

# Impact Developer & Contractor

## Building on solid ground

We initiate coverage on Impact Developer & Contractor with a RON 3.40 fair value, representing a potential upside of 18% and a BUY recommendation. Impact is a pure play on the growing Romanian real-estate market, focused on the development from scratch of large residential complexes, both for the middle- and high-income segments. Impact's operating profit margin could grow towards 41% and the net profit margin may stabilize around 30%. Although the share price has increased 53% over the past three months, we consider there is still room for further growth. The progress of the residential segment in Romania and its capital Bucharest continues, as demand is driven by a need for housing, reflected in low penetration levels and rising household incomes. Romania continues to have the highest overcrowding ratio of the countries in the EU-28 and, therefore, the lowest average number of rooms per capita. A trigger for the stock would be its inclusion next year in the FTSE Global Micro Cap. For this to happen, the stock should meet certain liquidity characteristics.

Romania has the highest overcrowding ratio of the EU-28 countries. Some 17% of the EU-28 population live in an overcrowded household; this rate ranges from a low of 5% in Cyprus, Ireland, and the Netherlands to more than 40% in Hungary and Slovakia and the highest overcrowding ratio, of 48%, in Romania. The average number of rooms per capita ranged from a high of 2.2 in Belgium, down to 1.1 rooms per person in Croatia, and Slovakia, with the lowest average recorded in Romania (1.0 room per person).

**Convergence potential for Romania:** To foster convergence, The EU has been transferring funds from the states in the developing and mature markets to those in the emerging markets. As a result, Romania could reach developing status within the next 10 years and, as a result, the average monthly salary per capita could more than double from the current EUR 1,075 per capita. With growing salaries in Romania, the demand and prices for residential units would increase.

**Impact's area of focus - Bucharest metropolitan area - is the best performing region of the country.** Bucharest's metropolitan area's economy is expanding, making it an attractive market opportunity. Romania's capital generates 26% of the country's GDP. Impact focuses on the development of large residential complexes, both for the middle- and high-income segments. Per management, these housing concepts will be replicated in other major cities in Romania. Its main projects currently are The Greenfield housing concept dedicated to the middle segment and The Luxuria housing concept for the premium segment. We estimate Impact's operating profit margin to grow to 41% and the net profit margin to stabilize around 30%.

Figure 1. Impact key financial summary

	2018	2019	2020	2021E	2022E	2023E
Revenues (RON '000)	101,534	156,681	204,397	289,440	530,400	605,760
EBITDA (RON '000)	35,245	190,226	98,607	104,017	215,630	253,575
EBIT (RON '000)	34,350	189,299	96,869	102,246	15,470	22,010
Net profit (RON '000)	20,828	154,484	74,856	69,666	159,968	191,139
Dividends (RON '000)	0.00	0.01	0.01	0.01	0.01	0.01
EPS (RON)	0.08	0.58	0.28	0.26	0.60	0.72
DPS (RON)	0.00	0.03	0.04	0.04	0.04	0.04
EV/EBITDA (x)	27.2	5.0	9.7	9.2	4.5	3.8
P/E (x)	36.6	4.9	10.2	11.0	4.8	4.0
Dividend yield (%)	0.00%	1.18%	1.39%	1.39%	1.39%	1.39%

Source: Company, IPOPEMA Research

Real Estate Developer, Romania

## Impact Developer & Contractor

### BUY

Coverage initiation

FV RON 3.40

18% upside

Price as of 26 March 2021 RON 2.88



#### Share data

Number of shares (m)	265.0
Market cap (EUR m)	188
12M avg daily volume (k)	83
12M avg daily turnover (EUR)	32,000
12M high/low (RON)	1.26/2.96
Bloomberg	IMP RO

#### Total performance

1M	26.3%
3M	53.2%
12M	112.5%

#### Shareholders

Iaciu Gheorghe	59%
Adrian Andrici	16%
Other	25%

#### Important disclosure

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## Impact Developer &amp; Contractor

FV 3.40 RON

Mkt Cap EUR 188 m

Upside/downside 18.2%

Valuation multiples	2019	2020	2021E	2022E	2023E
P/E (x)	4.9	10.2	11.0	4.8	4.0
EV/EBITDA adj (x)	5.0	9.7	9.2	4.4	3.8
EV/Sales (x)	6.1	4.7	3.3	1.8	1.6
P/BV (x)	1.3	1.2	1.1	1.1	1.4
FCF yield (%)	13.9%	5.5%	18.6%	9.8%	-3.8%
DY (%)	1.2%	1.4%	1.4%	1.4%	1.4%
Payout ratio	6%	14%	15%	7%	6%

Per share	2019	2020	2021E	2022E	2023E
No. of shares (m units)	265.0	265.0	265.0	265.0	265.0
EPS (RON)	0.6	0.3	0.3	0.6	0.7
BVPS (RON)	2.2	2.4	2.6	2.6	2.0
FCFPS (RON)	0.4	0.2	0.5	0.3	-0.1
DPS (RON)	0.03	0.04	0.04	0.04	0.04

Change yoy (%)	2019	2020	2021E	2022E	2023E
Revenues	54%	30%	42%	83%	14%
EBITDA	440%	-48%	5%	109%	17%
EBITDA adj	4%	87%	2%	5%	6%
EBIT	451%	-49%	6%	111%	18%
Net profit	642%	-52%	-7%	130%	19%
Tax rate (ex. bank. tax)	16%	18%	16%	16%	16%

Leverage and return	2019	2020	2021E	2022E	2023E
Gross margin (%)	46%	31%	31%	32%	32%
EBITDA margin	121%	48%	36%	41%	42%
EBIT margin	121%	47%	35%	41%	42%
Net debt/EBITDA (x)	0.8	2.0	2.4	1.7	1.5
Net debt/Equity	0.3	0.3	0.4	0.5	0.7
Net debt/Assets	0.2	0.2	0.2	0.3	0.3
ROE	30%	12%	11%	23%	31%
ROA	20%	8%	7%	14%	16%
ROIC	40%	18%	14%	27%	33%

Assumptions	2019	2020	2021E	2022E	2023E
<b>Revenues per project (EUR m)</b>					
Greenfield Baneasa Residence			9.7	67.1	63.2
Boreal Plus			4.5	15.4	15.8
Greenfield Plaza				1.2	1.2
Luxuria Domenii Residence			46.1	24.1	
Greenfield Copou Residence				2.7	46.0
<b>Total revenues (EUR m)</b>			<b>60.3</b>	<b>110.5</b>	<b>126.2</b>

