

Monday, May 28, 2018 | periodic publication

Construction & Real Estate: May 2018

Construction & Property Developers, Poland

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Construction

- The aggregate **2018 first-quarter EBITDA** of Polish construction firms was down 16% year over year. **Trakcja** and **Elektrotim** both surprised negatively in the period, while **Unibep** and **Ulma** exceeded analysts' expectations.
- The aggregate **backlog** of rated builders was 20% higher as of 31 March 2018 than in March 2017. All companies except **Elektrobudowa** find their backlogs to be at comfortable levels which allow them to be selective in picking future bookings. With that said, the quality of existing bookings might give rise to profit risk in the coming year.
- Thirteen largest building companies (with the exception of **Budimex**) reported having **net debt** equivalent to 3% of equity as of 31 March 2018 compared to a net cash/equity ratio of 14% a year ago. The increase in debt stems from worsened valuations of construction contracts, with implications for future profits. **Elektrobudowa** was the only builder to have improved its cash position vis-à-vis last year. On the other hand, the worst deterioration in financial standing was reported by **Trakcja**, **Torpol**, **ZUE**, and **Mostostal Warszawa**.
- Trakcja** reported the worst quarterly results for Q1 2018, alongside a huge increase in debt, of the three rated **railway builders**, but neither of the other two, **Torpol** or **ZUE**, make for good investments at the moment looking at their balance sheets and unfavorable market conditions.
- We have lowered our **2018-2020 EBITDA forecasts** for **Elektrotim** by 40% after two disappointing quarterly earnings seasons, and we downgrade the stock to neutral. We have also cut our 2018-2020 EBITDA projections for **Torpol** and **ZUE** by 15% based on the worsened balance sheets. This follows a May 18th downgrade of **Trakcja**. On the other hand, we have raised the net earnings outlook for **Ulma** by 30% to reflect changes in amortization rates.
- Polish construction companies may be forced to increase leverage further in the next two quarters due to seasonality and the implementation of the VAT split payment mechanism in July. This might result in negative earnings surprises in the sector.
- Accordingly, we would steer clear of construction stocks in the month ahead, except for **Unibep**, **Elektrobudowa**, and **Budimex**, offering healthy balance sheets and generous dividends.
- TOP PICKS: OVERWEIGHT** UNI, BDX, ELB; **UNDERWEIGHT: TRK**

Property Developers

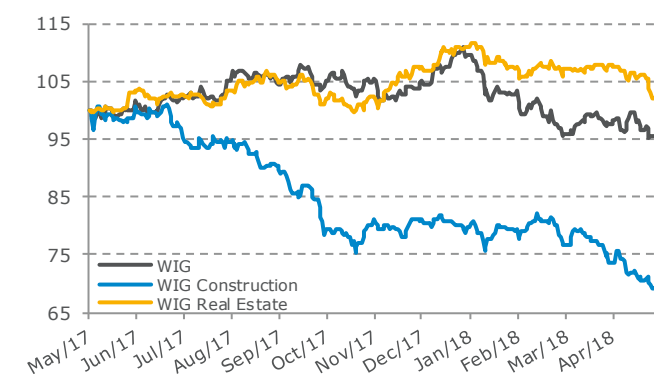
- We remain **overweight real-estate developers**, particularly those that offer high dividends and a sound business model. Our six top picks are traded at 7.0x 2018E P/E, and they offer average dividend yield of 8.9%. The ratios for FY2019E look even better.
- Listed developers generated an average gross margin of 27.3% in **Q1 2018**, showing a 1.7pp beat relative to our expectations for the quarter and topping the estimate for the full year by 1pp. The biggest positive surprise of the quarter was delivered by **LC Corp**, and there were no major disappointments.
- We **downgrade** our call for **i2 Development** to neutral after strong year-to-day gains despite a lower-than-expected 2018 dividend declaration, higher debt, and a relatively small land bank. **i2D** remains a likely acquisition target with its cheap price multiples.
- TOP PICKS: OVERWEIGHT** LCC, ARH, LKD, ECH, 1AT, DOM

MoM* and YTD Price Change

Construction	MoM	YTD
Ulma	+10.3%	+10%
Herkules	+0.0%	-1%
ZUE	-3.3%	-4%
Budimex	-7.7%	-16%
Elbudowa	-11.9%	+11%
Torpol	-15.3%	-19%
Erbud	-15.4%	-13%
Unibep	-16.9%	-41%
Elektrotim	-25.6%	-34%
Trakcja	-52.7%	-58%
WIG Con.	-7.3%	-14%
WIG	-1.7%	-9%
Developers	MoM	YTD
Lokum Dew.	+9.1%	+11%
Archicom	+3.3%	-4%
LC Corp	+2.6%	+0%
i2 Dev.	+0.0%	+40%
Atal	-2.1%	+1%
Capital Park	-4.4%	-6%
Echo Inv.	-5.5%	+10%
JWC	-6.5%	-18%
Dom Dev.	-7.0%	-4%
GTC	-8.3%	-13%
P.A. Nova	-8.8%	-5%
Polnord	-10.4%	-25%
BBi Dev.	-13.6%	-11%
Ronson	-13.8%	-21%
WIG Real Est.	-4.3%	-4%
WIG	-1.7%	-9%
Foreign Indices	MoM	YTD
DE Real Est.	+4.6%	+5%
DAX	+4.3%	+0%
AT Real Est.	+4.1%	+4%
ATX	-1.1%	-0%
EU Real Est.	+2.6%	+0%
EU Con.	+2.0%	+1%
EU Equity	-1.5%	-2%

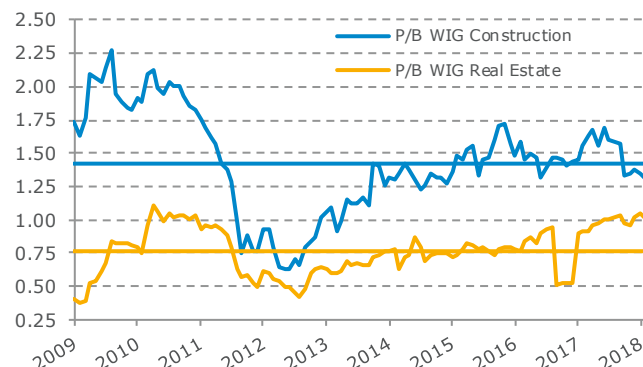
*Apr. 25 - May 27

WIG Construction and WIG Real Estate vs. WIG



Source: Bloomberg

P/B ratios for WIG Construction and WIG Real Estate



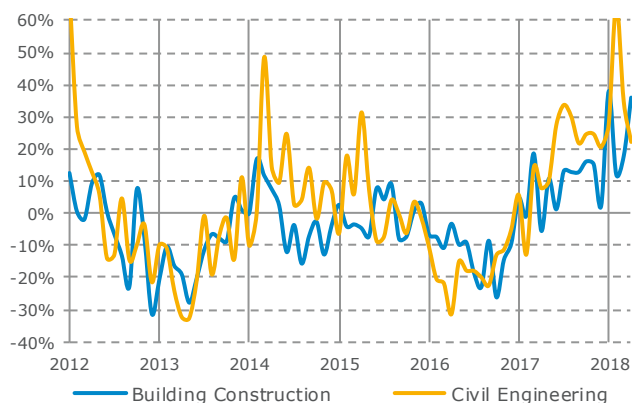
Earnings Estimates and Weighting Recommendations for Construction Stocks (PLN m)

