

Chemoservis-Dwory S.A.

Price target: PLN 2.50

Initiating Coverage

Rating: BUY

Chemoservis-Dwory S.A. (CHS) is a Polish provider of complex maintenance, repair and modernization services for the Chemical, Petrochemical, Energy and Shipbuilding sector with traditions that date to the 1960s. In the last years, the company has realized projects for companies such as Synthos, Grupa Azoty, PKN Orlen (incl. their Czech subsidiaries), OMV, CEZ and MOL. After the sale of the recycling company MD-Proeco, which management do not consider their core business, and a deep operational restructuring in 2017, CHS is well-positioned for future growth. Despite a higher profitability in 9M/17, this is still not reflected in the company's current share price, which implies a P/Tangible BVPS of just 0.6x and EV/Sales 2017E of 0.4x. Our 12-months PT (80% DCF, 20% peer group) for the stock is PLN 2.50, which equals an upside of 71.3% at current level.

Since the beginning of 2017, CHS has restructured its business and disposed of non-core areas, which were sold at an attractive price (MD-Proeco, which had sales of PLN 4.5m in 2016, was sold for PLN 9.2m). This has increased the company's financing flexibility and provided it with necessary capital for future growth. As e.g. the Polish oil companies PKN Orlen and Grupa Lotos plan to invest PLN 1.6bn-PLN 5.4bn per annum and in case of the Polish Energy sector investments could even reach PLN 130bn in 2017E-2030E, the potential for CHS when it comes to development in its domestic market is significant. In addition, management want to grow inorganically (possibly also in other markets than Poland and the Czech Republic), with 2-3 acquisitions already planned in 2018E.

CHS' 9M/17 results already showed positive effects of the restructuring. While revenues declined by -24% to PLN 125.3m mainly due to high competition on the Polish market, EBIT (PLN 4.6m vs. PLN 0.3m) and net income (PLN 1.8m vs. PLN -0.2m) showed a strong improvement y-o-y. Operating cash flow in 9M/17 equaled PLN 8.7m (9M/16: PLN -5.5m) and free cash flow PLN 3m (PLN 3.3m). As of 30/09/2017, CHS had net gearing of 46.6%. For full-year 2017E, we expect revenues of PLN 164m, EBIT of PLN 6.1m and net income of PLN 2.6m. From 2018E, operating profitability should further increase due to planned efficiency improvements.

in PLNm	2015	2016	2017E	2018E	2019E	2020E
Net sales	226.49	220.66	164.02	176.36	189.62	203.89
EBITDA	8.87	8.37	9.09	10.12	11.26	12.52
EBIT	4.44	4.31	6.07	6.88	7.77	8.77
Net income	1.93	2.11	2.59	3.24	3.97	4.77
EPS	0.08	0.08	0.10	0.12	0.15	0.18
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
RoE	5.54%	2.96%	3.46%	4.13%	4.82%	5.51%
Net gearing	49.44%	53.93%	18.77%	27.18%	24.63%	21.35%
EV/Sales	0.32x	0.32x	0.44x	0.41x	0.38x	0.35x
EV/EBITDA	8.07x	8.55x	7.88x	7.07x	6.36x	5.72x
P/E	18.25x	18.25x	14.19x	12.20x	9.98x	8.30x

Company profile

Chemoservis-Dwory S.A. provides complex industrial services for clients from the Chemical, Petrochemical, Energy and Shipbuilding industries.

Website	www.chemoservis.pl
Sector	Industrial Services
Country	Poland
ISIN	PLCHMDW00010
Reuters	CHSPW.WA
Bloomberg	CHS PW

Share information

Last price	1.46
Number of shares (m)	25.01
Market cap. (PLNm)	36.51
Market cap. (EURm)	8.58
52-weeks range	PLN 1.80 / PLN 1.11
Average volume (shares)	65,752

Performance

4-weeks	16.80%
13-weeks	25.86%
26-weeks	22.69%
52-weeks	22.69%
YTD	17.74%

Shareholder structure

RAUNDS Sp. z.o.o	15.43%
Petro Mechanika S.A.	12.88%
Walton Spencer LLC	5.24%
Free float	66.45%

Financial calendar

Annual Report 2017 (exp.)	April 27, 2018
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Investment Case

- Chemoservis-Dwory S.A. (CHS), which is based in Oswiecim and whose origins date back to the 1960s, provides complex services relating to 24/7 technical maintenance, repair and modernization of various installations, equipment and industrial fittings as well as construction work. After 2017, which was a year of operational restructuring and disposal of non-core subsidiaries (sale of 64.1% in recycling company MD-Proeco for PLN 9.2m), CHS plans to concentrate on industrial services for clients from the Chemical, Petrochemical, Energy and Shipbuilding sectors. Management want to strengthen its business through acquisitions, whereby 2-3 are already supposed to be conducted in 2018E.
- Chemoservis-Dwory provides its services through subsidiaries in Poland and the Czech Republic. Its service contracts, which are automatically prolonged, usually have a duration of 12 months, while all others are project-based. The company's largest reference projects include the construction of the VRU installations for the second-largest Polish oil company Grupa Lotos S.A., the complex maintenance of the manufacturing installation at the chemical company Synthos S.A. and the modernization of cooling and the absorption column for the chemical company Grupa Azory S.A.
- CHS' market has excellent future prospects. While Polish oil companies PKN Orlen S.A. and Grupa Lotos S.A. plan to spend on CAPEX PLN 1.6bn-PLN 5.4bn per year by 2022E, the investments in the Polish Energy sector could reach even PLN 130bn in 2017E-2030E. The Chemical and Shipbuilding sectors are also interesting for the company due to necessary cost reductions, respectively planned orders by the Polish government for military and civil ships worth PLN 25bn by 2026E.
- In 9M/17, Chemoservis-Dwory generated sales of PLN 125.3m (-24% y-o-y), an EBIT of PLN 4.6m (9M/16: PLN 0.3m) and net income of PLN 1.8m (PLN -0.2m). In our view, while top-line growth was negatively affected by high competition, profitability was higher y-o-y due to efficiency improvements. Following a successful restructuring, we expect sales in full-year 2017E of PLN 164m (-25.7% y-o-y), EBIT of PLN 6.1m (+40.8%) and net income of PLN 2.6m (+22.9%). Despite the sale of MD-Proeco, which in 2016 had revenues of PLN 4.5m and an EBIT margin of 11%, we expect that by 2025E CHS will grow top-line at a CAGR of 5.3%, with EBIT margins of up to 4.7%.
- We rate Chemoservis-Dwory a BUY with a 12-months PT (80% DCF, 20% peer group) of PLN 2.50, which implies an upside of 71.3% at current level. With a P/Tangible BVPS of just 0.6x and EV/Sales 2017E of 0.4x, we believe CHS is a highly attractive company, which due to its long track record is set to be a major beneficiary of significant investments especially in the Polish Chemical, Petrochemical, Energy and Shipbuilding sectors in the coming years. Moreover, from 2018E we expect an improvement of profitability due to higher efficiency. As main risk factor, we regard the dilution of existing shareholders if CHS was to conduct a capital increase in order to be able to finance a higher number of larger projects.

