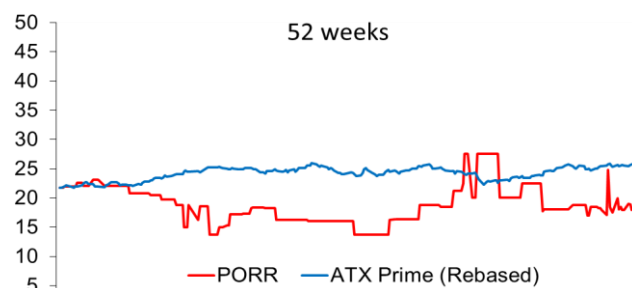


PORR

Initiated with BUY

EURmn	2012	2013e	2014e	2015e
Output volume	2,891.0	3,032.3	3,507.0	3,636.7
Net Sales	2,314.8	2,456.1	2,546.1	2,673.0
EBITDA	103.8	113.6	132.3	139.4
EBIT	53.8	62.2	81.8	89.9
Net result	11.7	16.8	31.4	45.8
EPS (EUR)	1.08	1.47	2.64	3.85
CEPS (EUR)	6.58	6.36	8.40	8.88
BVPS (EUR)	21.07	22.11	24.49	27.85
DPS (EUR)	0.31	0.41	0.66	1.12
EV/EBITDA (x)	8.49	7.64	6.07	4.44
P/E (x)	17.19	11.84	6.59	4.52
P/CE (x)	2.83	2.74	2.07	1.96
Dividend Yield	1.7%	2.4%	3.8%	6.5%



Performance	12M	6M	3M	1M
in EUR	-20.0%	8.8%	-36.7%	-5.8%

Share price (EUR) close as of 30/09/2013	17.4	Reuters	ABGV.VI	Free float	11.6%
Number of shares (mn)	11.9	Bloomberg	POS AV	Shareholders	Renaissance (7.0%)
Market capitalization (EUR mn)	207.1	Div. Ex-date	28/05/13	Syndicate (Ortner/Strauss)	(67.96%)
Enterprise value (EUR mn)	867.8	Target price	24.4	Homepage:	www.porr.at

Attractive turn-around story ahead

Analyst:

Daniel Lion, CIAA
 +43 (0)5 0100 - 17420
 daniel.lion@erstegroup.com

We initiate coverage on Austria's 2nd largest construction company with a **Buy recommendation** and **target price of EUR 24.4**.

The industry has bottomed out, many peers went into default with the most prominent being Alpine, which provides plenty of construction output to be grabbed on markets that PORR focuses on (EUR 2.2bn in Austria and Germany only). PORR aims at intelligent growth relying on its strong market position and excellent know how.

PORR's new management has started to focus on the right issues to **raise attractiveness from investor's point of view**. Management aims to sustainably **improve efficiency, reduce working capital**, gradually **eliminate its currently high net debt** position and reduce its total balance sheet to **bolster its equity ratio**.

Management targets a **capital increase in 2015 at the latest**, having **authorized 50% new shares** to be sold. This SPO would add some strong arguments for the share – an increased tradability would be just one of them.

Even by remaining well behind PORR's medium term targets (EBT of 3%, Net debt to zero), **the depicted growth path provides an attractive investment case**. EPS is expected to more than triple until 2015 vs. 2012.

SWOT analysis

Strengths

- Strong market position in Austria and Germany
- Good network to gain new contracts
- New management sets right focus and measures to strengthen financial position

Weaknesses

- Weak balance sheet structure
- High indebtedness – high cost of debt
- Hardly any liquidity in stock

Opportunities

- Significant leverage ahead from efficiency gains and debt reduction
- Capital increase (re-IPO) to raise attractiveness for investors
- Construction industry slowly gaining pace again after bottoming out

Threats

- Negative industry sentiment after Alpine default could raise price of refinancing of bonds

Company profile

Investment Story

PORR is turnaround story

The story of PORR is a classic turnaround story. The industry has bottomed out and many peers have gone into default. The most prominent is Alpine, which provides plenty of construction output to be grabbed in the markets that PORR focuses on (EUR 2.2bn in Austria and Germany alone). Price pressure should be eased as well, as Alpine was among the most aggressive players in this respect.

Management has right focus

Apart from the improving market conditions and environment, PORR's new management has started to focus on the right issues to raise attractiveness from the investor's point of view. Management aims to sustainably improve efficiency, reduce working capital, gradually eliminate its currently high net debt position and reduce its total balance sheet to bolster its equity ratio.

Weak balance sheet structure partially offset by development portfolio

The balance sheet structure is weak at the moment, with net debt of EUR 677mn and an equity ratio of 15.7% (FY12). One has to bear in mind, though, that the real estate development portfolio of around EUR 480mn is ready for sale upon finalization. PORR aims to gradually reduce the strong impact of this business area by developing less and off-balance.

Capital increase scheduled for 2015, at latest

Management has also already stated its intention to target a capital increase in 2015, at the latest, having authorized 50% new shares to be sold. This SPO would add some strong arguments for the business case, as it would bolster the balance sheet structure, bring down indebtedness, pay back the expensive part of the profit participation rights (EUR 40mn; 13% dividend) and create an attractive free float, among others.

Our model assumptions leave plenty of additional potential

Our model and valuation assumptions do reflect some efficiency gains going forward, but leave plenty of additional potential to be exploited. This can be seen by the fact that we have not incorporated PORR's mid-term targets in terms of the EBT margin of 3% and wiping out net debt. Still, we do arrive at an attractive business case providing attractive upside, while incorporating a liquidity discount of 25% that will be removed with the targeted capital increase (which we have not reflected in our model). Our valuation assumptions including a cost of equity of 15.4% (WACC at 7.8%), which shows our conservative valuation approach.

PORR History

- 1869** Foundation of Allgemeine österreichische Baugesellschaft
First listing on stock exchange
- 1873** Construction of seven exhibition pavilions and numerous hotels for World Exhibition in Vienna
- 1927** Merger to become Allgemeine Baugesellschaft – A. Porr Aktiengesellschaft
- 1930** Pioneering projects such as Grossglockner Alpine Road
Construction of various power plants, roads, railways and industrial facilities
Executing large-scale general contractor projects
- 1960** Construction of many office and commercial buildings such as Ringturm Tower in Vienna
- 2011** PORR – international success
Extensive reorganization and founding of powerful PORR Bau GmbH
- 2013** Corporate wording change
Allgemeine Baugesellschaft-A. Porr Aktiengesellschaft in PORR AG

Source: Company data

Management

CVs of PORRs board members



CEO Karl-Heinz Strauss

After graduating from the technical college of civil engineering, Karl-Heinz Strauss studied at Harvard University, the MBS in St. Gallen and gained his MBA from the IMADEC University in Vienna. Until 2000, he worked in various positions at RZB, including in the construction and real estate divisions. He then founded Strauss & Partner Immobilien GmbH; one of its best known projects is the EURO PLAZA at Wienerberg. In September 2010, he took over as CEO of PORR AG.



CFO Christian Maier

Christian Maier graduated in mechanical engineering from HTBL Kapfenberg, before going on to study business administration and geology in Vienna. His career led him to Creditanstalt and Bank Austria before moving to UIAG. As CFO at UIAG from 1998, Maier played a key role in the company's success and then in 2003 he took up the post of CFO at Constantia Industries. Maier was appointed CFO of PORR AG on February 1, 2012.

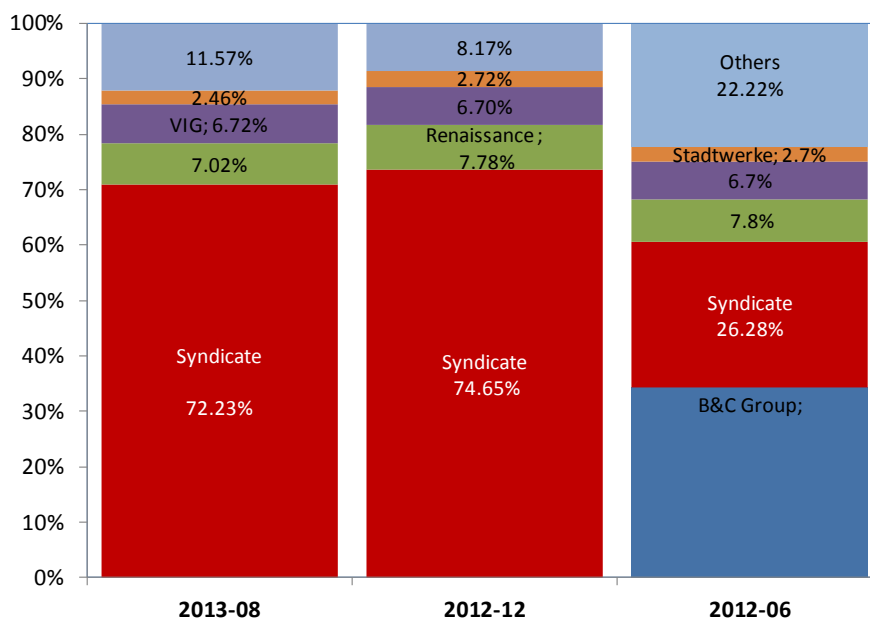


COO J. Johannes Wenkenbach

After graduating from Delft Technical University, Wenkenbach began his career at the Dutch construction company Ballast Nedam Groep. Wenkenbach has built up his international expertise in the construction industry throughout his career in various international construction companies such as Royal BAM Group and Wayss & Freitag Ingenieurbau AG. Most recently, Wenkenbach was COO of the El Seif Group in Saudi Arabia and was responsible for the infrastructure division in his role as vice president.

