Polish Residential Real Estate

Polish residential RE segment proved far more resilient to COVID-19 turmoil than we originally anticipated. Moreover, regardless of increasingly probable tightening of NBP's monetary policy this year and clear pickup trend in raw materials prices, its short- to mid-term prospects now look more favorable than we assumed earlier. Factoring this in, we raise our 12M Target Prices for our covered housebuilders by average of considerable 75% and consequently still recognize decent upside in selected names, despite their recent stock price rallies.

Cezary Bernatek
cezary.bernatek@erstegroup.com
+48 22 538 6256

The Polish primary housing segment proved to be far more immune to coronavirus pandemic lockdown measures and the related adverse impact on the country's economic situation than we originally expected. Residential pre-sales volume in FY20 fell by only a moderate 19% y/y on six key domestic markets from a solid base (we expected 25-35% y/y decline), at the same time surpassing the supply of new dwellings, which finally pushed the prices of comparable projects up 2-5% y/y on average in the period (our earlier model assumptions for the period factored in some 3-6% y/y fall in this respect).

The segment outlook for 2021E-22E also looks more promising than we expected. Namely, given the Polish labor market's relative resilience to adverse COVID-19 impacts, faster than expected recovery in consumer confidence and earlier than assumed softening of mortgage lending requirements, as well as the accelerated flow of money from bank deposits to the housing market resulting from the outlook on even longer than expected negative interest rates in real terms in the country (likely increase in PL base rate, at 50-100bp by end-2022E, no game-changer) augmented by promising prospects for housing prices, and despite increased competition in the dwellings-for-rent segment, we now look for a 10-20% y/y increase in demand for new flats on the broad market in volume terms this year (5-15% recovery from visibly lower base anticipated originally), to be followed by another 5-10% pickup in 2022E (assuming continued macro revival and no extraordinary hike in Polish CPI in the period). At this point, we note that an additional demand boost might come from the government side – potential introduction of down-payment guarantees by the state – not included in our current assumptions.

At the same time, in the light of limited availability of suitable land plots, continued administrational hardships across the country, and despite improving access to external funding and the recovering level of client pre-payments accompanying the pre-sales revival, we maintain our expectations for the number of apartments added to the offer on the broad PL primary market showing no vital y/y revival this year as well as going into 2022E, in the end falling below demand in volume terms in both years. At this point, we note that while we see some risk of potential accelerated divestments of CHF-mortgage financed flats following the likely solution adopted in this respect in Poland, in our base case scenario, we believe they should create no major competition for the primary market product.

Given these factors, as well as the fact that, despite the coronavirus turbulence, the domestic primary housing market remains characterized by a fairly low total offer size in relative terms, we now expect the prices of comparable residential projects to show another 8-12% y/y increase on average this year, to be followed by a 5-10% pickup in 2022E (compared to the roughly flat environment assumed originally for both years and mere 3-5% y/y growth expected only for 2023E). Despite the anticipated continued clear uptrend in raw materials prices in 2021E-22E and increase in land prices over recent years, we now expect developer margins on comparable projects to come in roughly flat in the short to medium term vs. the strong levels registered in 2020 (originally forecast to clearly compress in both years).

Factoring in all of the above, we raise our pre-sales volume estimates for covered housebuilders by 25%/24% on average for 2021E/2022E and now expect most of them to show a clear uptrend in this respect in both years. Combined with stronger than expected sales volume in FY20, as well as a more optimistic view on domestic housing prices evolution going forward (plus their more favorable dynamics last year), we also upgrade our NI estimates for covered segment representatives by 19-24% on average for 2021E-22E, resulting in relatively favorable outlooks for selected names going forward (and still reasonable implied P/E ratios). Finally, we believe that sound market situation prospects are about to trigger a return to/continued distribution of hefty dividends in the segment. The changes above also trigger a 75% upgrade in our 12M TPs for covered players on average, which leads us to keep our positive bias on the segment for 2021E-22E in general and recognize a decent upside in selected names, despite their strong stock performance from the COVID-19-related dip in 1H20.

Among the housebuilders we follow, we see the highest upside potential in Lokum (rating up to Buy from Hold), Develia (Buy rating maintained), as well as Atal (down to Accumulate) and Dom (up to Accumulate from Hold), followed by Ronson and Archicom (both assigned Hold recommendation).

Table of contents

Investment summary

Archicom – Hold rating maintained (TP up 32% to PLN 25.6; 6.0% upside)

We raise our pre-sales volumes for Archicom (adjusted for the recent disposal of Archicom Polska) by 6%/10% to around 1,050/1,070 units for 2021E/2022E. While this implies some 8%/2% y/y pickup for each year, respectively, it does not look very impressive vs. the dynamics expected for some of its covered peers we prefer. At the same time, we expect the firm's bottom line to show a sharp y/y fall to PLN 50mn this year and further down to PLN 45mn in 2022E, before an 18% y/y rebound to PLN 53mn only in 2023E (figures adjusted for the sales of Archicom Polska, thus not fully comparable with the FY20 number), translating into relatively unimpressive earnings momentum and not very attractive P/E ratios of 12x-14x for the period – ahead of the sector average. As a sweetener, following the distribution of a solid PLN 2.53 advance DPS last year (DY of 10%), we expect Archicom to continue with sound payments in 2021E-23E – our base case scenario assumes a DPS of PLN 1.2/1.6/1.4, respectively (or yield ranging 5%-7%). On top of that, we note that the firm might be willing to distribute an extra dividend following the planned disposal of its City Two office building.

Atal – down to Accumulate from Buy (TP up 48% to PLN 58.3; 19.2% upside)

We raise our housing pre-sales volume estimates for Atal by 28%/30% to around 3,700/3,760 units for 2021E/2022E – implying a relatively healthy 28% y/y pickup from the solid base this year and no y/y softening in this respect going into 2022E. At the same time, taking into account the upgrade in pre-sales numbers for the years ahead, as well as the fact that FY20 volume was 6% above our original expectations, plus more favorable forecasts for domestic housing prices evolution for 2021E/2022E, we increase our forecasts for the company's bottom line by 2%/18% to PLN 205mn/225mn, up 22%/10% for each year, respectively. Assuming a 2023E number of PLN 202mn, this clearly translates into one of the most attractive short- to mid-term earnings outlooks among the housebuilders we cover (implying still undemanding P/E ratios of 8-9x in 2021E-23E). On top of that, Atal is expected to pay PLN 117mn in dividends this year, or PLN 3.0 per share – granting a decent yield of 6.2% – close to its key covered rivals. That said, following an anticipated pickup in net income and keeping in mind the firm's dividend policy, as well as liquidity situation, we expect DPS to grow to PLN 4.5/4.9 in 2022E/2023E, implying yields of 9.2%/10.1%, respectively – well ahead of the sector average for both years.

Develia – Buy rating maintained (TP up 61% to PLN 4.39; 27.4% upside)

We raise our pre-sales volume forecasts for the firm by 16%/11% to around 1,850/1,900 units, up 36%/3% y/y for each year, respectively – comprising one of the most favorable outlooks in this respect among the housebuilders we cover. At the same time, in spite of an upgrade in the pre-sales volume estimate for 2021E as well as the application of a more favorable forecast for domestic housing prices evolution in 2021E, we lower our net income forecast for the company by 14% to PLN 149mn for the period – linked predominantly to anticipated property revaluation loss. We note, though, that this would still imply a clear y/y jump and P/E ratio at a reasonable 10.3x. Moreover, our bottom line forecast is up 23% to PLN 217mn for 2022E and we now look for only a minor softening to PLN 194mn in 2023E, which pushes down the P/E ratios to well below sector average 7.1x/8.0x for each year, accordingly. Finally, we expect Develia to continue with one of the best in class dividend distributions going forward – assuming no changes to its official dividend policy, we forecast DPS at PLN 0.17/0.27/0.33 for 2021E/2022E/2023E, implying DYs of 4.8%/7.8%/9.6%, respectively. At this point, we also note that the firm might be willing to pay an extra dividend in 2022E-23E following the planned disposal of its Wola Retro office building, not to mention the potential exit from the Sky Tower scheme (on the mid-term agenda).

Dom – up to Accumulate from Hold (TP up 82% to PLN 176.6; 16.1% upside)

We raise our pre-sales volume forecasts for the firm by 13%/30% to around 3,860/3,880 units for 2021E/2022E. This does not look very impressive vs. the y/y dynamics forecast for some of its direct covered peers. We note, though, that the company recorded a 3% y/y increase in its sales number last year, unlike most of its competitors, setting the base high. We also increase our net income forecasts for Dom by 30%/26% to PLN 325mn/315mn, up 7% y/y/down 3% y/y for 2021E/2022E, while our estimate for 2023E now stands at PLN 376mn, up 20% y/y (predominantly a consequence of the recent increase to the scale of activity), which still implies reasonable P/E ratios of 11.9x/12.3x/10.3x each year, respectively. Finally, given the firm's highly comfortable liquidity situation (cash at PLN 636mn, net debt at PLN -265mn at end-2020; favorable debt maturity schedule; prospects for solid OCF generation going forward), we expect it to pay solid dividends in the years ahead – we count on DPS of PLN 10.9/11.2, yielding 7.1%/7.3% in 2022E/2023E, after the PLN 10.0 per share dividend expected to be paid this year, implying a DY of 6.5%.

Lokum – rating up to Buy from Hold (TP up 108% to PLN 32.0; 37.9% upside)

We lift our pre-sales forecast for the firm by 48/25% to around 920/940 units for 2021E/22E – now implying well ahead of sector average growth of 99/2% y/y in each year, respectively (after 73% y/y jump in FY20). At the same time, we raise our bottom line expectations for the firm by 41% to PLN 61mn, up 256% y/y for 2021E, which implies the most favorable earnings momentum among its peers we cover. Moreover, after only a moderate softening to PLN 50mn in 2022E, we expect Lokum's NI to rebound to PLN 61mn again in 2023E (P/E ratios ranging 6.8-8.4x). Finally, following the successful bond issues concluded in November 2020/March 2021, as well as given growing client pre-payments, we no longer perceive Lokum's liquidity situation as stretched and see potential for the distribution of a dividend from last year's earnings – assuming the payment of approx. 50% of the firm's FY20 earnings (or in line with official policy, as well as bond covenants), this would imply DPS of 0.50, or DY at 2.2% – not very impressive compared to some of its closest rivals from our universe, but still a nice addition to the growth prospects it offers for the years ahead. Going into 2022E, we forecast Lokum's DPS to jump to PLN 1.70, which implies one of the best in class DY at 7.3%.

Ronson – upgraded to Hold from Reduce (TP up 68% to PLN 2.02; 5.5% upside)

We increase our pre-sales volume forecasts for the firm by 21%/23% to 960/970 units in 2021E/2022E, up 5%/1% for each year, respectively – comprising relatively sound dynamics. At the same time, though, in spite of the fact that our net income forecasts are up 38%/34% to PLN 30mn/26mn for each year, this still implies uninspiring earnings momentum – namely a 25% fall for the current year, followed by further 15% softening in 2022E, before a revival to PLN 53mn only in 2023E. Finally, while after the recent successful bond placements we do not expect Ronson to face any liquidity issues in the short to medium term, the firm is still unlikely to shine among its covered peers in terms of anticipated dividend payments in the years ahead – we forecast no dividend in the current year (in line with management recommendation) and DPS of PLN 0.09/0.08, translating into not very impressive yields of 4.8%/4.1% for 2022E/2023E, respectively.

At this point, we stress that our revised 12M TP stands some 12% above the tender offer price proposed by the firm's key shareholder Amos Luzon, calling for the entire minority stake (33%).

SUMMARY TABLE

	BBG ticker	Close price (PLN)	TP (PLN)	Rating	P/BV 2021E	P/BV 2022E	P/BV 2023E	P/E 2021E	P/E 2022E	P/E 2023E	DYs 2021E	DYs 2022E	DYs 2023E
Archicom	ARH PW	24.20	25.65	Hold	1.03	1.03	1.00	12.5	13.7	11.7	4.9%	6.8%	5.8%
Atal	1AT PW	48.90	58.27	Accumulate	1.81	1.73	1.71	9.2	8.4	9.4	6.2%	9.2%	10.1%
Develia	DVL PW	3.45	4.39	Buy	1.11	1.04	1.00	10.3	7.1	8.0	4.8%	7.8%	9.6%
Dom Development	DOM PW	152.2	176.6	Accumulate	3.14	3.04	2.83	11.9	12.3	10.3	6.5%	7.1%	7.3%
Lokum Dew eloper	LKD PW	23.20	32.00	Buy	0.96	0.92	0.85	6.8	8.4	6.9	2.2%	7.3%	6.0%
Ronson	RON PW	1.92	2.02	Hold	0.77	0.75	0.68	10.4	12.1	5.9	0.0%	4.8%	4.1%
Average for companies from our coverage					**1.47**	**1.42**	**1.35**	**10.2**	**10.3**	**8.7**	**4.1%**	**7.2%**	**7.2%**

Valuation summary

We use a scenario analysis to arrive at what we consider to be a conservative pipeline value. Our approach favors real estate companies with a higher proportion of standing properties, but also rewards developers for near-term pipeline projects with secured financing and construction in progress, as both asset groups are factored into our equity valuation calculation at an estimated market value with a 100% weighting. We attach a lower value to projects in extended pipelines, which are more likely to be postponed (or abandoned entirely in extreme cases).

Our target price takes into account a developer's ability to generate value via new projects. To account for varying levels of risk, we have adopted a scenario approach using: 1) a truncated pipeline; and 2) an extended pipeline. Our truncated pipeline scenario takes into consideration only those projects that are currently standing or under construction, meaning that the financing has been secured and the company is actively working on the site. Our extended pipeline scenario takes into consideration all projects that the company has in its pipeline that are expected to be finalized in the next three years (to add comparability) and includes a terminal value. In both scenarios, we also add the estimated value of the secured land bank.

As the companies from our residential coverage universe offer relatively conservative balance sheets and proven access to external funding, we believe that they are unlikely to face any major difficulties financing their development pipeline and servicing debt requirements in the quarters ahead. Combined with relatively favorable macro prospects in Poland going forward, we apply a visibly higher weight to our extended pipeline scenario (70%) vs. the truncated pipeline scenario (30%) across the board.

We established our assumptions for cost-of-equity by using a fixed risk-free rate and adding a 6.0% equity risk premium (as well as an additional minor size risk premium for Archicom, Lokum and Ronson, due to their relatively low market capitalization and limited liquidity). At the same time, we use a beta of 1.1-1.2. Consequently, we estimate a WACC range of 7.0-9.5%. For the terminal value calculation, we used perpetuity, based on the estimated average net value created by the company annually, a long-term growth rate of 1.5% and a WACC ranging 7.2-9.5%.

Our revised estimated 12M target price for **Archicom** (**Hold** rating **maintained**) stands at PLN 25.65 per share (up from PLN 19.40 per share), implying 6.0% upside.

VALUATION SUMMARY (PLN)	
Truncated pipeline scenario	16.01
Extended pipeline scenario	29.78
Average (30:70 weight)	**25.65**

Our revised estimated 12M target price for **Atal** (rating **downgraded to Accumulate** from Buy) stands at PLN 58.27 per share (up from PLN 40.10 per share), implying 19.2% upside.

VALUATION SUMMARY (PLN)	
Truncated pipeline scenario	11.97
Extended pipeline scenario	78.12
Average (30:70 weight)	**58.27**

Our estimated 12M target price for **Develia** (**Buy** rating **maintained**) stands at PLN 4.39 per share (up from PLN 2.72 per share), implying 27.4% upside.

VALUATION SUMMARY (PLN)	
Truncated pipeline scenario	3.00
Extended pipeline scenario	4.99
Average (30:70 weight)	**4.39**

Our revised estimated 12M target price for **Dom Development** (rating **upgraded to Accumulate** from Hold) stands at PLN 176.6 per share (up from PLN 98.5 per share), implying 16.1% upside.

VALUATION SUMMARY (PLN)	
Truncated pipeline scenario	89.66
Extended pipeline scenario	213.91
Average (30:70 weight)	**176.63**

Our revised estimated 12M target price for **Lokum Deweloper** (rating **upgraded to Buy** from Hold) stands at PLN 32.0 per share (up from 15.4), implying 37.9% upside.

VALUATION SUMMARY (PLN)	
Truncated pipeline scenario	12.76
Extended pipeline scenario	40.24
Average (30:70 weight)	**32.00**

Our revised estimated 12M target price for **Ronson Development** (**upgraded to Hold** rating from Reduce) stands at PLN 2.02 per share (up from 1.20 per share), implying 5.5% downside.

VALUATION SUMMARY (PLN)	
Truncated pipeline scenario	1.35
Extended pipeline scenario	2.31
Average (30:70 weight)	**2.02**

Peer comparison

On a 2021E P/BV of 1.03x, **Archicom** trades at a 30% discount to its peers from our universe, which we see as slightly too high. While Archicom's 2021E-22E pre-sales dynamics are expected to come in as relatively unimpressive vs. its covered peers and the company offers relatively uninspiring net earnings momentum for the period, it is expected to pay a healthy dividend not only in the course of 2021E, but also going into 2022E-23E.

At a 2021E P/BV of 1.81x, **Atal** trades at a 23% premium to its peers within our residential coverage. We believe that the premium is justified by the relatively sound prospects for the company's pre-sales and net earnings in 2021E-23E, well-above-average ROE generation potential, as well as one of the most extensive land banks (in relative terms) secured at reasonable prices and a decent liquidity situation, which should allow not only for continued effective offer supplementation, but also relatively healthy dividends in 2021E-23E, as well as potential further site acquisitions going forward.

On a 2021E P/BV of 1.11x, **Develia** trades at a 25% discount to its competitors from our residential coverage. We see some discount as justified due to the firm's exposure to relatively dated and likely slow-to-sell office/retail assets (Arkady Wroclawskie/ Sky Tower). We believe, however, that the current discount is way too high, owing to the company's relatively strong pre-sales, earnings and dividend outlook for 2021E-23E. At this point, we also note that we do not price in any upside from the Malin project at this stage.

On a 2021E P/BV of 3.14x, **Dom Development** trades at a 113% premium to its peers from our residential coverage universe. Nonetheless, we perceive this as warranted by the firm's highly conservative balance sheet and the prospects for sound OCFs generation in the quarters ahead, forecast to allow not only for heavy land bank supplementation, but also the distribution of solid dividends in 2021E-23E. On top of that, the company offers a relatively decent earnings outlook for 2021E-23E (and a class-leading ROE of 27-29%). At the same time, we do not expect the firm to lag behind its strongest rivals when it comes to an anticipated housing pre-sales volume dynamics in both 2021E and 2022E.

On a 2021E P/BV of 0.96x, **Lokum Deweloper** trades at a 34% discount to its competitors from our residential universe. While some discount looks justified by below sector average dividend yield this year, we believe that a clearly higher multiple is warranted by the relatively solid outlook for the company's housing pre-sales volumes, as well as earnings in 2021E-23E.

At a 2021E P/BV of 0.77x, **Ronson** trades at a 48% discount to its competitors from our residential coverage. While the company offers a decent pre-sales outlook, we believe some discount is justified, given its relatively unimpressive earnings momentum for 2021E-22E, below sector average forecast ROE (7-13% in 2021E-23E) and unimpressive dividend prospects for 2021E-23E.

Peer comparison (priced at COB 04 June 2021)

	BBG ticker	Close price (PLN)	TP (PLN)	Rating	P/BV 2021E	P/BV 2022E	P/BV 2023E	P/E 2021E	P/E 2022E	P/E 2023E
Archicom	ARH PW	24.20	25.65	Hold	1.03	1.03	1.00	12.5	13.7	11.7
Atal	1AT PW	48.90	58.27	Accumulate	1.81	1.73	1.71	9.2	8.4	9.4
Develia	DVL PW	3.45	4.39	Buy	1.11	1.04	1.00	10.3	7.1	8.0
Dom Development	DOM PW	152.2	176.6	Accumulate	3.14	3.04	2.83	11.9	12.3	10.3
Lokum Deweloper	LKD PW	23.20	32.00	Buy	0.96	0.92	0.85	6.8	8.4	6.9
Ronson	RON PW	1.92	2.02	Hold	0.77	0.75	0.68	10.4	12.1	5.9
Average for companies from our coverage					**1.47**	**1.42**	**1.35**	**10.2**	**10.3**	**8.7**
Versus average for companies from our coverage										
Archicom					-30%	-27%	-26%	23%	33%	35%
Atal					23%	22%	27%	-9%	-19%	8%
Develia					-25%	-27%	-25%	1%	-31%	-8%
Dom Development					113%	115%	110%	17%	19%	18%
Lokum Deweloper					-34%	-35%	-37%	-33%	-19%	-21%
Ronson					-48%	-47%	-49%	2%	17%	-32%

Source: Erste Group Research, Bloomberg

Polish primary housing market outlook

Demand to stay solid going further into 2021E and 2022E

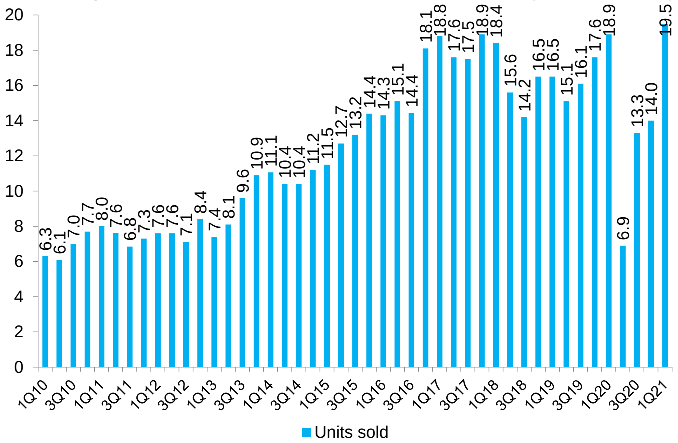
The Polish primary housing segment proved to be way more immune to coronavirus pandemic lockdown measures and the related adverse impact on the country's economic situation than we originally expected. Residential pre-sales volume in FY20 fell by only a moderate 18.7% y/y on six key domestic markets to 53.1tsd units (according to JLL) from a solid base (we originally expected a 25-35% y/y decline, or even 40-50% y/y collapse when COVID-19 hit in April 2020), at the same time surpassing the supply of new dwellings (which was down 23.9% y/y in the period to 48.6k units), which finally pushed the prices of comparable projects up 2-5% y/y on average in the period (with our earlier model assumptions for the period factoring in some 3-6% y/y fall in this respect).

What is more, the segment outlook for 2021E-22E looks more promising than we earlier expected. Namely, taking into consideration the Polish labor market's relative resilience to adverse COVID-19 impacts, faster than expected recovery in consumer confidence and earlier than assumed softening in mortgage lending requirements (resulting in a clear y/y increase in the number of mortgages granted across the country YTD – see the chart below), as well as an accelerated flow of money from bank deposits to the housing market resulting from the outlook on even longer than expected negative interest rates in real terms in the country (likely increase in the PL base rate, at 50-100bp by end-2022, no game-changer from our perspective) augmented by promising prospects for housing prices, and despite increased competition in the dwellings-for-rent segment (return of foreign employees and students to agglomerations to be a gradual and lengthy process, like the rebound in tourism; remote work schemes to remain in place at least to some extent; growing number of institutional investors entering the market), we now look for some 10-20% y/y increase to demand for new flats on the broad market in volume terms this year (some 5-15% recovery from visibly lower base anticipated originally by us), to be followed by another 5-10% pickup in 2022E (assuming continued macro revival and no extraordinary hike in Polish CPI in the period).

1Q21 JLL statistics for the six main housing markets in Poland support our positive view on demand in the segment – namely, the quarter brought pre-sales volume of a record-high 19.5tsd units, up 3% y/y (very solid base) and 40% q/q. It is worth noting that this brings the LTM pre-sales number to 53.6tsd units, still visibly less than in the course of the record-breaking 2017, when 72.8tsd units were sold on the above-mentioned markets – showing that there is still ample room to grow in this respect in the quarters ahead, we believe.

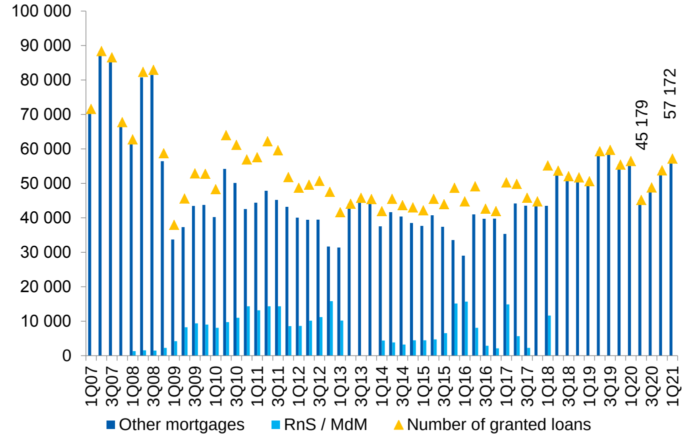
An additional boost to demand for new dwellings in Poland in the years ahead might come from the government side, as it has flagged that it would like to introduce down-payment guarantees for purchasers facing difficulties in its accumulation (with some kind of price-cap likely to be introduced, we envisage). We stress, however, that due to limited visibility, such a mechanism has not been included in our current base case assumptions for the segment.

Dwellings pre-sold in six main Polish cities (000's units)



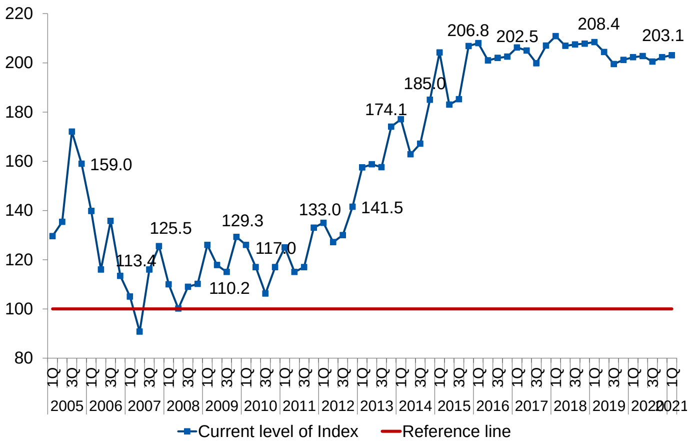
Source: JLL

Number of newly granted mortgage loans



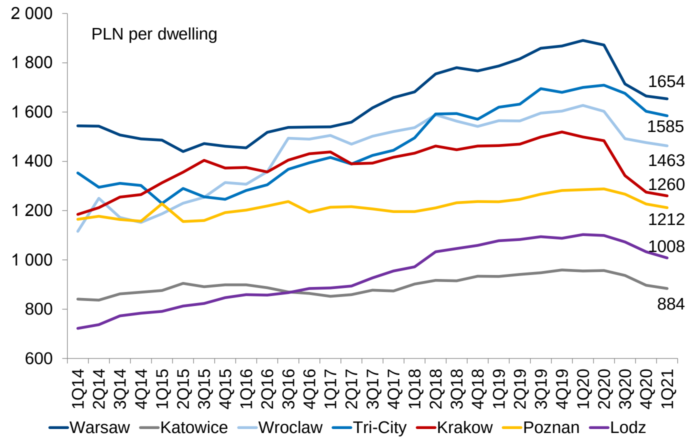
Amron

Housing availability index



Source: ZBP

Average monthly residential rental rates development



Amron

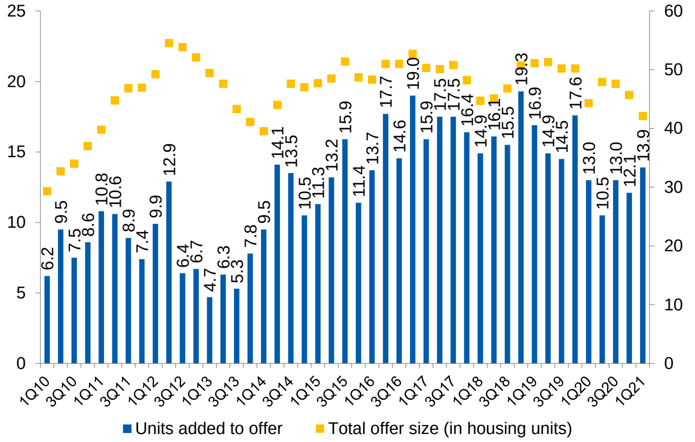
Supply to remain rather limited in short to medium term

At the same time, in the light of the limited availability of suitable land plots across Polish key agglomerations (being the main playground for WSE-listed housebuilders; with an especially difficult situation in Warsaw at present), continued administrational hardships across the country (the most challenging situation in the capital city and Krakow, according to various market participants), and in spite of clearly improving access to external funding (the corporate bonds market situation has vastly improved over the 4Q20-1Q21 period, as proven by numerous successful bond issuances among the segment representatives), as well as recovering levels of client pre-payments accompanying the pre-sales revival, we maintain our expectations for the number of apartments added to the offer on the broad PL primary market showing no vital y/y revival this year as well as going into 2022E, in the end falling below demand in volume terms in both years, as was the case in FY20 as well as 1Q21.

Again, the 1Q21 statistics seem to support our base case scenario view – the supply of new dwellings in six key PL cities is up 7% y/y from the base and only 14% up q/q to 13.9tsd units (well below pre-sales volume in the period).

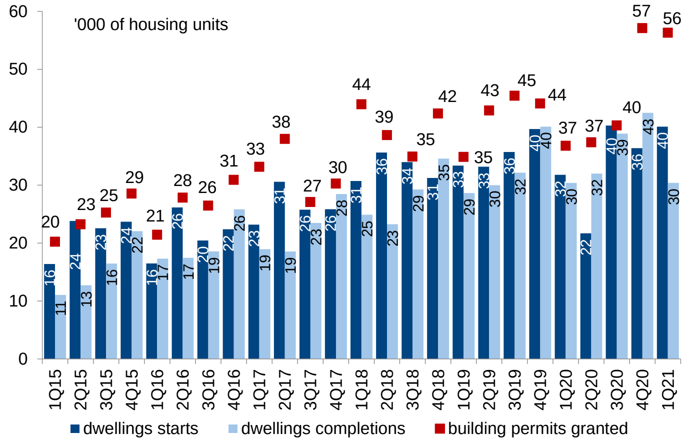
At this point, we note that, while we see some risk of potential accelerated divestments of CHF-mortgage-financed flats following the likely solution adopted in this respect in Poland, in our base case scenario, we believe that they should create no major competition for the primary market product – this issue is discussed in the next paragraph.

Dwellings added to offer and total offer size in six major Polish cities (000's units)



Source: JLL

No. of building permits granted, dwellings starts & completions*



GUS **dwellings for sale or rent*

Potential increase in supply on secondary market from CHF-mortgage borrowers not big threat from our perspective

The upcoming solution concerning CHF-mortgage loans issued in Poland, in either of its probable forms (including currency conversion, annulment of the agreement or settlement agreement), might result in an extra supply of flats on the Polish secondary housing market. We argue, however, that it should have no materially negative impact on new dwelling pre-sales volumes and consequently their prices over the short to medium term. We would thus use any potential initial negative market reaction (in the context of WSE-listed housebuilders) as an opportunity to overweight our top picks in the segment.

The eventual CHF-issue settlement might be perceived as negative for WSE-listed residential developers in the initial stages, with the reasoning behind this as follows: the solution unlocks a potentially massive supply of dwellings bought with CHF loans back in 2005-10 – purchasers trapped with flats bought 15-10 years ago are likely to be willing to dispose of old dwellings, especially given that their current prices exceed the record highs from 1H18, affecting pre-sales volumes on the primary market and putting pressure on housing prices in the short to medium term.

Such considerations are supported by the fact that some 40-45% of the total CHF loan book (comprising around 428tsd agreements) are in the six main PL cities, which suggests that:

i) they were drawn to finance the purchases of a dwelling (and not e.g. development/purchase of a semi-house)…

ii) …potentially coming back to the secondary market, they will comprise serious competition to WSE-listed housebuilder products, whose key playgrounds are in the above-mentioned key cities;

iii) the theoretical supply wave exceeds more than 3x the average annual pre-sales number registered on six major domestic markets over 2016-20 (53-73tsd units, according to JLL/Reas).

Other potential initial market thoughts might be as follows: due to a clear overweight in terms of CHF loans drawn for the purchase of apartments in Warsaw vs. other key domestic residential playgrounds, the capital city market will be most affected – thus WSE-listed players with material exposure to it, such as Dom Development or Ronson might be relative losers, while those least exposed, like Archicom or Lokum, are likely to be less affected.