SWOT Analysis

Strengths

- Relatively high diversification in terms of market segments: Chemoservis works with clients from the Chemical, Petrochemical, Energy and Shipbuilding industries
- Track record of >50 years, thus competitors face significant market entry barriers; Large clients such as Synthos, Grupa Lotos, Grupa Azoty, MOL, Spolana, OMV, Gazprom, CEZ
- Service contracts are signed for 12 months and automatically prolonged; only other contracts are project-based
- Solid liquidity and debt ratios
- Restructuring in 2017 has resulted in higher efficiency and a more focused business model

Opportunities

- The Polish oil companies PKN Orlen and Grupa Lotos plan to invest between PLN 1.6bn and PLN 5.4bn per year by 2022E; in the Energy sector, CAPEX could reach up to PLN 130bn by 2030E; in the Chemical sector, investments are necessary in order to remain competitive
- In the area of Shipbuilding, there is a need to replace c. 500 sea ferries worldwide by 2020E; Moreover, the Polish government plans to order military and civil ships for PLN 25bn by 2026E, which is supposed to help the Shipbuilding industry in Poland to become more competitive
- Potential acquisitions in Poland and abroad, which would strengthen and diversify CHS' business

Weaknesses

- Due to the nature of its activities, the Group is exposed to unpredictable costs related to potential repairs, which stem from quality guarantees
- High working capital requirements
- One client accounts for c. 20% of CHS' yearly sales; the 10 largest clients generate c. 80% of yearly revenues

Threats

- Increasing competition
- Risk relating to higher prices of subcontractors
- Relatively high dependence on Polish clients e.g. Synthos, Grupa Azoty, Grupa Lotos, of which many are controlled by the Polish state
- Risk relating to investment plans of the government relating to the Chemical, Energy, Petrochemical and Shipbuilding sectors
- Loss of key employees
- Risk of dilution of existing shareholders should CHS conduct a share issue in order to be able to realise a higher number of larger projects

Peer Group Analysis

Our peer group comprises six listed international companies (thereof five with estimates), which offer similar services to Chemoservis-Dwory. Moreover, we have included several privately-owned Polish companies, with whom CHS competes in some of its business segments.

Listed peers:

- (1) *Bilfinger SE*: Bilfinger, which is based in Mannheim/Germany, provides customized engineering and services to industrial customers. The company operates through Engineering & Technologies; Maintenance, Modifications and Operations segments. The Engineering & Technologies segment provides consulting, engineering, manufacturing, and assembly services for industrial facilities. The Maintenance, Modifications and Operations segment provides a range of services that cover the life cycle of industrial plants e.g. commissioning through maintenance and efficiency enhancements, expansion, conversion, or shutdown. The company serves customers in Chemical and Petrochemical, Energy and Utilities, Pharmaceuticals and Biopharma, Metallurgy and Cement industries primarily in Continental and Northwest Europe, North America, and the Middle East. In 2016, Bilfinger generated revenues of EUR 4.2bn. The segment "Industrial" contributed sales of EUR 3.2bn and an EBITA margin of 3.2%.

- (2) *Elektrotim S.A.*: Elektrotim S.A., which is based in Wroclaw/Poland, provides installation, and project management services in Poland. It offers electrical installations, such as electrical switchgears and low-current wiring systems; and maintenance for traffic engineering, traffic signals and lighting, and sanitary networks. The company also provides project management services for road and large-size investment management, as well as projects in the Industrial, Hydrotechnical, Military and Traffic sectors. In addition, it engages in the modernization, redevelopment, and construction of HV/MV substations; the modernization and construction of HV cables and overhead lines; automatics and industrial informatics business; and building, modernization, and maintenance of airport systems, as well as engineering support activities for electronic security systems for commercial, industrial, and special execution buildings. In 2016, the company generated revenues of PLN 258m.

- (3) *Aparator S.A.*: Aparator S.A., which is based in Torun/Poland, manufactures and sells metering and switchgear equipment in Poland and internationally. Its products include electricity meters; smart grid systems comprising remote data read out and prepayment systems; as well as water meters, heat meters, remote reading systems and installation fittings. Other products include radio telemetry modules, switchgear systems, 4G cam switches, APASYS 60, a modular designed current distribution system; and mining equipment, including contactor starters, transformers units, compressor units, sensors, wireless control systems, signalization and control equipment; as well as IT solutions in the areas of grid assets, utilization of power grid assets and grid assets development. In 2016, Aparator had sales of PLN 868.8m.
- (4) *Caverion Oyj S.A.*: Caverion Oyj, which is headquartered in Helsinki/Finland, operates as a service company in building systems, construction services, and industrial services especially in Sweden, Finland, Norway, Germany, Austria and Denmark. It designs, builds, operates, and maintains technical solutions for buildings and industries throughout the life cycle of the property. The company offers its services in the areas of advisory, design and engineering, project management and execution, technical maintenance, and managed services. In 2016, Caverion generated revenues of EUR 2.4bn.
- (5) *SPIE SA*: SPIE SA, which is based in Cergy-Pontoise/France, operates as a multi-technical services company in the areas of Energy and Communications in France and internationally. It offers electrical, mechanical, heating, ventilation, and air conditioning engineering services; and information and communications technology services comprising installation, upgrade, and management of voice, data, and image communications systems. The company operates through France, Germany & Central Europe, North-Western Europe, and Oil & Gas and Nuclear segments. In 2016, SPIE generated revenues of EUR 5.2bn.
- (6) *Energoaparatura S.A.*: Energoaparatura, which is based in Katowice, operates in the construction and installation market in Poland. The company provides services in the fields of electrical, instrumentation, control, low current works; construction, modernization, and maintenance of electric power plants, switching stations, and overhead power lines. In 2016, it had revenues of PLN 41.5m.

Privately-owned competitors:

- (7) *Grupa Partner*: Grupa Partner, which is based in Slupca, is a Polish holding, which provides services in the areas of Construction, Finance, Agriculture and Real Estate.
- (8) *Chemorozruch.*: Chemorozruch, which is based in Oswiecim and was founded in 1971, is a Polish provider of investment, repair, modernization and technical services through its field offices located in major industrial centers.

(9) *Mezap*: Mezap, which is based in Pulawy, provides services relating to construction of equipment and installations used in Chemical, Petrochemical, Power, Paper and Food industries. Additionally, it offers repair of the above-mentioned equipment as well as crane equipment and scales.

(10) *Chemar*: "CHEMAR", which is based in Kielce, produces equipment for oil refineries, sugar and manufacturing factories and fittings.

