



Real Estate Developers
Poland

Current price PLN 0.45
Target price PLN 0.55
 Market cap PLN 0.24bn
 Free float PLN 0.17bn
 Avg daily trading volume (3M) PLN 1.4m

Shareholder Structure

BB Investment S.A.	19.23%
Pioneer Pekao IM	10.03%
Other	70.74%

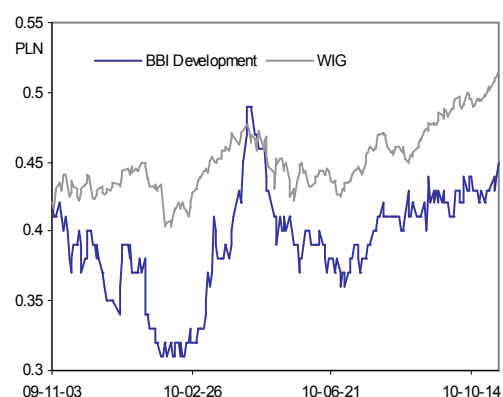
Company Profile

BBI Development is a commercial and residential property developer. At the moment, the former segment dominates in its portfolio, due to the recent launch of an office project at Plac Unii and the extensive plans for the "Koneser" project. BBI Development stands out among competitors due to its focus on projects in unique locations, which generate above-average rates of return.

Important dates

15.11 - Q3'10 report

BBI vs. WIG



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BBI Development Buy

NFIWI.WA, BBD PW

(New)

Good Exposure to an Upturn

BBI specializes in projects in locations which are as unusual as they are attractive. When the times are good for the property market, the price gap between properties in good and weak locations widens. In a downturn, the reverse is the case. However, attractive products always find buyers. As a result, should the property market turn for the better, BBI may have a greater upside potential than other developers, for example those that offer cheap homes. Compared to our earlier special comment, we have decided to carry out a more in-depth analysis of the Company's medium-term outlook. Our valuation is based on a middle-of-the-way scenario, according to which the current situation persists in the residential segment and the commercial segment, while the office segment sees a slight improvement. Our price target for BBI Development is PLN 0.55 per share (+22.5% vs. the current market price). Our valuation factors in the short- and medium-term outlook for the Company's investment projects. A longer horizon could lead to a higher valuation; unfortunately, the market can hardly be expected to discount an investment horizon longer than 2013 at this time. On the other hand, we expect very good earnings after 2013, suggesting that BBI will continue to generate shareholder value in the longer term as well. We recommend buying the stock.

Difficult Projects Are Their Business

BBI Development has experience with projects in atypical locations, as well as projects built jointly with housing cooperatives. Projects with the best locations bring the best profits. However, launching them can be a problem. BBI is experienced in dealing with the conflicts of interests that may arise in such cases. Examples include projects on Plac Unii Lubelskiej or Foksal street in Warsaw.

"Jackpot" in 2013

By the end of 2012, BBI will have completed only 7.1k m² of usable floor area within the "Koneser" project, out of a planned total of 65.9k m². Towards the end of 2012, it will launch further stages of the project (24.6k m²). We expect positive revaluation gains on this account in 2013. In 2013, a portion of the valuation of the Sezam project will also be booked, as well as earnings from the residential part of the "Koneser" project (6.7k m²). In addition, in 2013 rental revenue from the building at Plac Unii will start coming in. According to our estimates, the Company's net profit for FY 2013 may reach PLN 86.1m.

(PLN m)	2009	2010F	2011F	2012F	2013F
Revenue	1.0	82.0	80.4	148.4	192.5
EBITDA	-7.9	27.2	38.8	44.7	123.1
EBITDA margin	-	33.2%	48.3%	30.2%	63.9%
EBIT	-7.9	26.7	38.3	44.2	122.5
Net income	-9.1	22.3	23.3	31.4	86.1
P/E	-	10.8	10.3	7.6	2.8
P/CE	-5.4	4.1	-3.5	-2.7	-3.6
P/BV	1.2	1.0	0.9	0.8	0.6
EV/EBITDA	-49.4	13.2	11.5	12.6	5.8
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

2010 Q3 Earnings Outlook

BBI Development is going to end the third quarter in the red because of a valuation loss on its "Plac Unii" property (PLN 2m incurred on a decreased EUR/PLN exchange rate) and a lack of deliveries in the finished "Dom na Dolnej" housing development. Revenue from services is estimated at PLN 0.55m, and general expenses will hover around the levels recorded in preceding quarters (PLN 2.5m in Q3, PLN 2.8m in Q2, PLN 1.9m in Q1). Other net operating expenses will approximate PLN 0.2m, and other net operating income will be ca. PLN 0.24m (interest expenses are capitalized into inventories). The effective tax rate should be 19%.

The outlook for Q4 2010 is much better, with BBI expected to turn a profit of PLN 4.9m on home deliveries in the "Dom na Dolnej" development (47 out of the 48 flats are already sold). Forecasted based on the assumption that the EUR/PLN exchange rate will decrease to 3.9 by the end of the year, the company should recognize a valuation gain of PLN 0.2m on this property (no other revaluations are expected in the period). Fourth-quarter general expenses and other net operating expenses should be flat Q/Q at ca. PLN 2.5m and PLN 0.2m respectively, other net financial expenses are estimated at PLN 0.2m, and the effective tax rate will be 19%.

