

13 April 2010

Update


Real Estate Developers
 Poland

FY10 P/BV	1.50
FY11 P/BV	1.27
WIG Deweloperzy Index	2 984

Housing Developers

The Sector Still Has Potential

There is still upside potential for the stocks of selected housing developers and the sector is a much less risky investment than the construction industry. The changes taking place in the Polish market in the wake of the financial crisis have helped strong developers. Competition has decreased, and margins on new project in the affordable segment have, paradoxically, risen (the decline in construction costs has been much more profound than the decline in home prices). In the coming months, we expect the climate for investment to remain stable, with relatively steady home prices. In the market for new homes, listing prices might decline as more affordable apartments are put on offer, but selling prices will not change. In our forecasts we conservatively assume a 7% increase in construction costs in H2 2010 relative to the level seen in Q4 2009 / Q1 2010 (as new projects start and the demand for construction services and materials increases). The most attractive companies are medium and small developers which are trading at a discount to book value and have funds secured for new projects. Bigger companies, with good liquidity and Management, are somewhat less attractive. One example is Dom Development, which we consider too expensive at every level of valuation, with far too big premiums for liquidity, management quality and past earnings. Our top pick is Polnord, given its attractive price and considerable potential for surprises on the upside (a shopping mall in Wilanów in Warsaw, possible sale of land earmarked for roads, possible surge in home sales). Despite its very attractive multiples, DCF valuation indicates little if any upside potential for J.W. Construction due to its high debt. We are also somewhat skeptical as to its plans to diversify into road construction.

	9MTP	Rating
Dom Development	51.6	Hold
J.W. Construction	15.1	Hold
Polnord	52.6	Buy

	9MTP	Upside*
Dom Development	51.6	-7.3%
J.W. Construction	15.1	-3.5%
Polnord	52.6	34.1%

* closing prices as of April 12, 2010

Sector Outlook

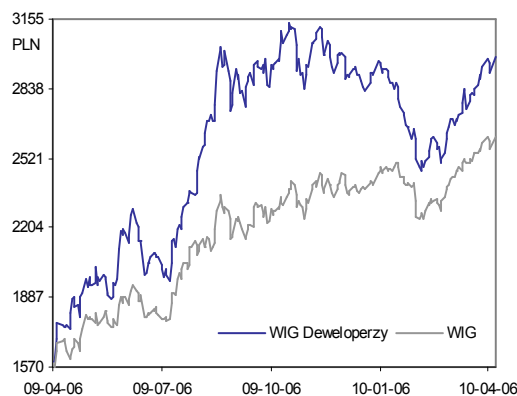
Sector Outlook

We are optimistic about the prospects for housing developers. We consider them a safer investment than construction companies and we believe they have greater upside potential than the biggest commercial developers. Since 2008, the crisis has helped the biggest players, culling competition in the market. Many companies are still trading at a discount to their book value, which we consider unjustified. We recommend increased exposure to underpriced developers. We are neutral as regards companies trading at an overly high premium to their book value.

Liquidity of Listed Housing Developers

We are not worried about the liquidity of most WSE-listed developers. Dom Development has excess liquidity and will be expanding its business. J.W.C. is sufficiently liquid to continue operating at the current scale. Polnord has secured funds allowing it to create value on the basis of its landholdings. Most other companies also have funds secured for new projects (GTC, Echo, LC Corp, Gant, Ronson, Triton, Plaza Center,...). The only company whose survival might be in question is Orco.

WIG-Deweloperzy vs. WIG



Market Outlook Still Hinges on Banks

The outlook for the housing market still depends on the policies of banks. Although they are planning to increase mortgage lending, these plans may be undercut by the new Recommendation "T", recently instituted by the banking supervisor. Looking at the issue from the supply side, banks are starting to discuss new project financing with developers again and might start lending to them in the near future, which could lead to increased supply of small, affordable homes, perhaps already in H2 2010. Despite this, many companies will remain excluded from the market. Banks will not lend money for land purchases, which could further reduce its price.

Maciej Stokłosa

(48 22) 697 47 41

maciej.stoklosa@dibre.com.pl
www.dibre.com.pl

	2011F P/E	2012F P/E	2011F EV/EBITDA	2012F EV/EBITDA
Dom Development	16.4	11.1	12.8	7.9
J.W. Construction	8.3	7.4	10.0	6.9
Polnord	12.5	9.0	14.5	8.4

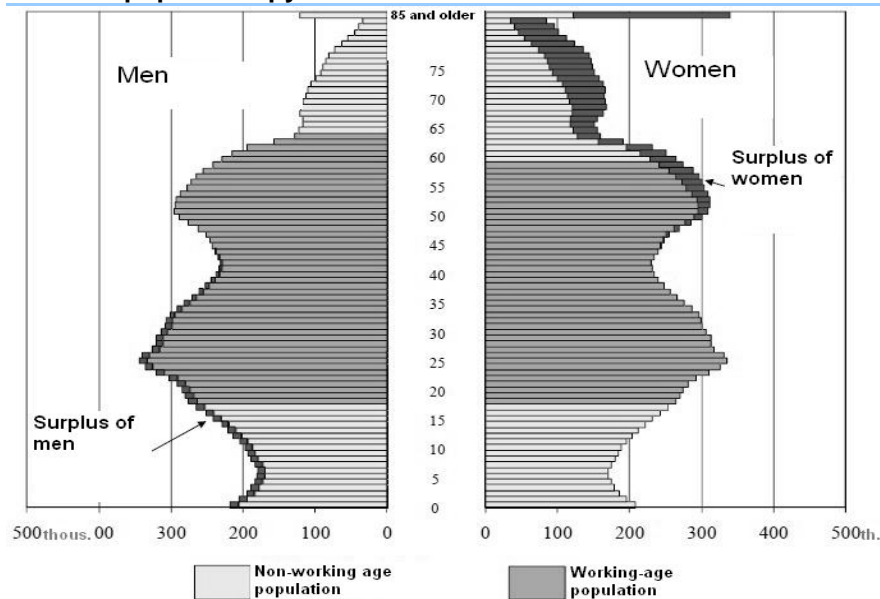
Situation In the Housing Market

Demand

First-Time Buyers

Demand patterns in the Polish housing market have changed since 2007-2008 when speculative demand prevailed, fueled by rising prices combined with easy access to cheap credit, a strong economy, and rallies on WSE equities. Today, demand is created mostly by first-time buyers representing the birth-boom demographic, many of whom had to hold off home purchases in the first half of 2009 in the wake of the financial crisis. First-home demand is inflexible, as its source are people who are starting families, or who got their first jobs. After the initial holdup, some first-time buyers resumed their search for homes in Q2/Q3 2009, encouraged by a slight downward shift in prices. However, they had to reevaluate their space needs in light of tighter credit, and as a result the statistical home sold in 2009 was smaller and cheaper.

Poland's population pyramid in mid-2009



Source: www.egospodarka.pl

Demand Patterns in 2010 and 2011

We expect first-time buyer demand to remain strong throughout 2010. In fact, “baby boomers” will continue to generate the bulk of new-home demand in the next 2-3 years, while speculative deals remain few. After the drop in real and nominal home prices observed in the last two years, many investors, especially those who financed their purchases with foreign-currency debt, incurred substantial losses. The rates of return on rental real estate are low (4.5%) considering the illiquidity of the rental assets and the inconveniences and risks entailed in property rental. Since Polish families are not likely to start generating cash surpluses any time soon, we expect small affordable homes to remain in greatest demand in the future. Demand from second-time buyers looking for bigger homes in better locations will remain moderate.

Mortgage Sales, Recommendation T

According to our forecasts, Polish banks will lend PLN 45-48bn to homebuyers in 2010, and about PLN 50bn in 2011. Access to mortgage loans is becoming easier because banks recognize that this type of credit generates higher returns (loan margins are much higher than in the past), and lower risks than, for example, cash loans. However, the recent implementation of the Financial Supervision Authority’s “Recommendation T” is going to make credit tighter. Recommendation T provides that maximum monthly loan payments for average-income households cannot exceed 50% of monthly income. The limit for higher-income households is 65%. For floating interest-rate loans, the banks should perform stress tests for a 4 ppt change in the interest rate, plus for a 30% depreciation in the zloty in case of foreign-currency loans. The buffer that is recommended as sufficient to cover the effects of fluctuations in the loan terms (exchange rates, collateral values) is at least 10% of the loan value for facilities of up to five years, and 20% for loans exceeding five years. Many analysts believe that Recommendation T is going to cause drop in mortgage lending, but we think that its effect

will be a slowdown rather than a reduction in loan sales.

Housing Sales

We expect overall home sales volumes to increase between 10% and 15% in 2010, with quarterly sales around the levels recorded in Q4 2009. Some developers may record stronger sales depending on the size and composition of the housing stock. Smaller flats are expected to sell well, while demand for larger new apartments will be kept low by Recommendation T and an existing large supply of finished dwellings (in new developments as well as from existing owners and speculative investors). The 80% LTV cap imposed by recommendation T on mortgage loans extended for more than five years enters into force in August, and the 50%/65% caps on monthly loan payments relative to household income takes effect in November 2010.

Long-Term Demand Forecast

The effect on demand of the "baby boom" generation is expected to weaken in 4-5 years. This could lead to lower demand for new homes, but, on the other hand, it is also possible that cheaper credit will become more accessible by then, fueling demand from second-home buyers. Our long-term forecasts for housing developers do not make allowances either for a demographically-determined drop in demand, or an increase driven by the increasing wealth of Polish households.

Home Supply

New Homes

About 29.4 thousand homes are listed for sale in Poland today, according to REAS, indicating a reduction in the surplus. Assuming that about 7.2 thousand units were sold in Q4 2009, and that the normal supply level is equivalent to four-month sales, the oversupply is only 600 units. As far as the composition of the available inventory is concerned, it indicates an oversupply of large (65+ sqm) and expensive homes, while smaller units (40-55 sqm) are mostly sold out. We do not expect a shrinkage in the supply of new homes in the near future, but the composition of the housing offer will change in favor of the most-wanted smaller flats.

Expanding Margins

Housing developers have been enjoying an expansion in profit margins as a result of a sharp drop in construction costs. Firms that can offer affordable homes generate strong off-plan sales at good prices (off-plan prices are only slightly lower than prices of finished homes in spite of higher risks and cost of capital over time). The table below shows an example of margins achievable on housing projects. A developer can earn an 18% margin on a project that is 60% financed with debt, which, assuming a 1.5-year building cycle, suggests a ROI of 30% (if we took into account buyer down-payments, the cash needs would be even lower).

Margins achievable on housing projects

Type	Cost of land (PLN/sqm)	Construction costs per sqm	Costs of financing (PLN/sqm)	Land cost / Project cost	Construction cost / Project cost	Financing cost / Project cost	Selling price per sqm	Gross margin	Net margin (%)
Affordable homes	700	3200	281	17%	77%	7%	5800	28%	18%
Higher-quality housing	1500	3500	360	28%	65%	7%	7300	27%	17%
Luxury apartments	2200	4200	461	32%	61%	7%	10000	31%	21%

Source: BRE Bank Securities

Impact of financial crisis

Type	Pct. decrease in construction costs	Pct decrease in price	Pct increase in financing costs	Land cost / Project cost	Construction cost / Project cost	Financing cost / Project cost	Pct change in net margin
Affordable homes	-20%	-5%	25%	17%	77%	7%	9%
Higher-quality housing	-20%	-15%	25%	28%	65%	7%	-4%
Luxury apartments	-20%	-30%	25%	32%	61%	7%	-19%

Source: BRE Bank Securities

Fast-Selling Small Flats

A good indicator of the attractiveness of a housing project is the ratio of quarterly sales to the number of units being developed. Normally, this ratio should increase as construction progresses (or it could decrease from an initial high generated to satisfy a pre-construction



occupancy requirement for loan disbursement). The most attractive projects achieve ratios of 20-25%, and the ones that are less well tailored to buyer needs reach ratios below 10%. In late 2009 and early 2010, when a temporary shortage of small flats was observed on the market, new developments comprised mostly of small units, even before the start of construction, generates sales-to-inventory ratios exceeding 30%. In the future, quarterly sales of smaller homes are bound to slow down to 15-20% of available inventory (suggesting that an entire development will sell within 5-6 quarters).

Credit

Banks are increasingly willing to finance new real-estate projects again. From the standpoint of a bank, a housing project is highly profitable, requires financing for short periods, and entails moderate risks (a home can always be sold, the only question is price). Moreover, real-estate firms, especially the smaller ones, are willing to accept high credit margins to obtain the capital needed to build. The costs of financing are inconsiderable relative to construction costs; for example, using the assumptions for affordable homes laid out above, an increase in the loan interest rate from 8% to 12% would cause the gross margin achievable on a housing project to narrow by just 2.4%. For these reasons, we do not agree with those analysts who prophecy a shortage of credit for Polish real-estate firms. We think that banks will make financing increasingly available going forward, encouraged by the sales results of the first post-crisis projects.

Oversupply of Land

In many cases, land banks have shifted from being a very dear asset in 2006 and 2007, to a ballast which has hampered the financing capacity of real-estate developers. Land holdings accumulated in past years are enough for 6-7 years of construction. Meanwhile, the market offers attractive opportunities to buy cheap lots in good locations from state companies. The only downside to these lots is that many of them do not have zoning approvals yet. We expect the land surplus to continue for up to five more years. From a developer's point of view, this means that the only way to liquidate the land bank at a profit is to build on it.

Price, Cost, and Margin Forecasts

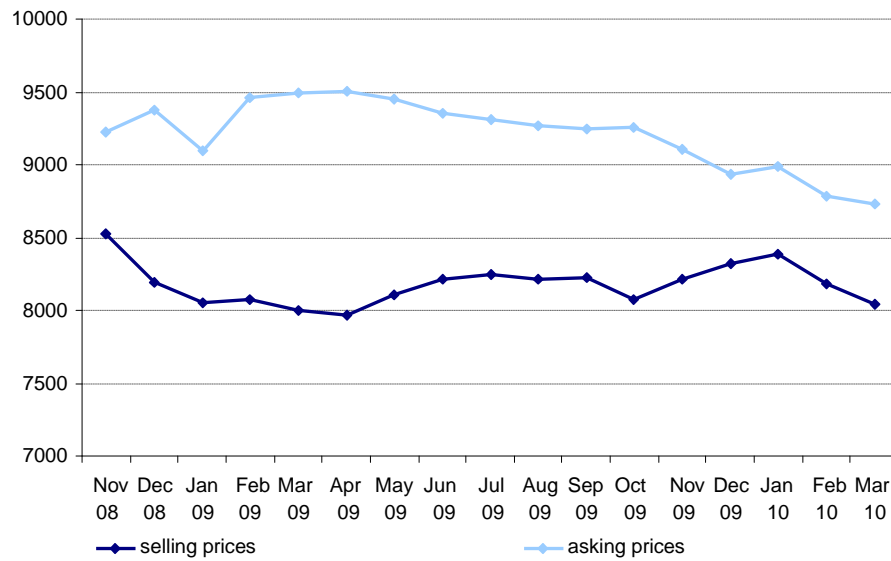
Price Stabilization

There are many conflicting predictions about future trends in home prices. We think that prices of new homes will behave relatively steadily. Any uptrend in selling prices is usually a natural phenomenon for projects that are nearing completion (when risks and the time cost of money are lower, and a buyer does not have to wait long to move in). The average asking prices are not increasing. New homes are listed at below-average prices, and the supply of finished homes is running out, meaning that asking prices should decrease in coming quarters. Selling prices will remain relatively stable unless there is a strong surge in new-home supply. The uptick (by 1% to 4%) observed in the prices of the most wanted, small homes in late 2009 / early 2010 was due to a temporary shortage which will soon be alleviated.

