2%	0,0%	1,1%	3,3%	2,3%	1,7%

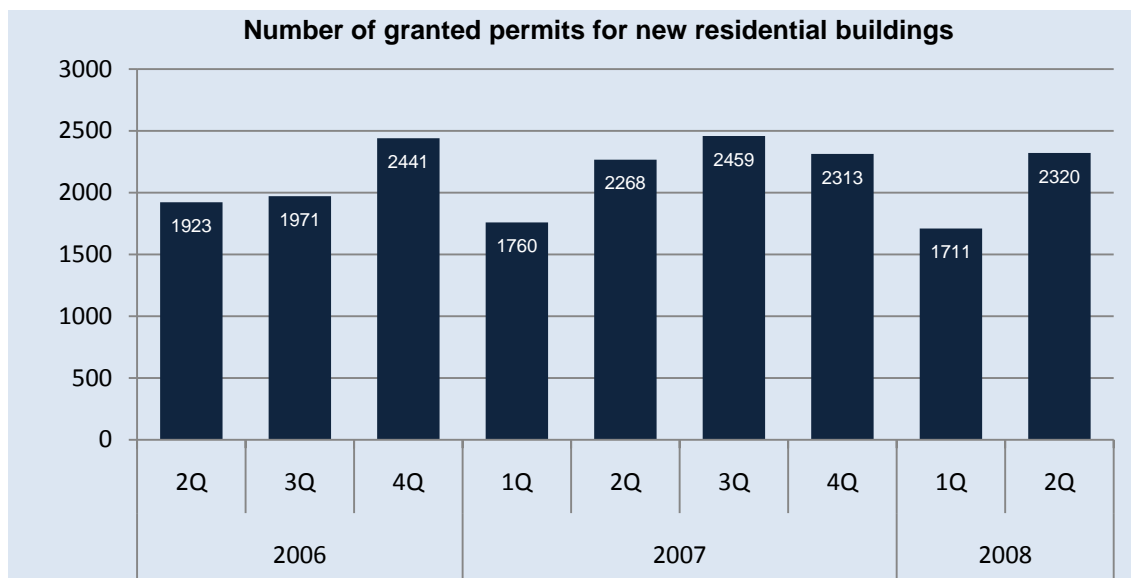
Financials (mLTL)	2005	2006	2007	2008 F	2009 F	2010 F
Revenue	191,6	339,5	517,0	526,1	557,8	591,4
Growth		77,2%	52,27%	1,76%	6,03%	6,03%
EBITDA	13,8	22,2	46,0	33,6	19,5	15,4
Growth		60,4%	107,2%	-26,9%	-42,0%	-21,2%
Margin	7,2%	6,5%	8,9%	6,4%	3,5%	2,6%
Net income	8,6	14,3	29,1	18,7	8,8	5,7
Growth		65,4%	104,2%	-35,7%	-52,9%	-35,7%
Margin	4,4%	4,0%	5,9%	3,7%	1,7%	1,0%
Assets	60,0	238,0	279,2	275,7	290,8	305,2
Equity	35,7	53,8	83,4	98,4	104,6	108,3

- Panevezio statybos trestas (hereafter PST) is a leading construction company on the Lithuanian market.
- The main revenue company gets from construction works. As to income of the group construction works in 2007 accounted for 94.8%.
- The Company devotes special attention to employees' qualification. In 2007 69% of all employees underwent training.
- PST profit was growing together with construction boom in domestic market the last few years.
- Nowadays slowing Lithuania's economy negatively affects construction market and company's results. Margins should decrease in the next years.
- PST focuses on non-residential construction where one of key growth drivers is EU funding, which could positively affect spending on transport development, environmental protection and water management.
- Forecasting recovery in Lithuania's economy and construction market at the end of 2010 should improve company's results.
- After carefully considering results given by DCF model and peer group we mainly rely to DCF model and set the target price to LTL 9,11, thereby issuing a BUY recommendation.

