

Monday, November 27, 2017 | periodic publication

Construction & Real Estate: November 2017

Construction & Property Developers, Poland

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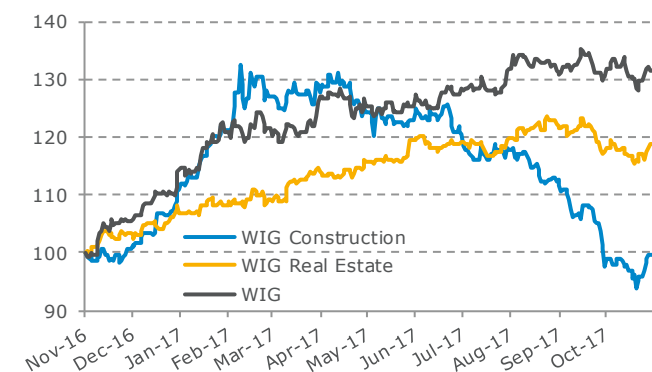
Construction

- Construction firms reported **weak earnings results for the third quarter of 2017**, with the aggregate EBITDA (excluding Budimex) down 34% on the year alongside 56% shrinkage in net profit. The slump was led mainly by railway builders (TRK, TOR, ZUE) and power engineering companies (PXM, MSW, MSZ, ELB), experiencing EBITDA and net profit contraction at respective annual rates of 48% and 84%.
- After **updating our models** for the Q3 results, we have lowered slightly our 2017 estimates for **Torpol** and **Trakcja**, while raising the outlook for **ZUE**. We have also cut our 2017-2019 EBITDA forecasts for **Ulma** by an average of 13% to reflect a slower-than-anticipated rate of growth to date.
- We remain underweight **Trakcja** and **ZUE** even after the 20% share price drops of the past month. We have a relatively better view on **Torpol** (overweight), enjoying a strong cash position and benefitting from shorter contract deadlines. Railway builders make for more speculative plays due to their exposure to a wide array of hard-to-quantify risks.
- We upgraded **Elektrotim** from underweight to overweight on 16th November after substantial hikes in the EBITDA forecasts for 2017 (+63%) and 2018 (+35%) based on stellar third-quarter results. Set for an acceleration in profits supported by base effects, ELT looks like a good buy opportunity now that its share price has fallen to all-time lows.
- Unibep** is still our top construction pick for the month ahead. The builder reported year-over-year growth in profits for the fifteenth quarter in a row in Q3 2017, and at 7.7x 2018E P/E it offers the sector's cheapest investment opportunity.
- We maintain our buy calls on **Budimex** and **Elektrobudowa**, offering the best cash positions, dividend potential, and the most prudent loss accounting in the sector.
- TOP PICKS**
OVERWEIGHT: UNI, ELB, BDX, ERB

Property Developers

- Most residential developers reported Q3 2017 results in line with expectations, except for positive surprises from **Robyg**, **Lokum**, and **Dom Development**. The aggregate gross profit margin in the sector remained stable on a year-over-year basis at 28%.
- Going forward, the main **trends** reported by Polish housing developers include the continuation of strong sales in October, a measured but sustained upward climb in home prices, accompanied by rising costs of materials and labor, long wait periods for building permits, and strong competition in the market for land for development.
- Looking at the rising costs and cases of delays in completions, we are holding off upward revisions to our 2018-2019 earnings expectations for the residential sector, however we maintain the risks faced by developers are being blown out of proportion.
- Our top residential picks are **LCC**, **LKD**, **ROB**, **ECH**, **DOM**, **ARH**, and **1aAT**, trading at **1.1x 2017E P/B** and **6.3x 2018E P/E**, with 2018E dividend yield at **8.8%**.
- In commercial, we have raised our 2017-2019 net profit forecasts for **P.A. Nova** by 17% on average after taking into account improvement in the construction segment and reduced financing expenses, but we continue to have a neutral view on the stock.
- TOP PICKS**
OVERWEIGHT: LCC, LKD, 1AT, ROB, DOM, ARH, ECH, CAP

WIG Construction and WIG Real Estate vs. WIG

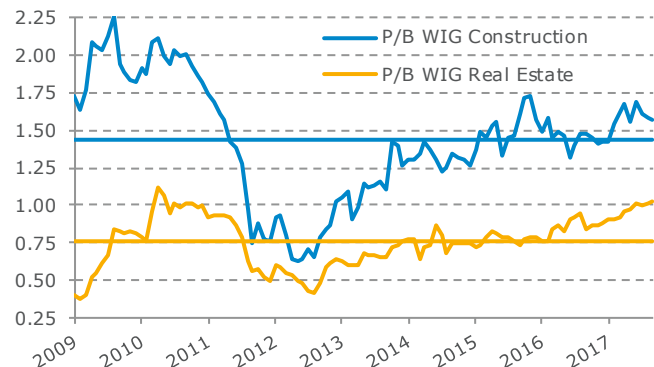


MoM* and YTD Price Change

Construction	MoM	YTD
Ulma	+5.6%	+18%
Budimex	-0.2%	+10%
Unibep	-6.4%	-6%
Elbudowa	-8.0%	-15%
Herkules	-10.0%	+5%
Erbud	-16.0%	-18%
ZUE	-18.0%	-23%
Torpol	-21.8%	-24%
Elektrotim	-25.0%	-36%
Trakcja	-25.3%	-44%
WIG Con.	-3.9%	-2%
WIG	+0.2%	+23%
Developers	MoM	YTD
P.A. Nova	+5.7%	-0%
GTC	+4.5%	+19%
Lokum Dew.	+1.9%	+48%
Echo Inv.	+1.7%	-0%
JWC	+1.3%	+4%
Atal	-0.1%	+61%
Dom Dev.	-1.0%	+44%
Polnord	-1.4%	-1%
LC Corp	-2.2%	+39%
Robyg	-2.5%	+16%
Archicom	-3.7%	-6%
Capital Park	-6.3%	-13%
Ronson	-10.2%	-6%
BBi Dev.	-13.9%	-26%
WIG Real Est.	+0.7%	+15%
WIG	+0.2%	+23%
Foreign Indices	MoM	YTD
DE Real Est.	+3.8%	+17%
DAX	+0.4%	+14%
AT Real Est.	-0.6%	+24%
ATX	-1.8%	+27%
EU Real Est.	+1.9%	+5%
EU Con.	+5.4%	+22%
EU Equity	+0.6%	+21%

*Oct. 23 - Nov. 26

P/B ratios for WIG Construction and WIG Real Estate



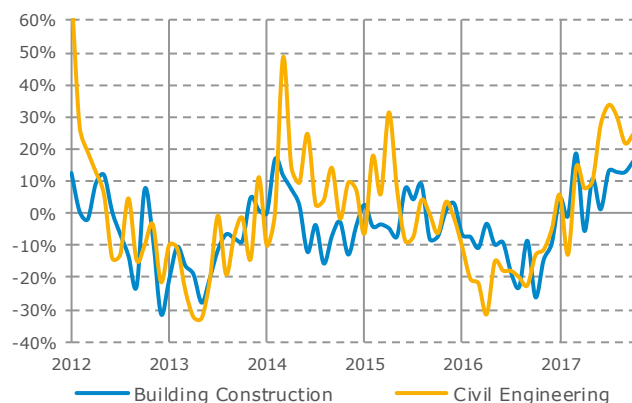
Earnings Estimates and Recommendations for Construction Stocks (PLN m)