Forecast

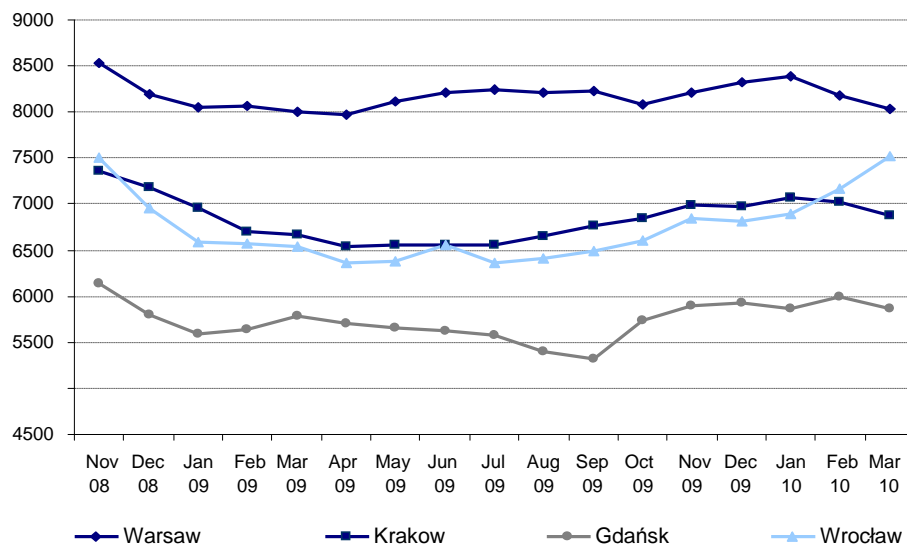
We predict that housing prices will remain steady in 2010 and 2011, and start increasing in 2012. The prices underlying our valuation models are slightly lower than current selling prices (to make allowances for additional costs, discounts).

Asking prices vs. selling prices in Warsaw



Source: redNet Consulting

Selling prices in major Polish cities



Source: redNet Consulting

Construction Costs Will Increase

We expect construction costs to shift upwards in the second half of 2010, fueled by a rebound in demand for building services. Our conservative prediction is a 7% increase from the H2 2009 lows, including a 2% rise resulting from growing salaries, a 3% hike stemming from higher margins charged by subcontractors and materials suppliers, and a 2% increase caused by higher prices charged by general contractors after a period of aggressive pricing policies used by many construction firms to capture contracts during a the building slump. As home prices remain constant, the unnaturally high margins earned by real-estate developers will contract throughout 2010 and 2011.

13 April 2010

Update


Real Estate Developers
Poland

Current price	PLN 55.65
Target price	PLN 51.60
Market cap	PLN 1.37bn
Free float	PLN 0.33bn
Avg daily trading volume (3M)	PLN 0.71m

Shareholder Structure

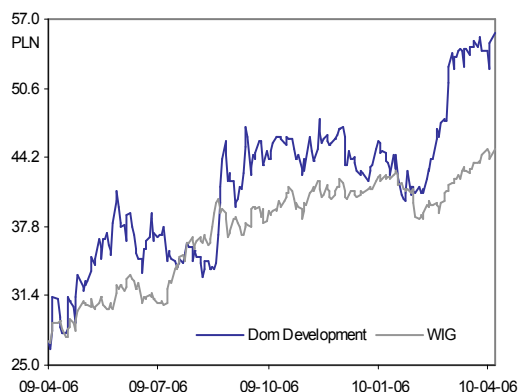
Dom Development B.V.	63.15%
Jarosław Szanajca	6.69%
Grzegorz Kielpsz	5.66%
Others	24.50%

Company Profile

Dom Development is a real-estate developer operating solely in the residential segment in Warsaw. Previously, the company focused on high-end apartments; currently, it is primarily offering affordable apartments.

Important Dates

06.05 - Q1 2010 report
24.08 - H1 2010 report
04.11 - Q3 2010 report

Dom Development vs. WIG

Maciej Stokłosa

(48 22) 697 47 41
maciej.stoklosa@dibre.com.pl
www.dibre.com.pl

Dom Development

DOM.PW; DOMD.WA

Hold

(Reiterated)

Premium to Peers Is to High

The current price of Dom Development discounts multiple premiums: for liquidity (good balance-sheet situation), for history (past earnings, the number of homes built), for trust (to the Management and the main shareholder) and for sales. The Company's FY09 and FY10 P/BV multiples are 1.8 and 1.6, respectively, making it the most expensive housing developer listed on the WSE. We do not expect any surprises on the upside in the next two quarters: Dom Development should be selling slightly more than 300 homes per quarter. We have to wait until the fall to see a considerable number of new projects. The biggest risk for the Company are new project launches by competitors, which might tighten competition at locations where DD is present. Around the middle of the year, we expect the banks to relax their financing policies for real-estate development projects. The biggest opportunity lies in DD's ability to buy land, which will allow it to increase diversification and start new projects. We assume a scenario like this in our valuation model (PLN 135m spent on land in 2010 and the launch of new projects with total usable space of 29,000 square meters in 2011). Due to the high price relative to the sector, we recommend holding the stock.

Investment Plans

During the summer vacation period, the Company could start home sales in 1-2 new projects (130-300 units). Further projects (or rather further stages of current projects) will not be coming until the fall, however, and they will not affect earnings until 2012. The Company needs to see good sales results in a project in order to start selling homes from the next batch. Sales results for Q1 2010 have led the Management to estimate the maximum number of homes that could be put on sale by the end of 2010 at 2,000. We assume the actual figure will be 1,500.

Expected Sales

Sales results reflect the attractiveness of the offer, the strength of the competition and the prices. In case of the Saska Kępa project, the offer was attractive (small homes), the competition limited (temporary deficit of small apartments) and the price low. Now, the price has gone up while competitors have started selling small, affordable homes from new projects. We believe that despite putting more homes on the market in Q1 and Q2 2010, in Q2-Q3 Dom Development will not sell more than 400 homes per quarter.

(PLN m)	2008	2009	2010F	2011F	2012F
Revenue	698.2	704.4	481.3	651.4	932.3
EBITDA	168.1	113.6	44.9	119.9	137.8
<i>EBITDA margin</i>	24.1%	16.1%	9.3%	18.4%	14.8%
EBIT	165.7	111.2	43.0	117.9	135.9
Net income	136.9	80.2	26.0	83.4	123.1
P/E	10.0	17.0	52.5	16.4	11.1
P/CE	9.8	16.5	48.9	16.0	10.9
P/BV	2.0	1.8	1.8	1.6	1.5
EV/EBITDA	9.7	14.6	37.4	12.8	7.9
DYield	3.7%	1.4%	0.5%	1.5%	3.6%



Q4 2009 Results

DOM's Q409 revenues (estimated based on full-year financials) amounted to PLN 189.6m, that is 21.5% more than predicted, and the gross profit came in at PLN 51.6m, ahead of our PLN 32m forecast (a gross margin of 27.2% was stronger than our expected 20.5%). The number of flats delivered in the period was only slightly higher than we had forecasted (374) at 382. The reasons behind the gap between the reported and forecasted revenue figures were two: strong revenues and margins generated from sales of luxury apartments in "old" projects and in the Grzybowska development, and sales of five commercial spaces in the latter. We believe that these two factors had an equally big influence on the PLN 33.6m forecasted-vs.-reported revenue gap as they did on the PLN 19.6m difference between the actual gross profit and our forecast.

Q4 2009 SG&A expenses came close to our estimate (PLN 17.0m reported vs. PLN 16.75m forecasted). Other net operating expenses of PLN 16.8m included a PLN 11.6m inventory revaluation charge. EBIT came in at PLN 17.8m, exceeding our estimate by 24.6%. After other net financial expenses of PLN 3.1m, and an effective tax rate of 21.7%, the Q409 bottom-line profit amounted to PLN 11.5m, exceeding our PLN 9.7m estimate by 18.4%.

Reported vs. forecasted Q4 2009 results

(PLN m)	Q4 2009	Q4 2009F	differ.	consensus estimates	differ.	Q4 2008	change
Revenue	189.6	156.1	21.5%	161.0	17.8%	112.7	68.3%
Gross profit	51.6	32.0	61.2%	-	-	48.2	7.0%
Gross margin	27.2%	20.5%	-	-	-	42.8%	-
EBIT	17.8	14.3	24.6%	16.8	5.7%	19.4	-8.6%
EBIT margin	9.4%	9.1%	-	10.4%	-	17.2%	-
Pre-tax income	14.7	11.9	22.6%	-	-	19.5	-24.9%
Pre-tax margin	7.7%	7.7%	-	-	-	17.3%	-
Net income	11.5	9.7	18.4%	11.4	0.5%	14.2	-19.0%
Net margin	6.0%	6.2%	-	7.1%	-	12.6%	-

Source: Dom Development, BRE Bank Securities

Share Price Premium Factors

Liquidity Premium

Dom Development enjoys strong liquidity. In 2009, the company had PLN 288.3m in net debt, a housing inventory of which PLN 539.6m were finished flats and houses (to be delivered to buyers at a profit), and PLN 146.3m in buyer down-payments, making for a potential cash resource of PLN 105.0m (or as much as PLN 175m if we add sales margins). Such strong liquidity is unmatched by any of the other housing developers listed on the WSE, and we can assume that DOM will use it to expand its operating scale. The surplus liquidity is a result of a lack of land purchases in 2008, curtailed by weak home sales and high land prices. As a result, DOM avoided a deterioration in its land bank quality.

That said, DOM's liquidity premium seems to us too generous considering that other publicly-traded developers also have the ability to secure financing for new projects. One exception is J.W. Construction, which spent its cash resources during a period of intense construction in 2007 through 2009, but Polnord already has financing in place for future projects (plus, it holds land for sale), as do Gant and Ronson, and LC Corp is building without external debt. Moreover, Triton Development will pay back all debts (and set aside cash for new projects) after selling its Triton Park residences. Finally, Instal Kraków is also financially ready to start new developments.

Track-Record Premium

Dom Development's track record in terms of financial performance and building volumes stands out compared to other real-estate firms (except maybe for J.W. Construction). Others, for example Polnord, LC Corp, Triton Development, Atlas Estates, and Ronson Development, have shorter histories, moreover, their operations in 2009 were affected by the financial crisis. A track-record premium has little relevance in case of an investment business; recognition counts, but locations and prices count even more. Moreover, a developer's financial success largely depends on the costs of its land bank which, in case of Dom Development, carries no

advantages over competition (DOM's land holdings are not very diversified, and their costs range from very low to very high). Finally, we do not think that DOM deserves a big premium for its long history – real estate was not a very lucrative business in Poland for years, which means that not many people wanted to go into it.

Confidence Premium

One of the components of DOM's price premium seems to be confidence. The company's minority shareholders have never had to be concerned about their interests, and the main shareholder and the Management Board have made a number of good decisions over the years (including a stock issue in 2007, withheld purchases and projects in 2008, a focus on affordable housing (2007/2008), a cautious price policy adopted in 2009, and a promising project schedule for 2010). On the other hand, there were also some bad decisions that resulted in overpriced land and project purchases.

Other developers also demonstrated good decision-making in the past: J.W. Construction took full advantage of leverage possibilities during the economic boom to expand its building activity, which increased its value. Gant Development, J.W. Construction, and Instal Kraków focused on developing smaller, affordable flats, and the latter two exercised restraint in land purchases when prices were up. In case of Polnord, the shift to affordable housing came late, but the company has finally jumped on the small-flat bandwagon as well. LC Corp is relatively new to the real-estate game, and its land bank includes sites that cannot be used for another 1-3 years, but it made a smart decision in selling its Sky Tower skyscraper which was too capital-intensive and risky. Ronson has accumulated a diverse land bank at good prices and in good locations. At the moment, most homebuilders are focusing on projects that best meet current demand, that is on small, affordable flats.

Summing up, from the standpoint of an investor, Dom Development does not stand out from among other developers.

Real-estate stocks – current prices vs. historical highs

	All-time high	Current	Percentage decrease
Dom Development	185.8	54.9	70%
J.W. Construction	79.6	15.5	81%
Polnord	319.7	38.7	88%
Gant Development	118.1	25.2	79%
Ronson Development	5.8	1.8	68%
LC Corp	6.1	1.6	74%
GTC	57.0	24.8	57%
Echo Investment	11.8	4.7	61%

Source: BRE Bank Securities

Sales Premium

Dom Development was the first to launch a new affordable housing project in Q4 2009 (the "Saska Kępa" project in Warsaw), which coincided with a temporary deficit of small flats in the Warsaw market. Understandably, the dwellings sold fast, and the sales were additionally boosted by attractive prices (the company has since decided that the prices were too attractive, and moved them up). The affordable projects that followed "Saska Kępa" will not be selling as well at such an early stage of construction, but new dwellings will again give a boost to sales in Q4 2010.

Land Bank Premium

Dom Development's land bank does not go beyond average, and it includes both cheap and expensive sites. Further, it is not very diversified in terms of locations in Warsaw. The Warsaw land inventory of rival Polnord is also mostly based in one district, Wilanów, but it is zoned for different types of projects (including commercial developments, a shopping center, as well as residential projects). Also, Polnord owns development in many (perhaps too many) other cities. J.W. Construction acquired its land holdings cheaply, and in diverse locations and zoning areas (commercial projects, hotels, possibly construction projects). More diversified land banks have also been accumulated by Gant Development and Ronson.

