GK IMMOBILE – initiation of coverage

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With an appetite for growth

DCF and comparative valuation in the range of PLN3.9 and PLN6.7 per share

GK Immobile (GKI) is one of the most product-diversified companies listed on the WSE, which significantly mitigates the sensitivity of its financial results to economic fluctuations and enables growth in the most lucrative market segments. Rising e-commerce spending, recovering housing market, record high backlog of its subsidiary Atrem and acquisitions could, in our view, drive GKI's results in 2023E and underline the Group's growth in the following years. The company used to pay out a regular dividend and we estimate c. 2% DY in a forecast horizon. We have valued the company using the DCF and comparative methods at PLN3.9 and PLN6.7 per share respectively. We have not assigned any weights to them, but we present GKI's valuation in the range of PLN3.9 to PLN6.7 per share.

Highly diversified. GKI is a highly diversified conglomerate in terms of products and geography, with operations in the following segments: construction, handling systems, industrial automation, power engineering, hotels and retail sales (incl. housing or clothing). Diversification, on the one hand, could mitigate the sensitivity of results to economic fluctuations and, on the other hand, enable GKI to grow in the most lucrative market segments. The company has been developing organically as well as through acquisitions, taking advantage of product and cost synergies. In recent years, key M&As covered acquisitions of controlling stakes in PJP Makrum and Atrem, and their successful restructuring, as well as acquisitions of fashion brands or manufacturing companies in recent months, enabling further synergies.

Growth factors: GKI is a holding company that has successfully built a team and products/services that opened the room for the group's growth in the short as well as the long term. In our view, the key drivers of earnings growth should be: 1) increasing e-commerce market supporting the demand for warehouse space, 2) nearshoring, 3) recovery in the housing market, 4) real wage growth supporting consumption (apparel, tourist traffic), 5) gradual improvement in sales efficiency in the retail sales network, 6) expenditures on power grid connections and associated infrastructure, and 7) further development of the hotel network.

Financial forecasts. Following record high sales delivered in 2022, we forecast a new record high sales level in 2023E. We also forecast a y/y increase in operating/net profit, driven primarily by: 1) improved profitability of the apparel business (supported by acquisitions of new brands in 1H2023), 2) high contribution to revenue of high-margin property development business (completion of key constructions and handover of flats to customers), 3) further improvement in the efficiency of the Focus hotel network (growing RevPar), or 4) the record high backlog of Atrem subsidiary, including the contract with Orlen.

Risk factors: 1) Changes in prices of steel products, 2) appreciation of PLN currency, 3) increase in energy costs and building material prices, 4) cyclically low level of investments, 5) lower than expected expenditures on energy networks, 6) lack of effects of retail sales efficiency improvement in the clothing segment.

Valuation. We have valued GKI with the methods: DCF and comparative, implying value in a range of PLN3.9 and PLN6.7 per share. Our forecasts imply a single digit P/E ratio in 2023E-26E and EV/EBITDA below 4x. We assume that GK Immobile will remain a dividend company - we forecast a flat DPS, implying c. 2% DY, but due to expected earnings improvement we see an upside risk to the dividend payout forecast.

GK Immobile: Financial summary (year do December)

PLNmn	2019	2020	2021	2022	2023E	2024E	2025E
Sales	419	532	576	887	989	1036	1049
EBITDA	28	36	48	92	105	107	103
EBIT	11	15	18	49	62	64	60
Zysk netto	-2	-3	13	9	23	32	31
P/E (x)	-99.6	-61.8	16.7	16.6	9.2	6.7	6.9
EV/EBITDA (x)	13.4	9.1	7.8	3.4	3.5	3.2	3.0
DY	3.2%	1.5%	0.3%	3.1%	1.7%	1.7%	1.7%

Source: Company data, Santander Brokerage Poland estimates, 2019-22 ratios based on share price avg.

Valuation, PLN/share (DCF, comparative)	3.9-6.7
Price (PLN, 11 August 2023)	2.80
Market cap. (PLNmn)	211
Free float (%)	13.3
Number of shares (mn)	75.4
Average daily turnover (mn)	0.1

Main shareholders	% of votes
Rafał Jerzy	61.3
Francois Gros	14.3
NN pension fund	5.7
Sławomir Winiecki	5.3

Source: www.gpw.pl

Company description

GK Immobile provides services in the area of construction, manufacturing and installation of handling systems, parking systems, as well as warehouse equipment, housing construction and retail sales incl. clothing sales, hotel management, and office space leasing.

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Business profile and business model

GK Immobile’s business is highly diversified and focussed on seven segments:
1) Industry,
2) Property leasing,
3) Hotels,
4) Homes building,
5) Construction (industrial),
6) Automation and power engineering,
7) Retail sales.

The company holds shares in two companies listed on the Warsaw Stock Exchange, including approximately 66% stake in PJP Makrum and approximately 72% stake in Atrem. PJP Makrum operates in the industrial and construction segments. Atrem, in turn, in the automation and power engineering segments. Operations in other segments are executed in the parent entity GK Immobile and in other subsidiaries.

Please see below details about the aforementioned business segments.

Industry

GK Immobile's industrial segment is concentrated in PJP Makrum. PJP Makrum is a company in which GK Immobile holds approximately 66% stake. PJP Makrum provides services in more than 30 countries, on 3 continents. It is active in segments such as loading and parking systems, industrial construction and industry equipment manufacturing.

Loading systems

The loading systems include hydraulic and automated loading and unloading systems, dock shelters, locks, buffers, vehicle guides and industrial doors, ramps and loading platforms. The services include not only the designing, production and installation of loading systems, but also service. Production, distribution and service of the loading and unloading systems is executed in the PROMStahl subsidiary. GKI's products are among the most recognisable brands globally. GKI’s strategy is to further expand business in Europe and globally.

Fig. 1. Loading systems

Source: Company data

Production activities are concentrated in the manufacturing plant in Koronowo. The manufacturing equipment is characterized with a high degree of automation and production comprehensiveness. In 2018-2019, modernisation works were carried out to increase the production capacity. We estimate that its current production capacity allows for a further increase in production volumes. The product is mainly targeted at export markets, with the largest market being Germany.

Fig. 2. Production facility

Source: Company data

Parking systems

GKI's offers MODULO automatic car parks, demand for which is driven by the global shortage of parking spaces. The key markets for MODULO are currently Poland (low competition) and Germany (cost advantages). The company is involved in production, sales and distribution. It offers dependent and independent parking systems, as well as a wide range of accessories to make parking more convenient, such as sensors, gates, barriers and bumpers. Parking systems are a dedicated product not only for developers or general contractors, but also for private individuals.

GKI has its own production park, which makes it easy to customise the product to clients' needs. It cooperates with well-recognized suppliers, and more than 95% of product components come from Polish manufacturers. This translates into high quality of MODULO parking systems and quick access to spare parts.

Fig. 3. Parking systems

Source: Company data

Machines

The third area in which GKI specialises within the industry segment is the production of crushing and grinding machines, a traditional product of the MAKRUM brand. The company is a manufacturer of machinery and equipment for the mining, chemical, cement and paper industries. This part of business is based on 150 years of experience of the PJP Makrum brand in machinery manufacturing. The company has so far manufactured more than 30,000 pieces of equipment including traditional machines, various types of feeders, screening machines and other equipment used in the manufacturing process of many production companies.

Fig. 4. An example of a Makrum machine

Source: Company data

Warehouse equipment

The youngest brand of PJP Makrum is Promlift which offers warehouse equipment, including forklift trucks and warehouse racks.

The development of the logistics and warehouse industry has resulted in a high demand for forklifts. Promlift sells forklifts both under its own brand, but also under brands of global manufacturers such as Toyota and Clark. Promlift also provides maintenance services and offers for sale several thousand of spare parts.

In the first half of 2023, PJP Makrum acquired a lift-and-slide door manufacturer and a forklift dealer, which could result in product synergies. The newly acquired company is the sole representative of the Rema brand - which offers accessories for electric forklifts.

Fig. 5. Storage system

Source: Company data

Construction

The construction segment is also concentrated in PJP Makrum. The company has a track record of more than 80 years in providing general construction services and designing works. It specialises in the construction of manufacturing/warehouse buildings, which are equipped with manufacturing and storage technologies.

PJPMakrum also constructs office buildings, shopping centres and malls, as well as residential buildings.

Industrial construction was the original activity of PJP Makrum Group in the past. The company's origins date back to 1948, when it operated as a private engineering office. As a result of the privatisation process, the engineering office became a joint stock company, PROJPRZEM S.A., and entered a Stock Exchange.

The industrial construction business development accelerated after the company joined the GK Immobile. In 2022, this company competed projects in industrial, commercial, office and residential segments mainly in the Wielkopolskie, Kujawsko-Pomorskie, Dolnoslaskie and Mazowieckie Voivodeships.

Fig. 6. Examples of constructed buildings

Source: Company data

Property leasing

The leasing segment generated relatively insignificant sales in recent years, accounting for approximately 1% of the Group's total revenue. Activities in the leasing area include:

- Leasing of an office property in Bydgoszcz (which is presented in the picture above) – building was constructed by GKI, it is currently the group's headquarter and partially leased to clients from outside the Group.
- Leasing of an office property in Zlotniki, which is owned by GKI's subsidiary Atrem (the transfer of Atrem's headquarters after the acquisition by GK Immobile enabled the former headquarter office building to be leased to external clients).

Fig. 7. Office building in Zlotniki

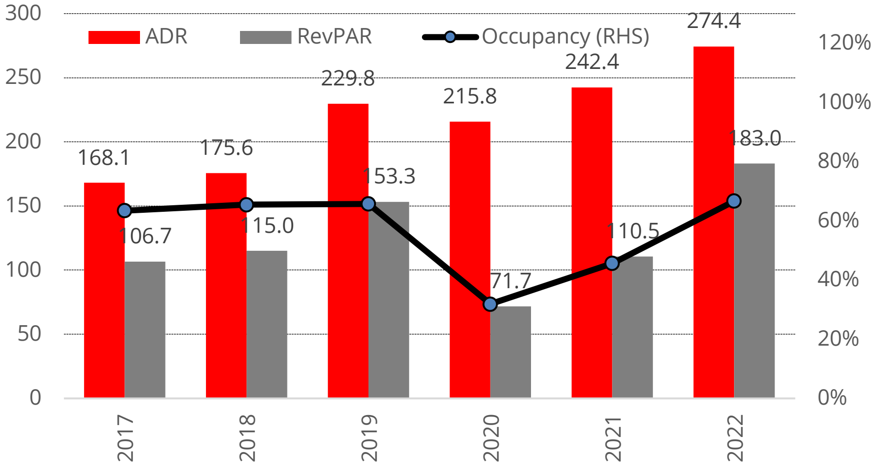
Source: Company data

Hotels

This segment includes management of hotels under the Focus brand, as well as restaurants. Focus Hotels include self-owned and leased hotel buildings. As at the end of 2022 the company owned or leased 15 hotels comprising approximately 1,500 rooms (five owned hotels and 10 leased), with compares with 11 hotels operated as at 2021.

Focus Hotels are primarily city business hotels offering accommodation in Szczecin, Bydgoszcz, Lodz, Gdansk, Chorzow, Sopot, Poznan, Lublin, Elblag, Warsaw and Inowroclaw. The network's key strengths are the economies of scale and the central booking system, which enables optimisation of occupancy and room prices management. GKI's aim is to continue to increase the number of hotels network, focus on maximising REVPAR (revenue per room) and increase of revenue stream from own website in order to reduce the fees payment to leasing agencies.

Fig. 8. Key performance indicators of the hotel segment (PLN)



Source: Company data

Homes building

Residential business includes the construction and sale of residential units through dedicated special purpose vehicles. GKI offers for sale residential units in three locations in Bydgoszcz:

- Platanowy Park,
- Osiedle Uniwersyteckie,
- Osiedle Rabatki.

Below we present details of the aforementioned residential projects.

Platanowy Park

Platanowy Park comprises eight residential phases and three commercial development phases. On an area of over 9 hectares, 1,250 flats have been designed, i.e. approximately 72,000 square metres of residential space and 43,000 square metres of office and commercial space. So far, three stages of the residential projects have been completed (stage 0, stage 1 and stage 2) - comprising a total of 488 flats and 536 parking spaces in multi-space garages. Stage 3 of the project, which is currently under construction, should be handed over to customers in 3Q2023, and then revenue should be recognised. This phase will comprise 256 flats, 8 commercial units and 318 parking spaces in the multi-car garages. The next phase of Platanowy Park - phase 4 - is under preparation. GKI is in the process of obtaining planning permit and plans to start this phase in 2023. Phase 4 will cover the construction of 180 flats, four commercial units and 188 parking spaces in a garage hall.

