

Pro Kapital Grupp AS

June 10, 2016



Information Analysis

Analysts

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Evaluation result

BUY

(previous: BUY)

Fair value

€3.50

(previous: €3.40)

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77% top line growth in 2015

On April 20, Pro Kapital, a leading Estonian developer of commercial and residential real estate in the three Baltic countries of Estonia, Latvia and Lithuania released its audited annual report 2015.

The numbers have been favorable and ahead of our projections with a jump in revenues and an improving bottom line. For the full year, Pro Kapital reported a significant increase in total revenues of about 77%, even more than at half-year numbers (+67%) to €18.3 mln, after €10.3 mln in the year before, mainly driven by much higher trading activities. Real estate asset sales quadrupled from €2.7 mln in 2014 to €10.1 mln in 2015. In particular in Estonia which is the most important market and stands for almost half of group's revenues (45%), sales increased tenfold from €0.5 mln to €5.3 mln. The Marsi Street apartments in the Tondi Quarter in the periphery of the Estonian capital Tallinn had been completed and sold. The third building of Tondi will be completed before summer 2016 and 16 out of 31 presale agreements are already signed.

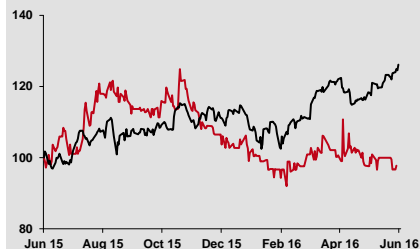
The second largest market Lithuania with 27% of group's revenues was also performing very well in terms of asset sales which more than doubled from €2.2 mln in 2014 to €4.7 mln in 2015. With regards to Germany, which accounts for 19% stake of total revenues and which is the third largest segment due to the Bad Kreuznach-based Parkhotel Kurhaus the company reported a much higher occupancy rate of 63% compared to 53% in 2014. The reason was a change in its sales strategy which translated into a decent 20% hike in German hotel revenues from €2.9 mln to €3.5 mln.

All in all, we welcome the 2015 figures since the €18.3 mln revenues were ahead of our €15.0 mln forecast. Further, the bottom line was less negative at €-1.8 mln, hence better than our €-3.4 mln projection. It is also noteworthy that the cash flow from operating activities turned positive from €-1.1 mln in 2014 to €3.5 mln in 2015. We are optimistic that Pro Kapital will be able to boost revenues once more to clearly above €20 mln in 2016 and to be in the black in 2017, at the latest. The company worked on its financing side by issuing a fixed rate secured bond at the volume of €13.4 mln with a five years maturity until 2020 and an effective annual 8% coupon which is favorable given the country risk profile.

On May 25, Pro Kapital released its 1Q 2016. Numbers were slightly below the 1Q 2015 as the previous year's initial quarter was flattered by a relatively high amount of sales after the completion of a residential building. Net result was at €-1.5m (€-1.2m) but the first quarter is normally not decisive. It is noteworthy that operating cash flow improved from €-0.9m to €-0.2m.

We maintain our Buy rating for the Pro Kapital share and slightly lift our Target Price from €3.40 to €3.50, according to our DCF.

Sector	Real Estate Development		
WKN	579797		
ISIN	EE3100006040		
Bloomberg/Reuters	17E GF		
Accounting standard	IFRS		
Financial year	Dec 31		
Financial reporting Q2 2016	August 24, 2016		
Market segment	Open Market		
Transparency standard	Quotation Board		
Financial ratios	2016e	2017e	2018e
EV/Sales	6.2	4.1	3.7
EV/EBITDA	40.6	12.7	10.0
EV/EBIT	50.6	13.4	10.4
P/E adj.	neg.	21.6	13.8
Price/Bookvalue	1.4	1.3	1.2
Price/FCF	20.3	7.5	7.6
ROE (in %)	-1.6	6.1	8.9
Dividend yield (in %)	0.0	0.0	0.0
Number of shares outs. (in '000)	54,204		
MarketCap / EV (in € m)	112.4 / 145.1		
Free float (in %)	24.79		
Ø daily trading vol. (3M, in €)	2,950		
12M high / low (in €; close)	2.65 / 1.95		
Price June 9, 2016 (in €; close)	2.07		
Performance	1M	6M	12M
absolute (in %)	-0.2	-8.2	3.5
relative (in %)	-6.4	-19.2	-18.5
Benchmark index	DAXsubsec. Real Estate		



