TRIGON

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Research

CEE | Equity Research

Residential Real Estate

Finding a new equilibrium: game theory with MPC in the background

Over the last six to seven months, we believe the market has become increasingly optimistic about our covered residential real estate companies, with the average stock rising by 23% year to date. However, we believe that the growth story is not over yet. With companies eyeing positive EPS and sales volume growth in the 2H25 and in FY26, we revisit our model assumptions. Based on our calculations, the combined market share of the 5 biggest developers (ARH, 1AT, DVL, DOM and MUR) over the last six quarters amounted to 35–37%, an increase of over 10pp since FY23 and over 15pp since FY16. While mid-sized and smaller homebuilders are being forced to liquidate their landbanks or slash their offer prices in an attempt to improve their financial standing, the so-called 'TOP5' have powered through the period of market headwinds virtually unscathed. We remain positive on the WSE-listed residential developers: we rate Archicom, Atal, Develia, Echo Investment and Murapol BUY, while downgrading Dom Development to HOLD.

What to expect in the next 6 quarters? Back in December, we were expecting 46,000 units to be sold on the TOP6 markets in FY25, which would have represented a 12% yoy increase. However, the last six months have been more challenging for mid-size developers, and sales volumes in the six biggest cities were down 9% for the period. We think that the recent rate cut, coupled with an additional two cuts expected in FY25 alone, will be sufficient to turn market growth positive. We now expect sales volumes in the second half of 2025 to grow by around 12% oy, which would bring the total for the year to 40,000 units, essentially flat yoy. With the biggest players earmarking a record amount of funds for land expansion, we expect FY26 to bring a tectonic shift to the market. Smaller players with a mismatched offer will be faced with the dilemma of either slashing their prices or being burdened with a backlog of completed yet unsold apartments. Meanwhile, the biggest players with access to the most attractive plots in the biggest cities will successfully implement price increases. Overall, we expect the market to grow by 20% in FY26, with a total of 48,000 units sold – still 17% below FY23 levels.

Valuation approach. Based on our estimates, almost all of the developers we cover are about to enter a unique phase in which apartments sold under the government's 'Safe Mortgage 2%' scheme will finally appear in their P&L statements. As companies are posting better and better EPSs, we believe that the distribution of profits to shareholders is becoming one of the most important metrics for assessing investment ideas. For this reason, we have switched from basing our target prices exclusively on the DCF model to a more robust method that is applicable in this phase of the cycle. In this method, we base our TPs on both the DCF and DDM models. Including the dividend stream in our valuation resulted in higher TPs for all companies covered.

Top Picks, O/W, Neutral. In our opinion, market expectations are at an all-time high following a period of three to five years in which the market position of the biggest developers was fully cemented. However, we still believe that the market has not yet priced in the magnitude of EPS evolution over the next three years. **Archicom** and **Echo Investment** remain our **TOP PICKS**, with an EPS CAGR of over 100% between FY24 and FY27 - in our opinion, Echo Group offers the biggest upside in the sector. We turn **O/W** on **Atal.** Assuming the successful implementation of sales efforts over the next six quarters, Company could surprise the market in FY26. We remain positive on **Develia** (the BIP acquisition has not yet been priced in, in our opinion) and **Murapol** (best-in-class DY). We have a **NEUTRAL** view on **Dom Development** as we find the current valuation demanding with virtually no room for surprises.

Risk factors. For detailed description please see p. 41.

	P/BV (x)			Dividend Yield (%)			EPS growth (%)		
PLNm	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
Archicom	2.0	1.8	1.4	4.3%	8.8%	13.3%	97%	181%	67%
Atal	1.4	1.2	1.2	9.4%	8.8%	15.8%	-11%	91%	1%
Develia	1.9	1.7	1.6	7.4%	8.3%	11.0%	6%	30%	9%
Dom Development	3.0	2.6	2.2	6.0%	6.8%	7.7%	24%	4%	8%
Echo Investment	1.1	1.0	0.8	7.8%	10.7%	15.5%	214%	176%	68%
Murapol	2.3	2.2	2.0	12.6%	13.0%	12.6%	14%	-6%	6%

Source: Companies, Trigon

Archicom
Buy
(Previous: Buy 50 PLN)
Target Price: PLN 60
Upside: +33%

Atal
Buy
(Previous: Hold 60 PLN)
Target Price: PLN 75
Upside: +28%

Develia
Buy
(Previous: Buy 8 PLN)
Target Price: PLN 10
Upside: +28%

Dom Development
Hold
(Previous: Buy 260 PLN)
Target Price: PLN 265
Upside: +13%

Echo Investment
Buy
(Previous: Buy 6 PLN)
Target Price: PLN 7
Upside: +36%

Murapol
Buy
(Previous: Buy 55 PLN)
Target Price: PLN 50
Upside: +29%

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Glossary of professional terms:
capitalisation – market price multiplied by the number of a company's shares
free float (%) – percentage of a company's shares held by shareholders with less than 5% of total voting rights attached to the shares, reduced by treasury shares held by the company
min/max 52 wks – lowest/highest share price over the previous 52 weeks
average turnover – average volume of share trading over the previous month