P&L (RON m)	2018	2019	2020	2021E	2022E	2023E
<b>Revenues</b>	<b>102</b>	<b>157</b>	<b>204</b>	<b>289</b>	<b>530</b>	<b>606</b>
Cost of real estate inventories	61	84	141	200	363	412
Gross profit	40	73	63	90	167	194
G&A	18	21	23	23	23	23
<b>EBITDA</b>	<b>35</b>	<b>190</b>	<b>99</b>	<b>104</b>	<b>217</b>	<b>256</b>
Depreciation	0.9	0.9	1.7	1.8	1.9	2.0
<b>EBIT</b>	<b>34</b>	<b>189</b>	<b>97</b>	<b>102</b>	<b>216</b>	<b>254</b>
Financial results net	-6	-3	-4	-19	-25	-26
Pre-tax profit	28	183	91	83	190	228
Income tax	8	29	17	13	30	36
Minorities	0	0	0	0	0	0
<b>Net profit</b>	<b>21</b>	<b>154</b>	<b>75</b>	<b>70</b>	<b>160</b>	<b>191</b>
<b>Dividend</b>	<b>0.0</b>	<b>9.0</b>	<b>10.6</b>	<b>10.6</b>	<b>10.6</b>	<b>10.6</b>

BALANCE SHEET (RON m)	2018	2019	2020	2021E	2022E	2023E
<b>Non-current assets</b>	<b>224</b>	<b>393</b>	<b>465</b>	<b>465</b>	<b>466</b>	<b>466</b>
PPE	7	9	8	7	8	8
Leasing assets	0	0	0	0	0	0
Intangibles and goodwill	0	0	0	0	0	0
Investment property	217	384	458	458	458	458
<b>Current assets</b>	<b>422</b>	<b>509</b>	<b>520</b>	<b>630</b>	<b>777</b>	<b>647</b>
Cash and equivalents	31	45	59	56	51	50
Accounts receivables	26	33	27	28	29	33
Inventories	366	431	435	547	697	564
Others	0	0	0	0	0	0
<b>Total assets</b>	<b>648</b>	<b>902</b>	<b>988</b>	<b>1,098</b>	<b>1,244</b>	<b>1,115</b>
<b>Equity</b>	<b>447</b>	<b>584</b>	<b>641</b>	<b>683</b>	<b>684</b>	<b>534</b>
Minorities	0	0	0	0	0	0
<b>Non-current liabilities</b>	<b>24</b>	<b>42</b>	<b>92</b>	<b>277</b>	<b>320</b>	<b>351</b>
Bank debt	114	139	167	194	205	215
Other long term liabilities	1	0	2	2	2	2
Deferred tax liability	26	46	55	55	55	55
<b>Current liabilities</b>	<b>60</b>	<b>133</b>	<b>122</b>	<b>163</b>	<b>298</b>	<b>310</b>
Bank debt	35	59	88	116	212	212
Accounts payable	24	73	33	47	85	96
Leasing	0	0	0	0	0	0
Others	0	0	0	0	0	0
<b>Equity and liabilities</b>	<b>648</b>	<b>902</b>	<b>988</b>	<b>1,098</b>	<b>1,244</b>	<b>1,115</b>
WK as % of sales	357%	240%	195%	161%	90%	56%
<b>Gross debt</b>	<b>149</b>	<b>198</b>	<b>256</b>	<b>310</b>	<b>417</b>	<b>427</b>
<b>Net debt</b>	<b>118</b>	<b>152</b>	<b>197</b>	<b>254</b>	<b>366</b>	<b>377</b>

CASH FLOW (RONm)	2018	2019	2020	2021E	2022E	2023E
<b>Cash flow from operations</b>	<b>0</b>	<b>321</b>	<b>158</b>	<b>144</b>	<b>178</b>	<b>53</b>
Net profit	21	154	75	70	160	191
Depreciation and amortisation	1	1	2	2	2	2
Changes in WC, o/w	-22	-1	8	73	16	-140
Changes in investment property	0	167	73	0	0	0
<b>Cash flow from investment</b>	<b>0</b>	<b>-215</b>	<b>-116</b>	<b>-2</b>	<b>-103</b>	<b>-82</b>
Capex	0	-3	-3	-1	-3	-2
Additions to intangibles	0	0	0	0	0	0
Change in long-term investments	0	0	0	0	0	0
Other, net	0	-212	-113	-1	-100	-80
<b>Cash flow from financing</b>	<b>0</b>	<b>-92</b>	<b>-28</b>	<b>-145</b>	<b>-80</b>	<b>28</b>
Change in long-term borrowing	0	25	29	27	11	10
Change in short-term borrowing	0	0	0	-96	0	27
Leasing payments	0	0	0	0	0	0
Dividends paid	0	0	-11	-11	-11	-11
Other, net	0	-117	-46	-65	-81	2
<b>Net change in cash and equivalent</b>	<b>0</b>	<b>14</b>	<b>14</b>	<b>-3</b>	<b>-5</b>	<b>-1</b>
<b>Beginning cash and equivalent:</b>	<b>31</b>	<b>31</b>	<b>45</b>	<b>59</b>	<b>56</b>	<b>51</b>
<b>Ending cash and equivalents</b>	<b>31</b>	<b>45</b>	<b>59</b>	<b>56</b>	<b>51</b>	<b>50</b>

Source: Company data, IPOPEMA Research

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## Valuation

**Discounted cash flow to equity (DCF) as primary valuation method.** The company is currently operating almost entirely in the residential segment with the intention of eventually entering the office and retail segments. We value the residential business using a two-stage DCF methodology. For the discreet part, we have used management's explicit estimates of revenues in 2021 – 2024, based on projects in the pipeline. Per Figure 19, the company already plans to launch several projects beyond year 2024. Therefore we assume the continuation of the company's operating activity beyond the forecast horizon. To estimate the terminal value of future free cash flows, we assume a delivery of 30,000 sqm per annum of residential, at a cost of EUR 1,320 per sqm. By discounting Impact's cash flow, with a cost of equity "CAPM" of 12% (3.2% "risk-free rate" which is the equivalent of a Romanian 10-year bond yield, 6.9% market risk premium, 1.0x Beta and a small-size premium) and applying no terminal growth, **we derive an intrinsic value per share of RON 3.40 for the company, which is 18% higher than the current share price. We base our BUY rating mainly upon this analysis.**