Pro Kapital Grupp AS (red/grey), Performance 1y vs. DAXsubsector All Real Estate Performance (black)
Source: Bloomberg

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Recent Developments

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

Construction for T1 shopping center started

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. In the last 22 years, the company has successfully developed about 190,000 sqm of residential, retail, hotel and office real estate space in over 25 projects. The company belongs to the First Movers in the Baltic market and many projects are milestones in the real estate arena of these countries. In particular in the residential real estate business, 2015 was a very successful year in terms of trading residential properties like the Tondi quarter and Ilmarise quarters in Tallinn and Vilnius based Saltiniu, K7 and K1 residential projects.

Besides the operating focus on the ongoing development of modern, up-scale residential units, the company pursues the development of superior shopping centers, in particular the T1 Shopping & Entertainment Centre in Tallinn. In 2015 Pro Kapital concluded a projecting and construction agreement for the T1 development project with the leading Estonian construction company AS Merko Ehitus Eesti and the construction works have already started. In addition, the City of Tallinn continued the detail plan process on the neighboring land plots to enable the development of Tallinn Joint Passenger Terminal as part of the Rail Baltica project. Such development of public infrastructure significantly increases the attractiveness of the whole district and Pro Kapital's retail project.

Besides its real estate development core business, the company is currently operating three hotels in Riga (LAT), Tallinn (EST) and in Germany in Bad Kreuznach near Mainz, namely the Parkhotel Kurhaus.

Sharp increase in revenues from trading activities and from the hotel business

2015 was successful in terms of a 77% jump in group's revenues to more than €18 mln, mainly coined by the Estonian and Lithuanian market which both delivered strong trading growth and stand for more than 70% of total revenues.

Revenue by business lines, in thousands of euros

	2015	2014	Change
Real Estate	10 055	2 720	269,7%
Rent	205	205	0,0%
Hotels	6 489	5 880	10,4%
Other	1 573	1 530	2,8%

Source: Company data

The real estate trading success quadrupled to more than €10 mln. The hotel revenues profited from higher occupancy rates in all three hotels, in particular the German Bad Kreuznach based Parkhotel where occupancy went up from 53% to 63%.

Occupancy rates, PK hotels, %

	2015	2014	Change
PK Ilmarine, Tallinn	74,8%	73,6%	1,6%
PK Riga hotel, Riga	74,6%	70,9%	5,3%
PK Parkhotel Kurhaus, Bad Kreuznach	63,1%	53,0%	19,0%

Source: Company data

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Promising development pipeline for the next 3 years

Pro Kapital Grupp AS has a promising project pipeline to be completed within the next three years, which contains the **Tallinn T1 shopping & entertainment center** to be opened in autumn 2018 (130k sqm, 55k sqm rental space, Euro 70 mln project costs) and in addition to that many residential projects where the company continues to exploit the existing land plots like for the Tondi Residential units in Tallinn. Here, the construction works of the third building in **Tondi Residential Quarter** should be already completed within the next few months and presale agreements for 16 out of 31 apartments have already been signed until mid of April. Other prominent examples are the **Latvia Kliversala residential complex in Riga** (first phase) to be completed until 2018. A new detail plan was approved in last year and the building permit for the first building was already issued (€14 mln project costs). Another prominent residential development is the **Šaltinių Namai Residential Complex in Vilnius**, next to the Old Town. The business plan for the Šaltinių Namai residential quarter foresees a series of apartment buildings built in two major stages. The first stage of Šaltinių Namai project is almost finalized except for one apartment building to be completed in Q3 with costs of approx. €3 mln. The Šaltinių Namai development project was recorded as inventories before 31 December 2014. According to management decision the second stage of the project, with net sellable area of 13 thousand square meters and net rentable area of one thousand square meters, has been reclassified as investment property at balance sheet date.

