

CEE Real Estate

Sector report

There's hope for you yet

If you are not invested in CEE real estate, do not despair – it is not too late. We remain constructive on the sector. The CEE economies are likely to stay among the fastest growing in Europe for at least the next two years, in our view. At the same time, ECB policy is likely to remain accommodative in the near term, and no EUR rate hikes appear likely in the foreseeable future. We believe that, in such an environment – fast GDP growth, underpinned by low rates – real estate should thrive.

We are bullish on CEE offices. Office rents have, by and large, still not surpassed the previous cycle peak across the CEE capitals. On the other hand, salaries, while still cheaper than in Western Europe, have grown substantially over the past decade. Relative to the cost per employee, office space is now cheaper than a decade ago across CEE. GTC and Globalworth are our preferred ways to get exposure. For CA Immo, we see limited upside in the near term but, with under-rented properties, a long-term development pipeline and a stellar balance sheet, it should perform well over a longer horizon, in our view. Micro-cap enthusiasts could also consider Graphisoft Park. At a 10% FFO yield and over a 40% discount to book, it offers a cheap way to get exposure to a unique office park in Budapest.

Retail: CEE is not Western Europe. We see a case for CEE retail real estate to trade at a premium to Western Europe (WE). While we see a risk of a growing discrepancy between prime and secondary assets, the panic related to e-commerce is overblown, in our view. The retail space density is lower in CEE. More importantly, with a tight labour market and still fast-growing economies, we expect the middle class in CEE to continue to get richer, their incomes growing faster than those of their WE counterparts. Available evidence supports this view: the turnovers and rents in the good shopping centres in CEE have been growing by low- to mid-single digits annually over the past decade. Albeit not cheap, our preferred play on the CEE consumer is NEPI Rockcastle. While Atrium trades at a c.30% discount to book and offers an excellent dividend yield (8.3%), the Russian exposure may prevent a rerating, in our view.

GTC's shares could trade in mid-teens in 2-3Y, we believe. At a 25% discount to EPRA NAV and an 8% FFO yield (a 30% discount to its 3Y average), GTC ranks among the cheapest in our universe, despite the growth it offers. Despite our conservative assumptions on rental growth (which could be surpassed easily, we believe), we forecast a 5Y FFO CAGR of 8%. We admit that, until resolved, the Lone Star stake sale may hold the share price in check. However, fundamentally, GTC screens as the most attractive stock in our universe, and is our top pick.

Polish developers still attractive. While growing, apartment prices in Poland are still significantly cheaper, relative to wages, than 10 years ago. The leasing demand for offices is strong. Investment volumes are at record highs. While not without risks, we put Echo back on our BUY list, following the recent drop in its share price. The backdrop remains supportive and, with an internal development team and the resources to undertake large projects, Echo should generate better margins than most of its peers, in our view. Also, its long-term projects (Towarowa or Resi4Rent) are very strong. While, trading at 2.0x P/B, the near-term upside for Dom Development may be limited, we believe it is likely to maintain its generous dividend yield of around 10% for the next two years, and could use a prospective downturn as an opportunity to consolidate the market.

Immofinanz / S Immo: no obvious way to play the merger. While the restructuring initiatives are yielding visible results, IIA is trading at a 5% FFO yield, on our estimates. Considering that half of its portfolio is retail, the upside from current levels seems limited. We would take profits in S Immo, as the valuation is not cheap and the merger risks could weigh on the share price, in our view.

Warimpex – coverage reinitiated. The company is replacing its hotels with offices, which we see as a sound strategy. We expect the FFO to reach EUR 9-10m by 2022E, up from EUR 2-3m in 2019E. However, with much of the growth back-loaded, we believe the market is likely to discount it until there is tangible progress in the key development projects.

GTC**BUY (maintained)****Price: PLN 8.2****PT: PLN 11.1 (from PLN 10.4)****Echo Investment****BUY (upgraded from Hold)****Price: PLN 3.6****PT: PLN 4.9 (from PLN 4.8)****Globalworth****BUY (maintained)****Price: EUR 9.0****PT: EUR 10.8 (unchanged)****NEPI Rockcastle****BUY (maintained)****Price: EUR 7.3****PT: EUR 8.4 (from EUR 9.1)****Graphisoft Park****BUY (upgraded from Hold)****Price: HUF 3,590****PT: HUF 4,336 (from HUF 3,734)****Dom Development****HOLD (maintained)****Price: PLN 82****PT: PLN 91 (from PLN 88)****Atrium****HOLD (maintained)****Price: EUR 3.25****PT: EUR 3.59 (from EUR 4.14)****CA Immo****HOLD (maintained)****Price: EUR 33.2****PT: EUR 34.3 (from EUR 29.0)****Warimpex****HOLD (reinitiation of coverage)****Price: EUR 1.4****PT: EUR 1.4****Immofinanz****HOLD (maintained)****Price: EUR 23.2****PT: EUR 25.0 (from EUR 21.6)****S Immo****SELL (downgraded from Hold)****Price: EUR 20.1****PT: EUR 18.7 (from EUR 19.0)**

Contents

CEE Real Estate: the party is not over, yet	3
Where does the sector trade?	6
External environment remains supportive for real estate	8
CEE retail – underlying performance does not support general negativity	10
CEE offices – strong long-term outlook.....	11
Valuation.....	12
Company sections	
GTC.....	15
Echo Investment	23
Globalworth	29
NEPI Rockcastle.....	37
Graphisoft Park	45
Dom Development	53
Atrium.....	61
CA Immo	71
Warimpex	79
Immofinanz	89
S Immo	97
Important disclosures	105

Closing Prices as of 06 June 2019

© 2019 by WOOD & Company Financial Services, a.s.

All rights reserved. No part of this report may be reproduced or transmitted in any form or by any means electronic or mechanical without written permission from WOOD & Company Financial Services, a.s. This report may not be lent, resold, hired out or otherwise disposed of by way of trade in any form of binding or cover other than that in which it is published without written permission from WOOD & Company Financial Services, a.s.

Requests for permission to make copies of any part of this report should be mailed to:

WOOD & Company Financial Services a.s.
Palladium, Namesti Republiky 1079/1a,
110 00 Prague 1 – Czech Republic
tel.: +420 222 096 111
fax: +420 222 096 222
<http://www.wood.cz>

CEE Real Estate: the party is not over, yet

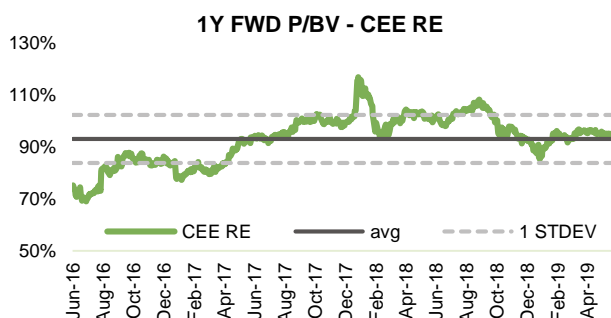
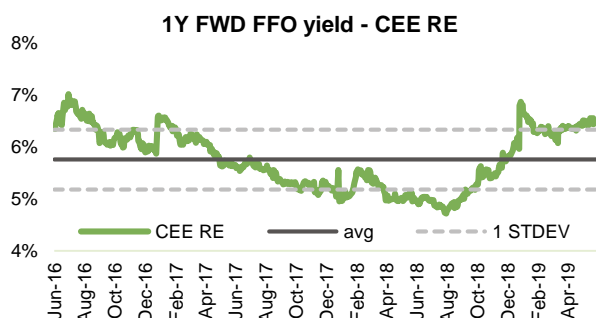
We are constructive on the sector. The CEE economies are likely to remain among the fastest growing in Europe for at least the next two years, in our view. At the same time, ECB policy is likely to remain accommodative in the near term, and no EUR rate hikes appear likely in the foreseeable future. We believe that, in such an environment – fast GDP growth, underpinned by low rates – real estate should thrive. Over the past decade, CEE has evolved into a premier location for ICT and business services outsourcing, and the leasing demand for office space is at or near record highs in a number of the regional office markets. As for retail, low unemployment and growing wages are driving retail spending across CEE, translating into growth in the turnovers at the good shopping centres. Going forward, we expect to see a widening gap between the prime assets (modern, centrally-located offices, or large, regionally-dominant shopping centres) and the secondary product (ageing offices on the outskirts of cities, older shopping centres and retail parks in smaller towns), as the latter may struggle to attract tenants without compromising on rent levels, in our view.

Our top picks are GTC (for its fast growth, driven by its development pipeline), Globalworth (long lease terms and high quality tenants) and Echo (fantastic development projects, such as Resi4Rent, Towarowa 22, Mlociny and the Warsaw Brewery). We maintain our BUY on NEPI Rockcastle, although we admit that, trading on a par with its BV, the upside may be limited. We also turn positive on Graphisoft Park (a valuation call). While we continue to like CA Immo, due to its focused business model, vast land reserves in Germany and the upside for rents we see in the German offices, we maintain our HOLD rating, as the stock is expensive. We do not see a way to play the prospective merger between Immofinanz (HOLD) and S Immo (SELL), and we have downgraded the latter to reflect the risks connected with the merger ratio. We relaunch coverage of Warimpex (HOLD), which is transforming from a hospitality into an office play currently. Finally, while we believe that Dom Development should sustain its dividend yield of around 10% for the next two years, trading at 2x P/BV, we believe the upside may be limited.

Key risks for the space. An economic slowdown and lower liquidity on the property markets in the region could translate into an uptick in yields, putting the asset values under pressure. That said, as long as the ECB maintains the accommodative monetary policy, we believe the room for a prospective yield expansion is limited. For offices, oversupply could be a problem: construction has picked up in capitals across CEE. If the completions of new offices coincide with a downturn, new space could prove difficult to absorb and could put the rents under pressure. For retail, e-commerce is the chief threat; we admit it is difficult to predict what impact it could have on the traditional retail business within a 5-10Y horizon. However, thus far, the demand from tenants for space remains healthy, and the turnovers continue to grow. For developers, further escalation in construction costs could put margins under pressure.

CEE real estate universe: multiples

		Price 12M PT		Upside/ downside	Mcap (EUR m)	3M ADTV EUR m	FFO yield* (%)		Div. yield (%)		P/BV (x)		FFO ROE (%)		5Y FFO CAGR (%)
		(LCU)	(LCU)				'19E	'20E	'19E	'20E	'19E	'20E	'19E	'20E	
Immofinanz	HOLD	23.2	25.0	8%	2,606	3.4	4.7	4.9	3.9	3.9	0.82	0.82	3.8	4.0	15.0
S Immo	SELL	20.1	18.7	-7%	1,337	1.4	4.9	4.9	3.6	3.7	1.09	1.05	5.5	5.3	4.2
CA Immo	HOLD	33.2	34.3	3%	3,256	2.8	3.6	4.0	2.9	3.2	1.08	1.02	4.1	4.2	13.9
Atrium	HOLD	3.25	3.59	10%	1,243	0.2	7.9	8.3	8.3	8.3	0.68	0.69	5.4	5.7	-2.5
GTC	BUY	8.15	11.1	36%	930	0.1	7.9	8.4	5.1	5.4	0.83	0.80	6.8	6.8	7.5
NEPI Rockcastle	BUY	7.30	8.4	15%	4,524	5.2	7.5	7.6	7.4	7.0	1.10	1.08	8.2	8.3	1.0
Globalworth	BUY	8.95	10.8	21%	1,686	4.1	6.4	6.5	6.2	6.8	1.02	0.99	6.7	6.5	14.6
Warimpex	HOLD	1.4	1.4	3%	74	0.0	3.0	1.9	4.4	4.4	0.55	0.54	2.0	1.0	n/a
Graphisoft Park	BUY	3,590	4,336	21%	119	0.0	9.9	9.8	6.4	6.4	0.57	0.56	6.1	5.6	2.2
Echo Investment*	BUY	3.6	4.9	37%	388	0.1	5.3	5.7	13.3	12.3	0.86	0.83	17.9	14.9	4.6
Dom Dev.*	HOLD	82	91	11%	505	0.1	9.4	11.4	10.6	8.8	1.97	2.04	20.8	17.7	-20.9
CEE RE Universe (ex. Echo and Dom)							6.2	6.3	5.4	5.5	0.86	0.84	5.4	5.3	7.0



Source: Bloomberg, WOOD Research (we calculate all the forward looking multiples using WOOD estimates); for Echo and Dom, we use P/E instead of FFO yield

Our top picks are GTC and Echo Investment. While the pending Lone Star stake sale may continue to weigh on GTC's share price in the near term, the stock offers an exceptional combination of value and growth, trading at a 25% discount to EPRA NAV, an 8% FFO yield and generating 8% FFO growth annually for the next 5Y, on our estimates. Triggers include a takeover bid and a special dividend. As for Echo, our updated PT of PLN 4.9/share offers 31% upside. With an internal development team and the resources to undertake large projects, Echo should be able to generate better margins than its peers, in our view. The apartment prices continue to trend up; the leasing demand for offices is strong; and investment volumes are at record highs. With some fantastic projects in its portfolio, we maintain our view that Echo remains one of the most attractive stories in our universe over a 3-5Y year horizon. Trading at around 5-6x P/Es and with some 15% discount to BV, on our 2019E, the stock is not expensive.

We reiterate our BUY on Globalworth. Already the largest CEE office landlord, Globalworth continues to expand rapidly. With blue-chip tenants, long lease terms and a track record of value creation, it is an excellent play on the long-term evolution of the CEE office markets, in our view.

Retail: we are cautious, but we do not buy the general negativity. With lower retail space density (than in WE) and a significantly better outlook for consumer spending, we believe the case for CEE retail is solid. Still, we have tuned down our estimates for rental growth, modelling the rents to remain flat for most of our forecast horizon in nominal terms, to reflect the uncertainty connected with the expansion of e-commerce. As long as the entire European retail sector continues to trade at deeply discounted levels, we are not convinced that Atrium can re-rate back to EUR 4.0/share, especially considering that the Russian assets continue to generate c.20% of NRI. As such, although not cheap, we believe that NEPI Rockcastle may outperform Atrium over the next 12M. With a portfolio skewed towards large shopping malls, and growth fuelled by developments and extensions, as well as by the like-for-like performance, we believe the stock could trend up; however, trading on a par with BV, we admit the upside is not huge.

We upgrade Graphisoft Park to BUY. Graphisoft Park is the owner and manager of a unique office park, situated in a tranquil location by the Danube riverside in northern Budapest. Its distinctive selling point is its low building density and focus on offering a quality work environment for its tenants, a mixture of international and local R&D, IT and innovative SME and start-up companies. Although not for everyone – with liquidity well below EUR 100k per day – it trades at over a 40% discount to book value and a 10% FFO yield. This is the lowest P/B and highest FFO yield among our real estate coverage. We believe it could become an attractive takeover target for either a financial or an industry investor. A more generous dividend policy (paying out a higher share of FFO) could also attract investor interest and help the stock trend higher. The development of new buildings on the existing land reserves – not priced in – could enhance the returns significantly beyond our forecasts.

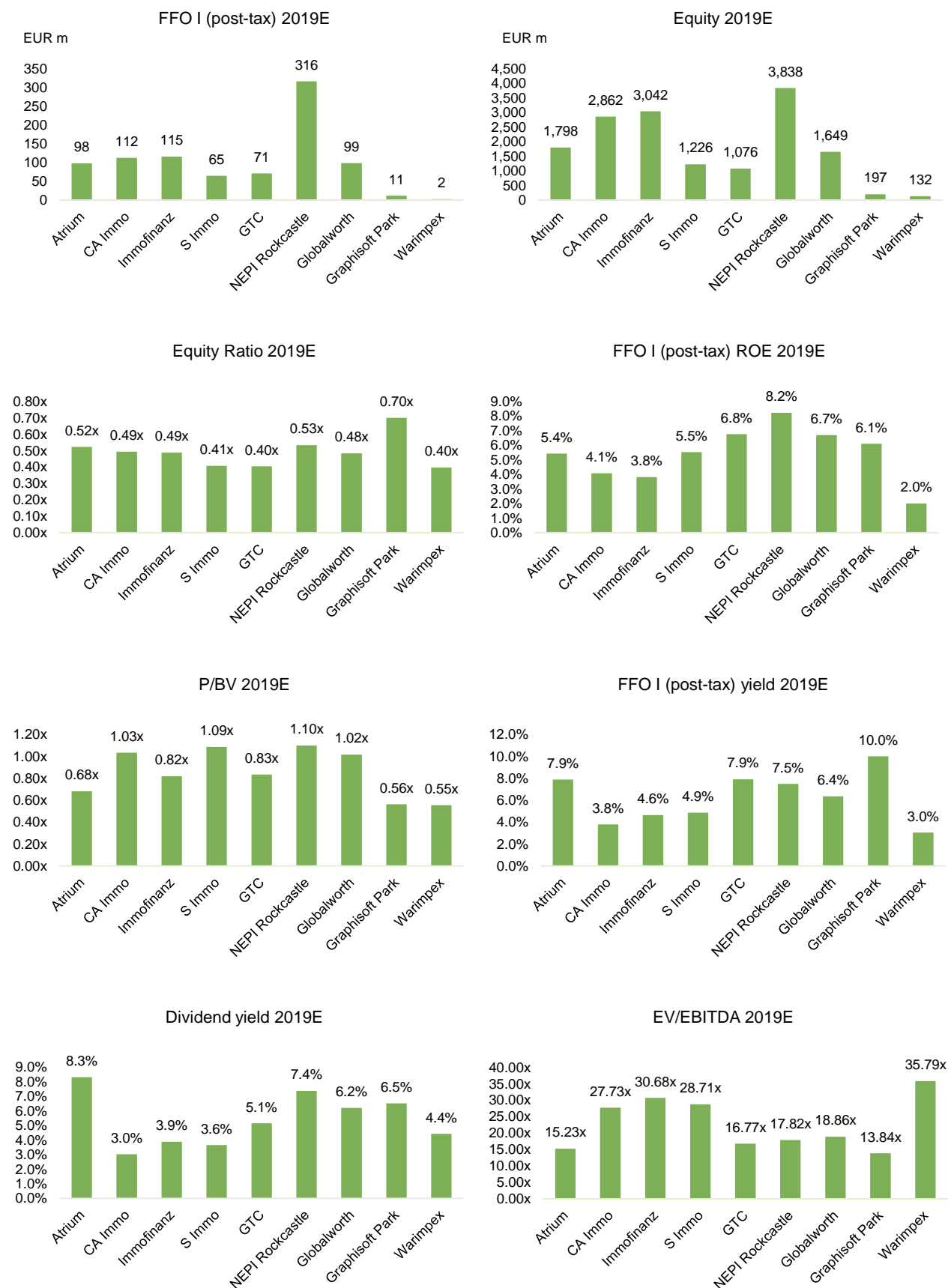
We initiate coverage of Warimpex (HOLD, PT EUR 1.4/share). The company is transitioning away from its traditional hotel business and emerging as a small CEE office developer. The series of disposals has also helped to crystallise the value of the hotel portfolio, unlocking reserves not reflected on the balance sheet and pushing up the equity ratio from 6% in 2015 to c.40% by the end of 2019E, on our estimates. While we expect the FFO to nearly quadruple over the next four years, much of the growth is back-loaded, and we believe that the investors are likely to be discounting the growth until they see tangible progress with the key development projects; therefore our rating is HOLD, initially.

We do not see a straightforward way to play the IIA / S Immo merger. We have downgraded S Immo to SELL. While the company remains in excellent form operationally, trading at mere 4% FFO yield, the stock is expensive, and we have concerns regarding the merger ratio. As for Immofinanz, we appreciate the significant restructuring the company has gone through. However, with retail accounting for half of the portfolio, we do not see any further upside as justified, considering the stock is trading at around a 5% FFO yield on our 2019E already.

We continue to like CA Immo, but the stock is not cheap. Following the recent rally, the stock is trading at a sub-4% (post-tax) FFO I yield on our 2019E estimate—ranking among the most expensive real estate names in Europe on this metric. While we believe the premium is justified, thanks to the company's unparalleled development exposure to the key German office markets, we believe the near-term upside is limited. We reiterate our HOLD rating, and increase our 12M PT to EUR 34.3/share.

Dom Development – excellent, but expensive. We expect the Polish economy to continue to grow by 4.0-4.5% for the next two years. Furthermore, while prices are growing, apartments in Warsaw are still cheaper than those in Prague or Budapest. We thus believe that Dom Development should see another two years of strong results. Going forward, with almost no debt, quality projects, stellar reputation and an experienced management team, we expect that Dom would use a prospective downturn as an opportunity to gain market share. That said, trading at 2.0x P/BV on our 2019E, we believe that any further upside from current levels may be limited, even though we believe the company should be able to maintain its generous dividend yield of around 10% for the next two years.

CEE RE: key metrics



Source: WOOD Research

Where does the sector trade?

The large disparity between the performance of retail and office real estate stocks is continuing. Shopping centre landlords continue to suffer, trading at a deep discount to book value (often 30-40%) and FFO yields in high single digits (or higher). Offices, on the other hand, trade on a par with book value and at FFO yields ranging from low to mid-single digits.

As we elaborate in the retail chapter of this report, from the CEE perspective, the sell-off seems overdone. Companies are still able to sell properties at or above book value, and the rental income in the good assets continues to trend up. That said, we admit that, as long as the sentiment towards retail stocks across Europe remains weak, CEE retail real estate stocks, like Atrium or NEPI Rockcastle, may also remain under pressure.

Retail stocks (white) have underperformed the general index (green) by over 60% over the past 5Y in Europe



Source: Bloomberg; WOOD Research

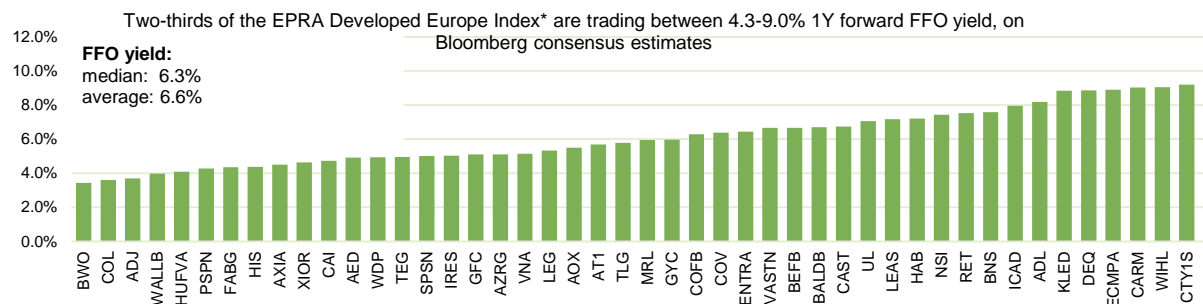
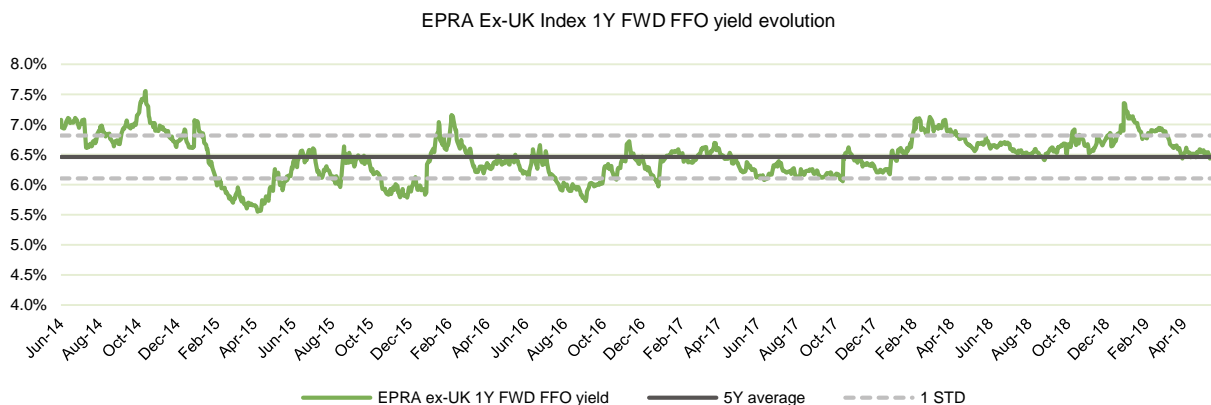
The following table shows the key groups of European real estate stocks we have used for the multiples valuation.

European Real Estate Peers

	Price (LCU)	Mkt Cap (EUR m)	P/BV 19E	P/BV 20E	Divi yield 19E	Divi yield 20E	FFO yield 19E	FFO yield 20E
Wereldhave	22.0	886	53%	55%	11.5%	11.0%	13.2%	13.3%
Eurocommercial Properties	24.4	1,220	67%	72%	9.0%	9.2%	9.9%	10.2%
Klepierre	30.6	9,410	82%	84%	7.1%	7.3%	8.6%	8.9%
Unibail-Rodamco	138.4	19,151	70%	70%	7.6%	7.9%	8.3%	8.6%
Citycon	9.1	1,624	76%	76%	7.1%	7.1%	8.5%	8.3%
Mercialys	11.3	1,036	51%	52%	10.2%	10.3%	11.3%	11.6%
Pan-Europe retail peer group average			67%	68%	8.7%	8.8%	10.0%	10.2%
alstria office REIT	14.0	2,477	89%	85%	3.7%	3.8%	4.7%	4.8%
Covivio (formerly FDR)	94.2	7,839	101%	98%	5.1%	5.2%	5.7%	5.9%
DIC Asset	9.7	700	77%	76%	5.1%	5.3%	10.2%	10.5%
Castellum	180.8	4,617	122%	119%	3.5%	3.7%	5.9%	6.3%
Fabege	143.7	4,444	122%	116%	2.0%	2.2%	3.3%	3.7%
Kungsleden	74.2	1,515	101%	93%	3.4%	3.7%	7.5%	8.2%
European office peer group average			102%	98%	3.8%	4.0%	6.2%	6.6%
Vonovia	47.8	25,564	119%	109%	3.3%	3.6%	4.5%	4.7%
Leg	111.0	7,011	132%	118%	3.4%	3.6%	4.9%	5.2%
Deutsche Wohnen	42.9	15,305	119%	111%	2.3%	2.4%	3.4%	3.6%
German resi peer group average			116%	107%	3.0%	3.2%	5.0%	5.3%

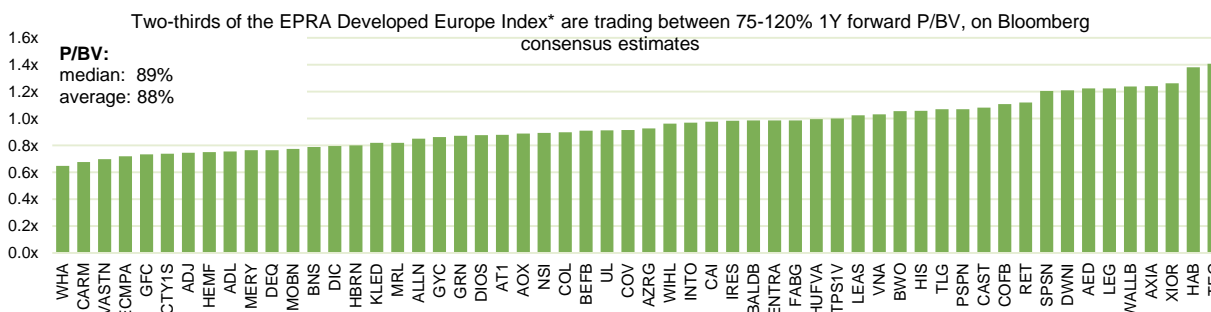
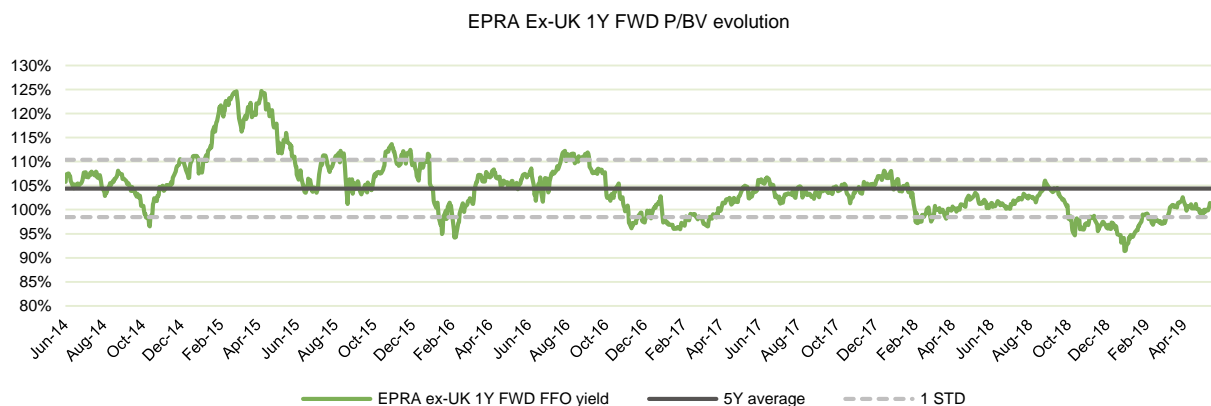
Source: Bloomberg; WOOD Research

Continental European RE stocks are trading at around a 6.5% FFO yield, in line with the 5Y average



Source: Bloomberg, WOOD Research

At 0.98 P/BV, they are slightly cheaper now, compared to the 5Y average of 1.04x P/BV



Source: Bloomberg, WOOD Research

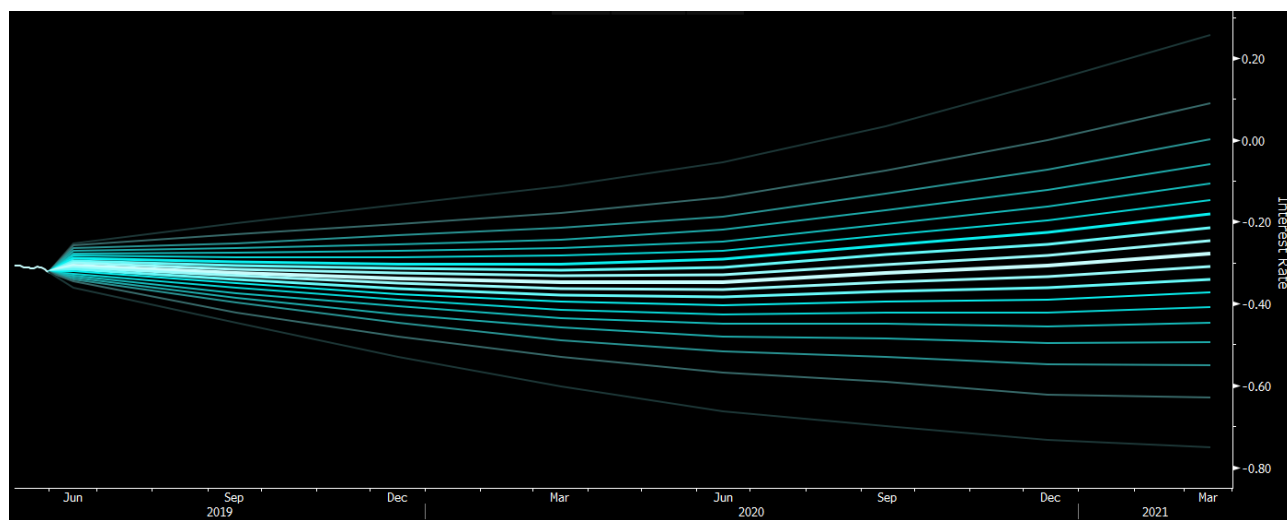
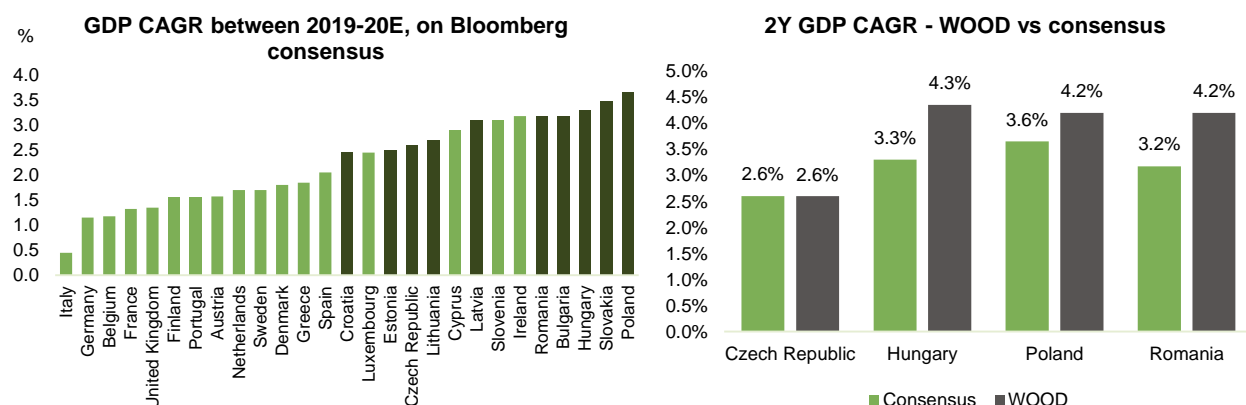
External environment remains supportive for real estate

The CEE real estate continues to be propelled by a combination of fast GDP growth and low EUR rates. In the region as a whole, the investment volumes have already exceeded the 2007-08 peak, having reached EUR 13-14bn in 2017-18, according to Colliers.

We expect the external environment to remain supportive in the near term. Generating EUR-denominated rents, we do not expect the tightening of local currency rates to affect the pricing of the commercial real estate in the region, and ECB is likely to remain dovish for the foreseeable future. As CEE economies continue to rank among the fastest growing in Europe, we would expect the spread of property yields to the local-currency RFR to narrow, as we expect investors to continue to seek exposure to the growing demand for office space and improving purchasing power, driving consumer spending.

Furthermore, we believe that the consensus may be underestimating the growth potential of the majority of the CEE economies in the near term – we expect that Hungary, Poland and Romania could expand by around 4.0-4.5% annually in the next two years, some 50-100bps faster than the consensus estimates.

CEE economies should continue to rank among the fastest growing in the EU; while rates should remain low



Source: Bloomberg, WOOD Research

The strong demand has continued to push yields lower. The prime office yields are reported at 4.5% in Prague, and the 5% level has been breached in Warsaw as well. While tight from a historical standpoint, CEE still offers substantially better yields than those achievable in Germany or Austria, where prime offices yield below 3.5% is not uncommon.

The CEE markets are becoming more mature. There is more institutional grade stock, liquidity is increasing and the sources of capital are becoming more diversified, as the solid growth outlook, a tangible pricing differential compared to Western Europe, and relative economic and political stability continue to attract a wide range of investors.

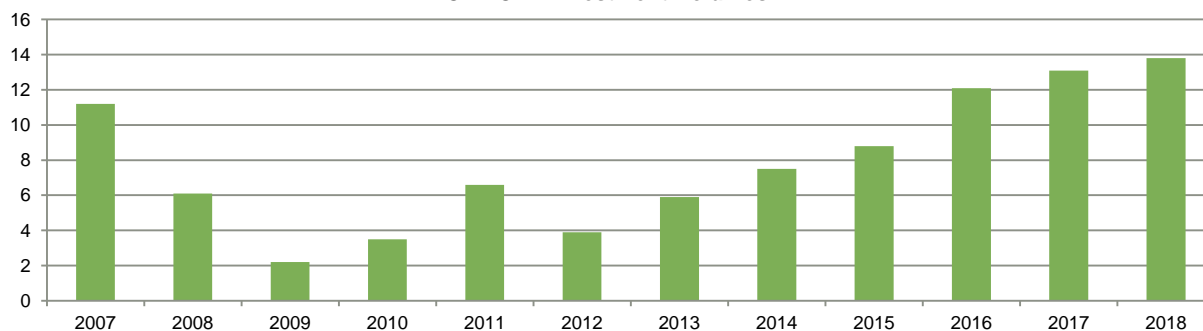
Historically, German and US investors have represented the bulk of the demand in CEE. The past two-to-three years have seen substantial inflows from relatively new sources of capital, however, including investors from Asia and South Africa. There has also been a notable increase in the investments from CEE investors, who have accounted for over 20% of total CRE investment volumes in the past three years.

CEE real estate: yields are at or near all-time lows, while volumes remain strong

	Prime yield		Investment volume (EUR bn)					Vacancy rate	Prime rents
	Office	Retail	2018	2017	2016	2015	2014	Office	Office
Austria*	3.8%	4.1%	4.07	4.95	2.80	3.94	2.80	5%	25.50
Czech Republic*	4.5%	4.5%	2.6	3.7	3.8	2.7	2.0	4%	22.00
Hungary*	5.5%	5.5%	1.8	1.8	1.5	0.7	0.5	7.1%	25.00
Poland*	4.8%	5.0%	7.2	5.1	4.5	4.1	3.1	11.7%	24.00
Romania*	7.0%	6.5%	1.0	1.0	0.7	0.6	1.2	7%	19.00
Russia	9.5%	9.5%	2.5	4.7	4.1	2.2	2.4	9%	27.78
Slovakia*	6.0%	5.5%	0.9	0.4	0.9	0.3	0.6	6%	16.50
Germany									
Berlin	3.10%	3.20%	7.0	7.5	4.7	7.8	3.5	1.5%	35.10
Dusseldorf	3.50%	3.20%	3.4	2.7	2.6	2.9	2.0	6.4%	28.00
Frankfurt	3.30%	2.80%	9.7	6.9	6.3	5.6	5.1	6.8%	42.00
Hamburg	3.20%	3.20%	5.7	3.4	4.8	4.1	3.6	3.6%	27.00
Munich	3.00%	2.75%	6.5	6.2	6.6	5.9	5.0	1.8%	36.00

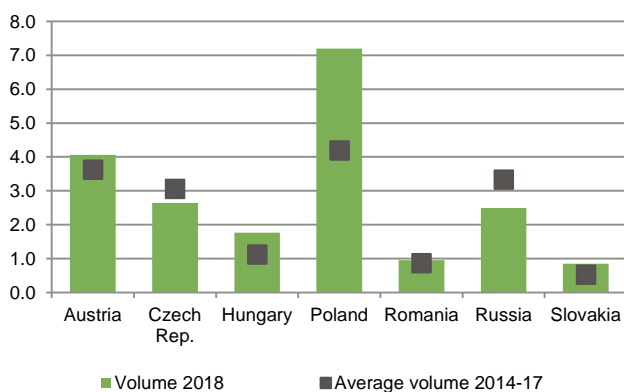
EUR bn

CEE CRE Investment Volumes

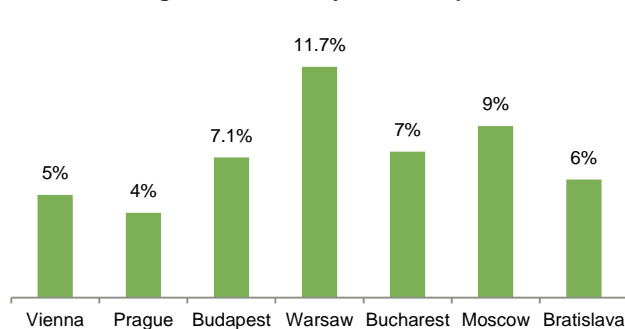


EUR bn

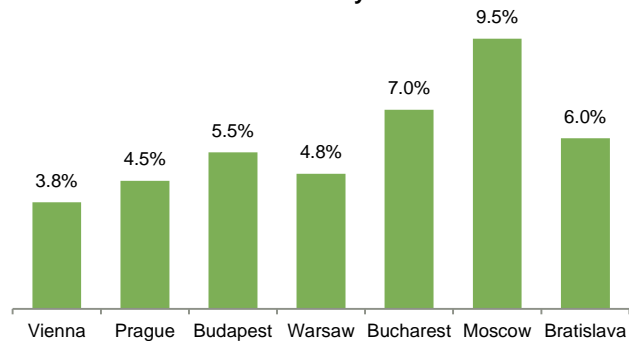
CRE Investment Volumes CEE



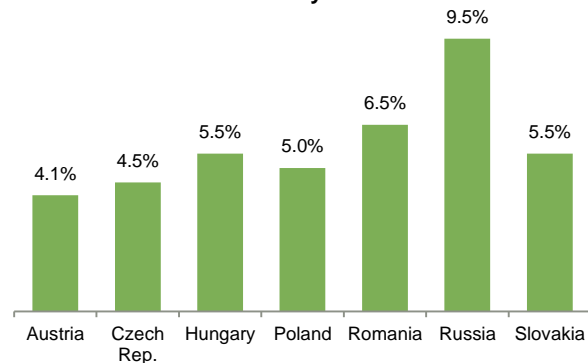
Average office vacancy in CEE capitals



Prime office yield



Prime retail yield



Source: CBRE, JLL, Colliers, WOOD Research; *retail yield marks a yield for a shopping centre, not high street; **average asking rent in Bratislava

CEE retail – underlying performance does not support general negativity

We believe that the CEE retail landscape is fundamentally different from that in Western Europe in four important aspects: 1) lower retail space density; 2) lower rents; 3) higher yields; and 4) a significantly better outlook for the growth of the incomes of the middle class. We believe that the last point is especially crucial. We expect the convergence story to continue, and believe that households in CEE, from Bulgaria to the Czech Republic, should continue to enjoy faster growth of disposable income than their counterparts in Western Europe.

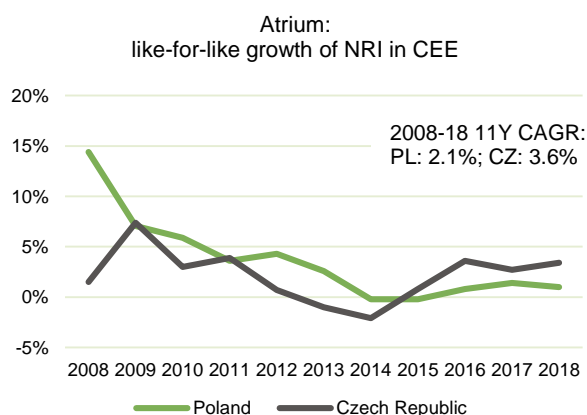
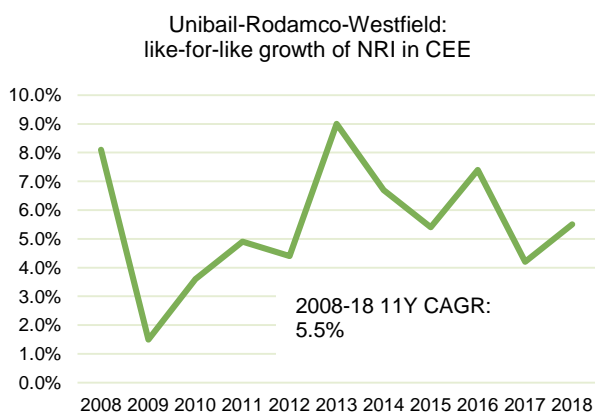
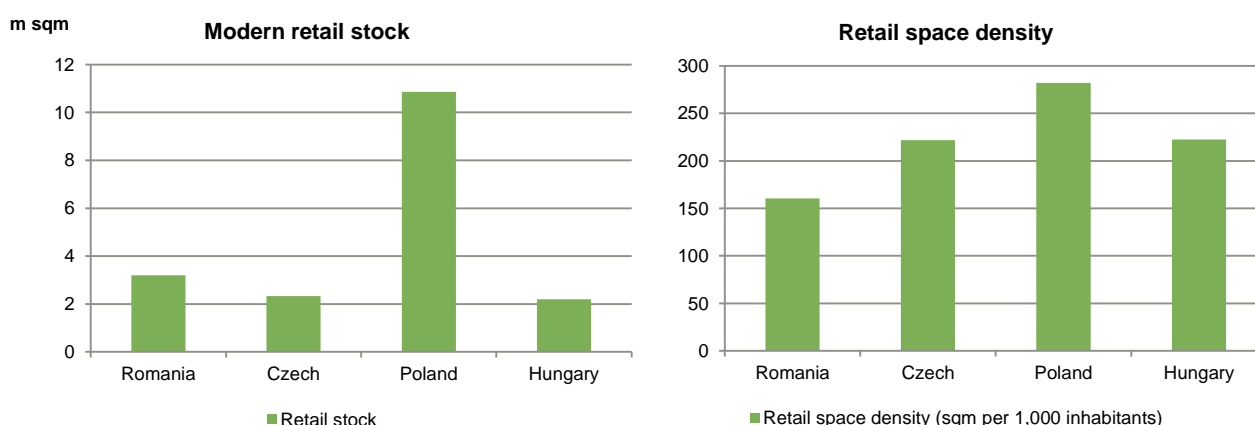
Furthermore, we believe that the performance of the underlying assets does not support the negative sentiment clearly visible in the valuations of the retail real estate stocks across Europe. The turnovers of NEPI Rockcastle's tenants have been growing by around 7-11% annually over the past four years, on a like-for-like basis. In Atrium's shopping malls in Poland and the Czech Republic, the rents have been growing in low single digits on a like-for-like basis for the past decade. At Unibail Rodamco Westfield, the like-for-like growth in CEE has been in mid-single digits.

While we see a risk for the older, smaller retail assets in secondary and tertiary locations, we expect large shopping malls in big cities across CEE to continue to enjoy a tailwind from positive demographics and growing incomes.

Also, while we expect the bricks&mortar stores to continue to remain the dominant sales channel in the foreseeable future, there is clearly a significant risk that online could cause a substantial disruption in our model. As such, to be on the safe side, we model the rents to remain flat for most of our forecast horizon in nominal terms. Assuming inflation of around 2%, this implies a c.20% decline in real rents over the next 10Y.

If Atrium and NEPI Rockcastle's shopping malls generated rental growth 2% above inflation instead (which is not dissimilar to the current run-rate), by the end of the next decade, the rents would be some 40-50% above our current estimates. The same applies for the retail assets of GTC and Immofinanz, where we have also assumed zero nominal growth in rents.

Modern retail stock and retail space density: country comparison



Source: Atrium, Unibail-Rodamco-Westfield, CBRE, DTZ, World Bank, WOOD Research

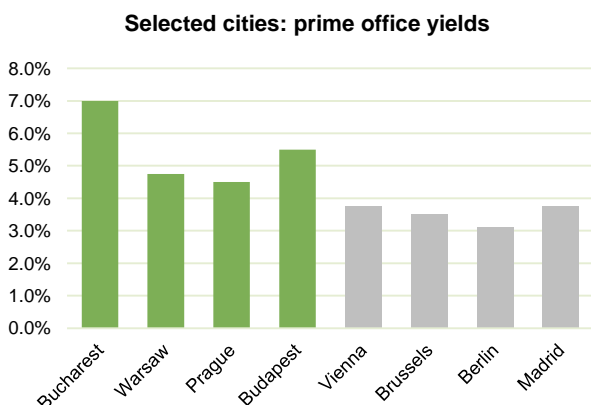
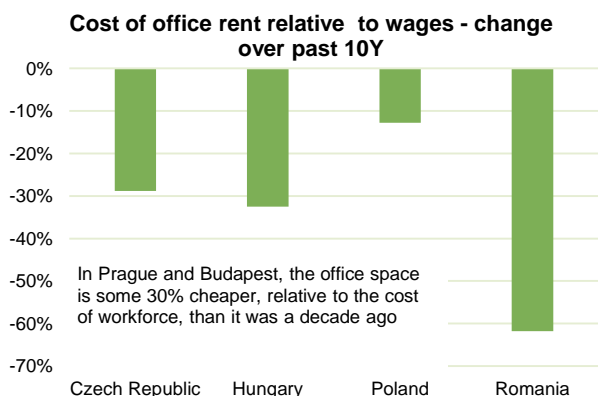
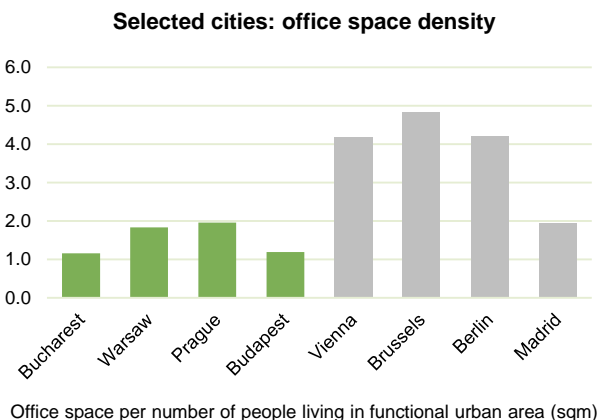
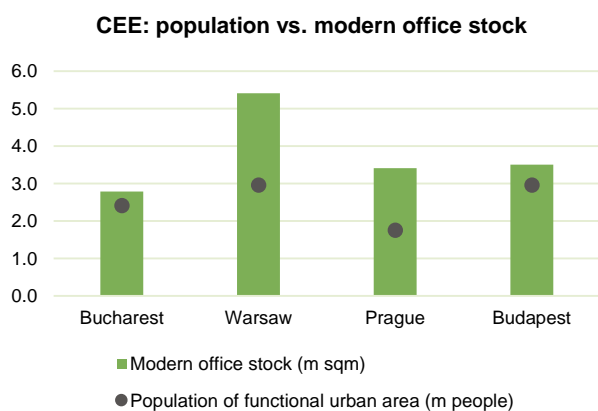
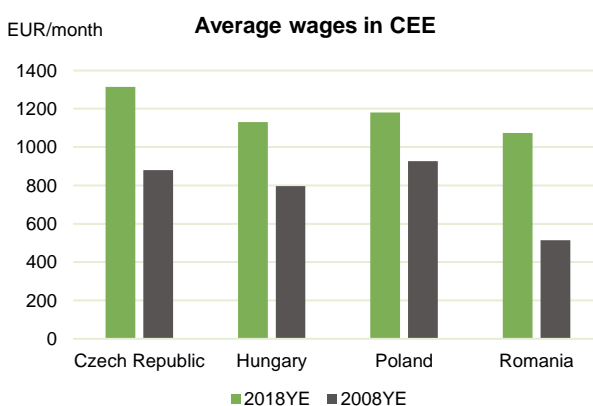
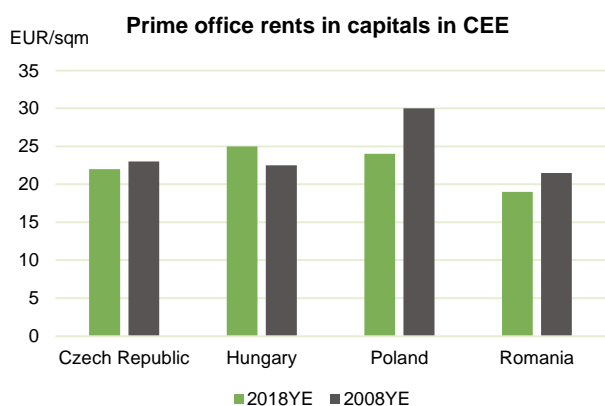
CEE offices – strong long-term outlook

Across CEE, rents have, by and large, still not surpassed the previous cycle peak. On the other hand, salaries, while still cheaper than in Western Europe, have grown substantially over the past decade. This means that the offices are now much cheaper, as a share of the cost per employee, than they were 10 years ago. We estimate that, in Prague and Budapest, the difference is around one-third.

In order to attract and retain talented employees, we expect the quality of premises to become increasingly important. High-quality, proactively-managed offices in good locations should benefit from this trend. While in the short run, waves of supply could keep rental growth in check, we see a solid case for rental growth in the medium to long term.

Equally importantly, density (office space per capita) across the CEE capitals remains well below that of Western Europe. Accordingly, we believe that all the regional cities still offer substantial room for the further development of modern office space. With more office buildings to buy and sell, we expect the liquidity to improve. As long as the EUR rates remain low, this should, in turn, lead to improved pricing.

Office rents in CEE are not expensive; relative to wages, rents have become cheaper over the past decade



Source: CBRE (data on size of the office markets), Eurostat and OECD (data on the size of the functional urban areas), Bloomberg (data on wages), JLL, CBRE, WOOD Research

Valuation

We value the companies using a combination of discounted cash flow model and a relative valuation, comparing the companies to the relevant peer groups on price to book and FFO yield (for Echo and Dom, we use P/E instead). In certain cases, we deploy a dividend discount model as well.

Cost of capital calculation

We differentiate between offices and retail. With offices, we believe the currency risk is lower – with a large number of multi-national companies that base their costs centres in CEE, we believe these should be relatively resilient to fluctuations in local currency exchange rates. Retailers, on the other hand, do not have such comfort and, even though the rents are commonly denominated in EUR, we believe it is prudent to look at the local currency risk free rate, as a steeper currency deterioration would almost surely prompt tenants to approach shopping centre landlords to ask for a discount.

We use Damodaran's beta, which we adjust for cash and leverage.

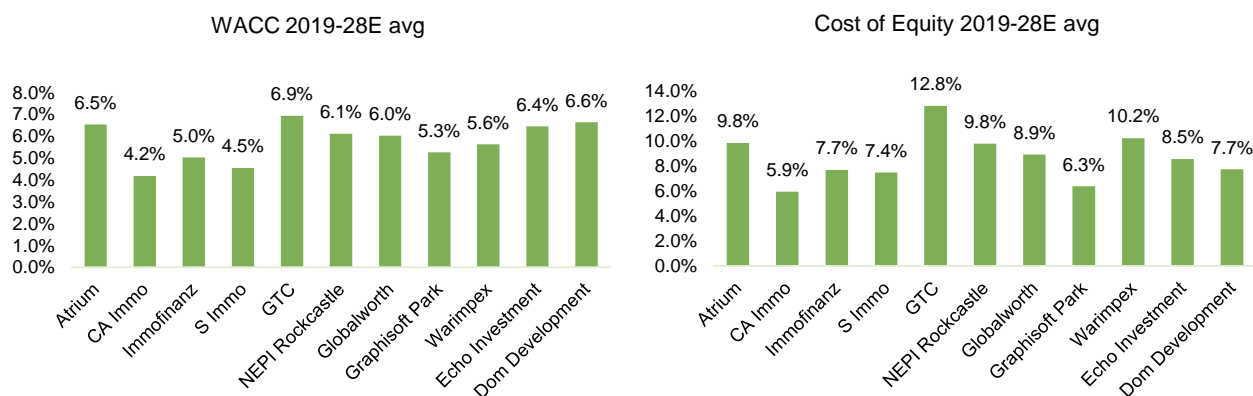
The following table illustrates the risk free rates and ERP we have been using for offices and retail in various countries, and how they compare to the current yield on a 10Y government bond in LCU.

Overview of risk free rates and equity risk premia we have used in our report

	10Y bond yield	WOOD – retail	WOOD – office	ERP
Poland	2.8	3.8	2.5	4.5
Czech Rep.	1.8	3.0	1.0	4.5
Hungary	3.2	4.0	1.5	4.5
Russia (RUB)	8.0	8.0	8.0	7.0
Romania	5.1	5.0	3.0	5.0
Croatia	1.7	4.0	1.5	5.0
Serbia	3.6	5.0	3.5	5.5
Lithuania	0.9	1.5	1.5	5.0
Austria	0.2	1.2	1.2	4.5
Bulgaria	0.6	4.0	n/a	5.0
Slovakia	0.4	1.5	1.5	4.5

Source: Bloomberg, WOOD Research

WACC and cost of equity estimates used in our valuation models



Source: Company data, WOOD Research

This page has been left blank intentionally

Company sections

Disconnected from fundamentals

Until Lone Star manages to find a buyer for its 62% stake in GTC, we believe a degree of uncertainty may continue to surround the investment case. However, thanks to the unparalleled organic growth it offers, GTC still strikes us as one of the most attractive names in our real estate universe. The FFO grew from EUR 28m in 2014 to EUR 61m in 2018, and we expect it to reach EUR 71m this year. With a development pipeline loaded with quality office projects, GTC is well-placed to profit from the ongoing transformation of CEE into a major ITC and outsourcing hub for global firms looking for talented employees in stable countries at a reasonable cost, in our view. The stock trades currently at 7.9% and 8.4% FFO yields on our 2019E and 2020E forecasts, well above its average 5.5% 1Y FWD FFO yield of the past three years. We forecast a 8% FFO CAGR between 2018-23E, despite integrating a recession into our forecasts. To be conservative, we factor into our model that the rents will decline by 10% on average, across GTC's portfolio, in real terms, over 2021-22E. We also expect the yields to expand by 50bps across the portfolio. Finally, we expect the rents at GTC's shopping centres to decline by 20% in real terms over the next 10 years. Even under these cautious assumptions, GTC still stands out as one of the best combinations of value and growth in the entire European RE universe, in our view. We reiterate our BUY, and increase our price target (PT) to PLN 11.1/share (from PLN 10.4/share).

Sales. We expect GTC to sell White House in Budapest for EUR 70m (a 35% premium to the development cost) and Neptun Office Center for EUR 42m (33% above the EUR 31.5m for which GTC bought the property in mid-2016).

Growth drivers. The near-term drivers of rental income growth include: the recently-completed Ada Mall, the Green Heart office in Belgrade, the ABC I office in Sofia and the Matrix A office in Zagreb. On our figures, GTC should be able to finance all of its developments with internal resources and project level loans, without having to raise additional equity. Other triggers include: the sale of Lone Star's 61% stake; a higher free float; a special dividend, or an increase in the regular dividend, funded from the proceeds from disposals; or progress with the building permit for Galeria Wilanow.

Valuation. At a 25% discount to the EPRA NAV, and 7.9% and 8.4% 2019E and 2020E FFO yields, GTC is attractively valued for the growth profile it offers, in our view. We value GTC using a 10Y DCF and peer multiples, and increase our derived PT by PLN 0.3/share for the Wilanow mall (valued in a separate DCF). We use a WACC ranging around 7% throughout our DCF horizon.

Risks: delays and/or cost overruns at any of the development projects; increases in interest rates and yields; waning demand for office space; changes in key management; or the entry of a new controlling shareholder, which might be perceived as unfriendly towards minority investors.

Expected events

2Q19 results	22 August
3Q19 results	14 November

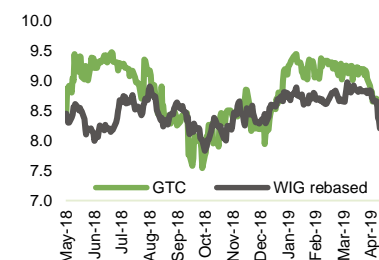
Key data

Market Cap	EUR 922m
3M ADTV	EUR 0.1m
Free float	20%
Shares outstanding	484m
Major Shareholder	Lone Star
Reuters Code	GTCE.WA
Bloomberg Code	GTC PW
WIG Index	58,361

Price performance

52-w range	PLN 7.54-9.47/share
52-w performance	-14%
Relative performance	-12%

GTC 12M share price performance



Year	BV (EUR m)	BVPS (PLN)	Net LTV	Equity ratio	FFO (EUR m)	FFOPS (PLN)	FFO ROE	P/BV	FFO yield	DPS (PLN)	Div. Yield
2016	790	7.6	44%	43%	43	0.41	6.1%	1.0x	5.6%	0.27	3.8%
2017	941	8.4	43%	43%	47	0.43	5.4%	1.1x	4.7%	0.33	3.6%
2018	1021	9.3	45%	43%	61	0.55	6.2%	1.0x	6.2%	0.37	4.1%
2019E	1076	9.8	46%	40%	71	0.64	6.8%	0.8x	7.9%	0.42	5.1%
2020E	1114	10.1	48%	39%	75	0.68	6.8%	0.8x	8.4%	0.44	5.4%
2021E	1044	9.5	51%	36%	81	0.73	7.5%	0.9x	9.0%	0.48	5.8%

Analysts: Jakub Caithaml, Ondrej Slama
E-mail: jakub.caithaml@wood.cz, ondrej.slama@wood.com

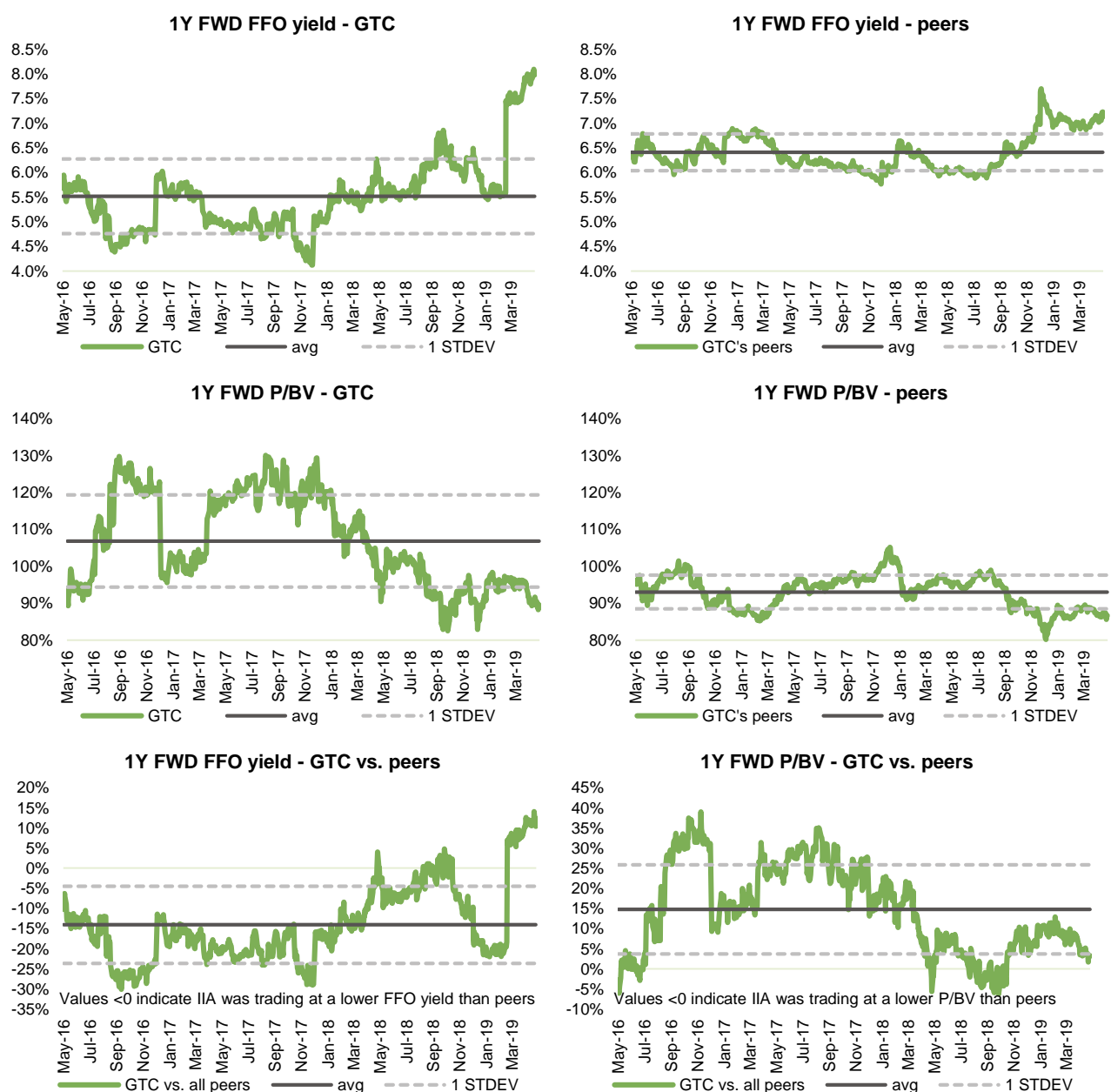
Prague: +420 222 096 481
Website: www.wood.com

Investment case

The key trigger would be the successful sale of the stake held by Lone Star. We believe the new owner may either decide to take the company private, or increase the free float. The placement of 10% of the shares would increase the free float by 50%. Once the sale has been completed, we expect the share price to start to reflect the significant growth of the operating earnings, driven by the completion of the developments. A continuing strong macro and leasing demand should be supportive for the stock, as would accretive acquisitions. We do not believe that the market is attributing value to the Galeria Wilanow landplot – if GTC manages to secure the building permit, we would expect a positive share price reaction. Failing to find accretive acquisition opportunities, we believe management might decide to pay out a special dividend from the proceeds from the sale of White House and the Neptun offices, or increase the regular dividend.

