28 September 2009

Update

BRE Bank Securities

Real Estate Developers

Poland

FY09E P/BV*	**1.3**
FY09E ROE*	**12.5%**
WIG Deweloperzy Index	**2 923**

	9MTP	Rating
Dom Development	49.8	Accumulate
J.W. Construction	13.6	Buy
Polnord	45.0	Buy

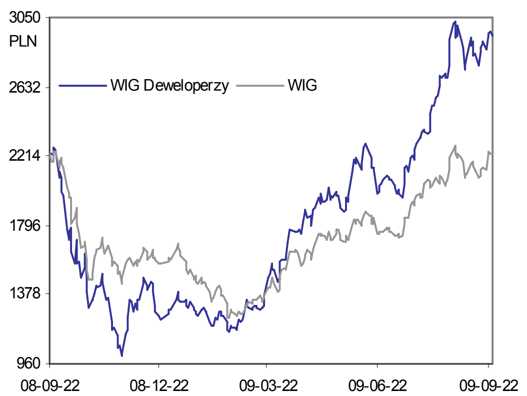
	9MTP	Upside
Dom Development	49.8	9.0%
J.W. Construction	13.6	17.7%
Polnord	45.0	19.0%

** closing prices as of September 28, 2009*

Sector Outlook

Home pre-sales in 2009 will be weak, but are expected to display steady quarter-on-quarter growth. An oversupply of completed homes will last through to mid-2010. Trends in home prices going forward depend on competitiveness and location. Depending on housing stocks still available, real-estate firms are expected to start new housing projects toward the end of 2009 or in 2010. We predict that home prices will still decline between 0 and 15% (depending on the type of dwelling). However, thanks to low construction costs, developers can look forward to generating ample profits on new projects.

WIG-Deweloperzy vs. WIG



Maciej Stokłosa
(48 22) 697 47 41
maciej.stoklosa@dibre.com.pl
www.dibre.com.pl

Housing Developers

New Projects Will Bring Profits

Contrary to expectations, the summer vacation season did not affect home pre-sales or heat up competition between developers. Listing prices remained steady, without particularly large discounts. Even in a down market, the housing stocks of most real-estate firms are bound to gradually run thin, and spur a resurgence of new project starts. At 30 June 2009, 13.2 thousand homes were listed for sale in Warsaw compared to 15.4 thousand at 30 March (the "natural" level is 10 thousand, which we believe will be reached in mid-2010). Going forward, we predict that housing prices will decrease between 0% and 15% depending on standard and location. As the downturn in home prices eases, while building costs remain low, real-estate firms are poised to benefit from ample margins on future projects, especially those built on cheaply acquired land. Looking at the three housing developers in our coverage universe, Dom Development has considerable capital resources, enough to finance construction on 4000 new units in 2010, however, it should diversify its homogenous land bank before it can see a significant growth in value. J.W. Construction still has 1300 dwellings on offer, and will probably not start new projects before late 2010. The developer is gradually reducing its debt as it completes new residences. Finally, Polnord has a very diversified land bank, but lacks the financing needed to fully capitalize on its land holdings. That is why it is set to make a convertible-bond offering soon.

Financial Standing and Building Capacity

We based our financial projections for housing developers on the assumption that banks will be willing to provide 60% financing for new projects, meaning that developers will have to cover 40% of the costs on their own. Dom Development is best positioned to operate under such circumstances thanks to its ample cash resources. J.W. Construction will accumulate the necessary capital once it completes ongoing developments. Polnord, which has the least cash in hand, wants to raise capital by offering convertible bonds to investors, and by selling a land lot in Sopot.

New Valuation Approach

The advantages of a NAV-based valuation approach include its transparency and the possibility of assessing value sensitivity to market assumptions. The downside of this approach is that it suggests that a company is basically worth as much as its assets, completely omitting such value-building factors as, for instance, know-how, name recognition, capital resources, and business relationships. By contrast, a well-designed DCF model makes room for the possibility that returns on investments can be greater than WACC, and that a company's value may be higher than the sheer value of its assets. What is more, a NAV-based approach entailed a discount in the values of real-estate developers relative to other sectors of the stock market (e.g. construction firms or banks).

	2010F P/BV	2011F P/BV	2010F ROE	2011F ROE
Dom Development	1.5	1.3	3.3%	11.7%
J.W. Construction	0.8	0.8	41.4%	5.2%
Polnord	0.8	0.8	0.4%	6.5%

Situation in the Housing Market

Sales Did Not Slump in the Summer

Home presales in Q2 2009 and Q3 2009

In Q2 2009, developers improved home presales and sales on Q1 2009. Sales in the summer months were comparable to those in Q2 2009. In July, Dom Development sold a similar number of homes as in June, and in August it recorded a m/m increase in presales, thanks not just to the improved situation in the market, but also to aggressive sales of single-family dwellings (with price cut to the level of costs). J.W. Construction sold over 70 homes in July and August, vs. 191 in Q2 2009 ("gross" sales, i.e. without subtracting cancellations). Polnord's July result is 40 dwellings (net), i.e. 5 fewer than in the previous month. Representatives of all these three companies hope that sales will improve in the fall. Except for Dom Development's approach to single-family dwellings, the developers' pricing strategies did not change considerably in the summer.

Cancellations

Dom Development has not disclosed the number of cancellations received during the summer, but says cancellations have not been a problem. In Q2 2009, their number did not increase significantly, if we ignore one investor who had bought several dwellings. Polnord saw fewer cancellations in July than in the two preceding months. Its SPV Fadesa sold apartments under the 10/90 system; as a result, we can expect some of the homes to be up for sale again as projects are completed. In case of J.W.C., cancellations may be a problem, given its use of the 10/90 sales system. As per information of the Company, it currently has some 1,300 dwellings on offer, including 300 completed ones. At the end of 2008, it had 1,535 homes for sale, and in H1'09, some 290 were sold. This puts the number of cancellations in the same period at ca. 75. The developer is now preparing to deliver "Górczewska Park" homes, which may generate multiple cancellations (it is the Company's most expensive project and the apartments were sold under the 10/90 system). We would not be surprised with net sales close to zero in Q3 2009, but we expect positive numbers in Q4 2009. The main reason for client cancellations is their inability to obtain financing – the Company is receiving letters asking for a postponement of the hand-over date.

Listing and selling prices, August 2009

(PLN / m2)	Listing prices	Selling prices	Difference
Katowice	5445	4764	-12.5%
Kraków	7731	6659	-13.9%
Łódź	5538	5224	-5.7%
Poznań	7568	6721	-11.2%
Gdańsk	6496	5400	-16.9%
Warsaw	9274	8219	-11.4%
Wrocław	8265	6410	-22.4%
Greater Warsaw	8506	7537	-11.4%
Tri-City	6615	5469	-17.3%
Upper Silesian agglomeration	4622	4550	-1.6%

Source: redNet Consulting

Listing prices of new homes sold

(PLN / m2)	08.2009	07.2009	06.2009	05.2009	04.2009	03.2009
Warsaw	8219	8246	8214	8112	7964	7997
Kraków	6659	6562	6552	6564	6549	6671
Gdańsk	5400	5577	5620	5664	5713	5779
Wrocław	6410	6357	6556	6386	6362	6537

Source: redNet Consulting

Change in listing prices of new homes sold

(m/m %)	08//07	07//06	06//05	05//04	04//03	08//03
Warsaw	-0.3%	0.4%	1.3%	1.9%	-0.4%	2.8%
Kraków	1.5%	0.2%	-0.2%	0.2%	-1.8%	-0.2%
Gdańsk	-3.2%	-0.8%	-0.8%	-0.9%	-1.1%	-6.6%
Wrocław	0.8%	-3.0%	2.7%	0.4%	-2.7%	-1.9%

Source: redNet Consulting

Supply of New Homes

New homes on offer, quarterly sales

(units)	Łódź	Poznań	Tri-City	Wrocław	Kraków	Warsaw
Stock in Q4 2008	1354	3219	4174	4700	6984	16832
Stock in Q1 2009	1311	2679	3854	4367	6138	15414
Stock in Q2 2009	n/a	n/a	n/a	n/a	n/a	13193
Sales in Q2 2009*	165	759	779	832	1244	1990
Sales in Q1 2009*	101	404	536	730	966	1671
Sales in Q1 2008*	67	288	3193	1121	1803	3664
Sales in Q1 2007*	564	1172	1159	1725	1487	6824

Source: REAS, data net of cancellations

Homebuilders Will Launch New Projects

We believe the developers will strive to commence new projects, even in a tough market environment. These projects will be better aligned with the financial capacity of the buyers – the new homes will be cheap and relatively small. Homebuilders will be driven not just by the prospect of an attractive return on capital, but also the need to cover their fixed costs (amounting to several dozen million zloty for the developers in question). In addition, some of them will open new projects in order to free the cash currently frozen in their landholdings. For example, Polnord's motivation will not merely be high margins, but also the need to for land that serves as the collateral for its loans to be "taken off the balance sheet". As a result, in the near future, Polnord will be starting projects on land purchased at relatively high prices. Projects built on expensive land do not look so well in the income statement (the margin is lower), but they are advantageous as far as cash flows are concerned. In contrast to Polnord, Dom Development will use relatively cheap land in the near future, so as to be able to report good earnings in 2011 (among other things).

Banks and Financing

The banks' approach to the financing of the real-estate development business is conservative – they require high downpayments (40%) as well as a certain level of presales/reservations. The banks frequently ignore the expected cash flows from home sold under a system whereby the buyers pay as work progresses – as a result, the developers often have to take out bigger loans than is really necessary. There are positives as well, however. Some of the banks agree to continue financing projects after previous projects are completed and sold (i.e. the credit line is transferred to the new project). We would like to point out that in the past, some of the projects were carried out without loan financing; thus, we cannot preclude a scenario under which developers who do not have credit capacity – but who do have land in interesting locations – attempt to build using just client advances. Clients could be enticed into such a system with discounted prices.

Financing Options for New Projects

Compared to the rest of the sector, Dom Development is in the best position as far as financing options are concerned. We believe the Company could finance the construction of a staggering 4,000 homes in 2010, if it had adequate landholdings allowing it to diversify its offer (DD does have a lot of land, but it is concentrated right-bank Warsaw). We estimate that if J.W.Construction sold all the homes in its current offer, its net cash would go up to PLN 100m. Moreover, a part of J.W.C.'s debt is not related to real-estate development (PLN 108m debt of the state-subsidized TBS, PLN 55m loan for the expansion of the Czarny Potok center). Given the cash that can be freed (PLN 100m) and the TBS debt (PLN 108m), J.W.C. could have a total of PLN 208m at its disposal. At present, Polnord has PLN 40m in cash. In the near future, it is expecting a further PLN 40-60m, including PLN 40m from the sale of a land lot in Sopot and 2PLN 0m from the sale of office space in Novosibirsk. In addition, Polnord wants to get

PLN 200m from a convertible bond offering.

Warsaw: forecasted number of new homes on offer under three scenarios

(thousand dwellings)	Q1 09	Q2 09	Q3 09F	Q4 09F	2009F	Q1 10F	Q2 10F	Q3 10F	Q4 10F	2010F
Net sales: optimistic variant	1 284	1 990	2 100	2 500	**7 874**	2 900	3 100	3 300	3 400	**12 700**
Net sales: neutral variant	1 284	1 990	2 000	2 150	**7 424**	2 350	2 550	2 750	2 850	**10 500**
Net sales: pessimistic variant	1 284	1 990	1 900	2 000	**7 174**	2 000	2 250	2 350	2 450	**9 050**
New projects: neutral variant	931	593	600	1 600	**3 724**	2 240	2 240	2 240	2 240	**8 960**
Dwellings on offer (optimistic variant)	15 414	13 193	11 693	10 793	**10 793**	10 133	9 273	8 213	7 053	**7 053**
Dwellings on offer (neutral variant)	15 414	13 193	11 793	11 243	**11 243**	11 133	10 823	10 313	9 703	**9 703**
Dwellings on offer (pessimistic variant)	15 414	13 193	11 893	11 493	**11 493**	11 733	11 723	11 613	11 403	**11 403**

Source: BRE Bank Securities based on REAS data

Warsaw: number of dwellings sold, 2005-2011F

	2005	2006	2007	2008	2009F	2010F
Number of dwellings sold: historical data	11500	12600	14200	8300		
Net sales: optimistic variant					7 874	12 700
Net sales: neutral variant					7 424	10 500
Net sales: pessimistic variant					7 174	9 050

Source: BRE Bank Securities based data by REAS and the Central Statistical Office (GUS)

Warsaw: forecasted number of dwellings on offer

For Warsaw, we analyzed the probable trends as far as the number of new homes on offer is concerned. Our assumption is that in 2010, the number of homes developers put on offer will by 70% of the 2008 number. We expect gradual improvement in presales, as the product is getting more attractive (with more move-in-ready apartments) and prices stop falling (buyers withhold their purchases in expectation of lower prices). According to our neutral scenario, the number of new homes on offer will approach the level that is natural for the Warsaw market already in mid-2010 (10,000 homes). In the optimistic variant (GDP growth of 2.5-3.5%, rebound in mortgages), at the end of 2010 there will be fewer than 10,000 homes on offer; in the pessimistic variant, oversupply persists.

Project financing

	Kraków	Tri-City	Wrocław	Łódź	Warsaw	Poznań
With loans	32%	47%	56%	56%	64%	73%
Without loans	68%	53%	44%	44%	36%	27%

Source: REAS

Who Will Make Money on Housing Construction?

The way things have developed until now has been good for the developers, with steeper declines in construction costs than in housing prices. As a result, despite the fact that they did purchase a lot of land at fairly high prices, developers will be able to generate margins ranging from around zero (in the case of particularly unfortunate land purchases) to high, sometimes as high as 40% (in the case of land bought a long time ago). We believe that while developers will pursue new projects, lending terms will remain fairly strict (40% downpayment requirement). At the same time, we believe they will also obtain funds to be used as downpayment from external sources, i.e. bond and share offerings. We believe that under this scenario, coupled with a gradual rebound in the number of transactions, demand and supply will not be balanced in H2'2010. In a world with more difficult-to-obtain credit financing, very liquid developers would benefit. Dom Development, as well as J.W. Construction (considering its current debt levels) would in such a case benefit from the potential increase in prices which could ensue in 2011 if there is a shortage of new homes in the market. Such a scenario would be bad for the construction industry. If on the other hand there is a clear improvement in the area of project financing but the number of transaction decelerates, the number of homes on offer could rise sending home prices down. Such a scenario would be less good for the developers and more advantageous for the construction industry than the base scenario (more contracts, possible improvement in construction prices).