Company	MCap	EV	Net Debt	BV	D/E*	Revenue			EBITDA			EBIT			Net profit		
						2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
Budimex	4,161	2,564	-1,597	945	-169%	7,202	7,137	6,976	552	529	475	512	490	438	414	396	353
Elektrobudowa	408	276	-132	417	-32%	871	845	863	64	55	56	49	40	41	42	35	36
Elektrotim	58	58	1	70	1%	320	304	295	8	9	11	6	7	8	2	4	5
Erbud	225	284	59	275	21%	1,937	1,983	1,964	47	53	55	32	40	42	21	26	27
Herkules	129	228	99	212	47%	162	209	209	41	48	48	21	27	27	13	19	19
Torpol	147	167	20	178	11%	1,216	1,393	1,418	27	41	45	10	24	28	5	16	19
Trakcja	155	320	165	739	22%	1,473	1,572	1,631	43	46	57	13	15	26	7	7	15
Ulma	384	313	-70	305	-23%	224	233	234	90	96	97	54	56	51	42	44	40
Unibep	207	273	66	269	24%	1,643	1,656	1,631	48	58	56	37	47	44	31	36	32
ZUE	135	132	-3	208	-1%	779	922	932	20	28	37	10	17	26	7	13	20
Total	6,010	4,616	-1,394	3,618	-39%	15,828	16,254	16,152	940	962	936	743	763	730	583	595	568
YoY growth						14%	3%	-1%	-4%	2%	-3%	-5%	3%	-4%	-3%	2%	-5%
YoY growth ex. BDX						14%	6%	1%	9%	12%	6%	17%	18%	7%	26%	18%	8%

Company	Weight		Target price	Current price	MoM change	P/E			EV/EBITDA			P/B			DYield		
	current	change				2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
Budimex	OW	-	216.39	163.00	-7.7%	10.1	10.5	11.8	4.0	4.2	5.4	4.9	5.0	5.2	10.8%	9.7%	9.3%
Elektrobudowa	OW	-	116.00	86.00	-11.9%	9.8	11.6	11.3	3.7	4.2	4.1	0.9	0.9	0.9	12.2%	8.1%	7.0%
Elektrotim	N	▼	-	5.80	-25.6%	35.2	14.8	11.7	6.5	5.6	4.7	0.8	0.7	0.7	-	3.4%	5.2%
Erbud	OW	-	23.10	17.60	-15.4%	10.7	8.7	8.2	4.8	4.2	4.0	0.8	0.8	0.7	6.3%	4.7%	6.9%
Herkules	N	-	-	3.16	+0.0%	9.9	7.0	6.9	5.2	4.3	4.1	0.6	0.6	0.5	2.2%	5.7%	6.3%
Torpol	N	►	-	6.40	-15.3%	30.0	9.3	7.6	7.5	4.6	3.8	0.8	0.7	0.7	-	-	3.1%
Trakcja	UW	-	-	3.02	-52.7%	23.7	21.6	10.2	5.5	5.4	4.2	0.2	0.2	0.2	3.3%	-	6.6%
Ulma	N	►	-	73.00	+10.3%	9.1	8.8	9.5	3.6	3.5	3.3	1.2	1.1	1.1	5.2%	5.5%	5.5%
Unibep	OW	-	10.10	5.90	-16.9%	6.8	5.8	6.4	4.4	3.4	3.2	0.8	0.7	0.6	2.5%	5.2%	6.9%
ZUE	N	►	-	5.86	-3.3%	18.7	10.1	6.6	7.5	6.1	3.7	0.6	0.6	0.6	-	-	5.1%
Median					-13.6%	10.4	9.7	8.9	5.0	4.3	4.0	0.8	0.7	0.7	5.2%	5.5%	6.5%

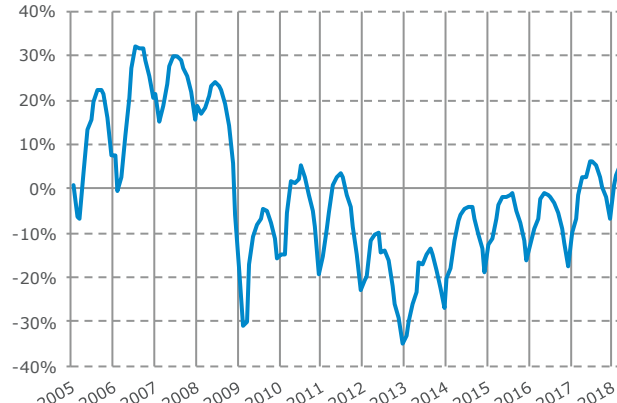
Source: Dom Maklerski mBanku; OW – overweight, N – neutral, UW – underweight; *Net debt/Equity

