

Luka Koper (LKPG SV, LKPG.LJ)

Resurrection of a sleeping beauty

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Recommendation statistics

Current
BUY

Previous
 SELL (EUR 16.7; 2nd of March 2010)

Key data

Target price (12M) (€)	18.7
Upside/(downside) (%)	17.6
Current price	15.9
Market cap (€ m)	222.2
52-week range (€)	15.0-29.2
Average daily turnover (€ m)	0.024
Free float (%)	29.4
Primary stock exchange	Ljubljana SE
Audit	Ernst & Young
Next results published	15 th of August 2010
Internet site	http://www.luka-kp.si

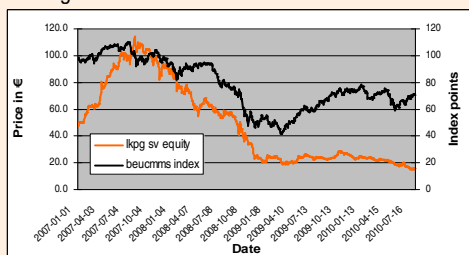
Forecasts and ratios

	2009A*	2010E	2011E	2012E
Sales (€ m)	113.8	122.9	131.5	139.4
EBIT (€ m)	-8.2	8.5	15.2	19.7
EBITDA (€ m)	27.3	35.3	41.6	45.6
EPS	-4.7	0.6	0.6	0.9
FPF per share	-2.8	0.3	0.9	0.9
*non-audited, adjusted for X-O				
P/E	N.A.	25.6	25.5	17.5
EV/EBITDA	17.2	12.8	10.6	9.6
Divid. yield (%)	N.A.	N.A.	2.0	2.0
P/FCF	N.A.	N.A.	17.7	17.0

Share price performance (%)

	3M	6M	1Y	2Y
Luka Koper	-21.5	-33.9	-33.8	-72.1
BEUCMMS*	4.0	2.9	6.9	-9.6

*Bloomberg EMEA Commercial Services Index



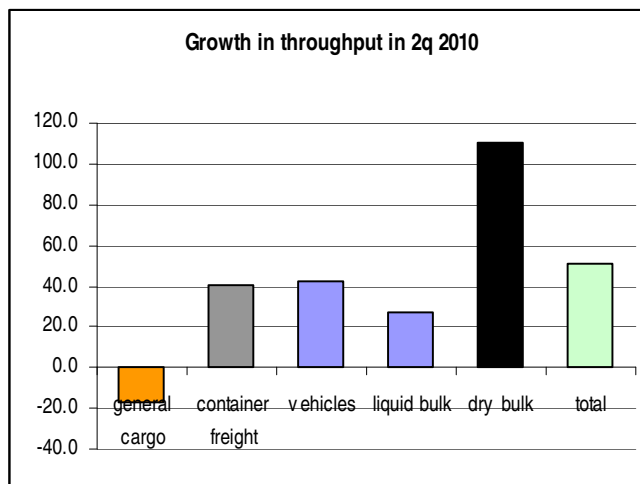
Source: Bloomberg, 10th August, 2010

Trade must go (on:)

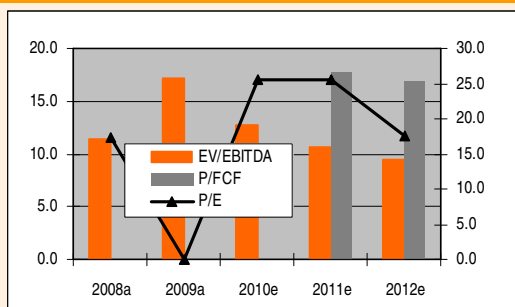
Luka Koper reported on July 9th 2010 its main operational items regarding 2Q. In-line with good import-export activity in region, which is currently in the double-digit area, reflecting mainly a low base effect, 2Q growth in throughput advanced by 50.7% y-o-y, or 5.3 % q-o-q. Throughput in container freight and vehicles segment advanced by 40.0 %. These two segments currently represent 29.2 % of total marine throughput, slightly down from 29.8 % in 1Q but above FY2009 (26 %). Share of these two segments in sales is similar, about 26.3 % in 1Q. It has to be noted, however, that a strong rebound in 2Q does not represent a similar increase in sales due to faster turnover of cargo and consequently lower incomes from warehouse fees. Nevertheless we expect that 2Q results will bring unexpectedly better figures, beating “the street” with at least 20 % growth in top-line. Our expectations are based on ratio of sales to throughput which decreased in past quarters but should stay, according to our view, at 7.8 in 2Q.