Homes Under Construction Will Continue to Sell

Contrary to the expectations of some of the market players, we believe that under-construction homes will continue to sell in the future - of course, as long as the price is attractive relative to the standard and the location. Under the assumption that only move-in ready homes will sell, the current stock would run out in 1.5 years, and then, for another year or so, developers would not sell any homes at all, as these will be under construction. The current stock of unsold homes in Warsaw is ca. 13,200 homes, with the natural level at 10,000 (more-or-less, one year of sales). There are many examples showing that even in a market as weak as the current one, developers are capable of selling homes even before their construction has started, as long as the project is attractive (e.g., 60% of dwellings in Marvipol's Villa Cavaletti before the start of construction work, 20 reservations made for another stage of Unibep's Santorini estate, reservations for 10 out of 11 small apartments in the Pod Brzozami project of SIM Ursynów, made right after sales started).

The 10/90 Sales System Will Die A Natural Death

We believe that in the current environment of tough-to-get financing, the developers will no longer sell homes under the 10/90 system. We assume that in case of new projects, all the developers will charge installments proportional to the stage of construction. Just as the case was before the housing boom, homes will be cheaper when they are merely "holes in the ground", and then they will be getting more and more expensive, which will reflect the time cost of money and the reduction in the risk that comes with construction progress. Our forecasted prices for individual projects are averages for the entire period when they are on offer.

Expectations for Pricing Trends

Homes Are Still Expensive

Apartment are still high and misaligned with the Poles' purchasing power. Although price reductions have slowed down, we believe down will continue to be the overall direction, even if only because of the shift towards cheaper projects in the affordable segment, Relative to earnings, the prices in Warsaw are 25% above the 2005 level. That said, the adjustment need not involve a 25% decline in prices, other possibilities are there, such as no increase in prices coupled with above-inflation salary growth. For example, a 25% nominal decline in housing prices is equivalent to salary growth of 7pp ahead of inflation for two years (2011+) and a 5% nominal decline in prices followed by no increase for two years. Our model assumes that prices will continue to fall by 5% on average in 2009 and fail to increase in 2010 and 2011, while construction costs increase as soon as 2011. Starting in 2012, home prices and construction costs will grow at 3% y/y on average.

Risk of Reduction in Prices in the Affordable Segment

The decline in home prices was different in different segments, being most profound for high-end apartments, 60-80 square meters in size. In turns out that in the new financing environment, these apartments are failing to find buyers, and their supply is considerable. Buyers have not stopped buying altogether, however – instead of bigger, high-end apartments, they have turned towards lower-standard apartments in more peripheral locations. As a result, the prices of "affordable" homes have declined much less than in the case of high-end apartments. With prices at 5% below the current level, inclusive of discounts, new projects in the affordable segment can generate very nice margins (20-30% for the gross margin). We cannot exclude the situation in which most of new supply concentrates in the segment, as this is where the shortages are most profound (affordable, in peripheral locations, relatively cheap). This would bring the prices of such homes down as well. While we consider this risk a real one, it is much too early to discount it. We believe that changes in the real-estate market are slow, and we will be able to react quickly if the supply of affordable homes increases disproportionately.

Home price reductions in different segments

(PLN)	2007/2008	Fresent	Change	2010F	Change
Warsaw Białołęka - affordable	6 000	5 500	-8.3%	5 300	-3.6%
Warsaw Wilanów – high end	8 000	6 500	-18.8%	6 600	1.5%

Source: BRE Bank Securities

Real-estate pricing cycles: historical examples

Country	Year of peak prices	Decline	Preceding growth	Timeline of the decline	Price after the decline*	Average drop per year
Netherlands	1978	-50%	98%	7	99%	-7.1%
Finland	1989	-48%	109%	6	109%	-8.0%
Switzerland	1989	-39%	70%	10	104%	-3.9%
Norway	1987	-39%	53%	6	93%	-6.5%
Denmark	1978	-36%	22%	4	78%	-9.0%
New Zealand	1975	-35%	57%	5	102%	-7.0%
Sweden	1979	-35%	26%	6	82%	-5.8%
Spain	1977	-33%	24%	4	83%	-8.3%
Denmark	1986	-32%	52%	6	103%	-5.3%
Japan	1974	-31%	56%	4	108%	-7.8%
Italy	1982	-30%	84%	4	129%	-7.5%
Finland	1974	-30%	22%	5	85%	-6.0%
Japan	1991	-27%	78%	10	130%	-2.7%
Sweden	1990	-27%	38%	6	101%	-4.5%
Italy	1992	-26%	65%	6	122%	-4.3%
Switzerland	1973	-26%	34%	4	99%	-6.5%
Ireland	1981	-22%	53%	5	119%	-4.4%
Canada.	1981	-20%	6%	4	85%	-5.0%
Poland	2007	?	66%	?	?	?

*Source: Morgan Kelly (2007), On the Likely Extent of Falls in Irish House Prices; * relative to the real price from the period preceding price increases*

Valuation Methodology for the Housing Development Business

DCF Valuation Model: Strengths and Weaknesses

The DCF model is better at capturing the recurrent nature of the real-estate development business than asset-based valuation. It generates a higher valuation for a company, regardless of assumptions concerning future land purchases and the future return on investment. Its disadvantage is that it does not take into account the developer's actual assets. In our case, the assets still play an important role in earnings forecasts for the next few years (we assume that through 2013, all the projects of our companies will be based on their current landholdings). We still believe that an industry investor is unlikely to pay more for a developer than the value of its assets. Nonetheless, we believe that using the DCF model to value developers is justified by the recurrent nature of their business, strong capital bases, high brand awareness in the market and considerable know-how.

We believe that the Polish developers can trade at a premium to their net asset value, because in the long term they are capable of generating a ROE in excess of the WACC. The situation is similar in the case of the banking industry, which is valued at a premium to its book value, precisely because of its potential for generating a high return on equity and market growth.

Valuation of Polish banks and banks from developed countries (P/BV)

Poland	2009F P/BV	Developed countries	2009F P/BV
BZ WBK	2.0	AIB	0.4
Handlowy	1.4	BCP	0.9
ING BSK	1.8	Commerzbank	0.6
Kredyt Bank	1.2	ING	0.8
Millennium	1.4	KBC	0.9
Noble Bank	1.6	UCI	0.7
Pekao	2.2	Deutsche Bank	0.9
PKO BP	2.3	Erste Bank	0.9
Mediana	1.7	Mediana	0.9

Source: Bloomberg, BRE Bank Securities, multiples as of 30.09.2009.

Our Assumptions

We assume that the developers will use their current land before buying additional lots. We assume that they will no longer amass land significantly in advance. The listed homebuilders have enough land until at least 2012. Dom Development will have to start buying land no later than in 2012, and J.W. Construction in 2013 (assuming that it makes use of its current land outside Poland, including in Bulgaria and Russia). Polnord, in turn, has enough land until 2015 (its current landholdings will be impacting its earnings through 2017). We assume that at any given point in time, the homebuilders have enough land for at least two years of operations.

Our earnings projections through 2013 are based on the forecast of home prices and construction and financing costs, as well as our estimates of land prices. After 2013, we assume revenue growth and a constant return on equity. In the case of J.W. Construction, we also take into consideration and additional EBIT margin of 2%, because of its in-house construction capacity (given the situation in the construction industry, this is a very conservative assumption).

Our assumptions entail considerable profitability differences between the projects, between 0% and 40% (if the return on a project were to be below zero, the company in question would write off land value before starting the project). We would like to point out that cash is maximized when low-return projects are launched (there are savings on income tax), while net income is maximized through high-margin projects. In general, the low-margin projects are those built on relatively expensive land.

In our model, we also take into account commercial projects (three office buildings being built by J.W. Construction, two office buildings and one shopping mall built by Polnord). We expect that, as required by the new IAS40, commercial properties are remeasured when new projects are launched. As it is impossible to determine the future valuation criteria (occupancy rate at the time of launch, the developer's assumptions at the onset of construction), we make the simplifying assumption that the developers will recognize a remeasurement equal to 1/5 of the planned profit when opening a project, another 1/5 the following year, and the reminder upon project completion. Under these assumptions, Polnord will be able to smoothen net income changes in 2011-2013, despite its relatively limited revenues and margins in 2011-2012 (the Company will launch multiple low-margin projects in order to maximize cash flows).

In the case of Polnord, we decided to show the valuation of the Company’s stock using the NAV method, with new assumptions for home prices and construction costs. The method is presented for reference only; it has not been factored into our valuation. We would like to point out that, as discussed in our March 2009 report for the sector, land comes with very high operating leverage, which means that changing the assumptions for home prices and construction costs leads to considerable valuation shifts.

28 September 2009

Update

BRE Bank Securities

Real Estate Developers

Poland

Dom Development **Accumulate**

DOM.PW; DOMD.WA (Resumed)

Current price	**PLN 45.7**
Target price	**PLN 49.8**
Market cap	PLN 1.11bn
Free float	PLN 0.27bn
Avg daily trading volume (3M)	PLN 1.57m

Shareholder Structure

Dom Development B.V.	63.15%
Jarosław Szanajca	7.06%
Grzegorz Kiełpsz	5.66%
Others	24.13%

Company Profile

Dom Development is a real-estate developer operating solely in the residential segment in Warsaw. Previously, the company focused on high-end apartments; currently, it is primarily offering affordable apartments.

Important Dates

12.11 - Q3 2009 report

Home Factory

Dom Development (DOM)'s situation is relatively comfortable thanks to large capital resources and low debt (including zero debt incurred on land purchases). DOM has 969 dwellings left in its housing portfolio, including 230 upmarket apartments, 40 houses, and 700 affordable homes, so popular among buyers at the moment. Assuming sustained trends in pre-sales growth, the number of homes available for sale in the affordable standard could decrease to 350 by the end of the year. This is equivalent to six months worth of sales. We expect DOM to add 2000 new dwellings to its offer in 2009 and 2010, and thus increase its share in total new-home listings in Warsaw to 25%. The developer's capital resources after the sale of ongoing projects would be enough to finance up to 4000 units, but its land bank is very unvaried and should be enriched with new locations in Warsaw and other cities. DOM is actively looking for, but has so far failed to find, attractively priced land for development. The company postponed a project in Wrocław. The Management's goal is to "smoothen" earnings in 2011 and beyond by first developing sites that were cheaply acquired. At the same time, since apartment sales in the "Grzybowska" development will not necessarily be maximized, DOM may experience a temporary earnings slump in 2010, to followed by an upsurge in 2011. Based on our DCF valuation, we set the price target on DOM shares at PLN 49.8 a share, and we give them a accumulate rating.

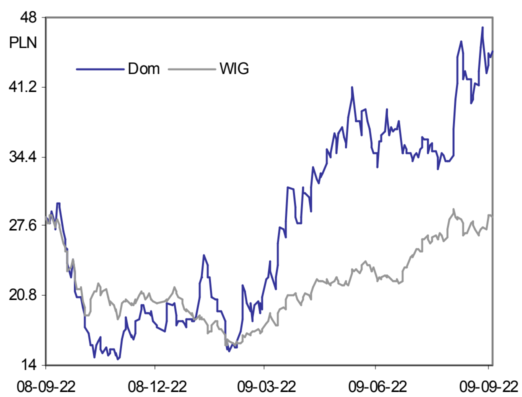
Potential To Expand

Dom Development has very substantial capacity to finance new developments. We estimated that if the company decided to close up shop, it would be left with PLN 235m in net cash in 2011. In a system where DOM funds 40% of initial building costs itself, not including buyer downpayments, the developer would be able to start housing projects with a total value of PLN 588m. The obstacle here is the land bank, which is made up of locations that are in competition against each other.

Best-Case Scenario

The best-case scenario for Dom Development would be if competition continued to have problems with securing credit. In this scenario, DOM can build cheaply and sell high. Thus, the Company can continue building homes, even if the standing of banks is not so good.

Dom Development vs. WIG



(PLN m)	2007	2008	2009F	2010F	2011F
Revenue	878.8	698.2	634.5	462.3	770.5
EBITDA	243.2	168.1	114.1	27.5	113.9
EBITDA margin	*27.7%*	*24.1%*	*18.0%*	*6.0%*	*14.8%*
EBIT	241.0	165.7	111.7	25.1	111.5
Net income	200.6	136.9	90.0	25.0	94.4
P/E	5.6	8.2	12.5	44.9	11.9
P/CE	5.5	8.1	12.1	41.0	11.6
P/BV	1.6	1.6	1.5	1.5	1.3
EV/EBITDA	4.6	8.3	10.1	42.7	7.7
DYield	0.3%	4.5%	1.8%	0.6%	2.1%

Maciej Stokłosa
(48 22) 697 47 41
maciej.stoklosa@dibre.com.pl
www.dibre.com.pl

New Projects by Dom Development

Homes on Offer

Sales results

In July, home sales matched the June result and they increased in August, according to the CEO. In Q2 2009, Dom Development sold 156 homes, including 108 in the affordable standard, mostly in Warsaw's district of Białołęka as well as 12 high-end apartments and 27 houses. All these projects, except for the houses, were sold with a positive margin. The Company sells houses at cost and sometimes at a loss. This aggressive policy is largely a consequence of tough competition from small entities (the Management admits that it underestimated the supply of similar single-family dwelling projects from small players). In the following quarters, as the summer vacation season ends, we should expect sales to improve.

Homes on offer vs. average gross sales (units)

	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008
Average number of homes on offer	1048	1180	1269	1414	1536
Average gross sales	215	126	105	234	366
Gross sales/homes on offer	21%	11%	8%	17%	24%

Source: BRE Bank Securities, Dom Development

The Number of Cheap Homes is Shrinking and DOM Will Launch New Projects

Dom Development's housing stock is gradually being, especially in the case of the affordable segment. We project that at the end of the year, it will have approximately 350 affordable apartments left for sale. The logical step to take is to open new projects. We believe that even if price declines were to be more profound, DOM will opt for new projects, even if the only reason for that will be to cover its fixed costs. The current stabilization of home prices raises hopes for future gains.

