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Polski Holding Nieruchomosci (Buy, TP PLN21.1)

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4Q19E Results Preview
WSE's Analytical Coverage Support Programme

Below we present our 4Q19E results preview:

- We expect 49% q/q sales increase to PLN64mn. Our forecast includes sales from housing business (PLN19mn), as we believe the company has initiated handovers of its first residential project Vis-à-vis Wola since 4Q19E. We assume handovers of 50 residential units at the average price of PLN380k per apartment;
- We forecast slightly higher q/q gross profit in 4Q19E at PLN28.4mn, owing to the aforementioned contribution from housing business. We estimate an 18% gross margin at the Vis-à-vis Wola project implying PLN3.4mn profit from housing business;
- Any positive revaluation of Skysawa office property (under construction) constitutes an upside risk to our earnings estimate;
- We forecast higher y/y net financial costs (higher y/y debt due to debt-financed constructions);
- Overall, we expect low net profit of 6.3mn in 4Q19E.

Comment: Overall, we view 4Q19E as neutral. Our 1-4Q19E net profit forecast is broadly in line with our previous FY19E earnings expectations.

PHN: 4Q19 Results Preview

PLNmn	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19E	*y/y*	*q/q*
Sales	39.9	40.4	40.4	43.8	43.0	43.1	43.0	48.0	**64.0**	*49%*	*33%*
Rental business	37.7	38.6	39.6	41.3	40.5	41.6	40.5	45.5	**45**	*11%*	*-1%*
Residential business	0.1	0.0	0.0	0.1	0.5	0.0	0.1	0.1	**19.0**	*n.m.*	*n.m.*
Other	2.1	1.8	2.2	2.4	2.0	1.5	2.4	2.4	**0**	*n.m.*	*n.m.*
Gross profit	19.6	21.1	22.3	23.4	19.2	24.8	24.1	27.6	**28.4**	*48%*	*3%*
Rental business	19.2	20.6	22.1	22.9	19.0	24.8	24.2	27.4	**25.0**	*32%*	*-9%*
Residential business	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1	**3.4**	*n.m.*	*n.m.*
Other	0.4	0.5	0.2	0.4	0.2	0.0	-0.1	0.1	**0.0**	*n.m.*	*n.m.*
Revaluation gain/loss	-2.2	2.5	14.7	-10.9	7.4	1.5	7.4	9.9	**0.0**	*n.m.*	*n.m.*
EBITDA	10.5	17.4	25.8	7.9	15.3	20.2	21.0	32.1	**16.5**	*8%*	*-49%*
EBITDA margin	*26.3%*	*43.1%*	*63.9%*	*18.0%*	*35.6%*	*46.9%*	*48.8%*	*66.9%*	***25.8%***	*-9.8*	*-41.1*
EBIT	10.2	17.1	25.5	7.6	15.0	19.9	20.7	31.8	**16.2**	*8%*	*-49%*
EBIT margin	*25.6%*	*42.3%*	*63.1%*	*17.4%*	*34.9%*	*46.2%*	*48.1%*	*66.3%*	***25.3%***	*-9.5*	*-40.9*
Adj EBIT*	12.4	14.6	10.8	18.5	7.6	18.4	13.3	21.9	**16.2**	*113%*	*-26%*
Net profit	9.3	12.7	20.0	5.2	9.9	12.7	14.7	16.3	**6.3**	*-36%*	*-61%*
Net profit margin	*23.3%*	*31.4%*	*49.5%*	*11.9%*	*23.0%*	*29.5%*	*34.2%*	*34.0%*	***9.9%***	*-13.1*	*-24.1*

*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	0.30	0.29	0.27
DY	3.5%	1.6%	2.2%	3.2%	3.1%	3.1%

Source: Company data, Santander Brokerage Poland, 2016-19 ratios calculated on historical annual share price averages
No recommendations, TPs or forecasts were altered in this note.

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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
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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 = (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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