Quarter	1Q 2008	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009	3Q 2009	4Q 2009	1Q 2010	2Q 2010
Quarterly sales	35.5	32.6	32.8	32.5	31.5	26.1	27.4	28.8	30.1	31.3
Sales/throughput	8.7	8.2	8.4	8.0	8.5	9.8	8.5	8.1	8.0	7.8

Structure of marine throughput did not change a lot in previous past quarters. Share of income from Slovenia stayed at 32 % in 1q, following by Austria (about 27 %) and Italy (16 %). 1Q EBIT decreased by 42.8 % y-o-y, mainly due to higher depreciation expense as a consequence of high capex in the recent past. Labor costs decreased by 2 % y-o-y.

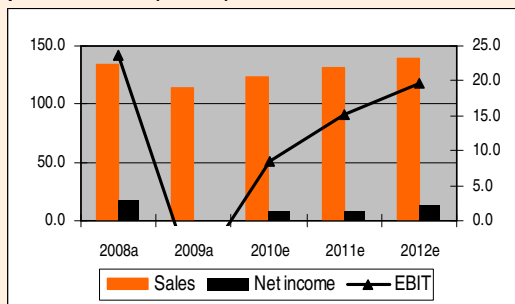


Valuation multiples



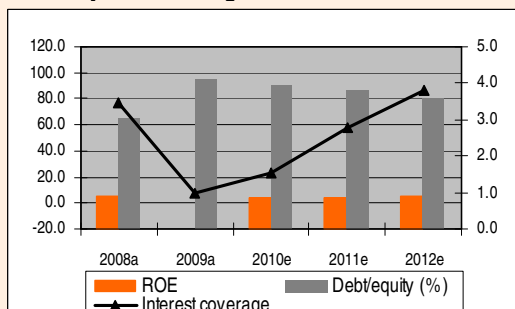
*left axis: P/FCF, right axis: EV/EBITDA&P/E. Source: own calc.

Operational data (EUR m)



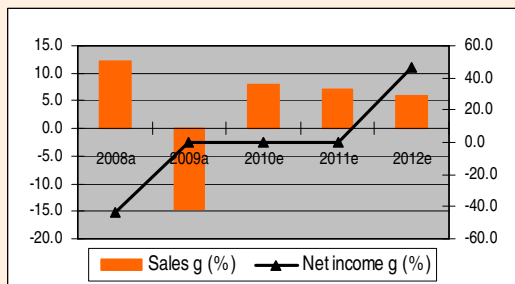
*left axis: sales&net income, right axis: EBIT. Source: own calc.

Profitability & debt management



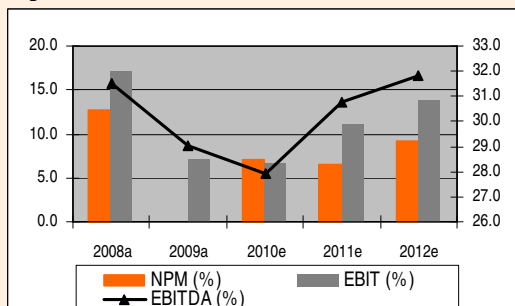
*left axis: ROE&Debt/equity, right axis: int. cover. Source: own calc.

Growth performance



*left axis: sales (g), right axis: net income (g). Source: own calc.

Margins



*left axis: NPM & EBIT marg, right axis: EBITDA. Source: own calc.

Change to our estimates

Sales outlook update...

