

Monday, April 10, 2017 | initiating report

Atal: buy (new)

1AT PW; 1AT.WA | Property Developers, Poland

Leading the Way On Cost Effectiveness

Atal had two big announcements for investors in March, one declaring an increase in the annual dividend payout ratio from 50% to 70-100%, and the other proposing to give a three-year authorization to the Management Board to issue up to 3.7 million shares, representing 9.56% of market capitalization and a zloty amount of approximately PLN 120m. In our view, with these two steps, the Company is creating an opportunity for investors to put their money in a stock with much better liquidity, offering the highest dividend yield in the sector and sustained earnings growth in the future. Atal was one of the sales leaders in the residential real-estate sector in 2016, with year-over-year growth of 44% which positioned it for a strong earnings boost in 2017 and 2018 (P/E~7.5 or 8.1x after dilution). Given its reasonable debt, we think the Company may offer dividend payout ratios at the top end of the revised range in the next two years, generating yields between 8.5% and 12.3% (after dilution). Atal's tremendous potential lies in its extensive land bank, sufficient to support four years of development and sales, which, if expanded further in the coming year, will provide a basis for upward adjustments to our earnings forecasts beyond 2018. We are initiating coverage of Atal with a buy rating and a price target of PLN 44.1 per share.

2017 guidance

Atal expects to sell 2,700-2,900 pre-construction homes and settle 2,500-2,700 flats in 2017, guiding for an annual net profit in the range of PLN 75-190 million. The guidance is consistent with our own, more conservative forecasts at its lower end.

Strong sales

Polish homebuilders enjoyed a bumper first quarter of 2017, with listed developers reporting a 27% year-over-year jump in aggregate sales – the fastest pace in five quarters. Atal topped the market average for the quarter with sales of 676 units, up 34% from the first quarter of 2015.

Cost advantage

Thanks to effective cost management, between 2011 and 2016 Atal was able to achieve EBIT margins 8-9 percentage points higher than its peers. We expect the Company will continue to surpass rivals in the next two years, as reflected in 2017-2018 EBIT margin projections which at 25-26% are 8.5ppts higher than our forecasts for other residential developers.

Land bank

Atal's housing inventory consisted of 2,400 flats as of 31 December 2016, and at the same time the potential of the undeveloped land bank was estimated at a further 7,800 units or 4.2 years of sales (vs. 3.2 years secured by DOM and LCC, and 5.9 years at ROB). Atal spent about PLN 250m on new land for development in 2015-2016, paying an average PLN 690 per square meter – an attractive price which will facilitate slight expansion in margins in 2017-2019.

Long-term growth prospects

Atal's market share in the five top residential markets in Poland was 3.2% in 2016, and it is expected to increase in the years ahead as the Company expands its presence in the new local markets of Gdańsk and Poznań.

(PLN m)	2015	2016	2017E	2018E	2019E
Revenue	226.8	506.8	913.3	918.2	955.9
Gross profit	62.8	136.9	257.5	263.1	284.4
margin	27.7%	27.0%	28.2%	28.6%	29.7%
EBIT	40.8	114.8	229.9	234.2	254.1
Net income	47.3	89.4	180.1	182.8	198.9
DPS	0.00	0.61	1.68	3.77	3.82
P/E	28.6	15.1	7.5	7.4	6.8
P/B	2.17	1.96	1.68	1.61	1.52
EV/EBITDA	36.9	14.3	6.8	6.7	6.1
DYield	0.0%	1.8%	4.8%	10.8%	11.0%

Current Price	PLN 34.89
Target Price	PLN 44.10
MCap	PLN 1,249m
Free Float	PLN 139m
ADTV (3M)	PLN 0.83m

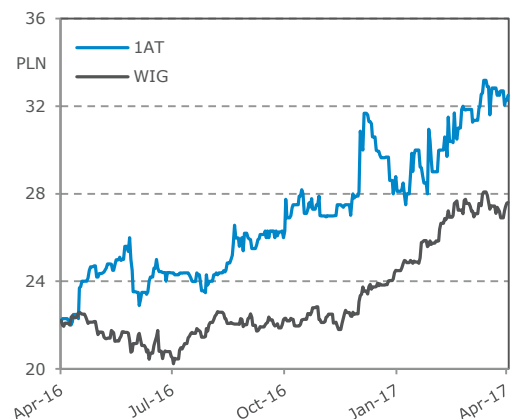
Ownership

Juroszek Investments	83.84%
Altus TFI	5.01%
Others	11.15%

Business Profile

Atal is a residential developer with a presence in the seven largest cities in Poland. The Company made its stock market debut in June 2015, and in 2016 it was ranked third in sales volumes (2,400 homes) among all listed developers. Atal is the #1 housing developer in Krakow, with a 7% market share, and in Wrocław it is a top contender with a 5% market share. Further, the Company is gaining ground in Warsaw, where its market share is currently 2%, and last year it began its first projects in Poznań and the Tricity. The Company also has residential developments in Łódź and Katowice.

1AT vs. WIG



Company	Target Price		Rating
	new	old	
Atal	44.10	-	buy overweight

Company	Current Price	Target Price	Upside
	34.89	44.10	+26.3%

Forecast update	2016	2017E	2018E
Revenue	+0.9%	+7.4%	-6.9%
EBIT	+1.8%	+10.1%	-0.8%
Net profit	-1.0%	+8.2%	-2.6%

Analyst:

Piotr Zybała
+48 22 438 24 04
piotr.zybała@mbank.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

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

Recommendations of Dom Maklerski mBanku:

A recommendation is valid for a period of 6-9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:

BUY – we expect that the rate of return from an investment will be at least 15%
ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from -5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
SELL – we expect that an investment will bear a loss greater than 15%
 Recommendations are updated at least once every nine months.

mBank S.A. with its registered office in Warsaw at Senatorska 18 renders brokerage services in the form of derived organisational unit – Brokerage Office which uses name Dom Maklerski mBanku.