Q3 and Q4 2010 estimates (relative to year-ago figures)

(PLN m)	Q3'10F	Q3'09	change	Q4'10F	Q4'09	change
Sales revenue	-1.4	0.3	-1.7	35.9	0.4	35.5
core revenue	0.6	0.3	0.3	35.7	0.4	35.3
property valuation	-2.0	0.0	-2.0	0.2	0.0	0.2
Operating expenses	2.5	1.4	1.1	29.4	2.5	26.9
general expenses	2.5	1.4	1.1	2.5	2.5	0.0
costs of units sold	0.0	0.0	0.0	26.9	0.0	26.9
EBIT	-4.1	-0.8	-3.3	6.3	-3.6	9.9
Pre-tax income	-3.9	-0.8	-3.0	6.5	-3.6	10.2
Net income	-3.1	-1.0	-2.1	4.9	-4.6	9.5

Source: BBI Development, BRE Bank Securities

BBI's Merger With Juvenes

BBI Development was established in 1994 by the Polish State Treasury as the "Twelfth National Investment Fund" (NFI), and it made its debut on the Warsaw Stock Exchange in 1997. In 2005, it was taken over by Poznań-based company BB Investment sp. z o.o., and transformed into a real-estate business. In 2010, BBI was merged with its investment manager Juvenes.

Established in 1995, Juvenes provides complete management services to construction firms and real-estate developers. In its core market of Warsaw, the company was involved in such projects as the "Canaletto" residences in the district of Praga Północ (8240 sqm), "Juvenes" residences (8151 sqm), Bank Millennium headquarters (6238 sqm), the "Natolin 2000" residential complex (16,420 sqm), "Symfonia" residences (4183 sqm) and offices (3200 sqm), and "Bell" cosmetics production facilities (3590 sqm). From our vantage point, the main advantages of the merger between BBI and Juvenes are their combined track records in the Warsaw real-estate market, and an aptitude for seeking out reasonably priced land in prime locations for future development.

Property Portfolio

Overview

BBI is developing a number of real-estate projects in prime locations that have potential to deliver strong returns once the market picks up again. The projects include commercial developments in central Warsaw ("Plac Unii", "Sezam") as well as luxury residential developments. The future retail and office spaces in the "Plac Unii" development should have no problem attracting tenants given their central location within the capital city. At the moment, the supply of prime commercial locations in Warsaw is limited to a few developments ("Zebra Tower", "Wolf Marszałkowska", "Ufficio Primo"), but demand is also relatively low as businesses seek to keep costs low. In case of high-end residences, demand is limited to high



earners which, on the upside, makes it largely independent of general market trends. Their other advantage are desirable locations.

BBI properties

Name	BBI's share in profits	City	Location (street)	Usable floor area (sqm)	Costs incurred (PLN m)**	Cost per square meter	Status
Rezydencja Foksal	27.5%	Warsaw	Kopernika	7 800	32.4	4 154	In progress
Kino Wars (defunct movie theater)	100%	Warsaw	Rynek Nowego Miasta	2 360	5.5	2 331	Land lot swap talks in progress
Dom na Dolnej	95%	Warsaw	Dolna	4 046	20.8	5 141	Completed
Plac Unii	40.5%	Warsaw	Puławska	56 165	46.1	821	Construction in progress
Koneser	85%	Warsaw	Ząbkowska	65 860	81.6	1 239	Stage 1 in progress
Marina Kiekrz	100%	Poznań	On Kiekrz Lake	5 652	15.1	2 672	Planned
Małe Błonia	65%	Szczecin	Łączna - Wkrzańska	96 584	77.1	798	Construction in progress

Source: BRE Bank Securities.; BBI Bond Offer Memorandum of Information; *our estimates; ** as at January 2010;

Minority Interests in BBI's Properties

Minority Interests in BBI's Properties are either held via special-purposes vehicles, or, they are incentives vested under the articles of association of such special-purpose vehicles. The SPV holdings are fairly straightforward: 62% of the interests in the "Rezydencja Foksal" development are held by private individuals; 35% of the "Małe Błonia" development in Szczecin is owned by local developer Amber; the SPV established to manage the "Plac Unii" project will be 60% owned by Liebrecht & Wood.

Interests vested under articles of association are a more complex issue. BBI's "old" projects, i.e. "Rezydencja Foksal", "Dom na Dolnej", "Plac Unii", and "Koneser", are held by special-purpose limited joint-stock partnerships (partnerships limited by shares). The Articles of these entities, adopted before the BBI / Juvenes merger, give the owners of Juvenes, now also members of BBI's Management Board, shares in the profits of these partnerships. The profit sharing scheme can be considered an incentive or a performance bonus, calculated as a percentage of BBI's returns on investment. The bonus is therefore conditioned on the size of the return and the time a project is completed. For example, a project that is delayed and generates low margins will not entitle the Management Board members to any bonus. We estimated the values of the minority interests stemming from profit-sharing schemes based on BBI's current development program and expected margins.

Our estimates also take into account the potential investment premium that BBI stands to earn on the "Plac Unii" project, assessed factoring in BBI's involvement in the management of the project and the services it is expected to provide.

BBI's property portfolio ownership

Project	BBI's SPV interests	Investment premium*	BBI's SPV interests	BBI's share in profits under SPV Articles*	BBI's total share in profits
Rezydencja Foksal	38%		38%	75%	28.4%
Kino Wars	100%		100%	100%	100.0%
Dom na Dolnej	100%		100%	95%	95.0%
Plac Unii	40%	10%	50%	81%	40.5%
Koneser	100%		100%	85%	85.0%
Marina Kiekrz	100%		100%	100%	100.0%
Małe Błonia	65%		65%	100%	65.0%

Source: BBI Development, BRE Bank Securities; *our estimates

Rezydencja Foksal

"Rezydencja Foksal" is one of BBI Development's two residential projects currently being developed in Warsaw. The luxury apartment building is unique among the capital city's typical residential projects, housing a spa, a swimming pool, a Jacuzzi, and a squash court, as well as a wine-aging cellar and tasting room. The apartments are large, and they are expected to be priced at an average PLN 20,000 per square meter. The upscale pricing is justified by a lack of competition in the neighborhood, and intimacy (the building will house only 40 spaces, including 30 apartments, 4 offices, and 6 utility spaces). Ten of the apartments have already been pre-sold, and five have been reserved. One of the four office spaces is also already sold. Because of strong buyer interest and a lack of competition, BBI is not offering any mark-downs on the spaces. Construction of "Rezydencja Foksal" is scheduled for completion in mid-2011. The apartments themselves are expected generate cash flows (after payment of all the dues owed to the SPV managing the project) of about PLN 21m.