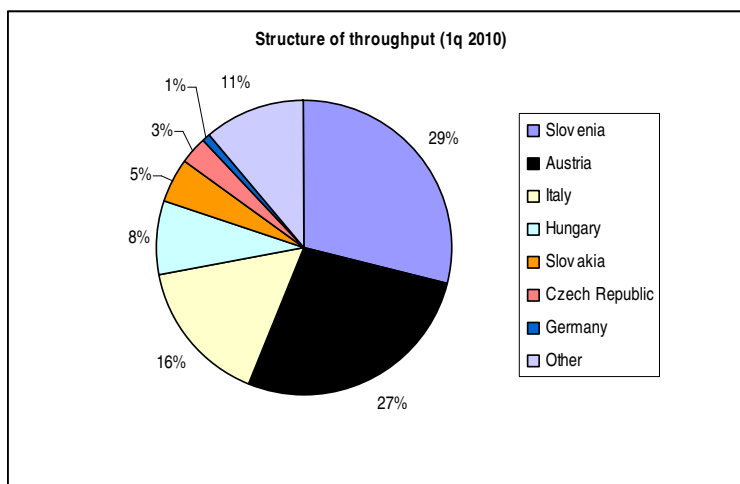
We upgrade our sales estimates short term and medium term due to revision of macro estimates (GDP in the region comprising mainly Slovenia, Austria, Italy and other CEE), expected better mix in sales and partly because of different analyst view. Coverage of issuer was namely transferred recently what can be noted in the appendix.

Sales growth rate (%)	2010 e	2011 e	2012 e	2013 e	2014 e	2015 e	2016 e	2017 e	2018 e	2019 e
Old	6.0	4.0	5.0	4.5	4.0	4.0	3.0	3.0	3.0	N.A.
New	8.0	7.0	6.0	5.0	5.0	5.0	5.0	4.0	3.5	3.0

...but we remain on conservative side what EBIT margin concerns

EBIT margin (%)	2010 e	2011 e	2012 e	2013 e	2014 e	2015 e	2016 e	2017 e	2018 e	2019 e
Old	10.4	11.4	14.1	15.3	16.3	17.0	17.2	17.7	18.4	N.A.
New	6.8	11.2	13.7	14.7	15.4	16.1	16.7	17.2	17.6	18.0

EBIT margin reduction mainly reflects high bargaining power of labor force. Their share in total sales should not fall below 27 %, compared to 25.3 in 2006-2007. Average of EBIT margin in 2006-2008 periods was 18.2 % but in the short to medium term it is unachievable as of higher depreciation expense and higher concession fee, paid to state which currently amounts 3.5 % of sales. For 2010, we still expect that some tradition will take place. In the past, Luka Koper steadily outperformed its plan and we believe that EBIT of EUR 7.4m for the current year should be outperformed by about 15 %. On the other hand we remain cautious on net income which should amount about EUR 8.7, 4.4 % below mgt. projections.



Valuation models

1. DCF model

We continue to use DCF model, version from EBIT margin. It has to be noted that the company did not put forth a numerical strategy what increases an interval of possible paths. Company revealed only 1-year strategy which is focused on improving efficiency, selling of some non-core business and cleaning the balance sheet from previous CEO. Some past purchases of assets are put into question. We believe that the bulk of one-off charges were already made against 2009 balance sheet and the fundament for future operations should therefore stay more solid.

- **Top-line estimates**

Year	2007e	2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e
Sales	119.0	133.3	113.8	122.9	131.5	139.4	147.8	155.2	162.9	171.1	177.9	184.1	189.7
Growth in sales	12.6	12.1	-14.6	8.0	7.0	6.0	6.0	5.0	5.0	5.0	4.0	3.5	3.0

- **Profitability estimates**

We derive EBIT margin using top-down approach. Other income is added to net sales to arrive at total business revenue. Other income showed pretty steady relations towards net sales and its share should stay at historical averages of 2.8 % of sales. They are comprised of hotel & accommodation services and infrastructure maintenance, which both by itself provide very stable source of income. From total business revenue, COGS are deducted. These represent costs of material, energy, outsourcing services and concession fee. These items are mostly out of control and are therefore not an engine of profitability growth. Historically they accounted from 33.8 to 35.1 % of total business revenue and deviated mostly in line with total business revenue. SG&A are lastly deducted to arrive at EBIT. They represent three important cost collars: labor costs, depreciation and amortization charges and other expenses and reservations. These items historically represented about 47 % of total business revenue but we believe that ratio is unachievable given higher recent capex which should boost future depreciation charges.

- **Capex & WC development**

Capex estimates are one of the major parts of final DCF valuation. We lower depreciation charge from 7 % in 2018 to a more reasonable estimate of 6.7 %. We also reduce capex estimates due to sale of some non-core assets which should increase assets efficiency. Our sales projections are believed to be reasonably supported by our revised capex.