We believe the key risk for the share price is Lone Star placing the stake into the market; however, we do not see this as very likely. Operationally, the case could be derailed by: rising construction costs; delays (or cost overruns) at the development projects; the rapid advance of e-commerce and the deterioration of rents in the retail segment; the weakening of the leasing markets; an economic slowdown; or rising yields.

GTC vs. peers



Source: Bloomberg, WOOD Research

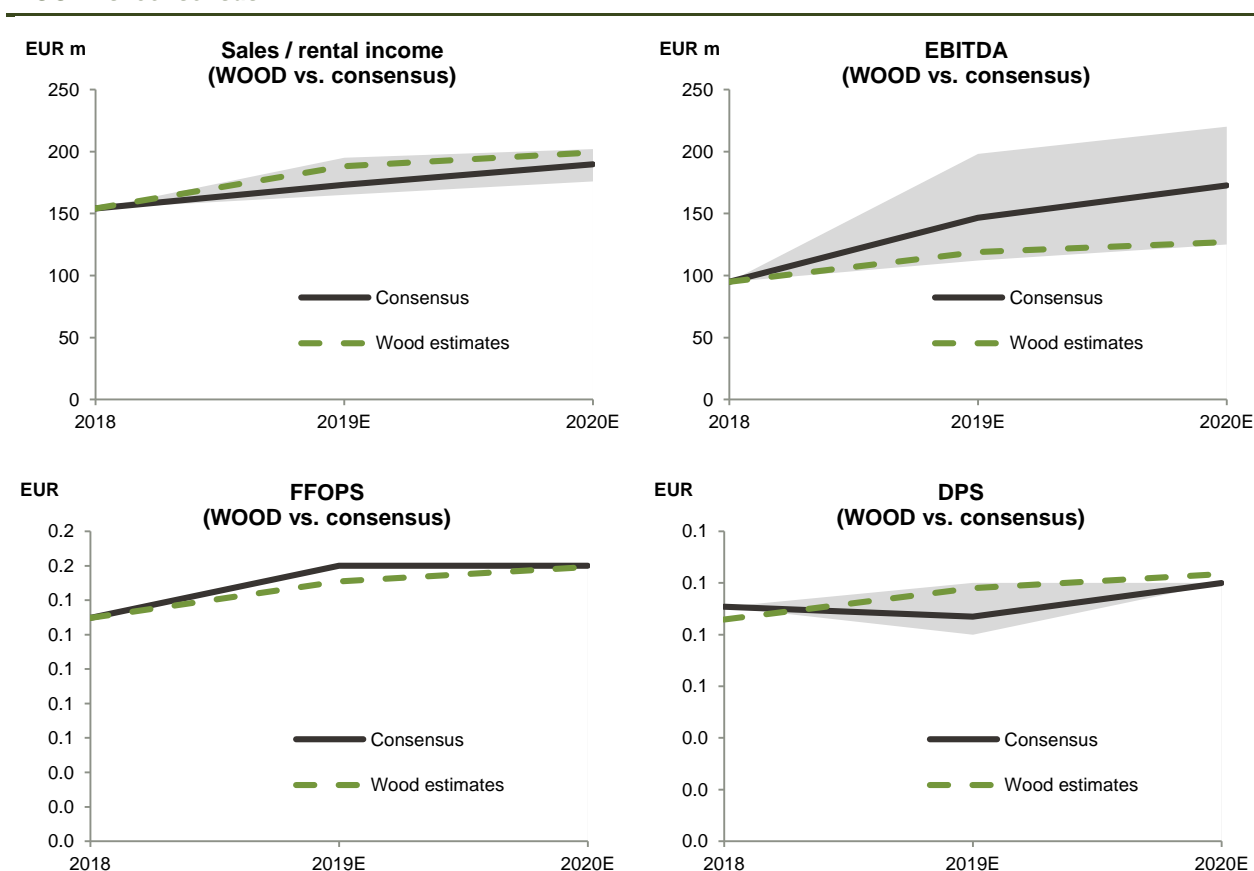
WOOD vs. the consensus, and new vs. old estimates

WOOD vs. consensus

EUR m	2019E			2020E			2021E		
	WOOD	Cons.	Diff. (%)	WOOD	Cons.	Diff. (%)	WOOD	Cons.	Diff. (%)
Sales	188	173	9%	199	190	5%	214	206	4%
EBITDA	119	149	-20%	127	171	-26%	137	206	-33%
EBIT	149	158	-5%	141	183	-23%	34	187	-82%
Net profit	96	87	10%	84	94	-11%	-22	100	-122%
BPS (EUR)	2.3	2.2	2%	2.4	2.4	-1%	2.2	2.4	-8%
FFOPS (EUR)	0.15	0.16	-6%	0.16	0.16	0%	0.17	0.20	-14%
DPS (EUR)	0.10	0.09	15%	0.10	0.10	4%	0.11	0.10	12%
EBITDA margin	63.2%	86.3%	-23.1ppt	63.7%	90.1%	-26.4ppt	64.2%	100.2%	-36.1ppt
Net margin	50.9%	50.3%	0.7ppt	42.3%	49.7%	-7.4ppt	-10.2%	48.4%	-58.6ppt

Source: WOOD Research, Bloomberg

WOOD vs. consensus

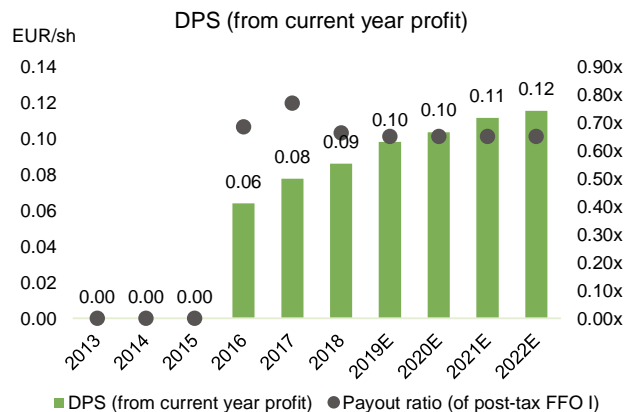
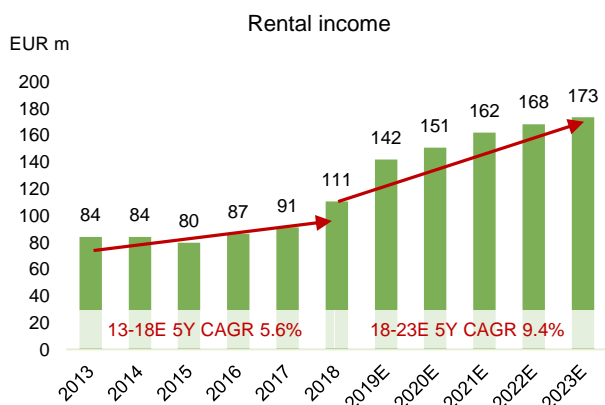
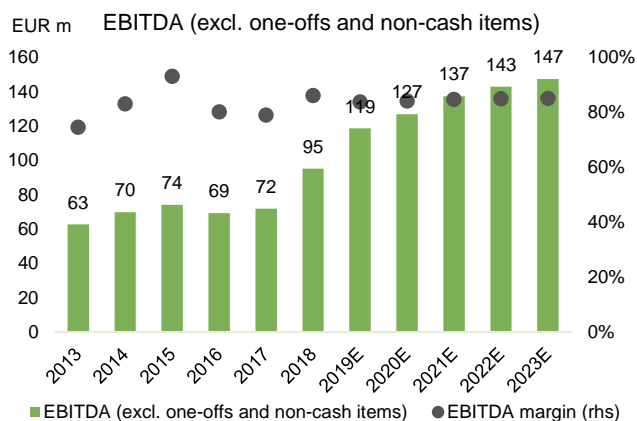
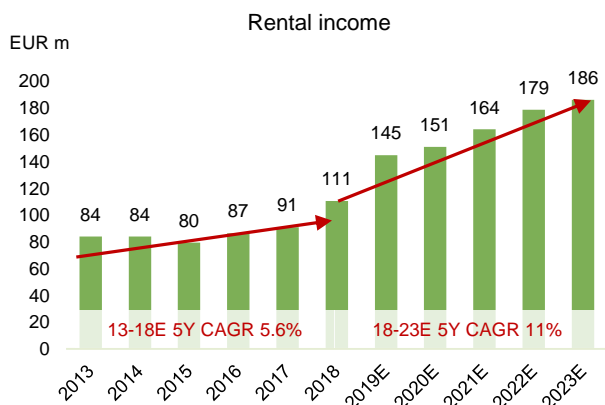


Source: Company data, Bloomberg, WOOD Research

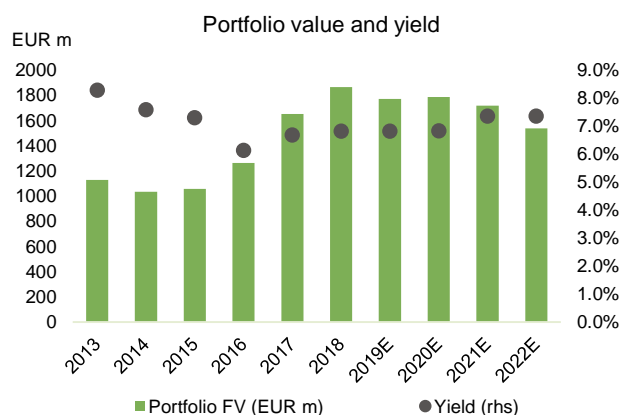
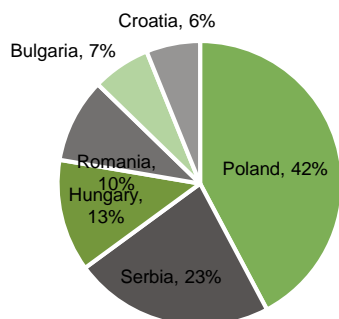
WOOD: new vs. old

EUR m	2019E			2020E			2021E		
	new	old	Diff. (%)	new	old	Diff. (%)	new	old	Diff. (%)
Sales	188	147	28%	199	153	30%	214	166	29%
EBITDA	119	124	-4%	127	129	-2%	137	141	-3%
EBIT	149	151	-1%	141	-64	n/a	34	73	-53%
Net profit	96	97	-1%	84	-111	n/a	-22	14	n/a
BPS (EUR)	2.3	2.2	3%	2.4	1.88	25%	2.2	1.8	22%
FFOPS (EUR)	0.15	0.16	-6%	0.16	0.16	-2%	0.17	0.18	-3%
DPS (EUR)	0.10	0.10	-6%	0.10	0.11	-2%	0.11	0.12	-3%
EBITDA margin	63.2%	84.3%	-21.1ppt	63.7%	84.2%	-20.5ppt	64.2%	84.9%	-20.8ppt
Net margin	50.9%	66.0%	-15.1ppt	42.3%	-72.6%	114.9ppt	-10.2%	8.3%	-18.4ppt

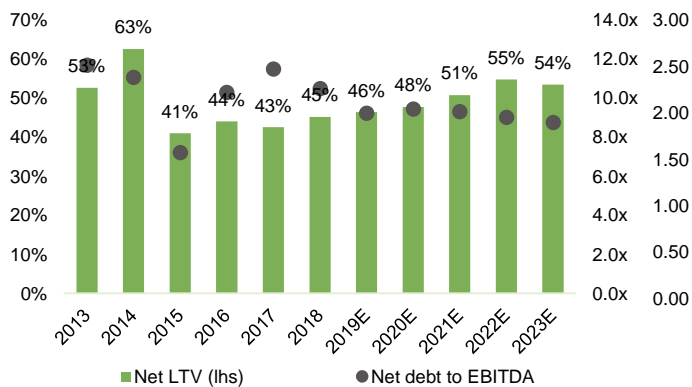
Source: WOOD Research



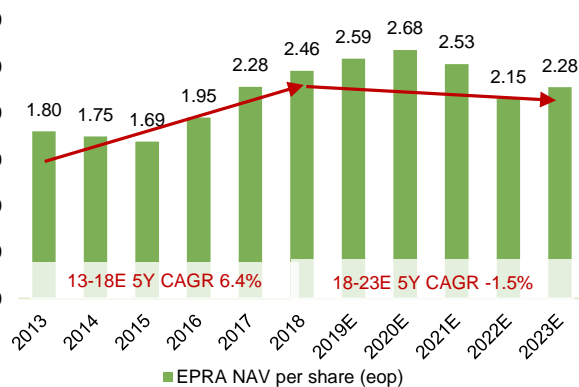
Rental income by country, 2019E



Leverage: net LTV and net debt to EBITDA



EPRA NAV/sh



Source: Company data, Bloomberg, WOOD Research

Valuation

We value GTC using a combination of a DCF and a peer valuation. We use a WACC ranging around 7% throughout our DCF horizon.

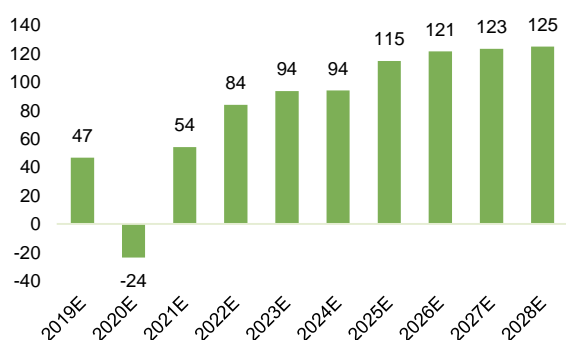
Setting our 12M PT at PLN 11.1/share

Valuation method	Per share (PLN)
Peer multiples	11.3
DCF	10.3
Weighted average target value	10.8
Wilanow risk-adjusted-12M PT	0.3
Price target	11.1
 Current price	 8.2
Upside/(downside)	36%
Source: WOOD Research	

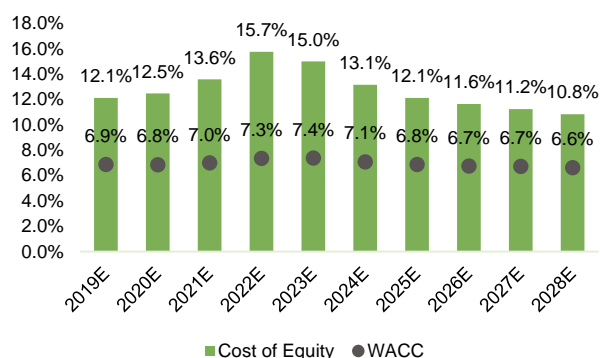
GTC: valuation – COE, WACC, multiples

EUR m

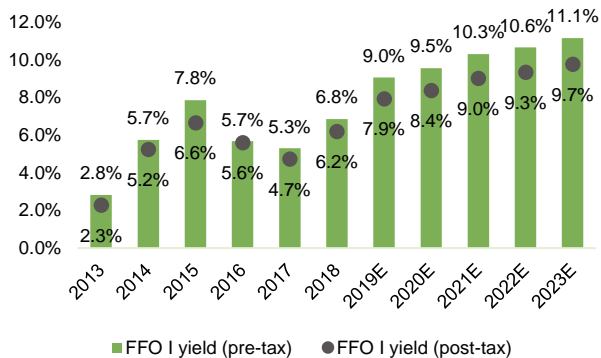
FCFF



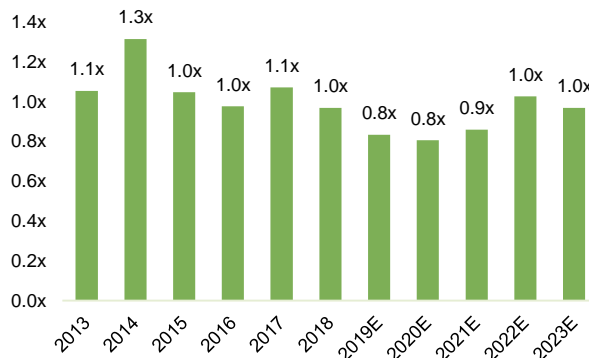
Cost of Equity and WACC



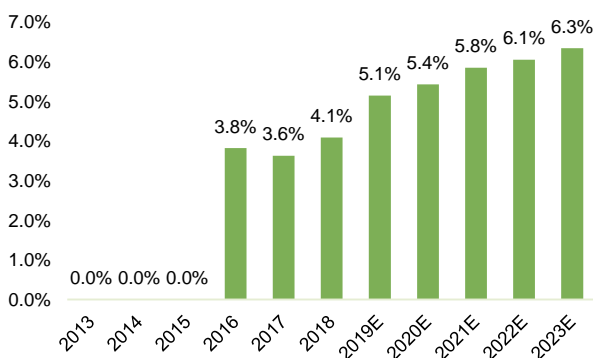
FFO I yield



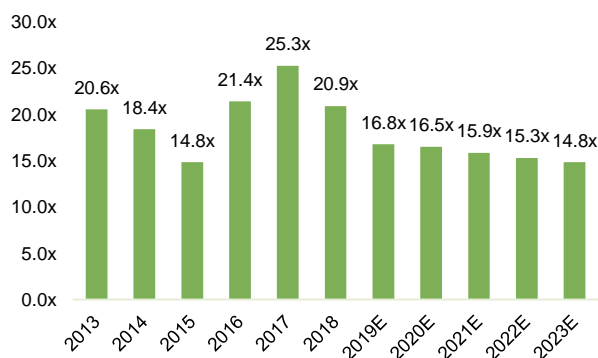
P/BV



Dividend yield



EV/EBITDA



Source: Company data, Bloomberg, WOOD Research

Financials

GTC: P&L, FFO, DPS and rental income by country and sector

P&L (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Rental income	84	84	80	87	91	111	142	151	162	168
- net service charges and property expenses	-6	-3	-1	0	-1	0	-1	-2	-2	-2
Net rental income	78	81	79	86	91	111	140	149	161	167
- income from hotels	0	0	0	0	0	0	0	0	0	0
- net operating expenses	-16	-11	-4	-17	-19	-16	-22	-23	-23	-24
EBITDA (excl. one-offs and non-cash items)	63	70	74	69	72	95	119	127	137	143
- revaluation gain/(loss)	-190	-194	9	85	149	40	30	14	-103	-206
- net result from sale of investment properties	0	0	1	1	2	1	0	0	0	0
- result from JVs	-4	-28	0	-4	0	0	0	0	0	0
EBIT	-132	-152	84	150	222	136	149	141	34	-63
- net interest expense	-46	-43	-8	-28	-29	-30	-38	-41	-45	-47
- other financial income/expense	-1	0	0	2	-5	0	0	0	0	0
Pre-tax profit	-179	-195	76	124	189	106	112	100	-11	-111
- current income tax	-3	-3	-7	-1	-6	-7	-10	-11	-12	-12
- deferred tax charge	-12	-10	-5	36	-26	-7	-6	-5	1	6
Net profit	-194	-207	64	159	157	92	96	84	-22	-117
- minorities	-30	-24	1	0	0	0	0	0	0	0
- discontinued operations	0	0	0	0	0	0	0	0	0	0
Net income	-224	-231	65	159	157	92	96	84	-22	-117
FFO & DPS (EUR m, unless per sh)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
FFO I (pre-tax)	17	31	45	44	53	68	81	86	92	95
FFO I (post-tax)	14	28	38	43	47	61	71	75	81	83
FFO II	13	28	39	44	49	62	71	75	81	83
FFO I per share (pre-tax)	0.05	0.09	0.11	0.09	0.11	0.14	0.17	0.18	0.20	0.20
FFO I per share (post-tax)	0.04	0.08	0.09	0.09	0.10	0.13	0.15	0.16	0.17	0.18
FFO II per share	0.04	0.08	0.10	0.10	0.10	0.13	0.15	0.16	0.17	0.18
DPS (from current year profit)	0.00	0.00	0.00	0.06	0.08	0.09	0.10	0.10	0.11	0.12
Payout ratio (of post-tax FFO I)	0.00x	0.00x	0.00x	0.68x	0.77x	0.66x	0.65x	0.65x	0.65x	0.65x
Margins and growth	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Net rental income margin	93%	96%	99%	100%	99%	100%	99%	99%	99%	99%
EBITDA margin	75%	83%	93%	80%	79%	86%	84%	84%	85%	85%
FFO I (pre-tax) margin	20%	37%	56%	50%	58%	61%	57%	57%	57%	57%
FFO I (post-tax) margin	16%	33%	48%	50%	52%	55%	50%	50%	50%	50%
Net rental income growth	n/a	0.1%	-5.3%	8.6%	5.3%	21.3%	28.3%	6.4%	7.5%	3.8%
EBITDA growth	n/a	11.6%	6.0%	-6.4%	3.6%	32.5%	24.7%	6.9%	8.2%	4.0%
Net income growth	n/a	3.2%	-128.1%	145.5%	-1.8%	-41.2%	4.2%	-12.2%	-125.9%	436.6%
FFO I per sh (pre-tax) growth	n/a	71.6%	20.8%	-14.4%	19.5%	26.7%	20.1%	5.5%	7.7%	3.4%
FFO I per sh (post-tax) growth	n/a	94.3%	12.2%	-0.2%	8.1%	28.4%	16.3%	5.6%	7.7%	3.4%
FFO II per sh growth	n/a	101.7%	15.8%	-2.0%	9.5%	25.6%	15.4%	5.2%	7.7%	3.4%
Rental income per country	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Poland	38%	39%	37%	40%	54%	47%	42%	39%	35%	34%
Serbia	11%	11%	11%	13%	15%	14%	23%	24%	24%	22%
Hungary	15%	14%	15%	17%	18%	16%	13%	13%	18%	17%
Romania	14%	14%	14%	13%	14%	12%	10%	9%	9%	13%
Bulgaria	5%	6%	7%	7%	0%	5%	7%	8%	8%	7%
Croatia	11%	10%	10%	9%	9%	7%	6%	7%	7%	7%
Czech Republic	4%	5%	5%	1%	0%	0%	0%	0%	0%	0%
Slovakia	1%	1%	1%	0%	0%	0%	0%	0%	0%	0%
Rental income per sector	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Offices			66%	72%	73%	67%				
Retail			37%	36%	35%	49%				
Logistics										
Hotels										
Residential										
Others										

Source: WOOD Research, company data

GTC: capital structure, cash flow and EPRA indicators

Capital structure (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Total debt	959	922	739	893	1,034	1,115	1,363	1,492	1,588	1,583
Cash	159	113	196	178	202	120	265	294	308	295
Net debt	799	809	543	715	833	996	1,098	1,198	1,280	1,288
Equity	576	427	621	790	941	1,021	1,076	1,114	1,044	874
Assets	1,755	1,517	1,560	1,839	2,183	2,357	2,665	2,838	2,862	2,683
Investment property	1,518	1,293	1,324	1,624	1,958	2,202	2,365	2,508	2,519	2,353
EBITDA	68	73	75	69	72	95	119	127	137	143
Equity ratio	33%	28%	40%	43%	43%	43%	40%	39%	36%	33%
Gross LTV	63%	71%	56%	55%	53%	51%	58%	59%	63%	67%
Net LTV	53%	63%	41%	44%	43%	45%	46%	48%	51%	55%
Net debt to EBITDA	11.7x	11.1x	7.2x	10.3x	11.5x	10.5x	9.2x	9.4x	9.3x	9.0x
Gearing (net debt to equity)	139%	189%	87%	90%	88%	98%	102%	107%	123%	147%
Cost of debt (incl. hedging)	4%	4%	3%	3%	3%					
Average debt maturity (years)	n/a	n/a	n/a	4.1	4.3					
% of debt fixed or hedged	51%	41%	58%	70%	90%					
% of unsecured debt	16%	26%	16%	18%	18%					
% of uncencumbered assets	n/a	n/a	n/a	n/a	n/a					
Rating by S&P	n/a	n/a	n/a	n/a	n/a					
Rating by Fitch	n/a	n/a	n/a	n/a	n/a					
Rating by Moody's	n/a	n/a	n/a	n/a	n/a					
Net debt, rel. change, yoy	n/a	1%	-33%	32%	16%	20%	10%	9%	7%	1%
Equity, rel. change, yoy	n/a	-26%	45%	27%	19%	8%	5%	4%	-6%	-16%
Assets, rel. change, yoy	n/a	-14%	3%	18%	19%	8%	13%	6%	1%	-6%
Cash Flow (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Profit before tax	-173	-195	24	125	189	106	112	100	-11	-111
CF from Operations (before WC)	66	67	34	72	78	95	119	127	137	143
WC changes	10	8	10	6	7	1	0	0	0	0
CF from Operations	76	76	44	77	85	96	119	127	137	143
Adjustment for net interest and taxes	-48	-45	-32	-32	-33	-38	-48	-52	-57	-59
Net CF from Operations	28	31	12	45	52	58	71	75	81	83
CAPEX	-30	-26	-83	-243	-233	-167	-171	-137	-69	-44
Proceeds from disposals	106	10	59	-1	53	15	113	0	0	0
Others	2	2	1	12	2	20	1	1	2	2
Net CF from Investing	78	-14	-23	-232	-178	-132	-58	-136	-67	-42
Proceeds from issuance of share capital	0	53	138	0	0	0	0	0	0	0
Acquisition of own shares	0	0	0	0	0	0	0	0	0	0
Net issue of debt	-204	-47	-74	166	130	15	159	138	50	0
Dividends paid	0	0	0	0	-8	-10	-40	-46	-49	-52
Others	-49	-38	-27	-25	-26	-28	-38	-43	-47	-49
Net CF from Financing	-252	-33	37	141	95	-23	80	49	-45	-101
Change in cash & equivalents	-100	25	57	-20	-1	-68	132	30	13	-13
EPRA Indicators (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Book Value	576	427	621	790	941	1,021	1,076	1,114	1,044	874
EPRA NAV	576	614	779	897	1,073	1,155	1,216	1,259	1,188	1,013
EPRA NNNNAV	692	n/a	n/a	n/a	n/a					
BV per share (EUR)	1.80	1.22	1.35	1.72	2.00	2.17	2.29	2.37	2.22	1.86
EPRA NAV per share (EUR)	1.80	1.75	1.69	1.95	2.28	2.46	2.59	2.68	2.53	2.15
EPRA NNNNAV per share (EUR)	2.17	n/a	n/a	n/a	n/a					
EPRA Net Initial Yield (NIY)	n/a	n/a	n/a	n/a						
EPRA "topped-up" NIY	n/a	n/a	n/a	n/a						
EPRA Ifl Gross Rental Income	n/a	n/a	n/a	n/a						
EPRA Ifl Net Rental Income	n/a	n/a	n/a	n/a						
EPRA Earnings (EUR m)	n/a	n/a	n/a	n/a						
Company adj. EPRA Earnings	n/a	n/a	n/a	n/a						
EPRA Earnings per share	n/a	n/a	n/a	n/a						
Company adj. EPRA Earnings (per share)	n/a	n/a	n/a	n/a						
EPRA Vacancy rate	n/a	n/a	n/a	n/a						
EPRA Cost Ratio (incl. vacancy costs)	n/a	n/a	n/a	n/a						
EPRA Cost Ratio (excl. vacancy costs)	n/a	n/a	n/a	n/a						

Source: WOOD Research, company data

GTC: DCF, cost of capital, portfolio, share data and valuation multiples

DCF: FCFF reconciliation (EUR m)	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
FFO I	71	75	81	83	87	92	95	98	101	104
+ taxes	10	11	12	12	12	13	14	14	14	15
+ interest costs	39	44	48	51	51	50	50	50	49	48
Adj. EBIT	120	130	140	146	151	154	159	162	164	167
tax rate	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%
NOPLAT	105	113	123	128	132	135	139	142	144	146
CAPEX	-171	-137	-69	-44	-38	-41	-24	-20	-20	-21
WC change	0	0	0	0	0	0	0	0	0	0
Proceeds from disposals	113	0	0	0	0	0	0	0	0	0
FCFF	47	-24	54	84	94	94	115	121	123	125
DCF: Cost of Equity and WACC	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
[A] Debt/Capital Ratio	56%	57%	60%	64%	62%	59%	56%	55%	53%	52%
[C] Equity/Capital Ratio	44%	43%	40%	36%	38%	41%	44%	45%	47%	48%
Marginal Cost of Debt (%)	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
x Marginal Tax Rate (%)	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%
[B] Cost of Debt (post tax)	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Beta	1.37	1.39	1.48	1.63	1.58	1.46	1.38	1.35	1.31	1.28
x Equity Risk Premium	7%	7%	7%	8%	8%	7%	7%	7%	6%	6%
+ Risk Free Rate	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
[D] Cost of Equity	12.1%	12.5%	13.6%	15.7%	15.0%	13.1%	12.1%	11.6%	11.2%	10.8%
[A x B] + [C x D] = WACC:	6.9%	6.8%	7.0%	7.3%	7.4%	7.1%	6.8%	6.7%	6.7%	6.6%
Portfolio	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Year-end, m2 ('000)	556	548	524	596	621	703	665	665	665	665
Rented space, m2	498	502	481	559	583	658	612	612	612	612
Occupancy	89.56%	91.61%	91.83%	93.73%	93.84%	93.56%	91.95%	91.95%	91.95%	91.95%
Gross Rental Income (EUR m)	89	90	84	93	101	119	124	122	117	113
Value (EUR m)	1128	1033	1056	1261	1650	1863	1770	1785	1717	1536
Weighted Average Lease Term (Y)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
- price / m2, EUR	2028	1886	2015	2116	2657	2650	2660	2683	2580	2308
- average gross rent per m2, EUR	14.8	14.9	14.6	13.8	14.5	15.1	16.9	16.6	16.0	15.4
- yield	7.5%	8.3%	7.6%	7.3%	6.1%	6.7%	6.8%	6.8%	6.8%	7.3%
- yield at full occupancy	8.8%	9.5%	8.7%	7.9%	6.5%	6.8%	7.6%	7.4%	7.4%	8.0%
Number of shares and share price	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Number of shares	319.4	351.3	460.2	460.2	470.3	470.3	470.3	470.3	470.3	470.3
Treasury shares / options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Number of shares outstanding	319.4	351.3	460.2	460.2	470.3	470.3	470.3	470.3	470.3	470.3
Average number of shares	319.4	335.3	405.8	460.2	465.2	470.3	470.3	470.3	470.3	470.3
Average number of treasury shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Average number of shares outstanding	319.4	335.3	405.8	460.2	465.2	470.3	470.3	470.3	470.3	470.3
Market cap, average (EUR m)	606	536	573	771	997	988	981	n/a	n/a	n/a
Market cap, eop (EUR m)	563	430	773	849	1,119	897	n/a	n/a	n/a	n/a
Profitability and valuation multiples	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
FFO I (pre-tax) ROE	5.9%	6.1%	8.6%	6.2%	6.1%	6.9%	7.7%	7.8%	8.5%	9.9%
FFO I (after-tax) ROE	4.8%	5.6%	7.2%	6.1%	5.4%	6.2%	6.8%	6.8%	7.5%	8.7%
FFO II ROE	4.6%	5.6%	7.5%	6.2%	5.6%	6.3%	6.8%	6.8%	7.5%	8.7%
FFO I (pre-tax) RONA V	3.0%	5.2%	6.5%	5.2%	5.4%	6.1%	6.8%	6.9%	7.5%	8.7%
FFO I (after-tax) RONA V	2.4%	4.7%	5.5%	5.1%	4.8%	5.5%	6.0%	6.1%	6.6%	7.6%
FFO II RONA V	2.3%	4.7%	5.7%	5.2%	4.9%	5.5%	6.0%	6.1%	6.6%	7.6%
FFO I yield (pre-tax)	2.8%	5.7%	7.8%	5.7%	5.3%	6.8%	9.0%	9.5%	10.3%	10.6%
FFO I yield (post-tax)	2.3%	5.2%	6.6%	5.6%	4.7%	6.2%	7.9%	8.4%	9.0%	9.3%
FFO II yield	2.2%	5.3%	6.9%	5.7%	4.9%	6.2%	7.9%	8.4%	9.0%	9.3%
P/BV	1.1x	1.3x	1.0x	1.0x	1.1x	1.0x	0.8x	0.8x	0.9x	1.0x
P/EPRA NAV	1.1x	0.9x	0.8x	0.9x	0.9x	0.9x	0.7x	0.7x	0.8x	0.9x
Dividend yield	0.0%	0.0%	0.0%	3.8%	3.6%	4.1%	5.1%	5.4%	5.8%	6.1%
EV/EBITDA	20.6x	18.4x	14.8x	21.4x	25.3x	20.9x	16.8x	16.5x	15.9x	15.3x

Source: WOOD Research, company data

Echo Investment

Buy

Upgraded from Hold

Price: PLN 3.6

Price target: PLN 4.9

(From PLN 4.8)

Destiny? Destinations!

With the stock down over 12% since we downgraded Echo to a Hold in April this year, we have upgraded the stock back to our BUY list, updating our 12M price target (PT) to PLN 4.9/share (31% upside). Thanks to its internal development team and the resources to undertake large, multi-use projects, Echo should be able to generate better margins than most of its peers, in our view. The apartment prices in Poland, while on the up, are still significantly cheaper, relative to wages, than 10 years ago. The leasing demand for offices is strong. Investment volumes are at record highs. With some fantastic projects in its portfolio, we maintain our view that Echo remains one of the most attractive stories in our universe over a three-to-five year horizon. Also, trading at around 5.3x P/E and at some 15% discount to BV, on our 2019E figures, the stock is not expensive. However, with revaluation gains being a significant item in Echo's P&L, earnings could be quite volatile if the transaction market softens – as reflected in our forecasts by the slowdown we model in 2021E. That said, as we forecast Poland to grow at around 4.0-4.5% for the next two years, we expect the company to be able to maintain a dividend of around PLN 0.4-0.5/share (a 10-13% yield) in the near term.

Riveting Resi4Rent. We believe that establishing a large platform of 5-7k rental flats across Poland is an excellent idea. With the yield on cost likely often north of 8%, once sold, both Echo and PIMCO should generate substantial profits. Even though this will not affect the results significantly in the near term, this is a key long-term driver for the investment case. Thanks to the JV arrangement, it will not tie up excessive equity for Echo. We value the project in a separate DCF, and risk it by 50%.

Thrilling Towarowa 22. This is another excellent long-term driver of the investment case, and the visualisations are very compelling, in our view. That said, given the size and complexity of the project, we do not believe that investors will put a lot of value on it in its early stages. Even once we get more clarity on the funding (the balance sheet of EPP, which holds a 70% stake in the project, is quite stretched currently), it could easily take 5-10 years before the project moves from paper to the final stages.

Massive Mlociny. In mid-May, Echo has opened its brand new shopping centre in the northern part of Warsaw, the huge, 84k sqm GLA Galeria Mlociny. Echo holds a 30% stake in the venture, while EPP owns 70%. Following the successful opening weekend, we believe the market will be following the performance of the centre closely.

We set our 12M PT at PLN 4.9/share, using a combination of a SOTP-based DCF (implying PLN 4.9/share), a comparative valuation (PLN 4.7/share) and a DDM (PLN 4.7/share), on top of which we add PLN 0.15/share, which is our risked 12M PT for the Resi4Rent business, which we value separately.

Key risks: a weakening of demand (once the cycle turns); margin compression; tightening-induced growth in the cost of capital (exacerbated by the potential expansion of property yields); delays and cost overruns; oversupply; or a softening of the transaction market.

Expected events

AGM	25 June
2Q19 results	17 September
3Q19 results	27 November

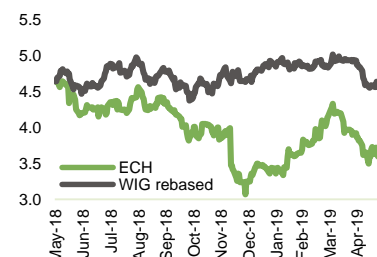
Key data

Market Cap	EUR 362m
3M ADTV	c.EUR 100k
Free float	25%
Shares outstanding	413m
Major Shareholders	
PIMCO+Oaktree+Griffin RE	56%
NN OFE	13%
Aviva OFE	10%
Reuters Code	ECH.WA
Bloomberg Code	ECH.PW
WIG Index	58k

Price performance

52-w range	PLN 3.07-4.64/share
52-w performance	-19%
Relative performance	-17%

Echo 12M share price performance



Year	Revenue (PLN m)	EBITDA (PLN m)	Net profit (PLN m)	EPS (PLN)	DPS (PLN)	Net debt/ assets	P/E (x)	P/BV (x)	Div. Yield (%)	ROE (%)
2016	480	48	388	0.94	0.50	10%	5.54x	1.40x	10%	15%
2017	622	44	312	0.76	1.00	21%	6.02x	1.18x	22%	20%
2018	713	-15	305	0.74	0.00	24%	5.07x	1.03x	0%	20%
2019E	603	26	294	0.71	0.50	22%	5.27x	0.86x	13%	18%
2020E	517	4	272	0.66	0.46	27%	5.69x	0.83x	12%	15%
2021E	689	-3	86	0.21	0.15	10%	17.92x	0.88x	4%	5%

Analysts: Jakub Caithaml; Alex Boulougouris, CFA

E-mail: jakub.caithaml@wood.cz, alex.boulougouris@wood.com

Prague: +420 730 804 340

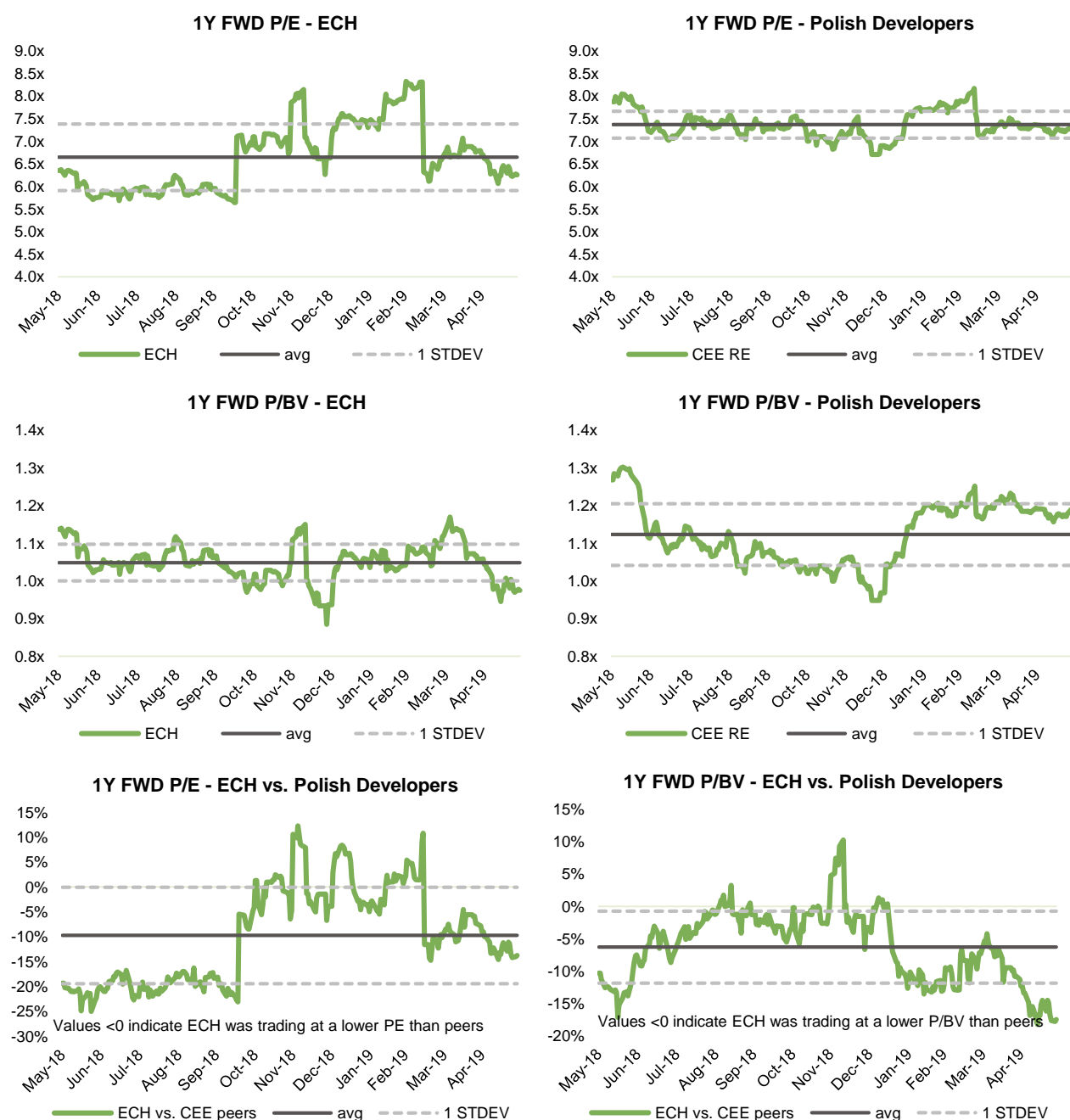
Website: www.wood.com

Investment case

We see Towarowa 22 and Resi4Rent as the key long-term drivers for Echo. In the near term, the company could surprise the market with a special / early dividend, in our view. We also believe that Echo may close several high profile disposals: its 30% stake in the Mlociny shopping centre in Warsaw; the last office buildings in the Brewery office complex and, in 2020-2021E, the sale of Libero in Katowice. Completions and, more importantly, the successful sales of office projects (like the sale of Brewery Office J last year) could act as catalysts for the stock.

The key risks include: a weakening of demand (once the cycle turns); tightening-induced growth in the cost of capital (exacerbated by the potential expansion of property yields); delays and cost overruns; oversupply; or a softening of the transaction market. Further growth in labour costs and land prices could lead to a margin squeeze. The business is more cyclical than, say, residential developers. There may be a period when it becomes very difficult to sell commercial real estate; if this was to happen, Echo may decide to withhold dividends, as it could struggle to generate cash flow from the disposal of offices and or shopping centres. The growing share of e-commerce is a threat to shopping centres Mlociny and Libero.

Echo vs. peers



Source: Company data, Bloomberg, WOOD Research

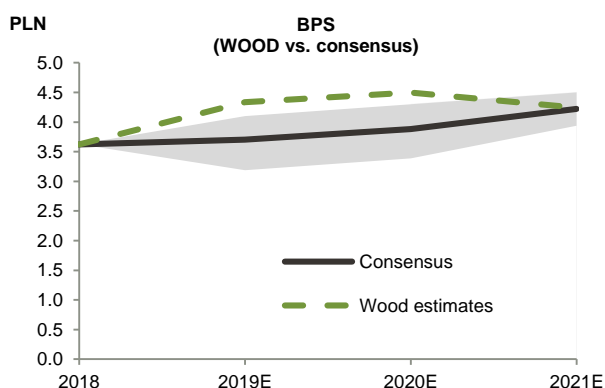
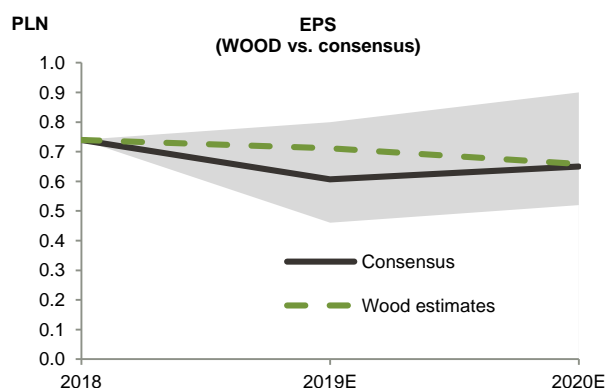
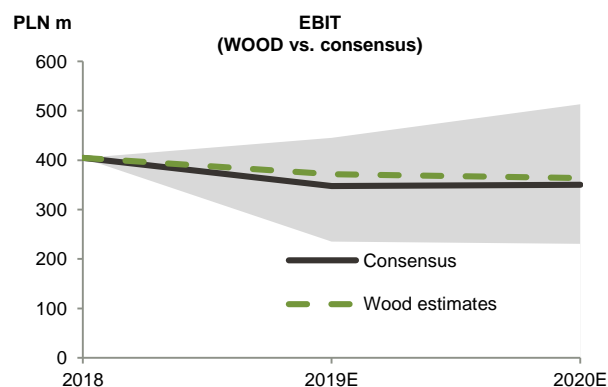
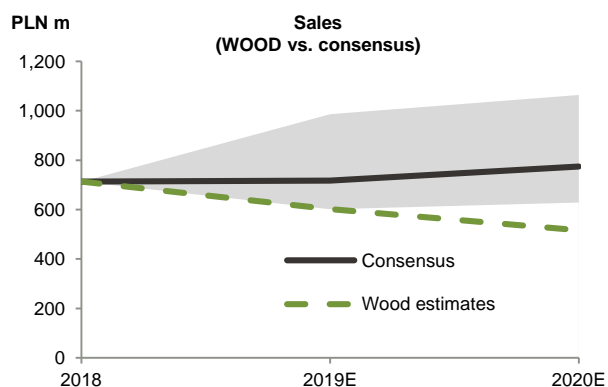
WOOD vs. the consensus, new vs. old estimates

WOOD vs. consensus

PLN m	2019E			2020E			2021E		
	WOOD	BBG Cons.	Diff. (%)	WOOD	BBG Cons.	Diff. (%)	WOOD	BBG Cons.	Diff. (%)
Sales	603	718	-16%	517	774	-33%	689	717	-4%
EBITDA	26	260	-90%	4	360	-99%	-3	259	-101%
EBIT	372	347	7%	364	351	4%	141	352	-60%
Net profit	294	272	8%	272	256	6%	86	262	-67%
EPS (PLN)	0.71	0.61	17%	0.66	0.65	1%	0.21	0.63	-67%
BPS (PLN)	4.34	3.70	17%	4.50	3.88	16%	4.24	4.22	1%
DPS (PLN)	0.50	0.39	28%	0.46	0.37	25%	0.15	0.25	-41%
EBITDA margin	4.4%	36.2%	-31.8ppt	0.7%	46.5%	-45.7ppt	-0.5%	36.1%	-36.6ppt
Net margin	48.7%	37.8%	10.9ppt	52.6%	33.0%	19.6ppt	12.5%	36.6%	-24.0ppt

Source: WOOD Research, Bloomberg

WOOD vs. consensus



Source: Bloomberg, company data, WOOD Research

WOOD: new vs. old estimates

PLN m	2019E			2020E			2021E		
	new	old	Diff. (%)	new	old	Diff. (%)	new	old	Diff. (%)
Sales	603	603	0%	517	517	0%	689	689	0%
EBITDA	26	26	0%	4	4	0%	-3	-3	0%
EBIT	372	372	0%	364	364	0%	141	141	0%
Net profit	294	294	0%	272	272	0%	86	86	0%
BPS (PLN)	4.3	4.3	0%	4.5	4.5	0%	4.2	4.2	0%
EPS (PLN)	0.71	0.71	0%	0.66	0.66	0%	0.21	0.21	0%
DPS (PLN)	0.50	0.50	0%	0.46	0.46	0%	0.15	0.15	0%
EBITDA margin	4.4%	4.4%	0.0ppt	0.7%	0.7%	0.0ppt	-0.5%	-0.5%	0.0ppt
Net margin	48.7%	48.7%	0.0ppt	52.6%	52.6%	0.0ppt	12.5%	12.5%	0.0ppt

Source: WOOD Research

Valuation

We value Echo using a combination of a SOTP DCF, a DDM and a peer valuation, comparing it to other Polish real estate developers. We use a WACC of around 6.0-6.7%, and a cost of equity ranging between 8-10%.

Setting our 12M PT at PLN 4.9/share (PLN)

SOTP DCF 12M PT	4.90
DDM 12M PT	4.70
Peer valuation 12M PT	4.69
Average 12M PT	4.76
Plus 12M PT for the Resi4Rent project (50% risked)	0.15
Implied total 12M PT for Echo	4.91
Current share price	3.59
Upside	37%

Source: WOOD Research

Financials

Echo Investment: income statement

PLN m	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Revenues	577	586	480	622	713	603	517	689	1,305
COGS	-268	-300	-256	-472	-578	-447	-361	-536	-1,018
Gross profit	310	286	224	149	135	156	156	153	287
Overhead expenses	-93	-119	-152	-146	-155	-130	-149	-154	-146
Other operating income and costs	-9	-2	-24	41	5	0	-2	-3	0
EBITDA (excl. revaluations)	208	164	48	44	-15	26	4	-3	141
D&A	-5	-5	-3	-3	-3	-5	-5	-5	-5
Revaluations	450	751	560	233	423	350	365	149	175
EBIT	653	911	605	275	404	372	364	141	311
Interest costs	-139	-101	-78	-101	-63	-63	-73	-75	-63
Interest income	1	1	5	145	42	14	16	15	18
Share of profit of equity accounted investments	1	-6	48	47	35	53	17	13	0
Other financial gains/losses	-68	-128	-390	-3	6	5	5	5	5
Net profit before tax	447	678	190	363	424	381	329	98	271
Current income tax	-19	-10	-21	-51	-45	-48	-46	-12	-51
Deferred income tax	-24	-154	219	-35	-74	0	0	0	0
Income tax total	-43	-164	198	-51	-119	-48	-46	-12	-51
Net profit	404	514	388	312	305	332	283	86	221
Net profit attributable to minorities	0	0	0	0	0	39	12	0	0
Net profit attributable to Echo Investments	404	514	388	312	305	294	272	86	221
Dividend payout ratio		n/a	1.1	1.3	0.0	0.7	0.7	0.7	0.7
Implied dividend from this years profit (paid next Y)		2,526	413	413	0	206	190	60	154
DPS		6.12	0.50	1.00	0.00	0.50	0.46	0.15	0.37
Dividend yield		89%	10%	22%	0%	12%	11%	3%	9%
Gross profit margin on revenue	54%	49%	47%	24%	19%	26%	30%	22%	22%
Gross profit margin on cost	116%	95%	88%	32%	23%	35%	43%	29%	28%
EBITDA margin	36%	28%	10%	7%	-2%	4%	1%	0%	11%
EBIT margin	113%	155%	126%	44%	57%	62%	70%	20%	24%
Net profit margin	70%	88%	81%	50%	43%	49%	53%	13%	17%
Revenues to assets	9%	8%	8%	17%	18%	14%	10%	14%	27%
Gross profit to assets	5%	4%	4%	4%	3%	4%	3%	3%	6%
EBIT to Assets	10%	12%	10%	8%	10%	8%	7%	3%	6%
ROE	14%	15%	15%	20%	20%	18%	15%	5%	12%
Revenues growth yoy	12%	2%	-18%	30%	15%	-15%	-14%	33%	89%
Gross profit growth yoy	9%	-8%	-22%	-33%	-10%	16%	0%	-2%	87%
EBIT growth yoy	28%	40%	-34%	-55%	47%	-8%	-2%	-61%	120%
Net profit growth yoy	21%	27%	-25%	-19%	-2%	-4%	-7%	-68%	156%

Source: Company data, WOOD Research

Echo Investment: balance sheet and cash flow statement

PLN m	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Investment property	5,272	1,462	785	1,287	1,948	2,294	2,571	1,753	2,075
Interest in companies recognized at equity	14	0	564	216	259	409	426	152	152
Deferred income tax assets	64	79	93	65	52	52	52	52	52
LT Financial assets	13	14	79	87	85	85	85	85	85
Other LT assets	49	18	9	11	11	11	11	11	11
Non-current assets	5,412	1,573	1,530	1,666	2,355	2,851	3,145	2,053	2,376
Inventory	593	595	656	682	772	766	1,007	1,221	806
Trade receivables	92	86	291	351	298	413	354	472	894
Other ST assets	9	8	1	6	3	3	3	3	3
ST Financial assets	25	23	25	80	42	42	42	42	42
Restricted cash	54	89	27	55	55	77	101	122	81
Cash and cash equivalents	363	821	636	676	440	720	441	982	673
Current assets	1,136	1,623	1,636	1,850	1,610	2,021	1,948	2,843	2,499
Non-current assets held for sale	0	5,193	198	363	14	14	14	14	14
Total assets	6,549	8,389	3,364	3,879	3,979	4,885	5,107	4,910	4,889
Accumulated profit or loss	404	514	388	435	46	339	405	302	462
Other shareholders' equity	2,748	3,150	1,141	1,153	1,450	1,450	1,450	1,450	1,450
Shareholder's equity	3,153	3,664	1,528	1,588	1,496	1,789	1,855	1,752	1,912
Minority interest	0	0	0	0	0	49	29	0	0
Total equity	3,153	3,664	1,528	1,588	1,495	1,838	1,885	1,752	1,912
Provisions	79	260	185	276	373	211	197	225	327
LT portion of loans and borrowings	2,825	3,708	761	1,027	1,150	2,303	2,515	2,175	1,947
Security deposits and advances received	47	66	9	16	58	361	553	722	403
Other LT liabilities	4	2	0	0	28	28	28	28	28
Long-term liabilities	2,876	3,775	770	1,043	1,236	2,693	3,096	2,925	2,378
ST portion of loans and borrowings	246	332	221	529	281	-460	-628	-645	-644
Income and other tax payables	15	7	248	43	17	17	17	17	17
Trade payables	93	113	164	179	235	245	198	294	558
Dividend payables	0	0	66	0	0	0	0	0	0
Other ST liabilities	88	239	165	222	342	342	342	342	342
Short-term liabilities	441	690	864	973	875	144	-71	8	273
Liabilities held for sale	0	0	16	0	0	0	0	0	0
Total Debt	3,071	4,040	982	1,556	1,430	1,843	1,887	1,530	1,303
Cash and financial assets	388	845	661	757	482	762	483	1,024	715
Net debt	2,683	3,195	321	799	949	1,081	1,404	505	587
Net debt to equity	85%	87%	21%	50%	63%	59%	74%	29%	31%
Net debt to EBIT	411%	351%	53%	291%	235%	291%	386%	358%	189%
Net debt to assets	41%	38%	10%	21%	24%	22%	27%	10%	12%
Cash Flow Statement	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Net profit before tax	447	678	190	363	424	381	329	98	271
Adjustments for non-cash items	-266	-536	-211	-458	-491	-483	-462	-248	-396
Total change in WC	-75	42	177	-168	252	-22	-26	-15	-15
Operating Cash Flow	106	184	156	-262	186	-125	-159	-165	-140
Income tax paid	-8	-19	-16	-14	-44	-48	-46	-12	-51
Net operating cash flow	98	165	140	-276	142	-173	-205	-177	-190
Capex for land	0	-5	-87	-244	-260	-226	-198	-232	-232
Capex for construction	0	0	0	-223	-634	-1100	-1202	-1201	-1200
Capex for purchase of JV projects	0	0	0	-133	0	-152	0	0	0
CAPEX for depreciation	0	0	0	0	0	-5	-5	-5	-5
Capex total	-521	-631	-1176	-756	-773	-1483	-1405	-1437	-1437
Total proceeds from investment activities	156	52	3554	710	734	829	1381	2747	1651
Net cash flow from investing activities	-366	-579	2377	-46	-39	-654	-24	1310	215
Repayment of existing debt	-1167	-1225	-1408	-525	-665	0	0	-340	0
Issue of new debt	1593	2204	1310	1222	798	1154	212	0	-228
Issue of new capital	0	0	0	0	0	0	0	0	0
Repurchase of own shares	0	0	0	1	2	0	0	0	0
Interest expense	-155	-123	-91	-62	-60	-49	-57	-61	-45
Dividends paid to shareholders	0	0	-2460	-272	-413	0	-206	-190	-60
Other financing cash flow	16	19	-54	0	-1	0	0	0	0
Net cash flow from financing activities	288	876	-2702	363	-338	1105	-50	-591	-333
Movement due to FX	-10	-3	0	0	0	0	0	0	0
Total change in cash	21	462	-185	41	-235	278	-279	541	-309

Source: Company data, WOOD Research

Globalworth

Buy

Maintained

Price: EUR 9.0
Price target: EUR 10.8
(Unchanged)

A force to be reckoned with

Globalworth's portfolio has more than doubled in the past 18 months, growing from EUR 940m in mid-2017 to over EUR 2.0bn currently. In addition, management still sees further growth opportunities. The company recently raised EUR 500m of fresh capital (at EUR 9.1/share, a touch above book value). Through the capital increase, Globalworth has gained full control of GPRE, its Polish arm, simplifying the equity story and enhancing transparency. It has also purchased offices in Poland worth over EUR 280m, at a blended yield north of 7%. We view the fast-growing company as an excellent play on the evolution of the CEE office markets, and the broader CEE convergence. Demand for office space in both Romania and Poland continues to exceed expectations, while the room for yield compression in Bucharest remains significant, in our view. While some caution is in place regarding the risk of oversupply in Warsaw, with an average weighted outstanding lease term of 5Y and a high-quality portfolio, Globalworth's rents should be resilient, in our view. Trading at a mid-6% FFO yield on our 2019-20E forecast, and on a par with its EPRA NAV, we believe Globalworth is attractively valued at current levels. Including the most recent acquisitions, as well as the proceeds from the capital increase in our forecasts, we arrive at an unchanged 12M price target (PT) of EUR 10.8/share, maintaining our BUY recommendation.

The full consolidation of GPRE should simplify the equity story, enhance transparency, and make it much easier to transfer capital between the Romanian and the Polish entity. While the two companies have been co-operating closely already, some marginal overhead efficiencies may be achievable as well.

Leasing markets are strong, uncertainty exists regarding Warsaw. In Warsaw, the vacancy declined to 8.7% by YE18. This was driven by a combination of the highest leasing result on record and limited supply. In Bucharest, the figures paint a similarly encouraging picture, with vacancy at 8% and a healthy take-up. With over 700k sqm under construction, a degree of uncertainty exists regarding the outlook for the Warsaw office market. However, with centrally-located properties and its focus on long lease durations, we believe that Globalworth's contracts should be resilient.

Room for yield compression in Bucharest remains significant. The prime office yield in Bucharest is more than 200bps above the prime yields quoted for Prague and Warsaw. Considering that the Bucharest office market is dominated by international, blue-chip companies, the gap to the rest of the CEE markets seems excessive, in our view.

GWl is trading at 1.0x P/BV and a 6.4% FFO yield on our 2019E figures. We set our 12M PT at EUR 10.8/share, using a combination of a DCF (EUR 11.0) and peer multiples (EUR 10.5). We use a WACC of 5.9-6.2%.

Risks: economic recession and weaker demand for office space; excessive supply; yield expansion; or cost-overruns. **Triggers** include: accretive acquisitions; new developments; rental growth; or a yield compression.

