

# Impact Developer & Contractor

## Still on solid ground; Keep BUY

We maintain BUY on Impact Developer & Contractor with a higher DCF-derived RON 0.87 fair value, from RON 0.61, representing a potential upside of 33%. 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. Year 2021 represented the beginning of a new production cycle and between 2022-2027 management estimates 1.25m sqm residential developments and 38,000 sqm of commercial developments. Besides projects in Bucharest, Impact continues to expand nationwide. As per our estimates in our initiation in March 2021, on Feb 18, 2022 Impact's shares were included in the FTSE Global Micro Cap index. Due to the geopolitical situation in the Ukraine, we expect an increased volatility in the market but, long term, we estimate Impact should continue to deliver on its ambitious strategy, in a high growth segment of residential development.

**Private placement to finance its upcoming projects.** Between Jan 4 – 21, 2022, the company undertook a private placement and it was able to sell 84.2m additional new shares, raising RON 58.96m.

**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, or the Netherlands to more than 40% in Hungary or 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 a developing status within the next 10 years and, as a result, the average salary per capita could more than double from the current EUR1,075/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 metropolitan area's economy is growing, making it an attractive market opportunity. Romania's capital 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.

Figure 1. Impact key financial summary

	2019	2020	2021	2022E	2023E	2024E
Revenues (RON '000)	156,681	204,397	137,585	679,000	557,750	1,235,000
EBITDA (RON '000)	47,271	98,607	99,684	192,709	176,334	399,698
EBIT (RON '000)	46,344	96,869	98,525	192,709	176,334	399,698
Net profit (RON '000)	11,529	74,856	70,300	138,579	126,217	311,704
Dividends (RON '000)	9,010	10,600	10,600	10,600	10,600	31,170
EPS (RON)	0.01	0.05	0.04	0.08	0.08	0.00
DPS (RON)	0.005	0.006	0.006	0.006	0.006	0.019
EV/EBITDA (x)	28.9	13.9	13.7	7.1	7.8	3.4
P/E (x)	93.5	14.4	15.3	7.8	8.5	3.5
Dividend yield (%)	0.84%	0.98%	0.98%	0.98%	0.98%	2.89%

Source: Company, IPOPEMA Research

Real Estate Developer, Romania

## Impact Developer & Contractor

### BUY

FV RON 0.87 from RON 0.61

33% upside

Price as of 25 February 2022 RON 0.65

Company update



#### Share data

Number of shares (m)	1,659.2
Market cap (EUR m)	215.7
12M avg daily volume (k)	83
12M avg daily turnover (EUR)	32,000
12M high/low (RON)	0.75/0.37
Bloomberg	IMP RO

#### Total performance

1M	-8.0%
3M	-9.0%
12M	71.5%

#### Shareholders

Iaciu Gheorghe	58.8%
Adrian Andrici	15.2%
Other	26.0%

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## Impact Developer &amp; Contractor

FV 0.87 RON

Mkt Cap EUR 215.7m

Upside/downside 33.5%

Valuation multiples	2019	2020	2021E	2022E	2023E
P/E (x)	93.5	14.4	15.3	7.8	8.5
EV/EBITDA adj (x)	28.9	13.9	13.7	7.1	7.7
EV/Sales (x)	8.7	6.7	9.9	2.0	2.5
P/BV (x)	1.8	1.7	1.5	1.4	1.1
FCF yield (%)	5.2%	1.6%	7.7%	4.6%	9.8%
DY (%)	0.8%	1.0%	1.0%	1.0%	1.0%
Payout ratio	78%	14%	15%	8%	8%

Per share	2019	2020	2021E	2022E	2023E
No. of shares (m units)	1,659.2	1,659.2	1,659.2	1,659.2	1,659.2
EPS (RON)	0.01	0.05	0.04	0.08	0.08
BVPS (RON)	0.35	0.39	0.44	0.46	0.57
FCFPS (RON)	0.03	0.01	0.05	0.03	0.06
DPS (RON)	0.005	0.006	0.006	0.006	0.006

Change yoy (%)	2019	2020	2021E	2022E	2023E
Revenues	54%	30%	-33%	394%	-18%
EBITDA	34%	109%	1%	95%	-8%
EBITDA adj	4%	87%	-33%	5%	10%
EBIT	35%	109%	2%	96%	-8%
Net profit	-45%	549%	-6%	97%	-9%
Tax rate (ex. bank. tax)	71%	18%	19%	16%	16%

