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Company briefing

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Russia's largest house builder is active mainly in Moscow and the surrounding areas but it has big ambitions, with plans to operate in 60 to 70 cities in Russia and other CIS countries

## PIK Group

PIK Group raised over \$2.2bn (€1.4bn) through an initial public offering in London and Moscow last summer, valuing it at some \$14.1bn. But in June the group, which is Russia's largest housebuilder, postponed a vote on the issuance of new shares because of pricing issues in volatile capital markets. Nevertheless, analysts at investment banks in Moscow and London are united in urging investors to buy PIK Group's shares.

JP Morgan calls the housebuilder a top pick in the property sector. "With its straightforward business model, healthy cash inflows from presales, land bank expansion strategy solid execution record and experienced management team, PIK is one of the best stocks on Russia's property sector and should outperform peers," says the financial services firm.

And Renaissance Capital says: "Being one of the most liquid of the Russian real estate stocks, we believe PIK should be on the top of investors' lists as it has the potential to outperform the rest of the property shares in a market rebound."

### Mass market development

Viktor Szalkay, investor relations director at PIK, points to the 6.5m m<sup>2</sup> of housing aimed at the mass market that the company has developed over the last 14 years. PIK began building in Moscow in 1996, expanded to the Moscow region in 2001, and moved out into the rest of the country two years ago.

Presently it is active in 24 Russian cities including Moscow, St Petersburg, Perm, Ormsk, Kaliningrad, Novorossiysk and Nizhny Nograd. Over the last two years PIK has developed 1.5m m<sup>2</sup> – just over 23,000 units. Out of this 24% is in the regions and the rest in Moscow and the city's region.

The company has big ambitions and over the next seven to eight years it wants to be operating in 60 to 70 cities in Russia and other CIS countries. According to Szalkay:

"We will be building the same volumes in Moscow and the city's region, but we want to grow in the regional cities, building around 50,000 m<sup>2</sup> a year.

"We won't be number one in the regional cities but PIK will become the largest in Russia in terms of geographical spread."

### Ukraine and Kazakhstan expansion

Earlier this year PIK established new business units – PIK Ukraine and PIK Kazakhstan – for the group's expansion into those countries. Kazakhstan has a lower profile for international investors, but according to IMF its economy, supported by the oil, gas and agriculture sectors, is predicted to grow 5% this year and 7% in 2009. The new companies will be responsible for identifying land for purchase, zoning and construction.

PIK, which employs over 15,000 people, is developing whole new communities. Szalkay explains: "It's not about a single standing building. For example, at Novo Korkino in the Moscow region we have an 8oha site for 1m m<sup>2</sup> of sellable space, equal to about 17,000 homes and 40,000 people. So it will be a city and we put in the whole infrastructure too, including schools, kindergarten and sports centres."

Housebuilding is typically a very profitable business in the country. The Russian way of buying homes is very advantageous to the developer, who rarely needs much finance for projects. According to Szalkay: "Once construction starts, developers start pre-selling the units and buyers effectively

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Viktor Szalkay, investor relations director, PIK

prepay the whole construction. In Russia buyers pay 100% up front, or 50% deposit and then the remaining 50% six months later."

Over the past 20 years few homes have been built and there is big pent-up demand.

The company increased its revenues from \$440.5m in 2004 to \$2.7bn last year, according to IFRS-compliant financial documents it made public. In one year, total assets more than doubled to \$5.2bn at the end of last year. CB Richard Ellis put the combined market value of its projects, including land bank, at \$12.3bn as of January this year.

### Commercial inroads

Last year, PIK entered the commercial market with the acquisition of a majority share in Russia's Storm Properties. This will give PIK the chance to exploit standalone commercial opportunities and those associated with its home building activity.

The company plans to accelerate regional growth by attracting co-investors to projects. It aims to reduce risk exposure to the larger projects and to provide funding for new projects at earlier stages of development to make bigger returns.

In December 2007, PIK closed the first significant deal of this kind, with GIC Real Estate, the property investment arm of the Government of Singapore. Under the agreement, an affiliate of GIC Real Estate acquired a 25% stake in a Moscow region project for \$233m.

"We will look to enter similar partnerships with other investors where the economics are attractive. We have earmarked two projects – one in Perm and the other in Ormsk – where we think the GIC deal structure can be replicated," says Szalkay.

[www.pik.ru](http://www.pik.ru)