

Polski Holding Nieruchomosci (Buy, TP PLN18.5)
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1Q20 Results Review
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WSE's Analytical Coverage Support Programme

Below we present 1Q20 results highlights:

- Sales of PLN164.5mn came in above consensus (PLN136.7mn) and above our expectations (PLN129.3mn). Rental revenues of PLN46.6mn were slightly above our forecast (PLN44.3mn), but construction and residential sales of PLN37mn and PLN78.5mn respectively were above our projections (PLN14mn and PLN71mn respectively).
- PHN handed over to clients 151 residential units in 1Q20, which implies avg. revenue per unit of PLN520k. Gross margin in residential segment stood at 17% vs. 19% expected.
- The company recognized sales and earnings of Chemobudowa in 1Q20. Gross profit in construction segment stood at PLN2.2mn in 1Q20 (profit close to nil expected), implying 5.9% gross margin in construction segment.
- Revaluation gain stood at PLN11mn (nil expected) due to EUR/PLN appreciation.
- EBIT adjusted for revaluation gain was fully in line with our forecast.
- Administration costs increased to PLN12.4mn in 1Q20 from PLN11.8mn in 4Q19, due to consolidation of Chemobudowa.
- PLN2.5mn net other operating costs depressed profits.
- Operating CF stood increased y/y to PLN63.9mn in 1Q20 from PLN26.4mn in 1Q19, due to lower y/y NWC utilization.
- The company acquired property in Lodz for PLN0.3mn in 1Q20.

Comment: Overall, we view 1Q20E as positive, due to headline earnings above our forecast, solid OCF, and high earnings contribution from residential business. On the negative note, gross margin in residential business stood at only 17%. Moreover, EBIT and net profit settled below market consensus.

PHN: 1Q20 Results Review

PLNmn	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	y/y	q/q	SANE	Cons.
Sales	40.4	40.4	43.8	43.0	43.1	43.0	48.0	75.0	164.5	282%	119%	129.3	136.7
<i>Rental business</i>	38.6	39.6	41.3	40.5	41.6	40.5	45.5	44.3	46.6	12%	5%	44.3	
<i>Residential business</i>	0.0	0.0	0.1	0.5	0.0	0.1	0.1	22.1	78.5	n.m.	255%	71.0	
<i>Construction</i>	-	-	-	-	-	-	-	-	37.1	n.m.	n.m.	14.0	
<i>Other</i>	1.8	2.2	2.4	2.0	1.5	2.4	2.4	8.6	2.3	n.m.	-73%	0.0	
Gross profit	21.1	22.3	23.4	19.2	24.8	24.1	27.6	26.5	40.2	62%	52%	34.0	
<i>Rental business</i>	20.6	22.1	22.9	19.0	24.8	24.2	27.4	21.7	25.6	3%	18%	25.7	
<i>Residential business</i>	0.0	0.0	0.1	0.0	0.0	0.0	0.1	4.2	13.4	n.m.	219%	13.5	
<i>Construction</i>	-	-	-	-	-	-	-	-	2.2	n.m.	n.m.	0.2	
<i>Other</i>	0.5	0.2	0.4	0.2	0.0	-0.1	0.1	0.6	-1.0	n.m.	n.m.	0.0	
Revaluation gain/loss	2.5	14.7	-10.9	7.4	1.5	7.4	9.9	38.6	11.0	n.m.	n.m.	0.0	
EBITDA	17.4	25.8	7.9	15.3	20.2	21.0	32.1	45.3	36.6	81%	-19%	27.0	57
EBITDA margin	43.1%	63.9%	18.0%	35.6%	46.9%	48.8%	66.9%	60.4%	22.2%	-24.6	-38.2	20.9%	41.7%
EBIT	17.1	25.5	7.6	15.0	19.9	20.7	31.8	45.0	36.3	82%	-19%	25.0	40.6
EBIT margin	42.3%	63.1%	17.4%	34.9%	46.2%	48.1%	66.3%	60.0%	22.1%	-24.1	-37.9	19.4%	29.7%
Adj EBIT*	14.6	10.8	18.5	7.6	18.4	13.3	21.9	6.4	25.3	38%	295%	25.0	
Net profit	12.7	20.0	5.2	9.9	12.6	14.6	15.5	24.9	29.2	132%	17%	20.3	32.1
Net profit margin	31.4%	49.5%	11.9%	23.0%	29.2%	34.0%	32.3%	33.2%	17.8%	-11.5	-15.4	15.7%	23.4%

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

Financial summary: PHN

PLNm	2017	2018	2019	2020E	2021E	2022E
Sales	159	169	209	430	414	196
Revaluation	-19	14	57	0	0	0
EBIT	37	65	117	103	100	84
Net profit	31	48	68	56	53	35
P/BV	0.38	0.29	0.24	0.26	0.24	0.23
DY	1.6%	2.2%	3.6%	3.6%	4.0%	3.7%

Source: Company data, Santander Brokerage Poland, 2017-19 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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Buy - indicates a stock's total return to exceed more than 10% over the next twelve months.

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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.

The 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.

The 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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