YoY growth in Polish construction sector



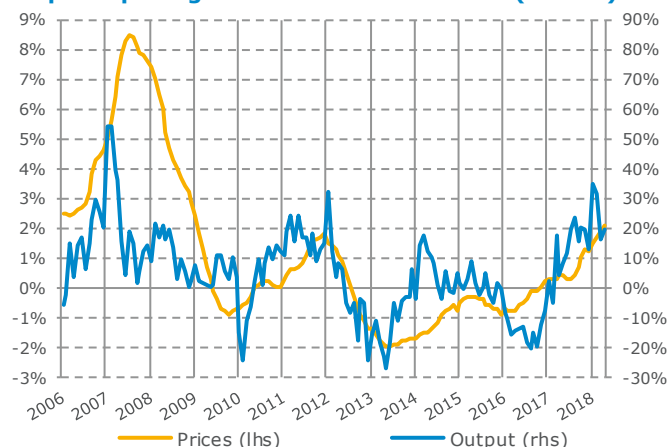
Source: GUS

Construction Industry Sentiment Index



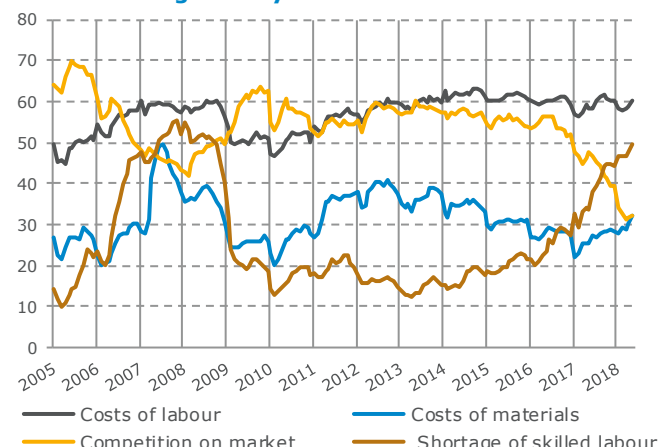
Source: GUS

Output & price growth in the construction (YoY %)



Source: GUS

Factors limiting activity in construction



Source: GUS

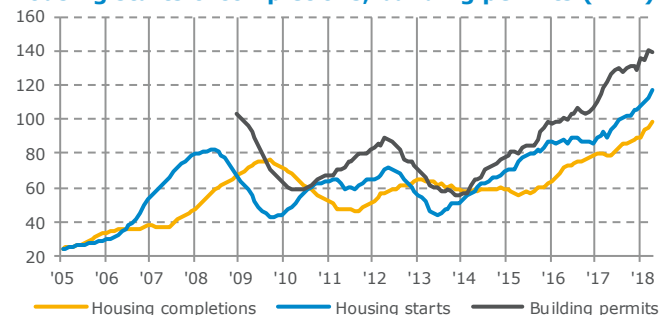
Earnings Estimates (PLN m) and Recommendations for Property Developers

Company	MCap	EV	Net Debt	BV	D/E*	Revenue			EBIT ex. revaluation			Revaluation			Net profit		
						2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
Archicom	405	470	66	447	15%	438	548	528	64	93	84	10	10	0	55	78	62
Atal	1,665	1,864	200	852	23%	953	925	1,020	245	236	242	-	-	-	193	186	189
BBI Dev.	60	180	121	195	62%	74	30	24	1	-5	-6	10	20	15	5	9	5
Capital Park	593	1,707	1,115	984	113%	151	157	165	99	106	111	9	25	24	55	65	68
Dom Dev.	2,034	2,017	-17	1,024	-2%	1,737	1,692	1,792	296	289	308	-	-	-	238	233	248
Echo Inv.	1,836	2,716	879	1,588	55%	524	738	826	2	51	64	399	336	253	303	328	266
GTC	3,875	7,455	3,580	4,045	89%	633	690	767	386	437	494	170	190	223	380	436	503
i2 Dev.	168	313	146	231	63%	243	286	302	47	44	44	0	0	0	36	34	33
JWC	307	564	256	680	38%	491	637	606	74	94	91	0	0	0	49	68	64
LC Corp	1,235	1,894	658	1,527	43%	837	898	928	234	267	278	18	19	0	185	209	201
Lokum Dew.	333	402	69	296	23%	306	298	449	79	70	102	-	-	-	54	48	72
P.A. Nova	219	592	373	355	105%	220	223	226	50	44	45	-	-	-	31	27	28
Polnord	235	648	413	713	58%	309	331	337	20	28	28	0	0	0	20	24	26
Ronson	184	301	117	342	34%	309	320	396	35	41	51	0	0	0	23	29	36
Total	13,149	21,124	7,975	13,277	60%	7,225	7,773	8,367	1,635	1,796	1,935	616	600	515	1,626	1,774	1,801
YoY growth						20%	8%	8%	22%	10%	8%				-	9%	2%

Company	Weight		Target price	Current price	MoM change	P/E			P/B			EV/EBIT ex. rev.			DYield		
	current	change				2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
Archicom	OW	-	-	15.80	+3.3%	7.3	5.2	6.5	0.87	0.80	0.76	8.4	6.2	7.5	9.1%	8.9%	9.5%
Atal	OW	-	47.00	43.00	-2.1%	8.6	9.0	8.8	1.96	1.93	1.93	7.3	7.9	8.0	8.2%	10.6%	11.3%
BBI Dev.	N	-	-	0.57	-13.6%	13.2	6.3	10.9	0.30	0.29	0.28	144.7	-	-	-	-	-
Capital Park	OW	-	8.35	5.45	-4.4%	10.8	9.1	8.7	0.57	0.54	0.52	19.4	21.1	22.9	-	2.8%	3.7%
Dom Dev.	OW	-	103.10	81.80	-7.0%	8.5	8.7	8.2	1.93	1.94	1.91	7.1	7.4	7.0	9.3%	11.6%	11.5%
Echo Inv.	OW	-	5.63	4.45	-5.5%	6.1	5.6	6.9	1.09	1.02	1.00	-	56.0	44.5	11.2%	11.5%	12.5%
GTC	N	-	9.60	8.24	-8.3%	10.2	8.9	7.7	0.94	0.88	0.82	21.0	19.8	18.1	4.0%	4.2%	4.9%
i2 Dev.	N	▼	-	17.30	+0.0%	4.7	5.0	5.0	0.69	0.65	0.60	5.6	6.1	5.7	6.5%	10.6%	10.0%
JWC	UW	-	-	3.46	-6.5%	6.2	4.5	4.8	0.42	0.39	0.36	7.0	5.0	5.1	-	-	-
LC Corp	OW	-	3.50	2.76	+2.6%	6.7	5.9	6.1	0.81	0.77	0.74	9.2	8.3	8.1	8.7%	10.3%	11.7%
Lokum Dew.	OW	-	-	18.50	+9.1%	6.2	7.0	4.6	0.99	0.93	0.82	4.7	5.4	3.7	4.5%	8.1%	7.2%
P.A. Nova	N	-	-	21.90	-8.8%	7.1	8.3	7.9	0.58	0.55	0.53	11.0	12.4	11.7	-	3.4%	4.6%
Polnord	N	-	-	7.21	-10.4%	11.9	9.6	9.2	0.32	0.31	0.30	31.9	21.9	21.5	-	-	-
Ronson	N	-	-	1.12	-13.8%	8.1	6.4	5.1	0.52	0.49	0.47	10.1	8.7	6.6	4.5%	5.4%	7.1%
Median					-6.0%	7.7	6.7	7.3	0.75	0.71	0.67	9.2	8.3	8.0	8.2%	8.9%	9.5%

