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Special comment

**Property Developers**

Poland

Dom Development

DOMD.WA; DOM.PW

Hold

(Reiterated)

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

Q409 Results Ahead of Expectations**Current price PLN 54.0; Target price PLN 50.1;**

Dom Development's FY2009 financial report implies fourth-quarter earnings ahead of our expectations. The main reason behind such strong performance was the breakdown of flats delivered in the period, and unexpected sales of commercial spaces. DOM sold more large, high-end and high-margin apartments which could have contributed over PLN 10m to the quarter's revenues. The sale of five retail spaces in the "Grzybowska" development, which we had not factored in our fourth-quarter forecasts, contributed about the same to total revenues.

We maintain that Dom Development is the most expensive real-estate developer listed on the WSE (FY10E P/BV=1.8!), and that the large premium that it carries relative to peer valuations is not justified even by its robust liquidity position. The company plans to list two new medium-sized projects for sale in the summer, and then in the fall. DOM stands to increase its market share, but its rivals, including Gant and Polnord, both offering significant discounts to their book values, are also capable of starting new projects. We remain neutral on Dom Development, while maintaining positive ratings on its closest competitors in the residential market. Once these companies give us a better idea of the timing of their new project starts, and their asking prices, we will revise our FY2011 and FY2012 financial forecasts for the real-estate sector.

DOM's Q409 revenues 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, and 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 project. 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%.

DOM's better-than-expected Q4 2009 results do not encourage major forecast revisions, but strong sales of new homes, including the "Grzybowska" development, will.

Reported vs. forecasted Q4 2009 results

	Q4 2009	Q4 2009F	Difference	Consensus Estimates	Difference	Q4 2008	Change
Sales 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, F - forecasts by BRE Bank Securities, Consensus estimates by PAP



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 Szczepanik 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 (EV – economic value)
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
PBA – Profit on Banking Activity
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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