Figure 2. Discounted Cash Flows

RON '000	2021F	2022F	2023F	2024F	
Net profit	69,666	159,968	191,139	162,434	53,424
+ depreciation	1,771	1,866	1,978	2,066	
+ increase/-decrease of long term debt	26,627	11,000	9,500	-20,500	
-increase/+decrease in working capital	-69,404	-11,077	140,857	58,989	
+ Capex	-1,300	-2,500	-2,000	-1,500	
<b>Equity - Free cash flow</b>	<b>27,360</b>	<b>159,256</b>	<b>341,474</b>	<b>201,489</b>	<b>53,424</b>
Discount rate (CAPM)	12.0%				
Discount factor	1.0000	0.8929	0.7972	0.7118	0.7118
Present value of cash flows	27,360	142,193	272,221	143,416	
Sum of present values of cash flows	585,189				
Residual growth	0.0%				
Present value of residual value	316,885				445,200
Less: non-controlling interests	0				
<b>Equity value (RON '000)</b>	<b>902,074</b>				
Shares ('000)	265,000				
<b>Equity value per share (RON)</b>	<b>3.40</b>				
Current Share Price (RON)	2.88				
<b>Upside (%)</b>	<b>18.2%</b>				

Source: Company, IPOPEMA Research

**Corroborative evidence.** We also analysed Impact through a peer comparison with other residential developers in Europe but could not find a company that closely matches the types of projects, growth, and margins of Impact. Nevertheless, Impact trades at a discount to the mean of these peers which corroborates our findings from the DCFE analysis.

Figure 3. Residential developers - comparison

Company	Country	BBG Ticker	Market cap (EUR m)	P/BV (x)			P/E (x)		
				2019	2020	2021F	2019	2020	2021F
S IMMO AG	Austria	SPI AV	1,593.0	0.93	0.92	0.91	5.60	42.60	18.00
Dom Development	Poland	DOM PW	714.0		3.00	3.10		12.00	13.80
GTC	Poland	GTC PW	705.9		0.70	0.70		46.60	43.50
Plazza AG	Switzerland	PLAN SE	593.0	1.12	1.63			15.30	36.00
Amasten Fastighets	Sweden	AMAST SS	560.0	1.87	1.10			7.98	30.80
Echo Investment	Poland	ECH PW	394.7	1.19	1.10	1.20		7.90	13.60
Atal SA	Poland	1AT PW	340.0		1.90	1.70		8.80	6.40
Develia	Poland	DVL PW	228.9		0.80	0.70		16.40	7.30
Capital Park	Poland	CPG PW	165.9		0.70	0.70		2.10	19.80
Archicom Spolka Akcyjna	Poland	ARH PW	123.5		1.00	1.00		6.70	8.10
<b>MEAN (Arithmetic)</b>			<b>541.9</b>	<b>1.28</b>	<b>1.28</b>	<b>1.25</b>	<b>5.60</b>	<b>16.64</b>	<b>19.73</b>
Impact	Romania	IMP RO	187.9	1.31	1.19	1.12	4.94	10.20	10.96

Source: Company, IPOPEMA Research

**Sensitivity Analysis.** In our analysis, we have relied on what we considered to be reasonable assumptions and conservative estimations. Below we show a sensitivity analysis by varying a few parameters such as discount rate and residual growth.

**Figure 4. Sensitivity analysis**

RON/share		Residual Growth Rate					
		-1.0%	-0.5%	0.0%	0.50%	1.00%	1.50%
Discount Rate	9.0%	3.88	3.96	4.06	4.16	4.27	4.40
	11.0%	3.47	3.53	3.59	3.65	3.72	3.80
	<b>12.0%</b>	3.31	3.36	<b>3.40</b>	3.46	3.51	3.57
	13.0%	3.17	3.21	3.25	3.29	3.34	3.39
	14.0%	3.04	3.07	3.11	3.14	3.18	3.22

Source: Company, IPOPEMA Research

**Revenue assumptions.** We relied on management's estimates from the 2021-2024 business plan. Starting with 2021, Impact will compliment the build for sale model with a build for rent model (Greenfield Plaza).

**Figure 5. Revenues by project**

	City	2020	2021F	2022F	2023F	2024
Greenfield Baneasa Residence (EUR m)	Bucharest		9.7	67.1	63.2	49.7
Boreal Plus (EUR m)	Constanta		4.5	15.4	15.8	11.5
Greenfield Plaza (EUR m)	Bucharest			1.2	1.2	1.2
Luxuria Domenii Residence (EUR m)	Bucharest		46.1	24.1	-	-
Greenfield Copou Residence (EUR m)	Iasi			2.7	46.0	47.6
<b>Total Revenues (EUR m)</b>			<b>60.3</b>	<b>110.5</b>	<b>126.2</b>	<b>110.0</b>
<b>Revenues (RON '000)</b>		<b>206,639</b>	<b>289,440</b>	<b>530,400</b>	<b>605,760</b>	<b>528,000</b>

Source: Company, IPOPEMA Research

**Cost assumptions.** Based on the historical split of costs of real estate inventories, SG&A and marketing expenses plus management's estimates, we model the evolution of costs going forward.

**Income statement.** With the estimated revenues and costs, we built the income statements. Below we show the historical (2018-2020) and estimates for four years (2021-2024). We used a 16% tax rate. We expect the operating profit margin as derived below to grow towards 41% and the net profit margin to stabilize around 30%.