Company	EV/Sales		EV/EBITDA		P/E		P/BVPS	EBITDA margin	Net gearing
	2017E	2018E	2017E	2018E	2017E	2018E	Latest	Last FY	Latest
Bilfinger SE (EUR)	0.38x	0.38x	18.54x	8.52x	n.a	27.99x	1.15x	2.43%	-14.43%
Elektrotim S.A. (PLN)	0.30x	0.29x	8.49x	5.42x	n.a	n.a	1.20x	2.44%	-8.02%
Aparator S.A. (PLN)	1.08x	1.08x	7.96x	7.51x	11.84x	11.48x	1.87x	11.79%	28.87%
Caverion Oyi (EUR)	0.39x	0.39x	43.52x	9.36x	n.a	16.27x	2.85x	0.43%	53.24%
SPIE SA (EUR)	0.85x	0.78x	12.05x	10.82x	15.73x	13.51x	2.48x	7.33%	138.19%
Median	0.39x	0.39x	12.05x	8.52x	13.78x	14.89x	1.87x	2.44%	28.87%
Chemoservis-Dwory S.A. (PLN)	0.43x	0.40x	7.85x	7.05x	14.19x	12.20x	0.49x	3.79%	46.61%
Premium/Discount	11.6%	4.0%	-34.8%	-17.3%	2.9%	-18.0%	-73.8%		
Fair value Chemoservis-Dwory (PLN)	2.33								

Source: CapitalIQ, Thomson Reuters, East Value Research GmbH

Price target calculation

Valuation method	Fair value	Weight
DCF model	2.27	80%
Peer Group Analysis	2.33	20%
Weighted average (present value)	2.28	
In 12-months (PV * (1+WACC))	2.50	

Source: East Value Research GmbH

Recent results

Revenues and Profitability

In 9M/17, Chemoservis-Dwory S.A. generated total revenues of PLN 125.3m, which corresponded to a y-o-y decrease of 24%. The reason were declining sales of the subsidiaries ZEN Sp. z.o.o (-68% y-o-y to PLN 15.5m), ZBACH Sp. z.o.o (-33.5% to PLN 8.8m), CHS S.A. (-17.3% to PLN 43.5m) and BALTICSERVIS Sp. z.o.o (-11.1% to PLN 9.7m). The increases at other segments could not offset this.

in PLNm	9M/17	9M/16
Mechanical industry (CHS S.A.)	43.46	52.54
<i>Share in total sales</i>	<i>34.7%</i>	<i>31.9%</i>
<i>Gross margin</i>	<i>6.9%</i>	<i>9.9%</i>
Energy sector (ZEN Sp. z.o.o)	15.49	48.33
<i>Share in total sales</i>	<i>12.4%</i>	<i>29.3%</i>
<i>Gross margin</i>	<i>18.4%</i>	<i>2.8%</i>
Foreign markets (K-PROTOS a.s.)	48.30	41.42
<i>Share in total sales</i>	<i>38.5%</i>	<i>25.1%</i>
<i>Gross margin</i>	<i>9.6%</i>	<i>12.2%</i>
Waste management (MD-Proeco Sp. z.o.o)	3.68	3.20
<i>Share in total sales</i>	<i>2.9%</i>	<i>1.9%</i>
<i>Gross margin</i>	<i>27.7%</i>	<i>17.7%</i>
Industrial equipment (ZBACH Sp. z.o.o)	8.82	13.27
<i>Share in total sales</i>	<i>7.0%</i>	<i>8.1%</i>
<i>Gross margin</i>	<i>17.9%</i>	<i>13.8%</i>
Shipbuilding industry (BALTICSERVIS Sp. z.o.o)	9.65	10.85
<i>Share in total sales</i>	<i>7.7%</i>	<i>6.6%</i>
<i>Gross margin</i>	<i>-13.1%</i>	<i>-21.1%</i>
Others	0.00	0.01
<i>Share in total sales</i>	<i>0.0%</i>	<i>0.0%</i>
<i>Gross margin</i>	<i>100.0%</i>	<i>100.0%</i>
Consolidation	-4.09	-4.75
Total net sales	125.32	164.87

Source: Company information, East Value Research GmbH

in PLNm	9M/17	9M/16	change y-o-y
Net sales	125.32	164.87	-24.0%
EBITDA	7.05	3.33	111.4%
<i>EBITDA margin</i>	<i>5.6%</i>	<i>2.0%</i>	
EBIT	4.59	0.29	1466.2%
<i>EBIT margin</i>	<i>3.7%</i>	<i>0.2%</i>	
Net income	1.79	-0.24	-835.4%
<i>Net margin</i>	<i>1.4%</i>	<i>-0.1%</i>	

Source: Company information, East Value Research GmbH

EBIT and net income increased from PLN 0.3m in 9M/16 to PLN 4.6m and from PLN -0.2m to PLN 1.8m respectively. This stemmed from 25% lower operating expenses y-o-y, which were the result of the operational restructuring since the beginning of 2017.

Balance sheet and Cash flow

At the end of September 2017, Chemoservis Dwory S.A. had equity of PLN 79.3m, which corresponded to a ratio of 65%. Apart from equity, the largest balance sheet positions were trade liabilities and trade receivables (PLN 60.8m and PLN 58.7m respectively). As of 30 September 2017, Chemoservis Dwory S.A. had cash of PLN 2.3m, while its interest-bearing debt equaled PLN 43.8m (PLN 18.9m in loans taken, PLN 24.3m in issued bonds and PLN 697k of other financial debt). 57% of the total financial debt was short-term.

Between January and September 2017, Chemoservis Dwory S.A. generated an operating cash flow of PLN 8.7m compared to PLN -5.5m in Q1-Q3/16. The difference resulted from a cash inflow from working capital of PLN 3.1m (9M/16: cash outflow of PLN 11.6m). Cash flow from investing equaled PLN -5.7m (Q1-Q3/16: PLN 8.8m). Cash flow from financing amounted to PLN -7.4m (Q1-Q3/16: PLN -3m) and was mainly impacted by the repayment of loans and bonds (repayment of PLN 12.1m in Q1-Q3/2017 vs. PLN 11.5m last year).

Financial forecasts

Revenues and Profitability

We have based our model of Chemoservis-Dwory S.A. on the segments "Mechanical industry (CHS S.A.)", "Energy sector (ZEN Sp. z.o.o)", "Foreign markets (K-Protos a.s.)", "Industrial equipment (ZBACH Sp. z.o.o)" and "Shipbuilding industry (BALTICSERVIS Sp. z.o.o)". Our model does not account for the segment „Waste Management" as it reflected the operations of 64.1% subsidiary MD-Proeco Sp. z.o.o, which was sold in H2/17.

Below are our detailed assumptions for the respective segments. We would like to emphasize two things: (1) For simplicity, we have assumed a similar sales CAGR 17E-26E for all segments of 5.3% and (2) Our forecasts do not account for potential acquisitions, which management plan to conduct in the following years, also outside the existing markets Poland and the Czech Republic. We would like to emphasize that the revenues of Chemoservis-Dwory are based on 12-months service contracts that are automatically prolonged as well as other contracts that are project-based.

