

Wednesday, February 28, 2018 | periodic publication

Construction & Real Estate: February 2018

Construction & Property Developers, Poland

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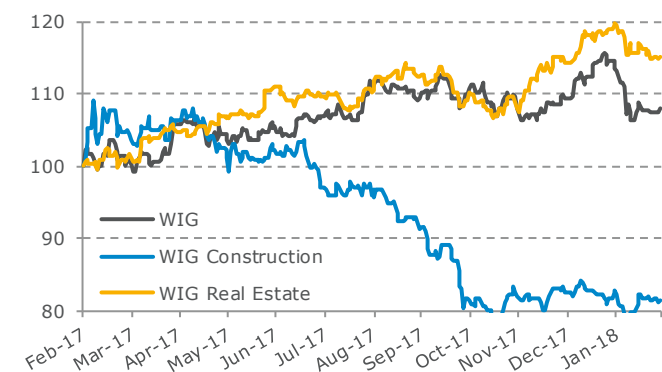
Construction

- Polish **construction output** in January posted a **35% jump** from to the same month last year, the strongest increase since 2007. This was followed by a 10-point gain in the industry's confidence index to its highest February level since 2008. Fewer builders list strong competition as a barrier to growth, and it seems that the short supply of labor is becoming an integral part of the industry's landscape.
- The **WIG-Construction** index outperformed the broad market in February for the first time since March 2017, but stocks are hitting lows for the fourth straight month. The sector is currently trading at **11.9x median 2018E P/E and 5.6x EV/EBITDA**.
- With market expectations set low, the **2017 Q4 earnings season** is not likely to bring many negative surprises. Case in point: the first two builders to report, Unibep and ZUE, delivered figures in-line (the former) and above (the latter) the analysts' forecasts.
- Our **top picks** for March ahead are Budimex, Elektrobudowa, and Erbud, whose shares suffered a fall in recent days. We maintain our **overweight** ratings for Unibep and Elektrotim.
- Erbud's** recent acquisition in Germany at 9-10x P/E has potential to boost future earnings by 10-15%. However ERB stock is trading at 2018-2019E P/E multiples below 8.0x after a recent fall, showing discounts of 25-30% to the peer group which we consider undeserved and a buy opportunity ahead of what we expect to be solid Q4 2017 results.
- Elektrobudowa** has recently issued a FY2018 net earnings guidance 12% above our estimate and 8% over the consensus, boosting sentiment with ambitious goals as to new orders (PLN 1.0bn) coupled with a PLN 39m contract, the biggest in ten months.
- TOP PICKS**
OVERWEIGHT: ELB, BDX, ERB

Property Developers

- February saw the takeover of **Robyg** by Bricks Acquisitions at **1.8x P/B and 8.5x P/E** after a hike in the tender offer. Compared to its seven rivals, ARH, 1AT, DOM, ECH, I2D, LCC, and LKD, these ratios represent respective **premiums of 50% and 27%**. After tendering their shares, Robyg's former shareholders were left with PLN 1bn in spare cash.
- Residential developers settled 44% more flats in **Q4 2017** than in the same period in 2016, leading us to expect a 50% higher aggregate net profit at the nine companies in or coverage. The year-over-year profit expansion is set to be the most robust at Atal, i2 Development (+215%), Lokum (+62%), and Dom Development (+37%).
- Momentum in Poland's housing market remains robust**, led by strong demand which facilitates upward pricing adjustments on new homes.
- Looking at P/B-ROE regression (see page 3), I2D and LKD are **relatively the cheapest residential stocks** at the current levels. LCC is trading at the cheapest ratios among the market leaders after an undeserved 11% drop over the last 30 days. We still favor ECH over GTC despite a 17pp difference in ytd returns.
- We have cut our 2017 net profit estimate for **P.A. Nova** after a warning of a one-time charge, and we maintain a neutral view on the stock.
- TOP PICKS**
OVERWEIGHT: LCC, LKD, I2D, 1AT, DOM, ARH, ECH

WIG Construction and WIG Real Estate vs. WIG

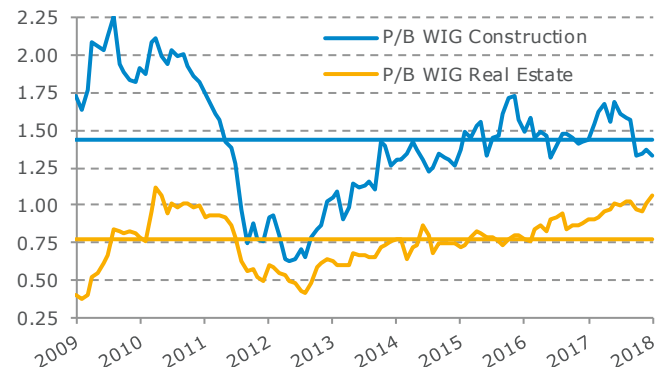


MoM* and YTD Price Change

Construction	MoM	YTD
Elektrotim	+7.8%	+7%
Elbudowa	+6.1%	+12%
Ulma	+1.7%	-14%
Budimex	+0.8%	-6%
ZUE	-1.9%	+4%
Torpol	-2.0%	+1%
Herkules	-2.7%	+12%
Trakcja	-4.0%	+0%
Unibep	-6.8%	-15%
Erbud	-9.3%	+1%
WIG Con.	+0.1%	-1%
WIG	-6.6%	-1%
Developers	MoM	YTD
P.A. Nova	+7.4%	+1%
Atal	+4.4%	+1%
BBi Dev.	+2.8%	+16%
Archicom	+1.9%	-2%
Polnord	+1.4%	+2%
Dom Dev.	+1.0%	-1%
Ronson	+0.0%	+1%
Lokum Dew.	-1.1%	+1%
Echo Inv.	-1.2%	+11%
JWC	-2.5%	+2%
i2 Dev.	-3.8%	+33%
GTC	-7.0%	-6%
Capital Park	-10.5%	-4%
LC Corp	-10.7%	+0%
WIG Real Est.	-2.9%	+1%
WIG	-6.6%	-1%
Foreign Indices	MoM	YTD
DE Real Est.	-4.5%	-4%
DAX	-6.9%	-3%
AT Real Est.	-4.6%	-4%
ATX	-6.6%	+0%
EU Real Est.	-5.5%	-6%
EU Con.	-5.3%	-3%
EU Equity	-5.8%	-0%

