

ONE UNITED PROPERTIES (ONE RO)

BUY

Flash Note – Q3 Results Overview

Price Target: 0.672 RON (+40.3%)

Market disconnected from fundamentals

One United Properties reported revenues from sales of residential properties in the first nine months of the year of RON 894M, 6.85% lower compared to the same period last year, but above our own estimates. The decline was due to many construction sites being in their final stages, thus revenue being recognized more slowly. We don't see these numbers as a negative surprise as our full-year forecast for residential sales stood at RON 976M, given slower sales in H1 2024. We adjusted our full-year forecast higher at RON 1.107M while keeping forecasts unchanged for the next 3 years.

Total units sold in the first nine months stood at 713, buttressed by sales in One Lake District Phase 2 development (304 units), and One Lake District Phase 1 (119 units). We see full-year unit sales at 984, slightly higher than our previous forecast (950), and expect the company to be able to sell on average 1.100 units per year in the next 3 years.

Net Income from sales of residential properties was reported at RON 282.8M, +12.4% higher due to lower cost of sales of RON 528M vs RON 619M last year. Rental income was also higher by 18.9% YoY, reaching RON 86.9M compared to RON 73.1M in the same period last year. The growth in rental income was driven by more tenants moving in this year, as One Cotroceni Park 1 is now 94% leased while One Cotroceni Park 2 is 93% leased, with 73% of the tenants moved in.

One reported a RON 293M EBITDA, excluding gains from the revaluation of investment properties of RON 101.1M (-42.0% YoY) making our full-year target of RON 366.8 fully in reach. The net result for the period stood at RON 298.5M, 13.4% lower compared to the same period last year, also impacted by higher commissions for real estate brokerage, which were 40.2% higher compared to the same period last year.

Despite the 9M results being in line with estimates, the share price has seen better days. Since our last update (Aug) the stock price declined by 25.9%, compared to a decline of 3.6% for the BET Index. This contrasts with our (updated) valuation of RON 0.672/share (+40.3%) derived from an average of a DCF (RON 0.63), Residual Income (RON 0.66) and Multiples (RON 0.72) valuations. The current market pricing implies revenues from residential sales that are 29% lower compared to our forecasts for the DCF model, or a long-term ROE of 11% (compared to 15% for peers) on our Residual Income model, which we see as too negative given the current macro backdrop. In 2025, we see a further decline in the inflation rate, as well as for the key rate, while purchasing power should increase, all else equal. We don't see such a material deterioration in ONE's revenues for the '25-'27 period and assess the company as being undervalued.

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Sector: Real Estate Development

Shares information

Min/max price, 52 weeks.	0.429-0.806
Dividend/share	0.01
Total Shares* (mio.)	5.529
Capitalization (mio. lei)	2.648
52 weeks liquidity (mio. lei)	635.2

Major Shareholders

	%
Vinci Ver Holding	24.88
OA Liviu Holding	24.88
Retail	25.14
Institutional	25.08

1 year performance

	%
ONE	-36.7
Vs BET Index	19.8



source: Bloomberg

Income Statement

RON '000	9M 2023	9M 2024	% chg
Total Revenue	950.059	894.461	-5,9%
Sales of residential property	876.246	816.623	-6,8%
COGS	(624.635)	(533.826)	-14,5%
Gross Profit	251.611	282.797	12,4%
Net Rental Income	67.924	81.085	19,4%
Net overhead expenses	(65.528)	(67.027)	2,3%
Net other expenses	(4.995)	(3.844)	-23,0%
EBITDA	249.012	293.011	17,7%
Revaluation gain\loss	174.369	101.150	-42,0%
Other Op. Income	5.888	(3.247)	
EBIT	429.270	390.914	-8,9%
Net interest expense	20.605	11.370	-44,8%
Other financial income, expense	(38.615)	(50.150)	29,9%
Pre-tax profit	411.260	352.133	-14,4%
Current income tax	(66.505)	(53.575)	-19,4%
Net income before minorities	344.756	298.559	-13,4%
Minorities	26.560	12.457	-53,1%
Net Income	318.196	286.102	-10,1%

source: ONE, own calculations

Project	Units Sold 9M '24	Total Units developed
One Lake District 2	304	867
One Lake District 1	119	790
One Lake Club	87	738
One High District	70	840
One Cotroceni Park	44	993
Other projects	89	2.158
TOTAL	713	6.386

source: ONE

Key takeaways from the Q3 earnings call

At the Q3 earnings call, company management addressed more pressing subjects, including the recent price action, potential legislation changes, and possible negative spillovers following a real-estate developer's bankruptcy and the ensuing scandal.