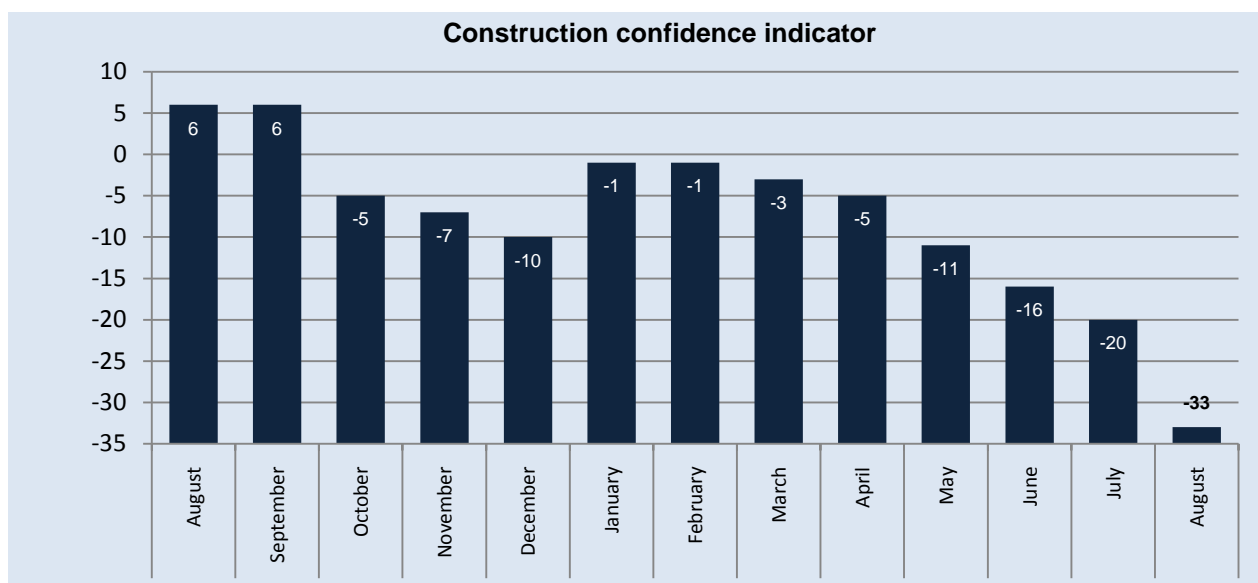
COUNTRY AND SECTOR

Lithuania's economy was growing fast in the past three years respectively 7,9%, 7,7% and 8,8%, however in the beginning of 2008 GDP started to slow down but not so dramatic as in other Baltic countries. GDP increased by 7,0% in the first quarter of 2008 compared to the same period in the previous year and 5,3% in the second quarter of 2008 to compare with the same period in 2007. In II quarter 2008, the most rapid growth was observed for the value added of industrial and energy 6.3 %, construction sectors 5.9%, as well as trade, transport and communication 5.8% and financial intermediation and other business services 5.6%. Construction market boom was strongly affected by economy growing, increased quantity of issued loans and high demand of residential flats. In the recent years unemployment level decreased from 8.3% in 2005 to 4,3% in 2007, such unemployment level plunge affected labor costs very strongly especially in construction sector. Prices of consumer goods and services increased by 8.1% in 2007 and continue to rise reaching 12.2% growth in July 2008, which is mainly influenced by the expenditures of energy, housing and food prices. To sum up everything we come to conclusion that the last few years Lithuania's economy was growing rapidly, but the recent slowdown in the beginning of 2008 make us think, that the next few years growth of economy will be modest and will start recovering in 2010.

The past years' rapid economic growth, increase of real estate price and the accompanying upsurge in the demand for construction services have boosted the performance of the Lithuanian construction companies. The construction sector has benefited from the boom in housing development and the increase in investments made in infrastructure and environment-related projects following the Baltic countries' accession to the European Union. However, 2008 is expected to be the year of the slowdown. It is mainly attributable to stagnation of the housing segment, while the civil engineering projects and non-residential construction are still relatively strong. The increased interest rates, raising inflation, and stricter control over the credit supply are the factors contributing the most to the slowdown. The growth of the real estate prices was present in the last few years in all three Baltic States countries, but in the last quarter of 2007 and the beginning of 2008 housing prices has dropped by 5-10%, confirming the slowdown. In addition, consumers seem to wait for the further price reduction, which extends declining of the housing segment as an apartment selling period gets longer. Government of Lithuania also can possibly drop some planned infrastructural projects in its intention to reduce its spending when tax revenues are falling.



Number of granted permits for new residential buildings was decreasing three last quarters compared with numbers one year ago. In the end of 2007 number of granted permits reached 2.313 and was 5,2% less than in previous year. A slowdown in economic growth, higher interest rates and the buyers' feeling of insecurity did not contribute to the improvement in the condition of the residential real estate market. As a sign of cooling construction sector also could be treated increased number of advertisements offering to buy unfinished constructional projects and sites with all necessary permissions for construction.



Construction confidence indicator has slumped dramatically from 6 points in August 2007 to -33 points in August 2008. Construction confidence weakens due to decrease of real estate prices and decrease of sales. Lithuania's construction activities were increasing continuously last few years, however in the next quarters of 2008 many analysts believe, that construction market should start to decrease or stop increasing. Construction sector is very important for developing countries that cover residential, commercial, public and infrastructure development. Construction works positively grows together with the prosperous economy. The current

