

Interbud-Lublin S.A.

Price target: PLN 6.70

Initiating Coverage

Rating: BUY

Interbud-Lublin is a Polish residential developer with a historical focus on the 3rd tier city Lublin, where sqm prices are still more attractive than in the largest Polish cities and rental yields are higher. Since recently, the company has also been active in the richest Polish city Warsaw. Interbud-Lublin, which will complete a restructuring process this year (99% of the related financial debt has so far been paid back), is set to benefit from significant demand for residential real estate in Poland, which stems from 1. a still low number of sqm per inhabitant vs. Western countries 2. double-digit increases of real wages 3. government-sponsored preferential loans for first-time buyers and 4. decreasing interest rates. While results in 2024E should be rather weak as there will not be any apartment sales, we expect significant revenues and profits from H2/25E, when the company is expected to start apartment sales related to the Osiedle Lotnikow 3 & other projects. On our estimates, Interbud-Lublin is currently trading at a P/E 2026E & 2027E of 1.5x and we expect the payout of significant dividends in the long run. We rate the stock a BUY with a 12-months PT (80% DCF, 20% peer group) of PLN 6.70, which implies an upside of 79.6%.

In 2023, Interbud-Lublin repaid the remaining PLN 6.3m of debt to its lenders. The PLN 4.89m, which it raised in Q1/24, will allow the company to realize its planned projects in Lublin, Warsaw and, in the long run, potentially also in Lodz (a 2nd tier Polish city) and Olsztyn (3rd tier). In general, we estimate that Interbud-Lublin's existing land plots should allow the company to construct in total >1,000 apartments.

While this year the company will only generate revenues from the sale of land plots, we expect that sales of apartments in Lublin and Warsaw will significantly contribute to Interbud-Lublin's results in H2/25E-2028E. For the current fiscal year, we forecast revenues of PLN 1.06m, an EBIT of PLN -1.9m and net income of PLN -1.7m. However, in 2026E these figures should amount to PLN 147.4m, PLN 31m and PLN 25.1m respectively.

in PLNm	2023	2024E	2025E	2026E	2027E	2028E
Total turnover	1.60	1.06	16.94	147.40	150.00	142.66
EBITDA	6.93	-1.70	1.45	31.29	31.19	29.06
EBIT	6.75	-1.90	1.19	30.95	30.75	28.53
Net income	14.65	-1.67	0.91	25.11	25.02	23.30
EPS	2.09	-0.16	0.09	2.44	2.43	2.27
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
RoE	439.90%	-17.03%	9.66%	111.83%	52.66%	36.32%
Net gearing	-8.96%	145.72%	-43.73%	-38.99%	-63.58%	-69.43%
Net debt/EBITDA	2.92x	68.77x	-1.07x	-0.41x	-1.13x	-1.50x
P/NAV	2.46x	4.27x	3.87x	1.10x	0.64x	0.56x
LTV	13.1%	2711.0%	1338.0%	946.2%	562.1%	185.5%
P/E	1.79x	neg	42.03x	1.53x	1.53x	1.64x

Company profile

Interbud-Lublin S.A. is a Polish developer of residential real estate. So far, the company has mainly operated in Lublin but is now expanding its operations Warsaw, Lodz and Olsztyn.

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Website	www.interbud.com.pl
Sector	Real Estate
Country	Poland
ISIN	PLINTBD00014
Reuters	ITB.WA
Bloomberg	ITB PW

Share information

Last price	3.73
Number of shares (m)	10.28
Market cap. (PLNm)	38.33
Market cap. (EURm)	8.85
52-weeks range	PLN 4 / PLN 1.03
Average volume (shares)	13,438

Performance

4-weeks	18.41%
13-weeks	49.20%
26-weeks	71.10%
52-weeks	262.14%
YTD	90.31%

Shareholder structure

Tomasz Grodzki (CEO)	19.33%
Sylwester Bogacki	18.72%
Tymon Zastrzeynski	14.41%
Free float	47.54%

* only 5.76m shares are admitted to trading. The rest are registered shares with preferred voting rights.

Financial calendar

Q2/24 report	September 30, 2024
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Investment Case

- Interbud-Lublin, which was founded in 1987 as a construction company, is a developer of residential projects. All projects, which the company has developed to date, are situated in Lublin, a 3rd tier South-Eastern Polish city with >330,000 inhabitants. After a debt restructuring, which was caused by a weak Polish property market around 2016, the company is now net cash. Its existing land bank offers the potential for >1,000 apartments.
- The projects, which Interbud-Lublin plans to realize in the next 4 years, include affordable but good quality apartments in attractive locations in Lublin and Warsaw (the Polish capital city and main economic center). Management is also eyeing Lodz (a city in central Poland with >658,000 inhabitants, which has undergone a successful transformation from a former center of the textile industry to a great location for companies from the software and services sector) and Olsztyn (Poland's "greenest" city in the north of the country with several universities) for future projects.
- Interbud-Lublin, which focuses on Poland, operates in a highly attractive market. The reasons are the following: 1. Still low number of sqm per inhabitant vs. Western countries 2. Real wage increases of >10% y-o-y 3. Declining interest rates and 4. Government-sponsored preferential mortgage loans for first-time buyers.
- In Q1/24, due to the sale of one apartment in Lublin and land plots in Wolka Lubelska Interbud-Lublin's revenues increased by 74.4% y-o-y to PLN 1.06m. EBIT improved from PLN -377k in Q1/23 to PLN 435k and net income from PLN -357k to PLN 507k. Due to a lack of apartment sales we believe there will be no additional revenues in Q2-Q4/24E. However, for 2025E/2026E/2026E, when the new development projects in Lublin and Warsaw should start contributing to results, we forecast revenues of PLN 16.9m/PLN 147.4m/PLN 150m, EBIT of PLN 1.2m/PLN 31m/PLN 30.8m and net income of PLN 0.9m/PLN 25.1m/PLN 25m. While management is considering dividend payouts in the long run, it wants to use the cash inflow from the ongoing projects for new residential projects as it sees many opportunities to increase the shareholder value.
- We initiate coverage of Interbud-Lublin with a 12-months PT (80% DCF, 20% peer group) of PLN 6.70, which implies an upside of 79.6% at present and a BUY rating. On our estimates, the stock is currently trading at a P/E 2026E & 2027E of 1.5x. We like the fact that the company is now net cash, owns a large land bank and has a significant insider ownership. The main risks, which we see, are the bad demographic structure of the Polish population and the unexpected withdrawal of the government support scheme for first-time buyers.