Mechanical Industry (CHS S.A.): This segment reflects the operations of holding company CHS S.A., which provides services relating to traffic maintenance for the Mechanical industry. We expect that this segment will generate a gross margin of 7% in full-year 2017E and >10% in the long run.

Energy sector (ZEN Sp. z.o.o): This segment reflects the operations of 100% subsidiary Zaklad Energetyczny ZEN Sp. z.o.o, which provides services relating to traffic maintenance for the Energy sector. We expect that this segment will generate a gross margin of 18% in full-year 2017E, but c. 16% in the long run.

Foreign markets (K-Protos a.s.): This segment reflects the operations of 100% subsidiary K-Protos a.s., which provides services relating to traffic maintenance for industrial clients in the Czech Republic. We expect that this segment will generate a gross margin of 9.6% in full-year 2017E and c. 12% in the long run.

Industrial equipment (ZBACK Sp. z.o.o): This segment reflects the operations of 66.67% subsidiary Zaklad Budowy Aparatury Chemicznej ZBACH Sp. z.o.o, which provides services relating to the construction of industrial equipment. We expect that this segment will generate a gross margin of 17.7% in full-year 2017E, however c. 11% in the long run.

Shipbuilding industry (BALTICSERVIS Sp. z.o.o): This segment reflects the operations of 100% subsidiary BALTICSERVIS Sp. z.o.o, which provides services relating to traffic maintenance for the Shipbuilding sector. We expect that this segment will generate a gross margin of -13.1% in full-year 2017E, however >9% in the long run.

in PLNm	2017E	2018E	2019E	2020E
Mechanical industry (CHS S.A.)	53.44	57.44	61.75	66.38
<i>(% of net sales)</i>	<i>32.6%</i>	<i>32.6%</i>	<i>32.6%</i>	<i>32.6%</i>
Gross margin	7.0%	7.7%	8.3%	9.0%
Energy sector (ZEN Sp. z.o.o)	55.10	59.23	63.67	68.45
<i>(% of net sales)</i>	<i>33.6%</i>	<i>33.6%</i>	<i>33.6%</i>	<i>33.6%</i>
Gross margin	18.0%	17.8%	17.5%	17.3%
Foreign markets (K-PROTOS a.s.)	45.20	48.59	52.24	56.15
<i>(% of net sales)</i>	<i>27.6%</i>	<i>27.6%</i>	<i>27.5%</i>	<i>27.5%</i>
Gross margin	9.6%	10.2%	10.7%	11.3%
Industrial equipment (ZBACH Sp. z.o.o)	11.58	12.45	13.39	14.39
<i>(% of net sales)</i>	<i>7.1%</i>	<i>7.1%</i>	<i>7.1%</i>	<i>7.1%</i>
Gross margin	17.7%	16.5%	15.3%	14.1%
Shipbuilding industry (BALTICSERVIS Sp. z.o.o)	0.30	0.32	0.34	0.37
<i>(% of net sales)</i>	<i>0.2%</i>	<i>0.2%</i>	<i>0.2%</i>	<i>0.2%</i>
Gross margin	-13.1%	-5.0%	1.0%	5.0%
Consolidation	-1.60	-1.68	-1.76	-1.85
Total net sales	164.02	176.36	189.62	203.89
<i>(change y-o-y)</i>	<i>-25.7%</i>	<i>7.5%</i>	<i>7.5%</i>	<i>7.5%</i>

Source: East Value Research GmbH

in PLNm	2017E	2018E	2019E	2020E
Net sales	164.02	176.36	189.62	203.89
EBITDA	9.09	10.12	11.26	12.52
<i>EBITDA margin</i>	<i>5.5%</i>	<i>5.7%</i>	<i>5.9%</i>	<i>6.1%</i>
EBIT	6.07	6.88	7.77	8.77
<i>EBIT margin</i>	<i>3.7%</i>	<i>3.9%</i>	<i>4.1%</i>	<i>4.3%</i>
Net income	2.59	3.24	3.97	4.77
<i>Net margin</i>	<i>1.6%</i>	<i>1.8%</i>	<i>2.1%</i>	<i>2.3%</i>

Source: East Value Research GmbH

in PLNm	Q1/15	Q2/15	Q3/15	Q4/15	2015
Net sales	40.55	71.22	55.67	59.05	226.49
<i>y-o-y change</i>	24.9%	4.8%	8.6%	0.4%	7.6%
EBITDA	3.20	2.41	3.80	-0.55	8.87
<i>EBITDA margin</i>	7.9%	3.4%	6.8%	-0.9%	3.9%
EBIT	2.08	1.29	2.75	-1.68	4.44
<i>EBIT margin</i>	5.1%	1.8%	4.9%	-2.8%	2.0%
Net income	0.84	1.16	1.41	-1.49	1.93
<i>Net margin</i>	2.1%	1.6%	2.5%	-2.5%	0.8%

in PLNm	Q1/16	Q2/16	Q3/16	Q4/16	2016	Q1/17	Q2/17	Q3/17	Q4/17E	2017E
Net sales	42.34	63.51	59.02	55.79	220.66	32.99	47.63	44.70	38.69	164.02
<i>y-o-y change</i>	4.4%	-10.8%	6.0%	-5.5%	-2.6%	-22.1%	-25.0%	-24.3%	-30.6%	-25.7%
EBITDA	0.55	1.46	1.32	5.04	8.37	0.46	4.52	2.07	2.04	9.09
<i>EBITDA margin</i>	1.3%	2.3%	2.2%	9.0%	3.8%	1.4%	9.5%	4.6%	5.3%	5.5%
EBIT	-0.39	0.35	0.33	4.02	4.31	-0.35	3.71	1.23	1.48	6.07
<i>EBIT margin</i>	-0.9%	0.5%	0.6%	7.2%	2.0%	-1.1%	7.8%	2.8%	3.8%	3.7%
Net income	-0.76	0.63	-0.11	2.35	2.11	-0.96	2.59	0.16	0.80	2.59
<i>Net margin</i>	-1.8%	1.0%	-0.2%	4.2%	1.0%	-2.9%	5.4%	0.4%	2.1%	1.6%

