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Marvipol

Investment story and recommendation

The storage facility business is booming in Poland. Inexpensive labor, improving road infrastructure and cheap funding are responsible for above average returns in at the moment most attractive segment of the real estate business.

Marvipol has been developing its storage facility business since 2015 when, together with its strategic partner Panattoni Europe started the erection of two storage facilities in Konotopa village near Warsaw encompassing 44,764 sqm of GLA. With signing the preliminary disposal agreement Marvipol is near to close the investment process. The returns delivered are very solid, enough to say that the cash on cash return reached 50%.

During last year Marvipol expanded its storage facility business. At the moment the Company has got three storage facilities encompassing 141.5 sqm of GLA under construction. Marvipol's management believes that the returns achieved here should be similar to ones generated on Konotopa. We start accounting for the returns in our financial forecast and valuation of Marvipol.

Given a significant upside to the Company's current share market price, we stick to our Buy LT fundamental recommendation and an Overweight market-relative bias vs. the Company's shares. Strong FY17E financials and split into two separate entities – BAH and Marvipol Development – should constitute a positive trigger and help the Company to close the significant valuation gap. We deem that the booming storage facility market, disposal of the Konotopa project, development of a pipeline residential project and introduction of new luxury vehicles constitute a positive trigger for the Company's share price performance.

The storage facility market

The storage facility business has been booming in Poland. Inexpensive labor, improving road infrastructure and cheap financing are responsible for above average returns at the moment, most attractive segment of the real estate business. According to JLL in 2016 the total take-up amounted to 3.043 million sqm (up 37% yoy). What's more important however that the net take-up is responsible for the largest chunk of the total.

According to JLL at the end of 2016 there was 11.2 million sqm of warehouse stock in Poland. The largest stock is located in Warsaw suburbs (over 2.5 million sqm, or 22% of the total). In Upper Silesia there is almost 2 million of sqm located (18% of the total). Large accumulation of warehouse stock is in Poznań, Central Poland and Wrocław. Surprisingly Tricity and Kraków represent a small portion of the pie.

Sector: Consumer discretionary
Fundamental rating: Buy (→)
Market relative: Overweight (→)
Price: PLN 13.15
12M EFV: PLN 19.00 (↑)

Market Cap: US\$ 147 m
Bloomberg code: MVP PW
Av. daily turnover: US\$ 0.05 m
Free float: 29%
12M range: PLN 6.23-13.70

Guide to adjusted profits
No factors necessitating adjustments.

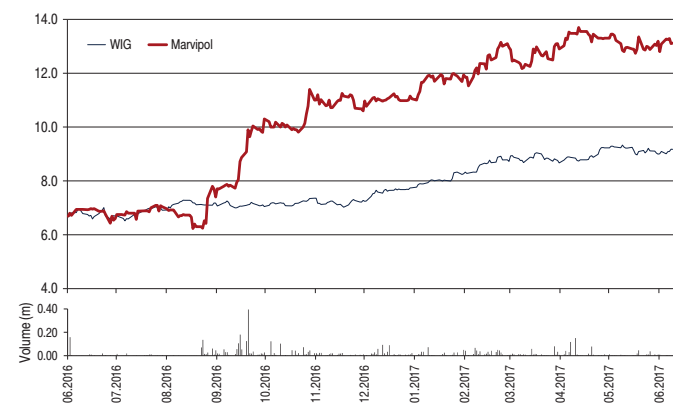
Key data

IFRS, consolidated		2016	2017E	2018E	2019E
Sales	PLN m	657.6	651.3	706.8	742.2
EBITDA	PLN m	60.8	46.0	50.9	53.5
EBIT	PLN m	58.4	45.4	48.3	50.7
Net profit	PLN m	69.0	89.9	50.1	82.3
EPS	PLN	1.7	2.2	1.2	2.0
EPS yoy chg	%	178.0	30.5	-44.3	64.4
Net debt	PLN m	-28.0	167.7	258.1	173.2
P/E	x	7.9	6.1	10.9	6.6
EV/EBITDA*	x	7.3	11.4	10.1	5.9
EV/EBIT*	x	7.6	7.1	13.1	7.6
EV/Sales*	x	0.6	0.8	0.9	0.6
Gross dividend yield	%	2.9%	3.1%	3.2%	3.9%
DPS	PLN	0.39	0.41	0.42	0.52
No. of shares (eop)	m	41.6	41.6	41.6	41.6

Source: Company, DM BOŚ SA estimates

* Calculated based on proportionally consolidated EBITDA, EBIT and Sales.

