



Real Estate Developers

Poland

GTC

GTCE.WA; GTC PW

Buy

(Upgraded)

Current price	PLN 19.25
Target price	PLN 23.36*
Market cap	PLN 4.1bn
Free float	PLN 2.4bn
Avg daily trading volume (3M)	PLN 19.25m

* EUR 5.99 for PLN/EUR exchange rate of 3.90.

Shareholder Structure

Kardan N.V. (through GTC REH)	27.14%
ING OFE	7.74%
AVIVA OFE BZ WBK	7.23%

Free float 57.89%

Sector outlook

We recommend overweighting property developers. We are optimistic in our outlook for housing developers and small commercial developers. Improved situation in the investment market and the stabilization of cap rates and rents have made companies with big property portfolios, e.g. GTC and Echo, attractive as well.

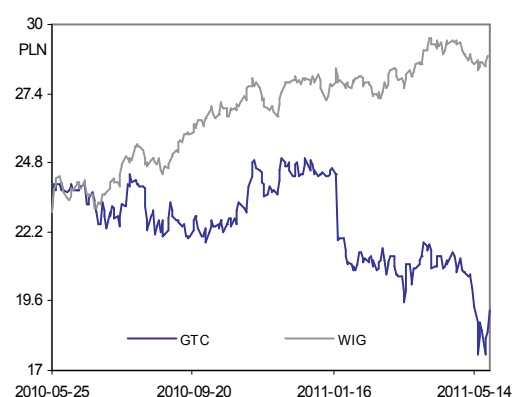
Company Profile

GTC is one of the biggest commercial developers in CEE and SEE countries. Its portfolio encompasses properties with total surface of 560,000 square meters. GTC also builds and sells apartments.

Important dates

22.08.2011 - H1 2011 report
15.11.2011 - Q3 2011 report

GTC vs. WIG



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Now That It Got Cheap, Buy

The major slump in GTC's stock price after the publication of its earnings for Q1'11 seems to be a good opportunity to buy. The Company is trading at a 7% discount to its 2011 book value, and at a 20% discount to 2012 book value. In addition, it is trading at a 17% discount to Echo Investment on the P/BV multiple, and the discount to foreign peers (except for the Vienna-listed ones) is similar. Foreign developers do not have the opportunity to generate profits on cap rate compression. Despite the reports on the plans to acquire land for new projects, we believe GTC is unlikely to issue shares to finance these transactions. The Company has enough cheaper sources of financing. The finalization of the sale of its stake in Galeria Mokotów should more than cover its medium-term cash needs. Our valuation factors in the slower growth in the property market in Southern Europe and the sale of Galeria Mokotów in 2011, which has prompted a correction to our 2011-2013 bottom line forecasts and a slight reduction in target price to PLN 23.36 per share (vs. PLN 24.03 per share previously). At the same time, due to the reduction in the market price, we are upgrading our rating to buy.

Financing for investment plans

We estimate the CAPEX necessary for property development projects in 2011-2013 (including land acquisition expenses of EUR 50m per year) at slightly under EUR 800m. Assuming that GTC will take out loans covering 70% of the cost of construction for each of its projects, and that the sale of Galeria Mokotów will get finalized, the Company will have most of its cash needs covered in 2012-2013. Additional cash could come from the sale of other commercial facilities, or from refinancing. Due to the current intense activity of property funds in the investment market, and the limited LTV ratio of some of GTC's properties, we do not see a risk that these sources of cash will prove insufficient.

New investments in the portfolio

During the presentation of its earnings for Q1, the Company announced it had purchased land in Warsaw's Białołęka district, where it could erect a shopping mall. It is also planning to sign 2-3 joint venture agreements concerning commercial projects in Warsaw. We approve of the plan to increase involvement in Poland's capital, as it is now the most attractive market of those GTC operates in.