Dom Development's housing stock

Date	Old projects	New projects	Total
April 2008	1548		1548
July 2008	1524		1524
October 2008	1304		1304
January 2009	1234		1234
April 2009	1126		1126
July 2009	969		969
October 2009	809		809
January 2009	634	684	1318
April 2010	494	1932	2426

Source: BRE Bank Securities

Housing stock by city and district (Warsaw)

	2009/2010	2011	2012
Warsaw Białołęka: Derby, Regaty	822	662	302
Warsaw Białołęka: Żerań	378	615	424
Warsaw Gocław	450	450	780
Warsaw Targówek*	0	320	468
Wrocław **	0	227	227
Warsaw Bielany	362		
Total	2012	2274	2201

*Source: BRE Bank Securities; *Most likely will be launched earlier, if possible; **According to the Management, will be launched when sales improve (to 1,500 homes sold p.a. in Warsaw).*

New Projects

Which Projects Will Dom Development Launch First?

The Management says the first projects to be launched will be those that guarantee the highest return (i.e. are built on the cheapest land). As a result, the Company's earnings in 2011-2013 will be kept stable. Another criterion the Management will take into consideration will be project diversification by location. It is not possible to start too many similar projects, as they would cannibalize each other. Thus, we assume that DOM's new offer will comprise projects in the Białołęka district of Warsaw, such as Derby 9, Regaty 4-6, Derby 14, projects in Białołęka-Żerań such as Klasyków and Winnica, as well as the Gocław and Przy Ratuszu (Górczewska) projects. Of all these, only the last one is located on the left bank of the Vistula; it will also be relatively less profitable (due to a misjudged land purchase in 2007). Dom Development is not planning to launch the Oaza project Wrocław anytime soon, which would also be constructed on expensive land.

Downpayment Capacity

We estimate that if DOM concluded all its projects, it would have some PLN 235m in net cash. With such funds at its disposal, and on the assumption that a developer must cover 40% of the cost of a project, it would be able to execute projects with total value of PLN 588m each year. This is the scale of costs to be shown in the income statement that we project for 2011. Note also that PLN 200m of DOM's debt are bonds maturing on 28 November 2012. If we add these funds in, the Company's total capacity rises to PLN 1087.5m per year, i.e. up to 4,000 apartments per year. In order to get to such scale of business, DOM would have to buy new, more diversified land.

Projected budgets for new projects

Name	Square meters	Number of homes	Sales start	Sales price per square meter of usable space	Cost of square meter of usable space	Gross profit margin
Derby 9	12 870	234	Q4 2009	5300	3593	48%
Regaty 4-6 E1	18 590	338	Q1 2010	4900	3572	37%
Gocław E1	24 750	450	Q4 2009	6700	4919	36%
Klasyków E1	9 002	164	Q1 2010	6050	4622	31%
Derby 14 E1	13 750	250	Q1 2010	5300	3551	49%
Winnica 1 E1	11 396	214	Q1 2010	6100	4097	49%
Przy Ratuszu (Górczewska)	28 800	362	Q1 2010	6700	6177	8%
Derby 11	4 526	85	2011	5300	4250	25%
Derby 14 E2	23 312	424	2011	5300	3651	45%
Regaty 4-6 E2	8 408	153	2011	4900	3672	33%
Winnica 1 E2	16 667	303	2011	6100	4202	45%
Gocław E2	16 500	300	2011	6700	5033	33%
Klasyków E2	17 144	312	2011	6050	4723	28%
Jugosłowiańska E1	8 250	150	2011	6700	5838	15%
Targówek 1 E1	17 624	320	2011	6100	4624	32%
Oaza E1	12 500	227	2011	5512	5536	0%
Derby 20	3 195	58	2012	5459	4459	22%
Regaty 2 stage 8	10 437	190	2012	5459	4617	18%
Winnica 1 E3	16 667	303	2012	5047	3776	34%
Winnica 2 E1	6 656	121	2012	6901	5640	22%
Gocław E3	20 900	380	2012	6283	4311	46%
Jugosłowiańska E2	19 250	350	2012	6283	4311	46%
Targówek 2 E1	25 730	468	2012	6901	5150	34%
Oaza E2	12 500	227	2012	6901	5955	16%
Malwa 4	852	16	2012	6283	4840	30%
Klasyków 2 (houses)	4 580	38	2012	5677	5635	1%

*Source: BRE Bank Securities; *gross, inclusive of a garage*

Potential to Expand

Land Purchases, Increase in the Scale of Operations

We do not preclude a scenario under which Dom Development expands its business faster than we assume, building homes in other districts of Warsaw and other cities. We do not expect the Company to want to launch more projects in Warsaw's district of Białołęka, so that the projects do not cannibalize each other. We believe it will be focusing on the acquisition of attractively-priced land on the left bank of the Vistula. The Company has sufficient knowledge of the market, and appropriate organizational capacity. In our forecasts, we conservatively assume that all the projects pursued through 2012 will be on the land the Company already owns. We do not expect it to expand beyond Warsaw, which is less likely than expansion in other districts of Warsaw. The Management says that annual sales would have to reach 1,500 homes for projects in other cities to makes sense. We believe this could occur in 2012.

Impact of Lower Prices on Earnings

Earnings, base scenario

(PLN m)	2007	2008	2009F	2010F	2011F	2012F
Revenues	878.8	698.2	634.5	462.3	770.5	760.6
EBITDA	243.2	168.1	114.1	27.5	113.9	105.7
EBITDA margin	*27.7%*	*24.1%*	*18.0%*	*6.0%*	*14.8%*	*13.9%*
EBIT	241.0	165.7	111.7	25.1	111.5	103.3
Net income	200.6	136.9	90.0	25.0	94.4	112.1
P/E	5.6	8.2	12.5	44.9	11.9	10.0
P/CE	5.5	8.1	12.1	41.0	11.6	9.8
P/BV	1.6	1.6	1.5	1.5	1.3	1.2
EV/EBITDA	4.6	8.3	10.1	42.7	7.7	7.3
DYield	0.3%	4.5%	1.8%	0.6%	2.1%	4.0%

Source: BRE Bank Securities

Earnings, home prices -5%

(PLN m)	2007	2008	2009F	2010F	2011F	2012F
Revenues	878.8	698.2	634.5	449.1	740.6	722.6
EBITDA	243.2	168.1	114.1	14.3	84.1	67.7
EBITDA margin	*27.7%*	*24.1%*	*18.0%*	*3.2%*	*11.4%*	*9.4%*
EBIT	241.0	165.7	111.7	11.9	81.7	65.3
Net income	200.6	136.9	90.0	14.2	69.7	80.1
P/E	5.6	8.2	12.5	79.2	16.1	14.0
P/CE	5.5	8.1	12.1	67.7	15.6	13.6
P/BV	1.6	1.6	1.5	1.5	1.4	1.3
EV/EBITDA	4.6	8.3	10.1	82.5	10.7	11.9
DYield	0.3%	4.5%	1.8%	0.3%	1.6%	2.9%

Source: BRE Bank Securities

Earnings, home prices -10%

(PLN m)	2007	2008	2009F	2010F	2011F	2012F
Revenues	878.8	698.2	634.5	435.9	710.8	684.6
EBITDA	243.2	168.1	114.1	1.1	54.3	29.8
EBITDA margin	*27.7%*	*24.1%*	*18.0%*	*0.3%*	*7.6%*	*4.3%*
EBIT	241.0	165.7	111.7	-1.3	51.8	27.3
Net income	200.6	136.9	90.0	3.4	44.9	48.0
P/E	5.6	8.2	12.5	334.6	25.0	23.4
P/CE	5.5	8.1	12.1	194.4	23.7	22.2
P/BV	1.6	1.6	1.5	1.5	1.4	1.4
EV/EBITDA	4.6	8.3	10.1	1036.1	17.1	28.4
DYield	0.3%	4.5%	1.8%	0.1%	1.0%	1.7%

Source: BRE Bank Securities

Earnings, home prices +5%

(PLN m)	2007	2008	2009F	2010F	2011F	2012F
Revenues	878.8	698.2	634.5	475.4	800.3	798.6
EBITDA	243.2	168.1	114.1	40.7	143.8	143.7
EBITDA margin	*27.7%*	*24.1%*	*18.0%*	*8.6%*	*18.0%*	*18.0%*
EBIT	241.0	165.7	111.7	38.3	141.3	141.3
Net income	200.6	136.9	90.0	35.8	119.2	144.2
P/E	5.6	8.2	12.5	31.3	9.4	7.8
P/CE	5.5	8.1	12.1	29.4	9.2	7.7
P/BV	1.6	1.6	1.5	1.4	1.3	1.2
EV/EBITDA	4.6	8.3	10.1	28.7	5.9	5.1
DYield	0,3%	4,5%	1,8%	0,8%	2,7%	5,1%

Source: BRE Bank Securities

Earnings Forecast and Valuation

Using a DCF valuation model, we estimated the nine-month per-share price target for Dom Development's stock at PLN 49.8/share.

DCF model assumptions:

- Home prices will decline by 0-15% from the current levels, inclusive of discounts.
- Increase in construction costs from the current levels by 3% per year, through 2011.
- Increase in home prices at 3% per annum, through 2012.
- Risk-free rate = 6.1% (10Y T-bond yield).
- Until 2013, the Company's projects are based on its own land
- No diversification to other localizations and cities in 2012.

DCF model assumptions

	2009F	2010F	2011F	2012F
Number of dwellings handed over to buyers	1485	742	1733	2222
Average price of dwelling upon handover	427	623	445	342
Average price of dwelling upon handover per square meter	6746	7449	7010	6144
Number of dwellings sold	676	1530	2300	2300

Source: BRE Bank Securities

DCF Valuation Model

(PLN m)	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2018+
Revenue	**634.5**	**462.3**	**770.5**	**760.6**	**783.9**	**823.1**	**861.8**	**899.7**	**933.9**	**966.6**	
change	*-9.1%*	*-27.1%*	*304.2%*	*-1.3%*	*3.1%*	*5.0%*	*4.7%*	*4.4%*	*3.8%*	*3.5%*	
EBITDA	**114.1**	**27.5**	**113.9**	**105.7**	**97.5**	**102.0**	**108.0**	**113.7**	**118.5**	**123.0**	
EBITDA margin	*18.0%*	*6.0%*	*14.8%*	*13.9%*	*12.4%*	*12.4%*	*12.5%*	*12.6%*	*12.7%*	*12.7%*	
Amortization and depreciation	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	
EBIT	**111.7**	**25.1**	**111.5**	**103.3**	**95.1**	**99.6**	**105.5**	**111.2**	**116.1**	**120.5**	
EBIT margin	*17.6%*	*5.4%*	*14.5%*	*13.6%*	*12.1%*	*12.1%*	*12.2%*	*12.4%*	*12.4%*	*12.5%*	
Tax rate on EBIT	21.2	4.8	21.2	19.6	18.1	18.9	20.1	21.1	22.1	22.9	
NOPLAT	**90.5**	**20.3**	**90.3**	**83.7**	**77.0**	**80.7**	**85.5**	**90.1**	**94.0**	**97.6**	
CAPEX	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	
Working capital	397.6	-44.5	225.6	44.3	39.1	-26.2	-24.9	-23.8	-21.7	-20.7	
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCF	**488.0**	**-24.1**	**315.9**	**128.0**	**116.1**	**54.5**	**60.6**	**66.3**	**72.3**	**77.0**	**79.3**
WACC	*11.1%*	*11.0%*	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*10.6%*	
discount factor	*96.6%*	*87.0%*	*78.2%*	*70.4%*	*63.3%*	*56.9%*	*51.2%*	*46.0%*	*41.4%*	*37.4%*	
PV FCF	471.2	-21.0	247.2	90.0	73.5	31.0	31.0	30.5	29.9	28.8	

	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F
WACC	***11.1%***	***11.0%***	***11.2%***	***11.2%***	***11.2%***	***11.2%***	***11.2%***	***11.2%***	***11.2%***	***10.6%***
Cost of debt	*7.4%*	*7.4%*	*7.4%*	*7.4%*	*7.4%*	*7.4%*	*7.4%*	*7.4%*	*7.4%*	*6.8%*
Risk-free rate	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*5.6%*
Risk premium	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*
Effective tax rate	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*
Net debt / EV	*2%*	*4%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Cost of Equity	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*10.6%*
Risk premium	*5.0%*	*5.0%*	*5.0%*	*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	1.0	1.0	1.0

FCF growth after the forecast horizon	*3.0%*
Terminal value	1 042.9
Present value of the terminal value (PV TV)	390.2
Present value of FCF in the forecast horizon	1 012.2
Equity value (EV)	1 402.4
Net debt	272.1
Land liquidation value	0.0
Minority interests	0.0
Equity value	1 130.3
Number of shares (millions)	24.6
Equity value per share (PLN)	**46.0**
Cost of equity (9M)	8.3%
Target Price	**49.8**

Sensitivity analysis

FCF growth in perpetuity

	2.0%	**2.5%**	**3.0%**	**3.5%**	**4.0%**
WACC -1.0pp	47.5	48.6	49.7	51.0	52.5
WACC -0.5pp	47.6	48.6	49.8	51.1	52.6
WACC	47.6	48.6	**49.8**	51.1	52.6
WACC +0.5pp	47.5	48.6	49.7	51.0	52.5
WACC +1.0pp	47.4	48.4	49.5	50.8	52.3

EV/EBITDA('09) for the target price	9.9
P/E('09) for the target price	13.6
TV to EV	28%