Stock performance



Source: Bloomberg

Upcoming events

1. Release of 1H17 financial results: 31 August
2. Release of 3Q17 financial results: 14 November

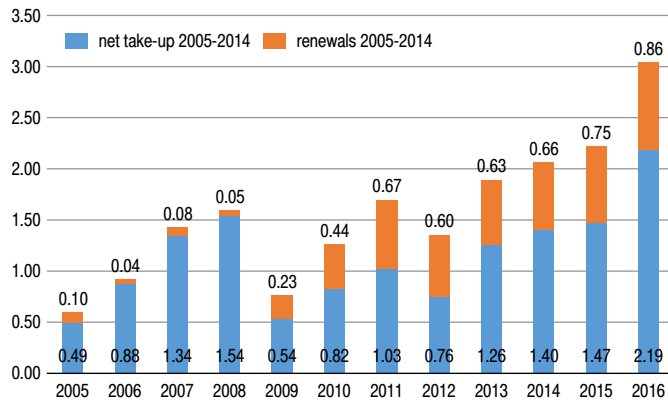
Catalysts

1. Rising demand for premium cars
2. New models in the offer
3. Development of own dealers' network
4. Launch of own paint and body repair shop increasing the profitability
5. Sales of used cars
6. High dividend yield
7. Pick-up in volume of pre-sold flats
8. Growing prices of dwellings
9. Rejigging of credit standards
10. Disposal of warehouse facility
11. Drop of the excise duty
12. Development of storage facilities

Risk factors

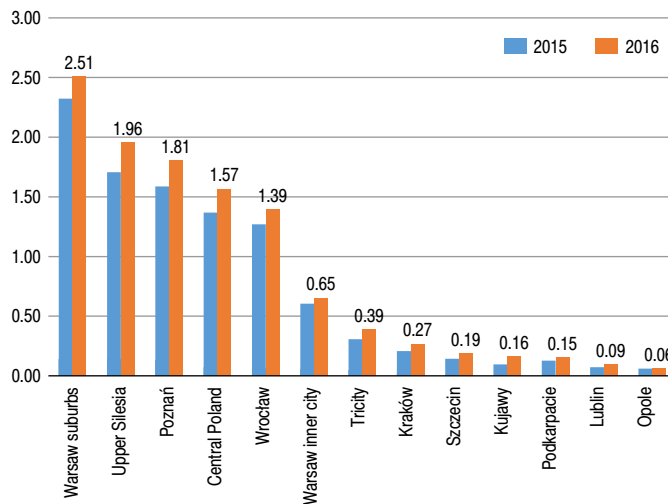
1. Changes/termination of the importer agreement
2. Rising competition in the premium cars segment
3. Changes in the product mix towards cheaper models
4. Concentrated portfolio of cars
5. Lack of new interesting models of cars in the offer
6. Environmental regulations
7. FX rates
8. Volumes of homes sold
9. Delays in execution of general construction contracts
10. Tightening of banking mortgage loan policies
11. Pick-up in interest rates
12. Purchase of land bank at inflated prices

Fig. 1 Leased warehouse space in 2005-2016 (m sqm)