Leverage and return	2019	2020	2021E	2022E	2023E
Gross margin (%)	46%	31%	36%	37%	40%
EBITDA margin	30%	48%	72%	29%	32%
EBIT margin	30%	47%	72%	28%	32%
Net debt/EBITDA (x)	3.2	2.0	2.2	1.1	1.3
Net debt/Equity	0.3	0.3	0.3	0.3	0.2
Net debt/Assets	0.2	0.2	0.2	0.2	0.1
ROE	2%	12%	10%	19%	15%
ROA	1%	8%	6%	10%	8%
ROIC	3%	18%	16%	29%	22%

P&L (RON m)	2018	2019	2020	2021E	2022E	2023E
Revenues	102	157	204	138	679	558
Cost of real estate inventories	61	84	141	88	431	335
Gross profit	40	73	63	50	248	223
G&A	18	21	23	23	48	39
EBITDA	35	47	99	100	194	178
Depreciation	0.9	0.9	1.7	1.2	1.2	1.3
EBIT	34	46	97	99	193	176
Financial results net	-6	-3	-4	-12	-28	-26
Pre-tax profit	28	40	91	87	165	150
Income tax	8	29	17	17	26	24
Minorities	0	0	0	0	0	0
Net profit	21	12	75	70	139	126
Dividend	0.0	9.0	10.6	10.6	10.6	10.6

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>588</b>	<b>589</b>	<b>590</b>
PPE	7	9	8	16	18	19
Leasing assets	0	0	0	0	0	0
Intangibles and goodwill	0	0	0	0	0	0
Investment property	217	384	458	571	571	571
<b>Current assets</b>	<b>422</b>	<b>509</b>	<b>520</b>	<b>854</b>	<b>772</b>	<b>1303</b>
Cash and equivalents	31	45	59	93	61	102
Accounts receivables	26	33	27	112	92	186
Inventories	366	431	435	650	619	1015
Others	0	0	0	0	0	0
<b>Total assets</b>	<b>648</b>	<b>902</b>	<b>988</b>	<b>1,442</b>	<b>1,361</b>	<b>1,893</b>
<b>Equity</b>	<b>447</b>	<b>584</b>	<b>641</b>	<b>735</b>	<b>756</b>	<b>941</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	143	143	143
Other long term liabilities	1	0	2	7	7	7
Deferred tax liability	26	46	55	68	68	68
<b>Current liabilities</b>	<b>60</b>	<b>133</b>	<b>122</b>	<b>489</b>	<b>387</b>	<b>733</b>
Bank debt	35	59	88	170	139	185
Accounts payable	24	73	33	319	248	548
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>1,442</b>	<b>1,361</b>	<b>1,893</b>
WK as % of sales	357%	240%	195%	266%	57%	102%
<b>Gross debt</b>	<b>149</b>	<b>198</b>	<b>256</b>	<b>312</b>	<b>282</b>	<b>328</b>
<b>Net debt</b>	<b>118</b>	<b>152</b>	<b>197</b>	<b>219</b>	<b>221</b>	<b>226</b>

CASH FLOW (RONm)	2018	2019	2020	2021E	2022E	2023E
<b>Cash flow from operations</b>	<b>0</b>	<b>166</b>	<b>128</b>	<b>235</b>	<b>122</b>	<b>109</b>
Net profit	21	12	75	70	139	126
Depreciation and amortisation	1	1	2	1	1	1
Changes in WC, o/w	-22	-14	-22	50	-18	-19
Changes in investment property	0	167	73	113	0	0
<b>Cash flow from investment</b>	<b>0</b>	<b>-110</b>	<b>-111</b>	<b>-153</b>	<b>-73</b>	<b>-3</b>
Capex	0	-3	-3	-3	-3	-3
Additions to intangibles	0	0	0	0	0	0
Change in long-term investments	0	0	0	0	0	0
Other, net	0	-107	-108	-150	-70	0
<b>Cash flow from financing</b>	<b>0</b>	<b>-42</b>	<b>-3</b>	<b>-49</b>	<b>-81</b>	<b>-65</b>
Change in long-term borrow ing	0	25	29	-8	0	0
Change in short-term borrow ing	0	0	0	30	-46	-29
Leasing payments	0	0	0	0	0	0
Dividends paid	0	0	-11	-11	-11	-11
Other, net	0	-67	-21	-61	-25	-25
<b>Net change in cash and equiva</b>	<b>0</b>	<b>14</b>	<b>14</b>	<b>34</b>	<b>-32</b>	<b>41</b>
<b>Beginning cash and equivalent:</b>	<b>31</b>	<b>31</b>	<b>45</b>	<b>59</b>	<b>93</b>	<b>61</b>
<b>Ending cash and equivalents</b>	<b>31</b>	<b>45</b>	<b>59</b>	<b>93</b>	<b>61</b>	<b>102</b>

Source: Company data, IPOPEMA Research

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## Valuation

**Discounted cash flow to equity (DCF) as primary valuation method.** The company is in a transition, currently operating almost entirely in the residential segment but with an intention of entering in the commercial (office, community centres, hotel, and retail segments.) We value the business using a two-stage DCF methodology. For the discreet part, we have used management's explicit estimates of revenues in 2022 – 2027, based on projects in the pipeline. We assume the continuation of the company's operating activity beyond the forecast horizon as a going concern.

