POLSKI HOLDING NIERUCHOMOSCI

Santander Biuro Maklerskie

Reuters: PHN.WA Bloomberg: PHN PW

CEE Equity Research

Real Estate, Poland
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Participating in a housing boom

WSE's Analytical Coverage Support Programme

We stay positive on PHN and we keep Buy rating and with Target Price increased to PLN19.9. PHN participates in a housing boom in Poland. It delivered strong 30%+ gross margin in residential segment in 4Q20. We also estimate handovers upturn to 427 units in 2022E from 124 in 2021E. We also believe in nearing pre-lease of Skysawa and Intraco prime flagship office projects, which could imply positive property revaluations. PHN keeps trading at a 70% discount to its NAV, only partially justified by its lower ROE compared to peers, we think.

Residential segment to support 1Q21E earnings. PHN has already sold c. 100% residential units of both Vis-à-vis II (213 units) and Yacht Park (213 units) projects. We estimate handovers of both projects of the total of 124 residential units in 1Q21E (154 in 1Q20 and 221 in 4Q20), lifting gross profit to c PLN16mn (PLN13mn in 1Q20). We estimate PLN5mn FX gain due to q/q EUR/PLN appreciation. Overall, we forecast PLN19.8mn net profit in 1Q21E, slightly down y/y.

Nearing revaluation of office properties? Construction works of Skysawa and Intraco Prime flagship projects go in line with the schedules and the completion is nearing. Lockdown could have delayed negotiations with tenants, we think, but the perfect location and construction progress might attract not only Treasury-controlled tenants, we think. We also think that pre-lease agreements are just a matter of time, which could initiate asset revaluation and gain recognition in P&L account. Potential revaluations from Skysawa or Intraco Prime office developments represent an upside to our forecasts and valuation as we value both assets at costs.

Residential. We do not expect any residential handovers in 2Q-4Q21E. In 2022E we estimate handovers of 427 units including: 1) Mloda Bialoleka project (174 units) with completion scheduled on 3Q22E, 2) Osiedle Olimpijczyk project (166) with completion scheduled on 1Q22 and 3) Insta 21 (87) with completion scheduled on 3Q22E. In 2021, we expect initiation of works at Zielony Milostow (172 units), Nakielska (151 units) and Jana Pawla II (57) projects, with estimated handovers of a total of 370 units in 2023E.

Financial forecasts. We cut our 2021E earnings forecast, as the company accelerated handovers already in 2020. We increase projections in 2022E and 2023E, on higher than previously expected residential handovers and average price per units. We also increase our sales estimate from construction activity, due to better than expected backlog.

Risk factors: (1) pressure on rents in office segment due to lower y/y demand and higher y/y vacancy, (2) high sensitivity to interest rates (negative impact of interest rate increase), (3) a weakening of the EUR/PLN exchange rate, (4) partly non-modern office resource.

Valuation. We value PHN using SOTP valuation. We value properties generating rental revenue with the discounted cash flow method. We adopt a 50% discount to the book value of properties in need of optimization. We value development projects/land at book value at a 10% discount. For assets held for sale, we assume a 25% discount to book value. Investment project implementation offers an upside potential.

PHN: Financial summaries

PLNmn	2018	2019	2020	2021E	2022E	2023E
Revenue	169	209	734	445	590	562
Revaluation	14	57	-42	5	0	0
EBIT	65	117	84	70	117	111
Net profit	48	68	46	37	69	64
P/E (x)	11.9	10.0	16.2	20.0	10.7	11.5
P/BV (x)	0.29	0.30	0.33	0.33	0.32	0.32
DY	2.2%	2.8%	3.7%	2.5%	2.0%	3.8%

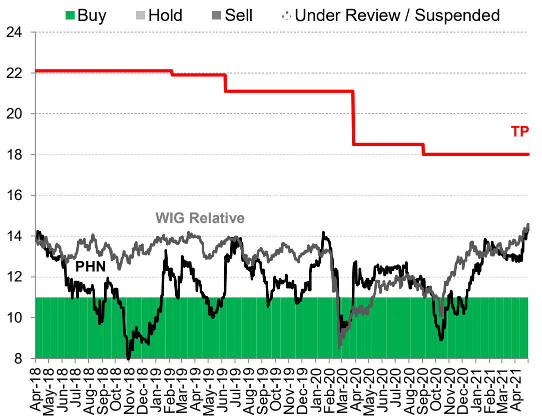
Source: Company data, Santander Brokerage Poland estimates, 2018-2020 multiples calucalated on historical share price average

PHN	Buy (maintained)
12M Target Price	**PLN19.9**

Price (PLN, May 19, 2021)	14.1
Market cap. (PLNmn)	738
Free float (%)	28
Number of shares (mn)	51.1
Average daily turnover	0.1

What has changed

- Decreased 2021E financial forecast due accelerated residential handovers already in 2020
- Upped post-2021E sales forecast from construction business on better than expected sales in 2020
- Upped post 2022E sales forecast from residential segment due to higher handovers estimate and average revenue per unit



The chart measures performance against the WIG index.