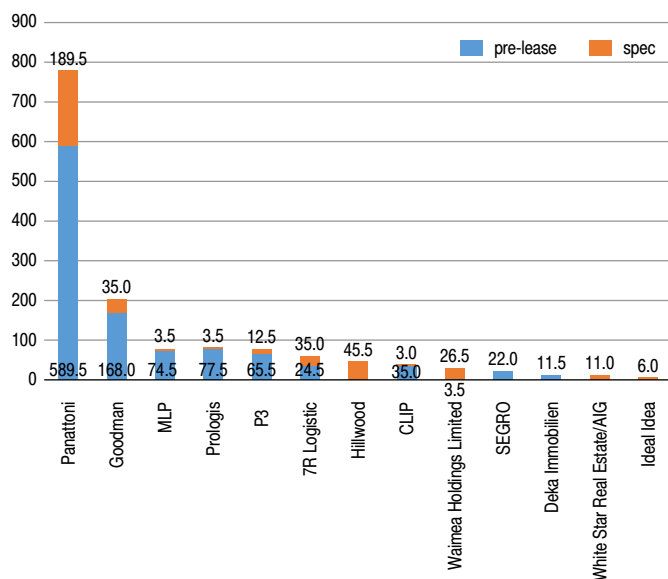
Source: JLL, warehousefinder.pl

Fig. 2 Existing warehouse stock by location (m sqm)



Source: JLL, warehousefinder.pl

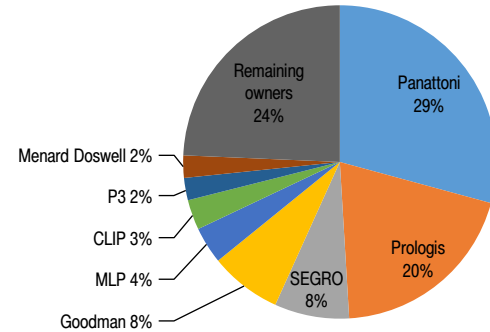
Fig. 3 Warehouse space under construction by developers in 4Q16 (ths sqm)



Source: JLL, warehousefinder.pl

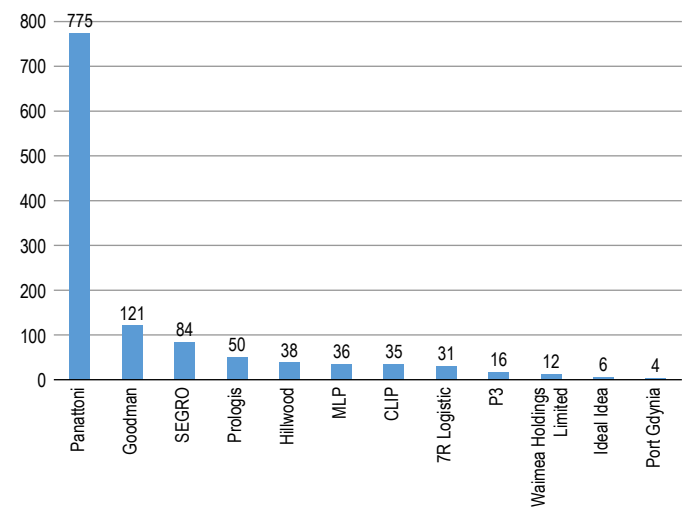
According to JLL at the end of 2016 there was 1.450 million sqm of the warehouse stock under construction, 25% of which was being constructed without a prelease (speculative). Between 1995 and 2016 almost one third of the stock was delivered by Panattoni, and c. 20% was delivered by Prologis, whereas Segro and Goodman delivered c. 8% of the stock to the market. In 2016 Panottoni was an unquestioned leader in terms of warehouse space delivered, with 775,000 sqm in total and Goodman delivering 121,000 sqm was the second largest developer.

Fig. 4 Warehouse space delivered by developers



Source: JLL, warehousefinder.pl

Fig. 5 Warehouse space delivered in 2016 (ths sqm)