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

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



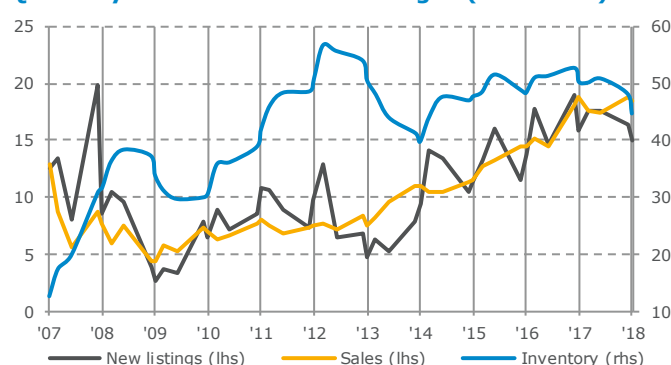
Source: GUS; *developers only; '000 units

Home Broker & Open Finance Home Price Index



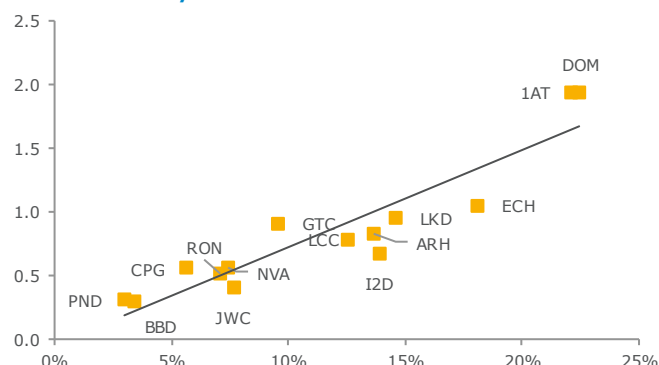
Source: Home Broker & Open Finance

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



Source: REAS; *Statistics for six largest cities in Poland

2018-2019E P/B vs. ROE



Source: Dom Maklerski mBanku

German Real-Estate Stock Valuations

Company	Sector	Current price	MoM change	MCap*	D/E**	P/E			P/B			FFOYield			DYield		
						2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
Adler Real Estate	Resi	14.90	+1.2%	858	252%	5.5	10.9	9.9	0.85	0.79	0.74	5.8%	6.6%	7.1%	-	-	-
ADO Properties	Resi	45.00	+2.9%	1,985	77%	30.8	27.5	25.4	0.97	0.88	0.82	3.3%	3.7%	4.1%	1.6%	1.8%	2.1%
Alstria Office	Office	12.63	+3.9%	2,239	53%	18.5	17.1	16.2	0.96	0.93	0.89	5.1%	5.5%	5.6%	4.2%	4.3%	4.6%
Deutsche Wohnen	Resi	39.43	+5.3%	13,985	65%	30.3	27.3	25.4	1.27	1.19	1.12	3.4%	3.6%	3.8%	2.2%	2.4%	2.5%
DIC Asset	Office	9.75	-2.0%	688	145%	14.0	13.4	12.7	0.83	0.82	0.79	9.2%	10.0%	10.8%	4.7%	5.1%	5.5%
Duutsche EuroShop	Retail	31.62	+9.8%	1,954	63%	14.2	14.2	14.3	0.84	0.83	0.86	7.6%	7.7%	7.8%	4.7%	4.9%	5.0%
Grand City Properties	Resi	21.08	+8.9%	3,474	75%	20.1	17.4	16.4	0.99	0.92	0.88	5.3%	5.7%	6.2%	3.7%	4.1%	4.3%
Hamborner REIT	Mixed	9.11	-0.5%	726	115%	21.7	20.2	19.1	1.31	1.31	1.34	6.6%	7.1%	7.4%	5.1%	5.4%	5.5%
LEG Immobilien	Resi	93.40	+4.8%	5,902	91%	17.9	17.7	18.0	1.26	1.15	1.07	5.5%	5.8%	6.1%	3.6%	3.9%	4.1%
TAG Immobilien	Resi	18.17	+9.1%	2,662	125%	18.6	14.5	13.4	1.47	1.33	1.17	5.2%	5.6%	5.8%	3.9%	4.2%	4.4%
TLG Immobilien	Mixed	24.44	+9.5%	2,506	77%	18.2	17.6	16.6	1.27	1.19	1.05	5.2%	5.5%	5.9%	3.6%	3.8%	4.1%
Vonovia	Resi	39.29	+2.2%	20,081	93%	19.5	18.4	17.9	1.09	1.02	0.97	5.1%	5.5%	5.8%	3.7%	4.0%	4.2%
Median			+4.4%		84%	18.5	17.5	16.5	1.04	0.97	0.93	5.2%	5.6%	6.0%	3.7%	4.1%	4.3%

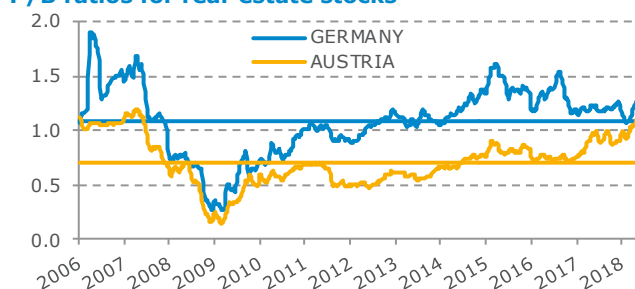
Source: Bloomberg; *MCap in EUR m; **Net debt/Equity

