

11 December 2007

Update

Real Estate Development
 Poland

WIG-Developers (3M)	- 1.5%
Number of companies	12
Sector capitalization	PLN 29.2bn
Free float	PLN 11.0bn
Avg daily trading volume (3M)	PLN 38.9m

Market cap

Dom Development	PLN 2.7bn
Polnord	PLN 2.1bn
J.W. Construction	PLN 2.0bn

Investment Ratings:

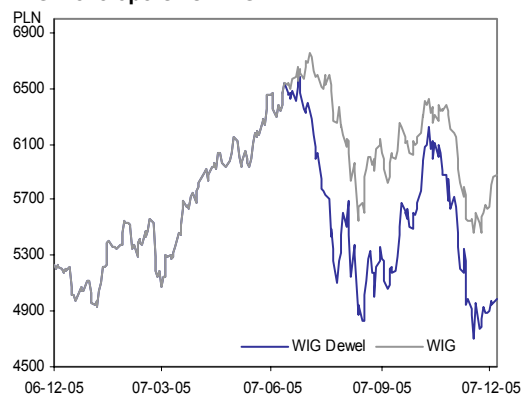
Dom Development - BUY, PLN 136.5/share
J.W. Construction - BUY, PLN 51.4/share
Polnord - BUY, PLN 202.3/share

Sector Outlook

Developers built 38,000 homes last year, and, this year, they are expected to complete 45,000 dwellings. Next year, production will accelerate, with output reaching 80,000 homes.

Important Developments

New building laws

WIG-Developers vs. WIG

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Real-Estate Development

Housing Market Returns To Normal

New Home Prices Grind To a Halt

Home prices in the biggest cities have not moved much in the last six months. Buyers are holding off purchases in anticipation of lower prices. We expect home prices to ease in 2008, but only by 5% on average.

Poles Wait for Move-In Ready Homes

Developers are concluding half as many sale agreements in some cases as they did in Q3'07. We would attribute this downturn to three factors: i) People who had originally planned home purchases for later in the year were urged to hurry by rallying prices of building materials, ii) With the first signs of a subprime meltdown threat, property prices in Western Europe slipped, affecting investment demand in Poland; and iii) The market has matured, and the situation is back to normal: People started to pay attention to location and building standards, and the question they ask themselves is no longer IF, but WHAT to buy. What is more, fewer and fewer buyers are opting for developments that have barely got off the ground. Move-in ready homes account for just 3% of the total supply in Warsaw, compared to ca. 20% in 2003 to 2006. But the situation will be changing as more and more people want to see what they are paying for. This is a normal situation, but as a result of withheld purchases, prices fall. Hence, we are reiterating our forecasts of a ca. 5% price slippage next year.

M&A Activity To Rise In 2008

Demand is the key driver for the real-estate market, and no Western European housing industry is enjoying a demographic/economic environment as favorable as Poland is at the moment. A 1.5 million shortage in dwellings, underpinned by a generation of baby boomers entering maturity, will make our market more attractive for developers than any other Western European country for the next 5-7 years. In later years, quality and standard of living will become the key growth drivers. In the wake of current price weakness, expected to last for over a year, some of the smaller developers might not survive the temporary margin squeeze and sell off their land banks to the majors.

No Bottom Line – No Business

Housing supply is inelastic in the short term: once a development is in progress, it makes no sense to stop in the middle of construction. Hence, many developers, especially smaller ones, do not bother with new projects where there is a risk of no return. Larger players can offset the failure of one project with larger profits from another one. In Q3'07, for the first time in four years, developers did not use up all building permits. The consequence could be reduced supply of homes in 2008 and subsequent years. Summing up, the cooling in demand observed in the past few months will lead to a decline in prices in the short term, but, in a longer term, it will result in limited supply and a rebound in prices.

Forecast	2007F	2008F	2009F	2010F	2011F
Homes (thousands)	124	168	180	184	184
Total mortgage loans extended	PLN 57bn	PLN 58bn	PLN 61bn	PLN 64bn	PLN 66bn
Dem./Supp. (PLN)	3490	3319	3374	3708	3859
pct. change	4%	-5%	2%	10%	4%

Factors Affecting Our Recommendation

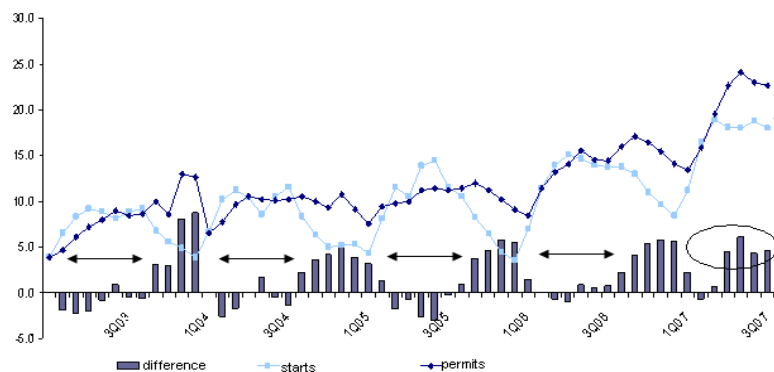
We reiterate our opinion that 2008 will be a weak year in terms of the primary market home prices, which should decrease by 5% on average. Real-estate developers' sales margins are moving towards the 20% level we forecasted. Information from realtors indicates that in Warsaw there are currently three times as many homes for sale as in the same period last year, and yet the share of move-in ready homes among all homes on the market is at a minimum (1.3% in Q3 according to redNet). We do not expect people to hurry into home purchases until this indicator goes back to its normal level of approximately 20% (observed prior to the home-buying panic of 2003-2006). Some people do want to see the home before they buy it. We expect sales to significantly speed up in H1 of next year. With 2-3 times as many sales in November as in October, there are already signs of revival. This unblocking of the market comes with falling prices, but a fall by more than 5% is unlikely, because developers are not starting new construction projects. Statistical data from the Central Statistical Office (GUS) indicate that for the first time in four years, the number of housing starts is lower than the number of building permits issued (details in the report).

We are reiterating our buy rating for three real estate developers: Dom Development, JW. Construction and Polnord. We have lowered their target prices slightly, acting on the conservative assumption that these companies will keep their market shares but the number of completed homes will grow slower than the number of permits issued, as described above. We think that the negative information about the market has already been priced in. The current share prices of real-estate developers factor in an interest rate hike of at least 100 basis points and a 10% fall in home prices next year. As we are not that pessimistic, we believe that these shares are a good long-term investment.

Developers Are Not Using All Their Building Permits

Our forecast of the home market volumes was based on the assumption that developers, cooperatives and individuals would use all the permits issued to them in the given period. This is because developers have complained numerous times that the biggest barriers to their business are the lack of land for construction and the lengthy procedures needed to obtain a permit. This was indeed noticeable in the last years. The developers could not keep up with demand and they were unable to sell their homes due to administrative delays with the issuance of permits, among other things. The demand was so high that there were cases of homes being purchased from developers who not only had no permit in hand, but no land either. In Q3'07 the opposite trend started: developers refrain from starting construction work even though they already have permits. As a result, housing supply may end up lower than we expected, with twofold consequences. On the one hand, a dramatic decrease of prices is unlikely to happen. On the other hand, supply will most likely be cut by the smallest developers, whose financial position and relationship with banks are not strong enough to maintain previous volumes and who are no longer able to rely on client downpayments for construction financing. This is advantageous for large developers, who will be able to take over land from the smaller, local ones at a lower cost.

Number of building permits vs. housing starts



Source: Central Statistical Office (GUS)



Building Permit Utilization

Most building permits are issued in Q2 and Q3, and most housing starts occur in this period as well. It is the construction season. In the last years, the number of housing starts in this period has always exceeded the number of permits issued. The chart above shows that if all building permits had been used a month after they were issued, there would not have been enough of them for housing starts during the construction season, i.e. spring and summer. This means that during the construction season there must be a backlog of orders from the preceding period, i.e. the winter. It is obvious that in the winter permits are issued, but construction doesn't start. The analysis of the number of permits and housing starts applies to all the categories of housing construction (individuals, developers, cooperatives and others).

Not All Permits Issued Used in Q3'07

The chart shows that for the first time in three years not all building permits were used; more permits were issued than needed by developers. Permits remain valid for two years; nonetheless a backlog means that developers will not be filing for new ones soon.

Our assumption is that it is developers and not individuals who refrain from starting construction and do not use their permits. We do not believe that people who build their homes on their own may overestimate their financing abilities. In fact, they file for permits only when they have enough funds to at least start construction. It lasts longer than in the case of developers, but it is launched for sure. All this indicates that the unused permits come from some developers, most likely small ones who limit their business due to insufficient financing. More and more homes to choose from appear on the market, and clients no longer buy the less attractive homes in advance sales. Developers are no longer able to continue financing projects from the clients' advances, as some of them did in the previous months. They decide instead to delay new construction launches and they build less.