Income Statement

(PLN m)	2006	2007	2008	2009F	2010F	2011F	2012F
Revenue	**729.8**	**878.8**	**698.2**	**634.5**	**462.3**	**770.5**	**760.6**
change	*35.9%*	*20.4%*	*-20.6%*	*-9.1%*	*-27.1%*	*66.7%*	*-1.3%*
Cost of sales	496.9	545.7	429.0	456.8	369.5	588.1	584.5
Gross profit	232.9	333.1	269.1	177.7	92.8	182.4	176.1
Gross profit margin	*31.9%*	*37.9%*	*38.5%*	*28.0%*	*20.1%*	*23.7%*	*23.2%*
Selling expenses	-21.7	-22.4	-30.0	-21.0	-19.7	-20.7	-21.3
General and administrative expenses	-41.3	-57.7	-61.9	-41.0	-44.0	-46.2	-47.5
Other net operating profit	-5.0	-12.1	-11.5	-4.0	-4.0	-4.0	-3.9
EBIT	**165.0**	**241.0**	**165.7**	**111.7**	**25.1**	**111.5**	**103.3**
change	*130.7%*	*46.1%*	*-31.2%*	*-32.6%*	*-77.5%*	*344.4%*	*-7.4%*
EBIT margin	*22.6%*	*27.4%*	*23.7%*	*17.6%*	*5.4%*	*14.5%*	*13.6%*
Profit on financing activity	2.8	9.4	7.2	-0.6	5.8	5.1	35.1
Extraordinary gains/losses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax income	**167.8**	**250.4**	**173.0**	**111.1**	**30.8**	**116.6**	**138.4**
Tax	-32.6	-49.7	-36.0	-21.1	-5.9	-22.2	-26.3
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	**135.2**	**200.6**	**136.9**	**90.0**	**25.0**	**94.4**	**112.1**
change	-	*48.4%*	*-31.7%*	*-34.3%*	*-72.2%*	*278.0%*	*18.7%*
margin	*18.5%*	*22.8%*	*19.6%*	*14.2%*	*5.4%*	*12.3%*	*14.7%*
Amortization and depreciation	1.6	2.2	2.4	2.4	2.4	2.4	2.4
EBITDA	**166.5**	**243.2**	**168.1**	**114.1**	**27.5**	**113.9**	**105.7**
change	*127.3%*	*46.0%*	*-30.9%*	*-32.1%*	*-75.9%*	*314.1%*	*-7.2%*
EBITDA margin	*22.8%*	*27.7%*	*24.1%*	*18.0%*	*6.0%*	*14.8%*	*13.9%*
Shares at year-end (millions)	22.3	24.6	24.6	24.6	24.6	24.6	24.6
EPS	6.1	8.2	5.6	3.7	1.0	3.8	4.6
CEPS	6.1	8.3	5.7	3.8	1.1	3.9	4.7
ROAE	*43.2%*	*33.8%*	*19.9%*	*12.5%*	*3.3%*	*11.7%*	*12.8%*
ROAA	*17.9%*	*18.4%*	*9.1%*	*5.3%*	*1.6%*	*6.3%*	*7.0%*

Balance Sheet

(PLN m)	2006	2007	2008	2009F	2010F	2011F	2012F
ASSETS	**923.9**	**1 252.1**	**1 764.6**	**1 621.1**	**1 430.4**	**1 570.1**	**1 636.3**
Fixed assets	**17.0**	**21.9**	**20.9**	**20.9**	**20.9**	**20.9**	**20.9**
Intangible assets	0.7	0.7	1.4	1.4	1.4	1.4	1.4
Equity in associates	0.8	1.0	1.1	1.1	1.1	1.1	1.1
Property, plant and equipment	5.5	6.5	6.8	6.8	6.8	6.8	6.8
Deferred tax assets	7.5	10.6	8.4	8.4	8.4	8.4	8.4
Other	2.4	3.0	3.3	3.3	3.3	3.3	3.3
Current assets	**906.9**	**1 230.2**	**1 743.7**	**1 600.2**	**1 409.5**	**1 549.2**	**1 615.4**
Inventories	594.9	862.4	1 458.1	1 075.0	916.2	729.9	685.4
Receivables	60.8	65.9	55.5	50.5	44.3	73.9	72.9
Other current assets	23.7	26.4	6.3	6.3	6.3	6.3	6.3
Cash and cash equivalents	227.5	275.5	223.7	468.4	442.7	739.1	850.7
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0

(PLN m)	2006	2007	2008	2009F	2010F	2011F	2012F
LIABILITIES	**923.9**	**1 252.1**	**1 764.6**	**1 621.1**	**1 430.4**	**1 570.1**	**1 636.3**
EQUITY	**491.9**	**696.1**	**683.5**	**753.8**	**772.6**	**843.4**	**910.7**
Minority shares	0.0	0.0	-0.2	-0.2	-0.2	-0.2	-0.2
Long-term liabilities	**154.8**	**330.4**	**462.9**	**460.9**	**460.9**	**460.9**	**460.9**
Loans, finance leases	102.2	241.8	433.3	433.3	433.3	433.3	433.3
Reserves	52.6	88.6	29.6	27.7	27.7	27.7	27.7
Short-term liabilities	**277.2**	**225.5**	**618.4**	**406.5**	**197.1**	**266.0**	**264.8**
Loans and bonds	98.9	37.0	62.5	62.5	62.5	62.5	62.5
Amounts owed to suppliers	143.8	121.0	145.5	154.9	116.4	185.3	184.2
Other	34.5	67.5	410.4	189.2	18.2	18.2	18.2

Debt	201.1	278.8	495.8	495.8	495.8	495.8	495.8
Net debt	-26.4	3.3	272.1	27.4	53.1	-243.3	-354.9
(Net debt / Equity)	*-5.4%*	*0.5%*	*39.8%*	*3.6%*	*6.9%*	*-28.8%*	*-39.0%*
(Net debt / EBITDA)	-0.2	0.0	1.6	0.2	1.9	-	-
BVPS	22.0	28.3	27.8	30.7	31.5	34.3	37.1

Cash Flows

(PLN m)	2006	2007	2008	2009F	2010F	2011F	2012F
Cash flows from operating activities	**-30.3**	**-22.3**	**-215.0**	**267.3**	**-22.8**	**317.4**	**123.7**
Net income	135.2	200.6	136.9	90.0	25.0	94.4	112.1
Amortization and depreciation	1.6	2.2	2.4	2.4	2.4	2.4	2.4
Working capital	-211.8	-295.7	-245.5	397.6	-44.5	225.6	44.3
Other	44.8	70.6	-108.8	-222.7	-5.8	-5.1	-35.1
Cash flows from investing activities	**-1.8**	**-3.6**	**-3.5**	**-2.4**	**-2.4**	**-2.4**	**-2.4**
CAPEX	-1.4	-3.6	-3.5	-2.4	-2.4	-2.4	-2.4
Capital investments	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flows from financing activities	**185.8**	**73.9**	**166.7**	**-20.2**	**-0.5**	**-18.5**	**-9.7**
Stock offering	220.5	0.0	0.0	0.0	0.0	0.0	0.0
Debt	-34.8	77.6	216.8	0.0	0.0	0.0	0.0
Dividend (buy-back)	0.0	-3.7	-50.1	-19.6	-6.2	-23.6	-44.8
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in cash	**153.7**	**48.0**	**-51.8**	**244.7**	**-25.7**	**296.5**	**111.5**
Cash at the end of period	227.5	275.5	223.7	468.4	442.7	739.1	850.7
DPS (PLN)	0.0	0.2	2.0	0.8	0.3	1.0	1.8
FCF				487.6	-24.1	315.9	128.0
(CAPEX / Sales)	*0.2%*	*0.4%*	*0.5%*	*0.4%*	*0.5%*	*0.3%*	*0.3%*

Market multiples

	2006	2007	2008	2009F	2010F	2011F	2012F
P/E	7.5	5.6	8.2	12.5	44.9	11.9	10.0
P/CE	7.5	5.5	8.1	12.1	41.0	11.6	9.8
P/BV	2.1	1.6	1.6	1.5	1.5	1.3	1.2
P/S	1.4	1.3	1.6	1.8	2.4	1.5	1.5
FCF/EV	*0.0%*	*0.0%*	*0.0%*	*42.5%*	*-2.1%*	*35.9%*	*16.7%*
EV/EBITDA	6.0	4.6	8.3	10.1	42.7	7.7	7.3
EV/EBIT	6.0	4.7	8.4	10.3	46.8	7.9	7.4
EV/S	1.4	1.3	2.0	1.8	2.5	1.1	1.0
DYield	*0.0%*	*0.3%*	*4.5%*	*1.8%*	*0.6%*	*2.1%*	*4.0%*
Price (PLN)	**45.7**						
Shares at year-end (millions)	22.3	24.6	24.6	24.6	24.6	24.6	24.6
MC (PLN m)	1019.7	1122.4	1122.4	1122.4	1122.4	1122.4	1122.4
Equity attributable to minority shareholders (PLN m)	0.0	0.0	-0.2	-0.2	-0.2	-0.2	-0.2
EV (PLN m)	993.3	1 125.7	1 394.3	1 149.7	1 175.4	878.9	767.4

28 September 2009

Update

BRE Bank Securities

Real Estate Developers
Poland

J.W.Construction **Buy**

JWC.PW; JWCA.WA (Resumed)

No Concerns Over Scale

Current price	**PLN 11.6**
Target price	**PLN 13.6**
Market cap	PLN 0.62bn
Free float	PLN 0.14bn
Avg daily trading volume (3M)	PLN 1.71m

Shareholder Structure

EHT S.A.	46.52%
Józef Wojciechowski	30.87%
J.W. Construction	1.14%
Others	21.47%

Company Profile

J.W. Construction is a real-estate developer with a focus on housing and the Warsaw area. The Company is also active in other cities and in Russia. It owns hotel chain, a construction company and a building materials manufacturer. It is planning to enter the commercial segment.

Important Dates

13.11 - Q3 2009 report

We do not see any reason for concern when it comes to JWC's operating scale. The company will pay back its PLN 482m net debt (Q2 2009) after it completes ongoing projects. Note that the PLN 482m includes just PLN 17.5m in debt incurred toward land purchases, and PLN 108m is the debt of the government-funded low-cost housing (TBS) which generates positive cash flows (practically speaking, this is equivalent to mortgage debt). According to our estimates, is JWC sold all of its projects, it would be left with PLN 105m of net cash. The developer's remaining housing stock is about 1300 units (or about 1000 units if we do not take into account the "Zielona Dolina" development in Warsaw which has not taken off yet), and it seems as though the company should start new projects when Dom Development does. But, due to expected pre-sale cancellations, the housing-stock depletion will be slow, and we predict that the developer will not start building new dwellings earlier than in late 2010, recognizing the revenues from these dwellings in 2012. Unlike Dom Development, JWC is a real-estate developer as well as a building contractor, and we assume that the construction business can generate an additional EBIT margin of 3%, which is a conservative assumption given the growth prospects of the construction industry. The construction subsidiary has order backlog of PLN 300m (excluding potential residential and commercial projects). We recommend buying J.W. Construction.

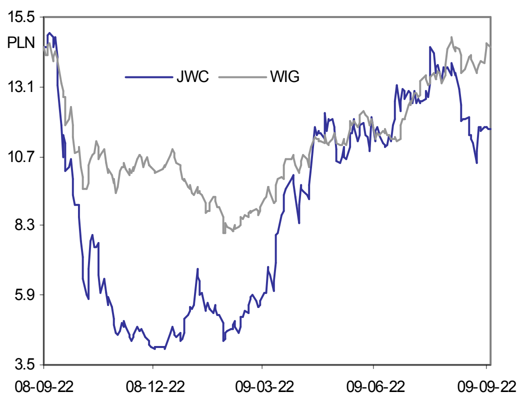
The Problem of Cancellations

J.W. Construction has approximately 1300 dwellings left on offer. Considering that the unsold housing stock at December 2008 consisted of 1535 units, and that the company sold 310 units in the first half of the year, there must have been about 75 cancellations. This is not bad, but cancellations are bound to increase as JWC approaches completion of the "Górczewska Park" project which was pre-sold at expensive prices using the "10/90" payment system. The company revealed that it is receiving letters from the Górczewska Park buyers asking for postponement of payments because they have problems getting a loan.

Construction: Hidden Value

According to the Management, the building operations will generate a revenue of PLN 300-400m this year, and the order backlog for 2010 is already worth PLN 300m, exclusive of potential new projects. Since we are not worried about a shortage of orders from JWC's real-estate operations, we included the building operations in our financial projections for JWC Holding.

J.W. Construction vs. WIG



(PLN m)	2007	2008	2009F	2010F	2011F
Revenue	781.1	721.4	846.6	1029.9	421.4
EBITDA	208.0	158.5	213.4	322.7	57.8
EBITDA margin	*26.6%*	*22.0%*	*25.2%*	*31.3%*	*13.7%*
EBIT	194.7	141.1	193.0	301.7	36.8
Net income	144.2	100.9	159.2	253.5	27.8
P/E	4.2	6.3	3.9	2.5	22.4
P/CE	3.9	5.3	3.5	2.3	12.8
P/BV	1.1	1.9	1.3	0.8	0.8
EV/EBITDA	5.4	8.0	4.1	1.7	13.3
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

Maciej Stokłosa
(48 22) 697 47 41
maciej.stoklosa@dibre.com.pl
www.dibre.com.pl

New Projects by J.W. Construction

Homes on Offer

Sales Results

During the summer, J.W. Construction sold over 70 homes per month, vs. 191 in the entire Q2 2009. In Q1 2009, it sold some 120 apartments. We estimate that in H1'09 there were some 75 cancellations. The Management hopes that in the upcoming months sales might amount to ca. 80-100 apartments per months. Terms and conditions of the sale have not changed, with the prices still negotiated on individual basis and with a discount of up to 15% possible when paying by cash.

J.W. Will Launch New Housing Projects in H2 2010

We predict that J.W. Construction will not launch new projects until H2 2010. It has enough homes in stock to continue with sales through 2010, it has done little in terms of preparations for new projects and it wants to proceed with office projects first.

Number of homes on offer

	Number of homes	Sales	Cancellations	Net sales	New homes
Q2 2009	1000				
Q3 2009	990	210	200	10	
Q4 2009	840	220	70	150	
Q1 2010	650	230	40	190	
Q2 2010	445	240	35	205	
Q3 2010	695	250	20	230	480
Q4 2010	1055	260	20	240	600
Q1 2011	1457	270	20	245	651
Q2 2011	1241	236	20	216	
Q3 2011	1295	246	20	226	280
Q4 2011	1105	210	20	190	

Source: BRE Bank Securities

Housing stock by city and district (Warsaw)

	2010	2011	2012
Warsaw Białołęka	782	931	852
Warsaw Siekierki	227		
Ożarów Mazowiecki	71		147
Łeba		264	264
Katowice		224	224
Sochii		248	248
Sopot			45
Konstancin			160
Zlatni Piasaci (Bulgaria)			322
Total	1080	1668	2263

Source: BRE Bank Securities

New Projects

Which Projects Will JWC Launch First?

We believe that the first projects to be launched, as soon as in H1 2009, will be three office buildings (two in Warsaw and one in Szczecin). The housing projects that JWC wants to start selling are the following: Światowida, Antoniewska and a complex of houses in Ożarów. The Antoniewska project will be built in Warsaw's district of Siekierki, on a piece of land bought in 2009 for the attractive PLN 650 per square meter of usable space. In January, the Company will file for a building permit. The Światowida project is located in Białołęka (a similar location to Dom Development's Derby project). The Company expects to receive the permit in January. In Ożarów, ca. 400 homes will be built on a land lot 423,000 square meters in size. We are also assuming that in Q4 2010, JWC will launch the Zielona Dolina project in Białołęka (comparable to DOM's Regaty project).

