

# MirLand Development (MLD LN)

## 1H10 IFRS results: still in the development stage

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**Yesterday, MirLand Development reported 1H10 IFRS results. Generally they are neutral and in line with our expectations. The company is in the development stage and weak revenue is not the indicator of its inefficiency. Now more attention should be paid to asset value and efficiency of borrowings spending.**

**Minor changes in NAV and debt.** Net asset value (NAV) from the beginning of the year has decreased by 2% to \$463 mn. We attribute this to the sale of a 50% stake by MirLand Development in Techagrocom project for \$20 mn. According to the independent appraiser, as of the year-beginning this stake was valued at \$18.8 mn. Proceeds from sale were directed to finance the current operations. The amount of investments into development of existing projects in 1H10 has totaled \$19.2 mn. In 1H10, debt grew by 3.1% to \$264 mn and continues resulting in losses. Financial expenses from the beginning of this year have made up \$9.9 mn.

**Triumph Mall opening expected in 4Q10.** The opening of Triumph Mall in Saratov was postponed to October, 2010. Earlier, MirLand planned to commission the project in June. The main reason was new fire safety regulations recently imposed by the local authorities. In light of bureaucratic hurdles and standard fire service procedures, a three-month delay seems to us as quite obvious. As per company guidance, preliminary lease agreements are concluded already for 97% of total area, by the year-end this share is expected to increase to 98%. Net lettable area of the project makes up 27,400 sqm. We forecast net operating profit of Triumph Mall project at \$9 mn for 2011.

**Sales in Western Residence in line with schedule.** Sales of country houses within Western Residence real estate project became an additional revenue growth driver in 2010. The project is located in lucrative area of Moscow suburbs within a 15 km distance from MKAD between Rublevo-Uspenskoye and Mozhaiskoye highways. The project envisages the construction of 163 cottages. The area of cottages is on average 400 sqm. MirLand plans to finish the first phase of construction (77 cottages) by end-2010, and pre-sales started in 2009. As of the publication date of 1H10 results 10 houses were already sold. We forecast sales at 21 houses in 2010. Given that MirLand Development had invested into the first construction phase, almost all revenue from sales will be directed to the further development of the company. We estimate total revenue from cottage sales to reach \$191 mn in 2010-2014.

**Profits remain weak.** The company's revenue in 1H10 grew by 12.4% to \$9.6 mn y-o-y. Partial recognition of houses sales of \$1.1 mn and 19.5% y-o-y growth of income from asset management fees to \$1.6 mn were additional growth drivers. However, operating expenses still exceed income and EBITDA excluding the recognition of gain from asset revaluation remains negative. Net profit came nominally positive at \$8.1 mn due to the recognition of \$18.4 mn asset revaluation in profit.

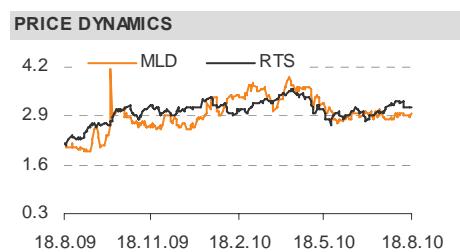
RECOMMENDATION	
Ticker	MLD LN
Recommendation	BUY
Price, \$	3.0
Fair price, 2010 \$	5.0
Upside/downside potential	69%

SHARE DATA	
Bloomberg	MLD LN
# of shares outstanding,mn	103.6
EV, \$mn	560
MC, \$ mn	307
MIN 12 mnth., \$	1.0
MAX 12 mnth., \$	4.1

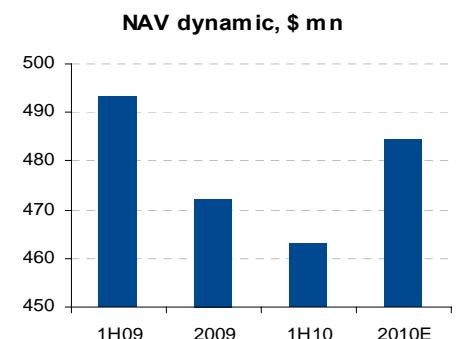
SUMMARY FINANCIALS, \$ mn			
	2009	2010E	2011E
Revenue	17.2	42.7	115.7
EBITDA	-3.9	20.5	63.7
Net income	neg.	2.6	36.4
EPS (\$)	-0.2	0.0	0.4
EBITDA Margin (%)	-23%	48%	55%
Net Margin (%)	neg.	6%	31%

SUMMARY VALUATIONS			
	2009	2010E	2011E
EV/EBITDA	-	27.3	8.8
P/E	-	119.3	8.4

SHAREHOLDER STRUCTURE	
Jerusalem Economy	29%
Darban Investments	14%
Industrial Building	34%
Free Float	24%



Source: Bloomberg, RTS, TKB Capital estimates



Source: Company data, TKB Capital estimates

**BUY recommendation reiterated.** We do not provide forecasts for 1H10 mainly due to fluctuating periods of revenue recognition which depend on terms of commission. In some cases, projects are commissioned in a year after their completion due to bureaucratic hurdles in construction sector of Russia. Therefore, we prefer NAV-based method of valuation. We forecast end-2010 NAV at \$485 mn that is 5% above the independent estimate provided by C&W as of mid-2010. In 2H10, we expect positive newsflow from the company on other projects. Among them we underline large residential and commercial real estate project called Triumph Park in St. Petersburg. It is in the construction stage now. News on pre-sale start is likely to be a driver for the stock. We keep our BUY rating for MirLand Development with a target price of \$5.0 (£3.2) per share.

**MirLand Development 1H10 IFRS results, \$ mn**

	<b>1H10</b>	<b>1H09</b>	<b>y-o-y, %</b>	<b>2009</b>
Revenue	9.6	8.5	12	17.2
Rental income from investment properties	6.9	7.2	(4)	14.8
Revenues from managing fees	1.6	1.3	20	2.5
Proceeds from sale of trading properties	1.1	-	-	-
Operating expenses	(7.2)	(3.0)	-	(7.4)
Gross profit	2.4	5.5	(57)	9.8
Administrative expenses	(7.4)	(7.7)	-	(16.3)
Other expenses	3.9	0.4	-	2.1
Valuation gains on investment property	18.4	(8.6)	-	(16.5)
Operating profit (loss)	17.2	(10.3)	-	(20.9)
EBITDA (excl. valuation gain)	(1.0)	(1.5)	-	(3.9)
Finance income	3.7	3.1	-	8.7
Finance expenses	(9.9)	(8.3)	-	(5.7)
EBT	11.0	(15.6)	-	(17.9)
Income tax expense	(2.9)	(2.5)	-	(5.1)
Profit for the year	8.1	(18.1)	-	(23.0)

Source: Company data, TKB Capital estimates

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