Source: Company data

Shareholder Structure development 2012-06 until 2013-08



Source: Company data

2012-Oct: Strauss-Group acquired B&C stake

In October 2012, Strauss-Group acquired a 37.9% stake from B&C Group and UniCredit, entering the syndicate agreement between B&C and Ortner Group to replace B&C. After a mandatory takeover bid, the new syndicate held a stake of 74.65%, out of which about 4% was offered to management.

2013: Small capital increase (10%), share merger, share split

In May 2013, PORR issued about 288k (or 10.7%) new shares at a price of EUR 72, adding about EUR 20.7mn of capital. Together with the merger of preference (642k) and ordinary shares (2.33mn), the number of shares was split 1:4. The actual number of shares is therefore 11.9mn.

Syndicate contract valid until 2022

Following the latest share transactions, the syndicate between Strauss-Group and Ortner-Group now holds slightly below 68%. The syndicate contract is set for 10 years and hence is valid until 2022.

Stake to be reduced to 50%+1 in medium term

In the medium term, the syndicate aims to reduce its stake to 50%+1 share. The MB is therefore authorized to issue up to 50% new shares within the next five years, although it seems that a major capital increase could already take place in 1H14, which would aim to bolster the currently weak balance sheet structure.

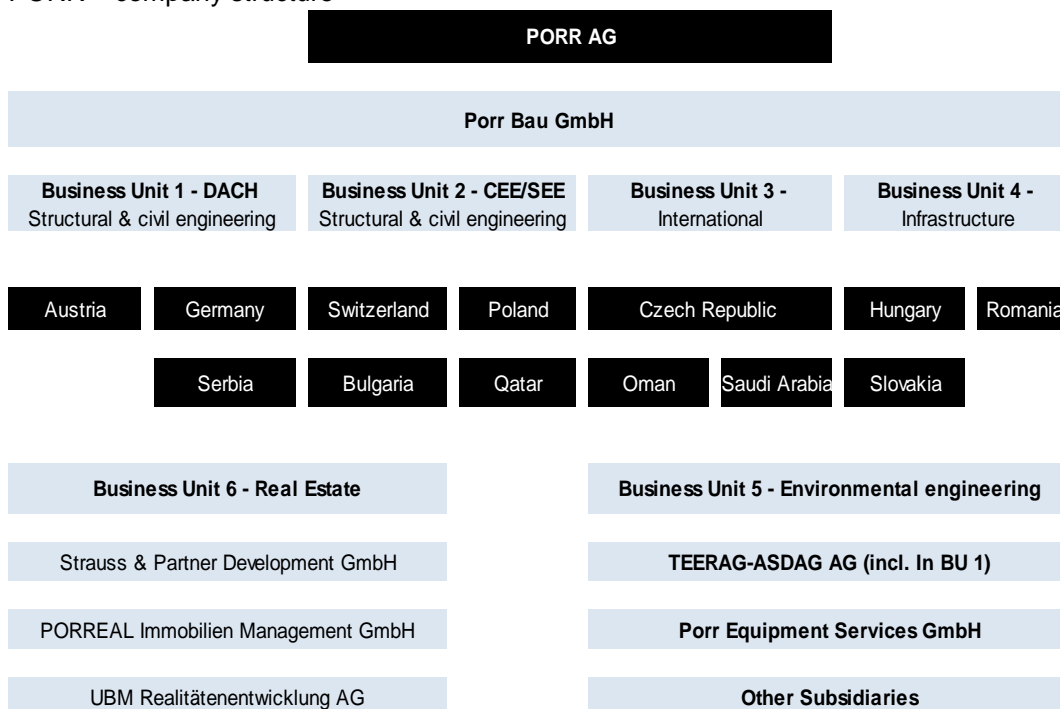
Streamlining of capital structure in 2013

After the Strauss-Group took over the majority stake, the current management started to streamline and improve the company's capital structure. In 2013, a small capital increase was done, common and preference shares were merged and shares were split 1:4. Total shareholders' equity still consists of capital participation certificates and profit participation rights. For more details, see further below.

Business and operations

PORR is a full service construction provider and developer that is active in DACH, CEE as well as in the Middle East.

PORR – company structure



Source: Company data

Business Segment overview

From the geographic point of view, PORR defines home markets and international markets as follows.

- **Home markets** – refers to five core countries consisting of Austria, Germany, Switzerland, the Czech Republic and Poland. PORR offers its entire product portfolio on these markets. Home markets contributed 93.2% in 2012. Development is primarily attributable to these areas.

International markets – refers rather to a limited offer range than to a geographic one. PORR addresses these markets as rather project-specific or as certain niches, where it can be profitable (mainly in the infrastructure business or its ‘export’ know-how). This export know-how covers e.g. tunnel construction (e.g. Qatar, Saudi Arabia), ‘solid railway’, or special earthworks. The export know-how is, of course, also offered on the core home markets.

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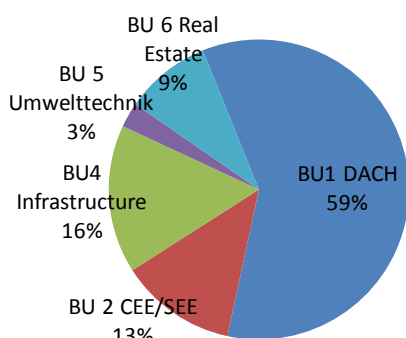
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Six segments after restructuring

Following the restructuring efforts in 2011, PORR switched from an industry-specific segmentation to a mixed segmentation combining both geographic as well as industry related aspects.

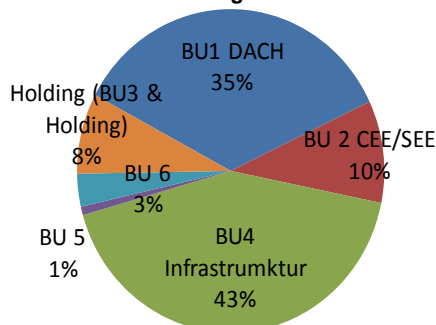
From an operating performance, BU1 and BU2 have traditionally been the strongest contributors to the overall business. Following the signing of the biggest contract in the company's history in June (EUR 945mn in Qatar), BUs 3 and 4 are about to gain importance.

2012: Total output – segment break down



Source: Company data

1H13: Order book – segment break down



Source: Company data

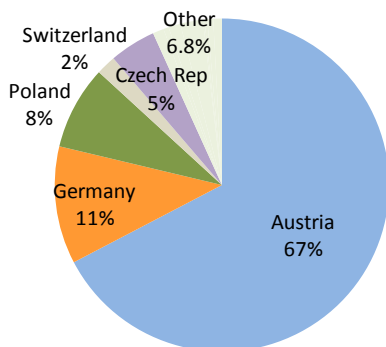
- **Segment Business Unit 1 – DACH.** PORR acts as a full-service provider in Austria, Germany and Switzerland. Besides the geographic segmentation, BU1 also reflects the business of TEERAG-ASDAG-Group (road construction).
- **Segment Business Unit 2 – CEE/SEE.** Poland and the Czech Republic, which are classified as PORR's home market, are reflected in BU2 as well as the remaining business of CEE/SEE. While PORR offers its entire product range, business in other CEE/SEE countries is rather project-specific. Currently, project activities are being executed especially in Romania, Bulgaria, Serbia and Slovakia.
- **Segment Business Unit 3 – International.** This segment is the least important (at least to date) and is shown together with the holding performance (consolidation, overhead). It might grow in importance, though, as it basically covers Qatar, Oman and Saudi Arabia. Qatar in particular could provide further contracts as it prepares for the soccer World Cup in 2022.
- **Segment Business Unit 4 – Infrastructure.** PORR offers all main areas of infrastructure construction, hence tunnel-, rail-, bridge construction and soil engineering, as well as large projects in the areas of road-, plant construction and construction engineering.
- **Segment Business Unit 5 – Environmental engineering.** Apart from environmental remediation, waste and renewable energies, PORR Umwelttechnik also develops, constructs and operates dumps and sorting plants in Austria, Germany and Serbia. Volume-wise, Austria is the most important market in this respect. The recently acquired Prajo Group, which adds know-how in the recycling business, further strengthens PORR's position on the Austrian market and enables better usability of used construction material.
- **Segment Business Unit 6 – Real Estate.** The focus lies on office-, industry-, tourism- and hotel concession models as well as hospital- and large infrastructure projects. Austria and Germany are the main places of interest from a geographic point of view. About two thirds of the developments seen on the balance sheet are for sale.