(EUR m)	2009	2010	2011F	2012F	2013F
Revenue	156.4	169.0	166.9	192.1	225.1
EBIT excl. revaluation	50.1	67.4	73.9	93.5	124.2
EBIT margin	32.0%	39.9%	44.3%	48.7%	55.2%
Property valuation	-172.3	43.2	136.6	211.2	221.3
EBIT incl. revaluation	-122.1	110.6	210.5	304.8	345.5
Net profit	-128.3	41.9	110.9	176.6	201.1
P/BV	1.1	1.1	0.9	0.8	0.7
P/E	-	25.3	9.6	6.0	5.3
P/CE	-	25.0	9.5	6.0	5.3
EV/EBITDA	-18.2	20.6	11.0	8.6	8.4
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

Valuation

We used two methods to estimate GTC's value: the Net Asset Value approach and relative valuation. We have attached a 90% weight to the former method. At EUR/PLN of 3.90, we have set a PLN 23.36 per-share price target for the stock, which implies a ca. 21% upside potential. We therefore recommend buying the stock.

Valuation

(EUR)	Valuation
NAV	5.63
Relative valuation	4.66
Value per share	5.53
9M cost of equity	8.3%
Target price	5.99
EUR/PLN	3.90
Target price (PLN)	23.36

Source: BRE Bank Securities

Valuation Based On Net Asset Value

In the NAV approach, we assumed that GTC's value is equivalent to the present value of its equity in 2013. Relative to our previous valuation, we have updated the deadlines and parameters assumed for individual projects. The total area of projects scheduled for 2011-2013 has increased to ca. 20k m² of GLA, thanks mostly to a new project in Bucharest (Ana Tower). We have assumed a slower rate for the decline in capitalization rates and slower rental revenue growth (relative to our February report). These changes are motivated by the slow pace at which the SEE property market is recovering. The slower expected growth in rental revenues and revaluation income is also a consequence of the sale of Galeria Mokotów, expected to be effected in Q4 2011.

NAV Valuation

(EUR m)	2010	2011F	2012F	2013F
Equity	1 008.8	1 136.3	1 312.9	1 514.0
Discount rate	8.3%	8.3%	8.1%	7.9%
Discount factor	100.0%	95.1%	88.0%	81.5%
Equity (PV)	1 008.8	1 080.0	1 154.8	1 234.2
Number of shares	219.4	219.4	219.4	219.4
Equity per share (EUR)	4.60	4.92	5.26	5.63
EUR/PLN	3.90	3.90	3.90	3.90
Equity per share (PLN)	17.93	19.20	20.53	21.95
WACC	8.3%	8.3%	8.1%	7.9%
Cost of debt	7.1%	7.1%	7.1%	7.1%
Risk-free rate	6.1%	6.1%	6.1%	6.1%
Credit risk premium	1.0%	1.0%	1.0%	1.0%
Effective tax rate	19.0%	19.0%	19.0%	19.0%
Net debt / EV	51.8%	51.8%	57.0%	60.3%
Cost of equity	11.1%	11.1%	11.1%	11.1%
Credit risk premium	5.0%	5.0%	5.0%	5.0%
Beta	1.0	1.0	1.0	1.0

Source: BRE Bank Securities

Relative Valuation

The peer group is composed of Polish and foreign companies from the commercial property sector. GTC's high P/BV multiple causes it to trade at a premium of several percent to its peers. It is worth noting that it is trading at a clear discount to Echo Investment in 2011 and 2012, which only disappears in 2013.

The investment properties of GTC's foreign peers are mostly located in developed markets where growth potential is limited, while the operations of Polish peers are restricted primarily to Poland. GTC's valuation premium can be explained with better long-term growth prospects than enjoyed by international real-estate developers, and better portfolio diversification when compared to local competition.

We assigned equal weights to both peer groups and we thought 2012 and 2013 should have higher weights in the valuation because they better capture the growth plans of GTC and its peers. The nine-month price target yielded by relative valuation figures to PLN 19.68/share.

