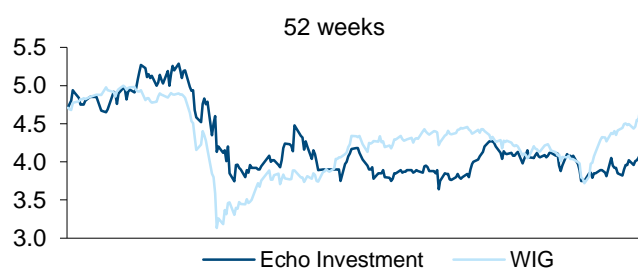


Echo Investment

Reduce

PLN mn	2019	2020e	2021e	2022e
Net sales	880.1	1 144.0	810.7	732.9
EBITDA	458.9	390.1	223.1	245.5
EBIT	450.2	381.1	214.0	236.1
Net result after min.	299.5	230.1	137.0	161.0
EPS (PLN)	0.73	0.56	0.33	0.39
CEPS (PLN)	0.70	0.54	0.31	0.37
BVPS (PLN)	3.79	4.34	4.31	4.47
Div./share (PLN)	0.50	0.00	0.36	0.23
EV/EBITDA (x)	7.3	9.7	13.6	13.4
P/E (x)	6.4	7.5	12.6	10.7
P/CE (x)	6.6	7.8	13.5	11.4
Dividend Yield	10.7%	0.0%	8.7%	5.6%

Share price (PLN) close as of 08/12/2020	4.18
Number of shares (mn)	412.7
Market capitalization (PLN mn / EUR mn)	1,725 / ,387
Enterprise value (PLN mn / EUR mn)	3,777 / ,848



Performance	12M	6M	3M	1M
in PLN	-10.7%	0.0%	3.5%	8.6%

Reuters	ECH.WA	Free float	12.5%
Bloomberg	ECH.PW	Shareholders	Lisala (66.0%)
Div. Ex-date	16/07/21		NN OFE (13.6%)
Target price	3.95	Homepage:	www.echo.com.pl

Analyst:

Cezary Bernatek
+48 22 538 6256
cezary.bernatek@erstegroup.com

Premium to peers justified, but bit lower than current level

We raise our 12M TP for Echo Investment by 4% to PLN 3.95 p/s. This, however, implies 6% downside; we keep our Reduce rating on the stock.

Following an upgrade to our housing pre-sales volume estimates for Echo for 2020E-22E, as well as factoring in a more ambitious than earlier assumed residential project pipeline (in line with the firm's latest guidance), we raise the deliveries volume forecasts for the period. Combined with the adjustments to FX rates as well as commercial schemes' assumed realization schedule, this lifted our NI expectations 2%/7%/6% for each year, respectively.

Nonetheless, we still look for 23%/40% y/y declines of the firm's bottom line to PLN 230mn/137mn in 2020E/2021E, mainly linked to an anticipated cap rates decompression, as well as downward pressure on effective rental rates in both the office and retail segments in the period (assumptions backed by the recent hit of the second pandemic wave), plus a slowdown to the company's commercial project pipeline realization going forward – before a moderate rebound to PLN 161mn only in 2022E, while the NAV outlook for 2020E-22E also looks unappealing.

On the other hand, given Echo's decent balance sheet at end-3Q20 and assuming the Brewery K-G-H as well as MM 1&2 projects disposal finalization at around their current BV in 2021E (which looks highly feasible in light of management's latest comments), resulting in the release of around PLN 800mn in free cash, and in spite of approx. PLN 690mn of bonds maturing in the next two years, the firm is not only expected to avoid any liquidity issues going forward, but also be able to come back to relatively healthy dividend distribution in the years ahead – DYs estimated at 8.7%/5.6% for 2021E/22E. Such a scenario looks, however, to have already been discounted by the market – at a 2021E P/NAV of 0.98x, the company trades at a material premium to both CEE as well as Western Europe-oriented peers.

Valuation

Our revised 12M target price for Echo Investment stands at PLN 3.95 per share (up from PLN 3.80), implying 6% downside. This reflects a 40% weighting for our truncated pipeline scenario and a 60% weighting for our extended pipeline scenario (valuation methodology described in the front section of the report). We also carry out a peer multiple valuation for comparison purposes (0% weighting).

