

4 March 2008

Update


Real Estate Development
 Poland

Current price	PLN 82.0
Target price	PLN 103.6
Market cap	PLN 1.9bn
Free float	PLN 0.4bn
Avg daily trading volume (3M)	PLN 3.63m

Shareholder Structure

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

Sector Outlook

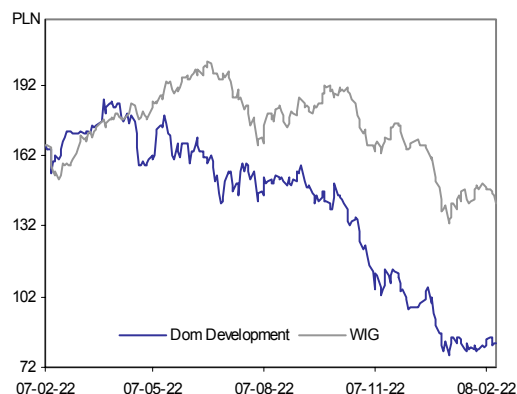
Property developers have enjoyed spectacular growth on the back of soaring home prices. And they are not about to slow down, generating equally impressive growth on large volumes, at margins hovering around 20%.

Company Profile

DD is one of Poland's two top developers, It is expected to build 4000 dwellings next year. DD focuses on affordable and high-end homes, and its core market is Warsaw.. The main arguments supporting our recommendation are: strong competitive position, earnings growth, and a clear strategy.

Important dates:

12.05 - Q1 report

Dom Development vs. WIG

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Dom Development

DOM.WA; DOM.PW

Buy

Reiterated

No Great Expectations for H1

Dom Development's ("DD") sales figures for Q407 were a disappointment, suggesting that, as of 31 December 2007, the company had sold only 150 apartments in forward sale agreements, with the resulting revenues approximating a meager PLN 60m. This means that, going forward, DD's earnings performance will depend on the pace of sales (and not the pace of construction like in the case of its main rival, JWC). We lowered our 2008 sales forecast for Dom Development from 3000 to 2,500 dwellings, in line with the company's own projections. Despite this revision, and despite an expected decline in earnings versus 2007, we think that Dom Development is worth more than its current market value. For 2009, we project that the company will complete 4,400, and sell 3,200 dwellings.

Housing Market

The housing market is slowly recovering from the slump witnessed in Q407. We stand by our opinion that home prices in 2008 will follow a flat-to-downward trend. Demand for homes remains strong, and the borrowing capacity of the Polish population is increasing on the back of double-digit salary growth. In the rental property market, the situation will be favorable for developers thanks to rising rental rates. Further, the appreciation of the euro against the dollar will encourage Polish emigrants to come back and settle in their own homes (after accession to the EU, Ireland experienced a similar outpour, and then mass return, of its citizens).

Price Variations Do Not Affect Demand

The number of home sale deals will increase from quarter to quarter in 2008, and developers are likely to see year-over-year improvement in Q308.

The recent dip in prices was brought about by small developers selling out their stock. Larger, more experienced developers who survived the 2002/03 crises know that a price war does not fuel sales, and keep their prices steady. Price cuts only foster expectations of even more cuts, and delay the activation of demand, while price hikes have an opposite effect, as we have observed in the last two months.

(PLN m)	2006	2007F	2008F	2009F
Revenues	729.8	878.8	951.0	1370.0
EBITDA	127.7	243.5	199.7	229.5
<i>EBITDA margin</i>	17.5%	27.7%	21.0%	16.7%
EBIT	126.1	241.0	197.8	227.4
Net profit	115.9	200.6	157.7	184.0
DPS	0.00	0.00	1.23	2.12
P/E	24.4	10.0	12.8	10.9
P/CE	24.0	9.9	12.6	10.8
P/BV	5.7	2.9	2.4	2.1
EV/EBITDA	11.8	11.8	10.3	8.5
DYield	0.0%	0.0%	1.1%	1.8%



FY2008-10 Forecast Assumptions

Dom Development operates primarily in Warsaw. For purposes of our financial projections, we analyzed all of the company's projects scheduled for completion before 2010, and assumed that 1000 more dwellings will be added to the pipeline before the end of 2010.