We stress, however, that while we perceive the likely CHF solution as a risk for WSE-listed developers operating on the residential market, we would expect only mediocre real negative impact on the prospects of the domestic primary housing sector and exposed companies, thus we would treat the potential price weakness, if material, as an opportunity to accumulate selected names. The reasoning behind our view is as follows:

i) only a vast minority of the owners who purchased their flats on a CHF mortgage could have acquired another flat in the meantime - here we refer to the fact that some 20% of CHF loan owners got another mortgage loan, according to BIK - thus following the potential disposal of the old dwelling they would likely come back to the market, potentially the primary one, to acquire another dwelling, in this way creating additional demand (not taken into consideration by the market at this stage, we believe), to some extent counter-balancing the hypothetical extra supply wave;

ii) we argue that dwellings bought back in 2005-10 are typically very well located – at the time of their erection, key Polish cities were visibly less saturated with modern housing schemes / there was a far broader selection of well-located sites for residential purpose vs. modern times and developers focused on their most attractive projects at first – combined with a relatively attractive (vs. current levels) purchase price and appreciation in the level of rental rates in the sector, these units comprise profitable investment products, with decent, often double-digit YoC (especially prominent in the eye of the current dovish monetary policy of NBP with the outlook for no vital change in this respect at least by end-2022), which might discourage a material part of the owners from their disposal, finally limiting the level of hypothetical supply wave;

iii) dwellings that would potentially come back to the market are relatively old/old fashioned, and thus do not represent direct competition to modern products, well skewed towards recent client preferences in terms of quality/solutions;

iv) despite COVID-19 turmoil, the key primary housing markets of Poland are characterized by the relatively low size of the product offer in relation to recent pre-sales volumes (offer size vs. average quarterly pre-sales number from LTM at approx. 3.4x for six main agglomerations at end-1Q21, according to JLL), or in other words, the market seems to have a considerable buffer to consume potential extra supply (market in supply-demand equilibrium when 4-5 quarters needed to absorb the entire offer at a certain date) – at this point we note that the capital city housing market deals with the most visibly insufficient supply issue (the ratio was at around 2x dead at end-1Q21), somehow mitigating the ‘elevated’ risk of any CHF solution-related wave of supply, as mentioned above.

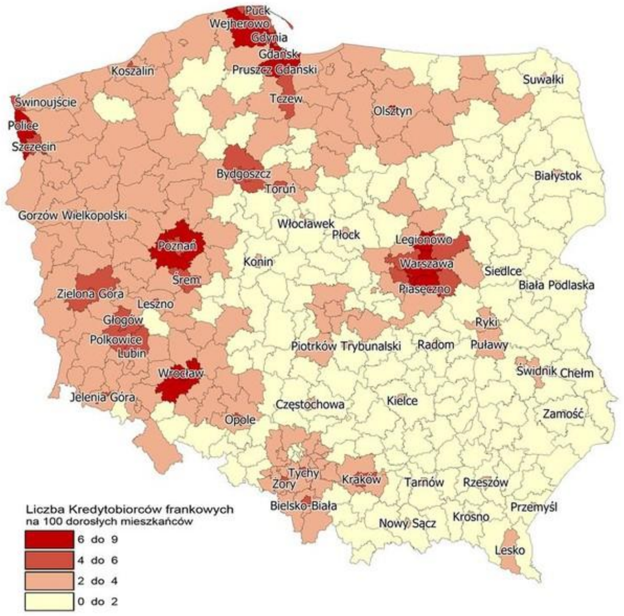
Concluding points:

i) while we expect the upcoming CHF-mortgage loans solution to result in an extra supply of dwellings on the Polish secondary housing market in the short to medium term in either of probable scenarios, this should not have any significant negative impact on new dwellings pre-sales volumes, as well as their prices in the short to medium term.

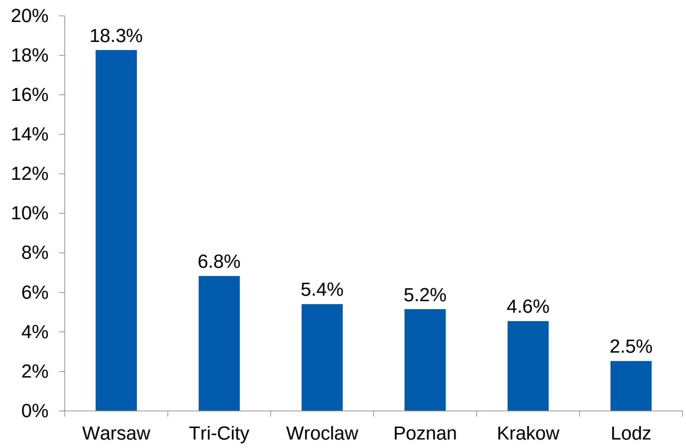
ii) that said, though, in the light of this potential scenario, we believe the initial market reaction might be negative in the context of WSE-listed residential developers.

iii) we would thus use any visible correction in the current stock prices of most of the WSE-listed housebuilders we cover as an opportunity to overweight selected stocks (factoring in current market valuations and fundamental reasons, our preference is for Develia and Lokum, followed by Atal and Dom Development).

Share in total CHF-mortgage loan portfolio



Source: BIK

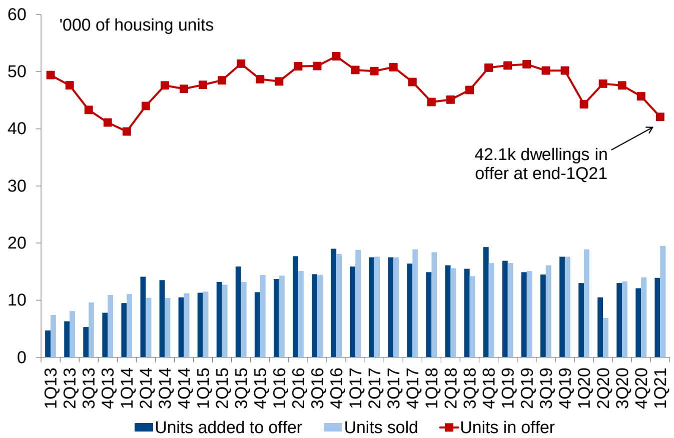


Source: BIK

Housing prices to continue on clear uptrend in 2021E-22E – original forecasts visibly upgraded

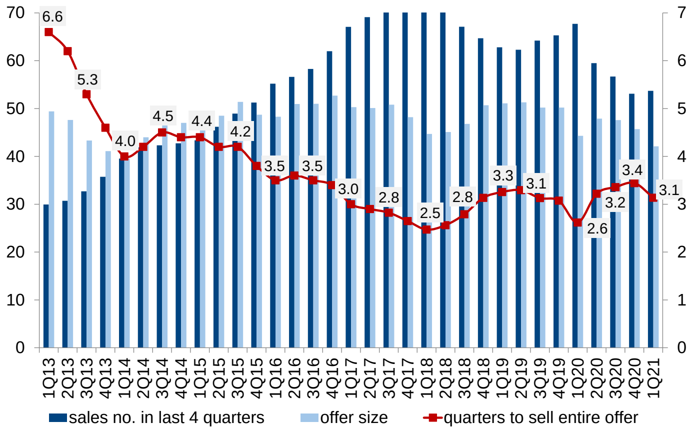
Given the anticipated advantage of demand for new dwellings in key domestic agglomerations over their supply in the short to medium term, as well as the fact that, despite the coronavirus turbulence, the domestic primary housing market remains characterized by a fairly low total offer size in relative terms – with around three quarters being enough to sell the entire offer on the six main Polish markets at end-1Q21, according to JLL (with an especially challenging situation in Warsaw, where only around two quarters is required for entire offer sale at end-1Q21; note that five quarters constitutes a relative equilibrium ratio), plus the recent pickup in construction costs in the segment, as well as the likely introduction of DFG in Poland (developers are expected to manage to pass on the extra burden, potentially in the amount of 0.2%/1.0% of cash accumulated on their Closed/Open Housing Escrow Accounts, to clients), we now expect the prices of comparable residential projects to show another 8-12% y/y increase on average this year, to be followed by a 5-10% pickup in 2022E (compared to the roughly flat environment originally assumed for both years and mere 3-5% y/y growth expected only for next year).

Units added to offer and pre-sold in six major Polish cities



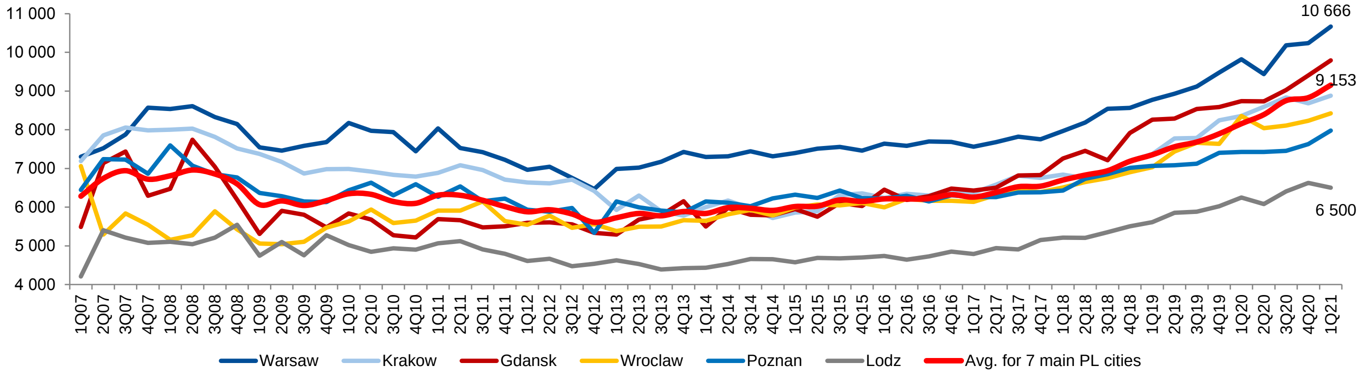
Source: JLL

Offer size vs. quarterly pre-sales in six main domestic markets



Source: JLL

New dwelling average transaction prices development (PLN/1 sqm of saleable space)



Source: NBP

Construction costs on clear rise as well, but developers likely to defend solid 2020 margins on comparable projects going into 2021E-23E

Despite an anticipated continued clear uptrend in raw materials prices (predominantly driven by a global shortage of commodities; especially visible in the case of steel and concrete, but also styrofoam) in 2021E-22E (1Q21 construction costs up 10-12% y/y on average, according to various WSE-listed housebuilders) and an increase in land prices over recent years, we now expect developer margins on comparable projects to come in roughly flat in the short to medium term vs. the strong levels registered in 2020 (originally forecast to clearly compress in both years).

Revised segment outlook for years ahead result in clear upgrade to our forecasts for residential developers we cover

Factoring in the above-mentioned factors, we raise our pre-sales volume estimates for the housebuilders from our coverage universe by 25%/24% on average for 2021E/2022E and now expect most of them to show a clear uptrend in this respect in both years (up 18/2% y/y on average in each year, respectively).

Combined with stronger than expected sales volume in FY20, as well as a more optimistic view on domestic housing prices evolution going forward (plus their more favorable dynamics last year), we also upgrade our NI estimates for covered segment representatives by 19-24% for 2021E-22E, resulting in relatively favorable outlooks for selected names going forward (and still reasonable implied P/E ratios, ranging 6.8x-13.7x).

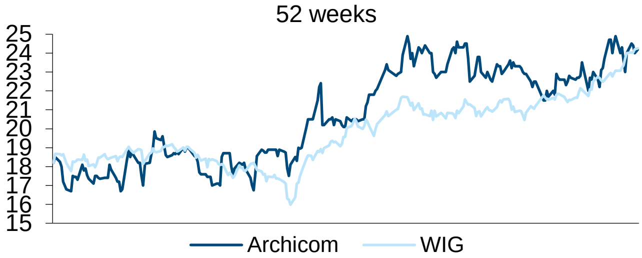
Finally, we believe that the sound market situation prospects are about to trigger a return to/continued distribution of hefty dividends in the segment (DYs at 4.1%/7.2%/7.2% on average in 2021E/2022E/2023E).

The changes above also trigger a 75% upgrade to our 12M TPs for covered players on average, which ultimately means that we keep our positive bias on the segment for 2021E in general and recognize decent upside in selected names, despite their strong stock price performance in the COVID-19-related dip in 1H20.

Archicom

Hold

PLN mn	2020	2021e	2022e	2023e
Net sales	669.9	445.1	427.3	486.2
EBITDA	193.5	74.8	67.1	76.8
EBIT	190.7	73.1	65.3	75.0
Net result after min.	132.8	49.7	45.2	53.2
EPS (PLN)	5.16	1.94	1.76	2.07
CEPS (PLN)	5.05	1.87	1.69	2.00
BVPS (PLN)	22.58	23.40	23.52	24.18
Div./share (PLN)	2.53	1.18	1.64	1.41
EV/EBITDA (x)	3.9	9.8	11.2	9.8
P/E (x)	4.5	12.5	13.7	11.7
P/CE (x)	4.6	13.0	14.3	12.1
Dividend Yield	11.0%	4.9%	6.8%	5.8%



Performance	12M	6M	3M	1M
in PLN	33.0%	17.5%	7.1%	10.0%

Share price (PLN) close as of 04/06/2021	24.2
Number of shares (mn)	25.7
Market capitalization (PLN mn / EUR mn)	623 / 140
Enterprise value (PLN mn / EUR mn)	731 / 164

Reuters	ARHP.WA	Free float	22.0%
Bloomberg	ARH PW	Shareholders	Echo Investment (66.0%)
Div. Ex-date	15/07/21		Aviva OFE (12%)
Target price	**25.7**	Homepage:	www.archicom.pl

Analyst:
Cezary Bernatek
+48 22 538 6256
cezary.bernatek@erstegroup.com

Pre-sales and earnings momentum not very inspiring, but dividend prospects decent

We raise our 12M TP for Archicom by 32% to PLN 25.65 per share. However, following the recent stock price pickup, this implies a 6.0% upside. We thus maintain our Hold recommendation.

In the light of the revised, more aggressive than we originally assumed, new projects' kickoff pipeline for the current year (in line with the firm's most recent guidance), as well as given the more optimistic view on the outlook for Polish primary housing market for the short to medium term, we raise our pre-sales volumes for Archicom (adjusted for the recent disposal of Archicom Polska) by 6%/10% to around 1,050/1,070 units for 2021E/2022E. While this implies some 8%/2% y/y pickup for each year, respectively, it does not look very impressive vs. the dynamics expected for some of its covered peers that are preferred by us.

At the same time, we expect the firm's bottom line to show a sharp y/y fall to PLN 50mn this year and further down to PLN 45mn in 2022E, before an 18% y/y rebound to PLN 53mn only in 2023E (figures adjusted for the sales of Archicom Polska, and thus not fully comparable with the FY20 number), translating into relatively unimpressive earnings momentum and not very attractive P/E ratios of 12x-14x for the period – ahead of the sector average.

As a sweetener, following the distribution of a solid PLN 2.53 advance DPS last year (DY of 10%), we expect Archicom to continue sound payments in 2021E-2023E – our base case scenario assumes a DPS of PLN 1.2/1.6/1.4, respectively (or yield ranging 5%-7%). On top of that, we note that the firm might be willing to distribute an extra dividend following the planned disposals of its City Two office building in Wroclaw (already completed and leased out at around 50%) – exit from the property is still feasible this year, according to management. We stress, however, that, due to limited visibility, such a scenario is not included in our current model forecasts.

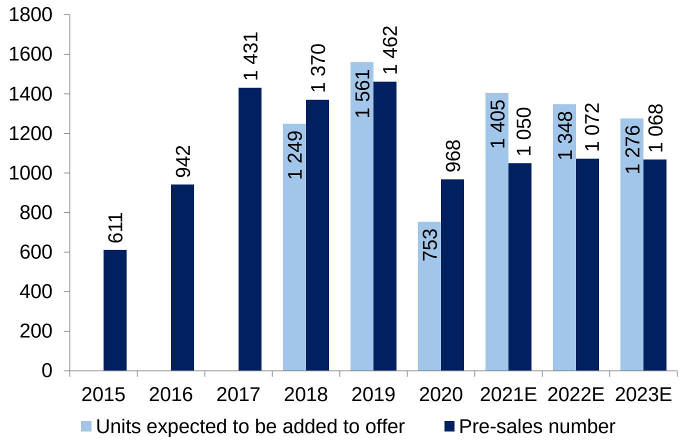
Investment story

Pre-sales forecasts up, but y/y relatively unimpressive dynamics in 2021E/2022E

We lift our pre-sales volume forecasts for Archicom by 6%/10% to approx. 1,050/1,070 units for 2021E/2022E – numbers adjusted for the recent disposal of Archicom Polska. This follows the application of the revised, slightly more ambitious than earlier assumed, new scheme kickoff schedule going forward – we now expect the launch of around 1,400/1,350 units in each year, respectively, or 8%/5% more than originally. Apart from that, we take into consideration a more optimistic expected short- to medium-term outlook on the development of demand on the domestic primary housing market.

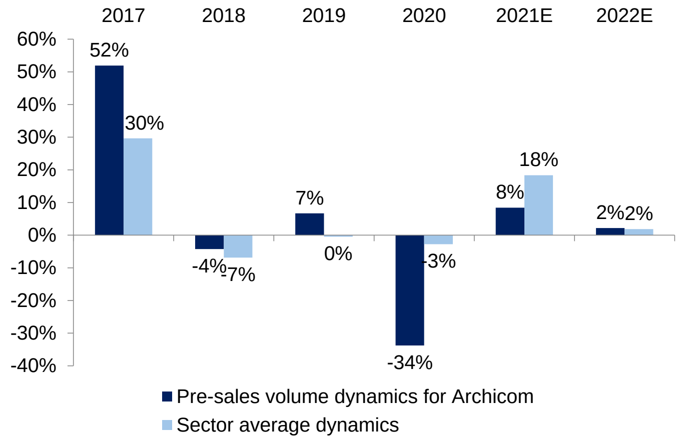
Our upgraded sales numbers imply an 8%/2% y/y increase for 2021E/2022E (2020 number adjusted for units sold at Archicom Polska projects, as disclosed by the company). We stress, however, that this looks unimpressive compared to the dynamics expected to be seen for most of Archicom's direct peers in our coverage universe.

Pre-sales volume development (housing units)



Source: Company Data, Erste Group Research

*Pre-sales dynamics vs. sector average dynamics**



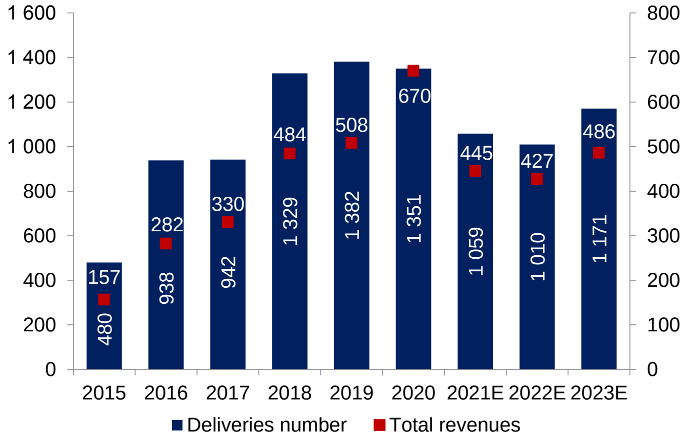
*Company Data, Erste Group Research *for six sector players we cover*

Net earnings momentum for short to medium term also uninspiring

We factor into our financial forecasts for Archicom the above-mentioned upgrade to the firm's pre-sales volume estimates for the years ahead. Moreover, we applied the revised forecasts for the evolution of new housing prices in Poland for 2021E-22E – now assuming clearly more visible y/y growth on average for both years.

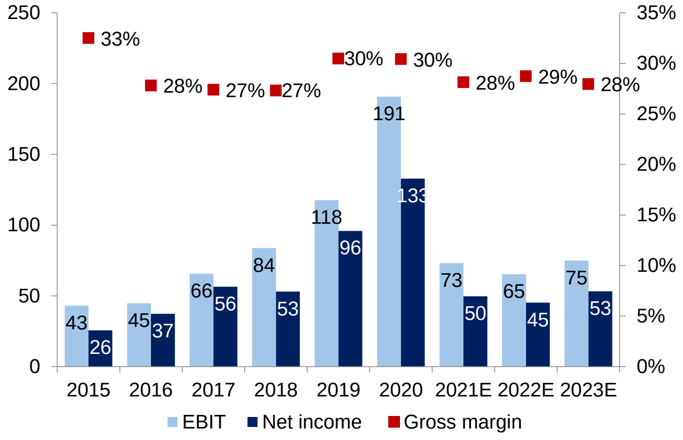
Nonetheless, we continue to expect the company's bottom line to show a steep 63% y/y fall to PLN 50mn this year (FY20 number not adjusted for the sale of Archicom Polska, but even if it is, the dynamics are still deep in the red, according to our estimates) and another 9% y/y decline to PLN 45mn in 2022E, before an 18% y/y revival to PLN 53mn only in the course of 2023E – in all comprising relatively unimpressive earnings momentum. At this point we also note that our forecasts imply above-sector average 12.5x/13.7x/11.7x P/E ratios for 2021E/2022E/2023E, accordingly.

Deliveries volume (housing units) & top line evolution (PLN mn)



Source: Company Data, Erste Group Research

EBIT, net income (PLN mn) and gross margin (%)



Company Data, Erste Group Research

Forecast changes in PLN m	2021E Old	2021E New	2021E Δ	2022E Old	2022E New	2022E Δ	2023E New
TOTAL REVENUES	**593.4**	**445.1**	***-25.0%***	**472.3**	**427.3**	***-9.5%***	**486.2**
Cost of goods sold	435.4	319.8	*-26.5%*	346.1	304.6	*-12.0%*	350.3
GROSS PROFIT	**158.0**	**125.2**	***-20.8%***	**126.2**	**122.8**	***-2.7%***	**135.9**
Selling costs	13.9	10.8	*-22.2%*	14.2	11.5	*-19.2%*	12.2
G&A expenses	48.4	43.5	*-10.2%*	49.5	46.2	*-6.7%*	49.1
Other operating result	-0.3	-0.4	*51.8%*	0.3	0.2	*n.a.*	0.3
EBIT (excl. revaluation)	95.4	70.5	*-26.2%*	62.8	65.3	*4.0%*	75.0
Revaluation result	2.6	2.6	*0.0%*	0.0	0.0	*n.a.*	0.0
EBIT (incl. revaluation)	**98.0**	**73.1**	***-25.5%***	**62.8**	**65.3**	***4.0%***	**75.0**
Net financial result	-5.8	-10.2	*76.7%*	-6.0	-9.4	*56.6%*	-9.3
Pre-tax profit	**92.3**	**62.9**	***-31.9%***	**56.7**	**55.8**	***-1.6%***	**65.7**
Tax	19.4	13.2	*-31.9%*	10.8	10.6	*-1.6%*	12.5
Minority interest	0.9	0.0	*n.a.*	0.8	0.0	*n.a.*	0.0
Net income after minorities	**72.0**	**49.7**	***-31.0%***	**45.1**	**45.2**	***0.2%***	**53.2**

Source: Erste Group Research

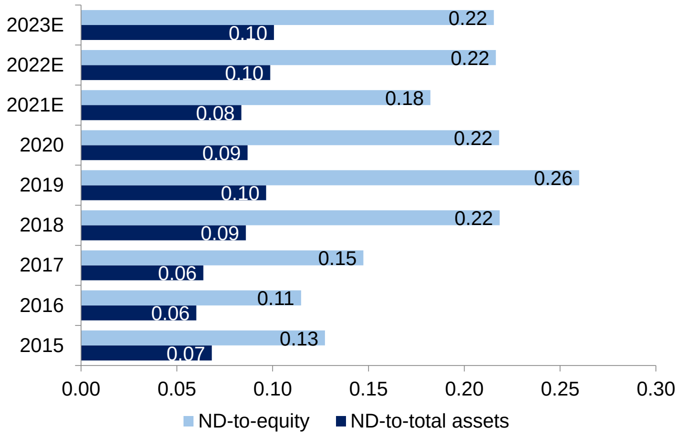
Decent dividend in 2021E-23E as sweetener

Taking into consideration Archicom's relatively sound balance sheet situation at end-2020 – namely a solid cash position of PLN 212mn, net debt-to-total assets ratio of 0.1x (ND-to-equity at also pretty low 0.2x), as well as anticipated decent OCF in the years ahead and rather undemanding, from our perspective, debt maturity schedule, plus expected PLN xxxmn to be released from the disposal of Archicom Polska to former key shareholders this year, we expect the company to be rich enough to pay fairly solid dividends going forward.

To be precise, we now expect the firm's DPS to be PLN 1.18/1.64/1.41 for 2021E/2022E/2023E, which would translate into yields of 4.9%/6.8%/5.8%, respectively – around the average for the covered housebuilders for the period.

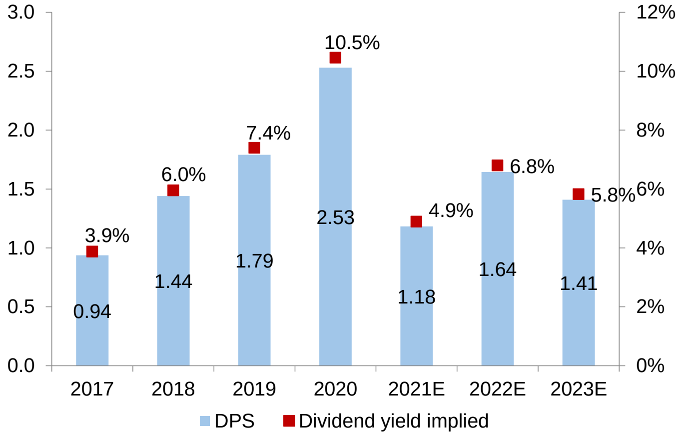
On top of that, we note that the firm might be willing to distribute an extra dividend following the planned disposals of its City Two office building in Wroclaw (already completed and leased out at around 50%) – exit from the property is still feasible this year, according to management. We stress, however, that, due to limited visibility, such a scenario is not included in our current model forecasts.

Net debt-to-total assets & net debt-to-equity ratios (x)



Source: Company Data, Erste Group Research

DPS (PLN) and implied dividend yields*



Company Data, Erste Group Research **based on COB 04.06.21*

Slightly higher multiple seems justified

On a 2021E P/BV of 1.03x, the firm trades at a 30% discount to its competitors from our residential universe, which we see as slightly too high. While Archicom's 2021E-22E pre-sales dynamics are expected to be relatively unimpressive vs. its covered peers and the company offers relatively uninspiring net earnings momentum for the period, it is expected to pay a healthy dividend not only in the course of 2021E, but also going into 2022E-23E.

Valuation

Our revised 12M target price for Archicom stands at PLN 25.65 per share (up from PLN 19.40 per share), implying 6.0% upside. This reflects a 30% weighting for our truncated pipeline scenario and a 70% weighting for our extended pipeline scenario. We also carry out a peer multiple valuation for comparison purposes (0% weighting).

VALUATION SUMMARY (PLN)	
Truncated pipeline scenario	16.01
Extended pipeline scenario	29.78
Average (30:70 weight)	**25.65**

Source: Company Data, Erste Group Research

VALUATION (PLN mn) - TRUNCATED PIPELINE SCENARIO	
Value of properties under construction & delivery	**838**
Cost for properties under construction & delivery	**653**
TOTAL	**186**
PV of TOTAL	**144**
Estimated value of secured land bank	265
ENTERPRISE VALUE (PLN mn)	**409**
Net debt	-4
Minority interest	32
EQUITY VALUE (PLN mn)	**380**
Per fully diluted number of shares (PLN)	14.81
12M Target Price (PLN)	**16.01**

**adjusted for the sale of Archicom Polska*

Source: Company Data, Erste Group Research

VALUATION (PLN mn) - EXTENDED PIPELINE SCENARIO	
Value of properties under construction & delivery	**838**
Cost for properties under construction & delivery	**653**
Value of properties in the pipeline (till 2023)	**599**
Cost for properties in the pipeline (till 2023)	**463**
Terminal value for development business (beyond 2023)	266
TOTAL	**588**
PV of TOTAL	**471**
Estimated value of secured land bank	265
ENTERPRISE VALUE (PLN mn)	**736**
Net debt	-4
Minority interest	32
EQUITY VALUE (PLN mn)	**708**
Per fully diluted number of shares (PLN)	27.56
12M Target Price (PLN)	**29.78**

**adjusted for the sale of Archicom Polska*

Source: Company Data, Erste Group Research

Sensitivity analysis

We present a sensitivity analysis of our target price to changes in residential prices and construction costs. A +/-5% change in residential prices vs. our original expectations applied to the valuation of Archicom's portfolio of under-construction and pipeline properties increases/decreases our equity valuation by some 12%. At the same time, a 5% increase/decrease in the level of construction costs applied to the valuation of the firm's portfolio of under construction and pipeline real estate schemes decreases/increases our target price by around 10%.