Osiedle Uniwersyteckie
The project envisages the construction of 15 residential buildings with a total of approximately 600 flats. To date, phase 1 has been completed, with a total of 108 flats, 36 individual parking placed in an underground garage and 72 external parking spaces. In February 2022 GKI completed the construction of phase 2, which covered the construction of three multi-family residential buildings with a total of 106 flats, 36 individual in-house parking places and 70 outdoor parking spaces. Phase 3 of the development is currently under construction. This phase will cover the construction of 168 flats, 100 parking spaces in the garage hall and 68 outdoor parking places. Completion is scheduled for mid-2025.

Osiedle Rabatki
The land is located in a direct vicinity of a park complex. In phase 1, GKI has built 130 flats, 45 parking places in a garage and 87 external parking spaces. In the first quarter of 2023, an occupancy permit was obtained and flats handovers began. Phase 2 will include a further 220 flats. The company is currently focused on designing works. It plans to secure a building permit in 2023.

Automation and power engineering
Automation and power engineering services are provided primarily by GKI's subsidiary Atrem. Atrem is an experienced entity operating in a highly specialised and niche segments of the construction market, and is one of few in Poland with references in the execution of contracts for gas pipeline or power grid operators. The main customers for its services include Gaz System or Enea.

The automation segment includes engineering services in the area of industrial automation, control equipment, reconstruction of gas equipment, telemetry, tele-technology, electronics, metrology, and services in the area of air-conditioning, ventilation and heating installations.

The electricity segment provides low-, medium- and high-voltage energy services.

Atrem also executes contracts in the area of renewable energy sources, including the execution of power grids, as well as the construction and modernisation of low- and medium-power installations. Contracts also include power connections for wind turbines.

Key contracts in recent years included:
- Execution of gas compressor stations in Odolanow, and subcontracting works of gas network – a part of the Baltic Pipe system,
- Modernisations of the power network (e.g. for PGE Dystrybucja).

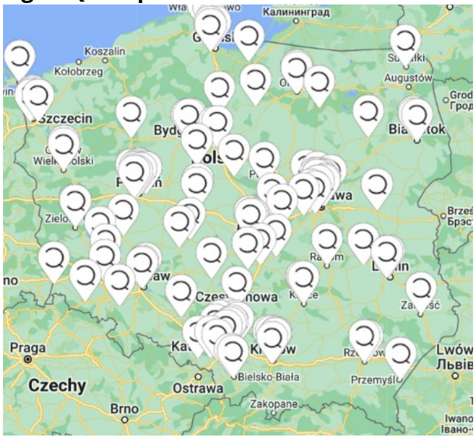
Atrem is also a member of a consortium which is executing contract for Orlen, of the value of works attributable to Atrem of PLN253mn, which increased Atrem's order book in 1Q2023 to a record level of approximately PLN450mn.

Retail sales
GK Immobile operates in the clothing segment under the QUIOSQUE brand. The brand has been present on the market for more than 30 years. The offer is mainly aimed at women aged 35+ with dresses being the key product.

Sales are conducted through the e-channel - own website and a network of showrooms located mainly in shopping malls. These include outlets in small, but also large shopping centres, such as Galeria Mlociny or Galeria Polnocna in Warsaw.

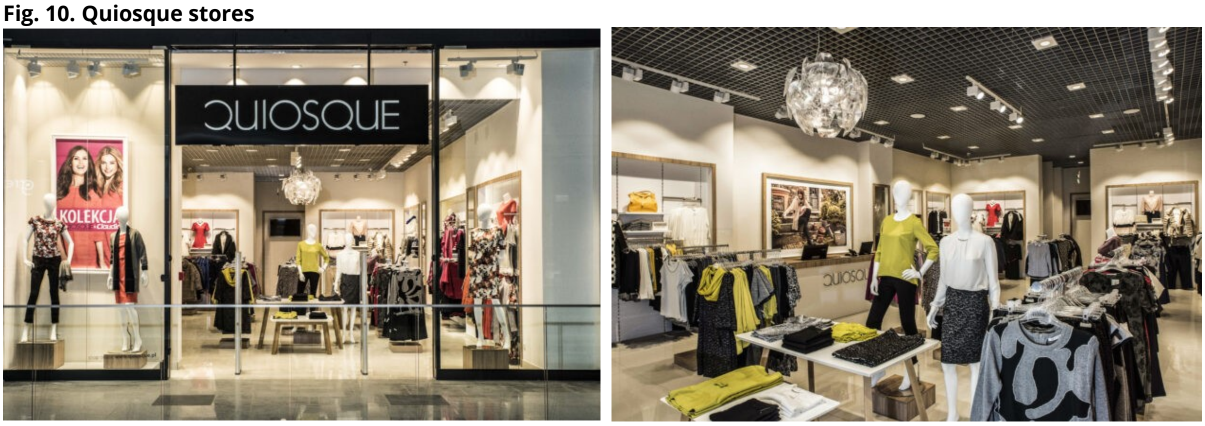
GK Immobile acquired the company running the Quiosque sales chain in 2021. At the same time, it was a challenging year for retail chains in Poland, due to the introduced trading restrictions caused by the escalation of the COVID19 pandemic. The first restrictions were introduced in March 2020 and lasted approximately two years. The World Health Organisation announced the end of the pandemic on 5 May 2023.

Fig. 9. Quiosque stores network



Source: Company data

Fig. 10. Quiosque stores



Source: Company data

Sales

Seven business segments

GKI's revenues are generated in seven segments. The biggest share of revenue in 2022 (and previous years) came from industry segment (c. 31% of the group's total sales), which primarily comprises the sale of handling systems (sales of handling systems accounted for c. 85% of the industry segment's revenue in 2022). GKI's second business segment in terms of sales was the construction segment (c. 28% of total revenue). The other segments generated about 40% of GKI's revenue in 2022, including the hotel segment (15%), automation (12%), retail sales (8%), homes building (4%) and property leasing (less than 1% of the group's revenue).

77% of sales are domestic

In 2022, approximately 77% of GKI's sales revenue came from domestic market and the remaining 23% from export. Export sales were exclusively related to activities in the industrial segment, which mainly included the sale of handling systems.

GKI's main export market is Germany, which accounted for around 40% of export sales in 2022. Export markets included also France (21%), the Netherlands (7%), Denmark (7%) and the UK (6%).

In order to mitigate foreign exchange risk, GKI uses hedging of its currency exposure, in the form of natural hedging (some components purchased in EUR) and forward hedging transactions.

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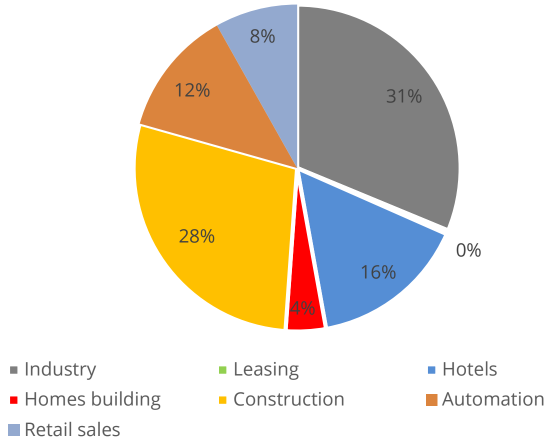
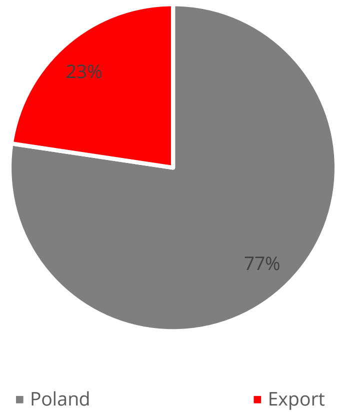
Fig. 11. Sales breakdown



Source: Company, data for 2022

Fig. 12. Geographical sales breakdown



Source: Company, data for 2022

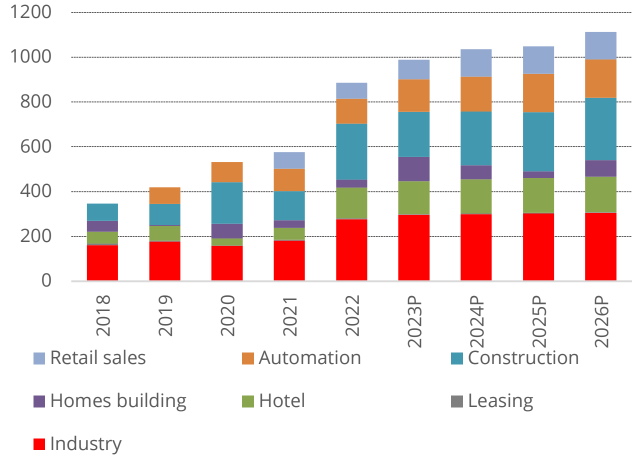
Sales CAGR of 28% in 2019-22

From 2019 to 2022, GKI increased sales with a CAGR of 27%, which was mainly driven by the strong sales growth of the construction segment (34% CAGR) and sales in the hotel segment (27%). The high level of revenue growth was significantly helped by acquisitions, including the acquisition of a controlling stake in Atrem in 2019.

The sales growth in the construction segment was driven by the company's organic growth through geographical expansion. By 2018, it had two construction branches in Poznan and Bydgoszcz, and as of 2019, two additional branches in Warsaw and Wroclaw were in operation. The new branches allowed for providing services throughout the country, and better market penetration including revenue and cost synergies.

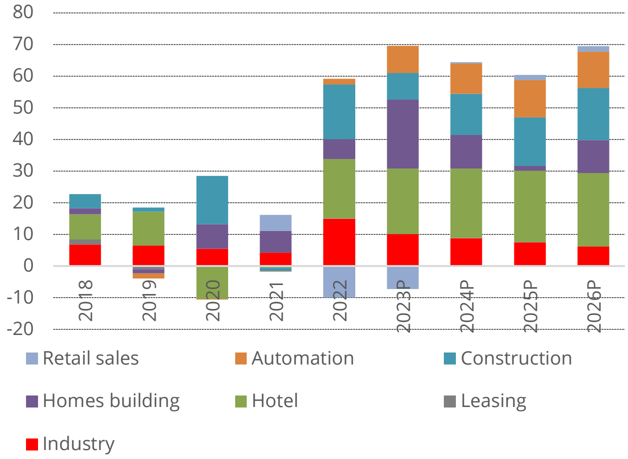
On the other hand, the high sales CAGR in the hotel segment was mainly the result of a very good year of 2022. The development of a hotel network, as well as recalled restrictions resulting from the COVID-19 epidemic (as of the beginning of May 2022), allowed GKI to monetise the growth in tourist and business traffic, as well as price inflation. The average price per room increased by 13% y/y and occupancy rose to nearly 67% from less than 46% in 2021. The hotel network also expanded in 2021-22 with the addition of five hotels: in Elblag (85 rooms), Szczecin (89 rooms), Lublin (87 rooms), Warsaw (234 rooms), Bydgoszcz (88 rooms) and two restaurants (in Bydgoszcz).

Fig. 13. Sales breakdown (PLNmn)



Source: Company data, Santander Brokerage Poland estimates

Fig. 14. Profit on sales breakdown (PLNmn)



Source: Company data, Santander Brokerage Poland estimates

2022 sales increased by as much as 54% y/y

The year 2022 was an exceptionally successful one for GKI. The company announced record high sales of more than PLN880mn, which was 54% higher y/y, of which the hotel segment generated 160% y/y growth, the industry segment generated approximately 54% y/y sales growth and the construction segment grew by 92% y/y.

The sales growth in the hotel segment was due to the factors described earlier. Strong sales in construction and industry came from high order backlog in Poland supported by improved market penetration, as well as a high level of export orders mainly for handling systems. The high sales may also have been the result of cumulative demand for the company's products following the lockdown period related to the COVID-19 pandemic, in which many investments were put on hold and, once the lockdown ended - unfrozen.

Sales forecasts of the year 2023 and onwards

Below are the main assumptions of our sales forecast:

1) **Industry:** Despite the high base of 2022, we forecast revenue growth in the segment in 2023E and beyond (subsidiary PJP Makrum is responsible for a sales stream in this segment). 1Q2023 was successful for the segment, as sales grew 32% y/y, which may indicate sales growth throughout the year. We assume that the main drivers of the segment's sales growth this year and beyond will be:
    - high demand for handling systems due to the expected growth of the e-commerce market, and an increase in demand for warehouse space,
    - capacity utilisation increase which may stay behind an increase in the loading systems output (we estimate the room for an increase in production volume of about 30% compared to 2022).

