

Pro Kapital Grupp AS

April 23, 2015



Information Analysis

Analysts

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Evaluation result

BUY

(previous: BUY)

Fair value

€ 3.70

(previous: € 3.70)

BankM Research on Bloomberg, Thomson/Reuters, Factset, Capital IQ and www.BankM.de

Good Progress of Developments and a decent Valuation Result translate into a steep Growth of 2014 EBIT and Net Profit

Pro Kapital Grupp AS presented good results in its annual report 2014. Due to the completion cycles of projects, financial figures of developers are volatile by nature. As one of the leading real estate developers in the Baltics and a land-bank of more than 350k sqm, Pro Kapital is not an exception regarding volatility of revenue streams, but in light of the future project pipeline, investors should benefit from the good perspective.

Total revenues amounted to € 10m, which is 16% or € 2m lower than in the previous period. This is largely influenced by a reduction of sales in Latvia since new developments are not yet finalized and existing stock was sold out during 2014. Operating result (EBIT) increased to € 26m, after negative figures in 2013, largely as a result of the reclassification of assets and their recording in terms of fair value. Thus the net profit increased from € -3m to € 21m in 2014.

The company decided to review its real estate assets considering short and long-term development strategy. At the end of 2013 most of the properties were recorded as inventories at cost price from the early 2000's. To reflect the fair value of the properties they were revaluated by Newsec Valuation in November 2014. Properties, in particular land banks which are not planned to be developed in the next years, were transferred to investment property as long-term assets. The total up-valuation of properties was around € 31m in FY 2014.

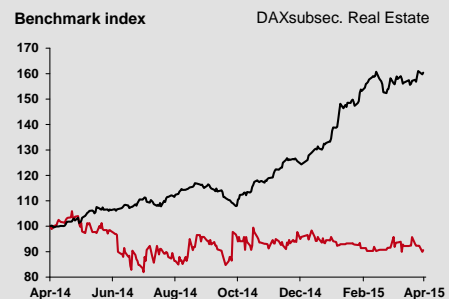
Typical for residential developers and in order to be more flexible, Pro Kapital changed its financial structure from a long-term to a short-term debt strategy with higher current debt and customer advances. In total, current liabilities increased by 53% from € 15m to € 23m in 2014. At the same time, non-current liabilities decreased by nearly 16% from € 19m to € 16m, largely due to lower long-term debt and higher deferred income tax liability in the context of the up-valuation. According to the recent news flow from March it is planned to issue secured, callable, fixed rate bonds in an amount of up to € 50m to finance future projects. The initial target is € 10m to € 15m. The term for each tranche is five years, with an 8% coupon (semi-annual payments) and redemption at nominal value.

Based on the 2015 projects in the residential segment and a well-fueled project pipeline (including attractive land-banks in the city center of the Baltic capitals), we confirm our Buy rating and stick to our Target Price of € 3.70 per share. The TP is supported by our conservative DCF analysis. We expect a general growth close to 3% in the economy of the Baltic States and a higher demand for superior residential apartments. This will positively affect the sale prices of the properties and the bottom line of Pro Kapital.

Sector	Real Estate Development
WKN	579797
ISIN	EE310006040
Bloomberg/Reuters	17E GF
Accounting standard	IFRS
Financial year	Dec 31
Financial reporting Q1 2015	Week 21, 2015
Market segment	Open Market
Transparency standard	Quotation Board

Financial ratios	2015e	2016e	2017e
EV/Sales	9.4	4.3	4.0
EV/EBITDA	n.a.	21.3	9.3
EV/EBIT	n.a.	23.2	10.1
P/E adj.	neg.	64.9	12.8
Price/Bookvalue	1.5	1.5	1.3
Price/FCF	n.a.	18.2	8.1
ROE (in %)	-4.4	2.3	11.0
Dividend yield (in %)	0.0	0.0	0.0

Number of shares outs. (in '000)	54,107
MarketCap (in € m)	125.4
Free float (in %)	45.6%
Ø daily trading vol. (3M, in €)	7,156
12M high / low (in €; close)	2.71 / 2.10
Price April 21, 2015 (in €; close)	2.32
Performance	1M 6M 12M
absolute (in %)	-1.1 -5.4 -9.8
relative (in %)	0.0 -16.3 -32.4



