

Company Update

Atal

March 11, 2016

Real Estate/Poland

Buy

Price 10.03.16*	20.99
Price target	26.80
Volatility risk	medium
Year high/low	22.50/18.99
Currency	PLN
PLN/EUR	4.31
GDR rate	n.a.
Shares outstanding eoy in mn	38.72
Market capitalisation (total shares) in EUR mn	188.4
Free float	16.8%
Free float in EUR mn	31.6
Avg. daily turnover (12 m) in EUR mn	0.03
Index	WIG
ISIN code	PLATAL000046
Bloomberg	1AT.PW
Reuters	1AT.WA

4Q 15e: weak quarter ahead, but not much to worry about

We have adjusted our FY 2015e estimates to reflect small changes in the schedule of handovers. As a result, we cut our projections for 2015e but hike them for 2016e. Moreover, due to new land purchases conducted by the company (also in new cities like Poznan and Gdansk) we see the expansion taking place in line with the company's plans expressed during the IPO. Currently the company is the only developer in Poland with such a strong presence in all of the largest urban agglomerations (7 out of 7) in Poland. Atal has recently expanded its land bank including large projects in Krakow and Wroclaw, which, in our view, should secure profits and revenues in 2016-2019e and will likely enable the company to selectively purchase only those land plots where the price is attractive.

Expansion phase continues: Higher debt resulting from the new projects poses very limited risk, in our view. Given that Atal maintains superior margins vs. its largest competitors, even a moderate market slowdown (a scenario possible in 2017-2018) would not be very harmful to Atal as contrasted with its smaller rivals. Higher margins imply better flexibility to offer discounts if a quicker reduction of net debt is needed. Moreover, once Atal reaches its targeted level of 2,000 flats per year, working capital will decrease after a peak in 2017e, similarly to net debt. We conservatively assume that the gross profit margin of Atal will gradually drop from a peak of 29% in 2016e (high-margin projects in Krakow and Warsaw) towards 24% in 2019e and decline even further in our terminal value assumption. Our forecast also assumes a dividend pay-out ratio of 50% in the upcoming years, with some flexibility possible depending on market conditions.

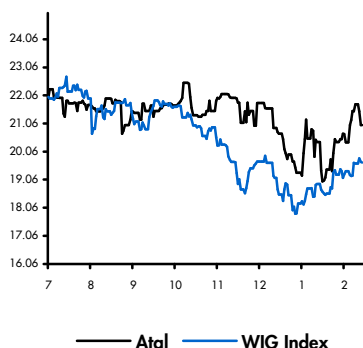
4Q 15e: We assume that the number of handovers may be lower vs. the previous quarter, as high-margin projects in Krakow (Czyżyny) and Warszawa (Walewska) will be rather booked in 1Q 16e. Revenues in 4Q 15e are expected to be generated mainly on projects in Wroclaw, Łódź and Katowice. We assume the gross profit margin to be slightly lower - vs. the figure in 1-3Q 15, at about 27%. Due to the higher ratio of fixed costs to revenues net profit margin may also be lower (we assume 8%). We estimate that revenues will amount to PLN 46 mn and net profit may reach PLN 4 mn in 4Q 15e. As a result, we expect DPS of PLN 0.43 this year (yielding 2.0%), with payments expected to grow considerably in the upcoming years (we assume an average yield of 7% based on the net results to be generated in 2016-2019e).

Valuation and recommendation: We stick to our BUY recommendation and slightly hike our target price to PLN 26.8. We derive our valuation from DCF (75% weighting) and peer group valuation based on P/E and P/BV ratios in 2015-2018e.

Key figures and ratios

PLN	12/2013	12/2014	12/2015e	12/2016e	12/2017e
Sales (mn)	234	577	228	537	863
Gross profit from sales (mn)	55	186	64	157	236
EBIT (mn)	42	167	44	131	204
Net profit a.m. (mn)	33	135	33	96	154
Earnings per share (adj.)	n.a.	4.18	0.93	2.47	3.97
EPS adjusted growth	n.a.	n.a.	-77.6%	164.0%	60.6%
Adjusted PE ratio	n.a.	n.a.	23.1	8.5	5.3
DPS	n.a.	0.00	0.43	1.23	1.98
Dividend yield	n.a.	n.a.	2.0%	5.9%	9.4%
EV/EBITDA	n.a.	n.a.	23.8	8.8	5.6
Price book value	n.a.	n.a.	1.4	1.2	1.0