Dom na Dolnej

"Dom na Dolnej" is a small, 4,046 square-meter apartment building in Warsaw's Mokotów district. It was completed in Q3 2010. We reckon that the apartments are priced at an average PLN 9,200 a square meter (of the total 48 units, 47 are already sold and one is reserved), which is a handsome price considering that they were sold mostly during a market slump. "Dom na Dolnej" is going to materialize in BBI's earnings in Q4 2010. It is expected to generate net cash flows of about PLN 12m.

Plac Unii

"Plac Unii" is a joint venture between BBI Development and Liebrecht & Wood, the eventual 60% owner of the project which is going to put up the down-payment needed to obtain a bank loan that will finance the investment. BBI also stands to earn an investment premium of about 50% of the returns generated by the project.

BBI and L&W are already in talks with several potential lenders. Since financing for the development is ensured by equity until Q3 2011, the credit agreement is hoped to be signed in the first half of 2011. The decline in margins on investment loans anticipated to take place by then will work to the advantage of the two developers.

"Plac Unii" will cover a total area of 56,200 square meters. Under an agreement with the former holder of the land lot, the retail cooperative "Supersam", in exchange for the rights to the land lot, BBI and L&W will deliver either 5000 sqm of the finished spaces or a cash equivalent to the co-op, at its discretion. "Plac Unii" will comprise 41,000 sqm of office spaces, 15,200 sqm of retail spaces, and 530 parking spaces. It is scheduled for completion in 2013, and for sale two years later. Its total cost (including Supersam's consideration) is estimated at PLN 546m. BBI and L&W are not in a hurry to acquire tenants, hoping for an increase in rental rates. The rates currently being negotiated with smaller retailers are higher than budgeted. "Plac Unii" is expected to be 75 percent leased by mid-2011.

We assessed the value of the "Plac Unii" development using the following parameters: 2012 yield at 6.8%, office rental rates at EUR 20/sqm (the asking prices in comparable developments like Focus Park and Zebra Tower range between EUR 22 and 28 per square meter), retail space rent at EUR 27/sqm. Effective rental rates are typically lower than asking rates. Monthly revenues per parking space are estimated at EUR 100. These conservative assumptions suggest that the finished building will be worth PLN 882.7m. In the event of a rebound in rental rates for central Warsaw, "Plac Unii's" value will increase.

BBI Development recognized the first gain on the "Plac Unii" project (PLN 46.7m) in the first half of 2010. Earlier, the project showed up on the balance sheet as a PLN 129.6m inventory item comprising the perpetual land leasehold and expenses incurred to date, and a PLN 50m liability item resulting from the amounts due to the Supersam co-op. After a switch to DCF-based valuation, the project's value as an investment property was booked as PLN 126.2m at 30 June 2010.

The interest rate used in the DCF model was relatively high (ca. 10.6%), and the valuation policy is quite aggressive (a major portion of the prospective profits will be recognized prior to the start of construction and space leases) and subject to changes depending on future trends in rental rates.

**Valuation of commercial spaces in the “Plac Unii” development**

Spaces	Square meterage / no. of units	Monthly rent (EUR/sqm)	NOI (EUR m)	Exit yield	EUR/PLN	Value (PLN m)	2012E value per square meter
Offices	40 984	20	9.8	6.8%	3.9	564.1	13.8
Retail spaces	15 181	27	4.9	6.8%	3.9	282.1	18.6
Parking spaces	530	100	0.6	6.8%	3.9	36.5	-

Source: BRE Bank Securities

Rental rate scenarios for “Plac Unii”

Scenario	Office space	Monthly rent (EUR/sqm)	Value (PLN m)	BBI's share	Gain/Loss vs. baseline scenario (PLN m)
1. Baseline	40 984	20	564.1	40.5%	0.0
2. Optimistic	40 984	24	677.0	40.5%	45.7
3. Best case	40 984	27	761.6	40.5%	80.0
4. Worst case	40 984	17	479.5	40.5%	-34.3

Source: BRE Bank Securities

Koneser

The “Koneser” project was purchased in 2007, at the height of the real-estate boom in Poland. BBI was the only developer willing to face the red tape involved in the repurposing of the historic vodka distillery, and managed to negotiate a reasonable price (the costs incurred by 31 January 2010 amounted to PLN 1239/sqm). Moreover, the rezoning permit for the property was issued quite quickly. BBI's project will cover an area of 65,861 square meters in existing and new buildings. It is to be divided into eleven quarters, of which quarter “A” (1,087 sqm of office spaces) already has a building permit in place, and is in progress (adaptations of existing spaces). Construction of about 5,300 sqm of loft and soft-loft spaces, and 700 sqm of commercial spaces, is scheduled to start in the second half of 2010.

The “Koneser” property is a prime location only five minutes away from the future metro station of “Dworzec Wileński”. It is a unique example of post-industrial architecture based in Praga Północ, the once-notorious district which is currently being revitalized and transformed to welcome an increasing number of new residents.

Demand for spaces in the “Koneser” complex is good. More than half of the usable space in the just-started quarter A is already leased at EUR 15 per square meter, and a 100% occupancy rate is expected to be achieved by the end of the year. Similar rates will probably be charged for the other offices and commercial spaces. As for residential spaces, their 2011 listing prices will probably average PLN 7,750 per square meter. Prices may go up once a certain critical mass point is reached (i.e. spaces at earlier stages will be cheaper, rising in value as the next stages are completed).

Quarter A is being financed by the owner, but the next stages will be financed with debt. BBI wants to extend the existing PLN 27m bank loan taken to pay for the “Koneser” property, and increase its amount to cover the future construction work.