Downpayment Capacity

If the Company were to conclude its ongoing projects and not start new ones, it would have an estimated PLN 105m in net cash, which would allow it to pursue projects with a total cost of PLN 262.5m We would like to point out that PLN 108m of the remaining net debt is the debt of the TBS low cost-housing, which is basically equivalent to mortgage loans taken out for apartments that are then rented - the TBS generates positive cash flows. If we include this "safe" debt in our calculation of JWC's credit capacity, we discover that it should be able to pursue projects with total cost of PLN 532.5m. We project the COGS at this level in 2012 (in 2011, earnings will decline because the hand-over of homes whose construction starts in 2010 will be postponed till 2012).

Land Purchases, Increase in the Scale of Operations

We assume that JWC will use its current landholdings through 2014/2015.

Projected budgets for new projects

Name	City	Square meters of usable space	Number of homes	Sales start	Sales price per square meter of usable space	Cost of square meter of usable space	Gross profit margin
Światowida	Warsaw	10000	182	Q3 2010	6100	3669	40%
Antoniewska	Warsaw	12500	227	Q3 2010	6500	4395	32%
Ożarów E1	Ożarów	11500	71	Q3 2010	4037	3666	9%
Jerozolimskie Point	Warsaw	4157	-	Q2 2010	10286 *	8985	13%
Pileckiego	Warsaw	16838	-	Q2 2010	10629 **	8537	20%
Nowa Dana	Szczecin	25324	-	Q2 2010	10286 ***	8875	14%
Zielona Dolina E1	Warsaw	33000	600	Q4 2010	5000	3615	28%
Berensona	Warsaw	20414	371	Q1 2011	5300	3876	27%
Lewandów	Warsaw	15402	280	Q1 2011	5300	3734	30%
Lewandów	Warsaw	15403	280	Q3 2011	5300	3734	30%
Łeba	Łeba	14527	264	Q1 2011	4500	3976	12%
Uroczysko	Katowice	12308	224	Q1 2011	4500	4078	9%
Sochi E1	Sochi	13667	248	Q1 2011	4500	3717	17%
Sopot	Sopot	2500	45	Q1 2012	8000	5484	31%
Konstancin II	Konstancin	8800	160	Q1 2012	6500	4345	33%
Uroczysko	Katowice	12308	224	Q1 2012	4635	4184	10%
Ożarów E2	Ożarów	23810	147	Q1 2012	4158	3833	8%
Sochi E2	Sochi	13667	248	Q1 2012	4635	3823	18%
Zielona Dolina E2	Warsaw	39550	719	Q1 2012	5459	3824	30%
Odkryta	Warsaw	7322	133	Q1 2012	5459	4171	24%
Złote Piaski	Zlatni Pyasaci	17700	322	Q1 2012	6000	5047	16%

*Source: BRE Bank Securities; *rental rate = EUR 15 per square meter, EUR/PLN =4.0, yield = 7%; **rental rate = EUR 15.5 per square meter, EUR/PLN =4.0, yield = 7%; ***rental rate = EUR 15 per square meter, EUR/PLN =4.0, yield = 7%*

Other Segments

Other Segments

The Management has informed us that it is considering the expansion of its hotel network. It has not been decided that housing will be the focus of business in the future, although we believe this is the most likely scenario (good margins, recognizable brand). The Management is searching for the most effective ways of locating the Company's capital.

Earnings by segment (2007-2014F)

	2007	2008	2009F	2010F	2011F	2012F	2013F	2014F
Real-Estate Development								
Revenue	722.1	672.1	816.4	998.5	385.8	651.3	670.7	704.2
Gross profit	235.2	188.5	236.4	310.6	61.1	162.0	148.4	151.4
Gross margin	32.58%	28.05%	28.96%	31.11%	15.83%	24.87%	22.13%	21.50%
Hotels								
Revenue	18.1	21.1	17.9	18.8	22.6	23.3	24.0	24.7
Gross profit	3.2	3.8	0.5	2.3	2.9	3.0	3.1	3.2
Gross margin	*17.89%*	*17.82%*	*3.00%*	*12.00%*	*13.00%*	*13.00%*	*13.00%*	*13.00%*
TBS								
Revenue	10.2	10.8	12.3	12.7	13.0	13.4	13.8	14.2
Gross profit	4.7	4.3	6.1	6.3	6.5	6.7	6.9	7.1
Gross margin	*46.26%*	*39.50%*	*49.97%*	*50.0%*	*50.0%*	*50.0%*	*50.0%*	*50.0%*
Construction for own use*								
Revenue	n/a	n/a	300-400	350.0	360.5	371.3	382.5	393.9
Additional EBIT margin	n/a	n/a	n/a	10.5	10.8	11.1	11.5	11.8
Margin	*n/a*	*n/a*	*n/a*	*3%*	*3%*	*3%*	*3%*	*3%*
Other								
Revenue	16.2	13.6	21.5	0.0	0.0	0.0	0.0	0.0
Gross profit	2.0	1.6	0.6	0.0	0.0	0.0	0.0	0.0
Gross margin	*12.4%*	*11.5%*	*2.9%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*

*Source: BRE Bank Securities; *subject to elimination at consolidation; the FY2010 order backlog is ca. PLN 300m*

Impact of Lower Prices on Earnings

Earnings, base scenario

(PLN m)	2007	2008	2009F	2010F	2011F	2012F
Revenues	781.1	721.4	846.6	1029.9	421.4	688.1
EBITDA	208.0	158.5	213.4	322.7	57.8	156.6
EBITDA margin	*26.6%*	*22.0%*	*25.2%*	*31.3%*	*13.7%*	*22.8%*
EBIT	194.7	141.1	193.0	301.7	36.8	135.6
Net income	144.2	100.9	159.2	253.5	27.8	115.6
P/E	4.2	6.3	3.9	2.5	22.4	5.4
P/CE	3.9	5.3	3.5	2.3	12.8	4.6
P/BV	1.1	1.9	1.3	0.8	0.8	0.7
EV/EBITDA	5.4	8.0	4.1	1.7	13.3	4.6
DYield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: BRE Bank Securities

Earnings, home prices -5%

(PLN m)	2007	2008	2009F	2010F	2011F	2012F
Revenues	781.1	721.4	846.6	1012.1	421.4	655.5
EBITDA	208.0	158.5	213.4	304.8	57.8	124.0
EBITDA margin	*26.6%*	*22.0%*	*25.2%*	*30.1%*	*13.7%*	*18.9%*
EBIT	194.7	141.1	193.0	283.8	36.8	103.0
Net income	144.2	100.9	159.2	238.7	27.5	88.2
P/E	4.2	6.3	3.9	2.6	22.7	7.1
P/CE	3.9	5.3	3.5	2.4	12.9	5.7
P/BV	1.1	1.9	1.3	0.9	0.8	0.7
EV/EBITDA	5.4	8.0	4.1	1.8	13.5	6.1
DYield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: BRE Bank Securities

Earnings, home prices -10%

(PLN m)	2007	2008	2009F	2010F	2011F	2012F
Revenues	781.1	721.4	846.6	994.2	421.4	623.0
EBITDA	208.0	158.5	213.4	287.0	57.8	91.4
EBITDA margin	*26.6%*	*22.0%*	*25.2%*	*28.9%*	*13.7%*	*14.7%*
EBIT	194.7	141.1	193.0	266.0	36.8	70.4
Net income	144.2	100.9	159.2	224.0	27.3	60.7
P/E	4.2	6.3	3.9	2.8	22.9	10.3
P/CE	3.9	5.3	3.5	2.5	12.9	7.6
P/BV	1.1	1.9	1.3	0.9	0.8	0.8
EV/EBITDA	5.4	8.0	4.1	2.0	13.8	8.6
DYield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: BRE Bank Securities

Earnings, home prices +5%

(PLN m)	2007	2008	2009F	2010F	2011F	2012F
Revenues	781.1	721.4	846.6	1047.8	421.4	720.7
EBITDA	208.0	158.5	213.4	340.5	57.8	189.1
EBITDA margin	*26.6%*	*22.0%*	*25.2%*	*32.5%*	*13.7%*	*26.2%*
EBIT	194.7	141.1	193.0	319.5	36.8	168.1
Net income	144.2	100.9	159.2	268.2	28.1	143.0
P/E	4.2	6.3	3.9	2.3	22.2	4.4
P/CE	3.9	5.3	3.5	2.2	12.7	3.8
P/BV	1.1	1.9	1.3	0.8	0.8	0.7
EV/EBITDA	5.4	8.0	4.1	1.5	13.0	3.6
DYield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: BRE Bank Securities

Earnings Forecast and Valuation

Using a DCF valuation model, we estimated the nine-month per-share price target for JWC stock at PLN 13.6/share.

DCF model assumptions:

- Home prices will decline by 0-15% from the current levels, inclusive of discounts.
- Increase in construction costs from the current levels by 3% per year, through 2011.
- Increase in home prices at 3% per annum, through 2012.
- Risk-free rate = 6.1% (10Y T-bond yield).
- Until 2014, the Company's projects are based on its currently-owned land

DCF model assumptions

	2009F	2010F	2011F	2012F
Number of dwellings handed over	2417	3563	0	2489
Average price of dwelling upon hand over	350	289	-	276
Average price of dwelling upon hand over per square meter	6663	6208	-	5220
Number of dwellings sold (net)	385	980	961	2456

Source: BRE Bank Securities

We assume that the developer will not be able to hand over homes from projects launched in H2 2010 in 2011, and that that year’s earnings will be based only on office buildings.

DCF Valuation Model

Revenue	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2018+
change	**846.6**	**1 029.9**	**421.4**	**688.1**	**708.5**	**743.2**	**777.5**	**811.1**	**841.6**	**870,8**	
EBITDA	*17.4%*	*21.7%*	*-59.1%*	*63.3%*	*3.0%*	*4.9%*	*4.6%*	*4.3%*	*3.8%*	*3,5%*	
EBITDA margin	**213.4**	**322.7**	**57.8**	**156.6**	**142.2**	**144.3**	**150.5**	**156.6**	**161.9**	**167,0**	
Amortization and depreciation	*25.2%*	*31.3%*	*13.7%*	*22.8%*	*20.1%*	*19.4%*	*19.4%*	*19.3%*	*19.2%*	*19,2%*	
EBIT	20.5	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21,0	
EBIT margin	**193.0**	**301.7**	**36.8**	**135.6**	**121.2**	**123.3**	**129.5**	**135.6**	**140.9**	**146,0**	
Tax rate on EBIT	*22.8%*	*29.3%*	*8.7%*	*19.7%*	*17.1%*	*16.6%*	*16.7%*	*16.7%*	*16.7%*	*16,8%*	
NOPLAT	36.7	57.3	7.0	25.8	23.0	23.4	24.6	25.8	26.8	27,7	
	156.3	**244.4**	**29.8**	**109.8**	**98.2**	**99.9**	**104.9**	**109.8**	**114.2**	**118,3**	
CAPEX											
Working capital	-20.5	-21.0	-21.0	-21.0	-21.0	-21.0	-21.0	-21.0	-21.0	-21,0	
Other	286.4	104.5	-278.3	-61.1	-67.6	2.5	-23.5	-22.5	-20.6	-19,6	
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0,0	
FCF											
WACC	**442.7**	**348.8**	**-248.5**	**48.7**	**30.6**	**102.4**	**81.4**	**87.4**	**93.6**	**98,6**	**101.6**
discount factor	*9.7%*	*11.2%*	*10.2%*	*10.5%*	*10.8%*	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*10,6%*	
PV FCF	*96.2%*	*86.5%*	*78.5%*	*71.0%*	*64.1%*	*57.6%*	*51.8%*	*46.6%*	*41.9%*	*37,9%*	
	425.9	301.8	-195.0	34.6	19.6	59.0	42.2	40.7	39.2	37,4	
WACC											
Cost of debt	***9.7%***	***11.2%***	***10.2%***	***10.5%***	***10.8%***	***11.2%***	***11.2%***	***11.2%***	***11.2%***	***10,6%***	
Risk-free rate	*7.4%*	*7.4%*	*7.4%*	*7.4%*	*7.4%*	*7.4%*	*7.4%*	*7.4%*	*7.4%*	*6,8%*	
Risk premium	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*5,6%*	
Effective tax rate	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1,2%*	
Net debt / EV	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19,0%*	
	28%	*0%*	*19%*	*13%*	*8%*	*0%*	*0%*	*0%*	*0%*	*0%*	
Cost of Equity											
Risk premium	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*10,6%*	
Beta	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5,0%*	
Revenue	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1,0	

FCF growth after the forecast horizon	*3.0%*
Terminal value	1 336.8
Present value of the terminal value (PV TV)	506.5
Present value of FCF in the forecast horizon	805.4
Equity value (EV)	1 311.9
Net debt	631.9
Land liquidation value	0.0
Minority interests	0.0
Equity value	680.0
Number of shares (millions) *	54.1
Equity value per share (PLN)	12.6
Cost of equity (9M)	8.3%
Target Price	**13.6**
EV/EBITDA('09) for the target price	4.8
P/E('09) for the target price	4.3
TV to EV	39%

**Adjusted for treasury shares*

Sensitivity analysis

FCF growth in perpetuity

	2.0%	**2.5%**	**3.0%**	**3.5%**	**4.0%**
WACC -1.0pp	12.5	13.1	13.8	14.5	15.4
WACC -0.5pp	12.4	13.0	13.7	14.5	15.4
WACC	12.4	13.0	13.6	14.4	15.3
WACC +0.5pp	12.3	12.9	13.6	14.4	15.2
WACC +1.0pp	12.3	12.9	13.5	14.3	15.2