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2012: Total output by country

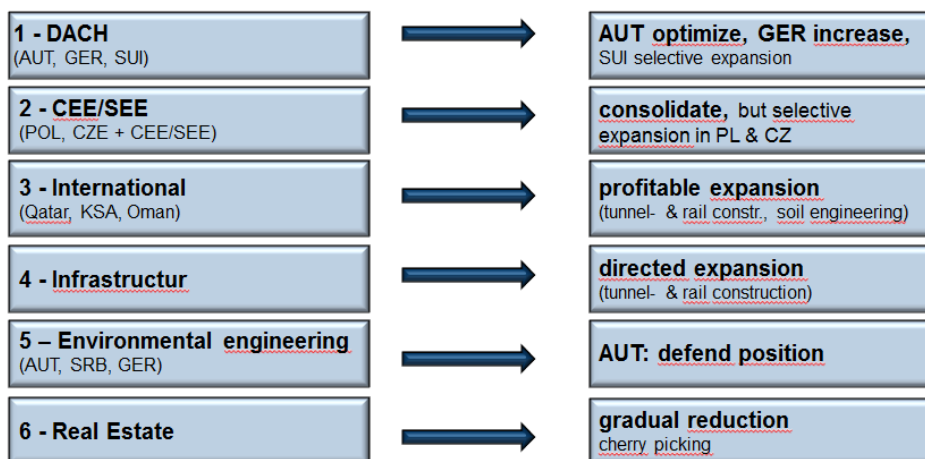


Source: Company data

Austria is the largest market (see 2012: total output by country) by far and PORR is the strongest player together with STRABAG. Together with the other home market countries, it provides a solid basis for PORR's 'intelligent expansion', as the company calls it. Under this buzzword, PORR describes its gradual expansion plans aimed at capitalizing on markets with strong market positions and expansion into niches where it offers significant know-how that translates into adequate profitability. This should help to gradually improve operating profitability, the capital structure and reduce net debt.

The strategic positioning broken down on PORR's business units provides more detail on its intelligent expansion plans broken down on business units.

Strategic positioning – segment breakdown



Source: Company data

New focus in CEE after failed volume expansion

PORR started to expand in CEE many years ago, but following the aftermath of the financial crisis, unprofitable projects and/or receivables write-downs, it is consolidating its business at the moment. While partially finalizing unprofitable projects, the new focus is to only offer services in certain profitable market niches in the areas of tunnel-, rail-, bridge construction (PORR's export products) and infrastructure projects that are mainly co-financed via EU funds.

Middle East provides attractive growth potential

The Middle East region currently offers interesting growth potential ahead of the soccer World Cup in Qatar in 2022. PORR is present in Qatar, Oman and Saudi Arabia, where it acts as a provider of premium and specialized (infrastructure) services, offering its export products (tunnel-, rail-, bridge construction). The solid budgetary situations in the mentioned countries provide an attractive (low) risk profile for PORR.

Balanced client structure and order book

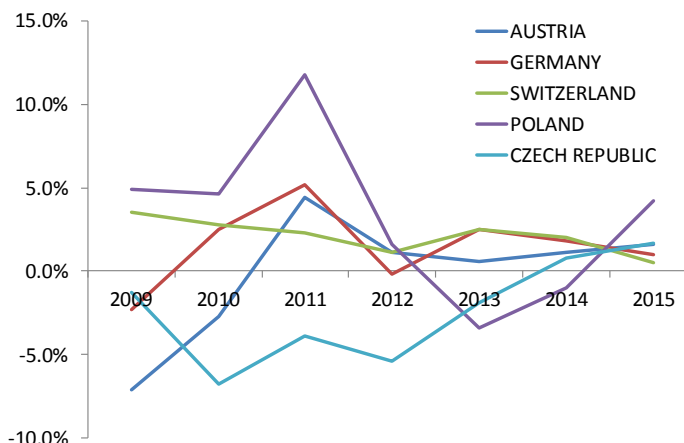
PORR has a well-diversified client structure and, apart from its largest contract in the order book, which is the 'Green-Line project' of the Doha metro (with a value of EUR 945mn for PORR), it also has a well-diversified order book (1H13: EUR 4.8bn). The Doha metro project reflects 20% of the order book; the top 5 contracts have a 29% share, the top 10 have 32%. The Doha metro project matures in 2018, while many other large projects mature in 2014 and 2015. Given the large Doha metro order, the output share of the core markets, which was 94% in 2012, might be diluted to around 87-90% in the coming years. The current order book shows about 76% in the core markets.

Market development

Construction market to improve slightly

The situation on the construction market has started to improve lately, at least in some countries. PORR keeps its focus on European core markets with a sound credit-worthiness and (rather) stable development and opportunities. While the DACH region is expected to post a mild CAGR12-15 of 1.1-2.5%, Poland and the Czech Republic are seen to stagnate over the 2012-15e period.

2009-2015e: Construction market growth (PORR core markets)



Source: Euroconstruct

We concentrate on core market growth given its >90% output share

Given PORR's focus on its core markets, we depict their development first, leaving aside other CEE and Arab countries. We expect that, for the coming years, these core markets will mainly pave the way for PORR's development. However, the export markets could supply some additional potential.

Alpine's EUR 3.2bn output volume to be spread

The special situation following the Alpine default earlier this year should help to open up additional opportunities in the core markets. We expect Alpine's market share to be mainly split among the big local players, like PORR, offering growth opportunities even in a stagnating or slightly growing market. Alpine had its strongest presence in Austria (4.8% market share) and Germany (0.3%), but also had a meaningful presence in the Czech Republic and Poland (no distinct values per country). Alpine's market position and output volume to be split are depicted in the table on the left. For Austria and Germany alone, it amounts to EUR 2.3bn.

Alpine's market position ahead of default (Output in EURmn)

Country	Position	Output 2011
Austria	No.2	1,550 mn
Germany	Top 10	784 mn
Czech rep	mid size	464 mn ¹
Poland	mid size	
Croatia	leading player	
Serbia	Top 10	426 mn ²
Bulgaria	leading player	
Romania	Top 10	
Total volume to be split		3,224 mn

¹⁾ also incl. RUS, HU, SK
²⁾ also incl. GRE, TUR, ALB, BiH, KOS

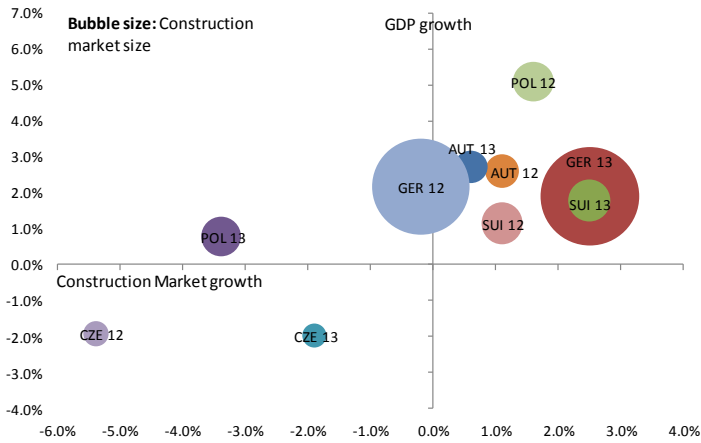
Source: Alpine AR 2011

Alpine’s default to ease price pressure

Apart from Alpine’s market becoming accessible, we assume that the price pressure on the market will ease gradually, given Alpine’s aggressive appearance.

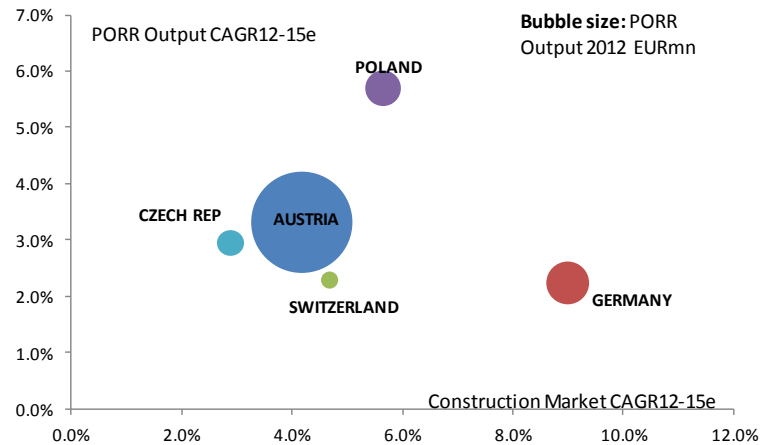
As we mentioned above, we see sufficient potential for PORR to materialize its ‘intelligent’ growth strategy, even in stagnating markets. Nevertheless, we want to present some market stats in the graphs below that depict the current and expected market size and growth for PORR’s core markets (left-hand graph) compared to PORR’s output volume and CAGR12-15e growth (right-hand graph).