**Private placement to finance its upcoming projects.** Between Jan 4 – 21, 2022, the company undertook a private placement. Impact was able to sell 84.2m additional new shares, raising RON 58.96m (EUR 11.8m) in a first phase of the capital increase. We included this project into the DCF.

By discounting Impact's cash flow, with a cost of equity "CAPM" of 14% (5.6% "risk-free rate" which is the equivalent of a Romanian 10-year bond yield, 6.5% market risk premium, 1.0x Beta and a small-size premium) and applying no terminal growth, **we derive an intrinsic fair value per share of RON 0.87 for the company, which is 33.5% higher** than the current share price. **We base our BUY rating mainly upon 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 2. Discounted Cash Flows

RON '000	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	
Net profit	138,579	126,217	311,704	361,968	381,831	383,808	396,648	405,651	414,852	439,764	439,764
+capital increase	58,961	0	0	0	0	0	0	0	0	0	
+ depreciation	1,222	1,347	1,472	1,597	1,722	1,847	1,972	2,097	2,222	2,347	
+ increase/-decrease of long term debt	-7,506	0	0	0	0	0	0	0	0	0	
-increase/+decrease in working capital	-18,163	-19,058	-184,590	-70,298	-114,807	-39,474	-113,797	-34,800	-35,829	-37,224	
+ Capex	-2,500	-2,500	-2,500	-2,500	-2,500	-2,500	-2,500	-2,500	-2,500	-2,500	
<b>Equity - Free cash flow</b>	<b>175,512</b>	<b>106,006</b>	<b>126,086</b>	<b>290,767</b>	<b>266,245</b>	<b>343,680</b>	<b>282,322</b>	<b>370,448</b>	<b>378,745</b>	<b>402,386</b>	<b>439,764</b>
Discount rate (CAPM)	14.0%										
Present value of cash flows	87,756	92,988	97,019	196,259	157,639	178,497	128,622	148,045	132,773	123,737	
Sum of present values of cash flows	474,022										
Residual growth	0.0%										
Present value of residual value	965,935										3,141,171
Less: non-controlling interests	0										
<b>Equity value (RON '000)</b>	<b>1,439,957</b>										
Shares ('000)	1,659,231										
<b>Equity value per share (RON)</b>	<b>0.87</b>										
Current Share Price (RON)	0.65										
<b>Upside (%)</b>	<b>33.5%</b>										

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 3. Sensitivity analysis

RON/share		Residual Growth Rate					
		-1.0%	-0.5%	0.0%	0.50%	1.00%	1.50%
	9.0%	1.53	1.60	1.67	1.75	1.84	1.94
Discount	11.0%	1.16	1.20	1.24	1.29	1.34	1.39
Rate	14.0%	0.83	0.85	0.87	0.89	0.91	0.94
	13.0%	0.92	0.94	0.97	1.00	1.03	1.06
	14.0%	0.83	0.85	0.87	0.89	0.91	0.94

Source: Company, IPOPEMA Research

## Strategy update

### Private placement to finance its upcoming projects

Between Jan 4 – 21, 2022, the company undertook a private placement where a maximum of 350m shares were offered for subscription at a price of RON 0.70/share ie aiming to gather RON 245m or EUR 49m.

The rationale for the private placement: Impact has a strong land bank (of c.74 ha) and needed additional cash to further develop and reach the 1.25m sqm of residential construction over the next 6 yrs (as mentioned in the [Capital Increase](#) document)

- In the past, to finance its projects, the company issued bonds (in 2017, 2019, 2020) or financed through bank debt;
- Impact also is on a transformation as it intends to change its business model/strategy: Instead of beginning a project, ending, and selling it, going forward, Impact intends to concurrently develop a portfolio of projects. Therefore the company will also expand its workforce to be able to juggle more tasks at once, obtain permits, build, market its projects, sell, etc.

