

Impact Developer & Contractor

Continues to expand; Keep BUY

We maintain our BUY with a higher fair value of RON0.61 from RON0.58, representing a potential upside of 17%. 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. 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 income. 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.

Q1 2021 results. Over the past five months, we witnessed a continuous increase of prices in construction materials. As a result, the cost of real estate inventories at Impact more than doubled in Q1 2021, which resulted in diminished gross profit and net income. For several years we have been witnessing an increase in the labor force and, at the same time, in the price of land. Therefore, we expect to see a continuous increase in the price of apartments and houses.

Impact's area of focus - Bucharest metropolitan area - is the best performing region of the country. Also expanding in the country-side. Bucharest's metropolitan area economy is growing, and generates 26% of Romania's GDP. Impact focuses on the development of large residential complexes, both for the middle- and high-income segment. Per management, these housing concepts will be replicated in other major cities in Romania. On 14 July, though a subsidiary, Impact purchased 25,930 sqm in the city of Iasi. Currently Impact has a plot of land with a total surface area of approximately 46,000 sqm, where Impact will develop the GREENFIELD Copou residential complex with over 1,000 apartments.

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 range 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 towards those in the emerging markets. As a result, Romania could reach developing status within the next 10 years and, as a result, the average salary per capita could more than double from the current EUR 1,075/capita. With growing salaries in Romania, the demand and prices for residential units will increase.

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)	0.01	0.10	0.05	0.04	0.10	0.12
DPS (RON)	0.00	0.01	0.01	0.01	0.01	0.01
EV/EBITDA (x)	28.8	5.3	10.3	9.8	4.7	4.0
P/E (x)	39.3	5.3	10.9	11.8	5.1	4.3
Dividend yield (%)	0.00%	1.10%	1.29%	1.29%	1.29%	1.29%

Source: Company, IPOPEMA Research

Real Estate Developer, Romania

Impact Developer & Contractor

BUY

Recommendation maintained

FV RON 0.61

17% upside

Price as of 19 July 2021 RON 0.52



Share data

Number of shares (m)	1,575.0
Market cap (EUR m)	170
12M avg daily volume (k)	83
12M avg daily turnover (EUR)	32,000
12M high/low (RON)	0.22/0.57
Bloomberg	IMP RO

Total performance

1M	9.5%
3M	9.6%
12M	102%

Shareholders

Iaciu Gheorghe	59%
Adrian Andrici	16%
Other	25%

Important disclosure

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Impact Developer & Contractor

FV 0.61 RON

Mkt Cap EUR 164 m

Upside/(downside) +17%

Valuation multiples	2019	2020	2021E	2022E	2023E
P/E (x)	5.3	10.9	11.8	5.1	4.3
EV/EBITDA adj (x)	5.3	10.3	9.8	4.7	4.0
EV/Sales (x)	6.5	5.0	3.5	1.9	1.7
P/BV (x)	1.4	1.3	1.2	1.2	1.5
FCF yield (%)	13.0%	5.2%	17.3%	9.2%	-3.5%
DY (%)	1.1%	1.3%	1.3%	1.3%	1.3%
Payout ratio	6%	14%	15%	7%	6%

Per share	2019	2020	2021E	2022E	2023E
No. of shares (m units)	1,575.0	1,575.0	1,575.0	1,575.0	1,575.0
EPS (RON)	0.10	0.05	0.04	0.10	0.12
BVPS (RON)	0.37	0.41	0.43	0.43	0.34
FCFPS (RON)	0.07	0.03	0.09	0.05	-0.02
DPS (RON)	0.01	0.01	0.01	0.01	0.01

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
Revenues per project (EUR m)					
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
Total revenues (EUR m)			60.3	110.5	126.2

P&L (RON m)	2018	2019	2020	2021E	2022E	2023E
Revenues	102	157	204	289	530	606
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
EBITDA	35	190	99	104	217	256
Depreciation	0.9	0.9	1.7	1.8	1.9	2.0
EBIT	34	189	97	102	216	254
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
Net profit	21	154	75	70	160	191
Dividend	0.0	9.0	10.6	10.6	10.6	10.6