Overview of development projects

<u>Project name</u>	<u>Type</u>	<u>Location</u>	<u>Ownership</u>	<u>Planned Volume</u>	<u>Classification</u>
T1 shopping centre	Retail	Tallinn	90%	GLA 55 000 m ²	Investment property
Ülemiste 5	Offices	Tallinn	100%	GLA 13 931 m ²	Investment property
Tondi Quarter	Residential	Tallinn	100%	NSA 86 264 m ² 59 546 m ² resid. 26 718 m ² comm.	Inventories, investment property
Marsi 3, 3a, 3b	Residential	Tallinn	100%	NSA 6 594 m ² 6 594 m ² resid.	Inventories
Kalaranna District	Residential	Tallinn	100%	NSA 33 013 m ² 27 600 m ² resid. 5 413 m ² comm.	Investment property
Tallinas Quarter	Residential	Riga	100%	NSA 22 055 m ² 21 009 m ² resid. 1 046 m ² comm.	Investment property
Kliversala District	Residential	Riga	100%	NSA 55 666 m ² 44 746 m ² resid. 10 920 m ² comm.	Inventories, investment property
Zvaigznes Quarter	Residential	Riga	100%	NSA 18 378 m ² 18 378 m ² comm.	Investment property
Šaltinių Namai	Residential	Vilnius	100%	NSA 21 150 m ² 18 583 m ² resid. 2 567 m ² comm.	Inventories, investment property

NSA – Net Sellable Area, GLA – Gross Leasable Area, resid.- residential, comm.- commercial

Status of the projects:

T1 shopping centre	Building licence obtained. Excavation works for the foundation of the building completed. Construction agreement concluded and construction works started.
Ülemiste 5	Detail plan adopted, project not started. New detail plan under consideration in collaboration with the city in connection with Rail Baltica terminal.
Tondi Quarter	Building license for the 2 nd stage (7 residential buildings) obtained. Also the building licence has been obtained for small historical building on Tondi 53 land plot.
Marsi 3, 3a, 3b	First two buildings completed, sales in process. Construction works and presales of the 3 rd building continuing.
Kalaranna District Tallinas Quarter	Detail plan approval in process Projecting works in process in order to apply for the building licence. Sketch design approved by the city.
Kliversala District	New detail plan approved, building licence received for the 1 st building.
Zvaigznes Quarter Šaltīniņi Namai	Building licence for reconstruction of the existing building issued. 1 st stage completed, available for sale. Construction of 1 st additional building completed, the 2 nd one is under construction and presales continued. 2 nd stage is being projected in order to apply for the building permit.

Source: Company data

Share price statistics for 2015

The share price slightly declined in 2015 but set a new High at €2.80. With good 2015 numbers, the good 1Q and a promising pipeline we expect the share to cross the €3.00 threshold this year

Trade statistics in euros	31.12.2015	31.12.2014	31.12.2013
High price	2,80	2,73	2,58
Low price	1,79	2,07	1,60
Last price	2,23	2,50	2,24
Average price	2,34	2,50	2,27
Traded volume (pcs)	333 897	723 901	536 551
Turnover (million)	0,78	1,81	1,22
Capitalisation (million)	120,87	135,27	121,20

*Source: www.nasdaqbaltic.com

In addition to the listing at the Tallinn stock exchange, the shares started trading on 13 March 2015 at the Quotation Board of the Frankfurt Stock Exchange. During the first quarter 2016 the shares were trading at a price range of €2.01 to €2.31, with the closing price of €2.29 at XETRA.

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Unexciting 1Q 2016 numbers, but good progress at current developments

The 1Q numbers were rather unexciting and – as usual for a development company – the single quarter results float a little bit with the completion and sale of projects which can easily boost a single quarter.