SWOT Analysis

Strengths

- Interbud-Lublin is a Polish developer of residential real estate projects. The company has a track record of >15 years
- Attractive pipeline of residential projects in Lublin and Warsaw with potentially >1,000 apartments in total
- Interbud-Lublin is net cash
- Management & Supervisory Board Members own >52% of the shares

Opportunities

- Likely acquisition of land plots in other 2nd & 3rd tier Polish cities e.g. Lodz, Olsztyn would increase the company's long-term sales potential further
- While in the largest Polish cities the ratio of avg. monthly salary to avg. sqm price equals 0.6-0.8x, in 3rd tier cities such as Lublin or Olsztyn it is still more attractive. Also, rental yields in smaller cities are higher
- Rapidly growing real wages in Poland (y-o-y growth of >10%)
- Declining interest rates and government-sponsored support programs for first time buyers
- Still low number of sqm per inhabitant in Poland compared to Western countries
- Attractive dividend payouts in the long run

Weaknesses

- Interbud-Lublin will complete a restructuring process in 2024E
- Small capitalisation and daily trading turnover

Threats

- Construction permits often take long to be granted
- Increasing construction costs
- Poland has one of the worst demographic structures in Europe
- Increasing unemployment would reduce the demand for apartments
- Strict EU regulations relating to the energy consumption of new buildings
- Withdrawal of the government support scheme for first time buyers

Valuation

We have valued Interbud-Lublin by using a weighted average of a DCF model (80% weight) and peer-group-based fair value (20%). Our approach derives a 12-months price target for the stock of PLN 6.70, which implies an upside of 79.6% at current level. We rate the stock a BUY.

Below are the key assumptions of our WACC calculation:

- (1) *Risk-free rate*: Current yield of Polish long-term government bonds with maturity in 2047E is 5.1% (Source: www.boerse-stuttgart.de)
- (2) *Beta*: Average 4-year unlevered beta of Emerging Markets companies from the Real Estate (Diversified) sector of 0.57x
- (3) *Equity risk premium (Poland)*: 5.84% (Source: www.damodaran.com)
- (4) *Target equity ratio*: 100%
- (5) *WACC = Equity costs*: 8.5%
- (6) Free cash flows are discounted to June 10, 2024

DCF model

in PLNm	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Net sales	1.06	16.94	147.40	150.00	142.66	15.91	16.39	16.88	17.39
(y-o-y change)	-34.0%	1501.3%	770.1%	1.8%	-4.9%	-88.8%	3.0%	3.0%	3.0%
EBIT	-1.90	1.19	30.95	30.75	28.53	0.16	0.15	0.12	0.10
(EBIT margin)	-180.0%	7.0%	21.0%	20.5%	20.0%	1.0%	0.9%	0.7%	0.6%
NOPLAT	-1.54	0.96	25.07	24.91	23.11	0.13	0.12	0.10	0.08
+ Depreciation & amortisation	0.20	0.26	0.34	0.44	0.53	0.63	0.76	0.84	0.92
= Net operating cash flow	-1.34	1.22	25.41	25.35	23.64	0.76	0.88	0.93	1.00
- Total investments (Capex and WC)	-8.36	14.54	-30.01	-1.24	1.21	31.83	-0.91	-0.99	-1.08
Capital expenditure	-0.14	-0.26	-0.34	-0.44	-0.53	-0.64	-0.76	-0.84	-0.92
Working capital	-8.22	14.80	-29.67	-0.80	1.75	32.46	-0.14	-0.15	-0.15
= Free cash flow (FCF)	-9.71	15.76	-4.60	24.11	24.85	32.59	-0.03	-0.06	-0.07
PV of FCF's	-9.28	13.89	-3.74	18.05	17.16	20.75	-0.02	-0.03	-0.04
PV of FCFs in explicit period 56.75									
PV of FCFs in terminal period 4.82									
Enterprise value (EV) 61.57									
+ Net cash / - net debt (31 March 2024) 1.22									
+ Investment / - minorities 0.00									
Shareholder value 62.79									
Number of shares outstanding (m) 10.28									
Terminal EBIT margin									
WACC	8.5%								
Cost of equity	8.5%	4.5%	-2.4%	-1.4%	-0.4%	0.6%	1.6%	2.6%	3.6%
Pre-tax cost of debt	10.0%	7.83	8.26	8.68	9.11	9.53	9.95	10.38	
Normal tax rate	19.0%	6.5%	7.33	7.61	7.88	8.16	8.44	8.72	8.99
After-tax cost of debt	8.1%	7.5%	6.93	7.13	7.33	7.52	7.72	7.92	8.12
Share of equity	100.0%	8.5%	6.58	6.73	6.88	7.03	7.18	7.33	7.48
Share of debt	0.0%	8.5%	6.28	6.39	6.51	6.63	6.74	6.86	6.98
Fair value per share in PLN (today)	6.11	10.5%	5.99	6.09	6.18	6.28	6.37	6.46	6.56
Fair value per share in PLN (in 12 months)	6.63	5.73	5.81	5.89	5.96	6.04	6.12	6.19	

Source: East Value Research GmbH

Peer Group Analysis

Below are listed companies, which we have identified as Interbud-Lublin's main peers. The list includes only Polish residential real estate developers as the company is only focused on its domestic market.

- (1) *Dom Development S.A.*: Dom Development, which is headquartered in Warsaw, is the largest and one of the longest-running developers on the Polish market. The company has been active since 1996 and so far has delivered >46,000 apartments and luxury suites. Apart from Warsaw, it operates in Krakow, Wroclaw and Tri-City (Gdansk, Gdynia, Sopot). In 2023, Dom Development generated revenues of PLN 2.6bn and a gross margin of 32%. Its current market capitalization equals PLN 4.6bn.
- (2) *Develia S.A.*: Develia (previously LC Corp S.A.), which is based in Wroclaw, is one of the largest real estate developers in Poland with >16,000 apartments and >150,000 sqm of commercial space delivered in the last 15 years. In 2023, the company generated revenues of PLN 1.6bn and a gross margin of 30.3%. Its current market capitalization equals PLN 2.8bn.
- (3) *Archicom S.A.*: Archicom is a Polish real estate developer with a particular focus on Wroclaw and >420 projects realised to date. In 2023, it generated revenues of PLN 1.1bn and a gross margin of 36%. Its current market capitalization equals PLN 2bn.
- (4) *Marvipol S.A.*: Marvipol, which is based in Warsaw, is a Polish real estate developer with 28 years of experience and a focus on Warsaw, Wroclaw and Tri-City. To date, the company has completed >9,400 apartments and commercial units. In 2023, it generated revenues of PLN 377.5m and a gross margin of 31.4%. Currently, its market capitalisation equals PLN 301.7m.
- (5) *Murapol S.A.*: Murapol, which is based in Krakow, has been present on the residential property market in Poland since 2001. Since the beginning of its operations until 31 March 2024, the Group has completed 84 multiphase development projects with approximately over 28,700 units. Its investment map covers in total 19 cities, both agglomerations and smaller cities, which allows the Murapol Group to reach a wide group of clients and to tap into the growth of not only the biggest residential markets, but also local markets across Poland. In 2023, Murapol generated revenues of PLN 1.2bn and a gross margin of 31.5%. Currently, its market capitalisation equals PLN 1.6bn.