Dom Development's Building Plans

Future projects

Housing projects

Project	Floor space (square meters)	Ownership	City	Start	End	Selling price (per sqm)	Building costs (per sqm)	Gross margin
Derby 9	12 870	100%	Warsaw	Q4 2009	Q2 2011	5 600	3 382	39.6%
Saska Kępa S1 P1	18 966	100%	Warsaw	Q4 2009	Q2 2011	7 250	4 709	35.0%
Regaty S4	11 110	100%	Warsaw	Q1 2010	Q2 2011	5 050	3 572	29.3%
Klasyków S1	8 775	100%	Warsaw	Q1 2010	Q2 2011	6 050	4 622	23.6%
Adria S1	14 080	100%	Warsaw	Q1 2010	Q2 2011	6 800	5 515	18.9%
Saska Kępa S1 P2	8 410	100%	Warsaw	Q2 2010	Q4 2011	7 450	4 709	36.8%
Derby 14 S1	9 130	100%	Warsaw	Q2 2010	Q4 2011	5 600	3 551	36.6%
Targówek 1 S1	7 150	100%	Warsaw	Q2 2010	Q4 2011	6 100	4 655	23.7%
Przy Ratuszu (Górczewska)	28 800	100%	Warsaw	Q3 2010	Q1 2012	7 100	6 217	12.4%
Derby 14 S2	8 250	100%	Warsaw	Q3 2010	Q1 2012	5 600	3 786	32.4%
Regaty S5	8 415	100%	Warsaw	Q3 2010	Q1 2012	5 050	3 807	24.6%
Saska Kępa S2 P1	12 180	100%	Warsaw	Q3 2010	Q1 2012	7 450	4 959	33.4%
Klasyków S2	11 700	100%	Warsaw	Q3 2010	Q1 2012	6 050	4 857	19.7%
Saska Kępa S2	12 180	100%	Warsaw	Q2 2011	Q3 2012	7 450	5 074	31.9%
Targówek 1 S2	4 988	100%	Warsaw	Q2 2011	Q3 2012	6 283	4 766	24.1%
Derby 20	4 950	100%	Warsaw	Q2 2011	Q3 2012	5 600	3 894	30.5%
Adria S2	9 350	100%	Warsaw	Q2 2011	Q3 2012	6 800	5 732	15.7%
Opera 2	2 200	100%	Warsaw	Q2 2011	Q3 2012	17 000	10 280	39.5%
Oaza S1	12 500	100%	Wrocław	Q2 2011	Q3 2012	6 100	5 932	2.8%
Derby 11	4 526	100%	Warsaw	Q2 2011	Q3 2012	5 600	4 493	19.8%
Winnica 1 S1	8 334	100%	Warsaw	Q2 2011	Q3 2012	6 500	4 456	31.4%
Nowy projekt 1	14 500	100%	Warsaw	Q2 2011	Q3 2012	7 416	5 567	24.9%
Nowy projekt 2	14 500	100%	Warsaw	Q2 2011	Q3 2012	7 416	5 567	24.9%
Targówek 1 S3	8 250	100%	Warsaw	Q3/Q4 11	Q1 2013	6 471	4 766	26.4%
Klasyków S3	5 671	100%	Warsaw	Q3/Q4 11	Q1 2013	6 232	4 965	20.3%
Derby 14 S3	9 841	100%	Warsaw	Q3/Q4 11	Q1 2013	5 768	3 894	32.5%
Regaty S6	7 473	100%	Warsaw	Q3/Q4 11	Q1 2013	5 202	3 915	24.7%
Akacja 10 P2	3 355	100%	Warsaw	Q3/Q4 11	Q1 2013	6 695	3 983	40.5%
Winnica 1 S2	7 000	100%	Warsaw	Q3/Q4 11	Q1 2013	6 695	4 456	33.4%
Regaty 2 S8	10 437	100%	Warsaw	Q3/Q4 11	Q1 2013	5 202	3 915	24.7%
Targówek 1 S4	8 000	100%	Warsaw	Q3/Q4 11	Q1 2013	6 232	4 766	23.5%
Malwa 4	852	100%	Warsaw	Q3/Q4 11	Q1 2013	6 695	4 351	35.0%

Source: Forecasts by BRE Bank Securities based on Dom Development data; S – stage, P - phase

Earnings forecasts by project

2010 forecast (PLN m)

Project	Revenue	Costs	Gross margin
Grzybowska	224.8	158.5	29.5%
Derby 16	52.1	43.5	16.5%
Olbrachta	1.3	1.0	23.9%
Regaty 1 F2	10.2	8.5	17.0%
Róża Wiatrów	30.2	24.5	19.1%
Derby 13	23.3	19.4	16.5%
Regaty 1 F3	30.3	25.1	17.0%
Regaty 1 F1	4.2	3.4	17.0%
Regaty Domy	14.3	13.8	3.7%
Akacje 11	6.1	5.7	6.4%
Laguna 2	16.6	15.9	3.7%
Gdański	4.1	2.6	36.4%
Bruna	3.7	2.5	32.5%
Zawiszy	2.7	1.8	34.2%
Derby 17	1.7	1.4	16.5%
Derby 15	1.7	1.4	16.5%
Other	14.7	12.3	16.5%
Grzybowska: commercial spaces	39.3	22.2	43.6%
Total	481.3	363.5	24.5%

Source: BRE Bank Securities

2011 forecast (PLN m)

Project	Revenue	Costs	Gross margin
Grzybowska	183.9	129.6	29.5%
Grzybowska: flats	16.8	9.5	43.6%
Derby 9	60.8	36.7	39.6%
Saska Kępa S1 P1	110.0	71.5	35.0%
Regaty S4	47.3	33.5	29.3%
Klasyków S1	37.9	29.0	23.6%
Adria S1	80.8	65.5	18.9%
Saska Kępa S1 P2	43.9	27.7	36.8%
Derby 14 S1	37.7	23.9	36.6%
Targówek 1 S1	32.2	24.6	23.7%
Total	651.4	451.5	30.7%

Source: BRE Bank Securities; S = stage, P = phase

2012 forecast (PLN m)

Project	Revenue	Costs	Gross margin
Derby 9	15.2	9.2	39.6%
Saska Kępa S1 P1	27.5	17.9	35.0%
Regaty S4	11.8	8.4	29.3%
Klasyków S1	9.5	7.2	23.6%
Adria S1	20.2	16.4	18.9%
Saska Kępa S1 P2	18.8	11.9	36.8%
Derby 14 S1	16.2	10.3	36.6%
Targówek 1 S1	13.8	10.5	23.7%
Przy Ratuszu (Górczewska)	126.8	111.0	12.4%
Derby 14 S2	41.4	28.0	32.4%
Regaty S5	38.1	28.7	24.6%
Saska Kępa S2 P1	77.1	51.3	33.4%
Klasyków S2	53.7	43.1	19.7%
Saska Kępa S2	68.1	46.3	31.9%
Targówek 1 S2	23.5	17.8	24.1%
Derby 20	21.9	15.2	30.5%
Adria S2	50.3	42.4	15.7%
Opera 2	13.3	8.0	39.5%
Oaza S1	60.3	58.6	2.8%
Derby 11	20.7	16.6	19.8%
Winnica 1 S1	42.8	29.4	31.4%
New project 1	80.6	60.5	24.9%
New project 2	80.6	60.5	24.9%
Total	932.3	709.5	23.9%

Source: BRE Bank Securities; S = stage, P = phase

Housing stock expansion, sales forecasts

Period	Starting housing stock	Net sales	New projects	Ending stock	Sales / average housing stock
Q1 2010	1 023.0	305.0	593.0	1 311.0	26.1%
Q2 2010	1 311.0	314.6	311.0	1 307.4	24.0%
Q3 2010	1 307.4	307.2	1 055.3	2 055.4	23.5%
Q4 2010	2 055.4	472.7	0.0	1 582.7	23.0%
2010	1 582.7	1 399.6	1 959.3	2 142.3	96.6%
2011	2 142.3	2 014.9	2 644.7	2 772.1	82.0%
2012	2 772.1	2 217.9	2 150.0	2 704.2	81.0%

Source: BRE Bank Securities

New Projects Will Boost Sales

Dom Development plans to list a large number of new homes this fall that are tailored to meet current demand for small affordable dwellings. As a result, it will probably report a sales increase in the fourth quarter. We predict that the company can sell over 2000 dwellings in 2011, much more than the competition, who, however, also invest in commercial projects.

Valuation

Using relative valuation and DCF analysis, we set a price target of PLN 51.6/share on Dom stock. The target is 7.3% higher than the current price, prompting a hold rating.

Valuation

	Value per share	Weight
DCF Analysis	48.9	90%
Relative valuation	39.4	10%
Average	47.9	
Cost of equity (9M)	7.8%	
Target Price	51.6	

Source: Dom Development, BRE Bank Securities

Relative Valuation

We assign a weight of just 10% to relative valuation because of limited comparability. The financial crisis delayed the building cycles of most developers. Some, like J.W. Construction, have many home deliveries scheduled for 2010, and can therefore look forward to strong earnings and low price multiples. Others, like Polnord, are selling the last of their housing stocks this year. Dom Development will report a surge in core profits in 2011, and JWC and Polnord will also grow earnings thanks to revaluations of new commercial projects. EV/EBITDA multiples are also incomparable – Polnord's building schedule (including a shopping center in Warsaw) will keep its cash resources low until 2013 (FY2013E EV/EBITDA = 5.2).

Limited comparability also pertains to P/BV ratios. The ratios estimated for Polnord are the lowest as a result of land revaluations performed in 2009 (PLN 81.8m), and goodwill recognized on the balance sheet (PLN 140.0m) on the one hand, and because the book value of its road development sites is shown to be zero, meanwhile we estimate these assets at PLN 167.3m. In turn, JWC has high P/BV multiples stemming from a large housing stock (ca. 3.3 thousand units). The high P/BV ratio of Dom Development stems from surplus liquidity.

Multiples comparison

	2010F	2011F	2012F	2010F	2011F	2012F	2010F	2011F	2012F
	P/BV	P/BV	P/BV	P/E	P/E	P/E	EV/EBITDA	EV/EBITDA	EV/EBITDA
J.W. Construction	1.50	1.27	1.09	5.8	8.3	7.4	6.4	10.0	6.9
Polnord	0.75	0.71	0.68	24.2	12.5	9.0	20.1	14.5	8.4
Median	1.13	0.99	0.88	15.0	10.4	8.2	13.3	12.3	7.7
Dom Development	1.78	1.65	1.51	52.5	16.4	11.1	37.4	12.8	7.9
Premium (discount)	58.0%	66.2%	71.4%	250.5%	57.3%	35.1%	182.0%	4.3%	2.4%
Multiple weight	15.0%	15.0%	15.0%	0.0%	10.0%	20.0%	0.0%	10.0%	15.0%
Price	5.3	5.0	4.9	0.0	3.5	8.2	0.0	6.0	6.5

Source: BRE Bank Securities

DCF Analysis

DCF model assumptions:

- Home prices are lower than market prices depending on location and stage of construction.
- Building costs increase by 7% in H2 2010 and by 3% in subsequent years.
- Home prices grow at 3% a year starting in 2012.
- Risk-free rate = 5.55% (10Y T-bond yield).
- Working-capital ratios are the same for all developers in 2015 and beyond.
- LTV for investment work in progress and housing projects in progress is less than 60%.
- 2010 land purchases assumed at PLN 135m.



DCF Valuation Model

(PLN m)	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2019+
Revenue	481.3	651.4	932.3	978.9	1 027.9	1 076.2	1 123.6	1 166.3	1 207.1	1 249.3	
<i>change</i>	-31.7%	241.7%	43.1%	5.0%	5.0%	4.7%	4.4%	3.8%	3.5%	3.5%	
EBITDA	44.9	119.9	137.8	144.5	148.0	150.9	156.5	163.1	169.3	175.6	
<i>EBITDA margin</i>	9.3%	18.4%	14.8%	14.8%	14.4%	14.0%	13.9%	14.0%	14.0%	14.1%	
D&A expenses	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	
EBIT	43.0	117.9	135.9	142.5	146.0	149.0	154.6	161.2	167.3	173.7	
<i>EBIT margin</i>	8.9%	18.1%	14.6%	14.6%	14.2%	13.8%	13.8%	13.8%	13.9%	13.9%	
Tax rate on EBIT	8.2	22.4	25.8	27.1	27.7	28.3	29.4	30.6	31.8	33.0	
NOPLAT	34.8	95.5	110.1	115.4	118.3	120.7	125.2	130.6	135.5	140.7	
CAPEX	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	
Working capital	-45.6	84.4	376.8	7.1	-34.7	-33.2	-29.6	-26.8	-26.6	-25.6	
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCF	-10.7	180.0	486.9	122.6	83.6	87.5	95.6	103.8	108.9	115.1	118.5
WACC	9.6%	10.0%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	
<i>discount factor</i>	93.4%	84.9%	76.8%	69.5%	62.8%	56.8%	51.4%	46.5%	42.1%	38.0%	
PV FCF	-10.0	152.7	373.8	85.1	52.5	49.7	49.1	48.3	45.8	43.8	
WACC	9.6%	10.0%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	
Cost of debt	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	
Risk-free rate	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	
Credit risk premium	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	
Net debt / EV	19%	11%	0%	0%	0%	0%	0%	0%	0%	0%	
Cost of Equity	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	
Risk premium	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	
FCF growth after the forecast horizon		3.0%									
Terminal value		1 569.9									
Present value of the terminal value (PV TV)		597.3									
Present value of FCF in the forecast horizon		890.9									
Enterprise value (EV)		1 488.2									
Net debt		288.3									
Land liquidation value		0.0									
Minority interests		0.0									
Enterprise value		1 199.8									
Number of shares (millions)		24.6									
Equity value per share (PLN)		48.9									
Cost of equity (9M)		7.8%									
Target Pric		52.7									
EV/EBITDA('09) for the target price		10.6									
P/E('09) for the target price		16.1									
TV to E		40%									

Sensitivity Analysis

FCF growth in perpetuity

	2.0%	2.5%	3.0%	3.5%	4.0%
WACC -1.0ppt	52.7	54.7	57.0	59.7	62.9
WACC -0.5ppt	51.0	52.7	54.7	57.0	59.7
WACC	49.5	51.0	52.7	54.7	57.0
WACC +0.5ppt	48.1	49.5	51.0	52.7	54.7
WACC +1.0ppt	46.9	48.1	49.5	51.0	52.7

**Income Statement**

(PLN m)	2006	2007	2008	2009	2010F	2011F	2012F
Revenue	729.8	878.8	698.2	704.4	481.3	651.4	932.3
<i>change</i>	35.9%	20.4%	-20.6%	0.9%	-31.7%	35.3%	43.1%
COGS	496.9	545.7	429.0	508.1	363.5	451.5	709.5
Gross profit	232.9	333.1	269.1	196.3	117.8	199.9	222.9
<i>gross margin</i>	31.9%	37.9%	38.5%	27.9%	24.5%	30.7%	23.9%
Selling costs	-21.7	-22.4	-30.0	-22.3	-24.2	-26.6	-28.7
General and administrative expenses	-41.3	-57.7	-61.9	-43.1	-47.6	-52.4	-53.9
Other net operating income	-5.0	-12.1	-11.5	-19.7	-3.0	-3.0	-4.3
EBIT	165.0	241.0	165.7	111.2	43.0	117.9	135.9
<i>change</i>	130.7%	46.1%	-31.2%	-32.9%	-61.3%	174.2%	15.2%
<i>EBIT margin</i>	22.6%	27.4%	23.7%	15.8%	8.9%	18.1%	14.6%
Profit/loss on financial activity	2.8	9.4	7.2	-10.4	-10.9	-15.0	16.0
Extraordinary gains/losses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax income	167.8	250.4	173.0	100.8	32.1	102.9	151.9
Tax	-32.6	-49.7	-36.0	-20.5	-6.1	-19.6	-28.9
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	135.2	200.6	136.9	80.2	26.0	83.4	123.1
<i>change</i>	-	48.4%	-31.7%	-41.4%	-67.6%	220.3%	47.7%
<i>margin</i>	18.5%	22.8%	19.6%	11.4%	5.4%	12.8%	13.2%
D&A expenses	1.6	2.2	2.4	2.4	1.9	1.9	1.9
EBITDA	166.5	243.2	168.1	113.6	44.9	119.9	137.8
<i>change</i>	127.3%	46.0%	-30.9%	-32.4%	-60.4%	166.7%	15.0%
<i>EBITDA margin</i>	22.8%	27.7%	24.1%	16.1%	9.3%	18.4%	14.8%
Shares at year-end (millions)	22.3	24.6	24.6	24.6	24.6	24.6	24.6
EPS	6.1	8.2	5.6	3.3	1.1	3.4	5.0
CEPS	6.1	8.3	5.7	3.4	1.1	3.5	5.1
ROAE	43.2%	33.8%	19.9%	11.2%	3.4%	10.4%	14.2%
ROAA	17.9%	18.4%	9.1%	4.8%	1.7%	5.5%	7.5%