Company	MCap	EV	Net Debt	BV	D/E*	Revenue			EBITDA			EBIT			Net profit		
						2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
Budimex	5,125	3,607	-1,518	756	-201%	5,572	6,402	7,037	531	603	575	505	569	538	410	453	440
Elektrobudowa	411	319	-92	404	-23%	971	882	955	75	75	71	62	61	56	55	49	47
Elektrotim	73	66	-7	77	-9%	258	286	300	5	10	16	2	7	13	-1	4	9
Erbud	282	331	48	270	18%	1,790	1,830	1,921	57	53	55	46	43	44	2	27	29
Herkules	141	239	99	220	45%	128	138	159	36	37	40	14	18	20	10	11	13
Torpol	196	117	-79	195	-41%	767	657	1,129	32	8	46	18	-7	30	10	-10	22
Trakcja	395	453	58	745	8%	1,381	1,411	1,562	97	70	74	74	41	44	55	28	32
Ulma	388	338	-50	284	-18%	180	195	212	66	71	81	17	22	34	13	17	26
Unibep	345	356	11	246	4%	1,249	1,627	1,822	42	50	64	33	41	55	32	37	45
ZUE	159	146	-12	198	-6%	343	390	739	10	2	21	0	-8	11	1	-9	9
Total	7,516	5,972	-1,543	3,395	-45%	12,641	13,817	15,835	951	980	1,042	770	786	844	587	607	671
YoY growth						-4%	9%	15%	15%	3%	6%	18%	2%	7%	18%	3%	11%
YoY growth ex. BDX						-12%	5%	19%	-18%	-10%	24%	-26%	-18%	41%	-32%	-13%	50%

Company	Weight		Target price	Current price	MoM change	P/E			EV/EBITDA			P/B			DYield		
	current	change				2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
Budimex	OW	-	267.00	200.75	-0.2%	12.5	11.3	11.6	4.7	4.5	5.1	6.4	5.9	5.9	4.1%	7.5%	8.7%
Elektrobudowa	OW	-	134.00	86.50	-8.0%	7.5	8.3	8.8	4.1	4.3	4.5	1.0	1.0	0.9	4.6%	11.6%	7.2%
Elektrotim	OW	▲	-	7.32	-25.0%	-	18.5	8.4	10.6	6.2	4.0	0.9	0.9	0.8	16.9%	4.8%	6.8%
Erbud	OW	-	29.80	22.02	-16.0%	-	10.6	9.6	2.3	3.6	4.0	1.1	1.0	0.9	7.6%	5.3%	4.7%
Herkules	N	-	-	3.24	-10.0%	13.7	13.2	11.1	6.4	6.3	5.7	0.6	0.6	0.6	4.9%	4.9%	4.9%
Torpol	N	►	-	8.55	-21.8%	19.0	-	9.1	3.9	20.6	3.9	0.9	1.0	0.9	8.1%	5.1%	-
Trakcja	UW	►	-	7.69	-25.3%	7.2	13.9	12.2	3.8	5.5	5.4	0.5	0.5	0.5	4.4%	6.5%	3.9%
Ulma	N	►	-	73.90	+5.6%	30.1	22.8	15.1	4.9	4.6	4.4	1.3	1.3	1.3	-	7.3%	5.4%
Unibep	OW	-	14.00	9.84	-6.4%	10.9	9.4	7.7	8.4	7.0	5.3	1.5	1.3	1.2	1.7%	2.0%	3.0%
ZUE	UW	►	-	6.89	-18.0%	-	-	18.1	6.6	89.3	7.8	0.8	0.8	0.8	4.8%	-	-
Median					-13.0%	12.5	12.2	10.3	4.8	5.9	4.8	0.9	1.0	0.9	4.8%	5.3%	5.2%

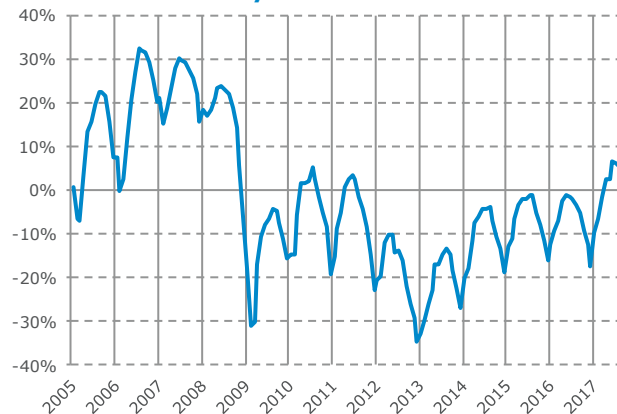
Source: Dom Maklerski mBanku; OW – overweight, N – neutral, UW – underweight; *Net debt/Equity

YoY growth in Polish construction sector



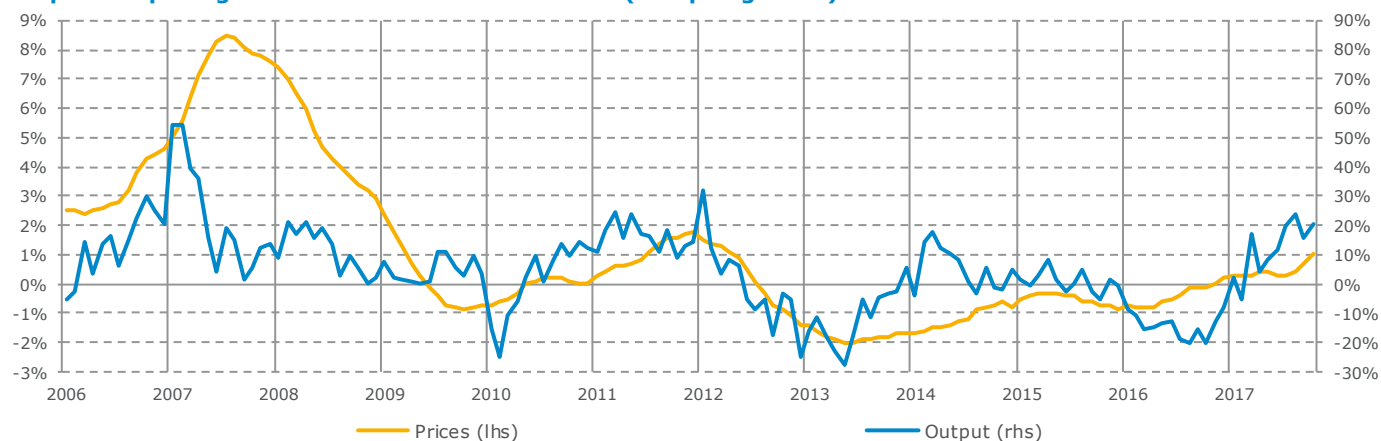
Source: GUS

Construction Industry Sentiment Index



Source: GUS

Output and price growth in the construction sector (YoY pct. growth)