Year	2007a	2008a	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e
Net capex in fixed assets (EUR m)	84.4	137.6	71.7	28.3	23.7	26.5	29.6	27.9	29.3	29.1	28.5	27.6	26.9
Net capex/sales (in %)	71.0	103.2	63.0	23.0	18.0	19.0	20.0	18.0	18.0	17.0	16.0	15.0	14.2
Depreciation & Amortisation(EUR m)	16.2	19.1	25.1	26.8	26.5	25.9	25.9	26.2	26.3	26.5	26.7	26.8	26.9
Depreciation/net fixed assets (in %)	8.0	6.3	6.7	6.9	6.8	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7
Reinvestment ratio (in %)	521.9	721.6	286.1	105.7	89.4	102.3	113.9	106.7	111.5	109.7	106.7	103.1	100.0

Analysis of NWC deserves only minor attention as this segment represents only a minor part in DCF valuations.

Year	2007a	2008a	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e
Inventories (EUR m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
as % of sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
AR (EUR m)	12.1	11.4	9.3	11.2	12.0	12.8	13.5	14.2	14.9	15.6	16.3	16.8	17.3
as % of sales	10.1	8.5	8.2	9.1	9.1	9.1	9.1	9.1	9.1	9.1	9.1	9.1	9.1
AP (EUR m)	26.4	22.2	26.3	25.4	27.2	28.8	30.5	32.0	33.7	35.3	36.7	38.0	39.2
as % of sales	22.2	16.7	23.1	20.7	20.7	20.7	20.7	20.7	20.7	20.7	20.7	20.7	20.7
NWC/sales (%)	-12.0	-8.1	-14.9	-11.5	-11.5	-11.5	-11.5	-11.5	-11.5	-11.5	-11.5	-11.5	-11.5
Change in NWC	-15.2	3.4	-6.1	2.9	-1.0	-0.9	-1.0	-0.8	-0.9	-0.9	-0.8	-0.7	-0.6

- **Effective tax rate & interest expense**

We gradually increase the effective tax rate from 10 % in 2011 to 20 %, 2016 onwards. Due to high capex in the past, which is unlikely to reappear coupled with a special tax status which is likely to end as well, effective tax rate amounted to just about 11 % in 2005-2007 periods.

- **Bottom line**

Minority interest and net non-operating profit/loss are deducted to arrive at net income. We expect EUR 5m of profit from sale of non-core activities and minor adjustment for minority interests. Due to improving operations driven mainly by strong top line but a rising effective tax rate, net income margin should gradually increase to 13.6 % in 2019. That is significantly less than in period 2005-2007, when it reached 25 % but it has to be noted that sale of financial investment took place in the past. In addition, concession fee increased from 2008 onwards, leaving Luka Koper with a new cost burden, not borne before. Concession fee is paid in relation to sales incurred and currently amount 3.5 % of annual sales.

