

Pro Kapital Grupp AS

October 22, 2015



Information Analysis

Analysts

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Evaluation result

BUY

(previous: BUY)

Fair value

€3.40

(previous: €3.70)

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

A steep 67% top line growth in H1 - Construction of largest single-object started

On August 28, Pro Kapital, a leading Estonian developer of commercial and residential real estate in the three Baltic countries of Estonia, Latvia and Lithuania released its semi-annual report 2015 (unaudited).

The numbers have been convincing with a jump in revenues and an improving bottom line. For the first six months, Pro Kapital reported a significant increase in total revenues of about 67% to €9.9 mln, after €5.9 mln in 1H 2014, mainly driven by higher real estate sales: sales activities jumped by 160% to €6.0m (1H '14: €2.3m).

The company's operations in Estonia have been successful and the revenues rose by 155% from €1.7 mln to almost €4.4 mln. This significant increase resulted from the sale of 23 residential flats, 22 parking lots and 18 storage rooms. Furthermore the firm is also successful with sales activities in Lithuania where revenues climbed by almost 50% from € 2.1m to €3.2m. Due to the higher revenues the net result after minorities came in better, at €-1.7 mln, after €-1.9 mln in the first half of 2014. The operating cash flow rose by 154% from €1.4 mln to €3.4 mln largely due to improvements in net working capital.

In the second quarter of 2015, Pro Kapital started the construction of the new shopping and entertainment center in Tallin, which is planned to open in autumn 2017. The gross area of the center is ca 130.000m² and for over 200 retail premises. This is the company's largest single-object development project with a contract volume of ca. €70 mln. In addition, the company successfully continued the construction works of the new residential projects Saltiniu Namai in Vilnius and Tondi Quarter in Tallin.

Typical for residential developers and in order to be more flexible, Pro Kapital had changed its financial structure in the recent fiscal year from a long-term to a short-term debt strategy. In contrast to that, in the first half of 2015 long-term debt increased by 58% from €13 mln to €21 due to the placement of the first tranche of a senior secured corporate bond (8.0% coupon, payable semi-annually). The company is authorized to issue a total volume of €50 mln in order to promote an accelerated growth. After the reporting period, an additional tranche amounting to €6.5 mln was placed to professional investors.

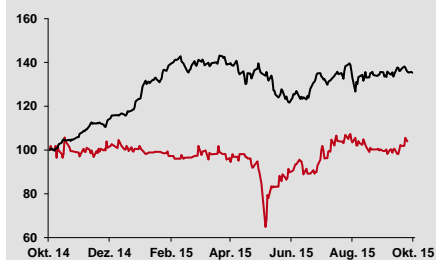
Against the background of 1H numbers and a well-filled project pipeline (Peterburi Rd. shopping centre, Tondi Quarter, Tallins St. Residential Complex), we confirm our Buy rating with a target price of €3.40.

Sector	Real Estate Development
WKN	579797
ISIN	EE3100006040
Bloomberg/Reuters	17E GF
Accounting standard	IFRS
Financial year	Dec 31
Financial reporting Q3 2015	Week 47, 2015
Market segment	Open Market
Transparency standard	Quotation Board

Financial ratios	2015e	2016e	2017e
EV/Sales	10.4	6.7	4.4
EV/EBITDA	480.6	43.3	13.6
EV/EBIT	neg.	53.9	14.4
P/E adj.	neg.	neg.	25.8
Price/Bookvalue	1.6	1.7	1.6
Price/FCF	8.0	20.1	9.0
ROE (in %)	-4.1	-1.7	6.3
Dividend yield (in %)	0.0	0.0	0.0

Number of shares outs. (in '000)	54,204		
MarketCap / EV (in € m)	134.9 / 155.9		
Free float (in %)	23.4%		
Ø daily trading vol. (3M, in €)	5,894		
12M high / low (in €; close)	2.58 / 1.56		
Price October 21, 2015 (in €; close)	2.49		
Performance	1M	6M	12M
absolute (in %)	3.9	7.6	1.8
relative (in %)	4.0	11.0	-25.0