**Balance Sheet**

(PLN m)	2006	2007	2008	2009	2010F	2011F	2012F
ASSETS	923.9	1 252.1	1 764.6	1 587.7	1 458.4	1 551.0	1 713.2
Fixed assets	17.0	21.9	20.9	19.0	19.0	19.0	19.0
Intangible assets	0.7	0.7	1.4	0.7	0.7	0.7	0.7
Investments in associates	0.8	1.0	1.1	0.0	0.0	0.0	0.0
Property, plant and equipment	5.5	6.5	6.8	5.5	5.5	5.5	5.5
Deferred-tax assets	7.5	10.6	8.4	9.3	9.3	9.3	9.3
Other	2.4	3.0	3.3	3.5	3.5	3.5	3.5
Current assets	906.9	1 230.2	1 743.7	1 568.7	1 439.3	1 532.0	1 694.2
Inventories	594.9	862.4	1 458.1	1 305.1	1 190.2	1 122.4	811.7
Receivables	60.8	65.9	55.5	26.7	38.2	51.8	74.1
Other current assets	23.7	26.4	6.3	6.1	6.1	6.1	6.1
Cash and cash equivalents	227.5	275.5	223.7	230.8	204.8	351.7	802.4
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(PLN m)	2006	2007	2008	2009	2010F	2011F	2012F
LIABILITIES	923.9	1 252.1	1 764.6	1 587.7	1 458.4	1 551.0	1 713.2
Equity	491.9	696.1	683.5	748.8	768.3	830.9	904.7
Minority interests	0.0	0.0	-0.2	-0.2	-0.2	-0.2	-0.2
Long-term liabilities	154.8	330.4	462.9	406.0	406.0	406.0	406.0
Loans, financial leases	102.2	241.8	433.3	384.9	384.9	384.9	384.9
Provisions	52.6	88.6	29.6	21.0	21.0	21.0	21.0
Short-term liabilities	277.2	225.5	618.4	433.1	284.2	314.4	402.7
Loans and other debt	98.9	37.0	62.5	134.2	134.2	134.2	134.2
Trade creditors	143.8	121.0	145.5	104.8	124.5	154.6	243.0
Other	34.5	67.5	410.4	194.0	25.5	25.5	25.5
Debt	201.1	278.8	495.8	519.2	519.2	519.2	519.2
Net debt	-26.4	3.3	272.1	288.3	314.4	167.4	-283.2
(Net debt / Equity)	-5.4%	0.5%	39.8%	38.5%	40.9%	20.2%	-31.3%
(Net debt / EBITDA)	-0.2	0.0	1.6	2.5	7.0	-	-
BVPS	22.0	28.3	27.8	30.5	31.3	33.8	36.8

**Cash Flows**

(PLN m)	2006	2007	2008	2009	2010F	2011F	2012F
Cash flows from Operating Activities	-30.3	-22.3	-215.0	4.6	-6.7	184.8	485.7
Net income	135.2	200.6	136.9	80.2	26.0	83.4	123.1
D&A expenses	1.6	2.2	2.4	2.4	1.9	1.9	1.9
Working capital	-211.8	-295.7	-245.5	152.9	-45.6	84.4	376.8
Other	44.8	70.6	-108.8	-230.9	10.9	15.0	-16.0
Cash flows from investing activities	-1.8	-3.6	-3.5	-0.5	-1.9	-1.9	-1.9
CAPEX	-1.4	-3.6	-3.5	-0.7	-1.9	-1.9	-1.9
Equity investments	-0.3	0.0	0.0	0.2	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flows from financing activities	185.8	73.9	166.7	3.1	-17.4	-35.9	-33.2
Stock offering	220.5	0.0	0.0	0.0	0.0	0.0	0.0
Debt	-34.8	77.6	216.8	22.9	0.0	0.0	0.0
Dividends (buyback)	0.0	-3.7	-50.1	-19.6	-6.5	-20.8	-49.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in cash	153.7	48.0	-51.8	7.2	-26.0	146.9	450.6
Cash at end of period	227.5	275.5	223.7	230.8	204.8	351.7	802.4
DPS (PLN)	0.0	0.2	2.0	0.8	0.3	0.8	2.0
FCF				244.3	-10.7	180.0	486.9
(CAPEX / Sales)	0.2%	0.4%	0.5%	0.1%	0.4%	0.3%	0.2%

Market multiples

	2006	2007	2008	2009	2010F	2011F	2012F
P/E	9.2	6.8	10.0	17.0	52.5	16.4	11.1
P/CE	9.1	6.7	9.8	16.5	48.9	16.0	10.9
P/BV	2.5	2.0	2.0	1.8	1.8	1.6	1.5
P/S	1.7	1.6	2.0	1.9	2.8	2.1	1.5
FCF/EV	0.0%	0.0%	0.0%	14.8%	-0.6%	11.7%	44.9%
EV/EBITDA	7.3	5.6	9.7	14.6	37.4	12.8	7.9
EV/EBIT	7.4	5.7	9.9	14.9	39.1	13.0	8.0
EV/S	1.7	1.6	2.3	2.3	3.5	2.4	1.2
DYield	0.0%	0.3%	3.7%	1.4%	0.5%	1.5%	3.6%
Price (PLN)	55.7						
Shares at year-end (millions)	22.3	24.6	24.6	24.6	24.6	24.6	24.6
MC (PLN m)	1241.8	1366.8	1366.8	1366.8	1366.8	1366.8	1366.8
Equity attributable to minority shareholders (PLN m)	0.0	0.0	-0.2	-0.2	-0.2	-0.2	-0.2
EV (PLN m)	1 215.4	1 370.1	1 638.7	1 654.9	1 681.0	1 534.0	1 083.4

13 April 2010

Update


Real Estate Developers
 Poland

Current price	PLN 15.65
Target price	PLN 15.10
Market cap	PLN 0.85bn
Free float	PLN 0.21bn
Avg daily trading volume (3M)	PLN 1.9m

Shareholder Structure

EHT S.A.	34.86%
Józef Wojciechowski	28.18%
J.W. Construction	1.14%
PKO TFI	5.93%
Pionier Pekao IM	5.01%
Others	24.88%

Company Profile

J.W. Construction is a real-estate developer with a focus on housing and the Warsaw area. The company is also active in other cities and in Russia. It owns hotel chain, a construction company and a building materials manufacturer. It is planning to expand into the commercial property market.

Important Dates

12.05 - Q1 2010 report
 26.08 - H1 2010 report
 09.11 - Q3 2010 report

J.W. Construction Hold

JWC.PW; JWCA.WA

(Reiterated)

No Change In Fundamentals

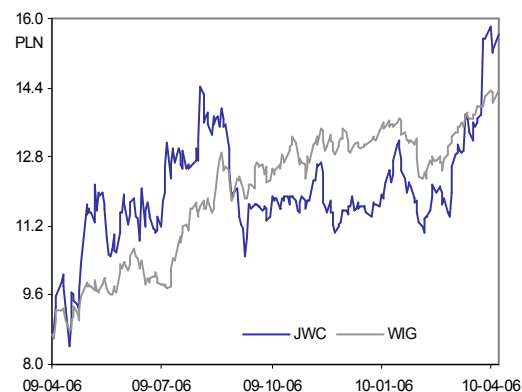
The recent rally on J.W. Construction (JWC) shares has no reflection in fundamentals. The developer's future outlook is determined by its building cycle, which is delayed a half a year relative to other firms, and the related financial issues, as well as by a moderate level of preparedness for new projects. The projects that will take off in the near future will not start adding to revenues until 2012, but positive revaluation effects of commercial developments could materialize in 2011. JWC took full advantage of the financing opportunities available during the housing boom to leverage its business, and the result is a large housing stock comprising an estimated 4100 units. These deliveries will drive its 2010 and 2011 profits. JWC shares are priced fairly when compared to peers (a low P/E and a high EV/EBITDA due to high debt, FY11E P/BV=1.3). However, the company's spending potential is much lower than, for instance, Dom Development's, due to the existing debt. Moreover, a planned shift away from the Warsaw market could cause the developer to lose its local market share. The best chance for JWC to increase its value and improve liquidity is the upcoming passing of a law allowing the tenants of its low-cost rental flats (TBS) to buy their homes. The planned acquisition of a road developer is a big risk factor in our view. We are reiterating a neutral rating on JWC.

Future Growth

The financial crisis prompted JWC's Management to consider risk diversification by branching out into new markets like commercial property and road construction, and by expanding the housing business beyond Warsaw. In our opinion, the planned acquisition of a road builder is a risky one, and the geographical expansion could cause the company to lose its share in the real-estate market of the capital city.

J.W. Construction vs. Dom Development

Unlike Dom Development, by using leverage to build as much as possible during the 2007-2009 property boom, JWC has considerably squeezed its current liquidity. Moreover, while DOM is focusing on its core business, JWC is taking efforts to diversify. On the one hand DOM's strategy seems to us more viable from a business standpoint, but, on the other hand, JWC offers more attractive valuation, and a cheap land bank (except for international land holdings in Bulgaria and Russia whose costs we are unable to determine).

J.W. Construction vs. WIG


(PLN m)	2008	2009	2010F	2011F	2012F
Revenue	721.4	713.3	776.3	428.3	709.2
EBITDA	158.5	156.8	212.0	155.8	164.9
<i>EBITDA margin</i>	22.0%	22.0%	27.3%	36.4%	23.3%
EBIT	141.1	142.7	191.7	135.5	144.6
Net income	100.9	100.4	146.1	101.5	113.9
P/E	8.5	8.4	5.8	8.3	7.4
P/CE	7.2	7.4	5.1	6.9	6.3
P/BV	2.6	2.0	1.5	1.3	1.1
EV/EBITDA	9.4	9.1	6.4	10.0	6.9
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

Maciej Stokłosa

(48 22) 697 47 41

maciej.stoklosa@dibre.com.pl
www.dibre.com.pl



Q4 2009 Results

2009 fourth-quarter revenues exceeded our forecast by 26.7%, owing mainly to real-estate operations which delivered 1940 homes in the period vs. our forecast of 1737. The gross margin fell slightly short of our 26.9% estimate at 24.6%, but this was due to weaker profits generated by other business segments (hotels, low-rent 'TBS' housing). The gross margin contributed by the real-estate segment was in line at 27%, while the combined margin generated by TBS flats and hotels amounted to just 12.2%, much less than our forecasted 21.8%. Moreover, JWC reported seasonally higher expenses in the period. The low-rent TBS developments generate very low yields (ca. 3%) compared to the market levels fetched by comparable dwellings, and the entry into force of planned regulations allowing TBS owners to sell them at market prices would considerably boost JWC's value.

Q4 2009 SG&A expenses were higher than expected (PLN 15.8m, PLN 10.5m), and displayed a seasonal increase relative to preceding quarters (PLN 10.0m in Q309 and PLN 9.8m in Q209). Other net financial income amounted to PLN 3.2m (we expected net expenses of PLN 0.5m).

Other net financial expenses were higher than expected (PLN 6.7m vs. PLN 3.6m) because of higher interest expenses (JWC books interest on loans used to finance projects in progress as costs of goods sold upon delivery, and recognizes costs incurred on finished projects under other financial expenses).

The Q409 effective tax rate was 12%, and the bottom-line income came in at PLN 31.0m (we expected PLN 26.3m). The insignificant reduction in net debt in Q409 was due work in progress and pre-sold homes accounted for on a percentage-of-completion basis, and we expect much deeper reductions in the coming quarters.

Reported vs. forecasted Q4 2009 results

(PLN m)	Q4 2009	Q4 2009F	differ.	consensus estimates	differ.	Q4 2008	change
Revenue	222.2	175.4	26.7%	187.0	18.8%	267.9	-17.0%
Gross profit	54.6	47.2	15.7%	-	-	62.4	-12.5%
Gross margin	24.6%	26.9%	-	-	-	23.3%	-
EBIT	42.0	36.1	16.2%	39.5	6.3%	38.1	10.3%
EBIT margin	18.9%	20.6%	-	21.1%	-	14.2%	-
Pre-tax income	35.3	32.5	8.6%	-	-	24.9	41.9%
Pre-tax margin	15.9%	18.5%	-	-	-	9.3%	-
Net income	31.0	26.3	17.9%	26.9	15.4%	13.5	130.4%
Net margin	14.0%	15.0%	-	14.4%	-	5.0%	-

Source: J.W. Construction, F – forecasts by BRE Bank Securities, consensus estimated by PAP

Q4 2009 results by business segment

(PLN m)	Real Estate	Hotels & TBS Housing	Other
Q4 2009			
Revenue	215.5	6.7	0.0
Gross profit	58.3	0.8	-4.5
Gross margin	27.0%	12.2%	-
Q4 2009F			
Revenue	167.8	7.6	0.0
Gross profit	45.5	1.7	0.0
Gross margin	27.1%	21.8%	-

Source: J.W. Construction, F – forecasts by BRE Bank Securities

Possible Changes In Asset Structure

TBS sales prospects

J.W. Construction operates its own low-cost housing associations (TBS), created to ensure work for its building company. At the moment, other construction companies, for example Unibep, are looking to build and manage their own TBS developments as well. JWC's TBS projects use a loan, and generate a small but steady income. They were developed in a very different economic environment, when building costs were much lower and home prices were half of what they are today. In an effort to stimulate housing production, the Polish government plans to introduce a law allowing current TBS tenants to buy their homes at market rates less contributions made to date. If this law is passed, it will be an opportunity for JWC to replace the small income it is generating now with cash, and thus increase its own value (rental yield < time cost of money). It is hard to predict how many of the low-income paying TBS tenants will want to buy their dwellings at much higher market rates. The main decision-making factor will probably be psychological (owning a home being the "Polish dream"). JWC owns 1161 TBS flats in Warsaw's districts of Białołęka and Marki with a total floor area of 51,220 sqm. The tenants covered 30% of the costs of construction. The table below shows our estimates of how JWC's value could change if 50% of the TBS dwellings are purchased by current tenants.

Value growth potential after passing of new TBS laws

	(PLN m)
Market value of TBS flats	301.2
Value of 70% interest in TBS projects	210.8
70% interest per share	3.9
Gross rental income (2009)	5.1
Yield / potential market value of 70% interest	2.44%
Rental income per share	1.1
Difference between the per-share value of 70% interest and per-share value of rental income	2.8
Target price	15.0
Target price after 50% of TBS flat are sold	16.4
Growth potential	9.3%

Source: BRE Bank Securities

Building Plans

J.W. Construction is considering buying a road developer to complement the service mix of its construction operations which, to date, have provided services exclusively to JWC companies – a model which is effective in an environment of rising costs and a shortage of workforce, and less effective during a real-estate slump. The construction subsidiary has made attempts in the past to capture building and road construction contracts, but has always failed due to a lack of an adequate track record. To avoid conflicts of interest between the real-estate business and the construction business, and to increase the effectiveness of the latter amid a financial crisis, JWC decided to diversify its revenue sources, among others by expanding its building offer through an acquisition of a road-building company.

We have doubts whether this is a good move. The boom in government orders is over, and future road projects will not be as numerous as to continue enhancing the value of the infrastructure market. Due to intense competition observed in 2009, JWC risks taking over a company with a thin order book. Moreover, the acquisition price could be inflated if it is calculated based on high 2008 and 2009 multiples.

We did not take the potential acquisition into account in our valuation model for lack of specifics. We did factor in the expected 3% EBIT margin of JWC's construction business.



