

Shares of ECM and Orco: where have the 2007 levels gone?

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For courageous investors, however, the shares of both companies remain interesting after their recent abrupt price fall. No wonder: the shares of these companies, which used to be among the top drivers on the Czech equity market, are among titles that strengthen as well as weaken the most in case of larger market fluctuations, and it is obviously possible to earn a lot of money on it.

Looking into the table of exchanges of the Prague Stock Exchange, we can see information surprising for many people - this year ECM's shares strengthened by about 20%. However, few people would bet on their further growth, which is in line with the investment recommendations by experts. And the days of about two years ago, when their prices are about an order higher (this week, Orco's shares were traded at the Prague Stock Exchange for CZK 160, ECM's shares for CZK 315), seem to be long past us. Of course, this scepticism also mirrors in the opinions of experts. The broker Pavel Hadroušek, of Fio burzovní společnost, reminds that the real estate market is still characterized by falling prices and a difficult access to bank loans. Orco as well as ECM therefore do business with huge losses. They try to solve their large debts through tough restructuring - sales of property and reductions of operating costs; Orco even had to apply for court protection against creditors.

Perhaps for long-term investors

“In this condition, I wouldn't recommend the property developers' shares to investors. And if I did, I would only invite investors with a very long investment horizon,” says Hadroušek. He considers ECM's shares the better choice, as they have the certainty of a strong investor (PPF) and the threat of bankruptcy is not so big as in case of the competing Orco. Although these company's shares are, because of the last official net asset value, cheaper, they are riskier than the shares of ECM because of their possible dilution and, first and foremost, the uncertainty associated with the entry of a strong investor (Colony Capital). In addition, Hadroušek argues it is difficult to find the fair value of the shares of both property developers. The latest published net asset values are half a year old. Because of the declining prices, the companies will re-valuate their portfolios; if they issue new shares, there is a risk of further dilution of the capital.

Another risky aspect involves the potential withdrawal of the shares from the market, which is something to be decided by the main shareholders of both companies. Long-term investors would not be then able to appreciate their investment when the Czech real estate market starts growing again. Hadroušek fears, however, that the revival of this market is only possible within a couple of years.

Struggle for survival and peaceful existence

According to Petr Hlinomaz, analyst for BH Securities, the situation on the real estate market is not so bad. Although the prices of many properties and construction production are falling, residential properties are not doing so bad. In case of Orco and ECM, everything largely depends on specific projects, and both companies can rely on high-quality ones.

Orco is, however, in a much worse financial condition and regardless the situation on the real estate market or the quality of its projects, it is struggling for survival. Conversely, ECM survives well, according to Hlinomaz, and could be even described as existing comfortably. Its portfolio is better prepared, or viable during a crisis, which includes a higher portion of revenues from regular activities (lease,

maintenance). However, its combination with PPF presents risks, or questions. It cannot be excluded that some profits or projects would go into joint ventures and ECM would have to share them.

In addition, the shareholders of Orco do not have much hope for any profit until the court protection against creditors is resolved. Hlinomaz thinks that Jean-Francois Ott, the company's founder and main shareholder, will try to extend it (the current half-year protection will expire at the beginning of September).

The share prices of the estate companies should be based on the value of their assets, which is usually assessed by external experts. The value of ECM's assets should be about EUR 25 to 30 (CZK 650 to 780) per share. As for Orco, this calculation is irrelevant, according to Hlinomaz, because the assets virtually belong to the creditors and should be used to satisfy all claims arising from a bankruptcy, if any. The shareholders would be the last to get something.

As a black box

"Personally I avoid these titles, I think they are a black box. If I were to buy them, anyway, I would do so as soon as the economy and the real estate market demonstrably improve or simply out of speculation in case of sudden and large share rate declines, when technically there is more hope for a price revival," says Hlinomaz.

However, it is possible that Milan Janků, who holds over 84% of ECM's shares, may withdraw the title from the stock exchange. As he says, he hasn't thought about it yet. In case of Orco, the situation is different. If it survives and the conditions and confidence in the sector improve, there will be no reason to withdraw the shares from the stock exchange, according to Hlinomaz. Jean-Francois Ott will rather want to show that the dramatic decline of "his" company's shares was exaggerated or instigated only by the external environment and will go to the market for money again, to get a feeling of satisfaction.

It remains to be seen if this will be true. The development in both companies this and last year had many unknown factors for the investors. Although ECM is better off, as shown by this year's development of its prices, its results in the first quarter were disappointing for the investors. Will this company as well as Orco do better in the second quarter? We will know at the end of August, if ECM and Orco really present their second-quarter results on 26 and 27 August, respectively, and such results are better than expected.

In that case it could be a suitable opportunity for purchasing ECM's shares for risk-prone investors. As regards Orco, it is obviously necessary to consider that at the beginning of September, the company's protection against creditors granted by the French court will expire. Will J. F. Ott, Orco's founder, ask for its extension, and if so, what will the court in France do? We'll be all surprised.

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