Historical & forecasted income statement

Year	2007a	2008a	2009a	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e
Net sales	119.0	133.3	113.8	122.9	131.5	139.4	147.8	155.2	162.9	171.1	177.9	184.1	189.7
Other income	3.2	3.9	2.3	3.4	3.7	3.9	4.1	4.3	4.6	4.8	5.0	5.2	5.3
<i>In % of net sales</i>	<i>2.7</i>	<i>2.9</i>	<i>2.0</i>	<i>2.8</i>	<i>2.8</i>	<i>2.8</i>	<i>2.8</i>	<i>2.8</i>	<i>2.8</i>	<i>2.8</i>	<i>2.8</i>	<i>2.8</i>	<i>2.8</i>
Total business revenue	122.2	137.2	116.1	126.4	135.2	143.3	151.9	159.5	167.5	175.9	182.9	189.3	195.0
COGS	41.8	48.2	40.7	43.2	46.2	49.0	52.0	54.6	57.3	60.1	62.5	64.7	66.7
<i>In % of total business revenue</i>	<i>34.2</i>	<i>35.1</i>	<i>35.0</i>	<i>34.2</i>	<i>34.2</i>	<i>34.2</i>	<i>34.2</i>	<i>34.2</i>	<i>34.2</i>	<i>34.2</i>	<i>34.2</i>	<i>34.2</i>	<i>34.2</i>
Gross profit	80.5	89.0	75.4	83.1	89.0	94.3	100.0	105.0	110.2	115.7	120.3	124.6	128.3
<i>In % of total business revenue</i>	<i>65.8</i>	<i>64.9</i>	<i>65.0</i>	<i>65.8</i>	<i>65.8</i>	<i>65.8</i>	<i>65.8</i>	<i>65.8</i>	<i>65.8</i>	<i>65.8</i>	<i>65.8</i>	<i>65.8</i>	<i>65.8</i>
SG&A	57.1	65.4	83.6	74.6	73.8	74.6	77.6	80.4	83.2	86.3	88.9	91.2	93.1
<i>In % of total business revenue</i>	<i>46.7</i>	<i>47.7</i>	<i>72.0</i>	<i>59.0</i>	<i>54.6</i>	<i>52.1</i>	<i>51.1</i>	<i>50.4</i>	<i>49.7</i>	<i>49.1</i>	<i>48.6</i>	<i>48.2</i>	<i>47.8</i>
- labor costs	57.1	65.4	83.6	74.6	73.8	74.6	77.6	80.4	83.2	86.3	88.9	91.2	93.1
<i>In % of total business revenue</i>	<i>30.9</i>	<i>38.0</i>	<i>37.0</i>	<i>37.9</i>	<i>37.9</i>	<i>38.7</i>	<i>41.0</i>	<i>43.1</i>	<i>45.2</i>	<i>47.5</i>	<i>49.4</i>	<i>51.1</i>	<i>52.6</i>
- depreciation & amortization	25.2	27.7	31.9	30.0	28.0	27.0	27.0	27.0	27.0	27.0	27.0	27.0	27.0
<i>In % of total business revenue</i>	<i>16.8</i>	<i>19.6</i>	<i>35.5</i>	<i>26.8</i>	<i>26.5</i>	<i>25.9</i>	<i>25.9</i>	<i>26.2</i>	<i>26.3</i>	<i>26.5</i>	<i>26.7</i>	<i>26.8</i>	<i>26.9</i>
- other expenses & reservations	6.9	5.4	9.2	6.9	6.9	6.8	6.7	6.7	6.7	6.7	6.7	6.7	6.7
<i>In % of total business revenue</i>	<i>9.4</i>	<i>7.7</i>	<i>11.1</i>	<i>9.9</i>	<i>9.5</i>	<i>10.0</i>	<i>10.6</i>	<i>11.2</i>	<i>11.7</i>	<i>12.3</i>	<i>12.8</i>	<i>13.3</i>	<i>13.6</i>
EBIT	23.4	23.6	-8.2	8.5	15.2	19.7	22.4	24.5	27.0	29.4	31.5	33.4	35.1
EBIT margin	19.1	17.2	N.A.	6.8	11.2	13.7	14.7	15.4	16.1	16.7	17.2	17.6	18.0
EBITDA	40.2	43.3	27.3	35.3	41.6	45.6	48.3	50.7	53.3	55.9	58.2	60.2	62.0
EBITDA margin	32.9	31.5	23.5	27.9	30.8	31.8	31.8	31.8	31.8	31.8	31.8	31.8	31.8
Interest expense	1.8	6.7	8.2	8.9	8.8	8.5	8.2	8.0	7.7	7.5	7.1	6.7	6.3
Interest received	13.3	8.8	1.4	3.3	3.3	3.3	3.4	3.4	3.5	3.5	3.5	3.6	3.6
Net non-oper. profit/loss	10.9	0.0	-72.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income tax expense	2.8	-0.9	-5.6	-0.8	1.0	1.7	2.5	3.2	4.1	5.1	5.6	6.0	6.5
Effective tax rate	8.3	N.A.	N.A.	N.A.	10.0	12.0	14.0	16.0	18.0	20.0	20.0	20.0	20.0
Minority interests	0.7	0.3	-0.3	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net income	30.1	16.9	-66.3	8.7	8.7	12.7	15.0	16.7	18.5	20.3	22.2	24.1	25.9
NIM	25.3	12.7	N.A.	7.1	6.6	9.1	10.2	10.8	11.4	11.9	12.5	13.1	13.6