The table below shows our forecasts concerning home completions and sales (in thousands of square meters of floor space).

	2008	2009	2010
Completions			
'000 sqm	163.4	268.5	205.6
Sales			
Dwellings	2525	3150	3180
'000 sqm	148.7	182.1	183.5

Source: BRE Bank Securities

Performance After 2011

Dom Development has over 8000 dwellings in the pipeline, in developments for which a kickoff date has been set. In addition, the company's land bank can be developed into a further 9,500 homes. Of this, we assume that 1000 homes will be completed in 2010, and more in the following years.

In our forecasts for the years after 2011, we assumed that the number of dwellings sold each year will be the same as in 2010, with their prices rising 3% annually.

Housing Prices

We maintain that prices in 2008 and 2009 will display an average flat trend (slight downward pressure in 2008 and slight upward pressure in 2009). Starting in 2010, prices will be increasing by 7%-10% a year on average (refer to our September and December Research for more details). As for the prices of homes in DD's different developments, we estimated them on a case-by-case basis based on factors such as location, size, view, etc. We estimate that apartments in Warsaw's Białołęka district cost approximately PLN 6,000-6,500 per square meter, dwellings in districts like Wola and Ursynów are PLN 1,000-2,000 more expensive, and prices in downtown Warsaw range from PLN 10,000 to PLN 30,000 in developments like "Opera 2."

Living Space

Dom Development does not disclose the size of the dwellings it puts up for sale in its various projects. We assume that affordable apartments are 60 square meters on average, while higher-end dwellings are 70-100 square meters big.

**Projects scheduled for completion in 2008-2010**

Project	District	Standard	Dwellings	Size (sqm)*	Living Space	Price per sqm*
Derby15	Białołęka	affordable	277	60	16620	6
Olbrachta 1, 2	Wola	affordable	448	60	26880	7
Olimpia 2 (stage 5)	Białołęka	affordable	63	58	3654	6.5
Regaty (st. 1 and 2)	Białołęka	affordable	390	60	23400	6
Derby 17	Białołęka	affordable	185	60	11100	6
Derby 13	Białołęka	affordable	174	60	10440	6
Derby 18	Białołęka	affordable	82	60	4920	6
Róża Wiatrów	Targówek	affordable	184	60	11040	6.2
Bruna	Mokotów	high end	247	80	19760	10
Zawiszy 1, 2	Wola	high end	355	70	24850	7
Grzybowska	Śródmieście	high end	287	100	28700	17
Olimpia 2 (st. 4)	Ursynów	affordable	282	60	16920	7.5
Derby 7 (st. 1)	Białołęka	affordable	127	60	7620	6
Patria 1, 2	Śródmieście	high end	242	80	19360	20
Gdański	Śródmieście	high end	260	80	20800	15
Regaty 3-6	Białołęka	affordable	678	60	40680	6.2
Akacje 11	Białołęka	affordable	77	60	4620	6.2
Laguna 2	Ursynów	houses	26	200	5200	6.2
Regaty 2 (st. 1)	Białołęka	houses	88	200	17600	5.2
Derby 9	Białołęka	affordable	192	60	11520	6.3
Derby 16	Białołęka	affordable	234	60	14040	6.3
Winnica 1	Białołęka	affordable	840	60	50400	6.3
Górczewska	Wola	affordable	355	65	23075	8
Derby 20	Białołęka	affordable	52	60	3120	6.3
Wrocław Nyska	Krzyki	affordable	490	60	29400	6.5
Klasyków	Białołęka	affordable	543	60	32580	6.4
Opera 2	Śródmieście	high end	11	150	1650	30
Derby 11	Białołęka	affordable	148	60	8880	6.5
Derby 14	Białołęka	affordable	696	60	41760	6.5
Jugosłowiańska	Praga Płd	affordable	717	60	43020	7
Regaty 2 (st. 1)	Białołęka	affordable	196	60	11760	6.6
Winnica 2 (st. 1)	Białołęka	affordable	125	60	7500	6.6
Goćław	Praga Płd	affordable	1596	60	95760	7.7
Józefosław	Piaseczno	houses	86	200	17200	6
OTHER 2010			1000	60	60000	7

Source: Dom Development; *Estimates by BRE Bank Securities

Completion, Sales Forecasts

The table below shows our forecasts concerning the pace of home completions and sales by Dom Development. We assume that it takes on average six quarters to build an affordable home, and seven weeks to complete a high-end apartment. The construction of a house lasts four quarters, but it takes longer to sell (over half of all houses are sold after they are complete and ready to move in). We also take into account seasonality factors, and assume that construction work goes twice as fast in the second and third quarter as it does in the fourth and first quarter of the year.