Source: GUS

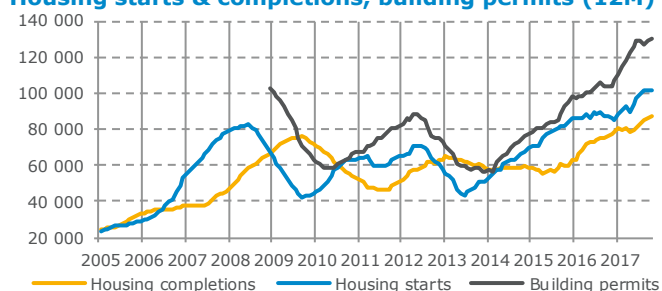
Earnings Estimates (PLN m) and Recommendations for Property Developers

Company	MCap	EV	Net Debt	BV	D/E*	Revenue			EBIT ex. revaluation			Revaluation			Net profit		
						2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
Archicom	335	390	55	374	15%	282	291	328	46	54	61	-1	0	10	37	41	54
Atal	1,682	1,956	274	756	36%	507	912	935	115	236	244	0	0	0	89	182	190
BBI Dev.	65	188	123	212	58%	84	28	83	1	2	14	0	0	-	-5	-1	9
Capital Park	593	1,755	1,162	989	118%	108	129	143	56	84	101	69	-69	39	30	15	83
Dom Dev.	1,962	2,025	63	881	7%	1,153	1,398	1,705	157	237	290	0	0	0	126	193	234
Echo Inv.	1,936	2,776	840	1,493	56%	480	570	532	45	26	18	560	231	367	388	306	301
GTC	4,340	7,802	3,462	3,842	90%	525	607	683	306	365	428	369	375	109	691	526	353
JWC	407	629	222	656	34%	491	513	561	51	85	98	-8	0	0	25	62	74
LC Corp	1,173	1,857	685	1,468	47%	547	723	835	170	221	241	34	-72	4	113	120	189
Lokum Dew.	298	385	87	234	37%	189	214	314	34	52	73	0	0	0	43	41	57
P.A. Nova	240	613	373	341	109%	183	238	216	47	47	54	-	-	-	27	32	33
Polnord	261	592	331	704	47%	177	318	320	-14	13	22	-13	0	0	-17	22	23
Robyg	909	1,220	312	618	50%	517	793	1,059	123	187	226	0	0	0	109	102	144
Ronson	231	397	166	329	50%	485	246	217	85	23	25	0	0	0	65	15	16
Total	14,431	22,585	8,154	12,895	63%	5,727	6,981	7,930	1,220	1,633	1,894	1,011	464	528	1,720	1,656	1,759
YoY growth						31%	22%	14%	41%	34%	16%				-	-4%	6%

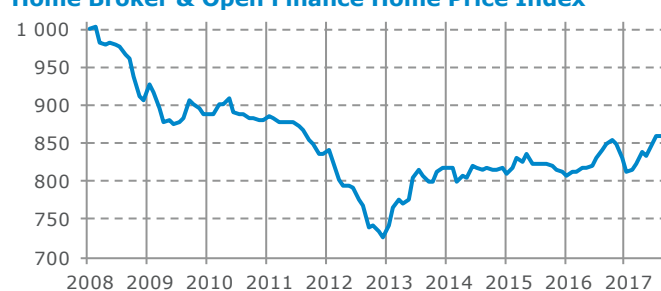
Company	Weight		Target price	Current price	MoM change	P/E			P/B			EV/EBIT ex. rev.			DYield		
	current	change				2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
Archicom	OW	-	-	14.40	-3.7%	9.0	8.2	6.2	0.89	0.86	0.80	8.3	7.5	7.1	6.4%	7.2%	7.3%
Atal	OW	-	45.00	43.44	-0.1%	18.8	9.3	8.8	2.44	2.09	1.98	17.5	8.1	8.1	1.4%	3.9%	8.8%
BBI Dev.	N	-	-	0.62	-13.9%	-	-	7.2	0.30	0.30	0.29	182.5	83.3	5.6	-	-	-
Capital Park	OW	-	8.09	5.50	-6.3%	19.5	39.2	7.2	0.59	0.58	0.54	30.2	19.8	17.4	-	-	1.8%
Dom Dev.	OW	-	101.10	78.90	-1.0%	15.6	10.2	8.4	2.10	1.96	1.89	12.2	8.3	6.9	4.1%	6.4%	9.9%
Echo Inv.	OW	-	6.42	4.69	+1.7%	5.0	6.3	6.4	1.27	1.20	1.13	51.1	112.7	148.9	127%	14.1%	10.7%
GTC	N	-	9.59	9.43	+4.5%	6.3	8.2	12.3	1.25	1.16	1.08	24.9	21.3	18.8	-	2.8%	2.1%
JWC	N	-	-	4.58	+1.3%	16.3	6.6	5.5	0.62	0.57	0.52	13.2	7.6	6.2	-	-	-
LC Corp	OW	-	-	2.62	-2.2%	10.4	9.7	6.2	0.84	0.79	0.72	11.3	9.2	8.8	6.9%	2.7%	4.8%
Lokum Dew.	OW	-	-	16.56	+1.9%	7.0	7.2	5.3	1.23	1.11	0.96	10.0	6.7	4.8	3.7%	4.7%	4.5%
P.A. Nova	N	►	-	24.00	+5.7%	8.9	7.6	7.2	0.76	0.73	0.70	13.2	12.8	10.8	3.1%	3.1%	3.1%
Polnord	UW	-	-	8.00	-1.4%	-	12.0	11.1	0.37	0.36	0.35	-	44.3	24.2	-	-	-
Robyg	OW	-	4.25	3.14	-2.5%	7.6	8.9	6.3	1.46	1.35	1.23	10.8	6.6	5.5	6.4%	8.6%	8.9%
Ronson	UW	-	-	1.41	-10.2%	3.6	15.1	14.8	0.64	0.67	0.67	4.6	18.2	17.0	5.7%	13.5%	7.1%
Median					-1.2%	9.0	8.9	7.2	0.87	0.82	0.76	13.2	11.0	8.5	5.7%	5.6%	7.1%

Source: Dom Maklerski mBanku; OW – overweight, N – neutral, UW – underweight; *Net debt/Equity

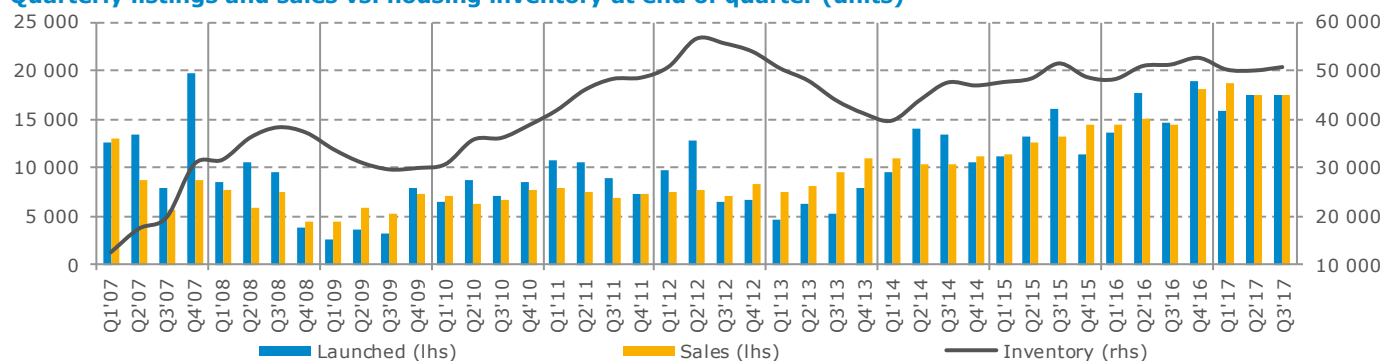
Housing starts & completions, building permits (12M)*