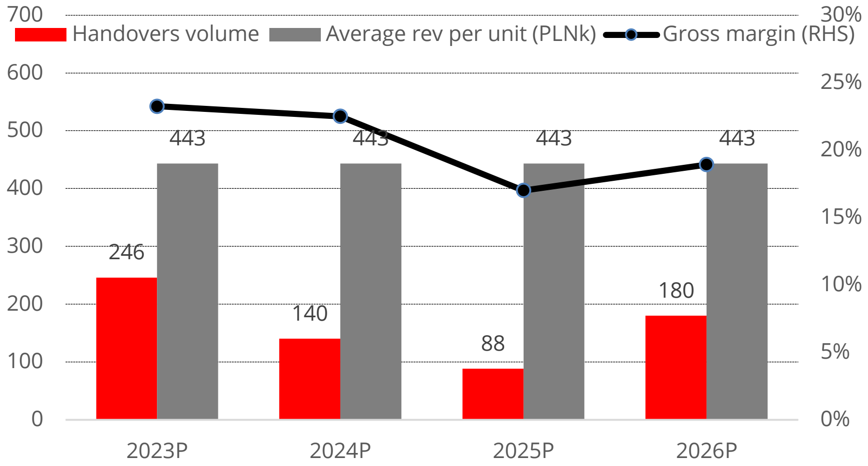
2) **Leasing:** GKI leases office space in two buildings: in Bydgoszcz and in Zlotniki (this property is owned by subsidiary Atrem). We forecast a stable level of rental fees and occupancy of office buildings during the forecast period. We also assume no changes in the portfolio of assets for lease.

3) **Hotels:** Despite the high base year of 2022, we forecast revenue growth in 2023E, which we believe will be the result of:
    - stable occupancy over the forecast period (OCC) due to the fact that occupancy have returned in 2022 to levels that were achieved prior to the COVID-19 pandemic and which we consider optimal for the segment in which the FOCUS hotel chain operates. OCC in 2022 was 66.7%, compared to 32%-46% in 2020-21 and an average of 65% in 2017-19;
    - growth in the number of hotels - our forecasts assume no new hotel openings, but we note that in line with its strategy, GKI should continue to develop its network of hotel facilities in the Polish market. Our forecasts assume no new openings in 2023 due to limited access to financing for new investments these days;
    - price inflation - high food and service price inflation supported the segment's performance in 2022. In 2023E, we forecast a continuation of price increases for hotel services, but at a much lower rate than in 2022, due to the declining inflation rate in the economy;
    - base effect - we note that revenue growth in 2023 will also be derived from hotel openings during 2022, including a hotel in Warsaw, in March 2022.

    Details of the assumptions can be found in the tables, later in the report.

4) **Homes building**: Our revenue forecast is determined by the residential building construction schedules. Details of the assumptions can be found in the tables, later in the report. In summary, we assume that in 2023E and 2024E, GKI will hand over to clients apartments from the Platanowy Park and Rabatki projects, and in 2025E it will start handing over apartments of the Osiedle Uniwersytecke. We assume that housing prices will remain flat during the forecast period, but we see an upside risk due to the recovery in housing demand in 1H2023 and the limited number of apartments for sale in the market.

Fig. 15. Assumptions for the homes building segment



Source: Company data, Santander Brokerage Poland estimates

5) **Construction**: 2023 may prove to be a more difficult year for the segment. We forecast a y/y decline in sales due to an expected decline in client's investment activity (including suspension of office or industrial construction projects), coming from relatively high interest rates and concerns about an economic slowdown. In addition, we highlight the effect of a high base of 2022. As of 2024E, we forecast a rebound in sales due to:
   - expected decline in interest rates, which should improve IRRs of clients' investment projects and increase the demand for industrial buildings,
   - pending nearshoring, covering the reallocation of production facilities to Europe from Asian countries,
   - geographical and product synergies.

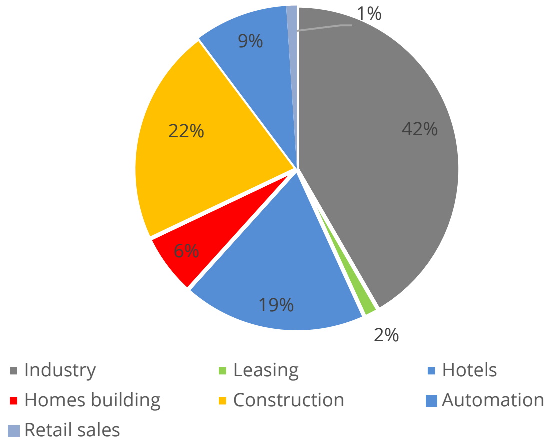
6) **Automation and power engineering**: Atrem, where revenues from the automation and power engineering segment are concentrated, signed as a consortium partner in March 2023 a contract worth about PLN253mn with Orlen for the construction of facilities, which increased Atrem's order backlog to a record level of about PLN450mn (as of the publication of the 1Q2023 report). Due to work schedule (design-to-build contract), we forecast most of the revenue stream in 2024E and 2025E, but we expect the company to recognize a part of revenues for designing work also in 2023E.

7) **Retail sales:** In 2023, GKI plans to focus on new stores openings located mainly in shopping malls in order to increase the scale of operations. An important development in the 1st half of the year was the initiation of cooperation with new brands and the introduction of them to own showrooms including: Laurella (dresses), Blonie (watches), Akardo (footwear), and Mara Sim Sim (jewellery), which may result in product synergies. We assume in our forecast that the company will increase revenue generated per shop in 2023.

Profits/margins

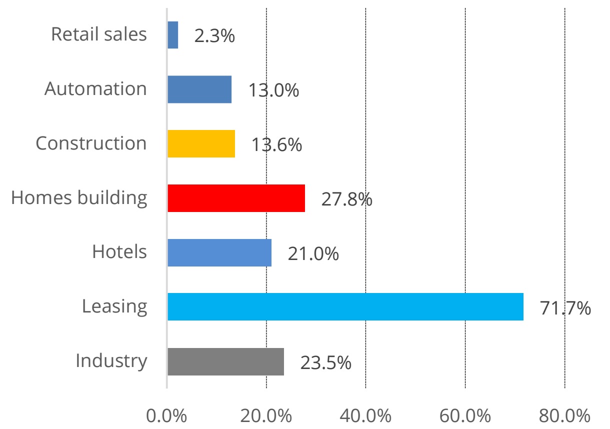
In 2022, the largest contributor to GKI's earnings at the level of gross profit on sales was the construction segment and the industry segment, which together generated about 60% of the profit. The leasing activity was the smallest contributor to earnings. The highest gross margin on sales was generated by the leasing segment, which is natural for such type of business (relatively low maintenance costs of yielding properties in relation to rental fees). The lowest margin was achieved by the retail segment, mainly due to high fixed costs and low sales efficiency. In 2022, GKI significantly improved its operating profit to around PLN49mn from less than PLN18mn in 2021, thanks to an increase in sales revenue and an improvement in gross profit on sales margin.

Fig. 16. Gross profit on sales breakdown



Source: Company data, data for 2022

Fig. 17. Gross profit on sales margin



Source: Company data, data for 2022

Below are the assumptions for margin and profit forecasts in each business segment.

1) **Industry**: In the handling systems manufacturing segment, we assume potential risks associated with strong competition in foreign markets from large international groups that are cost-optimized (e.g. Herman, which has a broad product) and these benefiting from economies of scale. We also believe that the increase in the scale of PJP Makrum's operations and revenues growth in this segment may result in fall of business profitability. The y/y weakening of EUR/PLN may also negatively affect the segment's margins. We forecast a slight decline in gross margin in 2023E and stable margin in following years. We also highlight high growth rate of the segment's gross profit in 1Q23.

2) **Leasing**: We expect stable profitability and profit level. We do not assume any changes in rental fees or occupancy levels.

3) **Hotels**: We estimate profitability at stable level and profit to increase in 2023E due to projected revenue growth (price inflation). Any increase in the number of hotels in the following years would represent an upside risk to our forecasts.

4) **Homes building**: The margin and profit forecast for this segment depends on the sales mix for a specific year. We assume relatively high prices for the Platanowy Park project (high end segment), and relatively low prices for the Osiedle Uniwersytecke project (popular segment). We assume the price level of the Rabatki project to be between the prices of

the Platanowy Park and Osiedle Uniwersyteckie projects. The differences in prices are due to the quality of common areas and the specific location. We do not assume any changes in the prices of apartments in our forecast, but a revival in demand for apartments may allow the company to raise apartment prices.

5) **Construction**: We forecast stable gross profit on sales margin over the forecast horizon at a level close to 2022. On the one hand, we assume an increase in construction costs in 2023E y/y as a result of higher energy prices and construction material costs. On the other hand, we assume that the share of contracts signed at a so-called 'price peak' in 2022 will be higher y/y in a revenue mix, which should support margins. Our operating profit forecast for 2023E is lower y/y, due to the assumed lower level of sales. With the expected increase in sales starting in 2024E, we also assume an increase in operating profit from this segment.

6) **Automation and power engineering:** The segment's profitability in 2021-22 was under pressure because of low-margin contracts signed by Atrem (Atrem is responsible for this segment's revenues) in previous years. Increased construction costs, focus on low-value contracts and high fixed costs resulted in Atrem's profitability at the level well below the company's ambition. The acquisition of a majority stake by GK Immobile in 2019 resulted in changes to Atrem's strategy, in our opinion. We believe that the focus on high-value contracts and the cost optimization should result in profitability improvement over the forecast horizon, starting as of 2023E, when a large contract for Orlen is planned to be executed.

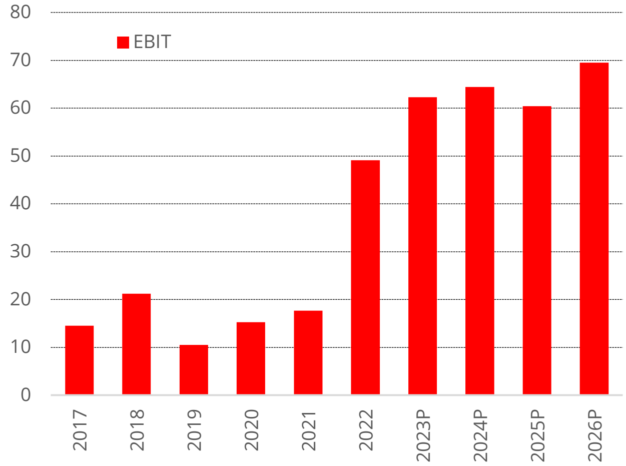
7) **Retail sales:** The years 2021-2022 were difficult for the retail segment due to temporary restrictions (lockdown) in shopping malls trading, and rapid growth of the e-commerce segment. We estimate improved performance in 2023E and beyond due to expected positive operating leverage effect - we estimate an increase in sales/sqm of retail space and better costs control. We also assume support from acquisitions completed in 1H2023.