Construction milestones for Koneser (sqm)

Quarter	Residential spaces	Commercial spaces	Offices	3 Q	4 Q	1 Q	2 Q	3 Q	4 Q	1 Q	2 Q	3 Q	4 Q	1 Q	2 Q	3 Q	4 Q	1 Q	2 Q	3 Q	4 Q
A			1 000																		
E2, E4	5 342	730																			
E3, E1	6 675	1 099																			
M, N i L	11 282	3 213																			
Garage																					
I2a, I2b, I1		4 683	10 393																		
F		2 823	5 562																		
B1, B2		1 865	10 355																		
G		50																			
J		221	1 585																		
K		2 106																			

Source: BRE Bank Securities; judging by latest estimates, the square meterages may be larger than indicated in the Bond Memorandum (65 860)

Valuation of commercial spaces in the "Koneser" development

Spaces	Square meterage	Monthly rent (EUR/sqm)	NOI (EUR m)	Exit yield	EUR/PLN	Value (PLN m)	2012E value per square meter
Offices	28 895	15	5.2	7.0%	3.9	289.8	10.0
Retail spaces	16 790	15	3.0	7.0%	3.9	168.4	10.0

Source: BRE Bank Securities

Nowy Sezam

BBI Development signed an investment contract with retail cooperative WSS "Śródmieście" under which it will redevelop the centrally-located property currently housing an old retail center called "Sezam". Basically, a 100% subsidiary of BBI will acquire a 30% interest in the special-purpose vehicle established to manage the project in exchange for a PLN 2m cash contribution and subject to it financing all of the design and project management work. The total costs for BBI can be roughly estimated at PLN 10m, and the potential return can range between PLN 50m and PLN 70m depending on rental rates. The future property is to have a usable area of 12-13 thousand square meters. But before any work can be done on the property, BBI first has to deal with the following challenges:

- make sure that the building is not listed as a historic landmark (which is unlikely since it has no architectural value);
- take measures to stave off protests against the project;
- obtain a zoning permit;
- obtain and maintain a building permit (property development projects in central Warsaw often meet with administrative obstacles).

The formalities may take up to 1.5 years to complete. BBI's share in the project will increase gradually to a target level of 33%. Financing will be obtained through a bond issue (Q1'11). Completion of the "Nowy Sezam" project is set for Q4'13. BBI also has an option of building an underground passage between "Sezam" and the "Świętokrzyska" metro station.

There is a great deal of interest in the "Sezam" retail and office spaces according to BBI. Our conservative rental rate estimates are EUR 24 per square meter of office space, and EUR 50 per square meter of retail space. Ground-floor rates for smaller retailers may be even higher.

Because of the long and winding bureaucratic path and the resulting uncertainties, we calculated the potential returns on the "Nowy Sezam" project using the expected value approach. We assumed that the probability of success is 70%. The probability of failure after the incurrence of PLN 10m costs is 30%. The risks include citizen protests, administrative delays, and the complexity of the project (which is to include an underground parking garage). As preparations move forward, the risks will diminish, and the project's value will increase. Moreover, the higher the probability of success, the higher the financial returns.

Valuation of commercial spaces in the "Nowy Sezam" development

Spaces	Square meterage / no. of units	Monthly rent (EUR/sqm)	NOI (EUR m)	Exit yield	EUR/PLN	Value (PLN m)	2012E value per square meter
Offices	8 700	24	2.5	6.8%	3.9	143.7	16.5
Retail spaces	3 800	50	2.3	6.8%	3.9	130.8	34.4
Parking spaces	114	100	0.1	6.8%	3.9	7.8	-

Source: BRE Bank Securities

Expected returns (PLN m)

Scenario	Cash expenses incurred	Probability	BBI's share in returns	2012E value	Building costs	Development margin	BBI's profit	Expected value of BBI's profit
Success	-10.0	70%	33%	282.3	113.8	168.5	45.6	31.9
Failure	-10.0	30%	33%	0.0	0.0	0.0	-10.0	-3.0
Expected value								28.9

Source: BRE Bank Securities

Marina Kiekrz

"Marina Kiekrz" is a residential project located at Lakie Kierskie on the outskirts of Poznań. The development will house 81 mid-market apartments with a combined area of 4,926.86 square meters (plus 84 storage rooms and 100 parking spaces) and a lake view. Also planned are recreational grounds and a guarded beach. Construction will be completed in one stage. We estimate that the apartments will be priced at PLN 7,500 per square meter, including a location premium, making them a few hundred zlotys more expensive than new residences developed in Poznań's Jeżyce district

Kino Wars

BBI Development is negotiating a deal with the Warsaw authorities to exchange the property that used to house the now-defunct cinema "Wars" (2,360 sqm) for another land lot in the city. If necessary, any difference in value will be covered with a bond issue. All in all, the swap can be beneficial for BBI depending on the value and zoning designation of the new property, and on its location – the Wars cinema stands on the *Rynek Nowego Miasta* square at the heart of Warsaw's historic old town.

Property Sale

In October 2010, BBI Development sold its holdings in an SPV (PD8) which was supposed to build vacation apartments in the seaside town of Dziwnów. The property was purchased at the height of the real-estate boom for a handsome price of PLN 1,989/sqm, and was partially financed with a bank loan. As of January 2010, BBI's expenses related to the project totaled PLN 51.8m, and the credit amounted to PLN 37m. After deciding that the project was a failure, BBI wrote it off as a PLN 37m loss in Q2 2010. The October sale of interests in the SPV was to a private individual, for PLN 55,000, subject to payment of an additional 20% max of the future returns potentially generated by the SPV upon successful completion of the project.

The buyer of the SPV interests also took over the PLN 37m credit, so, whether the Dziwnów project succeeds or fails will be of little importance for BBI.