Income Statement

(PLN m)	2006	2007	2008	2009F	2010F	2011F	2012F
Revenue	**726.3**	**781.1**	**721.4**	**846.6**	**1 029.9**	**421.4**	**688.1**
change	*75.2%*	*7.5%*	*-7.6%*	*17.4%*	*21.7%*	*-59.1%*	*63.3%*
Cost of sales	500.3	532.5	509.8	602.8	700.2	340.1	505.3
Gross profit	226.0	248.6	211.6	243.7	329.7	81.4	182.8
Gross profit margin	*31.1%*	*31.8%*	*29.3%*	*28.8%*	*32.0%*	*19.3%*	*26.6%*
Selling expenses	-24.1	-28.6	-27.4	-23.3	-16.7	-17.2	-17.7
General and administrative expenses	-20.8	-24.9	-28.8	-24.5	-24.1	-24.8	-25.5
Other net operating profit	-1.0	-0.5	-14.2	-3.0	12.8	-2.5	-4.0
EBIT	**180.1**	**194.7**	**141.1**	**193.0**	**301.7**	**36.8**	**135.6**
change	*438.1%*	*8.1%*	*-27.5%*	*36.7%*	*56.3%*	*-87.8%*	*268.0%*
EBIT margin	*24.8%*	*24.9%*	*19.6%*	*22.8%*	*29.3%*	*8.7%*	*19.7%*
Profit on financing activity	-12.9	-14.5	-15.8	3.6	11.3	-2.5	7.1
Extraordinary gains/losses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax income	**167.2**	**180.2**	**125.3**	**196.6**	**312.9**	**34.3**	**142.7**
Tax	-35.2	-36.0	-24.4	-37.3	-59.5	-6.5	-27.1
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	**132.0**	**144.2**	**100.9**	**159.2**	**253.5**	**27.8**	**115.6**
change	-	*12.2%*	*-31.9%*	*57.8%*	*59.2%*	*-21.5%*	*731.7%*
margin	*18.2%*	*18.5%*	*14.0%*	*18.8%*	*24.6%*	*6.6%*	*16.8%*
Amortization and depreciation	10.7	13.3	17.4	20.5	21.0	21.0	21.0
EBITDA	**190.8**	**208.0**	**158.5**	**213.4**	**322.7**	**57.8**	**156.6**
change	*328.0%*	*9.0%*	*-23.8%*	*34.7%*	*51.2%*	*-82.1%*	*170.7%*
EBITDA margin	*26.3%*	*26.6%*	*22.0%*	*25.2%*	*31.3%*	*13.7%*	*22.8%*
Shares at year-end (millions) *	9.6	53.0	54.7	54.1	54.1	54.1	54.1
EPS	13.8	2.7	1.8	2.9	4.7	0.5	2.1
CEPS	14.9	3.0	2.2	3.3	5.1	0.9	2.5
ROAE	*84.3%*	*38.8%*	*23.1%*	*39.3%*	*41.4%*	*5.2%*	*14.3%*
ROAA	*15.9%*	*11.9%*	*6.1%*	*8.6%*	*15.9%*	*1.9%*	*8.5%*

**Adjusted for treasury shares*

Balance Sheet

(PLN m)	2006	2007	2008	2009F	2010F	2011F	2012F
ASSETS	**907.5**	**1 511.6**	**1 778.4**	**1 922.2**	**1 267.0**	**1 282.4**	**1 450.0**
Fixed assets	**329.2**	**381.0**	**472.4**	**527.4**	**552.6**	**537.4**	**537.4**
Intangible assets	12.5	12.4	11.2	11.2	11.2	11.2	11.2
Equity value	16.8	16.8	12.4	12.4	12.4	12.4	12.4
Property, plant and equipment	272.0	299.3	354.7	409.7	419.7	419.7	419.7
Long-term investments	5.0	15.3	45.1	45.1	45.1	45.1	45.1
Investment property	0.0	12.3	12.4	12.4	27.6	12.4	12.4
Other	22.9	25.0	36.6	36.6	36.6	36.6	36.6
Current assets	**578.4**	**1 130.5**	**1 306.0**	**1 394.9**	**714.4**	**745.0**	**912.7**
Inventories	55.1	28.3	42.9	42.9	19.7	32.1	32.1
Receivables	40.2	66.4	79.5	88.5	107.7	40.4	66.0
Construction contracts	403.6	875.1	1 127.3	816.5	225.7	446.4	534.0
Short-term prepayments	10.0	11.7	17.0	17.0	16.0	16.0	16.0
Cash and cash equivalents	37.4	75.3	36.7	427.3	342.6	207.3	261.8
Other	32.1	73.7	2.7	2.7	2.7	2.7	2.7

(PLN m)	2006	2007	2008	2009F	2010F	2011F	2012F
LIABILITIES	**907.5**	**1 511.6**	**1 778.4**	**1 922.2**	**1 267.0**	**1 282.4**	**1 450.0**
EQUITY	**193.4**	**549.5**	**325.7**	**484.9**	**738.4**	**766.2**	**881.8**
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term liabilities	**350.4**	**370.8**	**283.3**	**283.3**	**283.3**	**283.3**	**283.3**
Loans, finance leases	302.1	287.4	251.2	251.2	251.2	251.2	251.2
Reserves and other	48.4	83.4	32.1	32.1	32.1	32.1	32.1
Short-term liabilities	**363.7**	**591.3**	**1 169.4**	**1 154.0**	**245.3**	**232.9**	**284.9**
Loans and bonds	143.0	297.2	417.4	417.4	0.0	100.0	100.0
Amounts owed to suppliers	86.6	118.9	140.4	189.0	219.5	107.1	159.2
Construction contracts	105.5	156.5	585.8	521.8	0.0	0.0	0.0
Other	28.6	18.6	25.7	25.7	25.7	25.7	25.7

Debt	445.1	584.6	668.6	668.6	251.2	351.2	351.2
Net debt	407.7	509.3	631.9	241.3	-91.4	143.8	89.3
(Net debt / Equity)	*210.7%*	*92.7%*	*194.0%*	*49.8%*	*-12.4%*	*18.8%*	*10.1%*
(Net debt / EBITDA)	2.1	2.4	4.0	1.1	-0.3	2.5	0.6
BVPS	20.2	10.4	6.0	9.0	13.7	14.2	16.3

Cash Flows

(PLN m)	2006	2007	2008	2009F	2010F	2011F	2012F
Cash flows from operating activities	**-45.4**	**-216.7**	**-93.8**	**462.5**	**352.4**	**-211.7**	**68.4**
Net income	132.0	148.1	100.9	159.2	253.5	27.8	115.6
Amortization and depreciation	10.7	13.3	17.4	20.5	21.0	21.0	21.0
Working capital	-206.1	-446.5	-236.9	286.4	104.5	-278.3	-61.1
Other	17.9	68.4	24.8	-3.6	-26.5	17.8	-7.1
Cash flows from investing activities	**-3.3**	**-96.6**	**27.9**	**-75.5**	**-31.0**	**-21.0**	**-21.0**
CAPEX	4.9	-19.6	-5.4	-75.5	-31.0	-21.0	-21.0
Capital investments	-2.7	-10.3	60.0	0.0	0.0	0.0	0.0
Other	-5.5	-66.7	-26.7	0.0	0.0	0.0	0.0
Cash flows from financing activities	**69.9**	**351.3**	**27.3**	**3.6**	**-406.2**	**97.5**	**7.1**
Stock offering	5.8	244.8	-2.5	0.0	0.0	0.0	0.0
Debt	78.9	126.7	5.0	0.0	-417.4	100.0	0.0
Dividend (buy-back)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	-14.8	-20.2	24.8	3.6	11.3	-2.5	7.1
Change in cash	**21.2**	**38.0**	**-38.6**	**390.6**	**-84.8**	**-135.2**	**54.5**
Cash at the end of period	37.4	75.3	36.7	427.3	342.6	207.3	261.8
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF				442.7	348.8	-248.5	48.7
(CAPEX / Sales)	*-0.7%*	*2.5%*	*0.7%*	*8.9%*	*3.0%*	*5.0%*	*3.0%*

Market multiples

	2006	2007	2008	2009F	2010F	2011F	2012F
P/E	0.8	4.2	6.3	3.9	2.5	22.4	5.4
P/CE	0.8	3.9	5.3	3.5	2.3	12.8	4.6
P/BV	0.6	1.1	1.9	1.3	0.8	0.8	0.7
P/S	0.2	0.8	0.9	0.7	0.6	1.5	0.9
FCF/EV				*51.1%*	*65.4%*	*-32.3%*	*6.8%*
EV/EBITDA	2.7	5.4	8.0	4.1	1.7	13.3	4.6
EV/EBIT	2.9	5.8	8.9	4.5	1.8	20.9	5.3
EV/S	0.7	1.4	1.7	1.0	0.5	1.8	1.0
DYield	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Price (PLN)	**11.6**						
Shares at year-end (millions)*	9.6	53.0	54.4	54.1	54.1	54.1	54.1
MC (PLN m)	110.5	612.3	628.2	624.5	624.5	624.5	624.5
Equity attributable to minority shareholders (PLN m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV (PLN m)	518.1	1 121.6	1 260.1	865.8	533.1	768.4	713.9

** Adjusted for treasury shares*

28 September 2009

Update

BRE Bank Securities

Real Estate Developers
Poland

Polnord

Buy

PND.PW; PNOR.WA

(Resumed)

Current price	**PLN 37.8**
Target price	**PLN 45.0**
Market cap	PLN 0.83bn
Free float	PLN 0.30bn
Avg daily trading volume (3M)	PLN 5.84m

Shareholder Structure

Prokom Investments	44.90%
Templeton Asset Management	13.95%
Nihonswi	4.51%
Others	36.64%

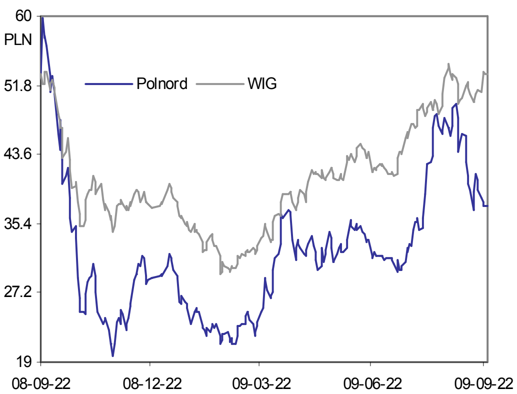
Company Profile

Polnord is a real estate developer active in the residential and commercial segments in Warsaw and elsewhere in Poland, as well as in Russia. It is the biggest landowner among all the real-estate developers (with most of its land located in the Warsaw borough of Wilanów).

Important Dates

12.11 - Q3 2009 report

Polnord vs. WIG



Maciej Stokłosa
(48 22) 697 47 41
maciej.stoklosa@dibre.com.pl
www.dibre.com.pl

To Free the Potential That Lies in Land

Polnord has a very attractive land bank which includes housing lots in Warsaw's Wilanów district, and a commercial lot in the same district, where the company could build a shopping center which would successfully compete with the existing "Galeria Mokotów" mall. We estimate that Polnord's land bank can last eight years (in our forecasts, the Company generates positive cash flows through 2016). On a less positive note, the developer remains deep in debt while maintaining a restrained scale of operations. After taking into account general expenses, we think that Polnord should build 1500 dwellings a year. The company's Management has recently shifted focus from land acquisitions to planning as many new projects as possible. Polnord does not have enough capital to finance such developments by itself. The company has incurred PLN 344m in debt to buy land, and even if it sold all of its real-estate projects the net debt would remain high at around PLN 125m. Polnord currently has about PLN 40m in cash that it can use to fund new projects. It could increase these funds by selling a hotel site in Sopot for PLN 40-46m and offices in Novosibirsk, Russia PLN 20-30m, and by making a convertible bond offering expected to bring PLN 100-200m.

Management's Priority Shift: New Projects, Not New Land

Polnord's Management Board decided to focus on planning as many new real-estate projects as possible instead of on land acquisition in order to capitalize on low prices of building materials and services, and in line with the Board's inflation predictions. The company has spent just PLN 5.3 million so far out of the proceeds earned from a recent stock offering (purchasing a land lot in Lublin). After taking a closer look at the company's plans, we noticed that the primary objective behind the choice of new projects is to maximize cash flows, not profits. Hence, the new developments will be generating moderate margins, while facilitating tax savings. Going forward, Polnord is going to reinforce earnings from core operations with asset remeasurements on an office building for Asseco set for launch in 2010, and a shopping center scheduled to take off in 2011.

Uncertainty in FY2010

According to our forecasts, the number of homes that will be completed in 2010 is limited, which means that both revenues and net income will be low. As this is impossible to forecast, our projections ignore the potential sales of land that will be used for road construction (PLN 1m in revenue from this source entails PLN 0.81m profit, as the book value of such land is 0). The value of the remaining land has been factored in.

(PLN m)	2007	2008	2009F	2010F	2011F
Revenue	131.5	391.1	256.8	349.4	376.7
EBITDA	33	108.7	43.4	33	117.7
EBITDA margin	25.10%	27.80%	16.90%	9.50%	31.20%
EBIT	31.4	106.7	41.4	31.1	115.7
Net income	98.8	77.8	21.7	4.2	69.5
P/E	5.4	8.8	38.5	197.5	12
P/CE	5.3	8.6	35.3	134.4	11.7
P/BV	0.7	0.7	0.8	0.8	0.8
EV/EBITDA	24.9	11.7	25.5	33.4	10.5
DYield	0.00%	0.00%	0.00%	0.00%	0.00%

New Projects by Polnord

Homes on Offer

Sales Results

Polnord carries its projects out through wholly-owned subsidiaries and as joint-ventures. The subsidiaries' net sales in July totaled 14 apartments, vs. 20 in June, 21 in May, 22 in April and 49 in Q1. Sales by joint-venture companies amounted to 26 homes in July, vs. 25 in June, 32 in May, 11 in April and just 4 in Q1 2009. The total number of cancellations for all subsidiaries was only 3 in July (June: 13, May: 11, April: 9, Q1 2009: 25). The CEO, Mr. Ciurzyński, hopes that it will be possible to sell 60-70 homes per month in the fall. The level of cancellations is directly related to the completion of homes in the Ostoja Wilanów project, built by Fadesa Polnord, a 49% subsidiary. These homes were presold under the 10/90 system, which comes with the risk of cancellations in clients are unable to obtain financing.

Management's Motives for Launching New Projects

The Management has made an official change to its priorities. Its focus is now on launching as many new projects as possible, in order to take advantage of low construction costs. It is also expecting that the inflationary scenario may play out in the future. We also believe that Polnord should sell at least 1,500 homes per month, so that it can cover its general expenses.

Polnord's housing stock

Date	Old projects	New projects	Total
Q2 2009	540		
Q3 2009	448		
Q4 2009	328		
Q1 2010	208	862	1070
Q2 2010	127	1872	1999
Q3 2010	73	1735	1808
Q4 2010	51	1405	1456

Source: Polnord, BRE Bank Securities

Housing stock by city and district (Warsaw)

	2010	2011
Sopot	161	
Szczecin	223	250
Gdańsk i Gdynia	774	435
Miasteczko Wilanów (Warsaw)	322	632
Olsztyn	256	132
Konstancin	106	
Łódź	194	194
Total	**2036**	**1643**

Source: BRE Bank Securities

New Projects

Which Projects Will Polnord Launch First?