Company	P/BVPS		P/E		Net debt/EBITDA	Net interest cover	Net gearing
	Latest	2024E	2025E	2026E	Latest	Last FY	Latest
Dom Development S.A. (PLN)	2.9x	8.2x	8.2x	7.8x	0.7x	n.a	23.4%
Develia S.A. (PLN)	1.7x	9.8x	8.7x	7.9x	1.4x	n.a	29.9%
Archicom S.A. (PLN)	1.5x	22.2x	9.1x	5.2x	0.9x	102.6x	21.1%
Marvipol S.A. (PLN)	0.4x	7.2x	5.6x	4.8x	1.7x	n.a	20.1%
Murapol S.A. (PLN)	2.5x	6.6x	5.7x	n.a	1.0x	n.a	43.1%
Median	1.7x	8.2x	8.2x	6.5x	1.0x	102.6x	23.4%
Interbud-Lublin S.A. (PLN)	2.4x	n.a	42.0x	1.5x	2.9x	n.a	-7.6%
Premium/Discount	37.7%	n.a	412.4%	-76.5%			
Fair value Interbud-Lublin (PLN)	6.44						

Source: CapitalIQ, marketscreener.com, East Value Research GmbH

Price target calculation

Valuation method	Fair value	Weight
DCF calculation	6.11	80%
Peer Group Analysis	6.44	20%
Weighted average (present value)	6.18	
In 12-months (PV * (1+WACC))	6.70	

Source: East Value Research GmbH

Recent results

Revenues and Profitability

In Q1/24, Interbud-Lublin generated revenues of PLN 1.06m, which corresponds to a y-o-y increase of 74.4%. In our view, they stemmed from sales of one apartment in Lublin (price: PLN 255,193) and plots in Wolka Lubelska (c. PLN 800k).

in PLNm	Q1/24	Q1/23	change y-o-y
Total revenues	1.06	0.61	74.4%
EBITDA	-0.40	-0.33	21.2%
<i>EBITDA margin</i>	<i>-38.0%</i>	<i>-54.6%</i>	
EBIT	-0.44	-0.38	15.5%
<i>EBIT margin</i>	<i>-41.2%</i>	<i>-62.1%</i>	
Net income	0.51	-0.36	-242.2%
<i>Net margin</i>	<i>48.0%</i>	<i>-58.8%</i>	

Source: Company information, East Value Research GmbH

Between January and March 2024, the company's EBIT reached PLN -435k compared to PLN -377k in the previous year. The reason was especially a lower other operating income (PLN 38k vs. PLN 185k in Q1/23). However, net income improved from PLN -357k to PLN 507k due to a tax refund of PLN 217k (Q1/23: tax payment of PLN 11k).

Balance sheet and Cash flow

As of 31 March 2024, Interbud-Lublin had equity of PLN 16.1m, which corresponds to a share of 52.8% in the balance sheet total. At the end of Q1/23, the company had a negative equity of PLN -4.4m.

The largest position on Interbud-Lublin's balance sheet was inventories (PLN 21m), which reflect expenses relating to residential property or land, which is being constructed or awaiting construction and will later be sold. Investment property - own/leased land and own buildings for long-term rent and/or appreciation – and property, plant and equipment – machines, cars and software – amounted to PLN 243k and PLN 455k respectively.

Regarding liabilities, the largest position was provisions (PLN 5m), which reflect potential costs of legal disputes. At the end of March, the company only had interest-bearing debt of PLN 4.3m, of which PLN 4.26m long-term.

Between January and March 2024, Interbud-Lublin generated an operating cash flow of PLN -4.5m compared to PLN -1.4m in the previous year. The reason was a cash outflow from working capital of PLN 4.1m (Q1/23: PLN 760k). The cash flow from investing (PLN 189k vs. PLN -795k in Q1/23) was impacted by cash from intercompany loans and asset sales. Due to a share issue (3.26m new shares at PLN 1.50/share) and a new loan of PLN 4.1m cash flow from financing reached PLN 8.8m (Q1/23: PLN -649k). Between January and March 2024, Interbud-Lublin's cash position increased by PLN 4.5m to PLN 5.5m.

Financial forecasts

Revenues and Profitability

Regarding Interbud-Lublin's sales pipeline, we expect that in Q2-Q4 2024E the company will not generate any further sales. In H2/25E, there should be first sales from the Osiedle Lotnikow III residential project in Lublin (we believe that preliminary contracts for 23 apartments have already been signed). From all other projects, which are currently awaiting a building permit – Warszawa Konduktorska (Warsaw), Osiedle Lotnikow IV (Lublin), Zielony Felin (Lublin), ul. Relaksowa (Lublin) – there should be revenues in 2026E and 2027E-2018E. Below is an overview of Interbud-Lublin's all current projects:

Project	Location	Subsidiary	Living & usable space	No of apartments/commercial premises	Permits	Likely revenue contribution
Osiedle Lotnikow III	Lublin	Interbud Construction Sp. z.o.o	1,887 sqm	35/2	all	Q3/25
Osiedle Lotnikow IV	Lublin	Apartments Inwestycje Sp. z.o.o	2,290 sqm	48	Building permit expected in Q3/24	year-end 2025
ul. Konduktorska	Warszawa	Rupes Sp. z.o.o	1,160 sqm	22	Building permit expected in Q3/24	year-end 2025
Zielony Felin I-II	Lublin	WRP Inwestycje Sp. z.o.o	6,500 sqm	147		2026
Zielony Felin III-VI	Lublin	Interbud Construction Sp. z.o.o		507		2027-
ul. Relaksowa	Lublin	Interbud Apartments Sp. z.o.o	>2,530			2026
Kalinowszczyzna	Lublin		c. 3,000 sqm			2027-

Source: Company information, East Value Research GmbH

Our model for Interbud-Lublin is based on apartment sales from the above-mentioned development projects (35 in 2025E, 268 in 2026E, 300 in 2027E, 277 in 2028E) as well as on average sales of 30 apartments per year from other projects in the long run. We have conservatively assumed that the company will not generate any additional sales from land plots/property in the future. Based on our research, as of today Interbud-Lublin owns land plots that allow it to build >1,000 apartments.

in PLNm	2024E	2025E	2026E	2027E	2028E
Sales of apartments	0.26	16.94	147.40	150.00	142.66
(% of net sales)	24.1%	100.0%	100.0%	100.0%	100.0%
Gross margin	24.0%	23.8%	22.8%	22.5%	22.2%
Number of apartments/utility rooms sold	1	35	268	300	277
Avg. price	255,193	484,000	550,000	500,000	515,000
Sales of property/land	0.80	0.00	0.00	0.00	0.00
(% of net sales)	75.6%	0.0%	0.0%	0.0%	0.0%
Gross margin	16.0%	15.9%	15.8%	15.7%	15.6%
Number of sold land plots/property	1	0	0	0	0
Avg. price	799,800	799,800	799,800	799,800	799,800
Others	0.00	0.00	0.00	0.00	0.00
(% of net sales)	0.3%	0.0%	0.0%	0.0%	0.0%
Gross margin	40.0%	39.9%	39.8%	39.7%	39.6%
Total revenues	1.05	16.94	147.40	150.00	142.66
(change y-o-y)	-34.0%	1501.3%	770.1%	1.8%	-4.9%

