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CEE Equity Research

Real Estate, Poland

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Margins to stay high, volumes to recover

Outperform maintained, Target Price upped to PLN60

The V-shape residential sales volume recovery in 4Q22-1Q23 triggered share prices of residential developers. Atal's sales volume only marginally improved q/q in 1Q23, but we believe in its perfect exposure to the planned implementation of the cheap-mortgage scheme called 'Pierwsze mieszkanie' (thanks to high geographical diversification and exposure to mid- to low-end segment), which may drive sales growth as of 2H23E. The Polish Parliament has recently initiated the proceeding of the bill, which bodes well for a smooth scheme implementation, we think. We maintain our Outperform rating for Atal and increase Target Price to PLN60 (from PLN49). We have upped our gross margin and average revenue/per unit estimates on the Board's focus on costs control and slight upturn in residential prices. We like Atal's well-developed land bank and the number of units offered for sale, which might underpin the volume growth trajectory. Solid 2022 earnings imply DPS of PLN6.7 in 2023E, we estimate (14.2% DY). Our estimates imply solid DY of 34% in total in 2023E-25E as well. On top of that, Atal is trading at 1.36x P/BV ratio, which looks undemanding in light of increased 2023-26E avg. ROE to 15.3% and past P/BV averages.

Strong 1Q23E gross margin. Atal handed over to clients 333 residential units in 1Q23 (3.4k in 2022), which came in lower y/y (-54%) and q/q (-56%) due to handover/construction schedules. We think, however, investors should focus on gross margin and average revenue per unit which we expect to come in strong (32% and PLN545k, respectively) and above our previous expectations and past averages. Totally, we expect solid c. PLN40mn net profit in 1Q23E.

Increased financial forecasts. We increase our financial forecast, as we implemented higher gross margin and average revenue/unit estimates into the model. We still see an upside risk to our forecasts once the scenario of residential market upturn materialises. Overall, we forecast almost PLN300mn net profit in 2023E (marginally below the record ever 2022 profit), some y/y profit decline in 2024E (delayed accounting effect of sales volumes y/y fall in 2022) and the gradual earnings recovery as of 2025E.

Investors should focus on developers which secured excessive land bank. We think that investors should focus on developers who have secured excessive land bank/number of units offered for sale, both of which seem crucial to fully participate in the likely (and expected by us) new housing boom. Atal offered for sale 4.6k residential units as at 4Q22-end, which covered 2.2x times its 2022 sales volume, above 1.25x average ratio for peers (Dom Development, Echo, Archicom, Develia, Lokum). Moreover, it spent record ever cash on land purchase in 2022, which has expanded its land bank to 13.4k units, i.e. 6x times 2022 sales.

Market recovery scenario. Market environment remains far from satisfactory, but some initial signs of recovery have emerged, such as the V-shape residential market growth in 4Q22-1Q23. Atal has insignificantly improved q/q sales in 1Q23 (5%) but we believe in gradual sales growth due to its perfect exposure to the expected 'Pierwsze Mieszkanie' scheme (2H23E) and interest rates cut in 2024E.

Valuation. Our Target Price goes up PLN60. We expect 2023E/2024E ROE at 22.2%/15.7%, which implies fair P/BV at 2.2x/1.7x compared to 2023E/24E P/BV of c. 1.4x and past 6Y ratio ranging 1.3-1.8x and average of 1.6x. Our estimate implies undemanding 2023E 6.1x P/E ratio. We forecast the ratio expansion to 8.6x in 2024E, which we perceive as a relatively low level in the light of the expected profit bottoming out. In 2022, Atal paid out 70% of its 2021 net profit in the form of dividend. We assume a 70% payout ratio in 2023E, which implies PLN6.7 DPS and c. 14.2% DY.

