Polski Holding Nieruchomosci

(Buy, TP PLN18)

Bloomberg: PHN PW, Reuters: PHN

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3Q20E Results Preview

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Below we present our 3Q20E Results Preview for PHN:

- We forecast flattish q/q revenues. We estimate flat q/q rental revenues and strong q/q sales growth from residential segment, as PHN has initiated residential units handovers of Yacht Park project in 3Q20. We estimate slightly lower q/q sales from construction segment.
- In line with expected sales trends, we estimate q/q gross profit growth from the residential segment and flattish q/q gross profit from the rental segment.
- We expect flattish q/q administration costs.
- We expect positive revaluation of approx. PLN5 million, due to: (1) an increase in EUR/PLN exchange rate q/q, which helped the value of yielding properties.
- Overall, we expect PLN13.8mn net profit of PHN in 3Q20E.

Fig. 1. PHN: 3Q20E Results Preview

PLNmn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20E	*y/y*	*q/q*
Sales	43.1	43.0	48.0	75.0	164.5	100.7	**107.6**	*124%*	*7%*
Rental business	41.6	40.5	45.5	44.3	46.6	46.2	**46.6**	*2%*	*1%*
Residential business	0.0	0.1	0.1	22.1	78.5	5.8	**27.0**	*n.m.*	*n.m.*
Construction					37.1	46.6	**34.0**	*n.m.*	*-27%*
Other	1.5	2.4	2.4	8.6	2.3	2.1	**0**	*n.m.*	*n.m.*
Gross profit	24.8	24.1	27.6	26.5	40.2	27.1	**32.7**	*19%*	*21%*
Rental business	24.8	24.2	27.4	21.7	25.6	25.6	**25.8**	*-6%*	*1%*
Residential business	0.0	0.0	0.1	4.2	13.4	0.7	**4.9**	*n.m.*	*n.m.*
Construction					2.2	2.8	**2.0**	*n.m.*	*-27%*
Other	0.0	-0.1	0.1	0.6	-1.0	-2.0	**0.0**	*n.m.*	*n.m.*
Revaluation gain/loss	1.5	7.4	9.9	38.6	11.0	-70.7	**5.0**	*-49%*	*n.m.*
EBITDA	20.2	21.0	32.1	45.3	36.6	-53.9	**25.5**	*-20%*	*n.m.*
EBITDA margin	*46.9%*	*48.8%*	*66.9%*	*60.4%*	*22.2%*	*-53.5%*	***23.7%***	*-43.2*	*77.2*
EBIT	19.9	20.7	31.8	45.0	36.3	-54.2	**25.2**	*-21%*	*n.m.*
EBIT margin	*46.2%*	*48.1%*	*66.3%*	*60.0%*	*22.1%*	*-53.8%*	***23.4%***	*-42.8*	*77.3*
Adj EBIT*	18.4	13.3	21.9	6.4	25.3	16.5	**20.2**	*-8%*	*23%*
Net profit	12.6	14.6	15.5	24.9	29.2	-54.3	**13.8**	*-11%*	*n.m.*
Net profit margin	*29.2%*	*34.0%*	*32.3%*	*33.2%*	*17.8%*	*-53.9%*	***12.8%***	*-19.5*	*66.7*

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

PHN: Financial forecasts

PLNmn	2018	2019	2020P	2021P	2022P
Sales	169	209	561	387	387
Revaluations	14	57	-60	0	0
EBIT	65	117	32	74	84
Net profit	48	68	9	41	38
P/E (x)	11.9	8.2	54.7	11.5	12.2
P/ BV (x)	0.29	0.25	0.23	0.21	0.21
DY	2.2%	3.5%	5.4%	0.8%	3.3%

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.

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EPS - earnings per share
CPI – consumer price index
WACC - weighted average cost of capital
CAGR – cumulative average annual growth
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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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