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Tuesday, January 21, 2014 | update

Commercial Developers

Poland

Market Provides Upside Potential

Current valuations of commercial developers indicate the low expectations of investors as to the sector's growth potential in 2014 with all stocks trading at discounts to book values ranging from 10% (Echo Investment) to 50% (Rank Progress). In our opinion, a recovering economy is going to keep competition in the commercial sector from escalating further, and it will stem the downturn in rental prices which has caused companies to hold off building plans. We are issuing a buy rating for Echo Investment which is set to maintain high margins in the coming years on the existing and planned projects. As for GTC, the improving economic outlook of the CEE region is reducing the risk of further impairment on its property values, and its earnings potential will increase considerably after obtainment of building permits for two malls in Warsaw. Finally, we see the most price upside potential in Capital Park; at 0.56x BV, its valuation reflects expectations of property value losses by over one-third, meanwhile, we believe this value is set to increase this year. We also see attractive investment opportunities in two smaller developers, Rank Progress (expected to sell some of its properties in H1 2014) and P.A. Nova (in whose case the commencement of a large project in Jaworzno is expected to end the stalemate of the last few years).

Commercial real estate construction activity highest since 2006

Jones Lang LaSalle estimates roughly that commercial property investment in Poland exceeded EUR 3.6 billion in 2013, the highest value since 2006. The strong investment activity is expected to drive the profits of WSE-listed developers this year. All the companies in our coverage are planning to sell real estate in 2014. Successful sales are especially important for the future growth of Rank Progress and BBI Development.

Rents under pressure

The supply of new office and retail spaces is going to remain high throughout 2014, creating downward pressure on rental rates. Developers based in Warsaw, where there is still a shortage of commercial spaces, will be able to dodge the trend and raise rents in top locations.

High profitability

Despite the downward pressure on rents, the profitability of office projects remains high in Poland. In 2013, sales prices of office buildings in non-central locations in Wrocław and Warsaw hovered around EUR 2700 per square meter of GLA. At current construction costs, this implies developer margins of ca. 40%.

Cap rates not expected to rise

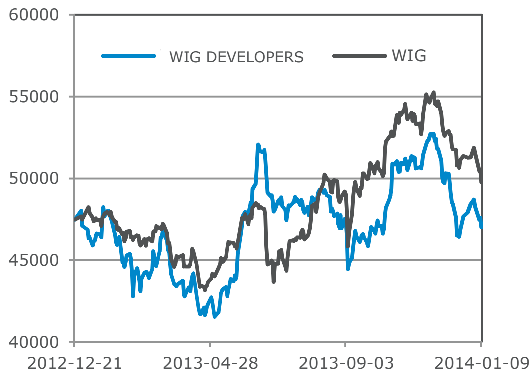
We do not expect capitalization rates for commercial real estate to increase due to rising bond yields. The spreads between cap rates and Polish and German government bond yields are well above the long-term average. In the last ten years, there has been strong negative correlation between GDP growth and capitalization rates.

WIG-Developers	1,502
WIG	50,918
2014E P/E	15.2x
2014E P/B	0.74x

Sector Outlook

The downward pressure on rental rates is expected to ease in 2014. Combined with low capitalization rates, this means commercial real estate portfolios are not set for major revaluations this year. Many commercial developers are planning attractive earnings-driving projects for 2014 and 2015. The sector is trading at low multiples (P/B: 0.5-0.9x). Companies with higher leverage can reduce debt by selling real estate. We are overweight commercial developers for 2014.

WIG-Developers vs. WIG



Company	Rating	Target Price
Capital Park	Buy	8.40
Echo Investment	Buy	8.10
GTC	Buy	9.20

Company	Current Price	Target Price	Upside
Capital Park	5.27	8.40	59.4%
Echo Investment	6.23	8.10	30.0%
GTC	7.59	9.20	21.2%

Company	P/B 2013E	P/B 2014E	P/B 2015E	P/E 2013E	P/E 2014E	P/E 2015E
Capital Park	0.56	0.55	0.51	20.4	16.0	8.1
Echo Investment	0.93	0.88	0.80	8.1	15.0	9.5
GTC	0.84	0.82	0.72	-	18.3	5.5
BBI Development	0.78	0.74	0.68	72.9	15.2	8.8
P.A. Nova	0.61	0.57	0.55	10.8	7.8	7.5

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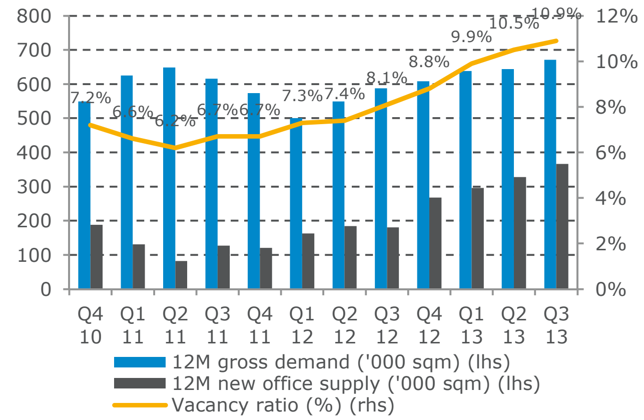
Market Overview

Office activity in Warsaw

Warsaw is the key market for Capital Park, Echo Investment, as well as PHN and BBI Development which are not covered by us. According to our calculations over **70%** of the total rental spaces scheduled to be delivered by **Capital Park** in the next four years are located in Warsaw (the ratio in case of **Echo Investment** is **40%**). Our 2014 predictions for the Capital City office market include moderate growth in demand, high but steady supply, slower take-up rates, and declining downward pressure on rental prices.

Office vacancies in Warsaw have been on a slow climb since Q3 2011 which accelerated slightly in 2012 as supply of new spaces increased. At the same time, demand for office spaces has been on the rise since Q2 2012, however, even the 17% year-on-year surge recorded in Q3 2013 was not enough to absorb all the new output. New offices delivered in Warsaw in **Q3 2013** spanned **366,000 square meters,** marking an increase of a staggering 340% from the Q2 2011 low. The **vacancy rate** in the same period was **10.9%**, which was close to the European average which factors in the higher average vacancies that characterize developing office markets (Moscow 10.5%, Bucharest 14.5%, Prague 11.9%, Budapest 21.0%, Belgrade 22.0%, Kiev 14.0%, as estimated by BNP Paribas Real Estate, 2013).

Office supply and demand in Warsaw

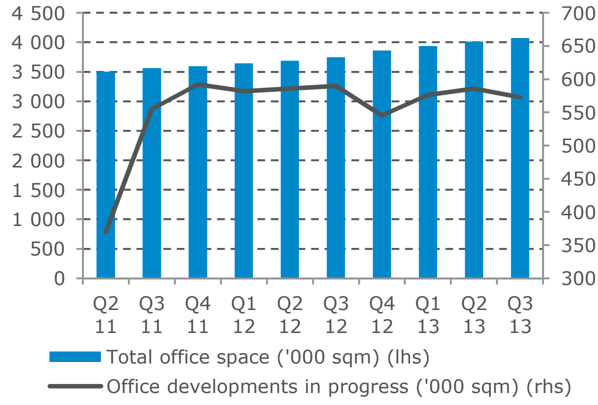


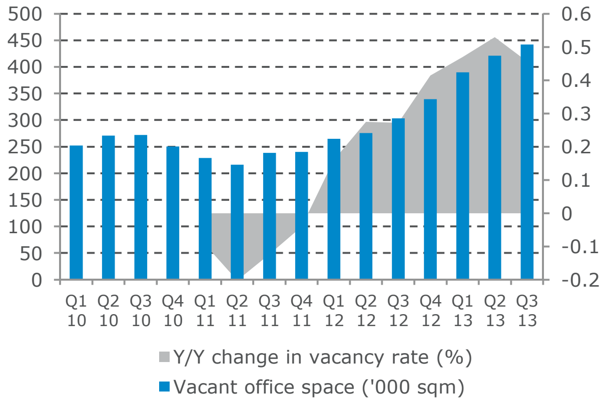
Source: Jones Lang LaSalle, Q3'13

Commercial real estate agencies project that office **supply will eventually stabilize** in Warsaw. After reaching their highest level since 2001 at over 300,000s square meters in 2013, completions scheduled for 2014 are estimated at **290-300 thousand square meters** (JLL, DTZ, Q3'13), resulting in a supply which cannot possibly be met even by the growing demand. Office developments **in progress** throughout Warsaw have remained at a steady **550-600 thousand square meters** since Q3 2011 (JLL, Q3'13). Supply is set to decrease in 2015, though no one can say by how much.
Net demand for Warsaw office spaces in 9M 2013 amounted to **365,000 sqm**, and it was **13% higher than in the same period in 2012** (DTZ,Q3'13).
Real-estate firms anticipate **stabilization in demand** in the coming months, but we think investing activity will remain high thanks to an improving economy.

Even with strong demand, **the office vacancy rate will no doubt increase in 2014,** though at a slower rate than observed in 2013. Even so, developers will continue to feel downward pressure on rental rates in the coming months.

WIP and office vacancies in Warsaw





Source: Jones Lang LaSalle, Q3'13

The beginning of 2011 brought an unexpected drop in capitalization rates combined with an increase in rental rates in the Warsaw market, with cap rates down from 7.00% to **6.25%**, and rent in prime locations up from EUR 21-22 to **EUR 22-25** per square meter (JLL). Cap rates have been steady since then, while prime office rents saw a small decline in H1 2013. In 2014, developers may witness a decrease in rental prices due to high space supply.

Office rent in Warsaw

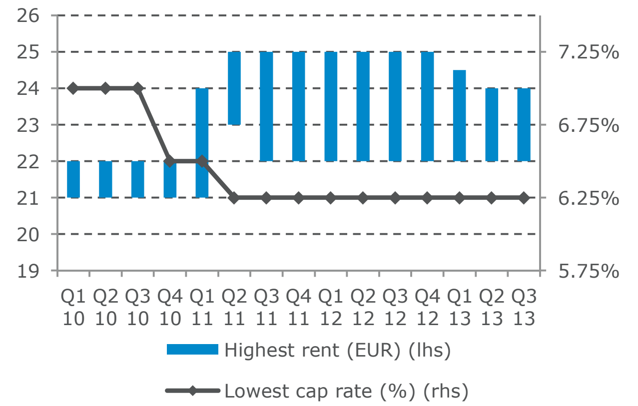
(EUR/m^2/mies.)	CBD*	CBD peripheries	Non-CBD
Highest base rent (EUR/sqm/month.)	27,0	21,0	16,0
Highest effective rent (EUR/sqm/month.)	24,5	19,0	13,0
Rent-free period	5 months	5 months	7.5 months
Average lease term	5 years	5 years	5 years

*Central Business District
Source: CBRE, Q1'13

By offering fit-out services and longer rent-free periods, owners of office properties in Warsaw agree to lower income. In 2013, they were forced to compete for tenants by offering higher and higher **incentives**, hence the effective rental prices (after fit-out costs and rent-free periods) today are as much as 30% lower than the base rates (CBRE, Q1'13).

Consulting firms expect **capitalization rates** for prime Warsaw locations to remain **stable** in 2014, and we agree despite the fact that yields on Polish and German government bonds are currently on the rise. In 2011-2012, falling bond yields did not entail a decrease in cap rates, and as a result the yield spread today is well above the long-term average. In the last ten years, there has been a strong negative correlation between GDP growth and capitalization rates. **Cap rates react to growing GDP with a lag,** and they were the lowest in 2007 (less than 6% for prime commercial property) when the Polish economy was overheated and 10-year bond yields hovered around 6%.

Warsaw office rent and capitalization rates



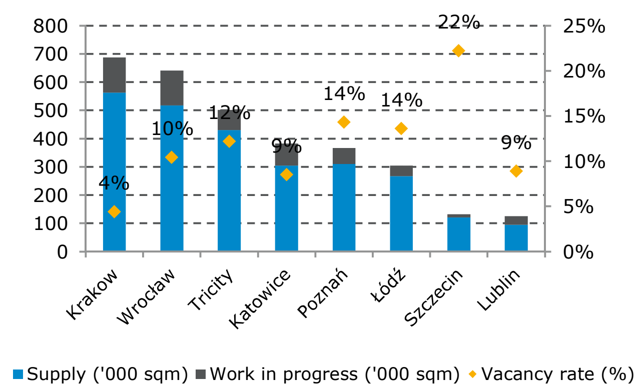
Source: Jones Lang LaSalle, Q3'13

Polish office market beyond Warsaw

Both **Echo Investment** and **GTC** are planning to develop office spaces outside of Warsaw in the next few years. Echo owns land zoned for commercial real estate in all major cities in Poland (with a combined potential of 230,000 sqm of office space), as does GTC which in H2 2013 resumed construction of a 5500sqm office building in Krakow, and which does not rule out more office projects in the future even though its main focus is retail real estate.

Outside of Warsaw, office **rental rates** today are the **highest** in **Wrocław**, **Poznań, and Krakow** (EUR 14-15), and the lowest in the Tricity, Katowice, Szczecin, and Łódź (EUR 12-13). They are expected to remain stable in 2014. The average **vacancy rate** as measured for the six largest cities is **10.6%,** and it is set to increase going forward due to intense building activity. On the upside, this should not put much downward pressure on rent, especially in prime real estate which usually draws tenants before it is completed.

Office supply in regional markets in Q3 2013



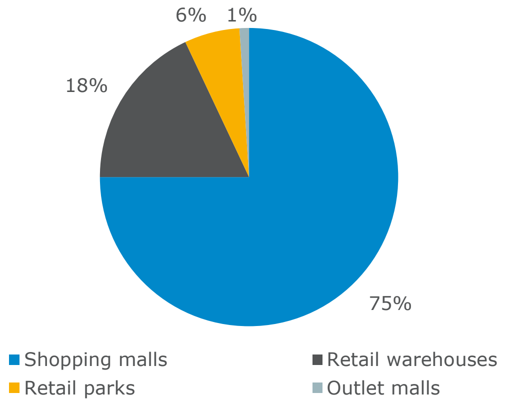
Source: JLL, Q3'13

Even with rental prices edging down, office developments in regional markets continue to generate strong profits, as evidenced by the 2013 sale of Aquarius Business House by Echo Investment. Aside from Warsaw, the most sales activity in the commercial market in the past year was observed in Wrocław where rent per square meter is similar to non-prime rent in Warsaw at about **EUR 2700/m²** GLA (ca. PLN 11,200 at today's exchange rate). With the cost of developing a non-high-rise office building (assuming a reasonable land price) falling in the range of **PLN 6500-7000/sqm²** GLA, the **margins** achievable on such projects can reach **40%**.

Polish market for retail spaces

Retail developments constitute the majority of the planned property portfolios of **GTC** (Warsaw) and **Rank Progress** and **P.A. Nova** (other cities), however, BBI Development, Echo Investment, and Capital Park also have these types of projects slated for 2014.

Retail space inventory breakdown at the end of 2012

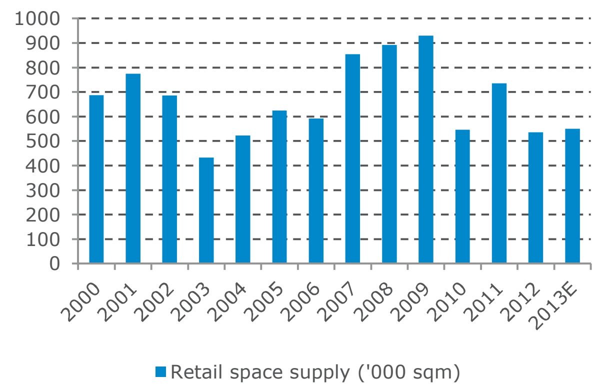


Source: DTZ, Q2 '13

Combined, shopping spaces in retail establishments over 5000 square meters cover an area of over **11.7 million square meters**. It is estimated that about 550,000sqm of retail space was created in Poland in 2013 (DTZ, Q2'13). Building activity remains high, with work in progress throughout H2 2013 estimated at **800 to 900 thousand square meters** depending on the source. **Annual supply** in the years ahead is expected to remain high at **550-650 thousand** square meters (DTZ, Q2 '13).