Building Plans of J.W. Construction

Planned Projects

Housing Projects

Project	Floor space (square meters)	Ownership	City	Start	End	Selling price (per sqm)	Building costs (per sqm)	Gross margin
Ożarów S1	1 920	100.0%	Ożarów	Q2 2010	Q3 2011	4200	3557	15.3%
Zielona Dolina S1	29 216	100.0%	Warsaw	Q3 2010	Q1 2012	5200	3855	25.9%
Światowida	13 000	100.0%	Warsaw	Q4 2010	Q2 2012	6300	3863	38.7%
Łódź II – S1	6 942	100.0%	Łódź	Q4 2010	Q2 2012	4500	3770	16.2%
Uroczysko S1	4 015	100.0%	Katowice	Q4 2010	Q2 2012	5100	4100	19.6%
Ożarów S1	4 800	100.0%	Ożarów	Q4 2010	Q2 2012	4300	3748	12.8%
Zielona Dolina S2	28 889	100.0%	Warsaw	Q2 2011	Q4 2012	5200	3965	23.7%
Ożarów S2	9 600	100.0%	Ożarów	Q1 2011	Q3 2012	4300	3836	10.8%
Antoniewska	13 863	100.0%	Warsaw	Q1 2011	Q3 2012	6900	4714	31.7%
Lewandów Park III S1	16 864	100.0%	Warsaw	Q1 2011	Q3 2012	5600	3981	28.9%
Berenzona	9 350	100.0%	Warsaw	Q1 2011	Q3 2012	5600	3876	30.8%
Odkryta	7 322	100.0%	Warsaw	Q1 2011	Q3 2012	5600	4065	27.4%
Uroczysko S2	12 500	100.0%	Katowice	Q3 2011	Q1 2013	5253	4207	19.9%
Łódź II – S2	7 500	100.0%	Łódź	Q3 2011	Q1 2013	4635	3877	16.4%
Sopot	2 500	100.0%	Sopot	Q3 2011	Q1 2013	10500	6406	39.0%
Łeba S1	11 000	100.0%	Łeba	Q3 2011	Q1 2013	5500	4105	25.4%
Złote Piaski	8 850	100.0%	Golden Sands, Bulgaria	Q3 2011	Q1 2013	5500	5279	4.0%
Ożarów S3	12 500	100.0%	Ożarów	Q3 2011	Q1 2013	4300	3926	8.7%
Łódź Pogonowskiego	5 995	100.0%	Łódź	Q3 2011	Q1 2013	4635	3930	15.2%
New project	10 500	100.0%	Kraków	Q3 2011	Q1 2013	6025.5	4630	23.2%
New project	10 500	100.0%	Katowice	Q3 2011	Q1 2013	5253	4049	22.9%
Zielona Dolina S3	14 445	100.0%	Warsaw	Q1 2012	Q3 2013	5356	4078	23.9%
Lewandów Park III S2	16 315	100.0%	Warsaw	Q1 2012	Q3 2013	5768	4095	29.0%

Source: Forecasts by BRE Bank Securities based on J.W. Construction data
S = stage

Office Projects

Project	sqm	Ownership	City	Start	End	Rent (EUR/sqm)	Yield	Price / sqm	Cost / sqm	Gross margin
Jerozolimskie Point	4 157	100.0%	Warsaw	Q1 2010	Q3 2011	14.5	7.5%	9280	7324	21.1%
Pileckiego	16 838	100.0%	Warsaw	Q3 2010	Q2 2012	15	7.0%	10286	8215	20.1%
Nowa Dana	25 324	100.0%	Szczecin	Q3 2010	Q2 2012	15.5	7.0%	10629	8714	18.0%

Source: Forecasts by BRE Bank Securities based on J.W. Construction data

**Earnings forecasts by project****2010 forecast (PLN m)**

Project	Revenue	Costs	Gross margin	Revaluation	CAPEX	Sale	Value change
Osiedle Lazurowa	26.9	22.0	18.2%				
Górczewska Park	172.3	145.4	15.6%				
Lewandów Park	292.3	196.7	32.7%				
Osiedle Bursztynowe	70.8	48.6	31.4%				
Wiślana Aleja	41.7	27.2	34.8%				
Osada Wiślana	29.0	19.5	32.8%				
Aleja Ludwinowska II	1.2	0.9	24.4%				
Rezydencja Quatro	11.8	8.3	29.5%				
Willa Konstancin	5.2	3.6	31.0%				
Osiedle Leśne	14.8	10.6	28.4%				
Lazurowe Ustronie	58.5	41.3	29.4%				
Osiedle Centrum	5.9	4.6	21.9%				
Victoria Park	10.9	9.6	11.9%				
Osiedle Uroczysko	2.1	1.5	25.3%				
Jerozolimskie Point				2.7	20.3		23.0
Pileckiego				11.6	34.6		46.2
Nowa Dana				16.2	55.2		71.3
Total	743.3	539.8	27.4%	30.5	110.0		140.5

Source: BRE Bank Securities

2011 forecast (PLN m)

Project	Revenue	Costs	Gross margin	Revaluation	CAPEX	Sale	Value change
Osiedle Lazurowa	13.5	11.0	18.2%				
Górczewska Park	86.2	72.7	15.6%				
Lewandów Park	146.1	98.3	32.7%				
Osiedle Bursztynowe	35.4	24.3	31.4%				
Wiślana Aleja	20.8	13.6	34.8%				
Osada Wiślana	14.5	9.8	32.8%				
Aleja Ludwinowska II	0.6	0.5	24.4%				
Rezydencja Quatro	5.9	4.2	29.5%				
Willa Konstancin	2.6	1.8	31.0%				
Osiedle Leśne	7.4	5.3	28.4%				
Lazurowe Ustronie	29.2	20.7	29.4%				
Osiedle Centrum	2.9	2.3	21.9%				
Victoria Park	5.4	4.8	11.9%				
Osiedle Uroczysko	1.0	0.8	25.3%				
Ożarów Stage 1	6.5	5.5	15.3%				
Jerozolimskie Point				5.4	10.1		15.6
Pileckiego				23.2	69.2		92.4
Nowa Dana				32.3	110.3		142.7
Total	378.1	275.3	27.2%	61.0	189.7		250.6

Source: BRE Bank Securities

**2012 forecast (PLN m)**

Project	Revenue	Costs	Gross margin	Valuation	CAPEX	Sale	Value change
Ożarów E1	1.6	1.4	15.3%				
Zielona Dolina E1	151.9	112.6	25.9%				
Światowida	77.8	47.7	38.7%				
Łódź II - I etap	29.7	24.9	16.2%				
Uroczysko E1	19.5	15.6	19.6%				
Ożarów E1	19.6	17.1	12.8%				
Zielona Dolina E2	97.6	74.5	23.7%				
Ożarów E2	33.0	29.5	10.8%				
Antoniewska	76.5	52.3	31.7%				
Lewandów Park III E1	75.5	53.7	28.9%				
Berensona	41.9	29.0	30.8%				
Odkryta	32.8	23.8	27.4%				
Jerozolimskie Point						38.6	-38.6
Pileckiego					34.6	173.2	-138.6
Nowa Dana					55.2	269.2	-214.0
Total	657.5	482.0	26.7%		89.8	480.9	-391.2

Source: BRE Bank Securities

Earnings forecasts by business segment (PLN m)

		2010F	2011F	2012F	2013F	2014F
J.W. Construction	Revenue	776.3	428.3	709.2	758.9	795.8
	Gross profit	213.3	128.0	201.2	180.0	194.3
	Gross margin	27.47%	29.90%	28.37%	23.72%	24.42%
Real Estate	Revenue	743.3	378.1	657.5	705.7	741.0
	Gross profit	203.5	102.8	175.5	153.4	166.7
	Gross margin	27.38%	27.18%	26.69%	21.74%	22.50%
Hotels	Revenue	21.1	37.9	39.0	40.2	41.4
	Gross profit	3.8	7.6	7.8	8.0	8.3
	Gross margin	18.00%	20.00%	20.00%	20.00%	20.00%
TBS Housing	Revenue	11.9	12.2	12.6	13.0	13.4
	Gross profit	5.9	6.1	6.3	6.5	6.7
	Gross margin	50.0%	50.0%	50.0%	50.0%	50.0%
Construction*	Revenue	275.3	385.6	386.6	402.0	420.9
	Gross profit					
	Gross margin		3.0%	3.0%	3.0%	3.0%

Source: BRE Bank Securities; * revenues and gross profits are subject to intercompany eliminations

Housing stock expansion, sales forecasts**Housing stock of J.W. Construction**

Period	Starting housing stock	Net sales	New projects	Ending stock	Sales / average housing stock
Q1 2010	1 200.0	286.0	300.0	1 214.0	23.7%
Q2 2010	1 214.0	297.4	12.0	928.6	24.5%
Q3 2010	928.6	222.9	596.0	1 301.7	24.0%
Q4 2010	1 301.7	312.4	446.0	1 435.3	24.0%
2010	1 200.0	1 118.7	1 354.0	1 435.3	96.2%
2011	1 435.3	1 588.4	2 592.0	2 438.9	82.0%
2012	2 438.9	2 054.6	2 250.0	2 634.3	81.0%

Source: BRE Bank Securities

New Projects Will Boost Sales

JWC's planned housing projects will contribute to sales growth only in 2011. The company also has commercial properties in the pipeline. We assume that JWC will be selling 500 flats per quarter starting in 2012, but its dwellings will be smaller and cheaper than Dom Development's.

Valuation

Using relative valuation and DCF analysis, we set a price target of PLN 15.1/share on JWC stock. The target is 3.5% higher than the current price, prompting a hold rating.

Valuation Summary

	Value per share	Weight
DCF Analysis	13.2	90%
Relative Valuation	21.1	10%
Average	14.0	
Cost of equity (9M)	7.8%	
Target Price	15.1	

Source: JWC, BRE Bank Securities,

Relative Valuation

We assign a weight of just 10% to relative valuation because of limited comparability. The financial crisis delayed the building cycles of most developers. Some, like J.W. Construction, have many home deliveries scheduled for 2010, and can therefore look forward to strong earnings and low price multiples. Others, like Polnord, are selling the last of their housing stocks this year. Dom Development will report a surge in core profits in 2011, and JWC and Polnord will also grow earnings thanks to revaluations of new commercial projects. EV/EBITDA multiples are also incomparable - Polnord's building schedule (including a shopping center in Warsaw) will keep its cash resources low until 2013 (FY2013E EV/EBITDA = 5.2).

Limited comparability also pertains to P/BV ratios, The ratios estimated for Polnord are the lowest as a result of land revaluations performed in 2009 (PLN 81.8m), and goodwill recognized on the balance sheet (PLN 140.0m) on the one hand, and because the book value of its road development sites is shown to be zero, meanwhile we estimate these assets at PLN 167.3m. In turn, JWC has high P/BV multiples stemming from a large housing stock (ca. 3.3 thousand units). The high P/BV ratio of Dom Development stems from surplus liquidity.

Relative Valuation

	2010F P/BV	2011F P/BV	2012F P/BV	2010F P/E	2011F P/E	2012F P/E	2010F EV/EBITDA	2011F EV/EBITDA	2012F EV/EBITDA
Dom Development	1.78	1.65	1.51	52.5	16.4	11.1	37.4	12.8	7.9
Polnord	0.75	0.71	0.68	24.2	12.5	9.0	20.1	14.5	8.4
Median	1.26	1.18	1.09	38.4	14.5	10.1	28.8	13.7	8.2
J.W. Construction	1.50	1.27	1.09	5.8	8.3	7.4	6.4	10.0	6.9
Premium (discount)	19.1%	8.5%	-0.4%	-84.9%	-42.3%	-26.1%	-77.7%	-26.6%	-15.3%
Multiple weight	15.0%	15.0%	15.0%	0.0%	10.0%	20.0%	0.0%	10.0%	15.0%
Value	2.0	2.2	2.4	0.0	2.7	4.2	0.0	3.9	3.7

Source: BRE Bank Securities

DCF Analysis

DCF model assumptions:

- Home prices are lower than market prices depending on location and stage of construction.
- Building costs increase by 7% in H2 2010 and by 3% in subsequent years.
- Home prices grow at 3% a year starting in 2012.
- Risk-free rate = 5.55% (10Y T-bond yield).
- Commercial projects will be sold in the year they are completed.
- Working-capital ratios are the same for all developers in 2015 and beyond.
- LTV for investment work in progress and housing projects in progress is less than 60%.
- Conservative assumptions with respect to returns on commercial properties.
- The valuation includes other investment properties of J.W. Construction.
- Construction business expected to generate an EBIT margin of 3%.
- Our calculations do not account for the possibility of TBS home sales once new laws are passed.



DCF Valuation Model

(PLN m)	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2019+
Revenue	776.3	428.3	709.2	758.9	795.8	832.3	868.1	900.7	931.9	961.6	
change	8.8%	-44.8%	65.6%	7.0%	4.9%	4.6%	4.3%	3.7%	3.5%	3.2%	
EBITDA*	181.5	94.8	164.9	141.9	154.4	161.3	168.0	174.0	179.5	184.7	
EBITDA margin	23.4%	22.1%	23.3%	18.7%	19.4%	19.4%	19.4%	19.3%	19.3%	19.2%	
D&A expenses	20.3	20.3	20.3	20.3	20.3	20.3	20.3	20.3	20.3	20.3	
EBIT*	161.2	74.5	144.6	121.6	134.1	141.0	147.8	153.7	159.2	164.4	
EBIT margin	20.8%	17.4%	20.4%	16.0%	16.8%	16.9%	17.0%	17.1%	17.1%	17.1%	
Tax rate on EBIT	30.6	14.2	27.5	23.1	25.5	26.8	28.1	29.2	30.3	31.2	
NOPLAT	130.6	60.3	117.2	98.5	108.6	114.2	119.7	124.5	129.0	133.2	
CAPEX	-166.3	-209.9	370.9	-20.3	-20.3	-20.3	-20.3	-20.3	-20.3	-20.3	
Working capital	104.7	-56.0	-82.2	43.8	-23.8	-25.3	-24.0	-22.3	-21.3	-20.5	
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCF	89.2	-185.3	426.1	142.2	84.8	88.9	95.7	102.2	107.7	112.7	116.1
WACC	8.6%	8.2%	9.2%	9.8%	10.2%	10.6%	10.6%	10.6%	10.6%	10.6%	
discount factor	94.0%	86.9%	79.5%	72.4%	65.7%	59.4%	53.8%	48.6%	44.0%	39.8%	
PV FCF	83.9	-161.0	338.8	103.0	55.7	52.9	51.5	49.7	47.4	44.8	

WACC	8.6%	8.2%	9.2%	9.8%	10.2%	10.6%	10.6%	10.6%	10.6%	10.6%
Cost of debt	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%
Risk-free rate	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%
Credit risk premium	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Net debt / EV	38%	46%	26%	15%	6%	0%	0%	0%	0%	0%
Cost of Equity	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%
Risk premium	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

FCF growth after the forecast horizon	3.0%	Sensitivity Analysis					
Terminal value	1 537.4	FCF growth in perpetuity					
Present value of the terminal value (PV TV)	611.8	2.0%	2.5%	3.0%	3.5%	4.0%	
Present value of FCF in the forecast horizon	666.7	WACC -1.0ppt	12.9	13.6	14.4	15.4	16.4
Enterprise value (EV)	1 278.4	WACC -0.5ppt	12.8	13.5	14.3	15.3	16.4
Net debt	575.1	WACC	12.7	13.5	14.3	15.2	16.3
Other investment property	12.4	WACC +0.5ppt	12.7	13.4	14.2	15.1	16.2
Minority interests	0.0	WACC +1.0ppt	12.6	13.3	14.1	15.0	16.1
Enterprise value	715.8						
Number of shares (millions)**	54.1						
Equity value per share (PLN)	13.2						
Cost of equity (9M)	7.8%						
Target Price	14.3						

EV/EBITDA('09) for the target price	8.3
P/E('09) for the target price	7.1
TV to EV	48%