Relative Valuation

	2011F P/BV	2012F P/BV	2013F P/BV
Echo Investment	1.05	0.88	0.70
BBI Development	0.92	0.81	0.63
PA Nova	0.99	0.79	0.67
Median	0.99	0.81	0.67
Weight (Polish peers)	50%	50%	50%
Atrium European Real Estate	0.80	0.77	-
CA Immobilien Anlagen	0.66	0.64	0.67
Conwert Immobilien Invest SE	0.72	0.70	0.72
Deutsche Euroshop AG	1.07	1.04	1.02
Immofinanz AG	0.61	0.61	0.55
IVG Immobilien	0.62	0.61	0.52
Klepierre	1.16	1.09	1.10
Segro	0.82	0.78	0.73
Unibail Rodamco SE	1.10	1.05	0.91
Sparkassen Immobilien AG	0.64	0.60	0.56
Median	0.76	0.73	0.72
Weight (foreign peers)	50%	50%	50%
Median	0.87	0.77	0.69
GTC	0.93	0.81	0.70
Premium	6.9%	4.7%	1.5%
Implied price			
Median	0.87	0.77	0.69
Year weight	20%	40%	40%
BVPS	5.18	5.98	6.90
Equity value per share (EUR)	4.66		

Source: BRE Bank Securities, Bloomberg



Income Statement

(EUR m)	2007	2008	2009	2010	2011F	2012F	2013F
Revenues	73.6	114.5	156.4	169.0	166.9	192.1	225.1
change %	-9.0%	55.6%	36.5%	8.1%	-1.3%	15.1%	17.2%
Revenue from space rental	52.3	72.1	96.2	124.1	135.4	161.4	201.4
Revenue from housing development	21.3	42.5	60.1	44.9	31.4	30.7	23.7
COGS	-23.7	-51.9	-71.2	-72.3	-62.3	-66.6	-67.4
Gross profit	49.9	62.7	85.2	96.7	104.6	125.6	157.7
gross profit margin	67.9%	54.7%	54.5%	57.2%	62.7%	65.4%	70.1%
Gross profit Space rentals	41.1	53.5	73.9	94.4	103.0	125.0	157.2
gross profit margin	78.7%	74.3%	76.8%	76.1%	76.0%	77.5%	78.1%
Gross profit Residential construction	8.8	9.1	11.3	2.3	1.6	0.5	0.5
gross profit margin	41.3%	21.5%	18.8%	5.1%	5.2%	1.8%	2.1%
Selling expenses	-4.3	-4.3	-5.0	-6.3	-8.3	-8.5	-8.8
G&A expenses	-17.2	-18.1	-20.1	-21.7	-20.8	-21.4	-22.0
Other net operating income/expenses	2.3	8.0	-10.0	-1.3	-1.6	-2.1	-2.7
EBIT ex. revaluation	30.8	48.3	50.1	67.4	73.9	93.5	124.2
Investment property valuation	292.4	235.6	-172.3	43.2	136.6	211.2	221.3
EBIT	323.2	283.9	-122.1	110.6	210.5	304.8	345.5
change %	38.9%	-12.2%	-143.0%	-190.5%	90.3%	44.8%	13.4%
EBIT margin	439.0%	247.8%	-78.1%	65.4%	126.2%	158.6%	153.5%
Financing income/expenses	-28.7	-14.9	-40.2	-69.5	-63.0	-75.4	-86.2
Equity in profits/losses of associates	4.7	-1.0	-2.5	4.7	5.8	12.0	10.1
Pre-tax profit	299.1	267.9	-164.8	45.7	153.3	241.4	269.4
Tax	-37.7	-78.8	25.4	-17.1	-32.7	-45.9	-51.2
Minority interests	27.0	23.9	-11.1	-13.3	9.7	18.9	17.1
Net profit	234.4	165.2	-128.3	41.9	110.9	176.6	201.1
change %	20.2%	-29.5%	-177.6%	-132.7%	164.5%	59.2%	13.9%
Pct. margin	318.5%	144.3%	-82.1%	24.8%	66.5%	91.9%	89.3%
D&A expenses	0.3	0.5	0.4	0.5	0.6	0.6	0.6
EBITDA	323.5	284.3	-121.7	111.1	211.1	305.4	346.2
change %	38.9%	-12.1%	-142.8%	-191.3%	90.0%	44.6%	13.3%
EBITDA margin	439.4%	248.2%	-77.8%	65.8%	126.5%	159.0%	153.8%
Shares at year-end (millions)	220.4	219.4	219.4	219.4	219.4	219.4	219.4
EPS	1.1	0.8	-0.6	0.2	0.5	0.8	0.9
CEPS	1.1	0.8	-0.6	0.2	0.5	0.8	0.9
ROAE		16.1%	-12.4%	4.3%	10.3%	14.4%	14.2%
ROAA		15.3%	-5.0%	1.6%	4.0%	5.7%	5.6%



