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Special comment

**Property Developers**

Poland

J.W. Construction**Hold**

JWCA. WA; JWC.PW

(Reiterated)

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JWC reports in-line Q2 2010 results**Current price: PLN 16.19; Target price: PLN 16.40**

J.W. Construction's 2010 second-quarter earnings came in line with expectations. The gross margin fell negligibly short of our 29.1% estimate at 27.4% as a result of weaker-than-expected performance of the hotel and social-housing businesses. The company fulfilled our forecasts of the number of home deliveries and real-estate profits for the period. Higher-than-forecasted general expenses (PLN 13.7m vs. PLN 12.2m) probably stemmed from JWC's preparations for new projects. Other reasons behind the differences between reported and forecasted EBIT and net-income figures stemmed from higher-than-expected other net operating expenses and lower-than-expected other net financial expenses. The number of Q2 home deliveries was modest at 355 (at 30 June, the finished-home inventory counted 3229 units), and it would have been higher if not for a delayed permit for home deliveries in the "Lewandów I" development in Warsaw (both stages of the Lewandów project comprise about 1900 units). We expect JWC to increase sales considerably in the next two quarters. The company has reiterated plans to deliver a total of 2000 homes this year (our forecast is 2500 units; in H1 2010, the number of deliveries amounted to 650). Since these prospects are already priced in, as reflected in a high P/BV ratio and in the prepayments received from buyers reported in the balance sheet, we remain neutral on JWC.

Reported vs. forecasted Q2 2010 results

(PLN m)	Q2 2010	Q2 2010F	differ.	Consensus Estimates	differ.	Q2 2009	change
Revenues	122.9	117.2	4.9%	120.0	2.4%	90.6	35.6%
Gross profit	33.7	34.1	-1.2%	-	-	26.8	25.9%
Gross margin	27.4%	29.1%	-	-	-	29.5%	-
EBIT	19.9	22.5	-11.7%	22.5	-11.7%	18.6	6.8%
Pre-tax income	17.6	15.7	12.3%	-	-	13.2	33.2%
Net income	14.4	12.7	13.6%	13.4	7.7%	13.9	3.8%

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

J.W. Construction beat our and analysts' estimates with second-quarter sales of PLN 122.9m, including PLN 111.6m generated from real estate (we expected PLN 107.1m), and PLN 11.3m contributed by "other" operations (we expected PLN 8.0m). A gross margin of 27.4% was lower than our 29.1% estimate, due probably to weaker performance of the hotel and social-housing (TBS) segments, and a less favorable structure of the period's home deliveries. General expenses were high at PLN 13.7m (we expected PLN 12.2m), and were probably fueled by preparations for new projects. Other net operating expenses amounted to just PLN 0.1m vs. our forecast of PLN 0.6m. EBIT fell 11.7% short of expectations.

At PLN 2.2m, other net financial expenses were much lower than our forecasted PLN 6.8m, and we have two possible explanations: The first is that JWC capitalizes work-in-progress costs as inventories, and settles finished-project costs through profit and loss. We suspect that the company did not classify stages 1 and 2 of the "Lewandów" project as finished in 2010, and hence capitalized the interest paid on the loan taken out toward the project into inventories. The second possible explanation lies in the manner in which JWC allocates financial expenses over consecutive quarters. The company reported having incurred other net financial expenses as high as PLN 7.1m in Q1 2010, and total expenses of PLN 9.3m in H1 2010, suggesting that the reported first-quarter amount was overestimated, and adjusted in the second quarter. After an effective tax rate of 18.2%, the Q2 2010 bottom-line income was PLN 1.7m higher than expected.

Reported vs. forecasted Q2 2010 results by business segment

(PLN m)	Q2 2010	Q2 2010F
Real Estate	111.6	109.2
Other	11.3	8.0

Source: J.W. Construction, BRE Bank Securities



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**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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