**Figure 6. Income statements**

Type of expense/revenue RON '000	% op 2018 income	% op 2019 income	% op 2020 income	Year 1 2021 income	% op 2021 income	Year 2 2022 income	% op 2022 income	Year 3 2023 income	% op 2023 income	Year 4 2024 income	% op 2024 income			
<b>Revenue</b>	<b>101,534</b>	<b>100.0%</b>	<b>156,681</b>	<b>100.0%</b>	<b>204,397</b>	<b>100.0%</b>	<b>289,440</b>	<b>100.0%</b>	<b>530,400</b>	<b>605,760</b>	<b>100.0%</b>	<b>528,000</b>	<b>100.0%</b>	
COGS (Cost of real estate inventories)	61,484	60.6%	83,904	53.6%	141,007	69.0%	199,714	69.0%	363,324	68.5%	411,917	68.0%	357,984	67.8%
Gross profit	40,050	39.4%	72,777	46.4%	63,390	31.0%	89,726	31.0%	167,076	31.5%	193,843	32.0%	170,016	32.2%
Total other operating expenses of which	21,087	20.8%	26,433	16.9%	29,325	14.3%	29,371	10.1%	29,480	5.6%	29,606	4.9%	29,708	5.6%
Depreciation (only for own HQ)	895	0.9%	927	0.6%	1,738	0.9%	1,771	0.6%	1,866	0.4%	1,978	0.3%	2,066	0.4%
SG&A	18,416	18.1%	20,859	13.3%	22,970	11.2%	22,981	7.9%	22,993	4.3%	23,004	3.8%	23,016	4.4%
Marketing expenses	1,776	1.7%	4,647	3.0%	4,617	2.3%	4,619	1.6%	4,622	0.9%	4,624	0.8%	4,626	0.9%
Other gains from investment property	23,394	23.0%	144,559	92.3%	64,328	31.5%	43,416	15.0%	79,560	15.0%	90,864	15.0%	79,200	15.0%
Impairment/reversal of other LT assets	2,207	2.2%	192	0.1%	945	0.5%	945	0.3%	946	0.2%	946	0.2%	947	0.2%
Other income/expenses	5,800	5.7%	1,796	1.1%	579	0.3%	579	0.2%	580	0.1%	580	0.1%	580	0.1%
Total operating expenses	67,184	66.2%	-32,618	-20.8%	107,528	52.6%	187,194	64.7%	314,770	59.3%	352,185	58.1%	310,019	58.7%
<b>Operating profit</b>	<b>34,350</b>	<b>33.8%</b>	<b>189,299</b>	<b>120.8%</b>	<b>96,869</b>	<b>47.4%</b>	<b>102,246</b>	<b>35.3%</b>	<b>215,630</b>	<b>40.7%</b>	<b>253,575</b>	<b>41.9%</b>	<b>217,981</b>	<b>41.3%</b>
Interest income	152	0.1%	196	0.1%	200	0.1%	317	0.1%	291	0.1%	249	0.0%	181	0.0%
FX	44	0.0%	3,055	1.9%	1,626	0.8%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Other financial reserves	241	0.2%	314	0.2%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Profit before interest & tax	34,305	33.8%	186,126	118.8%	95,443	46.7%	102,564	35.4%	215,921	40.7%	253,823	41.9%	218,162	41.3%
Interest expense	5,898	5.8%	2,749	1.8%	4,000	2.0%	19,628	6.8%	25,483	4.8%	26,277	4.3%	24,789	4.7%
Profit before tax (PBT)	28,407	28.0%	183,377	117.0%	91,443	44.7%	82,936	28.7%	190,438	35.9%	227,546	37.6%	193,373	36.6%
<b>Income tax</b>	<b>7,579</b>		<b>28,893</b>		<b>16,587</b>	<b>8.1%</b>	<b>13,270</b>	<b>4.6%</b>	<b>30,470</b>	<b>5.7%</b>	<b>36,407</b>	<b>6.0%</b>	<b>30,940</b>	<b>5.9%</b>
<b>NET PROFIT (LOSS)</b>	<b>20,828</b>	<b>20.5%</b>	<b>154,484</b>	<b>98.6%</b>	<b>74,856</b>	<b>36.6%</b>	<b>69,666</b>	<b>24.1%</b>	<b>159,968</b>	<b>30.2%</b>	<b>191,139</b>	<b>31.6%</b>	<b>162,434</b>	<b>30.8%</b>

Source: Company, IPOPEMA Research

**Debt schedule.** Impact is self-financing from the sale and pre-sale of residencies but also uses bank financing and bonds. In December 2020 were issued, through a private placement, bonds of EUR6.58 m with a fixed interest rate of 6.4% pa, payable semi-annually, with a 6 year maturity. These bonds were listed on the Regulated Market of the BVB.

**Figure 7. Debt schedule**

RON '000	Base period	Year 1 2021F	Year 2 2022F	Year 3 2023F	Year 4 2024F
<b>Short term bank debt</b>					
Cost of debt		4.0%	4.0%	4.0%	4.0%
Short term debt as percent of sales	43.24%	40.00%	40.00%	35.00%	35.00%
Average debt balance	88,379	115,776	212,160	212,016	184,800
Interest expense		4,631	8,486	8,481	7,392
<b>Long term Debt</b>					
Cost of debt		8.0%	8.0%	8.0%	8.0%
Beginning of period balance		167,457	207,457	217,457	227,457
New debt		50,000	20,000	20,000	20,000
Current portion of long term debt		13,373	12,373	12,873	13,373
Principal payments		-10,000	-10,000	-10,000	-40,000
End of period balance	167,457.0	207,457	217,457	227,457	207,457
Long term portion		194,084	205,084	214,584	194,084
Interest expense	4,000	14,997	16,997	17,797	17,397
<b>End of period balance long term debt</b>	<b>167,457</b>	<b>194,084</b>	<b>205,084</b>	<b>214,584</b>	<b>194,084</b>
Increase in long term debt		26,627	11,000	9,500	-20,500
Total interest expense	4,000	19,628	25,483	26,277	24,789
<b>Cash at bank</b>					
Interest on cash at bank		0.5%	0.5%	0.5%	0.5%
Cash at bank in days sales	105	80	40	30	25
Average cash balance	59,022	63,439	58,126	49,788	36,164
Interest income		317	291	249	181

Source: Company, IPOPEMA Research

**Balance Sheet.**

The inventory/finished goods (i.e. apartments) were included at cost. Based on the company's historical ratios, we derived the ratios for the components of the working capital, which we used in building up the forecasted balance sheet items.