Benchmark index DAXsubsec. Real Estate



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

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Recent Developments

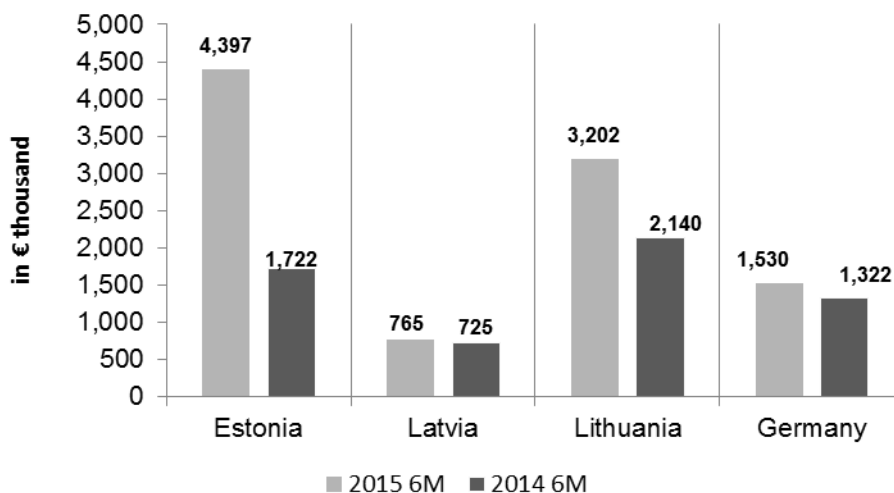
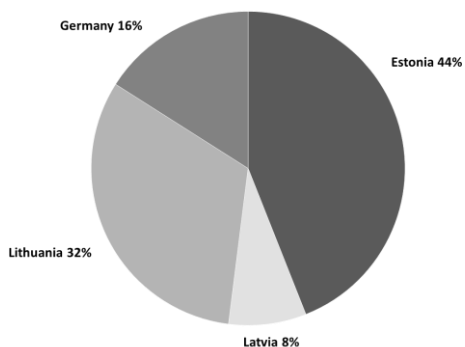
Founded in 1994; one of the leading real estate development companies in the Baltics today

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 three Baltic capital cities 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 in 1H 2015






Source: Company data

The most important market for Pro Kapital is Estonia

In the first six months of 2015, the Estonian market was the most important one for Pro Kapital with 44% of total revenues. In Lithuania, in particular the sale of the K7 building in Saltiniu Namaie (18 out of 19 apartments sold) generated 32% of the revenues in 1H 2015. Germany, with its hotel in Bad Kreuznach, accounted for 16% and Latvia for 8% of total revenues.

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Priority Projects to be developed ...

Parameter	1  Peterburi Rd Shopping Centre	2  Tondi Quarter (7 ap. houses)	3  Tallinas St. Residential Complex
Location	Tallinn, Estonia	Tallinn, Estonia	Riga, Latvia
Project scope	Shopping centre	Residential	Residential / commercial
Description	Peterburi Rd. Shopping Centre is a large commercial project located in Tallinn Lasnamäe commercial district near the junction of St. Petersburg and Tartu road (the highest passenger traffic in Tallinn)	Tondi Quarter is a large premium residential project consisting of renovated buildings and new apartment houses in Tallinn Kristiine district near one of the main crossroads in Tallinn	Tallinas is a premium residential project located in the centre of Riga, right next to the border of the historical centre. The location has good access by private and public transport
Gross buildable area above ground	130,114 m ² (including underground parking)	21,481 m ²	30,554 m ²
Gross leasable area / Net sellable area	51,382 m ² retail	15,386 m ²	21,009 m ² residential 1,046 m ² commercial
Parking	1,500 units	267 units	344 units
Estimated development period	2014-2017	2013-2019	2014-2020
Estimated project costs	€70,5 m	€17,5 m	€36,5 m
Starting apartment price (excl. VAT)	n/a	€1,750 per m ²	€1,800 per m ²
Estimated average rent	€15.7 per m ² /month retail	n/a	€11.0 per m ² /month office €12.0 per m ² /month retail
Estimated exit yield	7.0%	n/a	n/a
Status	Lease with anchor tenant signed. Building permit obtained, construction started in 2014	Construction works for 1st house finished, for 2nd house ongoing	Architectural project submitted for approval to city council

... Priority Projects to be developed cont.

