

December 22, 2023

ONE UNITED PROPERTIES (ONE RO)

BUY

Building Resilience

- We maintain our buy recommendation and a DCF-derived target price of RON 1.17 per share.** We believe the company's share price has a 20% growth potential from the current price of RON 0.97. This updated target price for ONE for the next 12 months complements the initiation report published in April 2023, where we proposed a target price of RON 1.05 per share. ONE is the largest residential and mixed-use real estate developer in Romania.
- The business model is complemented by selected acquisitions of mainly office and retail venues in high demand locations. All ONE buildings have superior certifications of sustainability, energy efficiency and wellness, and the developer is awarded at numerous galas and conferences in the field, both internationally and locally.
- In the initial 9 months of 2023, ONE achieved consolidated revenues of RON 1.15 billion,** reflecting a 27% increase compared to the same period of 2022. Revenues from the residential segment totaled RON 876.2 million, marking a significant 47% increase compared to the same period in 2022. Additionally, rental income saw a notable surge, reaching RON 98.7 million and representing a substantial 91% increase compared to the first 9 months of 2022.
- One United Properties demonstrated strong performance in the real estate market,** defying a downward trend in Bucharest's residential sales. The completion of 524 residential units, along with substantial sales in key developments, contributed to the company's success. A significant percentage of available apartments were sold out, reflecting robust market demand in the segment in which ONE operates. The company also secured a substantial future cash flow through pre-sold contracts. Additionally, strategic agreements, such as the one with Infineon Technologies for office development, highlight One United Properties' forward-looking approach.
- The net margin of the residential segment reached 28.7% for 9M 2023,** a decrease vs 46.6% registered in 9M 2022 due to the revenue recognition applied by the group. Looking ahead to 2024, we anticipate residential segment revenues to reach RON 1.3 billion, accompanied by a gross margin of 34.3%, and rental income projected to reach RON 148 million.
- While market fluctuations could affect One United Properties, it's crucial to consider factors like property quality and market competition. The residential market in Bucharest is anticipated to sustain its recovery through the fourth quarter of 2023 and into 2024, according to SVN Snapshot about Bucharest residential market.
- Potential risks to our recommendation** include economic conditions, interest rates, and financing accessibility, shaping company operations. Adapting to global and local economic trends is crucial for resilience in the real estate market. Regulatory changes and institutional investor interest emphasize the need for a nuanced approach. By monitoring and strategically responding to economic factors, One United Properties positions itself to thrive in a dynamic real estate market influenced by broader economic dynamics.

Target price (Return %):	RON 1.17 (20%)
Price (December 21, 2023):	RON 0.97
Market Cap.:	RON 3,691m
Avg. Daily Turnover (RON/EUR)	1.0m/0.2m

Share data

52-week price low/high	0.82 – 1.02
Dividend 2023 (RON/share)	0.01
Shares outstanding (million)	3,798
Market maker - SSIF BRK Financial Group	

Shareholders (%)

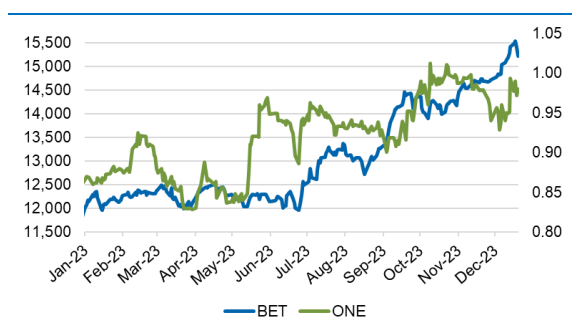
OA LIVIU HOLDING INVEST S.R.L.	27.716%
VINCI VER HOLDING S.R.L.	27.716%
Others	44.568%

Share Performance (%)

	YTD	1w	6m	1y
Variation	14.25	-1.51	8.07	13.72
Relative to BET	-16.23	-0.28	-17.61	-11.41

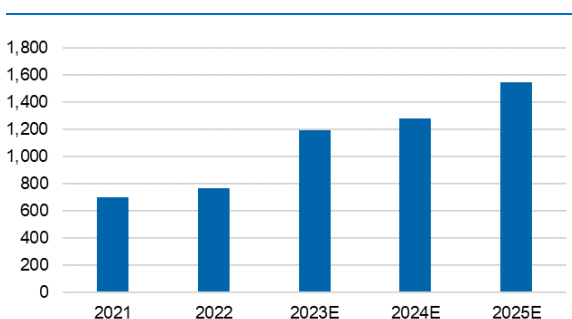
Source: BVB

ONE - BET price evolution in 2023



Source: BVB

ONE – residential segment revenue (RON million)



Source: ONE historical data, BRK estimates

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Company valuation

We extend our buy recommendation at a higher price of RON 1.17 per share, calculated using the discounted cash flow method. The upside potential is 20% from the current price of RON 0.97 per share.