First, the management acknowledged that the share capital increase triggered a material decline in the company's stock (given the potential dilution and the price set at nominal value). However, from their point of view, their decision was tied to locking in the target amount and long-term investors and attracted some EUR 68M, with over 97% of rights subscribed. Admittedly, the management recognized as this being unconventional, however, the broader context may have amplified its effect. Indeed, we also see the recent capital increase as being a signaling problem, which may have dented some of the investor's confidence in the stock, especially for institutional investors. The company also mentioned that the newly acquired capital will be put to work for its development pipeline, with the cash position increasing by 47%.

Second, the recent bankruptcy of a well-known real-estate developer triggered some concerns for the entire industry, with some public figures arguing for limiting the maximum downpayment. In light of these developments, One's management team highlighted that it advocates for a provisional land registry for properties under construction, given the potential side effects of limiting downpayments.

Any potential changes regarding how residential developers can finance their investments will likely have a material impact on ONE United Properties, given that it also uses downpayments as a source of financing. However, we don't see this

option as being particularly feasible or likely as this would increase funding costs across the entire industry, on all real estate developers, and ultimately would lead to markedly higher real estate prices.

DCF Valuation

We value the company at 0,63 RON/share (+32.2% upside) using the DCF method, which includes forecasts for the next 4 years only, as revenues beyond 2028 require a substantial amount of inference, on the number of housing projects that will obtain authorization, the number of projects that constructions work will start and the timing of those as well as the number of residential units per year going forwards. We use a constant growth rate of 5% beyond that period and a WACC of 11,3%.

We pencil in the cost of equity at 14,1%, using the Romanian 10Y rate of 6,9% and a market premium of 8.6%. BETA is calculated using a linear regression vs the BET Index, estimated at 0,84. We excluded gains from fair value adjustments in the DCF valuation.

DCF Model	Reported 2021	Reported 2022	Reported 2023	Forecast 2024	Forecast 2025	Forecast 2026	Forecast 2027	Forecast TV
Sales of residential property	703.318	769.518	1.130.394	1.107.017	1.513.762	1.379.363	1.389.383	
% growth	60,8%	9,4%	46,9%	3,4%	36,7%	-8,9%	0,7%	
Net Rental Income	1.199	54.206	86.621	117.004	129.953	146.681	152.951	
% growth	90,6%	4421,2%	59,8%	35,1%	11,1%	12,9%	4,3%	
EBITDA	214.724	265.681	298.513	366.846	517.007	526.957	535.989	
EBITDA margin	30,5%	34,5%	26,4%	33,1%	34,2%	38,2%	38,6%	
Adj. EBIT	213.467	357.658	301.062	373.117	527.009	535.359	544.275	592.999
Tax Rate	15,7%	12,3%	15,4%	16,0%	16,0%	16,0%	16,0%	16,0%
EBIT*(1- Tax Rate)	180.010	313.689	254.575	313.418	442.688	449.701	457.191	498.119
D&A	1.793	2.408	3.340	4.800	5.135	5.392	5.608	5.608
WCC	-126.876	-29.517	10.490	-22.140	-45.413	-41.381	-41.681	-41.681
CAPEX	-263.366	-474.690	-250.528	-166.053	-181.651	-137.936	-138.938	-106.740
FCFF	-208.438	-188.110	17.876	130.025	220.759	275.776	282.179	355.306
discount factor				0,90	0,81	0,72	0,65	0,65
NPV FCFF				116.804	178.150	199.920	183.763	3.845.225