* ex. revaluations ** Adjusted for treasury stock

**Income Statement**

(PLN m)	2006	2007	2008	2009	2010F	2011F	2012F
Revenue	726.3	781.1	721.4	713.3	776.3	428.3	709.2
<i>change</i>	75.2%	7.5%	-7.6%	-1.1%	8.8%	-44.8%	65.6%
COGS	500.3	532.5	509.8	528.0	563.0	300.2	508.0
Gross profit	226.0	248.6	211.6	185.3	213.3	128.0	201.2
<i>gross margin</i>	31.1%	31.8%	29.3%	26.0%	27.5%	29.9%	28.4%
Selling costs	-24.1	-28.6	-27.4	-20.8	-23.9	-24.6	-25.3
General and administrative expenses	-20.8	-24.9	-28.8	-25.7	-25.7	-26.5	-27.2
Other net operating income	-1.0	3.4	-14.2	3.9	28.0	58.5	-4.0
EBIT	180.1	198.6	141.1	142.7	191.7	135.5	144.6
<i>change</i>	438.1%	10.3%	-28.9%	1.1%	34.3%	-29.3%	6.8%
<i>EBIT margin</i>	24.8%	25.4%	19.6%	20.0%	24.7%	31.6%	20.4%
Profit/loss on financial activity	-12.9	-14.5	-15.8	-23.5	-11.3	-10.2	-4.0
Extraordinary gains/losses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax income	167.2	184.1	125.3	119.2	180.4	125.3	140.6
Tax	-35.2	-36.0	-24.4	-18.8	-34.3	-23.8	-26.7
Net income	132.0	148.1	100.9	100.4	146.1	101.5	113.9
<i>change</i>	-	12.2%	-31.9%	-0.5%	45.5%	-30.5%	12.2%
<i>margin</i>	18.2%	19.0%	14.0%	14.1%	18.8%	23.7%	16.1%
D&A expenses	10.7	13.3	17.4	14.0	20.3	20.3	20.3
EBITDA	190.8	211.9	158.5	156.8	212.0	155.8	164.9
<i>change</i>	328.0%	11.0%	-25.2%	-1.1%	35.2%	-26.5%	5.9%
<i>EBITDA margin</i>	26.3%	27.1%	22.0%	22.0%	27.3%	36.4%	23.3%
Shares at year-end (millions)*	9.6	53.0	54.7	54.1	54.1	54.1	54.1
EPS	13.8	2.8	1.8	1.9	2.7	1.9	2.1
CEPS	14.9	3.0	2.2	2.1	3.1	2.3	2.5
ROAE	84.3%	39.9%	23.1%	27.1%	29.9%	16.6%	17.0%
ROAA	15.9%	12.2%	6.1%	6.1%	10.3%	7.0%	7.9%

* Adjusted for treasury stock

**Balance Sheet**

(PLN m)	2006	2007	2008	2009	2010F	2011F	2012F
ASSETS	907.5	1 511.6	1 778.4	1 523.0	1 316.4	1 585.9	1 565.3
Fixed assets	329.2	381.0	472.4	425.7	612.2	862.8	471.7
Intangible assets	12.5	12.4	11.2	6.8	6.8	6.8	6.8
Goodwill	16.8	16.8	12.4	12.4	12.4	12.4	12.4
Property, plant and equipment	272.0	299.3	354.7	359.7	405.7	405.7	405.7
Long-term investments	5.0	15.3	45.1	5.0	5.0	5.0	5.0
Investment property	0.0	12.3	12.4	12.4	152.9	403.6	12.4
Other	22.9	25.0	36.6	29.4	29.4	29.4	29.4
Current assets	578.4	1 130.5	1 306.0	1 097.3	704.2	723.1	1 093.6
Inventories	55.1	28.3	42.9	38.4	14.7	24.3	26.0
Receivables	40.2	66.4	79.5	57.3	81.2	41.1	68.0
Construction contracts	403.6	875.1	1 127.3	916.2	530.3	534.9	654.0
Short-term prepayments	10.0	11.7	17.0	14.5	14.5	14.5	14.5
Cash and cash equivalents	37.4	75.3	36.7	27.2	19.8	64.6	287.5
Other	32.1	73.7	2.7	43.7	43.7	43.7	43.7
(PLN m)	2006	2007	2008	2009	2010F	2011F	2012F
LIABILITIES	907.5	1 511.6	1 778.4	1 523.0	1 316.4	1 585.9	1 565.3
Equity	193.4	549.5	325.7	416.2	562.3	663.8	777.7
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term liabilities	350.4	370.8	283.3	203.7	273.7	523.7	323.7
Loans, financial leases	302.1	287.4	251.2	183.9	253.9	503.9	303.9
Reserves and other	48.4	83.4	32.1	19.8	19.8	19.8	19.8
Short-term liabilities	363.7	591.3	1 169.4	903.0	480.3	398.4	463.9
Loans, leases, and other debt	143.0	297.2	417.4	418.3	276.7	276.7	276.7
Trade creditors	86.6	118.9	140.4	111.2	176.5	94.6	160.0
Construction contracts	105.5	156.5	585.8	346.5	0.0	0.0	0.0
Other	28.6	18.6	25.7	27.1	27.1	27.1	27.1
Debt	445.1	584.6	668.6	602.2	530.6	780.6	580.6
Net debt	407.7	509.3	631.9	575.1	510.8	716.0	293.1
(Net debt / Equity)	210.7%	92.7%	194.0%	138.2%	90.8%	107.9%	37.7%
(Net debt / EBITDA)	2.1	2.4	4.0	3.7	2.4	4.6	1.8
BVPS	20.2	10.4	6.0	7.7	10.4	12.3	14.4

**Cash Flows**

(PLN m)	2006	2007	2008	2009	2010F	2011F	2012F
Cash flows from Operating Activities	-45.4	-216.7	-93.8	108.9	251.9	14.9	56.0
Net income	132.0	148.1	100.9	100.4	146.1	101.5	113.9
D&A expenses	10.7	13.3	17.4	14.0	20.3	20.3	20.3
Working capital	-206.1	-446.5	-236.9	-28.0	104.7	-56.0	-82.2
Other	17.9	68.4	24.8	22.5	-19.2	-50.8	4.0
Cash flows from investing activities	-3.3	-96.6	27.9	-15.3	-176.3	-209.9	370.9
CAPEX	4.9	-19.6	-5.4	-14.9	-176.3	-209.9	370.9
Equity investments	-2.7	-10.3	60.0	-0.1	0.0	0.0	0.0
Other	-5.5	-66.7	-26.7	-0.2	0.0	0.0	0.0
Cash flows from financing activities	69.9	351.3	27.3	-103.2	-83.0	239.8	-204.0
Stock offering	5.8	244.8	-2.5	-2.0	0.0	0.0	0.0
Debt	78.9	126.7	5.0	-119.0	-71.6	250.0	-200.0
Dividends (buyback)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	-14.8	-20.2	24.8	17.8	-11.3	-10.2	-4.0
Change in cash	21.2	38.0	-38.6	-9.5	-7.4	44.8	222.8
Cash at end of period	37.4	75.3	36.7	27.2	19.8	64.6	287.5
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF				140.8	89.2	-185.3	426.1
(CAPEX / Sales)	-0.7%	2.5%	0.7%	2.1%	22.7%	49.0%	-52.3%

Market multiples

	2006	2007	2008	2009	2010F	2011F	2012F
P/E	1.1	5.6	8.5	8.4	5.8	8.3	7.4
P/CE	1.0	5.1	7.2	7.4	5.1	6.9	6.3
P/BV	0.8	1.5	2.6	2.0	1.5	1.3	1.1
P/S	0.2	1.1	1.2	1.2	1.1	2.0	1.2
FCF/EV				9.9%	6.6%	-11.9%	37.4%
EV/EBITDA	2.9	6.3	9.4	9.1	6.4	10.0	6.9
EV/EBIT	3.1	6.7	10.5	10.0	7.1	11.5	7.9
EV/S	0.8	1.7	2.1	2.0	1.7	3.6	1.6
DYield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Price (PLN)	15.7						
Shares at year-end (millions)*	9.6	53.0	54.4	54.1	54.1	54.1	54.1
MC (PLN m)	149.7	829.7	851.1	846.2	846.2	846.2	846.2
Equity attributable to minority shareholders (PLN m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV (PLN m)	557.3	1 339.0	1 483.0	1 421.3	1 357.0	1 562.2	1 139.4

* Adjusted for treasury stock

13 April 2010

Update


Real Estate Developers
Poland

Current price	PLN 39.3
Target price	PLN 52.6
Market cap	PLN 0.86bn
Free float	PLN 0.35bn
Avg daily trading volume (3M)	PLN 2.54m

Polnord

PND.PW; PNOR.WA

Buy

(Reiterated)

Creating Value

Polnord offers the most attractive price of all the real-estate developers in our coverage universe. It has made a number of good decisions recently, including a partnership with GTC formed for purposes of a shopping-center project in Warsaw, and the sale of an office-building project to Asseco Poland. The company has the necessary funds in place to finance future projects, including the Warsaw shopping center (scheduled to start in 2011) which comes out ahead as its most lucrative undertaking. Polnord reported relatively weak homes sales in Q1 2010 (129 units), but we expect an improvement in Q2 2010 following new listings better suited to homebuyers' needs. We believe that Polnord can deliver or even exceed its 800-unit sales target set for 2010 by upwards of 100 units. The recent dilution of minority shareholders at Polnord's affiliate Petrolinvest should not affect the developer. Our valuation factors in the expected bond-to-equity conversion at PLN 40/share in 2012. We recommend buying Polnord.

Shareholder Structure

Prokom Investments	33.71%
Osiedle Wilanowska	11.64%
Templeton Asset Management	13.94%

Others	40.71%
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Company Profile

Polnord is a real estate developer active in the residential and commercial segments in Warsaw and elsewhere in Poland, as well as in Russia. It is the biggest landowner among all the real-estate developers (with most of its land located in the Warsaw borough of Wilanów).

Major Projects

We estimate conservatively that the shopping center project developed jointly with GTC can fetch a gross margin of 35%. We assume that the two companies have 50-50 interests in the project, and we think that the rental rates in the new mall will be 20% lower than in the nearby "Galeria Mokotów" mall. Polnord's other key project, the "Granary Island," will generate a margin of about 20.6%.

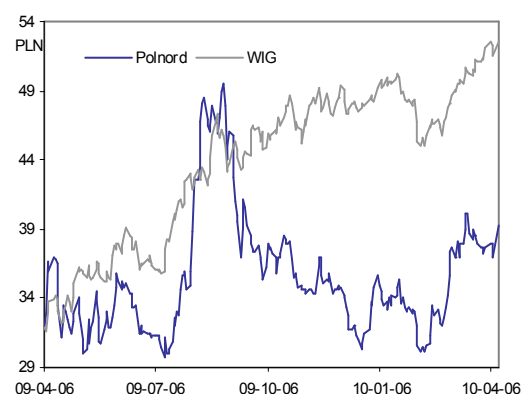
Important Dates

15.05 - Q1 2010 report
31.08 - H1 2010 report
15.11 - Q3 2010 report

Future Outlook

New commercial projects (including the Warsaw shopping center and new office buildings) mean that Polnord will start fewer housing projects in 2011 than we thought. The resulting revisions suggest lower-than-expected revenues in 2012, offset by higher profits generated from revaluations of the commercial work in progress, and the increased value of investment properties. We predict Polnord's focus will shift back to residential developments in 2013.

PND vs. WIG



(PLN m)	2008	2009	2010F	2011F	2012F
Revenue	391.1	221.3	414.2	311.0	419.1
EBITDA	108.7	106.9	64.4	104.2	146.3
<i>EBITDA margin</i>	27.8%	48.3%	15.6%	33.5%	34.9%
EBIT	106.7	104.9	62.5	102.3	144.5
Net income	77.8	63.6	35.9	69.5	109.5
P/E	9.1	13.7	24.2	12.5	9.0
P/CE	8.9	13.2	23.0	12.2	8.9
P/BV	0.8	0.8	0.7	0.7	0.7
EV/EBITDA	11.9	14.4	20.1	14.5	8.4
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

Maciej Stokłosa

(48 22) 697 47 41

maciej.stoklosa@dibre.com.pl

www.dibre.com.pl



Q4 2009 Results

Polnord's Q4 2009 revenues exceeded our estimate by PLN 13.8m, of which PLN 3.7m came from higher-than-expected home sales. Moreover, sales of units in a housing development in Russia contributed PLN 1.8m to the quarter's topline, and settlements with major shareholder Prokom added another PLN 7.9m.

The gross profit fell short of our forecasts at PLN 5.4m (a gross margin of 10.6% also missed our 27.4% estimate) after being weighed down by COGS provisions in the amount of PLN 6.2m. PLN 5m of this amount was a provision related to an office project in Novosibirsk, Russia (Polnord's contracts with suppliers provide that their compensation will be offices in the building delivered at a discount to the market value. The company expected the ratio of the selling price of the office spaces to construction costs to be favorable, but the costs have increased since the contracts were signed. Otherwise, however, the Novosibirsk project is expected to generate good margins). Further, Polnord booked a PLN 1.2m provision for potential losses on a housing project in Łódź in which it charges almost PLN 1100 per square meter of living space, quite a lot for Łódź where there is currently an oversupply of new homes. However, the project is still going to generate positive cash flows for the company.

The adjusted gross margin on real-estate operations (which generated a revenue of PLN 42.8m) was in line at ca. 27%. SG&A expenses were higher than our PLN 9.8m estimate at PLN 13.5m. Other net operating expenses amounted to PLN 0.2m, and property revaluations produced a PLN 64.5m gain, including a PLN 59.9m gain from the land in Dopiewiec whose per-square-meter value increased to PLN 244 from PLN 70 at the time of the purchase).

Polnord reported high other net financial expenses (PLN 11.5m vs. PLN 10.6m forecasted) among others as a result of derivatives losses incurred by subsidiary Fadesa. An effective tax rate of 26.9% was higher than predicted. After unexpected minority losses of PLN 0.5m, the Q409 bottom-line profit came in at PLN 31.4m, ahead of our PLN 27.4m forecast.

If it had not been for revaluations of investment property and COGS provisions, Polnord would have reported a Q409 EBIT loss of 3m, and a net loss close to PLN 27m.

Reported vs. forecasted Q3 2009 results

(PLN m)	Q4 2009	Q4 2009F	differ.	Q4 2008	change
Revenue	51.1	37.3	36.9%	46.9	8.9%
Gross profit	5.4	10.2	-47.1%	12.6	-57.3%
Gross margin	10.6%	27.4%	-	27.0%	-
Gains on property revaluations	64.5	43.0	49.9%	0.0	-
EBIT	55.2	44.4	24.3%	-15.6	-454.3%
EBIT margin	108.1%	119.1%	-	-33.2%	-
Pre-tax income	43.7	33.8	29.3%	-11.5	-481.0%
Pre-tax margin	85.6%	90.6%	-	-24.5%	-
Net income	31.4	27.4	14.7%	-10.6	-397.2%
Net margin	61.5%	73.4%	-	-22.5%	-

Source: Polnord, BRE Bank Securities,

Building Plans

Star Project: Shopping Center in Warsaw

Value-Creating Partnership With GTC

The recently announced project to develop a shopping center in Warsaw's district of Wilanów is Polnord's most lucrative undertaking. Wilanów and Białołęka are the only two districts of the capital city that can still accommodate new shopping centers, and whoever builds them first can count on making healthy profits. Before GTC came into the picture, Polnord was planning to build a retail park on the Wilanów lot, in stages due to a lack of sufficient cash – a plan that we approached with much less enthusiasm. After a successful due diligence audit, Polnord and GTC will sign a joint venture agreement and proceed to develop designs. We expect the project to be a typical shopping center which will earn its owners very generous profits.

Profitability Estimate

We assume conservatively that the per-square meter rent in the Wilanów shopping center will be an average EUR 24, 20% less than the rates charged by its closest competition, the 'Galeria Mokotów' mall. Further, we assume a yield of 7% at the time of the center's sale in 2013, and construction costs of EUR 2200 per square meter. Finally, we expect Polnord and GTC to take equal shares in the joint venture (with GTC acquiring its share at a price equal to the book value of the land). Based on these conservative assumptions, we estimate the gross margin on the Wilanów project at 35.6%.