Home Broker & Open Finance Home Price Index



Quarterly listings and sales vs. housing inventory at end of quarter (units)



German Real-Estate Stock Valuations

Company	Sector	Current price	MoM change	MCap*	D/E**	P/E			P/B			FFOYield			DYield		
						2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
Adler Real Estate	Resi	12.55	-4.5%	722	201%	6.5	7.5	8.7	0.78	0.80	0.73	3.5%	5.0%	6.2%	-	-	0.2%
ADO Properties	Resi	43.24	+5.5%	1,907	62%	4.3	35.7	29.2	1.30	1.05	0.92	2.5%	3.0%	3.3%	1.3%	1.5%	1.8%
Alstria Office	Office	12.39	+1.6%	1,900	74%	10.7	14.5	15.6	1.10	1.04	1.00	6.1%	6.0%	6.2%	4.2%	4.3%	4.5%
Deutsche Wohnen	Resi	37.08	+3.3%	13,151	63%	7.9	30.7	28.2	1.57	1.29	1.18	3.1%	3.9%	4.2%	2.0%	2.2%	2.3%
DIC Asset	Office	10.72	+7.8%	735	144%	-	13.7	18.5	0.98	0.95	0.95	6.4%	8.2%	8.4%	3.7%	5.3%	4.3%
Duutsche EuroShop	Retail	32.29	+3.5%	1,995	66%	7.9	12.8	13.2	0.91	0.87	0.86	7.4%	7.6%	7.5%	4.3%	4.5%	4.6%
Grand City Properties	Resi	19.00	+4.0%	3,131	75%	5.3	16.4	15.7	0.93	1.08	0.94	5.3%	5.2%	5.7%	1.3%	3.7%	4.1%
Hamborner REIT	Mixed	9.55	+4.8%	761	105%	36.7	20.0	18.8	1.36	1.36	1.36	5.1%	5.9%	6.8%	4.5%	4.6%	4.8%
LEG Immobilien	Resi	89.88	+4.3%	5,679	96%	9.8	21.4	17.5	1.66	1.36	1.17	4.7%	5.2%	5.7%	3.1%	3.4%	3.7%
TAG Immobilien	Resi	15.50	+6.5%	2,271	144%	10.4	18.9	16.5	1.67	1.46	1.33	4.3%	5.3%	6.1%	3.7%	4.0%	4.4%
TLG Immobilien	Mixed	20.45	+1.1%	2,087	62%	14.7	17.9	16.2	1.37	1.11	1.14	5.6%	5.8%	6.2%	3.9%	4.2%	4.5%
Vonovia	Resi	39.60	+7.3%	19,209	85%	8.2	22.3	20.7	1.48	1.21	1.14	3.9%	4.7%	5.0%	2.8%	3.3%	3.6%
Median			+4.2%		80%	8.2	18.4	17.0	1.33	1.10	1.07	4.9%	5.3%	6.1%	3.7%	4.0%	4.2%

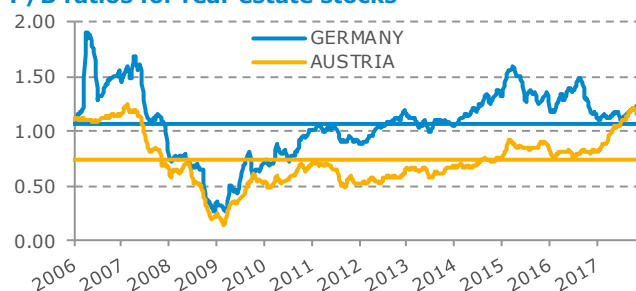
Source: Bloomberg; *MCap in EUR m; **Net debt/Equity

Austrian Real-Estate Stock Valuations

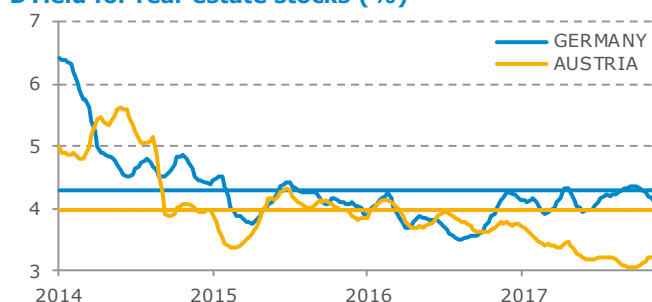
Company	Sector	Current price	MoM change	MCap*	D/E**	P/E			P/B			FFOYield			DYield		
						2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
BUWOG	Resi	24.01	-1.2%	2,695	92%	10.2	22.0	17.7	1.43	1.17	1.05	4.1%	4.0%	4.5%	2.9%	3.1%	3.3%
CA Immobilien	Office	24.85	+2.3%	2,455	50%	12.8	22.1	21.4	1.05	1.02	0.98	3.8%	4.5%	5.0%	2.6%	3.1%	3.5%
Conwert Immobilien	Resi	18.37	+2.1%	1,834		14.8	14.5	16.7	1.30	1.20	1.16	4.6%	-	-	1.9%	2.9%	3.2%
Immofinanz	Mixed	2.09	-5.0%	2,334	94%	-	31.2	25.5	0.70	0.79	0.80	1.4%	1.6%	3.5%	-	3.6%	10.6%
Atrium European RE	Retail	4.07	+1.1%	1,533	44%	26.4	13.8	13.2	0.79	0.80	0.78	6.8%	7.3%	7.6%	6.6%	8.9%	7.6%
S Immo	Mixed	14.62	-2.7%	978	106%	4.9	24.4	20.3	1.22	1.11	1.06	4.2%	6.8%	5.5%	-	2.9%	3.1%
Median			-0.0%		92%	12.8	22.0	19.0	1.13	1.06	1.02	4.2%	4.5%	5.0%	2.7%	3.1%	3.4%

Source: Bloomberg; *MCap in EUR m; **Net debt/Equity

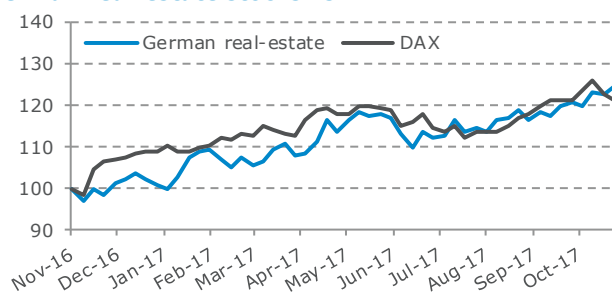
P/B ratios for real-estate stocks



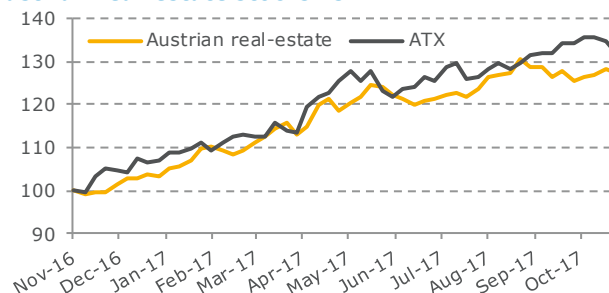
DYield for real-estate stocks (%)