**Figure 8. Balance sheets: historical and forecast**

RON '000	2018	2019	2020	Year 1 2021F	Year 2 2022F	Year 3 2023F	Year 4 2024F
<b>Current assets</b>							
Cash and equivalent	30,740	45,462	59,022	55,509	50,860	49,788	28,932
Accounts receivable	25,817	32,884	26,574	27,755	29,063	33,192	28,932
Inventory	365,753	430,725	434,741	547,161	696,786	564,270	490,389
<b>Total current assets</b>	<b>422,310</b>	<b>509,071</b>	<b>520,337</b>	<b>630,424</b>	<b>776,709</b>	<b>647,250</b>	<b>548,252</b>
Fixed assets		21,650	20,152	21,452	23,952	25,952	27,452
less: accumulated depreciation		-13,115	-12,600	-14,371	-16,236	-18,214	-20,280
<b>Net fixed assets</b>	<b>6,855</b>	<b>8,535</b>	<b>7,552</b>	<b>7,082</b>	<b>7,716</b>	<b>7,738</b>	<b>7,173</b>
Intangible assets	95	143	136	136	136	136	136
Investment property	217,113	384,223	457,706	457,706	457,706	457,706	457,706
Other financial assets net	1,178		2,158	2,158	2,158	2,158	2,158
<b>Total assets</b>	<b>647,551</b>	<b>901,972</b>	<b>987,889</b>	<b>1,097,506</b>	<b>1,244,425</b>	<b>1,114,988</b>	<b>1,015,425</b>
<b>Current liabilities</b>							
Accounts payable	24,176	73,189	33,349	46,509	84,610	95,926	83,366
Provisions	601	907	667	868	1,591	1,817	1,584
Current portion of LT Debt	34,894	58,822	88,379	115,776	212,160	212,016	184,800
<b>Total current liabilities</b>	<b>59,671</b>	<b>132,918</b>	<b>122,395</b>	<b>163,153</b>	<b>298,361</b>	<b>309,759</b>	<b>269,750</b>
Long term bank debt	114,100	138,813	167,457	194,084	205,084	214,584	194,084
Other long term liabilities	1,151	330	1,909	1,909	1,909	1,909	1,909
<b>Total long term liabilities</b>	<b>115,251</b>	<b>139,143</b>	<b>169,366</b>	<b>195,993</b>	<b>206,993</b>	<b>216,493</b>	<b>195,993</b>
Deferred tax liability	25,823	45,970	55,300	55,300	55,300	55,300	55,300
Equity	357,162	353,668	341,176	341,176	341,176	341,176	341,176
Retained earnings	89,222	228,865	289,022	331,253	331,965	181,630	142,575
Treasury shares	-3,040	-7,771	-2,675	-2,675	-2,675	-2,675	-2,675
Reserves	3,462	9,179	13,305	13,305	13,305	13,305	13,305
<b>Net worth</b>	<b>446,806</b>	<b>583,941</b>	<b>640,828</b>	<b>683,059</b>	<b>683,771</b>	<b>533,436</b>	<b>494,381</b>
<b>Total liabilities and shrd cap</b>	<b>647,551</b>	<b>901,972</b>	<b>987,889</b>	<b>1,097,506</b>	<b>1,244,425</b>	<b>1,114,988</b>	<b>1,015,425</b>
<b>Working capital</b>	<b>362,639</b>	<b>376,153</b>	<b>397,942</b>	<b>467,271</b>	<b>478,348</b>	<b>337,491</b>	<b>278,502</b>

Source: Company, IPOPEMA Research

**Risks to fair value**

**Market conditions, forex risk.** A slowdown of the economic growth and consumption in Romania might have a negative effect upon the company. A significant increase of the foreign exchange rate for the Euro might result in higher payments for loans, bonds and acquisitions made in relation to the construction work expressed in Euro.

## Industry analysis

The main real estate market segments consist of residential, office, retail (commercial), hotels, industrial and civil engineering. Currently, Impact operates almost exclusively in the residential and mostly in Bucharest, focusing on the Central and Northern area of the city. The company intends to develop more projects outside Bucharest and also expand in the office sector.

The residential market can be divided into three tiers:

- Tier 1 which consists of ultra-high value added products in areas of Bucharest such as Herastrau, Floreasca, Primarerii, Baneasa and Victoriei Square: the clients are usually high net worth individuals with an average income above RON 40,000/month per family;
- Tier 2 or "high-end" products located in the central and semi-central areas of Bucharest: the clients are affluent professionals with an average income above RON 15,000/month per family;
- Tier 3 or "affordable" with products located in the semi-central and the peripheral residential areas of Bucharest: the clients are prosperous professionals with an average income of RON 7,500/month per family;

We consider Impact develops most of its projects for the Tier 3 segment, and aspires towards Tier 2 (with its Luxuria Domenii Residence project). Some of its competitors for the Tier 3 segment are:

- [New Times Residence](#)
- [Cosmopolis](#)
- [AFI Europe](#)
- [Prime Kapital](#)
- [ARCADIA Apartments](#)
- [Alesonor](#)
- [Fortepartners](#)
- [Nordis Real Estate](#)

### Building permits issued.

Bucharest-Ilfov is the most developed region in Romania, consequently the number of constructions in place is superior compared with other areas. As a result, for the Bucharest-Ilfov region building permits issued are declining as there are fewer spaces available for new construction projects. The total number of building permits dropped 4.5% in 2020 as compared with the previous year. In Romania, the National Institute of Statistics expects the construction sector to continue to grow annually between 6.6 and 7.2%.

Figure 9. Building permits for residential in Bucharest-Ilfov



Source: The National Institute of Statistics, IPOPEMA Research

Figure 10. Romania's GDP structure

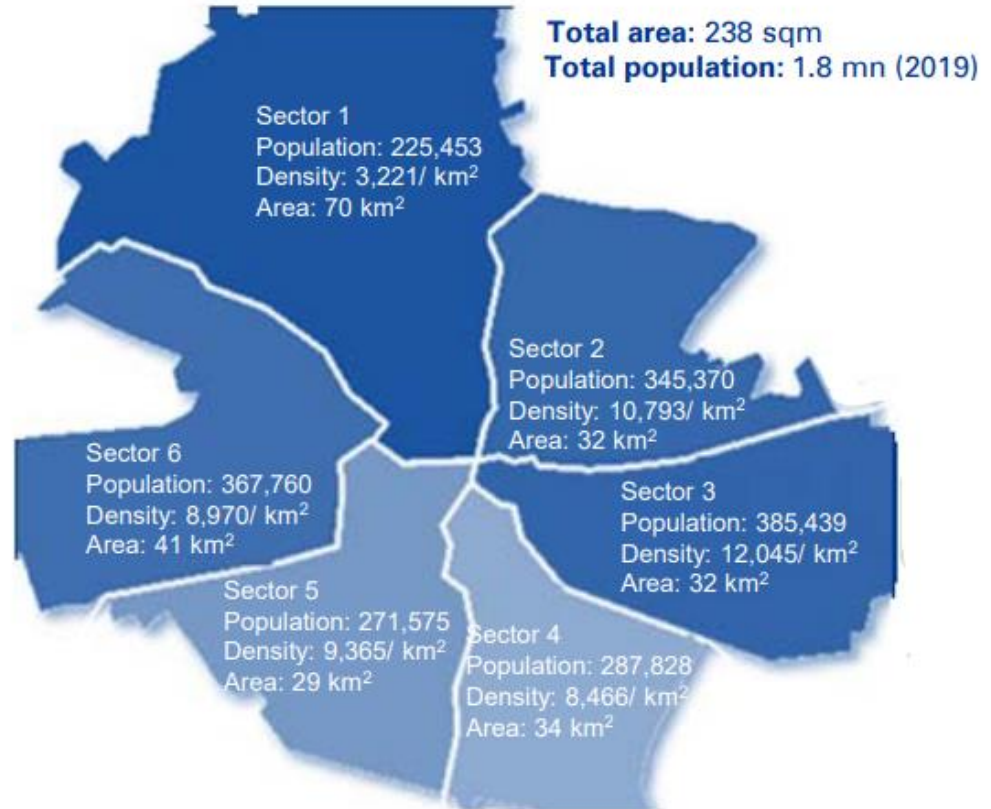
Sector	2019	2020	2021F	2022F	2023F
Industry	22.8%	22.5%	22.3%	22.2%	22.0%
Agriculture	4.0%	3.9%	3.8%	3.7%	3.6%
<b>Construction</b>	<b>6.1%</b>	<b>6.3%</b>	<b>6.6%</b>	<b>6.9%</b>	<b>7.2%</b>
Services	57.8%	57.8%	57.9%	57.8%	57.9%
Net Tax	9.3%	9.5%	9.4%	9.4%	9.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%



### Bucharest metropolitan area – macro perspective

The Bucharest metropolitan area is the best-performing region of the country, where approximately 1 million employees have an average net wage of approximately EUR 1,000/month, double that of the average national net wage.