EBIT – operating profit
EBITDA – operating profit before depreciation and amortisation
adjusted profit – net profit adjusted for one-off items
CF – cash flow
CAPEX – sum of investment expenditures on fixed assets
OCF – cash generated through a company's operating activities
FCF – cash generated by a company after accounting for cash outflows to support its operations and maintain capital assets
ROA – rate of return on assets
ROE – rate of return on equity
ROIC – rate of return on invested capital
NWC – net working capital
cash conversion cycle – length of time it takes for a company to convert its cash investments in production inputs into cash revenue from sale of its products or services
gross profit margin – ratio of gross profit to net revenue
EBITDA margin – ratio of the sum of operating profit and depreciation/amortisation to net revenue
EBIT margin – ratio of operating profit to net revenue
net margin – ratio of net profit to net revenue
EPS – earnings per share
DPS – dividend per share
P/E – ratio of market price to earnings per share
P/BV – ratio of market price to book value per share
EV/EBITDA – ratio of a company's EV to EBITDA
EV – sum of a company's current capitalisation and net debt
DY – dividend yield, ratio of dividends paid to share price
RFR – risk free rate
WACC – weighted average cost of capital

Recommendations of the Brokerage House
Issuer – ARCHICOM S.A., ATAL S.A., DOM DEVELOPMENT S.A., DEVELIA S.A., ECHO INVESTMENT S.A, MURAPOL S.A.
BUY – we expect the total return on an investment to reach at least 15%
HOLD we expect the price of an investment to be largely stable, with potential upside of up to 15%
SELL – we expect negative total return on an investment of more than -0%

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Document prepared by: David Sharma

Valuation methods used

The Discounted Cash Flow (DCF) method values a company by estimating its future cash flows and discounting them back to their present value.
- Advantages: future-oriented, flexible when it comes to assumptions, based on the intrinsic value of a company, widely accepted.
- Disadvantages: sensitivity to assumptions, complexity, subjectivity, doesn't consider market sentiment or short-term fluctuations.
The comparable valuation method values a company by comparing it to similar publicly traded companies.
- Advantages: simplicity, transparency, benchmarking, reflects current market valuations and investor sentiment.
- Disadvantages: lack of specificity, limited comparables, sensitive to market fluctuations, ignoring fundamental differences.
SOTP – sum-of-the-parts method, which consists in valuing a company by valuing its individual business lines separately and then summing them up.
Advantages: different valuation methods can be applied to diverse business lines; the approach is useful for assessing the value of a company e.g. in the case of planned acquisition or restructuring.

Disadvantages: the peer group for individual business lines is usually limited, the method does not adequately account for synergies between business segments.
Risk-adjusted net present value method (rNPV)
Advantages: accounting for probabilities assigned to future cash flows, providing a more realistic assessment of the present value of future cash flows and reflecting business-specific factors, especially in the case of innovative companies.
Disadvantages: subjectivity involved in the adoption of a discount rate, significant reliance on a number of assumptions, high level of complexity in the calculations and exclusion of qualitative factors from the valuation.
Discounted residual income method (DRI)
Advantages: valuation based on the excess of income over risk-adjusted opportunity cost to owners of capital, the method can be applied to companies that do not pay dividends or generate positive FCF.
Disadvantages: significant reliance on subjective judgements and assumptions, as well as sensitivity of the valuation to any changes in those variables.
Discounted dividend model (DDM)
Advantages: accounting for real cash flows to equity owners, the model works best for companies with a long history of dividend distribution.
Disadvantages: the method can be applied to dividend-paying companies only, it is not suitable for companies with a short history of dividend distribution.
Net asset value method (NAV)
Advantages: the approach is particularly relevant to holding companies with significant property, plant and equipment assets, the calculation of NAV is relatively straightforward.
Disadvantages: the method neglects future revenue or earnings potential and may not properly reflect the value of intangible assets.
Target multiple method
Advantages: the method can be applied to any company.
Disadvantages: it involves a high degree of subjectivity.
Replacement value method – it assesses the value of a company based on the costs of replacing its assets.
Advantages: the method is particularly relevant to companies with significant property, plant and equipment assets.
Disadvantages: it may be hard to capture the value of a company’s intangible assets, reputation and market potential.
Liquidation value method – the sum of prices that the business would receive upon selling its individual assets on the open market.
Advantages: the method can capture the lowest threshold of a company’s value.
Disadvantages: it may be hard to capture the value of a company’s intangibles.

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