Source: Company information, East Value Research GmbH

in PLNm	2024E	2025E	2026E	2027E	2028E
Total revenues	1.06	16.94	147.40	150.00	142.66
EBITDA	-1.70	1.45	31.29	31.19	29.06
<i>EBITDA margin</i>	<i>-161.1%</i>	<i>8.5%</i>	<i>21.2%</i>	<i>20.8%</i>	<i>20.4%</i>
EBIT	-1.90	1.19	30.95	30.75	28.53
<i>EBIT margin</i>	<i>-180.0%</i>	<i>7.0%</i>	<i>21.0%</i>	<i>20.5%</i>	<i>20.0%</i>
Net income	-1.67	0.91	25.11	25.02	23.30
<i>Net margin</i>	<i>-158.1%</i>	<i>5.4%</i>	<i>17.0%</i>	<i>16.7%</i>	<i>16.3%</i>

Source: East Value Research GmbH

in PLNm	Q1/23	Q2/23	Q3/23	Q4/23	2023	Q1/24
y-o-y change	0.61	0.38	0.62	0.00	1.60	1.06
<i>y-o-y change</i>	<i>-96.9%</i>	<i>-98.3%</i>	<i>-41.6%</i>	<i>-99.9%</i>	<i>-96.7%</i>	<i>74.4%</i>
EBITDA	-0.33	-0.67	8.35	-0.43	6.93	-0.40
<i>EBITDA margin</i>	<i>-54.6%</i>	<i>-176.7%</i>	<i>1353.8%</i>	<i>-14653.4%</i>	<i>432.2%</i>	<i>-38.0%</i>
EBIT	-0.38	-0.71	8.31	-0.47	6.75	-0.44
<i>EBIT margin</i>	<i>-62.1%</i>	<i>-188.6%</i>	<i>1346.5%</i>	<i>-16070.1%</i>	<i>421.2%</i>	<i>-41.2%</i>
Net income	-0.36	-0.74	16.72	-0.97	14.65	0.51
<i>Net margin</i>	<i>-58.8%</i>	<i>-196.3%</i>	<i>2710.0%</i>	<i>-33480.2%</i>	<i>913.8%</i>	<i>48.0%</i>

Source: Company information, East Value Research GmbH

CAPEX and Working capital

We have assumed that Interbud-Lublin's gross CAPEX will correspond to its yearly depreciation & amortization expenses in the long run. Regarding working capital, we have forecast that the cash conversion cycle will decrease from 5,721 days in 2023 to 120 days in the long run.

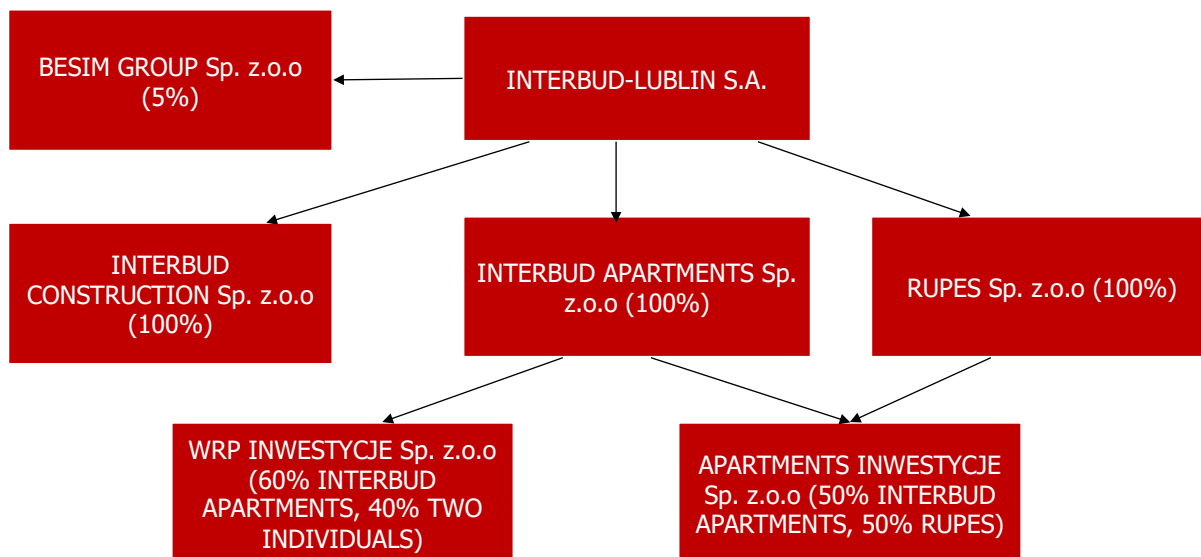
Business description

Interbud-Lublin, which is based in Lublin/Poland, is a property developer (includes the planning, construction and sale of real estate) with a focus on medium-priced residential real estate in good locations. In 2009-2022, the company developed and sold 1,466 apartments with a total space of 70,200 sqm in 22 buildings as part of the following projects in Lublin: Osiedle Lotnikow (there are still available apartments), Nowy Felin, Osiedle Botanik (II-IV), Osiedle Brzozy (I-III). In the short- to medium-term, Interbud-Lublin plans to construct and market apartments from new projects in Lublin and Warsaw. The company, which has been listed on the Warsaw Stock Exchange since 2010, currently has 10 employees (thereof: 2 in charge of accounting, 2 in preparation of investments, 2 in sales, 1 in the IR department, 1 in controlling, 1 in business expansion and 1 Finance Director).

Company history

- 1987: Foundation of the company under the name Specialised Company Interbud Sp. z.o.o, a company that was focused on construction work.
- 1997: Change of the name to Installation and Electrical Company Interbud Sp. z.o.o.
- 2007: Change to the joint-stock company Interbud-Lublin S.A.
- 2010: IPO on the Warsaw Stock Exchange that was accompanied by an issue of 2m shares at PLN 15/share.
- 2015: Strategic shift from construction to property development.
- 2017: Opening of the restructuring process following a significant write-down of existing properties due to a weak real estate market in Poland.
- 2019: Confirmation of the approval of the arrangement procedure with debtors by the district court in Lublin.
- 2023: Completion of the arrangement procedure.
- 2024: Issue of 3.26m new shares at PLN 1.50 per share (Total value: PLN 4.89m).