Forecasted balance sheet

Year	2007a	2008a	2009a	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e
Assets													
Cash & Cash Equivalents	2.0	7.9	0.6	0.6	0.6	0.7	0.7	0.8	0.8	0.8	0.9	0.9	0.1
ST financial assets	8.6	10.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
AR	12.1	11.4	9.3	11.2	12.0	12.8	13.5	14.2	14.9	15.6	16.3	16.8	17.3
Inventories	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other current assets	17.0	17.5	14.1	15.2	16.3	17.3	18.3	19.2	20.2	21.2	22.0	22.8	23.5
Total current assets	39.7	47.4	26.7	29.8	31.7	33.4	35.2	36.9	38.6	40.4	41.9	43.2	43.6
Net fixed assets	242.3	361.1	387.9	389.4	386.6	387.2	390.8	392.5	395.6	398.1	399.9	400.8	400.8
LT financial investments	114.4	72.5	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0
Other non-current assets	64.8	75.6	48.1	48.1	48.1	48.1	48.1	48.1	48.1	48.1	48.1	48.1	48.1
Non-current assets	421.4	509.2	505.0	506.5	503.7	504.3	507.9	509.7	512.7	515.3	517.1	517.9	517.9
Total assets	461.2	556.6	531.7	536.3	535.4	537.7	543.2	546.5	551.3	555.6	558.9	561.1	561.5
Liabilities & Equity													
AP	26.4	22.2	26.3	25.4	27.2	28.8	30.5	32.0	33.7	35.3	36.7	38.0	39.2
Other ST liabilities	6.1	10.2	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7
ST borrowings	58.4	96.6	189.4	138.8	89.7	86.6	84.6	81.6	78.8	75.4	71.3	66.4	60.5
Current liabilities	90.9	129.1	222.4	170.8	123.5	122.1	121.8	120.4	119.1	117.4	114.7	111.1	106.4
LT borrowings	6.6	103.8	45.0	92.5	134.5	129.9	126.9	122.4	118.1	113.1	106.9	99.6	90.8
Other LT liabilities	23.0	12.6	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8
Minority interests	2.9	3.5	0.4	0.4	0.4	0.5	0.6	0.6	0.7	0.8	0.9	1.0	1.1
Equity	337.8	307.6	247.0	255.7	260.1	268.5	277.1	286.3	296.5	307.5	319.6	332.5	346.3
Total liabilities & equity	461.2	556.6	531.7	536.3	535.4	537.7	543.2	546.5	551.3	555.6	558.9	561.1	561.5

Forecasted CF statement

Year (figures in EUR m)	2008a	2009a	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e
CFO	29.8	58.0	35.2	31.9	32.6	36.2	39.6	42.0	43.8	45.8	47.8	49.8
CFI	-25.3	-71.8	-164.2	-73.8	-28.3	-23.7	-26.5	-29.6	-27.9	-29.3	-29.1	-28.5
CFF	-10.1	15.2	134.9	34.5	-3.2	-11.4	-12.1	-11.4	-14.9	-15.5	-17.7	-20.4
<i>Change in cash</i>	-5.5	1.4	5.9	-7.4	1.2	1.1	1.0	1.1	1.0	1.0	1.0	0.9

DCF metrics

WACC	
Wd	51.9 %
We	48.1 %
RFR	3.8 %
ERP	5 %
Other premium	0.0 %
beta	1.4
Cost of equity	10.8 %
Cost of debt	6.5 %
WACC	7.9 %

When applying WACC, we use current market values of debt to equity 51.9:48.1. Tax shield is equal to expected effective tax rate of 20 %. Compared to our previous analysis, tax rate was 13.2 %.

Cost of debt is set at 6.5 % whereas cost of common equity is 10.8 %, comprising of 3.8 % RFR (yield of 10-year Slovenian Gvt. bond), 5 % equity risk premium and beta of 1.4.

Using a WACC of 7.9 %, we arrive at current fair price of 19.1. Previous WACC was set at 8.6 %. Cost of equity is reduced from 12.1 to 10.8 %. PV of terminal value using a 2.5 % growth in perpetuity represents 67 % of total value of operations.

Year	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e
EBIT*(1-t)	9.40	13.65	17.31	19.24	20.61	22.11	23.54	25.19	26.72	28.12
Depreciation & Amortisation	26.76	26.48	25.90	25.94	26.18	26.30	26.50	26.68	26.80	26.85
Capex	28.30	23.67	26.49	29.55	27.93	29.33	29.08	28.47	27.62	26.86
WC Inv	2.85	-0.99	-0.91	-0.96	-0.85	-0.89	-0.94	-0.79	-0.72	-0.64
FCFF	5.01	17.44	17.63	16.58	19.72	19.97	21.89	24.18	26.61	28.75
Discounted FCFF	5.01	16.17	15.15	13.20	14.55	13.66	13.88	14.21	14.49	14.51