Valuation sensitivity to residential prices and construction costs (PLN)

Construction costs evolution	Residential prices evolution: -5.0%	-2.5%	0%	2.5%	5.0%
-5.0%	25.59	26.52	27.46	28.40	**29.35**
-2.5%	24.70	25.63	26.57	27.51	28.45
0%	23.79	24.72	**25.65**	26.59	27.53
2.5%	22.85	23.78	24.71	25.65	26.58
5.0%	**21.90**	22.83	23.75	24.68	25.62

Source: Erste Group Research

Relative valuation

Archicom vs. peers (on current market values; priced at COB 04 June 2021)

	BBG ticker	Close price (PLN)	TP (PLN)	Rating	P/BV 2021E	P/BV 2022E	P/BV 2023E	P/E 2021E	P/E 2022E	P/E 2023E
Archicom	ARH PW	24.20	25.65	Hold	1.03	1.03	1.00	12.5	13.7	11.7
Atal	1AT PW	48.90	58.27	Accumulate	1.81	1.73	1.71	9.2	8.4	9.4
Develia	DVL PW	3.45	4.39	Buy	1.11	1.04	1.00	10.3	7.1	8.0
Dom Development	DOM PW	152.2	176.6	Accumulate	3.14	3.04	2.83	11.9	12.3	10.3
Lokum Deweloper	LKD PW	23.20	32.00	Buy	0.96	0.92	0.85	6.8	8.4	6.9
Ronson	RON PW	1.92	2.02	Hold	0.77	0.75	0.68	10.4	12.1	5.9
Average for companies from our coverage					**1.47**	**1.42**	**1.35**	**10.2**	**10.3**	**8.7**
Versus average for companies from our coverage										
Archicom					-30%	-27%	-26%	23%	33%	35%
Atal					23%	22%	27%	-9%	-19%	8%
Develia					-25%	-27%	-25%	1%	-31%	-8%
Dom Development					113%	115%	110%	17%	19%	18%
Lokum Deweloper					-34%	-35%	-37%	-33%	-19%	-21%
Ronson					-48%	-47%	-49%	2%	17%	-32%

Source: Erste Group Research, Bloomberg

Detailed property valuation

Residential projects under delivery, construction and in pipeline

Project	Stage	Archicom share	Saleable area (sqm)	Expected completion	Market value (PLN mn)	All-in-costs (PLN mn)	Margin on revenues	NPV (PLN mn)
Olimpia Port	M28,29	100%	5 616	2021-06-30	42.4	32.6	23.1%	7.9
Olimpia Port	M21,22,23	100%	5 772	2022-03-30	43.6	33.5	23.1%	7.7
Olimpia Port		100%	11 700	2023-04-30	91.0	67.9	25.4%	16.1
Olimpia Port		100%	11 804	2023-10-30	91.8	68.7	25.2%	15.4
Olimpia Port Apartamenty	M30,31	100%	7 904	2021-06-30	70.7	53.4	24.5%	14.0
Olimpia Port Apartamenty	M32,33	100%	2 912	2021-08-30	26.0	19.7	24.5%	5.1
Olimpia Port Apartamenty		100%	2 912	2022-10-30	26.8	19.7	26.7%	5.2
Sloneczne Stablowice	9	100%	5 136	2021-09-30	32.6	27.4	16.2%	4.2
Sloneczne Stablowice	10	100%	4 224	2022-03-01	27.7	22.5	18.6%	3.9
Krzyki	1	100%	7 000	2023-12-30	52.4	40.4	23.0%	8.1
Krzyki	2	100%	6 500	2025-01-01	48.7	37.5	23.0%	6.8
Krzyki	3	100%	6 500	2026-01-01	48.7	37.5	23.0%	6.3
Krzyki	4	100%	6 250	2027-09-30	46.8	36.1	23.0%	5.2
Planty Raclawickie	1,2	100%	8 400	2021-11-30	71.8	55.8	22.3%	12.5
Planty Raclawickie	3,4	100%	4 000	2021-12-30	34.2	26.6	22.3%	5.9
Planty Raclawickie	5,6,7	100%	9 000	2022-11-30	80.0	59.8	25.3%	14.6
Planty Raclawickie	8	100%	7 500	2024-06-30	66.7	49.8	25.3%	10.7
Planty Raclawickie	9	100%	11 150	2025-06-30	99.1	74.1	25.3%	14.6
Cztery Pory Roku	16,17,18	100%	10 350	2021-03-30	65.0	53.6	17.5%	9.2
Cztery Pory Roku	15	100%	4 950	2021-11-30	31.1	25.3	18.8%	4.6
Browary Wroclawskie	BP3,BP4, BL3	100%	10 340	2021-09-30	101.0	75.0	25.8%	20.6
Browary Wroclawskie	BL1,BL2	100%	6 545	2022-06-30	65.8	47.4	27.9%	13.7
Browar Piastowski	1	100%	6 890	2023-06-30	50.3	41.8	16.9%	5.9
Browar Piastowski	2	100%	6 890	2024-10-30	50.3	41.8	16.9%	5.3
Browar Piastowski	3	100%	6 890	2025-11-30	50.3	41.8	16.9%	4.8
Browar Piastowski	4	100%	7 420	2027-06-30	54.2	45.0	16.9%	4.6
Awipolis	2	100%	5 500	2021-06-30	35.8	30.0	16.0%	4.6
Awipolis	1	100%	3 800	2021-11-30	25.2	21.2	16.0%	3.1
Awipolis	3,4	100%	8 850	2022-12-30	58.7	49.3	16.0%	6.7
Awipolis	5	100%	7 000	2023-12-30	49.2	39.0	20.7%	6.7
Awipolis	6	100%	6 000	2024-11-30	42.2	33.4	20.7%	5.4
Awipolis	7	100%	4 650	2025-11-30	32.7	25.9	20.7%	3.8
Wroclaw Srodmiescie	1	100%	10 400	2023-12-30	89.4	68.8	23.0%	13.6
Srodmiescie Apartamenty	1	100%	6 240	2023-03-30	62.1	47.2	24.0%	10.4
Srodmiescie Apartamenty	2	100%	6 240	2023-12-30	62.1	47.2	24.0%	9.8
Srodmiescie Apartamenty	3	100%	6 760	2024-11-30	67.3	51.1	24.0%	9.9
Krzyki Wschod	1	100%	7 500	2023-06-30	51.0	42.3	17.1%	6.0
Krzyki Wschod	2	100%	7 600	2024-06-30	51.7	42.8	17.1%	5.6
Podgorze	1	100%	4 350	2024-06-30	35.7	27.3	23.4%	5.3
Biezankow-Prokocim	1	100%	4 950	2024-01-30	40.3	29.3	27.3%	7.3
TOTAL			**274 395**		**2 172**	**1 689**		**331.2**

Source: Erste Group Research, Company Data

Key risks to investment case

- earlier / more visible than anticipated base rate hike in Poland, influencing housing pre-sales volumes
- stronger / weaker than anticipated increase of construction costs in the country, influencing the developer margin on future projects
- less pronounced / heavier than anticipated increase in effective new dwelling prices across the country's main agglomerations in the quarters ahead
- delays / speed-up in launch of pipeline projects vs. assumed schedule/difficulties in obtaining building permits
- difficulties in obtaining occupancy permits on time due to the slowdown in administration procedures
- hypothetical overheating of the market due to potential highly limited supply and consequently uncontrolled rise in dwelling prices, followed by deep correction / segment destabilization
- stronger than anticipated extra supply of post CHF-financed apartments on the market in the short to medium term, putting downward pressure on new dwelling prices
- higher than anticipated extra costs related to likely introduction of DFG
- tightening / easing of mortgage lending requirement by banks
- difficulties in the purchase of attractively located land plots at reasonable prices affecting pre-sales potential in the longer run
- difficulties in planned debt refinancing in light of potential tightening of domestic corporate bond market
- increase / decrease in land prices in the years ahead, influencing the company's gross margins in the longer run
- potential unfavorable legal changes affecting 'investment' demand for new dwellings in the country (e.g. potential cadastral tax)
- harsh cooperation with the new main shareholder potentially affecting operating activity of the company
- upside risk: potential call for 100% stake from the new main shareholder, Echo Investment

Income Statement	2018	2019	2020	2021e	2022e	2023e
(IAS, PLN mn, 31/12)	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023
Net sales	**484.47**	**508.19**	**669.89**	**445.05**	**427.34**	**486.16**
Cost of goods sold	352.16	353.36	466.10	319.84	304.59	350.26
Gross profit	**132.32**	**154.83**	**203.79**	**125.21**	**122.75**	**135.90**
SG&A	45.88	54.87	63.91	54.30	57.69	61.26
Other operating revenues	21.01	24.31	67.68	4.82	2.56	2.92
Other operating expenses	23.66	6.66	16.84	2.66	2.38	2.58
EBITDA	**85.68**	**120.39**	**193.53**	**74.83**	**67.06**	**76.80**
Depreciation/amortization	1.89	2.78	2.82	1.75	1.81	1.82
EBIT	**83.79**	**117.61**	**190.71**	**73.07**	**65.25**	**74.98**
Financial result	-4.11	-4.94	-12.47	-10.20	-9.43	-9.31
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	**79.68**	**112.67**	**178.24**	**62.88**	**55.82**	**65.67**
Income taxes	23.65	14.84	43.05	13.20	10.61	12.48
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	3.02	1.93	2.35	0.00	0.00	0.00
Net result after minorities	**53.00**	**95.90**	**132.85**	**49.67**	**45.22**	**53.19**

Balance Sheet	2018	2019	2020	2021e	2022e	2023e
(IAS, PLN mn, 31/12)						
Intangible assets	3.82	26.20	18.96	18.96	20.71	22.65
Tangible assets	204.21	227.87	167.89	170.64	170.81	170.97
Financial assets	22.48	24.92	30.14	30.14	30.14	30.14
Total fixed assets	**230.51**	**278.99**	**216.99**	**219.74**	**221.66**	**223.76**
Inventories	716.14	923.97	964.92	866.52	924.45	922.54
Receivables and other current assets	59.00	48.34	65.49	63.09	60.96	68.02
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	165.79	130.15	212.63	160.16	117.00	113.72
Total current assets	**940.93**	**1,102.46**	**1,243.04**	**1,089.77**	**1,102.41**	**1,104.29**
TOTAL ASSETS	**1,171.44**	**1,381.44**	**1,460.03**	**1,309.51**	**1,324.07**	**1,328.05**
Shareholders'equity	**461.37**	**513.31**	**581.39**	**600.69**	**603.69**	**620.70**
Minorities	**29.67**	**30.13**	**32.48**	**0.00**	**0.00**	**0.00**
Hybrid capital and other reserves	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Pension and other LT personnel accruals	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
LT provisions	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Interest-bearing LT debts	176.45	198.27	301.66	252.80	237.41	237.22
Other LT liabilities	39.88	69.67	82.16	85.23	88.44	91.82
Total long-term liabilities	**216.32**	**267.94**	**383.82**	**338.03**	**325.85**	**329.04**
Interest-bearing ST debts	90.13	65.34	37.82	16.88	10.28	10.20
Other ST liabilities	373.94	504.73	424.52	353.91	385.25	370.10
Total short-term liabilities	**464.07**	**570.07**	**462.34**	**370.79**	**394.53**	**378.30**
TOTAL LIAB. , EQUITY	**1,171.44**	**1,381.44**	**1,460.03**	**1,309.51**	**1,324.07**	**1,328.05**

Cash Flow Statement	2018	2019	2020	2021e	2022e	2023e
(IAS,PLN mn, 31/12)						
Cash flow from operating activities	109.21	18.92	4.77	87.98	29.89	42.09
Cash flow from investing activities	-95.20	12.14	102.05	-1.92	-3.73	-3.92
Cash flow from financing activities	21.76	-66.70	-24.33	-138.53	-69.33	-41.45
CHANGE IN CASH , CASH EQU.	**35.77**	**-35.64**	**82.48**	**-52.47**	**-43.17**	**-3.27**

Margins & Ratios	2018	2019	2020	2021e	2022e	2023e
Sales growth	46.7%	4.9%	31.8%	-33.6%	-4.0%	13.8%
EBITDA margin	17.7%	23.7%	28.9%	16.8%	15.7%	15.8%
EBIT margin	17.3%	23.1%	28.5%	16.4%	15.3%	15.4%
Net profit margin	11.6%	19.3%	20.2%	11.2%	10.6%	10.9%
ROE	11.7%	19.7%	24.3%	8.4%	7.5%	8.7%
ROCE	10.3%	15.5%	18.7%	6.4%	5.6%	6.4%
Equity ratio	36.9%	35.0%	37.6%	45.9%	45.6%	46.7%
Net debt	100.8	133.5	126.8	109.5	130.7	133.7
Working capital	476.9	532.4	780.7	719.0	707.9	726.0
Capital employed	572.4	686.3	757.9	795.4	822.8	846.2
Inventory turnover	-0.5	-0.4	-0.5	-0.3	-0.3	-0.4

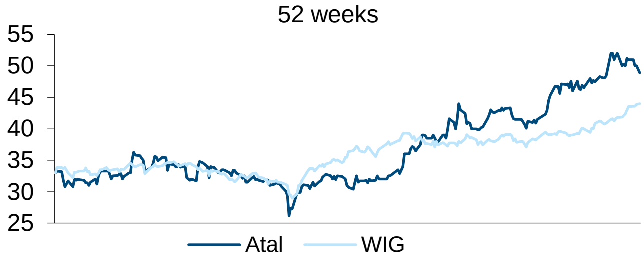
Source: Company data, Erste Group estimates

Atal

from Buy to Accumulate

PLN mn	2020	2021e	2022e	2023e
Net sales	1,167.4	1,255.4	1,269.4	1,217.0
EBITDA	210.8	262.4	288.5	259.3
EBIT	208.5	260.3	286.4	257.1
Net result after min.	167.4	204.9	225.1	201.8
EPS (PLN)	4.32	5.29	5.81	5.21
CEPS (PLN)	4.27	5.24	5.76	5.16
BVPS (PLN)	24.70	26.96	28.28	28.55
Div./share (PLN)	0.00	3.03	4.50	4.94
EV/EBITDA (x)	9.8	9.8	8.8	9.4
P/E (x)	7.5	9.2	8.4	9.4
P/CE (x)	7.6	9.3	8.5	9.5
Dividend Yield	0.0%	6.2%	9.2%	10.1%

Share price (PLN) close as of 04/06/2021	48.9
Number of shares (mn)	38.7
Market capitalization (PLN mn / EUR mn)	1,893 / 424
Enterprise value (PLN mn / EUR mn)	2,562 / 574



Performance	12M	6M	3M	1M
in PLN	48.2%	59.3%	14.5%	1.9%

Reuters	1AT.WA	Free float	16.8%
Bloomberg	1AT PW	Shareholders	Juroszek Invest. (83.2%)
Div. Ex-date	25/07/21		Investors TFI (4.6%)
Target price	**58.3**	Homepage:	www.atal.pl

Analyst:
Cezary Bernatek
+48 22 538 6256
cezary.bernatek@erstegroup.com

Healthy outlook on pre-sales and earnings

We upgrade our 12M TP for Atal to PLN 58.3 per share. At the same time, following the recent stock price rally, we lower the rating to Accumulate (19.2% upside potential).

We raise our housing pre-sales volume estimates for Atal by 28%/30% to around 3,700/3,760 units for 2021E/2022E – implying a relatively healthy 28% y/y pickup from a solid base this year and no y/y softening in this respect going into 2022E. This comes after factoring in the firm's most recent project pipeline schedule, but also the revised, more optimistic base case scenario concerning the anticipated development of the Polish primary housing segment in the years ahead (more in the front section of the report).

At the same time, taking into account the upgrade to pre-sales numbers for the years ahead, as well as the fact that FY20 volume was 6% above our original expectations, plus more favorable forecasts for domestic housing prices evolution for 2021E/2022E, we increase our forecasts for the company's bottom line by 2%/18% to PLN 205mn/225mn, up 22%/10% for each year, respectively. Assuming a 2023E number of PLN 202mn, this clearly translates into one of the most attractive short- to medium-term earnings outlooks among the housebuilders we cover (still implying undemanding P/E ratios ranging 8-9x in 2021E-23E).

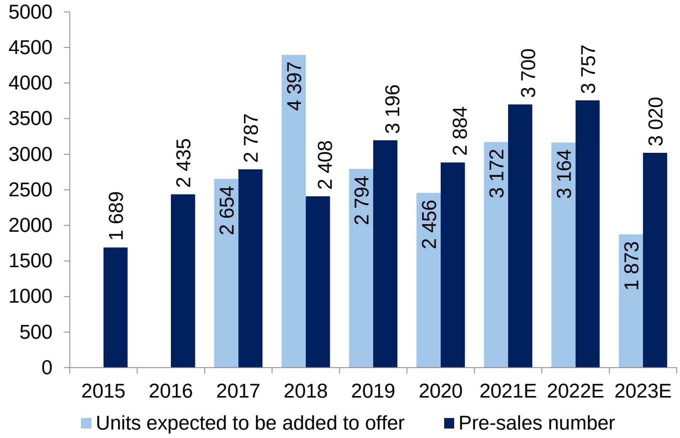
On top of the above-mentioned factors, Atal is expected to pay PLN 117mn in dividends this year, or PLN 3.0 per share – in line with management recommendations, granting a decent yield of 6.2% – close to its covered key rivals. That said, following an anticipated pickup in net income and bearing in mind the firm's dividend policy, as well as liquidity situation, we expect the DPS to grow to PLN 4.5/4.9 in 2022E/2023E, implying yields of 9.2%/10.1%, accordingly – well ahead of the sector average for both years.

2021E pre-sales volume on firm y/y increase from solid base; stabilization at elevated level in 2022E

Atal's housing pre-sales last year proved more immune to COVID-19-related turmoil than we anticipated – FY20 volume finally came in 6% above our original forecast, down only a moderate 10% y/y. Moreover, factoring in the latest project pipeline kickoff schedule for the years ahead (we expect the company to add to its offer a total of approx. 3,170/3,160 apartments in 2021E/2022E, or 8%/6% more vs. our previous model assumptions) and our revised, more optimistic view of the demand for dwellings on the Polish primary market in the short to medium term, we raise the pre-sales numbers for the company by 28%/30% to around 3,700/3,760 units, up 28%/2% for 2021E/2022E, respectively. At this point, we note the actual 1Q21 pre-sales number fulfills our FY21E estimate by roughly 23%. We also stress that our FY21E forecast still looks rather shy vs. the CEO's latest official guidance – at around 4,000 units.

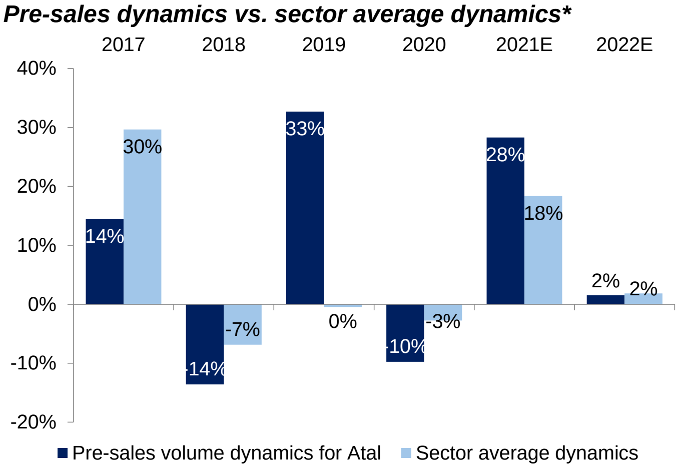
Looking into 2023E, we currently expect Atal's pre-sales volume to come in at around 3,000 units, down 20% y/y. We stress, though, that this might be subject to some upward revision if the firm visibly supplements its land bank with the schemes ready for launch in the next 1-1.5 years.

Pre-sales volume development (housing units)



Source: Company Data, Erste Group Research

Pre-sales dynamics vs. sector average dynamics*



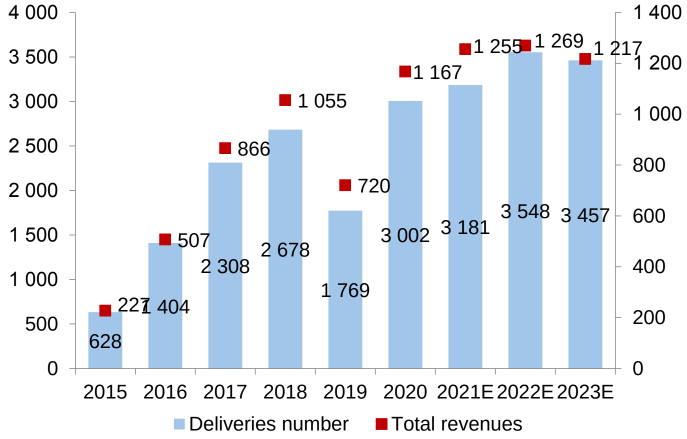
*Company Data, Erste Group Research *for six sector players we cover*

Net income to continue solid y/y increase in 2021E/2022E – forecasts upgraded

Given that Atal's FY20 housing pre-sales were 6% above our expectations, as well as following an increase in our sales forecasts for 2021E-22E and the adjustments applied to the firm's completion schedule for the period (now close to the most recent management official guidance), we raise our handover volume estimates for the firm by 2%/19% to around 3,180/3,550 units for 2021E/2022E (vs. theoretical potential of approx. 3,330/3,650 in each year, respectively).

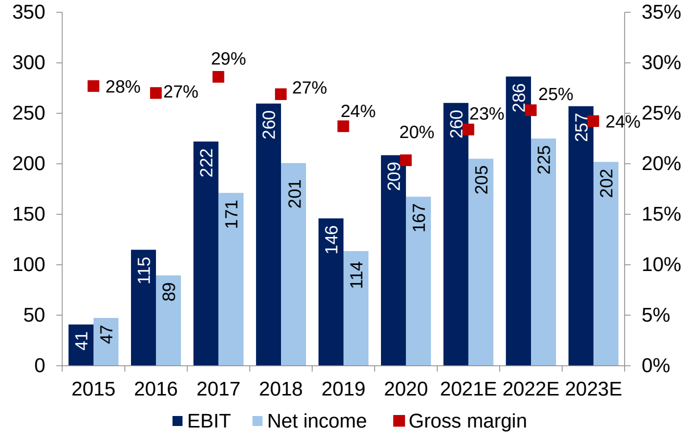
Combined with the application of our revised, more optimistic scenario concerning the evolution of housing prices on the domestic primary market in the years ahead, this pushed our net income forecasts for the company up 2%/18% to PLN 205mn/225mn, up 22%/10% for 2021E/2022E, following the 47% y/y jump registered last year. Moreover, we expect only a mild 10% y/y softening to PLN 202mn for 2023 – still implying a fairly reasonable P/E ratio of 9.4x. This overall translates into one of the best short- to mid-term earnings momentums among the segment representatives we cover.

Deliveries volume (housing units) & top line evolution (PLN mn)



Source: Company Data, Erste Group Research

EBIT, net income (PLN mn) and gross margin (%)



Company Data, Erste Group Research

Forecast changes in PLN mn	2021E Old	2021E New	2021E Δ	2022E Old	2022E New	2022E Δ	2023E New
TOTAL REVENUES	**1 154.4**	**1255.4**	***8.7%***	**1 141.9**	**1269.4**	***11.2%***	**1217.0**
Cost of goods sold	857.1	961.9	*12.2%*	853.3	948.3	*11.1%*	922.4
GROSS PROFIT	**297.3**	**293.5**	***-1.3%***	**288.6**	**321.1**	***11.3%***	**294.7**
Selling costs	15.0	14.8	*-0.9%*	15.5	15.5	*0.1%*	16.5
G&A expenses	20.2	19.7	*-2.8%*	21.0	20.6	*-1.8%*	21.9
Other operating result	0.6	1.4	*121.3%*	0.1	1.4	*2448.2%*	0.8
EBIT (excl. revaluation)	262.7	260.3	*-0.9%*	252.2	286.4	*13.6%*	257.1
Revaluation result	0.0	0.0	*n.a.*	0.0	0.0	*n.a.*	0.0
EBIT (incl. revaluation)	**262.7**	**260.3**	***-0.9%***	**252.2**	**286.4**	***13.6%***	**257.1**
Net financial result	-9.1	-7.2	*-20.9%*	-8.2	-6.6	*-18.6%*	-6.3
Pre-tax profit	**253.6**	**253.1**	***-0.2%***	**244.0**	**279.7**	***14.6%***	**250.8**
Tax	48.2	48.1	*-0.2%*	47.6	54.5	*14.6%*	48.9
Minority interest	5.1	0.1	*-98.0%*	4.9	0.1	*-97.7%*	0.1
Net income after minorities	**200.3**	**204.9**	***2.3%***	**191.5**	**225.1**	***17.5%***	**201.8**

Source: Erste Group Research

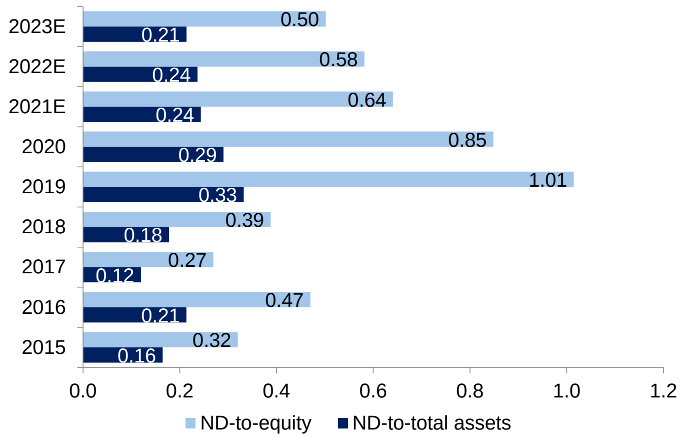
Return to decent dividend payment this year and prospects for even stronger one in 2022E/2023E

After a withdrawal from shareholder remuneration last year due to COVID-19-related uncertainty, Atal's management recommended paying PLN 117mn in dividends from last year's earnings in the current year, translating into a DPS of PLN 3.0 and a fairly decent yield in relation to the 6.2% level of its direct peers.

Following the forecast clear y/y improvement of the company's bottom line in 2021E/2022E and in the light of its safe, in our view, liquidity outlook for the quarters ahead (increase in debt level pairing with the growth to the business activity; thick OCF of PLN 267mn/213mn forecast for 2021E/2022E) and assuming sticking to its existing official dividend policy (allowing for the distribution of up to 100% of net earnings), we forecast the firm's DPS to pick up to PLN 4.5/4.9 in 2022E/2023E (payout ratios assumed at 85% for both years), this time implying one of the best in class yields, at 9.2%/10.1% for each year, respectively.

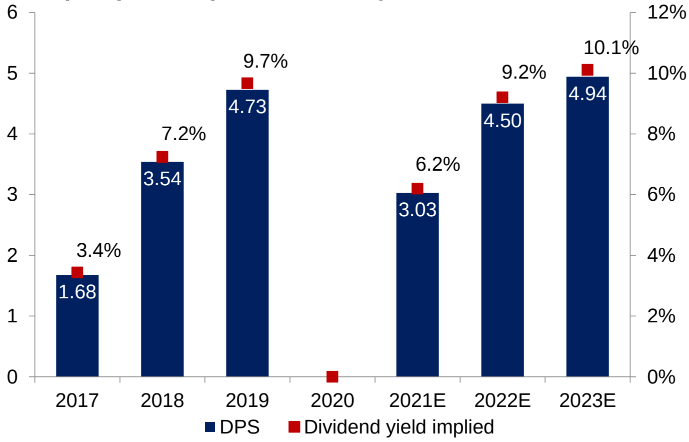
At this point we also stress that, according to our estimates, the company would be able to pay the above-mentioned dividend, while at the same time visibly supplementing its land bank – our forecasts include spending of PLN 200mn/250mn/230mn on new plots in the course of 2021E/2022E/2023E, accordingly.

Net debt-to-total assets & net debt-to-equity ratios (x)



Source: Company Data, Erste Group Research

DPS (PLN) and implied dividend yields*



Company Data, Erste Group Research **based on COB 04.06.21*

Premium to peers looks warranted

At a 2021E P/BV of 1.81x, Atal trades at a 23% premium to its peers within our residential coverage. We believe that the premium is justified by the relatively sound prospects for the company's pre-sales and net earnings in 2021E-23E, well-above-average ROE generation potential, as well as one of the most extensive land banks (in relative terms), secured at reasonable prices and a decent liquidity situation, which should allow not only for continued effective offer supplementation, but also relatively healthy dividends in 2021E-23E, as well as potential further site acquisitions going forward.

Valuation

Our revised 12M target price for Atal stands at PLN 58.27 per share (up from PLN 40.10 per share), implying a 19.2% upside. This reflects a 30% weighting for our truncated pipeline scenario and a 70% weighting for our extended pipeline scenario. We also carry out a peer multiple valuation for comparison purposes (0% weighting).

VALUATION SUMMARY (PLN)	
Truncated pipeline scenario	11.97
Extended pipeline scenario	78.12
Average (30:70 weight)	**58.27**

Source: Company Data, Erste Group Research

VALUATION (PLN m) - TRUNCATED PIPELINE SCENARIO	
Value of properties under construction & delivery	**2 675**
Cost for properties under construction & delivery	**2 121**
TOTAL	**553**
PV of TOTAL	**432**
Estimated value of secured land bank	709
Investment property	70
Tax liability	-33
ENTERPRISE VALUE (PLN m)	**1 245**
Net debt*	811
Minority interest	0.0
EQUITY VALUE (PLN m)	**434**
Per fully diluted number of shares (PLN)	11.20
12M Target Price (PLN)	**11.97**

**including leasing liabilities*

Source: Company Data, Erste Group Research

VALUATION (PLN m) - EXTENDED PIPELINE SCENARIO	
Value of properties under construction & delivery	**2 675**
Cost for properties under construction & delivery	**2 121**
Value of properties in the pipeline (till 2023)	**1 411**
Cost for properties in the pipeline (till 2023)	**1 120**
Terminal value for development business (beyond 2023)	2 437
TOTAL	**3 282**
PV of TOTAL	**2 827**
Estimated value of secured land bank	709
Investment property	70
Tax liability	-33
ENTERPRISE VALUE (PLN m)	**3 640**
Net debt*	811
Minority interest	0.0
EQUITY VALUE (PLN m)	**2 829**
Per fully diluted number of shares (PLN)	73.06
12M Target Price (PLN)	**78.12**

**including leasing liabilities*

Source: Company Data, Erste Group Research

Sensitivity analysis

We present a sensitivity analysis of our target price to changes in residential prices and construction costs. A +/-5% change in residential prices vs. our original expectations applied to the valuation of Atal's portfolio of under-construction and pipeline properties increases/decreases our equity valuation by some 7.5%. At the same time, a 5% increase/decrease in the level of construction costs applied to the valuation of the firm's portfolio of under-construction and pipeline real estate schemes decreases/increases our target price by around 8.0%.

Valuation sensitivity to residential prices and construction costs (PLN)

Construction costs evolution	Residential prices evolution	-5.0%	-2.5%	0%	2.5%	5.0%
	-5.0%	58.86	60.56	62.28	64.01	**65.74**
	-2.5%	56.89	58.59	60.30	62.01	63.74
	0%	54.89	56.58	**58.27**	59.98	61.70
	2.5%	52.85	54.52	56.21	57.90	59.61
	5.0%	**50.77**	52.43	54.11	55.79	57.48

Source: Erste Group Research

Peer comparison

Atal vs. peers (on current market values; priced at COB 04 June 2021)

	BBG ticker	Close price (PLN)	TP (PLN)	Rating	P/BV 2021E	P/BV 2022E	P/BV 2023E	P/E 2021E	P/E 2022E	P/E 2023E
Archicom	ARH PW	24.20	25.65	Hold	1.03	1.03	1.00	12.5	13.7	11.7
Atal	1AT PW	48.90	58.27	Accumulate	1.81	1.73	1.71	9.2	8.4	9.4
Develia	DVL PW	3.45	4.39	Buy	1.11	1.04	1.00	10.3	7.1	8.0
Dom Development	DOM PW	152.2	176.6	Accumulate	3.14	3.04	2.83	11.9	12.3	10.3
Lokum Deweloper	LKD PW	23.20	32.00	Buy	0.96	0.92	0.85	6.8	8.4	6.9
Ronson	RON PW	1.92	2.02	Hold	0.77	0.75	0.68	10.4	12.1	5.9
Average for companies from our coverage					**1.47**	**1.42**	**1.35**	**10.2**	**10.3**	**8.7**
Versus average for companies from our coverage										
Archicom					-30%	-27%	-26%	23%	33%	35%
Atal					23%	22%	27%	-9%	-19%	8%
Develia					-25%	-27%	-25%	1%	-31%	-8%
Dom Development					113%	115%	110%	17%	19%	18%
Lokum Deweloper					-34%	-35%	-37%	-33%	-19%	-21%
Ronson					-48%	-47%	-49%	2%	17%	-32%

Source: Erste Group Research, Bloomberg

Detailed property valuation

Residential projects under delivery, construction and in pipeline

Project	Stage	Atal's share	Saleable area (sqm)	Expected completion	Market value (PLN mn)	All-in costs (PLN mn)	Margin on revenues	NPV (PLN mn)
Nowe Miasto Rozanka	5	100%	8 380	2022-09-30	56.4	45.0	20.2%	8.5
Nowe Miasto Rozanka	4	100%	7 800	2020-11-30	52.5	41.8	20.2%	8.6
Nowe Miasto Rozanka	7	100%	10 600	2023-09-30	74.5	57.8	22.4%	11.5
Krakowska 35	2	100%	12 345	2021-03-30	77.9	63.7	18.2%	11.5
Atal Oporow	1	100%	7 500	2021-03-30	45.4	39.4	13.2%	4.9
Buforowa	1	100%	10 930	2021-06-30	68.3	56.4	17.4%	9.6
Buforowa	3	100%	6 680	2022-03-30	40.9	33.5	18.2%	5.7
Buforowa	4	100%	13 100	2023-01-01	83.4	65.6	21.4%	13.0
Buforowa	4	100%	11 900	2023-12-30	75.8	59.6	21.4%	11.0
Buforowa	5	100%	17 024	2024-12-30	108.4	85.3	21.4%	14.7
Pulaskiego	1	100%	6 787	2022-09-30	43.8	35.4	19.1%	6.2
Pulaskiego	2	100%	13 310	2022-09-30	85.8	69.5	19.1%	12.1
Pulaskiego	3a	100%	15 514	2024-09-30	104.1	79.4	23.7%	15.9
Pulaskiego	3b	100%	4 600	2024-12-30	30.9	23.5	23.7%	4.6
Pulaskiego	4	100%	18 700	2025-12-30	125.4	93.7	25.3%	18.7
Bornowice Residence	6	100%	2 597	2020-12-30	17.2	13.2	23.1%	3.2
Bagry Aparthotel	6	100%	5 412	2020-10-30	37.0	27.9	24.6%	7.4
Bajeczna Apartamenty	2	100%	8 200	2022-11-30	56.5	42.4	25.0%	10.4
Atal Residence Zablocie	3	100%	13 217	2021-06-30	103.4	77.7	24.9%	20.8
Atal Residence Zablocie	5	100%	1 699	2022-09-30	13.3	10.0	24.9%	2.5
Przybyszewskiego 64	2	100%	19 212	2021-12-30	129.2	105.8	18.1%	18.3
Przybyszewskiego 64	3,4	100%	8 060	2022-10-30	56.9	44.4	22.0%	9.2
Aleja Pokoju	2	100%	7 302	2021-09-30	45.7	35.2	23.1%	8.4
Aleja Pokoju	3a	100%	7 388	2021-11-30	46.3	35.6	23.1%	8.4
Aleja Pokoju	4	100%	9 800	2022-01-30	63.2	48.2	23.8%	11.7
Aleja Pokoju	3b	100%	14 136	2022-11-30	91.2	69.5	23.8%	15.9
Aleja Pokoju	5	100%	9 861	2023-11-30	63.6	48.5	23.8%	10.3
Kliny - Zacisze	3	100%	8 344	2020-12-30	52.5	41.9	20.1%	8.6
Kliny - Zacisze	4	100%	5 311	2021-06-30	33.4	26.7	20.1%	5.4
Wola Justowska	2	100%	10 000	2023-12-30	47.5	39.4	17.1%	5.5
Wola Justowska	1a	100%	12 400	2022-10-30	58.9	48.8	17.1%	7.4
Wola Justowska	1b	100%	12 300	2023-06-30	60.8	48.4	20.3%	8.7
Wola Justowska	3	100%	13 500	2024-06-30	68.7	53.1	22.6%	10.2
Wola Justowska	4	100%	13 500	2025-06-30	68.7	53.1	22.6%	9.5
Masarska	2	100%	782	2020-10-01	6.4	4.6	27.4%	1.4
Wybickiego 6	1	100%	7 500	2023-10-30	55.9	42.4	24.1%	9.3
Nowy Targowek	5	100%	5 500	2022-11-30	40.1	30.6	23.6%	7.0
Nowy Targowek	6	100%	11 314	2023-11-30	85.8	64.9	24.3%	14.3
Bartycka	1	100%	5 314	2022-09-30	38.5	30.1	22.0%	6.3
Grochowska/Ostrobramska	2, 3C	100%	13 282	2021-03-30	95.8	74.8	21.9%	17.0
Ursus	1	100%	7 488	2020-10-30	50.5	39.7	21.5%	8.8
Ursus	2	100%	9 107	2020-10-30	61.5	48.3	21.5%	10.7
Ostrodzka 1	1	100%	6 619	2021-06-30	42.0	33.7	19.9%	6.8