Figure 11. Bucharest metropolitan area is a growing economic hub

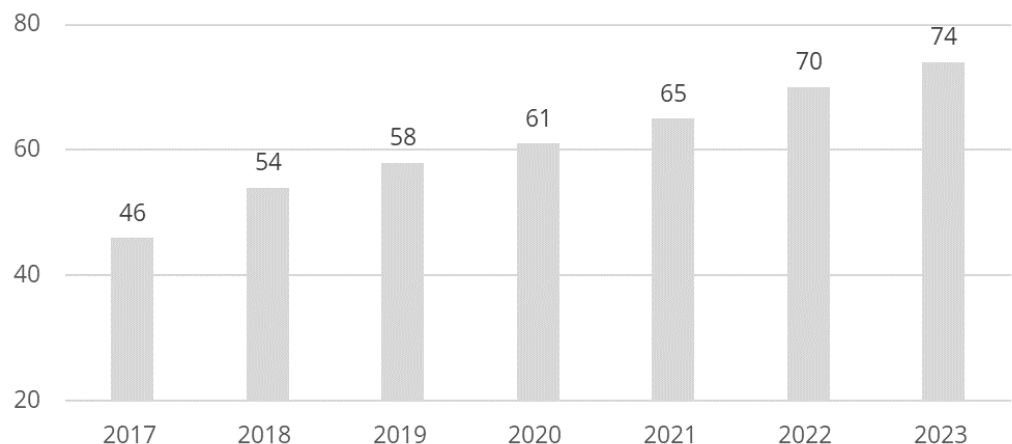


Source: Wordpopulationoverview

Bucharest's metropolitan area economy is growing, making it an attractive market opportunity. The capital generates 26% of total GDP in Romania.

The GDP is forecasted to increase as private consumption, the main driver of GDP, is sustained by the increased consumption, due to wage increases.

Figure 12. GDP evolution for the Bucharest metropolitan area (EUR bn)

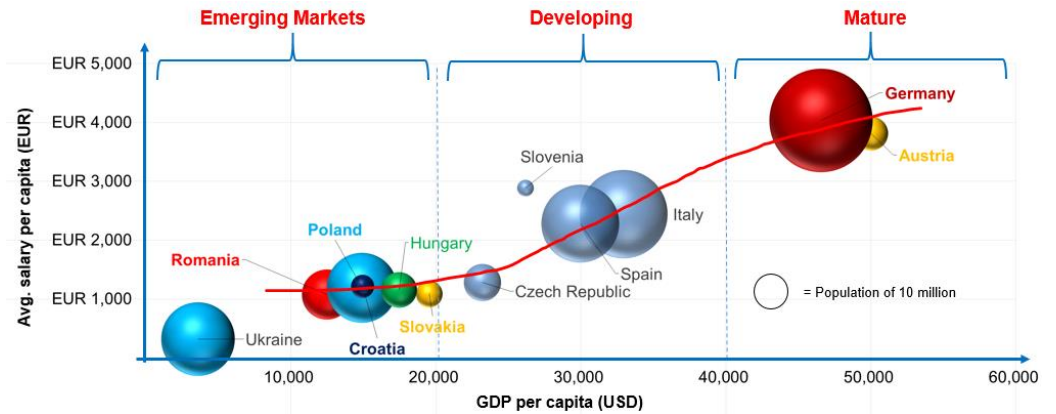


Source: The National Institute of Statistics, IPOPEMA Research

**The convergence potential with Romania catching up with other European countries**

- The EU has been using funds to foster convergence, transferring funds from the states in the developing and mature markets towards those in the emerging markets;
- As a result Romania could reach the developing stage within the next 10 years and the average salary per capita could more than double from the current EUR 1,075/capita;

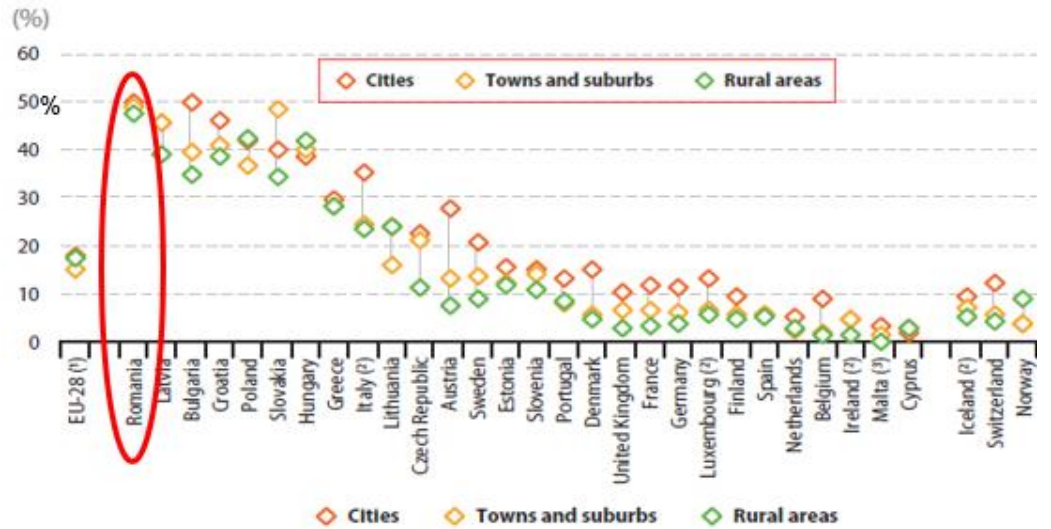
Figure 13. Average salary per capita vs 2019 GDP per capita



Source: Statisticstimes; Reinisfischer, IPOPEMA Research

- The demand for residential space remains high in Bucharest and in Romania;
- In 2017, some 16.6% of the EU-28 population lived in an overcrowded household; this rate ranged from a low of 5% in Cyprus, Ireland, Belgium and the Netherlands to more than 40% in Hungary, Slovakia, Poland, and Croatia, and the highest overcrowding ratio of 48% in Romania.