BALANCE SHEET (RON m)	2018	2019	2020	2021E	2022E	2023E
Non-current assets	224	393	465	465	466	466
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
Current assets	422	509	520	630	777	647
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
Total assets	648	902	988	1,098	1,244	1,115
Equity	447	584	641	683	684	533
Minorities	0	0	0	0	0	0
Non-current liabilities	24	42	92	277	320	351
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
Current liabilities	60	133	122	163	298	310
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
Equity and liabilities	648	902	988	1,098	1,244	1,115
WK as % of sales	357%	240%	195%	161%	90%	56%
Gross debt	149	198	256	310	417	427
Net debt	118	152	197	254	366	377

CASH FLOW (RONm)	2018	2019	2020	2021E	2022E	2023E
Cash flow from operations	0	321	158	144	178	53
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
Cash flow from investment	0	-215	-116	-2	-103	-82
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
Cash flow from financing	0	-92	-28	-145	-80	28
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
Net change in cash and equivalent	0	14	14	-3	-5	-1
Beginning cash and equivalent:	31	31	45	59	56	51
Ending cash and equivalents	31	45	59	56	51	50

Source: Company data, IPOPEMA Research

Latest developments

Latest changes in share capital

The current share capital of Impact Developer & Contractor is RON 393,750,000, being fully subscribed and paid-up. The share capital is divided into 1,575,000,000 ordinary shares.

- The company initially reduced its number of shares, from 265,000,000 to 262,500,000 shares, as a result of the cancellation of a number of 2,500,000 of its own shares, acquired by the company.
- Impact increased its share capital, from RON 262,500,000, by RON 131,250,000, by incorporating the capital premiums amounting to RON 69,487,043, and the result carried forward from 2020 amounting to RON 61,762,957. The capital was increased by issuing a number of 131,250,000 new shares.

Q1 2021 results

Over the past five months, we witnessed an explosion of prices in construction materials, which will be reflected in the real estate market. The cost of real estate inventories more than doubled in Q1 2021 for Impact, which resulted in a diminished gross profit and net income.

For several years we have been witnessing an increase in the price of labor and, at the same time, in the price of land. Developers will not be able to bear these cost increases on all three levels (land, labor, and construction materials). Therefore, we expect to see a continuous increase in apartment prices.

Figure 2. Q1 2021 results

Type of expense/revenue RON '000	2020	% op income	31-Mar 2020	% op income	31-Mar 2021	% op income	YoY (%)	Comments
Revenue from sale of residential prop.	204,397	100.0%	23,062	100.0%	39,397	100.0%	16,335	
COGS (Cost of real estate inventories)	141,007	69.0%	12,138	52.6%	28,004	71.1%		
Gross profit	63,390	31.0%	10,924	47.4%	11,393	28.9%	469	Higher cost of materials resulted in a lower gross profit
Total other operating expenses of which	29,325	14.3%	6,678	29.0%	7,314	18.6%		
Depreciation (only for own HQ)	1,738	0.9%	281	1.2%	281	0.7%		
SG&A	22,970	11.2%	5,303	23.0%	5,357	13.6%		
Marketing expenses	4,617	2.3%	1,094	4.7%	1,676	4.3%		
Other gains from investment property	64,328	31.5%	0	0.0%	0	0.0%		
Impairment/reversal of other LT assets	945	0.5%	0	0.0%	0	0.0%		
Net rental income	0	0.0%	29	0.1%	149	0.4%		
Other income/expenses	579	0.3%	269	1.2%	145	0.4%		
Total operating expenses	107,528	52.6%	18,576	80.5%	35,314	89.6%	16,738	
Operating profit	96,869	47.4%	4,486	19.5%	4,083	10.4%	-403	
Interest income	200	0.1%	193	0.8%	3	0.0%		
FX	1,626	0.8%	2,201	9.5%	2,507	6.4%		
Other financial reserves	0	0.0%	55	0.2%	25	0.1%		
Profit before interest & tax	95,443	46.7%	2,533	11.0%	1,604	4.1%	-929	
Interest expense	4,000	2.0%	684	3.0%	2,539	6.4%		
Profit before tax (PBT)	91,443	44.7%	1,849	8.0%	-935	-2.4%		
Income tax	16,587	8.1%	1,223	5.3%	370	0.9%		
NET PROFIT (LOSS)	74,856	36.6%	626	2.7%	-1,305	-3.3%	-1,931	

Source: Company, IPOPEMA Research

Changes in the company's management

Impact's board of directors appointed Mr. Constantin Sebeşanu as General Manager, for four years, starting 28 April 2021. He replaced Mr. Sorin Apostol, who will now hold the position of Executive Director.