Parameter	 Kliversala Residential Complex (1st phase)	 Saltiniu Namai Residential Complex (2 apartment houses)
Location	Riga, Latvia	Vilnius, Lithuania
Project scope	Residential	Residential
Description	Development of premium residential and commercial property in Riga at the waterfront of river Daugava and enjoying views to the Old Town on the opposite bank	Development of premium residential property located in Vilnius Old Town, Lithuania.
Gross buildable area above ground	9,977 m ²	4,822 m ²
Net sellable area	7,982 m ² residential	4,002 m ² residential
Parking	140 units (underground parking)	55 units
Estimated development period	2015-2018	2013-2017
Estimated project costs	€24,2 m	€3,7 m
Starting apartment price (excl. VAT)	€3,850 per m ²	€2,100 per m ²
Status	Projecting works in process for obtaining the building licence.	Construction works started for both buildings.

Source: Company data

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Stock Data and Performance

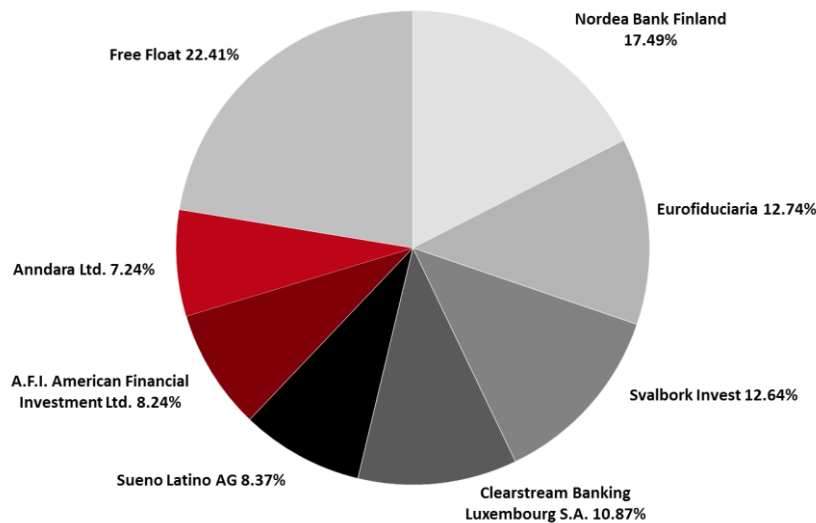
Reasonable trading volume on the Open Market of the Frankfurt Stock exchange

On March 13, 2014 the Company's shares started trading on Frankfurt's stock exchange trading platform Quotation Board. During the period of January 1 – June 30, 2015, the shares were trading at a range between €1.55 – 2.55, with the closing price of Classic Xetra at €2.30 and Xetra Frankfurt Specialist price of €2.30 per share on June 30, 2015. During the first six months of 2015 the trading volume on Classic Xetra was 476 thousand Euros (267 thousand shares) and on Xetra Frankfurt Specialist 400 thousand Euros (190 thousand shares).

On September 2, the Company announced the issuance of 97,363 shares at a price of €2.20 (based on the average price for the last three months). The CEO of the company, Paolo Michelozzi, had the right to subscribe for these new shares and exercised this right on October 16. While this action is dilutive in light of the then current price of €2.45 (Frankfurt floor), it underpins the CEO's commitment to the company.

Shareholder Structure of Pro Kapital

(as of June 30, 2015)



