EQUITY RESEARCH

Initiation of coverage
31 March 2015

Marvipol

Off the turn and kicking down

Buy (initiating coverage)

Price (26/03/15)
PLN7.38

Target price (12-mth)
PLN10.00

Forecast total return
35.5%

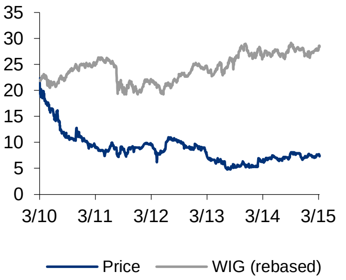
Real Estate
Poland
Bloomberg: MVP PW
Reuters: MVPP.WA

Share data

Avg daily volume (3-mth)	6,106
Free float (%)	24.3
Market cap (PLNm)	306.7
Net debt (1F, PLNm)	167
Enterprise value (1F, PLNm)	474
Dividend yield (1F, %)	0.0

Source: Company data, ING estimates

Share price performance



Source: ING

We initiate coverage on Marvipol with a BUY recommendation and PLN10.0 target price. The company's Housing segment was greatly boosted by the large Central Park Ursynow project. The Automotive segment shifted into a higher gear with substantial investments in the dealership network and the arrival of new models from Land Rover and Jaguar. We believe Marvipol's shares are significantly undervalued. The market has yet to price in far more robust operating cash flows, a significant reduction in financial leverage, the healthy margins expected on the Central Park Ursynow development and an increasing scale and profits contribution from the automotive business.

Warsaw housing market fundamentals are solid. 2014 recorded record demand, with 15,700 flats sold in Warsaw. Housing demand in Warsaw is driven by declining interest rates on mortgage loans, attractive city demographics, government mortgage subsidies and yields on flat rentals in excess of rates on deposits.

Housing segment cash flows reduced financial leverage to comfortable levels. Marvipol missed the opportunity to see an early upturn in demand because its highly leveraged balance sheet restricted its ability to amass a land bank sufficient to gain market share. Record flat sales in 2014 allowed Marvipol to reduce its net debt-to-equity ratio to 67%, and we expect a further reduction to 30% in 2016F. Currently, with reduced gearing, higher cash flows and sufficient cash on the balance sheet, management can deploy resources to secure land plots for medium-term growth.

Jaguar Land Rover kicks in with new models and engines. Dealers' arrivals include new models such as the Land Rover Discovery Sport and Jaguar XE in 2015, and the Jaguar XF in 2016, with a wide palette of in-house produced engines. JLR Polska is planning for increased capex on expanding its dealer networks and service station services. We forecast a 31% surge in cars sales in Marvipol's Car imports and dealership segment in 2015F.

Cheap valuation. Based on our conservative earnings estimates, the Marvipol stock is very cheap, trading at a 2015F PER of 9.4x and 2015F P/BV of 0.94x. We believe the company's current valuation is compelling and expect the discount to our target price to narrow due to: (1) the Housing segment's continued healthy operating cash flows; (2) an expected substantial reduction in gearing and interest costs; (3) market share gains in Poland's luxury car market; and (4) improved disclosure and visibility on the back of a planned spin-off of the company's automotive operations.

Forecasts and ratios

Year end Dec (PLNm)	2013	2014	2015F	2016F	2017F
Revenues	506	761	741	733	743
Normalised EBITDA	50	78	59	58	56
Normalised net profit	21	47	33	37	39
Normalised EPS (PLN)	0.57	1.13	0.79	0.89	0.94
Normalised PER (x)	12.9	6.5	9.4	8.3	7.8
EV/normalised EBITDA (x)	12.6	6.5	8.0	7.2	6.8
FCF yield (%)	12.3	29.4	13.1	22.2	15.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Price/book (x)	1.2	1.0	0.94	0.85	0.76
Normalised ROE (%)	9.2	17.3	10.6	10.7	10.2

Source: Company data, ING estimates

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Investment case

CPU project is a gamer-changer for Marvipol's Housing segment

Marvipol's housing projects' unit sales increased 43% YoY to 776 flats in 2014, underpinned by the success of the Central Park Ursynow (CPU) project. CPU sold 401 flats in 2014. The project has been a game-changer for Marvipol, in our view. The company took on the risky yet rewarding project of redeveloping the post-warehouse/industrial neighbourhood of Wyczolki into a new residential area. Given its location in-between two of the largest office clusters in Warsaw and being within half an hour's drive to the city centre, with buildings largely consisting of sought after two- and three-room flats, modern architecture with quality finishing and compelling prices, CPU attracted demand not only from buyers looking for their first flat, but also rental yield seekers.

CPU margins healthy

For the first two phases, Marvipol set the price close to the limits of the government subsidies programme, which for Warsaw is PLN6,580 in 1Q15. The total development cost should reach PLN4,900-5,100/sqm including land, contractors, architects, transportation infrastructure and capitalised expenses. We expect Marvipol to sell 549 flats and deliver 587 in 2015, including 350 deliveries from CPU. Management believes the company will sell 550-600 flats and deliver 600 from all of its projects in 2015 and, thereafter, sees the potential for CPU to sell c.400 flats pa.

Corporate strategy is to increase land bank…

To capitalise on the healthy fundamentals of the Warsaw housing market to a greater extent than it did in previous years, Marvipol needs to increase its offer of flats, in our view. At end-2014, the company had an estimated 731 flats on offer, ie, equivalent to 3.0x quarterly sales volumes, well below the Warsaw city average of 4.2x, as calculated by REAS. Management plans to purchase two plots of land, with a total value of PLN60-70m, in 2015 to expand the company land bank. The focus continues to remain solely on Warsaw and, specifically, districts located on the left bank of the Vistula river.

…and as reach 1,850 cars sold in 2016

In the Automotive segment, Marvipol's 100%-owned subsidiary JLR Polska targets at least 1,300 car sales to dealers in 2015 and at least 1,850 in 2016, up from 1,118 cars sold in 2014. Sales growth is likely to be driven by new Jaguar and Land Rover (JLR) models such as the Land Rover Discovery Sport and Jaguar XE, the expansion of the dealer network to 14 locations in 2015F versus 10 currently and the increase in selling space at Marvipol's distribution points.

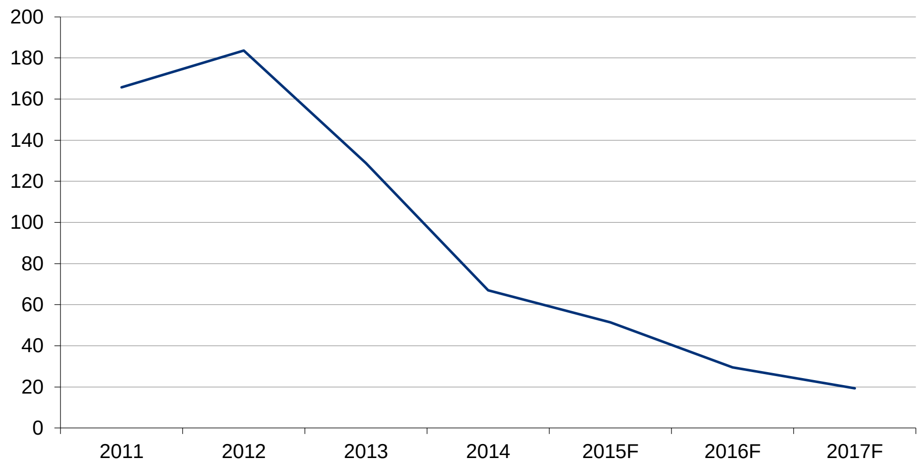
JLR introduces three new models in 2015, with improved palette of engines

We expect Marvipol's Automotive segment's unit sales to increase by 31% YoY in 2015F to 1,468 units (versus 18% in 2014). The arrival of new models such as the Land Rover Discovery Sport, Jaguar XE and Jaguar XF is likely to underpin considerably stronger car sales volumes in the next few years. We highlight that JLR plans to launch two new models each year to increase market share in lower market segments. As a result, we expect the average unit price to decrease over the next nine years from PLN297,000 in 2014 to PLN200,000. We expect continuing sales growth, driven by the increasing popularity of JLR vehicles, which is likely to be partially offset by deteriorating margin profitability. This results from JLR's focus on lower (and more competitive) market segments, which should also put pressure on dealer margins.

Significant deleveraging to continue

Over the past two years, Marvipol has substantially reduced its financial leverage, and management has declared further debt reduction over the course of 2015. Total debt fell from PLN403m in 2012 to PLN280m in 2014, and the net debt-to-equity ratio fell from 184% to 67% over the same period. The balance sheet continues to be highly geared, but the company's cash position of PLN84m at end-2014 is the highest in years and sufficient for land purchases. We expect an improvement in the cash position in the new few quarters, until management identifies attractive land plots for acquisitions.

Fig 1 Marvipol's net debt to equity (%)

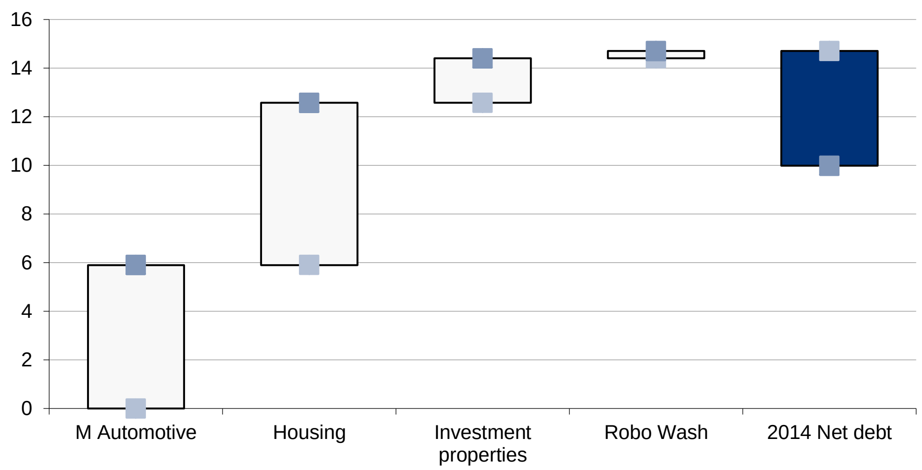


Source: Company data, ING estimates

Substantial discount to fair value

We believe the market has not yet priced Marvipol's improved investment profile and rosier outlook into the stock price. In the past, Marvipol traded at a substantial discount to its book value because it had a balance sheet loaded with debt and it burnt cash. We believe the discount will narrow in the future through reduced debt, reduced flat inventories, the ability to deliver a sustainable double-digit ROE and improved post-spin-off disclosure. Our PLN10.0 target price is based on a sum-of-the-parts (SOTP) model. We value the Housing segment based on a DCF model, which: (1) includes only projects in which Marvipol owns land or has signed agreements to acquire land; and (2) excludes any terminal value impact. We have a separate DCF model for JLR Polska. We value the Housing segment at PLN6.7 per share and the Automotive segment at PLN6.0 per share. We use the balance sheet value for Investment properties and earnings multiples for Robo Wash. A peer comparison supports our SOTP conclusions.

Fig 2 SOTP fair value (PLN)



Source: ING estimates

Valuation and recommendation

With 36% upside to our target price, we initiate coverage on Marvipol with a **BUY** recommendation and expect the share price to be driven by continued improvements in cash flow, gaining share in the luxury car market, and improved disclosure and visibility following the planned listing of Marvipol's automotive operations. As Marvipol runs separate business segments and due to the planned split of the company's automotive operations, we carry out valuation exercises for the individual businesses and value the equity using an SOTP model. We run DCF models for the Housing and Automotive segments, and use balance sheet value for Investment properties and earnings multiples for Robo Wash.

SOTP valuation

Fig 3 SOTP (PLNm)

JLR Polska	245
Housing	277
Investment properties	76
Robo Wash	12
2014 net debt	(196)
Equity value	415
Equity value per share (PLN)	**10.0**
Share price (PLN)	7.4
Upside (%)	**36**

Source: ING estimates

For illustrative purposes, we present a multiples peer group valuation. Marvipol is currently trading at a substantial discount to peers, based on PER, and at a slight discount to peers on P/BV. The company generates superior ROE as its automotive business is not capital intensive.

