

Polski Holding Nieruchomosci (Buy, TP PLN21.1)
Adrian Kyrzc
3Q19 Results Review
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WSE's Analytical Coverage Support Programme

Below we present 3Q19 results review:

- Sales increased 12% q/q sales to PLN48mn and came in above our estimate of PLN43.8mn. Sales were supported by consolidation of recently acquired office property in Wilanow (as of July 2019). The company generated PLN45.5mn rental revenue in 3Q19 (PLN40.5mn in 2Q19), and sales close to nil from residential business (residential business contribution unlikely until 4Q19E/1Q20E);
- The company's gross profit of PLN27.6mn in 3Q19 came in slightly above our forecast of PLN26.1mn;
- The company recognized PLN10mn non-cash revaluation gain in 3Q19 (in line with our estimate), as we see it, 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.
- PHN recognized PLN3.2mn net other operating income, which stayed behind higher than expected EBIT. On the other hand, the company recognized higher than expected financial costs, which brought net profit close to our estimate.

Comment: Neutral, as 3Q19 net profit came in fully in line with expectations.

PHN: 3Q19 Results Review

PLNmnn	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	y/y	q/q	SANe
Sales	40.4	39.9	40.4	40.4	43.8	43.0	43.1	43.0	48.0	10%	12%	43.8
Rental business	36.9	37.7	38.6	39.6	41.3	40.5	41.6	40.5	45.5	10%	12%	43.75
Residential business	0.0	0.1	0.0	0.0	0.1	0.5	0.0	0.1	0.1	n.m.	n.m.	0
Other	2.2	2.1	1.8	2.2	2.4	2.0	1.5	2.4	2.4	n.m.	n.m.	0
Gross profit	20.9	19.6	21.1	22.3	23.4	19.2	24.8	24.1	27.6	18%	15%	26.1
Rental business	20.5	19.2	20.6	22.1	22.9	19.0	24.8	24.2	27.4	20%	13%	26.1
Residential business	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1	n.m.	n.m.	0.0
Other	0.4	0.4	0.5	0.2	0.4	0.2	0.0	-0.1	0.1	n.m.	n.m.	0.0
Revaluation gain/loss	0.5	-2.2	2.5	14.7	-10.9	7.4	1.5	7.4	9.9	n.m.	34%	10.0
EBITDA	15.3	10.5	17.4	25.8	7.9	15.3	20.2	21.0	32.1	306%	53%	27.9
EBITDA margin	37.9%	26.3%	43.1%	63.9%	18.0%	35.6%	46.9%	48.8%	66.9%	48.8	18.0	63.9%
EBIT	15.0	10.2	17.1	25.5	7.6	15.0	19.9	20.7	31.8	318%	54%	27.6
EBIT margin	37.1%	25.6%	42.3%	63.1%	17.4%	34.9%	46.2%	48.1%	66.3%	48.9	18.1	63.2%
Adj EBIT*	14.5	12.4	14.6	10.8	18.5	7.6	18.4	13.3	21.9	18%	65%	17.6
Net profit	15.0	9.3	12.7	20.0	5.2	9.9	12.7	14.7	16.3	213%	11%	16.0
Net profit margin	37.1%	23.3%	31.4%	49.5%	11.9%	23.0%	29.5%	34.2%	34.0%	22.1	-0.2	36.6%

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

Financial summary: PHN

PLNmnn	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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EBIT – earnings before interest and tax

EBITDA – earnings before interest, taxes, depreciation, and amortization

P/E – price-earnings ratio
EV – enterprise value (market capitalisation plus net debt)
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
NOPAT – net operational profit after taxation
FCF - free cash flows
BV – book value
ROE – return on equity
P/BV – price-book value

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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.

The comparative valuation method is based on the economic rule of "one price". Some advantages of the comparative valuation method are that the analyst need only estimate a small number of parameters; the valuation is based on current market conditions; the relatively large accessibility of indicators for companies being compared; and that there is an extensive knowledge of the comparative method among investors. Some disadvantages of valuation by the comparative method are the considerable sensitivity of the results of the valuation on the choice of companies to the comparative group; the method can lead to a simplification of the picture of the company which in turn can lead to omitting certain important factors (e.g. growth dynamics, extra-operational assets, corporate governance, the repeatability of results, differences in applied accounting standards); and the uncertainty of the effectiveness of a market valuation of companies being compared.

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.

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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 $P/BV = (\text{two year forward ROE less sustainable growth rate}) / (\text{Cost of equity less sustainable growth rate})$ 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.

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