Atal: Financial summary

Year to Dec PLNmn	2020	2021	2022	2023E	2024E	2025E
Sales	1,167	1,679	1,657	1,537	1,188	1,350
EBITDA	211	418	439	372	266	281
EBIT	209	416	436	370	264	279
Net profit	167	331	368	298	212	224
P/E (x)	7.6	5.4	3.8	6.1	8.6	8.1
P/BV	1.33	1.54	1.07	1.36	1.35	1.28
Div yield	0.0%	6.5%	16.7%	14.2%	11.5%	8.2%

Source: Company data, Santander Brokerage Poland, 2020-22 ratios based on share price avg.

Recommendation

Outperform (→)

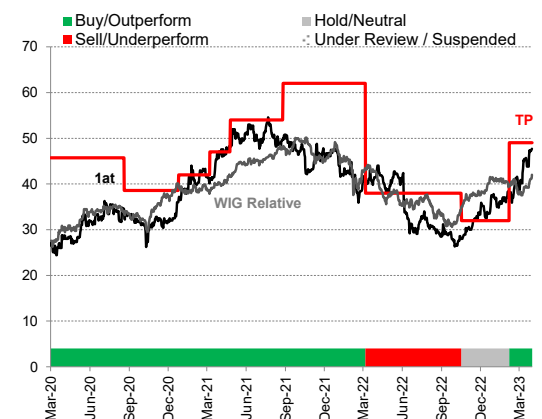
Target Price (Dec 2023)

PLN60 (↑)

Price (PLN, 24 April 2023)	47.0
Market cap. (PLNmn)	1,819
Free float (%)	17
Number of shares (mn)	38.7
Average daily turnover 3M (mn)	0.8

What has changed

- TP upped to PLN60 from PLN49
- Recommendation Outperform maintained
- Gross margin and average revenue/units estimate increased
- Slightly increased handovers volume
- We continue to believe the key risks include: 1) any delays in interest rates cuts, 2) any delays in implementation of Pierwsze mieszkanie scheme, 3) any growth in construction costs, 4) any fall in residential prices



The chart measures performance against the WIG index.

Main shareholders

% of votes

Juroszek Holding	83.3
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Source: www.gpw.pl

Company description

Atal is a residential property developer.

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1Q23E Results Preview

Fig. 1. Atal: 4Q22E Results Preview

PLNmn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23E	y/y	q/q
Sales	287.4	364.2	378.8	648.7	406.4	469.4	378.1	404.1	181.5	-55%	-55%
Apartments handovers	794	856	740	1316	719	1065	833	764	333	-54%	-56%
Avg. revenue per apartment (PLNk)	362	426	512	493	565	441	454	529	545	-4%	3%
Apartments sales volume	842	1216	1161	1039	753	587	376	385	406	-46%	5%
Gross profit on sales	65.5	93.1	102.8	192.1	133.1	93.6	97.2	146.4	58.1	-56%	-60%
Gross profit on sales margin	22.8%	25.6%	27.1%	29.6%	32.7%	19.9%	25.7%	36.2%	32.0%	-0.7	-4.2
EBITDA	58.1	86.3	93.5	181.9	124.6	85.3	88.9	140.2	50.0	-60%	-64%
EBITDA margin	20.2%	23.7%	24.7%	28.0%	30.7%	18.2%	23.5%	34.7%	27.5%	-3.1	-7.2
EBIT	57.4	85.7	92.8	181.2	123.8	84.6	88.2	139.3	49.1	-60%	-65%
EBIT margin	20.0%	23.5%	24.5%	27.9%	30.5%	18.0%	23.3%	34.5%	27.0%	-3.4	-7.4
Net profit	48.5	67.7	73.5	141.5	109.0	76.3	67.1	115.8	39.8	-64%	-66%
Net profit margin	16.9%	18.6%	19.4%	21.8%	26.8%	16.3%	17.8%	28.7%	21.9%	-4.9	-6.8