2012 & 2013e: Construction market size & growth



Source: Euroconstruct, company data, Erste Group Research

Market vs. PORR CAGR 12-15



Source: company data, Erste Group Research

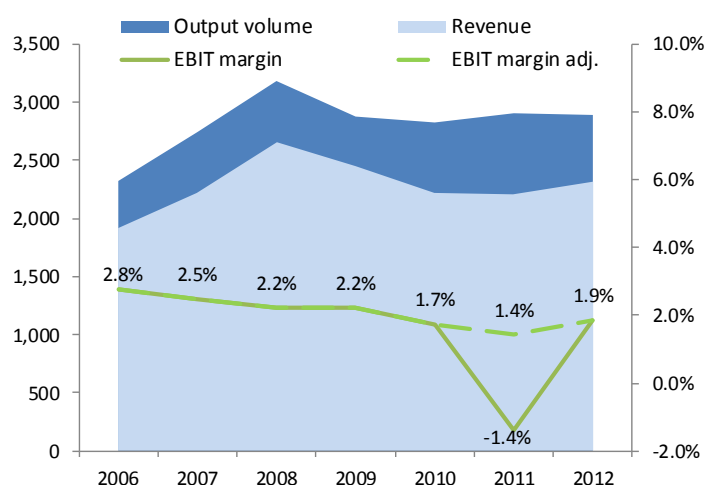
Financials

Historic financial development

Crisis forced PORR to alter management approach

Before the financial crisis hit in 2008, PORR aimed to grow its volumes at the expense of profitability, thereby increasing its risk exposure in many CEE countries. As many contractors slipped into financial difficulties, PORR was forced to write down receivables of EUR 82mn in CEE in 2011. As new management took over in 2012, introducing a healthier management approach, with a focus on working capital and ROCE optimization, PORR's financial situation started to improve.

PORR's financial history: Output, revenues and EBIT margin 2006-12

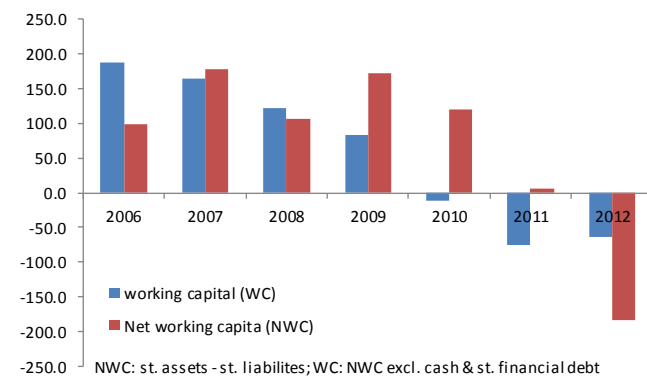


Source: Company data; Erste Group Research

Working capital has been improving

Working capital (WC) has been improving gradually in recent years. By introducing the optimization program 'Fitforfuture', the current management has also committed itself to an increased focus on WC improvement. Improving the terms of payment with both suppliers and subcontractors and instructing project managers to ensure a positive cash balance over each project's lifetime provides evidence to us that we should see PORR increase its cash cycle efficiency further. As can be seen below, a significant part of the net WC improvement in 2012 comes from increasing short-term debt. We expect to see a reduction of ST debt in the future, while WC should still improve further (see below).

Working & net working capital development (EURmn)



Source: Company data, Erste Group Research

1H13 – Gradual improvement visible

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Largest contract signed, order book at all-time high

While working on improving its efficiency, PORR managed to sign its largest contract in the company's history. In a working group together with local partners SBG and HBK, PORR will build a 16.6km metro tunnel and six metro stations in Doha (Qatar) by 2018, with a total value of EUR 1.89bn. PORR will be responsible for 50% (EUR 945mn). With this contract, PORR could further strengthen its order book to EUR 4.8bn – another all-time high.

Working capital and operating cash flow improved y/y

With the P&L depicted below, we would like to highlight the WC development in 1H13, which showed an improvement of almost EUR 60mn y/y. Also quite visible are the high financing costs and costs attributable to the profit participation right. A gradual reduction of these costs and profitability enhancements imply an attractive leverage to PORR's business case going forward.

PORR 1H13 results y/y

PORR P&L EURmn	1H'12	1H'13	y/y	2012
Order intake	1,612.0	2,722.0	68.9%	3,500.1
Output	1,195.0	1,289.4	7.9%	2,891.0
Sales	995.9	1,041.8	4.6%	2,314.8
<i>Sales / Output</i>	<i>83.3%</i>	<i>80.8%</i>		<i>80.1%</i>
<i>B2B</i>	<i>1.62</i>	<i>2.61</i>		<i>1.51</i>
EBITDA	41.7	39.7	-4.9%	103.8
<i>EBITDA margin</i>	<i>3.5%</i>	<i>3.1%</i>		<i>3.6%</i>
EBIT	18.7	14.5	-22.1%	53.8
<i>EBIT margin</i>	<i>1.6%</i>	<i>1.1%</i>		<i>1.9%</i>
EBT	-1.5	0.1	nm	22.0
Net profit	-1.4	0.2	nm	17.3
profit participation right	2.8	4.073	45.5%	5.6
Net profit / shareholder	-4.2	-3.8	8.3%	11.7
<i>Net margin</i>	<i>-0.4%</i>	<i>-0.3%</i>		<i>0.4%</i>
EPS	-0.38	-0.32		1.07
CF from Result	17.8	20.1		72.0
OCF	-89.4	-33.1		110.9
FCF	-144.0	-65.6		2.6
Cash & CE	43.4	51.4		110.4

Source: Company data, Erste Group Research

Mid-term targets suggest significant improvement

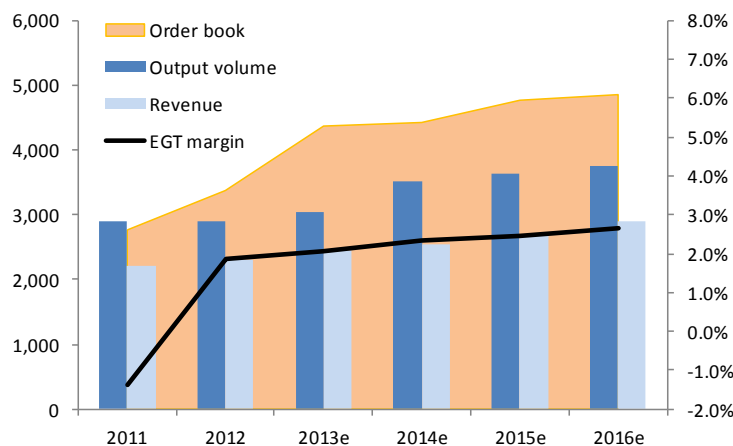
Outlook for 2013e and beyond

PORR has communicated its mid-term targets, which, if met, would significantly increase profitability. These targets refer to an EBT margin of 3% (EBT / total output) and getting rid of net debt. In 2012, PORR had an EBT margin of 0.8%, while net debt was EUR 586.5mn based on PORR’s calculation (cash – financial liabilities). This net debt figure translates into EUR 577.7mn based on Erste Group Research calculation parameters, which include short-term assets for sale and social capital.

Output volume to grow faster than revenues

PORR has signed large international contracts in recent months, where it acts as part of a consortium. Such contracts include the ‘Green-Line’ project in Doha and tunnel projects in Germany and Austria. Given the size of these projects and the fact that PORR will not deliver the entire project scope, we assume that the gap between output volume and revenues will increase going forward.

2011-2016e: Expected business development



Source: Company data, Erste Group Research

Own developments at equity with positive impact on revenues

Own developments will be increasingly done in working groups where PORR will no longer aim to have a majority stake. Hence, as the construction work will go to a non-fully-consolidated entity, the profit margin will consequently be reflected in output and revenues using the percentage of completion (POC) method. So far, in the full consolidation case, PORR could just activate costs during development, while the profit margin was reflected in output and revenues only upon sale. This should, to some extent, again narrow the output volume and revenues going forward, but will not fully compensate for the impact from the large international contracts.

PORR to grab some market share from Alpine

We also expect PORR, as mentioned above, to grab some market share from the defaulted Alpine – especially in the core markets. These should help PORR to continue to build up its order book in the coming years.

Fitforfuture – cost savings, efficiency improvement program

Launched in 2012, the initial aim of the ‘Fitforfuture’ efficiency program was to reduce costs by about EUR 70mn in 2012-14 by reducing material and overhead costs and by process optimization. By revealing additional potential to improve efficiency, such as centralizing procurement, maintaining a positive cash balance throughout projects or optimizing the cash conversion cycle, the entire optimization potential could be well above EUR 100mn.