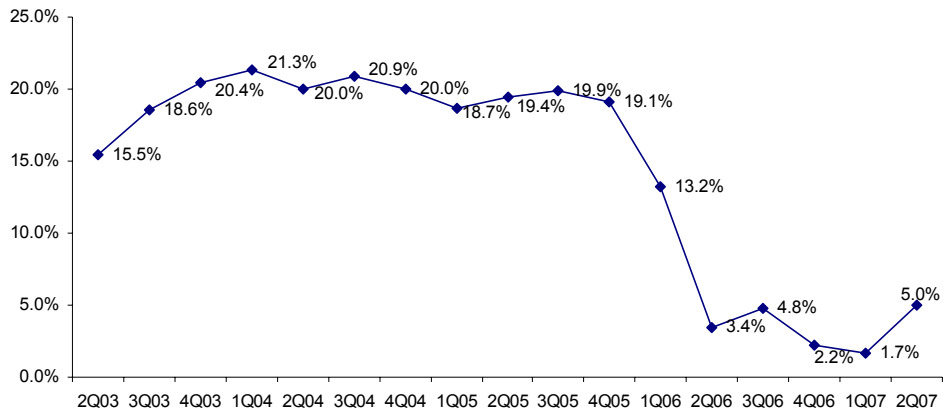
Housing Demand Will Be Lower Than the Number of Permits Issued

It is likely that construction will not even start in the next months on some of the land for which permits have been issued and that this land will be up for sale. This will result in increased land supply and price pressure, an obvious mechanism in the developer market. Falling home prices decrease demand for land while its supply increases as the competition gets too tough for the weakest players. This means that land prices follow home prices and that developers can obtain long-term margins equal to the risk-free rate plus the risk premium, which in our opinion is 20% gross and 10% net. Otherwise, developers would prefer to invest in risk-free assets without entering the business at all. A real-estate developer is not a construction company, but an investment firm specializing in real estate. In the short term, margin fluctuations can occur due to demand fluctuations and its misalignment with supply (rather than stopping housing construction and losing all that has been invested, it makes sense to finish it and sell more cheaply). In the long term, 20% is the minimum possible margin, as housing supply will be shrinking until the players that remain in the market reach this level. In our opinion within the next two years some developers' margins will fall below that level, forcing them to either leave the market or to reduce their activities. As a result, the average market margin will return to 20% in two years.

Number of Homes Completed by Developers to Reach 75,000-80,000 in 2009

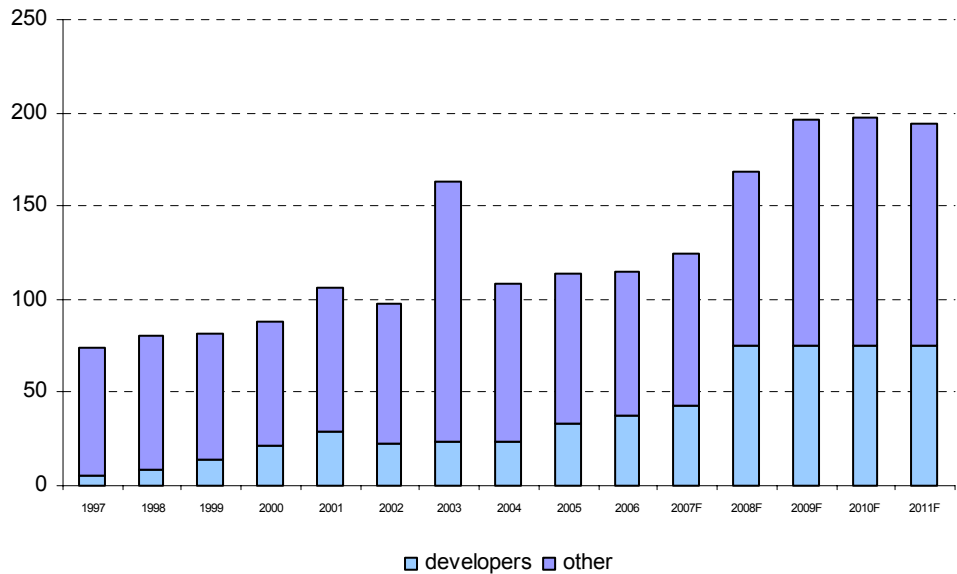
Until the pre-2007 boom started, the market norm was that about 20% of homes on the market were ready for buyers to move into. In early 2006, this indicator fell dramatically to approximately 3%. In Q2'07 it started to grow again and reached 5%. We expect it to keep growing until it reaches the normal levels of approximately 15-20%. Possible growth from 5% to 15% during the next few quarters translates into approximately 10,000 homes a year. They will enter the developers' balances as finished goods. From the developers' point of view, it will therefore make no sense to start more projects before all the homes are sold. They will therefore only build as much as they will be able to sell smoothly, without increasing the number of finished goods above 20% (based on historical data, we take 20% to be the limit beyond which developers are not able to finance their investments). Permits unused in Q3 (3-5 ths. a month, or 10 ths. in the whole quarter) confirm this number. We believe that this number must be deducted from our first estimate of the 2009 production volume of the developer market. Yearly production of homes will stabilize at approximately 190-200 ths. in total and 75-80 ths. in the case of developers, down from the 90-95 ths. we previously assumed. We do not change volume forecasts in other categories. We believe large developers will be gaining share at the expense of small ones. In our valuation of the listed developers (the largest ones in the market) we conservatively assume that their market share will be stable, i.e. that they will sell fewer homes than we forecasted before. In practice, it is very likely that their market shares will grow disproportionately as they take over smaller developers.

Move-in ready homes as percent of the total supply (Warsaw example)



Source: redNet Consulting

Home completion forecast for Poland



Source: Forecast by BRE Bank Securities

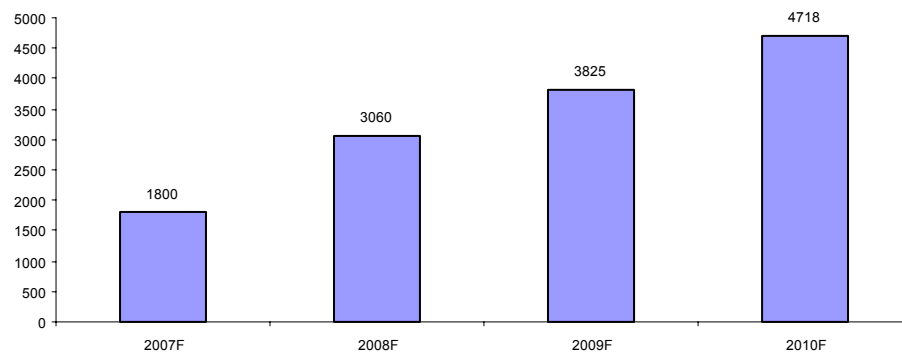
**Q3 2007 Earnings Review
Impact on Valuation**

The sales results of the WSE-listed real estate developers confirm the general trend that started early this year and strengthened in the third quarter. Developers are not signing as many sales contracts for new homes as last year. Q3'07 financial results are nonetheless good or very good. This is because income statements reflect sales of homes sold several months ago that were now recognized by accountants thanks to the progress of construction work. Next year's results will not be much worse, however. First, since construction lasts approximately 2 years, results will reflect pre-sold homes (including ones that are sold already). Homes sold this year, even though there are fewer of them, still weigh more than homes sold several quarters ago, because in the meantime we observed constant price growth (ca. +50% over the year). This is why profits shown in financial statements will keep growing even as margins fall.

Dom Development

Revenues in Q3'07 amounted to PLN 273m, i.e. over 50% more than in the same period last year. Net income doubled to over PLN 65m. Such good results reflect the relatively low starting point from the summer of last year, as shown by the trend observed in the last two quarters. Q2'07 revenue was almost the same as in Q2'06. Most likely, the recognition of revenues from some projects was delayed until Q3'07, leading to the sharp contrast in the rate of revenue and income growth y/y in Q3'07 and Q2'07. We have a positive view on Dom Development's 3Q results. Gross margin is strong at close to 38%. The number of contracts signed in Q3'07 was 347, practically the same as a year earlier, which is a good sign (1.3 ths. cumulative for nine months is 5% more than in the same period last year). Nonetheless, a closer look at the results offers a less optimistic perspective. This is mainly due to the limited probability that the target number of signed contracts will be met this year and in the next few years. This will be reflected in financial statements from the next quarter on. Note that the Q3 results were mostly revenues from homes sold many months ago, when the housing market was booming. They were recognized only now, after progress was made with their completion. Hence the high profits and margin. We based our future forecasts on the management's projections as to home sales volumes (2250 in 2007 and 3500 next year). It is already clear that the next year's forecast is unlikely to be met. This necessitates revisions in the projections for subsequent years. We are assuming that the Board's plan was too optimistic and must be adjusted down. We therefore assume that the number of homes sold will be 15% lower. This is in line with our assumptions for the whole market. Developers will reduce housing starts despite the permits they have. What is more, the company's net debt is still negative (PLN 130m at the end of Q3'07) which is related to the fact that it did no heavy land purchasing in the last few months.