Ostrodzka 2	2	100%	10 415	2023-01-01	66.1	53.0	19.9%	9.6
Modlinska	1	100%	11 500	2023-09-30	71.9	59.6	17.1%	8.5
Olimpijska	1	100%	11 000	2022-11-30	62.7	50.7	19.2%	8.8
Olimpijska	2	100%	12 000	2023-06-30	68.4	55.3	19.2%	9.2
Olimpijska	3	100%	11 000	2024-10-30	62.7	50.7	19.2%	7.7
Olimpijska	4	100%	11 000	2025-12-30	62.7	50.7	19.2%	7.1
Nowy Brynow	2a	100%	3 600	2020-12-30	21.0	16.8	20.2%	3.4
Nowy Brynow	2b	100%	3 600	2020-12-30	21.0	16.8	20.2%	3.4
Sloneczna Petla	1	100%	10 448	2023-09-30	56.9	45.7	19.7%	7.7
Sloneczna Petla	2	100%	10 448	2024-10-30	56.9	45.7	19.7%	7.2
Sloneczna Petla	3	100%	10 448	2024-11-30	56.9	45.7	19.7%	7.1
Sloneczna Petla	4	100%	10 998	2025-09-30	59.9	48.1	19.7%	7.1
Sloneczna Petla	5	100%	10 998	2025-09-30	59.9	48.1	19.7%	7.1
Sloneczna Petla	6	100%	11 658	2026-09-30	63.5	51.0	19.7%	7.0
Sokolska	1	100%	20 065	2021-08-30	136.7	102.7	24.9%	27.1
Karolinki	1	100%	14 337	2021-11-30	72.4	61.1	15.7%	8.9
Karolinki	2	100%	14 140	2023-01-01	70.0	60.2	14.0%	7.1
Chojny Park	4	100%	4 967	2020-12-30	22.9	18.9	17.5%	3.2
Chojny Park	5	100%	5 498	2022-01-01	24.8	20.9	15.8%	3.1
Drewnowska	3	100%	5 187	2021-06-30	29.1	23.9	17.9%	4.2
Drewnowska	4	100%	11 850	2022-06-30	71.7	57.2	20.2%	10.9
Nowe Miasto Polesie	1	100%	8 761	2021-07-30	46.9	39.0	16.8%	6.3
Nowe Miasto Polesie	2	100%	10 000	2022-03-30	52.4	44.1	15.9%	6.4
Nowe Miasto Polesie	3	100%	9 900	2023-10-30	54.5	43.6	19.9%	7.5
Nowe Miasto Polesie	4	100%	10 000	2024-09-30	55.1	44.1	19.9%	7.1
Letnica	2	100%	12 388	2022-11-30	85.2	63.7	25.2%	15.7
Letnica	3	100%	10 952	2023-11-30	77.6	56.3	27.4%	14.5
Letnica	4	100%	8 488	2024-10-30	60.1	43.7	27.4%	10.5
Modern Tower (Gorskiego)	1	100%	15 224	2021-09-30	96.7	77.5	19.8%	15.2
Bosmańska	1	100%	6 157	2022-11-30	41.9	32.2	23.1%	7.1
Most Siennicki	1	100%	5 211	2023-06-30	34.1	27.7	18.8%	4.5
Dmowskiego	2	100%	9 320	2021-11-01	56.4	46.3	17.8%	7.9
Dmowskiego	1	100%	17 118	2021-01-30	105.6	87.7	17.0%	14.6
Warta Towers	1	100%	19 319	2022-01-01	120.7	93.4	22.6%	21.3
Ptasia	1	100%	18 071	2021-07-30	112.9	89.7	20.6%	18.7
Lesne Skrzaty	1a,1b	100%	24 000	2023-06-30	139.2	111.9	19.6%	19.1
Lesne Skrzaty	2	100%	25 000	2024-04-30	145.0	116.6	19.6%	18.8
Lesne Skrzaty	3	100%	21 000	2024-10-30	121.8	97.9	19.6%	15.3
Lesne Skrzaty	4	100%	17 000	2025-09-30	98.6	79.3	19.6%	11.6
Lesne Skrzaty	5	100%	11 000	2026-09-30	63.8	51.3	19.6%	7.0
TOTAL			**888 383**		**5 451**	**4 317**		**814.4**

Source: Erste Group Research, Company Data

Key risks to investment case

- earlier / more visible than anticipated base rate hike in Poland, influencing housing pre-sales volumes
- stronger / weaker than anticipated increase of construction costs in the country, influencing the developer margin on future projects
- less pronounced / heavier than anticipated increase in effective new dwelling prices across the country's main agglomerations in the quarters ahead
- delays / speed-up in launch of pipeline projects vs. assumed schedule / difficulties in obtaining building permits
- difficulties in obtaining occupancy permits on time due to the slowdown in administration procedures
- hypothetical overheating of the market due to potential highly limited supply and consequently uncontrolled rise in dwelling prices, followed by deep correction / segment destabilization
- stronger than anticipated extra supply of post CHF-financed apartments on the market in the short to medium term, putting downward pressure on new dwelling prices
- higher than anticipated extra costs related to likely introduction of DFG
- tightening / easing of mortgage lending requirement by banks
- difficulties in the purchase of attractively located land plots at reasonable prices affecting pre-sales potential in the longer run
- difficulties in planned debt refinancing in light of potential tightening of domestic corporate bond market
- increase / decrease in land prices in the years ahead, influencing the company's gross margins in the longer run
- potential unfavorable legal changes affecting 'investment' demand for new dwellings in the country (e.g. potential cadastral tax)

Income Statement	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**
(IAS, PLN mn, 31/12)	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023
Net sales	**1,055.02**	**720.17**	**1,167.35**	**1,255.37**	**1,269.42**	**1,217.02**
Cost of goods sold	771.49	549.45	929.88	961.90	948.28	922.36
Gross profit	**283.54**	**170.72**	**237.47**	**293.48**	**321.14**	**294.66**
SG&A	30.70	33.09	32.76	34.52	36.18	38.34
Other operating revenues	10.31	11.03	9.45	5.65	6.35	5.48
Other operating expenses	3.54	2.81	5.66	4.27	4.93	4.72
EBITDA	**261.09**	**148.29**	**210.77**	**262.39**	**288.49**	**259.27**
Depreciation/amortization	1.49	2.43	2.26	2.05	2.11	2.18
EBIT	**259.60**	**145.86**	**208.51**	**260.34**	**286.38**	**257.09**
Financial result	-4.24	-3.31	-8.25	-7.21	-6.63	-6.26
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	**255.36**	**142.55**	**200.26**	**253.13**	**279.74**	**250.82**
Income taxes	48.73	26.89	32.80	48.09	54.55	48.91
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	5.93	2.07	0.02	0.10	0.11	0.10
Net result after minorities	**200.71**	**113.58**	**167.44**	**204.93**	**225.08**	**201.81**

Balance Sheet	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**
(IAS, PLN mn, 31/12)						
Intangible assets	63.31	63.91	64.20	64.20	64.20	64.20
Tangible assets	72.29	78.12	80.98	81.31	81.66	82.02
Financial assets	10.37	11.24	40.82	38.77	36.84	34.99
Total fixed assets	**145.98**	**153.26**	**185.99**	**184.28**	**182.69**	**181.21**
Inventories	1,487.45	2,080.31	2,327.66	2,263.05	2,232.04	2,111.46
Receivables and other current assets	46.66	24.98	37.10	43.94	44.43	42.60
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	191.90	150.88	241.94	254.03	232.39	255.40
Total current assets	**1,726.01**	**2,256.18**	**2,606.70**	**2,561.02**	**2,508.86**	**2,409.46**
TOTAL ASSETS	**1,871.99**	**2,409.44**	**2,792.69**	**2,745.30**	**2,691.55**	**2,590.66**
Shareholders'equity	**858.36**	**788.83**	**956.17**	**1,043.80**	**1,094.69**	**1,105.18**
Minorities	**-1.10**	**0.00**	**-0.03**	**-0.03**	**-0.03**	**-0.03**
Hybrid capital and other reserves	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Pension and other LT personnel accruals	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
LT provisions	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Interest-bearing LT debts	232.66	737.45	540.96	449.86	412.40	370.78
Other LT liabilities	158.93	176.99	153.94	150.46	147.58	145.25
Total long-term liabilities	**391.60**	**914.44**	**694.90**	**600.32**	**559.98**	**516.03**
Interest-bearing ST debts	292.17	213.89	512.05	473.01	456.96	439.12
Other ST liabilities	330.96	492.28	629.60	628.20	580.96	532.36
Total short-term liabilities	**623.12**	**706.17**	**1,141.65**	**1,101.21**	**1,036.92**	**969.48**
TOTAL LIAB. , EQUITY	**1,871.99**	**2,409.44**	**2,792.69**	**2,745.30**	**2,691.55**	**2,590.66**

Cash Flow Statement	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**
(IAS,PLN mn, 31/12)						
Cash flow from operating activities	37.85	-144.33	55.52	267.22	213.26	280.67
Cash flow from investing activities	1.42	10.76	1.13	-2.39	-2.46	-2.53
Cash flow from financing activities	-113.21	92.56	34.41	-252.74	-232.44	-255.13
CHANGE IN CASH , CASH EQU.	**-73.95**	**-41.01**	**91.06**	**12.09**	**-21.64**	**23.01**

Margins & Ratios	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**
Sales growth	21.9%	-31.7%	62.1%	7.5%	1.1%	-4.1%
EBITDA margin	24.7%	20.6%	18.1%	20.9%	22.7%	21.3%
EBIT margin	24.6%	20.3%	17.9%	20.7%	22.6%	21.1%
Net profit margin	19.6%	16.1%	14.3%	16.3%	17.7%	16.6%
ROE	24.3%	13.8%	19.2%	20.5%	21.1%	18.3%
ROCE	17.0%	7.4%	9.1%	10.8%	12.0%	11.0%
Equity ratio	45.9%	32.7%	34.2%	38.0%	40.7%	42.7%
Net debt	332.9	800.5	811.1	668.8	637.0	554.5
Working capital	1,102.9	1,550.0	1,465.0	1,459.8	1,471.9	1,440.0
Capital employed	1,351.3	1,766.3	1,921.2	1,863.1	1,879.3	1,805.0
Inventory turnover	-0.5	-0.3	-0.4	-0.4	-0.4	-0.4

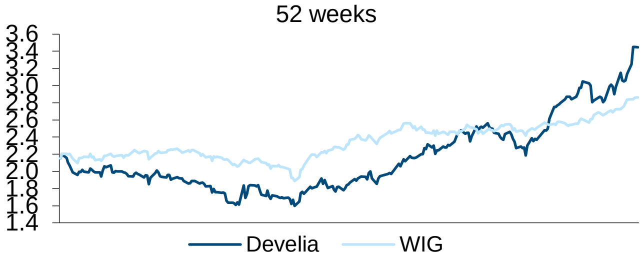
Source: Company data, Erste Group estimates

Develia

Buy

PLN mn	2020	2021e	2022e	2023e
Net sales	517.1	809.0	964.3	967.5
EBITDA	-71.1	191.6	283.5	255.5
EBIT	-72.4	190.2	282.1	254.1
Net result after min.	-138.8	149.0	216.7	193.5
EPS (PLN)	-0.31	0.33	0.48	0.43
CEPS (PLN)	-0.31	0.33	0.48	0.43
BVPS (PLN)	2.94	3.11	3.33	3.43
Div./share (PLN)	0.10	0.17	0.27	0.33
EV/EBITDA (x)	-16.4	9.4	6.7	7.8
P/E (x)	nm	10.3	7.1	8.0
P/CE (x)	-6.3	10.4	7.2	8.0
Dividend Yield	5.1%	4.8%	7.8%	9.6%

Share price (PLN) close as of 04/06/2021	3.45
Number of shares (mn)	447.6
Market capitalization (PLN mn / EUR mn)	1,542 / 346
Enterprise value (PLN mn / EUR mn)	1,810 / 406



Performance	12M	6M	3M	1M
in PLN	60.2%	84.2%	37.8%	13.9%

Reuters	DVLP.WA	Free float	40.6%
Bloomberg	DVL PW	Shareholders	PZU OFE (19.0%)
Div. Ex-date	06/07/21		NN OFE (18.7%)
Target price	**4.39**	Homepage:	www.develia.pl

Analyst:
Cezary Bernatek
+48 22 538 6256
cezary.bernatek@erstegroup.com

Decent sector play at still undemanding valuation

We raise our 12M TP for Develia by 61% to PLN 4.39 per share. Despite the firm's recent stock price jump, this still implies a healthy 27% upside and we keep our Buy rating. Develia is our segment Top Pick.

Factoring in Develia's solid 1Q21 pre-sales number, as well as given the application of the revised, more aggressive project kickoff pipeline for FY21E and 2022E, plus our more optimistic view on the Polish primary housing market development in the COVID-19 pandemic aftermath, we raise our pre-sales volume forecasts for the firm by 16%/11% to around 1,850/1,900 units, up 36%/3% y/y for each year, respectively – comprising one of the most favorable outlooks in this respect among the housebuilders we cover.

At the same time, despite an upgrade to pre-sales volume estimates for 2021E as well as the application of a more favorable forecast for domestic housing prices evolution in 2021E, we lower our net income forecast for the company by 14% to PLN 149mn for the period – linked predominantly to anticipated property revaluation loss, on the back of anticipated PLN strengthening vs. the EUR over the year. We note, though, that this would still imply a clear y/y jump and P/E ratio at a reasonable 10.3x. Moreover, our bottom line forecast is up 23% to PLN 217mn for 2022E and we now look for only a minor softening to PLN 194mn in 2023E, which pushes down the P/E ratios to well below sector average 7.1x/8.0x for each year, accordingly.

Finally, we expect Develia to continue with one of the best in class dividend distributions going forward – assuming no changes to its official dividend policy, we forecast DPS at PLN 0.17/0.27/0.33 for 2021E/2022E/2023E, implying DYs of 4.8%/7.8%/9.6%, respectively. At this point, we also note that the firm might be willing to pay an extra dividend in 2022E-23E following the planned disposal of its Wola Retro office building, not mentioning the potential exit from the Sky Tower scheme (on the mid-term agenda) – some PLN 380mn of free cash to be potentially released from both deals, or some 29% of the current market capitalization.

Investment story

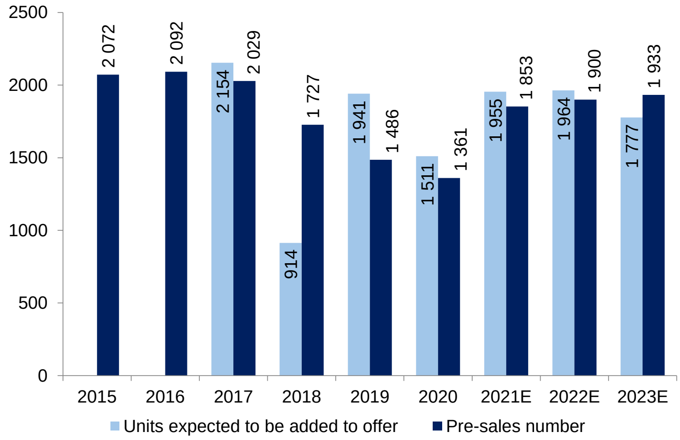
Relatively solid pre-sales outlook for 2021E-22E – forecasts visibly upgraded

Develia's pre-sales volume came in at a solid 580 units, up 86% y/y for 1Q21 – at the top of its WSE-listed peers in the dynamics department. Taking this into consideration, as well as assuming the launch of nearly 1,950 housing units in FY21E, i.e. 13% more than originally factored in, plus given our revised, more optimistic view on the demand evolution on the domestic primary housing market, we raise our sales volume forecast for Develia to around 1,850 units (or at the upper end of the firm's official guidance for the period), which implies a relatively healthy 36% y/y increase.

Looking into 2022E, given the above-mentioned application of a more favorable segment outlook, as well as assuming the company's offer supplementation with another approx. 1,960 dwellings (7% more than assumed earlier), we raise our sales number estimate by 11% to 1,900 units, up 3% y/y for the period – not far from the dynamics expected to be offered by its closest peers from our coverage.

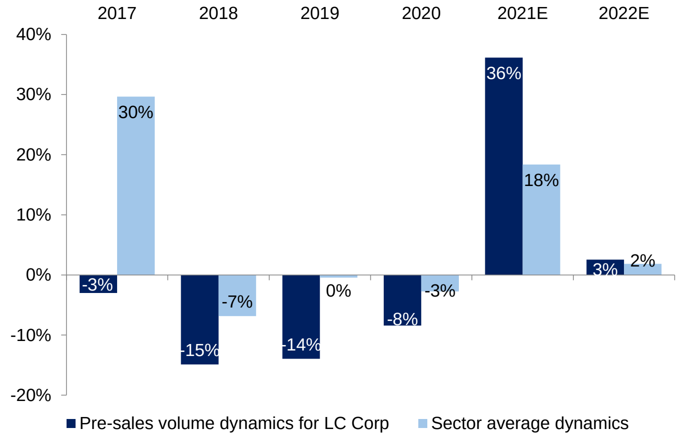
On top of that, we forecast Develia's pre-sales volume to show another 2% y/y pickup to around 1,930 units – this is assuming no vital increase in the Polish base rate (some 100-150bp increase over the midterm, which looks feasible, and should not, we believe, harm demand for dwellings too much), as well as no macroeconomic shocks.

Pre-sales volume development (housing units)



Source: Company Data, Erste Group Research

Pre-sales dynamics vs. sector average dynamics*



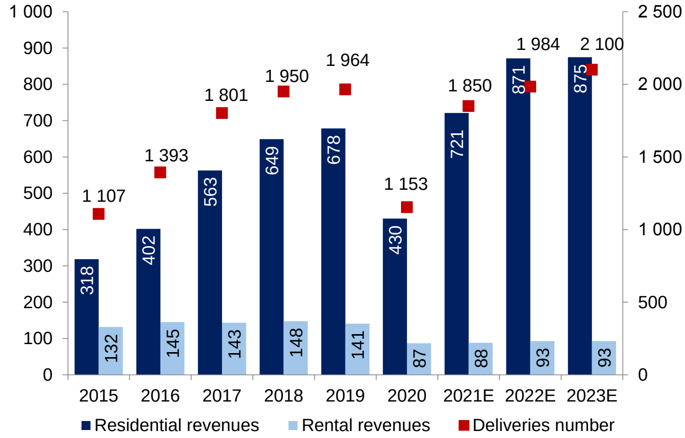
*Company Data, Erste Group Research *for six sector players we cover*

One of best in class net earnings momentum for years ahead, despite 2021E forecast downgrade

We lower our bottom line estimate for Develia by 14% to PLN 149mn for FY21E. This follows the application of the revised EUR/PLN exchange rate assumption for end-2021E (at 4.55 vs 4.61 at end-2020) – triggering a clear downgrade to the property revaluation result estimate – now expected at a PLN 18mn loss vs. PLN 17mn gain originally, and in spite of an upgrade to our pre-sales volume estimate for 2021E, as well as the more favorable forecast for domestic housing prices evolution in the period (we now expect some 8-12% y/y growth on average in the period, compared to the 3-5% y/y pickup assumed earlier). We note, however, that this would still mean a sharp y/y revival and would translate into a still undemanding P/E ratio of 10.3x (close to the peer group average).

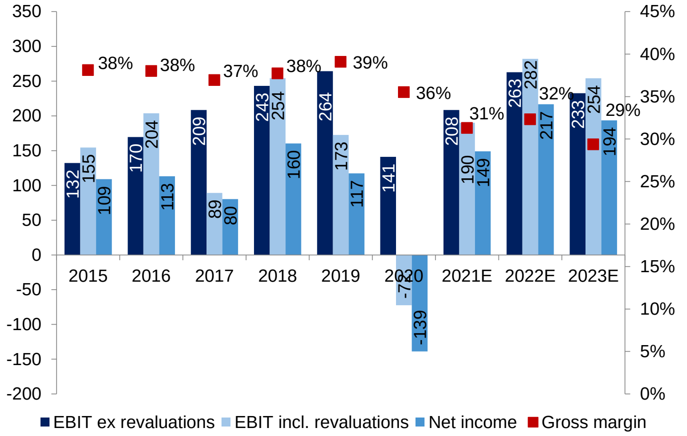
What is more, following a 4% upgrade to our deliveries volume forecast for the firm, to around 1,985 units for 2022E and given the above-mentioned, more favorable price evolution prospects, and in spite of factoring in a surge in construction costs over 2021E-22E (due mainly to growing commodity prices), our net income forecast for Develia is up 23% to PLN 217mn, or up 45% y/y, while we assume only a moderate softening to a still solid PLN 194mn for 2023E – implying P/E ratios at an even more attractive 7.1x/8.0x for each year, respectively.

Deliveries (housing units) & revenues evolution (PLN mn)



Source: Company Data, Erste Group Research

EBIT, net income (PLN mn) and gross margin (%)



Company Data, Erste Group Research

Forecast changes in PLN mn	2021E Old	2021E New	2021E Δ	2022E Old	2022E New	2022E Δ	2023E New
TOTAL REVENUES	**831.7**	**809.0**	***-2.7%***	**871.8**	**964.3**	***10.6%***	**967.5**
Residential revenues	738.6	721.0	*-2.4%*	773.3	871.5	*12.7%*	874.7
Rental revenues	93.1	88.0	*-5.4%*	98.5	92.9	*-5.7%*	92.8
Cost of goods sold	560.1	555.9	*-0.8%*	594.9	652.7	*9.7%*	683.3
GROSS PROFIT	**271.6**	**253.1**	***-6.8%***	**276.9**	**311.7**	***12.6%***	**284.2**
Selling and G&A expenses	54.1	45.7	*-15.4%*	57.5	48.2	*-16.2%*	50.8
Other operating result	1.1	1.0	*-4.7%*	-0.7	-0.6	*-5.2%*	-0.8
EBIT (excl. revaluation)	**218.6**	**208.5**	***-4.7%***	**218.7**	**262.8**	***20.2%***	**232.6**
Revaluation result	16.7	-18.2	*n.a.*	24.3	19.3	*-20.7%*	21.5
EBIT (incl. revaluation)	**235.3**	**190.2**	***-19.2%***	**243.0**	**282.1**	***16.1%***	**254.1**
Net financial result	-21.7	-6.3	*-71.2%*	-25.0	-14.5	*-41.9%*	-15.2
Pre-tax profit	**213.6**	**184.0**	***-13.9%***	**218.0**	**267.6**	***22.7%***	**238.9**
Tax	40.6	35.0	*-13.9%*	41.4	50.8	*22.7%*	45.4
Net income after minorities	**173.0**	**149.0**	***-13.9%***	**176.6**	**216.7**	***22.7%***	**193.5**

Source: Company Data, Erste Group Research

Sound liquidity situation to allow for hefty dividend distribution in 2021E-23E; potential assets disposal comprises upside risk

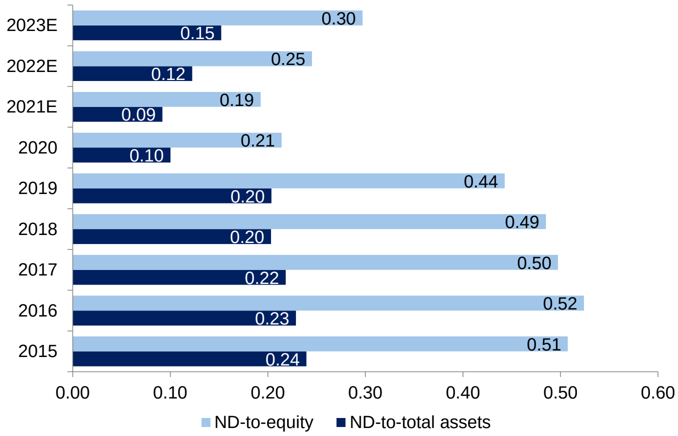
Develia had a cash & equivalents position of PLN 361mn at end-1Q21 (or around PLN 0.5bn with other financial assets included), while its net debt-to-total assets ratio amounted to a highly conservative 0.10x at the end of the period. Combined with the outlook for a clear increase in deliveries volumes this year and despite a fairly complex development pipeline and plans to visibly supplement its land bank in the quarters ahead, we forecast the company to be capable of going ahead with relatively solid dividend payments in 2021E-23E.

To be precise, assuming the payment of 75% of net earnings adjusted for non-cash items, or in line with the original dividend policy, we expect DPS to hit PLN 0.17/0.27/0.33 in 2021E/2022E/2023E, translating into relatively decent (vs. the peers we cover) yields of 4.8%/7.8% and 9.6% each year, accordingly.

On top of that, it has to be stressed that the firm is planning to dispose of its Wola Retro office scheme at the turn of 2021/22, which could result in the freeing up of around PLN 200mn in cash (or 15% of the current market capitalization of the firm), which would likely result in an extra dividend payment. We note, however, that due to limited visibility, we treat such a scenario only as an upside risk to our dividend expectations for 2022E.

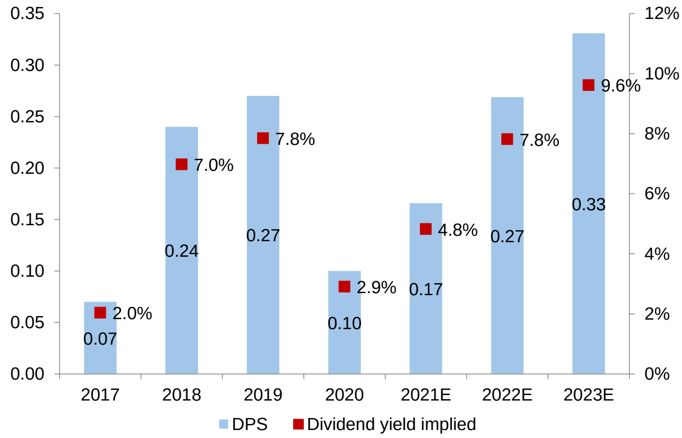
Moreover, we see a similar risk going into 2023E, when potential extra shareholder remuneration might come from the eventual disposal of the Sky Tower project (NAV at PLN 184mn at end-1Q21), which is also on Develia's agenda – again not factored into our current forecasts upfront.

Net debt-to-total assets & net debt-to-equity ratios (x)



Source: Company Data, Erste Group Research

DPS (PLN) and implied dividend yields*



Company Data, Erste Group Research **based on COB 04.06.21*

Trading at overly excessive discount to peers

On a 2021E P/BV of 1.11x, Develia trades at a 25% discount to its competitors from our residential coverage. We see some discount as justified due to the firm's exposure to the relatively dated and likely slow-to-sell office/retail assets (Arkady Wroclawskie/ Sky Tower). We believe, however, that the current discount is way too high because of the company's relatively strong pre-sales, earnings and dividend outlook for 2021E-23E. At this point, we also note that we do not price in any upside from the Malin project at this stage.

Valuation

Our revised 12M target price for Develia stands at PLN 4.39 per share (down from PLN 2.72 per share), implying 27.4% upside. This reflects a 30% weighting for our truncated pipeline scenario and a 70% weighting for our extended pipeline scenario. We also carry out a peer multiple valuation for comparison purposes (0% weighting).

VALUATION SUMMARY (PLN)	
Truncated pipeline scenario	3.00
Extended pipeline scenario	4.99
Average (30:70 weight)	**4.39**

VALUATION (PLN mn) - TRUNCATED PIPELINE SCENARIO	
Standing commercial property	**848**
Value of properties under construction	**1 662**
- Residential property value	1 662
Cost for properties under construction	**1 322**
- Residential property costs	1 322
TOTAL	**1 189**
PV of TOTAL	**1 171**
Secured land bank for under construction & pipeline projects	477
Current tax liability	64
ENTERPRISE VALUE (PLN mn)	**1 584**
Net debt*	333
EQUITY VALUE (PLN mn)	**1 251**
Per fully diluted number of shares (PLN)	2.79
12M Target Price (PLN)	**3.00**

**including leasing liabilities*
Source: Company Data, Erste Group Research

VALUATION (PLN mn) - EXTENDED PIPELINE SCENARIO	
Standing commercial property	**848**
Value of properties under construction & delivery	**1 662**
- Residential property value	1 662
Cost for properties under construction & delivery	**1 322**
- Residential property costs	1 322
Value of properties in the pipeline (till 2023)	**700**
- Commercial property value	0
- Residential property value	700
Cost for properties in the pipeline (till 2023)	**564**
- Commercial property costs	0
- Residential property costs	564
Terminal value for development business (beyond 2023)	546
TOTAL	**1 871**
PV of TOTAL	**2 006**
Secured land bank for under construction & pipeline projects	477
Current tax liability	64
ENTERPRISE VALUE (PLN mn)	**2 419**
Net debt*	333
EQUITY VALUE (PLN mn)	**2 086**
Per fully diluted number of shares (PLN)	4.66
12M Target Price (PLN)	**4.99**

**including leasing liabilities*

Source: Company Data, Erste Group Research

Sensitivity analysis

We present a sensitivity analysis of our target price to changes in residential prices and construction costs. A +/-10% change in residential prices vs. our original expectations applied to the valuation of Develia's portfolio of under-construction and pipeline properties increases/decreases our equity valuation by some 10%. At the same time, a 10% increase/decrease in the level of construction costs applied to the valuation of the firm's portfolio of under-construction and pipeline real estate schemes decreases/increases our target price by around 6%.