VALUATION SUMMARY (PLN)	
Truncated pipeline scenario	3.49
Extended pipeline scenario	4.26
Average (40:60 weight)	3.95

Source: Company Data, Erste Group Research

VALUATION (PLN mn) - TRUNCATED PIPELINE SCENARIO	
Value of standing properties	2 385
Value of properties under construction	2 490
- Commercial property value	833
- Residential property value	1 657
Cost for properties under construction	1 955
- Commercial property costs	676
- Residential property costs	1 279
TOTAL	2 920
PV of TOTAL	2 888
Secured land bank for pipeline projects	632
LT financial investments	248
Current tax liability	133
ENTERPRISE VALUE (PLN mn)	3 635
Net debt*	2 267
EQUITY VALUE (PLN mn)	1 368
Per fully diluted number of shares (PLN)	3.31
12M Target Price (PLN)	3.49

*including leasing liabilities

VALUATION (PLN mn) - EXTENDED PIPELINE SCENARIO	
Value of standing properties	2 385
Value of properties under construction	2 490
- Commercial property value	833
- Residential property value	1 657
Cost for properties under construction	1 955
- Commercial property costs	676
- Residential property costs	1 279
Value of properties in the pipeline (till 2022)	389
- Commercial property value	176
- Residential property value	213
Cost for properties in the pipeline (till 2022)	315
- Commercial property costs	150
- Residential property costs	165
Terminal value for development business (beyond 2022)	542
TOTAL	3 535
PV of TOTAL	3 441
Secured land bank for pipeline projects (to be completed beyond 2022)	395
LT financial investments	248
Current tax liability	133
ENTERPRISE VALUE (PLN mn)	3 951
Net debt*	2 267
EQUITY VALUE (PLN mn)	1 684
Per fully diluted number of shares (PLN)	4.08
12M Target Price (PLN)	4.26

*including leasing liabilities

Source: Company Data, Erste Group Research

Key risks to investment case

- more / less pronounced than anticipated decline in property investment volumes in Poland, putting stronger / weaker than expected upward pressure on real estate cap rates in country
- earlier than anticipated increase in EU interest rates, putting upward pressure on real estate yields in region
- stronger / weaker than expected negative impact of anticipated Covid-19 related macro slowdown on demand for modern office space in Poland, putting more / less pronounced than assumed downward pressure on rental rates in sector
- significant and sustainable increase in popularity of remote working across region, affecting demand for modern office space and pushing rental rates down in sector
- stronger / weaker than expected downward pressure on retail rental rates in country due to Covid-19 turbulence and its negative impact on tenant business activity
- more / less pronounced than anticipated increase in vacancy rate in retail assets, due to coronavirus crisis
- material difficulties in commercialization of development projects going forward, due to expected macro slowdown this year / weaker than anticipated macro recovery in years ahead
- difficulties / delays in planned exits from completed / pipeline commercial projects after completion causing potential liquidity constraints
- exit from completed / pipeline commercial schemes at lower / higher than anticipated prices
- more pronounced than expected difficulties in planned debt refinancing / difficulties in securing of external funding on acceptable terms, on time, or at amount sufficient to finance expansion plans, affecting pipeline project realization schedule and dividend potential
- weaker / stronger than anticipated softening to construction costs in country, hitting / supporting developer margin on future projects
- delays in launch of pipeline projects vs. assumed schedule / difficulties in obtaining administrative permits
- delays / disturbances at construction sites linked to potential spread of coronavirus / selected construction material shortages, affecting project finalizations
- stronger / weaker than expected y/y softening in demand for new dwellings in country in FY20E, due to spread of Covid-19, as well as its anticipated negative impact on country's real economy and consumer confidence
- weaker / stronger than anticipated housing pre-sales y/y revival in 2021E
- heavier than anticipated decline in average new dwelling effective prices across country's main agglomerations this year
- difficulties in purchase of attractively located land plots at reasonable prices