The whooping 48% of the land belonging to Polnord and its subsidiaries (by usable space) is within the Miasteczko Wilanów area in Warsaw, which we believe is a promising location in a 5-year perspective (improving infrastructure, relative proximity to city center). That said, Polnord has considerable competition in Wilanów (11 developers have project in the area). As a result, the number of homes Polnord will be able to sell there is limited. The Tri-City, rather than Wilanów, will be the focus of Polnord's attention, due to its considerable and diversified landholdings in the area, as well as the developer's optimism about the market's potential. In addition, Polnord will start projects in other cities, so as to diversify its offer further. We assume that in 2010 it will start the construction of an office building for Asseco Poland (20,400 square meters). In 2011, we expect it to sell a 45% stake in the planned Wilanów shopping mall, and subsequently to launch this huge project (the estimated floor space is 60 thousand square meters).

Downpayment Capacity

At present, Polnord has 40m zloty at its disposal. Obtaining the remaining funds needed to pursue the Company's investment plans is subject to several conditions. We assume that Polnord will get PLN 40m from the sale of a land lot in Sopot (it expects PLN 40-46m). Of the PLN 20-30m it plans to get from the sale of its office space in Novosibirsk, it should get PLN 20m. We also assume that it will obtain PLN 100m from the convertible bond offering with a PLN 200m cap. Thus, we assume it will amass funds totaling PLN 200m, which will allow it to carry out projects with a total value of PLN 450m. We assume that the PLN 100m that will not come from bonds will be used as downpayment in the 40:60 financing system. According to the Management, in the case of funds coming from the convertible bond offering, the Company will ask the banks for a 50:50 system of financing.

Projected budgets for new projects

Name	City	Square meters of usable space	Number of homes	Sales start	Sales price per square meter of usable space	Cost of square meter of usable space	Gross profit margin
Rezydencja Łokietka	Sopot	9700	161	Q1 2010	12000	11899	0.8%
Ku Słońcu E1	Szczecin	12286	223	Q1 2010	4500	4181	7.6%
Srebrzysta Podkowa (Kowale)	Gdańsk	1322	28	Q1 2010	4500	3621	24.3%
Gdańsk Myśliwska	Gdańsk	13547	219	Q1 2010	5000	3966	26.1%
Wilanów Office Park E1	Warsaw	7299	133	Q4 2009	14172	9755	45.3%
Miasteczko Wilanów B3	Warsaw	10577	140	Q1 2010	6900	4867	41.8%
Gdańsk Przywidzka E2, E3	Gdańsk	24900	438	Q2 2010	4600	3580	28.5%
Tęczowy Las E2	Olsztyn	13900	256	Q2 2010	4200	3538	18.7%
Kotwiczników	Gdańsk	4912	89	Q2 2010	6350	5842	8.7%
Miasteczko Wilanów	Warsaw	10000	182	Q2 2010	6900	4867	41.8%
Konstancin	Konstancin	16800	106	Q2 2010	7000	5867	19.3%
Office building for Asseco	Warsaw	20400	-	Q2 2010	12185	9055	34.6%
Srebrzysta Podkowa (Kowale)	Gdańsk	3999	73	Q2 2010	4500	3621	24.3%
Łódź, Kominiarska/Zgierska	Łódź	10650	194	Q3 2010	5000	4596	8.8%
Shopping mall	Warsaw	60000	-	Q2 2011	17778	12921	37.6%
Miasteczko Wilanów	Warsaw	25626	466	Q2 2011	6900	5380	28.3%
Tęczowy Las E3	Olsztyn	8600	132	Q2 2011	4200	3637	15.5%
Łódź, Kominiarska/Zgierska	Łódź	10650	194	Q2 2011	5000	4696	6.5%
Ku Słońcu E1	Szczecin	13600	250	Q2 2011	4500	4280	5.1%
Gdańsk Przywidzka 1	Gdańsk	23940	435	Q2 2011	4600	3547	29.7%

Source: BRE Bank Securities

The Value of the Project on Wyspa Spichrzów Cannot Be Estimated Now

One of the reasons why Polnord's stock surged in early August was surely the announcement that it had negotiating exclusivity for the future investment on Gdańsk's Wyspa Spichrzów island. We believe it is impossible to factor it into our valuation for now. Zoning restrictions have not been determined yet and the cost of acquisition of shares in the joint venture is unknown either (according to preliminary estimates, Gdańsk will contribute land in exchange for Polnord's promise to build infrastructure and the Museum of Amber). We are unable to calculate the cost of the "land equivalent" (simplifying things a bit, we could say that Polnord will pay for the land with roads and a museum). We expect more details concerning this potential project to be known in 2010.

Earnings Forecast and the NAV Valuation

What Happens if Polnord Cannot Get Financing?

We believe it is also necessary to consider an alternative scenario, under which Polnord fails to obtain the required capital to finance its own contribution to the planned projects. In such a case, the scale of its business will shrink, and we will need to wait longer to see its earnings grow. We have constructed our DCF model using conservative assumptions. We also include a net asset value model, based on the same assumptions for home prices and construction costs. We would like to point out that the NAV-based valuation is only slightly lower.

Could Convertible Bonds Dampen Share Price Growth?

Convertible bonds offer an excellent chance for the developer to expand its business scale; unfortunately, in the future they might reduce the growth potential of the Company's share price. We assume that the conversion price might be 10-20% higher than the share price in a few months preceding the offering. We have not factored this into our valuations directly, but we do take it into account when we formulate conservative assumptions for project profitability and the scale of the Company's business.

Impact of Lower Prices on Earnings

Earnings, base scenario

(PLN m)	2007	2008	2009F	2010F	2011F	2012F
Revenues	131.5	391.1	256.8	349.4	376.7	669.4
EBITDA	33.0	108.7	43.4	33.0	117.7	119.9
EBITDA margin	*25.1%*	*27.8%*	*16.9%*	*9.5%*	*31.2%*	*17.9%*
EBIT	31.4	106.7	41.4	31.1	115.7	118.0
Net income	98.8	77.8	21.7	4.2	69.5	94.4
P/E	5.4	8.8	38.5	197.5	12.0	8.9
P/CE	5.3	8.6	35.3	134.4	11.7	8.7
P/BV	0.7	0.7	0.8	0.8	0.8	0.7
EV/EBITDA	24.9	11.7	25.5	33.4	10.5	8.1
DYield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: BRE Bank Securities

Earnings, home prices -5%

(PLN m)	2007	2008	2009F	2010F	2011F	2012F
Revenues	131.5	391.1	256.8	349.4	363.9	644.8
EBITDA	33.0	108.7	43.4	33.0	104.9	95.4
EBITDA margin	*25.1%*	*27.8%*	*16.9%*	*9.5%*	*28.8%*	*14.8%*
EBIT	31.4	106.7	41.4	31.1	103.0	93.4
Net income	98.8	77.8	21.7	4.2	59.0	73.7
P/E	5.4	8.8	38.5	197.5	14.2	11.3
P/CE	5.3	8.6	35.3	134.4	13.7	11.0
P/BV	0.7	0.7	0.8	0.8	0.8	0.7
EV/EBITDA	24.9	11.7	25.5	33.4	11.8	10.5
DYield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: BRE Bank Securities

Earnings, home prices -10%

(PLN m)	2007	2008	2009F	2010F	2011F	2012F
Revenues	131.5	391.1	256.8	349.4	351.2	620.3
EBITDA	33.0	108.7	43.4	33.0	92.2	70.9
EBITDA margin	*25.1%*	*27.8%*	*16.9%*	*9.5%*	*26.3%*	*11.4%*
EBIT	31.4	106.7	41.4	31.1	90.2	68.9
Net income	98.8	77.8	21.7	4.2	48.5	53.1
P/E	5.4	8.8	38.5	197.5	17.2	15.7
P/CE	5.3	8.6	35.3	134.4	16.5	15.2
P/BV	0.7	0.7	0.8	0.8	0.8	0.7
EV/EBITDA	24.9	11.7	25.5	33.4	13.6	14.5
DYield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: BRE Bank Securities

Earnings, home prices +5%

(PLN m)	2007	2008	2009F	2010F	2011F	2012F
Revenues	131.5	391.1	256.8	349.4	389.4	694.1
EBITDA	33.0	108.7	43.4	33.0	130.4	144.6
EBITDA margin	*25.1%*	*27.8%*	*16.9%*	*9.5%*	*33.5%*	*20.8%*
EBIT	31.4	106.7	41.4	31.1	128.4	142.6
Net income	98.8	77.8	21.7	4.2	80.0	115.1
P/E	5.4	8.8	38.5	197.5	10.4	7.3
P/CE	5.3	8.6	35.3	134.4	10.2	7.1
P/BV	0.7	0.7	0.8	0.8	0.7	0.7
EV/EBITDA	24.9	11.7	25.5	33.4	9.4	6.5
DYield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: BRE Bank Securities

Earnings Forecast and Valuation

Using a DCF valuation model, we estimated the nine-month per-share price target for Polnord's stock at PLN 45.0/share.

DCF model assumptions:

- Home prices will decline by 0-15% from the current levels, inclusive of discounts.
- Increase in construction costs from the current levels by 3% per year, through 2011.
- Increase in home prices at 3% per annum, through 2012.
- Risk-free rate = 6.2% (10Y T-bond yield).
- Until 2017, the Company's projects are based on the land it currently owns
- In 2011, due to the high capital-intensity of the project as well as its size and the risk this entails, Polnord will sell 45% of its planned shopping mall in Wilanów for book value plus the sum entailed by the 2011 remeasurement.

DCF model assumptions

	2009F	2010F	2011F	2012F
Number of dwellings	428	758	668	1273
Average price of dwelling upon hand over	525	461	434	373
Average price of dwelling upon hand over per square meter	7381	6456	6963	5986
Number of dwellings sold (net)	175	1149	1197	2127

Source: BRE Bank Securities

DCF Valuation Model

(PLN m)	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2018+
Revenue	**256.8**	**349.4**	**376.7**	**669.4**	**702.0**	**733.6**	**765.9**	**798.0**	**828.4**	**857.4**	
change	*-34.3%*	*36.1%*	*7.8%*	*77.7%*	*4.9%*	*4.5%*	*4.4%*	*4.2%*	*3.8%*	*3.5%*	
EBITDA	**43.4**	**33.0**	**117.7**	**119.9**	**111.4**	**116.5**	**123.4**	**130.3**	**135.5**	**140.5**	
EBITDA margin	*16.9%*	*9.5%*	*31.2%*	*17.9%*	*15.9%*	*15.9%*	*16.1%*	*16.3%*	*16.4%*	*16.4%*	
Amortization and depreciation	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	
EBIT	**41.4**	**31.1**	**115.7**	**118.0**	**109.5**	**114.5**	**121.4**	**128.3**	**133.5**	**138.5**	
EBIT margin	*16.1%*	*8.9%*	*30.7%*	*17.6%*	*15.6%*	*15.6%*	*15.8%*	*16.1%*	*16.1%*	*16.2%*	
Tax rate on EBIT	7.9	5.9	22.0	22.4	20.8	21.8	23.1	24.4	25.4	26.3	
NOPLAT	**33.5**	**25.2**	**93.7**	**95.5**	**88.7**	**92.8**	**98.3**	**103.9**	**108.2**	**112.2**	
CAPEX	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	
Working capital	216.7	20.2	-161.3	148.9	86.7	75.2	75.9	76.0	-47.3	-20.2	
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCF	**250.3**	**45.4**	**-67.6**	**244.5**	**175.4**	**168.0**	**174.2**	**179.9**	**60.9**	**92.0**	**94,7**
WACC	*10.1%*	*10.1%*	*9.6%*	*10.7%*	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*10.6%*	
discount factor	*97.6%*	*88.7%*	*80.9%*	*73.1%*	*65.8%*	*59.1%*	*53.2%*	*47.8%*	*43.0%*	*38.9%*	
PV FCF	244.3	40.2	-54.7	178.8	115.3	99.3	92.7	86.0	26.2	35.8	

	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F
WACC	***10.1%***	***10.1%***	***9.6%***	***10.7%***	***11.2%***	***11.2%***	***11.2%***	***11.2%***	***11.2%***	***10.6%***
Cost of debt	*7.4%*	*7.4%*	*7.4%*	*7.4%*	*7.4%*	*7.4%*	*7.4%*	*7.4%*	*7.4%*	*6.8%*
Risk-free rate	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*5.6%*
Risk premium	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*
Effective tax rate	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*
Net debt / EV	*21%*	*21%*	*31%*	*10%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Cost of Equity	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*10.6%*
Risk premium	*5.0%*	*5.0%*	*5.0%*	*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	1.0	1.0	1.0

FCF growth after the forecast horizon	*3.0%*
Terminal value	1 246.7
Present value of the terminal value (PV TV)	484.9
Present value of FCF in the forecast horizon	864.0
Equity value (EV)	1 348.9
Net debt	586.4
Value of land to be used for roads	156.1
Minority interests	0.0
Equity value	918.6
Number of shares (millions)	22.1
Equity value per share (PLN)	41.5
Cost of equity (9M)	8.3%
Target Price	**45.0**

Sensitivity analysis

FCF growth in perpetuity

	2.0%	**2.5%**	**3.0%**	**3.5%**	**4.0%**
WACC -1.0pp	42.3	43.7	45.3	47.1	49.2
WACC -0.5pp	42.1	43.5	45.1	47.0	49.1
WACC	42.0	43.4	**45.0**	46.8	48.9
WACC +0.5pp	41.9	43.3	44.9	46.7	48.7
WACC +1.0pp	41.7	43.1	44.7	46.5	48.6

EV/EBITDA('09) for the target price	21.2
P/E('09) for the target price	11.8
TV to EV	36%