AS Pro Kapital Grupp (red/grey), Performance since Listing in Frankfurt (17E GF) vs. DAXsubsec. Real Estate (black).
 Source: Bloomberg

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Company Description and Analysis

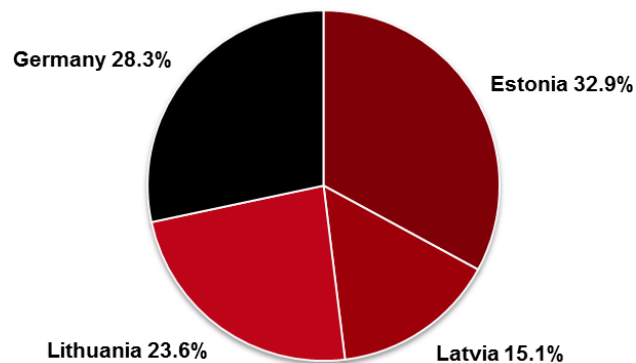
Founded in 1994; one of the leading real estate development companies in the Baltics today

Pro Kapital Grupp AS was founded in Tallinn, Estonia 1994 and is one of the most experienced and well-known real estate developers in the three Baltic states of Latvia, Estonia and Lithuania. During the past 20 years, the company has successfully developed more than 180,000 sqm of residential, retail, hotel and office real estate space in over 20 projects.

At the center of the operating strategy of Pro Kapital is the ongoing development of prime retail and office space, as well as modern, up-scale residential units in the booming capitals of the Baltic, Tallinn, Riga and Vilnius.

Besides its real estate development core business, the company is currently operating three hotels in Riga (LAT), Tallinn (EST) and Bad Kreuznach (GER) under its own brand "PK Hotels".

Revenue structure 2014 in %



Source: Company data

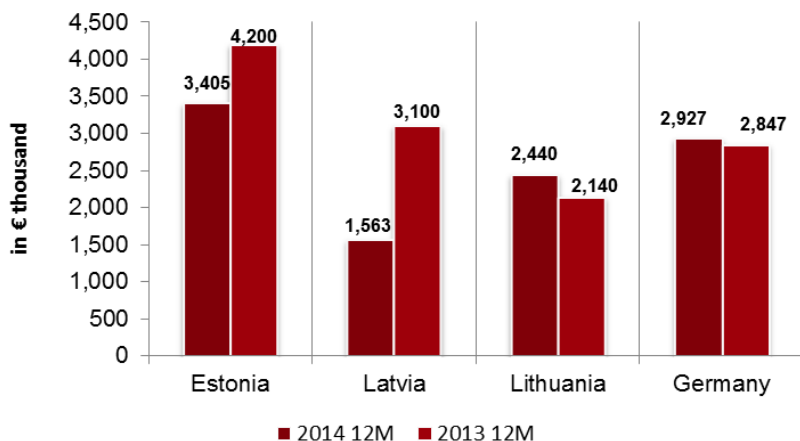
The most important market for Pro Kapital is Estonia

In 2014, Estonia was the most important market for Pro Kapital with 33% of total revenues. The German market, in particular the hotel property in Bad Kreuznach generated 28% of the revenue in FY 2014. The Lithuanian market generated 24% of the revenue and the Latvian market 15%.

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The total revenue for FY 2014 amounted to € 10m, which is 16% or € 2m lower than the previous period and is influenced by a reduction of sales in Latvia and Estonia. Because of a better occupancy rate of 53% for the Hotel property in Bad Kreuznach, the revenue for Germany was higher, than in the previous period, where the occupancy rate was just 50%. All in all, the hotel properties cushion the volatile development business as a guarantor for steady revenues.

Revenue structure in € ths.