The revenue forecast for One United Properties' include residential segment and office segment, from completed and under development projects through 2027. We estimate that the number of units sold by One United Properties will be above 5,000 during the forecast period (between 2023-2027). ONE's office and retail portfolio will reach a GLA of approximately 160,000 sqm.

The discount rate (WACC) used to estimate the present value of One's future cash flows is 10.2%.

Figure 1: DCF

RON	2024E	2025E	2026E	2027E
Operating profit after tax	391,628,831	488,843,711	449,918,528	468,021,820
Plus: Depreciation and amortization	3,268,883	4,270,257	5,547,136	6,809,634
Minus: Capital Expenditures (Investments)	(19,189,187)	(30,879,476)	(32,964,511)	(30,160,385)
Minus increase/Plus decrease in working capital	(111,715,070)	(115,537,239)	79,680,200	38,387,940
FCFF	263,993,457	346,697,253	502,181,353	483,059,009
Discount rate	10.2%			
Present Value Factor	0.98	0.89	0.80	0.73
Discounted Net Cash Flow	257,677,447	307,161,396	403,840,434	352,600,066
Sum of Discounted Net Cash Flow	1,321,279,343			
Terminal Value	4,153,568,052			
FMV of Operating Capital Structure	5,474,847,395			
Plus: Cash	454,549,092			
Minus: Debt	982,908,017			
Less: Non-controlling interests	517,701,424			
FMV of Capital Structure	4,428,787,046			
Number of shares	3,797,654,315			
Price/share	1.17			
Current price	0.97			
Potential upside	20.0%			

Source: BRK

Figure 2: Sensitivity analysis (RON/share)

		Residual growth rate				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	8.2%	1.41	1.51	1.62	1.76	1.91
	9.2%	1.21	1.28	1.36	1.46	1.57
	10.2%	1.05	1.10	1.17	1.24	1.32
	11.2%	0.92	0.97	1.01	1.07	1.13
	12.2%	0.82	0.85	0.89	0.93	0.98

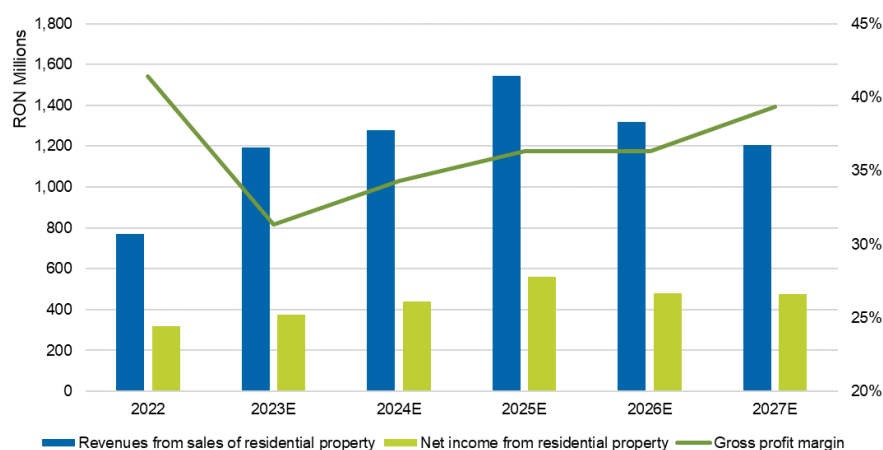
Source: BRK

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Residential segment

Based on the company's latest financial disclosures, our estimates have been revised. In the first nine months of 2023, net income from residential properties declined by 10% YoY to RON 251.6 million, primarily due to income recognition from new developments initiated in Q4 2022. The net margin dropped from 46.6% in the first nine months of 2022 to 28.7% for 9M 2023, directly influenced by the property mix in early development stages this year. Consequently, we anticipate a lower margin for 2023, followed by an expected increase in subsequent years as projects progress toward their final development phase. The estimated values for the residential segment illustrate this trend, with a rebound in gross profit margin projected in the coming years.