Source: Atal, Raiffeisen Centrobank estimates



Source: Raiffeisen Centrobank

Analyst: Dominik Niszczyński, CFA

Tel.: +48 225852630

e-mail: niszczy@rcb.at

Published by: Raiffeisen Centrobank,

A-1015 Vienna, Tegetthoffstrasse 1

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* The indicated price is the last price as available at

6.30 AM on 11.03.16, Source: Reuters/Bloomberg

P/E valuation vs. local peers

	2015e P/E	2016e P/E	2017e P/E	2018e P/E
Dom Development	15.6	12.8	13.0	14.5
Robyg	10.7	9.6	8.0	14.6
Average	13.2	11.2	10.5	14.5
Net profit of Atal (in PLN mn)	33	96	154	117
Implied valuation per share (in PLN)	11.4	27.6	41.5	44.1
Average valuation per share (in PLN)	31.1			

Source: Bloomberg, Raiffeisen estimates

P/BV valuation vs. local peers

	2015e P/BV	2016e P/BV	2017e P/BV	2018e P/BV
Dom Development	1.43	1.39	1.40	1.42
Robyg	1.55	1.46	1.37	1.38
Average	1.49	1.43	1.39	1.40
Book value of Atal (in PLN mn)	610	689	795	835
Implied valuation per share (in PLN)	23.5	25.4	28.4	30.2
Average valuation per share (in PLN)	26.9			

Source: Bloomberg, Raiffeisen estimates

Atal 4Q 15e preview (March 21, 2016)

	4Q 15e	4Q 14	yoy	3Q 15	qoq	2015e	yoy
Revenues	46	73	-37%	74	-38%	228	-60%
Gross profit	12	17	-28%	20	-40%	64	-66%
Net income a.m.	4	9	-56%	13	-71%	33	-75%
Net margin	8%	12%		18%		15%	

Source: Atal, Raiffeisen Centrobank estimates

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DCF Valuation

<i>FCF projection (PLN mn)</i>	2015e	2016e	2017e	2018e	2019e	2020e	TV CF
Consolidated sales	228	537	863	751	718	661	634
EBITDA	45	132	205	161	137	113	108
EBITA	44	131	204	160	136	112	107
Taxes paid on EBITDA	-7	-22	-35	-27	-24	-21	-20
NOPLAT	38	110	169	133	113	91	87
Adj. NOPLAT	38	110	169	133	113	91	87
Depreciation of PPE & intangibles	1	1	1	1	1	1	1
Gross investment in PPE & intangibles	-1	-1	-1	-1	-1	-1	-1
Change in working capital	-269	-187	-84	28	82	-27	-9
NWC/Sales	322.3%	171.9%	116.7%	130.4%	124.9%	139.9%	145%
Change in LT provisions other than tax	0	0	0	0	0	0	0
Net acquisitions & disposals	0	0	0	0	0	0	0
Free cash flow to firm	-232	-78	85	161	195	64	78
Adj. free cash flow to firm	-232	-78	85	161	195	64	78
EV DCF, mid-year assumption	1,174	1,339					
+ MV of non-operating assets eop	0	0					
- MV of net debt eop	252	363					
- MV of minorities eop	-7	-7					
Adjustments to EV eop	0.0	0.0					
Fair value of equity	929	983					
Shares outstanding (mn)	39	39					
Fair value per share (in PLN)	24.00	25.39					

<i>Value drivers</i>	2015e	2016e	2017e	2018e	2019e	2020e	TV CF
Consolidated sales yoy	-60.4%	135.3%	60.6%	-13.0%	-4.3%	-8.0%	1.0%
EBITDA margin	19.9%	24.6%	23.8%	21.4%	19.1%	17.1%	17.1%
Rate of taxes paid	-14.8%	-16.5%	-17.2%	-17.0%	-17.3%	-18.5%	-19.0%
Working capital/sales	322.3%	171.9%	116.7%	130.4%	124.9%	139.9%	145.0%
Capex/depreciation	134.9%	130.2%	126.5%	123.4%	120.9%	120.9%	105.1%
Free cash flow margin	-101.4%	-14.5%	9.9%	21.4%	27.1%	9.6%	12.2%