The property in Dziwnów and Poznań (Marina Kiekrz) are cross-mortgaged. The lender has agreed to release a portion of the mortgage commitments subject to payment of PLN 2m toward the loan taken out to purchase the property in Poznań by the end of Q1 2011. Moreover, after taking out a construction loan for the purposes of the Marina Kiekrz project, the Poznań SPV agreed to be liable for up to PLN 1.25m of the debts of the Dziwnów SPV. Because of the uncertain fate of the Dziwnów project, we decided to deduct this amount from BBI Development's valuation.

Value Provided By Juvenes

Juvenes's business is acquisition and management of property projects, including

- acting as managing contractor for real-estate projects;
- securing financing for real-estate projects;
- home sales;
- designs;
- acquiring investment partners;
- overseeing construction;
- managing real estate.

Moreover, Juvenes has a unique track record in acquiring cooperatives as partners in real-estate projects, as evidenced by the "Plac Unii" and "Nowy Sezam" projects.

Since before the merger Juvenes catered mainly to BBI Development, the integration of the two businesses will create value for shareholders by eliminating issued related to intercompany transactions. The PLN 24.7m goodwill arising on the transaction is not a source of risk in our opinion.

BBI Development's Investment Plans

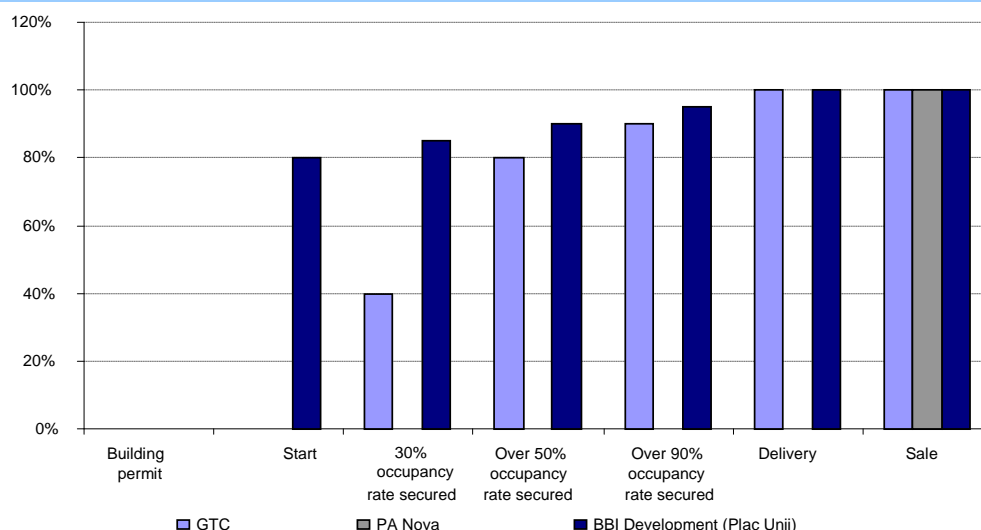
Valuation of Work In Progress

Real-estate firms adopt very different approaches to the recognition of commercial developments in progress. Some recognize the profits at the beginning of construction, some while construction is in progress, and others delay recognition until after the project is sold. With the "Plac Unii" project, BBI made the daring choice of recognizing a high valuation gain already in Q2 2010 (construction started in Q3 2010). The project has one of the best locations in Warsaw, but its financing is not yet fully in place, nor are rental commitments from prospective tenants.

Valuation of the "Plac Unii" development was conducted based on a DCF model created by BBI and reviewed by an independent consulting firm and the auditors reviewing the company's mid-term 2010 financial statements. The assumptions underlying the valuation model are relatively conservative (discount rate at 10.6%). Since a major portion of the margin expected to be earned on the project is already recognized, future valuation effects will be minor (unless the actual profits are higher than we predict).

By contrast, BBI's peer GTC recognizes development margins half-way in the construction process, while PA Nova discloses the profits after completion. The following is a graphic representation of the accounting policies of the three developers.

Percentage of margin recognition depending on construction stage



Source: BRE Bank Securities

Since we do not know whether BBI intends to the same approach to profit recognition for all of its future investment properties, we assumed for the purposes of our financial forecasts that margins will be recognized when construction reaches its mid point (i.e. a point where the building shell is complete, and an over-50% occupancy rate is ensured for the future spaces).

BBI Development's tentative building timeline

Project	Completion	Usable floor area (sqm)	BBI's interest in Owner-SPV	BBI's share in Owner-SPV's profits (%)	Sales price (PLN/sqm)	Cost per sqm
In progress / Complete						
Rezydencja Foksal	Q2 2011	7 800	38%	75%	20 000	10 090
Dom na Dolnej	Q2 2010	4 046	100%	95%	9 150	6 995
Plac Unii	Q4 2012	56 165	50%	81%	15 716	9 721
Małe Błonia E1 F1	2012	4 500	65%	100%	4 500	3 625
Koneser A	2011	1 087	100%	85%	10 029	7 760
Starting in H2 2010 / H1 2011						
Marina Kiekrz	2012	4 927	100%	100%	7 500	6 930
Małe Błonia E1 F2	2012	4 000	65%	100%	4 500	3 708
Koneser E2	Q4 2012	5 342	100%	85%	7 725	5 206
Koneser E4	Q4 2012	730	100%	85%	10 329	7 966
Garaż Centralny (garage)	Q4 2012					
Starting in H2 2011 / H1 2012						
Sezam	2013	12 500	33%	100%	22 585	9 104
Starting in H2 2012						
Koneser E3	2013	6 675	100%	85%	7 957	5 335
Koneser E1	2013	1 099	100%	85%	10 639	8 179
Koneser I2a, I2b	2013	4 683	100%	85%	10 639	8 179
Koneser I1	2013	10 393	100%	85%	10 639	8 179
Koneser F	2013	8 385	100%	85%	10 639	8 179
Koneser G	2013	50	100%	85%	10 639	8 179
Małe Błonia E2	2013	6 000	65%	100%	4 635	3 794