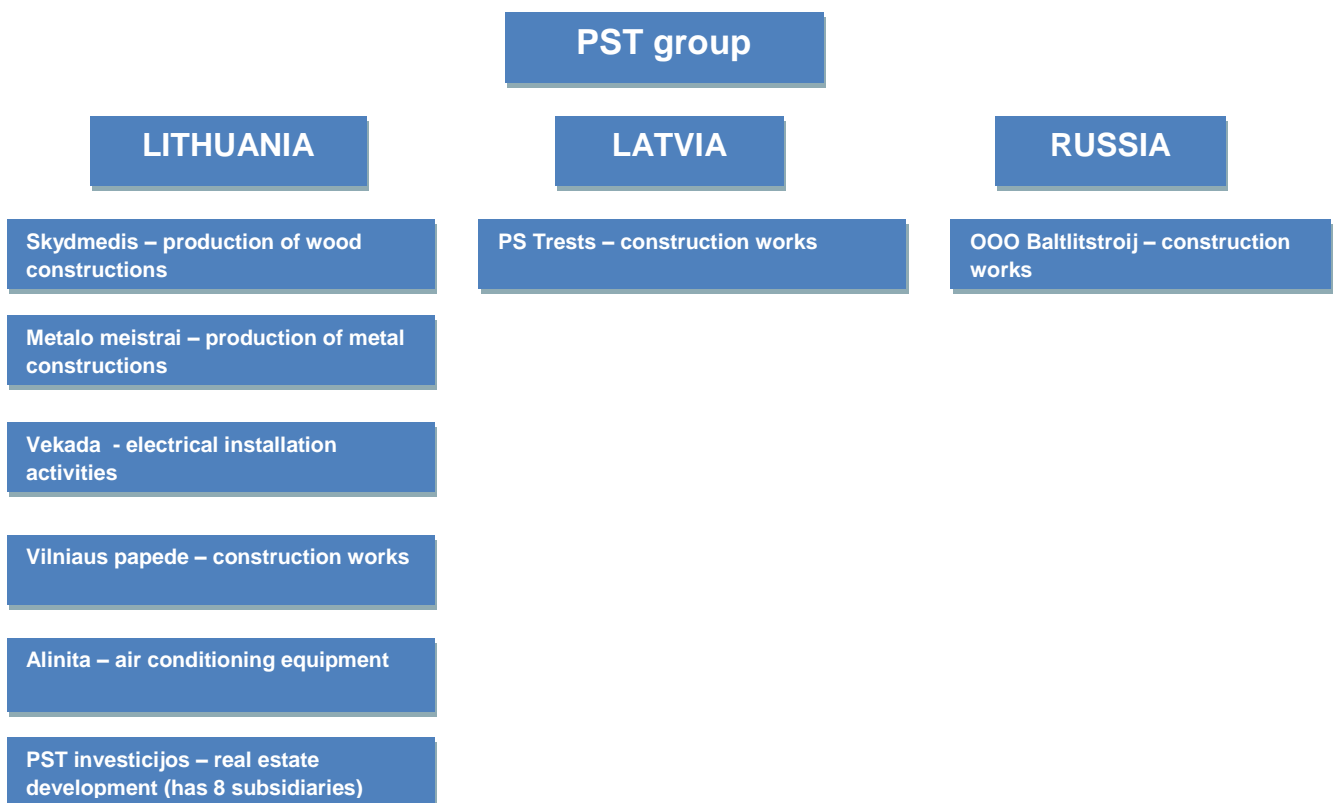
situation in decreasing economy negatively affects construction sector and should trigger the followings trends:

- The construction sector should become more dependent on public procurement tenders and the number and pricing of infrastructure, environmental and other projects launched with the support of the European Union funds;
- Housing development and construction volumes will shrink and the number of related companies will decrease (consolidation). The consolidation process will heighten competition and exert downward pressure on profit margins;
- Real estate developers' ability to service existing loans and take new ones will weaken due to a decrease in their creditworthiness. For construction companies, this may mean an increase in doubtful and irrecoverable receivables;
- Construction projects' financing schemes will change and additional requirements to the financing provided by general contractors will impose pressure on the contractors' liquidity.

