TRIGON DOM MAKLERSKI

Research

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RESIDENTIAL REAL ESTATE

Fortune favours the bold

The housing market as a whole has not had a good press recently. The lack of implementation of the "Mortgage For Start" government scheme, combined with the record growth in apartments offered for sale in the primary market, should in theory lead to structural problems in the market and ultimately to falls in both sales volumes and prices. In fact, while this year's sales in the top 6 markets will be around 30% lower y/y, we believe that the rules of the game in the primary market have permanently changed and that the top 5 developers have taken advantage of the market headwinds to invest in their land bank, which will allow them to further increase their market share in the medium term (currently 37% in the top 6 markets vs. 20% in 2016). We estimate that Archicom, Atal, Develia, Dom Development and Murapol will spend around PLN 2.3b on new land in 2024, almost 40% more than last year, and 2025 will be even better for them. We expect sales volumes of those 5 companies to reach 16,360 units next year, up 15% y/y.

What to expect in 2025? After disappointing 3Q24 sales figures (TOP 6 sales at 9.2k, -37% y/y), we see room for a slight demand recovery in the last quarter of this year, with full year sales volumes reaching 41k units (-29% y/y) in TOP 6 markets. Visibility is clearly limited and the potential timing and magnitude of interest rate cuts creates uncertainty in the primary market. However, we see the possibility of a double-digit market pickup in the second half of 25, partly as a result of the aforementioned rate cuts, but mainly due to potential customers shelving their expectations regarding the introduction of a new mortgage scheme. All in all, we expect 2025 TOP 6 sales to reach 46k units, up 12% y/y. In addition, we expect transaction prices to increase by 6% on average in 2025, compared with double-digit growth in 2024, as the large listed developers increase their share of the total number of new apartments launched for sale.

Homogeneous primary market does no longer exist. We argue that it is becoming increasingly problematic to speak of the primary market as homogeneous and to make statements based on market aggregates, given the strong stratification of the market and the increase in disposable income and savings of investment clients. Even the individual markets within the so-called TOP6 are a good example - according to JLL data, the total offer in the 6 largest markets has increased by 44% since the beginning of the year and the current situation bears the hallmarks of a "buyer's market". However, a more detailed analysis of individual cities reveals a strong stratification, with the situation in the Łódź market (sellout period of 8.9 quarters) and Poznań (sellout period of quarters) differing significantly from other locations (sellout period of 4.5-5.8 quarters). The standard of a given investment can also be a major distortion - we are currently witnessing a situation where projects in the economic/popular segment are selling much worse than those in the higher and premium class, which is not apparent even at the macro level of the broad market offer.

Top Pick, O/W, Neutral. At this stage of the cycle and amid structural market shifts, we prefer developers with a majority exposure to the 4 largest and most robust domestic residential markets - Warsaw, Krakow, Tricity and Wroclaw. In addition, players with a proven immunity to market headwinds and an above-average correlation between sales volumes and interest rates are a good fit amid upcoming interest rate cuts. **Archicom**, which has the highest growth rates in the sector in terms of both sales and EPS, is our top pick. We are also positive on **Dom Development** and **Develia**, but the upside and scope for positive surprises are not as great as in the case of ARH. We turn neutral on **Atal** (questions about the structure of the land bank) and **Murapol** (we are not sure that the current dividend policy is sustainable).

Risk factors. For a detailed description see the page 51.

	P/BV			Div Yield			FCFF Yield		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Atal	1.3	1.2	1.2	11.3%	9.2%	11.0%	0.3%	14.0%	10.5%
Archicom	1.7	1.6	1.4	5.7%	7.1%	12.7%	-15.7%	6.4%	14.3%
Develia	1.6	1.5	1.3	8.6%	9.4%	10.3%	3.6%	9.5%	9.7%
Dom Development	3.2	2.9	2.6	6.0%	8.4%	9.6%	6.0%	10.9%	10.2%
Murapol	2.5	2.5	2.2	13.3%	13.3%	13.3%	6.3%	5.4%	12.9%

Source: Trigon DM

ARCHICOM
Buy
(Previous: Buy 40 PLN)
Target Price: PLN 45
Upside: +27%

ATAL
Hold
(Previous: Buy 60 PLN)
Target Price: PLN 60
Upside: +13%

DEVELIA
Buy
(Previous: Hold 6.5 PLN)
Target Price: PLN 7.5
Upside: +28%

DOM DEVELOPMENT
Buy
(Previous: Buy 225 PLN)
Target Price: PLN 250
Upside: +20%

MURAPOL
Hold
(Previous: Buy 45 PLN)
Target Price: PLN 40
Upside: +9%

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Glossary of professional terms:
capitalisation – market price multiplied by the number of a company's shares
free float (%) – percentage of a company's shares held by shareholders with less than 5% of total voting rights attached to the shares, reduced by treasury shares held by the company
min/max 52 wks – lowest/highest share price over the previous 52 weeks
average turnover – average volume of share trading over the previous month