Dom Development home sales



Source: Forecast by BRE Bank Securities

Valuation

We are increasing our FY2007 net income targets from PLN 186m to PLN 204m. In 2008, the profits will be PLN 206m. We are reiterating our forecast of home prices falling by approximately 4% next year and increasing slightly in 2009 (2%).

J.W. CONSTRUCTION

The number of home sale contracted was 533 in Q3'07, almost 50% lower than in the same period of last year. Since the beginning of the year, JWC signed contracts for 2.1 ths. homes vs. 2.8 ths. in Q1-Q3 2006. However, homes sold this year will be much more expensive, hence the value of contracts signed grew from PLN 761m to PLN 818m y/y.

Next year's results will be largely determined by the following projects: Lewandów (1.9 ths. homes, 91% sold), Zdziarska (0.6 ths., 88% sold) and Bursztynowe (0.3 ths., almost all sold). In other words, less than 1% of 3,000 homes already sold affect this year's financial profit. Their value alone can be conservatively estimated at PLN 800m., and most of them will affect the 2008 profit. In addition, at least half of the Górczewska Park project will impact the 2008 result (65% of the 0.9 ths. homes will affect 2008 and 2009 results). We do not lower our forecast for 2008. Thanks to the high-price contracts, the margin on these homes will exceed 30%. Labor costs are not growing as fast as in the past months, and the prices of building materials stabilized.

**Valuation**

As is the case with the entire market, we reduce the number of homes sold in 2009 by 15%, keeping the market share at the current level. We are reiterating our forecast of home prices falling by approximately 5% next year and increasing slightly in 2009 (2%).

Polnord

Sales revenues in Q3'07 were PLN 38.9m and net income PLN 10m. At first glance, this might not seem much compared to other developers, but we should remember that for a developer that is new in this business and accounts for revenues in accordance with IAS 11 revenues and profits grow exponentially. In Q3, Polnord has no revenues from previous quarters. Net profit for the year to 30 Sept amounted to PLN 94m (incl. PLN 70m from non-operating activity). The 29.5% sales margin is satisfactory and it grows systematically as the sale of Wilanów homes progresses. We alter our revenue forecast for this year. The auditor has objected to the Królewskie Przedmieście project in Wilanów being recognized in full in 2007. Some revenues should have been recognized in 2006. The high Q3 profits from the release of provisions to sell general contracting to PolAqua (PLN 27m) will result in the net income approaching PLN 103m this year. 2008 will bring PLN 153m in net income. This is a conservative forecast, as the Management Board expects approximately PLN 200m.

Valuation

Office activity revenues are based on the EUR/PLN exchange rate. We reiterate our forecast that the zloty will appreciate against the euro by 1% a year, but we lower the starting exchange rate (end of 2007) from 3.8 to 3.65.

For the Warsaw Technology Park, we believe the rental price per square meter to be about EUR 15-17 instead of the EUR 19-21 we previously assumed. The high earlier rate was due to the comfortable localization next to the S8 beltway. In the meantime, the city annulled the tender for its construction, leading to doubts about the timeline of its completion. This situation may limit Polnord's bargaining power towards its potential clients.

As in the other cases, we reduce homes completed after the forecast horizon by 15%, revenue-wise. We reiterate our forecasts of sales prices for the various Polnord projects from the October 28, 2007 report.

11 December 2007

Update

Real Estate Development
 Poland

Current price	PLN 112.0
Target price	PLN 136.5
Market cap	PLN 2.6bn
Free float	PLN 0.7bn
Avg daily trading volume (3M)	PLN 3.96m

Shareholder Structure

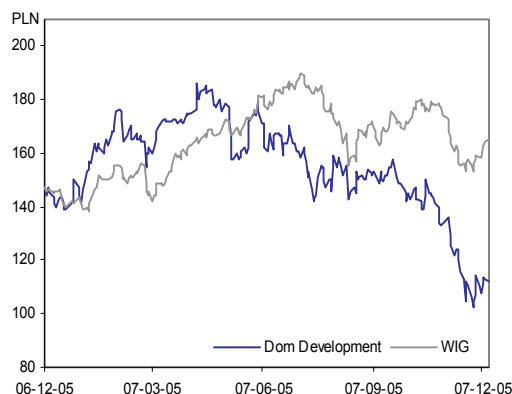
Dom Development BV	63.1%
Jarosław Sznajca	7.16%
Grzegorz Kielpsz	5.74%
Pozostali	24.0%

Sector Outlook

Real-estate developers have enjoyed spectacular growth over the past two years thanks to skyrocketing home prices. And they are not about to slow down, generating equally impressive growth on large volumes, at margins hovering around 20%.

Company Profile

DD is one of Poland's two top developers, with an annual output exceeding 2 thousand homes. It focuses on affordable and high-end homes, and its core market is Warsaw. The main arguments supporting our recommendation are: strong competitive position, high profit growth and clear strategy.

Dom Development vs. WIG

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Dom Development

DOM.WA; DOM.PW

Buy

Reiterated

Excellent Third Quarter

Q3 results reflect the sale of apartments from several months ago. The good result after three quarters gives grounds for an upward revision of the FY net income forecast to PLN 204m. However, we do not believe that Dom Development can sign pre-sell agreements for 2250 apartments, as we forecasted in our valuation at the end of September. This puts the forecast for subsequent years in doubt. We decided to revise our apartment sales forecast downwards by 15% (details provided in the update to the Real Estate Development Market report). We are lowering our per-share price target to PLN 136.5 and we recommend buying.

Entering Smaller Cities

Apart from one project in Wrocław, Dom Development focuses exclusively on Warsaw. Its entry into smaller cities is clearly delayed. Although in the long term Warsaw, being the capital, will offer the highest profit margins, the next few years will be a time of boom for mid-sized cities (see our September Report). The company will attempt to catch up by purchasing another real-estate developer in lieu of buying large quantities of land. This is the most expensive variant, as it requires paying for the skills and experience of the staff in addition to the land itself. Expansion costs would be much lower if the company had purchased land systematically, as did the competition.

Stock Issue Funds Still Not Used. Waiting for Developments.

Last quarter, the company purchased only one land parcel (approximately 6 hectares in the Białołęka borough of Warsaw) and it was closing the deal on a purchase of another in Praga Północ (also in Warsaw). It can afford, however, to await reductions in land prices. It could be costly to hold land beyond what is needed to remain liquid in operations. DD now has enough land for three years of construction work. It is a risky strategy, but a sensible one. There is a possibility that a new law automatically excluding farm land situated within city limits from the national agricultural reserve will be passed quickly (the PO-PSL government may speed the process up by using the draft bill prepared by the former Construction Minister Barszcz). This will give an advantage to developers with a lot of cash on hand to purchase land in the best localizations, such as Dom Development.