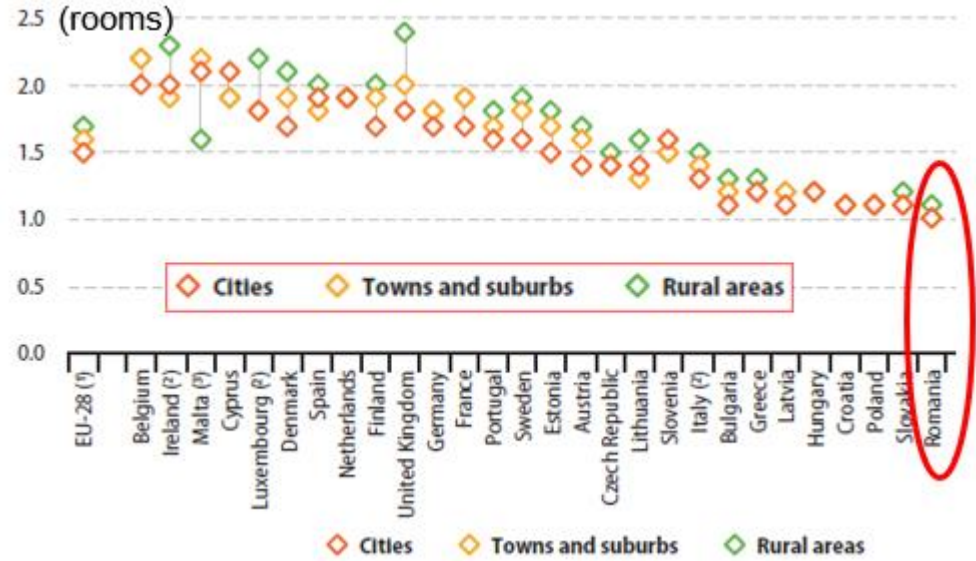
Figure 14. Overcrowding rate in Europe: Romania has the highest ratio (48%)



Source: Eurostat 2018 – Living conditions in Europe

- The graph below shows the average number of rooms per person ranged from a high of 2.2 in Belgium, down to 1.1 rooms per person in Croatia, Poland and Slovakia, with the lowest average recorded in Romania (1.0 rooms per person).

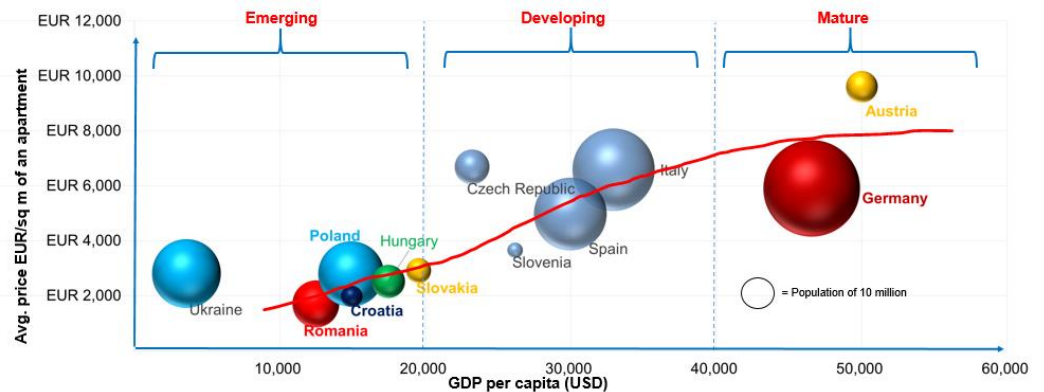
Figure 15. Average number of rooms per person by degree of urbanization: Romania the lowest ratio



Source: Eurostat 2018 – Living conditions in Europe

- Currently the average price per sqm of a 3-room (120 sqm) apartment in Romania is approximately EUR 1,700/sqm;
- Therefore, with growing salaries in Romania, the demand and prices for residential units would increase.

Figure 16. Average price EUR/sqm of an apartment vs 2019 GDP per capita



Source: Globalpropertyguide Europe, IPOPEMA Research

## Company description

This year, Impact Developer & Contractor (Impact) turns 30. It is the first real estate company listed on the Bursa de Valori Bucharest (BVB). During the past 30 years, it has completed 17 small and medium-sized projects, comprising over 4,000 residences and over 13,000 square meters (sqm) of office and trade premises. 2014 represented the starting point in the implementation of its new business strategy, focused on the development from scratch of large residential complexes, both for the middle-income segment and for the high-income segment. Per management, these housing concepts will be replicated in major cities in Romania. Current projects and activity of Impact, per the company's business plan for 2021-2024 and the 2020 activity report of the board of directors:

- **The Greenfield housing concept in Bucharest, dedicated to the middle segment,** characterized by a unique mix of facilities, construction standard and price. Within this concept, Impact is already in the middle of development of the largest integrated residential project in the CEE through Greenfield Baneasa. The management intends to replicate this concept in the cities of Constanța and Iași.
- **The Luxuria housing concept in Bucharest is dedicated to the premium segment,** which offers superior living conditions, arising from positioning, facilities and quality of finishes. Within this housing concept, Impact has already delivered 500 apartments in the Luxuria Residence compound, to be initially extended in Bucharest in a new premium location, in B-dul Barbu Vacarescu, and then in premium locations in other big cities in Romania.
- **Boreal Plus in the city of Constanta,** is designed to have 694 units consisting of 18 single or duplex villas and 676 apartments with one to four rooms, in 9 blocks. The project has construction authorization and the work on site began in 2020 and is currently underway. The project is expected to be completed in 2024.

### The five phases of development for the Greenfield area:

- The first three phases were already completed by 2019:
  - **Phase 1:** 680 apartments and villas were developed from 2007 to 2010;
  - **Phase 2:** Apartments on Salcamilor Compound, developed during 2014-2016 and during 2020-2021 (a block of flats D40) for a total of 965 apartments with one to four rooms;
  - **Phase 3:** 944 apartments with one to four rooms in 39 blocks, on Platanilor Compound, developed during 2016-2019.

Figure 17. Greenfield Baneasa Residence: Five phases of development between 2007-2028



Source: Company

- The next phases, as part of the company strategy, will be developed by the end of 2028:
  - **Phase 4:** 1,732 apartments of one to three rooms, in 23 blocks, on Teilor Compound planned for 2020-2024;
  - **Phase 5:** 1,324 apartments of one to four rooms in 15 blocks, on Castanilor Compound;
  - **Phase 1+:** 97 apartments - Panoramic Apartments;
  - **Phase 2+:** 41 apartments (one block of flats).