Vacancy rates in retail establishments in major Polish cities are low (**3-4%**) (JLL, Q3'13; DTZ, Q2'13). Moreover, nearly 20 retail chains were planning to move into Poland in 2013, and many established chains (Mount Blanc, Hebe, Costa by coffeeheaven, Piotr i Paweł, Wólczanka, KiK, 4f, Bata, Guess, Puma, Douglas) were planning further expansion within the country.

2000-2013E retail space supply

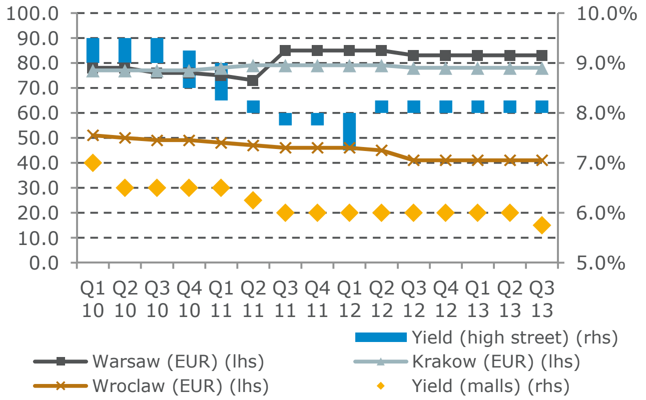


Source: DTZ, Q2 '13

Dom Maklerski

High-street rental prices vary from city to city, ranging from EUR 26 per square meter in Łódź to EUR 83/sqm in Warsaw (C&W, Q3'13). By comparison, mall rent spans EUR 43 in Krakow to EUR 100 in Warsaw. In Q3 2013, high street rates were high but stable, while rent in Warsaw malls went up due to a limited supply of spaces. Outside of Warsaw, retail space rental rates in smaller cities have been under **downward pressure** in the last few quarters, while rates in larger cities have remained stable.

Rent and cap rates for high street properties in Warsaw, Krakow, and Wrocław



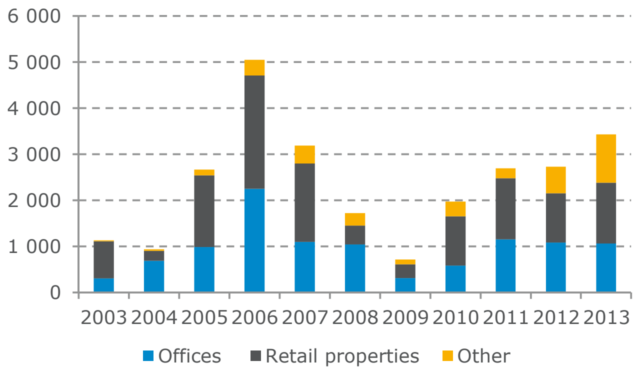
Source: Cushman&Wakefield

As for **prime capitalization rates**, they have been on a downward trend in the past three years, falling from 9-9.5% to 8-8.25% for high-street properties and contracting from 7% to ca. 6% (5.75% in Q3 2013 according to C&W) for top shopping malls. Cap rates may decrease further in the future thanks to strong investment demand observed in larger cities. Demand in smaller towns is not as strong, so the spread between the cap rates for prime properties segment and second-tier properties is widening.

Investment activity

After a period of weak investment demand in 2008-2010, in 2011-2012 the value of transactions closed in the Polish commercial property market stabilized at over EUR 2.5 billion. Jones Lang LaSalle estimates roughly that investment in 2013 exceeded EUR 3.6 billion, the highest value since 2006. Looking at sales deals reported to be in progress, we expect to see equally robust investment activity in 2014.

Investment in Polish commercial properties (EUR m)



Source: JLL

Tuesday, January 21, 2014 | research report

Capital Park: buy (reiterated)

CPG PW; CPGP.WA | Real Estate, Poland

Capital With Great Potential

Capital Park is a Polish property investment firm which in its ten-year history has managed a number of complex real-estate projects at above-average margins. Capital Park has built a property portfolio with an estimated value of PLN 1.35 billion which consists 36% of completed properties and 21% of developments in progress which already have high occupancy rates (Eurocentrum, Royal Wilanów). The remaining 33% are projects scheduled to commence in 2014. Capital Park is well prepared to effectively run these projects as seven out of the nine already have building permits in place. Capital Park's recent IPO raised about PLN 130 million (net) in fresh capital which will be used to finance three commercial real-estate projects (Eurocentrum, Royal Wilanów, Art Norblin) in Warsaw with an estimated completed value of PLN 2.12bn and an expected NOI of PLN 142m. As they are completed and delivered in 2014 through 2017, these projects will ensure rapid earnings growth in the next three years. We set our price target for Capital Park at 8.40 per share and we rate the stock as a buy.

Firmly established in Warsaw

Capital Park's three flagship projects are located in Warsaw. The Eurocentrum Office Complex will consist of two state-of-the-art buildings, the first of which is still under construction but already has an occupancy rate over 50%. The second major office development in Warsaw, the "Royal Wilanów", was commenced in Q3 2013. Finally, Art Norblin, the office and retail complex located in the center of Warsaw, is scheduled to start in H2 2014.

Optimum debt

Capital Park has one of the lowest debt ratios of all commercial developers with 2013 LTV ratio estimated at 28%, expected to increase to about 50% in the next three years as the Company puts in motion all the planned projects. In order to ensure that the development plan is 100% fulfilled, Capital Park may have to incur additional debt in the future.

Low overhead

Capital Park incurs low administrative expenses (PLN 13.2m compared to other commercial developers). SG&A account for less than 1% of assets, which ranks the Company number one among all the commercial developers listed on the Warsaw Stock Exchange.

An investment firm

Capital Park develops real estate and sells it after achieving stable income, using the proceeds to finance new projects. This model has been proven to be successful. Capital Park established a closed-end investment fund in Q3 2013 based on its high-street investment properties, and then sold 85% of its holdings in the fund for PLN 64m while retaining control (a solution never before seen in Poland).

(PLN m)	2012	2013F	2014F	2015F	2016F
Revenue	42.7	60.5	67.7	99.8	148.0
EBIT ex. revaluation	20.4	17.4	24.3	51.5	92.5
EBIT margin	47.8%	28.7%	35.9%	51.6%	62.5%
Property valuation	-108.4	31.6	28.9	65.1	53.2
EBIT incl. valuation	-88.0	49.0	53.3	116.7	145.7
Net profit	-115.0	27.0	34.8	68.8	83.2
P/BV	0.53	0.56	0.55	0.51	0.49
P/E	-	20.4	16.0	8.1	6.8
EV/EBITDA	-	20.7	25.9	14.9	14.1
EV/EBITDA ex. revaluation	44.6	58.4	56.8	33.7	22.2
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

Current Price	PLN 5.27
Target price	PLN 8.40
Market Cap	PLN 552m
Free Float	PLN 113m
ADTV (3M)	PLN 1.17m

Ownership

Patron Capital Partners	74.24%
Jan Motz	2.64%
Jerzy Kowalski	2.64%
Others	20.49%

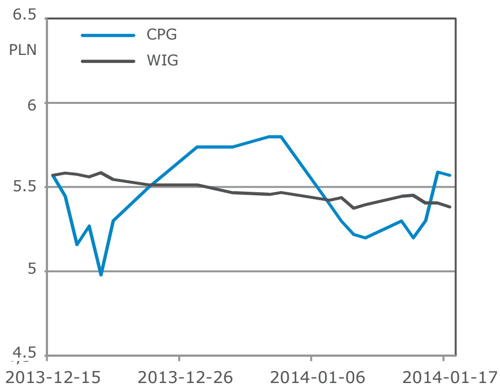
Sector Outlook

The downward pressure on rental rates is expected to ease in 2014. Combined with low capitalization rates, this means commercial real estate portfolios are not set for major revaluations this year. Many commercial developers are planning attractive earnings-driving projects for 2014 and 2015.The sector is trading at low multiples (P/B: 0.5-0.9x). Companies with higher leverage can reduce debt by selling real estate. We are overweight commercial developers for 2014.

Company Profile

Capital Park is a Warsaw-based commercial developer which develops its own real estate as well as buying, renovating, and reselling existing properties for profit. 94% of its portfolio are commercial properties, the rest is housing. The commercial portfolio includes finished properties with a total gross leasable area of 41,000 square meters. Capital Park is currently developing two office projects in Warsaw with a combined gross leasable area of 79,000 sqm, and it is planning to launch the construction of a further 112,000 sqm GLA within the next 12 months.

CPG vs. WIG



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Profile

History

Capital Park was established in 2003 by the incumbent CEO and Deputy CEO. In 2005, Patron Capital Partners became a strategic shareholder in Capital Park, providing capital for the purchase of real estate belonging to Neptun Company. In 2006 the Company launched a program of purchasing commercial properties located in the high streets of Polish cities. Between 2007 and 2009, Capital Park acquired properties which today constitute its most attractive assets: Eurocentrum, Royal Wilanów, and Art Norblin. In the last few years, the Company has been focused on preparing these assets for development (designs, obtaining administrative decisions, arranging financing), and optimizing the high street property portfolio.

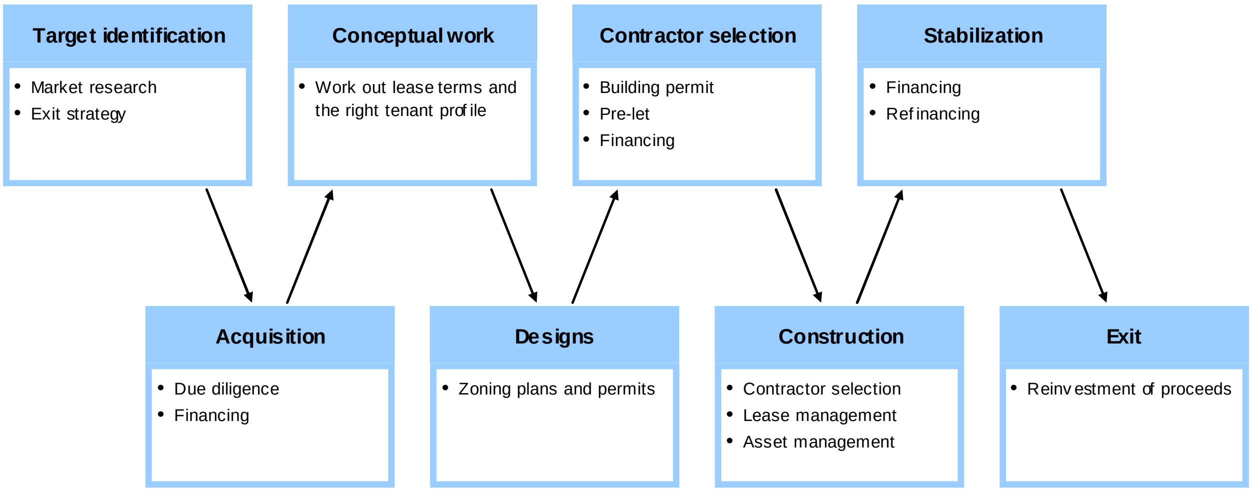
Management

Capital Park's Management Board consists of four members. The CEO has a 27-year track record in real estate, while the experience of the remaining members spans eight to fourteen years. The composition of the Management Board has not changed since the Company was established.

Business Model

Capital Park specializes in challenging real-estate projects designed to generate high profit margins. Its main focus is commercial real estate (offices, retail spaces). Although the Company employs only 43 people, its competences cover each stage of the development process, limiting the needs for outsourcing. Most of Capital Park's employees are highly-skilled specialists in the area of project management, sales and marketing, law, finance, property management, and M&A.

Business Model



Source: Capital Park

Capital Park initiates the investment process by identifying the acquisition target. Already at this stage the Company prepares an exit strategy as in case of each project its goal is to **sell the property once it is able to generate steady income, and reinvest the proceeds in new projects**. Capital Park looks for projects for acquisitions primarily in market niches, which makes it different from other developers. Most of the projects in the Company's portfolio are unusual investments which require, for example, rehabilitation of post-industrial areas (the former metal plating factory "Norblin"), or restructuring of ineffectively managed properties (transformation of cinema chains into retail establishments). These challenging projects have potential to generate above-average profits, as demonstrated by the investments completed by Capital Park in the past (the divestment of an 85% stake in an open-ended investment fund generated IRR of 20% and ROIC of 2.66x). Greatly mitigating any investment risks faced by Capital Park is its experienced and versatile staff supported by the main shareholder, Patron Capital.

The business model of Capital Park is characterized by great **flexibility**, which is useful especially when market trends change.

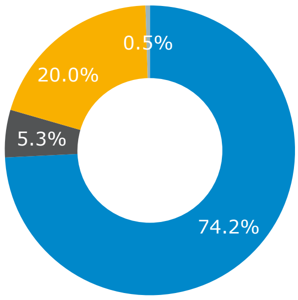
Having specialists from various areas of the property market on is team, Capital Park is able to change the original concept at any time during the preparation of each project. The Company has harnessed these skills in the past, transforming a residential project in Łódź into a retail park, and converting an office building in Gdańsk into a three-star hotel.

Ownership

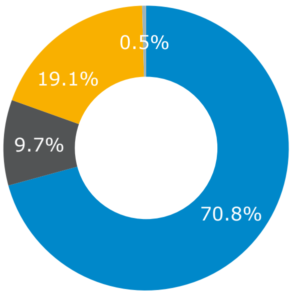
The parent company of Capital Park is **Parton Capital Partners** – one of the largest opportunistic private equity funds in the European property market. Patron manages a portfolio estimated at **EUR 2.5bn** of properties located in thirteen European countries. The funds managed by Patron invest in properties directly or through holding companies to which Patron provides financial support and know-how. In Poland, all of Patron Capital Partners' investments are effected through Capital Park. Patron will remain a majority shareholder in Capital Park after the IPO, as well as delegating its representatives to the Company's Supervisory Board to provide support.

Ownership structure after IPO

Post IPO



After IPO and MIS**



Source: Capital Park, forecasts by Dom Maklerski mBanku; *the other founders: Jerzy Leszczyński, Witold Serdakowski, Robert Zawarski, Kinga Nowakowska; **MIS (Management Incentive Scheme) envisions the issue of a maximum of 7.2 million shares to Management Board members (we assume in our forecasts that the MIS issue will consist of 5.3 million shares)

Capital Park is directly controlled by CP Realty (Gdańsk) S.à r. l. and CP Realty II S. à .r l. Prior to Capital Park's listing on the WSE, the Patron funds want to change the ownership structure by replacing the two CP Realty firms with **CP Holdings S.à r.l.**

Given the nature of the funds managed by Patron, we expect them to exit Capital Park in a few years. A **360-day lock-up** agreement on CPG shares is binding for Patron Capital Partners, Capital Park, Jan Motz, and Jerzy Kowalski.

Management Incentive Scheme

Capital Park has in place a Management Incentive Scheme which envisions the issue of up to **7.2 million warrants** authorizing the purchase of the same amount of shares. The maximum number of shares issued within the program may amount to **6.45% of share capital after IPO and MIS**. The most important criteria governing the allocation of warrants are NAV and stock price growth. In order to receive the maximum number of shares, the Board has to increase NAV (relative to NAV as of 31. December 2012) and the share price (relative to the issue price) by an average of 52% within three years from IPO (**CAGR=14.9%**).

The allocation criteria for MIS warrants seem reasonable to us. To receive the maximum number of warrants, the Management have to top our NAV growth projections and/or cause the value of Capital's Park shares to increase at a much faster rate than our assumed cost of equity (9.5%). Our valuation assumes that the Board will be granted **5.3 million** warrants as part of MIS (4.7% of target share capital), based directly on NAV estimates and the assumptions regarding future changes in Capital Park's share price. The warrant allocation forecast is based on the following assumptions:

- 10% growth in NAV(2012) adjusted for stock issue proceeds through conversion of loans from the main shareholder;
- 26% growth in NAV(2012) in the years covered by MIS driven by earnings,
- Growth in Capital Park's stock price in the years covered by MIS at a pace equal to the growth in cost of equity (9.5% a year).