**Completions, Sales**

Project	District	Percentage of Completion			Percentage Sold		
		2008	2009	2010	2008	2009	2010
Derby15	Białołęka	100%	100%	100%	100%	100%	100%
Olbrachta 1 i 2	Wola	100%	100%	100%	98%	100%	100%
Olimpia 2 faza 5	Białołęka	100%	100%	100%	100%	100%	100%
Regaty etap 1 i 2	Białołęka	100%	100%	100%	98%	100%	100%
Derby 17	Białołęka	100%	100%	100%	100%	100%	100%
Derby 13	Białołęka	63%	100%	100%	48%	87%	100%
Derby 18	Białołęka	70%	100%	100%	89%	100%	100%
Róża Wiatrów	Targówek	38%	100%	100%	69%	99%	100%
Bruna	Mokotów	100%	100%	100%	100%	100%	100%
Zawiszy 1 i 2	Wola	100%	100%	100%	100%	100%	100%
Grzybowska	Śródmieście	21%	71%	100%	30%	75%	95%
Olimpia 2 faza 4	Ursynów	100%	100%	100%	100%	100%	100%
Derby 7 faza 1	Białołęka	100%	100%	100%	98%	100%	100%
Patria 1 i 2	Śródmieście	100%	100%	100%	100%	100%	100%
Gdański	Śródmieście	100%	100%	100%	100%	100%	100%
Regaty 3-6	Białołęka	57%	100%	100%	63%	86%	100%
Akacje 11	Białołęka	57%	100%	100%	63%	95%	100%
Laguna 2	Ursynów	33%	100%	100%	38%	75%	100%
Regaty 2 etap 1	Białołęka	33%	100%	100%	38%	75%	100%
Derby 9	Białołęka	40%	100%	100%	43%	85%	100%
Derby 16	Białołęka	40%	100%	100%	43%	85%	100%
Winnica 1	Białołęka	40%	100%	100%	43%	85%	100%
Górczewska	Wola	40%	100%	100%	43%	85%	100%
Derby 20	Białołęka	22%	83%	100%	18%	66%	100%
Wrocław Nyska	Krzyki	22%	83%	100%	15%	66%	96%
Klasyków	Białołęka	50%	67%	100%	3%	60%	98%
Opera 2	Śródmieście	19%	71%	100%	3%	60%	98%
Derby 11	Białołęka	0%	50%	100%	0%	37%	87%
Derby 14	Białołęka	0%	50%	100%	0%	37%	87%
Jugosławińska	Praga Półd	0%	50%	100%	0%	37%	87%
Regaty 2 etap 1	Białołęka	0%	33%	100%	0%	27%	80%
Winnica 2 faza 1	Białołęka	0%	33%	100%	0%	27%	80%
Goław	Praga Półd	0%	33%	100%	0%	27%	80%
Józefosław	Piaseczno	0%	0%	100%	0%	10%	40%
OTHER 2010		0%	33%	100%	0%	27%	80%