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Income Statement	2017	2018	2019	2020e	2021e	2022e
(IAS, PLN mn, 31/12)	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022
Net sales	621.86	713.04	880.13	1 144.04	810.74	732.95
Cost of goods sold	472.44	578.10	677.13	919.25	568.79	509.25
Gross profit	149.43	134.93	203.00	224.79	241.95	223.70
SG&A	148.68	158.97	153.75	133.85	141.07	145.12
Other operating revenues	321.01	472.41	427.46	314.92	122.44	166.19
Other operating expenses	46.98	43.92	26.56	24.79	9.35	8.62
EBITDA	277.62	407.94	458.88	390.06	223.13	245.49
Depreciation/amortization	2.83	3.49	8.72	8.98	9.16	9.35
EBIT	274.79	404.45	450.15	381.07	213.97	236.14
Financial result	88.57	19.96	-51.97	-86.04	-44.82	-37.43
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	363.36	424.41	398.19	295.04	169.15	198.72
Income taxes	51.19	119.06	98.66	64.91	32.14	37.76
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	-0.01	-0.01	-0.01	-0.00	0.00	0.00
Net result after minorities	312.17	305.36	299.53	230.13	137.01	160.96
Balance Sheet	2017	2018	2019	2020e	2021e	2022e
(IAS, PLN mn, 31/12)						
Intangible assets	0.24	2.47	3.74	3.55	3.55	3.55
Tangible assets	1 661.77	1 970.58	2 508.53	3 387.60	2 538.11	2 769.20
Financial assets	367.17	395.61	423.91	443.66	443.22	455.28
Total fixed assets	2 029.17	2 368.66	2 936.18	3 834.81	2 984.88	3 228.03
Inventories	682.44	771.84	1 052.33	948.34	1 041.39	1 145.58
Receivables and other current assets	491.45	343.89	272.47	231.97	232.65	229.39
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	676.33	494.25	549.45	333.63	526.73	395.07
Total current assets	1 850.22	1 609.98	1 874.25	1 513.95	1 800.77	1 770.04
TOTAL ASSETS	3 879.39	3 978.64	4 810.43	5 348.76	4 785.65	4 998.07
Shareholders'equity	1 587.75	1 495.57	1 562.37	1 792.57	1 779.99	1 845.05
Minorities	-0.11	-0.11	-0.12	-0.13	-0.13	-0.13
Hybrid capital and other reserves	0.00	0.00	0.00	0.00	0.00	0.00
Pension and other LT personnel accruals	0.00	0.00	0.00	0.00	0.00	0.00
LT provisions	0.00	0.00	0.00	0.00	0.00	0.00
Interest-bearing LT debts	1 026.83	1 149.69	1 602.13	1 976.43	1 478.71	1 598.44
Other LT liabilities	150.29	322.80	368.33	431.56	425.70	418.97
Total long-term liabilities	1 177.12	1 472.50	1 970.45	2 407.99	1 904.41	2 017.41
Interest-bearing ST debts	528.94	280.73	367.55	409.10	353.77	367.06
Other ST liabilities	585.69	729.96	910.19	739.22	747.59	768.68
Total short-term liabilities	1 114.62	1 010.69	1 277.74	1 148.32	1 101.37	1 135.74
TOTAL LIAB. , EQUITY	3 879.39	3 978.64	4 810.43	5 348.76	4 785.65	4 998.07
Cash Flow Statement	2017	2018	2019	2020e	2021e	2022e
(IAS, PLN mn, 31/12)						
Cash flow from operating activities	-276.12	142.28	-82.40	-18.41	-66.10	-81.55
Cash flow from investing activities	-46.24	-38.92	-132.36	-650.13	962.05	-87.06
Cash flow from financing activities	362.34	-340.17	267.52	415.57	-702.86	36.94
CHANGE IN CASH , CASH EQU.	39.98	-236.80	52.76	-252.97	193.10	-131.67
Margins & Ratios	2017	2018	2019	2020e	2021e	2022e
Sales growth	29.5%	14.7%	23.4%	30.0%	-29.1%	-9.6%
EBITDA margin	44.6%	57.2%	52.1%	34.1%	27.5%	33.5%
EBIT margin	44.2%	56.7%	51.1%	33.3%	26.4%	32.2%
Net profit margin	50.2%	42.8%	34.0%	20.1%	16.9%	22.0%
ROE	20.0%	19.8%	19.6%	13.7%	7.7%	8.9%
ROCE	13.5%	11.4%	9.8%	6.0%	3.5%	4.4%
Equity ratio	40.9%	37.6%	32.5%	33.5%	37.2%	36.9%
Net debt	879.4	936.2	1 420.2	2 051.9	1 305.8	1 570.4
Working capital	735.6	599.3	596.5	365.6	699.4	634.3
Capital employed	2 617.6	2 754.7	3 351.0	4 276.2	3 511.6	3 834.6
Inventory turnover	-0.7	-0.8	-0.7	-0.9	-0.6	-0.5