Fig. 18. Gross profit on sales margin

	2020	2021	2022	2023E	2024E	2025E	2026E
Industry	26.1%	23.9%	23.5%	20.0%	20.0%	20.0%	20.0%
Leasing	72.4%	62.3%	71.7%	71.7%	71.7%	71.7%	71.7%
Hotels	-12.5%	13.5%	21.0%	21.0%	21.0%	21.0%	21.0%
Homes building	16.7%	28.1%	27.8%	23.2%	22.5%	17.0%	18.9%
Construction	16.4%	9.9%	13.6%	13.0%	13.0%	13.0%	13.0%
Automation and power engineering	12.8%	11.8%	13.0%	14.0%	14.0%	14.0%	14.0%
Retail sales		24.7%	2.3%	5.0%	9.8%	10.8%	10.8%
Total:	**17.0%**	**18.7%**	**17.6%**	**17.1%**	**16.8%**	**16.4%**	**16.5%**

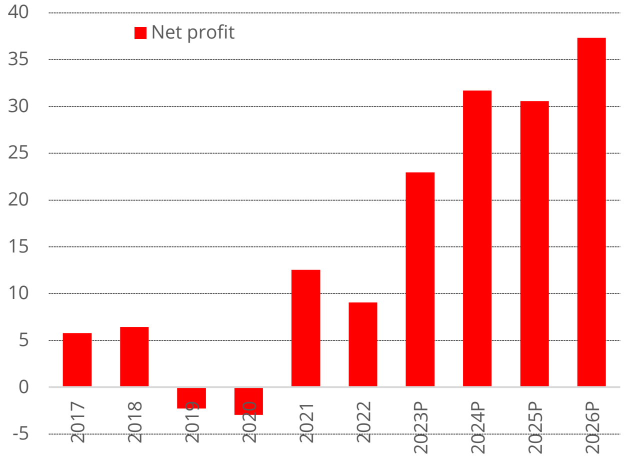
Source: Company data, Santander Brokerage Poland estimates

Fig. 19. EBIT (PLNmn)



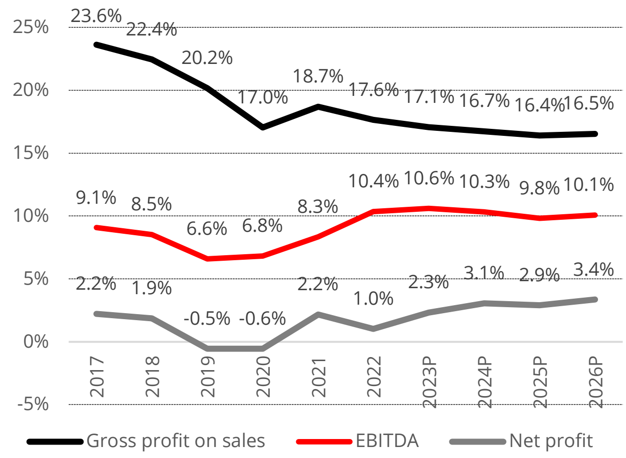
Source: Company data, Santander Brokerage Poland estimates

Fig. 20. Net profit (PLNmn)



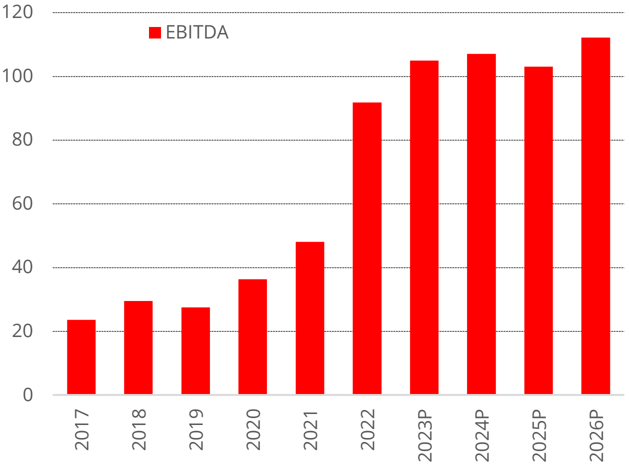
Source: Company data, Santander Brokerage Poland estimates

Fig. 21. Margins



Source: Company data, Santander Brokerage Poland estimates

Fig. 22. EBITDA (PLNmn)



Source: Company data, Santander Brokerage Poland estimates

Fig. 23. Industry segment: key assumptions

PLNmn	2020	2021	2022	2023E	2024E	2025E	2026E
Sales	**157.6**	**181.5**	**276.9**	**296.2**	**299.0**	**301.8**	**304.6**
Handling systems	130.9	154.6	235.5	247.3	249.7	252.2	254.7
Parking systems	16.0	13.0	10.8	17.2	17.2	17.2	17.2
Makrum	10.7	6.0	12.8	13.0	13.1	13.2	13.4
Storage and other equipment		7.9	17.9	18.8	19.0	19.1	19.3
Gross profit on sale	**41.2**	**43.3**	**65.2**	**59.2**	**59.8**	**60.4**	**60.9**
SG&A costs	35.7	39.1	50.2	49.2	51.0	52.8	54.8
Profit/loss on sale	**5.4**	**4.2**	**15.0**	**10.1**	**8.8**	**7.5**	**6.2**
Depreciation	2.7	5.2	8.8	8.8	8.8	8.8	8.8
EBITDA	**8.2**	**9.4**	**23.8**	**18.9**	**17.6**	**16.3**	**15.0**

Source: Company data, Santander Brokerage Poland estimates

Fig. 24. Leasing segment: key assumptions

PLNmn	2020	2021	2022	2023E	2024E	2025E	2026E
Sales	**2.2**	**3.1**	**3.3**	**3.3**	**3.3**	**3.3**	**3.3**
Gross profit on sale	**1.6**	**1.9**	**2.4**	**2.4**	**2.4**	**2.4**	**2.4**
SG&A costs	2.5	2.0	2.3	2.3	2.3	2.3	2.3
Profit/loss on sale	**-1.0**	**-0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Depreciation	0.6	0.6	1.4	1.4	1.4	1.4	1.4
EBITDA	**-0.3**	**0.5**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**

Source: Company data, Santander Brokerage Poland estimates

Fig. 25. Hotel segment: key assumptions

PLNmn	2020	2021	2022	2023E	2024E	2025E	2026E
Sales	**30.7**	**52.9**	**137.8**	**146.6**	**152.7**	**155.7**	**158.9**
Sales from rooms				**104.4**	**109.7**	**111.9**	**114.1**
OCC	31.9%	45.6%	66.7%	66.7%	66.7%	66.7%	66.7%
Average net room price	215.8	242.4	274.4	288.1	302.5	308.5	314.7
Net revenue per available room	71.7	110.5	183.0	192.2	201.8	205.8	209.9
Number of rooms at the end of the year	966	1191	1489	1489	1489	1489	1489
Number of rooms average		1079	1340	1489	1489	1489	1489
Sales from restaurants	**6.5**	**4.9**	**38.3**	**42.2**	**43.0**	**43.9**	**44.8**
Gross profit on sale	**-3.9**	**7.2**	**28.9**	**30.8**	**32.1**	**32.7**	**33.4**
SG&A costs	6.4	7.7	10.2	10.2	10.2	10.2	10.2
Profit/loss on sale	**-10.3**	**-0.5**	**18.8**	**20.6**	**21.9**	**22.6**	**23.2**
Depreciation	13.6	13.7	18.5	18.5	18.5	18.5	18.5
EBITDA	**3.3**	**13.1**	**37.2**	**39.1**	**40.4**	**41.0**	**41.7**

Source: Company data, Santander Brokerage Poland estimates

Fig. 26. Automation segment: key assumptions

PLNmn	2020	2021	2022	2023E	2024E	2025E	2026E
Sales	**90.6**	**100.4**	**110.5**	**146.0**	**155.0**	**172.0**	**172.0**
Gross profit on sale	**11.6**	**11.8**	**14.4**	**20.4**	**21.7**	**24.1**	**24.1**
SG&A costs	11.8	12.0	12.6	11.9	12.1	12.3	12.5
Profit/loss on sale	**-0.2**	**-0.2**	**1.7**	**8.5**	**9.6**	**11.8**	**11.6**
Depreciation	2.3	2.6	3.1	3.1	3.1	3.1	3.1
EBITDA	**2.1**	**2.5**	**4.9**	**11.7**	**12.7**	**14.9**	**14.7**

Source: Company data, Santander Brokerage Poland estimates

Fig. 27. Construction segment: key assumptions

PLNmn	2020	2021	2022	2023E	2024E	2025E	2026E
Sales	**184.8**	**129.9**	**250.4**	**200.3**	**240.4**	**264.4**	**277.7**
Gross profit on sale	**30.2**	**12.8**	**34.1**	**26.0**	**31.3**	**34.4**	**36.1**
SG&A costs	15.1	13.9	16.8	17.6	18.3	19.0	19.7
Profit/loss on sale	**15.2**	**-1.1**	**17.3**	**8.4**	**12.9**	**15.4**	**16.4**
Depreciation	0.4	0.1	0.5	0.5	0.5	0.5	0.5
EBITDA	**15.6**	**-1.0**	**17.8**	**8.9**	**13.5**	**15.9**	**16.9**

Source: Company data, Santander Brokerage Poland estimates

Fig. 28. Retail segment: key assumptions

PLNmn	2020	2021	2022	2023E	2024E	2025E	2026E
Sales	**0.0**	**73.7**	**72.3**	**87.3**	**122.7**	**122.7**	**122.7**
Gross profit on sale	**0.0**	**18.2**	**1.6**	**4.4**	**12.1**	**13.3**	**13.3**
SG&A costs	0.0	13.2	11.6	11.6	11.6	11.6	11.6
Profit/loss on sale	0.0	**5.1**	**-10.0**	**-7.2**	**0.4**	**1.7**	**1.7**
Depreciation	0.0	8.1	10.2	10.2	10.2	10.2	10.2
EBITDA	**0.0**	**13.1**	**0.2**	**3.0**	**10.7**	**11.9**	**11.9**

Source: Company data, Santander Brokerage Poland estimates

Fig. 29. Homes building segment: key assumptions

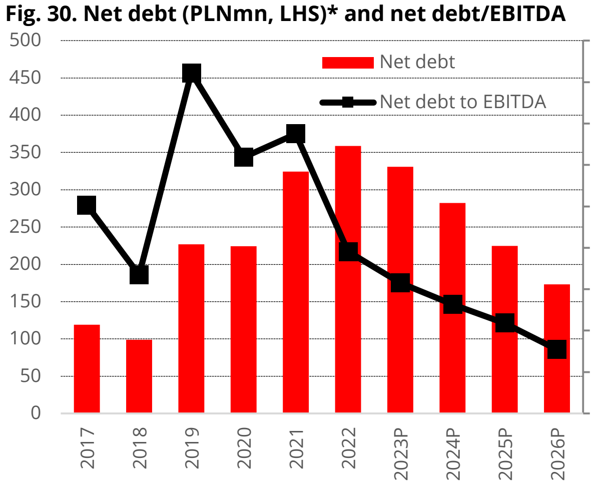
PLNmn	2020	2021	2022	2023E	2024E	2025E	2026E
Sales	**66.4**	**34.2**	**35.2**	**109.1**	**63.0**	**29.3**	**73.9**
Residential units handovers volume				246	140	88	180
Average price per unit				443	443	443	443
Osiedle Uniwersyteckie project							
Revenues						**29**	**27**
Handovers volume						88	80
Average price per unit						333	333
Platanowy Park							
Revenues				**74**	**47**	**0**	**47**
Handovers volume				156	100		100
Average price per unit				472	472	472	472
Rabatki							
Revenues				**35**	**16**		
Handovers volume				90	40		
Average price per unit				394	394		
Gross profit on sale	**11.1**	**9.6**	**9.8**	**25.4**	**14.2**	**5.0**	**14.0**
Osiedle Uniwersyteckie				**0.0**	**0.0**	**5.0**	**4.5**
Margin				*17%*	*17%*	*17%*	*17%*
Platanowy Park				**14.7**	**9.4**	**0.0**	**9.4**
Margin				*20%*	*20%*	*20%*	*20%*
Rabatki				**10.6**	**4.7**	**0.0**	**0.0**
Margin				*30%*	*30%*	*30%*	*30%*
SG&A costs	3.3	2.8	3.5	3.5	3.5	3.5	3.5
Profit/loss on sales	**7.8**	**6.8**	**6.2**	**21.8**	**10.6**	**1.5**	**10.4**
Depreciation	0.1	0.1	0.1	0.1	0.1	0.1	0.1
EBITDA	**7.9**	**6.9**	**6.4**	**21.9**	**10.7**	**1.6**	**10.6**

Source: Company data, Santander Brokerage Poland estimates

Cash flow/debt

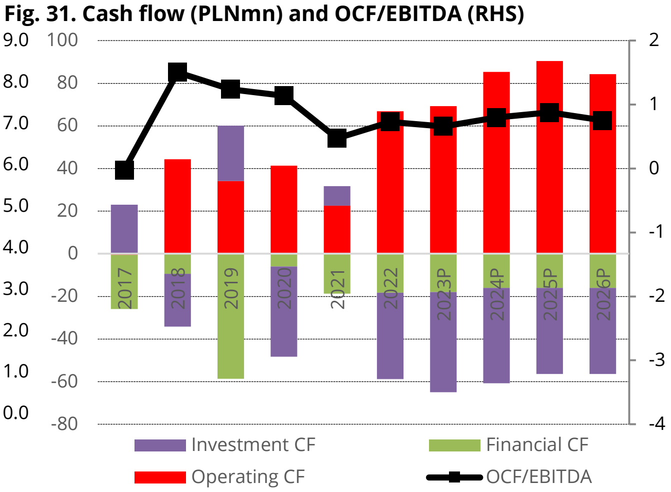
GKI has generated positive operating cash flow over the past five years. In 2018-22, operating cash flow represented an average of 102% of average EBITDA, which seems to be a very good achievement. Non-operating assets disposals (real estate) provided a source of additional cash flow and may represent a source of cash also in future years. GKI has had a significant leverage in recent years, which we also forecast for 2023E and beyond. We calculate a net debt to EBITDA ratio in 2022 at around 4x, which we find a high level. We note, however, that the net debt calculation includes leases that partly relate to the perpetual usufruct of land, a liability that passes to the purchaser of an apartment when it is sold, as well as liabilities related to long-term commercial space leasing.