Valuation sensitivity to residential prices and construction costs (PLN)

Construction costs evolution	Residential prices evolution: -10.0%	-5.0%	0%	5.0%	10.0%
-10.0%	4.18	4.44	4.70	4.96	**5.22**
-5.0%	4.03	4.28	4.54	4.81	5.07
0%	3.88	4.13	**4.39**	4.65	4.91
5.0%	3.72	3.98	4.24	4.50	4.76
10.0%	**3.57**	3.83	4.09	4.35	4.61

Source: Erste Group Research

Relative valuation

Develia vs. peers (on current market values; priced at COB 04 June 2021)

	BBG ticker	Close price (PLN)	TP (PLN)	Rating	P/BV 2021E	P/BV 2022E	P/BV 2023E	P/E 2021E	P/E 2022E	P/E 2023E
Archicom	ARH PW	24.20	25.65	Hold	1.03	1.03	1.00	12.5	13.7	11.7
Atal	1AT PW	48.90	58.27	Accumulate	1.81	1.73	1.71	9.2	8.4	9.4
Develia	DVL PW	3.45	4.39	Buy	1.11	1.04	1.00	10.3	7.1	8.0
Dom Development	DOM PW	152.2	176.6	Accumulate	3.14	3.04	2.83	11.9	12.3	10.3
Lokum Deweloper	LKD PW	23.20	32.00	Buy	0.96	0.92	0.85	6.8	8.4	6.9
Ronson	RON PW	1.92	2.02	Hold	0.77	0.75	0.68	10.4	12.1	5.9
Average for companies from our coverage					**1.47**	**1.42**	**1.35**	**10.2**	**10.3**	**8.7**
Versus average for companies from our coverage										
Archicom					-30%	-27%	-26%	23%	33%	35%
Atal					23%	22%	27%	-9%	-19%	8%
Develia					-25%	-27%	-25%	1%	-31%	-8%
Dom Development					113%	115%	110%	17%	19%	18%
Lokum Deweloper					-34%	-35%	-37%	-33%	-19%	-21%
Ronson					-48%	-47%	-49%	2%	17%	-32%

Source: Erste Group Research, Bloomberg

Detailed property valuation

Residential projects under delivery, construction and in pipeline

Project	Saleable area (sqm)	Expected completion	Market value (PLN mn)	All-in costs (PLN mn)	Margin on revenues	NPV (PLN mn)
Ceglana Park						
phase 1	5 605	2021-01-30	42.0	36.4	13.3%	4.5
phase 2	5 850	2022-09-30	45.2	39.2	13.2%	4.4
phase 3a	6 100	2023-03-30	50.9	43.2	15.2%	5.5
phase 3b	6 100	2023-03-30	50.9	43.2	15.2%	5.5
Sloneczne Miasteczko						
phase 9	5 786	2021-06-30	35.4	29.0	18.1%	5.2
phase 10	7 261	2022-01-01	44.4	36.3	18.1%	6.3
phase 11	6 126	2022-10-30	38.2	32.5	15.0%	4.2
phase 13	8 509	2024-06-30	57.9	47.6	17.8%	6.8
phase 14	8 778	2025-06-30	59.8	49.5	17.1%	6.3
Swietokrzyska Park						
phase 6	2 492	2021-03-31	16.0	13.6	15.2%	2.0
phase 7	4 985	2021-09-30	32.3	27.1	16.1%	4.1
phase 8	5 106	2022-09-30	33.8	28.5	15.7%	3.9
phase 9	6 808	2023-08-30	48.6	41.0	15.6%	5.3
Grzegorzecka						
phase 5	5 250	2022-08-30	35.0	28.6	18.4%	4.8
phase 6	7 471	2022-12-30	53.4	43.1	19.2%	7.5
phase 7	11 054	2024-09-30	81.3	64.8	20.3%	10.2
Przy Mogilskiej						
phase 1	3 250	2021-07-30	20.2	17.3	14.1%	2.3
phase 2	6 850	2022-10-30	44.5	36.8	17.4%	5.6
phase 3	6 800	2023-05-30	46.2	38.4	17.1%	5.6
Osiedle na Woli 2						
phase 9	15 873	2022-03-30	160.3	112.9	29.5%	36.3
Nowa Raclawicka	12 815	2021-03-30	91.0	72.5	20.3%	15.0
Miedzy Parkami 2	12 972	2021-10-30	85.8	70.9	17.4%	11.8
Kamienna 145						
phase 1	13 081	2021-03-30	88.3	71.8	18.6%	13.6
phase 2	9 655	2021-06-30	65.8	53.7	18.4%	9.8
Maly Grochow						
phase 2	7 010	2021-06-30	57.5	43.9	23.6%	11.0
Male Wojszyce	3 630	2022-03-30	23.8	20.2	15.2%	2.7
Osiedle Latarnikow						
phase 1	7 020	2021-09-30	49.1	41.3	16.0%	6.2
phase 2	6 760	2022-09-30	46.4	39.8	14.3%	4.9
phase 3	7 228	2023-06-30	53.6	44.6	16.8%	6.3
Letnicka	8 320	2024-06-30	59.1	49.3	16.5%	6.4
Marinus	5 049	2022-10-30	39.4	32.3	17.9%	5.2
Baltea Apartments	12 428	2022-07-30	124.3	91.7	26.2%	24.4
Trzcinowa p. 1	6 201	2023-08-30	47.1	38.4	18.6%	6.1
Trzcinowa p. 2	2 438	2024-04-30	18.2	15.1	16.9%	2.0
Torunska	10 219	2023-09-30	84.8	66.8	21.3%	12.5
Prestovia House	8 279	2022-11-30	86.9	63.8	26.6%	16.9
Rokokowa Residence	3 548	2021-04-30	33.7	25.2	25.3%	7.0
Aleje Praskie						
phase 1	9 900	2023-09-30	81.7	66.3	18.8%	10.6
phase 2	11 000	2023-09-30	90.8	73.7	18.8%	11.8
phase 3	11 000	2024-06-30	90.8	73.7	18.8%	11.2
phase 4	11 000	2024-12-30	90.8	73.7	18.8%	10.8
phase 5	11 000	2025-09-30	90.8	73.7	18.8%	10.3
phase 6	12 485	2026-09-30	103.0	83.6	18.8%	10.9
Orawska	10 556	2024-01-30	70.7	57.0	19.5%	9.3
Orawska 2						
phase 1a	5 720	2024-09-01	39.8	34.0	14.4%	3.7
phase 1b	5 720	2024-09-01	39.8	34.0	14.4%	3.7
phase 2a	5 720	2025-09-01	39.8	34.0	14.4%	3.5
phase 2b	5 720	2025-09-01	39.8	34.0	14.4%	3.5
Cynamonowa	6 678	2024-12-30	42.7	33.9	20.8%	5.6

Reja	2 954	2023-09-30	23.6	19.0	19.7%	3.2
Mist House	2 970	2023-01-30	20.5	17.0	16.9%	2.5
Centralna Park						
phase 6a	7 020	2021-10-30	48.8	38.1	21.9%	8.4
phase 6b	7 020	2021-10-30	48.8	38.1	21.9%	8.4
phase 7	11 648	2022-10-30	89.0	65.8	26.1%	17.2
phase 8	11 440	2023-11-30	89.2	65.6	26.4%	16.1
phase 9	11 440	2024-03-30	89.2	66.1	25.9%	15.4
phase 10	11 232	2024-12-30	87.6	64.9	25.9%	14.4
Czeczow	5 000	2023-09-30	33.8	26.7	20.9%	4.9
TOTAL	**449 930**		**3 402**	**2 723**		**484.0**

Source: Erste Group Research, Company Data

Standing and under construction commercial projects

Project	NRA (sqm)	Expected completion	Est. stabilized NOI (EUR mn)	Estimated yiled	Est. value (EUR mn)	Project PV (EUR mn)
Arkady Wroclawskie						
Retail	29 028	Completed	2.3	8.60%	26.8	26.8
Office	9 887	Completed	0.9	8.60%	10.8	10.8
Sky Tower						
Retail	25 115	Completed	2.8	7.85%	35.5	35.5
Office	27 544	Completed	3.7	7.85%	47.7	47.7
Wola Retro	25 700	Completed	4.2	6.15%	67.6	67.6
Kolejowa (PRS)	33 000	2024-01-30	4.5	6.20%	71.9	8.8
COMPLETED in EUR mn	**91 574**		**13.9**			**188.5**
COMPLETED in PLN mn			**62.7**			**848.2**

Source: Erste Group Research, Company Data

Key risks to investment case

- earlier / more visible than anticipated base rate hike in Poland, influencing housing pre-sales volumes
- stronger / weaker than anticipated increase of construction costs in the country, influencing the developer margin on future projects
- less pronounced / heavier than anticipated increase in effective new dwelling prices across the country's main agglomerations in the quarters ahead
- delays / speed-up in launch of pipeline projects vs. assumed schedule / difficulties in obtaining building permits
- difficulties in obtaining occupancy permits on time due to the slowdown in administration procedures
- hypothetical overheating of the market due to potential highly limited supply and consequently uncontrolled rise in dwelling prices, followed by deep correction / segment destabilization
- stronger than anticipated extra supply of post CHF-financed apartments on the market in the short to medium term, putting downward pressure on new dwelling prices
- higher than anticipated extra costs related to likely introduction of DFG
- tightening / easing of mortgage lending requirement by banks
- difficulties in the purchase of attractively located land plots at reasonable prices affecting pre-sales potential in the longer run
- difficulties in planned debt refinancing in light of potential tightening of domestic corporate bond market
- increase / decrease in land prices in the years ahead, influencing the company's gross margins in the longer run
- potential unfavorable legal changes affecting 'investment' demand for new dwellings in the country (e.g. potential cadastral tax)
- more pronounced than anticipated decline in property investment volumes in Poland, putting stronger than expected upward pressure on real estate cap rates in the country
- earlier than anticipated increase in EU interest rates putting upward pressure on real estate yields in the region
- stronger than expected negative impact of COVID-19 on demand for modern office space in the country, putting more pronounced than assumed downward pressure on rental rates in the sector
- significant and sustainable increase in the popularity of remote working, affecting demand for modern office space and pushing rental rates down in the sector

- stronger than expected downward pressure on retail rental rates in the country due to COVID-19 turbulence and its negative impact on tenant business activity

- more pronounced than anticipated increase in the vacancy rate in retail assets, due to the coronavirus crisis

- material difficulties in the commercialization of development projects going forward due to expected macro slowdown this year/weaker than anticipated macro recovery in the years ahead

- difficulties/delays in planned exits from completed/pipeline commercial projects after completion; exit from completed/pipeline commercial schemes at lower than anticipated prices

- unfavorable FX movements (PLN is accounting currency, while yielding properties are valued in EUR)

- increase in land prices in years ahead, influencing the company's gross margins over the longer run

- potential unfavorable legal changes affecting 'investment' demand for new dwellings in the country

Income Statement	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**
(IAS, PLN mn, 31/12)	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023
Net sales	**796.73**	**819.26**	**517.11**	**809.02**	**964.34**	**967.48**
Cost of goods sold	496.16	499.15	333.50	555.88	652.68	683.33
Gross profit	**300.58**	**320.11**	**183.62**	**253.14**	**311.66**	**284.15**
SG&A	52.32	54.73	43.27	45.71	48.22	50.79
Other operating revenues	15.40	-86.13	-208.30	-14.16	22.20	24.42
Other operating expenses	9.37	6.57	4.47	3.02	3.52	3.69
EBITDA	**255.44**	**173.90**	**-71.15**	**191.56**	**283.47**	**255.49**
Depreciation/amortization	1.16	1.21	1.28	1.31	1.35	1.39
EBIT	**254.29**	**172.68**	**-72.42**	**190.25**	**282.12**	**254.09**
Financial result	-52.61	-21.64	-62.05	-6.26	-14.54	-15.19
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	**201.67**	**151.05**	**-134.47**	**183.98**	**267.58**	**238.90**
Income taxes	41.35	33.66	4.33	34.96	50.84	45.39
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	0.00	0.00	0.00	0.00	0.00	0.00
Net result after minorities	**160.32**	**117.38**	**-138.80**	**149.03**	**216.74**	**193.51**

Balance Sheet	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**
(IAS, PLN mn, 31/12)						
Intangible assets	7.58	10.12	10.49	10.49	10.49	10.49
Tangible assets	1,935.11	1,102.58	1,021.26	1,003.27	1,140.81	1,291.29
Financial assets	103.79	568.29	21.93	21.93	21.93	21.93
Total fixed assets	**2,046.47**	**1,680.99**	**1,053.68**	**1,035.70**	**1,173.23**	**1,323.71**
Inventories	979.08	1,062.03	1,245.98	1,362.34	1,383.03	1,331.45
Receivables and other current assets	61.13	134.20	31.53	40.71	46.92	47.05
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	487.99	366.71	485.05	479.80	379.67	291.46
Total current assets	**1,528.20**	**1,562.93**	**1,762.56**	**1,882.85**	**1,809.62**	**1,669.96**
TOTAL ASSETS	**3,574.67**	**3,243.93**	**2,816.24**	**2,918.55**	**2,982.85**	**2,993.68**
Shareholders'equity	**1,497.80**	**1,492.11**	**1,317.79**	**1,392.56**	**1,488.97**	**1,534.41**
Minorities	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Hybrid capital and other reserves	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Pension and other LT personnel accruals	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
LT provisions	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Interest-bearing LT debts	1,092.85	898.72	599.22	589.59	596.16	607.51
Other LT liabilities	114.90	129.51	62.54	62.54	62.54	62.54
Total long-term liabilities	**1,207.76**	**1,028.22**	**661.76**	**652.13**	**658.70**	**670.05**
Interest-bearing ST debts	121.61	128.73	168.07	158.46	148.53	139.74
Other ST liabilities	747.50	578.09	668.63	715.40	687.65	651.48
Total short-term liabilities	**869.11**	**706.82**	**836.70**	**873.86**	**835.18**	**789.22**
TOTAL LIAB. , EQUITY	**3,574.67**	**3,227.15**	**2,816.24**	**2,918.55**	**2,982.85**	**2,993.68**

Cash Flow Statement	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**
(IAS,PLN mn, 31/12)						
Cash flow from operating activities	314.98	-87.71	59.94	97.35	158.56	203.06
Cash flow from investing activities	-151.02	306.41	326.21	-0.23	-118.23	-128.97
Cash flow from financing activities	-40.50	-345.52	-350.00	-102.38	-140.47	-162.30
CHANGE IN CASH , CASH EQU.	**123.45**	**-126.81**	**36.15**	**-5.25**	**-100.14**	**-88.21**

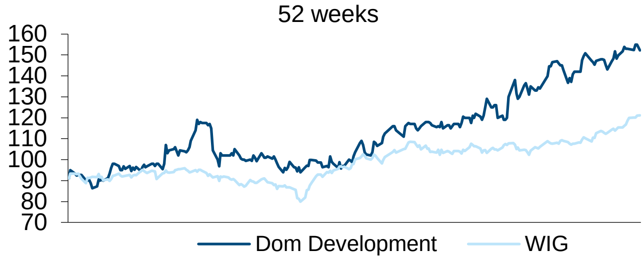
Margins & Ratios	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**
Sales growth	12.8%	2.8%	-36.9%	56.4%	19.2%	0.3%
EBITDA margin	32.1%	21.2%	-13.8%	23.7%	29.4%	26.4%
EBIT margin	31.9%	21.1%	-14.0%	23.5%	29.3%	26.3%
Net profit margin	20.1%	14.3%	-26.8%	18.4%	22.5%	20.0%
ROE	10.9%	7.9%	-9.9%	11.0%	15.0%	12.8%
ROCE	6.9%	5.1%	-7.0%	8.8%	11.9%	9.8%
Equity ratio	41.9%	46.2%	46.8%	47.7%	49.9%	51.3%
Net debt	726.5	660.7	282.2	268.2	365.0	455.8
Working capital	659.1	856.1	925.9	1,009.0	974.4	880.7
Capital employed	2,339.2	2,282.4	1,662.6	1,723.3	1,916.5	2,052.7
Inventory turnover	-0.5	-0.5	-0.3	-0.4	-0.5	-0.5

Source: Company data, Erste Group estimates

Dom Development

from Hold to Accumulate

PLN mn	2020	2021e	2022e	2023e
Net sales	1,815.0	1,884.0	1,860.7	2,222.0
EBITDA	401.0	427.4	417.9	492.7
EBIT	386.3	411.8	402.0	476.5
Net result after min.	302.2	324.6	314.7	376.3
EPS (PLN)	11.90	12.78	12.39	14.81
CEPS (PLN)	11.32	12.17	11.77	14.17
BVPS (PLN)	45.57	48.51	50.03	53.69
Div./share (PLN)	6.41	9.85	10.86	11.15
EV/EBITDA (x)	6.6	8.5	9.3	7.8
P/E (x)	9.6	11.9	12.3	10.3
P/CE (x)	10.1	12.5	12.9	10.7
Dividend Yield	5.6%	6.5%	7.1%	7.3%



Performance	12M	6M	3M	1M
in PLN	67.3%	47.1%	20.8%	3.4%

Share price (PLN) close as of 04/06/2021	152.2
Number of shares (mn)	25.4
Market capitalization (PLN mn / EUR mn)	3,866 / 867
Enterprise value (PLN mn / EUR mn)	3,629 / 814

Reuters	DOMP.WA	Free float	27.1%
Bloomberg	DOM PW	Shareholders	Groupe Belleforet (55.7%)
Div. Ex-date	21/06/21		Aviva OFE (6.4%)
Target price	**176.6**	Homepage:	www.domdevelopment.pl

Analyst:
Cezary Bernatek
+48 22 538 6256
cezary.bernatek@erstegroup.com

Strong earnings and dividend prospects

We raise our 12M TP for Dom to PLN 176.6 per share. This implies 16% upside potential, so we upgrade our rating to Accumulate from Hold.

Taking into account the fact that Dom's offer supplementation last year was far more intense than we originally assumed, as well as more ambitious than the expected project kickoff plans for the current year (Krakow entrance included), plus our revised, more optimistic base case scenario concerning the anticipated development of the Polish primary housing segment in the years ahead, we raise our pre-sales volume forecasts for the firm by 13%/30% to around 3,860/3,880 units for 2021E/2022E. This does not look very impressive vs. the y/y dynamics forecast for some of its covered direct peers. We note, though, that the company recorded a 3% y/y increase in its sales number last year, unlike most of its competitors, thereby setting a high base.

We also increase our net income forecasts for Dom by 30%/26% to PLN 325mn/315mn, up 7% y/y/down 3% y/y for 2021E/2022E, while our estimate for 2023E now stands at PLN 376mn, up 20% y/y (predominantly a consequence of the recent increase to the scale of activity), which implies still reasonable P/E ratios of 11.9x/12.3x/10.3x each year, respectively. This comes after factoring in the above-mentioned upgrade to pre-sales estimates (and the fact that FY20 volume came in 12% above our forecast), accelerated project completion schedule, as well as more favorable forecasts for domestic housing prices evolution in 2021E-23E.

Finally, given the firm's highly comfortable liquidity situation (cash at PLN 636mn, net debt at PLN -265mn at end-2020; favorable debt maturity schedule; prospects for solid OCF generation going forward), we expect it to pay solid dividends in the years ahead – we count on a DPS of PLN 10.9/11.2, yielding 7.1%/7.3% in 2022E/2023E, after the PLN 10.0 per share dividend expected to be paid this year, implying a DY at 6.5%.

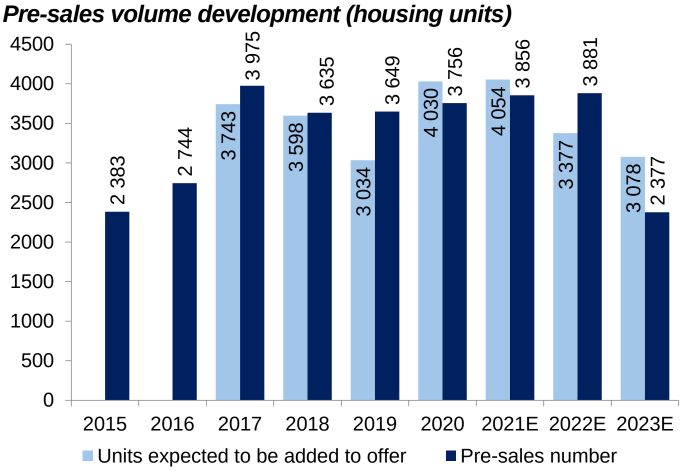
Investment story

Pre-sales to continue y/y pickup in 2021E-22E from high base; forecast visibly upgraded

Dom added a total of 4,054 flats to its offer in the course of FY20, or 49% above our original assumptions. What is more, we now assume the company will introduce to sale another approx. 4,050 dwellings in 2021E, or 28% above our previous model forecast. At this point we note that our estimate for the current year still falls visibly below the target recently flagged by management – at up to 5,000 units, leaving some space for more positive surprises. Aside from the above-mentioned factors, the prospects for the Polish primary housing segment for the years ahead now look brighter than we expected earlier.

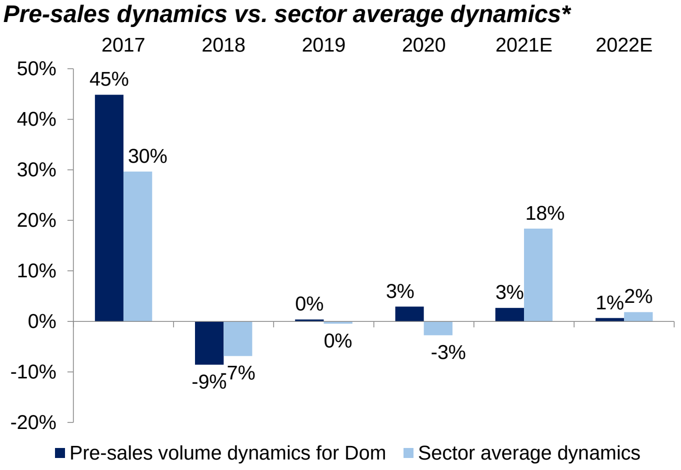
Considering all of the above, we upped our pre-sales volume estimates for the company by 13%/30% to around 3,860/3,880 units in 2021E/2022E. At first glance, this implies an unimpressive 3%/1% y/y increase each year. We note, however, that the firm recorded a clear 3% y/y pickup during the bumpy, pandemic-affected 2020, unlike most of its direct peers from our universe, hence last year's base has been set relatively high. At this point, we stress that our recent sales forecasts for the years ahead factor in the firm's recently announced entrance onto the Krakow market via the acquisition of peer Sento (announced on the occasion of the FY20 financial results release in mid-March).

Pre-sales volume development (housing units)



Source: Company Data, Erste Group Research

Pre-sales dynamics vs. sector average dynamics*



*Company Data, Erste Group Research *for six sector players we cover*

Relatively favorable earnings momentum for 2021E-23E; original forecast also upgraded significantly

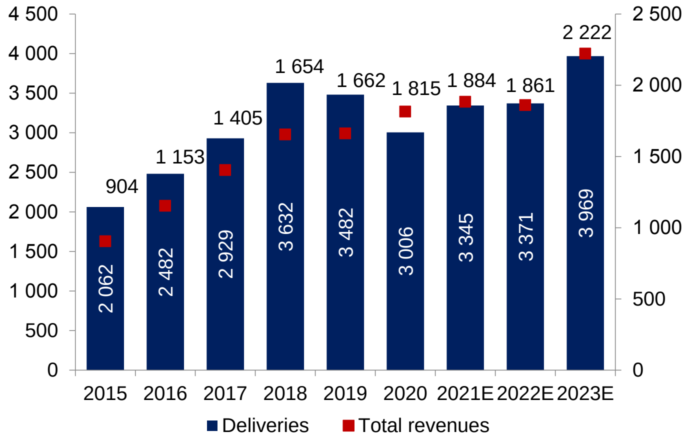
Dom's FY20 housing pre-sales volume was 12% above our original expectations. Moreover, we visibly upgraded our sales estimates for 2021E-22E (details above) and adjusted the project pipeline completion schedule in line with the most recent management guidance (the number of dwellings expected to be added to the offer is visibly up from previous assumptions for both 2021E and 2022E). On top of that, we applied the revised, more positive scenario concerning the evolution of residential prices on the Polish primary market for the short to medium term.

In all, this means that our bottom line forecasts for the company are up 30%/26% for 2021E/2022E to PLN 325mn/315mn, while the 2023E forecast has been set at PLN 376mn, well above the market consensus estimate (we expect the firm's deliveries volume to increase by 18% y/y to nearly 4,000 units in the period – linked to the recent spike in the scale of activity). This implies one of the most favorable earnings momentums among its covered competitors and still reasonable P/E ratios of 10.3x-12.3x.

Forecast changes in PLN m	2021E Old	2021E New	2021E Δ	2022E Old	2022E New	2022E Δ	2023E New
TOTAL REVENUES	**1 541.7**	**1 884.0**	***22.2%***	**1 592.2**	**1 860.7**	***16.9%***	**2 222.0**
Revenues from sold apartments	1 511.5	1838.1	*21.6%*	1 561.0	1815.3	*16.3%*	2167.8
Revenues from sold services	30.2	46.0	*52.0%*	31.2	45.4	*45.4%*	54.2
Cost of goods sold	1 061.6	1284.6	*21.0%*	1 104.9	1259.8	*14.0%*	1529.4
GROSS PROFIT	**480.1**	**599.5**	***24.9%***	**487.3**	**600.9**	***23.3%***	**692.6**
SG&A expenses	171.6	182.9	*6.6%*	178.0	194.2	*9.2%*	210.3
Other operating result	3.3	-4.8	*-247.1%*	3.3	-4.6	*-240.6%*	-5.9
EBIT	**311.8**	**411.8**	***32.1%***	**312.6**	**402.0**	***28.6%***	**476.5**
Net financial result	-3.0	-6.0	*97.7%*	-3.5	-8.6	*144.1%*	-6.1
Pre-tax profit	**308.8**	**405.8**	***31.4%***	**309.1**	**393.4**	***27.3%***	**470.3**
Tax	58.7	81.2	*38.3%*	58.7	78.7	*34.0%*	94.1
Net income after minorities	**250.1**	**324.6**	***29.8%***	**250.3**	**314.7**	***25.7%***	**376.3**

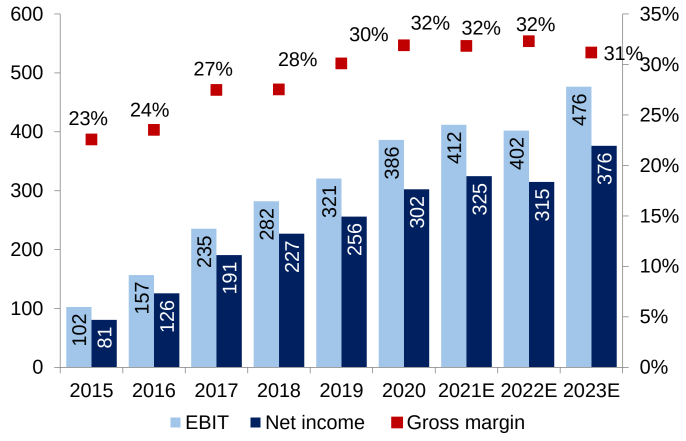
Source: Company Data, Erste Group Research

Deliveries volume (housing units) & top line evolution (PLN mn)



Source: Company Data, Erste Group Research

EBIT, net income (PLN mn) and gross margin



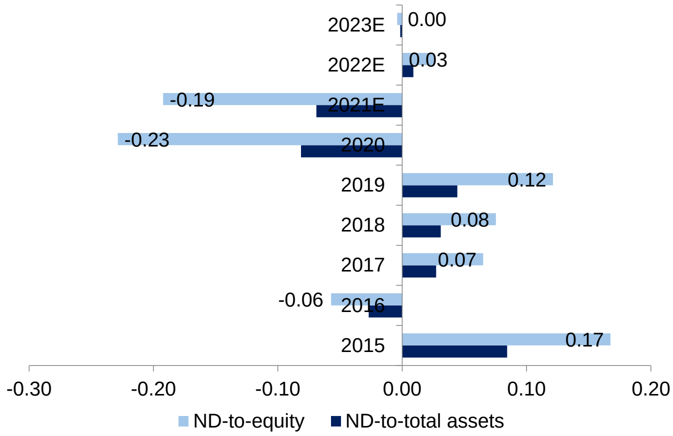
Company Data, Erste Group Research

Highly comfortable liquidity situation to allow for relatively healthy dividend distribution in 2021E-23E

Dom has the most conservative balance sheets among its peers that we cover. The firm's cash & equivalents reached an impressive PLN 636mn and gearing was at -23% at end-2020, while the debt maturity schedule was comfortable (relatively low PLN 110mn of bonds due by end-2021).

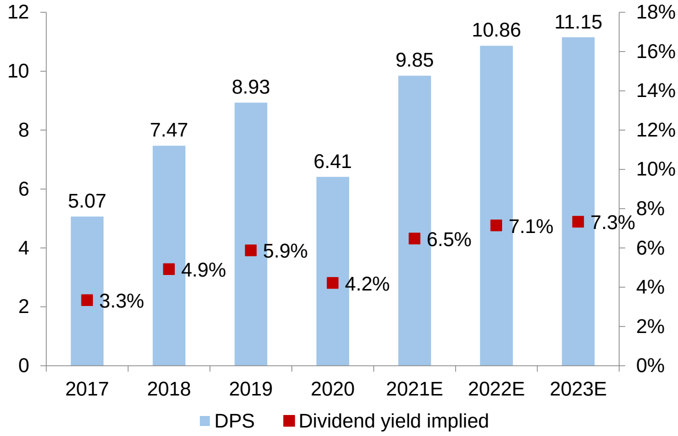
Combined with the expectations for solid operating cash flow generation in the quarters ahead, and regardless of the needs for dynamic land bank supplementation, this suggests that the company is unlikely to face any liquidity constraints going forward, at the same time being able to pay one of the best in class dividends in 2021E-23E. To be precise, following an upgrade to our net income estimates for the years ahead, we now expect the firm to distribute PLN 276mn/283mn in dividends in 2022E/2023E, after paying PLN 250mn this year, which translates into DYs of 7.1%/7.3% for 2022E/2023E and 6.5% for the current year.

Net debt-to-total assets & net debt-to-equity ratios (x)



Source: Company Data, Erste Group Research

DPS (PLN) and implied dividend yields*



Company Data, Erste Group Research **based on COB 04.06.21*

Material premium to competitors looks justified

On a 2021E P/BV of 3.14x, Dom trades at a 113% premium to its peers from our residential coverage universe. Nonetheless, we perceive this as warranted by the firm's highly conservative balance sheet and the prospects for sound OCFs generation in the quarters ahead, forecast to allow not only for heavy land bank supplementation, but also the distribution of solid dividends in 2021E-23E. On top of that, the company offers a relatively decent earnings outlook for 2021E-23E (and a class-leading ROE of 27-29%). At the same time, we do not expect the firm to lag behind its strongest rivals when it comes to anticipated housing pre-sales volume dynamics in both 2021E and 2022E.

Valuation

Our revised 12M target price for Dom stands at PLN 176.6 per share (up from PLN 98.5 per share), implying 16.1% upside. This reflects a 30% weighting for our truncated pipeline scenario and a 70% weighting for our extended pipeline scenario. We also carry out a peer multiple valuation for comparison purposes (0% weighting).

VALUATION SUMMARY (PLN)	
Truncated pipeline scenario	89.66
Extended pipeline scenario	213.91
Average (30:70 weight)	**176.63**

Source: Company Data, Erste Group Research

VALUATION (PLN m) - TRUNCATED PIPELINE SCENARIO	
Value of properties under construction & delivery	**4 101**
Cost for properties under construction & delivery	**3 055**
TOTAL	**1 046**
PV of TOTAL	**814**
Estimated value of secured land bank	1 191
Current tax liability	45
ENTERPRISE VALUE (PLN m)	**1 960**
Net debt*	-161
EQUITY VALUE (PLN m)	**2 121**
Per fully diluted number of shares (PLN)	83.52
12M Target Price (PLN)	**89.66**

**adj. for estimated value of land plots purchased in 2021*

Source: Company Data, Erste Group Research

VALUATION (PLN m) - EXTENDED PIPELINE SCENARIO	
Value of properties under construction & delivery	**4 101**
Cost for properties under construction & delivery	**3 055**
Value of properties in the pipeline (till 2023)	**1 622**
Cost for properties in the pipeline (till 2023)	**1 200**
Terminal value for development business (beyond 2023)	2 389
TOTAL	**3 858**
PV of TOTAL	**3 754**
Estimated value of secured land bank	1 191
Current tax liability	45
ENTERPRISE VALUE (PLN m)	**4 900**
Net debt*	-161
EQUITY VALUE (PLN m)	**5 061**
Per fully diluted number of shares (PLN)	199.26
12M Target Price (PLN)	**213.91**

**adj. for estimated value of land plots purchased in 2021*

Source: Company Data, Erste Group Research

Sensitivity analysis

We present a sensitivity analysis of our target price to changes in residential prices and construction costs (the two main drivers determining the value of the company's development projects). A +/-5% change in residential prices vs. our original expectations applied to the valuation of Dom's portfolio of under-construction and pipeline properties increases/decreases our equity valuation by some 7%. At the same time, a 5% increase/decrease in the level of construction costs applied to the valuation of the firm's portfolio of under-construction and pipeline real estate schemes decreases/increases our target price by around 2%.