Source: Company information, East Value Research GmbH

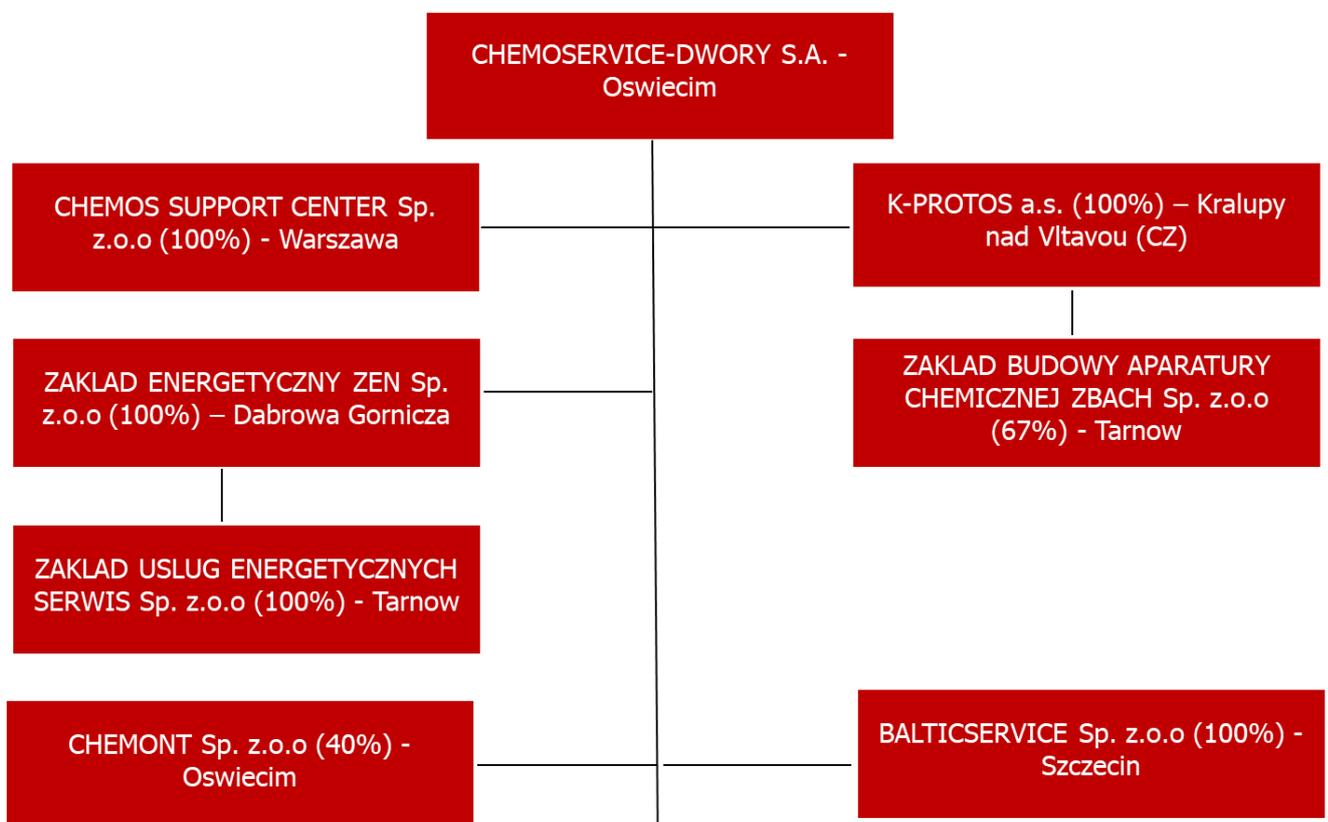
CAPEX and Working capital

We expect that due to the sale of MD-Proeco CHS will have a positive gross CAPEX of PLN 3.5m in full-year 2017E. However, in 2018E and 2019E it should equal PLN -3.3m and PLN -3.5m respectively. In terms of working capital, we forecast a cash inflow of PLN 15.9m in 2017E due to operational improvements, however investments of PLN >3.6m in 2018E and 2019E. In the long run, we expect that the share of working capital in total sales will reach 25.9% (2016: 24.9%) and the cash conversion cycle 40 days (2016: 40).

Business description

Chemoservis-Dwory S.A., which is based in Oswiecim/Poland, provides maintenance, repair and related services for industrial plants. The Group offers production and assembly of chemical plant equipment; prefabrication and construction of steel structures; repairs, revamping and maintenance works for scales, cranes, lifts, valves and other machines; continuous operation of chemical and industrial plants and units; repair works of rotary equipment, including pumps and compressors, and vibration equipment diagnoses. The company, which employs c. 800 people, has been listed on the Warsaw Stock Exchange since 2008. The Chemoservis Dwory Group was established in 2009, but the history of its entities dates to the 1960s.

Organizational structure



Source: East Value Research GmbH

Company history

- 1946: Foundation of Chemical Factory Oswiecim, the legal predecessor of Chemical Company Dwory S.A. (now Synthos Group) including Chemical Equipment Repair and Maintenance Department and Investment Department.
- 1998: On the basis of the above-mentioned companies, a separate economic entity is created as a consequence of the privatization process: Production-Trade Service Chemoservis- Dwory Sp. z.o.o, which is owned by Dwory SA.
- 2007: After a change of ownership (100% of the shares are acquired by a group of companies: PETRO Engineering S.A. PETRO Builders Sp. z.o.o, Eltech and PETRO Sp., z.o.o, derived from PKN Orlen S.A.) the company becomes a limited company. With the acquisition by strategic investors Chemoservice-Dwory S.A. could count on their resources (including the "know-how") in connection with the implementation of projects.
- 2008: The company expands its operations and takes over the maintenance services for the Electrical industry from Synthos Dwory Sp. z.o.o. The number of employees reaches 350.
- 2008: A key moment in the history of the company - the debut in the parallel market of the Stock Exchange in Warsaw on 25 November.
- 2009: The emergence of the Group Chemoservis-Dwory. The Group was established on 1 October 2009 following the acquisition of a 100% stake in Power Plant ZEN Sp. z.o.o.
- 2010: Acquisition of a 100% stake in K-Protos a.s.
Successful completion of the contract relating to the construction of the methyl ester oils plant in Tychy for Bioagra-Oil S.A. (Bakoma Group).
- 2012: Acquisition of a 64.1% stake in MD-Proeco Sp. z.o.o and entry into the hazardous waste disposal segment.
- 2013: Acquisition of a 66.7% stake in Zakład Budowy Aparatury Chemicznej ZBACH Sp. z.o.o and entry into the construction segment of large-scale chemical equipment.
- 2014: The development of BALTICSERVIS Sp. z.o.o and expansion into the segment of maintenance services for the Shipbuilding industry.
- 2016: Acquisition of a 40% stake in CHERMONT Sp. z.o.o and expansion into the construction segment for large-scale chemical equipment (with an option to buy the remaining 60% of shares).
- 2017: Sale of 64.1% in MD-Proeco for PLN 9.2m to Poland-based ENERIS INFRA 1 sp. z o.o.

Below is an overview over CHS' business segments:

Mechanical industry: This segment summarizes the operations of parent company Chemoservis-Dwory S.A. The company primarily provides comprehensive services related to 24-hour technical maintenance of Petrochemical, Energy and Electric installations; refurbishing and modernization of installations, devices and industrial fittings; construction and assembly works, including orders on general contractor basis. In 2016, the segment generated revenues of PLN 67.6m (30.7% share in the total) and a gross margin of 8.5%.