Interbud-Lublin conducts its operations through several fully consolidated project companies. The company's current organizational structure is shown below:



Source: Company information, East Value Research GmbH

Below is a list of some of the residential real estate projects, which Interbud-Lublin has so far realized and has in its current project pipeline:

Osiedle Brzozy (stage I – III)

Location: ul. Dunikowskiego in the Felin district of Lublin

Space: 156 apartments with a total usable space of 8,700 sqm (stage I), 299 apartments with 14,800 sqm (stage II) and 107 apartments with >5,700 sqm (stage III)

Year of completion: 2010, 2013 and 2015



Source: Company information, East Value Research GmbH

Osiedle Botanik (stage II-IV)

Location: ulica Relaksowa & ul. Kasztelanska in Lublin

Space: 352 apartments with a total usable space of 18,300 sqm (stage II), 121 apartments with c. 6,500 sqm (stage III) and 75 apartments (stage IV, upon completion)

Year of completion: 2012, 2013, 2026E



Source: Company information, East Value Research GmbH

Nowy Felin (I & II)

Location: ul. Urbanowicza in Lublin

Space: 110 apartments with a total usable space of 5,700 sqm (stage I), 48 apartments (stage II)

Year of completion: 2015



Source: Company information, East Value Research GmbH

Osiedle Lotnikow (I, II, III, IV)

Location: ul. Urbanowicza in Lublin

Space: 134 apartments

Year of completion: 2022, 2023, 2025E



Source: Company information, East Value Research GmbH

Management

Tomasz Grodzki (CEO): Mr Tomasz Grodzki is Interbud's CEO. In the past, he has worked among others as Managing Director of the public company MOSIR Lublin Sp. z.o.o, General Director of the brewery Perla Browary Lubelskie S.A., Finance Director of the listed company Wikana S.A., Member of the Board and Finance Director of listed Pepees S.A. and Member of the Board of the brewery Browar Lomza Sp. z.o.o. Mr Grodzki graduated with a Master's degree in Organization and Management from the UMCS in Lublin and additionally completed a post-graduate degree in Value-Based Management at the Warsaw Business School.

Sylwester Bogacki (Member of the Management Board): Mr Sylwester Bogacki is a Member of the Management Board of Interbud-Lublin. Currently, he also serves as Managing Director of Interbud's subsidiary Rupes Sp. z.o.o, Consultant in company management and restructuring and Dean of the Department of Administration and Social Studies at the Higher School for Economy and Innovation in Lublin. In the past, his roles have included among others Member of the Supervisory Board at Interbud-Lublin S.A., Kredyt Inkasso S.A. and Sanwil Holding S.A.; CEO at Polska Spolka Gazownictwa Sp. z.o.o, Finance Director and CEO of the public construction company Lubelskie Przedsiębiorstwo Budownictwa Ogólnego, and CEO of listed Wikana S.A. Mr Bogacki graduated with a Master's degree in Management & Marketing from the UMCS in Lublin and also completed an MBA from the Lublin Business School and post-graduate studies in Accounting & Finance from the Kozminsky University in Warsaw. In addition, he is also pursuing a PhD from the Warsaw Business School.

Market environment

Macroeconomic environment in Poland

Poland is one of the fastest-growing European nations and among those, which have achieved the largest economic progress since the fall of communism. According to the Polish statistical office GUS, since 1990 the Polish GDP has increased at a CAGR of 5.5% from a value of PLN 584bn to PLN 3.4tr in 2023. A significant boost to economic development was the country's EU accession in January 2004, which significantly accelerated the GDP growth in the following years (GDP CAGR 2003-2023 = 7%).

The rapid economic development has also had a strong positive effect on salaries. According to GUS since 1990 the average salary in the Polish manufacturing sector has increased from PLN 103 per month (in the "new PLN", which equals 1/10,000 of the "old PLN" from 1990) to PLN 7,155 (CAGR 1990-2023 = 13.7%). Over the last 30 years, the Polish central bank NBP has done a great job in keeping the local currency PLN stable and reliable.

As the below table shows, the forecasts for the Polish economy remain positive, which in our view mainly stems from the fact that funds from the EU Reconstruction and Resilience Fund (in total c. EUR 60bn), which until recently had been blocked due to the controversial judicial reforms of the previous Polish government, have started to flow to Poland, and the country has become increasingly important as a supplier of components for Western European industrial companies after the COVID-19 pandemic. In addition, as inflation has significantly declined, it is very likely that interest rates will soon go down too. This in turn should make mortgage loans affordable for more Poles.

GDP growth			Inflation rate			Reference interest rate	
2023	2024E	2025E	2023	2024E	2025E	Currently	2022
0.2%	2.7%	3.2%	10.9%	5.2%	4.7%	5.8%	6.8%

Source: Eurostat, East Value Research GmbH

Current situation and trends in the Polish residential real estate market

Last year, the Polish housing market got a significant boost following the introduction of the government-sponsored preferential 2% mortgage loan "Bezpieczny Kredyt 2%" in July 2023. Buyers, who had practically abandoned the thought of buying their own apartment during the period of record-high interest rates in 2022, began actively seeking offers to sell a flat or house after the announcement of the government subsidy program. According to the Polish central bank NBP, in 2023 57,600 new apartments were sold in the 6 largest regional markets in Poland (Warszawa, Krakow, Wrocław, Gdansk, Poznan, Lodz). This corresponds to a 65% increase y-o-y. 35% of all sold apartments in 2023 were bought as an investment and most of them were bought in cash.

Despite a much higher demand, real estate developers decreased the number of offered new apartments by 4% y-o-y to 43,700, which resulted in a double-digit increase of average sqm prices in most cities. In September and October 2023, NBP decreased its reference rate for the first time since May 2020. Moreover, at the end of the year "Bezpieczny Kredyt 2%" was terminated, which led to a strong decline of transactions in December. Below is an overview of new offers & apartments sold in Poland since Q1/21 as well as average transaction prices in Polish cities in Q4/23:

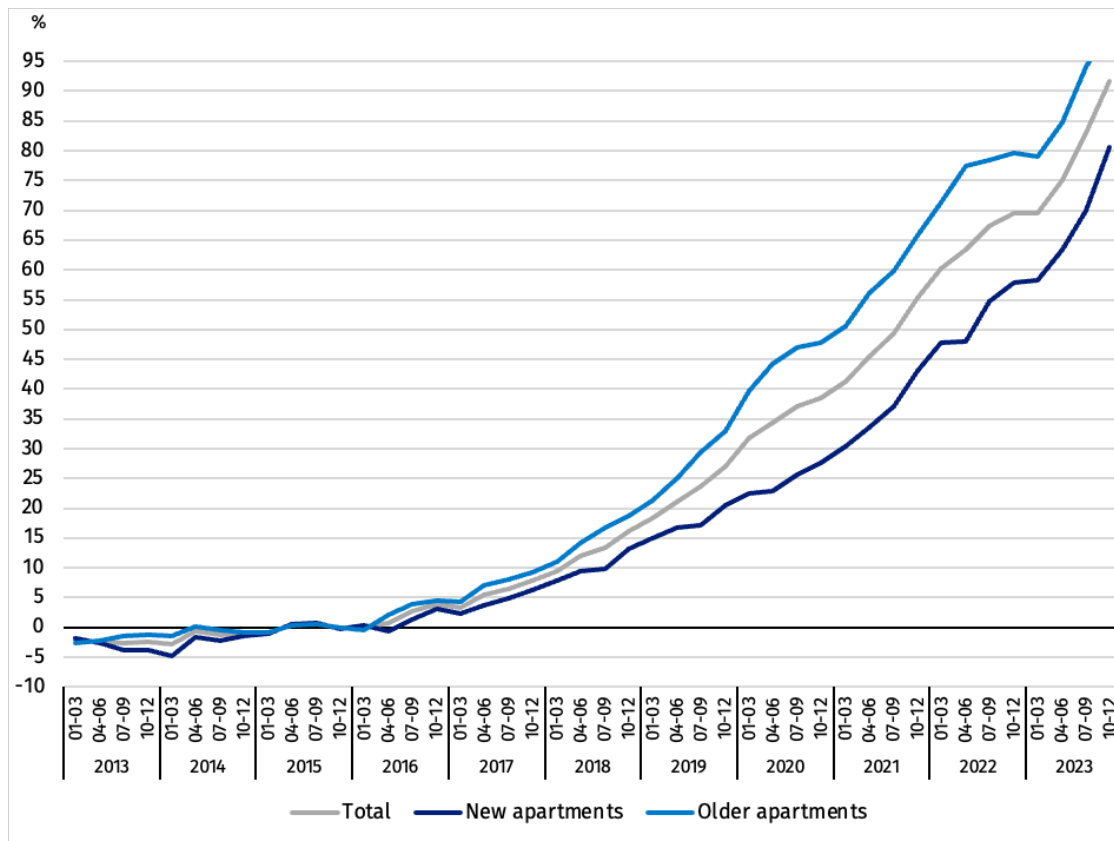
	New apartment offers	Sold apartments
I 2021	13,851	19,482
II 2021	15,803	19,491
III 2021	13,770	14,994
IV 2021	14,685	15,036
I 2022	13,498	10,410
II 2022	21,446	9,458
III 2022	7,290	6,598
IV 2022	6,782	8,493
I 2023	6,852	11,421
II 2023	10,172	15,517
III 2023	9,979	16,388
IV 2023	15,942	14,288
I 2024	16,700	11,000

Source: NBP, JLL, East Value Research GmbH

	Average transaction price (PLN/sqm)	Change q-o-q	Change y-o-y
Bialystok	9,384	10.4%	10.7%
Bydgoszcz	9,122	11.2%	16.2%
Gdansk	12,389	6.4%	15.9%
Gdynia	10,917	-1.2%	0.8%
Katowice	10,348	6.6%	7.1%
Kielce	8,208	-3.3%	-0.9%
Krakow	13,530	10.5%	11.5%
Lublin	10,034	9.1%	14.2%
Lodz	9,202	5.4%	8.0%
Olsztyn	8,735	2.0%	15.5%
Opole	9,629	3.5%	16.3%
Poznan	11,107	3.9%	14.3%
Rzeszow	9,426	7.8%	16.6%
Szczecin	10,467	-2.5%	-2.4%
Warszawa	14,847	6.2%	15.7%
Wroclaw	12,498	6.7%	19.6%
Zielona Gora	7,655	0.5%	2.5%

Source: NBP, bankier.pl, East Value Research GmbH

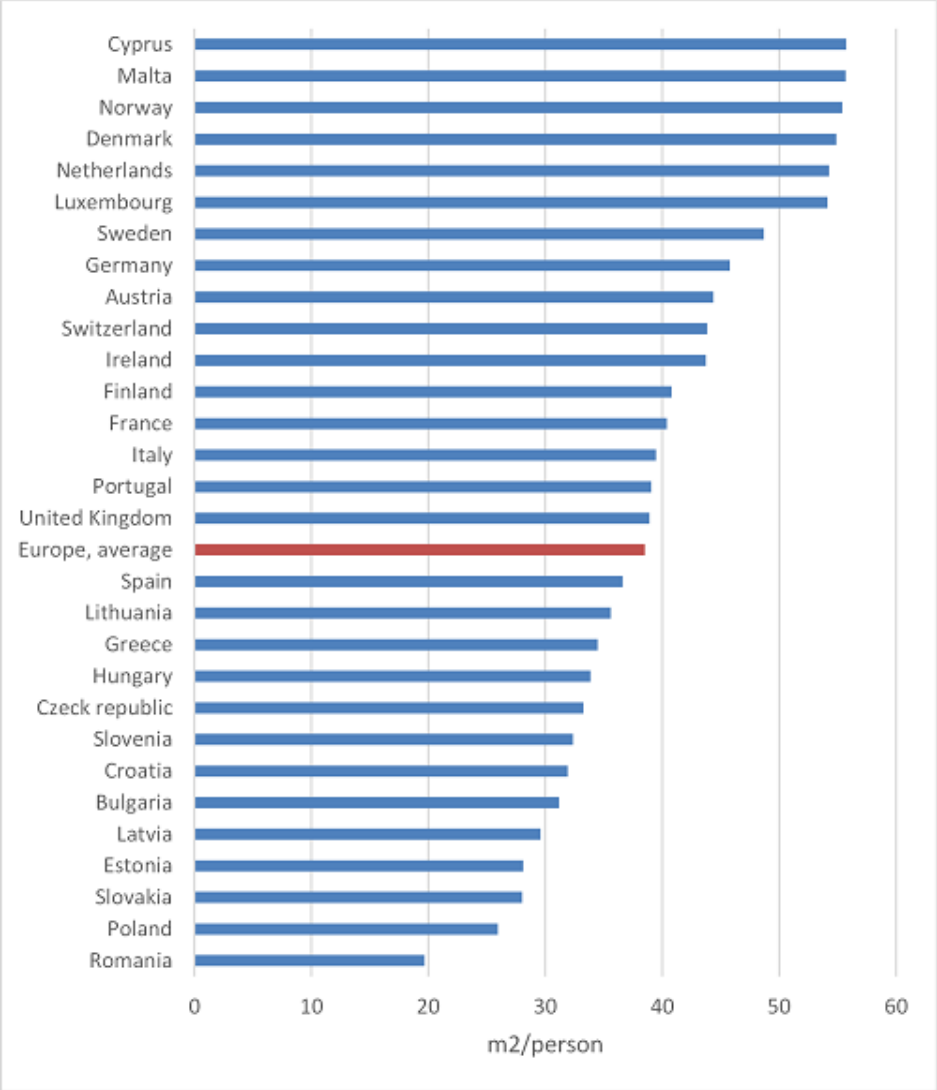
According to data of GUS, since the beginning of 2013 average prices per sqm of apartments in Poland have increased by >90%. Thereof, in case of new apartments average prices have gone up by 95% and used apartments by >75%.