Dilution of ownership stemming from the implementation of MIS is factored into our valuation of Capital Park.

Management Incentive Scheme in details

	A series	B-G series
Number of warrants	604,024	6,614,714
Allocation criteria	successful sale of share certificate in the closed-end investment fund (FIZ)	111,359 warrants allocated on each allocation date (every 6 months): 222,717 warrants for each 5% NAV growth over 2012 NAV*/1.1; 222,717 warrants for each 5% increase in stock price above the IPO price divided by 1.1
The issue price	nominal value of PLN 1 (cash bonuses will cover the issue price so that the effective acquisition cost is 0)	
Years covered by the plan	3 years after IPO	
Allocation frequency	Warrants allocated every 6 months	
Share acquisition	1 year after allocation	2 years after allocation

Source: Capital Park
*NAV growth relative to 2012 NAV plus IPO proceeds

Assets

Transparent asset structure

The assets of Capital Park have a very transparent structure. As of 30 June 2013 they were worth PLN 1.43bn, **94%** of which was real estate and 3% was cash. The remaining assets accounted for just under 3% of book value (PLN 41m) To sum up, the proportional distribution of the different asset classes is typical of a company investing in the property market. It is worth noting the improvement in current liquidity after the sale of high street properties: as of 31. August 2013, Capital Park had PLN 95m cash, exceeding the value of long-term debt (PLN 78m).

Property portfolio geared for growth

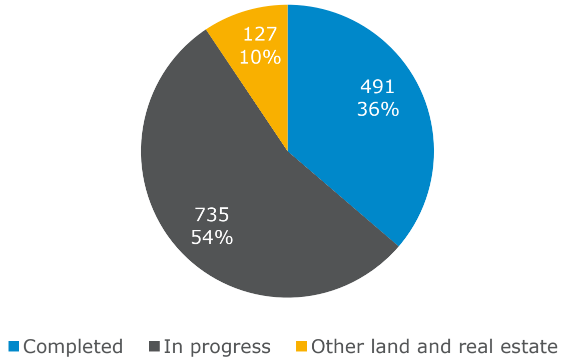
As of 30 June 2013, Capital Park owned **76 properties** with a total carrying value of **PLN 1.35bn.** Independent appraisals Emmerson as of 31 December 2012 and 30 June 2013 put the value of these properties at **PLN 1.35bn**, equal to the book value. Work in progress and projects prepared for implementation accounted for more than half of the total portfolio value. Finished properties accounted for 36% of the portfolio, and they consisted mostly of the 39 retail projects grouped within the FIZ fund. In Q3 2013 Capital Park sold 85% of the shares in the FIZ fund, releasing ca. PLN 64m cash. The price was equal to the book value as of 30 June 2013. Capital Park was not scheduled for complete any investment projects in 2013, however, it incurred CAPEX last year estimated at PLN 160m. The financing came from internal cash resources and loans, and the construction work progressed as scheduled. As a result, the share of completed properties should have decreased to ca. 25% by the end of 2013, while the share of planned projects will have increased to about two-thirds, suggesting even stronger value growth going forward.

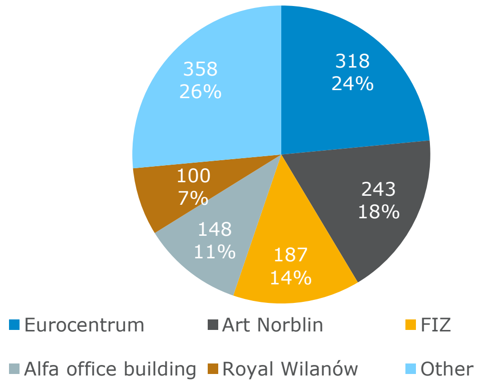
Capital Park's investment program covers projects which are currently under construction and those which are scheduled to start in 2014 at the latest. As of 30 June 2013, three large projects located in Warsaw accounted for **50% of Capital Park's investment portfolio value (PLN 660m)**:

- Eurocentrum (PLN 318m),
- Art Norblin (PLN 243m),
- Royal Wilanow (PLN 100m).

Land and projects set for implementation after 2014 account for just 10% of Capital Park's portfolio. For comparison, we estimate the share of similar projects in the portfolios of GTC and Echo Investment at 15-20%, which implies that Capital Park is more effective in the utilization of its assets.

Structure of Capital Park properties as of 30 June 2013 (PLN m)





Source: Capital Park, Dom Maklerski mBanku

Characteristics of Capital Park properties as of 30 June 2013

(PLN m)	Commercial	Residential	Total	%
Completed properties	454	37	491	36%
WIP and planned projects	722	13	735	54%
Other land and properties	107	21	127	9%
Total	1,282	71	1,353	
%	95%	5%		

Source: Capital Park, Dom Maklerski mBanku

Completed properties

92% of Capital Park's portfolio of completed properties are commercial buildings, and 8% are residential buildings. The average **capitalization rate** for the entire portfolio was 7.7% at 30 June 2013. Note that a favorable EUR/PLN exchange (4.33) raised the book value of the properties, resulting in a lower average yield.

Our valuation model for Capital Park's portfolio assumes a weakening of the EUR/PLN exchange rate to 4.05 in the long term, and an adequate reduction in the book value of the portfolio. Capital Park may have to adjust the value of certain portfolio properties in the future to account for possible discounts on lease prices, and this risk is factored into our financial forecasts for the Company.

Completed commercial properties (PLN m)

Property	Location	GLA (sqm)	BV (Jun'13)	BV PLN/sqm	Long-term NOI	2012 NOI	Rent (EUR)	Occupancy (Mar.'13)	Implied yield*
FIZ (39 properties)	Poland	14,949	187.2	12,523	15.6	16.9	20.9	92%	8.4%
Eurocentrum - Alfa	Warsaw	15,054	147.8	9,817	10.4	8.7	13.7	70%	7.0%
Sobieskiego 104	Warsaw	3,748	38.6	10,296	2.6	1.3	14.1	24%	6.8%
Racławicka Point	Warsaw	2,444	38.3	15,685	2.5	2.4	20.7	100%	6.6%
Street Mall	Radom	3,672	32.3	8,787	2.7	2.3	14.9	84%	8.5%
Other (5 properties)	Poland	1,260	9.4	7,489	0.8	0.8	12.8	95%	8.6%
Total		41,127	453.6	11,029	34.7	32.3	16.9	78%	7.7%

Source: Capital Park, Dom Maklerski mBanku; *Implied yield = LT NOI / BV(Dec'12)

The 39 high-street retail properties making up the portfolio of the **FIZ** fund, which account for **13.8%** of Capital Park's total assets, are estimated to have the highest value of **PLN 187m**. The properties are located in 26 cities in Poland, and over 95% of the income they generate for the fund comes from chain tenants, mostly financial institutions. Polish high streets have been seeing a change recently in the type of tenant they attract as the widespread of bank branches has slowed down, and main-street locations are increasingly being taken up by restaurants and fashion stores which enjoy popularity among shoppers. Capital Park saw a surge in the vacancy rate for its high street portfolio from 3% in 2012 to 8% in March 2013, but we believe this was only a temporary hike caused by the ongoing transition in the tenant profile. The consequent decrease in NOI that this process may entail is reflected in the carrying values of the properties, as demonstrated by the fact that the 85% FIZ shares were sold at book value in Q3 2013 as part of Capital Park's exit strategy for each property. The Company will retain the remaining 15% of the FIZ shares for at least three years. Its annual compensation for managing the fund going forward is set at an equivalent of 1.0% of net asset value.

Capital Park's second most valuable asset in the completed portfolio is **Eurocentrum-Alfa** (**PLN 148m; 10.9% of the asset total**), which is a class-A office building located at Aleje Jerozolimskie in Warsaw. Completed in 2002, the building has since undergone regular revamps. At the end of March 2013, its occupancy ratio dropped to 70%, but it went back up to 78% by the end of September. Our valuation model accounts for a possible decrease in book value led by a low occupancy ratio. Moreover, our assumptions of EUR 13.7-per-square meter rent and a yield of 7.0% for the property are more conservative than is typical for modern buildings in the same location.

Further, the two-story office/retail building at ul. **Sobieskiego 104** is estimated to be worth **PLN 39m** (**2.8%** of total assets)). It is currently undergoing revitalization. Its occupancy rate as of 31 March 2013 was very low at 24%, but it went up to 70% after Capital Park signed a new five-year lease for over 1700 square meters in Q3 2013. We expect downward value adjustments on the property due to decreasing rental prices.

Racławicka Point (**PLN 38m; 2.8%** of total assets) is a class-A office building completed in 2011, with zero vacancies. The average rent in the building is over EUR 20 per square meter, which is high for that location, however, we do not think the prices will be cut in the near future since they are justified by the relatively small office spaces available in the building, the high rent paid by ground-floor retail tenants, and the relatively large number of parking spaces available in the underground garage. The leases in Racławicka Point expire in 2016.

Last but not least, another valuable asset (**PLN 32m, 2.4%** of assets) in Capital Park's completed portfolio is the "**Vis a Vis**" shopping center located in downtown Radom. Completed in 2011, it has an occupancy rate of 84% so far based on long-term leases with a weighted average effective term of 4.6 years.

The commercial properties making up the remainder of Capital Park's completed portfolio have a combined estimated value of **PLN 9m** (**0.7%** of total assets). They are valued at a cap rate of 8.6%. The **residential properties** in the completed portfolio include houses in Warsaw's Wilanów district and flats in Bydgoszcz, carried at cost (**PLN 37m; 2.7%** of assets). We expect these residences to be sold and recognized in profits in 2013-2015, but their contributions will be minor, with gross margins at about 15%.

Work in progress and planned investment

Capital Park's work-in-progress portfolio consists of three major projects, the Eurocentrum Office Complex, the Royal Wilanów office building, and the mixed-use development Art Norblin. All the projects are well prepared, and all have building permits in place except for Art Norblin and the smaller office/retail project in Gdańsk called Neptun House, in case of which permits are currently pending. The four most crucial projects, which account for about 90% of Capital Park's future investment plan, are based in prime locations in Warsaw, and the four smaller developments are located in central locations in Gdańsk, Krakow, and Bydgoszcz. With the nearest deadline in H1 2014, Capital Park is poised to recognize considerable profits on the WIP portfolio this year. The WIP projects will be gradually reassessed to their fair market value as construction work progresses. We estimate the resulting **valuation gains** relative to book value as of June 2013 at **PLN 243m,** and we assess the finished value of the properties at **PLN 2.3 billion** (vs. June 2013 book value of PLN 722m).

The small valuation gains projected for 2013-2017 are due to the high EUR/PLN exchange rate used to appraise these properties at the end of June 2013 and gains already recognized in past periods to reflect the redevelopment work performed on them. With much of the groundwork already laid, most of the WIP projects should be completed within two years.

Work in progress (PLN m)

Property	Segment	GLA (sqm)	Rent (EUR/sqm)	NOI* (EUR m)	Yield	MV (EUR m)	EUR/PLN	MV (PLN m)
Eurocentrum B1	Offices	42,337	15.5	7.5	6.7%	111.7	3.90	435.5
Eurocentrum B2	Offices	27,242	16.0	5.0	6.7%	74.2	3.90	289.2
Royal Wilanów	Office/Retail	36,707	17.0	7.1	7.1%	100.7	3.90	392.8
Art Norblin	Office/Retail	64,164	21.0	15.4	6.5%	236.3	3.90	921.7
Neptun House	Office/Retail	7,804	20.0	1.8	7.5%	23.7	3.90	92.5
Piano House	Offices	5,404	15.0	0.9	7.5%	12.3	3.90	48.1
Street Mall (Łódź)	Retail	5,646	15.0	1.0	8.0%	12.1	3.90	47.1
Gdańska (Bydgoszcz)	Offices/Retail	1,272	15.0	0.2	8.0%	2.7	3.90	10.6
Pawia (Krakow)	Offices	559	20.0	0.1	7.5%	1.7	3.90	6.6
Total/Average		191,135	17.0	39.0	6.8%	575.4		2,244.0

Source: Capital Park, Dom Maklerski mBanku; *NOI calculated assuming natural vacancy rate of 5%

Work in progress (cont.) (PLN m)

Property	Start	Completion	BV (Dec.'12)	Remaining CAPEX	BV(Dec.'12) + CAPEX	MV	Expected profit	
							PLN m	%
Eurocentrum B1	Q2 12	Q2 14	156.8	259.8	416.5	435.5	18.9	4%
Eurocentrum B2	Q3 14	Q2 16	123.2	145.3	268.5	289.2	20.8	7%
Royal Wilanów	Q3 13	Q2 15	89.5	272.7	362.2	392.8	30.6	8%
Art Norblin	Q4 14	Q2 17	214.9	604.9	819.8	921.7	101.8	11%
Neptun House	Q2 14	Q1 16	17.9	50.5	68.4	92.5	24.1	26%
Piano House	Q3 14	Q3 15	10.1	36.0	46.1	48.1	2.0	4%
Street Mall (Łódź)	Q3 13	Q2 14	21.6	20.8	42.5	47.1	4.6	10%
Gdańska (Bydgoszcz)	Q3 14	Q1 15	2.5	5.8	8.3	10.6	2.3	22%
Pawia (Krakow)	Q2 14	Q1 15	2.5	4.4	6.9	6.6	-0.3	-4%
Total/Average			638.9	1 400.2	2 039.1	2 244.0	204.9	9%

Source: Capital Park, Dom Maklerski mBanku

The Eurocentrum Office Complex (PLN 318m; 23.5% of assets) is a Class A+ property in Warsaw. Started in 2012, it is the most advanced of Capital Park's current projects. The general contractor for the project is the construction company Erbud which was hired to build both the buildings making up the complex. Capital Park wants to commence construction of the second building while the first building is still underway with a view to achieving some savings on the originally budgeted cost. Capital Park has already secured **tenants for 51%** of the spaces being developed in the first Eurocentrum building, fulfilling the requirements for disbursement of bank financing. Accordingly, starting in mid-third quarter, construction of the first building will be financed exclusively using a PLN 296m loan extended by Bank Pekao. Negotiations with new prospective tenants are underway, and construction is right on schedule, which means the first Eurocentrum building should be completed by Q2 2014 deadline. Our valuation of the two Eurocentrum buildings is similar to the appraisal by Emmerson.

Construction of the **Royal Wilanów** office/retail complex (**PLN 100m, 7.4% of assets**) started in August 2013. The general contractor is Erbud. Retail and business tenants will share the mixed-use spaces 19/81. Like all new real estate in the Wilanów district, the building is designed to hold a large number of underground parking spaces (one per 39sqm of leasable area) which will be a source of extra net operating income for Capital Park. What distinguishes Royal Wilanów from other office buildings being developed in Wilanów is its prime location vis-à-vis the future town hall and right next to a planned shopping mall, and its superior standard of finish.

Royal Wilanów valuation assumptions

	GLA (sqm), units	Rent (EUR)	NOI* (EUR m)	Yield	MV (EUR m)
Offices	29,787	14	4.8	7.5%	63.4
Retail spaces	6,920	20	1.6	6.0%	26.3
Parking spaces	931	75	0.8	7.2%	11.0
Total	36,707	17.0	7.1	7.1%	100.7

Source: Capital Park, Dom Maklerski mBanku; *NOI calculated assuming natural vacancy rate of 5%

Capital Park has signed pre-let agreements for **21% of the office spaces** and **63% of the retail spaces** so far, and it is currently negotiating with prospective tenants expected to lease a further 27% of the office space. The Company will be eligible to draw on the bank financing extended for the Royal Wilanów project after the tenancy rate reaches at least 40% of the budgeted NOI (vs. 33% currently). With Wilanów being a popular destination for many retail establishments, the Company should have no problem finding tenants for all the planned retail spaces. Filling up the offices may prove a bigger challenge. The rental prices set in the pre-let agreements are higher than our estimated average office rent, and this is the reason for the 10% difference in our valuation of Royal Wilanów and the appraisal prepared by Emmerson.