<i>WACC</i>	2015e	2016e	2017e	2018e	2019e	2020e	TV CF
Target capital structure (at MV)	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%
Debt/equity ratio (at MV)	42.9%	42.9%	42.9%	42.9%	42.9%	42.9%	42.9%
Risk free rate (local)	3.3%	3.4%	3.6%	3.9%	4.1%	4.2%	3.5%
Equity market premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Levered beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	8.3%	8.4%	8.6%	8.9%	9.1%	9.2%	8.5%
Cost of debt	5.8%	5.9%	6.1%	6.4%	6.6%	6.7%	6.0%
Tax rate	-14.8%	-16.5%	-17.2%	-17.0%	-17.3%	-18.5%	-19.0%
WACC	7.3%	7.4%	7.5%	7.8%	8.0%	8.1%	7.4%

Sensitivity analysis

<i>Growth sensitivity (PLN)</i>	<i>Terminal growth rate</i>						
WACC	-0.5%	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%
5.9%	26.7	28.9	31.5	34.6	38.4	43.2	49.4
6.4%	24.4	26.2	28.4	30.9	34.0	37.8	42.5
6.9%	22.4	23.9	25.8	27.9	30.4	33.4	37.2
7.4%	20.6	22.0	23.5	25.3	27.4	29.9	32.9
7.9%	19.1	20.2	21.6	23.1	24.9	27.0	29.4
8.4%	17.7	18.7	19.9	21.2	22.7	24.5	26.5
8.9%	16.4	17.4	18.4	19.5	20.8	22.3	24.0

<i>Margin sensitivity (PLN)</i>	<i>FCF margin TV</i>						
WACC	10.6%	11.1%	11.6%	12.1%	12.6%	13.1%	13.6%
5.9%	30.6	31.9	33.2	34.6	35.9	37.2	38.6
6.4%	27.4	28.6	29.7	30.9	32.1	33.3	34.5
6.9%	24.7	25.8	26.8	27.9	29.0	30.0	31.1
7.4%	22.4	23.4	24.4	25.3	26.3	27.2	28.2
7.9%	20.5	21.4	22.2	23.1	24.0	24.9	25.7
8.4%	18.8	19.6	20.4	21.2	22.0	22.8	23.6
8.9%	17.3	18.0	18.8	19.5	20.3	21.0	21.7