Fig. 30. Net debt (PLNmn, LHS)* and net debt/EBITDA



Source: Company data, Santander Brokerage Poland estimates
** Net debt includes leasing*

Fig. 31. Cash flow (PLNmn) and OCF/EBITDA (RHS)



Source: Company data, Santander Brokerage Poland estimates

Fig. 32. Net debt and adjusted net debt for leasing liabilities (PLNmn)

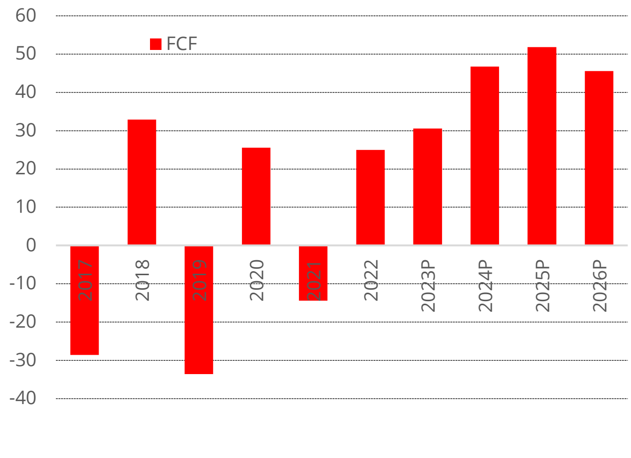
PLNmn	2020	2021	2022	2023E	2024E	2025E	2026E
Net debt	224	324	359	331	282	225	173
Net debt adjusted*	146	167	162	157	133	99	71

*Source: Company data, Santander Brokerage Poland estimates, * adjustment for leasing*

Dividend

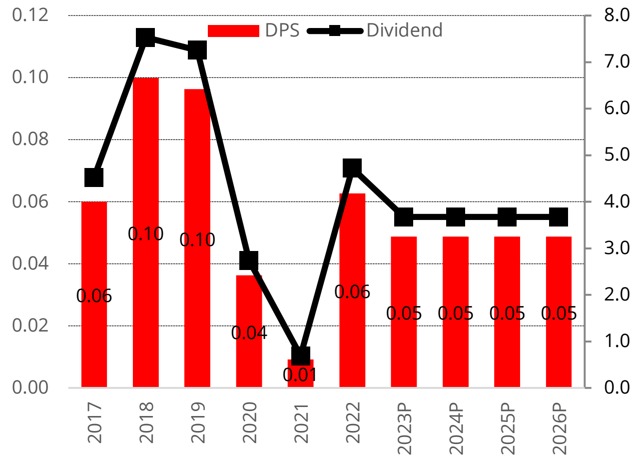
GK Immobile has been a regular dividend payer in recent years. In 2023 DPS will amount to PLN0.05 in accordance with the resolution of the Board. The payout ratio was 38%. We assume a flat DPS in future years, but earnings growth may, in our view, results in higher dividends.

Fig. 33. Free cash flow (PLNmn)



Source: Company data, Santander Brokerage Poland estimates

Fig. 34. Dividend (PLNmn) and DPS (LHS, PLN)



Source: Company data, Santander Brokerage Poland estimates

1Q2023 results

GKI showed weak results in 1Q2023. The net loss was due to 1) a slight year-on-year decline in gross profit on sales margin, and 2) an increase in selling, general and administration expenses. We note that seasonally, the company used to generate relatively low sales in the first quarter of the year and a net loss in previous years.

Fig. 35. Quarterly financial results

PLNmn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23
Sales	**95.8**	**130.8**	**169.2**	**180.0**	**171.5**	**276.8**	**234.9**	**203.4**	**175.2**	**208.4**
Industry	37.2	44.1	43.5	56.7	49.0	76.2	74.6	77.1	64.9	82.3
Leasing	0.6	1.1	0.6	0.9	0.9	1.0	0.8	0.7	1.4	0.4
Hotel	5.4	8.9	23.1	15.6	18.7	36.5	43.2	39.4	33.4	45.1
Homes building	16.6	9.2	5.6	2.9	1.5	26.8	1.7	5.1	22.2	11.0
Construction	19.4	22.1	40.2	48.3	53.2	81.8	73.8	41.6	23.3	20.8
Automation and power engineering	16.6	22.1	30.1	31.6	32.5	32.2	23.6	22.1	18.8	29.6
Retail sales	0.0	23.4	26.2	24.2	15.3	22.6	17.0	17.4	11.1	19.1
Gross profit on sales	**15.5**	**28.2**	**29.0**	**35.0**	**23.8**	**45.7**	**42.6**	**44.3**	**23.7**	
Industry					12.3				15.4	
Leasing					0.7				0.7	
Hotel					0.1				1.6	
Homes building					0.8				6.8	
Construction					6.3				3.1	
Automation and power enginnering					4.1				1.4	
Retail sales					-0.5				-5.4	
Selling costs	-8.4	-12.9	-11.5	-16.0	-13.4	-12.3	-14.6	-15.4	-15.0	
General and administrative expenses	-9.3	-12.3	-9.8	-13.2	-12.3	-12.9	-11.3	-15.1	-14.7	
Profit/loss on sales	**-2.2**	**3.0**	**7.6**	**5.7**	**-1.9**	**20.6**	**16.8**	**13.8**	**-5.9**	
Industry	1.4	1.5	-1.8	3.1	0.3	3.1	6.3	5.2	1.7	
Leasing	0.1	0.0	-0.1	-0.1	0.1	0.2	-0.1	-0.2	-0.4	
Hotel	-3.5	-2.2	6.8	-1.7	-2.2	7.4	11.2	2.4	-1.4	
Homes building	2.3	1.5	1.6	1.3	0.0	5.7	-5.1	5.6	5.6	
Construction	-1.4	-2.7	2.1	0.9	2.1	1.1	6.3	7.9	-1.0	
Automation and power enginnering	-1.2	1.1	-0.5	0.4	0.8	0.4	0.2	0.2	-2.5	
Retail sales	0.0	3.7	-0.5	1.8	-3.1	2.6	-2.1	-7.4	-8.0	
Other operating income	0.4	1.5	0.6	5.1	1.5	-0.4	0.1	10.3	0.2	
Other operating expenses	-0.2	-0.2	-0.3	-2.5	-1.5	-1.9	0.7	-9.3	-0.3	
Profit on non-financial assets	-0.5	-0.4	0.2	-0.1	-1.1	2.1	0.1	-0.6	0.1	
Operating profit/loss	**-2.5**	**3.9**	**8.1**	**8.2**	**-3.0**	**20.3**	**17.7**	**14.2**	**-6.0**	
Financial income	0.1	1.5	-0.3	1.0	0.8	-0.6	0.0	1.1	0.2	
Financial costs	-2.8	-2.3	-4.1	-2.2	-5.8	-7.6	-6.4	-4.6	-5.7	
Profit on investments	0.0	0.0	0.0	8.5	0.0	0.0	0.0	5.7	0.3	
Gross profit/loss	**-5.2**	**3.1**	**3.6**	**15.5**	**-8.1**	**12.1**	**11.3**	**16.7**	**-11.0**	
Income tax	-0.5	-0.7	-2.1	1.8	-0.6	-1.0	-2.8	-9.0	-2.2	
Net profit/loss	-5.7	2.4	1.6	17.4	-8.7	11.0	8.5	7.7	-13.1	
Net profit/loss of parent company shareholders	**-4.2**	**1.0**	**2.2**	**13.6**	**-9.0**	**8.7**	**5.8**	**3.5**	**-11.3**	
Minorities	-1.5	1.4	-0.6	3.8	0.3	2.4	2.7	4.1	-1.8	
Gross profit on sales margin	*16.2%*	*21.5%*	*17.1%*	*19.4%*	*13.9%*	*16.5%*	*18.2%*	*21.8%*	*13.5%*	
EBIT margin	*-2.6%*	*3.0%*	*4.8%*	*4.6%*	*-1.8%*	*7.3%*	*7.5%*	*7.0%*	*-3.4%*	
EBITDA margin	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	
Net margin	*-4.4%*	*0.8%*	*1.3%*	*7.5%*	*-5.2%*	*3.1%*	*2.5%*	*1.7%*	*-6.4%*	

Source: Company data, Santander Brokerage Poland estimates

Growth factors

Below are potential factors that could stay behind GKI's business performance in the coming quarters and years.

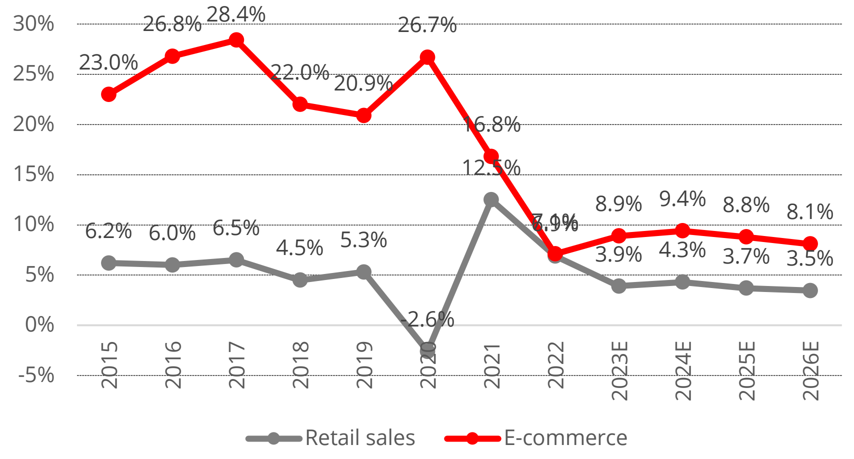
Rising e-commerce spending to drive growth in warehouse space

GKI's comprehensive portfolio of warehouse construction, as well as its exposure to European markets, enable it, in our view, to participate in the expected increases in consumer spending on e-commerce and expenditures on warehouses associated with this trend.

Below is a chart showing global annual retail sales growth and e-commerce retail spending growth. In 2010', the annual growth rate of the e-commerce market exceeded 20%, a level significantly above the growth rate of total retail sales, and in the pandemic year of 2020, e-commerce sales grew by nearly 27% y/y, with a negative growth in total retail sales.

In the coming years, according to eMarketer forecasts, a significant slowdown in e-commerce sales growth is expected, but average annual growth of more than 8% should nearly double the growth rate of total retail sales.

Fig. 36. Retail and e-commerce sales globally (y/y)



Source: eMarketer, December 2022

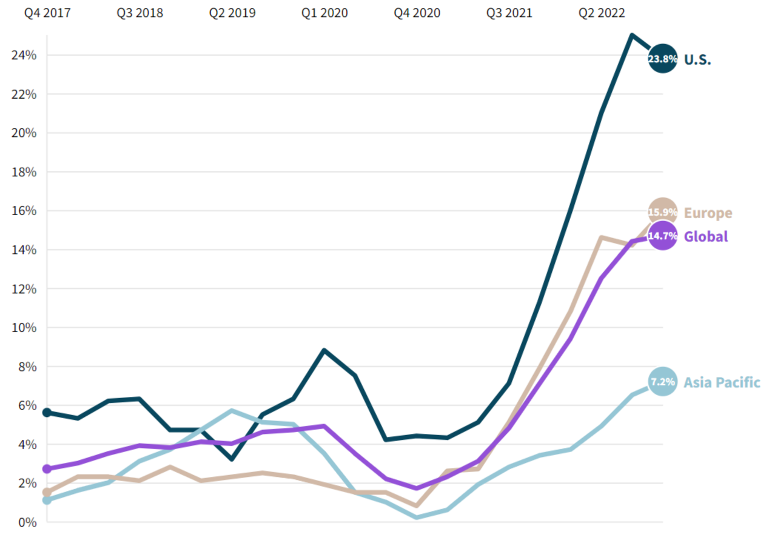
Outlook for a warehouse segment is appealing

The outlook for warehouse real estate market looks quite solid. In Europe, in 2022, warehouse space supply shortage and demand supported by structural trends resulted in relatively low vacancy rate of 4% and rental fees growth of 15.9% y/y. Demand was supported by a post-pandemic rebound in retail sales including changes in clients shopping habits, as well as nearshoring. Supply, on the other hand, was limited due to high financing costs, shortage of investment land supply and rising construction costs.