Fig 4 Housing developers peer group valuation

	Ticker	Price (PLN)	TP (PLN)	Rec	Market cap (PLNm)	PER (x)				Dividend yield (%)				P/BV (x)	ROE (%)
						2014	2015F	2016F	2017F	2014	2014	2015F	2016F	2017F	2015F
Ronson	RON PW	1.3	n/a	NR	360	neg	11.4	8.9	7.8	0.0	0.8	0.8	0.7	0.7	6.9
Robyg	ROB PW	2.2	n/a	NR	584	13.1	12.2	9.1	9.0	3.6	1.4	1.3	1.2	1.2	11.1
LC Corp	LCC PW	2.0	n/a	NR	909	11.9	12.7	9.4	12.5	0.0	0.7	0.7	0.6	0.6	5.5
Dom Development	DOM PW	46.8	44.0	Hold	1,159	20.8	16.6	14.3	13.7	4.7	1.4	1.4	1.4	1.3	8.4
Average	**Average**					**15.3**	**13.2**	**10.5**	**10.7**	**2.1**	**1.1**	**1.0**	**1.0**	**1.0**	**8.0**
Marvipol	MVP PW	7.4	10.0	Buy	309	6.4	9.4	8.3	7.8	0.0	1.0	0.9	0.8	0.8	10.6
(Discount)/premium (%)						**(58)**	**(29)**	**(21)**	**(27)**	**(100)**	**(3)**	**(9)**	**(14)**	**(20)**	**33**

Prices as of 26 March 2014
Source: Bloomberg estimates for Not Rated companies, ING estimates for Dom Development and Marvipol

Housing segment valuation

We value four completed projects (Art Eco, Osiedle Zielona Italia, Apartmenty Park Mokotow and Bielany Residence), two projects under construction (CPU and Hill Park Apartments) and one relatively small 100-flat housing project in Bielany for which Marvipol signed the preliminary agreement to acquire the land plot.

Fig 5 Flat sales and deliveries

	2011	2012	2013	2014	2015F	2016F	2017F	2018F	2019F	2020F	2021F
Flat sales	493	302	544	776	549	443	447	350	175	250	200
Flat deliveries	121	296	470	919	587	467	422	430	325	300	375

Source: Company data, ING estimates

For the CPU project, we assume unchanged average selling price for flats at PLN6,550 per sqm for the follow-up phases. For every following phase of the CPU project, we assume inflation of general contracts expenses due to the significant number of new housing projects being launched in Warsaw by leading developers. Agreements signed between Marvipol and Warbud for phase 1A and phase 1B of the CPU project set general contractor cost at PLN3,300-3,400 per sqm of PUM. Land cost is PLN1,020 per sqm of PUM, design and infrastructure cost is PLN450 per sqm, and funding cost will be c.PLN200 per sqm of PUM. For CPU, we assume total construction cost per sqm (land, design, infrastructure, general contractor and funding) between PLN4,960 for phase 1A, PLN5,120 for phase 1B and PLN5,600 for phase 6, assuming 2% inflation in general contractor costs for every phase of the project following 1B.

Our projections for Housing segment revenues are based on the land bank owned by Marvipol and one project in Bielany for which we understand from management that Marvipol has signed the preliminary purchase agreement and is highly likely to sign a definitive agreement for land purchase in the next few months. We assume CPU's phase project will be launched in 3Q15 and the next phases in 2Q16, with the phases following that launched every six months.

Fig 6 Flats sales (No. of units)

	Start	Completion	2014	2015F	2016F	2017F	2018F	2019F	2020F	2021F
Bielany Residence		Completed	75	25						
Apartamenty Mokotow Park		Completed	102	12	7					
Hill Park Apartments		Completed	7	19	12	12				
Zielona Italia		Completed	75	30	26					
Art Eco		Completed	116	60	21					
CPU 1A	1Q14	Nov-15	312	81	78	0				
CPU 1B	3Q14	2Q16	89	252	99	0				
CPU 2	4Q15	3Q17		70	150	260	50			
CPU 3	3Q16	2Q18			50	100	150			
CPU 4	2Q17	1Q19				50	100	50		
New Bielany	2Q17	1Q19				25	50	25		
CPU 5	1Q18	4Q19						75	125	100
CPU 6	1Q19	4Q20						25	125	100
Total sales		**Total**	**776.0**	**549.0**	**443.0**	**447.0**	**350.0**	**175.0**	**250.0**	**200.0**
CPU total sales			**401.0**	**403.0**	**377.0**	**410.0**	**300.0**	**150.0**	**250.0**	**200.0**

Source: Company data, ING estimates

Fig 7 Flat deliveries (No. of units)

	Start	Completion	2014	2015F	2016F	2017F	2018F	2019F	2020F	2021F
Bielany Residence		Completed	207	38						
Apartamenty Mokotow Park		Completed	114	36	7					
Hill Park Apartments		Completed	5	23	12	12				
Zielona Italia		Completed	391	45	26					
Art Eco		Completed	202	94	21					
CPU 1A	1Q14	4Q15		350	121	0				
CPU 1B	3Q14	2Q16		0	280	160	0			
CPU 2	4Q15	3Q17				250	280	0		
CPU 3	3Q16	2Q18					150	150		
CPU 4	2Q17	1Q19						100	100	
New Bielany	2Q17	1Q19						50	50	
CPU 5	1Q18	4Q19						25	100	175
CPU 6	1Q19	4Q20							50	200
Total			**919**	**587**	**467**	**422**	**430**	**325**	**300**	**375**
CPU total deliveries				**350.0**	**401.0**	**410.0**	**430.0**	**275.0**	**250.0**	**375.0**

Source: Company data, ING estimates

Our housing segment revenues exclude any land purchases the company is contemplating except for the Bielany project, which management has stated will hold 100 housing units and, we assume, will be offered only in 2Q17, with deliveries starting in 1Q19.

Fig 8 DCF model – Housing segment (PLNm)

	2015F	2016F	2017F	2018F	2019F	2020F	2021F
EBIT	**17**	**10**	**10**	**4**	**6**	**3**	**4**
EBIT margin (%)	6	6	6	2	4	2	3
Tax rate (%)	19	19	19	19	19	19	19
Tax on EBIT	(3)	(2)	(2)	(1)	(1)	(1)	(1)
NOPAT	**14**	**8**	**8**	**3**	**5**	**2**	**3**
Depreciation	1	1	1	1	1	1	1
Working capital	19	45	8	65	(44)	92	142
Capex and land purchases	0	(6)	0	0	0	0	0
Free cash flow	**34**	**48**	**17**	**69**	**(39)**	**95**	**146**

Source: ING estimates

Fig 9 WACC assumptions and DCF results (PLNm)

	2015F	2016F	2017F	2018F	2019F	2020F	2021F
Debt/(equity+debt) ratio (x)	0.4	0.3	0.2	0.2	0.1	0.1	0.1
RFR (%)	3.0	3.1	3.0	3.0	3.0	3.0	3.0
Equity premium (%)	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Beta (%)	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Cost of equity (%)	8.0	8.1	8.0	8.0	8.0	8.0	8.0
Cost of debt (%)	7.0	7.0	7.2	7.2	7.2	7.2	7.2
After-tax cost of debt (%)	5.6	5.7	5.8	5.8	5.8	5.8	7.2
WACC (%)	**7.0**	**7.4**	**7.5**	**7.5**	**7.8**	**7.8**	**7.9**
DFCF	33.5	44.5	14.5	55.6	(28.6)	65.0	92.6
Sum of DFCF	277.2						
No. of shares (m)	41.6						
Per share (PLN)	**6.7**						

Source: ING estimates

Automotive segment valuation

DCF valuation

We value Marvipol's Automotive segment using a DCF model. We also present a multiples valuation of JLR Polska's global peers; this is only for informative purposes as the business model of Marvipol's Automotive segments differs significantly from the businesses of the major listed automotive dealers. Our DCF model yields an equity value of PLN231m, implying a value per share of PLN6.0.

Fig 10 Key financial data (PLNm)

	2013	2014	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F
New vehicle distribution												
Units sold (no. of)	948	1,118	1,468	1,868	2,072	2,276	2,480	2,684	2,888	3,092	3,296	3,500
Revenues	268	333	413	495	515	529	536	537	578	618	659	700
Unit avg price (000PLN)	283	297	281	265	249	232	216	200	200	200	200	200
EBIT	19.7	24.8	29.2	33.9	32.1	29.9	27.2	23.8	24.1	24.2	24.0	23.5
EBIT margin (%)	7.3	7.5	7.1	6.9	6.2	5.6	5.1	4.4	4.2	3.9	3.6	3.4
Used car distribution												
Units sold (no. of)	0.0	0.0	198	218	254	299	352	407	455	496	537	578
Revenues	0.0	0.0	25.0	26.0	28.4	31.3	34.3	36.6	41.0	44.6	48.3	52.0
EBIT	0.0	0.0	1.0	1.2	1.3	1.3	1.3	1.3	1.4	1.5	1.6	1.6
EBIT margin (%)	0.0	0.0	4.2	4.6	4.4	4.1	3.9	3.6	3.5	3.3	3.2	3.1
Vehicle repairs												
Revenues	0.0	0.0	0.6	1.4	2.4	3.8	5.5	7.7	8.6	9.4	10.1	10.9
EBIT	0.0	0.0	0.2	0.3	0.6	0.9	1.4	1.9	2.2	2.3	2.5	2.7
EBIT margin (%)	0.0	0.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0

Source: Company data, ING estimates

For JLR Polska, we expect the EBIT margin on new vehicles sold to decrease gradually to 3.4% over the next nine years due to high competition in new car segments. We expect a slightly higher margin in used car distribution as we believe the company's offer could be very competitive due to the *Land Rover Approved* programme. We see strong profitability in the vehicle repair segment, with the EBIT margin at 25% (as guided by management) primarily due to high profitability in aluminium body repairs and body painting.

In our valuation of JLR Polska, we assume beta of 1x, WACC of 7.9% and FCF terminal growth rate of 1%. Figure 11 gives a summary of our DCF valuation.

Fig 11 DCF valuation – M Automotive (PLNm)

	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F
Group revenues	438	522	546	564	576	581	627	672	718	763
EBIT	30	35	34	32	30	27	28	28	28	28
EBIT margin (%)	7	7	6	6	5	5	4	4	4	4
Tax on EBIT	(6)	(7)	(6)	(6)	(6)	(5)	(5)	(5)	(5)	(5)
NOPLAT	25	29	28	26	24	22	22	23	23	23
D&A	1	2	3	3	3	3	3	3	3	3
Capex	(15)	(15)	(16)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
Delta working capital	(8)	(6)	(1)	(1)	(0)	0	(3)	(3)	(3)	(3)
FCF	**3**	**10**	**13**	**25**	**24**	**22**	**19**	**20**	**20**	**20**
WACC (%)	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9
DF	0.9	0.9	0.8	0.7	0.7	0.6	0.6	0.5	0.5	0.5
DCF	3	8	10	18	16	14	11	11	10	9
SUM DCF	111									
G (%)	1									
TV	287									
PV TV	134									
EV	245									
Net debt	(14)									
Equity value	231									
MVP shares (m)	41.6									
Value per share (PLN)	5.6									
Factor for one-year TP	1.1									
12-month rolling DCF TP (PLN)	6.0									

Source: ING estimates

Fig 12 Sensitivity analysis of M Automotive per share value (PLN)

		FCF terminal growth rate (%)				
		-1	**0**	**1**	**2**	**3**
	5.9	7.0	7.7	8.8	10.3	13.0
	6.9	6.0	6.5	7.1	8.1	9.6
WACC (%)	**7.9**	5.2	5.5	**6.0**	6.6	7.5
	8.9	4.5	4.8	5.1	5.6	6.2
	9.9	4.0	4.2	4.5	4.8	5.2

Source: ING estimates

Peer valuation

Figure 13 shows a summary of the peer valuation, which we do not take into consideration in our SOTP model as we believe JLR Polska's business model differs from those of its peers.

Our peer valuation yields an equity value of PLN341m, implying a value per share of PLN8.2. However, we believe investors may require a significant discount against the peer valuation of this segment due JLR Polska's high dependence on a single car manufacturer and its relatively small scale of operations.

Fig 13 Peer valuation

	Ticker	Country	Price	Market Cap (US$m)	Rec	PER (x) 2014F	PER (x) 2015F	PER (x) 2016F	EV/EBITDA (x) 2014F	EV/EBITDA (x) 2015F	EV/EBITDA (x) 2016F
Developed markets											
Inchcape	INCH LN	UK	GBp715.5	5,153.3	NR	16.9	15.8	14.5	9.7	9.2	8.3
Lookers	LOOK LN	UK	GBp128.75	906.1	NR	11.9	10.9	10.4	7.4	6.8	6.3
Group 1 Automotive	GPI US	US	US$91.28	1,899.5	NR	15.0	12.4	11.2	n/a	n/a	n/a
Sonic Automotive	SAH US	US	US$27.64	1,233.6	NR	12.7	12.5	10.9	6.8	6.8	6.2
Rush Enter	RUSHA US	US	US$32.48	1,060.7	NR	14.6	12.9	11.0	10.2	8.5	7.4
Autonation	AN US	US	US$60.88	7,026.0	NR	18.1	15.6	14.1	10.0	9.6	8.8
Lithia Motors	LAD US	US	US$88.22	2,413.5	NR	19.4	15.3	13.6	n/a	n/a	n/a
Asbury Auto	ABG US	US	US$77.54	2,120.1	NR	18.6	15.6	14.0	10.1	9.2	n/a
Penske	PAG US	US	US$50.43	4,496.3	NR	15.2	13.4	12.1	n/a	n/a	n/a
Carmax	KMX US	US	US$67.87	13,188.7	NR	28.9	25.3	22.5	13.8	21.1	21.0
Median						**16.0**	**14.3**	**12.9**	**10.0**	**9.2**	**7.9**
Developing markets											
Dogus Otomotiv	DOAS TI	TR	TRY12.05	1,075.8	NR	12.9	11.0	10.7	11.7	10.0	9.3
Indomobil	IMAS IJ	ID	IDR4,000	836.1	NR	210.0	26.0	16.5	33.5	21.9	17.0
Indus Motor	INDU PA	PK	PKR855	821.0	NR	26.0	12.2	12.5	n/a	n/a	n/a
China Harmony	3836 HK	CN	HKD5.55	980.2	NR	10.7	8.2	6.3	n/a	n/a	n/a
Median						**19.5**	**11.6**	**11.6**	**22.6**	**16.0**	**13.2**
Average median						**17.7**	**13.0**	**12.2**	**16.3**	**12.6**	**10.5**
Weight (%)							25	25		25	25
M Automotive EBITDA										31.7	37.5
M Automotive NI							22.1	25.7			
Net debt (3Q14)										(14)	(14)
Equity value (PLNm)							287	315		383	381
Avg equity value (PLNm)							341				
Per share value (PLN)							**8.2**				

Prices as of 26 March 2014

Source: Bloomberg, ING estimates

We note that our valuation implies a 2015F PER of 11.3x and 2016F PER of 9.7x for Marvipol's Automotive segment, well below the global median of car dealers (13x and 12x, respectively). We believe this discount is justified by JLR Polska's concentration of suppliers (JLR is almost the exclusive supplier) and that, therefore, the company's performance is highly dependent on the success of JLR's offer.