Figure 3: Estimation of revenue – residential segment

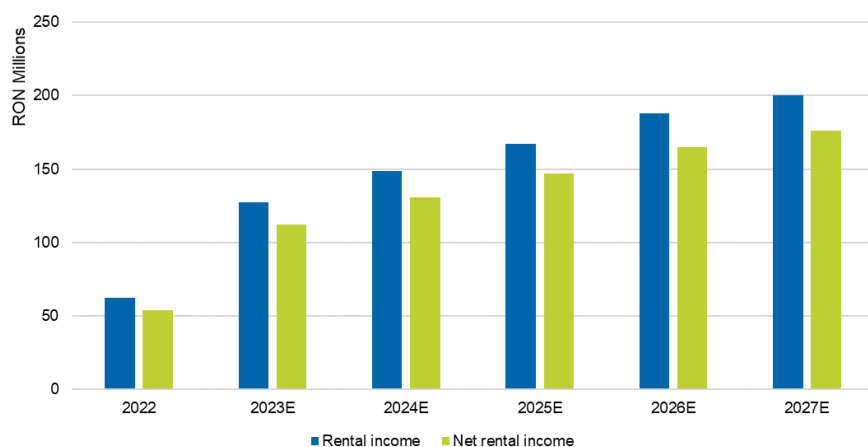


Source: BRK estimates

Office & Commercial segment

One United Properties boasts a total office portfolio spanning 118,000 sqm. Coupled with the retail components of Bucur Obor and One Gallery, the commercial portfolio is set to expand to around 160,000 sqm. Notably, rental income surged by 91% to RON 98.7 million in 9M 2023, fueled by revenues from tenants at One Tower, One Cotroceni Park Office 1, One Victoriei Plaza, and Bucur Obor. Anticipated growth in rental income is expected, especially as tenants at One Cotroceni Park Office 2 progress through the fit-out phase. The recent 15-year lease agreement with Infineon Technologies for 20,000 sqm in One Technology District, valued at EUR 57 million is slated to commence in 2026. Projections for the office and commercial segment indicate continued growth in rental income over the coming years, reflecting the company's strategic expansion and lease agreements.

Figure 4: Estimation of revenue – office & commercial segment



Source: BRK estimates

The company's revenue will also be positively influenced by other residential projects, such as One City Club and One Herastru City, for which details and designs are not yet finalised.

One United Properties secured a credit facility of up to EUR 30.5 million with Alpha Bank Group for the One Gallery project and completed the acquisition of the former Ford Factory for the One Gallery commercial development. One Cotroceni Park has been successfully delivered to clients, contributing to the company's growing portfolio.

The company's rental income is growing rapidly, and it has secured a significant long-term lease agreement with Infineon Technologies. This demonstrates the company's ability to attract major tenants and secure long-term income streams.

In addition to One United Properties' commercial segment, the hotel portfolio has the potential to contribute to the company's revenue growth upon completion. At this time, the revenue estimate does not include these projects. Under these conditions, these projects may bring positive surprises in terms of the impact on estimated revenues for the coming period.

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Market analysis

Residential market

According to National Institute of Statistics, between January and October 2023, 29,396 building permits were issued for residential buildings, down 22.2% on the same period last year. Decreases were recorded in all regions of development, of which in the Bucharest-Ilfov region the number of building permits decreased by 34%.