*Jan. 24 - Feb. 27

P/B ratios for WIG Construction and WIG Real Estate



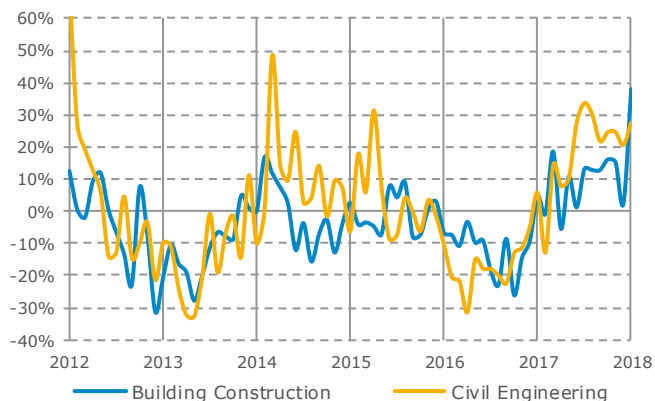
Earnings Estimates and Recommendations for Construction Stocks (PLN m)

Company	MCap	EV	Net Debt	BV	D/E*	Revenue			EBITDA			EBIT			Net profit		
						2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
Budimex	5,096	3,577	-1,518	756	-201%	6,167	7,045	7,030	603	529	499	567	493	464	450	397	373
Elektrobudowa	412	320	-92	404	-23%	853	855	828	66	63	55	52	48	40	43	41	35
Elektrotim	94	87	-7	77	-9%	286	300	285	10	16	14	7	13	11	4	9	7
Erbud	261	310	48	270	18%	1,822	1,921	1,967	51	56	56	41	45	45	26	29	30
Herkules	155	254	99	220	45%	132	162	209	28	41	48	8	21	27	3	13	19
Torpol	184	104	-79	195	-41%	657	1,209	1,660	8	37	55	-7	22	39	-15	15	28
Trakcja	373	431	58	745	8%	1,411	1,482	1,753	70	60	81	41	30	50	28	21	36
Ulma	318	268	-50	284	-18%	195	212	227	71	81	95	22	34	43	17	26	33
Unibep	297	308	11	246	4%	1,637	1,607	1,621	33	47	58	24	38	49	25	31	37
ZUE	146	133	-12	198	-6%	465	739	956	11	20	29	2	10	19	0	8	15
Total	7,336	5,793	-1,543	3,395	-45%	13,625	15,531	16,536	954	951	990	757	753	787	583	589	612
YoY growth						8%	14%	6%	0%	0%	4%	-2%	-1%	5%	-1%	1%	4%
YoY growth ex. BDX						6%	14%	12%	-16%	20%	17%	-28%	37%	24%	-25%	45%	24%

Company	Weight		Target price	Current price	MoM change	P/E			EV/EBITDA			P/B			DYield		
	current	change				2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
Budimex	OW	-	246.00	199.60	+0.8%	11.3	12.8	13.7	5.5	6.8	7.6	5.9	6.2	6.4	7.5%	8.7%	7.8%
Elektrobudowa	OW	-	113.00	86.80	+6.1%	9.5	10.1	11.9	4.5	5.0	5.6	1.0	1.0	1.0	11.5%	9.2%	8.1%
Elektrotim	OW	-	-	9.38	+7.8%	23.7	10.7	12.9	8.4	5.4	5.9	1.1	1.1	1.1	3.7%	5.3%	5.9%
Erbud	OW	-	29.80	20.40	-9.3%	10.0	8.9	8.8	3.7	4.2	3.9	0.9	0.9	0.8	5.8%	5.0%	5.6%
Herkules	N	-	-	3.57	-2.7%	53.3	11.9	8.4	8.9	5.8	4.9	0.7	0.7	0.7	4.5%	4.5%	5.0%
Torpol	N	-	-	8.00	-2.0%	-	12.5	6.5	19.0	5.1	3.9	0.9	0.9	0.8	5.5%	-	2.4%
Trakcja	N	-	-	7.26	-4.0%	13.2	18.0	10.4	5.3	6.9	5.4	0.5	0.5	0.5	6.9%	2.8%	4.1%
Ulma	N	-	-	60.50	+1.7%	18.7	12.4	9.8	3.7	3.5	3.1	1.1	1.1	1.0	8.9%	6.6%	6.6%
Unibep	OW	-	10.80	8.48	-6.8%	11.7	9.6	8.1	9.3	6.7	5.3	1.2	1.1	1.0	2.3%	2.9%	3.6%
ZUE	N	-	-	6.32	-1.9%	-	17.6	9.9	10.7	8.1	6.7	0.7	0.7	0.7	-	-	1.7%
Median					-1.9%	12.4	12.1	9.8	7.0	5.6	5.4	1.0	1.0	0.9	5.8%	5.2%	5.3%

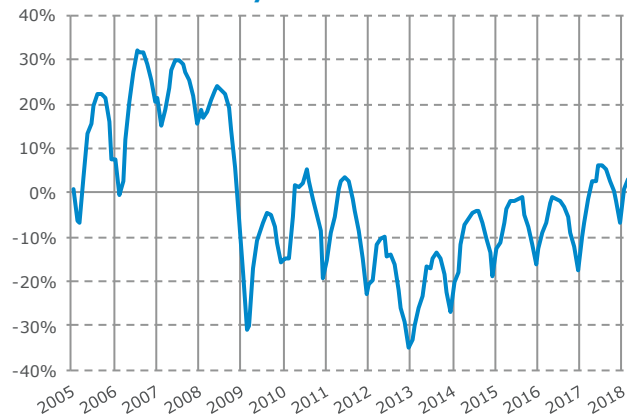
Source: Dom Maklerski mBanku; OW – overweight, N – neutral, UW – underweight; *Net debt/Equity