Source: Company data

Pro Kapital's main target is to achieve attractive returns on equity via covering the whole life cycle of real estate development. Compared to competitors or new players entering the Baltic real estate market, Pro Kapital has a land-bank of unique size, location and diversification, totaling c. 350k sqm. The vast majority of land plots has been acquired in the late 1990s, after the fall of the Soviet Union, at very attractive prices. Therefore the company is looking at a large pipeline of projects while land plots are already bought, providing additional planning security for management and investors alike. The clear focus is on developments in Estonia and Latvia. Lithuania currently accounts for less than 10% of total project volume in terms of planned space.

The main focus for 2015 is on three residential development projects in Tallinn, Riga and Vilnius and the continuation of the project in St. Petersburg road, a shopping and entertainment center in Tallinn.

The residential project in Tallinn, the Tondi quarter, is one of the largest and most ambitious projects in the Estonian capital with a project volume of over 1000 apartments. It is planned to create a combination of historical and modern buildings in a green environment. Pro Kapital already started the construction of the first two buildings with 62 apartments and it is planned to start two more buildings this year as well as the renovation of historical army buildings.

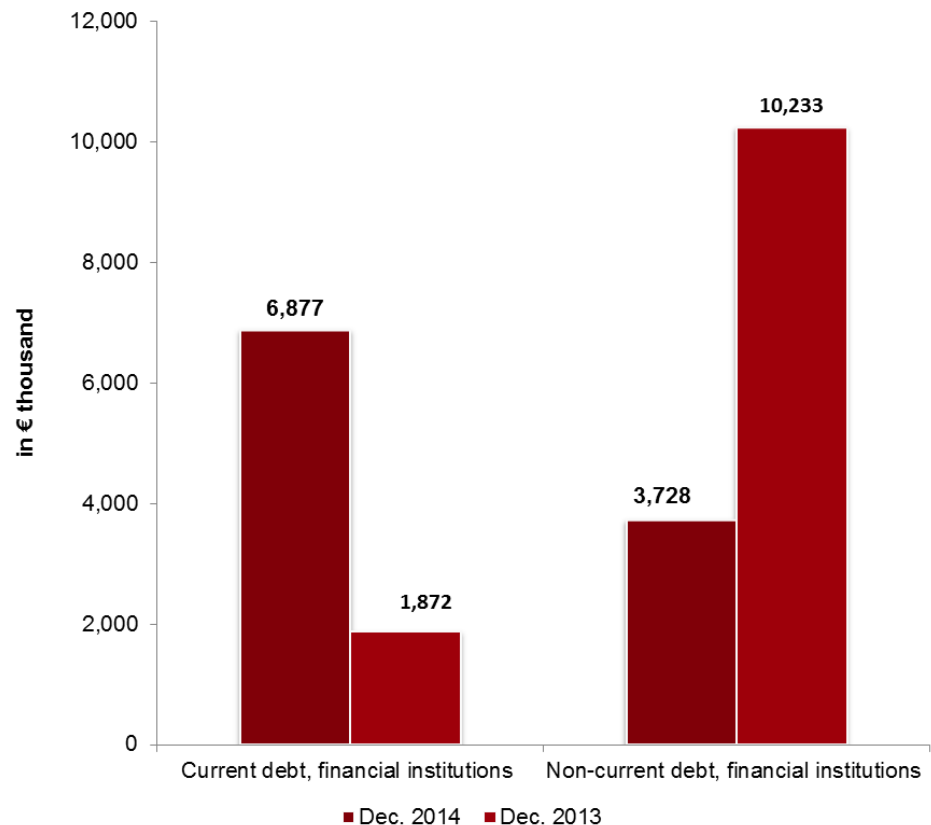
The presale for the residential project in Riga, the Kliversalas, a 600 apartment quarter on the riverside with panoramic view to the historical Old Town, already started. The construction of the first 48 apartments, directly located at the waterfront should start at the end of 2015. In Vilnius, Pro Kapital continued the development of the Saltiniu Namai quarter with two additional buildings completing the first phase of the project.