Main shareholders	% of votes
Treasury	72.2
Aviva pension fund	9.1
Nationale-Nederlanden pension fund	5.6

Source: www.gpw.pl

Company description

PHN is residential and office space developer and holder of yielding office and retail properties.

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Forecasts' changes

Fig. 1. PHN: Forecasts changes

PLNmn	2021E			2022E			2023E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	445	387	*15%*	590	387	*53%*	562	257	*119%*
Revaluations	5	0	*n.m.*	0	0	*n.m.*	0	0	*n.m.*
EBIT	70	74	*-6%*	117	84	*39%*	111	84	*32%*
Net profit	37	41	*-10%*	69	38	*81%*	64	38	*67%*

Source: Santander Brokerage Poland estimates

SOTP valuation

Fig. 2. PHN: SOTP valuation summary

PLNmn	Book value (PLNmn)	NOI (PLNmn)	Yield/ Applied discount	Implied value (PLNmn)
Rent generating properties	1670	83.6	8.5%	983
Properties for optimization	228		50.0%	114
Developments/land	1133		10%	1020
Properties for sale	58		25%	43
Total:				**2160**
Debt (as at 4Q20)				1001
Cash (as at 4Q20)				274
Reserves and other (as at 4Q20)				417
Implied value (PLNmn)				**1016**
Implied value per share (PLN)				**19.9**

Source: Company data, Santander Brokerage Poland estimates

Fig. 3. PHN: SOTP valuation summary

PLN	New	Previous	Change
SOTP valuation per share/Target Price	19.9	18	10%

Source: Santander Brokerage Poland estimates

Comparable valuation

Fig. 4. PHN: Comparable valuation summary

Comparable valuation	P/BV	Book value of PHN per share as at 4Q20 (PLN)	Implied valuation of PHN per share (PLN)
Median for WSE-listed real estate companies	0.82	44.5	**36.7**

Source: Bloomberg, Santander Brokerage Poland estimates

Valuation summary

Fig. 5. PHN: Valuation changes

PLN per share	New	Previous	*Change*
SOTP valuation	19.9	18.0	*10%*
Comparable valuation	36.7	31.9	*18%*
Weighted valuation*	**19.9**	**18.0**	***10%***

*Source: Santander Brokerage Poland estimates, * 100% SOTP as it reflects our estimate of net assets fair value*

4Q20 Results Review

- Leasing sales came in fully in line with expectation, whereas residential sales and construction sales came in way above what we expected;
- Gross profit from leasing activity was in line with expectations;
- Gross profit from residential sales was way above expectations on better than expected gross margin of 35%;
- Gross profit from construction was weak and stood at only PLN1.5mn (2.1% gross margin);
- Administrative costs of PLN15mn where above expectations (PLN11.8mn in 4Q19);
- PLN16.4mn net other operating depressed 4Q20 results which we did not expect;
- PLN11mn revaluations helped results;
- Overall, 4Q20 net profit came in above expectations.

We like 4Q20 results, due to: (1) strong gross margin in the residential segment and (2) positive revaluations. On the other hand, we point to q/q and y/y growth in administrative costs, tiny gross margin in construction segment, and net other operating costs. Overall, 4Q20 net profit came in above expectations, thus we see the results as slightly positive

1Q21 Results Preview

- We expect handovers of 124 units in 1Q21E (221 in 4Q20) of which 103 in Vis-a-Vis project and 21 in Yacht Park project;
- We forecast lower q/q sales from residential segment due to q/q decline in handovers volume;
- We estimate q/q gross margin decline from residential segment to 23% from 35% in 4Q20 due to lower q/q contribution of high margin Yach Park project;
- We estimate flattish q/q sales and gross profit from leasing activity;
- We estimate flattish q/q gross profit from construction activity;
- We estimate administrative costs at PLN15mn (flat q/q);
- We expect PLN5mn revaluation gain due to EUR/PLN q/q appreciation.