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Project performance and risk management is key for new contracts

In order to continuously improve its profitability and debt ratios, new projects have to live up to the following conditions:

- EBT margin > 3%
- Cash in > cash out at any time during project realization
- TOP 50 projects are monitored by the risk managers directly
- Projects > EUR 50mn have to be approved by the management board

Profitability to improve gradually - full potential not factored in yet

We see a slight improvement in terms of profitability in 2013e, but further gains should be reachable in the coming years, although they are not factored in yet. Economies of scale also play a certain role in this respect.

M&A to strengthen presence and product portfolio

Acquisitions at PORR are intended to strengthen the local market presence, adding additional know-how and hence broadening the product portfolio. While working on streamlining the group's subsidiary portfolio in 1H13, PORR acquired four entities in early 2H13. Two companies could be acquired from the defaulting Alpine (GPS, Stump), while the others were Prajo Group and Goidinger Bau & Beton. All in all, we would not expect the acquisition price to be significant. As the price for Goidinger Bau & Beton, GPS and Stump amounted to EUR 3mn, as was disclosed in the 1H13 report, we would suggest that the entire shopping spree could add up to a low double-digit EUR amount.

PORR acquisitions in 2H13

Target	Acquired	Where	Staff
Goidinger Bau & Beton	2013-Aug	AUT / Tirol	100
Grund-, Pfahl-, Sonderbau (GPS)	2013-Aug	AUT	100
Stump Spezialtiefbau	2013-Aug	GER, AUT, CZE, POL,	400
Prajo Group	2013-Sep	AUT	200

Source: Company data, Erste Group Research

Balance sheet structure

Development business burdens balance sheet

The real estate development business is a massive burden to PORR's balance sheet, as PORR has so far kept majority stakes in the project working groups. Going forward, PORR will be developing the project off-balance, keeping minority stakes in the respective working groups, but still being fully responsible for the development. Out of the EUR 734mn real estate assets on balance in 2012, about two thirds, or about EUR 480mn, refer to development projects that are aimed to be sold upon finalization. Annual sales of development projects sum up to about EUR 150-200mn, money that has to a large extent been reinvested in new projects.

Development business to be scaled down

In 2013, PORR aims to sell development projects for about EUR 200mn, while only reinvesting EUR 150mn. With the development portfolio being finalized to a large extent in 2015, this could be the time that PORR will substantially scale down its development business. This process will gradually help to improve the balance sheet structure, as will the fact that PORR will develop off-balance going forward.

Cash level at EUR 150-160mn in September

While the cash level was at EUR 51.4mn at the end of June, we were told by management that the current level by the end of September is around EUR 150-160mn. Such fluctuations mainly result from the status of the development projects and the time that they are sold. Most of the development projects in the past were majority-owned and had to be fully consolidated. Starting this summer, PORR only takes minority stakes in development projects up to 49%, while still being responsible for the project

management. This approach will ensure a gradual reduction of the balance sheet total and improve debt ratios.

Simplified equity structure with potential to improve

Merging basic and preference shares in August this year marked the first step in simplifying PORR's equity structure. Apart from basic shares, PORR still holds capital participation certificates (Kapitalanteilschein) and profit participation right (Genußschein). While the participation certificates can be compared to preference shares, the profit participation right is closer to the equity portion of hybrid capital.

Profit participation rights are costly

Both, capital participation certificates (CPC) and profit participation rights receive a preference dividend payment. In the case that there is no dividend payout to ordinary shareholders, the payout for these equity instruments can be omitted temporarily, but has to be paid together with the next dividend for ordinary shareholders or at maturity. Capital participation certificates pay a dividend of EUR 0.51 or 7%, at least. An additional payout occurs in case the overall profit distribution to ordinary shareholders and capital participation certificates exceed EUR 0.51 per share / certificate – like it did in 2012, when the DPS and each CPC received EUR 1.25. Profit participation rights are split into two tranches of EUR 40mn and EUR 30mn. The former receives a dividend of 13% (8% until 2012), while the latter is paid 8%.

Total preference capital overview & cash out

Preference capital (EURmn)	value	yield	min. Div
Capital participation certificates ^{1&2}	2	1.3%	0.03
Profit participation rights	70	11%	7.6
Portion 1:	40	13%	5.2
Portion 2:	30	8%	2.4

¹⁾ 7% payout is related to the CPC capital of EUR 361,911

²⁾ value of the CPC is the MCAP @ a price of EUR 40.7

Source: Company data, Erste Group Research

Expensive part of profit participation rights to be redeemed with SPO

According to management, the larger tranche of the profit participation rights with a volume of EUR 40mn and a dividend of 13% is to be paid back together with the expected capital increase. The minor part of the profit participation rights, with a volume of EUR 30mn, is planned to be kept in the company for another three years. At the same time, the CPC will be merged with the ordinary share. As we have not reflected the SPO in our model, costs for the preference capital remain included.

Bonds make up about half of debt capital

Debt capital comprises EUR 275mn in bonds, about EUR 530mn in credit lines and EUR 1.3bn in guaranteed credit lines. Out of the available credit lines, PORR used EUR 441mn as of 1H13.

Bonds maturing in 2014-16, total value: EUR 275mn

There are three bonds outstanding that will mature in 2014, 2015 and 2016. PORR tried to issue another bond around the end of 2Q13, but had to withdraw it, given the unfavorable market environment after the Alpine default. With the EUR 100mn bond to mature in November 2014, we would expect PORR to come up with a new attempt in 1H14 at the latest.

Overview bonds outstanding

Bonds outstanding	Nominal value (EURmn)	coupon	current yield	cash out EURmn	maturity
PORR 09-14	100	6.00%	6.51%	6.0	Nov.14
PORR 10-15	125	5.00%	7.04%	6.3	Oct. 15
PORR 12-16	50	6.25%	6.66%	3.1	Dec.16
Total	275	5.6%		15.4	

Source: Company data, Erste Group Research,

OEKB loan reflected largest part of credit lines	<p>PORR had refinancing needs of about EUR 240mn in 2013, where the largest portion is attributable to a EUR 200mn ULSG loan from OEKB that matures in November 2013. Upon an agreement with most of the banks involved, PORR will roll over about EUR 80mn for another two years while redeeming the remaining part (i.e. EUR 120mn).</p>
Aval lines increased in 2013	<p>From the EUR 1bn aval lines PORR had at its disposal in YE12, about half had to be prolonged by the end of 1H13. PORR not only prolonged these lines, but increased their total amount to EUR 1.3bn. Basically, most of the aval lines (69%) are syndicated and mature in three years.</p>
Capital increase could raise share liquidity and bolster capital structure, among others	<p>PORR has authorized capital of 50% additional new shares that it has already mentioned to offer in 2015, at the latest. PORR's management has already started to communicate its intention to raise the attractiveness of its shares, which would call for a capital increase that would</p> <ol style="list-style-type: none">1) increase the liquidity of its share and2) bolster the currently weak capital structure3) reduce borrowing costs4) improve net profit <p>Consequently, we would not be surprised to see PORR offer its shares earlier than in 2015.</p>
Payout ratio of about 30% targeted in medium term	<p>With a more attractive share after the SPO, the dividend strategy should also become of interest. While PORR targets a payout ratio of about 30%, we have incorporated a gradual increase towards this level, starting with 20% in 2013.</p>

Valuation and target price

Taking a look at our DCF valuation reveals an overall cautious valuation approach. A beta of 2.5 and 1.8 in the forecast period and terminal value, respectively, provide a first indication. Also, our debt premium of 4% might be high, as well as our equity ratio in the terminal value of 50%. On top of this, we have incorporated a liquidity discount of 25% to arrive at our 12M target value.

The multiple valuation therefore arrives at a somewhat higher target value. As described further below, we see STRABAG, Bilfinger, Hochtief and Budimex as the closest peers to PORR, knowing that the perfect peer with the same business focus as PORR does not seem to exist.

As we rely 100% on our DCF when assessing our 12M target price, the peer group valuation hints at further upside potential. Our target price offers just a hint of PORR's value story. There is far more value to be revealed if PORR manages to tap more of its potential. Even at our target price, PORR is valued with a discount to the peer group median that increases going forward (see table below peer group on page 20).