Source: Company data, Erste Group estimates

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Group Research

Head of Group Research Friedrich Mostböck, CEFA	+43 (0)5 0100 11902		
CEE Macro/Fixed Income Research Head: Juraj Kotian (Macro/FI) Arokszállasi, CFA (Fixed income) Katarzyna Rzentarzewska (Fixed income) Malgorzata Krzywicka (Fixed income, Poland)	+43 (0)5 0100 17357 Zoltan +361 373 2830 +43 (0)5 0100 17356 +43 (0)5 0100 17338		
Croatia/Serbia Alen Kovac (Head) Mate Jelić Ivana Rogic	+385 72 37 1383 +385 72 37 1443 +385 72 37 2419		
Czech Republic David Navratil (Head) Jiri Polansky Michal Skorepa Nicole Gawlasova	+420 956 765 439 +420 956 765 192 +420 956 765 172 +420 956 765 456		
Hungary Orsolya Nyeste	+361 268 4428		
Romania Ciprian Dascalu (Head) Eugen Sinca Dorina Ilasco Iulian George Misu	+40 3735 10108 +40 3735 10435 +40 3735 10436 +40 758484043		
Slovakia Maria Valachyova (Head) Katarina Muchova	+421 2 4862 4185 +421 2 4862 4762		
Major Markets & Credit Research Head: Gudrun Egger, CEFA Ralf Burchert, CEFA (Sub-Sovereigns & Agencies) Hans Engel (Global Equities) Margarita Grushanina (Austria, Quant Analyst) Peter Kaufmann, CFA (Corporate Bonds) Heiko Langer (Financials & Covered Bonds) Stephan Lingnau (Global Equities) Carmen Riefler-Kowarsch (Financials & Covered Bonds) Rainer Singer (Euro, US) Bernadett Povazsai-Römhild, CEFA (Corporate Bonds) Elena Statelov, CIIA (Corporate Bonds) Gerald Walek, CFA (Euro, CHF)	+43 (0)5 0100 11909 +43 (0)5 0100 16314 +43 (0)5 0100 19835 +43 (0)5 0100 11957 +43 (0)5 0100 11183 +43 (0)5 0100 85509 +43 (0)5 0100 16574 +43 (0)5 0100 19632 +43 (0)5 0100 17331 +43 (0)5 0100 17203 +43 (0)5 0100 19641 +43 (0)5 0100 16360		
CEE Equity Research Head: Henning Eßkuchen Daniel Lion, CIIA (Technology, Ind. Goods&Services) Michael Marschallinger, CFA Nora Nagy (Telecom) Christoph Schultes, MBA, CIIA (Real Estate) Thomas Unger, CFA (Banks, Insurance) Vladimira Urbankova, MBA (Pharma) Martina Valenta, MBA	+43 (0)5 0100 19634 +43 (0)5 0100 17420 +43 (0)5 0100 17906 +43 (0)5 0100 17416 +43 (0)5 0100 11523 +43 (0)5 0100 17344 +43 (0)5 0100 17343 +43 (0)5 0100 11913		
Croatia/Serbia Mladen Dodig (Head) Anto Augustinovic Magdalena Dolenc Davor Spoljar, CFA	+381 11 22 09178 +385 72 37 2833 +385 72 37 1407 +385 72 37 2825		
Czech Republic Petr Bartek (Head) Marek Dongres Jan Safranek	+420 956 765 227 +420 956 765 218 +420 956 765 218		
Hungary József Miró (Head) András Nagy Tamás Pletser, CFA	+361 235 5131 +361 235 5132 +361 235 5135		
Poland Tomasz Duda (Head) Cezary Bernatek Konrad Grygo Emil Poplawski Marcin Gornik	+48 22 330 6253 +48 22 538 6256 +48 22 330 6254 +48 22 330 6252 +48 22 330 6251		
Romania Caius Rapanu	+40 3735 10441		
Group Institutional & Retail Sales			
Group Institutional Equity Sales Head: Brigitte Zeitberger-Schmid	+43 (0)5 0100 83123		
Cash Equity Sales Werner Fuerst Josef Kerekes Cormac Lyden	+43 (0)5 0100 83121 +43 (0)5 0100 83125 +43 (0)5 0100 83120		
Institutional Equity Sales Hungary Levente Nándori Balázs Zánkay Krisztián Kandik	+361 235 5141 +361 235 5156 +361 235 5140		
