

# Number of hurdles to jump

## Declining equity - downgrade from Neutral to U/P

PIK's results showed further balance sheet deterioration. In 6M09 equity declined by 37% to US\$0.87/s with tangible equity now at -US\$0.90/s. Our revised 2010E NAV (BV) has fallen to US\$2.24/s (prev: US\$3.15/s). We set our PO of US\$3.16/s at 2011E NAV vs 2010E previously, as we are looking at PIK on a more normalised basis. PIK shares are trading at 1.3x 2011E BV vs a 1.8x average for the global peers. Despite the discount to peers, trading at a premium to 2011E BV is unjustified in our view, based on the required shoring-up of PIK's liquidity position, further shrinking of the business, and the potential for an equity raising. We downgrade PIK from Neutral to Underperform.

## Three hurdles - first is to shore up liquidity

We see three hurdles to PIK stabilising the business. Its first priority is to shore up its liquidity position as it has US\$1.43bn of debt (99% of total debt) maturing in 12 months. We are confident the banks will renew its facilities, although terms and conditions might not be as favourable.

## Second - to repair the balance sheet

The second step will be repairing the balance sheet which we believe will require an equity injection to reduce gearing. PIK's leverage (D/E) stands at 333% compared with the UK average of 30-40%. The company cannot operate with such leverage for a prolonged period in our view. We calculate that PIK would require US\$3bn of new equity or 1.5x MCAP to reach the UK D/E average. We expect a capital increase at some point but US\$3bn might be a stretch.

## Third - to further shrink the business

The final step will be shrinking its business in order to function on its reduced equity base. In the next 12M we anticipate further reductions in overheads and the closure of most regional operations with the focus on eliminating payables.

## Estimates (Dec)

(USD)	2007A	2008A	2009E	2010E	2011E
Pre-tax Profit (US\$m)	839	(1,182)	(171)	25.3	209
Adjusted BVPS	4.05	1.32	0.89	2.17	3.09
EPS (Adjusted)	0.95	(0.06)	(0.28)	0.04	0.34
DPS Tax Adjusted (Basic)	0	0	0	0	0

## Valuation (Dec)

	2007A	2008A	2009E	2010E	2011E
NAV Discount, %	(5.81)	(224)	(382)	(97.5)	(38.6)
ROEV, %	44.6	(50.7)	4.50	6.02	14.9
EPS Yield	22.1	NA	NA	0.96	7.96
Dividend Yield	0	0	0	0	0

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## Stock Data

Price	US\$4.29
Price Objective	US\$3.16
Date Established	26-Oct-2009
Investment Opinion	C-3-9
Volatility Risk	HIGH
52-Week Range	US\$0.425-US\$7.00
Mrkt Val / Shares Out (mn)	US\$2,102 / 490.0
Average Daily Volume	1,097,014
ML Symbol / Exchange	XPKKF / LSE
Bloomberg / Reuters	PIK LI / PKGPq.L
ROE (2009E)	-25.2%
Net Dbt to Eqty (Dec-2008A)	184.4%
Est. 5-Yr EPS / DPS Growth	0% / 0%
Free Float	41.0%

## Key Changes

(US\$)	Previous	Current
Inv. Opinion	C-2-9	C-3-9
Inv. Rating	NEUTRAL	UNDERPERFORM
Price Obj.	3.15	3.16
2009E EPS	0.16	-0.28
2010E EPS	0	0.04
2011E EPS	0.14	0.34

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