Valuation of Capital Park projects: Emmerson vs. mDM

(EUR m)	Emmerson			mDM*	diff.
	NOI	Yield	Valuation*		
Eurocentrum	12.5	6.75%	184.5	185.8	1%
Royal Wilanów	7.6	6.80%	111.3	100.7	-10%
Norblin	15.7	6.70%	234.4	233.2	-1%

Source: Capital Park, Emmerson, Dom Maklerski mBanku; *completed value

Art Norblin (PLN 243m; 18.0% of assets) is the largest project in Capital Park's WIP portfolio. It is zoned for 40,000 square meters of office spaces and 24,0000 square meters of retail spaces, to be created by redeveloping the existing buildings of a former metal plating plant located at ul. Żelazna in Warsaw, dating back to the 19th century. A further 750 square meters in the revamped interiors will be adapted to house a museum and a theater. Capital Park expects to obtain the building permit for the Art Norblin development in the first half of 2014.

Art Norblin valuation assumptions

	GLA (sqm), units	Rent (EUR)	NOI* (EUR m)	Yield	MV (EUR m)
Offices	40,000	17	7.8	6.5%	119.3
Retail spaces	24,000	22	6.0	6.0%	100.3
Parking spaces	755	100	0.9	6.3%	13.6
Total	64,000	20.1	14.6	6.3%	233.2

Source: Capital Park, Dom Maklerski mBanku; *NOI calculated assuming natural vacancy rate of 5%

Capital Park's portfolio of **planned residential projects** (**PLN 13m; 1.0%**) consists of two developments, both located in Warsaw, namely the second stage of a luxury housing complex in the Wilanów district ("Rezydencje Pałacowa") and a villa at ul. Śmiała in the Stary Żoliborz district. The residences built in the first stage of the Wilanów project fetched modest margins for Capital Park, but the second stage is expected to generate returns as high as 40% thanks to the unsymmetrical way the Company allocated the infrastructure costs between the two stages. The luxury villa at ul. Śmiała is expected to generate a margin of 13% according to an appraisal by Emmerson, and whether it will be built depends on whether it finds a buyer. We do not include the villa in our financial forecasts for Capital Park.

Strategic Objectives and IPO Goals

Finish ongoing projects

Capital Park's top priority in the next 2-3 years is an ambitious investment program for which the Company has been preparing for the last 5-6 years. Using IPO proceeds, the Company was planning to further the development of its three flagship projects. And so, about PLN 85m was to be allocated to the second Eurocentrum building, PLN 50m to Royal Wilanów, PLN 10m was to be spent on Art Norblin, and the remaining PLN 54m was to be allocated to future projects.

A **PLN 6.5** per-share issue price resulted in net IPO proceeds of **PLN 130m,** which was about PLN 70m less than expected by Capital Park, forcing the Company to seek financing from other sources. The acquisition of the missing PLN 15m in financing needed to complete the three main projects is key to delivering our forecasts.

Original planned allocation of IPO proceeds (PLN m)

Project	Location	Allocation	%
Eurocentrum B2	Warsaw	85	43%
Royal Wilanów	Warsaw	50	25%
Art Norblin	Warsaw	10	5%
New projects	Poland	54	27%
Total		199	100%

Source: Capital Park

The new projects planned by Capital Park will have much lower values than the Warsaw developments. They include an expansion of the portfolio of high-street retail locations and further development of the "Vis a Vis" street mall chain. The Company is currently negotiating purchases of such properties. However, our 2013-2018 financial forecasts conservatively do not factor in any such new projects except the ones for which land lots are already in place.

Redevelop and sell finished properties

Capital Park sold a major portion of its stake in the high-street property portfolio after the net operating income of these properties had stabilized, and we expect this strategy will be continued in the future. The Company owns several other properties (e.g. Sobieskiego 104, Eurocentrum Alfa) where it is able to improve occupancy rates and tenant profiles. Moreover, it is scheduled for complete five smaller projects in 2014 and 2015 which may eventually be classified as portfolio investments as well. This strategy will free up cash for new, more lucrative projects while generating income from management of the sold properties.

Reinvest cash in new real-estate projects

Capital Park's long-term vision is to continue developing complex real-estate projects, and to create value by engaging in profitable ventures. To realize this vision, the Company is on the lookout for acquisition opportunities such as:

- assets put up for sale by companies under financial stress,
- assets sold in liquidation or reorganization,
- firms occupying market niches, and
- commercial real estate in prime locations.

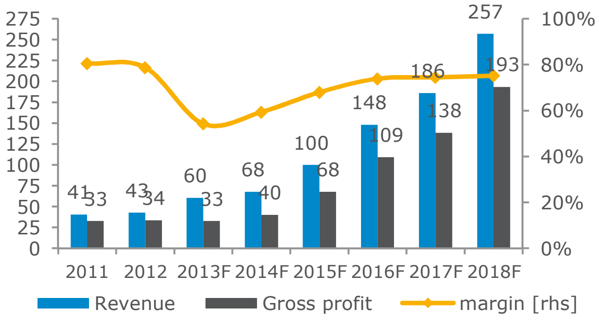
Capital Park wants to maintain a portfolio of projects that will ensure continuing growth over three-to-five 5 years.

Financial results earnings forecast

Revenues and gross profit

In 2011-2012 almost 100% of Capital Park's revenues was generated from rental of finished commercial spaces; sales of residential spaces amounted to zero. 2011 and 2012 revenues were based on the same properties, with the largest contributions made by the commercial portfolio under management of the closed-end FIZ fund (ca. 50% of revenues and gross profit). Revenues and rental income grew only slightly in 2012 relative to 2011, and the gross margin approximated 80%, which confirms that the portfolio of earning assets consists of fully redeveloped and stabilized properties with limited growth potential. Having sold 85% of its shares in the FIZ fund, Capital Park continued to consolidate the fund under the full method as the entity responsible for its management. In 2013, we expect to see a small decrease in rental income due to temporary spikes in vacancies in certain commercial properties. At the same time, Capital Park will post revenues from residential units sold in Warsaw and Bydgoszcz. The gross margin on residential sales will be low, and the segment will make a very small contribution to the 2013 earnings, but it will improve the liquidity of Capital Park thanks to recovered cash.

Forecast of revenues and gross profits (PLN m)



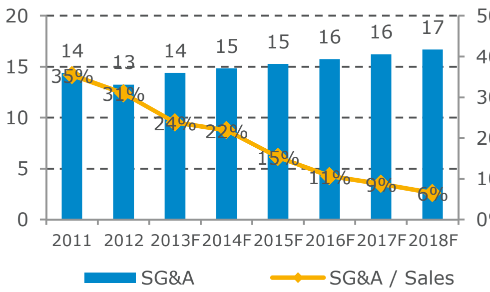
Source: Capital Park, F – forecasts by Dom Maklerski mBanku

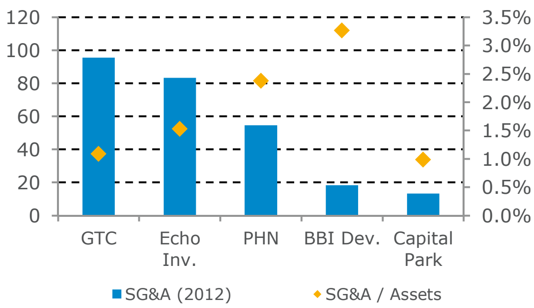
Capital Park is expected to generate growing profits starting in 2014 after the completion of the first Eurocentrum building. In 2015, the Company will also see revenues from Royal Wilanow and some other minor projects (Piano House, Neptun House, Pawia) 2016 is the deadline for the second Eurocentrum building, and Art Norblin is scheduled for completion in 2017. According to our forecasts, revenues will stabilize in 2018, a year after the completion of the investment program. For the 2014-2018 period, we project **revenue CAGR** of **34%,** driven by a very diligently prepared investment program (ready building permits, negotiations with tenants at an advanced stage, IPO proceeds).

Administrative expenses

Due to a relatively low share of completed properties in the investment portfolio, Capital Park incurs relatively high administrative costs as percentage of revenues (over 30%). However, this proportion will change significantly once the Company recognizes revenues from new investments. In 2015, SG&A-to-sales ratio should fall to levels reported by Echo Investment and GTC. That said, since developers differ significantly when it comes to asset structure (rental properties/properties under construction/land bank), a ratio of **SG&A to assets** seems a more meaningful measure of their cost effectiveness; the ratio does not exceed **1.0%** in the case of Capital Park, and it is expected to go further down in the coming years.

SG&A forecast for Capital Park and SG&A comparison for WSE-listed developers (PLN m)





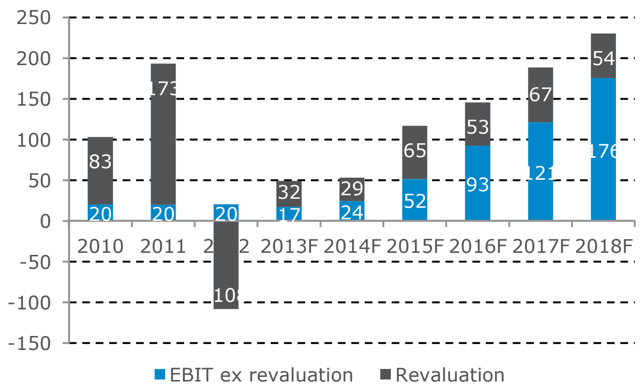
Source: Companies, F – forecasts by Dom Maklerski mBanku

Capital Park stands out even more in a comparison based on the nominal value of administrative costs (PLN 13.2m in 2012, down by 8% y/y). We do not any reason why SG&A should grow in the future since they are largely related to the operations of investment vehicles and so-called platform costs. The property investment should not significantly impact administrative costs either as most of costs are capitalized at the stage of construction (this refers also to costs of marketing and tenant acquisition).The expenditures incurred on maintenance of completed properties are included in direct costs.

EBIT

In 2011-2012, property valuation gains were significantly impacted by changes in the EUR/PLN exchange rate. The appreciation of the euro strongly supported the gains on 2011 valuation, while its depreciation 2012 was one of the main reasons behind asset impairments recognized that year. At the same time, **EBIT adjusted for revaluation** and other non-cash events was exceptionally strong at PLN 20m annually in the last three years. In 2013 we are expecting core EBIT to stabilize further. Cash profits should improve slightly in 2014 after the Company completes the properties under construction now. 2015 should mark a breakthrough for EBIT as rental income from completed properties skyrockets. Capital Park should see high **revaluation gains** even earlier, in 2014, stemming largely from the properties covered by the investment program. Capital Park recognizes valuation gains using the percentage of completion method. In turn, Capital Park's current portfolio of completed properties is expected to produce valuation losses in 2014 based on the assumption that the **EUR/PLN** exchange rate will drop to a target level of **3.90** at the end of 2014, and based on expectations that the values of Eurocentrum-Alfa and Sobieskiego 104 will decrease as a result of falling rental rates. The expectations of a weaker euro also affect our valuation gain predictions for the planned properties covered by the investment program. A strengthening (weakening) of the EUR/PLN exchange rate by **PLN 0.10** would bring our revaluation forecast up (down) by ca. **15%** in the forecast period.

Forecast of EBIT and revaluation gains (PLN m)*



Source: Capital Park, F – forecasts by Dom Maklerski mBanku; *2011 EBIT ex. revaluation is adjusted upward for one-time costs of non-cash contributions amounting to PLN 37.5m

Financing

As of 30 June 2013, Capital Park's loan-to-value ratio was 42%. In Q4 2013, the Company raised **PLN 130m** from the IPO (after 5.5% adjustment for IPO costs), and converted debt to equity amounting to **PLN 87m**. In 2013, Capital Park additionally released ca. **PLN 64m** cash by selling shares in FIZ. Thanks to these efforts, the Company will have significantly reduced its debt, with the net debt/property value ratio expected to decrease to **28%** at the end of 2013. The level of debt post-issue will be safe enough to facilitate access to financing in debt markets if necessary. For comparison, at 30 June, the LTV ratios of GTC and Echo Investment stood at 56% and 47%, respectively.

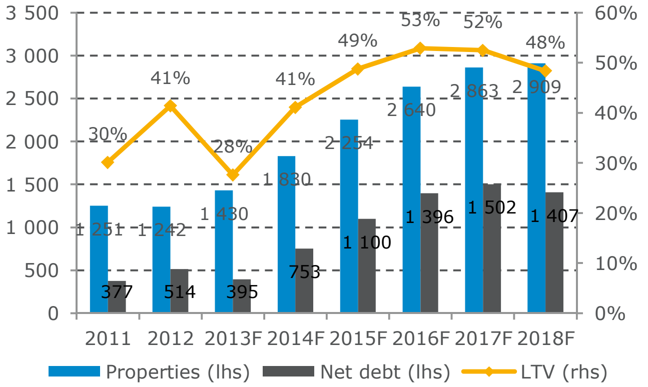
Debt ratio of Capital Park vs. WSE-listed developers*

(PLN m)	GTC	Echo Inv.	BBI Dev.	Capital Park	PHN
Debt	4 620	2 825	187	577	2
Cash	489	471	16	182	168
Properties	7 420	5 044	418	1 430	2 000
Equity	3 024	2 747	254	979	1 694
Debt/Properties	62%	56%	45%	40%	0%
Net debt/Properties	56%	47%	41%	28%	-8%
Net debt/Equity	137%	86%	68%	40%	-10%

Source: Companies, calculations by Dom Maklerski mBanku; *The ratios for Capital Park are calculated based on FY2013 forecasts factoring in the stock issue and the loan-to-equity conversion; the ratios for other companies are calculated as of 30 June 2013.

Before the IPO, loans from shareholders were the main source of financing for Capital Park. After the IPO, this debt (**PLN 87m**) was converted to equity worth PLN 9.23m, representing **8.81%** of the target share capital. The conversion did not generate any extra cash for Capital Park, but it has improved its debt ratios and helped to bring down interest expenses.

Debt and LTV forecasts* (PLN m)



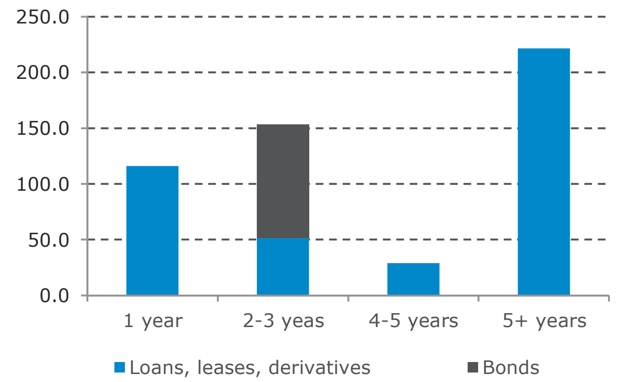
Source: Capital Park, F - forecasts by Dom Maklerski mBanku;
*LTV = net debt / book value of properties

In the years ahead, Capital Park will have to increase debt in order to implement the planned real-estate projects. Even at times of greatest financing need, however, we believe the Company will not significantly exceed **50% LTV.** This is important to note as the expected IPO proceeds will not be sufficient to cover 100% of the costs of all the crucial real-estate projects and they are only enough to cover downpayment for financing for **Eurocentrum and Royal Wilanów** and possibly also the costs of preparation of the Art Norblin project not including costs of construction. Capital Park is planning to accelerate the second Eurocentrum building in order to save on construction costs, and this will most likely necessitate an extended period of financing from the Company's internal cash resources (due to a longer period of acquiring tenants to achieve the occupancy rate required to access bank financing). To be able to launch the construction of **Art Norblin** in 2014, Capital Park may be forced to raise additional funds before it releases cash through refinancing the second stage of Eurocentrum. The Company may decide to sell some assets earlier, issue bonds or gain a loan at the level of a holding company.

Supporting the construction of Art Norblin with an additional debt is a probable scenario taking into account the reasonable level of debt the Company will have after the IPO. In recent years Capital Park demonstrated its capacity to secure debt financing. In 2012 the Company issued 3-year bonds worth PLN 100m. In Q3 2013 Capital Park signed a loan agreement with Getin Bank for EUR 10m with the final repayment deadline in 2018. The loan was extended at the level of a holding company for statutory purposes (e.g. land purchase, financing current investments, repurchasing part of bonds). **The bonds and the Getin Bank loan are backed by a mortgage on Art Norblin.** By the time the Art Norblin development is ready to launch in about a year, we assume Capital Park will be able to remove the mortgage by refinancing.