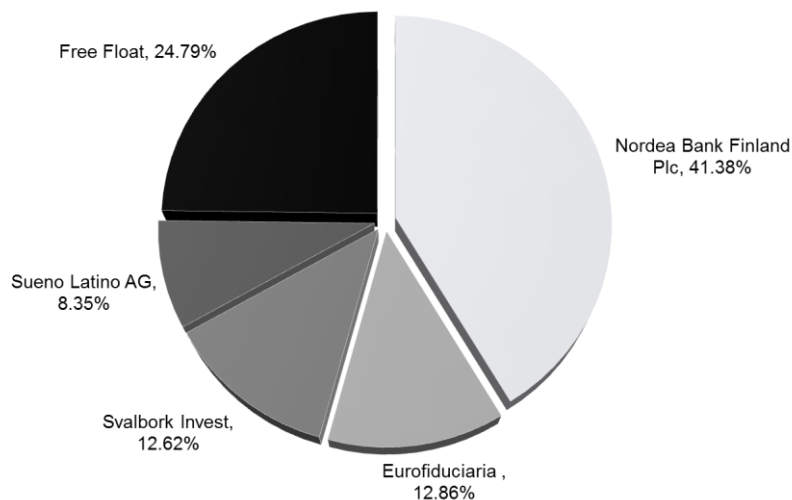
After the 1Q 2015 was flattered by the completion and several sale transactions of a residential project in Estonia, the 1Q 2016 were slightly below last year's level. Group revenues came slightly down from €3.1mln to €2.8m and EBIT was also slightly down from €-0.7 mln to €-0.9 mln. This translated into a tiny net loss for the first quarter – in-line with our expectations – of €-1.5 mln, after € 1.2 mln in the year before. With regards to the cash flow statement we state an improvement in the operating cash flow €-0.9 mln to only a tiny Minus of €-0.2 mln.

Looking at the operating situation, the first quarter was quite successful in driving the presales for Vilnius Saltiniu Namai and Tallinn-based Tondi residential projects. At Saltinius Namai already 32 out of 44 presale agreements for the new K4-1 property were signed until now. In Tallinn, at Tondi, Pro Kapital has completed the first two new apartment buildings and handed over 47 out of 62 flats. The company also worked on bringing up the number of presale agreements for the third and also for the fourth building. For the third building already more than half of the 31 apartments have been sold.

With regards to the financing side, in March and May 2016 the company completed the third and fourth subscription of the secured, callable and fixed-rate bond, with a total volume of c. €16 mln; all four bond subscriptions totaling €29.3 mln will allow the financing the company's growth.

As of March 1, Edoardo Axel Preatoni joined the Management Board.

Shareholder Structure



Source: Company, Q1/2016 report

Estonia and Latvia more than double the 2014 revenues. All regions of business have operating margins far above 20%. The 2014 operating numbers were flattered by revaluation gains

Financial data with an uplift of sales and profit numbers for key markets Estonia and Lithuania

Key financial data of the segments, in thousands of euros

	Revenue			Operating result			Net result*		
	2015	2014	Change	2015	2014	Change	2015	2014	Change
Estonia	8 275	3 405	143,0%	1 662	18 511	-91,0%	-6 311	17 939	-135,2%
Latvia	1 621	1 562	3,8%	505	5 492	-90,8%	-3 348	2 544	-231,6%
Lithuania	4 925	2 441	101,8%	1 275	1 959	-34,9%	8 361	1 117	648,5%
Germany	3 501	2 927	19,6%	1 006	-103	1076,7%	129	-219	158,9%

	Operating margin		Net margin*	
	2015	2014	2015	2014
Estonia	20,1%	543,6%	-76,3%	526,8%
Latvia	31,2%	351,6%	-206,5%	162,9%
Lithuania	25,9%	80,3%	169,8%	45,8%
Germany	28,7%	-3,5%	3,7%	-7,5%

Operating results and net results of 2014 were significantly influenced by profit from revaluation of investment property recorded as other operating income.

* Financial data here does not include internal transactions. Estonian segment includes the financial data of the Parent. Net results include non-controlling interests.