Austrian Real-Estate Stock Valuations

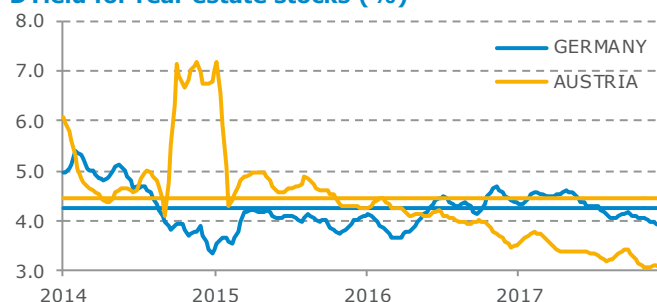
Company	Sector	Current price	MoM change	MCap*	D/E**	P/E			P/B			FFOYield			DYield		
						2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
Atrium European RE	Retail	3.98	+1.8%	1,502	54%	13.1	12.5	12.1	0.80	0.78	0.76	8.0%	8.1%	9.3%	8.5%	7.0%	7.1%
BUWOG	Resi	29.06	+0.1%	3,608	66%	21.9	18.9	17.6	1.20	1.12	1.05	-	-	-	2.8%	3.1%	3.5%
CA Immobilien	Office	29.36	+9.9%	2,901	51%	24.4	22.3	17.6	1.12	1.08	1.05	4.0%	4.4%	4.7%	2.9%	3.2%	3.3%
Immofinanz	Mixed	2.09	+4.1%	2,345	67%	28.7	24.0	19.0	0.79	0.78	-	3.4%	4.3%	4.0%	3.3%	3.5%	4.3%
S Immo	Mixed	16.50	+8.8%	1,104	112%	14.9	14.5	13.9	1.13	1.07	1.01	3.9%	4.1%	4.5%	2.6%	3.0%	3.0%
UBS Development	Mixed	42.10	+0.2%	315	120%	8.9	8.5	8.9	0.82	0.78	0.74	9.8%	10.9%	10.0%	5.0%	5.3%	5.6%
Median			+2.9%		67%	18.4	16.7	15.8	0.97	0.92	1.01	4.0%	4.4%	4.7%	3.1%	3.4%	3.9%

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

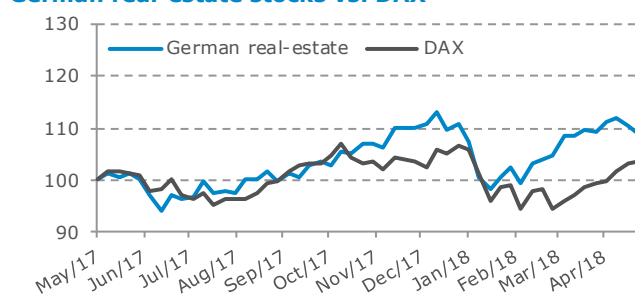
P/B ratios for real-estate stocks



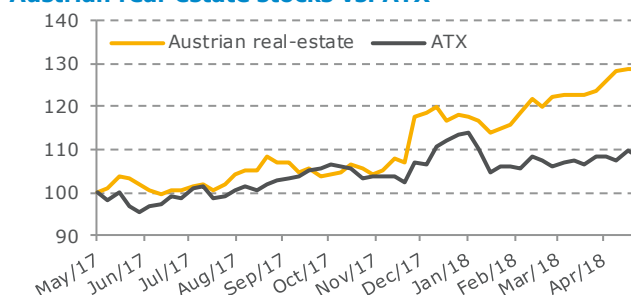
DYield for real-estate stocks (%)