Capital Park's debt maturity structure is not a major risk factor in our opinion. Short-term debt due within 12 months amounted to PLN 116m as of 30 June 2013, of which only **PLN 15m** represented the current portion of long-term debt **PLN 80m** of the short-term borrowings are loans used toward the purchase of the land properties for Royal Wilanów and Eurocentrum B1 which will be refinanced with two construction loans (already secured) without having to be repaid. A further **PLN 20m** are short-term residential development loans which will be repaid using proceeds from home sales. The total amount of loans, lease payments, and derivatives obligations scheduled to fall due within the next four years is estimated at PLN 80m - an amount which can be easily serviced from current cash flows.

Debt maturity breakdown for Capital Park as of 30 June 2013 (PLN m)



Source: Capital Park, Dom Maklerski mBanku

Taxes

Capital Park is planning to transfer its equity interests in subsidiaries to a vehicle incorporated outside of Poland, and as a result it expects that any future receipts from these subsidiaries, including dividends or divestment proceeds, will not be subject to income tax. Accordingly, **the Company does not recognize deferred tax assets or liabilities related to fair value adjustments to investment properties** in its consolidated financial statements. If the current tax laws were to be amended so as to render such property valuation gains taxable income, Capital Park would have to recognize deferred taxes totaling **PLN 55m**, and as a result the net value of its assets as of 30 June 2013 would decrease by the same amount.

For valuation purposes, we adopted the view held by the Company that property valuation gains will not be subject to taxation at any time in the future. Consequently, the effective tax rate applied to our future earnings projections is much lower than the statutory 19%. At 19%, the total income taxes levied against Capital Park's profits in the years 2013-2018 would be PLN 77m higher than assumed in our forecasts.

Income tax projection (PLN m)

	2010	2011	2012	2013F	2014F	2015F	2016F	2017F	2018F
Pre-tax profit	98.6	117.0	-100.2	28.2	43.6	77.1	98.0	129.6	162.6
Tax	6.9	-4.1	14.8	-0.7	2.8	2.3	8.5	11.9	20.5
Effective tax rate	7%	-3%	-15%	-2%	6%	3%	9%	9%	13%

Source: Capital Park, F – forecasts by Dom Maklerski mBanku

Risk factors

Economic risk

The condition of the Polish real-estate market relies heavily on the economic situation in Poland and across the world. Much of the demand for commercial spaces comes from international corporations, which means it is set to drop if these corporations slow down their expansion, potentially resulting in high vacancy rates, low rental rates, and, consequently, a decrease in the value of the properties making Capital Park's investment portfolio.

Investment risk

Capital Park's business consists in purchasing properties, developing them, and selling them for profit. Most of the real-estate investors active in Poland are foreign entities which scale their activity based on their assessment of the market prospects and availability of financing. If global property funds should lose interest in the Polish market, Capital Park may be prevented from fulfilling its investment plans, and its portfolio may lose value due to higher capitalization rates.

Price risk

Rental prices tend to decrease during times of economic slowdown. This could affect Capital Park's existing prime locations where the Company charges above-average rent, and this risk materializes every time existing leases are up for review or a new tenant is about to move into a vacant space. The properties most prone to price risks (which are factored into our financial forecasts) are Eurocentrum-Alfa and Sobieskiego 104.

Vacancy risk

An increase in vacancies in Capital Park's commercial properties means lower rental income and property values. Possible reasons behind rising vacancy rates include a high supply of new spaces which may be more attractive for the Company's current tenants, or a tenant's bankruptcy (such cases were recorded in 2012). That said, vacancy risk is limited in case of Capital Park, whose buildings are occupied by a large number of small tenants.

Credit risk

Real-estate developers face limited access to bank financing during times of economic slowdown, especially when it comes to financing large and long-running projects of the sort that Capital Park specializes in. Tight access to credit can halt or significantly delay the Company's investment program.

Risk of delays

Delays in the completion of real-estate projects can affect the rate of NAV growth. Possible causes of delays include protracted administrative procedures, changes in designs (e.g. changes necessitated by the need to adjust in a highly competitive market), and long credit procedures. Administrative delays are hard to predict as in extreme cases obtainment of a building permit can take several years.Capital Park has secured building permits for all its strategic projects except Art Norblin which is expected to be issued a building permit by the end of June 2014.

Foreign-exchange risk

Capital Park's property values are stated in euro, so any decrease in the EUR/PLN exchange rate causes a decrease in the zloty values of these properties, and hence a drop in the rental income they generate (leases are also nominated in euro).

Tax risk

Capital Park does not recognize deferred tax assets or liabilities related to fair value adjustments to investment properties in its consolidated financial statements. The decision not to book DTA/DTL on investment properties was based on the opinions of tax experts, the business judgment of the Management Board, and past experience with property sales through transfers of equity interests. However, the risk exists that tax regulations will change or that Capital Park's accounting approach will be questioned by tax inspectors, and as a result the Company will be forced to pay taxes on the planned ownership transfers. If such events occurred today, Capital Park would have to recognize deferred taxes totaling PLN 55m, and as a result the net value of its assets as of 30 June 2013 would decrease by the same amount. Moreover, contrary to what we assume in our financial forecasts, such legal changes could necessitate the recognition of deferred-tax asset valuation allowances whose 2013-2018 three-year value is estimated at PLN 77m.

Valuation

We used two methods to estimate Capital Park's equity value: NAV and Relative Valuation. The valuations fall in the range of PLN 7.0-8.2 per share, implying P/B ratio at 0.74-0.87x. We set our 9-month price target for Capital Park at PLN 8.40 per share, implying 60% upside potential and a buy rating.

Valuation Summary

(PLN)	Price	Weight
Valuation based on Net Asset Value	8.2	70%
Relative Valuation	7.0	30%
average	7.8	
9M cost of equity	7.1%	
Target Price	8.4	

Source: Dom Maklerski mBanku

NAV-Based Approach

NAV-based valuation of Capital Park's shares uses discounted **2018F NAV** and amounts to **PLN 897m**. We adopted a 5-year time forecast horizon which allows us to factor in the whole investment program which expires in 2017 (with the completion of Art Norblin).

NAV valuation assumptions:

- 2014-2018 **revenue** CAGR = **34%**.
- **Rental margins** on commercial spaces at **74-77%** in the forecast period.
- **Margins** on **residential** projects at **5-8%** in 2013-2015 (the first stage of Rezydencje Pałacowa and Bydgoszcz flats), margin growing to **39%** in 2016-2018 driven by sales of the second stage of Rezydencje Palacowa investment.
- **Administrative expenses** growing by **9%** in 2013 and by **3%** in the following years,
- **Investment program** implemented in line with the previous plan.
- **No property sales** in the forecast period (except residential).
- **PLN 129m net IPO proceeds**,
- **Conversion of PLN 87m debt** to equity.
- Long-term **EUR/PLN** exchange rate=**3.90.**
- **Cost of equity = 9.5%** in the whole forecast period.
- Gradual increase in outstanding shares driven by MIS.

NAV-based valuation of Capital Park

(PLN m)	2012	2013F	2014F	2015F	2016F	2017F	2018F
Commercial properties	1,169	1,365	1,778	2,199	2,593	2,824	2,878
Properties completed at 31. Dec. 2012	437	428	401	409	418	426	434
Planned investment	639	835	1,274	1,688	2,073	2,296	2,342
Properties held for sale	93	102	102	102	102	102	102
Residential properties	73	65	53	55	47	39	31
Properties completed at 31. Dec. 2012	38	29	12	0	0	0	0
Planned investment	16	16	21	35	27	19	11
Properties held for sale	20	20	20	20	20	20	20
Cash	66	182	133	69	62	70	95
Other assets	37	38	36	35	35	36	37
Total assets	1,345	1,650	2,000	2,357	2,737	2,969	3,041
Minority interests	2	68	74	80	86	93	100
Interest-bearing debt	580	577	886	1,168	1,459	1,573	1,503
Deferred taxes payable	11	11	11	11	11	11	11
Other liabilities	14	15	15	15	15	15	15
Total liabilities and minority interests	608	670	986	1,275	1,571	1,692	1,629
NAV	737	979	1,014	1,083	1,166	1,277	1,412
Number of shares	74.6	104.7	105.3	105.3	107.6	108.7	109.9
NAVPS (PLN)	9.9	9.3	9.6	10.3	10.8	11.8	12.9
NAVPS growth	-	-5.4%	3.0%	6.8%	5.4%	8.5%	9.4%
Discount rate	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
Discount factor	100.0%	100.0%	91.3%	83.4%	76.2%	69.6%	63.5%
Discounted NAV	737	979	926	903	888	888	897
Number of shares (millions)	74.6	104.7	105.3	105.3	107.6	108.7	109.9
Net asset value per share (PLN)	9.9	9.3	8.8	8.6	8.2	8.2	**8.2**
Cost of equity	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
Risk-free rate	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Source: Dom Maklerski mBanku

Relative Valuation

We compared Capital Park's forward **P/B** and **P/E** ratios with those of Polish and foreign commercial real-estate developers. We assigned equal weights to the multiples and forecast years. Capital Park is trading at discounts of 27% on average on P/B and 21% on P/E.

The discount relative to Polish peers is 1-2 ppts wider than the discount relative to foreign peers. In our opinion, the Polish companies are more similar in profile to Capital Park in terms of the following:

- **Geographic markets** (Warsaw is a strategic market for all companies from Polish peer group; only some foreign companies have projects in Poland, and not necessarily in Warsaw),
- **Dividends** (except for PHN, companies from the Polish peer group are not planning regular dividend payouts, and the foreign firms are typical REITs or similar entities),
- **Investment profile** (Capital Park's business model is the closest to BBI Development, less so to Echo Investment).

Relative Valuation Model

	Price* (local currency)	MCap	P/B			P/E		
		(EUR m)	2013F	2014F	2015F	2013F	2014F	2015F
GTC	7.51	578	0.83	0.80	0.70	-	17.9	5.4
Echo Investment	6.15	612	0.92	0.87	0.79	8.0	14.8	9.3
BBI Development	0.38	48	0.78	0.74	0.68	72.9	15.2	8.8
PHN	26.37	283	0.65	0.65	0.65	38.5	27.8	21.6
Median			0.80	0.77	0.69	38.5	16.6	9.1
Weight			50%	50%	50%	50%	50%	50%
Atrium European Real Estate	4.25	1,593	0.68	0.66	0.64	14.9	12.5	12.2
CA Immobilien Anlagen	13.41	1,178	0.67	0.66	0.64	20.4	18.4	15.1
Conwert Immobilien Invest SE	9.37	800	0.73	0.71	0.70	20.9	18.1	16.4
Deutsche Euroshop AG	32.39	1,747	1.21	1.17	1.15	15.3	15.8	15.2
Immofinanz AG	3.47	3,922	0.68	0.66	0.64	14.5	15.4	14.2
Klepierre	33.30	6,641	1.37	1.37	1.42	16.3	16.0	15.3
Segro	339.50	3,036	1.11	1.05	0.98	19.9	20.6	19.2
Unibail Rodamco SE	186.25	18,111	1.27	1.19	1.11	18.4	17.1	15.9
S Immo AG	5.33	357	0.72	0.69	0.65	15.8	15.5	14.3
Median			0.73	0.71	0.70	16.3	16.0	15.2
Weight			50%	50%	50%	50%	50%	50%
Median			0.76	0.74	0.69	27.4	16.3	12.2
Capital Park	5.20	131	0.56	0.54	0.51	20.1	15.8	8.0
Premium (discount)			-27%	-27%	-27%	-26%	-3%	-34%
BVPS / EPS			9.3	9.6	10.3	0.26	0.33	0.65
Median			0.76	0.74	0.69	27.4	16.3	12.2
Implied valuation			7.2	7.1	7.1	7.1	5.4	7.9
Year weight			16.7%	16.7%	16.7%	16.7%	16.7%	16.7%
Value per share (PLN)			7.0					

Source: Bloomberg, Dom Maklerski mBanku

Income statement

(PLN m)	2010	2011	2012	2013F	2014F	2015F	2016F
Revenue	37.7	40.6	42.7	60.5	67.7	99.8	148.0
change	-	7.6%	5.2%	41.6%	12.0%	47.4%	48.3%
Operating costs	16.2	22.3	21.7	42.1	42.3	47.2	54.4
Gross profit	21.5	18.3	21.0	18.4	25.4	52.6	93.6
Gross profit margin	57.0%	45.1%	49.2%	30.4%	37.5%	52.7%	63.2%
Property valuation	82.6	173.1	-108.4	31.6	28.9	65.1	53.2
Other net operating gains/losses	-1.1	-35.7	-0.6	-1.0	-1.0	-1.1	-1.1
EBIT	103.0	155.7	-88.0	49.0	53.3	116.7	145.7
change	-	51.2%	-156.5%	-155.7%	8.7%	119.0%	24.9%
EBIT margin	272.9%	383.4%	-206.0%	81.0%	78.7%	116.9%	98.5%
Financing gains / losses	-4.5	-38.7	-12.2	-20.8	-9.7	-39.5	-47.8
Pre-tax profit	98.6	117.0	-100.2	28.2	43.6	77.1	98.0
Tax	6.9	-4.1	14.8	-0.7	2.8	2.3	8.5
Minority interests	0.0	12.7	0.0	1.8	6.0	6.1	6.3
Net profit	91.7	108.4	-115.0	27.0	34.8	68.8	83.2
change	-	18.3%	-206.1%	-123.5%	28.6%	97.7%	20.9%
margin	242.9%	266.9%	-269.3%	44.7%	51.4%	68.9%	56.2%
D&A expenses	0.1	0.3	0.1	0.1	0.1	0.1	0.1
EBITDA	103.1	156.0	-87.9	49.1	53.4	116.8	145.8
change	-	51.3%	-156.3%	-155.9%	8.7%	118.8%	24.9%
EBITDA margin	273.2%	384.1%	-205.8%	81.2%	78.8%	117.0%	98.5%
Shares at year-end (millions)	0.1	74.6	74.6	104.7	105.3	105.3	107.6
EPS	916.6	1.5	-1.5	0.3	0.3	0.7	0.8
CEPS	917.6	1.5	-1.5	0.3	0.3	0.7	0.8
ROAE	-	18.6%	-14.6%	3.2%	3.5%	6.6%	7.4%
ROAA	-	9.0%	-8.6%	1.8%	1.9%	3.2%	3.3%

Dom Maklerski

Balance Sheet

(PLN m)	2010	2011	2012	2013F	2014F	2015F	2016F
ASSETS	1,074.0	1,324.0	1,344.8	1,649.6	1,999.6	2,357.4	2,737.2
Fixed assets	991.5	1,215.5	1,183.2	1,379.8	1,792.0	2,213.7	2,607.0
Investment properties	978.5	1194.3	1168.7	1365.3	1777.6	2199.2	2592.6
Deferred tax assets	7.7	11.6	9.3	9.3	9.3	9.3	9.3
Other financial assets	4.3	5.5	0.1	0.1	0.1	0.1	0.1
Other fixed assets	1.0	4.0	5.1	5.1	5.1	5.1	5.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current assets	82.6	108.5	161.6	269.8	207.6	143.7	130.2
Inventories	45.0	56.6	73.0	64.6	52.9	54.9	46.9
Receivables and current assets	6.0	11.1	13.5	13.9	14.3	14.8	15.2
Trade receivables	2.4	4.5	4.0	4.2	4.4	4.6	4.8
Other financial assets	7.3	0.7	5.4	5.4	3.0	1.0	1.0
Cash and cash equivalents	21.9	35.5	65.8	181.8	133.0	68.5	62.3
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0