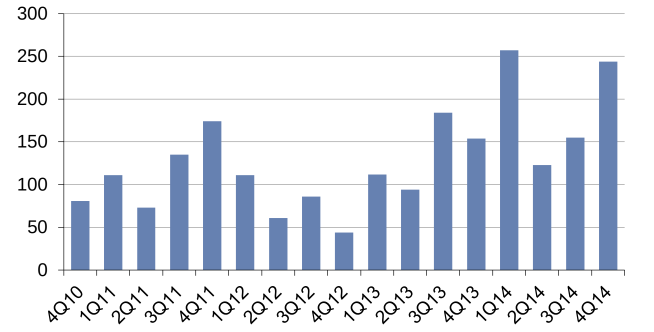
Company background

Marvipol operates in two primary activity segments – housing developments and luxury car imports and dealership – as well as two secondary segments – car washes and office space rental. The company develops housing projects in Warsaw. Marvipol's 100%-controlled subsidiary M Automotive is the sole importer of Jaguar, Land Rover and Range Rover cars to Poland and runs authorised dealers and repairers for Jaguar, Land Rover, Range Rover and Aston Martin. The current macro and industry backdrop supports Marvipol's prime business, with record-low interest rates, rising disposable income, affordable fuel prices and the arrival of several brand new car models from the JLR family this year and the next.

Real estate business

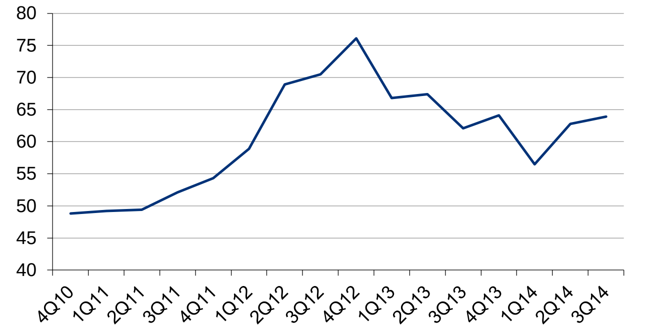
Marvipol develops upscale housing projects in the districts of Warsaw located to the left of the Vistula river. The company sells both popular and upscale flats, mostly in the Mokotow, Zoliborz, Ursynow, Wlochy and Bielany districts of the city. In 2014, Marvipol sold 776 flats and delivered 913. Sales were driven largely by three projects: Central Park Ursynow, Art Eco and Apartamenty Mokotow Park. Barring flat purchase cancellations, we estimate Marvipol had 521 of both completed and under construction unsold flats at end-2014.

Fig 14 Flats sales (units)



Source: Company data

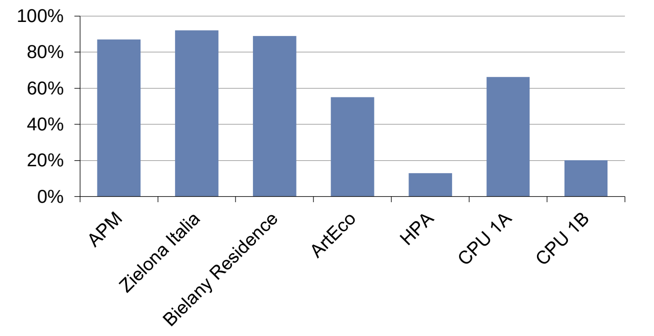
Fig 15 Average size of sold unit (sqm)



Source: Company data

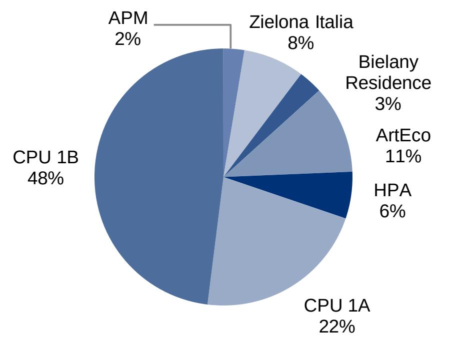
Marvipol's housing projects enjoy a decent sell-out ratio except for Art Eco and the luxury housing project Hill Park Apartments.

Fig 16 Project sell-out ratios, 3Q14



Source: Company data

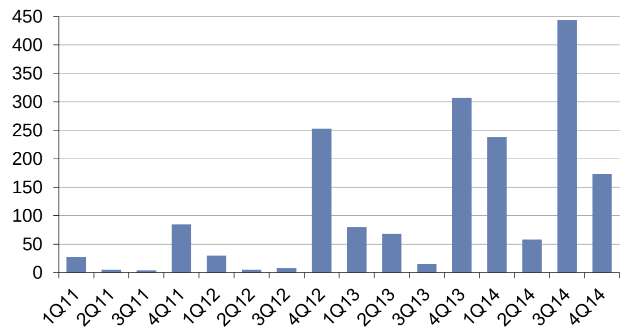
Fig 17 Flats for sale, 731 in total, 4Q14



Source: Company data

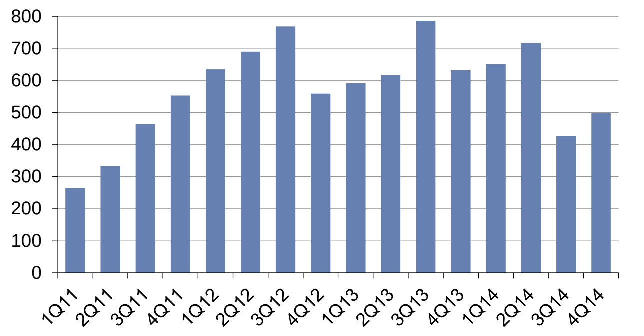
At end-4Q14, Marvipol had an estimated 498 flats sold but not delivered, of which an estimated 404 flats (81% of the total) are located at the CPU project, including an estimated 313 flats in phase 1 and 91 flats in phase 2.

Fig 18 Units delivered to buyers



Source: Company data

Fig 19 Units sold yet to be delivered



Source: Company data

Marvipol's housing projects

Central Park Ursynow

Marvipol's cost of land per PUM, estimated at PLN1,022 per sqm, secures attractive margins on CPU project

CPU is Marvipol's largest project under development. Situated in the Wyczolki subdivision in the north-western part of the Ursynow district and bordering the Sluzewiec subdivision of the Mokotow district, the project sits on a sizeable land plot of 11.1ha. Marvipol acquired the land through the acquisition of a bankrupt company, PZ BUD. The land plot was valued through a contribution in kind transaction to Verbis Gamma at PLN112.8m in September 2013. In October 2013, Marvipol Property acquired the land from Verbis Gamma for PLN141m, or PLN1,022 per sqm of planned PUM of the CPU project.

In an attempt to revitalise the post-industrial neighbourhood, Marvipol will build and hand over road infrastructure…

Marvipol cooperates closely with the Ursynow district when working on the CPU project as it requires revitalisation of the post-industrial area of the district. For the CPU project, Marvipol will build commonly accessible road infrastructure for a total estimated cost of PLN10.5m in addition to the value of agreements with general contracts. The company will hand over the infrastructure to the Ursynow district authorities upon completion, free of charge. The project requires investment in on-the-spot facilities to attract buyers for the follow-up phases, such as public transportation, shopping facilities, pre-school educational facilities and greenery.

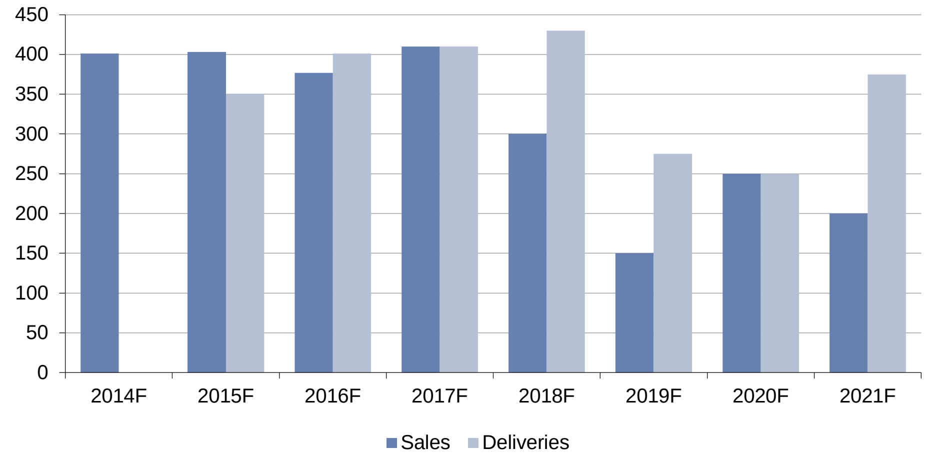
…as the substantial land acreage allows for development of 23 buildings with almost 2,500 flats

The sizeable acreage of the land plot allows for the development of 23 buildings with almost 2,500 housing flats with an estimated average size of 59sqm per unit and total PUM of 138,000sqm. For illustrative purposes, Marina Mokotow, Dom Development's landmark project had 139,000 of PUM on a land plot of 28.4ha. The project is expected to be developed in six stages over seven years, with an estimated value of PLN800m. The company had received a construction permit for five phases as of 9 March 2015, which include a total of 132,000 of PUM, and has filed for a construction permit for the last phase of the project. The CPU project targets young, aspiring singles and couples looking for their first flat. Modern architecture, buildings consisting largely of sought after two- and three-room flats, quality finishing and an attractive price resulted in garnering wide interest from apartment buyers during the first phase.

Two phases under development and selling very well

In 1Q14, Marvipol started developing phase 1A, which comprises 2 buildings with 471 flats and a total housing size (PUM) of 25,700sqm. Phase 1A is funded with a bank loan of PLN30m as well as client prepayments. The project is popular among flat buyers, with the phase 1 sell-out ratio at 66% in 4Q14 as Marvipol sold 313 flats from phase 1A in 2014. Construction work is on schedule and is planned for completion in 4Q15. A follow-up phase 1B of the project, started in October 2014, includes 3 buildings with 440 flats and 22,500sqm of PUM. Marvipol funded this phase with cash and sold 91 flats in 2014. Development is expected to be completed by June 2016. Warbud is the general contractor for both phases. So far the project is selling well as the flats are moderately priced and prices per sqm fall within the limits of the government-sponsored MdM mortgage subsidies programme. The limit for Warsaw was set at PLN6,583 per sqm for 1Q15, unchanged versus 4Q14 and up from PLN6,127 per sqm in 3Q14.

Fig 20 CPU flats sales and deliveries



Source: Company data, ING estimates

Its accessibility is average – through a sole one-lane Klobucka street. Although the distance from the city centre is about 9km, it takes about half an hour to get to the city centre by car from the location in rush hour. Further, CPU is located 800m from the Warszawa Kacie railway station, which is only 10 minutes' walk; however, the station does not serve suburban SKM trains – it serves regional Koleje Mazowieckie trains, which run far less frequently, about five times during rush hour. We also note that there are several new and under construction housing developments on the connecting Obrzezna street, which create competition in the location and will increase commuting traffic in the future.

Art Eco

The Art Eco project is located in the southern part of the Zoliborz district of Warsaw, on Jasnodworska street. Commuting to the city centre 5km away takes about 20 minutes by car or bus. Marvipol signed Eiffage as the general contractor and received a construction permit in April 2012. Construction was completed and the company received the usage permit in July 2014. Marvipol delivered 129 flats to buyers in 3Q14, with a gross profit margin of 4.9%. Marvipol's sell-out ratio for the project was only 55% at end-3Q14.

Osiedle Zielona Italia

Osiedle Zielona Italia is located on Obywatelska street in the Wlochy district of Warsaw on a 6ha land plot. The project is located 10km from the city centre and it takes 20 minutes to get there by car and 40 minutes by bus. There is also a railway connecting it to the city centre.