Year	2009e
Discounted value of operations	134.8
Discounted terminal value	275.9
Total value of operations	410.7
Cash & ST financial assets	1.6
LT financial investments	109.6
Other current assets	2.9
Value of company	524.8
Financial debt	238.9
Minority interests	0.1
Other LT liabilities	17.6
Other ST liabilities	1.1
Value of equity	267.1
Value of share	19.1

	LT WACC					
	8.89%	8.39%	7.89%	7.39%	6.89%	
	1.50%	10.45	11.99	13.81	15.97	18.57
LT growth in FCFF	2.00%	11.47	13.22	15.29	17.79	20.85
	2.50%	12.65	14.65	17.05	19.99	23.66
	3.00%	14.03	16.34	19.17	22.70	27.18
	3.50%	15.66	18.39	21.78	26.09	31.74

2. Peer-to-peer & historical analysis

Company	12-m EV/EBITDA
Forth Ports	13.7
Smit International	6.6
Braemer Shipping Serv.	4.1
Bremer Lagerhaus-Gesell.	8.5
Thessaloniki port Authority	21.6
Luka Koper - peers (median)	8.5
Luka Koper - hist. (10-year median)	8.4
Justified EV/EBITDA (equal-weighted)	8.5
Implied price based on expected EV/EBITDA (12.8)	10.3
Upside/downside	-33.5

Source: Bloomberg, 29.7.2010

We compose the peer-to-peer analysis with a historical ratio analysis of annual EV/EBITDA ratios. Ratios involving sales and book value solely seem meaningless due to different utilization of fixed assets in the working process. Earning multipliers as P/E are currently very volatile and uneven and not particularly practical for our analysis.

Weighting EV/EBITDA from pool of peers with historical median of the multiple implicitly assumes a current fair price of EUR 10.3. Due to methodological deficiencies of the peer model, weight of peer-to-peer valuation is maintained at 20 % of final valuation.

3. Implied EV/EBITDA model

We also chose to use FCFF method from EBIAT to avoid biases when applying long term growth. Valuation multiple of 8.5 is used to arrive at implied EV. After adjusting for cash, investments, debt and other liabilities, we arrive at current fair price of EUR 17.1.

Year	2010e	2011e	2012e	2013e	2014e
EBIAT	9.34	14.19	17.93	19.91	21.35
Depreciation & Amortisation	26.76	26.48	25.90	25.94	26.18
Capex	28.30	23.67	26.49	29.55	27.93
WC Inv	2.85	-0.99	-0.91	-0.96	-0.85
FCFF	4.94	17.99	18.25	17.26	20.45
Discounted FCFF	4.94	16.67	15.68	13.74	15.09

EBITDA in last year	50.7
Valuation multiple	8.5
Terminal value	428.4
PV of term. value	316.1
PV of first 5 years	66.1
Enterprise value	382.3

Final valuation & risks

We change the previous final valuation from 80 % DCF and 20 % peer-to-peer to 60 % DCF, 20% implied EV/EBITDA and 20 % peer-to-peer. The change accounts for only minor adjustment in target price (EUR 18.7 compared to EUR 19.2). Current fair price is set at 16.9 whereas 12-month TP, leveraged by cost of equity is set at EUR 18.7 what currently represents a 17.6 % upside.

Risks are mostly ownership related. Due to state-ownership, company was not efficiently run in the past and may stay so in the future. Conversion of priority shares in ordinary also led to dramatic decrease of ordinary shareholders wealth. In addition, investment in Intereuropa, which is burdened by debt led to dramatic one-off charges. Future path is also covered with some uncertainties. One of them is investments. Part of past capex was also transferred to public infrastructure, which is not only beneficial for the company. The second one is taxation. In 2008 and 2009, heavy capex resulted in cash inflow, whereas 2006 and 2007 were marked by an effective tax rates below 10 %. In our analysis, effective tax rate gradually increases from 10 % in 2011 to 20 % in 2016 which may not prove correct but it is reasonable. One big obstacle in the future represents railway section Koper-Divača. The congestion may put a cap on throughput and effectively sales in next couple of years but may be postponed by orientation to more profitable segments as vehicles and containers. Threat of competition exists. Comparatively worse performance of Trieste and Rijeka may reverse out in next years. Rijeka pushed for some big investments in the past whereas Trieste lobbies heavily for a railway track Trieste-Divača, which is expected to shorten the time of delivery to their customers.