(PLN m)	2010	2011	2012	2013F	2014F	2015F	2016F
EQUITY AND LIABILITIES	1,074.0	1,324.0	1,344.8	1,649.6	1,999.6	2,357.4	2,737.2
Equity	322.6	840.7	736.8	979.3	1,014.1	1,082.8	1,166.0
Minority interests	0.0	44.7	2.5	68.0	74.0	80.1	86.4
Long-term liabilities	620.0	298.3	452.7	494.2	703.3	1,086.0	1,376.2
Loans and leases	216.9	253.0	251.6	376.6	685.7	968.4	1,258.6
Bonds	94.0	0.0	96.9	100.0	0.0	100.0	100.0
Loans from shareholders	304.2	41.3	86.7	0.0	0.0	0.0	0.0
Deferred tax allowance	1.9	0.0	11.2	11.2	11.2	11.2	11.2
Other	3.0	4.1	6.3	6.3	6.3	6.3	6.3
Current liabilities	131.4	140.2	152.8	108.2	208.3	108.5	108.7
Loans and leases	125.0	118.2	139.8	100.0	100.0	100.0	100.0
Bonds	0.0	0.0	4.9	0.0	100.0	0.0	0.0
Trade creditors	3.1	8.4	3.7	3.8	3.9	4.1	4.3
Other	3.2	13.6	4.4	4.4	4.4	4.4	4.4

Debt	740.2	412.4	579.9	576.6	885.7	1,168.4	1,458.6
Net debt	718.2	376.9	514.1	394.8	752.7	1,099.9	1,396.3
(Net debt / Assets)	66.9%	28.5%	38.2%	23.9%	37.6%	46.7%	51.0%
(Net debt / Equity)	222.6%	44.8%	69.8%	40.3%	74.2%	101.6%	119.8%
(Net debt / EBITDA)	7.0	2.4	-5.8	8.0	14.1	9.4	9.6
BVPS	3,226.4	11.3	9.9	9.3	9.6	10.3	10.8

Cash flows

(PLN m)	2010	2011	2012	2013F	2014F	2015F	2016F
Cash flow from operating activities	16.5	16.0	18.4	29.8	56.3	52.5	93.3
Pre-tax profit	98.6	117.0	-100.2	28.2	43.6	77.1	98.0
D&A expenses	0.1	0.3	0.1	0.1	0.1	0.1	0.1
Working capital	5.3	2.0	-4.1	7.9	13.5	-0.4	7.5
Profit on investment operations (revaluation)	-81.8	-173.3	108.5	-31.6	-28.9	-65.1	-53.2
Other	-5.7	70.0	14.1	25.2	28.1	40.7	40.9
Cash flow from investing activities	-41.6	-8.8	-176.4	-101.4	-383.4	-356.6	-340.3
Property divestment	0.0	0.6	2.3	63.7	0.0	0.0	0.0
Purchase of investment properties	-42.1	-41.5	-109.8	-165.0	-383.3	-356.5	-340.2
Expenditure for financial assets	0.0	-0.2	-71.7	0.0	0.0	0.0	0.0
Other	0.5	32.4	2.7	-0.1	-0.1	-0.1	-0.1
Cash flow from financing activities	27.4	28.3	188.3	187.6	278.3	239.7	240.7
Share issue	9.6	36.7	0.0	215.4	0.0	0.0	0.0
Debt	30.8	3.7	201.9	-3.3	309.1	282.7	290.2
Dividend	-2.3	-0.5	0.0	0.0	0.0	0.0	0.0
Interest	-11.3	-11.6	-11.9	-24.6	-30.8	-43.0	-49.4
Other	0.6	0.0	-1.7	0.0	0.0	0.0	0.0
Change in cash	2.3	35.4	30.2	116.0	-48.8	-64.4	-6.3
Cash at period-end	21.9	35.5	65.8	181.8	133.0	68.5	62.3
DPS (PLN)	22.9	0.0	0.0	0.0	0.0	0.0	0.0
FCF	-20.2	-53.0	-166.6	-79.2	-350.0	-315.1	-257.6
(CAPEX/Sales)	111.5%	102.3%	257.0%	272.8%	566.1%	357.2%	229.9%

Trading Multiples

	2010	2011	2012	2013F	2014F	2015F	2016F
P/E	0.0	3.6	-	20.4	16.0	8.1	6.8
P/CE	0.0	3.6	-	20.3	15.9	8.1	6.8
P/BV	0.00	0.47	0.53	0.56	0.55	0.51	0.49
P/S	0.0	9.7	9.2	9.1	8.2	5.6	3.8
FCF/EV	-2.8%	-6.5%	-18.3%	-7.8%	-25.3%	-18.2%	-12.6%
EV/EBITDA	7.0	5.2	-	20.7	25.9	14.9	14.1
EV/EBIT	7.0	5.2	-	20.7	25.9	14.9	14.1
EV/EBIT ex. revaluation	35.2	-46.8	44.6	58.4	56.8	33.7	22.2
EV/S	19.0	20.1	21.3	16.8	20.4	17.4	13.9
DYield	434.5%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Price (PLN)	5.27						
Shares at year-end (millions)	0.1	74.6	74.6	104.7	105.3	105.3	107.6
MC (PLN m)	0.5	392.9	392.9	552.0	555.2	555.2	567.3
Minority interests. (PLN m)	0.0	44.7	2.5	68.0	74.0	80.1	86.4
EV (PLN m)	718.8	814.6	909.5	1,014.8	1,381.9	1,735.2	2,050.0

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Tuesday, January 21, 2014 | update

Echo Investment: buy (reiterated)

ECH PW; ECH.WA | Real Estate, Poland

Profits Unaffected by Competition

It looks like Echo Investment is going to exceed our July 2013 earnings forecasts thanks to a higher-than-anticipated EUR/PLN exchange rate combined with better tenancy rates which have facilitated higher revaluation gains on the real-estate portfolio. Moreover, Echo has improved its cash position and reduced debt by 3% in 2013 by selling properties without scaling back ongoing projects. At the same time, the Company's operating cash flow in 9M 2013 increased by 45% from the same period the year before (12% after taking into account changes in working capital). Echo intends to grow mainly in office real estate in the year ahead. An oversupply observed in Polish office spaces raises concerns among investors, and this may have been the reason behind the weak performance of ECH shares in the second half of 2013. In our opinion, the Company can continue posting strong financial results even in a tight market environment thanks to its long experience, easy access to financing, a diversified land bank, and high profitability of new projects. We recommend buying Echo Investment with the price target set at PLN 8.10.

Advanced building program

Echo is currently developing seven office buildings in five locations in four Polish cities with a total leasable area of 148,000 square meters. Moreover, it also has two retail developments underway with a combined leasable area of 51,000sqm. We expect all these properties to be completed by the end of 2015. Echo tends to use a conservative approach to appraising its real-estate projects, and our own projections for 2014-2016 as well are based on conservative assumptions (with office cap rates at 8.0%, and rental prices below market rates). However, the actual earnings potential of these projects is probably higher than follows from our forecasts. Even so, ECH is trading at a 10% discount to peers on 2014E P/E and an 18% discount on 2015E P/E.

Financing

Echo generated EUR 72m in free cash flow in 9M 2013 from selling four of its properties, and it expects to raise another EUR 45m by mid-2014. Generally, the Company has always been able to sell its properties at a profit. As for new projects, Echo does not face a shortage of financing with a PLN 596m cash position, PLN 420m unused credit lines, and a potential to refinance completed properties for EUR 78m.

Expansion into housing

In a move to capitalize on the recovering housing market, Echo purchased three residential land properties in H2 2013 for 535 flats. Using the existing land bank, the Company wants to increase the number of homes offered for sale every year for the next three years.

(PLN m)	2012	2013F	2014F	2015F	2016F
Revenue	583.6	542.0	545.3	614.9	808.2
EBIT ex. revaluation	250.8	233.1	235.6	259.5	335.6
EBIT margin	43.0%	43.0%	43.2%	42.2%	41.5%
Property valuation	-61.6	266.6	-34.3	184.9	221.8
EBIT incl. valuation	189.2	499.8	201.3	444.3	557.4
Net profit	373.3	316.5	171.6	271.6	338.2
P/BV	1.06	0.93	0.88	0.80	0.73
P/E	6.9	8.1	15.0	9.5	7.6
EV/EBITDA	25.5	9.4	24.5	12.7	11.1
EV/EBITDA ex. revaluation	19.4	19.9	21.0	21.6	18.3
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

Current Price	PLN 6.23
Target price	PLN 8.10
Market Cap	PLN 2,571m
Free Float	PLN 731m
ADTV (3M)	PLN 2.01m

Ownership

Michał Sołowow	45.88%
AVIVA OFE	10.18%
ING OFE	10.17%
PZU OFE	5.33%
Others	28.44%

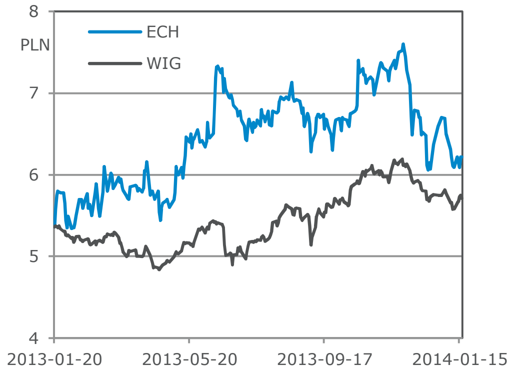
Sector Outlook

The downward pressure on rental rates is expected to ease in 2014. Combined with low capitalization rates, this means commercial real estate portfolios are not set for major revaluations this year. Many commercial developers are planning attractive earnings-driving projects for 2014 and 2015. The sector is trading at low multiples (P/B: 0.5-0.9x). Companies with higher leverage can reduce debt by selling real estate. We are overweight commercial developers for 2014.

Company Profile

Echo Investment has been developing commercial and residential real estate since 1996. The Company has shifted from focusing mainly on shopping centers to building mainly offices. Echo has established a presence in all the major cities in Poland. In the future, it is planning to expand into Hungary, Romania, and the Ukraine.

ECH vs. WIG



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Valuation

Our PLN 8.10-per-share 9-month price target for Echo Investment, determined using NAV-based valuation and multiples comparison, shows upside of 32% from the current price which implies a buy rating.

Valuation Summary

(PLN)	Price	Weight
NAV-Based Valuation	7.2	70%
Relative Valuation	8.4	30%
Valuation per share	7.6	
9M cost of equity	7.1%	
Target price (PLN)	8.1	

Source: Dom Maklerski mBanku

Relative Valuation

The relative valuation model uses P/B and P/E ratios projected for 2013-2015. The peer group consists of Polish and foreign commercial real-estate developers, assigned equal weights each.

The median P/B ratio for both peer groups approximates 0.7, and Echo's P/B shows a 23% premium to the median which we consider justified given that the book value of its real-estate portfolio is understated when compared to market values. Moreover, Echo achieves above-average returns on equity. On P/E, Echo is valued at an average discount of 34%.

Relative Valuation Model

	Price (local currency)	Market Cap (EUR m)	P/BV 2013F	P/BV 2014F	P/BV 2015F	P/E 2013F	P/E 2014F	P/E 2015F
GTC	7.51	578	0.83	0.80	0.70	-	17.9	5.4
Capital Park	5.20	131	0.56	0.54	0.51	20.1	15.8	8.0
BBI Development	0.38	48	0.78	0.74	0.68	72.9	15.2	8.8
PHN	26.37	283	0.65	0.65	0.65	38.5	27.8	21.6
Median			0.71	0.70	0.67	38.5	16.8	8.4
Weight			50%	50%	50%	50%	50%	50%
Atrium European Real Estate	4.25	1,593	0.68	0.66	0.64	14.9	12.5	12.2
CA Immobilien Anlagen	13.41	1,178	0.67	0.66	0.64	20.4	18.4	15.1
Conwert Immobilien Invest SE	9.37	800	0.73	0.71	0.70	20.9	18.1	16.4
Deutsche Euroshop AG	32.39	1,747	1.21	1.17	1.15	15.3	15.8	15.2
Immofinanz AG	3.47	3,922	0.68	0.66	0.64	14.5	15.4	14.2
Klepierre	33.30	6,641	1.37	1.37	1.42	16.3	16.0	15.3
Segro	339.50	3,036	1.11	1.05	0.98	19.9	20.6	19.2
Unibail Rodamco SE	186.25	18,111	1.27	1.19	1.11	18.4	17.1	15.9
S Immo AG	5.33	357	0.72	0.69	0.65	15.8	15.5	14.3
Median			0.73	0.71	0.70	16.3	16.0	15.2
Weight			50%	50%	50%	50%	50%	50%
Median			0.72	0.70	0.68	27.4	16.4	11.8
Echo Investment	6.15	612	0.92	0.87	0.79	8.0	14.8	9.3
Premium			27.9%	23.6%	16.5%	-70.7%	-9.8%	-20.9%
BVPS			6.7	7.1	7.7	0.77	0.42	0.66
Median			0.72	0.70	0.68	27.4	16.4	11.8
Implied value			4.8	5.0	5.3	21.0	6.8	7.8
Year weight			16.7%	16.7%	16.7%	16.7%	16.7%	16.7%
Value per share (PLN)			8.4					

Source: Bloomberg, Dom Maklerski mBanku

NAV-Based Valuation

Calculated based on the present value of projected 2016 NAV, Echo is estimated to be worth PLN 2,988 million (PLN 7.20 per share).

NAV Model Assumptions:

- **Investment.** We assume Echo will finish the developments started in 2012 and 2013 in 2014 and 2015 and in those years start two retail projects (24,500 sqm GLA) and four office projects (64,700 sqm GLA) with completion expected in 2016. All projects will be developed on the current land bank; we assume no land purchases in the forecast period.
- **Property revaluations.** We assume the value of the portfolio of completed properties will increase at ca. 2% a year. 2014-2016 will see upward adjustments resulting from new developments. 2014 will see a downward adjustment for the zloty's 6% appreciation versus the euro.
- **EUR/PLN = 3.90** from year-end 2014 throughout the forecast period.
- **Divestment.** The model does not account for any property sales although it is possible that Echo will divest in 2014. The most probable candidate for sale is the Malta office park in Poznań.
- **Debt.** We assume LTV will increase from 44% to 51% by the end of 2016, but this is a safe level given Echo's profitability. Debt will not increase if Echo sells properties.
- **EBIT.** We expect EBIT (after valuations) to increase 1% in 2014, 10% in 2015, and 29% in 2016, growing across all business segments (EBIT will grow the most in the residential segment in the next three years, and then the office segment will take over; EBIT from mall development will grow at a moderate pace).
- **Dividend.** We assume zero dividends throughout the forecast period.