Impact On Earnings

We expect that Polnord will complete the designs in the second half of 2010, obtain a building permit in Q1/Q2 2011, start the construction in Q2 2011, finish in late summer 2013, and sell the shopping center toward the end of the same year. We expect the company to book total revaluation gains on the investment of PLN 175.2m, of which half will be recognized in 2011, and half in 2012.

Will "Granary Island" Become Polnord's "Treasure Island"?

Granary Island – A Risky Project With Potential

Acting a joint-venture partner to the City of Gdańsk, Polnord was selected to develop 55,000 square meters of living space and commercial areas, hotels, and a museum, on a 26.5-thousand sqm site on the "Granary Island" on the Motława river. Polnord and Gdańsk agreed to take 51% and 49% stakes in the joint venture each, with the former contributing financing, and the latter bringing in the land. Polnord's total financial involvement is estimated at PLN 59m (a sum equivalent to the purchase price of the building site at PLN 1073 per square meter). We expect preliminary construction work to start in the second half of 2011. The project is a risky one, among others due to challenging soil conditions, but at the same time a lucrative one. In the current market, Polnord could not count on a gross margin much higher than 20%, but prices of real-estate in attractive locations are expected to increase from 2011 onward.

Profitability Estimates

According to our conservative estimates for the "Granary Island" project, the average selling price of the future residences could be PLN 8800 per square meter (prices in a Mill-Yon residential development in the southern part of the island range between PLN 6700 and 11,600, and prices in locations even further to the south range between PLN 6800 and 7500). Homes in northern locations are more expensive, ranging between PLN 6700 and 15,000 (most go for PLN 9000-12,000) per square meter. The building costs of the residential spaces are expected to reach PLN 5000 per sqm. Rental rates in commercial spaces are expected to be set at EUR 16/sqm (current asking rent in Gdańsk is EUR 15-16/sqm – location premiums are still uncommon in Gdańsk). The per-square meter costs of these spaces (offices and hotel spaces) are estimated at PLN 7000. We expect that rent in the retail spaces will be EUR 18.75/sqm. The museum will be sold to the city at cost

Profitability estimates

Type of space	Floor space (sqm)	Selling price per sqm	Construction costs per sqm	Gross margin	Sales revenue	COGS
Apartments	25 000	8 800	6 510	26.0%	220.0	162.7
Hotel	10 000	10 697	8 654	19.1%	107.0	86.5
Offices	10 000	10 697	8 654	19.1%	107.0	86.5
Other commercial	3 000	12 500	8 654	30.8%	37.5	26.0
Amber Museum	7 000	8 600	8 600	0.0%	60.2	60.2
Total				20.6%	531.6	422.0
Polnord's estimates				34.8%	690.0	450.0

Source: Polnord, BRE Bank Securities,

Sale of Office-Building Project

Polnord sold an office building project with an area of 20,400 sqm to Asseco Poland. At the time of the sale, Polnord had the designs and the building permit, and it had chosen the contractor. The price was very attractive at PLN 77.8m, or PLN 3800 per square meter. The book value of the site before revaluation was an estimated PLN 1100/sqm. The PLN 2710/sqm margin earned by Polnord is equivalent to margins obtainable on future office projects. The



sale allowed the company to free up cash that it can use to finance new office projects scheduled for a launch in September 2010 and Q1 2011.

Revaluation of Investment Land

Polnord performed revaluations of two land sites transferred from inventories to investment property in 2009, leading to an increase in their value (a PLN 21.9m increase for a site in central Sopot, and a PLN 59.9m increase for a site in Dopiewiec near Poznań). The Sopot site was revalued for purposes of a sale which fell through in the end, and the Dopiewiec site was remeasured after its legal status was cleared. However, since both sites are large and may not find buyers soon, we factor them in our estimates at their pre-revaluation values.

Land lots revalued in 2009

Location	Area (sqm)	Valuation	Value before remeasurement	Value / sqm	Value after remeasurement	Value / sqm
Sopot	28 047	21.9	25.0	891	46.9	1 672
Dopiewiec n/ Poznań	344 114	59.9	24.0	70	84.0	244

Source: Polnord, BRE Bank Securities,

Planned Projects

Housing Projects

Project	Floor space (square meters)	Ownership	City	Start	End	Selling price (per sqm)	Building costs (per sqm)	Gross margin
Srebrzysta Podkowa (Kowale)	1 322	100%	Gdańsk	Q1 2010	Q4 2010	4 500	3 032	32.6%
Rezydencja Łokietka	9 700	100%	Sopot	Q1 2010	Q3 2011	12 000	11 792	1.7%
Ostoja Wilanów S6	21 059	49%	Warszawa	Q1 2010	Q3 2011	6 750	4 749	29.6%
City Park S2	5 800	100%	Łódź	Q1 2010	Q3 2011	4 500	4 472	0.6%
Ku Słońcu S1	12 300	100%	Szczecin	Q1 2010	Q3 2011	4 500	4 074	9.5%
Dobry Dom S1	10 700	100%	Warszawa	Q1 2010	Q3 2011	6 950	4 545	34.6%
Osiedle Tęczowy Las S2 B3, B4	7 100	100%	Olsztyn	Q1 2010	Q3 2011	4 350	3 538	18.7%
Osiedle Jabłoniowa B1 & B2	7 300	50%	Gdańsk	Q2 2010	Q1 2012	4 650	3 527	24.2%
Osiedle Innova S1 & S3	20 200	49%	Wrocław	Q3 2010	Q1 2012	6 500	4 460	31.4%
Villa Botanica S1	12 700	49%	Warszawa	Q3 2010	Q1 2012	6 450	4 851	24.8%
Osiedle Myśliwska S1	8 200	100%	Gdańsk	Q3 2010	Q1 2012	5 350	3 992	25.4%
Galeon	5 100	100%	Gdańsk	Q4 2010	Q3 2012	8 600	5 987	30.4%
Ostoja Wilanów S5 P2	11 106	49%	Warszawa	Q4 2010	Q3 2012	6 750	4 987	26.1%
Dobry Dom S2	12 500	100%	Warszawa	Q4 2010	Q3 2012	6 950	4 778	31.2%
Osiedle Tęczowy Las S2 B1, B2	6 789	100%	Olsztyn	Q4 2010	Q3 2012	4 350	3 691	15.2%
City Park S3	6 000	100%	Łódź	Q4 2010	Q3 2012	4 500	4 677	-3.9%
Ostoja Wilanów S6 P2	9 756	49%	Warszawa	Q2 2011	Q1 2013	6 953	5 015	27.9%
Villa Botanica S2	16 903	49%	Warszawa	Q3 2011	Q2 2013	6 644	4 871	26.7%
Osiedle Innova S2 & S4, P1	21 478	49%	Wrocław	Q3 2011	Q2 2013	6 695	4 564	31.8%
Dobry Dom S3	12 235	100%	Warszawa	Q3 2011	Q2 2013	7 159	4 913	31.4%
Osiedle Myśliwska S2	5 347	100%	Gdańsk	Q3 2011	Q2 2013	5 511	4 095	25.7%
Osiedle Tęczowy Las S3	8 625	100%	Olsztyn	Q3 2011	Q2 2013	4 481	3 916	12.6%
Lublin S1	6 000	100%	Lublin	Q3 2011	Q2 2013	5 099	4 093	19.7%
Osiedle Jabłoniowa B3 i B4	10 000	50%	Gdańsk	Q3 2011	Q2 2013	4 790	3 685	23.1%
City Park S4	6 000	100%	Łódź	Q3 2011	Q2 2013	4 867	4 737	2.7%

Source: Forecasts by BRE Bank Securities based on Polnord data
S – stage, P = phase

**Commercial Projects**

Project	sqm	Ownership	City	Start	End	Rent (EUR/sqm)	Yield	Price / sqm	Cost / sqm	Gross margin
Pol-Aqua headquarters	7299	100.0%	Warszawa	Q4 2009	Q3 2011	75	7.5%	12 000	8 523	29.0%
Office building 'Kartuska'	1872	100.0%	Gdańsk	Q1 2010	Q2 2011	12	7.5%	7 488	6 003	19.8%
Wilanów Office Park B3	12700	100.0%	Warszawa	Q3 2010	Q2 2012	14.5	7.5%	9 048	7 450	17.7%
CH Wilanów	60000	50.0%	Warszawa	Q2 2011	Q2 2013	24.5	7.0%	16 380	10 541	35.6%
Wilanów Office Park B4	12000	100.0%	Warszawa	Q2 2011	Q1 2013	15	7.5%	9 360	7 639	18.4%

Source: Forecasts by BRE Bank Securities based on Polnord data

Earnings forecasts by project**2010 forecast (PLN m)**

Project	Revenue	Costs	Gross margin	Revaluation	CAPEX	Sale	Value change
Wilanowska V	8.1	5.8	28.2%				
Srebrzysta Podkowa – S1	3.3	2.7	19.1%				
Kamienica pod Wrzosem	5.6	4.6	18.9%				
Apartamenty Albatros	20.1	16.1	20.0%				
Osiedle Tęczowy Las I	11.1	8.9	20.1%				
Kryształ Wilanowa (lot #7/41)	35.1	30.7	12.5%				
City Park, S1, building 1	19.8	19.8	0.0%				
Wilanów Królewskie Przedmieście	18.7	13.6	27.0%				
Ostoja 2	14.8	11.2	24.2%				
Ostoja 3	52.1	39.5	24.2%				
Ostoja 4	48.9	37.0	24.4%				
Ostoja 5 P1	58.4	44.8	23.3%				
Leżena I	18.0	15.4	14.4%				
Leżena II	22.5	20.8	7.5%				
Budynek Asseco	77.8	50.1	35.6%			77.8	-50.1
Budynek Pol-Aqua				4.9	30.3		35.2
Biurowiec Kartuska				2.8	8.4		11.2
Wilanów Office Park B3				13.5	18.9		32.5
Total	414.2	320.8		21.2	57.6		28.8

Source: BRE Bank Securities; S = stage, P = phase

2011 forecast (PLN m)

Project	Revenue	Costs	Gross margin	Revaluation	CAPEX	Sale	Value change
Ostoja Wilanów S5 P1	6.8	5.2	23.3%				
Srebrzysta Podkowa (Kowale)	5.9	4.0	32.6%				
Rezydencja Łokietka	93.1	91.5	1.7%				
Ostoja Wilanów S6	55.7	39.2	29.6%				
City Park S2	20.9	20.8	0.6%				
Ku Słońcu S1	44.3	40.1	9.5%				
Dobry Dom S1	59.5	38.9	34.6%				
Osiedle Tęczowy Las S2 B3&B4	24.7	20.1	18.7%				
Budynek Pol-Aqua					20.7	87.6	-66.9
Biurowiec Kartuska					2.8	14.0	-11.2
Wilanów Office Park B3				4.9	52.0		57.0
CH Wilanów				87.6	94.9		182.5
Wilanów Office Park B4				10.3	27.5		37.8
Total	311.0	259.8		102.8	198.0	-101.6	199.2

Source: BRE Bank Securities; S = stage, P = phase

**2012 forecast (PLN m)**

Project	Revenue	Costs	Gross margin	Revaluation	CAPEX	Sale	Value change
Rezydencja Łokietka	233	229	17%				
Ostoja Wilanów S6	139	98	296%				
City Park S2	52	52	06%				
Ku Słońcu S1	111	100	95%				
Dobry Dom S1	149	97	346%				
Osiedle Tęczowy Las S2 B3&B4	62	50	187%				
Osiedle Jabłoniowa B1 & B2	170	129	242%				
Osiedle Innova S1 & S3	643	441	314%				
Villa Botanica S1	401	302	248%				
Osiedle Myśliwska S1	439	327	254%				
Galeon	351	244	304%				
Ostoja Wilanów S5 P2	294	217	261%				
Dobry Dom S2	695	478	312%				
Osiedle Tęczowy Las S2 B1&B2	236	200	152%				
City Park E3	216	224	-39%				
Wilanów Office Park B3					237	1149	-913
CH Wilanów				876	1423		2299
Wilanów Office Park B4				103	458		562
Total	4191	3190		979	2118	-1149	1948

Source: BRE Bank Securities

Housing stock expansion, sales forecasts

Period	Starting housing stock	Net sales	New projects	Ending stock	Sales / average housing stock
Q1 2010	979.0	129.0	547.0	1 397.0	10.9%
Q2 2010	1 397.0	244.5	137.0	1 289.5	17.5%
Q3 2010	1 289.5	251.5	588.0	1 626.1	19.5%
Q4 2010	1 626.1	349.6	582.0	1 858.5	21.5%
2010	979.0	974.5	1 854.0	1 858.5	69.4%
2011	1 858.5	1 523.9	1 404.5	1 739.0	82.0%
2012	1 739.0	1 656.9	2 270.0	2 352.1	81.0%

Source: BRE Bank Securities

New Projects Will Boost Sales

New housing projects, including those started in Q1 2010, are going to boost Polnord's sales, and change the structure of the housing stock to include fewer large flats for which there is little demand, and more smaller dwellings which sell much better. The ratio of pre-sold units to inventory is low for more upmarket, larger apartments (<10% per quarter, suggesting that the total stock of these units sells in 2.5 years), and much higher for small affordable flats (exceeding 25%, which suggests that these projects sell in less than one year).

Valuation

Using relative valuation and DCF analysis, we set a price target of PLN 52.6/share on Polnord stock. The target is 34.1% higher than the current price, prompting a buy rating.

Valuation Summary

	Value per share	Weight
DCF Analysis	48,4	90%
Relative Valuation	51,9	10%
Average	48,8	
Cost of equity (9M)	7,8%	
Target Price	52,6	

Source: Polnord, BRE Bank Securities,

Relative Valuation

We assign a weight of just 10% to relative valuation because of limited comparability. The financial crisis delayed the building cycles of most developers. Some, like J.W. Construction, have many home deliveries scheduled for 2010, and can therefore look forward to strong earnings and low price multiples. Others, like Polnord, are selling the last of their housing stocks this year. Dom Development will report a surge in core profits in 2011, and JWC and Polnord will also grow earnings thanks to revaluations of new commercial projects. EV/EBITDA multiples are also incomparable - Polnord's building schedule (including a shopping center in Warsaw) will keep its cash resources low until 2013 (FY2013E EV/EBITDA = 5.2).

Limited comparability also pertains to P/BV ratios, The ratios estimated for Polnord are the lowest as a result of land revaluations performed in 2009 (PLN 81.8m), and goodwill recognized on the balance sheet (PLN 140.0m) on the one hand, and because the book value of its road development sites is shown to be zero, meanwhile we estimate these assets at PLN 167.3m. In turn, JWC has high P/BV multiples stemming from a large housing stock (ca. 3.3 thousand units). The high P/BV ratio of Dom Development stems from surplus liquidity.