Target price composition

	DCF	Multiple	Weight	Liquidity discount	12-month target price	act. shareprice	Recommendation
PORR	32.5	31.8	100/0	-25%	24.4	17.4	Buy

Source: Factset, Erste Group Research

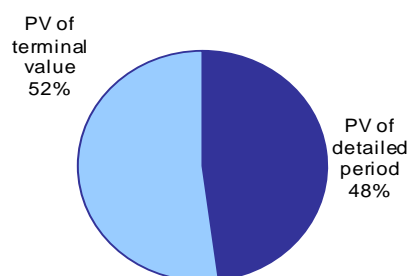
WACC calculation

	2014e	2015e	2016e	2017e	2018e	2019e (TV)
Risk free rate	3.0%	3.0%	3.0%	3.0%	3.0%	5.0%
Equity risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	4.9%
Beta	2.50	2.50	2.50	2.50	2.50	1.80
Cost of equity	15.4%	15.4%	15.4%	15.4%	15.4%	13.8%
Cost of debt	7.0%	7.0%	7.0%	7.0%	7.0%	9.0%
Effective tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
After-tax cost of debt	5.3%	5.3%	5.3%	5.3%	5.3%	6.8%
Equity weight	25%	25%	25%	25%	25%	50%
WACC	7.8%	7.8%	7.8%	7.8%	7.8%	10.3%

DCF valuation

(EUR mn)	2014e	2015e	2016e	2017e	2018e	2019e (TV)
<i>Sales growth</i>	3.7%	5.0%	8.6%	6.0%	3.6%	1.5%
EBIT	81.8	89.9	99.2	103.5	105.2	97.1
<i>EBIT margin</i>	3.2%	3.4%	3.4%	3.4%	3.3%	3.0%
<i>Tax rate</i>	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Taxes on EBIT	-20.4	-22.5	-24.8	-25.9	-26.3	-24.3
NOPLAT	61.3	67.4	74.4	77.6	78.9	72.8
+ Depreciation	50.5	49.5	48.7	47.9	47.3	47.3
<i>Capital expenditures / Depreciation</i>	144.6%	53.3%	-130.8%	-63.0%	73.5%	100.0%
+/- Change in working capital	9.1	4.7	32.9	0.8	0.8	-7.2
<i>Chg. working capital / chg. Sales</i>	10.2%	3.7%	14.3%	0.5%	0.7%	-15.0%
- Capital expenditures	-73.1	-26.4	63.7	30.2	-34.7	-47.3
Free cash flow to the firm	48.0	95.3	219.7	156.6	92.2	65.7
<i>Terminal value growth</i>						1.5%
Terminal value						761.3
Discounted free cash flow - Dec 31 2013	44.5	82.0	175.4	116.0	63.3	523.2
Enterprise value - Dec 31 2013	1,004.5					
Minorities	4.9					
Non-operating assets	0.0					
Net debt	655.8					
Other adjustments	0.0					
Equity value - Dec 31 2013	343.8					
Number of shares outstanding (mn)	11.9					
Cost of equity	15.4%					
NPV per share	32.5					
Liquidity discount	-25%					
12M target price per share (EUR)	24.4					
Current share price (EUR)	17.4					
<i>Up/Downside</i>	40.3%					

Enterprise value breakdown



Sensitivity (per share)

		Terminal value EBIT margin				
		2.0%	2.5%	3.0%	3.5%	4.0%
WACC	9.3%	13.7	21.4	29.2	37.0	44.7
	9.8%	12.1	19.4	26.7	33.9	41.2
	10.3%	10.7	17.5	24.4	31.3	38.1
	10.8%	9.4	15.9	22.4	28.9	35.4
	11.3%	8.3	14.4	20.6	26.8	32.9
		Terminal value growth				
		0.5%	1.0%	1.5%	2.0%	2.5%
WACC	9.3%	24.0	26.5	29.2	32.3	35.9
	9.8%	22.1	24.2	26.7	29.4	32.5
	10.3%	20.3	22.2	24.4	26.9	29.6
	10.8%	18.7	20.4	22.4	24.6	27.1
	11.3%	17.2	18.8	20.6	22.6	24.8

Source: FactSet, Erste Group Research

Peer Group

	Country	MCap EURmn	EV/sales		EV/EBITDA		EV/EBIT		P/E		P/CE		P/BV	
			2013e	2014e	2013e	2014e	2013e	2014e	2013e	2014e	2013e	2014e	2013e	2014e
VINCI SA	FRANCE	25,800	1.0	1.0	7.3	6.7	11.1	10.2	12.7	12.0	6.2	6.0	1.7	1.6
HOCHTIEF AG	GERMANY	4,969	0.2	0.2	3.4	3.4	7.6	7.4	20.8	17.4	3.9	3.8	1.7	1.6
ACS Group	SPAIN	7,395	0.3	0.3	3.8	3.7	7.1	6.8	10.5	10.0	3.6	3.4	2.4	2.2
Ferrovial, S.A.	SPAIN	9,748	2.0	1.9	18.5	18.0	25.1	24.1	27.7	30.2	14.4	14.4	1.7	1.8
Bilfinger SE	GERMANY	3,571	0.4	0.4	6.0	5.5	8.7	7.8	14.1	12.5	8.7	7.9	1.6	1.5
Skanska AB Class B	SWEDEN	5,854	0.4	0.4	7.9	7.8	10.3	10.0	13.9	13.4	10.8	10.1	2.5	2.3
Eiffage SA	FRANCE	3,626	1.2	1.1	8.1	7.6	13.6	12.5	13.6	11.6	3.2	3.0	1.4	1.3
Acciona SA	SPAIN	2,408	1.5	1.4	7.6	7.7	18.2	18.8	31.4	43.1	3.0	3.0	0.5	0.5
Budimex SA	POLAND	640	0.4	0.5	9.2	11.7	10.5	13.7	17.6	21.6			5.7	5.3
STRABAG (EG estimates)	AUSTRIA	1,901	0.2	0.2	3.1	2.9	7.8	7.0	15.9	12.3	3.7	3.3	0.6	0.6
Median total			0.40	0.46	7.46	7.16	10.44	10.05	14.99	12.96	3.85	3.81	1.68	1.59
PORR		207.97	0.35	0.31	7.64	6.07	13.94	9.81	11.84	6.59	2.74	2.07	0.79	0.71
Premium / (discount)			-12%	-32%	2%	-15%	34%	-2%	-21%	-49%	-29%	-46%	-53%	-55%
Implied equity value per share			27.9	49.1	16.1	30.0	-0.5	19.5	22.0	34.2	24.5	32.0	37.1	39.1
Per PORR share (EUR) 2013			21.2											
Per PORR share (EUR) 2014				34.0										
Period weight			50%	50%										
Per PORR share (EUR)			38.5		23.0		9.5		28.1		28.2		38.1	
Net present value as of Oct 2013			27.6											
Cost of Equity			15.4%											
Net present value as of Oct 2014			31.8											

Source: Factset, Erste Group Research

Valuation vs. Peers at target price

Target Price	EV/sales		EV/EBITDA		EV/EBIT		P/E		P/CE		P/BV	
	2013e	2014e	2013e	2014e	2013e	2014e	2013e	2014e	2013e	2014e	2013e	2014e
EUR 24.4												
Porr Multiples	0.39	0.35	8.34	6.66	15.23	10.77	16.61	9.24	3.84	2.90	1.10	1.00
Peer Group	0.40	0.46	7.46	7.16	10.44	10.05	14.99	12.96	3.85	3.81	1.68	1.59
Premium / discount	-4%	-25%	12%	-7%	46%	7%	11%	-29%	0%	-24%	-34%	-38%

Source: Factset, Erste Group Research

Peer group description

Although PORR ranks among the bigger construction companies in Europe, the depicted peer group is substantially bigger and has, in many cases, a much broader or somewhat different focus than Porr. Poland's Budimex would be a good fit in this respect, from a construction business point of view. With its strong presence in Austria and growing importance in Germany, it definitely makes sense to compare PORR to STRABAG, Hochtief and Bilfinger.

Budimex SA

Budimex SA, which is a subsidiary of Spanish Grupo Ferrovial SA, is the biggest listed Poland-based construction company on the Warsaw Stock Exchange. It operates as a general contractor, subcontractor and developer. Its main activities consist of the construction of roads, the design, development, construction and maintenance of industrial plants, the construction of public and commercial facilities, and development of residential property. Budimex is one of a few big companies that managed to ride out the market slump post Euro 2012, more than tripling net profit to PLN 68mn (EUR 16mn) in the first half of 2013 y/y, thanks in part to better margins

Vinci SA

Vinci SA is a France-based company which is involved in construction and engineering. It designs, builds, finances and manages facilities such as transport systems, public and private buildings, urban developments, and water, energy and communication networks. Vinci SA divides its business into two sectors: concessions and contracting. The contracting sector includes Vinci Construction, a company with numerous subsidiaries in Europe and a division dedicated to the management and execution of projects and the energy business line with Vinci Energies; Eurovia, which specializes in transport and urban development infrastructure. Concessions include Vinci Autoroutes, a motorway operator and Vinci Concessions which specializes in the development and maintenance of transport infrastructures and public facilities, such as rail infrastructure, airports and car parks. It operates through subsidiaries in France and Canada, among others. Vinci is listed on Euronext Paris and is a member of the CAC 40 index.