Source: BBI Development, forecasts by BRE Bank Securities

Earnings forecast by project

2010-2012 forecast

(PLN m)		Revenue			COGS		
Project	H2 2010F	2011F	2012F	H2 2010F	2011F	2012F	
In progress / Complete							
Rezydencja Foksal		59.3			29.9		
Dom na Dolnej	35.2	1.9		26.9	1.4		
Plac Unii							
Małe Błonia E1 F1			20.3				16.3
Koneser A							
Starting in H2 2010 / H1 2011							
Marina Kiekrz			37.0				34.1
Małe Błonia E1 F2			18.0				14.8
Koneser E2			41.3				27.8
Services	1.1	2.2	2.2				
Total	36.3	63.3	118.7	26.9	31.3		93.1

Source: BRE Bank Securities

2010-2012 valuation forecast for commercial properties

(PLN m)	Valuation (P&L)			Valuation (Balance Sheet)		
Project	H2 2010F	2011F	2012F	2010F	2011F	2012F
In progress / Complete						
Rezydencja Foksal						
Dom na Dolnej						
Plac Unii	-1.8	13.2	14.6	141.2	235.2	358.9
Małe Błonia E1 F1						
Koneser A		2.5	0.3	3.3	10.9	11.2
Starting in H2 2010 / H1 2011						
Marina Kiekrz						
Małe Błonia E1 F2						
Koneser E2						
Koneser E4		1.4	0.3		3.7	7.5
Garaż Centralny					7.5	15.0
Starting in H2 2011 / H1 2012						
Sezam			14.5			35.6
Starting in H2 2012						
Koneser E3						
Koneser E1						3.1
Koneser I2a, I2b						13.4
Koneser I1						29.8
Koneser F						24.0
Koneser G						0.1
Małe Błonia E2						8.0
Total	-1.8	17.0	29.7	144.5	257.3	506.7

Source: BRE Bank Securities

Forecast of 2010-2012 CAPEX and minority interests

(PLN m)	Minority Interests			Capital Expenditure		
Project	H2 2010F	2011F	2012F	2010F	2011F	2012F
In progress / Complete						
Rezydencja Foksal	0.0	7.3	0.0			
Dom na Dolnej	0.4	0.0	0.0			
Plac Unii				16.6	80.8	109.2
Małe Błonia E1 F1	0.0	0.0	1.4			
Koneser A		0.4	0.0	2.0	5.1	
Starting in H2 2010 / H1 2011						
Marina Kiekrz	0.0	0.0	0.0			
Małe Błonia E1 F2	0.0	0.0	1.1			
Koneser E2			2.0			
Koneser E4		0.2	0.1		2.3	3.5
Garaż Centralny					7.5	7.5
Starting in H2 2011 / H1 2012						
Sezam						21.1
Starting in H2 2012						
Koneser E3						
Koneser E1						1.8
Koneser I2a, I2b						7.5
Koneser I1						16.6
Koneser F						13.4



Koneser G					0.1	
Małe Błonia E2					3.2	
Total	0.4	7.9	4.6	18.6	95.7	183.8

Source: BRE Bank Securities

2013 profit, CAPEX, and minority interests forecast

Project	Revenue 2013F	COGS 2013F	Minority Interests 2013F	Property Valuation 2013F	Capital Expenditure 2013F
In progress / Complete					
Rezydencja Foksal					
Dom na Dolnej					
Plac Unii				10.8	
Małe Błonia E1 F1					
Koneser A				0.3	
Starting in H2 2010 / H1 2011					
Marina Kiekrz					
Małe Błonia E1 F2					
Koneser E2					
Koneser E4				0.2	
Garaż Centralny					
Starting in H2 2011 / H1 2012					
Sezam				14.5	21.1
Starting in H2 2012					
Koneser E3	53.1	35.6	2.6		
Koneser E1			0.4	2.7	5.8
Koneser I2a, I2b			1.7	11.5	24.9
Koneser I1			3.8	25.6	55.3
Koneser F			3.1	20.6	44.6
Koneser G			0.0	0.1	0.3
Małe Błonia E2	27.8	22.8	1.8		
Services	2.2				
Total	83.1	58.4	13.5	86.4	151.9

Source: BRE Bank Securities

Housing inventory and sales forecasts

Housing inventory forecast

Project	Floor space (sqm)	Number of units	Completion	H1 2010	H2 2010F	2011F	2012F
Available inventory							
Rezydencja Foksal	7 800	30	Q2 2011	30	22	0	0
Dom na Dolnej	4 046	48	Q2 2010	1	0	0	0
Małe Błonia E1 F1	4 500	77	2 012	-	69	30	0
Marina Kiekrz	4 927	81	2 012	-	71	34	0
Małe Błonia E1 F2	4 000	68	2 012	-	-	50	20
Koneser E2	5 342	67	Q4 2012	-	-	40	0
Koneser E3	6 675	83	2 013	-	-	-	50
Małe Błonia E2	6 000	103	2 013	-	-	-	85
Total				31	162	154	155
Sales							
Rezydencja Foksal	7 800	30	Q2 2011	-	8	22	0
Dom na Dolnej	4 046	48	Q2 2010	-	1	0	0
Małe Błonia E1 F1	4 500	77	2012	-	8	39	30
Marina Kiekrz	4 927	81	2012	-	10	37	34
Małe Błonia E1 F2	4 000	68	2012	-	-	18	30
Koneser E2	5 342	67	Q4 2012	-	-	27	40
Koneser E3	6 675	83	2013	-	-	-	33
Małe Błonia E2	6 000	103	2013	-	-	-	18
Total					27	143	185

Source: BRE Bank Securities

Marginal role of housing

Residential properties have a marginal share in BBI Development's portfolio.

Valuation

We used two methods to estimate BBI's value: the Net Asset Value approach and relative valuation. Each method has a weight of 50%. Investors are not willing to discount the long-term growth prospects of commercial developers, which are very good in case of BBI (strong profits expected in 2013). Our price target on BBD shares is PLN 0.55, demonstrating a 22.5% upside from the current price, and prompting a buy rating.