Fig. 6. PHN: 4Q20 Results Review and 1Q21E Results Preview

PLNmn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21E	y/y	q/q
Sales	43.1	43.0	48.0	75.0	164.5	100.7	116.4	352.1	162.5	*-1%*	*-54%*
Rental business	41.6	40.5	45.5	44.3	46.6	46.2	47.8	48.3	48.3	*4%*	*0%*
Residential business	0.0	0.1	0.1	22.1	78.5	5.8	15.5	227.9	68.3	*-13%*	*-70%*
Construction	-				37.1	46.6	50.1	70.0	40.0	*8%*	*-43%*
Other	1.5	2.4	2.4	8.6	2.3	2.1	3	5.9	5.9	*157%*	*0%*
Gross profit	24.8	24.1	27.6	26.5	40.2	27.1	34.0	102.5	42.4	*5%*	*-59%*
Rental business	24.8	24.2	27.4	21.7	25.6	25.6	25.5	28.7	28.7	*12%*	*0%*
Residential business	0.0	0.0	0.1	4.2	13.4	0.7	4.4	78.7	15.7	*17%*	*-80%*
Construction	-				2.2	2.8	4.4	1.5	2.0	*-9%*	*33%*
Other	0.0	-0.1	0.1	0.6	-1.0	-2.0	-0.3	-6.4	-4.0	*n.m.*	*n.m.*
Revaluation gain/loss	1.5	7.4	9.9	38.6	11.0	-70.7	6.9	11.2	5.0	*-55%*	*-55%*
EBITDA	20.2	21.0	32.1	45.3	36.6	-53.9	30.6	82.8	32.7	*-11%*	*-60%*
EBITDA margin	*46.9%*	*48.8%*	*66.9%*	*60.4%*	*22.2%*	*-53.5%*	*26.3%*	*23.5%*	*20.1%*	*-2.1*	*-3.4*
EBIT	19.9	20.7	31.8	45.0	36.3	-54.2	30.3	82.5	32.4	*-11%*	*-61%*
EBIT margin	*46.2%*	*48.1%*	*66.3%*	*60.0%*	*22.1%*	*-53.8%*	*26.0%*	*23.4%*	*19.9%*	*-2.1*	*-3.5*
Adj EBIT*	18.4	13.3	21.9	6.4	25.3	16.5	23.4	71.3	27.4	*8%*	*-62%*
Net profit	12.6	14.6	15.5	24.9	29.2	-54.3	10.8	59.9	19.8	*-32%*	*-67%*
Net profit margin	*29.2%*	*34.0%*	*32.3%*	*33.2%*	*17.8%*	*-53.9%*	*9.3%*	*17.0%*	*12.2%*	*-5.6*	*-4.8*

*Source: Company data, Santander Brokerage Poland estimates, * adjusted for revaluation gain/loss*

Financials in details

Fig. 7. PHN: Income statement forecasts

PLNmn	2018	2019	2020	2021E	2022E
Net sales	169	209	734	445	590
COGS	-83	-106	-541	-321	-421
Gross profit	86	103	193	125	169
SG&A	32	39	53	60	60
Other operating income, net	12	54	-56	5	0
EBITDA	67	119	86	72	119
Operating profit	65	117	84	70	117
Net financial income (costs)	-7	-21	-17	-32	-32
Profit before tax	58	97	78	46	85
Income tax	-11	-28	-33	-9	-16
Net profit	48	68	46	37	69

Source: Company data, Santander Brokerage Poland estimates

Fig. 8. PHN: Balance sheet forecasts

PLNmn	2018	2019	2020	2021E	2022E
Current assets	286	662	750	530	723
Fixed assets	2497	3121	3401	3639	3837
Total assets	2783	3783	4149	4169	4560
Current liabilities	315	627	363	363	700
bank debt	379	789	1374	1374	1374
Long-term liabilities	420	875	1487	1487	1487
bank debt	150	201	63	63	400
Equity	2048	2282	2299	2317	2371
Total liabilities and equity	2783	3783	4149	4169	4560
Net debt	414	706	883	1103	1247

Source: Company data, Santander Brokerage Poland estimates

Fig. 9. PHN: Cash flow statement forecasts

PLNmn	2018	2019	2020	2021E	2022E
CF from operations	83	-8	214	66	103
CF from investment	-57	-162	-163	-235	-200
CF from financing, incl.	-16	421	219	-51	290
dividends	-13	-19	-19	-19	-15
Net change in cash	10	251	270	-220	193

Source: Company data, Santander Brokerage Poland estimates

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CPI – consumer price index
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In preparing this document Santander Brokerage Poland applied at least one of the following valuation methods: discounted cash flows (DCF), comparative, mid-cycle, dividend discount model (DDM), residual income, warranted equity method (WEV), SOTP valuation, liquidation value.
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.
The dividend discount model (DDM) valuation is based on the net present value of the future dividends that are expected to be paid out by the company. Some advantages of the DDM valuation method are that it takes into account real cash flows to equity-owners and that the methodology is used in respect to companies with long dividend payout history. Main disadvantage of the DDM valuation method is that dividend payouts are based on a large number of parameters and assumptions, including dividend payout ratio.
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.
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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