This document has been created and published by Dom Maklerski mBanku. The present report expresses the knowledge as well as opinions of the authors on day the report was prepared. The opinions and estimates contained herein constitute our best judgment at this date and time, and are subject to change without notice. The present report was prepared with due care and attention, observing principles of methodological correctness and objectivity, on the basis of sources available to the public, which Dom Maklerski mBanku S.A. considers reliable, including information published by issuers, shares of which are subject to recommendations. However, Dom Maklerski mBanku S.A., in no case, guarantees the accuracy and completeness of the report, in particular should sources on the basis of which the report was prepared prove to be inaccurate, incomplete or not fully consistent with the facts. mBank S.A. bears no responsibility for investment decisions taken on the basis of the present report or for any damages incurred as a result of investment decisions taken on the basis of the present report.

This document does not constitute an offer or invitation to subscribe for or purchase any financial instruments and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document nor any copy hereof is not to be distributed directly or indirectly in the United States, Australia, Canada or Japan.

Recommendations are based on essential data from the entire history of a company being the subject of a recommendation, with particular emphasis on the period since the previous recommendation. Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible.

It is possible that mBank S.A. in its brokerage activity renders, will render or in the past has rendered services for companies and other entities mentioned in the present report.

mBank S.A. does not rule out offering brokerage services to an issuer of securities being the subject of a recommendation. Information concerning a conflict of interest arising in connection with issuing a recommendation (should such a conflict exist) is located below.

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

mBank S.A. acts as market animator for the Issuer.
 mBank S.A. acts as market maker for the Issuer.

The production of this recommendation was completed on April 10, 2017, 8:30 AM.
 This recommendation was first disseminated on April 10, 2017, 8:30 AM.

mBank S.A., its shareholders and employees may hold long or short positions in the issuer's shares or other financial instruments related to the issuer's shares.

Copying or publishing the present report, in full or in part, or disseminating in any way information contained in the present report requires the prior written consent of mBank S.A.

Recommendations are addressed to all Clients of Dom Maklerski mBanku.

The activity of mBank S.A. is subject to the supervision of the Polish Financial Supervision Commission.

Individuals who did not participate in the preparation of recommendations, but had or could have had access to recommendations prior to their publication, are employees of Dom Maklerski mBanku authorised to access the premises in which recommendations are prepared and/or individuals having access to recommendations based on their corporate roles, other than the analysts mentioned as the authors of the present recommendations.

Strong and weak points of the valuation methods used in recommendations:

DCF – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.

Relative – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

Economic profits – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

Discounted Dividends (DDM) – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

NAV – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

mBank issued the following recommendations for Atal in the 12 months prior to this publication

rating	overweight
rating day	2016-10-28
price on rating day	27.77
WIG on rating day	48,651.28

Dom Maklerski mBanku

Senatorska 18
00-082 Warszawa
<http://www.mbank.pl/>

Research Department

Kamil Kliszczyk

director
tel. +48 22 438 24 02
kamil.klisczyk@mbank.pl
energy, power generation

Jakub Szkopek

tel. +48 22 438 24 03
jakub.szkopek@mbank.pl
industrials, chemicals, metals

Piotr Bogusz

tel. +48 22 438 24 08
piotr.bogusz@mbank.pl
retail

Michał Marczak

tel. +48 22 438 24 01
michal.marczak@mbank.pl
strategy

Paweł Szpigel

tel. +48 22 438 24 06
pawel.szpigel@mbank.pl
media, IT, telco

Michał Konarski

tel. +48 22 438 24 05
michal.konarski@mbank.pl
banks, financials

Piotr Zybala

tel. +48 22 438 24 04
piotr.zybala@mbank.pl
construction, real-estate development

Sales and Trading

Traders

Piotr Gawron

director
tel. +48 22 697 48 95
piotr.gawron@mbank.pl

Anna Łagowska

tel. +48 22 697 48 25
anna.lagowska@mbank.pl

Jędrzej Łukomski

tel. +48 22 697 49 85
jedrzej.lukomski@mbank.pl

Krzysztof Bodek

tel. +48 22 697 48 89
krzysztof.bodek@mbank.pl

Adam Prokop

tel. +48 22 697 47 90
adam.prokop@mbank.pl

Tomasz Galanciak

tel. +48 22 697 49 68
tomasz.galanciak@mbank.pl

Tomasz Jakubiec

tel. +48 22 697 47 31
tomasz.jakubiec@mbank.pl

Szymon Kubka, CFA, PRM

tel. +48 22 697 48 16
szymon.kubka@mbank.pl

Wojciech Wysocki

tel. +48 22 697 48 46
wojciech.wysocki@mbank.pl

Sales, Foreign Markets

Marzena Łempicka-Wilim

deputy director
tel. +48 22 697 48 82
marzena.lempicka@mbank.pl

Mariusz Adamski

tel. +48 22 697 48 47
mariusz.adamski@mbank.pl

Private Broker

Kamil Szymański

director, active sales
tel. +48 22 697 47 06
kamil.szymanski@mbank.pl

Jarosław Banasiak

deputy director, active sales
tel. +48 22 697 48 70
jaroslaw.banasiak@mbank.pl