Source: Raiffeisen Centrobank estimates

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<i>Income statement (PLN mn)</i>	12/2012	12/2013	12/2014	12/2015e	12/2016e	12/2017e
Consolidated sales	174	234	577	228	537	863
Cost of sales	-127	-179	-391	-165	-380	-626
Gross profit	47	55	186	64	157	236
Other operating income	3	6	2	3	2	2
Selling expenses	-6	-9	-11	-9	-14	-18
Administrative expenses	-5	-8	-8	-11	-12	-14
Other operating expenses	-1	-2	-3	-2	-2	-2
EBITDA	39	43	168	45	132	205
Adjusted EBITDA	39	43	168	45	132	205
Depreciation of PPE and intangibles	-1	-1	-1	-1	-1	-1
EBITA	38	42	167	44	131	204
Amortisation, impairment of goodwill	0	0	0	0	0	0
EBIT	38	42	167	44	131	204
Adjusted EBIT	38	42	167	44	131	204
Investment income	0	0	0	0	0	0
Net interest income	-1	-4	-3	-4	-11	-13
Other financial result	0	0	0	0	0	0
Financial result	-1	-4	-3	-4	-11	-13
Earnings before taxes	37	38	164	41	120	192
Taxes on income	-7	-4	-28	-5	-23	-36
Extraordinary result	0	0	0	0	0	0
Net profit before minorities	30	34	137	35	98	156
Minority interests	-0	-1	-2	-2	-2	-2
Net profit after minorities	30	33	135	33	96	154
Adjusted Net profit	30	33	135	33	96	154
Changes yoy	12/2012	12/2013	12/2014	12/2015e	12/2016e	12/2017e
Consolidated sales yoy	n.a.	34.8%	146.2%	-60.4%	135.3%	60.6%
EBITDA yoy	n.a.	8.7%	292.7%	-73.0%	191.8%	55.3%
EBITA yoy	n.a.	8.9%	298.9%	-73.4%	195.5%	55.6%
EBIT yoy	n.a.	8.9%	298.9%	-73.4%	195.5%	55.6%
EBT yoy	n.a.	1.5%	332.4%	-75.1%	193.9%	59.6%
Net profit after minorities yoy	n.a.	11.6%	304.8%	-75.2%	185.9%	60.6%
Margins	12/2012	12/2013	12/2014	12/2015e	12/2016e	12/2017e
Gross margin	27.2%	23.7%	32.3%	27.9%	29.3%	27.4%
EBITDA margin	22.6%	18.2%	29.1%	19.9%	24.6%	23.8%
EBITA margin	22.1%	17.9%	29.0%	19.5%	24.4%	23.7%
EBIT margin	22.1%	17.9%	29.0%	19.5%	24.4%	23.7%
EBT margin	21.5%	16.2%	28.4%	17.9%	22.4%	22.2%
Net margin	17.1%	14.2%	23.3%	14.6%	17.8%	17.8%
Profitability	12/2012	12/2013	12/2014	12/2015e	12/2016e	12/2017e
Return on assets	11.8%	5.8%	18.1%	3.8%	8.0%	11.1%
Return on equity	22.3%	11.7%	36.6%	6.4%	14.7%	20.7%
Return on capital employed	14.3%	7.8%	23.3%	4.6%	9.9%	13.8%
Cash flow statement (PLN mn)	12/2012	12/2013	12/2014	12/2015e	12/2016e	12/2017e
Earnings before taxes	37	38	164	41	120	192
Taxes paid	-4	-2	-8	-7	-22	-35
Amortisation and depreciation	1	1	1	1	1	1
Other non-cash items	1	3	3	0	0	0
Cash flow from result	36	40	160	35	99	157
Change in working capital	-89	23	-160	-269	-187	-84
Operating cash flow	-53	63	1	-234	-88	74
Capex PPE and intangible assets	-1	-1	-1	-1	-1	-1
Acquisitions	0	0	0	0	0	0
Disposal of fixed assets (total)	0	0	0	0	0	0
Other items (investments)	0	1	4	0	0	0
Investing cash flow	-1	1	3	-1	-1	-1
Dividend payments	-0	-4	-4	0	-17	-48
Other changes in equity	0	0	0	140	0	0
Change in financial liabilities	29	11	-1	35	130	-29
Other items	-0	-1	-1	11	-5	-6
Financing cash flow	29	7	-7	187	108	-83