YoY growth in Polish construction sector



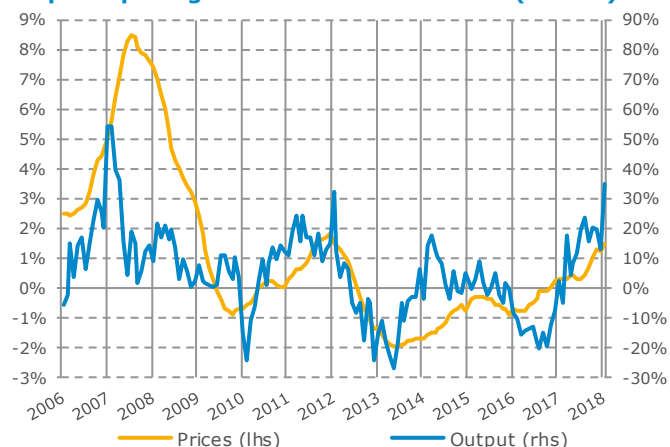
Source: GUS

Construction Industry Sentiment Index



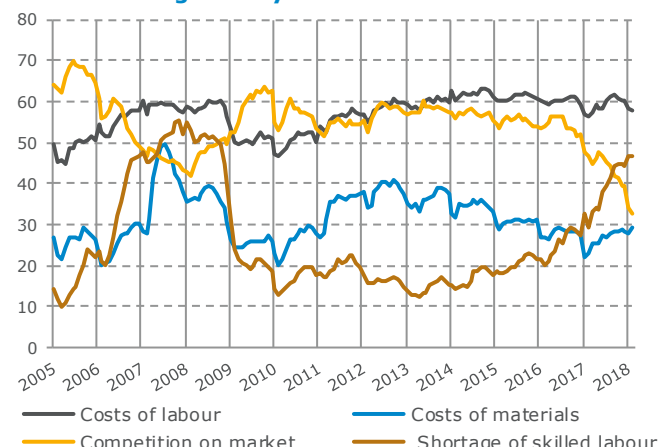
Source: GUS

Output & price growth in the construction (YoY %)



Source: GUS

Factors limiting activity in construction



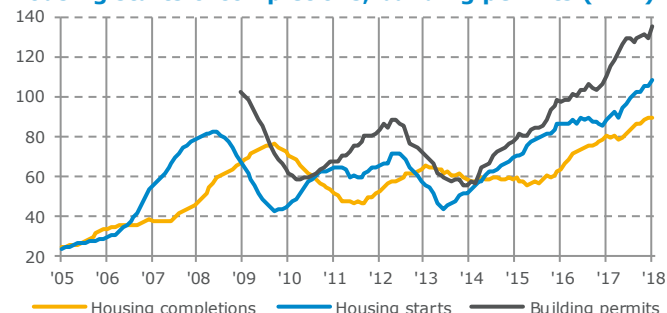
Source: GUS

Earnings Estimates (PLN m) and Recommendations for Property Developers

Company	MCap	EV	Net Debt	BV	D/E*	Revenue			EBIT ex. revaluation			Revaluation			Net profit		
						2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
Archicom	411	466	55	374	15%	333	439	540	53	63	88	11	10	10	56	55	74
Atal	1,665	1,939	274	756	36%	874	953	925	232	246	237	-	-	-	179	192	185
BBI Dev.	77	200	123	212	58%	30	74	30	-1	1	-5	1	10	20	-6	4	9
Capital Park	604	1,765	1,162	989	118%	129	151	157	75	101	107	-105	9	25	-12	55	66
Dom Dev.	2,104	2,167	63	881	7%	1,409	1,672	1,577	234	301	294	-	-	-	191	240	235
Echo Inv.	2,088	2,928	840	1,493	56%	612	524	738	32	4	52	220	398	337	305	303	330
GTC	4,350	7,812	3,462	3,842	90%	543	630	690	315	388	440	544	169	190	613	380	439
i2 Dev.	159	275	117	206	57%	76	243	286	14	47	44	0	0	0	11	36	34
JWC	382	604	222	656	34%	389	491	637	47	74	94	-2	0	0	26	49	68
LC Corp	1,231	1,916	685	1,468	47%	711	838	899	222	243	276	-101	6	15	108	183	213
Lokum Dew.	320	407	87	234	37%	223	306	385	56	69	84	0	0	0	43	53	65
P.A. Nova	233	606	373	341	109%	238	216	219	39	54	48	0	0	0	26	33	30
Polnord	321	652	331	704	47%	286	309	331	20	20	28	0	0	0	8	20	24
Ronson	235	400	166	329	50%	235	221	344	19	28	57	0	0	0	10	18	41
Total	14,180	22,138	7,959	12,483	64%	6,089	7,066	7,759	1,358	1,640	1,845	568	602	597	1,555	1,622	1,812
YoY growth						17%	16%	10%	25%	21%	13%				-	4%	12%
Company	Weight		Target price	Current price	MoM change	P/E			P/B			EV/EBIT ex. rev.			DYield		
	current	change				2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
Archicom	OW	-	-	16.05	+1.9%	7.4	7.5	5.6	0.93	0.87	0.79	8.6	8.5	6.5	6.3%	6.8%	6.7%
Atal	OW	-	49.20	43.00	+4.4%	9.3	8.7	9.0	2.07	2.01	1.99	8.2	7.7	8.3	3.9%	10.0%	10.5%
BBI Dev.	N	-	-	0.74	+2.8%	-	17.5	8.2	0.37	0.36	0.35	-	149.4	-	-	-	-
Capital Park	OW	-	8.42	5.55	-10.5%	-	11.0	9.1	0.60	0.58	0.56	24.5	19.3	20.8	-	-	2.7%
Dom Dev.	OW	-	103.00	84.60	+1.0%	11.0	8.8	8.9	2.11	2.01	2.02	9.5	7.3	7.6	6.0%	9.1%	11.4%
Echo Inv.	OW	-	6.31	5.06	-1.2%	6.8	6.9	6.3	1.25	1.19	1.11	100.3	923.2	63.3	13%	9.9%	10.2%
GTC	N	-	9.70	9.25	-7.0%	7.1	11.4	9.9	1.13	1.07	1.00	25.0	21.9	20.5	2.9%	3.2%	3.8%
i2 Dev.	OW	-	-	16.35	-3.8%	14.7	4.5	4.7	0.69	0.66	0.62	20.5	5.4	5.9	11.6%	15.3%	11.2%
JWC	N	-	-	4.30	-2.5%	14.8	7.8	5.6	0.56	0.53	0.48	12.5	8.0	5.8	-	-	-
LC Corp	OW	-	3.74	2.75	-10.7%	11.4	6.7	5.8	0.83	0.80	0.76	9.0	8.8	8.0	2.5%	9.7%	10.8%
Lokum Dew.	OW	-	-	17.80	-1.1%	7.5	6.0	4.9	1.19	1.04	0.90	7.1	5.4	4.7	4.4%	4.4%	5.4%
P.A. Nova	N	►	-	23.30	+7.4%	9.1	7.0	7.9	0.72	0.69	0.67	15.3	10.7	11.9	3.2%	3.2%	4.3%
Polnord	N	-	-	9.84	+1.4%	42.5	16.2	13.1	0.45	0.44	0.42	36.5	36.1	25.0	-	-	-
Ronson	UW	-	-	1.43	+0.0%	22.9	13.2	5.8	0.69	0.68	0.64	22.4	15.5	7.3	13.3%	5.6%	6.3%
Median					-0.6%	10.2	8.2	7.1	0.78	0.74	0.72	15.3	9.7	8.0	5.2%	7.9%	6.7%