The project was started in January 2011 and completed in May 2014, with the usage permit issued in July 2014. A kindergarten, football and basketball pitches, tennis court, outdoor fitness, fountain, clock tower and greenery areas are all located within the project area. The project's sell-out ratio was 92% at end-3Q14.

Apartamenty Park Mokotow

The Apartamenty Park Mokotow project is the second luxury project in Marvipol's current offering, next to Hill Park Apartments. Located on Bernardynska street in the Mokotow district on the land slot adjacent to Czerniakowskie Lake, it is 7km from the city centre, 20 minutes by car and 30 minutes by bus. The project offered 416 luxury flats and apartments in three buildings for discerning customers. Attractions of the project include a park, jogging paths, a fitness club, proximity to international schools and the Sinnet recreation and sport complex. Marvipol received a construction permit in August 2011 and completed development and received usage permits for the last two buildings in October 2013.

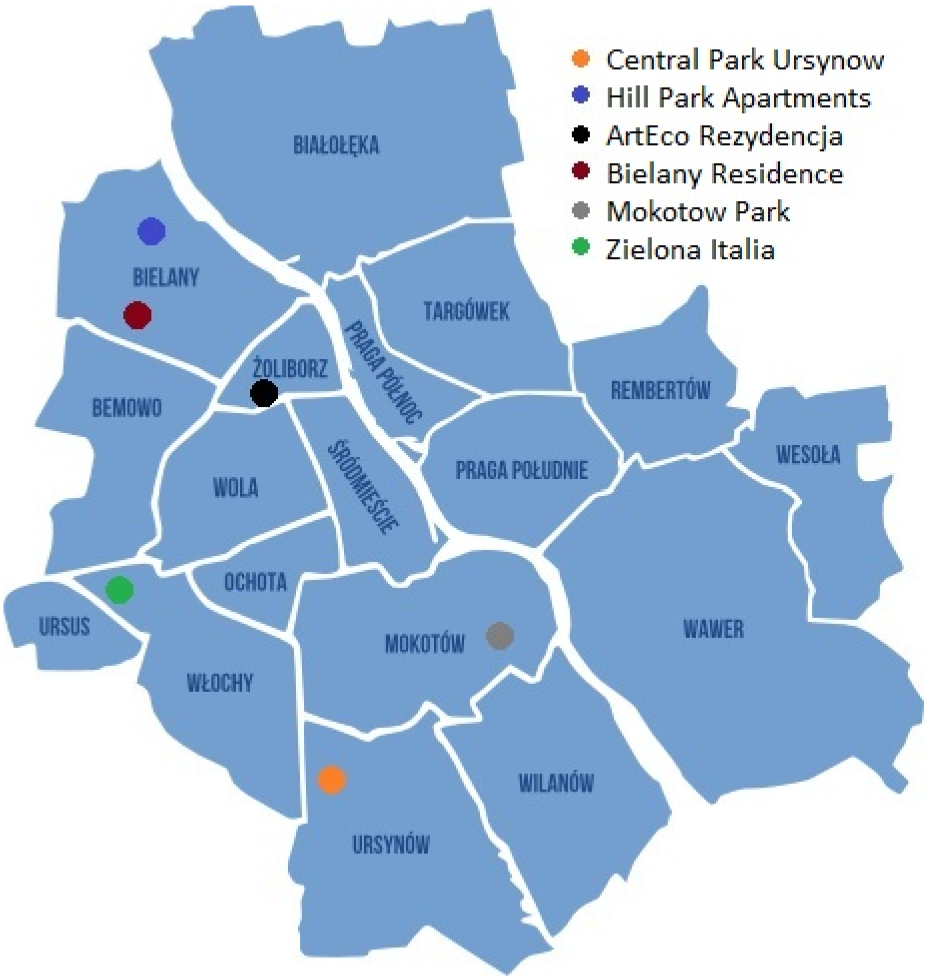
Bielany Residence

Bielany Residence is located on Sokratesa street in the Bielany district, close to the Mlociny subway station. It is 10km from the city centre and is about 20 minutes by car, 30 minutes by subway train and 40 minutes by bus or tram. The project targets young families and active inhabitants, with the possibility of turn-key finishing and proximity to greenery areas such as Las Bielanski, Las Lindego and Park Chomicza. Marvipol received the construction permit in August 2011 and completed the development, receiving the usage permit in December 2013.

Hill Park Apartments

Marvipol's most luxurious development project is located on Pasymska street in the Bielany district. It is 15km from the city centre and 20 minutes by car. This cosy luxury project with only 52 flats in 13 buildings sits on a 2ha land slot. The project offers large apartments, ranging from 150sqm to 230sqm, with gardens at the ground zeros and terraces on the top floors.

Fig 21 Marvipol housing projects



Source: Company data

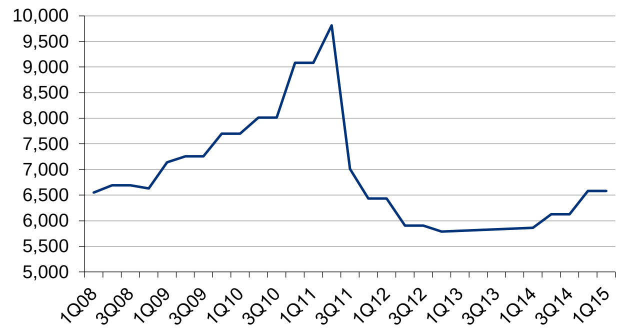
As at end-November 2014, Marvipol had 850 flats on offer (including 300 finished flats – estimated at 263 at end-4Q14 – and 550 flats under construction), of which the CPU project had 550 flats. For 2015, management targets flat sales at 600-700 and flat deliveries also at 600-700. In 2016, Marvipol plans to sell 700 flats, with deliveries at similar levels YoY at 600-700 flats.

Warsaw housing market

In 2014, a combination of stable prices, a rich offering of flats within a broad price range, the start of the Mdm mortgage subsidies programme in 1Q15 and the expected tightening of equity contributions on the back of Recommendation S for banks from 1Q15 drove flat sales in Warsaw into record territories. Importantly, market fundamentals are healthy, with the slow increase in selling prices driving a modest increase in supply, with relatively stable demand, underpinned by low interest rates and the government subsidies programme. According to Red Net Property, housing developers sold 15,660 flats in 2014 in Warsaw, up from 13,920 units in 2013. According to REAS, the stock of unsold flats (both under construction and completed) grew to 17,850 from c.15,000 at end-2013; of this, the stock of completed unsold flats was c.3,500 units, ie, c.20% of total flats on offer. Subsidised mortgage loans accounted for 11% of flat purchases in Warsaw in 2014, but the impact of the subsidies programme is more pronounced. Developers sell flats at the average price within MdM limits to buyers who do not receive mortgage subsidies, including seekers of attractive rental yields.

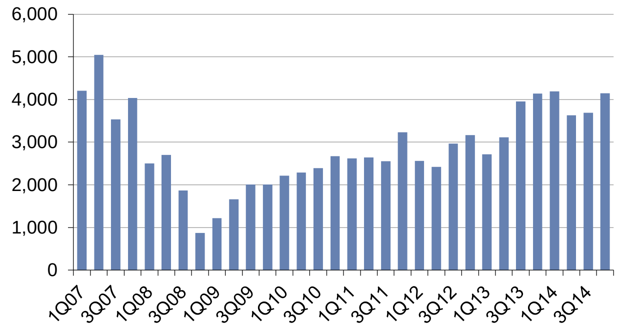
The stock-to-quarterly-sales ratio fell to 4.2x for Warsaw at end-4Q14 from 4.3x at end-4Q13. According to research by the National Bank of Poland (NBP), prices of flats in the primary market for Warsaw declined by 1.8% QoQ and 1.5% YoY to PLN7,315 per sqm. Supply is increasing in the market, with leading developers launching a significant number of projects over the course of 2015. Dom Development plans to launch 13 new housing projects in 2015 with 2,500 flats in Warsaw, of which 1,500 will be located on the left bank of the Vistula river including three locations in Mokotow, two locations in Bemowo and Wola, and the next phases of Zoliborz Artystyczny. Polnord intends to kick off 20 housing projects in 2015, located mostly in Warsaw and Tricity.

Fig 22 Price limits for mortgage subsidies, Warsaw (PLN per sqm)



Source: BGK, ING

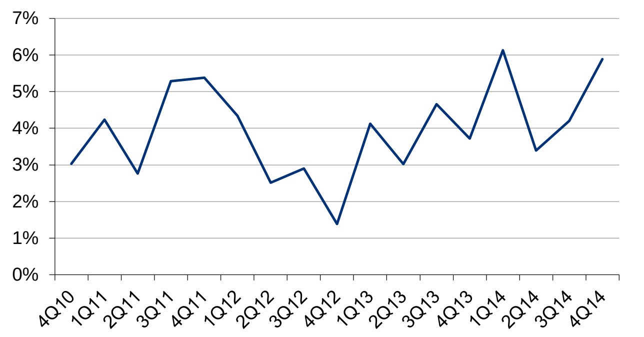
Fig 23 Warsaw primary market flat sales



Source: Red Net

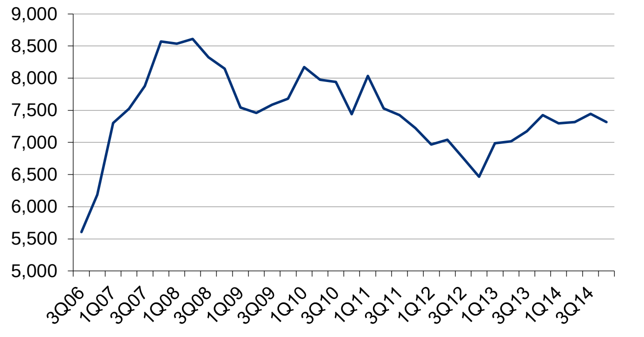
Marvipol doubled its market share between 4Q10 and 4Q14 to 6%, with the share on an upward trend since 4Q12. We believe the market share gains are sustainable as the CPU project continues to sell well and the company holds sufficient cash to increase its land bank.

Fig 24 Marvipol market share



Source: Company data, Red Net, ING estimates

Fig 25 Warsaw housing prices, primary market (PLN per sqm)



Source: NBP

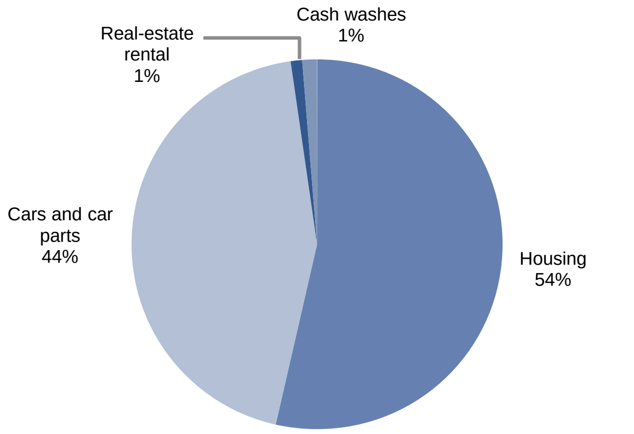
Commercial real estate projects

Marvipol received refinancing for the Prosta Tower office building in January 2015, with a five-year €13.6m loan facility from mBank. Prosta Tower spans 6,080sqm of class A office space, of which 96% is occupied. The refinancing transaction valued the building at an estimated €19.4m. Completed at a higher LTV ratio of 70%, the refinancing released PLN25m of cash from the project. Management intends to deploy the cash to purchase land for either housing development projects or logistics property projects. If the Prosta Tower building is disposed of, Marvipol might consider recycling A part of the potential proceeds into logistics property development. Marvipol is considering a joint investment in the project with one of Poland's leading logistics developers. Marvipol targets a majority stake in the project and is considering the purchase of a plot of land suitable for logistics property development.

At end-2013, the total modern warehouse stock in Poland reached 7,942,000sqm, a c.5% increase compared with end-2012. For many years, the highest concentration of warehouse space has been in the Warsaw region (c.35% market share); however, infrastructure improvements have made the regional cities far more accessible, leading to increasing industrial space development. Very strong leasing activity in the regions will result in more space being added to the market, increasing the share of the regional stock in the country's total.

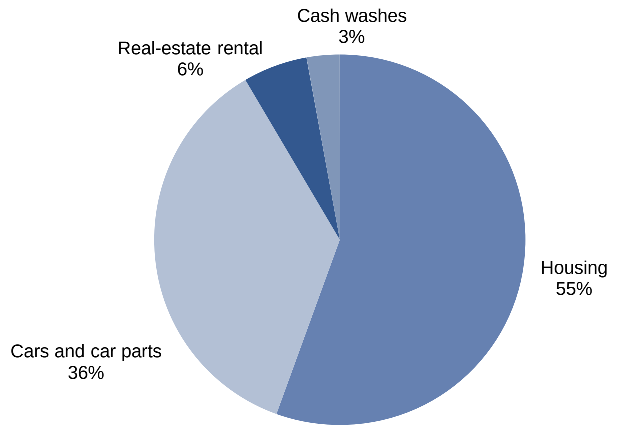
Despite strong take-up, the vacancy rate at end-2013 was similar to that of December 2012. The vacancy rate is now 10.9% compared with 10.7% at end-2012. There is c.870,000sqm of vacant warehouse space available on the Polish market, with the largest vacancies in Warsaw (14.8%, or 415,000sqm) and Central Poland (12.5%, or 129,000sqm).