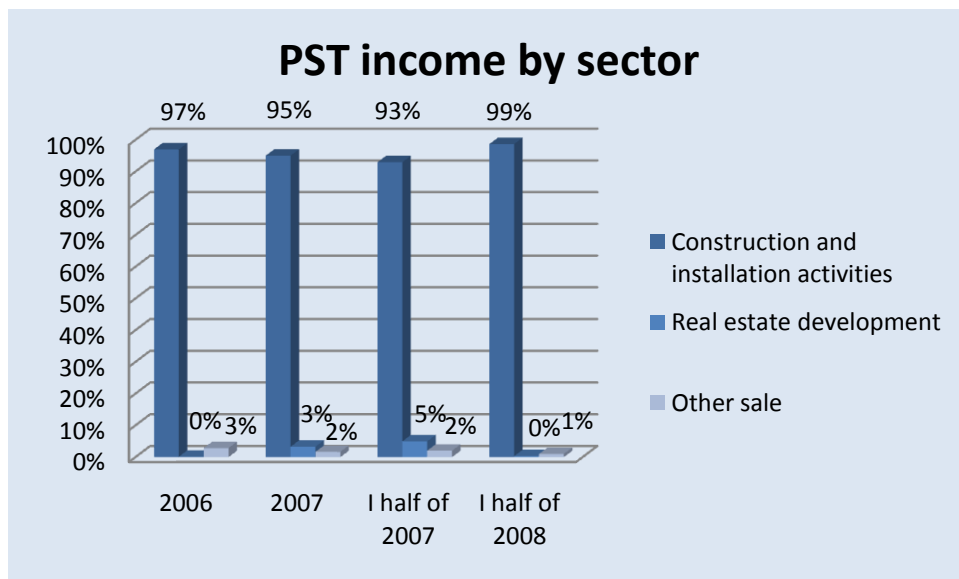
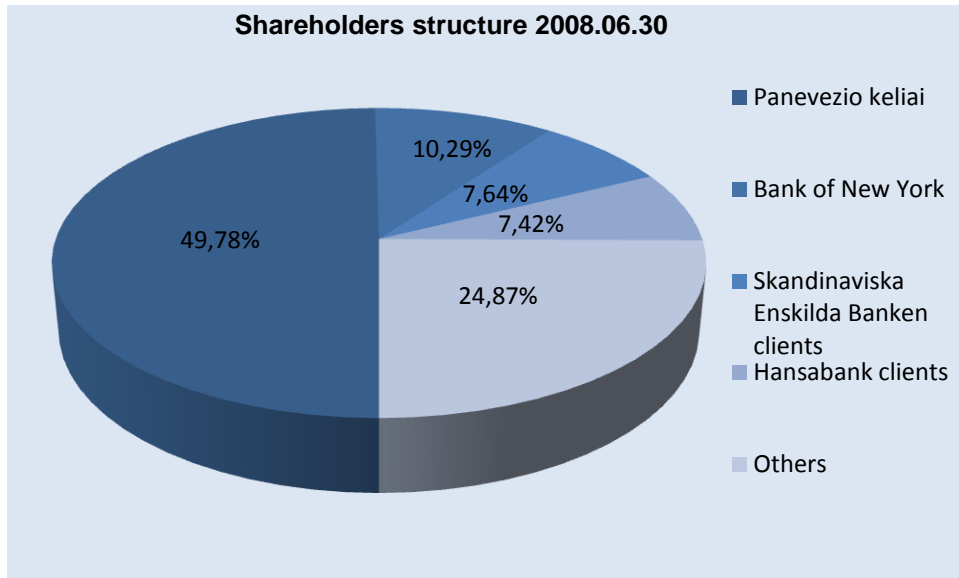
COMPANY AND PRODUCTS

The main area of activity of the Company and subsidiaries is designing and construction of buildings, constructions, installations and communications of various purposes both in and outside Lithuania, real estate development. In addition to the mentioned activities the company rents the premises and machinery, resells utilities and communication services.

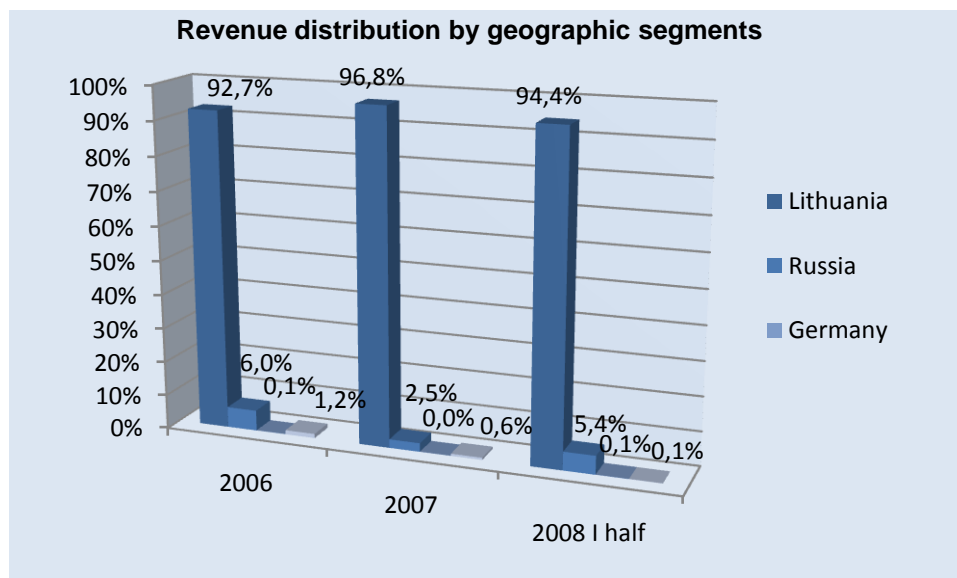
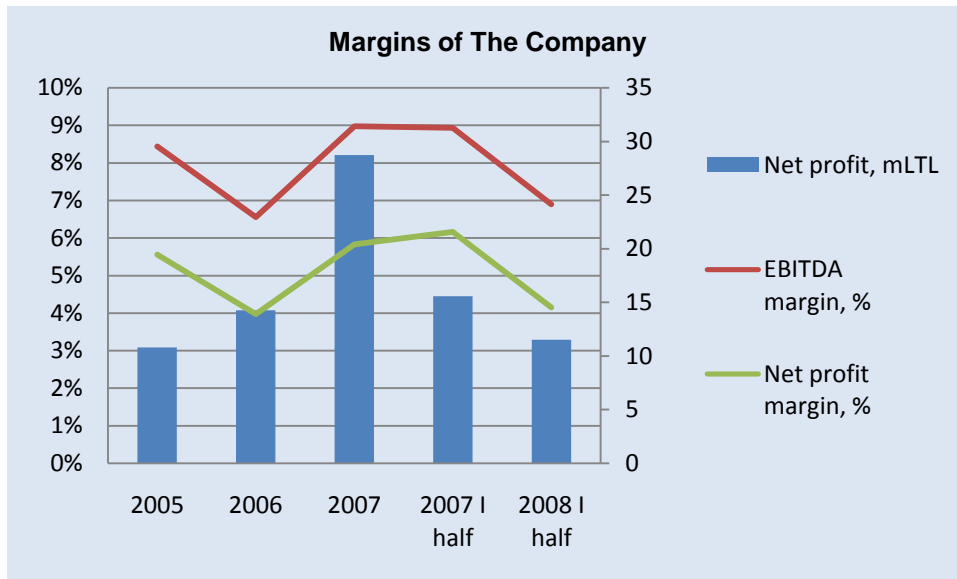
As of 30 June 2008 the company group of Panevezio statybos trestas consists of the following companies:



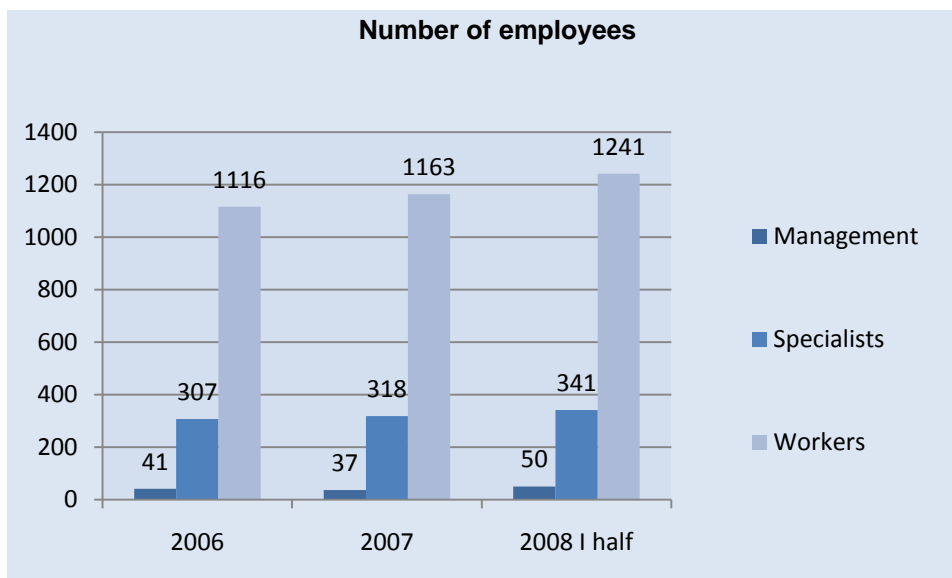
The shares of Panevezio statybos trestas are traded in the Vilnius Stock Exchange. On 30 June 2008 the total number of the shareholders was 1617. There were 4 shareholders who held or controlled more than 5% of the authorized capital of the company. Structure of shareholders is presented below:



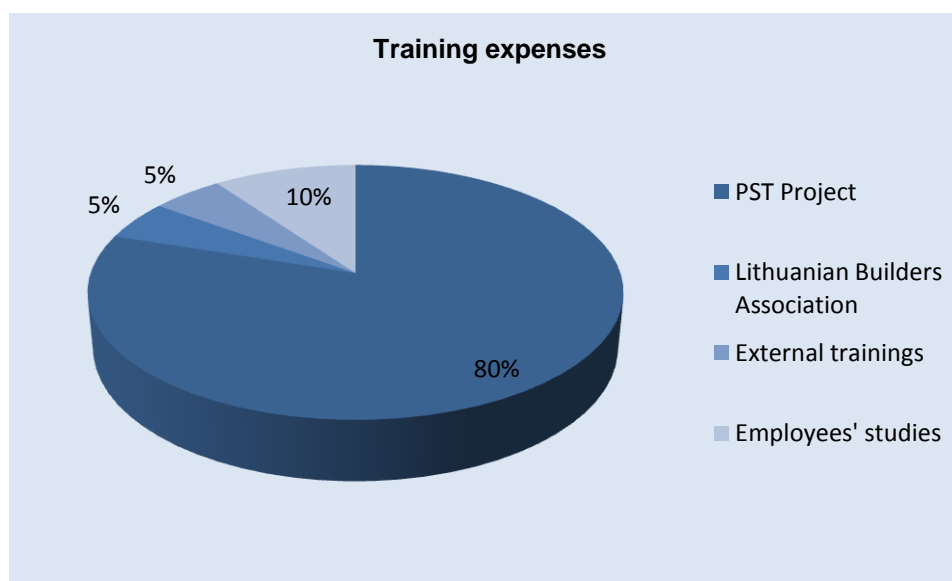
As we can see from the chart above, most revenue comes from construction and installation activities what diminishes potential losses which might occur to real estate developers due to decreased sales in real estate sector. However, from the chart below it is clear, that PST faces with cooling construction sector. Income in first half of 2008 fell down in all segments by a total value of mLTL 23.1 to compare with the same period in 2007. Profit before taxes decreased by 38.6%, but adjusted profit before taxes, which excludes sales of real estate in first half of 2007, fell down only 8.8%.