(PLN m)	2006	2007F	2008F	2009F
Revenues	729.8	961.3	1231.1	1720.8
EBITDA	127.7	258.9	257.9	298.8
<i>EBITDA margin</i>	17.5%	26.9%	20.9%	17.4%
EBIT	126.1	256.3	256.0	296.7
Net profit	115.9	203.9	206.1	242.7
DPS	0.00	0.00	2.74	2.77
P/E	24.4	13.9	13.7	11.6
P/CE	24.0	13.7	13.6	11.5
P/BV	5.7	4.1	3.4	2.8
EV/EBITDA	11.7	11.7	11.7	10.1
DYield	0.0%	0.0%	2.4%	2.4%



DCF Valuation

(PLN m)	2007F	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2016+
Sales revenue	961	1 231	1 721	2 197	2 344	2 500	2 804	2 943	2 958	3 047	3 138
<i>change</i>	31.7%	28.1%	39.8%	27.7%	6.7%	6.6%	12.2%	4.9%	0.5%	3.0%	3.0%
EBITDA	258.9	257.9	298.8	302.8	289.0	365.0	444.1	454.0	463.9	478.8	494.1
<i>EBITDA margin</i>	26.9%	20.9%	17.4%	13.8%	12.3%	14.6%	15.8%	15.4%	15.7%	15.7%	15.7%
Amortization and depreciation	2.5	1.9	2.1	2.3	2.5	2.7	3.0	3.3	3.5	3.8	4.2
EBIT	256.3	256.0	296.7	300.5	286.5	362.3	441.2	450.8	460.3	474.9	489.9
<i>EBIT margin</i>	26.7%	20.8%	17.2%	13.7%	12.2%	14.5%	15.7%	15.3%	15.6%	15.6%	15.6%
Tax rate on EBIT	48.7	48.6	56.4	57.1	54.4	68.8	83.8	85.6	87.5	90.2	93.1
NOPLAT	207.6	207.3	240.4	243.4	232.1	293.4	357.3	365.1	372.9	384.7	396.8
CAPEX	-2.3	-2.1	-2.3	-2.4	-2.6	-2.8	-3.0	-3.3	-3.6	-3.8	-4.2
Working capital	-95.2	-110.8	-147.9	-326.4	-110.2	-61.6	-104.2	-28.1	-52.1	-53.7	0.0
Capital investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	112.7	96.3	92.3	-83.1	121.8	231.8	253.0	337.0	320.7	331.0	396.8
WACC	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.6%
<i>discount factor</i>	99.1%	89.5%	80.9%	73.1%	66.0%	59.6%	53.9%	48.7%	44.0%	39.7%	39.7%
PV FCF	111.7	86.3	74.7	-60.7	80.4	138.2	136.3	164.0	141.0	131.4	2 074.9

WACC	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.6%
Cost of debt	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	6.6%
Risk-free rate	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.6%
Risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Net debt / EV	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of equity	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.6%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

FCF growth after the forecast horizon	3.0%	Sensitivity analysis					
Terminal value	5 221.4	FCF growth in perpetuity					
Discounted terminal value (PV TV)	2 074.9	1.0%	2.0%	3.0%	4.0%	5.0%	
Discounted FCF in the forecast horizon	1 003.1	WACC +1.0ppt	110.1	116.9	125.2	135.7	149.4
Equity value (EV)	3 078.0	WACC +0.5ppt	113.6	121.2	130.5	142.5	158.5
Net debt	-26.4	WACC	117.5	125.9	136.5	150.4	169.1
Minority interests	0.0	WACC -0.5ppt	121.8	131.3	143.4	159.5	181.9
Equity value (EV)	3 104.4	WACC +1.0ppt	126.7	137.4	151.3	170.3	197.4
Number of shares (millions)	24.6						
Equity value per share (PLN)	126.4						
Cost of equity (9M)	7.9%						
Target Price	136.5						
EV/EBITDA('07) for the target price	11.9						
P/E('07) for the target price	16.4						
TV to EV	67%						



Income Statement

(PLN m)	2005	2006	2007F	2008F	2009F	2010F
Sales revenue	341.8	729.8	961.3	1 231.1	1 720.8	2 196.7
<i>change</i>		113.5%	31.7%	28.1%	39.8%	27.7%
Cost of sales	248.4	496.9	634.4	898.7	1 338.7	1 807.9
Gross profit	93.4	232.9	326.8	332.4	382.0	388.8
<i>Gross profit margin</i>	27.3%	31.9%	34.0%	27.0%	22.2%	17.7%
Selling costs	31.9	21.7	22.6	23.7	24.9	26.1
SG&A expenses	21.6	41.3	42.6	46.9	54.0	55.2
Other net operating profit	-6.4	-4.8	-5.2	-5.8	-6.3	-7.0
EBIT	40.6	126.1	256.3	256.0	296.7	300.5
<i>change</i>		210.8%	103.3%	-0.1%	15.9%	1.3%
<i>EBIT margin</i>	11.9%	17.3%	26.7%	20.8%	17.2%	13.7%
Profit on financing activity	-8.0	15.0	-4.6	-1.5	2.9	2.1
Extraordinary gains/losses	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax income	32.6	141.1	251.7	254.5	299.7	302.5
Tax	6.7	25.2	47.8	48.4	56.9	57.5
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Net income	25.9	115.9	203.9	206.1	242.7	245.1
<i>change</i>		347.7%	75.8%	1.1%	17.8%	1.0%
<i>margin</i>	7.6%	15.9%	21.2%	16.7%	14.1%	11.2%
Amortization and depreciation	1.8	1.6	2.5	1.9	2.1	2.3
EBITDA	42.3	127.7	258.9	257.9	298.8	302.8
<i>change</i>		201.7%	102.8%	-0.4%	15.9%	1.3%
<i>EBITDA margin</i>	12.4%	17.5%	26.9%	20.9%	17.4%	13.8%
Shares at year-end (millions)	-	24.6	24.6	24.6	24.6	24.6
EPS	-	4.7	8.3	8.4	9.9	10.0
CEPS	-	4.8	8.4	8.5	10.0	10.1
ROAE	4.4%	12.5%	18.7%	17.5%	16.9%	13.9%
ROAA	30.1%	23.6%	29.3%	24.7%	24.0%	20.9%

**Balance Sheet**

(PLN m)	2005	2006	2007F	2008F	2009F	2010F
ASSETS	586.4	923.9	1 087.8	1 179.0	1 438.2	1 766.3
Fixed assets	20.2	17.0	16.8	17.0	17.2	17.3
Property, plant and equipment	7.3	5.5	15.0	14.8	14.5	14.1
Intangible assets	0.4	0.7	1.8	2.2	2.7	3.2
Long-term receivables	0.9	1.5	0.0	0.0	0.0	0.0
Other fixed assets	11.6	9.3	0.0	0.0	0.0	0.0
Current assets	566.2	906.9	1 071.0	1 162.0	1 421.0	1 749.1
Inventories	396.7	594.9	549.5	434.5	360.6	339.2
Short-term receivables	43.4	60.8	64.0	72.6	89.8	102.1
Other current assets	52.3	23.7	207.5	382.4	510.9	790.6
Cash and cash equivalents	73.8	227.5	250.0	272.5	459.6	517.2
(PLN m)	2005	2006	2007F	2008F	2009F	2010F
LIABILITIES	539.1	923.9	1 087.8	1 179.0	1 438.2	1 766.3
Equity	86.1	491.9	695.7	834.6	1 009.3	1 174.3
Share capital	21.9	24.1	24.1	24.1	24.1	24.1
Other equity	111.6	467.8	671.7	743.3	917.2	1 070.1
Long-term liabilities	166.9	154.8	129.6	83.5	69.6	59.9
Loans	128.3	102.2	77.0	30.8	30.0	30.0
Other	38.5	52.6	52.6	52.6	39.6	29.9
Short-term liabilities	286.1	277.2	262.4	260.9	359.2	532.2
Loans	107.0	98.9	115.5	87.6	120.0	240.0
Trade creditors	132.3	140.8	101.9	136.2	207.2	261.6
Accruals	37.9	30.2	37.8	29.9	24.8	23.3
Other	8.8	7.3	7.3	7.3	7.3	7.3
Debt	235.4	201.1	192.6	118.4	150.0	270.0
Net debt	161.5	-26.4	-57.4	-154.0	-309.6	-247.2
(Net debt / Equity)	187.7%	-5.4%	-8.3%	-18.5%	-30.7%	-21.1%
(Net debt / EBITDA)	3.8	-0.2	-0.2	-0.6	-1.0	-0.8
BVPS	-	20.0	28.3	34.0	41.1	47.8

**Cash Flows**

(PLN m)	2005	2006	2007F	2008F	2009F	2010F
Cash flows from operating activities	-15.2	-12.6	33.3	166.0	225.8	20.1
Net income	25.9	115.9	203.9	206.1	242.7	245.1
Amortization and depreciation	1.8	1.6	2.5	1.9	2.1	2.3
Working capital	-223.0	-203.5	-95.2	-110.8	-147.9	-326.4
Other	180.2	73.4	-77.9	68.7	128.9	99.2
Cash flows from investing activities	7.0	0.0	-2.3	-2.1	-2.3	-2.4
Cash Flows	3.2	168.0	-8.5	-141.4	-36.4	39.9
Stock offering	0.0	220.5	0.0	0.0	0.0	0.0
Debt	151.2	41.6	-8.5	-74.2	31.6	120.0
Dividend (buy-back)	0.0	0.0	0.0	-67.3	-68.0	-80.1
Other	-147.9	-94.2	0.0	0.0	0.0	0.0
Change in cash	0.0	22.5	22.5	187.1	57.6	135.1
Cash at the end of period	73.8	227.5	250.0	272.5	459.6	517.2
DPS (PLN)	-	0.00	0.00	-2.74	-2.77	-3.26
FCF	0.0	112.7	96.3	92.3	-83.1	121.8
(CAPEX / Sales)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Market multiples