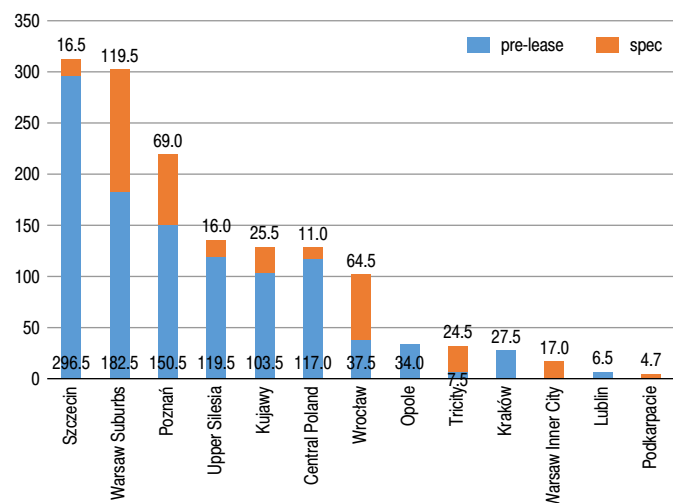


Source: JLL, warehousefinder.pl

At the end of 2016 Szczecin and Warsaw suburbs had the biggest area under construction. It needs to be mentioned here that in Szczecin the majority of space under construction was already pre-leased whereas in Warsaw c. 40% was constructed without pre-lease.

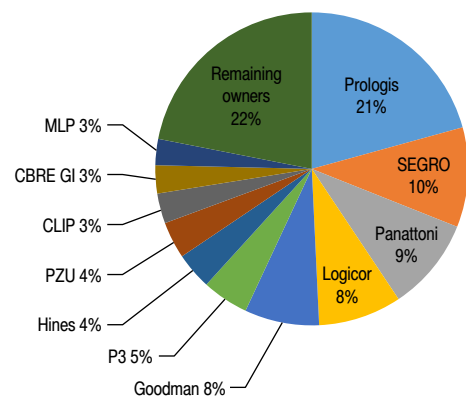
As Panattoni focuses on the development and often seeks an exit after the completion and commercialization, it holds less than 10% of the existing warehouse stock, whereas Prologis is the largest owner with over 20% share.

Fig. 6 Warehouse space under construction by location in 4Q16 (thz sqm)



Source: JLL, warehousefinder.pl

Fig. 7 Existing warehouse stock by owners space delivered by developers



Source: JLL, warehousefinder.pl

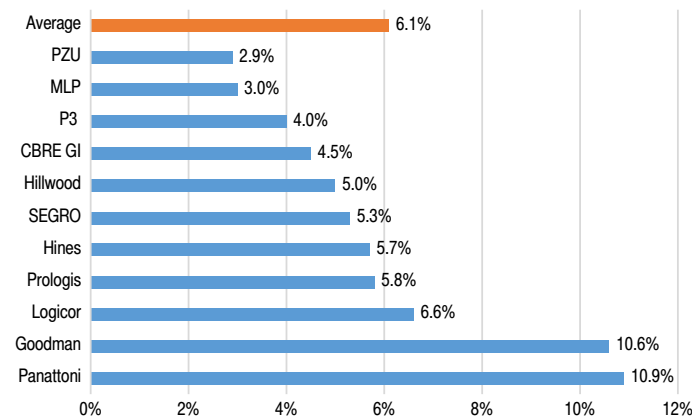
At the end of 2016 the average vacancy rate amounted to 6.1%, which we assess as very low given the large number of projects being delivered to the market. Traditionally, most active developers, Panattoni and Goodman had the largest vacancies (both above 10%).

Fig. 9 Marvopol; Pipeline Warehouse Projects

	GLA	Date of completion	Marvopol's share in the project	Prelet
Grodzisk Mazowiecki	69.7	4Q17	58%	77%
Aglomeracja Śląska	35.0	3Q17	68%	71%
Kraków	36.8	3Q17	68%	35%

Source: Company

Fig. 8 Warehouse vacancy rate by owners in 4Q16



Source: JLL, warehousefinder.pl

Financial forecast

We maintain our forecasts for Marvopol Development's residential business unchanged. We continue to believe that in 2017 and 2018 the Company will hand over 557 and 790 units, respectively. As far as the warehouse business goes, we start accounting for a PLN 50 million revaluation gain on three storage facilities under construction, which are equity method consolidated.