Fig 26 Marvipol revenue breakdown, 2014



Source: ING estimates

Fig 27 Marvipol EBIT breakdown, 2014



Source: ING estimates

Automotive segment

JLR Polska is general importer and distributor of JLR vehicles in Poland

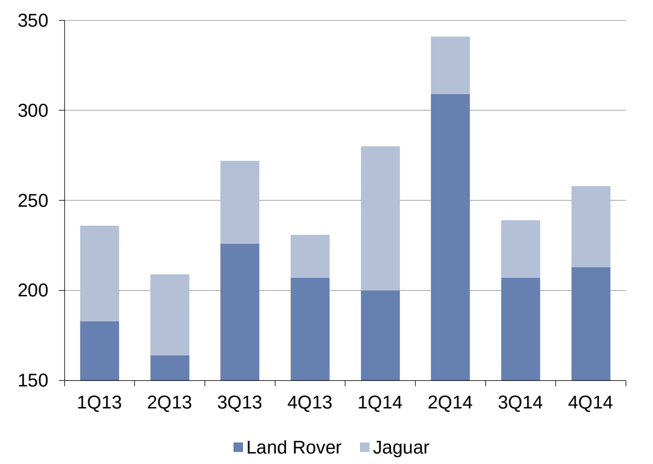
Marvipol's Automotive segment is composed of eight entities. The group's main company is JLR Polska, a general importer and distributor of the Jaguar, Land Rover and Range Rover brands. The group also offers repair services for JLR vehicles and distributes spare parts and accessories for JLR cars.

Contract for distribution of JLR vehicles valid until June 2016

JLR Polska operates as general importer for JLR vehicles on the basis of a contract with Tata Motors that is valid until June 2016. The company plans to renew the contract in 1H15, and this would be valid until 2021. Management does not consider the potential risk of Tata Motors not signing the contract as material.

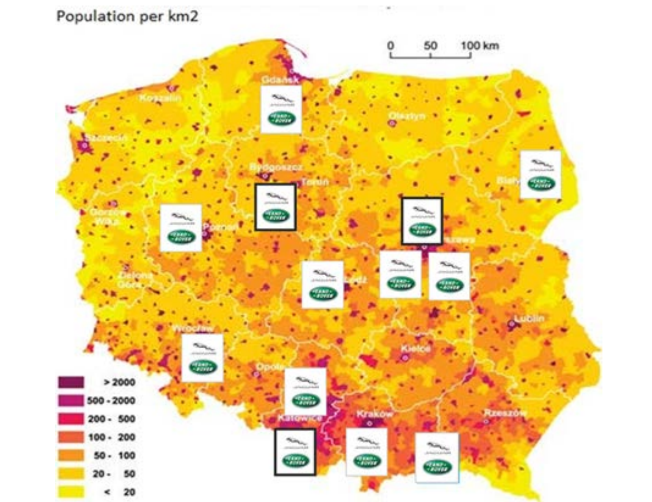
Currently, JLR Polska offers its products through a network of 10 authorised dealers, of which 4 are owned by the group (in Warsaw, Gdansk and Lodz), while 6 are owned by the group's partners. The Automotive segment also includes three other subsidiaries – Caterham Polska, AML Polska and Lotus Polska. These companies operate as Poland's exclusive distributors of the Aston Martin, Caterham and Lotus brands. Due to the relatively high price of a single vehicle, the group reports insignificant unit sales numbers from these three subsidiaries.

Fig 28 JLR Polska quarterly unit sales



Source: Company data

Fig 29 JLR Polska's operating and planned* selling points

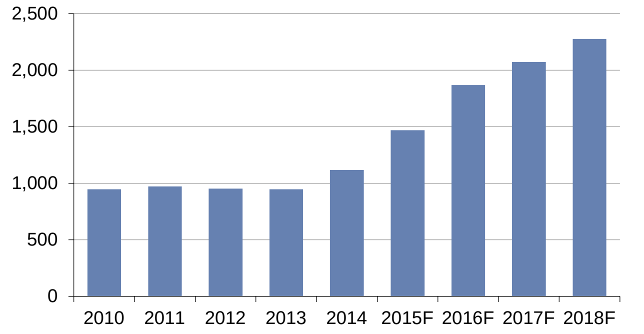


*Planned selling indicated with black label, to be opened by end of 2016
Source: Company data

Unit sales growing 20% YoY, driven by Land Rover cars

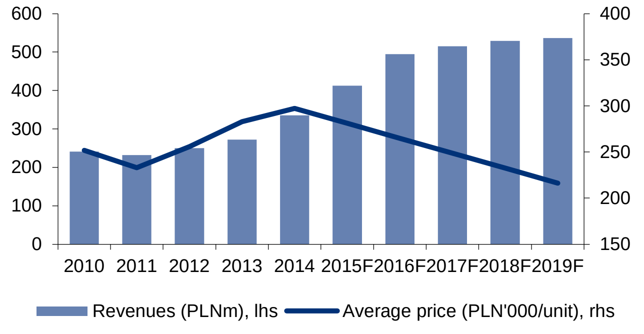
In 2014, the general importer of JLR Polska sold 1,118 cars to its retail partners, up 18% YoY, including 929 Land Rovers (up 19% YoY) and 189 Jaguars (12.5% YoY). Land Rover vehicles sales improved primarily due to the increasing popularity of the Land Rover and Range Rover brands in Poland and the growing demand for SUV vehicles (represented by the RR Sport model). The average unit price of the JLR vehicle oscillates around c.PLN300,000, and in 2014 was gradually trending downward, affected by growing sales of the cheaper RR Evoque model. We expect this trend to continue on the back of the increasing share of smaller cars in the JLR product portfolio (ie, the new Jaguar XE). With JLR's growing focus on smaller vehicles (associated with the production of the new smaller engines) and stricter CO2 emissions limits starting from 2021, we expect average unit prices to continue trending downward to c.PLN200,000 per unit in 2020F.

Fig 30 JLR Polska unit sales



Source: Company data, ING estimates

Fig 31 Revenues and average prices



Source: Company data, ING estimates

Profitability driven by importer rate and dealers' retail rate

The primary operating costs of Marvipol's Automotive segment include: (1) value of cars sold (c.92% in 1H14); (2) third-party services (including marketing costs, c.4.3%); (3) employee costs (1.4%); and (4) D&A and materials (c.1%). As a result, the company's gross margin depends primarily on: (1) the cost of vehicles purchased from Jaguar Land Rover Limited as a general importer – a rate subject to discounts based on generated volumes; and (2) dealers' retail rate – dealers' margins are dependent on the value of the discount granted to final customers.

Developing product portfolio should push profitability margins downwards

According to management, Marvipol's Automotive segment increased the EBIT margin in 2014 to 8.2% (versus 7.2% in 2013) due to its policy of granting little or no discounts to final customers (the price discount is a small encouragement for a client of premium brand). As JLR's product portfolio is to be developing in more competitive segments, we believe JLR Polska will be forced to offer higher discounts to its clients. This is likely to result in EBIT margin deterioration over the next few years. Given that the average net income margin generated by automotive dealers is c.1-2%, we see JLR Polska's 2020F NI margin at 3.4% versus 7.4% in 2014F. We believe JLR Polska will be able to sustain net profitability above average for car dealers due to the company's development in the car repair segment and sale of used vehicles.

Strategy and capex

The primary goals of Marvipol's management for the Automotive segment include:

- Over 1,860 vehicles sold in 2016, driven by JLR's new models (Land Rover Discovery Sport, Jaguar XE, and Jaguar XF). JLR plans to launch two new models in new market segments each year.
- Development of the dealers' network to 14 selling points in 2015 (versus 10 units currently), including one new own unit in Warsaw (c.PLN8-10m capex). Other selling points are to be operated by JLR Polska's local partners.
- Construction of a service station in Warsaw with a developed car-body repair station and car painting unit (c.PLN12m capex). The facility is to be fully operational in 2H15.
- Increase in selling space at Marvipol's distribution points – each dealer's selling space is to allow for the presentation of at least 14 JLR models. This results from growing the product portfolio of JLR brands.
- Launching the distribution of used JLR vehicles (the *Jaguar Land Rover Approved* programme) – management believes that offering used models of Jaguar and Land Rover through its network of dealers will allow the company to report annual sales of c.500-600 units.
- Spin-off of Automotive segment from Marvipol group and IPO in 2H15, under M Automotive Holding brand.

Moreover, management guided that JLR Polska's 2014-18F capex would reach PLN40m, the majority of which would be spent on development of the dealer network and service station. Capex is to be financed fully with company cash flow.

Market overview

Premium car dealers in Poland

As of 2013, there were 937 car dealers in Poland, down 14% over the past 10 years. According to the Samar and DCG Dealer Consulting report, in 2013 the largest 50 dealers controlled 41.5% of the market, up 0.2ppt YoY. This group of dealers reported the strongest growth in their market share over 2009-11 due to a rapid sales decrease, and pushed players out of the market. In 2013, the top 50 dealers reported 6.94% sales growth, while the market average was 6.4%.

We present key trends of the sector that might impact market development in Poland over the next few years:

Premium cars sales growth – we believe sales of new premium cars will continue to grow in Poland, following global trends. We believe consumers of premium segment vehicles are less price-sensitive and pay more attention to after-sales service guarantees and brand popularity. The share of premium brands in total passenger car registrations in Poland increased from 5.5% in 2007 to 9.2% in 1Q-3Q14, but is still below the global average of 10%.

Market consolidation – the car dealer market in Poland has been gradually consolidating as larger entities are able to negotiate better terms with manufacturers. Further, larger dealers are less vulnerable to a temporary decrease in demand (ie, driven by a weakening economy). Over 2008-13, market share of the top 50 dealers in Poland increased by 10ppt to 41.5%. Further, the average number of selling points owned by a single dealer increased from 3.6 in 2008 to 4.6 in 2013.

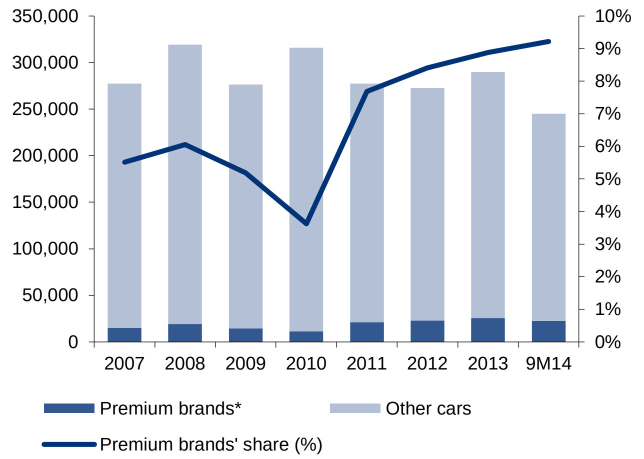
Significant popularity of abroad registrations – since the majority of European countries did not adopt excise tax on passenger cars, registering new cars in these markets became quite popular among Polish drivers. According to JLR Polska's management, c.10% of JLR vehicles used in Poland are registered abroad (it estimates this ratio at c.30% for BMWs). Although registering a vehicle through a foreign SPV allows the owner to save up to 20% of initial cost, this practice is currently being investigated by the Polish customs office. However, according to JLR Polska's management, changes in the Polish tax system (on tax evasion through operating in tax heavens) may impact the practice of excise tax evasion.

Rising competition of internet dealers – internet car dealers are responsible for 15% of total car sales in France. In Germany, internet brokers are responsible for 4% of passenger cars sales. Online purchases are gaining popularity in Western Europe as internet dealers are able to negotiate significant discounts with producers and traditional dealers. In Poland, this segment is still not developed, but assuming continuing development of the e-commerce market, we believe internet car dealers might increase market share in the sector.

Improving share of multi-brand dealers – following consolidation in the Automotive sector, the share of multi-brand dealers has been rising in the past few years. We believe this trend will continue as offering vehicles of various brands allows dealers to diversify the risk of a single supplier. However, JLR Polska's management claims that premium car producers always require single-brand dealership and they do not expect this situation to change in the future.

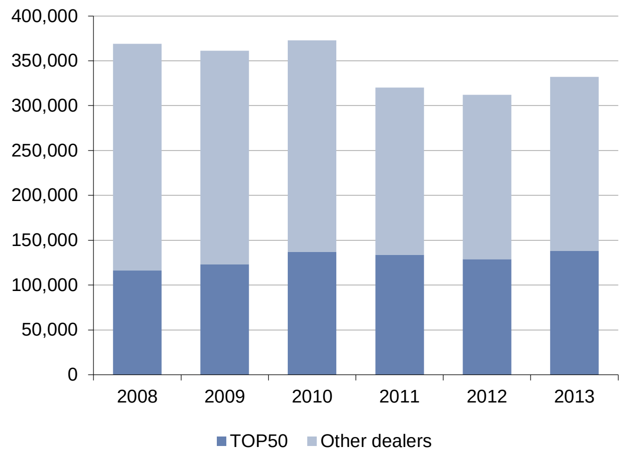
Increasing availability of used cars in dealers' selling points – as imports of used vehicles from Western Europe to Poland have been growing over the past few years, this segment of the market also became attractive to car dealers. In the German market, trading with used vehicles accounts for c.24% of car dealers' profits. JLR Polska management claims that it plans assume that the company will be selling c.4-5 used vehicles for each 10 new cars sold.