Source: Company data, Santander Brokerage Poland estimates

Forecast changes

Fig. 2. Atal: Estimates

PLNmn	2019	2020	2021	2022	2023E	2024E	2025E	2026E
Handovers volume	1765	3002	3700	3381	2900	2200	2500	2625
Sales volume	3180	2896	4258	2091	2200	2500	2625	2861
Gross margin	23.7%	20.5%	27.0%	26.1%	27.0%	26.0%	24.0%	24.0%
Net profit	114	167	331	368	298	212	224	237
Dividend	182	0	117	232	258	209	148	157
DY	12.8%	0.0%	6.5%	16.7%	14.2%	11.5%	8.2%	8.6%
ROE	14.4%	17.5%	28.3%	28.3%	22.2%	15.7%	15.8%	15.8%

Source: Company data, Santander Brokerage Poland estimates

Fig. 3. Atal: Forecast changes

PLNmn	2023E			2024E			2025E		
	Year to Dec	New	Previous	Change	New	Previous	Change	New	Previous
Sales	1537	1421	8%	1188	1100	8%	1350	1150	17%
EBITDA	372	303	23%	266	204	31%	281	215	31%
EBIT	370	301	23%	264	201	31%	279	212	31%
Net profit	298	239	24%	212	163	30%	224	172	30%

Source: Santander Brokerage Poland estimates

Valuation summary

Fig. 4. Atal: Valuation changes

PLN per share	New	Previous	Change
DCF valuation	55	47	19%
Equity method (WEV)	64	50	28%
Weighted valuation*	60	49	22%

Source: Santander Brokerage Poland estimates, * Target Price calculated as 50%/50% weighted average of DCF and equity method

Fig. 5. Atal: DCF valuation

PLNmn	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Net sales	1,537	1,188	1,350	1,418	1,545	1,545	1,545
EBIT	370	264	279	295	326	326	326
Cash taxes on EBIT	70	50	53	56	62	62	62
NOPAT	300	214	226	239	264	264	264
Depreciation	2	2	2	2	2	2	2
Change in operating WC	-203	-55	0	0	0	0	0
Capital expenditure	-2	-2	-2	-2	-2	-2	-2
Free cash flow	97	158	226	239	264	264	264
Sum of FCFFs PVs	722						
Residual growth of FCFFs	1.5%						
Residual value	2,833						
Present value of the residual value	1,461						
Enterprise Value	2,182						
Net debt incl. leasing (2023E)	554						
Leasing adjustment (2023E)	226						
Dividend (to be paid in 2023E)	258						
Equity value (Dec 2023)	2,112						
Equity value per share (PLN)	55						

Source: Santander Brokerage Poland estimates

Fig. 6. Atal: Equity method valuation

ROE 2023E-26E average	18.6%
Cost of capital	10.0%
Fair P/BV	1.86
BV as at 2022 (PLNmn)	1,302
Fair value (PLNmn)	2,430
Fair value per share (PLN)	64

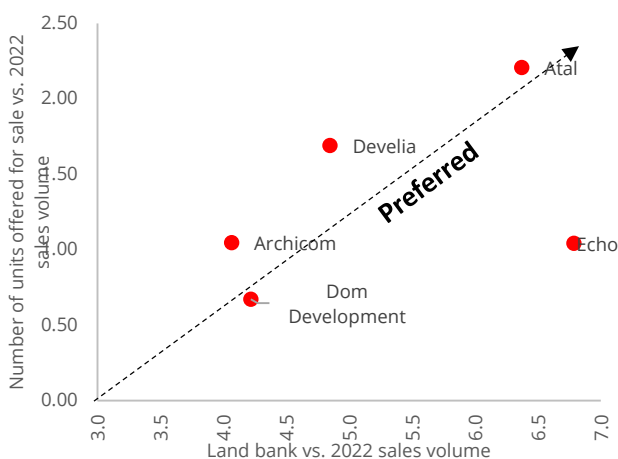
Source: Company data, Santander Brokerage Poland estimates

Fig. 7. Atal: Peer valuation

	2023E	2024E
Foreign peers average P/E multiples	8.85	10.43
Implied valuation per share (PLN)	68	59
Average implied valuation per share (PLN)	63	