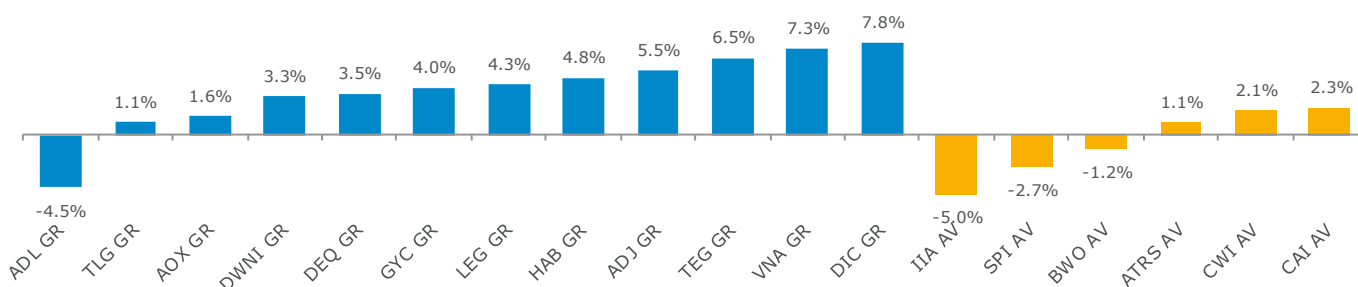
German real-estate stocks vs. DAX



Austrian real-estate stocks vs. ATX



German and Austrian real-estate stocks: monthly performance



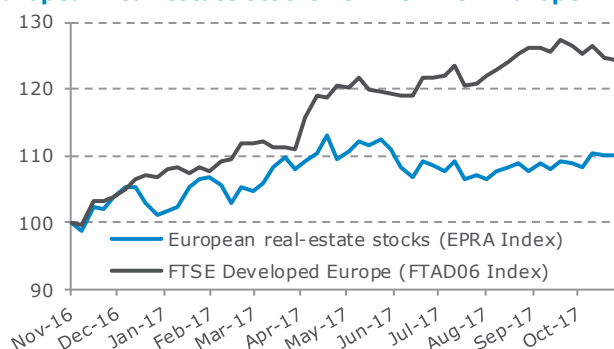
Source: Bloomberg

European Real-Estate Stock Valuations

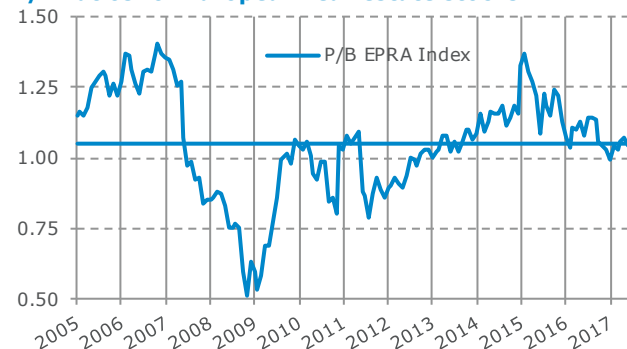
Company	Sector	Current price	MoM change	MCap*	D/E**	P/E			P/B			FFOYield			DYield		
						2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
Cofinimmo	BE Mixed	108.25	+0.8%	2,237	86%	23.3	16.6	16.4	1.23	1.20	1.15	5.4%	5.9%	6.0%	5.1%	5.1%	5.2%
PSP Swiss Property	CH Office	87.40	+0.4%	3,431	59%	29.7	23.2	23.3	1.04	1.02	1.02	4.4%	4.5%	4.4%	3.8%	3.8%	3.9%
Swiss Prime Site	CH Mixed	85.60	+1.1%	5,236	91%	19.4	22.1	21.1	1.18	1.24	1.23	4.9%	4.8%	5.1%	4.3%	4.3%	4.4%
Fonciere Des Regions	FR Office	88.88	+4.7%	6,566	90%	7.7	16.8	15.9	1.15	1.04	0.99	5.8%	5.6%	6.0%	5.0%	5.0%	5.2%
Gecina	FR Office	137.80	+2.2%	10,365	60%	10.9	27.2	24.4	1.08	0.94	0.89	3.9%	3.7%	4.3%	3.7%	3.8%	3.9%
Icade	FR Office	77.41	+4.7%	5,737	156%	98.0	16.5	15.1	1.67	1.76	1.87	5.6%	6.2%	6.5%	5.2%	5.4%	5.8%
Klepierre	FR Retail	34.66	+6.7%	10,894	80%	9.1	14.3	13.6	1.07	0.95	0.92	6.5%	7.2%	7.6%	5.3%	5.6%	5.9%
EuroCommercial	NL Retail	34.93	+2.7%	1,708	69%	8.0	15.5	14.6	0.93	0.86	0.82	6.3%	6.5%	7.0%	5.9%	6.1%	6.2%
Unibail - Rodamco	NL Retail	218.30	+5.9%	21,796	80%	9.0	18.2	17.3	1.24	1.15	1.10	5.2%	5.5%	5.8%	4.7%	5.0%	5.2%
Wereldhave	NL Retail	39.18	+0.3%	1,578	75%	15.7	11.4	11.1	0.80	0.79	0.78	9.6%	9.2%	9.3%	7.9%	7.9%	8.0%
Castellum	SE Mixed	136.20	+3.5%	3,763	112%	6.4	16.6	14.4	1.24	1.13	1.08	5.1%	6.4%	7.2%	3.7%	3.9%	4.1%
British Land Co	UK Mixed	6.19	+2.5%	6,940	52%	4.7	16.9	16.9	0.68	0.71	0.69	5.5%	5.6%	6.1%	4.6%	4.7%	4.9%
Capital & Counties	UK Retail	2.57	+0.7%	2,437	21%	-	-	-	0.78	0.78	0.76	0.9%	0.5%	0.9%	0.6%	0.6%	0.6%
Derwent London	UK Office	27.02	-0.3%	3,364	18%	51.2	30.4	26.8	0.77	0.74	0.77	3.0%	3.2%	3.5%	1.9%	2.2%	2.4%
Great Portland Estates	UK Office	6.13	+0.1%	2,237	22%	3.8	42.6	34.8	0.72	0.88	0.77	2.2%	0.2%	2.7%	1.5%	2.2%	2.1%
Hammerson	UK Retail	5.15	-1.2%	4,558	59%	12.8	16.6	15.8	0.71	0.67	0.66	5.9%	6.1%	6.3%	4.7%	5.0%	5.2%
Intu Properties	UK Retail	1.97	-8.5%	2,986	92%	14.4	13.4	13.2	0.54	0.53	0.75	7.2%	7.3%	7.2%	7.1%	7.1%	7.2%
Land Securities Group	UK Mixed	9.17	-5.2%	7,594	28%	5.4	19.4	17.7	0.62	0.64	0.62	4.7%	5.1%	5.7%	3.8%	4.0%	4.4%
Segro	UK Industr	5.58	+2.3%	6,251	37%	10.8	28.3	25.8	1.16	1.08	1.01	3.2%	3.6%	3.8%	2.8%	3.0%	3.2%
Shaftesbury	UK Mixed	9.91	+1.1%	3,089	35%	27.8	60.8	53.6	1.16	1.10	1.06	1.4%	1.6%	1.9%	1.5%	1.6%	1.7%
Median			+1.1%		65%	10.9	16.9	16.9	1.05	0.95	0.91	5.1%	5.6%	5.9%	4.5%	4.5%	4.6%