Valuation sensitivity to residential prices and construction costs (PLN)

Construction costs evolution \ Residential prices evolution	-5.0%	-2.5%	0%	2.5%	5.0%
-5.0%	168.48	174.49	180.50	186.51	**192.53**
-2.5%	166.55	172.56	178.57	184.58	190.59
0%	164.62	170.63	**176.63**	182.64	188.65
2.5%	162.69	168.70	174.70	180.71	186.71
5.0%	**160.77**	166.77	172.77	178.77	184.78

Source: Erste Group Research

Relative valuation

Dom Development vs. peers (on current market values; priced at COB 04 June 2021)

	BBG ticker	Close price (PLN)	TP (PLN)	Rating	P/BV 2021E	P/BV 2022E	P/BV 2023E	P/E 2021E	P/E 2022E	P/E 2023E
Archicom	ARH PW	24.20	25.65	Hold	1.03	1.03	1.00	12.5	13.7	11.7
Atal	1AT PW	48.90	58.27	Accumulate	1.81	1.73	1.71	9.2	8.4	9.4
Develia	DVL PW	3.45	4.39	Buy	1.11	1.04	1.00	10.3	7.1	8.0
Dom Development	DOM PW	152.2	176.6	Accumulate	3.14	3.04	2.83	11.9	12.3	10.3
Lokum Deweloper	LKD PW	23.20	32.00	Buy	0.96	0.92	0.85	6.8	8.4	6.9
Ronson	RON PW	1.92	2.02	Hold	0.77	0.75	0.68	10.4	12.1	5.9
Average for companies from our coverage					**1.47**	**1.42**	**1.35**	**10.2**	**10.3**	**8.7**
Versus average for companies from our coverage										
Archicom					-30%	-27%	-26%	23%	33%	35%
Atal					23%	22%	27%	-9%	-19%	8%
Develia					-25%	-27%	-25%	1%	-31%	-8%
Dom Development					113%	115%	110%	17%	19%	18%
Lokum Deweloper					-34%	-35%	-37%	-33%	-19%	-21%
Ronson					-48%	-47%	-49%	2%	17%	-32%

Source: Erste Group Research, Bloomberg

Detailed property analysis

Residential projects under delivery, construction and in pipeline

Project	Saleable area (sqm)	Expected completion	Market value (PLN mn)	All-in costs (PLN mn)	Margin on revenues	Project NPV (PLN mn)
Akacje 5	12 000	2023-06-30	84.8	69.2	18.4%	10.9
Akacje 6	12 000	2023-12-30	84.8	69.2	18.4%	10.6
Akacje 7	9 960	2024-09-30	70.4	57.5	18.4%	8.3
Wille Taneczna	5 265	2020-03-30	44.2	36.0	18.5%	6.6
Wilno 2						
phase 4 (3.1)	10 638	2021-03-30	83.2	64.2	22.8%	15.6
phase 4 (3.2)	12 150	2021-03-30	96.2	74.6	22.4%	17.8
phase 3	8 748	2020-06-30	60.0	52.8	12.0%	5.8
phase 5.1	17 604	2021-10-30	146.1	112.8	22.8%	26.3
phase 5.2	11 502	2022-08-30	95.5	73.7	22.8%	16.2
phase 6	10 800	2023-06-30	95.9	71.4	25.5%	17.1
phase 7	9 720	2024-06-30	88.0	64.3	27.0%	15.5
phase 8	7 236	2024-06-30	65.5	47.9	27.0%	11.5
Zoliboz Artystyczny II						
phase 2	24 765	2020-11-30	270.2	197.5	26.9%	58.9
phase 3	6 784	2020-11-30	75.5	53.8	28.8%	17.6
phase 4	13 632	2021-12-30	163.9	116.9	28.6%	36.6
phase 5a	12 800	2022-06-30	156.9	113.1	27.9%	33.0
phase 5b	5 184	2022-06-30	63.6	45.8	27.9%	13.4
Ksiecia Witolda	6 900	2020-11-30	77.3	58.0	24.9%	15.6
Dom na Kurkowej	6 136	2021-03-30	57.7	44.6	22.8%	10.6
Osiedle Komedy						
phase 1	6 000	2021-06-30	44.8	36.7	18.1%	6.5
phase 2	5 050	2022-04-30	39.6	30.9	22.0%	6.6
phase 3	8 750	2023-03-30	70.6	54.6	22.7%	11.5
phase 4	8 000	2023-11-30	64.6	49.9	22.7%	10.0
Grabiszynska	3 720	2020-11-30	32.2	25.2	21.7%	5.7
Apartamenty Oltaszyn	9 480	2022-12-30	69.3	57.1	17.7%	8.9
Chociebuska 11						
phase 1	5 488	2022-09-30	43.1	34.1	21.0%	6.7
phase 2	5 488	2022-09-30	44.2	34.1	22.9%	7.5
Zielna						
phase 1	8 960	2022-09-30	70.8	55.6	21.4%	11.2
phase 2	8 512	2023-07-30	70.6	53.5	24.2%	11.9
Wlodarzewska 70	7 038	2021-03-30	84.1	59.0	29.8%	20.3
Ogrodowa	11 200	2021-01-30	173.6	112.4	35.2%	49.5
Port Zeran						
phase 3	9 880	2020-11-30	76.5	59.1	22.7%	14.1
Marina Mokotow						
phase 2	30 396	2020-11-30	334.4	232.9	30.3%	82.2
Stacja Grochow						
phase 3	6 875	2021-12-30	58.4	45.2	22.6%	10.3
phase 4	8 745	2022-07-30	75.8	56.4	25.7%	14.6
phase 2	5 830	2022-06-30	51.1	38.3	25.0%	9.6
Metro Zachod 1	7 370	2021-06-30	70.0	50.5	27.9%	15.7
Metro Zachod 2.1	7 095	2021-12-30	68.8	50.6	26.4%	14.1
Metro Zachod 2.2	6 820	2022-06-30	66.7	49.0	26.6%	13.3
St. Augusta	6 875	2022-12-30	61.5	48.7	20.9%	9.3
Pory	11 000	2022-12-30	98.5	75.4	23.4%	16.7
Glebocka						
phase 1	3 120	2021-12-30	24.4	19.2	21.5%	4.1
phase 2	4 680	2022-01-30	36.6	28.7	21.5%	6.1
phase 3	6 292	2022-01-30	49.2	38.6	21.5%	8.2
Ludwiki						
phase 1a	7 800	2023-03-30	93.2	66.3	28.9%	19.2
phase 1b	7 800	2023-03-30	93.2	66.3	28.9%	19.2
phase 2	12 285	2023-11-30	146.8	104.4	28.9%	28.8
Krakow 1	12 000	2023-05-30	111.6	84.3	24.5%	19.2
Krakow 2	12 000	2023-10-30	111.6	84.3	24.5%	18.7
Krakow 3	12 000	2024-03-30	111.6	84.3	24.5%	18.1
Krakow 4	12 000	2024-10-30	111.6	84.3	24.5%	17.4
Krakow 5	12 000	2024-10-30	111.6	84.3	24.5%	17.4
EURO STYL						

Idea p.5	3 796	2021-03-30	25.8	20.9	18.9%	4.0
Osiedle Beauforta						
phase 3	10 100	2021-08-30	64.6	50.2	22.2%	11.5
phase 4	7 500	2022-11-30	52.8	41.0	22.2%	8.6
Zielony Poludnik						
phase 2	5 900	2020-11-30	35.1	28.9	17.6%	5.0
phase 3	4 450	2021-11-30	29.1	22.7	22.1%	5.0
phase 4	4 500	2022-08-30	30.3	23.4	22.9%	5.2
phase 5	7 500	2023-03-30	53.6	40.5	24.5%	9.4
Locus 3	3 264	2021-06-30	22.0	18.2	21.3%	3.1
Locus 4	4 368	2021-12-30	31.5	24.7	27.5%	5.3
Osiedle Cis	7 400	2021-09-30	58.5	44.7	30.9%	10.9
Dawna Poczta	7 420	2021-09-30	80.9	57.6	40.3%	18.4
Osiedle przy Bloniach						
phase 1	6 400	2020-11-30	43.2	34.1	26.8%	7.4
phase 2	3 250	2022-06-30	22.4	17.6	26.8%	3.6
Perspektywa						
phase 1	6 728	2021-12-30	65.3	47.6	37.1%	13.8
phase 2	14 616	2022-11-30	141.8	103.4	37.1%	28.0
phase 3	9 280	2023-07-30	89.1	65.6	35.8%	16.3
phase 4	7 134	2024-04-30	68.5	49.5	38.5%	12.5
Doki i Montownia						
Doki 1	12 485	2022-09-30	127.3	89.1	42.9%	28.3
Montownia 1	6 380	2022-09-30	65.1	45.5	42.9%	14.4
phase 3	11 000	2023-06-30	117.8	80.1	47.1%	26.4
phase 4	8 800	2023-12-30	94.2	65.3	44.2%	19.5
phase 5	11 000	2024-06-30	121.3	81.7	48.6%	25.8
phase 6	9 900	2025-01-01	109.2	73.5	48.6%	22.4
phase 7	6 435	2026-03-30	71.0	47.8	48.6%	13.3
Nasze Miejsce	6 820	2022-09-30	56.6	42.3	33.9%	10.6
Jastarnia	5 220	2023-09-30	50.1	34.9	43.6%	10.5
Dynamika						
phase 1	6 050	2023-09-30	49.6	37.5	32.3%	8.3
phase 2	6 050	2024-09-30	50.6	37.5	35.0%	8.4
phase 3	6 270	2024-09-30	52.4	38.9	35.0%	8.7
TOTAL	**704 389**		**6 530**	**4 842**		**1245.1**

Source: Erste Group Research, Company Data

Key risks to investment case

- earlier / more visible than anticipated base rate hike in Poland, influencing housing pre-sales volumes
- stronger / weaker than anticipated increase of construction costs in the country, influencing the developer margin on future projects
- less pronounced / heavier than anticipated increase in effective new dwelling prices across the country's main agglomerations in the quarters ahead
- delays / speed-up in launch of pipeline projects vs. assumed schedule / difficulties in obtaining building permits
- difficulties in obtaining occupancy permits on time due to the slowdown in administration procedures
- hypothetical overheating of the market due to potential highly limited supply and consequently uncontrolled rise in dwelling prices, followed by deep correction / segment destabilization
- stronger than anticipated extra supply of post CHF-financed apartments on the market in the short to medium term, putting downward pressure on new dwelling prices
- higher than anticipated extra costs related to likely introduction of DFG
- tightening / easing of mortgage lending requirement by banks
- difficulties in the purchase of attractively located land plots at reasonable prices affecting pre-sales potential in the longer run
- difficulties in planned debt refinancing in light of potential tightening of domestic corporate bond market
- increase / decrease in land prices in the years ahead, influencing the company's gross margins in the longer run
- potential unfavorable legal changes affecting 'investment' demand for new dwellings in the country (e.g. potential cadastral tax)

Income Statement	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**
(IAS, PLN mn, 31/12)	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023
Net sales	**1,653.93**	**1,661.72**	**1,815.01**	**1,884.04**	**1,860.71**	**2,222.00**
Cost of goods sold	1,198.82	1,161.60	1,236.23	1,284.57	1,259.83	1,529.40
Gross profit	**455.11**	**500.12**	**578.78**	**599.48**	**600.89**	**692.60**
SG&A	161.56	166.59	172.26	182.89	194.24	210.28
Other operating revenues	3.28	9.21	4.34	13.19	13.03	15.55
Other operating expenses	14.81	22.05	24.59	17.98	17.64	21.41
EBITDA	**291.61**	**335.63**	**401.00**	**427.36**	**417.94**	**492.70**
Depreciation/amortization	9.59	14.94	14.74	15.57	15.91	16.24
EBIT	**282.02**	**320.69**	**386.27**	**411.79**	**402.03**	**476.47**
Financial result	0.62	-0.21	-7.64	-5.98	-8.62	-6.15
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	**282.64**	**320.48**	**378.63**	**405.81**	**393.41**	**470.32**
Income taxes	55.62	64.46	76.38	81.16	78.68	94.06
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	0.00	0.00	0.00	0.00	0.00	0.00
Net result after minorities	**227.02**	**256.02**	**302.24**	**324.65**	**314.73**	**376.26**

Balance Sheet	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**
(IAS, PLN mn, 31/12)						
Intangible assets	10.36	14.23	17.83	18.54	19.28	20.06
Tangible assets	12.02	44.02	38.13	38.89	39.67	40.47
Financial assets	27.56	10.60	14.80	14.86	14.84	15.19
Total fixed assets	**49.94**	**68.85**	**70.76**	**72.30**	**73.80**	**75.71**
Inventories	2,113.54	2,509.63	2,423.51	2,605.52	2,971.18	2,832.36
Receivables and other current assets	58.09	67.55	122.81	127.65	126.82	145.22
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	317.38	314.91	636.13	629.76	433.39	318.95
Total current assets	**2,489.01**	**2,892.09**	**3,182.45**	**3,362.93**	**3,531.38**	**3,296.54**
TOTAL ASSETS	**2,538.95**	**2,960.94**	**3,253.21**	**3,435.23**	**3,605.18**	**3,372.25**
Shareholders'equity	**1,046.47**	**1,084.20**	**1,157.43**	**1,231.98**	**1,270.75**	**1,363.75**
Minorities	**0.07**	**0.03**	**0.04**	**0.04**	**0.04**	**0.04**
Hybrid capital and other reserves	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Pension and other LT personnel accruals	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
LT provisions	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Interest-bearing LT debts	345.00	345.00	260.00	339.31	404.92	267.91
Other LT liabilities	107.27	124.02	171.00	138.69	138.87	158.18
Total long-term liabilities	**452.27**	**469.02**	**431.00**	**477.99**	**543.79**	**426.09**
Interest-bearing ST debts	51.18	101.33	111.40	53.54	60.83	45.61
Other ST liabilities	988.96	1,306.37	1,553.34	1,671.68	1,730.77	1,538.76
Total short-term liabilities	**1,040.14**	**1,407.69**	**1,664.74**	**1,725.22**	**1,790.60**	**1,582.37**
TOTAL LIAB. , EQUITY	**2,538.95**	**2,960.94**	**3,253.21**	**3,435.23**	**3,605.18**	**3,372.25**

Cash Flow Statement	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**
(IAS,PLN mn, 31/12)						
Cash flow from operating activities	232.79	162.06	679.32	239.33	24.10	338.86
Cash flow from investing activities	-43.34	-17.58	-38.14	-17.04	-17.43	-17.80
Cash flow from financing activities	-186.61	-173.65	-308.83	-228.66	-203.04	-435.50
CHANGE IN CASH , CASH EQU.	**2.84**	**-29.17**	**332.35**	**-6.37**	**-196.37**	**-114.43**

Margins & Ratios	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**
Sales growth	17.7%	0.5%	9.2%	3.8%	-1.2%	19.4%
EBITDA margin	17.6%	20.2%	22.1%	22.7%	22.5%	22.2%
EBIT margin	17.1%	19.3%	21.3%	21.9%	21.6%	21.4%
Net profit margin	13.7%	15.4%	16.7%	17.2%	16.9%	16.9%
ROE	22.2%	24.0%	27.0%	27.2%	25.2%	28.6%
ROCE	18.8%	19.9%	25.2%	29.5%	24.4%	25.4%
Equity ratio	41.2%	36.6%	35.6%	35.9%	35.2%	40.4%
Net debt	78.8	131.4	-264.7	-236.9	32.4	-5.4
Working capital	1,448.9	1,484.4	1,517.7	1,637.7	1,740.8	1,714.2
Capital employed	1,232.5	1,339.6	1,063.7	1,133.7	1,442.0	1,516.5
Inventory turnover	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5

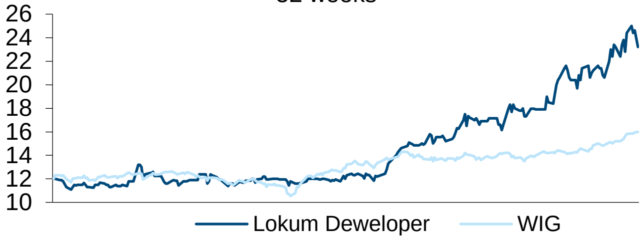
Source: Company data, Erste Group estimates

Lokum Deweloper

from Hold to Buy

PLN mn	2020	2021e	2022e	2023e
Net sales	191.0	319.8	297.5	375.4
EBITDA	37.8	98.0	81.9	98.6
EBIT	35.3	95.3	79.1	95.7
Net result after min.	20.2	61.2	50.0	60.8
EPS (PLN)	0.95	3.40	2.78	3.38
CEPS (PLN)	0.99	3.25	2.62	3.22
BVPS (PLN)	21.18	24.08	25.16	27.15
Div./share (PLN)	0.00	0.50	1.70	1.39
EV/EBITDA (x)	11.6	5.9	7.7	6.2
P/E (x)	13.9	6.8	8.4	6.9
P/CE (x)	13.5	7.1	8.8	7.2
Dividend Yield	0.0%	2.2%	7.3%	6.0%

Share price (PLN) close as of 04/06/2021	23.2
Number of shares (mn)	18.0
Market capitalization (PLN mn / EUR mn)	418 / 94
Enterprise value (PLN mn / EUR mn)	575 / 129



Performance	12M	6M	3M	1M
in PLN	93.3%	88.6%	35.3%	7.4%

Reuters	LKD.WA	Free float	15.6%
Bloomberg	LKD PW	Shareholders	D. Olczyk (84.4%)
Div. Ex-date	28/09/21		PZU OFE (3.4%)
Target price	**32.0**	Homepage:	www.lokum-deweloper.pl

Analyst:
Cezary Bernatek
+48 22 538 6256
cezary.bernatek@erstegroup.com

Pre-sales and earnings see sharp revival

We raise our 12M TP for Lokum Deweloper to PLN 32.0 per share. In spite of the recent stock price rally, this implies 38% upside and we upgrade our rating to Buy from Hold. Lokum is our Top Pick in the segment.

Factoring in the richer than originally anticipated additions to the firm's offer over the past several quarters, as well as ambitious plans in this respect for 2021E (exceeding our previous model assumptions), combined with the more favorable than we anticipated short- to medium-term outlook on the Polish primary housing market, we increase our pre-sales forecast for by 48/25% to around 920/940 units for 2021E/22E – now implying well ahead of sector average growth of 99/2% y/y in each year, respectively (after the 73% y/y jump in FY20).

At the same time, taking into consideration nearly 70% higher than anticipated pre-sales volume in FY20, the above-mentioned upgrade in this respect for 2021E-22E, as well as our revised, visibly more favorable forecasts for domestic housing prices evolution going forward, we raise our bottom line expectations for the firm by 41% to PLN 61mn, up 256% y/y for 2021E, which implies the most favorable earnings momentum among its peers we cover. Moreover, after only a moderate softening to PLN 50mn in 2022E, we expect Lokum's NI to rebound to PLN 61mn again in 2023E (P/E ratios ranging 6.8-8.4x).

Finally, following the successful bond issues concluded in November 2020/ March 2021, as well as given growing client pre-payments, we no longer perceive Lokum's liquidity situation as stretched and see potential for the distribution of a dividend from last year's earnings (no dividend originally assumed for the current year) – assuming payment of approx. 50% of the firm's FY20 earnings (or in line with official policy, as well as bond covenants), this would imply a DPS of 0.50, or DY of 2.2% – not very impressive vs. some of its closest rivals from our universe, but still a nice addition to the growth prospects for the years ahead. Going into 2022E, we forecast Lokum's DPS to jump to PLN 1.70, which implies one of the best in class DY at 7.3%.

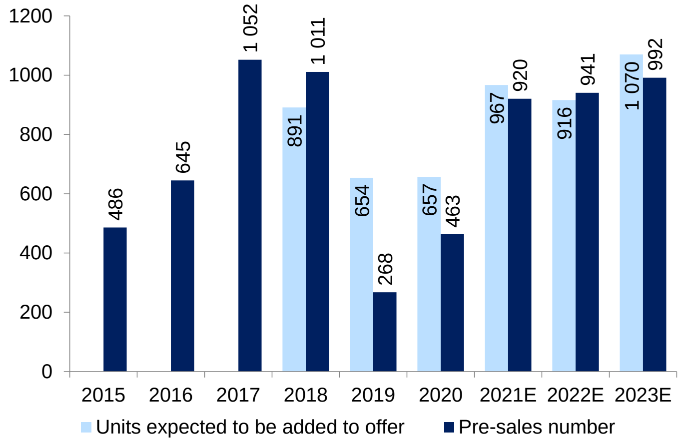
Investment story

Housing pre-sales volumes on clear upwards path in 2021E/22E – ahead of average dynamics for covered peers

Lokum added some 10% more housing units to its product offer in 2020 than we originally anticipated. Moreover, it has more ambitious than earlier assumed plans in this respect for the current year – we now expect the firm's offer to be supplemented by around 1,000 dwellings in the period, or in line with the latest management guidance (building permits secured for the projects planned to be kicked off this year) vs. the approx. 800 assumed originally. Finally, the prospects for the Polish primary housing segment for the years ahead now look brighter than we expected earlier.

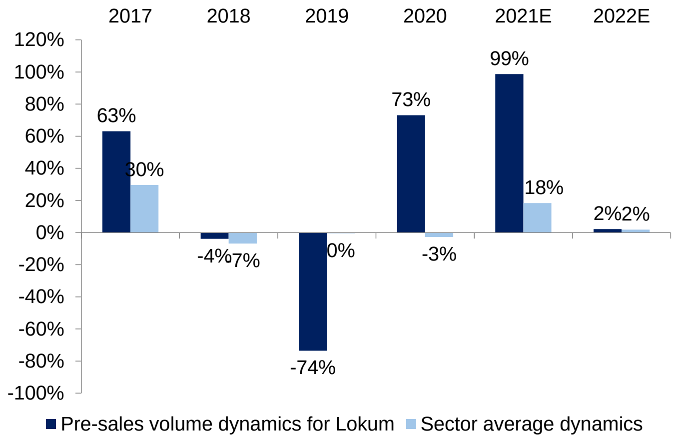
Taking all these factors into consideration, we upped our pre-sales volume estimates for the company by 48%/25% to around 920/940 units in 2021E/2022E (at this point we note that FY20 pre-sales volume, coming in at 463 units, was 69% above our forecast). This implies a well ahead of sector average 99% y/y jump for the current year (here we stress that our forecast for the period still falls slightly below the latest management guidance), followed by a further 2% y/y pickup in 2022E. On top of that, we note that assuming no major economic shocks and changes to Polish Central Bank policy in 2023E, as well as Lokum's development plans, we look for the firm's sales number to get close to 1,000 units, or up another 5% y/y in the period.

Pre-sales volume development (housing units)



Source: Company Data, Erste Group Research

Pre-sales dynamics vs. sector average dynamics*



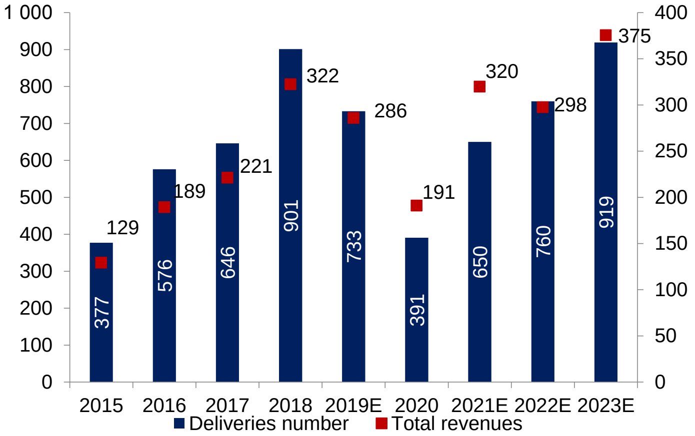
*Company Data, Erste Group Research *for six sector players we cover*

Strong earnings outlook for 2021E-23E – forecasts visibly upgraded

Factoring in that Lokum's FY20 pre-sales volume was nearly 70% above our original expectations, the above-mentioned upgrade to our pre-sales volume estimates for 2021E-22E (visibly stronger than previously anticipated sales numbers at Krakow-located Vista 2, Siesta 2 and Salsa schemes over recent quarters, following a relatively slow start), as well as the changes to the firm's projects completion schedule for the years ahead (in line with the most recent official schedule), we raise our deliveries volume estimates for the company by 41%/48% to 650/760 units, up 66%/17% y/y for 2021E/2022E. Combined with the application of our revised, more favorable forecasts for domestic housing prices evolution going forward, we raise our top line forecasts for the firm by 38%/31% for 2021E/2022E, which in the end triggers a 41%/29% upgrade to our net income forecasts to PLN 61mn/50mn for each year, respectively – implying relatively attractive P/E ratios of 6.8x/8.4x, in spite of the firm's recent stock price rally.

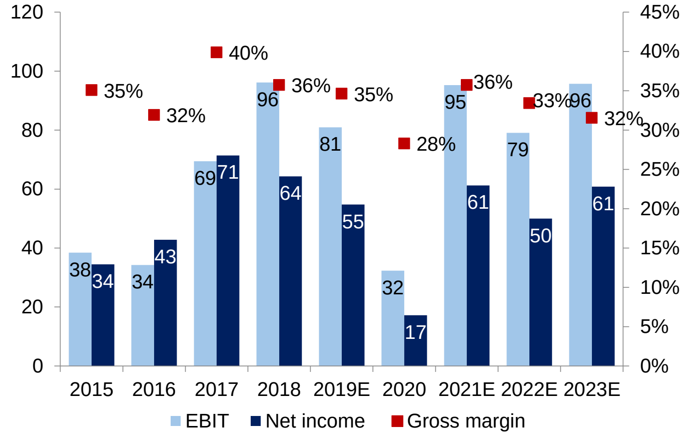
On top of that, we note that assuming nearly 920 handovers in 2023E, and in spite of the anticipated 1.9pp fall in the gross profit margin, we expect Lokum's bottom line to come in at a beefy PLN 61mn, up 22% y/y for the period – pushing the P/E ratio below the 7x mark again.

Deliveries volume (housing units) & top line evolution (PLN mn)



Source: Company Data, Erste Group Research

EBIT, net income (PLN mn) and gross margin



Company Data, Erste Group Research

Forecast changes	2021E			2022E			2023E
in PLN m	Old	New	Δ	Old	New	Δ	New
TOTAL REVENUES	**231.8**	**319.8**	***38.0%***	**227.0**	**297.5**	***31.1%***	**375.4**
Cost of goods sold	142.4	205.5	*44.3%*	143.3	198.1	*38.2%*	257.0
GROSS PROFIT	**89.4**	**114.3**	***27.9%***	**83.7**	**99.5**	***18.8%***	**118.4**
Selling costs	8.5	8.9	*4.7%*	8.8	9.5	*8.4%*	10.6
G&A expenses	11.7	10.0	*-14.5%*	12.1	10.7	*-11.5%*	11.9
Other operating result	0.2	-0.2	*-169.0%*	0.5	-0.1	*-132.8%*	-0.2
EBIT (excl. revaluation)	**69.5**	**95.3**	***37.2%***	**63.3**	**79.1**	***24.9%***	**95.7**
Revaluation result	0.0	0.0	*n.a.*	0.0	0.0	*n.a.*	0.0
EBIT (incl. revaluation)	**69.5**	**95.3**	***37.2%***	**63.3**	**79.1**	***24.9%***	**95.7**
Net financial result	-7.2	-8.4	*15.8%*	-8.2	-8.9	*9.3%*	-9.4
Pre-tax profit	**62.2**	**86.9**	***39.6%***	**55.1**	**70.2**	***27.3%***	**86.3**
Tax	12.4	16.5	*32.7%*	11.0	13.3	*20.9%*	16.4
Minority interest	6.2	9.1	*47.0%*	5.3	6.8	*28.9%*	9.1
Net income after minorities	**43.6**	**61.2**	***40.6%***	**38.8**	**50.0**	***28.9%***	**60.8**

Source: Company Data, Erste Group Research

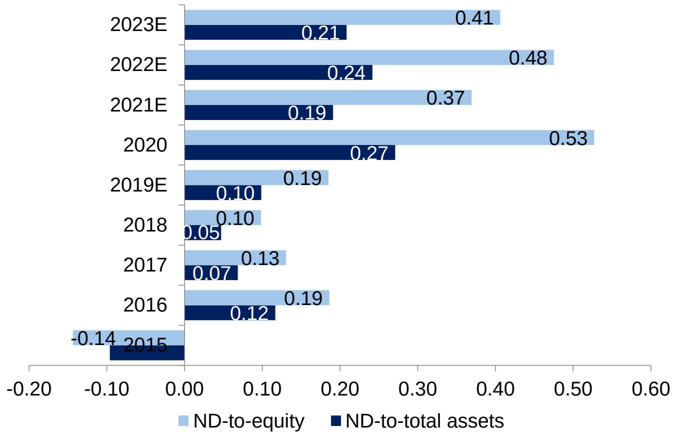
Modest dividend this year feasible; return to hefty payments starting 2022E

The situation on the domestic corporate bond market mid-last year looked highly challenging. Fortunately for Lokum, it has visibly improved starting 3Q/4Q20 and the firm managed to conclude two issues for a total of around PLN 135mn recently (PLN 35mn in November 2020 and PLN 100mn in March 2021). Combined with the growing sum of client pre-payments, following a pickup in the company's pre-sales volume, we no longer perceive its liquidity situation as tense, in spite of the approx. PLN 120mn that needs to be paid in total for Herbsta and Poprzeczna plots in 2021E-22E (out of which approx. PLN 20mn this year).

What is more, we now even see room for the payment of a dividend from last year's earnings (not originally expected, in line with earlier management comments), which would amount to PLN 0.50 per share (in line with recent management recommendation), when applying the maximum outlined in the official policy, i.e. around a 50% payout ratio. This would imply a relatively unimpressive yield of 2.2%, but would still constitute a supportive factor for the firm's investment case.

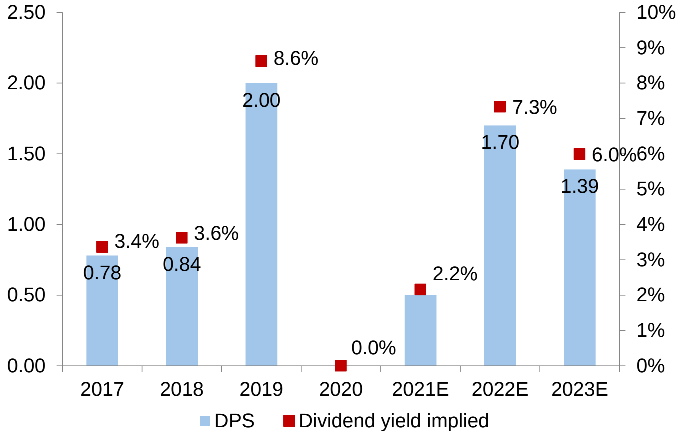
Together with a sharp rebound in net earnings in 2021E and solid result forecast for 2022E, we expect Lokum's DPS to grow to PLN 1.70/1.39 in 2022E/2023E, implying a decent yield in relation to its covered peers at 7.3%/6.0%, accordingly.

Net debt-to-total assets & net debt-to-equity ratios (x)



Source: Company Data, Erste Group Research

DPS (PLN) and implied dividend yields*



Company Data, Erste Group Research **based on COB 04.06.21*

Deserves to trade at higher multiple

On a 2021E P/BV of 0.96x, Lokum Deweloper trades at a 34% discount to its competitors from our residential universe. While some discount looks justified by the below sector average dividend yield this year, we believe a clearly higher multiple is warranted by the relatively solid outlook for the company's housing pre-sales volumes, as well as earnings in 2021E-23E.

Valuation

Our revised 12M target price for Lokum Deweloper stands at PLN 32.0 per share (down from PLN 15.4), implying 37.9% upside. This reflects a 30% weighting for our truncated pipeline scenario and a 70% weighting for our extended pipeline scenario. We also carry out a peer multiple valuation for comparison purposes (0% weighting).

VALUATION SUMMARY (PLN)	
Truncated pipeline scenario	12.76
Extended pipeline scenario	40.24
Average (30:70 weight)	**32.00**

Source: Company Data, Erste Group Research

VALUATION (PLN mn) - TRUNCATED PIPELINE SCENARIO	
Value of properties under construction & delivery	**715**
Cost for properties under construction & delivery	**518**
TOTAL	**197**
PV of TOTAL	**149**
Estimated value of secured land bank	384
ENTERPRISE VALUE (PLN mn)	**533**
Net debt	326
Minority interest	-3
EQUITY VALUE (PLN mn)	**210**
Per fully diluted number of shares (PLN)	11.67
12M Target Price (PLN)	**12.76**

Source: Company Data, Erste Group Research

VALUATION (PLN mn) - EXTENDED PIPELINE SCENARIO	
Value of properties under construction & delivery	**715**
Cost for properties under construction & delivery	**518**
Value of properties in the pipeline (till 2023)	**228**
Cost for properties in the pipeline (till 2023)	**167**
Terminal value for development business (beyond 2023)	360
TOTAL	**618**
PV of TOTAL	**602**
Estimated value of secured land bank	384
ENTERPRISE VALUE (PLN mn)	**986**
Net debt	326
Minority interest	-3
EQUITY VALUE (PLN mn)	**663**
Per fully diluted number of shares (PLN)	36.81
12M Target Price (PLN)	**40.24**

Source: Company Data, Erste Group Research

Sensitivity analysis

We present a sensitivity analysis of our target price to changes in residential prices and construction costs. A +/-5% change in residential prices vs. our original expectations applied to the valuation of Lokum's portfolio of under-construction and pipeline properties increases/decreases our equity valuation by some 18%. At the same time, a 5% increase/decrease in the level of construction costs applied to the valuation of the firm's portfolio of under-construction and pipeline real estate schemes decreases/increases our target price by around 22%.