Source: Atal, Raiffeisen Centrobank estimates

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Balance sheet (PLN mn)	12/2012	12/2013	12/2014	12/2015e	12/2016e	12/2017e
Current assets	417	606	632	922	1,216	1,267
Liquid funds	6	77	74	25	44	34
Receivables	2	2	2	2	2	2
Inventories	402	518	541	878	1,152	1,212
Other assets	6	9	15	17	18	19
Fixed assets	156	155	155	156	156	156
Property, plant & equipment	6	6	7	7	7	8
Intangible assets	63	63	63	63	63	63
Goodwill	0	0	0	0	0	0
Financial assets	87	86	85	85	85	85
Deferred tax assets	0	0	0	1	0	0
Total assets	573	761	787	1,079	1,372	1,423
Current liabilities	191	314	190	303	421	349
Short-term borrowings	120	100	99	142	172	124
Notes & trade payables, payments received	69	208	64	156	239	212
Other current liabilities	2	6	27	4	9	14
Long-term liabilities	105	141	161	166	263	278
Long-term borrowings	86	132	143	135	235	255
Long-term provisions	0	0	0	0	0	0
Other long-term liabilities	19	8	17	30	27	23
Hybrid & other mezzanine capital	0	0	0	0	0	0
Shareholders' equity	267	300	436	610	689	795
Minority interests	0	-3	-7	-7	-7	-7
Deferred tax liabilities	9	9	7	7	7	8
Total liabilities	573	761	787	1,079	1,372	1,423
Balance sheet (PLN mn)	12/2012	12/2013	12/2014	12/2015e	12/2016e	12/2017e
Net working capital	340	315	467	736	923	1,007
Net interest-bearing debt	201	155	168	252	363	345
Capital employed	n.a.	n.a.	n.a.	880	1,089	1,166
Market capitalisation	n.a.	n.a.	n.a.	836	813	813
Enterprise value	n.a.	n.a.	n.a.	1,081	1,169	1,151
Financing (x)	12/2012	12/2013	12/2014	12/2015e	12/2016e	12/2017e
Interest cover	8.8	8.7	39.3	n.a.	n.a.	n.a.
Internal financing ratio	-69.0	100.1	0.5	-195.7	-72.9	60.4
Net gearing	75.2%	52.2%	39.2%	41.8%	53.2%	43.7%
Quick ratio	0.1	0.3	0.5	0.1	0.2	0.2
Fixed assets cover	2.4	2.8	3.8	4.9	6.1	6.8
Capex / depreciation	0.9	0.7	1.4	1.3	1.3	1.3
Equity ratio	46.6%	39.1%	54.6%	55.9%	49.7%	55.4%
Per share data (PLN)	12/2012	12/2013	12/2014	12/2015e	12/2016e	12/2017e
Weighted avg. no. of shares (mn)			32.2	35.8	38.7	38.7
EPS reported			4.18	0.93	2.47	3.97
Earnings per share (adj.)			4.18	0.93	2.47	3.97
Operating cash flow per share			0.02	-6.55	-2.27	1.90
Book value per share			13.55	15.76	17.80	20.53
DPS			0.00	0.43	1.23	1.98
Payout ratio	13.3%	13.4%	0.0%	50.0%	50.0%	50.0%
Valuation (x)	12/2012	12/2013	12/2014	12/2015e	12/2016e	12/2017e
PE reported	n.a.	n.a.	n.a.	23.1	8.5	5.3
Adjusted PE ratio	n.a.	n.a.	n.a.	23.1	8.5	5.3
Price cash flow	n.a.	n.a.	n.a.	-3.3	-9.2	11.0
Price book value	n.a.	n.a.	n.a.	1.4	1.2	1.0
Dividend yield	n.a.	n.a.	n.a.	2.0%	5.9%	9.4%
Free cash flow yield	n.a.	n.a.	n.a.	-28.4%	-11.1%	9.0%
EV/sales	n.a.	n.a.	n.a.	4.7	2.2	1.3
EV/EBITDA	n.a.	n.a.	n.a.	23.8	8.8	5.6
EV/EBIT	n.a.	n.a.	n.a.	24.3	8.9	5.6
EV/operating cash flow	n.a.	n.a.	n.a.	-4.6	-13.3	15.6
Adjusted EV/CE	n.a.	n.a.	n.a.	1.3	1.1	1.0
Adjusted EV/CE vs. ROCE/WACC	n.a.	n.a.	n.a.	2.0	0.8	0.6

Source: Atal, Raiffeisen Centrobank estimates

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Fact Sheet

Company description

Atal is the most profitable among the largest Polish homebuilders and is active as a residential developer in southern and central Poland. The company purchases land, develops residential projects and sells flats directly to clients – these activities generate over 90% of the group's revenues. A smaller share of activity is related to commercial real estate (Atal owns a number of office buildings/warehouses that are rented to business clients) - however, this represents less than 5% of revenues. Atal also owns a 100% stake in a subsidiary active in the construction segment that operates as a general contractor and coordinates building works related to development projects conducted by the group. Atal has been involved in real estate projects since the year 2003. It completed 31 projects with over 300,000 sqm in 2006 - 2014, that included almost 5k flats. The strategy of Atal assumes gradual expansion on the Warsaw market, maintaining the leadership position in Kraków, increasing the market share in Wrocław and retaining the current position in Katowice and Łódź. Atal intends to maintain a land reserve to secure a stable realisation of projects and the continuation of its development activity. The company focuses on premium and middle-class apartments, targeting the largest market segment.