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

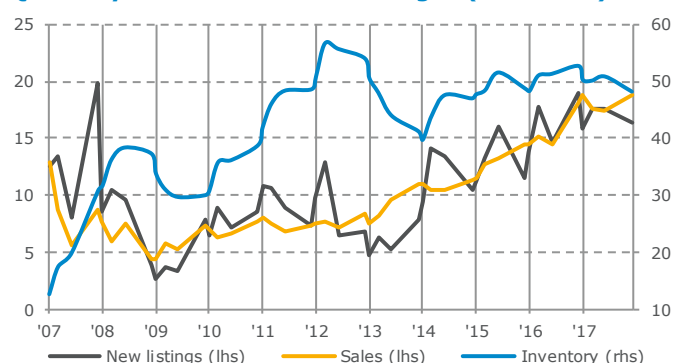
Housing starts & completions, building permits (12M)*



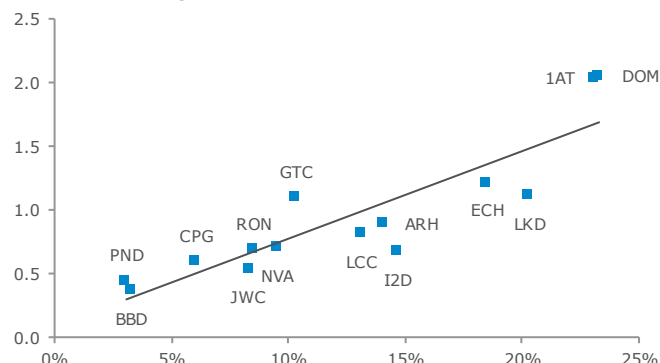
Home Broker & Open Finance Home Price Index



Quarterly new home sales & listings* ('000 units)



2018-2019E P/B vs. ROE



German Real-Estate Stock Valuations

Company	Sector	Current price	MoM change	MCap*	D/E**	P/E			P/B			FFOYield			DYield		
						2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
Adler Real Estate	Resi	13.16	-1.8%	757	182%	8.3	11.0	13.1	0.84	0.77	0.71	4.8%	5.8%	6.4%	-	0.2%	-
ADO Properties	Resi	43.06	-4.3%	1,899	69%	36.2	29.2	26.2	1.02	0.90	0.82	2.9%	3.4%	3.7%	1.5%	1.8%	2.1%
Alstria Office	Office	12.00	-10.0%	2,037	61%	16.6	15.8	15.2	0.98	0.93	0.90	6.2%	6.1%	6.3%	4.4%	4.5%	4.7%
Deutsche Wohnen	Resi	34.13	-5.1%	12,105	61%	28.4	26.1	23.8	1.24	1.10	1.01	4.4%	4.6%	4.8%	2.3%	2.5%	2.7%
DIC Asset	Office	10.98	+4.6%	753	154%	11.8	15.6	15.1	0.91	0.96	0.94	8.0%	8.3%	8.9%	5.8%	4.3%	4.5%
Duutsche EuroShop	Retail	30.02	-5.6%	1,855	65%	12.7	12.9	12.8	0.81	0.80	0.79	8.2%	7.9%	8.0%	4.8%	5.0%	5.1%
Grand City Properties	Resi	18.47	-5.1%	3,044	68%	16.2	15.8	14.3	1.04	0.90	0.83	5.3%	5.8%	6.3%	3.8%	4.1%	4.6%
Hamborner REIT	Mixed	9.31	-6.9%	742	117%	41.9	18.7	18.1	1.32	1.34	1.35	6.1%	6.9%	7.1%	4.6%	4.9%	5.1%
LEG Immobilien	Resi	85.44	-7.4%	5,399	89%	17.1	16.8	16.0	1.28	1.11	1.02	5.5%	6.0%	6.4%	3.6%	3.9%	4.1%
TAG Immobilien	Resi	15.72	-4.6%	2,303	128%	7.3	16.4	14.3	1.69	1.31	1.19	5.3%	6.0%	6.5%	3.6%	4.5%	4.8%
TLG Immobilien	Mixed	22.50	-0.4%	2,296	80%	18.7	17.8	16.8	1.23	1.25	1.19	5.1%	5.4%	5.8%	3.7%	4.0%	4.3%
Vonovia	Resi	37.53	-7.3%	18,206	81%	21.1	19.2	18.5	1.13	1.04	0.97	4.9%	5.2%	5.6%	3.5%	3.8%	4.1%
Median			-5.1%		81%	16.8	16.6	15.6	1.08	1.00	0.96	5.3%	5.9%	6.4%	3.7%	4.0%	4.5%

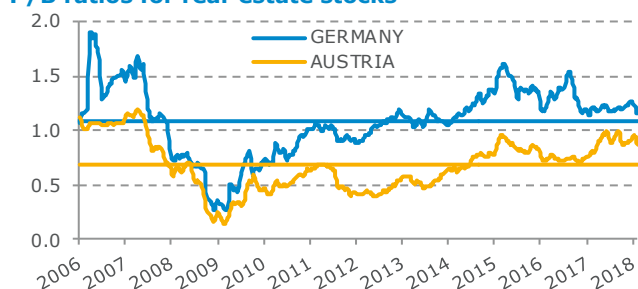
Source: Bloomberg; *MCap in EUR m; **Net debt/Equity