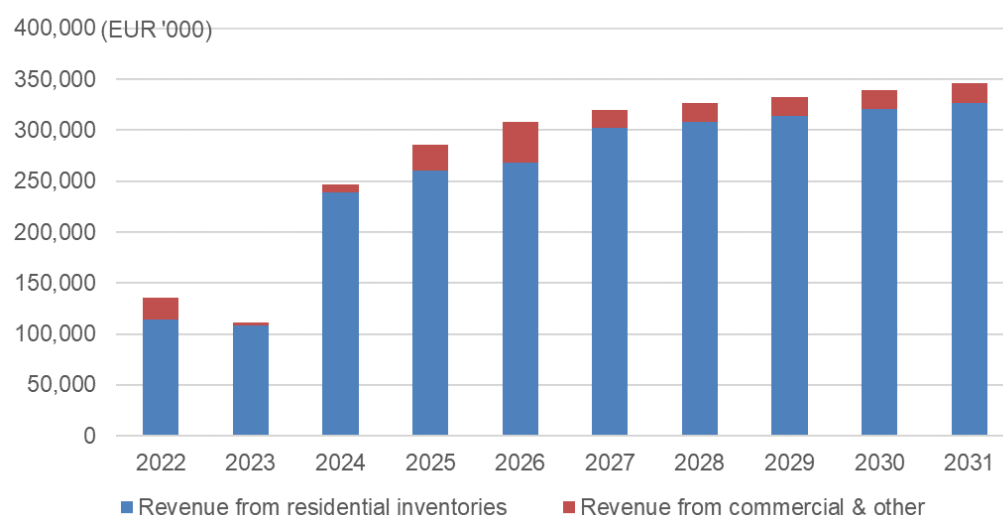
Impact was able to sell 84.2m additional new shares, raising RON 58.96m (EUR 11.8m) in a first phase of the capital increase. As a result, the company's share capital was increased from RON 393.7m to RON 414.8m, and the new total number of shares is now 1,659,231,295.

### Impact's strategy

The company's strategy for the next six years (2022-2027) aims at a development of 1.25m sqm residential units which Impact estimates at a market value of RON 1,500m.

As shown in the graph below, besides residential development, the company intends to develop commercial (ie office, community centres, hotels, etc). Company management estimates revenue from residential to increase from EUR 114m in 2022 to EUR 302m.

Figure 4. Impact's development plan - revenues



Source: Development Strategy 2022-2027 from Sep 2021, IPOPEMA Research

**Revenue assumptions.** We relied on management's estimates from its Development Strategy document issued in Sep 2021 (Figure 4).

## 12M 2021 Results

Year 2021 represented for Impact the first year of a new production cycle therefore a comparison with 2020 is not meaningful. Nevertheless we show below the YoY (%) and a QoQ (%) comparison.

2021 revenues came in at RON 137.6mn, 32% lower YoY, gross margin in 2021 was 36% (vs 31% in 2020) and operating income at RON 98.5m in 2021 was 1.7% higher vs 2020.

Figure 5. Impact 12M 2021 results summary

Type of expense/revenue	3Q 2021	4Q 2021	QoQ	2020	2021	YoY	
RON '000			(%)			(%)	Comments
Revenue from real estate inventories	40,595.0	28,049.0	-30.9%	204,397	137,585	-32.7%	
Gross profit	14,645.0	13,718.0		63,390	49,846		
Gross margin (%)	36.1%	48.9%	35.6%	31.0%	36.2%	16.8%	Gross margin in 2021 was 36%, increasing from 31% a year ago
Operating expenses, net	10,744.0	64,944.0	nmf	107,528	39,060	-63.7%	
Operating expenses % of revenue	26.5%	231.5%	nmf	52.6%	28.4%	-46.0%	
EBITDA	4,205.0	88,559.0	nmf	98,607	99,684	1.1%	
EBITDA margin	10.4%	315.7%	nmf	48.2%	72.5%	50.2%	
EBIT	12,314.0	79,868.0	nmf	96,869	98,525	1.7%	In 2021 Impact obtained an operating profit of RON 98.5m, with 1.7% higher than in 2020.
EBIT margin	30.3%	284.7%	nmf	47.4%	71.6%	51.1%	
NET PROFIT (LOSS)	10,278.0	62,793.0	nmf	74,856	70,300	-6.1%	
Net income margin	25.3%	223.9%	nmf	36.6%	51.1%	39.5%	

Source: Company, IPOPEMA Research

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## Impact Developer & Contractor

The date and the time stated on the front page is the date of the preparation of this document. The price used throughout the recommendation to calculate adequate ratios is the "last" price stated on the front page of this document.

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 (Oct 1 – Dec 31, 2021)

	Number	%
Buy	44	64%
Hold	10	14%
Sell	15	22%
Total	69	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
28/02/2022	BUY	RON0.87	RON0.65	Florin-Adrian Ciocoi