Hochtief AG

Among the companies in the peer group, Germany's Hochtief has the most diversified operations geographically. In 2012, Hochtief generated sales of EUR 25.53bn with an operating profit of EUR 595mn (2.3% of total sales). Asia is the largest market, with more than 60% of total revenues, followed by the Americas with around 29% and Europe with 11%. The most profitable geographic division is Asia, which mainly involves Australia. Asia also includes the higher-margin contract mining activity. For 2013, Hochtief confirmed its guidance of flat output volumes but increasing profitability after 1H13. Hochtief is listed on all German stock exchanges and owned by Spain's ACS, which is burdened by the weak Spanish business environment.

Grupo Ferrovial SA

Spain's Grupo Ferrovial generated sales of EUR 7.7bn and operating profit of EUR 708mn (9.2% of total sales). Ferrovial is the construction market leader in Poland through its subsidiary Budimex. Ferrovial shares are listed on four Spanish stock exchanges and are included in the IBEX 35 index.

Skanska AB

Skanska AB is a Sweden-based construction and project development company. The Company's operations are divided into four operating segments: Construction, which includes both building construction and civil construction; Residential Development, which develops residential projects for immediate sale; Commercial Property Development, which initiates, develops, leases and divests commercial property projects, and Infrastructure Development, which specializes in identifying, developing and investing in privately financed infrastructure projects, such as highways, hospitals and power generating plants. Skanska AB has operations in the Nordic countries, Poland, the Czech Republic, Hungary and the United States, among others. Skanska is listed on the Stockholm Stock Exchange and is a member of the OMX 30 index.

Eiffage SA

With 85% of its revenues generated in France, Eiffage is primarily a local heavyweight, with 2012 revenues of EUR 14.0bn. Eiffage is active in public works (revenues of EUR 3.9bn), construction (EUR 3.2bn), electrical contracting (EUR 3.2bn) and concessions (EUR 2.24bn). The group operating profit margin of 8.5% is helped by the concession segment, with an operating profit margin of 34%. For 2013e, Eiffage confirmed its FY guidance of revenues of EUR 14.2bn, despite a weak 1H13 that was burdened by poor weather. Eiffage is traded on the Euronext Paris.

Bilfinger SE (Bilfinger Bergen in AUT)

Germany's Bilfinger & Berger generated output volume of EUR 8.6bn in 2012 and operating profit of EUR 415mn (4.8% of sales). The largest segment is industrial with an output volume of EUR 3.7bn, followed by building and facility with EUR 2.2bn and construction with EUR 1.4bn. For 2013e, Bilfinger aims at a rather stable business development, while output volume is targeted at EUR 11-12bn by 2016. Bilfinger & Berger is listed in Frankfurt and Stuttgart and is a member of the MDAX index.

Acciona SA

Spain-based holding company Acciona has sales of EUR 7.0bn in 2012, while the operating result amounted to EUR 648mn (9.2% margin). The firm is active in the construction and engineering industry, with a strong focus on renewable energy (wind parks), infrastructure construction and services and real estate development. The company is a member of the IBEX35.

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Income Statement	2010	2011	2012	2013e	2014e	2015e
(IAS, EUR mn, 31/12)	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Net sales	2,217.45	2,212.49	2,314.83	2,456.14	2,546.08	2,672.99
Invent. changes + capitalized costs	6.29	4.15	4.21	4.47	2.55	2.67
Total revenues	2,223.74	2,216.64	2,319.04	2,460.61	2,548.62	2,675.66
Other operating revenues	71.29	85.07	90.51	96.26	103.13	117.65
Material costs	-1,460.42	-1,470.86	-1,455.48	-1,542.65	-1,537.83	-1,609.67
Personnel costs	-555.46	-580.80	-625.31	-661.93	-752.45	-803.69
Other operating expenses	-176.39	-239.23	-224.92	-238.65	-229.15	-240.57
EBITDA	102.76	10.83	103.84	113.64	132.33	139.38
Depreciation/amortization	-53.70	-51.29	-50.03	-51.41	-50.53	-49.53
EBIT	49.06	-40.47	53.81	62.23	81.80	89.85
Financial result	-28.33	-42.60	-31.80	-30.78	-30.97	-20.27
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	20.73	-83.07	22.01	31.45	50.82	69.58
Income taxes	-4.03	12.88	-4.02	-5.74	-10.16	-13.92
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	-14.22	-8.35	-6.34	-8.95	-9.23	-9.83
Net result after minorities	2.49	-78.54	11.65	16.76	31.43	45.84
Balance Sheet	2010	2011	2012	2013e	2014e	2015e
(IAS, EUR mn, 31/12)						
Intangible assets	31.41	51.02	58.73	69.51	66.51	63.77
Tangible assets	415.87	409.75	393.54	410.63	398.40	391.92
Financial assets	683.84	734.09	670.72	623.57	607.38	505.59
Total fixed assets	1,131.12	1,194.86	1,122.99	1,103.71	1,072.28	961.28
Inventories	74.34	55.13	81.13	78.60	71.29	69.50
Receivables and other current assets	760.28	733.26	743.41	763.86	781.65	791.21
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	212.16	153.81	110.41	117.41	101.62	122.97
Total current assets	1,046.78	942.19	934.95	959.87	954.55	983.67
TOTAL ASSETS	2,177.90	2,137.05	2,057.94	2,063.58	2,026.84	1,944.96
Shareholders'equity	318.50	224.82	226.55	263.18	291.55	331.45
Minorities	83.26	2.89	3.88	4.91	6.54	8.76
Hybrid capital and other reserves	75.53	75.53	92.12	77.56	77.52	77.52
Pension and other LT personnel accruals	106.88	101.68	115.58	123.19	140.72	150.30
LT provisions	0.00	0.00	0.00	0.00	0.00	0.00
Interest-bearing LT debts	574.51	701.96	442.28	550.00	450.00	325.00
Other LT liabilities	93.18	77.70	34.94	29.74	30.28	31.04
Total long-term liabilities	667.69	779.66	477.21	579.74	480.28	356.04
Interest-bearing ST debts	79.00	87.91	254.64	100.00	100.00	50.00
Other ST liabilities	847.05	864.57	887.96	915.01	930.24	970.89
Total short-term liabilities	926.05	952.47	1,142.60	1,015.01	1,030.24	1,020.89
TOTAL LIAB. , EQUITY	2,177.90	2,137.05	2,057.94	2,063.58	2,026.84	1,944.96
Cash Flow Statement	2010	2011	2012	2013e	2014e	2015e
(IAS, EUR mn, 31/12)						
Cash flow from operating activities	159.55	39.55	110.89	138.71	136.08	151.99
Cash flow from investing activities	-99.95	-125.98	-108.28	-31.24	-7.21	81.17
Cash flow from financing activities	-14.36	29.68	-44.27	-100.46	-144.67	-211.81
CHANGE IN CASH , CASH EQU.	49.12	-58.35	-43.40	7.00	-15.80	21.35
Margins & Ratios	2010	2011	2012	2013e	2014e	2015e
Sales growth	-9.7%	-0.2%	4.6%	6.1%	3.7%	5.0%
EBITDA margin	4.6%	0.5%	4.5%	4.6%	5.2%	5.2%
EBIT margin	2.2%	-1.8%	2.3%	2.5%	3.2%	3.4%
Net profit margin	0.8%	-3.2%	0.8%	1.0%	1.6%	2.1%
ROE	0.8%	-28.9%	5.2%	6.8%	11.3%	14.7%
ROCE	3.5%	-3.1%	4.1%	4.9%	6.5%	7.8%
Equity ratio	21.9%	14.2%	15.7%	16.8%	18.5%	21.5%
Net debt	548.2	720.9	677.7	655.8	589.1	402.3
Working capital	120.7	-10.3	-207.6	-55.1	-75.7	-37.2
Capital employed	1,118.7	1,101.9	1,035.2	1,031.2	995.0	851.1
Inventory turnover	19.6	22.7	21.4	19.3	20.5	22.9