Expected events

1H19 results	September (est.)
New acquisitions in Poland	2019E

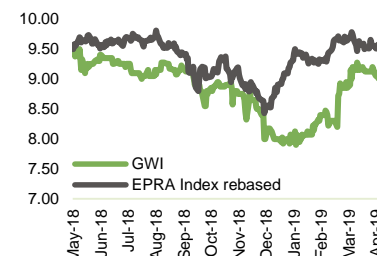
Key data

Market Cap	EUR 1.7bn
3M ADTV	EUR 3.8m
Free float	c.36%
Shares outstanding	190m
Major Shareholder	Growthpoint Properties
Reuters Code	GWIL
Bloomberg Code	GWIL LN
EPRA Index	2,177

Price performance

52-w range	7.9-9.4
52-w performance	-2%
Relative performance	1%

Globalworth 12M share price performance



Year	BV (EUR m)	BVPS (EUR)	Net LTV	Equity ratio	FFO (EUR m)	FFOPS (EUR)	FFO ROE	P/BV	FFO yield	DPS (EUR)	Div. Yield
2016	715	5.4	20%	58%	6	0.09	0.9%	1.0x	1.6%	0.44	8.2%
2017	1,136	8.6	33%	53%	5	0.05	0.5%	0.9x	0.7%	0.54	7.3%
2018	1,297	6.9	43%	47%	46	0.35	3.8%	1.3x	3.8%	0.54	5.9%
2019E	1,649	8.8	40%	48%	99	0.57	6.7%	1.0x	6.4%	0.55	6.2%
2020E	1,690	9.0	42%	48%	109	0.58	6.5%	1.0x	6.5%	0.61	6.8%
2021E	1,702	9.1	43%	48%	121	0.65	7.1%	1.0x	7.2%	0.65	7.2%

Analysts: Jakub Caithaml; Stefan Lungu, CFA
E-mail: jakub.caithaml@wood.cz, stefan.lungu@wood.com

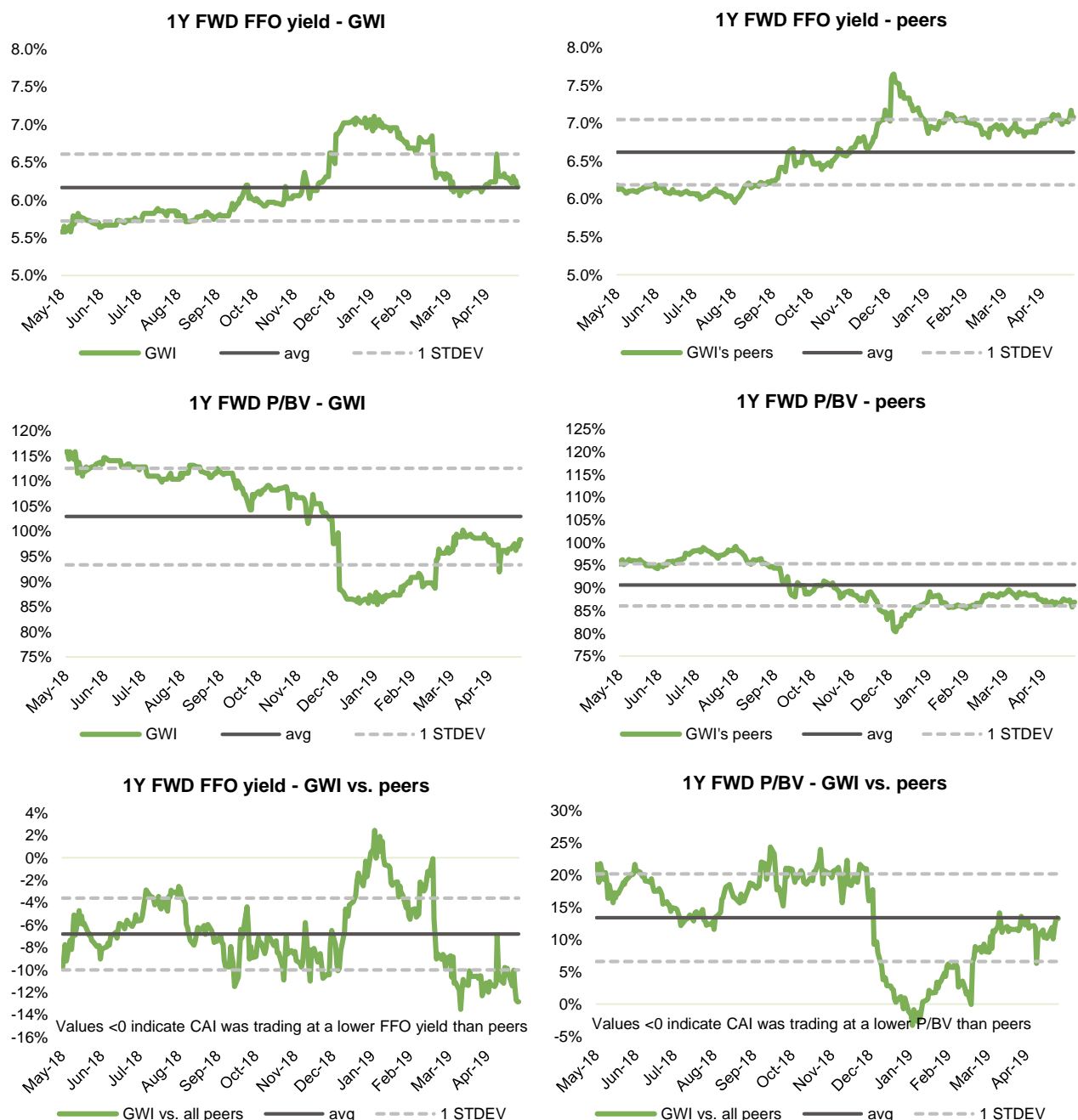
Prague: +420 222 096 481
Website: www.wood.com

Investment case

Already trading on a par with NAV, we admit that we do not see many factors that could cause a sudden rerating of the share price. With two large, strategic shareholders (Growthpoint and Aroundtown), a takeover bid seems unlikely. Instead, we expect the share price to continue to be propelled by the ongoing expansion of the portfolio, growth of rents and yield compression in Romania. The most active player on the Polish transaction market, Globalworth keeps on growing through acquisitions; while, in Bucharest, the company has a number of developments under way. These will fuel FFO growth and, as the company grows in size, its overhead costs should be diluted by a larger rental income, improving the operational efficiency.

In our view, the key risks include: a pronounced economic slowdown and resulting weaker demand for office space; excessive supply (in both Warsaw and Bucharest); yield expansion; cost overruns; and the departure of key management figures.

Globalworth vs. peers



Source: Company data, Bloomberg, WOOD Research

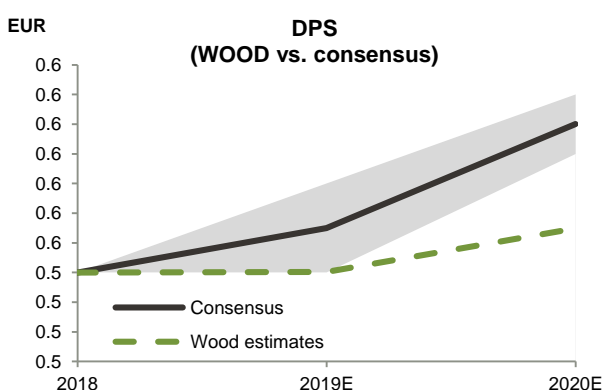
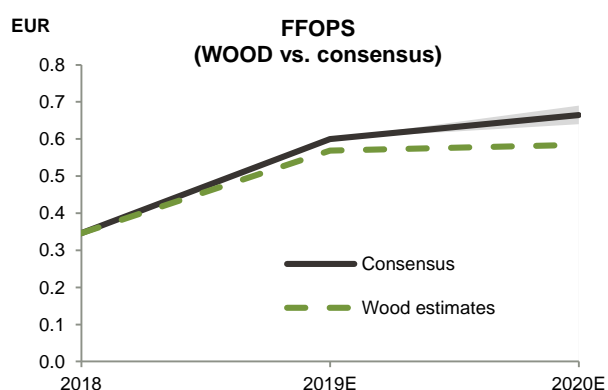
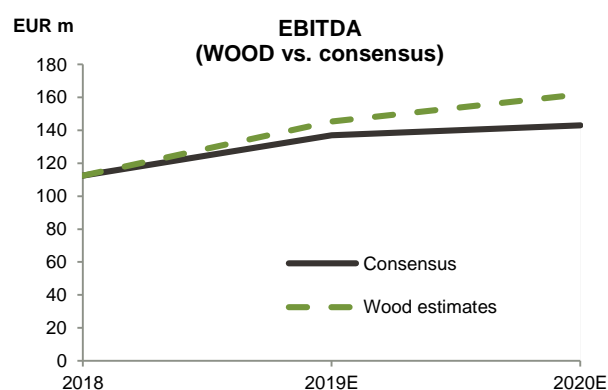
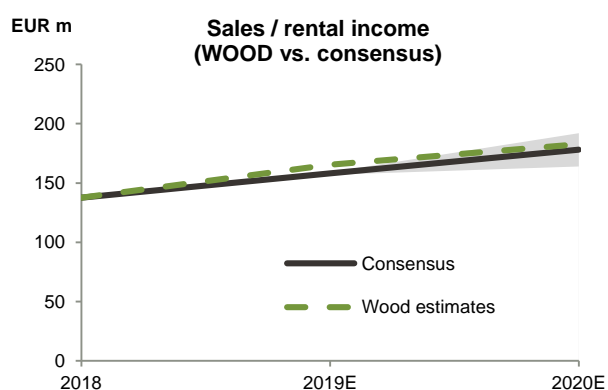
WOOD vs. the consensus, and new vs. old estimates

WOOD vs. consensus

EUR m	2019E			2020E			2021E		
	WOOD	Cons.	Diff. (%)	WOOD	Cons.	Diff. (%)	WOOD	Cons.	Diff. (%)
Sales	165	158	5%	183	178	3%	196	208	-6%
EBITDA	145	137	6%	162	143	13%	175	157	11%
EBIT	210	224	-6%	212	251	-16%	190	231	-18%
Net profit	147	152	-4%	143	176	-19%	122	168	-27%
BPS (EUR)	8.8	n/a	na	9.0	n/a	na	9.1	n/a	na
FFOPS (EUR)	0.57	0.60	-5%	0.58	0.67	-12%	0.65	0.72	-10%
DPS (EUR)	0.54	0.56	-3%	0.55	0.59	-6%	0.61	0.65	-6%
EBITDA margin	87.9%	86.7%	1.2ppt	88.6%	80.3%	8.3ppt	89.1%	75.5%	13.6ppt
Net margin	88.7%	96.2%	-7.5ppt	78.2%	98.9%	-20.7ppt	62.1%	80.5%	-18.4ppt

Source: Company data, Bloomberg, WOOD Research

WOOD vs. consensus

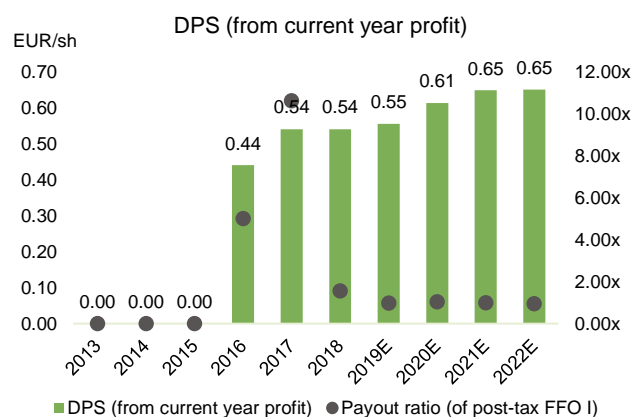
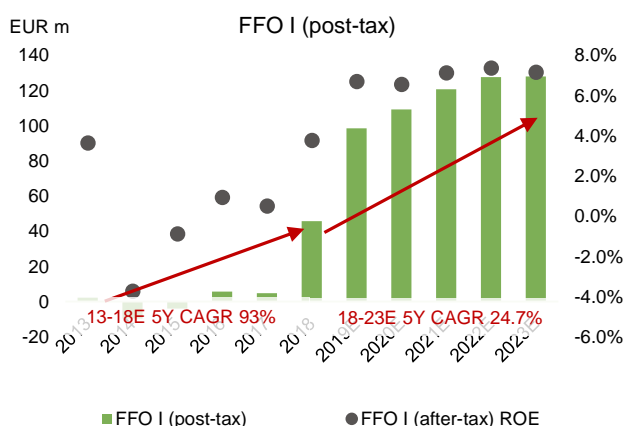
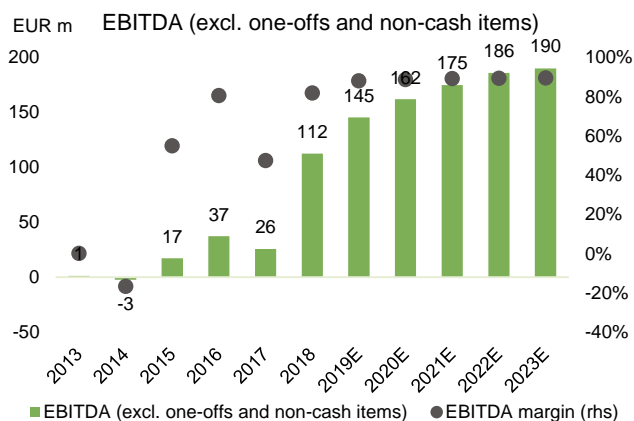
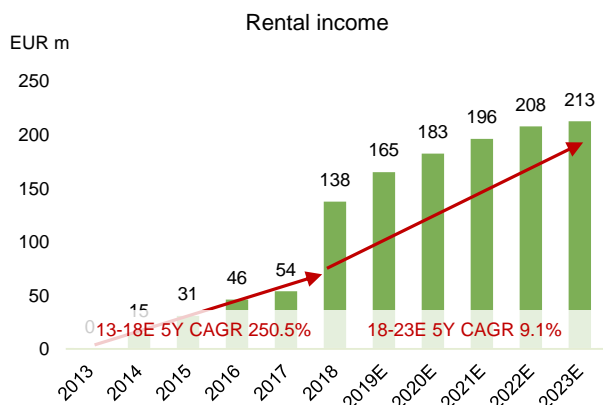


Source: Company data, Bloomberg, WOOD Research

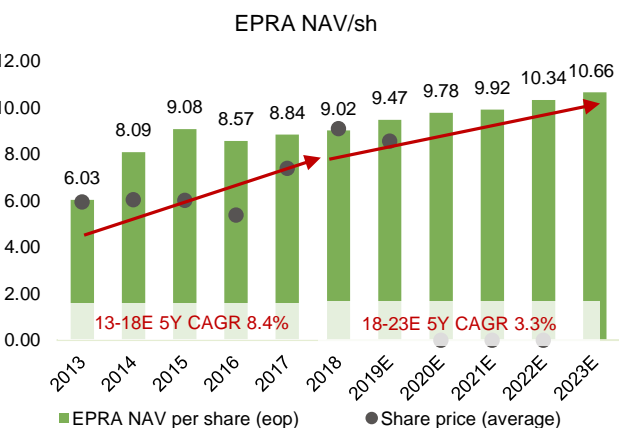
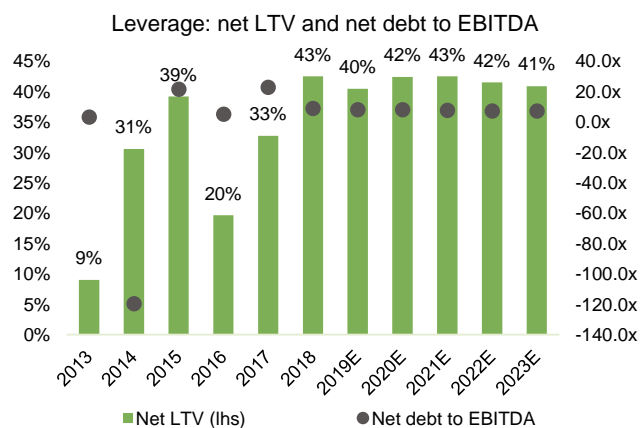
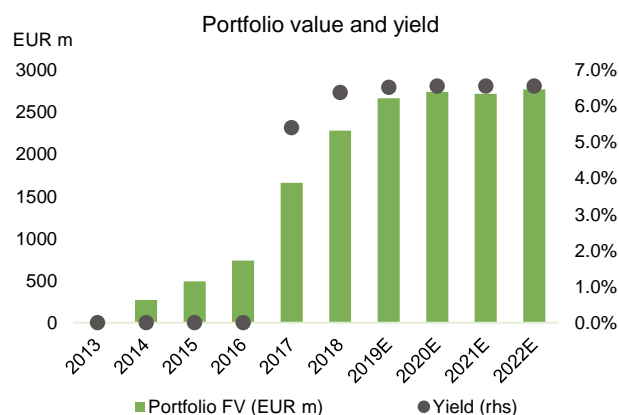
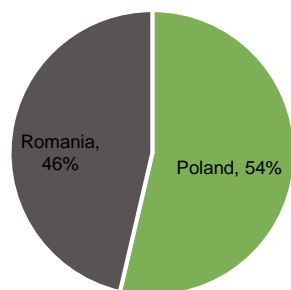
WOOD: new vs. old

EUR m	2019E			2020E			2021E		
	new	old	Diff. (%)	new	old	Diff. (%)	new	old	Diff. (%)
Sales	165	166	0%	183	173	6%	196	188	5%
EBITDA	145	138	6%	162	158	2%	175	158	11%
EBIT	210	202	4%	212	196	8%	190	182	4%
Net profit	147	125	17%	143	142	1%	122	126	-3%
BPS (EUR)	8.8	8.6	3%	9.0	26.6	-66%	9.1	9.2	-1%
FFOPS (EUR)	0.57	0.60	-6%	0.58	1.36	-57%	0.65	0.72	-11%
DPS (EUR)	0.54	0.57	-6%	0.55	0.82	-33%	0.61	0.69	-11%
EBITDA margin	87.9%	83.1%	4.8ppt	88.6%	91.7%	-3.1ppt	89.1%	83.8%	5.2ppt
Net margin	88.7%	75.5%	13.2ppt	78.2%	82.0%	-3.9ppt	62.1%	67.0%	-4.9ppt

Source: Company data, Bloomberg, WOOD Research



Rental income by country, 2019E



Source: Company data, Bloomberg, WOOD Research

Valuation

We value Globalworth using a combination of a DCF and a peer valuation.

Setting our 12M PT at EUR 10.8/share

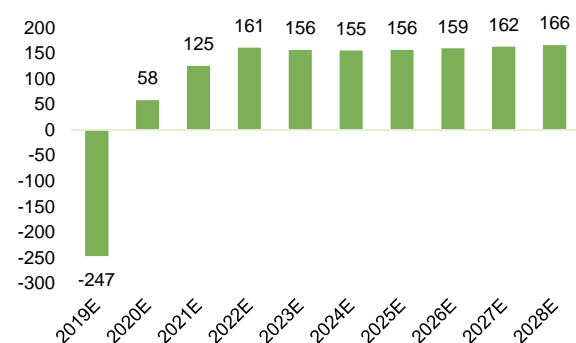
Valuation method	Per share (EUR)
DCF	11.0
Peer valuation	10.6
Average implied 12M PT	10.8
Price	9.0
Upside	21%

Source: WOOD Research

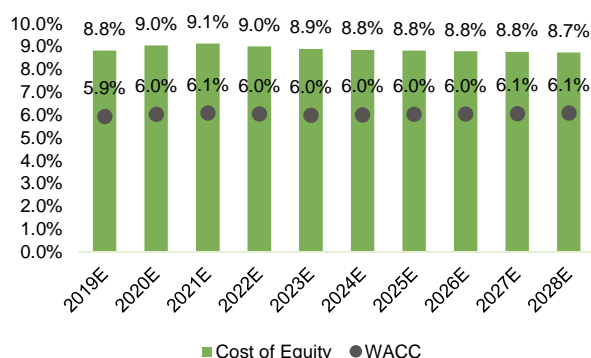
Globalworth: valuation – COE, WACC, multiples

EUR m

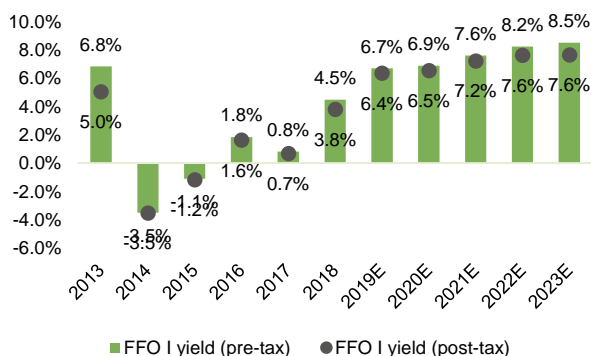
FCFF



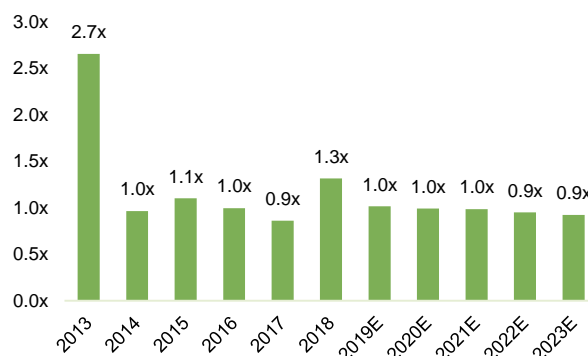
Cost of Equity and WACC



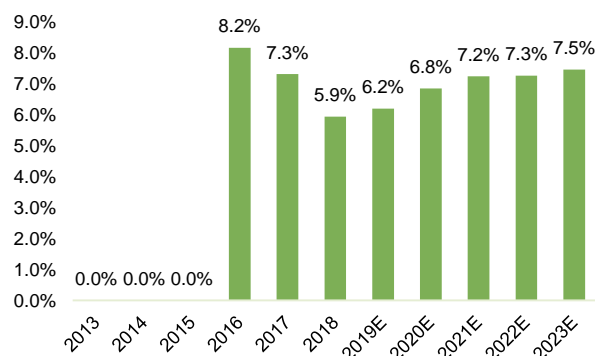
FFO I yield



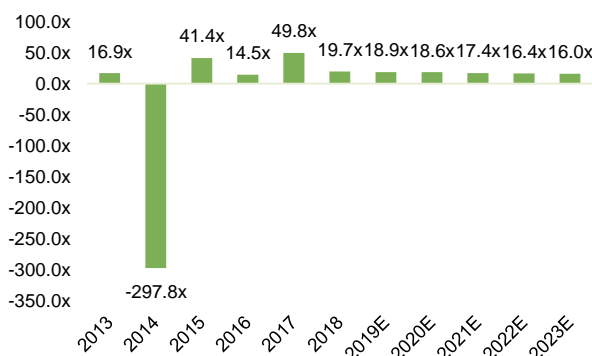
P/BV



Dividend yield



EV/EBITDA



Source: Company data, Bloomberg, WOOD Research

Financials

Globalworth: P&L, FFO, DPS and rental income by country and sector

P&L (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Rental income	0	15	31	46	54	138	165	183	196	208
- net service charges and property expenses	5	-2	-3	-3	-3	-4	-5	-5	-6	-6
Net rental income	5	13	28	44	51	133	160	177	190	202
- income from hotels	-2	-1	0	0	0	0	0	0	0	0
- net operating expenses	-2	-14	-11	-6	-26	-21	-15	-15	-16	-16
EBITDA (excl. one-offs and non-cash items)	1	-3	17	37	26	112	145	162	175	186
- revaluation gain/(loss)	11	105	66	7	35	34	65	50	15	68
- net result from sale of investment properties	0	0	0	0	0	0	0	0	0	0
- result from JVs	-2	-1	0	0	0	0	0	0	0	0
EBIT	10	102	83	44	61	146	210	212	190	254
- net interest expense	0	-8	-21	-31	-36	-38	-42	-47	-48	-48
- other financial income/expense	0	0	0	-1	1	7	0	0	0	0
Pre-tax profit	10	94	63	12	26	115	169	165	143	207
- current income tax	-1	0	0	-1	-1	-8	-5	-6	-6	-10
- deferred tax charge	0	-5	-11	0	-2	-7	-17	-16	-14	-15
Net profit	9	89	51	11	24	100	147	143	122	181
- minorities	0	0	0	0	-1	-20	0	0	0	0
- discontinued operations										
Net income	9	88	51	11	23	80	147	143	122	181
FFO & DPS (EUR m, unless per sh)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
FFO I (pre-tax)	3	-10	-4	6	6	54	104	115	127	138
FFO I (post-tax)	2	-10	-4	6	5	46	99	109	121	128
FFO II	2	-10	-4	6	5	46	99	109	121	128
FFO I per share (pre-tax)	0.41	-0.21	-0.07	0.10	0.06	0.41	0.60	0.61	0.68	0.74
FFO I per share (post-tax)	0.30	-0.21	-0.07	0.09	0.05	0.35	0.57	0.58	0.65	0.68
FFO II per share	0.30	-0.21	-0.07	0.09	0.05	0.35	0.57	0.58	0.65	0.68
DPS (from current year profit)	0.00	0.00	0.00	0.44	0.54	0.54	0.55	0.61	0.65	0.65
Payout ratio (of post-tax FFO I)	0.00x	0.00x	0.00x	5.01x	10.61x	1.56x	0.98x	1.05x	1.00x	0.95x
Margins and growth	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Net rental income margin	n/a	85%	92%	94%	95%	97%	97%	97%	97%	97%
EBITDA margin	n/a	-17%	55%	80%	47%	82%	88%	89%	89%	89%
FFO I (pre-tax) margin	n/a	-63%	-13%	12%	9%	33%	60%	60%	62%	61%
FFO I (post-tax) margin	n/a	-64%	-14%	11%	7%	27%	57%	57%	58%	56%
Net rental income growth	n/a	5723.1%	104.2%	49.3%	16.7%	155.5%	20.1%	10.5%	7.5%	5.9%
EBITDA growth	-140.6%	-307.5%	-771.3%	118.6%	-31.3%	341.0%	29.2%	11.3%	8.1%	6.2%
Net income growth	-246.2%	905.0%	-41.7%	-78.0%	103.9%	247.9%	82.7%	-2.7%	-14.5%	48.1%
FFO I per sh (pre-tax) growth	n/a	-170.9%	-66.8%	-224.5%	-42.0%	580.4%	64.2%	2.7%	10.5%	5.7%
FFO I per sh (post-tax) growth	n/a	-210.7%	-65.0%	-202.5%	-46.0%	588.4%	88.7%	2.7%	10.5%	2.5%
FFO II per sh growth	n/a	-210.7%	-65.0%	-202.5%	-46.0%	588.4%	88.7%	2.7%	10.5%	2.5%
Rental income per country	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Poland	0%	0%	0%	0%	0%	41%	54%	52%	48%	46%
Romania	100%	100%	100%	100%	100%	59%	46%	48%	52%	54%
Rental income per sector	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Offices										
Retail										
Logistics										
Hotels										
Residential										
Others										

Source: WOOD Research, company data

Globalworth generates the vast majority of its rents from office assets

Globalworth: capital structure, cash flow and EPRA indicators

Capital structure (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Total debt	20	205	404	414	870	1,259	1,551	1,607	1,606	1,606
Cash	10	22	37	221	284	242	361	272	242	240
Net debt	11	183	367	193	587	1,017	1,190	1,335	1,365	1,366
Equity	120	393	500	715	1,136	1,297	1,650	1,690	1,702	1,765
Assets	166	669	1,020	1,232	2,161	2,737	3,414	3,536	3,568	3,650
Investment property	121	599	937	981	1,792	2,391	2,941	3,148	3,208	3,289
EBITDA	3	-2	17	37	26	112	145	162	175	186
Equity ratio	73%	59%	49%	58%	53%	47%	48%	48%	48%	48%
Gross LTV	17%	34%	43%	42%	49%	53%	53%	51%	50%	49%
Net LTV	9%	31%	39%	20%	33%	43%	40%	42%	43%	42%
Net debt to EBITDA	3.4x	-119.6x	21.6x	5.2x	23.0x	9.0x	8.2x	8.2x	7.8x	7.4x
Gearing (net debt to equity)	9%	47%	74%	27%	52%	78%	72%	79%	80%	77%
Cost of debt (incl. hedging)	6%	4%	6%	5%	3%	0.0291				
Average debt maturity (years)	3.7	5.4	5	4.2	5.4	5				
% of debt fixed or hedged	n/a	n/a	n/a	n/a	n/a	n/a				
% of unsecured debt	n/a	n/a	n/a	n/a	n/a	n/a				
% of uncumencumbered assets	n/a	n/a	n/a	n/a	n/a	n/a				
Rating by S&P	0	0	0	0	BB+	BBB-				
Rating by Fitch	0	0	0	0	BBB-	BBB-				
Rating by Moody's	0	0	0	0	Ba2	Ba1				
Net debt, rel. change, yoy	n/a	1571%	101%	-47%	204%	73%	17%	12%	2%	0%
Equity, rel. change, yoy	n/a	227%	27%	43%	59%	14%	27%	2%	1%	4%
Assets, rel. change, yoy	n/a	304%	53%	21%	75%	27%	25%	4%	1%	2%
Cash Flow (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Profit before tax	14	96	63	12	26	115	169	165	143	207
CF from Operations (before WC)	3	-1	17	38	30	117	145	162	175	185
WC changes	-3	-24	1	6	-6	-12	7	5	3	1
CF from Operations	0	-25	19	44	24	104	152	167	178	187
Adjustment for net interest and taxes	0	-7	-16	-24	-14	-24	-47	-52	-54	-58
Net CF from Operations	0	-32	3	20	10	80	106	114	124	129
CAPEX	-36	-93	-184	-54	-368	-533	-392	-101	-45	-12
Proceeds from disposals	0	0	0	14	10	7	0	0	0	0
Others	-8	-9	0	3	10	-475	0	0	0	0
Net CF from Investing	-36	-93	-184	-39	-388	-427	-392	-101	-45	-12
Proceeds from issuance of share capital	53	79	54	200	349	0	501	0	0	0
Acquisition of own shares	0	0	0	0	0	0	0	0	0	0
Net issue of debt	-3	63	141	20	119	378	0	0	0	0
Dividends paid	0	0	0	0	-20	-65	-83	-102	-109	-118
Others	-4	-4	-4	-13	-17	-10	0	0	0	0
Net CF from Financing	46	138	190	207	431	303	418	-102	-109	-118
Change in cash & equivalents	10	12	9	187	53	-44	131	-89	-30	-2
EPRA Indicators (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Book Value	120	393	500	715	1,136	1,297	1,650	1,690	1,702	1,765
EPRA NAV	0	434	568	784	1,171	1,200	1,773	1,830	1,857	1,935
EPRA NNNNAV	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
BV per share (EUR)	2.24	6.27	5.46	5.41	8.60	6.93	8.81	9.03	9.09	9.43
EPRA NAV per share (EUR)	6.03	8.09	9.08	8.57	8.84	9.02	9.47	9.78	9.92	10.34
EPRA NNNNAV per share (EUR)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EPRA Net Initial Yield (NIY)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EPRA "topped-up" NIY	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EPRA Ifl Gross Rental Income	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EPRA Ifl Net Rental Income	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EPRA Earnings (EUR m)	n/a	n/a	n/a	n/a	16.8	60.9	n/a	n/a	n/a	n/a
Company adj. EPRA Earnings	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EPRA Earnings per share	n/a	n/a	n/a	n/a	0.18	0.46	n/a	n/a	n/a	n/a
Company adj. EPRA Earnings (per share)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EPRA Vacancy rate	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EPRA Cost Ratio (incl. vacancy costs)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EPRA Cost Ratio (excl. vacancy costs)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: WOOD Research, company data

Globalworth: DCF, cost of capital, portfolio, share data and valuation multiples

DCF: FCFF reconciliation (EUR m)	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
FFO I	99	109	121	128	128	131	135	139	142	146
+ taxes	5	6	6	10	14	15	15	15	16	16
+ interest costs	42	47	48	48	48	48	48	48	48	48
Adj. EBIT	145	162	175	186	190	194	198	202	206	210
tax rate	-5.0%	-5.0%	-5.0%	-7.5%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%
NOPLAT	138	154	166	172	171	174	178	181	185	189
CAPEX	-392	-101	-45	-12	-16	-20	-22	-23	-23	-24
WC change	7	5	3	1	2	1	0	0	0	0
Proceeds from disposals	0	0	0	0	0	0	0	0	0	0
FCFF	-247	58	125	161	156	155	156	159	162	166
DCF: Cost of Equity and WACC	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
[A] Debt/Capital Ratio	48%	49%	49%	48%	47%	46%	46%	45%	45%	44%
[C] Equity/Capital Ratio	52%	51%	51%	52%	53%	54%	54%	55%	55%	56%
Marginal Cost of Debt (%)	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
x Marginal Tax Rate (%)	5%	5%	5%	8%	10%	10%	10%	10%	10%	10%
[B] Cost of Debt (post tax)	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Beta	1.22	1.26	1.26	1.22	1.20	1.19	1.19	1.18	1.18	1.17
x Equity Risk Premium	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%
+ Risk Free Rate	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
[D] Cost of Equity	8.8%	9.0%	9.1%	9.0%	8.9%	8.9%	8.8%	8.8%	8.8%	8.8%
[A x B] + [C x D] = WACC:	5.9%	6.0%	6.1%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.1%
Portfolio	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Year-end, m2 ('000)	0	101	191	282	791	1,005	1,120	1,120	1,120	1,120
Rented space, m2	0	95	158	222	721	937	1064	1050	1050	1050
Occupancy	0.00%	93.82%	82.58%	78.65%	91.16%	93.19%	95.04%	93.82%	93.82%	93.82%
Gross Rental Income (EUR m)	0	18	30	43	109	123	170	179	178	182
Value (EUR m)	0	269	487	737	1660	2279	2664	2741	2717	2772
Weighted Average Lease Term (Y)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
- price / m2, EUR	0	2660	2547	2615	2122	2293	2406	2477	2453	2502
- average gross rent per m2, EUR	n/a	15.4	15.8	16.0	12.6	10.9	13.3	14.2	14.1	14.4
- yield	0.0%	0.0%	0.0%	0.0%	0.0%	5.4%	6.4%	6.5%	6.6%	6.6%
- yield at full occupancy	0.0%	7.0%	7.5%	7.3%	7.2%	7.4%	6.8%	6.6%	6.6%	6.6%
Number of shares and share price	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Number of shares	20.9	53.6	62.6	91.5	132.2	132.2	187.2	187.2	187.2	187.2
Treasury shares / options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Number of shares outstanding	20.9	53.6	62.6	91.5	132.2	132.2	187.2	187.2	187.2	187.2
Average number of shares	7.3	45.1	55.9	64.4	92.5	132.2	173.4	187.2	187.2	187.2
Average number of treasury shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Average number of shares outstanding	7.3	45.1	55.9	64.4	92.5	132.2	173.4	187.2	187.2	187.2
Average price/share (EUR)	5.9	6.0	6.0	5.4	7.4	9.1	8.6	n/a	n/a	n/a
Lowest price (EUR)	7.4	7.0	7.0	6.8	9.1	9.6	9.3	n/a	n/a	n/a
Highest price (EUR)	5.3	5.3	5.6	4.9	6.3	8.0	7.9	n/a	n/a	n/a
Closing price (EUR)	5.5	7.0	5.8	6.8	9.0	8.1	n/a	n/a	n/a	n/a
Market cap, average (EUR m)	43	273	336	347	684	1,204	1,487	n/a	n/a	n/a
Market cap, eop (EUR m)	114	376	362	617	1,186	1,069	n/a	n/a	n/a	n/a
Profitability and valuation multiples	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
FFO I (pre-tax) ROE	4.9%	-3.7%	-0.8%	1.0%	0.6%	4.4%	7.0%	6.9%	7.5%	8.0%
FFO I (after-tax) ROE	3.6%	-3.7%	-0.9%	0.9%	0.5%	3.8%	6.7%	6.5%	7.1%	7.4%
FFO II ROE	3.6%	-3.7%	-0.9%	0.9%	0.5%	3.8%	6.7%	6.5%	7.1%	7.4%
FFO I (pre-tax) RONA	n/a	-4.4%	-0.7%	0.9%	0.6%	4.5%	7.0%	6.4%	6.9%	7.3%
FFO I (after-tax) RONA	n/a	-4.4%	-0.8%	0.8%	0.5%	3.9%	6.6%	6.1%	6.6%	6.7%
FFO II RONA	n/a	-4.4%	-0.8%	0.8%	0.5%	3.9%	6.6%	6.1%	6.6%	6.7%
FFO I yield (pre-tax)	6.8%	-3.5%	-1.1%	1.8%	0.8%	4.5%	6.7%	6.9%	7.6%	8.2%
FFO I yield (post-tax)	5.0%	-3.5%	-1.2%	1.6%	0.7%	3.8%	6.4%	6.5%	7.2%	7.6%
FFO II yield	5.0%	-3.5%	-1.2%	1.6%	0.7%	3.8%	6.4%	6.5%	7.2%	7.6%
P/BV	2.7x	1.0x	1.1x	1.0x	0.9x	1.3x	1.0x	1.0x	1.0x	0.9x
P/EPRA NAV	1.0x	0.7x	0.7x	0.6x	0.8x	1.0x	0.9x	0.9x	0.9x	0.9x
Dividend yield	0.0%	0.0%	0.0%	8.2%	7.3%	5.9%	6.2%	6.8%	7.2%	7.3%
EV/EBITDA	16.9x	-297.8x	41.4x	14.5x	49.8x	19.7x	18.9x	18.6x	17.4x	16.4x

Source: WOOD Research, company data

NEPI Rockcastle

Buy

Maintained

Price: EUR 7.3
Price target: EUR 8.4
(From EUR 9.1)

A good play on the CEE convergence story

Considering the broad aversion towards retail these days (Atrium, Klepierre and Unibail are all trading at around 8-9% FFO yields and c.30% discounts to book value), we know that trying to spark excitement for a shopping centre landlord that trades at a small premium to book value may prove tricky. However, we believe that the CEE retail landscape is fundamentally different from that in Western Europe in four important aspects: 1) lower retail space density; 2) lower rents; 3) higher yields; and 4) a significantly better outlook for the growth of the incomes of the middle class. The last point is crucial. We expect the convergence story to continue, and believe the households in CEE, from Bulgaria to the Czech Republic, are likely to continue to enjoy faster growth of disposable income than their counterparts in Western Europe. With a portfolio skewed towards large, regionally-dominant shopping malls, a conservative balance sheet (just 33% net LTV in 2018) and – despite the low leverage – excellent profitability (8% FFO ROEs), we believe that NEPI Rockcastle is an attractive way to play the CEE consumer. We maintain our BUY recommendation, adjusting our 12M price target (PT) to EUR 8.4/share (from EUR 9.1/share).

Evidence does not support general negativity. The turnovers of NRP's tenants have been growing by around 7-11% annually over the past four years, on a like-for-like (lfl) basis. With rents accounting for less than 12% of tenants' turnovers, on average, the rents at NRP's malls strike us as affordable, and should offer room for growth or, in the case of an economic downturn, to absorb shocks, in our view. Equally importantly, the portfolio is focused on large shopping malls in big cities. Malls with rental income above EUR 10m p.a. generate nearly half of NRP's rental income. We believe that these assets are best-placed to attract customers and generate above-market growth in sales and, in turn, rental growth.

We tone down our estimates for rental growth. To be on the safe side, we model the rents to remain flat for most of our forecast horizon in nominal terms. Assuming inflation of around 2%, this implies a c.20% decline in real rents over the next 10Y – significantly at odds with the available evidence.

Developments to drive growth. The projects currently under development and in the pipeline should generate rental income of over EUR 59m by 2022E, on our estimates.

We set our 12M PT at EUR 8.4/share, using a combination of a DCF (EUR 9.1/share) and peer multiples (EUR 7.7/share). Our WACC ranges around 6.0-6.2%. We see the stock trading currently at 7.5-7.6% FFO yields and c.1.1x P/BVs on our 2019-20E figures.

Triggers: new development projects and acquisitions; faster-than-expected rental growth; or yield compression. **Risks** include: delays and cost overruns at developments; yield expansion; economic downturn; e-commerce; changes in management; resurfacing of additional corporate governance issues; real estate taxation in Romania.

Expected events

2Q19 results	23 August
3Q19 update	22 November

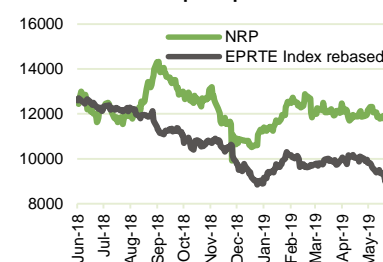
Key data

Market Cap	EUR 4,280m
Free float	74%
Shares outstanding	586m
Major Shareholder	Fortress REIT
Reuters Code	NRPJ.J
Bloomberg Code	NRP SJ
EPSTE Index	541

Price performance

52-w range	EUR 6.32-8.43/share
52-w performance	-4%
Relative performance	26%

NEPI 12M share price performance



Year	BV (EUR m)	BVPS (EUR)	Net LTV	Equity ratio	FFO (EUR m)	FFOPS (EUR)	FFO ROE	P/BV	FFO yield	DPS (EUR)	Div. Yield
2016	1,815	5.6	24%	65%	120	0.39	7.3%	1.9x	3.7%	0.45	4.3%
2017	3,915	6.8	26%	65%	204	0.47	7.1%	1.7x	4.0%	0.52	4.5%
2018	3,846	6.7	33%	59%	306	0.53	7.9%	1.2x	6.4%	0.54	6.5%
2019E	3,838	6.6	36%	53%	316	0.55	8.2%	1.1x	7.5%	0.54	7.4%
2020E	3,911	6.8	37%	51%	323	0.56	8.3%	1.1x	7.6%	0.51	7.0%
2021E	3,659	6.3	39%	48%	313	0.54	8.3%	1.2x	7.4%	0.49	6.7%

Analysts: Jakub Caithaml; Stefan Lungu, CFA
E-mail: jakub.caithaml@wood.cz, stefan.lungu@wood.com

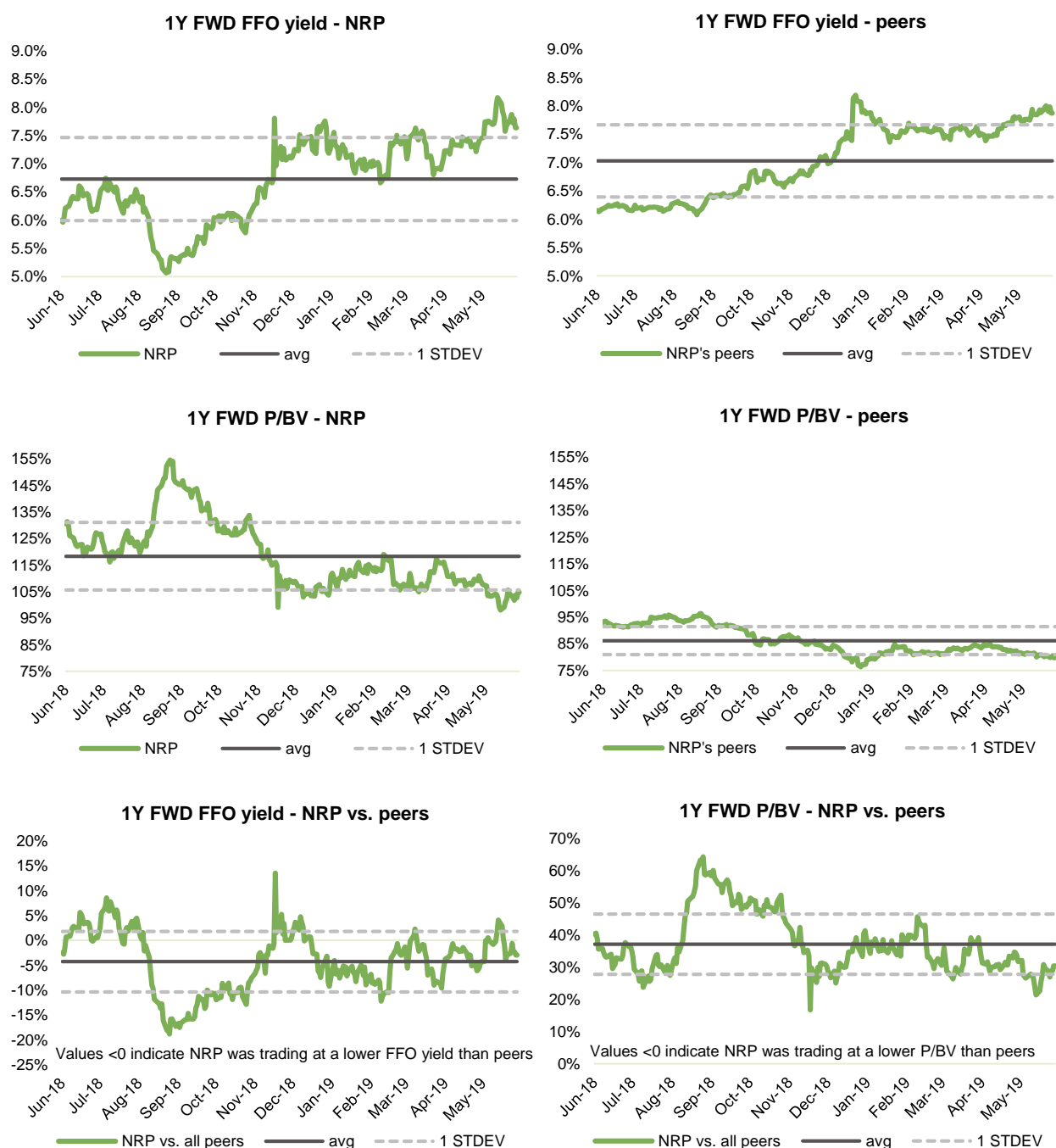
Prague: +420 222 096 481
Website: www.wood.com

Key risks and triggers

Already trading on a par with book value, it is not easy to highlight a single trigger that could cause a dramatic rerating of the stock. Rather, we expect the share price to edge up gradually, driven by the continuation of the trends in place currently, chiefly: growth of turnovers, translating into Iff growth in rental income; progress in the developments of new shopping malls, and the refurbishment of existing shopping malls; further well-priced acquisitions; and general portfolio rotation (such as the disposals of offices).

The chief risks, in our view, include: a deepening aversion towards retail; e-commerce, rendering traditional bricks&mortar shopping obsolete; an economic slowdown; rate rises; and overpriced acquisitions. In the past, NEPI Rockcastle has been a target of reports by short-sellers. While the allegations have proved groundless and the share price was swift to recover, the appearance of similar reports could weigh on the share price.

NEPI Rockcastle vs. peers



Source: Company data, Bloomberg, WOOD Research

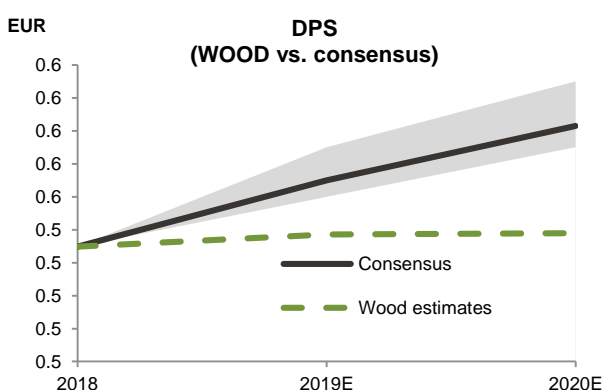
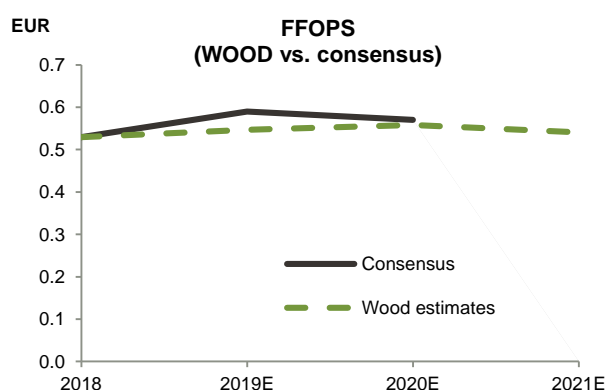
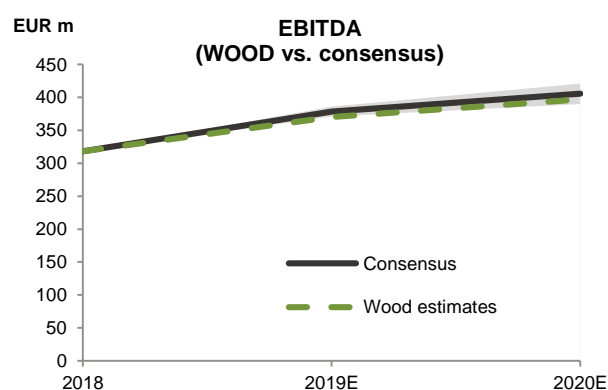
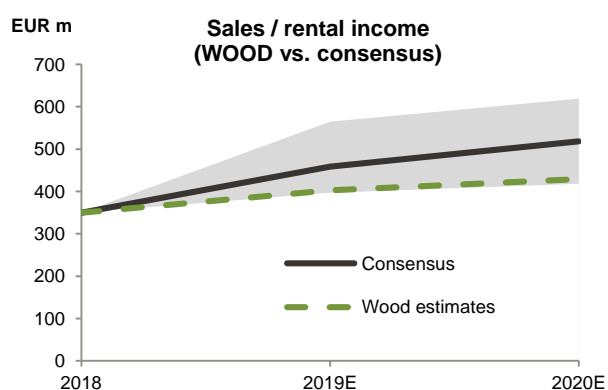
WOOD vs. the consensus, and new vs. old estimates

WOOD vs. consensus

EUR m	2019E			2020E			2021E		
	WOOD	Cons.	Diff. (%)	WOOD	Cons.	Diff. (%)	WOOD	Cons.	Diff. (%)
Sales	403	459	-12%	429	519	-17%	433	461	-6%
EBITDA	370	379	-2%	397	406	-2%	402	415	-3%
EBIT	413	377	10%	516	390	33%	140	415	-66%
Net profit	303	349	-13%	383	231	66%	42	359	-88%
BPS (EUR)	6.6	7.0	-6%	6.8	7.2	-6%	6.3	7.0	-10%
FFOPS (EUR)	0.55	0.59	-7%	0.56	0.57	-2%	0.54	na	na
DPS (EUR)	0.54	0.57	-6%	0.51	0.60	-16%	0.49	0.62	-21%
EBITDA margin	91.9%	82.5%	9.4ppt	92.4%	78.2%	14.2ppt	92.8%	90.0%	2.8ppt
Net margin	75.2%	76.0%	-0.8ppt	89.3%	44.6%	44.7ppt	9.6%	77.9%	-68.2ppt

Source: WOOD Research, Bloomberg

WOOD vs. consensus



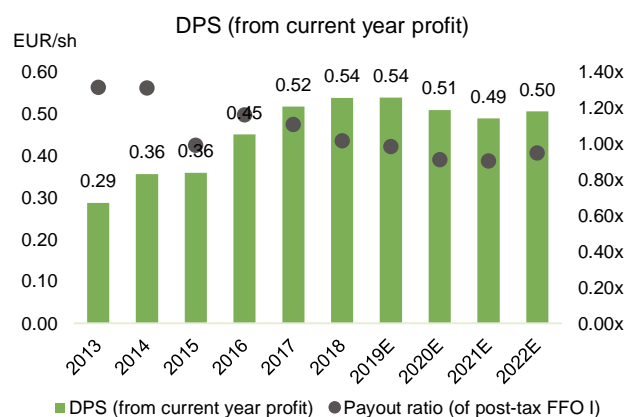
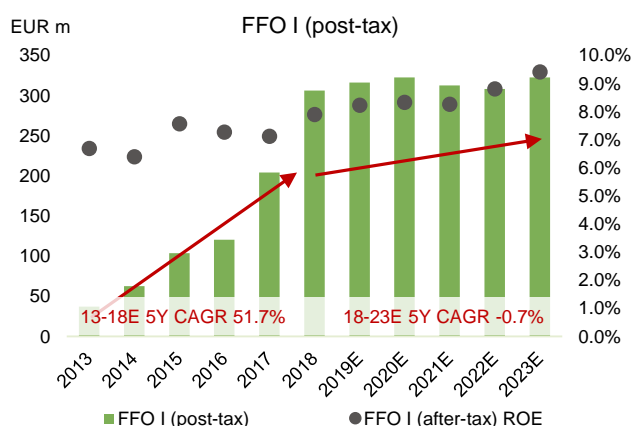
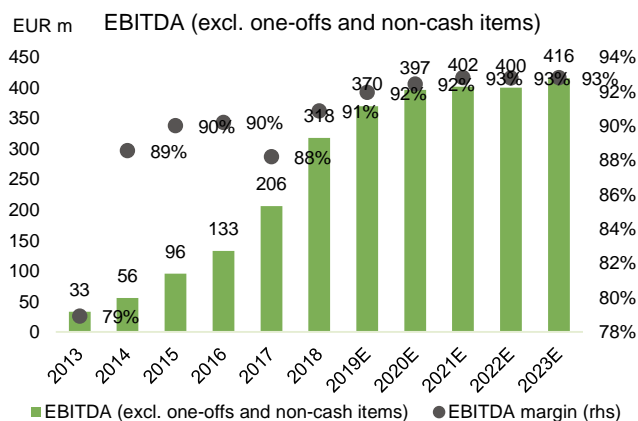
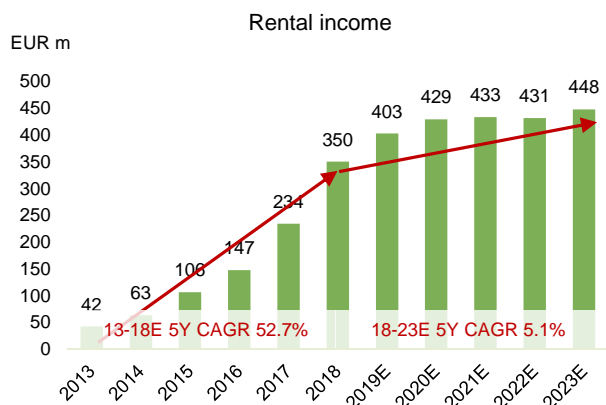
Source: Bloomberg, WOOD Research

WOOD: new vs. old estimates

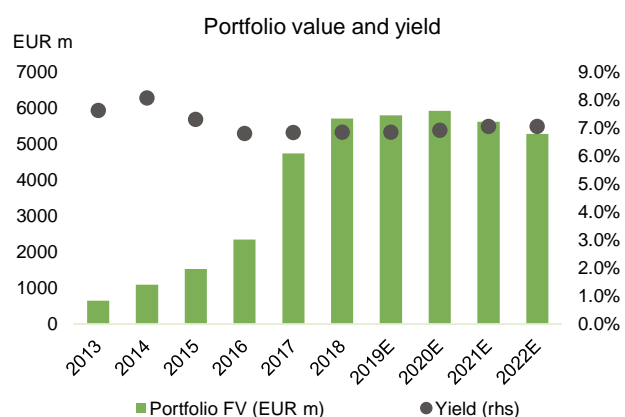
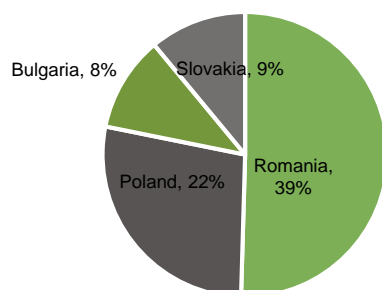
EUR m	2019E			2020E			2021E		
	new	old	Diff. (%)	new	old	Diff. (%)	new	old	Diff. (%)
Sales	403	414	-3%	429	418	3%	433	431	1%
EBITDA	370	383	-3%	397	389	150%	402	402	0%
EBIT	413	497	-17%	516	52	164%	140	319	-56%
Net profit	303	382	-21%	383	-11	171%	42	214	-81%
BPS (EUR)	6.6	7.0	-5%	6.8	6.4	-75%	6.3	6.2	1%
FFOPS (EUR)	0.55	0.58	-5%	0.56	0.55	-59%	0.54	0.53	2%
DPS (EUR)	0.54	0.58	-7%	0.54	0.55	-35%	0.51	0.53	-4%
EBITDA margin	91.9%	92.5%	-0.6ppt	92.4%	92.8	-0.5ppt	92.8%	93.3%	-0.5ppt
Net margin	75.2%	92.2%	-17.1ppt	89.3%	-2.5	9.6ppt	9.6%	49.8%	-40.1ppt

Source: WOOD Research

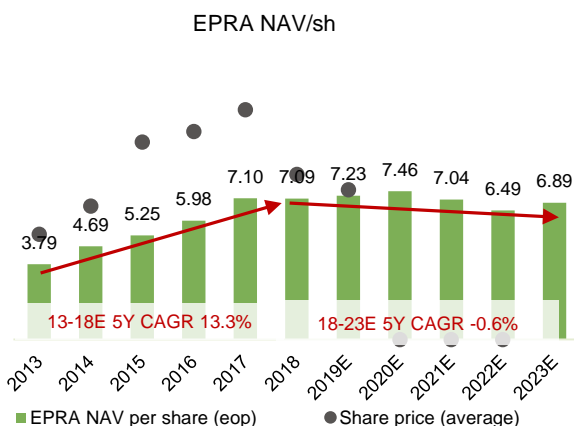
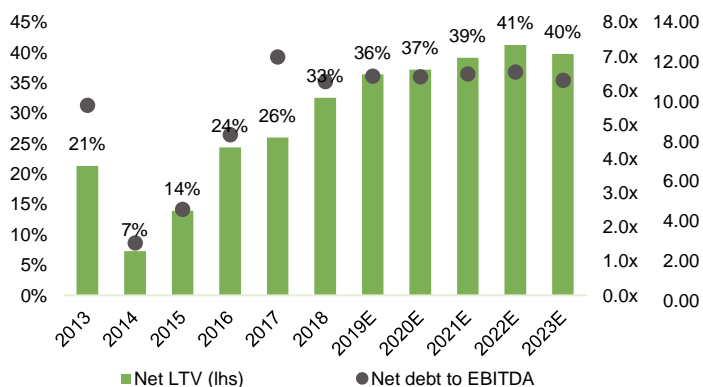
NEPI Rockcastle: earnings, dividends, portfolio, leverage and NAV



Rental income by country, 2019E



Leverage: net LTV and net debt to EBITDA



Source: Company data, Bloomberg, WOOD Research

Valuation – 12M PT at EUR 8.4/share, offering 15% upside

We value NEPI Rockcastle using a combination of a DCF and a peer valuation. We compare NEPI Rockcastle with the CEE real estate companies and the European retail real estate owners. We use a WACC of around 6.0-6.2% throughout our forecast horizon.