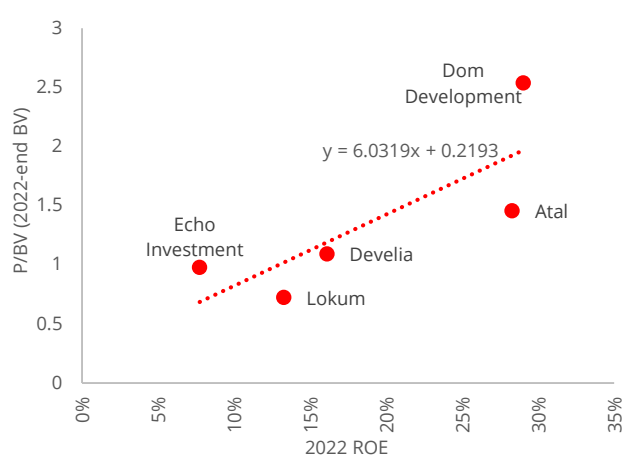
Source: Company data, Bloomberg, Santander Brokerage Poland estimates, peer valuation is based on foreign peers and we do not include it into our target price due to differences in accounting standards between Polish and foreign companies

Fig. 8. Atal: Land bank and units offered for sale



Source: Company

Fig. 9 Atal: P/BV and 2022 ROE



Financials in detail

Fig. 8. Atal: Income statement forecasts

PLNmnn	2019	2020	2021	2022	2023E	2024E	2025E
Net sales	720	1167	1679	1658	1537	1188	1350
COGS	549	930	1226	1188	1122	879	1026
Gross profit	171	238	453	470	415	309	324
SG&A	33	33	37	42	45	45	45
Other operating income, net	8	4	0	7	0	0	0
EBITDA	148	211	418	438	372	266	281
Operating profit	146	209	416	436	370	264	279
Net financial income (costs)	-3	-8	-1	27	-2	-2	-2
Profit before tax	143	200	415	463	368	262	277
Income tax	-27	-33	-85	-95	-70	-50	-53
Net profit	114	167	330	368	298	212	224

Source: Company data, Santander Brokerage Poland estimates

Fig. 9. Atal: Balance sheet forecasts

PLNmnn	2019	2020	2021	2022	2023E	2024E	2025E
Current assets	2256	2607	2916	2973	2810	2758	2834
Fixed assets	175	185	203	201	201	201	201
Total assets	2431	2792	3119	3174	3011	2959	3035
Current liabilities	694	1125	1046	1264	1061	1006	1006
bank debt	214	512	252	388	388	388	388
Long-term liabilities	944	714	903	617	617	617	617
bank debt	737	542	599	401	401	401	401
Equity	789	956	1165	1302	1342	1346	1422
Total liabilities	2431	2792	3119	3174	3011	2959	3035
Net debt	800	812	126	164	324	376	300

Source: Company data, Santander Brokerage Poland estimates, debt excl. leasing

Fig. 10. Atal: Cash flow statement forecasts

PLNmnn	2019	2020	2021	2022	2023E	2024E	2025E
CF from operations	-271	95	579	212	104	161	229
CF from investment	11	1	4	5	3	1	1
CF from financing	229	92	-330	-302	-270	-214	-154
dividends	-182	0	-117	-232	-258	-209	-148
Net change in cash	-32	189	252	-85	-163	-52	76

Source: Company data, Santander Brokerage Poland estimates

Fig. 11. Atal: Key assumptions and margins

	2019	2020	2021	2022	2023E	2024E	2025E
Apartments handovers	1765	3002	3700	3381	2900	2200	2500
Avg sale/apartment (PLN ths)	408	389	454	490	530	540	540
Gross margin	23.7%	20.3%	27.0%	28.4%	27.0%	26.0%	24.0%
EBITDA margin	20.6%	18.1%	24.9%	26.4%	24.2%	22.4%	20.8%
Operating margin	20.3%	17.9%	24.7%	26.3%	24.1%	22.2%	20.7%
Net profit margin	15.8%	14.3%	19.6%	22.2%	19.4%	17.8%	16.6%

Source: Company data, Santander Brokerage Poland estimates

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Ratings definitions:

Outperform - Total return 10% above benchmark. Upside of approximately $\geq 15\%$.