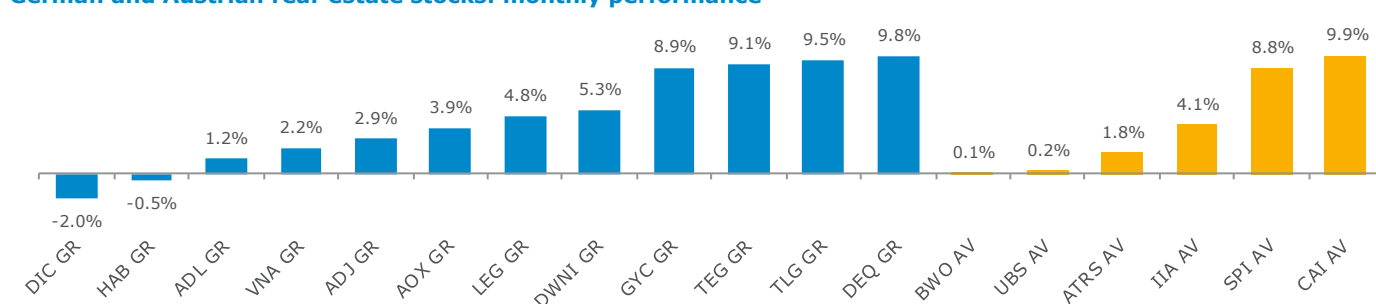
German real-estate stocks vs. DAX



Austrian real-estate stocks vs. ATX



German and Austrian real-estate stocks: monthly performance



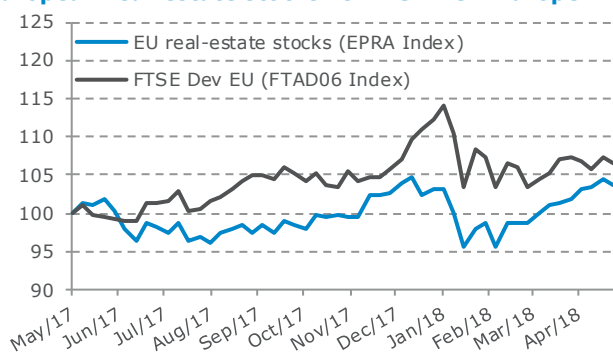
Source: Bloomberg

European Real-Estate Stock Valuations

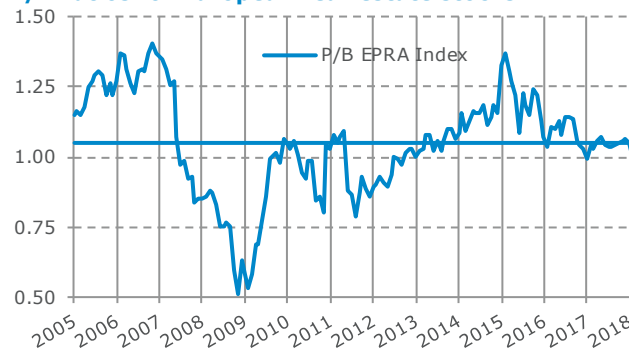
Company	Sector	Current price	MoM change	MCap*	D/E**	P/E			P/B			FFOYield			DYield		
						2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
Cofinimmo	BE Mixed	106.20	+4.0%	2,195	72%	15.8	15.1	14.8	1.12	1.08	1.06	6.2%	6.4%	6.7%	5.2%	5.3%	5.4%
PSP Swiss Property	CH Office	90.90	+0.0%	3,588	64%	23.9	23.3	22.3	1.03	1.03	1.01	4.4%	4.5%	4.6%	3.8%	3.8%	3.9%
Swiss Prime Site	CH Mixed	92.85	+1.8%	5,712	105%	21.7	21.1	21.1	1.37	1.36	1.34	4.7%	4.9%	5.1%	4.0%	4.1%	4.1%
Fonciere Des Regions	FR Office	90.80	+6.6%	6,806	91%	16.8	16.2	15.6	1.03	0.97	0.91	5.8%	6.0%	6.3%	5.1%	5.3%	5.5%
Gecina	FR Office	143.00	+3.8%	10,777	64%	25.0	22.3	20.8	0.90	0.86	0.82	4.0%	4.4%	4.7%	3.8%	4.0%	4.2%
Icade	FR Office	79.80	+6.0%	5,914	190%	15.6	14.7	14.3	1.89	2.03	2.20	6.5%	7.0%	7.2%	5.7%	6.0%	6.2%
Klepierre	FR Retail	33.78	+3.0%	10,619	72%	13.3	12.7	12.3	0.87	0.85	0.85	7.7%	8.1%	8.5%	6.2%	6.4%	6.7%
EuroCommercial	NL Retail	36.28	+6.3%	1,798	78%	15.2	14.4	14.0	0.86	0.82	0.71	6.8%	7.0%	7.1%	6.0%	6.2%	6.4%
Unibail - Rodamco	NL Retail	193.25	+2.9%	19,310	95%	15.0	14.3	13.6	0.95	0.92	0.89	6.8%	7.1%	7.5%	5.9%	6.2%	6.6%
Wereldhave	NL Retail	33.25	+3.4%	1,339	85%	9.9	9.9	9.7	0.75	0.72	0.69	10.3%	10.3%	10.4%	7.6%	7.7%	7.8%
Castellum	SE Mixed	141.75	+3.7%	3,789	112%	15.4	14.6	14.1	1.12	1.08	1.06	7.0%	7.2%	7.4%	4.0%	4.2%	4.3%
British Land Co	UK Mixed	6.86	+3.8%	7,668	33%	14.1	18.5	17.9	0.73	0.77	0.78	5.6%	5.6%	6.2%	4.4%	4.5%	4.4%
Capital & Counties	UK Retail	3.08	+10.2%	2,980	25%	-	-	-	0.89	0.87	0.86	-	-	-	0.5%	0.5%	0.5%
Derwent London	UK Office	30.42	+1.5%	3,860	21%	29.7	27.4	23.4	0.84	0.84	0.80	2.9%	2.8%	5.4%	2.1%	2.3%	2.6%
Great Portland Estates	UK Office	6.94	+2.4%	2,223	2%	32.3	32.4	29.9	0.82	0.80	0.80	2.1%	2.6%	2.8%	1.6%	1.8%	1.9%
Hammerson	UK Retail	5.60	+3.9%	5,061	60%	17.1	16.5	16.2	0.73	0.72	0.70	5.7%	5.9%	5.8%	4.8%	5.0%	5.2%
Intu Properties	UK Retail	2.02	+2.0%	3,114	104%	13.6	13.0	12.9	0.56	0.59	0.59	7.5%	8.6%	-	7.0%	7.1%	7.3%
Land Securities Group	UK Mixed	9.52	-1.4%	8,030	35%	-	16.9	16.6	0.69	0.69	0.69	5.3%	5.2%	5.5%	4.6%	4.6%	4.8%
Segro	UK Industr	6.50	+3.4%	7,463	41%	29.8	27.0	25.1	1.07	1.01	0.89	3.3%	3.7%	-	2.7%	3.0%	3.2%
Shaftesbury	UK Mixed	9.60	-2.3%	3,356	28%	52.7	47.5	43.8	0.96	0.97	0.88	1.9%	2.2%	2.3%	1.8%	1.9%	2.0%
Median			+3.4%		68%	16.3	16.5	16.2	0.90	0.87	0.86	5.7%	5.9%	6.2%	4.5%	4.5%	4.6%

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

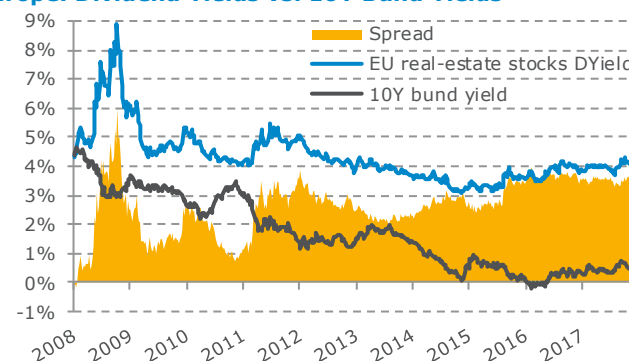
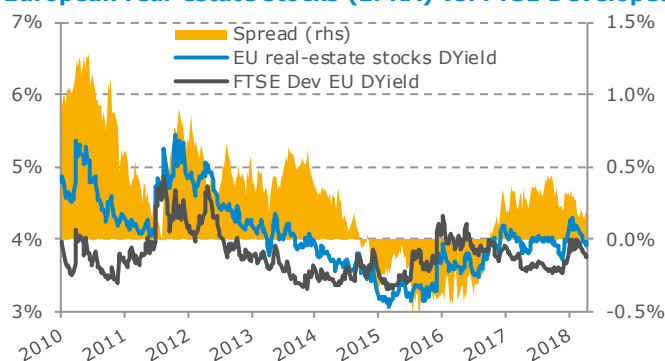
European real-estate stocks vs. FTSE Dev. Europe



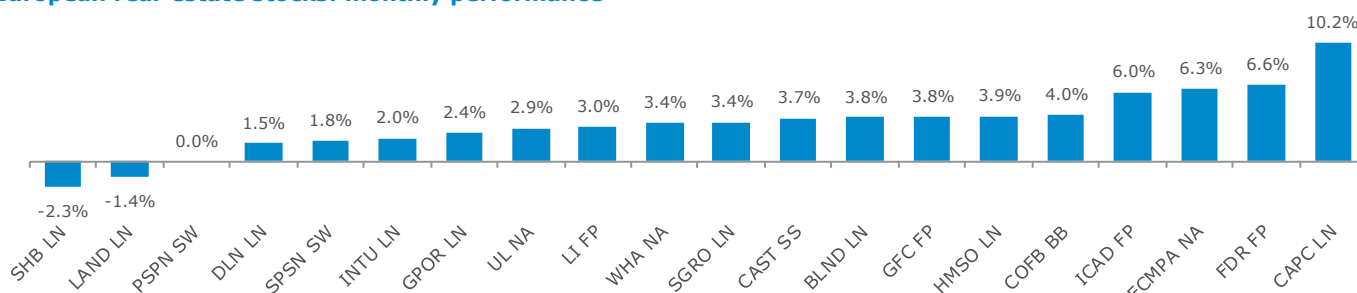
P/B ratios for European real-estate stocks