Setting our 12M PT at EUR 8.4/share

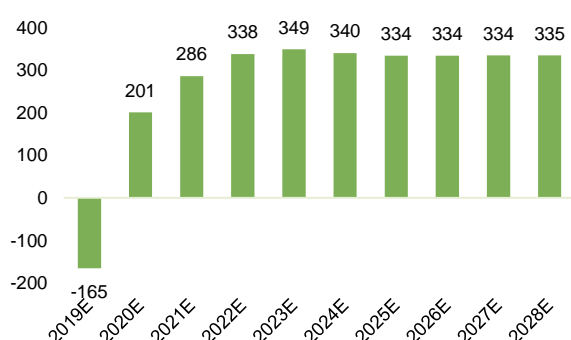
Valuation method	Per share (EUR)
DCF	9.13
Peer valuation	7.70
Average implied 12M PT	8.42
Price	7.30
Upside	15.2%

Source: WOOD Research

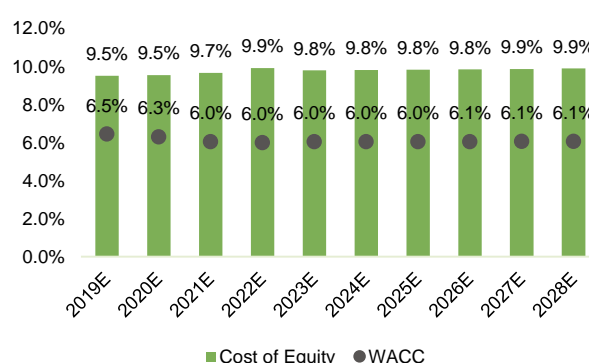
NEPI Rockcastle: valuation – COE, WACC, multiples

EUR m

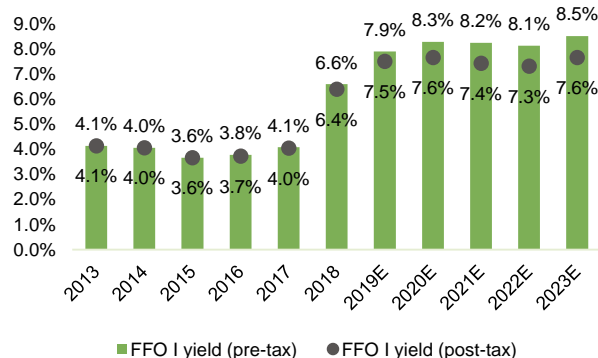
FCFF



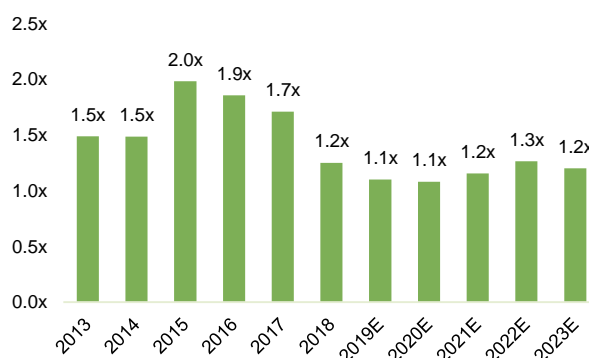
Cost of Equity and WACC



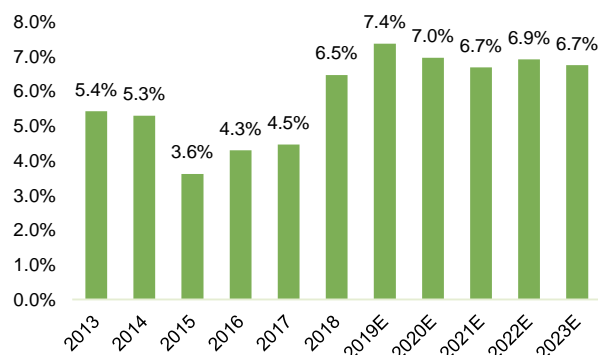
FFO I yield



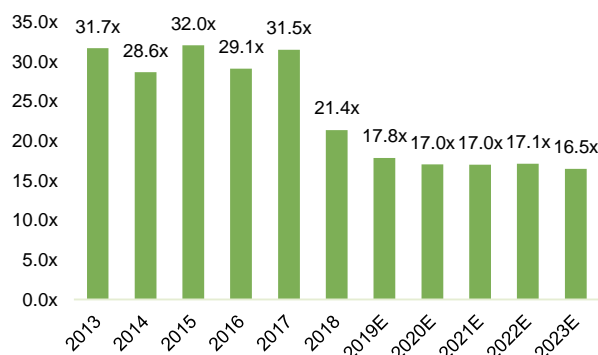
P/BV



Dividend yield



EV/EBITDA



Source: Company data, Bloomberg, WOOD Research

Financials

NEPI Rockcastle: P&L, FFO, DPS and rental income by country and sector

P&L (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Rental income	42	63	106	147	234	350	403	429	433	431
- net service charges and property expenses	-1	-1	-2	-2	-2	-4	-3	-3	-3	-3
Net rental income	41	62	104	146	232	346	400	426	430	428
- income from hotels	0	0	0	0	0	0	0	0	0	0
- net operating expenses	-8	-6	-8	-13	-26	-28	-29	-29	-28	-28
EBITDA (excl. one-offs and non-cash items)	33	56	96	133	206	318	370	397	402	400
- revaluation gain/(loss)	25	30	81	143	-725	-38	43	119	-262	-344
- net result from sale of investment properties	1	1	0	-1	-24	0	0	0	0	0
- result from JVs	1	4	2	6	16	8	3	3	3	3
EBIT	61	91	180	281	-527	289	416	519	143	59
- net interest expense	2	1	0	-13	-23	-40	-53	-64	-71	-74
- other financial income/expense	3	2	0	1	19	28	13	13	13	13
Pre-tax profit	66	95	180	269	-532	277	376	468	85	-2
- current income tax	0	0	0	-2	-2	-9	-17	-26	-35	-34
- deferred tax charge	-9	-1	-14	-35	-46	-45	-56	-59	-8	0
Net profit	57	94	166	233	-579	222	303	383	42	-36
- minorities	1	5	-7	2	0	0	0	0	0	0
- discontinued operations	0	0	0	0	0	0	0	0	0	0
Net income	57	99	158	235	-580	222	303	383	42	-36
FFO & DPS (EUR m, unless per sh)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
FFO I (pre-tax)	37	62	104	122	206	316	333	349	347	342
FFO I (post-tax)	37	62	104	120	204	306	316	323	313	308
FFO II	38	63	104	120	180	306	316	323	313	308
FFO I per share (pre-tax)	0.22	0.27	0.36	0.39	0.47	0.55	0.58	0.60	0.60	0.59
FFO I per share (post-tax)	0.22	0.27	0.36	0.39	0.47	0.53	0.55	0.56	0.54	0.53
FFO II per share	0.23	0.27	0.36	0.39	0.41	0.53	0.55	0.56	0.54	0.53
DPS (from current year profit)	0.29	0.36	0.36	0.45	0.52	0.54	0.54	0.51	0.49	0.50
Payout ratio (of post-tax FFO I)	1.31x	1.31x	0.99x	1.16x	1.11x	1.01x	0.98x	0.91x	0.90x	0.95x
Margins and growth	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Net rental income margin	98%	98%	98%	99%	99%	99%	99%	99%	99%	99%
EBITDA margin	79%	89%	90%	90%	88%	91%	92%	92%	93%	93%
FFO I (pre-tax) margin	88%	99%	97%	83%	88%	90%	83%	81%	80%	79%
FFO I (post-tax) margin	88%	99%	97%	82%	87%	87%	79%	75%	72%	71%
Net rental income growth	n/a	49.5%	68.6%	38.6%	58.6%	49.7%	15.0%	6.7%	0.9%	-0.4%
EBITDA growth	n/a	67.8%	71.4%	38.9%	55.0%	54.2%	16.4%	7.2%	1.3%	-0.5%
Net income growth	n/a	72.6%	59.7%	48.3%	-346.7%	-138.3%	36.4%	26.7%	-89.1%	-185.4%
FFO I per sh (pre-tax) growth	n/a	24.0%	33.5%	8.7%	19.5%	16.0%	5.4%	4.8%	-0.4%	-1.5%
FFO I per sh (post-tax) growth	n/a	24.0%	33.5%	7.2%	20.2%	13.4%	3.3%	2.1%	-3.1%	-1.5%
FFO II per sh growth	n/a	21.6%	32.2%	6.5%	6.7%	28.6%	3.3%	2.1%	-3.1%	-1.5%
Rental income per country	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Romania	93%	86%	77%	78%	57%	42%	39%	41%	40%	42%
Poland	0%	0%	0%	0%	14%	21%	22%	21%	23%	22%
Bulgaria	0%	0%	0%	0%	3%	10%	8%	8%	8%	7%
Slovakia	7%	12%	20%	15%	11%	9%	9%	8%	8%	8%
Hungary	0%	0%	0%	0%	2%	7%	9%	9%	8%	8%
Croatia	0%	0%	0%	2%	7%	5%	4%	4%	4%	4%
Czech Republic	0%	0%	0%	4%	4%	3%	3%	3%	3%	2%
Serbia	0%	2%	3%	2%	1%	1%	3%	4%	4%	4%
Lithuania	0%	0%	0%	0%	0%	2%	3%	2%	2%	2%
Others	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Rental income per sector	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Offices	19	17	20	21	30	30	31	32	30	29
Retail	33	64	101	149	290	358	364	371	356	342
Logistics	2	2	2	2	2	2	2	2	2	2
Hotels										
Residential										
Others										

Source: WOOD Research, company data

NEPI Rockcastle: capital structure, cash flow and EPRA indicators

Capital structure (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Total debt	238	194	568	673	1,635	2,087	2,740	3,033	3,326	3,322
Cash	52	108	327	48	196	97	365	493	718	703
Net debt	186	86	242	625	1,439	1,991	2,375	2,540	2,609	2,619
Equity	712	1,241	1,497	1,815	3,915	3,846	3,838	3,911	3,659	3,341
Assets	1,041	1,544	2,236	2,797	5,998	6,503	7,184	7,625	7,683	7,359
Investment property	871	1,187	1,735	2,566	5,533	6,117	6,523	6,830	6,663	6,354
EBITDA	33	56	96	133	206	318	370	397	402	400
Equity ratio	68%	80%	67%	65%	65%	59%	53%	51%	48%	45%
Gross LTV	27%	16%	33%	26%	30%	34%	42%	44%	50%	52%
Net LTV	21%	7%	14%	24%	26%	33%	36%	37%	39%	41%
Net debt to EBITDA	5.6x	1.5x	2.5x	4.7x	7.0x	6.3x	6.4x	6.4x	6.5x	6.5x
Gearing (net debt to equity)	26%	7%	16%	34%	37%	52%	62%	65%	71%	78%
Cost of debt (incl. hedging)	0%	0%	0%	4%	2%	0.023				
Average debt maturity (years)	0	0	0	0	4.4	3.1				
% of debt fixed or hedged	n/a	n/a	n/a	n/a	n/a	n/a				
% of unsecured debt	n/a	n/a	n/a	n/a	n/a	n/a				
% of uncencumbered assets	n/a	n/a	n/a	n/a	n/a	n/a				
Rating by S&P	n/a	n/a	BBB-	BBB-	BBB	BBB				
Rating by Fitch	n/a	n/a	n/a	n/a	BBB	BBB				
Rating by Moody's	n/a	Ba1	Baa3	Baa3	Baa3	discontinued				
Net debt, rel. change, yoy	76%	-54%	181%	159%	130%	38%	19%	7%	3%	0%
Equity, rel. change, yoy	81%	74%	21%	21%	116%	-2%	0%	2%	-6%	-9%
Assets, rel. change, yoy	67%	48%	45%	25%	114%	8%	10%	6%	1%	-4%
Cash Flow (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Profit before tax	57	94	166	233	-579	222	303	383	42	-36
CF from Operations (before WC)	35	61	99	141	224	489	391	428	442	440
WC changes	-3	-4	9	12	16	26	-35	2	-1	-1
CF from Operations	33	57	108	153	240	515	356	430	441	438
Adjustment for net interest and taxes	-6	-6	-7	-9	-27	-61	-89	-119	-143	-145
Net CF from Operations	27	50	100	144	213	454	268	311	298	293
CAPEX	-419	-447	-269	-654	-993	-759	-486	-173	-80	-26
Proceeds from disposals	76	64	0	7	131	7	0	0	0	0
Others	-10	9	3	7	18	0	0	0	0	0
Net CF from Investing	-353	-373	-266	-640	-845	-752	-486	-173	-80	-26
Proceeds from issuance of share capital	254	431	139	155	396	0	0	0	0	0
Acquisition of own shares	0	0	0	0	0	0	0	0	0	0
Net issue of debt	-37	-69	-325	-91	-164	0	0	0	0	0
Dividends paid	-4	-9	-50	-48	-39	-306	-310	-311	-294	-282
Others	0	0	0	-25	0	0	0	0	0	0
Net CF from Financing	297	379	386	217	779	694	-10	-11	6	-282
Change in cash & equivalents	-29	56	221	-279	148	396	-229	128	225	-15
EPRA Indicators (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Book Value	712	1,241	1,497	1,815	3,915	3,846	3,838	3,911	3,659	3,341
EPRA NAV	758	1,289	1,566	1,921	4,104	4,096	4,178	4,309	4,066	3,748
EPRA NNNNAV	n/a	n/a	n/a	n/a	3,813	3,859				
BV per share (EUR)	3.56	4.52	5.01	5.64	6.78	6.66	6.64	6.77	6.33	5.78
EPRA NAV per share (EUR)	3.79	4.69	5.25	5.98	7.10	7.09	7.23	7.46	7.04	6.49
EPRA NNNNAV per share (EUR)	n/a	n/a	n/a	n/a	6.60	6.68				
EPRA Net Initial Yield (NIY)	n/a	n/a	n/a	n/a	6.69%	6.74%				
EPRA "topped-up" NIY	n/a	n/a	n/a	n/a	6.73%	6.82%				
EPRA Ifl Gross Rental Income	n/a	n/a	n/a	n/a	n/a	n/a				
EPRA Ifl Net Rental Income	n/a	n/a	n/a	n/a	n/a	n/a				
EPRA Earnings (EUR m)	n/a	n/a	n/a	n/a	212.9	308.7				
Company adj. EPRA Earnings	n/a	n/a	n/a	n/a	n/a	n/a				
EPRA Earnings per share	n/a	n/a	n/a	n/a	37.81	53.43				
Company adj. EPRA Earnings (per share)	n/a	n/a	n/a	n/a	n/a	n/a				
EPRA Vacancy rate	n/a	n/a	n/a	n/a	n/a	2.8%				
EPRA Cost Ratio (incl. vacancy costs)	n/a	n/a	n/a	n/a	n/a	n/a				
EPRA Cost Ratio (excl. vacancy costs)	n/a	n/a	n/a	n/a	n/a	n/a				

Source: WOOD Research, company data

NEPI Rockcastle: DCF, cost of capital, portfolio, share data and valuation multiples

DCF: FCFF reconciliation (EUR m)	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
FFO I	316	323	313	308	322	323	324	324	325	326
+ taxes	17	26	35	34	36	36	36	36	36	36
+ interest costs	56	66	73	76	76	76	76	75	75	75
Adj. EBIT	375	402	407	405	421	421	422	422	422	423
tax rate	-5.00%	-7.50%	-10.00%	-10.00%	-10.00%	-10.00%	-10.00%	-10.00%	-10.00%	-10.00%
NOPLAT	356	372	366	365	379	379	380	380	380	381
CAPEX	-486	-173	-80	-26	-31	-38	-45	-45	-45	-45
WC change	-35	2	-1	-1	0	-1	-1	-1	-1	-1
Proceeds from disposals	0	0	0	0	0	0	0	0	0	0
FCFF	-165	201	286	338	349	340	334	334	334	335
DCF: Cost of Equity and WACC	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
[A] Debt/Capital Ratio	42%	44%	48%	50%	48%	49%	49%	49%	49%	49%
[C] Equity/Capital Ratio	58%	56%	52%	50%	52%	51%	51%	51%	51%	51%
Marginal Cost of Debt (%)	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
x Marginal Tax Rate (%)	5%	8%	10%	10%	10%	10%	10%	10%	10%	10%
[B] Cost of Debt (post tax)	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Beta	1.15	1.15	1.17	1.21	1.19	1.19	1.20	1.20	1.20	1.21
x Equity Risk Premium	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%
+ Risk Free Rate	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
[D] Cost of Equity	9.5%	9.5%	9.7%	9.9%	9.8%	9.8%	9.8%	9.8%	9.9%	9.9%
[A x B] + [C x D] = WACC:	6.5%	6.3%	6.0%	6.0%	6.0%	6.0%	6.1%	6.1%	6.1%	6.1%
Portfolio	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Year-end, m2 ('000)	336	502	674	1061	1747	2025	2025	2025	2025	2025
Rented space, m2	334	493	657	1041	1685	1879	1968	1968	1928	1887
Occupancy	99.24%	98.21%	97.47%	98.06%	96.43%	92.79%	97.22%	97.22%	95.22%	93.22%
Gross Rental Income (EUR m)	54	83	123	172	322	390	397	405	388	372
Value (EUR m)	647	1089	1525	2350	4737	5703	5795	5916	5618	5281
Weighted Average Lease Term (Y)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
- price / m2, EUR	1924	2167	2262	2214	2712	2817	2862	2922	2775	2608
- average gross rent per m2, EUR	13.4	14.0	15.6	13.7	15.9	17.3	16.8	17.1	16.8	16.4
- yield	8.3%	7.6%	8.1%	7.3%	6.8%	6.8%	6.8%	6.8%	6.9%	7.0%
- yield at full occupancy	8.4%	7.8%	8.3%	7.5%	7.0%	7.4%	7.0%	7.0%	7.3%	7.6%
Number of shares and share price	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Number of shares	204.5	278.1	298.6	321.5	577.8	577.8	577.8	577.8	577.8	577.8
Treasury shares / options	4.7	3.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Number of shares outstanding	199.8	274.5	298.6	321.5	577.8	577.8	577.8	577.8	577.8	577.8
Average number of shares	168.8	229.8	285.8	309.8	436.8	577.8	577.8	577.8	577.8	577.8
Average number of treasury shares	5.0	4.3	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Average number of shares outstanding	163.8	225.4	284.5	309.8	436.8	577.8	577.8	577.8	577.8	577.8
Average price/share (EUR)	5.3	6.7	9.9	10.5	11.6	8.3	7.5	n/a	n/a	n/a
Lowest price (EUR)	3.9	5.6	8.0	9.1	9.3	6.3	7.0	n/a	n/a	n/a
Highest price (EUR)	6.3	8.2	12.6	11.8	14.5	13.6	8.1	n/a	n/a	n/a
Closing price (EUR)	5.6	8.1	10.6	11.0	14.5	6.8	n/a	n/a	n/a	n/a
Market cap, average (EUR m)	868	1,514	2,825	3,244	5,053	4,799	4,359	n/a	n/a	n/a
Market cap, eop (EUR m)	1,115	2,231	3,162	3,540	8,360	3,919	n/a	n/a	n/a	n/a
Profitability and valuation multiples	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
FFO I (pre-tax) ROE	6.7%	6.4%	7.6%	7.4%	7.2%	8.1%	8.7%	9.0%	9.2%	9.8%
FFO I (after-tax) ROE	6.7%	6.4%	7.6%	7.3%	7.1%	7.9%	8.2%	8.3%	8.3%	8.8%
FFO II ROE	6.9%	6.4%	7.6%	7.2%	6.3%	7.9%	8.2%	8.3%	8.3%	8.8%
FFO I (pre-tax) RONAV	4.9%	6.1%	7.3%	7.0%	6.8%	7.7%	8.0%	8.2%	8.3%	8.8%
FFO I (after-tax) RONAV	4.9%	6.1%	7.3%	6.9%	6.8%	7.5%	7.6%	7.6%	7.5%	7.9%
FFO II RONAV	5.0%	6.2%	7.3%	6.9%	6.0%	7.5%	7.6%	7.6%	7.5%	7.9%
FFO I yield (pre-tax)	4.1%	4.0%	3.6%	3.8%	4.1%	6.6%	7.9%	8.3%	8.2%	8.1%
FFO I yield (post-tax)	4.1%	4.0%	3.6%	3.7%	4.0%	6.4%	7.5%	7.6%	7.4%	7.3%
FFO II yield	4.3%	4.1%	3.6%	3.7%	3.6%	6.4%	7.5%	7.6%	7.4%	7.3%
P/BV	1.5x	1.5x	2.0x	1.9x	1.7x	1.2x	1.1x	1.1x	1.2x	1.3x
P/EPRA NAV	1.4x	1.4x	1.9x	1.8x	1.6x	1.2x	1.0x	1.0x	1.0x	1.1x
Dividend yield	5.4%	5.3%	3.6%	4.3%	4.5%	6.5%	7.4%	7.0%	6.7%	6.9%
EV/EBITDA	31.7x	28.6x	32.0x	29.1x	31.5x	21.4x	17.8x	17.0x	17.0x	17.1x

Source: WOOD Research, company data

Graphisoft Park

Buy

Upgraded from Hold

Price: HUF 3,590
Price target: HUF 4,336
(From HUF 3,734)

Small is beautiful

Graphisoft Park is the owner and manager of a unique office park, situated in a tranquil location by the Danube riverside in northern Budapest. Its distinctive selling point is its low building density and focus on offering a quality work environment for its tenants, a mixture of international and local R&D, IT, and innovative SME and start-up companies. The park consists of 82k sqm lettable area, and is nearly fully occupied. The effective rents stand at around EUR 15/sqm. The rental income should reach EUR 14m in 2019E, while we see the FFO at around EUR 11m in 2019E, up some 13% yoy, driven by the full contribution of the development in the southern area of the Park, completed in 2018. The stock trades currently at c.10% FFO yield and over 40% discount to book value, on our 2019E figures. This is the lowest P/B and highest FFO yield among our coverage. While, with low liquidity and limited newsflow, we do not see a specific trigger for a rerating, we believe the shares are trading below their fair value. We have upgraded our recommendation to BUY (from Hold), and set our new 12M price target (PT) at HUF 4,336.

Portfolio valuation still stretched, but less than 18 months ago. We believe that one of the reasons the stock is so cheap – 0.6x P/B – may be the relatively aggressive valuation of the portfolio. On our estimates, the buildings are booked at a 6.0% yield. In our view, this leaves little room for additional upside, especially when considering that rents are already above the market average. Strong leasing demand, coupled with limited availability, has translated into growing rents on the Budapest office market, however. At the same time, yields continue to compress. As such, the gap between our perception of the value of the portfolio and the actual reported fair value has narrowed since our initiation, published in December 2017.

Development. The southern area of the park contains room for an additional 20k sqm GLA of potential office space. The northern area (which needs to be decontaminated first) provides room for additional 42k sqm GLA, according to management's estimates. Any additional development would represent upside for our forecasts, as we do not expect any further developments (in neither the northern nor southern areas) in our model.

We value the company using a combination of a DCF and a peer multiples valuation. Our DCF arrives at a 12M PT of HUF 3,727/share; while our peer valuation suggests HUF 4,945/share. We use a WACC of around 5.1-5.4% and a COE of around 7%.

Key risks include: high tenant concentration; flooding; slower-than-expected progress with the decontamination of the northern development area; an economic downturn; FX fluctuations between HUF and EUR; oversupply on the office market; and an increase in capitalisation rates and borrowing costs.

Key triggers include: growth of monthly rents above EUR 16/sqm; further developments of new premises; an increase in the dividend payout ratio; a takeover by a larger real estate company.

Expected events

2Q19 results	7 August
3Q19 results	6 November
4Q19 results	February 2020 (tbc)

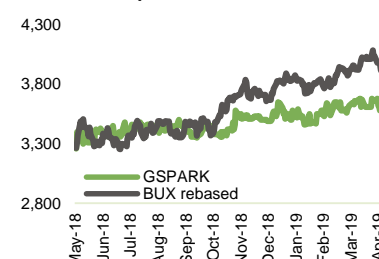
Key data

Market Cap	EUR 119m
Free float	38%
Shares outstanding	10.08m
3M ADTV	EUR 10k
Major Shareholders	
Mr. Gábor Bojár	32%
Concorde/HOLD AM	16%
AEGON	10%
Reuters Code	GSPAEUR.DEP
Bloomberg Code	GSPARK HB Equity
BUX Index	40,208

Price performance

52-w range	HUF 3,260-3,680/share
52-w performance	10%
Relative performance	-4%

Graphisoft Park 12M share price performance



Year	BV (EUR m)	BVPS (EUR)	Net LTV	Equity ratio	FFO (EUR m)	FFOPS (EUR)	FFO ROE	P/BV	FFO yield	DPS (EUR)	Div. Yield
2016	24	2.3	65%	30%	7.2	0.71	31.1%	3.4x	9.0%	0.25	3.2%
2017	26	2.6	69%	25%	8.5	0.84	34.3%	4.3x	7.5%	0.30	2.6%
2018	168	16.6	28%	67%	9.9	0.98	10.2%	0.7x	9.0%	0.64	5.9%
2019E	197	19.6	23%	70%	11.1	1.10	6.1%	0.6x	10.0%	0.72	6.5%
2020E	201	20.0	22%	70%	11.1	1.10	5.6%	0.6x	10.0%	0.72	6.5%
2021E	205	20.3	21%	71%	11.1	1.10	5.5%	0.5x	10.0%	0.71	6.5%

Analysts: Jakub Caithaml; Stefan Lungu, CFA
E-mail: jakub.caithaml@wood.cz, stefan.lungu@wood.com

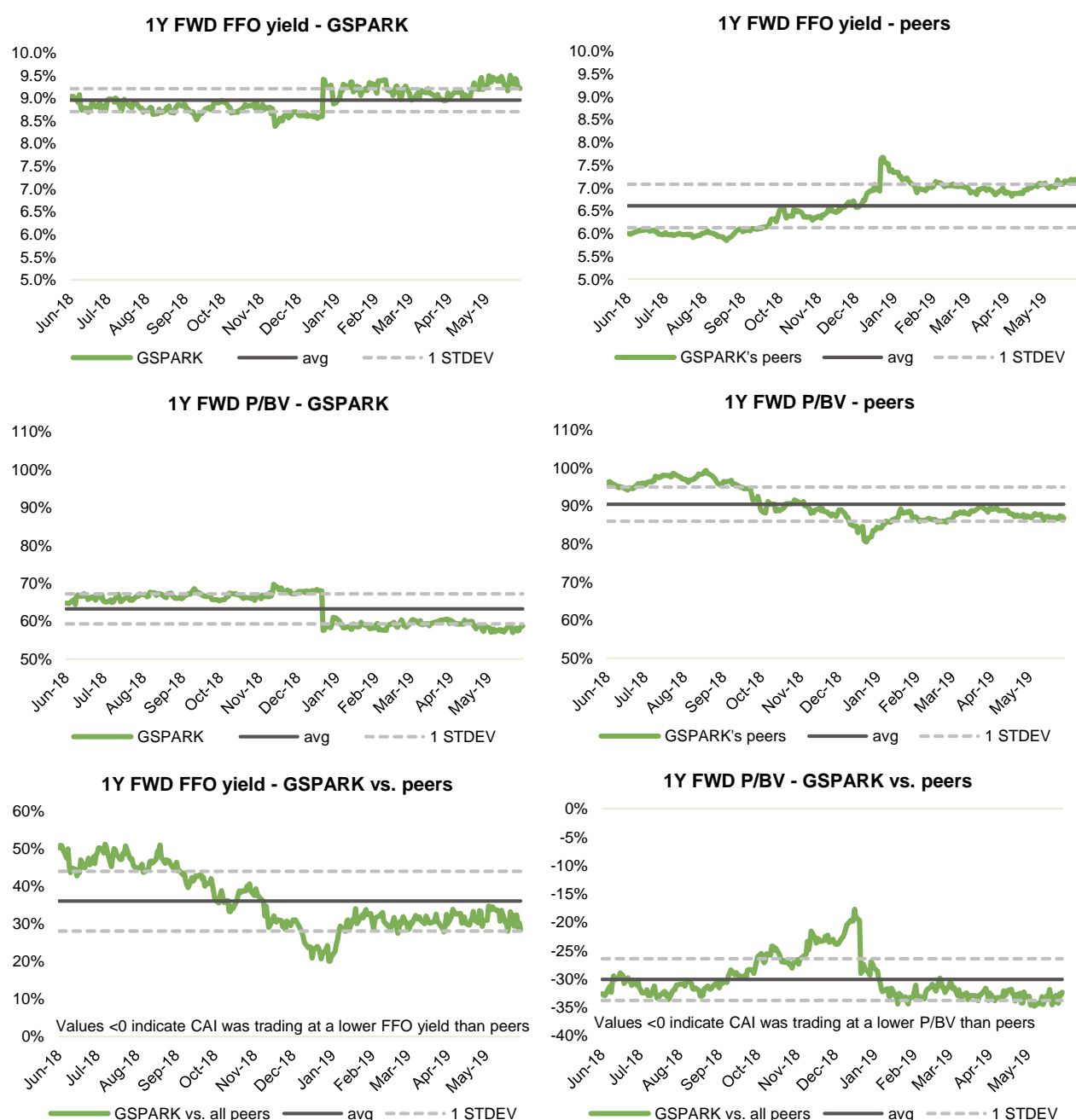
Prague: +420 222 096 481
Website: www.wood.com

Key risks and triggers

Trading deep below book value, Graphisoft Park is generating a very high FFO yield. With a compact, unique portfolio of high quality offices, we believe it could become an attractive takeover target for either a financial or an industry investor. A more generous dividend policy (paying out a higher share of FFO) could also attract investors' interest and help the stock trend higher. The development of new buildings on the existing land reserves – not priced in – could enhance the returns significantly beyond our forecasts.

Continued strong leasing demand on the Budapest office market and growth of effective rents mean that the premium the offices have been leased at historically relative to the broader market is shrinking. We believe the key structural risk for the business model is that, with more high quality premises in and around the city centre, it may become less appealing, especially for younger people without cars, to commute to the outskirts of town. While unlikely from the current perspective, a sudden wave of new office developments, especially if coupled with an economic slowdown, could weigh on the rents. Other risks include: a yield expansion; flooding; slower-than-expected progress with the decontamination of the northern development area; an economic downturn; and FX fluctuations between the HUF and the EUR.

Graphisoft Park vs. peers



Source: Company data, Bloomberg, WOOD Research

WOOD: new vs. old estimates

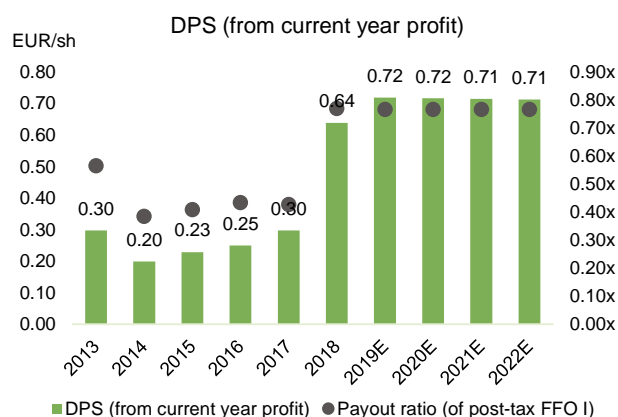
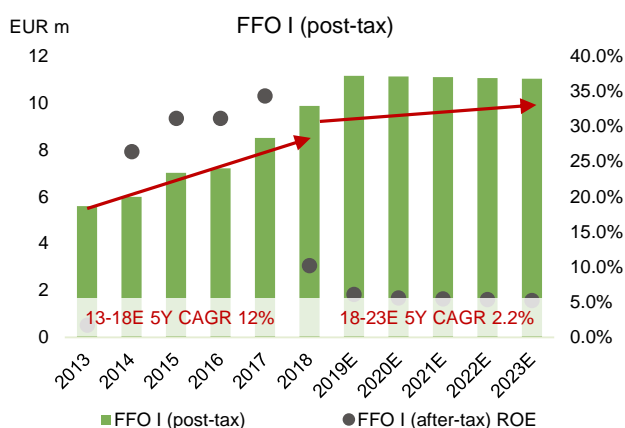
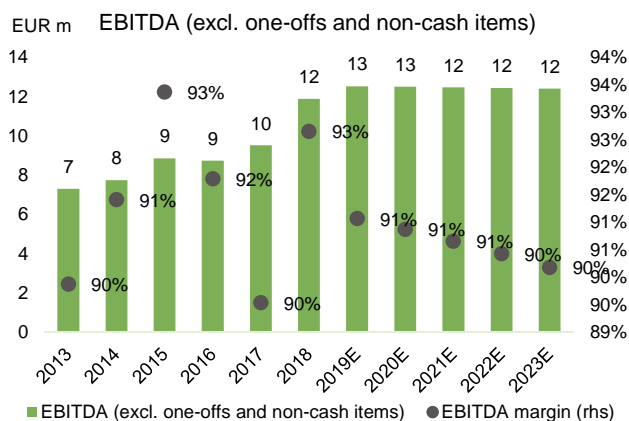
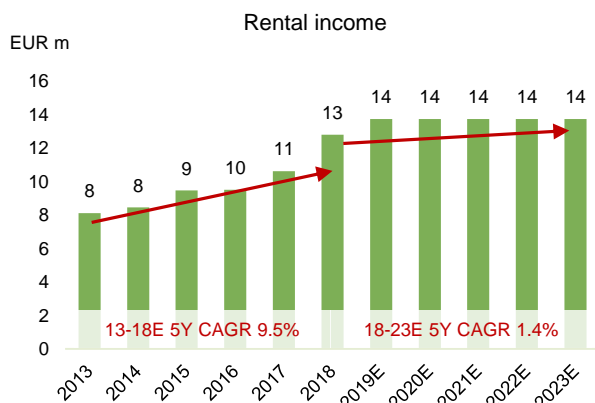
There is no available consensus for the stock.

WOOD: new vs. old

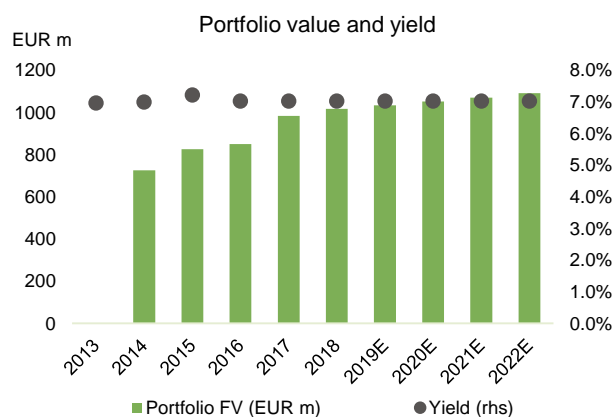
EUR m	2019E			2020E			2021E		
	new	old	Diff. (%)	new	old	Diff. (%)	new	old	Diff. (%)
Sales	14	13	5%	14	13	5%	14	13	5%
EBITDA	13	12	3%	13	158	-92%	12	12	3%
EBIT	19	6	237%	20	196	-90%	21	6	258%
Net profit	18	4	323%	19	142	-87%	20	4	347%
BPS (EUR)	19.6	14.0	39%	20.0	26.6	-25%	20.3	14.6	39%
FFOPS (EUR)	0.94	0.94	-1%	0.93	1.36	-31%	0.93	0.94	0%
DPS (EUR)	0.72	0.69	4%	0.72	0.82	-13%	0.71	0.68	4%
EBITDA margin	88.6%	90.5%	-1.9ppt	88.4%	1178.1%	-1089.7ppt	88.2%	90.1%	-1.9ppt
Net margin	126.9%	31.6%	95.3ppt	133.8%	1053.6%	-919.8ppt	140.6%	33.0%	107.6ppt

Source: WOOD Research

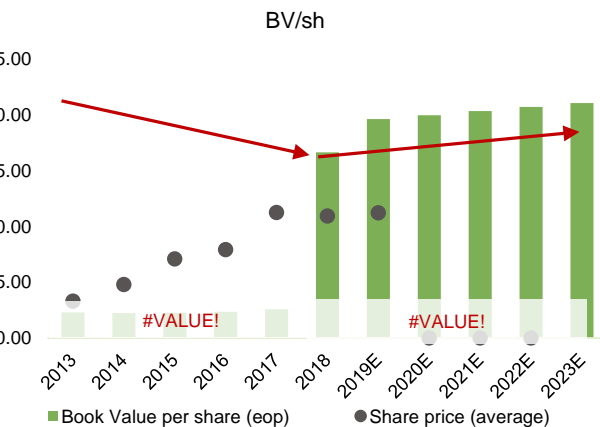
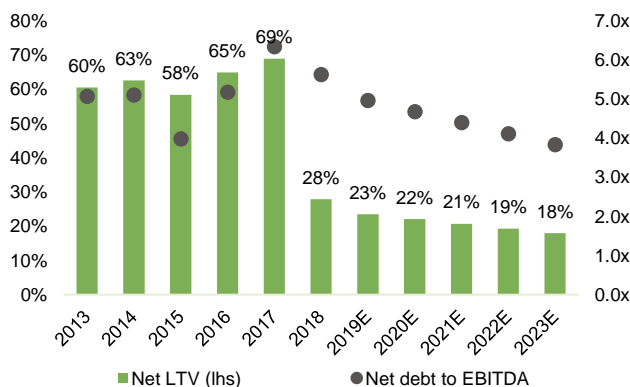
Graphisoft Park: earnings, dividends, portfolio, leverage and NAV



Rental income by country, 2019E



Leverage: net LTV and net debt to EBITDA



Source: Company data, Bloomberg, WOOD Research

Valuation

We value Graphisoft Park using a combination of a DCF and a peer valuation, where we compare the company to its CEE and European office peers. We use a WACC of around 5.0-5.5% throughout our forecast horizon.

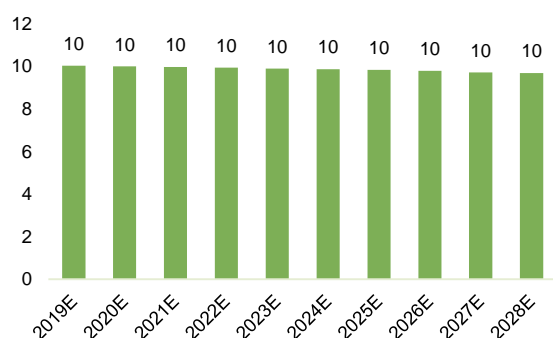
Setting 12M PT at HUF 4,336/share

Valuation method	Weight	Per share (HUF)
Peer multiples	50%	3,727
DCF	50%	4,945
Weighted average target value		4,336
Current price		3,590
Upside/(downside)		21%
Source: WOOD Research		

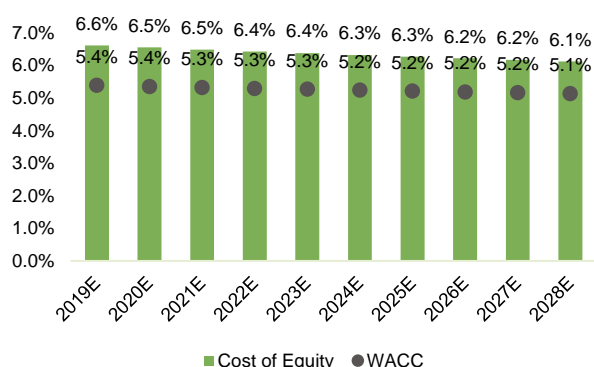
Graphisoft Park: valuation – COE, WACC, multiples

EUR m

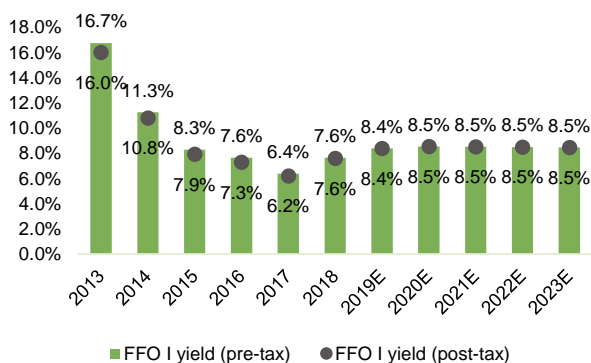
FCFF



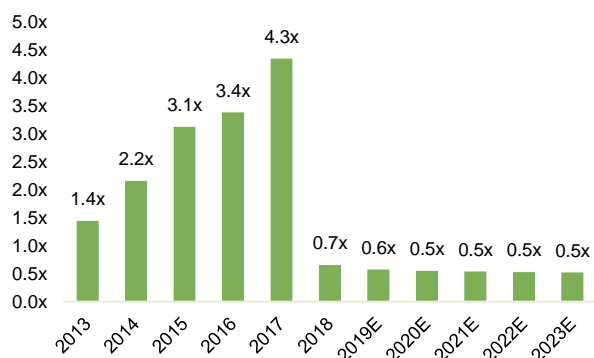
Cost of Equity and WACC



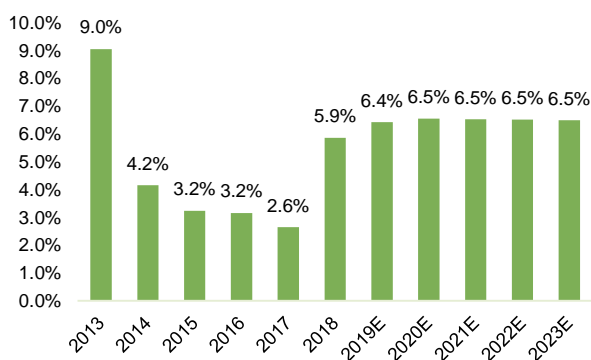
FFO I yield



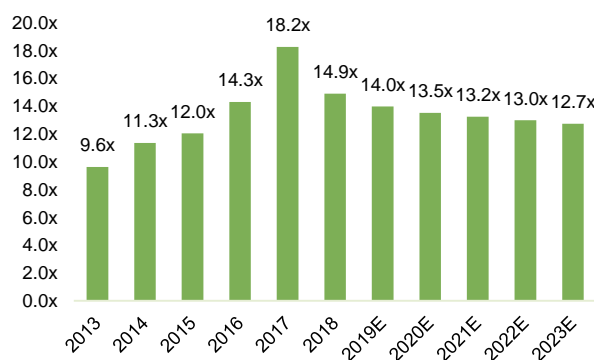
P/BV



Dividend yield



EV/EBITDA



Source: Company data; Bloomberg; WOOD Research

Financials

Graphisoft Park: P&L, FFO, DPS and rental income by country and sector

P&L (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Rental income	8	8	9	10	11	13	14	14	14	14
- net service charges and property expenses	0	0	0	0	0	0	0	0	0	0
Net rental income	8	9	10	10	11	13	14	14	14	14
- income from hotels	0	0	0	0	0	0	0	0	0	0
- net operating expenses	-1	-1	-1	-1	-1	-1	-2	-2	-2	-2
EBITDA (excl. one-offs and non-cash items)	7	8	9	9	10	12	13	13	12	12
- revaluation gain/(loss)	-4	-4	-4	-4	-5	5	0	0	0	0
- net result from sale of investment properties	0	0	0	0	0	0	0	0	0	0
- result from JVs	0	0	0	0	0	0	0	0	0	0
EBIT	4	4	5	5	5	17	12	12	12	12
- net interest expense	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1
- other financial income/expense	0	0	0	0	0	0	0	0	0	0
Pre-tax profit	2	2	4	4	4	15	11	11	11	11
- current income tax	0	0	0	0	0	0	0	0	0	0
- deferred tax charge	0	0	0	0	1	0	0	0	0	0
Net profit	2	2	3	3	4	15	11	11	11	11
- minorities	0	0	0	0	0	0	0	0	0	0
- discontinued operations	0	0	0	0	0	0	0	0	0	0
Net income	2	2	3	3	4	15	11	11	11	11
FFO & DPS (EUR m, unless per sh)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
FFO I (pre-tax)	6	6	7	8	9	10	11	11	11	11
FFO I (post-tax)	6	6	7	7	8	10	11	11	11	11
FFO II	6	6	7	7	8	10	11	11	11	11
FFO I per share (pre-tax)	0.58	0.62	0.73	0.75	0.86	0.98	1.10	1.10	1.10	1.10
FFO I per share (post-tax)	0.55	0.59	0.69	0.71	0.84	0.98	1.10	1.10	1.10	1.10
FFO II per share	0.55	0.59	0.69	0.71	0.84	0.98	1.10	1.10	1.10	1.10
DPS (from current year profit)	0.30	0.20	0.23	0.25	0.30	0.64	0.72	0.72	0.71	0.71
Payout ratio (of post-tax FFO I)	0.54x	0.34x	0.33x	0.35x	0.35x	0.65x	0.65x	0.65x	0.65x	0.65x
Margins and growth	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Net rental income margin	100%	101%	102%	103%	103%	103%	103%	103%	103%	103%
EBITDA margin	90%	91%	93%	92%	90%	93%	91%	91%	91%	90%
FFO I (pre-tax) margin	72%	74%	77%	79%	82%	77%	81%	81%	81%	80%
FFO I (post-tax) margin	69%	71%	74%	76%	80%	77%	81%	81%	81%	80%
Net rental income growth	-1.9%	4.3%	11.9%	0.4%	11.5%	20.7%	7.3%	0.0%	0.0%	0.0%
EBITDA growth	-2.0%	6.1%	14.3%	-1.3%	8.8%	24.9%	5.5%	-0.2%	-0.2%	-0.3%
Net income growth	-1.7%	10.0%	52.0%	5.0%	37.3%	245.1%	-27.5%	-0.2%	-0.3%	-0.3%
FFO I per sh (pre-tax) growth	7.8%	6.9%	18.0%	2.9%	15.4%	13.7%	12.4%	-0.2%	-0.3%	-0.3%
FFO I per sh (post-tax) growth	7.3%	7.3%	17.4%	2.7%	18.1%	16.0%	12.9%	-0.2%	-0.3%	-0.3%
FFO II per sh growth	7.3%	7.3%	17.4%	2.7%	18.1%	16.0%	12.9%	-0.2%	-0.3%	-0.3%
Rental income per country	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Hungary	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Rental income per sector	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Offices	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Retail										
Logistics										
Hotels										
Residential										
Others										

Source: WOOD Research, company data

Graphisoft Park: capital structure, cash flow and EPRA indicators

Capital structure (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Total debt	47	44	40	48	64	73	73	73	73	73
Cash	10	5	5	3	4	6	11	14	18	22
Net debt	37	39	35	45	60	67	62	58	55	51
Equity	23	22	23	24	26	168	197	201	205	208
Assets	72	69	66	80	104	252	282	286	289	293
Investment property	61	63	60	70	87	240	265	265	265	265
EBITDA	7	8	9	9	10	12	13	13	12	12
Equity ratio	32%	32%	35%	30%	25%	67%	70%	70%	71%	71%
Gross LTV	77%	70%	66%	69%	74%	30%	27%	27%	27%	27%
Net LTV	60%	63%	58%	65%	69%	28%	23%	22%	21%	19%
Net debt to EBITDA	5.1x	5.1x	4.0x	5.2x	6.3x	5.6x	5.0x	4.7x	4.4x	4.1x
Gearing (net debt to equity)	160%	177%	154%	192%	231%	40%	31%	29%	27%	25%
Cost of debt (incl. hedging)	n/a	n/a	n/a	n/a	n/a	n/a				
Average debt maturity (years)	n/a	n/a	n/a	n/a	n/a	n/a				
% of debt fixed or hedged	n/a	n/a	n/a	n/a	n/a	n/a				
% of unsecured debt	n/a	n/a	n/a	n/a	n/a	n/a				
% of uncencumbered assets	n/a	n/a	n/a	n/a	n/a	n/a				
Rating by S&P	n/a	n/a	n/a	n/a	n/a	n/a				
Rating by Fitch	n/a	n/a	n/a	n/a	n/a	n/a				
Rating by Moody's	n/a	n/a	n/a	n/a	n/a	n/a				
Net debt, rel. change, yoy	-147%	7%	-11%	28%	33%	11%	-7%	-6%	-6%	-7%
Equity, rel. change, yoy	-96%	-3%	2%	3%	11%	543%	18%	2%	2%	2%
Assets, rel. change, yoy	-90%	-5%	-4%	21%	30%	143%	12%	1%	1%	1%
Cash Flow (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Profit before tax	4	3	3	4	4	15	11	11	11	11
CF from Operations (before WC)	9	8	9	9	9	11	13	13	12	12
WC changes	1	1	0	-6	-2	6	0	0	0	0
CF from Operations	10	8	9	3	8	17	13	13	12	12
Adjustment for net interest and taxes	-1	-2	-2	-1	-1	-1	-1	-1	-1	-1
Net CF from Operations	9	7	7	2	6	16	11	11	11	11
CAPEX	-2	-6	-1	-11	-22	-22	-3	-3	-3	-3
Proceeds from disposals	2	0	0	0	0	0	0	0	0	0
Others										
Net CF from Investing	0	-6	-1	-11	-22	-22	-3	-3	-3	-3
Proceeds from issuance of share capital										
Acquisition of own shares	0	0	0	0	0	0	0	0	0	0
Net issue of debt	-3	-3	-4	10	19	11	0	0	0	0
Dividends paid	-1	-3	-2	-2	-3	-3	-4	-5	-5	-5
Others										
Net CF from Financing	-4	-6	-6	7	17	8	-4	-5	-5	-5
Change in cash & equivalents	4	-6	0	-2	2	2	5	4	4	4
EPRA Indicators (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Book Value	23	22	23	24	26	168	197	201	205	208
EPRA NAV	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EPRA NNNAV	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
BV per share (EUR)	2.28	2.21	2.26	2.33	2.58	16.62	19.59	19.95	20.31	20.67
EPRA NAV per share (EUR)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EPRA NNNAV per share (EUR)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EPRA Net Initial Yield (NIY)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EPRA "topped-up" NIY	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EPRA Ifl Gross Rental Income	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EPRA Ifl Net Rental Income	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EPRA Earnings (EUR m)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Company adj. EPRA Earnings	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EPRA Earnings per share	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Company adj. EPRA Earnings (per share)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EPRA Vacancy rate	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EPRA Cost Ratio (incl. vacancy costs)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EPRA Cost Ratio (excl. vacancy costs)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: WOOD Research, company data

Graphisoft Park: DCF, cost of capital, portfolio, share data and valuation multiples

DCF: FCFF reconciliation (EUR m)	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
FFO I	11	11	11	11	11	11	11	11	11	11
+ taxes	0	0	0	0	0	0	0	0	0	0
+ interest costs	1	1	1	1	1	1	1	1	1	1
Adj. EBIT	13	12	12	12	12	12	12	12	12	12
tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
NOPLAT	13	12	12	12	12	12	12	12	12	12
CAPEX	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3
WC change	0	0	0	0	0	0	0	0	0	0
Proceeds from disposals	0	0	0	0	0	0	0	0	0	0
FCFF	10	10	10	10	10	10	10	10	10	10
DCF: Cost of Equity and WACC	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
[A] Debt/Capital Ratio	27%	26%	26%	26%	25%	25%	25%	24%	24%	24%
[C] Equity/Capital Ratio	73%	74%	74%	74%	75%	75%	75%	76%	76%	76%
Marginal Cost of Debt (%)	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
x Marginal Tax Rate (%)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
[B] Cost of Debt (post tax)	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Beta	0.79	0.78	0.76	0.75	0.74	0.73	0.71	0.70	0.69	0.68
x Equity Risk Premium	4%	3%	3%	3%	3%	3%	3%	3%	3%	3%
+ Risk Free Rate	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
[D] Cost of Equity	6.6%	6.5%	6.5%	6.4%	6.4%	6.3%	6.3%	6.2%	6.2%	6.1%
[A x B] + [C x D] = WACC:	5.4%	5.4%	5.3%	5.3%	5.3%	5.2%	5.2%	5.2%	5.2%	5.1%
Portfolio	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Year-end, m2 ('000)	0	619	745	771	852	867	867	867	867	867
Rented space, m2	0	595	713	739	818	832	832	832	832	832
Occupancy	0.0%	96.1%	95.8%	95.8%	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%
Gross Rental Income (EUR m)	0	51	58	61	65	71	73	74	75	77
Value (EUR m)	0	726	826	850	983	1018	1034	1052	1071	1091
Weighted Average Lease Term (Y)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
- price / m2, EUR	0	1173	1109	1102	1154	1174	1192	1213	1234	1258
- average gross rent per m2, EUR	n/a	n/a	n/a	n/a	7.1	6.7	6.9	6.6	7.1	7.3
- yield	0.0%	7.0%	7.0%	7.2%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
- yield at full occupancy	n/a	n/a	n/a	n/a	7.4%	6.9%	7.0%	6.5%	6.9%	6.9%
Number of shares and share price	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Number of shares	10.6	10.6	10.6	10.6	10.6	10.6	10.6	10.6	10.6	10.6
Treasury shares / options	1.2	1.2	2.2	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Number of shares outstanding	10.1	10.1	10.1	10.1	10.1	10.1	10.1	10.1	10.1	10.1
Average number of shares	10.6	10.6	10.6	10.6	10.6	10.6	10.6	10.6	10.6	10.6
Average number of treasury shares	1.1	1.2	1.7	3.1	4.0	4.0	4.0	4.0	4.0	4.0
Average number of shares outstanding	10.1	10.1	10.1	10.1	10.1	10.1	10.1	10.1	10.1	10.1
Average price/share (EUR)	3.3	4.8	7.1	7.9	11.2	10.9	11.2	n/a	n/a	n/a
Lowest price (EUR)	2.8	3.7	5.7	7.2	9.5	10.2	10.8	n/a	n/a	n/a
Highest price (EUR)	3.9	5.8	7.7	9.6	12.8	11.6	11.5	n/a	n/a	n/a
Closing price (EUR)	3.8	5.6	7.3	9.5	11.7	10.9	n/a	n/a	n/a	n/a
Market cap, average (EUR m)	33	48	71	80	113	110	113	n/a	n/a	n/a
Market cap, eop (EUR m)	39	57	73	96	118	110	n/a	n/a	n/a	n/a
Profitability and valuation multiples	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
FFO I (pre-tax) ROE	1.8%	27.5%	32.5%	32.6%	35.1%	10.2%	6.1%	5.6%	5.5%	5.3%
FFO I (after-tax) ROE	1.7%	26.4%	31.1%	31.1%	34.3%	10.2%	6.1%	5.6%	5.5%	5.3%
FFO II ROE	1.7%	26.4%	31.1%	31.1%	34.3%	10.2%	6.1%	5.6%	5.5%	5.3%
FFO I (pre-tax) RONA	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
FFO I (after-tax) RONA	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
FFO II RONA	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
FFO I yield (pre-tax)	17.6%	12.9%	10.3%	9.5%	7.7%	9.0%	10.0%	10.0%	10.0%	9.9%
FFO I yield (post-tax)	16.8%	12.4%	9.8%	9.0%	7.5%	9.0%	10.0%	10.0%	10.0%	9.9%
FFO II yield	16.8%	12.4%	9.8%	9.0%	7.5%	9.0%	10.0%	10.0%	10.0%	9.9%
P/BV	1.4x	2.2x	3.1x	3.4x	4.3x	0.7x	0.6x	0.6x	0.5x	0.5x
P/EPRA NAV	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dividend yield	9.0%	4.2%	3.2%	3.2%	2.6%	5.9%	6.5%	6.5%	6.5%	6.5%
EV/EBITDA	9.6x	11.3x	12.0x	14.3x	18.2x	14.9x	13.8x	13.6x	13.3x	13.1x

Source: WOOD Research, company data

Dom Development

Hold

Maintained

Price: PLN 82/share
Price target: PLN 91/share
(From PLN 88)

Riding the peak

We believe that Dom Development should see another two years of strong results, as we expect the Polish economy to continue growing, by around 4.0-4.5% in 2019E and 2020E. While the prices have risen, at around EUR 2.3k per sqm, the apartments in newly-developed residential projects in Warsaw are still, by and large, cheaper than those in Prague or Budapest, where the average prices for new developments stand at around EUR 4.0k and EUR 2.8-3.0k per sqm, respectively. As such, we believe there is further room for the prices in Poland to grow. With almost no debt and an experienced management team, who navigated the company successfully through 2008-09, we believe that Dom may fare better than its peers during potential downturns, using the opportunity to consolidate its position on the market and acquire attractive land plots. That said, trading at around 2.0x P/BV on our 2019E, we believe that further upside from current levels may be limited, even though we believe the company should be able to maintain its generous dividend yield of c.10% for the next two years. As such, we maintain our HOLD rating, adjusting our price target (PT) to PLN 91/share (from PLN 88/share), implying 11% upside.

We pencil in a mid-cycle run-rate of 2,750 units sold annually. In the decade before the acquisition of Eurostyl, Dom was selling c.1,700 p.a. Eurostyl has a c.10% market share in the Tricity, according to Dom. With around 5-6k units sold in the Tricity annually, we pencil in that Eurostyl could increase Dom's run-rate by around 500 units; the remaining balance is due to come from Wroclaw and the expected consolidation of the market during a downturn.

Legislation on escrow accounts may cause short-term imbalance. If enacted, the new Developers' Act could mean that developers will no longer be able to use the money deposited in the escrow accounts to finance construction, having to rely on bank financing instead. While we believe the impact would be relatively minor on the business cases of the bigger players, we believe the smaller developers may find it difficult to cope; if enacted, the change could then speed up the consolidation of the market in the mid- to long-term. In the shorter run, the developers could respond by dumping available units on the market, resulting in a short-term wave of supply and a lack of price growth, followed by a sudden shortage of available projects.

We see the dividend yield at around 10%, and then falling sharply. With a 100% payout ratio, we believe P/Es (and, consequently, dividend yields) are crucial valuation metrics for investors. While we see the 2019E and 2020E yields at around 10%, we expect the cycle to turn, and unit sales to slow down gradually. During the downturn – visible in the P&L only from 2022E – we pencil in the DPS at around PLN 3 annually.

We set our PT of PLN 91/share using a combination of a DCF, a DDM and a peer multiples valuation. Generating around a 20% ROE, we see Dom trading at around 2x P/BVs and average 10.4x P/Es on our 2019-20E figures.

Key risks: an economic slowdown or a recession; a steep increase in mortgage rates; rising costs of construction, land and labour; slow progress in the granting of building permits and zoning; or the departure of senior management.

Expected events

Ex-div	26 June (tbc)
2Q19 results	23 August
3Q19 results	5 November

Key data

Market Cap	EUR 491m
Free float	27%
Shares outstanding	25m
3M ADTV	EUR 89k

Major Shareholders

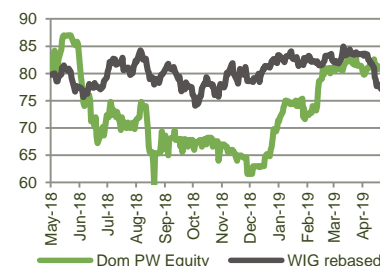
Dom Development B.V.	57%
J. Szanajca	6%
G. Kielpsz	5%
Aviva PTE	5%

Reuters Code	DOMP.WA
Bloomberg Code	DOM PW
WIG Index	58.4k

Price performance

52-w range	PLN 60-87/share
52-w performance	-4%
Relative performance	-2%

Dom 12M share price performance



Year	Revenue (PLN m)	EBITDA (PLN m)	Net profit (PLN m)	EPS (PLN)	DPS (PLN)	Net debt/ assets	P/E	P/BV	Div. Yield	ROE
2016	1,153	162	126	5.1	5.1	-0.1x	11.8x	1.6x	8%	14%
2017	1,405	243	191	7.7	7.6	0.1x	11.2x	2.1x	9%	20%
2018	1,654	292	228	9.2	9.2	0.1x	8.9x	1.9x	11%	22%
2019E	1,684	274	216	8.7	8.7	0.2x	9.4x	2.0x	11%	21%
2020E	1,625	229	179	7.2	7.2	0.0x	11.4x	2.0x	9%	18%
2021E	1,448	175	136	5.5	5.5	-0.1x	15.0x	2.1x	7%	14%

Analysts: Jakub Caithaml, Gabriela Burdach
E-mail: jakub.caithaml@wood.cz, gabriela.burdach@wood.com

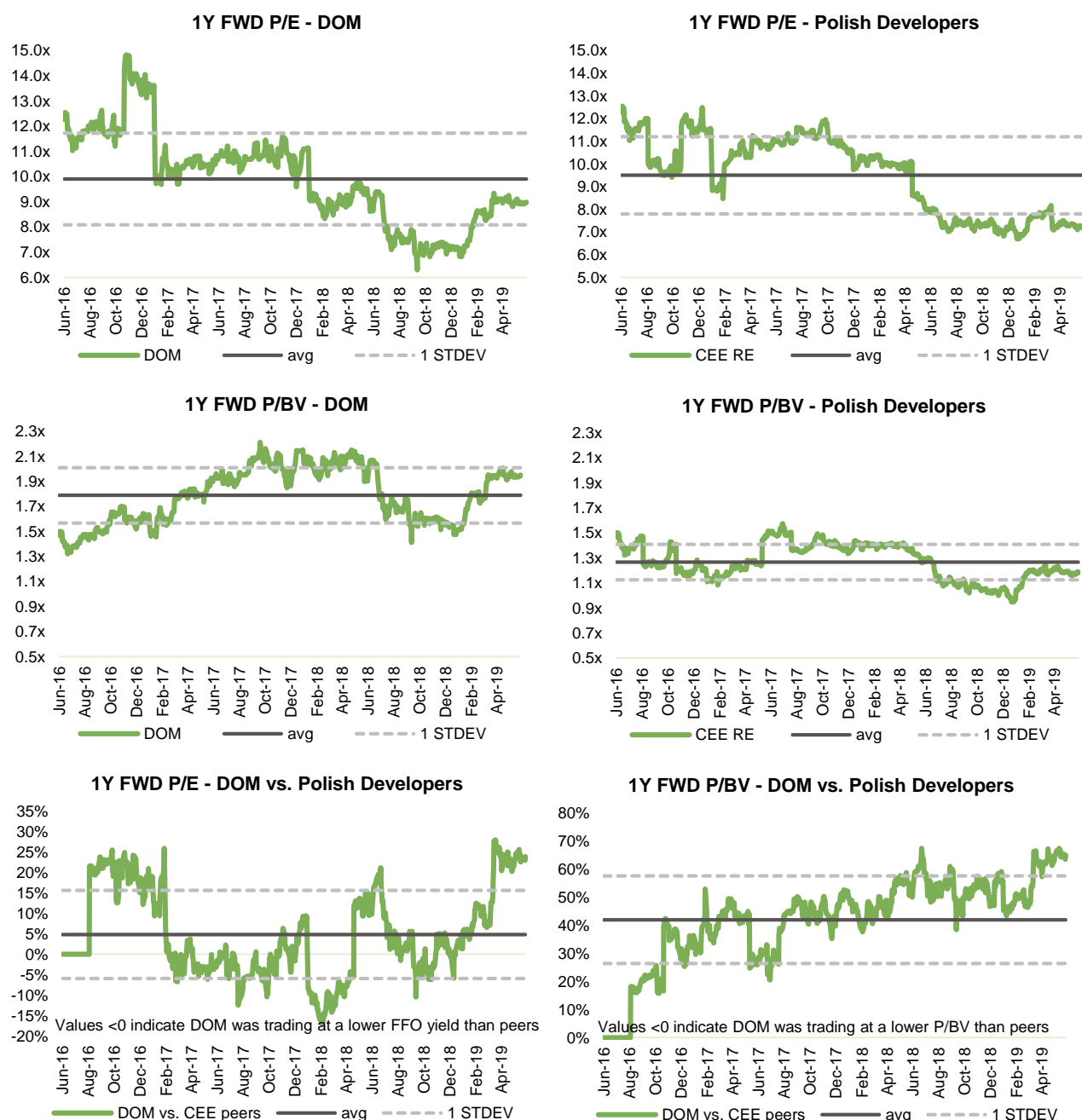
Prague: +420 222 096 481
Website: www.wood.com

Key risks and triggers

The ongoing strong macro, underpinned by low interest rates, continues to drive steady demand for housing. This should support the unit sales and pricing in the near term, in our view. We believe that Dom should benefit from this environment as, thanks to its size and reputation, it can source land in bulk more easily, at more reasonable per sqm prices. We expect that Dom is likely to maintain its dividend at around PLN 7-8/share for the next two years. If the margins on the units delivered exceed our expectations and the net income reaches some PLN 230-250m (instead of PLN 210-220m), we believe the share price could easily reach PLN 100/share. With a strong balance sheet and nearly no debt, Dom could consolidate the market. Come a downturn, there may be opportunities to expand into new cities via buying a smaller developer.

The key risks include: further growth in construction costs; limited availability of landbank; delays in construction; and difficulties in obtaining permits. Monetary tightening could affect mortgage availability and Dom's funding costs negatively but, with nearly no net debt, the impact of the latter should be limited, in our view. A macroeconomic slowdown would weigh on the demand for apartments. While, following the acquisition of Eurostyl and the ongoing expansion in Wrocław, Dom's regional focus is now more diverse, Warsaw still represents a key part of its business. While the market looks balanced currently and prices are trending up, a potential oversupply of apartments in Warsaw could weigh on Dom's margins.