Energy industry: This segment sums up the operations of 100% subsidiary Zakład Energetyczny ZEN Sp. z.o.o., which has two main centers in Dabrowa Górnicza and Swietochlowice. The company performs works in the Electrical and Energy industry relating to modernization repairs and periodic inspections of machinery and equipment, as well as the construction of new installations. In 2016, the segment generated revenues of PLN 70.2m (31.8% share in the total) and a gross margin of 11.3%.

Foreign markets: This segment includes the results of 100% Czech subsidiary K-PROTOS a.s., which provides comprehensive services in the field of mechanical and electrotechnical maintenance for the Chemical and Petrochemical industries in its branches in Kralupy nad Vltavou, Neratowice and Kolin. In 2016, the segment generated revenues of PLN 55.1m (25% share in the total) and a gross margin of 11%.

Industrial equipment: This segment reflects the results of the 66.7% subsidiary Zakład Budowy Aparatury Chemicznej ZBACH Sp. z.o.o, which specializes in the production of equipment and devices for the Chemical, Energy, Petrochemical and Food industries and their repairs. The company has a well-equipped, universal machine park, modern equipment for cutting and welding carbon steel, alloy steel, non-ferrous metals and their alloys. In 2016, the segment generated revenues of PLN 16.5m (7.5% share in the total) and a gross margin of 10.8%.

Shipbuilding industry: This segment reflects the operations of 100% subsidiary BALTICSERVIS Sp. z.o.o, which provides technical maintenance and maintenance services in the Shipbuilding and Offshore industry e.g. ships, ferries, tugs and docks, operation of lifting and transporting equipment, service of power and electricity grids or servicing of tool rentals. The company has offices in the cities of Szczecin and Swinoujscie. BALTICSERVIS also ensures maintenance and repairs of equipment and installations along with the ongoing maintenance of the properties served. In 2016, the segment generated revenues of PLN 14.8m (6.7% share in the total) and a gross margin of -16.6%.

Others: This segment reflect the 100% subsidiary CHEMONT Sp. z.o.o, which manufactures and assembles installations, chemical and industrial equipment, steel structures, pressure and non-pressure tanks, and also provides repair and assembly services for the Chemical industry, pipeline and chemical equipment repair.

Zakład Usług Energetycznych Serwis Sp. z.o.o, which conducts works related to construction services, installation works, execution of steel structures, cleaning works and servicing of industrial facilities, is consolidated at-equity.

Management

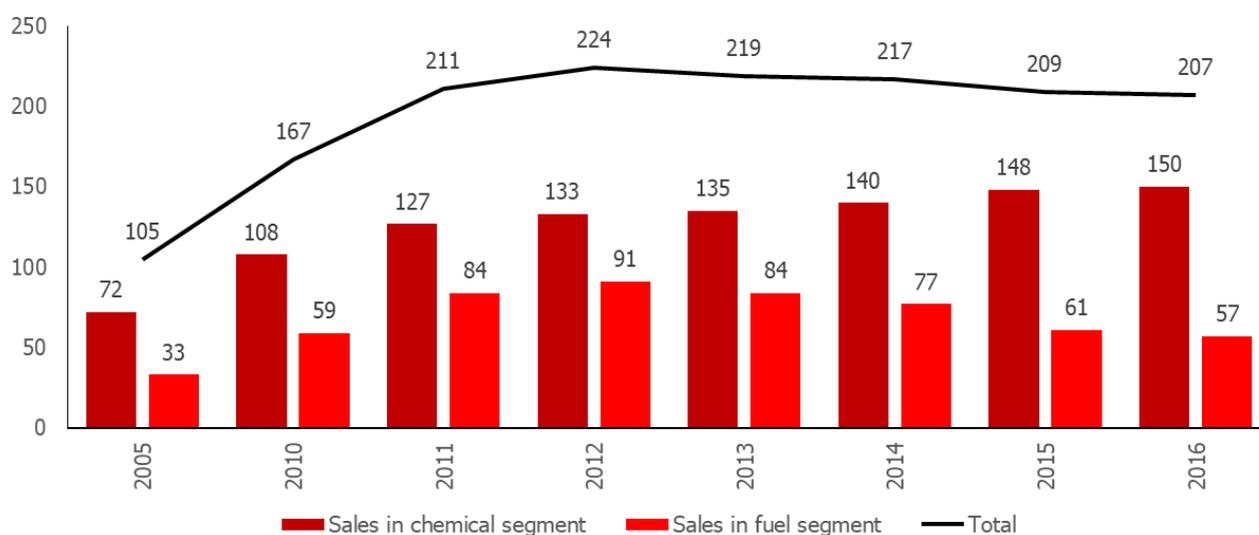
Wojciech Mazur (CEO): Mr Wojciech Mazur has been CEO of Chemoservis-Dwory S.A. since 2010. Previously, he worked among others as CEO at Zaklad Energetyki Ciepłej in Swiecie, Member of the Board at Construction Office MD Projekt Sp. z.o.o and Trade Director at PUT Unimech S.A. Mr Mazur graduated with a Master's degree in Mechanical Engineering from the UTP University of Science and Technology in Bydgoszcz. He also completed postgraduate studies in Real Estate Economics and Investment at the Poznan University of Economics.

Market environment

Chemical and petrochemical industry - Size and perspectives

The Chemical industry in Poland, which consists of the segments Chemicals and Fuels, is the second industrial sector in terms of the value of sold production and the third in terms of employment. The sector consists of over 10,000 entities of various sizes and specializations - from large integrated chemical groups to medium and small chemical processing plants. The activities of the chemical industry are supported by specialized staff and scientific and research facilities of national institutes.

Size of the chemical market in Poland (PLN m)



Source: EY Report 2017, East Value Research GmbH

Between 2005 and 2011, the value of the Chemical market in Poland more than doubled from PLN 105m to PLN 211m and grew at a CAGR 2005-2016 of 6.4%. While in the Chemicals segment the sales CAGR 2005-2016 amounted to 6.9%, in Fuels it reached 5.1%. Due to the introduction of new environmental requirements by the European Union, the development of new automotive drives, as well as the need to maintain constantly high operational and cost efficiency the companies from this industry will have to spend many millions on the necessary investments in infrastructure in the coming years.