NAV Model

(PLN m)	2011	2012	2013F	2014F	2015F	2016F
Investment properties	3,941	4,311	4,402	4,933	5,797	6,700
Financial investment	106	108	108	108	108	108
Inventories	501	461	464	489	535	487
Cash	561	377	624	339	301	284
Other assets	258	197	383	383	383	383
Total assets	5,367	5,453	5,981	6,252	7,124	7,962
Liabilities	3,303	3,023	3,226	3,326	3,926	4,426
NAV	2,064	2,431	2,754	2,926	3,198	3,536
Adjustments	387	387	387	387	387	387
NAV (adjusted)	2,451	2,818	3,141	3,313	3,585	3,923
Number of shares	420	413	413	413	413	413
NAVPS (adjusted) (PLN)	5.8	6.8	7.6	8.0	8.7	9.5
NAVPS growth	-	17.0%	11.5%	5.5%	8.2%	9.4%
Discount rate	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
Discount factor	100.0%	100.0%	100.0%	91.3%	83.4%	76.2%
NAV (adjusted)	2,451	2,818	3,141	3,026	2,990	2,988
Number of shares (millions)	420.0	412.7	412.7	412.7	412.7	412.7
Net asset value per share (PLN)	5.8	6.8	7.6	7.3	7.2	**7.2**
Cost of equity	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
Risk-free rate	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Credit risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0

Source: Echo Investment, Dom Maklerski mBanku

Income statement

(PLN m)	2010	2011	2012	2013F	2014F	2015F	2016F
Revenue	426.4	406.9	583.6	542.0	545.3	614.9	808.2
change %	-1.2%	-4.6%	43.4%	-7.1%	0.6%	12.8%	31.4%
of which rental spaces and hotels	319.5	361.8	395.0	400.9	367.6	426.2	496.1
of which home sales	82.9	28.9	178.0	125.8	162.2	173.2	296.5
of which other	24.0	13.4	11.0	15.5	15.5	15.5	15.5
COGS	-167.9	-161.1	-277.7	-238.6	-238.2	-275.7	-388.5
Gross profit	258.5	245.9	305.9	303.4	307.2	339.2	419.7
gross profit margin	60.6%	60.4%	52.4%	56.0%	56.3%	55.2%	51.9%
Gross profit on rental spaces	228.8	237.8	262.0	273.6	267.7	307.9	354.9
margin	71.6%	65.7%	66.3%	68.2%	72.8%	72.2%	71.5%
Gross profit on residential sales	18.9	7.6	39.0	28.0	37.7	29.6	63.0
margin	22.8%	26.3%	21.9%	22.3%	23.3%	17.1%	21.3%
Selling expenses	-22.1	-26.4	-28.6	-28.1	-29.5	-31.0	-32.5
General expenses	-40.3	-52.4	-54.7	-60.7	-62.5	-64.4	-66.3
Other net operating gains/losses	11.5	22.5	28.2	15.5	20.4	15.6	14.8
Profit on property sales	53.3	136.6	0.0	3.0	0.0	0.0	0.0
EBIT ex. revaluation	260.8	326.3	250.8	233.1	235.6	259.5	335.6
Valuation of investment properties	-92.1	213.1	-61.6	266.6	-34.3	184.9	221.8
EBIT	168.7	539.4	189.2	499.8	201.3	444.3	557.4
change %	-14.0%	219.7%	-64.9%	164.1%	-59.7%	120.7%	25.4%
EBIT margin	39.6%	132.5%	32.4%	92.2%	36.9%	72.3%	69.0%
Financing gains / losses	-72.4	-164.3	-129.5	-151.4	-132.5	-158.5	-201.4
FX gains / losses	40.9	-175.3	124.3	-25.9	111.8	0.0	0.0
Adjustment for subsidiaries	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	137.3	199.7	184.0	322.4	180.7	285.9	356.0
Tax	10.3	8.1	189.3	-5.8	-9.0	-14.3	-17.8
Minority interests	-0.1	0.0	0.0	0.1	0.0	0.0	0.0
Net profit	147.7	207.9	373.3	316.5	171.6	271.6	338.2
change %	42.5%	40.7%	79.6%	-15.2%	-45.8%	58.2%	24.5%
Margin %	34.6%	51.1%	64.0%	58.4%	31.5%	44.2%	41.8%
D&A expenses	4.0	7.9	5.7	3.8	6.8	6.8	6.8
EBITDA ex. revaluation	264.8	334.1	256.5	237.0	242.3	266.2	342.4
change %	18.5%	26.2%	-23.2%	-7.6%	2.3%	9.9%	28.6%
EBITDA margin	62.1%	82.1%	43.9%	43.7%	44.4%	43.3%	42.4%
Shares at year-end (millions)	420.0	420.0	412.7	412.7	412.7	412.7	412.7
EPS	0.35	0.49	0.90	0.77	0.42	0.66	0.82
CEPS	0.36	0.51	0.92	0.78	0.43	0.67	0.84
ROAE	8.2%	10.6%	16.6%	12.2%	6.0%	8.9%	10.0%
ROAA	3.4%	4.2%	6.9%	5.5%	2.8%	4.1%	4.5%

Dom Maklerski

Balance Sheet

(PLN m)	2010	2011	2012	2013F	2014F	2015F	2016F
ASSETS	4 491.0	5 367.3	5 453.4	5 980.5	6 252.1	7 123.7	7 961.9
Fixed assets	3 538.8	4 146.9	4 487.1	4 588.8	5 120.2	5 984.3	6 887.1
Property, plant and equipment	25.0	55.9	55.8	67.3	67.5	67.7	67.9
Investment properties	3497.1	3941.4	4310.5	4402.0	4933.3	5797.2	6699.8
Investment in subsidiaries	0.0	106.0	107.5	107.9	107.9	107.9	107.9
Deferred tax assets	15.4	42.2	11.4	10.6	10.6	10.6	10.6
Other	1.3	1.4	1.8	0.9	0.9	0.9	0.9
Current assets	952.2	1 220.4	966.3	1 391.8	1 131.9	1 139.4	1 074.8
Inventories	474.6	500.9	461.3	464.1	489.0	535.0	486.9
Trade and other receivables	52.5	73.7	77.5	76.2	76.2	76.2	76.2
Lending	1.0	0.2	0.0	0.0	0.0	0.0	0.0
Derivative securities	0.8	0.0	1.5	0.0	0.0	0.0	0.0
Cash and cash equivalents	379.3	561.4	376.6	623.8	339.1	300.5	284.1
Other	43.9	84.3	49.3	227.6	227.6	227.6	227.6

(PLN m)	2010	2011	2012	2013F	2014F	2015F	2016F
EQUITY AND LIABILITIES	4 491.0	5 367.3	5 453.4	5 980.5	6 252.1	7 123.7	7 961.9
Equity	1 875.6	2 064.2	2 430.8	2 754.3	2 925.9	3 197.5	3 535.7
Minority interests	-0.1	-0.1	0.0	0.1	0.1	0.1	0.1
Long-term liabilities	2 105.1	2 665.5	2 314.3	2 403.8	2 503.8	3 103.8	3 603.8
Loans and leases	1 802.9	2 318.2	2 222.8	2 316.3	2 416.3	3 016.3	3 516.3
Derivative securities	10.3	13.2	13.0	6.4	6.4	6.4	6.4
Deferred tax allowance	239.9	285.1	24.5	28.4	28.4	28.4	28.4
Other	52.0	49.0	53.8	52.8	52.8	52.8	52.8
Current liabilities	510.3	637.6	708.3	822.3	822.3	822.3	822.3
Loans	325.2	317.5	551.2	450.8	450.8	450.8	450.8
Derivative securities	8.6	20.7	0.1	0.2	0.2	0.2	0.2
Trade creditors	102.6	192.5	107.5	89.5	89.5	89.5	89.5
Advances	21.3	77.0	28.0	29.6	29.6	29.6	29.6
Other	52.7	29.9	21.5	252.2	252.2	252.2	252.2
Debt	2 128.1	2 635.7	2 774.0	2 767.1	2 867.1	3 467.1	3 967.1
Net debt	1 748.8	2 074.4	2 397.4	2 143.3	2 528.0	3 166.5	3 682.9
Net debt / Equity	93.2%	100.5%	98.6%	77.8%	86.4%	99.0%	104.2%
(Net debt / EBITDA ex. revaluation)	6.6	6.2	9.3	9.0	10.4	11.9	10.8
BVPS	4.5	4.9	5.9	6.7	7.1	7.7	8.6

Cash Flows

(PLN m)	2010	2011	2012	2013F	2014F	2015F	2016F
Cash flow from operating activities	99.9	163.6	212.7	278.3	215.7	213.6	380.7
Net profit	147.6	199.7	184.0	321.9	171.6	271.6	338.2
D&A expenses	4.0	7.9	5.7	3.8	6.8	6.8	6.8
Working capital	-29.9	-2.4	-6.6	34.6	-24.9	-46.0	48.1
Valuation of investment properties	-67.2	-342.4	29.4	-240.2	34.3	-184.9	-221.8
Other	45.3	300.8	0.2	158.1	28.0	166.1	209.3
Cash flow from investing activities	-42.4	-157.4	-469.0	152.4	-572.5	-686.1	-687.8
Purchase (sale) of PP&E	-10.5	-39.0	-5.4	-17.0	-7.0	-7.0	-7.0
Property divestment	248.4	591.6	0.0	550.3	0.0	0.0	0.0
Property investment	-184.0	-625.5	-490.3	-390.6	-565.5	-679.1	-680.8
Other	-96.2	-84.5	26.7	9.6	0.0	0.0	0.0
Cash flow from financing activities	158.5	163.8	81.0	-188.8	72.0	433.9	290.7
Share issue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt	269.3	309.1	270.6	-42.5	211.8	600.0	500.0
Dividend paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest paid	-110.5	-136.6	-156.3	-146.6	-139.8	-166.1	-209.3
Other	-0.2	-8.7	-33.3	0.2	0.0	0.0	0.0
FX differences	-5.8	12.1	-9.4	6.1	0.0	0.0	0.0
Change in cash	210.2	182.1	-184.8	248.0	-284.7	-38.5	-16.4
Cash at period-end	379.3	561.4	376.6	624.6	339.9	301.4	284.9
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	125.4	121.6	-283.6	437.0	-361.7	-472.6	-304.1
(CAPEX/Sales)	45.6%	163.3%	84.9%	75.2%	105.0%	111.6%	85.1%

Trading Multiples

	2010	2011	2012	2013F	2014F	2015F	2016F
P/E	17.7	12.6	6.9	8.1	15.0	9.5	7.6
P/CE	17.2	12.1	6.8	8.0	14.4	9.2	7.5
P/BV	1.40	1.27	1.06	0.93	0.88	0.80	0.73
P/S	6.1	6.4	4.4	4.7	4.7	4.2	3.2
FCF/EV	2.9%	2.6%	-5.7%	9.3%	-7.1%	-8.2%	-4.9%
EV/EBITDA	25.3	8.6	25.5	9.4	24.5	12.7	11.1
EV/EBITDA ex. revaluation	16.5	14.0	19.4	19.9	21.0	21.6	18.3
EV/EBIT	25.9	8.7	26.3	9.4	25.3	12.9	11.2
EV/S	10.2	11.5	8.5	8.7	9.4	9.3	7.7
DYield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Price (PLN)	6.23						
Shares at year-end (millions)	420.0	420.0	412.7	412.7	412.7	412.7	412.7
MC (PLN m)	2616.6	2616.6	2571.1	2571.1	2571.1	2571.1	2571.1
Minority interests. (PLN m)	-0.1	-0.1	0.0	0.1	0.1	0.1	0.1
EV (PLN m)	4 365.4	4 690.9	4 968.5	4 714.5	5 099.2	5 737.7	6 254.1

Tuesday, January 21, 2014 | update

GTC: buy (reiterated)

GTC PW; GTCP.WA | Real Estate, Poland

GTC Pulls Out of Losing Streak

GTC successfully completed a share float in recent days. The last 12 months, however, were a very challenging period for the developer whose stock plummeted 24% in the course of last year, and whose net loss for 2013 is expected to exceed EUR 60m. Moreover, GTC has not yet managed to obtain building permits for the two malls it is planning to develop in Warsaw. The recent equity raise was an effort to mitigate high debt. In 2014, we believe the tables are about to turn for GTC. For one, after downward adjustments exceeding EUR 80m in 2013 (making for a total of about EUR 500m in the last three years), the potential for further value decreases in the Company's property portfolio is very small. Moreover, the equity raise has improved debt ratios and reinforced GTC's leverage in negotiations with potential buyers and bondholders, thus reducing the risk of a cash shortage in the face of planned capital investment. The missing building permits for Warsaw malls should be issued very soon. Further, the change of main shareholder in Q4 2013 should have a positive effect on GTC's share price in the long term. As CEE and SEE economies gather steam, sentiment to GTC should turn around, and the earnings outlook is set to improve. We are reiterating a buy rating for GTC with the price target set at PLN 9.20.

Necessary rollover

Contrary to expectations, GTC decided to make another share float in January, raising about EUR 50m in cash from an issue of 31.9 million shares. The Company has recently broken off negotiations with the prospective buyer of a shopping mall in Poland but this should not affect its potential to finance the two planned malls in Warsaw assuming it rolls over the EUR 85m bonds maturing in April.

Investment plans

GTC expects to obtain building permits for two Warsaw mall projects in 2014. By adjusting the value of these properties to their fair value, the Company should recognize gains of EUR 250-300m from 2014 through 2016. It will have to invest EUR 50m of its own money in these projects in 2014 and 2015. This year, GTC is planning to start a project in Belgrade (17,300sqm), and, depending on market conditions, possibly also in Bucharest and Katowice (with building permits already secured).

Cost restructuring will pay off

GTC reduced direct costs of building maintenance and further cut SG&A in 9M 2013. As a result, EBIT adjusted for value adjustments increased by 2% despite the sale of a profitable office complex in early 2013. GTC generated 18% more cash (after interest expenses) from core business in 9M 2013 than in the same period in 2012. The Company will continue to reduce debt in 2014 by repaying part of outstanding bonds, and negotiating lower debt service costs.

(EUR m)	2012	2013F	2014F	2015F	2016F
Revenue	147.6	135.0	120.3	132.2	165.7
EBIT ex. revaluation	63.4	67.5	57.1	64.9	88.6
EBIT margin	42.9%	50.0%	47.5%	49.1%	53.5%
Property valuation	-114.7	-82.3	27.9	123.3	113.1
EBIT incl. valuation	-51.3	-14.8	85.1	188.2	201.7
Net profit	-96.0	-66.5	35.5	117.7	130.9
P/BV	0.78	0.84	0.82	0.72	0.63
P/E	-	-	18.3	5.5	5.0
EV/EBITDA	-	-	16.2	7.9	7.3
EV/EBITDA ex. revaluation	22.8	20.8	24.0	22.7	16.6
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

Current Price	PLN 7.59
Target price	PLN 9.20
Market Cap	PLN 2,424m
Free Float	PLN 926m
ADTV (3M)	PLN 6.07m

Ownership

LSREF III GTC Investments B.V.	28.62%
ING OFE	13.16%
AVIVA OFE	11.24%
PZU OFE	8.77%
Others	38.21%

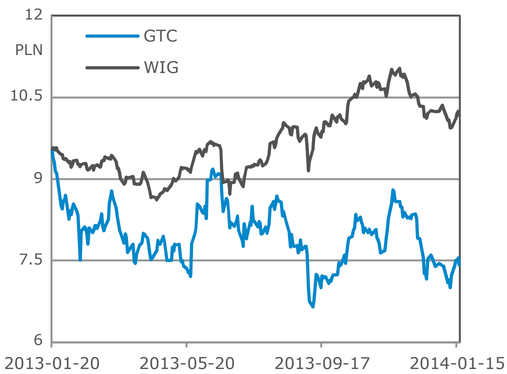
Sector Outlook

The downward pressure on rental rates is expected to ease in 2014. Combined with low capitalization rates, this means commercial real estate portfolios are not set for major revaluations this year. Many commercial developers are planning attractive earnings-driving projects for 2014 and 2015. The sector is trading at low multiples (P/B: 0.5-0.9x). Companies with higher leverage can reduce debt by selling real estate. We are overweight commercial developers for 2014.

Company Profile

GTC is a leading commercial real-estate developer operating in the CEE and SEE regions. Its portfolio of completed properties has a total leasable area of an estimated 584,000 sqm. GTC's next projects are located in Warsaw.

GTC vs. WIG



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Valuation

Our PLN 9.20-per-share 9-month price target for GTC, determined using NAV-based valuation and multiples comparison, shows upside of 23% from the current price which implies a buy rating.

Valuation Summary

(EUR)	Price	Weight
NAV-Based Valuation	2.3	70%
Relative Valuation	2.1	30%
Valuation per share	2.2	
9M cost of equity	7.1%	
Target price	2.4	
EUR/PLN	3.9	
Target price (PLN)	9.2	

Source: Dom Maklerski mBanku

Relative Valuation

The relative valuation model uses P/B and P/E ratios projected for 2013-2015. The peer group consists of Polish and foreign commercial real-estate developers, assigned equal weights each.

The median P/B ratio for both peer groups approximates 0.7, and GTC is trading at premiums to the median of 16% on 2013-2014E P/B and 4% on 2015E P/B. On P/E, the Company is valued at a 15% premium in 2014 and an over-50% discount in 2015 resulting from expectations of considerable profits from two planned malls in Warsaw which will also add to 2016 earnings.