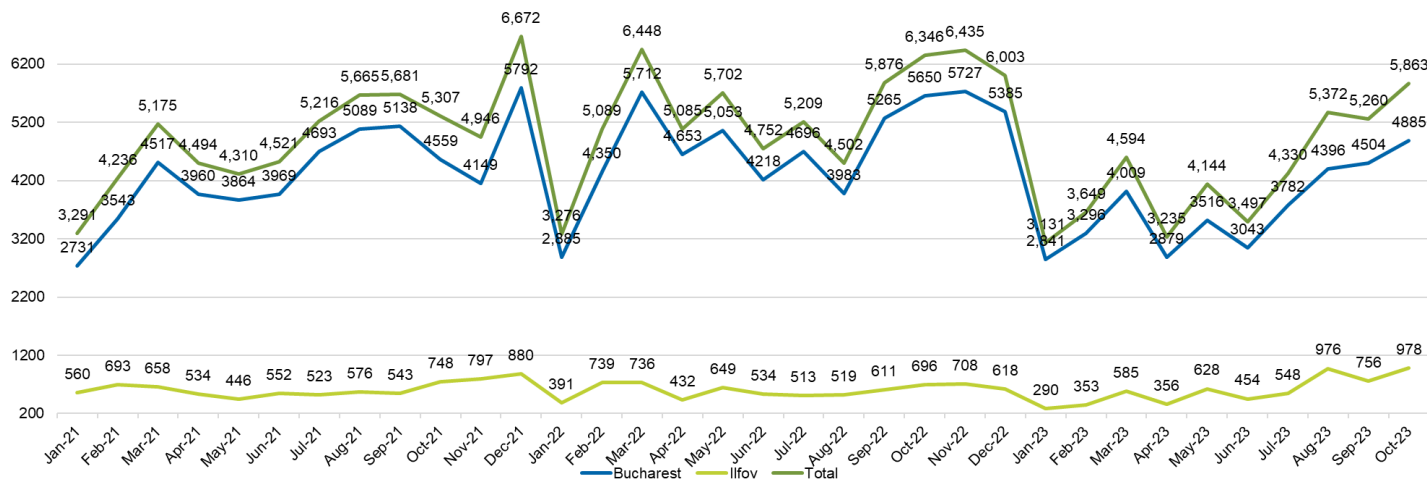
According to SVN Snapshot, the residential market in Bucharest is showing signs of recovery after a difficult first half of the year. The number of homes sold in the third quarter of 2023 decreased by 3.8% from the same period last year, which is a significant improvement from the 30% decrease in the second quarter. The improvement was driven by strong sales in August, which were up 19.3% from August 2022. The average price of a one-bedroom apartment in Bucharest reached a new record low of 7.2 years of average net wages.

Overall, the outlook for the residential market in Bucharest is positive. The market is expected to continue to recover in the fourth quarter of 2023 and into 2024. The affordability of buying a new home is expected to continue to improve, which could support demand in the coming months. Also, the possibility of decreasing interest rates in the future, which could lead to an easing of credit facilities, could positively influence the real estate market.

According to Imobiliare.ro as for the Bucharest market, the time needed to sell an apartment in Q3 2023 increased to 65 days compared to the same period of the previous year when it was 58 days. Overall, fluctuations in the real estate market in Bucharest can have an impact on One United Properties' activity, but it is important to consider other factors as well such as the quality of their properties and competition in the market.

Market fluctuations may impact One United Properties, but other factors such as property quality and market competition should also be considered. Overall, the residential market in Bucharest is expected to continue its recovery into the fourth quarter of 2023 and 2024, potentially influencing demand for One United Properties.