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Tables

Profit & Loss Account

Fiscal Year 31.12 (IFRS)	2013a	2014a	2015e	2016e	2017e	2018e	2019e	2020e	5y - CAGR 2015 - 2020*
in € '000									
Total Sales	12,287	10,335	15,048	23,210	35,051	38,955	22,800	23,333	
<i>Growth rate in %</i>	-23.6	-15.9	45.6	54.2	51.0	11.1	-41.5	2.3	9.2
Cost of sales	9,199	7,756	10,105	14,500	17,797	18,252	6,311	7,695	
Gross Profit	3,088	2,579	4,943	8,710	17,254	20,703	16,489	15,638	
<i>Growth rate in %</i>	-7.2	-16.5	91.7	76.2	98.1	20.0	-20.4	-5.2	25.9
Selling and marketing expenses	420	530	576	888	1,341	1,491	1,356	1,020	
General and administration expenses	4,606	5,160	4,785	4,929	5,076	5,229	5,034	5,185	
Other income	410	29,050	0	0	0	0	0	0	
Other expenses	167	80	0	0	0	0	0	0	
EBIT	-1,695	25,859	-418	2,893	10,836	13,984	10,099	9,433	
<i>Growth rate in %</i>	n.a.	n.a.	n.a.	n.a.	274.5	29.0	-27.8	-6.6	34.4
Financing Result (+inc./-exp)	-967	-2,716	-3,204	-4,312	-4,725	-4,538	-4,345	-2,636	
EBT	-2,662	23,143	-3,622	-1,419	6,111	9,446	5,754	6,797	
<i>Growth rate in %</i>	n.a.	n.a.	n.a.	n.a.	n.a.	54.6	-39.1	18.1	n.a.
Taxes on Income (Exp./Inc.-)	-84	1,908	-181	-71	872	1,240	700	1,190	
Net profit	-2,578	21,235	-3,441	-1,348	5,239	8,206	5,054	5,607	
<i>Growth rate in %</i>	n.a.	n.a.	n.a.	n.a.	n.a.	56.6	-38.4	10.9	n.a.
<i>For information purposes</i>									
Depreciation and amortization	794	749	742	705	640	604	587	587	
<i>in % of total sales</i>	6.5	7.2	4.9	3.0	1.8	1.5	2.6	2.5	
EBITDA	-901	26,608	324	3,598	11,476	14,587	10,686	10,020	
No. of shares (Ø '000 outstanding)	54,107	54,107	54,131	54,131	54,131	54,131	54,131	54,131	
Net profit / share (EPS)	-0.05	0.39	-0.06	-0.02	0.10	0.15	0.09	0.10	
Adj. net profit / share (adj. EPS)	-0.05	0.39	-0.06	-0.02	0.10	0.15	0.09	0.10	

*if 2015 negative, then 2016 base year

Source: Company (a), BankM (e)

Margins

in %	2013a	2014a	2015e	2016e	2017e	2018e	2019e	2020e
Gross Profit Margin	25.1	25.0	32.8	37.5	49.2	53.1	72.3	67.0
EBITDA Margin	-7.3	257.5	2.2	15.5	32.7	37.4	46.9	42.9
EBIT Margin	-13.8	250.2	-2.8	12.5	30.9	35.9	44.3	40.4
EBT Margin	-21.7	223.9	-24.1	-6.1	17.4	24.2	25.2	29.1
Net Profit Margin	-21.0	205.5	-22.9	-5.8	14.9	21.1	22.2	24.0

Balance Sheet Key Data

Fiscal Year 31.12 (IFRS)	2013a	2014a	2015e	2016e	2017e	2018e	2019e	2020e
in € '000								
Equity	64.695	85.788	81.539	80.191	85.430	93.636	98.690	104.297
Total Liabilities	33.599	39.243	77.150	79.556	85.820	89.050	107.800	123.479
thereof Current Liabilities	14.600	22.839	27.003	27.049	28.321	28.496	32.340	37.044
thereof Non-Current Liabilities	18.999	16.404	50.148	52.507	57.499	60.554	75.460	86.435
Investment Property	26.001	88.110	88.110	93.440	102.330	105.347	111.366	113.547
Balance Sheet Sum	98.294	125.031	158.689	159.747	171.250	182.686	206.490	227.776
Equity ratio	65.8%	68.6%	51.4%	50.2%	49.9%	51.3%	47.8%	45.8%

Source: Company (a), BankM (e)

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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
Stefan Scharff, CREA, Dr. Roger Becker, CEFA	April 23, 2015	Buy	€3.70

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Main sources of information for the compilation of this document are publications in national and international media and information services (e.g. Reuters, VWD, Bloomberg, dpa-AFX, ACMR-IBIS World and others), financial newspapers and magazines (e.g. Börsenzeitung, Handelsblatt, Frankfurter Allgemeine Zeitung, Economist and others), specialist media, published statistics, rating agencies as well as publications by peer group companies and the company itself. Furthermore talks with the management of the issuer have been held. This document was made available to the issuer before publication to ensure the accuracy of the information provided. This resulted in some textual changes.

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3. Date of first publication of this document:

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

Closing prices of October 21, 2015

5. Updates:

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