Austrian Real-Estate Stock Valuations

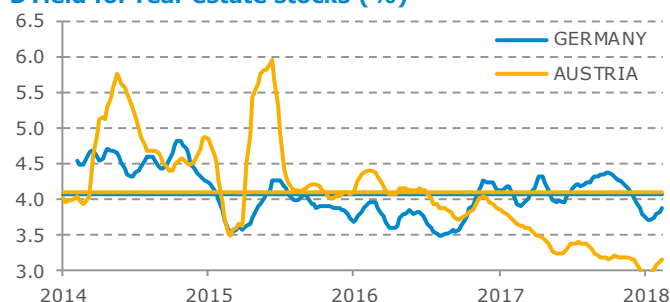
Company	Sector	Current price	MoM change	MCap*	D/E**	P/E			P/B			FFOYield			DYield		
						2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
Atrium European RE	Retail	4.16	-4.1%	1,569	45%	13.9	13.3	12.7	0.81	0.79	0.77	7.5%	7.8%	8.1%	8.7%	7.3%	6.9%
BUWOG	Resi	28.90	+0.3%	3,244	72%	8.1	23.1	20.3	1.47	1.22	1.14	3.3%	3.5%	4.3%	2.4%	2.7%	3.1%
CA Immobilien	Office	23.90	-6.3%	2,362	51%	19.6	20.0	19.1	0.97	0.93	0.90	4.8%	5.2%	5.7%	3.2%	3.6%	4.0%
Immofinanz	Mixed	1.98	-3.9%	2,212	93%	38.8	30.5	25.7	0.76	0.75	0.74	1.1%	3.8%	4.7%	3.0%	3.1%	3.5%
S Immo	Mixed	15.06	-3.2%	1,008	108%	11.5	14.7	13.7	1.12	1.05	0.97	4.6%	5.2%	5.8%	2.9%	3.2%	3.8%
UBS Development	Mixed	38.70	-10.4%	289	121%	9.4	8.3	8.2	0.82	0.77	0.73	7.4%	8.1%	10.9%	4.8%	5.3%	5.8%
Median			-4.0%		82%	12.7	17.3	16.4	0.90	0.86	0.83	4.7%	5.2%	5.7%	3.1%	3.4%	3.9%

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

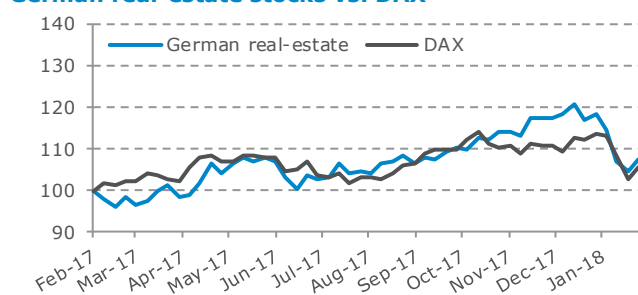
P/B ratios for real-estate stocks



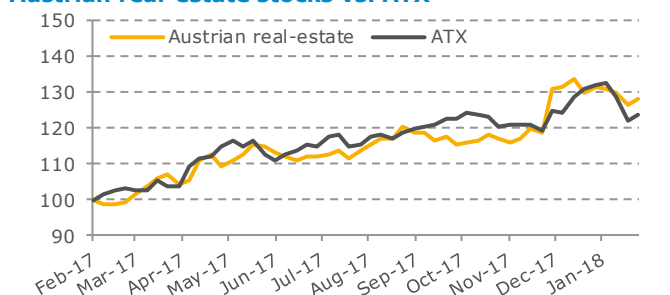
DYield for real-estate stocks (%)