Strengths/Opportunities

- Business model enables the group to generate higher margins than local competitors
- Market leader in Krakow, active in the largest cities in southern Poland, strong project pipeline in Warsaw
- Family run business – the management keeps the majority stake
- Low level of sales costs due to lack of intermediaries in the sales process
- Historically low interest rate in Poland to support apartment purchases also for investment purposes
- Growing share of single-person households in Poland

Income statement (PLN mn)	12/2014	12/2015e	12/2016e	12/2017e
Consolidated sales	577	228	537	863
EBITDA	168	45	132	205
EBIT	167	44	131	204
EBT	164	41	120	192
Net profit bef. min.	137	35	98	156
Net profit after min.	135	33	96	154

Balance sheet

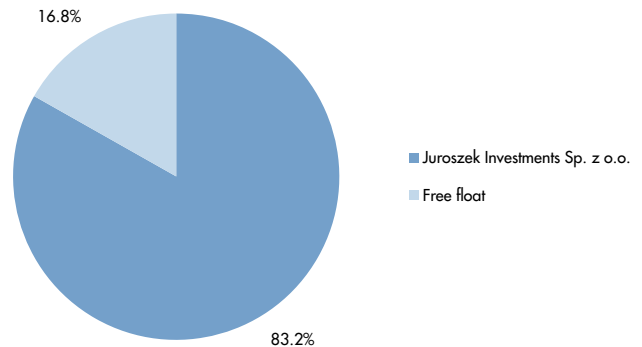
Total assets	787	1,079	1,372	1,423
Shareholders' equity	436	610	689	795
Goodwill	0	0	0	0
NIBD	168	252	363	345

Cash flow statement

Operating cash flow	1	-234	-88	74
Investing cash flow	3	-1	-1	-1
Change NIBD	-13	-84	-111	18

Source: Atal, Raiffeisen Centrobank estimates

Shareholder structure



Weaknesses/Threats

- Growing scale of activity means higher working capital requirements in the following years
- Demography – threat of emigration and falling number of young people in the long term and measures supporting access to cheap flats
- Costs of construction materials and labour costs may grow faster than prices of flats
- Escrow accounts – prepayments have to be kept in an escrow account, implying higher working capital needs
- Availability of attractive land plots in the largest cities in Poland is limited – high competition among developers

Per share data (PLN)	12/2014	12/2015e	12/2016e	12/2017e
EPS pre-goodwill	4.18	0.93	2.47	3.97
Adj. EPS diluted	4.18	0.93	2.47	3.97
Operating cash flow	0.02	-6.55	-2.27	1.90
Book value	13.55	15.76	17.80	20.53
Dividend	0.00	0.43	1.23	1.98
Payout ratio	0.0%	50.0%	50.0%	50.0%

Valuation (x)

PE pre-goodwill	n.a.	23.1	8.5	5.3
Adj. PE diluted	n.a.	23.1	8.5	5.3
Price cash flow	n.a.	-3.3	-9.2	11.0
Price book value	n.a.	1.4	1.2	1.0
Dividend yield	n.a.	2.0%	5.9%	9.4%
FCF yield	n.a.	-28.4%	-11.1%	9.0%
EV/EBITDA	n.a.	23.8	8.8	5.6
EV/EBIT	n.a.	24.3	8.9	5.6
EV/operating CF	n.a.	-4.6	-13.3	15.6

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Publication schedule

Date	Publication
21.03.2016	4Q Earnings release
16.05.2016	1Q Earnings release
31.08.2016	2Q Earnings release
14.11.2016	3Q Earnings release

Recommendation history

24.09.2015 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
24.09.2015	Buy	26.50	21.48	23.4%

Coverage universe recommendation overview

	buy	hold	reduce	sell	suspended	UR
Universe	56	52	7	2	11	4
Universe %	42%	39%	5%	2%	8%	3%
Investment banking services	20	10	4	0	3	0
Investment banking services %	54%	27%	11%	0%	8%	0%

Source: Raiffeisen Centrobank, rounding differences may occur

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Imprint

Raiffeisen Centrobank AG, 1010 Vienna, Tegetthofstrasse 1, Austria

T: +431 51520 0

F: +431 5134396

E: office(at)rcb.at

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Registration number according to the Austrian Data Protection Act

DVR 0008389

VAT ID number ATU 15355005

Legal Entity Identifier (LEI) 529900M2F7D5795H1A49

S.W.I.F.T.-Code BIC CENBATWW

Supervisory authorities: Austrian Financial Market Authority FMA, 1090 Vienna, Otto-Wagner-Platz 5, Austria and Oesterreichische Nationalbank, 1090 Vienna, Otto-Wagner-Platz 3, Austria.