Income Statement

(PLN m)	2006	2007	2008	2009F	2010F	2011F	2012F
Revenue	**59.5**	**131.5**	**391.1**	**256.8**	**349.4**	**376.7**	**669.4**
change	*-83.7%*	*121.2%*	*197.4%*	*-34.3%*	*36.1%*	*7.8%*	*77.7%*
Cost of sales	45.4	93.2	223.7	199.1	295.0	309.3	538.0
Gross profit	14.0	38.3	167.3	57.7	54.4	67.4	131.4
Gross profit margin	*23.6%*	*29.1%*	*42.8%*	*22.5%*	*15.6%*	*17.9%*	*19.6%*
Selling expenses	0.0	-0.4	-7.7	-5.0	-4.0	-4.1	-4.2
General and administrative expenses	-4.4	-36.0	-52.1	-48.6	-38.0	-39.1	-40.3
Other net operating profit	-6.3	29.5	-0.9	37.3	18.7	91.6	31.1
EBIT	**3.3**	**31.4**	**106.7**	**41.4**	**31.1**	**115.7**	**118.0**
change	*-103.9%*	*839.8%*	*239.8%*	*-61.2%*	*-25.0%*	*272.5%*	*2.0%*
EBIT margin	*5.6%*	*23.9%*	*27.3%*	*16.1%*	*8.9%*	*30.7%*	*17.6%*
Profit on financing activity	-8.9	2.3	-6.5	-14.6	-25.8	-29.9	-1.5
Extraordinary gains/losses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax income	**-5.6**	**33.6**	**100.2**	**26.8**	**5.2**	**85.8**	**116.5**
Tax	12.8	-5.6	-20.9	-5.1	-1.0	-16.3	-22.1
Minority interests	-43.4	70.8	-1.4	0.0	0.0	0.0	0.0
Net income	**7.2**	**98.8**	**77.8**	**21.7**	**4.2**	**69.5**	**94.4**
change	-	*-372.0%*	*-21.2%*	*-72.1%*	*-80.5%*	*1542.6%*	*35.7%*
margin	*12.2%*	*75.1%*	*19.9%*	*8.4%*	*1.2%*	*18.5%*	*14.1%*
Amortization and depreciation	2.5	1.6	2.0	2.0	2.0	2.0	2.0
EBITDA	**5.8**	**33.0**	**108.7**	**43.4**	**33.0**	**117.7**	**119.9**
change	*-107.1%*	*468.9%*	*229.0%*	*-60.1%*	*-23.9%*	*256.1%*	*1.9%*
EBITDA margin	*9.8%*	*25.1%*	*27.8%*	*16.9%*	*9.5%*	*31.2%*	*17.9%*
Shares at year-end (millions)	7.0	14.1	18.1	22.1	22.1	22.1	22.1
EPS	1.0	7.0	4.3	1.0	0.2	3.1	4.3
CEPS	1.4	7.1	4.4	1.1	0.3	3.2	4.4
ROAE	*37.2%*	*22.1%*	*8.9%*	*2.2%*	*0.4%*	*6.5%*	*8.2%*
ROAA	*1.9%*	*11.0%*	*5.1%*	*1.2%*	*0.2%*	*3.6%*	*4.8%*

**Without taking into account the possible sale of land earmarked for roads in Wilanów*

Balance Sheet

(PLN m)	2006	2007	2008	2009F	2010F	2011F	2012F
ASSETS	**540.7**	**1 252.9**	**1 807.8**	**1 871.9**	**1 905.0**	**1 979.0**	**1 966.2**
Fixed assets	**201.0**	**223.4**	**298.3**	**295.3**	**316.1**	**355.4**	**336.2**
Intangible assets	0.1	0.2	0.4	0.4	0.4	0.4	0.4
Equity value	117.8	146.4	140.0	140.0	140.0	140.0	140.0
Property, plant and equipment	34.9	16.4	17.7	17.7	17.7	17.7	17.7
Long-term investments	12.4	31.7	115.5	112.5	131.7	171.0	151.8
Other	35.9	28.7	24.8	24.8	26.3	26.3	26.3
Current assets	**339.7**	**1 029.5**	**1 509.5**	**1 576.6**	**1 588.9**	**1 623.6**	**1 630.0**
Inventories	147.4	884.8	1 343.7	997.7	1 039.5	1 202.7	928.3
Receivables	137.5	85.4	69.4	166.7	33.5	36.1	64.2
Short-term prepayments	0.9	1.7	12.9	12.9	12.9	12.9	0.0
Cash and cash equivalents	54.0	32.7	31.2	347.0	450.7	319.6	585.2
Other	0.0	25.0	52.3	52.3	52.3	52.3	52.3

(PLN m)	2006	2007	2008	2009F	2010F	2011F	2012F
LIABILITIES	**540.7**	**1 252.9**	**1 807.8**	**1 871.9**	**1 905.0**	**1 979.0**	**1 966.2**
EQUITY	**86.2**	**807.6**	**937.5**	**1 033.6**	**1 037.8**	**1 107.3**	**1 201.7**
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term liabilities	**78.1**	**208.5**	**509.9**	**509.9**	**509.9**	**509.9**	**509.9**
Loans, finance leases	55.7	176.9	486.7	486.7	486.7	486.7	486.7
Reserves	22.4	31.7	23.2	23.2	23.2	23.2	23.2
Short-term liabilities	**376.4**	**236.8**	**360.5**	**328.5**	**357.3**	**361.8**	**254.7**
Loans and bonds	165.4	144.0	130.9	130.9	230.9	230.9	230.9
Amounts owed to suppliers	164.1	76.9	196.1	164.1	92.9	97.5	0.0
Other	46.9	15.9	33.5	33.5	33.5	33.5	23.8

Debt	221.1	320.9	617.6	617.6	717.6	717.6	717.6
Net debt	167.1	288.2	586.4	270.6	266.9	397.9	132.3
(Net debt / Equity)	*194.0%*	*35.7%*	*62.6%*	*26.2%*	*25.7%*	*35.9%*	*11.0%*
(Net debt / EBITDA)	28.8	8.7	5.4	6.2	8.1	3.4	1.1
BVPS	12.3	57.2	51.8	46.7	46.9	50.1	54.3

Cash Flows

(PLN m)	2006	2007	2008	2009F	2010F	2011F	2012F
Cash flows from operating activities	**-87.4**	**-182.8**	**-252.5**	**218.0**	**31.5**	**-99.2**	**269.1**
Net income	-36.3	98.8	77.8	21.7	4.2	69.5	94.4
Amortization and depreciation	2.5	1.6	2.0	2.0	2.0	2.0	2.0
Working capital	-17.4	-174.1	-323.4	216.7	20.2	-161.3	148.9
Other	-36.1	-109.1	-8.9	-22.4	5.1	-9.4	23.8
Cash flows from investing activities	**9.3**	**-19.4**	**-35.2**	**38.0**	**-2.0**	**-2.0**	**-2.0**
CAPEX	2.3	-2.5	-3.3	38.0	-2.0	-2.0	-2.0
Capital investments	7.4	-12.4	3.2	0.0	0.0	0.0	0.0
Other	-0.4	-4.5	-35.2	0.0	0.0	0.0	0.0
Cash flows from financing activities	**114.3**	**180.9**	**286.2**	**59.8**	**74.2**	**-29.9**	**-1.5**
Stock offering	48.4	0.0	0.0	74.4	0.0	0.0	0.0
Debt	68.6	190.5	294.9	0.0	100.0	0.0	0.0
Dividend (buy-back)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	-2.7	-9.6	15.0	0.0	0.0	0.0	0.0
Change in cash	**36.2**	**-21.3**	**-1.6**	**315.8**	**103.7**	**-131.1**	**265.6**
Cash at the end of period	54.0	32.7	31.2	347.0	450.7	319.6	585.2
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF				250.3	45.4	-67.6	244.5
(CAPEX / Sales)	*-3.9%*	*1.9%*	*0.8%*	*-14.8%*	*0.6%*	*0.5%*	*0.3%*

Market multiples

	2006	2007	2008	2009F	2010F	2011F	2012F
P/E	36.5	5.4	8.8	38.5	197.5	12.0	8.9
P/CE	27.3	5.3	8.6	35.3	134.4	11.7	8.7
P/BV	3.1	0.7	0.7	0.8	0.8	0.8	0.7
P/S	4.5	4.1	1.8	3.3	2.4	2.2	1.2
FCF/EV	*0.0%*	*0.0%*	*0.0%*	*22.6%*	*4.1%*	*-5.5%*	*25.3%*
EV/EBITDA	74.4	24.9	11.7	25.5	33.4	10.5	8.1
EV/EBIT	129.3	26.2	11.9	26.7	35.5	10.7	8.2
EV/S	7.3	6.3	3.3	4.3	3.2	3.3	1.4
DYield	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Price (PLN)	**37.8**						
Shares at year-end (millions)	7.0	14.1	18.1	22.1	22.1	22.1	22.1
MC (PLN m)	264.9	533.8	684.7	835.8	835.8	835.8	835.8
Equity attributable to minority shareholders (PLN m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV (PLN m)	432.0	822.0	1 271.1	1 106.4	1 102.7	1 233.8	968.1

NAV Analysis

For reference only, we include a Net Asset Value Analysis as well.

Net Asset Value

Assumptions: land valuation

- Price to justify a real-estate development project at 0-15% below the current level
- The developers' mark-up (above costs) at 20%.
- Construction cost per square meter to fall by 20% y/y (depending on the standard and the location)
- Project financing cost at 9% (weighted average of the cost of capital and the cost of debt)

Assumptions: WIP

- Risk-free rate = 6.1% (10Y T-bond yield).

Per-share valuation

Method	Valuation	Number of shares	Per-share price	Method weight	Weighted per-share price
Net Asset Value	902.8	20.9	43.2	100,0%	43,2
Per-share target price					**43.2**

Per-share valuation: Net Asset Value

	Valuation
Inventories: Land	911.0
Inventories: ongoing projects	411.3
Fixed assets	18.2
Investment property	109.0
Financial assets	51.7
Cash	52.1
Other current financial assets	42.6
Other	7,3
Total assets	1603.3
Share offering proceeds	40,9
Debt	694,3
Other liabilities	47.1
Equity value	**902.8**

DCF Valuation Model: WIP

(PLN m)	Q3-Q4F 2009	2010F	2011F	2012F
Revenue	**153.2**	**349.4**	**39.2**	**0.0**
change	*-34.3%*	*36.1%*	*-88.8%*	*-100.0%*
EBITDA	**4.9**	**33.0**	**-1.3**	**2.0**
EBITDA margin	*3.2%*	*9.5%*	*-3.3%*	*-*
Amortization and depreciation	1.5	2.0	2.0	2.0
EBIT	**3.5**	**31.1**	**-3.3**	**0.0**
EBIT margin	*2.3%*	*8.9%*	*-8.4%*	*-*
Tax rate on EBIT	0.7	5.9	-0.6	0.0
NOPLAT	**2.8**	**25.2**	**-2.7**	**0.0**
CAPEX	-1.5	-2.0	-2.0	-2.0
Working capital	75.1	187.6	178.0	0.0
Capital investments	0.0	0.0	0.0	0.0
FCF	**77.9**	**212.8**	**175.3**	**0.0**
WACC	*8.0%*	*9.0%*	*9.9%*	*11.2%*
discount factor	*98.1%*	*90.0%*	*81.8%*	*73.6%*
PV FCF	76.4	191.4	143.5	0.0
WACC	***8.0%***	***9.0%***	***9.9%***	***11.2%***
Cost of debt	*7.4%*	*7.4%*	*7.4%*	*7.4%*
Risk-free rate	*6.2%*	*6.2%*	*6.2%*	*6.2%*
Risk premium	*1.2%*	*1.2%*	*1.2%*	*1.2%*
Effective tax rate	*19.0%*	*19.0%*	*19.0%*	*19.0%*
Net debt / EV	*62%*	*41%*	*25%*	*0%*
Cost of Equity	*11.2%*	*11.2%*	*11.2%*	*11.2%*
Risk premium	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Beta	1.0	1.0	1.0	1.0
Value of ongoing projects	**411.3**			

Michał Marczak tel. (+48 22) 697 47 38
Managing Director
Head of Research
michal.marczak@dibre.com.pl
Strategy, Telco, Mining, Metals, Media

Research Department:

Marta Jeżewska tel. (+48 22) 697 47 37
Deputy Director
marta.jezewska@dibre.com.pl
Banks

Analysts:

Kamil Kliszcz tel. (+48 22) 697 47 06
kamil.kliszcz@dibre.com.pl
Fuels, Chemicals, Retail

Piotr Grzybowski tel. (+48 22) 697 47 17
piotr.grzybowski@dibre.com.pl
IT, Media

Maciej Stokłosa tel. (+48 22) 697 47 41
maciej.stoklosa@dibre.com.pl
Construction, Developers

Sales and Trading:

Piotr Dudziński tel. (+48 22) 697 48 22
Director
piotr.dudzinski@dibre.com.pl

Marzena Łempicka-Wilim tel. (+48 22) 697 48 95
Deputy Director
marzena.lempicka@dibre.com.pl

Traders:

Emil Onyszczuk tel. (+48 22) 697 49 63
emil.onyszczuk@dibre.com.pl

Grzegorz Stępien tel. (+48 22) 697 48 62
grzegorz.stepien@dibre.com.pl

Tomasz Dudź tel. (+48 22) 697 49 68
tomasz.dudz@dibre.com.pl

Michał Jakubowski tel. (+48 22) 697 47 44
michal.jakubowski@dibre.com.pl

Tomasz Jakubiec tel. (+48 22) 697 47 31
tomasz.jakubiec@dibre.com.pl

Grzegorz Strublewski tel. (+48 22) 697 48 76
grzegorz.strublewski@dibre.com.pl

"Private Broker"

Jacek Szczepański tel. (+48 22) 697 48 26
Director
jacek.szczepanski@dibre.com.pl

Paweł Szczepanik tel. (+48 22) 697 49 47
Sales
pawel.szczepanik@dibre.com.pl

Dom Inwestycyjny
BRE Banku S.A.
ul. Wspólna 47/49
00-950 Warszawa
www.dibre.com.pl

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*

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HOLD – we expect that the rate of return from an investment will range from –5% to +5%
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Previous ratings issued for Dom Development

Rating	Hold	Sell	Sell	Suspended
Rating date	2009-03-25	2009-05-06	2009-06-15	2009-09-04
Price on rating day	23.00	32.45	38.99	42.70
WIG on rating day	24443.51	29777.06	32362.67	36009.43

Previous ratings issued for J.W.Construction

Rating	Buy	Hold	Reduce	Reduce	Suspended
Rating date	2009-03-25	2009-05-06	2009-06-04	2009-06-15	2009-09-04
Price on rating day	5.95	11.46	11.52	11.85	12.00
WIG on rating day	24443.51	29777.06	31030.61	32362.67	36009.43

Previous ratings issued for Polnord

Rating	Buy	Accumulate	Hold	Hold	Accumulate	Suspended
Rating date	2009-03-25	2009-05-06	2009-06-04	2009-06-15	2009-07-03	2009-09-04
Price on rating day	25.40	32.85	34.75	35.00	31.15	45.00
WIG on rating day	24443.51	29777.06	31030.61	32362.67	30252.24	36009.43