	2005	2006	2007F	2008F	2009F	2010F
P/E	-	24.4	13.9	13.7	11.6	11.5
P/CE	-	24.0	13.7	13.6	11.5	11.4
P/BV	-	5.7	4.1	3.4	2.8	2.4
P/S	-	3.9	2.9	2.3	1.6	1.3
FCF/EV	-	3.7%	3.1%	3.0%	-2.7%	4.0%
EV/EBITDA	-	11.9	11.9	11.9	10.3	10.2
EV/EBIT	-	12.0	12.0	10.4	10.2	10.7
EV/S	-	3.2	2.5	1.8	1.4	1.3
DYield	-	0.0%	0.0%	2.4%	2.4%	2.8%
Price (PLN)						
Shares at year-end (millions)	-	24.6	24.6	24.6	24.6	24.6
MC (PLN m)	-	2824.4	2824.4	2824.4	2824.4	2824.4
Equity attributable to minority shareholders (PLN m)	-	0.0	0.0	0.0	0.0	0.0
EV (PLN m)	-	2 798.0	2 767.0	2 670.4	2 514.8	2 577.2

11 December 2007

Update


Real Estate Development
 Poland

Current price	PLN 42.60
Target price	PLN 51.40
Market cap	PLN 2.2bn
Free float	PLN 0.45bn
Avg daily trading volume (3M)	PLN 3.4m

J.W. Construction

Buy

JWC.WA; JWC.PW

(reiterated)

FY2007 Earnings Outlook Intact

Delivery of the FY2007 earnings forecasts hinged on successful sales of the heavily advertised "Górczewska Park" apartments. After a considerable acceleration in sales in November, we are reiterating our FY'07 earnings forecast for JWC. For FY2008, we expect an increase in homebuyer activity in H1, accompanied by a moderate decline in prices. We are reiterating a buy rating on JWC.

Shareholder Structure

Józef Wojciechowski	80.0%
Others	20.0%

FY2008 Profits

Almost 3,000 of the homes already sold will not be reflected in this year's financial statements, but the majority will be recognized in FY2008 accounts. These sales are expected to generate high, over-30% margins. Labor costs have slowed down, and prices of building materials have stopped increasing. We are reiterating our FY2008 net income estimate for JWC at PLN 194m on PLN 1.1bn revenue.

Sector Outlook

Real-estate developers have enjoyed spectacular growth over the past two years thanks to skyrocketing home prices. And they are not about to slow down, generating equally impressive growth on large volumes, at margins hovering around 20%.

Factoring In Poland Sales Only

Earnings projections for periods beyond the forecast horizon have considerable weight in DCF valuation. After analyzing third-quarter trends, when, for the first time in 4 years, the number of development starts was lower than the number of building permits issued, we decided to lower our 2009 forecast of total developer home output from 90-95k to 75-80k. We predict that the decline in production will affect mainly small developers (details can be found in the Real Estate Development Market Report update). For JWC, however, we are leaving a conservative assumption of a flat market share. Accordingly, we are lowering target home-output forecast for the company from 4,500 to 4,100. We are not factoring in JWC's plans to achieve the same production capacity in Russia as it achieves in Poland. The first project in Moscow (over 1k apartments) has already been put up for sale.

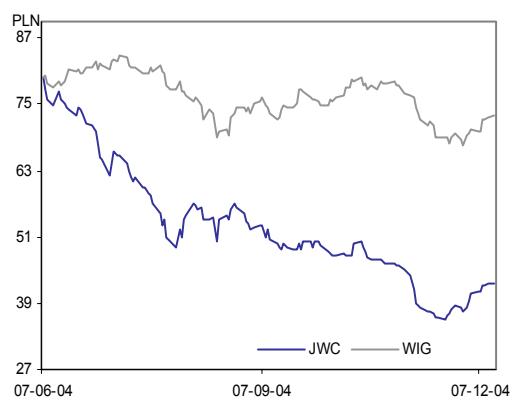
Company Profile

J.W. Construction is Poland's largest new-home developer. Having established itself as a leader in the Warsaw housing market, the company has set out to conquer other Polish cities, and expands in Russia and Bulgaria.

Affordable Housing Going Strong

Home prices are cooling off: second-hand apartments in secondary locations and in 70's prefabricated concrete housing are depreciating the fastest. New home prices are steady. The strongest segment is affordable housing in big-city suburbs, where the prices are stable. Average buyers' credit rating does not allow them to buy anything else. In more upscale areas, where until recently prices were fueled by investment purchases, demand has declined, but developers are keeping prices stable.

J.W. Construction vs. WIG



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(PLN m)	2006F	2007F	2008F	2009F
Revenue	726.3	816.4	1110.4	1322.1
EBITDA	190.8	200.0	255.8	251.6
EBITDA margin	26.3%	24.5%	23.0%	19.0%
EBIT	180.1	190.1	246.6	243.3
Net income	132.0	146.3	194.3	195.6
DPS	0.00	0.00	0.80	1.07
P/E	14.9	13.5	10.1	10.1
P/CE	13.8	12.6	9.7	9.7
P/BV	10.2	3.4	2.7	2.3
EV/EBITDA	13.3	12.7	9.9	10.1
DYield	0.0%	0.0%	2.2%	3.0%



DCF Valuation

(PLN m)	2007F	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2016+																																																												
Sales revenue	816	1 110	1 322	1 663	1 939	1 995	2 142	2 261	2 370	2 441	2 514																																																												
<i>change</i>	12.4%	36.0%	19.1%	25.8%	16.6%	2.9%	7.4%	5.6%	4.8%	3.0%	3.0%																																																												
EBITDA	200.0	255.8	251.6	253.7	280.8	318.0	364.7	367.8	386.0	397.0	408.4																																																												
<i>EBITDA margin</i>	24.5%	23.0%	19.0%	15.3%	14.5%	15.9%	17.0%	16.3%	16.3%	16.3%	16.2%																																																												
Amortization and depreciation	10.0	9.1	8.3	7.7	7.1	6.6	6.1	5.7	5.4	5.1	4.9																																																												
EBIT	190.1	246.6	243.3	246.0	273.7	311.4	358.6	362.1	380.6	391.9	403.5																																																												
<i>EBIT margin</i>	24.8%	23.3%	22.2%	18.4%	14.8%	14.1%	15.6%	16.7%	16.0%	16.1%	16.1%																																																												
Tax rate on EBIT	36.1	46.9	46.2	46.7	52.0	59.2	68.1	68.8	72.3	74.5	76.7																																																												
NOPLAT	153.9	199.8	197.0	199.3	221.7	252.2	290.4	293.3	308.3	317.4	326.9																																																												
CAPEX	-1.9	-2.2	-2.5	-2.8	-3.1	-3.4	-3.7	-4.0	-4.3	-4.6	-4.9																																																												
Working capital	-197.1	-55.5	-161.4	-140.1	-11.6	-103.6	-74.2	-105.4	13.4	-40.3	0.0																																																												
Capital investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0																																																												
FCF	-35.0	151.3	41.5	64.1	214.1	151.8	218.7	189.6	322.8	277.7	326.9																																																												
<i>WACC</i>	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.6%																																																												
<i>discount factor</i>	99.1%	89.5%	80.9%	73.1%	66.0%	59.6%	53.9%	48.7%	44.0%	39.7%	39.7%																																																												
PV FCF	-34.7	135.4	33.6	46.8	141.3	90.5	117.8	92.3	141.9	110.2	1 709.1																																																												
WACC	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.6%																																																												
Cost of debt	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%																																																												
Risk-free rate	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.6%																																																												
Risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%																																																												
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%																																																												
Net debt / EV	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%																																																												
Cost of equity	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%																																																												
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%																																																												
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0																																																												
FCF growth after the forecast horizon	3.0%		Sensitivity analysis																																																																				
Terminal value	4 301.0		FCF growth in perpetuity																																																																				
Discounted terminal value (PV TV)	1 709.1		<table border="1"> <thead> <tr> <th></th> <th>1.0%</th> <th>2.0%</th> <th>3.0%</th> <th>4.0%</th> <th>5.0%</th> </tr> </thead> <tbody> <tr> <td>Discounted FCF in the forecast horizon</td> <td>875.1</td> <td>875.1</td> <td>875.1</td> <td>875.1</td> <td>875.1</td> </tr> <tr> <td>Equity value (EV)</td> <td>2 584.2</td> <td>2 584.2</td> <td>2 584.2</td> <td>2 584.2</td> <td>2 584.2</td> </tr> <tr> <td>Net debt</td> <td>291.4</td> <td>291.4</td> <td>291.4</td> <td>291.4</td> <td>291.4</td> </tr> <tr> <td>Minority interests</td> <td>0.0</td> <td>0.0</td> <td>0.0</td> <td>0.0</td> <td>0.0</td> </tr> <tr> <td>Equity value (EV)</td> <td>2 292.8</td> <td>2 292.8</td> <td>2 292.8</td> <td>2 292.8</td> <td>2 292.8</td> </tr> <tr> <td>Number of shares (millions)</td> <td>54.7</td> <td>54.7</td> <td>54.7</td> <td>54.7</td> <td>54.7</td> </tr> <tr> <td>Equity value per share (PLN)</td> <td>47.6</td> <td>47.6</td> <td>47.6</td> <td>47.6</td> <td>47.6</td> </tr> <tr> <td>Cost of equity (9M)</td> <td>7.6%</td> <td>7.6%</td> <td>7.6%</td> <td>7.6%</td> <td>7.6%</td> </tr> <tr> <td>Target Price</td> <td>51.4</td> <td>51.4</td> <td>51.4</td> <td>51.4</td> <td>51.4</td> </tr> </tbody> </table>										1.0%	2.0%	3.0%	4.0%	5.0%	Discounted FCF in the forecast horizon	875.1	875.1	875.1	875.1	875.1	Equity value (EV)	2 584.2	2 584.2	2 584.2	2 584.2	2 584.2	Net debt	291.4	291.4	291.4	291.4	291.4	Minority interests	0.0	0.0	0.0	0.0	0.0	Equity value (EV)	2 292.8	2 292.8	2 292.8	2 292.8	2 292.8	Number of shares (millions)	54.7	54.7	54.7	54.7	54.7	Equity value per share (PLN)	47.6	47.6	47.6	47.6	47.6	Cost of equity (9M)	7.6%	7.6%	7.6%	7.6%	7.6%	Target Price	51.4	51.4	51.4	51.4	51.4
	1.0%	2.0%	3.0%	4.0%	5.0%																																																																		
Discounted FCF in the forecast horizon	875.1	875.1	875.1	875.1	875.1																																																																		
Equity value (EV)	2 584.2	2 584.2	2 584.2	2 584.2	2 584.2																																																																		
Net debt	291.4	291.4	291.4	291.4	291.4																																																																		
Minority interests	0.0	0.0	0.0	0.0	0.0																																																																		
Equity value (EV)	2 292.8	2 292.8	2 292.8	2 292.8	2 292.8																																																																		
Number of shares (millions)	54.7	54.7	54.7	54.7	54.7																																																																		
Equity value per share (PLN)	47.6	47.6	47.6	47.6	47.6																																																																		
Cost of equity (9M)	7.6%	7.6%	7.6%	7.6%	7.6%																																																																		
Target Price	51.4	51.4	51.4	51.4	51.4																																																																		
WACC +1.0ppt	47.7	51.7	56.9	63.9	73.9																																																																		
WACC -0.5ppt	45.9	49.4	53.9	59.9	68.2																																																																		
WACC	44.4	47.5	51.4	56.5	63.4																																																																		
WACC +0.5ppt	42.9	45.7	49.2	53.6	59.5																																																																		
WACC +1.0ppt	41.6	44.1	47.2	51.1	56.1																																																																		