Source: GUS, East Value Research GmbH

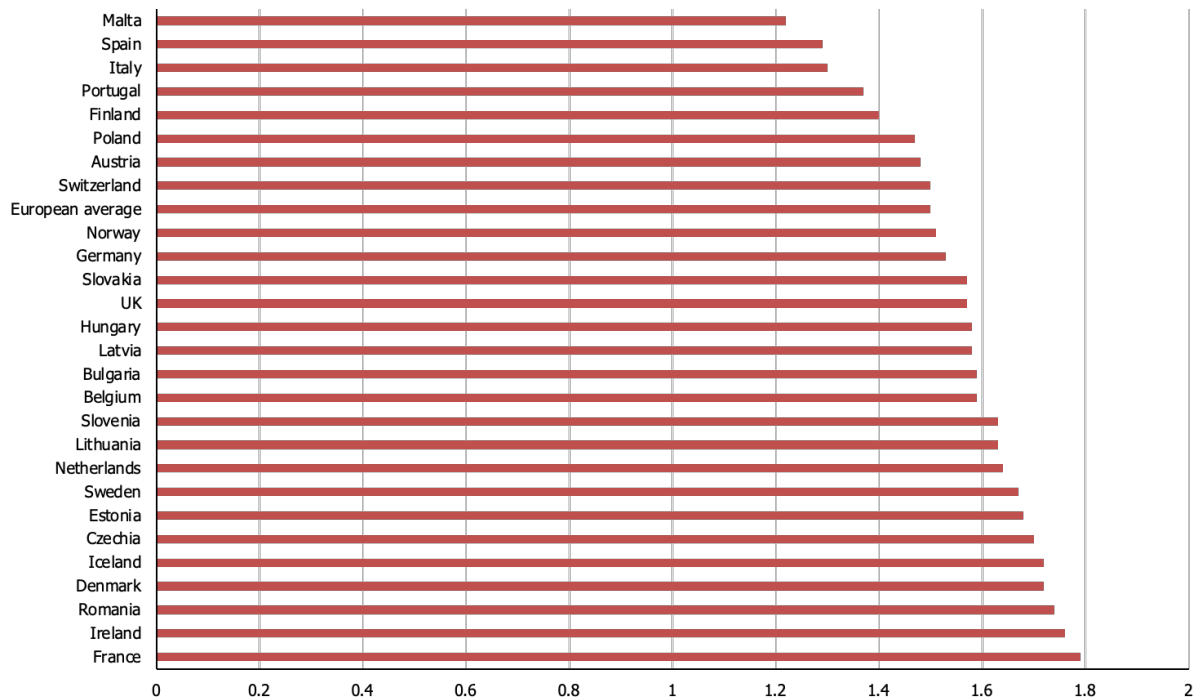
Despite the construction of many new apartments in the last decades, the average number of sqm per person in Poland is still one of the lowest of all European countries. Moreover, there is an increasing number of singles – Poland has one of the lowest birth rates in Europe – and all of them want an apartment for themselves. According to GUS, the number of single households increased by 1m to 2.3m between 2013 and 2023 (>1/5 of all Polish households). While 27% of all households in cities are singles, in villages this share equals 13.6%.

Number of sqm per person in European countries



Source: Odyssee-Mure.eu, East Value Research GmbH

Average birth rate per woman in Europe (2023)



Source: Statista.com, East Value Research GmbH

Besides the above-mentioned facts, we expect that the new government-financed support scheme for first-time buyers "Mieszkanie na start" will be a strong boost for the Polish residential real estate market in the next few years. Below are the most important facts about the program:

1. Targets both singles and families. The largest support – a subsidized mortgage at 0% and a mortgage value of PLN 600,000 - is foreseen for families with at least 3 children.
2. Is supposed to finance the purchase of a first apartment or a larger one for families with at least 3 children. It is also supposed to cover the costs of a single-family house.
3. Is dependent on the age of the applicant (in case of singles <35 years), sqm per person (e.g. a single can apply for support for a mortgage only if the apartment he intends to buy has max. 50 sqm) and the household income (e.g. max. PLN 23,000 net per month in case of households with 5 or more people).
4. Applications – max. 15,000 per quarter – can be filed until the end of 2027E.
5. Duration of support: 10 years.
6. Interest rate of the mortgage: Fixed rate during at least the first 5 years.
7. A loan guarantee of max. PLN 100k by the Polish state-owned bank BGK if the applicant's down payment equals <20% of a total property value of max. PLN 1m.

When it comes to risks related to Poland's bad demographic structure, we believe that in the long run it could be at least partially offset by a stronger opening of the country towards immigration. As its economy and wealth continues to grow, Poland should become increasingly attractive for skilled workers from abroad.

The table below shows rental yields of the Top 10 EU countries. In our view, especially in 2nd and 3rd tier cities, Poland still offers attractive yields for investors.

Country	Gross rental yield (average of 3-8 cities)
Latvia	8.1%
Ireland	7.9%
Italy	7.4%
Romania	6.6%
Lithuania	6.4%
Spain	6.2%
Poland	5.8%
Hungary	5.8%
Sweden	5.7%
Portugal	5.7%

Source: [globalpropertyguide.com](https://www.globalpropertyguide.com), East Value Research GmbH

Profit and loss statement

in PLNm	2023	2024E	2025E	2026E	2027E	2027E
Total revenues	1.60	1.06	16.94	147.40	150.00	142.66
Directly-attributable expenses	-0.92	-0.87	-12.91	-113.79	-116.25	-110.99
Gross profit	0.69	0.19	4.03	33.61	33.75	31.67
Other operating income	10.35	2.07	2.11	2.15	2.20	2.24
Distribution expenses	-0.02	-0.12	-0.14	-0.17	-0.20	-0.24
Administrative expenses	-3.31	-3.38	-3.44	-3.51	-3.58	-3.65
Other operating expenses	-0.78	-0.47	-1.11	-0.79	-0.97	-0.96
EBITDA	6.93	-1.70	1.45	31.29	31.19	29.06
Depreciation & amortisation	-0.18	-0.20	-0.26	-0.34	-0.44	-0.53
EBIT	6.75	-1.90	1.19	30.95	30.75	28.53
Net financial results	7.97	-0.16	-0.06	0.04	0.14	0.24
EBT	14.73	-2.06	1.13	30.99	30.89	28.77
Income taxes	-0.08	0.39	-0.21	-5.89	-5.87	-5.47
Minority interests	0.00	0.00	0.00	0.00	0.00	0.00
Net income / loss	14.65	-1.67	0.91	25.11	25.02	23.30
EPS	2.09	-0.16	0.09	2.44	2.43	2.27
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Share in total sales						
Total revenues	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Directly-attributable expenses	-57.09 %	-82.00 %	-76.20 %	-77.20 %	-77.50 %	-77.80 %
Gross profit	42.91 %	18.00 %	23.80 %	22.80 %	22.50 %	22.20 %
Other operating income	645.68 %	195.72 %	12.47 %	1.46 %	1.46 %	1.57 %
Distribution expenses	-1.25 %	-11.00 %	-0.82 %	-0.11 %	-0.13 %	-0.17 %
Administrative expenses	-206.46 %	-319.16 %	-20.33 %	-2.38 %	-2.39 %	-2.56 %
Other operating expenses	-48.68 %	-44.64 %	-6.58 %	-0.54 %	-0.65 %	-0.67 %
EBITDA	432.21 %	-161.09 %	8.53 %	21.23 %	20.79 %	20.37 %
Depreciation & amortisation	-11.02 %	-18.91 %	-1.53 %	-0.23 %	-0.29 %	-0.37 %
EBIT	421.19 %	-180.00 %	7.00 %	21.00 %	20.50 %	20.00 %
Net financial results	497.33 %	-15.12 %	-0.35 %	0.03 %	0.09 %	0.17 %
EBT	918.52 %	-195.12 %	6.65 %	21.03 %	20.59 %	20.17 %
Income taxes	-4.72 %	37.07 %	-1.26 %	-4.00 %	-3.91 %	-3.83 %
Minority interests	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Net income / loss	913.80 %	-158.05 %	5.38 %	17.03 %	16.68 %	16.34 %