Nevertheless, demand for warehouse space has been slowing since late 2021. JLL forecasts that the slowdown in demand for warehouse space will continue in 2023, however, demand levels should remain at above the 5-year average. In the longer term, JLL forecasts that demand imbalances might remain despite an increasing volume of new warehouse projects in the short term.

Investor's investment activity also remained high in 2022. In 1H2022, the value of transactions in the warehouse market increased by 16% y/y and 80% above the 5-year average (2017-2021).

Fig. 37. Changes in rental fees for warehouse space (y/y)



Source: JLL, February 2023

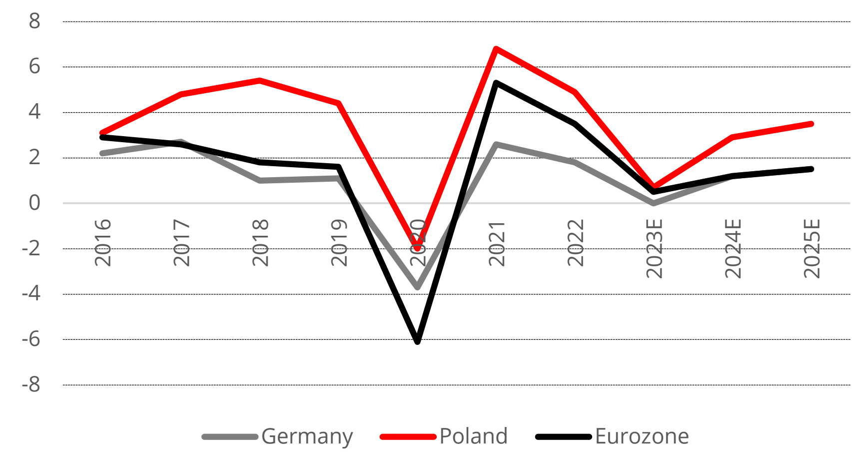
Nearshoring/reshoring – development of the logistics segment

The war in Ukraine and the lockdown caused by the COVID-19 pandemic have kept the nearshoring/reshoring on the agenda of many companies that are taking steps to optimize their supply chains. We believe that the reallocation of manufacturing plants/logistics centers from Asian countries to Europe may support the demand for construction works and the development of the logistics segment.

Rebound in economic activity

Below we present GDP growth rates for Poland, Germany and the Eurozone. According to forecasts (gathered by Bloomberg), 2023 could be the second consecutive year in which GDP growth rate would slow down significantly. Nevertheless, 2024 could bring a rebound in GDP growth rate with an expected acceleration of growth in 2025. Accelerating economy may translate into new investments, growing consumption and as a result support the demand for construction services.

Fig. 38. GDP growth rate (y/y)



Source: Bloomberg

Increased production capacity

We estimate that the level of production capacity (industrial segment, production of handling systems) has doubled from about 6,700 units per year originally to about 13,000 units in 2021, when GKI completed the investment in capacity expansion. We estimate that capacity utilisation in 2022 was about 70%, so, in our opinion, the current capacity of the production facility secured the space for production growth.

Poland's construction sector with hopes for rebound

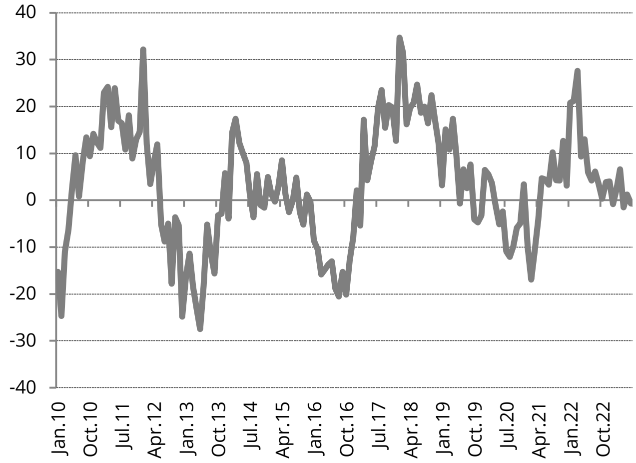
The dynamics of construction production in Poland slowed down significantly in 2022, with investors suspending investments due to high financing costs (interest rates), rising prices of construction materials and concerns about an economic slowdown. The year 2023 may remain challenging, in our view, for construction companies focusing on the construction segment, such as PJP Makrum.

On the other hand, we see the first signs of improvement in general construction, including decelerated growth of construction costs (below is a chart with data from PSB, a building materials wholesaler). We also see a rebound in housing sales in Poland's largest cities in 1Q2022, 1Q2023 and 2Q2023, after a very weak sales performance in 9M22, which may indicate a business upturn. We also highlight low-interest housing loan program introduced by the government as of July 1, 2023.

On the other hand, we see low new office space supply due to the suspension of many investment projects. High demand in Poland's largest metropolitan areas may drive developers to successively launch new office projects.

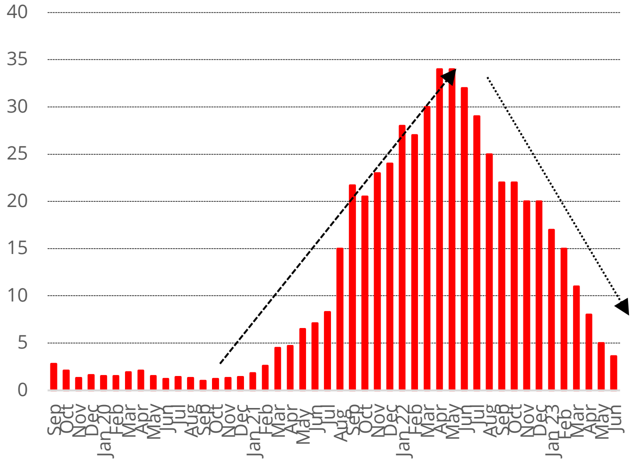
We also believe that any cut in the level of interest rates in Poland (according to the consensus, this could happen in 2024) could improve IRRs of many investment projects, which may support clients' investment activity and demand for construction services.

Fig. 39. Dynamics of construction production in Poland (y/y)



Source: Central Statistical Office

Fig. 40. Price dynamics of construction materials (y/y)



Source: PSB

Geographic synergies in the construction area

After acquiring a controlling stake in 2016, PJP Makrum became part of the GK Immobile. Since then, PJP Makrum has been gradually developing its execution potential. As of 2019, the company has launched 2 new divisions, which enable it to provide construction services throughout the country. We estimate that such geographical expansion could enable the company to participate in the potential rebound in the construction segment expected in 2024E.

Geographical expansion

We believe PJP Makrum is well prepared for a foreign business expansion. The company has established services/products distribution channels in Poland but also in Germany and the United Kingdom, which secured delivery of handling systems/warehouse equipment to the most of European countries. PJP offers execution of contracts in a turnkey formula, while in the industrial segment, it offers comprehensive construction of industrial/warehouse facilities including installation of handling systems, and equipment. We estimate that further geographical expansion may translate into revenues and margins growth (economies of scale).

Improving efficiency of retail sales

We believe that improved efficiency of the retail sales segment may represent a results driving factor. The retail segment generated PLN0.65 million revenue per store (number of stores calculated as at end of 2022), which was significantly below the ratios generated by Monnari or Wittchen. We believe that GKI could potentially increase sales per store thanks to:

- online sales growth;
- coming effects of the reorganization of the management of the subsidiary responsible for the retail sales;
- product expansion as well as increased brand recognition following the acquisition of the footwear/jewellery/apparel brands in 1H2023.

Fig. 41. Sales revenue vs. number of shops in GKI and listed competitors

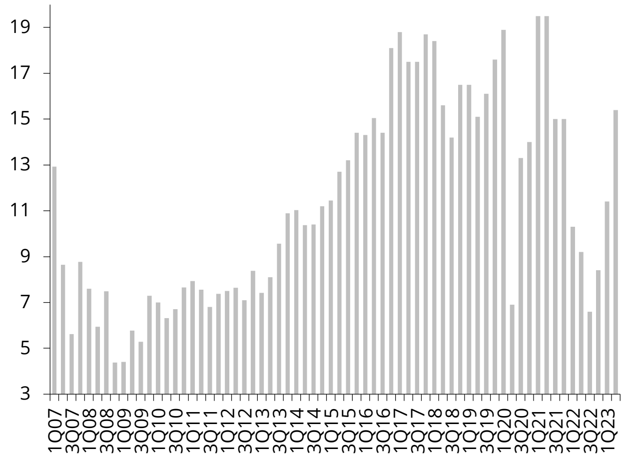
	Number of shops at the end of 2022	Revenue in 2022 (PLNmn)	Revenue/ shop (PLNmn)
GK Immobile (clothing sales segment)	112	72.3	**0.65**
Monnari	244	287	**1.18**
Wittchen	115	136	**1.18**
Monnari (stationary sales without online)	244	222	**0.91**
Wittchen (stationary sales without online)	115	159	**1.38**

Source: Company data

Housing sales rebound

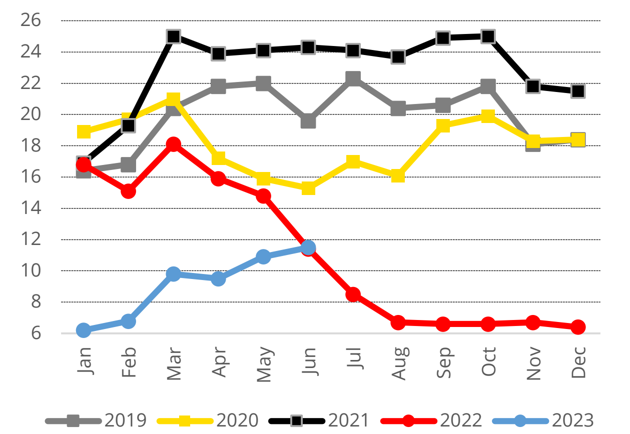
The market environment remains far from satisfactory for residential developers (high interest rates), but we believe the outlook improved. Apartment sales rebounded in 4Q2022 (JLL aggregate data for major Polish cities) and the rebound continued in 1Q2023 and 2Q2023. As of July this year, the 2% housing loan was implemented (government housing loan subsidies) for first time home buyers, which may improve clients' access to mortgage loans. The peak of inflation in Poland seems to have passed, and a successive decline in inflation in the coming months may bring the possible interest rate cuts closer.

Fig. 42. Rebound in residential sales volume



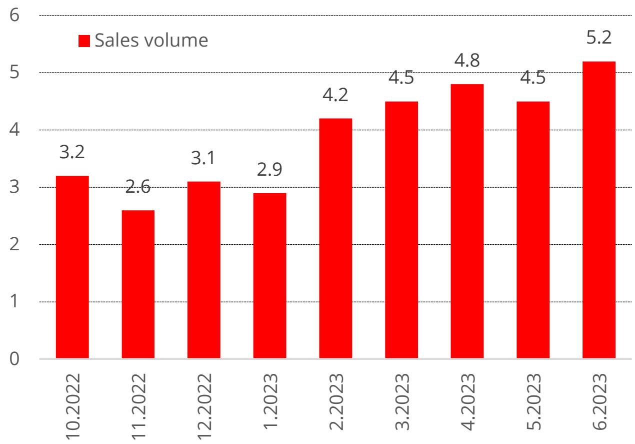
Source: JLL, data for large cities in thousands

Fig. 43. Number of mortgage loans originations



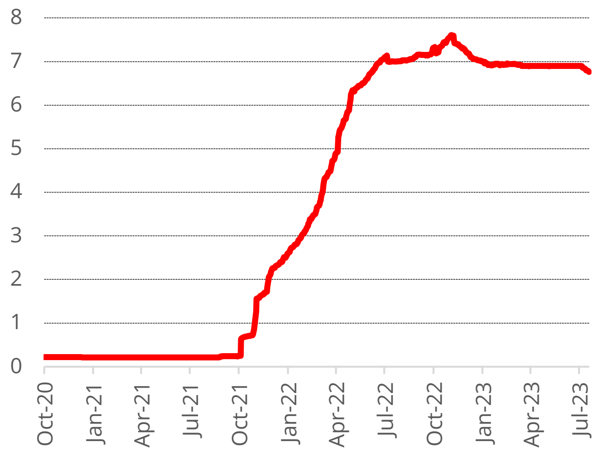
Source: BIK (in thousands)