Fig 32 Poland: registrations of premium cars (units)



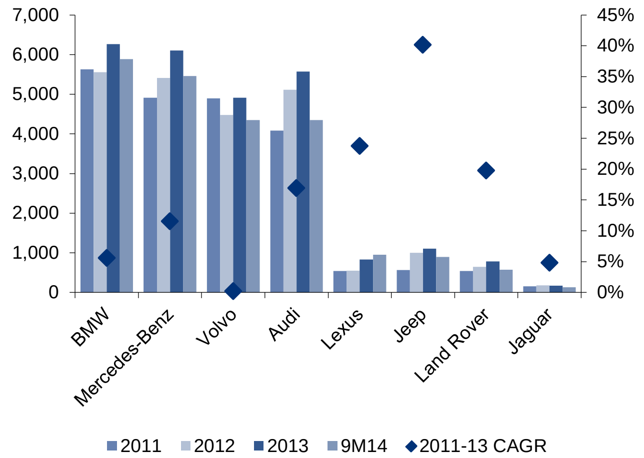
*Audi, BMW, Mercedes-Benz, Jaguar, Land Rover, Jeep, Volvo, Lexus
Source: Samar, DCG Dealer Consulting

Fig 33 Poland: Sales of top 50 car dealers in Poland (units)



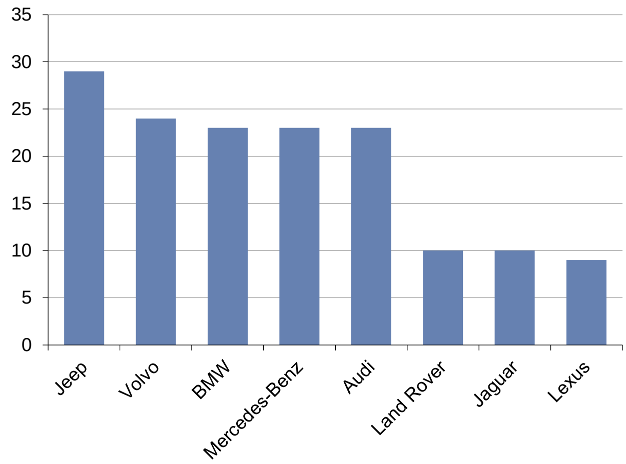
Source: Samar, DCG Dealer Consulting

Fig 34 Poland: Registrations of selected new premium brand cars



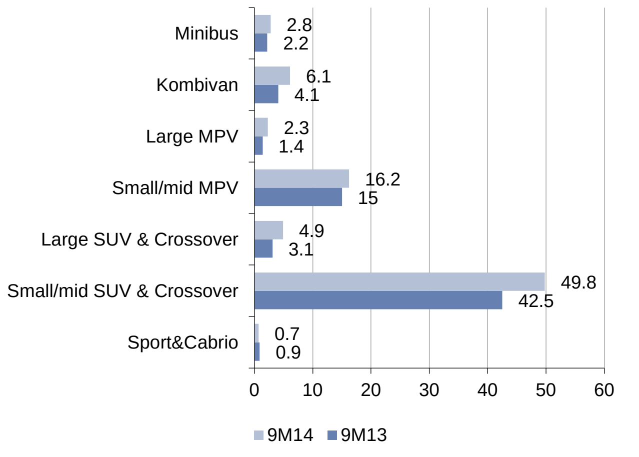
Source: Carmarket.pl, Samar, PZPM, company data

Fig 35 Poland: Number of selling points



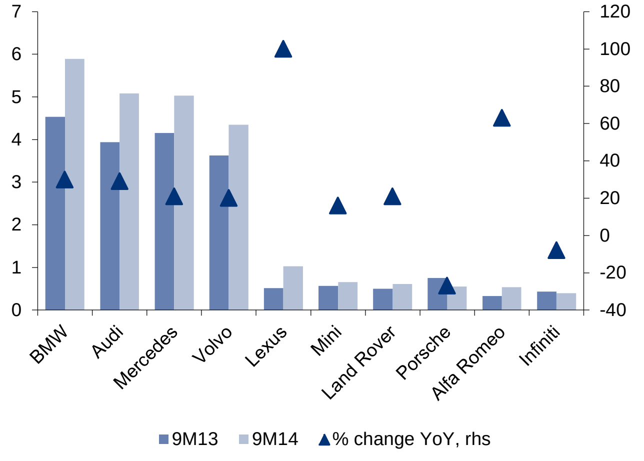
Source: Samar

Fig 36 Poland: 9M14 passenger cars sales by segment (000 units)



Source: PZPM

Fig 37 Poland: Sales of selected premium brand cars (000 units) in 9M14



Source: PZPM

JRL brand description

Jaguar Land Rover is a British passenger car manufacturer owned by Indian automotive company Tata Motors. It separately acquired Jaguar and Land Rover in 2008 from Ford for c.US$2.8bn and merged them into a single entity. Currently, the company owns six main facilities for R&D, manufacturing and vehicle assembly, of which five are located in the UK and one in India. In October 2014, the company expanded its production to China through a JV with Chery Automobile by opening its first manufacturing facility in the country. The JV is to focus on production of the RR Evoque for the Chinese market.

In FY14 (ending March 2014), the group sold 434,000 cars globally, up 16% YoY, including 80,000 units of Jaguar and 354,000 Land Rovers. FY14 sales were positively impacted primarily by 48% higher sales of Range Rover and 18% higher sales of Range Rover Sport (new model introduced in FY14).

Recently, the company presented two new models, for which production is to be launched in the upcoming months:

1) Land Rover Discovery Sport – a compact luxury SUV that is to compete with the Audi Q5, BMW X3 and Mercedes-Benz GLK. Sales of this model started in January 2015, with the first deliveries scheduled for March 2015.

2) Jaguar XE – new executive premium class sedan, which is to compete with the Audi A3, BMW 3 Series and Mercedes-Benz C-Class. It is to be available at the beginning of 2015.

3) Jaguar XF – JLR is to present the second generation of Jag saloon on 1 April 2015. The car is to compete with BMW 5-series, Mercedes Benz E-class and Audi A6. Production is to be launched in Autumn 2015. The New XF is to be equipped with JRS's new *Ingenium* 2.0 litre engines.

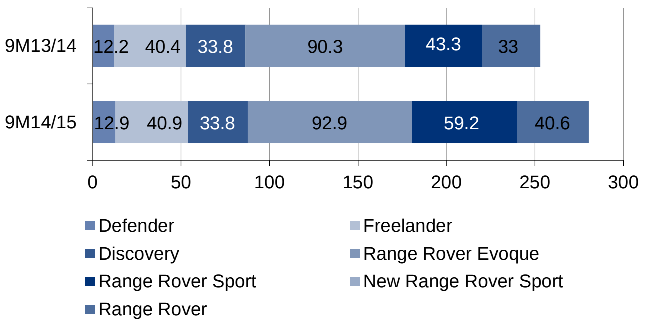
Moreover, JLR is to offer a new version of the Jaguar F-Type model – Project 7, scheduled for 2015. The company plans to construct 250 units of this model, each equipped with a 5.0 litre V8 575HP supercharged engine and modified body.

Currently, the engines for Land Rover and Jaguar are manufactured by external suppliers PSA and Ford. Over the past few years, JLR had limited access to new engines due to rapid growth in demand passenger vehicles, translating into higher orders for PSA and Ford products. This pushed JLR into constructing its own engine manufacturing plant in the UK. Once the facility is completed (expected in 1H15), JLR will offer a new family of

2.0 engines – *Ingenium* in diesel and petrol versions for Land Rover and Jaguar vehicles. The first engine version is to be available for the new Jaguar XE model. Both engines are to be available late 2015. The diesel version is a 4-cylinder, 150bhp engine which may replace the currently offered 2.2 litre diesel (manufactured by PSA), with the same power. The new engine is also more efficient – with average fuel consumption of 5.4 litre per 100km (urban cycle) compared with the 6.9 litre per 100km in the currently used 2.2 diesel. The new engine is to be more ecological as well – with CO2 emissions at 119g per km (versus 149g per km in the 2.2 litre engine).

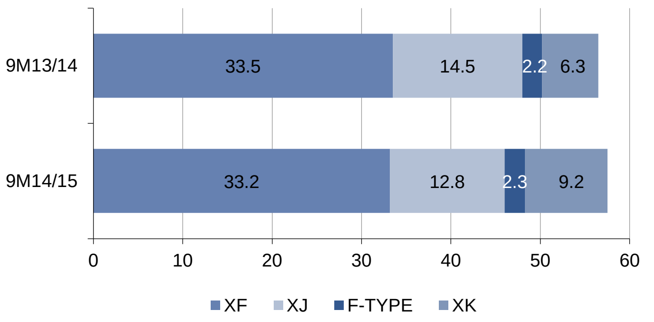
We believe the introduction of new engines may trigger sales growth of JLR vehicles in Poland as the excise tax rate for passenger cars in Poland is considerably lower for engines with up to 2.0 litre capacity (3.1% of vehicle value, versus 18.6% for larger engines).

Fig 38 Land Rover global sales (000 units)



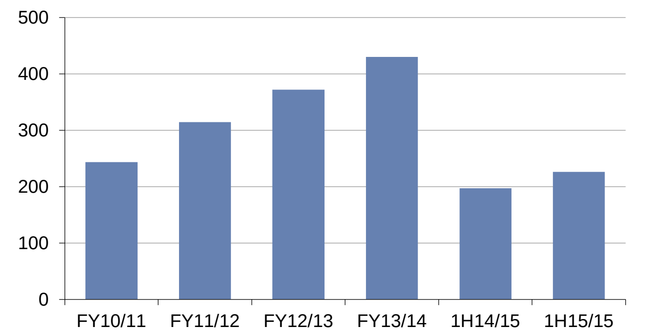
Source: Jaguar Land Rover

Fig 39 Jaguar global sales (000 units)



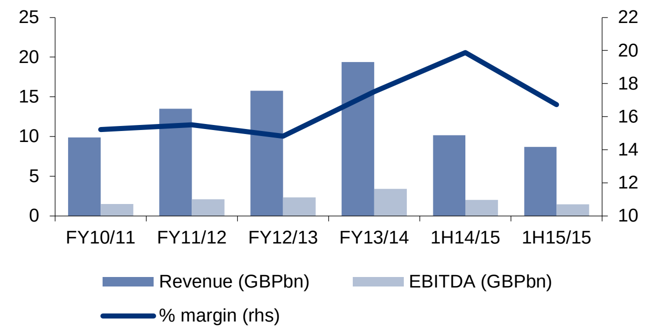
Source: Jaguar Land Rover

Fig 40 Unit sales (000 units)



Source: Jaguar Land Rover

Fig 41 JLR financial results



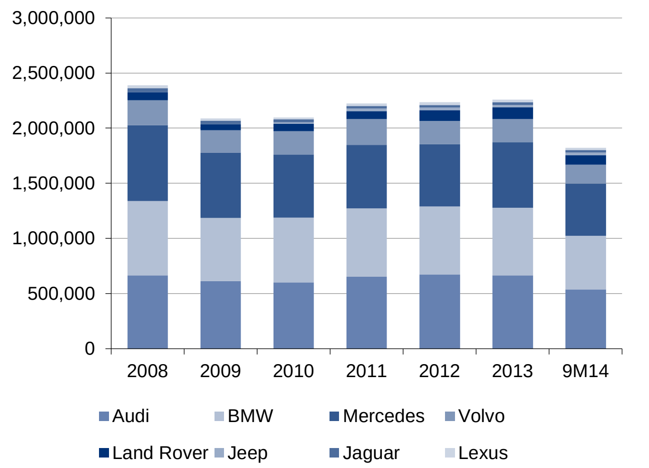
Source: Jaguar Land Rover

Global outlook – premium cars

According to Global Insight and BMW, one of primary growth drivers for passenger cars in the premium segment is the increasing number of millionaires in the global economy. Deloitte expects the number of millionaires in developed countries to grow at a CAGR of 5.7% until 2020F and at a CAGR of 10.8% in developing countries. Global Insight expects emerging markets to be the primary growth drivers for manufacturers of premium class vehicles. The agency expects the strongest growth in India (305% unit sales growth until 2020F), China (79%) and new EU economies (78%).