Majority of land plots have been acquired in the late 1990s, after the fall of the Soviet Union, at a very low price level

With a high equity ratio of 68% Pro Kapital has a conservative balance sheet structure

With an equity ratio of 68%, the company has a rather conservative balance sheet structure, compared to peers in the real estate development sector. This should also benefit the company in gaining access to project financing, due to its sound credit rating. Another value driver is the good macro economical GDP forecast for the Baltic region with close to 3% per year, linked to a higher income and higher demand of the population and the lowest governmental debt ratio in the Eurozone. Therefore the Baltic is an attractive target for investments in the real estate sector, in particular in the high quality residential segment, where Pro Kapital develops most of its project.

Financial Structure



Source: Company data

Pro Kapital changed to a short term debt strategy

As already mentioned before, Pro Kapital changed its financial structure from a long-term to a short term debt strategy with higher current debt and customer advances. In total, current liabilities increased by € 8m from € 15m to € 23m in 2014. At the same time, non-current liabilities decreased by nearly € 3m from € 19m to € 16m, which was mainly affected by lower long-term debt and a higher deferred income tax liability in the context of the up-valuation.

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Pro Kapital Grupp AS

April 23, 2015

Company Description and Analysis - 5/10 -

On April 2, Pro Kapital informed its investors that the Supervisory Council has decided to approve the issue of secured, callable, fixed rate bonds by the Company.

The framework for the next five years is an amount of up to € 50m. The initial issue target is between € 10m and € 15m. The term is five years for each tranche and an interest rate of 8% with semi-annual payment in arrears. The bonds will have a nominal value of € 100,000.

The senior secured bonds shall be used for investments in real estate development projects and other general corporate purposes. The bonds may also be used to repay outstanding convertible and non-convertible debt. The Bonds will be listed at the Nasdaq Stockholm under Swedish law.

Pro Kapital issues senior secured bonds – framework € 50m

Issuer:	AS Pro Kapital Grupp
Instrument:	Senior secured bonds
Amount:	Framework of EUR 50 million, initial issue target of EUR 10-15 million
Coupon:	8% p.a., semi-annual payments in arrears
Use of proceeds:	The proceeds from the bond issue will be employed towards investments in real estate development projects (including the Peterburi Road shopping mall project) and other general corporate purposes, and may be used for repayment of the Company's outstanding convertible and non-convertible debt First year's coupons will be escrowed on a debt service account
Nominal value:	Each bond will have a nominal amount of EUR 100,000. The bonds are subscribed for in multiples of EUR 100,000. Minimum subscription of EUR 100,000 applies.
Maturity date:	5 years after Issue date at 100%
Security:	Share pledges over relevant subsidiaries ¹ and pledged bank account
Financial undertakings:	Maintenance covenants <ul style="list-style-type: none">Consolidated equity ratio >40%Loan-to-value (subsidiaries) <75% Incurrence covenants for new debt <ul style="list-style-type: none">Consolidated equity ratio >45%
Special undertakings:	<ul style="list-style-type: none">Cross default/acceleration (event of default)Change of control / delisting (put option)Distribution restrictionsRestrictions on employment of proceeds from divested assets
Call option:	<ul style="list-style-type: none">Make whole during first 30 months30-36 months: 104.5%36-42 months: 103.0%42-48 months: 102.5%48-60 months: 101.0%
Listing:	Nasdaq Stockholm
Trustee:	Nordic Trustee & Agency
Governing Law:	Swedish law
Arranger:	ABG Sundal Collier

¹⁾ Excluding the Peterburi Road shopping mall project, which is a second stage security

Source: Company data

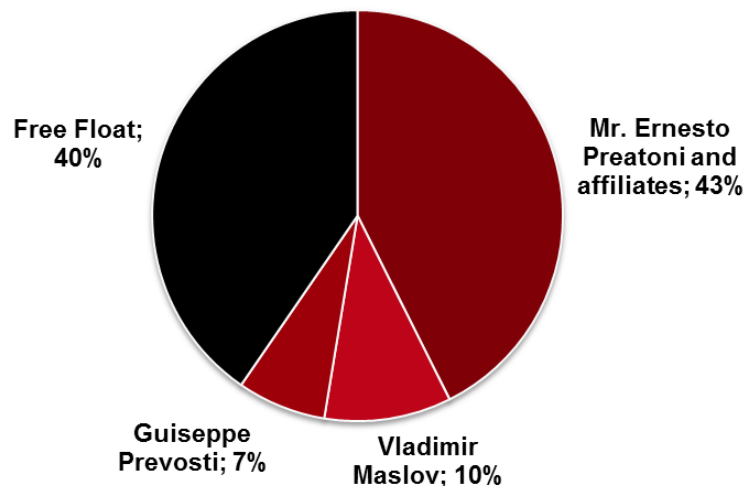
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Stock Data and Performance