Relative Valuation Model

	Price	Market Cap	P/BV			P/E		
	(local currency)	(EUR m)	2013F	2014F	2015F	2013F	2014F	2015F
Echo Investment	6.15	612	0.92	0.87	0.79	8.0	14.8	9.3
Capital Park	5.20	131	0.56	0.54	0.51	20.1	15.8	8.0
BBI Development	0.38	48	0.78	0.74	0.68	72.9	15.2	8.8
PHN	26.37	283	0.65	0.65	0.65	38.5	27.8	21.6
Median			0.71	0.70	0.67	29.3	15.5	9.1
Weight			50%	50%	50%	50%	50%	50%
Atrium European Real Estate	4.25	1,593	0.68	0.66	0.64	14.9	12.5	12.2
CA Immobilien Anlagen	13.41	1,178	0.67	0.66	0.64	20.4	18.4	15.1
Conwert Immobilien Invest SE	9.37	800	0.73	0.71	0.70	20.9	18.1	16.4
Deutsche Euroshop AG	32.39	1,747	1.21	1.17	1.15	15.3	15.8	15.2
Immofinanz AG	3.47	3,922	0.68	0.66	0.64	14.5	15.4	14.2
Klepierre	33.30	6,641	1.37	1.37	1.42	16.3	16.0	15.3
Segro	339.50	3,036	1.11	1.05	0.98	19.9	20.6	19.2
Unibail Rodamco SE	186.25	18,111	1.27	1.19	1.11	18.4	17.1	15.9
S Immo AG	5.33	357	0.72	0.69	0.65	15.8	15.5	14.3
Median			0.73	0.71	0.70	16.3	16.0	15.2
Weight			50%	50%	50%	50%	50%	50%
Median			0.72	0.70	0.68	22.8	15.7	12.2
GTC	7.51	578	0.84	0.81	0.71	-	18.1	5.5
Premium / discount			15.9%	16.1%	4.1%	-	15.3%	-55.0%
BVPS / EPS			2.2	2.2	2.6	-0.21	0.10	0.33
Median			0.72	0.70	0.68	22.8	15.7	12.2
Implied value			1.6	1.6	1.8	-	1.6	4.1
Year weight			20%	20%	20%	0%	20%	20%
Value per share (EUR)			2.1					

Source: Bloomberg, Dom Maklerski mBanku

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NAV-Based Valuation

Calculated based on the present value of projected 2016 NAV, GTC is estimated to be worth EUR 791 million (EUR 2.30 per share).

NAV Model Assumptions:

- **Investment.** Two shopping malls in Warsaw expected to commence in 2014 and finish in Q4 2015 and Q2 2016, generating first valuation gains of ca. EUR 30m in 2013. Otherwise, we assume no other projects except the Pascal office development in Krakow. We also assume no land purchases in the forecast period.
- **Property revaluations.** We assume the value of the current property portfolio will increase by 1.5% from September 2013 until the end of 2016 (thanks to stabilized cap rates and a small increase in rental rates).
- **Divestment.** EUR 50m free cash flow from a property sale in 2014.
- **Debt.** Partial (EUR 50m) rollover of bonds maturing in April 2014. LTV is expected to decrease from 55% art Sep. 2013 to 43% at Dec. 2016 (we assume no more capital raises after the one in January 2014).
- **EBIT.** We expect EBIT (ex revaluation) will drop 15% in 2014 (after a property sale), rebound 14% in 2015, and soar 36% in 2016 driven by improving tenancy rates, a small rise in rental prices, improving effectiveness of certain SEE properties, and, most importantly, completion of the Warsaw malls.
- **Dividend.** We assume zero dividends throughout the forecast period.

NAV Model

(EUR m)	2011	2012	2013F	2014F	2015F	2016F
Investment properties	1,838	1,656	1,478	1,480	1,724	1,866
Completed properties	1,529	1,309	1,184	1,036	1,054	1,054
Planned investment	50	66	71	223	449	591
Land	259	281	224	221	221	221
Investment in subsidiaries	54	42	39	41	42	43
Inventories	107	82	48	43	38	33
Land zoned for residential property	74	73	94	94	94	94
Cash and short-term deposits	179	254	137	112	62	71
Other assets	57	46	47	47	47	48
Total assets	2,310	2,153	1,843	1,818	2,007	2,155
Liabilities	1,565	1,395	1,143	1,028	1,099	1,117
NAV	744	757	700	790	907	1,038
Number of shares (millions)	219.4	319.4	319.4	351.3	351.3	351.3
NAVPS (EUR)	3.4	2.4	2.2	2.2	2.6	3.0
NAVPS growth	-	-30.1%	-7.5%	2.5%	14.9%	14.4%
Discount rate	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
discount factor	100.0%	100.0%	100.0%	91.3%	83.4%	76.2%
NAV (adjusted)	744	757	700	721	757	791
Number of shares (millions)	219.4	319.4	319.4	351.3	351.3	351.3
Value per share (EUR)	3.4	2.4	2.2	2.1	2.2	**2.3**
EUR/PLN	3.90	3.90	3.90	3.90	3.90	3.90
Net asset value per share (PLN)	13.2	9.2	8.6	8.0	8.4	8.8
Cost of equity	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
Risk-free rate	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Credit risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0

Source: GTC, Dom Maklerski mBanku

Income Statement

(EUR m)	2010	2011	2012	2013F	2014F	2015F	2016F
Revenue	169.0	153.7	147.6	135.0	120.3	132.2	165.7
change %	8.1%	-9.1%	-4.0%	-8.5%	-10.9%	9.9%	25.4%
rental spaces	124.1	129.1	128.6	119.8	103.5	113.8	145.5
residential real estate	44.9	24.6	19.0	15.2	16.7	18.4	20.3
COGS	-72.3	-58.4	-57.2	-48.8	-44.4	-48.1	-57.5
Gross profit	96.7	95.2	90.4	86.2	75.8	84.1	108.3
gross profit margin	57.2%	62.0%	61.3%	63.9%	63.1%	63.6%	65.3%
Gross profit on rental spaces	94.4	93.4	90.4	87.0	75.5	83.3	107.0
gross profit margin	76.1%	72.3%	70.3%	72.6%	72.9%	73.2%	73.6%
Gross profit on residential development	2.3	1.9	0.0	-0.8	0.3	0.7	1.2
gross profit margin	5.1%	7.6%	0.0%	-5.0%	2.0%	4.0%	6.0%
Selling expenses	-6.3	-7.2	-3.9	-3.7	-3.7	-3.9	-4.0
General expenses	-21.7	-20.9	-18.9	-11.3	-11.3	-11.7	-12.0
Other net operating gains/losses	-1.3	-2.5	-4.2	-3.6	-3.6	-3.6	-3.6
EBIT ex. revaluation	67.4	64.7	63.4	67.5	57.1	64.9	88.6
Valuation of investment properties	43.2	-296.0	-114.7	-82.3	27.9	123.3	113.1
EBIT	110.6	-231.2	-51.3	-14.8	85.1	188.2	201.7
change %	-190.5%	-309.1%	-77.8%	-71.1%	-674.8%	121.2%	7.2%
EBIT margin	65.4%	-150.5%	-34.7%	-11.0%	70.7%	142.4%	121.7%
Financing gains / losses	-69.5	-84.0	-63.9	-50.6	-44.5	-41.6	-41.6
Equity in profits of associates	4.7	-4.4	-10.0	-2.6	1.8	1.0	1.5
Pre-tax profit	45.7	-319.6	-125.2	-68.0	42.4	147.6	161.7
Tax	-17.1	-18.3	-7.0	-10.4	-8.0	-28.0	-30.7
Minority interests	-13.3	-67.6	-36.2	-11.9	-1.2	1.9	0.1
Net profit	41.9	-270.4	-96.0	-66.5	35.5	117.7	130.9
change %	-132.7%	-744.7%	-64.5%	-30.8%	-153.4%	231.7%	11.3%
Margin %	24.8%	-175.9%	-65.1%	-49.3%	29.5%	89.0%	79.0%
D&A expenses	0.5	0.6	0.5	0.5	0.5	0.5	0.5
EBITDA ex. revaluation	68.0	65.3	63.9	68.0	57.6	65.4	89.1
change %	34.5%	-4.0%	-2.2%	6.5%	-15.3%	13.5%	36.3%
EBITDA margin	40.2%	42.5%	43.3%	50.4%	47.9%	49.5%	53.8%
Shares at year-end (millions)	219.4	219.4	319.4	319.4	351.3	351.3	351.3
EPS	0.2	-1.2	-0.3	-0.2	0.1	0.3	0.4
CEPS	0.2	-1.2	-0.3	-0.2	0.1	0.3	0.4
ROAE	4.3%	-30.8%	-12.8%	-9.1%	4.8%	13.9%	13.5%
ROAA	1.6%	-10.7%	-4.3%	-3.3%	1.9%	6.2%	6.3%

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Balance Sheet

(EUR m)	2010	2011	2012	2013F	2014F	2015F	2016F
ASSETS	2,728.4	2,309.7	2,152.9	1,843.3	1,817.5	2,006.5	2,155.0
Fixed assets	2,259.1	1,998.7	1,802.6	1,644.4	1,648.4	1,892.7	2,036.5
Loans receivable	19.6	21.7	21.9	22.3	22.3	22.3	22.3
Investment properties	2117.6	1703.9	1613.7	1478.3	1480.4	1723.7	1865.9
Property, plant and equipment	2.0	1.8	1.8	1.7	1.7	1.7	1.7
Investment in subsidiaries	56.3	54.5	42.1	39.1	40.9	41.9	43.5
Land for development	52.4	74.3	73.2	94.0	94.0	94.0	94.0
Other	11.1	142.5	49.8	9.1	9.1	9.1	9.1
Current assets	469.3	311.0	350.3	198.8	169.2	113.8	118.5
Inventories	201.8	107.2	81.9	48.0	43.0	38.0	33.0
Receivables, deposits, advances	72.6	57.5	37.5	38.4	33.4	35.6	42.7
Derivative securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents	191.7	141.7	227.9	108.2	88.5	35.9	38.6
Other	3.1	4.5	2.9	4.3	4.3	4.3	4.3

(EUR m)	2010	2011	2012	2013F	2014F	2015F	2016F
EQUITY AND LIABILITIES	2,728.4	2,309.7	2,152.9	1,843.3	1,817.5	2,006.5	2,155.0
Equity	1,008.8	744.2	757.5	700.4	789.8	907.4	1,038.4
Minority interests	44.1	-20.6	-16.7	-28.1	-29.3	-27.4	-27.3
Long-term liabilities	1,486.9	1,238.9	1,084.1	937.6	837.6	907.1	924.5
Loans	1,294.9	1,029.2	917.0	788.3	683.0	729.0	725.0
Deferred tax reserve	127.1	123.6	119.8	127.9	133.3	156.7	178.2
Derivative securities	54.2	80.8	34.9	6.4	6.4	6.4	6.4
Provisions and other	10.8	5.3	12.5	15.0	15.0	15.0	15.0
Current liabilities	188.6	347.2	328.0	233.4	219.4	219.4	219.4
Loans	83.2	264.1	193.6	169.1	169.1	169.1	169.1
Derivative securities	15.1	20.8	32.4	33.3	19.3	19.3	19.3
Trade and other payables	78.0	56.0	70.6	27.8	27.8	27.8	27.8
Advances	12.1	6.4	4.0	3.2	3.2	3.2	3.2
Prepayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.2	0.0	27.5	0.0	0.0	0.0	0.0

Debt	1,378.1	1,293.3	1,110.6	957.4	852.2	898.2	894.2
Net debt	1,186.4	1,151.6	882.7	849.3	763.7	862.2	855.6
(Net debt / Equity)	117.6%	154.7%	116.5%	121.2%	96.7%	95.0%	82.4%
(Net debt / EBITDA ex. revaluation)	17.5	17.6	13.8	12.5	13.3	13.2	9.6
BVPS	4.6	3.4	2.4	2.2	2.2	2.6	3.0

Cash Flows

(EUR m)	2010	2011	2012	2013F	2014F	2015F	2016F
Cash flow from operating activities	77.6	67.7	77.1	73.4	59.7	65.6	86.6
Pre-tax profit	45.7	-319.6	-125.2	-68.0	42.4	147.6	161.7
D&A expenses	0.5	0.6	0.5	0.5	0.5	0.5	0.5
Working capital	12.7	13.4	10.0	7.9	4.8	4.8	4.7
Valuation of investment properties	-43.2	296.0	114.7	82.3	-27.9	-123.3	-113.1
Other	61.8	77.3	77.1	50.7	40.0	36.0	32.8
Cash flow from investing activities	-51.9	-85.6	110.5	63.0	29.4	-118.6	-27.6
CAPEX / property sales	-135.2	-179.3	-47.3	-27.1	-124.7	-120.5	-29.6
Equity investment	-9.4	-5.0	-14.2	0.0	0.0	0.0	0.0
Divestment of investment properties	90.5	97.1	164.9	86.1	150.0	0.0	0.0
Other	2.2	1.6	7.0	4.0	4.0	1.9	2.0
Cash flow from financing activities	-20.7	-30.4	-102.1	-255.0	-108.7	0.4	-56.4
Share issue	0.8	0.0	100.2	0.0	53.9	0.0	0.0
Debt	58.7	36.7	-143.8	-196.8	-105.3	46.0	-4.0
Interest paid	-68.0	-61.9	-68.5	-52.5	-48.6	-43.6	-45.6
Other	-12.1	-5.1	10.0	-5.8	-8.8	-2.0	-6.8
FX differences	1.0	-1.7	1.0	-1.4	0.0	0.0	0.0
Change in cash	6.1	-50.0	86.5	-120.0	-19.7	-52.6	2.6
Cash at period-end	191.7	141.7	227.9	108.2	88.5	35.9	38.6
DPS (EUR)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	-64.4	-106.2	11.9	48.3	-62.7	-50.8	63.7
(CAPEX/Sales)	80.0%	116.7%	32.0%	20.1%	103.7%	91.2%	17.9%

Trading Multiples

	2010	2011	2012	2013F	2014F	2015F	2016F
P/E	9.7	-	-	-	18.3	5.5	5.0
P/CE	9.6	-	-	-	18.1	5.5	4.9
P/BV	0.40	0.55	0.78	0.84	0.82	0.72	0.63
P/S	2.4	2.6	4.0	4.4	5.4	4.9	3.9
FCF/EV	-3.9%	-6.9%	0.8%	3.4%	-4.5%	-3.4%	4.3%
EV/EBITDA	14.7	-	-	-	16.2	7.9	7.3
EV/EBITDA ex. revaluation	24.1	23.5	22.8	20.8	24.0	22.7	16.6
EV/EBIT	14.8	-	-	-	16.3	7.9	7.3
EV/S	9.7	10.0	9.9	10.5	11.5	11.2	8.9
DYield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Price (EUR) - EUR/PLN = 4.1	1.85	,	,	,	,	,	,
Shares at year-end (millions)	219.4	219.4	319.4	319.4	351.3	351.3	351.3
MC (EUR m)	406.1	406.1	591.2	591.2	650.4	650.4	650.4
Minority interests (EUR m)	44.1	-20.6	-16.7	-28.1	-29.3	-27.4	-27.3
EV (EUR m)	1,636.5	1,537.1	1,457.2	1,412.4	1,384.8	1,485.2	1,478.7

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 Dom Maklerski mBanku:
A recommendation is valid for a period of 6-9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:
BUY – we expect that the rate of return from an investment will be at least 15%
ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from –5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
SELL – we expect that an investment will bear a loss greater than 15%
Recommendations are updated at least once every nine months.

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Strong and weak points of valuation methods used in recommendations:
DCF – acknowledged as the most methodologically correct method of valuation; it is based 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; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

Previous ratings issued for Capital Park

rating	Buy
rating day	2014-01-15
price on rating day	5.20
WIG on rating day	50605.74

Previous ratings issued for Echo Investment

rating	Accumulate	Buy
rating day	2013-06-12	2014-01-15
price on rating day	6.72	6.15
WIG on rating day	48324.52	50605.74

Previous ratings issued for GTC

rating	Accumulate	Buy	Buy
rating day	2013-06-12	2013-09-09	2014-01-15
price on rating day	9.14	6.75	7.51
WIG on rating day	48324.52	46717.04	50605.74

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