Geographic diversification of revenues is very weak. As Company depends mainly from Lithuanian market there is no doubt that slow down of economy in general and construction sector as a part of it will have significant impact to sales and margins. As good example of tightness in public construction sector was recent tender for Kaunas Sport Arena where PST bid was only third lowest. Positive thing is continuing development of EU projects and preparations for Ignalina Nuclear Power Plant closing, where some new thermal electricity plants should be built and capacities of old ones should be extended. However public announcements from PST about won contracts in the public sector are very rare.



As the scope of construction works increases, the number of employees increased significantly both in the group during I half of the year 2008. As of 30 June 2008 the number of employees in the group of Panevezio statybos trestas amounted to 1632 employees (1518 employees as of 31 December 2007). Moreover, the company devotes special attention to improvement of employees' qualification. In 2007 69% of all employees underwent training.



COMPANY VALUATION

Strengths and opportunities:

- Maintains a strong market position;
- Highly qualified and experienced employees;
- Experience of building complicated objects;
- Strong staff training policy;

- Funds from EU helps to increase and maintain huge civil engineering activities (roads, bridges and port constructions);
- Wide range of activities all over the country.

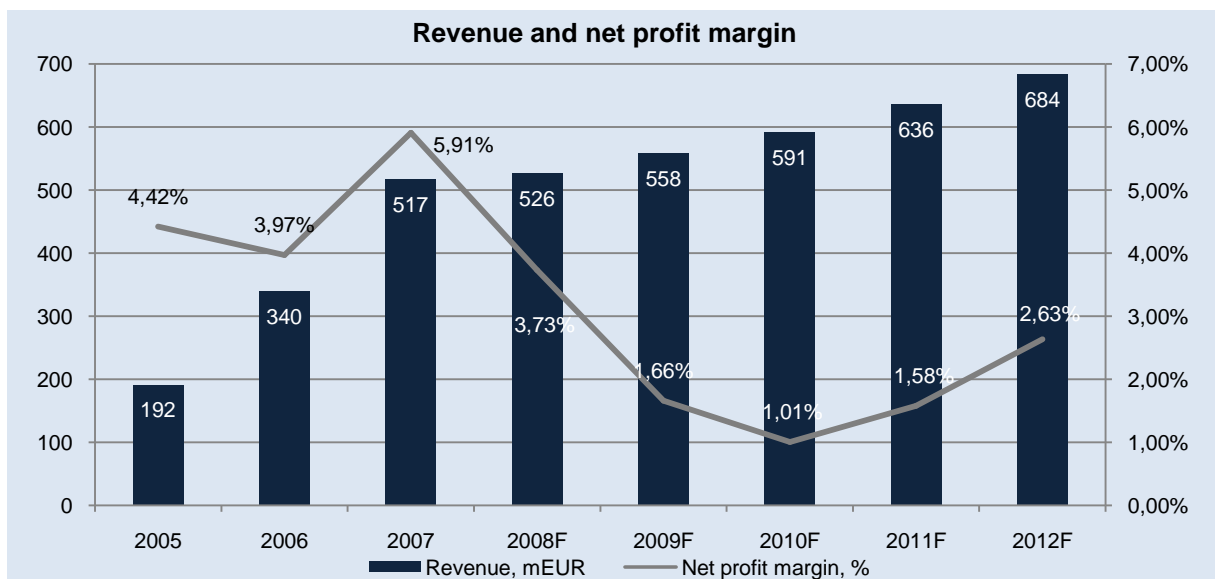
Weaknesses and threats:

- Slowing Lithuania’s economy and decelerating construction market should negatively affect company’s results in nearest future;
- Rise of labor payment level;
- Strengthening credit policy and high interest rates decrease residential segment demand;
- Increasing competition between construction companies due to negative changes in real estate market;
- Panevezio statybos trestas has not disclosed its potential backlog.

