

(Buy, TP PLN18.5)

Bloomberg: PHN PW, Reuters: PHN

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Adrian Kyrzcz, Equity Analyst

2Q20E Results Preview

+48 22 586 8159 adrian.kyrzcz@santander.pl

Below we present our 2Q20E Results Preview for PHN:

- We forecast a significant decline in revenues q/q, due to lower contribution of the residential segment. We assume that PHN handed over majority of apartments from the Vis-a-Vis Wola project in 4Q2019 and 1Q2020, therefore, we expect tiny handovers from this project in 2Q20E. We also expect lower q/q sales from the rental segment, due to restrictions imposed on retail operations, as well as pressure on rents.
- In line with expected sales trends, we estimate tiny gross profit from the residential segment and a slight decline q/q of gross profit from the rental segment.
- We expect flattish q/q administration costs.
- We expect negative revaluation of approx. PLN20 million, due to: (1) a decrease in EUR/PLN exchange rate q/q, which reduced the value of yielding properties, (2) an increase in exit yields, and (3) pressure on rents.
- Overall, we expect net loss of PHN in 2Q20E.

Fig. 1. PHN: 2Q20E Results Preview

PLNm	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20E	y/y	q/q
Sales	40.4	40.4	43.8	43.0	43.1	43.0	48.0	75.0	164.5	80.0	86%	-51%
Rental business	38.6	39.6	41.3	40.5	41.6	40.5	45.5	44.3	46.6	44	9%	-6%
Residential business	0.0	0.0	0.1	0.5	0.0	0.1	0.1	22.1	78.5	4.0	n.m.	-95%
Construction	-	-	-	-	-	-	-	-	37.1	32.0	n.m.	-14%
Other	1.8	2.2	2.4	2.0	1.5	2.4	2.4	8.6	2.3	0	n.m.	n.m.
Gross profit	21.1	22.3	23.4	19.2	24.8	24.1	27.6	26.5	40.2	27.1	13%	-32%
Rental business	20.6	22.1	22.9	19.0	24.8	24.2	27.4	21.7	25.6	24.2	0%	-6%
Residential business	0.0	0.0	0.1	0.0	0.0	0.0	0.1	4.2	13.4	0.8	n.m.	n.m.
Construction	-	-	-	-	-	-	-	-	2.2	1.9	n.m.	n.m.
Other	0.5	0.2	0.4	0.2	0.0	-0.1	0.1	0.6	-1.0	0.3	n.m.	n.m.
Revaluation gain/loss	2.5	14.7	-10.9	7.4	1.5	7.4	9.9	38.6	11.0	-20.0	n.m.	n.m.
EBITDA	17.4	25.8	7.9	15.3	20.2	21.0	32.1	45.3	36.6	-5.0	n.m.	n.m.
EBITDA margin	43.1%	63.9%	18.0%	35.6%	46.9%	48.8%	66.9%	60.4%	22.2%	-6.2%	-55.0	-28.4
EBIT	17.1	25.5	7.6	15.0	19.9	20.7	31.8	45.0	36.3	-5.3	-125%	-114%
EBIT margin	42.3%	63.1%	17.4%	34.9%	46.2%	48.1%	66.3%	60.0%	22.1%	-6.6%	-54.7	-28.6
Adj EBIT*	14.6	10.8	18.5	7.6	18.4	13.3	21.9	6.4	25.3	14.7	11%	-42%
Net profit	12.7	20.0	5.2	9.9	12.6	14.6	15.5	24.9	29.2	-8.4	-157%	17%
Net profit margin	31.4%	49.5%	11.9%	23.0%	29.2%	34.0%	32.3%	33.2%	17.8%	-10.4%	-44.4	-28.2

Source: Company data, Santander Brokerage Poland, adj for revaluations

PHN: Financial forecasts

PLNmn	2018	2019	2020P	2021P	2022P
Sales	169	209	430	414	196
EBITDA	67	119	105	102	86
EBIT	65	117	103	100	84
Net profit	48	68	56	53	35
P/E (x)	11.9	8.2	10.7	10.5	15.7
P/ BV (x)	0.29	0.25	0.27	0.24	0.24
DY	2.2%	3.5%	4.6%	3.9%	3.6%

Source: Company data, Santander Brokerage Poland, 2018-19 ratios calculated on historical annual share price averages

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

Santander Brokerage Poland

Jana Pawla II Avenue 17
00-854 Warszawa
fax. (+48) 22 586 81 09

Equity Research Department

Kamil Stolarski, CFA, <i>Head of Equity Research Strategy, Financials</i>	tel. (+48) 22 586 81 00	kamil.stolarski@santander.pl
Paweł Puchalski, CFA, <i>Equity Analyst Telecommunications, Metals & Mining, Power</i>	tel. (+48) 22 586 80 95	pawel.puchalski@santander.pl
Tomasz Krukowski, CFA, <i>Equity Analyst Oil&Gas, CEE Non-Financials</i>	tel. (+48) 22 586 81 55	tomasz.krukowski@santander.pl
Adrian Kyrzcz, <i>Equity Analyst Construction, Real Estate, IT</i>	tel. (+48) 22 586 81 59	adrian.kyrzcz@santander.pl
Tomasz Sokołowski, <i>Equity Analyst Consumer Goods, Retail</i>	tel. (+48) 22 586 82 36	tomasz.sokolowski@santander.pl
Michał Sopieli, <i>Equity Analyst Industrials, Oil&Gas, Chemicals, Quantitative Analysis</i>	tel. (+48) 22 586 82 33	michal.sopiel@santander.pl

Sales & Trading Department

Kamil Kalemba, <i>Head of Institutional Equities</i>	tel. (+48) 22 586 80 84	kamil.kalemba@santander.pl
Mateusz Choromański, CFA, <i>Head of Sales Securities Broker, Investment Advisor</i>	tel. (+48) 22 586 80 82	mateusz.choromanski@santander.pl
Robert Chudala	tel. (+48) 22 586 85 14	robert.chudala@santander.pl
Alex Kamiński	tel. (+48) 22 586 80 63	alex.kaminski@santander.pl
Błażej Leśków, <i>Securities Broker</i>	tel. (+48) 22 586 80 83	blazej.leskow@santander.pl
Michał Stępkowski, <i>Securities Broker</i>	tel. (+48) 22 586 85 15	michal.stepkowski@santander.pl
Marek Wardzyński, <i>Securities Broker</i>	tel. (+48) 22 586 80 87	marek.wardzynski@santander.pl

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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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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.

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