Valuation Summary

	Valuation	Weight
NAV	0.56	50%
Relative valuation	0.46	50%
Value per share	0.51	
9M cost of equity	7.8%	
Target Price	0.55	

Source: BRE Bank Securities

Valuation Based On Net Asset Value

We believe that BBI Development's value can be reliably assessed based on the net present value of its assets. Prices of real-estate stocks largely factor in the short- and medium-term prospects of their issuers. The DCF model is not considered the best approach when valuing commercial real-estate developers because of the need to assume eventual sales of commercial assets.

Valuation Assumptions

- BBI's present value is accurately reflected by the present value of 2013 equity.
- Valuation includes an excess of fair value over book value existing for the "Koneser" project.
- A potential PLN 1.25m write-off related to mortgages is also factored in.
- Investment plans and earnings forecasts are as laid out above.
- We assume that BBI will recognize 50% of the expected margin achievable on the "Sezam" project in 2012 and 2014.
- The residual value of Juvenes is included in BBI Development's book value (which in turns factors in the goodwill arising on the BBI / Juvenes merger).

Valuation Based On Net Asset Value

(PLN m)	2010F	2011F	2012F	2013F
Equity	244.4	267.7	299.1	385.2
Number of shares	532.1	532.1	532.1	532.1
Equity per share	0.46	0.50	0.56	0.72
Excess of fair value over book value of "Koneser"	16.4	16.4	16.4	8.3
Mortgage write-offs	-1.2	-1.2	-1.2	-1.2
Adjustments	15.2	15.2	15.2	7.1
Number of shares	532.1	532.1	532.1	532.1
Adjustments per share	0.03	0.03	0.03	0.01
BBI Development's value per share	0.49	0.53	0.59	0.74
WACC	9.8%	9.4%	9.0%	8.7%
Cost of debt	9.1%	9.1%	9.1%	9.1%
Risk-free rate	5.6%	5.6%	5.6%	5.6%
Credit risk premium	3.5%	3.5%	3.5%	3.5%
Effective tax rate	19.0%	19.0%	19.0%	19.0%
Net debt / EV	24.6%	37.3%	49.6%	58.5%
Cost of equity	10.6%	10.6%	10.6%	10.6%
Risk premium	5.0%	5.0%	5.0%	5.0%
Discount factor	98.5%	90.0%	82.6%	76.0%
NPV per share	0.48	0.48	0.49	0.56

Source: BRE Bank Securities

Relative Valuation

In building a peer group against which to assess BBI Development, we chose Polish and international real-estate developers focusing on commercial properties and active in CEE/SEE markets. The comparison shows that major Polish companies are valued at a premium to book value, while Austrian firms are trading at substantial discounts.

The result of peer group comparison was an estimated per-share value of PLN 0.46, and a 9-month price target of PLN 0.50 per share.

**Relative Valuation**

	2010F P/BV	2011F P/BV	2012F P/BV
Polish Peers			
Echo Investment	1.30	1.13	1.00
GTC	1.22	1.05	0.93
Median	1.26	1.09	0.96
Weight	50.0%	50.0%	50.0%
International Peers			
Atrium European Real Estate Development	0.77	0.74	0.73
CA Immo International	0.63	0.60	0.59
CA Immobilien Anlagen	0.57	0.56	0.54
Conwent Immobilien	0.63	0.61	0.59
Deutsche Euroshop	1.09	1.06	1.00
Immofinanz	0.67	0.64	0.61
IVG Immobilien	0.68	0.69	0.64
Klepierre	1.06	1.05	0.93
Segro	0.85	0.85	0.80
Sparkassen Immobilien	0.81	0.73	0.69
Unibail Rodamco	1.18	1.15	1.09
Median	0.77	0.73	0.69
Weight	50.0%	50.0%	50.0%
Median	1.01	0.91	0.82
BBI Development	0.98	0.89	0.80
Premium (discount)	-3.3%	-1.9%	-2.9%
Multiple weight	30.0%	40.0%	30.0%
Value	0.14	0.18	0.14

Source: BRE Bank Securities, Bloomberg



Income Statement

(PLN m)	2008	2009	2010F	2011F	2012F	2013F
Sales revenue	11.3	1.0	82.0	80.4	148.4	192.5
residential properties	3.3	1.0	37.1	63.3	118.7	106.1
commercial properties	8.0	0.0	44.9	17.0	29.7	86.4
 Total costs	 10.5	 7.7	 36.5	 41.2	 103.3	 69.1
general expenses	10.5	7.7	9.6	9.9	10.2	10.7
costs of units sold	0.0	0.0	26.9	31.3	93.1	58.4
 Profit on sales	 0.9	 -6.7	 45.5	 39.1	 45.1	 123.4
gross margin	7.6%	-	55.5%	48.7%	30.4%	64.1%
 Other income / expenses	 0.2	 -1.2	 -18.8	 -0.8	 -0.8	 -0.9
 EBIT	 1.1	 -7.9	 26.7	 38.3	 44.2	 122.5
change	-	-	-	43.5%	15.5%	177.0%
EBIT margin	9.7%	-	32.6%	47.7%	29.8%	63.7%
 Financial activity	 0.8	 -0.4	 1.1	 0.3	 0.2	 0.4
 Pre-tax income	 1.9	 -8.2	 27.8	 38.6	 44.4	 122.9
Tax	0.7	0.8	5.1	7.3	8.4	23.3
Minority interests	-0.1	0.1	0.4	7.9	4.6	13.5
 Net income	 1.4	 -9.1	 22.3	 23.3	 31.4	 86.1
change	-	-	-	4.7%	34.6%	174.3%
margin	12.4%	-	27.1%	29.0%	21.1%	44.7%
 Amortization and depreciation	 -1.7	 0.0	 0.5	 0.5	 0.5	 0.5
 EBITDA	 -0.6	 -7.9	 27.2	 38.8	 44.7	 123.1
change	-	-	-	42.7%	15.3%	175.0%
EBITDA margin	-	-	33.2%	48.3%	30.2%	63.9%
 Shares at year-end (millions)	 270.3	 532.1	 532.1	 532.1	 532.1	 532.1
EPS	0.0	0.0	0.0	0.0	0.1	0.2
CEPS	0.0	0.0	0.0	0.0	0.1	0.2
 ROAE	 1.0%	 -5.4%	 10.1%	 9.1%	 11.1%	 25.2%
ROAA	0.4%	-2.1%	5.2%	4.8%	5.1%	10.5%