Valuation

Taking account for the development of pipeline storage facility projects in Grodzisk Mazowiecki, Lower Silesia and Kraków, as well as the residential construction valuation horizon forward shift we upgrade our valuation of Marvopol Development to PLN 9.4, from PLN 7.6 per share, by 24% while we maintain our BAH valuation intact at PLN 9.6 per share. Thus, our SOTP valuation yields 12M EFV at PLN 19.0 (previously PLN 17.2, 10% up) per Marvopol's share.

Fig. 10 Marvopol; Summary of SOTP valuation of Marvopol Development (PLN m)

Value of residential construction business	320.9
Value of Warehouse business	196.0
Net debt (end of 2017E)	125.5
Equity value of Marvopol Development	391.3
Number of shares	41.6
Equity value per share of Marvopol Development (PLN)	9.4

Source: Company, DM B0Ś estimates

BASIC DEFINITIONS

A/R turnover (in days) = $365/(\text{sales}/\text{average A/R})$
Inventory turnover (in days) = $365/(\text{COGS}/\text{average inventory})$
A/P turnover (in days) = $365/(\text{COGS}/\text{average A/P})$
Current ratio = $(\text{current assets} - \text{ST deferred assets})/\text{current liabilities}$
Quick ratio = $(\text{current assets} - \text{ST deferred assets} - \text{inventory})/\text{current liabilities}$
Interest coverage = $(\text{pre-tax profit before extraordinary items} + \text{interest payable})/\text{interest payable}$
Gross margin = $\text{gross profit on sales}/\text{sales}$
EBITDA margin = $\text{EBITDA}/\text{sales}$
EBIT margin = EBIT/sales
Pre-tax margin = $\text{pre-tax profit}/\text{sales}$
Net margin = $\text{net profit}/\text{sales}$
ROE = $\text{net profit}/\text{average equity}$
ROA = $(\text{net income} + \text{interest payable})/\text{average assets}$
EV = $\text{market capitalization} + \text{interest bearing debt} - \text{cash and equivalents}$
EPS = $\text{net profit}/\text{no. of shares outstanding}$
CE = $\text{net profit} + \text{depreciation}$
Dividend yield (gross) = $\text{pre-tax DPS}/\text{stock market price}$
Cash sales = $\text{accrual sales corrected for the change in A/R}$
Cash operating expenses = $\text{accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes}$
DM BOŠ S.A. generally values the covered non bank companies via two methods: comparative method and DCF method (discounted cash flows). The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the DCF method is its independence from the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Please note that we also resort to other valuation techniques (e.g. NAV-, DDM- or SOTP-based), should it prove appropriate in a given case.

KEY TO INVESTMENT RANKINGS

This is a guide to expected price performance in absolute terms over the next 12 months:
Buy – fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;
Hold – either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;
Sell – fundamentally overvalued (12M EFV < current share price + 1-year cost of equity) + catalysts which should close the valuation gap identified.
This is a guide to expected relative price performance:
Overweight – expected to perform better than the benchmark (WIG) over the next quarter in relative terms
Neutral – expected to perform in line with the benchmark (WIG) over the next quarter in relative terms
Underweight – expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

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Distribution of DM BOŠ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision
Numbers	30	36	13	3	0
Percentage	37%	44%	16%	4%	0%

Distribution of DM BOŠ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	32	26	21	3	0
Percentage	39%	32%	26%	4%	0%

Banks

Net Interest Margin (NIM) = $\text{net interest income}/\text{average assets}$
NIM Adjusted = $(\text{net interest income adjusted for SWAPs})/\text{average assets}$
Non interest income = $\text{fees\&commissions} + \text{result on financial operations (trading gains)} + \text{FX gains}$
Interest Spread = $(\text{interest income}/\text{average interest earning assets})/(\text{interest cost}/\text{average interest bearing liabilities})$
Cost/Income = $(\text{general costs} + \text{depreciation} + \text{other operating costs})/(\text{profit on banking activity} + \text{other operating income})$
ROE = $\text{net profit}/\text{average equity}$
ROA = $\text{net income}/\text{average assets}$
Non performing loans (NPL) = loans in 'substandard', 'doubtful' and 'lost' categories
NPL coverage ratio = $\text{loan loss provisions}/\text{NPL}$
Net provision charge = $\text{provisions created} - \text{provisions released}$