Dom vs. peers



Source: Company data, Bloomberg, WOOD Research

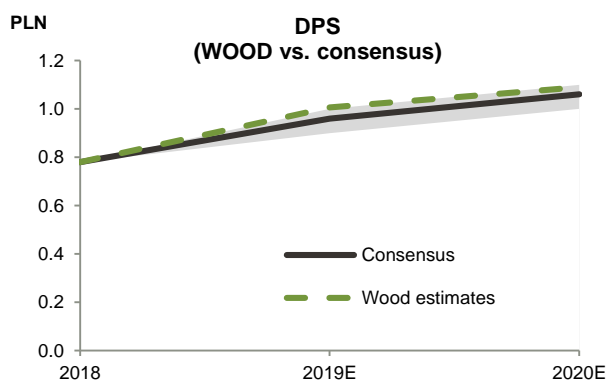
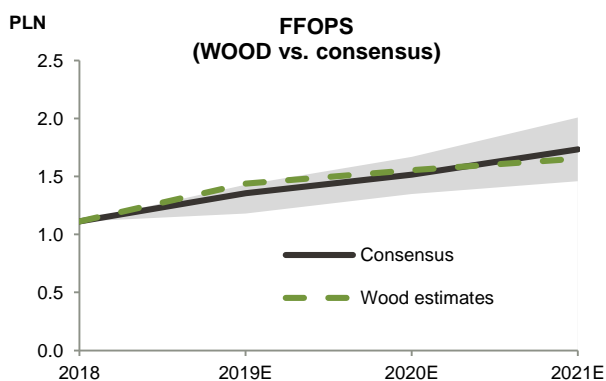
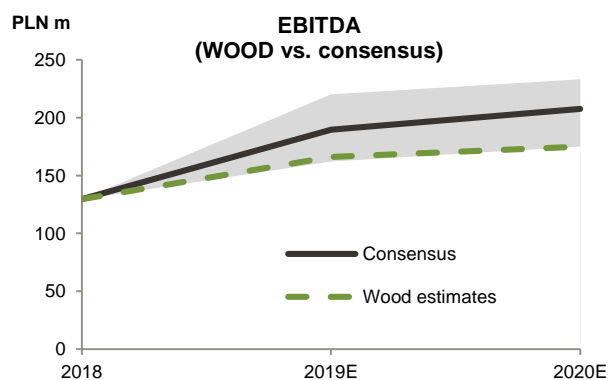
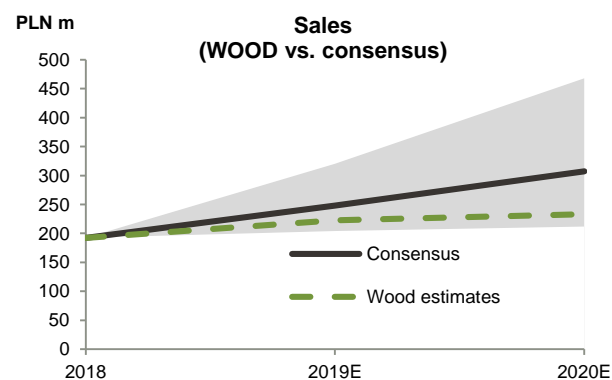
WOOD vs. the consensus, and new vs. old estimates

WOOD vs. consensus

PLN m	2019E			2020E			2021E		
	WOOD	Cons.	Diff. (%)	WOOD	Cons.	Diff. (%)	WOOD	Cons.	Diff. (%)
Sales	1,684	1,670	1%	1,625	1,867	-13%	1,448	1,733	-16%
EBITDA	274	290	-5%	229	307	-25%	175	263	-33%
EBIT	269	277	-3%	224	308	-27%	170	255	-33%
Net profit	216	223	-3%	179	246	-27%	136	201	-32%
BPS (PLN)	41.6	41.8	0%	40.1	42.5	-6%	38.4	41.2	-7%
EPS (PLN)	8.70	9.06	-4%	7.21	9.54	-24%	5.47	7.97	-31%
DPS (PLN)	8.70	9.05	-4%	7.21	9.06	-20%	5.47	8.92	-39%
EBITDA margin	16.3%	17.3%	-1.1ppt	14.1%	16.4%	-2.3ppt	12.1%	15.1%	-3.1ppt
Net margin	12.8%	13.3%	-0.5ppt	11.0%	13.2%	-2.1ppt	9.4%	11.6%	-2.2ppt

Source: WOOD Research, Bloomberg

WOOD vs. consensus



Source: Company data, Bloomberg, WOOD Research

WOOD: new vs. old

PLN m	2019E			2020E			2021E		
	new	old	Diff. (%)	new	old	Diff. (%)	new	old	Diff. (%)
Sales	1,684	1,611	5%	1,625	2,213	-27%	1,448	1,374	5%
EBITDA	274	265	4%	229	158	45%	175	168	4%
EBIT	269	260	4%	224	196	15%	170	163	4%
Net profit	216	209	4%	179	142	27%	136	132	3%
BPS (PLN)	41.6	41.0	1%	40.1	26.6	51%	38.4	37.9	1%
EPS (PLN)	8.70	8.40	4%	7.21	1.36	430%	5.47	5.31	3%
DPS (PLN)	8.70	8.40	4%	7.21	0.82	775%	5.47	5.31	3%
EBITDA margin	16.3%	16.4%	-0.2ppt	14.1%	7.2%	7.0ppt	12.1%	12.3%	-0.2ppt
Net margin	12.8%	13.0%	-0.1ppt	11.0%	6.4%	4.6ppt	9.4%	9.6%	-0.2ppt

Source: WOOD Research

Valuation

We value Dom using a combination of a DCF, a DDM and peers multiples, where we compare Dom with the other listed Polish developers.

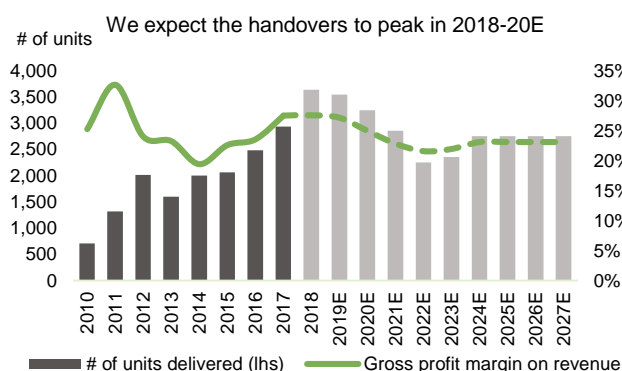
Setting our 12M PT for Dom at PLN 91/share

DDM	87
DCF	104
Peers' multiples	84
Blended 12M PT	91
Share price	82
Upside	11%

Source: WOOD Research

Dom Development: key drivers of our forecasts

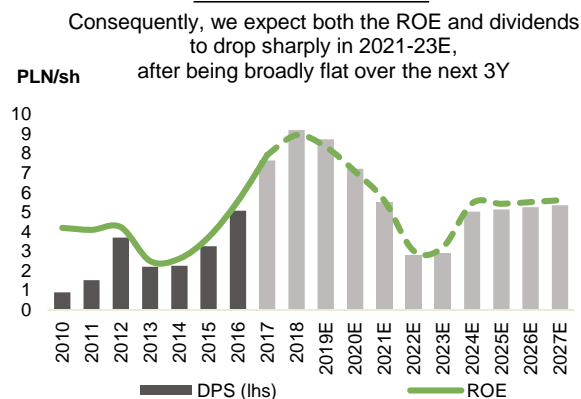
Unit deliveries: handovers



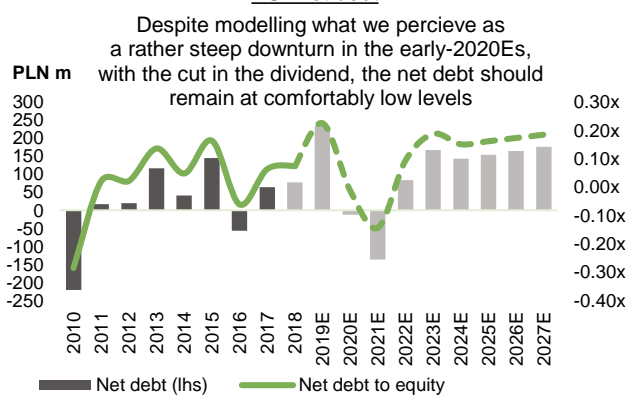
P&L: revenue and overheads



Returns: ROE and DPS



BS: Net debt



Source: Company data, WOOD Research

Financials

Dom vs. peers

# of units sold	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
DOM	820	1,468	1,801	1,478	1,699	1,944	2,383	2,735	3,975	3,602
Robyg	290	542	1,019	1,113	1,731	2,118	2,333	2,957	3,471	2,520
LCC	0	198	257	610	768	1,220	2,072	2,092	2,029	1,710
JWC	0	1,262	1,029	853	941	1,097	1,569	1,575	1,819	1,248
Polnord	0	0	1,083	906	1,094	1,252	1,054	1,024	1,389	837
Ronson	263	270	358	380	527	711	906	821	815	733
Average price of unit delivered	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
DOM	0.00	0.73	0.44	0.42	0.42	0.39	0.44	0.46	0.48	0.46
Robyg	0.59	0.58	0.52	0.41	0.41	0.24	0.23	0.18	0.35	0.38
LCC	n/a	0.76	0.70	0.39	0.34	0.43	0.41	0.39	0.39	0.39
JWC	n/a	0.31	0.39	0.50	0.37	0.53	0.50	0.39	0.39	0.37
Polnord	n/a	n/a	n/a	0.31	0.22	0.19	0.25	0.29	0.32	0.32
Ronson	0.64	0.63	0.82	0.50	0.44	0.33	0.40	0.62	0.28	0.38
Gross profit margin	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
DOM	26%	25%	33%	24%	23%	19%	23%	24%	27%	28%
Robyg	17%	22%	19%	24%	19%	18%	16%	22%	26%	26%
LCC	51%	44%	38%	34%	33%	37%	38%	38%	37%	38%
JWC	26%	29%	27%	23%	21%	20%	20%	29%	26%	18%
Polnord	n/a	n/a	18%	10%	12%	22%	-11%	25%	15%	17%
Ronson	35%	26%	23%	25%	21%	8%	18%	24%	16%	16%
EBITDA margin	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
DOM	0%	12%	18%	14%	11%	9%	12%	14%	17%	18%
Robyg	9%	17%	7%	14%	12%	15%	13%	24%	24%	22%
LCC	-40%	43%	69%	31%	42%	40%	34%	37%	13%	32%
JWC	22%	25%	20%	20%	19%	20%	17%	11%	15%	8%
Polnord	n/a	n/a	27%	55%	-11%	13%	-49%	-14%	8%	-10%
Ronson	24%	14%	1%	14%	9%	-10%	10%	18%	9%	8%
ROE	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
DOM	0%	10%	10%	11%	6%	7%	9%	14%	20%	22%
Robyg	2%	10%	5%	5%	6%	10%	17%	20%	18%	20%
LCC	-5%	5%	6%	7%	7%	6%	8%	8%	6%	11%
JWC	31%	22%	7%	2%	3%	1%	1%	4%	4%	2%
Polnord	n/a	n/a	6%	2%	-4%	2%	-16%	-2%	0%	-13%
Ronson	6%	9%	2%	7%	4%	-3%	4%	16%	3%	4%
Net debt to assets	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
DOM	n/a	-14%	1%	1%	7%	3%	8%	-3%	3%	3%
Robyg	52%	20%	17%	22%	16%	18%	17%	27%	16%	17%
LCC	10%	6%	11%	17%	27%	25%	25%	24%	23%	21%
JWC	21%	11%	18%	23%	20%	16%	-1%	4%	-1%	-2%
Polnord	n/a	n/a	26%	25%	23%	20%	27%	23%	20%	15%
Ronson	26%	13%	15%	20%	15%	19%	17%	21%	20%	15%
Net debt to EBITDA	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
DOM	0.0x	-3.6x	0.2x	0.2x	1.5x	0.6x	1.4x	-0.4x	0.3x	0.3x
Robyg	62.1x	4.4x	18.0x	4.6x	3.0x	3.3x	4.0x	3.8x	1.8x	1.7x
LCC	n/m	1.2x	1.6x	5.1x	7.4x	4.7x	4.6x	3.8x	8.4x	3.0x
JWC	2.0x	1.0x	3.2x	4.9x	4.6x	5.4x	-0.5x	1.2x	-0.4x	-1.3x
Polnord	n/m	n/m	7.4x	2.9x	n/m	14.4x	n/m	n/m	13.0x	-6.3x
Ronson	6.8x	2.6x	80.7x	5.7x	6.0x	n/m	5.4x	1.8x	6.6x	5.0x

Source: Company data, WOOD Research

Dom Development: KPIs

PLN m	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Number of units added to landbank (purchase of land)	1,100	2,072	2,435	2,833	5,682	2,645	1,800	3,000	2,250	2,750
Land as a % of construction costs	20%	20%	20%	20%	20%	23%	25%	25%	25%	23%
Average total capex per apartment delivered (PLN m)	0.33	0.32	0.34	0.36	0.35	0.36	0.38	0.38	0.39	0.40
Average growth in total capex per apartment delivered	1.2%	-2.8%	7.2%	4.6%	-2.1%	5.0%	5.0%	5.0%	5.0%	2.0%
# of units sold	1,699	1,944	2,383	2,735	3,975	3,602	3,300	3,000	2,250	2,250
growth	15%	14%	23%	15%	45%	-9%	-8%	-9%	-25%	0%
Average margin on cost on sold units (estimated)	25%	28%	30%	36%	38%	38%	34%	30%	28%	28%
Average margin on cost on delivered units (estimated)	30%	24%	29%	31%	38%	38%	37%	33%	30%	28%
Average price per apartment delivered (estimated, PLN per unit)	0.42	0.39	0.44	0.46	0.48	0.46	0.48	0.50	0.51	0.51
Average price per apartment sold (estimated, PLN per unit)	0.40	0.43	0.46	0.48	0.46	0.47	0.50	0.51	0.51	0.52
# of units handed over	1,594	1,996	2,062	2,482	2,929	3,632	3,542	3,240	2,850	2,250
# of units where construction started	1,892	1,960	2,403	2,887	3,685	3,483	2,645	800	3,000	2,250
# of units where construction was completed (my estimate)	1,755	1,906	2,049	2,500	3,047	3,645	3,315	2,276	1,240	2,850
# of units under construction	1,679	2,022	1,696	2,104	2,677	2,330	1,660	184	1,944	1,344
# of finished units	261	312	557	402	302	566	340	-624	-2,234	-1,634
# of units in land bank	6,360	6,472	6,504	6,450	8,447	7,609	6,109	6,109	6,109	6,609

Source: Company data, WOOD Research

Source: Company data, WOOD Research

Dom Development: P&L

PLN m	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Revenues	676	784	904	1,153	1,405	1,654	1,684	1,625	1,448	1,149
COGS	-519	-632	-700	-882	-1,019	-1,199	-1,228	-1,220	-1,118	-901
Gross profit	157	152	204	271	386	455	457	405	330	248
Overhead expenses	-79	-84	-90	-101	-131	-152	-169	-164	-145	-148
Other operating income and costs	-1	4	-7	-8	-12	-12	-14	-12	-10	-7
EBITDA (excl. revaluations)	76	72	107	162	243	292	274	229	175	92
D&A	-3	-3	-4	-5	-7	-10	-5	-5	-5	-5
EBIT	73	69	102	157	235	282	269	224	170	87
Interest costs	3	5	2	2	3	0	2	1	2	3
Interest income	-5	-4	-3	-3	-1	0	-4	-3	-4	-5
FX differences	0	0	0	0	0	0	0	0	0	0
Other financial gains/losses	-1	-1	-1	-1	-1	0	0	0	0	0
Net profit before tax	70	69	101	156	236	282	267	221	168	86
Current income tax	-15	-12	-9	-34	-40	-69	-51	-42	-32	-16
Deferred income tax	0	-2	-10	4	-6	15	0	0	0	0
Income tax total	-15	-13	-20	-30	-45	-54	-51	-42	-32	-16
Net profit	55	56	81	126	191	228	216	179	136	69
Net profit attributable to minorities	0	0	0	0	0	0	0	0	0	0
Net profit attributable to Dom Development	55	56	81	126	191	228	216	179	136	69
EPS	2.20	2.26	3.26	5.08	7.67	9.19	8.70	7.21	5.47	2.79
Dividend payout ratio	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Implied dividend from this years profit (to be paid next Y)	54	56	81	126	190	228	216	179	136	69
DPS	2.20	2.25	3.25	5.07	7.63	9.19	8.70	7.21	5.47	2.79
Dividend yield	4.3%	5.2%	5.9%	8.4%	9.4%	11.4%	10.8%	8.9%	6.8%	3.4%
Gross profit margin on revenue	23%	19%	23%	24%	27%	28%	27%	25%	23%	22%
Gross profit margin on cost	30%	24%	29%	31%	38%	38%	37%	33%	30%	28%
EBITDA margin	11%	9%	12%	14%	17%	18%	16%	14%	12%	8%
EBIT margin	11%	9%	11%	14%	17%	17%	16%	14%	12%	8%
Net profit margin	8%	7%	9%	11%	14%	14%	13%	11%	9%	6%
Revenues to assets	39%	47%	54%	62%	64%	67%	67%	65%	58%	46%
Gross profit to assets	9%	9%	12%	15%	18%	18%	18%	16%	13%	10%
EBIT to Assets	4%	4%	6%	8%	11%	11%	11%	9%	7%	3%
ROE	6%	7%	9%	14%	20%	22%	21%	18%	14%	8%
Revenues growth yoy	-21%	16%	15%	28%	22%	18%	2%	-4%	-11%	-21%
Gross profit growth yoy	-23%	-3%	34%	33%	42%	18%	0%	-11%	-18%	-25%
EBIT growth yoy	-35%	-6%	48%	53%	50%	20%	-4%	-17%	-24%	-49%
Net profit growth yoy	-40%	3%	44%	56%	52%	20%	-5%	-17%	-24%	-49%

Source: WOOD Research, company data

Dom Development: balance sheet

PLN m	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
LT tangible and intangible assets	6	9	11	11	21	22	27	32	37	42
Other LT assets	2	4	8	9	10	28	28	28	28	28
Non-current assets	7	13	19	21	31	50	55	60	65	70
Inventory	1,347	1,232	1,479	1,508	1,989	2,114	2,309	2,027	1,853	2,020
Trade receivables	43	6	28	9	35	52	27	26	23	18
Other ST assets	4	3	3	3	4	6	6	6	6	6
ST Financial assets	5	34	4	23	52	35	35	35	35	0
Cash and cash equivalents	322	318	222	414	280	282	85	320	532	386
Current assets	1,721	1,593	1,734	1,957	2,360	2,489	2,461	2,413	2,449	2,430
Total assets	1,729	1,606	1,753	1,977	2,390	2,539	2,516	2,473	2,514	2,500
Accumulated profit or loss	55	56	81	126	189	230	218	181	138	71
Other shareholders' equity	802	802	802	803	813	817	817	817	817	817
Shareholder's equity	857	859	884	930	1,002	1,046	1,034	997	954	887
Minority interest	-1	0	0	0	0	0	0	0	0	0
Total equity	857	858	883	929	1,002	1,047	1,035	997	954	887
LT portion of loans and borrowings	444	268	370	260	295	345	345	345	445	495
Long-term provisions	13	12	11	14	14	17	17	17	15	12
Other LT liabilities	31	37	51	51	101	91	91	91	91	91
Long-term liabilities	489	318	432	325	411	452	453	452	550	597
ST portion of loans and borrowings	0	126	0	120	100	50	8	-3	-14	-25
Trade payables	140	140	191	219	271	323	327	325	298	240
Deferred income	232	152	235	349	568	625	652	661	686	762
Other ST liabilities	12	13	12	35	38	43	41	41	40	38
Short-term liabilities	384	430	437	723	977	1,040	1,029	1,024	1,009	1,015
Total equity and liabilities	1,729	1,606	1,753	1,977	2,390	2,539	2,516	2,473	2,514	2,500
Total Debt	444	394	370	380	395	395	353	342	431	470
Cash and financial assets	327	353	225	437	331	317	120	355	567	386
Net debt	117	41	145	-57	64	78	233	-12	-136	84
Net debt to equity	0.1x	0.0x	0.2x	-0.1x	0.1x	0.1x	0.2x	0.0x	-0.1x	0.1x
Net debt to EBIT	1.6x	0.6x	1.4x	-0.4x	0.3x	0.3x	0.9x	-0.1x	-0.8x	1.0x
Net debt to assets	0.1x	0.0x	0.1x	0.0x	0.0x	0.0x	0.1x	0.0x	-0.1x	0.0x
BVPS	34.6	34.7	35.7	37.5	40.3	42.1	41.6	40.1	38.4	35.7

Source: WOOD Research, company data

Dom Development: cash flow statement

PLN m	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Net profit before tax	70	69	101	156	236	283	267	221	168	86
FX gains/losses	0	0	0	0	0	0	0	0	0	0
Depreciation of PP&E	3	3	4	5	7	10	5	5	5	5
Interest	16	19	18	18	13	10	2	3	2	2
Other	0	0	0	0	-2	6	0	0	0	0
Adjustments for non-cash items	19	22	22	23	18	25	7	8	7	7
Total change in WC	-70	73	-142	110	-9	5	-160	288	172	-148
Operating Cash Flow	18	165	-18	289	246	313	114	517	348	-56
Interest received	17	9	6	4	3	2	-4	-3	-4	-5
Interest paid	-28	-23	-19	-16	-15	-13	2	1	2	3
Income tax paid	-16	-13	-8	-12	-36	-69	-51	-42	-32	-16
Net operating cash flow	-9	137	-40	265	198	233	61	472	314	-74
Maintenance CAPEX (offsetting depreciation)	-3	-3	-4	-5	-7	-10	-10	-10	-10	-10
Net proceeds from acquisition and sale of financial assets	234	-30	29	0	-205	-32	0	0	0	35
Others	-2	-6	-6	-6	-8	-11	-11	-11	-11	-11
Net cash flow from investing activities	228	-40	19	-11	-220	-53	-21	-21	-21	13
Repayment of existing debt	-66	-70	-204	-200	-234	-100	0	0	0	0
Issue of new debt	80	20	180	210	240	100	0	0	100	50
Issue of new capital	1	0	0	4	0	4	0	0	0	0
Repurchase of own shares	0	0	0	0	0	1	0	0	0	0
Dividends paid to shareholders	-91	-54	-56	-81	-126	-190	-228	-216	-179	-136
Other financing cash flow	0	0	0	0	0	0	0	0	0	0
Net cash flow from financing activities	-76	-104	-80	-67	-120	-186	-228	-216	-79	-86
Total change in cash	143	-7	-101	187	-142	-6	-188	235	213	-146

Source: Company data, WOOD Research

This page has been left blank intentionally

Atrium

Hold

Unchanged

Price: EUR 3.25/share
Price target: EUR 3.59/share
(from EUR 4.14/share)

Heavy rotation

Atrium continues to reposition its portfolio towards prime assets. Over the past year, it has bought two assets in Warsaw, the Wars Sawa Junior (EUR 302m) and the King Cross (EUR 43m), and has sold Atrium Koszalin and Atrium Felicity (EUR 298m) to ECE. In a bid to reposition the portfolio towards modern, dominant shopping centres in urban hubs, Atrium has already sold well over 100 assets since 2013, exiting from Hungary and Romania, and selling all of its non-core assets in the Czech Republic. Going forward, we expect this trend to continue. We believe that Atrium is likely to sell some EUR 100-150m worth of non-core assets in Poland, and that it may also consider continuing to selling some of its larger Polish assets in secondary cities, should it receive a good offer. Also, we believe management may be looking to exit Slovakia (and eventually, Russia), to focus solely on the Czech Republic and Poland; and, within these two, predominantly in the capitals, Prague and Warsaw. This is laudable, in our view, as we believe that Atrium should be more resilient to prospective shifts in the retail landscape, with fewer, higher-quality assets in urban locations. That said, while the quality of the underlying cash flow would continue to increase if these measures are taken, the FFO is likely to stagnate, or even soften somewhat from current levels, as higher yielding buildings would be replaced with more expensive ones. As such, as long as the general aversion towards retail stocks continues, we believe that Atrium may continue to trade at the current, discounted levels. As such, we maintain our HOLD rating, adjusting our price target (PT) to EUR 3.59/share.

The universal retail blues. Although we continue to like Atrium on a stand-alone basis, given that almost all the other shopping centre owners in Europe are trading at a discount to book, and high FFO and dividend yields, the case is not as compelling as it was some three-to-five years ago, when we initiated coverage. Above all, as long as Russia remains in the portfolio, it is quite unlikely that Atrium will trade at a sharper FFO yield than some of its WE peers, in our view.

(Re)developments driving growth. Atrium has spent around EUR 150m, and is looking to spend a further EUR 150m on its three developments and extensions under way currently in Poland. Management expects these developments to generate a c.6.0% yield on cost.

Key triggers: a takeover by Gazit would be a huge positive trigger. As Gazit aims to own the majority of its portfolio directly (instead of owning shares in listed entities), we cannot rule out a takeover bid, although its probability is difficult to assess. A change of sentiment towards the entire retail real estate segment would not hurt either, in our view.

The key risks include: e-commerce; rising interest rates; a slowdown in CEE economic growth; a deterioration of the RUB; and overpriced acquisitions.

We set our 12M PT at EUR 3.59/share, using a combination of DCF (EUR 3.98/share) and a peer valuation (EUR 3.20/share). Our WACC ranges around 6.5% throughout our forecast horizon.

Expected events

2Q19 results	31 July
3Q19 results	8 November

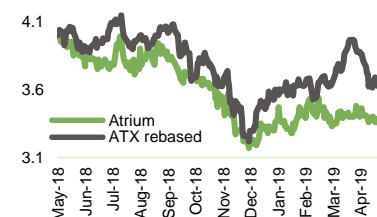
Key data

Market Cap	EUR 1,228
3M ADTV	EUR 0.2m
Free float	40%
Shares outstanding	378m
Major Shareholder	Gazit, 60%
Reuters Code	ATRS.VI
Bloomberg Code	ATRS AV
ATX Index	2,912

Price performance

52-w range	EUR 3.17-3.99/share
52-w performance	-17%
Relative performance	-4%

Atrium 12M share price performance



Year	BV (EUR m)	BVPS (EUR m)	Net LTV	Equity ratio	FFO (EUR m)	FFOPS (EUR m)	FFO ROE	P/BV	FFO yield	DPS (EUR m)	Div. Yield
2016	1,942	5.2	27%	62%	110	0.29	5.5%	0.7x	7.8%	0.41	11.1%
2017	1,894	5.0	30%	61%	112	0.29	5.8%	0.8x	7.4%	0.41	10.4%
2018	1,793	4.8	38%	54%	120	0.32	6.5%	0.8x	8.1%	0.27	6.9%
2019E	1,798	4.8	34%	52%	98	0.26	5.4%	0.7x	7.9%	0.27	8.3%
2020E	1,773	4.7	35%	51%	103	0.27	5.8%	0.7x	8.3%	0.27	8.3%
2021E	1,753	4.6	35%	51%	106	0.28	6.0%	0.7x	8.5%	0.27	8.3%

Analysts: Jakub Caithaml, Ondrej Slama
E-mail: jakub.caithaml@wood.cz, ondrej.slama@wood.com

Prague: +420 222 086 481
Website: www.wood.com

Portfolio rotation remains the name of the game

What's next? More disposals...

We believe there are more disposals to come. Going forward, we expect Atrium to also divest its remaining smaller, non-core assets in Poland (worth c.EUR 100-150m), and exit Slovakia (c.EUR 160m), to focus on the Czech Republic and Poland solely in CEE. If management concludes all of these disposals, it would require a substantial acquisition(s) to be able to replace the lost rental income (of around EUR 500-550m).

...and acquisitions

Speaking with management, we get the impression that the board would not agree to sell larger assets, unless it believed that the company would be reasonably likely to replace the rental income. As such, we are inclined to believe that Atrium is already in talks regarding an acquisition. While it may be difficult to get good quality assets in Prague and Warsaw on the cheap, we believe that investors may view increasing the exposure towards the two capital cities positively, if concluded successfully.

How about another special dividend?

If acquisition opportunities do not materialise (in a 12-18-month horizon), management may distribute part of the proceeds from these (and perhaps other) disposals as a special dividend, in our view. However, in that case, the regular dividend may then be cut, in line with the drop in the funds from operations resulting from the sales. That said, we are convinced that, as a base case, management would be looking to replace the rental income through acquisitions. As such, especially considering the recently concluded acquisition of King Cross in Warsaw (and the Wars Sawa Junior not too long before that), we believe that a special dividend is unlikely in the near term.

Is there a secular case for the stock to rerate back to EUR 4.0/share in the near term?

We are not convinced, as long as the sentiment towards retail real estate remains as weak as it has been of late. On the one hand, trading at 0.7x P/NAV, selling assets a touch above book value should naturally be positive for the share price. On the other, we believe that there is a lot of concern about Atrium overpaying for prospective acquisitions. Already, the Wars Sawa Junior, which Atrium bought last year, has been perceived by many investors as too expensive. Bought at a 4.0% yield, it is not difficult to see their point, even though we believe the asset was a good purchase, as we believe that Atrium's initiatives to improve the rental income in a 3-5Y horizon look credible, and should improve the yield from the 4% at purchase to around 6% by 2022-23E. The King Cross, an old shopping gallery in Warsaw, the purchase of which was announced last week, came at what appears to be a relatively high single-digit yield. However, with a per sqm price of over 6k, the King Cross looks expensive, and would need to generate rents of around EUR 40/sqm to translate into the high yield management has been hinting at. While similar rents may be in place now, we cannot help but wonder whether this is sustainable, as it is nearly 2x the rents generated by the brand new Polnocna and Mlociny shopping centres, completed in Warsaw by GTC and Echo, respectively.

The case for CEE retail real estate

Last but not least, we highlight that we do not fully subscribe to the general negative sentiment related to retail real estate. We do agree there is a degree of uncertainty, and we certainly believe it is worth monitoring the performance of the sector closely, some of the fears are overdone, in our view. Above all, retail is a proxy for growth in disposable income. With unemployment at, or close to, historic lows, and economic growth at around 3-5% across much of CEE, we believe the case for retail remains strong. While we would certainly advise investors to monitor the evolution of e-commerce closely, the data available from retailers so far on the performance of shopping centres do not suggest a reason to panic. Our observations suggest that the turnovers of tenants in well-placed shopping malls across CEE have been growing by mid- to high-single digits in recent years, allowing for the gradual growth of like-for-like rents. While we see risks for older shopping centres in smaller, secondary cities, we believe that those located in large urban hubs should continue to benefit from growing incomes and positive demographic trends. Underpinned by low borrowing rates (which seem to be here to stay for the foreseeable future), we believe the case for well-positioned shopping malls in CEE still looks relatively solid.

Cautious forecasts

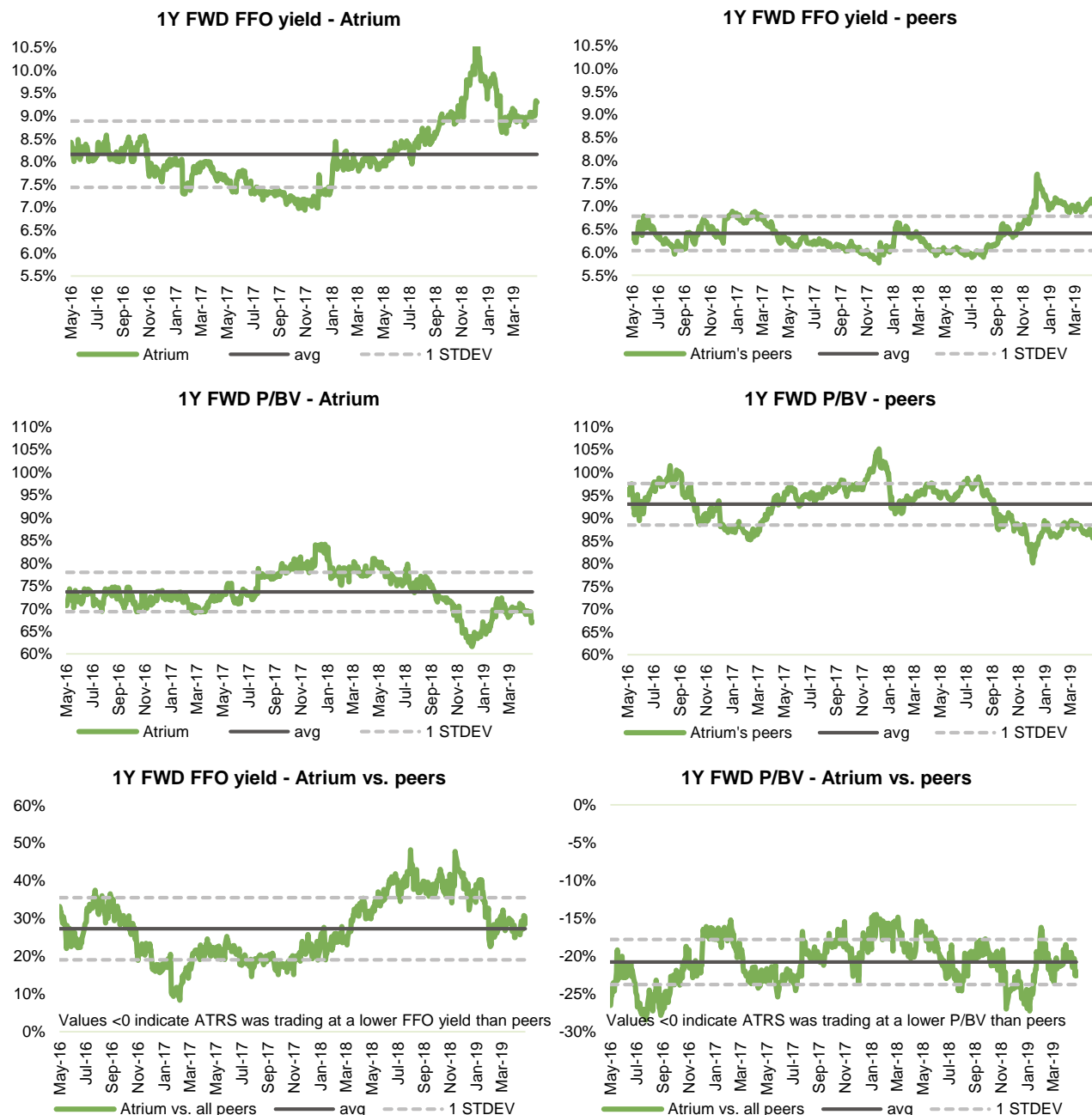
We highlight that, for both Atrium and NEPI Rockcastle, we have tuned down our long-term expectations for rental growth significantly. Whereas, in the past, we expected this to grow broadly in line with inflation, in this update, we keep the rents flat. Assuming 2% inflation, over the next 10Y, this would translate into nearly a 20% decline in rents per sqm in real terms.

Key risks and triggers

The key trigger for Atrium, in our view, would be a takeover offer by Gazit (low probability, high impact). Other triggers include: a change of sentiment towards retail (for the better); an improvement in, and an acceleration of, rental growth; like-for-like growth across CEE; and well-priced acquisitions and disposals.

The chief risks, in our view, include: deepening aversion towards retail; e-commerce, rendering traditional bricks&mortar shopping obsolete; an economic slowdown; rate rises; and overpriced acquisitions.

Atrium vs. peers



Source: Bloomberg, WOOD Research

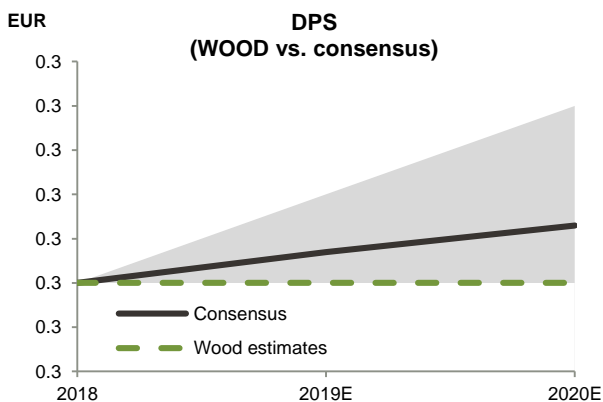
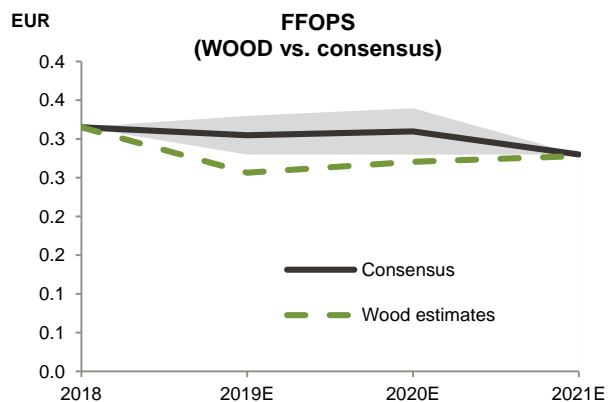
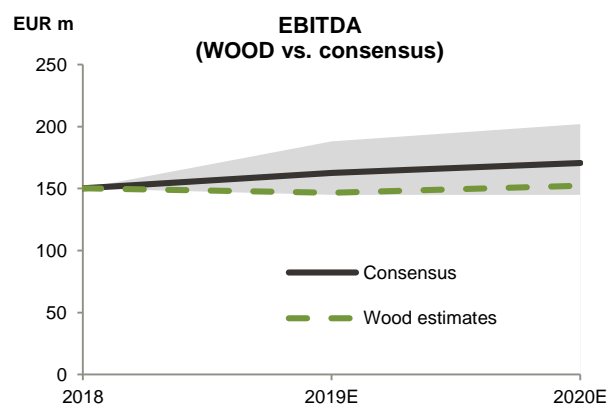
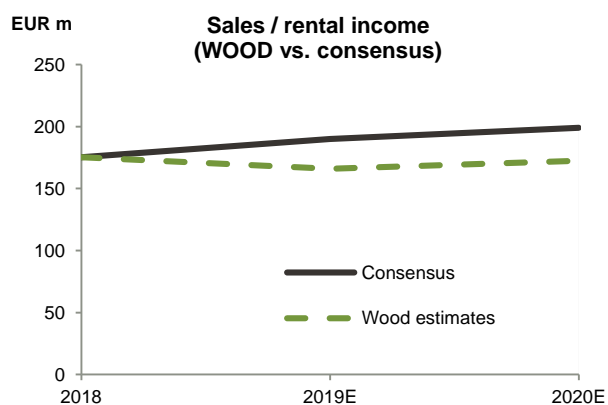
WOOD vs. the consensus, and new vs. old estimates

WOOD vs. consensus

EUR m	2019E			2020E			2021E		
	WOOD	Cons.	Diff. (%)	WOOD	Cons.	Diff. (%)	WOOD	Cons.	Diff. (%)
Sales	166	190	-13%	172	199	-13%	176	na	na
EBITDA	146	163	-10%	152	171	-11%	156	145	8%
EBIT	169	166	2%	135	170	-20%	142	145	-2%
Net profit	107	112	-4%	76	117	-35%	82	123	-34%
BPS (EUR)	4.7	4.9	-3%	4.7	4.8	-3%	4.6	4.8	-3%
FFOPS (EUR)	0.26	0.31	-16%	0.27	0.31	-13%	0.28	0.28	-1%
DPS (EUR)	0.27	0.28	-3%	0.27	0.28	-5%	0.27	0.27	0%
EBITDA margin	88.3%	85.6%	2.7ppt	88.4%	85.8%	2.6ppt	88.7%	n/a	n/a
Net margin	64.5%	58.9%	5.6ppt	44.4%	58.8%	-14.4ppt	46.4%	n/a	n/a

Source: WOOD Research, Bloomberg

WOOD vs. consensus



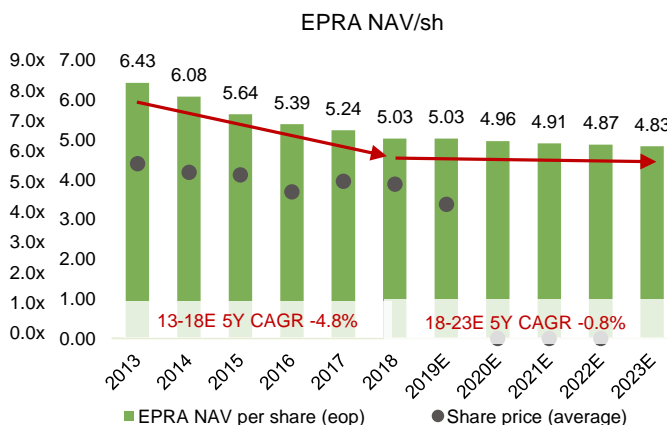
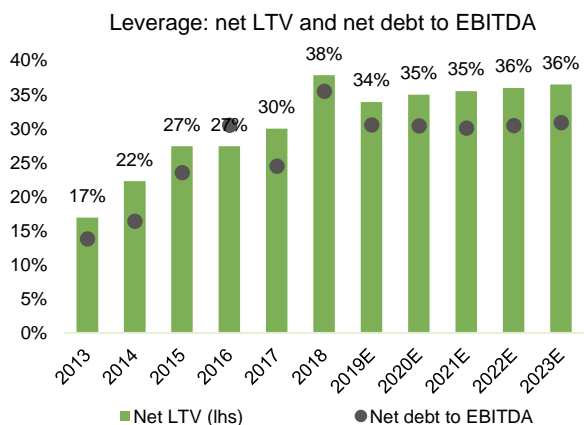
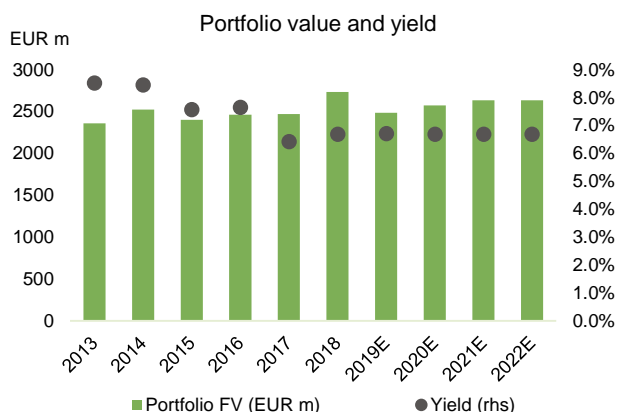
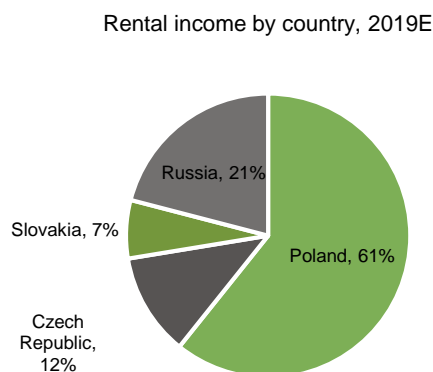
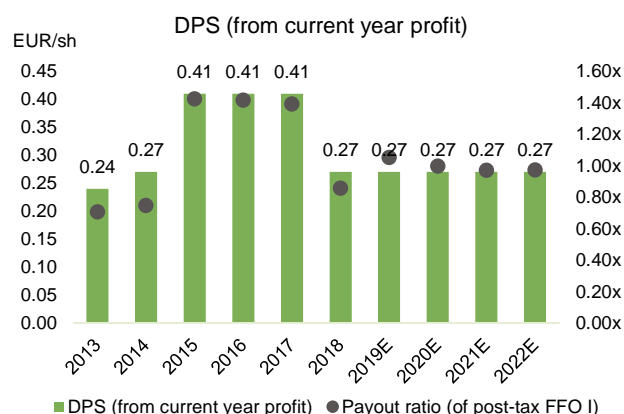
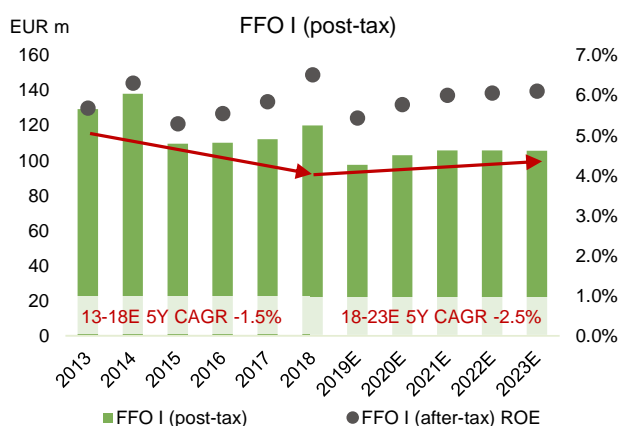
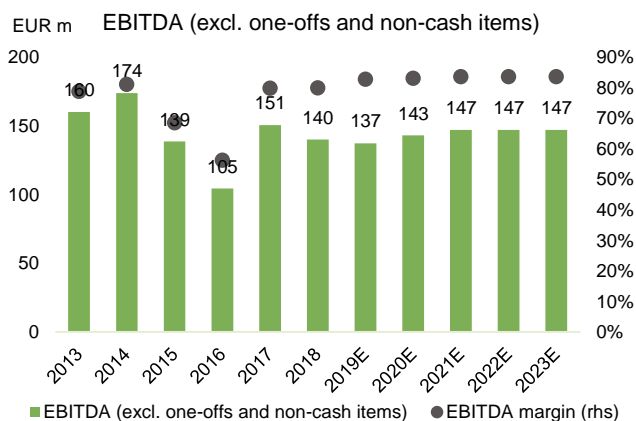
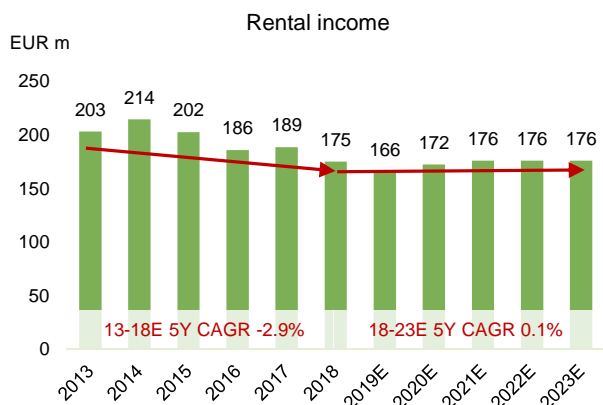
Source: Company data, Bloomberg, WOOD Research

WOOD: new vs. old

EUR m	2019E			2020E			2021E		
	new	old	Diff. (%)	new	old	Diff. (%)	new	old	Diff. (%)
Sales	166	205	-19%	172	206	-16%	176	212	-17%
EBITDA	146	184	-20%	152	158	-4%	156	190	-18%
EBIT	169	207	-18%	135	196	-31%	142	265	-46%
Net profit	107	138	-22%	76	142	-46%	82	190	-57%
BPS (EUR)	4.7	5.0	-5%	4.7	26.6	-82%	4.6	5.1	-9%
FFOPS (EUR)	0.26	0.35	-26%	0.27	1.36	-80%	0.28	0.36	-23%
DPS (EUR)	0.27	0.27	0%	0.27	0.82	-67%	0.27	0.27	0%
EBITDA margin	88.3%	89.7%	-1.5ppt	88.4%	77.0%	11.4ppt	88.7%	89.8%	-1.1ppt
Net margin	64.5%	67.4%	-2.9ppt	44.4%	68.8%	-24.5ppt	46.4%	89.9%	-43.5ppt

Source: WOOD Research

Atrium: earnings, dividends, portfolio, leverage and NAV



Source: Company data, Bloomberg, WOOD Research

Valuation

We value Atrium using a combination of a DCF and a peer valuation, where we compare Atrium to its CEE and European retail peers. We use a WACC of around 6.5% throughout our forecast horizon.

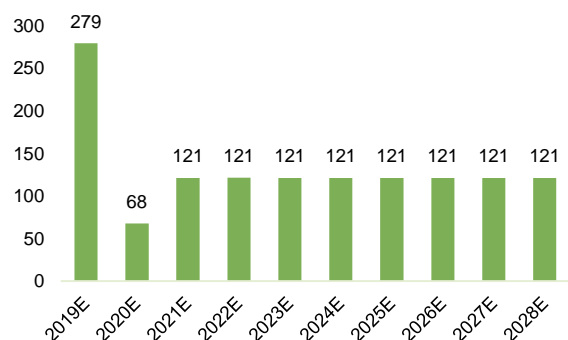
Setting our 12M PT at EUR 3.59/share

Valuation method	Per share (EUR)
Peer multiples	3.20
DCF	3.98
Weighted average target value	3.59
 Current price	 3.25
Upside/(downside)	10%
Source: WOOD Research	

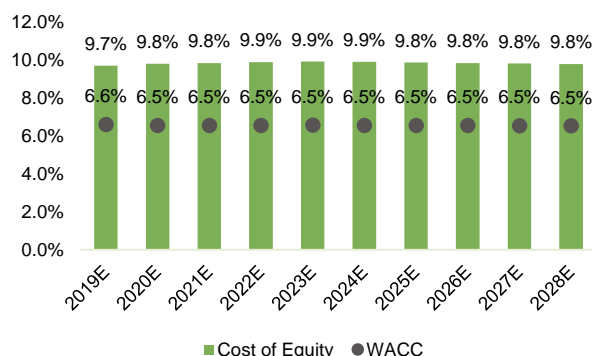
Atrium: valuation – COE, WACC, multiples

EUR m

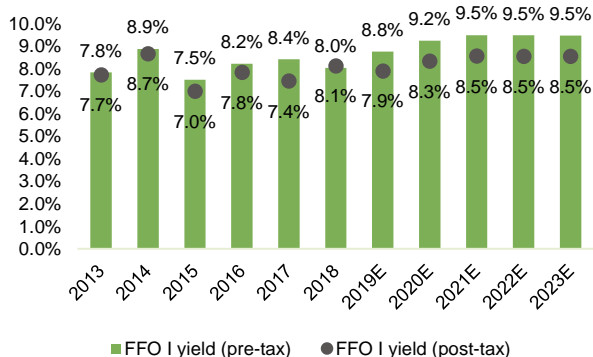
FCFF



Cost of Equity and WACC



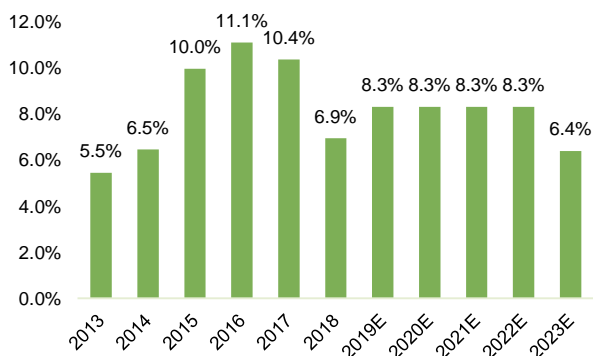
FFO I yield



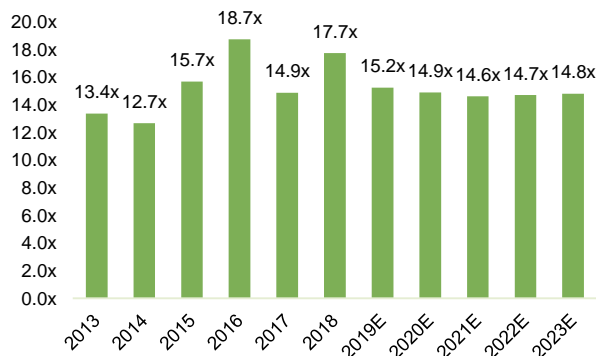
P/BV



Dividend yield



EV/EBITDA



Source: Company data, Bloomberg, WOOD Research

Financials

Atrium: P&L, FFO, DPS and rental income by country and sector

P&L (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Rental income	203	214	202	186	189	175	166	172	176	176
- net service charges and property expenses	-13	-10	-9	-6	-8	-6	-5	-5	-5	-5
Net rental income	191	204	193	180	181	169	161	167	171	171
- income from hotels	0	0	0	0	0	0	0	0	0	0
- net operating expenses	-30	-30	-55	-75	-30	-29	-24	-24	-24	-24
EBITDA (excl. one-offs and non-cash items)	160	174	139	105	151	140	137	143	147	147
- revaluation gain/(loss)	-28	-179	-108	7	-7	-4	23	-17	-14	-7
- net result from sale of investment properties	1	-4	-9	-1	-10	-3	0	0	0	0
- result from JVs	0	0	10	12	9	10	9	9	9	9
EBIT	133	-9	31	123	142	143	169	135	142	149
- net interest expense	-29	-33	-41	-36	-35	-34	-38	-38	-39	-39
- other financial income/expense	-14	5	-21	-14	-6	-21	0	0	0	0
Pre-tax profit	90	-37	-31	73	100	88	131	97	103	110
- current income tax	-2	-3	-8	-5	-15	1	-11	-11	-12	-12
- deferred tax charge	-13	-17	44	-9	4	-28	-13	-10	-10	-11
Net profit	76	-58	5	58	89	61	107	76	82	87
- minorities	0	0	0	0	0	0	0	0	0	0
- discontinued operations	0	0	0	0	0	0	0	0	0	0
Net income	76	-58	5	58	89	61	107	76	82	87
FFO & DPS (EUR m, unless per sh)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
FFO I (pre-tax)	131	141	117	115	127	119	108	114	117	117
FFO I (post-tax)	129	138	109	110	112	120	98	103	106	106
FFO II	131	134	100	109	102	117	98	103	106	106
FFO I per share (pre-tax)	0.34	0.37	0.31	0.30	0.33	0.31	0.28	0.30	0.31	0.31
FFO I per share (post-tax)	0.34	0.36	0.29	0.29	0.29	0.32	0.26	0.27	0.28	0.28
FFO II per share	0.34	0.35	0.26	0.29	0.27	0.31	0.26	0.27	0.28	0.28
DPS (from current year profit)	0.24	0.27	0.41	0.41	0.41	0.27	0.27	0.27	0.27	0.27
Payout ratio (of post-tax FFO I)	0.71x	0.75x	1.42x	1.42x	1.39x	0.86x	1.05x	1.00x	0.97x	0.97x
Margins and growth	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Net rental income margin	94%	95%	95%	97%	96%	97%	97%	97%	97%	97%
EBITDA margin	79%	81%	68%	56%	80%	80%	83%	83%	84%	84%
FFO I (pre-tax) margin	65%	66%	58%	62%	67%	68%	65%	66%	67%	67%
FFO I (post-tax) margin	64%	64%	54%	59%	59%	68%	59%	60%	60%	60%
Net rental income growth	n/a	5.6%	-5.6%	-8.2%	1.4%	-7.1%	-5.3%	3.8%	2.1%	0.0%
EBITDA growth	n/a	8.7%	-20.3%	-24.6%	44.1%	-7.0%	-1.9%	4.1%	2.8%	0.0%
Net income growth	n/a	-176.4%	-108.3%	1109.5%	53.1%	-32.0%	76.7%	-28.6%	6.7%	6.9%
FFO I per sh (pre-tax) growth	n/a	7.5%	-16.8%	-1.7%	9.7%	-6.3%	-8.8%	5.4%	2.7%	-0.1%
FFO I per sh (post-tax) growth	n/a	6.5%	-20.5%	0.5%	1.8%	7.1%	-18.7%	5.6%	2.7%	-0.1%
FFO II per sh growth	n/a	2.5%	-25.4%	9.0%	-6.7%	14.9%	-16.5%	5.6%	2.7%	-0.1%
Rental income per country	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Poland	39%	42%	51%	55%	53%	58%	61%	61%	62%	62%
Czech Republic	19%	17%	15%	11%	11%	11%	12%	11%	11%	11%
Slovakia	6%	5%	6%	6%	6%	6%	7%	6%	6%	6%
Russia	29%	29%	21%	19%	22%	22%	21%	22%	21%	21%
Hungary	4%	4%	4%	4%	4%	1%	0%	0%	0%	0%
Romania	4%	3%	3%	4%	4%	2%	0%	0%	0%	0%
Latvia	1%	1%	1%	1%	0%	0%	0%	0%	0%	0%
Rental income per sector	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Offices										
Retail	Atrium does not disclose data on sector breakdown, but generates the majority of its rents from retail assets									
Logistics										
Hotels										
Residential										
Others										

Source: WOOD Research, company data

Atrium: capital structure, cash flow and EPRA indicators

Capital structure (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Total debt	804	1,068	1,013	947	969	1,249	1,399	1,439	1,439	1,439
Cash	306	425	224	146	92	52	393	398	384	370
Net debt	498	643	788	802	877	1,197	1,006	1,041	1,055	1,069
Equity	2,267	2,110	2,031	1,942	1,894	1,793	1,798	1,773	1,753	1,738
Assets	3,344	3,451	3,283	3,155	3,122	3,293	3,438	3,454	3,434	3,419
Investment property	2,943	2,888	2,877	2,927	2,929	3,168	2,969	2,979	2,973	2,973
EBITDA	160	174	149	117	159	150	146	152	156	156
Equity ratio	68%	61%	62%	62%	61%	54%	52%	51%	51%	51%
Gross LTV	27%	37%	35%	32%	33%	39%	47%	48%	48%	48%
Net LTV	17%	22%	27%	27%	30%	38%	34%	35%	35%	36%
Net debt to EBITDA	3.1x	3.7x	5.3x	6.9x	5.5x	8.0x	6.9x	6.8x	6.8x	6.8x
Gearing (net debt to equity)	22%	30%	39%	41%	46%	67%	56%	59%	60%	61%
Cost of debt (incl. hedging)	4%	4%	4%	4%	3%	3%				
Average debt maturity (years)	5.1	5.5	5.7	4.9	4.6	5.4				
% of debt fixed or hedged	81%	90%	100%	100%	100%	100%				
% of unsecured debt	57%	65%	84%	88%	86%	76%				
% of uncencumbered assets	59%	65%	81%	86%	87%	75%				
Rating by S&P	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-				
Rating by Fitch	BBB-	BBB-	BBB-	BBB-	BBB-	BBB				
Rating by Moody's	n/a	n/a	n/a	n/a	n/a	BBB-				
Net debt, rel. change, yoy	51%	29%	23%	2%	9%	36%	-16%	4%	1%	1%
Equity, rel. change, yoy	-1%	-7%	-4%	-4%	-2%	-5%	0%	-1%	-1%	-1%
Assets, rel. change, yoy	9%	3%	-5%	-4%	-1%	5%	4%	0%	-1%	0%
Cash Flow (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Profit before tax	91	-37	-31	73	100	88	131	97	103	110
CF from Operations (before WC)	161	175	162	134	132	109	131	143	147	147
WC changes	4	9	1	2	2	-11	-6	1	0	1
CF from Operations	165	183	163	136	134	98	125	144	147	148
Adjustment for net interest and taxes	-25	-32	-46	-43	-32	-40	-40	-40	-41	-41
Net CF from Operations	141	152	117	94	102	58	85	104	106	106
CAPEX	-227	-266	-210	-62	-63	-373	-145	-70	-19	-20
Proceeds from disposals	9	70	77	126	24	173	298	0	0	0
Others	0	0	0	-54	23	3	0	0	0	0
Net CF from Investing	-217	-196	-133	10	-1	-197	153	-70	-19	-20
Proceeds from issuance of share capital	1	2	2	1	0	0	0	0	0	0
Acquisition of own shares	0	0	0	0	0	0	0	0	0	0
Net issue of debt	267	261	-71	-69	18	262	150	40	0	0
Dividends paid	-79	-90	-102	-154	-155	-155	-102	-102	-102	-102
Others	-14	-5	-8	0	4	0	0	0	0	0
Net CF from Financing	176	168	-178	-222	-132	107	48	-62	-102	-102
Change in cash & equivalents	99	124	-195	-118	-32	-32	286	-28	-15	-15
EPRA Indicators (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Book Value	2,267	2,110	2,031	1,942	1,894	1,793	1,798	1,773	1,753	1,738
EPRA NAV	2,457	2,316	2,147	2,051	1,994	1,911	1,897	1,872	1,851	1,837
EPRA NNNNAV	2,282	2,094	2,010	1,897	1,849	1,756	1,764	1,741	1,722	1,708
BV per share (EUR)	6.08	5.63	5.40	5.15	5.02	4.76	4.77	4.70	4.65	4.61
EPRA NAV per share (EUR)	6.43	6.08	5.64	5.39	5.24	5.03	5.03	4.96	4.91	4.87
EPRA NNNNAV per share (EUR)	5.97	5.50	5.28	4.98	4.86	4.62	4.68	4.62	4.57	4.53
EPRA Net Initial Yield (NIY)	n/a	7.80%	7.20%	6.90%	6.90%	6.10%				
EPRA "topped-up" NIY	n/a	8.20%	8.00%	7.50%	7.20%	6.60%				
EPRA Ifl Gross Rental Income	3.30%	-0.60%	-9.90%	-3.40%	5.20%	-1.20%				
EPRA Ifl Net Rental Income	3.70%	-0.80%	-10.60%	-2.30%	6.40%	1.20%				
EPRA Earnings (EUR m)	103.5	110.7	116.0	58.9	108.2	87.5				
Company adj. EPRA Earnings	125.4	134.8	125.2	118.3	122.1	110.8				
EPRA Earnings per share	27.7	29.5	30.9	15.7	28.7	23.2				
Company adj. EPRA Earnings (per share)	33.5	35.9	33.3	31.4	32.4	29.3				
EPRA Vacancy rate	n/a	2.6%	3.3%	3.4%	3.2%	3.4%				
EPRA Cost Ratio (incl. vacancy costs)	n/a	18.5%	18.9%	19.5%	17.8%	16.8%				
EPRA Cost Ratio (excl. vacancy costs)	n/a	17.6%	17.5%	17.8%	15.9%	15.4%				

Source: WOOD Research, company data

Atrium: DCF, cost of capital, portfolio, share data and valuation multiples

DCF: FCFF reconciliation (EUR m)	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
FFO I	98	103	106	106	106	105	106	106	106	106
+ taxes	11	11	12	12	12	12	12	12	12	12
+ interest costs	38	38	39	39	39	39	39	39	39	39
Adj. EBIT	146	152	156	156	156	156	156	156	156	156
tax rate	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
NOPLAT	132	137	140	140	140	140	140	140	140	140
CAPEX	-145	-70	-19	-20	-20	-20	-20	-20	-20	-20
WC change	-6	1	0	1	0	1	0	0	0	0
Proceeds from disposals	298	0	0	0	0	0	0	0	0	0
FCFF	279	68	121	121	121	121	121	121	121	121
DCF: Cost of Equity and WACC	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
[A] Debt/Capital Ratio	44%	45%	45%	45%	46%	45%	45%	45%	45%	45%
[C] Equity/Capital Ratio	56%	55%	55%	55%	54%	55%	55%	55%	55%	55%
Marginal Cost of Debt (%)	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
x Marginal Tax Rate (%)	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
[B] Cost of Debt (post tax)	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Beta	1.07	1.08	1.09	1.10	1.11	1.11	1.10	1.09	1.09	1.08
x Equity Risk Premium	5%	5%	5%	6%	6%	6%	6%	6%	5%	5%
+ Risk Free Rate	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
[D] Cost of Equity	9.7%	9.8%	9.8%	9.9%	9.9%	9.9%	9.8%	9.8%	9.8%	9.8%
[A x B] + [C x D] = WACC:	6.6%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Portfolio	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Year-end, m2 ('000)	1260	1189	1090	1074	1058	951	858	876	899	899
Rented space, m2	1231	1159	1052	1033	1025	914	813	842	865	865
Occupancy	97.7%	97.5%	96.5%	96.2%	96.8%	96.2%	94.8%	96.2%	96.2%	96.2%
Gross Rental Income (EUR m)	203	214	202	186	189	175	166	172	176	176
Value (EUR m)	2356	2520	2397	2459	2467	2732	2483	2569	2633	2633
Weighted Average Lease Term (Y)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
- price / m2, EUR	1870	2120	2200	2290	2331	2874	2895	2934	2928	2928
- average gross rent per m2, EUR	13.4	15.0	15.5	14.4	14.9	15.4	16.1	16.4	16.3	16.3
- yield	8.6%	8.5%	8.4%	7.6%	7.6%	6.4%	6.7%	6.7%	6.7%	6.7%
- yield at full occupancy	8.6%	8.5%	8.4%	7.6%	7.6%	6.4%	6.7%	6.7%	6.7%	6.7%
Number of shares and share price	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Number of shares	382.1	380.6	380.5	380.8	380.5	380.5	380.5	380.5	380.5	380.5
Treasury shares / options	9.2	5.6	4.3	4.1	3.4	3.4	3.4	3.4	3.4	3.4
Number of shares outstanding	372.9	375.0	376.2	376.7	377.1	377.1	377.1	377.1	377.1	377.1
Average number of shares	380.3	381.3	380.6	380.7	380.7	380.5	380.5	380.5	380.5	380.5
Average number of treasury shares	7.4	7.4	5.0	4.2	3.8	3.4	3.4	3.4	3.4	3.4
Average number of shares outstanding	372.9	374.0	375.6	376.5	376.9	377.1	377.1	377.1	377.1	377.1
Average price/share (EUR)	4.4	4.2	4.1	3.7	4.0	3.9	3.4	n/a	n/a	n/a
Lowest price (EUR)	4.0	3.8	3.5	3.0	3.8	3.2	3.2	n/a	n/a	n/a
Highest price (EUR)	4.9	4.5	4.6	4.0	4.2	4.4	3.5	n/a	n/a	n/a
Closing price (EUR)	4.2	4.1	3.5	3.9	4.2	3.2	n/a	n/a	n/a	n/a
Market cap, average (EUR m)	1,642	1,564	1,545	1,390	1,491	1,465	1,274	n/a	n/a	n/a
Market cap, eop (EUR m)	1,559	1,524	1,332	1,467	1,565	1,218	n/a	n/a	n/a	n/a
Profitability and valuation multiples	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
FFO I (pre-tax) ROE	5.8%	6.5%	5.7%	5.8%	6.6%	6.4%	6.0%	6.4%	6.7%	6.7%
FFO I (after-tax) ROE	5.7%	6.3%	5.3%	5.5%	5.8%	6.5%	5.4%	5.8%	6.0%	6.1%
FFO II ROE	5.7%	6.1%	4.8%	5.5%	5.3%	6.3%	5.4%	5.8%	6.0%	6.1%
FFO I (pre-tax) RONAV	5.3%	5.9%	5.3%	5.5%	6.3%	6.1%	5.7%	6.1%	6.3%	6.4%
FFO I (after-tax) RONAV	5.3%	5.8%	4.9%	5.2%	5.5%	6.1%	5.1%	5.5%	5.7%	5.7%
FFO II RONAV	5.3%	5.6%	4.5%	5.2%	5.0%	6.0%	5.1%	5.5%	5.7%	5.7%
FFO I yield (pre-tax)	7.8%	8.9%	7.5%	8.2%	8.4%	8.0%	8.8%	9.2%	9.5%	9.5%
FFO I yield (post-tax)	7.7%	8.7%	7.0%	7.8%	7.4%	8.1%	7.9%	8.3%	8.5%	8.5%
FFO II yield	7.8%	8.4%	6.4%	7.8%	6.8%	7.9%	7.9%	8.3%	8.5%	8.5%
P/BV	0.7x	0.7x	0.8x	0.7x	0.8x	0.8x	0.7x	0.7x	0.7x	0.7x
P/EPRA NAV	0.7x	0.7x	0.7x	0.7x	0.8x	0.8x	0.6x	0.7x	0.7x	0.7x
Dividend yield	5.5%	6.5%	10.0%	11.1%	10.4%	6.9%	8.3%	8.3%	8.3%	8.3%
EV/EBITDA	13.4x	12.7x	15.7x	18.7x	14.9x	17.7x	15.2x	14.9x	14.6x	14.7x

Source: WOOD Research, company data

This page has been left blank intentionally

CA Immo

Hold

Maintained

Price: EUR 33.2/share
Price target: EUR 34.3/share
(From EUR 29.0)

On a roll, but fully valued

CA Immo is firing on all cylinders. The company has nearly doubled its FFO over the past five years, growing from EUR 63m in 2013 to EUR 119m in 2018 – a 5Y CAGR of 13%. This was driven by a combination of declining financing costs, accretive developments (in Germany), the consolidation of its portfolio and acquisitions (in CEE), and growing rents, all underpinned by a disciplined approach to overhead costs. Going forward, we expect the own development pipeline to be the key differentiating factor, driving organic growth of recurring earnings, while also boosting the trading result. Additionally, thanks to the rapid growth of average market rents across the key German cities in which CA Immo operates, we believe that a number of its German offices are leased currently at sub-market rents, and are likely to drive like-for-like growth of rents in mid-single digits. Thanks to these factors alone, we expect CA Immo to continue to grow its FFO by around 9% annually for the next three-to-four years. Thanks to its conservative balance sheet (LTV of c.35%), we expect CA Immo to be able to continue to acquire properties across CEE – any such income from acquisitions would represent upside for our forecasts. That said, following the recent rally, the stock is trading at a sub-4% (post-tax) FFO I yield on our 2019E estimate. CA Immo thus ranks among the most expensive real estate names in Europe on this metric. While we believe the premium is justified, thanks to its unparalleled development exposure to the key German office markets, we believe the near-term upside is limited. We reiterate our HOLD rating, and increase our 12M price target (PT) to EUR 34.3/share.