Below, we present some of the largest planned investments in the Polish Chemical/Petrochemical industry in the coming years:

Entity	Details	Value of investment (in PLNm)	Year
The Azoty Group	Installation for the production of propylene by the PDH method	2,690	2021
The Azoty Group	Installation of coal gasification*	1 700 - 2 500	n/a
The Azoty Group	Construction of a heat and power plant in Puławy	>1 000	n/a
The Azoty Group	Fifth nitric acid line and new neutralization installation (including modernization)	700	2021
The Azoty Group	Installation of mechanical granulation of saltpetre	385	2020
Boryszew	Zakłady Maflow (cables for air conditioning) and BAP (Boryszew Automotive Plastics) in Toruń	300	2017/2018
The Lotos Group	Construction of WOW - installation for the production of hydrogen	150	2018
PKN Orlen	Visbreaking to manage residues / metathesis	n/a	2020
Anwil	Extension of the fertilizer installation	n/a	2020
Ciech	Further construction of desulphurisation and denitrification installations in combined heat and power plants (Inowrocław and Janikowo)	n/a	n/a

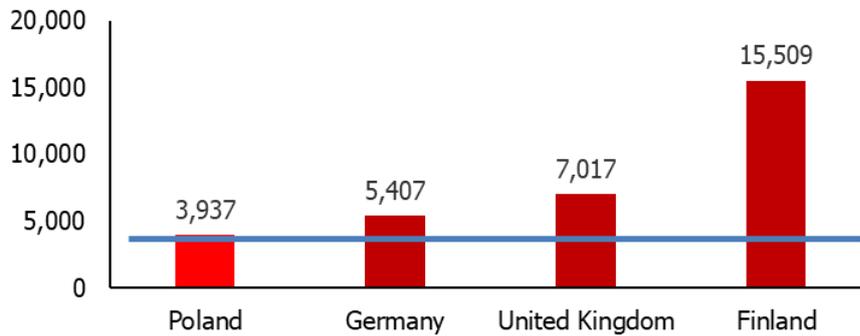
Source: EY Report 2017, East Value Research GmbH

Energy industry - Investment needed

The bad financial situation of Polish mines, the climate policy of the European Union, which is focused on the reduction of greenhouse gas emissions, and the growing demand for electricity force the Polish Energy sector to conduct multi-billion investments. According to some forecasts, by 2030E they could reach even PLN 130 billion. The answer to these calls may be the consolidation of energy companies and their integration with mining. As a result, strong entities would be created that are able to implement large investments and successfully compete on the European market.

In Poland, electricity consumption is 3,937 kWh per capita, while in Germany and the United Kingdom it reaches 7,017 kWh and 5,407 kWh per capita, respectively. In Finland, which is one of the European record-breakers in this respect, electricity consumption per capita amounts to 15,509 kWh. According to forecasts in Poland, energy consumption will grow rapidly - chasing the European average - and by 2030E it will increase by 70 TWh. At the same time, the system will lose approximately 14 GW of power due to the shutdown of obsolete power plants.

Electricity consumption per capita in 2017 in selected countries



Source: East Value Research GmbH

Shipbuilding industry - Size and perspectives

In 2016, the Shipbuilding industry in Poland generated PLN 10.6bn of sales. Despite the difficult situation on the global level, the companies from the sector in Poland are doing well, although they still do not fully use their potential. Seaports have plenty of transshipments, shipyards carry out ambitious projects intensively looking for new orders, and many suppliers of devices for vessels successfully compete on international markets.

According to data provided by the "Employers Forum", developed in cooperation with PortalMorski.pl, in 2016 12 fully-equipped vessels were built in Poland with a total compensated gross capacity tonnage of 68,004 CGT (measure considering labor consumption in comparison between ships of different types) and gross tonnage of 38,883 t (GT).

The shipyards associated in the Shipyard Forum have a 60% share in the market of newly built units in terms of value. In 2016, Polish shipyards in general built, also as subcontractors for foreign shipyards, at least 37 hulls or partially-equipped vessels with a total tonnage of 78,248 GT, which is about twice as much as in the case of fully-equipped vessels.

At the end of 2016, there were 21 fully-equipped vessels in the order book of the Polish shipyards, representing a total of 140,214 CGT and 81,739 GT. At the end of last year, at least 53 partially-equipped vessels or hulls with a total tonnage of 89,179 GT were also ordered at Polish shipyards.

As for the sales structure, it is estimated that the construction of new vessels accounts for 19%, repairs and reconstructions have a 16% share, and supplies of equipment and other services (in addition to renovations) account for 65%.

Positive trends in the Polish Shipbuilding industry

The positive climate in the Maritime industry and in the Shipbuilding industry is supported by the fact that the government Act on the activation of the Shipbuilding industry and complementary industries has been implemented since 1 January 2017. The purpose of the new law was to create more favorable conditions for the development of the Shipbuilding industry, directed at the development of existing and creation of new Polish companies that will be able to execute contracts for the construction of sea and inland vessels as final products in Poland. The law also assumes the development and creation of enterprises within the framework of industries related to the Shipbuilding market. An important element of the changes is also the introduction of a flat rate tax in the scope of ship construction or ship reconstruction, the application of a zero VAT rate on products of the Shipbuilding industry and related industries. As part of these measures, the Polish government also plans to order at Polish shipyards the construction of military and civil naval vessels, whose value could reach PLN 25bn by 2026E.

Profit and loss statement

in PLNm	2015	2016	2017E	2018E	2019E	2020E
Net sales	226.49	220.66	164.02	176.36	189.62	203.89
Cost of goods sold	-197.18	-196.29	-144.01	-154.48	-165.72	-177.78
Gross profit	29.31	24.37	20.01	21.88	23.91	26.11
Other operating income	2.30	0.48	4.80	3.84	3.88	3.92
Distribution costs	-6.45	-0.50	-1.64	-1.76	-1.90	-2.04
Personnel costs	-13.82	-15.35	-10.99	-11.82	-12.70	-13.66
Other operating expenses	-2.47	-0.63	-3.09	-2.02	-1.92	-1.81
EBITDA	8.87	8.37	9.09	10.12	11.26	12.52
Depreciation & Amortization	-4.43	-4.06	-3.02	-3.24	-3.49	-3.75
EBIT	4.44	4.31	6.07	6.88	7.77	8.77
Net financial results	-2.48	-0.11	-2.60	-2.58	-2.56	-2.54
Write-downs	0.00	0.00	0.00	0.00	0.00	0.00
EBT	1.96	4.20	3.47	4.30	5.21	6.23
Income taxes	-1.05	-1.89	-0.66	-0.82	-0.99	-1.18
Minority interests	1.01	-0.20	-0.22	-0.24	-0.26	-0.28
Net income / loss	1.93	2.11	2.59	3.24	3.97	4.77
EPS	0.08	0.08	0.10	0.12	0.15	0.18
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Share in total sales						
Net sales	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Cost of goods sold	-87.06 %	-88.96 %	-87.80 %	-87.59 %	-87.39 %	-87.19 %
Gross profit	12.94 %	11.04 %	12.20 %	12.41 %	12.61 %	12.81 %
Other operating income	1.01 %	0.22 %	2.93 %	2.18 %	2.05 %	1.92 %
Distribution costs	-2.85 %	-0.22 %	-1.00 %	-1.00 %	-1.00 %	-1.00 %
Personnel costs	-6.10 %	-6.96 %	-6.70 %	-6.70 %	-6.70 %	-6.70 %
Other operating expenses	-1.09 %	-0.28 %	-1.89 %	-1.14 %	-1.01 %	-0.89 %
EBITDA	3.92 %	3.79 %	5.54 %	5.74 %	5.94 %	6.14 %
Depreciation & Amortization	-1.96 %	-1.84 %	-1.84 %	-1.84 %	-1.84 %	-1.84 %
EBIT	1.96 %	1.95 %	3.70 %	3.90 %	4.10 %	4.30 %
Net financial results	-1.09 %	-0.05 %	-1.59 %	-1.46 %	-1.35 %	-1.25 %
Write-downs	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
EBT	0.87 %	1.90 %	2.11 %	2.44 %	2.75 %	3.05 %
Income taxes	-0.46 %	-0.86 %	-0.40 %	-0.46 %	-0.52 %	-0.58 %
Minority interests	0.45 %	-0.09 %	-0.13 %	-0.14 %	-0.14 %	-0.14 %
Net income / loss	0.85 %	0.96 %	1.58 %	1.84 %	2.09 %	2.34 %