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 2018	2018	2019	2020	EV/EBITDA			DYield		
												2018	2019	2020	2018	2019	2020
Strabag	AT	15%	100%	34.90	+4.2%	3,839	-21%	1.02	12.2	11.9	10.9	2.9	2.8	2.6	3.7%	3.9%	4.5%
Porr	AT	60%	100%	31.80	+10.4%	925	27%	1.88	13.1	11.3	8.6	4.6	4.2	3.8	3.7%	4.1%	4.8%
Hochtief	DE	5%	100%	153.10	+4.6%	9,844	-68%	4.94	19.8	17.8	16.5	7.1	6.7	6.2	2.6%	2.9%	3.3%
Bouygues	FR	65%	75%	40.42	+1.0%	14,763	31%	1.54	15.3	13.8	12.5	6.4	5.8	5.6	4.2%	4.2%	4.3%
Salini	IT	15%	100%	2.19	-1.1%	1,077	55%	0.97	8.6	6.6	5.7	3.5	3.2	3.0	2.8%	3.4%	4.3%
Astaldi	IT	25%	80%	2.20	-8.3%	217	216%	0.37	3.5	3.5	4.6	6.8	6.8	7.0	-	-	-
Mota Engil	PT	30%	80%	3.39	-5.3%	804	274%	1.93	12.7	9.5	8.4	4.8	4.4	4.0	4.2%	4.1%	5.0%
Skanska	SE	25%	60%	167.60	+0.5%	6,562	-5%	2.54	14.5	13.1	12.1	9.9	8.7	8.1	5.0%	5.2%	5.4%
PEAB	SE	80%	80%	72.65	-3.0%	1,861	15%	2.01	11.5	11.3	10.9	7.5	7.4	7.2	5.5%	5.7%	5.8%
NCC	SE	50%	100%	163.55	-2.7%	1,522	-22%	3.06	13.6	10.7	9.7	7.6	6.4	5.9	5.8%	6.1%	6.5%
Median					-0.3%		21%	1.91	12.9	11.3	10.3	6.6	6.1	5.8	4.2%	4.1%	4.8%

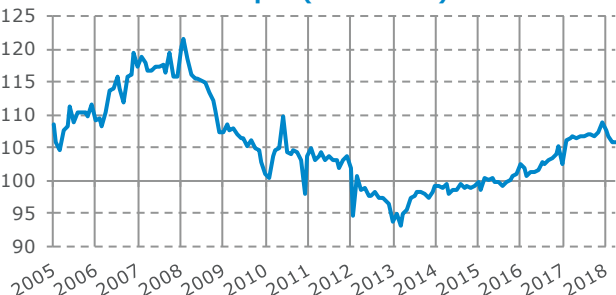
Source: Bloomberg; prices in local currencies (EUR, SEK); *MCap in EUR m; **Net debt/Equity

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	2018	2019	2020	2018	2019	2020	2018	2019	2020
OHL	ES	20%	20%	3.09	-19.0%	886	39%	0.38	-	26.6	-	12.9	10.9	14.3	2.5%	2.0%	1.1%
Ferrovial	ES	20%	35%	17.43	-2.1%	12,763	78%	2.50	43.8	29.8	26.1	23.9	19.4	17.5	4.2%	4.3%	4.0%
Acciona	ES	55%	10%	65.46	-4.7%	3,748	129%	0.99	14.5	13.4	13.1	7.4	7.2	7.1	4.6%	4.9%	4.9%
FCC	ES	55%	25%	10.56	-0.6%	4,000	282%	3.35	18.2	15.4	-	9.1	8.7	-	-	-	-
ACS	ES	15%	50%	35.67	+4.3%	11,224	-11%	2.68	13.7	12.5	11.6	5.2	5.0	4.9	3.6%	3.7%	4.1%
Eiffage	FR	80%	30%	98.02	+2.6%	9,796	203%	1.98	16.0	14.0	12.6	7.9	7.6	7.3	2.2%	2.6%	3.0%
Vinci	FR	60%	30%	85.70	+3.9%	50,744	66%	2.56	16.1	14.9	13.5	9.4	9.0	8.6	3.1%	3.3%	3.7%
Mediana					-0.6%		78%	2.50	16.1	14.9	13.1	9.1	8.7	7.9	3.3%	3.5%	3.9%

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

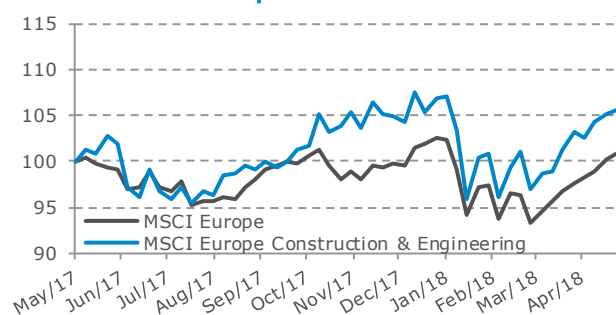
EU27 construction output (2010=100)



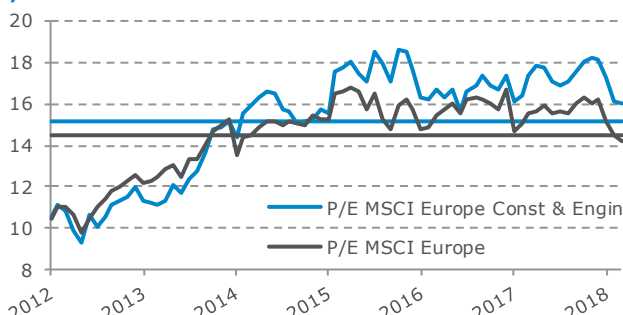
EU27 Construction Confidence Index



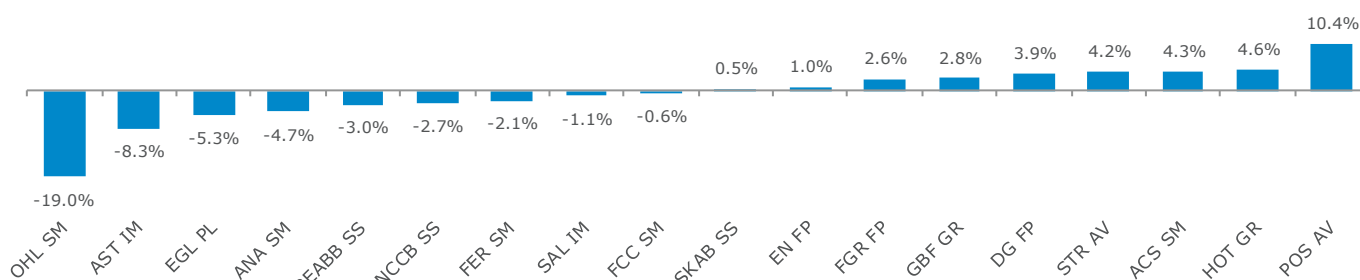
EU construction stock performance vs. broad market



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

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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:

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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 May 28, 2018, 8:38 AM.
This recommendation was first disseminated on May 28, 2018, 8:38 AM.