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Raiffeisen Centrobank AG - Your contacts

A-1015 Vienna, Tegetthoffstrasse 1, Internet: <http://www.rcb.at>

Equity Sales

Tel.: +43/1515 20-0

Klaus della Torre (Global Head)

dellatorre@rcb.at

Sales & Sales Trading

Ozgur Guyuldar (Head)

guyuldar@rcb.at

Nicolas Bley
bley@rcb.at

Reinhard Haushofer
haushofer@rcb.at

Simon Huber
simon.huber@rcb.at

Anita Thurnberger
thurnberger@rcb.at

György Karolyi
karolyi@rcb.at

Wojciech Kolacz
kolacz@rcb.at

Michal Kolata +48/22347 7735
michal.kolata@raiffeisen.pl

Tomislav Pasalic ext. 435
pasalic@rcb.at

Tomasz Sachajko +48/22347 7734
tomasz.sachajko@raiffeisen.pl

Stefan Waidhofer ext. 463
waidhofer@rcb.at

Christof Wallner ext. 457
wallner@rcb.at

Execution & Electronic Trading

Günter Englhart (Head)

ext. 472 englhart@rcb.at

Robert Hein
hein@rcb.at

ext. 336 Michael Kriechbaum
kriechbaum@rcb.at

ext. 462 Bernhard Loicht (DMA)
loicht@rcb.at

ext. 477 Cedric Monnier (DMA)
monnier@rcb.at

ext. 494 Lana Soldo (DMA)
soldo@rcb.at

ext. 496 Daniel Stippl (DMA)
stippl@rcb.at

ext. 437 Theodor Till (DMA)
till@rcb.at

ext. 436

RO Equity Sales

Tel.: +40/21306-

Cristina Boicu

ext. 1253

cristina.boicu@raiffeisen.ro

Florin Cazan ext. 1237
florin.cazan@raiffeisen.ro

Adrian Ene ext. 1207
adrian.ene@raiffeisen.ro

Bogdan Niculae ext. 1234
bogdan.niculae@raiffeisen.ro

Company Research AT/PL

Austria

Stefan Maxian (Head)

maxian@rcb.at

ext. 476 Christian Bader
bader@rcb.at

ext. 464 Daniel Damaska
damaska@rcb.at

ext. 497 Oleg Galbur
galbur@rcb.at

ext. 466 Bernd Maurer
maurer@rcb.at

ext. 485 Markus Remis
remis@rcb.at

ext. 458 Teresa Schinwald
schinwald@rcb.at

ext. 498 Jovan Sikimic
sikimic@rcb.at

Poland

Jakub Krawczyk
krawczyk@rcb.at

Juliusz Mozdziejz
mozdziejz@rcb.at

Dominik Niszcz
niszcz@rcb.at

Tel.: +43/1515 20-0

ext. 710

ext. 703

ext. 707

ext. 714

ext. 706

ext. 718

ext. 709

ext. 713

ext. 711

ext. 716

+48/22585 2630

Company Research CEE

Croatia

Tel.: +385/16174-0

ext. 870 Nada Harambašić Nereau
nada.harambasic-nereau@rba.hr

ext. 703 Damjan Sutlic +385/15575 733
damjan.sutlic@rba.hr

ext. 707 **Romania** Tel.: +40/21306-0
Iuliana Mocanu ext. 1202
iuliana-simona.mocanu@raiffeisen.ro

ext. 714 Alexandru Combei ext. 1239
alexandru.combei@raiffeisen.ro

ext. 706 Catalin Diaconu ext. 1229
catalin.diaconu@raiffeisen.ro

ext. 718 **Russia** Tel.: +7/495 221
Natalya Kolupaeva ext. 9852
natalya.kolupaeva@raiffeisen.ru

ext. 709 Fedor Kornachev ext. 9851
fedor.kornachev@raiffeisen.ru

ext. 713 Sergey Libin ext. 9838
sergey.libin@raiffeisen.ru

ext. 711 Andrey Polischuk ext. 9849
andrey.polischuk@raiffeisen.ru

ext. 716 Konstantin Yuminov ext. 9842
konstantin.yuminov@raiffeisen.ru

US Equity Sales

Tel.: +1/212-600-2588

Stefan Gabriele (Head)

stefan.gabriele@rbimusa.com

Stefan Niton
stefan.niton@rbimusa.com

Marianne Rafferty
marianne.rafferty@rbimusa.com

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