Source: BRE Bank Securities



DCF Valuation

(PLN m)	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2017+
Revenue	951	1 370	1 855	1 911	1 968	2 027	2 088	2 150	2 215	2 281	2 350
change	8.2%	44.1%	35.4%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
EBITDA	199.7	229.5	275.5	282.1	292.1	302.3	312.7	323.8	335.2	347.0	357.4
EBITDA margin	21.0%	16.7%	14.9%	14.8%	14.8%	14.9%	15.0%	15.1%	15.1%	15.2%	15.2%
Amortization and depreciation	1.9	2.1	2.3	2.5	2.7	3.0	3.3	3.5	3.8	4.2	4.3
EBIT	197.8	227.4	273.2	279.5	289.3	299.3	309.5	320.3	331.4	342.9	353.1
EBIT margin	20.8%	16.6%	14.7%	14.6%	14.7%	14.8%	14.8%	14.9%	15.0%	15.0%	15.0%
Tax rate on EBIT	37.6	43.2	51.9	53.1	55.0	56.9	58.8	60.9	63.0	65.1	67.1
NOPLAT	160.2	184.2	221.3	226.4	234.3	242.4	250.7	259.4	268.4	277.7	286.0
CAPEX	-0.2	-2.3	-2.4	-2.6	-2.8	-3.0	-3.3	-3.6	-3.8	-4.2	-4.3
Working capital	-58.0	37.9	60.5	-38.2	-39.6	-31.8	-12.2	-29.2	-34.0	-30.0	-30.9
Capital investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	103.9	221.9	281.7	188.1	194.6	210.6	238.5	230.2	234.4	247.7	3 096.4
WACC	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
discount factor	91.6%	82.5%	74.3%	67.0%	60.3%	54.4%	49.0%	44.1%	39.7%	35.8%	35.8%
PV FCF	95.2	183.1	209.5	126.0	117.4	114.5	116.8	101.6	93.2	88.7	1 108.8
WACC	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Cost of debt	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Risk-free rate	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Net debt / EV	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of equity	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
FCF growth after the forecast horizon	3.0% Sensitivity Analysis										
Terminal value	3 096.4										
Discounted terminal value (PV TV)	1 108.8										
Discounted FCF in the forecast horizon	1 245.9										
Equity value (EV)	2 354.7										
Net debt	3.3										
Minority interests	0.0										
Equity value	2 351.4										
Number of shares (millions)	24.6										
Equity value per share (PLN)	95.7										
Cost of equity (9M)	8.1%										
Target Price	103.6										
EV/EBITDA('07) for the target price	11.8										
P/E('07) for the target price	12.7										
TV to EV	47%										

**Income Statement**

(PLN m)	2005	2006	2007	2008F	2009F	2010F
Revenue	341.8	729.8	878.8	951.0	1 370.0	1 855.0
<i>change</i>		113.5%	20.4%	8.2%	44.1%	35.4%
Cost of sales	248.4	496.9	545.7	684.7	1 065.9	1 502.6
Gross profit	93.4	232.9	333.1	266.3	304.1	352.5
<i>Gross profit margin</i>	27.3%	31.9%	37.9%	28.0%	22.2%	19.0%
Selling costs	31.9	21.7	22.4	23.7	24.9	26.1
SG&A expenses	21.6	41.3	57.7	52.2	53.8	55.4
Other net operating profit	-6.4	-4.8	-12.1	0.0	0.0	0.0
EBIT	40.6	126.1	241.0	197.8	227.4	273.2
<i>change</i>		210.8%	91.1%	-17.9%	15.0%	20.2%
<i>EBIT margin</i>	11.9%	17.3%	27.4%	20.8%	16.6%	14.7%
Profit on financing activity	-8.0	15.0	9.4	-3.1	-0.2	9.6
Extraordinary gains/losses	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax income	32.6	141.1	250.4	194.7	227.2	282.8
Tax	6.7	25.2	49.7	37.0	43.2	53.7
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	25.9	115.9	200.6	157.7	184.0	229.1
<i>change</i>		347.7%	73.1%	-21.4%	16.7%	24.5%
<i>margin</i>	7.6%	15.9%	22.8%	16.6%	13.4%	12.3%
Amortization and depreciation	1.8	1.6	2.5	1.9	2.1	2.3
EBITDA	42.3	127.7	243.5	199.7	229.5	275.5
<i>change</i>		201.7%	90.7%	-18.0%	14.9%	20.1%
<i>EBITDA margin</i>	12.4%	17.5%	27.7%	21.0%	16.7%	14.9%
Shares at year-end (millions)	-	24.6	24.6	24.6	24.6	24.6
EPS	-	4.7	8.2	6.4	7.5	9.3
CEPS	-	4.8	8.3	6.5	7.6	9.4
ROAE	4.4%	12.5%	16.0%	10.0%	12.3%	13.4%
ROAA	30.1%	23.6%	28.8%	19.2%	19.3%	20.4%