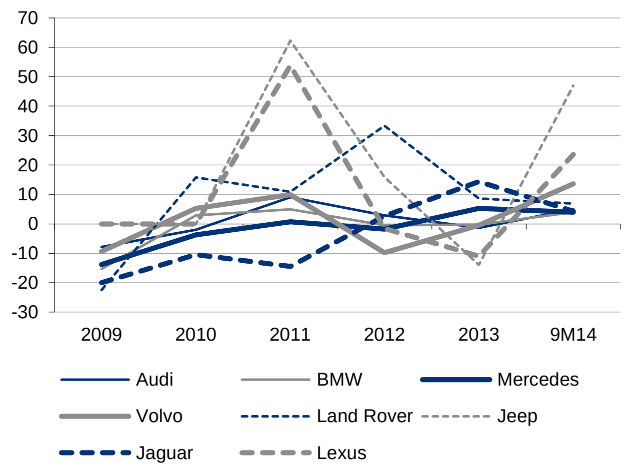
One of important barriers for the development of premium class cars in Europe is EU legislation on CO2 emissions by new passenger cars. The goal of the adopted legislation is to achieve average emission of the European car fleet at 130g per km in 2015 and 95g per km by 2021 (versus 158.7g per km in 2007). The maximum limit for CO2 emissions by a single car is to depend on vehicles mass. This implies that CO2 emitted by larger cars, with total weight exceeding the average, is to be compensated for by the lower emissions of small vehicles. Nevertheless, as in 2021, the average emission for total new fleet in the EU is to be cut to 95g per km; this may negatively impact the development of new models in the premium segment in which the usage of high-capacity and high-emission engines is widely popular.

Fig 42 EU: New registrations of selected premium vehicles



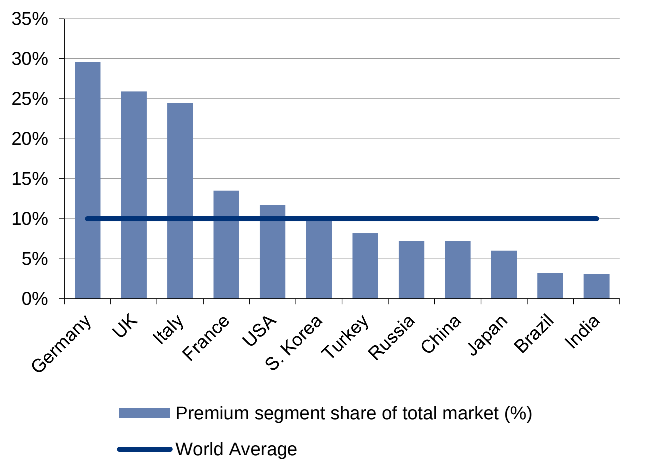
Source: ACEA

Fig 43 EU: YoY growth of new registrations (%)



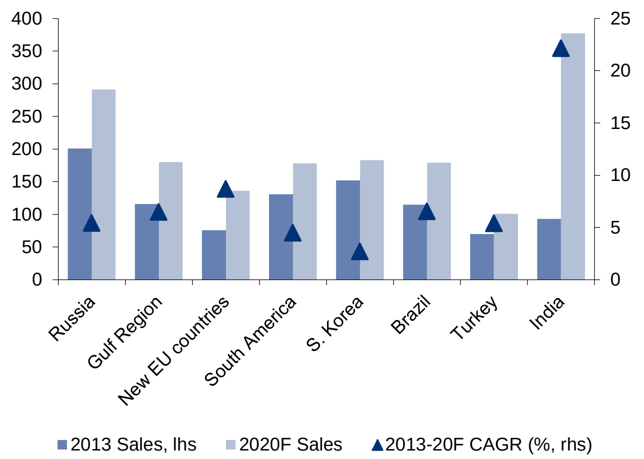
Source: ACEA

Fig 44 Share of premium segment in total passenger cars market (2013)



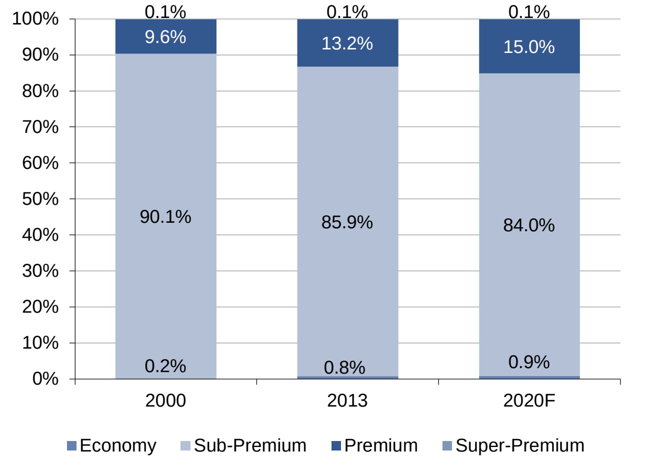
Source: BMW IR presentation

Fig 45 Forecast sales growth in emerging markets (000 units)



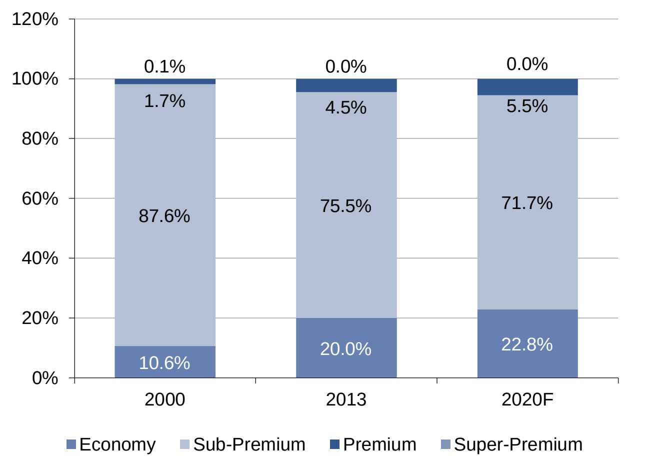
Source: BMW IR presentation

Fig 46 Sales forecast by segment – developed markets



Source: KPMG

Fig 47 Sales forecast by segment – emerging markets



Source: KPMG

Risk factors

Flat supply increasing sharply in Warsaw

Supply of flats is rising sharply in Warsaw, with leading developers launching a significant number of projects over the course of 2015. Dom Development plans to launch 13 new housing projects in 2015, with 2,500 flats in Warsaw. Polnord intends to kick off 20 housing projects in 2015, located mostly in Warsaw and Tricity. This increased supply is likely to lead to a squeeze of margins for competitive housing projects through both downward pressure on selling prices and upward pressure on contractor costs. We assume an unchanged average selling price for the follow-up phases of the CPU project at PLN6,800 per sqm and 2% annual inflation in general contractor expenses. Our earnings estimates for Marvipol's Housing segment might prove too optimistic should the margin squeeze turn out to be more than expected.

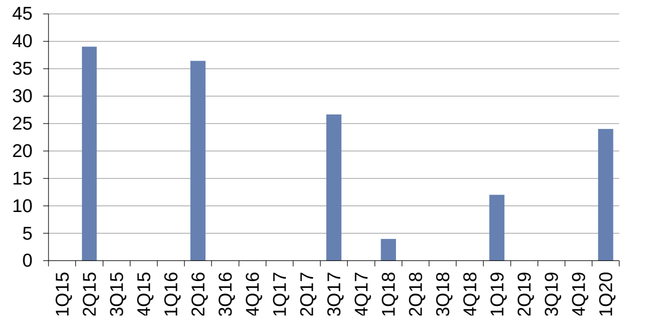
High leverage

Marvipol reduced its net debt (including leases) from a peak of PLN403m in 2012 to PLN254m at end-3Q14, ie, by a significant 37%, or 33% over the preceding 12 months. Still, gearing continues to be high, with net debt to trailing 12M EBITDA of 2.9x. The company's debt is fragmented and mostly short-term in nature.

Short-term nature of outstanding bonds

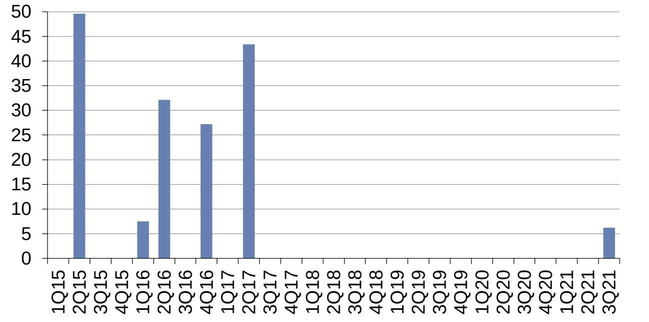
At end-2014, the company had 7 series of outstanding bonds with a total value of PLN155m. Coupons paid a 375-590bp spread of respective WIBOR rates with the average weighted spread of 520bp. Moreover, interests are paid monthly or quarterly. In January 2015, Marvipol repaid the earlier PLN12.8m of bonds series N, and the value of its total bonds outstanding fell to an estimated PLN142m, of which PLN42m was in secured bonds and PLN100 in unsecured bonds. Assets encumbered for secured bonds were valued at PLN48m. Management expects to see continued significant deleveraging of the company balance sheet over the course of 2015.

Fig 48 Bonds maturity (PLNm)



Source: Company data, ING estimates

Fig 49 Loans maturity (PLNm)



Source: Company data, ING estimates

Legal battle with Mostostal Warszawa

In 2010, Marvipol signed an agreement with Mostostal Warszawa (MW) as general contractor for the Zielona Italia project. In 2013, MW sued Zielona Italia SPV, which is controlled by Marvipol, for PLN46m in alleged remuneration and penalties related to contract execution and, in October 2013, increased the amount to PLN54m. Court dismissed the MW motion for an injunction and the case is still pending. Zielona Italia signed Eiffage as the second general contractor for the project in April 2013, Eiffage completed project development in May 2014 and the usage permit was issued in July 2014. Should Marvipol lose the case and have to pay remuneration, penalties and interest, our target price for the company would decline by PLN1.3 per share to PLN8.7.

Car sales volumes might suffer ahead of introduction of new models

New models of cars will be a solid driver of JLR car sales in 2015 and beyond, but a temporary slowdown is possible in the first months of 2015 before the new models are available for orders. The JLR model portfolio is concentrated compared with those of BMW, Audi or Mercedes, and car sales volumes might suffer ahead of the introduction of new models. We assume a 31% YoY increase in cars sales volumes for JLR Polska in 2015F.

Financial statements

4Q14 results

Marvipol sold 244 flats and delivered 173 flats in 4Q14. Sales were driven by CPU projects, with phase 1B selling 91 flats, the Art Eco project selling 56 flats, Apartamenty Mokotow Park 37, Bielany Residence 23 flats and CPU 1A 17 flats. Art Eco, Zielona Italia and Apartamenty Park Mokotow drove deliveries, with 72, 52 and 29 flats, respectively. According to company presentations, the realised gross margin on the Art Eco project was a substandard 8%, impacting quarterly results.

In 4Q14, Marvipol signed and settled a package sale of 47 completed flats located in three of its developments to Military Housing Agency: Art Eco, Bielany Residence and Apartamenty Mokotow, with a total value of PLN28.2m and a total size of 3,500sqm. Housing segment EBIT margin was only 2.8%, down from 11.6% in 3Q14. JLR sold 265 cars in 4Q14 versus 239 in 3Q14. However, the EBIT margin was weak at 2.5% versus 6.9% in 3Q14 largely due to post-sale semi-annual bonuses paid by JLR Polska to external dealers.

Marvipol also recognised the negative revaluation of Prosta Tower by PLN1.5m. TPS expenses were inflated by audit and advisory services related to the planned spin-off of the Automotive segment.

Fig 50 4Q14 results (PLNm)

	4Q13	1Q14	2Q14	3Q14	4Q14
Sales	222.3	187.1	140.0	258.2	162.9
EBITDA	12.4	29.0	16.6	27.9	6.3
EBIT	11.6	28.2	16.1	27.1	5.3
Pre-tax profit	7.2	23.2	11.8	21.9	2.1
Reported net profit	3.0	19.7	9.5	17.7	1.4

Source: Company data, ING estimates

Fig 51 Revenue breakdown (PLNm)

	2011	2012	2013	2014	2015F	2016F	2017F
Flat sales (units)	493	302	544	776	549	443	447
Flat deliveries (units)	121	296	470	919	587	467	422
Housing	82	94	211	399	271	180	166
Cars and car parts	227	244	268	333	438	522	546
Rental	0	7	6	7	8	8	8
Cash washes	10	9	10	10	10	10	10
Other services	0	0	0	0	0	0	0
Other operating income	57	24	12	13	13	13	13
Total	**377**	**378**	**506**	**761**	**741**	**733**	**743**

Source: Company data, ING estimates

Fig 52 EBIT breakdown (PLNm)

	2011	2012	2013	2014	2015F	2016F	2017F
Housing	50	9	26	43	17.2	10.1	9.6
Cars and car parts	8	14	20	28	30.4	35.5	34.0
Rental	0	0	-1	4	5	5	5
Cash washes	1	1	0	2	2	2	2
Total	**59**	**23**	**45**	**77**	**55**	**53**	**51**
Margins (%)							
Housing	60.3	9.5	12.2	10.7	6.3	5.6	5.8
Cars and car parts	3.6	5.6	7.3	8.3	8.0	7.6	7.0

Source: Company data, ING estimates

We forecast lower margins in the Housing segment as we assume the average selling price of flats in the CPU project will be converging into the mortgage subsidies limit. We assume a PLN6,550 per sqm average selling price for the CPU project and PLN8,500 for the Brazownicza project in Bielany. Inflation for total construction costs is assumed at 2% for the follow-up project.