Total development pipeline of over EUR 4.0bn in the next 10Y. CA Immo estimates that, on the land plots the company owns in Germany (booked at EUR 290m), projects worth c.EUR 2.0bn could be realised within the next 4Y, and an additional c.EUR 2.2bn within the next 4-10 years.

Key near-term development projects include: My.O in Munich (27k sqm GLA; EUR 101m total capex; planned yield 6.6%); MY.B in Berlin (15k sqm; EUR 67m; 7.1%); NEO in Munich (13k sqm; EUR 64m; 4.9%); and the ONE office tower in Frankfurt (EUR 367m; 66k sqm; c.5%).

CA Immo is trading at 3.6% and 1.1x on our 2019E FFO I yield and P/BV. The results are further boosted by sales, driven by the development projects designated for disposal. These include, among others, the Cube and BT1 offices in Berlin, as well as two residential development projects in Munich.

Well-priced acquisitions, like-for-like rental growth and further yield compression in CEE could trigger additional upside. The key risks include: cost overruns and delays in development projects; oversupply in any of its key markets; rising rates; and an economic slowdown.

We set our PT using a combination of a DCF and a relative valuation. We then increase our PT by EUR 0.9/share, which reflects the value we assign to the development pipeline, which we value separately and risk by 50%. We use a WACC of around 4.0% throughout our forecast horizon.

Expected events

2Q19 results	22 August
3Q19 results	20 November
Several developments completed	2H19
4Q19 results	March 2019 (tba)

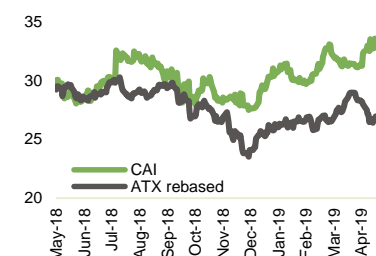
Key data

Market Cap	EUR 3.3bn
ADTV	EUR 2.8m
Free float	63%
Shares outstanding	93m
Major Shareholder	Starwood, 28%
Reuters Code	CAIV.VI
Bloomberg Code	CAI AV
ATX Index	2,912

Price performance

52-w range	EUR 27.5-34.15/share
52-w performance	17%
Relative performance	30%

CA Immo 12M share price performance



Year	BV (EUR m)	BVPS (EUR)	Net LTV	Equity ratio	FFO (EUR m)	FFOPS (EUR)	FFO ROE	P/BV	FFO yield	DPS (EUR)	Div. Yield
2016	2,205	23.6	35%	51%	82	0.86	3.8%	0.7x	5.2%	0.65	4.0%
2017	2,399	25.7	33%	50%	91	0.97	3.9%	0.8x	4.5%	0.80	3.7%
2018	2,640	28.4	33%	49%	79	0.84	3.1%	1.0x	3.0%	0.89	3.1%
2019E	2,862	30.8	31%	49%	112	1.21	4.1%	1.1x	3.6%	0.96	2.9%
2020E	3,015	32.4	29%	51%	124	1.33	4.2%	1.0x	4.0%	1.08	3.2%
2021E	3,086	33.2	30%	51%	136	1.46	4.5%	1.0x	4.4%	1.17	3.5%

Analysts: Jakub Caithaml, Ondrej Slama
E-mail: jakub.caithaml@wood.cz, ondrej.slama@wood.com

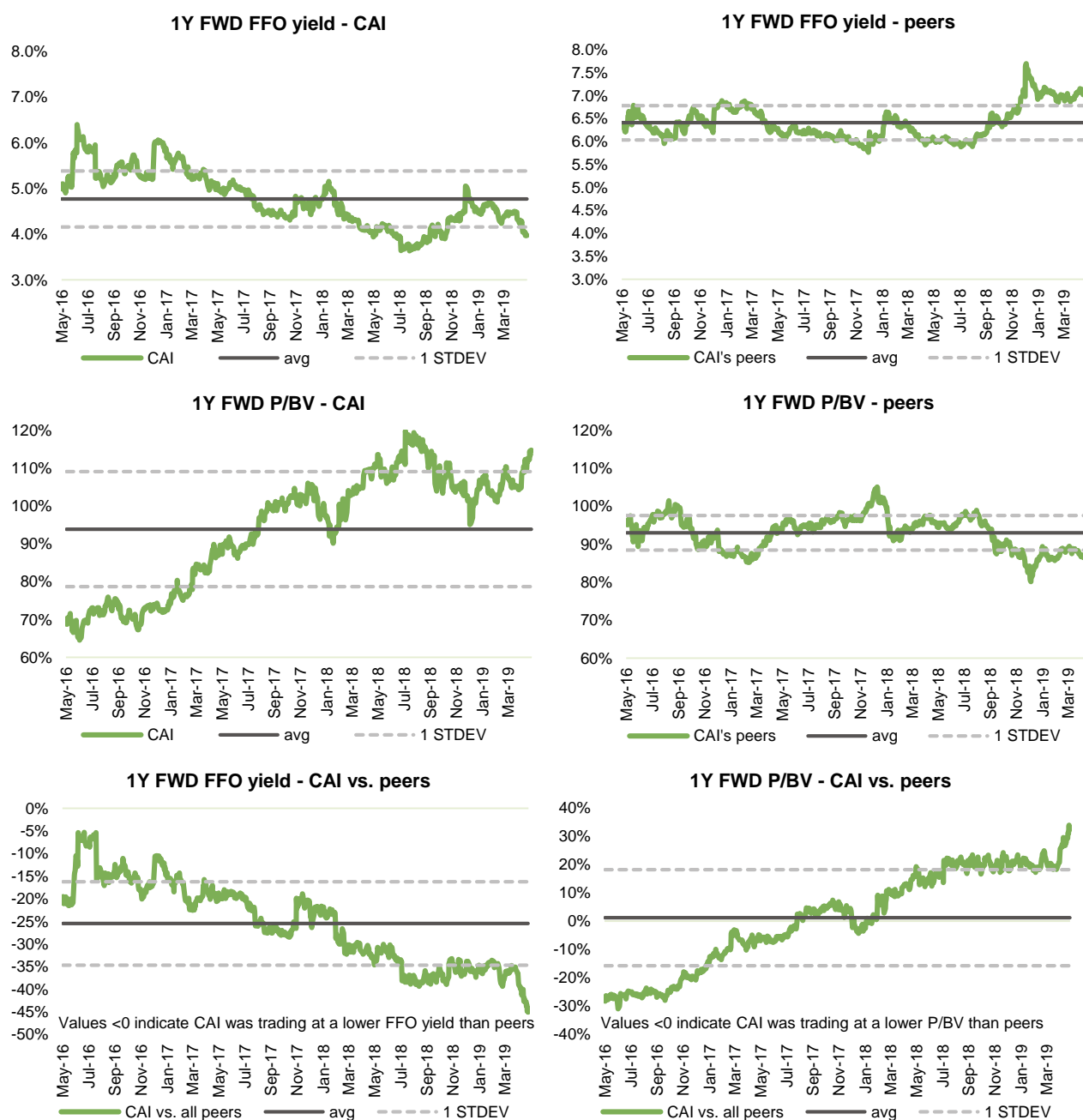
Prague: +420 730 804 340
Website: www.wood.com

Key risks and triggers

For CA Immo, its massive land reserves are its chief differentiating factor. Announcements of new development projects (and progress in the construction thereof) are likely to be the key factor driving the share price for the next 5-10 years, in our view. In a two-to-five year horizon, another key factor playing in favour of CA Immo will be the like-for-like growth of the German rents, as we expect the company to catch up with the market levels gradually, which have seen rapid growth over the past five years or so.

The shares are trading at expensive levels, and the room to grow FFO through further reductions in financing or overhead costs is marginal, at best. While, with long lease terms and blue-chip tenants, we expect CA Immo's portfolio to be resilient, office leasing demand is cyclical, and the occupancy and rents may come under pressure in the case of a downturn. While the gap between the yields at which CA Immo books its properties and the prime reported yields is quite large in all the markets in which the company operates, a sustained sequence of rate hikes would almost certainly weigh on the property values. Pricey acquisitions in CEE, overruns in capex, and delays in the development projects could also affect the case negatively.

CA Immo vs. peers



Source: Bloomberg, WOOD Research

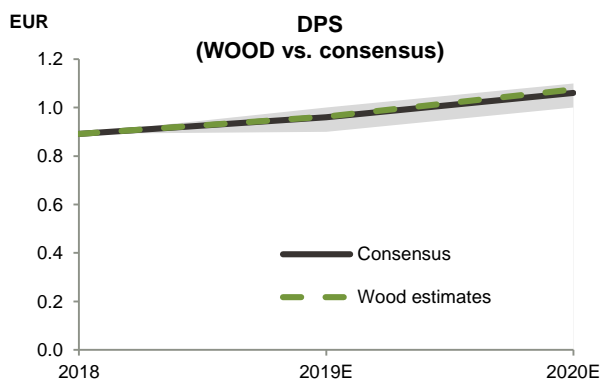
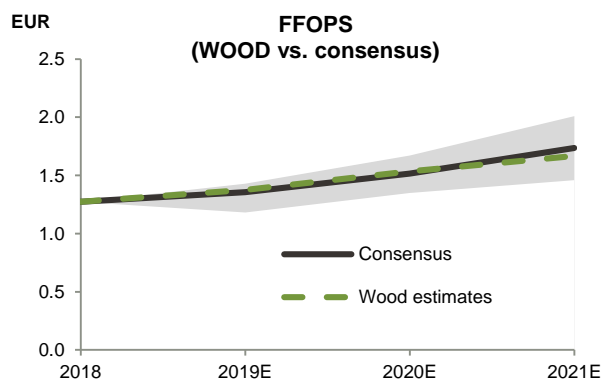
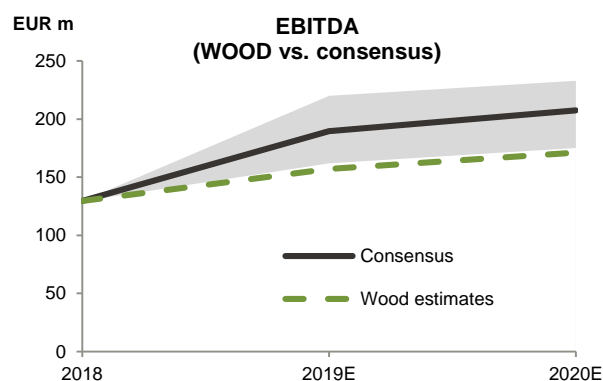
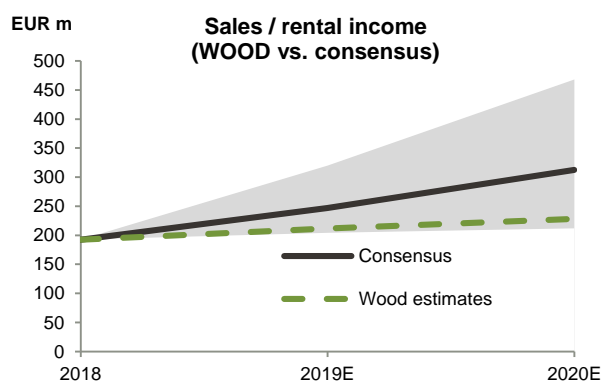
WOOD vs. the consensus, and new vs. old estimates

WOOD vs. consensus

EUR m	2019E			2020E			2021E		
	WOOD	Cons.	Diff. (%)	WOOD	Cons.	Diff. (%)	WOOD	Cons.	Diff. (%)
Sales	212	248	-15%	228	307	-26%	243	382	-36%
EBITDA	157	190	-17%	171	207	-17%	183	224	-18%
EBIT	365	285	28%	303	275	10%	229	258	-11%
Net profit	305	117	161%	242	134	81%	171	111	54%
BPS (EUR)	32.4	29.8	9%	33.2	31.5	5%	0.0	33.5	-100%
FFOPS (EUR)	1.38	1.36	1%	1.54	1.52	1%	1.67	1.74	-4%
DPS (EUR)	0.96	0.96	0%	1.08	1.06	1%	1.17	1.14	2%
EBITDA margin	74.2%	76.4%	-2.2ppt	75.1%	67.5%	7.6ppt	75.2%	58.6%	16.7ppt
Net margin	144.2%	47.2%	97.0ppt	106.2%	43.5%	62.7ppt	70.5%	29.0%	41.5ppt

Source: Company data, Bloomberg, WOOD Research

WOOD vs. consensus



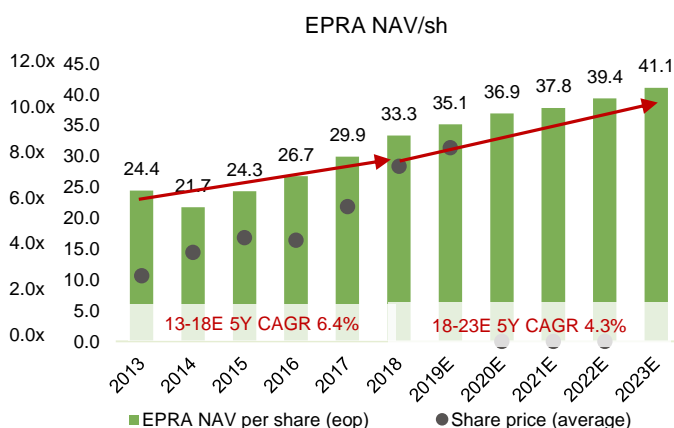
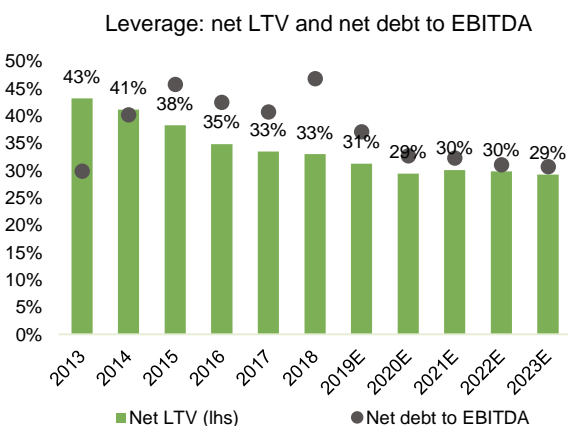
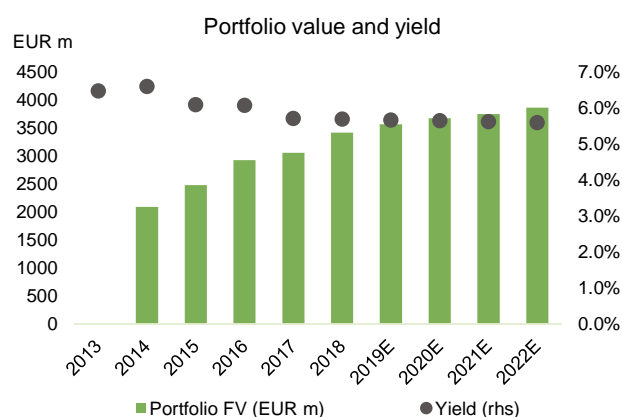
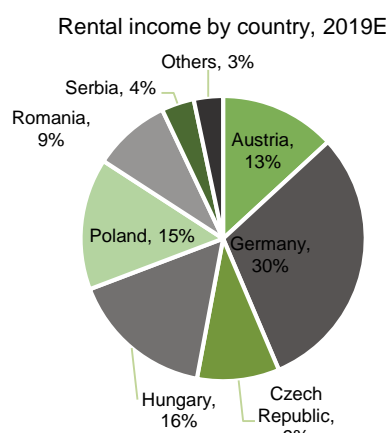
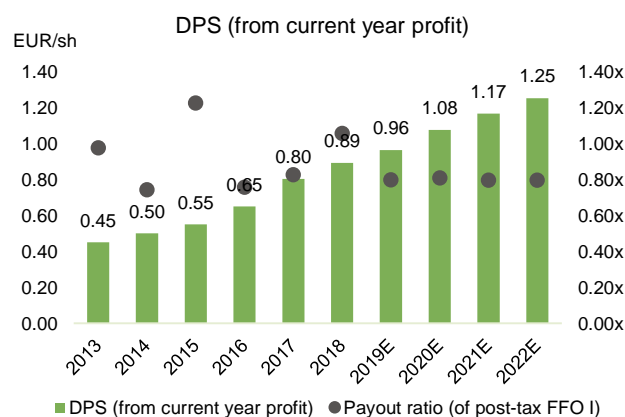
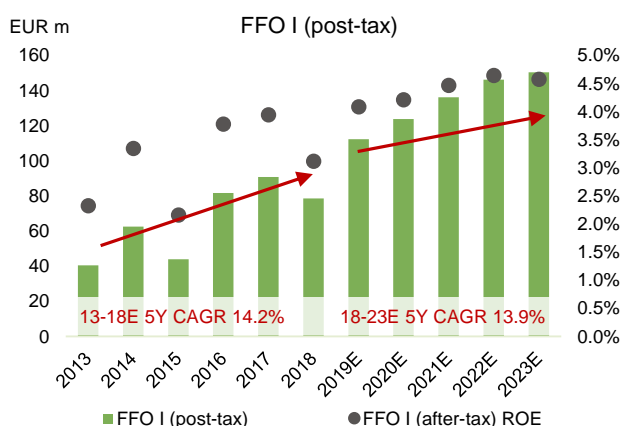
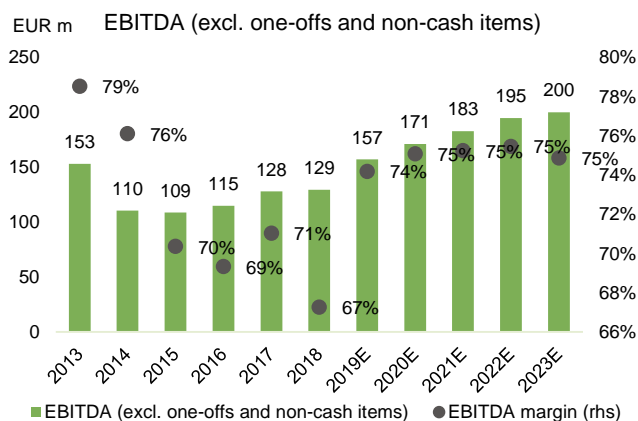
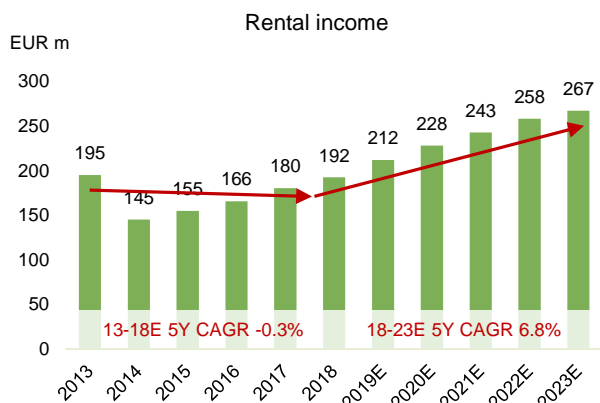
Source: Company data, Bloomberg, WOOD Research

WOOD: new vs. old

EUR m	2019E			2020E			2021E		
	new	old	Diff. (%)	new	old	Diff. (%)	new	old	Diff. (%)
Sales	212	204	4%	228	212	7%	243	228	6%
EBITDA	157	177	-11%	171	158	8%	183	171	7%
EBIT	365	171	114%	303	196	55%	229	184	25%
Net profit	305	115	165%	242	142	71%	171	128	34%
BPS (EUR)	32.4	26.0	25%	33.2	26.6	25%	0.0	27.0	-100%
FFOPS (EUR)	1.38	1.28	7%	1.54	1.36	13%	1.67	1.49	12%
DPS (EUR)	0.96	0.78	24%	1.08	0.82	30%	1.17	0.90	30%
EBITDA margin	74.2%	86.8%	-12.6ppt	75.1%	74.7%	0.4ppt	75.2%	75.1%	0.2ppt
Net margin	144.2%	56.5%	87.7ppt	106.2%	66.8%	39.4ppt	70.5%	56.1%	14.4ppt

Source: Company data, Bloomberg, WOOD Research

CA Immo: earnings, dividends, portfolio, leverage and NAV



Source: Company data, Bloomberg, WOOD Research

Valuation

We value CA Immo using a combination of a DCF and a peer valuation. We compare the company to its CEE RE and European office peers. We use a WACC of 4.1-4.2% throughout our DCF horizon.

Setting our 12M PT at EUR 34.3/share

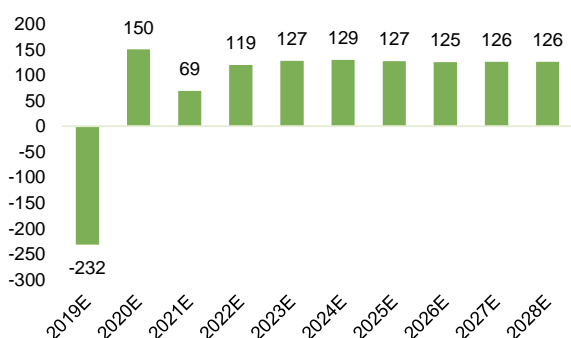
Valuation method	Per share (EUR)
Peer multiples	30.0
DCF	36.7
Weighted average target value	33.4
Value of the pipeline	0.9
Price target	34.3
Current price	33.2
Upside/(downside)	3%

Source: WOOD Research

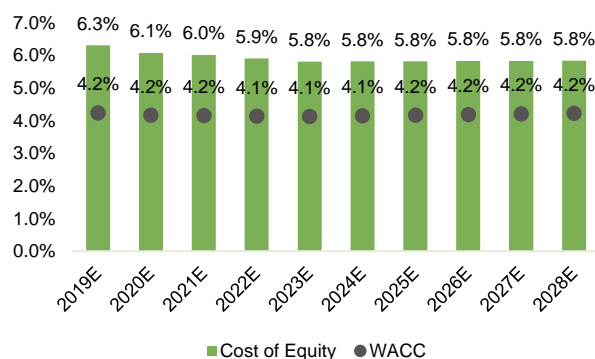
CA Immo: valuation – COE, WACC, multiples

EUR m

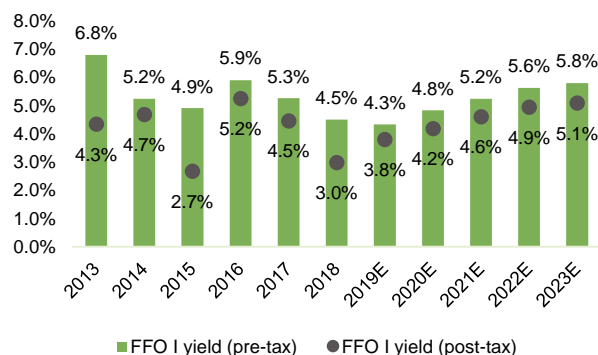
FCFF



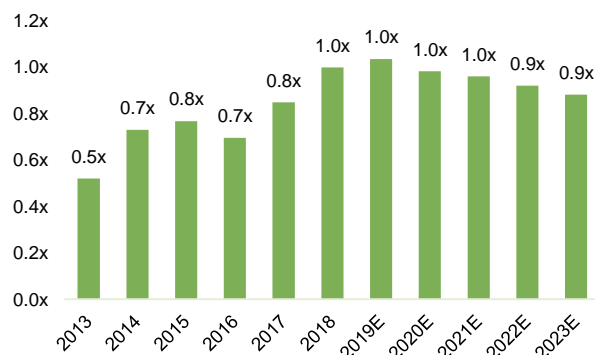
Cost of Equity and WACC



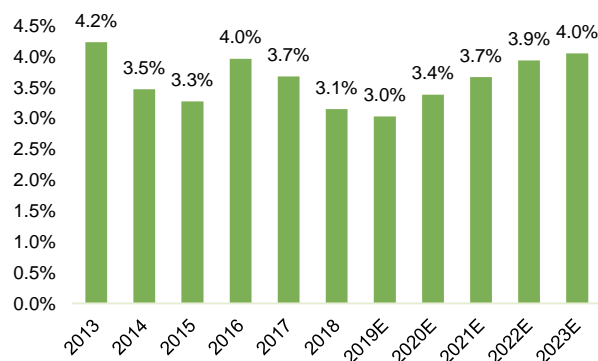
FFO I yield



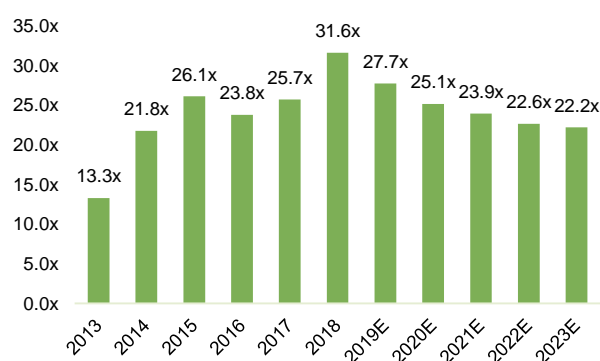
P/BV



Dividend yield



EV/EBITDA



Source: Company data, Bloomberg, WOOD Research

Financials

CA Immo: P&L, FFO, DPS and rental income by country and sector

P&L (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Rental income	195	145	155	166	180	192	212	228	243	258
- net service charges and property expenses	-22	-16	-19	-18	-17	-17	-18	-20	-21	-23
Net rental income	172	129	136	147	163	175	193	208	222	236
- income from hotels	2	2	0	0	0	0	0	0	0	0
- net operating expenses	-21	-20	-27	-32	-35	-46	-36	-37	-39	-41
EBITDA (excl. one-offs and non-cash items)	153	110	109	115	128	129	157	171	183	195
- revaluation gain/(loss)	1	-14	211	135	100	274	208	116	46	106
- net result from sale of investment properties	69	39	40	33	39	8	1	12	0	0
- result from JVs	26	8	43	11	67	23	0	3	0	0
EBIT	249	143	403	294	333	435	365	303	229	301
- net interest expense	-119	-82	-60	-42	-41	-37	-35	-36	-36	-36
- other financial income/expense	-21	23	-27	-15	0	-9	6	8	9	8
Pre-tax profit	109	85	316	238	293	389	336	274	201	273
- current income tax	-23	-7	-37	-10	-16	-40	-16	-19	-19	-20
- deferred tax charge	-5	-6	-59	-44	-49	-51	-15	-13	-11	-14
Net profit	81	71	221	184	228	298	305	242	171	239
- minorities	0	0	0	0	0	0	0	0	0	0
- discontinued operations	0	0	0	0	0	0	0	0	0	0
Net income	81	71	221	184	228	298	305	242	171	239
FFO & DPS (EUR m, unless per sh)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
FFO I (pre-tax)	63	70	81	92	107	119	128	143	155	166
FFO I (post-tax)	40	63	44	82	91	79	112	124	136	146
FFO II	69	135	121	114	170	111	113	139	136	146
FFO I per share (pre-tax)	0.72	0.75	0.82	0.97	1.15	1.27	1.38	1.54	1.67	1.79
FFO I per share (post-tax)	0.46	0.67	0.45	0.86	0.97	0.84	1.21	1.33	1.46	1.57
FFO II per share	0.78	1.45	1.24	1.20	1.82	1.20	1.21	1.49	1.46	1.57
DPS (from current year profit)	0.45	0.50	0.55	0.65	0.80	0.89	0.96	1.08	1.17	1.25
Payout ratio (of post-tax FFO I)	0.98x	0.74x	1.23x	0.76x	0.83x	1.06x	0.80x	0.81x	0.80x	0.80x
Margins and growth	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Net rental income margin	88%	89%	88%	89%	91%	91%	91%	91%	91%	91%
EBITDA margin	79%	76%	70%	69%	71%	67%	74%	75%	75%	75%
FFO I (pre-tax) margin	32%	48%	52%	55%	59%	62%	60%	63%	64%	64%
FFO I (post-tax) margin	21%	43%	28%	49%	50%	41%	53%	54%	56%	57%
Net rental income growth	n/a	-25%	7%	7%	9%	7%	10%	8%	6%	6%
EBITDA growth	n/a	-28%	-1%	5%	12%	1%	21%	9%	7%	7%
Net income growth	n/a	-13%	212%	-17%	24%	31%	3%	-21%	-29%	39%
FFO I per sh (pre-tax) growth	n/a	5%	9%	17%	19%	11%	8%	12%	8%	7%
FFO I per sh (post-tax) growth	n/a	46%	-33%	92%	13%	-13%	43%	10%	10%	7%
FFO II per sh growth	n/a	86%	-15%	-3%	52%	-34%	2%	23%	-2%	7%
Rental income per country	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Austria	n/a	26%	22%	19%	16%	14%	13%	12%	12%	11%
Germany	n/a	28%	22%	29%	29%	31%	30%	35%	39%	42%
Czech Republic	n/a	2%	11%	8%	10%	10%	9%	9%	8%	8%
Hungary	n/a	9%	13%	20%	18%	18%	16%	15%	14%	14%
Poland	n/a	15%	14%	11%	14%	16%	15%	14%	13%	12%
Romania	n/a	6%	14%	12%	11%	10%	9%	8%	8%	7%
Serbia	n/a	0%	0%	0%	4%	4%	4%	3%	3%	3%
Others	n/a	8%	10%	8%	4%	4%	3%	3%	3%	3%
Rental income per sector	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Offices	77%	69%	76%	82%	85%	86%				
Retail	7%	9%	7%	6%	3%	3%				
Logistics	4%	6%	5%	1%	0%	0%				
Hotels	5%	9%	7%	7%	6%	7%				
Residential	1%	1%	1%	1%	0%	0%				
Others	5%	6%	5%	4%	5%	4%				

Source: WOOD Research, company data

CA Immo: capital structure, cash flow and EPRA indicators

Capital structure (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Total debt	1,711	1,229	1,404	1,566	1,753	1,943	2,143	2,143	2,143	2,143
Cash	613	164	207	395	501	489	745	800	728	691
Net debt	1,098	1,066	1,197	1,171	1,252	1,455	1,398	1,343	1,415	1,453
Equity	1,794	1,952	2,120	2,205	2,399	2,640	2,862	3,015	3,086	3,216
Assets	4,041	3,671	3,984	4,309	4,769	5,356	5,793	5,959	6,041	6,185
Investment property	2,541	2,591	3,129	3,362	3,740	4,413	4,478	4,571	4,709	4,874
EBITDA	153	110	109	115	128	129	157	171	183	195
Equity ratio	44%	53%	53%	51%	50%	49%	49%	51%	51%	52%
Gross LTV	67%	47%	45%	47%	47%	44%	48%	47%	46%	44%
Net LTV	43%	41%	38%	35%	33%	33%	31%	29%	30%	30%
Net debt to EBITDA	7.2x	9.6x	11.0x	10.2x	9.8x	11.2x	8.9x	7.8x	7.7x	7.5x
Gearing (net debt to equity)	61%	55%	56%	53%	52%	55%	49%	45%	46%	45%
Cost of debt (incl. hedging)	4.4%	4.1%	2.9%	2.3%	1.9%	1.7%				
Average debt maturity (years)	3.4	3.7	3.6	4.4	6	0.064				
% of debt fixed or hedged	68%	75%	83%	74%	92%	95%				
% of unsecured debt	21%	21%	21%	26%	37%	42%				
% of unencumbered assets	n/a	n/a	33%	31%	40%	49%				
Rating by S&P	n/a	n/a	n/a	n/a	n/a	n/a				
Rating by Fitch	n/a	n/a	n/a	n/a	n/a	n/a				
Rating by Moody's	n/a	n/a	Baa2	Baa2	Baa2	Baa2				
Net debt, rel. change, yoy	-51%	-3%	12%	-2%	7%	16%	-4%	-4%	5%	3%
Equity, rel. change, yoy	6%	9%	9%	4%	9%	10%	8%	5%	2%	4%
Assets, rel. change, yoy	-14%	-9%	9%	8%	11%	12%	8%	3%	1%	2%
Cash Flow (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Profit before tax	104	85	316	238	300	396	336	274	201	273
CF from Operations (before WC)	147	113	108	124	141	136	157	174	183	195
WC changes	-2	-6	10	-5	-1	-20	-116	-18	-16	-17
CF from Operations	145	106	118	120	140	115	41	156	167	178
Adjustment for net interest and taxes	-105	-74	-40	-27	-39	-34	-45	-48	-47	-49
Net CF from Operations	40	32	78	93	101	81	-4	109	120	129
CAPEX	-405	-429	-268	-233	-280	-441	-265	-133	-75	-34
Proceeds from disposals	885	213	366	227	83	95	12	151	0	0
Others	-7	12	-12	41	2	142	0	0	0	0
Net CF from Investing	473	-203	86	35	-195	-204	-253	18	-75	-34
Proceeds from issuance of share capital	0	0	0	0	0	0	0	0	0	0
Acquisition of own shares	-33	-35	-32	-54	-5	-5	0	0	0	0
Net issue of debt	-48	-241	-40	164	147	195	200	0	0	0
Dividends paid	-9	0	-44	-48	-61	-74	-83	-90	-100	-108
Others	0	0	0	0	0	0	0	0	0	0
Net CF from Financing	-91	-276	-117	62	81	116	117	-90	-100	-108
Change in cash & equivalents	421	-448	46	190	-13	-6	-140	37	-55	-13
EPRA Indicators (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Book Value	1,794	1,952	2,120	2,205	2,399	2,640	2,862	3,015	3,086	3,216
EPRA NAV	2,145	2,148	2,354	2,498	2,787	3,098	3,268	3,434	3,516	3,660
EPRA NNNNAV	1,981	2,012	2,196	2,294	2,529	2,799	2,974	3,125	3,200	3,331
BV per share (EUR)	20.4	19.8	21.9	23.6	25.7	28.4	30.8	32.4	33.2	34.6
EPRA NAV per share (EUR)	24.4	21.7	24.3	26.7	29.9	33.3	35.1	36.9	37.8	39.4
EPRA NNNNAV per share (EUR)	22.5	20.4	22.7	24.6	27.1	30.1	32.0	33.6	34.4	35.8
EPRA Net Initial Yield (NIY)	n/a	5.80%	5.30%	5.00%	5.20%	5.00%				
EPRA "topped-up" NIY	n/a	n/a	5.40%	5.00%	5.20%	5.00%				
EPRA Ifl Gross Rental Income	n/a	n/a	n/a	n/a	n/a	n/a				
EPRA Ifl Net Rental Income	n/a	n/a	n/a	n/a	n/a	n/a				
EPRA Earnings (EUR m)	n/a	n/a	n/a	n/a	n/a	n/a				
Company adj. EPRA Earnings	n/a	n/a	n/a	n/a	n/a	n/a				
EPRA Earnings per share	n/a	n/a	n/a	n/a	n/a	n/a				
Company adj. EPRA Earnings (per share)	n/a	n/a	n/a	n/a	n/a	n/a				
EPRA Vacancy rate	n/a	n/a	n/a	n/a	n/a	n/a				
EPRA Cost Ratio (incl. vacancy costs)	n/a	n/a	n/a	n/a	n/a	n/a				
EPRA Cost Ratio (excl. vacancy costs)	n/a	n/a	n/a	n/a	n/a	n/a				

Source: WOOD Research, company data

CA Immo: DCF, cost of capital, portfolio, share data and valuation multiples

DCF: FCFF reconciliation (EUR m)	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
FFO I	112	124	136	146	150	152	153	154	158	161
+ taxes	16	19	19	20	21	21	21	21	22	22
+ interest costs	29	28	28	29	29	29	29	30	30	30
Adj. EBIT	157	171	183	195	200	202	203	205	210	214
tax rate	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%
NOPLAT	137	150	160	171	175	176	178	179	184	187
CAPEX	-265	-133	-75	-34	-38	-42	-45	-48	-52	-56
WC change	-116	-18	-16	-17	-10	-5	-6	-6	-6	-6
Proceeds from disposals	12	151	0	0	0	0	0	0	0	0
FCFF	-232	150	69	119	127	129	127	125	126	126
DCF: Cost of Equity and WACC	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
[A] Debt/Capital Ratio	43%	42%	41%	40%	39%	39%	38%	38%	37%	37%
[C] Equity/Capital Ratio	57%	58%	59%	60%	61%	61%	62%	62%	63%	63%
Marginal Cost of Debt (%)	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%
x Marginal Tax Rate (%)	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%
[B] Cost of Debt (post tax)	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Beta	0.95	0.92	0.91	0.90	0.88	0.88	0.88	0.88	0.89	0.89
x Equity Risk Premium	4.3%	4.2%	4.2%	4.1%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
+ Risk Free Rate	2.0%	1.9%	1.9%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%
[D] Cost of Equity	6.3%	6.1%	6.0%	5.9%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%
[A x B] + [C x D] = WACC:	4.2%	4.2%	4.2%	4.1%	4.1%	4.1%	4.2%	4.2%	4.2%	4.2%
Portfolio	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Year-end, m2 ('000)	n/a	1,270	1,228	1,257	1,245	1,256	1,256	1,256	1,256	1,256
Rented space, m2	n/a	1,189	1,151	1,167	1,184	1,180	1,180	1,180	1,180	1,180
Occupancy	n/a	93.6%	93.8%	92.8%	95.1%	93.9%	93.9%	93.9%	93.9%	93.9%
Gross Rental Income (EUR m)	n/a	135	164	178	186	195	203	208	211	217
Value (EUR m)	n/a	2,092	2,479	2,924	3,059	3,419	3,567	3,672	3,747	3,862
Weighted Average Lease Term (Y)	4.3	4.7	4.5	4.3	4.1	4.4	n/a	n/a	n/a	n/a
- price / m2, EUR	n/a	1,647	2,019	2,325	2,457	2,722	2,840	2,924	2,984	3,076
- average gross rent per m2, EUR	n/a	9.5	11.8	12.7	13.1	13.8	14.3	14.7	14.9	15.3
- yield	n/a	6.5%	6.6%	6.1%	6.1%	5.7%	5.7%	5.7%	5.6%	5.6%
- yield at full occupancy	n/a	6.9%	7.0%	6.6%	6.4%	6.1%	6.1%	6.0%	6.0%	6.0%
Number of shares and share price	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Number of shares	87.9	98.8	98.8	98.8	98.8	98.8	98.8	98.8	98.8	98.8
Treasury shares	0.0	0.0	2.0	5.4	5.6	5.8	5.8	5.8	5.8	5.8
Number of shares outstanding	87.9	98.8	96.8	93.4	93.2	93.0	93.0	93.0	93.0	93.0
Average number of shares	87.9	87.9	87.9	92.9	98.8	98.8	98.8	98.8	98.8	98.8
Average number of treasury shares	0.0	0.0	0.9	3.8	5.5	5.8	5.8	5.8	5.8	5.8
Average number of shares outstanding	87.9	92.9	97.9	95.0	93.3	93.1	93.0	93.0	93.0	93.0
Average price/share (EUR)	10.6	14.4	16.8	16.4	21.8	28.3	31.3	n/a	n/a	n/a
Lowest price (EUR)	8.6	12.3	15.2	14.6	17.5	22.9	27.7	n/a	n/a	n/a
Highest price (EUR)	12.9	16.3	18.5	17.7	26.0	32.6	34.2	n/a	n/a	n/a
Closing price (EUR)	12.9	15.6	16.9	17.4	25.8	27.6	n/a	n/a	n/a	n/a
Market cap, average (EUR m)	934	1,338	1,645	1,558	2,037	2,637	2,915	n/a	n/a	n/a
Market cap, eop (EUR m)	1,132	1,543	1,639	1,629	2,405	2,569	n/a	n/a	n/a	n/a
Profitability and valuation multiples	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
FFO I (pre-tax) ROE	3.6%	3.7%	4.0%	4.2%	4.6%	4.7%	4.7%	4.9%	5.1%	5.3%
FFO I (after-tax) ROE	2.3%	3.3%	2.2%	3.8%	3.9%	3.1%	4.1%	4.2%	4.5%	4.6%
FFO II ROE	3.9%	7.2%	5.9%	5.3%	7.4%	4.4%	4.1%	4.7%	4.5%	4.6%
FFO I (pre-tax) RONAV	3.0%	3.3%	3.6%	3.8%	4.0%	4.0%	4.0%	4.3%	4.5%	4.6%
FFO I (after-tax) RONAV	1.9%	2.9%	2.0%	3.4%	3.4%	2.7%	3.5%	3.7%	3.9%	4.1%
FFO II RONAV	3.2%	6.3%	5.4%	4.7%	6.4%	3.8%	3.5%	4.1%	3.9%	4.1%
FFO I yield (pre-tax)	6.8%	5.2%	4.9%	5.9%	5.3%	4.5%	4.3%	4.8%	5.2%	5.6%
FFO I yield (post-tax)	4.3%	4.7%	2.7%	5.2%	4.5%	3.0%	3.8%	4.2%	4.6%	4.9%
FFO II yield	7.3%	10.1%	7.4%	7.3%	8.3%	4.2%	3.8%	4.7%	4.6%	4.9%
P/BV	0.5x	0.7x	0.8x	0.7x	0.8x	1.0x	1.0x	1.0x	1.0x	0.9x
P/EPRA NAV	0.4x	0.7x	0.7x	0.6x	0.7x	0.9x	0.9x	0.9x	0.8x	0.8x
Dividend yield	4.2%	3.5%	3.3%	4.0%	3.7%	3.1%	3.0%	3.4%	3.7%	3.9%
EV/EBITDA	13.3x	21.8x	26.1x	23.8x	25.7x	31.6x	27.7x	25.1x	23.9x	22.6x

Source: WOOD Research, company data

Warimpex

Hold

Reinitiation of coverage

Price: EUR 1.4

Price target: EUR 1.4

A transformation story

Through a series of transactions, Warimpex is moving away from the hospitality business on which it has focused traditionally, and is instead replacing its hotels with offices, in Poland, Hungary and Russia. We believe this is a sound strategy. The demand for office space remains strong across CEE, and we believe the tech-savvy workforce and the wage differential relative to western Europe should continue to underpin the strong demand for office space across CEE. The series of disposals have also helped to crystallise the value of the hotel portfolio, unlocking reserves not reflected on the balance sheet and pushing up the equity ratio from 6% in 2015 to c.40% by the end of 2019E, on our estimates. By 2022E, once more developments are completed, we expect the FFO I to reach some EUR 9-10m (an 8% FFO yield), up from EUR 1-3m in 2019-2020E. While we expect the FFO to nearly quadruple over the next four years, much of the growth is back-loaded, and we believe that investors are likely to be discounting the growth until they see tangible progress in the key development projects. As such, we reinitiate coverage of Warimpex with a HOLD recommendation, setting our 12M price target (PT) at EUR 1.4/share.

Consolidation (2019E), preparation (2020E), expansion (2021-22E). These are the three stages into which we divide our forecasts. First, we expect Warimpex to boost its balance sheet, thanks to the expected sale of the two hotels in Paris, as well as the buyout of the JV partner at Airportcity St. Petersburg. In 2020E, we expect the company to launch a number of office development projects, which should be finished during 2021-22E, driving significant FFO expansion during this period.

Key development projects: Krakow – the recently-completed Mogilska 43 office (12k sqm GLA); as well as Chopin Office (expected completion in 2021E, 21k sqm GLA) and a third building at the Mogilska complex (2021E, 12k sqm GLA); Bialystock – four offices scheduled for completion between 2021-23E (combined GLA of 43k sqm); St Petersburg – the Avior Office, scheduled for completion in late-2021E (18k sqm GLA).

Sale of the hotels in Paris. We expect Warimpex to close the sale of the two hotels it owns in France at some point this year. We pencil in that this will generate P&L profit of around EUR 20m, and should further boost its equity, to nearly EUR 140m by the end of 2019E, on our estimates.

We set our 12M PT at EUR 1.4/share, offering 3% upside, using a combination of a DCF (EUR 1.3/share), a DDM (EUR 1.2/share) and relative multiples (EUR 1.7/share). We use a WACC ranging around 7% throughout our DCF horizon.

Key risks: an inability to sell the hotels in Paris; a deterioration in the demand for office space; slower-than-expected construction or difficulty obtaining building permits; lower-than-expected rents (due either to slower demand for space, or oversupply); an economic downturn; a spike in borrowing costs.

Expected events

2Q19 results	27 August
3Q19 results	29 November

Key data

Market Cap	EUR 73m
3M ADTV	EUR 41k
Free float	44%
Shares outstanding	54m

Major Shareholders

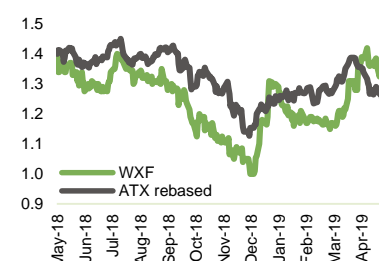
Georg Folian	(14.6%)
Franz Jurkowsch	(14.1%)
Bocca Privatstiftung	(10.6%)
Amber Privatstiftung	(10.7%)

Reuters Code	WXFB.VI
Bloomberg Code	WXF.AV
ATX Index	2,955

Price performance

52-w range	EUR 1.00-1.42/share
52-w performance	1%
Relative performance	15%

Warimpex 12M share price performance



Year	BV (EUR m)	BVPS (EUR)	Net LTV	Equity ratio	FFO (EUR m)	FFOPS (EUR)	FFO ROE	P/BV	FFO yield	DPS (EUR)	Div. Yield
2016	43	0.8	117%	12%	n/a	n/a	n/a	0.8x	n/a	0.00	0.0%
2017	83	1.5	63%	31%	n/a	n/a	n/a	0.8x	n/a	0.06	5.0%
2018	90	1.7	63%	31%	n/a	n/a	n/a	0.8x	n/a	0.06	4.5%
2019E	132	2.5	48%	40%	2.2	0.04	2.0%	0.6x	3.0%	0.06	4.4%
2020E	136	2.5	56%	35%	1.4	0.03	1.0%	0.5x	1.9%	0.06	4.4%
2021E	144	2.7	60%	35%	3.4	0.06	2.4%	0.5x	4.6%	0.06	4.4%

Analysts: Jakub Caithaml, Ondrej Slama
E-mail: jakub.caithaml@wood.cz, ondrej.slama@wood.com

Prague: +420 222 096 481
Website: www.wood.com

Forecasts: consolidation, preparation and expansion

Our forecast period can be broadly divided into three sections: consolidation (2019E), preparation (2020E) and expansion (2021-22E). We expect that, in 2019E, Warimpex should strengthen its balance sheet substantially, thanks to the expected sale of the two hotels in Paris, as well as the buyout of the JV partner at its Airportcity St. Petersburg project. In 2020E, we expect Warimpex to complete the Chopin office in Krakow, and launch a number of new office development projects. We do not expect substantial earnings growth in 2020E, as we expect the modest contribution from the Chopin office to be offset by a decline in rental income at the Jupiter office. During 2021-22E, we expect fast FFO expansion, driven by the rental income office developments currently under construction and in planning, including the Avior Office in St. Petersburg, Mogilska III in Krakow and Bialystock 1 in Bialystock.

2019E – consolidation

We expect Warimpex to close the sale of the two hotels in France this year. If this materialises, we expect the company to book a c.EUR 20m revaluation gain on the two hotels. Along with modest gains on the investment properties, driven mainly by the properties under development, this should drive a handsome profit of around EUR 30m. The dividend of EUR 0.06/share translates into just over EUR 3m. This means that the majority of the net income would feed directly into equity, driving the shareholders' equity up to nearly EUR 140m, on our estimates.

Early this year, Warimpex also bought out the JV partners at the Saint Petersburg office complex. As the subsidiary had negative equity (following a write-downs of the property values), we expect the transaction to reduce the minority interest on Warimpex's balance sheet from a negative c.EUR 20m to a negative c.EUR 5m.

Combined, these two transactions are likely have a significant positive impact on Warimpex's capital structure, boosting the total equity to around EUR 130-140m by the end of 2019E, from EUR 90m at the end of 2018. This would translate into an equity to total assets ratio of 40%, up from 31% in the two years prior, and a mere 6% at the end of 2015.

This boost for the book value and quality of the balance sheet should, in our view, be the key feature of the 2019E results as, with a number of office projects still under development, we expect the underlying earnings to reach c.EUR 2.3m. This would translate into FFO of EUR 0.04/share, or a c.3% FFO yield.

In the coming years, this should change, in our view, as the earnings should be boosted by the completions of the offices in Krakow, Bialystock and St. Petersburg. However, we need to wait one more year before we see substantial growth, on our estimates.

2020E – preparation

In 2020E, we expect the earnings to remain broadly stable. However, as Warimpex should launch the construction of a number of important office developments this year (including the Avior Office in St. Petersburg, Chopin office in Krakow, Mogilska III in Krakow and the first building of the office complex in Bialystock), the company should lay important foundations for its future growth in 2020E.

As for the results, we expect a positive yoy dynamic, driven by the recently-purchased hotel in Darmstadt, as well by the full contribution of the Mogilska 43 office in Krakow (completed in 2Q19E).

That said, these positive contributions may be offset by a drop in the rental income in the Jupiter office in St. Petersburg, in which Warimpex owns a 40% economic interest. According to our understanding, the office tower is leased to two large tenants, and one of the leases (representing about half of the space) is expiring at the end of this year. We estimate that the monthly rents in the building currently stand in the mid-thirties. We believe the prime rent on the market is closer to EUR 25-28 per sqm per month. As such, we believe the rents may drop, following the re-leasing.

2021-22E – expansion

From 2021E-onwards, the completions should drive significant growth in earnings, pushing up the FFO to EUR 3.4m in 2021E and to over EUR 8m by 2022E.

By 2022E, we expect to see the full contribution of the Chopin Office. Additional drivers of the earnings should include the Avior Office in St. Petersburg, the third building of the Mogilska office complex, and the first office of the Bialystock complex.

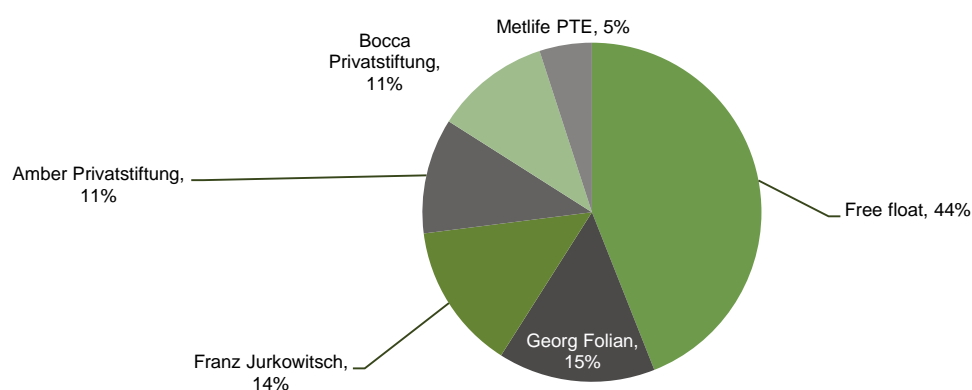
If these offices are completed broadly in line with the schedule we have outlined, by 2022E, Warimpex could be generating rental income of over EUR 10m from new developments alone. That would translate into an FFO yield in the mid-teens, on the current share price.

Naturally, a recession, a weakening of the leasing demand, or simple delays in the permitting and construction process could delay this result.

Ownership structure

Warimpex is controlled by Mr. Georg Folian (whose father, Stefan, founded the company in 1959, when it operated as an export, import, and transit trade business) and Mr. Franz Jurkowitsch, who hold a 51% stake between them. The gentlemen hold 15% and 14% stakes in the company privately, respectively. On top of this, each holds an additional 11% through family foundations, Bocca Privatstiftung and Amber Privatstiftung.

Warimpex: shareholder structure



Source: Company data, WOOD Research

Together, Georg Folian and Franz Jurkowitsch, former university colleagues, transformed the trading company into a real estate owner and developer. Since 1982, Warimpex has developed real estate worth over EUR 1bn under their management.

Mr. Georg Folian, who has been in charge of Warimpex's finances for approximately three decades, stepped down from the supervisory board on 1 January 2018. Mr. Jurkowitsch, a former university colleague of Mr. Folian, remains the CEO of the company.

Other members of the management board include Mr. Daniel Folian (who is in charge of finances and accounting, investor relations and financial management), Mr. Alexander Jurkowitsch (overseeing planning, construction, IT, and information management) and Mr. Florian Petrowsky (in charge of transaction management, organisation, human resources, and legal issues).

Warimpex: management board

		First appointed	Term until
Franz Jurkowitsch	Chairman of the Management Board	02-Sep-86	31-Dec-22
Daniel Folian	Deputy Chairman of the Management Board	01-Jan-18	31-Dec-22
Alexander Jurkowitsch	Member of the Management Board	31-Jul-06	31-Mar-24
Florian Petrowsky	Member of the Management Board	01-May-14	01-May-21

Source: Company data, WOOD Research

Warimpex: supervisory board structure

		Project Committee	Audit Committee	Personnel Committee	First appointed	Term until
Günter Korp	Chairman of the Supervisory Board	x	x	x	2009	2021
Thomas Aistleitner	Deputy Chairman of the Supervisory Board	x	x	x	2012	2021
William HM de Gelsey	Member of the Supervisory Board				2007	2021
Harald Wengust	Member of the Supervisory Board	x	x	x	2009	2021
Hubert Staszewski	Member of the Supervisory Board				2016	2022

Source: Company data, WOOD Research

Some of the key properties

Below, we present a quick overview of the key properties that Warimpex owns. In the absence of an asset-by-asset disclosure, we highlight that the figures in the table represent our estimates regarding the possible performance of the individual properties in 2019E, and could materially differ from reality.

Lodz

In autumn last year, Warimpex opened the Ogródowa Office in Lodz. The building, with 28k sqm, is located close to shopping centre Manufaktura and the Vienna House Andel's Łódź hotel. We believe that, once fully leased, the property should generate net rental income of approximately EUR 5m. Assuming an 8% yield, this would translate into a value of a touch above EUR 60m.

Warimpex: assets in Lodz

Ogródowa Office	2019E
Ownership	100%
GLA ('000 sqm)	28.0
Occupancy	80.0%
Passing rent (EUR m)	4.0
Valuation (EUR m)	63.0
Monthly rents per sqm (EUR)	15.0
Yield	8.0%
Value per sqm (EUR)	2,250

Source: WOOD Research

St Petersburg

In St. Petersburg, Warimpex owns the Airportcity, an office complex located just by the Pulkovo 2 international airport. Currently, Warimpex owns two offices in the area, as well as the Crowne Plaza Hotel and a multi-use building with 6k sqm GLA and 450 parking spots.

Earlier this year, Warimpex increased its stake in the Airportcity complex from 55% to 90%, buying out CA Immo's stake. Its remaining 10% partner is UBM Development. At the Jupiter office, Warimpex owns just a 40% economic interest. As such, the results generated by the building are visible in the JV result in our forecasts.

In the table below, we show our estimates for the two offices and the hotel for 2019E.

Warimpex: key assets in St. Petersburg

Zeppelin	2019E
Ownership	90%
GLA ('000 sqm)	15.6
Occupancy	100.0%
Passing rent (EUR m)	6.1
Valuation (EUR m)	44.6
Monthly rents per sqm (EUR)	32.5
Yield	13.7%
Value per sqm (EUR)	2,857
Jupiter office	2019E
Ownership	40%
GLA ('000 sqm)	17.0
Occupancy	100.0%
Passing rent (EUR m)	7.3
Valuation (EUR m)	46.7
Monthly rents per sqm (EUR)	36.0
Yield	15.7%
Value per sqm (EUR)	2,747
Crowne Plaza Hotel	2019E
Ownership	90%
Rooms	294.0
Occupancy	76.0%
NOI (EUR m)	2.0
Valuation (EUR m)	18.4
NOI per night (EUR)	24.7
Yield	10.9%
Value per room ('000 EUR)	62

Source: WOOD Research

Krakow

In Krakow, Warimpex owns the Mogilska office complex. The first of the three buildings, Mogilska 41, was completed in 1967. It is an older, class-B office, with 6.2k sqm GLA, located in the heart of the commercial district of Krakow. Next to it, Warimpex has developed a new addition, Mogilska 43, which was opened in May this year. This A-class office (12k sqm GLA) benefits from an excellent location within the city, and offers its tenants high-quality office space across eight floors. The building has received a BREEAM certificate with a “very good” rating.