Figure 5: Evolution of the number of individual units sold

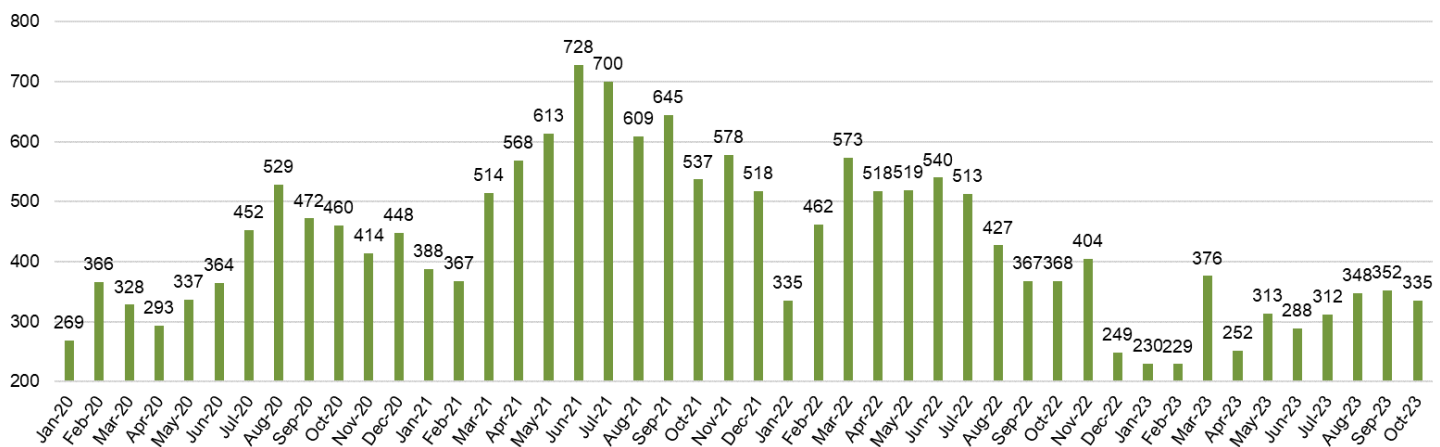


Source: ANCPPI

According to data published by NIS, in October 2023 there was a decrease in the number of building permits issued for residential buildings (-8.8%) compared to October 2022 at national level. In the Bucharest-Ilfov region there is a 9% decrease in the number of building permits issued. During the first 10 months of this year was recorded a decrease of 34% in the number of building permits issued compared to the same period of 2022.

The residential real estate market in Bucharest and Romania is experiencing a slight regression and readjustment stage, with a decrease in residential prices and a decrease in the number of building permits issued. This could potentially impact One United Properties' activity by reducing demand for their properties and making it more difficult to sell apartments, especially if potential buyers opt for rental options instead. However, it is important to note that this is just one factor among many that could impact the company's activity, and other factors such as their project pipeline and marketing strategy could also play a significant role.

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Figure 6: Building permits issued for residential buildings – Bucharest-Ilfov region

Source: NIS

Office and retail market

According to Cushman & Wakefield, the office market in Bucharest experienced strong demand in the third quarter of 2023, with a record-breaking 157,100 square meters leased. The total transaction volume is expected to exceed 400,000 square meters by the end of the year, a first for the city. Despite the robust demand, net absorption accounted for only 35% of the total leased volume. The vacancy rate increased marginally from 14.8% to 14.9% in Q3. Office rents remained stable across Bucharest in Q3, with the prime headline rent in the CBD area remaining at €22.00 per square meter per month. The under-construction pipeline in Bucharest is very limited, with only 80,000 square meters of gross leasable area (GLA) currently under development. This is the lowest level in the past 16 years. The office market in Bucharest is characterized by strong demand, stable rents, and limited supply. This is likely to continue in the coming quarters, supporting the overall health of the market.

Regarding the retail market, two new shopping schemes were delivered in Bucharest in Q3 2023, bringing the total new supply for 2023 to 69,000 square meters of gross leasable area (GLA). A record-breaking 220,000 square meters of shopping centers and retail parks are expected to be delivered in Q4 2023, which would be the highest number of modern retail deliveries in the country since 2008. Prime shopping center rents in Bucharest increased slightly in Q3 2023, reaching a range of €80 to €85 per square meter per month for a 100- to 150-square-meter unit in a dominant shopping center. The retail market in Bucharest is characterized by strong demand and rising rents, driven by a surge in new supply. This trend is expected to continue in the coming quarters, as the market absorbs the additional retail space.

Figure 7: Bucharest office rents

Submarket	Stock (sqm)	Availability (sqm)	Vacancy Rate	Under construction (sqm)	Prime Rent Range (sqm / month)
CBD	357,300	28,400	7.90%	-	€20.00 - 22.00
Center	445,000	35,600	8.00%	8,000	€16.00 - 18.00
Floreasca - Barbu Vacarescu	589,600	44,000	7.50%	27,500	€15.50 - 17.50
Expozitiei	325,300	97,100	29.80%	-	€15.00 - 16.50
Center - West	614,100	102,200	16.60%	44,500	€15.50 - 16.50
North	182,700	32,900	18.00%	-	€12.00 - 15.00
Dimitrie Pompeiu	440,700	51,600	11.70%	-	€11.00 - 13.00
Pipera North	201,300	88,200	43.80%	-	€9.00 - 11.00
West	165,900	11,500	6.90%	-	€12.00 - 13.50
East	51,100	15,700	30.70%	-	€9.00 - 12.00
South	41,800	2,900	6.90%	-	€9.00 - 12.00
Bucharest (overall)	3,414,800	510,100	14.90%	80,000	€ 22.00

Source: Cushman & Wakefield

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

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