**Income Statement**

(PLN m)	2005	2006	2007F	2008F	2009F	2010F
Sales revenue	414.6	726.3	816.4	1 110.4	1 322.1	1 662.6
<i>change</i>		75.2%	12.4%	36.0%	19.1%	25.8%
Cost of sales	342.2	500.3	571.5	807.2	1 020.6	1 356.6
Gross profit	72.5	226.0	244.9	303.1	301.4	305.9
<i>Gross profit margin</i>	17.5%	31.1%	30.0%	27.3%	22.8%	18.4%
Selling costs	17.7	24.1	28.9	29.8	30.7	31.6
SG&A expenses	22.0	20.8	25.0	25.7	26.5	27.3
Other net operating profit	0.7	-1.0	-1.0	-1.0	-1.0	-1.0
EBIT	33.5	180.1	190.1	246.6	243.3	246.0
<i>change</i>		438.0%	5.5%	29.8%	-1.4%	1.1%
<i>EBIT margin</i>	8.1%	24.8%	23.3%	22.2%	18.4%	14.8%
Profit on financing activity	-13.4	-11.8	-9.4	-6.7	-1.8	0.4
Extraordinary gains/losses	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax income	20.1	167.2	180.6	239.9	241.5	246.5
Tax	8.8	35.2	34.3	45.6	45.9	46.8
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Net income	11.3	132.0	146.3	194.3	195.6	199.6
<i>change</i>		1070.8%	10.8%	32.8%	0.6%	2.1%
<i>margin</i>	2.7%	18.2%	17.9%	17.5%	14.8%	12.0%
Amortization and depreciation	11.1	10.7	10.0	9.1	8.3	7.7
EBITDA	44.6	190.8	200.0	255.8	251.6	253.7
<i>change</i>		328.0%	4.8%	27.8%	-1.6%	0.8%
<i>EBITDA margin</i>	10.8%	26.3%	24.5%	23.0%	19.0%	15.3%
Shares at year-end (millions)	-	54.7	54.7	54.7	54.7	54.7
EPS	-	2.4	2.7	3.6	3.6	3.6
CEPS	-	2.6	2.9	3.7	3.7	3.8
ROAE	9.4%	68.2%	25.6%	26.9%	22.7%	19.9%
ROAA	1.5%	14.5%	10.9%	13.3%	11.8%	10.5%

**Balance Sheet**

(PLN m)	2005	2006	2007F	2008F	2009F	2010F
ASSETS	748.9	907.5	1 339.9	1 463.9	1 661.9	1 910.4
Fixed assets	329.6	329.2	321.0	314.1	308.2	303.3
Property, plant and equipment	269.2	272.0	292.3	284.3	277.3	271.2
Intangible assets	25.8	29.3	28.7	29.7	30.9	32.1
Long-term receivables	9.5	11.6	11.6	11.6	11.6	11.6
Other fixed assets	25.1	16.3	0.0	0.0	0.0	0.0
Current assets	419.2	906.9	988.9	1 074.4	1 500.2	1 879.1
Inventories	28.6	594.9	497.5	497.2	442.5	574.3
Short-term receivables	65.9	60.8	62.0	68.0	117.8	119.6
Other current assets	308.5	213.8	179.3	189.2	580.1	716.8
Cash and cash equivalents	16.2	37.4	250.0	320.0	359.8	468.4
(PLN m)	2005	2006	2007F	2008F	2009F	2010F
LIABILITIES	748.9	907.5	1 339.9	1 463.9	1 661.9	1 910.4
Equity	119.8	193.4	572.3	722.8	860.1	1 001.0
Share capital	6.0	10.3	10.3	10.3	10.3	10.3
Other equity	113.8	183.2	562.1	712.5	849.8	990.8
Long-term liabilities	241.4	350.4	394.6	279.6	249.6	209.6
Loans	128.1	220.8	265.0	150.0	120.0	80.0
Other	113.3	129.6	129.6	129.6	129.6	129.6
Short-term liabilities	387.7	363.7	373.0	461.5	552.3	699.8
Loans	157.2	108.0	114.2	120.0	150.0	200.0
Trade creditors	84.9	115.9	102.1	140.6	169.7	216.1
Accruals	133.3	105.5	122.5	166.6	198.3	249.4
Other	12.3	34.3	34.3	34.3	34.3	34.3
Debt	285.3	328.8	379.2	270.0	270.0	280.0
Net debt	269.1	291.4	129.2	-50.0	-89.8	-188.4
(Net debt / Equity)	224.7%	150.7%	22.6%	-6.9%	-10.4%	-18.8%
(Net debt / EBITDA)	6.0	1.5	0.6	-0.2	-0.4	-0.7
BVPS	-	3.5	10.5	13.2	15.7	18.3

**Cash Flows**

(PLN m)	2005	2006	2007F	2008F	2009F	2010F
Cash flows from operating activities	-15.2	-12.6	-68.4	225.2	100.5	160.1
Net income	11.3	132.0	146.3	194.3	195.6	199.6
Amortization and depreciation	11.1	10.7	10.0	9.1	8.3	7.7
Working capital	-223.0	-203.5	-197.1	-55.5	-161.4	-140.1
Other	185.4	48.2	-27.6	77.2	58.0	92.9
Cash flows from investing activities		-1.8	-1.9	-2.2	-2.5	-2.8
CAPEX		-1.8	-1.9	-2.2	-2.5	-2.8
Cash Flows	3.2	-52.5	282.9	-153.0	-58.3	-48.7
Stock offering	0.0	0.0	232.6	0.0	0.0	0.0
Debt		-34.7	50.3	-109.2	0.0	10.0
Dividend (buy-back)	0.0	0.0	0.0	-43.9	-58.3	-58.7
Change in cash	0.0	-66.8	212.6	70.0	39.8	108.7
Cash at the end of period	16.2	37.4	250.0	320.0	359.8	468.4
DPS (PLN)	-	0.00	0.00	-0.80	-1.07	-1.07
FCF		-48.6	-35.0	151.3	41.5	64.1
(CAPEX / Sales)		0.2%	0.2%	0.2%	0.2%	0.2%