Neutral - Total return 0%-10% above benchmark. Upside of approximately 5%-15%.

Underperform - Total return below benchmark. Upside of approximately $< 5\%$.

NOTE: The relevant benchmark for European Equities (including CEE Equities) is the 1Y German Bund rate +ERP (5,5%).

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Target prices set from January to June are for December 31st of the current year. Target prices set from July to December are for December 31st of the following year.

Periodicity: our recommendations/ target prices for each issuer are going to be reviewed at least once a year and whenever market events so warrant.

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In preparing this report Santander Brokerage Poland applied at least one of the following valuation methods: discounted cash flows (DCF), comparative, mid-cycle, dividend discount model (DDM), residual income, warranted equity method (WEV), SOTP valuation, liquidation value.

The discounted cash flows (DCF) valuation method is based on expected future discounted cash flows. One advantage of the DCF valuation method is that it takes into account all cash streams reaching Issuer and the cost of money over time. Some disadvantages of the DCF valuation method are that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.

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The mid-cycle multiple valuation is based on long-term average valuation multiples of a sector or a peer group. The methodology aims to calculate a fair, through the cycle value of the company. Among its shortfalls is that at peaks and/or troughs of the cycle, the implied fair value may deviate substantially from the market's value of an analysed stock as well as the methods' reliance on the quality of external data (we usually use Bloomberg or Damodaran databases).

Simplicity and average through-cycle value allowing to capture over- as well as under-valuation of a given stock are the main advantages of this methodology.

The dividend discount model (DDM) valuation is based on the net present value of the future dividends that are expected to be paid out by the company. Some advantages of the DDM valuation method are that it takes into account real cash flows to equity-owners and that the methodology is used in respect to companies with long dividend payout history. Main disadvantage of the DDM valuation method is that dividend payouts are based on a large number of parameters and assumptions, including dividend payout ratio.

Residual income method is conceptually close to the discounted cash flows method (DCF) for non-financial stocks, the difference being that it is based on expected residual income (returns over COE) rather than expected future cash flows. One advantage of this valuation method is that it captures the excess of profit potentially available to shareholders and the cost of money over time. Main disadvantage of the valuation method is that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.

The warranted equity method (WEV) is based on the formula $P/BV = (\text{two year forward ROE less sustainable growth rate}) / (\text{Cost of equity less sustainable growth rate})$ which allows estimating a fair value (FV) of a given stock in two years' time. Subsequently the FV is discounted back to today. The main advantage of the WEV method is that it is a transparent one and based on relatively short term forecasts, hence substantially reducing the margin of forecasting error. The main disadvantage in our view is that the model is based on the principle that stock price should converge towards its fair value implied by company's ROE and COE.

SOTP valuation - different assets of a company are being valued according to different valuation methods, and the sum of these valuations represents the final valuation of the company. SOTP valuation advantages / disadvantages are identical to advantages and disadvantages of the specific valuation methods used.

Liquidation value method - liquidation value is the estimated amount of money that an asset or company could be quickly sold for, such as if it were to go out of business. Then, the estimated assets value is adjusted for liabilities and liquidation expenses. One advantage of this valuation method is its simplicity. This method does not account for intangible assets as goodwill, which is the main disadvantage.

In the opinion of Santander Brokerage Poland, this report has been prepared with all due diligence and excludes any conflict of interests which could influence its content. In Santander Bank Polska there are implemented internal regulations, which are designed to prevent conflicts of interest concerning recommendations. Physical and logic barriers are established, and the principles of documentation adequate to the type of Santander Bank Polska operations are implemented. Additionally, Santander Bank Polska introduced a number of obligations and restrictions relating to the protection of confidential information flow between organizational units.

The date and time on the first page of this report indicates the date of the production of the recommendation, and the dissemination of the recommendation takes place on the same day before the start of the session.

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