Balance sheet

in PLNm	2023	2024E	2025E	2026E	2027E	2028E
Cash and cash equivalents	1.03	0.95	11.33	18.65	41.16	48.43
Inventories	16.31	26.14	8.84	46.76	47.77	45.61
Trade accounts and notes receivable	0.00	0.00	0.01	0.06	0.06	0.06
Other assets	0.44	0.45	0.45	0.46	0.47	0.48
Current assets	17.78	27.54	20.63	65.93	89.47	94.58
Property, plant and equipment	0.27	0.46	0.46	0.47	0.47	0.48
Other intangible assets	0.00	0.00	0.00	0.00	0.00	0.00
Goodwill	0.00	0.00	0.00	0.00	0.00	0.00
Investment property	0.24	0.00	0.00	0.00	0.00	0.00
Shares	0.08	0.06	0.06	0.06	0.06	0.06
Granted loans	0.79	0.71	0.69	0.67	0.65	0.63
Deferred tax assets	0.55	0.00	0.00	0.00	0.00	0.00
Non-current assets	1.94	1.22	1.21	1.19	1.18	1.16
Total assets	19.72	28.76	21.84	67.13	90.65	95.75
Trade payables	1.96	3.57	1.06	9.35	9.55	9.12
Short-term financial debt	0.08	0.04	0.00	0.00	0.00	0.00
Other short-term liabilities	2.04	2.06	2.08	2.10	2.12	2.14
Provisions	4.96	0.11	1.80	15.67	15.95	15.17
Current liabilities	9.04	5.78	4.94	27.12	27.62	26.43
Long-term financial debt	0.00	14.00	7.00	5.00	3.00	1.00
Other long-term liabilities	0.00	0.00	0.00	0.00	0.00	0.00
Deferred revenues	0.00	0.00	0.00	0.00	0.00	0.00
Pension provisions	0.00	0.00	0.00	0.00	0.00	0.00
Deferred tax liabilities	0.02	0.00	0.00	0.00	0.00	0.00
Long-term liabilities	0.02	14.00	7.00	5.00	3.00	1.00
Total liabilities	9.06	19.78	11.94	32.12	30.62	27.43
Shareholders equity	10.66	8.98	9.90	35.00	60.02	68.31
Minority interests	0.00	0.00	0.00	0.00	0.00	0.00
Total liabilities and equity	19.72	28.76	21.84	67.13	90.65	95.75

Cash Flow Statement

in PLNm	2023	2024E	2025E	2026E	2027E	2028E
Net income / loss	14.65	-1.67	0.91	25.11	25.02	23.30
Depreciation & amortisation	0.18	0.20	0.26	0.34	0.44	0.53
Change of working capital	-1.18	-8.22	14.80	-29.67	-0.80	1.75
Others	-17.60	-0.53	0.00	0.00	0.00	0.00
Net operating cash flow	-3.95	-10.23	15.98	-4.23	24.66	25.58
Cash flow from investing	-0.73	-0.14	-0.26	-0.34	-0.44	-0.53
Free cash flow	-4.69	-10.37	15.71	-4.57	24.22	25.05
Cash flow from financing	-1.64	10.29	-5.34	11.89	-1.70	-17.77
Change of cash	-6.32	-0.08	10.38	7.32	22.51	7.27
Cash at the beginning of the period	7.36	1.03	0.95	11.33	18.65	41.16
Cash at the end of the period	1.03	0.95	11.33	18.65	41.16	48.43

Financial ratios

Fiscal year	2023	2024E	2025E	2026E	2027E	2028E
Profitability and balance sheet quality						
Gross margin	42.91%	18.00%	23.80%	22.80%	22.50%	22.20%
EBITDA margin	-20.38%	18.00%	23.80%	22.80%	22.50%	22.20%
EBIT margin	421.19%	-180.00%	7.00%	21.00%	20.50%	20.00%
Net margin	913.80%	-158.05%	5.38%	17.03%	16.68%	16.34%
Return on equity (ROE)	439.90%	-17.03%	9.66%	111.83%	52.66%	36.32%
Return on assets (ROA)	33.87%	-5.26%	4.45%	37.34%	27.45%	24.09%
Return on capital employed (ROCE)	62.93%	-6.71%	5.68%	62.68%	39.52%	33.34%
Economic Value Added (in PLNm)	5.81	-3.49	-0.47	21.69	19.57	17.24
Net debt (in PLNm)	-0.95	13.09	-4.33	-13.65	-38.16	-47.43
Net gearing	-8.96%	145.72%	-43.73%	-38.99%	-63.58%	-69.43%
Loan-to-Value (LTV)	13.15%	2711.00%	1337.97%	946.23%	562.12%	185.52%
Equity ratio	54.05%	31.23%	45.32%	52.14%	66.22%	71.35%
Current ratio	1.97	4.77	4.17	2.43	3.24	3.58
Quick ratio	0.11	0.16	2.29	0.69	1.49	1.83
Net interest cover	-0.85	-11.90	19.76	-773.85	-219.64	-118.88
Net debt/EBITDA	2.92	68.77	-1.07	-0.41	-1.13	-1.50
Tangible BVPS	1.52	0.87	0.96	3.41	5.84	6.65
Capex/Sales	26.91%	-13.45%	-1.56%	-0.23%	-0.30%	-0.37%
Working capital/Sales	794.87%	1981.84%	36.37%	24.31%	24.42%	24.45%
Cash Conversion Cycle (in days)	5721	9500	220	120	120	120
Trading multiples						
P/NAV	2.46	4.27	3.87	1.10	0.64	0.56
P/E	1.79	-22.92	42.03	1.53	1.53	1.64
P/FCF	-5.59	-3.70	2.44	-8.39	1.58	1.53

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Buy: Based on our analysis, we expect the stock to appreciate and generate a total return of more than 10% over the next twelve months

Add: Based on our analysis, we expect the stock to appreciate and generate a total return between 0% and 10% over the next twelve months

Reduce: Based on our analysis, we expect the stock to cause a negative return between 0% and -10% over the next twelve months

Sell: Based on our analysis, we expect the stock to cause a negative return exceeding -10% over the next twelve months

The respective supervisory authority is:

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