Valuation sensitivity to residential prices and construction costs (PLN)

Construction costs evolution	Residential prices evolution: -5.0%	-2.5%	0%	2.5%	5.0%
-5.0%	33.23	36.36	39.57	42.84	**46.19**
-2.5%	29.62	32.62	35.69	38.81	42.01
0%	26.16	29.05	**32.00**	35.00	38.06
2.5%	22.82	25.63	28.47	31.36	34.30
5.0%	**19.56**	22.30	25.06	27.86	30.70

Source: Erste Group Research

Relative valuation

Lokum Deweloper vs. peers (on current market values; priced at COB 04 June 2021)

	BBG ticker	Close price (PLN)	TP (PLN)	Rating	P/BV 2021E	P/BV 2022E	P/BV 2023E	P/E 2021E	P/E 2022E	P/E 2023E
Archicom	ARH PW	24.20	25.65	Hold	1.03	1.03	1.00	12.5	13.7	11.7
Atal	1AT PW	48.90	58.27	Accumulate	1.81	1.73	1.71	9.2	8.4	9.4
Develia	DVL PW	3.45	4.39	Buy	1.11	1.04	1.00	10.3	7.1	8.0
Dom Development	DOM PW	152.2	176.6	Accumulate	3.14	3.04	2.83	11.9	12.3	10.3
Lokum Deweloper	LKD PW	23.20	32.00	Buy	0.96	0.92	0.85	6.8	8.4	6.9
Ronson	RON PW	1.92	2.02	Hold	0.77	0.75	0.68	10.4	12.1	5.9
Average for companies from our coverage					**1.47**	**1.42**	**1.35**	**10.2**	**10.3**	**8.7**
Versus average for companies from our coverage										
Archicom					-30%	-27%	-26%	23%	33%	35%
Atal					23%	22%	27%	-9%	-19%	8%
Develia					-25%	-27%	-25%	1%	-31%	-8%
Dom Development					113%	115%	110%	17%	19%	18%
Lokum Deweloper					-34%	-35%	-37%	-33%	-19%	-21%
Ronson					-48%	-47%	-49%	2%	17%	-32%

Source: Erste Group Research, Bloomberg

Detailed property valuation

Residential projects under delivery, construction and in pipeline

Project	Stage	Saleable area (sqm)	Expected completion	Market value (PLN mn)	All-in-costs (PLN mn)	Margin on revenues	Project NPV (PLN mn)
Lokum Smart City	1	11 100	2024-11-30	72.2	53.4	25.9%	11.1
Lokum Smart City	2	9 000	2025-11-30	58.5	43.3	25.9%	8.2
Lokum Smart City	3	9 000	2026-11-30	58.5	43.5	25.7%	7.4
Lokum Smart City	4	9 000	2027-09-30	58.5	43.5	25.7%	6.9
Lokum Smart City	5	9 450	2029-09-30	61.4	45.6	25.7%	6.0
Lokum Porto	1	8 300	2022-08-30	54.8	40.6	25.9%	10.3
Lokum Porto	2	11 200	2022-08-30	73.9	54.8	25.9%	13.9
Lokum Porto	3	3 600	2022-08-30	23.8	17.6	25.9%	4.5
Lokum Porto	4	8 500	2023-07-30	58.9	41.6	29.4%	11.5
Lokum Porto	5	12 500	2024-07-30	89.2	63.0	29.4%	16.0
Lokum Porto	6	12 500	2025-09-30	89.2	64.2	28.0%	13.7
Lokum Porto	7	16 900	2026-12-30	120.6	88.6	26.6%	15.7
Lokum Goralska	1	7 500	2024-12-30	53.6	43.6	18.6%	5.9
Lokum Goralska	2	10 000	2025-09-30	71.5	58.2	18.6%	7.3
Lokum Goralska	4	13 750	2026-03-30	98.3	80.0	18.6%	9.6
Lokum Goralska	3	13 750	2026-06-30	98.3	80.0	18.6%	9.4
Lokum Goralska	4	13 750	2026-06-30	98.3	80.0	18.6%	9.4
Lokum Goralska	5	12 500	2027-06-30	89.4	72.7	18.6%	7.8
Lokum Goralska	6	12 500	2028-06-30	89.4	72.7	18.6%	7.1
Lokum Goralska	7	15 000	2028-06-30	107.3	87.3	18.6%	8.5
Lokum Goralska	8	11 250	2029-06-30	84.4	69.0	18.2%	6.0
Lokum Goralska	9	7 650	2029-06-30	64.6	53.1	17.9%	4.5
Lokum Goralska	10	7 650	2030-06-30	64.6	53.1	17.9%	4.1
Lokum Goralska	11	10 200	2030-06-30	86.2	70.8	17.9%	5.5
Lokum Poprzeczna	1	4 800	2024-11-30	34.1	27.6	18.9%	3.8
Lokum Poprzeczna	2	12 000	2024-11-30	85.2	69.1	18.9%	9.5
Lokum Poprzeczna	4	14 400	2025-10-30	105.3	82.9	21.2%	12.2
Lokum Poprzeczna	3	14 400	2025-10-30	105.3	82.9	21.2%	12.2
Lokum Poprzeczna	4	14 400	2026-08-30	105.3	82.9	21.2%	11.4
Lokum Poprzeczna	5	14 400	2026-08-30	105.3	82.9	21.2%	11.4
Lokum Poprzeczna	6	14 400	2027-01-30	105.3	84.6	19.7%	10.1
Lokum Poprzeczna	7	14 400	2027-01-30	105.3	84.6	19.7%	10.1
Lokum Poprzeczna	8	14 400	2028-01-30	105.3	84.6	19.7%	9.3
Lokum Poprzeczna	9	26 400	2028-01-30	193.1	155.1	19.7%	30.8
Lokum la Vida	1	6 900	2023-07-30	53.5	44.7	16.4%	5.9
Lokum la Vida	2	5 250	2024-09-30	41.9	34.7	17.2%	4.3
Lokum la Vida	3	4 350	2025-08-30	34.7	28.7	17.2%	3.3
Lokum Verde	1	5 350	2022-11-30	37.2	30.6	17.7%	4.7
Lokum Verde	2	6 950	2023-01-30	48.3	39.8	17.7%	6.0
Lokum Verde	3	10 550	2024-08-30	77.0	61.6	20.0%	9.3
Lokum Monte	1	7 600	2021-10-30	53.2	41.7	21.6%	9.0
Lokum Vista	2	12 050	2021-06-30	103.6	69.5	33.0%	27.5
Lokum Vista	3a	6 050	2023-01-30	54.1	38.4	29.1%	11.0
Lokum Vista	3b	6 600	2023-03-30	59.0	41.9	29.1%	11.8
Lokum Vista	4	12 550	2024-06-30	112.3	81.2	27.7%	19.0
Lokum Siesta	2	6 050	2021-06-30	65.8	44.8	32.0%	16.9
Lokum Siesta	3	5 000	2023-06-30	56.6	39.0	31.1%	11.8
Lokum Siesta	4	4 950	2024-06-30	56.0	38.6	31.1%	10.7
Lokum Salsa	1	5 304	2021-08-30	56.8	39.6	30.3%	13.6
Lokum Salsa	2	10 140	2021-12-30	108.5	77.1	28.9%	24.1
Lokum Salsa	3	3 120	2022-09-30	34.7	23.7	31.6%	7.9
TOTAL		**519 314**		**3 928**	**3 033**		**527.7**

Source: Erste Group Research, Company Data

Key risks to investment case

- earlier / more visible than anticipated base rate hike in Poland, influencing housing pre-sales volumes
- stronger / weaker than anticipated increase of construction costs in the country, influencing the developer margin on future projects
- less pronounced / heavier than anticipated increase in effective new dwelling prices across the country's main agglomerations in the quarters ahead
- delays / speed-up in launch of pipeline projects vs. assumed schedule / difficulties in obtaining building permits
- difficulties in obtaining occupancy permits on time due to the slowdown in administration procedures
- hypothetical overheating of the market due to potential highly limited supply and consequently uncontrolled rise in dwelling prices, followed by deep correction / segment destabilization
- stronger than anticipated extra supply of post CHF-financed apartments on the market in the short to medium term, putting downward pressure on new dwelling prices
- higher than anticipated extra costs related to likely introduction of DFG
- tightening / easing of mortgage lending requirement by banks
- difficulties in the purchase of attractively located land plots at reasonable prices affecting pre-sales potential in the longer run
- difficulties in planned debt refinancing in light of potential tightening of domestic corporate bond market
- increase / decrease in land prices in the years ahead, influencing the company's gross margins in the longer run
- potential unfavorable legal changes affecting 'investment' demand for new dwellings in the country (e.g. potential cadastral tax)

Income Statement	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**
(IAS, PLN mn, 31/12)	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023
Net sales	**322.43**	**285.86**	**190.99**	**319.84**	**297.53**	**375.40**
Cost of goods sold	207.22	186.88	136.96	205.55	198.07	256.97
Gross profit	**115.21**	**98.98**	**54.04**	**114.29**	**99.47**	**118.43**
SG&A	18.65	17.86	18.46	18.87	20.23	22.52
Other operating revenues	0.78	0.52	0.25	1.44	1.34	1.69
Other operating expenses	1.18	0.68	0.52	1.60	1.49	1.88
EBITDA	**97.57**	**83.18**	**37.76**	**97.96**	**81.86**	**98.57**
Depreciation/amortization	1.40	2.22	2.45	2.69	2.77	2.86
EBIT	**96.17**	**80.95**	**35.31**	**95.26**	**79.08**	**95.72**
Financial result	-7.58	-5.23	-6.69	-8.38	-8.93	-9.42
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	**88.59**	**75.72**	**28.63**	**86.88**	**70.16**	**86.29**
Income taxes	15.56	13.52	5.28	16.51	13.33	16.40
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	8.71	7.47	3.16	9.15	6.82	9.09
Net result after minorities	**64.32**	**54.74**	**20.18**	**61.23**	**50.01**	**60.81**

Balance Sheet	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**
(IAS, PLN mn, 31/12)						
Intangible assets	0.26	0.30	0.50	0.50	0.50	0.50
Tangible assets	12.12	13.98	14.97	15.36	15.76	16.17
Financial assets	28.80	21.18	17.25	18.11	18.47	18.84
Total fixed assets	**41.18**	**35.47**	**32.71**	**33.96**	**34.73**	**35.51**
Inventories	443.55	451.40	547.91	563.31	655.83	666.03
Receivables and other current assets	101.38	80.16	76.50	96.66	89.97	113.33
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	140.47	121.32	84.41	143.81	109.97	137.43
Total current assets	**685.40**	**652.89**	**708.81**	**803.79**	**855.77**	**916.79**
TOTAL ASSETS	**726.58**	**688.36**	**741.53**	**837.75**	**890.50**	**952.29**
Shareholders'equity	**348.06**	**366.79**	**381.21**	**433.43**	**452.83**	**488.64**
Minorities	**1.58**	**0.54**	**-3.01**	**-3.01**	**-3.01**	**-3.01**
Hybrid capital and other reserves	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Pension and other LT personnel accruals	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
LT provisions	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Interest-bearing LT debts	173.87	186.94	151.69	164.68	179.60	187.12
Other LT liabilities	23.57	15.32	14.93	15.48	16.06	16.67
Total long-term liabilities	**197.44**	**202.26**	**166.62**	**180.16**	**195.66**	**203.78**
Interest-bearing ST debts	0.84	2.29	133.64	139.21	145.60	148.82
Other ST liabilities	178.66	116.47	63.06	87.95	100.42	116.06
Total short-term liabilities	**179.50**	**118.76**	**196.71**	**227.16**	**245.03**	**262.88**
TOTAL LIAB. , EQUITY	**726.58**	**688.36**	**741.53**	**837.75**	**890.50**	**952.29**

Cash Flow Statement	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**
(IAS,PLN mn, 31/12)						
Cash flow from operating activities	39.28	46.48	-110.31	61.31	-12.44	54.41
Cash flow from investing activities	-1.14	-2.63	-0.98	-3.08	-3.17	-3.27
Cash flow from financing activities	-32.69	-62.99	74.37	1.17	-18.24	-23.68
CHANGE IN CASH , CASH EQU.	**5.45**	**-19.14**	**-36.92**	**59.41**	**-33.84**	**27.46**

Margins & Ratios	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**
Sales growth	45.7%	-11.3%	-33.2%	67.5%	-7.0%	26.2%
EBITDA margin	30.3%	29.1%	19.8%	30.6%	27.5%	26.3%
EBIT margin	29.8%	28.3%	18.5%	29.8%	26.6%	25.5%
Net profit margin	22.6%	21.8%	12.2%	22.0%	19.1%	18.6%
ROE	19.9%	15.3%	5.4%	15.0%	11.3%	12.9%
ROCE	19.4%	14.6%	4.4%	11.6%	8.7%	10.0%
Equity ratio	47.7%	53.2%	51.8%	52.1%	51.2%	51.6%
Net debt	34.2	67.9	200.9	160.1	215.2	198.5
Working capital	505.9	534.1	512.1	576.6	610.7	653.9
Capital employed	404.3	449.5	600.1	612.0	687.1	706.8
Inventory turnover	-0.5	-0.4	-0.3	-0.4	-0.3	-0.4

Source: Company data, Erste Group estimates

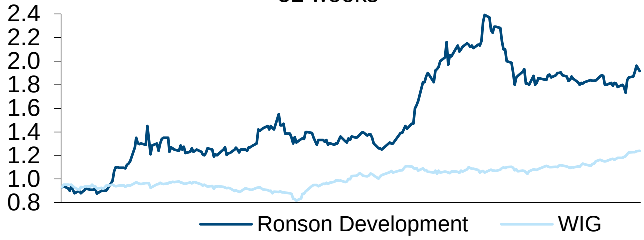
Ronson Development

from Reduce to Hold

PLN mn	2020	2021e	2022e	2023e
Net sales	401.2	341.0	310.5	488.9
EBITDA	56.2	43.9	36.7	70.6
EBIT	55.2	42.8	35.5	69.4
Net result after min.	40.1	30.3	23.9	49.2
EPS (PLN)	0.24	0.18	0.16	0.32
CEPS (PLN)	0.24	0.18	0.14	0.29
BVPS (PLN)	2.32	2.50	2.57	2.81
Div./share (PLN)	0.06	0.00	0.09	0.08
EV/EBITDA (x)	5.4	8.1	12.4	7.6
P/E (x)	5.3	10.4	12.1	5.9
P/CE (x)	5.5	10.8	13.8	6.5
Dividend Yield	4.6%	0.0%	4.8%	4.1%

Share price (PLN) close as of 04/06/2021	1.92
Number of shares (mn)	164.0
Market capitalization (PLN mn / EUR mn)	314 / 70
Enterprise value (PLN mn / EUR mn)	356 / 80

52 weeks



Performance	12M	6M	3M	1M
in PLN	105.9%	40.8%	-16.4%	4.1%

Reuters	RONP.WA	Free float	11.5%
Bloomberg	RON PW	Shareholders	Luzon Group (66.1%)
Div. Ex-date			NN OFE (14.6%)
Target price	**2.02**	Homepage:	www.ronson.pl

Analyst:
Cezary Bernatek
+48 22 538 6256
cezary.bernatek@erstegroup.com

Improved pre-sales, earnings and liquidity outlook largely priced in

Our 12M Target Price for Ronson is up 68% to PLN 2.02 per share. This, however, implies a 5.5% upside after the recent stock rally, which leads us to raise our rating only to Hold. At the same time, we stress that our revised 12M TP stands some 12% above the tender offer price proposed by key shareholder Amos Luzon (calling for entire minority stake).

Factoring in Ronson's visibly more ambitious than earlier assumed new project kickoff schedule for 2021E and 2022E, as well as our revised, more optimistic base case scenario concerning the anticipated development of demand on the Polish primary housing market in the short to medium term (despite the anticipated pickup in PL base rate already this year), we increase our pre-sales volume forecasts for the firm by 21%/23% to 960/ 970 units in 2021E/ 2022E, up 5%/1% for each year, respectively – comprising relatively sound dynamics.

At the same time, however, even though the above-mentioned upgrade to pre-sales volume, as well as a revision to project completion schedule, pushed our deliveries' volume forecasts for the company up by 9%/15% for 2021E/2022E, while our housing prices evolution expectations are now clearly more optimistic than earlier assumed, which in the end means that our net income forecasts are up 38%/34% to PLN 30mn/26mn for each year, this still implies uninspiring earnings momentum – namely a 25% fall for the current year, followed by further 15% softening in 2022E, before the revival to PLN 53mn only in 2023E.

Finally, while after the recent successful bond placements we do not expect Ronson to face any liquidity issues in the short to medium term, the firm is still unlikely to shine among its covered peers in terms of anticipated dividend payments in the years ahead – we forecast no dividend in the current year (in line with management recommendation) and DPS at PLN 0.09/0.08, translating into not unimpressive yields of 4.8%/4.1% for 2022E/2023E, respectively.

Investment story

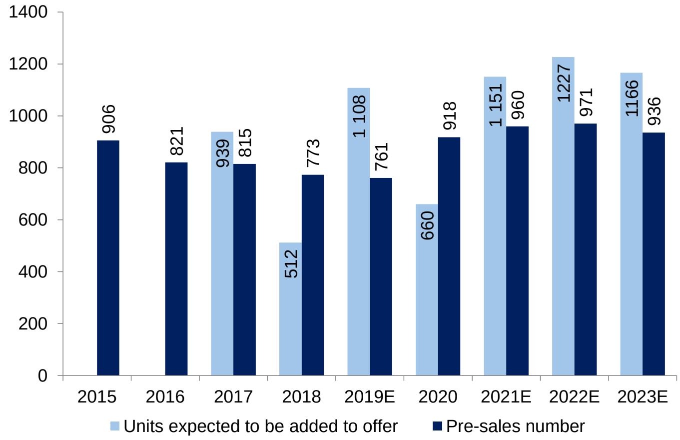
Relatively sound pre-sales outlook for 2021E-22E…

We raise our model assumption for Ronson's new scheme kickoffs for this year/2022E to around 1,150 (in line with the firm's latest official guidance)/ 1,230 housing units, from approx. 730/775 for each year, respectively, assumed originally (for both years, we take into account the newly acquired land parcels). We take into consideration solid pre-sales volume registered in 1Q21 – 355 units, up 28% y/y from the strong base. On top of that, we factor in the revised, more optimistic than earlier assumed, base case scenario concerning the anticipated development of demand on the Polish primary housing market in the short to medium term.

As a consequence of the above-mentioned, our residential pre-sales volumes for the company are up 21%/23% to 960/970 units for 2021E/2022E – implying relatively decent y/y dynamics for both years (+5%/+1%, respectively). At this point, we also note that our pre-sales forecast falls in line with the company's management guidance in this respect, presented on the occasion of the 1Q21 financial results release.

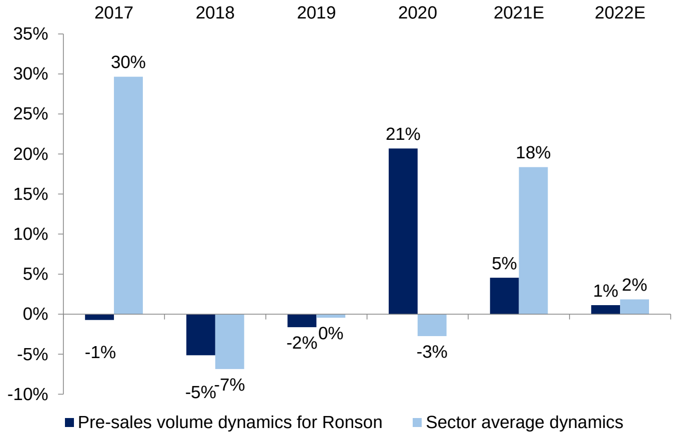
Looking into 2023E, at this stage, assuming no vital economy shocks, as well as no harsh scenarios concerning Polish base rate development in the years ahead and the launch of an additional 1,170 units in the period, we forecast Ronson's pre-sales number to come in at around 940 units, or only slightly below the 2022E result.

Pre-sales volume development (housing units)



Source: Company Data, Erste Group Research

Pre-sales dynamics vs. sector average dynamics*



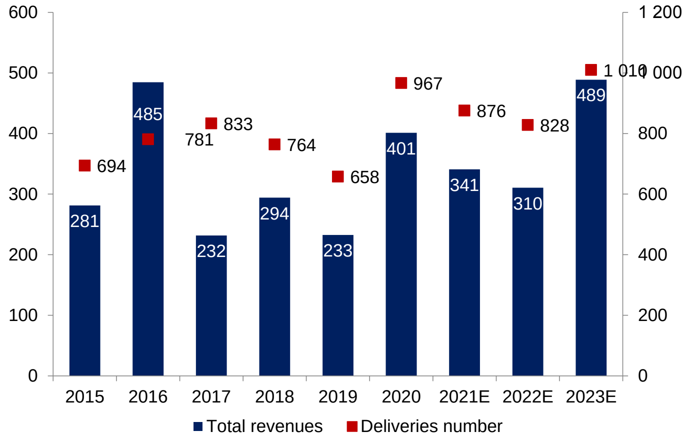
*Company Data, Erste Group Research *for six sector players we cover*

…but earnings momentum not impressive vs. most of covered competitors

We raise our net income forecasts for Ronson by 38%/34% to PLN 30mn/26mn for 2021E/2022E, respectively. This follows an upgrade to our pre-sales volume forecasts for both years, revised project kickoff/completion schedule (in line with most recent guidance), as well as the application of more favorable than earlier assumed housing prices evolution expectations for the years ahead. This also comes despite factoring in a clear uptrend in terms of construction costs in the segment, observed recently – linked to growing prices of key raw materials, including steel, concrete, or polystyrene foam.

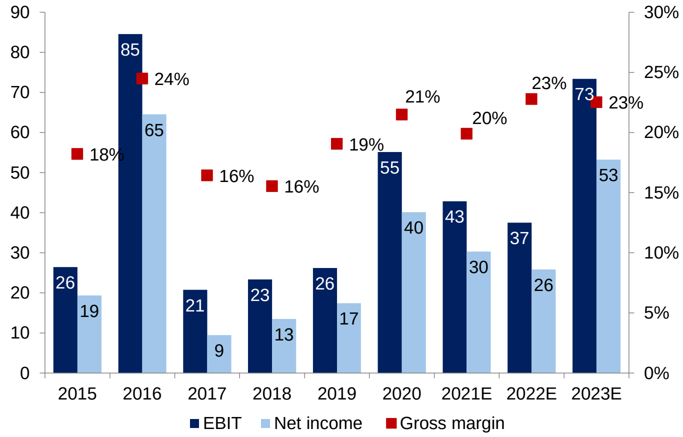
Despite that, however, our latest net earnings forecasts still imply not very inspiring earnings momentum compared to most of the peers from our coverage – namely a 25% y/y fall for this year, followed by 15% y/y fall for 2022E and before a revival to PLN 53mn only in 2023E (implying P/E ratios at 10.4x/12.1x and 5.9x, in each year).

Deliveries volume (housing units) & top line evolution (PLN mn)



Source: Company Data, Erste Group Research

EBIT, net income (PLN mn) and gross margin



Company Data, Erste Group Research

Forecast changes	**2021E**			**2022E**			**2023E**
in PLN m	**Old**	**New**	**Δ**	**Old**	**New**	**Δ**	**New**
TOTAL REVENUES	**297.4**	**341.0**	***14.7%***	**268.1**	**310.5**	***15.8%***	**488.9**
Cost of goods sold	243.0	273.2	*12.4%*	212.5	239.8	*12.9%*	378.9
GROSS PROFIT	**54.5**	**67.8**	***24.5%***	**55.7**	**70.7**	***27.0%***	**110.1**
SG&A expenses & other operating result	28.4	32.1	*12.9%*	29.0	34.5	*19.0%*	36.7
Share in profits of associates	4.8	7.1	*47.5%*	0.8	1.2	*47.5%*	0.0
EBIT (incl. revaluation)	**30.9**	**42.8**	***38.8%***	**27.6**	**37.5**	***36.0%***	**73.4**
Net financial result	-3.8	-5.4	*44.9%*	-3.8	-5.6	*47.6%*	-7.7
Pre-tax profit	**27.1**	**37.4**	***37.9%***	**23.8**	**31.9**	***34.2%***	**65.7**
Tax	5.2	7.1	*37.9%*	4.5	6.1	*34.2%*	12.5
Minorities	0.0	0.0	*n.a.*	0.0	0.0	*n.a.*	0.0
Net income after minorities	**22.0**	**30.3**	***37.9%***	**19.3**	**25.9**	***34.2%***	**53.2**

Source: Company Data, Erste Group Research

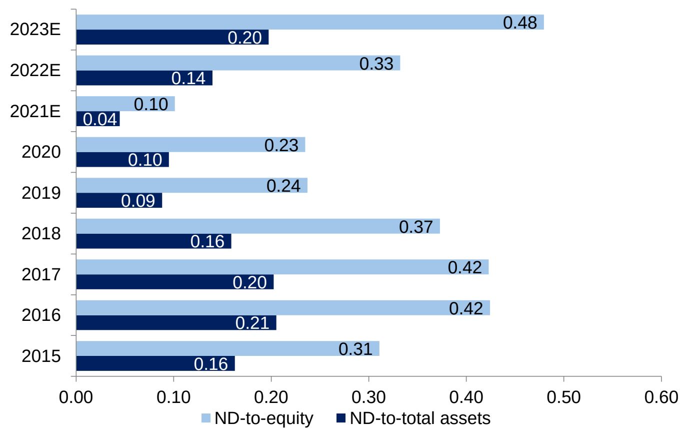
Liquidity outlook sound, but dividends in 2021E-23E unlikely to be impressive vs. peer group average

Taking advantage of the visibly improved situation on the domestic corporate bonds market, Ronson concluded an issue of PLN 100mn worth of W-series bonds in April this year (maturing late-2023). Combined with the decent cash position at end-1Q21 (PLN 118mn) and the outlook for healthy client pre-payments in the quarters ahead and despite the heavy development pipeline, intensified land acquisitions and recent repayment of PLN 48mn R-series bonds, we expect the company to avoid any liquidity issue going forward.

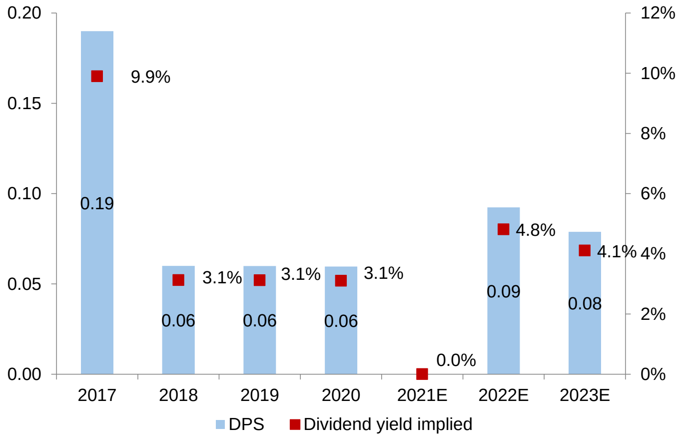
That said, we stress that we expect the firm not to share its hefty 2020 earnings with shareholders this year, in line with the management recommendation, while assuming a 50% payout ratio in 2021E-22E – or in line with the company's dividend policy adopted – we would end up with the yields amounting to a relatively unimpressive 4.8%/4.1% for 2022E/2023E, respectively.

Net debt-to-total assets & net debt-to-equity ratios (x)

DPS (PLN) and implied dividend yields*



Source: Company Data, Erste Group Research



Company Data, Erste Group Research **based on COB 04.06.21*

Some discount to peers seems justified

At a 2021E P/BV of 0.77x, Ronson trades at a 48% discount to its competitors from our residential coverage. While the company offers decent pre-sales outlook, we believe some discount is justified, given its relatively unimpressive earnings momentum for 2021E-22E, below sector average forecast ROE (7-13% in 2021E-23E) and unimpressive dividend prospects for 2021E-23E.

Valuation

Our revised 12M target price for Ronson Development stands at PLN 2.02 per share (up from PLN 1.20 per share), implying 5.5% upside. This reflects a 30% weighting for our truncated pipeline scenario and a 70% weighting for our extended pipeline scenario. We also carry out a peer multiple valuation for comparison purposes (0% weighting).

VALUATION SUMMARY (PLN)	
Truncated pipeline scenario	1.35
Extended pipeline scenario	2.31
Average (30:70 weight)	**2.02**

Source: Company Data, Erste Group Research

VALUATION (PLN mn) - TRUNCATED PIPELINE SCENARIO	
Value of properties under construction & delivery	**693**
Cost for properties under construction & delivery	**551**
TOTAL	**141**
PV of TOTAL	**108**
Estimated value of secured land bank	290
Current tax liability	13
ENTERPRISE VALUE (PLN mn)	**384**
Net debt*	179
Minority interest	0
EQUITY VALUE (PLN mn)	**205**
Per fully diluted number of shares (PLN)	1.25
12M Target Price (PLN)	**1.35**

**including the plots acquired in 2021*

Source: Company Data, Erste Group Research

VALUATION (PLN mn) - EXTENDED PIPELINE SCENARIO	
Value of properties under construction & delivery	**693**
Cost for properties under construction & delivery	**551**
Value of properties in the pipeline (till 2023)	**504**
Cost for properties in the pipeline (till 2023)	**417**
Terminal value for development business (beyond 2023)	91
TOTAL	**319**
PV of TOTAL	**254**
Estimated value of secured land bank	290
Current tax liability	13
ENTERPRISE VALUE (PLN mn)	**531**
Net debt*	179
Minority interest	0
EQUITY VALUE (PLN mn)	**352**
Per fully diluted number of shares (PLN)	2.15
12M Target Price (PLN)	**2.31**

**including the plots acquired in 2021*

Source: Company Data, Erste Group Research

Sensitivity analysis

We present a sensitivity analysis of our target price to changes in residential prices and construction costs. A +/-5% change in residential prices vs. our original expectations applied to the valuation of Ronson's portfolio of under-construction and pipeline properties increases/decreases our equity valuation by some 18%. At the same time, a 5% increase/decrease in the level of construction costs applied to the valuation of the firm's portfolio of under-construction and pipeline real estate schemes decreases/increases our target price by around 12%.