We expect Warimpex to develop a third building on the land plot, in the direct vicinity of the remaining two buildings. We expect the third building (again, around 12k sqm) to be completed by the end of 2021E and to cost around EUR 21m to develop (translating into total capex of c.EUR 1,750/sqm).

With over 1m sqm of office space, Krakow is an established regional office market. This means that it is also in focus for developers (JLL assumes that over two-thirds of the space under construction currently in all the Polish regional cities is located in either Krakow, Wroclaw or Tricity). While, in the short term, this could mean that the room for rent growth may be limited, the leasing demand across the Polish regional markets is at record-high levels. As such, especially considering the central location of its properties, we do not expect Warimpex to struggle to lease its new building. Also, the more institutional grade buildings there are, the easier it should be to buy and sell them. This should translate into a lower liquidity premium required by investors to hold these offices. We estimate that the best new, fully-occupied, high-quality, centrally-located A-class offices with long lease terms, located in sought-after cities, such as Krakow, Wroclaw and Tricity, could be trading at yields of around 6.0-6.5% currently.

Warimpex: offices held in Krakow

Mogilska 41 Office	2019E
Ownership	100%
GLA ('000 sqm)	5.8
Occupancy	100.0%
Passing rent (EUR m)	0.7
Valuation (EUR m)	8.5
Monthly rents per sqm (EUR)	10.3
Yield	8.4%
Value per sqm (EUR)	1,468
Mogilska 43 Office	2019E
Ownership	100%
GLA ('000 sqm)	11.7
Occupancy	100.0%
Passing rent (EUR m)	2.2
Valuation (EUR m)	34.1
Monthly rents per sqm (EUR)	16.0
Yield	7.0%
Value per sqm (EUR)	2,923

Source: WOOD Research

Valuation and risks

We set our 12M PT for Warimpex at EUR 1.4/share using a DCF, a DDM and a peer comparison.

- ✓ **Multiples set the 12M PT at EUR 1.7/share.** We compare Warimpex to its CEE peers and the European office landlords. The peer group trades at around 1x BV and 6.6-6.8% FFO yields on consensus estimates. Warimpex trades at a much deeper discount to BV (around 40-50%); however, in transitioning away from hotels and into offices, the FFO yield is much lower than that of its peers, at only around 2-3%, on our numbers.
- ✓ **DDM sets the 12M PT at EUR 1.2/share.** We assume that the company will maintain its dividend of EUR 0.06/share for the next 3Y; and, from 2022E-onwards, it will tie the dividend to FFO. We assume that it will then pay out 70% of its recurring earnings.
- ✓ **DCF sets the 12M PT at EUR 1.3/share.** We use a cost of equity of 12-13% and a WACC of around 7% throughout our DCF horizon.

Setting our 12M PT at EUR 1.4/share

Valuation method	Per share (EUR)
Peer multiples	1.7
DDM	1.2
DCF	1.3
Weighted average target value	1.4
Current price	1.4
Upside/(downside)	3%

Source: WOOD Research

Key risks

- ✓ **Oversupply of offices.** As the cycle matures, development activity has accelerated in a number of cities across CEE. For instance, CBRE has reported that, in Krakow, there is over 200k sqm GLA of offices presently under construction. This represents 16% of the total standing office stock. While, so far, the leasing demand has been very strong across CEE, keeping the vacancy in check, a prospective economic downturn, coupled with completions, could push the vacancy up in the markets in which Warimpex operates.
- ✓ **Downturn in Russia.** Warimpex increased its ownership of the Airportcity project in St. Petersburg recently. In one of the buildings, Jupiter Tower, a significant lease is due to expire at the end of the year. Especially if the Russian economy and/or the RUB weakened during the second half of the year, re-leasing may prove difficult. Naturally, larger movements in the EUR/RUB, or a pronounced weakness in the economy, could prompt the tenants to approach Warimpex to try to renegotiate their contracts, asking for discounts.
- ✓ **An inability to sell the hotels in Paris.** In our model, we expect Warimpex to manage to sell the hotels in Paris this year, booking around EUR 20m in profit on the disposal. A failure to do so would result in a lower equity ratio. A lack of cash inflows from the sale could mean that Warimpex may need to use more debt to finance its development projects.
- ✓ **Development execution risk.** With a number of development projects in the pipeline, a limited availability of labour and pressure on construction costs could translate into higher-than-expected capex. The developments could also take longer to complete and Warimpex may struggle to lease them at the rent levels we have pencilled in.
- ✓ **General real estate risks.** These include, but are not limited to: an economic slowdown across CEE; yield expansion; and a decline in occupancy and rents.

Financials

Warimpex: P&L, FFO, DPS and rental income by country and sector

P&L (EUR m)	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Rental income	4	9	13	15	19	19	23	31
- net service charges and property expenses	-1	-2	-2	-3	-3	-3	-4	-5
Net rental income	3	7	11	13	16	16	19	26
- income from hotels	18	19	9	4	2	2	2	2
- net operating expenses	-6	-13	-12	-12	-12	-12	-13	-13
EBITDA (excl. one-offs and non-cash items)	15	13	7	4	6	6	9	15
- revaluation gain/(loss)	-39	4	21	15	7	6	8	13
- net result from sale of investment properties	14	9	27	0	0	0	0	0
- result from JVs	10	-1	3	1	21	1	1	1
EBIT	0	25	57	21	34	12	17	29
- net interest expense	-22	-21	-7	-4	-5	-5	-6	-7
- other financial income/expense	-20	20	-7	-12	0	0	0	0
Pre-tax profit	-42	24	43	5	30	7	11	22
- current income tax	0	-1	0	0	0	0	0	-1
- deferred tax charge	0	0	-3	-3	0	0	0	0
Net profit	-42	23	40	2	30	7	11	21
- minorities	24	-5	0	4	0	0	0	0
- discontinued operations	0	0	0	0	0	0	0	0
Net income	-18	17	41	6	30	7	11	21
FFO & DPS (EUR m, unless per sh)	2015	2016	2017	2018	2019E	2020E	2021E	2022E
FFO I (pre-tax)	n/a	n/a	n/a	n/a	2.3	1.4	3.6	9.2
FFO I (post-tax)	n/a	n/a	n/a	n/a	2.2	1.4	3.4	8.2
FFO II	n/a	n/a	n/a	n/a	22	1	3	8
FFO I per share (pre-tax)	n/a	n/a	n/a	n/a	0.04	0.03	0.07	0.17
FFO I per share (post-tax)	n/a	n/a	n/a	n/a	0.04	0.03	0.06	0.15
FFO II per share	n/a	n/a	n/a	n/a	0.41	0.03	0.06	0.15
DPS (from current year profit)	0.00	0.00	0.06	0.06	0.06	0.06	0.06	0.11
Payout ratio (of post-tax FFO I)	n/a	n/a	n/a	n/a	1.45x	2.34x	0.96x	0.70x
Margins and growth	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Net rental income margin	71%	79%	82%	83%	84%	84%	85%	85%
EBITDA margin	344%	149%	53%	28%	29%	31%	40%	51%
FFO I (pre-tax) margin	n/a	n/a	n/a	n/a	12%	7%	16%	30%
FFO I (post-tax) margin	n/a	n/a	n/a	n/a	12%	7%	15%	27%
Net rental income growth	n/a	96%	54%	17%	21%	1%	21%	33%
EBITDA growth	n/a	-15%	-45%	-38%	27%	5%	57%	70%
Net income growth	n/a	-198%	133%	-85%	405%	-76%	53%	87%
FFO I per sh (pre-tax) growth	n/a	n/a	n/a	n/a	n/a	-40%	163%	154%
FFO I per sh (post-tax) growth	n/a	n/a	n/a	n/a	n/a	-38%	143%	145%
FFO II per sh growth	n/a	n/a	n/a	n/a	n/a	-94%	143%	145%
Rental income per country	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Hungary	0%	0%	0%	1%	7%	7%	6%	4%
Poland	0%	0%	0%	6%	41%	41%	46%	47%
Russia	0%	0%	0%	62%	52%	52%	48%	49%
Rental income per sector	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Offices	15%	26%	56%	77%	88%	87%	89%	91%
Retail	0%	0%	0%	0%	0%	0%	0%	0%
Logistics	0%	0%	0%	0%	0%	0%	0%	0%
Hotels	85%	74%	44%	23%	12%	13%	11%	9%
Residential	0%	0%	0%	0%	0%	0%	0%	0%
Others	0%	0%	0%	0%	0%	0%	0%	0%

Source: WOOD Research, company data

Warimpex: capital structure and cash flow

Capital structure (EUR m)	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Total debt	287	170	140	159	158	208	228	248
Cash	7	3	23	8	34	29	6	8
Net debt	279	167	117	151	124	179	222	240
Equity	22	43	83	90	132	136	144	162
Assets	350	358	265	292	333	387	415	453
Investment property	280	143	184	238	258	318	368	403
EBITDA	15	13	7	4	6	6	9	15
Equity ratio	6%	12%	31%	31%	40%	35%	35%	36%
Gross LTV	102%	119%	76%	67%	61%	66%	62%	62%
Net LTV	100%	117%	63%	63%	48%	56%	60%	60%
Net debt to EBITDA	18.5x	13.1x	16.6x	34.8x	22.5x	31.0x	24.5x	15.5x
Gearing (net debt to equity)	1285%	388%	140%	167%	94%	131%	154%	148%
Cost of debt (incl. hedging)	n/a	n/a	n/a	n/a				
Average debt maturity (years)	n/a	n/a	n/a	n/a				
% of debt fixed or hedged	n/a	n/a	n/a	n/a				
% of unsecured debt	n/a	n/a	n/a	n/a				
% of unencumbered assets	n/a	n/a	n/a	n/a				
Rating by S&P	n/a	n/a	n/a	n/a				
Rating by Fitch	n/a	n/a	n/a	n/a				
Rating by Moody's	n/a	n/a	n/a	n/a				
Net debt, rel. change, yoy	n/a	-40%	-30%	29%	-18%	44%	24%	8%
Equity, rel. change, yoy	n/a	98%	94%	8%	47%	3%	6%	12%
Assets, rel. change, yoy	n/a	2%	-26%	10%	14%	16%	7%	9%
Cash Flow (EUR m)	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Profit before tax	-42	24	43	5	30	7	11	22
CF from Operations (before WC)	25	12	10	5	7	6	10	16
WC changes	-19	-161	163	0	2	0	-1	-1
CF from Operations	5	-150	173	5	8	7	9	15
Adjustment for net interest and taxes	-16	-9	-4	-6	-5	-5	-6	-8
Net CF from Operations	-11	-159	169	-1	4	2	3	7
CAPEX	-28	-7	-31	-52	-33	-54	-44	-20
Proceeds from disposals	49	11	79	11	59	0	0	0
Others	18	7	283	2	0	0	0	0
Net CF from Investing	39	10	331	-39	26	-54	-44	-20
Proceeds from issuance of share capital	0	0	0	0	0	0	0	0
Acquisition of own shares	0	0	0	0	0	0	0	0
Net issue of debt	-36	-16	-35	25	-1	50	20	20
Dividends paid	0	0	0	-3	-3	-3	-3	-3
Others	0	0	0	0	0	0	0	0
Net CF from Financing	-36	-16	-35	22	-4	47	17	17
Change in cash & equivalents	-8	-165	466	-17	26	-6	-24	3
EPRA Indicators (EUR m)	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Book Value	22	43	83	90	132	136	144	162
EPRA NAV	n/a	n/a	n/a	n/a				
EPRA NNNNAV	n/a	n/a	n/a	n/a				
BV per share (EUR)	0.40	0.80	1.55	1.67	2.45	2.53	2.67	3.00
EPRA NAV per share (EUR)	n/a	n/a	n/a	n/a				
EPRA NNNNAV per share (EUR)	n/a	n/a	n/a	n/a				
EPRA Net Initial Yield (NIY)	n/a	n/a	n/a	n/a				
EPRA "topped-up" NIY	n/a	n/a	n/a	n/a				
EPRA Ifl Gross Rental Income	n/a	n/a	n/a	n/a				
EPRA Ifl Net Rental Income	n/a	n/a	n/a	n/a				
EPRA Earnings (EUR m)	n/a	n/a	n/a	n/a				
Company adj. EPRA Earnings	n/a	n/a	n/a	n/a				
EPRA Earnings per share	n/a	n/a	n/a	n/a				
Company adj. EPRA Earnings (per share)	n/a	n/a	n/a	n/a				
EPRA Vacancy rate	n/a	n/a	n/a	n/a				
EPRA Cost Ratio (incl. vacancy costs)	n/a	n/a	n/a	n/a				
EPRA Cost Ratio (excl. vacancy costs)	n/a	n/a	n/a	n/a				

Source: WOOD Research, company data

Warimpex: DCF, cost of capital, portfolio, share data and valuation multiples

DCF: FCFF reconciliation (EUR m)	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
FFO I	2	1	3	8	10	11	12	12	13	13
+ taxes	0	0	0	1	1	1	1	1	2	2
+ interest costs	5	5	6	7	7	7	7	7	7	7
Adj. EBIT	7	6	10	16	18	20	21	21	21	22
tax rate	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%
NOPLAT	6	6	8	14	16	17	18	18	19	19
CAPEX	-33	-54	-44	-20	-15	-3	-3	-3	-3	-3
WC change	2	0	-1	-1	0	0	0	0	0	0
Proceeds from disposals	59	0	0	0	0	0	0	0	0	0
FCFF	34	-48	-36	-7	1	15	15	16	16	17
DCF: Cost of Equity and WACC	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
[A] Debt/Capital Ratio	54%	60%	60%	60%	58%	56%	55%	54%	53%	53%
[C] Equity/Capital Ratio	46%	40%	40%	40%	42%	44%	45%	46%	47%	47%
Marginal Cost of Debt (%)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
x Marginal Tax Rate (%)	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%
[B] Cost of Debt (post tax)	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%
Beta	1.26	1.45	1.56	1.49	1.45	1.37	1.33	1.29	1.25	1.22
x Equity Risk Premium	7.3%	8.4%	8.9%	8.5%	8.2%	7.7%	7.4%	7.2%	7.0%	6.8%
+ Risk Free Rate	5.4%	5.4%	5.1%	5.2%	5.1%	4.9%	4.9%	4.9%	5.0%	5.0%
[D] Cost of Equity	12.6%	13.8%	14.0%	13.7%	13.3%	12.6%	12.4%	12.2%	12.0%	11.8%
[A x B] + [C x D] = WACC:	7.3%	7.1%	7.1%	7.1%	7.1%	7.0%	7.0%	7.0%	7.0%	7.0%
Portfolio	2018	2019E	2020E	2021E	2022E					
Year-end, m2 ('000)	88	88	88	88	88					
Rented space, m2	82	82	82	82	82					
Occupancy	92.8%	92.8%	92.8%	92.8%	92.8%					
Gross Rental Income (EUR m)	11	19	19	19	19					
Value (EUR m)	185	206	208	208	210					
Weighted Average Lease Term (Y)	n/a	n/a	n/a	n/a	n/a					
- price / m2, EUR	2,102	2,345	2,369	2,369	2,392					
- average gross rent per m2, EUR	19.0	18.9	19.1	19.1	19.3					
- yield	10.8%	9.7%	9.7%	9.7%	9.7%					
- yield at full occupancy	10.8%	9.7%	9.7%	9.7%	9.7%					
Number of shares and share price	2015	2016	2017	2018	2019E	2020E	2021E	2022E		
Number of shares	98.8	98.8	98.8	98.8	98.8	98.8	98.8	98.8		
Treasury shares	2.0	5.4	5.6	5.8	5.8	5.8	5.8	5.8		
Number of shares outstanding	54.0	54.0	54.0	54.0	54.0	54.0	54.0	54.0		
Average number of shares	87.9	92.9	98.8	98.8	98.8	98.8	98.8	98.8		
Average number of treasury shares	0.9	3.8	5.5	5.8	5.8	5.8	5.8	5.8		
Average number of shares outstanding	54.0	54.0	54.0	54.0	54.0	54.0	54.0	54.0		
Average price/share (EUR)	0.8	0.6	1.2	1.3	1.2	n/a	n/a	n/a		
Lowest price (EUR)	0.6	0.5	0.8	1.0	1.0	n/a	n/a	n/a		
Highest price (EUR)	1.0	0.8	1.6	1.6	1.4	n/a	n/a	n/a		
Closing price (EUR)	0.6	0.8	1.4	1.0	n/a	n/a	n/a	n/a		
Market cap, average (EUR m)	44	35	65	72	67	n/a	n/a	n/a		
Market cap, eop (EUR m)	35	42	77	54	n/a	n/a	n/a	n/a		
Profitability and valuation multiples	2015	2016	2017	2018	2019E	2020E	2021E	2022E		
FFO I (pre-tax) ROE					2.0%	1.0%	2.6%	6.0%		
FFO I (after-tax) ROE					2.0%	1.0%	2.4%	5.4%		
FFO II ROE					20.0%	1.0%	2.4%	5.4%		
FFO I (pre-tax) RONAV					n/a	n/a	n/a	n/a		
FFO I (after-tax) RONAV					n/a	n/a	n/a	n/a		
FFO II RONAV					n/a	n/a	n/a	n/a		
FFO I yield (pre-tax)					3.1%	1.9%	4.9%	12.5%		
FFO I yield (post-tax)					3.0%	1.9%	4.6%	11.2%		
FFO II yield					30.3%	1.9%	4.6%	11.2%		
P/BV	2.0x	0.8x	0.8x	0.8x	0.6x	0.5x	0.5x	0.5x		
P/EPRA NAV	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a		
Dividend yield	0.0%	0.0%	5.0%	4.5%	4.4%	4.4%	4.4%	7.8%		
EV/EBITDA	21.5x	15.8x	25.9x	51.5x	35.8x	43.7x	32.5x	20.3x		

Source: Company data, WOOD Research

Immofinanz

Hold

Maintained

Price: EUR 23.2
Price target: EUR 25.0
(From EUR 21.6)

Getting better

We see several positives. The restructuring, which showed visible results above all in boosting the office occupancy, is being finalised. Property expenses, as well as various overheads, are normalising. The cost of debt is declining, and Immofinanz was recently assigned an investment grade rating. Also, with over EUR 600m of cash, acquisitions could boost rental income and bring further operational efficiencies; as could the merger with S Immo. That said, while better than in the past, we are coming from a very low base. Even factoring in recent improvements, we forecast the FFO ROE at around 4%, well below IIA's cost of equity of c.7-8%, on our estimates. Unless Immofinanz exceeds our forecasts materially, we believe there is little case for the shares to rerate to, or above, the NAV. As such, we maintain our HOLD rating, although we have adjusted our 12M price target (PT) to EUR 25.0/share.

Margin on asset management is key. Immofinanz books costs slightly differently than the other real estate companies we cover. Instead of gross and net rental income, the company reports income from asset management. Here, it includes costs related to asset management and the leasing of the buildings. Its peers, by and large, include these costs in overheads. In the long run, we expect the margin to increase from sub-60% during 2015-16 to above 80% from 2020E-onwards. Even a relatively small improvement of this margin has a tangible effect on the FFO. There is big volatility in this margin between quarters – for example, in 2Q18, Immofinanz reached 83%; while, in 3Q18, a mere 70%. In our model, we expect the margin to remain sub-80% this year. If it is stronger than we expect, we may turn more positive on the stock.

Retail parks faring surprisingly well. The Stop.Shop portfolio saw 4.8% like-for-like (lfl) growth in footfall in 2018, while tenants' turnovers were up by 5% yoy, on a lfl, per sqm basis. We have been hearing conflicting accounts about the performance of sub-prime retail in CEE, so this result strikes us as quite impressive. With an occupancy cost ratio of around 8-10% across the Stop.Shop portfolio, these assets may, perhaps counter-intuitively, become quite resilient, especially as many are located in smaller cities, where the propensity to shop online is lower.

Merger with S Immo. We maintain our view that, while not impossible, closing the merger in 2019 strikes us as ambitious. It would be likely to require significant expenditure on external advisors from both parties, and we see no reason for S Immo to need to rush things through. Also, while not our central scenario, a cash call for the rest of S Immo shares cannot be ruled out completely, in our view. While we appreciate that the combination of the companies makes sense and should allow for economies of scale, we are not sure the market would reward Immofinanz for buying out S Immo's shareholders.

We set our 12M PT at EUR 25.0/share, using a DCF (EUR 24.1/share) and peer multiples (EUR 25.9/share). Our WACC ranges between 4.9-5.1% throughout our forecast horizon.

Expected events

2Q19 results	28 August
3Q19 results	27 November

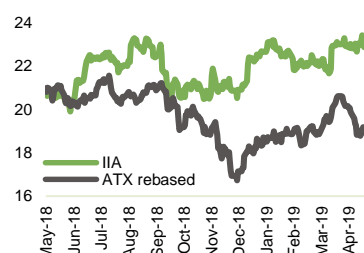
Key data

Market Cap	EUR 2,597
3M ADTV	EUR 3.4m
Free float	94%
Shares outstanding	112
Major Shareholder	S Immo, 12%
Reuters Code	IMFI.VI
Bloomberg Code	IIA AV
ATX Index	2,912

Price performance

52-w range	EUR 19.91-23.41/share
52-w performance	7%
Relative performance	21%

IIA 12M share price performance



Year	BV (EUR m)	BVPS (EUR)	Net LTV	Equity ratio	FFO (EUR m)	FFOPS (EUR)	FFO ROE	P/BV	FFO yield	DPS (EUR)	Div. Yield
2016	2,651	2.7	63%	38%	17	0.02	0.6%	0.7x	0.9%	0.06	3.1%
2017	2,808	2.5	52%	46%	27	0.03	1.0%	0.8x	1.3%	0.07	3.5%
2018	3,018	28.2	50%	49%	67	0.62	2.3%	0.8x	2.9%	0.85	4.0%
2019E	3,042	28.4	51%	49%	115	1.08	3.8%	0.8x	4.6%	0.90	3.9%
2020E	3,040	28.4	51%	49%	121	1.13	4.0%	0.8x	4.9%	0.91	3.9%
2021E	3,011	28.1	51%	48%	126	1.17	4.1%	0.8x	5.0%	0.94	4.0%

Analysts: Jakub Caithaml, Ondrej Slama
E-mail: jakub.caithaml@wood.cz, ondrej.slama@wood.com

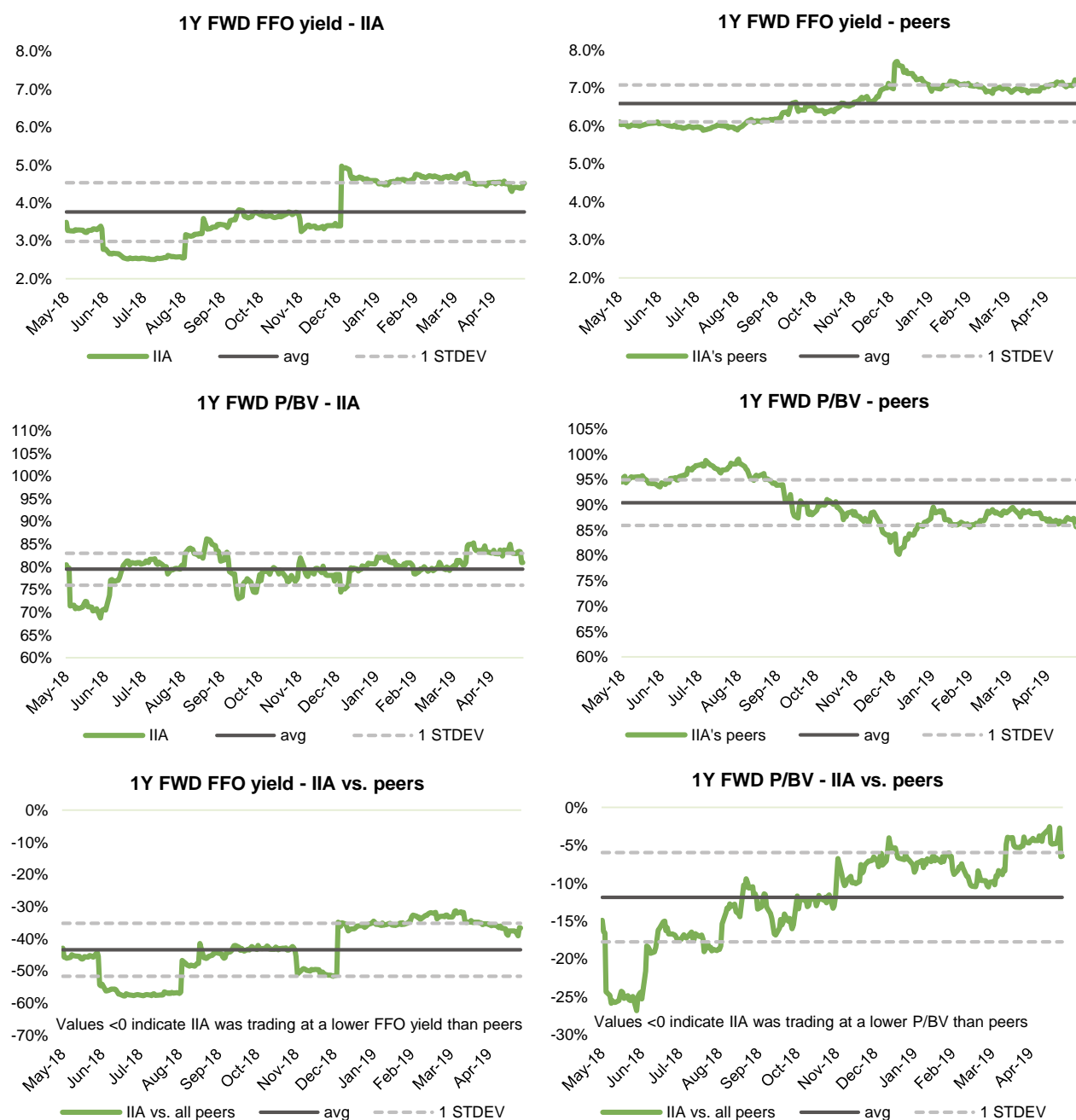
Prague: +420 222 096 481
Website: www.wood.com

Key risks and triggers

We believe that improvements in profitability are the key factor that could drive a rerating. If Immofinanz manages to improve the margin on income from asset management to around 85-90% and, at the same time, further streamline its operations, it would offer significant upside relative to our forecasts. While we believe that, on its own, this may be difficult to achieve, if successful, the combination with S Immo may result in significant operational efficiencies. Acquisitions could also help in this regard— with over EUR 600m of cash on its balance sheet, Immofinanz has tangible funds for further expansion. However, retail accounts for approximately half of Immofinanz's portfolio. With European retail real estate companies trading at deeply discounted levels (a 30% discount to BV and an 8-9% FFO yield are not uncommon), we believe it puts a limit on how far Immofinanz can rerate.

In our view, the chief risks include: Immofinanz submitting a cash offer for the remaining S Immo shares; negotiations with S Immo breaking down; a deterioration of the rents in the retail portfolio; oversupply in the office markets where Immofinanz operates; an economic slowdown; yield expansion; and bad investments.

Immofinanz vs. peers



Source: Bloomberg, WOOD Research

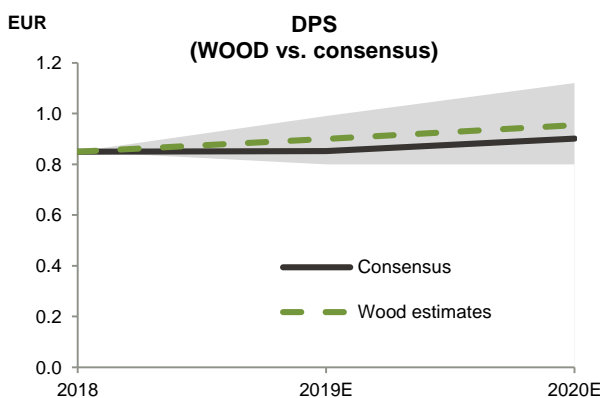
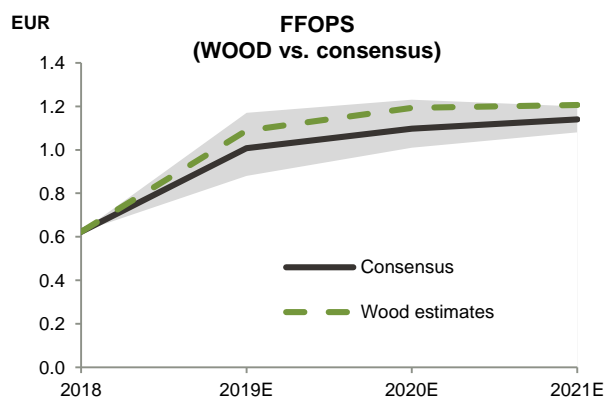
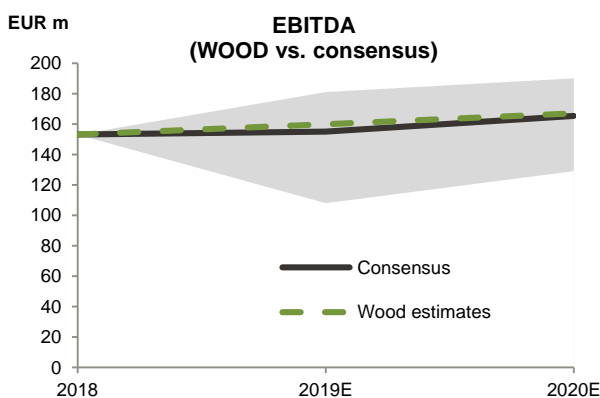
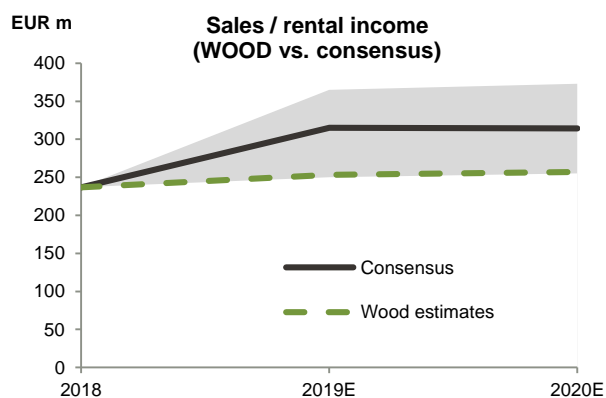
WOOD vs. the consensus, and new vs. old estimates

WOOD vs. consensus

EUR m	2019E			2020E			2021E		
	WOOD	Cons.	Diff. (%)	WOOD	Cons.	Diff. (%)	WOOD	Cons.	Diff. (%)
Sales	244	315	-23%	245	314	-22%	242	378	-36%
EBITDA	144	155	-7%	157	165	-5%	160	182	-12%
EBIT	195	155	25%	175	175	0%	145	196	-26%
Net profit	119	99	21%	99	126	-21%	72	173	-58%
BPS (EUR)	28.4	27.6	3%	28.4	28.1	1%	28.1	28.5	-1%
FFOPS (EUR)	1.08	1.01	7%	1.13	1.10	3%	1.17	1.14	3%
DPS (EUR)	0.90	0.85	6%	0.91	0.90	0%	0.94	1.03	-9%
EBITDA margin	59.3%	49.2%	10.0ppt	64.2%	52.6%	11.5ppt	66.0%	48.1%	18.0ppt
Net margin	48.9%	31.3%	17.6ppt	40.6%	40.1%	0.5ppt	29.8%	45.6%	-15.9ppt

Source: WOOD Research, Bloomberg

WOOD vs. consensus

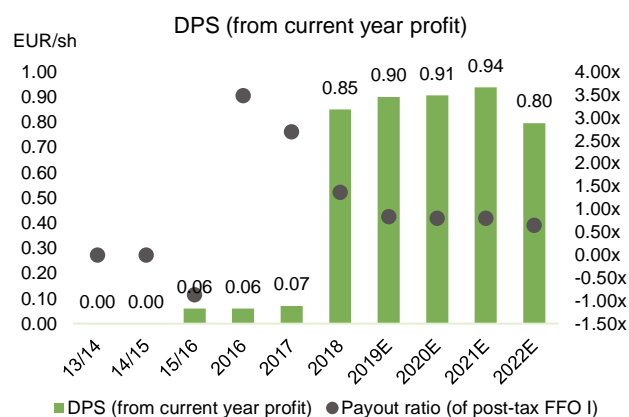
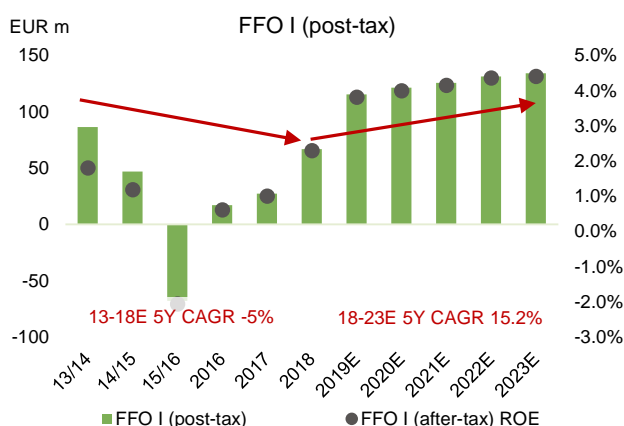
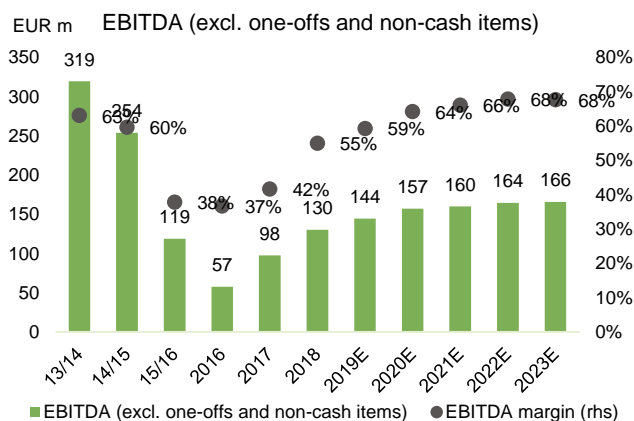
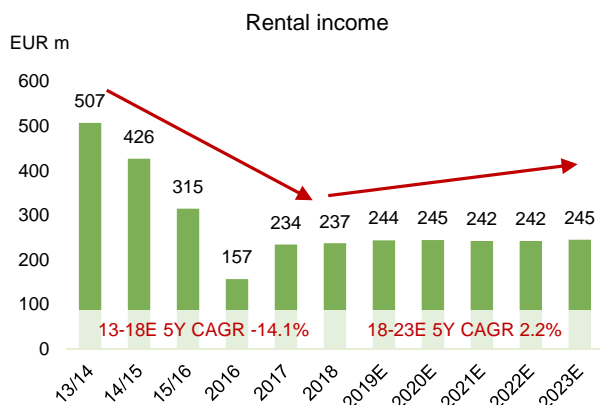


Source: Company data, Bloomberg, WOOD Research

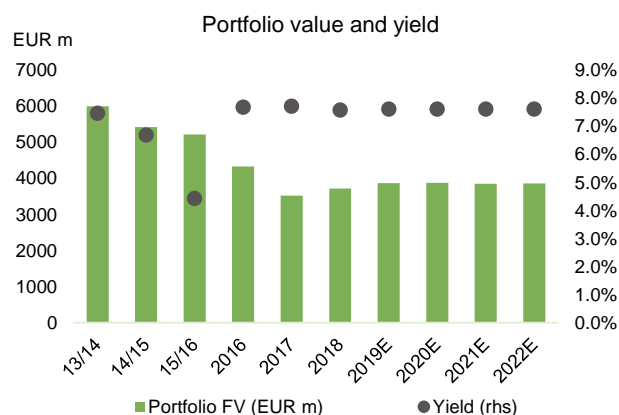
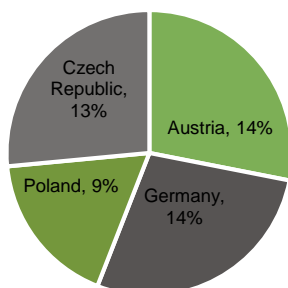
WOOD: new vs. old

EUR m	2019E			2020E			2021E		
	new	old	Diff. (%)	new	old	Diff. (%)	new	old	Diff. (%)
Sales	244	257	-5%	245	260	-6%	242	260	-7%
EBITDA	144	162	-11%	157	158	-1%	160	170	-6%
EBIT	195	191	2%	175	196	-10%	145	170	-14%
Net profit	119	134	-11%	99	142	-30%	72	113	-36%
BPS (EUR)	28.4	26.3	8%	28.4	26.6	7%	28.1	26.8	5%
FFOPS (EUR)	1.08	1.06	1%	1.13	1.36	-17%	1.17	1.14	2%
DPS (EUR)	0.90	0.85	6%	0.91	0.82	10%	0.94	0.92	2%
EBITDA margin	59.3%	63.3%	-4.0ppt	64.2%	60.9%	3.3ppt	66.0%	65.2%	0.9ppt
Net margin	48.9%	52.0%	-3.2ppt	40.6%	54.5%	-13.9ppt	29.8%	43.4%	-13.6ppt

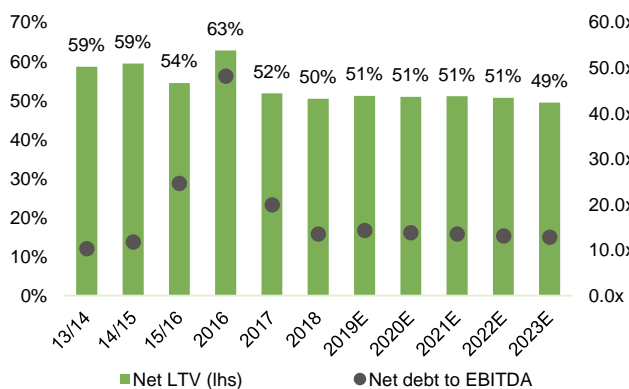
Source: WOOD Research



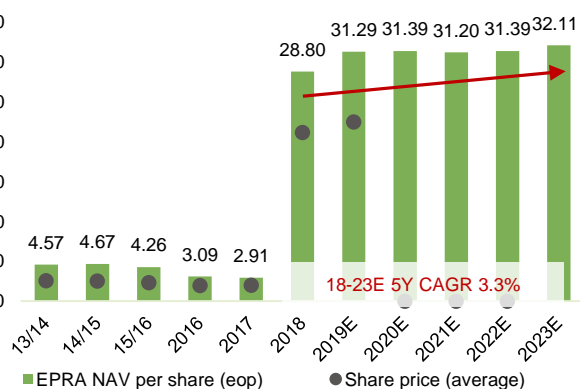
Rental income by country, 2019E



Leverage: net LTV and net debt to EBITDA



EPRA NAV/sh



Source: Company data, Bloomberg, WOOD Research

Valuation

We value Immofinanz using a combination of a DCF and a peer valuation. We compare the company with the CEE RE companies and its European office and retail peers. We use a WACC of 4.9-5.1%.

Setting our 12M PT at EUR 25.0/share

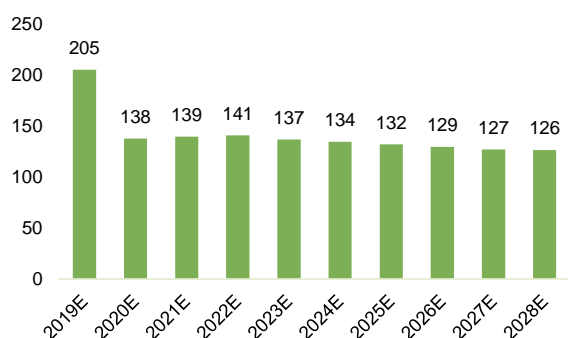
Valuation method	12M PT
Peer multiples	25.9
DCF	24.1
Weighted average target value	25.0
Current price	23.2
Upside/(downside)	8%

Source: WOOD Research

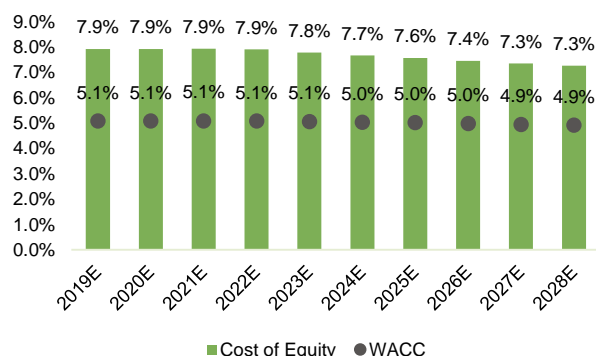
Immofinanz: valuation – COE, WACC, multiples

EUR m

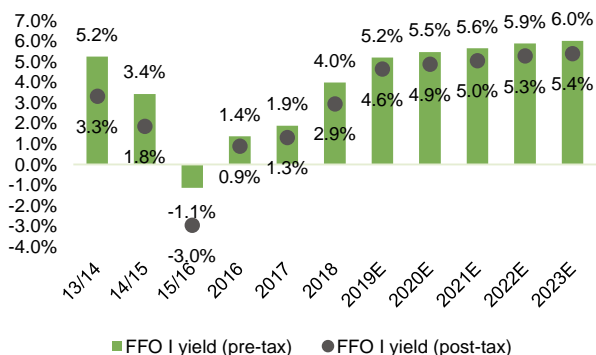
FCFF



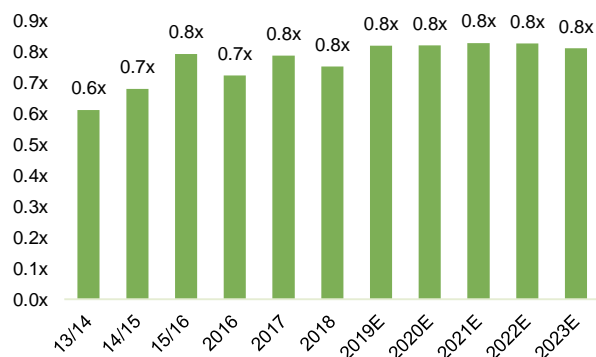
Cost of Equity and WACC



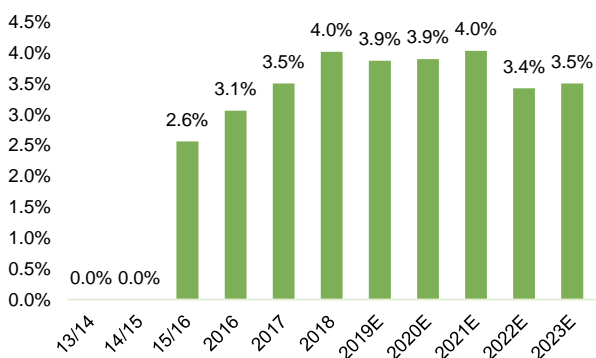
FFO I yield



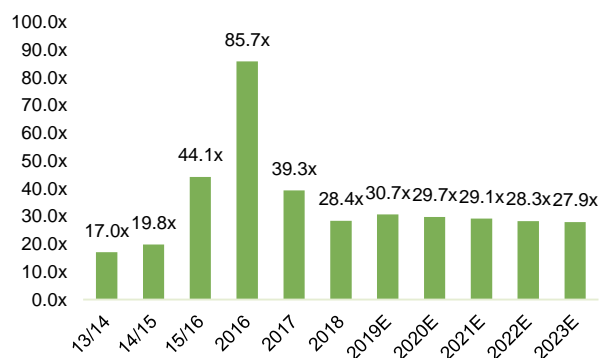
P/BV



Dividend yield



EV/EBITDA



Source: Company data, Bloomberg, WOOD Research

Financials

Immofinanz: P&L, FFO, DPS and rental income by country and sector

P&L (EUR m)	12/13	13/14	14/15	15/16	2016	2017	2018	2019E	2020E	2021E	2022E
Rental income	546.2	506.7	426.3	314.5	156.7	234.5	236.9	243.7	244.7	242.3	242.4
- net service charges and property expenses	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Net rental income	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
- income from hotels											
- net operating expenses	-190.6	-187.3	-172.3	-195.7	-99.2	-136.9	-106.7	-99.3	-87.6	-82.3	-78.0
EBITDA (excl. one-offs and non-cash items)	355.6	319.4	254.0	118.8	57.5	97.6	130.2	144.4	157.0	160.0	164.5
- revaluation gain/(loss)	23.0	277.1	-31.6	-140.5	3.8	60.3	6.0	36.6	4.5	-29.0	9.3
- net result from sale of investment properties	1.7	0.6	7.8	1.7	-5.1	4.8	0.0	0.0	0.0	0.0	0.0
- result from JVs	-2.9	43.5	-37.6	79.8	2.5	200.0	108.2	13.7	13.7	14.3	15.0
EBIT	377.3	640.6	192.6	59.7	58.7	362.8	244.4	194.6	175.2	145.3	188.9
- net interest expense	-197.9	-189.9	-175.2	-158.8	-65.0	-90.7	-60.4	-47.4	-49.0	-48.9	-48.7
- other financial income/expense	-74.4	-143.9	-352.4	-240.0	17.2	-20.6	-2.5	0.0	0.0	0.0	0.0
Pre-tax profit	105.1	306.8	-334.9	-339.1	10.9	251.6	181.5	147.2	126.2	96.4	140.2
- current income tax	-22.1	-50.0	-40.0	-41.7	-9.3	-11.9	-23.6	-13.9	-14.7	-15.0	-15.5
- deferred tax charge	-30.4	-105.3	27.8	31.7	43.6	-7.5	37.6	-14.7	-12.6	-9.6	-14.0
Net profit	52.6	151.5	-347.1	-349.1	45.2	232.2	195.5	118.7	98.9	71.8	110.7
- minorities	-0.4	0.0	0.0	2.5	-4.6	2.5	0.0	0.5	0.4	0.3	0.5
- discontinued operations	100.2	105.0	-9.7	-9.7	-208.8	-718.1	-0.8	0.0	0.0	0.0	0.0
Net income	152.4	256.4	-356.8	-356.3	-168.1	-483.4	194.7	119.1	99.3	72.1	111.2
FFO & DPS (EUR m, unless per sh)	12/13	13/14	14/15	15/16	2016	2017	2018	2019E	2020E	2021E	2022E
FFO I (pre-tax)	163	136	87	-26	26	39	90	129	136	140	147
FFO I (post-tax)	141	86	47	-68	17	27	67	115	121	126	131
FFO II	184	99	47	-79	-1	46	67	110	121	126	131
FFO I per share (pre-tax)	0.16	0.13	0.09	-0.03	0.03	0.04	0.84	1.21	1.27	1.31	1.37
FFO I per share (post-tax)	0.14	0.08	0.05	-0.07	0.02	0.03	0.62	1.08	1.13	1.17	1.22
FFO II per share	0.18	0.10	0.05	-0.08	0.00	0.04	0.62	1.03	1.13	1.17	1.22
DPS (from current year profit)	0.00	0.00	0.00	0.06	0.06	0.07	0.85	0.90	0.91	0.94	0.80
Payout ratio (of post-tax FFO I)	0.00x	0.00x	0.00x	-0.87x	3.47x	2.69x	1.36x	0.84x	0.80x	0.80x	0.65x
Margins and growth	12/13	13/14	14/15	15/16	2016	2017	2018	2019E	2020E	2021E	2022E
Net rental income margin	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EBITDA margin	65%	63%	60%	38%	37%	42%	55%	59%	64%	66%	68%
FFO I (pre-tax) margin	30%	27%	20%	-8%	17%	17%	38%	53%	56%	58%	60%
FFO I (post-tax) margin	26%	17%	11%	-22%	11%	12%	28%	47%	50%	52%	54%
Net rental income growth	n/a	-7%	-16%	-26%	-50%	50%	1%	3%	0%	-1%	0%
EBITDA growth	n/a	-10%	-20%	-53%	-52%	70%	33%	11%	9%	2%	3%
Net income growth	n/a	68%	-239%	0%	-53%	188%	-140%	-39%	-17%	-27%	54%
FFO I per sh (pre-tax) growth	n/a	-16%	-36%	-131%	-200%	40%	2151%	43%	5%	3%	4%
FFO I per sh (post-tax) growth	n/a	-39%	-45%	-248%	-125%	51%	2292%	73%	5%	3%	5%
FFO II per sh growth	n/a	-46%	-52%	-273%	-99%	-6091%	1300%	65%	10%	3%	5%
Rental income per country	12/13	13/14	14/15	15/16	2016	2017	2018	2019E	2020E	2021E	2022E
Austria	17%	17%	20%	22%	18%	17%	20%	14%	14%	14%	14%
Germany	8%	7%	2%	2%	3%	3%	4%	14%	14%	14%	14%
Poland	11%	8%	6%	12%	12%	14%	19%	9%	9%	9%	9%
Czech Republic	7%	7%	9%	8%	7%	7%	9%	13%	13%	13%	13%
Slovakia	4%	4%	4%	5%	4%	6%	9%	19%	19%	19%	19%
Hungary	5%	6%	6%	8%	8%	9%	13%	20%	20%	20%	20%
Romania	9%	9%	12%	14%	14%	16%	20%	0%	0%	0%	0%
Russia	30%	33%	35%	26%	32%	25%	0%	0%	0%	0%	0%
Others	8%	8%	5%	3%	2%	3%	5%	10%	10%	10%	10%
Rental income per sector	12/13	13/14	14/15	15/16	2016	2017	2018	2019E	2020E	2021E	2022E
Offices	26%	26%	27%	36%	47%	48%	0%	49%	49%	50%	50%
Retail	51%	53%	54%	57%	44%	44%	0%	47%	46%	46%	45%
Logistics	13%	12%	13%	4%	0%	0%	0%	0%	0%	0%	0%
Hotels	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Residential	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Others	9%	9%	6%	6%	9%	8%	0%	4%	4%	4%	4%

Source: WOOD Research, company data

Immofinanz: capital structure, cash flow and EPRA indicators

Capital structure (EUR m)	12/13	13/14	14/15	15/16	2016	2017	2018	2019E	2020E	2021E	2022E
Total debt	5,418	4,248	4,133	3,296	2,645	2,620	2,451	2,549	2,543	2,532	2,519
Cash	738	245	391	372	189	478	376	364	363	363	362
Net debt	4,679	4,003	3,742	2,925	2,456	2,142	2,075	2,185	2,180	2,169	2,157
Equity	5,327	4,260	3,700	2,886	2,651	2,808	3,018	3,042	3,040	3,011	3,017
Assets	12,581	9,568	8,848	7,247	7,003	6,063	6,116	6,235	6,241	6,208	6,215
Investment property	9,642	6,826	6,300	5,372	3,910	4,134	4,115	4,274	4,280	4,251	4,261
EBITDA	425	388	317	119	51	107	153	152	157	160	164
Equity ratio	42%	45%	42%	40%	38%	46%	49%	49%	49%	48%	49%
Gross LTV	56%	62%	66%	61%	68%	63%	60%	60%	59%	60%	59%
Net LTV	49%	59%	59%	54%	63%	52%	50%	51%	51%	51%	51%
Net debt to EBITDA	11.0x	10.3x	11.8x	24.7x	48.2x	20.0x	13.6x	14.3x	13.9x	13.6x	13.1x
Gearing (net debt to equity)	88%	94%	101%	101%	93%	76%	69%	72%	72%	72%	71%
Cost of debt (incl. hedging)	3.7%	4.2%	3.9%	3.9%	4.0%	2.3%	1.9%	12.5%	12.5%	12.5%	12.5%
Average debt maturity (years)	n/a	n/a	n/a	3.8	3.3	3.5	3.3				
% of debt fixed or hedged	64%	60%	64%	53%	68%	64%	74%				
% of unsecured debt	12%	16%	25%	18%	18%	12%	12%				
% of unencumbered assets	n/a	n/a	16%	16%	14%	19%	17%				
Rating by S&P	n/a	n/a	n/a	n/a	n/a	n/a	n/a	BBB-			
Rating by Fitch	n/a	n/a	n/a	n/a	n/a	n/a					
Rating by Moody's	n/a	n/a	n/a	n/a	n/a	n/a					
Net debt, rel. change, yoy	-3%	-14%	-7%	-22%	-16%	-13%	-3%	5%	0%	0%	-1%
Equity, rel. change, yoy	-4%	-20%	-13%	-22%	-8%	6%	7%	1%	0%	-1%	0%
Assets, rel. change, yoy	3%	-24%	-8%	-18%	-3%	-13%	1%	2%	0%	-1%	0%
Cash Flow (EUR m)	12/13	13/14	14/15	15/16	2016	2017	2018	2019E	2020E	2021E	2022E
Profit before tax	92	300	-349	-370	-7	200	204	147	126	96	140
CF from Operations (before WC)	408	334	234	124	63	60	127	131	142	145	149
WC changes	-12	-46	-81	-3	35	-8	1	11	-1	2	2
CF from Operations	396	288	154	121	98	52	128	142	142	147	151
Adjustment for net interest and taxes	271	-53	572	410	45	-140	-77	-17	16	49	9
Net CF from Operations	668	235	726	531	143	-88	50	125	158	195	160
CAPEX	-280	-535	-474	-298	-737	-290	-524	-7	-12	-16	-19
Proceeds from disposals	233	628	542	957	605	466	328	63	0	0	0
Others	-7	12	-12	41	2	0	0	0	0	0	0
Net CF from Investing	-26	105	117	689	-120	196	-171	71	5	2	-1
Proceeds from issuance of share capital	0	0	0	0	0	0	0	0	0	0	0
Acquisition of own shares	0	0	0	0	0	0	0	0	0	0	0
Net issue of debt	300	-241	-40	164	147	200	200	0	0	0	0
Dividends paid	-9	0	-44	-48	-61	-71	-74	-93	-100	-106	-110
Others	0	0	0	0	0	0	0	0	0	0	0
Net CF from Financing	-201	-911	-119	-531	-155	-6	-143	-140	-147	-148	-151
Change in cash & equivalents	179	-494	155	255	-182	240	-186	72	-1	0	-1
EPRA Indicators (EUR m)	12/13	13/14	14/15	15/16	2016	2017	2018	2019E	2020E	2021E	2022E
Book Value	5,327	4,260	3,700	2,886	2,651	2,808	3,018	3,042	3,040	3,011	3,017
EPRA NAV	5,887	4,641	4,635	4,158	3,014	3,221	3,086	3,352	3,363	3,343	3,363
EPRA NNNNAV	5,463	4,413	4,372	3,915	2,868	3,202	2,993	3,251	3,262	3,243	3,263
BV per share (EUR)	5.2	4.2	3.7	3.0	2.7	2.5	28.2	28.4	28.4	28.1	28.2
EPRA NAV per share (EUR)	5.8	4.6	4.7	4.3	3.1	2.9	28.8	31.3	31.4	31.2	31.4
EPRA NNNNAV per share (EUR)	5.4	4.3	4.4	4.0	2.9	2.9	27.9	30.3	30.4	30.3	30.5
EPRA Net Initial Yield (NIY)	n/a	5.90%	5.50%	4.90%	5.14%	5.30%					
EPRA "topped-up" NIY	n/a	5.90%	6.60%	6.90%	n/a	n/a					
EPRA Ifl Gross Rental Income	n/a	n/a	n/a	n/a	n/a	n/a					
EPRA Ifl Net Rental Income	n/a	n/a	n/a	n/a	n/a	n/a					
EPRA Earnings (EUR m)	n/a	n/a	-312	-270	-54	112					
Company adj. EPRA Earnings	n/a	n/a	-64	-44	38	36					
EPRA Earnings per share	n/a	-0.05	-0.31	-0.28	-0.05	0.11					
Company adj. EPRA Earnings (per share)	n/a	0.06	-0.06	-0.04	0.04	0.03					
EPRA Vacancy rate	n/a	n/a	n/a	n/a	n/a	n/a					
EPRA Cost Ratio (incl. vacancy costs)	n/a	n/a	n/a	n/a	n/a	n/a					
EPRA Cost Ratio (excl. vacancy costs)	n/a	n/a	n/a	n/a	n/a	n/a					

Source: WOOD Research, company data

Immofinanz: DCF, cost of capital, portfolio, share data and valuation multiples

DCF: FCFF reconciliation (EUR m)	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
FFO I	115	121	126	131	134	137	140	144	147	150
+ taxes	14	15	15	15	16	16	16	16	16	17
+ interest costs	29	35	35	34	33	31	30	29	28	27
Adj. EBIT	158	171	175	180	182	184	186	189	191	193
tax rate	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%
NOPLAT	138	150	153	158	160	161	163	165	167	169
CAPEX	-7	-12	-16	-19	-23	-27	-32	-36	-41	-41
WC change	11	-1	2	2	0	0	0	0	0	-2
Proceeds from disposals	63	0	0	0	0	0	0	0	0	0
FCFF	205	138	139	141	137	134	132	129	127	126
DCF: Cost of Equity and WACC	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
[A] Debt/Capital Ratio	45%	45%	46%	45%	45%	44%	43%	43%	42%	42%
[C] Equity/Capital Ratio	55%	55%	54%	55%	55%	56%	57%	57%	58%	58%
Marginal Cost of Debt (%)	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
x Marginal Tax Rate (%)	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%
[B] Cost of Debt (post tax)	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Beta	104%	104%	104%	104%	103%	102%	100%	99%	98%	97%
x Equity Risk Premium	5%	5%	5%	5%	5%	5%	5%	4%	4%	4%
+ Risk Free Rate	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
[D] Cost of Equity	7.9%	7.9%	7.9%	7.9%	7.8%	7.7%	7.6%	7.4%	7.3%	7.3%
[A x B] + [C x D] = WACC:	5.1%	5.1%	5.1%	5.1%	5.1%	5.0%	5.0%	5.0%	4.9%	4.9%
Portfolio	13/14	14/15	15/16	2016	2017	2018	2019E	2020E	2021E	2022E
Year-end, m2 ('000)	3626	3246	3332	2047	1865	1892	1892	1892	1892	1892
Rented space, m2	3087	2741	2827	1830	1758	1812	1816	1815	1815	1815
Occupancy	85.13%	84.43%	84.84%	89.38%	94.23%	95.79%	96.01%	95.95%	95.95%	95.95%
Gross Rental Income (EUR m)	471	404	349	135	212	227	233	234	232	232
Value (EUR m)	5999	5418	5217	4329	3519	3711	3870	3876	3846	3857
Weighted Average Lease Term (Y)	n/a	n/a	n/a	4	4	n/a	n/a	n/a	n/a	n/a
- price / m2, EUR	1655	1669	1566	2115	1887	1962	2046	2049	2033	2039
- average gross rent per m2, EUR	12.7	12.3	10.3	6.1	10.1	10.4	10.7	10.7	10.6	10.6
- yield	7.8%	7.5%	6.7%	4.4%	7.7%	7.7%	7.6%	7.6%	7.6%	7.6%
- yield at full occupancy	9.2%	8.8%	7.9%	3.5%	6.4%	6.4%	6.3%	6.3%	6.3%	6.3%
Number of shares and share price	13/14	14/15	15/16	2016	2017	2018	2019E	2020E	2021E	2022E
Number of shares	1129.0	1129.0	1129.0	1129.0	1120.9	112.1	112.1	112.1	112.1	112.1
Treasury shares / options	112.9	136.4	153.0	153.0	16.0	4.9	4.9	4.9	4.9	4.9
Number of shares outstanding	1016.1	992.6	976.0	976.0	1104.9	107.1	107.1	107.1	107.1	107.1
Average number of shares	1129.0	1129.0	1129.0	1129.0	1124.9	112.1	112.1	112.1	112.1	112.1
Average number of treasury shares	112.9	124.7	144.7	153.0	84.5	4.9	4.9	4.9	4.9	4.9
Average number of shares outstanding	1016.1	1004.3	984.3	976.0	1040.4	107.1	107.1	107.1	107.1	107.1
Average price/share (EUR)	2.6	2.5	2.3	2.0	2.0	21.2	22.5	n/a	n/a	n/a
Lowest price (EUR)	2.3	2.0	2.0	1.6	1.7	18.8	21.1	n/a	n/a	n/a
Highest price (EUR)	2.8	3.0	2.8	2.2	2.3	23.3	23.4	n/a	n/a	n/a
Closing price (EUR)	2.7	2.1	2.1	1.8	2.1	20.9	n/a	n/a	n/a	n/a
Market cap, average (EUR m)	2,601	2,540	2,303	1,915	2,079	2,268	2,410	n/a	n/a	n/a
Market cap, eop (EUR m)	2,749	2,086	2,041	1,803	2,346	2,239	n/a	n/a	n/a	n/a
Profitability and valuation multiples	13/14	14/15	15/16	2016	2017	2018	2019E	2020E	2021E	2022E
FFO I (pre-tax) ROE	2.8%	2.2%	-0.8%	0.9%	1.4%	3.1%	4.3%	4.5%	4.6%	4.9%
FFO I (after-tax) ROE	1.8%	1.2%	-2.1%	0.6%	1.0%	2.3%	3.8%	4.0%	4.1%	4.4%
FFO II ROE	2.1%	1.2%	-2.4%	0.0%	1.7%	2.3%	3.6%	4.0%	4.1%	4.4%
FFO I (pre-tax) RONAV	2.6%	1.9%	-0.6%	0.7%	1.3%	2.9%	4.0%	4.1%	4.2%	4.4%
FFO I (after-tax) RONAV	1.6%	1.0%	-1.5%	0.5%	0.9%	2.1%	3.6%	3.6%	3.7%	3.9%
FFO II RONAV	1.9%	1.0%	-1.8%	0.0%	1.5%	2.1%	3.4%	3.6%	3.7%	3.9%
FFO I yield (pre-tax)	5.2%	3.4%	-1.1%	1.4%	1.9%	4.0%	5.2%	5.5%	5.6%	5.9%
FFO I yield (post-tax)	3.3%	1.8%	-3.0%	0.9%	1.3%	2.9%	4.6%	4.9%	5.0%	5.3%
FFO II yield	3.8%	1.8%	-3.4%	0.0%	2.2%	2.9%	4.4%	4.9%	5.0%	5.3%
P/BV	0.6x	0.7x	0.8x	0.7x	0.8x	0.8x	0.8x	0.8x	0.8x	0.8x
P/EPRA NAV	0.6x	0.5x	0.5x	0.6x	0.7x	0.7x	0.7x	0.7x	0.7x	0.7x
Dividend yield	0.0%	0.0%	2.6%	3.1%	3.5%	4.0%	3.9%	3.9%	4.0%	3.4%
EV/EBITDA	17.0x	19.8x	44.1x	85.7x	39.3x	28.4x	30.7x	29.7x	29.1x	28.3x

Source: WOOD Research, company data

S Immo

Sell

Downgraded from Hold

Price: EUR 20.1
Price target: EUR 18.7
(From EUR 19.0)

Time to lock in profits

S Immo (SPI) has had an excellent run, with its share price up nearly 40% ytd. This is underpinned by strong underlying results: FFO I reached EUR 61m in 2018, up by more than 43%, and the company has confirmed the strong operating performance by proposing a record dividend of EUR 0.70/share, to be paid out later in June. The results are propelled by the strong performance of the hotel sector, property purchases in Germany, and strong like-for-like rental growth of 5%. We believe the company should continue to enjoy the supportive macro backdrop – solid GDP growth in CEE, underpinned by low rates across Eurozone – in 2019E as well. While we expect the FFO to continue to grow, and believe that S Immo's results could be boosted by revaluation gains thanks to the strong market backdrop, we believe that much of the positive outlook is priced in currently. With the shares trading at a sub-5% FFO yield and a 1.1x P/BV on our 2019-20E figures, we believe the room for further share price growth may be limited from current levels. With the hotel revenues inherently cyclical, and uncertainty related to the potential merger with Immofinanz, we believe it would be prudent to take profits at these levels. Adjusting our 12M price target (PT) to EUR 18.7/share (from EUR 19.0/share), we have downgraded our recommendation to SELL.