Balance Sheet

(EUR m)	2007	2008	2009	2010	2011F	2012F	2013F
ASSETS	1 861.2	2 558.4	2 622.6	2 728.4	2 859.6	3 330.0	3 789.7
Fixed assets	1 219.8	1 931.4	2 133.3	2 259.1	2 399.0	2 935.1	3 417.9
Loans and other receivables	20.3	52.3	54.0	19.6	20.0	20.0	20.0
Investment properties	1147.3	1827.8	1971.9	2117.6	2243.9	2762.9	3235.6
Property, plant and equipment	0.0	1.4	1.1	2.0	1.8	1.9	1.9
Investments in associates	27.9	44.9	49.5	56.3	65.0	82.1	92.2
Land for development	0.0	0.0	50.1	52.4	56.1	56.1	56.1
Other	24.3	5.1	6.8	11.1	12.2	12.2	12.2
Current assets	641.4	627.0	489.2	469.3	460.6	395.0	371.8
Inventories	212.9	322.0	220.8	201.8	200.0	193.0	201.9
Receivables, deposits, advances	65.9	100.6	80.7	72.6	78.5	86.8	98.8
Derivatives	12.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents	345.6	200.8	185.6	191.7	175.6	108.5	64.5
Other	5.0	3.6	2.1	3.1	6.6	6.6	6.6
(EUR m)	2007	2008	2009	2010	2011F	2012F	2013F
EQUITY AND LIABILITIES	1 861.2	2 558.4	2 622.6	2 728.4	2 859.6	3 330.0	3 789.7
Equity	958.7	1 098.9	964.2	1 008.8	1 136.3	1 312.8	1 513.9
Minority interests	29.4	57.0	46.5	44.1	54.0	72.9	90.0
Long-term liabilities	697.7	1 160.8	1 420.3	1 486.9	1 491.4	1 769.4	2 010.2
Loans	578.5	926.1	1 234.0	1 294.9	1 276.8	1 514.7	1 713.4
Deferred tax provision	93.7	154.4	117.3	127.1	159.6	199.7	241.8
Derivatives	0.0	67.9	62.5	54.2	44.0	44.0	44.0
Provisions and other	25.5	12.4	6.4	10.8	10.9	10.9	10.9
Current liabilities	175.5	241.7	191.6	188.6	178.0	174.9	175.6
Loans	31.6	54.3	65.1	83.2	97.2	97.2	97.2
Derivatives	0.0	5.2	14.3	15.1	11.5	11.5	11.5
Trade creditors and other	41.4	113.7	91.5	78.0	58.3	55.2	55.9
Advances received	60.2	51.4	20.6	12.1	10.8	10.8	10.8
Accruals	40.8	0.0	0.0	0.0	0.0	0.0	0.0
Other	1.5	17.2	0.2	0.2	0.2	0.2	0.2
Debt	610.1	980.4	1 299.1	1 378.1	1 374.0	1 611.9	1 810.7
Net debt	264.4	779.7	1 113.4	1 186.4	1 198.5	1 503.4	1 746.2
(Net debt / Equity)	27.6%	70.9%	115.5%	117.6%	105.5%	114.5%	115.3%
(Net debt / EBITDA)	0.8	2.7	-9.1	10.7	5.7	4.9	5.0
BVPS	4.3	5.0	4.4	4.6	5.2	6.0	6.9