Market multiples

	2005	2006	2007F	2008F	2009F	2010F
P/E	-	14.9	13.5	10.1	10.1	9.9
P/CE	-	13.8	12.6	9.7	9.7	9.5
P/BV	-	10.2	3.4	2.7	2.3	2.0
P/S	-	2.7	2.4	1.8	1.5	1.2
FCF/EV	-	-1.9%	-1.4%	5.9%	1.6%	2.5%
EV/EBITDA	-	13.5	12.9	10.1	10.3	10.2
EV/EBIT	-	14.3	13.6	10.5	10.6	10.5
EV/S	-	3.6	3.2	2.3	2.0	1.6
DYield	-	0.0%	0.0%	2.2%	3.0%	3.0%
Price (PLN)						
Shares at year-end (millions)	-	54.7	54.7	54.7	54.7	54.7
MC (PLN m)	-	1969.2	1969.2	1969.2	1969.2	1969.2
Equity attributable to minority shareholders (PLN m)	-	0.0	0.0	0.0	0.0	0.0
EV (PLN m)	-	2 584.2	2 584.2	2 584.2	2 584.2	2 584.2

11 December 2007

Update


Real Estate Development
 Poland

Current price	PLN 130.2
Target price	PLN 202.3
Market cap	PLN 2.3bn
Free float	PLN 0.35bn
Avg daily trading volume (3M)	PLN 10.5m

Polnord

PND.PW

Buy

(Reiterated)

2008 Will Show Company Value

Homebuyers are waiting for prices to cool. Sales performance of the biggest real-estate developers indicates that in comparison with the 2006 boom volumes have decreased, but high prices drive the value of sales up. We project that unlike prices the number of contracts signed in 2008 will be increasing. The future of Polnord's share price remains in doubt primarily because it is uncertain whether the main shareholder is going to be selling shares as some media speculate. We believe that the company is trading with a discount vs. the fair value. We reiterate our buy rating due to the high growth potential.

Shareholder Structure

Prokom Investments	55.7%
Nihonswi AG	8.0%
Others	36.3%

Sector Outlook

Real-estate developers have enjoyed spectacular growth over the past two years thanks to skyrocketing home prices. And they are not about to slow down, generating equally impressive growth on large volumes, at margins hovering around 20%.

Company Profile

Polnord owns the largest land bank in Poland, enough for ca. 1.3m sqm of usable space. Aside from housing, Polnord also has offices and shopping malls on schedule. A few of them will be completed this year.

Apartment Sales

The key projects affecting this and next year's results will be apartments from Miasteczko Wilanów in Warsaw. Almost all the apartments from the Ostoja project (4 stages) have been sold (860 at an average price of over PLN 8000 per square meter). The first stage will be reflected in 2007 results, the rest in 2008. Despite a slowdown in sales Polnord does not reduce prices. The sales of apartments in Olsztyn (Tęczowy Las) are slower than expected (2 ths sq. m. of usable space after Q3'07 with 3.9 ths. sq. m. forecasted for FY2007). The Wilanowska IV project in Gdańsk is doing better. Everything has been sold before the end of Q3, while only 58% was expected. The 2007 results will be negatively impacted by the dissolution of over 100 apartment sale contracts from Ostoja 4. Polnord took advantage of late payments to withdraw from these contracts and sell the apartments at the higher current market price (min. PLN 9000 per square meter in Wilanów at present).

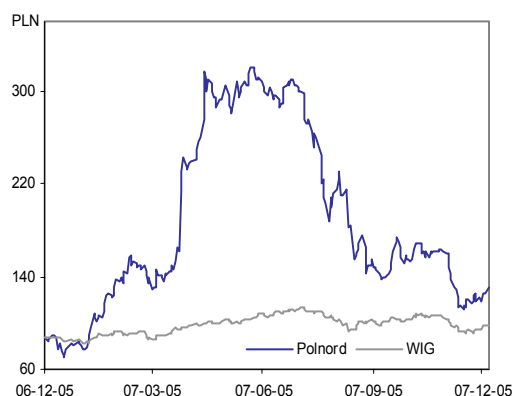
No Plans for Takeovers of Polish Real Estate Developers

The company abandoned the idea of taking over real-estate developers in Poland. Such transactions are highly valued because they allow for takeover of land. There is no need, however, to buy employees along with that, as the required skills and experience are already in place. But local real estate developers do expect a high premium vs. the market price of land. Our valuation does not take into account the recently announced office project in St. Petersburg.

A Stronger Zloty Lowers Profits from Euro-denominated Leases

In our valuation, we lower the EUR/PLN exchange rate to 3.8 to 3.65 at year end, while lowering the rental price for 1 square meter of office space in Warsaw's Technology Park from EUR 19-21 to EUR 15-17. This is because the tender for the construction of the S8 beltway has been declared null and void. As this road is supposed to provide convenient access to the city center and the airport, delays in its construction affect Polnord bargaining power towards potential renters.

Polnord vs. WIG



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(PLN m)	2006	2007F	2008F	2009F
Revenue	344.5	162.2	723.8	1376.3
EBITDA	-44.5	59.2	219.2	365.2
<i>EBITDA margin</i>	-12.9%	36.5%	30.3%	26.5%
EBIT	-45.6	56.7	209.0	355.3
Net profit	-37.5	103.7	152.5	269.9
DPS	0.00	0.00	0.59	0.86
P/E	-58.9	21.3	14.5	8.2
P/CE	-60.7	20.8	13.6	8.6
P/BV	26.2	11.8	6.7	3.8
EV/EBITDA	58.9	58.9	15.9	10.2
DYield	0.0%	0.0%	0.5%	0.7%



DCF Valuation

(PLN m)	2007F	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2016+
Sales revenue	162	724	1 376	1 673	1 940	2 079	2 198	2 293	2 391	2 492	2 567
<i>change</i>	-52.9%	346.3%	90.2%	21.6%	15.9%	7.2%	5.7%	4.3%	4.3%	4.2%	3.0%
EBITDA	59.2	219.2	341.0	295.5	313.5	408.6	468.6	482.3	524.3	569.7	586.5
<i>EBITDA margin</i>	36.5%	30.3%	24.8%	17.7%	16.2%	19.7%	21.3%	21.0%	21.9%	22.9%	22.9%
Amortization and depreciation	2.5	10.2	9.9	9.7	9.5	9.3	9.2	9.1	9.0	8.9	8.9
Cash EBIT	56.7	209.0	331.1	285.8	304.0	399.3	459.4	473.2	515.3	560.8	577.6
<i>Cash EBIT margin</i>	34.9%	28.9%	24.1%	17.1%	15.7%	19.2%	20.9%	20.6%	21.6%	22.5%	22.5%
Tax rate on EBIT	10.8	39.7	62.9	54.3	57.8	75.9	87.3	89.9	97.9	106.6	109.8
NOPLAT	45.9	169.3	268.2	231.5	246.3	323.4	372.1	383.3	417.4	454.3	467.9
CAPEX	-4.8	-5.1	-5.4	-5.7	-6.1	-6.4	-6.8	-7.2	-7.7	-8.1	-8.9
Working capital	-76.8	-319.8	-123.5	-59.1	-44.3	-138.4	-130.2	35.8	-136.7	42.6	0.0
Capital investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	-33.2	-145.4	149.2	176.4	205.3	187.8	244.2	420.9	281.9	497.6	442.6
<i>WACC</i>	10.2%	10.0%	10.1%	10.3%	10.3%	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%
<i>discount factor</i>	99.2%	90.1%	81.8%	74.2%	67.2%	60.9%	55.2%	50.0%	45.3%	41.1%	41.1%
PV FCF	-32.9	-131.0	122.1	130.8	138.0	114.4	134.8	210.5	127.7	204.3	2 466.0
WACC	10.2%	10.0%	10.1%	10.3%	10.3%	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%
Cost of debt	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Risk-free rate	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Net debt / EV	13.3%	16.9%	15.5%	11.8%	11.8%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Cost of equity	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
FCF growth after the forecast horizon				3.0%	Sensitivity analysis						
Terminal value				6 006.5	FCF growth in perpetuity						
Discounted terminal value (PV TV)				2 466.0							
Discounted FCF in the forecast horizon				1 018.8	WACC +1.0ppt	157.8	169.1	183.1	201.0	224.3	
Equity value (EV)				3 484.8	WACC -0.5ppt	163.7	176.3	192.1	212.5	239.9	
Net debt				167.1	WACC	170.2	184.3	202.3	225.9	258.3	
Minority interests				0.0	WACC -0.5ppt	177.4	193.4	214.0	241.6	280.5	
Equity value (EV)				3 317.7	WACC -1.0ppt	185.5	203.7	227.5	260.2	307.9	
Number of shares (millions)				17.7							
Equity value per share (PLN)				187.9							
Cost of equity (9M)				8.1%							
Target Price				202.3							
EV/EBITDA('07) for the target price				58.9							
P/E('07) for the target price				34.5							
TV to EV				71%							