Fig. 44. Number of flats sold (ths)



Source: OtoDom, primary market for 7 major cities

Fig. 45. WIBOR3M

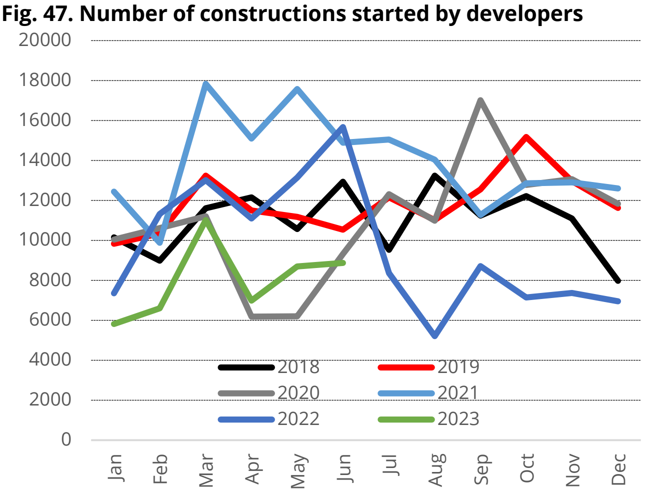


Source: Bloomberg

Fig. 46. Declining inflation (y/y)

Source: Central Statistical Office

Fig. 47. Number of constructions started by developers

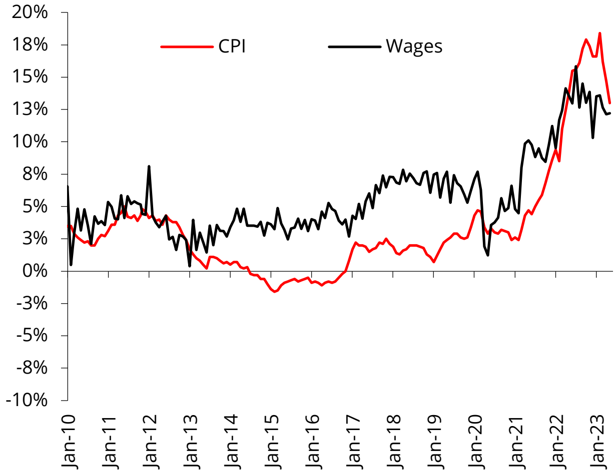


Source: Central Statistical Office

Potential increase in real purchasing power and retail sales

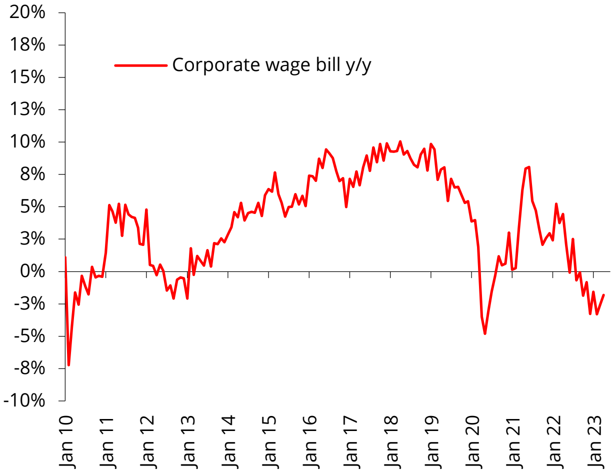
In our opinion, real wages are likely to increase in the second half of 2023, after a period of dynamic decline in 2022 and the first half of 2023 caused by high inflation. Thus, we anticipate a potential increase in the purchasing power of the Polish consumer, which may drive retail sales (clothing, tourist traffic). The above may be a result of the successive decline in inflation since the peak in February 2023 and high y/y wages growth.

Fig. 48. Falling inflation and high wage growth rate (y/y)



Source: Central Statistical Office

Fig. 49. Real purchasing power has stopped falling



Source: Central Statistical Office

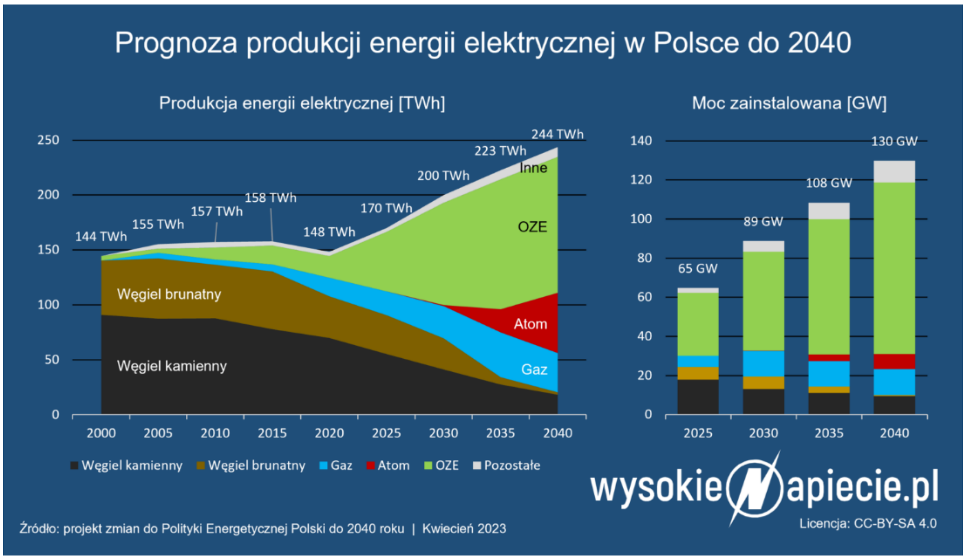
Fig. 50. Main indicators of the consumer sector

y/y	4Q22	1Q23	2Q23E	3Q23E	4Q23E
Salaries	12.3%	14.3%	11.8%	12.1%	13.2%
Employment	2.6%	0.5%	0.2%	0.1%	0.1%
Inflation	17.3%	17.0%	13.1%	10.1%	7.4%
Real purchasing power	**-1.8%**	**-1.8%**	**-1.0%**	**1.9%**	**5.5%**
Retail sales	**0.3%**	**-5.3%**	**-6.9%**	**-4.4%**	**1.7%**

Source: Central Statistical Office, Santander Bank Polska forecasts

Expenditures on power network

GKI has a unique expertise in the niche area of the construction market, which is automation and electric power. The power installations in Poland need significant expenditures on modernization and expansion. The necessary expenditures could reach as much as PLN500bn by 2040, and include the need for expenditures on new connections, as well as the expansion and modernization of the power distribution network. In addition, investments appear to be necessary to enable the connection of new energy sources (in 2022 alone, the largest operators issued more than 7,000 connection refusals, covering a total capacity of 51 GW). In recent years, according to wysokienapiecie.pl, PLN 7-8 billion was spent annually on investments in the area of energy transmission and distribution, and the amount of PLN500bn would imply even PLN35-30bn annually. Actual spending will be determined not only by needs, but also by the amount of funds secured for this purpose.



Key risk factors

The following are potential risk factors that we believe could determine GKI's performance in the coming years:

1. Changes in prices of steel products

GKI uses steel as a component in the construction of handling systems or construction contracts. Changes in steel prices may translate into periodic fluctuations in the profitability of its operations, nevertheless, GKI strives to secure the key costs, including the cost of materials, through contracts with suppliers that secure the price level during the execution period.

2. FX changes

Export sales imply FX risk. The company uses mechanisms to hedge foreign currency exposure including natural hedging and forward transactions, but the unhedged net exposure may be a risk factor to the company's performance/profitability during periods of appreciation of PLN.

3. Increase in energy costs

Increases in energy prices may reduce the profitability of the business until they are not fully passed on clients. Please note that manufacturing is a high-power consuming part of business. Moreover, any increase in energy costs may also translate into an increase in the price of construction materials.

4. Cyclically low levels of investment

An increase in interest rates in Poland and the Eurozone may reduce investment activity and demand for GKI products/services. Rebound in economic activity may delay if the rates stay high for a longer time which may also delay the return of GKI's results onto a growth trajectory.

5. Situation in the residential real estate market in Bydgoszcz

High interest rates may delay the recovery in the housing market, and GKI's potential to generate cash flow from housing sales.

6. Minimum wage increase

Gross margin in the retail sales segment depends on: 1) production costs 2) transportation costs, 3) FX rates, 4) offered price discounts/sale-offs, and 5) consumer demand. The minimum wage in Poland is likely to increase (PLN 3490 as of January 2023 from PLN3010 in 2022, and up to PLN3600 as of July 2023 and PLN4242 as of 2024) which may increase the operating costs of the retail segment as well as other segments.

7. Increase in interest rates

An increase in interest rates may translate into financial costs growth and affect GKI's profitability.

An increase in interest rates may also, we think, imply the risk of write-offs of investment properties. This is because the cost of capital significantly determines the market value of yielding assets.

8. Risk of unsatisfactory performance of retail segment

Following the acquisition of a fashion brand in 2021, GKI is seeking to implement initiatives to improve the profitability of this business segment. In 2023, we expect the first effects of these initiatives, which could bring improvement in the financial performance of the retail segment. Nevertheless, it may turn out that the measures are ineffective and the apparel segment will continue to generate weak results, as in 2020 or 2021.

Financial forecasts

Fig. 51. GK Immobile: Financial forecasts

PLNmn	2023E			2024E			2025E		
	New	Previous	*Change*	New	Previous	*Change*	New	Previous	*Change*
Sales	989	-	-	1036	-	-	1049	-	-
EBITDA	105	-	-	107	-	-	103	-	-
EBIT	62	-	-	64	-	-	60	-	-
Net profit	23	-	-	32	-	-	31	-	-

Source: Company data, Santander Brokerage Poland estimates

Valuation

We valued GKI using two methods: the DCF and the comparative method.
Main assumptions of DCF method valuation are:

- Free cash flow growth in the residual period = 1.0%
- Risk free rate, 2023E = 7%, after 2023E = 6%
- Deleveraged beta= 1.0x
- Market risk premium = 6%
- Tax rate= 19%

Fig. 52. GK Immobile: Valuation summary

PLN per share	New	Old	*Change*
DCF	3.9	-	-
Comparative valuation	6.7	-	-
Total valuation	**3.9 - 6.7**		

Source: Company data, Santander Brokerage Poland estimates

Fig. 53. GK Immobile: DCF valuation

PLNmn	2023E	2024E	2025E	2026E
Sales	**989**	**1036**	**1049**	**1113**
EBIT	**62**	**64**	**60**	**69**
Tax	-12	-12	-11	-13
NOPAT	**50**	**52**	**49**	**56**
Depreciation*	15	15	15	15
Changes in working capital	-28	-13	-4	0
CAPEX	-18	-16	-16	-16
Free cash flow	**19**	**38**	**44**	**55**
WACC	**13.4%**	**11.5%**	**11.1%**	**11.1%**
Present value of free cash flow in the period 2024E-26E	114			
Residual growth	1.0%			
Residual value	548			
Present value of residual value	398			
EV	512			
Net debt (2023E)	331			
Net debt adjusted for leasing (IFRS16)	157			
Dividend (2023E)	4			
Minority interest	69			
Own shares	1			
Equity value as at 2023E	290			
Number of shares (mn)	75.4			
Equity value per share at the end of 2023E (PLN)	**3.9**			

*Source: Company data, Santander Brokerage Poland estimates, *adjusted for IFRS16*

Fig. 54. Cost of capital

	2023E	2024E	2025E	2026E
Risk free rate	7.0%	6.0%	6.0%	6.0%
Market risk premium (%)	6.0%	6.0%	6.0%	6.0%
Beta (x)	1.00	1.00	1.00	1.00
Debt (PLNmn)*	218	218	218	218
Equity (PLNmn)	232	260	287	320
Debt/equity (%)	94%	84%	76%	68%
Tax rate (%)	19%	19%	19%	19%
Debt-adjusted beta (x)	1.76	1.68	1.61	1.55
Cost of equity (%):	**17.6%**	**16.1%**	**15.7%**	**15.3%**
Cost of debt	**9.0%**	**6.0%**	**5.0%**	**5.0%**
% Debt	48%	46%	43%	40%
% Equity	52%	54%	57%	60%
WACC	**13.4%**	**11.5%**	**11.1%**	**11.1%**