Balance Sheet

in PLNm	2015	2016	2017E	2018E	2019E	2020E
Cash and cash equivalents	4.99	6.77	27.81	13.27	7.16	1.72
Other financial assets	2.16	2.91	2.94	2.97	3.00	3.03
Inventories	17.20	26.93	18.77	19.07	19.33	19.52
Trade accounts and notes receivables	38.38	40.37	29.72	31.64	33.68	35.85
Prepaid expenses, deferred charges and others	33.64	47.85	35.57	38.25	41.12	44.22
Current assets	96.36	124.83	114.80	105.20	104.29	104.34
Property, plant and equipment	48.17	45.32	38.80	38.80	38.80	38.80
Other intangible assets	0.48	0.38	0.38	0.39	0.39	0.39
Goodwill	14.63	13.16	13.16	13.16	13.16	13.16
At-equity investments	4.94	5.06	5.29	5.34	5.40	5.45
Assets held-for-sale	0.09	0.09	0.09	0.09	0.09	0.09
Other long-term assets	0.01	0.01	3.98	4.02	4.06	4.10
Deferred tax assets	5.73	5.78	5.29	4.67	3.92	3.01
Non-current assets	74.06	69.81	66.99	66.47	65.81	65.00
Total assets	170.42	194.64	181.80	171.67	170.11	169.34
Trade payables	26.20	41.44	29.26	30.16	31.04	31.88
Short-term financial debt	23.51	21.86	26.60	20.45	14.30	8.15
Other liabilities	16.15	18.69	15.70	16.01	16.33	16.66
Provision	0.67	0.17	0.16	0.53	0.56	0.61
Current liabilities	66.52	82.17	71.72	67.15	62.24	57.30
Long-term financial debt	18.01	27.03	18.60	17.60	16.60	15.60
Other long-term liabilities	0.19	0.14	0.13	0.15	0.16	0.17
Provisions	1.86	1.47	1.10	1.45	1.56	1.68
Deferred tax liabilities	4.44	6.47	8.40	0.00	0.00	0.00
Long-term liabilities	24.50	35.11	28.23	19.20	18.32	17.45
Total liabilities	91.03	117.28	99.95	86.35	80.55	74.75
Shareholders equity	69.53	72.71	76.98	80.22	84.19	88.95
Minority interests	9.86	4.65	4.87	5.11	5.37	5.64
Total liabilities and equity	170.42	194.64	181.80	171.67	170.11	169.34

Cash Flow Statement

in PLNm	2015	2016	2017E	2018E	2019E	2020E
Net income / loss	1.93	2.11	2.59	3.24	3.97	4.77
Depreciation & Amortization	4.43	4.06	3.02	3.24	3.49	3.75
Change of working capital	-7.64	-7.44	15.91	-3.68	-3.96	-4.27
Others	-0.85	1.40	-2.04	7.07	-0.90	-1.07
Net operating cash flow	-2.13	0.12	19.48	9.88	2.59	3.18
Cash flow from investing	-7.91	8.80	3.50	-3.25	-3.49	-3.75
Free cash flow	-10.04	8.92	22.98	6.63	-0.90	-0.57
Cash flow from financing	11.02	-7.14	-1.94	-21.17	-5.21	-4.87
Change of cash	0.97	1.78	21.04	-14.54	-6.11	-5.44
Cash at the beginning of the period	4.01	4.99	6.77	27.81	13.27	7.16
Cash at the end of the period	4.99	6.77	27.81	13.27	7.16	1.72

Financial ratios

Calendar year	2015	2016	2017E	2018E	2019E	2020E
Profitability and balance sheet quality						
Gross margin	12.94%	11.04%	12.20%	12.41%	12.61%	12.81%
EBITDA margin	3.92%	3.79%	5.54%	5.74%	5.94%	6.14%
EBIT margin	1.96%	1.95%	3.70%	3.90%	4.10%	4.30%
Net margin	0.85%	0.96%	1.58%	1.84%	2.09%	2.34%
Return on equity (ROE)	5.54%	2.96%	3.46%	4.13%	4.82%	5.51%
Return on assets (ROA)	5.17%	1.21%	2.76%	3.29%	3.82%	4.30%
Return on capital employed (ROCE)	1.99%	2.10%	4.47%	5.33%	5.84%	6.34%
Economic Value Added (in PLNm)	-8.02	-8.55	-5.77	-4.58	-4.17	-3.77
Net debt (in PLNm)	34.37	39.21	14.45	21.80	20.74	18.99
Net gearing	49.44%	53.93%	18.77%	27.18%	24.63%	21.35%
Equity ratio	40.80%	37.36%	42.34%	46.73%	49.49%	52.53%
Current ratio	1.45	1.52	1.60	1.57	1.68	1.82
Quick ratio	0.68	0.61	0.84	0.71	0.70	0.71
Net interest cover	1.79	39.54	2.33	2.67	3.04	3.45
Net debt/EBITDA	3.87	4.69	1.59	2.15	1.84	1.52
Tangible BVPS	2.20	2.38	2.53	2.47	2.62	2.80
Capex/Sales	-29.90%	0.16%	2.13%	-1.84%	-1.84%	-1.84%
Working capital/Sales	20.61%	24.87%	23.76%	24.18%	24.58%	24.95%
Cash Conversion Cycle (in days)	45	40	40	39	39	39
Trading multiples						
EV/Sales	0.32	0.32	0.44	0.41	0.38	0.35
EV/EBITDA	8.07	8.55	7.88	7.07	6.36	5.72
EV/EBIT	16.13	16.61	11.80	10.41	9.21	8.17
P/Tangible BVPS	0.67	0.61	0.58	0.59	0.56	0.52
P/E	18.25	18.25	14.19	12.20	9.98	8.30
P/FCF	-3.63	4.09	1.60	5.97	-43.88	-69.52

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Add: Based on our analysis, we expect the stock to appreciate and generate a total return between 0% and 10% over the next twelve months

Reduce: Based on our analysis, we expect the stock to cause a negative return between 0% and -10% over the next twelve months

Sell: Based on our analysis, we expect the stock to cause a negative return exceeding -10% over the next twelve months

The respective supervisory authority is:

Bundesanstalt für Finanzdienstleistungsaufsicht
Lurgiallee 12
60439 Frankfurt