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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.

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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	overweight
Rating date	4/26/2018	1/25/2018
Target price (PLN)	-	-
Price on rating day	15.30	15.75

Atal

Rating	accumulate	accumulate	accumulate	accumulate
Rating date	4/6/2018	2/2/2018	9/1/2017	6/2/2017
Target price (PLN)	47.00	49.20	45.00	44.10
Price on rating day	43.40	42.40	40.40	40.00

BBI Development

Rating	neutral	neutral	neutral
Rating date	4/26/2018	2/2/2018	6/2/2017
Target price (PLN)	-	-	-
Price on rating day	0.66	0.70	0.73

Budimex

Rating	accumulate	buy	buy	hold
Rating date	4/6/2018	2/2/2018	7/24/2017	5/8/2017
Target price (PLN)	216.39	246.00	267.00	238.40
Price on rating day	215.00	197.80	229.50	275.65

Capital Park

Rating	buy	buy
Rating date	4/6/2018	2/2/2018
Target price (PLN)	8.35	8.42
Price on rating day	5.95	5.95

Dom Development

Rating	buy	buy	buy	accumulate	buy
Rating date	3/20/2018	2/2/2018	9/1/2017	6/2/2017	5/12/2017
Target price (PLN)	103.10	103.00	101.10	81.70	81.70
Price on rating day	85.80	82.00	82.25	76.10	70.20

Echo

Rating	buy	buy	buy	buy	accumulate
Rating date	4/6/2018	2/2/2018	10/2/2017	9/1/2017	7/3/2017
Target price (PLN)	5.63	6.31	6.42	6.64	6.64
Price on rating day	5.23	5.05	5.19	5.21	6.26

Elektrobudowa

Rating	buy	buy	buy	buy
Rating date	4/6/2018	2/2/2018	9/1/2017	5/8/2017
Target price (PLN)	116.00	113.00	134.00	146.00
Price on rating day	96.40	81.20	109.50	120.55

Elektrotim

Rating	neutral	overweight	underweight	neutral
Rating date	5/28/2018	11/16/2017	10/24/2017	9/14/2017
Target price (PLN)	-	-	-	-
Price on rating day	5.80	7.61	9.76	11.98

Erbud

Rating	accumulate	buy	buy	buy	buy	buy	accumulate
Rating date	5/9/2018	4/6/2018	3/5/2018	12/15/2017	11/3/2017	9/1/2017	6/2/2017
Target price (PLN)	23.10	29.60	29.40	28.70	29.80	31.30	33.50
Price on rating day	19.40	21.60	21.30	20.60	24.70	26.00	31.50

GTC

Rating	hold	accumulate	hold	hold	hold
Rating date	4/6/2018	3/5/2018	2/2/2018	1/5/2018	8/2/2017
Target price (PLN)	9.60	9.70	9.70	10.00	9.59
Price on rating day	9.39	8.64	9.67	9.90	9.62

Herkules

Rating	neutral	neutral	overweight
Rating date	1/25/2018	10/24/2017	6/2/2017
Target price (PLN)	-	-	-
Price on rating day	3.67	3.60	4.17

i2 Development

Rating	neutral	overweight
Rating date	5/28/2018	1/12/2018
Target price (PLN)	-	-
Price on rating day	17.30	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	underweight neutral	
Rating date	3/29/2018	1/25/2018
Target price (PLN)	-	-
Price on rating day	4.16	4.41

LC Corp

Rating	buy	buy	buy
Rating date	4/6/2018	2/2/2018	9/26/2017
Target price (PLN)	3.50	3.74	3.54
Price on rating day	2.70	3.10	2.69

Lokum Deweloper

Rating	overweight	overweight	overweight
Rating date	3/29/2018	1/25/2018	9/14/2017
Target price (PLN)	-	-	-
Price on rating day	17.80	18.00	16.30

PA Nova

Rating	neutral	neutral	neutral
Rating date	3/29/2018	2/28/2018	11/27/2017
Target price (PLN)	-	-	-
Price on rating day	22.30	23.30	24.00

Polnord

Rating	neutral	neutral	underweight
Rating date	2/2/2018	12/27/2017	5/16/2017
Target price (PLN)	-	-	-
Price on rating day	10.50	8.70	10.00

Ronson

Rating	neutral	underweight	underweight
Rating date	4/3/2018	3/29/2018	2/2/2018
Target price (PLN)	-	-	-
Price on rating day	1.32	1.32	1.45

Torpol

Rating	neutral	neutral	neutral	neutral	neutral	neutral	overweight
Rating date	5/28/2018	3/29/2018	2/2/2018	1/25/2018	11/27/2017	10/24/2017	9/14/2017
Target price (PLN)	-	-	-	-	-	-	-
Price on rating day	6.40	7.50	7.98	8.16	8.55	10.93	12.05

Trakcja

Rating	underweight	neutral	neutral	neutral	underweight	underweight	neutral
Rating date	5/18/2018	3/29/2018	2/2/2018	1/25/2018	11/27/2017	10/24/2017	9/14/2017
Target price (PLN)	-	-	-	-	-	-	-
Price on rating day	3.65	6.75	7.24	7.56	7.69	10.30	12.80

Ulma

Rating	neutral	neutral	neutral
Rating date	5/28/2018	3/29/2018	11/27/2017
Target price (PLN)	-	-	-
Price on rating day	73.00	66.50	73.90

Unibep

Rating	buy	buy	accumulate	buy	buy
Rating date	4/6/2018	2/2/2018	1/5/2018	11/3/2017	9/1/2017
Target price (PLN)	10.10	10.80	10.80	14.00	15.40
Price on rating day	7.50	8.60	9.76	9.90	12.20

ZUE

Rating	neutral	neutral	neutral	neutral	underweight	underweight
Rating date	5/28/2018	3/29/2018	2/2/2018	1/25/2018	11/27/2017	9/14/2017
Target price (PLN)	-	-	-	-	-	-
Price on rating day	5.86	6.12	6.18	6.44	6.89	9.20

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