Source: Bloomberg; prices in local currencies (EUR, GBP, CHF, SEK); *MCap in EUR m; **Net debt/Equity

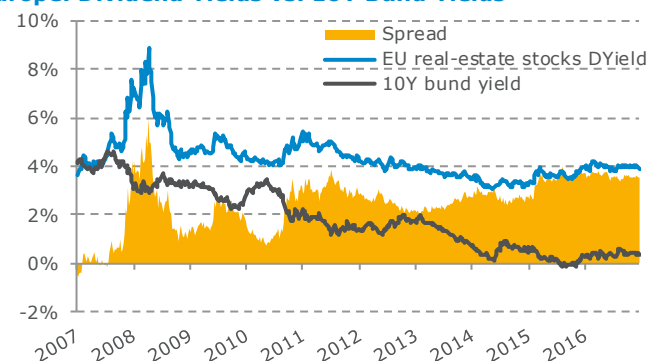
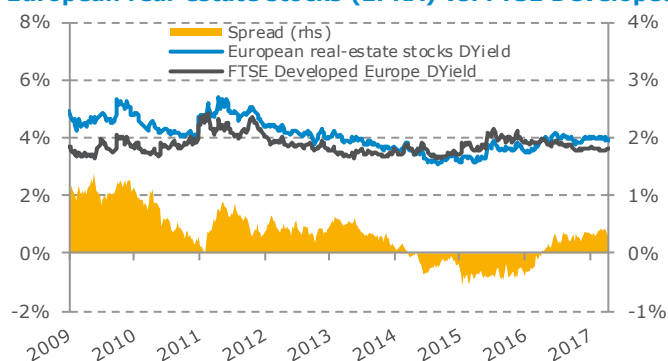
European real-estate stocks vs. FTSE Dev. Europe



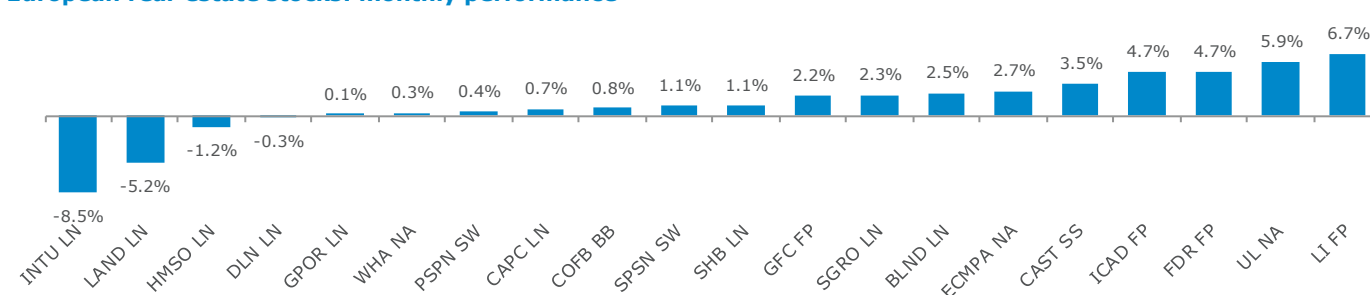
P/B ratios for European real-estate stocks



European real-estate stocks (EPRA) vs. FTSE Developed Europe: Dividend Yields vs. 10Y Bund Yields



European real-estate stocks: monthly performance



Source: Bloomberg

European Construction Stock Valuations

Company		Domestic sales	Constr. as % of EBIT	Current price	MoM change	MCap*	D/E**	P/B 2017	2016	P/E 2017	2018	EV/EBITDA			DYield		
												2016	2017	2018	2016	2017	2018
Strabag	AT	15%	100%	34.50	-0.2%	3,795	-16%	1.06	12.7	13.4	12.2	5.5	4.5	4.3	2.8%	3.0%	3.2%
Porr	AT	60%	100%	25.40	-4.8%	739	20%	1.79	11.4	12.0	10.3	7.3	5.5	5.0	4.3%	4.4%	4.9%
Hochtief	DE	5%	100%	147.24	-2.0%	9,467	-49%	4.53	29.6	21.9	20.0	10.7	8.3	7.8	1.8%	2.1%	2.4%
Bouygues	FR	65%	75%	43.13	+7.1%	15,527	26%	1.75	20.4	18.2	16.6	7.6	6.8	6.4	3.7%	3.7%	3.8%
Salini	IT	15%	100%	3.07	-11.0%	1,510	25%	1.18	25.6	14.5	9.6	4.9	4.3	3.8	1.7%	2.1%	3.1%
Astaldi	IT	25%	80%	2.38	-59.2%	234	180%	0.37	3.2	10.3	2.6	6.9	5.5	5.7	8.4%	7.2%	5.6%
Mota Engil	PT	30%	80%	3.39	+1.5%	804	273%	1.96	16.1	24.2	10.6	8.3	5.9	5.4	8.0%	3.1%	2.4%
Skanska	SE	25%	60%	180.00	-1.8%	7,285	-7%	2.53	12.9	13.1	15.2	11.7	9.8	9.6	4.6%	4.7%	4.8%
PEAB	SE	80%	80%	76.75	-8.9%	2,032	18%	2.19	13.1	11.7	12.6	9.4	8.5	8.4	4.7%	5.0%	5.1%
NCC	SE	50%	100%	171.70	-5.7%	1,631	-7%	3.14	2.3	14.1	12.7	8.6	7.4	6.9	4.7%	5.3%	5.7%
Median					-3.4%		19%	1.88	13.0	13.7	12.4	7.9	6.4	6.0	4.5%	4.1%	4.3%

Source: Bloomberg; prices in local currencies (EUR, SEK); *MCap in EUR m; **Net debt/Equity