The Greenfield development also includes the Greenfield Community Centre (which contains Greenfield Plaza), a novelty for a residential project in Bucharest, which would include functionalities that are necessary for a large community (ex. commercial and service areas, a fitness center & SPA, pre-school and public grade schools, promenade and recreation areas, and optional transport).

**Luxuria Domenii Residence** is an up-scale residential development that received the BREEAM Excellent certification, designed to fit into the Class A energy and the category of green buildings. Luxuria is a top-rated location in district 1 of Bucharest, between Expoziției Boulevard and Aviator Popișteanu Street, containing 630 premium apartments in nine buildings.

- The project development began in April 2018, with 3 buildings comprising 232 apartments and was completed in March 2020;
- Phase II consists of 4 buildings with 268 units, with construction work taking place between October 2018 and September 2020;
- The final phase consist of 130 apartments in 2 buildings. The construction began in September 2019 and is estimated to be finalized in April 2021.




Figure 18. Luxuria Residence



Source: Company

**Change in strategy:** beginning with this year, Impact will complement the build for sale model with a build for rent model. Also in 2020, Impact founded Star Residence Invest S.A., a company that aims to imitate a real estate investment trust (REIT) and whose main object of activity is the renting and subleasing of residential real estate. Star Residence Invest S.A. (REIT RO, Not Rated) was listed on the AeRO market, the alternative trading system of the Bucharest Stock Exchange. Based on the memorandum, as of 10 February 2021, Impact owned 22.357% of the company. Although there is no specific legislation for REITs-type investments on the Bucharest Stock Exchange, Impact, in a sponsor-like role, may be able to “inject” properties into the REIT portfolio.

Figure 19. Future projects (2021-2028)

					
<b>GREENFIELD COPOU (Iasi)</b>	<b>LUXURIA BARBU VACARESCU (Bucharest)</b>	<b>GREENFIELD TIMISOAREI (Bucharest)</b>			
Development	2021 - 2024	Development	2023 - 2028	Development	2025 - 2028
Project type	Mixt	Project type	Mixt	Project type	Mixt
Land	4,9 ha	Land	2,5 ha	Land	25,9 ha
Development Phases	3	Development Phases	4	Development Phases	11
Value (mEUR)	115.8	Value (mEUR)	160	Value (mEUR)	115

Source: Company

**Litigation.** Impact is involved in several lawsuits as a plaintiff, against the Local Council of Cluj (for the recovery of investments made in construction works), against Cefin Real Estate Dezvoltare BV (for the specific identification of the land owned by Impact in a larger plot of land), and against the Bucharest Council. We do not consider the results of these lawsuits to be material to the value of company.

**Dividend policy:** as the company relies for its growth on attracting financing to deploy in its projects, the dividend policy is of secondary importance. The company paid RON 0.04 in dividends per share in 2017 (for its performance in 2016). There were no dividends in 2018, but the company paid dividends of RON 0.034 in 2019 and RON 0.04 in 2020. Per company management, the policy for 2021 will be discussed during the Annual General Meeting of Shareholders in April 2021.

#### SWOT analysis:

- **Strengths:** The company enjoys geographical expansion in Bucharest and additional cities in Romania such as Constanta, and Iasi while Timisoara may be considered in the future. It has a diversified portfolio of projects in residential and retail spaces. It also commands an ability to obtain financing for its projects through bonds on the capital market.
- **Weaknesses:** Exposure to the real estate market cycle.
- **Opportunities:** Impact operates currently in a growing market where the purchasing power is still converging to that in the CEE and other EU countries.
- **Threats:** Cost of funding is influenced by the evolution of interest rates; also, a potential shortage of employees due to competition and migration of construction workers to other countries.

**Board, management, and employees:** The company has a five-member Board of Directors, with four independent non-executive directors, and the Chairman as both a Board member and President of the company:

- Ms. Iuliana Urda, Chairman and President of the Board;
- Mr. Petru Vaduva, Independent Non-executive Director, has over 20 years of strategic experience in the Eastern European and Central Asian energy sector;
- Mr. Beze Dumitru, Independent Non-executive Director has 19 years of experience in the capital market and management activity as CFO of Search Corporation;
- Mr. Daniel Pandele, Independent Non-executive Director has 29 years of experience in management; he was a vice president of the Board of Shareholders Representatives of SIF Muntenia;

- Ms. Ruxandra Scarlat, a Non-executive Director, is a lawyer with 14+ years of experience in real estate consultancy, real estate M&A, rental agreements and construction contracts.

The Board of Directors' mandate expires on 27 April 2021.

- On 29 January 2020, the Board of Directors appointed Mr. Apostol Sorin as General Manager/CEO for an interim period of 6 months. On 27 July 2020, the Board extended the appointment of Mr. Apostol Sorin as General Manager/CEO for a period of 12 months;
- In the summer of 2018, Mr. Giani Kacic became Chief Financial Officer; he has expertise of over 21 years in the financial and accounting sector, gained in multinational companies. He leads the financial department of Impact and represents the company, together with the General Manager.

At the end of 2020, Impact had 57 employees. The relationship between the management and the employees is regulated under the Individual Employment Agreement and the job descriptions.

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The definitions of terms used in the document include:

NII – Net interest income – interest income minus interest expense.

Net F&C – Net fee and commission income – fee and commission income minus fee and commission expense.

LLP – loan loss provisions – an expense set aside as an allowance for bad loans.

NPL – non-performing loan – loans that are in default or close to be in default.

Cost/Income – operating expenses divided by total banking revenue.

ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity.

ROA – return on assets – net income (or adjusted net income) divided by the average assets.

EBIT – earnings before interests and tax.

EBITDA – earnings before interests, tax, depreciation and amortization.

EPS – earnings per share – the net income (or adjusted net income) divided by the number of shares outstanding.

P/E – price to earnings ratio – price divided by earnings per share.

PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time.

CAGR – compound annual growth rate.

BVPS – book value per share, the book value of the Company's equity divided by the number of shares outstanding.

P/BV – price to book value - price divided by the BVPS.

DPS – dividend per share – dividend of a given year divided by the number of shares outstanding.

DY – dividend yield – dividend of a given year divided by the current price.

DDM – dividend discount model – a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends.

FV – Fair Value, calculated based on valuation methods outlined in the document.

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Hold	In between (and including) -10% and 10%
Sell	Below -10%

#### IPOPEMA Research - Distribution by rating category (October 1 – December 31, 2020)

	Number	%
Buy	17	53%
Hold	10	31%
Sell	5	16%
Total	32	100%

#### Rating History – Impact Developer & Contractor

Date	Recommendation	Fair Value	Price at recommendation	Author
03/30/2021	BUY	RON3.40	RON2.88	Florin-Adrian Ciocoi