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Distribution of DM BOŠ's current recommendations for the companies which DM BOŠ has supplied with material investment services within the last 12 months

	Buy	Hold	Sell	Suspended	Under revision
Numbers	9	3	3	0	0
Percentage	60%	20%	20%	0%	0%

Distribution of DM BOŠ's current market relative recommended weightings for the companies which DM BOŠ has supplied with material investment services within the last 12 months

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	9	1	5	0	0
Percentage	60%	7%	33%	0%	0%

LT fundamental recommendation tracker

Analyst	Recommendation	Report date	Reiteration date	Distribution date	Expiry date	Performance	Relative performance	Price at issue/reiteration*	EFV (12 months)	
Marvipol										
Sylwia Jaškiewicz/Maciej Wewiórski	Buy	18.10.2016	-	19.10.2016	Not later than 18.10.2017	32%	2%	9.95	14.60	-
Sylwia Jaškiewicz/Maciej Wewiórski	-	-	02.11.2016	03.11.2016	-	-	-	11.20	14.60	→
Sylwia Jaškiewicz/Maciej Wewiórski	-	-	04.12.2016	05.12.2016	-	-	-	10.77	15.60	↑
Sylwia Jaškiewicz/Maciej Wewiórski	-	-	12.01.2017	13.01.2017	-	-	-	11.90	15.60	→
Sylwia Jaškiewicz/Maciej Wewiórski	-	-	08.02.2017	09.02.2017	-	-	-	12.20	15.60	→
Sylwia Jaškiewicz/Maciej Wewiórski	-	-	09.02.2017	10.02.2017	-	-	-	11.97	17.20	↑
Sylwia Jaškiewicz/Maciej Wewiórski	-	-	07.03.2017	08.03.2017	-	-	-	12.35	17.20	→
Sylwia Jaškiewicz/Maciej Wewiórski	-	-	11.04.2017	12.04.2017	-	-	-	13.45	17.20	→
Sylwia Jaškiewicz/Maciej Wewiórski	-	-	30.05.2017	31.05.2017	-	-	-	13.03	17.20	→
Sylwia Jaškiewicz/Maciej Wewiórski	-	-	11.06.2017	12.06.2017	-	-	-	13.15	19.00	↑

* prices at issue/reiteration are the closing prices at the report or reiteration date

Market-relative recommendation tracker

Analyst	Relative Recommendation	Report date	Reiteration date	Distribution date	Expiry date	Price at issue/reiteration*	Relative performance
Marvipol							
Sylwia Jaškiewicz/Maciej Wewiórski	Overweight	18.10.2016	-	19.10.2016	Not later than 18.10.2017	9.95	2%
Sylwia Jaškiewicz/Maciej Wewiórski	-	-	02.11.2016	03.11.2016	-	11.20	-
Sylwia Jaškiewicz/Maciej Wewiórski	-	-	04.12.2016	05.12.2016	-	10.77	-
Sylwia Jaškiewicz/Maciej Wewiórski	-	-	12.01.2017	13.01.2017	-	11.90	-
Sylwia Jaškiewicz/Maciej Wewiórski	-	-	08.02.2017	09.02.2017	-	12.20	-
Sylwia Jaškiewicz/Maciej Wewiórski	-	-	09.02.2017	10.02.2017	-	11.97	-
Sylwia Jaškiewicz/Maciej Wewiórski	-	-	07.03.2017	08.03.2017	-	12.35	-
Sylwia Jaškiewicz/Maciej Wewiórski	-	-	11.04.2017	12.04.2017	-	13.45	-
Sylwia Jaškiewicz/Maciej Wewiórski	-	-	30.05.2017	31.05.2017	-	13.03	-
Sylwia Jaškiewicz/Maciej Wewiórski	-	-	11.06.2017	12.06.2017	-	13.15	-

* prices at issue/reiteration are the closing prices at the report or reiteration date

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