

CEZ

Hold

Unchanged

Price: 898

Price Target: 1,010
(Unchanged)

“Shadow over CO2 market”

At the end of September, the European Court ruled in favour of appeals from Poland and Estonia, which had complained about the lowering of carbon credit allocations for 2008-12.

If the European Commission fails with its appeal, the total supply of credits in the EU would therefore grow by 4.7%. According to Carbon Warehouse, the international CO2 allowances brokerage, this is another issue undermining the fundamentals of the carbon emissions market. Neither will the market be supported by the demand side: with the slump in industrial production, 2009 emissions are likely to drop below the cap.

The price of carbon credits is unlikely to drop to zero, as it did when the market was oversupplied in the first trading period of 2005-07, because these current credits can be used until 2020. However, if other member states were to put forward similar issues to Poland, this could heavily distort the market.

Green power producers (represented by Verbund in the CEE region) are the most positively geared towards high CO2 credit prices. The cost of air pollution is well factored into power prices and therefore boosts the margins of green producers. This reward for low emissions vanishes if CO2 credits remain at a low level.

We believe CEZ also benefits from high CO2 prices. CEZ has all the credits it needs for free until 2012 and will be granted some free credits even after 2012, unlike west European utilities. CEZ is the most positively leveraged utility towards CO2 prices in 2012: no power price hedging to reduce this sensitivity has been implemented yet and CEZ will still be entitled to its full free credit allocation. A fall of 10 EUR/ton in carbon prices from our original bullish estimate of 30 EUR/ton would erase CZK 12.2 bil from EBITDA (or ~15.5% of our forecast).

Expected Events

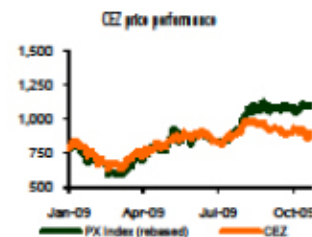
2009 results Nov 12, 2009

Key Data

Market cap	EUR 18,214 ml
Free float	29.2%
Shares outstanding	537.99 ml
Average daily volume	EUR 24.6 ml
Major shareholder	State
Isotex code	CEZps.PE
Bloomberg code	CEZ CF
Ex. rate (CZK/EUR)	26.5
FX Index	1,141

Price Performance

52-w range (CZK)	629.5-110.5
YTD CZK performance	14.8%
Relative YTD CZK perf.	-17.2%



Year	EBITDA (CZK bil)	Net profit (CZK bil)	Shares (mil)	EPS (CZK)	EPS growth	P/E (x)	EV/ EBITDA	P/CE (x)	DPS (CZK)	Divid. yield (%)
2011E	89.3	48.1	538.0	90.1	0.4%	10.0	6.7	6.2	50.0	5.6%
2010E	87.0	47.9	538.0	89.8	-3.8%	10.0	6.8	6.7	49.0	5.5%
2009E	89.1	49.7	538.0	92.2	7.4%	9.6	6.2	5.7	56.0	6.2%
2008	87.2	46.5	538.0	86.9	19.0%	10.2	6.6	6.8	50.0	5.6%
2007	75.3	41.6	569.1	72.0	56.1%	12.3	7.2	8.2	40.0	4.5%
2006	64.3	27.7	592.2	46.8	29.2%	19.2	7.8	7.7	20.0	2.2%
2005	50.1	21.4	592.2	36.2	62.2%	24.8	10.1	11.0	15.0	1.7%

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