Cash Flows

(EUR m)	2007	2008	2009	2010	2011F	2012F	2013F
Cash flows from operating activities	-4.7	-86.5	20.2	77.6	59.1	89.6	106.8
Pre-tax profit	299.1	267.9	-164.8	45.7	153.3	241.4	269.4
D&A expenses	0.3	0.5	0.4	0.5	0.6	0.6	0.6
Working capital	-29.0	-125.3	-25.9	12.7	-12.7	1.1	-8.9
Investment property valuation	-292.4	-243.5	172.3	-43.2	-136.6	-211.2	-221.3
Other	17.2	13.9	38.2	61.8	54.5	57.7	67.0
Cash flows from investing activities	-192.3	-417.1	-280.2	-51.9	-7.4	-309.1	-249.4
CAPEX / Property sales	-209.3	-324.6	-267.7	-135.2	-229.5	-308.5	-252.0
Equity investment	44.9	-53.4	5.1	-9.4	237.8	0.0	0.0
Investment property sales	0.0	0.0	0.0	90.5	-17.2	0.0	0.0
Other	-27.9	-39.1	-17.6	2.2	1.6	-0.7	2.6
Cash flows from financing activities	276.8	366.9	259.5	-20.7	-67.0	152.5	98.6
Stock issue	0.1	0.0	1.6	0.8	0.0	0.0	0.0
Debt	277.5	404.9	324.8	58.7	-1.1	237.9	198.8
Other	-0.9	-38.0	-66.9	-80.1	-65.9	-85.3	-100.2
F/X differences	-11.7	-8.1	-14.6	1.0	-0.9	0.0	0.0
Change in cash	68.0	-144.9	-15.1	6.1	-16.2	-67.0	-44.1
Cash at period-end	345.6	200.8	185.6	191.7	175.6	108.5	64.5
DPS (EUR)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	-162.6	-462.9	-238.4	-64.4	69.5	-213.8	-136.7
(CAPEX / Sales)	284.3%	283.4%	171.2%	80.0%	137.5%	160.6%	112.0%

Market multiples

	2007	2008	2009	2010	2011F	2012F	2013F
P/E	4.5	6.4	-8.3	25.3	9.6	6.0	5.3
P/CE	4.5	6.4	-8.3	25.0	9.5	6.0	5.3
P/BV	1.1	1.0	1.1	1.1	0.9	0.8	0.7
P/S	14.5	9.3	6.8	6.3	6.4	5.5	4.7
FCF/EV	-12.0%	-24.4%	-10.7%	-2.8%	3.0%	-8.1%	-4.7%
EV/EBITDA	4.2	6.7	-18.2	20.6	11.0	8.6	8.4
EV/EBIT	4.2	6.7	-18.2	20.7	11.0	8.7	8.4
EV/S	18.5	16.6	14.2	13.6	13.9	13.7	12.9
DYield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Price (EUR/PLN = 3.98)	4.84						
Shares at year-end (millions)	220.4	219.4	219.4	219.4	219.4	219.4	219.4
MC (EUR m)	1066.1	1061.0	1061.0	1061.0	1061.0	1061.0	1061.0
Equity attributable to minority shareholders (EUR m)	29.4	57.0	46.5	44.1	54.0	72.9	90.0
EV (EUR m)	1 360.0	1 897.7	2 221.0	2 291.5	2 313.5	2 637.3	2 897.2



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List of abbreviations and ratios contained in the report:

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

Recommendations of BRE Bank Securities

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

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

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Previous ratings issued for GTC

Rating	Accumulate	Hold	Accumulate
Date issued	2010-10-05	2010-11-05	2011-02-03
Price on rating day	22.15	23.10	20.92
WIG on rating day	45542.07	47066.40	47559.15