Valuation of Diversified European Construction Conglomerates

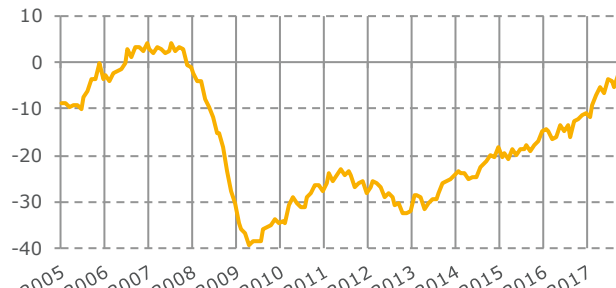
Company		Domestic sales	Constr. as % of EBIT	Current price	MoM change	MCap*	D/E**	P/B 2017	2016	P/E 2017	2018	EV/EBITDA			DYield		
												2016	2017	2018	2016	2017	2018
OHL	ES	20%	20%	4.95	-4.1%	1,479	89%	0.58	-	15.7	11.6	38.1	6.6	7.3	0.9%	0.6%	1.3%
Ferrovial	ES	20%	35%	18.24	+3.1%	13,485	80%	2.44	35.4	32.7	33.7	15.0	20.2	20.4	4.0%	4.2%	4.3%
Acciona	ES	55%	10%	67.84	+1.0%	3,885	141%	1.00	11.0	15.3	14.5	5.2	7.8	7.6	3.7%	4.3%	4.6%
FCC	ES	55%	25%	9.19	+9.2%	3,482	338%	3.27	-	17.5	14.6	15.1	9.2	8.8	-	-	0.1%
ACS	ES	15%	50%	33.05	+0.6%	10,398	15%	2.63	13.8	13.5	12.4	7.6	5.9	5.6	3.6%	3.6%	3.8%
Eiffage	FR	80%	30%	92.19	+3.6%	9,035	264%	2.16	18.0	18.5	15.6	9.7	8.6	8.2	1.6%	2.0%	2.3%
Vinci	FR	60%	30%	86.65	+8.6%	51,712	69%	2.75	19.2	18.2	16.7	11.3	10.5	10.0	2.4%	2.7%	2.9%
Mediana					+3.1%		89%	2.44	18.0	17.5	14.6	11.3	8.6	8.2	3.0%	3.2%	2.9%

Source: Bloomberg; prices in local currencies (EUR); *MCap in EUR m; **Net debt/Equity

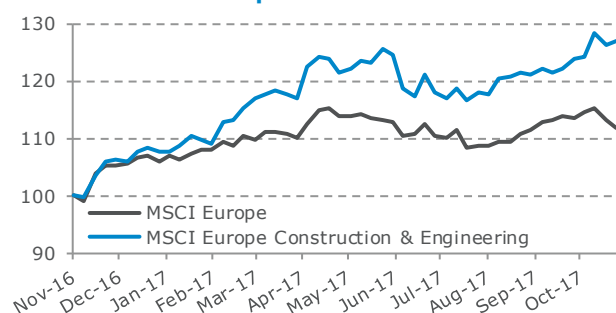
EU27 construction output (2010=100)



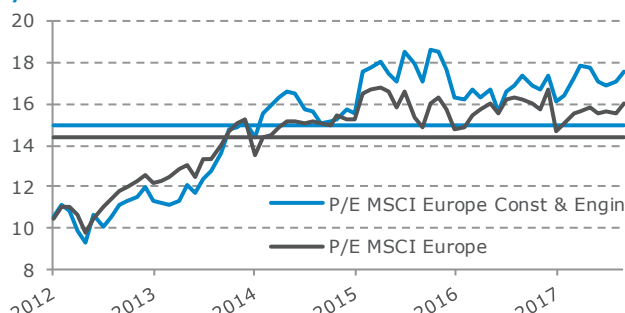
EU27 Construction Confidence Index



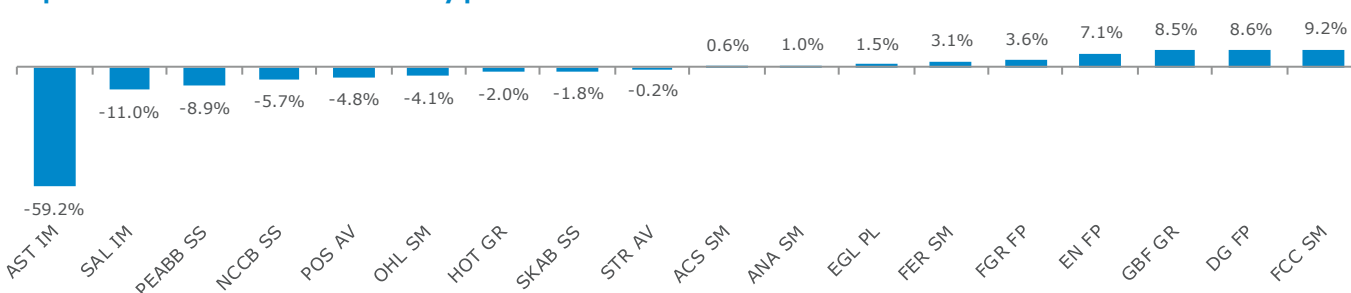
EU construction stock performance vs. broad market



P/E: EU construction stocks vs. broad market



European construction stocks: monthly performance



Source: Bloomberg, Eurostat, European Commission

EV – net debt + market value (EV – economic value)
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
EBIT/EV – operating profit to economic value
EBITDA/EV – EBIT + Depreciation and Amortisation to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
MCap – current market capitalization
Monthly price change (MoM price change) – change in the price of a stock since the date of the previous publication or in the course of the past month

ATX – Austrian Traded Index of all companies listed in Austria
DAX – German Stock Index of 30 selected blue chip stocks traded on the Frankfurt Stock Exchange
EPRA Index – FTSE EPRA Global Real Estate Index
FDA06 Index (EU Equity) – FTSE Developed Europe Index
GDBR10 Index – German Generic Government Bonds 10 Year Yield

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

Recommendations of Dom Maklerski mBanku :

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

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

mBank S.A. with its registered office in Warsaw at Senatorska 18 renders brokerage services in the form of derived organisational unit—Brokerage Office which uses name Dom Maklerski mBanku.

The present report expresses the knowledge as well as opinions of the authors on day the report was prepared. The opinions and estimates contained herein constitute our best judgment at this date and time, and are subject to change without notice. The present report was prepared with due care and attention, observing principles of methodological correctness and objectivity, on the basis of sources available to the public, which Dom Maklerski mBanku considers reliable, including information published by issuers, shares of which are subject to recommendations. However, Dom Maklerski mBanku, in no case, guarantees the accuracy and completeness of the report, in particular should sources on the basis of which the report was prepared prove to be inaccurate, incomplete or not fully consistent with the facts.

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It is possible that mBank S.A. in its brokerage activity renders, will render or in the past has rendered services for companies and other entities mentioned in the present report.

mBank S.A. does not rule out offering brokerage services to an issuer of securities being the subject of a recommendation. Information about any conflicts of interest that may arise in connection with the issuance of recommendations (should such a conflict exist) is provided below, and it is valid as of the date of the most recent Monthly Report published by Dom Maklerski mBanku or as of the date of the most recent recommendation issued for an Issuer, as applicable.

The present report was not transferred to the issuers prior to its publication.