**Balance Sheet**

(PLN m)	2008	2009	2010F	2011F	2012F	2013F
ASSETS	416.1	426.9	434.4	535.7	701.6	931.2
Fixed assets	154.2	6.6	176.2	288.9	538.4	768.7
Inventories	135.4	5.9	6.2	6.2	6.2	6.2
Intangible assets	0.0	0.0	24.7	24.7	24.7	24.7
Investment property	0.0	0.0	144.5	257.3	506.7	737.0
Other fixed assets	18.8	0.6	0.8	0.8	0.8	0.8
Current assets	261.9	420.3	258.2	246.7	163.3	162.5
Inventories	233.2	394.1	215.4	211.4	119.5	119.5
Receivables	21.7	2.0	1.9	1.9	1.9	1.9
Other financial assets	2.6	16.0	13.8	13.8	13.8	13.8
Cash and cash equivalents	4.2	8.0	26.2	18.7	27.2	26.4
Other	0.2	0.1	0.9	0.9	0.9	0.9
(PLN m)	2008	2009	2010F	2011F	2012F	2013F
EQUITY AND LIABILITIES	404.5	426.9	434.4	535.7	701.6	931.2
Equity	140.8	196.1	244.4	267.7	299.1	385.2
Minority interests	11.7	11.9	31.5	39.4	44.0	57.5
Long-term liabilities	189.6	67.1	65.8	65.8	175.8	305.8
Debt	112.7	10.3	54.0	54.0	164.0	294.0
Reserves	0.0	0.9	5.6	5.6	5.6	5.6
Other	76.9	55.9	6.2	6.2	6.2	6.2
Short-term liabilities	74.0	151.7	92.7	162.7	182.7	182.7
Debt	63.9	135.4	60.6	130.6	150.6	150.6
Trade creditors	9.9	4.3	5.5	5.5	5.5	5.5
Accruals	0.2	11.2	26.5	26.5	26.5	26.5
Other	0.0	0.8	0.1	0.1	0.1	0.1
Debt	176.6	145.7	114.6	184.6	314.6	444.6
Net debt	172.5	137.7	88.4	166.0	287.4	418.2
(Net debt / Equity)	122.4%	70.2%	36.2%	62.0%	96.1%	108.6%
(Net debt / EBITDA)	-304.1	-17.5	3.3	4.3	6.4	3.4
BVPS	0.5	0.4	0.5	0.5	0.6	0.7

**Cash Flows**

(PLN m)	2008	2009	2010F	2011F	2012F	2013F
Operating cash flows	-56.0	-5.7	9.2	-77.8	-121.6	-139.1
Net income	1.4	-9.1	22.3	23.3	31.4	86.1
Capital expenses and inventories	-34.9	-35.6	36.3	-91.7	-127.7	-151.9
Receivables and payables	-5.5	38.0	18.8	0.0	0.0	0.0
Property valuation	0.0	0.0	-44.9	-17.0	-29.7	-86.4
Other	-17.0	1.0	-23.3	7.7	4.4	13.1
Cash flows from investing activities	0.2	0.1	49.2	0.0	0.0	0.0
Asset divestment	0.4	0.1	49.3	0.0	0.0	0.0
Asset purchases	-0.2	-0.1	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Cash flows from financing activities	21.1	9.4	-40.3	70.3	130.2	130.4
Stock issue	0.0	18.3	0.0	0.0	0.0	0.0
Dividend	0.0	0.0	0.0	0.0	0.0	0.0
Debt	24.7	-6.9	-35.6	70.0	130.0	130.0
Other	-3.6	-1.9	-4.7	0.3	0.2	0.4
Change in cash	-34.7	3.8	18.2	-7.5	8.6	-8.8
Cash at period-end	4.2	8.0	26.2	18.7	27.2	26.4
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0.0
FCF	-39.0	-6.7	77.3	-68.4	-96.3	-65.9
(CAPEX / Sales)	-3.2%	-14.4%	-60.1%	0.0%	0.0%	0.0%

Market multiples

	2008	2009	2010F	2011F	2012F	2013F
P/E	86.5	-26.4	10.8	10.3	7.6	2.8
P/CE	-3.6	-5.4	4.1	-3.5	-2.7	-3.6
P/BV	0.86	1.22	0.98	0.89	0.80	0.62
P/S	10.7	241.9	2.9	3.0	1.6	1.2
FCF/EV	-12.8%	-1.7%	21.5%	-15.4%	-15.7%	-9.2%
EV/EBITDA	-539.2	-49.4	13.2	11.5	12.6	5.8
EV/EBIT	278.7	-49.4	13.5	11.6	12.7	5.8
EV/S	27.0	393.0	4.4	5.5	3.8	3.7
DYield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Price (PLN)	0.45					
Shares at year-end (millions)	270.3	532.1	532.1	532.1	532.1	532.1
MC (PLN m)	121.6	239.4	239.4	239.4	239.4	239.4
Equity attributable to minority shareholders (PLN m)	11.7	11.9	31.5	39.4	44.0	57.5
EV (PLN m)	305.8	389.0	359.4	444.8	562.9	715.1



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**List of abbreviations and ratios contained in the report:**

EV – net debt + market value
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

Recommendations of BRE Bank Securities

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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