Santander

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Polski Holding Nieruchomosci (Buy, TP PLN21.1)

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3Q19E Results Preview

WSE's Analytical Coverage Support Programme

Below we present our 3Q19E results forecast:

- We estimate 2% q/q sales increase to PLN43.8mn, supported by consolidation of recently acquired office property in Wilanow (as of July 2019). We estimate PLN43.8mn rental revenue in 3Q19E (PLN40.5mn in 2Q19), and nil sales from residential business (residential business contribution unlikely until 4Q19E/1Q20E);
- We estimate PLN10mn non-cash revaluation gain in 3Q19E, due to significant q/q EUR/PLN appreciation (c.3%). The company's EUR-yielding properties include Wilanow Office Park, Alchemia, ABC, Kaskada, and Domaniewska property;
- We assume flattish q/q overhead costs and financial costs;
- Overall, we estimate PLN16.0mn net profit in 3Q19E.

Comment: Neutral, as strong y/y and q/q 3Q19E net profit increase comes from one-off gain (revaluation of EUR-yielding properties due to EUR/PLN q/q appreciation).

PHN: 3Q19E Results Preview

PLNmn	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19E	*y/y*	*q/q*
Sales	**40.4**	**39.9**	**40.4**	**40.4**	**43.8**	**43.0**	**43.1**	**43.0**	**43.8**	***0%***	***2%***
Rental business	36.9	37.7	38.6	39.6	41.3	40.5	41.6	40.5	43.75	*6%*	*8%*
Residential business	0.0	0.1	0.0	0.0	0.1	0.5	0.0	0.1	0.0	*n.m.*	*n.m.*
Other	2.2	2.1	1.8	2.2	2.4	2.0	1.5	2.4	0	*n.m.*	*n.m.*
Gross profit	20.9	19.6	21.1	22.3	23.4	19.2	24.8	24.1	26.1	*12%*	*8%*
Rental business	20.5	19.2	20.6	22.1	22.9	19.0	24.8	24.2	26.1	*14%*	*8%*
Residential business	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	*n.m.*	*n.m.*
Other	0.4	0.4	0.5	0.2	0.4	0.2	0.0	-0.1	0.0	*n.m.*	*n.m.*
Revaluation gain/loss	**0.5**	**-2.2**	**2.5**	**14.7**	**-10.9**	**7.4**	**1.5**	**7.4**	**10.0**	***n.m.***	***35%***
EBITDA	**15.3**	**10.5**	**17.4**	**25.8**	**7.9**	**15.3**	**20.2**	**21.0**	**27.9**	***254%***	***33%***
EBITDA margin	*37.9%*	*26.3%*	*43.1%*	*63.9%*	*18.0%*	*35.6%*	*46.9%*	*48.8%*	*63.9%*	*45.8*	*15.0*
EBIT	**15.0**	**10.2**	**17.1**	**25.5**	**7.6**	**15.0**	**19.9**	**20.7**	**27.6**	***264%***	***34%***
EBIT margin	*37.1%*	*25.6%*	*42.3%*	*63.1%*	*17.4%*	*34.9%*	*46.2%*	*48.1%*	*63.2%*	*45.8*	*15.0*
Adj EBIT*	14.5	12.4	14.6	10.8	18.5	7.6	18.4	13.3	17.6	*-5%*	*33%*
Net profit	**15.0**	**9.3**	**12.7**	**20.0**	**5.2**	**9.9**	**12.7**	**14.7**	**16.0**	***208%***	***9%***
Net profit margin	*37.1%*	*23.3%*	*31.4%*	*49.5%*	*11.9%*	*23.0%*	*29.5%*	*34.2%*	*36.6%*	*24.7*	*2.4*

*Source: Company data, Santander Brokerage Poland, *adjusted for revaluations*

Financial summary: PHN

PLNmn	2016	2017	2018	2019E	2020E	2021E
Sales	175	159	169	199	353	315
EBIT	45	37	65	87	103	96
EBITDA	46	38	67	89	104	97
Net profit	31	31	48	47	56	49
P/BV	0.29	0.38	0.29	0.27	0.27	0.27
DY	3.5%	1.6%	2.2%	3.5%	3.6%	3.9%

Source: Company data, Santander Brokerage Poland, 2016-18 ratios calculated on historical annual share price averages

No recommendations, TPs or forecasts were altered in this note.

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PEG - P/E to growth ratio
EPS - earnings per share
CPI – consumer price index
WACC - weighted average cost of capital
CAGR – cumulative average annual growth
P/CE – price to cash earnings (net profit plus depreciation and amortisation) ratio
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FCF - free cash flows
BV – book value
ROE – return on equity
P/BV – price-book value

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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 = (two year forward ROE less sustainable growth rate)/(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.
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