Reasonable trading volume on the Open Market of the Frankfurt Stock exchange

The group's shares are listed at the Nasdaq OMX Baltic stock exchange in Tallinn (EST) as well as in the Open Market of the Frankfurt Stock exchange. The company has a free float of around 40%. The relatively new second listing in the Open Market of the Frankfurt Stock exchange as of March 2014 entails a rather high cumulative trading volume of around 444 ths. shares. In 2014 the shares were traded at a price range of € 2.10 to € 2.71. On its home stock exchange in Tallinn, the trading volume was higher with around 633 ths. company shares.

Shareholder structure Pro Kapital (as of March 2015)



Source: Company data

Mr. Ernesto Preatoni and his affiliates control 43% of shares of Pro Kapital

Mr. Ernesto Preatoni and his affiliates control 43% of shares of the Pro Kapital Grupp. As founder and former member of the council he was jointly responsible for the good track record and development of the Company to one of the leading developers in the Baltic States. In February 2015 he decided to leave the council to spend more time with the family and to focus on other projects outside of the Baltics.

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SWOT Analysis

Strengths

- Comprehensive track record of about 200,000 sqm in successfully developed retail, residential and hotel real estate in the Baltics since 1996
- Huge reserves of land plots in prime locations of Riga, Tallinn and Vilnius, acquired at very low prices in the late 1990s
- Experienced management and supervisory board
- Sound balance sheet structure with more than 60% equity ratio
- Diversified in terms of location (all three Baltic capitals) and asset classes (residential, retail, office and hotel properties)
- High flexibility with regards to schedule and type of development, due to large, unused land plots, already paid in full with equity

Weaknesses

- Relatively low liquidity of the share at the moment, also due to low free float volume
- Due to few relatively large real estate development projects at a time, cash flows and net profits will remain volatile for the next years
- In order to build the next stages of the respective projects, Pro Kapital is dependent on banks' willingness to finance these costs of construction
- As we see Pro Kapital also as a macro play on the further recovery of the Baltic economy, the company's outlook is tied strongly to the overall economic development of the region. Geographical diversification aside from the Baltics is extremely low

Opportunities

- Further growing demand for modern, up-scale residential units and office space in the three Baltic capitals Riga, Tallinn and Vilnius
- Strong growth of GDP per capita and disposable income of private households in the Baltics
- Low interest rate environment further boosts margins and flexibility in development projects
- Lithuania joined the Euro Zone in January 2015, this should further drive the momentum of economic activity and real estate prices
- Sale of a large retail project like Peterburi Road Mall will lead to large cash backflows and significant impact on net profit

Threats

- The strong upswing in GDP and purchase power per capita will also materialize in higher wages and material prices, which could lower margins in the long run (at the same time, increase in spending power is likely to have positive effects on demand within the upper class residential market)
- The financing sentiment of banks in the Baltic countries is closely tied to the development of the Euro-Zone. In case of another worsening of the Euro-Crisis, this could negatively affect banks' financing capabilities
- A drop in the general capital markets sentiment could affect Pro Kapital's access to fresh equity and/or debt at the capital markets, which would slow the speed of developing projects