Institutional Equity Sales Poland Jacek Jakub Langer (Head) Tomasz Galanciak Wojciech Wysocki Przemyslaw Nowosad Grzegorz Stepien	+4822 330 6265 +48 22 538 62 12 +4822 538 6219 +4822 538 6266 +4822 330 6211		
Institutional Equity Sales Romania Livi George Avram	+40 3735 16569		
Group Markets Retail and Agency Business Head: Christian Reiss	+43 (0)5 0100 84012		
Markets Retail Sales AT Head: Markus Kaller	+43 (0)5 0100 84239		
Group Markets Execution Head: Kurt Gerhold	+43 (0)5 0100 84232		
Retail & Sparkassen Sales Head: Uwe Kolar	+43 (0)5 0100 83214		
Corporate Treasury Prod. Distribution Head: Christian Skopek	+43 (0)5 0100 84146		
Group Securities Markets Head: Thomas Einramhof	+43 (0)50100 84432		
Institutional Distribution Core Head: Jürgen Niemeier	+49 (0)30 8105800 5503		
Institutional Distribution DACH+ Head: Marc Friebertshäuser Bernd Bollhof Andreas Goll Mathias Gindele Ulrich Inhofner Sven Kienzle Rene Klasen Christopher Lampe-Traupe Karin Rattay Michael Schmotz Klaus Vosseler	+49 (0)711 810400 5540 +49 (0)30 8105800 5525 +49 (0)711 810400 5561 +49 (0)711 810400 5562 +43 (0)5 0100 85544 +49 (0)711 810400 5541 +49 (0)30 8105800 5521 +49 (0)30 8105800 5523 +43 (0)5 0100 84118 +43 (0)5 0100 85542 +49 (0)711 810400 5560		
Slovakia Šarlota Šipulová Monika Směliková	+421 2 4862 5619 +421 2 4862 5629		
Institutional Distribution CEE & Insti AM CZ Jaromir Malak	+43 (0)5 0100 84254		
Czech Republic Head: Ondrej Čech Milan Bartoš Michael O'Donnell	+420 2 2499 5577 +420 2 2499 5562 +420 2 2499 5590		
Croatia Head: Antun Burić Zvonimir Tukač Natalija Zujic	+385 (0)7237 2439 +385 (0)7237 1787 +385 (0)7237 1638		
Hungary Head: Peter Csizmadia Gábor Bálint Ádám Szőnyi Zsuzsanna Toth	+36 1 237 8211 +36 1 237 8205 +36 1 237 8213 +36-1-237 8209		
Romania and Bulgaria Head: Ruxandra Lungu	+40 373516562		
Institutional Asset Management Czech Republic Head: Petr Holeček Petra Maděrová Martin Peřina David Petráček Blanca Weinerová Petr Valenta	+420 956 765 453 +420 956 765 178 +420 956 765 106 +420 956 765 809 +420 956 765 317 +420 956 765 140		
Group Fixed Income Securities Markets Head: Goran Hoblaj	+43 (0)50100 84403		
FISM Flow Margit Hraschek Bernd Thaler Ciprian Mitu Christian Kienesberger	+43 (0)5 0100 84117 +43 (0)5 0100 84119 +43 (0)5 0100 85612 +43 (0)5 0100 84323		
Poland: Pawel Kielek Michal Jarmakowicz	+48 22 538 6223 +43 50100 85611		
Institutional Equity Sales Croatia Damir Eror	+385 72 37 28 36		
Institutional Equity Sales Czech Republic Head: Michal Rizek Pavel Krabicka Martin Havlan Jiri Feres	+420 224 995 537 +420 224 995 411 +420 224 995 551 +420 224 995 554		

Company description

Echo Investment is one of the largest Polish developers, which builds projects in three sectors of the real estate market: residential, office and shopping centres. The firm got 24 years of experience in the field. Completed 168 projects, comprising 1.8m sqm of net rentable/saleable space to date. It has 84 schemes under construction and in preparation at present, offering 1.5m sqm of rentable/saleable space.

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Group Research
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