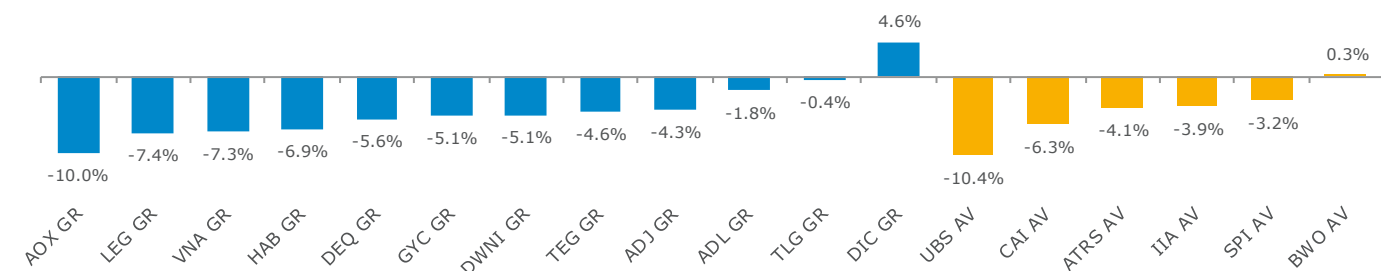
German real-estate stocks vs. DAX



Austrian real-estate stocks vs. ATX



German and Austrian real-estate stocks: monthly performance



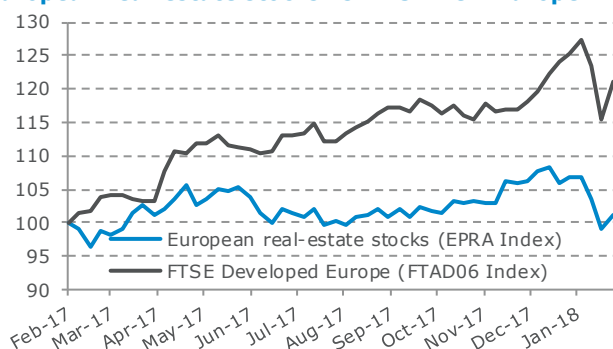
Source: Bloomberg

European Real-Estate Stock Valuations

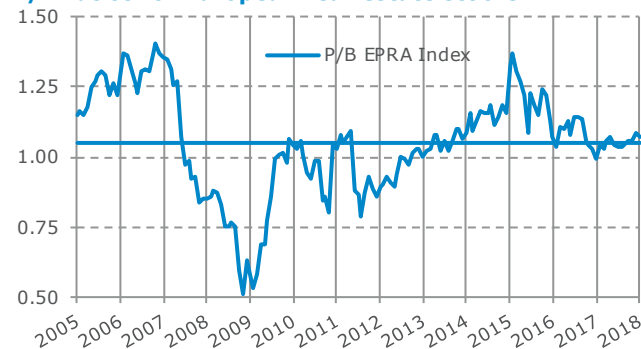
Company	Sector	Current price	MoM change	MCap*	D/E**	P/E			P/B			FFOYield			DYield		
						2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
Cofinimmo	BE Mixed	104.10	-4.1%	2,151	79%	16.1	15.7	15.0	1.17	1.09	1.05	6.3%	6.3%	6.5%	5.3%	5.4%	5.5%
PSP Swiss Property	CH Office	90.25	-2.8%	3,599	60%	16.1	24.0	23.3	1.04	1.04	1.03	4.3%	4.5%	4.6%	3.8%	3.8%	3.8%
Swiss Prime Site	CH Mixed	88.70	-1.6%	5,512	99%	22.4	21.8	21.2	1.32	1.30	1.30	4.6%	4.9%	5.1%	4.2%	4.2%	4.3%
Fonciere Des Regions	FR Office	86.90	-2.4%	6,506	87%	7.0	15.8	15.3	1.03	1.00	0.94	5.9%	6.1%	6.3%	5.2%	5.3%	5.5%
Gecina	FR Office	144.90	-8.8%	10,920	69%	5.1	25.1	22.4	0.97	0.94	0.89	3.6%	3.9%	4.3%	3.7%	3.7%	3.9%
Icade	FR Office	80.85	-6.7%	5,992	178%	35.2	15.8	15.0	1.79	1.93	2.07	6.2%	6.5%	6.8%	5.3%	5.6%	5.9%
Klepierre	FR Retail	33.90	-6.0%	10,657	75%	8.5	13.2	12.7	0.99	0.90	0.86	7.3%	7.7%	8.0%	5.8%	6.0%	6.3%
EuroCommercial	NL Retail	33.66	-10.2%	1,668	76%	6.2	14.2	13.5	0.83	0.80	0.78	6.7%	6.9%	7.4%	6.2%	6.4%	6.6%
Unibail - Rodamco	NL Retail	190.25	-8.0%	18,998	92%	7.8	14.8	14.1	1.00	0.93	0.89	6.4%	6.8%	7.2%	5.7%	6.0%	6.3%
Wereldhave	NL Retail	30.47	-25.4%	1,227	80%	18.1	9.0	8.9	0.64	0.65	0.65	11.8%	11.2%	11.2%	10.1%	8.8%	8.9%
Castellum	SE Mixed	131.15	-3.5%	3,559	113%	6.1	14.1	13.8	1.06	1.04	1.01	6.7%	7.2%	7.7%	4.0%	4.3%	4.5%
British Land Co	UK Mixed	6.37	-6.1%	7,117	43%	33.9	17.3	17.3	0.71	0.70	0.73	5.5%	6.0%	6.0%	4.6%	4.7%	4.8%
Capital & Counties	UK Retail	2.68	-11.9%	2,588	23%	-	-	-	0.81	0.78	0.75	-	-	-	0.6%	0.6%	0.6%
Derwent London	UK Office	29.67	+1.1%	3,758	22%	10.5	29.0	27.1	0.80	0.83	0.83	2.8%	3.0%	3.3%	2.0%	2.2%	2.4%
Great Portland Estates	UK Office	6.38	-1.5%	2,368	7%	-	35.4	32.6	0.80	0.79	0.80	0.2%	2.5%	2.4%	1.6%	2.1%	1.9%
Hammerson	UK Retail	4.56	-8.5%	4,112	58%	9.3	14.0	13.6	0.60	0.58	0.56	6.8%	6.9%	7.2%	5.6%	5.9%	6.2%
Intu Properties	UK Retail	2.10	-8.8%	3,227	129%	13.0	14.1	13.5	0.56	0.75	0.76	7.0%	7.2%	8.3%	6.7%	6.8%	6.9%
Land Securities Group	UK Mixed	9.28	-7.5%	7,814	30%	64.9	17.7	16.7	0.64	0.64	0.66	5.0%	5.4%	5.3%	4.2%	4.4%	4.5%
Segro	UK Industr	5.75	+0.7%	6,555	41%	5.8	26.6	24.1	1.03	0.99	0.95	3.4%	3.8%	4.1%	2.9%	3.1%	3.3%
Shaftesbury	UK Mixed	9.66	-4.1%	3,371	30%	8.9	53.0	47.3	1.02	1.01	0.98	1.6%	1.8%	2.0%	1.7%	1.8%	1.9%
Median			-6.1%		72%	9.9	15.8	15.3	0.98	0.91	0.88	5.9%	6.1%	6.3%	4.4%	4.6%	4.7%

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

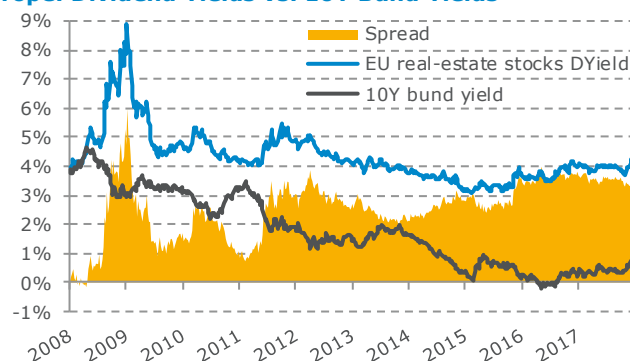
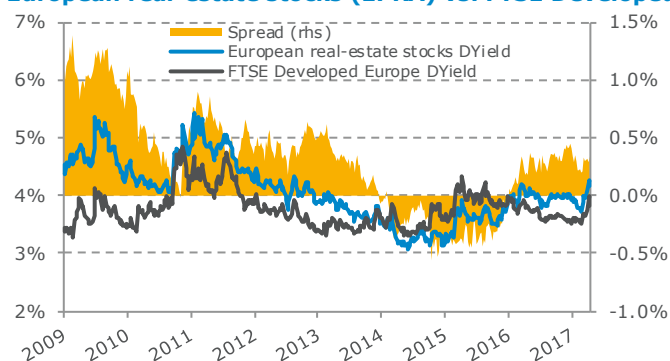
European real-estate stocks vs. FTSE Dev. Europe



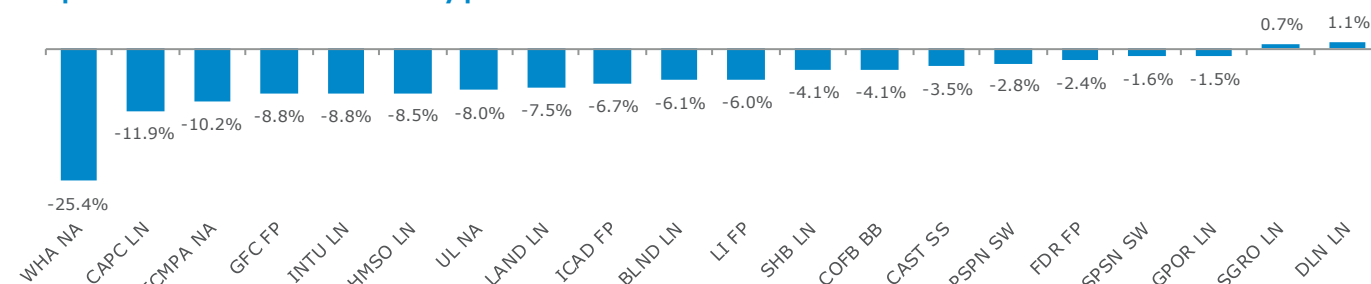
P/B ratios for European real-estate stocks