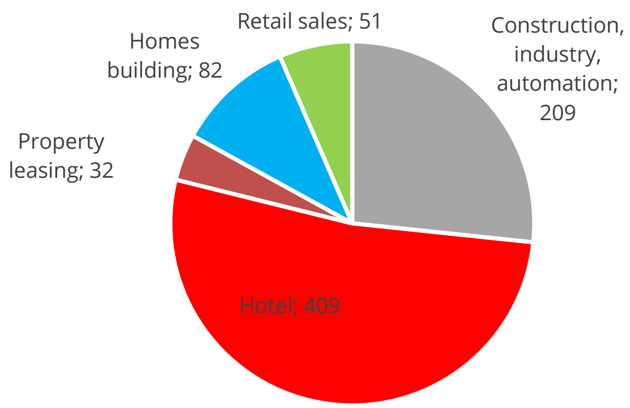
*Source: Santander Brokerage Poland estimates, * debt adjusted for leasing*

Fig. 55. Comparative valuation: summary

PLNmn		EV		
Segment	**2023E**	**2024E**	**2025E**	**2023E-25E avg.**
Construction, industry and automation	202	209	217	209
Hotel	422	412	394	409
Property leasing	32	33	32	32
Homes building	156	81	10	82
Retail	23	66	65	51
Total EV:	**835**	**800**	**717**	
Net debt	331	282	225	
Equity value	**504**	**517**	**493**	
Equity value: average		**505**		
Number of shares (million)		75.4		
Equity value per share (PLN)		**6.7**		

Source: Santander Brokerage Poland estimates, multiples of peer companies as at 27.07.2023

Fig. 56. Enterprise Value – business segments (PLNmn)



Source: Santander Brokerage Poland estimates

Fig. 57. Valuation of segments: construction, industry and automation

	EV/EBITDA		
Company	**2023E**	**2024E**	**2025E**
Bilfiger	4.4	3.8	3.4
Eiffage	5.9	5.7	5.5
Ferrovial	32.5	26.5	23.2
Skanska	8.6	7.7	7.3
Strabag	2.0	2.0	2.0
Vinci	7.6	7.2	6.9
Sacyr	7.7	7.5	7.2
PEAB	8.8	9.5	9.0
ACS	5.3	5.0	4.7
AF GRUPPEN	9.0	7.1	6.8
Hochtief	6.2	5.9	5.7
Median	**7.6**	**7.1**	**6.8**
EBITDA: Construction, industry, automation (PLNmn)*	**26.6**	**29.6**	**31.9**
EV (PLNmn)	**202**	**209**	**217**

*Source: Bloomberg, Santander Brokerage Poland estimates, * EBITDA includes the share of Atrem and PJP Makrum attributable to GK Immobile*

Fig. 58. Valuation of segment: hotel

	EV/EBITDA		
Company	**2023E**	**2024E**	**2025E**
Melia	9.0	8.6	8.1
Accor	11.6	10.6	9.8
NH Hotel Group	7.4	6.7	6.4
Intercontinental Hotels	13.5	12.5	11.5
WhitBread	10.8	10.2	9.6
Median	**10.8**	**10.2**	**9.6**
EBITDA: Hotel (PLNmn)*	**39.1**	**40.4**	**41.0**
EV (PLNmn)	**422**	**412**	**394**

Source: Bloomberg, Santander Brokerage Poland estimates

Fig. 59. Valuation of the property leasing segment

	EV/EBITDA		
Company	**2023E**	**2024E**	**2025E**
Hammerson	16.7	18.5	18.7
CA Immobilien Anlagen AG	23.1	27.4	26.2
Segro PLC	26.5	24.8	21.7
Fastighets AB Balder	27.4	25.4	24.1
Land Securities Group PLC	18.6	18.3	18.3
TAG Immobilien AG	22.0	22.6	22.2
British Land	15.3	14.6	14.2
Median	**22.0**	**22.6**	**21.7**
EBITDA: Property leasing (PLNmn)*	**1.5**	**1.5**	**1.5**
EV (PLNmn)	**32**	**33**	**32**

Source: Bloomberg, Santander Brokerage Poland estimates

Fig. 60. Valuation of the development segment

	EV/EBITDA		
Company	**2023E**	**2024E**	**2025E**
REDROW PLC	4.3	6.9	6.5
BONAVA AB	11.4	25.3	17.4
KAUFMAN & BROAD SA	3.5	3.7	3.5
INSTONE REAL ESTATE GROUP AG	7.0	6.7	5.5
NEINOR HOMES SA	5.8	7.3	7.4
BARRATT DEVELOPMENTS PLC	4.0	7.9	6.4
BELLWAY PLC	4.3	7.1	6.3
METROVACESA	22.7	21.7	20.2
AEDAS	8.0	7.5	7.9
NEXITY GROUP	5.8	5.6	5.4
BERKELEY	8.5	8.5	7.8
PERSIMMON	7.9	6.6	5.4
Dom Development	7.2	8.0	6.8
Atal	7.3	8.9	7.0
Median	**7.1**	**7.5**	**6.7**
EBITDA: Development (PLNmn)*	21.9	10.7	1.6
EV (PLNmn)	**156**	**81**	**10**

Source: Bloomberg, Santander Brokerage Poland estimates

Fig. 61. Valuation of the retail segment

	EV/EBITDA		
Company	**2023E**	**2024E**	**2025E**
Wojas	4.0	4.2	4.2
LPP	9.1	7.5	6.5
CCC	9.5	6.3	5.3
Wittchen	6.1	6.0	5.6
Median	**7.6**	**6.2**	**5.5**
EBITDA: Retail (PLNmn)*	**3.0**	**10.7**	**11.9**
EV (PLNmn)	**23**	**66**	**65**

Source: Bloomberg, Santander Brokerage Poland estimates

Financial results forecast

Fig. 62. GK Immobile: income statement

PLNmn	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E
Sales	**346**	**419**	**532**	**576**	**887**	**989**	**1036**	**1049**	**1113**
Industry	160	176	158	182	277	296	299	302	305
Property leasing	8	4	2	3	3	3	3	3	3
Hotel	53	65	31	53	138	147	153	156	159
Homes building	48	5	66	34	35	109	63	29	74
Construction	77	94	185	130	250	200	240	264	278
Automation and power engineering	0	74	91	100	111	146	155	172	172
Retail sales	0	0	0	74	72	87	123	123	123
Gross profit on sales	**78**	**84**	**91**	**108**	**156**	**169**	**173**	**172**	**184**
Industry	0	0	41	43	65	59	60	60	61
Property leasing	0	0	2	2	2	2	2	2	2
Hotel	0	0	-4	7	29	31	32	33	33
Homes building	0	0	11	10	10	25	14	5	14
Construction	0	0	30	13	34	26	31	34	36
Automation and power engineering	0	0	12	12	14	20	22	24	24
Retail sales	0	0	0	18	2	4	12	13	13
SG&A	-54	-67	-74	-93	-107	-106	-109	-112	-115
Other net operating income	-3	-7	-2	3	0	0	0	0	0
EBITDA	**30**	**28**	**36**	**48**	**92**	**105**	**107**	**103**	**112**
EBIT	**21**	**11**	**15**	**18**	**49**	**62**	**64**	**60**	**69**
Net financial income	-7	-6	-10	-1	-20	-20	-17	-13	-13
Gross profit	**15**	**5**	**6**	**17**	**32**	**43**	**47**	**47**	**56**
Tax	-6	-4	-3	-1	-13	-8	-9	-9	-11
Minorities	2	3	6	3	10	12	6	8	8
Net profit	**6**	**-2**	**-3**	**13**	**9**	**23**	**32**	**31**	**37**

Source: Company data, Santander Brokerage Poland estimates

Fig. 63. GK Immobile: Margins

	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E
Gross margin	22.4%	20.2%	17.0%	18.7%	17.6%	17.1%	16.8%	16.4%	16.5%
EBITDA margin	8.5%	6.6%	6.8%	8.3%	10.4%	10.6%	10.3%	9.8%	10.1%
EBIT margin	6.1%	2.5%	2.9%	3.1%	5.5%	6.3%	6.1%	5.8%	6.2%
Net margin	1.9%	-0.5%	-0.6%	2.2%	1.0%	2.3%	3.0%	2.9%	3.4%

Source: Company data, Santander Brokerage Poland estimates

Fig. 64. GK Immobile: Balance sheet

PLNmn	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E
Short-term assets	144	266	239	381	444	480	525	565	620
Non-current assets	279	405	409	527	560	533	505	477	450
Total assets	423	671	648	908	1004	1013	1030	1043	1070
Short-term liabilities	134	259	210	357	417	431	437	439	447
Interest-bearing debt	60	172	174	269	282	259	235	211	188
Long-term liabilities	77	197	204	307	322	298	275	251	227
Interest-bearing debt	60	93	64	102	132	132	132	132	132
Equity	189	195	192	198	213	232	260	287	320
Total liabilities	423	671	648	908	1004	1013	1030	1043	1070
Net debt	99	227	224	324	359	331	282	225	173

Source: Company data, Santander Brokerage Poland estimates

Fig. 65. GK Immobile: Cash flow statement

PLNmn	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E
CF from operating activities	44	34	41	23	67	69	85	91	84
CF from investment activities	-9	-59	-6	-19	-18	-18	-16	-16	-16
CF from financing activities	-25	26	-42	9	-41	-47	-45	-40	-40
Dividends	-8	-7	-3	-1	-5	-4	-4	-4	-4
Change in cash	10	1	-7	13	8	4	25	34	28

Source: Company data, Santander Brokerage Poland estimates

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In preparing this report Santander Brokerage Poland applied at least one of the following valuation methods: discounted cash flows (DCF), comparative, mid-cycle, dividend discount model (DDM), residual income, warranted equity method (WEV), SOTP valuation, liquidation value.
The discounted cash flows (DCF) valuation method is based on expected future discounted cash flows. One advantage of the DCF valuation method is that it takes into account all cash streams reaching Issuer and the cost of money over time. Some disadvantages of the DCF valuation method are that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
The comparative valuation method is based on the economic rule of "one price". Some advantages of the comparative valuation method are that the analyst need only estimate a small number of parameters; the valuation is based on current market conditions; the relatively large accessibility of indicators for companies being compared; and that there is an extensive knowledge of the comparative method among investors. Some disadvantages of valuation by the comparative method are the considerable sensitivity of the results of the valuation on the choice of companies to the comparative group; the method can lead to a simplification of the picture of the company which in turn can lead to omitting certain important factors (e.g. growth dynamics, extra-operational assets, corporate governance, the repeatability of results, differences in applied accounting standards); and the uncertainty of the effectiveness of a market valuation of companies being compared.
The mid-cycle multiple valuation is based on long-term average valuation multiples of a sector or a peer group. The methodology aims to calculate a fair, through the cycle value of the company. Among its shortfalls is that at peaks and/or troughs of the cycle, the implied fair value may deviate substantially from the market's value of an analysed stock as well as the methods' reliance on the quality of external data (we usually use Bloomberg or Damodaran databases).
Simplicity and average through-cycle value allowing to capture over- as well as under-valuation of a given stock are the main advantages of this methodology.
The dividend discount model (DDM) valuation is based on the net present value of the future dividends that are expected to be paid out by the company. Some advantages of the DDM valuation method are that it takes into account real cash flows to equity-owners and that the methodology is used in respect to companies with long dividend payout history. Main disadvantage of the DDM valuation method is that dividend payouts are based on a large number of parameters and assumptions, including dividend payout ratio.
Residual income method is conceptually close to the discounted cash flows method (DCF) for non-financial stocks, the difference being that it is based on expected residual income (returns over COE) rather than expected future cash flows. One advantage of this valuation method is that it captures the excess of profit potentially available to shareholders and the cost of money over time. Main disadvantage of the valuation method is that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
The warranted equity method (WEV) is based on the formula P/BV = (two year forward ROE less sustainable growth rate)/(Cost of equity less sustainable growth rate) which allows estimating a fair value (FV) of a given stock in two years' time. Subsequently the FV is discounted back to today. The main advantage of the WEV method is that it is a transparent one and based on relatively short term forecasts, hence substantially reducing the margin of forecasting error. The main disadvantage in our view is that the model is based on the principle that stock price should converge towards its fair value implied by company's ROE and COE.
SOTP valuation - different assets of a company are being valued according to different valuation methods, and the sum of these valuations represents the final valuation of the company. SOTP valuation advantages / disadvantages are identical to advantages and disadvantages of the specific valuation methods used.
Liquidation value method – liquidation value is the estimated amount of money that an asset or company could be quickly sold for, such as if it were to go out of business. Then, the estimated assets value is adjusted for liabilities and liquidation expenses. One advantage of this valuation method is its simplicity. This method does not account for intangible assets as goodwill, which is the main disadvantage.

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