Source: Company data, Erste Group estimates

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Contacts

Group Research

Head of Group Research

Friedrich Mostböck, CEFA +43 (0)5 0100 11902

Major Markets & Credit Research

Head: Gudrun Egger, CEFA +43 (0)5 0100 11909

Adrian Beck (Fixed income AT, CH) +43 (0)5 0100 11957

Hans Engel (Senior Analyst International Equities) +43 (0)5 0100 19835

Christian Enger, CFA (Covered Bonds) +43 (0)5 0100 84052

Mildred Hager-Germain (Senior Economist, Euro, US) +43 (0)5 0100 17331

Alihan Karadagoglu (Senior Analyst Corporate Bonds) +43 (0)5 0100 19633

Peter Kaufmann (Corporate Bonds) +43 (0)5 0100 11183

Stephan Lingnau (International Equities) +43 (0)5 0100 16574

Elena Statelov, CIIA (Corporate Bonds) +43 (0)5 0100 19641

Gerald Walek, CFA (Economist Euro) +43 (0)5 0100 16360

Katharina Böhm-Klamt (Student Analyst Euro) +43 (0)5 0100 19632

Lisa-Maria Sommer (Student Analyst Euro) +43 (0)5 0100 19632

Macro/Fixed Income Research CEE

Head CEE: Juraj Kotian (Macro/FI) +43 (0)5 0100 17357

CEE Equity Research

Head: Henning Elbkuchen +43 (0)5 0100 19634

Chief Analyst: Günther Artner, CFA (CEE Equities) +43 (0)5 0100 11523

Günter Hohberger (Banks) +43 (0)5 0100 17354

Franz Hörll, CFA (Basic Resources) +43 (0)5 0100 18506

Daniel Lion, CIIA (Technology, Ind. Goods&Services) +43 (0)5 0100 17420

Thomas Unger, CFA (Insurance, Miscellaneous) +43 (0)5 0100 17344

Vera Suttedja, CFA (Telecom) +43 (0)5 0100 11905

Vladimira Urbankova, MBA (Pharma) +43 (0)5 0100 17343

Editor Research CEE

Brett Aarons +420 956 711 014

Deniz Gurgen +90 212 371 2538

Research Croatia/Serbia

Head: Mladen Dodig (Equity) +381 11 22 09 178

Head: Alen Kovac (Fixed income) +385 62 37 1383

Anto Augustinovic (Equity) +385 62 37 2833

Ivana Rogic (Fixed income) +385 62 37 2419

Davor Spoljar, CFA (Equity) +385 62 37 2825

Research Czech Republic

Head: David Navratil (Fixed income) +420 224 995 439

Petr Bittner (Fixed income) +420 224 995 172

Head: Petr Bartek (Equity) +420 224 995 227

Vaclav Kminek (Media) +420 224 995 289

Katarzyna Rzentarzewska (Fixed income) +420 224 995 232

Martin Krajhanzl (Equity) +420 224 995 434

Martin Lobotka (Fixed income) +420 224 995 192

Lubos Mokras (Fixed income) +420 224 995 456

Josef Novotný (Equity) +420 224 995 213

Research Hungary

Head: József Miró (Equity) +361 235-5131

András Nagy (Equity) +361 235-5132

Orsolya Nyeste (Fixed income) +361 373-2026

Tamás Pletser, CFA (Oil&Gas) +361 235-5135

Zoltan Arokszallasi (Fixed income) +361 373-2830

Research Poland

Head: Magdalena Komaracka, CFA (Equity) +48 22 330 6256

Marek Czachor (Equity) +48 22 330 6254

Tomasz Duda (Equity) +48 22 330 6253

Adam Rzepecki (Equity) +48 22 330 6252

Michal Zasadzki (Equity) +48 22 330 6251

Research Romania

Head: Mihai Caruntu (Equity) +40 3735 10427

Head: Dumitru Dulgheru (Fixed income) +40 3735 10433

Chief Analyst: Eugen Sinca (Fixed income) +40 3735 10435

Dorina Cobiscan (Fixed Income) +40 3735 10436

Raluca Ungureanu (Equity) +40 3735 10428

Marina Alexandra Spataru (Equity) +40 3735 10429

Research Slovakia

Head: Maria Valachyova (Fixed income) +421 2 4862 4185

Martin Balaz (Fixed income) +421 2 4862 4762

Research Turkey

Head: Can Yurtcan +90 212 371 2540

Evrım Dairecioglu (Equity) +90 212 371 2535

M. Görkem Göker (Equity) +90 212 371 2534

Sezai Saklaroglu (Equity) +90 212 371 2533

Nilufer Sezgin (Fixed income) +90 212 371 2536

Ilknur Unsai (Equity) +90 212 371 2531

Group Institutional & Retail Sales

Institutional Equity Sales Core Markets

Head: Brigitte Zeitlberger-Schmid +43 (0)5 0100 83123

Cash Equity Sales

Hind Al Jassani +43 (0)5 0100 83111

Werner Fuerst +43 (0)5 0100 83121

Josef Kerekes +43 (0)5 0100 83125

Cormac Lyden, CFA +43 (0)5 0100 83127

Stefan Raidl +43 (0)5 0100 83113

Simone Rentschler +49 711 810 400 5590

Derivative Sales

Christian Luig +43 (0)5 0100 83181

Sabine Kircher +43 (0)5 0100 83161

Christian Kilkovich +43 (0)5 0100 83162

Armin Pflingstl +43 (0)5 0100 83171

Roman Rafeiner +43 (0)5 0100 83172

Institutional Equity Sales London

Declan Wooloughan +44 20 7623 4154

Institutional Equity Sales Croatia

Damir Eror (Equity) +385 62 37 2836

Zeljka Kajkut (Equity) +38 562 37 28 11

Institutional Sales Czech Republic

Head: Michal Rizek +420 224 995 537

Pavel Krabiccka (Equity) +420 224 995 411

Radim Kramule (Equity) +420 224 995 537

Jiri Smehlik (Equity) +420 224 995 510

Tomas Vender (Equity) +420 224 995 593

Institutional Sales Hungary

Gregor Glatzer (Equity) +361 235 5144

Attila Preisz (Equity) +361 235 5140

Norbert Siklosi (Fixed income) +361 235 5842

Institutional Equity Sales Poland

Pawel Czuprynski (Equity) +4822 330 6212

Jacek Krysinski (Equity) +4822 330 6218

Emil Onyszczyk (Equity) +48 22 330 62 14

Grzegorz Stepien (Equity) +48 22 330 6211

Institutional Equity Sales Turkey

Simin Öz Gerards (Head) +9 0212 371 2525

Murat Guneren (Equity) +9 0212 371 2521

Varol Guzel (Equity) +9 0212 371 2523

Mine Yoruk (Equity) +9 0212 371 2526

Ebru Doganay Percin (Equity) +9 0212 371 2522

Institutional Equity Sales Slovakia

Head: Dusan Svitek +48 62 56 20

Andrea Slesarova (Client sales) +48 62 56 27

Saving Banks & Sales Retail

Head: Thomas Schaufler +43 (0)5 0100 84225

Equity Retail Sales

Head: Kurt Gerhold +43 (0)5 0100 84232

Fixed Income & Certificate Sales

Head: Uwe Kolar +43 (0)5 0100 83214

Treasury Domestic Sales

Head: Markus Kaller +43 (0)5 0100 84239

Corporate Sales AT

Mag. Martina Kranzl +43 (0)5 0100 84147

Karin Rattay +43 (0)5 0100 84112

Mag. Markus Pistracher +43 (0)5 0100 84152

Günther Gneiss +43 (0)5 0100 84145

Jürgen Flassak, MA +43 (0)5 0100 84141

Antonius Burger-Scheidlin, MBA +43 (0)5 0100 84624

Fixed Income Institutional Desk

Head G7: Thomas Almen +43 (0)5 0100 84323

Head Germany: Ingo Lusch +43 (0)5 0100 84111

Fixed Income International & High End Sales Vienna

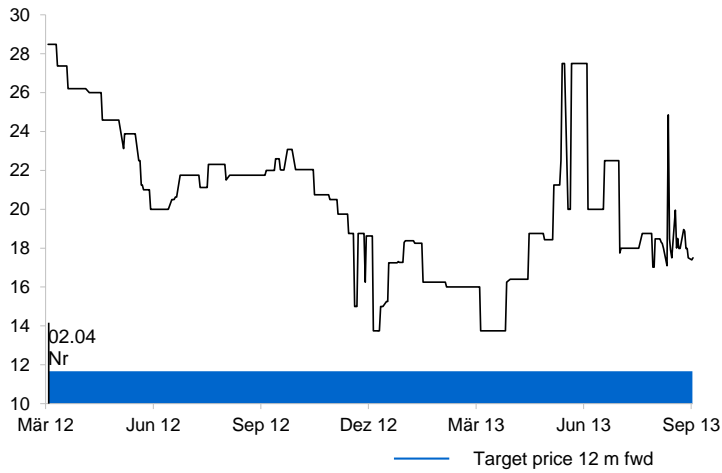
Jaromir Malak/ Zach Carvell +43 (0)5 100 84254

U. Inhofner/ P. Zagan/ C. Mitu +43 (0)5 100 84254

Fixed Income International Sales London

Antony Brown +44 20 7623 4159

PORR



Rating history

Company description

Porr is Austria's second largest construction company and positioned as a full-service provider in the complex infrastructure sector. It has three business segments - Road Construction (30% of output volume), Civil Engineering (41%) and Building construction (29%). The majority of output is realized domestically (58%), the CEE region accounts for about 30%. The company expects stable output volume in 2009 based on orders at hand but declining activity in 2010. Through a 31% capital increase in September 2009, the Turkish construction group RENAISSANCE acquired 10.2% of voting rights.

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Company	ISIN	Disclosure
PORR	AT0000609607	5

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PORR | Construction Materials | Austria
02 October 2013

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Head Office: Vienna

Commercial Register No.: 33209m

Commercial Court of Vienna

Phone +43 (0)5 0100 - ext.11902

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