**Balance Sheet**

(PLN m)	2005	2006	2007	2008F	2009F	2010F
ASSETS	586.4	923.9	1 252.1	1 576.7	1 491.1	1 715.6
Fixed assets	20.2	17.0	21.9	22.1	22.2	22.4
Property, plant and equipment	7.3	5.5	6.5	19.9	19.6	19.2
Intangible assets	0.4	0.7	0.7	2.2	2.7	3.2
Long-term receivables	0.9	1.5	1.6	0.0	0.0	0.0
Other fixed assets	11.6	9.3	13.1	0.0	0.0	0.0
Current assets	566.2	906.9	1 230.2	1 554.6	1 468.9	1 693.2
Inventories	396.7	594.9	862.4	944.8	759.2	759.5
Short-term receivables	43.4	60.8	65.9	36.9	63.6	50.2
Other current assets	52.3	23.7	23.7	25.0	25.0	25.0
Cash and cash equivalents	73.8	227.5	275.5	548.0	621.1	858.5
LIABILITIES	539.1	923.9	1 252.1	1 576.7	1 491.1	1 715.6
Equity	86.1	491.9	696.1	823.2	955.2	1 123.6
Share capital	21.9	24.1	24.1	24.1	24.1	24.1
Other equity	111.6	467.8	671.6	769.1	879.1	1 038.8
Long-term liabilities	166.9	154.8	330.4	463.6	96.7	80.2
Loans	128.3	102.2	241.8	374.9	30.0	30.0
Other	38.5	52.6	88.6	88.6	66.7	50.2
Short-term liabilities	286.1	277.2	225.5	289.9	439.2	511.8
Loans	107.0	98.9	37.0	66.2	120.0	240.0
Trade creditors	132.3	140.8	121.0	140.3	248.5	201.1
Prepayments	37.9	30.2	49.0	64.9	52.2	52.2
Other	8.8	7.3	18.5	18.5	18.5	18.5
Debt	235.4	201.1	278.8	441.1	150.0	270.0
Net debt	161.5	-26.4	3.3	-106.9	-471.1	-588.5
(Net debt / Equity)	187.7%	-5.4%	0.5%	-13.0%	-49.3%	-52.4%
(Net debt / EBITDA)	3.8	-0.2	0.0	-0.5	-2.1	-2.1
BVPS	-	20.0	28.3	33.5	38.9	45.7

**Cash Flows**

(PLN m)	2005	2006	2007	2008F	2009F	2010F
Cash flows from operating activities	-15.2	-12.6	-22.3	140.2	418.4	180.6
Net profit	25.9	115.9	200.6	157.7	184.0	229.1
Amortization and depreciation	1.8	1.6	2.5	1.9	2.1	2.3
Working capital	-223.0	-203.5	-245.3	-58.0	37.9	60.5
Other	180.2	73.4	19.8	38.6	194.5	-111.3
Cash flows from investing activities	7.0	0.0	-3.6	-0.2	-2.3	-2.4
Cash Flows	3.2	168.0	73.9	132.2	-343.1	59.3
Stock offering	0.0	220.5	0.0	0.0	0.0	0.0
Debt	151.2	41.6	73.9	162.3	-291.1	120.0
Dividend (buy-back)	0.0	0.0	0.0	-30.1	-52.0	-60.7
Other	-147.9	-94.2	0.0	0.0	0.0	0.0
Change in cash	0.0	48.0	272.2	73.1	237.5	117.0
Cash at the end of period	73.8	227.5	275.5	548.0	621.1	858.5
DPS (PLN)	-	0.00	0.00	1.23	2.12	2.47
FCF	0.0	103.9	221.9	281.7	188.1	194.6
(CAPEX / Sales)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%



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

EV – net debt + market value
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
P/CE – price to earnings with amortisation
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 recommendations issued for Dom Development

Rating	Hold	Accumulate	Buy	Buy
Date	2007-09-25	2007-11-07	2007-12-04	2007-12-11
Price on rating date	151.10	136.00	111.00	112.00
WIG on rating date	61570.24	61527.41	56412.82	58795.04

