

Tuesday, 26 November 2024 | research report

Real Estate Developers

Real Estate Developers, Poland

Gradual demand recovery

First interest rates cuts, improving creditworthiness and affordability are key factors which should help in demand recovery. Therefore we believe that sales which we observed in 3Q and likely 4Q 2024, are the lowest point of current cycle. Any subsidized mortgage program (which we don't assume) will likely strengthen marginal buyer, mostly in second tier cities and those who are interest in popular segment.

Due to lag in developers reaction, lack of offer shouldn't be a problem. Same situation with building permits, which firstly rebounded significantly in 2024, but also we point out that in biggest cities permits don't necessary translate into beginning of construction, which suggest that some cases building permits are "shelved" and not used just after being granted. In other words, supply situation is very different than year ago and will be able to meet deferred or accelerated demand if needed.

With this report we add Murapol to the coverage, we initiate it with buy recommendation and TP set at PLN 46.17. We believe that Murapol should be among top performers in 2025 given its assumed sales improvement combined with hefty dividends, from risks we point out stretched balance sheet. We also see great upside in Atal as management points out that pricey mortgages are main hurdle for sales improvement, so with rate cuts, Atal should experience visible sales improvement. In terms of Develia and Dom Development we are more cautious, when it comes to sales improvement as both companies didn't experienced slowdown in this KPI in 2024, still we see some upside potential in Develia. Dom Development, top performer in 2024, could lag in 2025 as it's less directly exposed for improvement in creditworthiness and eventual subsidized mortgage program.

Improving situation of borrowers

Prices are flat in recent months, but salaries aren't, and flats price attractiveness in terms of average salaries are rebounding recently. Given NBP assumptions regarding salaries growth and no change in prices, affordability index would go up above 8x in next to years, which we believe is demand stimulative territory. Combining that with expected interest rates cuts, which improve ability to take the credit and to service it, we believe sales in 2025 should go up.

Permits aren't problem?

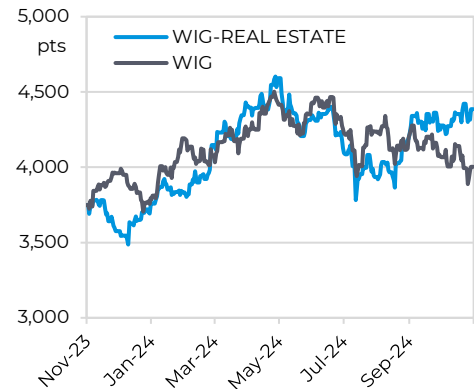
Around this time last year low number of permits was allegedly main problem for residential developers. However, since then number of granted permits increased visibly and offer recovered, we even point out that annualized number of granted permits from 2-3Q'24 is enough to meet 60% increase in annualized 2-3Q'24 sales (without BK 2% effect). Additionally, regression of permits vs starts brings interesting conclusions – although in terms of whole market there is visible dependence between those two variables, when one focuses only on biggest cities, it disappears. We believe that it could suggest that developers are stacking up permits "for later".

Margins to be maintained

Given the fact that construction costs are flattish in 2024, while average prices are stable, we believe that developers will be able to keep their margins at current, high level in 2025 and 2026, adjusting for product mix as well as share of PRS segment in revenues (Murapol mostly affected).

WIG_REAL ESTATE	4,347.81
WIG	79,634.43
2024E P/E	10.8x
2024 P/BV	1.27x

WIG-REAL ESTATE vs. WIG



name	target price		recommendation	
	new	old	new	old
Atal	73.59	74.37	buy	buy
Develia	7.12	7.72	buy	buy
Dom	210.20	197.04	hold	hold
Murapol	46.17	-	buy	-

name	current*	target price	upside
	price		
Atal	55.20	73.59	+33.3%
Develia	5.97	7.12	+19.3%
Dom	196.20	210.20	+7.1%
Murapol	33.32	46.17	+38.6%

*Price as of November 25, 2024, 5:00 PM

company	P/E			P/B			ROE%		
	24E	25E	26E	24E	25E	26E	24E	25E	26E
Atal	9.2	6.3	5.2	1.4	1.2	1.1	15.3	20.8	22.6
Develia	9.0	8.0	8.2	1.7	1.6	1.5	19.0	20.1	18.6
Dom	8.1	8.5	7.3	2.9	2.6	2.3	38.8	32.4	33.6
Murapol	6.7	6.1	3.9	2.4	2.3	1.9	36.5	38.8	53.1

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List of abbreviations and ratios used by mBank:

EV (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases)
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market

NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market

UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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BUY – we expect that the rate of return from an investment will be at least 10%

HOLD – we expect that the rate of return from an investment will range from 0% to +10%

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The author of this recommendation or another individual who belongs to the same group as the author of this recommendation in the last 12 months has been in charge of managing or co-managing a public offering of Develia, Dom Development.

mBank S.A. acts as market maker for Develia.

This document is an extract from a recommendation produced by Biuro maklerskie mBanku.

The production of this recommendation was completed on November 26, 2024, 8:11 AM.

This recommendation was first disseminated on November 26, 2024, 8:40 AM.

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NAV – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

mBank issued the following recommendations for companies in the 12 months prior to this publication:

Atal (Mikołaj Lemańczyk)

Rating	buy	buy
Rating date	2024-05-06	2023-12-01
Target price (PLN)	74.37	70.07
Price on rating day	60.60	56.00

Develia (Mikołaj Lemańczyk)

Rating	buy	buy
Rating date	2024-05-06	2023-12-01
Target price (PLN)	7.72	5.59
Price on rating day	6.62	4.94

Dom Development (Mikołaj Lemańczyk)

Rating	hold	hold
Rating date	2024-05-06	2023-12-01
Target price (PLN)	197.04	160.73
Price on rating day	180.40	160.80

mBank did not issue any recommendations for Murapol in the 12 months prior to this publication.

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