EBIT – operating profit
EBITDA – operating profit before depreciation and amortisation
adjusted profit – net profit adjusted for one-off items
CF – cash flow
CAPEX – sum of investment expenditures on fixed assets
OCF – cash generated through a company's operating activities
FCF – cash generated by a company after accounting for cash outflows to support its operations and maintain capital assets
ROA – rate of return on assets
ROE – rate of return on equity
ROIC – rate of return on invested capital
NWC – net working capital
cash conversion cycle – length of time it takes for a company to convert its cash investments in production inputs into cash revenue from sale of its products or services
gross profit margin – ratio of gross profit to net revenue
EBITDA margin – ratio of the sum of operating profit and depreciation/amortisation to net revenue
EBIT margin – ratio of operating profit to net revenue
net margin – ratio of net profit to net revenue
EPS – earnings per share
DPS – dividend per share
P/E – ratio of market price to earnings per share
P/BV – ratio of market price to book value per share
EV/EBITDA – ratio of a company's EV to EBITDA
EV – sum of a company's current capitalisation and net debt
DY – dividend yield, ratio of dividends paid to share price
RFR – risk free rate
WACC – weighted average cost of capital

Recommendations of the Brokerage House
Issuer – ARCHICOM S.A., ATAL S.A., DOM DEVELOPMENT S.A., DEVELIA S.A., MURAPOL S.A.
BUY – we expect the total return on an investment to reach at least 15%
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SELL – we expect negative total return on an investment of more than -0%

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Document prepared by: David Sharma

Valuation methods used
The Discounted Cash Flow (DCF) method values a company by estimating its future cash flows and discounting them back to their present value.
- Advantages: future-oriented, flexible when it comes to assumptions, based on the intrinsic value of a company, widely accepted.
- Disadvantages: sensitivity to assumptions, complexity, subjectivity, doesn't consider market sentiment or short-term fluctuations.
The comparable valuation method values a company by comparing it to similar publicly traded companies.
- Advantages: simplicity, transparency, benchmarking, reflects current market valuations and investor sentiment.
- Disadvantages: lack of specificity, limited comparables, sensitive to market fluctuations, ignoring fundamental differences.
SOTP – sum-of-the-parts method, which consists in valuing a company by valuing its individual business lines separately and then summing them up.
Advantages: different valuation methods can be applied to diverse business lines; the approach is useful for assessing the value of a company e.g. in the case of planned acquisition or restructuring.
Disadvantages: the peer group for individual business lines is usually limited, the method does not adequately account for synergies between business segments.
Risk-adjusted net present value method (rNPV)

Advantages: accounting for probabilities assigned to future cash flows, providing a more realistic assessment of the present value of future cash flows and reflecting business-specific factors, especially in the case of innovative companies.
Disadvantages: subjectivity involved in the adoption of a discount rate, significant reliance on a number of assumptions, high level of complexity in the calculations and exclusion of qualitative factors from the valuation.
Discounted residual income method (DRI)
Advantages: valuation based on the excess of income over risk-adjusted opportunity cost to owners of capital, the method can be applied to companies that do not pay dividends or generate positive FCF.
Disadvantages: significant reliance on subjective judgements and assumptions, as well as sensitivity of the valuation to any changes in those variables.
Discounted dividend model (DDM)
Advantages: accounting for real cash flows to equity owners, the model works best for companies with a long history of dividend distribution.
Disadvantages: the method can be applied to dividend-paying companies only, it is not suitable for companies with a short history of dividend distribution.
Net asset value method (NAV)
Advantages: the approach is particularly relevant to holding companies with significant property, plant and equipment assets, the calculation of NAV is relatively straightforward.
Disadvantages: the method neglects future revenue or earnings potential and may not properly reflect the value of intangible assets.
Target multiple method
Advantages: the method can be applied to any company.
Disadvantages: it involves a high degree of subjectivity.
Replacement value method – it assesses the value of a company based on the costs of replacing its assets.
Advantages: the method is particularly relevant to companies with significant property, plant and equipment assets.
Disadvantages: it may be hard to capture the value of a company's intangible assets, reputation and market potential.
Liquidation value method – the sum of prices that the business would receive upon selling its individual assets on the open market.
Advantages: the method can capture the lowest threshold of a company's value.
Disadvantages: it may be hard to capture the value of a company's intangibles.

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