	RON '000
PV FCFF	678.637
PV Terminal Value	3.845.225
g	5%
Firm Value	4.523.862
Net Debt	556.711
Minorities	465.230
Equity Value	3.501.921
Nr Shares Out	5.529.155
Price/share	0,63
Market Price	0,48
Upside/Downside	32,2%

source: ONE, own calculations

Residual Income Valuation

On our residual income model, we get a share price of RON 0,66 (+38,1% upside) based on the same revenue forecast used in the DCF model, the only difference stemming from the long-term ROE we pencil in the terminal value calculation. Compared to our previous forecast, we've adjusted the terminal ROE lower to a more conservative 15%, in line with the peer average. We see the market-implied 11% long-term ROE as being too low for the company, given that the average for the past 7 years was 27.9%.

Residual Income Model	2021	2022	2023	2024	2025	2026	2027	Terminal Premium
EPS	0,152	0,119	0,110	0,071	0,084	0,084	0,085	
BVS	0,514	0,546	0,630	0,540	0,587	0,607	0,655	
DPS	0,029	0,020	0,020	0,013	0,015	0,015	0,016	
ROE	38,1%	22,5%	18,6%	12,1%	14,9%	14,1%	13,5%	15,0%
Equity Charge				0,076	0,082	0,085	0,092	
Residual Income				-0,005	0,001	-0,001	-0,007	0,068
discount factor				0,877	0,769	0,674	0,591	0,591
NPV Residual Income				-0,005	0,001	-0,001	-0,004	0,040
Equity Value	0,662							
Market Price	0,479							
Upside/Downside	38,1%							

source: ONE, own calculations

Multiples Valuation

We value the company at 0,72 RON/share implying a 50.5% upside from the current market price, based on the average of three price multiples. Compared to our previous forecasts, ONE's multiples saw a downward adjustment compared to a peer group of 13 companies, while industry averages remained more or less the same.

Multiples	2024e	2024e	ONE	Industry
Target Price @ EV/EBITDA	0,50	PE	6,77	13,79
Target Price @ P/E	0,98	EV/EBITDA	9,27	10,74
Target Price @ P/B	0,69	PB	0,89	1,23
Average Target Price	0,72	PB ROE adj.	1,27	0,00
One Market Price	0,48	ROE	14,1%	13,7%
Upside/Downside	50,5%			

source: Bloomberg, own calculations

Financial Statements & Forecasts

Income Statement	Reported	Reported	Reported	Reported	Reported	Forecast	Forecast	Forecast	Forecast
RON '000	2020	2021	2022	2023	2024 TTM	2024	2025	2026	2027
Total Revenue	438.765	705.053	918.109	1.222.904	1.167.306	1.235.091	1.658.853	1.539.837	1.556.227
Sales of residential property	437.504	703.318	769.518	1.130.394	1.070.771	1.107.017	1.513.762	1.379.363	1.389.383
COGS	(284.286)	(456.630)	(450.593)	(814.865)	(724.057)	(752.772)	(983.945)	(868.999)	(875.311)
Gross Profit	153.218	246.687	318.926	315.529	346.715	354.245	529.817	510.364	514.072
Net Rental Income	629	1.199	54.206	86.621	99.782	117.004	129.953	146.681	152.951
Net overhead expenses	(29.469)	(30.785)	(97.284)	(93.658)	(95.157)	(91.882)	(125.642)	(114.487)	(115.319)
Net other expenses	(2.360)	(2.377)	(10.167)	(9.979)	(8.828)	(12.521)	(17.121)	(15.601)	(15.714)
EBITDA	122.017	214.724	265.681	298.513	342.512	366.846	517.007	526.957	535.989
Revaluation gain/loss	96.253	399.188	218.467	260.632	187.771	188.193	151.376	137.936	138.938
Other Op. Income	632	537	94.385	5.888	(3.247)	11.070	15.138	13.794	13.894
D&A	(1.577)	(1.793)	(2.408)	(3.340)	(3.340)	(4.800)	(5.135)	(5.392)	(5.608)
EBIT	217.326	612.655	576.125	561.694	523.696	561.310	678.385	673.295	683.214
Net interest expense	3.798	2.381	18.348	26.841	17.605	17.610	17.610	17.610	17.610
Other financial income/expense	(14.465)	(10.618)	(21.564)	(56.813)	(68.348)	(49.896)	(68.229)	(62.171)	(62.623)
Pre-tax profit	206.659	604.419	572.909	531.721	472.953	529.024	627.766	628.734	638.201
Current income tax	(29.722)	(94.732)	(70.431)	(82.103)	(69.173)	(84.644)	(100.443)	(100.597)	(102.112)
Net income before minorities	176.936	509.687	502.477	449.619	403.780	444.380	527.324	528.136	536.089
Minorities	8.257	118.357	60.463	33.658	19.556	49.760	59.048	59.139	60.029
Net Income	168.679	391.331	442.015	415.960	384.224	394.620	468.276	468.998	476.060