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 2018	2017	P/E 2018	2019	EV/EBITDA			DYield		
												2017	2018	2019	2017	2018	2019
Strabag	AT	15%	100%	32.80	-7.2%	3,608	-17%	0.96	13.0	12.0	11.6	4.2	4.1	4.1	3.1%	3.4%	3.7%
Porr	AT	60%	100%	27.70	-5.5%	806	11%	1.74	13.6	11.4	9.9	6.0	5.5	5.1	4.0%	4.3%	4.9%
Hochtief	DE	5%	100%	138.80	-6.8%	8,925	-69%	4.13	21.2	18.2	16.8	7.7	6.5	6.0	1.9%	2.5%	2.8%
Bouygues	FR	65%	75%	42.22	-7.1%	15,409	26%	1.65	13.9	16.1	14.4	5.9	5.9	5.5	3.8%	3.9%	4.0%
Salini	IT	15%	100%	2.52	-21.4%	1,238	16%	0.87	13.4	8.1	6.4	3.8	3.5	3.2	2.4%	3.8%	4.7%
Astaldi	IT	25%	80%	2.32	-18.3%	228	160%	0.34	18.8	2.6	2.3	5.4	5.6	5.4	5.2%	3.0%	5.1%
Mota Engil	PT	30%	80%	4.03	+0.8%	956	225%	2.12	28.8	12.6	9.4	6.3	5.8	5.5	2.6%	2.0%	3.2%
Skanska	SE	25%	60%	165.40	+2.7%	6,575	-4%	2.45	16.5	15.1	13.1	14.9	9.8	8.7	5.0%	5.1%	5.3%
PEAB	SE	80%	80%	76.85	+6.6%	1,998	19%	2.06	11.0	12.3	12.2	7.7	7.8	7.6	5.2%	5.3%	5.4%
NCC	SE	50%	100%	159.85	+1.2%	1,510	-17%	2.94	17.2	13.0	10.6	8.5	6.7	5.8	5.0%	5.9%	6.2%
Median					-6.1%		13%	1.90	15.2	12.4	11.1	6.2	5.8	5.5	3.9%	3.9%	4.8%

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

Valuation of Diversified European Construction Conglomerates

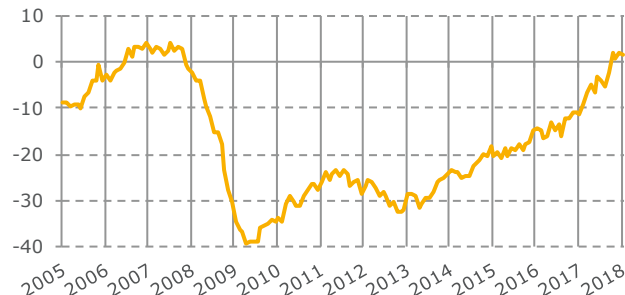
Company		Domestic sales	Constr. as % of EBIT	Current price	MoM change	MCap*	D/E**	P/B		P/E		EV/EBITDA			DYield		
								2018	2017	2018	2019	2017	2018	2019	2017	2018	2019
OHL	ES	20%	20%	4.72	-8.9%	1,353	56%	0.52	11.4	14.3	14.9	6.5	9.3	9.9	0.9%	1.8%	1.8%
Ferrovial	ES	20%	35%	17.99	-4.0%	13,170	90%	2.50	35.1	35.5	30.4	20.5	21.3	19.8	4.2%	4.3%	4.4%
Acciona	ES	55%	10%	70.56	-6.7%	4,040	131%	0.99	18.3	16.0	14.2	7.0	7.4	7.1	4.1%	4.2%	4.5%
FCC	ES	55%	25%	10.06	+4.2%	3,811	277%	3.15	21.0	16.7	14.0	9.6	9.2	8.9	-	0.1%	0.2%
ACS	ES	15%	50%	28.80	-12.9%	9,062	0%	2.07	11.7	11.2	10.6	5.3	5.0	4.8	4.2%	4.4%	4.6%
Eiffage	FR	80%	30%	91.76	-4.9%	8,993	221%	1.93	17.9	15.0	13.4	8.5	8.1	7.9	2.0%	2.3%	2.7%
Vinci	FR	60%	30%	82.68	-4.9%	48,940	63%	2.46	16.7	15.7	14.4	9.8	9.3	8.8	3.0%	3.1%	3.4%
Mediana					-4.9%		90%	2.07	17.9	15.7	14.2	8.5	9.2	8.8	3.5%	3.1%	3.4%

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

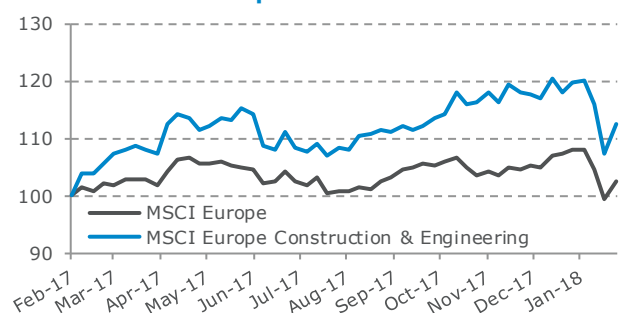
EU27 construction output (2010=100)



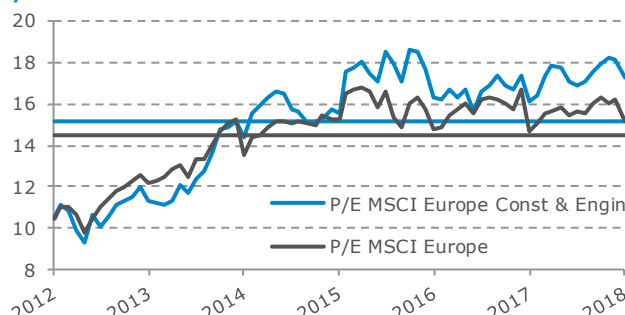
EU27 Construction Confidence Index



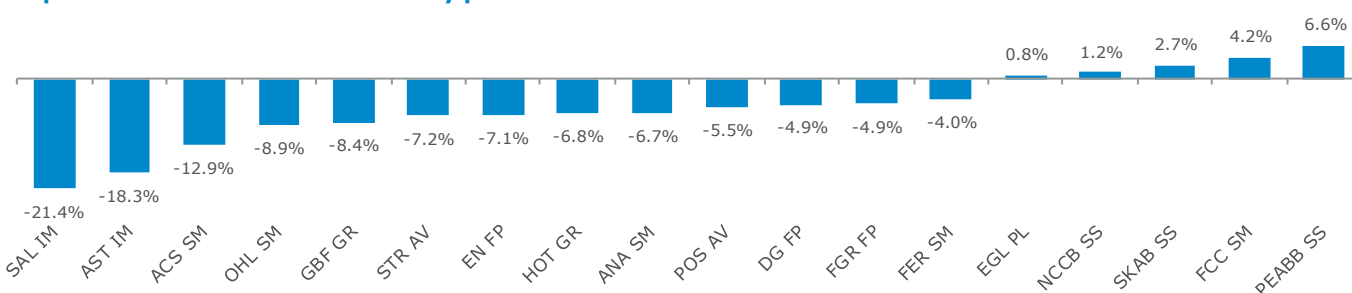
EU construction stock performance vs. broad market



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

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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.