Tables

Profit & Loss Account

Fiscal Year 31.12 (IFRS)	2011a	2012a	2013a	2014a	2015e	2016e	2017e	2018e	2019e	2020e	CAGR 2015 - 2019
in € '000											
Total Sales	17,449	16,078	12,287	10,335	16,582	36,048	39,270	38,220	38,887	39,650	
<i>Growth rate in %</i>	-17.1	-7.9	-23.6	-15.9	60.4	117.4	8.9	-2.7	1.7	2.0	23.7
Cost of sales	16,407	12,750	9,199	7,756	10,856	23,530	17,797	18,252	19,542	20,198	
Gross Profit	1,042	3,328	3,088	2,579	5,726	12,518	21,473	19,968	19,345	19,452	
<i>Growth rate in %</i>	-95.1	219.4	-7.2	-16.5	122.0	118.6	71.5	-7.0	-3.1	0.6	35.6
Selling and marketing expenses	352	531	420	530	500	515	530	545	560	575	
General and administration expenses	5,657	6,179	4,606	5,160	4,875	5,025	5,175	5,325	5,475	5,625	
Other income	54,281	411	410	29,050	430	435	440	445	450	455	
Other expenses	1,455	1,932	384	80	650	725	850	875	900	925	
EBIT	47,859	-4,903	-1,912	25,859	131	6,688	15,358	13,668	12,860	12,782	
<i>Growth rate in %</i>	125.0	-110.2	-61.0	-1,452.5	-99.5	5,014.9	129.6	-11.0	-5.9	-0.6	214.9
Finance Result (+inc./-exp)	1,893	-1,417	-966	-2,716	-4,003	-4,654	-5,073	-4,003	-3,709	-1,551	
<i>Finance income</i>	4,770	48	447	45	150	150	150	150	150	150	
<i>Finance expense</i>	2,877	1,465	1,413	2,761	4,153	4,804	5,223	4,153	3,859	1,701	
EBT	49,752	-6,320	-2,878	23,143	-3,872	2,034	10,285	9,665	9,151	11,231	
<i>Growth rate in %</i>	133.9	-112.7	-54.5	-904.1	-116.7	-152.5	405.6	-6.0	-5.3	22.7	65.1
Taxes on Income (Exp./+Inc.-)	-351	-141	-84	1,908	-194	102	514	483	458	562	
Net profit	56,149	-6,179	-2,794	21,235	-3,679	1,933	9,771	9,181	8,694	10,670	
<i>Growth rate in %</i>	-899.8	-111.0	-54.8	-860.0	-117.3	-152.5	405.6	-6.0	-5.3	22.7	65.1
<i>For information purposes</i>											
Depreciation and amortization	0	600	600	600	600	600	1,350	2,100	2,100	2,100	
<i>in % of total sales</i>	0	0	0	0	0	0	0	0	0	0	
EBITDA	47,859	-4,303	-1,312	26,459	731	7,288	16,708	15,768	14,960	14,882	
No. of shares (Ø '000 outstanding)	54,107	54,107	54,107	54,107	54,107	54,107	54,107	54,107	54,107	54,107	
Net profit / share (EPS)	1.04	-0.11	-0.05	0.39	-0.07	0.04	0.18	0.17	0.16	0.20	

Source: Pro Kapital, BankM Research

Profit & Loss Margins

in %	2011a	2012a	2013a	2014a	2015e	2016e	2017e	2018e	2019e	2020e
Gross Profit Margin	6.0	20.7	25.1	25.0	34.5	34.7	54.7	52.2	49.7	49.1
EBITDA Margin	274.3	-26.8	-10.7	256.0	4.4	20.2	42.5	41.3	38.5	37.5
EBIT Margin	274.3	-30.5	-15.6	250.2	0.8	18.6	39.1	35.8	33.1	32.2
EBT Margin	285.1	-39.3	-23.4	223.9	-23.4	5.6	26.2	25.3	23.5	28.3
Net Profit Margin	321.8	-38.4	-22.7	205.5	-22.2	5.4	24.9	24.0	22.4	26.9

Source: Pro Kapital, BankM Research

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Authors: Dipl.-Kfm. Stefan Scharff, CREA, Dr. Roger Becker, CEFA, Analysts

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Analysts	Date	Evaluation Result	Fair Value
Denis Kuhn, CCrA, Dr. Roger Becker, CEFA	November 24, 2014	Buy	€ 3.70

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3. Date of first publication of this document:

April 23, 2015

4. Date and time of prices of the instruments quoted in this document:

Closing prices of April 21, 2015

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