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PIK Group (PIK LI)

Cash from housing sales grew by 404% in 1H10

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Steady sales growth. Thanks to better macroeconomic environment, increase in real disposable incomes and lower mortgage rates, PIK Group has staged impressive growth of cash collections from housing sales in 1H10. Based on given unaudited management accounts, PIK Group received RUR8.7 bn (\$287 mn) from residential real estate sales in 1H10 that is five-fold higher as compared to 1H09. More than half of cash collections (51%) accounted for Moscow market, the remaining part of sales was provided by regions, including RUR3.6 bn from Moscow region. Cash collections from construction and other services declined by 5% to RUR4.2 bn. Cash collections in 1H10 totaled RUR12.8 bn (\$425 mn), up by 111% y-o-y. Let us remind that according to PIK's account standards, cash collections will be recognized as sales revenue once the residential real estate properties have been completed and committed.

Summary of residential real estate cash collections, RUR bn

	1H08	1H09	1H10	y-o-y, %
Total cash collections	30,208	6,071	12,835	111
<i>Including:</i>				
Residential real estate sales	24,051	1,723	8,682	404
<i>Including:</i>				
- Retail residential real estate	17,625	1,083	6,010	455
- Wholesale residential real estate	6,426	640	2,672	318
Construction services sales and others	6,157	4,348	4,153	-5

Regional structure of residential real estate sales, RUR bn

	1H08	1H09	1H10	y-o-y, %
Moscow	5,633	245	4,453	1,717
Moscow region	18,418*	1,478*	3,602	144
Other regions	n/a	n/a	627	-

* including other regions

Good news for investors. In the beginning of 2010 PIK Group declared the change of its development strategy, focusing on building and sale of residential real estate in Moscow and Moscow region, where demand for housing is restoring faster than in other parts of Russia. Strategic changes came as a right and timely step of the company's development. So, in first half of 2010 the number of transactions of residential real estate in Moscow exceeded not only the level of 2009 (up by 76%), but also the pre-crisis level of 2008 (up by 32%) that was positively reflected in sales of PIK. It is worth mentioning that PIK Group sales in 1H10 stood at 58% below the corresponding figure of 2008 that is connected with the reduction of construction volumes on fears concerning rates of demand recovery, as well as with high debt (\$1.27 bn according to 2009 numbers). Impressive sales in 1H10 and rates of demand rebound for residential real estate encourage the company. PIK Group confirms its intentions to complete 1 mn sqm of the residential real estate in 2010 (in 2008 and in 2009 over 0.8 mn and 0.9 mn sqm have been completed accordingly) and plans to direct about RUR10 bn (RUB3.0 bn has been already received) to project financing this year within the obtained credit lines. We believe that the release of bright sales results for 1H10 will raise investors' interest towards the company. We keep our BUY recommendation for PIK Group with the end-2010 target price of \$7.2 per share.

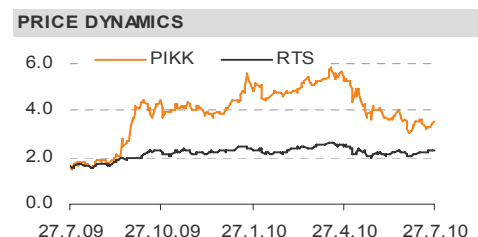
RECOMMENDATION	
Ticker	PIK LI
Recommendation	BUY
Price, \$	3.5
Fair price, \$	7.2
Upside/downside potential	104%

SHARE DATA	
Bloomberg	PIK LI
Reuters	-

# of shares outstanding, mn	493.3
EV, \$mn	3,000
MC, \$ mn	1,741
MIN 12 mnth., \$	0.98
MAX 12 mnth., \$	5.97
GDR per 1 share	1

SUMMARY FINANCIALS, \$ mn			
	2009	2010E	2011E
Revenue	1,300	1,236	1,530
EBITDA	-60	218	255
Net income	-361	-8	36
EPS (\$)	-0.7	0.0	0.1
Rev. growth (%)	-4	-5	24
EBITDA Margin (%)	29	18	17
Net Margin (%)	9	-1	2

SUMMARY VALUATIONS			
	2009	2010E	2011E
EV/EBITDA	-50.0	13.7	11.8
EV/S	2.3	2.4	2.0



Source: Bloomberg, TKB Capital estimates

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