

Wednesday, 4 October 2023 | research report

Housing

Residential Real Estate, Poland

Demand Attacks, and Supply Tries to Keep Up

Improving home affordability and borrower creditworthiness, boosted by mortgage subsidy programs, coupled with deferred demand, have created an explosive mixture which has once again put the real estate market in the spotlight of high demand.

On the other hand, the supply of new homes is constricted by too few building permits being issued these days. According to JLL research, in 2Q'23 the lead time between land acquisition and sales was 3.8 quarters, and the annualized time to sale was under 3 quarters. Such conditions are beneficial for developers who have the means and opportunity to grow their portfolio, the capacity to build more at the same time, and the exposure to the hottest real-estate markets. We believe that margins around 30% in next 2-3 years are very possible to maintain as listings remain tight and the long-term outlook based on overcrowding data and convergence to Western Europe also looks promising.

With this report, we aim to resume coverage of residential real estate at mBank, starting with three companies: Atal, Develia and Dom Development. All three offer features that can help capitalize on current market conditions. Atal has the biggest land bank and portfolio in relation to sales, and, after a recent capital raise, its balance sheet is strong enough to run multiple projects simultaneously. Dom Development, with its own in-house general contractor, offers long-term competitive advantage while in the short-term building up in Kraków by acquiring a new ready-to-build property. Last but not least, by taking over the Polish division of France's Nexity, Develia has strengthened its position in Warsaw and Kraków in terms of landbank and ongoing projects, which should help bridge the sales gap in 2024 as well as grow sales in the 2023-2025 period. Our pecking order for the three is currently as follows: Atal with a buy rating, Develia, also a buy, and Dom Development, which we rate as a hold.

Improving situation of borrowers

We estimate, that in the last 12 months, the creditworthiness of Polish borrowers has improved by 22.5% for variable-rate loans and around 40% for fixed-rate loans. Further cuts in interest rates will only improve the overall borrowing capacity. At the same time, the housing affordability rate has gone up slightly, resulting in higher willingness among Poles to take out a mortgage. Along with that, a new subsidized mortgage program has opened up the Polish real estate market to new cohorts. The first figures are extremely positive – by mid-September, banks received over 40,000 applications and approved around 10,000. We expect around 20k positive applications by the end of 2023 and 172k in the 2023-27 period.

Bottlenecks in building permits

The single biggest constraint on housing supply right now are building permits and the general red tape involved in their issuance. In the last 12 months, Poland issued building permits for around 51k flats in top tier cities – a number that, if projected into the future, assuming 2Q'23 level of sales will not be enough to keep supply at a constant level. Having exposure to more land pending permits may be the only viable option to support the current level of sales in the mid- to long term.

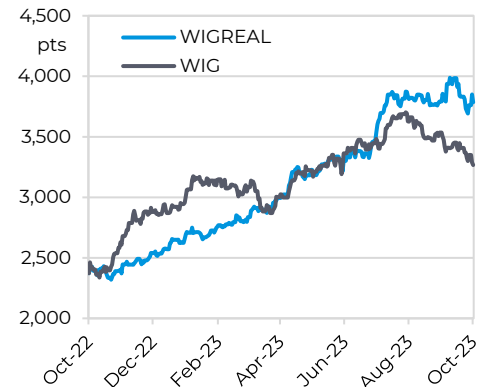
Predicting record earnings in 2023 and 2025

All three companies covered by this report are expected to generate record profits in 2023 and beat these highs in 2025. When it comes to the 2024 earnings prospects, we expect lower revenues on lower sales closed in 2022, resulting in year-over-year contraction in net profit.

company	P/E			P/B			ROE%		
	23E	24E	25E	23E	24E	25E	23E	24E	25E
Atal	7.3	11.3	6.7	1.5	1.6	1.5	24.4	14.1	23.2
Develia	8.1	10.4	6.7	1.4	1.3	1.2	17.7	13.1	18.7
Dom	8.8	11.4	7.5	2.5	2.5	2.1	29.5	21.7	30.8

WIG_REAL ESTATE	3,784.80
WIG	63,776.83
2023E P/E	6.549
2023 P/BV	0.666

WIG-REAL ESTATE vs. WIG



name	target price		recommendation	
	new	old	new	old
Atal	72.82	-	buy	-
Develia	5.62	-	buy	-
Dom	153.52	-	hold	-

name	current* price	target price	upside
Develia	4.70	5.62	+20%
Dom	151.40	153.52	+1%

*Price as of October 03, 2023, 5:00 PM

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List of abbreviations and ratios used by mBank:

EV (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases)
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
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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 did not issue any recommendations for: Atal, Develia, Dom Development in the 12 months prior to this publication

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