FORECAST ASSUMPTIONS

Total growth of PST revenue should be modest in next few years due to decreasing Lithuania’s construction segment. A powerful impact of slowing constructions the company should feel in residential buildings, because of lower demand from residents to buy flats and strict policy to get loans from banks. However, revenue from civil engineering should compensate it. The larger projects such as second block of thermal electricity plant in Panevezys as well as transport development, environmental protection and water management projects financed from EU funds are expected to support growth of revenue. Capitalized costs related to the real estate development are included as inventories on PST balance sheet. As real estate development generates less than 5% of PST revenue we haven’t included potential revenue growth from that segment in our DCF valuation.

The main assumption of forecasted revenue is that’s Lithuania’s economy should start recover in the end of 2010 and that will positively affect the construction market. The increase of revenue of PST should keep between 6%-7% in the next few years. We forecast that net profit in the end of 2008 will be around 18.7 mLTL what is 4.3 mLTL below company’s guiding communicated at March 15, 2008.



We forecast that profit margin should be around 3,7% in 2008 and should decrease even more in next two years. Huge impact on profit margins makes cost of sales (materials, goods and services), which should increase about 7% each year. The main assumption of forecasting margins remain nowadays slowing construction market, every year increasing labor costs and prices of raw materials.

We forecast that revenue growth should be very similar to expenses growth (about 7% in next five 5 years). Company's profit should start recovering at the end of 2010 due to forecasting Lithuania's economy recovering. However, an observant reader should note that if the long term revenues projection fails, the DCF value will be lower than forecasted below.

DCF MODEL

		2005	2006	2007	2008F	2009F	2010F	2011F	2012F	Terminal year
EBIT	kLTL	11.254	18.617	38.421	26.992	14.432	10.754	15.779	25.421	25.421
- Tax	kLTL	2.086	3.650	7.891	4.022	1.633	1.050	1.771	3.176	3.813
+ Depreciation and amortization	kLTL	2.585	3.574	4.926	6.618	5.074	4.616	4.887	5.160	5.160
- Working capital changes	kLTL	0	66.498	2.098	-565	-565	2.008	3.864	6.088	2.433
- Capital expenditure	kLTL	1.880	4.008	4.189	4.000	5.789	6.124	6.989	7.208	6.032
= Free cash flow	kLTL	9.873	-51.965	29.170	26.153	12.648	6.188	8.042	14.109	18.303
Discounted cash flow	kLTL	9.873	-51.965	29.170	23.711	10.259	4.437	5.099	7.909	10.259
Present cash flow value	kLTL	54.818								
+ Terminal value	kLTL	131.464								
- Net debt	kLTL	29.991								
- Minority	kLTL	7.308								
= Equity value	kLTL	148.982								
Number of shares		16.350.000								
One share value	LTL	9,11								

Sensitivity analysis

	WACC	Terminal growth		
		2%	3%	4%
13,80%		6,64	7,12	7,70
12,80%		7,42	8,02	8,75
11,80%		8,35	9,12	10,08
10,80%	9,50	9,11	11,81	
9,80%		10,96	12,32	14,14
8,80%		12,85	14,75	17,45
7,80%		15,40	18,22	22,52

RELATIVE ANALYSIS
Companies for peer group (2008.09.16)

Company	Country	Currency	Mcap, m.	P/E	P/Bv	EV/EBITDA	EV/Sale	EBITDA margin	Net margin
YIT- YhtymaOyj	Finland	EUR	1.083,9	4,79	1,35	4,83	0,45	9,27%	4,30%
Lemminkainen Oyj	Finland	EUR	336,9	5,81	1,23	5,96	0,37	6,19%	3,42%
Skanska AB	Sweden	SEK	34.115,3	7,71	1,79	6,49	0,19	4,52%	2,90%
NCC AB	Sweden	SEK	8.148,1	3,97	1,4	4,35	0,25	5,69%	4,29%
Peab AB	Sweden	SEK	4.254,2	8,75	3,91	6,04	0,97	16,14%	6,63%
Koninklijke BAM	Netherlands	EUR	1.403,3	3,76	1,38	6,70	0,36	4,94%	3,36%
Merko ehitus	Estonia	EUR	123,9	3,27	0,84	2,78	0,35	12,60%	11,20%
Eesti Ehitus	Estonia	EUR	94,7	5,98	2,04	5,33	0,49	9,10%	6,60%
Fomento de construc	Spain	EUR	4.153,4	8,98	1,50	5,21	0,75	14,30%	3,12%
Strabag SE	Austria	EUR	4.175,8	17,96	1,46	9,87	0,53	5,33%	2,60%
Eiffage	France	EUR	3.601,5	6,59	1,24	8,01	1,14	14,93%	2,21%
<i>Average</i>				7,05	1,65	5,96	0,53	9,36%	4,60%
<i>Median</i>				5,98	1,40	5,96	0,45	9,10%	3,42%
Panevezio statybos trestas	Lithuania	LTL	110,4	4,47	1,55	3,91	0,31	7,91%	4,77%

11 companies were selected for a comparison. All companies core business is civil engineering (ports, road, tunnels and bridges construction) and residential and non-residential activities. Most of peer companies operate in well-developed economy countries: Finland, Sweden, Spain and France. Panevezio statybos trestas is very similar to peer companies by its activities but fundamental ratios: P/E, EV/EBITDA and EV/Sale which are respectively 4,47, 3,91 and 0,31 to compare with peer fundamentals median ratios P/E is 5,98, EV/EBITDA – 5,96, EV/sale – 0,45 are a little bit lower. Moreover, Panevezio statybos trestas net profit margin is 4,77%, which is higher than peer group. High net profit margin shows that PST has a relatively high profitability, which is also represented by higher EBITDA margin. On our opinion EV/EBITDA ratio is probably the best fundamental to compare PST with peer group and let us think that PST shares are traded at 52.4% discount by the moment (fair price should be LTL 10.67).