Valuation sensitivity to residential prices and construction costs (PLN)

Constr. costs evolution	Residential prices evolution: -5.0%	-2.5%	0%	2.5%	5.0%
-5.0%	1.90	2.09	2.28	2.47	**2.67**
-2.5%	1.77	1.96	2.15	2.34	2.54
0%	1.65	1.83	**2.02**	2.21	2.40
2.5%	1.52	1.71	1.90	2.08	2.27
5.0%	**1.40**	1.59	1.77	1.96	2.15

Source: Erste Group Research

Relative valuation

Ronson Development vs. peers (on current market values; priced at COB 04 June 2021)

	BBG ticker	Close price (PLN)	TP (PLN)	Rating	P/BV 2021E	P/BV 2022E	P/BV 2023E	P/E 2021E	P/E 2022E	P/E 2023E
Archicom	ARH PW	24.20	25.65	Hold	1.03	1.03	1.00	12.5	13.7	11.7
Atal	1AT PW	48.90	58.27	Accumulate	1.81	1.73	1.71	9.2	8.4	9.4
Develia	DVL PW	3.45	4.39	Buy	1.11	1.04	1.00	10.3	7.1	8.0
Dom Development	DOM PW	152.2	176.6	Accumulate	3.14	3.04	2.83	11.9	12.3	10.3
Lokum Deweloper	LKD PW	23.20	32.00	Buy	0.96	0.92	0.85	6.8	8.4	6.9
Ronson	RON PW	1.92	2.02	Hold	0.77	0.75	0.68	10.4	12.1	5.9
Average for companies from our coverage					**1.47**	**1.42**	**1.35**	**10.2**	**10.3**	**8.7**
Versus average for companies from our coverage										
Archicom					-30%	-27%	-26%	23%	33%	35%
Atal					23%	22%	27%	-9%	-19%	8%
Develia					-25%	-27%	-25%	1%	-31%	-8%
Dom Development					113%	115%	110%	17%	19%	18%
Lokum Deweloper					-34%	-35%	-37%	-33%	-19%	-21%
Ronson					-48%	-47%	-49%	2%	17%	-32%

Source: Erste Group Research, Bloomberg

Detailed property valuation

Residential projects under delivery, construction and in pipeline

Project	Saleable area (sqm)	Expected completion	Market value (PLN mn)	All-in costs (PLN mn)	Margin on revenues	NPV (PLN mn)
Chilli						
phase 5	2 161	2023-06-30	11.2	11.1	1.2%	0.1
phase 6	3 376	2023-06-30	17.8	17.3	3.2%	0.4
phase 7	3 984	2024-06-30	21.0	20.5	2.5%	0.3
Panoramika						
phase 6	3 600	2021-12-30	22.9	21.0	8.1%	1.4
Falenty						
phase 1	3 300	2023-03-30	22.4	18.4	17.9%	2.8
phase 2	4 011	2024-06-30	27.3	22.4	17.9%	3.2
phase 3	6 686	2025-06-30	45.5	37.3	17.9%	4.9
phase 4	5 349	2026-03-30	36.7	29.9	18.7%	3.9
Viva Jagodno						
phase 1	6 534	2021-06-30	42.6	35.0	17.7%	6.1
phase 2b	3 996	2023-03-30	27.1	22.0	18.7%	3.6
phase 2a	8 316	2023-01-30	56.4	45.8	18.7%	7.6
phase 3	5 454	2024-06-30	37.7	30.5	19.2%	4.7
Bełchatowska 28	3 700	2024-06-30	26.1	21.5	17.5%	3.0
Nowe Warzymice						
phase 1	2 970	2021-06-30	18.1	15.9	12.5%	1.8
phase 2	3 500	2022-10-30	21.4	18.8	12.1%	1.9
phase 3	3 520	2023-06-30	22.5	19.1	15.2%	2.4
phase 4	5 500	2024-06-30	35.9	30.1	16.1%	3.7
phase 5	10 065	2025-03-30	65.8	55.2	16.1%	6.5
Renaissance						
phase 1	5 400	2024-05-30	48.6	34.6	28.7%	9.1
phase 2	5 400	2025-01-30	48.6	34.6	28.7%	8.6
Gasocinska	4 800	2023-11-30	44.2	35.6	19.3%	5.8
Naturalis						
phase 4	3 112	2023-12-30	17.8	17.1	3.8%	0.5
phase 5	3 112	2024-06-30	18.0	17.2	4.3%	0.5
phase 6	3 276	2025-06-30	18.9	18.1	4.3%	0.5
phase 7	8 408	2025-06-30	48.6	46.5	4.3%	1.2
Nova Krolikarnia						
phase 3a, 3c	5 500	2021-09-30	61.1	54.4	11.0%	5.3
phase 3d	2 000	2022-12-30	22.2	19.8	11.0%	1.8
phase 4	9 000	2023-09-30	103.0	94.6	8.1%	5.7
Wilanow Tulip	4 125	2021-04-30	39.4	29.1	26.0%	8.3
Miasto Moje						
phase 4	8 800	2021-11-30	58.4	45.7	21.7%	9.9
phase 5	8 500	2022-09-30	57.5	43.9	23.7%	10.0
phase 6	11 350	2023-08-30	80.6	60.0	25.6%	14.2
phase 7	10 000	2024-09-30	71.1	52.9	25.6%	11.5
phase 8	8 900	2025-07-30	63.2	47.4	25.1%	9.5
Ursus						
phase 1a	7 590	2021-03-30	55.0	44.3	19.6%	8.9
phase 2a	13 500	2021-12-01	99.8	78.7	21.1%	16.5
phase 1b	5 700	2022-09-30	44.3	33.1	25.3%	8.2
phase 2b	11 500	2022-12-30	92.0	67.1	27.1%	18.0
phase 2c	11 000	2023-09-30	88.0	64.5	26.7%	16.0
phase 3	16 900	2024-09-30	135.2	99.1	26.7%	22.9
phase 4	16 952	2025-09-30	135.6	99.4	26.7%	21.3
Mala Grunwaldzka	3 300	2023-04-30	23.9	18.6	22.3%	3.8
Smardzewska						
phase 1	6 250	2024-05-30	45.9	37.6	18.1%	5.4
phase 2	6 818	2025-05-30	50.1	41.1	18.1%	5.5
phase 3	6 932	2026-05-30	50.9	41.8	18.1%	5.2
Studzienna	4 800	2023-11-30	46.8	36.9	21.1%	6.7
Wola New	4 800	2024-05-30	49.2	39.4	19.8%	6.4
KEN	5 700	2024-12-30	60.1	44.5	26.1%	9.9
Epopei						

phase 1	4 792	2024-05-30	33.8	27.0	20.2%	4.5
phase 2	5 271	2025-05-30	37.9	30.0	20.9%	4.8
phase 3	5 271	2026-05-30	37.9	30.0	20.9%	4.5
phase 4	5 367	2026-05-30	39.4	30.6	22.4%	5.0
TOTAL	**330 146**		**2 485**	**1 987**		**334.2**

Source: Erste Group Research, Company Data

Key risks to investment case

- earlier / more visible than anticipated base rate hike in Poland, influencing housing pre-sales volumes
- stronger / weaker than anticipated increase of construction costs in the country, influencing the developer margin on future projects
- less pronounced / heavier than anticipated increase in effective new dwelling prices across the country's main agglomerations in the quarters ahead
- delays / speed-up in launch of pipeline projects vs. assumed schedule / difficulties in obtaining building permits
- difficulties in obtaining occupancy permits on time due to the slowdown in administration procedures
- hypothetical overheating of the market due to potential highly limited supply and consequently uncontrolled rise in dwelling prices, followed by deep correction / segment destabilization
- stronger than anticipated extra supply of post CHF-financed apartments on the market in the short to medium term, putting downward pressure on new dwelling prices
- higher than anticipated extra costs related to likely introduction of DFG
- tightening / easing of mortgage lending requirement by banks
- difficulties in the purchase of attractively located land plots at reasonable prices affecting pre-sales potential in the longer run
- difficulties in planned debt refinancing in light of potential tightening of domestic corporate bond market
- increase / decrease in land prices in the years ahead, influencing the company's gross margins in the longer run
- potential unfavorable legal changes affecting 'investment' demand for new dwellings in the country (e.g. potential cadastral tax)

Income Statement	2018	2019	2020	2021e	2022e	2023e
(IAS, PLN mn, 31/12)	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023
Net sales	**294.09**	**232.62**	**401.23**	**341.04**	**310.49**	**488.94**
Cost of goods sold	248.40	188.30	315.02	273.20	239.77	378.88
Gross profit	**45.69**	**44.32**	**86.21**	**67.84**	**70.72**	**110.06**
SG&A	25.14	27.21	30.26	32.06	35.46	38.67
Other operating revenues	2.82	9.08	-0.80	7.06	1.25	0.00
Other operating expenses	0.00	0.00	0.00	0.00	1.00	2.00
EBITDA	**24.39**	**27.18**	**56.18**	**43.94**	**36.66**	**70.59**
Depreciation/amortization	1.02	0.98	1.03	1.10	1.17	1.20
EBIT	**23.37**	**26.19**	**55.15**	**42.84**	**35.50**	**69.39**
Financial result	-4.70	-4.11	-4.61	-5.44	-5.57	-7.65
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	**18.66**	**22.08**	**50.54**	**37.41**	**29.93**	**61.74**
Income taxes	3.59	4.67	10.40	7.11	6.07	12.49
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	1.57	0.00	0.00	0.00	0.00	0.00
Net result after minorities	**13.50**	**17.41**	**40.14**	**30.30**	**23.86**	**49.25**

Balance Sheet	2018	2019	2020	2021e	2022e	2023e
(IAS, PLN mn, 31/12)						
Intangible assets	0.00	0.00	0.00	0.00	0.00	0.00
Tangible assets	16.73	18.65	17.75	17.93	18.20	18.48
Financial assets	55.20	61.87	63.46	60.79	57.68	54.56
Total fixed assets	**71.93**	**80.52**	**81.22**	**78.72**	**75.88**	**73.04**
Inventories	603.23	718.06	664.76	659.40	782.20	868.98
Receivables and other current assets	14.82	26.85	42.45	40.33	38.31	55.55
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	115.15	117.75	149.34	150.51	104.53	122.57
Total current assets	**733.20**	**862.66**	**856.55**	**850.24**	**925.04**	**1,047.10**
TOTAL ASSETS	**805.12**	**943.18**	**937.77**	**928.96**	**1,000.92**	**1,120.14**
Shareholders'equity	**343.48**	**350.49**	**379.82**	**410.12**	**420.83**	**461.14**
Minorities	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Hybrid capital and other reserves	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Pension and other LT personnel accruals	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
LT provisions	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Interest-bearing LT debts	183.74	151.08	175.38	142.82	179.44	248.98
Other LT liabilities	7.35	10.17	10.15	16.49	19.55	21.72
Total long-term liabilities	**191.09**	**161.25**	**185.53**	**159.30**	**199.00**	**270.70**
Interest-bearing ST debts	59.49	49.77	63.17	49.22	64.91	94.71
Other ST liabilities	211.06	381.68	309.24	310.33	317.18	295.58
Total short-term liabilities	**270.55**	**431.44**	**372.42**	**359.54**	**381.10**	**388.29**
TOTAL LIAB. , EQUITY	**805.12**	**943.18**	**937.77**	**928.96**	**1,000.92**	**1,120.14**

Cash Flow Statement	2018	2019	2020	2021e	2022e	2023e
(IAS,PLN mn, 31/12)						
Cash flow from operating activities	73.69	52.71	25.98	46.30	-84.83	-70.00
Cash flow from investing activities	-45.34	-1.34	1.08	1.40	1.68	1.64
Cash flow from financing activities	-16.99	-56.60	12.45	-46.52	37.17	86.40
CHANGE IN CASH , CASH EQU.	**11.36**	**-5.24**	**39.51**	**1.17**	**-45.98**	**18.04**

Margins & Ratios	2018	2019	2020	2021e	2022e	2023e
Sales growth	26.9%	-20.9%	72.5%	-15.0%	-9.0%	57.5%
EBITDA margin	8.3%	11.7%	14.0%	12.9%	11.8%	14.4%
EBIT margin	7.9%	11.3%	13.7%	12.6%	11.4%	14.2%
Net profit margin	5.1%	7.5%	10.0%	8.9%	7.7%	10.1%
ROE	4.0%	5.0%	11.0%	7.7%	5.7%	11.2%
ROCE	3.1%	3.8%	8.7%	6.4%	4.6%	7.7%
Equity ratio	42.7%	37.2%	40.5%	44.1%	42.0%	41.2%
Net debt	128.1	83.1	89.2	41.5	139.8	221.1
Working capital	462.6	431.2	484.1	490.7	543.9	658.8
Capital employed	478.9	443.8	479.2	468.1	580.2	704.0
Inventory turnover	-0.4	-0.3	-0.5	-0.4	-0.3	-0.5

Source: Company data, Erste Group estimates

Contacts

Group Research

Head of Group Research
Friedrich Mostböck, CEFA +43 (0)5 0100 11902

CEE Macro/Fixed Income Research
Head: Juraj Kotian (Macro/FI) +43 (0)5 0100 17357
Zoltan Arokszallasi, CFA (Fixed income) +361 373 2830
Katarzyna Rzentarzewska (Fixed income) +43 (0)5 0100 17356
Malgorzata Krzywicka (Fixed income, Poland) +43 (0)5 0100 17338

Croatia/Serbia
Alen Kovac (Head) +385 72 37 1383
Mate Jelić +385 72 37 1443
Ivana Rogic +385 72 37 2419

Czech Republic
David Navratil (Head) +420 956 765 439
Jiri Polansky +420 956 765 192
Michal Skorepa +420 956 765 172

Hungary
Orsolya Nyeste +361 268 4428

Romania
Ciprian Dascalu (Head) +40 3735 10108
Eugen Sinca +40 3735 10435
Dorina Ilasco +40 3735 10436
Iulian George Misu +40 758484043

Slovakia
Maria Valachyova (Head) +421 2 4862 4185
Katarina Muchova +421 2 4862 4762

Major Markets & Credit Research
Head: Gudrun Egger, CEFA +43 (0)5 0100 11909
Ralf Burchert, CEFA (Sub-Sovereigns & Agencies) +43 (0)5 0100 16314
Hans Engel (Global Equities) +43 (0)5 0100 19835
Margarita Grushanina (Austria, Quant Analyst) +43 (0)5 0100 11957
Peter Kaufmann, CFA (Corporate Bonds) +43 (0)5 0100 11183
Heiko Langer (Financials & Covered Bonds) +43 (0)5 0100 85509
Stephan Lingnau (Global Equities) +43 (0)5 0100 16574
Carmen Riefler-Kowarsch (Financials & Covered Bonds) +43 (0)5 0100 19632
Rainer Singer (Euro, US) +43 (0)5 0100 17331
Bernadett Povazsai-Römhild, CEFA (Corporate Bonds) +43 (0)5 0100 17203
Elena Statelov, CIIA (Corporate Bonds) +43 (0)5 0100 19641
Gerald Walek, CFA (Euro, CHF) +43 (0)5 0100 16360

CEE Equity Research
Head: Henning Eßkuchen +43 (0)5 0100 19634
Daniel Lion, CIIA (Technology, Ind. Goods&Services) +43 (0)5 0100 17420
Michael Marschallinger, CFA +43 (0)5 0100 17906
Nora Nagy (Telecom) +43 (0)5 0100 17416
Christoph Schultes, MBA, CIIA (Real Estate) +43 (0)5 0100 11523
Thomas Unger, CFA (Banks, Insurance) +43 (0)5 0100 17344
Vladimira Urbankova, MBA (Pharma) +43 (0)5 0100 17343
Martina Valenta, MBA +43 (0)5 0100 11913

Croatia/Serbia
Mladen Dodig (Head) +381 11 22 09178
Anto Augustinovic +385 72 37 2833
Magdalena Dolenec +385 72 37 1407
Davor Spoljar, CFA +385 72 37 2825

Czech Republic
Petr Bartek (Head) +420 956 765 227
Jan Safranek +420 956 765 218

Hungary
József Miró (Head) +361 235 5131
András Nagy +361 235 5132
Tamás Pletser, CFA +361 235 5135

Poland
Tomasz Duda (Head) +48 22 330 6253
Cezary Bernatek +48 22 538 6256
Konrad Grygo +48 22 330 6254
Emil Poplawski +48 22 330 6252
Marcin Gornik +48 22 330 6251

Romania
Caius Rapanu +40 3735 10441

Group Institutional & Retail Sales

Group Institutional Equity Sales
Head: Brigitte Zeitlberger-Schmid +43 (0)5 0100 83123

Cash Equity Sales
Werner Fuerst +43 (0)5 0100 83121
Josef Kerekes +43 (0)5 0100 83125
Cormac Lyden +43 (0)5 0100 83120

Institutional Equity Sales Croatia
Damir Eror +385 72 37 28 36

Institutional Equity Sales Czech Republic
Head: Michal Rizek +420 224 995 537
Pavel Krabicka +420 224 995 411
Martin Havlan +420 224 995 551
Jiri Feres +420 224 995 554

Institutional Equity Sales Hungary
Levente Nándori +361 235 5141
Balázs Zánkay +361 235 5156
Krisztián Kandik +361 235 5140

Institutional Equity Sales Poland
Jacek Jakub Langer (Head) +4822 330 6265
Tomasz Galanciak +48 22 538 62 12
Wojciech Wysocki +4822 538 6219
Przemyslaw Nowosad +4822 538 6266
Grzegorz Stepien +4822 330 6211

Institutional Equity Sales Romania
Liviu George Avram +40 3735 16569

Group Markets Retail and Agency Business
Head: Christian Reiss +43 (0)5 0100 84012

Markets Retail Sales AT
Head: Markus Kaller +43 (0)5 0100 84239

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

Retail & Sparkassen Sales
Head: Uwe Kolar +43 (0)5 0100 83214

Corporate Treasury Prod. Distribution
Head: Christian Skopek +43 (0)5 0100 84146

Group Securities Markets
Head: Thomas Einramhof +43 (0)50100 84432

Institutional Distribution Core
Head: Jürgen Niemeier +49 (0)30 8105800 5503

Institutional Distribution DACH+
Head: Marc Friebertshäuser +49 (0)711 810400 5540
Bernd Bollhof +49 (0)30 8105800 5525
Andreas Goll +49 (0)711 810400 5561
Mathias Gindele +49 (0)711 810400 5562
Ulrich Inhofner +43 (0)5 0100 85544
Sven Kienzle +49 (0)711 810400 5541
Rene Klasen +49 (0)30 8105800 5521
Christopher Lampe-Traupe +49 (0)30 8105800 5523
Karin Rattay +43 (0)5 0100 84118
Michael Schmotz +43 (0)5 0100 85542
Klaus Vosseler +49 (0)711 810400 5560

Slovakia
Šarlota Šipulová +421 2 4862 5619
Monika Směliková +421 2 4862 5629

Institutional Distribution CEE & Insti AM CZ
Head: Antun Burić +385 (0)7237 2439
Jaromir Malak +43 (0)5 0100 84254

Czech Republic
Head: Ondrej Čech +420 2 2499 5577
Milan Bartoš +420 2 2499 5562
Barbara O'Donnell +420 2 2499 5590

Croatia
Head: Antun Burić +385 (0)7237 2439
Zvonimir Tukač +385 (0)7237 1787
Natalija Zujic +385 (0)7237 1638

Hungary
Head: Peter Csizmadia +36 1 237 8211
Gábor Bálint +36 1 237 8205
Ádám Szönyi +36 1 237 8213

Romania and Bulgaria
Head: Ruxandra Lungu +40 373516562

Institutional Asset Management Czech Republic
Head: Petr Holeček +420 956 765 453
Petra Maděrová +420 956 765 178
Martin Peřina +420 956 765 106
David Petráček +420 956 765 809
Blanca Weinerová +420 956 765 317
Petr Valenta +420 956 765 140

Group Fixed Income Securities Markets
Head: Goran Hoblaj +43 (0)50100 84403

FISM Flow
Head: Aleksandar Doric +43 (0)5 0100 87487
Margit Hraschek +43 (0)5 0100 84117
Bernd Thaler +43 (0)5 0100 84119
Ciprian Mitu +43 (0)5 0100 85612
Christian Kienesberger +43 (0)5 0100 84323
Zsuzsanna Toth +36-1-237 8209

Poland:
Pawel Kielek +48 22 538 6223
Michal Jarmakowicz +43 50100 85611

Company description

Dom Development is the leading residential developer in Poland, operating on the market since 1996, with pre-sales volume at nearly 3,600 units in FY18. The company concentrates mainly on the Warsaw market, but in 2011 also opened a new branch in Wrocław and in June 2017 commenced activity in the Tri-City. Dom shares have been listed on the WSE since October 2006.

Company description

Ronson is an established housing developer operating in Poland since 2000, with pre-sales volumes hitting c. 760 housing units in FY19. The firm focuses on mid-class segment product and is currently active in four cities - Warsaw, Wroclaw, Poznan and Szczecin. The group has been listed on WSE since 2007.

Company description

Atal is one of the leading residential developers in Poland, with sales volume at nearly 3,200 housing units in FY19. It specializes in building housing complexes located in the biggest cities in the country - currently operating in Warsaw, Krakow, Wroclaw, Tri-City, Katowice, Lodz and Poznan. The firm's founder and leading s/holder is Polish entrepreneur Zbigniew Juroszek who can boast a 25 years old business experience. It is since June 2015 that the shares of ATAL have been listed on the WSE.

Company description

Develia is Polish real estate developer operating in Wroclaw, Krakow, Warsaw, Katowice and Tri-City, with pre-sales volume at around 1,500 housing units in FY19. The firm also has an exposure to Warsaw, Wrocalw and Katowice commercial real estate segment. It is since June 2007 that the shares of Develia (former LC Corp) have been listed on WSE.

Company description

Archicom is Polish residential developer operating in Wroclaw, Krakow, Tri-City, Poznan and Lodz, with pre-sales volume at around 1,450 housing units in FY19. The firm also has an exposure to Wrocalw office segment. It is since March 2016 that the shares of Archicom have been listed on WSE.

Company description

Lokum Deweloper is Polish house-builder operating in Wroclaw and Krakow, with pre-sales volume potential at around 750-800 housing units per annum in 2020E-21E. The firm specializes in building of a large-scale residential complexes, offering at least several hundred dwellings in a single location, which gives is a possibility to effectively use the economies of scale. It is since December 2015 that the shares of Lokum have been listed on WSE.

Disclaimer

This investment research (the "Document") has been prepared by Erste Group Bank AG or any of its consolidated subsidiaries (together with consolidated subsidiaries "Erste Group") independently and objectively for the purpose of providing additional economical information about the analyzed company or companies. The Document is based on reasonable knowledge of Erste Group's analyst in charge of producing the Document as of the date thereof and may be amended from time to time without further notice. It only serves for the purpose of providing non-binding information and does not constitute investment advice or investment recommendations. This Document does not constitute or form part of, and should not be construed as, an offer, recommendation or invitation to subscribe for or purchase any securities, and neither this Document nor anything contained herein shall form the basis of or be relied on in connection with or act as an inducement to enter into any contract or inclusion of a security or financial product in a trading strategy. All information, analysis and conclusions provided herein are of general nature. This Document does not purport to provide a comprehensive overview about any investment, the potential risks and results nor does this Document take into account any individual needs of an investor (the "Investor") in relation to proceeds, tax aspects, risk awareness and appropriateness of the security or financial product. Therefore, this Document does not replace any investor- and investment-related evaluation nor any comprehensive risk disclosure; any security or financial product has a different risk level. Performance charts and example calculations do not provide any indication for future performance of the security or the financial product. Information about past performance does not necessarily guarantee a positive development in the future and investments in securities or financial products can be of risk and speculative nature. The weaker the Company's credit-worthiness is, the higher the risk of an investment will be. Not every investment is suitable for every investor. Therefore, Investors shall consult their advisors (in particular legal and tax advisors) prior to taking any investment decision to ensure that – irrespective of information provided herein – the intended purchase of the security or financial product is appropriate for the Investor's needs and intention, that the Investor has understood all risks and that, after due examination, the Investor has concluded to make the investment and is in a position to bear the economical outcome of such investment. Investors are advised to mind the client information pursuant to the Austrian Securities Supervision Act 2018. Investment research is produced by Erste Group's division for investment research within the framework provided by applicable laws. The opinions featured in the equity and credit research reports may vary. Investors in equities may pursue different interests compared to those of investors on the credit side, related to the same issuer. The analyst has no authority whatsoever to make any representation or warranty on behalf of the analyzed Company, Erste Group, or any other person. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable, Erste Group (including its representatives and employees) neither expressly nor tacitly makes any guarantee as to or assumes any liability for the up-to-dateness, completeness and correctness of the content of this Document. Neither a company of Erste Group nor any of its respective managing directors, supervisory board members, executive board members, directors, officers or other employees shall be in any way liable for any costs, losses or damages (including subsequent damages, indirect damages and loss of profit) howsoever arising from the use of or reliance on this Document. Erste Group, associated companies as well as representatives and employees may, to the extent permitted by law, have a position in the securities of (or options, warrants or rights with respect to, or interest in the financial instruments or other securities of) the Company. Further, Erste Group, associated companies as well as representatives and employees may offer investment services to the Company or may take over management function in the Company. This Document has been produced in line with Austrian law and for the territory of Austria. Forwarding this Document as well as marketing of financial products described herein are restricted or interdicted in certain jurisdictions. This, in particular, applies to the United States, Canada, Switzerland, Australia, Korea and Japan. In particular, neither this Document nor any copy hereof may be taken or transmitted or distributed, directly or indirectly, into the United States or to US Persons (as defined in the U.S. Securities Act of 1933, as amended) unless applicable laws of the United States or certain federal states of the United States provide for applicable exemptions. Any failure to comply with these restrictions may constitute a violation of the laws of any such other jurisdiction. Persons receiving possession of this Document are obliged to inform themselves about any such restrictions and to adhere to them. By accepting this Document, the recipient agrees to be bound by the foregoing limitations and to adhere to applicable regulations. Further information may be provided by Erste Group upon request. This Document and information, analysis, comments and conclusions provided herein are copyrighted material. **Erste Group reserves the right to amend any opinion and information provided herein at any time and without prior notice. Erste Group further reserves the right not to update any information provided herein or to cease updates at all**. All information provided in this Document is non-binding. Misprints and printing errors reserved. This document is only made to or directed at investment professionals (as that term is defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial promotion) Order 2005 (“FPO”)) or to persons for whom it would otherwise be lawful to distribute it. Accordingly, persons who do not have professional experience in matters relating to investments should not rely on this document.

If one of the clauses provided for in this disclaimer is found to be illicit, inapplicable or not enforceable, the clause has to be treated separately from other clauses provided for in this disclaimer to the largest extent possible. In any case, the illicit, inapplicable or not enforceable clause shall not affect the licitness, applicability or enforceability of any other clauses.

Important Disclosures

THIS DOCUMENT MAY NOT BE TAKEN, TRANSMITTED OR DISTRIBUTED INTO THE UNITED STATES, CANADA, SWITZERLAND, AUSTRALIA, KOREA OR JAPAN OR TO ANY U.S. PERSON OR TO ANY INDIVIDUAL OUTSIDE CANADA, AUSTRALIA, SWITZERLAND, KOREA OR JAPAN WHO IS A RESIDENT OF THE UNITED STATES, CANADA, SWITZERLAND, AUSTRALIA, KOREA OR JAPAN OR TO THE PRESS IN THESE COUNTRIES.

General disclosures

All recommendations given by Erste Group Research are independent, objective and are based on the latest company, industry and other general information publicly available which Erste Group Research considers being reliable; however, we do not represent or assume any liability for the completeness of accuracy of such information or our recommendation. The best possible care and integrity is used to avoid errors and/or misstatements. No influence on the rating and/or target price is being exerted by either the covered company or other internal departments of Erste Group. Each research drawn up by an analyst is reviewed by a senior research executive or agreed with a senior analyst/deputy (4-eyes-principle). Erste Group has implemented extensive Compliance Rules on personal account dealings of analysts (please see "Conflicts of Interest"). Analysts are not allowed to involve themselves in any paid activities with the covered companies except as disclosed otherwise. No part of their compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or views expressed by them contained in this document. Erste Group may engage in transactions with financial instruments, on a proprietary basis or otherwise, in a manner inconsistent with the view taken in this research report. In addition, others within Erste Group, including strategists and sales staff, may take a view that is inconsistent with that taken in this research report.

Conflicts of interest

Disclosures of potential conflicts of interest relating to Erste Group Bank AG, its affiliates or branches and its relevant representatives and employees with respect to the issuers, financial instruments and/or securities forming the subject of this document are updated daily.

For an overview of conflicts of interests for all analysed companies by Erste Group in Equity Research please follow following link:
https://produkte.erstegroup.com/Retail/en/ResearchCenter/Overview/Disclaimer/index.phtml.

Erste Group Bank AG ensures with internal policies that conflicts of interest are managed in a fair manner. The policy „Managing Conflict of Interest in Connection with Investment Research" are provided under the following link:
https://produkte.erstegroup.com/Retail/en/ResearchCenter/Overview/Disclaimer/index.phtml.

Erste Group rating definitions

Buy	> +20% to target price
Accumulate	+10% < target price < +20%
Hold	0% < target price < +10%
Reduce	-10% < target price < 0%
Sell	< -10% to target price

Our target prices are established by determining the fair value of stocks, taking into account additional fundamental factors and news of relevance for the stock price (such as M&A activities, major forthcoming share deals, positive/negative share/sector sentiment, news) and refer to 12 months from now. All recommendations are to be understood relative to our current fundamental valuation of the stock. The recommendation does not indicate any relative performance of the stock vs. a regional or sector benchmark.

A history of all recommendations within the last 12 months is provided under the following link:
https://produkte.erstegroup.com/Retail/en/ResearchCenter/Overview/Disclaimer/index.phtml.

Explanation of valuation parameters and risk assessment

Unless otherwise stated in the text of the financial investment research, target prices in the publication are based on a discounted cash flow valuation and/or comparison of valuation ratios with companies seen by the analyst as comparable or a combination of the two methods. The result of this fundamental valuation is adjusted to reflect the analyst's views on the likely course of investor sentiment. Whichever valuation method is used there is a significant risk that the target price will not be achieved within the expected timeframe. Risk factors include unforeseen changes in competitive pressures or in the level of demand for the company's products. Such demand variations may result from changes in technology, in the overall level of economic activity or, in some cases, from changes in social values. Valuations may also be affected by changes in taxation, in exchange rates, in the capital market sentiment and in regulatory provisions. Investment in overseas markets and instruments such as ADRs can result in increased risk from factors such as exchange rates, exchange controls, taxation, political, economic and social conditions.

All market prices within this publication are closing prices of the previous trading day (unless otherwise mentioned within the publication).

Detailed information about the valuation and methodology of investment research by the Erste Group Bank AG is provided under the following link:
https://produkte.erstegroup.com/Retail/en/ResearchCenter/Overview/Disclaimer/index.phtml.

Planned frequency of updates for recommendations
Target prices for individual stocks are meant to be 12 month target prices, starting from the date of the publication. Target prices and recommendations are reviewed usually upon release of quarterly reports, or whenever circumstances require.

Periodical publications are identified by their respective product name and indicate update frequency as such (e.g. Quarterly). Recommendations mentioned within these publications are updated in an according frequency, unless otherwise mentioned (e.g. a 12M TP is not updated on a monthly base, even when mentioned in summarizing monthly/quarterly product).

Links

Erste Group may provide hyperlinks to websites of entities mentioned in this document, however the inclusion of a link does not imply that Erste Group endorses, recommends or approves any material on the linked page or accessible from it. Erste Group does not accept responsibility whatsoever for any such material, including in particular the completeness and accuracy, nor for any consequences of its use.

Additional notes to readers in the following countries:

Austria: Erste Group Bank AG is registered in the Commercial Register at Commercial Court Vienna under the number FN 33209m. Erste Group Bank AG is authorized and regulated by the European Central Bank (ECB) (Sonnemannstraße 20, D-60314 Frankfurt am Main, Germany) and by the Austrian “Finanzmarktaufsichtsbehörde” (FMA) (Otto-Wagner Platz 5, A-1090, Vienna, Austria).

Germany: Erste Group Bank AG is authorised for the conduct of investment business in Germany by the Austrian Financial Market Authority (FMA) and subject to limited regulation by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

United Kingdom: Erste Group Bank AG will provide its cross-border service to its UK clients under the Overseas Persons Exemption (OPE) model. This research is only made to or directed at investment professionals (as that term is defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial promotion) Order 2005 (“FPO”)) or to persons for whom it would otherwise be lawful to distribute it. Accordingly, persons who do not have professional experience in matters relating to investments should not rely on this research.

Czech Republic: Česká spořitelna, a.s. is regulated for the conduct of investment activities in Czech Republic by the “Česká Národní Banka” (CNB).

Croatia: Erste Bank Croatia is regulated for the conduct of investment activities in Croatia by the “Hrvatska Agencija za Nadzor Financijskih Usluga” (HANFA).

Hungary: Erste Bank Hungary ZRT. and Erste Investment Befektetési Zrt. are regulated for the conduct of investment activities in Hungary by the Magyar Nemzeti Bank” (MNB).

Serbia: Erste Group Bank AG is regulated for the conduct of investment activities in Serbia by the Komisija za hartije od vrednosti Republike Srbije (SCRS).

Romania: Banka Comerciala Romana is regulated for the conduct of investment activities in Romania by the “Autoritatea de Supraveghere Financiară” (ASF).

Poland: Erste Securities Polska S.A. is regulated for the conduct of investment activities in Poland by the “Komisja Nadzoru Finansowego” (KNF).

Slovakia: Slovenská sporiteľňa, a.s. is regulated for the conduct of investment activities in Slovakia by the “Národná banka Slovenska” (NBS).

Switzerland: This research report does not constitute a prospectus or similar communication in connection with an offering or listing of securities as defined in Articles 652a, 752 and 1156 of the Swiss Code of Obligation and the listing rules of the SIX Swiss Exchange.

Hong Kong: This document may only be received in Hong Kong by ‘professional investors’ within the meaning of Schedule 1 of the Securities and Futures Ordinance (Cap.571) of Hong Kong and any rules made there under.

Published by:

Erste Group Bank AG
Group Research
1100 Vienna, Austria, Am Belvedere 1
Head Office: Wien
Commercial Register No: FN 33209m
Commercial Court of Vienna
Erste Group Homepage: www.erstegroup.com