	Weighting scheme	Current fair price	12-month TP
DCF from EBIT	60 %	EUR 19.1	
Peer-to-peer&historical	20 %	EUR 10.3	
Implied EV/EBITDA	20%	EUR 17.1	
Final		EUR 16.9	EUR 18.7

Appendix 1

Analyst Certification

The views expressed in this report accurately reflect the personal views of undersigned analyst about the issuer of the security. The undersigned analyst has not and will not receive any compensation for providing a specific recommendation or view in this report. The recommendation has not been disclosed to anyone prior to public release. Bojan Ivanc

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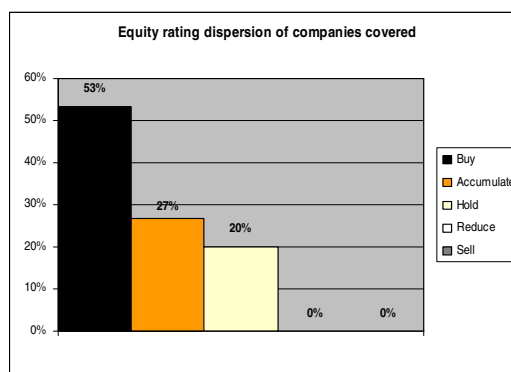
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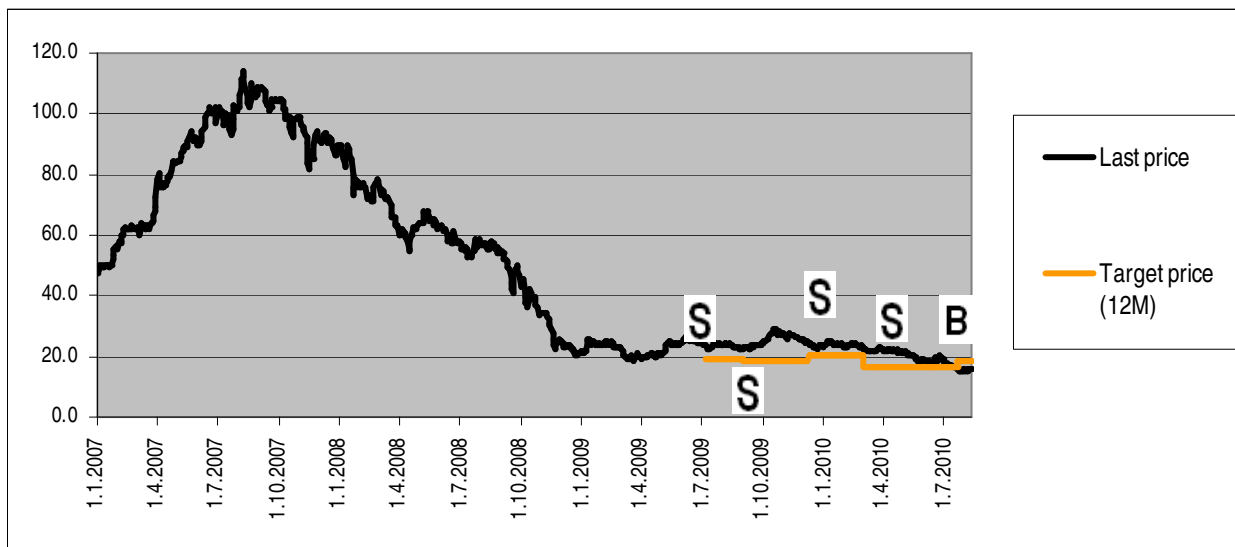
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Hold	-5%< from current price of recommendation<+5%
Reduce	-15%< from current price of recommendation<-5%
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Historical recommendation and target price



Date of recomm.	Recommendation	Target price
1. August 10 th , 2010*	Buy	EUR 18.7
2. March 2 nd 2009	Sell	EUR 16.7
3. December 8 th 2009	Sell	EUR 20.5
4. September 1 st 2009	Sell	EUR 18.4
5. July 6 th 2009	Sell	EUR 19.1

* On June 11th 2010 transfer of coverage was made from Matjaž Maletič to Bojan Ivanc.

Investment banking relationship

There was no investment banking relationship with the issuer.

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