Margins in the Automotive segment were steadily improving for JLR. The segment's EBIT margin grew from 3.6% in 2012 to 8.3% in 2014. We continue to be conservative, assuming gradual margin erosion on the back of an expected sales mix shift into premium compact models.

We assume substantial savings in the SG&A expenses of the Housing segment, which we estimate at PLN32m in 2014, increasing to PLN28m in 2015F, PLN26m in 2016F and PLN25m in 2017F. Management believes that it should be able to slash SG&A expenses to 10% of segment revenues over the long term.

Capitalised interest costs

In 2014, Marvipol paid total cash interest costs of PLN21.8m, down 36% YoY. It recognised PLN14.1m of interest on its income statement and capitalised the remaining PLN7.7m of what we believe were interest costs related to development projects. We estimate capitalised interest costs at PLN4.7m in 2015F, PLN5.5m in 2016F and PLN7.3m in 2017F, based on PLN150-200 per sqm capitalised interest per PUM.

Fig 53 Income statement (PLNm)

	2011	2012	2013	2014	2015F	2016F	2017F
Sales	**319**	**354**	**494**	**748**	**728**	**720**	**730**
Other operating income	57	23.6	11.7	13	13	13	13
DDA	(3)	(3.3)	(3.5)	(3)	(4.5)	(5)	(5.5)
M&E	(4)	(5.1)	(5)	(5)	(6)	(6)	(6)
TPS	(78)	(94.4)	(198.0)	(355)	(264)	(182)	(171)
Wages	(17)	(16.9)	(16.4)	(16)	(17)	(17)	(17)
Costs of goods and merchandise	(187)	(203.1)	(220.3)	(274)	(362)	(436)	(456)
Other operating cost	(28)	(19.0)	(27.2)	(31)	(33)	(35)	(36)
Gains on investments	11	0.2	0.8	(0)	0	0	0
EBITDA	**73**	**40**	**40**	**79**	**59**	**58**	**56**
EBIT	**71**	**36**	**37**	**76**	**55**	**53**	**51**
of which housing development	*50*	*9*	*26*	*43*	*17*	*10*	*10*
automotive	*8*	*14*	*20*	*28*	*30*	*35*	*34*
Robo wash	*0*	*(0)*	*(1)*	*4*	*5*	*5*	*5*
office rental	*1*	*1*	*0*	*2*	*2*	*2*	*2*
Debt interests costs	(5)	(9)	(9)	(12)	(7)	(4)	0
Leasing interests costs	(0)	(0)	(0)	(2)	(0)	(0)	(0)
Commissions	(1)	(1.0)	(1.0)	(2)	(2)	(2)	(2)
Cost of forward contracts	(0)	(0.0)	(0.0)	0	0	0	0
Bonds interests costs	(3)	(3.7)	(2.9)	(2)	(5)	(1)	(1)
Loan interest costs	(0)	0.0	0	0	0	0	0
Other	(0)	(0.2)	(2.9)	(0)	0	0	0
Pre-tax profit	**61.1**	**22.4**	**21.0**	**58.8**	**40.3**	**45.6**	**48.3**
Tax	(11.6)	(4.7)	(7.4)	(11)	(8)	(9)	(9)
Reported net profit	**49.5**	**17.7**	**13.7**	**47.9**	**32.7**	**36.9**	**39.1**

Source: Company data, ING estimates

Fig 54 Balance sheet (PLNm)

	2011	2012	2013	2014	2015F	2016F	2017F
Inventory	461	646	715	523	549	492	458
Income tax receivables	1	2	2	2	2	2	2
Other receivables	35	30	72	67	65	65	65
Warranty services	3	0	4	5	5	5	5
Cash and cash equivalents	15	4	34	84	71	33	52
Total current assets	**516**	**682**	**827**	**680**	**692**	**596**	**582**
Tangible assets	37	57	59	57	71	87	103
Intangible assets	1	1	1	1	1	1	1
Usufruct leases	3	3	3	3	3	3	3
Investment properties	113	84	77	76	76	76	76
Warranty services	3	0	3	4	4	4	4
Long-term receivables	0	12	0	0	0	0	0
Long-term investments	0	15	2	2	2	2	2
Deferred tax and other assets	8	8	11	10	10	10	10
Total fixed assets	**165**	**180**	**156**	**152**	**167**	**182**	**199**
Total assets	**681**	**862**	**983**	**832**	**859**	**779**	**781**
Short term loans	13	18	16	51	50	50	50
Short term leases	2	1	1	1	1	1	1
CIT liabilities	0	0	1	0	0	0	0
Trade payables	76	89	169	135	131	130	132
Prepayments	53	125	171	82	121	103	75
Provisions	5	1	4	5	5	5	5
Bonds	2	112	51	40	0	0	0
Total current liabilities	**151**	**347**	**414**	**314**	**308**	**289**	**262**
Long-term debt	138	184	136	72	72	10	0
Long-term leases	1	2	2	2	2	2	2
Other liabilities	2	1	4	1	1	1	1
Deferred tax	22	25	31	34	34	34	34
Provisions	3	0	3	4	4	4	4
Bonds	174	86	146	114	114	77	77
Total non-current liabilities	**340**	**298**	**322**	**226**	**226**	**127**	**117**
Total liabilities	**491**	**645**	**735**	**539**	**534**	**416**	**379**
Share capital	7	7	8	8	8	8	8
Share premium	10	12	31	31	31	31	31
Other reserves	23	36	33	30	30	30	30
Treasury shares	(9)	(1)	(1)	(1)	(1)	(1)	(1)
Accumulated profits	158	163	177	225	257	294	333
Total shareholder funds	**190**	**217**	**248**	**293**	**326**	**363**	**402**
Total funding	**681**	**862**	**983**	**832**	**859**	**779**	**781**

Source: Company data, ING estimates

Marvipol reported robust operating cash flows in 2014 on the back of record-high flat sales and deliveries. The company's destocking of flats generated PLN202m in cash inflows and catapulted operating cash flows to PLN148m, facilitating balance sheet deleveraging and cash position growth.

We forecast continued positive operating cash flow for Marvipol over 2015-17F, driven by customer prepayments in 2015 and a decline in inventories in 2016-17 once the company passes the peak in flats under construction, which we estimate at 970 units at end-2015, 830 flats in 2016F and 600 flats 2017F.

Fig 55 Cash flow statement (PLNm)

	2011	2012	2013	2014	2015F	2016F	2017F
Net profit	49	18	14	48	33	37	39
DDA	3	3	3	3	5	5	6
Amortisation of usufruct lease	0	0	0	0	0	0	0
Interests income	(1)	(1)	(1)	(0)	0	0	0
Revaluation of investment properties	(34)	(2)	1	2	0	0	0
Financial expenses	5.6	9.1	8.6	14.1	7.1	3.9	(0.4)
Gain on fixed assets sale	(0)	(13)	(0)	(1)	(1)	(1)	(1)
Liquidation of fixed assets	0	0	0	0	0	0	0
Gain on investment property sale			0	0	0	0	0
Income tax	12	5	7	11	8	9	9
Change in inventories	(179)	(150)	(43)	202	(26)	57	34
Change in receivables	14	3	(30)	5	2	1	(1)
Change in provisions	(0)	(0)	(1)	(0)	0	0	0
Change in payables	(18)	13	82	(37)	(4)	(1)	2
Change in accruals	1	71	46	(89)	39	(17)	(29)
Bonds issuance costs	3	3	1	(3)	0	0	0
Returned taxes	2	1	2	2	0	0	0
Paid taxes	(4)	(4)	(7)	(9)	(8)	(9)	(9)
Settlement of B series bonds			(5)	1	1	1	1
Operating cash flow	**(147)**	**(43)**	**79**	**148**	**55**	**85**	**51**
Interests received	1	0	2	0	0	0	0
Disposals of fixed and intangible assets	0	5	0	0	0	0	0
Disposals of investment properties			2	4	0	0	0
Purchase of fixed and intangible assets	(6)	(3)	(2)	(4)	(15)	(15)	(16)
Loans received	2	0	13	0	0	0	0
Loans to other parties	(0)	(15)	(0)	(0)	0	0	0
Buy-back of shares	(9)	(3)	(0)	0	0	0	0
Sale of treasury shares	0	13	0	0	0	0	0
Investment cash flow	**(12)**	**(3)**	**15**	**(0)**	**(15)**	**(15)**	**(16)**
Equity issuance	0	0	20	0	0	0	0
Bonds issuance	86	15	109	65	0	0	0
Loans drawn	119	74	27	17	0	0	0
Loans repaid	(17)	(22)	(77)	(47)	(1)	(62)	(10)
Bonds repaid	(19)	0	(109)	(111)	(40)	(36)	0
Financial lease payments	(1)	(2)	(0)	(1)	0	0	0
Interests paid	(20)	(31)	(34)	(22)	(12)	(9)	(6)
Financial cash flow	**147**	**34**	**(64)**	**(98)**	(53)	(108)	(16)
Cash year start	28	15	4	34	84	71	33
Cash year end	**16**	**4**	**34**	**84**	**71**	**33**	**52**
Cash balance sheet	**15**	**4**	**34**	**84**	**71**	**33**	**52**

Source: Company data, ING estimates

Valuation, ratios and metrics

Year end Dec	2010	2011	2012	2013	2014	2015F	2016F	2017F
Performance & returns								
Revenue growth (%)		n/a	0.37	33.9	50.4	-2.7	-0.96	1.3
Normalised EBITDA growth (%)		n/a	-58.9	64.5	57.0	-24.2	-2.5	-2.6
Normalised EBIT growth (%)		n/a	-61.9	71.6	62.4	-27.2	-3.6	-3.8
Normalised EPS growth (%)		n/a	-80.4	117.6	97.4	-30.2	13.1	5.9
Gross margin (%)		32.6	21.4	17.5	17.3	15.5	15.7	15.6
Normalised EBITDA margin (%)		19.5	8.0	9.8	10.2	8.0	7.9	7.6
Normalised EBIT margin (%)		18.7	7.1	9.1	9.8	7.4	7.2	6.8
Reported net margin (%)		13.1	4.7	2.7	6.3	4.4	5.0	5.3
Reported ROE (%)		n/a	8.7	5.9	17.7	10.6	10.7	10.2
Normalised ROA (%)		n/a	3.5	5.0	8.3	6.5	6.4	6.5
ROAIC (%)		n/a	5.4	4.7	10.8	7.7	7.7	7.5
ROACE (%)		n/a	4.7	7.6	12.8	9.6	9.9	9.8
ROACE - WACC (%)		n/a	-4.1	-0.08	4.7	2.6	2.4	2.3
Leverage & solvency								
Working capital as % of sales		97.5	122.2	88.5	49.0	48.9	44.1	42.6
Net debt (cash)/EBITDA (x)		4.3	10.0	8.0	2.5	2.8	1.9	1.4
Net debt (cash)/equity (%)		165.7	183.6	128.8	66.9	51.4	29.5	19.4
EBITDA net interest coverage (x)		7.7	2.8	2.6	4.5	4.2	8.3	24.6
Current ratio (x)		3.4	2.0	2.0	2.2	2.2	2.1	2.2
Dividend cover (cash flow) (x)		n/a	n/a	n/a	n/a	n/a	n/a	n/a
Valuation								
EV/revenue (x)		1.7	1.9	1.2	0.66	0.64	0.56	0.52
EV/normalised EBITDA (x)		8.5	23.4	12.6	6.5	8.0	7.2	6.8
EV/normalised EBIT (x)		8.8	26.2	13.6	6.7	8.7	7.9	7.6
EV/capital employed (x)		1.2	1.1	1.0	0.88	0.84	0.82	0.72
EV/invested capital (x)		1.1	1.1	0.98	0.82	0.79	0.76	0.68
Normalised PER (x)		5.5	28.1	12.9	6.5	9.4	8.3	7.8
Price/book (x)		1.4	1.3	1.2	1.0	0.94	0.85	0.76
Dividend yield (%)		0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF yield (%)		n/a	n/a	12.3	29.4	13.1	22.2	15.1
Per share data								
Reported EPS (PLN)		1.34	0.47	0.36	1.15	0.79	0.89	0.94
Normalised EPS (PLN)		1.34	0.26	0.57	1.13	0.79	0.89	0.94
Dividend per share (PLN)		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Equity FCFPS (PLN)		(4.36)	(1.85)	1.15	3.03	1.21	1.99	1.26
BV/share (PLN)		5.15	5.73	5.96	7.05	7.84	8.72	9.67

Source: Company data, ING estimates

Company profile

Marvipol is a real-estate developer in Warsaw focused on upscale housing developments. Through its subsidiary JLR Polska, the company is also a general importer of Jaguar and Land Rover cars and runs authorised dealers and repairers for Jaguar, Land Rover and Aston Martin.

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