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

The production of recommendations was completed on February 28, 2018, 8:55 AM.
This recommendation was first disseminated on February 28, 2018, 8:55 AM.

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In the last 12 months mBank S.A. has been co-book runners for Cognor Holding, Famur, GetBack, Grupa Azoty, LC Corp, Polski Bank Komórek Macierzystych, Robyg, Wirtualna Polska.

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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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	2018-01-25
Target price (PLN)	-
Price on rating day	15.75

Atal

Rating	accumulate	accumulate	accumulate	buy
Rating date	2018-02-02	2017-09-01	2017-06-02	2017-04-10
Target price (PLN)	49.20	45.00	44.10	44.10
Price on rating day	42.40	40.40	40.00	34.89

BBI Development

Rating	neutral	neutral
Rating date	2018-02-02	2017-06-02
Target price (PLN)	-	-
Price on rating day	0.70	0.73

Budimex

Rating	buy	buy	hold
Rating date	2018-02-02	2017-07-24	2017-05-08
Target price (PLN)	246.00	267.00	238.40
Price on rating day	197.80	229.50	275.65

Capital Park

Rating	buy
Rating date	2018-02-02
Target price (PLN)	8.42
Price on rating day	5.95

Dom Development

Rating	buy	buy	accumulate	buy
Rating date	2018-02-02	2017-09-01	2017-06-02	2017-05-12
Target price (PLN)	103.00	101.10	81.70	81.70
Price on rating day	82.00	82.25	76.10	70.20

Echo

Rating	buy	buy	buy	accumulate
Rating date	2018-02-02	2017-10-02	2017-09-01	2017-07-03
Target price (PLN)	6.31	6.42	6.64	6.64
Price on rating day	5.05	5.19	5.21	6.26

Elektrobudowa

Rating	buy	buy	buy	hold
Rating date	2018-02-02	2017-09-01	2017-05-08	2017-04-05
Target price (PLN)	113.00	134.00	146.00	146.00
Price on rating day	81.20	109.50	120.55	139.90

Elektrotim

Rating	overweight	underweight	neutral	underweight
Rating date	2017-11-16	2017-10-24	2017-09-14	2017-03-06
Target price (PLN)	-	-	-	-
Price on rating day	7.61	9.76	11.98	15.07

Erbud

Rating	buy	buy	buy	accumulate	hold
Rating date	2017-12-15	2017-11-03	2017-09-01	2017-06-02	2017-04-05
Target price (PLN)	29.80	29.80	31.30	33.50	33.50
Price on rating day	20.60	24.70	26.00	31.50	32.98

GTC

Rating	hold	hold	hold
Rating date	2018-02-02	2018-01-05	2017-08-02
Target price (PLN)	9.70	10.00	9.59
Price on rating day	9.67	9.90	9.62

Herkules

Rating	neutral	neutral	overweight
Rating date	2018-01-25	2017-10-24	2017-06-02
Target price (PLN)	-	-	-
Price on rating day	3.67	3.60	4.17

i2 Development

Rating	overweight
Rating date	2018-01-12
Target price (PLN)	-
Price on rating day	14.90

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

JWC

Rating	neutral
Rating date	2018-01-25
Target price (PLN)	-
Price on rating day	4.41

LC Corp

Rating	buy	buy
Rating date	2018-02-02	2017-09-26
Target price (PLN)	3.74	3.54
Price on rating day	3.10	2.69

Lokum Deweloper

Rating	overweight	overweight
Rating date	2018-01-25	2017-09-14
Target price (PLN)	-	-
Price on rating day	18.00	16.30

PA Nova

Rating	neutral	neutral
Rating date	2018-02-28	2017-11-27
Target price (PLN)	-	-
Price on rating day	23,30	24.00

Polnord

Rating	neutral	neutral	underweight
Rating date	2018-02-02	2017-12-27	2017-05-16
Target price (PLN)	-	-	-
Price on rating day	10.50	8.70	10.00

Robyg

Rating	suspended	hold	buy	buy
Rating date	2018-02-28	2018-02-02	2017-09-01	2017-05-12
Target price (PLN)	-	4.03	4.25	4.35
Price on rating day	3.99	3.86	3.40	3.21

Ronson

Rating	underweight	underweight
Rating date	2018-02-02	2017-03-06
Target price (PLN)	-	-
Price on rating day	1.45	1.80

Torpol

Rating	neutral	neutral	neutral	neutral	overweight
Rating date	2018-02-02	2018-01-25	2017-11-27	2017-10-24	2017-09-14
Target price (PLN)	-	-	-	-	-
Price on rating day	7.98	8.16	8.55	10.93	12.05

Trakcja

Rating	neutral	neutral	underweight	underweight	neutral
Rating date	2018-02-02	2018-01-25	2017-11-27	2017-10-24	2017-09-14
Target price (PLN)	-	-	-	-	-
Price on rating day	7.24	7.56	7.69	10.30	12.80

Ulma

Rating	neutral
Rating date	2017-11-27
Target price (PLN)	-
Price on rating day	73.90

Unibep

Rating	buy	accumulate	buy	buy	accumulate
Rating date	2018-02-02	2018-01-05	2017-11-03	2017-09-01	2017-03-01
Target price (PLN)	10.80	10.80	14.00	15.40	12.80
Price on rating day	8.60	9.76	9.90	12.20	12.59

ZUE

Rating	neutral	neutral	underweight	underweight	overweight
Rating date	2018-02-02	2018-01-25	2017-11-27	2017-09-14	2017-04-12
Target price (PLN)	-	-	-	-	-
Price on rating day	6.18	6.44	6.89	9.20	12.35

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