After carefully considering results given by DCF model and peer group we mainly rely to DCF model and set the target price to LTL 9,11, thereby issuing a BUY recommendation.

Income statement (kLTL)

Income statement (kLTL)	2005	2006	2007	2008F	2009F	2010F	2011F	2012F
Revenue	191.590	339.512	516.976	526.081	557.784	591.401	635.801	683.537
Expenses	180.336	320.896	475.934	499.089	543.352	580.647	620.022	658.116
EBITDA	13.839	22.191	45.968	33.610	19.506	15.370	20.666	30.581
Depr. and amort.	2.585	3.574	4.926	6.618	5.074	4.616	4.887	5.160
EBIT	11.254	18.617	41.042	26.992	14.432	10.754	15.779	25.421
EBT	10.552	10.552	38.421	23.660	10.889	6.999	11.805	21.174
Income tax	2.086	3.650	7.891	4.022	1.633	1.050	1.771	3.176
Net income	8.615	14.251	29.103	18.719	8.823	5.671	9.565	17.156

Financials changes y/y

	2005	2006	2007	2008F	2009F	2010F	2011F	2012F
Revenue	-	77,2%	52,3%	1,8%	6,0%	6,0%	7,5%	7,5%
Expenses	-	77,9%	48,3%	4,9%	8,9%	6,9%	6,8%	6,1%
EBITDA	-	60,4%	107,2%	-26,9%	-42,0%	-21,2%	34,5%	48,0%
Net income	-	65,4%	104,2%	-35,7%	-52,9%	-35,7%	68,7%	79,4%

Multiples

	2005	2006	2007	2008F	2009F	2010F	2011F	2012F
EV/S	1,09	0,82	0,51	0,24	0,22	0,21	0,20	0,18
EV/EBITDA	0,00	12,59	5,78	3,72	6,41	8,14	6,06	4,10
P/E	26,57	17,22	8,76	6,11	12,97	20,18	11,97	6,67
P/BV	6,41	4,56	3,06	1,16	1,09	1,06	1,00	0,91
D/E	0,20	1,24	0,66	0,56	0,53	0,51	0,48	0,44
D/E market values	0,03	0,27	0,22	0,48	0,48	0,48	0,48	0,49
ROE	24,1%	26,5%	34,9%	19,0%	8,4%	5,2%	8,4%	13,7%
ROA	14,4%	6,0%	10,4%	6,8%	3,0%	1,9%	3,0%	5,0%
Dividend payout ratio	6,3%	0,0%	9,6%	20,1%	30,0%	35,0%	35,0%	35,0%
Dividend yield	0,2%	0,0%	1,1%	3,3%	2,3%	1,7%	2,9%	5,2%

Margins

	2005	2006	2007	2008F	2009F	2010F	2011F	2012F
EBITDA	7,2%	6,5%	8,9%	6,4%	3,5%	2,6%	3,3%	4,5%
EBIT	5,9%	5,5%	7,9%	5,1%	2,6%	1,8%	2,5%	3,7%
EBT	5,5%	5,0%	7,4%	4,5%	2,0%	1,2%	1,9%	3,1%
Net income	4,4%	4,0%	5,9%	3,7%	1,7%	1,0%	1,6%	2,6%

DISCLOSURES
Recommendation prepared by

The financial analysts of the Department of Analysis and Valuation of FBC Finhill Ltd., financial brokerage company license No.B107, office address 10 Smolensko str. LT-03201 Vilnius, Lithuania; the operation of the company is observed by the Securities Commission of the Republic of Lithuania.

The person responsible for the preparation of this document: financial analyst's assistant Antanas Šavinis.

The date of the recommendation

Recommendation submitted for distribution: 2008-09-18

The price of the Issuer's securities analyzed mentioned as of the date and time: 2008-09-17; 15:00.

The organizer of the recommendation has not delivered other recommendation on the same Issuer's securities within the period of recent 12 months since the issue of this recommendation:

Date	Recommendation	Target price
2008-09-18	BUY	LTL 9.11

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No recommendations	No recommendations are given due to unreliable and/or lack of information

Table of risk level estimating

Low risk	If cost of equity <10%
Medium risk	If cost of equity 10-12%
High risk	If cost of equity 12-15%
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Percentage of the total number of recommendations:	0%	0%	0%

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