

Hypo Bank analysts recommend purchase of Dalekovod shares

Due to the anticipated increase of Dalekovod revenue in the next years, a „recommended purchasing“ rating has been granted to the Dalekovod share by the Hypo Alpe-Adria Group analysts

“As Dalekovod is specialized in offering a wide range of engineering services, the company shall be able to transcend regional borders, strengthen export and decrease a relatively huge dependence on state orders recorded in the past few years”, was reported in the analysis of the Hypo Economic Analysis Department.

The Hypo Alpe-Adria Bank analysts emphasize that the company realized an estimated cumulative annual growth rate of 13.3 % from 2005 till 2007, while in the same period the share of domestic sales in total sales amounted to 85%.

“We believe that the management shall, in the next two years focus on exploitation of its references and *know-how* acquired during the positive swing of domestic construction industry for creation of an export oriented business model”, emphasized the Hypo analysts.

The Hypo analysts anticipate that Dalekovod revenues, which should reach up to two billion kunas this year, shall double by the year 2014.

Taking into account the Management plans to increase the share of export revenues in total sales in the medium-term from 20% as recorded in 2007 to 50%, the Hypo analysts believe that the geographic mix of the company sales shall change in the forthcoming years.

Besides the last year’s export contracts signed in Albania, Montenegro, Kazakhstan and Norway, related to construction and erection of transmission lines, the Hypo Bank analysts anticipate that export of Dalekovod shall in the future years be oriented towards the segment of power transmission and distribution accessories of high EBIT (Earnings Before Interest and Tax) margins, amounting even to 30%.

Due to a global increase in demand in this segment of accessories, HAAB believe that it would not be surprising at all that Dalekovod manages to be awarded profitable international projects and as a result gain references on various markets.

Besides, Dalekovod large potential lies in Serbia where a 10 billion euro worth investment into modernization of a railway system and investment into rehabilitation of road infrastructure is anticipated.

Taking into account the above, the Hypo Bank analysts anticipate cumulative rate of annual export growth of Dalekovod within the period from 2008 till 2014 by 16.1%, while export in 2014 would reach as high as 33.4% of total sales.

The reasonable value of Dalekovod share at this moment, according to the analysis of discounted cash flow, shall amount to 1,525 kunas. This value, however, shall not include possible return on real estate, owned by the company, nor the effect of potential joint acquisition of the Mostar company Aluminiij together with the company Glencore.

Last week Dalekovod company on the Zagreb Stock Exchange ended up with the price of 1,150 kunas. In the past year, the share ranged from 1,121 to 1,950 kunas.

According to the applied analysis of the relations between the current share prices and the book-keeping values that assume long-term growth rate of 8.8%, sustainable rate on return on capital of 17.8% and capital costs of 9.3%, the Hypo analysts anticipate that the targeted share price shall be 3,854 kunas.

According to the above calculation, the reasonable price of that share in the next 12 months shall be 1,689 kunas. In this way it deserves a rating "to be purchased".

Despite the above, the Hypo Bank analysts point out that due to current overall market corrections it is difficult to determine the investment horizon which is necessary in order to justify the fundamental company indicators.