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Tables

Profit & Loss Account

Fiscal Year 31.12 (IFRS)	2014a	2015a	2016e	2017e	2018e	2019e	2020e	5y - CAGR 2015 - 2020
in € '000								
Total Sales	10,335	18,322	23,410	35,051	38,955	22,800	23,333	
<i>Growth rate in %</i>	-15.9	77.3	27.8	49.7	11.1	-41.5	2.3	5.0
Cost of sales	7,756	13,874	14,500	17,797	18,252	6,311	7,695	
Gross Profit	2,579	4,448	8,910	17,254	20,703	16,489	15,638	
<i>Growth rate in %</i>	-16.5	72.5	100.3	93.6	20.0	-20.4	-5.2	28.6
Selling and marketing expenses	530	466	896	1,341	1,491	1,356	1,020	
General and administration expenses	5,160	5,250	5,145	5,119	5,273	5,034	5,185	
Other income	29,050	3,353	0	0	0	0	0	
Other expenses	80	661	0	0	0	0	0	
EBIT	25,859	1,424	2,869	10,793	13,939	10,099	9,433	
<i>Growth rate in %</i>	n.a.	-94.5	101.5	276.2	29.1	-27.6	-6.6	46.0
Financing Result (+inc./-exp)	-2,716	-2,593	-4,284	-4,725	-4,538	-4,345	-2,636	
<i>Finance income</i>	45	13	36	35	42	45	50	
<i>Financing expenses</i>	2,761	2,606	4,320	4,760	4,580	4,390	2,686	
EBT	23,143	-1,169	-1,415	6,068	9,401	5,754	6,797	
<i>Growth rate in %</i>	n.a.	n.a.	n.a.	n.a.	54.9	-38.8	18.1	n.a.
Taxes on Income (Exp./+Inc.-)	1,908	841	-71	872	1,240	700	1,190	
Net profit	21,235	-2,010	-1,344	5,196	8,161	5,054	5,607	
<i>Growth rate in %</i>	n.a.	n.a.	n.a.	n.a.	57.1	-38.1	10.9	n.a.
<i>For information purposes</i>								
Depreciation and amortization	749	693	705	640	604	587	587	
<i>in % of total sales</i>	7.2	3.8	3.0	1.8	1.5	2.6	2.5	
EBITDA	26,608	2,117	3,574	11,433	14,543	10,686	10,020	
No. of shares (Ø '000 outstanding)	54,107	54,204	54,204	54,204	54,204	54,204	54,204	
Net profit / share (EPS)	0.39	-0.04	-0.02	0.10	0.15	0.09	0.10	
Adj. net profit / share (adj. EPS)	0.39	-0.04	-0.02	0.10	0.15	0.09	0.10	

Source: Company (a), BankM (e)

Margins

in %	2014a	2015a	2016e	2017e	2018e	2019e	2020e
Gross Profit Margin	25.0	24.3	38.1	49.2	53.1	72.3	67.0
EBITDA Margin	257.5	11.6	15.3	32.6	37.3	46.9	42.9
EBIT Margin	250.2	7.8	12.3	30.8	35.8	44.3	40.4
EBT Margin	223.9	-6.4	-6.0	17.3	24.1	25.2	29.1
Net Profit Margin	205.5	-11.0	-5.7	14.8	21.0	22.2	24.0

Balance Sheet Key Data

Fiscal Year 31.12 (IFRS)	2014a	2015a	2016e	2017e	2018e	2019e	2020e
in € mln							
Equity	85.788	83.432	82.088	87.284	95.446	100.500	106.107
Total Liabilities	39.243	46.891	79.556	85.820	89.050	107.800	123.479
thereof Current Liabilities	22.839	15.150	27.049	28.321	28.496	32.340	37.044
thereof Non-Current Liabilities	16.404	31.741	52.507	57.499	60.554	75.460	86.435
Investment Property	88.110	92.457	93.440	102.330	105.347	111.366	113.547
Balance Sheet Sum	125.031	130.323	161.644	173.104	184.496	208.300	229.586
Equity ratio	68.6%	64.0%	50.8%	50.4%	51.7%	48.2%	46.2%

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
Stefan Scharff, CREA, Dr. Roger Becker, CEFA	October 22, 2015	Buy	€3.40

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3. Date of first publication of this document:

June 10, 2016

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

Closing prices of June 9, 2016

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5. Updated information according to sec. 5 para. 4 No. 3 FinAnV is available at: http://www.bankm.de/webdyn/138_cs_Gesetzliche+Angaben.html.

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