The production of recommendations was completed on October 24, 2017, 8:46 AM.
This recommendation was first disseminated on October 24, 2017, 8:46 AM.

mBank S.A. serves as underwriter for the following issuers: Asseco Poland, Atal, Capital Park, Erbud, Ergis, Kruk, Polski Bank Komórek Macierzystych, Tarczyński, TXM, Vistal Gdynia, ZUE.

mBank S.A. serves as market maker for the following issuers: Alior Bank, Asseco Poland, Atal, Bank Pekao, BZ WBK, Capital Park, CCC, Cyfrowy Polsat, Enea, Energa, Erbud, Ergis, Eurocash, KGHM, Kruk, Lotos, LW Bogdanka, Orange Polska, PGE, PGNiG, PKN Orlen, PKO BP, Polski Bank Komórek Macierzystych, Polwax, PZU, Tarczyński, Tauron, TXM, Vistal Gdynia, ZUE.

mBank S.A. receives remuneration from issuers for services rendered to the following companies: Agora, Alior Bank, Asseco Poland, Atal, Bank Handlowy, Bank Millennium, Bank Pekao, Boryszew, BZ WBK, Capital Park, CCC, CD Projekt, Cyfrowy Polsat, Echo Investment, Elemental Holding, Enea, Energa, Erbud, Ergis, Erste Bank, Eurocash, Getin Noble Bank, Impexmetal, ING BSK, KGHM, Kruk, Lotos, LW Bogdanka, Netia, Orange Polska, OTP Bank, PA Nova, PGE, PGNiG, PKN Orlen, PKO BP, Polnord, Polski Bank Komórek Macierzystych, Polwax, PZU, Raiffeisen Bank International, Robyg, Skarbiec Holding, Stelmet, Sygnty, Tarczyński, Tauron, TXM, Unibep, Uniwheels, Vistal Gdynia, ZUE.

In the last 12 months mBank S.A. has been an offering agent of the issuer's shares in a public offering for the following companies: TXM.

Asseco Poland provides IT services to mBank S.A.

mBank S.A. has a cash service agreement in place with Pekao and a phone subscription agreement in place with Orange Polska S.A.

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Strong and weak points of valuation methods used in recommendations:

DCF – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.

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

Economic profits – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

Discounted Dividends (DDM) – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

NAV – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

mBank issued the following investment recommendations for the companies discussed in this publication in the 12 months prior to this publication

Archicom

Rating	Overweight
Rating date	2017-01-10
Price on rating day	15.24
WIG on rating day	53,006.63

Atal

Rating	Accumulate	Accumulate	Buy
Rating date	2017-09-01	2017-06-02	2017-04-10
Price on rating day	40.40	40.00	34.89
WIG on rating day	64,973.76	60,181.96	59,287.92

BBI Development

Rating	Neutral	Underweight	Neutral
Rating date	2017-06-02	2017-01-10	2016-11-09
Price on rating day	0.73	0.87	0.86
WIG on rating day	60,181.96	53,006.63	48,127.63

Budimex

Rating	Buy	Hold	Accumulate
Rating date	2017-07-24	2017-05-08	2017-01-27
Price on rating day	229.50	275.65	217.00
WIG on rating day	61,979.52	61,831.40	55,560.23

Capital Park

Rating	Buy
Rating date	2017-01-25
Price on rating day	6.30
WIG on rating day	53,988.51

Dom Development

Rating	Buy	Accumulate	Buy	Accumulate
Rating date	2017-09-01	2017-06-02	2017-05-12	2017-01-27
Price on rating day	82.25	76.10	70.20	64.94
WIG on rating day	64,973.76	60,181.96	61,598.78	55,560.23

Echo

Rating	Buy	Buy	Accumulate	Buy
Rating date	2017-10-02	2017-09-01	2017-07-03	2017-01-25
Price on rating day	5.19	5.21	6.26	5.69
WIG on rating day	64,289.69	64,973.76	61,018.36	53,988.51

Elektrobudowa

Rating	Buy	Buy	Hold	Buy
Rating date	2017-09-01	2017-05-08	2017-04-05	2016-12-22
Price on rating day	109.50	120.55	139.90	98.50
WIG on rating day	64,973.76	61,831.40	59,015.12	51,223.85

Elektrotim

Rating	Overweight	Underweight	Neutral	Underweight
Rating date	2017-11-16	2017-10-24	2017-09-14	2017-03-06
Price on rating day	7.61	9.76	11.98	15.07
WIG on rating day	62,345.85	63,714.74	64,719.80	59,313.38

Erbud

Rating	Buy	Buy	Accumulate	Hold	Accumulate
Rating date	2017-11-03	2017-09-01	2017-06-02	2017-04-05	2017-01-27
Price on rating day	24.70	26.00	31.50	32.98	29.50
WIG on rating day	64,375.83	64,973.76	60,181.96	59,015.12	55,560.23

GTC

Rating	Hold	Accumulate
Rating date	2017-08-02	2017-01-25
Price on rating day	9.62	8.65
WIG on rating day	62,800.96	53,988.51

Herkules

Rating	Neutral	Overweight
Rating date	2017-10-24	2017-06-02
Price on rating day	3.60	4.17
WIG on rating day	63,714.74	60,181.96

JWC

Rating	Neutral
Rating date	2016-11-09
Price on rating day	4.50
WIG on rating day	48,127.63

mBank issued the following investment recommendations for the companies discussed in this publication in the 12 months prior to this publication

LC Corp

Rating	Buy
Rating date	2017-09-26
Price on rating day	2.69
WIG on rating day	63,895.84

Lokum Deweloper

Rating	Overweight
Rating date	2017-09-14
Price on rating day	16.30
WIG on rating day	64,719.80

PA Nova

Rating	Neutral
Rating date	2017-11-27
Price on rating day	24.00
WIG on rating day	63,857.97

Polnord

Rating	Underweight
Rating date	2017-05-16
Price on rating day	10.00
WIG on rating day	61,795.32

Robyg

Rating	Buy	Buy	Buy
Rating date	2017-09-01	2017-05-12	2017-01-27
Price on rating day	3.40	3.21	3.00
WIG on rating day	64,973.76	61,598.78	55,560.23

Ronson

Rating	Underweight
Rating date	2017-03-06
Price on rating day	1.80
WIG on rating day	59,313.38

Torpol

Rating	Neutral	Neutral	Overweight
Rating date	2017-11-27	2017-10-24	2017-09-14
Price on rating day	8.55	10.93	12.05
WIG on rating day	63,857.97	63,714.74	64,719.80

Trakcja

Rating	Underweight	Underweight	Neutral
Rating date	2017-11-27	2017-10-24	2017-09-14
Price on rating day	7.69	10.30	12.80
WIG on rating day	63,857.97	63,714.74	64,719.80

Ulma

Rating	Neutral	Neutral
Rating date	2017-11-27	2016-12-12
Price on rating day	73.90	63.50
WIG on rating day	63,857.97	50,693.75

Unibep

Rating	Buy	Buy	Accumulate	Buy	Buy	Accumulate
Rating date	2017-11-03	2017-09-01	2017-03-01	2017-01-27	2016-12-06	2016-11-04
Price on rating day	9.90	12.20	12.59	10.79	10.00	10.85
WIG on rating day	64,375.83	64,973.76	58,300.37	55,560.23	49,647.48	47,899.61

ZUE

Rating	Underweight	Underweight	Overweight	Neutral
Rating date	2017-11-27	2017-09-14	2017-04-12	2016-11-07
Price on rating day	6.89	9.20	12.35	8.55
WIG on rating day	63,857.97	64,719.80	58,510.03	47,610.85

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