Mr. Constantin Sebeşanu has experience in project development and asset management, for over 25 years. He attended courses at the Bucharest Polytechnic Institute and holds specializations in Strategic and Financial Management, acquired at Cornell and Boston Universities.

Residential project in Iasi: continuation of Impact's expansion strategy at a national level

Greenfield Copou Residence - an affiliated company to which Impact holds 99% of the social capital - concluded on 14 July 2021 a sale agreement for the acquisition of the plot of land with a surface area of 25,930 sqm, registered with Iasi Municipality, located on Copou Hill, one of the most desirable residential areas in Iasi, in a historical part of the city very well connected to Iasi landmarks.

The surface of 25,930 sqm supplements the land purchased in October last year. On the entire plot of land with a total surface area of approximately 46,000 sqm, Impact will develop the GREENFIELD Copou residential complex with over 1,000 apartments in a small height regime blocks of flats, with basic services developed within an integrated Community Center, a concept that facilitates reduced mobility and sports, social and cultural life, with an integrated property management.

The project targets the "medium" market segment and combines modern architecture with natural landscape attributes.

Valuation

We continue to use the discounted cash flow to equity (DCF) model as our 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. We have included the latest capital increase and change in company shares.

By discounting Impact's cash flow, with a cost of equity "CAPM" of 12% and applying no terminal growth, **we derive at an intrinsic value per share of RON0.61 for the company, which is 17% higher** than the current share price. **We base our BUY rating on this analysis.**

Corroborative evidence. We also analysed Impact through a peer comparison with other residential developers but we could not find a company to match the types of projects, growth, and margins of Impact.

Figure 3. Discounted Cash Flows

RON '000	2021F	2022F	2023F	2024F	
Net profit	69,666	159,968	191,139	162,434	53,424
+ capital increase	131,250	0	0	0	
+ 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	-69,329	-11,077	140,857	58,989	
+ Capex	-1,300	-2,500	-2,000	-1,500	
Equity - Free cash flow	158,685	159,256	341,474	201,489	53,424
Discount rate (CAPM)	12.0%				
Power of	0.00	1.00	2.00	3.00	
Discount factor	1.0000	0.8929	0.7972	0.7118	0.7118
Present value of cash flows	79,342	142,193	272,221	143,416	
Sum of present values of cash flows	637,172				
Residual growth	0.0%				
Present value of residual value	316,885				445,200
Less: Non controlling interests	0				
Equity value (RON '000)	954,057				
Shares ('000)	1,575,000				
Equity value per share (RON)	0.61				
Current Share Price (RON)	0.52				
Upside (%)	16.5%				

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%	0.69	0.70	0.72	0.73	0.75	0.77
	11.0%	0.62	0.63	0.64	0.65	0.66	0.67
	12.0%	0.59	0.60	0.61	0.61	0.62	0.63
	13.0%	0.57	0.57	0.58	0.59	0.59	0.60
	14.0%	0.54	0.55	0.56	0.56	0.57	0.58

Source: Company, IPOPEMA Research

Impact Developer & Contractor

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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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Rating	Difference between FV and price at recommendation
Buy	Above 10%
Hold	In between (and including) -10% and 10%
Sell	Below -10%

IPOPEMA Research - Distribution by rating category (January 1 - June 30, 2021)

	Number	%
Buy	19	76%
Hold	6	4%
Sell	0	0%
Total	25	100%

Rating History - Impact Developer & Contractor

Date	Recommendation	Fair Value	Price at recommendation	Author
03/29/2021	BUY	RON3.40	RON2.88	Florin-Adrian Ciocoi
07/20/2021	BUY	RON0.61	RON0.52	Florin-Adrian Ciocoi