**Income Statement**

(PLN m)	2006	2007F	2008F	2009F	2010F
Sales revenue	344.5	162.2	723.8	1 376.3	1 673.1
<i>change</i>		-52.9%	346.3%	90.2%	21.6%
Cost of sales	355.9	103.8	463.2	985.1	1 304.4
Gross profit	-11.5	58.4	260.6	391.3	368.7
<i>gross profit margin</i>	-3.3%	36.0%	36.0%	28.4%	22.0%
Property revaluations	0.0	0.0	0.0	24.1	196.9
Selling costs	0.0	1.7	21.0	29.6	35.2
SG&A expenses	21.0	16.0	24.2	25.2	25.9
Other net operating profit	-13.2	16.0	-6.3	-3.0	-3.0
EBIT	-45.6	56.7	209.0	355.3	482.8
<i>change</i>		-	269.0%	70.0%	35.9%
<i>EBIT margin</i>	-13.2%	34.9%	28.9%	25.8%	28.9%
EBIT adj. for revaluations	-45.6	56.7	209.0	331.1	285.8
Profit on financing activity	-1.2	-16.8	-20.7	-22.1	-18.8
Extraordinary gains/losses	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Pre-tax income	-46.8	39.9	188.3	333.2	464.0
Tax	-9.4	7.6	35.8	63.3	88.2
Extraordinary gains	0.0	71.4	0.0	0.0	0.0
Net income	-37.5	103.7	152.5	269.9	375.8
<i>change</i>		-	47.1%	76.9%	39.3%
<i>margin</i>	-10.9%	63.9%	21.1%	19.6%	22.5%
Amortization and depreciation	1.1	2.5	10.2	9.9	9.7
EBITDA	-44.5	59.2	219.2	365.2	492.5
<i>change</i>		-	270.5%	66.6%	34.9%
<i>EBITDA margin</i>	-12.9%	36.5%	30.3%	26.5%	29.4%
Shares at year-end (millions)	17.7	17.7	17.7	17.7	17.7
EPS	-2.1	5.9	8.6	15.3	21.3
CEPS	-2.1	6.0	9.2	14.5	10.7
ROAE	-7.0%	15.1%	14.2%	19.7%	23.4%
ROAA	-44.5%	55.2%	46.2%	46.2%	40.3%

**Balance Sheet**

(PLN m)	2006	2007F	2008F	2009F	2010F
ASSETS	538.6	684.8	1 074.1	1 372.8	1 603.6
Fixed assets	201.0	226.9	400.2	638.0	792.3
Property, plant and equipment	84.1	85.0	82.8	80.8	79.1
Intangible assets	116.9	118.3	115.4	112.9	110.7
Long-term receivables	0.0	0.0	0.0	0.0	0.0
Other fixed assets	0.0	23.6	202.0	444.3	602.5
Current assets	337.7	457.9	673.9	734.8	811.4
Inventories	145.4	148.8	253.8	324.2	355.7
Short-term receivables	137.5	60.7	70.8	83.8	91.7
Other current assets	0.9	198.5	304.8	259.4	300.4
Cash and cash equivalents	54.0	50.0	44.5	67.4	63.5
(PLN m)	2006	2007F	2008F	2009F	2010F
LIABILITIES	538.6	684.8	1 074.1	1 372.8	1 603.6
Equity	84.1	187.8	330.0	584.6	933.4
Share capital	25.3	25.3	25.3	25.3	25.3
Other equity	58.9	162.5	294.3	544.1	881.1
Long-term liabilities	78.1	222.4	237.4	212.4	222.4
Loans	55.7	200.0	215.0	190.0	200.0
Other	22.4	22.4	22.4	22.4	22.4
Short-term liabilities	376.4	274.6	506.8	575.8	447.8
Loans	165.4	187.8	279.2	280.8	157.8
Trade creditors	114.5	28.7	148.2	224.7	211.5
Accruals	0.0	39.7	61.0	51.9	60.1
Other	96.5	18.4	18.4	18.4	18.4
Debt	221.1	387.8	494.2	470.8	357.8
Net debt	167.1	337.8	449.7	403.4	294.3
(Net debt / Equity)	198.7%	179.9%	136.3%	69.0%	31.5%
(Net debt / EBITDA)	-3.8	5.7	2.1	1.1	0.6
BVPS	4.8	10.6	18.7	33.1	52.9

**Cash Flows**

(PLN m)	2006	2007F	2008F	2009F	2010F
Cash flows from operating activities	-83.9	-116.0	104.0	313.7	161.1
Net income	-37.5	112.0	152.9	270.2	376.1
Amortization and depreciation	1.1	2.5	10.2	9.9	9.7
Working capital	-10.3	-76.8	-319.8	-123.5	-59.1
Other	-37.2	-153.7	260.7	157.1	-165.6
Cash flows from investing activities	9.3	-28.4	-183.5	-247.7	-164.0
Cash Flows	110.8	140.4	74.0	-43.1	-1.1
Stock offering	0.0	0.0	0.0	0.0	0.0
Debt	114.3	158.4	106.9	-23.6	-113.3
Dividend (buy-back)	0.0	0.0	-11.2	-15.3	-27.0
Other	-3.5	-18.0	-21.6	-4.2	139.2
Change in cash	-4.0	-5.5	22.9	-4.0	285.6
Cash at the end of period	54.0	50.0	44.5	67.4	63.5
DPS (PLN)	0.00	0.00	0.63	0.87	1.53
FCF	-25.1	-145.4	149.2	176.4	205.3
(CAPEX / Sales)	0.0%	0.0%	0.0%	0.0%	0.0%

Market multiples

	2006	2007F	2008F	2009F	2010F
P/E	-58.9	19.7	14.4	8.2	5.9
P/CE	-60.7	19.3	13.5	8.6	11.7
P/BV	26.2	11.3	6.5	3.7	2.3
P/S	6.4	13.6	3.0	1.6	1.3
FCF/EV	-0.7%	-4.2%	4.3%	5.1%	6.0%
EV/EBITDA	49.8	49.8	15.7	10.1	11.7
EV/EBIT	51.7	16.5	10.4	12.0	11.3
EV/S	20.2	4.5	2.4	2.0	1.7
DYield	0.0%	0.0%	0.5%	0.7%	1.2%
Price (PLN)					
Shares at year-end (millions)	17.7	17.7	17.7	17.7	17.7
MC (PLN m)	2207.4	2207.4	2207.4	2207.4	2207.4
Equity attributable to minority shareholders (PLN m)	0.0	0.0	0.0	0.0	0.0
EV (PLN m)	2 374.5	2 536.9	2 649.3	2 602.7	2 493.3



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**List of abbreviations and ratios contained in the report:**

EV – net debt + market value
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
P/CE – price to earnings with amortisation
M/C/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

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A recommendation is valid for a period of 6-9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:

BUY – we expect that the rate of return from an investment will be at least 15%
ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from -5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
SELL – we expect that an investment will bear a loss greater than 15%
Recommendations are updated at least once every nine months.

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Comparative – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

**Previous recommendations issued for Dom Development**

Recommendation	Hold	Accumulate	Buy
Date issued	2007-09-25	2007-11-07	2007-12-04
Price on day of recommendation	151.10	136.00	111.00
WIG on day of recommendation	61570.24	61527.41	56412.82

Previous recommendations issued for J.W. Construction

Recommendation	Accumulate	Buy
Date issued	2007-09-25	2007-11-07
Price on day of recommendation	50.00	41.60
WIG on day of recommendation	61570.24	61527.41

Previous recommendation issued for Polnord

Recommendation	Buy
Date issued	2007-10-29
Price on day of recommendation	161.40
WIG on day of recommendation	63366.34