Romance turning sour. S Immo owns 12% of Immofinanz; Immofinanz owns 29% of S Immo. Until recently, the relationship seemed quite amicable. However, in May, Immofinanz filed AGM amendments seeking to: 1) lift the 15% cap on voting rights; and 2) lift the requirement that changes in the articles of association need to be approved by 75% of shareholders. The AGM is due to take place on 14 June. S Immo's board says that the proposal would give Immofinanz *de facto* control over the company without making a buyout offer to the other shareholders. Chiefly, S Immo's board is concerned that, if approved, this could affect the independence of S Immo's decision-making process in relation to the merger. In turn, S Immo believes that the proposal, if passed, could have a negative impact on the share price. We agree, and see the merger and potential negative merger ratio as a chief risk for the investment case.

S Immo's portfolio was valued at EUR 2.1bn as of end-2018. The buildings, with a leasable area of 1.2m sqm, were booked at a 5.7% rental yield, and the portfolio was 95.8% occupied.

We value S Immo using a combination of a DCF and a peer valuation. We use a WACC of around 4.5% and a COE of 7-8%. We compare S Immo to its CEE peers, European retail and office owners, and German residential landlords. Its peers trade at a 92x P/BV and a 7.0% FFO yield on the 2019E consensus estimates.

Risks: the potential merger ratio, and corporate governance risk related to the potential merger with IIA; an economic slowdown; yield expansion; and cost overruns at developments.

Triggers: a takeover offer by Immofinanz; revaluation gains; higher-than-expected rental growth; acquisitions, or the disposal of a large asset or a portfolio of buildings (e.g., German residential) at a premium to book value.

Expected events

2Q19 results	28 August
3Q19 results	26 November
4Q19 results	April 2020 (tba)

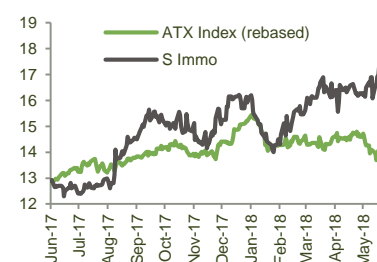
Key data

Market Cap	EUR 1,345m
3M ADTV	EUR 1.4m
Free float	c.71%
Shares outstanding	c.67m
Major Shareholder	ImmoFinanz, 29%
Reuters Code	SIAG.VI
Bloomberg Code	SPI AV
ATX Index	2,912

Price performance

52-w range	EUR 13.94-20.7/share
52-w performance	19%
Relative performance	32%

S Immo 12M share price performance



Year	BV (EUR m)	BVPS (EUR)	Net LTV	Equity ratio	FFO (EUR m)	FFOPS (EUR)	FFO ROE	P/BV	FFO yield	DPS (EUR)	Div. Yield
2016	824	12.5	57%	36%	40.1	0.60	5.5%	0.7x	6.9%	0.40	4.6%
2017	944	14.3	58%	42%	42.7	0.64	4.8%	1.4x	3.2%	0.70	3.5%
2018	1,112	16.8	63%	41%	61.1	0.92	5.9%	1.2x	4.6%	0.67	3.4%
2019E	1,226	18.5	55%	41%	64.6	0.98	5.5%	1.1x	4.9%	0.73	3.6%
2020E	1,263	19.1	58%	41%	65.4	0.99	5.3%	1.1x	4.9%	0.74	3.7%
2021E	1,284	19.4	59%	41%	69.5	1.05	5.5%	1.0x	5.2%	0.79	3.9%

Analysts: Jakub Caithaml, Ondrej Slama
E-mail: jakub.caithaml@wood.cz, ondrej.slama@wood.com

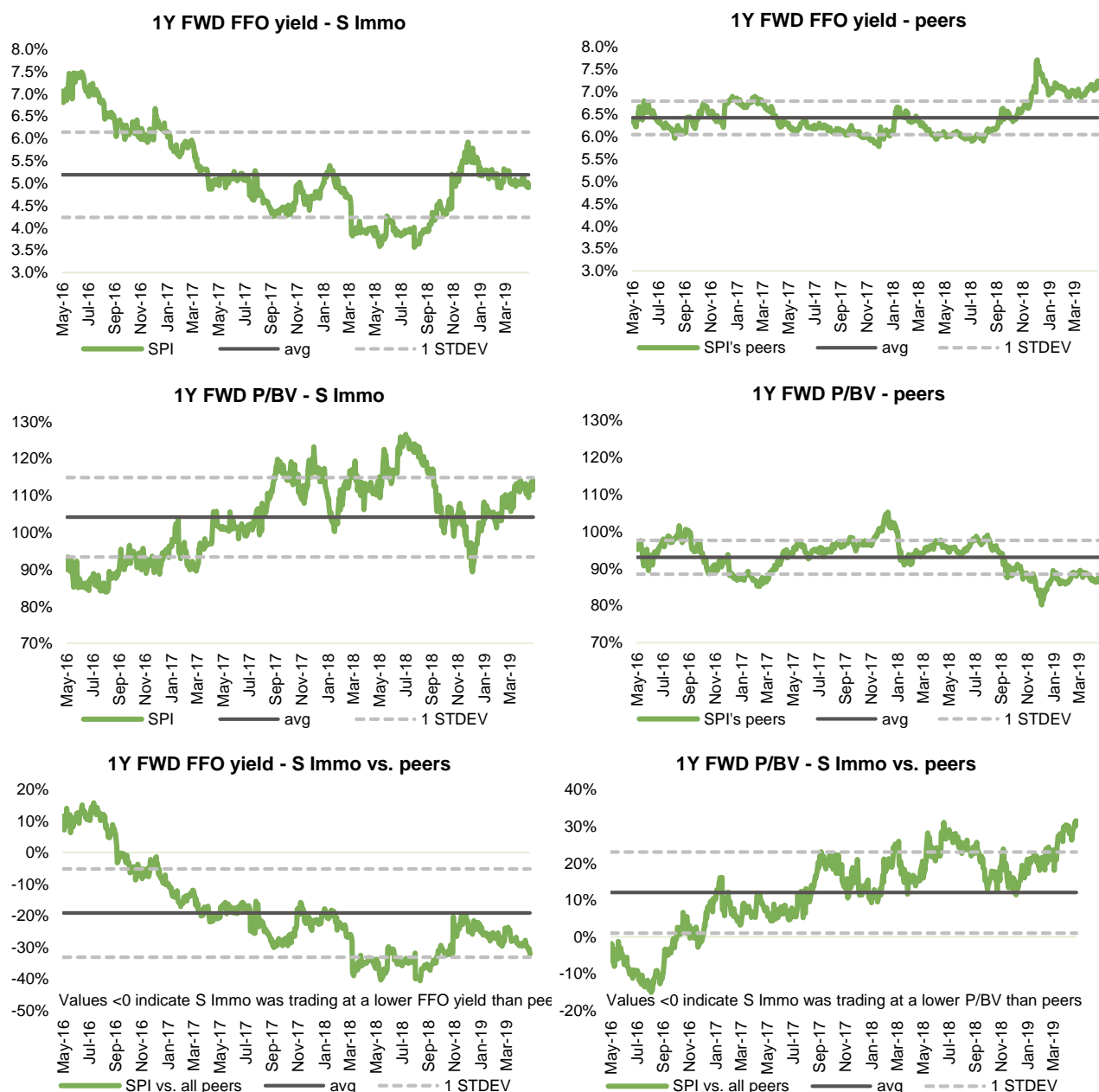
Prague: +420 222 096 481
Website: www.wood.com

Key risks and triggers

We believe the key factors that could propel S Immo's share price upwards are, in our view: a takeover bid by Immofinanz; an increase in the dividend; or a sale of an entire segment (say, German residential) to a competitor at a significant premium to the book value. Operational factors include: a better-than-expected performance from the hotels; and new acquisitions of both standing investments and development projects, and a faster-than-expected completion thereof.

That said, given the relatively rich valuation, we believe that the risk is skewed to the downside from current levels. We see the combination with Immofinanz as the chief risk. With the recently tabled amendments to the articles of association, Immofinanz could get a significantly higher influence on the company. With Immofinanz's shares trading at a much higher discount to BV than those of S Immo, we believe that a merger ratio skewed in the favour of Immofinanz is a chief risk to S Immo's shareholders. We would also watch out for potential corporate governance issues. The hotel segment is cyclical; therefore, come a downturn, it could mean that S Immo's results will be more cyclical than those of its peers. Other operational risks include the usual suspects: delays in development projects; cost overruns; expensive acquisitions; and growth in overhead expenses. As for all of the real estate names, EUR monetary tightening would likely affect values negatively; that said, we highlight that, on the current perspective, the possibility of a sequence of rate hikes by the ECM seems remote.

S Immo vs. peers



Source: Bloomberg, WOOD Research

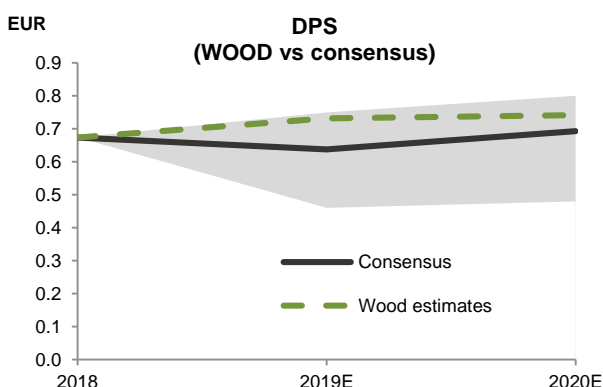
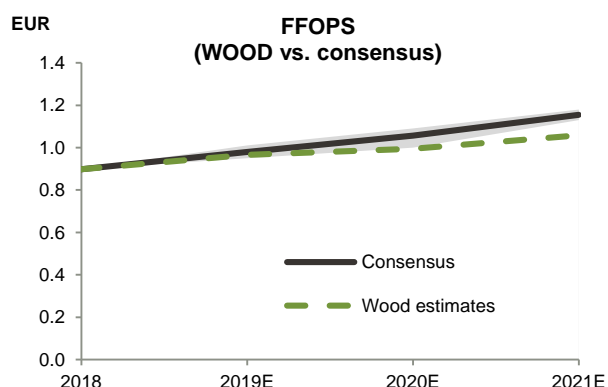
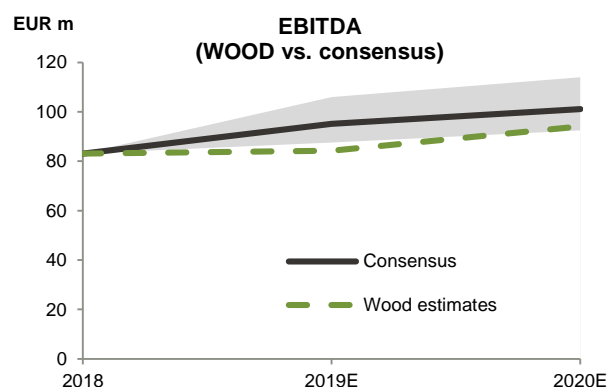
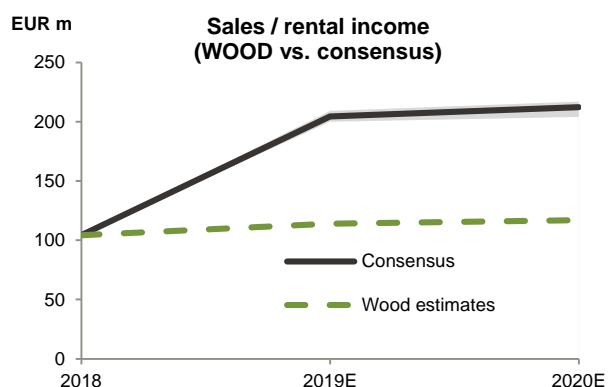
WOOD vs. the consensus, and new vs. old estimates

WOOD vs. consensus

EUR m	2019E			2020E			2021E		
	WOOD	Cons.	Diff. (%)	WOOD	Cons.	Diff. (%)	WOOD	Cons.	Diff. (%)
Sales	116	204	-43%	119	212	-44%	125	443	-72%
EBITDA	89	95	-7%	97	101	-4%	93	419	-78%
EBIT	195	157	24%	113	146	-22%	98	419	-77%
Net profit	162	119	36%	85	104	-18%	70	366	-81%
BPS (EUR)	18.52	17.54	6%	19.07	18.65	2%	19.39	0.63	2978%
FFOPS (EUR)	0.98	0.98	0%	0.99	1.06	-7%	1.05	na	na
DPS (EUR)	0.73	0.64	15%	0.74	0.69	7%	0.79	0.68	15%
EBITDA margin	76.7%	46.5%	30.1ppt	81.6%	47.6%	34.1ppt	74.7%	94.6%	-19.9ppt
Net margin	140.0%	58.0%	82.0ppt	71.9%	49.1%	22.8ppt	56.1%	82.6%	-26.5ppt

Source: Company data, Bloomberg, WOOD Research

WOOD vs. consensus



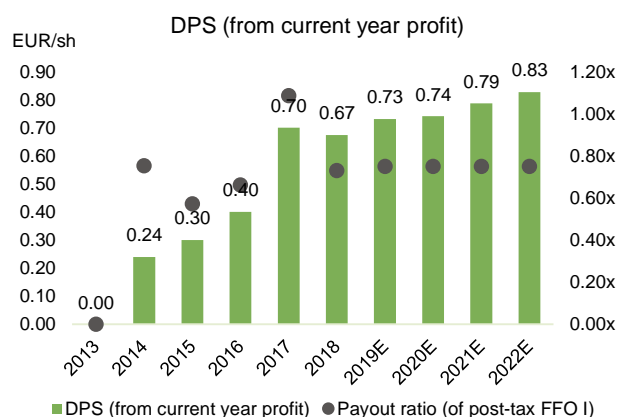
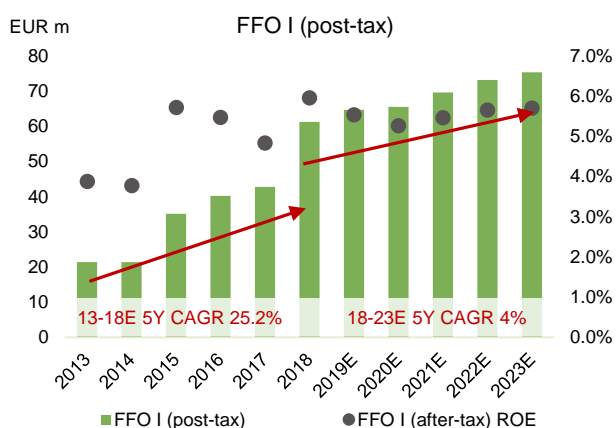
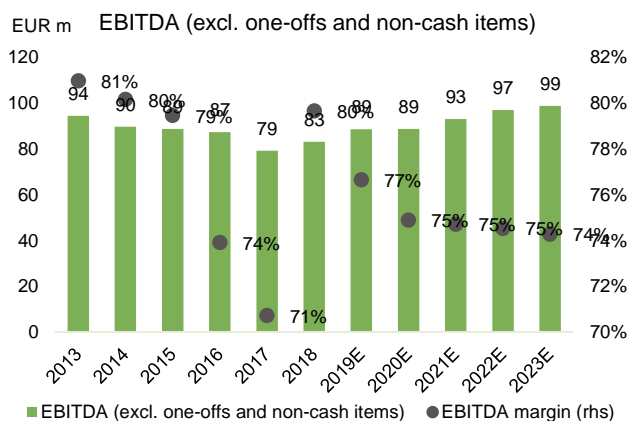
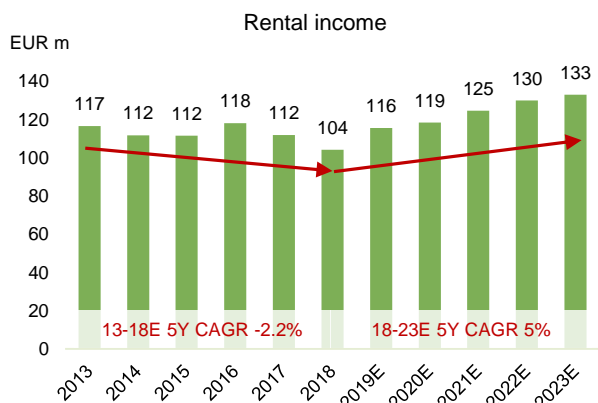
Source: Company data, Bloomberg, WOOD Research

WOOD: new vs. old

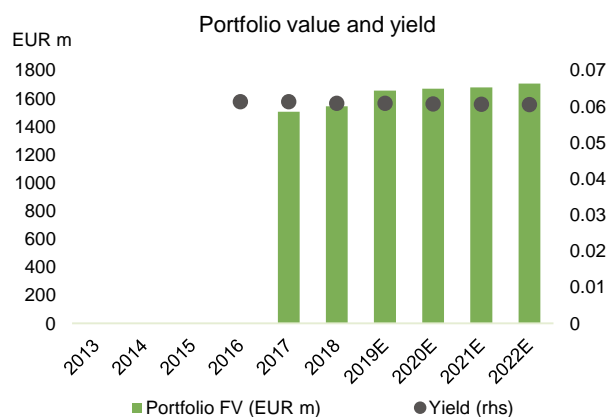
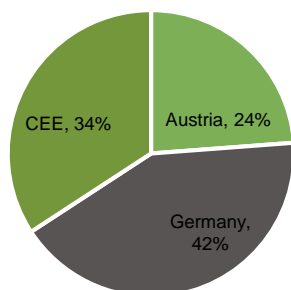
EUR m	2019E			2020E			2021E		
	new	old	Diff. (%)	new	old	Diff. (%)	new	old	Diff. (%)
Sales	116	114	1%	119	117	1%	125	123	1%
EBITDA	89	85	5%	97	95	2%	93	91	2%
EBIT	195	165	18%	113	111	2%	98	96	2%
Net profit	162	136	19%	85	85	0%	70	70	0%
EPS (EUR)	18.5	16.6	11%	19.1	17.4	10%	19.4	17.8	9%
FFOPS (EUR)	0.98	0.84	16%	0.99	0.95	4%	1.05	0.99	6%
DPS (EUR)	0.73	0.50	45%	0.74	0.57	30%	0.79	0.60	32%
EBITDA margin	76.7%	74.3%	2.4ppt	81.6%	80.9%	0.7ppt	74.7%	73.9%	0.8ppt
Net margin	140.0%	118.9%	21.1ppt	71.9%	73.0%	-1.1ppt	56.1%	57.1%	-1.0ppt

Source: Company data, Bloomberg, WOOD Research

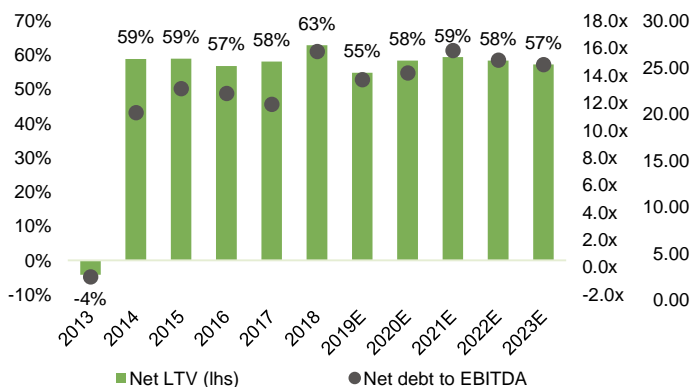
S Immo: earnings, dividends, portfolio, leverage and NAV



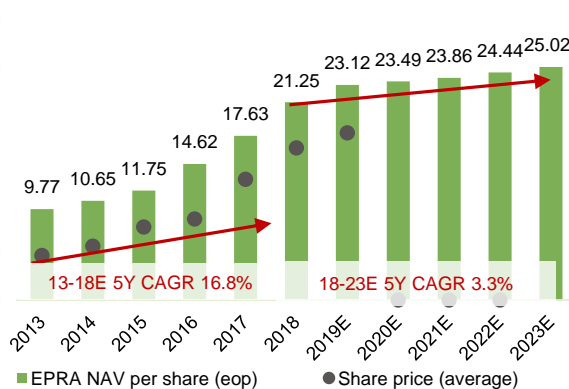
Rental income by country, 2019E



Leverage: net LTV and net debt to EBITDA



EPRA NAV/sh



Source: Company data, Bloomberg, WOOD Research

Valuation

We value S Immo using a combination of a DCF and a peer valuation. We compare it with CEE RE, European Retail RE, European office RE and its German residential peers. We use a WACC of around 4.5-4.6% throughout our forecast horizon.

Setting our 12M PT at EUR 18.7/share

Valuation method	Weight	Equity Value (EURm)	Per share (EUR)
Peer multiples	50%	1,175	17.8
DCF	50%	1,306	19.7
Weighted average target value		1,241	18.7
Current price			20.1
Upside/(downside)			-7%

Source: WOOD Research

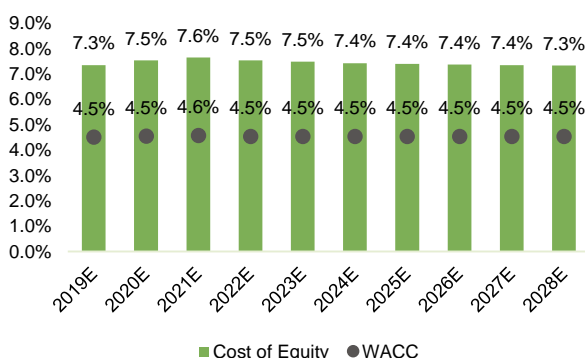
S Immo: valuation – COE, WACC, multiples

EUR m

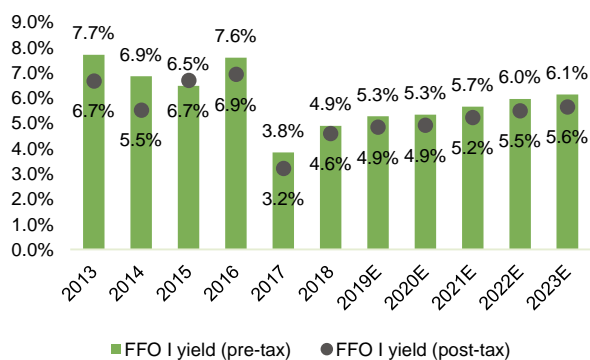
FCFF



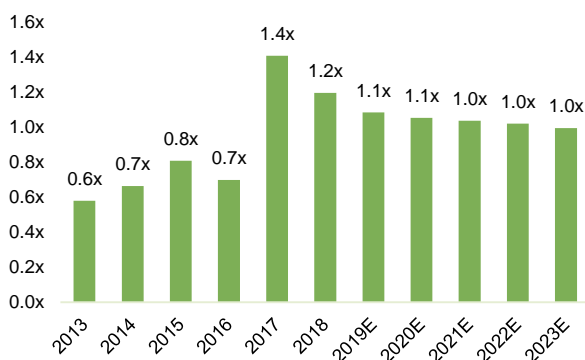
Cost of Equity and WACC



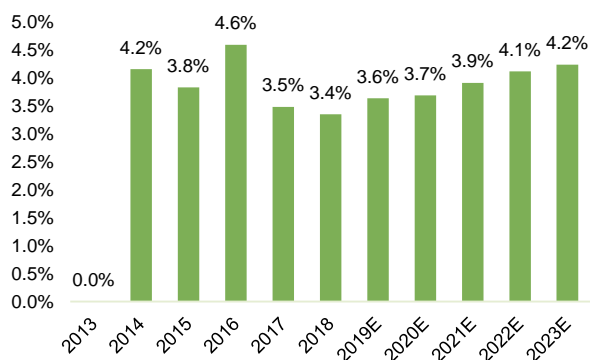
FFO I yield



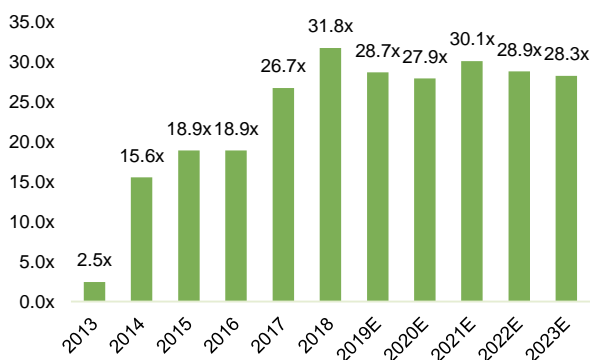
P/BV



Dividend yield



EV/EBITDA



Source: Company data, Bloomberg, WOOD Research

Financials

S Immo: P&L, FFO, DPS and rental income by country and sector

P&L (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Rental income	117	112	112	118	112	104	116	119	125	130
- net service charges and property expenses	-24	-22	-22	-26	-26	-20	-25	-26	-27	-29
Net rental income	93	90	89	92	86	84	90	92	97	101
- income from hotels	10	11	12	11	10	17	16	14	14	14
- net operating expenses	-9	-11	-13	-15	-16	-18	-17	-18	-18	-19
EBITDA (excl. one-offs and non-cash items)	94	90	89	87	79	83	89	89	93	97
- revaluation gain/(loss)	-5	49	77	186	119	160	106	17	4	3
- net result from sale of investment properties	6	0	0	5	10	0	0	8	0	0
- result from JVs	-2	1	2	0	4	15	2	3	5	5
EBIT	94	140	168	279	212	258	196	116	102	105
- net interest expense	-59	-64	-48	-47	-41	-33	-35	-37	-39	-39
- other financial income/expense	-3	-16	-8	-16	-10	11	15	16	17	17
Pre-tax profit	33	60	112	216	161	236	176	96	80	82
- current income tax	-3	-5	1	-4	-8	-4	-6	-6	-6	-6
- deferred tax charge	-1	-21	-36	-8	-19	-28	-9	-5	-4	-4
Net profit	28	34	77	204	133	204	162	85	70	72
- minorities	0	0	0	0	0	0	0	0	0	0
- discontinued operations	0	0	0	0	0	0	0	0	0	0
Net income	28	34	77	204	133	204	162	85	70	72
FFO & DPS (EUR m, unless per sh)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
FFO I (pre-tax)	25	26	34	44	51	65	70	71	75	79
FFO I (post-tax)	21	21	35	40	43	61	65	65	69	73
FFO II	28	21	35	45	53	61	65	73	69	73
FFO I per share (pre-tax)	0.37	0.40	0.51	0.66	0.77	0.98	1.06	1.07	1.14	1.20
FFO I per share (post-tax)	0.32	0.32	0.52	0.60	0.64	0.92	0.98	0.99	1.05	1.10
FFO II per share	0.41	0.32	0.52	0.68	0.80	0.92	0.98	1.11	1.05	1.10
DPS (from current year profit)	0.00	0.24	0.30	0.40	0.70	0.67	0.73	0.74	0.79	0.83
Payout ratio (of post-tax FFO I)	0.00x	0.75x	0.57x	0.66x	1.09x	0.73x	0.75x	0.75x	0.75x	0.75x
Margins and growth	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Net rental income margin	0.80	0.81	0.80	0.78	0.76	0.81	0.78	0.78	0.78	0.78
EBITDA margin	81%	80%	79%	74%	71%	80%	77%	75%	75%	75%
FFO I (pre-tax) margin	21%	24%	30%	37%	46%	62%	61%	60%	60%	61%
FFO I (post-tax) margin	18%	19%	31%	34%	38%	59%	56%	55%	56%	56%
Net rental income growth	n/a	-4.2%	-0.1%	5.8%	-5.2%	-6.9%	10.8%	2.5%	5.1%	4.4%
EBITDA growth	n/a	-5.1%	-1.0%	-1.6%	-9.3%	4.9%	6.6%	0.2%	4.9%	4.1%
Net income growth	n/a	20.6%	128.3%	164.5%	-34.7%	53.0%	-20.8%	-47.3%	-17.9%	3.0%
FFO I per sh (pre-tax) growth	n/a	7.6%	28.3%	30.1%	16.9%	27.3%	7.9%	1.0%	6.0%	5.3%
FFO I per sh (post-tax) growth	n/a	0.0%	64.6%	15.1%	6.8%	43.1%	5.7%	1.3%	6.2%	5.1%
FFO II per sh growth	n/a	-22.5%	63.2%	29.9%	17.6%	15.2%	5.7%	13.7%	-5.4%	5.1%
Rental income per country	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Austria	0%	27%	25%	24%	22%	24%	24%	24%	24%	24%
Germany	0%	25%	27%	31%	33%	42%	42%	42%	42%	42%
CEE	0%	48%	47%	45%	45%	34%	34%	34%	34%	34%
Rental income per sector	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Offices	n/a	n/a	n/a	n/a	n/a	n/a	32%	32%	32%	32%
Retail	n/a	n/a	n/a	n/a	n/a	n/a	34%	34%	34%	34%
Logistics	n/a	n/a	n/a	n/a	n/a	n/a	0%	0%	0%	0%
Hotels	n/a	n/a	n/a	n/a	n/a	n/a	17%	16%	16%	16%
Residential	n/a	n/a	n/a	n/a	n/a	n/a	17%	18%	18%	19%
Others	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: WOOD Research, company data

S Immo: capital structure, cash flow and EPRA indicators

Capital structure (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Total debt	0	1,094	1,211	1,242	1,144	1,391	1,491	1,591	1,641	1,641
Cash	71	81	56	70	80	84	279	220	168	176
Net debt	-71	1,013	1,156	1,172	1,064	1,308	1,212	1,372	1,473	1,465
Equity	550	581	647	824	944	1,112	1,226	1,263	1,284	1,304
Assets	1,880	1,895	2,067	2,279	2,272	2,720	3,006	3,085	3,166	3,201
Investment property	1,717	1,722	1,961	2,064	1,833	2,081	2,212	2,350	2,482	2,509
EBITDA	101	90	89	92	90	83	89	97	93	97
Equity ratio	29%	31%	31%	36%	42%	41%	41%	41%	41%	41%
Gross LTV	0%	64%	62%	60%	62%	67%	67%	68%	66%	65%
Net LTV	-4%	59%	59%	57%	58%	63%	55%	58%	59%	58%
Net debt to EBITDA	-0.7x	11.3x	13.0x	12.7x	11.9x	15.7x	13.7x	14.2x	15.8x	15.1x
Gearing (net debt to equity)	-13%	174%	179%	142%	113%	118%	99%	109%	115%	112%
Cost of debt (incl. hedging)	n/a	-12%	-4%	-4%	-4%	-3%				
Average debt maturity (years)	0	7.1	6.2	5.7	6.8	6.3				
% of debt fixed or hedged	n/a	n/a	n/a	n/a	n/a	0%				
% of unsecured debt	0%	16%	23%	22%	25%	24%				
% of uncencumbered assets	n/a	n/a	n/a	n/a	n/a	0%				
Rating by S&P	n/a	n/a	n/a	n/a	n/a	n/a				
Rating by Fitch	n/a	n/a	n/a	n/a	n/a	n/a				
Rating by Moody's	n/a	n/a	n/a	n/a	n/a	n/a				
Net debt, rel. change, yoy	n/a	-1517%	14%	1%	-9%	23%	-7%	13%	7%	-1%
Equity, rel. change, yoy	n/a	6%	11%	27%	15%	18%	10%	3%	2%	2%
Assets, rel. change, yoy	n/a	1%	9%	10%	0%	20%	11%	3%	3%	1%
Investment property, rel. change, yoy	n/a	0%	14%	5%	-11%	14%	6%	6%	6%	1%
Equity ratio, abs. change, yoy	2924%	144%	60%	490%	539%	-70%	-8%	15%	-39%	17%
Net LTV, abs. change, yoy	-416%	6298%	12%	-217%	128%	479%	-804%	357%	98%	-96%
Cash Flow (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Profit before tax	0	60	112	216	161	236	162	85	70	72
CF from Operations (before WC)	0	86	84	86	77	77	85	92	99	102
WC changes	0	-2	3	4	-5	-2	35	-22	-1	0
CF from Operations	0	84	87	90	73	75	121	70	98	102
Adjustment for net interest and taxes	0	-72	-49	-55	-41	-7	-35	-37	-39	-39
Net CF from Operations	0	12	38	35	31	68	85	33	59	62
CAPEX	0	-14	-174	-202	-290	-337	-101	-166	-37	-19
Proceeds from disposals	0	61	26	161	371	53	0	0	0	0
Others	0	1	8	1	4	24	16	18	18	19
Net CF from Investing	0	48	-141	-39	85	-261	-85	-148	-19	-1
Proceeds from issuance of share capital	0	0	0	0	0	0	0	0	0	0
Acquisition of own shares	0	-1	-1	-5	0	0	0	0	0	0
Net issue of debt	0	-41	124	42	-58	299	100	100	50	0
Dividends paid	0	-13	-16	-20	-26	-26	-45	-48	-49	-52
Others	0	-52	-78	-53	-66	-32	-36	-39	-40	-41
Net CF from Financing	0	-107	30	-36	-150	240	19	13	-39	-93
Change in cash & equivalents	0	25	-24	15	7	54	55	-65	40	8
EPRA Indicators (EUR m)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Book Value	550	581	647	824	944	1,112	1,226	1,263	1,284	1,304
EPRA NAV	653	711	784	968	1,167	1,407	1,530	1,555	1,579	1,618
EPRA NNNNAV	n/a	581	646	827	1,001	1,209	n/a	n/a	n/a	n/a
BV per share (EUR)	8.23	8.70	9.69	12.45	14.27	16.79	18.52	19.07	19.39	19.69
EPRA NAV per share (EUR)	9.77	10.65	11.75	14.62	17.63	21.25	23.12	23.49	23.86	24.44
EPRA NNNNAV per share (EUR)	n/a	8.69	9.69	12.49	15.13	18.26	n/a	n/a	n/a	n/a
EPRA Net Initial Yield (NIY)	n/a	5.80%	5.40%	5.00%	4.60%	4.50%				
EPRA "topped-up" NIY	n/a	n/a	n/a	n/a	n/a	n/a				
EPRA Ifl Gross Rental Income	n/a	n/a	n/a	n/a	n/a	n/a				
EPRA Ifl Net Rental Income	n/a	n/a	n/a	n/a	n/a	n/a				
EPRA Earnings (EUR m)	n/a	n/a	24.4	30.1	35.0	51.5				
Company adj. EPRA Earnings	n/a	n/a	n/a	n/a	n/a	n/a				
EPRA Earnings per share	n/a	n/a	0.36	0.45	0.53	0.78				
Company adj. EPRA Earnings (per share)	n/a	n/a	n/a	n/a	n/a	n/a				
EPRA Vacancy rate	n/a	n/a	n/a	n/a	n/a	n/a				
EPRA Cost Ratio (incl. vacancy costs)	n/a	n/a	n/a	n/a	n/a	n/a				
EPRA Cost Ratio (excl. vacancy costs)	n/a	n/a	n/a	n/a	n/a	n/a				

Source: WOOD Research, company data

S Immo: DCF, cost of capital, portfolio, share data and valuation multiples

DCF: FCFF reconciliation (EUR m)	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
FFO I	65	65	69	73	75	77	79	81	83	85
+ taxes	6	6	6	6	6	7	7	7	7	8
+ interest costs	20	20	22	22	22	21	21	21	20	20
Adj. EBIT	90	91	98	102	104	106	107	109	111	113
tax rate	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%
NOPLAT	79	79	85	88	90	92	93	95	96	98
CAPEX	-101	-166	-37	-19	-22	-24	-25	-27	-29	-29
WC change	35	-22	-1	0	0	0	0	0	0	0
Proceeds from disposals	0	8	0	0	0	0	0	0	0	0
FCFF	13	-101	48	69	68	68	68	68	68	68
DCF: Cost of Equity and WACC	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
[A] Debt/Capital Ratio	55%	56%	56%	56%	56%	55%	55%	55%	54%	54%
[C] Equity/Capital Ratio	45%	44%	44%	44%	44%	45%	45%	45%	46%	46%
Marginal Cost of Debt (%)	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
x Marginal Tax Rate (%)	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%
[B] Cost of Debt (post tax)	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Beta	1.23	1.28	1.30	1.28	1.26	1.25	1.25	1.24	1.23	1.23
x Equity Risk Premium	5%	6%	6%	6%	6%	5%	5%	5%	5%	5%
+ Risk Free Rate	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
[D] Cost of Equity	7.3%	7.5%	7.6%	7.5%	7.5%	7.4%	7.4%	7.4%	7.4%	7.3%
[A x B] + [C x D] = WACC:	4.5%	4.5%	4.6%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Portfolio	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Year-end, m2 ('000)					799	799	799	799	799	799
Rented space, m2					755	755	772	768	768	768
Occupancy					94.51%	94.51%	96.67%	96.17%	96.17%	96.17%
Gross Rental Income (EUR m)					92	95	101	101	102	103
Value (EUR m)					1505	1544	1655	1669	1679	1705
Weighted Average Lease Term (Y)					n/a	n/a	n/a	n/a	n/a	n/a
- price / m2, EUR					1884	1932	2072	2089	2101	2135
- average gross rent per m2, EUR					10.2	10.4	10.9	11.0	11.1	11.2
- yield					6.1%	6.1%	6.1%	6.1%	6.1%	6.1%
- yield at full occupancy					6.5%	6.5%	6.3%	6.3%	6.3%	6.3%
Number of shares and share price	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Number of shares	66.9	66.9	66.9	66.9	66.9	66.9	66.9	66.9	66.9	66.9
Treasury shares / options	0.1	0.1	0.2	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Number of shares outstanding	66.8	66.8	66.7	66.2	66.2	66.2	66.2	66.2	66.2	66.2
Average number of shares	66.9	66.9	66.9	66.9	66.9	66.9	66.9	66.9	66.9	66.9
Average number of treasury shares	0.1	0.1	0.1	0.5	0.7	0.7	0.7	0.7	0.7	0.7
Average number of shares outstanding	66.8	66.8	66.8	66.5	66.2	66.2	66.2	66.2	66.2	66.2
Average price/share (EUR)	4.8	5.8	7.8	8.7	13.0	16.3	18.0	n/a	n/a	n/a
Lowest price (EUR)	4.5	5.1	6.2	7.1	9.9	13.9	14.4	n/a	n/a	n/a
Highest price (EUR)	5.3	6.3	8.9	10.1	16.2	18.6	20.7	n/a	n/a	n/a
Closing price (EUR)	5.3	6.2	8.1	10.0	15.9	14.5	n/a	n/a	n/a	n/a
Market cap, average (EUR m)	319	385	523	578	858	1,081	1,189	n/a	n/a	n/a
Market cap, eop (EUR m)	353	411	537	660	1,056	963	n/a	n/a	n/a	n/a
Profitability and valuation multiples	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
FFO I (pre-tax) ROE	4.5%	4.7%	5.5%	6.0%	5.8%	6.3%	6.0%	5.7%	5.9%	6.1%
FFO I (after-tax) ROE	3.9%	3.8%	5.7%	5.5%	4.8%	5.9%	5.5%	5.3%	5.5%	5.6%
FFO II ROE	5.0%	3.8%	5.7%	6.2%	6.0%	5.9%	5.5%	5.9%	5.5%	5.6%
FFO I (pre-tax) RONAV	3.8%	3.9%	4.5%	5.0%	4.8%	5.1%	4.8%	4.6%	4.8%	5.0%
FFO I (after-tax) RONAV	3.3%	3.1%	4.7%	4.6%	4.0%	4.7%	4.4%	4.2%	4.4%	4.6%
FFO II RONAV	4.2%	3.1%	4.7%	5.2%	5.0%	4.7%	4.4%	4.8%	4.4%	4.6%
FFO I yield (pre-tax)	7.7%	6.9%	6.5%	7.6%	3.8%	4.9%	5.3%	5.3%	5.7%	6.0%
FFO I yield (post-tax)	6.7%	5.5%	6.7%	6.9%	3.2%	4.6%	4.9%	4.9%	5.2%	5.5%
FFO II yield	8.7%	5.6%	6.7%	7.8%	4.0%	4.6%	4.9%	5.5%	5.2%	5.5%
P/BV	0.6x	0.7x	0.8x	0.7x	1.4x	1.2x	1.1x	1.1x	1.0x	1.0x
P/EPRA NAV	0.5x	0.5x	0.7x	0.6x	1.1x	0.9x	0.9x	0.9x	0.8x	0.8x
Dividend yield	0.0%	4.2%	3.8%	4.6%	3.5%	3.4%	3.6%	3.7%	3.9%	4.1%
EV/EBITDA	2.5x	15.6x	18.9x	18.9x	26.7x	31.8x	28.7x	27.9x	30.1x	28.9x

Source: WOOD Research, company data

Important disclosures

This investment research is published by WOOD & Company Financial Services, a.s. ("WOOD&Co") and/or one of its branches who are authorised and regulated by the Czech National Bank (CNB) as Home State regulator and in Poland by the Polish Financial Supervision Authority (KNF), in Slovakia by the National Bank of Slovakia (NBS), in Italy by the Companies and Stock Exchange Commission (CONSOB) and in the UK by the Financial Conduct Authority (FCA) as Host State regulators.

This investment research was completed on 11/06/2019 at 21:00 CET and disseminated on 12/06/2019 at 07:45 CET.

WOOD&Co's rating and price target history for Atrium in the preceeding 12-month period:

Date	Rating	Date	PT
		12/06/2019	EUR 3.59

WOOD&Co's rating and price target history for CA Immo in the preceeding 12-month period:

Date	Rating	Date	PT
		12/06/2019	EUR 34.3

WOOD&Co's rating and price target history for Dom Development in the preceeding 12-month period:

Date	Rating	Date	PT
		12/06/2019	PLN 91

WOOD&Co's rating and price target history for Echo Investment in the preceeding 12-month period:

Date	Rating	Date	PT
08/04/2019	HOLD	08/04/2019	PLN 4.80
12/06/2019	BUY	12/06/2019	PLN 4.90

WOOD&Co's rating and price target history for Globalworth in the preceeding 12-month period:

Date	Rating	Date	PT
19/10/2018	HOLD - initiation of coverage	19/10/2018	EUR 10.0
12/03/2019	BUY	12/03/2019	EUR 10.8

WOOD&Co's rating and price target history for Graphisoft Park in the preceeding 12-month period:

Date	Rating	Date	PT
12/06/2019	BUY	12/06/2019	HUF 4,336

WOOD&Co's rating and price target history for GTC in the preceeding 12-month period:

Date	Rating	Date	PT
		19/10/2018	PLN 10.4
		12/06/2019	PLN 11.1

WOOD&Co's rating and price target history for Immofinanz in the preceeding 12-month period:

Date	Rating	Date	PT
		25/06/2018	EUR 21.5
		27/06/2018	EUR 21.6
		12/06/2019	EUR 25.0

WOOD&Co's rating and price target history for NEPI Rockcastle in the preceeding 12-month period:

Date	Rating	Date	PT
19/10/2018	BUY - initiation of coverage	19/10/2018	EUR 9.14
		12/06/2019	EUR 8.4

WOOD&Co's rating and price target history for S Immo in the preceeding 12-month period:

Date	Rating	Date	PT
27/06/2018	HOLD – initiation of coverage	27/06/2018	EUR 19.0
12/06/2019	SELL	12/06/2019	EUR 18.7

WOOD&Co's rating and price target history for Warimpex in the preceeding 12-month period:

Date	Rating	Date	PT
12/06/2019	HOLD – reinitiation of coverage	12/06/2019	EUR 1.4

A history of all WOOD&Co's investment research disseminated during the preceeding 12-month period can be accessed via our website at <https://research.wood.com>.

Graphisoft Park

This research/commentary was prepared by the assignment of Budapest Stock Exchange Ltd. (registered seat: 1054 Budapest, Szabadság tér 7. Platina torony I. ép. IV. emelet; company registration number: 01-10-044764, hereinafter: BSE) under the agreement which was concluded by and between BSE and WOOD & Company Financial Services, a.s. (registered seat: námstí Republiky 1079/1a, 110 00 Praha 1, Czech Republic; company registration number: 265 03 808, hereinafter: Investment Service Provider).

BSE shall not be liable for the content of this research/commentary, especially for the accuracy and completeness of the information therein and for the forecasts and conclusions; the Service Provider shall be solely liable for these. The Service Provider is entitled to all copyrights regarding this research/commentary however BSE is entitled to use and advertise/spread it but BSE shall not modify its content.

This research/commentary shall not be qualified as investment advice specified in Point 9 Section 4 (2) of Act No. CXXXVIII of 2007 on Investment Firms and Commodity Dealers and on the Regulations Governing their Activities. Furthermore, this document shall not be qualified as an offer or call to tenders for the purchase, sale or hold of the financial instrument(s) concerned by the research/commentary.

The meanings of recommendations made in WOOD&Co's investment research are as follows:

BUY: The stock is expected to generate total returns of over 15% during the next 12 months as measured by the price target.

HOLD: The stock is expected to generate total returns of 0-15% during the next 12 months as measured by the price target.

SELL: The stock is expected to generate a negative total return during the next 12 months as measured by the price target.

RESTRICTED: Financial forecasts, and/or a rating and/or a price target is restricted from disclosure owing to Compliance or other regulatory/legal considerations such as a blackout period or a conflict of interest.

NOT RATED: Suspension of rating after 30 consecutive weekdays where the current price vis-à-vis the price target has been out of the range dictated by the current BUY/HOLD/SELL rating.

COVERAGE IN TRANSITION: Due to changes in the Research team, the disclosure of a stock's rating and/or price target and/or financial information are temporarily suspended.

As of the end of the last calendar quarter, the proportion of all WOOD&Co's investment research vis-à-vis the proportion of subject companies that were investment banking clients over the previous 12 months is as follows:

	Buy	Hold	Sell	Restricted	Not rated	Coverage in transition
Equity Research Coverage	49%	44%	6%	0%	n.a.	1%
IB Clients	1%	1%	n.a.	n.a.	n.a.	n.a.

Any prices of financial instruments quoted in this investment research are taken as of the previous day's market close on the home market unless otherwise stated.

Details of the methodologies used to determine WOOD&Co's price targets and risk assessment related to the achievement of the targets are outlined throughout the most recent substantive report/note on the subject company.

It should be assumed that the risks and valuation methodology presented in daily news or flash notes, and not changing WOOD&Co's estimates or ratings, are as set out in the most recent substantive research report/note on the subject company and can be found on our website at <https://research.wood.com>.

WOOD&Co's policy is to update investment research as it deems appropriate, based on developments in the subject company, sector or market that may have a material impact on the views or opinions stated in the investment research.

WOOD Research Disclosures (as of 12 June 2019)

Company	Disclosures
Alior Bank	5
AmRest	5
ANY Security Printing Company PLC	5
Banca Transilvania	5
Bank Handlowy	5
Bank Millennium	5
Bank of Cyprus	4
Bank of Georgia	6
Benefit Systems	1, 2, 3
Bogdanka	5
BRD	5
Bucharest Stock Exchange	5
Santander Bank Polska	5
CCC	5
CD Projekt	5
CEZ	5
Ciech	5
CME	5
Cyfrowy Polsat	5
Dino	5
DO&CO	5
Electrica	5
Enea	5
Energa	5
Erste Group Bank	5
Eurobank	4
Eurocash	2, 4, 5
Famur	1, 2, 3
Fortuna	5
Fondul Proprietatea	4, 5
Getin Noble Bank	5
Graphisoft Park	5
GTC	5
ING BSK	5
Inter Cars	5
JSW	5
Kazatomprom	5
Kernel	5
Kety	5
KGHM	5
Kofola CS	1, 2, 3, 5
Komercni	4, 5
Kruk	5
Lotos	5
LPP	5
mBank	5
MedLife	2, 4
MONETA Money Bank	5
NLB Group	1, 2, 3
O2 Czech Republic	4, 5
OMV Petrom	5
Orange PL	5
Pekao	4, 5
PGE	5
PGNiG	5
Philip Morris CR	5
PKN Orlen	5
PKO BP	4, 5
PKP Cargo	5
PZU	4, 5
Romgaz	5
Santander Bank Polska	5
Siaulių Bankas	4, 6
SIF-1	2, 4
Tauron	5
TMK Artrom	1, 3
Transelectrica	5
Transgaz	5
Warsaw Stock Exchange	5

#	Description
1	The company currently is, or in the past 12 months was, a client of WOOD&Co or any of its affiliates for the provision of corporate finance/investment banking services.
2	In the past 12 months, WOOD&Co or any of its affiliates have received compensation for corporate finance/investment banking services from the company.
3	In the past 12 months, WOOD&Co or any of its affiliates have been lead manager or co-lead manager of a publicly disclosed offer of the company's financial instruments.
4	In the past 12 months, WOOD&Co or any of its affiliates have acted as broker to the company
5	WOOD&Co or any of its affiliates are market maker(s) or liquidity provider(s) in relation to financial instruments of the company.
6	In the past 12 months, WOOD&Co or any of its affiliates have provided to the company any services set out in Sections A and B or Annex I to the Directive 2014/65/EU of the European Parliament and of the Council, other than services listed under points 1, 3, 4 or 5 above, or received compensation for such services from the company.
7	The authoring analyst or any individual involved in the preparation of this investment research have purchased/received shares in the company prior to a public offering of those shares; and the price at which they were acquired along with the date of acquisition are disclosed above.
8	The authoring analyst or any individual involved in the preparation of this investment research has a direct ownership position in securities issued by the company.
9	A partner, director, officer, employee or agent of WOOD&Co and its affiliates, or a member of his/her household, is an officer, or director, or serves as an advisor or board member of the company.
10	WOOD&Co or its affiliates hold a net long or short position exceeding the threshold of 0.5% of the total issued share capital of the company, calculated in accordance with Article 3 of Regulation (EU) No 236/2012 and with Chapters III and IV of Commission Delegated Regulation (EU) No 918/2012.
11	The company owns more than 5% of the total issued share capital in WOOD&Co or any of its affiliates.

The authoring analysts who are responsible for the preparation of this investment research have received (or will receive) compensation based upon (among other factors) the overall profits of WOOD&Co, which includes corporate finance/investment banking, sales and trading and principal trading revenues. However, such authoring analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific activities, or to recommendations contained in the investment research. One factor in equity research analyst compensation is arranging corporate access events/meetings between institutional clients and the management teams of covered companies (with the company management being more likely to participate when the analyst has a positive view of the company).

WOOD&Co and its affiliates may have a corporate finance/investment banking or other relationship with the company that is the subject of this investment research and may trade in any of the designated investments mentioned herein either for their own account or the accounts of their clients, in good faith or in the normal course of market making. Accordingly, WOOD&Co or their affiliates, principals or employees (other than the authoring analyst(s) who prepared this investment research) may at any time have a long or short position in any such designated investments, related designated investments or in options, futures or other derivative instruments based thereon.

WOOD&Co manages conflicts of interest arising as a result of preparation and publication of research through its use of internal databases, notifications by the relevant employees and Chinese Walls as monitored by Compliance. For further details, please see our website at <https://www.wood.cz/mifid-information/>.

The information contained in this investment research has been compiled by WOOD&Co from sources believed to be reliable, but (with the exception of the information about WOOD&Co) no representation or warranty, express or implied, is made by WOOD&Co, its affiliates or any other person as to its fairness, accuracy, completeness or correctness. WOOD&Co has not independently verified the facts, assumptions, and estimates contained herein. All estimates, opinions and other information contained in this investment research constitute WOOD&Co's judgement as of the date of this investment research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

WOOD&Co salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desk that reflect opinions that are contrary to the opinions expressed in this investment research. WOOD&Co's affiliates, proprietary trading desk and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this investment research.

This investment research is provided for information purposes only and does not constitute or form part of an offer or invitation or solicitation to engage in investment activity or to buy or sell any designated investments discussed herein in any jurisdiction. As a result, the designated investments discussed in this investment research may not be eligible for offer or sale in some jurisdictions. This investment research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction.

This investment research is prepared for general circulation to WOOD&Co's clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should consider this report as only a single factor in making their investment decision and obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, none of WOOD&Co, its affiliates or any other person accepts any liability whatsoever for any direct or consequential loss arising from or in connection with the use of this investment research.

For United Kingdom or European Residents:

This investment research is only for persons who are eligible counterparties or professional clients within the meaning of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU and is exempt from the general restrictions in section 21 of the Financial Services and Markets Act 2000 (or any analogous legislation) on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Article 19(5) (Investment Professionals) and 49(2) (High Net Worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This material is not for distribution in the United Kingdom or Europe to retail clients, as defined under the rules of the Financial Conduct Authority.

For United States Residents:

This investment research distributed in the United States by WOOD&Co, and in certain instances by Brasil Plural Securities LLC ("Brasil Plural"), a U.S. registered broker dealer, only to "major U.S. institutional investors", as defined under Rule 15a-6 promulgated under the U.S. Securities Exchange Act of 1934, as amended, and as interpreted by the staff of the U.S. Securities and Exchange Commission ("SEC"). This investment research is not intended for use by any person or entity that is not a major U.S. institutional investor. If you have received a copy of this research and are not a major U.S. institutional investor, you are instructed not to read, rely on or reproduce the contents hereof, and to destroy this research or return it to WOOD&Co or to Brasil Plural. Analyst(s) preparing this report are employees of WOOD&Co who are resident outside the United States and are not associated persons or employees of any U.S. registered broker-dealer. Therefore the analyst(s) are not subject to Rule 2711 of the Financial Industry Regulatory Authority ("FINRA") or to Regulation AC adopted by SEC which, among other things, restrict communications with a subject company, public appearances and personal trading in securities by a research analyst. Any major U.S. Institutional investor wishing to effect transactions in any securities referred to herein or options thereon should do so by contacting a representative of Brasil Plural. Brasil Plural is a broker-dealer registered with the SEC and a member of FINRA and the Securities Investor Protection Corporation. Its address is 545 Madison Avenue, 8th Floor, New York, NY 10022 and its telephone number is 212-388-5613. WOOD&Co is not affiliated with Brasil Plural or any other U.S. registered broker-dealer.

CONTACTS

Czech Republic

namesti Republiky 1079/1a
Palladium
110 00 Praha 1
Czech Republic
Tel +420 222 096 111
Fax +420 222 096 222

Romania

Metropolis Center
89-97 Grigore Alexandrescu St.
010624 Bucharest 1
Tel.: +40 316 30 11 81

Poland

Skylight Zlote Tarasy
Zlota 59
00 120 Warszawa
Poland
Tel +48 22 222 1530
Fax +48 22 222 1531

UK

City Point, 11th Floor
1 Ropemaker Street
London EC2Y 9HT

Tel +44 20 3530 0691

Italy

Via Luigi Settembrini, 35
20124 Milan
Italy

Tel +39 02 36692 500

Kristen Andrasko

Head of Equities
+420 222 096 253
kristen.andrasko@wood.com

Bloomberg page
WUCO

www.wood.com

Research

Co-Head of Research/ Head of Research Poland

Marta Jezewska-Wasilewska
+48 22 222 1548
marta.jezewska-wasilewska@wood.com

Utilities/Mining/Pharma

Bram Buring
+420 222 096 250
bram.buring@wood.com

Energy

Jonathan Lamb
+44 20 3530 0621
jonathan.lamb@wood.com

Consumer/Real Estate

Jakub Caithaml
+420 222 096 481
jakub.caithaml@wood.com

Consumer

Jakub Mician
+420 222 096 320
jakub.mician@wood.com

Co-Head of Research/Head of Greek Research

Alex Boulougouris
+30 211 106 9447
alex.boulougouris@wood.com

EMEA TMT & Industrials/Turkey

Atinc Ozkan
+90 542 202 3632
atinc.ozkan@wood.com

Financials/Turkey

Can Demir
+44 20 3530 0623
can.demir@wood.com

Energy/Utilities

Ondrej Slama
+420 222 096 484
ondrej.slama@wood.com

Romania

Stefan Lungu
+44 203 530 0694
stefan.lungu@wood.com

Head of Consumer/Industrials

Lukasz Wachelko
+48 22 222 1560
lukasz.wachelko@wood.com

Russia

Ildar Davletshin
+44 203 530 0631
ildar.davletshin@wood.com

Poland/TMT

Piotr Raciborski
+48 22 222 1551
piotr.raciborski@wood.com

Poland

Pawel Wieprzowski
+48 22 222 1549
pawel.wieprzowski@wood.com

Greece

Fani Tzioukalia
+30 211 106 9449
fani.tzioukalia@wood.com

Macroeconomics

Raffaella Tenconi
+44 20 3530 0685
raffaella.tenconi@wood.com

Macroeconomics

Alessio Chiesa
+44 75177 06102
alessio.chiesa@wood.com

Metals/Mining

Andy Jones
+44 20 3530 0629
andrew.jones@wood.com

Consumer/Industrials

Gabriela Burdach
+48 22 222 1545
gabriela.burdach@wood.com

Financials

David Lojkasek
+420 222 096 256
david.lojkasek@wood.com

Sales

Head of Sales

Kristen Andrasko
+420 222 096 253
kristen.andrasko@wood.cz

Grzegorz Skowronski
+48 22 222 1559
grzegorz.skowronski@wood.com

Jan Koch
+48 22 222 1616
jan.koch@wood.com

Jarek Tomczynski
+44 203 530 0688
jarek.tomczynski@wood.com

Piotr Kopec
+48 22 222 1615
piotr.kopec@wood.com

Kostas Tsigkourakos
+30 694 082 5810
kostas.tsigkourakos@wood.com

Ioana Pop
+44 20 3530 0693
ioana.pop@wood.com

Tatiana Sarandinaki
Brasil Plural in association with WOOD&Co.
1 212 388 5613
tsarandinaki@wood-brasilplural.com

Sales Trading and Execution Services

Zuzana Mora
+420 222 096 283
zuzana.mora@wood.com

Ermir Shkurti
+420 222 096 847
ermir.shkurti@wood.com

Martin Stuchlik
+420 222 096 855
m.stuchlik2@wood.com

Vladimir Vavra
+420 222 096 397
vladimir.vavra@wood.com

RECENTLY PUBLISHED REPORTS

Date	Company/Sector	Title	Analyst
10/06/19	Greece Macro/Strategy	Cruising steadily, with the occasional bump	Alessio Chiesa, Raffaella Tenconi
07/06/19	Moscow Exchange/Warsaw Stock Exchange	Value is what you get	Pawel Wieprzowski, Marta Jezewska-Wasilewska
06/06/19	PKO BP	Structurally stronger	Marta Jezewska-Wasilewska, David Lojkasek
05/06/19	O2 Czech Republic	The burden of the (regulatory) crown	Piotr Raciborski, Bram Buring
04/06/19	The Rear-View Mirror – EME markets	Another strong month for ASE index, up 7.4% mom	Research Team
04/06/19	DP Eurasia	Grab a slice	Gabriela Burdach, Lukasz Wachelko
03/06/19	Titan Cement	Currently under construction	Alex Boulougouris, Fani Tzioukalia
31/05/19	Ferrexpo	Dividends and growth	Andy Jones, Pawel Wieprzowski
29/05/19	Piraeus Port Authority	Casting anchor	Fani Tzioukalia, Alex Boulougouris
27/05/19	CCC	Transition time	Lukasz Wachelko, Jakub Mician
24/05/19	Gazprom	Gazprom(ise): still more upside	Ildar Davletshin, Jonathan Lamb
21/05/19	Sberbank	No thrill, but inexpensive	Can Demir, Alex Boulougouris
20/05/19	Czech Banks	Staying strong, despite the risk of tax	Marta Jezewska-Wasilewska, David Lojkasek
17/05/19	OPAP	The odds are good	Fani Tzioukalia, Lukasz Wachelko

Although the information contained in this report comes from sources WOOD & Company believes to be reliable, we do not guarantee its accuracy, and such information may be incomplete or condensed. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice. This report is for information purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security.