Balance Sheet	Reported	Reported	Reported	Reported	Reported	Forecast	Forecast	Forecast	Forecast
RON '000	2020	2021	2022	2023	2024 TTM	2024	2025	2026	2027
Investment Properties	1.010.416	1.449.465	2.251.985	2.710.670	2.940.169	3.347.677	3.582.015	3.761.115	3.911.560
Property, plant & equip.	16.077	17.040	51.132	52.596	64.662	61.152	65.432	68.704	71.452
Other LT assets	22.081	26.326	57.490	73.714	71.464	80.573	86.213	90.524	94.145
Non-current assets	1.048.574	1.492.831	2.360.607	2.836.979	3.076.295	3.489.402	3.733.660	3.920.343	4.077.157
Inventories	257.348	343.978	662.994	1.002.665	918.550	1.066.028	1.457.713	1.328.290	1.337.939
Other ST assets	226.860	452.003	646.189	726.821	1.004.081	772.753	1.056.681	962.864	969.858
Cash and cash equivalents	170.972	517.756	566.960	420.739	617.623	522.900	577.680	789.933	719.800
Current assets	655.180	1.313.737	1.876.144	2.150.225	2.540.254	2.361.681	3.092.074	3.081.088	3.027.597
TOTAL ASSETS	1.703.755	2.806.568	4.236.750	4.987.204	5.616.549	5.851.084	6.825.734	7.001.431	7.104.754
Retained earnings	498.235	791.788	1.184.656	1.496.292	1.680.662	1.769.164	2.004.466	2.093.467	2.333.652
Other capital	233.532	531.963	837.848	894.447	907.562	1.244.447	1.269.336	1.294.723	1.320.618
Shareholder's Equity	731.767	1.323.752	2.022.504	2.390.739	2.588.223	3.013.612	3.273.802	3.388.190	3.654.270
Minority interest	92.265	323.206	508.823	472.189	465.230	474.798	448.463	575.992	621.226
Total Equity	824.031	1.646.957	2.531.327	2.862.929	3.053.453	3.488.409	3.722.265	3.964.182	4.275.495
LT portion of loans and borrowings	190.737	400.461	660.382	913.075	1.109.716	1.063.075	1.554.872	1.380.350	1.396.128
Other LT liabilities	101.640	180.539	296.270	323.717	365.756	382.031	478.183	445.222	313.104
ST portion of loans and borrowing	194.839	35.630	173.248	117.515	64.618	137.871	160.837	164.977	167.412
Trade payables	96.244	124.139	271.066	354.378	631.082	318.195	371.199	380.754	386.372
Advance payments from custome	293.855	406.264	292.641	389.608	360.038	431.020	502.818	515.760	523.372
Other ST liabilities	2.409	3.169	11.816	25.982	31.885	30.482	35.560	150.186	42.870
Total Debt	879.723	1.150.202	1.705.424	2.124.276	2.563.096	2.362.674	3.103.469	3.037.248	2.829.259

source: ONE, own estimates

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Company	Symbol	Explanatory note No.
ONE United Properties	ONE	5, 6, 7, 10, 11

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