Valuation Summary

	2010F P/BV	2011F P/BV	2012F P/BV	2010F P/E	2011F P/E	2012F P/E	2010F EV/EBITDA	2011F EV/EBITDA	2012F EV/EBITDA
Dom Development	1.78	1.65	1.51	52.5	16.4	11.1	37.4	12.8	7.9
J.W. Construction	1.50	1.27	1.09	5.8	8.3	7.4	6.4	10.0	6.9
Median	1.50	1.27	1.09	5.8	8.3	7.4	6.4	10.0	6.9
Polnord	0.75	0.71	0.68	24.2	12.5	9.0	20.1	14.5	8.4
Premium (discount)	-50.3%	-44.7%	-38.0%	317.5%	50.0%	21.3%	214.5%	44.8%	22.3%
Multiple weight	15.0%	15.0%	15.0%	0.0%	10.0%	20.0%	0.0%	10.0%	15.0%
Value	11.9	10.7	9.5	0.0	2.6	6.5	0.0	4.7	6.0

Source: BRE Bank Securities

DCF Analysis

DCF model assumptions:

- Home prices are lower than market prices depending on location and stage of construction.
- Building costs increase by 7% in H2 2010 and by 3% in subsequent years.
- Home prices grow at 3% a year starting in 2012.
- Risk-free rate = 5.55% (10Y T-bond yield).
- Commercial projects will be sold in the year they are completed.
- Working-capital ratios are the same for all developers in 2015 and beyond.
- LTV for investment work in progress and housing projects in progress is less than 60%.
- Conservative assumptions with respect to the shopping-center project developed jointly with GTC (rent assumed to be 20% lower than in the existing "Galeria Mokotów" shopping center, building costs = EUR 2200/sqm, GTC and Polnord have 50% stakes each in the profit margins).
- The valuation takes into account Polnord's investment land in Sopot and Dopiewiec in their pre-revaluation values.
- The valuation does not factor in Polnord's land holdings zoned for roads with zero book values. Proceeds from their sales are a potential value-enhancing factor.



DCF Valuation Model

(PLN m)	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2019+
Revenue	414.2	311.0	419.1	735.0	768.1	801.9	835.5	867.3	897.7	929.1	
change	87.2%	-24.9%	34.8%	75.4%	4.5%	4.4%	4.2%	3.8%	3.5%	3.5%	
EBITDA	64.4	104.2	146.3	111.4	116.3	121.3	126.4	131.1	135.6	140.3	
EBITDA margin	15.6%	33.5%	34.9%	15.2%	15.1%	15.1%	15.1%	15.1%	15.1%	15.1%	
D&A expenses	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	
EBIT	62.5	102.3	144.5	109.5	114.4	119.5	124.5	129.2	133.7	138.4	
EBIT margin	15.1%	32.9%	34.5%	14.9%	14.9%	14.9%	14.9%	14.9%	14.9%	14.9%	
Tax rate on EBIT	11.9	19.4	27.4	20.8	21.7	22.7	23.6	24.5	25.4	26.3	
NOPLAT	50.6	82.8	117.0	88.7	92.7	96.8	100.8	104.7	108.3	112.1	
CAPEX	-9.4	-98.2	-98.8	504.4	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	
Working capital	239.6	-72.2	363.2	-21.3	106.2	67.7	-24.1	-22.9	-22.6	-22.0	
Other	-21.2	-102.8	-97.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCF	261.5	-188.5	285.4	573.8	198.9	164.4	76.7	81.8	85.7	90.1	92.8
WACC	9.0%	8.2%	9.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	
discount factor	93.7%	86.6%	79.0%	71.5%	64.6%	58.5%	52.9%	47.8%	43.3%	39.1%	
PV FCF	245.1	-163.3	225.5	410.0	128.6	96.1	40.6	39.1	37.1	35.3	
WACC	9.0%	8.2%	9.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	
Cost of debt	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	
Risk-free rate	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	
Credit risk premium	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	
Net debt / EV	34%	51%	20%	0%	0%	0%	0%	0%	0%	0%	
Cost of Equity	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	
Risk premium	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	
FCF growth after the forecast horizon		3.0%									
Terminal value		1 229.6									
Present value of the terminal value (PV TV)		481.3									
Present value of FCF in the forecast horizon		1 094.0									
Enterprise value (EV)		1 575.4									
Net debt		670.3									
Investment land **		216.3									
Discounted debt-to-equity conversion income		96.5									
Equity value		1 217.8									
Number of shares (millions) *		25.1									
Equity value per share (PLN)		48.5									
Cost of equity (9M)		7.8%									
Target Price		52.3									
EV/EBITDA('09) for the target price		11.4									
P/E('09) for the target price		19.1									
TV to EV		31%									

Sensitivity Analysis

FCF growth in perpetuity

	2.0%	2.5%	3.0%	3.5%	4.0%
WACC -1.0ppt	49.9	51.2	52.6	54.2	56.1
WACC -0.5ppt	49.8	51.1	52.5	54.1	55.9
WACC	49.7	50.9	52.3	53.9	55.8
WACC +0.5ppt	49.6	50.8	52.2	53.8	55.6
WACC +1.0ppt	49.5	50.7	52.1	53.7	55.5

*adjusted for an expected 2012 dilution as a result of bond conversion; ** PLN 167.3m in road-development land, PLN 49m in pre-revaluation land lots in Sopot and Dopiewiec

**Income Statement**

(PLN m)	2006	2007	2008	2009	2010F	2011F	2012F
Revenue	59.5	131.5	391.1	221.3	414.2	311.0	419.1
<i>change</i>	-83.7%	121.2%	197.4%	-43.4%	87.2%	-24.9%	34.8%
COGS	45.4	93.2	223.7	178.0	321.9	259.8	319.0
Gross profit	14.0	38.3	167.3	43.3	92.3	51.2	100.1
<i>gross margin</i>	23.6%	29.1%	42.8%	19.6%	22.3%	16.5%	23.9%
Selling costs	0.0	-0.4	-7.7	-3.6	-4.0	-4.1	-4.2
General and administrative expenses	-4.4	-36.0	-52.1	-52.9	-46.0	-46.9	-48.3
Other net operating income	-6.3	29.5	-0.9	118.1	20.2	102.1	96.9
EBIT	3.3	31.4	106.7	104.9	62.5	102.3	144.5
<i>change</i>	-103.9%	839.8%	239.8%	-1.7%	-40.4%	63.6%	41.2%
<i>EBIT margin</i>	5.6%	23.9%	27.3%	47.4%	15.1%	32.9%	34.5%
Profit/loss on financial activity	-8.9	2.3	-6.5	-18.9	-18.2	-16.5	-9.2
Extraordinary gains/losses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax income	-5.6	33.6	100.2	86.0	44.4	85.7	135.2
Tax	12.8	-5.6	-20.9	-21.3	-8.4	-16.3	-25.7
Minority interests	-43.4	70.8	-1.4	-1.0	0.0	0.0	0.0
Net income	7.2	98.8	77.8	63.6	35.9	69.5	109.5
<i>change</i>	-	-372.0%	-21.2%	-18.2%	-43.5%	93.3%	57.7%
<i>margin</i>	12.2%	75.1%	19.9%	28.8%	8.7%	22.3%	26.1%
D&A expenses	2.5	1.6	2.0	2.0	1.9	1.9	1.9
EBITDA	5.8	33.0	108.7	106.9	64.4	104.2	146.3
<i>change</i>	-107.1%	468.9%	229.0%	-1.6%	-39.8%	61.7%	40.5%
<i>EBITDA margin</i>	9.8%	25.1%	27.8%	48.3%	15.6%	33.5%	34.9%
Shares at year-end (millions)	7.0	14.1	18.1	22.1	22.1	22.1	25.1
EPS	1.0	7.0	4.3	2.9	1.6	3.1	4.4
CEPS	1.4	7.1	4.4	3.0	1.7	3.2	4.4
ROAE	37.2%	22.1%	8.9%	6.2%	3.1%	5.8%	8.1%
ROAA	1.9%	11.0%	5.1%	3.3%	1.8%	3.4%	4.9%

**Balance Sheet**

(PLN m)	2006	2007	2008	2009	2010F	2011F	2012F
ASSETS	540.7	1 252.9	1 807.8	2 022.5	1 873.6	2 192.8	2 309.7
Fixed assets	201.0	223.4	298.3	478.0	510.8	724.2	933.7
Intangible assets	0.1	0.2	0.4	0.3	0.3	0.3	0.3
Equity value	117.8	146.4	140.0	140.0	140.0	140.0	140.0
Property, plant and equipment	34.9	16.4	17.7	16.8	16.8	16.8	16.8
Long-term investments	12.4	31.7	115.5	293.4	322.1	521.3	716.1
Other	35.9	28.7	24.8	27.6	31.6	45.8	60.6
Current assets	339.7	1 029.5	1 509.5	1 544.5	1 362.7	1 468.6	1 375.9
Inventories	147.4	884.8	1 343.7	1 300.6	1 104.9	1 156.7	789.2
Receivables	137.5	85.4	69.4	63.3	39.7	29.8	45.9
Short-term prepayments	0.9	1.7	12.9	15.4	15.4	15.4	0.0
Cash and cash equivalents	54.0	32.7	31.2	59.1	96.8	160.7	434.8
Other	0.0	25.0	52.3	106.0	106.0	106.0	106.0
(PLN m)	2006	2007	2008	2009	2010F	2011F	2012F
LIABILITIES	540.7	1 252.9	1 807.8	2 022.5	1 873.6	2 192.8	2 309.7
Equity	86.2	807.6	937.5	1 126.7	1 162.6	1 232.1	1 462.1
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term liabilities	78.1	208.5	509.9	449.1	569.6	849.6	729.1
Loans, financial leases	55.7	176.9	486.7	403.9	524.4	804.4	683.9
Provisions	22.4	31.7	23.2	45.2	45.2	45.2	45.2
Short-term liabilities	376.4	236.8	360.5	446.7	141.4	111.1	118.5
Loans and other debt	165.4	144.0	130.9	325.6	0.0	0.0	0.0
Trade creditors	164.1	76.9	196.1	81.2	101.4	71.2	83.0
Other	46.9	15.9	33.5	40.0	40.0	40.0	35.5
Debt	221.1	320.9	617.6	729.5	524.4	804.4	683.9
Net debt	167.1	288.2	586.4	670.3	427.6	643.7	249.1
(Net debt / Equity)	194.0%	35.7%	62.6%	59.5%	36.8%	52.2%	17.0%
(Net debt / EBITDA)	28.8	8.7	5.4	6.3	6.6	6.2	1.7
BVPS	12.3	57.2	51.8	51.0	52.6	55.7	58.2

**Cash Flows**

(PLN m)	2006	2007	2008	2009	2010F	2011F	2012F
Cash flows from Operating Activities	-87.4	-182.8	-252.5	-86.4	270.3	-101.3	382.1
Net income	-36.3	98.8	77.8	63.6	35.9	69.5	109.5
D&A expenses	2.5	1.6	2.0	2.0	1.9	1.9	1.9
Working capital	-17.4	-174.1	-323.4	-66.2	239.6	-72.2	363.2
Other	-36.1	-109.1	-8.9	-85.9	-7.1	-100.5	-92.5
Cash flows from investing activities	9.3	-19.4	-35.2	-37.6	-9.4	-98.2	-98.8
CAPEX	2.3	-2.5	-3.3	-0.3	-9.4	-98.2	-98.8
Equity investments	7.4	-12.4	3.2	-8.8	0.0	0.0	0.0
Other	-0.4	-4.5	-35.2	-28.4	0.0	0.0	0.0
Cash flows from financing activities	114.3	180.9	286.2	152.0	-223.2	263.5	-9.2
Stock offering	48.4	0.0	0.0	77.7	0.0	0.0	120.5
Debt	68.6	190.5	294.9	-46.5	-205.1	280.0	-120.5
Dividends (buyback)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	-2.7	-9.6	15.0	155.8	0.0	0.0	0.0
Change in cash	36.2	-21.3	-1.6	28.0	37.6	63.9	274.1
Cash at end of period	54.0	32.7	31.2	59.1	96.8	160.7	434.8
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF				0.0	261.5	-188.5	285.4
(CAPEX / Sales)	-3.9%	1.9%	0.8%	0.2%	2.3%	31.6%	23.6%

Market multiples

	2006	2007	2008	2009	2010F	2011F	2012F
P/E	38.0	5.6	9.1	13.7	24.2	12.5	9.0
P/CE	28.3	5.5	8.9	13.2	23.0	12.2	8.9
P/BV	3.2	0.7	0.8	0.8	0.7	0.7	0.7
P/S	4.6	4.2	1.8	3.9	2.1	2.8	2.4
FCF/EV	0.0%	0.0%	0.0%	0.0%	20.2%	-12.5%	23.1%
EV/EBITDA	76.2	25.5	11.9	14.4	20.1	14.5	8.4
EV/EBIT	132.5	26.9	12.2	14.7	20.7	14.8	8.6
EV/S	7.4	6.4	3.3	7.0	3.1	4.9	2.9
DYield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Price (PLN)	39.3						
Shares at year-end (millions)	7.0	14.1	18.1	22.1	22.1	22.1	25.1
MC (PLN m)	275.3	554.8	711.7	868.8	868.8	868.8	987.1
Equity attributable to minority shareholders (PLN m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV (PLN m)	442.4	843.0	1 298.1	1 539.1	1 296.4	1 512.5	1 236.2



Michał Marczak tel. (+48 22) 697 47 38
Managing Director
Head of Research
michal.marczak@dibre.com.pl
Strategy, Telco, Mining, Metals, Media

Research Department:

Marta Jeżewska tel. (+48 22) 697 47 37
Deputy Director
marta.jezewska@dibre.com.pl
Banks

Analysts:

Kamil Kliszcz tel. (+48 22) 697 47 06
kamil.kliszcz@dibre.com.pl
Fuels, Chemicals, Energy, Retail

Piotr Grzybowski tel. (+48 22) 697 47 17
piotr.grzybowski@dibre.com.pl
IT, Media

Maciej Stokłosa tel. (+48 22) 697 47 41
maciej.stoklosa@dibre.com.pl
Construction, Real-Estate Developers

Jakub Szkopek tel. (+48 22) 697 47 40
jakub.szkopek@dibre.com.pl
Manufacturers

Sales and Trading:

Piotr Dudziński tel. (+48 22) 697 48 22
Director
piotr.dudzinski@dibre.com.pl

Marzena Łempicka-Wilim tel. (+48 22) 697 48 95
Deputy Director
marzena.lempicka@dibre.com.pl

Traders:

Emil Onyszczyk tel. (+48 22) 697 49 63
emil.onyszczyk@dibre.com.pl

Grzegorz Stępień tel. (+48 22) 697 48 62
grzegorz.stepien@dibre.com.pl

Tomasz Dudź tel. (+48 22) 697 49 68
tomasz.dudz@dibre.com.pl

Michał Jakubowski tel. (+48 22) 697 47 44
michal.jakubowski@dibre.com.pl

Tomasz Jakubiec tel. (+48 22) 697 47 31
tomasz.jakubiec@dibre.com.pl

Grzegorz Strublewski tel. (+48 22) 697 48 76
grzegorz.strublewski@dibre.com.pl

"Private Broker"

Jacek Szczepański tel. (+48 22) 697 48 26
Director
jacek.szczepanski@dibre.com.pl

Paweł Szczepaniak tel. (+48 22) 697 49 47
Sales
pawel.szczepanik@dibre.com.pl

Dom Inwestycyjny
BRE Banku S.A.
ul. Wspólna 47/49
00-950 Warszawa
www.dibre.com.pl

**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
MC/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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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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**Previous ratings issued for Dom Development**

Rating	Suspended	Accumulate	Accumulate	Buy	Hold
Rating date	2009-09-04	2009-09-28	2009-11-05	2010-02-03	2010-03-05
Price on rating day	42.70	44.59	44.00	41.40	51.00
WIG on rating day	36009.43	38214.58	38148.50	39904.02	39885.37

Previous ratings issued for J.W. Construction

Rating	Suspended	Buy	Accumulate	Buy	Hold
Rating date	2009-09-04	2009-09-28	2009-11-12	2009-12-02	2010-04-07
Price on rating day	12.00	11.66	12.26	11.26	15.80
WIG on rating day	36009.43	38214.58	39879.92	39905.57	43562.01

Previous ratings issued for Polnord

Rating	Suspended	Buy	Buy
Rating date	2009-09-04	2009-09-28	2009-12-15
Price on rating day	45.00	37.43	31.77
WIG on rating day	36009.43	38214.58	39769.97